REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

PUBLIC DEBT MANAGEMENT OFFICE

2024 Medium-Term Debt Management Strategy

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TABLE OF CONTENT

LIST OF FIGURES

LIST OF TABLES

FOREWORD

The Medium-Term Debt Management Strategy (MTDS) is a policy document that guides government borrowing and public debt management in ensuring its sustainability. It is prepared and published annually to guide the government in pursuing the desired structure of the public debt portfolio which reflects its choice on cost and risk trade-offs in the medium-term. Additionally, the strategy reflects on the government's commitment to develop and implement viable strategies designed to maintain public debt at sustainable levels.

The preparation of 2024 MTDS is in accordance with the requirements of Section 33(2) of the Public Finance Management (PFM) Act, 2012 and the guidelines outlined in the public debt and borrowing policy. The strategy is anchored on the Budget Policy Statement (BPS) as provided for in the Public Finance Management. The objective is to reduce the fiscal deficit and public debt vulnerabilities and lower Kenya's high risk of debt distress to moderate in the medium-term.

The 2024 MTDS has been prepared on the background where the economy has been facing major shocks, among them, the geopolitical conflicts that disrupted global trade leading to increased fuel, fertilizer and food prices; the lingering of the post COVID-19 pandemic effects; and a severe drought witnessed in the region and most parts of the country associated with climate change which exerted more strain on the country's resources. The practice of reviewing MTDS on a regular basis demonstrates government's commitment to promote transparency and accountability in public debt management that considers new debt policy direction on emerging economic environment.

In preparing the 2024 MTDS, several financing options were evaluated based on costs and risks underlying various alternative strategies. The most optimal cost-risk trade-off is determined by considering a range of financing alternatives. Key consideration included potential sourcing from domestic and foreign financial market with an objective of minimizing costs and risks.

The strategy recognizes a diversified debt structure and development of the domestic debt market which is necessary to mitigate against exchange rate risks on a country's external debt. In relation to this, the government successfully implemented the DhowCSD system that will broaden the Kenyan market to include retail investors hence mobilizing domestic savings to support development and inclusive growth which is consistent with Vision 2030. Kenya has also made a deliberate effort to consider diversifying sources of external borrowing in the international capital markets targeting instruments such as green and blue bonds, Samurai bonds, Panda bonds, Sukuk bonds among others.

Reducing fiscal deficit is necessary to stem escalation of debt accumulation and maintain debt at sustainable levels. To achieve this, the government is on a fiscal consolidation path consistent with the approved debt anchor which pegs public debt as a percentage of Gross Domestic Product (GDP) in net present value.

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ACKNOWLEDGEMENT

The Medium-Term Debt Management Strategy (MTDS) is prepared and revised annually to guide public debt management in the medium-term. In-depth consideration and reflection of the costs and risks of public debt amidst the continuous paradigm changes in the global financial markets informed the development of 2024 MTDS. The analysis employed is cognizant to the objectives of Public Debt and Borrowing Policy with an emphasis to minimized costs and risks of the evolving debt portfolio.

The development of the 2024 MTDS involved the use of analytical tools to analyze the existing debt portfolio; debt risks characteristics and potential borrowing alternatives of which an optimal borrowing strategy was determined. The analysis takes into account the macro-economic assumptions underpinned in the 2024 Budget Policy Statement.

The resources mobilized through borrowing shall facilitate the achievement of the government development agenda while minimizing the cost of public debt management. Further, emphasis will be on promoting development and deepening of the domestic debt market institutions and enhance intergenerational equity.

The preparation of the 2024 MTDS was a collaborative effort involving various Departments within the National Treasury and the Central Bank of Kenya. I would like to appreciate the invaluable leadership and guidance provided by the Cabinet Secretary, National Treasury and Economic Planning towards the development of this Strategy. Moreover, I recognize the untiring effort of the Governor Central Bank of Kenya and the Director General, Public Debt Management Office for providing the technical guidance and putting together the core team that worked tirelessly to develop this document while maintaining esteemed professionalism.

The 2024 MTDS and previous years' versions of the Medium-Term Debt Management Strategies are available for reference and information in the National Treasury website: www.treasury.go.ke.

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ABBREVIATION AND ACRONYMS

ADF	African Development Fund
AfDB	Africa Development Bank
AiA	Appropriation in Aid
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CBK	Central Bank of Kenya
CFS	Consolidated Fund Services
CI	Composite Indicator
CMA	Capital Market Authority
COVID-19	Corona Virus Disease
CPIA	Country Policy and Institutional Assessment
CSD	Central Securities Depository
DSA	Debt Sustainability Analysis
FCCL	Fiscal Commitment and Contingent Liabilities
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEBC	Independent Electoral and Boundaries Commission
IFAD	International Finance for Agricultural Development
IMF	International Monetary Fund

ISB	International Sovereign Bond
KenGen	Kenya Electricity Generating Company
KPA	Kenya Ports Authority
KQ	Kenya Airways
Ksh.	Kenya Shillings
MDAs	Ministries, Departments and Agencies
MFAD	Macro and Fiscal Affairs Department
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MTP III	Medium-Term Plan III
NSE	Nairobi Securities Exchange
OTC	Over the Counter
PDMO	Public Debt Management Office
PFM	Public Finance Management, Act 2012
PPG	Public & Public Guaranteed
PPP	Public Private Partnerships
PV	Present Value
RMD	Resources Mobilization Department
S1	Strategy 1
S2	Strategy 2
S3	Strategy 3
S4	Strategy 4
SDR	Special Drawing Rights
SOEs	State Owned Enterprises
USD	United States Dollar

EXECUTIVE SUMMARY

The 2024 Medium-Term Debt Strategy (MTDS) has been prepared as per the requirements of Section 33(2) of the Public Finance Management Act, 2012 that guides borrowing activities of the government over the medium-term. This strategy covers the period 2024/25-2026/27 and it outlines the strategies and initiatives to be implemented, aiming at minimizing costs and risks of debt management.

The strategy was developed in the face of ongoing global uncertainties, which includes high but gradually declining inflationary pressures, an unfavourable outlook for global growth, elevated geopolitical tensions, concerns about the stability of the financial sector in advanced economies and rise in food insecurity as a result of climate change related shocks.

The strategy is aligned to 2024 Budget Policy Statement (BPS) whose aim is to support economic recovery through a growth friendly fiscal consolidation plan aimed at slowing the public debt accumulation without compromising service delivery to citizens.

The government's plan in the fiscal year 2024/25 and over the medium-term is to implement priority economic policies, structural reforms, fiscal consolidation plan and sectoral expenditure programs outlined in the 2024 BPS, through a Bottom-Up approach for a socioeconomic transformation, economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings.

The scope of coverage of this strategy is the existing debt portfolio, non-performing guarantees, and the projected fiscal deficits in the 2024 BPS.

Public and publicly guaranteed debt in nominal terms as at end June 2023 was Ksh. 10,278.7 billion (70.8 percent of GDP). This comprises external debt stock of Ksh. 5,446.5 billion and domestic debt stock of Ksh. 4,832.1 billion. Kenya's debt remains sustainable with high risk of debt distress as per the Debt Sustainability Analysis (DSA) report by International Monetary Fund (IMF) as at June, 2023.

The present value of public debt was 68.2 percent of GDP against the approved debt anchor of 55 percent of debt to GDP. The domestic debt was 36.5 percent while external debt was 31.7 percent of GDP in PV terms.

Preparation of the 2024 MTDS to guide borrowing in the medium-term is in line with the PFM Act, 2012. The 2024 optimal strategy seeks to achieve gradual reduction of Treasury bills stock with domestic financing mainly sourced from medium to long-term Treasury bonds. Externally, the strategy focuses more on budget financing through concessional borrowing. In terms of net financing, the option assumes 45 percent domestic and 55 percent external borrowing.

The strategy will meet the government requirements while repaying its debt maturities. The outcomes of the optimal strategy are:

i. It has the least cost of debt in terms of interest payments as a percent of GDP and implied interest rate.

ii. It has least PV of debt to GDP as a resulting outcome of the fiscal consolidation plan.

iii. To minimize refinancing risk by lengthening the total portfolio Average Time to Maturity (ATM) through issuance of medium to long-term bonds and concessional loans with longer maturities.

iv. To minimize interest rate risk in terms of average time to re-fixing.

v. To deepen the domestic bond market through issuance of more medium to long-term instruments as the main source of domestic financing.

Changes in global economic and market conditions may result to deviation from the optimal strategy. Appropriate measures will be taken to align the strategy to policy actions at the time. Implementation of the strategy will be monitored and evaluated closely to factor any changes as they evolve based on market realities and fiscal adjustments.

I. INTRODUCTION

1. Article 225 (1) of the Constitution of Kenya and Section 12 (1) (b) of the Public Finance Management (PFM) Act, 2012 give the National Treasury the mandate to manage the level and composition of national public debt, National Guarantees and other financial obligations of national government within the framework.

2. Section 62 (3) of the PFM Act, 2012 specifies objectives of the Public Debt Management to include: minimization of the cost of debt management and borrowing over the long-term taking account of risks; promote the development of market institutions for Government securities; and ensure the sharing of the benefits and costs of public debt between the current and future generations.

3. Section 63 (c) of the PFM Act, 2012 mandates the PDMO to prepare and update MTDS annually including Debt Sustainability Analysis (DSA). Additionally, Section 64 (2) (a) of the Act, requires the MTDS to be consistent with the Budget Policy Statement (BPS).

4. The National Treasury prepares and publishes the Medium-Term Debt Management Strategy every year, which sets optimal strategy to finance government's medium-term borrowing requirements at the most optimal combination of cost and risk. It links the medium-term fiscal framework of government to the annual borrowing plan to facilitate borrowing at the lowest cost and most prudent degree of risk.

5. The 2024 Medium-Term Debt Management Strategy (MTDS) is prepared in conformity to Section 33(3) of the PFM Act, 2012 and include: a) the total stock of debt as at the date of the statement; b) the category of loans made to the national government; c) the principal risks associated with those loans and guarantees; d) the assumptions underlying the debt management strategy; and e) an analysis of the sustainability of the amount of debt, both actual and potential. It highlights plans reforms to be implemented by the National Treasury and other key market players aimed at deepening the domestic debt markets and reducing costs and risks of borrowing and debt management, develop the domestic debt market and pursuit of intergenerational equity in costs and benefits of public debt.

6. The MTDS aims to minimize costs and risks of the existing domestic and external guaranteed debt and called-up guaranteed debt, projected debt and financing of the fiscal deficit for the period FY2024/25 to FY2026/27.

Background to Medium-Term Debt Management Strategy

7. Kenya's economic performance has remained stable amidst global shocks in relation to Russia-Ukraine conflict, climate-related shocks and rising uncertainties in the global economy due to ongoing geo-political dynamics. In 2023, the economy is expected to grow by 5.5 percent from 5.2 percent in 2022 and is expected to remain stable the medium-term. The steady economic growth is expected to be supported by recovery in the agricultural

sector and resilient service sector including information and communication, financial services and trade.

8. Inflation rate has largely been within the government target of 5±2.5 percent at 6.6 percent in December 2023 from 9.1 percent in December 2022 and this was supported by lower food prices, prudent monetary policy and other government policy interventions. The overall inflation is expected to remain within the target range in the medium-term with the support of muted demand pressures.

9. In 2023, Kenya sovereign rating is at B by both Standard and Poor's (S&P) and Fitch Ratings. Moody's rated Kenya at B3 with a negative outlook. The variations in the credit rating scores were due to the influence of subjectivity and the perceptions on the qualitative analysis. Nevertheless, Kenya's public debt is within sustainable levels. The fiscal consolidation path is aimed at lowering fiscal deficit to curtail growth in the public debt.

10. The total revenue for the FY 2024/25 is estimated at Ksh. 3,435.0 billion, equivalent to 19.1 percent of GDP while total expenditure is projected at Ksh. 4,188.2 billion, equivalent to 23.2 percent of GDP. The deficit is projected at 3.9 percent of the GDP and expected to decline to 3.3 percent in the medium-term.

11. As at end June 2023, the public debt in nominal terms amounted to Ksh. 10,278.7 billion, equivalent to 70.8 percent of GDP. Total external debt was Ksh. 5,446.6 billion, equivalent to 37.5 percent of GDP, whereas domestic debt totalled Ksh. 4,832.1 billion, equivalent to 33.3 percent of GDP.

12. Kenya's public debt remains sustainable but with high risk of debt distress (IMF December 2023). Kenya is ranked a medium performer, in terms of Debt Carrying Capacity, with a Composite Indicator (CI) of 3.01 Implementation of ongoing fiscal consolidation program through domestic revenue mobilization and spending rationalization measures will stem debt accumulation.

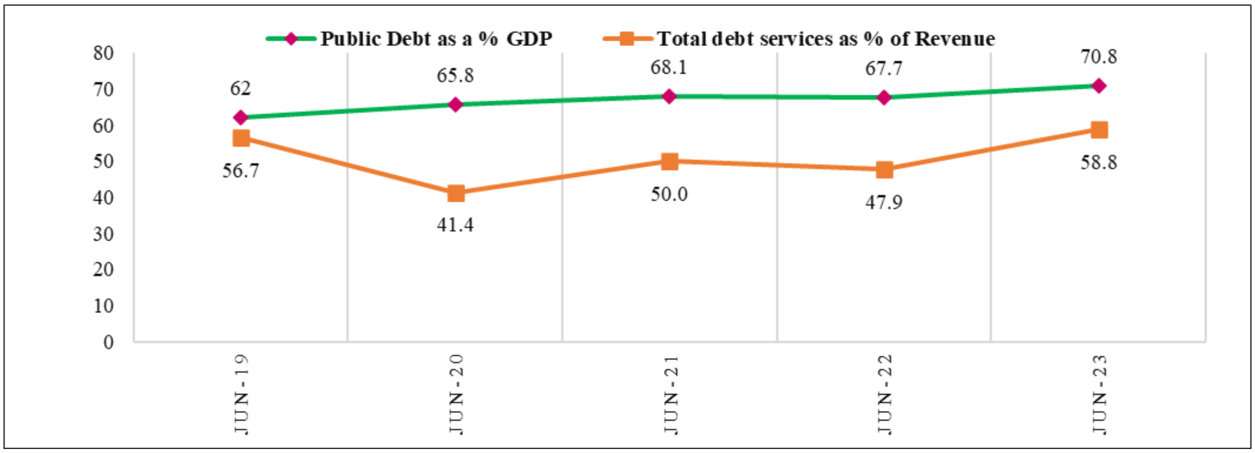
13. The next chapters include: reviews of the costs and risks characteristics of public debt; debt sustainability analysis; macroeconomic assumptions and key risks under the 2024 BPS; potential sources of financing; costs and risks of alternative debt management strategies; and the implementation work plan.

II. STOCK OF PUBLIC AND PUBLICLY GUARANTEED DEBT

14. As at end June 2023, the stock of public debt was Ksh. 10,278.7 billion, equivalent to USD 73.1 billion in nominal terms of which, domestic debt was Ksh. 4,832.1 billion while external debt was Ksh. 5,446.5 billion **(Table 5).**

15. As at end June 2023, the public debt as a percentage of GDP stood at 70.8 percent while total debt service as a percentage of revenue was 58.8 percent (**Figure 1**).

Figure 1: Debt to GDP ratio percent and Total Debt Service as percent of Revenue from 2019-2023



Source: *The National Treasury*

16.The 2024 MTDS analysis considers a debt stock of Ksh. 10,091.6 billion or USD 71.8 billion excluding Ksh. 187.0 billion of which uncalled guaranteed debts of Ksh.82.0 billion, Government overdraft at CBK of Ksh.76.5 billion, Suppliers credit of Ksh.14.8 billion and Bank advances of Ksh.7.3 billion.

17. External public debt comprise multilateral, bilateral and commercial creditors while the domestic debt comprise Treasury bonds and bills. As a proportion of total external debt, multilateral, commercial debt (including international sovereign bond) and bilateral accounted for 48.7 percent, 26.4 percent and 24.6 percent respectively. **(Figure5.** Treasury bonds accounted for 83.1 percent and Treasury bills accounted for 12.7 percent of total domestic debt. The other domestic debt includes pre-1997 government loan of Ksh.17.8 billion and IMF on-lent loan of Ksh 95.5 billion.

18.As at end June 2023, the stock of domestic debt was Treasury bills Ksh. 614.7 billion, while Treasury bonds with various tenors was Ksh. 4,013.9 billion.

Table 1: Public and Publicly Guaranteed Debt in the MTDS end-June 2023

	Ksh.(billions)	USD (billions)
A. Domestic Debt (included in MTDS)		
Treasury Bills	614.7	4.4
Treasury Bonds	4,013.9	28.6
IMF SDR Allocation	95.5	0.7
Pre-1997 Government Debt	17.8	0.1
Sub Total	**4,741.9**	**33.7**
B. External debt (included in MTDS)		
IDA/IBRD	1,725.8	12.3
ADF/AfDB	517.9	3.7
Bilateral	1,257.5	8.9
Multilateral	411.2	2.9
Commercial Banks	351.3	2.5
International Sovereign Bond	997.7	7.1
Called -Up Guaranteed Debt	88.2	0.6
Sub Total	**5,349.7**	**38.1**
C. Excluded from MTDS		
Suppliers Credit	14.8	0.1
CBK Overdraft	76.5	0.5
Performing Guarantees	82.0	0.6
Bank advances	13.7	0.1
Sub Total	**187.0**	**1.3**
TOTAL DEBT Included in MTDS (A+B)	**10,091.6**	**71.8**
TOTAL DEBT (A+B+C)	**10,278.7**	**73.1**
Domestic	4,832.1	34.4
External	5,446.6	38.8

Source: *The National Treasury and Central Bank of Kenya*

19.Government guaranteed debt as at end June 2023, to Kenya Power and Lighting Company (KPLC), Kenya Ports Authority (KPA), Kenya Electricity Generation Company (KenGen) and Kenya Airways (KQ) amounted to Ksh. 170.2 billion (**Table2**. The called-up guarantee loan relates to Kenya Airways guaranteed debt of Ksh 88.2 billion.

Table 2: Outstanding Government Guaranteed Debt (End-June 2023)

Beneficiary Entity	Ksh. (billions)	USD (billions)
Kenya Power and Lighting Company	9.0	0.1
Kenya Ports Authority	50.5	0.4
Kenya Electricity Generation Company	22.4	0.2
Sub-Total Un-Called Guarantees	82.0	0.6
Kenya Airways	88.2	0.6
Sub-Total Called Guarantees	88.2	0.6
Totals Guaranteed debt	**170.2**	**1.2**

Source: *The National Treasury*

III.REVIEW OF THE COSTS AND RISKS OF KENYA PUBLIC DEBT

Review of the implementation of the 2022 MTDS.

20. The 2022 Medium-Term Debt Management Strategy guided borrowing in the FY 2022/23. The Strategy aimed to reduce the cost of debt by optimizing on concessional borrowing and minimizing commercial borrowing. Additionally, it sought to reduce the refinancing risk by lengthening the maturity profile of public debt and supporting the deepening of domestic market through issuance of medium to long-term debt securities.

21. The external and domestic financing was to account for 25 percent and 75 percent respectively, in gross terms. The composition of gross external financing consisted of concessional and commercial sources at 22 percent and 3 percent respectively, with no borrowing from semi-concessional sources. The stock of Treasury bills was projected to decrease over the medium-term.

22. The 2022 MTDS achieved 22:78 percent external to domestic financing, deviating from the projected 25:75 percent, in gross borrowing terms (Table 3. This was on account of unfavourable global market conditions.

Table 3: 2020-2023 MTDS Targets against borrowing outturn (percent)

Borrowing source		FY2019/20	FY2020/21	FY2021/22	FY2022/23
External	MTDS	38	28	27	25
	Actual	28	19	15	22
	Deviation	**10**	**9**	**12**	**3**
Domestic	MTDS	62	72	73	75
	Actual	72	81	85	78
	Deviation	**-10**	**-9**	**-12**	**-3**

Source: *National Treasury*

23. The total net borrowing to fund the fiscal deficit was Ksh.758.0 billion. This comprises actual net foreign borrowing of Ksh. 310.8 billion against a target of Ksh. 280.7 billion and actual net domestic borrowing of Ksh. 447.2 billion against a target of Ksh. 475.0 billion.

24. As at end June 2023, the actual gross domestic borrowing was Ksh. 1,957.5 billion while gross external borrowing was Ksh. 548.2 billion.

Table 4: Gross borrowing for FY 2022/23

	2022 MTDS Targets (%)	FY2022-2023 Actual (%)	FY2022-20223 (Ksh. millions)
Gross domestic borrowing	75.0	78.0	1,957,479
Gross external borrowing	25.0	22.0	548,171
o/w Concessional and Semi concessional	22.0	18.0	445,953
Commercial borrowing	3.0	4.0	102,218

Source: *National Treasury*

25. The total actual gross external borrowing was 22.0 percent of the total borrowing against a target of 25.0 percent. This comprises disbursements from multilateral and bilateral sources in form of program loans, project AIA, cash loans and IMF SDR allocation (**Table 4**.

26. The actual gross domestic borrowing was 78.0 percent of the total borrowing compared to 75.0 percent optimal strategy target.

27. The 2022 MTDS aimed at lowering the debt service cost and minimizing the refinancing risk. However, there was an increase in both the debt service cost and the refinancing risk due to appreciation of major currencies against the Kenya shilling and elevated interest rates in the domestic market (**Table 5**).

Table 5: Review of costs and risks indicators

Risk Indicators						
		Baseline June 2021	2022 MTDS Targets	Actual End June 2023	Deviation (4-3)	Remark on deviation
Interest costs as % of GDP		4.6	4.3	5.5	+1.2	Increased debt service cost due to increase in interest rates in the international and domestic debt market and accumulation of debt and exchange rate depreciation
Refinancing risk	Debt maturing in 1yr (% of total debt)	14.8	10.1	12.7	+2.6	Increased refinancing risk due to increased issuance of short-term instruments.
	Debt maturing in 1yr (% of GDP)	10.2	6.4	10.0	+3.6	
	ATM External Portfolio (years)	10.8	14.1	9.3	-4.8	
	ATM Domestic Portfolio (years)	6.9	9.1	7.5	-1.6	
	ATM Total Portfolio (years)	9.0	11.5	8.5	-3.0	
Interest rate risk	ATR (years)	8.3	11.3	7.7	-3.6	Marginal increase in interest rate risk indicators
	Debt re-fixing in 1yr (% of total)	25.4	14.1	26.7	+12.6	Worse off due to $2bn maturing in 2024
	Fixed rate debt (% of total)	87.7	95.3	84.5	-10.8	Worse off
Foreign exchange (FX) risk	FX debt as % of total debt	51.3	47.1	51.5	+4.4	Increased foreign exchange rate exposure due to currency depreciation

Source: *The National Treasury*

28. The interest payment as a share of GDP increased by 1.2 percentage points due to accumulation of debt and increase in interest rates by Central Banks both in the domestic and international capital markets, to contain inflationary pressures.

29. The increase in refinancing risk is reflected by the increase in the proportion of debt maturing in one year as a percentage of total debt from 10.1 percent to 12.7 percent. This indicates an increase in the issuance of short-term instruments. In addition, the Average time to Maturity (ATM) of the total debt portfolio reduced from 11.5 years to 8.5 years.

30. Marginal increase in interest rate risk indicators is echoed by the reduction of Average Time to Re-fixing (ATR) from 11.3 years to 7.7 years. Additionally, the debt re-fixing in 1 year as a percentage of total debt rises to 26.7 percent against a target of 14.1 percent.

31. The Kenya shilling depreciating against major currencies exacerbated the foreign exchange risk. Foreign debt as a percentage of total debt increased to 51.5 percent from 47.1 percent (**Table 5**).

Average terms of new external debt

32. Global markets rates have tightened from the hardening borrowing terms. The worsening market conditions due to global and geopolitical economic shocks including monetary policy tightening in major economies and uncertainties related to war. The new external debts average maturity reduced to 15.7 years as at end June 2023 from 25.9 years in June 2022. The weighted average interest rate increased to 3.2 percent from 0.8 percent in June 2022. However, the grace period increased to 4.8 years from 4.2 years during the same period **(Table 6).**

Table 6: Average Terms of New External Debt

Terms	2016	2017	2018	2019	2020	2021	2022	2023
Average Maturity (years)	20.3	17.6	20.8	15.3	26.1	23.3	25.9	15.7
Grace Period (years)	6.2	4.5	10.3	5.6	7.4	7.4	4.2	4.8
Average Interest Rate (%)	2.6	2.6	3.9	3.9	0.5	2.1	0.8	3.2

Source: *The National Treasury*

IV. COSTS AND RISKS ANALYSIS OF THE EXISTING PUBLIC DEBT PORTFOLIO

33. This section highlights the costs and risks characteristics of the existing public debt portfolio as at end June 2023.

34. Nominal debt as a percentage of GDP increased to 70.8 percent in June 2023 from 67 percent in December 2022 due to depreciation of Kenya shilling against major currencies and new borrowing to finance fiscal deficit while the present value of public debt to GDP increased to 68.2 percent from 60.0 percent in the same period. (**Table 7).**

Table 7: Cost and risk indicators for existing debt as at end June 2023

Risk Indicators		Dec-22			Jun-23		
		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
Nominal debt as percentage of GDP		34.4	32.6	67.0	37.5	33.3	70.8
PV as percentage of GDP		26.8	33.2	60.0	31.7	36.5	68.2
Cost of debt	Interest payment as percentage of GDP	1.4	3.9	5.3	1.7	3.8	5.5
	Weighted Av. IR (percentage)	3.9	11.4	7.6	4.5	11.4	7.7
Refinancing risk	ATM (years)	9.8	7.8	8.8	9.3	7.5	8.5
	Debt maturing in 1yr (percentage of total)	5.1	18.7	11.7	9.7	16.8	12.7
	Debt maturing in 1yr (percentage of GDP)	1.9	6.5	8.4	4.4	5.6	10.0
Interest rate risk	ATR (years)	8.4	7.8	8.1	7.7	7.5	7.7
	Debt re-fixing in 1yr (percentage of total)	27.0	18.7	23.0	33.9	16.8	26.7
	Fixed rate debt incl T-bills (percentage of total)	75.3	100.0	87.2	73.2	100.0	84.5
	T-bills (percentage of total)	0.0	15.3	7.4	0.0	13.0	5.5
FX risk	FX debt (percentage of total debt)			49.0			51.5
	ST FX debt (percentage of reserves)			23.9			55.1

Source: *The National Treasury*

35. The total interest payments as a share of GDP increased to 5.5 percent as at end June 2023 from 5.3 percent as at end December 2022. External interest payments as a share of GDP increased to 1.7 percent as at end June 2023 from 1.4 percent as at end December 2022 while domestic interest payments as a percentage of GDP decreased to 3.8 percent from 3.9 percent during the same period. This increase is explained by increased interest rates in the domestic market and depreciation of Kenya shillings against major currencies.

36. The main refinancing risk indicators are: debt maturing in one year as a percentage of total public debt; and Average Time to Maturity (ATM). As at end June 2023, the ATM of

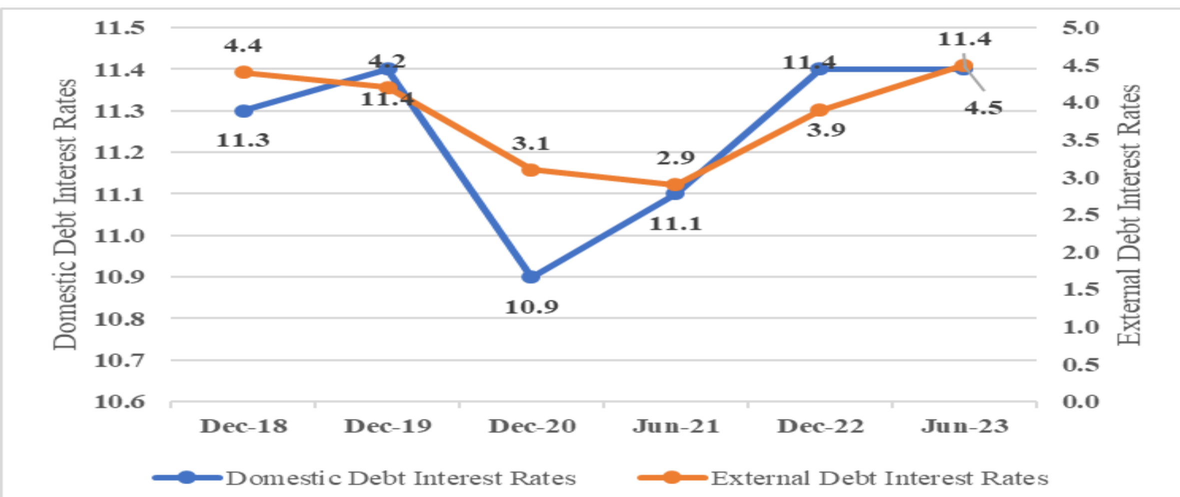
external and domestic debt portfolio reduced to 9.3 years and 7.5 years as at end June 2023 from 9.8 years and 7.8 years as at end December 2022 respectively. This was due to investors' preference for short-term debt instruments.

37. Overall, the average time to maturity of the existing public debt portfolio (external and domestic debt) reduced from 8.8 years as at end December 2022 to 8.5 years as at end June 2023.

38. Domestic debt maturing in one year as a percentage of total debt decreased to 16.8 percent in June 2023 from 18.7 percent in December 2022. External debt maturing in one year as percentage of the total debt increased to 9.7 percent from 5.1 percent as at end June 2023, due to large bullet maturity of USD 2 billion maturing in June 2024.

39. The Average Time to Re-fixing (ATR) of total public debt (external and domestic) reduced from 8.1 years in December 2022 to 7.7 years in June 2023. The Weighted Average Interest Rate (WAIR) for external debt increased from 3.9 percent to 4.5 percent while domestic debt remained same during the same period (**Figure 2**). In a volatile interest rate environment, a shorter ATR is risky because interest rates may change to a higher rate in a short time resulting into higher debt service costs.

Figure 2: Weighted Average Domestic and External Interest rates as at end June 2023



Source: *The National Treasury*

40. The maturity structure of domestic debt improved as at end June 2023. The proportion of instruments with less than one year to maturity reduced to 16.7 percent as at end June 2023 from 19.5 percent as at end December 2022. Further, instruments with the remaining years to maturity between 2-3 years, 4-5 years and 6-10 years increased by 5.2 percentage points, 7.3 percentage points and 4.3 percentage points respectively. However, the proportion of instruments with longer than 11 years to maturity as at end June 2023 reduced by 14 percentage points from 40.9 percent as at end December 2022 to 26.9 percent as at end June 2023. This was attributed to the investor's preference to short-term instruments (**Table 8**).

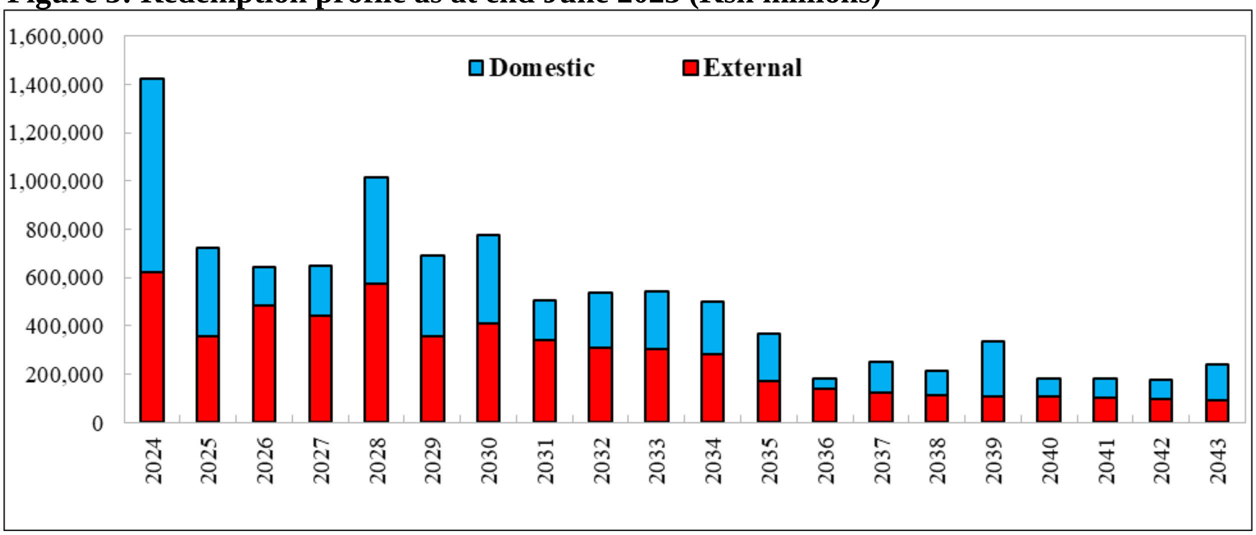
Table 8: Domestic Debt by Maturity Profile, in USD equivalent

Remaining Maturity in Years	End Dec 2022 In million USD	As Percent of Total	End June 2023 In million USD	As Percent of Total
Less than one year	6,963	19.5	5,645	16.7
2 to 3 years	3,598	10.1	5,143	15.3
4 to 5 years	3,119	8.7	5,407	16.0
6 to 10 years	7,401	20.8	8,465	25.1
Above 11 years	14,587	40.9	9,085	26.9
Total	35,668	100	33,745	100.0

Source: *The National Treasury*

41. Debts maturing in 2024 and 2028 are relatively elevated due to bullet maturing government securities and the International Sovereign Bond (ISB). (**Figure 3**)

Figure 3: Redemption profile as at end June 2023 (Ksh millions)

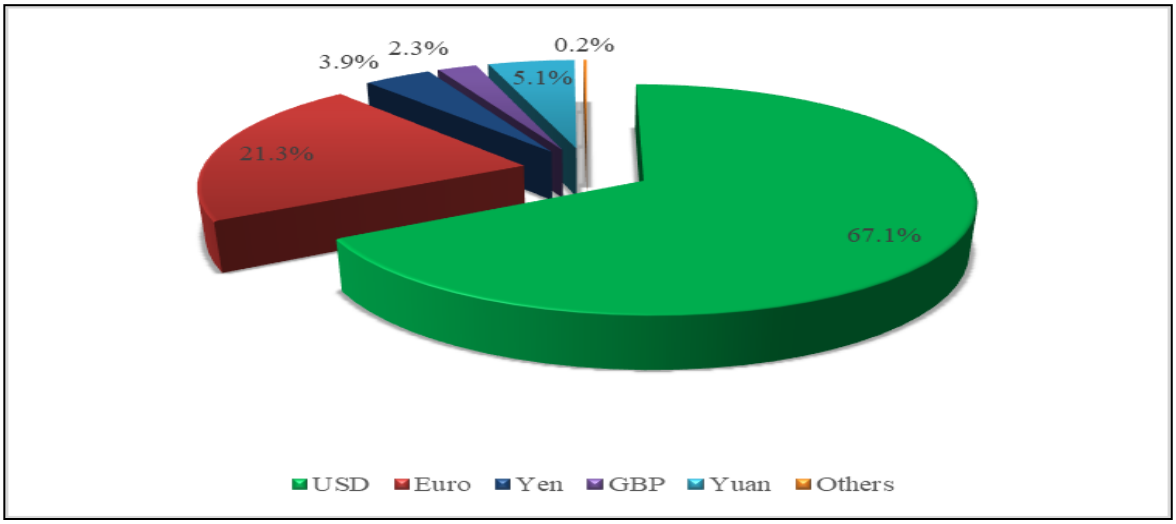


Source: *The National Treasury and Central Bank of Kenya*

42. Foreign currency denominated debt as a percentage of the total debt increased from 49.0 percent as at end December 2022 to 51.5 percent as at end June 2023. The increase is attributed to net new external borrowing to finance expenditure requirements in FY 2022/23 and appreciation of major foreign currencies against the Kenya shilling.

43. Short-term foreign debt as a percentage of reserves increased from 23.9 percent to 55.1 percent in the same period. The share of major foreign currency denominated debt as at end June 2023 is as shown in Figure 4.

Figure 4: Currency Composition of External Debt, End June 2023



***Source**: The National Treasury*

V. DEBT SUSTAINABILITY ANALYSIS

Introduction

44. Debt Sustainability Analysis (DSA) conducted in December 2023 indicates that Kenya's public debt remains sustainable but with a high risk of debt distress. The scope of the analysis covers public debt from central government, Central Bank of Kenya debt contracted on behalf of the Government, and National Government guaranteed debt. The analysis excludes non-guaranteed debt of the public sector and arrears, which are disclosed in the annual debt management report.

Kenya's Debt Carrying Capacity

45. Kenya is assessed as a medium performer in terms of Debt Carrying Capacity (DCC), with an estimated Composite Indicator (CI) of 2.98 (**Table 9**). The CI captures the impact of various factors through a weighted average of an institutional indicator (measured by the World Bank's Country Policy and Institutional Assessment (CPIA)), real GDP growth, remittances, international reserves, and global growth.

46. The December 2023 DSA CI score was marginally higher than the June 2023 DSA CI score and this was due to stronger projected path of import coverage of reserves. The applicable thresholds for the Public and Publicly Guaranteed (PPG) external and total public debt benchmark for a medium performer are shown on **Table 10**.

47. As shown in **Table 9**, Kenya's debt carrying capacity has remained medium since March 2021, a downward revision from Strong, largely reflecting the impact of COVID-19 crisis on the global and domestic economies. The downgrade from Strong to Medium performer resulted to lower debt sustainability thresholds for external debt and benchmarks for total public debt. The rating also moved to high risk of debt distress in 2020 from moderate risk in 2019, reflecting the impact of the global COVID-19 crisis which exacerbated existing vulnerabilities (**Table 9 and Table 10**).

Table 9: Kenya's debt risk levels and debt carrying capacity

	2017	2018	2019	May-20	Mar-21	Dec-21	Dec-22	Jun-23	Dec-23
Debt Carrying Capacity	*Strong*	*Strong*	*Strong*	*Strong*	*Medium*	*Medium*	*Medium*	*Medium*	*Medium*
Composite Index (CI)				*3.12*	*3.01*	*3.04*	*3.02*	*2.98*	*3.01*
Risk of Debt Distress	*Low*	*Moderate*	*Moderate*	*High*	*High*	*High*	*High*	*High*	*High*

Source: *The National Treasury & IMF country reports, IMF 2023*

Table 10: Applicable Thresholds and Benchmark for Strong and Medium Performance

	Debt Burden Indicators	Strong DCC	Medium DCC
External Debt Thresholds	PV of debt in % of Exports	240	**180**
	PV of debt in % of GDP	55	**40**
	Debt service in % of Exports	21	**15**
	Debt service in % of Revenue	23	**18**
Total Public Debt Benchmark	PV of total public debt in % of GDP	70	**55**

Source: *Guidance Note on Bank-Fund Debt Sustainability Framework for Low Income Countries*

External Debt Sustainability Analysis

48. External DSA indicate that the Present Value (PV) of PPG external debt-to GDP ratio remains below the 40 percent indicative threshold throughout the projection period. This solvency indicator is projected to decline from 31.7 percent in 2023 to about 28.3 percent in 2028, reflecting the impact fiscal consolidation and a borrowing mix biased towards concessional borrowing (**Table 11**).

49. However, external debt indicators in terms of exports and revenues exceed their respective thresholds under the current trend (baseline), resulting to a mechanical high-risk signal (**Table 11**). The PV of PPG external debt-to-exports (solvency indicator) remains above the threshold (180 percent) through 2029, with the ratio expected to decline gradually as the exports recover.

50. Debt service-to-exports (liquidity indicator) exceeds its threshold (15 percent) in the medium-term on account of Eurobond repayments in 2024 and 2028, and rollover of external bank loans (in 2025-26). Additionally, the anticipated rollovers of maturing commercial financing will cause the PPG debt service-to-revenue ratio (liquidity indicator) to exceed its threshold (18 percent).

51. The breaches in the debt thresholds in terms of exports indicate increased vulnerability of public debt to export and financing shocks. This underscores the importance of broadening the export base given the volatility in export commodity prices as well as continuation of the recent practice of contracting loans with amortizing repayment terms and lengthening of the maturity profile of domestic debt through issuance of longer dated bonds.

Table 11: Kenya's External Debt Sustainability Analysis

Indicators	*Thresholds*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2033*
		Actual		**Projection**					
PV of PPG external debt-to-GDP ratio	**40**	29.0	31.7	35.8	33.8	31.8	29.9	28.3	23.3
PV of PPG external debt-to-exports ratio	**180**	238.2	256.9	240.3	224.0	209.9	194.3	182.1	137.9
PPG debt service-to-exports ratio	**15**	21.5	24.9	36.0	25.1	24.9	21.1	23.3	15.5
PPG debt service-to-revenue ratio	**18**	15.3	17.3	28.5	19.8	19.6	16.9	18.8	13.6

Source: *The National Treasury & IMF country report*

Total Public Debt Sustainability Analysis

52. PV of debt to GDP ratio is projected to remain above the 55 percent benchmark until 2029, resulting in a high-risk signal (Table 12). The PV of public debt-to-GDP ratio is projected to decline steadily reflecting the impact of fiscal consolidation. To improve the ratio, the Government is implementing a multi-year growth-friendly fiscal consolidation program supported by measures to enhance revenue collection and curtail overall spending while safeguarding priority high-impact social and investment expenditure.

Table 12: Kenya's Public Debt Sustainability Analysis

Indicators	Benchmark	2022	2023	2024	2025	2026	2027	2028	2033
		Actual		**Projection**					
PV of debt–to-GDP ratio	**55**	**63.9**	**68.2**	**67.2**	**64.0**	**61.4**	**59.1**	**56.9**	48.1
PV of public debt-to-revenue and grants ratio	n/a	370.3	380.3	352.0	330.1	315.1	303.5	292.2	247.3
Debt service-to-revenue and grants ratio	n/a	56.0	55.2	68.9	58.0	55.5	50.5	50.9	43.6

Source: *The National Treasury & IMF country report*

53. Kenya's debt burden indicators are projected to improve in the medium-term, supported by the ongoing fiscal consolidation program that is expected to reverse the primary balance

from a deficit to a surplus, in the context of continued strengthening of global and domestic economic activity and robust exports receipts.

54. The Government will continue to optimize use of concessional funding, lengthen the maturity profile of public debt through issuance of medium to long dated bonds, and deepen domestic debt market to reduce cost of public debt and borrowing. Additionally, a steady and strong inflow of remittances and a favourable outlook for exports will play a major role in supporting external debt sustainability. The newly rolled out Central Securities Depository system (DhowCSD) is expected to bolster implementation of market development initiatives by improving the process in government securities auction and settlement, broadening investor base, improving liquidity, and reducing segmentation in the interbank market.

55. Additionally, although Kenya's public debt continues to be sustainable, annual borrowing limits (fiscal deficits) must be reduced to limit the rate of accumulation of public debt.

VI. MACROECONOMIC ASSUMPTIONS AND KEY RISKS

Baseline Macroeconomic Assumptions

56. The macroeconomic assumptions outlined in the 2024 Budget Policy Statement (BPS) (**Table 13**) are the integrated into the 2024 MTDS assumptions.

57. Economic growth in the FY 2024/25 is projected at 5.5 percent. This growth will be supported by implementation of priority programmes outlined in the Bottom-Up Economic and Transformational Agenda (BETA) and the fourth Medium-Term Plan of Vision 2030.

58. Over the medium-term, growth is projected to remain above 5.5 percent supported by inclusive growth through increased employment, more equitable distribution of income, enhanced social security and expansion of the tax revenue base.

Table 13: Baseline Macroeconomic Assumptions

	Unit	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
		Pre-Act.	**Projection**					
Real GDP	Percent	6.2	5.2	5.5	5.5	5.5	5.5	5.6
GDP Deflator	Percent	5.2	6.6	6.7	5.5	5.7	5.7	5.6
Inflation	Percent	6.9	7.7	6.3	5.0	5.0	5.0	5.0
Revenue	Percent of GDP	17.3	16.5	19.0	19.1	19.2	19.7	20.2
Expenditure	Percent of GDP	23.8	22.6	24.2	23.2	22.8	23.3	23.7
Overall Fiscal Balance	Percent of GDP	(6.3)	(5.6)	(4.9)	(3.9)	(3.3)	(3.3)	(3.1)
Primary Budget Balance	Percent of GDP	(1.6)	(0.8)	0.7	1.7	1.8	1.5	1.3
Revenue	Ksh. Billion	2,199.8	2,360.5	3,070.6	3,435.0	3,833.1	4,376.5	4,978.4
Expenditure	Ksh. Billion	3,027.8	3,221.0	3,902.9	4,188.2	4,553.0	5,170.0	5,823.1
Overall Fiscal Balance	Ksh. Billion	(747.8)	(770.3)	(785.0)	(703.9)	(666.7)	(724.9)	(771.0)
Primary Budget Balance	Ksh. Billion	(207.2)	(83.0)	104.9	304.8	359.1	325.7	318.1
GDP (Current Prices)	Ksh. Billion	12,698.0	14,274.4	16,131.5	18,015.2	20,002.3	22,180.5	24,594.5

Source: *The National Treasury*

Inflation

59. Inflation as at end June 2023, inflation increased above the government target range of 5 ± 2.5 percent. The overall inflation returned to target band from July 2023 declining to 6.9 percent in October 2023, and is expected to remain within the target supported by lower food prices, prudent monetary policy and other government policy interventions.

Revenue and deficits

60. The government will continue implementing growth responsive fiscal consolidation through broadening of tax revenue base and rationalization of expenditures in order to reduce the fiscal deficits. To this end, the fiscal deficit is projected to decline to 3.9 per cent of GDP in the FY 2024/25 and further to 3.1 percent of GDP over the medium-term.

61. The 2024 MTDS's alternative debt management strategies are aligned to the 2024 BPS's policy objectives.

Risks to the 2024 BPS baseline macroeconomic assumptions

62. Kenya’s debt sustainability is vulnerable to exogenous shocks e.g. export, revenue patterns, climate related shocks and exchange rate movements. To reduce debt vulnerabilities, the government is committed to finance capital investments using concessional borrowing and to deepen domestic market through setting up of an OTC exchange among other strategies. Additionally, a steady inflow of remittances and a favourable outlook for exports will play a major role in supporting external debt sustainability.

63. Performance of the economy and government revenues has a direct impact on debt sustainability. A slowdown in the growth of the economy may elevate debt indicators.

64. Inflation induced high interest rates in both domestic and international markets thus increasing the cost of borrowing. Continued pattern may pose a challenge to government’s financing of the FY2024/25 Budget and performing liability management operations on its debt portfolio as well as increasing its debt service costs. Government will continue to monitor market conditions with the view of taking appropriate actions when the conditions are favourable. Additionally, the government will continue to implement reforms to strengthen the domestic debt market to cushion against the downside risks emanating from international capital markets.

65. Investor preference for short-term instruments has resulted in increased refinancing risk through accumulation of more short-term debt.

66. The continued appreciation of major currencies against the Kenya shilling may increase the cost of debt service as over 50 percent of the total debt portfolio is in foreign currencies.

67. Materialization of fiscal risks especially from contingent liabilities arising from State-Owned Enterprises (SOEs) debts and Public Private Partnership (PPPs) projects remain a key risk to the budget. Continuous monitoring of these exposures is important to mitigate against any risks before they materialize.

68. The PDMO will continue to monitor evolving public debt risk profile and advice the National Treasury on appropriate remedial interventions.

VII. ASSESSMENT OF POTENTIAL SOURCES OF FINANCING

Sources of financing of the fiscal deficit

69. Borrowing from domestic and external markets remains the main source of funding budget deficits.

70. External borrowing mainly through loans from multilateral, bilateral and commercial lenders as well as bond issuances while domestic borrowing will be through Treasury bills refinancing and bonds issuance.

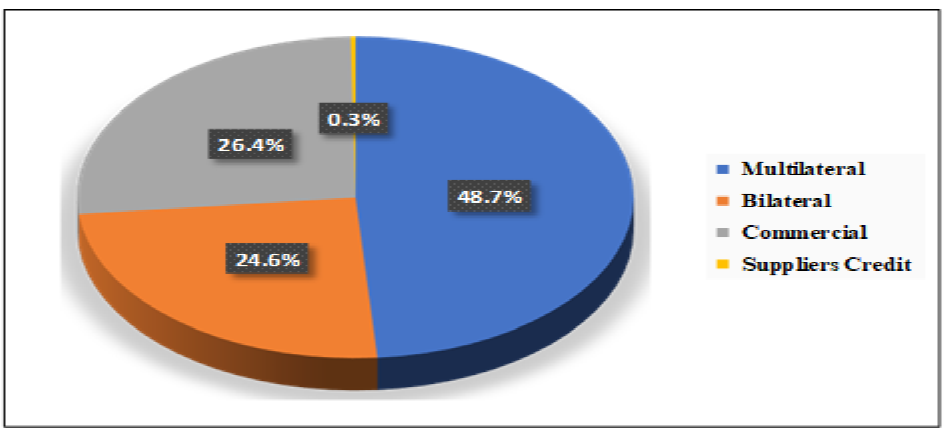
71. The Government will issue benchmark Treasury instruments (with tenors of 2, 5, 10, 15, 20 and 25 years), retail bonds and infrastructure bonds. However, off-benchmark bonds may be issued depending on the prevailing market conditions mainly through reopening of existing series. Treasury bills will be used for cash management purposes.

72. Non-bank institutions (pension funds, insurance firms, parastatals and retail investors) and commercial banks remain the major investors as they held 52.5 percent and 47.5 percent of the outstanding Treasury Bills and bonds as at end June 2023 respectively.

73. Multilateral, bilateral and commercial (including International Sovereign Bond, ISB) share in external debt was 50.5 percent, 23.8 percent and 25.4 percent respectively. Suppliers Credit accounted for 0.3 percent (**Figure 5**).

74. The main multilateral lenders comprise of International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), African Development Bank (ADB), African Development Fund (ADF) and International Monetary Fund (IMF) while dominant bilateral lenders included China, France and Japan as at end June 2023.

Figure 5: Existing share of external debt as at end June 2023



Source: *The National Treasury*

Potential sources to finance the medium-term budget

i. Domestic Sources

75. Over the years, the PDMO has successfully mobilized domestic debt as it contributed 59.7 percent of net new funding requirement in the FY 2022/23 through issuance of government securities.

76. To supplement traditional sources of funding, the PDMO will explore alternative funding sources including issuance of a Kenya shilling syndicated debt, foreign currency denominated domestic bond, and private placement for both local and external markets, among others.

77. The newly launched DhowCSD, which is a versatile market infrastructure, will improve monetary policy implementation and transmission and enhance operational efficiency in the domestic debt market. This will further promote capital market growth and deepen financial market through expanded digital access for broader financial inclusion, positioning Kenya as the preferred financial hub in the region. Additionally, the government will leverage on the DhowCSD to promote a national savings culture and to democratize access to government securities through re-engineering issuance of the retail bonds.

78. The PDMO will continue to spearhead key reforms to deepen the domestic debt market and diversify the investor base. To enhance the growth of the non-bank financial institutions such as pension, insurance and mutual funds, the PDMO will consider expanding the volumes and initiate new financial products such as post-retirement medical funds and contributory pension schemes.

ii. External Sources

79. External sources remain a key source of financing the fiscal deficit as it contributed 40.3 percent of net new funding requirement in the FY 2022/23.

80. Global shocks as a result of supply chain disruptions, monetary policy tightening in the USA and European countries, continue to have impact on Kenya's medium-term prospects negatively. Spikes in oil and commodity prices are exerting pressure on inflation and the exchange rate leading to increased cost of external finance.

81. The PDMO will continue to source concessional financing for development expenditure from multilateral financial institutions and bilateral lenders.

82. The PDMO may also explore the issuance of green, sustainability-linked, and blue bonds to finance climate related or environmental sustainability projects. Additionally, the PDMO may explore the possibility of issuing a Panda and Samurai Bonds as part of instrument diversification.

83. A shift in the international financing landscape has created new challenges and opportunities and options for developing countries. Kenya will focus on leveraging the involvement of the private sector in infrastructure financing such as public-private partnership.

84. Other emerging funding sources such as debt swaps especially debt for nature swaps and debt for food security swaps are under consideration between the government of Kenya and the United Nations Development Partners to fund the budget deficit for FY 2024/2025.

85. The Government will endeavour to maintain its presence in the international financial markets through refinancing the existing commercial maturities and mobilizing resources for budget support.

VIII.PUBLIC DEBT RISKS AND COSTS EVALUATION UNDER ALTERNATIVE PUBLIC DEBT MANAGEMENT STRATEGIES

Public Debt costs and risks evaluation

86. In order to manage costs and risks associated with public debt, an evaluation of the risks and costs under various alternative debt management options has been undertaken to inform the optimal strategies. The results of the evaluation are used to populate the matrix of risks and costs of public debt, (**Table 14**), to help identify the optimal public debt management and deficit financing strategies that provide the best projection of costs minimization and risks optimization against the current indicators.

Table 14: Costs and risks charateristics matrix

Risk Indicators		**June 2023**	**As at end 2027**			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		70.8				
Present value debt as percent of GDP		68.2				
Interest payment as percent of GDP		5.5				
Implied interest rate (percent)		7.7				
Refinancing risk	Debt maturing in 1yr (percent of total)	12.7				
	Debt maturing in 1yr (% of GDP)	10.0				
	ATM External Portfolio (years)	9.3				
	ATM Domestic Portfolio (years)	7.5				
	ATM Total Portfolio (years)	8.5				
Interest rate risk	ATR (years)	7.7				
	Debt re-fixing in 1yr (percent of total)	26.7				
	Fixed rate debt including T-bills (percent of total)	84.5				
	T-bills (percent of total)	5.5				
FX risk	FX debt as % of total	51.5				
	ST FX debt as % of reserves	55.1				

Source: *National Treasury*

Baseline Pricing Assumptions and Description of Shock Scenarios

87. The pricing assumptions under the baseline scenario for interest rates and the exchange rates are as follows:

i. ADF loans are priced at an average fixed rate of 0.75 percent, with a 40-year tenor and up-to 10-year grace period.

ii. IDA/IFAD loans are priced at an average fixed rate of 1.75 percent, with a 35-year tenor and up-to 8-year grace period.

iii. Other concessional loans are priced at an average fixed rate of 1.17 percent, with a 28-year tenor and up-to 7-year grace period.

iv. Semi-concessional loans are assumed to be contracted at a fixed interest rate of approximately 2.3 percent and a maturity of 23 years including a grace period of up to 5 years.

v. Commercial borrowings and Export Credit Agencies financing with floating rates are contracted at a reference rate plus a margin.

vi. The pricing of Kenya's International Sovereign debt is based on the average of prevailing Sovereign Bond yields for October 2022 to October 2023.

vii. Pricing on the domestic debt instruments is based on the prevailing market yield curve during the month of October 2023.

88. The outlook on the baseline interest rates and exchange rates is based on the following considerations;

i. The exchange rate (Ksh/USD) is assumed to depreciate annually at an average of 3.1 percent.

ii. The fixed interest rates of market-based instruments in the international capital markets were based on the average of prevailing Sovereign Bond yields for October 2022 to October 2023. The domestic market yields were based on the average of FY 2022/23

iii. The interest rates for fixed rate loans are assumed to remain priced as per the existing portfolio.

89. Three risk scenarios are evaluated as follows:

i. The risk scenario for interest rates assumes moderate interest rate shock of 2.5 percent over the baseline projections and a stand-alone extreme shock of 5 percent which remains constant thereafter.

ii. The risk scenario for exchange rate assumes a stand-alone extreme shock of 25 percent in 2024 which was applied on the baseline exchange rate projections.

iii. The combined exchange rate and interest rate risk shock scenario assumes an increase in interest rate by a moderate shock of 2.5 percent combined with a 12.5 percent exchange rate depreciation in 2024.

Description of Alternative Debt Management Options

90. The preparation of the 2024 MTDS considered four alternative financing strategies to fund the fiscal deficits for the FY2024/2025 and the medium-term borrowing.

91. The domestic financing sources include a combination of Treasury bills and bonds while external financing alternative sources include a mix of concessional, semi-concessional, commercial loans and international debt securities.

i. **Strategy 1 (S1) – The Medium-Term debt management strategy is maximizing use of concessional external funding and deepening domestic debt market to reduce costs of Kenya's public debt:** This strategy will be optimized by a gross external borrowing of 28 percent and gross domestic borrowing of 72 percent. The composition of gross external financing consists of concessional, semi-concessional and commercial sources at 13 percent, 3 percent and 12 percent respectively. The net domestic borrowing is 60 percent while net external borrowing is 40 percent. Domestic borrowing is through issuance of Treasury bonds while maintaining the stock of Treasury bills to continue mitigating refinancing risk. From external sources, the strategy aims to maximise concessional funding while minimising commercial borrowing to reduce the cost of debt.

ii. **Strategy 2 (S2) – Increased External Commercial Borrowing and Reduction of Treasury bills Stock:** This strategy would maximize external commercial borrowing and reduce refinancing risk in the domestic debt portfolio. The option involves issuing medium to long-term Treasury bonds. In terms of net financing, the strategy assumes 63 percent domestic and 37 percent external financing. In gross borrowing terms, external and domestic financing accounts for 30 percent and 70 percent, respectively. Gross external financing would be composed of 9 percent concessional, 3 percent semi-concessional and 18 percent commercial borrowing.

iii. **Strategy 3 (S3) – Maintaining the Stock of Treasury bills and Increasing External Commercial Borrowing:** The strategy envisages 50 percent each from net domestic and net external borrowing. The strategy aims at maintaining the stock of Treasury bills and issuing medium to long-term Treasury bonds while maximizing on external commercial borrowing. In gross borrowing terms, external and domestic financing accounts for 35 percent and 65 percent, respectively. Gross external financing would be composed of 11 percent concessional, 3 percent semi-concessional and 21 percent commercial borrowing.

iv. **Strategy 4 (S4) – Maximizing on External Concessional Borrowing and Reducing Refinancing Risk:** The strategy seeks to achieve gradual reduction of Treasury bills stock with domestic financing mainly sourced from medium to long-term Treasury bonds. Externally, the strategy focuses more on budget financing through concessional borrowing. In terms of net financing, the option assumes 45 percent domestic and 55 percent external borrowing. In gross borrowing terms, external and domestic financing accounts for 37 percent and 63 percent, respectively. Gross external financing would be composed of 16 percent concessional, 6 percent semi-concessional and 15 percent commercial borrowing.

Cost-Risk Analysis of Alternative Debt Management Options

92. The cost and risk indicators generated by the MTDS Analytical Tool (MTDS AT) under each of the four alternative funding strategies provides the output of the evolution of the debt costs and risks characteristics in the medium-term. The Tool also provides the projected characteristics of the debt portfolio under standard shock scenarios. In addition, the MTDS AT provides projected stock and cash flow of the debt profile.

i. Baseline projection and alternative options

93. The average gross borrowing in each alternative strategy during the period ending FY 2025/26 is presented in **Table 15**.

Table 15: Average new borrowing by instrument under alternative strategies (in percent of gross borrowing by end of FY 2026/27)

New debt in % of Total Gross Borrowing	S1	S2	S3	S4
ADF	1	0	1	1
IDA/IFAD	6	4	5	8
Concessional	6	5	5	7
Semi-Concessional	3	3	3	6
Commercial/International Sovereign Bond	12	18	21	15
Treasury bills	28	26	28	26
Treasury bonds 2-3 Years	6	2	2	1
Treasury bonds 4-7 Years	17	17	16	15
Treasury bonds 8-12 Years	5	8	5	6
Treasury bonds 13-17 Years	13	12	12	11
Treasury bonds 18-22 Years	2	4	2	2
Treasury bonds 23-30 Years	1	1	1	1
External	**28**	**30**	**35**	**37**
Domestic	**72**	**70**	**65**	**63**
Total	**100**	**100**	**100**	**100**

Source: *The National Treasury*

94. The composition of the debt portfolio arising from the financing options in Table 15 during the period ending FY 2026/27 is presented in Table 16.

Table 16: Composition of Debt Portfolio by Instrument under Alternative Options, (in Percent of Outstanding Portfolio as at End of FY 2026/27)

In Percent of Total	FY 2022/23	As at end FY2026/27			
Outstanding by Instrument	**Current**	**S1**	**S2**	**S3**	**S4**
ADF	3	3	3	3	3
IDA/IFAD	17	16	15	16	18
Concessional	3	6	5	6	7
Semi-Concessional	9	7	7	7	8
Commercial/International Sovereign Bond	21	17	20	22	18
Treasury bills	6	4	4	4	4
Treasury bonds 2-3 Years	1	2	1	1	0
Treasury bonds 4-7 Years	6	12	11	10	10
Treasury bonds 8-12 Years	9	7	9	7	8
Treasury bonds 13-17 Years	12	15	14	14	14
Treasury bonds 18-22 Years	10	8	9	8	8
Treasury bonds 23-30 Years	3	3	3	3	3
External	**53**	**49**	**50**	**53**	**54**
Domestic	**47**	**51**	**50**	**47**	**46**
Total	**100**	**100**	**100**	**100**	**100**

Source: *The National Treasury*

95. Projected composition of domestic debt portfolio increases under strategy 1 and 2, remains unchanged under strategy 3 and reduces under strategy 4.

96. The projected costs and risks trade-off of the various alternative strategies is used to inform the choice of the optimal strategy (**Table 17 and Figure 6**)

Table 17: Cost and Risk Indicators under Alternative Options

Risk Indicators		2023	As at end 2027			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		70.8	67.3	67.6	67.4	67.0
Present value debt as percent of GDP		68.2	60.9	62.1	61.7	59.9
Interest payment as percent of GDP		5.5	5.6	5.7	5.6	5.3
Implied interest rate (percent)		7.7	9.3	9.6	9.3	8.8
Refinancing risk2	Debt maturing in 1yr (percent of total)	12.7	12.4	11.4	12.1	11.4
	Debt maturing in 1yr (% of GDP)	10.0	8.3	7.7	8.2	7.6
	ATM External Portfolio (years)	9.3	10.2	9.5	9.5	10.6
	ATM Domestic Portfolio (years)	7.5	6.9	7.4	7.0	7.1
	ATM Total Portfolio (years)	8.5	8.6	8.5	8.4	9.0
Interest rate risk2	ATR (years)	7.7	8.1	7.9	7.7	8.5
	Debt re-fixing in 1yr (percent of total)	26.7	22.3	24.1	26.5	22.1
	Fixed rate debt including T-bills (percent of total)	84.5	88.4	85.5	83.7	87.6
	T-bills (percent of total)	5.5	4.1	3.7	4.1	3.7
FX risk	FX debt as % of total	51.5	49.2	49.8	53.2	54.0
	ST FX debt as % of reserves	55.1	33.2	33.0	35.1	32.6

Source: *The National Treasury*

97. Across all the alternative options projections, both nominal and Present Value (PV) of debt to GDP ratios are lower than the levels in June 2023. This is driven by projected higher GDP growth and government's commitment to fiscal consolidation in the medium-term.

98. As shown in Table 17, Strategy 4 (S4) has greater projected benefits to debt management objectives than the other three strategies in terms of the following attributes;
    i. Has the least cost of debt in terms of interest payments as a percentage of GDP and implied interest rate.
    ii. Has least PV of debt to GDP as a resulting outcome of the fiscal consolidation plan.
    iii. Minimizes refinancing risk by lengthening the total portfolio ATM attributed to issuance of medium to long-term bonds and concessional loans with longer maturities.
    iv. Minimizes interest rate risk in terms of average time to re-fixing.
    v. Deepens the domestic bond market through issuance of medium to long-term instruments as the main source of domestic financing and setting up of OTC platform for government securities.

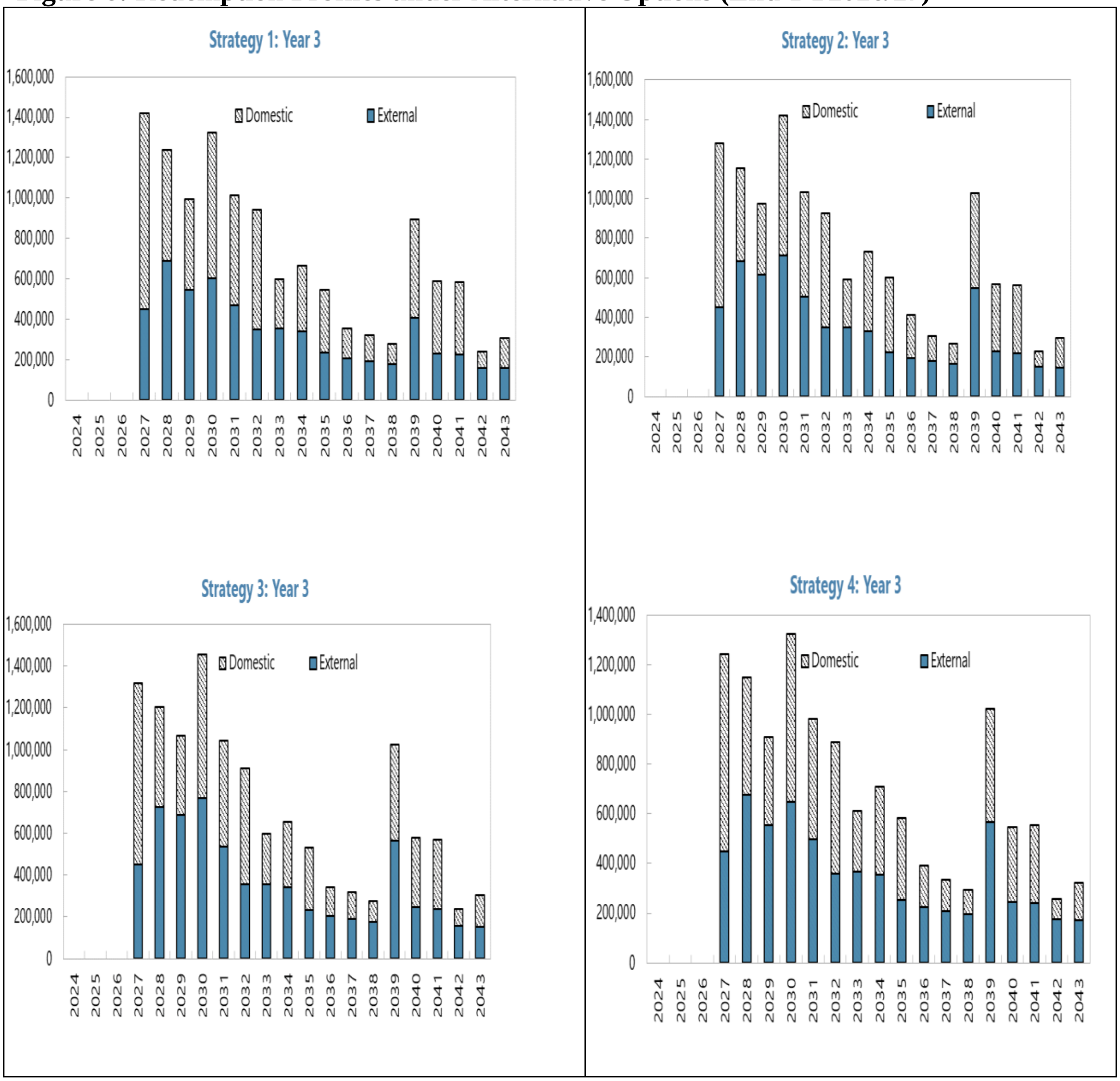
99. Overall, Strategy 1 indicated minimized foreign exchange risks in terms of FX debt as a percentage of total debt.

100. Strategy 2 minimizes refinancing risk by lengthening the ATM of domestic portfolio.

101. Strategy 3 projects undesirable results in the trade-off between all costs and risk indicators and may be unrealistic to implement.

102.The projected redemption profiles of the alternative strategies by end 2027 are shown in **Figure 6**. High maturities of both domestic and external debt are observed in 2027, 2028 and 2030. These maturities are associated with maturing domestic debt and International Sovereign bonds as well as other commercial loans.

Figure 6: Redemption Profiles under Alternative Options (End-FY2026/27)



***Source:** The National Treasury*

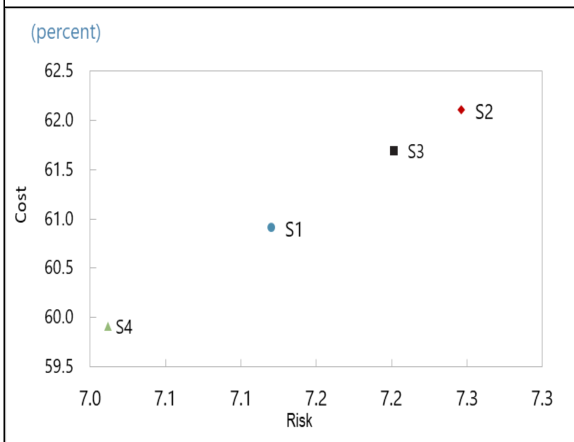
ii. Effect of shocks on the costs and risks characteristics of debt

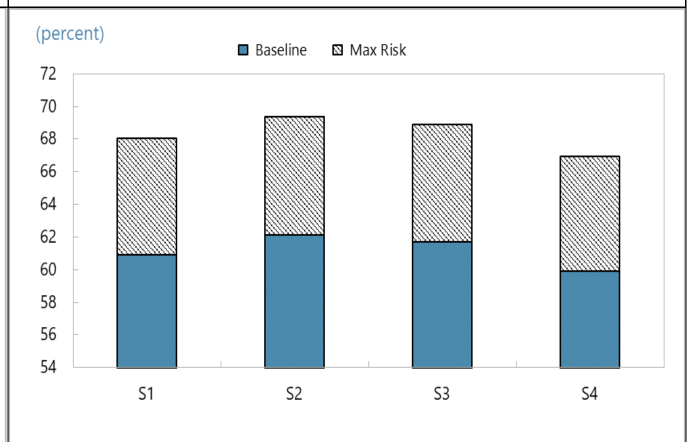
103. Current trend (Baseline) pricing and shock scenarios analysis considered the following indicators: Present Value of Debt/GDP, interest payments/Revenues, interest payments/GDP and total debt service/GDP (Figure 7).

104. The outcome of the analysis indicates the extent of risk associated with each strategy under the baseline and shock scenarios. The optimal strategy is the one with projected lowest cost-risk combination.

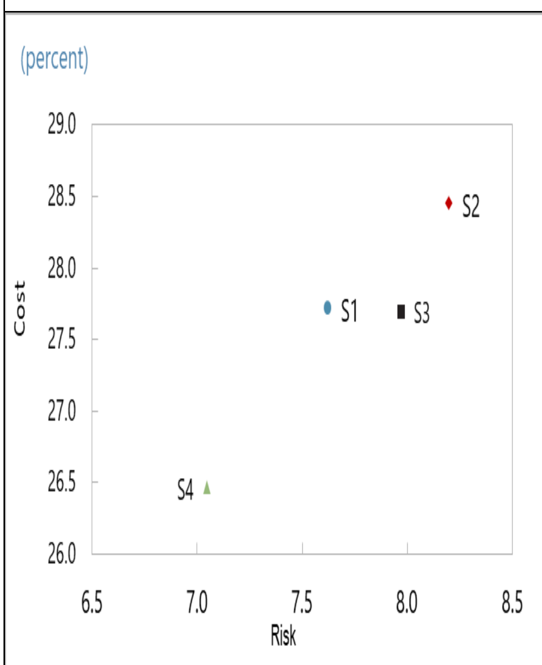
Figure 7: Cost and Risk Characteristics under Alternative Strategies

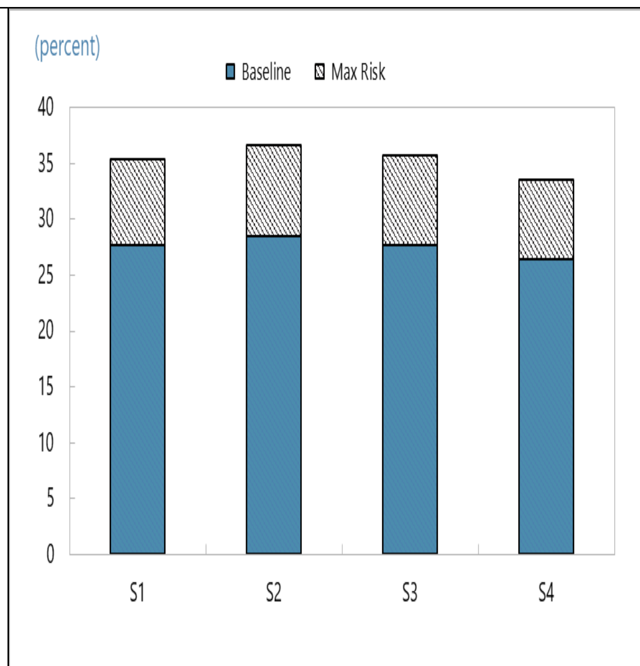
PV of Debt to GDP ratio



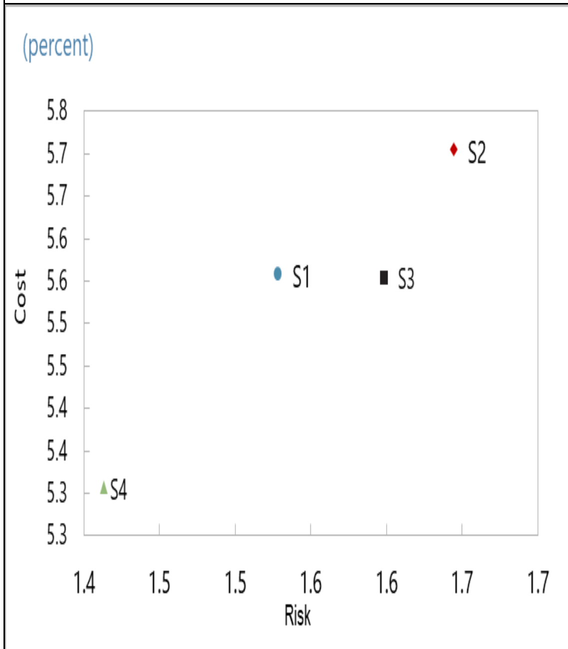


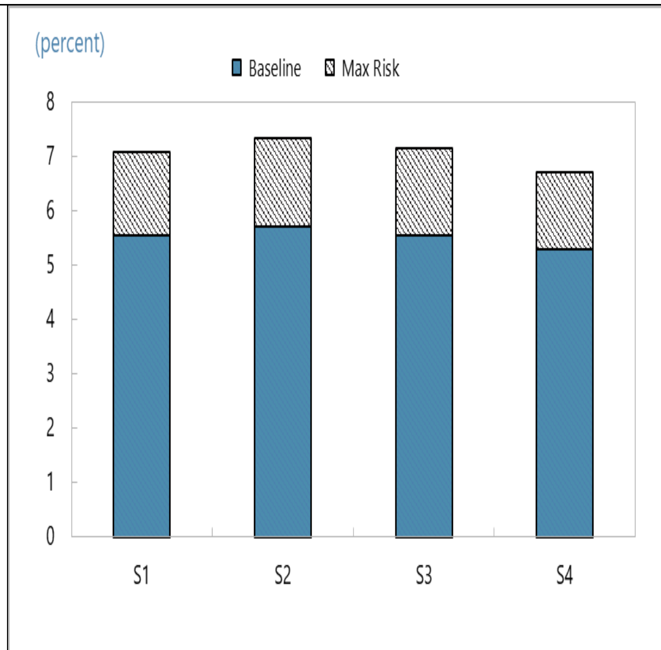
Interest to Revenue ratio



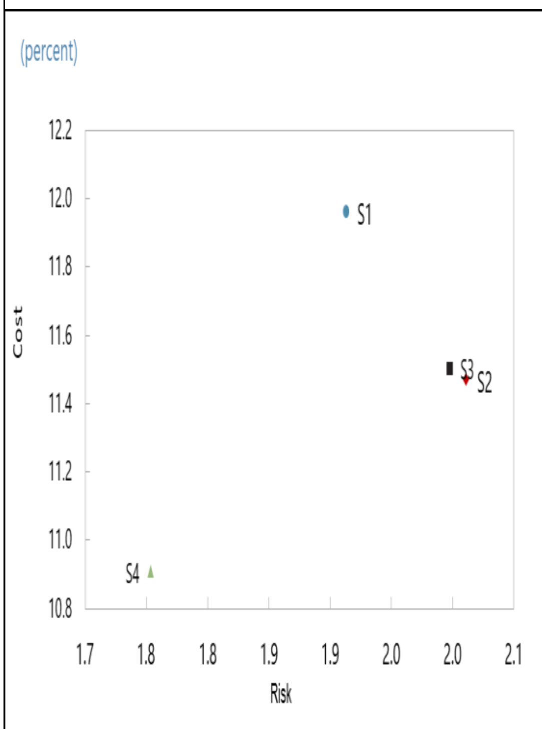


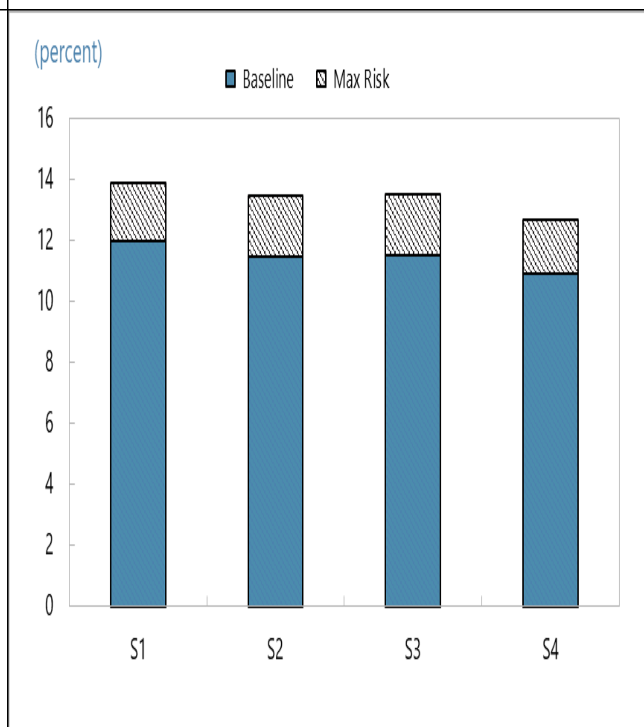
Interest to GDP ratio





Total debt service to GDP ratio





Source: *The National Treasury*

iii. The preferred financing strategy

105. Strategy 4 is the optimal strategy selected as it results in optimization of majority of costs and risks indicators. The Strategy aims at achieving a net financing mix of 55 percent from net external sources and 45 percent from domestic market. The objective is to optimize on the use of concessional and reducing commercial borrowing, thereby reducing the cost of debt. In the domestic market, the strategy seeks to reduce refinancing risk through issuance of medium to long-term Treasury bonds.

IX. PUBLIC DEBT MANAGEMENT REFORMS

106. **Shift from a debt limit to a debt anchor:** The National Treasury amended the numerical debt limit and replaced it with a debt anchor of 55 percent of debt to Gross Domestic Product ratio in Present Value terms. A debt anchor is a desired level of public debt as a ratio of GDP that is supportive of economic growth and development, the debt carrying capacity and ability to service debt.

107. **Operationalization of sinking fund:** The National Treasury is developing Sinking Fund Regulations for purposes of operationalization of the Sinking Fund. The Fund's objective is redemption of government loans and securities, and payment of expenses of, or incidental to redemption of an issue of national government loans.

108. **Liability Management Operations:** In order to lower costs and risks associated with existing public debt portfolio, the government will apply Liability Management Operations (LMOs) targeting the existing debt portfolio. The operations will include amongst others; Debt swaps, buy-backs etc. The government also endeavour to maintain its presence in the international financial markets through refinancing the existing commercial maturities and mobilizing resources for budget support.

109. **Diversified sources of borrowing:** The government will explore alternatives financing sources to the conventional bonds that are more flexible and less costly. Examples of these include the Sukuk bonds, Green and sustainability linked bonds, Samurai bonds, Panda bonds and Diaspora bonds.

110. **Strengthen the institutional arrangement and operational capability of the PDMO:** The PFM Act, 2012 seeks to establish PDMO within the National Treasury, but with some degree of independence or autonomy, regarding the management of the portfolio and of the office. This will be achieved by developing a Policy, Financial and Administrative Framework (PFAF) within which the PDMO would operate, and delegating the operational decisions on borrowing and debt management and the day-to-day management of the Office from the Cabinet Secretary to the Head of the PDMO.

111. **Expanding coverage of public debt reporting:** The government is committed to expanding coverage in reporting of public debt to include non-guaranteed debt owned by State-owned Enterprises (SOEs), fiscal risk and contingency liability posted by Public-Private Partnerships (PPPs) and guarantees through a gradual approach to promote debt transparency and accountability. Since FY 2020/21, the PDMO has been reporting non-guaranteed debt and has institutionalized to annual reporting.

Domestic debt market reforms

112.The National Treasury has been undertaking a number of reforms in collaboration with other financial sector players, which include the Capital Market Authority (CMA), the Central Bank of Kenya (CBK) and market participants. These reforms include:

i. **Publication of an issuance calendar:** Regular publication of an issuance calendar for government securities to support predictability in the issuance process and provide a guide for investor planning. The National Treasury together with the CBK coordinates the preparation and publication of an issuance calendar for the financial years.

ii. **Separation of the Retail and Wholesale Market for government Securities:** The new Central Securities Depository system called DhowCSD went live on 31st July 2023. It sets the foundation for the separation of the retail and wholesale market. It will facilitate the retail investors to directly access government securities market including buying and selling Treasury bills and bonds online. The DhowCSD is a versatile market infrastructure that will improve monetary policy transmission, implementation and operational efficiency in the domestic debt market. The system is accessible via CBK website and App Store.

iii. **Retail-Bond Issuance Re-engineering:** The National Treasury is currently undertaking Retail-bond issuance re-engineering process in coordination with the CBK to further deepen the government securities at the retail level. The re-engineering process is intended to among others incorporate recommendations spelt out in the post M-Akiba Issuance survey report while addressing the challenges therein. The re-engineering of Retail bond issuance will contribute to democratization of investment opportunities and improve efficiency and access in the government securities market.

iv. **Establishment of the Over-The-Counter (OTC) Market for government Securities:** The development of the OTC trading platform for government securities is being undertaken. Treasury bills have been trading on OTC. The Capital Market Authority in collaboration with market participants has developed OTC trading guidelines, which will support implementation of the OTC for Treasury bonds trading platform. The establishment of OTC platform is envisaged to boost liquidity in the bond market.

v. **Establishment of an Efficient Horizontal Repo Market and Securities Lending and Borrowing (SLB):** The CBK DhowCSD system will now allow full transfer of securities ownership for Repo transactions through a collateral management module. The launch of Repo market and securities lending and borrowing through DhowCSD system will provide a critical anchor to the financial sector in Kenya. It will promote the distribution of liquidity among the capital markets stakeholders and enhance uptake of government securities in financial market.

Other pending Initiatives in the Domestic Debt Market include:

vi. Initiate local private placements for government securities targeting specific segment of the market; and

vii. Establishment of offshore issuance of local currency denominated debt instrument to diversify investor base without elevating foreign currency risk.

viii. Development of policies to streamline use of CBK overdraft facility

X. MTDS IMPLEMENTATION, MONITORING AND EVALUATION

Domestic and external borrowing Plan

113.The Government will implement the debt management strategy and the optimal fiscal funding strategy through the annual borrowing plan.

114.The PDMO will prepare domestic and external borrowing plan comprising of projected borrowing and settlement of maturities within the 2024/25 financial year.

115.The external borrowing plan will comprise of expected disbursements by creditor, the disbursement period and currency of disbursement within the financial year as per the 2024 MTDS.

116.The borrowing plan may be revised to include liability management operations to manage debt stock risks when the market conditions allow.

Review of the Borrowing Plan

117.Review of the outcome of implementation of the borrowing plan will be done on weekly basis (weekly debt bulletins), monthly and annual basis to provide data for strategy evaluation and for public information.

118.The progress of implementation of the 2024 MTDS will be monitored and reported through monthly and annual public debt management reports. The Annual Public Debt Management Report is regularly prepared and published after end of each financial year.

Monitoring and Review of Cost and Risk Indicator Outturn of the Strategy

119.The actual costs and risks characteristics of debt will be assessed against sustainability threshold indicators and any deviations will be used to inform strategy review in the next MTDS cycle.

120.The costs and risks outcome characteristics in the 2024 MTDS are evaluated semi-annually and annually against sustainability threshold indicators to determine deviations and suggest mitigation measures. **Table 18** outlines the costs and risks parameters to be evaluated.

121. The evolving public debt structure and fiscal deficit will inform review of strategy for management of costs and risks of the public debt going forward.

122.Likewise, guaranteed State corporations' debt, fiscal commitments and contingent liabilities will be tracked and assessed against overall sustainability levels.

Table 18: Template for Monitoring and Evaluation of Cost and Risk Indicators under Alternative Strategies

Risk Indicators		Baseline June 2023	2024 MTDS (2027 projection)	Actual By Month*	Deviation	Remarks
Nominal debt as % of GDP						
Present value debt as % of GDP						
Interest payment as % of GDP						
Implied interest rate (%)						
Refinancing risk	Debt maturing in 1yr (% of total)					
	Debt maturing in 1yr (% of GDP)					
	ATM External Portfolio (years)					
	ATM Domestic Portfolio (years)					
	ATM Total Portfolio (years)					
Interest rate risk	ATR (years)					
	Debt refixing in 1yr (% of total)					
	Fixed rate debt (% of total)					
FX risk	FX debt as % of total					
***June 2023 for Semi-Annual and June 2024 for Annual assessment**						

Source: *The National Treasury*

Dissemination

123.To uphold commitment to debt transparency principles and ensure public access to information on public debt, the National Treasury will publish and upload the 2024 MTDS on the National Treasury's website after Parliament approval.

County Borrowing

124.Article 212 of the constitution of Kenya allows County Governments to borrow only if the borrowing is approved by the County Assembly and guaranteed by the National Government. Section 58 of the PFM Act, 2012 gives power to the Cabinet Secretary to issue a loan guarantee of a county government or any other borrower on behalf of the national government and that loan shall be approved by Parliament.

125.County borrowing should conform to the fiscal responsibility principles prescribed in the PFM Act, 2012. Borrowing by County Governments should be informed by County Medium-Term Debt Strategy. As the National Treasury and Economic Planning prepares the MTDS that takes into account public debt and borrowing by the national government, respective county governments are required by law to do the same.

XI. ANNEXES

ANNEX I: Publication of the Debt Management Strategy

Section 33 of the Public Finance Management Act, 2012 provides:

1)On or before 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.

2)The Cabinet Secretary shall ensure that the medium-term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.

3)The Cabinet Secretary shall include in the statement the following information: -

a)The total stock of debt as at the date of the statement;

b)The sources of loans made to the national government and the nature of guarantees given by the national government;

c)The principal risks associated with those loans and guarantees;

d)The assumptions underlying the debt management strategy; and

e)An analysis of the sustainability of the amount of debt, both actual and potential.

4)Within fourteen days after the debt strategy paper is submitted to Parliament under this section, the Cabinet Secretary shall submit the statement to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement.

5)PFM Act 2012, 'General responsibilities of the National Treasury' Section 12. Provides that: (1) Subject to the Constitution and this Act, the National Treasury shall— (b) manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control.

ANNEX II: MTDS Implementation Work Plan

NO.	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
1.	MTDS 2024	Review of 2022 & 2023 MTDS, preparation and submission of 2024 to Parliament MTDS	November 2023 to February 2024	PDMO PS/NT CS/NT&P Cabinet Parliament	BPS 2024, BROP 2023 CS DRMS CBK MTDS 2022& 2023
2.	Dissemination of the MTDS 2024 to the National Treasury Departments	Circulation of printed copies, clear dissemination of the information to implementing departments and training counties	February 2024	PDMO	MTDS 2024
3.	CFS (Debt) Budget estimates	Prepare the debt service projections and CFS budget estimates	Annually as per Budget Calendar and during revisions	PDMO /BD MFAD /CBK PS/NT, CS/NT&EP Cabinet /Parliament	PDMO
4.	Quarterly MTDS monitoring and evaluation report	Technical Fora and peer review of implementation of the MTDS	Quarterly	PDMO; MFAD CBK; CoG	BPS 2024, BROP 2023 CS DRMS; CBK MTDS 2023, 2024
5.	Monthly debt management reports	Access of domestic and external borrowing and repayment data	Monthly	PDMO CBK	RMD CBK FMA/NT
6.	MTDS 2024 half year performance review	Undertake half year review of performance of the 2024 MTDS	Every six months after effective date of the MTDS	PDMO CBK MFAD	RMD DRS CBK MFAD
7.	FCCL Report	Undertake analysis of FCCL and FCCL assessment	Annually	PDMO; PPP Unit MFAD; CBK	PPP Unit
8.	Review of issuance calendar	Stakeholders Forums to review issuance calendar	Quarterly	PDMO AGD CBK MFAD Market Participants PS/NT CS/NT&EP	PDMO CBK AGD Market Participants