REPUBLIC OF KENYA

MINISTRY OF FINANCE

Debt Management Department

ANNUAL
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March 2008

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Foreword

It gives me pleasure to present the third Annual Public Debt Management Report for the fiscal year 2006/07. The report reviews public debt developments in the year and the progress of on-going reforms. The Ministry of Finance will be publishing the report annually in its efforts to disseminate information to ensure transparency in debt management operations.

Despite the rise in Kenya's public debt in absolute terms, indicators on debt sustainability continue to be within the recommended thresholds as shown by the results of the Debt Sustainability Analysis (DSA) conducted by the Government in collaboration with Debt Research International (DRI), Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and International Monetary Fund (IMF) in May 2007. The DSA will be updated this year to inform the development of a debt strategy that will be tabled in Parliament to provide a framework for borrowing.

Arising from the macroeconomic stability and building on credit ratings received from Standards and Poor's and Fitch, the Government intends to issue a sovereign bond in the international capital market before December 2008. Other than raising funds for infrastructure projects, the bond will also act as an international benchmark for Kenya, which is useful for investors and corporate borrowers, whom we expect to play a leading role in the attainment of the country's development goals.

Reforms in public debt management have been part of the wider public financial management reforms the Government has been undertaking in the implementation of the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) for the last five years ending in December 2007. The reforms have translated into enhanced performance of the economy, and I wish to commend those who have been operationalizing the process and encourage them to keep up the momentum. This tempo will be maintained as we embark on building a vibrant economy in the context of the development agenda in the Vision 2030.

HON. AMOS KIMUNYA, EGH, MP
MINISTER FOR FINANCE
MARCH 2008

Acknowledgement

Since the last Annual Public Debt Management Report for 2005/06, considerable progress has been achieved in consolidating debt management operations under the Debt Management Department (DMD). After putting in place a reliable debt database and enhancing coordination of debt management functions, external debt service payments are currently settled promptly. From June 2007, electronic debt data is available on-line between the Ministry of Finance (MoF) and Central Bank of Kenya (CBK) following successful installation of a fibre-optic link.

In order to further strengthen fiscal discipline and transparency in the public sector, the Treasury is in the process of drafting a Public Administration and Financial Management Bill. The proposed legislation will incorporate a section to address comprehensively issues on public debt management including debt objectives, strategy and authorization. As an interim measure, External Debt Regulations will be issued to streamline the debt management process.

The weaknesses that have been observed in public debt have been largely due to lack of proper institutional structure. To address this problem, progress has been made towards formally establishing a Debt Management Office (DMO) at the Ministry of Finance, modelled along the best international practices. Arising from consultancy work carried out by the Crown Agents, an organisational structure for the DMO has been prepared and will be presented to the Directorate of Personnel Management for approval.

I wish to acknowledge the important role played by the Debt Management Department at the Ministry of Finance in co-ordinating production of this report and the Central Bank of Kenya for their technical input. I wish to express my special thanks to the main team involved, namely: John Murugu (Director), Haron Sirima (Deputy Director), Charles Kairu, Jairus Muaka, Livingstone Bumbe, and Joseph Wambua all from the Debt Management Department at the Ministry of Finance, and Isaya Maana and Cappitus Chironga from the Central Bank of Kenya. I also appreciate the role played by Ms. Faith Njau who did the typing and Mr. George Kariuki for layout of the report.

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/TREASURY
MARCH 2008

Table of Contents

List of Abbreviations

ADB	Africa Development Bank
ADF	African Development Fund
A-I-A	Appropriation in Aid
CBK	Central Bank of Kenya
CPIA	Country Policy and Institutional Assessment
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DACC	Debt and Aid Coordination Committee
DGIPE	Department of Government Investment and Public Enterprise
DMD	Debt Management Department
DMO	Debt Management Office
DPM	Directorate of Personnel Management
DRI	Debt Relief International
DSA	Debt Sustainability Analysis
EEC	European Economic Commission
EIB	European Investment Bank
ERD	External Resources Department
ERS	Economic Recovery Strategy
FDI	Foreign Direct Investment
FLSTAP	Financial and Legal Sector Technical Assistance Project
FXD	Fixed Discounted Rate
GDP	Gross Domestic Product
GOK	Government of Kenya
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICT	Information Communication Technology
IDA	International Development Association
IMF	International Monetary Fund
JPY	Japanese Yen
KBC	Kenya Broadcasting Corporation
KERP	Kenya External Resource Policy
KSH	Kenya Shilling
MEFMI	Macro Economic and Financial Management Institute of Eastern and Southern Africa

MOF	**Ministry of Finance**
NBFI	**Non Bank Financial Institution**
NBK	**National Bank of Kenya**
NPV	**Net Present Value**
NSE	**Nairobi Stock Exchange**
NSSF	**National Social Security Fund**
ODA	**Official Development Assistance**
PDS	**Public Debt Section**
PFMB	**Public Financial Management Bill**
PMG	**Pay Master General**
PPG	**Public and Publicly Guaranteed**
PRGF	**Poverty Reduction and Growth Facility**
PV	**Present Value**
PWC	**PricewaterhouseCoopers**
QBR	**Quarterly Budget Review**
SDR	**Special Drawing Rights**
SFX	**Special Fixed Rate**
SWAP	**Sector Wide Approaches to Programmes**
TARDA	**Tana and Athi River Development Authority**
UK	**United Kingdom**
USA	**United States of America**
USD	**US Dollar**
WB	**World Bank**
ZC	**Zero Coupon Rate**

Executive Summary

The overall objective of Government debt management policy is to meet the central government's financing requirement at minimal borrowing costs with a prudent degree of risk. It also aims at facilitating the government's access to the financial market as well as supporting development of a well functioning domestic financial market.

The country's public and publicly guaranteed debt increased from Ksh 789,076 million or 51.1 percent of GDP in June 2006 to Ksh 801,254 million or 43.8 percent of GDP in June 2007. Domestic debt rose from Ksh 357,839 million or 23.2 percent of GDP to Ksh 404,690 million or 22.1 percent of GDP. External debt fell from 431,237 million or 27.9 percent of GDP to Ksh 396,564 million or 21.7 percent of GDP during the period. However, expressed in US dollar terms, external debt increased from USD 5,837 million to USD 5,958 million during the period. The proportion of total debt to GDP dropped during the period due to a faster growth in GDP compared with the debt.

There was a significant shift in the composition of public debt with the share of domestic debt increasing from 45.3 percent of total debt in June 2006 to 50.5 percent in June 2007. Conversely, the proportion of external debt in total debt dropped from 54.7 percent to 49.5 percent during the period mainly due to appreciation of the Kenya Shilling.

Kenya's overall debt service increased from Ksh 44,320 million in 2005/06 to Ksh 55,177 in 2006/07. Interest payments on domestic debt increased from Ksh 31,445 million to Ksh 36,860 million while external debt service increased from Ksh 12,875 million to Ksh 18,317 million. The increase in domestic interest payments was attributed to a higher domestic debt stock while the rise in external debt service was due to end of the consolidation period for rescheduling of the Paris Club debt under the 2004 Paris Club rescheduling agreement.

Total disbursements from development partners through project cash loans and project A-in-A increased from Ksh 6,334 million in 2005/06 to Ksh 11,685 million in 2006/07. Project cash loans almost tripled, from Ksh 2,608 million or 41.2 percent to Ksh 6,848 million or 58.6 percent of the target disbursements. Likewise, project A-in-A more than doubled, from Ksh 2,154 million or 34 percent to Ksh 4,837 million or 41.4 percent of the targeted disbursements. The Government did not receive any disbursements in programme loans during the period under review.

Interest rates on Treasury bills declined in the fiscal year 2006/07 compared with their level in 2005/06. The 91-day Treasury bills rate dropped 156 basis points to settle at an average of 6.32 percent in 2006/07 from an average of 7.88 percent in 2005/06. Similarly, the 182-day Treasury bills rate shed 75 basis points to average 7.66 percent from an average of 8.41 percent. The decline in the interest rates during the period was partly attributed to increased liquidity in the market.

The Government continued with initiatives aimed at resolving the issue of the security related contracts. PricewaterhouseCoopers (PwC) were engaged to carry out valuation and forensic audit of the contracts. The findings of the audit have been reviewed and will form an overall strategy to minimize cost to the Government.

Effective debt management requires a formal debt management strategy to guide debt management operations. In response to this need, the Government in collaboration with MEFMI, IMF, and DRI conducted the National Debt Sustainability Analysis workshop which was held in Nairobi in May 2007. The results of the Debt Sustainability Analysis indicated that Kenya's debt was sustainable in the medium to long term. However, to ensure that the debt remains sustainable, the Government will strive to contract most of its debt from external sources on concessional terms. The Government will devise a framework for recording and monitoring contingent liabilities due to the high risk they pose on debt sustainability.

The Government undertook various reforms and activities in 2006/07 aimed at improving efficiency and transparency in public debt management in the country. These include: installation of a fibre optic link between the MoF and CBK in June 2007 to facilitate online sharing of debt data between the two institutions on a common CS-DRMS 2000+ platform; undertaking of a Debt Sustainability Analysis (DSA) and drafting a National Debt Management Strategy; engagement of a consultancy firm, Crown Agents, in June 2007 to assist in the preparation of the DMO Organizational Structure, Staff Retention Policy and a draft Agency Agreement between MOF and CBK; and initiated the Monthly Debt Bulletin to apprise senior management on developments in public debt.

The outlook in the medium term indicates that, public debt is expected to rise in nominal terms from Ksh 802,680 million in June 2007 to Ksh 996,745 million in 2010/11. However, as a percent of GDP, public debt is projected to decline from 43.8 percent to 36.4 percent over the period. This decline will be achieved through implementation of a prudent debt management strategy to maintain the overall debt at a sustainable level. External debt is projected to increase from Ksh 396,564 million in June 2007 to Ksh 438,929 million in June 2011. As a percentage of GDP, external debt will decline from 21.7 percent to 16.0 percent over the period. Domestic debt is projected to rise in nominal terms from Ksh 404,690 million to Ksh 557,816 million over the same period. As a percentage of GDP, domestic debt declines from 22.1 percent to 20.4 percent. The decline of public debt to GDP is due to a projected faster growth in GDP in the medium term.

In nominal terms, domestic interest payments are expected to rise from Ksh 36,860 million in 2006/07 to Ksh 55,620 million in 2010/11 while interest payments on external debt are projected to rise from Ksh 4,433 million to Ksh 4,674 million during the period.

1. INTRODUCTION

This is the third Annual Public Debt Management Report published by the Ministry of Finance. The report covers major developments in public debt management activities in 2006/07 presented under the following chapters:

- Principles of Government Debt Management
- Financing of the Budget Deficit and Debt
- External Debt
- Domestic Debt
- Publicly Guaranteed Debt
- Resolution of Commercial Contracts
- Debt Sustainability Analysis
- Public Debt Management Reforms
- Outlook for the Medium Term

2. PRINCIPLES OF GOVERNMENT DEBT MANAGEMENT

2.1 Objectives and strategy

The overall objective of Government debt management policy is to meet the Central government's financing requirements at minimal borrowing costs with a prudent degree of risk. It also aims at facilitating the government's access to the financial markets as well as supporting development of a well functioning domestic financial market.

Consistent with the stated policy objectives, Government borrows externally on concessional terms. As a strategy for minimising borrowing costs, external loans must have a minimum grant element of 35 percent to be considered for borrowing.

The strategy of issuance of domestic debt is assessed on a continuous basis and agreed between the Ministry of Finance and CBK. To support the openness and credibility of government debt policy, the annual net domestic borrowing target is announced in the Budget speech in June each year and any revision would be publicly announced by the Minister for Finance.

The CBK issues Treasury Bonds and Bills to cover the central government financing requirement. The financing requirement is determined by the government's current revenue and expenditures, as well as maturing debt. To meet temporary shortfalls in cash-flows, the Government may access the overdraft facility at the CBK up to the statutory set limit of 5 percent of the Government audited annual ordinary revenue.

The Government plans to issue a sovereign bond in the international financial market to a diversified investor base, to establish a liquid pricing benchmark for future issuance by both the public and private sector. This will also enhance Kenya's visibility in the international financial market.

The Government undertakes its borrowing within the set limits set by Parliament. Under the External Loans and Credits Act (Cap 422), the limit for external debt stock is Kshs 500 Billion. The Guarantee Loans Act (Cap 461) sets the limit for all guaranteed loans at Kshs 80 Billion. These limits were set in the year 2000. The domestic borrowing is done under the Internal Loans Act (Cap 420). The Central Bank of Kenya Act (Cap 491) also allows Government overdraft.

2.2 Framework of Government Debt Management in Kenya

The Minister for Finance is authorized by law to mobilise resources on behalf of the Government and has the overall responsibility for central government borrowing and debt. The day to day management of the central government debt, as well as the related tasks, are conducted by Debt Management Department (DMD) and Central Bank of Kenya. Under the current reforms, the DMD will be structured into front, middle and back offices each with distinct functions in accordance with international best practice.

2.3 Information on the Central Government debt

An important element of Government debt management is to promote transparency in its operations. To this end the Government publishes various reports in its efforts to disseminate information to the public on debt management operations. A wide range of information is currently published in the CBK's *Monthly Economic Review and Weekly Bulletin*, MoFs *Annual Public Debt Management Report*, *Quarterly Budget Review, Budget Outlook Paper and Budget Strategy Paper* and in the *Annual Economic Survey* published by the Kenya National Bureau of Statistics.

3. FINANCING OF THE BUDGET DEFICIT AND DEBT

3.1 Overall Financing of the Deficit

The central Government budgetary operations in 2006/07 resulted in a budget deficit (on cash basis) of Ksh 38,042 million or 2.1 percent of GDP compared with Ksh 36,397 million or 1.8 percent of GDP in 2005/06. The budget deficit was financed through Ksh 34,661 million net domestic financing (excluding the Ksh 20,000 National Bank of Kenya bond), privatisation proceeds of Ksh 4,000 million and a net foreign repayment of Ksh 619 million. Net domestic financing accounted for 75 percent of the total deficit financing in 2006/07 compared with 76 percent in 2005/06.

3.2 Overall Public Debt

The country's public and publicly guaranteed debt increased from Ksh 789,076 million or 51.1 percent of GDP in June 2006 to Ksh 801,254 million or 43.8 percent of GDP in June 2007 as indicated in Table 3.1. Domestic debt rose from Ksh 357,839 million (23.2 percent of GDP) to Ksh 404,690 million (22.1 percent of GDP). However, external debt fell from 431,237 million (27.9 percent of GDP) to Ksh 396,564 million (21.7 percent of GDP) during the period due largely to the appreciation of the Kenya Shilling. Notably, the proportion of debt to GDP dropped during the period due to a faster growth in GDP.

There was a significant shift in the composition of public debt with the share of domestic debt increasing from 45.3 percent of total debt in June 2006 to 50.5 percent in June 2007. The proportion of external debt in total debt dropped from 54.7 percent to 49.5 percent during the period due to increased domestic borrowing. Securitization of non-performing Government guaranteed loans to National Bank of Kenya was a major contributor to the growth of domestic debt.

Table 3.1: Kenya's Public Debt Stock (Ksh Million)

	Jun 05	Jun-06	June-07	Change 2006/07
EXTERNAL*				
Bilateral	157,669	154,877	137,890	-16,987
Multilateral	255,784	255,550	240,349	-15,201
Commercial Banks	1,776	1,274	286	-988
Export Credit	19,224	19,536	18,039	-1,497
Sub-Total	**434,453**	**431,237**	**396,564**	**-34,673**
(As a % of GDP)	32.2	27.9	21.7	
(As a % of total debt)	57.9	54.7	49.5	
DOMESTIC (Gross)				
Banks	**169,529**	**190,762**	**222,985**	**32,222**
Central Bank	46,618	41,289	36,182	-5,107
Commercial Banks	122,911	149,473	186,802	37,329
Non-banks	**139,542**	**162,029**	**180,614**	**18,585**
Non-bank Financial Institutions	2,129	1,400	1,084	-316
Other Non-bank Sources	137,412	160,629	179,530	18,901
Non-residents	**6,502**	**5,047**	**1,091**	**-3,956**
Sub-Total	**315,573**	**357,839**	**404,690**	**46,851**
(As a % of GDP)	23.4	23.2	22.1	
(As a % of total debt)	42.1	45.3	50.5	
GRAND TOTAL	**750,025**	**789,076**	**801,254**	**12,178**
(As a % of GDP)	55.6	51.1	43.8	

*Includes IMF Debt

Source: Treasury & Central Bank of Kenya

3.3 Debt Service

Kenya's overall debt service[1] increased by Ksh 10,857 million (24.5 percent) from Ksh 44,320 million in 2005/06 to Ksh 55,177 in 2006/07 (Table 3.2). During the period, interest payments on domestic debt increased from Ksh 31,445 million to Ksh 36,860 million while external debt service increased from Ksh 12,875 million to Ksh 18,317 million. The increase in domestic interest payments was attributed to a higher domestic debt stock. The rise in external debt service was largely due to the expiry of Consolidation Period under the 2004 Paris Club rescheduling agreement and commencement of settlement of rescheduled debts.

[1] *Includes principal and interest repayments on external debt and interest payments on domestic debt. Rollovers are not included.*

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The structure of debt service changed during the period with external debt service increasing from 29.0 percent of total debt service in 2005/06 to 33.2 percent in 2006/07 while domestic interest payments dropped from 71.0 percent of total debt service to 66.8 percent.

Table 3.2: Kenya's Public Debt Service (Ksh Million)

	2002/03	2003/04	2004/05	2005/06	2006/07
External Principal	19,611	20,448	10,544	9,230	13,884
External Interest	9,775	5,830	4,427	3,645	4,433
Total External Debt Service	**29,386**	**26,278**	**14,971**	**12,875**	**18,317**
Total External Debt Service (As % of total debt service)	51.6	53.0	39.0	29.0	33.2
Domestic Interest	**27,567**	**23,281**	**23,375**	**31,445**	**36,860**
Domestic Interest (As % of total debt service)	48.4	47.0	61.0	71.0	66.8
Total Debt Service	**56,953**	**49,559**	**38,346**	**44,320**	**55,177**

Source: Treasury

4. EXTERNAL DEBT

4.1 Overall External Debt

Expressed in US dollar terms, external debt increased from USD 5,837 million to USD 5,958 million between June 2006 and June 2007. However, in Kenya Shillings, external debt declined by Ksh 34,673 million or 8 percent from Ksh 431,237 million in June 2006 to Ksh 396,564 million in June 2007 due to exchange rate movement (Table 3.1). Similarly, external debt to GDP fell from 27.6 percent to 21.7 percent while in relation to total debt, it dropped from 54.7 percent to 49.5 percent during the period.

External debt owed to multilateral creditors decreased from Ksh 255,550 million to Ksh 240,349 million and that to bilateral creditors from Ksh 154,877 million to Ksh 137,890 million between June 2006 and June 2007. The proportion of external debt owed to multilateral creditors increased from 59.3 percent to 60.6 percent during the period (Chart 4.1a and 4.1b). However, the share of external debt owed to bilateral creditors dropped from 35.9 percent to 34.8 percent and that to commercial banks from 0.3 percent to 0.1 percent. The proportion of external debt owed to export credits remained unchanged at 4.5 percent.

Chart 4.1a: External Debt Stock by Creditor Category (June 2006)

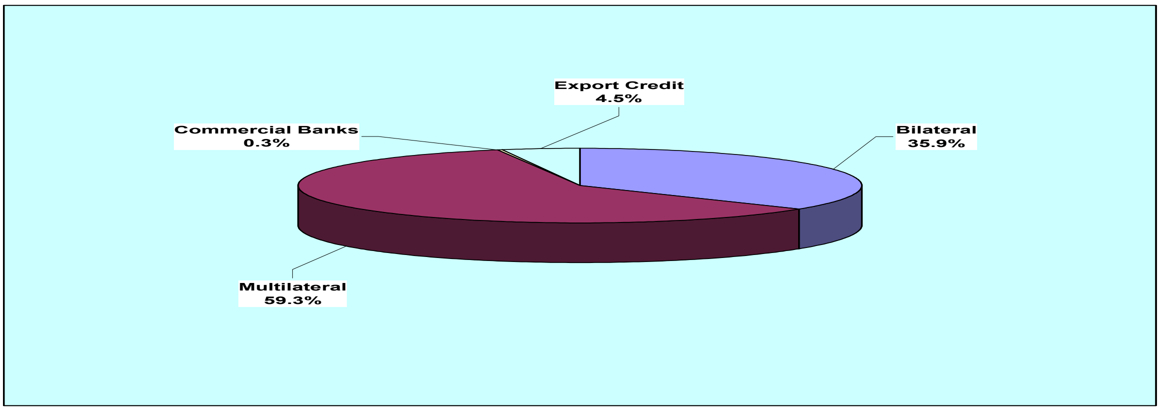
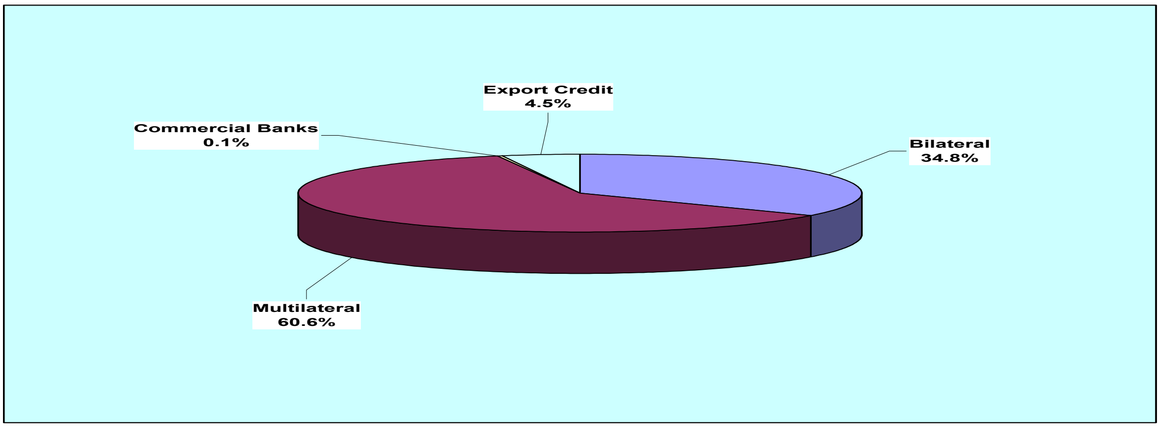


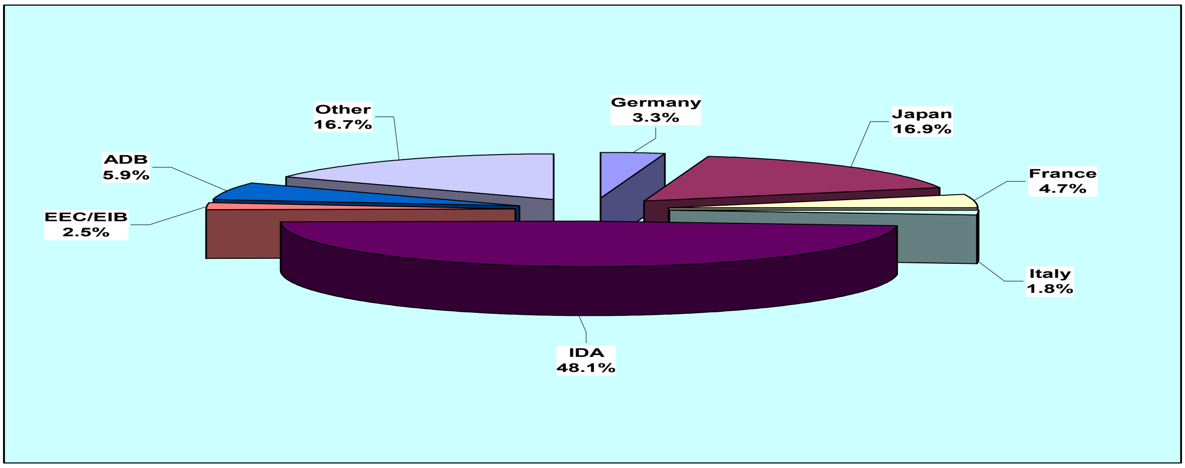
Chart 4.1b: External Debt stock by Creditor Category (June 2007)



Source: Treasury

As shown in Chart 4.2, IDA was the main multilateral creditor to Kenya accounting for 48.1 percent of the overall external debt. This was followed by the African Development Bank Group which accounted for 5.9 percent while the European Investment Bank accounted for 2.5 percent. Among the bilateral lenders, Japan accounted for the largest contribution at 16.9 percent followed by France with 4.7 percent, Germany at 3.3 percent while Italy had 1.8 percent.

Chart 4.2: External Debt by Major Creditor (June 2007)



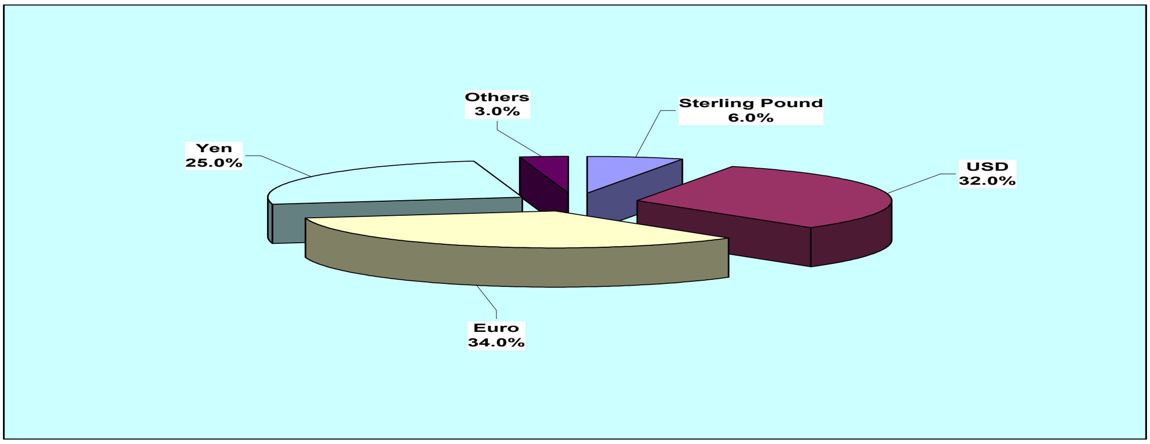
Source: Treasury

4.2 Currency Structure of External Debt

As at end June 2007, external debt was held in 12 different currencies namely, the Danish Kroner, Euro, Kenya shilling, Kuwaiti Dinar, Sterling Pound, Saudi Riyal, Swedish Kroner, Swiss Franc, US dollar, Korean Won, Japanese Yen, and Chinese Yuan. Ninety seven (97) percent of the debt is denominated in Euro, US dollar, Japanese Yen and Sterling Pound. A diverse currency structure mitigates the exchange rate risk on the country's external debt.

The share of external debt held in Euro, USD and the Sterling Pound remained at 34 percent, 32 percent and 6 percent respectively. The proportion of debt held in Japanese Yen declined slightly during the period from 27 percent to 25 percent. All the other currencies, including SDR, comprised 3 percent of external debt in June 2007. The currency composition of external debt does not reflect a debt management strategy, but an indication of volume of external loan resources by source.

Chart 4.3: External Debt by Currency (June 2007)

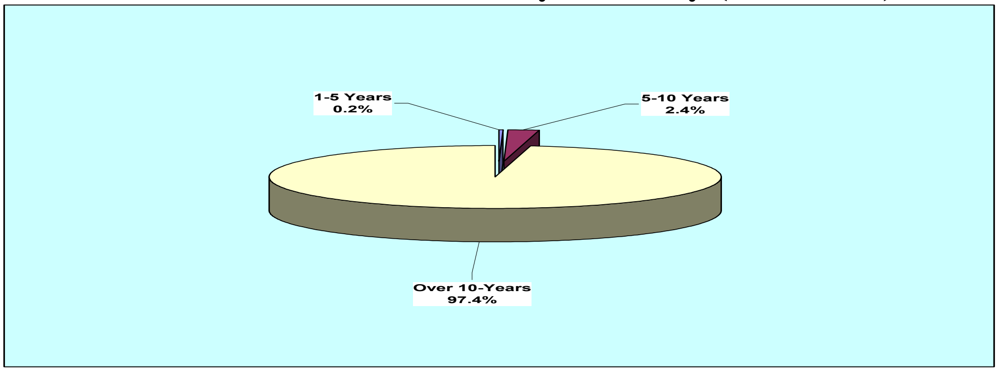


Source: Treasury

4.3 Maturity Structure

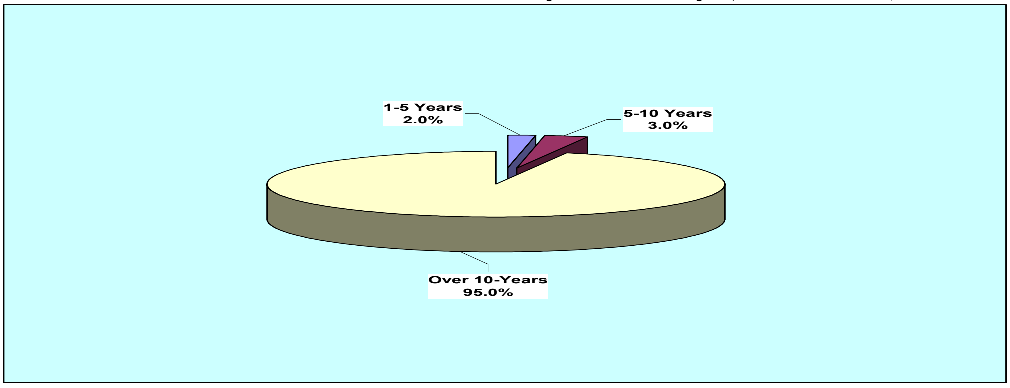
Overall, the country's external debt remains long-term. The average maturity profile of external debt increased from 36.1 years to 40.8 years in the period. However, the proportion of debt with maturities of more than 10 years declined from 97% in June 2006 to 95 percent in 2007 (Chart 4.4a and 4.4b). Debt with maturity range of less than 10 years rose from 2.6 percent in June 2006 to 5 percent in June 2007, reflecting increased number of loans scheduled for full retirement.

Chart 4.4a: External Debt by Maturity (June 2006)



Source: Treasury

Chart 4.4b: External Debt by Maturity (June 2007)



Source: Treasury

4.4 Average Terms for Outstanding External Loans

Average interest rates on external loans dropped from 0.8 percent per annum in June 2006 to 0.5 percent in June 2007. The average grace period on loans lengthened from 8.1 years in June 2006 to 10.2 years in June 2007. This development, together with the increased average maturity profile imply a general increase in the level of concessionality of the external debt portfolio with the average grant element on loans rising from 66.9 percent in June 2006 to 74.2 percent in June 2007. All external loans contracted during the period had a minimum grant element of 35 percent. The Government did not contract commercial loans in 2006/07.

4.5 External Debt Service

As shown in Table 4.2, total external debt service increased from Ksh 12,875 million or 4.2 percent of ordinary revenue in 2005/06 to Ksh 18,317.09 million or 4.9 percent of revenue in 2006/07. Principal repayments increased from Ksh 9,230 million in June 2006 to Ksh 13,884 million while interest payments increased from Ksh 3,646 million to Ksh 4,433 million during the period.

The rise in external debt service during the period was attributed mainly to principal repayments and interest payments on loans falling due in the second half of the 2006/07 following the end of the Consolidation Period (January 2004- December 2006) of the 2004 Paris Club rescheduling. As in 2005/06, the Government did not service payments due on the disputed security related commercial loans.

Table 4.1: External Debt Service by Creditor Category (Ksh Million)

	Multilateral		Bilateral		Commercial		Total	
	Jun-06	Jun-07	Jun-06	Jun-07	Jun-06	Jun-07	Jun-06	Jun-07
Principal Repayments	7,238	8,102	1,548	5,184	445	598	9,230	13,884
Interest Payments	2,337	2,021	1,227	2,372	82	39	3,646	4,433
Total	**9,575**	**10,124**	**2,774**	**7,556**	**527**	**637**	**12,875**	**18,317**

Source: Treasury

4.6 Disbursements

Total disbursements from development partners through project cash loans and project A-in-A increased by Ksh 5,351 million from Ksh 6,334 million in 2005/06 to Ksh 11,685 million in 2006/07 as indicated in Table 4.3. The Government did not receive any disbursements on programme loans during the period under review. Project cash loans almost tripled, from Ksh 2,608 million or 41.2 percent to Ksh 6,848 million or 58.6 percent of the target. Likewise, project A-in-A more than doubled, from Ksh 2,154 million or 34 percent to Ksh 4,837 million or 41.4 percent of the disbursements target.

Table 4.2: External Loans Disbursements (Ksh Million)

	2005/06		2006/07		
	Amount	%	Amount	%	Target
Project Cash Loans	2,608	41.2	6,848	58.6	14,349
Programme Loans	1,572	24.8	0	0.0	0
Project A-I-A	2,154	34.0	4,837	41.4	15,482
Total	**6,334**	**100.0**	**11,685**	**100.0**	**29,830**

Source: Treasury

Despite the improvement in overall disbursements, the amount was way below the annual target by end June 2007. The total amounts disbursed were Ksh 11,685 million or 39.2 percent of the target disbursements of Ksh 29,830 million. The strategy and actions to enhance the absorption capacity of donor funds are outlined in the draft *Kenya External Resources Policy* (KERP).

The Government also received balance of payments support from the IMF amounting to SDR 37.5 million, which was equivalent to Ksh 3,916 million in 2006/07 after successful completion of the 2nd PRGF review in March 2007.

5. DOMESTIC DEBT

5.1 Overall Domestic Debt

Government domestic debt increased by Ksh 46,851 million in 2006/07 to stand at Ksh 404,690 million in June 2007 compared with Ksh 357,839 million in June 2006 (Table 5.1). This was equivalent to a growth of 13.1 percent in the debt during the period. The rise in the debt was attributed mainly to an increase of Ksh 53,842 million in Treasury bonds during the period. This increase was however, partly offset by decreases of Ksh 6,334 million in other domestic debt comprising mainly of Government overdraft at Central Bank of Kenya, Ksh 354 million in Treasury bills (excluding repos), and Ksh 303 million in long term stocks.

The significant rise in Treasury bonds during the period was attributed to issue of Ksh 20,000 million restructuring bonds to National Bank of Kenya. The Government also used Treasury bonds extensively to raise resources to finance the budget.

Table 5.1: Public Domestic Debt (Ksh Million)

	June 2006		June 2007		Change
	Amount	%	Amount	%	Jun06 -Jun 07
Total Stock of Domestic Debt (A+B)	357,839	100.0	404,690	100.0	46,851
A. Government Securities	349,740	97.7	402,926	99.6	53,185
1. Treasury Bills (excluding Repo Bills)	94,776	26.5	94,422	23.3	-354
Banking institutions	47,035	13.1	45,051	11.1	-1,984
Others	47,741	13.3	49,371	12.2	1,631
2. Treasury Bonds	218,357	61.0	272,200	67.3	53,842
Banking institutions	100,149	28.0	140,685	34.8	40,536
Others	118,208	33.0	131,514	32.5	13,306
3. Pre-1997 Government Overdraft	35,549	9.9	35,549	8.8	0
Of which: Repo T/Bills	35,532	9.9	35,548	8.8	16
B. Others:***	9,157	2.6	2,519	0.6	-6,334
Of which CBK overdraft to Government	5,202	1.5	41	0.0	-5,161

Domestic debt is reported on a gross basis i.e. without netting out government deposits and Treasury advances to parastatals.

* Provisional

*** Others comprises Government overdraft at the CBK, clearing items awaiting transfer to PMG, commercial bank advances and tax reserve certificates

Source: Central Bank of Kenya

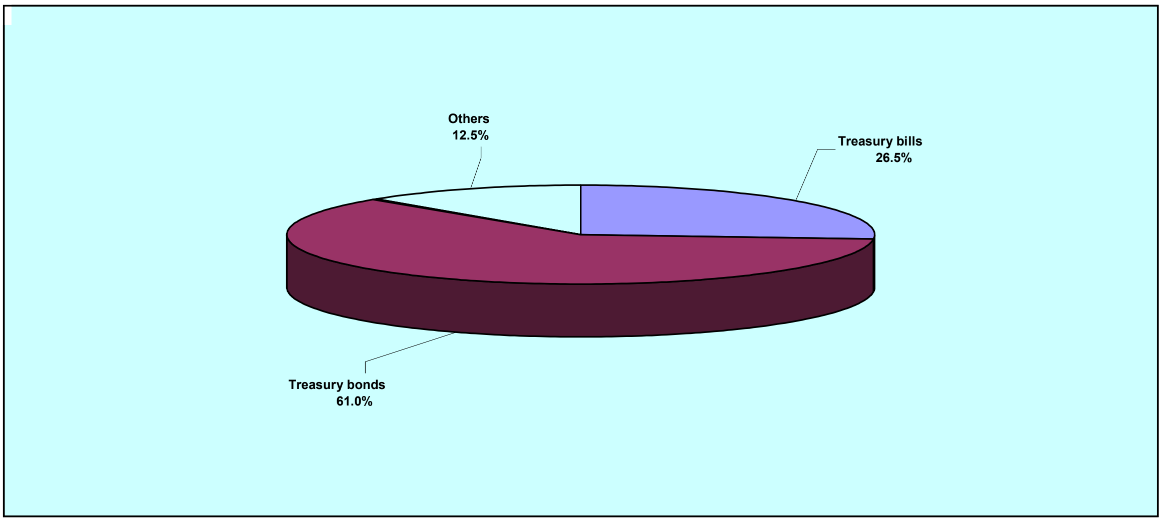
In 2006/07, the Government achieved its domestic borrowing targets. Treasury bills and bonds auctions realized average subscriptions of 139.5 percent and 177.6 percent respectively during the period. This was attributed to macro-economic stability and credible Government borrowing program which promoted increased participation in the Government securities market by institutional investors such as pension funds and insurance companies.

5.2 Composition of Domestic Debt by Instrument

Treasury bonds increased significantly from Ksh 218,357 million in June 2006 to Ksh 272,200 million in June 2007 while Treasury bills (excluding Repos) decreased from Ksh 94,776 million to Ksh 94,422 million during the period. Consequently, the proportion of Treasury bonds in total domestic debt increased from 61.0 percent to 67.3 percent while Treasury bills dropped from 26.5 percent to 23.5 percent during the period (Chart 5.1a and 5.1b). The proportion of domestic debt held in long term stocks dropped from 0.3 percent to 0.2 percent during the period.

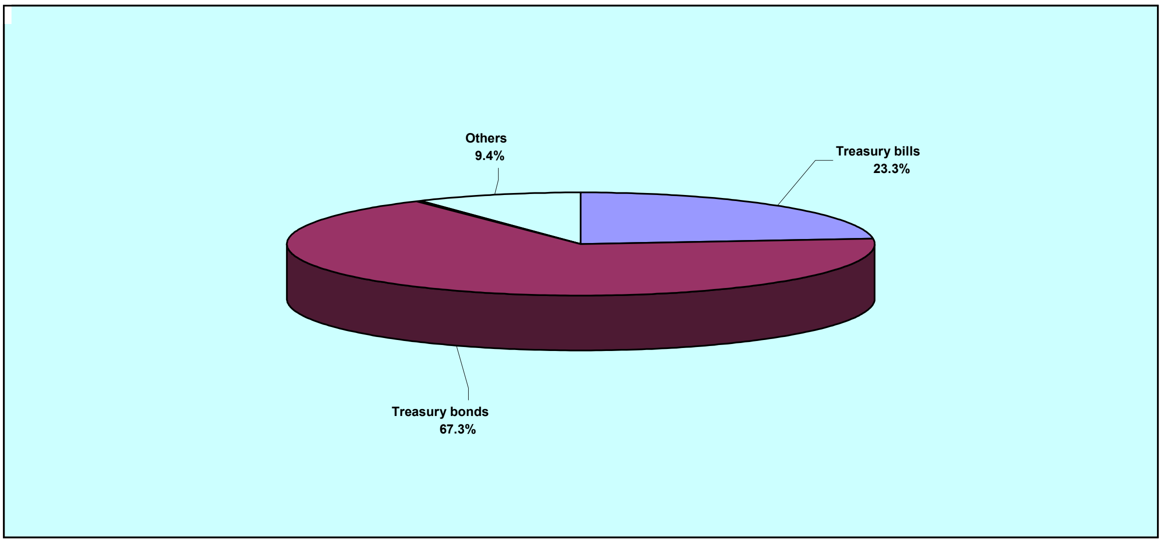
The proportion of other forms of domestic debt dropped from 12.5 percent to 9.4 percent during the period. The Government overdraft at the Central Bank of Kenya, which comprises the largest share of other domestic debt, decreased from Ksh 5,202 million in June 2006 to zero in June 2007. This is consistent with Government debt management strategy of utilizing the overdraft facility to meet temporary shortfalls in cash flow.

Chart 5.1a: Composition of Domestic Debt by Instrument (June 2006)



Source: Central Bank of Kenya

Chart 5.1b: Composition of Domestic Debt by Instrument (June 2007)



Source: Central Bank of Kenya

The Government continued with its strategy of lengthening the maturity profile of Government debt instruments in 2006/07 by issuing more long-term bonds. The main objective of restructuring domestic debt to the long dated Treasury bonds is to minimise refinancing risks and promote growth of domestic securities market. As a step towards extending the yield curve, a 15-year Treasury bond was issued in Kenya for the first time in March 2007 and was oversubscribed. Since then, more long term bonds have been issued to meet increased market demand. The success of the restructuring programme was boosted by increased participation in the bond market by institutional investors such as insurance companies and pension funds.

The ratio of Treasury bills to Treasury bonds changed during the period in favour of Treasury bonds from 30:70 in June 2006 to 26:74 in June 2007. Consequently, the average maturity of domestic debt increased from 2.2 years in June 2006 to 3.1 years in June 2007

The period also witnessed increased turnover at the fixed income segment of the Nairobi Stock Exchange. The volume of bonds traded at NSE increased significantly from Ksh 36,228 million in 2005/06 to Ksh 62,575 in 2006/07. The corporate bonds market however remained quiet as no institution issued corporate bonds in 2006/07.

5.3 Domestic Debt by Holder

Statistics in Table 5.2 indicates that commercial banks holdings of domestic debt increased from 41.8 percent in June 2006 to 46.2 percent in June 2007. Conversely, the share of domestic debt held by non-bank entities reduced marginally, from 45.3 percent to 44.6 percent during the period. The relatively high proportion of debt held by non-bank entities is a positive development as it reflects a wider investor base which promotes competition thereby lowering the cost of Government debt and volatility of interest rates. This partly explains the significant drop in the interest rates on Government securities during the period. A narrow investor base consisting mainly of commercial banks increases the risk of crowding out private sector investment as private companies rely mainly on commercial banks as source of credit financing. The future strategy is to increase the investor base for non bank entities.

Table 5.2: Domestic Debt by Holder (Ksh Million)

	Jun-05		Jun-06		June-07		Change
	Amount	%	Amount	%	Amount	%	2006/07
Banks	**169,529**	**53.7**	**190,762**	**53.3**	**222,985**	**55.1**	**32,223**
Central Bank	46,618	14.8	41,289	11.5	36,182	8.9	- 5,107
Commercial Banks	122,911	38.9	149,473	41.8	186,802	46.2	37,329
Non-banks	**139,542**	**44.2**	**162,029**	**45.3**	**180,614**	**44.6**	**18,585**
Non-bank Financial Institutions	2,129	0.7	1,400	0.4	1,084	0.3	- 316
Other Non-bank Sources	137,412	43.5	160,629	44.9	179,530	44.4	18,901
Non-residents	**6,502**	**2.1**	**5,047**	**1.4**	**1,091**	**0.3**	**- 3,956**
Sub-Total	**315,573**	**100.0**	**357,838**	**100.0**	**404,690**	**100.0**	**46,852**

Source: Central Bank of Kenya

5.3.1 Treasury Bills

As indicated in Table 5.3, the stock of Treasury bills declined by 0.4 percent during the year. The amount of Treasury bills held by commercial banks declined from Ksh 47,034 million in June 2006 to Ksh 45,051 million in June 2007. This translated to a proportionate decrease from 49.6 percent to 47.7 percent during the period. However, insurance companies upped their share during the period.

The share of 91-day Treasury bills in total outstanding Government securities halved, from 12.0 percent in June 2006 to 6 percent in June 2007 as indicated in Table 5.4. However, the proportion of the 182-day Treasury bills increased from 18.2 percent to 19.7 percent during the period. This shift in the composition of Treasury bills in favour of 182-day paper could be attributed to the higher yields on the latter.

Table 5.3: Outstanding Treasury bills by Holder (Ksh Million)

Holders	June 2005		June 2006		June 2007	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Banking Institutions	32,780	45.6	47,560	50.2	45,278	48.0
Central Bank	7	0.0	1	0.0	-	-
Comm. Banks	31,863	44.3	47,034	49.6	45,051	47.7
NBFIs	910	1.3	525	0.6	227	0.2
Insurance Companies	7,665	10.7	11,037	11.6	13,453	14.2
Parastatals	6,907	9.6	11,240	11.9	9,026	9.6
Of which: NSSF	90	0.1	600	0.6	162	0.2
Building Societies	180	0.3	540	0.6	638	0.7
Pension Funds	538	0.7	609	0.6	58	0.1
Others	23,868	33.2	23,790	25.1	25,969	27.5
Total*	**71,938**	**100.0**	**94,776**	**100.0**	**94,422**	**100.0**

*** Excludes repurchase order bills**
Source: Central Bank of Kenya

As shown in Table 5.4, 182-day Treasury bills accounted for the largest proportion of outstanding Government securities in June 2006 and June 2007. It is also observed that bonds of tenors of 11, 12, and 15 years were floated for the first time.

Table 5.4: Outstanding Treasury bills and Bonds by Tenor (Ksh Million)[2]

	June 2005		June 2006		June 2007		Change Jun-06 to June-07
	Amount	%	Amount	%	Amount	%	
91-DAY	42,761	16.1	37,632	12.0	22,017	6.0	-15,615.4
182-DAY	29,177	11.0	57,144	18.2	72,405	19.7	15,261.1
1-YEAR	30,953	11.7	1,000	0.3	8,728	2.4	7,728.0
2-YEAR	24,686	9.3	39,738	12.7	37,652	10.3	-2,085.2
3-YEAR	27,898	10.5	31,255	10.0	31,174	8.5	-81.5
4-YEAR	26,160	9.9	26,287	8.4	19,281	5.3	-7,006.2
5-YEAR	22,740	8.6	28,391	9.1	28,787	7.9	396.5
6-YEAR	20,434	7.7	33,105	10.6	48,333	13.2	15,227.4
7-YEAR	10,330	3.9	13,566	4.3	15,884	4.3	2,318.0
8-YEAR	11,969	4.5	15,287	4.9	17,944	4.9	2,656.9
9-YEAR	9,555	3.6	12,615	4.0	12,615	3.4	0.0
10-YEAR	8,634	3.3	17,113	5.5	22,113	6.0	5,000.0
11-YEAR	0	0.0	0	0.0	4,031	1.1	4,031.4
12-YEAR	0	0.0	0	0.0	8,766	2.4	8,765.6
15-YEAR	0	0.0	0	0.0	16,892	4.6	16,891.6
Total	**265,296**	**100.0**	**313,134**	**100.0**	**366,622**	**100.0**	

Source: Central Bank of Kenya

5.3.2 Treasury Bonds

Outstanding Treasury bonds increased from Ksh 218,357 million in June 2006 to Ksh 272, 200 million in June 2007 as observed in Table 5.5. Holdings by commercial banks recorded the largest increase from Ksh 100,149 million in June 2006 to Ksh 140,685 million in June 2007. As a percentage of the total stock of bonds, commercial banks share increased from 45.9 percent to 51.7 percent in the period. The increase is partly explained by the Ksh 20,000 million Treasury bonds issued to NBK. The proportionate holding by all other sectors both collectively and individually, declined during the same period.

As per statistics in Table 5.4, the 6-year tenor accounted for largest share of outstanding Treasury bonds in June 2007, with 13.2 percent of the total stock of government securities compared with 10.6 percent in June 2006. The largest change was noted in the 15-year tenor, from zero in June 2006 to Ksh 16,892 million in June 2007.

[2] 91-Day and 182-Day instruments are T/Bills while the rest are T/Bonds.

Table 5.4 indicates that as a proportion of outstanding government securities, the share of Treasury bonds with maturity range of between 1 and 5 years declined from 31.4 percent in June 2006 to 26.4 percent in June 2007. However, the share of Treasury bonds at the longer end of the yield curve (with maturities of 5 to 15 years) in total Government securities increased from 38.3 percent in June 2006 to 47.8 percent in June 2007. This development has greatly supported the establishment of a stable yield curve due to the lengthened maturity profile.

Table 5.5: Outstanding Treasury bonds by Holder (Ksh Million)

Holders	June 2005		June 2006		June 2007	
	Amount	%	Amount	%	Amount	%
Banking Institutions	89,728	46.4	101,024	46.3	141,542	52.0
Central Bank	0	0.0	0	0.0	0	0.0
Comm. Banks	88,509	45.8	100,149	45.9	140,685	51.7
NBFIs	1,219	0.6	875	0.4	857	0.3
Insurance Companies	25,943	13.4	26,372	12.1	27,500	10.1
Parastatals	19,511	10.1	23,217	10.6	27,267	10.0
Of which: NSSF	2,986	1.5	4,887	2.2	6,846	2.5
Building Societies	1,995	1.0	1,795	0.8	1,285	0.5
Pension Funds	5,830	3.0	6,176	2.8	5,884	2.2
Others	50,351	26.0	59,774	27.4	68,721	25.2
Total	193,358	100.0	218,357	100.0	272,200	100.0

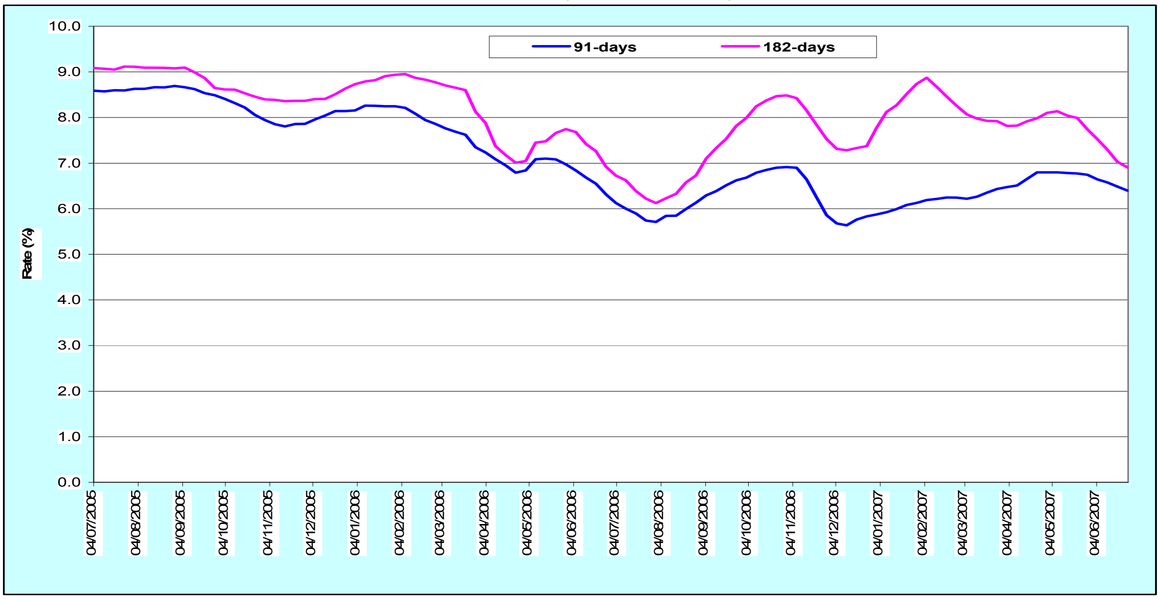
Source: Central Bank of Kenya

5.4 Interest Rates on Government Securities

Generally, interest rates on Government securities declined in 2006/07. As shown in Chart 5.2, interest rates on the 91-day Treasury bills rate dropped by 156 basis points to settle at an average of 6.32 percent in 2006/07 from an average of 7.88 percent in 2005/06. Similarly, the 182-day Treasury bills rate shed 75 basis points to average 7.66 percent from an average of 8.41 percent during the period. The decline in the interest rates during the period was partly attributed to increased liquidity in the market.

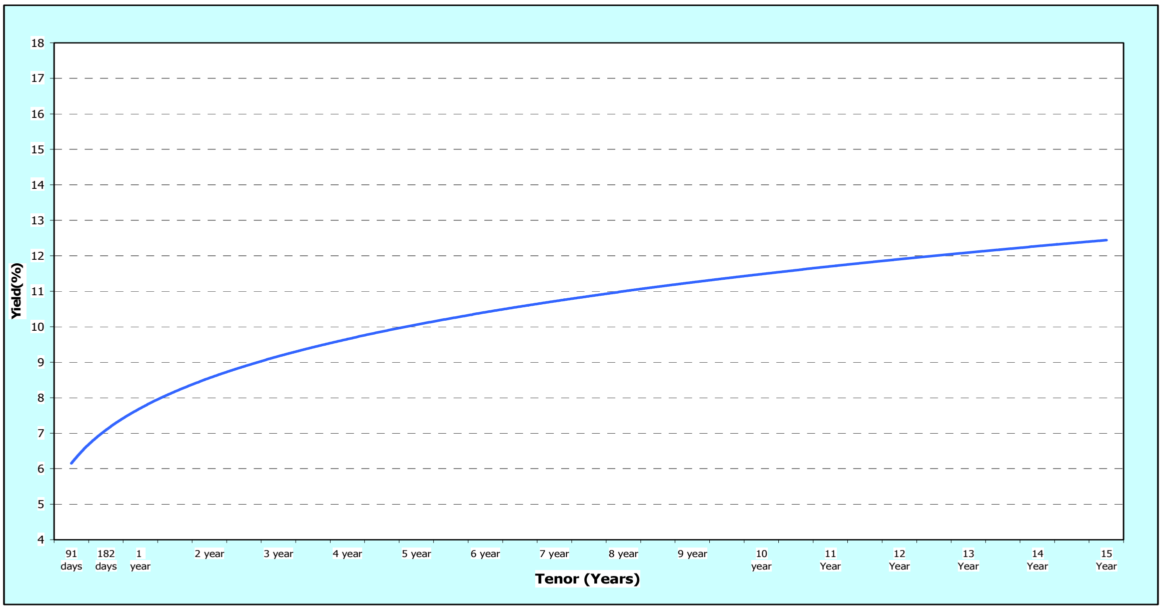
Implementation of a predictable Government domestic borrowing programme and increased participation by a wider investor base in the Government securities market has contributed to the stability of interest rates in the market for Government securities. This stability provided a platform to successful shift in borrowing to Treasury bonds and away from Treasury bills which are associated with high re-financing risks.

Chart 5.2: Interest Rates on Treasury bills (July 2005 - June 2007)



As shown in Chart 5.3, the Government securities trading yield curve shows a normal ascending shape indicating that the yields rise with longer maturities. The key development during the year was the extension of the yield curve to incorporate the 15-year Treasury bond, a first time issue. This was an attractive instrument to Pension and Insurance sectors whose liabilities are primarily long term.

Chart 5.3: Government of Kenya Securities Yield Curve (June 2007)



Source: Central Bank of Kenya

5.5 Domestic Interest Payments

Domestic interest payments increased from Ksh 31,445 million in 2005/06 to Ksh 36,860 million in 2006/07 due to a higher domestic debt stock. However, as shown in Table 5.6, the proportion of domestic interest payments to GDP remained unchanged at 2.0 percent during the period due to a proportionate growth in GDP.

The share of domestic interest payments in domestic revenue dropped from 10.1 percent to 9.9 percent during the period due to a faster growth in the revenue. The good performance of revenue during the period was due to improved economic growth and implementation of tax policy reforms by Kenya Revenue Authority.

Domestic interest payments as a ratio of total interest payments dropped marginally from 89.6 percent to 89.3 percent during the period. The marginal decline is due to increased interest payments on external debt following the end of consolidation for the 2004 Paris Club rescheduled debts. As a percentage of total Government expenditure, domestic interest payments increased from 8.4 percent to 8.8 percent during the period.

Table 5.6: Domestic Interest Ratios

	2002/03	2003/04	2004/05	2005/06	2006/07
Domestic Interest (Ksh Million)	27,567	23,281	23,375	31,445	36,860
Domestic Interest/Revenue (%)	13.1	9.1	8.1	10.1	9.9
Domestic Interest/expenditure (%)	10.4	8.3	7.7	8.4	8.8
Domestic Interest/GDP (%)	2.5	1.9	1.7	2.0	2.0
Domestic Interest/Total Interest (%)	73.8	80.0	84.1	89.6	89.3

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

6. PUBLICLY GUARANTEED DEBT

6.1 Institutional Arrangement

Publicly guaranteed debt refers to the debt owed by the country's public entities and sub-national institutions to both foreign and local creditors and contracted under the Guarantee Loans Act (Cap 461). Such debt may be denominated in Kenya shillings or in foreign currency. As a guarantor, the Government has on various occasions serviced debts owed by parastatals following default in loan repayments. All such payments made under the Guarantee Loans Act must be sanctioned by the Attorney General and have budgetary provisions with prior approval by Parliament.

Parastatals or public enterprises require prior authority from the parent ministry and the Treasury to contract new debt. The Guarantee Loans Act governs the issuance of Government guarantees to state corporations and local authorities. All government guarantees must be authorized by Parliament. The current ceiling for Government guarantees set by Parliament in 1993 is Ksh 80,000 million. To ensure prudent borrowing and ensure sustainability of public debt, all parastatals borrowing proposals must be vetted by Treasury before a guarantee is issued. Except in very exceptional circumstances, the Government does not issue guarantees for domestic borrowing.

6.2 Stock of Guaranteed Debt

Outstanding Government guaranteed debt declined from Ksh 48,487 million in June 2006 to Ksh 23,194 million in June 2007 (Table 6.1). The decrease of Ksh 25,293 million is partly explained by the Ksh 20,000 million bonds issued by the government to securitize non-performing loans (debts) owed to NBK by various parastatals.

Table 6.1: Publicly guaranteed debts (Ksh Million)

	Parastatal	Year	Obligation Guaranteed	Creditor	Jun-06	Jun-07
1	Nairobi City Council	1985	Umoja II Housing project	USA	533.8	452.6
2	Telkom Kenya	1988&1990	Purchase of Equipment	Italy & Japan	6,533.9	815.8
3	Tana & Athi river Dev. Co.	1990	Tana Delta irrigation project	Japan	2,498.3	2,060.0
4	East African Portland cement	1990	Cement Plant Rehabiltation	Japan	3,105.6	2,560.8
5	KenGen Ltd.	2007	Sondu miriu/sangoro power project	Japan	12,525.5	12,431.2
6	Kenya Broadcasting Corporation	1989	KBC modernization	Japan	4,931.5	4,873.9
7	Various	1969-1994	Various	National Bank of Kenya	18,358.4	-
	Total				**48,486.9**	**23,194.1**

Source: Treasury

6.3 Other Payments by the Government on Publicly Guaranteed

Cumulative net repayments of guaranteed debt by the Government on behalf of parastatals totalled Ksh 17,800 million since 1991 (Table 6.2). The Government spent Ksh 427 million in 2006/07 to service debts owed by the Nairobi City Council, TARDA and KBC, amounting to Ksh 45 million, Ksh 111 million and Ksh 271 million respectively.

Table 6.2: Cumulative Payments of Guaranteed Debt in Ksh Million (1991 - 2006/07)

PARASTATAL	PRINCIPAL	INTEREST	TOTAL	REPAYMENT BY PARASTATALS	BALANCE
KENGEN	1,487.4	1,156.5	2,643.9	2,609.7	34.1
Tana & Athi River Development Authority (TARDA)	727.1	713.4	1,440.5	0.3	1,440.8
TARDA (Loan taken over by KENGEN)	1,001.3	1,154.3	2,155.6	2,148.4	7.2
Kenya Posts And Telecommunication Corp.	675.8	691.5	1,367.3	1,080.7	286.6
Kenya Railways	1,151.0	203.9	1,354.9	715.1	639.8
Nzoia Sugar Co.	4,605.8	1,523.5	6,129.2	1.5	6,127.7
Nairobi City Council	1,598.1	2,120.6	3,718.7	124.7	3,593.9
National Housing Corporation	9.2	42.4	51.5	31.9	19.7
East African Sugar Industries (Muhoroni)	226.7	75.8	302.5	0.0	302.5
Kenya Broadcasting Corporation	1,847.1	2,197.1	4,044.3	44.0	4,000.3
South Nyanza Sugar Company	53.3	2.7	56.0	80.6	-24.6
Development Finance Company Of Kenya	92.4	39.9	132.3	45.0	87.3
Kenya Ports Authority	89.6	19.1	108.7	109.5	-0.8
Indust.& Com.Dev.Corporation	484.9	181.4	666.2	0.0	666.2
Kenya Fibre Corporation	0.0	14.7	14.7	0.0	14.7
Agricultural Dev. Corporation	106.7	72.9	179.6	0.0	179.6
Telkom(K)	580.6	87.1	667.7	0.0	667.7
Agro Chemical And Food Company	540.2	41.7	581.9	785.0	-203.1
Total Kshs	**15,277.1**	**10,338.4**	**25,615.5**	**7,776.4**	**17,839.6**

Source: Treasury

Note: The negative signs represent interest paid to Government by the parastatals over and above the outstanding amounts.

7. RESOLUTION OF COMMERCIAL CONTRACTS

7.1 Valuation and Forensic Audit

In the Annual Public Debt Management Report of year 2005/06, it was reported that the Government would contract experts to audit the security contracts. PricewaterhouseCoopers (PwC) were engaged in January 2007 to carry out valuation and forensic audit of the eighteen security contracts. The findings of the audit were consistent with the Controller and Auditor General's earlier findings. The major highlights are as follows:-

- The projects were over-priced;
- Government funds were being used to implement the projects leading to reverse financing whereby the Government was paying interest on its own funds;
- There were violations in Public Expenditure and Budgeting laws;
- There was evidence of corruption which will form a basis for further investigations by KACC;
- Promissory notes were issued in some contracts.

7.2 Promissory notes

In cases where the Promissory notes were issued, it has been argued that the government is exposed and may be required to honour the Promissory notes in future. However, the government position is that there is no exposure due to the following: -

- The Government has claims against the creditors to whom the Promissory notes were issued. None of these creditors has presented the notes to the Government of Kenya even those that have already fallen due. Kenya Anti-Corruption Commission has been investigating these creditors and it is unlikely they can present the promissory notes for payment.

- If the promissory notes were discounted to third parties, there is potential risk. To mitigate against this risk, the Government circulated a Caveat Emptor on 17th December 2007 warning third parties not to rediscount the promissory notes since they are subject to investigations for fraud. It was circulated through SWIFT to all banks worldwide, advertised in the media and posted in the Government website.

7.3 Way Forward

The Report by the PwC was discussed by the Cabinet Sub Committee on Anti-Corruption and the following actions agreed on: -

- For the four contracts where the Government has been sued or there are arbitrations, the Attorney General will continue to ensure a strong defence.

- An overall strategy will be formulated to ensure the best position for the Government. PwC will be retained to assist in the implementation of the findings of the reports and to offer services of expert witnesses whenever required.

8. DEBT SUSTAINABILITY ANALYSIS

8.1 Background

Kenya is classified as a *medium performer* based on the quality of its policies and institutions as measured by a three-year average of Kenya's score on the World Bank's Country Policy and Institutional Assessment (CPIA) Index. In May 2007 a Debt Sustainability Analysis (DSA) was conducted using policy-dependent debt burden thresholds. For a country classified as *medium performer*, the indicative thresholds for external debt sustainability are as follows:

1. NPV of Public and Publicly Guaranteed (PPG) debt-to-exports ratio of 150 percent
2. NPV of PPG debt-to-GDP ratio of 40 percent,
3. NPV of PPG debt-to-revenue ratio of 250 percent,
4. PPG debt service-to-exports ratio of 20 percent,
5. PPG debt service-to-revenue ratio of 30 percent.

The results presented below are for external and fiscal DSA carried out by the IMF and World Bank staff. The *External DSA* covers borrowing by the central government (including parastatals borrowing with a government guarantee) and the central bank, and also includes estimates for private sector borrowing based on available information. The *Fiscal DSA* aims at assessing the sustainability of total debt—external and domestic—incurred or guaranteed by the central government. The DSA was based on the end-2006 external debt stock.

8.2 Assumptions underlying the DSA

The assumptions (Appendix 4) are consistent with the proposed IMF PRGF-supported program for 2007[3]. It is assumed that:

1. Annual real GDP growth of 6.0 percent through 2012, which is in line with recent outcomes, followed by 5.0 percent from 2013 through 2026;
2. Inflation of 6 percent as measured by a GDP deflator, which falls to 5 percent for the 2013-2026 period;

[3] If the Government implements the Vision 2030, which has more ambitious growth rates assumptions, the DSA results may be different.

3. Annual export growth in US dollar terms of 10 percent such that exports as a share of GDP rise modestly from 15 percent to 16 percent over the forecast period;
4. A primary fiscal deficit of 0.8 percent of GDP in 2006, which gradually narrows to 0.4 percent by 2010;
5. A non-interest external current account deficit that rises to about 4.5 percent of GDP in 2011 before falling to an average of 2.6 percent of GDP over the 2012-2026 period;
6. A sharp increase in new borrowing in the early years (from about 1 percent of GDP in 2005 to almost 4 percent of GDP by 2007) followed by lower borrowing as a share of GDP for an average of 2 percent of GDP over the forecast period;
7. NPV of domestic debt equal to its face value; and continued restraint on non-concessional external borrowing (grant element below 35 percent) apart from sizeable commercial borrowing in 2007 to refinance existing commercial debt (with little or no net impact) and possibly a small amount of sovereign bond issuance.
8. No debt relief is assumed after the end of the 2004-2006 Paris Club rescheduling. A recently concluded debt swap agreement with Italy, which could potentially lead to the cancellation of Euro 43 million in external obligations, will be included in future DSAs.
9. Continued eligibility for concessional borrowing from IDA is assumed although achievement of assumed growth rates could imply graduation during the forecast period.
10. The stress tests do not take into account possible fiscal effort/response to early debt distress signs.

8.3 External Debt Sustainability

8.3.1 Baseline scenario

Kenya’s external debt indicators show a low risk of debt distress (Appendix 5). The external debt ratios are well below all of the indicative thresholds for a medium performer. The debt ratios decline sharply in 2006 and fall further over the forecast period (Table 7.1). The steep drop in the 2006 public debt-to-GDP ratio is to a large extent explained by the appreciation of the Kenya shilling against the U.S. dollar and continued strong GDP growth. Over the forecast period, although external borrowing is projected to more than triple in 2007 to 3.8 percent of GDP – a level some other low-income countries regularly borrow – this peak reflects a backlog of delayed loans and would fall gradually as a share of GDP thereafter. In addition to reasonably managed borrowing, the improvement in the baseline scenario reflects favourable real output and export growth projections in comparison to longer-term historical performance.

8.3.2 Alternative scenario

Upon applying stress tests, external debt situation shows resilience although shocks would lead to a sharp initial worsening in debt stock indicators (Appendix 5). The stress tests applied and their effects are as follows:

- A shock combining lower GDP growth, lower exports, a lower GDP deflator, and a fall in non-debt creating flows would push the NPV of debt to almost 32 percent of GDP.
- Substantially lower exports would push the NPV of debt to about 131 percent of exports. Despite an immediate worsening, the two debt stock measures would then improve on a trajectory similar to that under the baseline scenario. The debt service-to-exports ratio would be most negatively affected under the slower export growth scenario, but none of the shocks would push the debt service burden particularly high.
- The NPV of public external debt-to-revenue ratio and the public external debt service-to-revenue ratio both remain under the relevant thresholds in all of the alternative and shock scenarios.

Table 8.1: Summary – External Debt Sustainability Assessment

	2005	2006	2007	2008	2009	2010	2011
NPV of PPG Debt to Exports							
In percent of GDP (threshold = 40)							
Baseline	23.7	20.1	19.2	18.3	17.6	16.9	16.2
Combined Shocks	23.7	20.1	25.2	31.5	30	28.6	27.3
In percent of Exports (threshold = 150)							
Baseline	85.7	83.1	80.6	78.1	75.7	74.1	71.4
Lower Exports	85.7	83.1	102.7	130.6	125.7	122.4	117.2
PPG Debt Service to Exports							
In percent of Exports (threshold = 20)							
Baseline	2.6	4.8	5.8	7.1	6.4	5.9	5.6
Lower Exports	2.6	4.8	6.7	9.6	9	8.4	7.9

8.4 Fiscal Public Debt Sustainability

8.4.1 Baseline scenario

The NPV of public debt-to-GDP rises substantially after the inclusion of Kenya's domestic debt, even though all debt indicators remain within comfort levels. Specifically,

- The *NPV of total public debt-to-GDP*, at 38 percent in 2006, remains below 40 percent under the baseline scenario, and declines gradually to 23 percent by 2026. Given Kenya's relatively strong revenue performance, the *NPV of debt-to-revenue ratio* declines from about 172 percent of GDP in 2006 to below 100 percent in 2026, remaining well below 250 percent.

- Given the large share of longer-term domestic debt, the debt service-to-revenue ratio, which takes into account debt service on longer-term domestic and external debt, is 26.3 percent in 2006, and gradually declines throughout the projection period.

8.4.2 Alternative scenario

Upon applying stress tests, Kenya's debt indicators are particularly vulnerable to slower growth, while being broadly resilient under other alternative assumptions.

- A two-year growth shock leads to a rapid increase in the NPV of debt-to-GDP ratio to over 40 percent by 2007, and in the debt service-to-revenue ratio to over 30 percent by 2008, indicating some risk of debt distress under this scenario. While the NPV of debt-to-revenue ratio also rises in the lower growth scenario, it remains below 250 percent over the entire period.
- Sustained lower growth would cause ratios to approach but not exceed the thresholds.
- A depreciation shock, a reversion to historical (positive) primary balances, and a 10 percent shock in other debt creating flows leads to limited or no risk of debt distress and show resilience over the long term,. That said, however, it should be noted that large unreported contingent liabilities, which for the purposes of this DSA have been assumed to be zero, could increase the risk of debt distress.

8.4.3 Borrowing on non-concessionary terms (commercial loans)

The impact of contracting loans on commercial terms on the debt situation is examined under the following assumptions:

- Additional public borrowing on non-concessional terms of the equivalent of 1 percent of GDP per year during the first five years of the projection period (2006-10) to finance additional development expenditure.
- The amounts are raised domestically and result in an increase in domestic interest rates of 200 basis points throughout the projection period.[4]
- Although the analysis is carried out for additional commercial domestic borrowing, it equally applies to increasing non-concessional external borrowing. This assumption is equally relevant in demonstrating the risk to public debt sustainability when contingent liabilities result in additional non-concessional debt.
- Additional borrowing has no effect on real GDP growth.

The results of the analysis points to considerable risks to public debt sustainability from higher non-concessional borrowing if interest rates go up as assumed and there is impact on growth. With these alternative assumptions for the baseline scenario,

- NPV of public debt-to-GDP very closely approaches 40 percent in the early years of the projection period and reaches 34 percent by the end of the projection period.
- Debt service-to-revenue ratio exceeds 30 percent under the alternative baseline scenario by 2011.
- Under various shocks, the outlook for debt sustainability worsens significantly. A shock to growth in particular is associated with high levels for all three debt indicators.

The analysis demonstrates the high risks inherent in non-concessionary borrowing. It is therefore prudent to scale up access to concessional resources to meet infrastructure needs. In the event that non-concessionary borrowing is considered to finance development expenditure, such borrowing should be explicitly linked to projects with unquestionably high rates of return.

[4] During the projection period, the average real interest rate of domestic debt of 7.6 percent would still be substantially below the historical average of 10.2 percent.

8.5 Conclusions

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

Taking all public debt into account, however, the DSA shows some risk of debt distress under the case of a shock to GDP growth. Potentially large but unreported contingent liabilities pose additional risks to the sustainability of public debt. The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing strategy. Achieving or exceeding the ambitious growth and export figures in the baseline scenario depends on:

- policies to sustain macroeconomic stability,
- substantial investment in infrastructure; and
- Regulatory and governance reforms to improve the investment climate. Additionally, Kenya's success in avoiding unsustainable debt to date reflects good management, but also limited willingness on the part of creditors to provide financing, at times due to governance concerns.

- Assuming continued policy improvements, Kenya may have greater access to external financing. It will be important to avoid excessive borrowing and to seek the most concessional resources available. Accessing concessional external finance will also help maintain a prudent fiscal stance, limit excessive expansion of domestic borrowing, and preserve fiscal debt sustainability.

8.6 Development of a Debt Strategy

It is planned that the Debt Sustainability Analysis (DSA) will be updated in 2008 to inform the preparation of a Debt Strategy. In the meantime, the Debt Strategy the Government will adopt is as follows:

- The Government will continue to pursue a tight fiscal framework to ensure that the public debt remains within sustainable levels.

- External multilateral and bilateral borrowing will be undertaken on concessional terms of minimum grant element of 35 percent.

- The Government will seek debt relief from external creditors on bilateral basis in the form of debt cancellations or Debt for development swaps.

- The Government will not finance projects through Supplier credits but can finance through buyers credits using financial institutions with good ratings from recognised Rating Agencies.

- The Government will issue a sovereign bond to establish a benchmark on which the private sector will be able to borrow offshore.

- Government plans to introduce benchmark Treasury bonds. This is expected to promote financial market deepening, by increasing liquidity and lowering the cost of domestic borrowing.

- The Government will continue measures to lengthen the maturity profile of domestic debt through issuance of longer dated instruments.

- Since contingent liabilities pose a potential risk on the domestic debt sustainability, the Government will step up monitoring and management of all contingent liabilities.

- The government will develop a framework for capturing and monitoring non-residents investment in government securities.

9. PUBLIC DEBT MANAGEMENT REFORMS

9.1 Public Debt Management Reforms

The Government of Kenya recognized the structural weakness in public debt management. A key recommendation of the 2004 joint IMF/World Bank mission was among others, the establishment of a Debt Management Office within the Ministry of Finance. The process was to be supported under the World Bank's Financial and Legal Sector Technical Assistance Credit (FLSTAC).

Considerable progress has been achieved. Efforts have been made to attract and train appropriate staff, develop a comprehensive debt database, operational manuals and reorganize the debt records. The Back Office is strengthened while the newly deployed Middle Office personnel are undergoing relevant training. Meanwhile, the External Resources Department and Central Bank of Kenya continue to perform the Front Office functions in external debt and domestic debt operations respectively.

9.2 Reforms Undertaken in 2006/07

In order to improve efficiency and transparency in public debt management in the country, the Government implemented the following reforms in 2006/07:-

- Installed a fibre optic link between the Ministry of Finance and Central Bank of Kenya in June 2007. This will facilitate online sharing of debt data between the two institutions on a common CS-DRMS 2000+ platform.
- The Government is in the process of developing a National Debt Management Strategy based on the results of the DSA.
- Engaged a consultancy firm, Crown Agents, in June 2007 to assist in the preparation of the DMO Organizational Structure, Staff Retention Policy and an Agency Agreement between MOF and CBK.
- Launched the Monthly Debt Bulletin which, initially will be circulated internally before making it a public publication.

9.3 Strengthening the Institutional Arrangement

Under the FLSTAP, the Government is undertaking reforms to strengthen institutional arrangements for debt management. This will ensure that the Government's financing needs and its payment obligations are met at an optimal cost with a prudent degree of risk.

9.4 Legal framework

A bill to amend the Internal Loans Act was enacted by Parliament in December 2007 and is awaiting operationalization. It allows among other issues, the dematerialization of Government securities, extended the definition of government securities beyond the previous provision which restricted borrowing instruments to Treasury Bills and Bonds, and premature redemption (buybacks) of Government securities.

9.5 Future Reform Plans

The DMD has planned to undertake the following reforms in 2007/08:

- Review the Crown Agents recommendations on DMO organisational structure and submit to the Directorate of Personnel Management (DPM) for consideration and approval
- Prepare and Gazette External Debt Management Regulations
- Draft public debt management provisions for inclusion in the Public Financial Management Bill (PFMB)
- Modernize/computerize Public Debt Registry and establish a DMD library
- Initiate a system of periodical reporting of contracted loans to Parliament.
- Post the schedule of loans (the Public Debt Register) in the Treasury website.

10. OUTLOOK FOR THE MEDIUM TERM

10.1 Public Debt Stock in the medium term (2007/08 – 2010/11)

In the medium term, public debt is expected to rise in nominal terms from Ksh 840,894 million in June 2008 to Ksh 996,745 million in June 2011. However, as a percent of GDP, public debt is projected to decline from 40.8 percent to 36.4 percent in June 2011. This decline is attributed to both prudent debt management strategy to maintain overall debt at sustainable level and faster growth of GDP.

External debt is projected to increase from Ksh 400,778 million or 19.4 percent of GDP in June 2008 to Ksh 438,929 million or 16 percent of GDP in June 2011. On the other hand, domestic debt is also projected to rise gradually from Ksh 404,690 million or 21.4 percent of GDP to Ksh 557,816 million or 20.4 percent of GDP over the same period.

Table 10.1: Projected Public Debt Stock in Ksh Million

	2007/08	2008/09	2009/10	2010/11
External	400,778	421,485	441,131	438,929
% of GDP	19.4	18.3	17.1	16.0
Domestic	440,116	478,016	517,916	557,816
% of GDP	21.4	20.7	20.0	20.4
Total Public Debt	**840,894**	**899,501**	**959,047**	**996,745**
% of GDP	40.8	39.0	37.1	36.4

Source: Treasury

10.2 Debt Service in the Medium Term

Given the projected increase in domestic debt stock, domestic interest payments are expected to rise from Ksh 43,962 million or 7.6 percent of ordinary revenues in June 2008 to Ksh 55,620 million 8.5 percent of ordinary revenues in June 2011 as indicated in Table 9.2. On external debt, interest payments are projected to decline from Ksh 6,763 million or 1.2 percent of revenue in June 2008 to Ksh 4,674 million or 0.7 percent of revenue in June 2011. This is because the Government will only continue borrowing on concessional terms in the medium term. Annual principal repayments of external debt will increase from Ksh 17,767 million in June 2008 to Ksh 18,160 in June 2011.

However, total external debt service would rise in the medium term if the suspended external commercial debts currently under forensic audit were to be settled. Although overall debt service payments are expected to rise in the medium term, the debt burden indicators are projected to be within sustainable levels.

Table 10.2: Projected Debt Service (Ksh million)

	2007/08	2008/09	2009/10	2010/11
Domestic	43,962	47,600	51,500	55,620
% of Revenue	**7.6**	**7.7**	**7.2**	**8.5**
External	6,763	4,712	4,679	4,674
% of Revenue	**1.2**	**0.8**	**0.7**	**0.7**
Total Interest Payments	**50,725**	**52,312**	**56,179**	**60,294**
% of Revenue	**8.7**	**8.4**	**7.9**	**9.2**
Principal Repayments				
External	**17,767**	**17,520**	**17,050**	**18,160**
% of Revenue	**3.1**	**2.8**	**2.4**	**2.8**

Source: Treasury

10.3 Sovereign Bond Issuance

Based on the credit ratings by Standard &Poor's and Fitch, the Government plans to issue a sovereign bond of between $300 and $500 million before December 2008. The bond is expected to act as a benchmark for Kenya in international markets. In addition, the proceeds will be used to fund infrastructure and to refinance expensive debts.

GLOSSARY

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

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

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

- **Debt Service** — The amount of funds necessary for or used in the payment of interest or amortization charges of a debt.

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

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

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

- **Domestic Borrowing** — Government borrowing through issuance of Government securities and direct borrowing from the CBK.

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

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

- **Government securities** — Financial instruments used by the Government to raise funds from the primary market.

• **Grant Element**	It measures the concessionality of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan.
• **London Club**	An international group of private commercial banks whose credits are not covered by government guarantees or insurance. The group is designed to provide a common approach to rescheduling of such debts owed by debtor country.
• **Monetary Policy**	The management of the money in an economy to achieve desired economic conditions such as the overall level of prices.
• **Present Value**	The present value (PV) of debt is a measure that takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the appropriate market rate. Whenever the interest rate on a loan is lower than the market rate, the resulting PV of debt is smaller than its face value.
• **Official Development Assistance**	Loans from official development agencies to countries received by the public sector, for promotion of economic development and welfare as the main objective and, extended at concessional financial terms (with minimum grant element of 25 per cent). Loans and credits for military purposes are excluded in this definition.
• **Paris Club**	The Paris Club is an ad-hoc gathering of creditor governments, chaired by high ranking official of the French Treasury, which meets for the purpose of rescheduling debts. The Paris Club is open to all creditor governments that are willing to adhere to its

unwritten rules and practices and that have claims against a debtor country seeking rescheduling. Debtor countries must have strong adjustment programmes supported by the upper credit tranche IMF arrangements before being considered for debt relief.

- **Primary Market** — A market in which initial issue of financial instruments is made.

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

- **Public Domestic Debt** — Part of the overall debt owed by the Government to creditors domiciled in the country. The debt includes money owed to commercial banks, non-bank financial institutions and individuals.
- **Public External Debt** — Part of the overall debt owed by the Government to creditors domiciled outside the country. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and World Bank.

- **Secondary Market** — A market for already issued financial instruments.
- **Suppliers Credit** — An arrangement under which a supplier or exporter agrees to allow the customer to defer payment under a sales contract.

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

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

- **Yield Curve** — Relationship between the return an investor receives by holding a bond to maturity and time value of money.

APPENDIX

Appendix 1: Treasury Bonds Issues (July 2005 – June 2007)

Issue no.	Tenure (Years)	Amount at face (shs M)	Amount at cost (shs M)	Issue date	Maturity date
FXD3/2005/3	**3**	6,890.60	6,717.99	25-Jul-05	21-Jul-08
FXD2/2005/2	**2**	2,207.80	2,182.30	29-Aug-05	27-Aug-07
FXD3/2005/2	**2**	5,586.60	5,564.54	26-Sep-05	24-Sep-07
FXD1/2005/4	**4**	5,607.05	5,589.35	26-Oct-05	21-Oct-09
FXD2/2005/5	**5**	5,941.25	5,997.99	28-Nov-05	22-Nov-10
FXD1/2005/6	**6**	7,407.25	7,307.51	26-Dec-05	19-Dec-11
FXD1/2006/2	**2**	5,782.35	5,746.01	30-Jan-06	28-Jan-08
FXD1/2006/7	**7**	3,235.40	3,293.79	30-Jan-06	21-Jan-13
FXD1/2006/3	**3**	5,731.00	5,797.06	27-Feb-06	23-Feb-09
FXD1/2006/8	**8**	3,318.80	3,198.71	27-Feb-06	17-Feb-14
FXD2/2006/2	**2**	5,652.45	5,683.94	27-Mar-06	24-Mar-08
FXD1/2006/10	**10**	3,451.05	3,344.97	27-Mar-06	14-Mar-16
FXD1/2006/4	**4**	3,923.25	3,951.45	24-Apr-06	19-Apr-10
FXD1/2006/9	**9**	3,060.25	3,045.05	24-Apr-06	13-Apr-15
FXD1/2006/5	**5**	1,864.30	1,852.52	29-May-06	23-May-11
FXD1/2006/10	**10**	5,028.10	4,967.87	29-May-06	16-May-16
FXD1/2006/6	**6**	6,013.35	5,999.08	26-Jun-06	18-Jun-12
SFX1/2006/1	**1**	1,000.00	1,000.00	30-Jun-06	29-Jun-07
SFX1/2006/2	**2**	1,000.00	1,000.00	30-Jun-06	27-Jun-08
SFX1/2006/3	**3**	1,244.01	1,244.01	30-Jun-06	26-Jun-09
ZC1/2006/1	**1**	3,566.60	3,356.45	31-Jul-06	30-Jul-07
FXD2/2006/5	**5**	2,593.65	2,640.99	31-Jul-06	25-Jul-11
FXD2/2006/3	**3**	3,186.85	3,175.95	28-Aug-06	24-Aug-09
FXD1/2006/12	**12**	3,900.95	3,823.67	28-Aug-06	13-Aug-18
FXD3/2006/3	**3**	3,830.05	3,690.26	25-Sep-06	21-Sep-09
FXD1/2006/11	**11**	4,031.40	3,909.72	25-Sep-06	11-Sep-17
FXD3/2006/2	**2**	4,112.65	3,997.44	27-Oct-06	24-Oct-08
FXD2/2006/6	**6**	5,767.45	5,695.01	27-Nov-06	19-Nov-12
ZC2/2006/1	**1**	5,161.40	4,738.30	25-Dec-06	24-Dec-07
FXD2/2006/7	**7**	2,317.95	2,261.63	25-Dec-06	16-Dec-13
FXD1/2007/2	**2**	3,287.10	3,247.02	29-Jan-07	26-Jan-09
FXD1/2007/5	**5**	2,811.00	2,751.12	29-Jan-07	23-Jan-12
FXD1/2007/4	**4**	3,383.65	3,387.13	26-Feb-07	21-Feb-11
FXD1/2007/8	**8**	2,656.90	2,630.10	26-Feb-07	16-Feb-15
FXD2/2007/2	**2**	4,416.35	4,427.69	26-Mar-07	23-Mar-09
FXD1/2007/15	**15**	3,654.60	3,568.80	26-Mar-07	7-Mar-22
FXD1/2007/6	**6**	5,948.00	6,001.26	30-Apr-07	22-Apr-13
FXD1/2007/12	**12**	4,864.60	4,999.04	28-May-07	13-May-19
SFX1/2007/3	**3**	4,000.00	4,000.00	1-Jun-07	28-May-10
SFX1/2007/6	**6**	5,000.00	5,000.00	1-Jun-07	24-May-13
SFX1/2007/10	**10**	5,000.00	5,000.00	1-Jun-07	19-May-17
SFX1/2007/15	**15**	6,000.00	6,000.00	1-Jun-07	13-May-22
FXD2/2007/15	**15**	7,236.95	7,489.08	25-Jun-07	6-Jun-22

In the issue numbers, the prefix FXD stands for discounted fixed rate bond, ZC for zero coupon bond and SFX for special fixed rate bond.

Source: Central Bank of Kenya

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

Tenor	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Apr-07	May-07
91-DAY	47,266	44,191	38,373	37,632	40,275	26,085	20,843	21,454	22,245
182-DAY	32,292	33,246	46,576	57,144	58,277	70,595	77,467	79,125	75,608
1-YEAR	30,772	23,361	9,535	1,000	4,567	9,728	9,728	9,728	9,728
2-YEAR	32,481	38,088	40,673	39,738	35,190	39,303	35,649	37,652	37,652
3-YEAR	29,810	27,876	30,011	31,255	36,316	28,574	28,574	27,174	27,174
4-YEAR	24,167	24,167	24,167	26,287	24,282	23,446	29,571	23,964	23,964
5-YEAR	22,740	27,604	27,604	28,391	29,976	29,976	31,799	31,799	31,799
6-YEAR	20,434	27,841	27,841	33,105	33,105	38,129	38,129	43,333	43,333
7-YEAR	10,330	10,330	13,566	13,566	13,566	15,884	15,884	15,884	15,884
8-YEAR	11,969	11,969	15,287	15,287	15,287	15,287	17,944	17,944	17,944
9-YEAR	9,555	9,555	9,555	12,615	12,615	12,615	12,615	12,615	12,615
10-YEAR	8,634	8,634	12,085	17,113	17,113	17,113	17,113	17,113	17,113
11-YEAR	0	0	0	0	4,031	4,031	4,031	4,031	4,031
12-YEAR	0	0	0	0	3,901	3,901	3,901	3,901	8,766
15-YEAR	0	0	0	0	0	0	3,655	3,655	3,655
Total	**280,448**	**286,862**	**295,272**	**313,134**	**328,502**	**334,668**	**346,903**	**349,372**	**351,510**

Source: Central Bank of Kenya

Excludes Repos of Kshs 36 billion

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

CREDITOR		Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07
1. BILATERAL									
	AUSTRIA	34.4	16.1	25.0	30.5	33.5	32.4	33.0	45.6
	BELGIUM	38.0	30.6	29.8	30.4	71.6	68.0	71.0	69.6
	CANADA	41.0	67.7	28.0	36.4	29.2	17.0	17.2	22.2
	DENMARK	40.0	32.4	24.8	26.1	31.7	31.0	32.4	32.3
	FINLAND	2.0	2.5	5.0	3.6	2.7	1.8	2.2	1.8
	FRANCE	179.0	219.6	199.0	182.6	231.6	237.3	252.3	277.8
	GERMANY	109.0	98.1	94.4	109.8	141.3	169.6	188.3	198.1
	ITALY	82.0	125.8	136.1	117.9	114.8	94.1	118.3	107.6
	JAPAN	1,031.0	922.2	824.0	1,071.0	1,073.4	1,109.5	1,075.6	1,006.1
	NETHERLANDS	58.0	52.4	44.2	50.4	51.6	28.9	37.3	35.6
	UK	37.0	35.8	40.8	35.8	36.0	36.9	36.6	39.6
	USA	72.0	43.0	55.4	89.7	73.2	79.4	79.1	70.9
	OTHERS	54.0	49.7	143.1	138.4	158.0	163.0	153.2	164.6
	TOTAL	**1,777.4**	**1,695.9**	**1,649.6**	**1,922.6**	**2,048.9**	**2,069.0**	**2,096.3**	**2,071.5**
2. MULTILATERAL									
	ADB/ADF	308.0	328.4	292.8	321.5	319.0	310.0	349.7	353.1
	EEC/EIB	115.0	156.7	148.0	115.5	128.0	111.0	180.5	150.4
	IBRD	91.0	20.0	11.5	11.5	1.4	0.5	0.0	0.0
	IDA	2,332.0	2,306.8	2,263.0	2,516.6	2,721.0	2,757.0	2,765.4	2,867.7
	IMF	104.0	111.3	98.0	80.8	104.0	165.7	154.4	206.9
	OTHERS	9.0	6.3	10.1	6.9	4.8	6.0	9.0	32.7
	TOTAL	**2,959.0**	**2,929.5**	**2,823.4**	**3,052.8**	**3,278.2**	**3,350.2**	**3,459.0**	**3,610.8**
3. COMMERCIAL BANKS		**319.0**	**377.2**	**305.0**	**48.5**	**36.6**	**23.3**	**17.2**	**4.3**
4. EXPORT CREDIT		**19.0**	**48.6**	**16.4**	**364.5**	**209.7**	**252.3**	**264.4**	**271.0**
GRAND TOTAL		**5,074.4**	**5,051.2**	**4,794.4**	**5,388.4**	**5,573.4**	**5,694.8**	**5,837.0**	**5,957.6**

Source: Treasury

Appendix 3(b): External Debt by Creditor (Kshs Million)

CREDITOR	Jun- 00	Jun - 01	Jun - 02	Jun - 03	Jun - 04	Jun - 05	Jun – 06	Jun - 07
1. BILATERAL								
AUSTRIA	2,682	1,256	1,970	2,262	2,664	2,468	2,437	3,035
BELGIUM	2,962	2,387	2,348	2,255	5,693	5,188	5,247	4,633
CANADA	3,196	5,280	2,206	2,700	2,322	1,297	1,267	1,474
DENMARK	3,118	2,527	1,954	1,936	2,521	2,365	2,392	2,147
FINLAND	156	195	394	267	215	134	160	118
FRANCE	13,954	17,128	15,679	13,543	18,416	18,106	18,643	18,487
GERMANY	8,497	7,651	7,438	8,144	11,236	12,941	13,910	13,186
ITALY	6,392	9,812	10,723	8,744	9,129	7,182	8,741	7,162
JAPAN	80,369	71,928	64,922	79,433	85,353	84,469	79,464	66,963
NETHERLANDS	4,521	4,087	3,482	3,738	4,103	2,208	2,752	2,370
UK	2,884	2,792	3,216	2,655	2,863	2,818	2,705	2,632
USA	5,613	3,354	4,365	6,653	5,821	6,057	5,842	4,719
OTHERS	4,209	3,872	11,275	10,265	12,579	12,435	11,316	10,964
TOTAL	**138,553**	**132,269**	**129,973**	**142,593**	**162,914**	**157,669**	**154,877**	**137,890**
2. MULTILATERALS								
ADB/AFDB	24,009	25,614	23,070	23,845	25,366	23,650	25,837	23,502
EEC/EIB	8,965	12,222	11,661	8,566	10,178	8,468	13,335	10,011
IBRD	7,094	1,560	906	853	111	38	0.00	0.00
IDA	181,786	179,920	178,300	194,065	216,366	210,311	204,306	190,872
IMF	8,107	8,681	7,721	5,989	8,270	12,641	11,409	14,161
OTHERS	702	500	794	512	367	655	663	1,803
TOTAL	**230,662**	**228,497**	**222,452**	**233,829**	**260,658**	**255,764**	**255,550**	**240,349**
3. COMMERCIAL BANKS	24,867	29,423	24,031	3,597	2,912	1,776	1,274	286
4. EXPORT CREDIT	1,481	3,789	1,292	27,034	16,674	19,244	19,536	18,039
GRAND TOTAL	**395,564**	**393,978**	**377,748**	**407,053**	**443,157**	**434,453**	**431,237**	**396,564**

Appendix 4: Kenya: External Debt Sustainability Framework, Baseline Scenario, 2006-2026 (In percent of GDP, unless otherwise indicated)

	Projections									
	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
External debt (nominal) 1/	**31.9**	**30.1**	**29.2**	**28.4**	**27.5**	**26.8**		**21.6**	**14.2**	
o/w public and publicly guaranteed (PPG)	30.1	28.1	27.5	27.0	26.4	25.6		21.0	14.1	
Change in external debt	-6.7	-1.8	-0.9	-0.8	-0.9	-0.7		-1.2	-0.6	
Identified net debt-creating flows	-0.4	1.1	0.7	0.8	1.6	2.1		1.0	0.4	
Non-interest current account deficit	**2.9**	**3.6**	**3.4**	**3.3**	**4.0**	**4.4**		**2.8**	**1.7**	2.6
Deficit in balance of goods and services	10.6	10.7	10.3	9.9	10.1	10.2		8.0	6.3	
Exports	24.2	23.8	23.5	23.3	22.8	22.7		22.8	23.3	
Imports	34.9	34.5	33.7	33.1	32.9	32.9		30.8	29.5	
Net current transfers (negative = inflow)	-7.4	-6.7	-6.5	-6.2	-5.8	-5.4		-4.9	-4.2	-4.7
Other current account flows (negative = net inflow)	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3		-0.3	-0.4	
Net FDI (negative = inflow)	**-1.8**	**-1.2**	**-1.6**	**-1.4**	**-1.3**	**-1.2**		**-1.0**	**-0.7**	-0.9
Endogenous debt dynamics 2/	**-1.5**	**-1.3**	**-1.0**	**-1.1**	**-1.1**	**-1.1**		**-0.8**	**-0.5**	
Contribution from nominal interest rate	0.4	0.5	0.5	0.5	0.4	0.4		0.2	0.2	
Contribution from real GDP growth	-1.9	-1.7	-1.6	-1.6	-1.5	-1.5		-1.0	-0.7	
Contribution from price and exchange rate changes	…	…	…	…	…	…		…	…	
Residual (Δ in ext. debt minus debt-creating flows **3/**	**-6.3**	**-3.0**	**-1.6**	**-1.6**	**-2.5**	**-2.8**		**-2.3**	**-1.0**	
o/w exceptional financing	-0.5	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	21.9	21.2	20.0	19.0	18.0	17.4		13.6	9.1	
In percent of exports	90.5	88.9	85.3	81.5	79.0	76.7		59.8	39.3	
NPV of PPG external debt	**20.1**	**19.2**	**18.3**	**17.6**	**16.9**	**16.2**		**13.1**	**9.1**	
In percent of exports	83.1	80.6	78.1	75.7	74.1	71.4		57.3	39.0	
Debt service-to-exports ratio (in percent)	5.9	7.0	8.3	7.6	6.9	6.5		4.1	2.4	
PPG debt service-to-exports ratio (in percent)	4.8	5.8	7.1	6.4	5.9	5.6		3.6	2.4	
Total gross financing need (billions of U.S. dollars)	0.6	1.4	1.1	1.2	1.6	1.9		1.9	2.7	
Non-interest current account deficit that stabilizes debt ratio	9.6	5.4	4.2	4.1	4.9	5.1		4.0	2.3	
Key macroeconomic assumptions										
Real GDP growth (in percent)	6.0	6.2	5.8	6.2	5.9	6.1	6.0	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	16.7	7.2	4.9	5.1	5.2	5.2	7.4	4.8	4.8	4.8
Effective interest rate (percent) 5/	1.4	1.6	2.0	1.8	1.7	1.5	1.7	1.2	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	8.3	12.0	9.3	10.6	9.2	11.3	10.1	10.0	10.4	10.3
Growth of imports of G&S (US dollar terms, in percent)	15.4	12.6	8.6	9.5	10.7	11.6	11.4	9.2	9.8	9.3
Grant element of new public sector borrowing (in percent)	46.9	17.0	46.3	47.6	46.7	44.5	41.5	46.5	41.2	45.5
Memorandym item:										
Nominal GDP (billions of US dollars)	23.2	26.4	29.3	32.7	36.4	40.6		66.3	172	

Source: IMF.

1/ Covers both public and private sector external debt, including arrears. The end-2005 public external debt stock and associated debt service are likely overstated due to the inclusion of some agreed but undisbursed amounts. Revised data are being sought

2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ 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; project grants which are included as capital transfers in the balance of payments; and valuation adjustments. For projections also includes contingents.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

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

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

Note: Extract is from Kenya's DSA report by IMF (2007)

Appendix 5: Kenya: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-2026 (In percent)

		Projections						
	2006	2007	2008	2009	2010	2011	**2016**	2026
NPV of debt-to-GDP ratio								
Baseline	20	19	18	18	17	16	**13**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	20	20	19	19	18	16	**11**	10
A2. New public sector loans on less favorable terms in 2007-26 2/	20	20	20	20	20	20	**18**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	20	20	20	19	19	18	**14**	10
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	20	21	23	22	21	20	**16**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	20	22	23	22	21	21	**17**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	20	22	23	22	21	20	**16**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	20	25	32	30	29	27	**21**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	20	27	25	24	23	23	**18**	13
NPV of debt-to-exports ratio								
Baseline	83	81	78	76	74	71	**57**	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	83	83	82	80	77	71	**49**	43
A2. New public sector loans on less favorable terms in 2007-26 2/	83	85	86	88	89	89	**80**	63
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	83	81	78	76	74	71	**57**	39
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	83	103	131	126	122	117	**91**	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	83	81	78	76	74	71	**57**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	83	90	98	94	92	88	**69**	42
B5. Combination of B1-B4 using one-half standard deviation shocks	83	102	126	121	118	113	**87**	52
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	83	81	78	76	74	71	**57**	39
Debt service ratio								
Baseline	5	6	7	6	6	6	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	5	6	8	7	7	7	**5**	3
A2. New public sector loans on less favorable terms in 2007-26 2/	5	6	6	6	6	6	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	5	6	7	6	6	6	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	5	7	10	9	8	8	**6**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	5	6	7	6	6	6	**4**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	5	6	7	7	6	6	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	9	8	8	7	**6**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	5	6	7	6	6	6	**4**	2
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	41	41	41	41	41	41	**41**	41

Source: IMF

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (imp an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Note: Extract is from Kenya's DSA report by IMF (2007)

Table 2a.Kenya: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2026
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate			Projections						
	2003	2004	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
Public sector debt 1/	56.5	50.7	44.7			47.3	46.9	45.9	44.9	43.8	42.6		37.4	28.0	
o/w foreign-currency denominated	34.2	30.8	25.9			29.0	28.1	27.5	27.0	26.4	25.6		21.0	14.1	
Change in public sector debt	-1.9	-5.8	-6.1			2.6	-0.4	-1.0	-1.0	-1.1	-1.2		-1.0	-0.5	
Identified debt-creating flows	-3.8	-6.3	-5.6			-4.8	-1.0	-1.1	-1.4	-1.6	-1.6		-1.0	-0.6	
Primary deficit	-0.9	-2.2	-0.8	-2.3	1.6	0.8	0.9	1.0	0.7	0.4	0.6	0.7	0.5	0.4	0.3
Revenue and grants	21.8	22.4	22.5			21.9	22.9	23.4	23.9	24.2	24.3		23.6	23.2	
of which : grants	1.4	1.2	1.2			1.2	1.2	1.4	1.8	2.1	2.2		1.7	0.8	
Primary (noninterest) expenditure	20.9	20.2	21.7			22.6	23.8	24.4	24.5	24.6	24.9		24.0	23.6	
Automatic debt dynamics	-2.9	-3.5	-4.1			-5.2	-1.7	-2.0	-2.1	-2.0	-2.2		-1.5	-0.9	
Contribution from interest rate/growth differential	-0.6	-2.2	-1.4			-2.1	-1.3	-1.1	-1.3	-1.2	-1.4		-1.1	-0.7	
of which : contribution from average real interest rate	1.0	0.4	1.4			0.5	1.5	1.4	1.4	1.3	1.1		0.7	0.6	
of which : contribution from real GDP growth	-1.7	-2.6	-2.8			-2.5	-2.8	-2.6	-2.7	-2.5	-2.5		-1.8	-1.4	
Contribution from real exchange rate depreciation	-2.2	-1.3	-2.6			-3.1	-0.4	-0.8	-0.8	-0.8	-0.8		...	...	
Other identified debt-creating flows	0.0	-0.5	-0.8			-0.4	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-0.2			-0.8	-0.6	-0.1	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.2	-0.5	-0.5			-0.3	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.2	0.0	0.0			0.6	0.6	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.9	0.5	-0.5			7.4	0.6	0.1	0.4	0.6	0.4		0.0	0.1	
NPV of public sector debt	47.4	42.5	37.7			37.7	37.9	36.7	35.4	34.3	33.2		29.4	23.0	
o/w foreign-currency denominated	25.1	22.6	18.9			19.4	19.2	18.3	17.6	16.9	16.2		13.1	9.1	
o/w external	25.1	22.6	18.9			19.4	19.2	18.3	17.6	16.9	16.2		13.1	9.1	
NPV 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	
Gross financing need 2/	5.0	9.2	9.3			9.7	10.8	11.4	10.7	10.2	10.5		9.6	8.0	
NPV of public sector debt-to-revenue ratio (in percent) 3/	217.4	189.2	167.6			172.2	165.4	156.8	148.5	141.7	136.6		124.8	99.0	
o/w external	115.1	100.5	84.0			88.6	83.8	78.4	73.8	69.8	66.7		55.4	39.1	
Debt service-to-revenue ratio (in percent) 3/ 4/	28.8	26.9	28.2			26.3	25.5	26.6	24.8	23.9	24.8		23.2	19.5	
Primary deficit that stabilizes the debt-to-GDP ratio	1.0	3.6	5.3			-1.8	1.3	2.0	1.7	1.5	1.8		1.5	0.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.0	4.9	5.8	2.9	2.0	6.0	6.2	5.8	6.2	5.9	6.1	6.0	5.0	5.0	5.1
Average nominal interest rate on forex debt (in percent)	2.0	1.8	2.2	2.1	0.3	2.1	1.5	1.8	1.8	1.8	1.8	1.8	1.7	0.9	1.5
Average real interest rate on domestic currency debt (in percent)	4.3	1.6	6.2	10.2	5.0	1.5	8.5	7.8	7.9	7.4	7.0	6.7	6.1	7.0	5.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.3	-4.0	-8.9	-1.2	9.4	-12.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.7	7.5	4.3	5.7	3.1	11.2	4.2	5.0	5.1	5.2	5.2	6.0	4.8	4.8	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	4.0	1.4	13.6	5.1	5.3	10.5	11.8	8.3	6.7	6.4	7.1	8.5	4.5	5.0	4.7
Grant element of new external borrowing (in percent)	0.0	0.0	0.0	0.0	0.0	46.9	17.0	46.3	47.6	46.7	44.5	41.5	46.5	41.2	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ Public sector covers general government; net debt figures are used.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Note: Extract is from Kenya's DSA report by IMF (2007)

Table 2b.Kenya: Sensitivity Analysis for Key Indicators of Public Debt 2006-2026

	Projections							
	2006	2007	2008	2009	2010	2011	2016	2026
NPV of Debt-to-GDP Ratio								
Baseline	38	38	37	35	34	33	29	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	36	33	30	28	25	15	-2
A2. Primary balance is unchanged from 2006	38	38	36	35	34	34	31	28
A3. Permanently lower GDP growth 1/	38	38	37	36	36	35	35	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	38	41	44	44	45	45	48	52
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	38	36	34	33	32	31	28	22
B3. Combination of B1-B2 using one half standard deviation shocks	38	37	35	34	33	32	28	22
B4. One-time 30 percent real depreciation in 2007	38	46	44	41	39	38	32	24
B5. 10 percent of GDP increase in other debt-creating flows in 2007	38	47	45	43	42	40	35	26
NPV of Debt-to-Revenue Ratio 2/								
Baseline	172	165	157	148	142	137	125	99
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	172	157	140	126	114	103	61	-8
A2. Primary balance is unchanged from 2006	172	165	155	148	142	138	132	120
A3. Permanently lower GDP growth 1/	172	166	159	152	147	144	147	168
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	172	178	185	184	183	184	204	223
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	172	159	144	137	131	126	117	95
B3. Combination of B1-B2 using one half standard deviation shocks	172	162	149	141	134	129	117	93
B4. One-time 30 percent real depreciation in 2007	172	200	187	173	163	155	136	104
B5. 10 percent of GDP increase in other debt-creating flows in 2007	172	203	192	181	172	165	148	113
Debt Service-to-Revenue Ratio 2/								
Baseline	26	26	27	25	24	25	23	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	27	24	21	20	21	20	10
A2. Primary balance is unchanged from 2006	26	26	27	25	24	25	24	22
A3. Permanently lower GDP growth 1/	26	26	27	26	25	26	26	28
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	26	28	31	31	31	32	33	35
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	26	26	25	22	23	24	23	19
B3. Combination of B1-B2 using one half standard deviation shocks	26	27	26	22	23	25	24	19
B4. One-time 30 percent real depreciation in 2007	26	27	28	26	25	26	25	21
B5. 10 percent of GDP increase in other debt-creating flows in 2007	26	26	41	30	27	27	25	22

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Note: Extract is from Kenya's DSA report by IMF (2007)