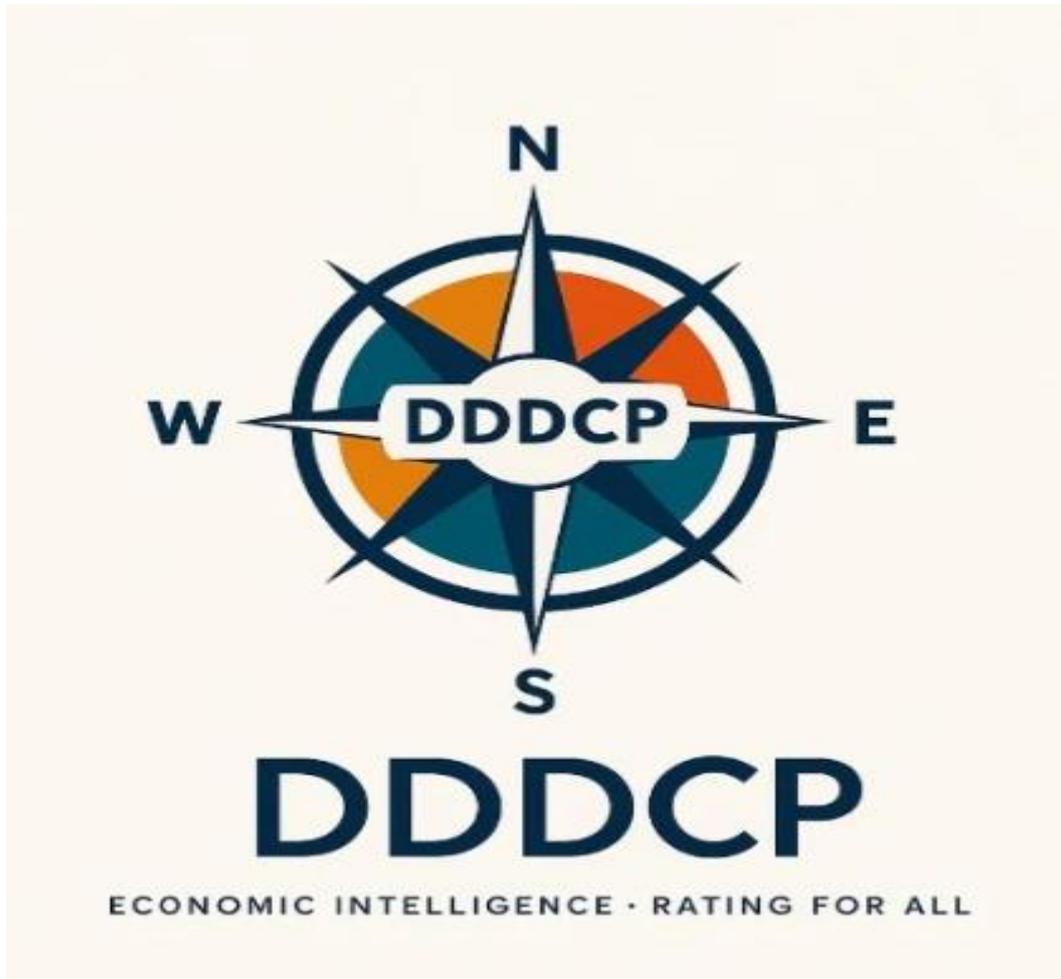


# **CROSS COUNTRY RISK REPORT: KENYA AND VIETNAM**



*Global Risk Management and Governance a.a. 2024-2025*

*Dr. Michel-Henry Bouchet, Dr. Arnaud Leconte*

*Group 2: Alessia D'Addetta, Arthur Dessard, Blerta Doberdolani, Christian Capone, Meaza Petros*

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# 1. Executive Summary

This report presents a comparative sovereign credit risk assessment of Kenya and Vietnam using the S&P Global Ratings Sovereign Rating Framework, as of May 2025. The analysis focuses on five core pillars: Institutional and Governance Effectiveness, Economic Profile, External Profile, Fiscal Profile, and Monetary Profile. Our goal is to evaluate the relative creditworthiness of each country and offer evidence-based recommendations to support informed investment and policy decisions

## Key Findings:

In the context of sovereign credit ratings, Vietnam remains with a 'BB+' rating with a stable outlook, reflecting its strong economic growth and solid external position. In contrast, Kenya holds a 'B-' rating with a stable outlook, following a downgrade in August 2024 due to mounting concerns around fiscal management and rising debt.

### Institutional and Governance Effectiveness:

*Kenya:* Kenya presents moderate-to-high risk driven by political tensions and policy implementation challenges, such as the recent reversal of the 2024/25 Finance Bill.

*Vietnam:* Moderate risk is recorded, but the country enjoys a high level of political stability as a result of single-party rule. However, administrative reforms that are underway do pose some execution risk.

### Economic Profile:

*Kenya:* Projects moderate growth (4.8%-5.6%) driven by services and agriculture but is hindered by structural issues like slow poverty alleviation, productivity stagnation, and poverty reduction.

*Vietnam:* Anticipates robust growth (7%-7.5%) driven by manufacturing exports, high FDI inflow, and diversification efforts moving the country up the value chain.

### External Profile:

*Kenya:* Faces moderate to high risk with a persistent current account deficit (~4% of GDP) and significant external debt repayments, relying heavily on external financing.

*Vietnam:* Maintains a low-risk external profile with consistent current account surpluses (~5.5% of GDP) and substantial FDI inflows, though it remains sensitive to global demand fluctuations.

### Fiscal Profile:

*Kenya:* High risk due to elevated debt levels (debt-to-GDP ratio at 73.3% by end-2023) and challenges in fiscal consolidation, with debt servicing costs exceeding 30% of government revenue.

*Vietnam:* Low risk with public debt well below the statutory ceiling (~34.7% of GDP at end-2024) and contained fiscal deficits (~3.6%-3.8% of GDP), providing fiscal space for public investment.

### Monetary Profile:

*Kenya:* Low to moderate risk with inflation under control (~4.1% in April 2025) and a stable exchange rate, though monetary policy is constrained by fiscal and external pressures.

*Vietnam:* Moderate risk with controlled inflation and a managed exchange rate, facing pressures from global monetary policy divergence and the need for ongoing banking sector oversight.

## Conclusion

From a sovereign credit risk assessment perspective, Vietnam demonstrates a comparatively lower risk profile than Kenya, due to its sustained economic growth, strong external position, political stability, and prudent fiscal management all of which support debt sustainability and reduce the likelihood of default. Key credit metrics such as manageable public debt levels, current account stability, and effective policy implementation contribute to Vietnam's stronger sovereign credit outlook. Kenya, by contrast, faces higher credit risk stemming from persistent fiscal deficits, a growing public debt burden (exceeding 70% of GDP), and recurrent political uncertainty, which undermine investor confidence and increase borrowing costs. Addressing these vulnerabilities requires Kenya to implement credible fiscal consolidation strategies, enhance budget transparency, and strengthen institutional capacity. For Vietnam, maintaining its favorable credit profile will depend on continued administrative reform, financial sector oversight, and economic diversification to reduce external vulnerabilities. Overall, while both economies offer growth potential, Vietnam is currently better positioned in terms of sovereign creditworthiness due to stronger macro-fiscal fundamentals and institutional stability.

### Comparative Risk Matrix & Country Profiles

| S&P Pillar                            | Kenya  | Vietnam  | Comments & Trend Outlook  |
|---------------------------------------|--|--|---|
| <b>Institutional &amp; Governance</b> | ◆ Moderate–High Risk ↔ Stable, fragile reforms | ● Moderate Risk ↗ Potential efficiency gains   | Kenya faces election-driven volatility; Vietnam's central reform agenda may boost governance. |
| <b>Economic Profile</b>               | ● Moderate Risk ↔ Structural constraints       | ● Low–Moderate Risk ↗ Dynamic manufacturing    | Vietnam's export engine is more resilient; Kenya's productivity growth is sluggish.           |
| <b>External Profile</b>               | ● Moderate–High Risk ↔ External debt pressure  | ● Low Risk ↔ Strong buffers                    | Kenya is exposed to financing shocks; Vietnam benefits from current account surpluses.        |
| <b>Fiscal Profile</b>                 | ● High Risk ↓ Risk of downgrade                | ● Low Risk ↗ Solid fiscal space                | Kenya's debt burden and deficits are severe; Vietnam has room for counter-cyclical policy.    |
| <b>Monetary Profile</b>               | ● Low–Moderate Risk ↔ Inflation easing         | ● Moderate Risk ↔ Exchange rate under pressure | Both control inflation well, but Kenya's policy is more constrained by external factors.      |

#### Legend:

|  |
|--|
| ● Low Risk   |
| ● Moderate Risk                                      |
| ◆ Moderate–High Risk                                 |
| ● High Risk  |
| Trend arrows: ↑ improving, ↓ deteriorating, ↔ stable |

## Rating Outlook and Scenario Analysis (2025–2027)

| Country | Current S&P Rating | 3-Year Outlook  | Upgrade Scenario  | Downgrade Scenario   |
|---------|--------------------|-----------------|---|--|
| Kenya   | B- (Stable)        | Neutral ↔       | - Effective fiscal consolidation-<br>Reduced debt service ratio- IMF program delivery               | - Political unrest ahead of 2027 elections-<br>Slippage on fiscal targets- Debt restructuring talk |
| Vietnam | BB+ (Stable)       | Positive bias ↑ | - Stronger-than-expected revenue mobilization-<br>Continued FDI diversification- SOE reform success | - Disruption from reform implementation-<br>Global demand collapse- FX instability risks           |

## 2. Institutional & Governance Risk

Institutional and governance effectiveness play a critical role in sovereign credit quality. This section assesses Kenya and Vietnam through the lens of political stability, institutional strength, rule of law, transparency, and policy implementation capacity. While both countries face structural governance constraints, their respective systems exhibit very different risk profiles and reform trajectories.

### Kenya: Fragile Checks and Political Volatility (Moderate–High Risk)

Kenya’s multi-party presidential system, grounded in the 2010 Constitution, was designed to decentralize power through 47 county governments. While this structure represents a step forward in democratic governance, its real-world impact has been mixed. Persistent institutional challenges such as entrenched corruption, politicization, and weak rule of law continue to erode confidence in the state’s ability to govern effectively. Although Kenya has not seen large-scale violence since the 2007–08 electoral crisis, periods of unrest continue to surface and stability remains elusive. The 2024 protests against the Finance Bill are just one example of how quickly public discontent can spill into the streets, often reflecting deeper frustrations tied to ethno-regional divisions and a lack of trust in political institutions. With the 2027 general elections approaching, the risk of increased polarization and populist policymaking is growing a trend that could stall critical reforms.

Corruption is widely recognized as a structural weakness. Kenya’s 2024 score of 32/100 on Transparency International’s Corruption Perceptions Index (ranked 121st globally) reflects public concerns about transparency and accountability. Institutions like the Ethics and Anti-Corruption Commission (EACC) have a mandate to tackle graft, but in practice, their work is often constrained by political pressure and selective enforcement. Public procurement remains a particularly vulnerable area, frequently marked by irregularities and rent-seeking behavior.

The rule of law is another area of concern. Kenya continues to rank poorly on global governance indices, with the World Bank placing it in the 30th percentile for both judicial effectiveness and control of corruption. Many citizens express skepticism toward the judiciary and police, citing inefficiency, delays, and perceived bias issues that hinder access to justice and reinforce broader governance risks.

While the Bottom-Up Economic Transformation Agenda (BETA) outlines ambitious plans targeting agriculture, housing, MSMEs, and the digital economy, translating these goals into tangible outcomes has proven difficult. Perpetuating an uneven policy implementation trend. Success will largely depend on political will, funding availability, and coordination between national and local authorities areas where past efforts have often fallen short.

Trend Outlook (↔): In the short to medium term, Kenya is likely to face continued challenges in strengthening institutional effectiveness. Unless meaningful progress is made in tackling corruption, depoliticizing governance, and reinforcing judicial independence, these governance risks will remain a significant drag on the country’s creditworthiness.

### Vietnam: Centralized Stability with Execution Risks (Moderate Risk)

Vietnam functions under a one-party system dominated by the Communist Party of Vietnam (CPV), which exercises tight control over policymaking and ensures a high degree of political continuity. While the absence of democratic pluralism may pose long-term questions about accountability and institutional adaptability, the CPV’s centralized authority has, in practice, facilitated macroeconomic discipline and enabled consistent long-term planning.

Political stability remains strong, with little indication of imminent regime change. This perception of continuity has bolstered investor confidence and contributed to steady inflows of foreign direct investment, particularly in the manufacturing sector. In 2024, Vietnam ranked in the top quartile globally on the World Governance Indicators (WGI) measure of political stability, an impressive showing relative to many other frontier and emerging markets.

At the institutional level, the government is pursuing an ambitious reform agenda aimed at overhauling public administration. Ongoing efforts include merging ministries, reducing the number of provincial entities, and downsizing the public sector workforce. These reforms are intended to streamline governance structures, improve public financial management, and curb recurrent expenditures. However, given their breadth and complexity, implementation challenges are inevitable. In the short term, these could translate into bureaucratic inertia, delays in service delivery, or fragmentation in policy execution.

Transparency and legal predictability remain areas of concern. Despite some progress in digital governance, regulatory opacity persists, often compounded by inconsistent enforcement across provinces. The judiciary continues to lack independence, especially in cases with political overtones, and commercial dispute resolution tends to be protracted and unpredictable. Foreign investors frequently highlight bureaucratic inefficiencies and uneven rule enforcement as significant operational risks.

Anti-corruption efforts, although highly visible, are often viewed with skepticism. Vietnam scored 41 out of 100 on the 2023 Corruption Perceptions Index (CPI), placing it 83rd globally. While this reflects some incremental progress, concerns remain about the politicization of enforcement. High-profile crackdowns, while ostensibly aimed at accountability, have sometimes been interpreted as selective or politically motivated.

Trend Outlook (↗): Vietnam’s centralized governance model provides a foundation for policy continuity and efficient execution. Should administrative reforms be implemented with sustained political will and if legal enforcement mechanisms are strengthened the country’s governance risk profile could improve further in the medium term.

### Comparative Insight

| Factor                            | Kenya                                   | Vietnam  |
|-----------------------------------|---|--|
| Political Stability               | Fragile, cyclical unrest                | High, centralized authority                    |
| Corruption Control (TI CPI 2024)  | Score: 32 / Rank: 121                   | Score: 41 / Rank: 83                           |
| Rule of Law & Judicial Strength   | Weak enforcement, politicized judiciary | Limited independence, inconsistent enforcement |
| Institutional Reform Momentum     | Moderate (BETA Agenda)                  | High (2023–2025 Administrative Overhaul)       |
| Governance Risk Outlook (2025–27) | ↔ Stable, but fragile                   | ↗ Improving if reforms succeed                 |

## Implications for Credit Risk

Vietnam's governance model, while authoritarian, provides predictability and policy cohesion, contributing to its higher sovereign rating. Kenya's more democratic but fragmented system suffers from implementation gaps and public mistrust, raising governance-related credit risks. Over the medium term, successful reform implementation in Vietnam could justify a more favorable institutional risk assessment, while Kenya's trajectory will hinge on tangible improvements in anti-corruption, public trust, and electoral management.

## 3. Fiscal & Debt Sustainability

Fiscal strength and debt sustainability are central to sovereign creditworthiness. This section analyzes the public finance dynamics of Kenya and Vietnam, focusing on debt levels, budget deficits, revenue performance, and fiscal reform prospects. While both countries face structural challenges, the contrast is stark: Kenya is under acute fiscal pressure, while Vietnam maintains moderate debt and fiscal space.

### **Kenya: Elevated Fiscal Risk Amid Debt Distress Concerns (High Risk)**

Kenya's fiscal position represents perhaps its most acute credit vulnerability. By the end of 2023, public debt had climbed to 73.3% of GDP (Kenya Treasury; IMF), with nominal liabilities surpassing KES 10.9 trillion roughly USD 83 billion. Debt servicing alone absorbed over 30% of government revenues in 2024, placing considerable strain on the budget and squeezing out space for developmental expenditure. This dynamic has increasingly raised concerns about long-term solvency.

The IMF and World Bank's most recent Debt Sustainability Analysis (December 2024) maintains that Kenya remains at high risk of debt distress a warning echoed by S&P's downgrade to 'B-' in August 2024. The rating agency cited persistent fiscal slippage and rising rollover risks, underscoring growing unease among external creditors.

Despite repeated consolidation pledges, fiscal deficits remain stubbornly wide. The FY2024/25 budget deficit is projected at 6.1% of GDP, with a medium-term target of 4.5% by FY2025/26. However, this trajectory appears uncertain amid strong political pushback against new tax measures. The repeal of the 2024/25 Finance Bill following mass protests illustrates the domestic limits to fiscal tightening.

Tax revenue performance remains relatively weak. Kenya's tax-to-GDP ratio has hovered between 14.5% and 15.1%, well below the Sub-Saharan African average of approximately 18%. Although the government has made strides in digitalizing tax administration, structural challenges persist. Compliance rates remain low, and generous tax exemptions continue to weigh on revenue potential.

To cover widening deficits, the government has leaned increasingly on domestic borrowing. While this strategy may appear pragmatic in the short term, it raises red flags. Crowding out of private sector credit is a growing concern, as is the upward pressure on local interest rates. Meanwhile, Kenya faces USD 4.2 billion in Eurobond repayments between 2025 and 2031 a timeline that could prove perilous absent renewed access to concessional financing or continued IMF budgetary support.

**Trend Outlook (↓):** The fiscal risk profile remains tilted to the downside. Unless the government can implement credible and sustained consolidation measures including stronger revenue mobilization, improved expenditure efficiency, and greater fiscal transparency pressure on Kenya's credit rating is likely to intensify. In a worst-case scenario, debt restructuring could emerge as a serious policy consideration by 2026 or 2027.

### **Vietnam: Strong Fiscal Fundamentals and Reform-Oriented Spending (Low Risk)**

Vietnam's fiscal position stands out as comparatively robust. As of late 2024, public debt was estimated at just 34.7% of GDP (IMF; World Bank) well below the national ceiling of 60% and significantly under the typical

risk threshold for emerging markets. The government has generally pursued a cautious approach to borrowing, keeping deficits in check and preserving ample space for counter-cyclical fiscal interventions when needed.

Looking ahead, the fiscal deficit is projected to hover between 3.6% and 3.8% of GDP in 2025. While modestly expansionary, this level is still considered sustainable and leaves room for targeted investments in infrastructure and essential services. Crucially, it aligns with a credible medium-term fiscal strategy, lending confidence to investors and development partners alike.

On the revenue side, performance is gradually improving, though it remains somewhat low by international standards. Vietnam’s tax-to-GDP ratio currently sits around 18%. Ongoing reforms aim to widen the tax base, enhance VAT compliance, and curb informality a persistent challenge in many developing economies. The national rollout of digital tax administration tools is a promising step toward greater efficiency and transparency.

Public spending, too, is seeing qualitative improvements, particularly at the central government level. There has been a discernible shift toward prioritizing development expenditures over recurrent costs. However, capacity gaps in public financial management (PFM) at the subnational level continue to limit overall system effectiveness. The State Audit Office has been granted broader oversight powers, which could help address these inconsistencies over time.

That said, state-owned enterprises (SOEs) remain the most salient fiscal vulnerability. Despite some progress in restructuring, many SOEs continue to operate inefficiently and carry quasi-fiscal liabilities that are not fully captured in official debt statistics. These risks are not insignificant, but they are being gradually mitigated through a long-term reform agenda. Resolution 68 (2025–2030), in particular, lays out a roadmap for further privatization and improved corporate governance.

**Trend Outlook (↗):** Assuming fiscal discipline continues, and SOE reforms gain traction, Vietnam is well-positioned to further strengthen its credit profile. Its growing ability to finance public investment through domestic resources without resorting to excessive borrowing adds to the country’s fiscal resilience and enhances investor confidence.

### Comparative Fiscal Metrics (2024–2025)

| Indicator                            | Kenya                                    | Vietnam                               |
|--------------------------------------|--|---------------------------------------|
| Public Debt (% GDP, 2023/24)         | 73.3% (IMF)                              | 34.7% (IMF)                           |
| Fiscal Deficit (% GDP, 2024/25 est.) | 6.1%                                     | 3.6–3.8%                              |
| Debt Service (% Govt. Revenue)       | >30%                                     | <10% (est.)                           |
| Tax-to-GDP Ratio                     | ~14.5–15.1%                              | ~18%                                  |
| IMF/World Bank Debt Distress Rating  | High risk                                | Low risk                              |
| Key Risk                             | Refinancing pressure, populism, SOE debt | SOE liabilities, trade shock exposure |

### Implications for Credit Risk

Kenya’s debt dynamics are a central constraint to its sovereign rating. Fiscal consolidation efforts are politically fragile, and failure to narrow the deficit could trigger further downgrades or liquidity stress. By contrast, Vietnam’s moderate debt levels and controlled deficits underpin its fiscal resilience. If SOE reform progresses and revenue efforts succeed, Vietnam may emerge as a candidate for a rating upgrade over the next 2–3 years.

## 4. External Vulnerabilities

External balances, financing structures, and foreign reserve adequacy are crucial indicators of a country's ability to meet external obligations and withstand global shocks. This section compares Kenya and Vietnam in terms of current account dynamics, external debt exposure, reserve adequacy, and vulnerability to external financing risks.

### Kenya: External Pressures and Refinancing Risks (Moderate–High Risk)

Kenya remains exposed to significant external vulnerabilities, rooted in a structurally persistent current account deficit, an increasingly complex external debt profile, and heavy dependence on volatile capital inflows.

Although the current account deficit narrowed modestly to an estimated 3.9% of GDP in 2024 down from 4.6% in the previous year this improvement masks deeper imbalances. The narrowing was largely underpinned by robust remittance inflows (approximately USD 5.4 billion), a solid rebound in tourism, and recovering exports of tea and horticultural products. Yet, Kenya's reliance on imported energy, food, and capital goods continues to weigh heavily on the trade balance, keeping the structural deficit intact.

As of end-2023, external debt stood at a concerning 40.4% of GDP. More than half of this is owed to non-concessional commercial lenders, including Eurobond holders and syndicated loan providers. With over USD 2 billion in Eurobond repayments due between 2024 and 2027, Kenya faces heightened refinancing pressures especially in the absence of reliable market access or scaled-up concessional support.

Foreign exchange reserves have shown a mild recovery, rising to USD 8.3 billion in April 2025 equivalent to 4.4 months of import cover thanks in part to IMF disbursements and revived tourism earnings. Nevertheless, the reserves remain vulnerable, particularly given Kenya's external debt service requirements and the unpredictability of investor sentiment in a tightening global financial landscape.

The Kenyan shilling, after depreciating sharply by over 20% in 2023, stabilized in early 2025. This was largely due to central bank interventions and IMF-backed policy support. However, external risks linger. The country remains sensitive to global monetary tightening and swings in commodity prices, especially oil, which could again destabilize the currency and worsen external balances.

**Trend Outlook** (↔ to ↓): Unless Kenya makes tangible progress in improving export competitiveness and reducing its reliance on costly commercial borrowing, its external position will likely remain fragile. A deterioration in global liquidity conditions or delays in IMF program financing could place renewed pressure on reserves and elevate default risk.

### Vietnam: External Strength Anchored by Surpluses and FDI (Low Risk)

Vietnam's external position stands in sharp contrast, offering a source of macroeconomic stability and credit resilience. The country has consistently run sizable current account surpluses, buoyed by strong merchandise exports, steady remittance inflows (around USD 14 billion annually), and deep entrenchment in global value chains.

For 2024–2025, the current account surplus is projected to average between 5.5% and 6.0% of GDP, sustained by resilient exports particularly in electronics, textiles, and agricultural products and a cautious rebound in domestic consumption that has tempered import growth.

Foreign direct investment continues to flow in at a healthy pace. In just the first four months of 2025, net FDI inflows reached USD 13.8 billion, marking a year-on-year increase of 13.1%. Much of this capital is targeting manufacturing and green infrastructure, sectors that are benefiting from ongoing supply chain shifts as firms diversify away from China.

Vietnam's external debt remains moderate and relatively low-risk, hovering around 37% of GDP according to World Bank data (2024). A substantial portion of this debt is held on concessional terms through bilateral and multilateral agreements, insulating the country from near-term refinancing pressures. Notably, Vietnam faces

no significant Eurobond maturities in the foreseeable future, nor is it exposed to abrupt changes in market access.

Foreign exchange reserves are robust, estimated at roughly USD 95 billion in 2024 providing over 3.5 months of import cover. The State Bank of Vietnam (SBV) operates a managed float regime and has effectively intervened to contain exchange rate fluctuations, even amid global monetary tightening.

While the Vietnamese dong has experienced mild depreciation largely driven by capital outflows and dollar strength it has not destabilized the broader macroeconomic environment. On the contrary, Vietnam’s steady reserve levels and prudent monetary management have helped anchor investor confidence.

**Trend Outlook** (↔ to ↑): Barring a significant external shock such as a sharp drop in global demand or a reversal in FDI flows Vietnam’s external position is expected to remain a reliable buffer against macroeconomic volatility. Further liberalization of investment regimes and deeper export diversification could enhance this strength in the medium term.

### Comparative External Indicators

| Indicator (2024/25 est.)        | Kenya                              | Vietnam                              |
|---------------------------------|------------------------------------|--------------------------------------|
| Current Account Balance (% GDP) | -3.9%                              | +5.5% to 6.0%                        |
| External Debt (% GDP)           | 40.4%                              | ~37% (mostly concessional)           |
| FX Reserves (USD bn)            | 8.3                                | ~95                                  |
| FX Reserves (Import Cover)      | 4.4 months                         | 3.5–4.0 months                       |
| Net FDI Inflows (% GDP)         | ~0.7%                              | ~6.3%                                |
| Exchange Rate Stability         | Stabilized after 2023 depreciation | Managed float with mild depreciation |
| Key Risk                        | Eurobond rollover, oil import bill | Trade tensions, FDI slowdown         |

### Implications for Credit Risk

Kenya’s external profile reflects elevated liquidity risks, particularly in relation to short-term external debt and Eurobond maturities. Despite recent support from the IMF, its high import dependence and exposure to global financial conditions pose ongoing challenges. In contrast, Vietnam’s consistent current account surpluses, diversified export base, and strong FDI inflows underpin a low-risk external profile. This external strength is one of the key drivers of Vietnam’s higher sovereign credit rating.

## 5. Economic Growth & Structural Drivers

The composition, sustainability, and inclusiveness of economic growth are central to assessing sovereign resilience and medium-term credit outlooks. While both Kenya and Vietnam are dynamic emerging economies, their growth models differ significantly in structure, diversification, and productivity. This section evaluates each country’s macroeconomic trajectory, key growth drivers, and structural vulnerabilities.

### Kenya: Growth Resilience Undermined by Structural Constraints (Moderate Risk)

Kenya has demonstrated a degree of macroeconomic resilience, with real GDP growth rebounding to 5.6% in 2023 (KNBS, CBK). However, growth decelerated in 2024 (estimated 4.5–4.7%) due to tighter monetary policy, fiscal uncertainty, and external headwinds. A modest recovery to ~5.2% is projected for 2025, contingent on improved investor confidence and stable weather conditions.

The services sector remains the main growth engine, accounting for over 55% of GDP, led by ICT, banking, and tourism. Agriculture, representing 20–25% of GDP, is highly sensitive to climate variability and underinvestment in value chains. Manufacturing remains underdeveloped, contributing just 7–8% of GDP, constrained by infrastructure gaps, high input costs, and inconsistent regulatory enforcement.

Private investment remains subdued, hindered by macroeconomic uncertainty, weak credit access (especially for MSMEs), and governance concerns. Public investment has focused on infrastructure, but debt sustainability concerns now limit fiscal space.

Unemployment and informality remain high, with youth joblessness and regional disparities posing long-term challenges to inclusive growth. Productivity growth has stagnated, particularly in agriculture and informal services.

**Trend Outlook (↔):** Kenya's medium-term growth is likely to remain constrained around 5%, below Vision 2030 targets. Without reforms to improve private sector productivity, deepen capital markets, and enhance value addition, growth will struggle to accelerate.

### **Vietnam: Export-Led Expansion with Value Chain Ambitions (Low–Moderate Risk)**

Vietnam continues to outperform many of its regional peers, maintaining one of the most dynamic growth trajectories in Asia. Despite global economic headwinds, real GDP rose by 5.0 percent in 2023. Looking ahead, forecasts suggest growth between 6.1 and 6.5 percent through 2025 (IMF, WB). This robust performance is driven by a strong export-oriented manufacturing base, healthy levels of FDI, and a young, rapidly urbanizing population.

Manufacturing now accounts for more than 20 percent of Vietnam's GDP. Electronics, textiles, and machinery remain key export sectors reaching 373 billion USD in 2023. Major export destinations include the United States, European Union, and China. Amid growing geopolitical tensions, Vietnam has emerged as a favored destination for firms diversifying supply chains away from China, benefiting from its role in the so-called "China +1" strategy.

The state has invested heavily in infrastructure, including energy, transport, and digital networks, which has supported industrial expansion. Recent legislative efforts (Resolutions 68 and 55) aim to steer the economy toward higher value-added sectors such as semiconductors, renewable energy, and advanced logistics. These shifts are intended to deepen Vietnam's integration into global value chains and reduce reliance on low-cost assembly.

At the same time, domestic demand is strengthening. Rising incomes, growing urban consumption, and steady remittance inflows (~USD 14 billion/year) have all contributed to household spending. Even so, consumption patterns remain somewhat fragile, as they are still influenced by fluctuations in credit access and uncertainty in the real estate market.

Structural vulnerabilities persist. Labor shortages in high-skilled industries, particularly in technology and engineering, could constrain the country's transition toward more advanced manufacturing. Productivity in informal services also remains low, limiting potential spillover benefits from industrial growth. Climate risks, including flooding in coastal regions and disruptions to agricultural output, pose additional long-term challenges.

**Trend Outlook (↑):** Vietnam's structural growth outlook remains favorable. Continued investment in education, innovation systems, and resilient infrastructure will be crucial for sustaining momentum. If current trends hold, the country could plausibly transition to upper-middle-income status by 2035.

## Comparative Growth & Productivity Indicators

| Indicator                  | Kenya                                | Vietnam                            |
|----------------------------|--------------------------------------|------------------------------------|
| Real GDP Growth (2023)     | 5.6%                                 | 5.0%                               |
| Growth Forecast (2025)     | ~5.2%                                | ~6.5%                              |
| Leading Sectors            | Services, agriculture                | Manufacturing, exports             |
| Manufacturing Share of GDP | ~7–8%                                | >20%                               |
| Export Share of GDP (2023) | ~15% (goods + services)              | ~90% (goods + services)            |
| Youth Unemployment Rate    | ~13–14%                              | ~7.5% (urban), lower rural         |
| Key Risk                   | Climate volatility, low productivity | Trade exposure, skilled labor gaps |

### Implications for Credit Risk

Vietnam’s export-led growth model, strong FDI flows, and industrial depth provide a solid foundation for macroeconomic resilience and upward rating potential. Kenya’s more domestic-oriented growth is vulnerable to fiscal policy uncertainty, climate shocks, and weak investment momentum. Without structural reforms to increase competitiveness and productivity, Kenya’s growth may remain below potential.

## 6. Monetary Profile & Inflation Trends

The strength of a country’s monetary framework, central bank credibility, inflation control, and exchange rate management directly affects macroeconomic stability and sovereign risk. Kenya and Vietnam maintain relatively effective monetary regimes, but their autonomy and constraints differ significantly. This section evaluates inflation dynamics, interest rate policy, exchange rate flexibility, and institutional independence.

### Kenya: Constrained Autonomy Amid Inflation Stabilization (Low–Moderate Risk)

Kenya’s monetary policy is guided by the Central Bank of Kenya (CBK), whose dual mandate focuses on maintaining price stability and safeguarding the financial system. Despite facing substantial fiscal and external headwinds throughout 2023, the CBK managed to rein in inflation to target and stabilize the exchange rate.

Inflation averaged 6.7% in 2023, peaking at 9.2% mid-year due to food and fuel price shocks. The CBK responded with cumulative rate hikes of 450 basis points between 2022 and early 2024. As of April 2025, inflation had eased to 4.1%, within the CBK’s target band of 2.5–7.5% (source: CBK, KNBS).

That said, the central bank’s policy rate remains high at 13.0%, reflecting its ongoing commitment to anchoring inflation expectations and supporting the Kenyan shilling. However, these efforts are at the cost of increased interest rates, hence increased borrowing costs for the private sector which has the effect of dampening credit growth and potentially slowing investment.

Currency pressures have also moderated. After a steep depreciation of more than 20% in 2023, the shilling stabilized around KES 135 to the dollar in early 2025. The CBK, buoyed in part by IMF support, has allowed greater exchange rate flexibility while scaling back its direct market interventions. Nonetheless, foreign reserves remain thin—a structural vulnerability that could resurface if external shocks return (see Section 5).

Despite recent gains, the CBK’s autonomy remains constrained. Kenya’s persistent fiscal deficits and reliance on domestic borrowing have blurred the lines between fiscal and monetary policy. The central bank is frequently called upon to absorb government securities, complicating its ability to set interest rates purely on macroeconomic grounds. In effect, monetary policy operates under the shadow of fiscal dominance—a dynamic that threatens to reignite inflation if fiscal consolidation stalls.

**Trend Outlook (↔):** Kenya’s monetary policy credibility has improved, but fiscal dominance and limited reserve buffers continue to constrain full central bank independence. Sustained fiscal consolidation would enhance monetary effectiveness and reduce sovereign risk.

## Vietnam: Managed Float with Inflation Discipline (Moderate Risk)

Vietnam's monetary policy is managed by the State Bank of Vietnam (SBV), which follows a de facto managed float exchange rate regime and informal inflation targeting. Despite its hybrid system, Vietnam has demonstrated effective macroeconomic management.

Inflation remained moderate in 2023, averaging 3.2%, and is projected to stay within the 3.5% to 4.0% range through 2024-25, comfortably below the government's 4.5% ceiling. Price pressures have been largely imported, stemming from global input costs and food price volatility, rather than domestic overheating.

As of April 2025, the policy rate stood at 4.5%, following a gradual easing in 2023 designed to support Vietnam's post-COVID recovery. Real interest rates remain positive, and credit expansion appears well-aligned with nominal GDP growth, suggesting a balanced approach to monetary stimulus

The Vietnamese dong has depreciated modestly, reaching around VND 24,850/USD in early 2025. This movement tracks with regional currency trends and broadly reflects underlying economic fundamentals. FX interventions are used mainly to prevent disorderly market movements and smooth volatility, rather than to fix the exchange rate.

Even so, the SBV's autonomy is limited. While its inflation performance is commendable, monetary independence is partially curtailed by structural constraints. These include politically driven credit allocation, preferential lending to state-owned enterprises (SOEs), and alignment with the government's industrial and development objectives.

The banking sector also presents lingering risks. Vulnerabilities persist, especially in real estate lending and among state-linked banks. In response, authorities are pushing forward with the adoption of Basel II and III standards, strengthening regulatory oversight, and promoting sector consolidation through mergers and restructuring efforts

**Trend Outlook** (↔ to ↑): Vietnam's monetary management has supported macroeconomic stability through disciplined inflation management and cautious exchange rate policies. Progress on financial sector reform and enhanced SBV autonomy would improve the country's monetary profile and reduce systemic risks.

### Comparative Monetary Indicators

| Indicator (2024/25 est.)        | Kenya                                    | Vietnam                                  |
|---------------------------------|--|--|
| Headline Inflation (April 2025) | 4.1%                                     | ~3.7%                                    |
| Policy Interest Rate            | 13.0%                                    | 4.5%                                     |
| Exchange Rate Regime            | Managed float (shilling)                 | Managed float (dong)                     |
| Exchange Rate Trend             | Stabilized after sharp 2023 depreciation | Mild, gradual depreciation               |
| Monetary Independence           | Limited (fiscal dominance)               | Moderate (government-influenced)         |
| Key Risk                        | Crowding out, debt monetization          | SOE credit risk, banking vulnerabilities |

### Implications for Credit Risk

Both Kenya and Vietnam maintain reasonably credible monetary frameworks, but with different constraints. Kenya's monetary policy has contained inflation but remains exposed to fiscal dominance and shallow FX buffers. Vietnam has greater external stability and lower inflation, though its banking system and limited SBV independence present latent risks. Overall, Vietnam's monetary environment is more conducive to macro-financial stability and supports its higher sovereign rating.

## 7. ESG & Social Cohesion Outlook

Environmental, Social, and Governance (ESG) considerations are increasingly integrated into sovereign risk analysis due to their long-term effects on political stability, economic resilience, and fiscal sustainability. This section evaluates Kenya and Vietnam's performance across ESG dimensions, focusing on demographic pressures, human capital, inequality, environmental vulnerability, and governance responsiveness.

### Kenya: Demographic Pressures and Social Inequities Undermine Cohesion

Kenya faces considerable social risks tied to its demographic structure, economic inequality, and climate vulnerability. With a population exceeding 55 million (2024) and a median age of 19.6 years, Kenya's youthful demographic could become a dividend or a destabilizer, depending on employment and education outcomes.

Youth unemployment and underemployment remain high, particularly in informal urban settlements and rural areas. The lack of formal job creation fuels economic discontent, as witnessed in the 2024 anti-tax protests. These dynamics raise the potential for political unrest ahead of the 2027 general elections.

Poverty is concentrated in northern arid counties and among informal workers. Income inequality remains elevated (Gini ~40–42), and social protection is both underfunded and fragmented limiting the state's ability to cushion shocks.

Despite high enrollment, learning outcomes are weak, and university curricula often miss labor market demands. Kenya's Human Capital Index (HCI) stands at 0.55 (2020), below regional peers

Environmental risks are rising, with increased frequency of droughts, floods, and land degradation affecting agriculture and water access. Climate resilience is limited by weak infrastructure and underfunded adaptation policies.

**Trend Outlook** (↔ to ↓): Lack of stronger progress on jobs, equity, and climate resilience, social and environmental pressures pose indirect but rising risks to Kenya's sovereign credit profile.

### Vietnam: Gradual Social Transformation with Climate Exposure

Vietnam demonstrates more favorable social cohesion indicators, though climate and governance challenges remain. Its population of ~100 million is rapidly urbanizing and aging, with a rising middle class and improved human capital.

The Human Capital Index stands at 0.69, among the highest in its income group. Literacy, school enrollment, and health outcomes are strong, though regional disparities persist between northern highlands, Mekong Delta, and coastal urban centers.

Social mobility is improving, supported by export-led growth and poverty reduction. However, informal sector workers estimated at 56% of the workforce remain vulnerable to income shocks, and social security coverage is still partial.

Income inequality is moderate, with a Gini coefficient around 35.7, and a declining trend since 2010. Nonetheless, generational divides and urban–rural gaps remain points of tension, especially in the context of rapid digital and economic change.

Climate risks are substantial, particularly from sea level rise, extreme weather, and saltwater intrusion in the Mekong Delta, which threatens agriculture and population centers. Vietnam is among the top 10 countries globally most vulnerable to climate change, according to German watch's Climate Risk Index.

The government is making strides on ESG policy, including a Just Energy Transition Partnership (JETP) with the EU and G7 (USD 15.5 billion pledged) to support decarbonization and green investment. Implementation and transparency remain critical to success.

**Trend Outlook (↗):** Vietnam is positioned to improve its ESG profile with investment in green infrastructure and inclusive growth, though climate change remains an unavoidable long-term risk.

### Comparative ESG and Social Indicators

| Indicator                         | Kenya                          | Vietnam                                  |
|-----------------------------------|--------------------------------|--|
| Population (2024)                 | ~55 million                    | ~100 million                             |
| Human Capital Index (World Bank)  | 0.55                           | 0.69                                     |
| Gini Coefficient                  | ~40–42                         | ~35.7                                    |
| Youth Unemployment Rate           | ~13–14%                        | ~7.5% (urban)                            |
| Informal Employment (% workforce) | ~83%                           | ~56%                                     |
| Climate Vulnerability             | High (drought, floods)         | Very High (coastal flooding, delta risk) |
| ESG Trend                         | ↔ to ↓ (rising social tension) | ↗ (policy engagement, climate risk)      |

### Implications for Credit Risk

Kenya’s social and environmental vulnerabilities present latent risks to long-term fiscal stability, policy predictability, and political cohesion. Absent tangible progress on social inclusion, youth employment, and climate adaptation, ESG risks may weigh on its sovereign rating outlook. Vietnam shows greater human capital readiness and institutional commitment to green transition, which supports its medium-term credit prospects despite high exposure to environmental hazards.

## 8. Final Rating Outlook & Investment Recommendation

This cross-country risk assessment has compared Kenya and Vietnam across the five pillars of the S&P sovereign rating framework, supplemented by ESG and social cohesion analysis. As a rating agency, we have evaluated each country's risk exposure and structural resilience in light of current macroeconomic, fiscal, institutional, and external challenges.

### Sovereign Rating Summary Table (2025 Outlook)

| Category                         | Kenya                                | Vietnam                             |
|----------------------------------|--------------------------------------|-------------------------------------|
| <b>Current S&amp;P Rating</b>    | B- (Stable, downgraded Aug 2024)     | BB+ (Stable)                        |
| <b>Institutional Risk</b>        | Moderate–High (↔)                    | Moderate (↗)                        |
| <b>Economic Growth Profile</b>   | Moderate (↔)                         | Strong (↑)                          |
| <b>External Position</b>         | Moderate–High Risk (↔ to ↓)          | Low Risk (↔ to ↑)                   |
| <b>Fiscal Sustainability</b>     | High Risk (↓)                        | Low Risk (↗)                        |
| <b>Monetary Profile</b>          | Low–Moderate Risk (↔)                | Moderate Risk (↔)                   |
| <b>ESG &amp; Social Cohesion</b> | ↔ to ↓ (fragile resilience)          | ↗ (climate-exposed but responsive)  |
| <b>3-Year Rating Outlook</b>     | Negative bias unless reforms succeed | Positive bias with continued reform |

### Investment Recommendation

From a sovereign risk perspective, Vietnam is the more attractive investment destination, backed by:

- Strong external fundamentals, including sustained current account surpluses, deep integration into global trade, and stable FDI inflows.
- Sound fiscal metrics, with low public debt and space for counter-cyclical spending.
- Macroeconomic stability, underpinned by disciplined inflation control and improving infrastructure.

- Reform momentum, especially in administrative restructuring and green transition.

Vietnam's sovereign credit profile shows a positive trajectory, with potential for a rating upgrade over the 2025–2027 horizon if SOE reforms, banking sector supervision, and institutional modernization progress.

By contrast, Kenya's credit outlook is constrained by:

- Persistent fiscal stress, with high debt servicing burdens and weak revenue performance.
- Governance risks, including political volatility, weak policy credibility, and limited transparency.
- Structural external vulnerabilities, notably upcoming Eurobond repayments and reliance on volatile capital inflows.
- Rising social and climate risks, with limited buffers or mitigation frameworks in place.

Without clear and credible fiscal consolidation, improved governance, and policy stability ahead of the 2027 elections, Kenya's sovereign rating may face renewed downward pressure.

### **Strategic Positioning**

As a rating agency, we adopt the following positions for the upcoming review cycle:

**Kenya:** Maintain rating at B- with stable outlook, but flag downside risk pending fiscal performance and political trajectory. Watch for: IMF program compliance, Finance Bill reform progress, Eurobond refinancing arrangements, and 2026 budget framework credibility.

**Vietnam:** Maintain rating at BB+ with stable outlook, with upside potential conditional on reform execution and global trade resilience. Watch for: Continued FDI diversification, SOE governance improvements, and progress under the Just Energy Transition Partnership (JETP).

### **Final Conclusion**

Vietnam offers stronger macroeconomic foundations, a more resilient external position, and a better-governed fiscal framework positioning it for rating stability or upward revision. Kenya remains vulnerable to policy slippage, debt stress, and social unrest, which could trigger future downgrades unless structural reforms gain traction.

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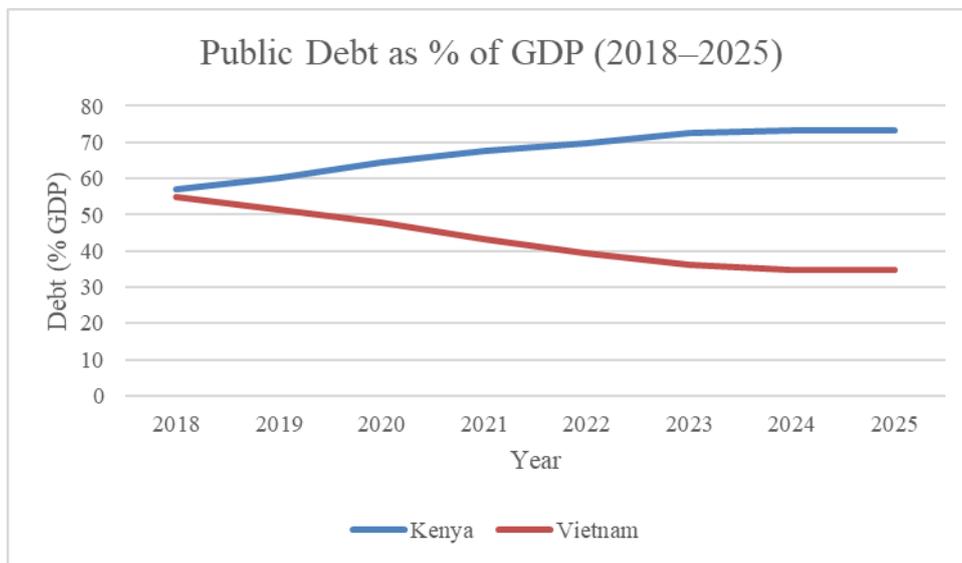
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# Annexes

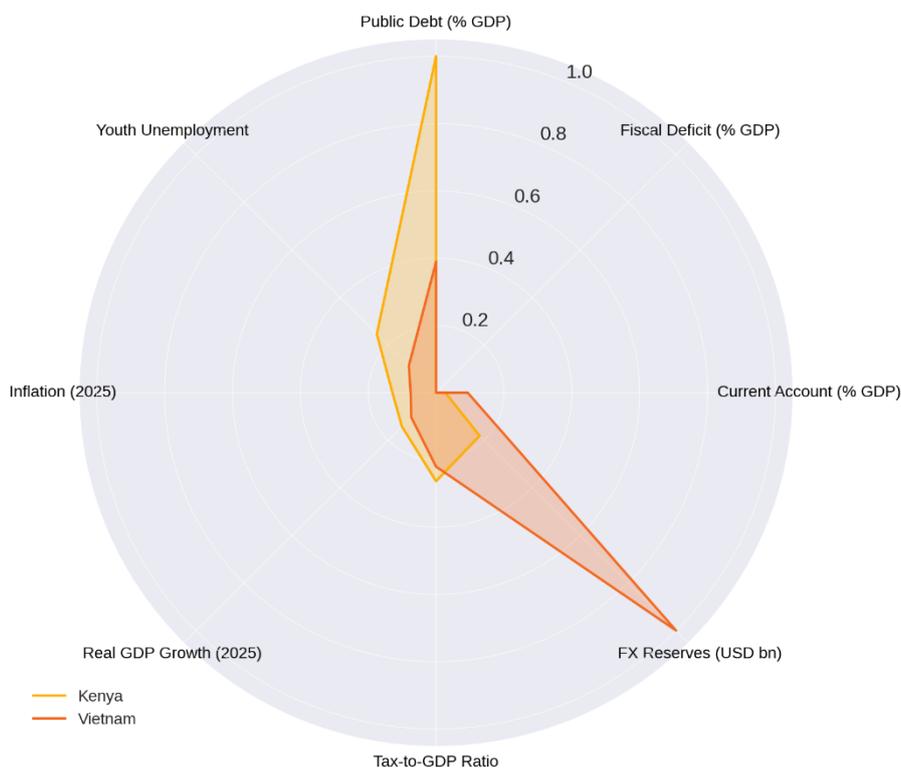
## Annex 1: Public Debt Trends (2018–2025)



This line chart tracks public debt as a percentage of GDP. Kenya’s debt levels have steadily increased from 57% in 2018 to 73.5% in 2025, whereas Vietnam’s have declined from 55% to 34.7%, reflecting contrasting fiscal discipline and borrowing patterns. Referenced in Section 4 – Fiscal Risk and Debt Sustainability.

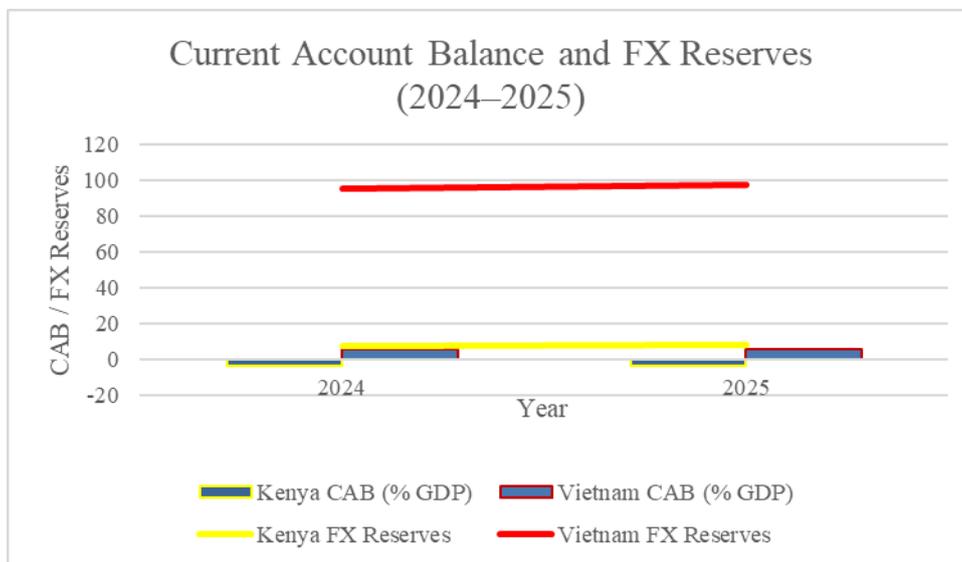
## Annex 2: Sovereign Risk Radar – Kenya vs Vietnam (2025)

Kenya vs Vietnam – Sovereign Risk Radar (2025)



This radar chart provides a comparative visualization of eight macro-fiscal indicators, including public debt, fiscal deficit, inflation, real GDP growth, FX reserves, and others. It highlights Kenya’s relative vulnerabilities in debt and inflation, contrasted with Vietnam’s stronger external buffers and fiscal position. Referenced in Section 5 – Macroeconomic Performance.

**Annex 3: External Indicators – Current Account and FX Reserves (2024–2025)**



This bar chart compares the current account balance (% of GDP) and FX reserves (USD bn) between Kenya and Vietnam. Vietnam displays strong external buffers (FX reserves ~USD 97 bn) and a positive current account, while Kenya faces external pressure with lower reserves (~USD 8 bn) and a persistent deficit. Referenced in Section 6 – External Liquidity and Balance of Payments Risk.