Kenya
CRT-5
August 22, 2019
Region: Africa
Guides to Best’s Country Risk Tiers
• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.
• Kenya, a CRT-5 country, has high levels of economic, political, and financial system risk. It has a low GDP per capita of around USD 1,800, as well as a history of ethnic tensions, high levels of government debt, and political instability.
• Droughts have affected Kenya’s economic outlook, as agriculture contributes a little over 25% to the economy. GDP growth is projected at 5.8% in 2019, with inflation just under 4.5%. Medium-term growth is forecast at approximately 6.0%.
• The majority of countries in Sub-Saharan Africa are categorized as CRT-5, with the exceptions of Mauritius at a CRT-3 and South Africa at a CRT-4.

Vital Statistics 2018
Nominal GDP USD bn 89.21
Population mil 48.0
GDP Per Capita USD 1,857
Real GDP Growth % 6.0
Inflation Rate % 4.7

United Nations Estimates
Literacy Rate % 78.7
Urbanization % 26.6
Dependency Ratio % 75.9
Life Expectancy Years 67.3
Median Age Years 19.0

Insurance Statistics
Insurance Regulator Insurance Regulatory Authority
Premiums Written (Life) USD mil 801
Premiums Written (Non-Life) USD mil 1,207
Premiums Growth % 4.8

Regional Comparison
Country Risk Tier
Kenya CRT-5
Ghana CRT-5
Morocco CRT-4
Nigeria CRT-5
South Africa CRT-4
Tunisia CRT-4

Source: IMF, UN, Swiss Re, Axco and AM Best

Regional Summary: Sub-Saharan Africa
• Growth is expected to pick up, driven by public investment in the region’s more diversified economies. However, the largest economies in Sub-Saharan Africa are likely to lag the regional growth average due to changing oil dynamics and depressed business confidence linked to corruption fallout. Growth in the region’s two largest economies—Nigeria and South Africa (which account for two thirds of the region’s population)—is expected to be anemic.
• The region faces several headwinds that limit potential, including entrenched poverty, pervasive corruption, heightened global trade tensions, inadequate infrastructure, an unstable security environment, and a vulnerability to natural disasters.
• The region’s sovereign debt increased from a median 31% of GDP in 2013 to 56% in 2018. Given the region’s development challenges, the pace of the increase is unsustainable.
• The African Continental Free Trade Agreement (AfCFTA) went into force in May 2019. AfCFTA seeks to bolster continental African trade by reducing tariffs by 90%, harmonizing trade rules, and establishing a single market for goods and labor.
Economic Risk: High

- Kenya has one of the largest and most diversified economies in Sub-Saharan Africa. Agriculture and tourism are significant economic sectors. In the past, tourism has been negatively affected by incidents of social unrest and terrorism.
- Public and private spending on infrastructure, mainly in the transportation and energy sectors, has driven economic growth.
- The country lowered its fiscal deficit from 8.9% of GDP in 2017 to 7.5% in 2018. However, fiscal consolidation largely took the form of reduced public investment, which could impact infrastructure projects unless external financing is secured.
- Private-sector investment remains below potential, and private-sector credit growth remains weak. In 2016, Kenya placed interest rate controls on private-sector lending, capping interest rates at 4 percentage points above the central bank rate. The IMF has highlighted this action as a constraint on economic growth.
- To reach its full economic potential, Kenya has been working to improve the business operating environment. Kenya rose 19 places in the latest World Bank Ease of Doing Business survey, ranking 61 out 190 countries, above the regional average.

Political Risk: High

- President Jomo Kenyatta’s final term is set to end in 2022. Political tension between the president and Deputy President William Ruto, who is expected to seek the presidency in the next election, has contributed to legislative disruption.
- Corruption is endemic in Kenya’s government institutions. Kenya’s Ethics and Anti-Corruption Commission has estimated that one third of the government’s budget is lost to corruption annually. The country ranks 144 out of 180 countries in the Corruption Perceptions Index.
- Security threats remain elevated owing to continued attacks by Al-Shabaab. Additionally, public protests and labor strikes are common and could affect foreign direct investment.

Financial System Risk: High

- Kenya’s insurance industry is governed by the Insurance Regulatory Authority (IRA), which aims to base its supervisory strategy on international insurance risk-based standards.
- To control inflation, Kenya’s central bank has kept its policy rate steady throughout 2019. Should inflation rise, the bank may tighten its monetary policy; however, so far inflation remains within the target range of 2.5% to 7.5%.
- The IMF describes the banking system as “stable and resilient,” but non-performing loans are still significant, at 12.3%. Negotiations are under way between the IMF and Kenya on the renewal of its standby credit facility; however, the timing of such an agreement remains uncertain.