

## International Monetary Fund

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The following item is a Letter of Intent of the government of Kenya, which describes the policies that Kenya intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Kenya, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.



**REPUBLIC OF KENYA**  
**THE NATIONAL TREASURY & MINISTRY OF PLANNING**

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Ref: CONF/74/01

March 6, 2018

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> St, NW  
Washington, DC 20431

Dear Ms. Lagarde,

On March 14, 2016, the IMF Executive Board approved a 24-month arrangement under the Stand-By Arrangement (SBA) and Standby Credit Facility (SCF) for SDR 709.259 million and SDR 354.629 million, respectively, to support our economic and financial program. The SBA and SCF are scheduled to expire on March 13, 2018.

The completion of the second and third reviews under the program was delayed owing to the prolonged election period in 2017. Nonetheless, an extensive drought coupled with the election related expenditures, impacted negatively on our meeting the performance criteria on the primary fiscal balance for end-December 2016 and end-June 2017. The introduction of interest rate controls in September 2016, which were aimed at addressing the high cost of credit, has had unintended adverse consequences on credit growth and monetary policy effectiveness.

In order to allow for sufficient time to complete the remaining reviews under the program and provide a strong policy anchor, we wish to request for an extension of the SBA through September 14, 2018. In making this request, we commit to strong policies to achieve our program objectives. These include: (1) a reduction in the fiscal deficit from 8.8 percent of GDP in 2016/17 to 7.2 percent of GDP by the end of this fiscal year (June 30, 2018) and a further reduction to 5.7 percent of GDP during the next fiscal year (ending June 30, 2019); (2) a significant modification of interest rate controls to avoid their adverse impact on credit to the private sector, monetary policy

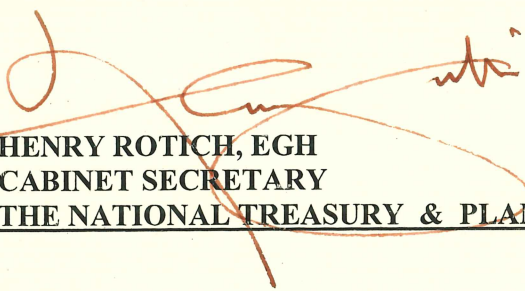
effectiveness, and financial stability; and (3) strengthening the monetary policy framework, including the introduction of an interest rate corridor following the significant modification of interest rate controls.

In light of the revenue shortfalls so far this year, to achieve the fiscal deficit target for 2017/18, we have introduced specific revenue administration measures that are under implementation, and identified specific spending cuts, including a delay in the implementation of lower-priority investment projects. To achieve the fiscal deficit for 2018/19, we commit to introduce through the Finance Bill 2018, revenue raising measures, including removal of some tax exemptions and improvements in tax administration.

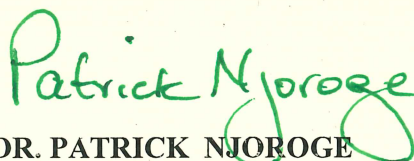
We are committed to working with IMF staff on additional measures that may be required to meet program objectives, and, if needed, we will request a further six-month extension of the program and commensurate rephasing of access at the next program review.

We consent to publication of this letter and the related staff report.

Yours Sincerely,



**HENRY ROTICH, EGH**  
**CABINET SECRETARY**  
**THE NATIONAL TREASURY & PLANNING**



**DR. PATRICK NJOROGE**  
**GOVERNOR**  
**CENTRAL BANK OF KENYA**