HIGHLIGHTS OF KENYA'S DEBT STATEGY

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Kenya's Public & Publicly Guaranteed Debt end September 2009

External Debt	**USD bn**	
Bilateral	2.50	59% of Ext. Debt
Multilateral	4.16	36% of Ext. debt
Commercial	0.31	5% of Ext. Debt
Sub-total	**6.97**	**48.6% of total debt**
Domestic debt		
Treasury bonds	5.14	69.7% of Dom. Debt
Treasury bills	1.63	22.1% of Dom. Debt
Others	0.6	8.1% of Dom. Debt
Sub-total	**7.37**	**51.4% of total debt**
Grand total	**14.34**	**42% of GDP**

Objectives of Kenya Debt Policy

- The objective of Kenya’s debt management policy is twofold:
  - to meet the Government financing requirements at the lowest possible long term borrowing cost, subject to a prudent degree of risk and;
  - To deepen the domestic market for Government securities.

Objectives of Kenya Debt Policy cont'd

- Financing must be taken up in a balanced way such that debt is sustainable over the long term.
- On the one hand, debt must be contracted prudently, taking into account the cost and risk consequences.
- On the other hand, debt must be contracted to support expenditure in priority areas that will promote economic growth and reduce poverty over the long term.
- The 2009 MTDS addresses the former consideration, which is a core function of public debt management.

Kenya’s Debt Strategy

- The Government in 2009 re-evaluated the existing *ad hoc* debt management strategy.
- The 2009 Medium Term Debt Strategy (MTDS) prepared by the Debt Management Department at the Treasury provides a logical framework for evaluating the proposed financing options for the 2009/10 Budget.
- It highlights the optimal risk / cost trade-off adopted within a medium term context.

Kenya's Debt Strategy cont'd

- The 2009 MTDS will guide borrowing decisions.
- It is observed that even in the worst case shock scenario, Kenya's public debt ratios are within the internationally set sustainability benchmarks.
- MTDS strengthens relations with external creditors, donors, investors and promotes development of the domestic debt market

Borrowing Targets for financial year 2009/10

- External borrowing: 2.0% of GDP
- Domestic borrowing: 4.3% of GDP (**Kshs 109bn or USD 1.4bn)**
- External concessional loans with at least 35% Grant Element
- Commercial banks loans to be used to refinance commercial debt arrears
- Domestic debt issuance of benchmark Treasury bonds while maintaining 30:70 T/bills & T/bonds ratio

Assumptions underlying the 2009 MTDS

A. **External Debt**

1. fixed rate of 0.75 %, with a 40-year tenor and 20-year grace period and denominated in SDRs.

- Concessional borrowing would remain at 30% of total net financing needs in the medium term.
- Net external borrowing for FY 2009/10 is 2% of GDP and expected to marginally increase to 2.2% of GDP in the FY 2011/12

Assumptions underlying the 2009 MTDS cont’d

2. In the FY 2010/11, the Government will tap quasi-concessional sources of financing, these loans will be variable rate, effectively priced at LIBOR + 100 basis points, carrying a tenor of 20-years with a 5-year grace period and denominated in USD.

3. Commercial bank borrowing assumption is that it will be variable rate and denominated in USD.

Assumptions underlying the 2009 MTDS cont'd

- Will be bullet loans with a 5 – year tenor.
- Will be priced off LIBOR plus the assumed country credit spread at 5-year

4. Quasi concessional, commercial borrowing including international sovereign bond is assumed to start 2011/12 and to remain capped at 10% of net financing.

Assumptions underlying the 2009 MTDS cont'd

5. No international sovereign bond will be issued in the financial year 2009/10.

B. Domestic debt

- undertaken through issuance of T/Bills & T/Bonds the ratio of 30:70.
- Ensure that the maturity Structure of existing portfolio is lengthened to minimize refinancing risk.

Assumptions underlying the 2009 MTDS cont'd

- Domestic borrowing is about 70 % of total net borrowing in FYs 2009/10, 2010/11 and 2011/12 and drops to 60 % in FY 2012/13.
- **Net domestic borrowing** for FY 2009/10 is **4.3% of GDP** and expected to fall to 2.2 % of GDP in 2011/12.

Macro economic assumptions

- The 2009 MTDS is consistent with the overall macroeconomic framework.
- Reflects the inter-linkages and feedback effects between the MTDS and the macroeconomic framework
- Within a medium-term planning period, the Government will assess potential macroeconomic conditions and risks when implementing the MTDS.

Macro economic assumptions cont'd

- After achieving a record rate of 7 % real GDP growth in 2007, output contracted with real GDP growth falling to 1.7 percent in 2008.
- This reflects the impact of the post-election crisis, high food and fuel prices, and the global economic crisis.
- Real GDP growth is likely to recover gradually to 6.4 percent in 2013.

Macro economic assumptions cont'd

- Adverse global financial market conditions have also led to the postponement of the debut USD 500 million sovereign bond while donor flows are expected to slow down.
- Adverse exogenous shocks affected Government revenue collection and weakened the overall fiscal position.
- In the FY 2009/10, overall budget deficit (including grants) is projected to be 6.6 % of GDP.

Macro economic assumptions cont'd

- it is expected that as the economy recovers, the deficit will be reduced to 4.2 % of GDP in FY 2011/12 to reflect Government's commitment to bring down total Government debt to GDP.
- The recent fall in world prices of fuel and food has helped ease inflationary pressures, and inflation is projected to decline and reach single digits in the medium-term.

Macro-Risks and Implications for Debt Management Strategy

		Implications for Debt Strategy Preferences		
Macroeconomic Factors	**Impact**	**Target source**	**Currency**	**Other comments**
Balance of Payment Risks				
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
Fiscal Risks				
Potential volatility (revenues)	Expenditure volatility	Market	DX/FX	Create fiscal space, prioritize expenditure, and improve efficiency
Capital spending aid dependent	Growth volatility		DX/FX	Improve relationship with donors, improve absorptive capacity, and implementation efficiency
Contingent liabilities	Debt level increase	Market	DX/FX	Create fiscal space, and strengthen overall PFM framework
Monetary Risks				
High inflations	Impede market development, higher interest costs			Increase credibility of monetary policy, improve monetary operational framework, monetary transmission mechanism to reduce inflation premium
Negative real interest rate	Impact real money investors, and deposit growth			
Natural Disasters	Growth volatility	Market	DX/FX	Diversify economy, and explore the possibility of commodity hedge

THE END

THANK YOU