

**COUNTRY PROFILE:****REPUBLIC OF KENYA****DATED:****JANUARY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restrictions

*Recent Political Highlights*

- ❑ President Mwai Kibaki's controversial victory in December 2007, which would enable him to remain in power for a second five-year term, has been marred by conflict which has turned Kenya into a battlefield. Opposition leader Raila Odinga strongly contested the election results and called for widespread demonstrations from his supporters;
- ❑ Odinga vowed to step up his challenge against President Kibaki as political unrest re-opened conflicts across the country last week, but both parties have subsequently elected candidates to join former UN chief Kofi Annan's mediation mission. The topics included immediate action to stop violence and restore fundamental rights and liberties. Talks will also centre on measures to address the unfolding humanitarian crisis and promotion of reconciliation and healing. Discussions on the political crisis would include power sharing, constitutional review and reform of the Electoral Commission of Kenya (ECK), but a political settlement for the disputed December 2007 elections are still far off. Government has partially involved the military in restoring order in spots perceived as highly volatile as the crisis that has claimed more than 800 lives and displaced at least half a million people, continued to spiral out of control.

*Recent Economic Highlights*

- ❑ Kenya's population of 37m was expected to have grown at a rate of 3% last year;
- ❑ The World Bank warned last week that it may have to adjust lending programmes to Kenya if the unrest persists after stating that it was important that African countries took ownership of ensuring political stability so that development efforts were not obstructed. It warned that the current situation could drive 2m Kenyans into poverty, reversing the gains achieved over the last few years. The Financial Times also warned that Kenya's crisis is likely to make it more difficult to raise funds from the capital markets as analysts predict less revenue than expected from the floatation of Safaricom, the country's biggest mobile telephone operator. Government's sale of a 25% stake in Safaricom was planned for this month and was expected to raise \$425m;
- ❑ The shilling lost 7.6% following the December 2007 election, but recovered in the period 7<sup>th</sup> – 11<sup>th</sup> January and lost value again when the violence surged, suggesting that the volatility and depreciating pressures will continue to plague the shilling for as long as there is no resolution to the crisis. Strong inflationary pressures, largely from food, transport and communication, elevated overall inflation to 12% in December. The high food prices are due to Kenya currently being between harvests. Its next harvest set for February, is expected to be adversely affected by below average rainfall between last October – December;
- ❑ Despite the political turmoil, the sector has been able to proceed with business as usual and it continued to register high volumes of exports. By the end of the year, flower exports were expected to reach \$895m from 2007's \$731m;
- ❑ Essar Energy Overseas, a subsidiary of Essar Oil, has entered into an agreement to acquire a 50% stake in Kenya Petroleum Refineries (KPRL), a four million metric tonne per annum refinery. Government holds the remaining 50%. Government and Essar will jointly bear the cost of upgrading the refinery. Essar will acquire the stake from existing shareholders including Shell petroleum Company, Chevron Global Energy Inc and BP Africa during the year. Essar would also be sending products from its Indian refinery to the African market as it is a free price regime in that market.

*Latest Trade Developments*

- ❑ Major exports: tea, horticultural products, coffee, petroleum products, fish and cement;
- ❑ Major imports: machinery and transportation equipment, petroleum products, motor vehicles, iron and steel, resins and plastics;
- ❑ Main trading partners: Uganda, UK, US, Netherlands, Tanzania, Pakistan, SA, China, Japan, India, UAE and Saudi Arabia;
- ❑ SA exports to Kenya totaled R3.2bn in 2006 from R2.9bn in 2005 and R3.7bn in the year to October 2007.

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