Best's Country Risk Report

Kenya
CRT-5

August 22, 2018

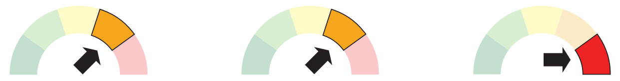
Region: Africa

[Country Risk Criteria Procedures]
[Guide to Best's Country Risk Tiers]

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Kenya, a CRT-5 country, has a history of low GDP per capita, ethnic tensions, high levels of government debt, and political instability. It experiences high levels of economic and political risk and very high financial system risk.
- Several headwinds to the economy, including weaker credit growth and drought conditions, have affected agricultural production. However, Kenya does have favorable demographics as well as longer-term potential for oil production.
- 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 2017		
Nominal GDP	USD bn	79.51
Population	mil	46.7
GDP Per Capita	USD	1,702
Real GDP Growth	%	4.8
Inflation Rate	%	8.0
United Nations Estimates		
Literacy Rate	%	78.0
Urbanization	%	26.5
Dependency Ratio	%	78.3
Life Expectancy	Years	64.3
Median Age	Years	19.7
Insurance Statistics		
Insurance Regulator	Insurance Regulatory Authority	
Premiums Written (Life)	USD mil	807
Premiums Written (Non-Life)	USD mil	1,192
Premiums Growth (2016 - 2017)	%	-2.0
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 A.M. Best



Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
Country Risk Tier 2 (CRT-2) Low Level of Country Risk
Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
Country Risk Tier 4 (CRT-4) High Level of Country Risk
Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

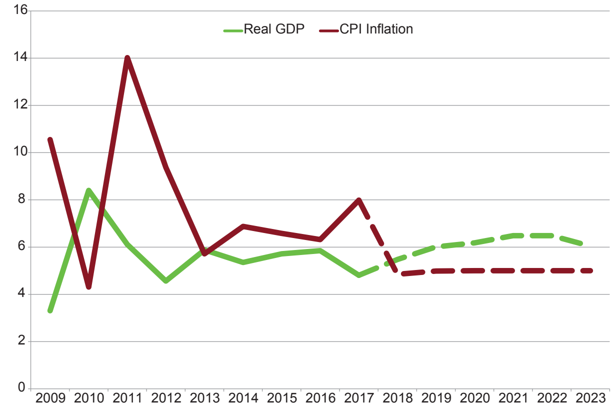
Regional Summary: Sub-Saharan Africa

- Africa's growth prospects are expected to improve slightly on rising domestic demand, stronger global growth, a recovery in agricultural production, and modestly increasing commodity prices. However, economic growth continues to lag population growth, making any significant progress towards human development goals difficult.
- The region faces several headwinds that limit potential, including political uncertainty, challenging business environments that erode investor confidence, fiscal pressures, high debt, poverty, growing numbers of refugees, corruption, inadequate infrastructure, and an unstable security environment.
- The IMF estimates that about 40% of the region's low-income countries have a high risk of debt distress or are already in debt distress. A large share of the region's sovereign debt is denominated in foreign currency, and an appreciating dollar/euro would lead to larger debt burdens.

A.M. BEST

Copyright © 2018 A.M. Best Company, Inc. and/or its affiliates. All rights reserved. No part of this report or document may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of the A.M. Best Company. While the data in this report or document was obtained from sources believed to be reliable, its accuracy is not guaranteed. For additional details, refer to our *Terms of Use* available at A.M. Best website: *www.ambest.com/terms*.

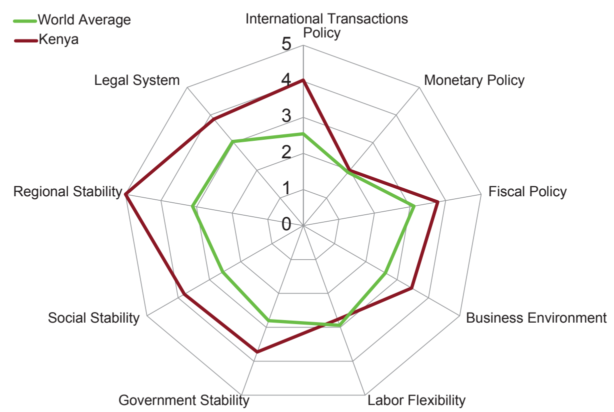
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

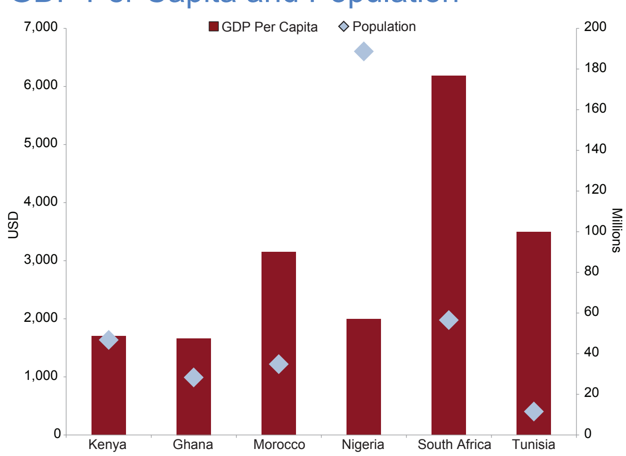
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Kenya has one of the largest and most diversified economies in southeast Africa. It relies highly on the agricultural sector, which is susceptible to drought, and on tourism, which varies in response to social unrest and incidents of terrorism.
- Public and private spending on infrastructure, mainly in the transportation and energy sectors, has driven economic growth. Resulting in the country's position as a regional economic hub.
- To reach its full economic potential, Kenya must make sustainable gains to improving its business operating environment.

Political Risk: High

- Historically, the political environment has been characterized by periods of high tension and deadly violence following presidential elections.
- In the wake of the last presidential election in 2017, the Supreme Court ordered a re-election due to voting irregularities. Incumbent President Jomo Kenyatta won the vote, with opposition leader, Raila Odinga, boycotting the results. Odinga recently agreed to accept the results.
- President Kenyatta recently requested that his Deputy President William Ruto and cabinet ministers agree to a "lifestyle audit" as part of investigations into misuse of public resources. The investigation is likely to increase political instability and 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.
- Security threats remain elevated owing to continued attacks by Al-Shabaab. Additionally, public protests and labor strikes are prominent and could effect potential for foreign direct investment.

Financial System Risk: Very 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.
- The government agreed to extend its stand-by loan agreement with the IMF through September 2018, to provide a precautionary line of credit and to allow more time to achieve program objectives, including reforms to lower the fiscal deficit.
- High levels of government debt have increased interest expense, and debt servicing as a percentage of the fiscal budget is growing. Additionally, approximately 50% of the debt is denominated in foreign currency, with the potential for foreign exchange risk volatility.
- Domestic lending has been curtailed owing to the government's cap on interest rates controls, implemented in September 2016.