

I. **2013 Medium Term Debt Strategy, comprises of the following actions:**

• **Overall Strategy**

- ✓ 60 percent net domestic borrowing and 40 percent net external borrowing.

**a. Domestic Borrowing**

- i. 60 percent net domestic borrowing.
- ii. Of the 60 percent net domestic borrowing, Treasury Bonds to Treasury Bills ratio will be 85:15. Based on cost consideration the strategy recommends issuance of medium term Treasury Bonds given the relatively higher cost associated with longer dated debt.

**b. External Borrowing**

- i. 40 percent net external borrowing.
- ii. External borrowing will comprise of 18 percent on concessional terms, 4 percent on semi concessional terms.
- iii. The residual 18 percent external borrowing will be on commercial terms to cater for an International Sovereign Bond which will be issued during the FY2013/14 primarily to finance infrastructure as well as to retire the 2-year syndicated external commercial loan contracted during the financial year 2011/12.

II. **Macro-Risks and Implications for Debt Management Strategy**

The following are the risks associated with assumptions used to design this strategy.

- i. Changes in underlying macroeconomic assumptions including the following;
  - a. Lower GDP growth.
  - b. Unstable exchange rate.
  - c. Terms of trade shocks
- ii. Fiscal risks due to lower revenue collection which will increase overall fiscal balance.
- iii. Materialisation of contingent liabilities is expected to increase GoK debt levels.
- iv. Monetary risks due to higher than expected inflation which would result to higher interest.
- v. In the event of natural disasters, that would impair growth of the economy.



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**Republic of Kenya**

**MINISTRY OF FINANCE**

**Medium Term  
Debt Management Strategy**

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## FOREWORD

Kenya's economy has maintained a steady path over the years despite strong domestic demand and a number of external pressures such as the global financial crisis and the debt crisis. In terms of public debt management, the country's debt has and continues to be sustainable in the medium term. This is in line with the Millennium Development Goal number 8D on debt sustainability and the country's Vision 2030 under the Economic Pillar.

The Government borrowing requirement and the level of public debt is consistent with the overall fiscal framework supporting macro-economic stability for sustainable growth over the medium term. It is anchored on the *Medium Term Debt Strategy* (MTDS) required to be tabled in Parliament in accordance with the Public Finance Management (PFM) Act, 2012. This MTDS is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement tabled in Parliament in April 2013.

The Constitution requires that both the burden of and benefit from public borrowing is equitably shared between the present and future generations. In this regard, the PFM Act and Regulations to operationalize this requirement stipulate that national and county Governments' fiscal strategies will be geared towards maintaining a sustainable level of debt.

To achieve this, the Act has provided for the transformation of the institutional arrangement for public debt management by setting up a Public Debt Management Office (PDMO) to enable the Treasury execute its mandate effectively and efficiently in managing the Country's public debt and liabilities.

The Government debt management objective remains two-fold: (i) to raise resources through borrowing to meet central government budgetary requirements at minimum cost and prudent level of risk; and (ii) to promote the development of domestic debt markets. The implementation of the devolved governance system requires enormous amount of resources, part of which will be sourced through borrowing. It is therefore important to closely monitor the burden of public debt both at



the national and at county government level so as not to undermine economic growth.

The framework presented in this *2013 MTDS* provides guidance to the national government borrowing in the financial year 2013/14 while providing a path for sustainable level of debt over the medium term. The MTDS Statement evaluates both costs and risks of various scenarios and recommends an optimal debt management strategy for implementation during the financial year.



**JOSEPH K. KINYUA, CBS**  
**PERMANENT SECRETARY/ TREASURY**  
**APRIL 2013**

## ACKNOWLEDGEMENT

This is the fifth Medium Term Debt Strategy to be tabled in Parliament and the first under the Public Finance Management (PFM) Act, 2012. In accordance with the Act, within fourteen days of submitting the MTDS to Parliament, the Cabinet Secretary shall submit it to the Commission on Revenue Allocation and Intergovernmental Budget and Economic Council and publish and publicize it.

The MTDS sets out the debt management strategy of the national Government over the medium term with respect to actual and potential liabilities for both loans and guarantees given by the national government. It also presents the preferred borrowing mix in fiscal year 2013/14.

To ensure transparency, the Treasury will implement measures to simplify and disseminate information in the *2013 MTDS* Statement through easily accessible channels to ensure wider outreach and understanding by the general public. As a first step in this direction, the MTDS is available on the Treasury Website: [www.treasury.go.ke](http://www.treasury.go.ke)

In respect to formulation of debt strategies in a devolved system, the PFM Act also requires that each County Treasury submit to the County Assemblies a debt management strategy statement by 28<sup>th</sup> February of each year. In this regard, County Treasuries need to commence preparations to comply with this requirement after the March 2013 General Elections.

Let me take this opportunity to acknowledge the staff of the Debt Management Department, Ministry of Finance who were involved in the preparation of the *2013 MTDS*. Specifically, the core team led by Mr. Charles Kairu comprising of Racheal Njoroge, Benard Gibet and Denis Okungu under the guidance of Mr. John Murugu - Director, Debt Management Department.



**JOSEPH K. KINYUA, CBS**  
**PERMANENT SECRETARY/ TREASURY**  
**APRIL 2013**



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## **Legal Basis for the Publication of the Debt Management Strategy**

The Debt Management Strategy is published in accordance with Section 33 of the Public Finance Management Act, 2012. The law states that:

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- 1) On or before 15<sup>th</sup> February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.
  - 2) The Cabinet Secretary shall ensure that the medium term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.
  - 3) The Cabinet Secretary shall include in the statement the following information:-
- 

- a) The total stock of debt as at the date of the statement;
  - b) The sources of loans made to the national government and the nature of guarantees given by the national government;
  - c) The principal risks associated with those loans and guarantees;
  - d) The assumptions underlying the debt management strategy; and
  - e) An analysis of the sustainability of the amount of debt, both actual and potential.
- 

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

ADB	African Development Bank
ADF	African Development Fund
ATM	Average Time to Maturity
BoP	Balance of Payments
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DGIPE	Department of Government Investment and Public Enterprises
DMD	Debt Management Department
DSA	Debt Sustainability Analysis
DX	Domestic currency denominated debt
EAC	East African Community
ECF	Extended Credit Facility
EEC	European Economic Community
EIB	European Investment Bank
EMBI	Emerging Markets Bond Index
ePROMIS	Electronic Projects Monitoring Information System
ERD	External Resources Department
ESF	Exogenous Shock Facility
FDI	Foreign Direct Investment
FLSTAP	Financial and Legal Sector Technical Assistance Project
FX	Foreign currency denominated debt



FY	Financial Year
GDP	Gross Domestic Product
IDA	International Development Association
IFB	Infrastructure Bond
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPO	Initial Public Offer
ISB	International Sovereign Bond
Ksh	Kenya Shilling
LIC	Low Income Country
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MoF	Ministry of Finance
MTDS	Medium Term Debt Strategy
NPV	Net Present Value
NSE	Nairobi Securities Exchange
PFM	Public Financial Management
PPP	Public Private Partnerships
PV	Present Value
SDR	Special Drawing Rights
US	United States
USD	United States Dollars

## EXECUTIVE SUMMARY

The key drivers for the *2012 MTDS* were a desire to minimize overall cost by issuing medium term debt to reduce cost associated with longer dated securities and to further develop and deepen the domestic debt market. Consequently, *2013 MTDS* envisages a less uptake of domestic debt than in previous years to meet the Central Government budget-financing requirement.

The Government also highlighted the need to minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by borrowing more concessional debt, while maintaining a limited window for borrowing on commercial terms to minimize costs and refinancing risks. The *2013 MTDS* emphasizes that financing on non-concessional terms will be highly restricted to projects with high expected risk-adjusted rates of return including critical infrastructure that would otherwise not be undertaken due to lack of concessional financing. A Euro Bond will be issued during the year and the proceeds will be used primarily for infrastructure development.

The *2012 MTDS* reaffirmed Government's commitment in realizing its objectives in the domestic debt market. In the first half of 2012/13, the domestic debt market was characterized by falling interest rates, over-subscription of government securities offered at the auctions. As at December 2012, out of the targeted domestic borrowing of Ksh. 98.5 billion, Ksh. 91.4 billion (92.8 percent) had been realized.

While the thrust of the *2012 MTDS* remained unchanged, a slight deviation in the level of domestic borrowing led to marginal deterioration in the level of refinancing risk was observed in the domestic debt portfolio. The average time to maturity decreased to 4.9 years from 5.9 years and the proportion of domestic debt to be refinanced within 12 months remained constant at 18 percent at end June 2013.

Although *2012 MTDS* successfully achieved a reduction in refinancing risk, managing this risk remains a priority for the *2013 MTDS*. Active debt management operations to smooth the refinancing profile, along



with efforts to maintain a wider investor base have been instrumental in mitigating potential fiscal shocks, such as, impact of drought on food security, realization of contingent liabilities, or shortfall in revenues, the country continues to face.

The rapid growth of domestic debt and sharp decrease in interest rates on government securities poses major risk on debt sustainability. To mitigate these risks, there is need to explore the possibility of a switch from domestic to external debt. However, there is also a concern that a sudden and aggressive shift from domestic debt could risk reversing some of the gains that previous debt strategies have achieved in terms of market deepening. In addition, while increasing the exposure to exchange rate risk would have a relatively limited budgetary impact in the short-term; it would aggravate the risk that the main fiscal anchor, the PV of Debt/GDP would exceed the ceiling of 40 percent in the event of shocks. This risk is real given the steep depreciation of the shilling witnessed in 2011 when the Shilling weakened to exchange at a historic low of Ksh 107 per USD in mid-October 2011.

With regard to external borrowing, the Government prefers concessional external financing while maintaining a limited window for borrowing on commercial terms to minimize costs and refinancing risks. Financing on non-concessional terms will be on exceptional basis and will be biased towards projects with high-expected risk-adjusted rates of return including critical infrastructure that would otherwise not be undertaken due to lack of concessional financing. A cautious approach will be adopted in the issuance of Government loan guarantees to minimize the level of contingent liabilities.

The evaluation is done against a backdrop of the planned issuance of a Euro bond in FY 2013/14.

Given those issues, the Government evaluated the performance of four alternative strategies relative to *2012 MTDS* (“S2”). These included a strategy envisaging an aggressive switch to external official sector borrowing, accompanied by lengthening of maturities in the domestic market (“S2”). Apriori, this strategy was expected to have very attractive cost and risk characteristics. However, given the potential challenges in

achieving the target level of external borrowing, 3 alternative strategies were also considered - two envisaging relatively more domestic debt (“S3” with a continued bias toward medium-term debt and “S4” with a bias to short-term debt to medium term debt) and a strategy that proposes contraction of a higher proportion of semi-concessional external financing. (“S5”).

In selecting the optimal strategy, the Government considered two key indicators – ratio of interest payments to GDP (*Interest/GDP*) and ratio of PV of Debt to GDP (*PV of Debt/GDP*). **“S1” outperforms all other strategies, as it does not factor the issuance of a Euro bond, while “S2” outperforms “S3”, S4 and S5.** The refinancing risk was higher under “S4”. The strategy could not accommodate significant amounts of short to medium term domestic debt, thus the potential risk of losing the retail investor base. In terms of *Interest/GDP*, “S5” entails a lower cost and lower risk than “S3”. This reflects the relatively longer-tenor of domestic debt involved. However, once *PV of Debt/GDP* is considered, “S5” becomes less attractive, and aggravates the risk of breaching the 40 percent ceiling. This strategy exposes the portfolio to relatively high exchange rate and refinancing risks. Whereas these risks could be mitigated by use of a sinking fund, this approach has cost implications.

The 2013 MTDS presents “S2” as the **optimal strategy** after taking into account both cost and risk considerations, the need to develop the domestic debt markets and the feasibility of implementing the strategy over the medium term. The strategy comprises of the following actions:

- **60%** net domestic borrowing and **40%** net external borrowing to finance the central government budget;
- Domestic borrowing will be on medium term. Indeed, the 2013 MTDS considered the macro-economic and domestic market environment and **recommends issuance of medium term domestic debt.**
- External borrowing will comprise of **18%** on concessional terms, **4%** on semi concessional terms.
- The residual 18 percent external borrowing will be on commercial terms to cater for **an International Sovereign Bond will be issued during the year** and the proceeds used to finance infrastructure development.

**The Government is committed to maintain debt within sustainable levels.** Under the current three-year Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF), the Government intends to raise real GDP to 7 percent, lower the nominal public debt to GDP ratio to below 45 percent and maintain inflation at 5 percent over the medium term.

Consistent with the principles of public finance in the Constitution of Kenya, 2010, the Government will seek to widen outreach of the *2013 MTDS*. A domestic borrowing plan anchored on government cash flow requirements will be developed for implementation, monitoring and evaluation. The Government will also actively monitor the key macroeconomic indicators and interest rates against those assumed in the analysis. Any significant and sustained change will trigger the need for revision of the strategy. The underlying cost-risk analysis also identifies a range of risk indicators consistent with the adopted strategy. These provide a set of strategic targets against which the portfolio will be assessed on a regular basis to ensure the strategy remains on track.

Availability of comprehensive and accurate information on a regular basis is critical in managing investors' sovereign risk assessment and the cost of debt. The Government will seek to publish public debt information on a regular basis to enhance transparency on debt management in accordance with best international practice.

The Government continues to strengthen capacity in public debt management. The debt recording system will be upgraded, additional skilled staff posted to DMD while training in debt management techniques scaled up.



## **I. OBJECTIVE OF DEBT MANAGEMENT IN KENYA**

1. The principal objective of Government debt management is to meet the Central Government financing requirements at the least cost with a prudent degree of risk. The secondary objective is to facilitate Government's access to financial markets and support development of a well-functioning vibrant domestic debt market.

2. In June 2012, Ministry of Finance (MoF) through the Debt Management Department (DMD) prepared and published a formal debt management strategy, the *2012 MTDS*, which outlined the Government Medium Term Debt Strategy for the period FY2012/13-FY2014/15. The *2012 MTDS* was the Government's fourth formal and explicit strategy and was an important step towards enhancing transparency of the Government's debt management decisions. The MTDS was presented to Parliament as part of the Budget Documents by the Minister for Finance. To institutionalize the production of the debt strategy, the publication of the MTDS has been provided for under the Public Finance Management Act, 2012.

3. The *2013 MTDS* will guide the Government debt management operations in the FY2013/14. The strategy seeks to balance cost and risk of public debt while taking into account Central Government financing needs. In addition, the strategy incorporates initiatives to develop the domestic debt market, seek new funding sources, support macroeconomic stability and achieve debt sustainability.



## II. RECENT DEVELOPMENTS

### a) Development in the Domestic Debt Market

4. The government has continued to pursue the twin objectives of developing a deep and liquid domestic market since the development of the first MTDS in June 2009. The development of the *2012 MTDS*, reaffirmed the government's commitment in realizing its objective of deepening the domestic debt market.

5. The interbank interest rates eased to 5.63 percent in December 2012 from 28.9 percent in November 2011. The drop in short-term interest rate reflects subdued inflationary expectation and ample liquidity in the financial system. The 91-day Treasury bill rates, has also dropped from 16.1 percent in November 2011 to 8.4 percent in December, 2012.

6. Recent downwards adjustment of the CBK policy rate (CBR) from 18 percent in November 2011 to 16.5 percent in July 2012, 13 percent in September, and further to 11 percent in November 2012 has led to reduction in short term interest rates, save for the commercial banks' lending rates which have remained stuck at about 20 percent, reflecting the high cost of deposits that were locked in during the period of tight liquidity stance in late 2011. Meanwhile, the Government borrowing programme has progressed as planned with the cost declining as evidenced by the sharp fall in Treasury bill rates.

7. To confront the challenges of revenue shortfall and expenditure pressures, the Government will step up efforts on tax administration and mobilization of revenue to eliminate leakages and increase revenue collection as targeted in the FY 2012/13, as well as cut and rationalize expenditure so as to remain within the revised domestic borrowing ceiling of Ksh. 137.2 billion.

8. The Government enhanced its outreach in the dissemination of a formal debt management strategy by posting the *2012 MTDS* on the Ministry of Finance website. Issues ranging from the amount to be borrowed, preferred terms of new borrowing and the effects on the country's debt sustainability status are clearly brought out as a way of ensuring transparency and credibility of the information presented.

## **b) External Financing**

9. The Government policy on external borrowing is to be analyzed in light of the ever-changing domestic and international macroeconomic conditions. In the *2012 MTDS*, the Government's preference remained for concessional external financing and provision of a limited window for borrowing on commercial terms to minimize costs and refinancing risks. This stance was informed by rising inflation in the domestic market, which led to the sharp depreciation of the local currency resulting to high external debt servicing. Financing on non-concessional terms continues to be restricted to projects with high-expected risk-adjusted rates of return including critical infrastructure such as energy and in transport that would otherwise not be undertaken due to lack of concessional financing.

10. To support Government's economic and financial reforms, Kenya entered into a three-year Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF) in January 2011. The program aims at boosting the level of official foreign exchange reserves while supporting efforts for a gradual fiscal adjustment over a three-year horizon. The Government's intention under the ECF program is: i) to raise real GDP to 7 percent; ii) bring the public debt to GDP ratio to below 45 percent over the medium term; and iii) keep inflation at 5 percent while maintaining a floating rate regime.

11. Performance of external financing, on a net basis, has been below target in recent years. In addition, the Government has seen new external commitments entered on relatively harder terms, that is, closer to the 35 percent grant element threshold for 'soft' loans. However, the overall concessionality has remained relatively unchanged given the high grant element of IDA loans, the leading source of multilateral loans.

12. The Government has also been considering the possibility of accessing the international capital markets. In this context, the *2012 MTDS* had clearly indicated there would be no issuance in FY2012/13. The potential for a Euro Bond to act as a benchmark for the corporate sector for such access is a major consideration, in addition to the domestic market, which has proven that it is an effective source for providing longer-dated funds for investment through corporate Infrastructure Bonds (IFBs).



13. In financial year 2011/12, a 2 year commercial banks syndicated loan facility of up to Ksh 52 billion (USD 600 million equivalent) was negotiated as an alternative source of financing the budget following the low uptake of Government securities by investors. The foreign currency inflows from the borrowing eased pressure on domestic interest rates added to the official foreign exchange reserves position and reduced pressure on the Kenya shilling exchange rate.

### **c) Guarantees**

14. The energy sector has been the primary driver for the rise in contingent liabilities in form of government guarantees. The government, in collaboration with its development partners has increased its efforts towards promotion of Public Private Partnership arrangements (PPP) in the energy sector and encouraged use of non-state guarantees from multilateral agencies like MIGA to minimize the level of explicit guarantees to maintain public debt within sustainable levels.

15. The demand for explicit guarantees is likely to increase in the medium term as the country embarks on implementing a devolved system of governance under the Constitution of Kenya, 2010. However, it is expected that county governments will exercise fiscal restraint in the management of county budgets.

16. A process to establish the level of contingent liabilities, as well as a World Bank funded management mechanism under the Public Private Partnership framework is ongoing under the Department of Government Investment and Public Enterprises (DGIPE).

### III. CHARACTERISTICS OF KENYA'S PUBLIC DEBT

#### a) Stock of Debt

17. The stock of public and publicly guaranteed debt is projected at Ksh 1,896.8 billion or 50.2 percent of GDP in nominal terms as at end June 2013. In addition, the structure of the debt portfolio is projected to remain unchanged at 47 percent external debt and 53 percent domestic debt, respectively (Table 1(a)-1(c) and Figure 1, Chart 1).

18. The analysis done in the preparation of the 2013 MTDS excludes disputed external commercial debt, which is currently not being serviced.

**Table 1(a): External and Domestic Debt, End June 2012**

	USD Billion	Ksh Billion	Percent of GDP	Share of total debt (%)	Weighted average interest rate (%)
Domestic debt (gross)	10.2	858.8	26.1	52.9	9.6
External debt	9.2	764.0	23.2	47.1	1.0
o/w Guarantees	0.6	47.4	1.4	3.0	0.3
<b>Total debt</b>	<b>19.4</b>	<b>1,622.8</b>	<b>49.3</b>	<b>100</b>	<b>7.0</b>

*Source: Ministry of Finance and IMF/WB estimates*

**Table 1(b): External and Domestic Debt, End December 2012**

	USD Billion	Ksh Billion	Percent of GDP	Share of total debt (%)	Weighted average interest rate (%)
Domestic debt (gross)	11.3	971.2	25.7	54.2	10.8
External debt	9.6	821.9	21.7	45.8	1.1
o/w Guarantees	0.5	44.8	1.2	2.4	0.1
<b>Total debt</b>	<b>20.9</b>	<b>1,793.1</b>	<b>46.4</b>	<b>100</b>	<b>6.3</b>

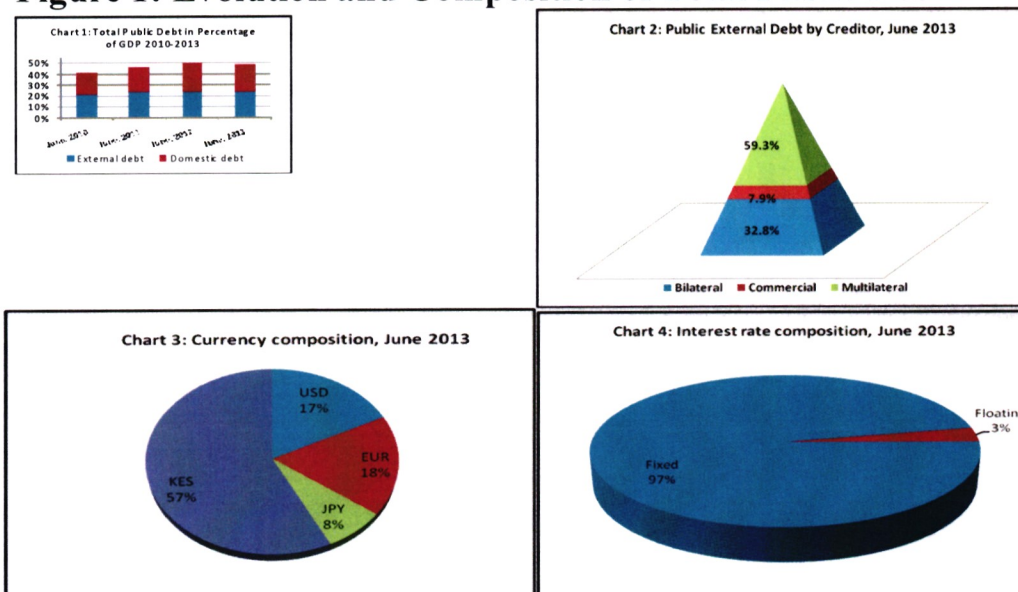
*Source: Ministry of Finance and IMF/WB estimates*

**Table 1(c): Projected External and Domestic Debt, June 2013**

	USD Billion	Ksh Billion	Percent of GDP	Share of total debt (%)	Weighted average interest rate (%)
Domestic debt (gross)	9.8	996.0	26.4	52.5	9.5
External debt	13.2	900.8	23.8	47.5	1.2
o/w Guarantees	0.5	41.1	1.1	2.1	0.2
<b>Total debt</b>	<b>23.0</b>	<b>1,896.8</b>	<b>50.2</b>	<b>100</b>	<b>5.6</b>

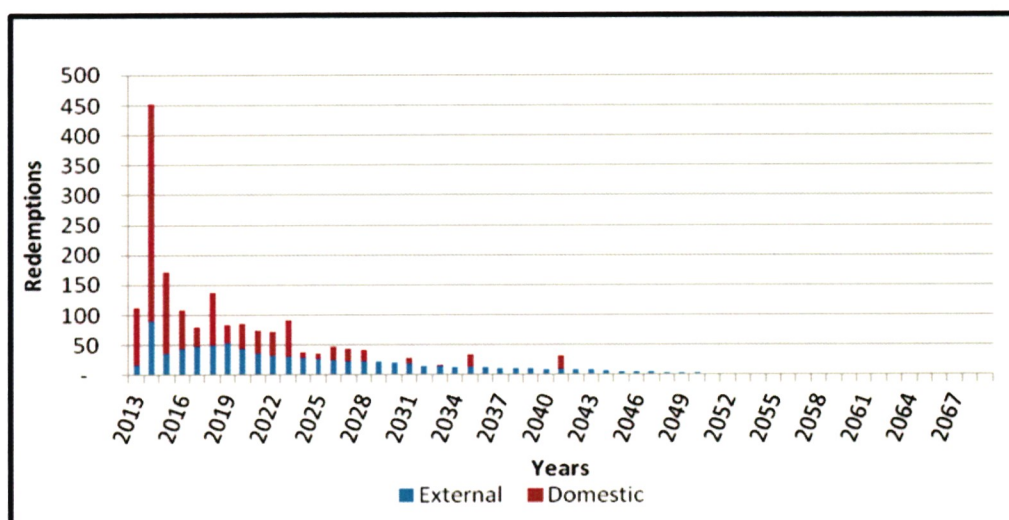
*Source: Ministry of Finance (BPS 2013) and IMF/WB estimates*

**Figure 1: Evolution and Composition of Total Public Debt**



*Source: Ministry of Finance and Central Bank of Kenya*

**Figure 2: Total Debt Repayment Profile, End-June 2013 (Ksh billion)**



*Source: Ministry of Finance and Central Bank of Kenya*



19. The huge spike noted in 2014 is attributable to the redemption of short term domestic debt contracted in FY 2011/12, mainly Treasury bills, 1 year and 2 year Treasury Bonds, and the syndicated loan contracted in FY 2011/12 and being retired in May 2014.

## **b) Sources of Loans made to the National Government**

### **i. Domestic Sources of Loans**

20. Government domestic sources of loans consists of Government securities and Government Overdraft at Central Bank of Kenya. Government securities comprise of Treasury bills, Treasury bonds, Infrastructure bonds and the Pre-1997 Government Debt. The stock of outstanding Treasury Bonds increased from Ksh 595,661 million in June 2011 to Ksh 716,069 million in December 2012 while Treasury Bills from Ksh 126,605 million to Ksh 196,259 million over the same period as shown in Table 2 and Figure 3. The proportion of Treasury Bonds in total domestic debt decreased from 77.9 percent to 73.7 percent while Treasury Bills increased from 16.6 percent to 20.2 percent during the period. The holding of domestic debt by commercial banks stands at 50.0 percent in December 2012 as shown in Table 3. They are the largest holders among all investor categories. However, the share of domestic debt held by non-bank investors is 44.1 percent at December 2012. As at end December 2012, the ratio of Treasury bills to bonds stood at 22:78 which is in accordance with the domestic debt borrowing strategy, with the Government seeking to achieve and maintain the ratio of Treasury Bills and Treasury Bonds at 30:70.

**Table 2: Domestic Debt Stock, Ksh Million**

<b>Instrument</b>	<b>June 2011</b>		<b>December 2012</b>		<b>Change</b>
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	
<b>Total Stock of Domestic Debt (A+B)</b>	<b>764,222</b>	<b>100</b>	<b>971,214</b>	<b>100</b>	<b>206,992</b>
<b>A. Government Securities(1-2)</b>	<b>753,929</b>	<b>98.7</b>	<b>912,328</b>	<b>93.9</b>	<b>158,399</b>
<b>1. Treasury Bills</b>	<b>126,605</b>	<b>16.6</b>	<b>196,259</b>	<b>20.2</b>	<b>69,654</b>
Banking Institutions	87,736	11.5	139,161	14.3	51,245
Others	38,869	5.1	57,098	5.9	18,229
<b>2. Treasury Bonds</b>	<b>595,661</b>	<b>77.9</b>	<b>716,069</b>	<b>73.7</b>	<b>120,408</b>
Banking Institutions	294,206	38.5	343,521	35.4	49,315
Others	301,455	39.4	372,548	38.4	71,093
<b>3. Pre-1997 Government Debt</b>	<b>31,663</b>	<b>4.1</b>	<b>29,999</b>	<b>3.1</b>	<b>(1,664)</b>

<b>B. Others<sup>1</sup></b>	<b>10,293</b>	<b>1.3</b>	<b>28,887</b>	<b>3.0</b>	<b>18,594</b>
Of which CBK Overdraft	7,571	1	25,373	2.6	17,802

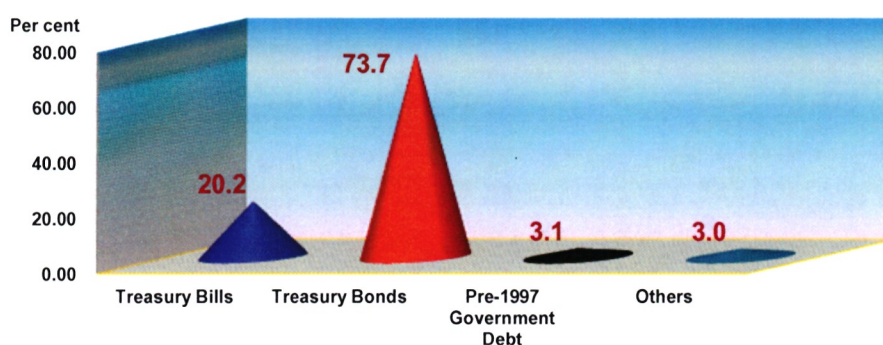
*Source: Central Bank of Kenya*

**Table 3: Domestic Debt by Holder, Ksh Million, End December 2012**

Holder	December 2012	
	Amount	%
<b>Banks</b>	<b>543,257</b>	<b>55.9</b>
Central Bank	57,219	5.9
Commercial Banks	486,038	50.0
<b>Non-Banks</b>	<b>427,957</b>	<b>44.1</b>
Non- Residents	10,061	1.0
Non-Bank Sources	417,896	43.1
<b>Total</b>	<b>971,214</b>	<b>100</b>

*Source: Central Bank of Kenya*

**Figure 3: Domestic Debt by Instrument, December 2012**



*Source: Central Bank of Kenya*

## ii. External Sources of Loans

21. The main sources of financing are multilateral and bilateral creditors. As at end December 2012, multilateral concessional debts accounted for 60 percent of total external debt while bilateral creditors

<sup>1</sup> Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reserve Certificates.

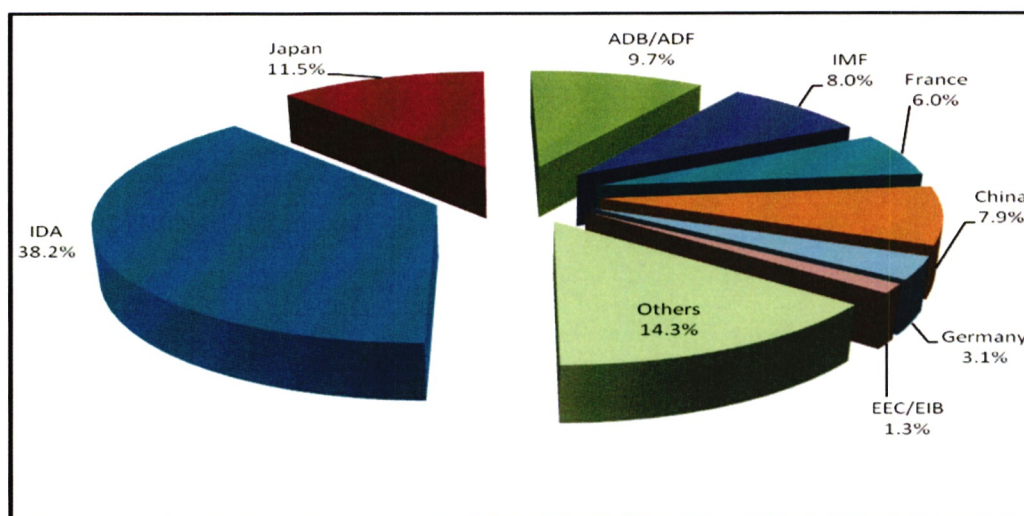
accounts for 32 percent. Commercial debt represents 8 percent of total external public debt.

22. The currency composition of external debt is relatively diverse. The largest share of foreign debt is denominated in USD and Euro (17 percent and 18 of total debt, respectively), with the Japanese Yen accounting for 8 percent (Figure 1, Chart 3). Kenya Shilling denominated debt accounts for 53 percent of total debt.

23. The interest rate composition of total debt stands at 97 percent fixed interest rates (Figure 1, Chart 4).

24. IDA, ADB/ADF and EEC/EIB are the main multilateral creditors as shown in Figure 3, accounting for 82 percent of outstanding multilateral debt as at end December 2012. IDA is the single biggest source of external resources, accounting for 64 percent of outstanding multilateral debt. In terms of bilateral creditors, Japan, France, China and Germany are the main creditors accounting for 72 percent of bilateral debt. Japan is the largest bilateral donor, accounting for 35 percent of bilateral debt.

**Figure 4: External Debt by Major Creditors, End June 2013**



*Source: Ministry of Finance*

25. To facilitate financing of the expenditures that ordinarily would not be funded through multilateral and bilateral sources, the Government may resort to alternative financing sources including official Export Credit Agencies (ECAs). These agencies, which are state-owned assist



their countries' exporters by providing them with financial and insurance services. The services offered by ECAs can be categorized as either buyer's or supplier's credits and their lending terms are mostly semi-concessional. Recent examples of ECA lending to Kenya include the financing of Biometric Voter Registration (BVR) kits for the March 2013 general elections by Standard Chartered Bank, London. The BVR kits were sourced from Canadian Commercial Corporation and the semi-concessional financing facility of USD 85 million was guaranteed and insured by the Canadian Export Credit agency, Export Development Canada (EDC). In the *2013 MTDS*, this type of financing is catered for under the semi-concessional category and will be considered within the non-concessional window allowed under the ECF Program.

### c) Cost/Risk Characteristics of Public Debt

26. Arising from the Government external debt strategy of contracting external loans on highly concessional terms to minimize interest rate cost, the average interest rate and grace period on new external loans contracted in financial year 2012/13 was 0.9 per cent and 8.0 years, respectively. This profile, together with the long maturity of 28.9 years yields an average grant element of 68.1 per cent for new external loans (Table 4).

**Table 4: Average Terms for New External Loans**

<b>Terms</b>	<b>June 2012</b>	<b>December 2012</b>
Interest rate (%)	0.8	0.9
Maturity (Years)	26.3	28.9
Grace period (Years)	6.2	8.0
Grant Element (%)	65.8	68.1

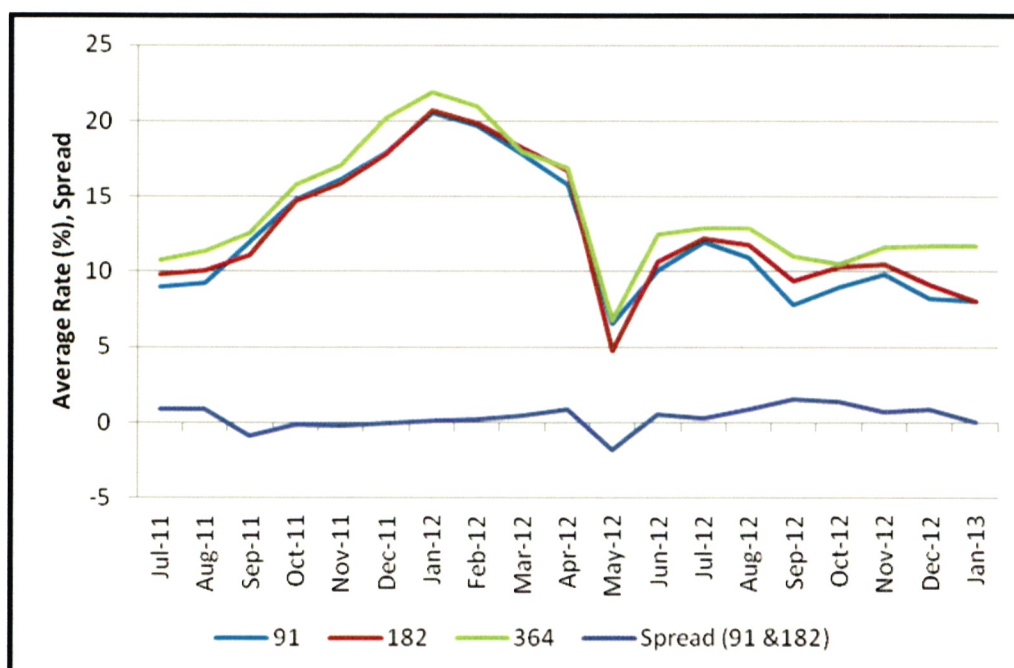
*\*Provisional*

*Source: Ministry of Finance*

27. On the other hand, the average maturity profile of outstanding Government domestic debt has decreased from 5.2 years in June 2012 to 4.9 years in December 2012. During the financial year 2012/13, average interest rates for Treasury Bills sustained an upward trend with a decline in September 2012 but later regained a steady rise before dipping again in December 2012. As shown in Figure 4, the 91-day Treasury bill rate fell by 200 basis points from 10.09 percent in June 2012 to 8.09 percent

in January 2013. Likewise, average interest rate for the 182-day Treasury bill fell by 258 basis points from 10.67 percent to 8.09 percent during the period while the average for the 364-day Treasury bill decreased by 76 basis points from 12.43 percent in June 2012 to 11.67 percent in January 2013. The 91-day and 182-day Treasury Bills average rates act as reference interest rates for pricing other financial products, making adjustments to commercial banks' deposit and lending rates as well as structuring of investment portfolios.

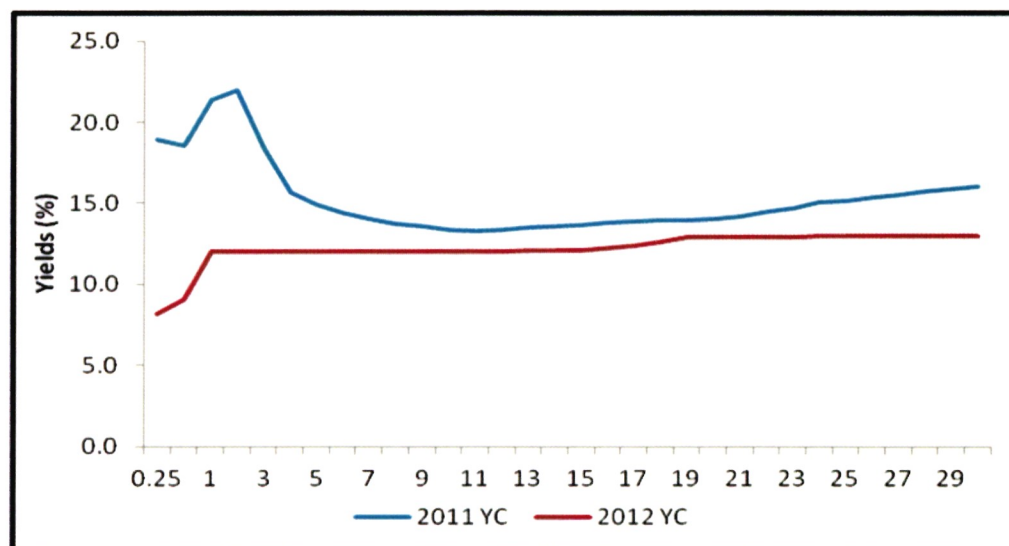
**Figure 5: Trend in Domestic Interest Rates in 2012: Interest Rates on Treasury Bills, July 2011 – January 2013**



*Source: Central Bank of Kenya*

28. The Government securities trading yield curve depicts more or less a parallel and steady downward shift during the financial year indicating stability of pricing along the maturity profile. This movement is also in line with trends in inflation during the year which reflected on the confidence and certainty of the market. The yield curve reflects the risk premium associated with the uncertainty about the future rate of inflation and the risk this poses to the future value of cash flows.

**Figure 6: Government of Kenya Securities Yield Curve, June 2012**



*Source: Central Bank of Kenya*

29. Refinancing risk in the debt portfolio remains significant but within tolerable limits. The Average Time to Maturity (ATM) of the total debt portfolio is 7.8 years down from 8.3 years at end June 2012, with that of the domestic debt portfolio at 4.9 years down from 5.2 years (Table 5). The average maturity profile for external debt has remained constant at 11.3 years, consistent with the hardening of terms on new external commitments. A close examination of the repayment profile indicate significant level of both refinancing and rollover risk with 18 percent of the domestic debt stock maturing in the next 12 months.

**Table 5: Cost and Risk Considerations of Debt Portfolio, End June 2013**

Characteristics of Existing Portfolio	Ex ante Risks	Ex ante Cost
<b>Currency composition</b> (FX = 47%; DX=53%)		
External, mostly concessional	Exchange rate risk	Low
Domestic	No exchange rate risk	High
<b>Maturity profile (ATM = 7.8 years)</b>		
External, mostly concessional (ATM =11.3 years)	Low refinancing risk	Low
Domestic (ATM = 4.9 years)	Medium refinancing risk	High
<b>Interest rate composition</b> (Fix=97%; Float=3%)		
	Low interest rate risk	

*Source: Ministry of Finance and Central Bank of Kenya*

#### **d) Strategies to Deal with the Existing Public Debt**

30. **Going forward, the composition of the debt portfolio suggests that reducing refinancing risk should remain a priority for the MTDS.** In addition, although the extent of exchange rate risk is partially mitigated by the currency composition of external debt, given the sensitivity of the PV of Debt/GDP to exchange rate shocks, this suggests that the overall proportion of external debt should be carefully monitored. In particular, the assessment of the likely impact, and consequently, the relative importance of reducing exchange rate exposure, would change if the nature of external borrowing were to change (for example, if new debt was contracted on a bullet basis with shorter maturities, as is the case with the USD 600 million, 2-year bullet payment syndicated external commercial loan).

31. Possible materialization of potentially large and unreported contingent liabilities has been identified as posing additional risk to the sustainability of public debt. Borrowing by state-owned entities with or without Government guarantees constitutes potential contingent liability to the Government. In the event of default on on-lent loans and guaranteed or non-guaranteed loans, Central Government will bear the cost of the debt. With the implementation of a devolved system of Government, the extent of contingent liabilities is expected to increase as liabilities of County Governments are taken into account. To mitigate this potential risk, the government will continue monitoring both explicit and implicit liabilities to ensure they are maintained within sustainable levels.



## IV. 2013 MTDS: KEY ASSUMPTIONS

### a) Objectives and Scope

32. In the 2013 MTDS, the Government will continue pursuing the same broad objectives of funding the Central Government Budget while maintaining a prudent level of risk taking account of costs. This will be achieved through the diversification of external sources of financing and further lengthening the average time to maturity of the domestic debt portfolio.

33. The scope of the analysis of 2013 MTDS is based on the combined Central Government debt and publicly guaranteed debt serviced by the Government. Guaranteed debt currently serviced by the Government amounts to USD 89.4 million or 0.9 percent of total public and publicly guaranteed (PPG) external debt.<sup>2</sup>

### b) Macroeconomic Environment and Risks

34. The macroeconomic framework underpinning the MTDS is consistent with projections included in the 2013/14 Budget Policy Statement (2013 BPS). Fiscal policy will continue to support economic activity while allowing implementation of the new Constitution within a context of sustainable public financing. Over the recent years, the government has reoriented expenditure towards priority programmes in education, health, agriculture and infrastructure under the Medium-Term Expenditure Framework (MTEF). This process will be strengthened with a revamped legislative framework to enable accommodation of critical programmes that will accelerate socio-economic development.

35. The medium term outlook for FY2012/13-FY2014/15 assumes a real GDP growth to increase from 4.5 percent in FY2011/12 to 6.6 percent in FY2015/16 in Table 6. The overall fiscal balance (including grants) is projected to decline from 5.7 percent of GDP in 2011/12 to a sustainable level of about 3.7 percent of GDP over the medium term. This will allow public debt to decline gradually from about 45 percent of GDP in June 2012 to about 41.7 percent of GDP by 2015/16. Inflation is expected to decline from 16.1 percent in FY2011/12 to 5.8 percent in

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<sup>2</sup> Total guaranteed debt amounts to USD 521 million (at end December 2012).

FY2015/16, and the exchange rates to remain stable. The current account deficit is expected to decline gradually from about 11.4 percent of GDP in 2011/12 to 7.7 percent of GDP in 2015/16. The relatively higher interest rates and investor confidence with successful General Elections will support both the capital and financial accounts. Gross international reserves are assumed to reach 3.5 months of imports by FY2014/15. The risk to the medium-term outlook include further weakening in global economic growth, unfavorable weather conditions and rise in international oil prices.

**Table 6: Baseline Macroeconomic Assumptions**

Baseline macroeconomic assumptions	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Real GDP growth (%)	5.1	4.5	5.1	5.9	6.3	6.6
Inflation (average, %)	6.8	16.1	5.9	6.7	6.2	5.8
Exchange rate (e.o.p, Ksh per USD)	82.5	86.7				
<b>External Sector</b>						
Current account (% of GDP)	-9.8	-11.4	-11.0	-10.5	-9.2	-7.7
Exports value, goods and services	27.8	28.0	27.0	27.1	27.8	28.7
Imports value, goods and services	44.0	45.8	43.9	43.1	42.0	41.0
Gross official reserves (months of next year's imports)	2.9	3.4	3.4	3.5	3.5	3.7
<b>Central government budget</b>						
Overall balance (in billions of Ksh)	-111.6	-161.9	-182.1	-197.5	-193.1	-205.1
Overall balance (% of GDP) including grants	-4.0	-5.0	-5.0	-4.7	-4.0	-3.7
Total revenue and grants (in billions of Ksh)	686.3	763.5	942.2	1,054.7	1,214.3	1,398.8
Total revenue and grants (% of GDP)	24.5	23.5	25.7	25.3	25.4	25.5
Total expenditure and net lending (in billions of Ksh)	819.6	947.8	1,194.4	1,257.1	1,392.5	1,607.7
Total expenditure and net lending (% of GDP)	29.3	29.2	32.6	30.2	29.2	29.3
Primary deficit (in billions of Ksh)	-57.5	-70.7	-131.1	-77.0	-74.6	-89.5
Primary deficit (% of GDP)	-2.1	-2.2	-3.6	-1.8	-1.6	-1.6
Nominal GDP (Market prices, in billions of Ksh)	2,801.3	3,244.5	3,662.6	4,164.6	4,775.3	5,480.5

*Source: Ministry of Finance, BPS 2013*

36. Debt financing needs are determined by the primary deficit, interest costs and principal payments/redemptions. Under the baseline macroeconomic assumptions, the primary deficit is expected to increase from Ksh 70.7 billion in FY2011/12 to Ksh 131.1 billion in FY2012/13 and decrease to Ksh 74.6 billion by FY2014/15. The *2013 MTDS* guides on the optimal borrowing mix to close the resource gap in the budget.

37. The macroeconomic outlook carries substantial uncertainty. In particular, the April 2013 *Joint World Bank-IMF LIC Debt Sustainability Analysis (DSA)* highlights the sensitivity of Kenya's debt sustainability to shocks in economic growth. Lower growth will negatively affect the primary deficit through both lower revenue collection and increased outlays to protect the most vulnerable. Overall, growth will depend on the pace of global economic growth, weather patterns and international fuel prices that impact negatively on revenues and hike expenditure demands.

38. Increased investment in infrastructure might require an increase in the level of guarantees while the implementation of the new Constitution (including County administrative units) may need the Government to take in more debt and take over liabilities of counties. The increase in contingent liabilities would represent a significant increase in risk to the current debt burden.<sup>3</sup> The Act to regulate PPPs as well as the envisaged implementation of a superannuation pension scheme for the civil service from July 2013 will also have implications for Government's contingent liabilities in the future.

39. Overall, the risk profile on the existing debt portfolio has not changed since June 2012. Thus, the thrust of the *2013 MTDS* is similar to *2012 MTDS*: - to maintain a diversified source of financiers, prudently manage the debt amortization profile to absorb fiscal shocks (for example, the impact of drought on the budget), and manage the external exposure of the portfolio taking into account the vulnerability to balance of payments shocks.

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<sup>3</sup> A survey of contingent liabilities in SOEs was started in 2008 but has not yet been completed. Additionally, a Taskforce is expected to be set up to establish the extent of contingent liabilities under a devolved government system, while payments under the Public Service Superannuation Scheme (PSSS) are treated as contingent liabilities. GOK indemnity (USD 45 million or Ksh 3.9 billion) to IDA for guarantee to Kenya Railways has also been recorded as a contingent liability.

40. The principal risks to the baseline are summarised below in Table 7.

**Table 7: Macro-Risks and Implications for Debt Management Strategy**

Implications for Debt Strategy Preferences				
Macroeconomic Factors	Impact	Target source	Currency	Other comments
<b>Balance of Payment Risks</b>				
Terms of trade shock	Exchange rate	Domestic	DX	Improve market capacity
FDI/Private capital flow volatility	Exchange rate	Domestic	DX	Improve market capacity
Remittance dependence	Exchange rate	Domestic	DX	Improve market capacity
Tourism receipts dependence	Exchange rate	Domestic	DX	Improve market capacity
Low foreign exchange reserves	Exchange rate		FX	Diversify trading partners
<b>Fiscal Risks</b>				
Potential volatility (revenues)	Expenditure volatility	Market	DX/FX	Create fiscal space, prioritize expenditure and improve efficiency Improve relationship with donors, improve absorptive capacity and implementation efficiency
Capital spending aid dependent	Growth volatility		DX/FX	
Contingent liabilities	Debt level increase	Market	DX/FX	Create fiscal space and strengthen overall PFM framework
<b>Monetary Risks</b>				
High inflation	Impede market development, higher interest costs			Increase credibility of monetary policy, improve monetary operational framework and monetary transmission mechanism to reduce inflation premium
Negative real interest rate	Impact real money investors and deposit growth			
<b>Natural Disasters</b>				
Natural Disasters	Growth volatility	Market	DX/FX	Diversify economy and explore the possibility of commodity hedge
Political Stability	Growth volatility Exchange rate		DX/FX	Ensure political stability

### c) Potential Financing Sources

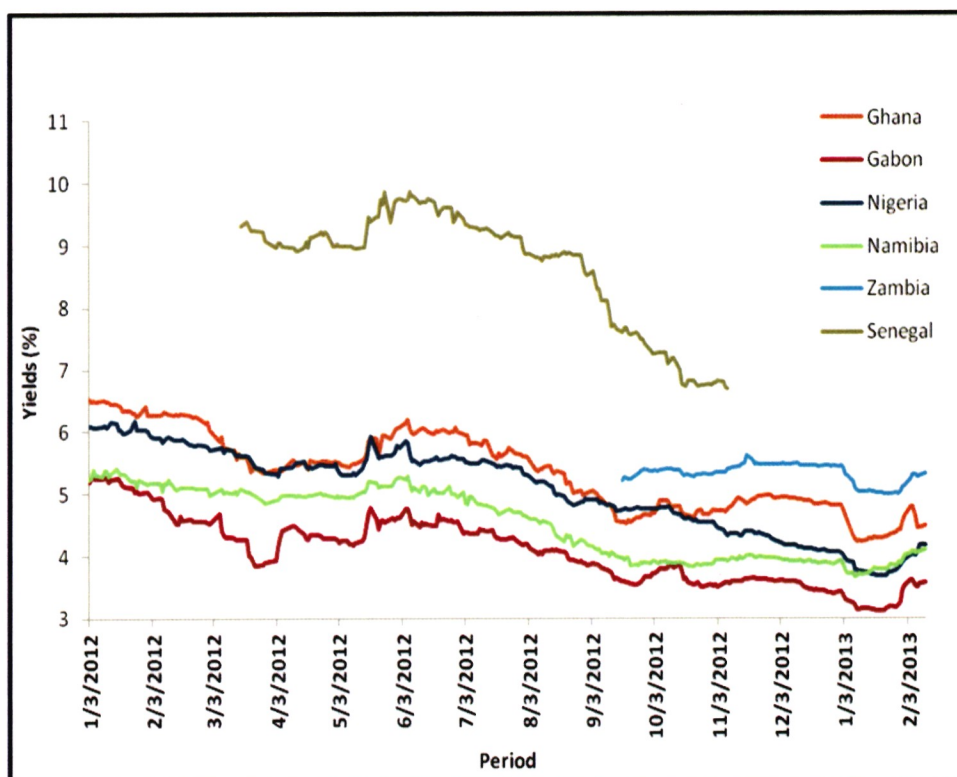
41. Official external sources remain the preferred option for the Government to source financing on concessional terms. Under the current ECF arrangement supported by the IMF, the Government is expected to access better terms from both multi - and bilateral creditors. However, it has been observed that borrowing terms have increasingly hardened, with new loans often contracted on terms very close to the 35 percent grant element threshold for 'soft' loans.

42. The Government is considering issuing a Euro Bond in the FY2013/14 given the narrowing of spreads for emerging markets



sovereign bonds (see Figure 7)<sup>4</sup>. The 2013 MTDS takes into account this financing option with timing of Sovereign Bond placement preferable in the second quarter of FY 2013/14. The size of non-concessional borrowing including guarantees is set at a maximum USD 1,500 million for the year 2013/14. This amount is consistent with ceiling set under the current IMF supported ECF economic and financial program to safeguard debt sustainability levels.

**Figure 7: Performance of Peer Debut Sovereign Bond Issues**



*Source: Ministry of Finance and IMF/WB estimates*

43. On domestic borrowing, the Government will seek to issue medium to long term debt securities to lengthen the maturity structure of debt, and thus reducing the underlying refinancing risk. The issuance program will be biased towards Benchmark Bonds. The effort to shift towards longer dated instruments supports development of the yield

<sup>4</sup> Zambia, considered Kenya's peer issued a USD 750 million sovereign bond in September 2012 at 5.625 percent p.a. The recent margin of 2.15 percent p.a. above LIBOR for the 10-year Commercial loan to finance Biometric voter Registration kits for Kenya suggests a sovereign bond may be priced at a comparable level to Zambia.

curve for government debt securities and the overall growth of domestic debt market.

44. The uptake of domestic debt will be reduced to cut-back on rises in interest costs and the rapid growth of the debt stock. This action is consistent with the strategy to shift the portfolio towards external debt dominance and also to safeguard debt sustainability over the medium term.

#### **d) Future Financing and Pricing Assumptions**

##### *External sources*

45. The following pricing assumptions underlie the *2013 MTDS*.

- Concessional external loans are priced at a fixed rate of 0.75 percent, with a 40-year tenor and a 10-year grace period. These loans are assumed to be denominated in SDR.
- Semi-concessional loans are assumed to be contracted from official creditors or export credit agencies. These loans have a fixed interest rate of 2.5 percent, a maturity of 20 years including a 5-year grace period.<sup>5</sup> These loans are denominated in Euros and USD.<sup>6</sup>
- In the absence of concessional financing, the Government will maintain non-concessional financing including guarantees and the Sovereign Bond at about USD 2,000 million for the year 2013/14 for investment projects that demonstrate revenue streams and high social returns in accordance with the ECF arrangement. These loans have market-based terms and are denominated in Euros and USD.<sup>7</sup>

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<sup>5</sup> These terms are consistent with loans that have been contracted in the last two years from bilateral sources.

<sup>6</sup> A review of instruments indicated that it would be useful to include a semi-concessional fixed rate loan - with terms consistent with those secured on **recent bilateral external debt** - to the choices available in the analysis. There have been two new floating rate loans contracted in 2012 and overall, these instruments represent a marginal share of the portfolio. Consequently, losing this instrument should not significantly affect the analysis.

<sup>7</sup> These terms are consistent with loans contracted for the energy sector in the last two years.

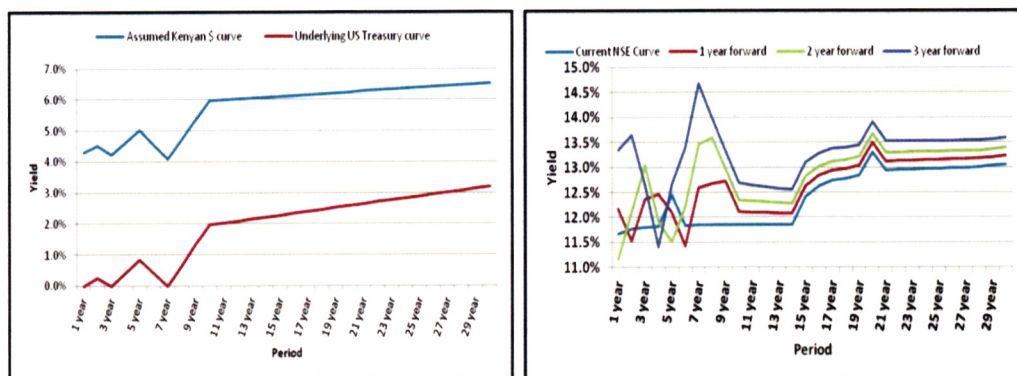
- Accessing the international capital market is priced-off the assumed effective yield curve, which is based on the underlying forward US Treasury curves plus an assumed credit spread. The analysis assumes that international capital markets could be accessed to finance infrastructure development, or if concessional resources fall below target. Alternatively, domestic borrowing could increase. The International Sovereign Bond would have a maturity of 10 years, with a bullet repayment. The credit spread is set at 362 basis points. A 5-year bond is expected to have a spread of 350 basis points<sup>8</sup>.

46. The **net external borrowing** for financial year 2013/14 is **2.2 percent of GDP** and is projected to remain at 2.2 percent of GDP in the financial year 2015/16.

### *Domestic market sources*

47. The pricing of new domestic borrowing is based on the underlying forward US Treasury curves. The assumed credit premium is taken into account, and the anticipated inflation differential is used to adjust for exchange rate differentials. This is then adjusted for an additional risk premium, which can be assumed to capture liquidity, inflation risk, and other risk effects. This premium is identified by determining the necessary premium required to fit today's observed yield curve.<sup>9</sup> The applicable Ksh curves are shown in Figure 8.

**Figure 8: Assumed USD and Ksh Yield Curves**



*Source: Ministry of Finance and IMF/WB estimates*

<sup>8</sup> These spreads compare with the current peer issuers' secondary market trading spreads and spreads on recent first issuance for bonds of 10- and 5-years maturity.

<sup>9</sup> The NSE yield curve is taken as the basis for the current Ksh curve.

48. Domestic borrowing will be through issuance of Treasury Bills and Treasury Bonds at the ratio of 30:70. This will ensure that the maturity structure of the existing portfolio is lengthened to minimize refinancing risk.

49. In addition, Treasury Bonds will be issued around Benchmark Bonds of 2, 5, 10, 15 and 20-year tenors to build liquidity.

50. **Net domestic borrowing** for financial year 2013/14 is **2.6 percent of GDP** and is expected to fall to 1.5 percent of GDP in the financial year 2015/16.

#### e) Description of Stress Scenarios

51. The robustness of each alternative strategy is assessed on the basis of the baseline scenario for interest and exchange rates. While a number of standard shocks are generally applied in the context of the DSA, it is important to also consider what might constitute a typical shock in the Kenya-specific context. To determine the appropriate size of these shocks, the historical performance of the relevant exchange and short-term interest rates in the relevant markets was considered. In particular, the size of the interest rate shock to be applied to the Kenya shilling interest rates was determined on the basis of the past 10 years, which includes periods when interest rates declined (and increased) sharply. Consequently, the implied annual deviation of interest rates is quite large at over 2 percent<sup>10</sup>. For the purposes of the analysis, it is assumed that shocks materialize in FY2013/14, and are sustained through the remainder of the simulation horizon<sup>11</sup>:

- Scenario 1: *Upward shift of the Ksh yield curve*. The cost of borrowing at all tenors increases by two standard deviations (equivalent to a 4.5 percent interest rate increase) calculated on

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<sup>10</sup> However, it appears that there were no particular structural factors that would argue for excluding that particular period from the analysis.

<sup>11</sup> Basically, this presumes that the baseline macroeconomic outlook and financing assumptions are highly uncertain. A more specific risk scenario could be considered on the basis of known future events, such as an election. The quantification of the shocks reflects the historical standard deviation over the last 10 years, except for Scenario 3 where an extreme shock to the nominal exchange rate is simulated.



the basis of the historical change in the interest rates on Treasury Bills.

- Scenario 2: *Flattening of the Ksh yield curve*. This scenario corresponds to the impact of a switch in the monetary policy stance, which would increase short-term rates, but where the market's longer-term expectations remain unchanged (that is, inflation expectations remains anchored to the 5 percent target). In this scenario, the interest rate of the 364-day Treasury Bill increases by two standard deviations, as in Scenario 1, but interest rates on long-term bonds increase proportionally less, with the interest rate of the bond with the longest maturity (30 years) unchanged from the baseline scenario.
- Scenario 3: *Extreme depreciation of the Ksh*. The Ksh depreciates by 30 percent vis-à-vis the other currencies in FY 2013/14.
- Scenario 4: *Country-specific depreciation of the Ksh*. The Ksh depreciates by two standard deviations of the percentage change of the historical nominal exchange rate vis-à-vis other currencies.<sup>12</sup>
- Scenario 5: *A combination of previous Scenarios 1 and 4*. In this scenario, the Ksh depreciates by one standard deviation vis-à-vis the other three currencies, while all interest rates increase by one standard deviation at all maturities. This reflects the likelihood that interest rates would likely react to an external shock that affects the exchange rate.

#### **f) Description of Alternative Financing Strategies**

52. The analysis compares a number of alternative strategies with 2012 *MTDS*. In particular, this analysis assesses the relative performance of a strategy aiming to maximize external concessional financing (corresponding to Strategy 2 below). However, in light of the possibility

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<sup>12</sup> This shock corresponds to a 10 percent depreciation vis-à-vis the Euro and the USD and a 15 percent depreciation vis-à-vis the Yen.

of significant shortfall in external disbursements, as experienced in the recent past, and the issuance of an International Sovereign Bond (ISB) in FY2013/14, the analysis also evaluates the costs and risks associated with alternative strategies that assume relatively higher domestic borrowing (Strategy 3 and 4) and the contraction of higher external borrowing on semi-concessional terms (Strategy 5) to meet the expected Government gross financing needs.

53. All the strategies considered, Strategies 2 to 5, provide for the issuance of an international bond<sup>13</sup> to finance infrastructure development.

54. The candidate strategies are described below and in Table 8.

a) *Strategy 1 (S1. 2012 MTDS)*. This is the preferred strategy in 2012 MTDS, which has been implemented in the past year. It assumes that 35 percent of the gross financing needs would be met by external borrowing, mainly from concessional creditors, and 65 percent from the domestic market, mainly through medium tenor Treasury Bonds. The concentration of issuance with 5- and 10-year maturities assumes a significant initiative to reduce cost of domestic debt associated with longer dated securities.

b) *Strategy 2 (S2. More external borrowing)*. External and domestic borrowing would amount to 40 percent and 60 percent of gross financing needs respectively. There is concentration of issuance of more concessional debt to reduce the refinancing risk associated with external debt.

c) *Strategy 3 (S3. Medium term domestic debt)*. This strategy maximizes domestic borrowing, assuming 70 percent of gross financing needs are met through these sources. External financing would decrease to 30 percent of Government gross financing needs. The concentration of issuance with 5- and 10-year maturities assumes the initiative to reduce cost of domestic debt associated with longer dated securities is maintained.

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<sup>13</sup> Issued in USD, with 10-year maturity and bullet repayment, carrying a spread of 362 basis points. See section (d) above on future financing pricing assumptions.

d) *Strategy 4 (S4. More domestic borrowing)*. It assumes domestic borrowing would amount to 75 percent while 25 percent of the gross financing needs would be met by external borrowing, from concessional and semi-concessional creditors.

e) *Strategy 5 (S5. Semi-concessional external debt)*. Under this strategy, domestic debt is 75 percent while external debt is 25 percent, mainly from semi-concessional sources.

55. Under all strategies, it is assumed that over 50 percent of all official sector external borrowing is on less concessional terms, in line with recent experiences and plans to issue an International Sovereign Bond.

**Table 8: Alternative Debt Management Strategies**

		2012 MTDS	More external debt	Medium term domestic debt	More domestic debt	Semi- concessional external debt
	New debt	S1	S2	S3	S4	S5
<b>Domestic</b>		<b>65%</b>	<b>60%</b>	<b>70%</b>	<b>75%</b>	<b>75%</b>
	Treasury bills (change in stock)	9%	9%	10%	11%	14%
	2-year	11%	11%	7%	13%	11%
	5-year	17%	12%	23%	18%	14%
	10-year	12%	10%	16%	14%	14%
	15-year	8%	9%	7%	10%	11%
	20-year	8%	9%	7%	9%	11%
<b>External</b>		<b>35%</b>	<b>40%</b>	<b>30%</b>	<b>25%</b>	<b>25%</b>
	Semi- concessional	4%	3%	3%	2%	2%
	Concessional	26%	16%	6%	2%	2%
	2-year syndicate	5%	0%	0%	0%	0%
	10-year ISB	0%	21%	21%	21%	21%

## V. OUTCOMES OF ANALYSIS OF STRATEGIES

56. The performance of the five alternative strategies was assessed under the five identified market stress scenarios in terms of their relative cost and risk. Consideration focuses on performance in terms of the cost-risk tradeoff reflected in two key indicators, that is, Interest/GDP and PV of Debt/GDP. The former is relevant as it indicates the amount of resources required to service the debt and which is, consequently, not available for other uses; the latter is relevant as the government has set an overall ceiling of 40 percent of GDP for the PV of Debt. The results of this cost-risk tradeoff are shown in Table 9 and Figure 9.

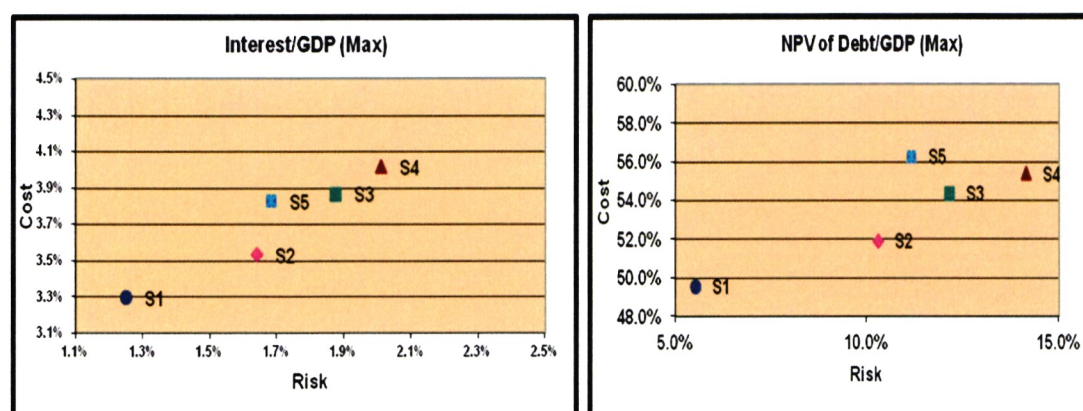
**Table 9: Cost-Risk Tradeoffs**

<b>Interest/GDP (%)</b>	<b>S1</b>	<b>S2</b>	<b>S3</b>	<b>S4</b>	<b>S5</b>
Baseline scenario	3.3%	3.5%	3.9%	4.0%	3.8%
Parallel shift in yield curve (2 std. deviations)	1.2%	1.6%	1.9%	2.0%	1.7%
Flattening of yield curve	0.4%	0.4%	0.4%	0.5%	0.4%
Extreme devaluation of exchange rate (30%)	0.2%	0.2%	0.2%	0.2%	0.2%
Devaluation of exchange rate by 2 std. deviations	0.1%	0.1%	0.1%	0.1%	0.1%
Combination shock (1 std deviation)	0.3%	0.4%	0.5%	0.5%	0.5%

<b>PV of Debt/GDP (%)</b>	<b>S1</b>	<b>S2</b>	<b>S3</b>	<b>S4</b>	<b>S5</b>
Baseline scenario	49.6%	51.9%	54.4%	55.4%	56.3%
Parallel shift in yield curve (2 std. deviations)	5.1%	10.3%	12.1%	14.1%	11.2%
Flattening of yield curve	1.4%	1.5%	2.1%	2.1%	1.5%
Extreme devaluation of exchange rate (30%)	5.5%	5.7%	5.8%	5.8%	5.9%
Devaluation of exchange rate by 2 std. deviations	2.0%	2.1%	2.1%	2.1%	2.2%
Combination shock (1 std deviation)	3.3%	4.2%	4.6%	4.9%	4.8%

**Figure 9: Cost-Risk Tradeoffs**





57. As expounded in the description of strategies (paragraph 54), all the strategies provide for the issuance of an international bond. This explains the better performance of S1 (2012 MTDS) vis-à-vis all other strategies (Figure 9). The comparison of the strategy outcomes should therefore be done without S1

58. As anticipated, while excluding S1, the strategy assuming the largest amount of official sector external borrowing (S2) has the most beneficial cost and risk attributes. This suggests that the government should target a slight decrease in the amount of external official sector borrowing to 19 percent relative to S1 (2012 MTDS). However, given the potential challenges in achieving this strategy in practice, it is prudent to consider what the appropriate contingency should be in the event that there is a shortfall in disbursements. In that context, the choice is between relatively more domestic borrowing (as represented by S3 and S4) or the contraction of higher external borrowing on semi-concessional terms (S5).

59. However, there is a clear trade-off between S3, S4 and S5 in terms of Interest/GDP. Given the relatively greater weight of medium term domestic debt in S3, this strategy is less costly but risky. On the other hand, S4 is costly and risky due to the increased uptake of medium to long-term domestic debt. However, when PV of Debt/GDP is considered, S3 is also less risky given that a significant element of external borrowing is now exposed to interest rate risk. S4 is more risky and costly on account of a higher proportion of domestic debt.

60. The relative ranking of strategies was also considered in the context of one alternative macroeconomic scenario. The scenario reflected the potential scale of direct government financing needed to support the development of county infrastructure. It is assumed that USD 1.16 billion (Ksh 100 billion)<sup>14</sup> will be required to finance additional expenditures over the next three years. Consequently, an adjustment was made for this presumed pipeline of debt (that is, the strategies described in Table 8 were applied to the total financing requirement net of this expenditure). Overall, this increases the proportion of external financing in each strategy by around 3 percent,

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<sup>14</sup> This is derived by maintaining the level of Debt to GDP at 45 percent of GDP over the medium term as envisaged in the Budget Policy Statement, 2013.

but does not change the relative performance of the strategies (Appendix I). Consequently, S2 would remain the preferred strategy, with the tradeoff between S3, S4 and S5 as above.

61. Overall, there is relatively little difference between how each strategy performs. This is due to the fact that net new borrowing over this period is quite limited relative to the size of the existing debt portfolio. As a result, the characteristics of the existing portfolio continue to dominate. *This suggests that other factors should have a more significant bearing on the ultimate decision.*

62. A range of other key indicators (Table 10) were also closely analyzed. The results consider S2 as the most optimal strategy that effectively mitigates refinancing risk. This risk has become increasingly relevant for debt managers in light of the continued turmoil in the recent global debt crisis. In addition, S2 will likely have a higher success rate of execution given the bias towards issuance of medium-term domestic securities - a highly preferred term structure by local investors (Table 10, S1).

**Table 10: Other Key Indicators**

	Simulation Horizon (2013/14-2015/2016)				
	S1	S2	S3	S4	S5
<b>Cost indicators (average over simulation)</b>					
Average interest rate	6.7%	7.0%	7.4%	7.6%	7.3%
Interest / revenues	11.9%	12.4%	13.13%	13.4%	13.0%
<b>Risk indicators (end simulation horizon)</b>					
% DX in debt portfolio	48%	55%	62%	65%	56%
ATM (years)	11.9	11.2	9.8	9.5	9.8
% of debt refixing within 12 months	6.7%	6.7%	6.3%	7.8%	7.8%
% of DX debt refinancing within 12 months	9.0%	7.8%	6.4%	8.4%	10.1%
Short-term external debt / reserves	7.6%	7.6%	7.6%	7.6%	7.6%
<b>Implied net borrowing (% of GDP) (average over simulation)</b>					
Net domestic borrowing	2.73%	4.11%	5.44%	6.10%	4.36%
Net external borrowing	1.97%	0.72%	(0.44)%	(1.01)%	0.74%

63. Other factors may also be relevant if the government were to consider tapping the international capital markets. In Kenya's case, the investors' risk appetite may be affected by any residual political uncertainty, which suggests that the optimal time for an issue might be

following the 2013 General Elections. In addition, investors' continued focus on issues relating to fiscal transparency, quality of statistics and effectiveness of public financial management and expenditure controls requires the Kenyan Government to strengthen public financial management and expenditure frameworks coupled with continued improvements in data quality and transparency if the country is to secure best pricing on any issue.

64. Finally, it is prudent to consider the implied quantities to be borrowed in each instrument type to assess the feasibility of any of the strategies. As designed, S2 requires the greatest amount of net official sector borrowing at an average of around USD 320 million a year.

**Table 11: Borrowing Quantities by Instrument**

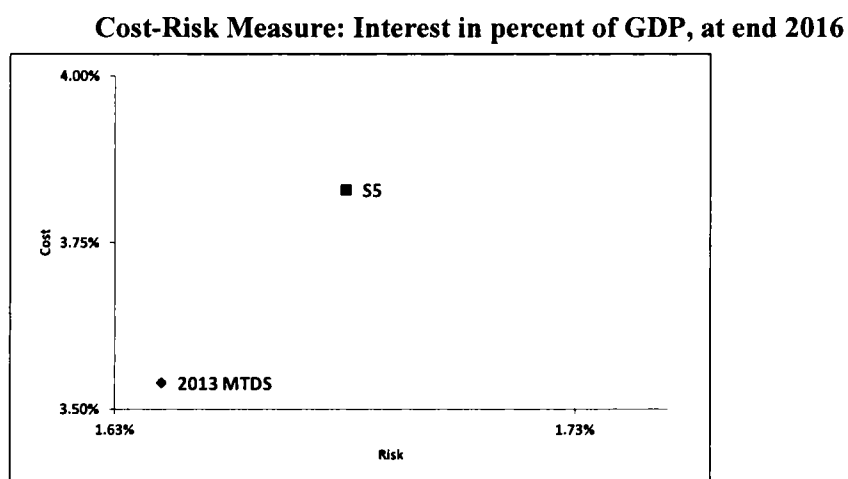
<b>Implied gross borrowing (annual average)</b>	<b>S1</b>	<b>S2</b>	<b>S3</b>	<b>S4</b>	<b>S5</b>
<b>Foreign borrowing (US\$ mn)</b>	<b>1,537</b>	<b>984</b>	<b>470</b>	<b>217</b>	<b>991</b>
Official sector borrowing (US\$ mn)	1,537	541	179	57	219
International capital market securities (US\$ mn)	-	443	291	160	772
<b>Domestic borrowing (Ksh mn)</b>	<b>378,976</b>	<b>443,794</b>	<b>502,721</b>	<b>552,127</b>	<b>476,358</b>
Money market instruments	48,726	49,310	54,139	64,702	78,521
Short-term bonds (2-year)	59,553	59,172	38,671	73,329	65,434
Medium-term bonds (5 - 10 years)	184,074	236,690	332,569	306,258	201,536
Long-term bonds	86,623	98,621	77,342	107,837	130,868
<b>Implied net borrowing (annual average)</b>					
<b>Foreign borrowing (US\$ mn)</b>	<b>874</b>	<b>320</b>	<b>(194)</b>	<b>(448)</b>	<b>(445)</b>
Official sector borrowing (US\$ mn)	874	(123)	(485)	(608)	(1,217)
International capital market securities (US\$ mn)	-	443	291	160	772
<b>Domestic borrowing (Ksh mn)</b>	<b>133,795</b>	<b>198,831</b>	<b>262,503</b>	<b>293,472</b>	<b>211,554</b>
Money market instruments	(102,872)	(102,501)	(101,144)	(96,584)	(92,159)
Short-term bonds (2-year)	8,402	8,454	(3,831)	18,394	13,742
Medium-term bonds (5 - 10 years)	141,641	194,257	290,136	263,825	159,103
Long-term bonds	86,623	98,621	77,342	107,837	130,868

65. **In conclusion, taking into account both risk and cost trade-offs, the implied quantity of gross borrowing, the need to develop the domestic debt market and ability to implement the strategy, the 2013 MTDS proposes Strategy 2 (S2) as the most optimal strategy.** Indeed, the results of the cost and risk analysis (Tables 12 and 13; Figures 10 and 11) reveal that the other strategies are less favorable going forward compared to the 2013 MTDS.

**Table 12: Cost and Risk Analysis: 2013 MTDS vis-à-vis the closest strategy: Interest/GDP ratio**

Scenarios	Strategies	
	2013 MTDS	S5
	(Interest in percent of GDP at end-2016)	
Baseline	3.54%	3.83%
Stress test 1: Parallel shift in yield curve	5.17%	5.51%
Stress test 2: Flatter yield curve	3.90%	4.20%
Stress test 3: 30% exchange rate devaluation	3.71%	4.02%
Stress test 4: 2 std deviation devaluation	3.60%	3.90%
Stress test 5: Combination shock	3.94%	4.29%
Change under parallel shift in yield curve	1.64%	1.68%
Change under flatter yield curve	0.36%	0.38%
Change under 30% exchange rate devaluation	0.18%	0.19%
Change under 2 std deviation devaluation	0.06%	0.07%
Change under combination shock	0.41%	0.46%
Maximum under stress	1.64%	1.68%

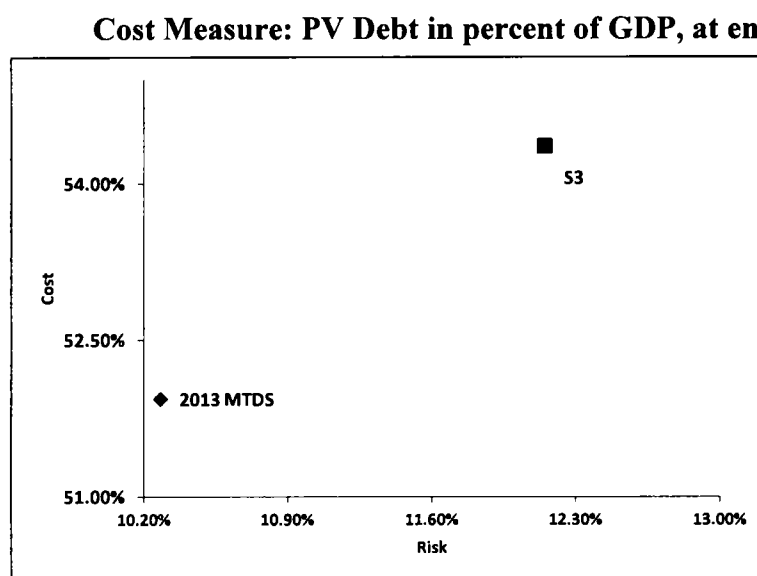
**Figure 10: Cost and Risk Analysis: 2013 MTDS vis-à-vis the closest strategy**



**Table 13: Cost and Risk Analysis: 2013 MTDS vis-à-vis the closest strategy: PV Debt/GDP ratio**

Scenarios	Strategies	
	2013 MTDS	S3
	(PV of Debt in percent of GDP at end-2016)	
Baseline	51.94%	54.36%
Stress test 1: Parallel shift in yield curve	62.22%	66.51%
Stress test 2: Flatter yield curve	53.44%	56.51%
Stress test 3: 30% exchange rate devaluation	57.59%	60.15%
Stress test 4: 2 std deviation devaluation	54.00%	56.48%
Stress test 5: Combination shock	56.11%	58.96%
Change under parallel shift in yield curve	10.28%	12.15%
Change under flatter yield curve	1.50%	2.15%
Change under 30% exchange rate devaluation	5.65%	5.79%
Change under 2 std deviation devaluation	2.07%	2.12%
Change under combination shock	4.17%	4.60%
Maximum under stress	10.28%	12.15%

**Figure 11: Cost and Risk Analysis: 2013 MTDS vis-à-vis the closest strategy**





## VI. DEBT SUSTAINABILITY

66. The Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce the risk of macroeconomic instability. Significant effort has been made to improve the institutional arrangement for debt management as well as capacity to assess risks.

67. The Public Debt Management Office (PDMO) at the National Treasury is responsible for formulating debt strategy and ensures prudent debt management. The Public Financial Management Act, 2012 provides for a new institutional and legal framework (Public Debt Management Office) of managing public debt in a devolved system of government.

68. The latest (April 2013) debt sustainability analysis (DSA) for Kenya indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. There are four ratings for the risk of external debt distress:

- *Low risk* - when all the debt burden indicators are well below the thresholds;
- *Moderate risk* - when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies;
- *High risk* - when the baseline scenario and stress tests indicate a protracted breach of debt or debt-service thresholds, but the country does not currently face any repayment difficulties; or
- *In debt distress* - when the country is already having repayment difficulties.

69. Countries are classified into one of three policy performance categories (strong, medium, and poor) using the World Bank's *Country Policy and Institutional Assessment* (CPIA) index, which uses different indicative thresholds for debt burdens depending on the quality of a

country's policies and institutions. Kenya is rated a medium policy country and as such is subject to the following thresholds:-

**Table 14: Debt sustainability thresholds**

	PV of Debt in percent of			Debt Service in percent of	
	GDP	Exports	Revenue	Exports	Revenue
Medium Policy Performer	40	150	250	20	30

**a) External debt sustainability**

70. Under the baseline scenario, Kenya's debt ratios listed in Table 15 indicates that external debt is within sustainable levels for a country rated as a medium performer. The debt sustainability indicators show that Kenya faces a low risk of external debt distress. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

**Table 15: External debt sustainability**

Indicator (Threshold)	2012	2013	2014	2015	2018	2023
PV of debt-to-GDP ratio (40)	19.0	20.1	19.2	19.1	18.5	16.1
PV of debt-to-exports ratio (150)	72.1	83.6	83.3	86.0	89.5	82.9
PV of debt-to-revenue ratio (250)	79.7	82.9	78.5	77.3	75.0	65.1
Debt service-to-exports ratio (20)	4.8	7.3	11.0	6.0	6.6	6.9
Debt service-to-revenue ratio (30)	4.6	6.3	9.3	4.4	4.6	4.9

*Source: World Bank-IMF Debt Sustainability Analysis - Kenya (April 2013)*

**b) Public debt sustainability**

71. Under the baseline scenario shown in Table 16, the PV of public debt-to-GDP, increases from 39.4 percent in 2012 to 40.3 percent in 2013 but gradually declines to 38.1 percent of GDP by 2015. In the long term, the PV of public debt-to-GDP is expected to decline to about 36.2 percent by 2023. Given Kenya's relatively strong revenue performance, the PV of public debt-to-revenue remains well below the threshold of 250 percent throughout the period of analysis. The debt service-to-revenue ratio consistently remains below the 30 percent

threshold. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

**Table 16: Public debt sustainability**

Indicator (Threshold)	2012	2013	2014	2015	2018	2023
PV of public sector debt to GDP ratio (40)	39.4	40.3	38.7	38.1	38.6	36.2
PV of public sector debt-to-revenue ratio (250)	156.5	155.9	151.3	148.0	152.2	144.0
Debt service-to-revenue ratio (30)	26.6	27.3	28.9	23.3	22.5	22.2

*Source: World Bank-IMF Debt Sustainability Analysis - Kenya (April 2013)*

72. In Table 17, a worst-case scenario, a “borrowing shock” scenario is presented which assumes Government borrowing 10 percent of GDP in FY2013/14. The results indicate that in the medium term, the debt burden indicators will breach one of the debt sustainability thresholds.

**Table 17: Sensitivity Analysis for Key Indicators of Public Debt**

Indicator	Threshold	2013 ratios	<i>Impact of 10% of GDP increase in borrowing in 2013 on debt indicators in 2016</i>
PV of Debt as % of GDP	40	40	48
PV of Debt as % of Revenue	250	156	189
Debt Service as % of Revenue	30	26	27

73. The above scenario is mitigated by the fact that in the FY2013/14, the Government plans to borrow, on a net basis amount equivalent to **4.4 percent of GDP** to finance the budget. The net borrowing is expected to decline to 3.7 percent of GDP in FY2015/16.

74. The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing policy. Recourse to significant uptake of domestic debt financing could further increase the domestic interest rates, and put pressure on the debt sustainability position. In addition, non-concessional external financing carries an inherent foreign exchange risk, worsens the PV of debt and therefore increases the risk of debt distress. The borrowing envisaged under the *2013 MTDS* will be undertaken with caution taking these factors into account.



## VII. IMPLEMENTING THE 2013 MTDS

75. The Government will prepare a borrowing plan to accompany the 2013 MTDS (Strategy 2) and meet the financing requirement for the financial year 2013/14. The borrowing composition assumed in the MTDS analysis together with the Government cash flow plan provides the basis for the projected annual borrowing plan. The Government will communicate the domestic borrowing plan to the market participants through the *Market Leaders Forum*.

76. The 2013 MTDS provides a clear set of assumptions and some information on key risk parameters that are associated with the Strategy (S2) (Table 10). These provide the basis on which the implementation of the strategy will be monitored and reported. If there is a significant and sustained deviation in the outturn relative to that assumed in the MTDS analysis, the strategy will be reviewed and revised.

77. Debt management strategy development needs a robust legal framework. The Government has enacted legislation governing both external and internal borrowing under the Public Financial Management Act, 2012 with provisions that are in line with the requirements of the Constitution of Kenya, 2010 and best international practice. In addition, the institutional arrangement for public debt management will continue to be strengthened taking into account the provisions for the establishment of a Public Debt Management Office (PDMO) and the new system of devolved government.

78. Comprehensive, accurate and timely information on public debt is critical in managing investors' sovereign risk assessment and the cost of debt. Public debt information will be published more regularly to enhance transparency on debt management in accordance with best international practice.

79. Continued collaboration with partners, such as the US Treasury, the IMF, the World Bank, IFC, MEFMI and the Commonwealth Secretariat will be encouraged in developing the Government and corporate bond markets and capacity building in debt management. The debt recording system will be upgraded and integrated with IFMIS, additional skilled staff posted to PDMO while training in debt management techniques will be scaled up.

## VIII. CONCLUSION

80. The *2013 MTDS* is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the budget in the financial year 2013/14, taking into account both cost and risk. The cost-risk trade-off of the *2013 MTDS* has been evaluated within the medium term context.

81. The debt strategy complements the DSA, a forward-looking framework concerned with long-term sustainability of debt. Whereas Kenya's current debt level is sustainable, it is imperative that the Government continues to implement prudent debt management practices and policies supported by sustained macro-economic stability.

82. The *2013 MTDS* has considered the current macro-economic environment both at the local and international scene and the related vulnerabilities. The recommended strategy is one that seeks the issuance of medium term domestic debt, and contraction of external concessional debt.

83. This is the fifth time that the Government is formally presenting the Medium Term Debt Strategy and the first time it is being presented in accordance with the PFM Act, 2012. As required under the Act the Strategy is in line with the Budget Policy Statement and Estimates presented to Parliament. Going forward, the Government will implement measures aimed at enhancing the transparency and accountability in public debt management.



**APPENDIX I: ANALYSIS OF THE COST/RISK TRADE OFF UNDER AN  
ALTERNATIVE SCENARIO-FINANCING COUNTY GOVERNMENT  
INFRASTRUCTURE THROUGH DEBT FINANCING**

**■ FINANCING COUNTY GOVERNMENT INFRASTRUCTURE  
THROUGH DEBT FINANCING**

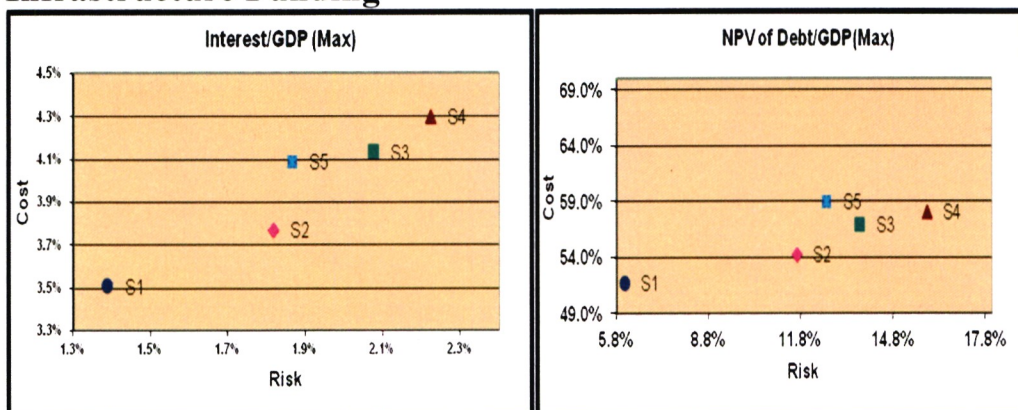
1. Debt management strategies were evaluated on the basis of an alternative scenario which envisages financing of the infrastructure at the county government level through borrowing. In this scenario, an additional USD 1.16 billion (Ksh. 100 billion)<sup>15</sup> in spending is spread over the three years of the simulation horizon with debt financing adjusted accordingly. However, given the onerous task of mobilizing these resources through the domestic market without crowding out the private sector, it is assumed that this expenditure is partly financed by a committed pipeline of a syndicated loan under commercial terms. In this case, the strategies described in Table 8 are applied to the financing requirement net of this committed debt. Consequently, the final strategy implemented would incorporate a relatively higher proportion of external debt of around 3 percent. In particular, the proportion of external debt increases from 40 to 43 percent under S2, 30 to 33 percent under S3, 25 to 28 percent under S4, and from 25 to 28 percent under S5.

2. The impact of this change on the key cost and indicators is shown in Figure 12. Again, while all cost indicators shift upward, the relative ranking does not change. In addition, given the increase in the size of external debt stock, the indicators outlined in Table 10 would change as indicated in Table 18 below.

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<sup>15</sup> This is derived by maintaining the level of Debt to GDP at below 45 percent of GDP over the medium term as envisaged in the Budget Policy Statement, 2013.

**Figure 12: Cost and Risk under County Government Infrastructure Funding**



**Table 18: Other Key Indicators under County Government Infrastructure Funding**

	Simulation Horizon (2013/14-2015/2016)				
	S1	S2	S3	S4	S5
<b>Cost indicators (average over simulation)</b>					
Average interest rate	6.8%	7.1%	7.5%	7.7%	7.4%
Interest / Revenues	12.3%	12.8%	13.6%	13.9%	13.5%
<b>Risk indicators (end simulation horizon)</b>					
% DX in debt portfolio	49%	56%	63%	66%	57%
ATM (years)	12.0	11.3	9.8	9.5	9.8
% of debt refinancing within 12 months	6.7%	6.8%	6.3%	7.8%	7.7%
% of DX debt refinancing within 12 months	9.1%	8.0%	6.4%	8.5%	10.2%
Short-term external debt / Reserves	7.6%	7.6%	7.6%	7.6%	7.6%
<b>Implied net borrowing (% of GDP) (average over simulation)</b>					
Net domestic borrowing	3.30%	4.79%	6.24%	6.94%	5.07%
Net external borrowing	2.25%	0.9%	(0.35%)	(0.97%)	0.92%