KPMG

cutting through complexity

East and central Africa's biggest economy has been boosted by strong telecommunications and financial sector growth. And with its scenic beauty and abundant wildlife, Kenya is one of Africa's major safari destinations, with a thriving tourist industry. In a bid to redress some infrastructure challenges, the government intends to begin construction on a transport corridor and oil pipeline into the port of Lamu in 2014, in conjunction with neighboring Ethiopia and South Sudan. Kenya has been hampered by corruption and an over-reliance upon certain primary goods, whose prices have remained low. Nevertheless, real gross domestic product (GDP) growth is expected to increase to 5.6 percent in 2014 and 5.7 percent in 2015, helped by cheaper credit and an improvement in global conditions. Growth should remain strong in 2016–2018, although structural constraints will persist.

Kenya

High Growth Markets country profile

Country overview

Geography and climate

- **Location:** eastern Africa, bordering the Indian Ocean, between Somalia and Tanzania
- **Climate:** varies from tropical along the coast to arid in the interior
- **Regions:** 47 counties
- **Major cities:** Nairobi (3.3 million), Mombasa (0.9 million) (2009)

Political system

- **Type of government:** republic
- **Capital:** Nairobi

Population, language and religion

- **Population:** 45.5 million (2013)
- **Urban population:** 24%
- **Demographics:** 0–14 years: 42.1%; 15–64 years: 54.3%; 65 years and over: 2.7%
- **Official language:** English and Kiswahili
- **Prominant religions:** Christian and Muslim

Currency and central banking

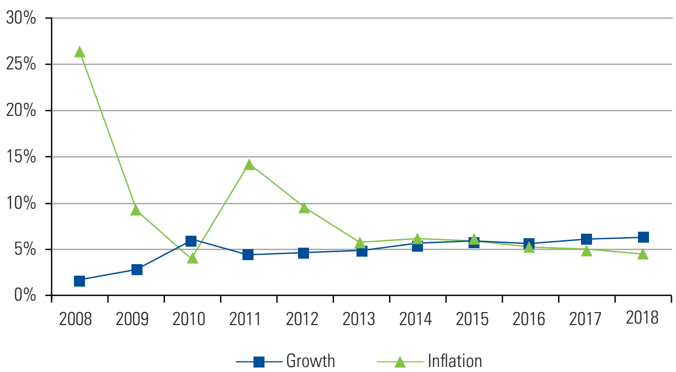
- **Local currency:** Kenyan shilling (KES)
- **Exchange rate:** 1 KES = US$0.0114 (1 April 2014)
- **Interest rate (average annual rate):** 8.9% (2013); 12.6% (2012); 8.7% (2011); 3.6% (2010); 7.4% (2009)
- **Foreign exchange reserves:** US$5.541 billion
- **Total debt (2013):** external: US$11.96 billion; public debt: 53.5% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$80.1 billion.** Real GDP growth is expected to quicken to 5.6% in 2014 and 5.7% in 2015, helped by cheaper credit and an improvement in global conditions. Growth is set to remain strong in 2016–2018, although structural constraints will persist.
- **Foreign direct investment (FDI) (billions):** inbound: US$0.1 (2008); US$0.7 (2013); US$1.4 (2018 forecast); outbound: US$0.04 (2008); US$0.02 (2013); US$0.02 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$6.2 (2012); US$6.1 (2013); US$9.1 (2018 forecast)
- **Imports FOB (billions):** US$15.5 (2012); US$15.5 (2013); US$18.4 (2018 forecast)
- **Sector breakdown:** service: 53%; industrial: 17.7%; agriculture: 29.3%
- **Trade balance (billions):** deficit of US$9.3 (2012); US$9.4 (2013); US$9.3 (2018 forecast)
- **Stock exchanges:** Nairobi Stock Exchange (NSE)

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The new government intends to push ahead with structural economic reforms during 2014–2018, including trade liberalization, privatization and deregulation, in order to improve the business environment, boosting growth and cutting poverty. Policymaking will remain vulnerable to exogenous shocks such as drought and volatile commodity prices, and to political in-fighting.
- **Competition policy:** The Restrictive Trade Practices, Monopolies and Price Controls Act of 1990 established a clear and exhaustive competition policy in Kenya. This legislation stipulated the promotion of competition, to prevent monopolies and restrictive practices from hurting consumers or the general public. Mergers or acquisitions in which both parties offer similar goods or services may not be completed without authorization from the minister of finance. Suppliers, retailers and resellers may not employ discriminatory selling practices, nor refuse to sell to a particular party. 2014–2015 should see further progress towards an open economy, underpinned by deregulation, reforms to capital markets and privatization. This includes enabling the full or partial sale of up to 25 enterprises (via direct sales or flotation on the Nairobi Securities Exchange (NSE)). During 2016–2018, deregulation and privatization should advance more quickly, with an increasing number of public-private partnerships.
- **FDI policy:** The government is keen to encourage investment that spurs job creation without harming the environment or compromising national security. However, there are restrictions on foreign ownership in insurance, the stock exchange and telecommunications, as well as for foreign investors seeking to own equity in a Kenyan company. During 2014–2015, Kenya plans to establish a 'one-stop shop' to speed up investment applications and to set up new 'special economic zones' to attract business. New hydrocarbon laws will provide a framework for investment. Despite these efforts, the perennial problems of poor infrastructure, corruption, crime and political uncertainty are likely to pose a continuing challenge between 2016–2018.
- **Foreign trade and exchange controls:** Kenya's relatively diverse export portfolio is headed by tea and horticultural products, and aided by a relaxed set of export controls. Imports are equally varied, with the Middle East and Asia accounting for around 60 percent of the total. Certain goods have import restrictions. The government ended exchange controls in 1995 with the repeal of the Exchange Controls Act of 1952. During 2014–2015, the Kenyan shilling should remain market-determined and convertible for current and capital account transactions. Regional trade is expected to strengthen within the East African Community (EAC) common market. There is a risk of European Union (EU) import duties being imposed on key Kenyan exports, if a new economic partnership agreement is not completed by the end of 2014. In the period 2016–2018, EAC ties should deepen, but plans for a common currency are unlikely to be realized during the forecast period, with the EAC not targeting monetary union until 2024.
- **Financing policy:** In 2014–2015, the banking sector is predicted to be the main source of corporate finance, although fundraising on the Nairobi Stock Exchange should grow, via new listings and corporate bonds, helped by capital market reforms. Kenya also has plans to launch a debut sovereign bond, providing a benchmark for large corporations to issue Eurobonds. Mergers in the banking sector should increase during 2016–2018, creating larger, stronger players with broader regional reach.
- **Taxes:** Kenya's corporation tax rate is 30 percent for resident companies and 37.5 percent for non-resident companies, but the overall tax burden rises to about 50 percent of gross profits, when labor and other taxes are included. In 2013, there was a major overhaul of value-added tax (VAT) that greatly reduced exemptions. Further tax reforms are expected in 2014–2015. The high overall tax burden means that investors remain sensitive to shifts in specific tax rates, while county-level taxes threaten to push up business costs. During 2016–2018, the tax burden should fall due to deregulation and licensing reform, but investment is likely to remain tax-sensitive.

KPMG in Kenya

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In Kenya, KPMG has approximately 600 professionals in the capital city of Nairobi.

KPMG in Kenya aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Kenya website: kpmg.com/eastafrica

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

Designed by Evalueserve. Publication name: Kenya: High Growth Markets country profile
Publication number: 130913n. Publication date: June 2014