team agrees with the IMF's assessment of the possibility of a modest downward correction in the short term, implicit in the IMF's DSA projections. However, the team does not anticipate pressures for appreciation over the medium term, as assumed in the IMF's medium term projections.

2. Political developments and risks

(a) Aftermath of the 2007 Presidential Elections

50. **After the contentious December 2007 election, Kenya faced massive post-election violence (over 1,500 people were killed and 300,000 displaced) in the early months of 2008; subsequently, a fragile but functioning government was put in place with the help of Kofi Annan and the African Union.** Mr. Kibaki (from the Party of National Unity – PNU) is the President and Mr. Odinga (of the Orange Democratic Movement) holds the newly created position of Prime Minister. However, one should recognize that Kenya's power-sharing arrangement was forged among mutually suspicious political parties that have (probably) not buried their deep grievances and are headed by two very powerful personalities.

51. **There are reports that the awkward power-sharing arrangement has barely held together.** Governmental inefficiencies and a continuing lack of clarity as to who wields power has some observers worried that key concerns regarding land distribution, ethnic tensions, and the balance of power among the various tribes and levels of government remain unresolved. The social and political environment is clouded by distrust because many citizens were chased out of their homes and farms. Moreover, many of the displaced people are in temporary camps near their burned-out homes and farms, close to the neighbors who pushed them out. Ethnic tensions remain worrisome, especially between Mr. Odinga's Luo tribe and Mr. Kibaki's Kikuyu tribe.

52. **Constitutional reform and accountability for violence committed during the post election disturbances are two particularly difficult issues on which little progress has been made.** Both of these issues could easily become future flash points. A commission has been established to draw up constitutional reform to institutionalize the current ad hoc coalition agreement. However, it has thus far proved impossible to reach agreement on key points.

53. **Despite strong external pressure, little progress has been made in setting up a tribunal to try senior political figures suspected of funding and coordinating post election violence.** Supposedly agreement had been reached between the government and the International Criminal Court (ICC) in Hague that unless a special Tribunal was set up by the Kenyan authorities by end September 2009, proceedings would be referred to the ICC. However, reportedly, at the beginning of August, the Kenyan cabinet decided against setting up a special tribunal and to handle prosecutions through local courts, with no involvement by the ICC. Foreign donors stress that unless the key figures behind the violence are held accountable, the danger of future violence will be increased. It is unclear whether external pressure will be successful.

54. **In conversations with interested observers, most stressed that the parties involved in the post election violence had pulled back from the brink of total destruction, and that the society as a whole had been shocked to their senses by the events.** Thus, while not excluding future violence during the election cycle, they did not believe that violence on the scale of early 2008 would happen again. Nevertheless, the possibility of similar disturbances in the future cannot be totally excluded, especially in connection with future elections, unless progress on the key issues is reached. These risks should not be ignored as they might impact on the ability or willingness of Kenya to repay debt.

(b) Political Risks arising from Regional Conflicts

55. In addition to the domestic political risks, there are two sources of potential risks emanating from *regional conflicts*. **The increasingly chaotic political conflict and law and order situation in Somalia poses a risk for Kenya.** During the almost two decades of lack of a clear Government in Somalia a large number of Somali nationals have moved to Kenya and started new businesses there. A much larger number of Somalia have fled the fighting in Somalia and moved to refugee camps located in the northeast of Kenya. Over the years thugs in Kenya have become armed with guns, which easily find their way into Kenya from the numerous armed groups in Somalia. Some desperate Somalis also turn to crime in Kenya. A large refugee population in Kenya, currently estimated to be over 300,000, can have an adverse impact in many different ways. Water and firewood are already scarce in the northeastern part of Kenya. They may also have an impact on the food supply available to Kenyans, which is particularly difficult when Kenya has a drought situation as at present in which about 10 million Kenyans are estimated to need free or subsidized food to avoid malnutrition and starvation. Kenya could also be drawn into a war with some of the factions fighting in Somalia if the fighting was to intensify along the border or if the pirates were to retaliate against Kenya as the main country in which pirates are tried and incarcerated. Pirate activity could become worse and have an adverse impact on the cost of shipping into and out of Kenya. If the forces fighting the Taliban in Afghanistan were to be successful, the Taliban would likely find Somalia to be a relatively safe country to relocate. If this happens they would probably try to attack people from the countries which fought against them in Afghanistan, particularly Americans. The most convenient place to attack them would be in Kenya, as the terrorist bombing of the US embassy in Nairobi and the attacks on hotels along the coast have shown. Any such attacks would have a strong negative impact on tourism.

56. **Renewed fighting between the North and South in Sudan is another possibility of regional conflict that could have an adverse impact on Kenya.** Since the Sudan peace accord, South Sudan has become a significant and rapidly growing market for Kenyan manufactures and some agricultural products.

3. Governance and Investment Climate

57. **To improve Kenya's economic performance, the Government will have to address the problems of its deep-rooted structures of political and economic patronage.** Over a long period, this environment has spawned corruption, misuse of public resources, and chronically weak public institutions. It has hampered private sector operations. According to the World Bank's *World Governance Indicators (WGI), over the period 2003-07* Kenya's percentile rank (the percentage of countries worldwide that were rated below Kenya) (i) declined for control of corruption (from 20 to 15) and regulatory quality (from 49 to 47); (ii) remained unchanged for rule of law at only 16 percent; and (iii) improved for voice and accountability (from 38 to 46), government effectiveness (from 25 to 30); and ironically, also for voice and accountability and absence of violence (from 13 to 16). The lethal combination of ethnic tensions, corruption and factious politics has the potential of crippling Kenya's governance.

58. **The new Government faces an enormous challenge in trying to reduce the roles that patronage and ethnicity play in Kenya's politics and in the government's economic and financial management.** This will require pursuing vigorously the Government's Vision 2030 goals of democracy and empowerment, including through steps to increase citizens' awareness of their rights; improve the evidence base on which policymakers base their decisions; strengthen decision-making processes; and ensure that good information on the Government's performance against its targets is made publicly available. Democratic checks and balances will need to be reinforced, including through strengthening the judiciary, and the greater involvement of Parliament, civil society and the private sector in policy formulation, implementation and monitoring.

59. In light of the above, it is important for the Government to press ahead with the implementation of its **Governance Action Plan for Building a Prosperous Kenya** (GAP). The ongoing implementation of the GAP is aimed at strengthening the legal platform to fight corruption, operationalizing the Public Complaints Standing Committee, and developing an implementation plan following the report of the last study on the GAP. In addition, the Treasury is undertaking efforts to strengthen systems, policies and procedures to safeguard against financial mismanagement, corruption and unethical practices in the public service.

60. To address the inefficiencies and financial problems of the parastatal sector, in January 2008 the **Privatization Commission was appointed** to operationalize the Privatization Act. Since then the PC has been in the process of setting up the required institutional capacity, including the recruitment of a Chief Executive Officer and other key staff. Meanwhile, the **privatization program was approved** by Cabinet in December 2008, paving the way for the PC to develop methods for carrying out the transactions planned for 2008/09.

61. The last ***Enterprise Surveys*** **of the IFC had indicated that compared with average conditions facing enterprises in the Sub-Saharan region, the conditions facing enterprises in Kenya were worse** in the following areas:

- *Regulations and Tax* – Senior management spent more time in dealing with requirements of government regulation; the average number of visits or required meetings with officials was higher; and the percentage of surveyed firms identifying tax rates and tax administration as major constrains were also higher.
- *Corruption* – A considerably higher percentage of firms in Kenya indicated that they were expected to (i) pay informal payments to public officials to get things done; and (ii) give gifts in meeting with tax officials and to secure a government contract. A much higher percentage of firms also identified corruption as a major constraint.
- *Infrastructure* – The value lost as a result of power outages (as a percentage of sales) was higher. The delays in obtaining an electrical connection and a mainline telephone connection were longer.
- *Finance and labor constraints* – The value of collateral needed for a loan (as a percent of the loan amount) was higher in Kenya. And the percent of firms identifying labor regulations as a major constraint was higher.

62. **The *2009 Doing Business Indicators* of the World Bank/IFC indicate that Kenya has implemented some reforms to improve the trading environment and reduce the time required to open a business.** The overall time to import has been reduced by 11 days. The opening hours of customs and port authorities were extended, and the number of inspection points between Mombasa port and Nairobi has been reduced. Kenya has also introduced an electronic system allowing traders to submit their documents online. The time required to open a business was reduced, thanks to both improvements in communications between agencies and the upgrading of the registry.

63. **Although the above reforms indicate some progress, based on the recent *Doing Business Indica*tors Kenya's overall rank dropped in 2009 (from 78 to 82 out of 181 economies).** Its rankings went down in three areas - registering property, protecting investors and enforcing contracts; and they improved in starting and closing a business, trading across borders and employing workers. In most of the subject areas covered by the index (including where its global rankings have improved), Kenya has weaknesses, often with scores that are poorer than the corresponding average scores for Sub-Saharan Africa (SSA):

- *Registering property* – Although the time spent in registering property is shorter and the costs involved are lower in Kenya, the number of procedures to register property remains higher than the average for the SSA region.
- *Protecting investors* – Kenya fares better than the SSA region with regard to shareholder's ability to sue officers and directors for misconduct (Shareholder Suits Index) and the Investor Protection Index. However, it lags behind the SSA region with respect to transparency of transactions (measured by the Extent of Disclosure Index) and liability for self-dealing (measured by the Director Liability Index).
- *Enforcing contracts* – Although the time spent is shorter and the cost involved is lower than the SSA regional averages, the number of procedures involved in enforcing contracts is more numerous than the regional average.
- *Paying taxes* – Relative to the SSA regional average, the number of procedures involved is larger and the time spent is longer in paying taxes.
- *Starting a business* – The number of procedures involved and the number of days spent to start a business is still higher than the SSA regional averages.

- *Closing a business* – *The time required to resolve bankruptcies is still longer and the* costs involved are higher than the SSA regional averages. However, the recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is higher.
- *Trading across borders* – The number of documents required for export is larger, and despite being a coastal country the cost to export (US$ per container) is higher than the SSA regional averages. The corresponding figures for imports are lower than the regional averages.
- *Employing workers* – Relative to the SSA regional averages, Kenya's scores are better on all the indices – measuring difficulty of hiring, rigidity of hours, difficulty of firing, rigidity of employment and firing cost (measured in weeks of salary).
- *Getting credit* – *As Kenya's laws are better designed to expand access to credit, its score* on the Legal Rights Index was higher than the regional average. Its score on the Credit Information Index (which measures scope, access and quality of credit information) is also higher than the regional average

64. **In light of the above, a task force was set up early in 2008 to fast track the implementation** of **regulatory reforms**. The task force is expected to focus, inter alia, on: (i) improving Kenya's ranking under the *Doing Business Indicators*; (ii) developing a broader regulatory reform strategy, including improving regulatory governance in local authorities; (iii) further licensing reforms; and (v) ensure full publication of licensing information in the e-Registry. The Government is also in the process of developing a Business Regulations Bill to entrench the process of quality review of all new licenses and regulations in the country, and a draft regulatory reform strategy has been prepared for consultations with stakeholders.

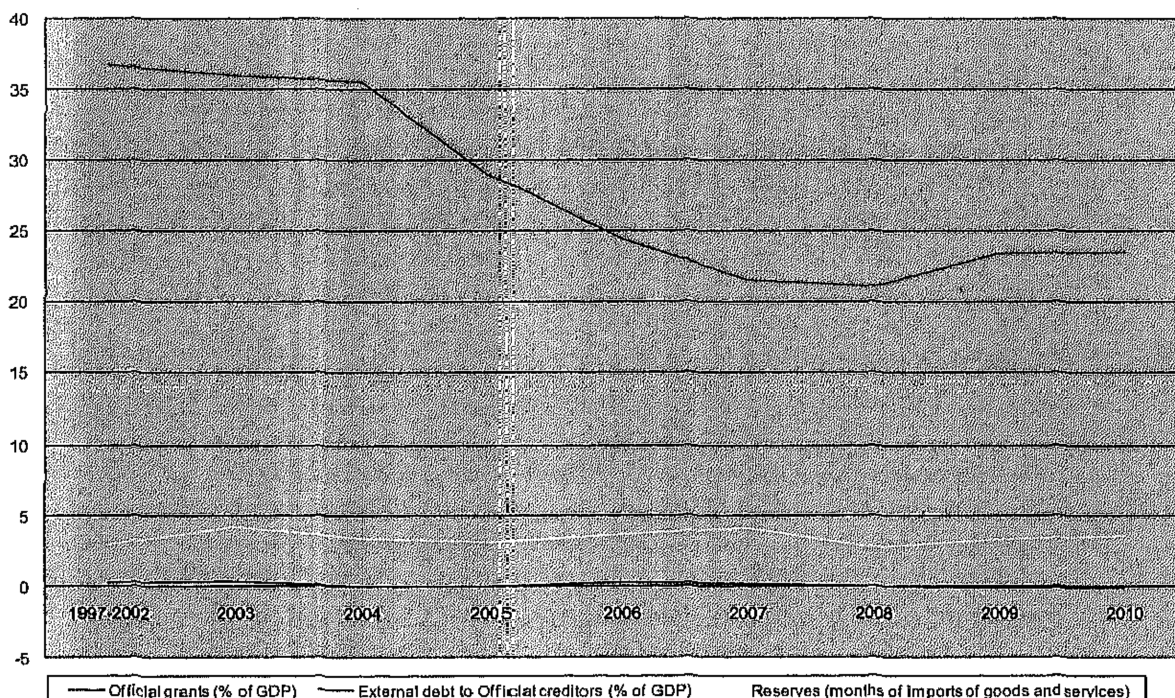
65. **The independent credit rating agencies downgraded Kenya's sovereign credit ratings following the post-election violence in early 2008; however, after the political settlement and subsequent reviews of the ratings, these were upgraded.** S&Ps upgraded Kenya's outlook to positive (B/positive/B) from (B/stable/B); this was reaffirmed by S&P in early November 2008, after a review of all sovereign ratings to reflect the global financial crisis. Similarly, Fitch Rating also upgraded Kenya's rating from negative to positive, while retaining the earlier ratings of B+ for long-term foreign debt and BB- for long-term domestic debt based on their annual review in October/November 2008.

66. **Discussions with various stakeholders indicated that there had been real *progress in the climate for doing business, compared with a decade earlier.*** In particular the efficiency of the public sector had improved at the lower levels with a decline in petty corruption. This improvement was ascribed by many to the introduction of performance contracts for civil service employees in 2006 and a heightened awareness of the importance of the anti-corruption drive. Several observers noted that, when *abstracting from a few high profile cases in the past, the situation was not much different* in Kenya than in neighboring countries. Corruption still persists and, as noted above, the authorities must persevere in their agenda in this area. However, corruption on its own is not likely to place significantly more of a drag on the Kenyan economy than in other sub-Saharan countries.

4. Evolution of External Debt

67. **Kenya's total external debt (including private and public debt) has declined from 37.7 percent of GDP ($ 5.39 billion) in 2003 to 20.7 percent of GDP ($ 6.31 billion) at end-August 2008.** The external debt of Kenya's private sector is relatively small (estimated to be less than 2 percent of GDP at end-2007), and almost all of it is short-term credit owed to commercial banks (and mainly trade-related). Thus, the public sector accounts for most of Kenya's external debt (Chart 13).

Section 1 Chart 13



68. **Kenya obtained debt relief from the Paris Club with a rescheduling on Houston terms in 2004.** The rescheduling of external debt arrears and maturities covered $ 353 million, with payments falling due from 2004 through 2006 and bilateral agreements with Paris Club creditors were finalized for all three phases of the 2004 treatment. The latter included both Official Development Assistance (ODA) and non-ODA lending to public enterprises. While ten country members of the Paris Club were involved, Japan accounted for over half of the total amount rescheduled. The restructuring of Kenya's debt to Paris Club creditors was intended to support the 3-year Poverty Reduction and Growth Facility arrangement with the IMF, which had been approved in late 2003. The rescheduling was intended to reduce the debt service by Kenya to the Paris Club creditors during 2004-06 and the amount released was to be reallocated to support the Kenyan government's efforts to reduce poverty and achieve macroeconomic stability. The Press Release issued at the time of the agreement indicated that the Paris Club creditors and the

representatives of the Kenyan Government considered that after this rescheduling Kenya should graduate from needing future Paris Club treatments.

69. **Kenya has managed its debt burden relatively well and has regularly met its obligations to creditors** (except for the disputed arrears noted below). The limited external borrowing had left Kenya with more manageable debt ratios than many of its low-income country peers. Kenya's external debt service of principal and interest declined sharply from about Ksh 26 billion in the 2003/04 fiscal year to about Ksh 13 billion in 2005/06 (Section II Table 2). This reduction was mainly the result of the rescheduling of principal and interest payments falling due in 2004 and 2005 under the 2004 Paris Club agreement. By 2007, total debt service payments were about 6 percent of exports, while debt service on public and publicly-guaranteed (PPG) debt represented about 5 percent of exports and 6.7 percent of government revenues. Kenya's external debt burden is significantly lower than that of its neighbors.

70. **Kenya was not a recipient of HIPC debt relief because of the sustainable level of its debt.** While Kenya's low-income level led it to be considered under the Enhanced HIPC initiative, Kenya was deemed not to qualify because of the sustainable level of its debt.

71. **At the end of 2008 Kenya had external arrears of about $91 million (KSh 68 billion) to commercial creditors, which are disputed.** The arrears stem from non-payment on commercial export credits for security-related contracts, many of which have been found by Kenya's Comptroller and Auditor-General to be fraudulent or deeply flawed (these projects are often referred to as the "Anglo-Leasing" scandal). The authorities disputed the validity of the claims based on the contracts not being fulfilled and obtained an external audit by PricewaterhouseCoopers to determine the value of the goods and services provided. During the first five months of 2009 the status of 18 contracts, which have a contract value of Ksh 54.6 billion, was clarified as follows:

- Three contracts with a value of Ksh 6.8 million were completed and Government fully paid the creditors.
- Four contracts with a contract value of Ksh 17.7 billion for which the Government had paid Ksh 1 billion had this amount refunded and the claims were withdrawn for the balance.
- Creditors took legal action with respect to four contracts with a contract value of Ksh 10.9 billion, which is still in process
- With respect to seven contracts with a value of Ksh19.2 billion, the Government has partially paid for them and they are partially delivered. For the balance, the Government is seeking completion of the projects or settlement based on the value received.

Once agreement on the amounts of the arrears to be paid is reached, it was planned to refinance these payments through commercial bank foreign currency loans, although this might be replaced by a sovereign bond issue if the circumstances at the time were

favorable. However, now that the amount that the Government will need to pay is coming down significantly the Government may decide that neither of these options is necessary.

Section II: Public Debt Management, Macroeconomic Forecasts and Debt Sustainability

1. Public Debt Management

(a) Structure of Total (external and domestic) Public Debt

72. **In recent years Kenya's total public debt stock as a percentage of GDP has declined significantly.** The total stock of debt increased from Ksh 750 billion in June 2005 to Ksh 969 billion in May 2009, while the ratio of debt to GDP declined from 55.6 to 42.0 percent (Section II Table1). The decline in the debt to GDP ratio during this period was much sharper for domestic debt, which declined from 32.3 to 21.1 percent. This reduction in the ratio resulted mainly from the rapid growth of nominal GDP and the relatively low level of the budget deficit in 2008/09. The external debt to GDP ratio declined from 23.4 to 20.9 percent during the same period. This decline reflects several factors, including the withholding of donor support due to concerns about weak governance, the net repayments of public debt, the acceleration of GDP growth since 2003, recent inflationary pressures and the appreciation of the shilling. However, these factors have been partly offset by the more recent depreciation of the Kenyan shilling which has increased the shilling amount of the external debt and the recent slowdown in GDP growth which has tended to raise the debt/GDP ratio. The ratio of domestic debt to total debt increased from 42.1 percent in June 2005 to 49.8 percent in May 2009.

Section II Table 1: Kenya's Public Debt Stock (In millions of Ksh)

	Jun- 06	Jun-07	Jun-08	May-09*
EXTERNAL				
Bilateral	154,877	141,706	153,201	152,174
Multilateral	255,550	240,259	268,223	312,027
Commercial Banks	1,274	574	-	-
Export Credit	19,536	18,427	18,543	22,457
Sub-Total	**431,237**	**400,966**	**439,967**	**486,659**
(As a % of GDP)	27.9	21.7	21.1	21.1
(As a % of total debt)	54.7	49.5	50.5	**50.2**
DOMESTIC (Gross)				
Banks	**190,762**	**222,985**	**225,656**	**260,776**
Central bank	41,289	36,182	35,548	33,895
Commercial Banks	149,473	186,802	190,108	226,881
Non-banks	***162,029***	***180,614***	***202,130***	***218,711***
Non-bank Financial Institutions	1,400	1,084	11,177	1,247
Other Non-bank Sources	160,629	179,530	190,953	217,464
Non-residents	**5,047**	**1,091**	**2,826**	**2,543**
Sub-Total	**357,839**	**404,690**	**430,612**	**482,030**
(As a % of GDP)	23.2	22.1	20.8	20.9
(As a % of total debt)	45.3	50.5	49.5	49.8
GRAND TOTAL	**789,076**	**805,686**	**870,579**	**968,687**
(As a % of GDP)	51.1	43.8	41.9	42.0

NB:* Provisional

Source: Treasury and Central Bank of Kenya

73. **Domestic debt service now accounts for about two-thirds of the total debt service, while external payment of interest and repayment of principal accounts for about one-third of the total debt service.** Based on data through May 2009, external debt service is projected to be a little less than Ksh 23 billion for 2008/09 (Section II Table 2). Domestic debt interest payments doubled from Ksh 23 billion in 2003/04 to an estimated Ksh 46 billion in 2008/2009.

Section II Table 2: Kenya's Public Debt Service (In millions of Ksh)

	Jun- 04	Jun-05	Jun-06	Jun- 07	Jun-08	May-09*
External Principal	20,448	10,544	9,230	13,884	15,815	15,373
External Interest	5,830	4,427	3,645	4,433	5,961	5,377
TEDS	**26,278**	**14,971**	**12,875**	**18,317**	**21,776**	**20,750**
TEDS as a % of TDS	53.0	39.0	29.0	33.2	34.0	33.0
Domestic Interest	**23,281**	**23,375**	**31,445**	**36,860**	**42,181**	**42,088.**
Dom Interest as a % of TDS	47.0	61.0	71.0	66.8	66.0	67.0
TDS	**49,559**	**38,346**	**44,320**	**55,177**	**63,957**	**62,838**
Ordinary revenue	226,478	265,912	291,064	338,509	396,489	463,700
Export earnings	159,048	209,918	228,181	261,626	298,239	365,974
TDS as a % of revenue	21.9	14.4	15.2	16.3	16.1	13.6
TEDS as a % of exports	16.5	7.1	5.6	7.0	7.3	5.7

NB:* Provisional for 11 months of the year
Source: Treasury and Central Bank of Kenya

(b) Structure of External Public Debt

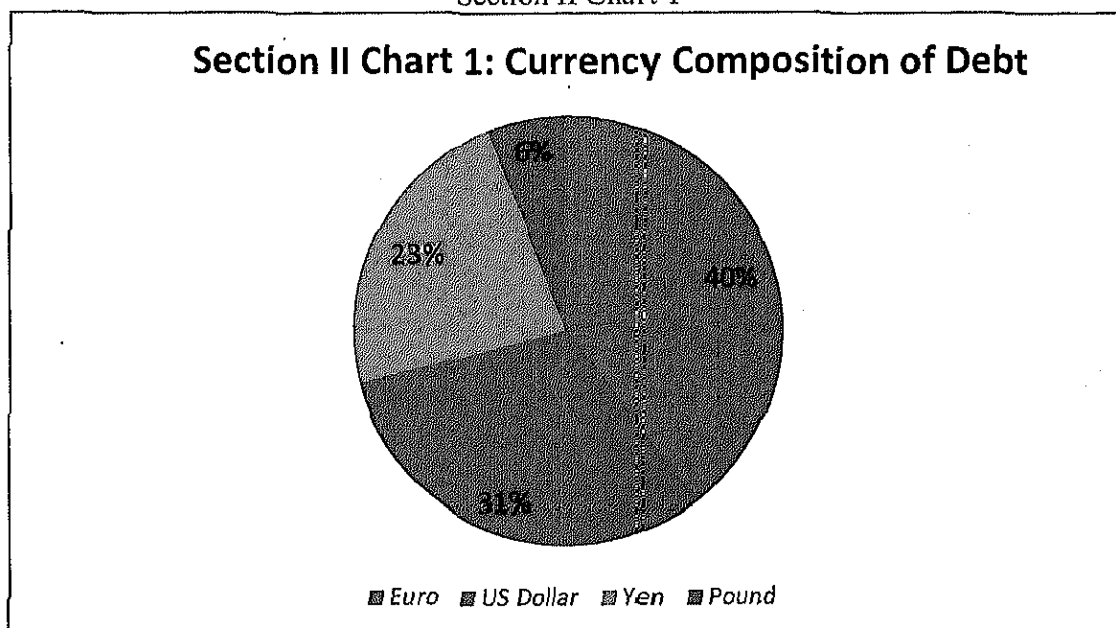
74. **As of June 2008, the outstanding external public debt was owed mainly to multilateral creditors** (about 60 percent, with the World Bank accounting for 47 percent) and bilateral creditors (about 39 percent, with most of it owed to the Paris Club creditors). Only a small share (2 percent) of the external public debt is owed to commercial creditors (a part of it is for disputed security-related contracts and in arrears. Japan has remained the most important bilateral lender, although its share of the total bilateral debt has declined somewhat in recent year. In June 2001 Japan accounted for 54 percent of the total bilateral debt, but this share declined to 49 percent in June 2007 and 37 percent in June 2008. The other important bilateral creditors as of June 2008 were France with an 18 percent share and Germany with a 12 percent share. The recent evolution of the composition of Kenya's external debt by creditor is shown in Annex Section II Table 1.

75. **The currency composition of Kenya's debt is quite diversified among the four major currencies**, whose share of the total is as follow: Euro 38 percent, US Dollar 30 percent, Yen 22 percent, and Pound 6 percent. A variety of other currencies account for the remaining 4 percent of the total. The maturity structure of Kenya's stock of external debt is quite comfortable with an average maturity of 40.3 years. As of the end of June 2008 the proportion of debt with maturities of more than 10 years was 87 percent whereas the debt with a remaining maturity between 5 and 10 years accounted for 11

percent of the debt and debt with a maturity of 1 to 5 years accounted for only 2 percent of the debt.

76. **The average interest rate and grace period on external loans as of the end of June 2008 was 0.8 percent and 9.3 respectively.** The average grant element of the debt *is 64 percent. The total foreign debt service (principal repayment and interest) during* 2007/08 was equal to only 5.5 percent of revenue and 7.3 percent of exports.

Section II Chart 1



76. **The average interest rate and grace period on external loans as of the end of June 2008 was 0.8 percent and 9.3 respectively.** The average grant element of the debt is 64 percent. The total foreign debt service (principal repayment and interest) during 2007/08 was equal to only 5.5 percent of revenue and 7.3 percent of exports.

77. **The total disbursements of new foreign loan funds were Ksh 22.8 billion during 2007/08, but this was only half of the budget target.** This shortfall in aid inflows 2007/08 was largely due to the post-election violence which led to an effective suspension of aid programs in early 2008, although weak absorptive capacity was also a factor. Although aid programs are reportedly being restored to their pre-crisis levels, there are several factors still impeding aid disbursements, including (i) inadequate coordination among the large number of Ministries and longer delays in decision-making on policy issues, *(ii) weak project management capacities*[2], *and (iii) the cautious "wait* and see attitude" of donors given the lack of progress in resolving political governance issues (discussed earlier in Section I sub-section 2 above).In light of this, the authorities are making a concerted effort to increase the ratio of disbursements to the budgetary

[2] *The need for donor assistance in this area is discussed later in Section III, sub-section 2(b).*

targets and have drawn up an action plan entitled the *Kenya External Resources Policy*. It should also be noted that as a result of their own procedural implementation weaknesses, many donors are often unable to live up to their commitments to disburse the amounts included in the budget.

(c) Structure of Domestic Public Debt

78. **Kenya's net domestic public debt has declined** from about 27 percent of GDP ($ 3.9 billion) in end-June 2003 to about 21 percent of GDP ($ 6.3 billion) by August 2008. Government domestic debt consists of Government securities (both Treasury Bills and Bonds), as well as long term stocks and pre-1997 CBK advances to Government. The later two items are not very large and will not be discussed in this report. Thus about 70 percent of the domestic debt is longer-term borrowing with maturities extending up to 20 years. The decline in the debt burden reflected strong economic growth and inflation, as well as prudent fiscal policies and lower interest rates.

79. **The domestic public debt stock does not include contingent liabilities to parastatals and the National Social Security Fund (NSSF) or the accumulated claims against the Government's pay-as-you-go pension scheme for civil servants (KSh 271 billion or 11.4 percent of the 2008/09 GDP forecast).** The Government has launched a study of the contingent liabilities of 24 parastatals and the NSSF to ascertain their amounts (see discussion below).

80. **As of May 2009, Government securities (amounting to Ksh 482 billion) accounted for most of its total domestic debt** of Ksh 489 billion (21 percent of GDP) (Section II Table 3). Treasury Bills are issued in denominations of 91 days and 182 days, while Treasury bonds have maturities from 1 to 20 years. As indicated earlier the Government's objective is to have the ratio of Government stocks to Treasury Bills of 70:30 and seeks to gradually lengthen the average maturity of the outstanding Treasury Bonds. The Government has indicated that the purpose of lengthening the average maturity of domestic debt is to reduce rollover risk even if it results in a higher long run interest cost because of the upward sloping yield curve. The average maturity of outstanding government debt increased from 0.8 years in June 2001 to 3.8 years in June 2008, which is the latest information available.

Section II Table 3: Government Gross Domestic Debt (In billions of Ksh)

	2007		2008		2009	
	June	%	June	%	May	%
	404.7	100.0	430.6	100.0	489.3	100.0
	402.9	99.6	427.2	98.5	482.0	98.5
1. Treasury Bills (excluding Repo Bills)	94.4	23.3	76.8	17.7	99.1	20.2
Banking institutions	45.3	11.2	27.2	6.3	57.4	11.7
Others	49.1	12.1	49.6	11.5	41.7	8.5
2. Treasury Bonds	272.2	67.3	315.2	72.7	348.3	71.2
Banking institutions	141.5	35.0	156.1	36.0	169.5	34.6
Others	130.7	32.3	159.1	36.7	178.8	36.5
3. Long Term Stocks	0.8	0.2	0.8	0.2	0.8	0.2
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.2	0.8	0.2
4. Non-Interest Bearing Debt	35.5	8.8	34.4	7.9	33.9	6.9
Of which: Repo T/Bills	35.5	8.8	34.4	8.1	33.9	6.9
	1.8	0.4	3.4	1.5	7.3	1.5
Of which CBK overdraft to Government	0.0	0.0	0.0	0.0	0.0	0.0

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

Source: Central Bank of Kenya

81. **As of May 2009, commercial banks held about 46 percent of the total domestic debt while non-bank sources, which consist mainly of pension and insurance companies, held 44 percent** (Section II Table 4). The Central Bank held about 8 percent of the total and non-bank financial institutions and non-residents held less than one percent of the total.

Section II Table 4: Domestic Debt by holder (In billions of Ksh)

	5-Jun	%	6-Jun	%	7-Jun	%	8-Jun	%	9-May	%
DOMESTIC DEBT										
Banks	169.5	53.7	190.8	53.3	223	55.1	228.8	53.1	268	54.8
Central Bank	46.6	14.8	41.3	11.5	36.2	8.9	46.4	10.8	41.1	8.4
Commercial Banks	122.9	38.9	149.5	41.8	186.8	46.2	182.5	42.4	227	46.4
Non-banks	139.5	44.2	162	45.3	180.6	44.6	199.2	46.3	218.8	44.7
NBFIs	2.1	0.7	1.4	0.4	1.1	0.3	0.7	0.2	1.2	0.3
Other	137.4	43.5	160.6	44.9	179.5	44.4	198.5	46.1	217.5	44.5
Non-residents	6.5	2.1	5	1.4	1.1	0.3	2.6	0.6	2.5	0.5
Total	315.6	100	357.8	100	404.7	100	430.6	100	489.3	100
(As a % of GDP)	1.9		2.1		2.2		2.1		2.2	

Source: Central Bank of Kenya

82. The **share of Treasury Bills in the total stock of Treasury securities declined** from 30 percent in June 2006 to 22 percent in May 2009 (Section II Table 5). During this period there was a considerable shift from 91-day Treasury Bills to 182-day Treasury Bills that reflected the Government's policy to reduce turnover risk. During this period the Government also gradually introduced bonds with maturities longer than 10 years up to 20 years. The 20-year bond was first issued in June 2008. The share of government securities with maturities from 1 to 4 year maturities declined from 31 percent to 18 percent, while the share of 5 to 9 year bonds increased slightly from 29 percent to 30 percent and the share of bonds with maturities of 10 to 20 years increased from 5 percent to 27 percent. There has been a sharp increase in the average maturity of both Treasury Bills and Treasury Bonds as a result of the Governments effort to sharply reduce turnover risk.

83. **The Government has indicated that it wants some further lengthening of the average maturity of outstanding Treasury Bonds but it has not indicated a target in this regard.** Nor has the Government indicated the basis on which it would weigh the two conflicting objectives of reducing turnover risk and minimizing the interest cost to the budget. The lengthening of the average maturity combined with a significantly upward sloping yield curve has resulted in a considerable increase in the interest payments by the budget. At the end of June 2008 the interest rate on Treasury Bills was between 8 and 9 percent and the interest rate on Treasury Bonds increased gradually to 13 percent for 20-year bonds. During 2007/08 the total domestic interest payments were equal to about 10 percent of budget revenue, 8 percent of budget expenditure and 2 percent of GDP,

Section II Table 5: Outstanding Treasury Bills and Bonds by Tenor
(In millions of Ksh)

	June 2006		June 2007		June 2008		May 2009	
Tenor	Amount	%	Amount	%	Amount	%	Amount	%
91-DAY	37,632	12.0	22,017	6.0	17,980	4.6	27,035	6.0
182-DAY	57,144	18.2	72,405	19.7	58,867	15.0	72,039	16.1
1-YEAR	1,000	0.3	8,728	2.4	13,191	3.4	14,789	3.3
1.5-YEAR	-	-	-	-	-	-	-	-
2-YEAR	39,738	12.7	37,652	10.3	31,747	8.1	39,149	8.8
3-YEAR	31,255	10.0	31,174	8.5	26,663	6.8	14,042	3.1
4-YEAR	26,287	8.4	19,281	5.3	16,539	4.2	12,914	2.9
5-YEAR	28,391	9.1	28,787	7.9	43,511	11.1	52,787	11.8
6-YEAR	33,105	10.6	48,333	13.2	47,589	12.1	38,770	8.7
7-YEAR	13,566	4.3	15,884	4.3	24,154	6.2	24,154	5.4
8-YEAR	15,287	4.9	17,944	4.9	17,944	4.6	17,944	4.0
9-YEAR	12,615	4.0	12,615	3.4	12,615	3.2	12,615	2.8
10-YEAR	17,113	5.5	22,113	6.0	34,415	8.8	44,415	9.9
11-YEAR	-	-	4,031	1.1	4,031	1.0	4,031	0.9
12-YEAR	-	-	8,766	2.4	8,766	2.2	28,492	6.4
15-YEAR	-	-	16,892	4.6	32,114	8.2	42,303	9.5
20-YEAR	-	-	-	-	1,912	0.5	1,912	0.4
Total	313,134	100.0	366,622	100.0	392,037	100.0	447,393	100.0

Source: Central Bank of Kenya
Note: 91-Day and 182-Day instruments are Treasury Bills and the rest are Treasury Bonds

84. **As of May 2009 commercial banks held about 57 percent of the total Treasury Bills, and insurance companies held about 17 percent of the total** (Section II Table 6). Commercial banks also were the most important holder of Treasury Bonds, accounting for 49 percent of the total in May 2009, while the other important shares were accounted for by pension funds with 15 percent and insurance companies with 10 percent Section II Table 7). Most of the commercial bank holdings are less then 5-year maturities, while

most of the pension fund and insurance company holdings are in the 10-20 year maturity range.

Section II: Table 6: Outstanding Treasury Bills By Holder
(In millions of Ksh)

	2007		2008		2009	
Holders	Jun	%	Jun	%	May	%
Banking Institutions	45,278.35	47.95	26,412.80	34.37	57,392.35	57.93
Central Bank	-	-	-	-	-	-
Comm. Banks	45,051.00	47.71	26,412.80	34.37	57,392.35	57.93
NBFIs	227.35	0.24	-	-	-	-
Insurance Companies	13,452.95	14.25	17,005.95	22.13	16,520.70	16.68
Parastatals	8,258.00	8.75	7,122.70	9.27	2,243.25	2.26
Of which: NSSF	162.35	0.17	50	0.07	10	0.01
Building Societies	638.05	0.68	1,050.00	1.37	200	0.2
Pension Funds	58	0.06	12,544.95	16.32	7,255.65	7.32
Others	26,736.91	28.32	12,711.75	16.54	15,462.60	15.61
Total*	**94,422.26**	**100**	**76,848.15**	**100**	**99,074.55**	**100**

Excludes repurchase order bills

Source: Central Bank of Kenya

Section II Table 7: Outstanding Treasury Bondsy By Holder
(In millions of Ksh)

	2007		2008		2009	
Holders	June	%	June	%	May	%
Banking Institutions	141,542.00	52	156,810.52	49.75	170,235.59	48.87
Central Bank	-	-	-	-	-	-
Comm. Banks	140,685.00	51.68	156,065.52	49.51	169,488.79	48.66
NBFIs	857	0.31	745	0.24	746.8	0.21
Insurance Companies	27,500.20	10.1	31,940.88	10.13	35,552.53	10.21
Parastatals	27,266.90	10.02	29,935.24	9.5	30,197.25	8.67
Of which: NSSF	6,845.70	2.51	11,710.64	3.72	14,658.84	4.21
Building Societies	1,285.00	0.47	895	0.28	490	0.14
Pension Funds	5,883.79	2.16	31.76	0.01	54,163.74	15.55
Others	68,721.84	25.25	95,576.26	30.32	57,678.90	16.56
Total	272,199.74	100	315,189.66	100	348,318.01	100

Source: Central Bank of Kenya

(d) Pending Bills

85. **Unpaid government bills for purchases of goods and services are in effect a form of government debt, although they have not been included in the measure of public debt.** For many years the stock of pending bills at the end of the fiscal year had been increasing and this had the effect of showing a lower government deficit and lower government borrowing. However, in recent years substantial progress has been made in reducing the stock of pending bills at the end of the fiscal year. The stock of pending bills declined from KShs 14.6 billion at the end of June 2004, to 11.6 billion, 10.2 billion, 9,4 billion and 8.0 billion in June of each of the next four years respectively. The stock of pending bills at the end of June 2008 was equal to 1.6 percent of the total expenditure for the year and a little over 1 percent of the stock of public debt.

86. **The fall in the stock of pending bills has been due to improved financial discipline by the ministries, departments and agencies of the Government, improved exchequer releases and timely payment of bills verified and cleared by the Pending Bill Closing Committee.** This Committee was appointed by the Government to both verify the stock of expenditure arrears and to establish modalities to resolve the problem of pending bills. The reduction in the stock of pending bills was effectively paid for by issuing an additional equivalent amount of domestic debt. The reduction in the level of pending bills was a clear sign of improved budgeting procedures in general and improved transparency and efficiency of the budget. When the stock of pending bills is significant and growing it tends to result in suppliers raising their prices to the government to take into account the risk of delayed payment by the government.

(e) On-Lending to Parastatals and Contingent Liabilities

87. **In assessing Kenya's public debt situation, it is important to look at the outstanding level of Government lending to public enterprises and of Government guarantees of commercial loans to public enterprises, in addition to the external arrears and domestic currency expenditure arrears (or pending bills), which have been discussed above.** Kenya has a significant stock of loan guarantees for public enterprise borrowing from commercial sources as well as a significant outstanding stock of its own on-lending to public enterprises.[3] Up until the mid-1990s, the management of loans extended to parastatals by Government was the responsibility of the respective accounting officers of the various line Ministries, which in many cases kept poor records. The Department of Government Investment and Public Enterprises (DGIPE) of the Ministry of Finance took over the loans records in 1994/95 and introduced a standard ledger system for recording all loans. There has been a recent effort to computerize the manual ledgers, which is still not completed. However, many of the loans are over 20 years old and the available details regarding the loans are imprecise. The loan portfolio under DGIPE currently consists of seven hundred loan accounts distributed among sixty different organizations. As of June 2008 the total of outstanding loans, arrears and accrued interest arrears totaled about Ksh 68 billion (about 15 percent of the value of outstanding Treasury bills and bonds). It was estimated that only about 10 percent of the

[3] *These are not currently included in public debt.*

outstanding loans were performing. During the 2007/08 year the Government received total principal payments of Ksh 472 million and interest receipts of Ksh 371 million. Over the years a large number of loans have been written-off or converted to equity. It appears likely that most of the remaining loans given by the Government will also eventually have to be written off.

88. **In addition to direct lending to parastatals, the Government has guaranteed commercial loans made to public enterprises.** If the public enterprises are unable to repay their loans, the Government will be liable for the payments, so these obligations are referred to as contingent liabilities. There is considerable uncertainty regarding the outstanding amount of contingent liabilities relating to borrowing by parastatals. The total number of entities with guaranteed loans is estimated to be about 160. The Government hired the Deloitte Consortium in 2007 to undertake a study of the outstanding contingent liabilities for 24 parastatals and the National Social Security Fund. The draft reports submitted so far have been deemed to be inadequate and incomplete and the consultants have been requested to improve them. It will be important to ascertain the amounts of the liabilities, the time profile of payments due, the level of government or the institutions that have provided the guarantees, and how firm are the guarantees. Until this exercise is complete there remains uncertainty about the level of contingent liabilities even for these 25 entities and even more uncertainty with regard to the other 135 entities. The Ministry of Finance officials are committed to obtaining complete information on these contingent liabilities, but so far have not made much progress in obtaining significant information on this subject. In addition, the Government has accumulated claims under its pay-as-you-go pension scheme for civil servants. These were estimated to total Ksh 271 billion in August 2005. This would be equal to 11.8 percent of 2008/09 GDP.

(f) Current Debt Management Strategy

89. **The overall objective of Government debt management policy is to meet the financing needs of the Central Government at the lowest possible long term borrowing cost with a prudent degree of turnover risk.** It also seeks to support the development of a well functioning domestic financial market. The objective of the external borrowing strategy has been to minimize costs by maximizing concessional borrowing. To achieve this, the Government seeks either grants or foreign debt with a grant element of more than 35 percent. The currency composition of the debt is determined by the lender and the Government does not have any policy with regard to the currency composition. However, as shown in the earlier Section II Chart 1 the foreign debt is quite well balanced among the major currencies. While it is not covered in the discussion of debt in this report, it is important to remember that foreign grants from donors are even more attractive than concessional foreign loans.

90. **The Kenyan government has generally avoided non-concessional foreign borrowing, with security related purchases accounting for the limited non-concessional borrowing that has taken place.** During 2008 it had been envisaged to undertake some non-concessional foreign currency borrowing to refinance the existing commercial debt and to increase infrastructure expenditure. It was envisaged to make a

commercial syndicated bank borrowing to make payments for the commercial debt arrears. However the legitimacy of the security-related commercial arrears is still under review so there was no need to make such a borrowing so far. While maximizing concessional borrowing has been a priority, in the past year or two there was a plan to undertake some non-concessional borrowing because of concern about the volatility of donor flows and the need to greatly scale up infrastructure development expenditure to attempt to achieve a more rapid economic growth rate closer to what was envisaged in Vision 2030. The 2008/09 budget had provided for a sovereign bond issue in the international capital market for $500 million with the proceeds to be used for infrastructure investment. Because of the sharp deterioration in the international credit markets in the later part of 2008, it was not possible to issue a sovereign bond on acceptable terms and a decision was made to postpone the use sovereign bonds until the market terms were more favorable. No provision for a sovereign bond issue was included in the 2009/10 budget.

91. **The domestic debt management policy has placed higher emphasis on reducing refinancing risk than on reducing the total interest cost of domestic borrowing.** To support this policy preference the Government seeks to keep the ratio of Treasury Bills to Treasury Bonds at 30:70 and to gradually lengthen the average length of the Treasury Bonds outstanding. The strategy of domestic debt issuance is reviewed frequently and agreed upon between the Treasury and the Central Bank of Kenya (CBK). The CBK issues Treasury Bills and Bonds on behalf of the Government taking into account the expected developments in current revenue and expenditure. To meet temporary shortfalls in cash flows, the Government may access the overdraft facility of the CBK up to the statutory limit of 5 percent of the latest audited Government annual revenue. Starting in 2008/2009 the Government also issued long- term infrastructure bond to finance construction projects in the roads, water, and energy sectors. Except for the fact that the interest on these bonds is tax-free, unlike all other Treasury Bills and Bonds, these bonds do not really differ from other long-term government bonds. They are repaid from general revenue and not from specific projects. It appears questionable to issue some long-term Treasury securities that are tax-free while other long-term bonds are made taxable. During 2008/09 the Government took some important measures to improve the efficiency of the Government securities market. It reduced the minimum amount that can be purchased in auctions from Ksh 1 million to Ksh 100,000. This helps to increase demand and at the same time provides Kenyans with much more attractive interest rates than they are able to obtain from commercial banks. It was also decided to reduce bond market fragmentation by implementing a well-structured benchmark bond program. This is done through reopening benchmark bonds and reducing the number of small illiquid bonds in the market. This should help development of secondary market trading of Government bonds, which has been limited so far.

92. **The Government has taken a number of measures to enhance the transparency of its debt management policy.** The annual net domestic borrowing target is announced in the Budget Speech each year in June. The Parliament sets limits on most types of Government borrowing. Under the External Loans and Credits Act the limit set in January 2009 for external debt is Ksh 800 billion. Under the Guarantee Loans Act the

limit for guaranteed loans has been set at Ksh 80 billion since 1993. The Government also publishes a wide range of reports in its efforts to disseminate information to the public on debt management operations, including the following: MoF *Annual Public Debt Management Report*, MoF *Monthly Debt Bulletin*, MoF *Quarterly Budget Review*, MOF Budget Outlook Paper, MoF *Budget Strategy Paper*, CBK *Monthly Economic Review* and *Weekly Bulletin*, and *Annual Economic Survey* published by the Kenya National Bureau of Statistics. This high level of transparency with regard to public debt data and the extensive Parliamentary oversight help to ensure that the Kenyan government pursues a prudent debt management policy.

(g) Assessments of the Structure of Public Debt

93. **Kenya has a well-diversified debt structure in terms of the mix between foreign debt and domestic debt, the maturity profile and currency composition of foreign debt, and the maturity profile of domestic debt.** About half of Kenya's public debt is denominated in foreign exchange, with most of this being at highly concessional interest rates. The foreign debt also has a very long average maturity profile. The other half of Kenya's public debt is denominated in local currency and is issued at commercial market interest rates. The average interest rate on the stock of domestic debt is about 10 percent which is much higher than the average interest rate on foreign debt so that the interest payments in the year ending June 2008 were about seven times as high for domestic debt as for foreign debt (Ksh 42 billion compared to Ksh 6 billion). The main risk with regard to foreign debt is a change in the exchange rate, which has an impact not only on the interest payments, but also on the principal, which must be repaid. However as long as Kenya continues to pursue prudent macroeconomic policies, the exchange rate risk does not appear to be great. Thus, Kenya would be better off if it can manage to obtain more foreign currency concessional loans. However, it is unclear how successful the Government will be in its planned efforts (as noted in paragraph 77 above) to improve absorptive capacity. Moreover, since the magnitude of concessional loans which is made available to Kenya is determined by the bilateral and multilateral donors, good social, economic and political polices and efficient use of all budget resources is likely to have significant impact on the level and predictability of foreign resources available. Indeed, the prospects of obtaining such donor support will require stronger efforts on the part of the Government to address the existing bottlenecks in inter-ministerial decision-making and policy coordination, the lack of project management capacities, and the need to resolve outstanding political governance issues. Unless adequate progress is made in tackling these issues, government policy-making is likely to be perceived as unpredictable, and as a result aid disbursements are also likely to be unpredictable. Until a record of measurable progress in addressing these issues is firmly established, it would be difficult to address concerns about the volatility and shortfalls in aid inflows, and hence, to guess how much of the medium-term budgetary aid targets are likely to be realized.[4] It should also be noted that even if the Government greatly improves its implementation efforts to meet its budget targets for foreign financed development

[4] For this reason, it is worth noting that in the IMF's and our medium-term macroeconomic forecasts, which are discussed below in sub-section 2(f), the increase in the ratio of public investment to GDP is not overly ambitious.

expenditures, there is still likely to be a considerable shortfall (10-15 percent) if the Government puts into the budget the aid flow numbers indicated by donors and the existing procedural weaknesses in donor disbursement procedures are not addressed.

94. **It appears to be useful for the government to formulate a more explicit policy with regard to the trade-off between reducing Treasury security turnover risk and paying higher interest rates for longer-term securities.** As of May 2009 the ratio of Treasury Bonds to Bills was 72:28, which exceeds the target ratio. It is not clear whether the government wants to continue to increase this ratio (70:30). It would appear that the turnover risk is no longer significant as a result of the shift away from Treasury Bills and shorter maturity Treasury Bonds which has already occurred. Account should also be taken of the fact that the demand for longer-term Treasury Bonds is limited mainly to a few insurance companies and pension funds. It will be important to pay close attention to the steepness of the yield curve and avoid trying to sell more very long securities than the market demand can accommodate without an excessive interest rate differential relative to shorter-term maturities. It is also important to keep in mind that the average maturity profile for foreign currency concessional loans is extremely long and the yield curve for such loans is extremely flat. There is negligible turnover risk in the foreign debt structure.

95. **The two main debt policy issues, which are more under the control of the Kenyan authorities, are whether to borrow in foreign currency on commercial terms and the steepness of the yield curve and the higher interest costs that result from seeking to lengthen the average maturity structure.** There are a number of considerations that influence whether it would be desirable to undertake commercial borrowing in foreign currencies rather than in Kenyan shillings. The most important is the relative interest rate on the two types of borrowing and the exchange rate expectation when payment of interest and repayment of principal will take place. Another consideration is whether the desired amounts of money can be borrowed at the time that it is needed to finance expenditure. Another consideration is whether undertaking foreign currency commercial borrowing would have an adverse impact on the amount of concessional loans available from some donors. [5] During 2007 and 2008 the Kenyan authorities explored two forms of foreign currency commercial borrowing: undertaking a sovereign bond issue or borrowing from a commercial bank or a consortium of banks. It appeared that a sovereign bond issue might have a slightly lower total cost (interest and various fees) compared to borrowing directly from commercial banks. The sovereign bond idea was also considered attractive because it would establish a base rate upon which to price foreign currency bond issues by private sector firms. The main disadvantage of the sovereign bond is that the minimum amount that can be efficiently marketed has been US $500 million and that this total amount must be taken at one time and also be repaid at one time. It would be difficult for Kenya to efficiently spend this amount on infrastructure projects in a short period of time. The interest rate which the Kenyan Government would be likely to get if it needed to temporarily invest part of the receipts of the sovereign bond issue would probably be only about half of what it was

[5] Kenya needs to guard against the risk of falling prey to private lenders that may want to benefit from free-riding (by lending on costly terms while donors provide financing on concessional terms). This issue is discussed further in Section III, sub-section 2(a).

paying in interest and other charges. This would be a significant cost. In addition, as the time for the bullet repayment approached at the end of the maturity of the bond, the Government would need to start accumulating funds. Again, the Government would get a much lower interest rate on the funds being accumulated for redemption expense than what it was paying for the loan.

96. **In comparison with a sovereign bond issue, the advantage of a borrowing from commercial banks was that it could be for a smaller amount which would reduce the high cost of paying for money that was kept sitting waiting for the implementation of projects and less would have to be accumulated in anticipation of a bullet payment at the end of the maturity period.** This being said, in assessing the relative advantages of borrowing from banks, one would also have to take into account the commitment fees that the government would have to pay to the banks. It would probably be possible to phase both the borrowing and the repayment to meet the Governments needs. It appears likely that even if the actual cost of the loan might be somewhat higher, this would be offset by a reduced need to invest temporarily part of the borrowed amount until it was needed to pay for project implementation and part of the amount to be repaid at the end of the bond maturity. The Kenyan authorities have indicated that they would wait until market conditions again became favorable for commercial foreign currency borrowing, before they would consider this again. No plans for commercial foreign currency borrowing were included in the 2009/10 budget and it may be a number of years before the aftermath of the domestic disturbances and the global financial crisis and weak economic growth dissipates. While recognizing the importance of the issues that are raised here, it would be useful to note that before the authorities take a decision on whether or not they should borrow abroad on commercial terms, they would need to undertake a much more detailed and broader analysis than what has been discussed here.

(h) Kenya's Sovereign Credit Ratings

97. **During 2006 and 2007 both Fitch and Standard and Poor's (S&P) had given Kenya a sovereign credit rating of B+.** Based on this relatively favorable credit rating Kenya had started the process for issuing a sovereign bond of about $500 million in late 2007. This was the same credit rating that Ghana and Gabon had at the time they made a sovereign bond issue. However, the situation changed sharply as a result of the violence in January 2008 in the aftermath of the elections. **In January 2008 both Fitch and S&P downgraded Kenya's rating to B.** This reflected the lasting negative impact that they expected the current political turmoil to have on the prospects for economic growth and reform. At the beginning of January Fitch also placed Kenya on a Credit Watch. However, during the next two months as the political and violence situation improved the ratings were improved somewhat. While Fitch kept it's rating at B, by March the outlook was judged to have improved from negative to positive. This resulted from the power sharing agreement between government and the main opposition party Fitch increased its rating in the later part of 2008 to B+ negative and then to B+ stable at the beginning of 2009. It indicted that this reflected the return to stability fallowing the formation of the grand coalition government that remained intact a year later and has put Kenya on the

road to recovery. Although Kenya's recovery was being affected by the global economic slowdown and liquidity crunch, this was seen as delaying rather than derailing a return to strong growth, with a recovery to 4-5 percent growth expected in 2009

98. **S&P has been more cautious in its assessment and rating.** Since the middle of 2008 it has kept its sovereign rating for Kenya at B. In July 2009, it indicated that the rating of the Republic of Kenya was constrained by low economic development and the political risks highlighted by the 2008 post-election crisis. However it indicated that the rating was supported by continued progress in pushing forward economic reform and addressing infrastructure constraints. It indicated that the financial system, fiscal revenue, and debt management survived the severe political stress test of early 2008 with notable resilience. Nevertheless, it indicated that the global downturn was hitting Kenya via reduced capital flows and external demand for Kenya's exports, throwing up new policy challenges on the heels of a food crisis. Emergency food imports related to the drought, as well as a weakening of remittances weighed on the current account deficit, which they forecast at 6% of GDP in 2009.

2. Macroeconomic Forecasts and IMF/IDA Debt Sustainability Analysis (DSA)

(a) Financing of Public Investment during 2009-12

99. **After many years of stagnation, Kenya had an acceleration of its growth rate during the period 2003-2007, and this may have led both the Kenyan authorities and other outside observers to forecast a continuation of this good performance during the medium term.** Based on this view, the Government formulated an optimistic long-term plan called Vision 2030 (V-30) which indicated the changes required to make Kenya a middle income country by the end of this period. The Vision 2030 included a Medium Term Plan (MTP) that targeted real GDP growth to rise steadily to 10 percent by 2012/13 as a result of various interventions including implementation of flagship projects under the economic and social pillars. The underlying macroeconomic assumptions were as follows (Section II Table 8):

- The real growth rate was projected to be 6.2 percent in 2008/09 and then to increase sharply to 8.3 percent in 2009/10 and reach 10 percent in 2012/13, which was the target rate for the remainder of the period to 2030.
- To meet the growth target of 10 percent the level of investment was projected to expand by over 10 percentage points of GDP to 32.6 percent by 2012/13 (table X). Most of the increase was expected to come from private investment including foreign direct investment, with the Government playing mainly a facilitative role.
- Public Sector investment was projected to be mainly in the form of infrastructure development.
- There was a corresponding huge increase in the gross national savings to GNP ratio from 13.5 percent in 2007/08 to 27.7 percent in 2012/13 to meet the investment financing needs.

- The domestic debt to GDP ratio was projected to decline from 20.8 percent in 2008/09 to 18.3 percent in 2012/13.
- The current account deficit was projected to decline from 7 percent to 5 percent during this same period.
- The end-of-period rate of increase in the CPI was projected to decline to 5 percent in 2009/10 and remain at that level in the following years.

Section II Table 8: Key Macroeconomic Indicators of the V-30 MTP, 2007/08- 2012/13

	2007/08 *Prov.*	2008/09	2009/10	2010/11	2011/12	2012/13
Projection						
(Annual percentage change)						
Real GDP	4.0	6.2	8.3	9.1	9.7	10.0
CPI(end of period)	29.3	7.5	5.0	5.0	5.0	5.0
(In percent of GDP)						
Investment	19.1	23.2	24.6	27.0	29.7	32.6
Gross national savings	13.5	16.2	18.5	21.4	24.4	27.7
Central government budget						
Total revenue	22.0	20.9	21.3	21.5	21.5	21.7
Total expenditure and net lending	27.2	26.2	25.7	25.8	27.0	27.3
Overall balance (incl. grants)	-3.5	-3.9	-2.9	-2.7	-3.6	-3.6
Domestic debt, net(eop)	16.9	20.8	20.1	19.4	18.8	18.3
External sector						
Current account incl.official transfers	-5.6	-7.0	-6.1	-5.6	-5.3	-5.0
Reserves(months of import cover)	3.4	3.7	3.9	4.1	4.4	4.7

Source: Ministry of Finance

Section II Table 9: Main Macroeconomic Indicators Underlying the Medium-Term Fiscal Framework 2007/08-2011/12

	2007/08 Prov.	2008/09 Proj.	2009/10 Proj.	2010/11 Proj.	2011/12 Proj.
Annual Percentage Change					
National Accounts and Prices					
Real GDP	4.0	2.5	3.1	5.2	6.4
CPI(end of period)	29.3	18	10.1	5.9	5.0
In percent of GDP					
Investment and Saving					
Investment	19.1	18.1	19.2	22.1	23.3
Gross National Savings	13.5	11.9	14.1	17.3	19.0
Central Government Budget					
Revenues	22.0	22.6	22.3	22.5	22.6
Expenditure and net lending	27.2	28.5	30.3	28.4	28.3
Overall balance(incl. grants)	-3.5	-4.9	-6.6	-4.5	-4.2
Net domestic debt(end of period)	16.9	18.5	20.6	21.1	21.1
External sector					
Current account(incl.official transfers)	-5.6	-6.2	-5.1	-4.8	-4.3
Months of next year's import covers	3.4	2.8	2.9	3.1	3.5

Source: Ministry of Finance

100. **The series of adverse developments slowing the real growth rate in 2008 led the Kenyan authorities to realize that the macroeconomic indicators underpinning the Vision 2030 MTP shown in table 8 above were not feasible.** Thus, the authorities developed a much more cautious medium-term framework in May 2009 that is shown in Table 9 above and in Annex Section II Table 2. Table 9 shows the Budget Strategy Paper (BSP) projections formulated in June 2009, while Annex Section II Table 2 provides much more detail and compares the 2009 BSP projections with the 2008 BSP projections formulated in June 2008 and the Budget Paper Projections formulated in January 2009. Both the Kenyan authorities and the IMF thought that Kenya would recover quickly from the adverse impact of the domestic disturbances in January 2008 and projected a real growth rate of about 6 percent for 2008/09 and almost 7 percent in 2009/10. However in the aftermath of the domestic drought and the global financial crisis, the real growth rate for 2008/09 was projected to be just 2.5 percent in the June 2009 BSP and the real GDP growth rate was projected to be 3.1 percent in 2009/10. This meant that little change was now projected in per capita terms since the population growth rate is 2.9 percent.

101. **The 2009 BSP projects a recovery in the rate of growth of real GDP to 5.2 percent in 2010/11 and 6.4 percent in 2011/12.** The underlying assumptions for key macroeconomic variables (investment, savings, the budget deficit and the current account) were the following:

- *The investment to GDP ratio* was expected to move in line with the changes expected in the real GDP growth rate, with a decline from 19 percent in 2007/08 to 18 percent in 2008/09 and then to move back to 19 percent in 2009/10. However a sharp increase in the investment

to GDP ratio to 22 percent and 23 percent was projected for the next two years. The 2008 BSP had envisaged a considerably higher investment to GDP ratio in the period 2008/09-2010/11 in line with its assumption of a more rapid GDP growth rate.

- *Gross national savings* was projected to follow the same pattern of change during the period 2008/09-2011/12, but to grow a little more rapidly.
- The budget deficit was to be reduced from 6.6 percent of GDP in 2009/10 to 4.2 percent in 2011/12.
- The level of *foreign grants* was projected to increase from 1.1 percent of GDP in 2008/09 to 1.4 percent of GDP in 2009/10 and 2010/11 and then to 1.5 percent of GDP in 2011/12.
- Consistent with the above forecasts, the *current account balance to GDP ratio* was expected to increase in 2008/09 (to 6.2 percent) and then decline to 4.3 percent by 2011/12.

102. **The planned reduction in the budget deficit (including grants) was expected to come mainly from a reduction in the expenditure to GDP ratio.** Throughout this period the authorities planned to reduce non-essential recurrent expenditure, such as telephones and travel, and to increase the share of development expenditure, especially infrastructure. Only a slight increase was expected in the revenue to GDP ratio over the period from 2008/09 to 2011/12 as a result of further improvement in the administration of the Kenya Revenue Authority.

103. **Now, however, the overall fiscal deficit is expected to increase significantly with the implementation of the fiscal stimulus in 2009/10.** Also, given the weak growth environment for 2009/10, it was not considered prudent to have any increase in tax rates or in non-tax rates. In fact there were selective reductions in some excise and customs duty rates and some food grain products were exempted from VAT. There were five key elements to the stimulus package for 2009/10:

- Boosting demand to make up for the lower export earnings, tourist receipts and remittances from overseas;
- Improving the competitiveness of Kenyan industries by accelerating investment in important infrastructure and further improving the business climate by reducing regulations and business licensing requirements;
- Expanding irrigation in order to reduce agricultural dependence on rainfall;
- Creating employment opportunities for both skilled and unskilled youth;
- Reducing the number of hungry people by implementing a program of targeted food subsidies.

It was planned to fast track the following key infrastructure projects: (i) Olkaria Geothermal power plant expansion; (ii) the light rail commuter system for Nairobi; (iii) road-building projects and (iv) the Kibera slum housing upgrade project.

104. **The 2009/10 budget deficit is expected to be financed mainly by net domestic financing** of 4.3 percent of GDP and privatization proceeds of 0.3 percent of GDP, with net external financing amounting to 2 percent of GDP. While the 2009/10 Budget does not provide for any sovereign bond proceeds, if market conditions improve and the Government decides to issue a sovereign bond, the Government would reduce domestic borrowing by a corresponding amount. The budget does not provide for any donor budget support to materialize.

105. **Although no increase in tax rates is planned, the budget deficit is projected to fall in the next two years as the Government expects to further restrain public expenditure to contain the level of the overall public debt to GDP ratio and ensure a sustainable debt policy.** As a result of the sharp reduction in the budget deficit for the next two fiscal years, net domestic financing is expected to decline sharply to 2.5 percent of GDP in 2010/11 and 2.2 percent of GDP in 2011/12. Net foreign financing is projected to decline to 1.7 percent of GDP in each year, while privatization proceeds as a percentage of GDP are projected to remain at 0.3 percent of GDP.

(b) IMF Pre-crisis Medium-Term Macroeconomic Outlook

106. **The medium-term macroeconomic scenario presented in the 2008 IMF Article IV report forecast real GDP growth to rebound sharply from about 4 percent in 2007/08 to 7.2 percent in 2008/09, which was even more optimistic than the authorities' projection of 5.8 percent real growth (See Table 10 below).** Over the medium-term, the authorities and the IMF staff expected a steady return to trend growth levels. The IMF projected GDP growth to average about 6.5 percent over the medium-term while the BSP projected growth to average about 7 percent. These forecasts were based on discussions with the authorities that were completed in early July, 2008. This was prepared soon after the Kenyan authorities' Medium Term Budget Strategy Paper dated June 2008 and the projections were quite similar. The authorities were confident that a robust economic recovery was already underway. Although the political crisis of early 2008 took a heavy human toll, its damage to productive capacity was quite limited, mainly the dislocation of residents and the localized destruction of infrastructure. While it was realized that tourism and agriculture would take some time to recover, a number of indicators, including revenue and capital inflows, suggested that a significant recovery had begun. This expected V-shape recovery would be broadly in line with previous election-related disruptions in Kenya. *Both the authorities and the IMF staff recognized some important downside risks to these projections of rapid growth , including the stability of the political power arrangement, the need to continue with structural and governance reform, further increases in global oil and food grain prices, and a more pronounced weakening of the global economy. The staff also noted the low level of private saving and the weak infrastructure, which could prove to be long-term impediments to growth.*

Section II Table 10: Forecasts of Real GDP growth rates

Real GDP growth rates (in percent)	2007/08	2008/09	2009/10	20010/11	2011/12	1012/13
Kenya authorities' forecasts						
Vision-30 Medium-term Projection	3.5	6.2	8.3	9.1	9.7	10.0
Budget Strategy Paper	3.5	5.8	6.9	6.8	6.8	
Medium-term fiscal framework	3.5	3.6	4.6	5.2	6.0	
IMF 2008 Article IV Consultation Report Forecast	3.9	7.2	6.0	6.6	6.5	6.5

107. **Consistent with the projection of rapid economic growth during the medium term, both the IMF and the authorities projected sharp increases from the earlier investment/GDP ratio (20 percent) and the savings/GDP ratio (15.4 percent) expected in 2007/08.** The IMF projected the investment to GDP ratio to increase by about 2 percentage points of GDP over the period 2008/09- 2012/13, averaging 22.6 percent for the period, compared to the authorities' estimate of an average of 23.6 percent for the period. Both the IMF and the authorities projected a sharp increase in the savings to GDP ratio (by about 3 percentage points of GDP). Private sector investment and savings were expected to increase more rapidly than government investment and savings (See Table 10 below).

108. **The IMF urged a somewhat lower overall budget deficit target of 4.6 percent for 2008/2009, compared with the authorities 5.3 percent of GDP target in the 2008/09** Budget. Part of the reason for the lower IMF estimate for the 2008/09 budget deficit was that the level of foreign-financed investment spending contained in the budget would turn out to be lower, which is the normal pattern. For the following two years the IMF staff projected a lower budget deficit of 3.8 percent of GDP, as the need for stimulus for the economy was expected to diminish and drought- related expenditure was also expected to diminish.

109. **In addition to a more restrained fiscal stance, the IMF team supported the increase in the Central Bank Rate in June of 2008 as the focus of monetary policy shifted away from providing liquidity in the aftermath of the domestic disturbances to fighting inflation which had accelerated sharply in the first half of 2008 as a result of the sharp increase in food and fuel prices.** The IMF urged that steps be taken to reduce the rate of growth of reserve money to make it consistent with preventing the second-round effects of higher food and fuel prices. For the medium term it projected a decline in the rate of growth of reserve money from just below 20 percent in 2007/08 to 15 percent in 2008/09 and further to 14 percent in 2011/12.

110. **The IMF indicated that the mid-2008 exchange rate (about Ksh 65 per US $) level appeared broadly appropriate and that the sharp 32 percent real effective exchange rate appreciation between early 2005 and mid 2008 had reflected improving fundamentals, including rising tea and coffee prices, a strengthening net foreign asset position and improved productivity.** While the terms of trade had deteriorated during this period and the current account deficit had increased, total export

value increased somewhat more rapidly than global exports, and remittances and FDI inflows and foreign exchange reserve increased significantly. There were also very large capital inflows during this period, of which a substantial portion was for the purchase of shares of Safaricom, a major mobile phone company, which the Government floated in the market. However, the latter being a one-off event should not be seen as a justification of the appreciation of the exchange rate. Both the authorities and the IMF felt that Kenya's managed float exchange rate system had served Kenya well, and that interventions should remain limited to smoothing excessive short-term volatility and meeting the foreign exchange reserve target. While it is hard to believe that Kenya's fundamentals improved by 32 percent in a three year period, it would appear correct to say that exchange rate movements do not appear to have caused any significant imbalances.

(c) IMF 2009 Macroeconomic Scenario

111. **The IMF produced a revised macroeconomic framework in the context of the Report prepared for the request under the Rapid-Access Component of the Exogenous Shocks Facility.**[6] As noted earlier, the significant economic recovery for 2008/09 that the IMF had foreseen was derailed by a number of exogenous shocks during the year. Compared to its projections made in mid-2008, there were large reductions in the projections for the rate of real GDP growth, particularly in the period 2008/09-2010/11 (see Table 11 below). However, the growth rate was expected to be back above 6 percent by 2011/12 as the adverse exogenous shocks were expected to have completely dissipated.

[6] The report was presented to the Executive Board of the IMF in May 2009 and was based on a mission from February 23 to March 6. The amount disbursed (US$ 209 million) under this facility to Kenya in June was used by Kenya to increase its international reserves.

Section II Table 11: IMF's Pre-crisis and 2009 Forecasts, 2007/08-20013/14

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Growth rates and ratios to GDP in percent:						
Pre-crisis IMF forecasts						
Growth rate of real GDP	7.2	6.0	6.6	6.5	6.5	...
Investment/GDP	22.0	22.1	22.4	23.1	23.6	...
Government	7.4	7.3	7.4	7.8	7.8	...
Private	14.6	14.8	15.0	15.3	15.8	...
Gross national savings/GDP	15.3	16.6	17.2	17.9	18.3	...
Government	1.8	2.3	2.4	2.3	2.1	...
Private	13.5	14.3	14.8	15.6	16.2	...
2009 IMF forecasts						
Growth rate of real GDP	3.0	3.1	5.2	6.3	6.5	6.5
Investment/GDP	15.9	17.2	18.1	18.7	19.3	20.6
Government	7.9	9.1	9.3	9.3	8.8	9.1
Private	8.0	8.1	8.8	9.4	10.5	11.5
Gross national savings/GDP	9.9	12.7	13.3	14.1	15.1	16.9
Government	1.9	2.6	3.4	3.7	3.6	4.0
Private	8.0	10.1	9.9	10.3	11.4	12.9

Source: IMF SM/08/276 Supplement 1 Annex Table1 and EBS/09/71 Annex Table 1.

112. **The IMF also sharply reduced its medium-term projections for investment and gross national savings.** As shown in Table 10 above, the IMF now expects the investment to GDP ratio in 2008/09 to be lower by about 6 percentage points of GDP than its earlier forecast (of 22 percent), with the gap narrowing to about 4 percentage points of GDP by 2012/13. There was a similar pattern of reductions in the projected national savings ratios as well, with the earlier forecast for 2008/09 (15.3 percent of GDP) being reduced by more than 5 percentage points of GDP. As a significant increase was projected in the savings ratio, the gap between the two forecasts was expected to narrow in later years.

113. **As a result of the sharp rise in the price of imported fuel and food, the domestic drought, and the depreciation of the currency, inflation as measured by the broad CPI index reached a level in the high 20 percent range during the first half of 2009, while underlying inflation, which excludes agricultural goods, increased by about 10 percent.** The IMF had not expected any of the temporary adverse factors to persist in 2009/10 and expected a prudent monetary policy to lower the CPI rate to 5 percent in 2009/10 and in the subsequent years. Given the poor long rains during March-June 2009 which will have an adverse impact on agricultural prices during 2009/10 and the sharp rebound in international fuel and other commodity prices between March and July 2009, it now looks as though inflation will probably be well above 5 percent in 2009/10, irrespective of the implementation of a tight monetary policy.

114. **In the new environment, the IMF recognized that monetary and exchange rate policy would have to address the three often conflicting goals of reducing inflation, providing sufficient liquidity to support economic activity and achieving a gradual build-up of international reserves.** It is expected that the 16 percent broad money growth in 2009/10 will allow for adequate expansion of domestic credit to support economic activity without putting pressure on prices. The IMF supported the authorities' plans to gradually resume purchases in the foreign exchange market during the next few years to increase international reserves in a manner that would be consistent with the programmed money supply growth. The authorities reaffirmed their commitment to a market-determined exchange rate policy. Thus, the CBK is expected to continue to allow the exchange rate to reflect the economic fundamentals with intervention limited to smoothing out excessive volatility in the exchange rate and rebuilding international reserves. The disbursement of about $209 million in June under the IMF Rapid-Access Component of the Exogenous Shocks Facility will add to Kenya's international reserves and reduce the extent of the need for CBK purchases of foreign exchange. The IMF projects a slightly slower 15 percent rate of increase of broad money during the following two fiscal years

115. **The fiscal framework for 2009/10 aims to strike the right balance between supporting growth and maintaining medium-term debt sustainability.** Given that the level of concessional foreign financing appears to be limited for 2009/10 and it is not deemed possible to raise revenue more rapidly than the rate of increase in GDP, it is planned to have a significant increase in domestic borrowing during the year. However, the IMF urges that the level of domestic borrowing be reduced in subsequent years as the economy recovers in order to keep the public debt at an easily sustainable level. As indicated earlier, the authorities plan to reduce the level of planned domestic financing of the deficit of about 4 percent of GDP if they were to get a higher level than planned donor grants and loans or if they borrow in foreign currency on commercial terms. The IMF projects an overall budget deficit of 5.4 percent in 2009/10, which is somewhat lower than provided for in the budget, because it does not expect the government to spend all of the donor funded development assistance that is included in the budget, which is usually the case.

116. **As a result of the weaker world economy, the IMF considerably reduced its projection for the export to GDP ratio in 2009/10 from 25.1 percent to 23.8 percent and it expects an even sharper reduction in export to GDP ratio for the next two years** (see Table 12 below). The projected export to GDP ratio for 2011/12 is also now much lower than the earlier 2008 forecast. Because it expected oil import prices to remain at the low levels of the early part of 2009 the IMF lowered its forecast of the import to GDP ratio by even more than for exports. It now projected the import to GDP ratio to decline from 38.9 percent in 2008/09 to 30.6 percent in 2011/12, compared with its earlier projected ratios of 39.2 and 36.9 percent for the corresponding fiscal years. In light of the sharp increase in oil prices since March 2009, it now seems unlikely that the value of imports relative to GDP will decline as sharply in 2009/10 as the IMF forecast.

Section II Table 12: IMF's Pre-crisis and 2009 Forecasts for Exports, Imports and the External current account balance, 2008/09-20013/14

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Growth rates and ratios to GDP in percent:						
Pre-crisis IMF forecasts						
External current account balance/GDP (incl. official transfers)	-6.7	-5.4	-5.2	-5.2	-5.3	...
Exports of goods and services/GDP	25.2	25.1	25.2	25.4	26.9	...
Imports of goods and services/GDP	39.2	37.6	37.1	36.9	38.6	...
2009 IMF forecasts						
External current account balance/GDP (incl. official transfers)	-6.0	-4.5	-4.8	-4.7	-4.2	-3.7
Exports of goods and services/GDP	26.4	23.8	21.6	21.2	21.8	22.6
Imports of goods and services/GDP	38.9	34.2	31.4	30.6	30.7	30.9

Source: IMF SM/08/276 Supplement 1 Annex Table1 and EBS/09/71 Annex Table 1.

(d) The 2008 IMF/IDA External Debt Sustainability Analysis

117. **The 2008 IMF/IDA external Debt Sustainability Analysis (DSA) concluded that Kenya's external debt indicators show that it faces a low risk of debt distress, given its relatively limited reliance on external borrowing and an expected improvement in macroeconomic performance.** The results of the external DSA were as follows:

- Kenya's external debt indicators would remain well below the indicative thresholds in the baseline scenario.[7] However, the issuance of a sovereign bond with a bullet amortization structure could create a spike in debt service.
- Kenya would remain under its indicative debt stock and debt service thresholds under all alternative scenarios and stress tests:

    - A *shock combining lower GDP growth, weaker exports, a lower GDP deflator, and a fall in non-debt creating flows* would lead to an immediate worsening of the debt stock and debt service indicators (see Section II Table 13 below).[8] However, the three debt stock measures would subsequently improve to ratios only somewhat worse than under the baseline scenario by the end of the projection period in 2028. (See Appendix Table 4). The two debt service indicators would also eventually decline without reaching particularly high levels.

[7] Based on the World Bank's Country Policy and Institutional Assessment (CPIA) score, Kenya is a medium policy performer, and the indicative thresholds applicable in this case are an NPV of debt-to-GDP ratio of 40 percent, an NPV of debt-to-exports ratio of 150 percent, and NPV of debt-to-revenue ratio of 250 percent, a debt service-to-exports ratio of 20 percent, and a debt service-to-revenue ratio of 30 percent.

[8] Under *a combined shock* the 2010-11 forecasts for GDP growth, export growth, the percentage change in the GDP deflator, and the ratio of non-debt creating inflows to GDP are concurrently set to levels that are one half of a standard deviation below their respective historical averages.

- A *scenario of lower growth over 2009-13* shows external debt indicators only marginally above those in the baseline scenario.

- A *historical scenario* yields debt ratios that are better than in the baseline scenario. This result reflects the fact that when economic growth and foreign direct investment fall to their historical averages, the historical external current account deficit is also much lower than in the baseline scenario, and hence, the related foreign borrowing need is lower. This results in lower debt ratios than in the baseline scenario.

Section II Table 13: Summary –IMF 2008 External Debt Sustainability Assessment
(In percent of GDP)

	2008	2009	2010	2011	2012	2013
NPV of PPG External Debt						
In percent of GDP (threshold=40)						
Baseline	13.7	13.8	14.2	13.2	13.6	13.5
Combined shocks	13.7	20.3	28.1	25.7	25.9	25.3
In percent of exports (threshold=150)						
Baseline	53.2	56.2	54.9	52.9	52.0	50.0
Combined shocks	53.2	77.3	105.2	99.5	95.8	90.5
PPG External Debt Service						
In percent of exports (threshold=20)						
Baseline	4.5	3.9	4.,0	3.9	3.7	3.4
Combined shocks	4.5	4.1	5.2	5.8	5.4	5.0

Source: IMF

(e) Results of the 2009 IMF/IDA Public Debt Sustainability Analysis

118. **Although the baseline macroeconomic numbers were much less favorable in the 2009 IMF/IDA external Debt Sustainability Analysis (DSA), it reached the same conclusion as the 2008 DSA that Kenya's external debt indicators show that it faces a low risk of debt distress.** The assumptions underlying the 2009 DSA are in Box 4.

Box 4: Assumptions underlying the 2009 DSA

1) The real GDP growth is projected at 3 percent in 2009, followed by an average growth of about 5½ percent during 2010-14, and just above 6 percent during 2015-29. These numbers were much higher than the historical average of 3.7 percent annual growth during the 10 years preceding 2003. However the IMF realized that there was a risk that the constraints to growth--including infrastructure bottlenecks and the need for further improvements in the business environment—would prove binding in he medium-term. Hence, it provided an additional scenario that assumed real growth for 2010-14 was one standard deviation lower than the baseline scenario, or just over 2½ percent.
2) Average inflation of about 7 percent for 2009-14 as measured by the GDP deflator, which then falls to 5 percent for the period 2015-29.
3) A constant real exchange rate is assumed for the medium-term, with some appreciation in the longer run reflecting sustained high growth and improved productivity.
4) The non-interest current account deficit of 6.3 percent of GDP in 2008, reflecting primarily the higher oil prices, falls to an average of about 4 percent during the 2009-14 period and then to only about 1 percent during the 2015-29 period. The trade account deficit declines from about 13 percent of GDP in 2008 to just 3.5 percent of GDP in 2029.

119. **Under the baseline scenario, Kenya's external debt indicators show a low risk of debt distress.** Kenya's initial debt ratios are well below all of the indicative thresholds and decline somewhat throughout the forecast period. External borrowing is projected to increase during 2008-10, but new obligations would fall gradually as a share of GDP thereafter. The improvement in the baseline scenario reflects a favorable trade balance as a result of a fall in the share of imports to GDP and a recovery of the export ratio in the long run. Infrastructure investments (financed partly through an assumed increase in external assistance) and structural reforms being implemented to improve the environment for the private sector are expected to boost productivity and support export and overall growth.

120. **Kenya would remain under its indicative external debt stock and debt service thresholds under all of the alternative scenarios and stress tests included in the DSA.** The most extreme stress test assumes shocks over the period 2010-14, combining lower GDP growth, weaker exports, a lower GDP deflator, and a fall in non-debt creating flows (as explained in footnote 3 above). Under this scenario, the NPV of public external debt as a share of GDP would rise from 11.8 percent in 2009 to 19 percent in 2014, and during the same period the NPV of external debt-to-exports ratio would rise from almost 48 to 68 percent and the NPV of external public debt-to-revenue would rise from 54 to 89 percent. All of these ratios would remain less than half of the indicative threshold levels. Between 2014 and 2029, all three of these debt stock measures would improve with ratios only somewhat worse than under the baseline scenario by the end of the projection period. The combined stress shocks described above would raise the foreign debt service-to exports and the debt service- to revenue ratios marginally, but both would remain at least 80 percent below the indicative threshold levels throughout the projection period (see Section II Table 14 and Annex Table 1b from IMF EBS/09/71 Supplement 2).

Section II Table 14: Summary –IMF 2009 External Debt Sustainability Assessment
(In percent of GDP)

	2009	2010	2011	2012	2013	2014
NPV of PPG External Debt:						
In percent of GDP (threshold=40)						
Baseline	11.8	11.2	10,6	10.9	11.2	11.5
Combined shocks	11.8	14.6	18.6	18.6	18.9	19.1
In percent of exports (threshold=150)						
Baseline	47.9	51.0	50.5	51.5	50.9	51.0
Combined shocks	47.9	56.9	69.6	69.6	67.6	66.6
PPG External Debt Service:						
In percent of exports (threshold=20)						
Baseline	3.5	3.3	3.3	3.2	3.1	2.9
Combined shocks	3.5	3.4	3.7	3.9	3.7	3.4

Source: IMF; about 2 percent of the total external debt is private and not shown above

121. **The other stress tests have less impact than this combined stress test.** The alternative stress test of a one-time 30 percent nominal depreciation of the currency

relative to the baseline in 2010 has the following results: a NPV of debt- to-GDP ratio of 15 percent in 2029, compared to the baseline figure of 11 percent, a NPV of debt-to-exports of 44 percent in 2029, the same as in the baseline scenario, and a NPV of debt-to-revenue ratio of 70 percent in 2029, compared to 52 percent in the baseline scenario.

122. ***As in the pre-crisis DSA calculations done by the IMF in 2008, the "historical"*** **series, which uses the 10-year average performance of key economic variables instead of the baseline assumptions, yields debt ratios that are better than in the baseline scenario.** The better debt profile reflects primarily the fact that the historical average of non-debt creating inflows exceeds the annual flows used in the baseline projections by almost ¾ percentage points of GDP per year. The ensuing reduction in borrowing needs leads to lower foreign debt ratios than under the baseline scenario

123. Under the baseline scenario, the NPV of total public debt-to-GDP ratio was 31.1 percent in 2008 (see IMF EBS/09/71 Supplement 2 Annex Table 2a). Public debt includes both the foreign debt and domestic debt. The ratio gradually increases to over 33 percent in 2019 before declining to less than 31 percent in 2029, while the public debt-to-revenue ratio increases from 136 percent in 2009 to a high of 150 percent in 2019 before declining back to 136 percent in 2019. The measure of the NPV of public debt combines the NPV of foreign debt and the nominal stock of domestic debt (on the assumption that there is no grant element in the latter). The IMF also provided data for its baseline scenario for public sector debt measured in terms of its nominal value for both foreign and domestic debt. The public debt to GDP ratio was 40.4 percent in 2008, which is more than 9 percentage points of GDP higher than the level of NPV of public debt to GDP ratio. Under the baseline scenario the public debt-to-GDP ratio increases to 43.5 percent in 2009, but then gradually declines to 37.5 percent in 2029. The IMF proposes that it would be appropriate to use an indicative threshold level of 35 percent for the public debt-to-GDP ratio as a guide for Kenya's fiscal policy. This is discussed in some detail in a later section of this report. There are no generally accepted indicative thresholds for either measure of public debt. In the baseline scenario, the debt service to revenue ratio, which includes debt service on longer-term domestic debt (one year or over) and external debt, increases from 25 percent in 2008 to 27 percent in 2011 and then gradually declines to 19 percent in 2029.

124. **Alternative stress tests indicate that slower growth would significantly increase the public debt ratios that have been discussed above.** Real GDP growth at the historical average of 3.7 percent minus one standard deviation would result in the NPV of debt to GDP ratio rising to 40 percent in 2019 and 48 percent in 2029 (see IMF EBS/09/71 Supplement 2 Table 2b). A similar result is obtained if GDP growth is assumed to be permanently lower at the baseline level minus one standard deviation. Permanently slower GDP growth would have a similar impact by raising the NPV of public debt to revenue ratio, with the level rising to about 215 percent in 2029 compared to 136 percent in the baseline scenario. The permanently slower growth scenarios would also raise the public debt service to revenue ratio from 25 percent in 2009 to about 30 percent by 2029. Thus even if the debt threshold indicators formulated as a guide to the sustainability of just public external debt alone were used as a guide to judging the

sustainability of public debt under the stress tests, the only one that is a problem is the total public debt to GDP ratio which reaches levels above the 40 percent threshold. The public debt to revenue ratio would remain well under the 250 percent threshold throughout the period, while the debt service-to-revenue ratio would just reach the threshold of 30 percent in 2029. .

(f) Alternatives to the 2009 IMF/IDA baseline macroeconomic scenario

125. **We expect the real growth rate in 2009 to be lower than projected by the IMF;** we project a growth rate of 2 percent compared to their 3 percent. There are two main reasons for our lower number:

- **The long rains in April to June 2009 have turned out to be much poorer than was expected** at the time the IMF made its forecast. It now looks like there will be little recovery in agricultural production from its weak performance in 2008.
- We also took into account the weaker global economic growth forecasts of the IMF and the World Bank. At the time the IMF was making its 2009 forecast for Kenya, the IMF World Economic Report had just forecast a 1.3 percent decline in the real GDP of the world economy during 2009, but by June the World Bank forecast a decline in real growth for the world as a whole of 2.9 percent. This is likely to reduce the prospects for Kenyan exports and tourist receipts.

Table 15 below provides a comparison of the projections of basic economic variables between the 2009 IMF baseline DSA and our (Kenya team) baseline DSA

Section II Table 15: Comparison of IMF and Kenya Team Main DSA Baseline Projections

Growth rate and ratios in percent	2009	2010	2011	2012	Average 2013-17	Average 2018-29
IMF-DSA						
Real GDP growth rate	3.0	4.0	5.0	6.3	6.5	6.0
Investment/GDP (ICOR = 4.0)	12.1	16.0	19.8	25.0	25.8	24.0
Govt. Investment)/GDP	9.0	9.0	9.0	9.0	9.0	9.0
Private investment/GDP	3.1	7.0	10.8	16.0	16.8	15.0
Gross national savings/GDP	8.4	11.2	15.1	20.4	22.7	23.2
Government savings	3.7	4.1	4.5	4.8	4.9	5.3
Private savings	4.7	7.1	10.6	15.7	17.8	17.8
Current account balance/GDP	-3.7	-4.8	-4.7	-4.6	-3.1	-0.8
Kenya team - DSA						
Real GDP growth rate	2.0	3.5	4.3	5.0	5.2	5.4
Investment/GDP (ICOR = 4.0)	8.0	14.0	17.2	20.0	20.8	21.6
Govt. Investment)/GDP	9.0	9.0	9.0	9.0	9.0	9.0
Private investment/GDP	-1.0	5.0	8.2	11.0	11.8	12.6
Gross national savings/GDP	3.9	10.2	13.2	15.8	17.6	19.3
Government savings	3.7	4.5	4.6	4.7	5.4	5.7
Private savings	0.2	5.8	8.6	11.2	12.2	13.6
Current account balance/GDP	-4.1	-3.8	-4.0	-4.2	-3.2	-2.3

126. **We expect the world economy to grow at a slower pace during the next two decades than was the case during the 2003 to 2007 period. Thus, we feel that it will be hard to replicate the high growth rate of the Kenyan economy during the 2003 to 2007 period.** Like the IMF staff we have taken the IMF and the World Bank's assessments of the global economic situation as a starting point for our work on Kenya. However, our views about Kenya's current economic situation and how its future prospects are likely to be affected by the global economic environment are different from those of the IMF. For this reason, our projections for growth and the external current account beyond 2009 differ from those of the IMF. These key differences are:

- We project a slower recovery in the growth rate in Kenya in the 2010 to 2012 period and the remainder of the DSA analysis period to 2029 (see Table 12 above).
- In the period up to 2012, we project a somewhat smaller current account deficit than the IMF, reflecting our lower forecasts for the ratio of investment to GDP and economic growth (see Table 12 above). Our investment forecast takes into account the poor prospects for an early recovery in official and private capital inflows. With the recovery of the economy in later years, we project the ratio of the current account deficit to GDP to rise noticeably above the IMF projection. This is because in our scenario, the average ratio of exports to GDP (23.0 percent) is noticeably less than the IMF projection (24.7 percent). At the same time, we project just a slightly lower import to GDP ratio throughout the DSA period.

- Compared to the IMF's projections, we have assumed a lower long-term growth rate from 2013 onwards mainly for three reasons. The IMF's post- crisis projections for the exports of goods and services/GDP and the overall investment/GDP ratios in 2012/13 are lower than their respective pre-crisis projections by about 5 percentage points of GDP and 4 percentage points of GDP, respectively. Despite the significant reductions in these two ratios, which had contributed importantly to the improved growth performance of the period 2003-07, the IMF maintained its post-crisis growth forecast for the period beginning 2013 and beyond at 6.5 percent initially and later 6 percent (the same as the pre-crisis growth forecast). We were more cautious and reduced the growth rate to reflect the lower exports of goods and services/GDP and investment/GDP ratios. Secondly, compared with its pre-crisis forecasts of the private investment/GDP and private savings/ GDP ratios for 2012/13, the IMF's post-crisis forecasts of these ratios are about 4-5 percentage points of GDP lower. The lower ratios of private investment and private savings to GDP would most likely imply lower growth in the private sector than previously forecast. [9] Lastly, the existing record of average annual growth rates is 1.9 percent during 1997-2002 and 5.3 percent over the recent period 2003-07; and in the IMF's latest DSA, the 10-year historical average growth rate is indicated as 3.7 percent per year (with a standard deviation of 2.4). We took into account these considerations, as well as the existing uncertainties surrounding the political situation and the bottlenecks in the Government's economic decision-making processes, in developing our growth forecasts.

127. **We project larger budget deficits than the IMF during 2011 and 2012, as we expect expenditure to GDP ratios to stay high in the approach to the 2012 elections.** While the 2009/10 budget was presented as providing needed fiscal stimulus to offset weak domestic private sector demand and a weak international economy, it appears to encompass a number of populist expenditure measures and revenue rate reductions. The perpetual effort to balance political power within the grand coalition government is likely to continue to make it difficult to take efficient economic policy measures. The virtual doubling of the number of ministers and assistant ministers under the grand coalition government and the accompanying splitting of a number of ministries has impaired cooperation not only among the politicians but also within the civil service. This is unlikely to improve before the next election scheduled for 2012. The ongoing divisiveness of the coalition government on a number of important issues, make it conceivable that it will breakdown in the near future and result in increased uncertainty until new elections are held. However, it appears more likely that the coalition will survive until the next elections in late 2012. Members of Parliament, and especially the numerous ministers, are unlikely to wish to risk their jobs in an early election. They have probably the highest compensation levels of any members of Parliament in African countries and they are comparable to levels in many advanced countries. Moreover all Kenyan politicians have noted the pattern in the last election of more than 50 percent of the incumbents losing their seats in Parliament, including many prominent politicians who in the past had been able to maintain their seats with lavish campaign expenditure to curry favor with the voters.

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[9] It should be noted that the ICOR underlying both our and the IMF growth forecasts is 4.0 (see Table 15).

128. **Unless the inefficiencies associated with the coalition government are addressed in the period up to 2012, it will probably be difficult to replicate the extensive improvements in the regulatory and administrative environment that contributed to the rapid economic growth during the 2003 to 20007 period.** We expect the budget deficit to be much higher in both 2011 and 2012 than the IMF. In the later years we forecast a deficit of 5.1 percent of GDP (about the same as we project for 2009) compared to 4.3 percent projected by the IMF. We expect the level of expenditure to be only a bit lower in 2011 and 2012 than the high level of budget expenditure that is planned for 2009 and 2010 on fiscal stimulus grounds. Even if the need for fiscal stimulus has disappeared or diminished greatly, high levels of expenditure are likely to be motivated by seeking to gain voter support for the forthcoming elections. Thus we project the budget deficit to GDP ratio to remain at about 5 percent throughout the period 2009-12, while the IMF projects a decline to 4.2 percent in 2012. Both the IMF and we project the same gradual reduction in the level of expenditure as a ratio of GDP and a corresponding reduction in the deficit to GDP ratio in the period beyond 2013. In both the scenarios, the ratio of development expenditure to GDP is set at 9 percent of GDP, which is a modest 1 percentage point higher than the ratio in 2008,[10] so that the reduction in the overall expenditure/GDP ratio would be achieved through savings in current expenditures (see Table 15 above). We both project the revenue to GDP ratio to remain little changed throughout the period of the DSA.

(g) A Critique of IMF Assessment of Kenya's Public Debt Policy

129. The indicative thresholds for external debt ratios that have been formulated by the IMF/IDA are widely used and accepted for assessing the capacity of countries to service and repay foreign currency debt. The main focus of the foreign debt indicative threshold ratios has been on the capacity of countries to repay the debt. This is understandable because a number of countries have defaulted on their foreign currency debt and but for extraordinary debt forgiveness and rescheduling by donors, many other African countries may have defaulted on their foreign currency debt during the past 15 years. However, **there has been little progress with defining appropriate indicative threshold ratios for total public debt, which includes domestic as well as foreign debt.**

130. **The notions of debt sustainability and risk of default are much less relevant for domestic currency debt, and therefore for total public debt.** There have been almost no cases of default on domestic currency debt, since countries can merely print money to repay the debt. Thus, the risk for domestic currency debt is that inflation in the country becomes very high and the real value of the debt is greatly diminished by the time it is repaid. Prolonged sharp increases in the rate of inflation result in sharp increases in market rates of interest, which reduces the value of the outstanding stock of local currency debt. If inflation becomes extremely high, the domestic debt becomes virtually worthless. High levels of inflation and interest rates also have an adverse impact on the efficiency of the private sector and impede economic growth. It should be noted that the

[10] This modest increase reflects the existing constraints of absorptive capacity and the political governance concerns that need to be addressed to facilitate an increase in aid disbursements.

distinction between foreign and domestic debt is not whether a resident or a foreigner holds the debt, but whether the debt is denominated in foreign currency or domestic currency.

131. **In order to avoid inflation it is important for the stock of domestic debt to not increase rapidly or for its level to become so large that it results in high real interest rates and crowds out the private sector.**[11] A large stock of local currency debt relative to GDP or the size of government revenue also becomes undesirable because it reduces the relative amount of money available for other forms of budget expenditure. The main objective with regard to the rate of growth of domestic debt and its level relative to GDP is that it not make it impossible for monetary policy to achieve its objective of containing inflation to reasonably low levels without having to resort to excessively high real interest rates.

132. **It would be useful to be able to define an indicative threshold ratio for the stock of total public debt and perhaps for the stock of domestic debt that would provide a useful guide to debt policy making in Kenya.** In the 2008 IMF reports which accompanied the Article IV Paper the IMF team suggested that an appropriate level for the public debt to GDP ratio was about 35 percent. This was based on cross-country econometric analysis. It was not clear why the threshold was in terms of the gross stock of both foreign and domestic debt rather than in terms of the net present value of public debt, which discounts the gross value of the external currency component of public debt that is on concessional terms. This appears to be a more useful concept and is used in setting the DSA indicative threshold levels for foreign currency borrowing. [12]

133. **The IMF did not attempt to suggest an indicative threshold for any public debt stock or debt service ratio.** The public debt to GDP ratio in 2007/08 was about 39 percent so the IMF urged that the medium term objective be to reduce this ratio to 35 percent. We are not persuaded that this is an appropriate threshold for Kenya. At the time it was proposed, and at present, there were low real interest rates on both external and domestic debt and it did not appear that it was the level of public debt that was the cause of the fairly high level of inflation at the time, which came mainly from imported fuel and food items. Also, if it is really believed that the threshold for the total public debt to GDP ratio should be 35 percent, the indicative threshold for the net present value of foreign debt to GDP ratio should presumably be lowered from 40 percent. However, it is more important to focus on setting the budget deficit and associated domestic financing levels in each budget at levels that contribute to keeping inflation reasonably low. In a non-inflationary environment, so long as the growth rate generated by the use of the

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[11] This is different from the current circumstances of some countries of the world today, where because private demand for goods and services and credit has declined significantly, governments can have a temporary sharp increase in domestic borrowing (and government expenditure) without causing inflation.

[12] Appendix Table B2a which is from the IMF report indicates that the actual public sector debt to GDP ratio for 2007 was 39.6 percent and that the present value of public sector debt to GDP ratio was 16.8 percent, which appears to be a mistake, because the same two ratios for 2008 are given as 40.4 and 31.1 percent, which is a much smaller difference than in 2007.

borrowed resources exceeds the interest rate or the cost of borrowing, the level of the debt stock to GDP ratio may not be a matter of concern, especially if the initial level of the debt/GDP ratio is already at a manageable level. Hence, we believe that over a medium to long-term period the total public debt to GDP ratio could reasonably be expected to stabilize at a higher level than 35 percent if macroeconomic stability is maintained and public resources are used efficiently for growth-enhancing projects.

134. **An additional question is whether it is useful to define an indicative threshold for some debt service ratio for total public debt.** If this were done, the most appropriate ratio would probably be either the public debt service to revenue ratio or the interest payments to revenue ratio. In the DSA, foreign debt service has been defined to include both interest payments and gross principal repayments during the year. For domestic debt service it would make sense to measure just interest payments as a ratio of revenue, because, with a lot of short-term debt, it is not clear what should be defined as repayment of principal. What is important for domestic debt is the amount of interest to be paid and the net increase in the stock of domestic debt, not gross principal repayments. There is also an issue of how to measure domestic debt service. The IMF measures only debt service on long-term instruments. It does not indicate how it defines long term, but it is very likely that it includes all Treasury Bonds with a maturity of one year or longer, and excludes debt service on Treasury Bills which have maturities of 3 or 6 months. There does not appear to be any good reason to exclude interest payments from Treasury Bills in the measure of debt service payments. Given the conceptual ambiguity of what should be measured, it would be very difficult to define an indicative threshold for some ratio involving total public debt service. Nonetheless, this issue is discussed further later on.

(h) Grants and Loans from Donors

135. **The ratio of foreign grants to GDP is expected to increase from 1.2 percent in 2008 and 2009 to 1.5 percent in 2011 and then to decline gradually to 1 percent in 2029.** We have used basically the same numbers as the IMF assumptions for foreign grants and loans throughout the projection period. Foreign loans as a percentage of GDP is projected to decline slightly from 3.4 percent in 2009 and 2010 to 3.3 percent during most of the rest of the projected period. Since the major corruption scandals of the mid-1990s, Kenya has received lower levels of grants and loans than most African countries with similar per capita income levels. We expect this pattern to continue during the period up to 2029. If in the future, as compared to other African countries, Kenya were to successfully implement measures to reduce corruption significantly and its associated costs, it is likely that Kenya would get higher levels of grants and loans than are projected. This in turn would probably facilitate a higher level of economic growth.

136. **Although Kenya has a substantial margin for new foreign borrowing based on its relatively low debt indicators, it lacks the institutions and capacities needed to make good use of increased levels of foreign financing.** The capacity of both the political establishment and the civil service to effectively distinguish high value projects remains limited and in need of improvement. Thus, until Kenya has developed this

institutional capacity to do this well on its own, it would be both prudent and helpful for JICA to assist Kenya in choosing projects with high economic returns that are worthy of support as well as in monitoring and helping with the implementation of projects for a number of years. In this context, an increase in JICA's level of concessional lending could be very beneficial to Kenya.

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Section III: DSAs with Alternative Scenarios and Analysis of Foreign Borrowing Capacity

1. DSAs based on Alternative Scenarios

(a) Assumptions underlying the Alternative Macroeconomic Scenarios of the Kenya team

137. **Using the alternative to the IMF/IDA baseline macroeconomic scenario that was developed in detail in Section II above, we have carried out a new set of DSAs.** Three sets of DSA results are presented in this section. Before discussing these results, it is important to note three issues that affect comparisons of our results with those of the IMF/IDA DSA. These are the following:

- We used our baseline macroeconomic scenario of Section II after adding an assumption about the path of the nominal exchange rate of the Kenya shilling (Ksh) that is different from that assumed in the IMF/IDA DSA. The IMF/IDA assumption was that the average exchange rate expressed as Ksh/US$ would appreciate from about Ksh 84 per US dollar in 2009 to Ksh 74.3 per US dollar by 2013 and remain at that level for the rest of the projection period. In our DSA scenario, we have assumed that the exchange rate would depreciate from its current level of about Ksh 77 per US dollar to about Ksh 84 per US dollar by 2011 and remain at that level for the rest of the projection period.

- To highlight the benefits of relying on concessional yen loans instead of the commercial foreign borrowing assumed in the IMF/IDA DSA, we have redone our alternative DSA scenario to assess the benefits of replacing the envisaged commercial loans entirely with concessional yen loans.

- We have updated the last IMF/IDA DSA to include the most recent IMF disbursement ($ 209 million). For comparisons with our alternative DSAs, we have used this modified IMF/IDA DSA. In our alternative DSAs, we have also included this IMF disbursement.

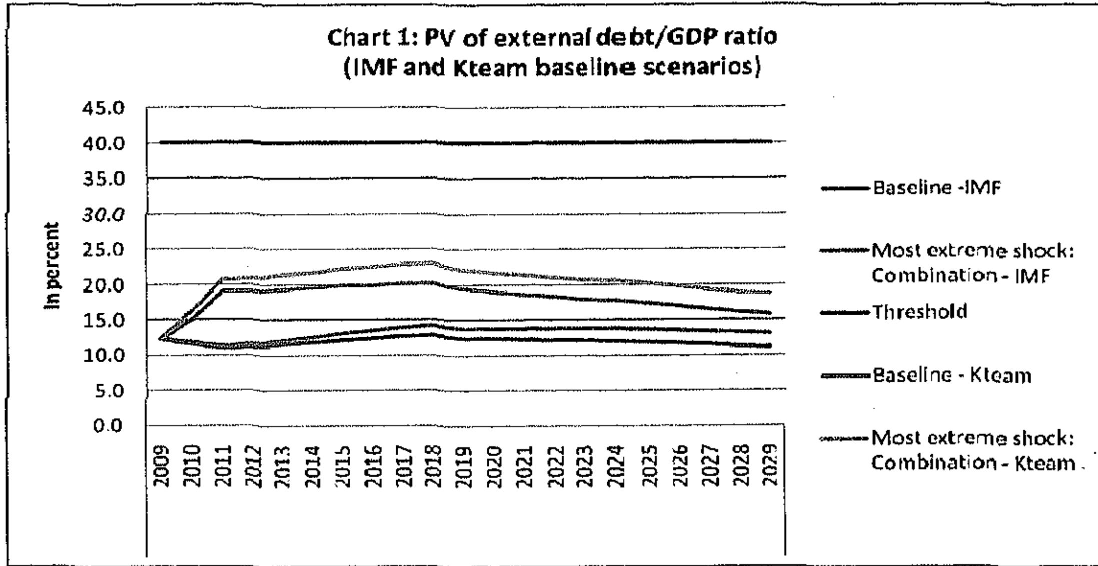
(b) Results of DSAs based on Alternative Scenarios

138. **Charts 1-3 below show that throughout the projection period external debt stock ratios to GDP, exports and revenue are higher in our baseline scenario relative to those of the IMF.** This is also true under the most extreme stress test of a combined shock.[13] Also noteworthy is that, even under our scenario, the debt stock ratios remain well below their respective thresholds. Our scenario yields higher ratios because fiscal and current account deficits are higher, growth forecasts are lower and the exchange rate is more depreciated than that of the IMF. Indeed, these factors drive all the results shown

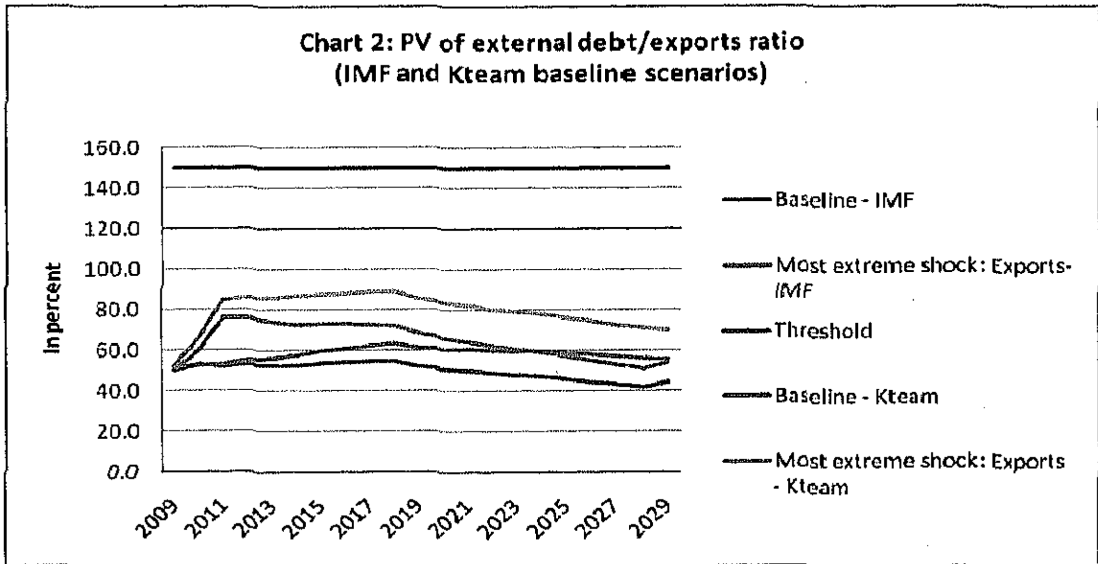
[13] A *combined shock* sets the real GDP growth rate, the export growth rate, the percentage change in the GDP deflator and the ratio of non-debt creating inflows to GDP at their respective historical averages minus one half standard deviation for the two years 2010-11.

in the charts below. (The data for all the charts which follow are in the Annex to this section).

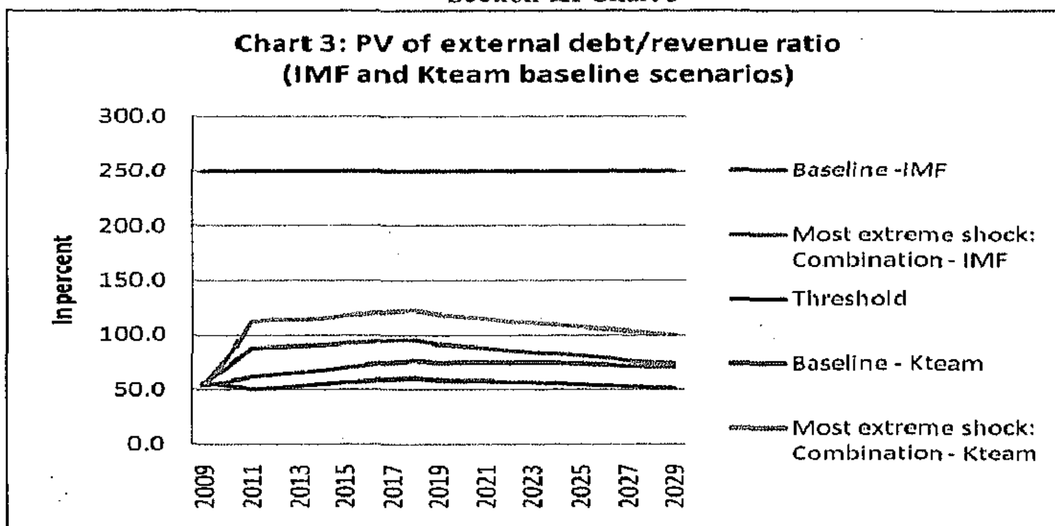
Section III Chart 1



Section III Chart 2

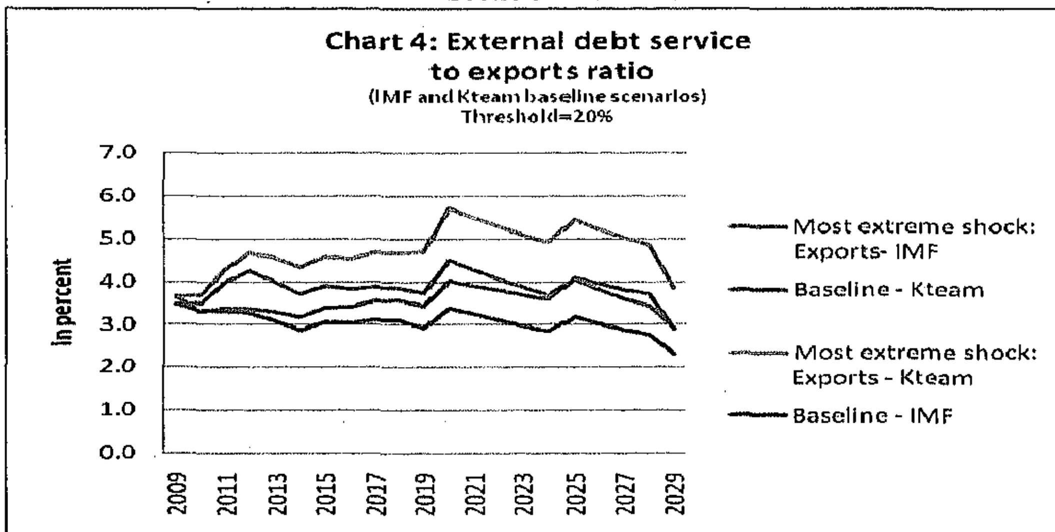


Section III Chart 3



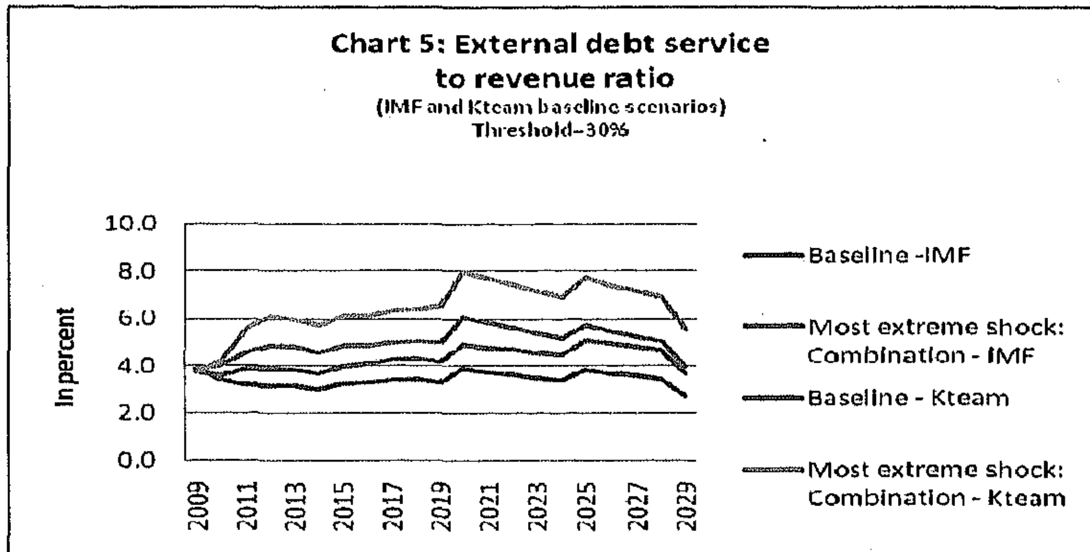
139. **For the same reasons, Charts 4-5 show that external debt service ratios to exports and revenues are also higher for our scenarios, including the most extreme stress test of an export shock.**[14] Nevertheless, these ratios are also well below their respective thresholds. One will also notice that all graphs of debt service ratios are saw toothed and have multiple spikes because each of the annual drawings of commercial loans are repaid in bullet payments after a 10-year interval.

Section III Chart 4



[14] An *export shock* sets the growth rates of exports during 2010-11 at the historical average minus one standard deviation.

Section III Chart 2



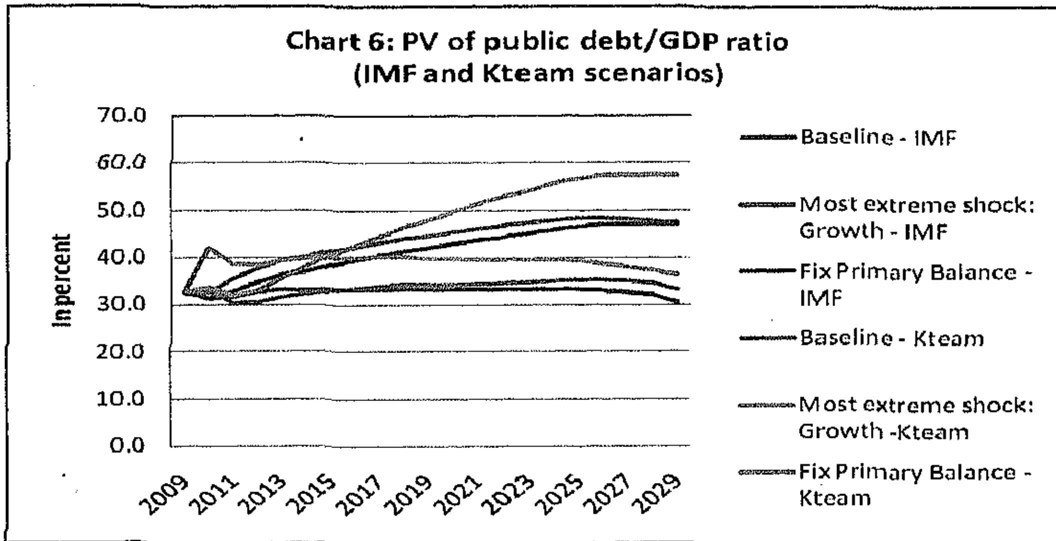
140. Before reviewing the DSA results for the total public debt and related debt service indicators, we would note that as explained in the previous section there are no policy-based thresholds by which to assess the results of DSAs of the total public debt. **Charts 6-7 indicate that the total public debt stock ratios to GDP and revenues are higher for our scenario than that of the IMF, and the same is true under the most extreme stress test of a shock to growth[15] and when the primary balance is fixed (that is, held constant) from 2010 onwards.** The main public debt DSA results of the two scenarios are the following:

- In our scenario, fixing the primary balance raises both debt stock ratios more than the most extreme stress test of a lower growth rate. This is because holding the primary balance constant at our projected 2010 level increases the debt stock/GDP ratio more than a temporary 2-year shock to the growth rate. The IMF has lower projected deficits in their scenario, and hence, smaller foreign borrowing requirements over the projection period. For this reason and also because a 2-year growth shock lowers the level of GDP below its baseline path throughout the projection period, in the IMF scenario a growth shock increases the debt stock ratios more than holding the primary balance constant. In the initial years, in our scenario the debt stock ratios spike quite sharply under a growth shock because of a shift to a more depreciated exchange rate relative to the IMF assumption; however, the effect of this one-off event soon dissipates over the projection period.

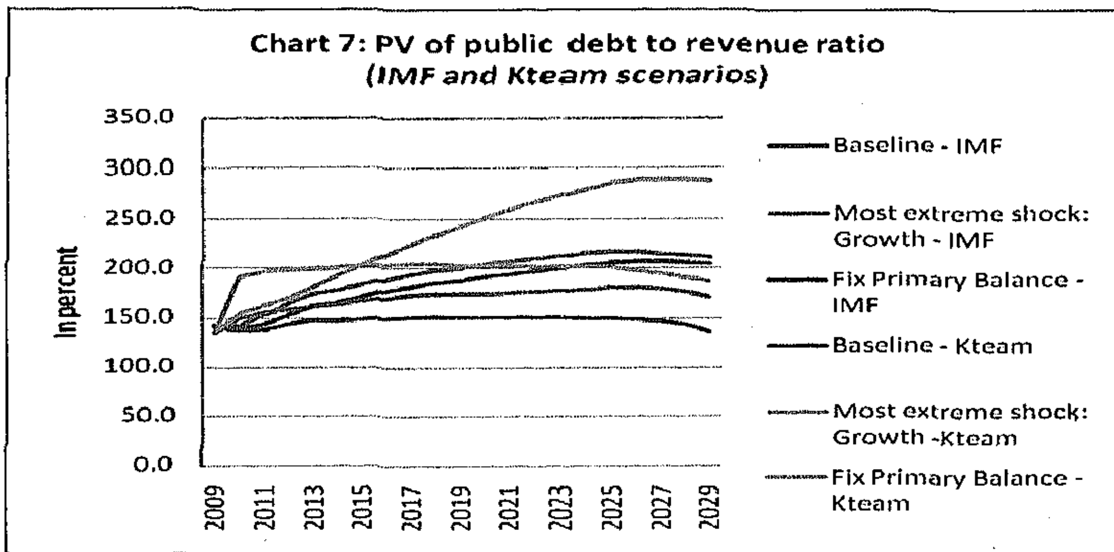
- In both scenarios, the ratios of the external debt stock to revenue and GDP trend upwards over the projection period to reach fairly high levels. For example, under our scenario the former goes well above 50 percent and the latter exceeds 250 percent when the primary balance is fixed.

[15] A *shock to growth* sets the growth rate of real GDP during 2010-11 at its historical average minus one standard deviation.

Section III Chart 6

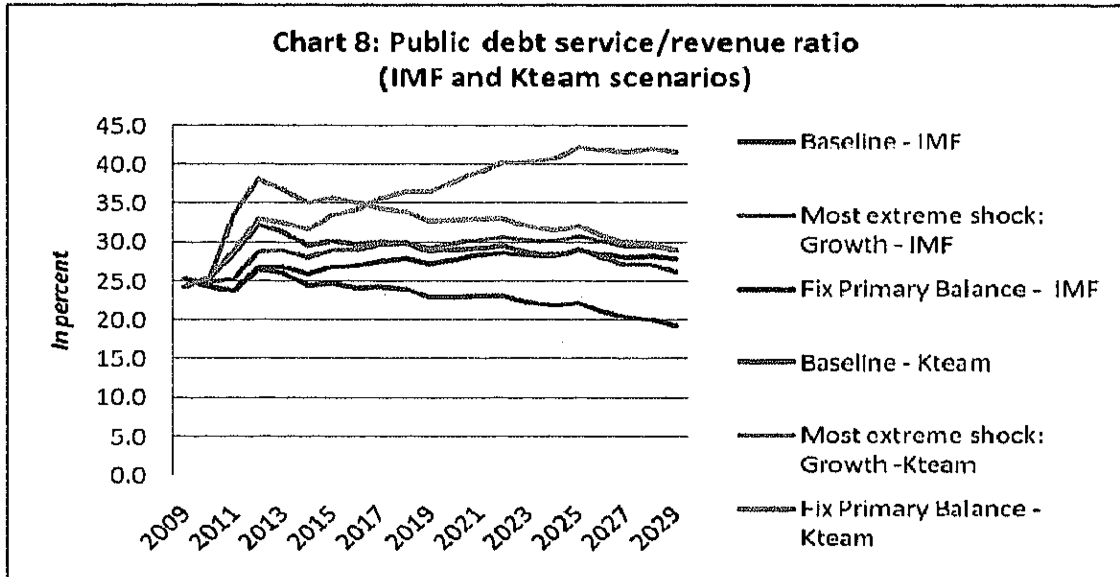


Section III Chart 7



141. **Chart 8 shows that the ratio of total public debt service-to revenues is higher under our scenario and the most extreme stress test than those for the IMF scenario.** Again, because debt service obligations rise with the cumulative effects of successive deficits and more borrowing, it produces the largest increases in the total debt stock and related debt service ratios over the long run. Initially, these ratios spike up more under a growth shock in both scenarios, but more so in our scenario because of the exchange rate depreciation.

Section III Chart 8

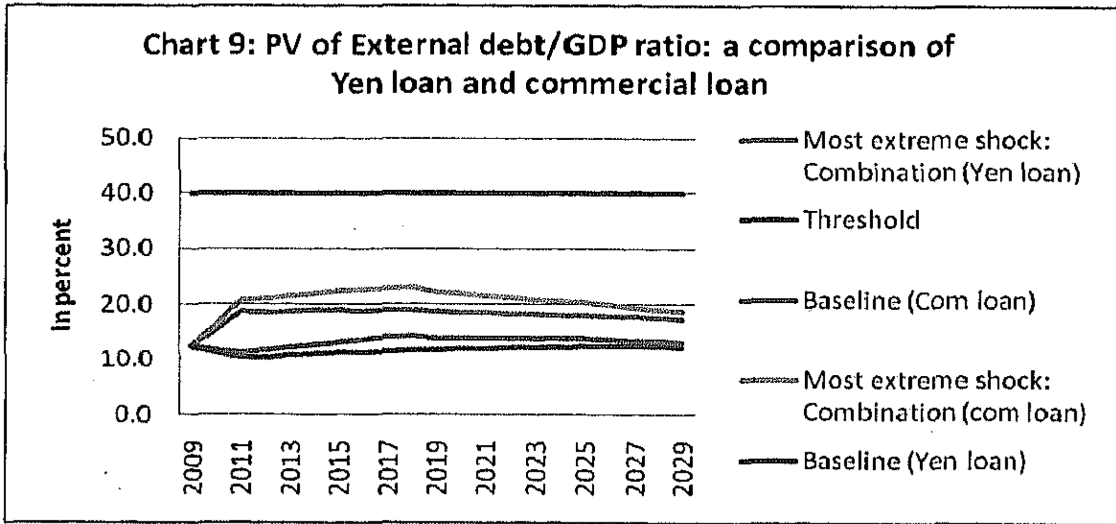


142. **To compare the impact of the planned commercial borrowing on debt indicators with that of similar amounts of concessional Yen loan disbursements, we conducted two DSAs with our scenario: one including the commercial loans and no new Yen loans, and another including Yen loans and no commercial loans.** The Yen loans are assumed to have a grace period of 10 years, a maturity period (inclusive of the grace period) of 40 years and an annual interest rate of 0.2 percent. It has a grant element of 66.3 percent of the face value of the debt. For the commercial loans we have assumed that the maturity period is ten years (including a grace period of 9 years), repayment is made in one bullet payment after the expiry of the grace period and the interest rate is 8 percent. The time profile of both kinds of loan disbursements was assumed to be the same: US$ 0.2 billion each year during 2010-14, US$ 0.4 billion each year during 2015-18 and during 2020-22, and US$ 0.5 billion each year during 2023-29.[16] The results of these DSAs are shown in Charts 9-14 below. The main points to note are the following:

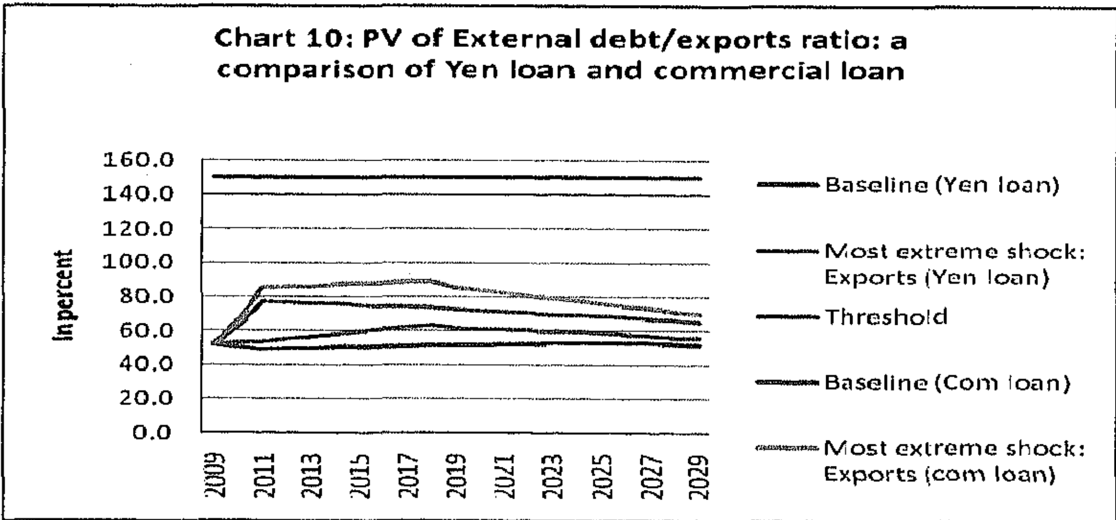
- All the debt stock and debt service indicators are higher for the commercial loan option than for the Yen loan option (Charts 9-11). This holds for both the baseline scenarios and the most extreme stress test results.
- The graphs for the external debt service ratios of the commercial loans show several spikes because along with periodic increases in the disbursements, each disbursement has to be repaid with a bullet payment after a 10-year period. The corresponding graphs for the concessional Yen loan are relatively flat (Charts 12-13).

[16] No disbursement is assumed in 2019.

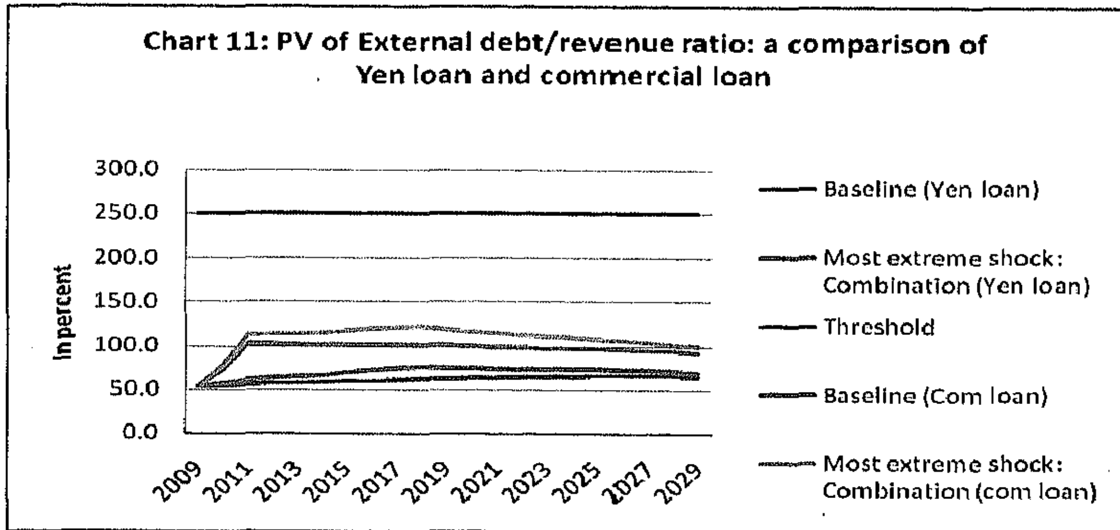
Section III Chart 9



Section III Chart 10



Section III Chart 11



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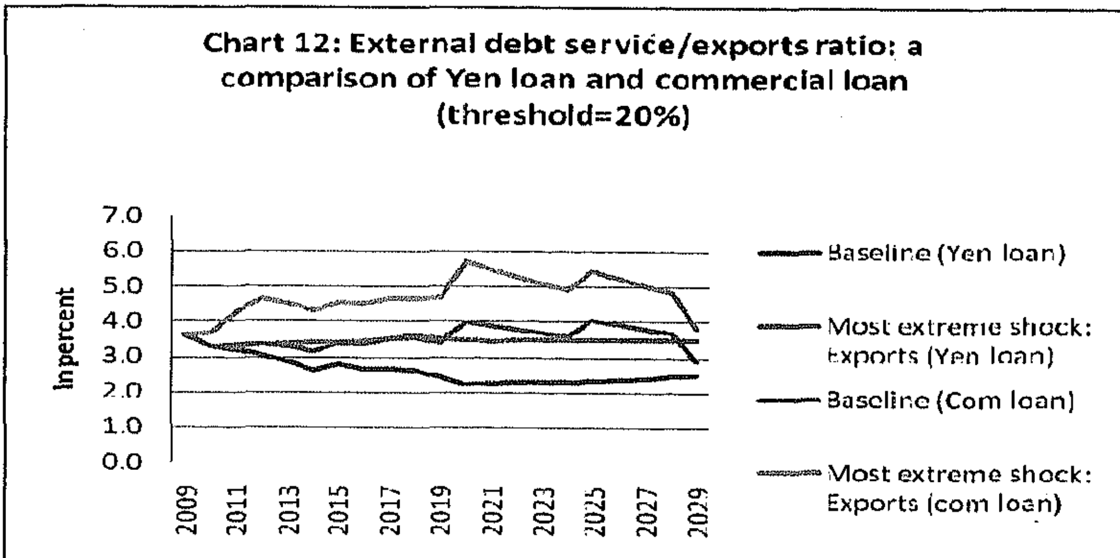
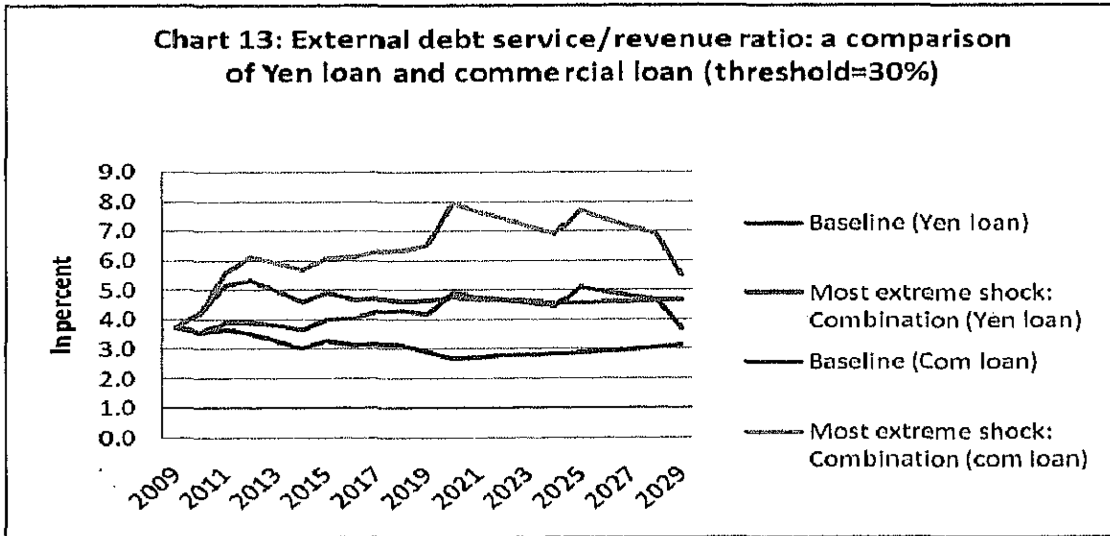


Section III Chart 13

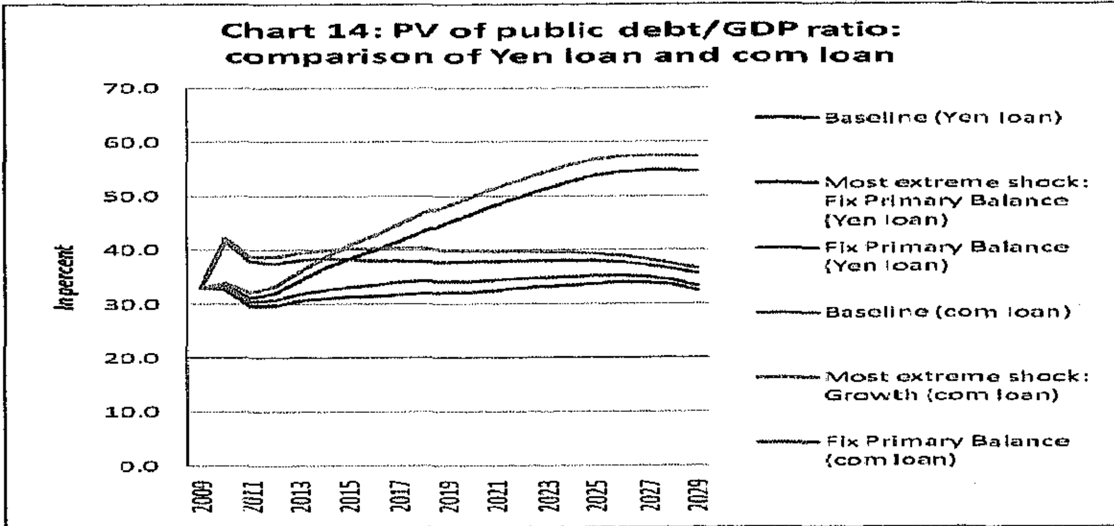


143. **Similar results emerge from the DSAs of total public debt (which includes both domestic and external debt).** Charts 14-16 show two notable results:

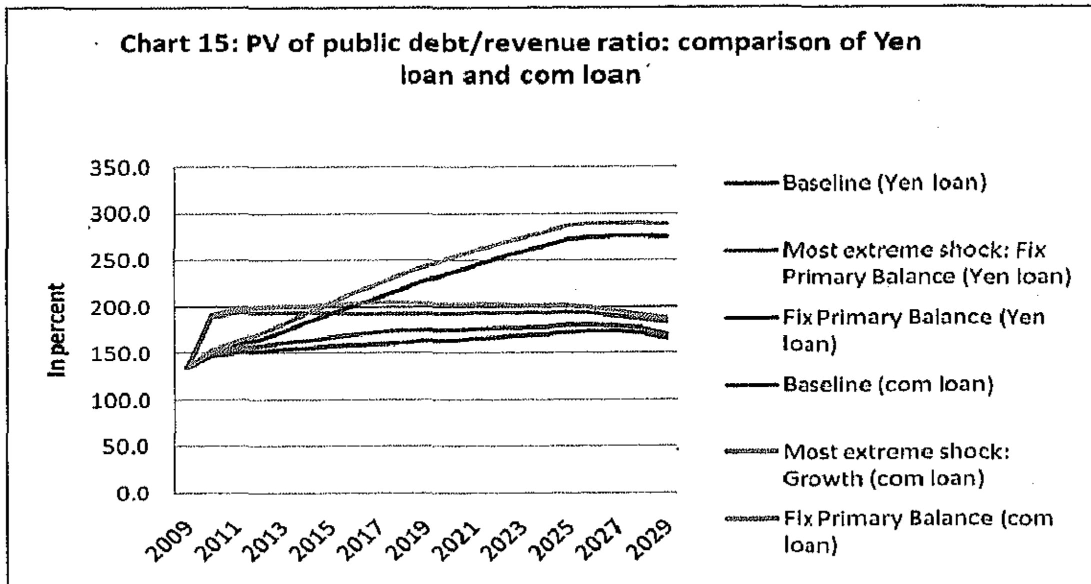
- Holding the primary balance permanently unchanged (fixed) from 2010 onwards raises the debt stock and debt service ratios sharply under both options. This is because the cumulative effects of successive deficits drive up overall borrowing, the debt stock and related debt service payments

- The increases in the debt stock and debt service indicators are much less pronounced when the ratio of the primary balance to GDP is held fixed only temporarily during 2010-11 at its historical average minus one standard deviation. This is because the latter increases the deficits above the baseline for only a temporary period of two years before they return to the baseline path. Hence, the cumulative effect of the initially higher deficits is not as large as the cumulative effects of a permanently higher path of deficits.

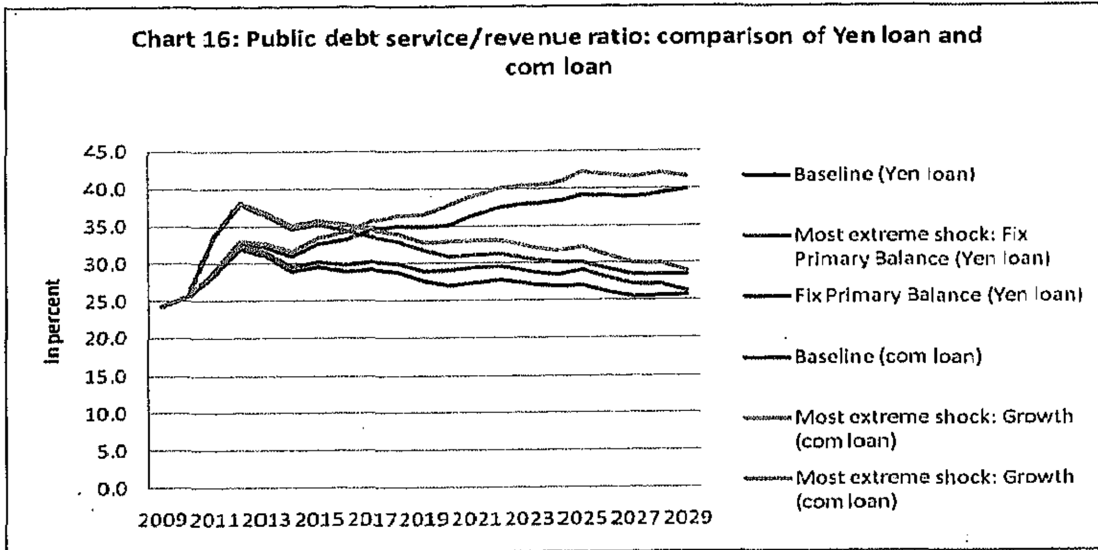
Section III Chart 14



Section III Chart 15



Section III Chart 16



144. **Finally, it is worth noting that the burden of total public debt service payments *(external and domestic)* is relatively large as a share of revenues.** The charts show that the ratio of public debt service/revenue increases to a range of 30-35 percent in the early part of the projection period even under the baseline scenarios (Charts 8 and 16). It rises above 35 percent when a temporary 2-year growth shock is applied to baseline scenarios and increases to 40 percent when the primary balance is held unchanged from 2010 onwards. In the latter case, the ratio of the NPV of total public debt to revenue rises to levels exceeding 250 percent (Charts 7 and 15).

2. Evaluation of Foreign Borrowing Capacity

145. **This sub-section focuses on assessing Kenya's external borrowing capacity.** The above DSA results show that even with substantial amounts of new borrowing (including reasonable amounts of commercial foreign borrowing) over a prolonged period Kenya's external debt indicators would remain well below the IMF/IDA thresholds (which exist only for external debt indicators). In principle, by looking at the margin that exists between the actual debt ratios and their corresponding thresholds, one could try to assess the potential scope for new borrowing that would be consistent with external debt sustainability. In light of this, we discuss the issue of external borrowing capacity first in the next sub-section. In the subsequent sub-section, we discuss the key constraints to new foreign borrowing, which include the policies that are needed to (a) mobilize and attract more foreign financing from both donors and private foreign investors, and (b) improve domestic absorptive capacity, strengthen the governance environment and productively use larger amounts of borrowed foreign resources than currently foreseen.

(a) Evaluation of Foreign Borrowing Capacity based on DSAs

146. **The earlier discussion of baseline macroeconomic scenarios and the related DSA exercise suggests that these two tools could be used to determine for any country an overall amount of external borrowing in present value terms that would be consistent with debt sustainability.** For example, if a country is 4 percentage points below its threshold level of the NPV of external debt-to-GDP ratio, then it could borrow an amount equivalent to 4 percent of its GDP in NPV terms, and the latter -- the estimated NPV of new external borrowing – would have to be divided by one minus the grant element to arrive at an estimate of the nominal face value of new external borrowing.[17] Within such a new external borrowing envelope, the potential nominal amount of the new borrowing would be larger the higher the grant element in such borrowing. The borrower could also have some flexibility in borrowing on different terms from various lenders, so long as the present value of new borrowing does not exceed the relevant limit.

147. **In principle, a similar approach could be used to derive the amounts that Kenya could borrow over any future time span without breaching the external DSA thresholds for the key external debt stock indicators.** One way of doing this would be to first identify the years when the DSA projections show that debt stock ratios peak and reach levels that are closest to their respective threshold values. Second to minimize the risk of excessive borrowing, one would choose the results of the stress test in which debt stock indicators come closest to breaching their threshold values, and then calculate the additional amount of foreign borrowing that could be safely undertaken without breaching any threshold. In Kenya's case, such an approach – namely, using the external debt indicators and their threshold values to calculate the margin for new foreign borrowing -- would produce very large amounts of potential borrowing. This result holds even with a long stream of commercial borrowing. *Thus, Kenya has an ample margin for new foreign borrowing, and even reasonable amounts of commercial foreign borrowing would not jeopardize debt sustainability.*

148. **While Kenya's external debt burden is clearly very manageable, the results of the analysis of the sustainability of total public debt (shown in Charts 14-16) suggest some need for caution in managing that broader measure of public debt (including both external and domestic).** This is because under certain stress tests the ratios of the total public debt stock to GDP and revenues rise to relatively high levels and the related public debt service payments represent a significant proportion of revenues (more than 40 percent).[18] Both commercial foreign borrowing and domestic borrowing (which is all on

[17] Thus, if GDP is Ksh 1000 billion, the NPV of new borrowing would be limited to Ksh 40 billion, and if the grant element was 50 percent, the nominal face value of new borrowing would be limited to Ksh 80 billion.

[18] Charts 14 and 15 show that fixing the primary balance raises the ratios of the NPV of public debt stock to GDP and to revenues above 50 percent of GDP and 250 percent of revenues, respectively. Chart 16 shows that even under baseline scenario assumptions, the public debt service/ revenue ratio rises above 30 percent in the initial years and under alternative scenarios and stress tests reaches the 35-40 percent range.

commercial terms) [19] would increase debt service payments more than an equivalent amount of concessional foreign borrowing. This would reduce the resources available for other budgetary priorities, including development expenditures. Another reason to be cautious in increasing the domestic public debt is to avoid pushing domestic interest rates to levels that could begin to crowd out the private sector. Hence, it would make sense to adopt specific fiscal criteria for all public sector borrowing.

149. **Such fiscal criteria could consist of guidelines for sound management of public debt and public expenditure:**

- *It would be important to set the budget deficit and associated domestic financing levels in each budget at levels that contribute to keeping inflation reasonably low.* Once a non-inflationary environment is established, debt sustainability can be achieved if the growth rate generated by the use of the borrowed resources exceeds the interest rate or the cost of borrowing. *This will require public resources to be used for productive and growth-enhancing projects.*

- *The authorities will need to persevere with their efforts to improve the efficiency of expenditures and revenue mobilization, and to better prioritize the use of existing public resources.*

- Since the domestic debt accounts for about half the total public debt and is all on commercial terms, total debt service payments are already absorbing a relatively large proportion of revenues. *In this situation, it would be desirable, when possible, to avoid (domestic or external) borrowing on non-concessional terms.*

- Foreign borrowing, *especially commercial foreign borrowing, should be justified in terms of their contribution to productive or productivity-enhancing projects, and accompanied by adequate safeguards against the misuse of funds.* To guard against the risks of misuse of public funds, it would be important to complete the envisaged fiscal expenditure management and governance reforms discussed earlier as soon as possible.

- *For Kenya, concessional foreign borrowing would provide multiple benefits.* A scaling up of Japan's concessional lending to Kenya could finance legitimate development programs and productive projects. In addition, a portion of Japan's new concessional lending could usefully be allocated for capacity building and technical assistance to address the absorptive capacity constraints and develop the project management institutions and skills that Kenya needs (which is discussed further in the next subsection). Access to concessional assistance would also help Kenya's efforts to prudently manage the domestic public debt, as it could be helpful in containing upward pressures on domestic interest rates, improving public debt dynamics, increasing the fiscal space for priority public expenditures, and avoiding "crowding out" the private sector.

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[19] The public sector's domestic borrowing has no grant element and therefore adversely affects debt dynamics in much the same way as a commercial foreign loan.

- *Kenya's foreign borrowing should be consistent with its Medium-term Budget forecasts and Development Expenditure Programs.* This is essential because it provides a framework for mobilizing support from the international donor community for the financing of the investment program and its accompanying package of key projects and policies. Kenya will need to work with all partners to achieve effective coordination among government, donors and creditors and to secure adequate and predictable external resources. Japan's new concessional lending to Kenya should be based on a realistic assessment of the country's budgetary forecasts and programs, its own process of "due diligence" to ensure that its funding will be used productively to meet concrete and pressing developmental goals, and productive cooperation and information sharing with other international (multilateral and bilateral) donors.

- *Finally, Kenya would also have to guard against the risk of falling prey to private lenders who might find it opportune to benefit from free-riding* (by lending on non-concessional terms while IDA and bilateral creditors are disbursing concessional loans). Free riding concerns are particularly worrisome when they are indirect in nature, such as when lenders extend non-concessional loans to public entities that are not bound by ceilings on non-concessional borrowing, or when lenders provide concessional loans in exchange for ownership rights to specific assets or to exploitation of natural resources (as for example, in the case of the China framework agreements). To address such free-riding concerns, consideration should be given to putting in place an appropriate legal framework that provides clear criteria for limiting the public sector's access to non-concessional loans from either commercial or official creditors.

150. Despite a disappointing record of corruption, three factors – political stability, macroeconomic stability and noticeable (although slow) progress in key areas of structural reform – had contributed to a strong economic recovery during 2003-07. At present at least two of these factors have suffered serious setbacks: there are major uncertainties regarding the degree of cooperation and harmony within the coalition Government and among the major political factions, and this has in turn slowed (if not immobilized) economic decision making. Faced with a major global economic slowdown and hit by a drought and high fuel and food prices, the macroeconomic situation has also weakened. **In this setting, it is legitimate to consider how JICA can provide some measure of support to Kenya to encourage it to gradually resolve its problems and get the economy moving again. It is in the latter context that we feel that the above fiscal criteria for new foreign borrowing would be useful.**

(b) Institutional and Other Constraints to Increasing Foreign Borrowing

151. **Large and growing financing needs are projected for Kenya over the medium and long-term,** which is somewhat worrisome given the uncertain prospects of significantly accelerating economic growth and diversification. The Government faces pressing demands to boost its budgetary programs for spending on essential infrastructure projects, combating HIV/AIDS and accelerating progress toward the MDGs. At the same time, the authorities also see little prospects of significantly raising the government revenues-to-GDP ratio. Alongside these demands and constraints facing the public sector,

there is also an urgent need to bolster private sector development and encourage it to play an active role in the growth process. IMF's baseline scenario estimates Kenya's gross financing needs to rise from US$ 0.4 billion (1.5 percent of GDP) in 2007 to an average annual level of US$1.5 billion (4.2 percent of GDP) during the 5-year period 2008-12.

152. **While the Government sees a need to substantially scale up its development spending, it faces significant institutional and capacity constraints to achieve such a scaling up.** It needs to (i) build an adequate capacity to assess the viability of potential public investments, (ii) establish a value-for money function within the government, (iii) develop the skills and internal governmental processes to ensure that project selection is based on a careful cost-benefit analysis, and (iv) put in place well trained staff who can manage, monitor and evaluate the implementation of major development projects. Such capacity building efforts would help to improve Kenya's relatively poor record of investment returns. The authorities should approach the World Bank and JICA to obtain the much needed support for creating the institutions and capacities for managing its development projects and programs.

153. **Given the potential difficulties of mobilizing the large financing needed for its development and investment programs in the current global environment, Kenya would have to rely on a balanced and prudent overall resource mobilization strategy.** The latter should involve parallel efforts to (i) boost domestic private savings by addressing the problem of negative real interest rates on bank deposits; (ii) introduce appropriate measures that would encourage inward private remittances to be channeled through domestic bond markets into more productive investments (than private real estate); (iii) continue to attract FDI through further improvements in the business environment and investment climate, and (iv) secure concessional foreign aid commitments (especially for the Government's education, health and poverty reduction programs, and essential infrastructure projects). It would also be important to press ahead with an appropriate domestic resource mobilization strategy for the public sector through appropriate policies aimed at improving the efficiency of government expenditures and raising revenues, and advancing the privatization program.

154. **In the past, the rates of return on investment have been relatively low, at least partly due to inadequate infrastructure and lack of other productivity enhancing projects.** Hence, support from public agencies could focus on mobilizing financial resources for such projects. The direct gains in productivity from implementing such public projects could also be enhanced over time as private investors respond to the benefits of improved infrastructure by increasing their investments. This approach has the potential of raising the country's total factor productivity and rate of return to investments to levels much higher than currently prevailing. Progress in this direction could also stimulate net private capital inflows, including foreign direct investment.

155. **The capacity to implement some productivity-enhancing projects, especially large infrastructure projects, is often constrained by problems in mobilizing the required financing, engaging the necessary managerial and technical know-how and obtaining the appropriate policy assurances required for their successful**

implementation. In such situations, a joint involvement of the Kenyan Government, the private sector and official and bilateral donors could be an efficient way of addressing the constraints to moving ahead with the project.[20]This is because the various stakeholders in the project can contribute to removing the constraints to the implementation of the project:

- In addition to providing a share of the financing, the Government can provide assurances regarding its policies with regard to the pricing of the services or goods derived from the project, and the regulatory environment. Such policy assurances (including safeguards against future policy reversals) would be important for investors.

- Bilateral official agencies could both provide financial support and help to catalyze financing from a variety of sources for such projects, if they are deemed to be a financially viable long term project. They could facilitate foreign direct investment through co-financing, equity participation and/or guarantees, as well as seek to be jointly involved with private sector and other official bilateral agencies.

- Multilateral development financing institutions such as the World Bank could also provide financing as well as help the Government explore (i) ways to use IFC, IDA and MIGA guarantees, to lower the costs of private financing and maximize the benefits of public/private partnerships for the country, and (ii) options for leveraging private finance for infrastructure investments.

- Private investors could provide a part of the financing as well as the managerial and technical know-how required for implementing the project.

- The joint involvement of all stakeholders – the Government, multilateral and bilateral lending agencies, and private investors and financiers – provides a basis for fair risk sharing and significant benefits from sharing information (a public good) on the project being financed. The latter includes the role of government regulatory and other policies with potential impact on the project, and of any oversight institutions required to monitor tariff adjustments or other policies relevant for the sales of the goods and services coming on stream after the project is completed. This information sharing is critical for addressing the problems of information asymmetry in relationships between lenders and borrowers, particularly to minimize the risks of adverse selection and moral hazard.

Through such an approach, the involvement of official agencies could help to broaden the engagement of domestic and foreign private investors and financial institutions across a broader range of sectors and projects, beyond processing activities.

156. **Since the World Bank's free riding policy does not apply to lending to private entities, Kenya should seek the help of donors, especially multilateral agencies like**

[20] The involvement of official agencies would be well justified in the case of projects that are expected to (i) generate beneficial spillover effects, including higher returns on private investments (externalities), (ii) yield social rates of return that exceed private rates of return (e.g., roads), and (iii) benefit from information sharing and risk sharing among all stakeholders (the Government.

the IFC, who are able to provide support for boosting foreign direct investment in the private sector.[21] This being said, even loans to the private sector would not be totally free of potential complications, because of perceived weaknesses of governance of many private sector entities in Kenya. Thus, special care should be taken to ensure that the private entities considered for such loans have strong internal governance, accurate and reliable accounting, and complete transparency.

157. Eventually, with adequate safeguards and due diligence in evaluating project proposals, **donors who can provide concessional loans to support private investment could play a critical role in Kenya:**

- As noted above, such loans could facilitate much needed foreign direct investment through co-financing, equity participation and/or guarantees. According to the World Bank (*Public Policy for the Private Sector*, Note No. 292 and 293), the "smartest" finance is foreign direct investment, and aid agencies now use a far greater array of instruments than in the past. Their instruments include concessional loans, dispute resolution, performance-based grants, and loans to the private sector, insurance and guarantees for private investors, equity investments in the private sector, and an array of stand-alone technical assistance.

- Such loans could catalyze funding from a variety of sources (potentially through syndicated lending, parallel lending and other forms of concerted international lending operations) for essential infrastructure and major sectoral and regional development projects. Public sector involvement, joint ventures and/or public/private partnerships could be justified for such projects, mainly because of their expected beneficial spillover effects (externalities), but often also because some of these projects upon completion may have to operate to provide public goods (and services) under a regulated monopoly environment.

158. **Kenya has a good payments record, which is a reassuring indication of its willingness and resolve to settle its debt obligations when they fall due.** Kenya's payments record both in the "lead-up" to and after each of the occasions of debt treatment and cancellation has been generally consistent with normal practice. It is useful to note that when a country enters in to program negotiations with the IMF in "good faith" it may accumulate arrears on debt payments because of the serious balance of payments difficulties it faces (especially in the period leading up to and during the negotiations). It is then usually expected that the regularization and/or settlement of such external arrears would be taken into account in the overall financing requirements of the eventual program that is agreed with the country. The arrears on external debt that were part of the Paris Club's debt treatments reviewed above were mostly of this nature, at least since the Paris Club debt treatment of 2004. More importantly, after the agreements on debt treatments were in place, the rescheduled claims were all fully repaid.

[21] In the previous section, we noted that concerns about *free-riding* arise when creditors lend on non-concessional terms while IDA and bilateral creditors are disbursing concessional loans. Free riding concerns are particularly worrisome when they are indirect in nature, such as when lenders extend non-concessional loans to public entities that are not bound by ceilings on non-concessional borrowing, or when lenders provide concessional loans in exchange for ownership rights to specific assets or to exploitation of natural resources.

Section I Annex Table A1. Kenya: Selected Annual Indicators

INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008
1.POPULATION									
People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30
Growth (%)	3.00	4.64	-4.21	3.11	2.54	2.50	2.85	3.05	1.08
2.NATIONAL ACCOUNTS									
GDP at Basic Price (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,527	1,443,981	1,610,831	1,852,263
GDP at Market Price (Ksh m)									
At Current Price	967,836	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,434	1,825,960	2,099,798
At Current 2001 Market Price	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.10	1.69
Per Capita Income Real 2001 price (Ksh)	33,283	33,767	31,828	31,825	32,443	33,478	34,608	35,989	36,525
3.GROSS NATIONAL SAVINGS (% of GDP at market prices)	*12.9*	*10.0*	*8.1*	*10.1*	*12.2*	*13.4*	*14.9*	*13.1*	*14.8*
4.GROSS DOMESTIC SAVINGS (% of GDP at market prices)	6.7	4.4	4.0	4.8	6.6	7.2	7.2	5.6	7.9
5.GROSS DOMESTIC INVESTMENT (% of GDP at market prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2
6.CONSUMER PRICE INFLATION (urban) 1997 BASE									
Average annual Inflation	10.01	5.87	1.96	9.82	11.62	10.31	14.45	9.76	26.24
Twelve-month Inflation (Dec.-Dec.) Revised	11.89	1.78	4.10	8.35	16.25	7.56	15.59	12.03	27.72
7.STOCK MARKET									
Nairobi Stock Exchange Price Index (1966-100)	1913.40	1355.10	1362.90	2737.60	2945.58	3973.04	5645.65	5444.83	3521.18
Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29
8.GOVERNMENT BUDGET (Ksh bn)									
Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	
Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	
Budget deficit (-)/ surplus (+)	7.57	-16.53	-22.32	-27.11	-18.62	5.72	-37.44	-21.61	
Budget deficit (% of GDP)	0.81	-1.66	-2.19	-2.51	-1.54	0.42	-2.39	-1.18	
9.MONEY AND CREDIT (Ksh bn) (End Period)									
Liquidity	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1092.01
Money Supply	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.13
Reserve Money	*77.73*	*79.12*	*88.45*	*87.52*	*101.05*	*106.23*	*124.16*	*155.62*	*163.59*
Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	808.50
Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32
Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	653.18
10.BALANCE OF PAYMENTS (US$ mn)**									
Overall Balance	108.21	186.38	3.26	413.33	38.85	280.11	616.44	939.56	-479.42
Current Account	-237.48	-383.39	-117.69	146.20	-131.76	-252.32	-510.44	-1034.48	-1978.35
capital and Financial Account	416.21	348.20	-31.67	537.82	239.52	765.99	884.59	2229.58	1171.72
11.FOREIGN EXCHANGE RESERVES (US$ m) END PERIOD	1398.72	1459.35	1612.69	1888.04	2078.40	2534.15	3331.30	4550.97	4640.78
Official	897.42	1063.82	1066.99	1479.75	1518.73	1798.82	2416.27	3354.85	2875.46
Months of imports	(2.8)	(3.2)	(3.3)	(4.2)	(3.4)	(3.2)	(3.5)	(4.2)	(2.7)
Commercial Banks	501.30	395.53	545.70	408.28	559.57	735.34	916.03	1202.12	1765.32
12.PUBLIC DEBT (US$ bn) END PERIOD***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	
Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	
As % of GDP	24.09	22.25	23.11	26.81	25.32	23.40	23.18	23.56	
External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	
As % of GDP	42.21	40.13	36.99	37.72	36.64	32.21	27.93	23.09	
13.EXCHANGE RATE (Ksh/US$) (Annual average))	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18

* Provisional.
** revised to reflect data in Economic Survey 2008
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of 12-month of imports goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised

Sources:Kenya National Bureau of Statistics, Treasury, Central Bank of Kenya and Nairobi Stock Exchange

Section I Annex Table A2. Kenya: Selected Monthly Indicators

INDICATOR	2008				2009					
	Apr	May	Jun	Dec	Jan	Feb	Mar	Apr	May	Jun
1.INFLATION (%)										
CPI	281.88	291.79	290.75	306.28	318.02	333.21	345.30	355.35	348.76	342.38
Overall inflation										
12 month overall inflation	26.63	31.54	29.26	27.72	21.87	25.09	25.80	26.07	19.52	17.75
Average annual overall inflation	14.79	16.93	18.47	26.24	26.47	26.92	27.21	27.15	26.08	25.05
Underlying inflation										
12 month underlying inflation	6.54	7.24	7.60	9.04	8.89	8.67	8.75	9.95	9.37	8.51
Average annual underlying inflation	5.60	5.78	6.00	7.63	7.94	8.11	8.26	8.53	8.72	8.79
2.INTEREST RATES (%)										
91 day Treasury bill interest rate	7.35	7.76	7.73	8.59	8.46	7.55	7.31	7.33	7.45	7.33
Overdraft interest rate	13.46	13.53	13.30	14.39	13.84	13.46	13.76	13.16	14.13	14.41
3.STOK MARKET										
National Stock Exchange Price Index	5,336.03	5,175.83	5,185.56	3,521.18	3,198.90	2,474.25	2,805.03	2,800.10	2,852.60	3,294.60
Turnover (%)	1.21	1.12	3.92	0.29	0.30	0.26	0.33	0.35	0.49	0.61
4.GOVERNMENT BUDGET (Ksh bn)**										
Revenues	362.4	402.7	457.7	236.6	277.4	316.9	361.3	407.2	449.6	
Expenses	393.9	449.8	534.8	241.7	301.5	359.4	406.9	465.1	515.7	
Budget deficit (-)/ Surplus (+)	(31.57)	(47.08)	(77.17)	(5.10)	(24.12)	(40.53)	(45.67)	(57.91)	(66.06)	
5.MONEY AND CREDIT (Ksh bn)										
Liquidity (L)	1,051.52	1,063.99	1,028.56	1,091.93	1,089.21	1,103.41	1,107.95	1,135.46	1,139.47	
Money Supply (M3)	*854.10*	*839.24*	*840.58*	*901.05*	*895.40*	*900.03*	*906.07*	*928.82*	*928.60*	
Reserve Money	146.98	147.39	152.91	163.59	152.49	151.82	155.40	152.90	160.40	
Total Domestic Credit	746.61	703.71	701.76	806.04	807.34	813.97	827.77	830.13	835.18	
Government	155.39	117.08	133.44	155.32	156.74	153.91	168.03	166.81	162.55	
Private sector and other public sector	591.22	586.02	568.32	650.72	650.60	660.05	659.74	663.32	672.63	
6.MONEY AND CREDIT (Annual % change)										
Liquidity (L)	24.26	19.64	17.39	12.38	9.75	10.19	10.15	7.98	7.10	
Money Supply (M3)	7.49	7.49	7.49	7.49	7.49	7.49	11.68	7.49	13.50	
Reserve Money	4.03	4.03	4.03	4.03	4.03	4.00	1.57	4.03	8.80	
Total Domestic Credit	26.37	17.33	16.89	22.85	18.48	17.55	19.60	11.19	18.70	
Government	17.26	(12.37)	(15.10)	13.01	4.60	(2.20)	4.68	7.35	38.10	
Private sector and other public sector	•	•	•	25.45	22.40	23.36	24.10	12.19	14.80	
7.BALLANCE OF PAYMENTS (US$ m)										
Overall Balance	(28.44)	45.33	9.59	6.14	(106.62)	(22.64)	(30.98)	176.86	41.20	
Current Account	(7.78)	(156.63)	(49.08)	(148.04)	(239.79)	(189.22)	(78.66)	(233.86)	(179.62)	
Trade Balance	(438.44)	(525.92)	(414.98)	(528.18)	(491.67)	(400.93)	(371.62)	(495.45)	(422.82)	
Capital and Financial Account	(20.60)	291.97	58.67	154.18	133.17	166.58	47.68	410.72	220.82	
8.FOREIGN EXCHANGE RESERVES (US$ m)	4977.25	5244.39	5786.45	4640.78	4348.12	4354.38	4320.41	4620.47	4370.19	4821.67
Official	3390.05	3435.58	3444.97	2875.46	2768.85	2744.85	2713.87	2887.74	2928.94	3219.52
Months of imports cover	3.74	3.73	3.71	2.75	2.67	2.67	2.66	2.86	2.95	3.34
Commercial Banks	1587.20	1809.01	2341.48	1765.32	1579.27	1609.52	1606.54	1732.74	1441.25	1602.15
9.PUBLIC DEBT (US$ bn)	13.90	14.06	13.46	12.50	12.15	12.46	12.30	12.80	12.90	
Domestic	7.05	7.14	6.66	5.87	5.71	6.00	5.90	6.33	6.25	
As % of GDP	22.09	22.03	21.15	20.60	20.24	21.07	20.61	21.32	20.70	
External	6.84	6.93	6.80	6.63	6.44	6.46	6.39	6.51	6.62	
As % of GDP	21.48	21.38	21.61	23.27	22.83	22.63	22.29	21.94	21.95	
10.GROSS DOMESTIC DEBT (Ksh bn)****	437.94	442.68	430.61	456.20	454.27	479.08	474.89	497.58	489.34	
11.AVERAGE EXCHANGE RATE										
Ksh/US$	62.26	61.90	63.78	78.22	78.95	79.53	80.26	78.66	79.63	77.9
Ksh/Pound Sterling	123.37	121.62	125.27	117.42	114.28	114.54	113.98	116.70	116.98	127.2
Ksh/100 Yen	60.83	59.38	59.60	85.37	87.45	66.18	82.22	80.84	80.76	80.6
Ksh/Euro	98.08	96.32	99.21	104.07	105.02	101.71	104.77	104.80	105.08	109.00

Undrelying inflation excluding food, energy and transport and communications

** Data on Government budget for 2008/09 fiscal year remain provisional until publication in the Annual Economic Survey

*** Figures in parenthesis refer to official reserves in terms of 12 months of imports of goods and non-factor services.

**** Exclides IMF funds on-lent to the Govt by the CBK, Which is included in external public debt.

[1] Previously M3XT

[2] Previously M3X

[3] *December 2008 figures are the average between 1-23 December, 2008 (Provisional)*

Sources:Kenya National Bureau of Statistics, Treasury, Nairobi Stock Exchange and Central Bank of Kenya

Section I Annex Table A3. Kenya: Real GDP 2003-2008

	Shares in 2007 real GDP	2003	2004	2005	2006	2007 (Provisional)	2008 (Provisional)
	(In percent)	(In millions of Kenya shillings)					
Main sectors							
Agriculture, forestry and fishing	24.34	280,854	291,461	310,983	319,069	325,742	313,757
Mining	0.47	5,213	5,195	5,334	5,554	6,272	6,472
Manufacturing	9.78	105,822	110,544	115,699	122,953	130,892	135,802
Electricity and water supply	2.24	27,074	27,877	27,862	27,475	29,987	31,556
Wholesale and retail trade, repairs	9.86	92,604	100,486	106,091	118,357	131,989	138,677
Hotels and restaurants	1.56	9,899	13,741	15,572	17,895	20,814	13,298
Construction	3.01	31,530	32,932	35,401	37,648	40,229	43,572
Transport, storage and communications	11.72	104,915	112,260	122,316	136,306	156,849	161,721
Financial intermediatiom	3.76	42,064	42,657	45,030	47,170	50,319	51,868
Real estate, renting and business services	5.30	61,864	63,740	65,882	68,446	70,860	73,461
Public administration and defense	3.35	46,991	47,062	46,460	45,722	44,788	45,074
Education	5.67	71,045	72,435	72,963	73,152	75,856	80,277
Health and social work	2.17	25,431	26,408	27,249	28,146	29,053	30,106
Other community, social and personal services	3.69	42,917	44,514	45,829	47,815	49,422	50,919
Private households with employed persons	0.31	3,855	3,932	4,011	4,091	4,173	4,256
Less: Financial services indirectly measured	-0.91	-10,315	-10,800	-11,261	-11,835	-12,157	-11,250
Total GDP at basic 2001 prices	86.33	941,763	978,746	1,029,938	1,087,964	1,155,087	1,154,058
Taxes less subsidies on products	13.67	113,895	130,795	145,143	161,367	182,952	195,294
Real GDP at 2001 prices	100.00	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
GDP at market prices		1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
Overall GDP deflator		107	115	121	130	136	138

Source: Kenya National Bureau of Statistics (Economic Survey 2009)

Section I Annex Table A4 Kenya. Central Government Financial operations 2006/07-2011-12

	2006/07	2007/08	2008/09		2009/10		2010/11		2011/12	
	Actual	Estimate	Budget	Estimate	IMF staff	Budget	IMF staff	BSP09	IMF staff	BSP09
Revenue	**373.0**	**432.2**	**512.7**	**510.7**	**565.1**	**569.5**	**629.5**	**637.1**	**699.6**	**712.9**
Income tax (including LATF)	131.5	165.5	194.0	193.3	217.8	220.2	242.6	246.6	269.9	277.2
Import duty (net)	27.5	32.9	36.5	36.5	41.6	40.6	44.8	43.6	48.8	47.6
Excise duty	56.4	61.9	72.9	68.9	75.2	78.1	84.2	87.6	94.7	97.9
Value added Tax	96.3	111.9	133.9	128.6	141.3	148.4	158.7	167.4	176.2	187.8
Imvestment income	6.6	3.1	5.7	7.9	6.7	9.0	7.5	10.0	8.3	11.1
Other	28.4	29.8	34.7	38.1	41.0	37.5	45.7	41.7	50.7	46.4
Ministerial and Departmental fees	26.4	27.1	35.1	37.4	41.4	35.7	46.1	40.1	51.2	44.8
Expenditure and net lending	**419.5**	**538.9**	**673.0**	**649.2**	**741.7**	**772.4**	**804.8**	**805.0**	**886.0**	**890.9**
Recurrent expenditure	339.2	403.4	471.7	467.5	497.7	507.1	529.6	546.6	579.3	599.1
Interest payments	42.5	47.9	56.7	53.9	66.1	64.3	74.8	80.4	83.8	84.7
Domestic Interest	36.9	42.2	49.4	47.8	58.0	58.0	66.7	71.2	74.1	74.2
Foreign interest due	5.7	5.7	7.2	6.1	8.2	6.3	8.1	9.1	9.7	10.5
Wages and benefits (Civil service)	127.3	146.0	162.0	158.8	173.6	173.5	189.5	190.5	203.8	209.7
Civil service reform	1.4	0.8	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Pensions, etc	20.4	24.3	27.1	26.1	30.0	25.6	34.4	28.2	38.8	31.0
Other	119.0	139.7	175.0	179.8	178.2	189.6	178.9	182.2	200.8	207.4
Defense and NSIS 2/	28.7	44.9	50.8	48.9	49.6	54.0	51.8	53.4	51.8	53.0
Development and net lending	80.3	135.5	198.3	178.6	240.7	261.3	271.6	255.4	302.7	288.9
Domestically financed	53.5	90.3	114.9	110.6	150.3	155.1	157.6	142.1	178.3	161.1
Foreign financed	26.1	42.9	81.2	65.6	87.8	103.8	111.6	110.8	122.0	125.2
of witch: financed from sovereign bond	0.0	0.0	33.6	0.0	0.0	0.0	14.4	14.2	16.0	15.7
Net lending	1.4	2.3	2.1	2.4	2.6	2.4	2.4	2.5	2.4	2.7
Civil contingency fund	0.0	0.0	2.0	2.0	2.3	2.0	2.5	2.0	2.8	2.0
Drought expenditure	0.0	0.0	1.0	1.0	1.0	2.0	1.2	1.0	1.3	1.0
Balance (commitment basis, excl. grants)	**-46.5**	**-106.7**	**-160.2**	**-138.5**	**-176.7**	**-202.9**	**-175.3**	**-167.9**	**186.4**	**-178.0**
Grants	**15.5**	**25.5**	**33.8**	**25.0**	**35.6**	**35.3**	**41.5**	**40.0**	**45.8**	**46.4**
Balance (commitment basis, incl. grants)	**-31.0**	**-81.2**	**-126.4**	**-113.5**	**-141.1**	**-168.2**	**-133.8**	**-128.0**	**-140.6**	**-131.6**
Adjustment to cash basis	**1.6**	**9.3**	**-0.4**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Balance (Cash basis, including grants)	**-29.4**	**-71.9**	**-126.9**	**-113.9**	**-141.1**	**-168.2**	**-133.8**	**-128.0**	**-140.6**	**-131.6**
Financing	**35.5**	**59.8**	**126.9**	**113.9**	**141.1**	**168.2**	**133.8**	**128.0**	**140.6**	**131.6**
Net foreign financing	-3.1	6.3	58.8	23.6	26.1	50.2	47.6	48.3	52.5	55.1
Project and program loans	10.6	22.5	47.4	40.6	52.2	68.5	55.7	56.6	60.2	63.0
Commercial borrowing	0.0	0.0	33.6	0.0	0.0	0.0	14.4	14.2	16.0	15.7
Repayments due	-16.7	-16.5	-16.6	-17.5	-20.9	-18.7	-22.5	-22.5	-23.7	-23.7
Change in arrears / rescheduling / swaps	3.4	0.3	-5.6	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Privatization	4.0	76.3	13.7	0.0	6.0	6.0	7.5	7.5	7.7	7.7
Other exceptional financing	0.0	-7.8	-0.1	2.5	0.0	2.5	0.0	0.0	0.0	0.0
Net domestic Financing	34.7	-13.9	54.5	87.7	109.0	109.5	78.7	72.1	80.4	68.9
Statistical discrepancy	**-6.2**	**12.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:										
GDP	1717.5	1986.0	2393.2	2294.1	2604.6	2546.6	2900.5	2831.2	3218.1	3150.0
Primary Budget balance	13.1	-24.0	-70.2	-60.0	-75.0	-103.9	-59.0	-47.6	-56.8	-46.9
Primary Balance excl. foreign financed dev. Exp	39.2	18.9	11.0	5.6	12.8	-0.1	52.6	63.2	65.2	78.3
M3x (beginning of period)	605.2	708.4	840.7	840.7	950.0	950.0	950.0	1100.6	1100.6	1268.0
Reserve money (beginning of period)	108.0	129.4	152.9	152.9	164.5	164.5	164.5	186.5	186.5	214.9
Banks reserves (beginning of period)	40.8	51.2	69.3	69.3	65.7	65.7	65.7			
Revenue as percent of GDP	21.7	21.8	21.4	22.3	21.7	22.4	21.7	22.5	21.7	22.6
Recurrent expenditure as percent of GDP	19.7	20.3	19.7	20.4	19.1	19.9	18.3	19.3	18.0	19.0
Balance (cash basis incl. grants) in % of GDP	-1.7	-3.6	-5.3	-5.0	-5.4	-6.6	-4.6	-4.5	-4.4	-4.2
Primary balance in % of GDP	0.8	-1.2	-2.9	-2.6	-2.9	-4.1	-2.0	-1.7	-1.8	-1.5
Prim. Bal. excl foreign dev. Exp. in % of GDP	2.3	1.0	0.5	0.2	0.5	0.0	1.8	2.2	2.0	2.5
Not domestic financing in % of M3x	5.7	-2.0	6.5	10.4	11.5	11.5	8.3	6.6	7.3	5.4
Net domestic Financing in % of reserve money	32.1	-10.7	35.6	57.4	66.3	66.6	47.8	38.7	43.1	32.1
Net domestic Financing in % of banks reserve	85.0	-27.1	78.6	126.6	165.9	166.7	119.8			

Source: IMF Staff report; Budget Strategy Paper; and Central Bank of Kenya (CBK).

Section I Annex Table A5 Kenya: Balance of payments 2006-2009

(in millions of US Dollar)

	2006	2007	2008	Jan-June 2008	Dec-May 2009
1. OVERALL BALANCE	340.9	823.4	-457.7	106	64
2. CURRENT ACCOUNT	-563.1	-1106.4	-2018.6	-651	-1069
2.1 *Goods*	-3410.5	-4427.1	-5295.1	-2664	-2711
Exports (fob)	3516.0	4123.0	4972.2	2506	2142
Coffee	138.3	166.4	155.2	90	100
Tea	654.9	692.6	923.8	439	401
Horticulture	508.2	607.5	763.3	434	337
Imports (cif)	-6926.6	-8550.2	-10267.3	-5170	-4853
Oil	-1745.3	-1919.5	-3051.2	-1431	-884
2.2 Services	2798.6	3320.7	3276.6	2012	1642
Non-factor services (net)	1322.0	1708.6	1384.9	782	897
of which tourism	628.6	831.4	673.3	351	295
Income (net)	-59.3	-106.9	-11.4	72	-54
of which official interest	-108.2	-85.9	-85.5	-52	-63
Current Transfers	1584.8	1719.0	1903.1	1158	799
Private (net)	1522.3	1664.2	1903.1	1103	801
Public (net)	62.5	54.8	0	55	-11
3. CAPITAL & FINANCIAL ACCOUNT	904.0	1929.9	1542.9	758	1133
3.1 Capital Tranfers (net)	222.9	323.8	207.2	198	168
3.2 Financial Account	681.1	1606.0	1335.7	558	965
Official, medium & long-term	-69.3	177.2	51.7	48	103
Inflows	176.5	437.4	305.6	183	204
Outflows	-254.8	-260.2	-253.9	-134	-102
Private, medium & long-term (net)	476.9	1074.1	652.0	-496	37
Foreign direct investment	505.5	974.0	656.7		
Other private medium & long-term (net)	-28.6	100.1	-4.7		
Short-term (net) incl. errors & omissions	273.5	354.7	632.0	1007	825
memo:					
Gross Official Reserves	2415.3	3354.9	2874.7	3445	2929
imports cover	3.0	3.3	3.3	4.0	3.6

Section I Annex Table A6. Consumer Price Index and Inflation

Base Oct 1997=100.

PERIOD	NAIROBI INDEX	REST* OF URBAN *TOWNS INDEX*	OVERALL KENYA INDEX	OVERALL MONTH ON MONTH INFLATION	UNDERLYING INFLATION RATE****
2008					
April	282.38	281.55	281.88	26.6	6.7
May	293.43	290.69	291.79	31.5	7.1
June	287.09	293.17	290.75	29.3	7.6
July	285.15	287.60	286.62	26.5	8.1
August	286.94	288.80	288.06	27.6	8.8
September	293.65	291.86	292.57	28.2	9.5
October	297.15	294.20	295.38	28.4	10.2
November	302.93	301.04	301.79	29.4	10.7
December	308.18	305.01	306.28	27.7	11.1
2009					
January	328.18	283.44	318.02	21.9	11.1
February	345.09	325.31	333.21	25.1	11.0
March	362.65	334.06	345.33	25.8	7.7
April	365.39	348.70	355.36	26.1	8.1

Source: Kenya National Bureau of Statistics

* Rest of Urban include: Nyeri, Mombasa, Malindi, Kilifi, Meru, Garissa, Kisii, Kisumu, Nakuru, Kitale, Kabarnet,and Kakamega.

** *Provisional*

*** The 'Month on Month' inflation rate is calculated as a percentage change of the CPI between the current month and the same month a year ago.

**** Underlying inflation rate measures inflation on non-food items in the CPI basket

Section I Annex Table A7. Exchange rates

CURRENCY	2008 June	July	Aug	Sep	Oct	Nov	DEC	2009 Jan	Feb	Mar	April	May	June
1 US Dollar	64.694	67.318	68.739	73.219	71.653	77.861	77.711	79.544	79.687	80.430	78.660	78.348	77.021
1 Sterling Pound	128.960	133.254	125.914	132.104	130.221	110.757	112.317	110.125	113.849	114.845	116.701	125.810	126.605
1 EURO	102.157	104.980	103.344	105.277	101.994	100.408	103.482	102.546	101.463	106.424	104.802	109.097	107.848
100 Japanese Yen	61.052	62.248	63.064	70.030	81.201	81.810	85.065	88.974	81.592	82.134	80.898	81.040	80.799
1 SA Rand	8.210	9.117	8.487	8.742	7.923	7.465	8.268	7.893	8.033	8.338	20.976	20.592	20.536
USHS/KES	25.059	24.213	21.933	22.815	23.603	25.342	25.125	25.005	24.879	26.514	28.349	28.460	26.844
TSHS/KES	18.293	17.388	16.928	15.912	16.352	16.371	16.793	16.350	16.477	16.350	17.035	16.880	17.074

* Mean of commercial banks buying and selling exchange rates prevailing at the end of the month

'Source: Kenya National Bureau of Statistics

Section I Annex Table A8. Interest rates

MONTHS	Average Yield Rates 9' - Days Treasury Bills	Rates for Commercial Banks Loans and Advances (Weighted Average)	Overdraft · Rates	Inter - Bank Rates	Savings (Commercial Banks Rates)
2008					
March	6.89	14.06	13.48	6.35	1.72
April	7.35	13.91	13.46	6.70	1.71
May	7.76	14.41	13.53	7.72	1.71
June	7.73	14.36	13.30	7.77	1.70
July	8.03	13.90	13.46	8.06	1.67
August	8.02	13.46	13.11	6.93	1.68
September	7.70	13.40	13.43	6.70	1.73
October	7.75	14.12	13.91	6.81	1.74
November	8.39	14.32	13.85	6.84	1.61
December	8.59	14.87	14.40	6.68	1.62
2009					
January	8.47	14.78	14.55	5.92	2.10
February	7.55	14.67	13.46	5.49	2.13
March	7.31	14.87	13.79	5.57	1.90
April	7.34	14.71	13.66	5.73	1.91
May	7.45	14.85	13.00	6.65	1.67

Source : Central Bank of Kenya

· data not available

* Provisional

Section I Annex Table A9. Money Supply

KSh Million

As at end of	MONEY AND QUASI MONEY			(M2)	BROAD MONEY (M3)***	% CHANGE****
	MONEY (M1)*	QUASI - MONEY		TOTAL (M2)		
		(Commercial Banks)**	(NBFIs)			
2008						
May	395,158	304,077	11,995	711,230	839,239	-2.88
June	391,824	314,762	12,723	719,309	840,679	0.17
July	382,174	325,353	12,633	720,160	850,412	1.16
August	383,424	328,254	12,678	724,356	854,952	0.53
September	385,004	338,783	12,677	736,464	859,328	0.51
October	398,571	342,978	12,489	753,883	883,497	2.81
November	393,400	345,872	12,912	751,184	890,233	0.76
December	392,779	360,300	13,531	766,471	901,055	1.22
2009						
January	396,735	352,411	12,523	763,870	895,397	-0.63
February	380,498	374,485	13,343	768,326	900,031	0.52
March	408,331	358,243	14,082	780,656	906,071	0.67
April	382,800	396,291	14,488	798,579	928,839	2.51
May	392,873	387,507	14,488	794,868	927,735	-0.12

Source : Central Bank of Kenya

* Currency in circulation less cash in banks plus all demand deposits except those of Central Government, Local Govt. Banks, non residents and foreign currency deposits.

** All other deposits in commercial banks except those of Central Government.

*** Broad Money (M3) includes M2 and Quasi - Money supplied by Non Bank Financial Institutions

**** Compared with previous month.

***** Provisional

****** From January 2006 in line with the harmonisation of definitions of monetary aggregates within East African Countries (EAC) monetary definitions have been redefined for the following aggregates.

Section I Annex Table A10. Foreign Exchange Reserves

KSh. Million

MONTHS	CENTRAL MONETARY AUTHORITY			COMMERCIAL BANKS	GROSS TOTAL	NET FOREIGN EXCHANGE
	CENTRAL BANK	CENTRAL GOVERNMENT	TOTAL			
2008						
May	214,110	1,372	215,482	112,211	327,693	280,192
June	223,401	1,372	224,773	151,481	376,254	292,664
July	233,173	1,372	234,545	162,403	397,020	291,390
August	224,770	1,395	226,165	139,078	365,243	271,084
September	231,449	1,471	232,920	136,265	369,185	264,904
October	234,167	1,546	235,713	143,976	379,689	273,651
November	224,119	1,502	225,621	128,823	354,444	260,076
December	223,549	1,533	225,082	137,185	362,267	260,593
2009						
January	220,115	1,553	221,668	125,621	347,289	261,973
February	218,391	1,515	219,906	128,258	348,164	259,398
March	217,444	1,548	218,992	129,215	348,207	267,802
April	214,777	1,548	216,325	136,300	352,625	279,198
May	228,578	1,548	230,126	112,920	343,046	261,865

Source : Central Bank of Kenya

* Central Government includes reserve position in the Fund and deposits with Crown Agents.

- data not yet available

Section I Annex Table A11. Nairobi Stock Exchange

MONTH	NUMBER OF *TRANSACTIONS*	NUMBER OF *SHARES ('000)*	VALUE OF SHARES *('000 KShs)*	SHARES INDEX *Base Jan 1966=100*
Apr-08	57,626	141,766	5,636,670	5,336.0
May-08	71,959	168,034	6,836,652	5,175.8
Jun-08	143,942	2,154,897	22,130,018	5,185.6
Jul-08	132,507	983,747	14,282,189	4,868.3
Aug-08	83,372	490,810	7,490,223	4,648.8
Sep-08	*66,060*	*485,283*	*6,787,824*	*4,180.4*
Oct-08	44,190	393,530	3,642,410	3,386.7
Nov-08	48,277	290,953	3,723,721	3,341.5
Dec-08	29,302	170,900	4,620,000	3,521.2
Jan-09	37,310	177,553	2,624,391	3,198.9
Feb-09	30,977	159,640	1,645,278	2,474.8
Mar-09	*35,328*	*207,390*	*2,414,121*	*2,805.0*
Apr-09	37,732	215,560	2,554,381	2,800.1

Source : Nairobi Stock Exchange

** Provisional

Section I Annex Table A12 Coffee Sales and Prices

Months	2007			2008***			2009***		
	QUANTITY (MT)	PRICE ($/kg)	PRICE (Ksh/kg)	QUANTITY (MT)	PRICE ($/kg)	PRICE (Ksh/kg)	QUANTITY (MT)	PRICE ($/kg)	PRICE (Ksh/kg)
January	4,670	2.88	201.48	2,344	2.89	203.63	5,643	2.01	159.90
February	5,064	3.03	211.04	4,899	3.12	220.19	6,356	2.17	172.92
March	6,839	2.99	207.62	6,117	3.09	193.98	8,721	3.13	156.29
April	6,324	2.67	182.91	6,374	2.72	169.14	7,129	2.88	144.22
May	6,991	2.47	166.41	3,179	2.34	144.93			
June	5,451	2.18	145.61	0	0.00	0.00			
July	4,669	2.11	141.77	1,957	2.64	177.50			
August**	0	0.00	0.00	2,173	2.61	179.50			
September	3,817	2.36	157.96	3,878	2.37	173.56			
October	4,252	2.24	150.18	2,253	1.66	132.37			
November	2,895	2.24	142.15	2,517	1.95	151.92			
December	1,296	2.86	178.73	3,014	2.08	161.50			
Annual	52,269	2.56	173.91	38,704	2.60	1,908.22			

Source : Coffe Board of Kenya
* Anction Price
** Nairobi Coffee Exchange was in recess for most of August 2003,2005,2006,2007 & June 2008
*** Firures subject to revision
NB: MT denotes Metric Tonnes

Section I Annex Table A13. Tea Production and Prices

Months	2008**			2009**		
	QUANTITY (MT)	PRICE* ($/kg)	PRICE* (KShs/kg)	QUANTITY (MT)	PRICE* ($/kg)	PRICE* (KShs/kg)
January	29,745	2.28	153.94	25,484	2.30	182.33
February	24,094	2.42	169.94	21,537	2.27	180.89
March	16,916	2.21	145.10	18,779	2.32	184.04
April	27,415	2.31	143.67	18,343	2.43	193.53
May	36,402	2.28	140.85	29,803	2.56	200.23
June	22,817	2.43	154.16			
July	24,239	2.55	169.00			
August	24,494	2.77	187.60			
September	32,061	2.81	195.36			
October	35,307	2.29	175.90			
November	34,406	1.88	146.80			
December	37,922	1.89	146.21			
Annual	345,816	2.32	160.41			

Source:Tea Board of Kenya
MT for Metric Tonnes
*Auction prices
**Figures subject to revision

Section I Annex Table A14. Monthly exports of Horticultural Products

Months	CUT FLOWERS				FRUITS				VEGETABLES			
	2008**		2009**		2008**		2009**		2008**		2009**	
	QUANTITY (MT)	VALUE (KSh. Million)	QUANTITY (MT)	VALUE (KSh. Million)	QUANTITY (MT)	VALUE (KSh. Million)	QUANTITY (MT)	VALUE (KSh. Million)	QUANTITY (MT)	VALUE (KSh. Million)	QUANTITY (MT)	VALUE (KSh. Million)
January	8,491.94	5,268.07	7,642.90	3,511.00	533.40	63.05	2,382.74	370.05	7,524.83	1,332.79	5,653.51	981.41
February*	10,178.52	6,806.09	8,204.71	2,964.04	1,431.75	111.22	2,624.70	238.52	7,293.64	2,802.23	5,240.94	918.83
March	9,116.38	4,636.41	8,360.12	2,667.54	2,476.80	203.31	2,548.68	209.17	7,334.14	1,498.72	6,615.95	1,262.18
April	8,100.49	2,737.35	7,317.02	2,427.45	2,263.94	180.92	2,162.59	156.52	7,604.85	1,338.55	5,364.19	1,107.55
May	8,120.99	2,798.79			1,727.73	130.44			7,090.86	1,122.58		
June	6,785.27	2,173.12			1,718.46	169.36			6,808.71	1,137.46		
July	6,063.05	2,072.24			2,573.05	686.15			6,605.48	1,123.60		
August	6,239.22	2,766.14			1,653.59	193.49			6,103.07	1,031.81		
September	6,994.05	2,246.42			1,031.31	119.54			6,902.52	1,158.22		
October	8,026.54	2,596.09			484.62	56.18			7,068.03	1,315.83		
November	7,909.34	2,773.86			602.77	65.60			6,227.65	1,169.57		
December	7,604.69	2,676.41			626.40	85.97			5,796.13	1,077.50		
Total	93,653.42	39,970.99			17,123.82	2,071.24			82,357.02	16,128.90		

Source: Horticultural Crops Development Authority

- data not available

** Figures subject to revision

Section I Annex Table A15. Exports of Coffee, Tea, and Horticultural Products

Month	COFFEE *		TEA		HORTICULTURE	
	QUANTITY (MT)	VALUE (KSh. Million)	QUANTITY (MT)	VALUE (KSh. Million	QUANTITY (MT)	VALUE KSh. Million
Apr-08	4,611.3	1,107.7	40,724.4	5,464.0	17,969	4,257
May-08	4,820.5	1,128.1	30,518.6	4,525.4	16,940	4,052
Jun-08	3,602.7	838.6	31,644.4	4,917.2	15,312	3,480
Jul-08	3,158.5	769.2	40,370.6	6,667.2	15,262	3,882
Aug-08	3,094.6	759.0	33,043.3	5,811.1	13,996	3,997
Sep-08	3,348.0	805.0	24,829.6	4,986.1	14,928	3,524
Oct-08	2,774.5	718.2	31,955.8	6,400.4	15,579	3,968
Nov-08	3,421.2	909.6	28,369.5	5,140.0	14,740	4,029
Dec-08	2,680.4	648.2	39,089.5	6,251.1	14,027	4,040
Jan-09	4,096.6	1,013.7	34,946.6	6,138.5	15,879	4,662
Feb-09	4,308.8	1,200.0	27,198.9	5,110.6	16,070	4,121
Mar-09	5,265.0	1,458.3	28,461.7	5,473.3	17,525	4,339
Apr-09	5,964.4	1,529.9	21,372.2	4,238.0	14,844	3,692
May	7,252.1	1,832.5	23,390.9	4,484.8	-	-

Source: Kenya Revenue Authority
- Figures not available
*Unroasted Coffee
** Provisional
MT denotes Metric tonnes

Section I Annex Table A16. Kenya's external trade, March 2008-March 2009

KSh million

MONTH	Domestic Exports	Re-Exports	Total Exports	Total Imports	Volume of Trade	Home use Imports
2008						
April	27,893.33	1,292.86	29,186.19	54,705.45	83,971.64	51,939.44
May	24,436.30	1,303.31	25,739.61	56,877.43	82,517.03	57,151.43
June	23,832.87	1,477.07	25,309.94	49,957.26	75,267.20	53,371.94
July	28,667.31	1,671.58	30,338.89	70,300.09	100,638.98	60,557.64
August	27,487.90	2,265.53	29,753.42	72,644.67	102,398.09	72,423.12
September	26,618.40	1,869.·8	28,487.58	74,773.03	103,260.61	67,656.83
October	29,556.05	2,984.·5	32,540.20	74,855.83	107,396.03	75,450.09
November	27,434.29	1,624.36	29,058.65	68,387.90	97,446.55	66,706.10
December	27,405.44	1,938.39	29,343.83	68,567.89	97,911.72	67,312.92
2009						
January	26,120.79	1,238.96	27,359.75	66,177.18	93,536.93	2,707.33
February	27,362.15	1,314.05	28,676.20	60,563.13	89,239.33	60,327.13
March	29,123.55	2,346.·6	31,469.71	61,296.80	92,766.51	61,697.58
April	25,206.94	1,141.33	26,348.27	65,799.21	92,147.47	63,773.78
May	24,525.44	1,252.84	25,778.27	58,699.61	84,477.89	58,058.37

Source: Customs Department

* Provisional

Section I Annex Table A17. Kenya: Major Destinations of Domestic Exports, March 2008-March 2009

KSh Million

Month	Uganda	Tanzania	United Kingdom	Pakistan	Netherlands	Egypt	Germany	Rwanda	USA	United Arab Emirates	France
2008											
May	2,564.19	1,873.91	2,998.92	1,306.61	2,005.69	663.55	421.87	439.56	1,509.75	623.16	305.94
June	2,409.80	2,173.29	2,867.54	1,171.98	2,100.71	668.94	447.39	556.14	1,661.92	517.39	362.69
July	3,810.84	2,371.58	3,187.84	2,042.81	1,692.87	990.34	372.82	792.28	1,590.02	522.07	525.91
August	3,031.60	2,402.28	2,934.22	1,264.65	1,650.31	1,483.11	301.43	947.01	2,231.04	416.56	434.38
September	3,170.79	2,493.71	2,961.86	973.01	1,812.64	1,148.08	539.78	729.96	1,911.48	435.57	441.95
October	3,614.23	2,511.91	3,603.99	1,115.82	2,533.31	1,645.78	640.78	917.09	1,654.79	539.40	447.12
November	3,011.92	2,335.70	3,053.52	1,050.66	2,136.06	1,230.38	474.03	545.11	1,883.01	385.11	314.50
December	3,504.36	2,191.03	2,920.00	1,504.05	2,178.31	1,802.93	533.73	581.25	1,779.29	448.55	341.86
2009											
January	3,361.59	2,369.01	2,961.80	2,071.33	2,468.70	916.17	730.97	664.56	1,158.51	482.26	405.98
February	4,032.20	1,841.43	3,172.60	1,265.17	2,527.16	847.16	662.15	692.77	1,742.88	581.83	489.42
March	3,449.74	2,198.30	3,375.02	752.59	2,447.81	1,183.77	547.99	586.57	1,742.16	809.17	476.02
April	3,366.66	2,242.99	2,924.13	953.92	2,001.06	776.69	726.14	619.09	1,249.87	773.67	303.27
May	3,249.01	1,926.56	2,479.75	916.14	1,944.80	740.65	653.81	697.85	1,803.13	479.58	303.17

Source: Customs Department

Section I Annex Table A18. Major Origins of Imports, March 2008-March 2009

KSh Million

Month	United Arab Emirates	United Kingdom	South africa	Saudi Arabia	Japan	India	USA	Germany	Netherlands	France	China
2008											
May	10,534.04	1,873.07	3,605.93	1,302.39	3,035.20	9,281.37	3,606.34	1,482.98	865.92	879.66	4,430.19
June	3,515.33	1,835.13	3,312.94	844.12	2,904.38	6,384.15	1,442.66	1,583.49	1,066.24	888.67	5,213.39
July	19,339.13	1,774.91	3,886.96	2,048.11	4,811.16	7,921.31	2,628.53	2,169.02	652.05	1,156.11	4,678.61
August	6,507.93	2,568.88	3,314.31	2,488.28	4,062.72	10,098.94	1,876.34	2,707.15	1,545.58	1,007.23	4,869.16
September	12,326.45	1,873.49	3,641.87	4,813.22	3,605.69	8,705.56	2,108.17	3,166.97	935.69	1,385.47	5,399.50
October	7,753.46	3,853.50	4,723.11	1,414.43	3,677.07	7,769.47	2,538.19	2,402.06	921.52	1,470.71	6,774.62
November	5,247.67	2,601.72	7,604.02	996.78	3,517.57	9,794.27	2,183.26	2,651.44	1,781.43	1,655.30	7,194.15
December	6,637.34	3,015.16	3,829.78	3,147.95	4,773.55	6,200.32	1,739.14	2,519.94	1,349.98	2,548.16	7,327.06
2009											
January	3,914.77	2,370.63	4,112.81	1,966.25	4,521.63	6,572.44	8,392.77	2,255.11	1,962.77	1,530.99	5,602.14
February	5,641.51	2,059.46	4,738.94	2,806.33	2,265.48	5,370.46	2,125.21	1,553.16	2,826.51	1,566.75	6,344.45
March	5,790.29	2,383.74	6,614.62	1,473.44	3,076.06	5,663.36	4,230.35	2,196.25	1,628.86	1,791.77	5,493.90
April	2,643.10	3,980.97	6,091.41	2,240.58	3,551.89	8,341.77	4,045.56	1,700.95	2,107.65	1,595.81	7,017.61
May	3,406.21	2,088.03	5,313.95	2,857.00	4,694.47	5,937.40	3,862.26	1,550.39	986.32	990.15	4,650.28

Source: Customs Department

* Provisional

Section I Annex Table A19. Kenya: Domestic Exports by Broad Economic Category

DESCRIPTION	2007	2008									2009				
	Total	May	June	July	August	September	October	November	December	Total	January	February	March	April	May
FOOD AND BEVERAGES	115,165	10249	10,156	12,209	10,485	9,644	11,967	10,702	11,103	129916	11440	10,534	11,985	10534	10,571
INDUSTRIAL SUPPLIES (Non-Food)	46,141	6336	6,027	5,653	10,020	8,594	5,553	8,415	7,532	92284	6688	8,272	8,076	6696	6,323
FUEL AND LUBRICANTS	6,146	375	533	284	45	430	452	523	607	5949	6688	8,272	8,076	6696	6,323
MACHINERY & OTHER CAPITAL EQUIPMENT	4,127	528	225	324	320	346	473	302	729	5346	386	319	277	172	295
TRANSPORT EQUIPMENT	3,072	232	420	383	202	254	300	406	304	3657	588	251	539	701	591
CONSUMER GOODS NOT ELSEWHERE SPECIFIED	72,161	6654	6,667	5,754	6,357	6,944	7,515	7,441	7,320	85724	317	537	505	704	371
GOODS NOT ELSEWHERE SPECIFIED	7	0	3	1	4	3	2	1	7	32	6701	7,347	7,728	6399	6,365
TOTAL	281,519	24436	22,817	33,666	27,498	26,628	28,856	27,034	27405	321079	33803	35,312	37182	31,962	30,841
PERCENTAGE SHARES															
Food and Beverages	40.43	41.34	42.61	42.9	37.02	36.10	40.49	38.12	40.51	40.22	34.87	27.36	32.24	33.12	34.27
Industrial Supplies (Non-Food)	25.40	25.17	25.27	30.2	36.3	33.45	59.09	32.72	24.75	28.54	20.20	23.22	21.72	10.95	20.58
Fuel and Lubricants	1.57	1.55	1.32	0.80	0.13	1.59	1.58	1.91	2.21	1.84	20.29	23.32	21.72	20.95	20.52
Machinery and other Capital Equipment	1.63	2.16	0.94	1.13	1.18	1.19	1.60	1.05	2.61	1.72	1.19	0.91	0.74	0.54	0.96
Transport Equipment	1.50	0.95	1.82	1.38	0.92	0.19	1.02	1.45	1.11	1.15	1.79	0.93	1.45	2.20	1.91
Consumer Goods not elsewhere specified	24.58	27.23	27.09	23.41	22.31	25.34	25.47	25.67	26.72	25.54	4.97	1.51	1.38	2.21	1.28
Goods not elsewhere specified	0.00	0.00	0.03	0.04	0.01	0.01	0.01	0.01	0.03	0.01	21.42	20.61	20.77	20.00	20.61
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Annual Trade Report - Customs & Excise Dept

* Provisional

- Data being verified

Section I Annex Table A20. Kenya: Imports by Broad Economic Category

Million KSh

DESCRIPTION	2007	2008									2009				
	Total	May	June	July	August	Sept	Oct	Nov	Dec	Total	January	February	March	April	May
FOOD AND BEVERAGES	43,483.1	2,712.5	2,476.0	2,258.0	3,393.0	4,125.0	6,322.0	9,198.0	5,005.0	53,481.4	4,342.0	3,980.3	8,649.0	8,377.0	8,769.1
INDUSTRIAL SUPPLIES Non-Food ..	161,819.2	15,812.1	19,135.0	19,453.0	20,072.0	21,890.6	25,360.0	23,454.0	20,522.0	237,306.7	21,518.0	15,694.9	19,422.0	17,558.0	13,496.1
FUEL AND LUBRICANTS	136,911.2	13,042.1	11,728.0	25,973.0	23,492.0	23,582.3	17,360.0	11,433.3	11,423.0	206,196.5	21,518.0	15,694.9	19,422.0	17,958.0	14,496.1
MACHINERY & OTHER CAPITAL EQUIPMENT ..	97,306.5	8,634.4	7,517.0	9,931.0	9,434.0	13,546.9	10,559.0	11,112.0	18,743.0	127,114.9	10,104.0	11,012.5	9,890.0	14,352.0	11,377.1
TRANSPORT EQUIPMENT	87,827.0	7,225.9	5,035.0	8,018.0	11,963.0	4,487.0	8,263.0	7,856.0	7,812.0	86,574.9	11,035.0	12,177.0	10,300.0	11,334.0	10,425.1
CONSUMER GOODS NOT ELSEWHERE SPECIFIED ..	44,983.8	4,067.6	4,005.0	4,375.0	4,078.0	4,665.4	5,373.0	5,309.0	4,399.0	53,464.3	13,196.0	9,558.6	7,613.0	8,448.0	5,946.2
GOODS NOT ELSEWHERE SPECIFIED ..	2,288.7	172.9	11.0	0.0	213.0	207.0	79.0	27.0	164.0	983.4	5,731.0	5,322.3	4,975.1	4,111.0	3,886.1
TOTAL	665,130.6	56,077	49,957	79,080	72,645	71,773	74,056	68,386	63,568	764,580.2	87,644.0	73,250.0	80,271.0	83,656.0	77,189.7
PERCENTAGE SHARES															
Food and Beverages	7.02	4.77	4.96	3.22	4.67	5.92	8.11	13.45	7.30	6.74	4.95	5.45	10.77	10.04	11.51
Industrial Supplies (Non-Food)	31.03	27.24	38.40	27.75	27.63	29.23	34.57	34.30	31.93	31.03	24.55	21.43	24.20	21.56	23.90
Fuel and Lubricants	20.97	31.72	21.46	32.11	32.34	31.41	24.02	16.72	18.88	26.32	24.55	21.43	24.31	21.35	23.90
Machinery and other Capital Equipment ..	24.09	15.53	15.66	14.17	12.99	18.25	14.11	16.25	27.34	16.63	11.53	15.03	12.12	17.18	11.75
Transport Equipment	18.10	12.70	10.08	11.45	16.47	6.03	11.04	11.49	11.36	11.32	12.59	16.62	12.83	13.43	13.52
Consumer Goods not elsewhere specified	7.42	7.13	8.02	6.25	5.61	6.27	7.04	7.76	7.14	6.99	15.23	12.75	9.48	10.34	7.71
Goods not elsewhere specified	0.37	0.30	0.02	0.00	0.29	0.29	0.11	0.04	0.24	0.12	6.54	7.31	6.20	5.75	4.71
TOTAL	100.00	100.00	100.00	100.00	100.00	97.30	100.00	100.00	100.00	100.04	100.04	100.00	100.00	100.00	100.00

Source: Annual Trade Report - Customs & Excise Dept.

* Provisional

- Data being verified

Section I Annex Table A21. Visitor Arrivals by point of entry, 2008-09

	2007	2008	Jan-May 08	Jan-May 09	Jan - May 2009 % Share	Jan - May 2009 % Growth
CRUISE	2,837	6,377	3,168	11,809	3.4%	272.8%
MIAM	276,298	112,517	27,949	68,410	19.9%	144.8%
JKIA	769,597	609,606	197,963	264,389	76.7%	33.6%
TOTAL	1,048,732	729,000	229,080	344,608	100.0%	50.4%

Cruise ships - Entry through Port of Mombasa, JKIA - Entry through Jomo Kenyatta International Airport, MIAM - Entry through Moi International Airport Mombasa

N/A Not Available

Source: Kenya Tourism Board

Section II Annex Table 1: External Debt by Creditor (USD Million)

CREDITOR	**Jun-01**	**Jun-02**	**Jun-03**	**Jun-04**	**Jun-05**	**Jun-06**	**Jun-07**	**Jun-08**
1. BILATERAL								
AUSTRIA	16.1	25.0	30.5	33.5	32.4	33.0	45.6	50.3
BELGIUM	30.6	29.8	30.4	71.6	68.0	71.0	69.6	73.4
CANADA	67.7	28.0	36.4	29.2	17.0	17.2	22.2	16.3
DENMARK	32.4	24.8	26.1	31.7	31.0	32.4	32.3	36.1
FINLAND	2.5	5.0	3.6	2.7	1.8	2.2	1.8	1.9
FRANCE	219.6	199.0	182.6	231.6	237.3	252.3	277.8	354.0
GERMANY	98.1	94.4	109.8	141.3	169.6	188.3	198.1	243.7
ITALY	125.8	136.1	117.9	114.8	94.1	118.3	107.6	95.2
JAPAN	922.2	824.0	1,071.0	1,073.4	1,109.5	1,075.6	1,006.0	730.6
NETHERLANDS	52.4	44.2	50.4	51.6	28.9	37.3	35.6	35.8
UK	35.8	40.8	35.8	36.0	36.9	36.6	39.6	37.9
USA	43.0	55.4	89.7	73.2	79.4	79.1	70.9	68.9
OTHERS	49.7	143.1	138.4	158.0	163.0	153.2	164.6	214.1
TOTAL	1,695.	1,649.6	1,922.6	2,048.9	2,069.0	2,096.3	2,072.3	1,958.2
2. MULTILATERAL								
ADB/ADF	328.4	292.8	321.5	319.0	310.0	349.7	353.1	465.8
EEC/EIB	156.7	148.0	115.5	128.0	111.0	180.5	150.4	173.7
IBRD	20.0	11.5	11.5	1.4	0.5	-	-	-
IDA	2,306.8	2,263.0	2,516.6	2,721.0	2,757.0	2,765.4	2,867.7	3,133.9
IMF	111.3	98.0	80.8	104.0	165.7	154.4	206.9	271.2
OTHERS	6.3	10.1	6.9	4.8	6.0	9.0	32.7	41.3
TOTAL	**2,929.5**	**2,823.4**	**3,052.8**	**3,278.2**	**3,350.2**	**3,459.0**	**3,610.8**	**4,085.9**
3.COMMERCIAL BANKS	377.2	305.0	48.5	36.6	23.3	17.2	4.3	-
4.EXPORT CREDIT	48.6	16.4	364.5	209.7	252.3	264.4	271.0	286.6
GRAND TOTAL	**5,051.2**	**4,794.4**	**5,388.4**	**5,573.4**	**5,694.8**	**5,837.0**	**5,958.4**	**6,330.7**

Ministry of Finance

Section II Annex Table 2: Main macro-economic indicators

Section II Annex Table 2 : Selected Main Macroeconomic Indicators of the Medium-Term Fiscal Framework, 2007/08 - 2011/12

	2007/08	2008/09		2009/10		2010/11		2011/12	
	Budget	Budget(BSP)	BOPA-09	Budget(BSP)	BOPA-09	Budget(BSP)	BOPA-09	Budget(BSP)	BOPA-09
Annual percentage changes, unless otherwise indicated									
National accounts and prices									
Real GDP growth	3.5	5.8	3.6	6.9	4.6	6.8	5.2	6.8	6.0
Real GDP per capita	0.6	2.9	0.7	4	1.7	3.9	2.3	4	3.1
GDP deflator	12.1	11.1	12.8	5.2	10.7	4.3	6	4.2	4.6
CPI index (end of period)	29.3	7.5	13.2	5.0	8.8	5.0	5.9	5.0	5.0
CPI index (average)	18.5	16.9	19.7	6.5	10.9	5	6.8	5	5
Terms of trade (- = decline)	-4.5	-7.0	-0.9	-0.9	0.3	0.4	-1.2	0.2	-0.5
Money and credit (end of period)									
Net domestic assets	16.1	17.9	17.6	19.8	13.1	18.5	9.5	16	11.4
Net domestic credit to Government	-15.1	14.8	11.8	12.1	8.5	10.8	11.6	11.5	11.4
Credit to the economy	28.2	16.3	15.1	16.7	14.1	16.2	13.3	16.2	13.7
Broad money-M3 (% change)	18.7	17.1	16.9	17	15.2	16.1	14.4	16.2	14.3
Reserve money (% change)	18.2	16.2	15.2	16.5	14.6	16.1	14.4	16.2	14.3
In percent of GDP, unless otherwise indicated									
Investment and saving									
Investment	15.7	22.3	17.8	23.8	20.2	24.8	21.5	23.5	22.7
Central Government	6.6	8.6	7.7	8.3	7.9	8.6	8	9.4	8.2
Other	9.1	13.7	10.1	15.5	12.3	16.2	13.5	14.1	14.5
Gross national savings	8.3	15.3	9.1	17.5	13.4	18.9	15.7	18	18.2
Central Government	1.7	1.6	2.2	2.8	3	3.2	3	3.7	3.1
Other	6.6	13.7	6.9	14.7	10.4	15.7	12.7	14.3	15.1

Central Government Budget									
Total revenue	22.0	21.4	22.1	21.7	21.6	21.8	21.7	21.8	21.8
Total expenditure and net lending	27.2	28.3	27.6	27.2	26.6	27.3	26.8	27.6	27.0
of which: wages and salaries	7.4	6.8	7.0	6.6	6.5	6.4	6.5	6.4	6.5
interest payments	2.4	2.4	2.5	2.3	2.4	2.4	2.5	2.4	2.5
Development expenditures	6.7	8.5	7.8	8.4	8	8.7	8.1	9.5	8.3
Overall balance (excluding grants), commitment basis	-5.2	-6.9	-5.5	-5.5	-5.0	-5.5	-5.1	-5.7	-5.2
Overall balance (including grants), commitment basis	-3.4	-5.4	-4.1	-3.9	-3.5	-3.6	-3.4	-3.6	-3.4
Net external borrowing	0.3	1.2	1.1	1.5	0.4	1.4	1	1.4	1
Infrastructure bonds	0.0	0.8	2.3	0.8	2.0	0.8	1.1	0.8	1.1
Net domestic borrowing	-0.7	1.5	2.4	1.1	1.4	0.9	1.9	1.0	1.9
Total external support (grants and loans)	2.4	3.6	3.5	3.8	3.0	4.0	3.6	4.3	3.8
Balance of payments									
Exports of goods and services, value	25.2	23.1	26.0	23.7	26.3	24.2	27.7	24.8	28.7
Imports of goods and services, value	39.0	36.0	40.8	35.7	38.7	35.6	38.7	35.8	38.1
External current account balace (excluding transfers)	-7.4	-7	-8.7	-6.3	-6.9	-5.9	-5.9	-5.6	-4.5
External current account balace (including transfers)	-7.5	-7	-8.7	-6.3	-6.9	-5.9	-5.9	-5.6	-4.5
Gross international resrves (in months of next year's imports)	3.2	3.4	3.1	3.5	3.2	3.6	3.5	3.9	3.8
Public debt									
Nominal Central Government Debt (Gross), end of period	44.3	43.1	44.8	40.4	43.7	42.5	43.4	40.1	43.1
Nominal Central Government Debt (Net), end of period	39.5	38.8	40.6	36.2	39.5	38.3	39.2	35.9	38.9
Domestic (Gross)	21.9	21	20.8	20.6	19.4	20.2	19.3	20.0	19.3
Domestic (Net)	17.2	16.8	16.6	16.4	15.2	16.0	15.1	15.7	15.1

External	22.4	22	24.0	19.8	24.3	22.3	24.1	20.1	23.8
Memorandum items:									
Nominal GDP (in billions of KSh)	1967	2393	2299	2690	2662	2993	2969	3332	3293
Nominal GDP (in millions of US$)	29946	35580	31229	39204	32844	42775	34820	46686	37609
Per capita income (US$)	793	916	804	981	822	1041	847	1105	890

SOURCE: Budget Outlook Paper (BOPA) 2009 and Budget Strategy Paper (BSP)

Annex to Sec.III: Data for Charts 1-5

Indicator	Scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
IMF - External (e=74.3, w/ Com loan)																						
PV of debt-to GDP ratio – IMF (Threshold = 40 percent)	Baseline -IMF	12.3	11.6	11.0	11.2	11.6	11.9	12.2	12.5	12.8	12.9	12.5	12.4	12.3	12.2	12.2	12.1	11.9	11.7	11.5	11.3	11.2
	Historical scenario	12.3	11.7	10.8	10.0	9.1	8.4	8.0	7.7	7.1	6.4	5.4	4.8	4.3	3.8	3.4	3.1	2.8	2.5	2.2	2.0	1.9
	Most extreme shock: Combination - IMF	12.3	15.1	19.1	19.1	19.3	19.5	19.8	19.9	20.1	20.1	19.4	19.0	18.6	18.2	18.0	17.7	17.3	16.9	16.5	16.1	15.8
PV of debt-to-exports ratio – IMF (Threshold = 150 percent)	Baseline - IMF	49.9	53.0	52.3	53.2	52.4	52.4	53.6	54.1	54.6	54.7	52.3	51.3	50.2	49.1	48.2	47.3	45.9	44.6	43.2	41.8	44.5
	Historical scenario	49.9	53.4	51.1	47.2	41.2	37.3	35.0	33.5	30.3	27.0	22.7	19.9	17.5	15.3	13.6	12.2	10.7	9.4	8.4	7.4	7.6
	Most extreme shock: Exports- IMF	49.9	60.2	76.5	76.4	74.2	73.0	73.5	73.2	73.0	72.4	68.9	66.7	64.6	62.6	60.8	59.2	57.1	55.0	53.0	51.0	54.0
PV of debt-to-revenue ratio – IMF (Threshold = 250 percent)	Baseline -IMF	56.0	54.1	50.8	51.9	53.7	55.2	57.3	58.7	60.2	61.1	59.3	58.7	58.2	57.6	57.1	56.8	55.9	54.8	53.8	52.7	52.0
	Historical scenario	56.0	54.6	49.7	46.1	42.2	39.3	37.5	36.4	33.4	30.2	25.7	22.9	20.3	18.0	16.1	14.7	13.0	11.6	10.4	9.3	8.9
	Most extreme shock: Combination - IMF	56.0	70.4	88.1	88.3	89.8	90.9	92.7	93.6	94.7	95.2	91.6	89.6	87.7	85.9	84.3	83.0	81.0	79.0	77.0	75.0	73.5
Debt service-to-exports ratio – IMF (Threshold = 20 percent)	Baseline - IMF	3.5	3.3	3.3	3.3	3.1	2.9	3.1	3.0	3.1	3.1	2.9	3.4	3.2	3.1	3.0	2.8	3.2	3.0	2.9	2.7	2.3
	Historical scenario	3.5	3.7	3.8	3.7	3.3	3.0	3.2	3.1	3.2	3.1	2.6	3.2	2.8	2.5	2.2	1.9	2.4	2.1	1.8	1.6	0.6
	Most extreme shock: Exports- IMF	3.5	3.5	4.0	4.2	4.0	3.7	3.9	3.8	3.9	3.9	3.7	4.5	4.3	4.1	3.9	3.7	4.0	3.8	3.6	3.4	2.9
Debt service-to-revenue ratio – IMF (Threshold = 30 percent)	Baseline -IMF	3.9	3.4	3.2	3.2	3.1	3.0	3.3	3.3	3.4	3.5	3.3	3.9	3.7	3.6	3.5	3.4	3.9	3.7	3.6	3.5	2.7
	Historical scenario	3.9	3.8	3.7	3.6	3.4	3.1	3.4	3.3	3.5	3.5	3.0	3.7	3.3	2.9	2.6	2.3	3.0	2.6	2.3	2.1	0.7
	Most extreme shock: Combination - IMF	3.9	4.0	4.5	4.9	4.8	4.6	4.9	4.9	5.0	5.0	5.0	6.1	5.8	5.6	5.4	5.2	5.7	5.5	5.3	5.1	4.0
Kteam -External (e=84.3,w/ Com loan)																						
PV of debt-to GDP ratio – Kteam (Threshold = 40 percent)	Baseline - Kteam	12.5	11.8	11.3	11.6	12.2	12.6	13.2	13.6	14.0	14.3	13.9	13.9	13.9	13.9	13.8	13.9	13.7	13.6	13.4	13.3	13.2
	Historical scenario	12.5	11.9	10.9	10.1	9.2	8.6	8.1	7.9	7.2	6.5	5.5	4.9	4.4	3.9	3.5	3.2	2.8	2.6	2.3	2.1	2.0
	Most extreme shock: Combination - Kteam	12.5	16.2	20.8	20.9	21.4	21.8	22.2	22.5	22.9	23.0	22.2	21.8	21.4	21.1	20.8	20.5	20.1	19.7	19.4	19.0	18.7
PV of debt-to-exports ratio – Kteam (Threshold = 150 percent)	Baseline - Kteam	52.3	52.8	53.5	55.1	56.3	57.9	59.6	60.9	62.3	63.3	61.4	61.0	60.7	60.2	59.9	59.8	58.9	58.1	57.2	56.3	55.7
	Historical scenario	52.3	52.9	51.7	47.9	42.7	39.3	36.7	35.2	32.0	28.8	24.4	21.6	19.2	16.9	15.2	13.8	12.2	10.9	9.8	8.7	8.3
	Most extreme shock: Exports - Kteam	52.3	66.6	85.3	86.1	86.3	87.1	87.9	88.3	89.0	89.3	85.9	84.1	82.4	80.8	79.4	78.3	76.5	74.8	73.1	71.4	70.1
PV of debt-to-revenue ratio – Kteam (Threshold = 250 percent)	Baseline - Kteam	54.0	57.2	61.3	63.5	65.0	67.0	70.1	72.5	74.9	76.4	74.7	74.6	74.4	74.2	74.1	74.1	73.7	72.9	72.1	71.2	70.7
	Historical scenario	54.0	57.4	59.3	55.1	49.2	45.4	43.2	41.9	38.4	34.7	29.7	26.4	23.5	20.9	18.8	17.1	15.3	13.7	12.3	11.1	10.6
	Most extreme shock: Combination - Kteam	54.0	78.5	112.9	114.2	114.4	115.6	118.3	120.1	122.0	122.7	118.9	116.8	114.7	112.7	111.1	109.8	108.1	105.9	103.8	101.6	100.2
Debt service-to-exports ratio – Kteam (Threshold = 20 percent)	Baseline - Kteam	3.6	3.3	3.4	3.4	3.3	3.2	3.4	3.4	3.5	3.6	3.4	4.0	3.9	3.8	3.7	3.6	4.1	3.9	3.8	3.7	2.9
	Historical scenario	3.6	3.7	3.9	3.7	3.4	3.1	3.3	3.2	3.3	3.3	2.8	3.4	3.1	2.8	2.4	2.1	2.8	2.4	2.1	1.9	0.6
	Most extreme shock: Exports - Kteam	3.6	3.7	4.3	4.7	4.5	4.3	4.6	4.5	4.7	4.7	4.7	5.7	5.5	5.3	5.1	4.9	5.4	5.2	5.0	4.8	3.8
Debt service-to-revenue ratio – Kteam (Threshold = 30 percent)	Baseline - Kteam	3.8	3.6	3.9	3.9	3.8	3.7	4.0	4.1	4.2	4.3	4.2	4.9	4.8	4.7	4.6	4.5	5.1	4.9	4.8	4.7	3.7
	Historical scenario	3.8	4.0	4.4	4.3	4.0	3.6	3.9	3.8	4.0	4.0	3.4	4.2	3.8	3.4	3.0	2.7	3.4	3.0	2.7	2.4	0.8
	Most extreme shock: Combination - Kteam	3.8	4.2	5.6	6.1	6.0	5.7	6.1	6.1	6.3	6.4	6.5	8.0	7.7	7.4	7.2	6.9	7.7	7.4	7.1	6.9	5.5

Annex to Sec. III: Data for Charts 6-8

IMF - Fiscal (e=74.3, w/Com loan)		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio	Baseline – IMF	32.8	31.4	31.8	32.9	33.4	33.1	33.3	33.3	33.5	33.6	33.3	33.3	33.4	33.4	33.4	33.4	33.4	33.2	32.8	32.1	30.7
	Historical scenario	32.8	28.5	27.0	26.8	26.2	24.8	24.2	23.5	22.8	22.0	20.8	20.1	19.5	18.8	18.3	17.9	17.4	16.7	15.6	14.4	13.3
	Most extreme shock: Growth - IMF	32.8	32.7	35.6	37.9	39.7	40.3	41.4	42.4	43.4	44.3	44.7	45.5	46.2	46.9	47.5	48.1	48.4	48.5	48.3	47.9	47.6
	Fix Primary Balance - IMF	32.8	31.7	33.0	35.1	36.7	37.4	38.6	39.6	40.6	41.6	42.1	43.0	43.8	44.5	45.2	46.0	46.6	47.0	47.1	47.0	47.1
PV of Debt-to-Revenue Ratio 2/	Baseline – IMF	141.7	137.6	138.0	143.6	147.3	146.5	148.3	149.6	150.7	151.4	150.2	150.0	150.1	150.2	149.9	149.8	149.8	148.9	146.6	143.3	136.4
	Historical scenario	141.7	124.7	117.0	116.6	114.8	109.2	107.0	104.5	101.7	98.3	92.9	89.7	86.5	83.6	81.0	79.2	76.8	73.5	68.3	62.7	57.8
	Most extreme shock: Growth - IMF	141.7	143.0	153.8	165.1	174.0	177.7	184.1	189.6	194.6	199.1	201.4	204.7	207.5	210.4	212.8	215.2	216.8	216.7	215.2	213.1	211.0
	Fix Primary Balance - IMF	141.7	138.8	142.8	152.9	160.9	164.5	170.9	176.5	181.3	185.7	188.1	191.5	194.5	197.5	200.2	203.1	205.5	206.8	206.3	205.3	204.4
Debt Service-to-Revenue Ratio 2/	Baseline – IMF	25.3	24.2	23.7	26.5	26.0	24.5	24.8	24.2	24.3	24.0	23.0	23.0	23.1	23.1	22.4	21.9	22.2	21.2	20.4	20.2	19.4
	Historical scenario	25.3	24.3	23.3	25.1	23.9	21.5	21.1	19.9	19.9	19.0	17.3	16.9	16.6	16.3	15.1	14.1	14.2	12.7	11.4	11.1	9.8
	Most extreme shock: Growth - IMF	25.3	24.9	25.3	28.8	28.9	28.0	29.0	29.1	29.7	29.9	29.3	29.8	30.3	30.7	30.4	30.1	30.8	30.1	29.5	29.6	29.1
	Fix Primary Balance - IMF	25.3	24.2	23.8	26.9	26.9	25.9	26.8	26.9	27.6	27.9	27.3	27.8	28.3	28.7	28.4	28.3	29.0	28.4	28.0	28.3	27.8
Kteam-Fiscal (e=84.3, w/ Com loan)																						
PV of Debt-to-GDP Ratio	Baseline – Kteam	33.0	33.2	30.6	30.8	31.9	32.6	33.2	33.6	34.1	34.5	34.3	34.3	34.5	34.7	34.9	35.1	35.3	35.3	35.1	34.6	33.4
	Historical scenario	33.0	30.6	25.9	24.4	24.4	24.4	24.4	24.4	24.4	24.8	24.5	24.8	25.0	25.2	25.5	25.8	25.8	25.3	24.3	23.1	22.0
	Most extreme shock: Growth -Kteam	33.0	42.2	38.9	38.7	39.6	39.9	40.2	40.3	40.5	40.5	40.0	39.9	39.8	39.7	39.7	39.6	39.4	38.9	38.2	37.4	36.7
	Fix Primary Balance - Kteam	33.0	33.9	32.1	33.3	35.9	38.4	40.7	42.7	44.6	46.7	48.2	49.9	51.5	53.0	54.5	55.8	56.9	57.4	57.5	57.5	57.5
PV of Debt-to-Revenue Ratio 2/	Baseline – Kteam	135.4	150.6	155.5	158.1	161.2	163.5	167.2	170.2	172.8	174.5	174.4	174.4	175.7	176.7	177.7	178.7	180.6	180.6	179.3	176.8	170.8
	Historical scenario	135.4	139.0	131.9	125.3	122.9	122.0	122.8	122.8	123.0	124.8	124.0	125.2	126.1	127.2	128.4	129.9	130.3	127.6	122.3	116.3	110.8
	Most extreme shock: Growth -Kteam	135.4	191.7	197.8	198.8	200.0	200.6	202.6	203.9	204.9	204.9	203.3	203.1	202.6	202.2	201.9	201.7	201.5	199.0	195.4	191.3	187.5
	Fix Primary Balance - Kteam	135.4	154.0	163.4	170.8	181.1	192.2	204.4	215.2	225.0	235.4	243.4	252.0	259.9	267.3	274.3	281.0	287.2	289.7	290.0	289.5	289.1
Debt Service-to-Revenue Ratio 2/	Baseline – Kteam	24.3	25.6	28.5	32.3	31.4	29.6	30.2	29.7	30.1	29.9	28.8	29.1	29.4	29.6	28.9	28.4	29.1	28.0	27.2	27.2	26.3
	Historical scenario	24.3	25.5	27.2	30.4	28.6	25.6	25.4	24.5	24.9	24.4	23.3	23.7	24.1	24.4	23.7	23.2	24.0	22.8	21.6	21.3	19.9
	Most extreme shock: Growth -Kteam	24.3	25.6	33.7	38.2	36.9	35.1	35.8	35.2	34.5	34.0	32.9	32.9	33.1	33.1	32.3	31.6	32.2	31.0	30.0	29.9	29.0
	Fix Primary Balance - Kteam	24.3	25.6	29.0	33.1	32.7	31.7	33.5	34.3	35.7	36.5	36.6	37.9	39.1	40.2	40.4	40.8	42.2	41.9	41.6	42.1	41.6

2/ No thresholds are applicable.

Annex to Sec. III: Data for Charts 9-13

Indicator	Scenario	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Kteam – External																						
(e=84.3, w/Yen loan, no Com loan)																						
PV of debt-to GDP ratio	Baseline	12.5	11.3	10.4	10.5	10.8	11.1	11.2	11.4	11.6	11.8	11.8	11.9	12.0	12.1	12.2	12.3	12.4	12.4	12.4	12.4	12.3
(Threshold = 40 percent)	Historical scenario	12.5	11.5	10.2	9.2	8.2	7.5	6.6	6.0	5.1	4.3	3.7	3.1	2.5	2.1	1.7	1.4	1.2	1.0	0.8	0.7	0.6
	Most extreme shock: Combination	12.5	15.3	18.8	18.7	18.9	19.1	19.0	18.9	19.1	19.1	18.8	18.6	18.5	18.4	18.3	18.2	18.1	17.9	17.8	17.6	17.3
PV of debt-to-exports ratio	Baseline	52.3	50.5	49.5	49.8	50.0	50.9	50.9	51.0	51.6	52.1	51.8	52.2	52.5	52.7	52.9	53.0	53.1	53.1	52.9	52.6	51.8
(Threshold = 150 percent)	Historical scenario	52.3	51.3	48.5	43.7	38.0	34.2	29.9	26.8	22.6	18.8	16.2	13.4	11.1	9.1	7.5	6.1	5.0	4.1	3.5	3.0	2.6
	Most extreme shock: Exports	52.3	63.0	77.5	76.9	76.1	76.3	75.1	74.2	74.1	74.0	72.6	71.9	71.2	70.5	69.8	69.3	68.7	68.0	67.2	66.3	65.0
PV of debt-to-revenue ratio	Baseline	54.0	54.7	56.7	57.3	57.7	58.9	59.9	60.6	62.0	62.9	63.0	63.7	64.4	64.9	65.3	65.8	66.5	66.7	66.7	66.5	65.8
(Threshold = 250 percent)	Historical scenario	54.0	55.6	55.7	50.4	43.9	39.6	35.1	31.8	27.2	22.7	19.7	16.4	13.6	11.3	9.3	7.6	6.2	5.2	4.4	3.7	3.3
	Most extreme shock: Combination	54.0	74.1	102.5	101.9	100.9	101.1	101.2	101.1	101.7	101.8	100.7	99.9	99.1	98.4	97.6	97.1	97.0	96.3	95.4	94.4	92.8
Debt service-to-exports ratio	Baseline	3.6	3.3	3.2	3.0	2.9	2.6	2.8	2.7	2.7	2.6	2.4	2.2	2.2	2.3	2.3	2.3	2.3	2.4	2.4	2.5	2.5
(Threshold = 20 percent)	Historical scenario	3.6	3.7	3.7	3.4	3.1	2.7	2.9	2.6	2.6	2.5	2.0	1.5	1.3	1.2	1.0	0.8	0.7	0.6	0.5	0.6	0.5
	Most extreme shock: Exports	3.6	3.3	3.3	3.4	3.4	3.4	3.4	3.5	3.5	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Debt service-to-revenue ratio	Baseline	3.8	3.6	3.7	3.5	3.3	3.1	3.3	3.2	3.2	3.2	2.9	2.7	2.8	2.8	2.8	2.9	2.9	3.0	3.0	3.1	3.2
(Threshold = 30 percent)	Historical scenario	3.8	4.0	4.3	4.0	3.6	3.1	3.4	3.1	3.1	3.0	2.4	1.8	1.6	1.4	1.2	1.0	0.9	0.8	0.7	0.7	0.7
	Most extreme shock: Combination	3.8	4.2	5.2	5.3	5.0	4.6	4.9	4.7	4.7	4.6	4.6	4.8	4.7	4.7	4.6	4.6	4.6	4.6	4.6	4.7	4.7
Kteam -External (e=84.3,w/ Com loan)																						
PV of debt-to GDP ratio	Baseline	12.5	11.8	11.3	11.6	12.2	12.6	13.2	13.6	14.0	14.3	13.9	13.9	13.9	13.9	13.8	13.9	13.7	13.6	13.4	13.3	13.2
(Threshold = 40 percent)	Historical scenario	12.5	11.9	10.9	10.1	9.2	8.6	8.1	7.9	7.2	6.5	5.5	4.9	4.4	3.9	3.5	3.2	2.8	2.6	2.3	2.1	2.0
	Most extreme shock: Combination	12.5	16.2	20.8	20.9	21.4	21.8	22.2	22.5	22.9	23.0	22.2	21.8	21.4	21.1	20.8	20.5	20.1	19.7	19.4	19.0	18.7
PV of debt-to-exports ratio	Baseline	52.3	52.8	53.5	55.1	56.3	57.9	59.6	60.9	62.3	63.3	61.4	61.0	60.7	60.2	59.9	59.8	58.9	58.1	57.2	56.3	55.7
(Threshold = 150 percent)	Historical scenario	52.3	52.9	51.7	47.9	42.7	39.3	36.7	35.2	32.0	28.8	24.4	21.6	19.2	16.9	15.2	13.8	12.2	10.9	9.8	8.7	8.3
	Most extreme shock: Exports	52.3	66.6	85.3	86.1	86.3	87.1	87.9	88.3	89.0	89.3	85.9	84.1	82.4	80.8	79.4	78.3	76.5	74.8	73.1	71.4	70.1
PV of debt-to-revenue ratio	Baseline	54.0	57.2	61.3	63.5	65.0	67.0	70.1	72.5	74.9	76.4	74.7	74.6	74.4	74.2	74.1	74.1	73.7	72.9	72.1	71.2	70.7
(Threshold = 250 percent)	Historical scenario	54.0	57.4	59.3	55.1	49.2	45.4	43.2	41.9	38.4	34.7	29.7	26.4	23.5	20.9	18.8	17.1	15.3	13.7	12.3	11.1	10.6
	Most extreme shock: Combination	54.0	78.5	112.9	114.2	114.4	115.6	118.3	120.1	122.0	122.7	118.9	116.8	114.7	112.7	111.1	109.8	108.1	105.9	103.8	101.6	100.2
Debt service-to-exports ratio	Baseline	3.6	3.3	3.4	3.4	3.3	3.2	3.4	3.4	3.5	3.6	3.4	4.0	3.9	3.8	3.7	3.6	4.1	3.9	3.8	3.7	2.9
(Threshold = 20 percent)	Historical scenario	3.6	3.7	3.9	3.7	3.4	3.1	3.3	3.2	3.3	3.3	2.8	3.4	3.1	2.8	2.4	2.1	2.8	2.4	2.1	1.9	0.6
	Most extreme shock: Exports	3.6	3.7	4.3	4.7	4.5	4.3	4.6	4.5	4.7	4.7	4.7	5.7	5.5	5.3	5.1	4.9	5.4	5.2	5.0	4.8	3.8
Debt service-to-revenue ratio	Baseline	3.8	3.6	3.9	3.9	3.8	3.7	4.0	4.1	4.2	4.3	4.2	4.9	4.8	4.7	4.6	4.5	5.1	4.9	4.8	4.7	3.7
(Threshold = 30 percent)	Historical scenario	3.8	4.0	4.4	4.3	4.0	3.6	3.9	3.8	4.0	4.0	3.4	4.2	3.8	3.4	3.0	2.7	3.4	3.0	2.7	2.4	0.8
	Most extreme shock: Combination	3.8	4.2	5.6	6.1	6.0	5.7	6.1	6.1	6.3	6.4	6.5	8.0	7.7	7.4	7.2	6.9	7.7	7.4	7.1	6.9	5.5

Annex to Sec. III: Data for Charts 14-16

Kteam - Fiscal (e=84.3, w/Yen loan, no Com loan)		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio	Baseline	33.0	32.7	29.7	29.7	30.5	31.0	31.2	31.4	31.7	31.9	32.1	32.1	32.5	32.9	33.2	33.5	33.8	34.0	33.9	33.6	32.5
	Historical scenario	33.0	30.1	25.0	23.2	22.8	22.5	22.0	21.4	21.0	21.0	20.9	21.1	21.3	21.5	21.7	21.9	22.0	21.6	20.6	19.5	18.3
	Most extreme shock: Fix Primary Balance	33.0	41.7	38.0	37.6	38.2	38.4	38.3	38.1	38.0	37.9	37.8	37.9	38.0	38.0	38.1	38.1	38.1	37.8	37.2	36.5	35.8
	Fix Primary Balance	33.0	33.4	31.2	32.1	34.4	36.6	38.4	39.9	41.6	43.4	45.0	46.8	48.4	49.9	51.3	52.7	53.9	54.5	54.7	54.8	54.7
PV of debt-to-revenue ratio	Baseline	135.4	148.2	151.2	152.3	154.3	155.8	157.5	159.0	160.6	161.7	163.4	163.4	165.5	167.2	168.9	170.4	172.6	173.7	173.4	171.6	166.1
	Historical scenario	135.4	136.6	127.4	118.9	114.9	112.6	110.5	108.0	106.0	105.9	105.8	106.8	107.5	108.4	109.4	110.4	111.2	108.9	104.0	98.4	92.1
	Most extreme shock: Fix Primary Balance	135.4	189.3	193.5	193.0	193.1	192.9	192.9	192.7	192.7	192.1	192.3	192.8	193.1	193.4	193.6	193.8	194.6	193.1	190.2	186.8	182.8
	Fix Primary Balance	135.4	151.7	158.9	164.5	173.4	183.2	192.8	201.4	209.5	218.4	227.4	236.1	244.0	251.5	258.6	265.2	272.0	275.1	275.8	275.9	275.1
Debt service-to-revenue ratio	Baseline	24.3	25.6	28.4	32.0	30.9	29.0	29.5	28.9	29.1	28.8	27.7	27.0	27.5	27.8	27.3	26.9	27.0	26.2	25.5	25.6	25.8
	Historical scenario	24.3	25.5	27.0	30.0	28.0	24.9	24.5	23.4	23.5	22.8	21.4	20.6	21.0	21.3	20.6	20.1	20.1	19.0	17.9	17.8	17.7
	Most extreme shock: Fix Primary Balance	24.3	25.6	33.6	37.9	36.4	34.6	35.1	34.4	33.5	33.0	31.7	30.9	31.1	31.3	30.6	30.1	30.1	29.2	28.4	28.4	28.5
	Fix Primary Balance	24.3	25.6	28.8	32.7	32.1	31.0	32.7	33.2	34.4	35.0	34.9	35.2	36.5	37.6	37.9	38.3	39.1	38.9	38.8	39.4	39.9
Kteam-Fiscal (e=84.3, w/ Com loan)																						
PV of Debt-to-GDP Ratio	Baseline	33.0	33.2	30.6	30.8	31.9	32.6	33.2	33.6	34.1	34.5	34.3	34.3	34.5	34.7	34.9	35.1	35.3	35.3	35.1	34.6	33.4
	Historical scenario	33.0	30.6	25.9	24.4	24.4	24.4	24.4	24.4	24.4	24.8	24.5	24.8	25.0	25.2	25.5	25.8	25.8	25.3	24.3	23.1	22.0
	Most extreme shock: Growth	33.0	42.2	38.9	38.7	39.6	39.9	40.2	40.3	40.5	40.5	40.0	39.9	39.8	39.7	39.7	39.6	39.4	38.9	38.2	37.4	36.7
	Fix Primary Balance	33.0	33.9	32.1	33.3	35.9	38.4	40.7	42.7	44.6	46.7	48.2	49.9	51.5	53.0	54.5	55.8	56.9	57.4	57.5	57.5	57.5
PV of Debt-to-Revenue Ratio 2/	Baseline	135.4	150.6	155.5	158.1	161.2	163.5	167.2	170.2	172.8	174.5	174.4	174.4	175.7	176.7	177.7	178.7	180.6	180.6	179.3	176.8	170.8
	Historical scenario	135.4	139.0	131.9	125.3	122.9	122.0	122.8	122.8	123.0	124.8	124.0	125.2	126.1	127.2	128.4	129.9	130.3	127.6	122.3	116.3	110.8
	Most extreme shock: Growth	135.4	191.7	197.8	198.8	200.0	200.6	202.6	203.9	204.9	204.9	203.3	203.1	202.6	202.2	201.9	201.7	201.5	199.0	195.4	191.3	187.5
	Fix Primary Balance	135.4	154.0	163.4	170.8	181.1	192.2	204.4	215.2	225.0	235.4	243.4	252.0	259.9	267.3	274.3	281.0	287.2	289.7	290.0	289.5	289.1
Debt Service-to-Revenue Ratio 2/	Baseline	24.3	25.6	28.5	32.3	31.4	29.6	30.2	29.7	30.1	29.9	28.8	29.1	29.4	29.6	28.9	28.4	29.1	28.0	27.2	27.2	26.3
	Historical scenario	24.3	25.5	27.2	30.4	28.6	25.6	25.4	24.5	24.9	24.4	23.3	23.7	24.1	24.4	23.7	23.2	24.0	22.8	21.6	21.3	19.9
	Most extreme shock: Growth	24.3	25.6	33.7	38.2	36.9	35.1	35.8	35.2	34.5	34.0	32.9	32.9	33.1	33.1	32.3	31.6	32.2	31.0	30.0	29.9	29.0
	Fix Primary Balance	24.3	25.6	29.0	33.1	32.7	31.7	33.5	34.3	35.7	36.5	36.6	37.9	39.1	40.2	40.4	40.8	42.2	41.9	41.6	42.1	41.6

2/ No thresholds are applicable