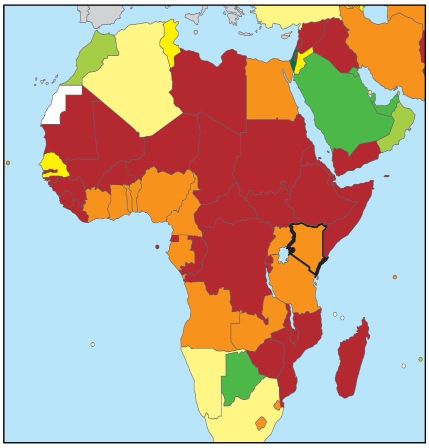
6/7 COUNTRY RISK CATEGORY

COUNTRY RISK ANALYSIS

Kenya

0 1 2 3 4 5 6 7

The country risk categories are arranged on a scale from 0 to 7.
The lower the figure, the better the country's creditworthiness.



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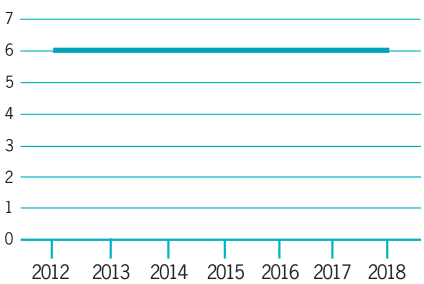
BASIC FACTS (2017 est)

Population	47 million
Nominal GDP	USD 79 billion
GDP/capita	USD 1,695 billion

Source: IMF WEO

COUNTRY CLASSIFICATION HISTORY



Source: EKN

High costs of rising indebtedness

Kenya has seen strong growth over the past decade. GDP has increased by an average of six per cent per year. Export revenues on the other hand have increased marginally in recent years. Drought and rising oil prices have counteracted the positive effects of greater export volumes. Export revenues only comprise forty per cent of import expenditure, which has contributed to the increasing indebtedness. The greatest concern for Kenya's economic growth is the central government's weak revenues in combination with a growing external debt. The external debt mostly comprises public debt and has doubled in relation to exports since 2013. In relation to GDP, the external debt has increased by nearly twenty per cent in the same period. The IMF's overall assessment is that the central government has a moderate risk of debt distress, a risk assessment that was increased in 2018 after having been classified as low before then. One significant risk factor for Kenya is that the debt service ratio continues to increase.

THE COUNTRY'S STRENGHTS AND WEAKNESSES

STRENGTHS

+ Diversified economy with strong growth potential
+ Well-capitalised and developed banking sector
+ Regional centre for logistics, IT and financial services

WEAKNESSES

- Budget and current account deficit financed by loans
- Increasing level of indebtedness and very high interest costs
- Trend of decreasing direct investment

SWEDISH EXPORT TO KENYA, MSEK

	MSEK
2017	476
2016	411
2015	429
2014	311
2013	337

Source: SCB

EKN:S EXPOSURE

	MSEK
Guarantees	248
Offers	223

EKN:S POLICY

EKN has placed Kenya in country risk category 6 of 7, for both short and long-term guarantees – an assessment that was made in collaboration with other OECD countries. If the counterparty is a public buyer, such as a line ministry or government agency, EKN requires a guarantee from the central government. State, bank or corporate risks are subject to normal risk assessment, which means that there are no limitations specified in advance for guarantees.

EKN:S EXPOSURE AND EXPERIENCE

EKN's total guarantee commitment in Kenya amounts to SEK 471 million distributed over different sectors, primarily exports in pulp and paper , power industry, medical equipment, other mechanical industries and telecommunications. More than half of EKN's guarantee commitments are made to small and medium-sized Swedish enterprises. Since 2014, EKN has provided guarantees in 106 transactions involving 25 different exporters, of which 80 guarantees refer to small and medium-sized enterprises. EKN's payment experience of providing guarantees for Kenya has been generally positive. EKN currently has SEK 6.2 million in outstanding arrears. They are due to enterprise-specific causes and constitute two per cent of guarantees. Only one claim has been paid since 2016, at an amount of approximately SEK three million.

Kenya has renegotiated its external debt in the Paris Club on three occasions. EKN has been involved in two of these (1994 and 2000), and payments have been made according to plan, with sporadic delays at times. The last debt that matured under the current agreement was in December 2018.

EKN assesses the risk of negative impact on environment and human rights in transactions. Out of the 106 guarantees EKN has provided in Kenya since 2014, none were in Class A and 71 were in Class B. Class A means that the transaction has a significant negative impact, and Class B indicates a limited negative impact. For a country in Kenya's category, transactions will normally be placed in Class B.

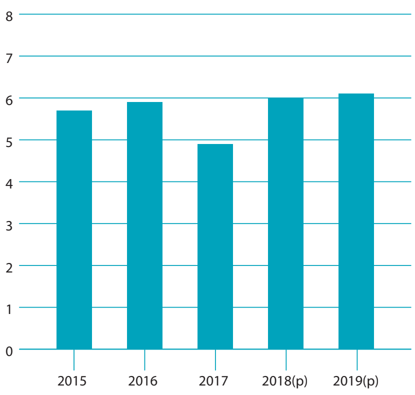
The capacity of small and medium-sized buyers to manage environmental and social issues will vary. EKN's limited experience of environmental impact assessments in Kenya indicates that these are generally managed without adequate assessment of project-specific risks.

WHAT MIGHT CAUSE A CHANGE IN THE COUTRY POLICY

LESS RESTRICTIVE

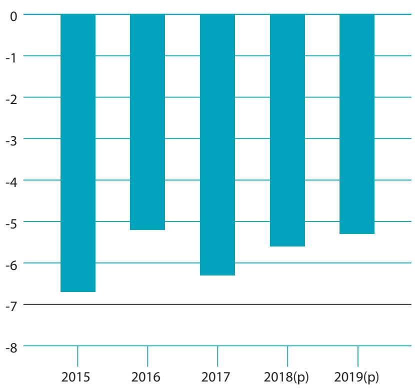
- Reforms that increase government earnings and stabilise external debt.
- Increased investment and capital inflow to reinforce the balance of payments.

GDP-GROWTH (% PER ANNUM)



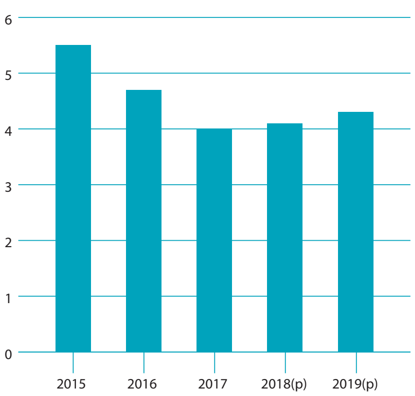
Source: Macrobond/IMF

CURRENT ACCOUNT (% OF GDP)



Source: Macrobond/IMF

INTERNATIONAL RESERVE (MONTHS OF IMPORT)



Source: IMF

MORE RESTRICTIVE

- A continued increase of external debt and debt service ratio.
- Renewed political unrest to hamper investment and growth.

COUNTRY ANALYSIS

BACKGROUND

Kenya constitutes a centre for financial services, IT and transport in East Africa. The foundation of the Kenyan economy is the agricultural and service sectors, which represent thirty and fifty per cent respectively of the gross national product. Kenya's export base is small, but it is one of the most diversified in Sub-Saharan Africa. Imports, which are much larger than exports, predominately consist of oil and petroleum products. The most important source of hard currency is tourism and remittances, money sent home by expatriate Kenyans. The large trade balance deficit also entails a current account deficit. The capital influx from foreign direct investment does not cover financing requirements, and the current account deficit is largely financed by loans.

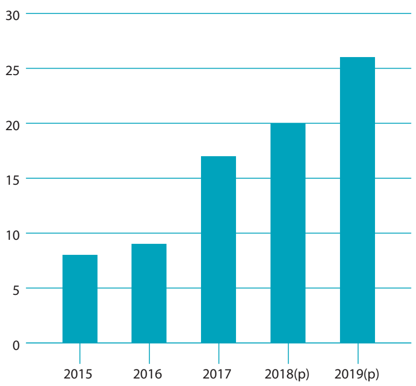
RECENT DEVELOPMENTS

Kenya has been governed by President Uhuru Kenyatta since 2013. He was re-elected in 2017 in an election marred by unrest, and the election had to be held again due to irregularities. The opposition leader Odinga had voiced strong criticism of the election process and boycotted the new election. Odinga and Kenyatta have later appeared together in public, promising to strive towards a reconciliation of the politically divided country.

Kenya has seen strong growth over the past decade. GDP has increased by an average of around six per cent per year. At the same time, the proportion of poor people in the population has fallen from 47 per cent in 2006 to 36 per cent in 2016, according to the International Monetary Fund (IMF). GDP growth is promoted by consumption, both private and public. The latter involves major infrastructure projects. The lower growth rate in 2017 was due to a drought that affected the harvest, and the uncertainty in conjunction with the election had a negative impact on economic activity. Export revenues have only increased marginally in recent years. Drought and rising oil prices have counteracted the positive effects of greater export volumes. Export revenues only comprise forty per cent of import expenditure, which has led to increasing indebtedness. However, the country's international reserves are at a comfortable level, at around four months' import coverage.

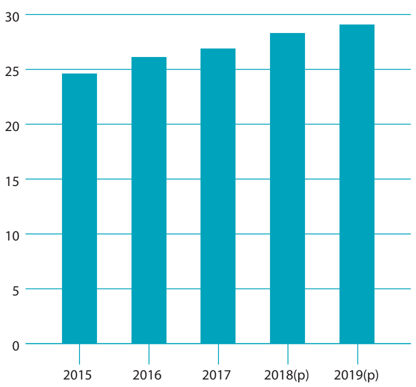
Kenya has a large banking sector with 42 commercial banks, but it is relatively small in relation to GDP, at only 52 per cent. Kenya Commercial Bank is the largest bank, holding approximately 14 per cent of the assets. The six major banks control more than half of the banking system's assets. Several smaller banks have experienced problems in the past few years, and a consolidation of the banking sector is likely, in which the larger banks take over the smaller ones. Bank lending is primarily to the private sector, 74 per cent compared to the public sector's 26 per cent. The proportion of bad debt in the total lending for the period 2011–2015 was relatively low, around five

PUBLIC SECTOR DEBT SERVICE (% OF EXPORT)



Source: IMF

PUBLIC EXTERNAL DEBT (% OF GDP)



Source: IMF

per cent. Since then, the level has more than doubled to approximately 12 per cent. The banking system in general, and the major banks in particular, are well capitalised and liquid, which constitutes a good buffer against an increasing amount of bad debt. In 2016, the Government introduced a cap on the banks' lending rate. The aim was to reduce the gap between the lending and deposit rates, but instead it resulted in drastically decreased lending to small and medium-sized enterprises, which has also contributed to lower economic activity.

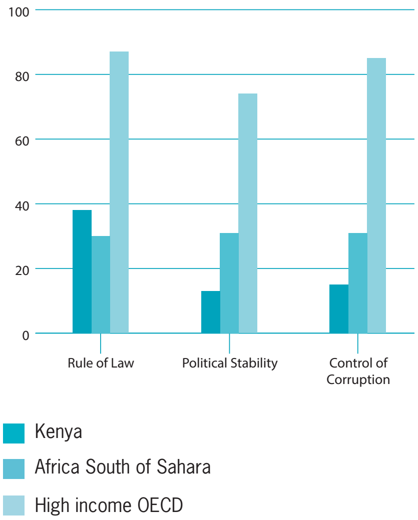
LONG-TERM TREND

GDP growth is expected to be relatively high in the coming years, around the same as the current level. This assessment assumes that there will be increased investments and credit growth in the private sector. Improved business environment and reduced political uncertainty, with the next presidential election being in 2022, support this scenario. The focus of the Government's economic development in the next five years is "the big four", a programme presented by the president upon being re-elected. The programme refers to development and investment within four areas: manufacturing industry, housing, healthcare and access to food, which will be especially prioritised.

The greatest concern for Kenya's economic growth is the central government's weak revenues in combination with a growing external debt. The external debt mostly comprises public debt and has doubled in relation to exports since 2013. In relation to GDP, the external debt has increased by nearly twenty per cent in the same period. The country's debt service ratio, i.e. debt payments which the state or public sector must make in relation to exports, is expected to exceed 25 per cent in 2019, which is a very high level. As there is high GDP growth, the debt ratio in relation to GDP is not alarmingly high (less than 30 per cent) and the debt structure is beneficial. Half the debt consists of loans with favourable terms. The IMF's overall assessment is that the central government has a moderate risk of debt distress, a risk assessment that was increased in 2018 after having been classified as low before then.

One significant risk factor for Kenya is that the ratio between earnings and indebtedness continues to deteriorate. The trend of the debt service ratio is strongly negative. The Government has introduced measures to increase state revenues, primarily by removing various tax exemptions, but disagreements in parliament indicate that it will be a long time before any sweeping changes are made. Kenya has been working with the IMF for a long time, most recently in a two-year programme that ended in September 2018. An IMF programme puts pressure on the central government and entails clear follow-up of developments. It is unclear whether Kenya intends to renew the IMF programme, which in itself causes some concern regarding how the reform efforts will progress. A continued close collaboration with the IMF would build confidence in the economic policy.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank - World Governance Indicators

BUSINESS ENVIRONMENT

High costs for electricity and labour, security risks, civil unrest in conjunction with elections and widespread corruption are perceived as obstacles to investments in Kenya. In the World Bank's Doing Business Index, Kenya is ranked 61 out of a total of 190 countries globally. From a regional perspective, Kenya is doing well in third place behind Mauritius and Botswana among the Sub-Saharan countries. Measured in terms of distance to "best performer", Kenya is at 70 on a scale between 0 and 100, with 100 being the highest. The average for Sub-Saharan Africa is 50.

The exchange rate for the Kenyan Shilling is floating, and the currency is fully convertible. It is relatively volatile and has depreciated by approximately 40 per cent against the US dollar in the past ten years. On the other hand, the exchange rate has stabilised during 2017 and 2018.

A major challenge for Kenya is the widespread corruption, which can be seen in the World Bank's World Governance Indicators, where Kenya is placed far below the average for Sub-Saharan Africa. The indicator for combating corruption has remained at a relatively constant low level over the past ten years. However, the trend is more positive in terms of rule of law, where the country has climbed from 19 to 38 (ranking from 0 to 100) since 2011. Since taking office in 2013, the Government has promised to take serious action against corruption, but a power struggle within the ruling alliance and corruption scandals mean that they have yet to present any results. In all likelihood, no major progress will be made in the current term, which will last until 2022.

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