International Monetary Fund

Kenya and the IMF

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October 24, 2012

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Kenya: Letter of Intent, and Updated Technical Memorandum of Understanding

October 5, 2012

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.

LETTER OF INTENT

Nairobi, Kenya

October 5, 2012

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

Dear Mrs. Lagarde,

1. Our economy continues to recover from the challenges faced in 2011, which included the drought that hit the Horn of Africa, the global crisis and double digit increases in import prices. Domestic demand is now growing in line with supply, inflation is well within our target, and economic growth is set to accelerate. Growth in agricultural production is recovering to pre-drought level and adequate rainfall in 2012 has reduced the country's dependence on imported food and expensive oil imports for thermal power 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 quantitative performance criteria and indicative targets for end-June 2012, and are requesting a waiver for the temporary non-observance of the continuous performance criterion on external payment arrears for which we have taken corrective measures, that emerged as new administrative arrangements were put in place following constitutional changes. Kenya has maintained fiscal and monetary discipline. We have met the target for primary balance, as well as the ceiling on NDA and the threshold on NIR with large margins. Progress on structural reforms has continued, with recent enactment of Public Financial Management (PFM) Act, that will allow for adoption of a Treasury Single Account, and the submission of the new VAT Bill to Parliament that we expect to implement by the end of this year.

3. This Letter of Intent describes policies we intend to implement for the remainder of 2012/13 and in 2013/14. Policies in the near term will aim at: a) entrenching low inflation expectations; b) preserving fiscal discipline in an election year and the beginning of a devolved system of government in order to lower the debt-to-GDP ratio; and c) narrowing the still high 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. Economic growth slowed somewhat in the first half of 2012, but we expect it to pick up in the remainder of the year with the return of normal rains and gradual easing of the tight monetary stance. Improved conditions for domestic hydropower generation that reduces reliance on imported oil and adequate food stocks are expected to contribute to an improvement of the external position.

5. The tightening of monetary policy since October 2011 supported by the implementation of a new monetary operations framework has helped in bringing down inflation to single digits. After peaking in November 2011, inflation has declined for nine consecutive months and is now well within our medium-term target. Credit growth has slowed down by more than half over the past year, but remains sufficient to sustain continued economic expansion. The exchange rate has stabilized, allowing the CBK to accumulate international reserves beyond planned levels. The current account position is expected to improve in the remainder of the year as the demand for food and oil imports abates.

6. Economic prospects will benefit from the return of normal weather, continued regional integration, trade diversification to new markets, and the implementation of sound macroeconomic policies that will help attract foreign investment. Continued fiscal consolidation efforts will allow for a reduction in the primary deficit and a further decline in the debt-to-GDP ratio. Sustaining price stability will increase the scope for the gradual easing of monetary policy. Following institutional reforms, we expect successful general elections slated for March 4, 2013 and smooth transition to a decentralized system of governance in line with our new Constitution. This will be key to sustaining foreign direct investment.

7. Risks to the outlook stem from a new round of food price shocks occasioned by the drought in the United States and continued deterioration in the global financial environment that may weaken our exports, tourism, remittances, and capital inflows. Domestic risks include setting up of the new devolved system of government, weather-related shocks, and security challenges arising from developments in Somalia. Should these risks materialize, we will take appropriate actions to safeguard macroeconomic stability.

II. THE ECONOMIC PROGRAM FOR 2012/13.

A. Fiscal Policy

8. We will continue to gradually consolidate our fiscal position while pursuing our long-term development objectives as set out in Vision 2030. Efforts to contain non-priority outlays, enhance spending efficiency, and boost revenue collection should allow us to gradually narrow the primary fiscal deficit. Despite the lower than expected revenue performance in 2011/12, we anticipate strong revenue mobilization as a result of: a) ongoing administrative efforts such as enhanced compliance by the large VAT payers; b) widening of the tax base for rental income; c) reinstatement of import duties on wheat and maize; and d) expected implementation of the new VAT law. To reverse the collection shortfalls observed following the removal of the withholding regime on VAT in July 2011, we will carry out audits of the biggest taxpayers benefiting from the removal. We are also strengthening verification procedures to manufacturers under the Tax Remission for Exports Office (TREO).

9. Our 2012/13 budget remains consistent with the program objectives and envisages a decline in the primary deficit despite the inclusion of one-off expenses to prepare for the elections. We have accommodated a one-off increase in teachers' salaries to realign their salaries with the rest of the public service. Expenditure priorities include continued investment in infrastructure and education, expansion of social safety nets, implementation of the Constitution including catering for the new system of devolved government, and enhanced investment in regional security, for which we expect to be reimbursed as Kenya's intervention operates now under the African Union Mission in Somalia (AMISOM). In anticipation of fiscal decentralization, the budget reflects allocations at the county level based on a costing of their functions. In the event of revenue shortfalls or unanticipated expenditure pressures, we will lower non-priority spending through improved expenditure control as a result of the broader coverage of the Integrated Financial Management Information System (IFMIS).

10. Building on recent successes, we will continue making progress on our ambitious fiscal structural reform agenda. Following the expected adoption of the new VAT regime, we will undertake a comprehensive review of the Income Tax Act and the Customs and Excise Tax Act. We will implement the regulations pertaining to the newly-adopted PFM law, and operationalize the Treasury Single Account at the national level. The Salaries and Remuneration Commission, created under the Constitution, is preparing a new salary scheme for civil servants based on job evaluation and market criteria that will preserve fiscal sustainability in the context of devolution. Looking ahead, the newly approved pension's reform law set to start on July 1, 2013, is expected to reduce contingent liabilities, and we will initiate work on the design of an appropriate fiscal regime for the management of natural resource wealth.

11. We will be updating our Medium Term Debt Strategy which ensures public debt sustainability. Our priority remains to attract concessional financing and concessional guarantees for key energy and infrastructure projects and to strictly monitor borrowing on commercial terms. We are taking administrative steps to ensure timely servicing of external debt. We plan to issue a sovereign bond in 2013/14 or sooner to repay the syndicated loan we contracted in May 2012.

B. Monetary Policy

12. Monetary policy will remain geared at ensuring low and stable prices. The rapid decline in inflation has created scope for a gradual easing of monetary policy in line with improved inflationary expectations. We are, however, aware that a too rapid reduction in the policy rate of the CBK may reverse the hard won inflation gains by placing pressure on the exchange rate, in the context of international food and fuel price shocks. We will therefore monitor emerging inflationary risks and take appropriate action if they materialize. We are enhancing the effectiveness of our new framework for monetary operations by achieving greater convergence between key interest rates and affirm the CBR's leading signal role.

13. We will continue to gradually accumulate international reserves in line with our program, while using open market operations to sterilize any excess liquidity and reduce volatility in the interbank market. This will allow us to build an additional buffer of reserves to cope with the impact of potential external shocks. We remain fully committed to our floating exchange rate regime and will only intervene in the foreign exchange market to accumulate international reserves and to smooth out temporary excessive exchange rate volatility.

C. Financial Policy

14. We will continue pursuing our twin objectives of promoting financial inclusion and strengthening financial stability. The recent decline in the policy rate of the Central Bank is expected to lead to a reduction in commercial bank lending rates. Combined with efforts to promote enhanced competition in the financial sector and promote access to credit we expect that financial inclusion will continue playing a major role in supporting inclusive growth. CBK has proposed new prudential regulations to strengthen banking supervision. These include: (a) raising the minimum risk-weighted capital adequacy ratio to 14.5 percent; (b) introducing reporting requirements for consolidated supervision; and (c) upgrading risk classification criteria. In order to promote the adoption of consolidated supervision, we have supported the establishment of supervisory colleges for banking groups in Kenya.

15. Efforts by the Capital Markets Authority to list small and medium-sized companies on the Nairobi Stock Exchange will promote access to funding at competitive terms for a wider range of businesses, attracting investors to previously isolated sectors of the economy, and deepen our financial markets. We remain committed to finalizing the process of demutualization of the stock exchange, which will help increase transparency and lower financial intermediation costs. We plan to open alternatives for retail investors, including by facilitating access to the securities market through mobile phones, building up on the success of M-Pesa, for which arrangements will be made for a more efficient use of the existing central depository arrangements. Efforts to establish a Futures market and a Commodities Exchange Market are ongoing, and we expect that once in place they will promote better conditions for trade and price discovery, especially in the cereals market.

16. On the AML/CFT front, we have made progress with the passing by Parliament of the Prevention of Terrorism Bill into law. In addition, the Financial Reporting Centre (FRC) that was established in April 2012 is expected to adopt and implement regulations for the Proceeds of Crime and Money Laundering Act by December, 2012. For the CBK and in this context, we reaffirm the Central Bank of Kenya's decision-making powers on matters relating to AML/CFT on the banks it licenses and in support and collaboration with FRC to deal with emerging or existing challenges.

III. PROGRAM ISSUES

17. Safeguards assessment. An update to the 2011 safeguards assessment report was completed in March 2012, which showed that we have almost fully implemented the recommendations of the earlier assessment on schedule. We intend to complete the remainder in time for the next 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 2012/13. Fiscal performance criteria will cover the budgetary central government, but we will prepare to expand coverage to include the budget of national government and county governments as early as possible in anticipation of fiscal decentralization. The fifth review under the ECF arrangement, assessing end-December performance criteria is expected to be completed by April 15, 2013, and the sixth review will be completed by November 15, 2013, based on end-June 2013 performance criteria.

19. Given our strong program implementation, we request completion of the fourth 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 quantitative performance criteria and the indicative target for end-June 2012. The structural benchmark was also met. We request modification of the end-December 2012 and end-June 2013 performance criteria for net international reserves and net domestic assets, as well as for the primary budget of the central government. We request a waiver for the temporary non-observance of the continuous performance criterion on the nonaccumulation of external payment arrears.

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. We will maintain a close policy dialogue with the Fund on the adoption of measures, and in advance of revisions of the policies contained in this Letter of intent, in accordance with the Fund's policies on such consultation.

21. 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

Attachment: Updated Technical Memorandum of Understanding

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

(In billions of Kenyan shillings; unless otherwise indicated)

	2012							2013			
	Performance Criteria			Indicative Targets		Performance Criteria		Indicative Targets		Performance Criteria	
	End-June			End-Sept.		End-Dec.		End-March		End-June	
	Program	Actual		Program	Preliminary	Third Review	Proposed Program	Third Review	Proposed Program	Third Review	Proposed Program
Quantitative performance criteria											
Fiscal targets											
Primary budget balance of the central government (-=deficit, floor) [1 2 3 4]	-10.0	-1.0	met	0.0		0.0	-64.0	-5.0	-32.0	0.0	-10.0
Monetary targets [5 6]											
Stock of central bank net international reserves (floor, in millions of US$) [7 8]	4,070	4,191	met	4,115	4,440	4,160	4,460	4210	4490	4,260	4,640
Stock of net domestic assets of the central bank (ceiling)	-55	-72		-45	-73	-25	-50	-40	-50	-40	-50
Public debt targets											
Contracting or guaranteeing of medium- and long-term nonconcessional by the central government (ceiling; millions of US$) [9 10]	1300	1037	met	1500	1037	1,500	1500	1,500	1,500	1,500	1,500
New central government and central government guaranteed external payment arrears (ceiling, millions of US$) [11]	0	8.4	not met	0		0	0	0	0	0	0
Indicative targets											
Priority Social Expenditures of the central government(floor) [2 3 4]	26.1	26.3	met	12.1		15.0	15.0	21.0	21.0	28.3	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-December 2010, end-March 2011, and end-June 2011 are cumulative flow, from October 1, 2010 (beginning of the second quarter of the 2010/2011 fiscal year).

[3] Targets for end-September 2011, end-December 2011, end-March 2012, and end-June 2012 are cumulative flow from July 1, 2011 (beginning of the 2011/2012 fiscal year).

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

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

[6] 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.

[7] Excludes encumbered reserves.

[8] First review targets at September 1, 2010 exchange rates. Second review targets at April 29, 2011 exchange rate.

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

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

[11] Continuous.

Table 2. 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. *Macro criticality: The VAT reform will allow for higher mobilization of revenue which will reduce the fiscal imbalance.*	Second Review	Completed. In discussion by the National Assembly.
Expenditure control		
Submit Public Finance Management legislation to the Commission of Implementation of the Constitution, to help accelerate reforms in public financial management. *Macro criticality: 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. *Macro criticality: Single Treasury Account (STA) adoption will improve both liquidity management and expenditure control.*	Fourth Review	Completed
Banking supervision		
Amend the Banking Act to reinforce prompt corrective action by the banking supervision authority. *Macro criticality: 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. *Macro criticality: 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

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

1. Quantitative performance criteria are proposed for December 31, 2011; June 30, 2012; and 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**).

2. 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

3. **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.

4. 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.

5. 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.

6. **The central government primary balance excluding concessional project loans** will be adjusted downward by the amount of the shortfall of program grants in FY 2012/13, which are expected as refunds for Kenya's participation in African Union Mission in Somalia (AMISOM).

III. PERFORMANCE CRITERION ON THE NET INTERNATIONAL RESERVES (NIR) OF THE CENTRAL BANK OF KENYA

7. **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.

8. 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

9. 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 (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

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

- 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.

10. 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

11. 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.

12. 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).

13. 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.

14. 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.

15. 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 CENTRAL GOVERNMENT AND CENTRAL GOVERNMENT GUARANTEED EXTERNAL PAYMENT ARREARS TO OFFICIAL CREDITORS

16. Central government 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 by the central government. Central government guaranteed external debt payment arrears (principal or interest) to official creditors are defined as overdue payments beyond 30 days after the original contract due date in order to allow the central government sufficient time to process the due repayment after the original debtor has notified of its inability to pay. The definition excludes arrears relating to debt subject to renegotiation (dispute) or rescheduling.

17. 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

18. 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

19. 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

Kenya (Program) Exchange Rates for the ECF Arrangments
(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. 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. 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