SOVEREIGN
AFRICA RATINGS

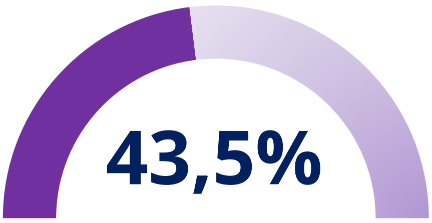
Republic of Kenya

SOVEREIGN CREDIT RATING

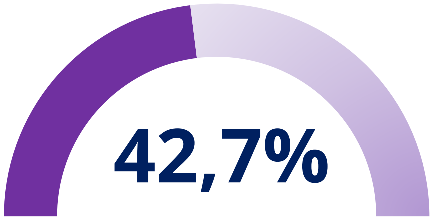
18 August 2025

RATING ACTION

SAR Sovereign Rating Model Creditworthiness Score



LCR Creditworthiness Score



FCR Creditworthiness Score

Sovereign Africa Ratings (SAR) has completed its creditworthiness assessment of the Republic of Kenya, and on 18 August 2025, assigned new long- and short-term credit ratings for both foreign and local currency obligations.

The key rating actions are as follows:

- The long-term foreign currency rating has remained at **B,** and the long-term local currency rating has been revised to **B+ from B**.
- The short-term foreign and local currency ratings are both at **B2**.
- The outlook for both local and foreign currency ratings is **Stable**.

Date	Rating Category	Rating	Outlook
Local Currency Ratings:			
18 August 2025	Long-term	B+	Stable
18 August 2025	Short-term	B2	Stable
Foreign Currency Ratings:			
18 August 2025	Long-term	B	Stable
18 August 2025	Short-term	B2	Stable

RATING RATIONALE

The Republic of Kenya's credit profile is defined by a significant and persistent tension between its resilient, diversified economy and a precarious fiscal position marked by very weak debt affordability. The sovereign benefits from a dynamic services sector, a robust agricultural base, and its established status as a key economic, trade, and financial hub within the East African Community (EAC). These fundamental strengths, which have enabled the economy to weather multiple domestic and external shocks, are critically counterbalanced by a high public debt burden. This elevated debt level consumes a dangerously large portion of government revenue for servicing, severely constraining fiscal flexibility and crowding out essential development and social spending. Furthermore, significant social pressures and governance weaknesses limit the government's capacity to implement durable fiscal consolidation measures, creating substantial policy uncertainty and execution risk.

The Central Bank of Kenya (CBK) has successfully demonstrated its capacity to manage macroeconomic stability, a key credit support. Through a proactive and decisive monetary tightening cycle, the CBK has managed to bring inflation back within its target range, anchoring inflation expectations and stabilising the Kenyan shilling (KES) after a period of significant depreciation. This effective policy response has enhanced the central bank's credibility and showcases a degree of institutional capacity that mitigates some of the risks stemming from fiscal weaknesses.

RATIONALE FOR THE STABLE OUTLOOK

In the medium term, SAR believes that Kenya’s strong economic growth prospects are achievable, underpinned by a resilient 4.7% GDP growth rate. This outlook is supported by a relatively diversified export base and robust natural resource extraction. However, this potential is tempered by volatility and a weaker current account balance, which require careful management to ensure sustained economic momentum.

The Central Bank of Kenya (CBK) exhibits a moderate degree of independence and effectiveness. This suggests a capable institution committed to maintaining price stability, as supported by a high score for managing inflation. While the CBK's standing is a credit positive, continued adherence to its mandate will be critical, especially when navigating fiscal pressures and external shocks that could test its policy consistency.

Kenya's regulatory and fiscal frameworks present a mixed picture. The low regulatory effectiveness score highlights potential weaknesses in the enforcement and quality of regulations, which could create uncertainty and deter investment.

Similarly, a moderate fiscal policy effectiveness indicates that while the government has a framework for managing public finances, its execution faces challenges, particularly in translating policy into tangible fiscal consolidation and debt stabilisation.

Overall, Kenya's financial strength faces pressure from a substantial debt burden and significant affordability challenges, as indicated by very low scores for government debt-to-revenue and interest-to-revenue ratios.

However, these vulnerabilities are somewhat counterbalanced by a robust historical record of debt repayment, a solid capacity for government revenue generation as a share of GDP, and foreign currency reserve coverage. These offsetting factors suggest that, with continued disciplined and prudent fiscal management, Kenya's financial position can be sustained, thereby supporting the Stable outlook.

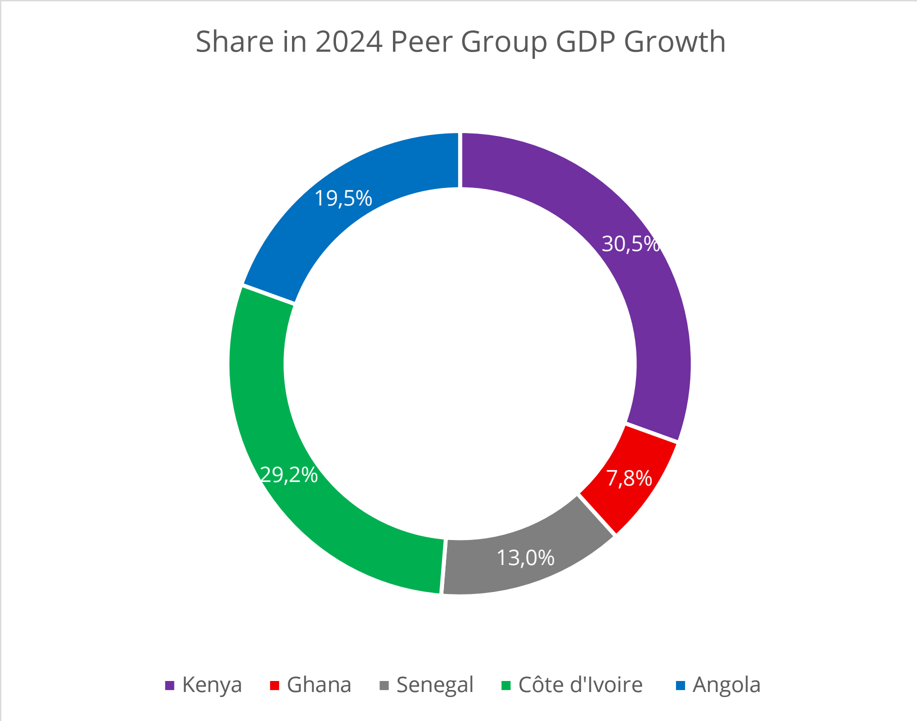
RATING DISCUSSION

Economic Strength Pillar

GDP Growth

Kenya's economic growth has demonstrated considerable resilience, though it is currently navigating a period of moderation. After a strong post-pandemic performance, real GDP growth slowed from 5.6% in 2023 to an estimated 4.7% in 2024. This deceleration is attributable to a combination of factors, including adverse weather events that disrupted agriculture, a tight monetary policy environment designed to curb inflation, and subdued business sentiment following social unrest related to fiscal measures.

Figure 1: Share in 2024 Peer Group GDP Growth



Source: SAR's calculations based on data from the World Bank

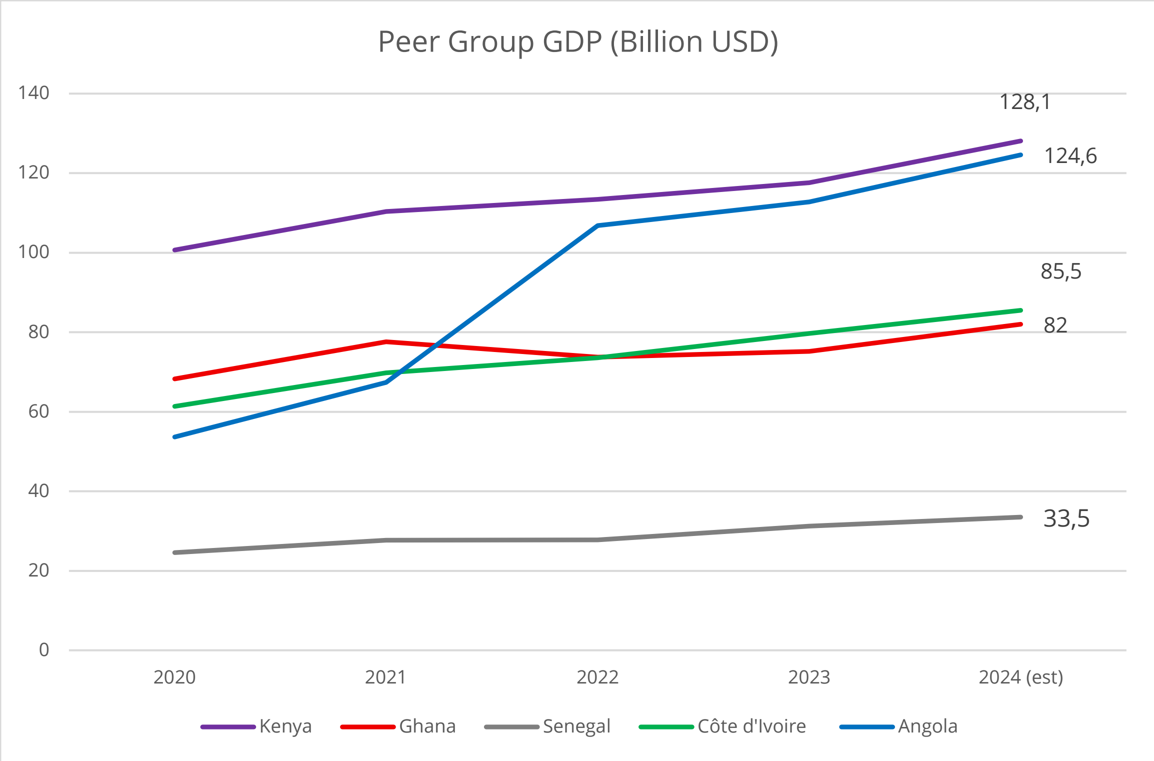
The Central Bank of Kenya (CBK) has pivoted decisively toward growth support, cutting its benchmark interest rate seven consecutive times – most recently to 9.5% in August 2025 – aiming to stimulate credit expansion and private sector activity. Consequently, growth is projected to rebound to 5.2% in 2025 and further to 5.4% in 2026. Over the forecast period (2025–2026), GDP growth is anticipated to average 4.8%, reflecting a gradual recovery supported by the economy's diversified structure – anchored by a dynamic services sector and anticipated agricultural rebound.

Nevertheless, this trajectory remains below Kenya's estimated potential and faces significant structural headwinds. Most critically, heavy government domestic borrowing continues to crowd out private sector investment, constraining productivity gains and job creation. Despite these challenges, Kenya's economic scale is a key credit strength: The country is set to become East Africa's largest economy in nominal terms in 2025, cementing its position as a vital regional hub for trade, finance, and logistics.

Overall, Kenya's growth outlook remains positive, supported by its resilient economic base and strategic regional importance. However, unlocking higher and more inclusive growth will depend on addressing the fiscal constraints that are currently stifling private sector dynamism and job creation.

Comparison with a broader peer group of significant Sub-Saharan African economies underscores Kenya's position with an estimated 2024 GDP of $128.1 billion and ranks it as the largest economy in a peer group that includes Angola ($124.6 billion), Côte d'Ivoire ($85.5 billion), and Ghana ($82 billion). This places Kenya's economy at the forefront, accounting for over 28% of the peer group's total GDP and highlighting its systemic importance as an economic anchor.

Figure 2: Peer Group GDP



Source: SAR's calculations based on data from the World Bank

Export Diversification Index

Kenya’s export base is primarily composed of the following:

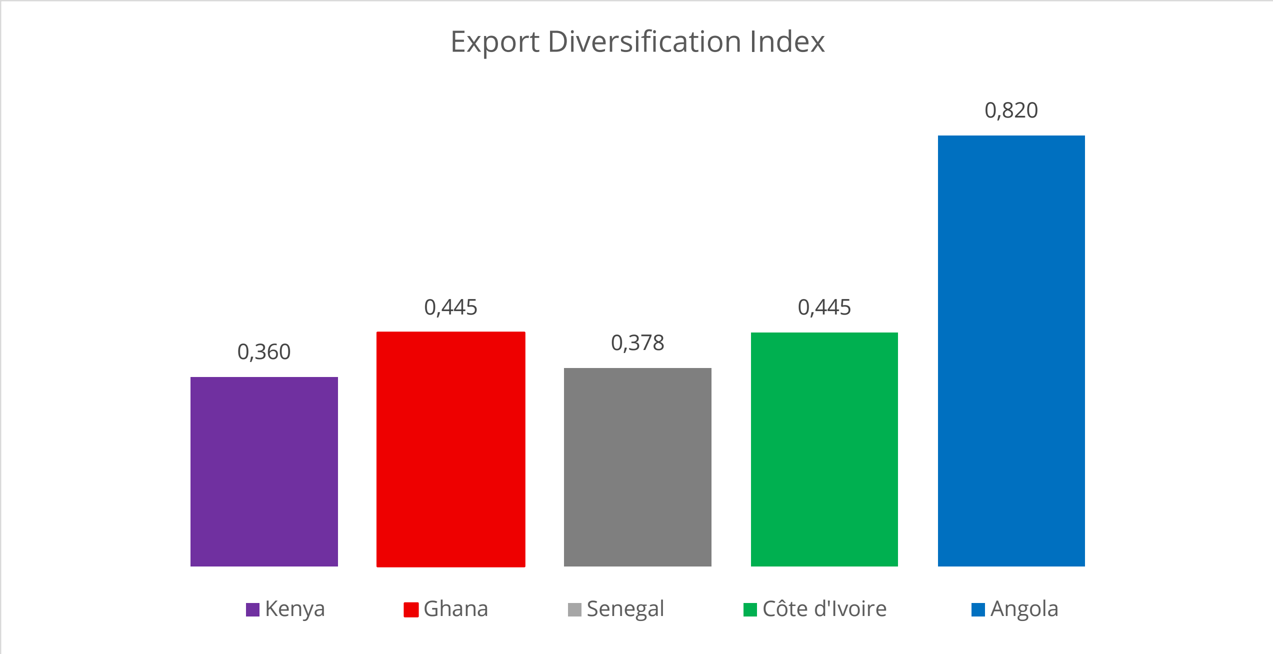
Agricultural Products: Tea, horticultural products (including cut flowers, fruits, and vegetables), and coffee are the mainstays of goods exports.

Services: Tourism is a critical source of service export revenue.

Remittances: While not a traditional export, diaspora remittances are a major and stable source of foreign currency.

Comparing Kenya to its peer group reveals shared vulnerabilities. Angola exhibits extremely low export diversification, with its economy overwhelmingly dependent on oil and diamond exports. Ghana and Côte d'Ivoire, while more diversified than Angola, are still heavily reliant on a few key commodities, primarily cocoa, gold, and oil. While Kenya's agricultural export base is more varied than Angola's hydrocarbon dependency, it shares a similar vulnerability to commodity price cycles as Ghana and Côte d'Ivoire and critically lacks a significant manufactured goods export sector that could provide more stable, higher-value earnings. Overall, Kenya's low level of export diversification remains a key constraint on its external resilience and long-term growth potential.

Figure 3: Export Diversification Index



Source: IMF

Current Account Balance

Kenya's current account balance as a percentage of GDP has undergone a significant and positive adjustment, with the deficit narrowing considerably from -5.2% in 2022 to -1.3% in 2024. The historically wider deficit was primarily driven by a high import bill and vulnerability in export receipts. This marked improvement to a deficit of -1.3% in the 12 months to February 2025 indicates stronger performance from key foreign currency earners and moderated import growth.

The narrowing of the deficit is attributed to a confluence of positive factors. A rebound in agricultural output has supported the growth of key exports such as horticulture and coffee. Most notably, diaspora remittances have emerged as a powerful and stable source of foreign currency inflows, reaching a record high of USD 4.94 billion in 2024. Concurrently, the continued recovery in the tourism sector has substantially boosted services receipts.

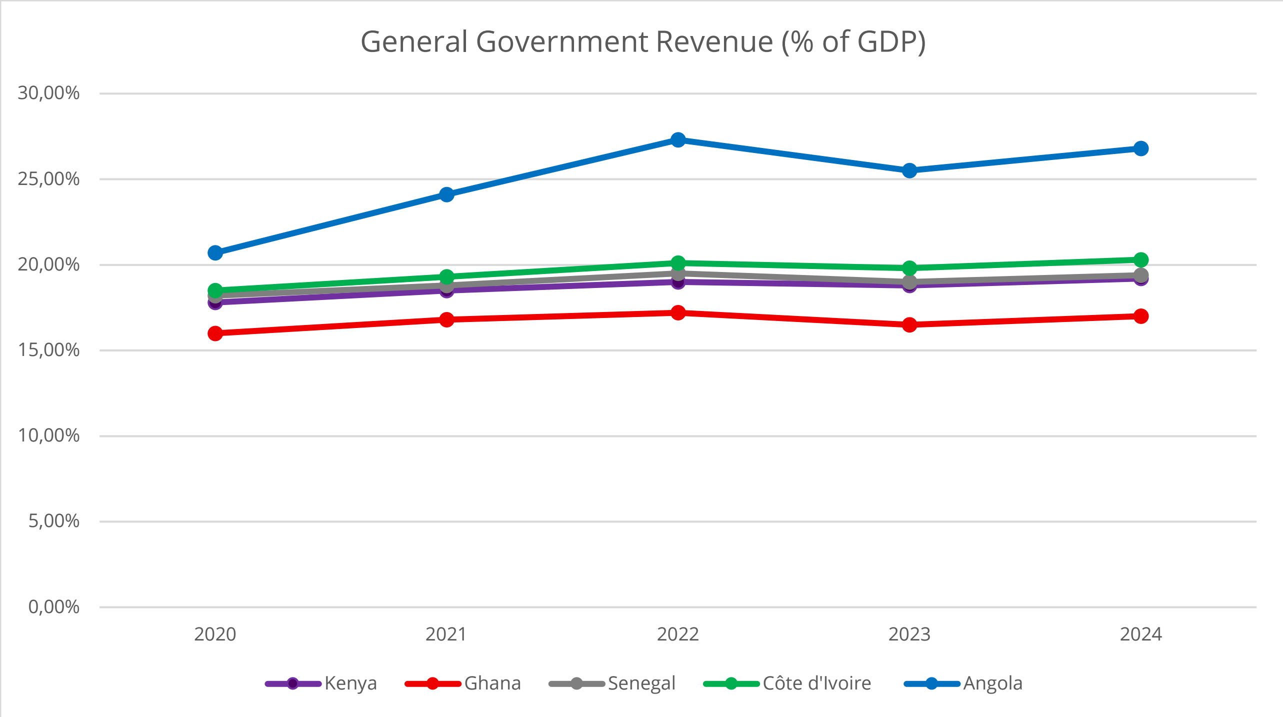
Looking ahead, the current account deficit is projected to stabilise at these improved levels. Factors influencing this trajectory include the stability of global commodity prices, the pace of domestic investment and its associated import requirements for capital goods, and the overall strength of the global economic environment which impacts both tourism and remittances. Maintaining this narrower deficit will depend on continued growth in export earnings, particularly through efforts to diversify into higher-value products, and the prudent management of the import bill.

General Government Revenue

General government revenue as a share of GDP has shown a significant increase, rising from 18.8% in 2023 to an estimated 19.2% in 2024, and is projected to stabilise around 18.9% in 2025. This sharp uptick reflects the government's concerted efforts to strengthen fiscal capacity under its Medium-Term Revenue Strategy (MTRS), which includes measures to improve tax administration and broaden the tax base. The upward trend, if sustained, would provide the government with a firmer foundation for managing its severe debt service obligations and planning for essential public investments in infrastructure and social services – key pillars for long-term growth.

However, maintaining this positive trajectory is subject to significant execution risk. The recent forced withdrawal of the controversial Finance Bill 2024, a central pillar of the MTRS, highlights the severe social and political constraints on implementing further revenue-enhancing measures. While the government's stated commitment to fiscal sustainability through revenue enhancement supports Kenya's creditworthiness, its ability to navigate the political landscape and implement effective, socially acceptable reforms will be crucial. Over the medium term, the capacity to maintain revenue momentum in the face of these challenges will be a key determinant in funding development priorities and managing public debt effectively.

Figure 4: General Government Revenue



Source: IMF

The graph illustrates Kenya's general government revenue as a percentage of GDP from 2020 to 2024, comparing it with peers such as Ghana, Senegal, Côte d'Ivoire, and Angola. Kenya's revenue-to-GDP ratio has remained relatively stable but low, hovering between 15% and 20%, significantly below Angola's (which peaks near 30%, likely due to oil revenues) and slightly trailing Côte d'Ivoire's. This suggests Kenya faces structural challenges in revenue mobilisation, potentially due to a narrow tax base, inefficiencies in collection, or a large informal sector.

The stability of Kenya's ratio, despite economic shocks, indicates some resilience, but the persistently low level raises concerns about fiscal sustainability, especially given rising debt service costs. To strengthen its sovereign credit profile, Kenya will need to enhance tax administration, broaden the tax base, and reduce reliance on borrowing to fund its budget. Peer comparisons show room for improvement; for instance, Côte d'Ivoire's higher ratio reflects stronger revenue policies, a benchmark Kenya could target through reforms.

Overall, while Kenya's revenue performance is not the weakest among its peers, the moderate ratios underscore the need for fiscal reforms to ensure debt sustainability and maintain creditworthiness.

Financial Strength Pillar

Kenya's Financial Strength Pillar, which evaluates fiscal flexibility and debt sustainability, reflects a challenging but partially mitigated position. The country faces acute affordability pressures, underscored by very weak debt-to-revenue and interest payments-to-revenue, signalling severe strain on public finances. These metrics highlight Kenya's vulnerability to refinancing risks, particularly given its high reliance on foreign-currency-denominated debt.

However, some buffers provide modest relief. Kenya maintains a strong historical repayment record, supporting its creditworthiness, while foreign currency reserves offer a degree of external liquidity protection, though they remain below optimal levels. The reserves, covering approximately four months of imports, help cushion against short-term shocks but may prove inadequate if global financial conditions tighten further or if the shilling faces renewed depreciation pressures.

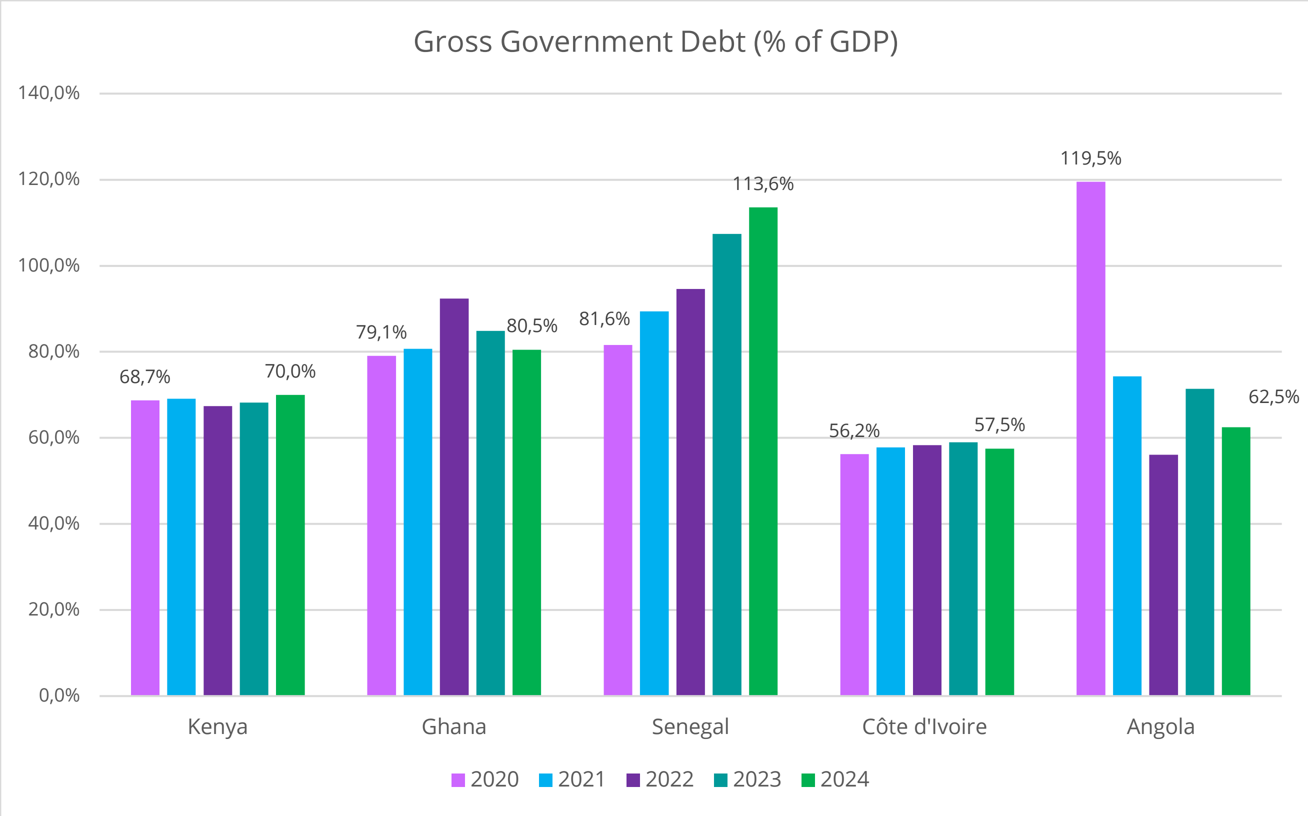
Going forward, Kenya's fiscal trajectory hinges on revenue mobilisation reforms to alleviate debt service burdens and reduce reliance on external borrowing. Strengthening tax compliance, broadening the tax base, and curbing expenditure inefficiencies will be critical to improving fiscal flexibility. Meanwhile, the high share of foreign-currency debt necessitates active liability management to mitigate exchange rate risks. While Kenya's repayment track record and reserve buffer provide some stability, sustained fiscal consolidation will be key to preserving sovereign credit resilience.

Gross Government Debt

Kenya's gross government debt as a percentage of GDP has followed a steep upward trajectory over the past decade, rising from 42.1% in 2012 to an estimated 70% in 2024. Although stabilising around the 68-70% mark since 2020, this level remains significantly above the 50% prudential threshold recommended by the IMF for developing countries, indicating a state of high debt distress. The persistently elevated debt stock reflects a long-standing reliance on debt-financed spending to cover large fiscal deficits. Furthermore, the government's debt-to-revenue ratio is critically high, which severely limits fiscal space and underscores the acute affordability pressures facing the sovereign. Urgent and sustained fiscal consolidation remains key to preventing further deterioration.

In 2024, Kenya's gross government debt was estimated to reach 70% of GDP, positioning it below Ghana (80.5%), Angola (81.6%), and Senegal (113.6%), but significantly higher than Côte d'Ivoire (57.5%). While Kenya's debt burden appears moderate relative to Ghana's crisis-level stresses or Angola's commodity-driven volatility, it remains elevated compared to regional outperformers like Côte d'Ivoire – reinforcing its status as a key fiscal vulnerability.

Figure 5: Gross Government Debt



Source: Statista 2025

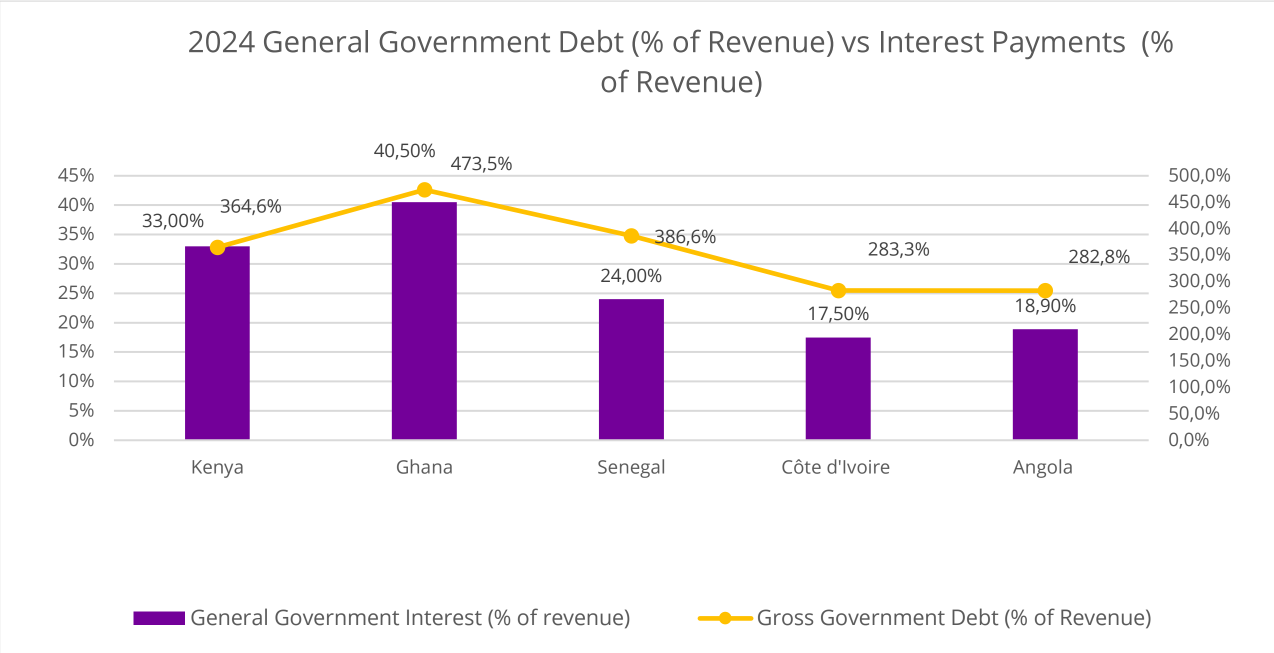
Debt to Revenue

Kenya's gross government debt as a percentage of revenue demonstrates a significant and sustained deterioration in fiscal discipline over the past decade, surging from 227.6% in 2012 to a projected 364.6% in 2024. This alarming increase was driven by a combination of persistent high fiscal deficits, averaging 7.3% of GDP over the last ten years, largely to finance ambitious infrastructure projects that yielded suboptimal economic returns. The debt burden was further compounded by a strategic pivot away from concessional financing towards more expensive commercial debt, such as Eurobonds, and was acutely exacerbated by external shocks like the COVID-19 pandemic and the depreciation of the Kenyan shilling, which inflates the local currency value of external debt obligations.

The most severe consequence of this escalating and increasingly expensive debt stock is the crippling rise in debt servicing costs. General government interest payments as a share of revenue have skyrocketed from 12.3% in 2012 to an unsustainable 33% in 2024. This means approximately one-third of all government revenue is now consumed by interest payments alone, severely eroding fiscal space for essential public services and development expenditure. This "crowding-out" effect is a direct result of the shift to high-cost commercial loans, rising global and domestic interest rates, and currency depreciation. The situation has led to what is described as a "lost decade" in real per capita public spending, undermining the government's ability to fund its own development agenda and social programmes.

When benchmarked against regional peers, Kenya, alongside Ghana, emerges as a high-risk outlier, with debt and interest-to-revenue ratios that are substantially higher than more moderately indebted countries like Côte d'Ivoire and Angola. This highlights that the nation's fiscal predicament is a result of specific policy choices rather than an unavoidable regional trend. The government's fiscal consolidation agenda now faces extreme political and social headwinds, underscored by the widespread public protests that forced the withdrawal of the revenue-raising Finance Bill 2024. This has created a significant revenue shortfall and elevated political risk, leaving Kenya's debt sustainability finely balanced and highly contingent on the difficult implementation of austerity measures in the face of significant public opposition.

Figure 6: Government Debt to Revenue vs Interest Payments to Revenue

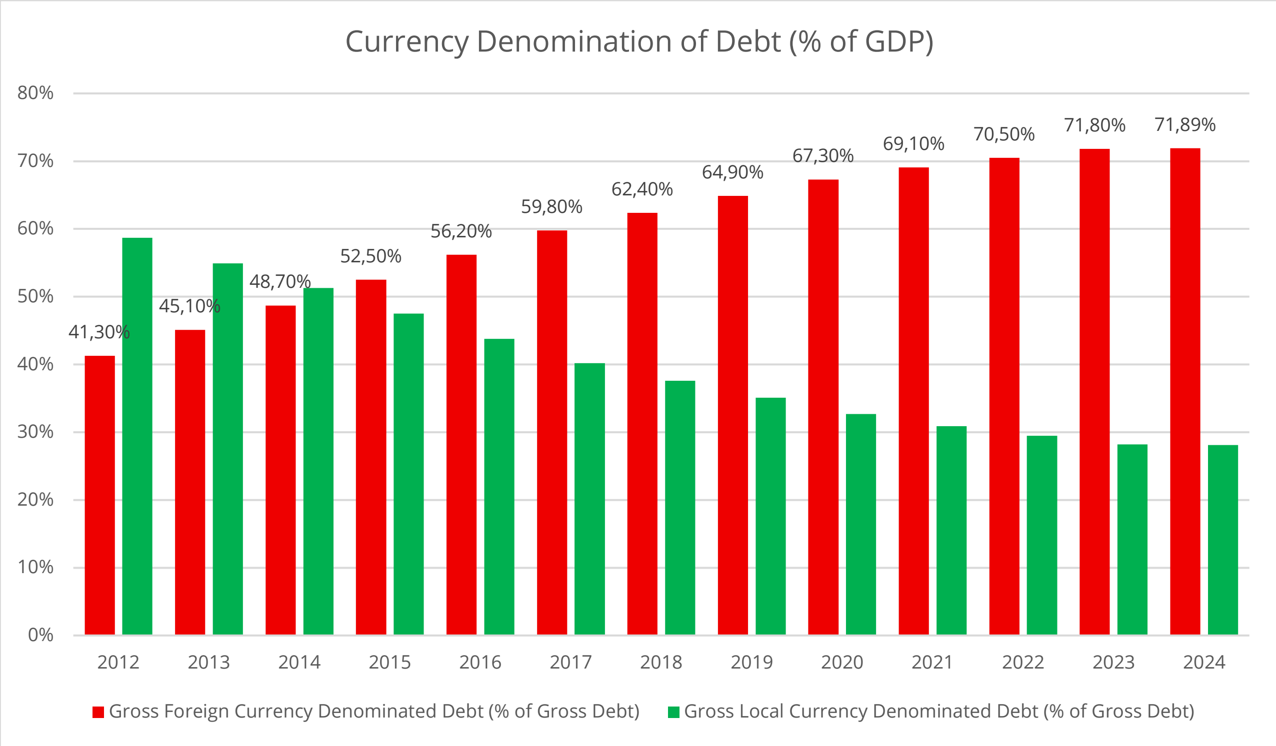


Source: IMF World Economic Outlook

Currency Denomination of Debt

Kenya's debt portfolio exhibits a higher share of foreign currency–denominated debt, averaging approximately 70.1% of GDP between 2020 and 2024, while local currency–denominated debt averaged around 29.9% during the same period. Although a larger foreign currency component can increase exchange rate risk, currency stability and prudent foreign reserve management can help mitigate potential vulnerabilities. Over time, expanding the local currency debt market could help reduce foreign exchange risk and enhance debt sustainability.

Figure 7: Currency Denomination of Debt



Source: World Bank International Debt Statistics

Contingent Liabilities

Contingent liabilities, which include government guarantees and other off-balance-sheet exposures, represent a notable potential fiscal risk for Kenya. A combined contingent liabilities stress test, aimed at capturing the public sector's exposure to state-owned enterprises (SOEs), public-private partnerships (PPPs), and financial market shocks, indicates a total potential exposure of approximately 9.0% of GDP. This includes 3.1% of GDP for reported non-guaranteed debt of SOEs and PPPs, 0.5% for legacy debt of pre-devolution county governments, 0.4% for government letters of support for fuel import products, and 5% for a financial market shock. Although these liabilities have not posed immediate risks, their potential materialisation underscores the importance of careful oversight and could exert pressure on the fiscal framework. Strengthening governance and transparency around contingent liabilities can help mitigate unforeseen budgetary strains.

Debt Repayment Record

As of 2024, Kenya's debt repayment record, measured in years since the last default or restructuring event, stands at 39 years for purposes of SAR's Sovereign Rating Model. This metric reflects the country's commitment to prudent debt management practices over this period. This historical reliability enhances Kenya's overall creditworthiness.

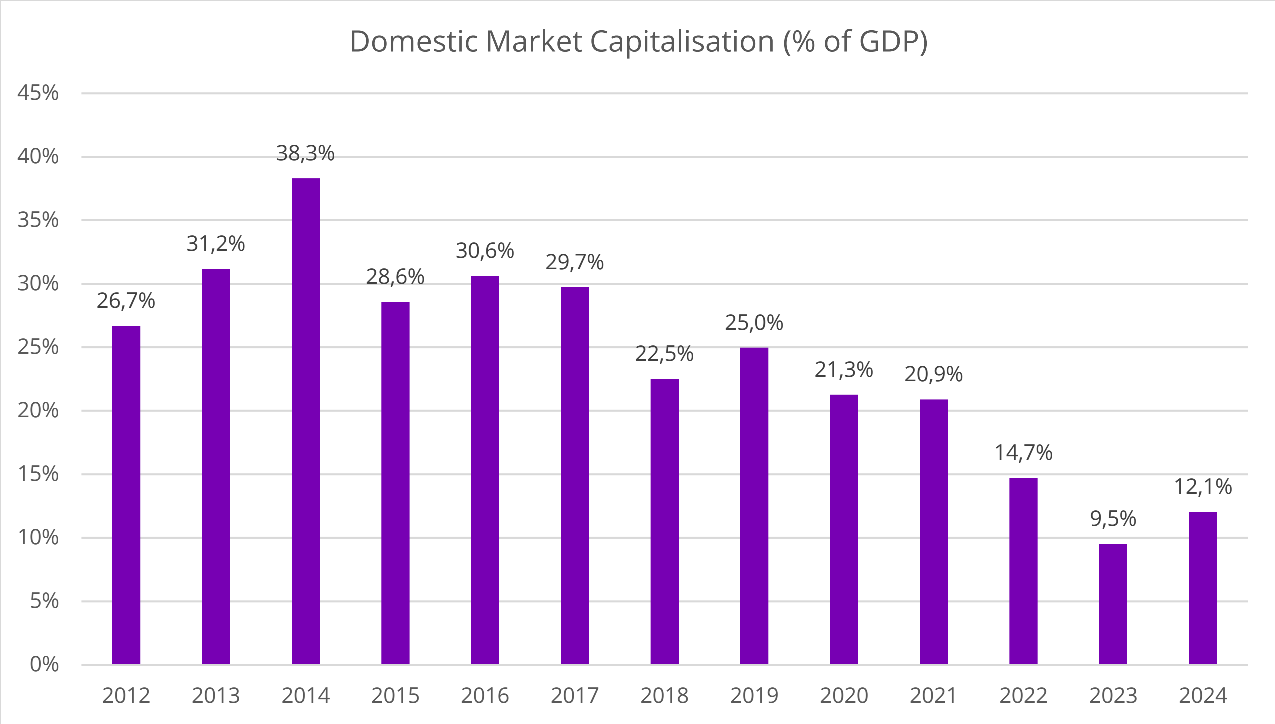
Domestic Market Capitalisation

Kenya's Domestic Market Capitalisation as a percentage of GDP has exhibited significant volatility, marked by a sharp decline from a peak of nearly 30% in 2017 to a historic low of 9.5% in 2023, followed by a modest recovery to 12% in 2024. Despite this recent improvement, the current level remains substantially below its previous highs, underscoring the market's fragility. Developing a deeper and more resilient domestic capital market is crucial for Kenya to effectively mobilise domestic savings, provide diversified financing avenues for businesses, and reduce reliance on external funding, thereby mitigating external exposure risk.

Efforts to bolster Kenya's financial markets and stimulate recovery include the government's strategic "Bottom-Up Economic Transformation Agenda" (BETA), which prioritises key sectors like agriculture and digital services to foster a more conducive investment environment and market growth. Concurrently, macroeconomic stabilisation has played a vital role: easing inflationary pressures (with the annual rate declining to 4.5% in 2024 from 7.7% in 2023) and a slight strengthening of the Kenyan shilling have contributed to improved investor sentiment and market stability. The Central Bank of Kenya's active use of monetary policy to maintain price stability has been instrumental in this regard.

However, Kenya's domestic market capitalisation continues to face significant headwinds. The steep decline from 2019 to 2023 was primarily driven by severe economic shocks, notably the COVID-19 pandemic (causing a 2020 GDP contraction) and its lingering effects, which worsened financial health and increased household vulnerability amid rising inflation. Aggressive interest rate hikes by the Central Bank to combat high inflation raised borrowing costs for businesses and made fixed-income investments more attractive, diverting capital away from equities. The market also contends with a severe liquidity crunch, subdued business sentiment, and domestic unrest. Furthermore, deep-seated structural weaknesses pose major impediments, including poor infrastructure (ranked 106th globally) and deficiencies in human capital and research (ranked 118th), as per the 2024 Global Innovation Index. High public debt and the substantial allocation of government revenue to debt servicing further constrain funds available for essential development spending. Sustained focus on macroeconomic stability, addressing these structural barriers, and fostering a predictable investment climate is essential for achieving durable DMC growth and reducing external exposure risk.

Figure 8: Domestic Market Capitalisation



Source: World Bank Databank

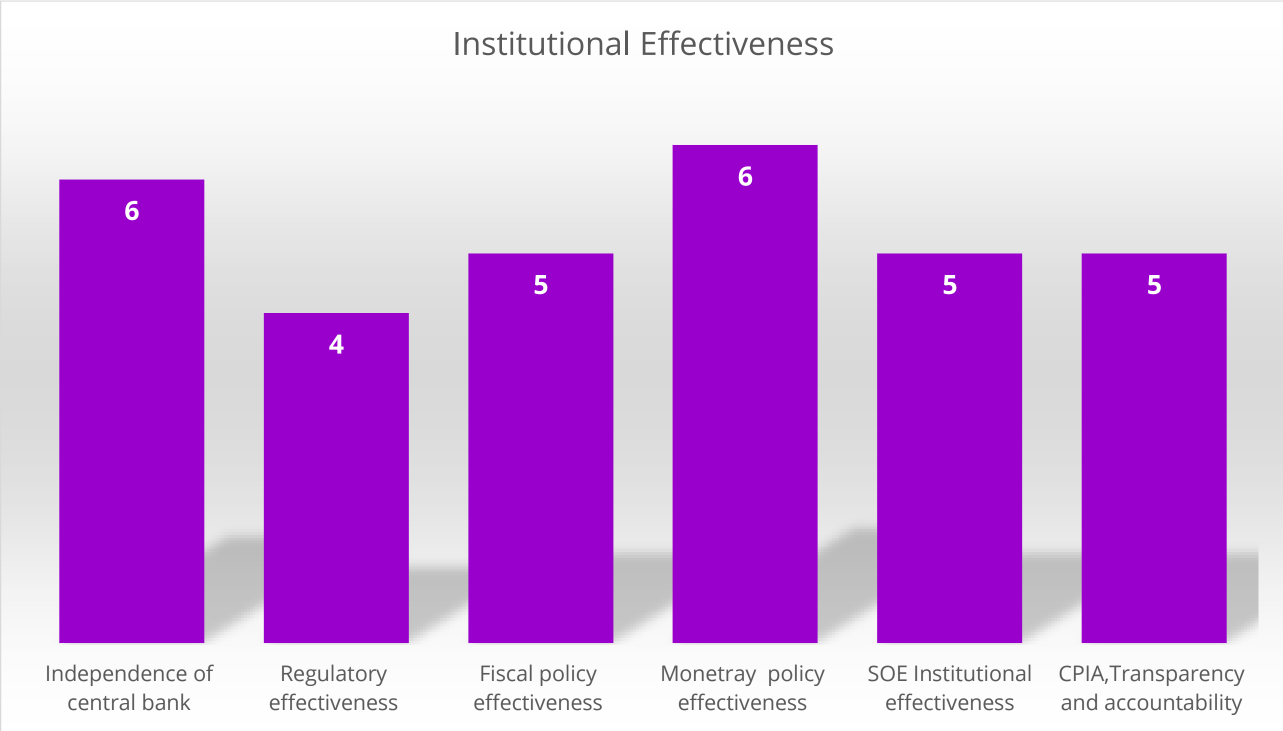
Inflation and Interest Rates

Kenya's monetary tightening cycle from 2020 to 2023 presented credit-negative pressures due to persistently high inflation (peaking at 7.7–7.8% in 2022–2023) and aggressive interest rate hikes. The Central Bank of Kenya (CBK) raised its benchmark rate from 7% in 2021 to 12.5% by late 2023, a 550-basis-point increase, to combat inflation fuelled by currency depreciation, global commodity shocks, and drought-related food shortages. While necessary for price stability, these sharp hikes increased borrowing costs for businesses and households, constraining private investment and exacerbating public debt servicing burdens (interest payments consumed ~25% of 2023 revenues). The delayed policy response in 2021–early 2022 also eroded monetary credibility, weakening the shilling (KES) by 26% against the USD in 2022–2023 and amplifying imported inflation.

The credit outlook improved notably in 2024, with inflation declining to 4.49% (H1 average) and the CBK holding rates at 13%. This moderation – driven by improved agricultural output, lower global oil prices, and tighter monetary transmission – signals restored policy effectiveness, a material credit positive. Sustaining inflation within the government's target band (2.5–7.5%) reduces macroeconomic volatility and supports real incomes, while high real interest rates (8.5%) enhance Kenya's external account stability by attracting portfolio inflows. Nevertheless, maintaining the 13.00% rate poses growth trade-offs: credit to the private sector grew at just 5.3% YoY (May 2024), below the 12–15% pre-pandemic average. The CBK's commitment to price stability anchors confidence, but prolonged restrictive policy could pressure fiscal consolidation and debt dynamics.

Institutional Strength Pillar

Figure 9: Institutional Strength Ratings



Source: SAR's calculations

Central Bank Independence

The Central Bank of Kenya (CBK) demonstrates moderate to high independence. While the CBK operates under a clear legal mandate (Constitution 2010, CBK Act) with institutional autonomy, occasional fiscal pressures and government liquidity demands create operational constraints. Its credibility in inflation targeting (2022–2024 rate hikes) reflects policy resolve, although institutional independence remains vulnerable to political influence.

Regulatory Effectiveness

Kenya's regulatory environment faces notable weaknesses. Persistent gaps in supervision (e.g., banking sector vulnerabilities, capital markets enforcement), bureaucratic inefficiencies, and uneven implementation hinder business climate stability. High-profile failures (e.g., Chase Bank, Imperial Bank collapses) underscore systemic risks, deterring foreign investment and elevating credit sector volatility.

Energy/fuel subsidies further distort budgetary discipline, although recent IMF programme adherence offers moderate credit support.

Monetary Policy Effectiveness

The CBK's monetary policy is moderately effective. Aggressive 2022–2024 tightening (rates: 7%–13%) successfully anchored inflation (down to 4.49% in 2024), demonstrating operational credibility. However,

Fiscal Policy Effectiveness

Kenya's fiscal management shows mixed effectiveness. Despite robust frameworks (Public Finance Management Act), issues such as revenue leakage (tax evasion: ~30% of potential collections), expenditure overruns, and debt sustainability pressures (public debt: 68% of GDP) strain fiscal credibility. Transmission lags persist, with private sector credit growth (5.3% YoY) still below pre-pandemic levels, constraining economic diversification.

SOE Institutional Effectiveness

State-owned enterprises (SOEs) reflect persistent governance gaps. Critical entities like Kenya Power (KPLC) and Kenya Airways require repeated bailouts (costing ~1.5% of GDP annually), highlighting weak oversight, inefficiencies, and opaque procurement. Ongoing reforms (e.g., SOE Privatisation Bill 2023) offer potential but lack tangible implementation progress.

CPIA Transparency and Accountability

Kenya shows partial adherence to transparency standards. While digital innovations (e.g., e-procurement, open treasury portals) exist, weak audit outcomes, limited public access to SOE data, and corruption risks (ranked 126/180 in Transparency International's CPI 2023) undermine accountability. Legal frameworks are robust, but enforcement remains inconsistent.

Environmental, Social, and Governance Pillar (ESG)

Environmental

Kenya's heavy reliance on climate-sensitive sectors makes it highly susceptible to economic shocks from climate variability, posing significant credit risks. Agriculture, which employs 55% of the workforce and contributes 22% of GDP, faces severe drought risks, notably the 2022–2023 Horn of Africa drought that pushed 4.4 million Kenyans into acute food insecurity, weakening economic stability and increasing fiscal pressures. The tourism sector (8.8% of GDP) is threatened by coastal erosion in critical destinations like Diani Beach and coral bleaching in marine parks, eroding a key foreign exchange earner. Hydropower (38% of energy mix) suffers from erratic rainfall, causing recurrent power rationing that disrupts industry, raising production costs and deterring investment. Socially, climate shocks deepen poverty (rural poverty: 38.5%) and displace communities, straining urban infrastructure and amplifying social spending needs. Governance gaps in proactive diversification (e.g., slow transition to renewable energy beyond hydropower) exacerbate these risks, highlighting structural vulnerabilities.

Adaptation Potential and Governance Challenges

While Kenya has significant adaptation opportunities, supported by international climate finance (e.g., $250M from GCF, $300M from AfDB), execution challenges undermine credit resilience. Institutional weaknesses include:

Bureaucratic delays: Only 45% of Kenya's Climate Change Fund was disbursed in 2020–2023 (National Treasury), delaying critical climate-proofing investments.

Corruption risks: Audits reveal fund mismanagement in afforestation projects (Ethics and Anti-Corruption Commission, 2023), raising concerns over fiscal leakage and project efficacy.

Equity gaps: Pastoralist communities in arid counties (e.g., Turkana) lack representation in adaptation planning, leaving high-risk populations exposed.

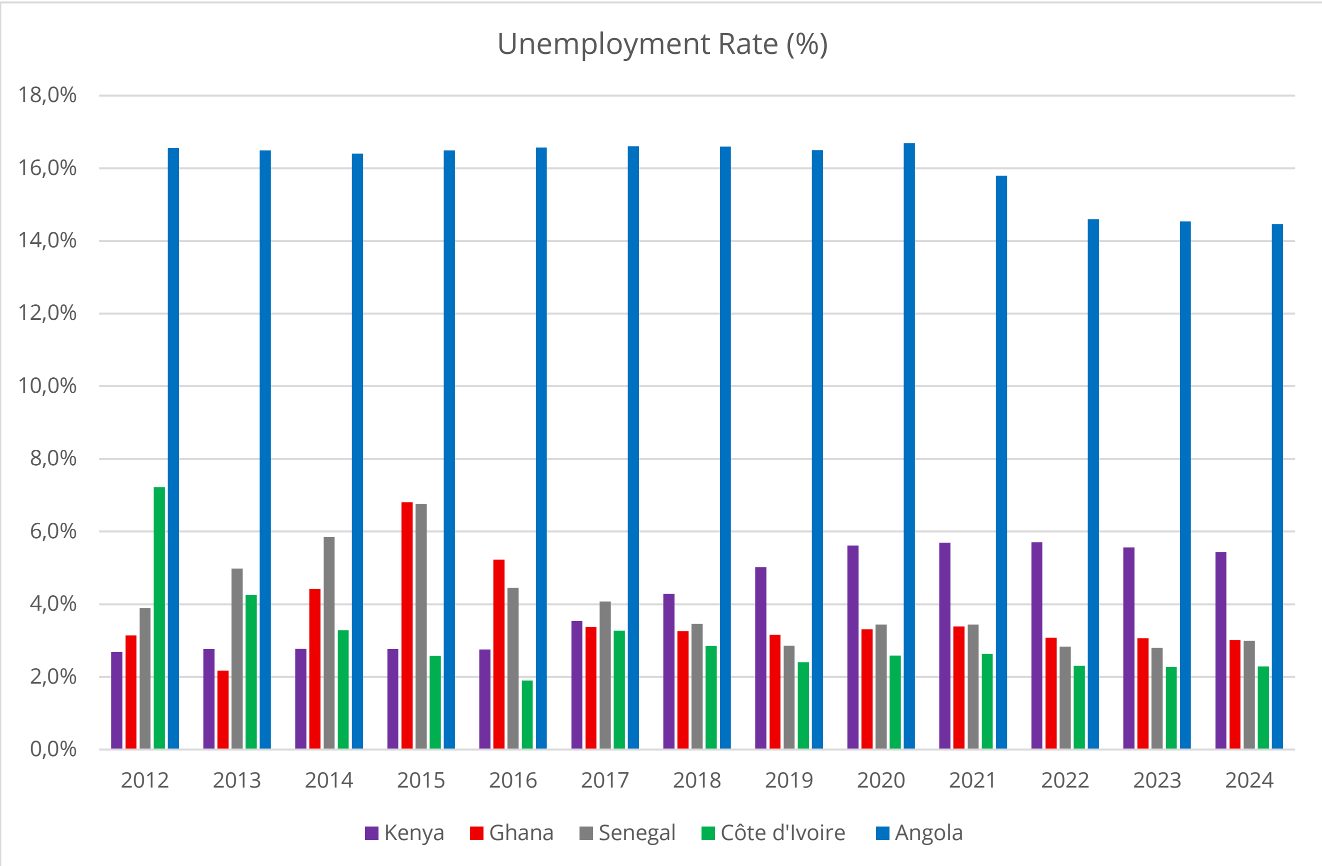
Example: The Galana-Kulalu Irrigation Project (aimed at drought-proofing agriculture) remains 60% incomplete after eight years due to procurement disputes and budget reallocations, reflecting systemic inefficiencies that heighten long-term climate risks.

Social

Kenya's unemployment rate has shown a concerning upward trajectory, rising from 2.7% in 2012 to 5.4% in 2024 (peaking at 5.7% in 2021–22), reflecting credit-negative structural challenges in labour market absorption. While the rate remains below regional peers like Angola (14.5%), the consistent deterioration contrasts unfavourably with improving trends in Senegal (3.0% in 2024 from 3.9% in 2012) and Côte d'Ivoire (2.3% from 7.2%).

This persistent unemployment, particularly among youth (official youth unemployment exceeds 13%), points to weak job creation in formal sectors despite GDP growth averaging 4.7% (2012–2023). The COVID-19 pandemic exacerbated the trend (5.0% in 2019 to 5.7% in 2021), revealing limited labour market resilience. Compared to Ghana's volatile but improving rate (3.0% in 2024 from 3.1% in 2012), Kenya's sticky unemployment suggests structural bottlenecks in skills matching and private sector growth, which could constrain future consumption and tax revenue growth – a moderate credit risk for sovereign ratings.

Figure 10: Unemployment Rate



Source: World Bank

Governance

Kenya's governance indicators present a moderate-risk profile with notable structural weaknesses. The country's Political Effectiveness (Political Stability Index) reflects persistent vulnerabilities despite relative stability.

While Kenya maintains regular electoral cycles, recurring post-election tensions (e.g., 2017/2022 violence), ethnic polarisation, and weak institutional checks and balances continue to undermine policy continuity.

Credit rating agencies view this as elevating political risk premiums, particularly given high public debt (68% of GDP) that requires stable policymaking.

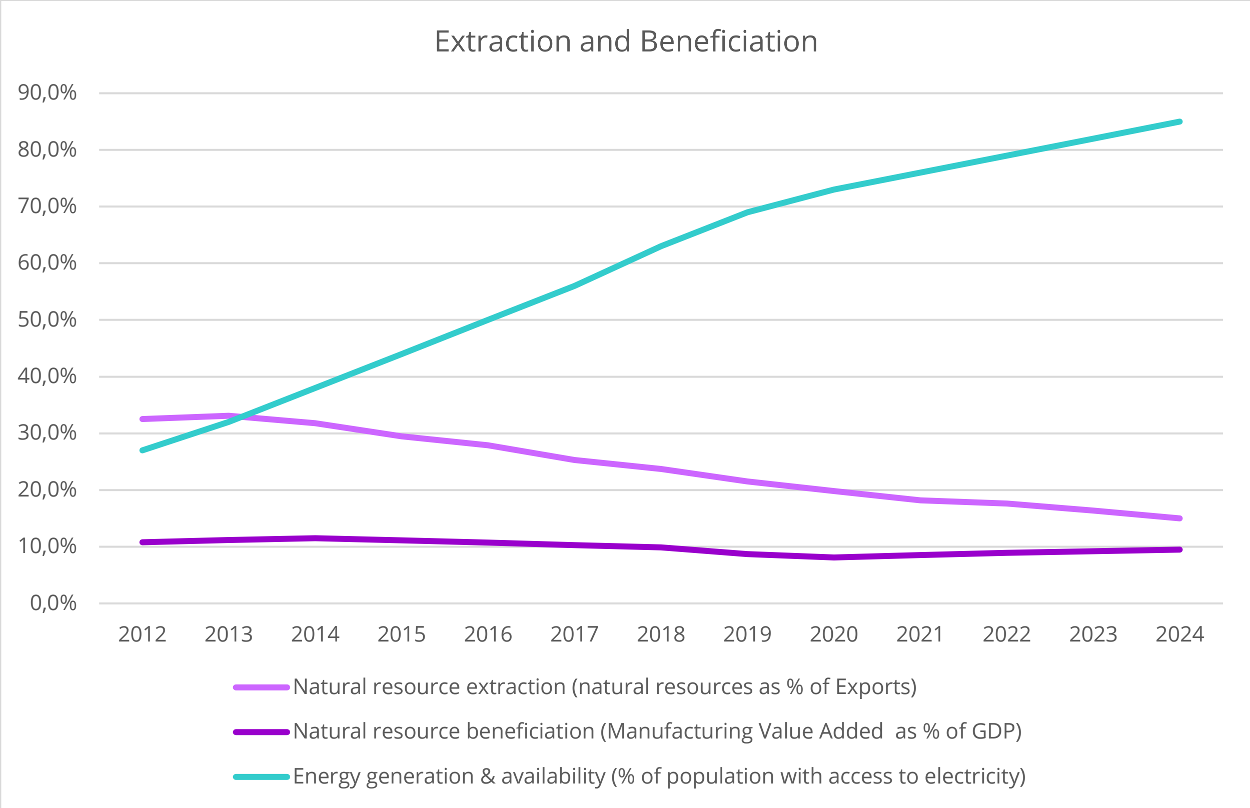
More critically, Kenya's Government Effectiveness highlights acute challenges in public service delivery, corruption control (ranked 126/180 in Transparency International's 2023 CPI), and judicial independence.

Bureaucratic inefficiencies – evidenced by stalled projects like the Galana-Kulalu irrigation scheme – directly impair fiscal discipline and investor confidence.

The National Treasury's 2023 report notes that procurement delays cost 0.8% of GDP annually, a material credit negative.

Natural Resource Pillar

Figure 11: Extraction and Beneficiation



Source: KNBS

Extraction and Beneficiation

Natural Resource Extraction (% of Exports) – Declining Contribution

Kenya's reliance on natural resource exports has declined steadily from 33% of total exports in 2012 to a projected 13% in 2025, reflecting weakening competitiveness in key sectors like tea, coffee, and horticulture. While this suggests some export diversification, the drop is largely due to:

Underinvestment in mining: Despite potential in titanium, gold, and rare earths, extractive industries contribute <1% of GDP due to bureaucratic delays (e.g., Kwale mineral sands expansion stalled since 2020).

Agricultural stagnation: Tea exports (26% of agri-exports) face climate shocks and rising production costs, with volumes growing at just 1.2% CAGR (2015–2024).

Credit risk: Reduced export earnings from natural resources heighten foreign exchange volatility, with the current account deficit persisting at 4.1% of GDP (2024). This pressures Kenya's ability to service external debt (42% of total debt).

Natural Resource Beneficiation (Manufacturing Value Added % of GDP)

Kenya's manufacturing sector has contracted from 11% of GDP in 2012 to an estimated 8% in 2025, signalling deindustrialisation risks. Critical weaknesses include:

Low value addition: 78% of tea exports are unprocessed (2023), forfeiting $1.2B/year in potential revenue (KTDA).

nergy and policy bottlenecks: Industrial electricity costs ($0.18/kWh) remain 35% above regional peers, deterring agro-processing FDI.

Credit risk: Weak beneficiation limits job creation (formal manufacturing jobs fell by 12% since 2018) and erodes tax revenues, exacerbating fiscal strains (debt-to-revenue: 280% in 2024).

Energy Generation and Availability

Electricity access has surged from 27% (2012) to 95% (2025 est.), aided by Last Mile Connectivity Project. However:

Cost and reliability issues: Industries pay $0.22/kWh (vs. $0.10 in Ethiopia), with 14% average grid losses (2024).

Dependency on hydropower (38% of mix): Drought-induced outages cost 0.3% of GDP annually (2020–2024).

Recommendations to Mitigate Default Risks

Boost mining FDI: Fast-track approvals for lithium/rare earth projects to revive export growth.

Industrial incentives: Tax breaks for local processing (e.g., tea polyphenols, avocado oil) tied to job targets.

Energy cost reforms: Accelerate geothermal/wind expansion to cut industrial tariffs by 30% by 2027.

Outlook: Without structural reforms, Kenya's default risk will remain elevated, with natural resource underperformance and manufacturing decline acting as persistent drags on creditworthiness.

Infrastructure Development Pillar

Investment Commitment

Kenya has demonstrated strong infrastructure investment ambition, driven by its Vision 2030 blueprint and the Big Four Agenda, which prioritises transport, energy, and urban development. However, investment trends have been uneven, influenced by fiscal constraints, political cycles, and external shocks.

2010–2015: High investment levels (~6% of GDP annually), supported by Chinese financing (e.g., Standard Gauge Railway – SGR Phase 1).

2016–2020: Fiscal consolidation reduced infrastructure spending (~4.2% of GDP), delaying key projects like the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) corridor.

2020–2022: COVID-19 diverted funds to health and social protection, slowing infrastructure progress.

2023–2025: Recovery in PPPs (e.g., Nairobi Expressway) and climate finance (e.g., Geothermal Development Company expansions).

Kenya's infrastructure sector demonstrates strong potential to drive economic growth, with strategic investments in transport, energy, and urban development supporting long-term productivity gains. However, elevated public debt (68% of GDP) and fiscal constraints temper progress, forcing greater reliance on private capital and PPPs, a moderate credit negative given execution risks and high borrowing costs. While diversification and green infrastructure initiatives bolster resilience, chronic project delays, weak maintenance, and budget pressures undermine efficiency, posing risks to debt sustainability. To safeguard credit stability, Kenya must balance ambitious infrastructure development with fiscal discipline, prioritising private sector participation, climate-aligned financing, and robust maintenance frameworks. Without these adjustments, infrastructure-driven growth could come at the expense of worsening debt dynamics.

Project Implementation Rates

Kenya's project execution has been mixed, with delays due to bureaucracy, land disputes, and financing gaps.

2012–2015: ~75% implementation – Successful completion of Thika Superhighway, Mombasa Port expansion.

2016–2019: ~60% – SGR Phase 2A (Nairobi-Naivasha) faced delays; LAPSSET stalled.

2020–2021: ~50% – Pandemic disruptions halted roads, water projects.

2022–2025: ~70% recovery – Nairobi Expressway (completed), Dongo Kundu SEZ progressing.

2012–2015: High implementation rates (~80%).

Key Projects and Status (2025)

Project	Implementation Rate	Economic Impact
SGR Phase 2B (Naivasha-Kisumu)	65%	High trade potential
Last Mile Electricity Program	90%	Critical for rural growth
Nairobi Commuter Rail Upgrade	50%	Urban mobility boost
Itare Dam (Water Supply)	40%	Delayed due to legal disputes

Source: Kenya National Treasury

The uneven implementation of Kenya's strategic infrastructure projects presents material credit risks, with delays undermining projected economic returns and exacerbating fiscal pressures. While the 90%-complete Last Mile Electricity Program demonstrates effective execution – supporting rural productivity and revenue potential – stalled high-impact projects like SGR Phase 2B (65%) and Itare Dam (40%) threaten to convert anticipated growth dividends into contingent liabilities. These implementation shortfalls:

Erode Debt Sustainability: Prolonged delays increase cost overruns on predominantly debt-financed projects, with the $3.8B SGR particularly vulnerable to Chinese loan repayment pressures despite suboptimal utilisation.

Constrain Growth Multipliers: The 50%-complete Nairobi Commuter Rail undermines Nairobi's congestion relief and formal employment potential, capping tax revenue growth.

Highlight Structural Weaknesses: Recurring legal disputes (Itare Dam) and procurement bottlenecks reveal institutional gaps in contract enforcement and PPP frameworks that deter foreign direct investment with infrastructure debt comprising 21% of Kenya's total public debt, persistent implementation risks could trigger negative rating action unless accompanied by:

- Strict project triage to prioritise economically viable projects.
- Alternative financing structures (e.g. asset recycling) to reduce fiscal exposure; and
- Judicial reforms to expedite dispute resolution.

Diversity and Scope of Projects

Kenya has broad infrastructure diversification, spanning:

Transport: Roads, rail, ports (Mombasa, Lamu).

Energy: Geothermal (1,000+ MW), wind (Lake Turkana Wind Power).

Water: Thwake Dam, Northern Water Collector Tunnel.

Digital: Konza Technopolis (Silicon Savannah).

Kenya's broad infrastructure diversification across transport, energy, water, and digital sectors provides important credit strengths, including reduced economic concentration risk and enhanced long-term growth potential. The geographic and sectoral spread of projects (from the Lamu port development to geothermal energy expansion and Konza Technopolis) demonstrates a strategic approach to infrastructure-led development, which supports productivity gains and export competitiveness. However, execution risks, high debt financing costs, and maintenance gaps continue to weigh on the fiscal benefits of these investments. While the diversification itself is credit-positive, Kenya's rating remains constrained by the heavy debt burden associated with infrastructure spending (21% of public debt) and uneven project implementation. To translate infrastructure potential into durable credit strength, Kenya must improve cost recovery mechanisms (e.g., user fees, PPP structuring) and ensure new projects generate sufficient revenue to offset borrowing costs. Without stronger fiscal safeguards, the infrastructure expansion could exacerbate debt sustainability pressures rather than bolster economic resilience.

Innovative Financing Models

Kenya is pioneering alternative funding, but challenges persist:

Public-Private Partnerships (PPPs): Nairobi Expressway (successful), but some stalled (e.g., Mombasa-Mariakani Highway).

Infrastructure Bonds: Oversubscribed but high interest costs strain budgets.

Climate and Green Finance: Geothermal projects attract World Bank, AfDB funding.

Blended Finance: Used for affordable housing under Big Four Agenda.

Kenya's progressive approach to infrastructure financing enhances its credit profile by demonstrating adaptability in funding critical projects while mitigating fiscal risks. The successful Nairobi Expressway PPP sets a strong precedent for private sector participation, reducing direct government liabilities while improving urban mobility. Oversubscribed infrastructure bonds reflect robust investor confidence in Kenya's growth story, despite interest rate pressures. Furthermore, Kenya's leadership in climate-aligned financing, particularly in geothermal energy with World Bank and AfDB support, positions it favourably for concessional funding and green investment inflows. The strategic use of blended finance for affordable housing also underscores Kenya's commitment to inclusive development without over-reliance on sovereign debt.

These financing innovations strengthen debt sustainability by diversifying funding sources beyond traditional borrowing, ultimately supporting Kenya's economic resilience and creditworthiness. With continued improvements in PPP frameworks and cost recovery mechanisms, Kenya can further solidify its position as a regional leader in infrastructure development while maintaining fiscal stability. This balanced approach to financing infrastructure, leveraging private capital, climate finance, and strategic partnerships, provides a credit-positive pathway for sustainable growth and reduced default risks.

Economic Impact Analysis

Infrastructure contributes ~5% annually to GDP, with key benefits:

Economic Impact of Major Projects

Sector	Annual GVA Impact	Jobs Created
Transport	USD $1.2B	150 000
Energy	$800M	50 000
Water/Sanitation	$300M	30 000

Source: SAR's calculations

Kenya's infrastructure sector makes a substantial economic contribution, generating approximately 5% of annual GDP while supporting critical employment and productivity gains. The sector's Gross Value Added (GVA) impact is particularly strong in transport ($1.2B annually), reflecting the multiplier effects of improved logistics and trade connectivity. Energy infrastructure ($800M GVA) also plays a pivotal role in powering industrial and commercial activity, while water/sanitation projects ($300M GVA) enhance public health and agricultural output.

These investments demonstrate positive economic returns, with 150 000 jobs created in transport alone, helping to stabilise household incomes and consumption, a key driver of tax revenues. However, the fiscal cost of financing these projects remains elevated, with infrastructure-related debt accounting for ~21% of Kenya's public debt stock. While the GDP and employment benefits are credit-supportive, the long-term sustainability of this model depends on:

1. Improved cost recovery (e.g., toll roads, user fees) to reduce debt dependency.
2. Stronger execution efficiency to minimise delays and cost overruns.
3. Maintenance budgeting to preserve asset quality and extend economic benefits.

Maintenance and Upkeep Plans

Weak maintenance culture undermines infrastructure longevity:

Roads: Only 30% of paved roads are in good condition (KeNHA, 2024).
Rail: SGR requires costly Chinese-led maintenance.
Energy: Grid losses (~14%) due to poor upkeep.

Kenya's infrastructure maintenance gaps present a moderate but manageable credit challenge that requires targeted policy intervention. While current data indicates only 30% of paved roads are in good condition and energy grid losses remain elevated at 14%, these issues reflect systemic underinvestment in upkeep rather than irreversible deficiencies. The reliance on external maintenance contracts for critical assets like the SGR highlights an area for capacity building but also demonstrates Kenya's ability to secure technical partnerships when needed.

These maintenance shortfalls do not yet outweigh the economic benefits of Kenya's infrastructure expansion, but they do create long-term efficiency risks if unaddressed. Proactive measures, such as allocating a fixed percentage of infrastructure budgets to maintenance (1.5–2% of project costs) and expanding domestic technical training programmes, could significantly improve asset longevity without imposing major fiscal strain.

The situation remains credit-neutral with downside risks, as Kenya's infrastructure portfolio continues to deliver 5% annual GDP contributions despite maintenance gaps. However, neglecting upkeep could gradually erode returns on these investments. With structured reforms, Kenya can transition from its current reactive maintenance model to a more sustainable, cost-effective approach that protects both infrastructure quality and fiscal stability. The government's recent Maintenance Levy proposal for road funds suggests growing institutional recognition of this priority, a positive signal for future credit resilience.

Overall

Kenya's infrastructure development has demonstrated notable resilience amid fiscal constraints and global economic headwinds, positioning the country for sustained long-term growth. Through strategic investments in transformative projects like the SGR railway, Last Mile Electricity program, and geothermal energy expansion, Kenya has built critical foundations for economic diversification and competitiveness.

The government's increasing adoption of innovative financing models, including successful PPPs like the Nairobi Expressway and climate-aligned funding for renewable energy, reflects a maturing approach to infrastructure development that balances ambition with fiscal responsibility. While challenges persist in project execution and maintenance, evidenced by delays in key initiatives and suboptimal road conditions, Kenya's comprehensive infrastructure blueprint spanning transport, energy, water, and digital sectors provides a clear pathway for economic transformation.

Going forward, strengthening implementation capacity, enhancing maintenance frameworks, and optimising public-private collaboration will be crucial to maximising the economic returns on infrastructure investments. By maintaining its focus on high-impact projects while addressing fiscal sustainability concerns, Kenya is well-positioned to leverage its infrastructure advantages for durable growth, ultimately supporting its credit profile and long-term development objectives.

The continued prioritisation of revenue-generating projects and climate-resilient infrastructure will be particularly important in ensuring these investments translate into broad-based economic benefits without exacerbating debt vulnerabilities.

RATING SENSITIVITIES

Currency Denomination of Debt

We may consider downgrading Kenya's credit ratings if foreign currency-denominated debt continues to rise disproportionately, exacerbating exchange rate vulnerabilities. Currently, external debt accounts for ~42% of total public debt, and further reliance on non-concessional foreign borrowing, particularly amid shilling volatility, could strain debt servicing capacity. A sustained increase beyond 50% of total debt without commensurate reserve accumulation or export growth would heighten default risks.

GDP Growth

We would consider upgrading Kenya's ratings if GDP growth stabilises above 5.5% annually, driven by structural reforms that enhance private sector productivity and export diversification. Sustained growth at this level, supported by agriculture, manufacturing, and services, would improve debt sustainability by expanding the revenue base. However, growth below 4% (as seen in 2024) without fiscal adjustments could trigger negative rating action.

Infrastructure Disruptions

We may downgrade Kenya's ratings if critical infrastructure projects face protracted delays or cancellations, particularly those tied to debt servicing (e.g., SGR Phase 2B, Lamu Port). A failure to complete projects generating revenue (e.g., toll roads, port upgrades) would impair fiscal returns, while energy/water shortages could stifle growth. Persistent implementation rates below 60% for strategic projects would signal institutional weaknesses.

New IMF Funding

The successful negotiation and approval of a new, funded IMF program during the September 2025 mission presents a critical upside rating sensitivity for Kenya.

Securing such a program would provide essential external financing, bolster foreign exchange reserves, support the shilling, and signal continued commitment to fiscal consolidation and structural reforms, potentially enhancing market confidence and easing near-term debt servicing pressures.

Conversely, a failure to secure a funded arrangement, or significant delays and stringent conditionality leading to implementation slippage similar to the March 2025 program breakdown, constitutes a major downside risk.

This could rapidly heighten concerns over external financing gaps and debt sustainability, particularly given the high public debt burden and persistent fiscal pressures.

Upcoming rating actions will likely hinge on the program's size, terms, perceived credibility of Kenya's reform commitments (especially on revenue mobilisation and expenditure control), and the government's ability to maintain social stability while implementing necessary, potentially unpopular, fiscal adjustments under IMF oversight.

Rating Methodology

Sovereign Rating Methodology: Governments/Sovereign States

Rating History

Initial Rating Date	**19 March 2024**	**Current Rating Date**	**18 August 2025**

Solicitation Status

Unsolicited credit rating review. The rating assignment was not conducted at the request of the rated entity/issuer or a related third party.

SAR confirms that the credit rating has been disclosed to the rated entity/issuer or a related third party.

Participation Status

In accordance with regulatory requirements governing the publication process, the Issuer was provided with the draft rating report, including the proposed rating outcome, 24 hours prior to publication. This designated review period allows issuers to identify potential factual inaccuracies or inadvertent inclusion of confidential information. However, during this 24-hour period, and consistently throughout the entire rating process, the Issuer elected not to participate. Specifically, the Issuer provided no information or data, offered no comments, submitted no factual corrections, and conducted no assessment regarding the potential inclusion of confidential information.

Rating Definitions

SAR Rating Definitions

Information and Data

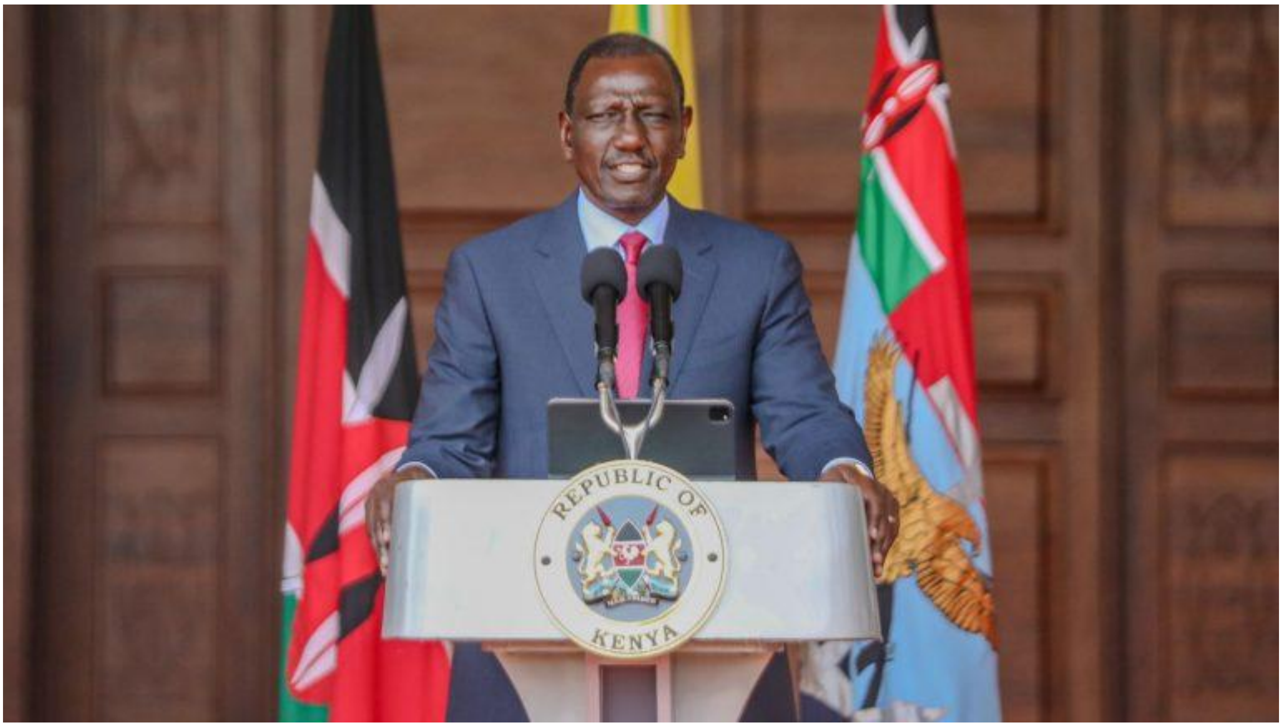
SAR confirms that data and information adequacy was sufficient to conduct this credit rating. Data and information from reputable sources were used during the credit rating process.

The quality of the data and information has been validated via cross-referencing against various data sources for consistency.

Glossary of Terms

Term	Definition
The African Continental Free Trade Area (AfCFTA)	The African Continental Free Trade Area (AfCFTA) is a landmark trade agreement among African countries aimed at promoting intra-Africa trade and economic integration. It was established to create a single market for goods and services on the continent, removing trade barriers and fostering economic cooperation among African nations.
CBK	The Central Bank of Kenya
Credit Rating Action	Any of the following is a credit rating action: 1. The process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process. 2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating. 3. A change to a credit rating (i.e., upgrade or downgrade). 4. Placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., credit rating confirmation). The assignment of, or modification of, an outlook linked to a rated entity or several credit ratings. 5. A credit rating affirmation. 6. A credit rating withdrawal.
Current account balance	Exports of goods and services minus imports of the same plus net factor income plus official and private net transfers.
Employee(s)	An employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.
FCR	Foreign Currency Rating (FCR) evaluates a government's ability to meet financial obligations denominated in foreign currencies (e.g., USD, EUR).
Foreign Direct Investment (FDI)	Direct investment conducted by non-residents.
Gross domestic product (GDP)	The total market value of goods and services produced by resident factors of production.
GDP per capita	GDP is divided by population.
Issuer	An issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special-purpose vehicles, companies, governments, and local governments.
IMF	International Monetary Fund
KES	Kenyan shilling
KNBS	Kenya National Bureau of Statistics (KNBS) is the principal government agency responsible for collecting, analysing, and disseminating official statistical data in Kenya.
LCR	Local Currency Rating (LCR) assesses a government's ability and willingness to meet its financial obligations denominated in its domestic currency.
Lead Rating Analyst (Lead Analyst)	Lead Rating Analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating.
Manager(s)	Managers (s) are employees who oversee the management of personnel.
Net general government debt	General government debt minus general government liquid financial assets.

Net external liabilities	Total public and private sector liabilities to non-residents minus total external assets.
Outlook	An outlook is an opinion regarding the likely path an issuer's rating could take over the medium term.
Prohibited Recommendation	Any proposals or recommendations made either formally or informally regarding the design of financial instruments on which a CRA is envisioned to issue a credit rating may be made by an employee to a rated entity or its agent to improve the rated entity's rating. This includes suggestions about the rated entity's corporate or legal structure, assets, liabilities, or activities.
Rated Entity(ies)	A rated entity is any entity rated by a credit rating agency (CRA).
Review	A review is an indication that a rating may change in the not-too-distant future.
SAR	Sovereign Africa Ratings (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.
Special Drawing Rights (SDR)	The SDR is an international reserve asset that was created by the International Monetary Fund in 1969 to supplement its member countries' official reserves.
Security	Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (derivatives), and warrants.
TDS	Total Debt Service (TDS, current US$) refers to the total amount of money paid by a country to cover the principal and interest payments on its external debt. External debt includes loans and financial obligations owed to foreign creditors, such as other governments, international organisations, or private entities, by the country in question.



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