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SEVENTH AND EIGHTH REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, REQUESTS FOR REDUCTION OF ACCESS UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AUGMENTATION OF ACCESS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR REPHASING OF ACCESS UNDER THE ARRANGEMENTS, MODIFICATIONS OF PERFORMANCE CRITERIA, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

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Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Public debt is assessed to be sustainable, with the assessment being finely balanced and hinging on prompt resolution of fiscal uncertainties, successful and timely delivery of the multi-year fiscal consolidation and achievement of robust export growth. Mechanical signals for Kenya's risk of external and public debt distress remain high, with the debt dynamics worsening since the last DSA, reflecting the recent setback in revenue-based fiscal consolidation, weakened medium-term revenue outlook, and export underperformance.[1] Risks to the baseline scenario have increased and further policy slippages or significant deviations from these assumptions could risk debt sustainability

[1] The DSA analysis reflects a debt carrying capacity of Medium considering Kenya's Composite Indicator Index of 3.02, based on the IMF's April 2024 *World Economic Outlook* and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

Since the last DSA assessment, Kenya tapped international bond markets in February 2024, addressing immediate external liquidity pressures from the US$2 billion Eurobond maturing in June 2024. However, near-term fiscal balance is weaker and medium-term revenue mobilization more gradual, while resultant domestic borrowing is expected to be costlier. While a stronger near-term REER path under this baseline helps somewhat with the debt dynamics, external debt service indicators have deteriorated due to continued export and revenue underperformance. A higher medium-term fiscal primary balance would be needed to keep the overall debt consistent with Kenya's debt anchor. [2]

Over the DSA horizon, contingent on the implementation of policies committed under the program, Kenya's debt indicators are forecast to improve: the fiscal effort during the program helps improve the primary surplus in FY2024/25, while the external debt service-to-exports ratio improves gradually. The DSA suggests that Kenya is susceptible to export, exchange rate, and primary balance shocks. Prolonged and protracted shocks to the economy would present downside risks to the debt outlook. The risks to securing socio-political buy in for implementation of revenue-based medium-term fiscal consolidation are significantly elevated. Similarly, the additional spending rationalization that aimed to offset about half of the deficit impact from the withdrawal of the 2024 Finance Bill is subject to considerable risks as pressures are already materializing. A natural disaster shock illustrates the very limited scope for meeting additional financing needs in a stress scenario without jeopardizing debt sustainability, underscoring the importance of putting in place the necessary regulatory framework to tap private sector solutions and enable access to concessional green financing.

[2] See IMF Country Report No. 2024/013, published in January 2024.

PUBLIC DEBT COVERAGE

1. For the purposes of this analysis, the perimeter of public debt covers the debt of the central government, Social Security Fund, central bank debt taken on behalf of the government, and government guaranteed debt (Text Tables 1 and 2). Debt data include both external and domestic obligations and guarantees:

- The external DSA covers the external debt of the central government and the central bank, including publicly guaranteed debt, as well as of the private sector (Text Table 1).
- The public DSA covers both external and domestic debt incurred or guaranteed by the central government. It does not cover the entire public sector, such as extra-budgetary units and county governments.[3] Debt coverage excludes legacy debt of the pre-devolution county governments, estimated at Ksh.53.8 billion (about 0.4 percent of GDP), which is included in the contingent liabilities stress scenario (see below).[4]
- The DSA uses a currency-based definition of external debt. There is no significant difference between a currency-based and residency-based definition of external debt, as nonresidents' direct participation in the domestic debt market is small, estimated at below one percent of total outstanding government securities as of end-2023 but has increased somewhat in the first three quarters of 2024 (Text Table 2).

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

- 5 percent of GDP to capture reported nonguaranteed debt of state-owned enterprises (SOEs), including pending claims, and extra-budgetary units and Public Private Partnerships (PPPs):
  - The National Treasury survey of state corporations estimated nonguaranteed loan obligations (excluding vis-à-vis the government), including overdrafts, equal to Ksh.111.8 billion (0.7 percent of GDP) as of end-June 2023.[5,6]
  - The calibration of the exposure to PPP-related contingent liabilities is the default one and set at 1.1 percent of GDP.

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

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

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

[6] The authorities' efforts in carrying out the survey of nonguaranteed loans of state corporations were supported by a Policy and Performance Action (PPA) under the IDA Sustainable Development Finance Policy (SDFP).

- In September 2023, the Cabinet established Pending Bills Verification Committee to verify the stock of pending bills. So far, the Committee has received about Khs.660 billion in claims and the authorities have indicated the Committee has verified about Ksh.100 billion. Of the total claims, about 83 percent is estimated to be liabilities of SOEs. The contingent liability shock is calibrated to include two-thirds (due to intra-agency arrears) of the received claims (Ksh.435 billion or 2.5 percent of GDP) in pending bills. The authorities plan to clear the verified claims in line with the clearance strategy. Once verification process is concluded, these arrears will be included in the DSA baseline.
- 0.4 percent of GDP to cover legacy debt of the pre-devolution county governments;
- 0.3 percent of GDP to account for government contingent liabilities stemming from letters of support issued to participants in the government-to-government mechanism for importation of fuel products launched in April 2023.[7]

- The default 5 percent of GDP for a financial market shock—a value that exceeds the existing stock of financial sector nonperforming loans of about 3.6 percent of GDP.

Text Table 1. Kenya: Public Debt Coverage

Public Debt Coverage

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

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

1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt	
		Default	Used for the analysis
2	Other elements of the general government not captured in 1.	1.4 percent of GDP	1.4
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2.5 percent of GDP	2.5
4	PPP	35 percent of PPP stock	1.1
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5
	Total (2+3+4+5) (in percent of GDP)		10.0

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

[7] The scheme, which had an initial duration of nine months and extended for another 12 months to end-2024, includes the issuance of letters of support by the government to domestic oil marketing companies (OMCs) that also benefit the banks, financial institutions, credit insurance providers, lenders and any hedging counterparties providing financing, insurance, refinancing or hedging to the OMC. The fuel is imported on six-month credit, backed by commercial letters of credit (LCs) issued by domestic banks and confirmed by international banks. A reasonable estimate of the government contingent liabilities stemming from the new fuel import scheme is around 10 percent of the maximum private sector obligation to fuel exporters or around US$400 million (0.3 percent of GDP).

BACKGROUND ON DEBT

3. **Kenya's overall public debt has increased sharply in recent years, reaching highest level in two decades in 2023.** Gross public debt reached to 73.1 percent of GDP at end-2023 (Table 1), reflecting legacy high deficits, the impact of the COVID-19 and natural disasters, and more recently depreciation of the exchange rate, fiscal slippages, and elevated borrowing costs. External public debt amounts to 55 percent of Kenya's overall public debt (Text Table 2).

Text Table 2. Kenya: Decomposition of Public Debt and Debt Service by Creditor, 2023–26[1]

	Debt Stock (end of period) 2023			Debt Service					
				2024	2025	2026	2024	2025	2026
	(In US$ mln)	*(Percent total debt)*	*(Percent GDP)* [2]	*(In US$ mln)*			*(Percent GDP)*		
Total	**70,606**	**100.0**	**73.1**	**13,703**	**11,305**	**10,075**	**11.3**	**9.3**	**8.3**
External	**38,995**	**55.2**	**40.4**	**5,362**	**4,558**	**4,652**	**4.4**	**3.7**	**3.8**
Multilateral creditors	19,418	27.5	20.1	795	1,118	1,445	0.7	0.9	1.2
IMF	2,682	3.8	2.8	-	-	-	-	-	-
World Bank	12,387	17.5	12.8	-	-	-	-	-	-
African Development Bank	3,792	5.4	3.9	-	-	-	-	-	-
European Economic Community (incl. EIB)	199	0.3	0.2	-	-	-	-	-	-
International Fund For Agricultural Development	255	0.4	0.3	-	-	-	-	-	-
Other Multilaterals	103	0.1	0.1	-	-	-	-	-	-
o/w: Arab Bank For Economic Development In Africa	54	0.1	0.1	-	-	-	-	-	-
Nordic Development Fund	23	0.0	0.0	-	-	-	-	-	-
Bilateral Creditors	9,374	13.3	9.7	1,486	1,450	1,410	1.2	1.2	1.2
Paris Club	3,225	4.6	3.3	462	456	430	0.4	0.4	0.4
o/w: Japan	1,227	1.7	1.3	-	-	-	-	-	-
France (incl. AFD)	739	1.0	0.8	-	-	-	-	-	-
Non-Paris Club	6,149	8.7	6.4	1,024	994	980	0.8	0.8	0.8
o/w: EXIM China	5,994	8.5	6.2	-	-	-	-	-	-
EXIM India	57	0.1	0.1	-	-	-	-	-	-
Bonds	7,100	10.1	7.4	2,396	813	844	2.0	0.7	0.7
Commercial creditors	2,766	3.9	2.9	611	1,058	880	0.5	0.9	0.7
o/w: Trade and Development Bank	1,856	2.6	1.9	-	-	-	-	-	-
China Development Bank	0	0.0	0.0	-	-	-	-	-	-
Other international creditors	336	0.5	0.3	74	119	74	0.1	0.1	0.1
o/w: Intesa SanPaolo	195	0.3	0.2	-	-	-	-	-	-
ING Bank Germany	41	0.1	0.0	-	-	-	-	-	-
Domestic[3]	**31,611**	**44.8**	**32.7**	**8,341**	**6,747**	**5,423**	**6.9**	**5.5**	**4.5**
Held by non-residents, total	214	0.3	0.2	-	-	-	-	-	-
T-Bills	3,495	5.0	3.6	-	-	-	-	-	-
Bonds	27,303	38.7	28.3	-	-	-	-	-	-
Loans	813	1.2	0.8	-	-	-	-	-	-
Memo items:			0.0						
Collateralized debt	0	0.0	0.0	-	-	-	-	-	-
o/w: Related	0	0.0	0.0	-	-	-	-	-	-
o/w: Unrelated	0	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	966	1.4	1.0	-	-	-	-	-	-
o/w: Public guarantees[4]	966	1.4	1.0	-	-	-	-	-	-
o/w: Other explicit contingent liabilities[5, 6]	n.a.	n.a.	n.a.	-	-	-	-	-	-
Nominal GDP (at average Ksh/$ rate)	108,039	-	-	-	-	-	-	-	-

Sources: Kenyan authorities; and IMF staff calculations.

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

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

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

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

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

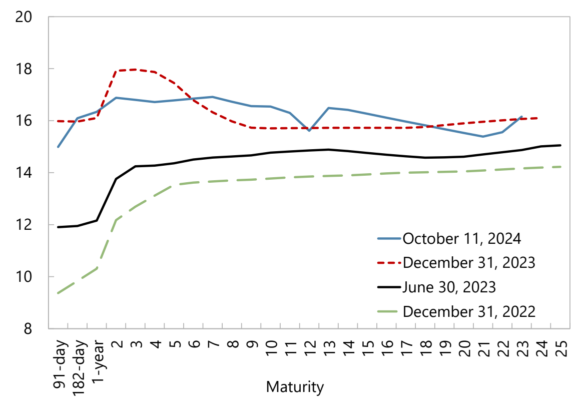
[6] Capacity constraints currently limit data availability on other explicit liabilities not elsewhere classified.

4. A large portion of Kenya's external public debt remains on concessional terms. Nominal public and publicly guaranteed (PPG) external debt at end-2023 amounted to 40.4 percent of GDP, corresponding to 32.1 percent of GDP in present value terms (Text Table 2 and Table 1):

- Kenya has benefited from sizeable support from the multilateral institutions. At end-2023, multilateral creditors accounted for close to 50 percent of external debt, while debt from bilateral creditors represented about 24 percent (Text Table 2). Of Kenya's bilateral debt, close to 66 percent is owed to non-Paris Club members, mainly loans from China.
- At end-2023 commercial debt (mainly Eurobonds, loans, and export credits) accounted for about 26 percent of external public debt and about 47 percent of projected external debt services over 2024-26. Eurobonds accounted for 70 percent of commercial debt (US$7.1 billion). As the international bond markets effectively closed to the frontier economies since early 2022, Kenya tapped syndicated loan markets in 2022–23, contracting US$800 million on commercial terms. On June 21, the authorities reached a negotiated settlement for the EUR305 million claim by a syndicate of commercial banks in relation to Arror, Kimwarer, and Itare dams, which are included in the DSA debt service profile.
- In February 2024, the Kenya made an opportune move, including by leveraging the positive impulse from strong World Bank and IMF support, to issue a new Eurobond (7-year, US$1.5 billion at a coupon rate of 9.75 percent) and bought back nearly three-fourths of a US$2 billion Eurobond maturing in June 2024. This helped address market's concern about Kenya's exceptional liquidity needs, leading to an easing of sovereign spreads. Subsequently, large oversubscription flowed into to a domestic bond issuance. As a result, the shilling strengthened rapidly, and the Central Bank of Kenya (CBK) made FX purchases. In addition, in early 2024 Kenya contracted US$506 million commercial loans from Trade Development Bank with average maturity of 6 years. Larger than programmed external nonconcessional borrowing in 2024 has consumed a large portion of the space available under the borrowing limits performance criterion, leaving limited room for additional borrowing for the rest of the program.

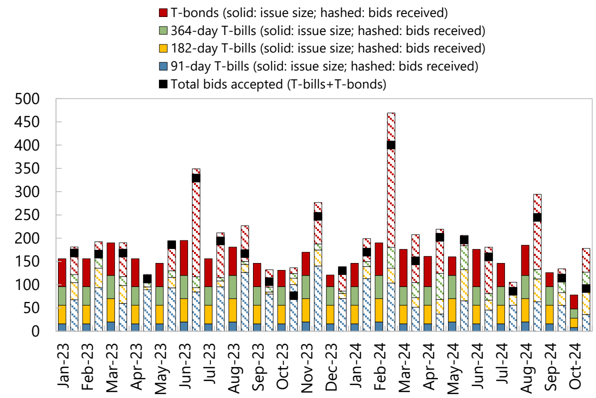
5. Kenya's domestic public debt reached to about 33 percent of GDP at end-2023 (Text Table 2 and Table 2). About half of government domestic debt securities are held by institutional investors (more than one third by pension funds; the remainder held by insurance companies and parastatals), followed by commercial banks with a 47 percent share. Yields on government securities increased and the front end of the treasury yield curve continued to move up in 2023 amid large gross financing needs and tighter liquidity conditions. The average time to maturity has declined to 7.4 years, reflecting investor preference for the shorter tenor securities. Yields remained elevated in 2024 despite successful Eurobond placement, reflecting concerns about the tax revenue performance and spending pressures (Text Figure 1). The infrastructure bond issuances and tap sales in February and August 2024 (Ksh.361.7 billion or about US$2.8 billion) were oversubscribed, including from nonresident investors (Text Figure 2).

Text Figure 1. Kenya: Treasury Yield Curve
(In percent)



Source: Kenyan authorities.

Text Figure 2. Kenya: Treasury Auctions
(In billions of shillings; as of October 11, 2024)



Sources: Central Bank of Kenya; and IMF staff calculations.

UNDERLYING ASSUMPTIONS

6. Medium-and-long term outlook is positive, but risks to baseline assumptions have increased substantially (Text Tables 3 and 4):

- Real GDP growth is projected at 5 percent in 2024 and for the medium and long term. Projections are slightly revised down from the previous DSA, reflecting slower recovery in capital accumulation due to rationalization of public development spending, low execution rate of foreign-financed projects, and limited space for borrowing. Nominal GDP in U.S. dollars is projected to be slightly higher than in the last DSA over the medium term, reflecting a revised REER path for 2024 and 2025 offsetting the downward revision to the deflator from the last DSA.

- Medium-to long-term growth is supported by the projected productivity growth, an ambitious structural reform agenda, policies to reinforce credit to the private sector, as well as favorable demographic trends. Over the medium term, growth is backstopped by the crowding-in effect of fiscal consolidation (i.e., lowering public financing needs would reduce demand-side pressures on domestic interest rates and free up financing for private investment, while privatization of SOEs would raise productivity), which is based on domestic

Text Table 3. Kenya: Selected Macroeconomic Indicators, 2022–28

	2022	2023	2024	2025	2026	2027	2028
			Projections				
Real GDP growth (percent)	4.9	5.6	5.0	5.0	5.0	5.0	5.0
CPI inflation, average (percent)	7.6	7.7	5.0	5.3	5.1	5.1	5.0
Overall fiscal balance (percent of GDP) [1]	-6.2	-5.9	-5.6	-4.3	-4.0	-3.6	-3.3
Primary balance (percent of GDP)[1]	-1.0	-0.6	0.1	1.4	1.5	2.1	2.4
Current account balance (percent of GDP)	-5.0	-4.0	-3.9	-4.0	-4.1	-4.1	-4.1
Exports of goods and services (US$ billion)	13.9	12.6	13.2	14.3	15.6	16.9	18.3
Exports of goods and services (growth; percent)	17.2	-8.9	4.9	7.8	9.2	8.2	8.5
Gross international reserves (US$ billion)	8.0	7.3	8.2	8.9	9.7	10.4	11.1

Sources: Kenyan authorities and IMF staff estimates and projections.
[1] Fiscal years (e.g., 2022 refers to FY 2021/22).

revenue mobilization and spending rationalization measures to anchor debt sustainability.[8] Fiscal consolidation over the medium term is expected to be growth friendly and inclusive, focusing on a more efficient, equitable, and progressive tax system—as envisaged under the authorities' Medium-Term Revenue Strategy (MTRS)—improved inclusivity and support under the social safety net programs, and enhanced efficiency of public investments.

Text Table 4. Kenya: Selected Macroeconomic Assumptions, 2023–43

(Calendar year basis)

	2023	2024	2025	2026	2027	2028	2029	Long-term 1/
Nominal GDP (Ksh billion)								
Current DSA	15,109	16,585	18,300	20,165	22,211	24,429	26,915	63,426
Previous DSA (January 2024)	15,184	17,064	18,905	20,985	23,215	25,660	28,358	62,386
Real GDP (growth)								
Current DSA	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Previous DSA (January 2024)	5.1	5.0	5.3	5.3	5.3	5.3	5.3	5.3
Inflation								
Current DSA	7.7	5.0	5.3	5.1	5.1	5.0	5.0	5.0
Previous DSA (January 2024)	7.7	7.0	5.2	5.4	5.0	5.0	5.0	5.0
Revenue and grants (percent of GDP)								
Current DSA	16.9	17.7	18.4	19.0	19.5	19.8	19.9	19.9
Previous DSA (January 2024)	18.0	19.1	19.4	19.5	19.5	19.5	19.5	19.5
Overall fiscal balance (percent of GDP)								
Current DSA	-5.7	-4.9	-4.2	-3.8	-3.4	-3.1	-3.3	-3.1
Previous DSA (January 2024)	-5.3	-4.1	-3.3	-3.2	-3.2	-3.3	-3.5	-4.6
Primary fiscal balance (percent of GDP)								
Current DSA	-0.6	0.6	1.5	1.8	2.3	2.5	1.6	0.5
Previous DSA (January 2024)	-0.1	1.2	1.7	1.7	1.6	1.5	1.2	0.5
Public debt (percent of GDP)								
Current DSA	73.1	67.0	68.7	68.8	66.6	64.1	61.9	51.5
Previous DSA (January 2024)	73.6	73.4	70.4	67.8	65.4	63.1	61.1	49.3
Current account (percent of GDP)								
Current DSA	-4.0	-3.9	-4.0	-4.1	-4.1	-4.1	-4.1	-3.9
Previous DSA (January 2024)	-4.0	-4.1	-4.2	-4.2	-4.2	-4.1	-4.0	-3.9
Non-interest current account (percent of GDP)								
Current DSA	-2.5	-2.4	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6
Previous DSA (January 2024)	-2.3	-1.9	-2.0	-2.2	-2.3	-2.3	-2.2	-2.4
Exports of goods and services (growth)								
Current DSA	-8.9	4.9	7.8	9.2	8.2	8.5	9.3	7.8
Previous DSA (January 2024)	-3.3	9.5	9.4	8.6	8.5	8.4	9.1	9.3

Sources: Kenyan authorities and IMF staff estimates.

1/ Average 2030-44 for current DSA and 2029-43 for the previous one.

7. Fiscal assumptions are predicated on delivery of the strong medium-term primary balance adjustment, significant deviations from which would risk debt sustainability:

- **FY2023/24:** The planned fiscal consolidation in FY2023/24 did not materialize (Text Table 5). The year ended with a fiscal deficit larger than programmed by about 0.6 percent of GDP, amid an estimated 1.8 percent of GDP tax revenue shortfall.
  - The shortfall was broad-based and reflected lower yields from the policy measures in the 2023 Finance Act, failure to garner political support to enact the amendments to the 2023

[8] The Kenya Kwanza administration has prioritized the privatization of SOEs that can operate as market producers. In 2023, a new Privatization Act was passed but it was adjudged unconstitutional by the High Court in September 2024. The authorities intend to seek legal recourse to this ruling. Some privatization efforts that are not impacted by the Privatization Act of 2023 are ongoing.

Tax Laws Bill (submitted to Parliament in mid-December), and potential lapses in tax administration.[9]

- To limit the impact of the tax revenue shortfall on the deficit, the authorities identified nontax measures (0.6 percent of GDP) that were mostly temporary in nature (e.g., higher dividends and surplus funds from parastatals, including the CBK). To offset the impact of expected spending overruns in the education, security, social sectors, as well as the response to the El Niño-related floods, they approved a second Supplementary FY2023/24 Budget (Supplementary II) in early June to rationalize nonpriority development spending (predominantly foreign financed).

Text Table 5. Kenya: FY2023/24 Fiscal Performance

(In percent of GDP)

	Dec	June			
	Actual	*6th Rev.*	*Suppl. I*	*Suppl. II*	*Est.*
Revenues and grants	**8.3**	**19.0**	**19.0**	**18.3**	**17.2**
Tax revenue	6.4	15.1	15.1	13.5	13.2
Nontax revenue	1.9	3.7	3.7	4.5	3.8
Grants	0.0	0.3	0.3	0.2	0.1
Expenditure and net lending	**10.8**	**23.8**	**24.4**	**24.0**	**22.8**
Interest payments	2.6	5.4	5.7	5.3	5.3
Other current spending	6.5	13.8	14.1	14.6	14.0
Development and net lending	1.7	4.6	4.6	4.1	3.4
Adjustments to cash basis	1.1	0.0	0.0	0.0	0.3
Overall balance including measures (cash basis, incl. grants)	-1.3	-4.7	-5.3	-5.7	-5.3
Primary balance incl. grants	**1.4**	**0.7**	**0.4**	**-0.4**	**0.1**
Financing	1.1	4.7	5.3	5.7	5.2
Net foreign financing	-0.2	1.7	2.6	1.6	1.4
Net domestic financing	1.3	3.0	2.8	4.1	3.8
Memorandum:					
In Ksh. Billions					
PC on tax collection	1,058	2,428			2,428
PC on the primary balance	64	105			105

Sources: National Treasury; and IMF staff calculations and projections.

- These developments resulted in about 0.8 percent of GDP higher domestic financing needs relative to expectations at the time of the sixth EFF/ECF reviews, keeping domestic borrowing costs elevated. With the Supplementary II approved in early June, the authorities could only meet just over half of the additional domestic financing needs through new debt issuances in June (the last month of fiscal year). As a result, additional pending bills were accumulated. The total spending carryover to FY2024/25 is significant, estimated at 1.3 percent of GDP.

- **FY2024/25:** To correct for the FY2023/24 fiscal slippages, the authorities submitted to Parliament a draft FY2024/25 Budget and the 2024 Finance Bill containing revenue and spending measures consistent with program parameters, bringing the fiscal path back on track to meet the debt anchor (overall debt/GDP of 55±5 percent in present value terms by 2028). Amid strong opposition to the proposed revenue measures the 2024 Finance Bill was withdrawn in late June. Subsequently, in July, a Supplementary FY2024/25 Budget was approved with additional expenditure cuts to compensate for about half of the foregone revenue (1.8 percent of GDP) from the withdrawn 2024 Finance Bill. As a result, the

[9] Staff assesses that the shift in the sources of economic growth toward the agricultural sector (less taxed) in 2023 and 2024 could explain only a small portion of the estimated tax revenue shortfall.

Supplementary FY2024/25 Budget targets a primary surplus of 1.4 percent of GDP (about 1 percent of GDP lower than what was envisaged in the FY2024/25 Budget).[10] Specifically:

- On the revenue side, the authorities expect to collect higher ordinary nontax revenues from increased levies and fees, and SOE dividends (yielding 0.3 percent of GDP).[11,12]
- On the spending side, relative to FY2023/24, the authorities envisaged a 1.3 percent of GDP rationalization of primary spending through efforts to contain the wage bill, transfers (with a focus on parastatals), and intermediate consumption, while further rationalizing nonpriority projects.[13] About half of the financing gap resulting from the withdrawal of the 2024 Finance Bill is closed through additional spending cuts (0.7 percent of GDP). While the government announced additional wage bill savings and further cuts to the operations and maintenance budget, more than 90 percent of the spending cuts relative to the FY2024/25 Budget falls on domestically financed development spending.

8. However, risks of slippages are substantial and revenue and spending outcomes so far in the early months of the FY2024/25 remain concerning:

- New revenue measures needed to credibly reduce debt vulnerabilities face risks, while revenues in the first two months underperformed. Risks include delays in garnering the social and political support needed to introduce new revenue measures in the near term to offset spending pressures and in the medium term to meet social and developmental needs and address debt vulnerabilities, and uncertainties on the constitutionality of the 2023 Finance Act.[14] In view of the spending pressures, the authorities have proposed several revenue measures amounting to 0.9 percent of GDP (annual yield), through a tax laws amendment bill. However, the measures will not be sufficient to offset the new spending pressures, necessitating further measures to preserve the primary balance target. To this end, the authorities are committed to submit to Parliament a Supplementary II FY2024/25 Budget by end-January 2025. Likewise, to preserve the primary balance target and prevent further accumulation of unpaid bills, they are committed to swiftly address any adverse ruling by the Supreme Court on the constitutionality of the 2023 Finance Act through revenue measures in compliance with the Court's guidance. Meanwhile, revenue performance in the first two month of the current fiscal year continued to disappoint, with tax revenues declining by 0.8 percent (y/y).

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[10] The draft FY2024/25 Budget, presented in the Budget Speech on June 13, targeted a primary surplus of 2.4 percent of GDP, up from 1.7 percent of GDP under the sixth EFF/ECF reviews, to correct for the fiscal slippage in FY2023/24 and offset associated interest cost (up by 0.5 percentage points of GDP relative to the sixth EFF/ECF reviews).

[11] The authorities also expect to collect more revenues from tax administrative measures. Staff treats yields from any such measures as an upside to the baseline.

[12] Ministerial Appropriations in Aid (AiA) are projected to decline in percent of GDP, but this is budget neutral as the receipts are earmarked for corresponding AiA spending.

[13] Using staff's projected fiscal year GDP, this effort would amount to about 1 percent of GDP.

[14] On July 31, the Court of Appeal ruled the 2023 Finance Act as unconstitutional due to inadequate public consultation. Subsequently, the Supreme Court issued a stay order on the ruling, allowing the authorities to collect taxes under the said Act. A verdict from the Supreme Court is pending.

- Spending cuts are subject to considerable risks given their top-down across-the-board nature, with spending pressures already materializing. New spending pressures from collective bargaining agreements (0.1 percent of GDP), the education and security sectors (0.3 percent of GDP), and the clearance of the spending carryover from FY2023/24 (0.9 percent of GDP) amount to 1.3 percent of GDP. In addition, savings from reducing transfers to parastatals may not materialize fully if the affected entities are not sufficiently self-sustaining and in good financial health.[15]

9. Bringing revenue-based fiscal consolidation back on track is central to debt sustainability. The authorities' fiscal strategy would need to embark on a renewed revenue-based fiscal adjustment from FY2025/26 to reduce debt vulnerabilities, relying on a steady increase in tax and non-tax revenue (cumulatively by about 1.6 and 0.2 percent of GDP, respectively). Even staying within the upper limit of the band around the debt anchor by 2028 will require an average annual primary effort of about 0.3 percent of GDP over the medium term.[16] To this end, strengthening accountability and charting a path for a more efficient, equitable, and progressive tax regime would be key to restore public trust, tax morale and build social consensus on revenue-based fiscal strategy.

10. Delivering on commitments under this program will be critical to ensure the overall deficit to durably decline to below 4 percent of GDP over the medium term (Text Tables 3 and 4).[17] With the primary balance averaging about 1.4 percent of GDP over the next decade, well-above its debt-stabilizing level (estimated at about 0.2 percent of GDP surplus over a 10-year horizon, thanks to a favorable interest-growth differential), the public debt-to-GDP ratio remains on a firmly downward path. This is consistent with safeguarding debt sustainability, while relaxing somewhat the budget constraint on social (Text Table 6) and developmental spending over the long run.

Text Table 6. Kenya: Social Spending Outlays, FY2016/17–FY2024/25

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25 *Proj.*
					(Ksh. Millions)				
Social spending	256,253	305,275	345,956	380,051	407,905	434,585	443,218	514,016	513,206
Social protection	15,489	18,329	26,669	25,554	26,031	26,194	25,987	26,792	28,163
Education	219,010	269,534	295,555	314,027	337,524	359,130	370,729	445,982	450,799
Health	21,754	17,412	23,732	40,470	44,350	49,260	46,502	41,242	34,244
Memo item:					*(Percent of GDP)*				
Social spending	3.2	3.4	3.5	3.6	3.6	3.4	3.1	3.2	2.9

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

[15] Staff raised concerns around the viability of the 28 percent cut, on average across entities, in the recurrent transfers from FY2023/24, especially for entities that have little margin to raise fees and cut spending. This may hold for entities in the education and health sector that account for the bulk of the cuts.

[16] Parliament stipulated that the debt anchor of 55 percent of GDP of overall debt/GDP in present value terms should be reached within 5 years of adoption, thus by 2028, allowing for a margin of ±5 percent for unforeseen shocks.

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

11. Supporting revenue measures with structural improvements in expenditure profile remains critical for medium term fiscal efforts. Addressing weaknesses in Kenya's public financial management (PFM) system might help reduce fiscal pressures and crowding out of critical investments and social spending while improving the investment climate. Timely transitioning to a Treasury Single Account (TSA) would strengthen the government's ability to manage cash, helping avoid excessive borrowing, compromised commitments control, and delayed transfers to service delivery units.[18] Kenya's public procurement constitutes an unusually high percentage of GDP, amplifying the expenditure inefficiencies due to slow and inefficient procurement systems and practices at various levels of government. [19] The public sector wage bill, including allowances, is subject to complex rules and regulations at the central government and county levels, many of which are not enforced, leading to repeated breach of payroll ceiling. The World Bank's parallel series of Development Policy Operations (DPOs) supports the government in undertaking structural reforms to enhance the efficiency and transparency of the budget, while increasing space for public investment, including at the subnational level. Garnering public trust and tax morale would call for stepping up reforms in these areas.

12. Macro-fiscal assumptions underlying the DSA baseline scenario include an estimate of the authorities' climate-related public investment. The forecast is benchmarked by the latest available data of 2.6 percent of GDP in 2018. It includes an additional climate investment of around 0.25 percent of GDP per year, supported by the IMF's Resilience and Sustainability Facility (RSF) and the World Bank's climate-oriented financing (see ¶29 below), as well as from other financing from development partners.[20, 21] Fiscal constraints in the short run limit the government's capacity for increasing public spending to accommodate additional climate-related needs and baseline growth assumptions are predicated on current policies and public investment assumptions.[22] Against this backdrop, scaling up climate related investments will require additional focus on improving the efficiency of public spending, attracting highly concessional external climate financing, and encouraging private sector participation in reaching Kenya's ambitious climate objectives (see ¶29).

13. The path of nominal public debt-to-GDP ratio is revised up from the last DSA, reflecting revised fiscal adjustment path and elevated interest costs. 2023 real GDP growth outturn was 5.6 percent, better than the projection under the previous DSA, and the updates to the projected REER path in 2024–25 have increased the forecasted U.S. dollar value of nominal GDP compared to the last DSA, offsetting some of the increase in the debt stock. The near-term exchange rate appreciation reflects recent sharp appreciation of the nominal exchange rate and

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[18] World Bank (2020). "*Kenya Public Expenditure Review*". See also "*Kenya Public Expenditure and Financial Accountability (PEFA) 2023*".

[19] See https://blogs.worldbank.org/en/developmenttalk/how-large-public-procurement.

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

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

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

REER, the latter also impacted by a faster deceleration in inflation.[23] Despite the near-term improvement in stock metrics due to exchange rate appreciation, weaker fiscal outlook and costlier borrowing assumptions have led to higher debt-to-GDP ratio in the medium term and weaker liquidity indicators. The medium-term exchange rate path remains similar to the previous DSA.

14. External financing assumptions under the program changed somewhat. For external financing, Kenya is expected to continue to primarily rely on multilateral development loans in 2024–25. Disbursements from the World Bank financing envelope is expected to remain similar to the previous DSA.[24] However, total access under the IMF program is revised down by about US$297 million as the near-term exceptional BoP needs that were anticipated at the sixth EFF/ECF reviews have dissipated following issuance of a Eurobond in February. However, the composition of the remaining access has changed too: access under the ECF arrangement is up by some US$159 million while that under the EFF arrangement (less concessional) reduced by some US$456 million. Shortfalls in external project financing continued in FY2023/24 and are forecast to remain subdued in FY2024/25 in line with the authorities' consolidation plan that envisages a significant rationalization in foreign-financed projects. Looking beyond 2024, Kenya is expected to continue to tap global capital markets to rollover maturing external commercial financing. The authorities are exploring alternative sources of financing from multilateral, bilateral, and commercial sources, including sustainability linked and climate adaptation bonds.

15. Kenya should rely on concessional borrowing as debt vulnerabilities have increased further and the space under the program borrowing limit has narrowed significantly. Since the last DSA, Kenya contracted large external borrowing, including nonconcessional debt, to address pressing financing needs from maturing Eurobond and a deteriorating fiscal situation. The cumulative external loan contracting (excluding the IMF) from the start of the program amounted to about US$7.8 billion (PV terms) by end-June 2024, leaving about US$1.2 billion (PV terms and excluding the space accorded to liability management operation) space for additional new borrowing until the end of the program.[25] Relying on concessional borrowing would allow Kenya to meet its financing needs while remaining within the ceiling set by the performance criterion on new external borrowing.

16. The authorities' indicative borrowing plan is ambitious and needs to be aligned with program borrowing limit (Text Table 7). Historically, the authorities' borrowing plan has been ambitious as reflected in its consistent under-execution, the recent history of project disbursements, and actual performance in terms of investment absorption capacity. While the authorities indicative borrowing plan includes additional commercial issuances in 2024, DSA baseline assumes no such issuance for the remainder of 2024. Unless structured as a liability management operation to

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[23] As of August 2024, the real effective exchange rate had appreciated by 23.2 percent since January 2024. Headline inflation had eased to 3.6 percent y/y by September 2024, compared to 6.9 percent y/y in January.

[24] See the World Bank's November 20, 2023 statement.

[25] The debt target includes some buffer for commercial issuance that is consistent with the DSA and an adjustor for up to US$5 billion debt management operation that would improve PV of debt and smooth repayment profile. The US$1.5 billion Eurobond issued in 2024 is accommodated in the debt limit target.

improve debt profile, an issuance of large external debt on nonconcessional terms would lead to a breach of the program borrowing limit and a further deterioration in the external DSA metrics. Overall, the possibility of excessive borrowing beyond the baseline is mitigated as the authorities' external borrowing commitments are anchored with an overall ceiling on the present value of newly contracted or guaranteed external public debt under the IMF-supported EFF/ECF arrangements, which is also a performance and policy action (PPA) under the World Bank's Sustainable Development Finance Policy (SDFP).[26] The fiscal adjustment under the program and the authorities' medium-term debt anchor (55±5 percent PV of overall debt to GDP ratio by 2028) are additional mitigants.

Text Table 7. Kenya: Summary Table of Projected External Borrowing Program from July 1, 2021 to December 31, 2024[1]

PPG External Debt	Volume of New Debt from Jul 1, 2021 to Dec 31, 2024		PV of New Debt from Jul 1, 2021 to Dec 31, 2024 (Program Purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**18118.7**	**100**	**13991.3**	**100**
Concessional debt, of which	**9917.4**	**55**	**5903.4**	**42**
Multilateral debt	7321.5	40	4336.7	31
Bilateral debt	2565.8	14	1548.9	11
Other	0.0	0	0.0	0
Non-concessional debt, of which	**8201.3**	**45**	**8087.9**	**58**
Semi-concessional	395.3	2	281.9	2
Commercial terms	7806.0	43	7806.0	56
By Creditor Type	**18118.7**	**100**	**13991.3**	**100**
Multilateral	7583.7	42	4511.2	32
Bilateral - Paris Club	1292.8	7	778.7	6
Bilateral - Non-Paris Club	1273.0	7	770.2	6
Other	7969.2	44	7931.2	57
Uses of debt financing	**18118.7**	**100**	**13991.3**	**100**
Infrastructure	10500.3	58	8612.3	62
Social Spending	2074.2	11	1195.8	9
Budget Financing	3295.1	18	2014.8	14
Other	2249.2	12.4	2168.3	15.5

Sources: Kenyan authorities; and IMF staff calculations.

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

17. **Relative to the previous DSA, reliance on domestic debt is higher, reflecting the impact of the recent fiscal slippages and resultant additional domestic financing needs.** This is projected to keep domestic rates elevated longer and interest payments higher, contributing to

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

higher debt levels and potentially crowding out private sector. Heavier reliance on tax free infrastructure bonds with significant nonresident investor participation exposes Kenya's debt to sudden sentiment reversals and exchange rate pressures.

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

19. As part of supporting Kenya Airways (KQ), the Government of Kenya has been servicing the guaranteed portion of KQ external debts to external creditors, which the company can no longer service. The authorities have completed the novation process of the guaranteed external loan to external creditors. As a result, public and publicly guaranteed debt includes the sum of the principal of these obligations and the remaining government guarantee on other KQ external loans (US$589 million as of December 2023) in place of the US$750 million government guarantee of KQ debts recorded previously.[27] On the FX-denominated debt to local banks, out of a US$225 million government guarantee, about US$150 million was called in August. The authorities intend to issue tradable local currency securities to settle the called amount.

20. The current account deficit is projected at about 4 percent of GDP in 2024 and to stabilize around that level over the medium term:

- Current account deficit narrowed to 4.0 percent of GDP in 2023, reflecting broad based decline in both energy and non-energy imports amid real exchange rate depreciation and completion of some large infrastructure projects. Exports of goods and services slowed as the demand from traditional agricultural export markets was subdued and transportation services saw a sharp contraction. Tourism receipts exceeded pre-pandemic levels and together with robust remittances supported external balance.
- Current account deficit is projected at close to 4 percent of GDP in 2024 as fiscal consolidation weighs on import growth, offsetting the impact of stronger exchange rate. In the first half of 2024, robust remittances growth (17 percent y/y) continued to support the current account balance while export and import growth was below expectation, including weaker services exports despite a strong growth in tourist arrivals.
- Over the medium term, the expected stabilization of the current account deficit is warranted, primarily through adjustments in imports, as capital inflows continue to remain below historical averages. The improvement in the current account will be supported by the further fiscal consolidation and robust goods exports and tourism receipts, continued exchange rate flexibility, and by the gradual normalization of global commodity and financial market conditions. Export growth stands to benefit from Kenya's improving business environment, leveraging on existing trade and investment agreements (such as the AfCTA), and the administration's policy priorities to increase the share of manufacturing (including agro-

[27] The total includes the government-guaranteed loan facilities and letters of credit by local banks.

processing) and services (including tourism and financial sector) in the economy.[28] An Economic Partnership Agreement between the European Union and Kenya has entered into force, which include duty and quota-free access for Kenyan exports to the EU market. In addition, export growth will be supported by policies to enhance agricultural productivity, including focus on farmer-led irrigation, efforts to modernize Kenya's food systems, and greater value chain integration. The World Bank through a series of Development Policy Operations (DPOs) is supporting the Government of Kenya in undertaking associated structural reforms. Services are projected to gradually increase over the medium term, as the tourism sector realizes its full potential. Remittances are also projected to remain robust over the medium term. The private sector current account deficit is expected to improve too and to be financed by a diversified set of sources, including foreign direct investment (FDI) and financial and nonfinancial corporate sector borrowing.

- Kenya's external position is backstopped by its gross international reserves, which grew in 2024 and remains at adequate levels. FX reserves are projected to remain adequate with import coverage at around 4.2 months over the medium term.

21. The realism tools flag slight optimism compared to historical performance, reflecting a structural break with past trends based on the policies underpinning the authorities' ambitious adjustment program (Figure 4). While protecting social spending, the baseline scenario assumes an improvement of the fiscal primary balance of about 2.5 percentage points of GDP over three calendar years in 2024–26, which falls in the top quartile of the distribution for LICs. Staff is of the view that this is realistic and in line with the authorities' plan for fiscal consolidation. Fiscal adjustment and growth realism tool point to realism of growth projections. A major break from historical performance pertains to exports, but not captured with DSA realism tools. Export growth is projected to be significantly higher than in the recent past, as exports of goods and services recover from the 2020 global shock and the authorities continue removing bottlenecks to exports.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

22. Kenya's debt carrying capacity is assessed as Medium (Text Table 8). Kenya's Composite Indicator (CI) Index is 3.02, which incorporates data from the IMF's April 2024 *World Economic Outlook* (WEO) macroeconomic projections and the 2022 World Bank's Country Policy and Institutional Assessment (CPIA).[29] The marginally higher CI score relative to the last published DSA in

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

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

on account of the stronger projected path of import coverage of reserves, remittance inflows, and global growth.

Text Table 8. Kenya: Composite Indicator and Thresholds

Country	Kenya
Debt Carrying Capacity	Medium

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

Note: The current-vintage Composite Indicator Index is based on the IMF's 2024 April World Economic Outlook and the 2022 World Bank Country Policy and Institutional Assessment (CPIA).

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.75	1.45	48%
Real growth rate (in percent)	2.719	4.90	0.13	4%
Import coverage of reserves (in percent)	4.052	38.81	1.57	52%
Import coverage of reserves^2 (in percent)	-3.990	15.06	-0.60	-20%
Remittances (in percent)	2.022	3.79	0.08	3%
World economic growth (in percent)	13.520	2.91	0.39	13%
CI Score			3.02	100%
CI rating			Medium	

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

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

24. **External debt burden indicators in terms of exports and revenues breach the respective thresholds under the baseline, giving rise to a mechanical high-risk signal (Table 1, Table 3, and Figure 1).** The PV of PPG external debt-to-exports solvency indicator remains above the threshold (180 percent) through 2030, while the debt service-to-exports liquidity indicator exceeds its threshold (15 percent) through 2037. The external debt service-to-revenue ratio falls below the threshold (18 percent) starting in 2029. The solvency and liquidity indicators are on a gradual trend decline as exports recover and revenue measures yield results over the medium term. The PV of PPG external debt as a share of GDP remains well below the 40 percent indicative threshold throughout the projection period (Table 1 and Figure 1). Reflecting fiscal consolidation efforts and a borrowing mix that favors concessional borrowing, this solvency indicator is expected to decline from 30 percent in 2024 to 16 percent in 2044. The trajectories of external debt burden indicators are similar to those projected in the last DSA, with external debt service ratios deteriorated.

25. Standard stress test results highlight the sensitivity of debt burden indicators in terms of exports and exchange rate depreciation (Figure 1 and Table 3). Specifically, under the most extreme shock scenario (shock to export growth), the PV of debt-to-exports and the debt service-to-exports ratios breach the threshold over the entire medium-term projection period. Under the most extreme scenario involving a one-time depreciation, the debt service-to-revenue ratio can potentially breach the threshold through 2031.

26. The market financing pressures module ranks market liquidity risks as low (Figure 5). As of October 11, 2024, at 552 basis points, Kenya's EMBI spread was below the LIC-DSF threshold of 570 basis points. Gross financing needs are also below the threshold (14 percent of GDP) that indicates high risk. Delivering on the medium-term fiscal consolidation strategy would help keep gross financing needs below the threshold. As is the case with other emerging and frontier economies, financing risks are affected by global liquidity conditions. Persistent deterioration in global market conditions would exacerbate financing risks for Kenya. The shift in the deficit financing mix toward domestic resources calls for monitoring, given the elevated levels of domestic interest rates.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

27. The PV of total public debt-to-GDP ratio remains above the 55 percent benchmark through 2029 (Figure 2 and Table 2), giving rise to a mechanical high-risk signal. Public sector debt is projected to peak in 2025 at 64 percent of GDP (PV terms), followed by a steady decline, supported by medium-term fiscal consolidation driven by revenue mobilization measures.

28. Standard stress tests indicate that the PV of debt-to-GDP ratio is likely to remain above its indicative benchmark for most of the projection period under these scenarios (Figure 2 and Table 4). In the historical scenario, in which key variables are kept at their historical averages, public debt settles on an explosive trajectory, underscoring the importance of the authorities' ambitious reform agenda to reorient the economy to private-sector and export-oriented growth drivers and pursue a medium-term fiscal consolidation to durably reduce debt-related vulnerabilities. Under the most extreme standard shock scenario (primary balance shock), the PV of the public debt-to-GDP ratio would breach the applicable 55 percent benchmark for a country with medium debt-carrying capacity through 2040.

29. Domestic debt is high, with vulnerabilities rising. Kenya has historically benefitted from a deep domestic financial market and sophisticated investor base. However, against revenue underperformance and growing domestic financing needs recently, domestic debt vulnerabilities have increased, as reflected in high real domestic yields, declining maturities, and accumulation of pending bills and carryovers. Large and upcoming domestic debt maturities over the next twelve months raise domestic financing risks. Newly introduced LIC DSF Domestic Public Debt Indicators show that Kenya's domestic debt and domestic debt service will remain well above the median of the LIC DSF countries during the DSA projection horizon (Figure 6). Domestic debt service to revenues peaked in 2023 at 43 percent and is projected to remain there until 2025, driven in part by large maturing domestic securities. The ratio falls toward 30 percent by 2030, still above the LIC median (Figure 6). More ambitious medium-term fiscal consolidation than envisaged at the previous DSA is projected to stabilize gross financing needs, leading to a decline in net domestic debt issuances and in the domestic debt to GDP ratio.

CLIMATE CHANGE RISKS

30. Kenya is highly vulnerable to climate change shocks, especially floods and droughts, which might affect debt dynamics. The total cost of climate change is estimated at 2–2.4 percent of GDP per year in Kenya.[30] This is largely due to the climate-sensitive nature of Kenya's economy, with agriculture, water, energy, tourism, and wildlife sectors playing an important role in it (see World Bank's Kenya Country Climate and Development Report for more details). Climate change can affect debt sustainability indicators through the negative impact on the fiscal position and balance of payments, short-term output losses from destruction of capital, and the possibility of long-term scarring from productivity losses in climate-sensitive economic activities, as well as inflationary pressures that can further erode purchasing power and increase poverty. Specifically:

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

However, private and public spending on reconstruction also holds the promise of replacing obsolete production capacity with state-of-art technologies that can spur long-term growth. The current macro baseline does not explicitly model the effect of climate change, beyond the broad view on growth prospects of the economy, which embed the average effect of climate change in historical series.[31] The impact of climate change is, instead, accounted by a customized natural disaster stress test.

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

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

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

32. Kenya's Nationally Determined Contribution (NDC) envisions 32 percent reduction in country's greenhouse gas emissions by 2030. In Kenya, more than 90 percent of electricity is generated from renewable sources (2024Q2: 90.9 percent). Kenya has also made significant strides in leveraging private climate finance through various channels—including PPPs in renewable energy projects, corporate green bond issuance, several blended finance mechanisms to de-risk private sector investments, and active engagement in global climate funds.

33. Achieving Kenya's ambitious climate objectives would require private sector participation and mobilization of additional tax revenues and concessional resources. Achieving Kenya's NDC pledge is estimated to entail climate-related investment needs of around 6 percent of GDP per year over 2023–30.[32] Some of these needs are addressed by existing investment projects, with the balance is expected to be met through a mix of private sector participation and highly concessional external financing.[33]

34. Debt sustainability risks from reaching the climate goals are assumed to be limited, as authorities' efforts, beyond making the existing investment pipeline more climate responsive, will be contingent on mobilizing additional, highly concessional, climate financing and private sector solutions supported by market incentives. The authorities continue to make good progress with implementation of the reform measures (RMs) under the IMF's Resilience and Sustainability Facility (RSF) arrangement. The implementation of reforms supported by the RSF arrangement would help achieve NDC pledges while safeguarding debt sustainability by: (i) incorporating climate risks into fiscal planning and investment framework; (ii) mobilizing climate revenue and strengthening the efficiency of climate spending; (iii) enhancing effectiveness of Kenya's existing frameworks to mobilize climate finance; and (iv) strengthening disaster risk

[32] See Kenya's Nationally Determined Contribution 2020–30

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

reduction and management. By supporting enhancements in Kenya's public financial management framework and improvements in public investment efficiency, RSF-related reform measures will help Kenya make public investment more climate responsive. They would also provide strong signal to investors, support establishing a pipeline of bankable projects, and accelerate mobilization of private financing.[34]

RISK RATING AND VULNERABILITIES

35. Kenya's overall and external public debts are sustainable but remain at high risk of debt distress; the assessment being finely balanced and contingent on successful and timely delivery of the multi-year fiscal consolidation and achievement of robust export growth in the medium term. The mechanical risk signals indicate sustained breaches of sustainability thresholds by solvency and liquidity indicators under the baseline scenario—the PV of external debt-to-exports and external debt service-to-exports ratios, as well as the PV of overall public debt-to-GDP ratio.

36. A number of additional considerations mitigate risks to debt sustainability, supporting the analysis:

- On tax revenues, a commitment to taking corrective actions should the Supreme Court upholds the unconstitutionality ruling on the 2023 Finance Act.
- The consistently strong performance of remittances, which supports external sustainability, paired with a favorable outlook for exports that will be supported by strong policy measure to boost export competitiveness.
- External debt service indicator is on a clear declining trajectory, which authorities plan to further optimize if market conditions are favorable.
- Close attention to evaluating risks at SOEs and the commitment under the IMF-supported EFF/ECF arrangements to limit the impact on the deficit of any fiscal support (e.g., via offsets).
- Ongoing efforts to strengthen fiscal sustainability under the SDFP by rationalizing public investments on the basis of rigorous criteria.
- Climate adaptation and mitigation strategies, with focus on water management, agriculture and food security, ecosystem conservation, disaster risk reduction, sustainable energy transition, climate information and research, health and human security, and education and awareness can help curb and cushion climate risks, limiting the impact on debt ratios.
- Improved efficiency investment in infrastructure will raise growth and export potential, both of which will support Kenya's external debt sustainability.

[34] For example, the National Green Fiscal Incentives Policy Framework, adopted in December 2023, which sets out options for promoting low-carbon, climate resilient, and environmentally sustainable practices, could be used to promote climate-friendly investments, including carbon pricing and electric and hybrid modes of transportation.

37. The authorities committed to deliver a fiscal consolidation in line with the program that significantly surpasses the debt-stabilizing primary balance. Debt would begin declining as a share of GDP starting in 2027. Indicators measured against exports will also gradually improve as the recovery of exports takes hold and reforms under the IMF-supported EFF/ECF arrangements and the World Bank DPO enhance competitiveness. Given the magnitude of mechanical threshold breaches under the baseline, consolidation efforts would need to be sustained over the medium term to restore fiscal space and reduce debt-related risks. Of note:

- While the PV of total public debt-to-GDP ratio remains above the indicative threshold (55 percent), the authorities' commitment to medium-term fiscal consolidation safeguards debt sustainability. Despite recent setbacks, the approval of the Supplementary FY2024/25 Budget with further expenditure cuts following the withdrawal of the 2024 Finance Bill and consideration of new revenue measures to offset spending pressures that have materialized since points to authorities' continued commitment to contain debt build up.
- Kenya's PV of external debt as a share of GDP is well below the 40 percent indicative threshold and will gradually decline over time. Kenya's external debt indicators are expected to gradually improve as fiscal consolidation progresses, exports recover as the global shocks dissipate, and Kenya makes progress to unlock its substantial export potential.
- Kenya's borrowing plan relies on a balanced mix of commercial and concessional financing that contributes to reducing debt risks, supported by limits on the government's external borrowing under the EFF/ECF program and PPAs under the SDFP, which also support steps to improve debt transparency.

38. Debt sustainability is also supported by stable and strong remittances, manageable and steadily declining gross financing needs, and the authorities' commitment to insulate the public sector balance sheet from SOE-related contingent liabilities. While the protracted breaches of most debt burden indicators are a source of concern, there are mitigating factors that help support the debt sustainability assessment. The gross financing needs beyond 2024 are on a clear declining trajectory over the projection period, signaling a strengthening in debt servicing capacity. The authorities' commitment to absorb the fiscal costs associated with materialization of SOE-related contingent liabilities with a limited impact on the programmed fiscal envelope will help avoid further deterioration in the public sector balance sheet. Stable and strong remittances, amounting to 33 percent of exports of goods and services in 2023, would also continue to be an important source for foreign currency receipts going forward.

39. Strong reform measures could help Kenya elevate its debt carrying capacity, improving debt outlook and assessment significantly. Kenya is currently assessed to have a medium debt carrying capacity with a CI score of 3.02, which has increased from 3.01 in the previous DSA. This is slightly below the 3.05 required to be upgraded to a strong capacity category with correspondingly higher debt burden thresholds. As the authorities embark on strong policy measures and structural reforms especially on the PFM front this could help increase its CPIA and CI scores, further mitigating risks to debt sustainability in coming years. To this end, the authorities' EFF/ECF program incorporates two reforms—PFM measures for avoiding future accumulation of expenditure arrears and a medium-term strategy to strengthening revenue administration—as well as several ongoing measures to improve budgeting process, fiscal risk management, and fiscal transparency. Combined with implementing the new PFM reform strategy 2023–28, these measures will strengthen budget credibility and expenditure efficiency.

40. Risks to the baseline increased notably as the socio-political context have rendered delivery of the required fiscal adjustment more challenging. The current assessment is subject to elevated risks from domestic policy slippages and further fiscal or exports underperformance could render sustainability assessment infeasible:

- **On the domestic front, there is very narrow scope for deviation, while executing policy commitments has become more challenging in the current socio-political context.** In the absence of medium-term revenue and spending measures offsetting the impact of the withdrawn 2024 Finance Bill, ensuring debt sustainability might not be feasible. However, the risks to implementation of fiscal measures and creating socio-political buy-in for a revenue-based fiscal consolidation are significantly elevated. Even with the strong commitment by authorities to fiscal consolidation, there is a risk for slippage.
- **Further exports underperformance would pose external sustainability risks.** Kenya faces large annual external debt service obligations, averaging US$4.7 billion annually over the medium-term, while weaker export performance weighs on debt servicing capacity. Exports could underperform the baseline on account of i) lower demand from major economies due to shocks or policy measures (e.g., miscalibration of monetary policy); ii) delays in domestic structural reforms needed to support medium-term export growth, and iii) recent rapid appreciation of the shilling. Domestic political risks or any deterioration in the security situation could disrupt trade and tourism. Should those risks materialize Kenya's external debt sustainability would be jeopardized.
- **Kenya is exposed to heightened risks to the global outlook through international trade and financing channels.** Intensification of spillovers from global geopolitical conflicts could drive persistent investor concerns about the prospects of frontier economies and increase the cost of financing.
- **Domestic government bond holdings by pension funds and commercial banks expose the economy to feedback between sovereign and financial sector risks**, while the need to rollover maturing external commercial debt exposes the country to risks from a liquidity squeeze. Finally, crowding-in effect of the fiscal consolidation into private sector growth might take longer to materialize.

AUTHORITIES' VIEWS

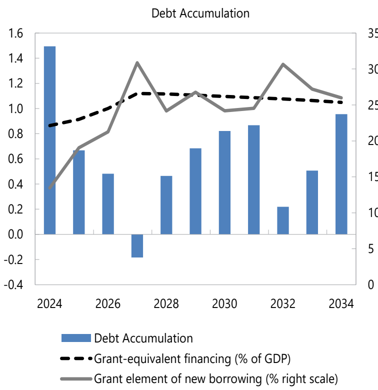
41. The authorities broadly agreed with IMF staff's assessment, emphasizing that addressing elevated debt vulnerabilities remain key policy priority. They reaffirmed their commitment to arresting debt buildup and meeting the medium-term debt anchor, as reflected in the approval of the Supplementary FY2024/25 Budget with additional spending cuts following the withdrawal of the 2024 Finance Bill. Prioritizing concessional financing in the immediate term until market conditions allow borrowing at reasonable costs remains a key element of the financing strategy. In coordination with Kenya's multilateral and bilateral development partners, the authorities are also exploring new financing instruments, including sustainability linked bonds and credit enhancements to support debt sustainability. On the domestic front, the authorities are taking measures to eradicate impediments to efficient intermediation and market development supported by the IMF's technical assistance, while building a diverse and resilient investor base to ensure stable and less costly financing. The authorities emphasized their determination to extend the maturity of domestic debt and pursue a financing strategy that balances domestic issuance and external financing, avoiding crowding out domestic private sector and accumulation of domestic arrears. The authorities also highlighted significant remittances inflows as a stable source of foreign exchange that increases Kenya's debt repayment capacity but is not directly captured by the DSA metrics.

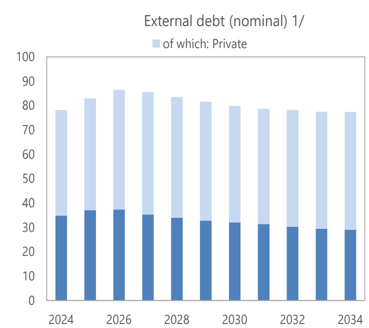
Table 1. Kenya: External Debt Sustainability Framework, Baseline Scenario, 2021–44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	70.3	71.7	84.2	78.1	82.9	86.5	85.5	83.5	81.6	77.4	72.5	62.6	80.9
of which: public and publicly guaranteed (PPG)	34.7	34.6	40.4	34.8	37.0	37.4	35.3	33.9	32.8	29.0	21.3	30.0	33.0
Change in external debt	-1.4	1.4	12.4	-6.1	4.8	3.6	-0.9	-2.0	-1.9	0.0	-2.6		
Identified net debt-creating flows	-0.7	1.9	8.0	-0.5	-0.8	-1.1	-1.1	-1.1	-1.1	-1.2	-1.8	2.3	-1.0
Non-interest current account deficit	4.1	4.0	2.5	2.4	2.1	2.2	2.3	2.4	2.5	2.6	2.5	4.7	2.4
Deficit in balance of goods and services	9.1	9.2	8.7	8.1	8.1	8.4	8.5	8.5	8.4	8.2	7.6	9.5	8.3
Exports	10.8	12.1	11.7	10.9	11.7	12.8	13.3	13.5	13.8	14.8	16.5		
Imports	19.9	21.3	20.4	19.0	19.8	21.2	21.7	21.9	22.1	23.0	24.1		
Net current transfers (negative = inflow)	-5.6	-5.7	-6.5	-6.1	-6.5	-6.8	-6.8	-6.8	-6.7	-6.7	-6.7	-5.3	-6.6
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1		
Other current account flows (negative = net inflow)	0.5	0.5	0.2	0.4	0.5	0.6	0.6	0.7	0.8	1.1	1.6	0.5	0.8
Net FDI (negative = inflow)	0.0	-0.3	-0.2	-0.6	-0.8	-1.0	-1.1	-1.2	-1.3	-1.6	-2.0	-0.6	-1.2
Endogenous debt dynamics 2/	-4.7	-1.8	5.8	-2.3	-2.1	-2.3	-2.3	-2.2	-2.2	-2.2	-2.4		
Contribution from nominal interest rate	1.2	1.0	1.5	1.5	1.9	1.9	1.9	1.7	1.7	1.4	1.1		
Contribution from real GDP growth	-5.0	-3.3	-4.2	-3.8	-3.9	-4.2	-4.1	-4.0	-3.9	-3.6	-3.5		
Contribution from price and exchange rate changes	-0.8	0.5	8.5	...	...	...	...	...	...	...	...		
Residual 3/	-0.7	-0.5	4.4	-5.6	5.5	4.7	0.2	-0.9	-0.8	1.2	-0.8	3.0	0.4
of which: exceptional financing	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	32.1	29.8	30.4	31.0	29.5	28.1	26.8	22.5	16.2		
PV of PPG external debt-to-exports ratio	...	...	274.8	274.2	260.2	241.9	222.3	208.1	195.0	152.5	98.1		
PPG debt service-to-exports ratio	22.5	21.4	26.9	40.5	31.9	29.8	27.3	27.0	22.0	16.7	11.6		
PPG debt service-to-revenue ratio	14.6	15.4	18.8	25.2	20.6	20.4	18.9	18.6	15.5	12.6	9.8		
Gross external financing need (Million of U.S. dollars)	28,119	28,949	27,855	31,173	30,994	31,939	32,637	34,026	34,452	40,222	60,711		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.6	4.9	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	5.0
GDP deflator in US dollar terms (change in percent)	1.2	-0.7	-10.6	7.3	-4.5	-5.2	-0.6	1.8	2.1	1.2	2.7	1.2	0.7
Effective interest rate (percent) 4/	1.8	1.5	2.0	2.0	2.4	2.3	2.3	2.2	2.2	1.9	1.6	2.0	2.1
Growth of exports of G&S (US dollar terms, in percent)	21.8	17.2	-8.9	4.9	7.8	9.2	8.2	8.5	9.3	7.3	8.2	2.0	7.9
Growth of imports of G&S (US dollar terms, in percent)	23.3	11.7	-9.7	5.0	4.5	6.6	7.0	7.9	8.1	6.3	7.1	2.7	6.8
Grant element of new public sector borrowing (in percent)	...	...	...	13.5	19.1	21.3	30.9	24.2	26.8	26.0	29.3	...	24.4
Government revenues (excluding grants, in percent of GDP)	16.5	16.9	16.8	17.5	18.1	18.8	19.2	19.5	19.6	19.6	19.5	17.0	19.1
Aid flows (in Million of US dollars) 5/	1,784	1,730	1,661	1,891	1,882	2,120	2,867	3,037	3,212	4,098	4,783		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	0.9	1.0	1.1	1.1	1.1	1.0	0.7	...	1.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	16.7	24.5	27.2	37.8	30.3	33.4	32.9	41.6	...	30.6
Nominal GDP (Million of US dollars)	109,875	114,449	108,039	121,769	122,196	121,677	126,983	135,752	145,470	197,974	371,090		
Nominal dollar GDP growth	8.9	4.2	-5.6	12.7	0.4	-0.4	4.4	6.9	7.2	6.2	7.8	5.9	5.7
Memorandum items:													
PV of external debt 7/	...	...	75.9	73.1	76.3	80.1	79.8	77.6	75.6	70.8	67.4		
In percent of exports	...	...	649.6	672.3	653.3	625.1	600.4	575.8	549.6	479.8	407.7		
Total external debt service-to-exports ratio	199.6	173.2	197.6	207.7	192.3	179.2	168.0	159.1	144.8	109.2	72.1		
PV of PPG external debt (in Million of US dollars)			34,700	36,315	37,129	37,719	37,495	38,085	39,014	44,593	60,208		
(PVt-PVt-1)/GDPt-1 (in percent)				1.5	0.7	0.5	-0.2	0.5	0.7	1.0	0.0		
Non-interest current account deficit that stabilizes debt ratio	5.4	2.6	-10.0	8.5	-2.7	-1.3	3.2	4.4	4.4	2.6	5.1		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

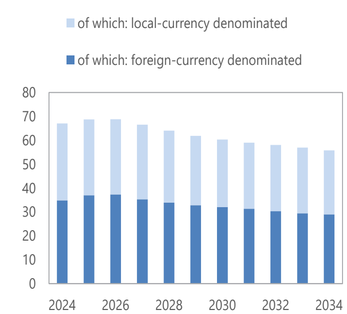
Table 2. Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	68.1	67.8	73.1	67.0	68.8	68.8	66.6	64.1	61.9	55.8	40.4	58.4	62.5
of which: external debt	34.7	34.6	40.4	34.8	37.0	37.4	35.3	33.9	32.8	29.0	21.3	30.0	33.0
	33.47	33.16	32.73	32.20	31.77	31.43	31.26	30.12	29.04	26.76	19.14		
Change in public sector debt	0.3	-0.3	5.3	-6.1	1.7	0.0	-2.2	-2.5	-2.2	-1.2	-2.1		
Identified debt-creating flows	1.1	1.6	6.9	-1.4	-1.6	-1.8	-2.2	-2.4	-2.1	-1.3	-1.9	3.2	-1.7
Primary deficit	2.7	1.4	0.6	-0.6	-1.5	-1.8	-2.3	-2.5	-2.0	-0.6	-0.2	3.1	-1.4
Revenue and grants	16.8	17.1	16.9	17.7	18.4	19.0	19.5	19.8	19.9	19.9	19.8	17.2	19.4
of which: grants	0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Primary (noninterest) expenditure	19.5	18.5	17.5	17.1	16.9	17.2	17.3	17.3	17.9	19.2	19.6	20.3	18.0
Automatic debt dynamics	-1.7	0.2	6.3	-0.8	-0.1	0.0	0.1	0.0	-0.1	-0.7	-1.7		
Contribution from interest rate/growth differential	-2.9	-2.7	1.0	-0.8	-0.1	0.0	0.1	0.0	-0.1	-0.7	-1.7		
of which: contribution from average real interest rate	1.8	0.4	4.6	2.7	3.1	3.3	3.3	3.2	2.9	2.0	0.3		
of which: contribution from real GDP growth	-4.8	-3.2	-3.6	-3.5	-3.2	-3.3	-3.3	-3.2	-3.0	-2.7	-2.0		
Contribution from real exchange rate depreciation	1.3	2.9	5.3	...	...	...	...	...	...	...	...		
Denominator = 1+g	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.7	-1.9	-1.6	-4.7	3.3	1.8	0.0	0.0	-0.1	0.2	-0.2	0.1	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	68.7	63.0	64.0	63.7	61.2	58.6	56.2	49.7	35.5		
PV of public debt-to-revenue and grants ratio	...	...	406.2	356.2	348.4	334.3	313.8	296.0	282.9	249.9	179.4		
Debt service-to-revenue and grants ratio 3/	55.2	56.0	60.6	63.7	62.5	61.4	58.1	55.7	49.0	47.1	29.4		
Gross financing need 4/	12.0	11.0	10.9	10.6	10.0	9.9	9.1	8.6	7.7	8.7	5.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.6	4.9	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	5.0
Average nominal interest rate on external debt (in percent)	3.1	3.0	3.7	3.7	4.2	3.9	3.9	3.7	3.7	3.2	2.6	3.1	3.6
Average real interest rate on domestic debt (in percent)	7.6	5.1	6.4	7.1	7.6	8.6	8.7	8.6	8.2	6.3	0.9	5.5	7.7
Real exchange rate depreciation (in percent, + indicates depreciation)	3.9	9.3	14.9	...	...	...	...	...	...	...	...	2.1	...
Inflation rate (GDP deflator, in percent)	4.2	6.8	6.1	4.5	5.0	4.9	4.9	4.8	4.9	4.9	5.8	6.1	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	3.0	-0.8	0.2	2.3	4.1	6.8	5.2	5.4	8.4	5.5	4.3	2.8	5.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.4	1.7	-4.7	5.47	-3.2	-1.9	0.0	0.0	0.2	0.5	1.9	-0.2	0.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Kenya: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2024–34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to GDP Ratio											
Baseline	30	30	31	30	28	27	26	25	24	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	30	31	33	34	36	37	40	**42**	**43**	**44**	**46**
B. Bound Tests											
B1. Real GDP growth	30	32	33	32	30	29	28	27	26	25	24
B2. Primary balance	30	32	37	36	35	33	33	32	31	30	30
B3. Exports	30	32	37	35	34	32	31	30	29	28	27
B4. Other flows 3/	30	33	36	34	33	31	30	29	28	27	26
B5. Depreciation	30	39	35	34	32	30	29	28	27	26	26
B6. Combination of B1-B5	30	35	37	36	34	33	32	31	29	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	30	34	35	34	32	31	31	30	29	29	28
C2. Natural disaster	30	35	37	36	35	35	35	35	35	35	35
C3. Commodity price	30	30	31	30	28	27	26	25	24	23	23
C4. Market Financing	30	34	35	33	32	30	29	28	27	26	25
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of Debt-to-Exports Ratio											
Baseline	**274**	**260**	**242**	**222**	**208**	**195**	**184**	175	164	157	153
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**274**	**269**	**257**	**255**	**264**	**273**	**282**	**290**	**295**	**303**	**312**
B. Bound Tests											
B1. Real GDP growth	**274**	**260**	**242**	**222**	**208**	**195**	**184**	175	164	157	153
B2. Primary balance	**274**	**276**	**290**	**272**	**257**	**243**	**232**	**224**	**214**	**208**	**204**
B3. Exports	**274**	**328**	**411**	**380**	**358**	**336**	**319**	**302**	**283**	**269**	**259**
B4. Other flows 3/	**274**	**279**	**280**	**259**	**243**	**229**	**217**	**205**	**192**	**183**	176
B5. Depreciation	**274**	**260**	**216**	**197**	**184**	172	162	154	145	139	136
B6. Combination of B1-B5	**274**	**321**	**275**	**324**	**305**	**287**	**272**	**258**	**242**	**230**	**222**
C. Tailored Tests											
C1. Combined contingent liabilities	**274**	**288**	**273**	**254**	**240**	**227**	**218**	**210**	**201**	**196**	**192**
C2. Natural disaster	**274**	**285**	**272**	**257**	**247**	**238**	**233**	**229**	**225**	**225**	**226**
C3. Commodity price	**274**	**260**	**242**	**222**	**208**	**195**	**184**	175	164	157	153
C4. Market Financing	**274**	**260**	**242**	**223**	**209**	**196**	**185**	175	164	157	152
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt Service-to-Exports Ratio											
Baseline	**40**	**32**	**30**	**27**	**27**	**22**	**22**	**21**	**20**	**19**	**17**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**40**	**30**	**27**	**26**	**26**	**23**	**24**	**24**	**25**	**26**	**25**
B. Bound Tests											
B1. Real GDP growth	**40**	**32**	**30**	**27**	**27**	**22**	**22**	**21**	**20**	**19**	**17**
B2. Primary balance	**40**	**32**	**31**	**30**	**30**	**25**	**25**	**24**	**24**	**23**	**21**
B3. Exports	**40**	**38**	**44**	**42**	**41**	**34**	**34**	**33**	**33**	**32**	**28**
B4. Other flows 3/	**40**	**32**	**31**	**29**	**28**	**23**	**24**	**23**	**23**	**22**	**19**
B5. Depreciation	**40**	**32**	**30**	**26**	**26**	**21**	**21**	**20**	**18**	**18**	15
B6. Combination of B1-B5	**40**	**36**	**40**	**37**	**36**	**30**	**30**	**29**	**29**	**28**	**24**
C. Tailored Tests											
C1. Combined contingent liabilities	**40**	**32**	**31**	**29**	**28**	**23**	**24**	**22**	**21**	**21**	**18**
C2. Natural disaster	**40**	**33**	**31**	**29**	**29**	**24**	**24**	**23**	**23**	**22**	**20**
C3. Commodity price	**40**	**32**	**30**	**27**	**27**	**22**	**22**	**21**	**20**	**19**	**17**
C4. Market Financing	**40**	**32**	**30**	**28**	**27**	**22**	**26**	**25**	**19**	**16**	**16**
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt Service-to-Revenue Ratio											
Baseline	**25**	**21**	**20**	**19**	**19**	15	16	15	15	15	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**25**	**19**	**19**	18	**18**	16	17	18	**19**	**20**	**19**
B. Bound Tests											
B1. Real GDP growth	**25**	**21**	**22**	**20**	**20**	17	17	16	16	16	14
B2. Primary balance	**25**	**21**	**21**	**21**	**21**	17	18	17	18	18	16
B3. Exports	**25**	**21**	**21**	**20**	**20**	17	17	17	17	17	15
B4. Other flows 3/	**25**	**21**	**21**	**20**	**20**	16	17	17	17	17	14
B5. Depreciation	**25**	**26**	**26**	**23**	**23**	**19**	**20**	**18**	17	17	14
B6. Combination of B1-B5	**25**	**21**	**23**	**21**	**21**	18	**18**	18	18	17	15
C. Tailored Tests											
C1. Combined contingent liabilities	**25**	**21**	**21**	**20**	**20**	16	17	16	16	16	14
C2. Natural disaster	**25**	**21**	**21**	**19**	**19**	16	17	16	16	16	14
C3. Commodity price	**25**	**21**	**20**	**19**	**19**	15	16	15	15	15	13
C4. Market Financing	**25**	**21**	**20**	**19**	**19**	16	**18**	**18**	14	12	12
Threshold	18	18	18	18	18	18	18	18	18	18	18

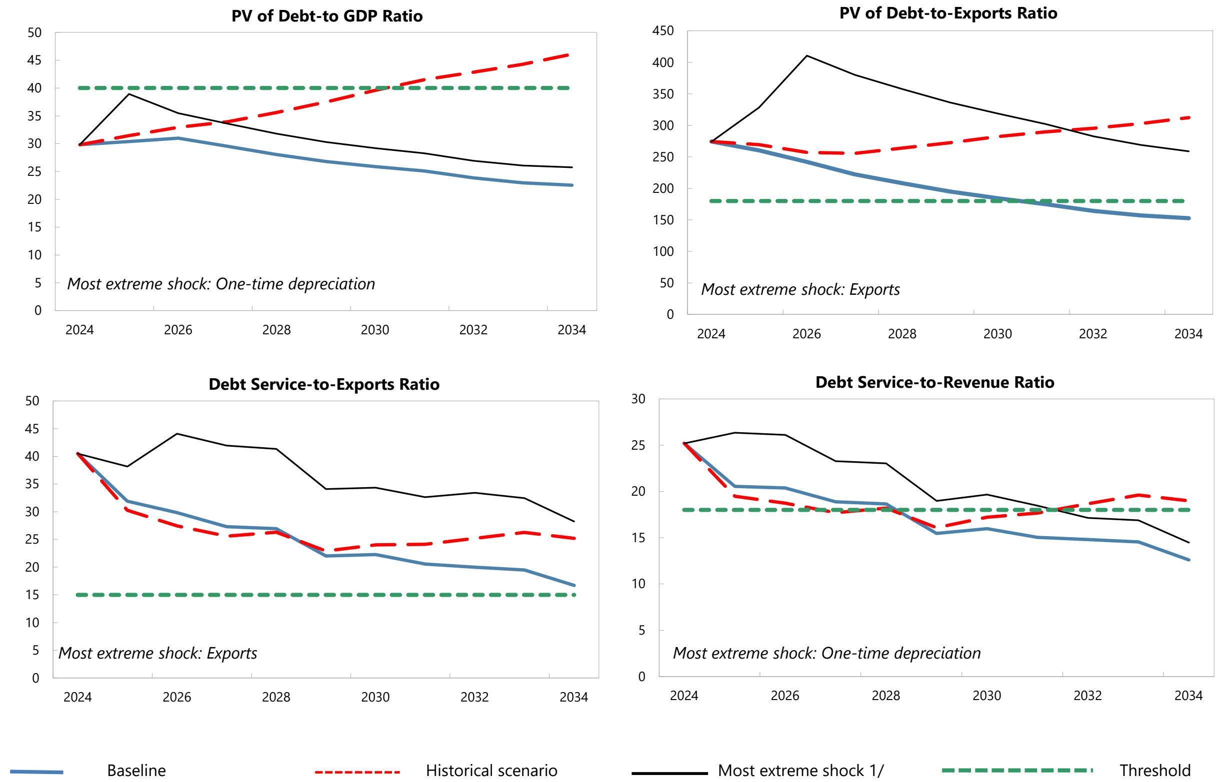
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private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

Table 4. Kenya: Sensitivity Analysis for Key Indicators of Public Debt, 2024–34
(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	PV of Debt-to-GDP Ratio										
Baseline	**63**	**64**	**64**	**61**	**59**	**56**	55	53	52	51	50
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**63**	**68**	**72**	**73**	**75**	**77**	**79**	**80**	**82**	**84**	**85**
B. Bound Tests											
B1. Real GDP growth	**63**	**67**	**71**	**69**	**68**	**67**	**67**	**66**	**67**	**67**	**67**
B2. Primary balance	**63**	**70**	**77**	**75**	**72**	**70**	**68**	**67**	**66**	**65**	**63**
B3. Exports	**63**	**66**	**69**	**67**	**64**	**61**	**60**	**58**	**57**	**55**	54
B4. Other flows 3/	**63**	**66**	**69**	**66**	**63**	**61**	**59**	**58**	**56**	55	53
B5. Depreciation	**63**	**66**	**64**	**60**	**56**	52	49	47	44	42	40
B6. Combination of B1-B5	**63**	**67**	**73**	**71**	**68**	**65**	**64**	**62**	**61**	**60**	**58**
C. Tailored Tests											
C1. Combined contingent liabilities	**63**	**74**	**73**	**71**	**68**	**66**	**64**	**63**	**62**	**61**	**59**
C2. Natural disaster	**63**	**76**	**77**	**76**	**75**	**74**	**74**	**75**	**75**	**76**	**76**
C3. Commodity price	**63**	**65**	**65**	**64**	**63**	**62**	**61**	**61**	**62**	**62**	**62**
C4. Market Financing	**63**	**64**	**64**	**61**	**59**	**56**	55	53	52	51	50
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	356	348	334	314	296	283	275	267	262	256	250
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	356	369	376	376	380	387	395	403	413	421	428
B. Bound Tests											
B1. Real GDP growth	356	365	370	355	343	336	334	334	335	336	337
B2. Primary balance	356	378	405	383	365	351	343	336	331	325	319
B3. Exports	356	358	363	342	323	309	300	292	285	277	270
B4. Other flows 3/	356	361	361	339	320	307	298	290	283	275	268
B5. Depreciation	356	358	336	309	284	264	249	235	224	212	200
B6. Combination of B1-B5	356	364	383	362	343	329	320	313	307	300	293
C. Tailored Tests											
C1. Combined contingent liabilities	356	400	385	364	345	332	324	317	311	305	299
C2. Natural disaster	356	412	405	391	379	374	374	375	378	380	383
C3. Commodity price	356	352	344	329	317	311	309	309	311	312	313
C4. Market Financing	356	348	334	314	297	284	275	268	262	256	250
	Debt Service-to-Revenue Ratio										
Baseline	64	62	61	58	56	49	47	46	47	48	47
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	64	62	64	62	61	57	57	58	62	66	68
B. Bound Tests											
B1. Real GDP growth	64	65	67	65	63	56	55	56	58	61	61
B2. Primary balance	64	62	69	70	64	56	57	59	61	63	60
B3. Exports	64	62	62	59	57	50	48	48	49	50	49
B4. Other flows 3/	64	62	62	59	57	50	48	48	49	50	49
B5. Depreciation	64	60	61	57	55	48	46	45	45	46	44
B6. Combination of B1-B5	64	61	65	67	61	54	53	54	55	56	54
C. Tailored Tests											
C1. Combined contingent liabilities	64	62	73	64	61	54	56	56	56	58	54
C2. Natural disaster	64	68	74	69	67	60	61	63	65	68	67
C3. Commodity price	64	62	62	60	58	52	51	52	54	56	57
C4. Market Financing	64	62	62	58	56	49	50	49	46	46	46

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

Figure 1. Kenya: Indicators of Public and Publicity Guaranteed External Debt Under Alternatives Scenarios, 2024–34



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

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

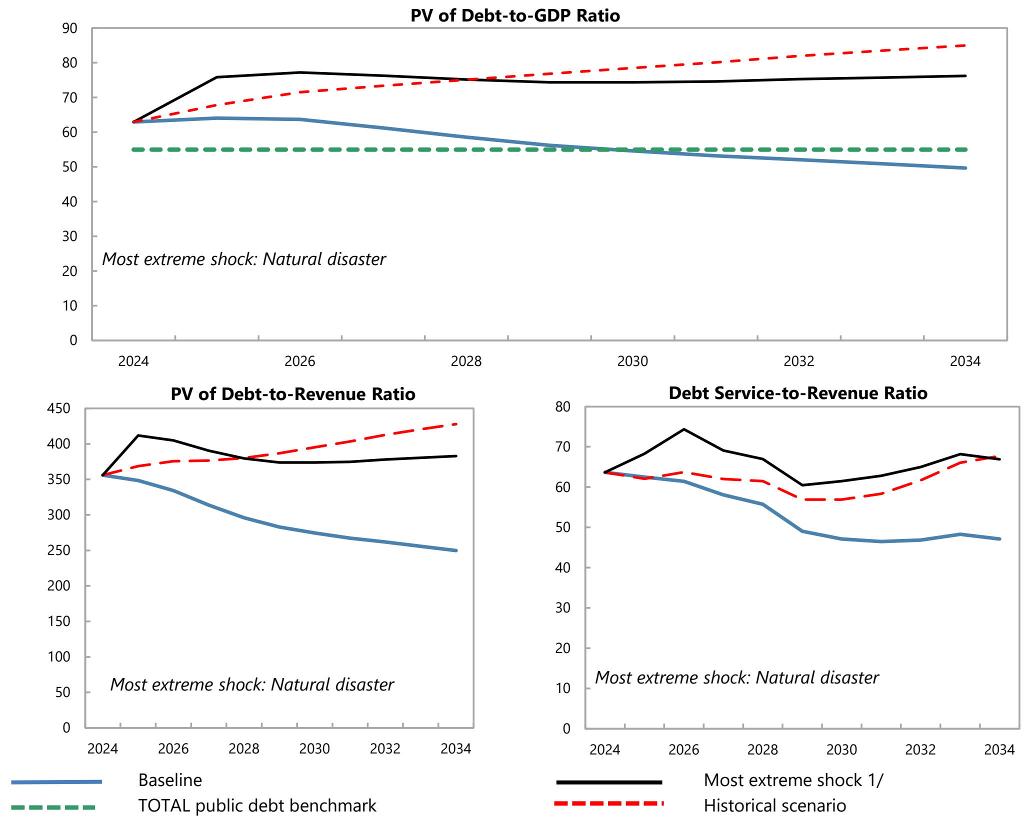
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Kenya: Indicators of Public Debt Under Alternative Scenarios, 2024–34



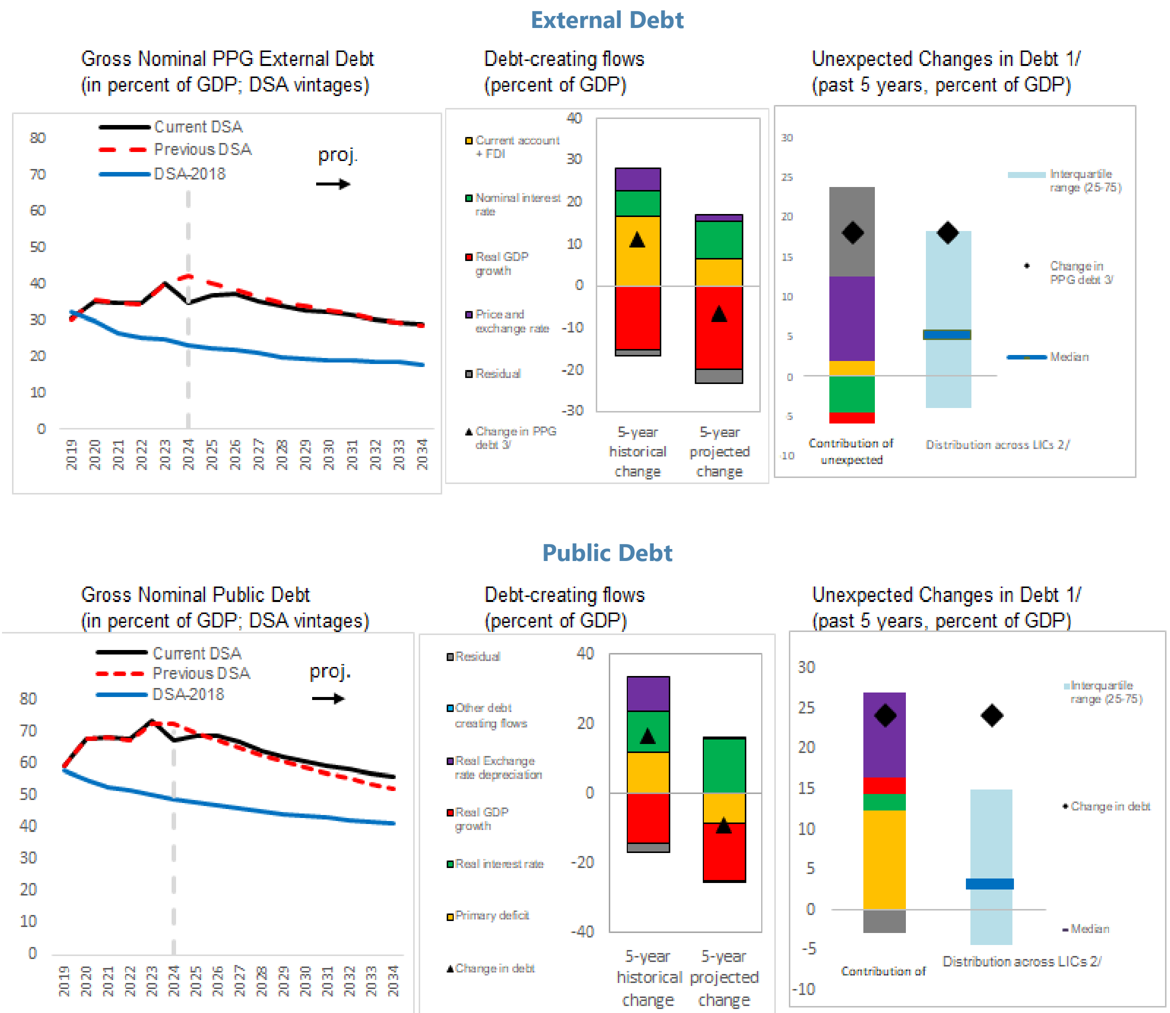
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	36%	36%
Domestic medium and long-term	48%	48%
Domestic short-term	16%	16%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	7.9%	7.9%
Avg. maturity (incl. grace period)	8	8
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	5.6%	5.6%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



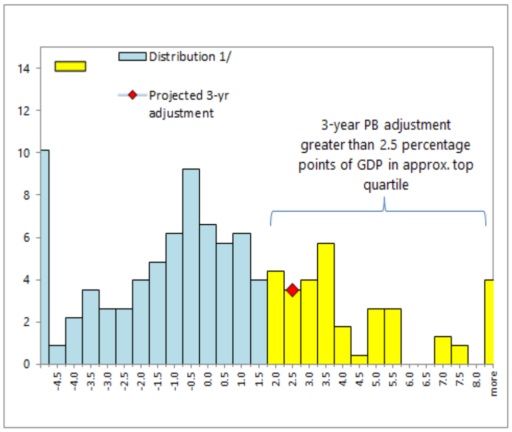
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

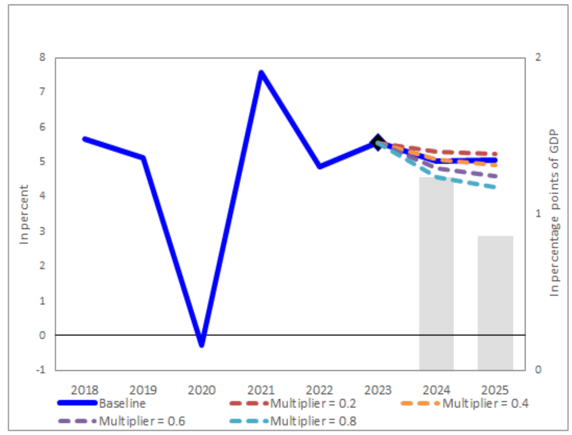
Figure 4. Kenya: Realism Tools

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



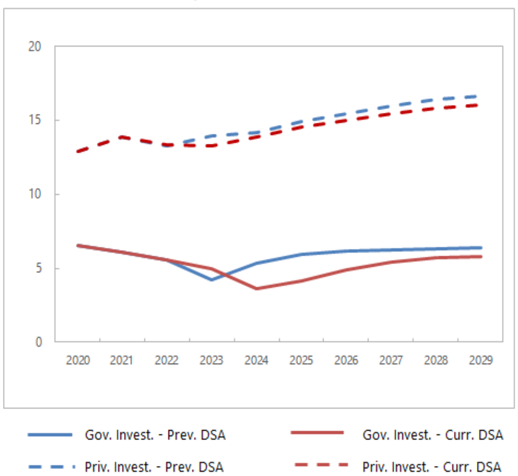
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

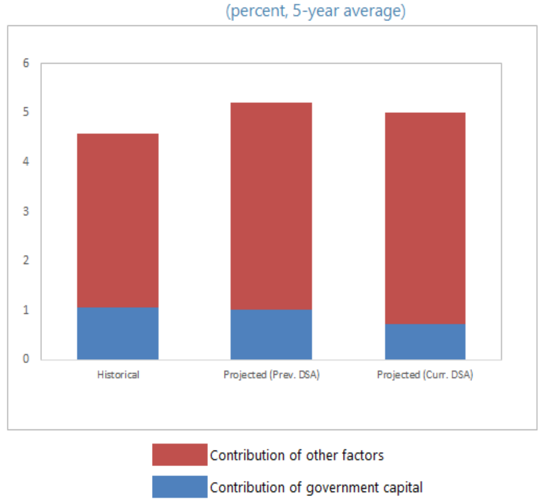
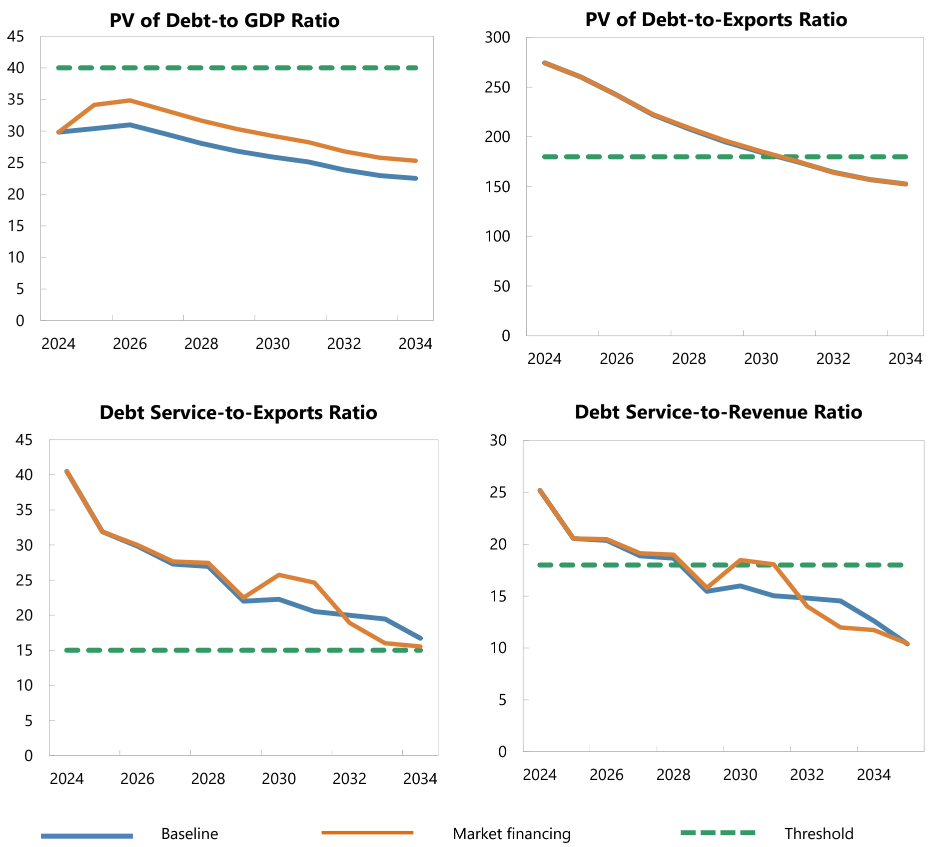


Figure 5. Kenya: Market-Financing Risk Indicators

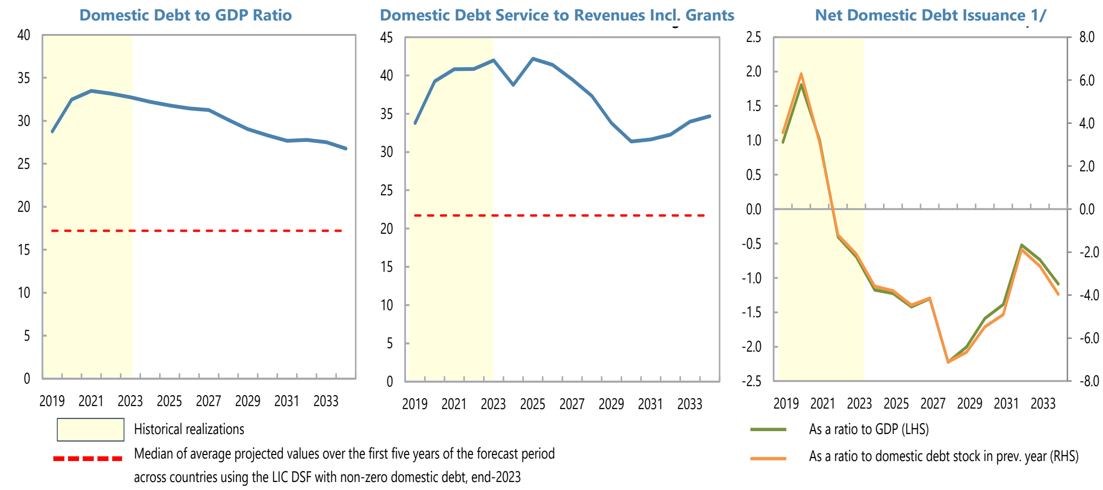
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	552
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to data available as of October 11, 2024.



Sources: Country authorities; and staff estimates and projections.

Figure 6. Kenya: Indicators of Domestic Public Debt, 2019–34



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	75%
Short-term	25%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	7.9%
Avg. maturity (incl. grace period)	8
Avg. grace period	4
Domestic short-term debt	
Avg. real interest rate	5.6%

Sources: Country authorities; and staff estimates and projections.

1/ Net Domestic Debt Issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments, and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.