



REPUBLIC OF KENYA

OFFICE OF THE DEPUTY PRIME MINISTER  
AND MINISTRY OF FINANCE

# ANNUAL PUBLIC DEBT MANAGEMENT REPORT

JULY 2007 – JUNE 2008

May 2009

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**Enquiries covering the publication should be addressed to:**

The Director  
Debt Management Department  
First Floor, Treasury Building, Harambee Avenue  
P.O. Box 30007-00100, Nairobi, Kenya  
Tel: (254) 20 2252299  
Fax: (254) 20 315294  
Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)

This publication is available at the Treasury Website at: <http://www.treasury.go.ke>

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## Foreword

This Fourth Annual Public Debt Management Report is a clear testimony of the continuing efforts by the Government of the Republic of Kenya to disseminate information on management of public resources. The Report reviews public debt developments in the year under reference, progress of reforms being undertaken and the outlook in the medium term.

The Government continues to implement prudent debt management strategies to ensure that public debt remains within the set sustainability thresholds. Anchoring medium-term fiscal policy on gradual reduction of net domestic debt to GDP ratio has served Kenya well in the past. But with the prospects of accessing the international financial markets in the near future, the Government seeks to shift the fiscal anchor from domestic debt as a ratio of GDP to total public debt (both domestic and external) as a ratio of GDP. As at 30 June 2008, Kenya's total public and publicly guaranteed debt stood at 42 percent of GDP. In the medium term, the Government plans to lower the level of public and publicly guaranteed debt to 35 percent of GDP.

To ensure the Government adheres to prudent borrowing stance, it is necessary to document the debt management strategy. With the assistance of World Bank and IMF, the preparation of Medium Term Debt Strategy (MTDS) will be prepared for consideration and approval by the Cabinet in line with best practise. The MTDS will guide Government borrowing in the medium term subject to annual updates.

To achieve the targets set in the Vision 2030, the projected funding for infrastructure is Ksh 360 billion. A large part of this will be financed through issuance of infrastructure bonds by the Government, Public Enterprises and through Public Private Partnerships (PPPs). The success achieved in the debut local infrastructure bond issued in February 2009 demonstrated the high potential in our market. The Treasury, Central Bank of Kenya, Capital Markets Authority and other stakeholders are implementing reforms to further deepen the domestic capital market, a pre-requisite for future successful Infrastructure bond issues.

Due to the global financial crisis, the Government has shelved the original plan to venture into international capital markets to issue a sovereign bond. The plan will be reviewed when global markets stabilize but in doing so, the Government takes cognizance of the high relative cost of such borrowing. Thus, the funds raised through foreign bonds will be directed to high return development projects.



**HON. UHURU KENYATTA, EGH, MP**  
DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE  
MAY 2009

# Acknowledgement

The publication of this Annual Public Debt Management Report is a demonstration that the Ministry of Finance is committed to maintaining good governance by ensuring transparency and accountability in the use of national resources. It is in interest of the Government to ensure that relevant information on public debt is available to the public.

Apart from the Annual Debt Management report, the Treasury, through the Debt Management Department, plans to enhance the level of disseminating information on public debt. Indeed, it is often reported that the public debt register is secret but the reality is that information on public debt is available in a number of official publications including the Annual Appropriation Accounts tabled in Parliament, Quarterly Budget Review, as well as Central Bank's Monthly Economic Review and Weekly Bulletin. Debt information will be simplified and made more accessible to the general public.

One of the key public debt management reforms under implementation is the establishment of a Debt Management Office at the Ministry of Finance along the best international practice. An approved establishment is now in place and staff capacity building including filling of vacant positions is on-going. To be able to retain staff, a Scheme of Service for Debt Management Officers has been prepared for consideration by the Ministry of State for Public Service.

Another important reform area being pursued is the strengthening of coordination between debt management policy and monetary policy. The Central Bank of Kenya is in charge of monetary policy and also borrows on behalf of the Government in the domestic market. To minimize potential conflict when the Bank is undertaking the two roles, an agency agreement has been prepared defining the principal - agent roles between the Ministry of Finance and the Central Bank.

I wish to recognize the role played by the Debt Management Department at the Ministry of Finance who co-coordinated the production of this report. I also appreciate the technical input on domestic debt provided by the Central Bank of Kenya and on-lent loans by the Department of Government Investments and Public Enterprises (DGIPE). I wish to express my sincere gratitude to the main team involved, namely: John Murugu (Director), Haron Sirima (Deputy Director), Charles Kairu, Felister Kivisi, Livingstone Bumbe, Dunstone Ulwodi, Stella Osoro, Racheal Njoroge, Simon Odum and Faith Njau all from the Debt Management Department, Joseph Kiarie from DGIPE and Cappitus Chironga from the Central Bank of Kenya.



**JOSEPH K. KINYUA, CBS**  
PERMANENT SECRETARY/TREASURY  
MAY 2009

# List of Abbreviations

ADB	Africa Development Bank	KSH	Kenya Shilling
ADF	African Development Fund	MEFMI	Macro Economic and Financial Management Institute of Eastern and Southern Africa
A-I-A	Appropriation in Aid	MOF	Ministry of Finance
CBK	Central Bank of Kenya	NBFI	Non Bank Financial Institution
CPIA	Country Policy and Institutional Assessment	NBK	National Bank of Kenya
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System	NPV	Net Present Value
DACC	Debt and Aid Coordination Committees	NSE	Nairobi Stock Exchange
DGIPE	Department of Government Investments and Public Enterprises	NSSF	National Social Security Fund
DMD	Debt Management Department	ODA	Official Development Assistance
DMO	Debt Management Office	PDS	Public Debt Section
DPM	Directorate of Personnel Management	PFMB	Public Financial Management Bill
DRI	Debt Relief International	PMG	Pay Master General
DSA	Debt Sustainability Analysis	PPG	Public and Publicly Guaranteed
EEC	European Economic Commission	PRGF	Poverty Reduction and Growth Facility
EIB	European Investment Bank	PV	Present Value
ERD	External Resources Department	PWC	PricewaterhouseCoopers
ERS	Economic Recovery Strategy	QBR	Quarterly Budget Review
FDI	Foreign Direct Investment	SDR	Special Drawing Rights
FLSTAP	Financial and Legal Sector Technical Assistance Project	SFX	Special/Restructuring Treasury bonds
FXD	Fixed Discounted Treasury bonds	SWAP	Sector Wide Approaches to Programmes
GDP	Gross Domestic Product	SWIFT	The Society for Worldwide Interbank Financial Telecommunication
GOK	Government of Kenya	TARDA	Tana and Athi River Development Authority
HIPC	Highly Indebted Poor Countries	TDS	Total Debt Service
IBRD	International Bank for Reconstruction and Development	TEDS	Total External Debt Service
ICT	Information Communication Technology	UK	United Kingdom
IDA	International Development Association	USA	United States of America
IMF	International Monetary Fund	USD	US Dollar
JPY	Japanese Yen	WB	World Bank
KBC	Kenya Broadcasting Corporation	ZC	Zero Coupon Rate
KERP	Kenya External Resources Policy		

# Executive Summary

The overall objective of the Government debt management policy is to meet central Government's financing need at the lowest possible long term borrowing costs with a prudent degree of risk. Additionally, it aims at facilitating Government access to financial markets as well as supporting development of a well functioning vibrant domestic market.

Kenya's public and publicly guaranteed debt increased from Ksh 805,686 million or 43.8 percent of GDP in June 2007 to Ksh 870,579 million in June 2008. During the period the proportion of total debt to GDP dropped from 43.8 percent to 41.9 percent due to a faster growth in GDP. Gross domestic debt rose from Ksh 404,690 to Ksh 430,612 million but as percentage of GDP, domestic debt decreased from 22.1 percent to 20.8 percent during the period under review. Gross external debt rose from Ksh 400,966 million to Ksh 439,967 million but declined as a proportion of GDP from 21.7 percent to 21.1 percent during the period under review.

The share of domestic debt declined from 50.5 percent to 49.5 percent while the proportion of external debt in total debt increased from 49.5 percent to 50.5 percent during the period. Thus, as at end June 2008, both domestic and external debt were almost equal with external debt being only slightly more.

Kenya's overall debt service increased from Ksh 55,177 million as at end June 2007 to Ksh 63,957 million as at end June 2008. Interest payment on domestic debt increased from Ksh 36,860 million to Ksh 42,181 million while external debt service increased from Ksh 18,317 million to Ksh 21,776 million. The increase in domestic interest payment was attributed to a higher domestic debt stock while the rise in external debt service was as a result of the expiry of the Paris Club rescheduling Consolidation Period.

Total disbursements from development partners through project cash loans and project Appropriation-in-Aid (A-in-A) increased from Ksh 11,685 million as at end June 2007 to Ksh 22,864 million as at end June 2008. Project cash loans increased from Ksh 6,848 million [or 58.6 percent of the target disbursements] to Ksh 8,190 million [or 35.8 percent of the target disbursements] during the period under review. Similarly, project A-in-A more than tripled, of from Ksh 4,837 million or [41.4 percent the targeted A-in-A] to Ksh 13,344 million or [58.4 percent of the targeted disbursements]. The Government received disbursements in program loans amounting to Ksh 1,330 million during the period under review.

Average interest rates on Treasury bills increased marginally during the fiscal year 2007/08. The 91-day Treasury bills rate increased by 99 basis points to settle at an average of 7.30 percent in 2007/08 from an average of 6.31 percent in 2006/07. Similarly, the 182-day Treasury bills rate rose by 41 basis points to average 8.07 percent from an average of 7.66 percent. The increase in the interest rate during the period was partly attributed to tightness in liquidity in the money market.

The need to manage Government on-lending effectively is now recognized as an important debt management function. Significant arrears or defaults in the on-lent portfolio can severely constrain efficient debt management, and would ultimately impact on fiscal sustainability. Establishing better institutional processes and ensuring transparency in on-lending operations and contingent liabilities are expected to contribute positively towards the management of costs and risks in Government debt. In this regard, the Ministry of Finance is making efforts to ensure on-lent loans and contingent liabilities are well managed.

The Government continued with initiatives aimed at resolving the issue of the security related loan contracts. PricewaterhouseCoopers (PWC) were retained to assist in the resolution of the dispute.

Effective debt management requires a formal debt management strategy to guide debt management operations. Currently, the debt management strategy is undocumented. In response to the need for a formal debt management strategy, the Ministry of Finance in collaboration with IMF and World Bank plans to train technical staff in the use of Medium Term



Debt Strategy (MTDS) tool to enable the staff prepare and update the MTDS annually.

The results of a Debt Sustainability Analysis (DSA) carried out in 2007/08 indicated that Kenya's debt was sustainable in the medium to long term. However, to ensure that the debt remains sustainable, the Government will continue to contract external loans on concessional terms. The Government will seek to strengthen the framework for recording and monitoring contingent liabilities due to their potential risk to public debt sustainability.

The Debt Management Department at the Ministry of Finance has implemented measures aimed at improving efficiency and transparency in public debt management. Some of these include: upgrading of Commonwealth Secretariat – Debt Recording Management System (CS-DRMS) 2000+ platform; scaling-up capacity building in debt management, improved depth, coverage and dissemination of both the Monthly Debt Bulletin and the Annual Public Debt Management Report.

The outlook in the medium term indicates that gross public debt will increase in nominal terms from Ksh 870,579 million in June 2008 to Ksh 1,028,990 million in June 2009 and rise to Ksh 1,336,132 million in June 2012. As a percent of GDP, public debt is projected to remain at 41.9 percent between June 2008 and June 2009 and decline thereafter to 39.3 percent in June 2012. This decline is attributed to prudent debt management strategy to maintain debt at sustainable levels. External debt is projected to increase from Ksh 439,967 million or 21.1 percent of GDP in June 2008 to Ksh 526,460 million or 21.4 percent of GDP in June 2009 and increase to Ksh 669,732 million or 19.7 percent of GDP in June 2012. On the other hand, domestic debt is projected to increase in nominal terms from Ksh 430,612 million or 20.8 percent of GDP in June 2008 to Ksh 502,530 or 20.5 percent of GDP in June 2009 and increase to Ksh 666,400 or 19.6 percent of GDP in June 2012.

In nominal terms overall debt service is projected to increase by almost 60 percent in the medium term, but the debt burden indicators are projected to be within sustainable levels. Total debt service is projected to increase from Ksh 63,957 million [3.1 percent of GDP] in 2007/08 to Ksh 72,954 million [2.9 percent of GDP] in 2008/09 and further rise to Ksh 100,754 million or 3.0 percent of GDP in 2011/12. Domestic interest comprises 64 percent of the projected increase, with external interest and amortization taking 12 and 24 percent respectively.

Domestic interest payments are projected to increase from Ksh 42,181 million or 2.0 percent of GDP in 2007/08 to Ksh 49,414 million or 2.0 percent of GDP in 2008/09 and rise to Ksh 64,812 million or 1.9 percent of GDP in 2011/12. During the same period, external interest payments are projected to increase from Ksh 6,052 million or 0.2 percent of GDP in 2008/09 and increase to Ksh 12,169 million or 0.4 percent of GDP in 2011/12. The relative stability of debt service ratios in the medium term is attributed to prudent debt management including policy of borrowing externally on concessional terms.

# Introduction

The [2007/08 Annual Public Debt Management Report](#) is the fourth issue covering major developments in public debt management activities, reforms and outlook for the medium term. The report covers major developments in public debt management activities in 2007/08 but in some cases updates are incorporated. The presentation is under the following chapters:

1. Financing of the Budget Deficit and Debt
2. External Debt
3. Domestic Debt
4. Publicly Guaranteed Debt
5. On-Lent Loans and Contingent Liabilities
6. Resolution of security related contracts
7. Commonwealth Secretariat -Debt Recording and Management System(CS-DRMS)
8. Debt Sustainability Analysis
9. Public Debt Management Reforms
10. Outlook for the Medium Term

### Box 1: Main Principles of Government Debt Management

1. The overall objective of Government debt management policy is to meet the Central Government's financing requirements at most optimal borrowing costs with a prudent degree of risk. It also aims at facilitating the Government's access to the financial markets as well as supporting development of a well functioning domestic financial market.
2. Consistent with the stated policy objectives, Government borrows externally on concessional terms. As a strategy for minimising borrowing costs, external loans must have a minimum grant element of 35 percent to be considered for borrowing.
3. The strategy of domestic debt issuance is reviewed on a continuous basis and agreed upon between the Treasury and CBK. To ensure transparency and credibility of Government debt policy, the annual net domestic borrowing target is announced in the Budget Speech each year in June.
4. The CBK issues Treasury bonds and Bills as determined by the Government's current revenue and expenditures. To meet temporary shortfalls in cash-flows, the Government may access the overdraft facility at the CBK up to the statutory set limit of 5 percent of the latest audited Government annual ordinary revenue.
5. The Government plans to issue project specific or infrastructure bonds to finance projects in the roads, water and energy sectors, all of which impact positively on the economy. It will also contribute to the deepening of the domestic financial markets.
6. In its continued efforts in restructuring domestic debt, the Government plans to address bond market fragmentation by implementing a well structured benchmark bond programme. This will be done through reopening benchmark bonds as well as consolidating small illiquid bonds or issues.
7. The Government may consider issuing a sovereign bond when global markets stabilize. The rationale for the bond issuance include supplementing domestic savings with external resources, diversify funding sources and provide a benchmark for corporate borrowing.
8. The Government undertakes borrowing within limits set by Parliament. Under the External Loans and Credits Act (Cap 422), the limit set in January 2009 for external debt is Ksh 800 billion. Under the Guarantee Loans Act (Cap 461), the limit for all guaranteed loans set in 1993 is Ksh 80 billion. The domestic borrowing is contracted under the Internal Loans Act (Cap 420). The Central Bank of Kenya Act (Cap 491) provides for the Government overdraft at the CBK.
9. The Minister for Finance is empowered by law to mobilise resources on behalf of the Government. However, the Permanent Secretary, Treasury has the overall responsibility over the national debt management functions which are operationalized through the Debt Management Department. The Central Bank of Kenya borrows on behalf of the Government in the domestic market under an agency agreement.
10. An important element of Government debt management is to promote transparency in its operations. To this end, the Government publishes various reports in its efforts to disseminate information to the public on debt management operations. A wide range of information is currently published in the CBK's *Monthly Economic Review* and *Weekly Bulletin*, MoFs *Annual Public Debt Management Report*, *Monthly Debt Bulletin*, *Quarterly Budget Review*, *Budget Outlook Paper* and *Budget Strategy Paper* and in the *Annual Economic Survey* published by the Kenya National Bureau of Statistics. This information may also be downloaded from the respective websites.

# 1. FINANCING OF THE BUDGET DEFICIT AND DEBT

## 1.1 Overall Financing of the Deficit

The 2007/08 Central Government budget deficit of Ksh 109.8 billion (after grants) which was 6.2 percent of GDP was to be financed through net foreign financing of Ksh 39.8 billion (1.2 percent of GDP), net privatization receipts of Ksh 36.0 billion (1.1 percent of GDP) and net domestic borrowing of Ksh 34 billion (1.0 percent of GDP). However, the revised annual budget outturn for the year shows that the deficit was financed through net foreign financing of Ksh 6.3 billion (0.3 percent of GDP), privatization proceeds of Ksh 76.3 billion (3.9 percent of GDP) and net domestic borrowing of Ksh 20.9 billion (0.6 percent of GDP) mainly through sale of Treasury bonds..

## 1.2 Overall Public Debt

In absolute terms, Kenya's public and publicly guaranteed debt increased from Ksh 805,686 million in 2006/07 to Ksh 870,579 million in 2007/08 as indicated in Table 1.1. Domestic debt rose from Ksh 404,690 million in 2006/07 to Ksh 430,612 million in 2007/08. Similarly, external debt rose from Ksh 400,966 million in 2006/07 to Ksh 439,967 million in 2007/08. However, as a proportion of GDP, overall debt declined from 43.8 percent to 41.9 percent. Domestic debt decreased from 22.1 percent to 20.8 percent while external debt decreased from 21.7 percent to 21.1 percent during the period. This trend is attributed to faster growth in GDP.

There was a reversal in the composition of public debt with the share of domestic debt reducing from 50.5 percent of total debt in June 2007 to 49.5 percent in June 2008 while the proportion of external debt in total debt increased from 49.5 percent to 50.5 percent during the period. The shift is mainly attributed to increased external disbursements.

**Table 1.1: Kenya's Public Debt Stock (Ksh Million)**

	Jun- 06	Jun-07	Jun-08	Change 2007/08
<b>EXTERNAL</b>				
Bilateral	154,877	141,706	153,201	11,495
Multilateral	255,550	240,259	268,223	27,964
Commercial Banks	1,274	574	-	(574)
Export Credit	19,536	18,427	18,543	116
<b>Sub-Total</b>	<b>431,237</b>	<b>400,966</b>	<b>439,967</b>	<b>39,001</b>
(As a % of GDP)	27.9	21.7	21.1	(0.6)
(As a % of total debt)	54.7	49.5	50.5	1.0
<b>DOMESTIC (Gross)</b>				
<b>Banks</b>	<b>190,762</b>	<b>222,985</b>	<b>225,656</b>	<b>2,671</b>
Central bank	41,289	36,182	35,548	(634)
Commercial Banks	149,473	186,802	190,108	3,306
<b>Non-banks</b>	<b>162,029</b>	<b>180,614</b>	<b>202,130</b>	<b>21,516</b>
Non-bank Financial Institutions	1,400	1,084	11,177	10,093
Other Non-bank Sources	160,629	179,530	190,953	11,423
<b>Non-residents</b>	<b>5,047</b>	<b>1,091</b>	<b>2,826</b>	<b>1,735</b>
<b>Sub-Total</b>	<b>357,839</b>	<b>404,690</b>	<b>430,612</b>	<b>25,922</b>
(As a % of GDP)	23.2	22.1	20.8	(1.3)
(As a % of total debt)	45.3	50.5	49.5	(1.0)
<b>GRAND TOTAL</b>	<b>789,076</b>	<b>805,686</b>	<b>870,579</b>	<b>64,893</b>
(As a % of GDP)	51.1	43.8	41.9	(1.9)

Source: Treasury & Central Bank of Kenya

## 1.3 Debt Service

Kenya's overall debt service increased by Ksh 8,780 million or 15.9 percent from Ksh 55,177 million in 2006/07 to Ksh 63,957 in 2007/08 as indicated in Table 1.2. During the period, interest payments on domestic debt increased from Ksh 36,860 million to Ksh 42,181 million while external debt service increased from Ksh 18,317 million to Ksh 21,776 million. The increase was attributed to a higher domestic debt stock and commencement of repayment of rescheduled debts following the expiry of Consolidation Period under the 2004 Paris Club rescheduling agreement.

The structure of debt service remained the same with external debt service increasing slightly from 33.2 percent of total debt service in 2006/07 to 34.0 percent in 2007/08 while domestic interest payments dropped marginally from 66.8 percent of total debt service to 66 percent. This composition demonstrates the relatively higher cost of domestic debt compared to external debt which is principally from official creditors.

**Table 1.2: Kenya's Public Debt Service (Ksh Million)**

	Jun- 04	Jun-05	Jun-06	Jun- 07	Jun-08	Change Jun-07-Jun-08
External Principal	20,448	10,544	9,230	13,884	15,815	1,931
External Interest	5,830	4,427	3,645	4,433	5,961	1,528
<b>TEDS</b>	<b>26,278</b>	<b>14,971</b>	<b>12,875</b>	<b>18,317</b>	<b>21,776</b>	<b>3,459</b>
TEDS as a % of TDS	53.0	39.0	29.0	33.2	34.0	0.8
<b>Domestic Interest</b>	<b>23,281</b>	<b>23,375</b>	<b>31,445</b>	<b>36,860</b>	<b>42,181</b>	<b>5,321</b>
Dom Interest as a % of TDS	47.0	61.0	71.0	66.8	66.0	(0.8)
<b>TDS</b>	<b>49,559</b>	<b>38,346</b>	<b>44,320</b>	<b>55,177</b>	<b>63,957</b>	<b>8,780</b>
Ordinary revenue	226,478	265,912	291,064	38,475	396,489	
Export earnings	159,048	209,918	228,181	261,626	298,239	
TDS as a % of revenue	21.9	14.4	15.2	16.3	16.1	
TEDS as a % of exports	16.5	7.1	5.6	7.0	7.3	

Source: Treasury and Central Bank of Kenya

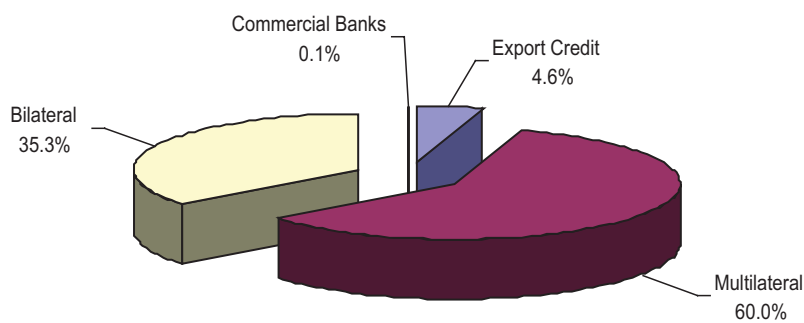
## 2. EXTERNAL DEBT

### 2.1 Overall External Debt

As shown in Table 1.1, the total external debt in Kenya Shillings terms increased from Ksh 400,966 million in June 2007 to Ksh 439,967 million in June 2008 due to increased external disbursements. Similarly, external debt expressed in US dollar terms, increased from USD 5,958 million to USD 6,330.7 million in June 2007 and June 2008 respectively, as shown in Appendix 3(a). However, as a percentage of GDP, external debt declined from 21.7 to 21.1 percent due to faster growth in GDP. Conversely, the proportion of external debt to total debt, increased from 49.5 to 50.5 percent reflecting increased net inflows.

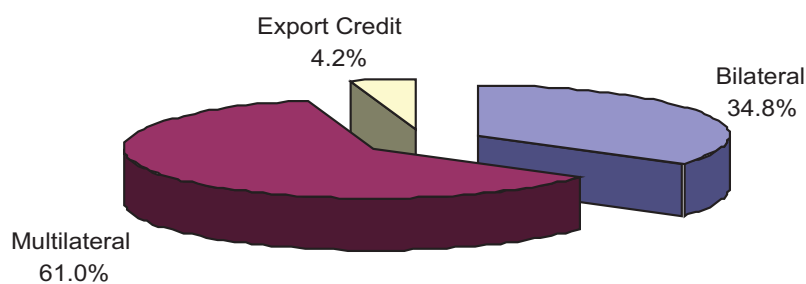
Table 1.1 shows that debt owed to multilateral creditors increased from Ksh 240,259 million to Ksh 268,223 million and the bilateral creditors component rose from Ksh 141,706 million to Ksh 153,200 million from June 2007 to June 2008 respectively. The proportion of external debt owed to multilateral creditors increased from 60.0 to 61.0 percent during the period as shown in Chart 2.1a and 2.1b. However, the share of external debt owed to bilateral creditors including debt to parastatals declined from 35.3 percent to 34.8 percent. The proportion of export credits (disputed security related debts) in US Dollar terms declined from 4.6 percent to 4.2 percent.

**Chart 2.1a: External Debt Stock by Creditor (June 2007)**



Source: Treasury

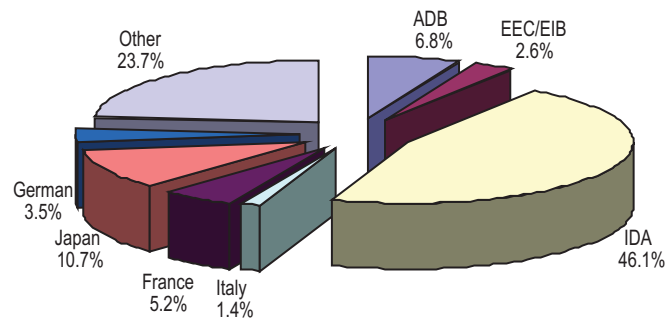
**Chart 2.1b: External Debt stock by Creditor (June 2008)**



Source: Treasury

As shown in Chart 2.2, IDA was the main multilateral creditor accounting for 46.1 percent of the overall external debt, followed by ADB with 6.8 percent and EEC/EIB with 2.6 percent. Among the major bilateral lenders were Japan, France and Germany with 10.7 percent, 5.2 percent and 3.5 percent respectively.

**Chart 2.2: External Debt by Major Creditor (June 2008)**

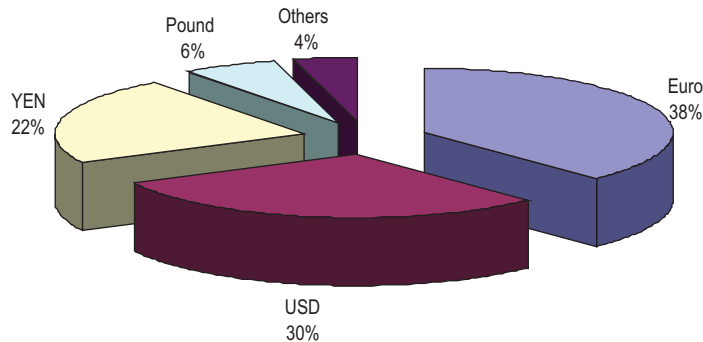


Source: Treasury

## 2.2 Currency Structure of External Debt

Chart 2.3 shows that the Euro, USD, Yen and the Sterling Pound account for 96 percent of external debt stock as at end June 2008 and the rest [4 percent] is in other currencies. Although a diverse currency structure mitigates against exchange rate risk on the country's external debt, the currency mix is not as a result of a deliberate debt management strategy but more a reflection of external loans source.

**Chart 2.3: External Debt by Currency (June 2008)**

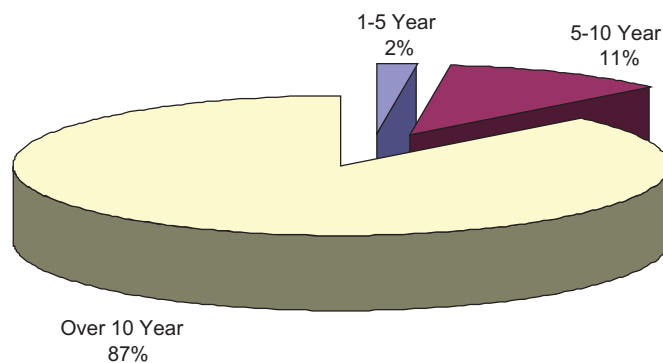


Source: Treasury

## 2.3 Maturity Structure

Overall, the country's external debt is long term with an average maturity profile of 40.3 years. As at the end of 2007/08 the proportion of debt with maturities of more than 10 years was 87 percent whereas debt with remaining maturity range of less than 10 years was 13 percent (Chart 2.4). This profile shows that a large stock of external debt is scheduled for full retirement in the distant future.

**Chart 2.4: External Debt by Remaining Maturity (June 2008)**



Source: Treasury

## 2.4 Average Terms of External Loans

Average interest rate and grace period on external loans as at the end of June 2008 was 0.8 percent and 9.3 years respectively. This profile, together with the long maturity of over 40 years yields an average grant element of 64 percent.

## 2.5 External Debt Service

Total external debt service increased by nearly 20 percent from Ksh 18,317 million in 2006/07 to Ksh 21,776 million in 2007/08 as shown in Table 2.1. Principal repayments increased from Ksh 13,884 million in June 2007 to Ksh 15,815 million while interest payments increased from Ksh 4,433 million to Ksh 5,961 million during the period. The increase is attributed to the commencement of principal repayment of 2004 Paris Club debts following the end of the Consolidation Period.

**Table 2.1: External Debt Service by Creditor (Ksh Million)**

Payments	Multilateral		Bilateral		Commercial		Total	
	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08
Principal	8,102	7,397	5,184	7,846	598	572	13,884	15,815
Interest	2,021	2,424	2,372	3,511	39	26	4,433	5,961
<b>Total</b>	<b>10,124</b>	<b>9,821</b>	<b>7,556</b>	<b>11,357</b>	<b>637</b>	<b>598</b>	<b>18,317</b>	<b>21,776</b>

Source: Treasury

## 2.6 Disbursements

Total disbursement of external loan funds more than doubled from Ksh 11,685 million in June 2007 to Ksh 22,864 million in June 2008 as shown in Table 2.2. Despite the remarkable improvement in overall disbursements and as observed in previous years, this amount was way below the annual target of Ksh 45,161 million at end June 2008. The dismal performance in disbursement of funds is due to low absorption capacity of donor funds. To enhance the absorption capacity, the Ministry of Finance has formulated strategies and an action plan in the draft *Kenya External Resources Policy* for consideration and implementation by the stakeholders.

**Table 2.2: External Loans Disbursements (Ksh Million)**

	Jun-07		Jun-08		Jun-08
	Amount	% of Total	Amount	% of Total	Target
Project cash loans	6,848	58.6	8,190	35.8	16,692
Programme Loans	0	0	1,330	5.8	5,089
Project A-I-A	4,837	41.4	13,344	58.4	23,380
<b>Total</b>	<b>11,685</b>	<b>100.0</b>	<b>22,864</b>	<b>100.0</b>	<b>45,161</b>

Source: Treasury



## 3. Domestic Debt

### 3.1 Overall Domestic Debt

Government domestic debt consists of stock of Government securities (both Treasury bills and bonds), Long term stocks, and Pre-1997 CBK advances to Government. As shown in Table 3.1, on a net basis, the outstanding stock of domestic debt rose by Ksh 25,922 million (6.4 percent growth) in 2007/08 to stand at Ksh 430,612 million in June 2008 compared to Ksh 404,690 million in June 2007. This increase was attributed to Ksh 42,990 million rise in the stock of Treasury bonds, which was partly offset by decreases of Ksh 18,129 million and Ksh 555 million in the stock of Treasury bills and the Pre-1997 CBK advances to Government respectively.

The significant rise in stock of Treasury bonds during the period is consistent with the debt management strategy to lengthen the maturity profile of domestic debt in order to minimise refinancing risk and also promote development of domestic debt securities market.

**Table 3.1: Public Domestic Debt (Ksh Million)**

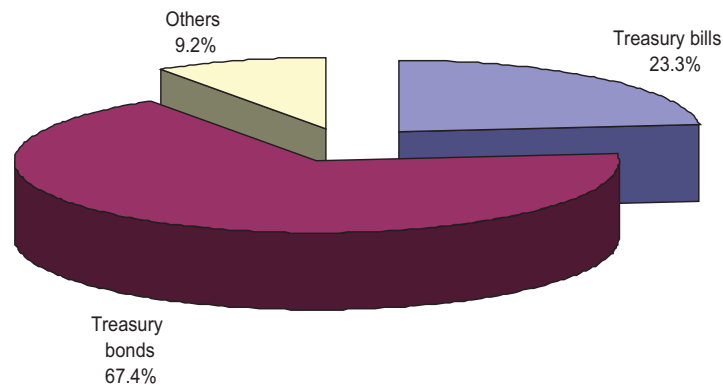
INSTRUMENT	June 2007		June 2008		Change
	Amount	%	Amount	%	
Total Stock of Domestic Debt(A+B)	404,690	100	430,612	100	25,922
A. Government Securities	402,926	99.6	426,676	99.2	24,306
1.Treasury bills(excluding Repo bills)	94,422	23.3	76,293	17.7	-18,129
Banking Institutions	45,051	11.1	28,483	6.6	-16,568
Others	49,371	12.2	47,810	11.1	-1,561
2.Treasury bonds	272,200	67.3	315,190	73.2	42,990
Banking institutions	140,685	34.8	161,625	37.6	20,940
Others	131,514	32.5	153,565	35.7	22,051
3. Long Term Stocks	755	0.2	755	0.2	0
Banking institutions	0	0	0	0	0
Others	755	0.2	755	0.2	0
4. Pre-1997 Government Overdraft	35,549	8.8	34,993	8	-555
Of which:Repo T/Bills	35,549	8.8	34,993	8	-555
B. Others:*	1,764	0.4	3,381	0.8	1,617

\*Others comprises clearing items awaiting transfer to PMG, commercial bank advances and tax reserve certificates

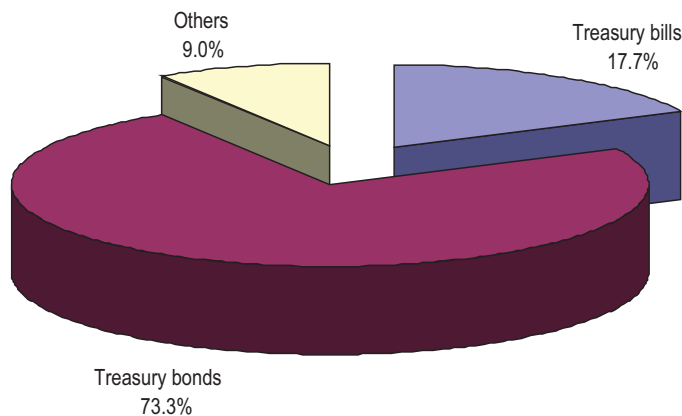
Source: Central Bank of Kenya

### 3.2 Domestic Debt by Instrument

The stock of outstanding Treasury bonds increased significantly from Ksh 272,200 million in June 2007 to Ksh 315,190 million in June 2008 while Treasury bills decreased from Ksh 94,422 million to Ksh 76,293 million over the same period as shown in Table 3.1. Consequently, the proportion of Treasury bonds in total domestic debt increased from 67.3 to 73.3 percent while Treasury bills dropped from 23.3 percent to 17.7 percent during the period as shown in Charts 3.1a and 3.1b. The proportion of other forms of domestic debt (Pre-1997 CBK advances to Government and Long term stocks) dropped from 9.4 percent to 9.0 percent due to a net payment on the Pre-1997 CBK advances to Government.

**Chart 3.1a: Domestic Debt by Instrument (June 2007)**

Source: Treasury and Central Bank of Kenya

**Chart 3.1b: Domestic Debt by Instrument (June 2008)**

Source: Treasury and Central Bank of Kenya

Consistent with debt management strategy, in June 2008 the Government launched a debut 20-year Treasury bond following successful Treasury bonds issues with maturities of more than 10 years. The purpose of lengthening maturity of domestic debt is to minimise rollover risk and reduce borrowing costs associated with short term debt. In the period under review, the ratio improved in favour of bonds to bills from 74:26 in June 2007 to 81:19 in June 2008. Indeed, reflecting successes in lengthening the maturity of domestic debt, over the past 7 years the average maturity profile of outstanding Government securities increased from 0.8 years in June 2001 to 3.9 years in June 2008. In the period under review, average maturity has increased from 3.1 to 3.9 years.

As a reflection of improved liquidity in the secondary bonds market at the Nairobi Stock Exchange (NSE), turnover rose from Ksh 62,575 million in 2006/07 to Ksh 77,376 million in 2007/08. In addition, the corporate bonds market recorded increased activity with six (6) new corporate bonds listed at the NSE.

### 3.3 Domestic Debt by Holder

Table 3.2 shows that commercial banks' holdings of domestic debt decreased from 46.2 percent in June 2007 to 44.2 percent in June 2008. In the same period, the share of domestic debt held by non-bank financial institutions increased significantly from Ksh 1,084 million to Ksh 11,177 million reflecting a widening investor base and market deepening while the share held by other non-bank investors remained relatively unchanged.

**Table 3.2: Domestic Debt by Holder (Ksh Million)**

Holder	Jun-07		Jun-08		Change
	Amount	%	Amount	%	
<b>Banks</b>	<b>222,985</b>	<b>55.1</b>	<b>225,656</b>	<b>52.4</b>	<b>2,671</b>
Central Bank	36,182	8.9	35,548	8.2	(634)
Commercial banks	186,802	46.2	190,108	44.2	3,306
<b>Non-Banks</b>	<b>180,614</b>	<b>44.6</b>	<b>202,130</b>	<b>46.9</b>	<b>21,516</b>
Non-Bank Financial Institutions	1,084	0.3	11,177	2.6	10,093
Other Non-bank Sources	179,530	44.4	190,953	44.3	11,423
Non-residents	1,091	0.3	2,826	0.7	1,735
<b>Total</b>	<b>404,690</b>	<b>100.0</b>	<b>430,612</b>	<b>100.0</b>	<b>25,922</b>

Source: Central Bank of Kenya

### 3.4 Treasury Bills and bonds by Tenor

As shown in Table 3.3, Treasury bills accounted for 19.5 percent of outstanding Government securities held as at end June 2008, a decline from 25.7 percent at end June 2007. The ratio of 91-day Treasury bills to 182-day Treasury bills remained relatively unchanged at 1:3 in the period under review indicating investor preference of 182 day Treasury Bills within the shorter end of the market.

Outstanding Treasury bonds with a maturity range of 1 year to 5 years amounted to Ksh 131,651 million or 34 percent of total Government securities debt while those with a maturity range of between 5 and 10 years stood at Ksh 136,717 million (35 percent). The Treasury Bonds with a maturity profile of 11 years and above amounted to Ksh 46,823 million (12 percent). This maturity distribution along the yield curve indicates a large concentration of Government securities holding at the short end. However, there is a gradual shift as the proportion of Treasury bonds holding in the 1- 5 year tenor decreased from 34.4 percent in June 2007 to 33.6 percent in June 2008 while the 6 – 20 year category increased from 39.9 percent to 46.9 percent during the same period. This development has greatly supported the establishment of a stable yield curve due to the lengthened maturity profile. To address the issue of liquidity in the market, in September 2007, steps were taken to introduce benchmark bonds in maturities of 2, 5, 10, 15 and 20 year Treasury bonds to create liquidity in the secondary market. Indeed, due to this initiative by end of June 2008 the stock held of the 5, 10 and 15-year Treasury bonds have shown increases during the period under review.

Table 3.3, shows that the 6-year Treasury bond continued to account for the largest share of outstanding Treasury bonds at 12.1 percent of the total stock of Government securities at end June 2008, slightly down from 13.2 percent in June 2007. The largest change in increased holding was noted in the 5 and 15 year tenors which accounted for 11 and 8 percent of the total Government securities by end of June 2008, up from 8 and 5 percent respectively in June 2007.

**Table 3.3: Outstanding Treasury bills and bonds by Tenor (Ksh Million)**

	Jun-06		Jun-07		Jun-08		Change
	Amount	%	Amount	%	Amount	%	
91-DAY	37,632	12	22,017	6	17,980	4.6	-4,037
182-DAY	57,144	18.2	72,405	19.7	58,313	14.9	-14,092
1-YEAR	1,000	0.3	8,728	2.4	13,191	3.4	4,463
2-YEAR	39,738	12.7	37,652	10.3	31,747	8.1	-5,905
3 YEAR	31,255	10	31,174	8.5	26,663	6.8	-4,511
4-YEAR	26,287	8.4	19,281	5.3	16,539	4.2	-2,742
5-YEAR	28,391	9.1	28,787	7.9	43,511	11.1	14,724
6-YEAR	33,105	10.6	48,333	13.2	47,589	12.1	-744
7-YEAR	13,566	4.3	15,884	4.3	24,154	6.2	8,270
8-YEAR	15,287	4.9	17,944	4.9	17,944	4.6	0
9-YEAR	12,615	4	12,615	3.4	12,615	3.2	0
10-YEAR	17,113	5.5	22,113	6	34,415	8.8	12,302
11-YEAR	0.0	0.0	4,031	1.1	4,031	1	0
12-YEAR	0.0	0.0	8,766	2.4	8,766	2.2	-0
15-YEAR	0.0	0.0	16,892	4.6	32,114	8.2	15,222
20-YEAR	0.0	0.0	0	0	1,912	0.5	1,912
<b>Total</b>	<b>313,134</b>	<b>100</b>	<b>366,622</b>	<b>100</b>	<b>391,484</b>	<b>100</b>	<b>24,862</b>

Source: Central Bank of Kenya

Note: 91-Day and 182-Day instruments are Treasury bills while the rest are Treasury bonds.

### 3.5 Treasury Bills

As shown in Table 3.4, the stock of Treasury bills declined from Ksh 94,882 million in June 2007 to Ksh 76,293 million in June 2008. The amount of Treasury bills held by commercial banks declined from Ksh 45,051 million (47.5 percent of total) in June 2007 to Ksh 28,483 million (37.3 percent) in June 2008. Insurance companies and pensions funds scaled up their holdings from Kshs.13,673 million (14.4 percent) to Ksh 32,389 million (42.5 percent) during the period under review.

**Table 3.4: Outstanding Treasury bills (Ksh Million)**

Holders	June 2007		Jun-08	
	Amount	%	Amount	%
Banking Institutions	45,051	47.5	28,483	37.3
Central Bank	0	0	0	0
Commercial Banks	45,051	47.5	28,483	37.3
NBFIs	227	0.6	1,072	1.4
Insurance companies	13,453	14.2	15,759	20.7
Parastatals	9,026	9.5	1,853	2.4
Building societies	638	0.7	0	0
Pensions Funds (including NSSF)	58	0.2	16,630	21.8
Others	25,969	27.4	12,496	16.4
<b>Total *</b>	<b>94,422</b>	<b>100</b>	<b>76,293</b>	<b>100</b>

\*Excludes repurchase order bills

Source: Central Bank of Kenya

### 3.6 Treasury Bonds

Outstanding Treasury bonds increased from Ksh 272,200 million in June 2007 to Ksh 315,190 million in June 2008 as observed in Table 3.5. Holdings by pension funds, parastatals and building societies recorded declines of 11.5, 1.7 and 4.4 percentage points respectively while holdings by both commercial banks and insurance companies remained relatively unchanged at 51 percent and 10 percent of the total holdings respectively. Holdings in the ‘other’ category which includes individual investors recorded a significant increase of 18.8 percent.

**Table 3.5: Outstanding Treasury bonds (Ksh Million)**

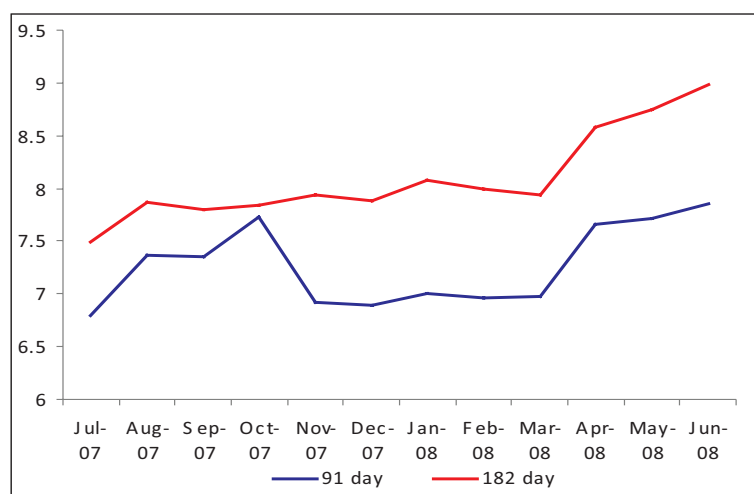
Holders	June 2007		Jun-08	
	Amount	%	Amount	%
Banking Institutions	140,685	51.7	161,096	51.1
Central Bank	0.0	0.0	0.0	0
Commercial Banks	140,685	51.7	161,096	51.1
NBFIs	857	0.3	745	0.2
Insurance companies	27,500	10.1	31,941	10.1
Parastatals	20,421	7.5	18,225	5.8
	1286	0.5		
Building societies	12,730	4.7	895	0.3
Pensions Funds (including NSSF)	68,721	25.2	43,059	13.7
Others	-	-	59,230	18.8
<b>Total</b>	<b>272,200</b>	<b>100.00</b>	<b>315,190</b>	<b>100.00</b>

Source: Central Bank of Kenya

### 3.7 Average Interest Rates on Government Securities

Average interest rates on the 91-day Treasury bills act as benchmark rates in the money markets. Any movement of these rates causes adjustments on both commercial banks’ deposit and lending rates, pricing of tradable debt securities and structure of investment portfolio. Average interest on 91-day Treasury bills rose steadily by 106 basis points from 6.797% in June 2007 to 7.854% in June 2008. Similarly, average rate for the 182-day Treasury bills rose by 149 basis points to average 8.981 percent from an average of 7.495 percent during the period [Chart 3.2]. This is mainly attributed to tight liquidity witnessed during the Safaricom IPO announcement. The increase in the interest rates during the period was partly attributed to shortage of liquidity in the market

**Chart 3.2: Interest Rates Trend on Treasury bills (July 2007 - June 2008)**



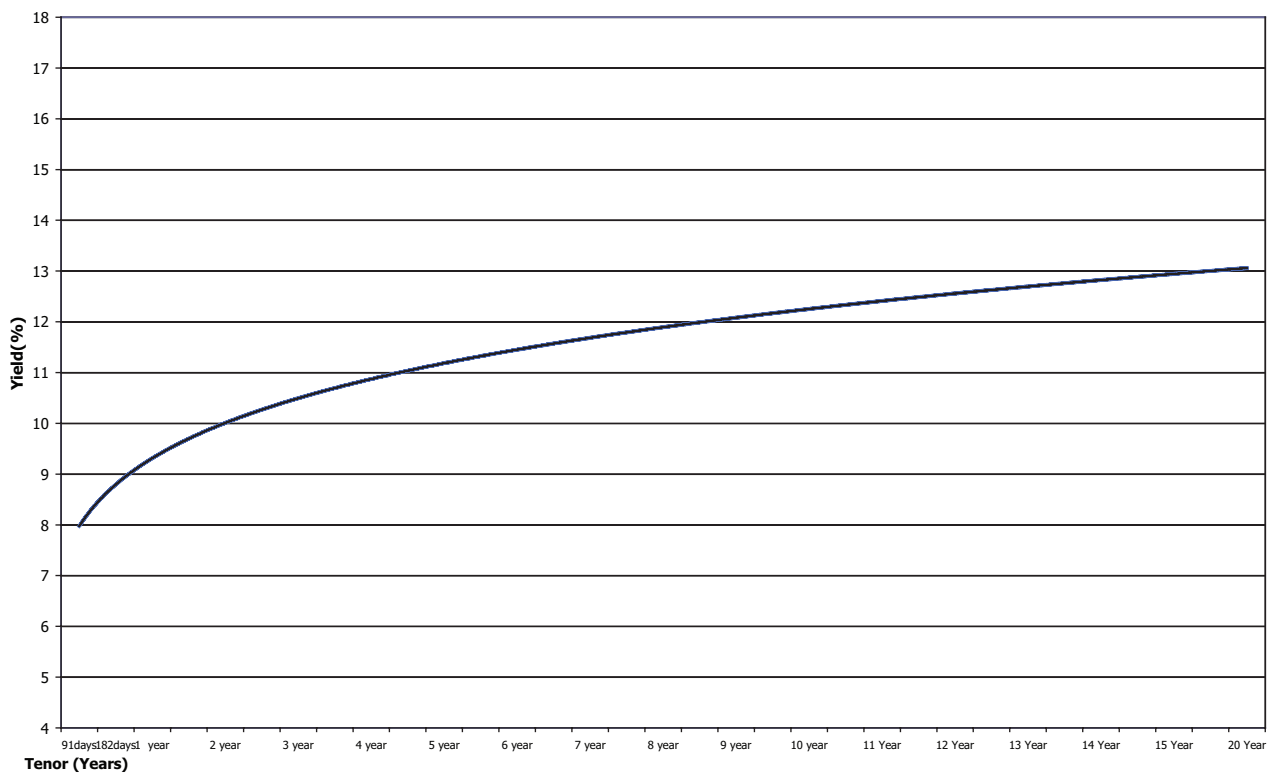
Source: Central Bank of Kenya

### 3.8 Government Securities Yield Curve

As shown in Chart 3.3, the Government securities trading yield curve shows a normal ascending shape indicating that the yields rise with longer maturities. The key development during the year was the extension of the yield curve to incorporate the 20-year bond which was issued in June 2008. The issuance was beneficial to the Pension and Insurance sectors of the economy to assist them to match long term liabilities with long term assets.

The development of the yield curve has also been boosted by implementation of a predictable Government domestic borrowing programme and increased participation by a wider investor base in the Government securities market. This development is also attributed to the continued domestic borrowing mainly through Treasury bonds which has resulted to lower amounts of Treasury bills rollovers. Short term debt held in Treasury bills is associated with frequent rollovers that could trigger sudden increases in interest rates.

**Chart 3.3: Government of Kenya Securities Yield Curve (June 2008)**



Source: Central Bank of Kenya

### 3.9 Domestic Interest Payments

As shown in Table 3.6, interest payments on domestic debt increased from Ksh 36,860 million in 2006/07 to Ksh 42,181 million in 2007/08. However, as a proportion of GDP, the interest payments remain relatively unchanged at 2.0 percent of GDP during the period under review due to higher GDP growth rate.

The ratio of domestic interest payments to domestic revenue, expenditure and as a percentage of total interest payments (domestic and external) also declined over the period.

**Table 3.6: Domestic Interest Payments and Ratios**

Type of Debt	Interest (Ksh. Mn)		Percentage Change
	2006/2007	2007/2008	
Treasury bills	6,958	8,631	24.0
Treasury bonds	23,106	26,047	12.7
CBK Commission	3,000	3,000	0.0
Pre- 1997 loan	1,055	1,055	0.0
Others	2,741	3,448	25.8
<b>Total</b>	<b>36,860</b>	<b>42,181</b>	<b>14.4</b>
Ratios (%)			
Domestic interest/Revenue	9.9	9.8	(0.1)
Domestic interest/expenditure	9.1	7.9	(1.2)
Domestic interest/GDP	2.1	2.1	-
Domestic interest/Total Interest	89.1	87.6	(1.5)

Source: Treasury and Central Bank of Kenya

## 4. PUBLICLY GUARANTEED DEBT

### 4.1 Legal Framework

Publicly guaranteed debt refers to the debt owed by the country's public entities to both foreign and local creditors and contracted under the Guarantee (Loans) Act, Cap 461. Such debt may be in Kenya shillings or in foreign currency.

The Guarantee (Loans) Act governs the issuance of Government guarantees to public entities. It outlines the procedure of issuing Government guarantees and provides for the review of the overall statutory borrowing ceiling which currently stands at Ksh 80 billion. To ensure prudent borrowing and minimise contingent liabilities to Central Government, public enterprise are required to seek prior authority from their parent ministries and the Treasury to contract new loans.

**Table 4.1: Publicly guaranteed debts (Ksh Million)**

	Organization	Year loan contracted	Obligation Guaranteed	Creditor	Loan Balance	
					June 07	June 08
1	Nairobi City Council	1985	Umoja II Housing project	USA	452.60	384.93
2	Telkom Kenya	1988 & 1990	Purchase of Equipment	Italy & Canada	815.80	506.07
3	Tana & Athi River Dev. Co.	1990	Tana Delta irrigation project	Japan	2,060.00	2,154.10
4	East African Portland Cement	1990	Cement Plant Rehabilitation	Japan	2,560.80	2,677.70
5	KenGen Ltd	2007	Sondu Miriu/Sangoro power project	Japan	12,431.20	14,401.34
6	Kenya Broadcasting Corporation	1989	KBC modernization	Japan	4,873.90	5,291.20
7	Kenya Farmers Association (KFA)	2005	Revival of KFA	GoK	unutilized	unutilized
<b>Total</b>					<b>23,194.30</b>	<b>25,415.34</b>

Source: Treasury

### 4.2 Stock of Guaranteed Debt

As shown in Table 4.1, during the fiscal year under review, outstanding Government guaranteed debt increased from Ksh 23,194 million in June 2007 to Ksh 25,415 million in June 2008. The increase in Government guaranteed debt was attributed to the depreciation of Kenya shilling against foreign currencies, mainly the Japanese Yen. The revival of Kenya Farmers Association was faced with challenges and hence the guarantee of Ksh 2 billion has not been utilized.

**Table 4.2: Payments by the Government on Guaranteed Debt in 2007/08 (Ksh Million)**

Borrower	Quarter I		Quarter II		Quarter III		Quarter IV		Cumulative June 2008*	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
NCC	44.4	43.0	-	-	43.3	-	-	-	87.7	43.0
TARDA	117.1	114.9	-	-	115.6	130.9	-	-	232.7	245.8
KBC	-	-	293.8	274.2	-	-	290.9	294.5	584.7	566.7
TELKOM	-	-	167.2	181.7	-	178.6	166.6	-	333.8	360.3
<b>TOTAL</b>	<b>161.5</b>	<b>157.9</b>	<b>461.0</b>	<b>455.9</b>	<b>158.9</b>	<b>309.5</b>	<b>457.5</b>	<b>294.5</b>	<b>1,238.9</b>	<b>1,215.8</b>

Source: Treasury



### 4.3 Payments by the Government on Publicly Guaranteed Debt

As a guarantor, the Government on various occasions has stepped in to service debts on behalf of some public enterprises in financial distress. As shown in Table 4.2, during the period under review the Government spent Ksh 1,215.8 million to service guaranteed debts owed by the Nairobi City Council, Tana and Athi River Development Authority [TARDA,] Kenya Broadcasting Corporation [KBC] and Telkom (K) Ltd.

In the period between 1991 to June 2008, the net cumulative repayments of guaranteed debt by the Government on behalf of public enterprises amounted to Ksh 18,133.6 million. The top three net debtors to central Government under publicly guaranteed debt are Nzoia Sugar Co. Ltd, Nairobi City Council, Kenya Broadcasting Corporation and TARDA which owe, in aggregate 85 percent of the total. (Table 4.3).

**Table 4.3: Cumulative GoK Payments of Guaranteed Debt in Ksh Million (1991 - 2007/08)**

PARASTATAL	PRINCIPAL	INTEREST	TOTAL	REIMBURSEMENT TO GOK BY PARASTATALS	BALANCE
KENGEN	1,487.4	1,156.5	2,643.9	2,609.7	34.1
Tana & Athi River Development Authority (TARDA)	727.1	713.4	1,440.5	0.3	1,440.8
TARDA ( Loan taken over by KENGEN)	1,001.3	1,154.3	2,155.6	2,148.4	7.2
Kenya Posts And Telecommunication Corp.	675.8	691.5	1,367.3	1,080.7	286.6
Kenya Railways	1,151.0	203.9	1,354.9	715.1	639.8
Nzoia Sugar Co.	4,605.8	1,523.5	6,129.2	1.5	6,127.7
Nairobi City Council	1,598.1	2,120.6	3,718.7	124.7	3,593.9
National Housing Corporation	9.2	42.4	51.5	31.9	19.7
East African Sugar Industries (Muhoroni )	226.7	75.8	302.5	0.0	302.5
Kenya Broadcasting Corporation	2,075.7	2,263.0	4,338.7	44.0	4,294.7
South Nyanza Sugar Company	53.3	2.7	56.0	80.6	NIL
Development Finance Company Of Kenya	92.4	39.9	132.3	45.0	87.3
Kenya Ports Authority	89.6	19.1	108.7	109.5	NIL
Indust.& Com.Dev.Corporation	484.9	181.4	666.2	0.0	666.2
Kenya Fibre Corporation	0.0	14.7	14.7	0.0	14.7
Agricultural Dev. Corporation	106.7	72.9	179.6	0.0	179.6
Telkom(K) Ltd	580.6	87.1	667.7	0.0	667.7
Agro Chemical And Food Company	540.2	41.7	581.9	785.0	NIL
<b>Total Ksh</b>	<b>15,505.8</b>	<b>10,404.4</b>	<b>25,910.2</b>	<b>7,776.4</b>	<b>18,133.8</b>

Source: Treasury

## 5. ON-LENT LOANS AND CONTINGENT LIABILITIES

### 5.1 Background

The need to manage Government on-lending effectively is now recognized as an important debt management function. Significant arrears or defaults in the on-lent portfolio can severely constrain efficient debt management, and would ultimately impact on fiscal sustainability. Establishing better institutional processes and ensuring transparency in on-lending operations are expected to contribute positively towards the management of costs and risks in Government debt. Up to mid 1990s, the management of loans extended to parastatals by Government was the responsibility of the respective accounting officers of the various line Ministries. In most cases, the loan records maintained by the Ministries were poor and were not uniform.

The Department of Government Investments and Public Enterprises (DGIPE) of the Ministry of Finance took over the loans records during the financial year 1994/95 and designed a standard ledger card for capturing the loan accounts. In an attempt to automate loan records, the Commonwealth Secretariat Debt Recording Management System (CS-DRMS) data base was installed in 1988 in DGIPE. CS-DRMS is basically an external and domestic debt management package. It has however been adopted by DGIPE to manage on-lent and direct loans. To date the manual ledgers and CS-DRMS, exist side by side.

### 5.2 Current loan portfolio

The loan portfolio under DGIPE currently consists of seven hundred loan accounts distributed among sixty different organizations. As at the end of 2007/08 financial year, the outstanding loans with accrued interest amounted to about Ksh. 70 billion, out of which only 10 percent is performing. Some of the loans are over 50 years old with remote prospects of recovery. Most of the non-performing loans are due to liquidity problems being experienced by the borrowers.

As at 30th June 2008 DGIPE reported outstanding loans and arrears of Ksh 28.8 billion and Ksh 11.4 billion respectively. Interest arrears amounted to Ksh 28.2 billion. The loans are spread across almost all sectors of the economy as shown in table 5.2.1

**Table 5.2.1: Status of on-lent loans portfolio**

Ministry/Sector	Status as at 30th June 2008 (Ksh )			
	Outstanding loans	Arrears	Accrued interest	Total
Energy	11,900,186,721	443,848,975	493,111,396	12,837,147,091
Local Government	7,634,929,860	4,843,795,834	10,715,613,715	23194389,409
Transport	2,967,931,485	2,405,674,951	12,989,332,887	18,362,939,323
Agriculture	2,337,004,026	3,195,337,487	3,058,483,781	8,590,825,295
Water and Irrigation	1,832,167,587		642,360	183,2809,946
Finance	534,155,994			534,155,949
Environment & Natural Resources	593,013,580	399,876,600	909,091,204	1,901,981,384
Trade	521,196,347	128,810,779	3,298,675	653,305,501
Others*	243,622,329	449,688,972	12,243,809,050	13,203,727,203
<b>Total</b>	<b>28,852,257,883</b>	<b>11,426,485,420</b>	<b>28,196,845,114</b>	<b>68,475,588,419</b>

\*Others include: Education, Lands and settlement, Environment and Tourism

A number of loans particularly those relating to the energy, transport, communications and agriculture sectors covering Kengen, KPLC, Kenya Railways Corporation, Kenya Posts and Telecommunications, Telkom, Agricultural Finance

Corporation, Nyayo Tea Zone Development Corporation, Industrial Development Bank, Co-operative Bank of Kenya and National Housing Corporation have been restructured through write-offs and conversion to equity. This has significantly reduced the loan stock level by state corporations.

As shown in table 5.2.2, during the financial year 2007/08, principal repayments of Ksh 472,433,521.55 were collected against a projection of Ksh 628,000,000.00. Over the same period, Ksh 371,254,013.70 was collected as interest receipts against a projection of Ksh 635,000,000. In both cases, there was a shortfall of about 30 percent.

**Table 5.2.2: Principal and loan interest receipts in 2007/08**

ORGANIZATION	Principal Payment Receipts 2007/2008(Ksh)	Interest Receipts 2007/2008 (Ksh.)	Totals
Agro-chemical & food Co.	-	150,000,000	150,000,000
Kenya Power & Lighting Company Ltd	181,764,209	89,052,220	270,816,430
East African Portland Cement	18,304,894	65,952,109	84,257,004
Industrial & Comm. Dev. Corporation	-	10,000,000	10,000,000
Agricultural Settlement Fund & Central Land Board	1,837,760	1,307,646	3,145,406
Kenya Tourist Dev. Corporation	-	4,080,000	4,080,000
Kenya Electricity Generating Company	9,526,657	18,809,480	28,336,137
Maseno University	250,000,000	8,140,625	258,140,625
New Kenya Co-operative Creameries	11,000,000	3,819,444	14,819,444
Kenya Airports Authority	-	15,463,973	15,463,973
Kenya Civil Aviation Authority	-	4,628,514	4,628,514
<b>TOTAL RECEIPTS</b>	<b>472,433,520</b>	<b>371,254,012</b>	<b>843,687,532</b>

### 5.3 Loan recording systems in DGIPE

DGIPE has two parallel systems for handling on-lent loans. In November 2005, with the assistance of the Commonwealth Secretariat (ComSec) DGIPE acquired a new server and an updated CS-DRMS module to replace the earlier one (installed in 1988) which had experienced technical problems in 2001. The module has been tested using on-lent loans data and has been noted to be effective in data capturing and processing functions but has certain limitations which do not fully address lending management requirements. These shortcomings have been communicated to ComSec. In response, ComSec organized a workshop which had two important objectives, (i) to sensitize the participants on the importance of on-lending as an integral part of Government debt management, and (ii) to identify the requirements for improving CS-DRMS 2000+ for recording and reporting on-lent loans.

The workshop shed light on functionalities that need to be incorporated into CS-DRMS to better cater for Government on-lending. A set of core functionalities for first phase implementation, and another group of essentially analytical tools (e.g. loan pricing, risk management) for subsequent implementation. In view of adopting a holistic development approach and setting the foundation for the appropriate system architecture, study of user needs will take into account both sets of functionalities at varying degrees of details. Development will however follow a phased approach depending on the priority of the functions along with the availability of detailed information for their implementation. The two parallel systems will therefore run concurrently until a comprehensive computerized database is in place which addresses the loans administration fully after which the manual system will be phased out.

### 5.4 Loan Management and Reporting

The loan administration function falls under the Finance Division of DGIPE. The division is among other things, responsible for the preparation of subsidiary loan agreements, maintenance of the loan ledgers and CS-DRMS, requesting for budgetary

allocation for direct loans, disbursement of direct loans, and recovery of the loans with the corresponding interest and the preparation of the requisite financial statements.

Pursuant to Government Financial Regulations, at the end of every financial year, DGIPE prepares and submits to the Kenya National Audit Office (KNAO), for audit purposes, statements relating to the outstanding loans and accrued interest, and the repayments made to the Government. (Currently, loan reports for management use are often prepared in an ad-hoc manner. However, there are plans in progress to prepare quarterly and semi-annual loan status reports).

## 5.5 Capacity for the loans administration

The DGIPE and by extension its Finance Division is understaffed and generally has low level of technical skills to handle debt management. Lack of an effective ICT system within DGIPE exacerbates the loans administration capacity in the department. As already noted CS-DRMS is designed for external and domestic debt management and not on-lending; it has only been adopted to handle this function within DGIPE. The system therefore has limitations in the management of on-lent loans, including inability to generate various reports necessary for proper loan management. The system is also not yet integrated with the other systems within Treasury.

## 5.6 Review of the DGIPE loans systems and challenges

Reviews by Macro-Economic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and ComSec in July and November 2005 respectively have rated the implementation and application of CS-DRMS within DGIPE as satisfactory. In addition, a systems audit carried out by the Internal Audit Department in 2007 assisted to identify the inherent gaps of the DGIPE loans system which have been addressed over time.

However, there are challenges still facing this important on-lending function as outlined here below:

- Lack of supporting records for the old loans inherited from the line ministries in 1994/95. This state of affairs undermines proof of debts and their recovery. Examples are some loans reportedly lent to ICDC in the 1950s and 1980s;
- The CS-DRMS on-lending module cannot produce reports in the format required for statutory reporting and other internal use;
- Failure by some borrowers to service their loans due to financial difficulties occasioned by poor performance or some institutions having been placed under receivership.
- Inadequate staff capacity;
- Poor records maintained by state corporations;
- Unfavorable economic conditions: Foreign exchange volatility, worldwide recession, poor commodity prices, competition with cheap imports, and high oil prices often affect the domestic economy and hence the general performance of state corporations; and
- Poor information flow within Government ministries and departments, borrowing organizations and development partners.

## 5.7 Contingent Liabilities

To the extent that Government owns, directly subsidizes, lends or in some cases, guarantees loans to state corporations, performance of the corporations has an implicit fiscal bearing on the Treasury. It is in this regard that Government retained Deloitte Consortium in 2007 to carry out a comprehensive financial review/study to identify state corporations related contingent liabilities on behalf of the Ministry of Finance. Twenty five state corporations were identified for the initial study in expectation that the same would be done for the remaining corporations later. The consultant has submitted draft reports and DGIPE technical team reviewed them. The team found the reports to be wanting and incomplete. The consultants have therefore been requested to improve them. Until the exercise is concluded then the level of contingent liabilities remains largely unknown.

## 5.8 Way forward

- To address the data management related challenges, in 2006 the Ministry of Finance hired M/s Delloite Consulting Ltd to review operations within DGIPE and external linkages, and to identify and implement an Integrated Information and Communication System to improve the efficiency of the department. It is expected that the System will be installed and commissioned by 3rd quarter of Fiscal year 2009/10. Currently, there is close collaboration with ComSec for continuous support and improvement of the current system.
- With regard to staff related challenges within the department, there are plans in progress to hire adequate number of staff and to upscale the skills of its staff to fill the existing gaps.
- There is need for continued reforms within the parastatals sub-sector in order to ensure recruitment of professional management and boards and to inculcate good corporate governance as a means of institutionalizing proper financial discipline in the respective corporations. This will ensure among other things, proper utilization of on-lent funds and consequently the prompt settlement of the Government loans.
- Non-performing loans are being reviewed and specific recommendations made for appropriate action.
- On-going work by ComSec is meant to address integration of the on-lending module with IFMIS.
- The on-going collaborative initiatives to improve public debt management which entails among other things information sharing among the different stakeholders, will be strengthened.

## 6. RESOLUTION OF SECURITY RELATED LOAN CONTRACTS

### 6.1 Background

In August 2004, following the Anglo-leasing saga, the Treasury requested the Controller and Auditor General to carry out a special audit of 18 security related loan contracts. The purpose of the audit was to determine the amount of credit extended, the quantum of disbursements received in form of works, goods and services and the outstanding payments due to creditors. In the meantime, the Government stopped all payments under the contracts pending completion of the audit by Controller and Auditor General. In February 2005, the Kenya Anti-corruption Authority (KACC) began investigations on these contracts.

The Audit Report was tabled in Parliament in May 2006. The findings indicated that procurement laws and regulations were violated in the contracting process; that the projects were overpriced and in most cases, no credit was extended by the creditors. The Special Audit Report recommended that professional valuation of works, goods and services be carried out to determine value for money.

In January 2007, the Ministry of Finance contracted PricewaterhouseCoopers (PwC) to conduct forensic audit and valuation. PwC submitted the forensic audit and valuation report on 31st July 2007. The PwC report established that those contracts were procured in an irregular manner and that the pricing, financing, and other terms of the contract do not reflect what should have been obtained had these been arms length commercial transactions. Investigations established that there was:

- Substantive overpricing
- Financing charged in excess of financing that was needed
- Under-delivery of supplies provided under the contracts
- Serious contraventions of Kenya public expenditure law
- Circumstantial evidence that these contracts were corruptly procured

### 6.2 Current Status

The Ministry of Finance subsequently submitted the PwC Report to KACC and the Attorney General to assist in investigations and prosecution respectively. There have been legal complications and effective coordination has been wanting among the Government agencies involved thus making progress in resolving this complex matter rather slow.

As at the time of printing this report in May 2009, the status of the 18 contracts which have contract value Ksh 54.6 billion, was as follows:

1. Three (3) contracts with contract value Ksh 6.8 billion were completed and Government fully paid the creditors.
2. With respect to four (4) contracts with contract value of Ksh 17.7 billion all the funds that had been paid by GoK amounting to Ksh 1 billion were refunded.
3. The creditors took legal action in four (4) contracts with contract value of Ksh 10.9 billion. In response:
  - GoK engaged reputable international law firms to represent its interest in this matter taking place in UK, Hague and Switzerland.
  - In two (2) of the contracts, creditors and Government have sought leave from Arbitration Tribunal to seek negotiated settlement on the basis of fair Value.
4. In seven (7) contracts with value Ksh 19.2 billion, the Government has partially paid for them and they are partially delivered. Government is seeking completion of projects, settlement and/or recovery of funds on the basis of value received.

As a precautionary measure, the Government sought to eliminate financial risk exposure on Promissory Notes issued under seven (7) contracts. The Minister for Finance, in consultation with the Attorney General, issued a Caveat Emptor in December 2007 informing all parties that the underlying contracts were fraudulent and hence the Promissory Notes were illegal and the Government would not honour them. The Caveat Emptor was circulated to banks worldwide through SWIFT and placed in the local dailies.

Arising from the indepth knowledge obtained by PwC in these contracts, the Government has retained the firm to provide technical advice in the resolution of the contracts as well as expert witness services.

# 7. COMMONWEALTH SECRETARIAT DEBT RECORDING AND MANAGEMENT SYSTEM (CS – DRMS)

## 7.1 Introduction

A prerequisite for effective public debt management is the development and maintenance of a comprehensive accurate and reliable debt database. In 1987, the Government installed the Commonwealth Secretariat Debt Recording Management System (CS-DRMS) developed by the Commonwealth Secretariat, at the Ministry of Finance. CS-DRMS is a computer software programme designed to provide borrowers with comprehensive information management system for the effective recording, administration and analysis of their debt portfolio.

## 7.2 Background to the CS-DRMS software development

The Commonwealth Secretariat began developing CS-DRMS in 1983 as a tool for public debt management in Member countries. The first version of the CS-DRMS software, developed in MS-DOS, was introduced in Sri Lanka in 1985. Since then, the software has grown in use to over 75 sites in more than 50 countries (both Commonwealth and non-Commonwealth), helping Governments plan and manage their borrowings. The software is available in both English and French.

To cope with new user requirements, the scope of the CS-DRMS software has evolved over the years, undergoing a series of enhancements in terms of increased functionality to take into account developments in debt management (including creditor practices) and user requirements. The technological platform on which the software is offered has also evolved. In 1988 the CS-DRMS software was ported from DOS to SCO-UNIX. In 1996 the first version of CS-DRMS accessible through a Windows environment was introduced, followed by an updated version in 1999. These versions allowed the CS-DRMS user access to the databases through Windows screens, but the main operating environment remained UNIX. CS-DRMS 2000+ was officially launched in October 2001. It involved a complete re-write of the system in a client-server architecture under the Windows environment.

## 7.3 Implementation of CS-DRMS in Kenya

Kenya was among the first Commonwealth countries in Africa to use the CS-DRMS. In June 2006, CS DRMS 2000+ was installed in three (3) sites at the Ministry of Finance and one site at the Central Bank of Kenya. Each site handles different categories of public debt: The external debt and on-lent loans databases are situated at the DMD and DGIPE at the ministry respectively while the domestic debt database is at the Central Bank of Kenya. The ultimate goal is to avail all the three databases on-line on the same software platform.

CS-DRMS 2000+ (Version 1.3) is the latest version of the software. It is the result of a software development project aimed at enhancing the system's capabilities for accurate debt recording, analysis and reporting in order to meet the current needs of debt managers.

The CS-DRMS 2000+ software comprises a number of inter-related modules:

- A comprehensive External Debt module that serves as a convenient repository of both public and private sector debt;
- A Domestic Debt module with enhanced capabilities to record and maintain a diversified range of domestic debt instruments used by Governments;
- A Management Tools module to assist debt managers in undertaking detailed debt analysis;
- An integrated Reporting facility flexible enough to satisfy a variety of users of debt information;
- Data Export links, that allow transfer of debt data to other systems such as Budget and Treasury (IFMIS) systems, third party Debt Sustainability Analysis software such as Debt Pro and the World Bank Debt Strategy Module (DSM+) as well as the World Bank's Data Reporting System (DRS)



- Enhanced Securities Auction System which is designed to assist issuers in conducting primary auctions for Treasury bills and bonds.
- An On-lending module, to assist Governments in managing on-lending loans to public corporations and the private sector, is currently under development.

## 7.4 Impact of CS-DRMS

Since the installation of CS-DRMS and subsequent migration from version 7.2 to 2000+ Version 1.3, improved operational efficiency has been noted in public debt management, in particular:-

- Improved quality in both accuracy and reliability of debt statistics
- Timely payment of external debt obligations
- Production of quality analytical reports
- Improved debt data sharing and dissemination

## 8. DEBT SUSTAINABILITY ANALYSIS

### 8.1 Debt Sustainability

Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth (UNCTAD/UNDP, 1996).

Debt sustainability consists of two parts, external and fiscal sustainability. External debt sustainability covers debt to the Central Government (including parastatals with Government guarantee), the Central Bank and the private sector borrowing. Fiscal sustainability covers both external and domestic debt.

Debt sustainability is assessed based on debt stock and debt service relative to measures of repayment capacity. Debt stock indicators provide a useful measure of the total future debt-service burden of existing debt. Net Present Value (NPV) of debt is preferred as a better measure of stock of debt than the nominal value of debt which doesn't reveal the extent of concessionality. NPV of debt ratios measure the burden of future obligations and thus reflect long-term solvency of a country, while debt-service ratios indicators provide a measure of the immediate burden that debt imposes on a country by crowding out other uses of scarce resources. The time path of debt-service ratios provides an indication of the likelihood and possible timing of liquidity problems. Debt repayment capacity is measured as a proportion of GDP, exports of goods and services, or Government revenues.

### 8.2 External Debt Sustainability

External debt sustainability refers to the ability of a country to meet the current and future external obligations of both public and private sectors without running into arrears, recourse to debt rescheduling and eventually a drastic balance-of-payments adjustment.

External debt sustainability analysis is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behavior of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties and policy uncertainties tend to dominate the medium-term outlook. It is imperative to note that DSA is based on the assumptions of the current and projected economic situations which rely on the available economic data.

### 8.3 Indicators of External Debt Sustainability

A number of indicators are used for determining the sustainable level of external debt. First, there are sets of indicators that measure the country's 'solvency'. Under this category, the indicators consider the stock of debt at certain time in relation to the country's ability to generate resources to repay the drawn and outstanding debt. The ratios include: Government debt to current fiscal revenue ratio, NPV external debt to GDP ratio and external debt to exports ratio. The indicators also cover the structure of the outstanding debt which consists of share of foreign debt, Short-term debt, and concessional debt in the total debt stock.

Secondly, are the set of indicators focusing on the short-term liquidity requirements of a country's debt service obligations. This liquidity monitoring indicators act as useful early-warning signs of debt service constraints and highlight the impact of the inter-temporal trade-offs arising from past borrowing decisions. The indicators include: debt service to GDP ratio, foreign debt service to exports ratio and Government debt service to current fiscal revenue ratio.

Finally, is a set of indicators that points out how the debt burden will evolve over time, given the current stock of debt and

average interest rate. These dynamic ratios show how the debt burden ratios would change in the absence of repayments or new disbursements, indicating the stability of the debt burden. An example of a dynamic ratio is the ratio of the average interest rate on outstanding debt to the growth rate of nominal GDP.

## 8.4 Fiscal Debt Sustainability

Fiscal (or public sector debt) sustainability covers total debt – external and domestic – incurred by the Government. The concept refers to the ability of Government to sustain spending on a desired purpose for its planned duration and to meet the cost of borrowing without compromising the Government’s financial position.

## 8.5 Country-Specific Debt Burden Thresholds

Debt Sustainability Framework (DSF) developed jointly by the World Bank and IMF to assist in assessing a country’s debt sustainability takes into account debt burden thresholds that depend on the quality of a country’s policies. Policy performance or quality of policies is measured using Country Policy and Institutional Assessment (CPIA) index, compiled annually by the World Bank to rate effort towards sustainable growth, poverty reduction and the effective use of development resources. The DSF categorizes countries into strong, medium, and weak performers based on set debt burden thresholds as shown in Table 8.1. The debt-burden thresholds are viewed as not rigid ceilings but as guideposts for informing debt sustainability assessments.

**Table 8.1 Debt Burden Thresholds under the DSF**

Policy	NPV of debt as % of			Debt service as % of	
	Exports	GDP	Revenue	Exports	Revenue
Weak	100	30	200	15	25
Medium	150	40	250	20	30
Strong	200	50	300	25	35

Source: IMF/WB DSA

## 8.6 Methodology

The DSA results presented are those of joint IMF/World Bank staff based on the Common Standard framework for low income countries. The assessment is based on a forward-looking analysis of debt and debt service dynamics, taking into account debt burden thresholds of Kenya, a medium performer on the CPIA index. Specifically the DSA comprises of baseline scenarios, based on the most plausible medium and long-term assumptions on key macroeconomic parameters and economic policies, which are subsequently subjected to stress testing. Stress testing explores the robustness of baseline projections when subjected to specific macroeconomic shocks.

## 8.7 Assumptions

The key assumptions underlying the DSA are consistent with the 2008 Article IV IMF Staff Report:

- Average annual real GDP growth of 6.2 percent for 2008 falls below the 7.0 percent growth recorded in 2007, followed by 6.0 percent growth from 2014 through 2028.
- Average inflation of about 5.6 percent for 2008-2013 as measured by a GDP deflator, which falls to 4.9 percent for the 2014-2028 period.
- A constant real exchange rate through 2013, followed by some real appreciation for the remainder of the forecast period, which would be consistent with sustained high growth. World Economic Outlook (WEO) exchange rate projections are used.
- Annual goods and services export growth in U.S dollar terms of about 12-13 percent such that goods and services exports as a share of GDP rise from about 25 percent to 31 percent over the forecast period.
- Fiscal projections are based on an unchanged policies scenario whereby revenues remain constant as a share of GDP at 21.6 percent; expenditure developments are characterized by constant domestically financed development spending

of 4.5 percent of GDP, which is slightly below the 2008/09 budgeted level which includes special one-off projects; a constant wage bill of 6.6 percent of GDP, and a gradual decline in other recurrent spending from 7.2 percent of GDP to 7.0 percent of GDP over the medium-term in line with ongoing improvements in procurement.

- New external borrowing increases (including non-concessional borrowing) from about 2 percent of GDP in 2007 to 3.2 percent in 2009 followed by a decline to just under 2 percent of GDP by the end of the forecast period. The NPV of domestic debt is assumed to be equal to its face value. Continued eligibility for concessional borrowing from IDA is assumed although achievement of assumed growth rates could imply graduation during the forecast period.
- New external borrowing assumptions include the issuance of an initial sovereign bond of \$500 million in 2009 and \$200 million in annual sovereign bond issuance from 2010 through 2013, which is consistent with the authorities' medium-term budget framework.
- The only debt relief assumed under the DSA is an existing swap agreement with Italy, which would cancel about Euro 44 million in external obligations.

## 8.8 External Debt Scenario Analysis

### Baseline scenario

As shown in Appendix Table 5 and summarized in Table 8.2 below, Kenya's initial debt ratios are well below all of the indicative thresholds for a medium performer and decline somewhat through the forecast period. Although external borrowing is projected to rise sharply in 2009 to 3.2 percent of GDP, new obligations as a share of GDP is expected to fall gradually in the medium term.

### Scenario analysis and stress testing

Although macroeconomic shocks would lead to a sharp initial worsening of debt stock indicators, the external debt burden indicators remain within sustainable levels for "medium performer" under all alternative scenarios and stress tests. For instance a shock combining lower GDP growth, weaker exports, a lower GDP deflator, and a fall in non-debt creating flows pushes the NPV of public external debt as a share of GDP from 14 to 28 percent, the NPV of debt-to-exports from 55 to 105 percent, and the NPV of debt-to-revenue from 64 to 126 percent.

**Table 8.2: Summary – Kenya External Debt Sustainability Assessment (in percent of GDP)**

	2008	2009	2010	2011	2012	2013
NPV of PPG External debt						
In percent of GDP (threshold = 40)						
Baseline	13.7	13.8	14.2	13.2	13.6	13.5
Combined Shocks	13.7	20.3	28.1	25.7	25.9	25.3
In percent of Exports (threshold = 150)						
Baseline	53.2	56.2	54.9	52.9	52.0	50.0
Combined shocks	53.2	77.3	105.2	99.5	95.8	90.5
PPG External Debt Service						
In percent of exports (threshold = 20)						
Baseline	4.5	3.9	4.0	3.9	3.7	3.4
Combined shocks	4.5	4.1	5.2	5.8	5.4	5.0

Source: Kenya DSA, August 2008

## 8.9 Fiscal Sustainability Scenario Analysis

### Baseline scenario

As shown in Appendix Table 7 and summarized in Table 8.3 below, the inclusion of domestic debt substantially increases the NPV of public debt-to-GDP, even though all debt indicators remain within comfortable levels. The NPV of total public

debt-to-GDP, at 34 percent in 2008, remains broadly stable at that level up to 2028 as the gradual decline of NPV of external debt is offset by a small increase in the domestic debt-to-GDP ratio.

### Scenarios analysis and stress testing

The debt indicators are particularly vulnerable to slower growth, while being broadly resilient under other alternative assumptions. A two-year growth shock leads to a rise in the NPV of debt-to-GDP ratio to 57 percent by 2028, an NPV of debt-to-revenue ratio just below 250 percent by 2028, and a rise in the debt service-to-revenue ratio to over 30 percent by 2012, indicating some risk of debt distress under this scenario. This result reinforces the importance of expanding productive capacity in the medium term, in addition to a prudent borrowing approach, to avoid a rising debt burden.

**Table 8.3 - Fiscal Debt sustainability**

Indicator	Threshold (medium performer)	Actual ratio Kenya (2008)
PV of debt as % of:		
GDP	40	34
Revenue	250	142
Debt service as % of:		
Revenue	30	25

Source: Kenya DSA, August 2008

## 8.10 Conclusion

Reflecting relatively limited reliance on external borrowing and an expected improvement in macroeconomic performance, Kenya faces a low risk of external debt distress. All external public debt indicators remain below the relevant country-specific debt burden thresholds. Standard stress tests reveal an initial upward trend for the debt indicators but do not result in a breach of the thresholds during the projection period.

The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing strategy. Achieving the ambitious growth and export figures in the baseline scenario depends on: policies to sustain macroeconomic stability, substantial investment in infrastructure, and regulatory and governance reforms to improve the investment climate. Additionally, Kenya's success in avoiding unsustainable debt to date reflects good management, but also limited willingness on the part of creditors to provide financing, at times due to governance concerns. As Kenya is likely to have greater access to external financing, it will be important to avoid excessive borrowing and to limit non-concessional borrowing.

# 9. PUBLIC DEBT MANAGEMENT REFORMS

## 9.1 Public Debt Management Reforms

The Treasury has been implementing reforms to address structural weaknesses in public debt management. The reforms are being supported under two donor funded projects: Financial and Legal Sector Technical Assistance Project (FLSTAP) and the Public Financial Management Reforms (PFMR) project.

The objective is to transform the DMD to a DMO at the Ministry of Finance anchored on an effective staff retention framework. Under the new institutional arrangement, debt management operations will be guided by both an appropriate legal framework and medium term debt management strategy. In line with the FLSTAP Implementation Plan the following reforms have been undertaken since 2004:-

1. Consolidation of Debt Management functions:
  - Debt Management Department (DMD) Organization Structure set up with clearly defined functions
  - Staffing level of the Department has increased
  - Annual DMD Work Plans developed, monitored and evaluated.
  - DMD Service Charter developed
2. Strengthening Back Office Operations:
  - Installed new CS-DRMS 2000+ software and trained staff
  - Updated and validated external debt data
  - Use of CS-DRMS 2000+ in Back office operations, debt service forecasts for the annual Budget and other debt statistics
  - Computerization of debt Payment Advice (PA) preparation through in-house developed system. This process was previously done manually, resulting to delays, inaccuracies and subsequent accumulation of arrears and resultant penalty payments
  - Strengthened Back office payment and settlement operations.
3. Strengthening of Front and Middle Office Operations
  - Active participation in domestic and external borrowing strategy design and implementation.
  - Increased and accurate dissemination of debt information through weekly domestic borrowing reports, Monthly Debt Bulletin, Quarterly Budget Review (QBR), Annual Debt Management Reports and other ad hoc reports.
4. Strengthening domestic debt markets
  - Amendment of the Internal Loans Act to allow for dematerialization of Government securities and extended definition of securities beyond Treasury Bills and Bonds

## 9.2 Reform Plans for 2008/09 and Beyond

The Treasury, through the Debt Management Department is continuing with the reforms in the following areas: -

- Ensure adequate staffing of the DMO and approval of Scheme of Service
- Gazette External Debt Management Regulations.
- Finalise the Agency Agreement between the Treasury and CBK.
- Develop a Medium Term Debt Strategy (MTDS).

- Activate the Fibre Optic link between the Treasury and CBK.
- Reduce the minimum thresholds for investment in Treasury bills from Ksh 1 million to Ksh 100,000 to widen the investor base.
- Issue project specific domestic infrastructure bonds.
- Issue a sovereign bond in the international financial markets.
- Initiate a system of periodical reporting of contracted loans to Parliament.
- Review External Debt legislation

## 10. OUTLOOK FOR THE MEDIUM TERM

### 10.1 Public Debt Stock in the medium term (2008/09 – 2011/12)

As shown in Table 10.1 debt is projected to increase in nominal terms from Ksh 870,579 million in June 2008 to Ksh 1,028,990 million in June 2008/09 and rise to Ksh 1,336,132 million in June 2012. As a proportion of GDP, public debt is projected to remain at 41.9 percent of GDP in the period June 2008 to June 2009 and decline to 39.3 percent of GDP in June 2012. This decline is attributed to prudent debt management strategy to maintain debt at sustainable levels.

External debt is projected to increase from Ksh 439,967 million in June 2008 or 21.1 percent of GDP to Ksh 526,460 million or 21.4 percent of GDP in June 2009 and increase to Ksh 669,732 million or 19.7 percent of GDP in June 2012. On the other hand, domestic debt is projected to increase from Ksh 430,612 million or 20.8 percent of GDP in June 2008 to Ksh 502,530 million or 20.5 percent of GDP in June 2009 and rise to Ksh 666,400 million or 19.6 percent of GDP over the same period.

**Table 10.1: Projected Public Debt Stock in Ksh Million**

	2007/08	2008/09	2009/10	2010/11	2011/12
External	439,967	526,460	532,620	667,439	669,732
% of GDP	21.1	21.4	19.2	21.7	19.7
Domestic	430,612	502,530	554,140	604,586	666,400
% of GDP	20.8	20.5	20.0	19.7	19.6
Total Public Debt	870,579	1,028,990	1,086,760	1,209,025	1,336,132
% of GDP	41.9	41.9	39.2	41.4	39.3
Nominal GDP	2,077,795	2,456,300	2,770,100	3,076,600	3,403,800

Source: Treasury

### 10.2 Debt Service in the Medium Term

Table 10.2 shows that although in nominal terms overall debt service is projected to increase by almost 60 percent in the medium term, the debt burden indicators are projected to be within sustainable levels. Total debt service is projected to increase from Ksh 63,957 million [3.1 percent of GDP] in 2007/08 to Ksh 76,587 million [2.9 percent of GDP] in 2008/09 and further rise to Ksh 100,754 million [3.0 percent of GDP] in 2011/12. Domestic interest comprises 64 percent of the projected increase, with external interest and amortization taking 12 and 24 percent respectively.

Domestic interest is projected to increase from Ksh 42,181 million in 2007/08 to Ksh 47,835 million in 2008/09 and increase to Ksh 64,812 million in 2011/2012. However, as a percentage of GDP domestic interest will remain at about 2.0 percent. and will remain at 2.0 percent of GDP in June 2011/12. On the other hand, interest on external debt is projected to increase from Ksh 5,961 million in 2007/08 to Ksh 6,052 million in 2008/09 and rise to Ksh 12,169 million in 2011/12 which is 0.3 percent annually for the period.

Annual principal repayments on external debt will increase from Ksh 15,815 million in 2007/08 to Ksh 22,700 million in 2008/09 and rise to Ksh 23,773 in 2011/12 or an annual average of 0.7 percent of GDP. The external debt service in 2009/10 includes provision for payment of Ksh 5.2 billion on two of the suspended commercial debts currently under negotiation.



**Table 10.2: Projected Debt Service (Ksh million)**

	2007/08	2008/09	2009/10	2010/11	2011/12
Domestic interest	42,181	49,414	54,577	62,357	64,812
% of GDP	2.0	2.0	2.0	2.0	1.9
External interest	5,961	6,052	9,248	10,869	12,169
% of GDP	0.3	0.3	0.3	0.4	0.4
Total interest	48,142	55,466	63,825	73,226	76,981
% of GDP	2.3	2.2	2.3	2.4	2.3
External Principal repayments	15,815	17,488	20,832	22,531	23,773
% of GDP	0.8	0.7	0.8	0.7	0.7
Total debt service	63,957	72,954	84,657	95,757	100,754
% of GDP	3.1	2.9	3.1	3.1	3.0

Source: Treasury, BOPA 2009

## 10.3 Sovereign Bond

Based on the credit ratings by Standard & Poor's as well as Fitch Ratings, the Government had plans to issue a sovereign bond of \$500 million in the financial year 2008/09. The bond was expected to act as a benchmark for Kenya in international markets. The proceeds were to be used to fund infrastructure projects and to refinance expensive debts. The issuance of the bond has been shelved due to the global financial crisis

## Infrastructure Bond

Commencing in financial year 2008/09, the Government plans to issue project-specific domestic infrastructure bonds to finance projects in the roads, energy and water sectors. It is envisaged that the projects to be funded with the proceeds of the bond will have positive impact on economic growth. The debut infrastructure bond of Ksh 18.5 billion was issued in February 2009 and was a resounding success.

# GLOSSARY

## • Concessionalality

A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

## • Debt Relief

Agreements by creditors to lessen the debt burden of debtor countries by either rescheduling interest and principal payments falling due over a specified time period, sometimes on concessional basis, or by partially or fully cancelling debt service payments falling due in a specified period of time.

## • Debt Rescheduling

A form of debt re-organization in which payments of principal and/or interest previously due at a specified time are deferred for repayment on a new schedule following negotiations between the creditor and debtor.

## • Debt Service

The amount of funds necessary for or used in the payment of interest or amortization charges of a debt.

## • Debt Sustainability

Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

## • Debt Sustainability Analysis

Conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In these analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.

## • Disbursement

The actual international transfer of financial resources or of goods or services by the lender to the borrower.

## • Domestic Borrowing

Government borrowing through issuance of Government securities and direct borrowing from the CBK.

## • Export Credit

Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

## • External borrowing

Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.

- **Government securities**

Financial instruments used by the Government to raise funds from the primary market.

- **Grant Element**

It measures the concessionality of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan.

- **London Club**

An international group of private commercial banks whose credits are not covered by Government guarantees or insurance. The group is designed to provide a common approach to rescheduling of such debts owed by debtor country.

- **Monetary Policy**

The management of the money in an economy to achieve desired economic conditions such as the overall level of prices.

- **Present Value**

The present value (PV) of debt is a measure that takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the appropriate market rate. Whenever the interest rate on a loan is lower than the market rate, the resulting PV of debt is smaller than its face value.

- **Official Development Assistance**

Loans from official development agencies to countries received by the public sector, for promotion of economic development and welfare as the main objective and, extended at concessional financial terms (with minimum grant element of 25 per cent). Loans and credits for military purposes are excluded in this definition.

- **Paris Club**

The Paris Club is an ad-hoc gathering of creditor Governments, chaired by high ranking official of the French Treasury, which meets for the purpose of rescheduling debts. The Paris Club is open to all creditor Governments that are willing to adhere to its unwritten rules and practices and that have claims against a debtor country seeking rescheduling. Debtor countries must have strong adjustment programmes supported by the upper credit tranche IMF arrangements before being considered for debt relief.

- **Primary Market**

A market in which initial issue of financial instruments is made.

- **Public Debt**

Outstanding financial liabilities of the Government arising from past borrowing. It includes Government guaranteed debts to State Corporations and Local Authorities.

- **Public Domestic Debt**

Part of the overall debt owed by the Government to creditors domiciled in the country. The debt includes money owed to commercial banks, non-bank financial institutions and individuals.

- **Public External Debt**

Part of the overall debt owed by the Government to creditors domiciled outside the country. The debt includes money

owed to private commercial banks, other Governments, or international financial institutions such as the IMF and World Bank.

- **Secondary Market**

A market for already issued financial instruments.

- **Suppliers Credit**

An arrangement under which a supplier or exporter agrees to allow the customer to defer payment under a sales contract.

- **Treasury bills**

Short term debt instruments currently with maturities of 91 and 182 days issued by the Treasury. In Kenya, this instrument is issued by the Treasury through the CBK.

- **Treasury bonds**

Medium to long-term term debt instruments issued by the Treasury. In Kenya, this instrument is issued by the Treasury through the CBK.

- **Yield Curve**

Relationship between the return an investor receives by holding a bond to maturity and time value of money.

# APPENDIX

## Appendix 1: Treasury bonds Issues (July 2007-June 2008)

Issue no/	Tenure (Years)	Amount at face (Ksh M)	Amount at cost (Ksh M)	Issue date	Maturity date
FXD 1/2007/7	7	8,269.85	7,999.98	30-Jul-07	21-Jul-14
ZC 1/2007/1	1	3,229.65	2,971.73	27-Aug-07	25-Aug-08
FXD 2/2007/5	5	4,575.55	4,528.25	27-Aug-07	20-Aug-12
FXD 3/2007/5	5	9,188.60	8,996.55	24-Sep-07	17-Sep-12
FXD1/2007/10	10	9,308.80	9,000.02	29-Oct-07	16-Oct-17
FXD 3/2007/15	15	7,841.10	7,434.42	26-Nov-07	7-Nov-22
SFX 1/2007/1	1	4,500.00	4,500.00	4-Dec-07	2-Dec-08
SFX 1/2007/2	2	1,250.00	1,250.00	4-Dec-07	1-Dec-09
SFX 2/2007/3	3	218.80	218.80	4-Dec-07	30-Nov-10
SFX 2/2007/1	1	1,000.00	1,000.00	18-Dec-07	16-Dec-08
SFX 2/2007/2	2	1,000.00	1,000.00	18-Dec-07	15-Dec-09
SFX 3/2007/3	3	1,000.00	1,000.00	18-Dec-07	14-Dec-10
FXD 3/2007/2	2	7,086.90	6,999.52	24-Dec-07	21-Dec-09
SFX 1/2008/2	2	500.00	500.00	18-Jan-08	15-Jan-10
SFX 2/2008/3	3	562.00	562.00	18-Jan-08	14-Dec-11
FXD 1/2008/5	5	5,530.85	5,261.59	28-Jan-08	21-Jan-13
ZC1/2008/1	1	4,460.85	4,089.40	25-Feb-08	23-Feb-09
FXD1/2008/10	10	2,992.75	2,901.99	25-Feb-08	12-Feb-18
FXD 1/2008/15	15	7,380.90	6,998.56	31-Mar-08	13-Mar-23
FXD 1/2008/2	2	3,247.45	3,172.21	28-Apr-08	26-Apr-10
FXD 2/2008/5	5	4,095.80	3,828.33	28-Apr-08	22-Apr-13
FXD 2/2008/2	2	6,846.60	6,666.84	26-May-08	24-May-10
FXD 1/2008/20	20	1,912.25	1,791.77	30-Jun-08	30-Jun-28

## Appendix 2: Outstanding Government Securities by Tenor (Ksh Million)

Tenor	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Apr-07	May-07	Jun-07	Jun-08
91-DAY	47,266	44,191	38,373	37,632	40,275	26,085	20,843	21,454	22,245	22,017	17,980
182-DAY	32,292	33,246	46,576	57,144	58,277	70,595	77,467	79,125	75,608	72,405	58,868
1-YEAR	30,772	23,361	9,535	1,000	4,567	9,728	9,728	9,728	9,728	8,728	13,191
2-YEAR	32,481	38,088	40,673	39,738	35,190	39,303	35,649	37,652	37,652	37,652	31,747
3-YEAR	29,810	27,876	30,011	31,225	36,316	28,574	38,574	27,174	27,174	31,174	26,663
4-YEAR	24,167	24,167	24,167	26,287	24,282	23,446	29,571	23,964	23,964	19,281	16,539
5-YEAR	22,740	27,604	27,604	28,391	29,976	29,976	31,799	31,799	31,799	28,787	43,511
6-YEAR	20,434	27,841	27,841	33,105	33,105	38,129	38,129	43,333	43,333	48,333	47,589
7-YEAR	10,330	10,330	13,566	13,566	13,566	15,884	15,884	15,884	15,884	15,884	24,154
8-YEAR	11,969	11,969	15,287	15,287	15,287	15,287	17,944	17,944	17,944	17,944	17,944
9-YEAR	9,555	9,555	9,555	12,615	12,615	12,615	12,615	12,615	12,615	12,615	12,615
10-YEAR	8,634	8,634	12,085	17,113	17,113	17,113	17,113	17,113	17,113	22,113	34,415
11-YEAR	0	0	0	0	4,031	4,031	4,031	4,031	4,031	4,031	4,031
12-YEAR	0	0	0	0	3,901	3,901	3,901	3,901	8,766	8,766	8,766
15-YEAR	0	0	0	0	0	0	3,655	3,655	3,655	16,892	32,114
20-YEAR	0	0	0	0	0	0	0	0	0	0	1,912
	280,450	286,862	295,273	313,103	328,501	334,667	356,903	349,372	351,511	366,622	391,484

**Appendix 3(a): External Debt by Creditor (USD Million)**

<b>CREDITOR</b>	<b>Jun-01</b>	<b>Jun-02</b>	<b>Jun-03</b>	<b>Jun-04</b>	<b>Jun-05</b>	<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>
<b>1. BILATERAL</b>								
AUSTRIA	16.1	25.0	30.5	33.5	32.4	33.0	45.6	50.3
BELGIUM	30.6	29.8	30.4	71.6	68.0	71.0	69.6	73.4
CANADA	67.7	28.0	36.4	29.2	17.0	17.2	22.2	16.3
DENMARK	32.4	24.8	26.1	31.7	31.0	32.4	32.3	36.1
FINLAND	2.5	5.0	3.6	2.7	1.8	2.2	1.8	1.9
FRANCE	219.6	199.0	182.6	231.6	237.3	252.3	277.8	354.0
GERMANY	98.1	94.4	109.8	141.3	169.6	188.3	198.1	243.7
ITALY	125.8	136.1	117.9	114.8	94.1	118.3	107.6	95.2
JAPAN	922.2	824.0	1,071.0	1,073.4	1,109.5	1,075.6	1,006.0	730.6
NETHERLANDS	52.4	44.2	50.4	51.6	28.9	37.3	35.6	35.8
UK	35.8	40.8	35.8	36.0	36.9	36.6	39.6	37.9
USA	43.0	55.4	89.7	73.2	79.4	79.1	70.9	68.9
OTHERS	49.7	143.1	138.4	158.0	163.0	153.2	164.6	214.1
<b>TOTAL</b>	<b>1,695.9</b>	<b>1,649.6</b>	<b>1,922.6</b>	<b>2,048.9</b>	<b>2,069.0</b>	<b>2,096.3</b>	<b>2,072.3</b>	<b>1,958.2</b>
<b>2. MULTILATERAL</b>								
ADB/ADF	328.4	292.8	321.5	319.0	310.0	349.7	353.1	465.8
EEC/EIB	156.7	148.0	115.5	128.0	111.0	180.5	150.4	173.7
IBRD	20.0	11.5	11.5	1.4	0.5	-	-	-
IDA	2,306.8	2,263.0	2,516.6	2,721.0	2,757.0	2,765.4	2,867.7	3,133.9
IMF	111.3	98.0	80.8	104.0	165.7	154.4	206.9	271.2
OTHERS	6.3	10.1	6.9	4.8	6.0	9.0	32.7	41.3
<b>TOTAL</b>	<b>2,929.5</b>	<b>2,823.4</b>	<b>3,052.8</b>	<b>3,278.2</b>	<b>3,350.2</b>	<b>3,459.0</b>	<b>3,610.8</b>	<b>4,085.9</b>
<b>3. COMMERCIAL BANKS</b>	<b>377.2</b>	<b>305.0</b>	<b>48.5</b>	<b>36.6</b>	<b>23.3</b>	<b>17.2</b>	<b>4.3</b>	<b>-</b>
<b>4. EXPORT CREDIT</b>	<b>48.6</b>	<b>16.4</b>	<b>364.5</b>	<b>209.7</b>	<b>252.3</b>	<b>264.4</b>	<b>271.0</b>	<b>286.6</b>
<b>GRAND TOTAL</b>	<b>5,051.2</b>	<b>4,794.4</b>	<b>5,388.4</b>	<b>5,573.4</b>	<b>5,694.8</b>	<b>5,837.0</b>	<b>5,958.4</b>	<b>6,330.7</b>

### Appendix 3(b): External Debt by Creditor (Ksh Million)

CREDITOR	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
<b>1. BILATERAL</b>								
AUSTRIA	1256	1,970	2,262	2,664	2,468	2,437	3,031	3,251.74
BELGIUM	2387	2,348	2,255	5,693	5188	5,247	4,625	4,750.43
CANADA	5280	2,206	2,700	2,322	1,297	1,267	1,470	1,399.69
DENMARK	2527	1,954	1,936	2,521	2,365	2,392	2,144	2,336.03
FINLAND	195	394	267	215	134	160	118	120.11
FRANCE	17,128	15,679	13,543	18,416	18,106	18,643	18,886	22,903.00
GERMANY	7,651	7,458	8,144	11,236	12,941	13,910	13,479	15,763.94
ITALY	9,812	10,723	8,744	9,129	7,182	8,741	7,151	6,343.99
JAPAN	71,928	64,922	79,433	85,353	84,469	79,464	66,167	72,844.74
NETHERLANDS	4,087	3,482	3,738	4,103	2,208	2,752	2,367	2,317.83
UK	2,792	3,216	2,655	2,863	2,818	2,705	2,628	2,457.74
USA	3,354	4,365	6,653	5,821	6,057	5,842	5,206	4,862.78
OTHERS	3,872	11,275	10,265	12,579	12,435	11,316	14,432	13,848
<b>TOTAL</b>	<b>132,269</b>	<b>129,973</b>	<b>142,593</b>	<b>162,914</b>	<b>157,669</b>	<b>154,877</b>	<b>141,706</b>	<b>153,200.02</b>
<b>2. MULTILATERAL</b>								
ADB/ADF	25,614	23,070	23,845	25,366	23,650	25,837	23,630	30,134.66
EEC/EIB	12,222	11,661	8,566	10 178	8,468	13,335	10,248	11,234.75
IBRD	1,560	906	853	111	38	0.00	0.00	0.00
IDA	179,920	178,300	194,065	216,366	210,311	204,306	190,877	206,633.48
IMF	8,681	7,721	5,989	8,270	12,641	11,409	13,703	17,547.72
OTHERS	500	794	512	367	655	663	1,801	2,672.80
<b>TOTAL</b>	<b>228,497</b>	<b>222,452</b>	<b>233,829</b>	<b>260,658</b>	<b>255,764</b>	<b>255,550</b>	<b>240,259</b>	<b>268,223.41</b>
<b>3. COMMERCIAL BANKS</b>	<b>29,423</b>	<b>24,031</b>	<b>3,597</b>	<b>2,912</b>	<b>1,776</b>	<b>1,274</b>	<b>574</b>	<b>-</b>
<b>4. EXPORT CREDIT</b>	<b>3,789</b>	<b>1,292</b>	<b>27,034</b>	<b>16,674</b>	<b>19,244</b>	<b>19,536</b>	<b>18,427</b>	<b>18,543.36</b>
<b>GRAND TOTAL</b>	<b>393,978</b>	<b>377,748</b>	<b>407,053</b>	<b>443,157</b>	<b>434,453</b>	<b>431,237</b>	<b>400,966</b>	<b>439,966.79</b>

**Appendix 4: Kenya: External Debt Sustainability Framework, baseline scenario, 2005 – 2028 1/ - (In percent of GDP, unless otherwise indicated)**

	Actual			Historical Average <sup>2/</sup>	Standard deviation <sup>2/</sup>	Projections										
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average		2018	2028	2014-2028 Average
External debt (nominal) 1/	31.3	26.8	24.7	21.4	20.6	20.9	19.6	20.3	20.2	19.5	16.3					
o/w public and publicly guaranteed (PPG)	28.9	24.9	22.8	19.9	19.4	19.9	18.6	19.1	19.0	19.1	16.3					
Change in external debt	-3.4	-4.5	-2.1	-3.3	-0.8	0.3	-1.2	0.7	-0.1	-0.1	-0.3					
Identified net debt-creating flows	-5.2	-5.2	-4.8	3.3	2.0	1.9	1.5	1.8	1.8	1.1	0.5					
Non-Interest current account deficit	0.1	1.8	2.6	6.3	5.5	4.8	4.9	4.9	4.9	3.7	2.3	3.3				
Deficit in balance of goods and services	7.5	9.9	10.5	13.9	12.8	12.2	11.7	11.7	11.7	10.1	8.2					
Exports	28.4	25.1	25.4	25.7	24.6	25.8	25.0	26.2	27.0	28.2	30.7					
Imports	35.9	35.0	35.9	39.6	37.4	38.1	36.7	37.9	38.7	38.3	39.0					
Net current transfers (negative=inflow)	-7.0	-7.7	-7.6	-7.1	-6.9	-6.9	-6.4	-6.4	-6.4	-6.0	-5.1	-5.7				
o/w official 3/	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Other current account flows (negative= net inflow)	-0.3	-0.4	-0.3	-0.4	-0.5	-0.5	-0.5	-0.4	-0.4	-0.5	-0.9					
Net FDI (Negative – Inflow)	-1.0	-2.2	-3.4	-2.6	-2.5	-2.4	-2.2	-2.3	-2.3	-1.9	-1.3	-1.7				
Endogenous debt dynamics 4/	-4.3	-4.7	-4.0	-0.5	-1.0	-0.5	-1.2	-0.8	-0.8	-0.7	-0.6					
Contribution from nominal interest rate	0.7	0.5	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.3					
Contribution from real GDP growth	-1.7	-1.7	-1.6	-0.9	-1.3	-0.9	-1.5	-1.2	-1.2	-1.1	-0.9					
Contribution from price and exchange rate changes	-3.2	-3.5	-2.9	...	...	...	...	...	...	...	...					
Residual (3-4) 5/	1.8	0.7	2.7	-6.6	-2.9	-1.6	-2.7	-1.2	-1.9	-1.3	0.8					
o/w exceptional financing	-1.0	-0.9	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0					
PV of external debt 6/	...	...	17.7	15.2	15.0	15.1	14.3	14.8	14.7	13.7	11.2					
In percent of exports	...	...	69.6	59.1	60.9	58.6	57.0	56.5	54.5	48.7	36.5					
PV of PPG External debt	...	...	15.7	13.7	13.8	14.2	13.2	13.6	13.5	13.3	11.2					
In percent of exports	...	...	62.0	53.2	56.2	54.9	52.9	52.0	50.0	47.3	36.4					
In percent of Government revenues	...	...	70.0	59.8	65.3	63.7	61.7	62.4	62.9	62.2	52.2					
Debt service-to-exports ratio (%)	6.9	7.0	6.1	5.4	4.8	4.7	4.4	4.2	3.9	3.0	2.4					
PPG debt service-to-exports ratio (%)	6.0	6.0	5.0	4.5	3.9	4.0	3.9	3.7	3.4	2.9	2.4					
PPG debt service-to-revenue ratio (%)	8.0	7.1	5.7	5.1	4.5	4.7	4.5	4.4	4.3	3.8	3.5					
Total gross financing need (billions of US dollars)	0.2	0.3	0.2	1.6	1.5	1.4	1.7	1.8	2.0	2.4	4.7					
Non-interest current account deficit that stabilizes debt ratio	3.5	6.3	4.7	9.6	6.3	4.5	6.1	4.3	5.0	3.8	2.6					



	Actual				Historical Average <sup>2/</sup>	Standard deviation <sup>2/</sup>	Projections										
	2005	2006	2007				2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average	
Key macroeconomic assumptions																	
Real GDP growth (in %)	5.8	6.4	7.0	3.8	4.1	6.9	4.7	8.6	6.6	6.6	6.2	6.0	6.0	6.0	6.0	6.0	6.0
GDP deflator in US dollar terms (change in %)	10.2	12.8	12.2	3.9	12.5	8.3	2.0	7.4	0.4	3.0	5.6	5.0	5.0	5.0	4.9	4.9	4.9
Effective interest rate (%) <sup>7/</sup>	2.2	2.0	2.0	1.8	1.8	1.6	2.0	2.0	2.1	2.1	1.9	2.3	2.1	2.1	2.2	2.2	2.2
Growth of exports of G & S (US dollar terms, in %)	23.3	6.0	21.3	9.2	18.6	10.6	12.3	13.1	11.9	13.3	13.3	12.1	12.5	12.5	12.2	12.2	12.2
Growth of imports of G & S (US dollar terms, in %)	27.4	17.0	22.9	10.9	29.4	9.4	8.7	12.6	10.3	12.2	13.7	11.2	11.7	11.7	11.3	11.3	11.3
Grant element of new public sector borrowing (%)	....	....	....	....	45.3	18.4	33.2	33.1	32.6	33.9	32.7	36.5	35.3	34.7	34.7	34.7	34.7
Government revenues	21.2	21.1	22.5		22.8	21.1	22.2	21.4	21.8	21.5		21.4	21.4	21.4	21.4	21.4	21.4
Aid flows (in billions of US dollars) <sup>8/</sup>	0.2	0.2	0.3		0.8	1.6	2.4	3.3	4.3	5.4		13.3	41.6				
o/w grants	0.2	0.2	0.3		0.4	0.5	0.5	0.6	0.7	0.9		1.5	4.0				
o/w Concessional loans	0.0	0.0	0.0		0.4	1.1	1.9	2.6	3.6	4.6		11.8	37.6				
Grant equivalent financing (in percent of GDP) <sup>9/</sup>	....	....	....		1.9	1.9	2.2	2.1	2.3	2.4		2.6	2.2	2.4	2.4	2.4	2.4
Grant-equivalent financing (in percent of external financing) <sup>9/</sup>	....	....	....		72.5	41.6	57.2	59.3	59.1	62.4		63.4	64.8	62.9	62.9	62.9	62.9
Memorandum Items:																	
Nominal GDP (billions of US dollars)	18.8	22.5	27.0		31.7	36.7	39.2	45.7	48.8	53.6		90.6	264.3				
Nominal dollar GDP growth	16.6	20.0	20.0		17.2	15.8	6.8	16.6	6.9	9.8	12.2	11.3	11.3	11.2	11.2	11.2	11.2
PV of PPG external debt (in billions of US dollars)			4.3		4.3	5.1	5.5	6.0	6.7	7.2		12.1	29.6				
(PVt-PVt-1)/GDPt-1 (in percent)					0.3	2.3	1.3	1.3	1.3	1.2	1.3	1.4	1.0	1.2	1.2	1.2	1.2

Sources: Country authorities and staff estimates and projection

1/ Includes both public and private sector external debt.

2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

3/ Includes only program grants.

4/ Derived as  $(r - g - r(1 + g))/(1 + r + gr)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $r =$  growth rate of GDP deflator in US dollar terms.

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

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

7/ Current year interest payments divided by previous period debt stock

8/ Defined as grants (program and project, concessional loans, and debt relief).

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

**Appendix 5: Kenya: Sensitivity Analysis for key indicators of Public and Publicly Guaranteed external debt, 2008 -2028 (in percent)**

	Projections											
	2008	2009	2010	2011	2012	2013	2018	2028				
PV of debt-to- GDP ratio												
Baseline												
A. Alternative Scenario	14	14	14	13	14	14	13	11				
A1. Key variables at their historical averages in 2008 – 2028 1/	14	13	11	9	8	6	2	0				
A2. New Public sector loans on less favourable terms in 2008 – 2028 2/	14	13	15	14	15	15	16	15				
A3. Alternative scenario: Growth lower by one standard deviation 2009 - 2013	14	14	15	14	15	15	15	12				
B. Bound tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009 - 2010	14	15	15	14	15	15	14	12				
B2. Export value growth at historical average minus one standard deviation in 2009 – 2010 3/	14	16	20	18	19	18	17	12				
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009 -2010	14	16	17	16	17	17	16	14				
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009 – 2010 4/	14	17	21	19	19	19	17	12				
B5. Combination of B1 – B4 using one-half standard deviation shocks	14	20	28	26	26	25	22	15				
B6. One-time 30% nominal depreciation relative to the baseline in 2009 5/	14	19	20	18	19	19	18	15				
PV of debt-to-exports ratio												
Baseline	53	56	55	53	52	50	47	36				
A. Alternative scenario												
A1. Key variables at their historical averages in 2008 – 2028 1/	53	51	43	37	29	22	7	-1				
A2. New public sector loans on less favourable terms in 2008 – 2028 2/	53	54	57	56	57	56	57	49				
A3. Alternative scenario – Growth lower by one standard deviation 2009 - 2013	53	55	53	52	52	51	49	37				
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009 - 2010	53	56	55	53	52	50	47	36				
B2. Export value growth at historical average minus one standard deviation in 2009 – 2010 3/	53	71	98	93	90	86	75	50				
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009 – 2010	53	56	55	53	52	50	47	36				
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009 -2010 4/	53	70	81	77	74	70	61	40				
B5. Combination of B1 – B4 using one half standard deviation shocks	53	77	105	99	96	91	77	47				
B6. one-time 30 percent nominal depreciation relative to the baseline in 2009 5/	53	56	55	53	52	50	47	36				

	Projections									
	2008	2009	2010	2011	2012	2013	2018	2028		
PV of debt-to-revenue ratio										
Baseline	60	65	64	62	62	63	62	52		
A. Alternative scenario										
A1. Key Variables at their historical average in 2008 – 2029 1/	60	59	50	43	35	28	9	-1		
A2. New Public sector loans on less favourable terms in 2008 -2028 2/	60	62	66	66	68	70	75	70		
A3. Alternative scenario: Growth lower by one standard deviation 2009 - 2013	60	67	67	66	68	70	69	58		
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2009 - 2010	60	69	69	67	68	68	68	57		
B2. Export value growth at historical average minus one standard deviation in 2009 – 2010 3/	60	74	90	86	85	85	78	56		
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009 – 2010	60	74	78	76	76	77	76	64		
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009 – 2010 4/	60	81	94	90	89	89	80	57		
B5. Combination of B1 – B4 using one half standard deviation shocks	60	96	126	120	119	118	104	70		
B6. One time 30% nominal depreciation relative to the baseline in 2009 5/	60	90	88	85	86	87	86	72		

**Appendix 5: Kenya: Sensitivity Analysis for key indicators of Public and Publicly Guaranteed external debt, 2008-2028 (continued) (In percent)**

	Projections									
	2008	2009	2010	2011	2012	2013	2018	2028		
Debt service- to- exports ratio										
Baseline										
A. Alternative Scenario	4	4	4	4	4	3	3	2		
A1. Key variables at their historical averages in 2008 – 2028 1/	4	4	4	4	3	3	2	1		
A2. New Public sector loans on less favourable terms in 2008 – 2028 2/	4	4	4	4	4	4	4	3		
A3. Alternative scenario: Growth lower by one standard deviation 2009 - 2013	4	4	4	4	4	4	3	2		
B. Bound tests										
B1. Real GDP growth at historical average minus one standard deviation in 2009 - 2010	4	4	4	4	4	3	3	2		
B2. Export value growth at historical average minus one standard deviation in 2009 – 2010 3/	4	4	5	6	5	5	4	4		
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009 -2010	4	4	4	4	4	3	3	2		
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009 – 2010 4/	4	4	4	5	4	4	4	3		
B5. Combination of B1 – B4 using one-half standard deviation shocks	4	4	5	6	5	5	4	3		

B6. One-time 30 percent nominal depreciation relative to the baseline in 2009	5/	4	4	4	4	4	4	4	4	3	3	2
Debt service-to-revenue ratio												
Baseline		5	5	5	5	5	5	5	5	4	4	3
A. Alternative scenario												
A1. Key variables at their historical averages in 2008 – 2028	1/	5	5	5	5	5	5	5	5	4	4	3
A2. New public sector loans on less favourable terms in 2008 – 2028	2/	5	5	5	5	5	5	5	5	5	5	4
A3. Alternative scenario – Growth lower by one standard deviation 2009 - 2013		5	5	5	5	5	5	5	5	5	5	4
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009 - 2010		5	5	5	5	5	5	5	5	5	5	4
B2. Export value growth at historical average minus one standard deviation in 2009 – 2010	3/	5	5	5	5	5	5	5	5	5	5	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009 – 2010		5	5	5	5	5	5	5	5	6	6	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009 -2010	4/	5	5	5	5	5	5	5	5	5	5	4
B5. Combination of B1 – B4 using one half standard deviation shocks		5	5	5	5	5	5	5	5	7	7	4
B6. one-time 30 percent nominal depreciation relative to the baseline in 2009	5/	5	5	5	5	5	5	5	5	6	6	5
Memorandum item:												
Grant element assumed on residual financing (i.e. financing required above baseline)	6/	29	29	29	29	29	29	29	29	29	29	29

Sources: Country authorities and staff estimates and projections

1/. Variables include real GDP growth, growth of GDP deflator (in US dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/. Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/. Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/. Includes official and private transfers and FDI.

5/. Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/. Applies to all stress scenarios except for A2 (less favourable financing) in which the terms on all new financing are as specified in footnote 2.

**Appendix 6: Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028**  
(In percent of GDP, unless otherwise indicate)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimates	Projections					2008-13 Average	2014-28 Average	
	2005	2006	2007				2008	2009	2010	2011	2012			2013
Public sector debt 1/ o/w foreign-currency denominated	46.4	42.9	40.6	39.7		39.7	36.7	38.8	37.5	38.8	39.5	40.1	39.1	
	28.9	24.9	22.8	19.9		19.9	19.4	19.9	18.6	19.1	19.0	19.1	16.3	
Change in public Sector debt	-7.5	-3.4		-0.8		-0.8	-0.3	2.1	-1.3	1.3	0.7	0.1	0.1	
Identified debt-creating flows	-6.0	-4.2	-5.0	-0.5		-0.5	-3.6	1.7	-1.3	1.2	0.6	-0.1	-0.2	
Primary Deficit	-0.6	0.1	1.0	-1.3	1.4	2.5	1.9	1.5	1.5	1.6	1.5	1.4	1.4	1.4
Revenue and grants	22.4	22.2	23.6	24.2		24.2	22.4	23.6	22.8	23.4	23.1	23.1	22.9	
Of which: grants	1.2	1.1	1.1	1.3		1.3	1.3	1.4	1.4	1.5	1.6	1.7	1.5	
Primary (non-interest) expenditure	21.8	22.3	24.6	26.6		26.6	24.3	25.1	24.3	25.0	24.6	24.6	24.4	
Automatic Debt dynamics	-5.2	-4.5	-4.4	-0.9		-0.9	-5.2	0.2	-2.8	-0.5	-0.9	-1.6	-1.6	
Contribution from interest rate/growth differential	-2.5	-2.4	-1.8	-1.5		-1.5	-2.9	0.2	-1.2	-0.6	-1.3	-0.1	-1.2	
of which: contribution from average real interest rate	0.5	0.4	1.0	0.1		0.1	-0.3	1.8	1.0	1.7	1.1	1.2	1.0	
of which: contribution from real GDP growth	-0.3	-2.8	-2.8	-1.6		-1.6	-2.6	-1.7	-3.1	-2.3	-2.4	-2.3	-2.2	
Contribution from real exchange rate depreciation	-2.7	-2.1	-2.6	0.6		0.6	-2.3	0.0	-0.7	0.1	0.4	...	...	
Other identified debt-creating flows	-0.3	0.3	-1.6	-2.1		-2.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.2	-0.3	-2.2	-2.2		-2.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debt relief (HPC and other)	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify e.g. bank recapitalization)	0.0	0.6	0.6	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes	-1.5	0.8	2.7	-1.3		-1.3	0.6	0.4	0.0	0.1	0.1	0.2	0.3	
Other Sustainability Indicators													34.0	
PV of public sector debt	17.5	18.0	32.5	34.2		34.2	30.8	32.8	32.0	33.0	34.1	34.4		
o/w foreign-currency denominated	0.0	0.0	14.7	14.4		14.4	13.5	13.9	13.1	13.4	13.7	13.3	11.2	
o/w external	...	...	14.7	14.4		14.4	13.5	13.9	13.1	13.4	13.7	13.3	11.2	

PV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Gross financing need 2/	11.0	11.6	11.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...
PV of public sector debt-to-revenue and grants ratio (in percent)	78.0	81.2	137.8	...	141.7	137.6	138.9	140.3	141.4	147.7	148.4	148.0	...	...	...	...	...
PV of public sector debt-to-revenue ratio (in percent)	82.5	85.5	144.5	...	149.8	145.9	147.5	149.4	151.3	158.9	160.2	158.5	...	...	...	...	...
o/w external 3/	...	...	65.3	...	62.9	64.0	62.5	61.1	61.2	63.6	62.2	52.2	...	...	...	...	...
Debt service-to-revenue and grants ratio (in percent) 4/	31.6	30.0	26.7	...	25.1	26.1	24.6	24.4	27.5	26.5	23.0	19.6	...	...	...	...	...
Primary deficit-that stabilizes debt-to-GDP ratio	6.9	3.5	3.4	...	3.3	4.9	-0.6	2.8	0.3	0.8	1.3	1.4	...	...	...	...	...
Key Macroeconomic and fiscal assumption																	
Real GDP growth (in percent)	5.8	6.4	7.0	3.8	2.3	4.1	4.7	8.6	6.6	6.6	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	1.6	1.6	1.5	1.6	1.0	1.5	1.3	1.8	1.9	2.0	2.1	2.1	2.1	2.3	2.1	2.2	2.2
Average real interest rate on domestic debt (in percent)	5.3	4.8	7.6	8.7	5.8	4.0	8.6	14.9	17.5	13.7	9.4	8.0	9.1	...	...	...	...
Real exchange rate depreciation (in percent,+ indicates depreciation)	-12.4	-12.3	-17.3	-6.6	7.1	1.0	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.2	12.8	12.2	3.9	8.9	12.5	8.3	2.0	7.4	3.0	5.6	5.0	5.0	5.0	5.0	4.9	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	.01	0.1	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	45.3	18.4	33.2	33.1	33.9	36.5	35.3	...	...	...	...	...

Sources: Country authorities and staff estimates and projections.

1/ Public sector debt includes domestic central Government debt and external debt issued or guaranteed by the Government and central bank

2/ 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

3/ Revenue excluding grants

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt

5/ Historical average and standard deviation are generally derived over the past 10 years, subject to data availability.

**Appendix 7: Kenya: sensitivity analysis for key indicators of public debt 2008 - 2028**

	Projections									
	2008	2009	2010	2011	2012	2013	2018	2028		
PV of Debt-to-GDP Ratio										
Baseline	34	31	33	32	33	34	34	34		34
A. Alternative Scenarios										
A1. Real GDP growth and primary balance are at historical averages	34	29	29	27	26	26	19	11		
A2. Primary balance is unchanged from 2008	34	31	34	34	36	38	41	46		
A3. Permanently lower GDP growth 1/	34	31	33	33	35	36	41	52		
A4. Alternative Scenario: Growth lower by one standard deviation 2009 -2013	34	31	34	34	36	39	41	52		
B. Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2009 - 2010	34	33	38	39	42	44	50	57		
B2. Primary balance is at historical average minus one standard deviations in 2009 - 2010	34	29	30	29	31	32	33	33		
B3. Combination of B1 – B2 using one half standard deviation shocks	34	30	31	31	34	36	41	44		
B4. One-time 30 percent real depreciation in 2009	34	35	37	35	36	37	36	35		
B5. 10 Percent of GDP increase in other debt-creating flows in 2009	34	40	42	40	41	42	40	37		
PV of Debt-to-Revenue Ratio 2/										
Baseline	142	138	139	140	141	148	148	148		148
A. Alternative Scenarios										
A1. Real GDP growth and primary balance are at historical averages	142	128	121	117	112	111	82	45		
A2. Primary balance is unchanged from 2008	142	139	145	149	153	162	176	192		
A3. Permanently lower GDP growth 1/	142	138	141	144	148	157	175	227		
A4. Alternative Scenario: Growth lower by one standard deviation 2009 -2013	142	140	145	150	155	166	178	223		
B. Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2009 - 2010	142	149	162	170	177	191	217	249		
B2. Primary balance is at historical average minus one standard deviations in 2009 - 2010	142	130	127	129	131	138	141	144		
B3. Combination of B1 – B2 using one half standard deviation shocks	142	132	129	136	143	154	172	184		
B4. One-time 30 percent real depreciation in 2009	142	157	156	155	155	162	156	152		
B5. 10 Percent of GDP increase in other debt-creating flows in 2009	142	178	176	176	175	181	173	161		

Appendix 7: Kenya: Sensitivity Analysis for Key Indicators of Public Debt 2008 – 2028 (Continued)

	Projections										
	2008	2009	2010	2011	2012	2013	2018	2028			
Debt Service-to-Revenue Ratio 2/											
Baseline	25	26	25	24	28	27	23	20			
A. Alternative Scenarios											
A1. Real GDP growth and primary balance are at historical average	25	27	25	24	27	24	16	6			
A2. Primary balance is unchanged from 2008	25	26	25	25	28	28	26	25			
A3. Permanently lower GDP growth 1/	25	26	25	25	28	28	26	29			
A4. Alternative Scenario: Growth lower by one standard deviation 2009 - 2013	25	27	26	26	30	30	28	30			
B. Bound tests											
B1. Real GDP growth is at historical average minus one standard deviations in 2009 - 2010	25	27	27	28	32	32	31	33			
B2. Primary balance is at historical average minus one standard deviations in 2009 - 2010	25	26	24	23	26	25	22	19			
B3. Combination of B1 – B2 using one half standard deviation shocks	25	27	26	24	27	27	26	24			
B4. One-time 30 percent real depreciation in 2009	25	27	26	26	29	29	26	23			
B5. 10 Percent of GDP increase in other debt-creating flows in 2009	25	26	26	30	32	32	26	22			

Sources: Country authorities and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period

2/ Revenues are defined inclusive of grants