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KENYA

JOINT WORLD BANK-IMF DEBT SUSTAINABILITY ANALYSIS

Approved by:

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KENYA: JOINT BANK-FUND DEBT SUSTAINABILITY ANALYSIS	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Kenya's public debt is assessed to be sustainable, reflecting the authorities' continued policy actions and expected robust export growth in the medium term. The overall and external ratings for risk of debt distress remain high.[1] High fiscal deficits in the past and pandemic-related export and output losses in 2020 had resulted in deterioration of solvency and liquidity debt indicators. Market pressures since the start of Russia's invasion of Ukraine and the monetary tightening in advanced countries have limited access to commercial borrowing. Compared to the last DSA assessment,[2] the projections of debt burden metrics have been revised up, reflecting projected REER depreciation in 2023–2024 to support the needed external adjustment in the presence of balance of payments pressures, increased access to program financing, and higher projected interest expenses. Kenya is facing liquidity challenge in rolling over the June 2024 Eurobond in the context of unfavorable external conditions limiting access to international bond market for the frontier economies. Going forward, Kenya's debt indicators are forecasted to improve, a stronger fiscal effort during the program helps turn the primary balance into a surplus, albeit gradually for the external debt service-to-exports ratio. The DSA suggests that Kenya is susceptible to export, exchange rate, and primary balance shocks; more prolonged and protracted shocks to the economy would also present downside risks to the debt outlook. A natural disaster shock illustrates the very limited scope for meeting additional financing needs in a stress scenario

[1] The DSA analysis reflects a debt carrying capacity of Medium considering Kenya's Composite Indicator Index of 3.01, based on the IMF's October 2023 *World Economic Outlook* and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

[2] See IMF Country Report No 2023/266 published in July 2023.

without jeopardizing debt sustainability, underscoring the importance of putting in place the necessary regulatory framework to tap private sector solutions and enable access to concessional green financing.

PUBLIC DEBT COVERAGE

1. For the purposes of this analysis, the perimeter of public debt covers the debt of the central government, Social Security Fund, central bank debt taken on behalf of the government, and government guaranteed debt (Text Table 1). Debt data include both external and domestic obligations and guarantees:

- The external DSA covers the external debt of the central government and the central bank, including publicly guaranteed debt, as well as of the private sector.
- The public DSA covers both external and domestic debt incurred or guaranteed by the central government. It does not cover the entire public sector, such as extra-budgetary units and county governments.[3] Debt coverage excludes legacy debt of the pre-devolution county governments,[4] estimated at Ksh.53.8 billion (0.4 percent of GDP), which is included in the contingent liabilities stress scenario (see below).
- The DSA uses a currency-based definition of external debt. There is no significant difference between a currency-based and residency-based definition of external debt, as nonresidents' direct participation in the domestic debt market is small, estimated at below one percent of total outstanding government securities (Text Table 2).

2. The DSA includes a combined contingent liabilities stress test aimed at capturing the public sector's exposure to SOEs, PPPs, and a financial market shock. In particular, the stress test incorporates the following shocks (Text Table 1):

- 3.1 percent of GDP to capture reported non-guaranteed debt of state-owned enterprises (SOEs) and extra-budgetary units and Public Private Partnerships (PPPs):
  - With the view of establishing a comprehensive picture of non-guaranteed debt (excluding intergovernmental obligations) of public entities outside the central government, the National Treasury carried out a survey of state corporations in June 2023.[5] Survey results showed that 25 of them had non-guaranteed loan obligations (excluding vis-à-vis the government), including overdrafts, equal to Ksh.111.8 billion (0.8 percent of GDP) as of end-June 2023. Out of this sum, about 85 percent was foreign currency denominated. The National Treasury has since operationalized the new Government Investment Management Information System (GIMIS) module, which allows for digital data submission and processing of data by State-owned entities, which will be used for regular

[3] County governments have not been allowed to borrow without central government guarantee since 2010 and borrowing requires authorization by the National Treasury (NT), while extra-budgetary units face no such constraint.

[4] A new Constitution was approved by referendum in 2010, devolving substantial powers to 47 new county governments.

[5] The authorities' efforts in this area were supported by a Policy and Performance Action (PPA) under the IDA Sustainable Development Finance Policy (SDFP).

updates of the data going forward. Taking a conservative approach, the standard calibration of 2 percent for non-guaranteed SOE debt is retained in the stress test.[6]

- The calibration of the exposure to PPP-related contingent liabilities is the default one, set at 35 percent of the country's PPP capital stock shock, as reported in the World Bank Database on PPPs.

- 0.5 percent of GDP to cover legacy debt of the pre-devolution county governments (see above).
- 0.4 percent of GDP to account for government contingent liabilities stemming from letters of support issued to participants in the government-to-government mechanism for importation of fuel products launched in April 2023.[7] Review of the legal arrangements of the new mechanism by the Attorney General of Kenya and IMF staff have established that they do not give rise to government guarantees of private debt under domestic law as defined in the Technical Memorandum of Understanding under the IMF-supported EFF/ECF arrangements. The government is, nevertheless, exposed to calls on the national budget in case prices at the pump are not adjusted to fully passthrough any FX valuation losses under the mechanism to final consumers. It may further have to raise U.S. dollar financing to cover any shortfalls of FX, needed to repay exporters, in the domestic market.
- 5 percent of GDP for a financial market shock—a value that exceeds the existing stock of financial sector nonperforming loans of about 4 percent of GDP.

3. Kenya maintains a high standard of debt transparency. Debt statistics bulletins with public and publicly guaranteed (PPG) coverage and medium-term debt management strategies are regularly published, and the Budget Policy Statement and Annual Public Debt Management Report (PDMR) include information about contingent liabilities. Moreover, the External Public Debt Register provides loan-level information about contracted and drawn amounts, interest rate, and currency denomination.

BACKGROUND ON DEBT

4. Kenya's overall public debt has increased in recent years. Gross public debt increased from 45.7 percent of GDP at end-2015 to 67.9 percent of GDP at end-2022 (Table 1), reflecting legacy high deficits, partly driven by debt-financed spending on large infrastructure projects, and in 2020-21 by the impact of the COVID-19 global shock. External public debt amounts to about half of Kenya's overall public debt (Text Table 2).

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[6] Guaranteed State-owned enterprise (SOE) debt and amounts borrowed directly by the Kenyan government and on-lent to SOEs are included in the public debt stock (see above) and thus not included in the calibration of the contingent liabilities stress test.

[7] The scheme, which has an initial duration of nine months and extended for another 12 months to end-2024, includes the issuance of letters of support by the government to domestic oil marketing companies (OMCs) that also benefit the banks, financial institutions, credit insurance providers, lenders and any hedging counterparties providing financing, insurance, refinancing or hedging to the OMC. The fuel is imported on 6-month credit, backed by commercial letters of credit (LOCs) issued by domestic banks and confirmed by international banks. A reasonable estimate of the government contingent liabilities stemming from the new fuel import scheme is around 10 percent of the maximum private sector obligation to fuel exporters or around US$ 400 million (0.4 percent of GDP).

Text Table 1. Kenya: Public Debt Coverage

Public Debt Coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

Public debt coverage and the magnitude of the contingent liability tailored stress test

1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt	
		Default	Used for the analysis
2	Other elements of the general government not captured in 1.	0.9 percent of GDP	0.9
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2
4	PPP	35 percent of PPP stock	1.1
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5
	Total (2+3+4+5) (in percent of GDP)		9.0

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.).

5. **Most of Kenya's external public debt remains on concessional terms.** Nominal PPG external debt at end-2022 amounted to 34.5 percent of GDP, corresponding to 29 percent of GDP in present value terms (Text Table 2 and Table 1):

- Kenya has benefited from sizeable support from multilateral institutions. At end-2022, multilateral creditors accounted for close to 47 percent of external debt, while debt from bilateral creditors represented about 28 percent (Text Table 2). Of Kenya's bilateral debt, close to 64 percent is owed to non-Paris Club members, mainly loans from China.
- The share of commercial debt in total external debt decreased in 2021–22, as the authorities prioritized concessional borrowing during the pandemic after several years of reliable access to global financial markets. Commercial debt (mainly Eurobonds, loans, and export credits) accounted for about 25 percent of external public debt (47 percent of projected external debt services over 2023–25). Eurobonds accounted for 75.5 percent of commercial debt (US$7.1 billion).[8] As the international bond markets effectively closed to the frontier economies, Kenya tapped syndicated loan markets in 2022-23, contracting US$800 million on commercial terms.

[8] Syndicated loans amounting to €305.4 million claimed by a syndicate of Italian commercial banks in relation to Arror, Kimwarer, and Itare dam projects are disputed and subject to on-going arbitration/court proceeding. The debt service schedule associated with these loans is not included in the DSA baseline, as budget provisions for their servicing are suspended until the matter is determined, but the outstanding amount on these loans is kept in the stock of public debt, following authorities' approach for reporting PPG debt in national publications (more conservative than prescribed in the LIC DSA Guidance Note).

- Kenya has not contracted any collateralized external debt. Guarantees by the central government on debt contracted by other entities amount to around US$1.4 billion and are included in the stock of PPG debt.

Text Table 2. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2022–25[1]

	Debt Stock (end of period)			Debt Service					
	2022			2023	2024	2025	2023	2024	2025
	(In US$ mln)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ mln)*			*(Percent GDP)*		
Total	**73,625**	**100.0**	**67.9**	**10,804**	**10,449**	**8,318**	**10.0**	**10.6**	**7.8**
External	**37,370**	**50.8**	**34.5**	**3,392**	**5,149**	**3,723**	**3.1**	**5.2**	**3.5**
Multilateral creditors	17,474	23.7	15.4	642	638	786	0.6	0.6	0.7
IMF	2,399	3.3	2.1	-	-	-	-	-	-
World Bank	11,086	15.1	9.7	-	-	-	-	-	-
African Development Bank	3,492	4.7	3.1	-	-	-	-	-	-
European Economic Community (incl. EIB)	177	0.2	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	225	0.3	0.2	-	-	-	-	-	-
Other Multilaterals	96	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	45	0.1	0.0	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	10,497	14.3	9.2	1,447	1,376	1,330	1.3	1.4	1.3
Paris Club	3,793	5.2	3.3	430	398	383	0.4	0.4	0.4
o/w: Japan	1,403	1.9	1.2	-	-	-	-	-	-
France (incl. AFD)	774	1.1	0.7	-	-	-	-	-	-
Non-Paris Club	6,705	9.1	5.9	1,017	978	946	0.9	1.0	0.9
o/w: EXIM China	6,557	8.9	5.8	-	-	-	-	-	-
EXIM India	61	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	9.6	6.2	515	2,444	667	0.5	2.5	0.6
Commercial creditors	1,881	2.6	1.7	680	537	698	0.6	0.5	0.7
o/w: Trade and Development Bank	1,728	2.3	1.5	-	-	-	-	-	-
China Development Bank	88	0.1	0.1	-	-	-	-	-	-
Other international creditors	418	0.6	0.4	73	61	50	0.1	0.1	0.0
o/w: Intesa SanPaolo	235	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	23	0.0	0.0	-	-	-	-	-	-
Domestic[3]	**36,254**	**49.2**	**33.5**	**7,412**	**5,301**	**4,596**	**6.8**	**5.4**	**4.3**
Held by non-residents, total	257	0.3	0.2	-	-	-	-	-	-
T-Bills	5,587	7.6	4.9	-	-	-	-	-	-
Bonds	30,076	40.9	26.5	-	-	-	-	-	-
Loans	591	0.8	0.5	-	-	-	-	-	-
Memo items:									
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Public guarantees [4]	1,417	1.9	1.2	-	-	-	-	-	-
o/w: Other explicit contingent liabilities [5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-

Sources: Kenyan authorities; and IMF staff calculations.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as in the DSA.

[2] Debt ratios are constructed by converting external debt to Ksh using end-period exchange rate and dividing by Ksh GDP.

[3] Includes CBK on-lending to the government of the Ksh-equivalent of the 2021 general allocation of SDRs.

[4] Loan guarantees are included in the perimeter of debt covered by the DSA and include undrawn amount of government-guaranteed loan facilities and letters of credit at high risk of being fully utilized

[5] Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

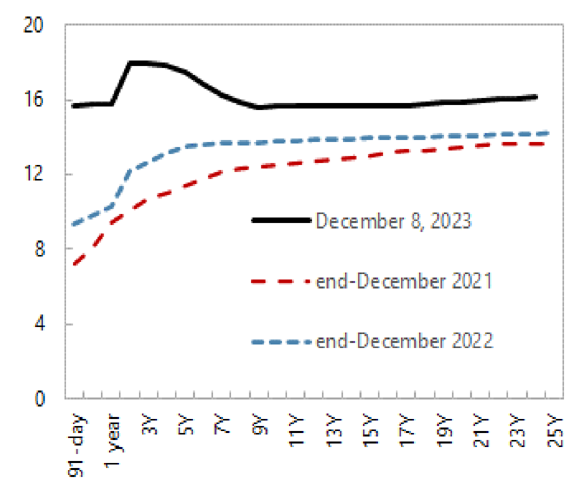
[6] Capacity constraints currently limit data availability on other explicit liabilities not elsewhere classified.

6. **Kenya's domestic public debt reached 33.5 percent of GDP at end-2022 (TextTable 2 and Table 2).** Since end-2021, the yield curve has shifted up and flattened, reflecting the increase in near-term inflationary pressures and related policy adjustments by the Central Bank of Kenya (CBK), and a low transmission of the policy rate to longer-end of the yield curve (Text Figure 1). The successful implementation of authorities' strategy to lengthen the maturity profile of domestic debt has resulted in a significant decline in the share of Treasury bills in the domestic debt stock (from 35 percent at the end of FY2018/19 to 18.7 percent at the end of FY2021/22) and a notable increase in the average time to maturity

of government domestic bonds, excluding T-bills (from 6.3 years at the end of FY2018/19 to 9.1 years at end-December 2022).

This has helped alleviate short-term rollover risks, enabling the local market to absorb pressures in 2022. About half of government domestic debt securities are held by pension funds, followed by commercial banks with 47 percent share. Starting in the last quarter of the FY2021/22, domestic debt issuance has taken place mainly at the short end of the maturity spectrum in an environment of elevated inflation and flatter yield curve, increasing the intra-year rollover needs. Yields on government securities increased and the front end of the treasury yield curve continued to move up in the first half of 2023 calendar year amid large gross financing needs and tighter liquidity conditions. The average time to maturity has declined to 7.4 years, reflecting investor preference for the shorter tenor securities.

Text Figure 1. Kenya: Securities Yield Curve
(Percent)



Source: Bloomberg, L.P.

7. **Published data on private external debt is available through 2021 and is extrapolated going forward with the net private external debt balance of payments (BoP) flows.** The source of pre-2022 data on private external debt is the International Investment Position (IIP) data on "Other sectors", which includes both the private sector and market profit institutions that are controlled or financed by government (financial and nonfinancial public corporations), published in the IMF's IIP database. BoP data on net private external debt flows through end-2022 point to a steady upward trend in the stock of private debt as a share of GDP, which is also maintained in projections.

UNDERLYING ASSUMPTIONS

8. **Real GDP growth is expected to pick up modestly in 2023 on the way of converging to 5.3 percent over the medium term (Text Table 4):**

- Real GDP growth is projected to reach 5.1 percent in 2023 and 5 percent in 2024 (latter revised down from the previous DSA) as the need to maintain mutually consistent tighter domestic policy environment weighs on the demand and partly dampens the positive effect from a recovery in the agricultural sector from favorable rains.

- Medium-to long-term real GDP growth projections are broadly similar to the previous DSA, at around 5.3 percent. They are supported by the projected productivity growth, an ambitious structural reform agenda, policies to reinforce credit to the private sector, as well as favorable demographic trends.[9] The reform agenda of President Ruto's administration aims at boosting agricultural transformation and inclusive growth; enabling the micro-, small- and medium-sized enterprise (MSME) economy as a private sector growth driver; improving housing and healthcare; promoting the digital superhighway; and supporting the creative economy. Over the medium term, growth is backstopped by the crowding-in effect of fiscal consolidation (i.e., lowering public financing needs would reduce demand-side pressures on domestic interest rates and free up financing for private investment, while privatization of SOEs would raise productivity), which is based on growth-friendly domestic revenue mobilization and spending rationalization measures to anchor debt sustainability.[10] Fiscal consolidation over the medium term will continue to be growth friendly, focusing on a more broad-based and equitable tax system—as envisaged under the authorities' Medium-Term Revenue Strategy (MTRS)—improved inclusivity and support under the social safety net programs, and enhanced efficiency of public investments.

- Nominal GDP in U.S. dollars is projected to be lower than in the last DSA over the medium term, reflecting REER depreciation in 2023 and 2024.

9. The adjustment in the primary fiscal balance is expected to remain on track with commitments under the Fund-supported program (Text Table 4):

- In FY2022/23, challenges in mobilizing budgeted resources impeded the implementation of the Supplementary Budget, approved in February 2023. This necessitated the passage of a second Supplementary Budget to offset the anticipated revenue shortfall and introduce expenditure saving—mostly related to undisbursed budgeted resources for projects—so as to contain the primary fiscal deficit to 0.6 percent of GDP. The shortfall in FY2022/23 net domestic financing or tax collection was smaller than previously expected, limiting the amount of unpaid bills that were carried over to FY2023/24. To avoid accumulation of arrears (i.e., unpaid bills for more than 90 days), the authorities have plans in place to prioritize execution of spending. They have constituted a Pending Bills Verification Committee and are now expected to come up with a strategy by end-February 2024 (reset structural benchmark) on validation and clearance of verified pending bills and addressing the shortcomings in public financial management that gave rise to pending bills.
- In FY2023/24, the authorities are committing to target a stronger primary balance of 0.7 percent of GDP through a second Supplementary Budget by end-March 2024 (new structural benchmark) to anchor debt sustainability, while protecting social spending (Text Tables 3 and 4). This is predicated on a comprehensive revenue package, including 1.6 percent of GDP of measures approved under the Budget and additional measures submitted to parliament in December 2023 to make up for the impact of tax collection shortfall in FY2022/23 and the first five months of FY2023/24, and additional non-tax revenues. The authorities also commit to further rationalizing primary expenditures with immediate effect—particularly for slow-moving projects—while supporting new initiatives (e.g., Hustler Fund) and protecting social spending. The impact of the

[9] Climate-related risks are not explicitly modeled in the baseline. Their effect is, instead, captured in the natural disaster stress test scenario.

[10] The Kenya Kwanza administration has prioritized the privatization of SOEs that can operate as market producers.

clearance of any unpaid bills from FY2022/23 will be offset through increased revenues and controlled expenditures.

- Going forward, the overall deficit is expected to decline to below 4 percent of GDP over the medium term (Text Table 5), reflecting continued efforts to strengthen tax compliance in line with the priority areas identified under Kenya's MTRS and streamline primary expenditures—particularly for wages, stalled investment projects, and transfers to public sector entities, a number of which are slated for privatization or merger—while improving public investment management and budgetary controls.[11] The medium-term target of the primary surplus to stabilize overall public debt-to-GDP ratio improved from the last DSA and is estimated at about 0.2 percent of GDP, which does not lead to future threshold breaches. The improvement is due to stronger primary balance in the earlier years of the projection horizon. This is consistent with safeguarding debt sustainability, while relaxing somewhat the budget constraint on social and developmental spending over the long run.

Text Table 3. Kenya: Social Spending Outlays, FY2016/17–FY2023/24

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24 *Proj.*
				(Ksh. Millions)				
Social spending	256,253	305,275	345,956	380,051	407,905	434,585	443,218	518,449
Social protection	15,489	18,329	26,669	25,554	26,031	26,194	25,987	27,564
Education	219,010	269,534	295,555	314,027	337,524	359,130	370,729	452,372
Health	21,754	17,412	23,732	40,470	44,350	49,260	46,502	38,512
Memo item:				*(Percent of GDP)*				
Social spending	3.2	3.4	3.5	3.6	3.6	3.4	3.1	3.2

Source: Authorities data and estimates.

Note: Fiscal year GDP is estimated as average of its values in the calendar years it spans.

10. Macro-fiscal assumptions underlying the DSA baseline scenario include an estimate of the authorities' climate-related public investment. The forecast is benchmarked by the latest available data of 2.6 percent of GDP in 2018. It includes an additional climate investment of around 0.25 percent of GDP per year, supported by the IMF's Resilience and Sustainability Facility (RSF) and the World Bank's climate-oriented financing (see ¶27 below), as well as from other financing from development partners.[12, 13] Fiscal constraints in the short run limit the government's capacity for increasing public spending to accommodate additional climate-related needs. Against this backdrop, scaling up climate related investments will require additional focus on improving the efficiency of public spending, attracting highly concessional external climate financing, and encouraging private sector participation in reaching Kenya's ambitious climate objectives (see ¶27).

[11] The MTRS will provide the blueprints for achieving the authorities' objective of increasing revenue mobilization by 8 percentage points of GDP by 2030, while supporting global competitiveness and prosperity consistent with Kenya's Vision 2030.

[12] The RSF disbursements would substitute more expensive domestic debt, thus improving debt dynamics by helping reduce the present value of debt and debt servicing burdens.

[13] Economic benefits of successful mitigation and adaptation strategies will be incorporated at a later stage.

Text Table 4. Kenya: Selected Macroeconomic Assumptions, 2023–43
(On calendar year basis)

	2023	2024	2025	2026	2027	2028	Long-term 1/
Nominal GDP (Ksh billion)							
Current DSA	15,184	17,064	18,905	20,985	23,215	25,660	62,386
Previous DSA (July 2023)	15,179	17,041	18,920	21,019	23,273	25,754	63,199
Real GDP (growth)							
Current DSA	5.1	5.0	5.3	5.3	5.3	5.3	5.3
Previous DSA (July 2023)	5.0	5.3	5.3	5.4	5.4	5.4	5.4
Inflation							
Current DSA	7.7	7.0	5.2	5.4	5.0	5.0	5.0
Previous DSA (July 2023)	7.8	6.6	5.4	5.4	5.0	5.0	5.0
Revenue and grants (percent of GDP)							
Current DSA	18.0	19.1	19.4	19.5	19.5	19.5	19.5
Previous DSA (July 2023)	18.0	18.3	18.1	17.9	18.1	18.2	18.8
Overall fiscal balance (percent of GDP)							
Current DSA	-5.3	-4.1	-3.3	-3.2	-3.2	-3.3	-4.6
Previous DSA (July 2023)	-5.1	-4.1	-3.7	-3.6	-3.7	-3.7	-3.7
Primary fiscal balance (percent of GDP)							
Current DSA	-0.1	1.2	1.7	1.7	1.6	1.5	0.5
Previous DSA (July 2023)	-0.2	0.8	1.0	1.1	1.0	1.0	0.5
Public debt (percent of GDP)							
Current DSA	73.5	73.4	70.4	67.8	65.4	63.1	49.3
Previous DSA (July 2023)	70.6	68.5	66.9	65.1	63.5	61.6	48.3
Current account (percent of GDP)							
Current DSA	-4.0	-4.1	-4.2	-4.2	-4.2	-4.1	-3.9
Previous DSA (July 2023)	-4.8	-5.0	-5.0	-5.0	-5.0	-4.8	-4.5
Non-interest current account (percent of GDP)							
Current DSA	-2.3	-1.9	-2.0	-2.2	-2.3	-2.3	-2.4
Previous DSA (July 2023)	-3.2	-3.4	-3.4	-3.4	-3.5	-3.4	-3.3
Exports of goods and services (growth)							
Current DSA	-3.3	9.5	9.4	8.6	8.5	8.4	9.3
Previous DSA (July 2023)	9.1	10.0	10.2	9.2	9.2	8.9	9.6

Sources: Kenyan authorities and IMF staff estimates.

1/ Average 2029-43.

11. **The path of nominal public debt-to-GDP ratio is revised up from the last DSA, reflecting projected REER depreciation in 2023 and 2024, the proposed further augmentation of the IMF program, and additional commitments expected by the World Bank in 2024.** 2022 real GDP growth was at 4.8 percent and the projected REER depreciation in 2023–24 has lowered the forecasted US$-value of nominal GDP. In addition, the authorities have requested access to additional Fund resources via augmentation of the existing EFF/ECF arrangements by about US$938 million (130.3 percent of quota or SDR707.27 million).[14] The World Bank financing envelope is expected to be upsized in 2024 than what was assumed in the previous DSA with additional financing expected over the medium term.[15] Shortfalls in external project financing in FY2021/22 and FY2022/23 are not expected to be compensated going forward. Although the authorities' borrowing plan (Text Table 6) continues to provide ample space for the shortfall, financing assumptions underpinning the DSA baseline are more conservative. Reflecting

[14] Based on US$/SDR exchange rate as of December 11, 2023.

[15] See the World Bank's November 20, 2023 Statement.

consistent under-execution of borrowing plan, DSA financing assumptions are in line with the recent history of project disbursements and performance in terms of investment absorption capacity. In the case of commercial borrowing, as the return of frontier economies to international bond markets is expected to be slow, DSA baseline assumes significantly less Eurobond and syndicated loan issuance until the end of 2024. Overall, while possibility of borrowing beyond the baseline remains a risk, the fiscal adjustment under the program and the authorities' medium-term debt anchor (55 percent PV of overall debt to GDP ratio) mitigates it.

12. To support economic recovery, the CBK has lent the equivalent of the full amount of the 2021 US$740 million general allocation of SDRs to the government in local currency to meet financing needs in FY2021/22 and FY2022/23. In the DSA, the amounts lent are recorded as domestic debt at face value.[16]

Text Table 5. Kenya: Selected Macroeconomic Indicators, 2022–28

	2022	2023	2024	2025	2026	2027	2028
		Projections					
Real GDP growth (percent)	4.8	5.1	5.0	5.3	5.3	5.3	5.3
CPI inflation, average (percent)	7.6	7.7	7.0	5.2	5.4	5.0	5.0
Overall fiscal balance (percent of GDP) [1]	-6.4	-5.6	-4.3	-3.5	-3.3	-3.4	-3.5
Primary balance (percent of GDP)[1]	-1.0	-0.6	0.7	1.7	1.7	1.6	1.6
Current account balance (percent of GDP)	-5.2	-4.0	-4.1	-4.2	-4.2	-4.2	-4.1
Exports of goods and services (US$ billion)	13.8	13.4	14.6	16.0	17.4	18.9	20.5
Exports of goods and services (growth; percent)	17.1	-3.3	9.5	9.4	8.6	8.5	8.4
Gross international reserves (US$ billion)	8.0	7.6	8.1	9.0	9.9	10.6	11.6

Sources: Kenyan authorities and IMF staff estimates and projections.

[1] Fiscal years (e.g., 2022 refers to FY 2021/22).

13. As part of the restructuring of Kenya Airways (KQ), the Government of Kenya has begun servicing the guaranteed portion of KQ external debts, which the company can no longer service. The authorities also report to have completed the novation process of the guaranteed external loan. As a result, public and publicly guaranteed debt includes the sum of the principal of these obligations and the remaining government guarantee on other KQ external loans (US$638 million as of December 2022) in place of the US$750 million government guarantee of KQ debts recorded previously.[17]

14. The current account deficit is projected to improve to 4 percent of GDP in 2023 and stabilize around 4.2 percent over the medium term:

- Current account deficit narrowed in the first three quarters of 2023, reflecting broad based decline in both energy and non-energy imports amid real exchange rate depreciation and completion of some large infrastructure projects. Exports of goods and services have slowed as the demand

[16] In the last DSA, these loans entered the calculation in present-value terms with a grant element of 39.4 percent. A review of the loan agreements has since determined that the principal repayments are effectively indexed to the Ksh/SDR rate, making them non-concessional.

[17] The total includes the undrawn amount of government-guaranteed loan facilities and letters of credit by local banks, due to the high likelihood that they would be fully utilized.

from traditional agricultural export markets was subdued and transportation services saw a sharp contraction. Tourism receipts exceeded pre-pandemic levels and together with robust remittances supported external balance.

- Over the medium term, the expected stabilization of the current account deficit is warranted, primarily through adjustments in imports, as capital flows continue to adjust to “higher for longer” global interest rates. The improvement in the current account will be supported by the further fiscal consolidation and robust goods exports and tourism receipts, continued exchange rate flexibility, and by the gradual normalization of global commodity and financial market conditions. Export growth stands to benefit from Kenya’s improving business environment, leveraging on existing trade and investment agreements, and the new administration’s policy priorities to increase the share of manufacturing (including agro-processing) and services (including tourism and financial sector) in the economy.[18] In addition, export growth will be supported by policies to enhance agricultural productivity, including focus on farmer-led irrigation, efforts to modernize Kenya’s food systems, and greater value chain integration. Services are projected to gradually increase over the medium term, as the tourism sector realizes its full potential. Remittances are also projected to remain robust over the medium term. The private sector current account deficit is expected to improve too and to be financed by a diversified set of sources, including foreign direct investment (FDI) and financial and non-financial corporate borrowing.

15. As part of a continuing commitment to reduce external debt-related vulnerabilities, the public sector gross financing needs will be met with a balanced mix of external and domestic financing. For external financing, Kenya is expected to continue to primarily rely on multilateral loans in 2024. The authorities’ external borrowing program, set out in Text Table 6, is in line with the authorities’ commitments under the IMF-supported EFF/ECF arrangements. These include an overall ceiling on the present value of newly contracted or guaranteed external public debt, which is also a performance and policy action (PPA) under the World Bank’s Sustainable Development Finance Policy (SDFP).[19] The cumulative external borrowing program through end-December 2024 is consistent with planned drawings of concessional and non-concessional loans in FY2022/23 and FY2023/24. The borrowing program continues to provide space for the US$1.1 billion external commercial financing, which did not take place in FY2021/22, and US$5 billion for debt management operations, both of which have been put on hold in light of the current challenging market conditions for frontier markets and are not reflected in the DSA baseline. A successful execution of the debt management operations would significantly lower liquidity risks related to the debt service profile. The authorities have significantly stepped up their efforts and selected two lead managers to explore the scope of issuing in the Eurobond market at a reasonable cost but likely for a small amount. In parallel they are exploring alternative sources of financing from multilateral

[18] Kenya is a member of the East African Community Customs Union and the African Continental Free Trade Area. It has signed an Economic Partnership Agreement (EPA) with the UK and has started bilateral implementation of European Union-East African Community EPA. In 2022, Kenya and the United States launched Strategic Trade and Investment Partnership that aims, *inter alia*, to increase investment, promote sustainable and inclusive economic growth, and support African regional economic integration.

[19] One FY2022 PPA sought to improve debt management by ensuring that the government limits the present value of new external borrowing to US$5.6 billion in FY2021/22, except if this limit is adjusted by the World Bank to a) reflect any material change of circumstances or b) in coordination with the IMF, in particular in line with adjustments in the IMF Debt Limit Policy. The PPA was observed by a wide margin.

and bilateral lenders and the syndicated loans market. Kenya's external position is backstopped by its gross international reserves, which, despite a projected decline in 2023, remain at adequate levels. Import coverage of reserves is expected to remain above the 3-month threshold, which is also close to the value of the IMF's reserve adequacy metric for credit-constrained economies, and gradually strengthen over time to 4.2 months of imports of goods and services over the medium term.[20] Looking beyond 2024, sizable external commercial debt will be falling due in 2025-26 and Kenya is expected to continue to tap global capital markets to roll over them over.

16. The realism tools flag some optimism compared to historical performance, reflecting a structural break with past trends based on the policies underpinning the authorities' ambitious reform program (Figure 4). While protecting social spending, the baseline scenario assumes an improvement of the fiscal primary balance of 3.1 percentage points of GDP over three years in 2023–25, which falls in the bottom half of the top quartile of the distribution for LICs. Staff is of the view that this is realistic and in line with the authorities' plan for fiscal consolidation under the program, as reflected in the draft Supplementary FY2023/24 Budget, their careful management of expenditures to achieve fiscal targets in the face of heightened pressures, and their medium-term plans to strengthen tax revenues and streamline recurrent expenditures—particularly for wages and transfers to public sector entities—while improving public investment management and budgetary controls. The authorities' commitment to fiscal consolidation, including actions taken during the pandemic to broaden the tax revenue base, which have delivered resilience by creating fiscal space to cover unanticipated needs resulting from Russia's invasion of Ukraine (e.g., gradual approach to adjusting domestic fuel prices during 2022), and actions taken to compensate for expenditure pressures in FY2022/23, while reducing the primary balance below the initially budgeted levels, provide assurances that the fiscal adjustment under the program is achievable. The return of real GDP growth to its long-term potential, following the strong recovery from the COVID–19 shock in 2021, explains the near-term growth trajectory during planned fiscal consolidation. Export growth is projected to be higher than in the recent past, as exports of goods and services recover from the 2020 global shock. The projection for private investment incorporates the weaker outturn in 2022, revised view of the impact in 2023 from the tightening in monetary policy and projected external adjustments in 2023 and over the medium term.

[20] In the near term, reserves are bolstered by increased support from multilateral institutions for the ambitious government reform agenda (see ¶11), while over the medium-term they are expected to benefit from the crowding-in effect of fiscal consolidation on private sector external borrowing (see ¶8).

Text Table 6. Kenya: Summary Table of Projected External Borrowing Program from July 1, 2021, to December 31, 2024[1/]

PPG external debt	Volume of New Debt from Jul 1, 2021 to Dec 31, 2024		PV of New Debt from Jul 1, 2021 to Dec 31, 2024 (Program Purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**19243.0**	**100**	**13401.8**	**100**
Concessional debt, of which	**12995.3**	**68**	**7524.5**	**56**
Multilateral debt	8954.4	47	5240.8	39
Bilateral debt	4010.9	21	2265.9	17
Other	0.0	0	0.0	0
Non-concessional debt, of which	**6247.7**	**32**	**5877.3**	**44**
Semi-concessional	1228.1	6	857.8	6
Commercial terms	5019.5	26	5019.5	37
By Creditor Type	**19243.0**	**100**	**13401.8**	**100**
Multilateral	9459.1	49	5584.5	42
Bilateral - Paris Club	2116.5	11	1281.0	10
Bilateral - Non-Paris Club	2484.6	13	1391.6	10
Other	5182.7	27	5144.7	38
Uses of debt financing	**19243.0**	**100**	**13401.8**	**100**
Infrastructure	9244.8	48	7110.0	53
Social Spending	5806.7	30	3346.2	25
Budget Financing	2259.3	12	1409.7	11
Other	1932.2	10.0	1536.0	11.5

[1/] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate. For commercial debt, the present value is defined as the nominal/face value.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

17. **Kenya's debt carrying capacity is assessed as medium (Text Table 7).** The debt carrying capacity determines the applicable thresholds for the PPG external and total public debt sustainability indicators used in the assessment. It is informed by the value for Kenya of the Composite Indicator (CI) Index of 3.01,[21] which incorporates data from the IMF's October 2023 *World Economic Outlook* (WEO) macroeconomic projections and the 2022 World Bank's Country Policy and Institutional Assessment (CPIA). The marginally higher CI score relative to the last published DSA is on account of the stronger projected path of import coverage of reserves.

[21] The CI captures the impact of various factors through a weighted average of an institutional indicator, real GDP growth, remittances, international reserves, and world growth. All inputs are in the form of 10-year averages across 5 years of historical data and 5 years of projection.

Text Table 7. Kenya: Composite Indicator and Thresholds

Country	Kenya
Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 3.01	Medium 2.98	Medium 3.02

Note: The current-vintage Composite Indicator Index is based on the IMF's 2023 October World Economic Outlook and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.75	1.45	48%
Real growth rate (in percent)	2.719	4.92	0.13	4%
Import coverage of reserves (in percent)	4.052	37.75	1.53	51%
Import coverage of reserves^2 (in percent)	-3.990	14.25	-0.57	-19%
Remittances (in percent)	2.022	3.68	0.07	2%
World economic growth (in percent)	13.520	2.89	0.39	13%
CI Score			3.01	100%
CI rating			Medium	

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

18. Besides the six standardized stress tests, the analysis includes three tailored stress tests. The combined contingent liabilities stress test is described in paragraph 2 above and the natural disaster stress test is outlined in the Climate Change Risks section below. The market financing shock is applied to countries with market access, such as Kenya. It assesses rollover risks resulting from a deterioration in global risk sentiment, temporary nominal depreciation, and shortening of maturities of new external commercial borrowing.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

19. External debt burden indicators in terms of exports and revenues breach respective thresholds under the baseline, giving rise to a mechanical high-risk signal (Table 1, Table 3, and Figure 1). The PV of PPG external debt-to-exports solvency indicator remains above the threshold (180 percent) through 2029, while the debt service-to-exports liquidity indicator exceeds its threshold (15 percent) through 2034. The solvency indicator gradually declines as exports recover; the long-term trend decline in the liquidity indicator is interrupted by Eurobond repayments in 2024 and 2028 and the rollover of external bank loans coming due in 2025–26 and 2028. The projected rollovers of maturing commercial financing also push the external debt service-to-revenue ratio above its sustainability threshold (18 percent) in the same years. The PV of PPG external debt as a share of GDP remains well below the 40 percent indicative threshold throughout the projection period (Table 1 and Figure 1). Reflecting fiscal consolidation efforts and a borrowing mix that favors concessional borrowing, this solvency indicator is expected to decline from 31.7 percent in 2023 to 15 percent in 2043. The external debt burden indicators are higher than projected in the last DSA, reflecting the level effect of lower GDP in US$ in 2023–24, the REER depreciation in 2023 and 2024, further increase in interest expenses of external loans with floating interest rates and increased support by development partners (¶11).

20. Standard stress test results highlight the sensitivity of debt burden indicators in terms of exports and exchange rate depreciation (Figure 1 and Table 1). Specifically, under the most extreme shock scenario (shock to export growth), the PV of debt-to-exports and the debt service-to-exports ratios breach the threshold over the entire medium-term projection period. Under the most extreme scenario involving one-time depreciation, the debt service-to-revenue ratio can potentially breach the threshold through 2031.

21. The market financing pressures module ranks market liquidity risks as moderate (Figure 5). Kenya's EMBI spread has widened above the threshold of 570 basis points (589 basis points as of December 20, 2023, having come down from the highs reached in the runup to the 2022 elections). On the plus side, gross financing needs are below the threshold (14 percent of GDP) that indicates high risk. Fiscal consolidation efforts under the IMF-supported EFF/ECF arrangements would help keep gross financing needs below the threshold. As is the case for other emerging and frontier economies, financing risks are affected by global liquidity conditions. Persistent deterioration in global market conditions would exacerbate financing risks for Kenya. The shift in the deficit financing mix toward domestic resources calls for monitoring, given the elevated levels of domestic interest rates.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

22. The PV of total public debt-to-GDP ratio remains above the 55 percent benchmark—for a country rated at medium debt-carrying capacity—through 2029, giving rise to a mechanical high-risk signal (Figure 2 and Table 2). Public sector debt is projected to peak in 2023 at 68 percent of GDP (PV terms), followed by a steady decline. Supported by fiscal consolidation under the program, including revenue mobilization measures, the PV of public debt-to-revenue ratio (380 percent in 2023) is projected to be about 168 percent by 2043.

23. Standard stress tests indicate that the PV of debt-to-GDP ratio is likely to remain above its indicative benchmark for most of the projection period under these scenarios (Figure 2 and Table 4). This is also the case in the historical scenario, in which key variables are kept at their historical averages, underscoring the importance of the authorities' ambitious reform agenda to reorient the economy to private-sector and export-oriented growth drivers to durably reduce debt-related vulnerabilities. Under the most extreme standard shock scenario (primary balance shock),[22] the PV of the public debt-to-GDP ratio would breach the 55 percent benchmark for a country with medium debt-carrying capacity through 2036.

CLIMATE CHANGE RISKS

24. Kenya is highly vulnerable to climate change shocks, especially floods and droughts, which might affect debt dynamics. The total cost of climate change is estimated at 2–2.4 percent of GDP per year in Kenya.[23] This is largely due to the climate-sensitive nature of Kenya's economy, with agriculture, water, energy, tourism, and wildlife sectors playing an important role in it. Climate change can affect debt sustainability indicators through the negative impact on the fiscal deficit and balance of payments, short-term output losses from destruction of capital and the possibility of long-term scarring from productivity losses in climate-sensitive economic activities, as well as inflationary pressures that can further erode purchasing power. Specifically:

- The expected increase in the frequency of natural disasters would destroy capital and reduce output in the short run and can have a long-term impact on the level of GDP (see results from the natural disaster stress test below). Climate change can disrupt agricultural activities, leading to reduced crop yields, livestock losses, and decreased agricultural productivity over the long run. This can hinder overall economic growth, contribute to food insecurity and rural poverty and increase inflationary pressures from food prices.
- Government spending needs would rise with reconstruction costs and fiscal transfers to support those affected, while the disruptions of economic activities would simultaneously reduce government revenues. This would worsen fiscal deficits, which in the absence of corrective measures would translate into higher levels of public debt.
- The balance of payments will also be under pressure from the import component of reconstruction spending and terms-of-trade shocks stemming from price pressures in climate-sensitive economic activities (e.g., agriculture and tourism).

However, private and public spending on reconstruction also holds the promise of replacing obsolete production capacity with state-of-art technologies that can spur long-term growth. The current macro baseline does not explicitly model the effect of climate change, beyond the broad view on growth prospects of the economy, which embed the average effect of climate change in historical series.[24] The impact of climate change is, instead, accounted by a customized natural disaster stress test.

25. A natural disaster stress test for Kenya illustrates the risks to debt sustainability of an extreme climate event. The standard natural disaster stress test is informed by the 2008–11 drought,

[22] See next section for a discussion of the natural disaster *custom* stress scenario, which has an even bigger impact on debt burden metrics.

[23] National Policy for Disaster Management in Kenya, Government of Kenya, 2017.

[24] This reflect the fact that (i) quantifying the exact impact of climate change on economic variables is challenging due to the inherent uncertainty associated with climate models and the complex interactions between climate and economic systems; (ii) projecting the future economic impacts of climate change requires concerted effort to compile comprehensive data that will take time to put in practice.

which caused widespread losses and damages creating a need for recovery and reconstruction public spending estimated at US$1.8 billion, slowed real GDP growth by an average of 2.8 percent a year, and negatively affected tourism and agricultural exports (see [Kenya: Post Disaster Needs Assessment]). The calibration assumes US$1.8 billion increase in public debt, one-off 9 percentage points decline in real GDP growth, pro-rated from the 2008–11 precedent to account for the more diversified nature of the economy, and the standard 3.5 percentage points shock on exports growth (overall exports of goods and services grew over the 2008–11 episode). Results illustrate the very limited scope for meeting additional financing needs in the stress scenario with semi-concessional or commercial external financing without jeopardizing debt sustainability (see Tables 3 and 4). This highlights the need to expedite institutional reforms and capacity building to improve public investment efficiency, reduce leakages, and promote private climate investments.

26. Kenya's Nationally Determined Contribution (NDC) envisions 32 percent reduction in country's greenhouse gas emissions by 2030. At end-2022, more than 90 percent of electricity was generated from renewable sources. Kenya has also made significant strides in leveraging private climate finance through various channels—including public private partnerships (PPPs) in renewable energy projects, corporate green bond issuance, several blended finance mechanisms to de-risk private sector investments, and active engagement in global climate funds.

27. Achieving Kenya's ambitious climate objectives would require private sector participation and mobilization of additional tax revenues and concessional resources. Achieving Kenya's NDC pledge is estimated to entail climate-related investment needs of around 6 percent of GDP per year over 2023–30.[25] Some of these needs are addressed by existing investment projects,[26] with the balance is expected to be met through a mix of private sector participation and highly concessional external financing.

28. Debt sustainability risks from reaching the climate goals are assumed to be limited, as authorities' efforts, beyond making the existing investment pipeline more climate responsive, will be contingent on mobilizing additional, highly concessional, climate financing and private sector solutions supported by market incentives. The implementation of reforms supported by the requested IMF Resilience and Sustainability Facility (RSF) would help achieve NDC pledges while safeguarding debt sustainability by: (i); incorporating climate risks into fiscal planning and investment framework; (ii) mobilizing climate revenue and strengthening the efficiency of climate spending; (iii) enhancing effectiveness of Kenya's existing frameworks to mobilize climate finance; (iv) strengthening disaster risk reduction and management. By supporting enhancements in Kenya's public financial management framework and improvements in public investment efficiency, RSF-related reform measures will help Kenya make public investment more climate responsive. They would also provide strong signal to

[25] See Kenya's Nationally Determined Contribution 2020-30.

[26] For example, active WB lending operations with more than 20 percent climate co-benefits include "Off-grid Solar Access Project for Underserved Counties", "Climate Smart Agriculture Project", "Financing Locally Led Climate Action Program", "Additional Financing for Coastal Region Water Security and Climate Resilience Project", "Kenya Urban Support Program "etc.

investors, support establishing a pipeline of bankable projects, and accelerate mobilization of private financing.[27]

RISK RATING AND VULNERABILITIES

29. Kenya's overall and external public debts are assessed sustainable but remain at high risk of debt distress. The mechanical risk signals indicate sustained breaches of sustainability thresholds by solvency and liquidity indicators under the baseline scenario—the PV of external debt-to-exports and external debt service-to-exports ratios, as well as the PV of overall public debt-to-GDP ratio. A number of additional considerations mitigate the mechanical risk signals, supporting the analysis:

- The decisive actions already undertaken in 2020-23 to limit the increase in the deficit from global shocks (pandemic, geopolitical conflicts) and to broaden the tax base;
- The multi-year fiscal consolidation under the IMF-supported EFF/ECF arrangements which aims to decisively reduce deficits and increase tax revenue;
- The consistently strong performance of remittances, which supports external sustainability, paired with a favorable outlook for exports that will be supported by strong policy measures to boost export competitiveness;
- External debt service profile is on a clear declining trajectory beyond 2024 as share of exports and public revenues, which authorities plan to further optimize if market conditions are favorable;
- Close attention to evaluating risks at SOEs and the commitment under the IMF-supported EFF/ECF arrangements to limit the impact on the deficit of any fiscal support (e.g., via offsets);
- Ongoing efforts to strengthen fiscal sustainability under the SDFP by rationalizing public investments on the basis of rigorous criteria;
- Climate adaptation and mitigation strategies, with focus on water management, agriculture and food security, ecosystem conservation, disaster risk reduction, sustainable energy transition, climate information and research, health and human security, education and awareness, can help curb and cushion climate risks, limiting the impact on debt ratios; and
- The authorities' proactive preparation for the June 2024 Eurobond rollover. They have hired international lead managers and are also exploring alternative sources of financing from multilateral and bilateral lenders. The negotiations with regional banks to contract syndicated loans are advancing.
- The authorities amended PFM act to adopt DSA's threshold of 55 percent overall debt to GDP ratio in PV terms as the medium-term debt anchor to underpin fiscal policy and provide additional policy credibility.

[27] For example, the National Green Fiscal Incentives Policy Framework, to be adopted by end-2023, is expected to include fiscal and economic mechanisms, that could be used to promote climate-friendly investments, including carbon pricing and electric and hybrid modes of transportation.

- Looking ahead, efficient investment in infrastructure will raise growth and export potential, both of which will support Kenya's external debt sustainability.

30. **Fiscal consolidation under Kenya's IMF-supported program would achieve and surpass the debt-stabilizing primary balance.** Debt would begin declining as a share of GDP starting in 2025. Indicators measured against exports will also gradually improve as the recovery of exports takes hold and reforms under the IMF-supported EFF/ECF arrangements and upcoming World Bank DPO enhance competitiveness. Given the magnitude of mechanical threshold breaches under the baseline, consolidation efforts would need to be sustained over the medium term to restore fiscal space and reduce debt-related risks. Of note:

- While the PV of total public debt-to-GDP ratio remains above the indicative threshold (55 percent), the authorities' commitment to fiscal consolidation under the program safeguards debt sustainability. Important actions have already been taken to permanently broaden the tax revenue base, alongside expenditure savings. The multiyear fiscal consolidation plan highlighted in the 2023 Budget Policy Statement (BPS) and substantiated by the FY2023/24 Budget is premised on a more conservative approach to revenue projections and a commitment to additional policy steps to increase tax revenues and control expenditures under the EFF/ECF arrangements with the specific objective of anchoring debt sustainability.
- Kenya's PV of external debt as a share of GDP is well below the 40 percent indicative threshold and will gradually decline over time. Kenya's external debt indicators are expected to gradually improve as fiscal consolidation progresses, exports recover as the global shocks dissipate, and Kenya makes progress to unlock its substantial export potential.
- Kenya's borrowing plan relies on a balanced mix of commercial and concessional financing that contributes to reducing debt risks, supported by limits on the government's external borrowing under the EFF/ECF arrangements and PPAs under the SDFP, which also support steps to improve debt transparency.

31. **Debt sustainability is also supported by stable and strong remittances, manageable and steadily declining gross financing needs and the authorities' commitment to insulate the public sector balance sheet from SOE-related contingent liabilities.** While the protracted breaches of most debt burden indicators are a source of concern, there are mitigating factors that help support the debt sustainability assessment. The gross financing needs beyond 2024 is relatively small and on a clear declining trajectory over the projection period, signaling a strengthening in debt servicing capacity. The authorities' commitment to absorb the fiscal costs associated with materialization of SOE-related contingent liabilities with a limited impact on the programmed fiscal envelope will help avoid further deterioration in the public sector balance sheet. Stable and strong remittances, amounting to 29 percent of exports of goods and services in 2022, would also continue to be an important source for foreign currency receipts going forward.

32. **Strong reform measures could help Kenya elevate its debt carrying capacity, improving debt outlook and assessment significantly.** Kenya is currently assessed to have a medium debt carrying capacity with a CI score of 3.01, slightly below the 3.05 required to be upgraded to strong category with

correspondingly higher debt burden thresholds. As the authorities embark on strong policy measures and structural reforms, especially on the PFM front this could help increase its CPIA and CI score, further mitigating risks to debt sustainability in coming years. To this end, the authorities' EFF/ECF arrangements incorporate two structural benchmarks—PFM measures for avoiding future accumulation of expenditure arrears and a medium-term strategy to strengthening revenue administration—as well as several ongoing measures to improve budgeting process, fiscal risk management, and fiscal transparency. Combined with implementing the new PFM reform strategy 2023-2028, these measures will strengthen budget credibility and expenditure efficiency.

33. The assessment is subject to heightened uncertainty in the global environment and a narrow scope for deviations from the domestic reform agenda underpinning the baseline. Kenya is exposed to heightened risks to the global outlook through international trade and financing channels. Intensification of global spillovers from Russia's invasion of Ukraine could drive persistent investor concerns about the prospects of frontier economies and increase the cost of financing. Exports could underperform the baseline on account of a) lower demand from major economies due to shocks or policy measures (e.g., potentially further tightening of monetary policy to address concerns on inflation); and b) delays in domestic structural reforms needed to support medium-term export growth. Domestic government bond holdings by pension funds and commercial banks expose the economy to feedback between sovereign and financial sector risks, while the need to rollover maturing external commercial debt exposes the country to risks from a liquidity squeeze. Domestic political risks (e.g., any unrest or disruptions due to concerns on cost of living, rising tax burden, etc.) or any deterioration in the security situation could disrupt trade and tourism. Even with the strong commitment by authorities to fiscal consolidation, there is a risk for slippages especially in the long run. Finally, crowding-in effect of the fiscal consolidation into private sector growth might take longer to materialize.

AUTHORITIES' VIEWS

34. The authorities broadly agreed with IMF staff's assessment, emphasizing that addressing and reducing debt vulnerabilities remain key policy priority. They reaffirmed their commitment to fiscal adjustment to arrest elevated debt vulnerabilities, while also recognizing the need to meet infrastructure needs with sustainable financing. The authorities emphasized their strategy to prioritize concessional financing in the immediate term as the international markets remain effectively closed to frontier economies but remain focused on restoring Kenya's access to capital markets as soon as conditions allow. In coordination with their financial advisors, they are actively assessing their options to tap the markets this fiscal year. The authorities emphasized their determination to extend the maturity of domestic debt and pursue a financing strategy that balances domestic issuance and external financing, avoiding crowding out domestic private sector**.** They expressed confidence that adoption of the debt target of overall debt to GDP ratio of 55 percent in present value terms will better anchor their medium-term fiscal policies.

Box 1. Impact of Changes in Data Reporting on DSA indicators

The authorities are expected to adjust trade statistics to reflect oil import and reexports properly. Under the Government-to-Government (G2G) oil import arrangement three Kenyan Oil Marketing Companies (OMCs) own cargo upon delivery by international oil companies to Kenya's Mombasa port. Upon taking the ownership of the oil cargo, Kenyan OMCs sell about 62 percent of imported oil domestically and reexport about 38 percent to the regional countries. The change of ownership between a resident and non-resident is central to BoP recording. As the Kenyan OMCs own the cargo and carry out the risks and rewards before selling it to non-residents, this portion of oil imports should be captured in the BoP trade balance properly. As the Kenyan authorities adjust BoP data recording accordingly, exports and imports will increase. This will have no material impact on the current account dynamics, however, the metric on reserves in months of import coverage will deteriorate.

Export related external debt burden indicators in DSA will improve mechanically. Preliminary estimates suggest these changes would mechanically improve PV of debt-to-exports (about 37 percentage points in 2023) and debt service-to-exports (3.3 percentage points in 2023) ratios in the DSA, allowing both indicators remain below respective thresholds by the end of projection horizon (Box Figure 1). These mechanical improvements would have no material impact on Kenya's debt servicing capacity. As such, while correct BoP data reporting is welcome development, it would not have an impact on staff's assessment of Kenya's debt sustainability.

Box 1. Figure 1. Kenya: Debt Trajectory with Reexports Adjustment

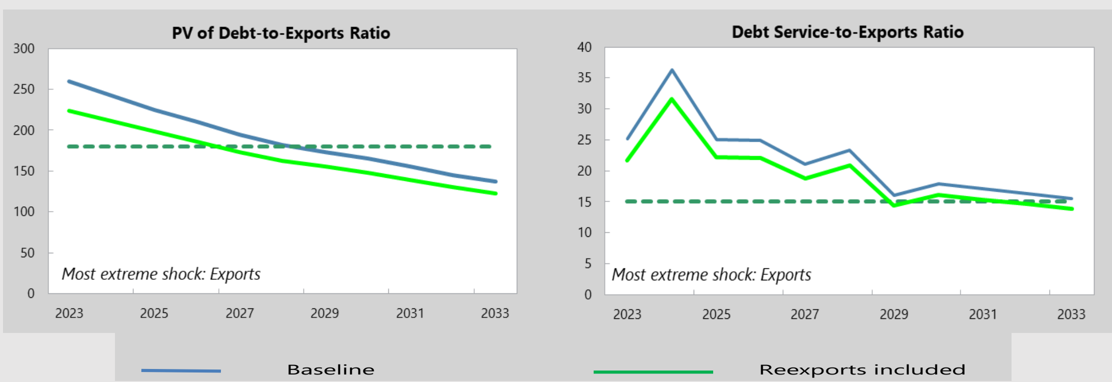
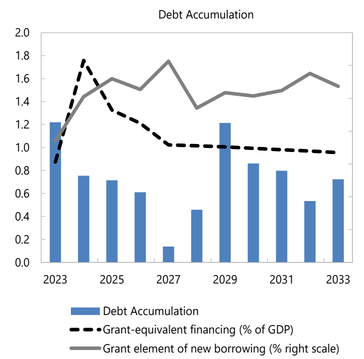
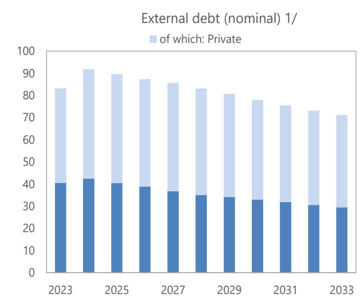


Table 1. Kenya: External Debt Sustainability Framework, Baseline Scenario, 2020–43
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	72.2	71.1	73.5	83.2	91.8	89.6	87.3	85.6	83.0	71.1	55.3	57.6	81.7
of which: public and publicly guaranteed (PPG)	35.4	34.7	34.5	40.5	42.4	40.4	38.8	36.7	35.0	29.5	18.8	27.7	35.7
Change in external debt	6.3	-1.1	2.3	9.7	8.6	-2.2	-2.3	-1.7	-2.6	-2.0	-2.3		
Identified net debt-creating flows	3.8	-0.7	2.5	-0.1	-1.2	-1.3	-1.4	-1.4	-1.5	-1.5	-1.1	2.0	-1.3
Non-interest current account deficit	3.6	4.1	3.9	2.3	1.9	2.0	2.2	2.3	2.3	2.3	2.8	5.2	2.2
Deficit in balance of goods and services	7.9	9.1	9.3	7.7	8.0	7.7	7.7	7.8	7.7	7.2	6.4	9.9	7.6
Exports	9.6	10.8	12.2	12.3	14.9	15.1	15.2	15.4	15.5	16.9	20.9		
Imports	17.6	19.9	21.5	20.0	22.9	22.8	22.9	23.2	23.2	24.0	27.2		
Net current transfers (negative = inflow)	-4.9	-5.6	-5.7	-6.1	-7.0	-6.9	-6.7	-6.7	-6.7	-6.4	-5.6	-5.2	-6.6
of which: official	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0		
Other current account flows (negative = net inflow)	0.6	0.5	0.3	0.8	0.9	1.2	1.2	1.2	1.3	1.5	2.1	0.5	1.2
Net FDI (negative = inflow)	-0.6	0.0	-0.3	-0.3	-0.7	-1.0	-1.3	-1.3	-1.5	-1.8	-2.1	-0.7	-1.3
Endogenous debt dynamics 2/	0.8	-4.7	-1.1	-2.2	-2.4	-2.3	-2.3	-2.4	-2.3	-2.0	-1.7		
Contribution from nominal interest rate	1.2	1.2	1.3	1.7	2.1	2.2	2.0	2.0	1.9	1.6	1.1		
Contribution from real GDP growth	0.2	-5.0	-3.3	-3.9	-4.5	-4.5	-4.4	-4.3	-4.2	-3.6	-2.9		
Contribution from price and exchange rate changes	-0.6	-0.9	0.9	...	...	...	...	...	...	...	...		
Residual 3/	2.5	-0.4	-0.1	9.8	9.8	-0.9	-0.9	-0.3	-1.1	-0.5	-1.3	2.4	1.1
of which: exceptional financing	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	29.0	31.7	35.8	33.8	31.8	29.9	28.3	23.3	13.9		
PV of PPG external debt-to-exports ratio	...	...	238.2	256.9	240.3	224.0	209.9	194.3	182.1	137.9	66.6		
PPG debt service-to-exports ratio	25.7	22.5	21.5	24.9	36.0	25.1	24.9	21.1	23.3	15.5	7.9		
PPG debt service-to-revenue ratio	15.1	14.6	15.3	17.3	28.5	19.8	19.6	16.9	18.8	13.6	8.3		
Gross external financing need (Million of U.S. dollars)	27,431	28,168	29,130	28,105	30,252	30,032	31,478	32,050	33,788	38,229	56,805		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-0.3	7.6	4.8	5.1	5.0	5.3	5.3	5.3	5.3	5.3	5.3	4.5	5.3
GDP deflator in US dollar terms (change in percent)	0.9	1.2	-1.3	-9.2	-13.6	2.6	2.6	1.7	1.8	1.8	1.6	2.7	-0.5
Effective interest rate (percent) 4/	1.8	1.8	1.9	2.2	2.3	2.5	2.5	2.4	2.4	2.4	2.1	2.1	2.4
Growth of exports of G&S (US dollar terms, in percent)	-15.4	21.8	17.1	-3.4	9.5	9.4	8.6	8.5	8.4	9.3	9.3	2.7	7.8
Growth of imports of G&S (US dollar terms, in percent)	-13.2	23.3	11.6	-11.0	3.7	7.8	8.3	8.3	7.5	8.0	8.8	3.8	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	18.5	25.2	28.0	26.3	30.6	23.5	26.8	#DIV/0!	...	25.9
Government revenues (excluding grants, in percent of GDP)	16.4	16.6	17.1	17.7	18.8	19.1	19.2	19.2	19.2	19.2	19.8	17.0	19.0
Aid flows (in Million of US dollars) 5/	1,841	1,785	1,730	1,874	3,203	2,726	2,734	2,651	2,804	3,654	2,449		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	1.8	1.3	1.2	1.0	1.0	1.0	...	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	23.6	28.7	32.8	31.1	36.5	28.6	32.9	...	...	31.2
Nominal GDP (Million of US dollars)	100,912	109,875	113,701	108,521	98,398	106,317	114,768	122,852	131,684	186,619	372,056		
Nominal dollar GDP growth	0.6	8.9	3.5	-4.6	-9.3	8.0	7.9	7.0	7.2	7.2	7.0	7.3	4.8
Memorandum items:													
PV of external debt 7/	...	...	68.0	74.4	85.2	83.0	80.4	78.8	76.4	64.9	50.5		
In percent of exports	...	...	558.5	603.0	572.1	550.4	529.7	512.7	491.2	384.7	242.0		
Total external debt service-to-exports ratio	239.4	200.0	176.0	189.2	188.7	167.4	158.3	146.1	141.2	97.4	49.3		
PV of PPG external debt (in Million of US dollars)			32,987	34,374	35,192	35,896	36,545	36,702	37,265	43,413	51,696		
(PVt-PVt-1)/GDPt-1 (in percent)				1.2	0.8	0.7	0.6	0.1	0.5	0.7	-0.9		
Non-interest current account deficit that stabilizes debt ratio	-2.7	5.2	1.5	-7.4	-6.7	4.2	4.4	4.0	4.8	4.3	5.2		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

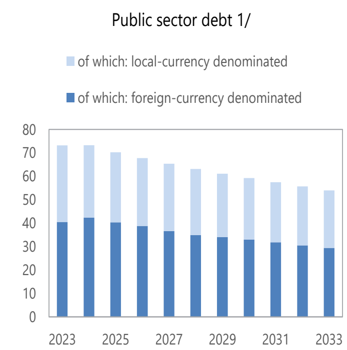
7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–43
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	68.0	68.2	67.9	73.2	73.3	70.3	67.8	65.4	63.1	54.0	38.2	55.1	63.7
of which: external debt	35.4	34.7	34.5	40.5	42.4	40.4	38.8	36.7	35.0	29.5	18.8	27.7	35.7
			33.46										
Change in public sector debt	8.9	0.3	-0.3	5.3	0.0	-3.0	-2.5	-2.4	-2.3	-1.8	-0.6		
Identified debt-creating flows	7.8	1.0	2.1	-2.0	-2.5	-2.5	-2.5	-2.4	-2.3	-1.8	-1.2	2.7	-2.1
Primary deficit	3.8	2.7	1.4	0.1	-1.2	-1.7	-1.7	-1.6	-1.5	-0.5	-0.3	3.3	-1.1
Revenue and grants	16.7	16.8	17.3	17.9	19.1	19.4	19.5	19.5	19.5	19.5	20.1	17.4	19.3
of which: grants	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.3		
Primary (noninterest) expenditure	20.5	19.6	18.6	18.1	17.9	17.7	17.8	17.8	18.0	18.9	19.9	20.7	18.2
Automatic debt dynamics	4.0	-1.8	0.7	-2.1	-1.3	-0.8	-0.8	-0.8	-0.8	-1.3	-1.0		
Contribution from interest rate/growth differential	2.7	-3.0	-2.5	-2.1	-1.3	-0.8	-0.8	-0.8	-0.8	-1.3	-1.0		
of which: contribution from average real interest rate	2.6	1.8	0.7	1.1	2.2	2.9	2.7	2.6	2.5	1.6	1.0		
of which: contribution from real GDP growth	0.2	-4.8	-3.2	-3.3	-3.5	-3.7	-3.5	-3.4	-3.3	-2.8	-2.0		
Contribution from real exchange rate depreciation	1.2	1.2	3.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.1	-0.7	-2.4	7.3	2.5	-0.5	0.0	0.0	0.0	0.0	0.6	0.3	0.9
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	63.9	68.2	67.2	64.0	61.4	59.1	56.9	48.1	34.0		
PV of public debt-to-revenue and grants ratio	...	...	370.3	380.3	352.0	330.1	315.1	303.5	292.2	247.3	168.7		
Debt service-to-revenue and grants ratio 3/	54.1	55.2	56.0	55.2	68.9	58.0	55.5	50.5	50.9	43.6	26.6		
Gross financing need 4/	12.8	12.0	11.0	10.1	11.9	9.5	9.2	8.2	8.4	8.0	5.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.3	7.6	4.8	5.1	5.0	5.3	5.3	5.3	5.3	5.3	5.3	4.5	5.3
Average nominal interest rate on external debt (in percent)	3.5	3.1	3.0	3.7	3.7	3.4	3.3	3.3	3.2	3.4	2.7	2.9	3.4
Average real interest rate on domestic debt (in percent)	6.7	7.5	5.9	3.7	5.5	8.0	7.6	7.7	7.4	4.8	4.9	5.3	6.4
Real exchange rate depreciation (in percent, + indicates depreciation)	4.0	3.8	10.1	...	...	...	...	...	...	...	...	0.2	...
Inflation rate (GDP deflator, in percent)	4.9	4.3	6.0	8.1	7.0	5.2	5.5	5.1	5.0	4.9	1.6	6.1	5.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	2.9	-0.1	2.0	3.7	4.0	6.2	5.4	6.3	5.8	8.3	3.7	5.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-5.1	2.5	1.7	-5.1	-1.2	1.3	0.8	0.8	0.8	1.2	0.4	-0.3	0.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2023–33
(In percent)

					Projections 1/						
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
					PV of Debt-to GDP Ratio						
Baseline	32	36	34	32	30	28	28	26	25	24	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	32	33	35	36	38	40	**42**	**44**	**46**	**48**	**49**
B. Bound Tests											
B1. Real GDP growth	32	37	37	35	33	31	30	29	28	26	25
B2. Primary balance	32	38	40	38	36	34	34	33	32	31	30
B3. Exports	32	38	**41**	39	36	35	34	32	31	29	28
B4. Other flows 3/	32	38	39	37	35	33	32	31	29	28	27
B5. Depreciation	32	**47**	**40**	38	35	33	33	31	30	29	28
B6. Combination of B1-B5	32	40	40	38	36	34	33	32	30	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	32	39	37	35	33	32	31	31	30	29	28
C2. Natural disaster	32	**41**	40	39	37	36	36	36	36	36	35
C3. Commodity price	32	36	34	32	30	28	28	26	25	24	23
C4. Market Financing	32	**41**	38	36	34	32	31	30	29	28	26
Threshold	40	40	40	40	40	40	40	40	40	40	40
					PV of Debt-to-Exports Ratio						
Baseline	**257**	**240**	**224**	**210**	**194**	**182**	174	166	156	146	138
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**257**	**221**	**230**	**241**	**247**	**255**	**267**	**277**	**284**	**288**	**293**
B. Bound Tests											
B1. Real GDP growth	**257**	**240**	**224**	**210**	**194**	**182**	174	166	156	146	138
B2. Primary balance	**257**	**253**	**263**	**250**	**233**	**220**	**212**	**204**	**195**	**185**	176
B3. Exports	**257**	**306**	**381**	**358**	**334**	**314**	**301**	**286**	**268**	**250**	**234**
B4. Other flows 3/	**257**	**257**	**257**	**241**	**225**	**211**	**202**	**192**	**180**	168	158
B5. Depreciation	**257**	**240**	**203**	**190**	175	163	156	148	140	132	125
B6. Combination of B1-B5	**257**	**298**	**255**	**306**	**285**	**268**	**256**	**243**	**229**	**213**	**200**
C. Tailored Tests											
C1. Combined contingent liabilities	**257**	**261**	**247**	**233**	**218**	**205**	**198**	**191**	**183**	173	165
C2. Natural disaster	**257**	**261**	**250**	**240**	**228**	**220**	**216**	**213**	**208**	**202**	**198**
C3. Commodity price	**257**	**240**	**224**	**210**	**194**	**182**	174	166	156	146	138
C4. Market Financing	**257**	**240**	**224**	**210**	**195**	**183**	175	166	157	146	137
Threshold	180	180	180	180	180	180	180	180	180	180	180
					Debt Service-to-Exports Ratio						
Baseline	**25**	**36**	**25**	**25**	**21**	**23**	**16**	**18**	**17**	**16**	**16**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**25**	**30**	**22**	**23**	**20**	**23**	**18**	**21**	**21**	**22**	**23**
B. Bound Tests											
B1. Real GDP growth	**25**	**36**	**25**	**25**	**21**	**23**	**16**	**18**	**17**	**16**	**16**
B2. Primary balance	**25**	**36**	**26**	**27**	**23**	**25**	**18**	**20**	**20**	**19**	**18**
B3. Exports	**25**	**43**	**37**	**38**	**33**	**36**	**25**	**29**	**29**	**27**	**26**
B4. Other flows 3/	**25**	**36**	**26**	**26**	**22**	**24**	**17**	**20**	**19**	**19**	**18**
B5. Depreciation	**25**	**36**	**25**	**24**	**20**	**23**	**15**	**17**	**16**	15	14
B6. Combination of B1-B5	**25**	**41**	**33**	**33**	**29**	**31**	**22**	**26**	**25**	**24**	**22**
C. Tailored Tests											
C1. Combined contingent liabilities	**25**	**36**	**26**	**26**	**22**	**24**	**17**	**19**	**18**	**17**	**17**
C2. Natural disaster	**25**	**37**	**26**	**26**	**23**	**25**	**18**	**20**	**19**	**19**	**18**
C3. Commodity price	**25**	**36**	**25**	**25**	**21**	**23**	**16**	**18**	**17**	**16**	**16**
C4. Market Financing	**25**	**36**	**25**	**25**	**21**	**24**	**16**	**21**	**21**	**16**	**15**
Threshold	15	15	15	15	15	15	15	15	15	15	15
					Debt Service-to-Revenue Ratio						
Baseline	17	**28**	**20**	**20**	17	**19**	13	15	14	14	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	**24**	17	**18**	16	**19**	14	17	**18**	**19**	**20**
B. Bound Tests											
B1. Real GDP growth	17	**30**	**22**	**21**	**18**	**20**	14	16	16	15	15
B2. Primary balance	17	**28**	**21**	**21**	**19**	**21**	15	17	17	17	16
B3. Exports	17	**29**	**21**	**21**	**18**	**20**	15	17	17	17	16
B4. Other flows 3/	17	**28**	**20**	**21**	18	**20**	14	16	16	16	15
B5. Depreciation	17	**38**	**26**	**25**	**21**	**24**	17	**19**	17	17	16
B6. Combination of B1-B5	17	**29**	**21**	**22**	**19**	**21**	15	17	17	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	17	**28**	**20**	**20**	18	**20**	14	16	15	15	15
C2. Natural disaster	17	**28**	**20**	**20**	18	**20**	14	16	16	16	15
C3. Commodity price	17	**28**	**20**	**20**	17	**19**	13	15	14	14	14
C4. Market Financing	17	**28**	**20**	**20**	17	**19**	14	17	17	14	13
Threshold	18	18	18	18	18	18	18	18	18	18	18

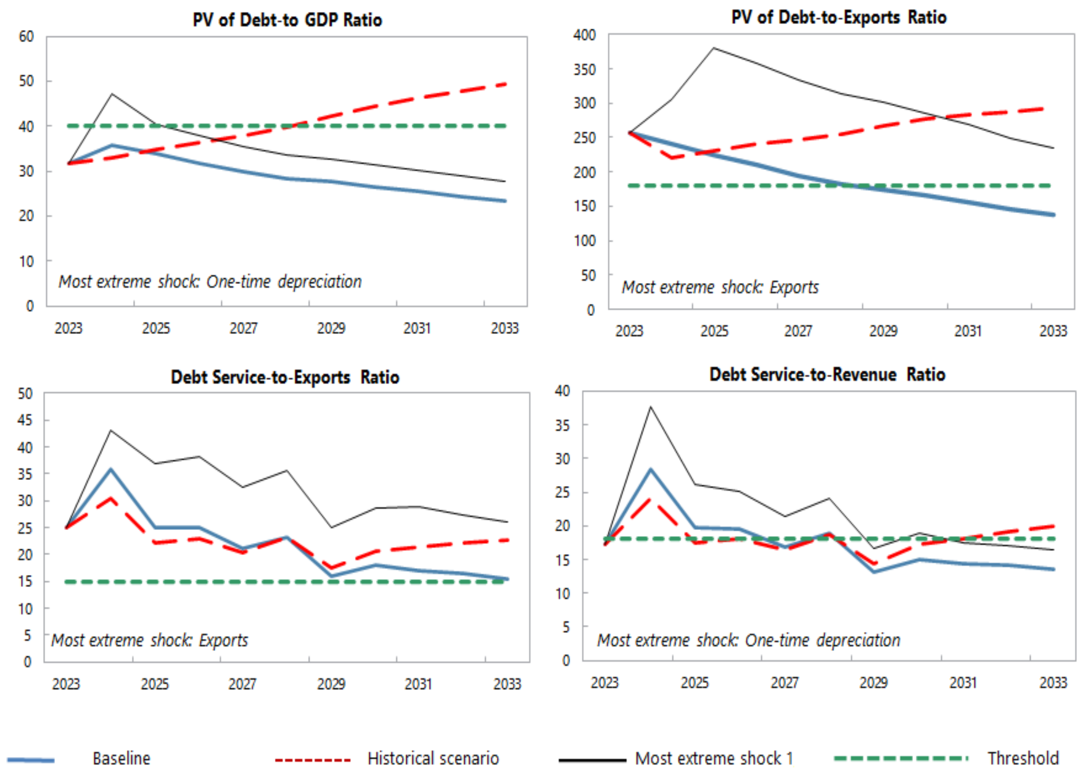
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Kenya: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33
(In percent)

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
PV of Debt-to-GDP Ratio											
Baseline	**68**	**67**	**64**	**61**	**59**	**57**	55	53	51	50	48
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**68**	**72**	**73**	**75**	**77**	**78**	**80**	**81**	**82**	**83**	**83**
B. Bound Tests											
B1. Real GDP growth	**68**	**70**	**72**	**70**	**69**	**68**	**68**	**67**	**67**	**66**	**66**
B2. Primary balance	**68**	**72**	**76**	**74**	**71**	**69**	**67**	**65**	**63**	**61**	**59**
B3. Exports	**68**	**69**	**70**	**68**	**65**	**63**	**61**	**59**	**56**	54	52
B4. Other flows 3/	**68**	**70**	**69**	**66**	**64**	**61**	**59**	**57**	**55**	53	51
B5. Depreciation	**68**	**70**	**65**	**61**	**57**	54	51	48	45	42	39
B6. Combination of B1-B5	**68**	**70**	**73**	**70**	**68**	**66**	**64**	**62**	**60**	**58**	**56**
C. Tailored Tests											
C1. Combined contingent liabilities	**68**	**76**	**72**	**70**	**67**	**65**	**63**	**61**	**59**	**57**	**55**
C2. Natural disaster	**68**	**79**	**77**	**76**	**75**	**74**	**74**	**74**	**73**	**73**	**72**
C3. Commodity price	**68**	**68**	**65**	**63**	**62**	**61**	**60**	**60**	**59**	**59**	**59**
C4. Market Financing	**68**	**67**	**64**	**61**	**59**	**57**	**55**	53	51	50	48
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	380	352	330	315	303	292	282	273	264	256	247
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	380	378	378	386	395	402	409	416	421	425	428
B. Bound Tests											
B1. Real GDP growth	380	369	369	360	356	351	348	345	343	340	338
B2. Primary balance	380	379	395	379	366	354	344	334	324	314	305
B3. Exports	380	364	363	347	334	322	312	301	290	280	269
B4. Other flows 3/	380	365	356	340	328	316	306	295	285	275	265
B5. Depreciation	380	367	336	313	294	276	260	245	230	216	203
B6. Combination of B1-B5	380	366	378	362	350	338	327	317	307	298	288
C. Tailored Tests											
C1. Combined contingent liabilities	380	397	373	358	345	334	323	313	304	294	285
C2. Natural disaster	380	415	399	391	386	382	380	377	375	373	371
C3. Commodity price	380	355	336	325	318	312	309	307	305	304	303
C4. Market Financing	380	352	330	315	304	293	283	274	264	255	247
Debt Service-to-Revenue Ratio											
Baseline	55	69	58	55	51	51	43	44	44	44	44
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	55	70	61	59	55	56	50	52	53	54	55
B. Bound Tests											
B1. Real GDP growth	55	72	64	62	58	59	51	54	55	56	57
B2. Primary balance	55	69	64	66	57	57	51	55	56	55	54
B3. Exports	55	69	58	57	52	52	45	46	46	46	46
B4. Other flows 3/	55	69	59	57	52	52	44	46	46	45	45
B5. Depreciation	55	66	58	55	50	51	43	43	43	42	41
B6. Combination of B1-B5	55	67	61	64	55	55	48	51	51	50	50
C. Tailored Tests											
C1. Combined contingent liabilities	55	69	68	60	54	54	50	52	51	51	48
C2. Natural disaster	55	75	70	66	61	62	56	59	60	61	61
C3. Commodity price	55	69	58	56	51	52	46	48	49	50	51
C4. Market Financing	55	69	58	56	51	51	44	47	47	43	43

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 1. Kenya: Indicators of Public and Publicity Guaranteed External Debt Under Alternatives Scenarios, 2023–33
(In percent)



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	Yes	Yes
Commodity price	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

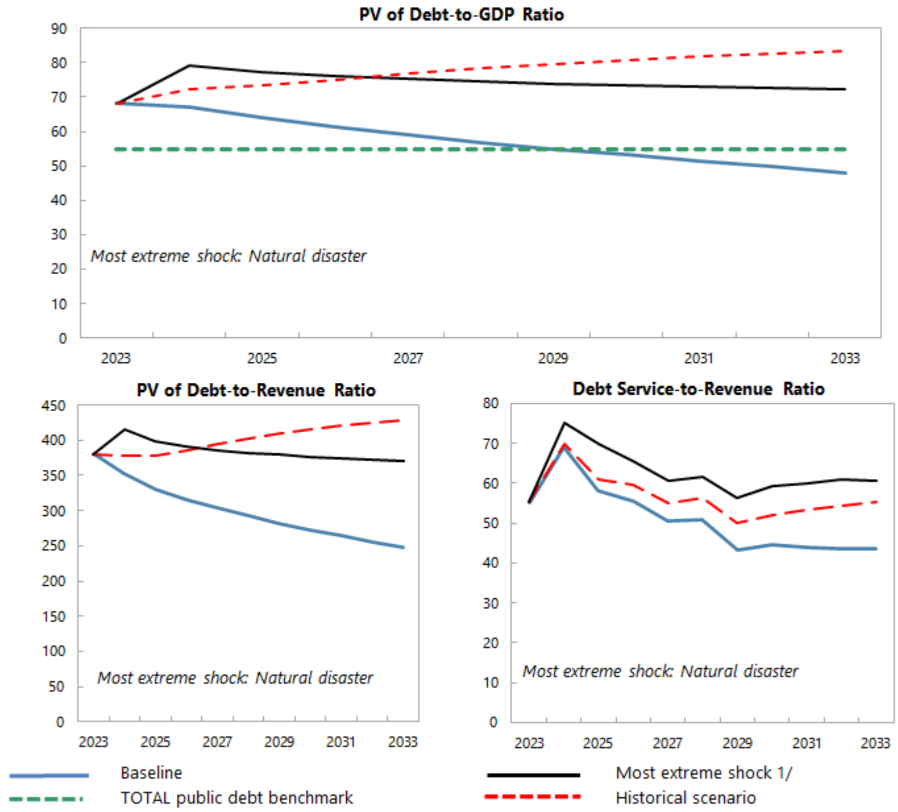
Borrowing assumptions on additional financing needs resulting from the stress		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Kenya: Indicators of Public Debt Under Alternative Scenarios, 2023–33
(In percent)



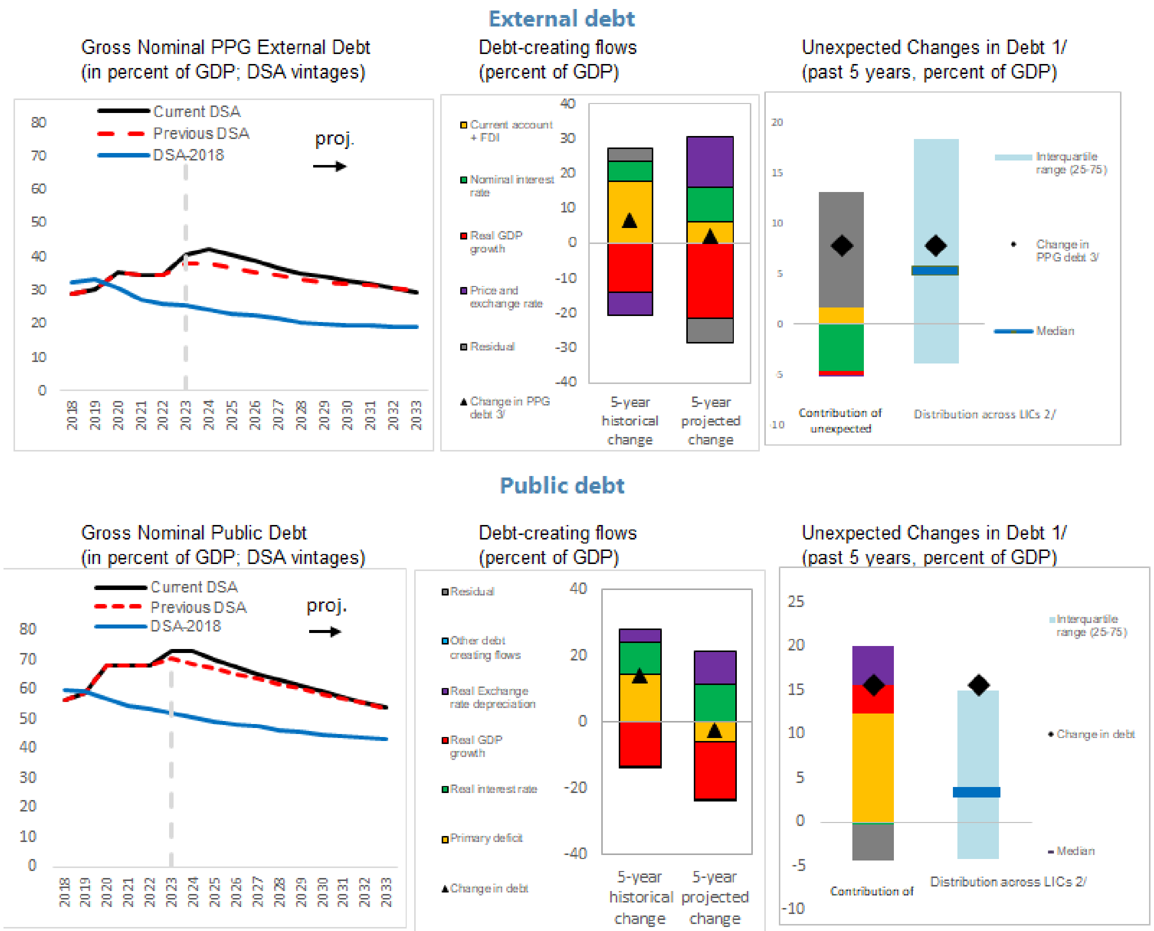
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	38%	38%
Domestic medium and long-term	47%	47%
Domestic short-term	16%	16%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.5%	5.5%
Avg. maturity (incl. grace period)	8	8
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	2.9%	2.9%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Kenya: Drivers of Debt Dynamics–Baseline Scenario External Debt



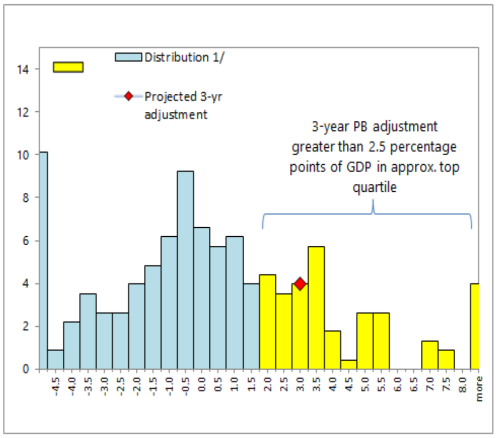
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

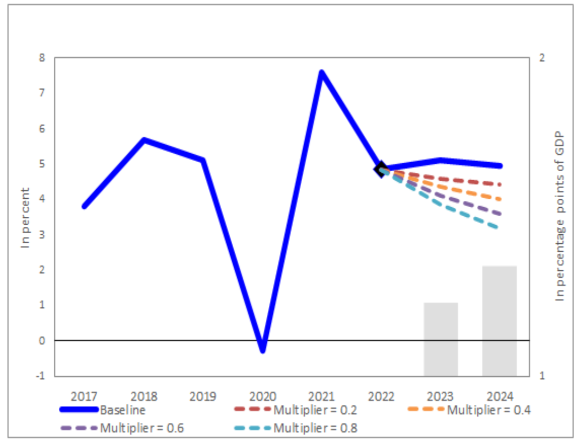
Figure 4. Kenya: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



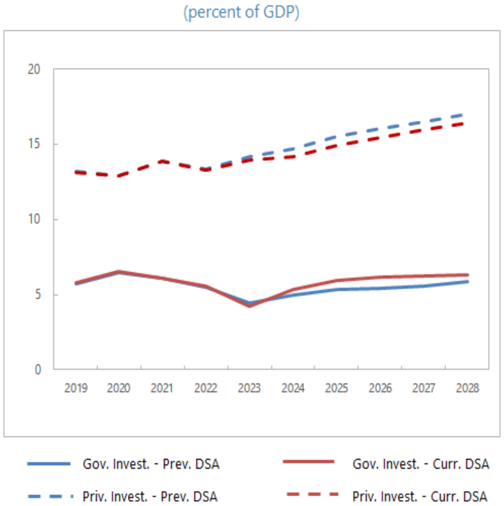
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

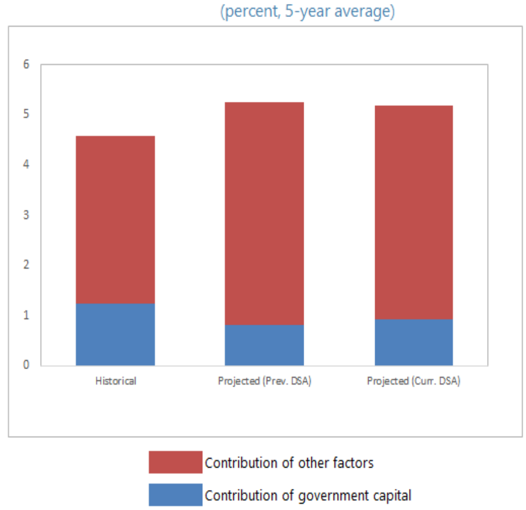
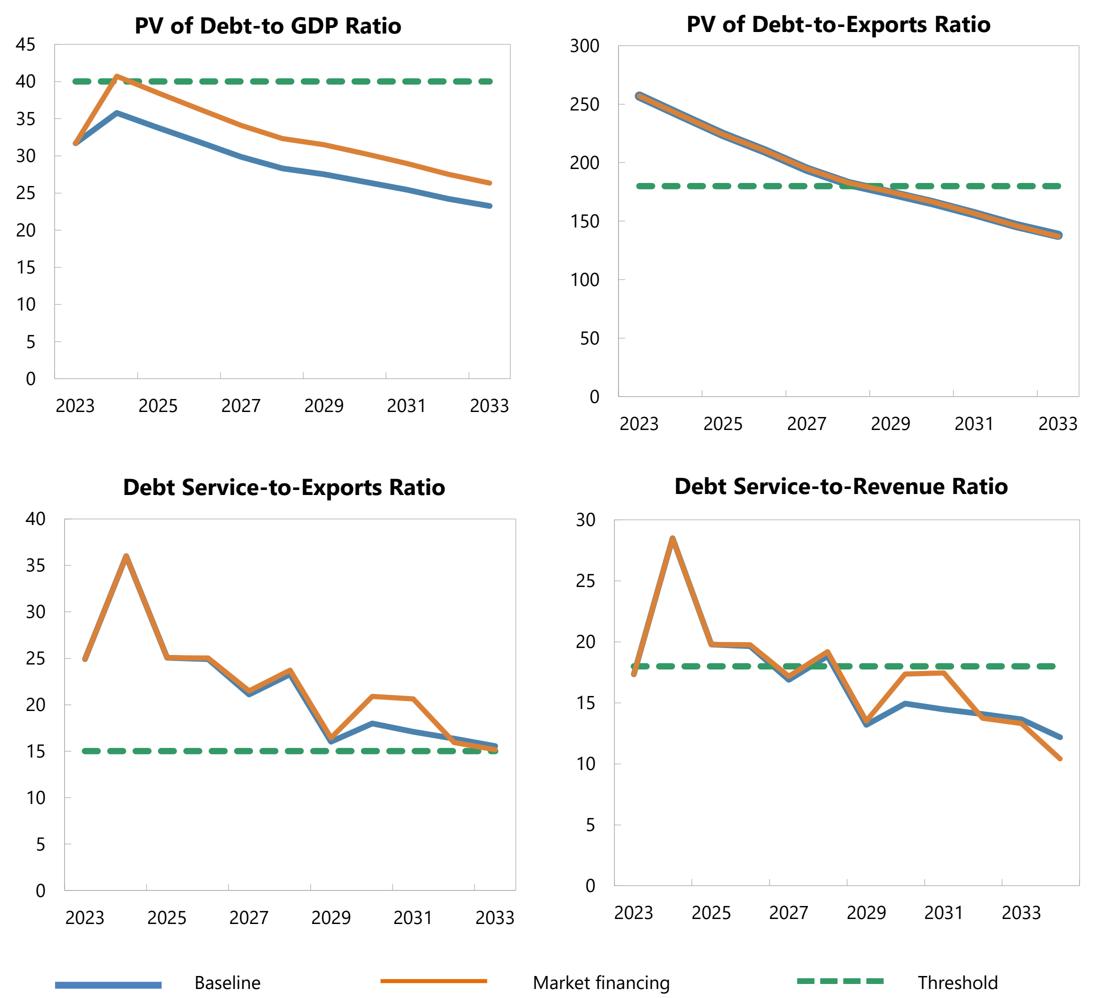


Figure 5. Kenya: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	12	589
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to data available as of December 20, 2023.



Sources: Country authorities; and staff estimates and projections.