International Monetary Fund

Kenya and the IMF

Press Release:
IMF Executive Board Completes Third Review Under the Extended Credit Facility for Kenya and Approved US$ 110.9 Million Disbursement
April 17, 2012

Kenya: Letter of Intent, and Technical Memorandum of Understanding

March 29, 2012

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LETTER OF INTENT

Nairobi, Kenya
March 29, 2012

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mrs. Lagarde:

1. Kenya's economy shows signs of stabilizing following recent pressures stemming from external shocks and strong domestic demand. The Shilling has recovered following a rapid depreciation in the third quarter of 2011, and inflation has declined since November 2011. The severe drought in the Horn of Africa and the combination of high international food and oil prices contributed to a marked widening of the current account deficit. Most sectors of the economy continued to expand in 2011, but the drought affected negatively agricultural production and hydro-energy generation.

2. Performance under the economic program supported by an arrangement under the Extended Credit Facility of the IMF has remained favorable. We have met all the performance criteria and indicative targets for end-December 2011. Our efforts have lowered the fiscal deficit by more than envisaged under the program; we have also accumulated international reserves beyond the program target levels. In addition, a tight monetary policy stance has contributed to containing domestic demand and lowering inflationary expectations. On the structural front, Parliament is now considering the Public Financial Management bill, while the new VAT bill has been approved by the Cabinet and will be published and tabled in Parliament shortly.

3. This Letter of Intent describes policies we intend to implement for the remainder of 2011/12 and in 2012/13. Policies in the near term will aim at further reducing inflationary pressures, preserving the strong fiscal position, and reducing the current account deficit. We

stay firmly committed to our reform program aimed at achieving higher and sustainable growth in a more equitable environment.

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. Kenya's economy slowed somewhat in 2011, following robust GDP growth in 2010. The drought in the Horn of Africa placed constraints on agricultural production and energy generation. Imports of staple food items and oil products for thermal power generation combined with persistently high international prices boosted the country's import bill. As export growth remained modest, the external position came under increasing pressure, contributing to a wider than expected current account deficit.

5. Following a sharp increase in inflationary pressures in the second half of 2011, the resolute tightening of monetary policy since October has started producing results. After peaking in November, headline inflation has declined for three consecutive months and the depreciation of the Kenyan shilling has been largely reversed. Inflationary expectations have improved and we now expect lower inflation over the coming months.

6. Economic prospects remain favorable, as the impact of the drought on agricultural production and energy generation abates. Combined with fiscal consolidation efforts, the slowdown in credit to the private sector will reduce domestic demand and contribute to bringing the current account deficit under control. The outlook for foreign direct investment is improving, notably as a result of regional trade integration efforts. Unlike in previous elections episodes, FDI flows are unlikely to be affected significantly, owing to the political reform emanating from the implementation of the new Constitution and the improved security situation.

II. THE ECONOMIC PROGRAM FOR 2012/13

A. Fiscal Policy

7. We remain committed to gradual fiscal consolidation while still pursuing our long-term development objectives as set out in Vision 2030. In 2011/12, despite revenue shortfalls, we maintain our program target by limiting non-priority outlays, while protecting pro-poor expenditures. These shortfalls reflected temporary factors such as the elimination of the withholding regime on VAT, the reduction in the stock of outstanding refund claims, the

reduction of excise taxes on fuel products, and the removal of import duties on wheat and maize.

8. Our budgetary proposal for 2012/13 remains consistent with the program objectives. The primary budget deficit will narrow, supported by stronger performance on the revenue side as the impact of temporary measures abates. In addition, the expected approval of our new VAT law should further contribute to increased efficiency, improving the business environment, and revenue mobilization. In the event of revenue shortfalls we still remain committed to the program targets. Expenditure policy will continue to be geared toward reprioritizing current expenditure in order to provide space for development expenditures, social spending, and the implementation of the constitution. Regarding the security intervention in Somalia, the recent decision to integrate Kenyan troops within the UN contingent, will help minimize their impact on the budget.

9. We are pressing forward with ambitious structural reforms in the fiscal area. A comprehensive public financial management bill covering all levels of government is under consideration by the National Assembly. This bill constitutes a milestone for the establishment of sound financial management, in the context of fiscal decentralization, and will help to implement one of the main pillars of our new Constitution. It also provides for the creation of a Treasury Single Account at both the national and county levels, which will enhance transparency in public finances and strengthen cash management. In addition, we have prepared a new VAT draft law that removes the existing exemptions and the zero rates on domestically consumed goods. As a result the new bill will not only improve revenue collection but also simplify tax administration. Following the introduction of the new VAT bill, tax reform will focus on excise tax regime and then on the design and the administration of the income tax.

10. Looking forward, we have already started to prepare the reform of our civil servants' pension scheme to allow for a gradual transition from defined benefits to defined contributions. Moreover, comprehensive work has started on the constitutionally-mandated review of salaries and remuneration scales for civil servants. Our Integrated Financial Management Information System is being rolled out across all levels of government, and twenty-four out of forty-eight spending agencies will use it in the preparation and execution of the 2012/13 budget.

11. We will remain committed to our Medium Term Debt Strategy that ensures sustainability of our public debt dynamics. We have contracted an external syndicated loan to substitute for the shortfall in domestic borrowing. Looking forward, external borrowing will be carefully prioritized to encourage concessional borrowing and identify those projects that maximize Kenya's economic and social potential. We now plan to issue a sovereign bond in 2013/14 while remaining within the ceiling.

B. **Monetary Policy**

12. CBK will maintain its tight stance until expectations of low inflation take hold with the aim of achieving annual inflation of single digits before the end of the year. Particular attention will need to be paid to potential risks stemming from adverse weather conditions and oil supply disruptions to ensure that recent gains on the inflation front are not reversed. We will continue to enhance the effectiveness of our new framework for monetary operations that has contributed to clarifying monetary policy signals, enhancing liquidity management, and reducing volatility in the interbank market.

13. We will continue to accumulate international reserves as scheduled for the remainder of 2011/12. As the level of international reserves at end-December 2011 exceeded projections, this will allow us to build a buffer to cope with additional external shocks. We remain fully committed to our floating exchange rate regime. CBK will intervene in the foreign exchange market to achieve our revised NIR target, and to smooth out only temporary excessive exchange rate volatility.

C. **Financial Policy**

14. We remain committed to the twin objectives of promoting financial inclusion and strengthening financial stability. In particular, banking supervision will focus on emerging credit risk and monitoring of banks with higher exposure to sectors more sensitive to interest rate increases, notably personal loans and real estate. The CBK will closely monitor provisioning practices in small banks and adopt timely corrective action measures if these banks face difficulties. In addition, we remain committed to allow market forces to determine interest rates so as to further strengthen our recent progress in financial inclusion and expanded credit access. We are convinced that reducing inflation expectations,

promoting competition within the financial sector and improving information sharing of credit risk will help lower commercial lending rates.

15. We will make further progress in deepening our financial sector to transform it into a regional hub for financial services. The demutualization of the Stock Exchange, for which we will soon publish the regulations in the Kenya Gazette, will convert our stock exchange into a for-profit entity and open it to participation from a wider range of investors, contributing to greater transparency, accountability, and liquidity. In order to promote better conditions for trade and price discovery in the cereals market we will further our efforts to establish a Commodities Exchange, once a warehousing infrastructure has been established.

16. We have initiated work on amending our Central Bank Act in line with requirements under the Constitution and plan to submit revisions to the law to the National Assembly. We will intensify our efforts to combat money laundering and terrorism finance in line with the action plan agreed with the Financial Action Task Force. Following the appointment of the Anti-Money Laundering (AML) Board in September 2011, we plan to make the Financial Reporting Centre operational and to revise the AML/CFT Guidelines for financial institutions registered with the Central Bank to reflect the requirements of our AML Act.

III. Program Issues

17. Safeguards assessment. The September 2011 Safeguard Assessment has been updated as required in cases of augmentation under the ECF arrangement. We are in the process of implementing the recommendations of the assessment.

18. Program monitoring. Our program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying revised TMU. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU. Table 1 shows the quantitative performance criteria to be used in monitoring performance in the remainder of 2011/12 and in 2012/13. Structural benchmarks, with corresponding dates, are identified in Table 2. Fiscal performance criteria will cover the budgetary central government, but we are prepare to expand coverage to include the budget of national government and county governments as early as possible with fiscal decentralization. The fourth review under the ECF arrangement, assessing end-June 2012 performance criteria is expected to be completed by October 15, 2012, the fifth review will be completed by April 15, 2013, based on end-December 2012 performance criteria, and

the sixth review will be completed by October 15, 2013, based on end-June 2013 performance criteria.

19. Given our strong record on program implementation, we request completion of the third review of the ECF-supported program approved on January 31, 2011 and augmented on December 9, 2011, and the associated disbursement of SDR 71.921 million. We reiterate that our program is on track with regard to all quantitative performance criteria and the indicative target for end-December 2011. The structural benchmarks were also met. We request modification of the performance criteria for end-June and end-December 2012, and establishment of end-June 2013 performance criteria for net international reserves and net domestic assets, as well as for the primary budget of the central government to reflect changes in underlying economic circumstances and outlook.

20. We will maintain a close policy dialogue with the Fund and stand ready to take additional measures, as appropriate to ensure the achievement of the government's economic and social objectives under the ECF-supported program.

21. The government believes that the policies set forth herein are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Kenya will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained herein, in accordance with the Fund's policies on such consultation.

22. We authorize the IMF to publish this Letter of intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/ /s/

Robinson N. Githae	Njuguna Ndung'u
Minister for Finance	Governor
	Central Bank of Kenya

Attachments: Updated Technical Memorandum of Understanding

Annex Table 1. Revised and New Performance Criteria for the 2011/2014 ECF Arrangement

(In billions of Kenyan shillings; unless otherwise indicated)

	2011			2012								2013	
				Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria		Indicative Targets	Performance Criteria
	Performance Criteria	Actual		End-March		End-June		End-Sept.		End-Dec.		End-March	End-June
	Dec.	Dec.	met/ not met	Second Review	Third Review	Second Review	Third Review	Second Review	Third Review	Second Review	Third Review	New Target	New Target
Quantitative performance criteria													
Fiscal targets													
Primary budget balance of the central government (-=deficit, floor) [1, 2]	-10.0	-9.8	met	-32.0	-32.0	0.0	-10.0	5.0	0.0	15.0	0.0	-5	0
Monetary targets [3, 4, 6]													
Stock of central bank net international reserves (floor, in millions of US$) [5]	3,125	3,294	met	3,125	3,520	3,170	4,070	3,200	4,115	3,325	4,160	4210	4260
Stock of net domestic assets of the central bank (ceiling)	-40.0	-52.8	met	-40	-30	-35	-55	-55	-45	-25	-25	-40	-40
Public debt targets													
Contracting or guaranteeing of medium- and long-term nonconcessional by the central government (ceiling; millions of US$) [7, 8]	700	84.6	met	700	700	700	1300	700	1,500	700	1,500	1,500	1,500
New central government and central government guaranteed external payment arrears (ceiling, millions of US$) [9]	0.00	0.00	met	0	0	0	0	0	0	0	0	0	0
Indicative targets													
Priority Social Expenditures of the central government(floor) [2]	13.5	14.0	met	22.5	22.5	26.1	26.1	12.1	12.1	15.0	15.0	21.2	28.3

[1] The primary budget balance of the central government is defined as overall balance including grants, minus concessional project loans, plus interest payments.

[2] Targets for end-September 2012 and end-December 2012, March 2013 and end-June 2013 are cumulative flow from July 1, 2012 (beginning of the 2012/13 fiscal year).

[3] For program monitoring, the daily average for the month when testing dates are due.

[4] The NIR floor will be adjusted upward (downward) by the excess (shortfall) of external budgetary support (grants and loans) and external commercial debt relative to the programmed amounts. The NDA ceiling will be adjusted downward (upward) by the excess (shortfall) of external budgetary support (grants and loans) and external commercial debt relative to the programmed amounts.

[5] Excludes encumbered reserves.

[6] First review targets at September 1, 2010 exchange rates. Second review targets at April 29, 2011 exchange rate. Third review targets at February 29, 2012 exchange rates.

[7] Cumulative flow of contracted debt, from January 1, 2011.

[8] The targets on the ceiling of non-concessional external debt combine nonconcessional project loans, syndicated loan and sovereign bond.

[9] Continuous.

Annex Table 2. Kenya: Structural Benchmarks for the ECF Arrangement

Item Measure	Time Frame	Status
Tax measures		
Submit Value Added Tax (VAT) legislation to help improve administration and compliance. *<u>Macro criticality</u>: The VAT reform will allow for higher mobilization of revenue which will reduce the fiscal imbalance.*	Second Review	Approved in Cabinet. Expected to be sent to the National Assembly after recess.
Expenditure control		
Submit Public Finance Management legislation to the Commission of Implementation of the Constitution, to help accelerate reforms in public financial management. *<u>Macro criticality</u>: PFM management legislation is crucial for increasing both spending efficiency and improving the fiscal management.*	Third Review	Completed
Adopt a Single Treasury Account to strengthen cash management and improve resource management. *<u>Macro criticality</u>: Single Treasury Account (STA) adoption will improve both liquidity management and expenditure control.*	Fourth Review	In Progress
Banking supervision		
Amend the Banking Act to reinforce prompt corrective action by the banking supervision authority. *<u>Macro criticality</u>: Reinforcing the banking supervision authority is crucial to reducing the risk of macroeconomic instability.*	First Review	Completed on December 24, 2010 (2010 Finance Act)
Capital markets		
Introduce legislation to allow the demutualization of the Nairobi Stock Exchange, to remove the conflict of interest from the governing body of the exchange and to strengthen capital markets. *<u>Macro criticality</u>: Demutualization of the Nairobi Stock Exchange is essential for the both development of deeper financial markets that will enhance financial stability, and attracting capital inflows to reduce the BOP financing need.*	First Review	Completed in January 2011 (guidelines were introduced as Attorney General ruled that a new Law was not needed)

Attachment I. Updated Technical Memorandum of Understanding

1. This memorandum sets out the understandings between the Kenyan authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets, their adjusters and data reporting requirements for the three-year Extended Credit Facility (ECF) arrangement.

I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

2. Quantitative performance criteria are proposed for December 31, 2011; June 30, 2012; December 31, 2012; and June 30, 2013 with respect to:

- the primary balance of the central government including grants, excluding external concessional project loans, cash basis (**floor**);
- the net official international reserves (NIR) of the Central Bank of Kenya (CBK) (**floor**);
- the net domestic assets (NDA) of the CBK (**ceiling**);
- nonconcessional medium- and long-term external debt contracted or guaranteed by the central government or by local and municipal governments without central government guarantee (**ceiling**); and
- medium- and long-term external public debt arrears (**continuous ceiling**).

3. The program sets indicative targets for March 31, 2012, September 30, 2012, and March 2013 with respect to:

- priority social spending of the central government (**floor**).

II. PERFORMANCE CRITERION ON THE PRIMARY BALANCE INCLUDING GRANTS OF THE CENTRAL GOVERNMENT

4. **The central government primary balance excluding external concessional project loans** on cash basis is defined as central government revenues and grants minus expenditures and net lending, plus due interest payments and investment expenditure financed through external concessional project loans, adjusted for cash basis.

5. For program purposes, the **central government primary balance excluding external concessional project loans** on cash basis is cumulative from July 1, 2011 and will be measured from the financing side as the sum of the following: (a) the negative of **net domestic financing** of the central government; (b) the negative of **net external financing of the central government, excluding external concessional project loans;** and (c) **domestic and external interest payments** of the central government. For the December 31, 2012 and

June 30, 2013 test date, the central government primary balance including grants excluding external concessional loans will be measured cumulative from July 1, 2012.

The above items are defined as follows:

- **Net domestic financing** of the central government is defined as the sum of:

  - net domestic bank financing;
  - net domestic nonbank financing;
  - change in the stock of domestic arrears of the central government; and
  - proceeds from privatization.

- **Net external financing excluding external concessional project loans** is defined as the sum of:

  - disbursements of **external nonconcessional project loans**, including securitization;
  - disbursements of **budget support loans;**
  - principal repayments on all **external loans;**
  - net proceeds from issuance of external debt;
  - any exceptional financing (including rescheduled principal and interest);
  - net changes in the stock of short-term external debt; and
  - Any change in external arrears including interest payments.

- **External concessional project loans** of the central government are defined as **external project loans** contracted by the central government, which are considered concessional according to the definition in paragraph 11. All other **external project loans** are deemed **nonconcessional external project loans.**

- **Domestic and external interest payments** of the central government are defined as the due interest charges on domestic and external central government debt.

III. Performance Criterion on the Net International Reserves of the Central Bank of Kenya

6. **The net official international reserves** (stock) of the CBK will be calculated as the difference between total gross official international reserves and official reserve liabilities.

- **Gross official international reserves** are defined as the sum of:

  - the CBK's holdings of monetary gold (excluding amounts pledged as collateral);
  - holdings of Special Drawing Rights (SDRs), including the August 28, 2009 General allocation and the September 9, 2009 Special allocation;
  - CBK holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments).

- **Gross official international reserves** exclude:
  - the reserve position in the IMF;
  - pledged, swapped, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities;
  - deposits with Crown agents; and
  - precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.
- **Official reserve liabilities** are defined as:
  - the total outstanding liabilities of the CBK to the IMF except those arising from the August 28, 2009 SDR general allocation and the September 9, 2009 SDR special allocation;
  - convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year;
  - commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options).

The following **adjustors** will apply to the target for NIR:

- If budgetary support (external grants and loans)[1] and external commercial debt exceed the programmed amounts, the target for NIR will be adjusted upward by the difference.
- If budgetary support (external grants and loans) and external commercial debt fall short of the programmed amounts, the target for NIR will be adjusted downward by the difference.

7. **NIR are monitored in U.S. dollars,** and, for program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar shall be converted into dollar equivalent values, using the exchange rates as specified in Table 1, and net international reserves will be computed as the daily average for the month when the testing date is due.

IV. Performance Criterion on the Net Domestic Assets (NDA) of the Central Bank of Kenya

8. **Net domestic assets** are defined as reserve money minus NIR converted in shillings at the accounting exchange rate specified in Table 1, plus medium- and long-term liabilities

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[1] No budgetary support in the form of external grants and loans is expected in the next 12 months.

(i.e., liabilities with a maturity of one year or more) of the CBK, including those arising from the August 28, 2009 SDR General allocation and the September 9, 2009 SDR Special allocation; minus the value in shillings of encumbered reserves converted at the accounting exchange rate specified in Table 1.

- NDA is composed of:
  - net CBK credit to the central government;
  - outstanding net credit to domestic banks by the CBK (including overdrafts); and
  - other items net.
- Reserve money is defined as the sum of:
  - currency in circulation; and
  - required and excess reserves.
- The following **adjustors** will apply to the target for NDA:
  - If budgetary support (external grants and loans) and external commercial debt exceed the programmed amounts, the target for NDA will be adjusted downward by the difference.
  - If budgetary support (external grants and loans) and external commercial debt fall short of the programmed amounts, the target for NDA will be adjusted upward by the difference.

9. **NDA are monitored in shillings, and will be computed as the daily average for the month when the testing date is due.**

V. Performance Criterion on Nonconcessional External Debt Contracted or Guaranteed by the Central Government

10. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as set out in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009. This definition also includes the following:

- Debt is understood to mean a direct, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
    - ➢ loans, that is, advances of money to the obligor by the lender made on the basis of a undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
    - ➢ suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
    - ➢ leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

11. Debt is considered concessional if, on the date on which the contract was signed, the ratio of the present value of the loan, based on the commercial interest reference rates (CIRRs), to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the CIRRs established by the Organization for Economic Cooperation and Development (OECD). Specifically, the 10-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years while the six-month average of CIRRs will be used for loans with shorter maturities. To both the 10-year and 6-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1 percent for repayment periods of

15–19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

12. The definition of **external debt**, for the purposes of the program, is any debt as defined in paragraph 9, which is denominated in foreign currency, i.e., currency other than Kenyan shillings (Ksh). Similarly, external borrowing is borrowing denominated in foreign currency.

13. The performance criterion on nonconcessional external debt is measured as a cumulative flow from January 1, 2011 and this includes: (i) nonconcessional external debt contracted or guaranteed by the central government; and (ii) nonconcessional external debt contracted by local and municipal authorities without central government guarantee. The authorities should consult with the Fund where public enterprises and other parastatals seek nonconcessional external borrowing without central government guarantee to limit the potential fiscal risk to the government. Medium- and long-term debt refers to debt with maturity of one year or longer.

14. The ceiling on nonconcessional external borrowing (see Table 1 in LOI) encompasses commercial loans, including the proceeds of syndicated loans and eventual proceeds from the issuance of a sovereign bond, and non-concessional project financing.

VI. Performance Criterion on the Stock of Central Government and Central Government Guaranteed External Payment Arrears to Official Creditors

15. Central government and central government guaranteed external payment arrears to official creditors are defined as overdue payments (principal or interest), which were not made by their contract due date nor during the applicable grace period thereafter, on debt contracted or guaranteed by the central government. The definition excludes arrears relating to debt subject to renegotiation (dispute) or rescheduling.

16. The performance criterion on the stock of central government and central government guaranteed external payment arrears applies only to newly accumulated arrears on or after January 1, 2011.

VII. Indicative Target on Priority Social Spending

17. The program sets a floor on priority social spending of the central government. For the purposes of the program, priority social spending of the government is defined as the sum of:

- cash transfers to orphans and vulnerable children;
- cash transfers to elderly;
- anti-retroviral treatment expenditures;
- free primary education expenditure; and

- free secondary education expenditure**.**

VIII. COVERAGE

18. All the references to **central government** in the current TMU will be changed to **general government,** in order to include local governments whenever the fiscal decentralization takes place according to the new constitution.

TMU Table 1. Kenya: Program Exchange Rates for the ECF Arrangment
(Rates as of February 29, 2012)

Currency	Kenyan Shillings per currency unit	Dollars per currency unit
U.S. DOLLARS	82.85	1.0000
STG. POUNDS	131.99	1.5813
JAPANESE YEN	1.03	0.0124
CANADIAN DOLLARS	83.47	1.0000
EURO	111.57	1.3366
SWISS FRANCS	92.68	1.1102
SWEDISH KRONORS	12.66	0.1516
DANISH KRONORS	15.01	0.1798
S.D.R.	128.81	1.5432

TMU Table 2. Kenya: Summary of Data to Be Reported

Information	**Frequency**	**Reporting Deadline**	**Responsible Entity**
1. Primary balance of the central government including grants			
Net domestic bank financing (including net commercial bank credit to the central government and net CBK credit to the central government)	Monthly	Within 15 days after the end of the month.	CBK
Net nonbank financing	Monthly	Within 15 days after the end of the month.	CBK
Central government arrears accumulation to domestic private parties and public enterprises outstanding for 60 days or longer.	Monthly	Within 15 days after the end of the month.	Ministry of Finance (MoF)
Proceeds from privatization	Monthly	Within 15 days after the end of the month.	MoF
Interest paid on domestic debt	Monthly	Within 15 days after the end of the month.	CBK
Interest paid on external debt	Quarterly	Within 4 weeks after the end of the quarter.	CBK
Disbursements of external nonconcessional project loans, including securitization	Quarterly	Within 45 days after the end of the quarter.	MoF
Disbursements of budget support loans	Quarterly	Within 45 days after the end of the quarter.	MoF
Principal repayments on all external loans	Monthly	Within 15 days after the end of the month.	CBK
Net proceeds from issuance of external debt	Monthly	Within 15 days after the end of the month.	CBK
Any exceptional financing (including rescheduled principal and interest)	Monthly	Within 15 days after the end of the month.	MoF
Net changes in the stock of short-term external debt	Quarterly	Within 45 days after the end of the quarter.	MoF
Net change in external arrears, including interest	Quarterly	Within 45 days after the end of the quarter.	MoF
2. Gross official international reserves			
CBK's holding of monetary gold (excluding amounts pledged as collateral)	Monthly	Within 15 days after the end of the month.	CBK
Holdings of SDRs	Monthly	Within 15 days after the end of the month.	CBK
CBK holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments)	Monthly	Within 15 days after the end of the month.	CBK

TMU Table 2. Kenya: Summary of Data to Be Reported (continued)

3. Official reserve liabilities			
Total outstanding liabilities of the CBK to the IMF except those arising from the August 28,2009 SDR general allocation and the September 9, 2009 SDR special allocation;	Monthly	Within 15 days after the end of the month.	CBK
Convertible currency liabilities of the CBK to nonresidents with an original maturity of up to and including one year	Monthly	Within 15 days after the end of the month.	CBK
Commitments to sell foreign exchange arising from derivatives.	Monthly	Within 15 days after the end of the month.	CBK
4. Net domestic assets			
Net CBK credit to the central government	Monthly	Within 15 days after the end of the month.	CBK
Outstanding net CBK credit to domestic banks (including overdrafts)	Monthly	Within 15 days after the end of the month.	CBK
5. Reserve money			
Currency in circulation	Monthly	Within 15 days after the end of the month.	CBK
Required and excess reserves	Monthly	Within 15 days after the end of the month.	CBK
Nonconcessional medium- and long-term external debt contracted or guaranteed by the central government	Quarterly	Within 45 days after the end of the quarter.	MoF
Accumulation of central government and central government guaranteed external payment arrears.	Quarterly	Within 45 days after the end of the quarter.	MoF
Social priority spending	Quarterly	Within 45 days after the end of the quarter.	MoF