Public Disclosure Authorized

Public Disclosure Authorized

WORLD BANK GROUP

July 2023

KENYA

JOINT WORLD BANK-IMF DEBT SUSTAINABILITY ANALYSIS

Approved by:

Asad Alam and Manuela Francisco (IDA); Catherine Pattillo (IMF, AFR); Eugenio Cerutti (IMF)

Prepared by the staff of the International Development Association (IDA) and the International Monetary Fund (IMF).

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 sustainable. While overall and external ratings for risk of debt distress remain high, debt dynamics are being bolstered by the fiscal consolidation under the IMF- supported program.[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 lower 2022 GDP outturn, REER depreciation in 2023:H1, increased access to program financing, recording of the SDR on lending to the government at face value, and higher projected interest expenses on loans with variable interest rates. Going forward, Kenya's debt indicators are forecasted to improve, as the primary balance turns into a surplus reflecting the strong commitment by authorities to fiscal consolidation, albeit gradually for the external debt service-to-exports ratio. The DSA suggests that Kenya is susceptible to export, exchange rate, natural disaster and primary balance shocks; more prolonged and protracted shocks to the economy would also present downside risks to the debt outlook. The natural disaster shock illustrates the very limited scope for meeting additional financing needs in a stress scenario without jeopardizing debt sustainability, underscoring the importance of existing mitigation and adaptation strategies to curb and cushion climate risks, as well as putting in place the necessary regulatory framework to tap private sector solutions and enable access to concessional green financing.

[1] The DSA analysis reflects a debt carrying capacity of Medium considering Kenya's Composite Indicator Index of 2.98, based on the IMF's April 2023 *World Economic Outlook* and the 2021 World Bank Country Policy and Institutional Assessment (CPIA), published in July 2022.

[2] See IMF Country Report No. 2022/382 published in December 2022.

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, 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 all 260 state corporations in June 2022.[5] Survey results showed that 19 of them had non-guaranteed loan obligations (excluding vis-à-vis the government), including overdrafts, equal to KSh.99.3 billion (0.8 percent of GDP) as of end-June 2022. Out of this sum, 85 percent were 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 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]

---

[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).

[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.

  - 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] Reviews 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 and as defined in the Technical Memorandum of Understanding under the IMF 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 US 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 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 68.4 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).

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 27.8 percent of GDP in present value terms (Text Table 2 and Table 1):

[7] The scheme, which has an initial duration of nine months, 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 and Magnitude of Contingent Liability Stress Test

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

		Default	Used for the analysis
1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt	
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.

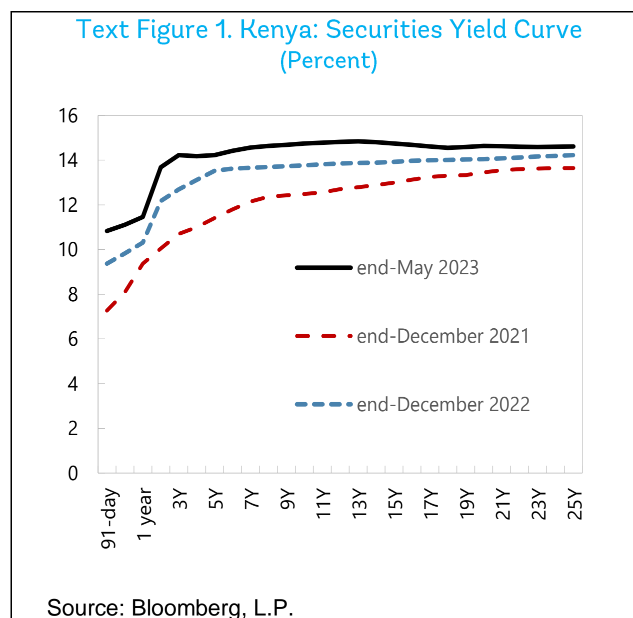
- Kenya has benefited from sizeable support from multilateral institutions. At end-2022, multilateral creditors accounted for close to 47 percent of external debt, while debt from bilateral creditors represented about 28 percent (Text Table 2). Of Kenya's bilateral debt, close to 64 percent is owed to 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. Eurobonds accounted for 75.5 percent of commercial debt (US$7.1 billion).[8]
- 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.

6. **Kenya's domestic public debt reached 33.9 percent of GDP at end-2022 (Text Table 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 low transmission of the policy rate to higher-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

[8] Syndicated loans amounting to Euro 305.4 million claimed by a syndicate of Italian commercial banks in relation to Arror, Kimwarer, and Itare dams' 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).

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.

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 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. **Following lower than expected 2022 outturn, real GDP growth is expected to pick up modestly in 2023 on the way of converging to 5.4 percent over the medium term (Text Table 4):**

- 2022 real GDP growth decelerated faster than anticipated to 4.8 percent, on the back of the intensification of the multi-decade-worst drought, which led to a second consecutive year of decline in agricultural output and slowed activity in the downstream sectors (e.g., manufacturing and wholesale and retail trade), and tighter policies.

Text Table 2. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2021–23[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	**74,120**	**100.0**	**66.8**	**11,228**	**11,393**	**8,913**	**10.0**	**9.9**	**7.3**
External	**37,370**	**50.4**	**34.5**	**3,356**	**5,057**	**3,531**	**3.0**	**4.4**	**2.9**
Multilateral creditors	17,474	23.6	15.4	642	638	786	0.6	0.6	0.6
IMF	2,399	3.2	2.1	-	-	-	-	-	-
World Bank	11,086	15.0	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	14.2	9.2	1,447	1,376	1,330	1.3	1.2	1.1
Paris Club	3,793	5.1	3.3	430	398	383	0.4	0.3	0.3
o/w: Japan	1,403	1.9	1.2	-	-	-	-	-	-
France (incl. AFD)	774	1.0	0.7	-	-	-	-	-	-
Non-Paris Club	6,705	9.0	5.9	1,017	978	946	0.9	0.8	0.8
o/w: EXIM China	6,557	8.8	5.8	-	-	-	-	-	-
EXIM India	61	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	9.6	6.2	515	2,444	667	0.5	2.1	0.5
Commercial creditors	1,881	2.5	1.7	680	537	698	0.6	0.5	0.6
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]	**36,750**	**49.6**	**32.3**	**7,872**	**6,336**	**5,382**	**7.0**	**5.5**	**4.4**
Held by residents, total	36,493	49.2	32.1						
Held by non-residents, total	257	0.3	0.2	-	-	-	-	-	-
T-Bills	5,587	7.5	4.9	-	-	-	-	-	-
Bonds	30,076	40.6	26.5	-	-	-	-	-	-
Loans	1,087	1.5	1.0	-	-	-	-	-	-
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 three-quarters 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 limit data availability on other explicit liabilities not elsewhere classified. Data is expected to become available at the time of the next review of the IMF EFF/ECF arrangements.

- Real GDP growth is projected to reach 5 percent in 2023, below the forecast in the last DSA, as the need to maintain mutually consistent tighter domestic policy environment weighs on the demand and partly dampens the positive effect from a return to growth in the agricultural sector following near-normal rains.
- Medium-to long-term real GDP growth projections are slightly lower than in the last DSA at around 5.3 percent. They are supported by the steady tourism recovery, increasing regional integration, projected productivity growth, policies to reinforce credit to the private sector, favorable

demographic trends, and an ambitious structural reform agenda.[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),[10] which is based on growth-friendly domestic revenue mobilization and spending rationalization measures to anchor debt sustainability.

- Nominal GDP in US dollars is projected to be lower than in the last DSA over the medium term, reflecting the base effect of the lower 2022 outturn and faster REER depreciation in 2023, as well as the slight markdown of growth prospects in 2023 and over the medium-term.

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

- Challenges in mobilizing budgeted resources have impeded the implementation of the FY2022/23 supplementary budget, approved in February 2023. This necessitated the passage of a second supplementary budget to offset the projected revenue shortfall and introduce expenditure savings—mostly related to undisbursed budgeted resources for projects—so as to contain the primary fiscal deficit to 1.1 percent of GDP. Should FY2022/23 net domestic financing or tax collection fall short of the baseline, reflecting limited investor appetite amid expectations of further rate increases especially at the longer spectrum of the yield curve, which has flattened considerably, the fiscal year could end with a significant amount of unpaid bills 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 and clear the unpaid bills by end-September 2023.
- The FY2023/24 budget currently tabled at parliament targets a primary surplus of 0.7 percent of GDP—a level higher than the 0.3 percent of GDP program target set at the 4th EFF/ECF reviews (Text Table 3). This is predicated on a comprehensive revenue package for 1.6 percent of GDP to mitigate the likely underperformance of tax by end-June 2023. The draft Budget also envisage a further rationalization of primary expenditures—particularly for slow-moving projects, while supporting new initiatives (e.g., Hustler Fund) and protecting social spending. The impact of the clearance of any unpaid bills from FY2022/23 will be offset by a Supplementary FY2023/24 budget, which is expected to be submitted to Parliament by end-October 2023. Offsets will be geared to increase tax revenues and control expenditures to anchor debt sustainability, while protecting social spending (Text Table 3).[11]

[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.

[11] Additional revenue measures may include the adoption of a motor vehicle circulation tax, a reduction in the VAT exemptions (including through a review of the VAT apportionment ratio of allowable inputs VAT on exempt supplies), and a reduction of exemptions on interest income.

- Going forward, the overall deficit is expected to durably decline to below 4 percent of GDP (Text Table 5), reflecting continued efforts to strengthen tax compliance in line with the priority areas identified under Kenya's Medium Term Revenue Strategy (MTRS)[12] 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. Compared to the last DSA, once debt burden metrics fall below their sustainability thresholds, the long-term target of the primary surplus is roughly halved to 0.5 percent of GDP, which does not lead to future threshold breaches. This is consistent with safeguarding debt sustainability, while relaxing somewhat the budget constraint on social and developmental spending over the long run.

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 WB climate-oriented financing (see paragraph 27 below), as well as from other financing from development partners. [13,14] 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 paragraph 27).

Text Table 3. Kenya: Social Spending Outlays, 2016–23

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23
				(Ksh. Millions)			
Social spending	256,253	305,275	345,956	380,051	407,905	434,585	427,750
Social protection	15,489	18,329	26,669	25,554	26,031	26,194	26,194
Education	219,010	269,534	295,555	314,027	337,524	359,130	356,241
Health	21,754	17,412	23,732	40,470	44,350	49,260	45,315
Memo item				*(Percent of GDP)*			
Social spending	2.9	3.1	3.3	3.3	3.2	3.0	3.0

Source: Authorities data and estimates.
Note: Fiscal year GDP is estimated as average of its values in the calendar years it spans.

[12] 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.

[13] 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.

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

Text Table 4. Kenya: Selected Macroeconomic Assumptions, 2022–42

	2022	2023	2024	2025	2026	2027	2028	Long-term 1/
Nominal GDP (Ksh billion)								
Current DSA	13,368	15,179	17,041	18,920	21,019	23,273	25,754	63,199
Previous DSA (December 2022)	13,650	15,453	17,237	19,087	21,137	23,387	25,880	57,822
Real GDP (growth)								
Current DSA	4.8	5.0	5.3	5.3	5.4	5.4	5.4	5.4
Previous DSA (December 2022)	5.3	5.1	5.5	5.5	5.5	5.5	5.5	5.5
Inflation								
Current DSA	7.6	7.8	6.6	5.4	5.4	5.0	5.0	5.0
Previous DSA (December 2022)	7.7	7.8	5.7	5.0	5.0	4.9	5.0	5.0
Revenue and grants (percent of GDP)								
Current DSA	17.8	18.0	18.3	18.1	17.9	18.1	18.2	18.8
Previous DSA (December 2022)	17.5	17.6	17.9	18.0	17.9	18.1	18.4	19.2
Overall fiscal balance (percent of GDP)								
Current DSA	-6.2	-5.1	-4.1	-3.7	-3.6	-3.7	-3.7	-3.7
Previous DSA (December 2022)	-6.0	-5.0	-4.1	-3.9	-3.8	-3.8	-3.7	-2.4
Primary fiscal balance (percent of GDP)								
Current DSA	-1.4	-0.2	0.8	1.0	1.1	1.0	1.0	0.5
Previous DSA (December 2022)	-1.4	-0.3	0.5	0.8	0.8	0.9	1.0	1.0
Public debt (percent of GDP)								
Current DSA	68.4	70.6	68.5	66.9	65.1	63.5	61.6	48.3
Previous DSA (December 2022)	68.6	67.0	64.9	63.0	61.1	59.6	58.0	44.8
Current account (percent of GDP)								
Current DSA	-5.1	-4.8	-5.0	-5.0	-5.0	-5.0	-4.8	-4.5
Previous DSA (December 2022)	-5.7	-5.4	-5.3	-5.1	-5.0	-5.0	-5.0	-4.6
Non-interest current account (percent of GDP)								
Current DSA	-3.9	-3.2	-3.4	-3.4	-3.4	-3.5	-3.4	-3.3
Previous DSA (December 2022)	-3.5	-3.0	-3.2	-3.1	-3.1	-3.1	-3.0	-3.0
Exports of goods and services (growth)								
Current DSA	17.2	9.1	10.0	10.2	9.2	9.2	8.9	9.6
Previous DSA (December 2022)	18.9	9.9	10.1	10.2	8.9	8.3	8.7	9.6

Sources: Kenyan authorities and IMF staff estimates.
1/ Average 2029-43 for current DSA and 2028-42 for the previous one.

11. The path of nominal public debt-to-GDP ratio is revised up from the last DSA, reflecting lower 2022 GDP in US dollars, the REER depreciation in 2023:H1, and additional commitments by development partners over the next three years (Text Table 4). 2022 real GDP growth was slower than projected (4.8 percent) and the REER depreciation in 2023:H1 has lowered the forecasted US$-value of nominal GDP. In addition, the authorities have requested additional access to IMF resources via augmentation (and extension through 2025Q1) of the existing EFF/ECF arrangements by around US$548 million (75 percent of quota or SDR407.1 million) and a new 20-month RSF arrangement of around US$548 million (75 percent of quota or SDR407.1 million). The WB financing envelope was increased in FY2022/23 and is expected to be higher than projected in the last DSA in 2024 as well. This is partly offset by the projected under-execution of external, syndicated bank loans by US$50 million in FY2022/23 and further rationalization of external project financing in the FY2023/24 budget. As in the case of the unrealized EUR1 billion (around US$1.1 billion) Eurobond issuance in FY2021/22 and lower than initially budgeted external project financing in FY2021/22 and FY2022/23, these shortfalls in external financing are also not expected to be compensated going forward (though the external borrowing plan continues to provide space for it should market conditions normalize (Text Table 6)). In the case of project financing, limits to investment absorption capacity are expected to be binding.

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.[15]

Text Table 5. Kenya: Selected Macroeconomic Indicators, 2021–28

	2021	2022	2023	2024	2025	2026	2027	2028
		Projections						
Real GDP growth (percent)	7.6	4.8	5.0	5.3	5.3	5.4	5.4	5.4
CPI inflation, average (percent)	6.1	7.6	7.8	6.6	5.4	5.4	5.0	5.0
Overall fiscal balance (percent of GDP) [1]	-7.7	-6.5	-5.4	-4.4	-3.9	-3.8	-3.9	-3.9
Primary balance (percent of GDP)[1]	-4.0	-1.3	-1.1	0.7	0.9	1.1	1.0	1.0
Current account balance (percent of GDP)	-5.2	-5.1	-4.8	-5.0	-5.0	-5.0	-5.0	-4.8
Exports of goods and services (US$ billion)	11.8	13.9	15.1	16.6	18.3	20.0	21.8	23.8
Exports of goods and services (growth; percent)	21.8	17.2	9.1	10.0	10.2	9.2	9.2	8.9
Gross international reserves (US$ billion)	9.5	8.0	7.3	8.5	9.7	10.5	11.6	12.2

Sources: Kenyan authorities and IMF staff estimates and projections.
[1] Fiscal years (e.g., 2021 refers to FY 2020/21).

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, while discussions on novation of a part of this guaranteed stock are ongoing. As a result, the 2022 stock of 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)[16] in place of the US$750 million government guarantee of KQ debts recorded previously.

14. The current account deficit was 5.1 percent of GDP in 2022 and is expected to stabilize around 5 percent over the medium term:

- Despite the upward pressure on the import bill from the elevated global prices of commodities with relatively inelastic demand, such as oil derivatives, cereals, and fertilizers, the merchandize trade balance remained broadly unchanged at 10 percent of GDP in 2022, due to a slowdown in capital goods imports and higher prices for Kenya's main agricultural exports (tea, horticulture, and coffee) and consumer and intermediate goods exports in 2022, reflecting global developments. The weakness of capital goods imports reflects the completion of large, import-intensive infrastructure projects and the rationalization of the pipeline of public investments. This has a level impact on the path of imports over the medium term, as the lower than initially budgeted external project financing in FY2021/22 and FY2022/23 is not compensated going forward, as limits to investment absorption capacity are expected to be binding.
- Over the medium term, the expected stabilization of the current account deficit will be supported by the further fiscal consolidation and robust goods exports and tourism receipts, a continued flexible exchange rate, and by the gradual normalization of global commodity and financial market conditions. Export growth stands to benefit from Kenya's improving business environment,

[15] 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.

[16] 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.

leveraging on existing trade and investment agreements,[17] 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. 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 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 concessional development loans. 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).[18] The cumulative external borrowing program through end-June 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. Looking ahead, Kenya is expected to continue to tap global capital markets to roll over maturing external commercial financing. The authorities are proactively preparing for the June 2024 Eurobond rollover, by launching the process for hiring international lead managers and considering alternative sources of financing from multilateral and bilateral lenders and the syndicated loans market. Kenya's external position is backstopped by its gross international reserves, which 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 from 3.3 months of imports of goods and services in 2023 to 3.9 months of imports in 2027.[19]

---

[17] 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.

[18] 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.

[19] In the near term, reserves are bolstered by increased support from multilateral institutions for the ambitious government reform agenda (see paragraph 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 paragraph 8).

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 2.4 percentage points of GDP over three years in 2023–25, which falls in the lower range 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 execution of the FY2021/22 budget, their careful management of expenditures to achieve fiscal targets in the face of unanticipated pressures in FY2022/23, 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 and by 2029 return to a similar share of GDP as observed in 2015. The revised projection for private investment incorporates the weaker outturn in 2022, revised view of the impact in 2023 from the needed tightening in monetary policy and projected external adjustments in 2023 and over the medium term.

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 2.98,[20] which incorporates data from the IMF's April 2023 *World Economic Outlook* (WEO) macroeconomic projections and the 2021 World Bank's Country Policy and Institutional Assessment (CPIA), published in July 2022. The marginally lower CI score relative to the last published DSA is on account of the weaker outlook for global growth and lower projected path of import coverage of reserves, which are partly offset by upward revisions in real growth and the ratio of remittances to GDP.

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

[20] 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.

global risk sentiment, temporary nominal depreciation, and shortening of maturities of new external commercial borrowing.

Text Table 6. Kenya: Summary Table of Projected External Borrowing Program from July 1, 2021, to June 30, 2024

Public and Publicly Guaranteed (PPG) External Debt [1]	Volume of New Debt from Jul 1, 2021 to Jun 30, 2024		PV of New Debt from Jul 1, 2021 to Jun 30, 2024 (Program Purposes)	
	US$ million	Percent	US$ million	Percent
By sources of debt financing	**19,455**	**100**	**14,471**	**100**
Concessional debt, of which	**11,898**	**61**	**7,042**	**49**
Multilateral debt	5,108	26	2,969	21
Bilateral debt	3,113	16	1,769	12
Other	3,647	19	2,286	16
Non-concessional debt, of which	**7,557**	**39**	**7,429**	**51**
Semi-concessional	437	2	310	2
Commercial terms	7,120	37	7,120	49
By Creditor Type	**19,455**	**100**	**14,471**	**100**
Multilateral, *of which*	5,452	28	3,198	22
World Bank	4,494	23	2,607	18
Bilateral - Paris Club	1,152	6	683	5
Bilateral - Non-Paris Club	1,962	10	1,086	8
Other, *of which*	10,890	56	9,504	66
For debt management operations [2]	5,000	26	5,000	35
Uses of debt financing	**19,455**	**100**	**14,471**	**100**
Infrastructure	4,693	24	3,591	25
Social Spending	6,703	34	4,005	28
Budget Financing	2,127	11	1,338	9
Other, *of which*	5,932	30.5	5,536	38
For debt management operations [2]	5,000	26	5,000	35

Source: IMF calculations using authorities' data.

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.

2/ Planned potential borrowing for debt management operations to improve the debt profile (in terms of PV and debt service profile). Debt management operations are not reflected in the DSA baseline.

Text Table 7. Kenya: Debt Carrying Capacity, 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 2.98	Medium 3.02	Medium 3.03

Note: The current-vintage Composite Indicator Index is based on the IMF's 2023 April World Economic Outlook and the 2021 World Bank Country Policy and Institutional Assessment (CPIA), published in July 2022.

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	3.74	1.44	48%
Real growth rate (in percent)	2.719	5.06	0.14	5%
Import coverage of reserves (in percent)	4.052	36.02	1.46	49%
Import coverage of reserves^2 (in percent)	-3.990	12.98	-0.52	-17%
Remittances (in percent)	2.022	3.53	0.07	2%
World economic growth (in percent)	13.520	2.86	0.39	13%
CI Score			2.98	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

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

19. **External debt burden indicators in terms of exports and revenues breach sustainability 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 2026, while the debt service-to-exports liquidity indicator exceeds its threshold (15 percent) through 2030. 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 27.8 percent in 2022 to 16 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 dollars in 2022, the

REER depreciation in 2023:H1, further increase in interest expenses of external loans with floating interest rates, recording of the SDR on-lending to the government at face value (¶11) and increased support by development partners (¶10).

20. Standard stress test results highlight the sensitivity of debt burden indicators in terms of exports (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 2029.

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 (677 basis points as of June 22, 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 2027 (Figure 2 and Table 2), giving rise to a mechanical high-risk signal. Public sector debt is projected to peak in 2023 at 64.4 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 (355 percent in 2022) is projected to more than halve 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),[21] the PV of the public debt-to-GDP ratio would breach the 55 percent benchmark for a country with medium debt-carrying capacity through 2033.

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

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.[22] 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.[23] 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, 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,

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

[23] 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.

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.[24] Some of these needs are addressed by existing investment projects,[25] with the balance 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 investors, support establishing a pipeline of bankable projects, and accelerate mobilization of private financing.[26]

---

[24] See Kenya's Updated Nationally Determined Contribution 2020–30.

[25] 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.

[26] 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.

RISK RATING AND VULNERABILITIES

29. Kenya's overall and external public debts are 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 support the assessment that debt is sustainable:

- The decisive actions already undertaken in 2020-23 to limit the increase in the deficit from global shocks (pandemic, Russia's invasion of Ukraine) 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 more favorable outlook for exports;
- A generally smooth external debt service profile on a clear declining trajectory 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.
- The authorities' proactive preparation for the June 2024 Eurobond rollover, by launching the process for hiring international lead managers and considering alternative sources of financing from multilateral and bilateral lenders and the syndicated loans market.
- 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 2024. Indicators measured against exports will also gradually improve as the recovery of exports takes hold and reforms under the IMF-supported EFF/ECF arrangements 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 to limit expansion of the deficit from the COVID-19 shock and

the geopolitical situation in eastern europe. 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 after 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 arrangement and PPAs under the SDFP, which also support steps to improve debt transparency.

31. Debt sustainability is also supported by stable and strong remittances, Kenya's generally smooth debt service profile 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 relatively smooth debt service profile—except for maturing Eurobonds and external bank loans in 2024-26 and 2028—is 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. 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 the heightened geopolitical situation 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., faster 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.

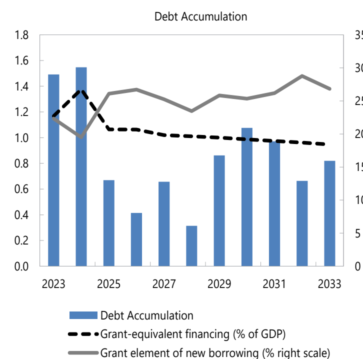
AUTHORITIES' VIEWS

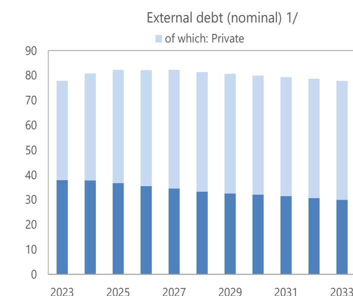
33. **The authorities broadly shared IMF staff's assessment, emphasizing that reducing debt vulnerabilities is a key priority to support Kenya's developmental agenda.** At the same time, they stressed the indispensable role of sustainable debt financing in meeting the infrastructure needs of Kenya's vibrant economy. The authorities highlighted their determination to continue to extend the maturity of domestic debt and pursue a financing strategy that balances domestic and external financing, relies primarily on concessional financing, and accesses international capital markets judiciously. They emphasized the active preparation for the June 2024 Eurobond rollover, including launching the process for hiring international lead managers and considering alternative sources of financing from multilateral and bilateral lenders and the syndicated loans market. The authorities reiterated their strong commitment to debt transparency. They expressed confidence that legislative amendments, currently tabled in Parliament, to replace the existing nominal debt ceiling with a ceiling expressed in present value terms and in percent of GDP will better anchor their medium-term fiscal policies.

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	72.6	77.8	80.8	82.2	82.1	82.2	81.3	77.8	73.1	57.5	80.2
of which: public and publicly guaranteed (PPG)	35.4	34.7	34.5	37.9	37.8	36.7	35.5	34.6	33.3	30.0	22.4	27.7	33.9
Change in external debt	6.3	-1.1	1.5	5.2	2.9	1.4	-0.1	0.1	-0.9	-0.8	-1.0		
Identified net debt-creating flows	3.8	-0.7	2.4	0.5	0.0	-0.2	-0.5	-0.6	-0.9	-1.4	-1.4	2.0	-0.7
Non-interest current account deficit	3.6	4.1	3.9	3.2	3.3	3.2	3.3	3.4	3.2	3.1	3.4	5.2	3.2
Deficit in balance of goods and services	7.9	9.1	9.3	8.5	8.6	8.6	8.6	8.7	8.4	7.6	7.3	9.9	8.2
Exports	9.6	10.8	12.2	13.4	14.5	15.0	15.4	15.9	16.3	19.0	26.5		
Imports	17.6	19.9	21.5	21.9	23.1	23.6	24.0	24.6	24.7	26.6	33.8		
Net current transfers (negative = inflow)	-4.9	-5.6	-5.7	-6.1	-6.3	-6.4	-6.4	-6.5	-6.5	-6.3	-6.1	-5.2	-6.4
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	0.9	1.0	1.0	1.1	1.2	1.4	1.8	2.2	0.5	1.3
Net FDI (negative = inflow)	-0.6	0.0	-0.3	-0.7	-0.9	-1.1	-1.3	-1.4	-1.5	-1.8	-2.2	-0.7	-1.4
Endogenous debt dynamics 2/	0.8	-4.7	-1.1	-2.0	-2.4	-2.4	-2.5	-2.5	-2.6	-2.6	-2.6		
Contribution from nominal interest rate	1.2	1.2	1.3	1.6	1.6	1.7	1.7	1.6	1.6	1.4	1.1		
Contribution from real GDP growth	0.2	-5.0	-3.3	-3.6	-4.0	-4.1	-4.1	-4.2	-4.2	-4.0	-3.7		
Contribution from price and exchange rate changes	-0.6	-0.9	0.9	...	...	...	...	...	...	...	...		
Residual 3/	2.5	-0.4	-1.0	4.7	2.9	1.6	0.4	0.7	0.0	0.5	0.4	2.3	1.2
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	...	...	27.8	29.5	30.5	29.4	28.0	27.1	25.9	22.9	16.3		
PV of PPG external debt-to-exports ratio	...	...	228.3	220.4	210.8	195.6	181.7	170.3	158.2	120.4	61.5		
PPG debt service-to-exports ratio	25.7	22.5	21.2	22.0	31.1	21.7	22.0	19.7	22.2	12.7	6.5		
PPG debt service-to-revenue ratio	15.1	14.6	14.8	16.6	24.9	18.2	19.2	17.6	20.2	13.2	8.5		
Gross external financing need (Million of U.S. dollars)	27,431	28,168	29,066	29,542	32,122	31,887	33,699	34,739	36,625	41,307	62,052		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-0.3	7.6	4.8	5.0	5.3	5.3	5.4	5.4	5.4	5.4	5.4	4.5	5.3
GDP deflator in US dollar terms (change in percent)	0.9	1.2	-1.3	-5.5	-3.1	0.7	0.8	0.4	0.6	0.6	1.9	2.7	-0.2
Effective interest rate (percent) 4/	1.8	1.8	1.8	2.2	2.1	2.2	2.2	2.1	2.0	1.9	1.6	2.1	2.0
Growth of exports of G&S (US dollar terms, in percent)	-15.4	21.8	17.2	9.1	10.0	10.2	9.2	9.2	8.9	9.6	9.9	2.7	9.4
Growth of imports of G&S (US dollar terms, in percent)	-13.2	23.3	11.7	1.0	7.8	8.3	8.3	8.2	6.5	8.2	9.2	3.8	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	22.3	19.5	26.1	26.7	25.2	23.5	26.8	32.2	...	25.1
Government revenues (excluding grants, in percent of GDP)	16.4	16.6	17.5	17.7	18.0	17.9	17.7	17.8	18.0	18.2	20.5	17.1	18.0
Aid flows (in Million of US dollars) 5/	1,841	1,785	1,791	2,293	2,793	2,435	2,802	2,866	3,005	3,762	5,927		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.2	1.4	1.1	1.1	1.0	1.0	0.9	0.9	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	27.7	23.2	31.2	31.9	30.5	28.6	32.9	42.0	...	30.5
Nominal GDP (Million of US dollars)	100,912	109,875	113,701	112,818	115,115	122,115	129,728	137,287	145,524	195,793	356,303		
Nominal dollar GDP growth	0.6	8.9	3.5	-0.8	2.0	6.1	6.2	5.8	6.0	6.1	7.4	7.3	5.1
Memorandum items:													
PV of external debt 7/	...	...	65.9	69.4	73.4	74.8	74.6	74.8	73.9	70.7	66.9		
In percent of exports	...	...	541.0	518.0	508.1	498.6	483.9	469.9	452.3	371.9	252.6		
Total external debt service-to-exports ratio	239.4	200.0	175.7	166.2	164.0	145.1	138.5	129.0	124.9	85.3	44.7		
PV of PPG external debt (in Million of US dollars)			31,629	33,325	35,072	35,843	36,349	37,202	37,633	44,808	58,110		
(PVt-PVt-1)/GDPt-1 (in percent)				1.5	1.5	0.7	0.4	0.7	0.3	0.8	0.4		
Non-interest current account deficit that stabilizes debt ratio	-2.7	5.2	2.4	-2.0	0.4	1.8	3.4	3.2	4.1	3.9	4.4		

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).

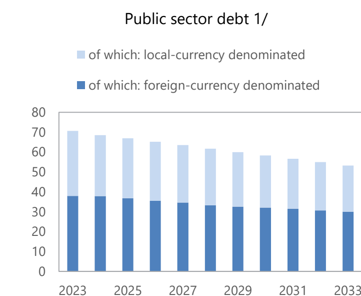
7/ Assumes that PV of private sector debt is equivalent to its face value.

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**	**68.4**	**70.6**	**68.5**	**66.9**	**65.2**	**63.5**	**61.7**	**53.2**	**37.2**	**55.1**	**61.8**
of which: external debt	**35.4**	**34.7**	**34.5**	**37.9**	**37.8**	**36.7**	**35.5**	**34.6**	**33.3**	**30.0**	**22.4**	**27.7**	**33.9**
Change in public sector debt	8.9	0.3	0.2	2.2	-2.1	-1.6	-1.7	-1.7	-1.8	-1.8	-1.5		
Identified debt-creating flows	**7.8**	**1.0**	**2.1**	**-1.9**	**-2.3**	**-2.0**	**-2.1**	**-2.1**	**-2.2**	**-2.1**	**-1.8**	**2.7**	**-2.1**
Primary deficit	**3.8**	**2.7**	**1.4**	**0.2**	**-0.8**	**-1.0**	**-1.1**	**-1.0**	**-1.0**	**-0.6**	**-0.2**	**3.3**	**-0.8**
Revenue and grants	16.7	16.8	17.8	18.0	18.3	18.1	17.9	18.1	18.2	18.4	20.8	**17.4**	**18.2**
of which: grants	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3		
Primary (noninterest) expenditure	20.5	19.5	19.2	18.2	17.5	17.1	16.8	17.0	17.2	17.8	20.7	**20.7**	**17.4**
Automatic debt dynamics	**4.0**	**-1.8**	**0.8**	**-2.1**	**-1.5**	**-1.0**	**-1.1**	**-1.1**	**-1.2**	**-1.5**	**-1.6**		
Contribution from interest rate/growth differential	2.7	-3.0	-2.5	-2.1	-1.5	-1.0	-1.1	-1.1	-1.2	-1.5	-1.6		
of which: contribution from average real interest rate	2.6	1.8	0.7	1.2	2.0	2.5	2.3	2.2	2.1	1.3	0.4		
of which: contribution from real GDP growth	0.2	-4.8	-3.2	-3.2	-3.5	-3.5	-3.4	-3.3	-3.2	-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**	**-2.0**	**4.1**	**0.2**	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.4**	**0.7**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**63.1**	**64.4**	**61.9**	**60.2**	**58.3**	**56.6**	**54.8**	**46.6**	**31.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**355.2**	**357.8**	**338.1**	**331.7**	**325.8**	**313.3**	**301.0**	**252.6**	**151.7**		
Debt service-to-revenue and grants ratio 3/	**54.1**	**55.2**	**54.5**	**55.1**	**65.9**	**56.7**	**56.9**	**52.8**	**52.5**	**43.0**	**22.9**		
Gross financing need 4/	12.8	12.0	11.1	10.1	11.3	9.3	9.1	8.5	8.5	7.3	4.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.3	7.6	4.8	5.0	5.3	5.3	5.4	5.4	5.4	5.4	5.4	**4.5**	**5.3**
Average nominal interest rate on external debt (in percent)	3.5	3.1	3.0	3.7	3.4	3.5	3.4	3.3	3.2	3.0	2.4	**2.9**	**3.2**
Average real interest rate on domestic debt (in percent)	6.7	7.5	6.1	3.8	5.3	6.6	6.3	6.3	6.0	4.3	1.6	**5.3**	**5.4**
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	8.2	6.7	5.4	5.4	5.1	5.0	4.9	4.9	**6.1**	**5.5**
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	2.8	2.8	-0.6	1.5	3.0	3.6	6.6	6.3	6.0	7.4	**4.0**	**4.7**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-5.1	2.5	1.2	-2.1	1.3	0.6	0.7	0.6	0.8	1.2	1.3	**-0.5**	**0.6**
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	30	30	29	28	27	26	25	25	24	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	30	31	32	32	33	34	36	38	39	**41**	**42**
B. Bound Tests											
B1. Real GDP growth	30	32	32	31	30	28	28	27	26	26	25
B2. Primary balance	30	32	35	33	33	31	31	30	30	29	29
B3. Exports	30	33	36	35	34	32	32	31	30	29	28
B4. Other flows 3/	30	32	33	32	31	30	29	28	28	27	26
B5. Depreciation	30	39	33	32	31	29	28	28	27	27	26
B6. Combination of B1-B5	30	35	36	35	34	32	31	31	30	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	30	33	33	32	31	29	29	29	29	28	27
C2. Natural disaster	30	35	35	34	34	33	33	34	34	34	35
C3. Commodity price	30	30	29	28	27	26	25	25	24	23	23
C4. Market Financing	30	34	33	32	31	29	28	27	27	26	25
Threshold	40	40	40	40	40	40	40	40	40	40	40
					PV of debt-to-exports ratio						
Baseline	**220**	**211**	**196**	**182**	170	158	150	144	136	128	120
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**220**	**214**	**211**	**210**	**210**	**210**	**214**	**219**	**221**	**222**	**222**
B. Bound Tests											
B1. Real GDP growth	**220**	**211**	**196**	**182**	170	158	150	144	136	128	120
B2. Primary balance	**220**	**222**	**230**	**217**	**205**	**191**	**183**	176	168	159	151
B3. Exports	**220**	**272**	**344**	**321**	**302**	**282**	**268**	**256**	**240**	**224**	**209**
B4. Other flows 3/	**220**	**224**	**222**	**207**	**195**	**182**	173	165	155	145	136
B5. Depreciation	**220**	**211**	175	162	151	140	132	127	121	114	108
B6. Combination of B1-B5	**220**	**264**	**222**	**267**	**252**	**235**	**224**	**214**	**202**	**188**	177
C. Tailored Tests											
C1. Combined contingent liabilities	**220**	**232**	**219**	**205**	**193**	**180**	173	167	160	152	145
C2. Natural disaster	**220**	**231**	**220**	**210**	**201**	**192**	**188**	**185**	**181**	176	171
C3. Commodity price	**220**	**211**	**196**	**182**	170	158	150	144	136	128	120
C4. Market Financing	**220**	**211**	**196**	**183**	171	158	149	142	134	125	118
Threshold	180	180	180	180	180	180	180	180	180	180	180
					Debt service-to-exports ratio						
Baseline	**22**	**31**	**22**	**22**	**20**	**22**	**16**	14	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**22**	**30**	**21**	**21**	**20**	**22**	**17**	**16**	**17**	**17**	**17**
B. Bound Tests											
B1. Real GDP growth	**22**	**31**	**22**	**22**	**20**	**22**	**16**	14	14	13	13
B2. Primary balance	**22**	**31**	**23**	**24**	**22**	**24**	**18**	**17**	**16**	**16**	**15**
B3. Exports	**22**	**38**	**32**	**34**	**31**	**34**	**25**	**24**	**24**	**23**	**22**
B4. Other flows 3/	**22**	**31**	**22**	**23**	**21**	**23**	**17**	**16**	**16**	**15**	14
B5. Depreciation	**22**	**31**	**22**	**21**	**19**	**21**	**16**	14	12	12	11
B6. Combination of B1-B5	**22**	**35**	**30**	**30**	**27**	**30**	**23**	**22**	**21**	**20**	**19**
C. Tailored Tests											
C1. Combined contingent liabilities	**22**	**31**	**23**	**23**	**21**	**23**	**17**	**15**	15	14	14
C2. Natural disaster	**22**	**32**	**23**	**23**	**21**	**24**	**18**	**16**	**16**	**15**	15
C3. Commodity price	**22**	**31**	**22**	**22**	**20**	**22**	**16**	14	14	13	13
C4. Market Financing	**22**	**31**	**22**	**25**	**23**	**22**	**16**	**19**	15	13	12
Threshold	15	15	15	15	15	15	15	15	15	15	15
					Debt service-to-revenue ratio						
Baseline	17	**25**	**18**	**19**	18	**20**	15	14	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	**24**	18	**19**	18	**20**	16	16	16	17	18
B. Bound Tests											
B1. Real GDP growth	17	**26**	**20**	**21**	**19**	**22**	17	15	15	15	14
B2. Primary balance	17	**25**	**19**	**21**	**19**	**22**	17	16	16	16	16
B3. Exports	17	**25**	**19**	**21**	**19**	**22**	17	16	17	17	16
B4. Other flows 3/	17	**25**	**19**	**20**	**18**	**21**	16	15	15	15	15
B5. Depreciation	17	**32**	**23**	**24**	**22**	**25**	**18**	17	15	15	15
B6. Combination of B1-B5	17	**26**	**21**	**22**	**20**	**23**	18	17	17	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	17	**25**	**19**	**20**	**18**	**21**	16	15	14	14	14
C2. Natural disaster	17	**25**	**19**	**20**	**18**	**21**	16	15	15	15	15
C3. Commodity price	17	**25**	**18**	**19**	18	**20**	15	14	14	13	13
C4. Market Financing	17	**25**	**19**	**22**	**20**	**20**	15	18	15	13	13
Threshold	18	18	18	18	18	18	18	18	18	18	18

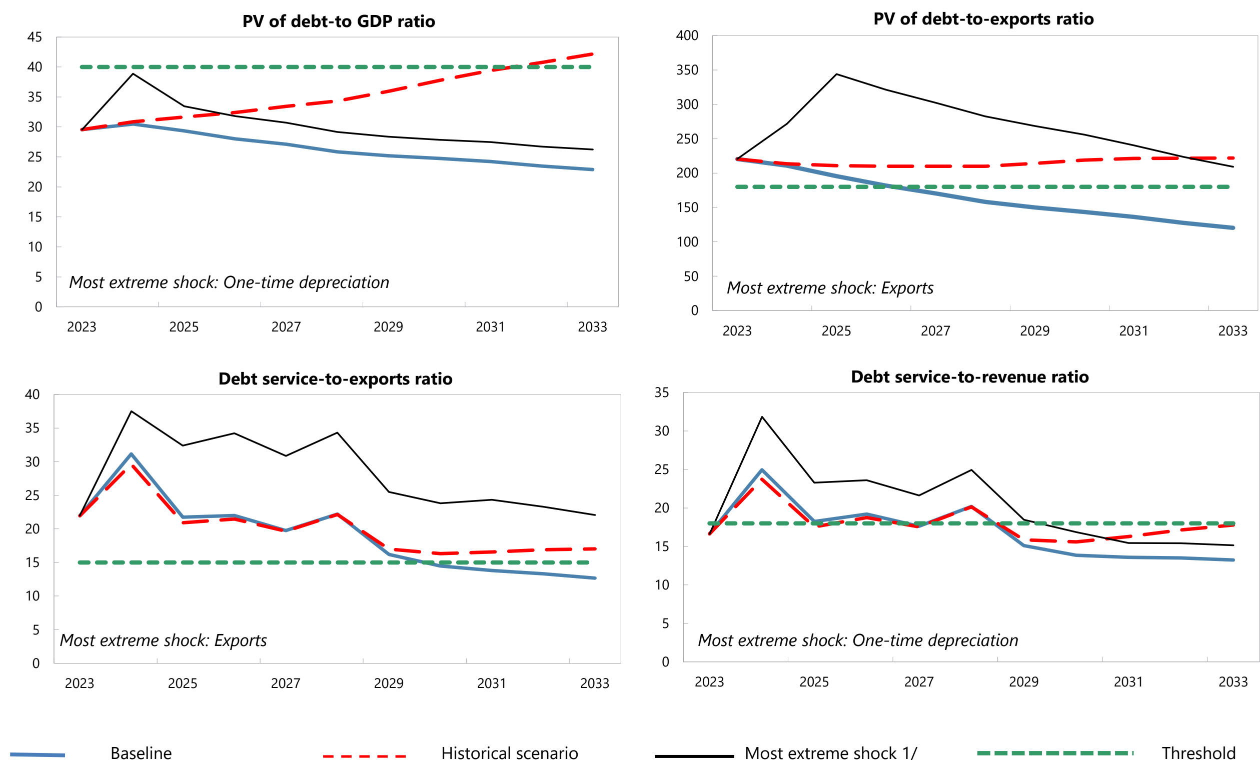
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private 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	**64**	**62**	**60**	**58**	**57**	55	53	51	50	48	47
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**64**	**67**	**69**	**71**	**73**	**75**	**76**	**78**	**79**	**80**	**81**
B. Bound Tests											
B1. Real GDP growth	**64**	**65**	**68**	**67**	**67**	**66**	**66**	**66**	**65**	**65**	**64**
B2. Primary balance	**64**	**67**	**71**	**69**	**68**	**66**	**64**	**62**	**60**	**58**	**56**
B3. Exports	**64**	**64**	**66**	**65**	**63**	**61**	**59**	**57**	**55**	53	51
B4. Other flows 3/	**64**	**64**	**64**	**62**	**61**	**59**	**57**	**55**	53	51	50
B5. Depreciation	**64**	**66**	**63**	**60**	**57**	54	51	48	46	43	40
B6. Combination of B1-B5	**64**	**64**	**68**	**67**	**65**	**63**	**61**	**59**	**58**	**56**	54
C. Tailored Tests											
C1. Combined contingent liabilities	**64**	**70**	**68**	**66**	**65**	**63**	**61**	**59**	**57**	**56**	54
C2. Natural disaster	**64**	**73**	**73**	**72**	**72**	**71**	**71**	**71**	**70**	**70**	**69**
C3. Commodity price	**64**	**63**	**62**	**61**	**60**	**60**	**59**	**59**	**59**	**58**	**58**
C4. Market Financing	**64**	**62**	**60**	**58**	**57**	55	53	51	49	48	46
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	358	338	332	326	313	301	291	282	272	263	253
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	358	363	379	396	403	410	418	425	431	436	440
B. Bound Tests											
B1. Real GDP growth	358	357	374	376	370	364	362	359	355	352	348
B2. Primary balance	358	364	393	387	374	360	350	339	328	317	306
B3. Exports	358	350	367	361	347	334	324	313	301	290	277
B4. Other flows 3/	358	349	354	349	335	323	313	302	291	280	269
B5. Depreciation	358	361	347	334	314	295	279	264	249	234	220
B6. Combination of B1-B5	358	352	378	372	359	346	336	326	315	305	294
C. Tailored Tests											
C1. Combined contingent liabilities	358	385	377	371	358	344	334	323	313	302	292
C2. Natural disaster	358	400	402	404	398	392	389	386	382	379	375
C3. Commodity price	358	342	340	340	333	327	325	322	320	318	315
C4. Market Financing	358	338	332	327	314	301	291	280	270	261	250
Debt Service-to-Revenue Ratio											
Baseline	55	66	57	57	53	53	46	44	43	43	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	55	67	61	63	60	61	56	56	57	60	61
B. Bound Tests											
B1. Real GDP growth	55	69	63	64	60	61	54	53	54	55	57
B2. Primary balance	55	66	63	67	59	58	53	54	54	53	52
B3. Exports	55	66	57	58	54	54	47	46	46	46	46
B4. Other flows 3/	55	66	57	58	54	53	47	45	45	45	45
B5. Depreciation	55	65	58	58	54	55	47	44	43	43	42
B6. Combination of B1-B5	55	64	59	65	57	56	50	50	50	49	49
C. Tailored Tests											
C1. Combined contingent liabilities	55	66	67	61	56	56	52	51	50	50	47
C2. Natural disaster	55	72	69	67	63	63	58	58	58	59	59
C3. Commodity price	55	66	57	58	54	54	48	48	48	50	51
C4. Market Financing	55	66	57	60	56	52	45	48	44	42	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



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.

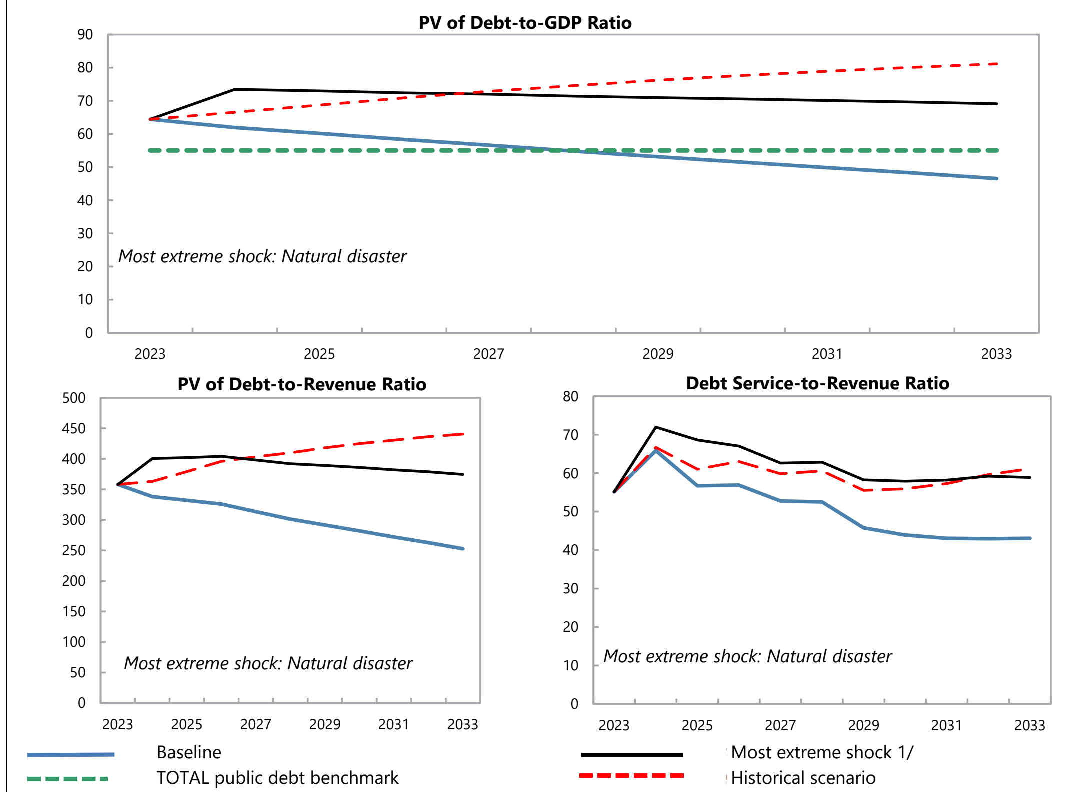
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.6%	3.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
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 exterme 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



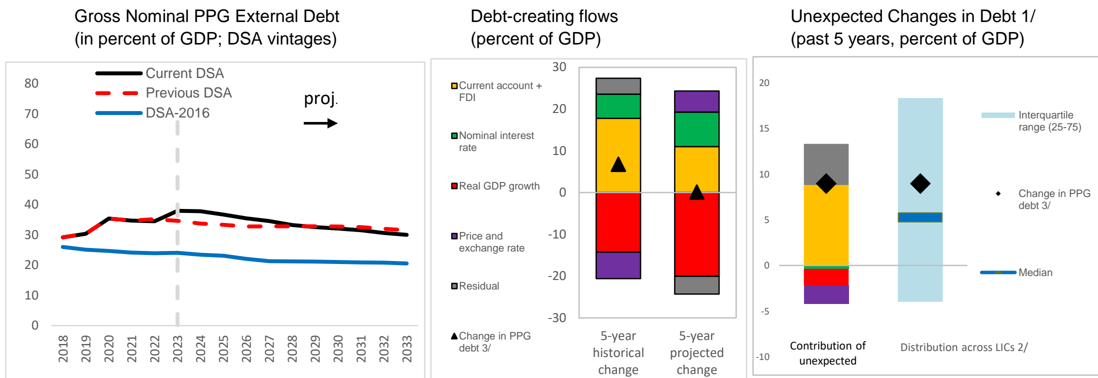
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	38%	38%
Domestic medium and long-term	46%	46%
Domestic short-term	15%	15%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.6%	3.6%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.2%
Avg. maturity (incl. grace period)	8	8
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	1.1%	1.1%

* 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.

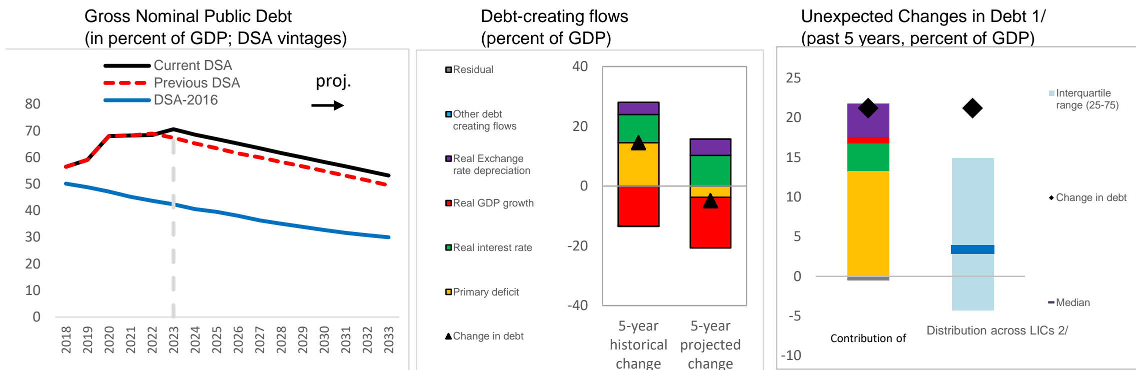
Sources: Country authorities; and staff estimates and projections.

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 exterme 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 External Debt



Public Debt



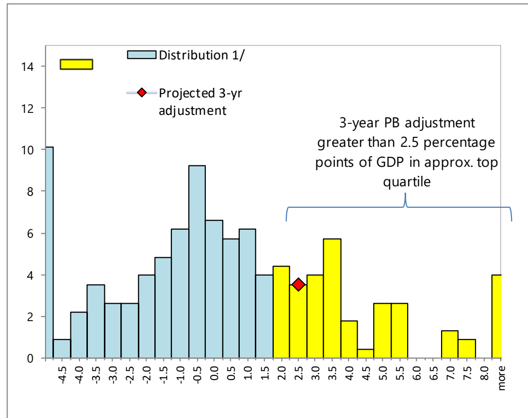
1/ Difference between anticipated and actual contributions on debt ratios.

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.

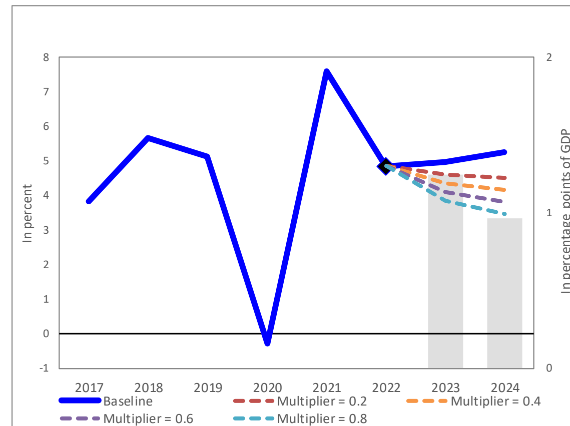
Figure 4. Kenya: Realism Tools

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



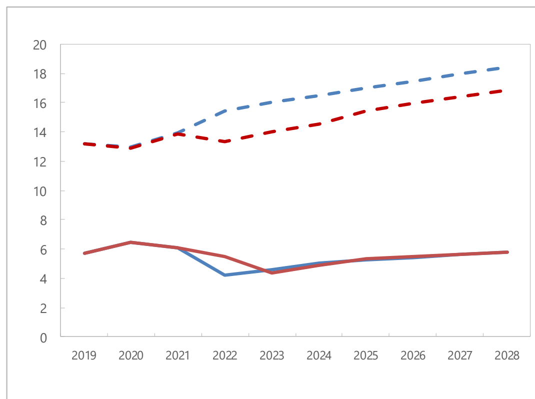
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



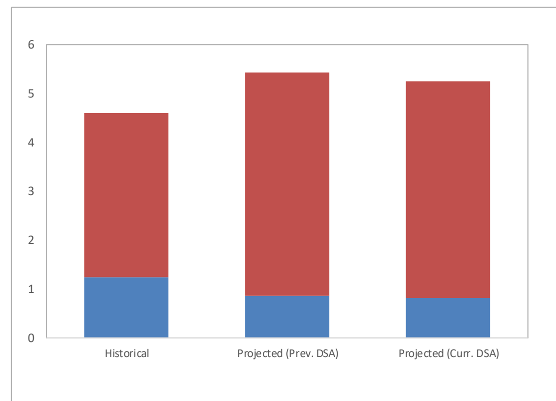
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Gov. Invest. - Prev. DSA
Gov. Invest. - Curr. DSA
Priv. Invest. - Prev. DSA
Priv. Invest. - Curr. DSA

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

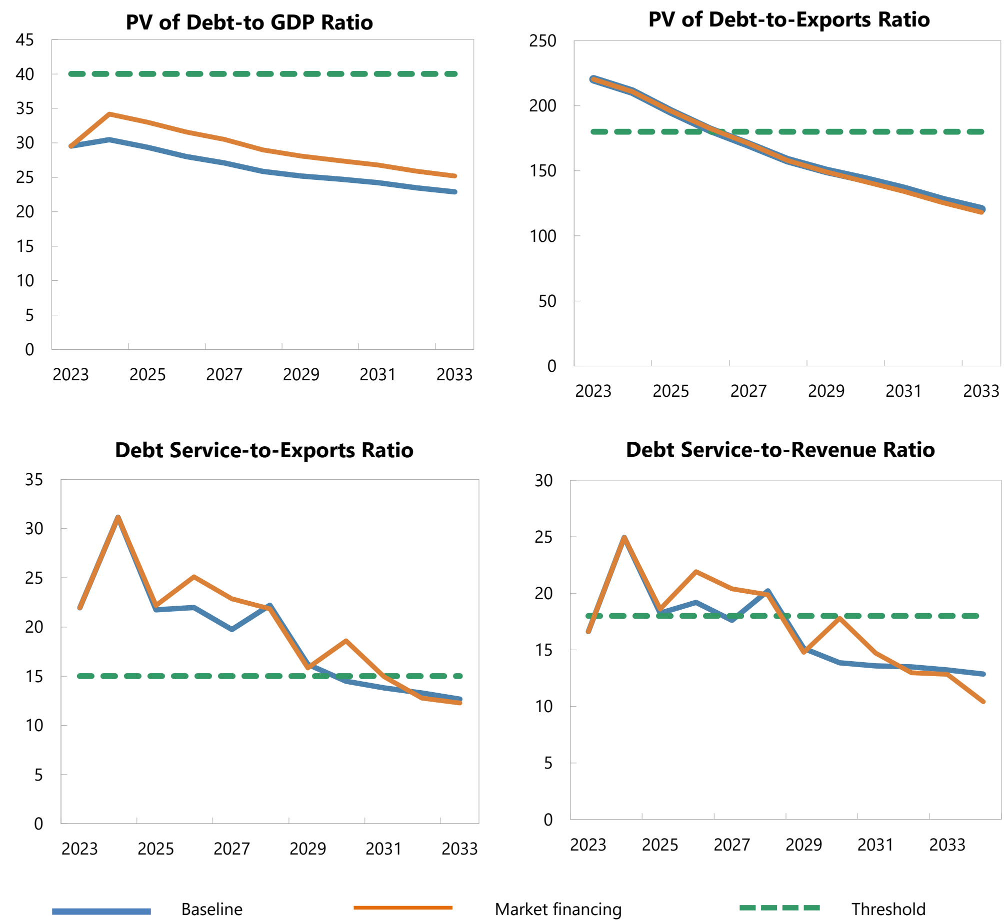


Contribution of other factors
Contribution of government capital

Figure 5. Kenya: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	779
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 the latest available data.



Sources: Country authorities; and staff estimates and projections.