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IMF Executive Board Completes Second Review Under the Extended Credit Facility for Kenya and Approves Request for Augmentation of Access and US$143.67 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Kenya's economic performance under a three-year arrangement under the Extended Credit Facility (ECF). The Board also approved an augmentation of access equal to 60 percent of quota, which would lead to a total access of 180 percent of quota, an amount equivalent to SDR 488.52 million (about US$760.63 million), under the ECF arrangement. The Board's decision enables the immediate disbursement of an amount equivalent to SDR 92.276 million (about US$143.67 million), bringing total disbursements under the ECF arrangement to an amount equivalent to SDR 200.836 million (about US$312.7 million).

In completing the review, the Board also approved a modification of three performance criteria for end-December 2011 and end-June 2012 related to the net international reserves, the net domestic assets of the central bank, and the primary budget balance of the central government. The three-year arrangement under the ECF for Kenya was originally approved by the IMF Executive Board on January 31, 2011 (see Press Release No. 11/21).

Following the Executive Board's approval of the arrangement with Kenya, Mr. David Lipton, First Deputy Managing Director and Acting Chair, issued the following statement:
"Kenya's economy has continued to expand despite the challenges posed by the drought in the Horn of Africa, higher than expected food and fuel prices, and the uncertain global environment. The combination of external shocks and strong domestic demand, fueled by rapidly expanding credit has led to sharp increase in inflation, a widening of the current account deficit, and currency depreciation. The authorities are taking decisive measures to address these imbalances and to preserve macroeconomic stability.

"Program implementation during the first half of 2011 was in line with the objectives of the ECF-supported program. The fiscal position at end-June was significantly better than expected, as a result of strong revenue performance and strict expenditure control. Beginning September, the Central Bank of Kenya increased its policy rate substantially and maintained a tightening bias to discourage excessive credit growth, which had contributed to inflation and the current account deficit.

"Sustaining high growth will require addressing macroeconomic vulnerabilities. The impact of the increase in international prices on the country's external position will require fiscal and monetary policy adjustment. Monetary policy will need to remain geared towards reining in inflationary expectations. It will be complemented by strengthened fiscal consolidation to curb domestic demand, while protecting key outlays, including emergency food relief.

"Important structural reforms are under way. The Public Financial Management Law has been submitted to the Committee for the Implementation of the Constitution. The benchmark on the submission of VAT law is set to be met by end-January 2012," Mr. Lipton said.