REPUBLIC OF KENYA

THE NATIONAL TREASURY

# ANNUAL PUBLIC DEBT MANAGEMENT REPORT 2015/2016

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November 2016

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## FOREWORD

Kenya's economy has maintained a steady path over the last five years despite the exposure to unfavourable shocks. The Public Finance Management (PFM) Act (2012) and the PFMA Regulations, Legal Notice No, 34 (2015) ushered in a new era in public debt management that entrenches and promotes prudent and sound debt management practices for both National and County Governments with the aim to enhance efficiency and transparency.

The country's debt levels remain sustainable in the medium term. The Government is committed to the development of domestic markets for government securities as a way of reducing economy's vulnerability to exogenous shocks and diversifying its investor base and lowering the cost of borrowing.

The 2015-16 Annual Public Debt Management Report presents debt developments during the fiscal year including total public debt portfolio, composition and structure of the debt as well as debt service obligations met in 2015/16. Also included is public guarantee debt, on lent loans, debt strategy and sustainability analysis. The Report indicates that the long maturity profile, diverse currency mix and the relatively high concessionality of external debt ensures that debt service costs and risk are within acceptable levels.

The publication of the 2015/16 Annual Public Debt Management Report demonstrates the National Treasury's commitment to providing public debt information to all stakeholders in accordance with the Public Finance Management (PFM) Act (2012).

**HENRY K. ROTICH, EGH**
**CABINET SECRETARY/THE NATIONAL TREASURY**

## ACKNOWLEDGEMENT

This 2015/16 Annual Public Debt Management Report was prepared in accordance with the PFM Act 2012. It outlines the status of debt and medium term outlook. Kenya debt levels remain within sustainable levels.

The scope and coverage of the report reflects the National Treasury's commitment to both transparency in reporting and accountability in the management of public debt. In addition to the Annual Public Debt Management Report, further information on public debt is available in a number of official publications hosted on the Treasury website: www.treasury.go.ke.

I wish to recognize the role played by the Department of Debt Policy, Strategy and Risk Management in the Directorate of Public Debt Management; the Macro and Fiscal Affairs Department and the Central Bank of Kenya in compilation of this report.

To all our readers, we hope that this publication will provide valuable information to enhance understanding of public debt management.

**DR. KAMAU THUGGE, CBS**
**PRINCIPAL SECRETARY/ NATIONAL TREASURY**

**Legal Basis for the Publication of the Annual Public Debt Management Report**

The Annual Public Debt Management Report is published in accordance with:

(i) Section 64 (2) (c) of the Public Finance Management Act(PFMA) which states that the PDMO shall prepare statistical and analytical reports on debt and borrowing and submit to the Cabinet Secretary and the Commission on Revenue Allocation.

(ii) Section 200 of the PFMA Regulations which states that not later than three months after the end of each financial year, the Cabinet Secretary shall prepare and submit an annual report to Parliament on public debt in the format set by the Cabinet Secretary. The annual public debt report shall include the following information:

a) Review of previous year's financing of budget deficit;
b) Composition of External debt;
c) Publicly guaranteed debt;
d) On-lent loans and contingent liabilities;
e) Debt strategy and debt sustainability;
f) Outlook for the medium term; and
g) Any commitment fees and penalties paid on any undisbursed amounts of a loan.

# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ADF | African Development Fund |
| AfDB | African Development Bank |
| A-I-A | Appropriation in Aid |
| ATM | Average Time to Maturity |
| ATR | Average time to re-fixing |
| BPS | Budget Policy Statement |
| Bps | Basis points |
| CBK | Central Bank of Kenya |
| CCN | City Council of Nairobi |
| CPIA | Country Policy and Institutional Assessment |
| DMD | Debt Management Department |
| DSA | Debt Sustainability Analysis |
| DSF | Debt Sustainability Framework |
| EAC | East Africa Community |
| FCCL | Fiscal Commitments and Contingent Liabilities |
| FY | Financial year |
| GDP | Gross Domestic Product |
| GoK | Government of Kenya |
| IBEC | Intergovernmental Budget and Economic Council |
| IDA | International Development Association |
| IFB | Infrastructure Bond |
| IMF | International Monetary Fund |
| ISB | International Sovereign Bond |
| KBC | Kenya Broadcasting Corporation |
| KenGen | Kenya Electricity Generating Company |
| MTDS | Medium Term Debt Management Strategy |
| NBFI | Non-Bank Financial Institution |
| NCC | Nairobi City County |
| NPV | Net Present Value |
| NSSF | National Social Security Fund |
| NT | National Treasury |
| PDMO | Public Debt Management Office |
| PFMA | Public Finance Management Act |
| PPG | Public and Publicly Guaranteed |
| PPP | Public Private Partnership |
| PV | Present Value |
| S&P | Standard and Poor's |
| SGR | Standard Gauge Railway |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| TARDA | Tana and Athi River Development Authority |
| TEDS | Total External Debt Service |
| TSA | Treasury Single Account |

| | |
|---|---|
| UK | United Kingdom |
| USA | United States of America |
| USD | United States Dollar |
| WB | World Bank |

# EXECUTIVE SUMMARY

Kenya's Gross Domestic Product (GDP) grew by 5.6 per cent in 2015 compared to 5.3 per cent in 2014 while the overall inflation rate was 6.6% in 2015 compared to 6.9 % in 2014.

As at end June 2016, the outstanding total public debt, including publicly guaranteed debt, amounted to Ksh 3,611,331 million compared to Ksh 2,843,696 million at end June 2015, an increase of 26.9 per cent. Domestic and external debt accounted for 50.3 per cent and 49.7 per cent of total public debt at end of June 2016 respectively. In nominal terms and as a per cent of GDP, total public debt was 54.8 per cent, while domestic debt was 27.5 per cent with external debt accounting for 27.3 per cent by June 2016.

The total public debt service payments as at end June 2016 amounted to Ksh 251,440 million. External and domestic debt service was Ksh 78,583 million and Ksh 172,857 million respectively as at end of June 2016. The ratio of debt service to revenues reduced to 21.2 per cent by end June 2016 from 24.6 per cent by end June 2015. Overall, annual interest payment was 3.7 per cent of GDP, with interest payment on external and domestic debt accounting for 0.7 per cent and 2.6 per cent of GDP in FY 2015/16 respectively

The average time to maturity (ATM) for domestic and external debt is 4.3 years and 11.2 years respectively with overall ATM for the total public debt portfolio of 7.8 years. Although 96 percent of the public debt portfolio has a fixed interest rate, 27.3 per cent of outstanding debt will re-fix in FY 2016/17.

The composition of domestic debt indicates that the stock of Treasury Bills and Bonds accounted for 32.4 per cent and 63.5 per cent of total domestic debt respectively as at end June 2016. Commercial banks were the largest holders of the total public domestic debt (Ksh 927,307 million -51.1 per cent) while the share held by Non-bank (Non-residents and non-bank Financial Institutions including insurance companies, and pensions funds) was 43.4 per cent at end June 2016.

As at end June 2016, ten (10) IFBs had been issued raising proceeds worth a total of Ksh 258, 584 million for financing development projects in the country. Two (2) IFBs worth Ksh 56,076 million were issued in 2015/2016.

Trading of Government bonds has increased significantly since 2010 as a result of various initiatives to improve secondary market activity for bonds. Turnover was KSh 311, 660 million in 2016 compared to Ksh 294, 320 million in 2015. There was improved trading activity during the last quarter of the financial year 2015/2016.

Public and publicly guaranteed (PPG) external debt stock has continued to rise over the last five years, increasing to Ksh 1,796,198 million in June 2016 from Ksh 1,423,252 million in June 2015, a rise of 26.2 per cent. The increase was attributed to disbursements from commercial syndicated loans, multilateral and bilateral creditors as well as foreign exchange rate movements.

The share of multilateral and bilateral creditors decreased from 59.6 per cent and 31.9 per cent as at end June 2012 to 44.5 per cent and 30.5 per cent as at end June 2016 respectively. Debt owed to suppliers' credit ranged between 1.9 per cent in June 2012 and 0.9 per cent in

June 2016. The proportion of debt owed to commercial creditors increased to 24.1 per cent in June 2016 from 6.6 per cent in June 2012. The increase is attributed to issuance of the International Sovereign Bond and contracting of syndicated loans.

As at June 2016, the World Bank (IDA), commercial lenders and China were the main creditors at 27.4 per cent, 24.1 per cent and 17.4 per cent respectively. AfDB/ADF, Japan, France and IMF were among other major multilateral and bilateral creditors.

As at end of June 2016, the currency composition of the external debt stock comprised mainly the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP), and Chinese Yuan which accounted for 60.4 per cent, 22.1 per cent, 8.7 per cent, 4.8 per cent and 3.5 per cent respectively while other currencies accounted for 0.4 per cent of the portfolio.

The country's external debt is largely long term. By end of June 2016, over 63 per cent of the debt had maturity longer than 10 years with only 11.4 per cent maturing within 4 years. However, the external debt with maturity of more than 10 years has been declining while category of debt between 1-10 years has been rising, indicating hardening of average external debt terms.

As at end of June 2016, the average maturity, grace period and average interest rate on new external loan commitments were 20.3 years, 6.2 years and 2.6 per cent respectively. Overall, these are favourable borrowing terms in line with the Government's external debt strategy of contracting loans on highly concessional or "soft" terms.

The outstanding on-lent loans increased by Ksh 375,396 million to Ksh 572,249 million by end June 2016 from Ksh 196,853 million by end June 2015 (190.7 per cent rise). This increase is attributed to new on-lent loans to transport, energy, roads and water sectors where Ksh 359,597 million accounted for Standard Gauge Railway (SGR) and to revive the airline industry. The total receipts by Government from on-lent loans amounted to Ksh 4,990 million during FY2015/16.

The total outstanding Government guaranteed debt increased by Ksh 16,597 million to Ksh 60,530 million by June 2016 from Ksh 43,933 million by end June 2015. This increase is mainly attributed to disbursements of Ksh. 8,170 million and Ksh 6,243 million from Germany and Japan  for KenGen and Kenya Ports Authority respectively.

During the FY 2015/16, the Government as a guarantor spent Ksh 1,050 million to service guaranteed debts owed by public enterprises in financial distress and where guarantees have been called. Tana and Athi River Development Authority (TARDA) and Kenya Broadcasting Corporation (KBC) accounts for 28.3 per cent and 71.7 per cent respectively of the payments made in 2015/16.

Kenya's public debt is within sustainable levels over the medium term and well within the 50 per cent limit of GDP in NPV terms in line with PFMA regulations and the requirements of the East Africa Community (EAC) convergence criteria.

The total public debt in nominal terms is projected to rise to Ksh 3,766,900 million in June 2017 from Ksh 3,611,331 million in June 2016 and further increase to Ksh 5,321,100 million in June 2020. However, as a proportion of GDP, public debt is projected to decrease to 50.7

per cent in June 2017 from 54.8 per cent in June 2016 then increase to 53.1 per cent in June 2020.

External debt is projected to decrease to 24.1 per cent as a proportion of GDP in June 2017 from 27.3 per cent in June 2016 then increase to 24.7 per cent in June 2020. The domestic debt will decrease to 26.6 per cent in June 2017 from 27.5 per cent in June 2016 then increase to 28.4 per cent in June 2020.

In nominal terms, the total debt service as a proportion of revenue is projected to decrease to 20.1 per cent in 2016/17 from 21.7 per cent in 2015/16, and then increase to 21.5 per cent in 2019/20. As a percentage of GDP, total debt service is projected to decrease to 3.7 per cent in 2016/17 from 3.8 per cent in 2015/16 then increase to 4.3 per cent in 2019/20.

**KEY INDICATORS OF PUBLIC DEBT, 2012 – 2016**

| Indicator | Unit | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|---|
| **PUBLIC DEBT** | | | | | | |
| **Total Public Debt (including guaranteed Debt)** | Ksh million | 1,622,801 | 1,894,117 | 2,422,832 | 2,843,696 | 3,611,331 |
| | % of GDP | 40.7 | 42.1 | 48 | 49.9 | 54.8% |
| **Total Domestic Debt** | Ksh million | 858,830 | 1,050,555 | 1,284,327 | 1,420,444 | 1,815,133 |
| | % of total debt | 52.9 | 55.5 | 53 | 50 | 50.3% |
| **Domestic Debt to GDP** | % | 21.5 | 23.3 | 25.5 | 24.9 | 27.5% |
| **Total External Debt (including publicly guaranteed Debt)** | Ksh million | 763,971 | 843,562 | 1,138,505 | 1,423,252 | 1,796,198 |
| | % of total debt | 47.1 | 44.5 | 47 | 50 | 49.7% |
| **External Debt to GDP** | % | 19.2 | 18.8 | 22.5 | 25 | 27.3% |
| **DEBT SERVICE** | | | | | | |
| **Total Debt Service** | Ksh million | 113,644 | 145,228 | 160,600 | 253,271 | 251,441 |
| **Domestic interest** | Ksh million | 82,339 | 110,184 | 119,200 | 139,727 | 172,857 |
| **External (interest and principal)** | Ksh million | 31,305 | 35,044 | 41,400 | 113,544 | 78,584 |
| **Total Debt Service as a % of Revenue** | % | 16.5 | 18.7 | 17.5 | 24.6 | 21.7 |
| **Total External Debt Service as a % of Exports** | % | 6.3 | 6.6 | 7.9 | 21.6 | 13.0 |
| **NEW EXTERNAL LOAN COMMITMENTS** | | | | | | |
| **Average Maturity** | Years | 26.3 | 33.7 | 18.1 | 21 | 20.3 |
| **Average Grace Period** | Years | 6.2 | 8 | 6.2 | 6.4 | 6.2 |
| **Average Interest Rate** | % | 0.8 | 1.2 | 2.6 | 2.5 | 2.6 |
| **DOMESTIC DEBT STOCK BY INSTRUMENT** | | | | | | |
| **Treasury Bills** | Ksh million | 132,047 | 267,211 | 299,406 | 318,929 | 588,088 |
| | % | 15.4 | 25.4 | 23.3 | 22.5 | 32.4 |
| **Treasury Bonds** | Ksh million | 686,951 | 744,174 | 914,762 | 1,035,662 | 1,152,041 |
| | % | 80 | 70.8 | 71.2 | 72.9 | 63.5 |
| **Others (Pre-1997 Government Debt, CBK Overdraft, etc.)** | Ksh million | 39,832 | 39,170 | 70,159 | 65,853 | 75,004 |
| | % | 4.6 | 3.8 | 5.5 | 4.6 | 4.1 |
| **DOMESTIC DEBT STOCK BY HOLDER** | | | | | | |
| **Commercial Banks** | Ksh million | 411,867 | 524,505 | 617,221 | 730,419 | 927,307 |
| | % | 48 | 50 | 48.1 | 51.4 | 51.1 |
| **Non-bank Financial Institutions and Other sources** | Ksh million | 399,580 | 486,880 | 601,406 | 626,689 | 787,970 |
| | % | 46.5 | 46.3 | 46.8 | 44.1 | 43.4 |

| KEY INDICATORS OF PUBLIC DEBT, 2012 – 2016 | | | | | | |
|---|---|---|---|---|---|---|
| Central Bank | Ksh million | 47,383 | 39,170 | 65,700 | 63,335 | 99,856 |
| | % | 5.5 | 3.7 | 5.1 | 4.5 | 5.5 |
| **EXTERNAL DEBT STOCK BY BROAD CREDITORS (including publicly guaranteed debt)** | | | | | | |
| Multilateral | Ksh million | 455,077 | 511,791 | 597,340 | 684,631 | 798,841.56 |
| | % | 59.6 | 60.7 | 52.6 | 48.1 | 44.5% |
| Bilateral | Ksh million | 243,543 | 257,637 | 289,914 | 445,057 | 548,350.69 |
| | % | 31.9 | 30.5 | 25.5 | 31.3 | 30.5% |
| Commercial Banks | Ksh million | 50,540 | 58,928 | 234,799 | 276,937 | 432,377 |
| | % | 6.6 | 7 | 20.7 | 19.5 | 24.1% |
| Export Credit | Ksh million | 14,812 | 15,453 | 14,537 | 16,628 | 16,628 |
| | % | 1.9 | 1.8 | 1.3 | 1.2 | 0.9% |
| GUARANTEED EXTERNAL DEBT STOCK | Ksh million | **47,383** | **43,537** | **45,221** | **43,934** | 60,531 |
| CURRENCY STRUCTURE OF EXTERNAL DEBT | | | | | | |
| US Dollar | % | 33 | 32.3 | 42.8 | 56.7 | 60.4 |
| Euro | % | 31 | 33 | 28.5 | 23.9 | 22.1 |
| Yen | % | 19 | 15.1 | 11.5 | 9.2 | 8.7 |
| Sterling Pound | % | 6 | 5.5 | 4.7 | 5.4 | 4.8 |
| Yuan | % | 4 | 5.7 | 4.8 | 4.3 | 3.5 |
| Others | % | 7 | 8.4 | 7.7 | 0.5 | 0.4 |

Source: National Treasury

## STRUCTURE OF THE REPORT

This report comprises eight chapters. Chapter one provides an overview of financing of the FY2015/16 budget deficit as well as a description of the domestic and external debt. The detailed Domestic Debt is presented in Chapter Two and External Debt in Chapter Three.

On-Lent Loans is dealt with in Chapter Four. Chapter Five presents Publicly Guaranteed Debt and Public Private Partnerships (PPP) as well as Fiscal Commitments and Contingent Liabilities. Disputed External Commercial Debt is presented in Chapter Six while Chapter Seven presents Debt Strategy and Debt Sustainability. Chapter Eight presents Legal Framework on Public Debt Management while Chapter Nine presents the Outlook for the Medium Term.

CHAPTER ONE

# NATIONAL GOVERNMENT'S FISCAL DEFICIT FINANCING AND PUBLIC DEBT IN 2015/2016

## 1.1 Economy

Kenya's Gross Domestic Product (GDP) grew by 5.6 per cent in 2015 compared to 5.3 per cent in 2014. This expansion was as a result of significant growth in some key sectors among them agriculture, construction, real estate, and financial. However, growth in mining and quarrying; information and communication, and wholesale and retail trade decelerated during the same period. Overall inflation rate was 6.6% in 2015 compared to 6.9 % in 2014.

## 1.2 Fiscal Balance

The overall actual FY 2015/16 fiscal balance was Ksh 474,600 million (7.2 per cent of GDP) and was financed through external borrowing of Ksh 269,900 million (4.1 per cent of GDP), net domestic financing of Ksh 202,300 million (3.1 per cent of GDP) and domestic loan repayment receipts of Ksh 2,400 million (Table 1-1).

**Table 1-1: Kenya Financing Fiscal Balance, 2014/15 and 2015/16 in (Ksh million)**

| Financing item | 2014/15 | | 2015/16 | |
|---|---|---|---|---|
| | Ksh million | As % of GDP | Ksh million | As % of GDP |
| **Net Foreign Financing** | 217,479 | 3.8 | 269,900 | 4.1 |
| **Net Domestic financing** | 251,102 | 4.4 | 202,300 | 3.1 |
| **Domestic Loan Repayments(Receipts)** | 2,992 | 0.1 | 2,400 | 0.0 |
| **Total** | **471,573** | **8.3** | **474,600** | **7.2** |

Source: National Treasury, 2017 Budget Policy Statement

## 1.3 Total Public Debt

Public Debt is the totality of public and publicly guaranteed debt owed by any level of government to either citizens or foreigners or both. As at end June 2016, the outstanding total public debt, including publicly guaranteed debt, amounted to Ksh 3,611,331 million (Table 1-2) compared to Ksh 2,843,696 million at end June 2015, an increase of 26.9 per cent. Domestic debt increased from Ksh 1,420,444 million in June 2015 to Ksh 1,815,133 million at end June 2016, an increase of 27.7 per cent.

On the other hand, external debt (including guaranteed debt) increased by 26.2 per cent from 1,423,252 million at end June 2015 to Ksh 1,796,198 million at end June 2016. Domestic and external debt accounted for 50.3 per cent and 49.7 per cent of total public debt at end of June 2016 respectively. By end June 2015, both domestic and external debt accounted for 50.0 per cent each.

**Table 1-2: Trends in Kenya's Total Public Debt in (Ksh million)**

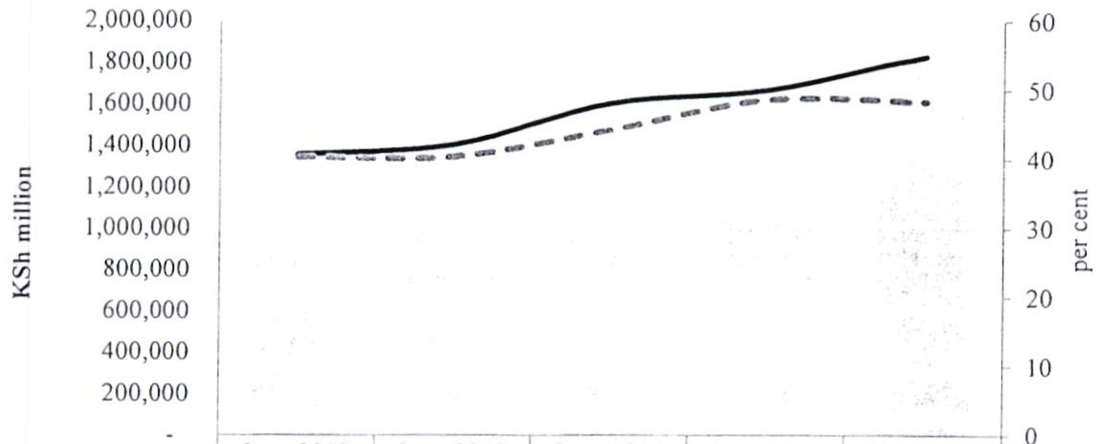
| DEBT TYPE | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|
| DOMESTIC DEBT | | | | | |
| **Central Bank** | 47,383 | 39,170 | 65,700 | 63,335 | 99,856 |
| **Commercial Banks** | 411,867 | 524,505 | 617,221 | 730,419 | 927,307 |
| **Sub-total: Banks** | **459,250** | **563,675** | **682,921** | **793,754** | **1,027,163** |
| **Non-bank Financial Institutions** | 399,580 | 486,880 | 601,406 | 626,690 | 787,970 |
| Total Domestic | **858,830** | **1,050,555** | **1,284,327** | **1,420,444** | **1,815,133** |
| **As a % of GDP** | 21.5 | 23.3 | 25.5 | 24.9 | 27.5 |
| **As a % of total debt** | 52.9 | 55.5 | 53 | 50 | 50.3 |
| EXTERNAL DEBT | | | | | |
| **Bilateral** | 199,950 | 217,970 | 248,636 | 405,562 | 491,864 |
| **Multilateral** | 451,287 | 507,920 | 593,397 | 680,192 | 794,797.5 |
| **Commercial Banks** | 50,540 | 58,928 | 234,799 | 276,937 | 432,377 |
| **Suppliers Credits** | 14,811 | 15,207 | 16,452 | 16,628 | 16,628 |
| Sub-Total | **716,588** | **800,025** | **1,093,284** | **1,379,319** | 1,735,667 |
| GUARANTEED DEBT | | | | | |
| **Bilateral** | 43,593 | 39,667 | 41,278 | 39,495 | 56,487 |
| **Multilateral** | 3,790 | 3,870 | 3,943 | 4,439 | 4,044 |
| Sub-Total | **47,383** | **43,537** | **45,221** | **43,934** | 60,531 |
| Total External debt | **763,971** | **843,562** | **1,138,505** | **1,423,252** | 1,796,198 |
| **As a % of GDP** | 19.2 | 18.8 | 22.5 | 25 | 27.3 |
| **As a % of total debt** | 47.1 | 44.5 | 47 | 50 | 49.7 |
| GRAND TOTAL | **1,622,801** | **1,894,117** | **2,422,832** | **2,843,696** | **3,611,331** |
| **Total debt As a % of GDP** | 40.7 | 42.1 | 48 | 49.9 | 54.8 |
| **Memorandum item** | | | | | |
| GDP* (in Ksh million) | **3,990,412** | **4,496,000** | **5,044,236** | **5,703,321** | **6,586,000** |

Source: National Treasury and Central Bank of Kenya

* Pre-1997 Government Debt and Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reserve Certificates

In nominal terms and as a per cent of GDP in the period under review, total public debt was 54.8 per cent by June 2016 compared to 49.9 per cent by June 2015, while domestic debt was 27.5 per cent by June 2016 from 24.9 per cent by June 2015, with external debt accounting for 27.3 per cent by June 2016 from 25.0 per cent by June 2015 (Table 1-2 and Fig. 1-1).

**Figure 1-1: Kenya's Public and Publicly Guaranteed Debt Stock, 2012- 2016 in (Ksh million, per cent)**




| | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|
| Domestic Debt | 858,830 | 1,050,555 | 1,284,327 | 1,420,444 | 1,815,133 |
| External Debt | 763,971 | 843,562 | 1,138,505 | 1,423,252 | 1,796,197.5 |
| Public debt as % of GDP | 40.7 | 42.1 | 48.0 | 49.9 | 54.8 |
| NPV debt as % of GDP | 40.3 | 40.3 | 44.2 | 48.5 | 48.3 |

**Source: National Treasury and Central Bank of Kenya**

## 1.4 Debt Service

Public debt service involves payment of principal, interest and other contractual obligations in relation to Government debt. The total public debt service payments as at end June 2016 amounted to Ksh 251,440 million. Debt service decreased by Ksh 1,831 million (or 0.72 per cent decrease) from Ksh 253,271 million by June 2015.

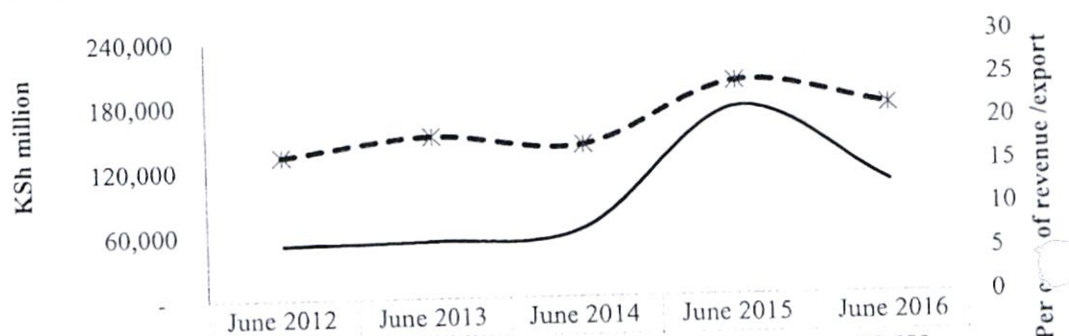
External and domestic debt service was Ksh 78,583 million and Ksh 172,857 million respectively as at end of June 2016. As a percentage of the total public debt service, external and domestic debt service was 31.3 per cent and 68.7 per cent by June 2016 compared to 44.8 per cent and 55.2 per cent respectively as at end June 2015. The ratio of debt service to revenues reduced to 21.2 per cent by end June 2016 from 24.6 per cent by end June 2015 (Table 1-3 and Figure 1-2).

**Table 1-3: Total Public Debt Service (Ksh million)**

| | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|
| **External Principal** | 23,954 | 23,993 | 25,800 | 80,214 | 36,015 |
| **External Interest** | 7,351 | 11,051 | 15,600 | 33,330 | 42,568 |
| Total External Debt Service (TEDS) | **31,305** | **35,044** | **41,400** | **113,544** | **78,583** |
| **TEDS as a % of Total Debt Service (TDS)** | 27.5 | 24.1 | 25.8 | 44.8 | 31.3 |
| Domestic Interest | **82,339** | **110,184** | **119,200** | **139,727** | **172,857** |
| **Domestic Interest as a % of TDS** | 72.5 | 75.9 | 74.2 | 55.2 | 68.7 |
| Total Debt Service (TDS) | **113,644** | **145,228** | **160,600** | **253,271** | **251,440** |
| **Ordinary Revenue** | 690,733 | 779,436 | 918,990 | 1,031,248 | 1,158,200 |
| **Export Earnings (goods only)** | 499,737 | 528,900 | 523,059 | 524,992 | 615,125 |
| **Total Debt Service as a % of Revenue** | 16.5 | 18.7 | 17.5 | 24.6 | 21.7 |
| **Total External Debt Service as a % of Exports** | 6.3 | 6.6 | 7.9 | 21.6 | 12.8 |

Source: National Treasury and Central Bank of Kenya

**Figure 1-2: Kenya Domestic and External Debt Service, (Ksh million)**




| | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|
| Total External Debt Service | 31,305 | 35,044 | 41,400 | 113,544 | 78,583 |
| Total Domestic Interest/Debt Service | 82,339 | 110,184 | 119,200 | 139,727 | 172,857 |
| Total Debt Service as a % of Revenue | 16.5 | 18.7 | 17.5 | 24.6 | 21.7 |
| Total External Debt Service as a % of Exports | 6.3 | 6.6 | 7.9 | 21.6 | 12.8 |

Source: National Treasury and Central Bank of Kenya

### 1.5 Cost and Risk Characteristics of Public Debt

Overall, annual interest payment was 3.7 per cent of GDP, with interest payment on external and domestic debt accounting for 0.7 per cent and 2.6 per cent of GDP in FY 2015/16 respectively (Table 1-4).

At end of FY 2015/16, the weighted average interest rates of external and domestic debt portfolios were 2.6 percent and 11.2 percent with an overall weighted average interest rate on total debt portfolio of 6.9 percent. Out of the total debt, 23.3 per cent will fall due in FY 2016/17

A significant portion of the external debt consists of highly concessional loans characterised by long repayment periods with low interest rates. These features have a strong influence on the overall cost and risk exposure of Kenya's existing external debt portfolio.

The average time to maturity (ATM) for domestic and external debt is 4.3 years and 11.2 years respectively (Table 1-4). The wide average maturity disparity between external and domestic debt is because of different maturity structures, with a large concessional component of the external debt, while a third of the domestic debt are short term securities. The ATM for the total public debt portfolio is 7.8 years.

Although 96 percent of the public debt portfolio has a fixed interest rate, 27.3 per cent of outstanding debt will re-fix in FY 2016/17. The weighted average time to re-fixing (ATR) for external debt portfolio is 10.9 years while 12.0 percent of outstanding external debt will re-fix in FY 2016/17. Domestic debt is mainly composed of fixed interest rate instruments with ATR of 4.3 years. Nevertheless, 43.0 percent of the portfolio will be re-fixed within a year because of predominance of short-term debt. Approximately half of the total government debt portfolio is exposed to exchange rate risk. The depreciation of Kenya shilling against the US$ highlights a potential exchange rate risk impact on the budget in terms of rise in external debt service payments.

**Table 1-4: Kenya: Cost and Risk Indicators of Existing Debt, as at end-FY2015/16**

| Risk Indicators | | External debt | Domestic debt | Total debt |
|---|---|---|---|---|
| **Amount (in millions of KSh)** | | 1, 796,198 | 1,815,133 | 3,611, 331 |
| **Amount (in millions of USD)** | | 17,766 | 17,953 | 35,719 |
| **Nominal debt as % GDP** | | 27.3 | 27.5 | 54.8 |
| **PV debt as % of GDP** | | 20.8 | 27.5 | 48.3 |
| **Cost of debt** | Interest payment as % GDP | 0.7 | 2.6 | 3.3 |
| | Interest payment as % Total Revenue | 3.2 | 13.4 | 16.6 |
| | Weighted Average Interest Rate (%) | 2.6 | 11.2 | 6.9 |
| **Refinancing risk** | Average time to maturity (ATM) (years) | 11.2 | 4.3 | 7.8 |
| | Debt maturing in 1 year (% of total) | 4.0 | 43.0 | 23.3 |
| | Debt maturing in 1 year (% of total revenue) | 5.0 | 51.4 | 56.4 |
| | Debt maturing in 1 year (% of GDP) | 1.1 | 11.5 | 12.6 |
| **Interest rate risk** | Average time to re-fixing (ATR) (years) | 10.9 | 4.3 | 7.6 |
| | Debt re-fixing in 1 year (% of total) | 12.0 | 43.0 | 27.3 |
| | Fixed rate debt (% of total) | 90.5 | 100.0 | 95.2 |
| **FX risk** | FX debt (% of total debt) | | | 50.7 |
| | ST FX debt (% of reserves) | | | 9.5 |

## CHAPTER TWO

# DOMESTIC DEBT

This chapter presents the Government domestic debt which consists of stock of Government securities (Tr Government debt and Government Overdraft at Central Bank of Kenya.

## 2.1 Total Domestic Debt

As at end June 2016, the stock of domestic debt was Ksh 1,815,133 million. This represents an increase of stock of Ksh 1,420,444 million by end June 2015 (Table 2-1 and Figure 2-1). The increase in the stock wa Treasury bills and bonds due to growing domestic borrowing needs.

**Table 2-1: Outstanding Domestic Debt (Ksh million)**

| | Instrument | Jun-12 | | Jun-13 | | Jun-14 | |
|---|---|---|---|---|---|---|---|
| | | Ksh | % of stock | Ksh | % of stock | Ksh | % of st( |
| | **Total Stock of Domestic Debt (A+B)** | **858,830** | **100** | **1,050,555** | **100** | **1,284,327** | **100** |
| A | Government Securities(1-3) | 848,997 | 98.9 | 1,040,274 | 99 | 1,242,502 | 96.7 |
| 1) | Treasury Bills | 132,047 | 15.4 | 267,211 | 25.4 | 299,406 | 23.3 |
| | Banking Institutions | 75,497 | 8.8 | 183,458 | 17.5 | 176,450 | 13.7 |
| | Others | 56,550 | 6.6 | 83,753 | 8 | 122,956 | 9.6 |
| 2) | Treasury Bonds | 686,951 | 80 | 744,174 | 70.8 | 914,762 | 71.2 |
| | Banking Institutions | 337,412 | 39.3 | 341,047 | 32.5 | 436,381 | 34 |
| | Others | 349,539 | 40.7 | 403,127 | 38.4 | 478,381 | 37.2 |
| 3) | Pre-1997 Government Debt | 29,999 | 3.5 | 28,889 | 2.7 | 28,334 | 2.2 |
| B. | Others* | 9,833 | 1.1 | 10,281 | 1 | 41,825 | 3.3 |
| | Of which CBK Overdraft | 7,257 | 0.8 | 6,999 | 0.7 | 37,238 | 2.9 |

* Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reser\

Source: Central Bank of Kenya

Overall, the level of domestic debt was partly offset by a repayment of Ksh 1,117 million of the Pre-1997 Government Debt. The CBK Overdraft level increased by Ksh 7,710 million to Ksh 44,204 million by end June 2016 from Ksh 36,494 million by end June 2015.

**Figure 2-1: Outstanding Domestic Debt (Ksh million)**


| | June 2011 | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|---|
| Others | 10,293 | 9,833 | 10,281 | 41,825 | 39,177 | 49,446 |
| Pre-1997 Government Debt | 31,663 | 29,999 | 28,889 | 28,334 | 26,676 | 25,559 |
| Treasury Bills | 126,605 | 132,047 | 267,211 | 299,406 | 318,929 | 588,088 |
| Treasury Bonds | 595,661 | 686,951 | 744,174 | 914,762 | 1,035,662 | 1,152,041 |

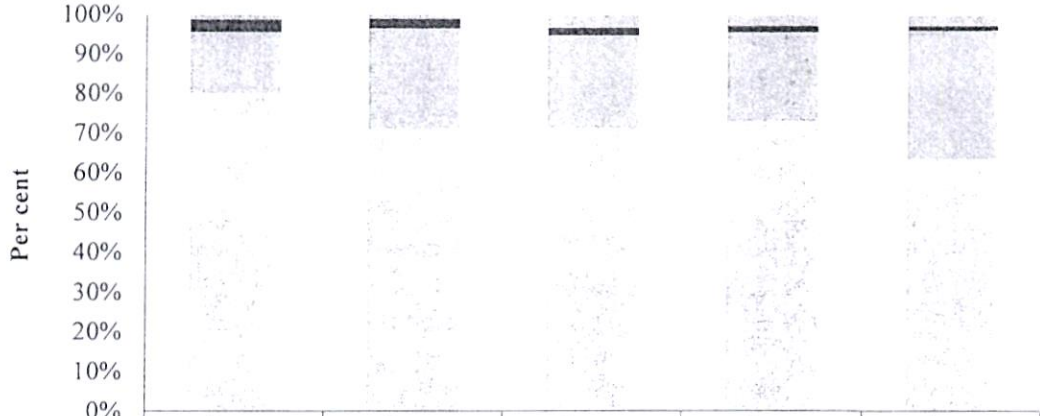
Source: Central Bank of Kenya

## 2.2 Domestic Debt by Instrument

The composition of domestic debt indicates that the stock of Treasury Bills and Bonds accounted for 32.4 per cent and 63.5 per cent of total domestic debt respectively as at end June 2016 compared to 22.5 per cent and 72.9 per cent as at end June 2015 respectively (Figure 2-2).

The proportion of Pre-1997 CBK advances to Government dropped by 4.2 per cent to 1.4 per cent of total domestic debt in June 2016 compared to 1.9 per cent in June 2015 due to a net repayment of Ksh 1,117 million during the FY 2015/16.

Figure 2-2: **Domestic Debt by Instrument**




| | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|
| Others | 1.1 | 0.9 | 3.3 | 2.8 | 2.7 |
| Pre-1997 Government Debt | 3.5 | 2.7 | 2.2 | 1.9 | 1.4 |
| Treasury Bills | 15.4 | 25.5 | 23.3 | 22.5 | 32.4 |
| Treasury Bonds | 80.0 | 70.8 | 71.2 | 72.9 | 63.5 |

Source: Central Bank of Kenya

## 2.3 Domestic Debt by Holder

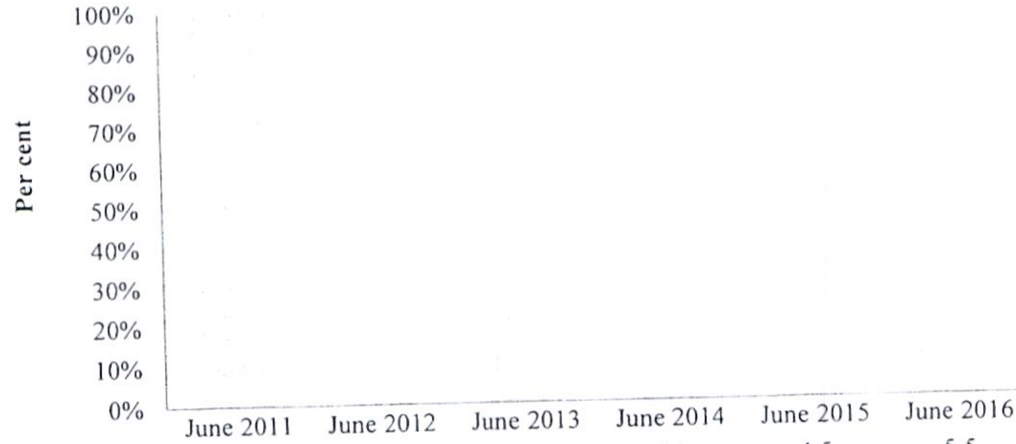
Of the total public domestic debt, commercial banks were the largest holders with Ksh 927,307 million (51.1 per cent) at end June 2016 compared to Ksh 730,419 million (51.4 per cent) in June 2015. The share held by Non-bank (Non-residents and non-bank Financial Institutions including insurance companies, and pensions funds) decreased to 43.4 per cent in June 2016 from 44.1 per cent in June 2015 (Table 2-2 and Figure 2-3).

**Table 2-2: Domestic Debt by Holder (Ksh Million)**

| Description | | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|---|
| **Banks** | Ksh | 459,250 | 563,675 | 682,921 | 793,754 | 1,027,163 |
| | % of total | 53.5 | 53.7 | 53.2 | 55.9 | 56.6 |
| **Central Bank** | Ksh | 47,383 | 39,170 | 65,700 | 63,335 | 99,856 |
| | % of total | 5.5 | 3.7 | 5.1 | 4.5 | 5.5 |
| **Commercial Banks** | Ksh | 411,867 | 524,505 | 617,221 | 730,419 | 927,307 |
| | % of total | 48 | 50 | 48.1 | 51.4 | 51.1 |
| **Non-banks** | Ksh | 399,580 | 486,880 | 601,406 | 626,689 | 787,970 |
| | % of total | 46.5 | 46.3 | 46.8 | 44.1 | 43.4 |
| **Non residents** | Ksh | 11,039 | 13,083 | 14,925 | 10,664 | 13,027 |
| | % of total | 1.3 | 1.2 | 1.2 | 0.8 | 0.7 |
| **Non-bank Financial Institutions** | Ksh | 388,541 | 473,797 | 586,481 | 616, 025 | 774,943 |
| | % of total | 45.2 | 45.1 | 45.6 | 39.9 | 42.7 |
| **Total** | Ksh | 858,830 | 1,050,555 | 1,284,327 | 1,420,444 | 1,815,133 |
| | % of total | 100 | 100 | 100 | 100.0 | 100.0 |

Source: Central Bank of Kenya

**Figure 2-3: Public Domestic Debt by Holder**




| | June 2011 | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|---|
| Central Bank | 5.2 | 5.5 | 3.7 | 5.1 | 4.5 | 5.5 |
| Non-bank Financial Institutions | 44.5 | 46.5 | 46.3 | 46.8 | 44.1 | 43.4 |
| Commercial Banks | 50.3 | 48.0 | 50.0 | 48.1 | 51.4 | 51.1 |

Source: Central Bank of Kenya

## 2.4 Treasury Bills and Bonds by Holder

### 2.4.1 Treasury Bills and Bonds by Holder

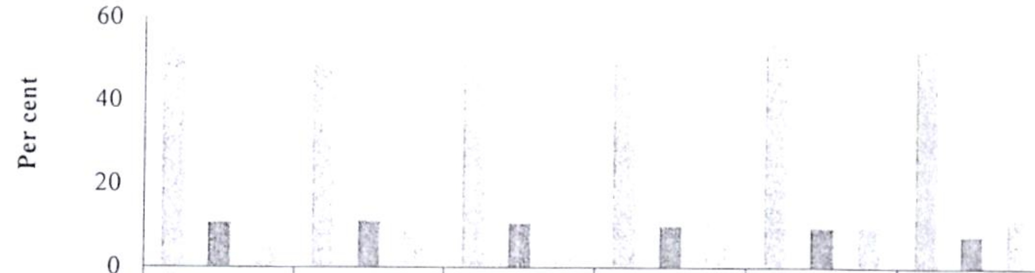
Of the total Treasury bills and bonds, commercial Banks were the major holders with 53.0 per cent in June 2016 compared to 53.7 per cent in June 2015. Pensions Funds (including NSSF) accounted for 27.7 per cent of Treasury bills and bonds in June 2016 compared to 27.0 per cent in June 2015 (Table 2-3 and Figure 2-4).

**Table 2-3: Outstanding Stock of Treasury Bills and Bonds by Holders** (Ksh million)

| Holder | Jun-12 | | Jun-13 | | Jun-14 | | Jun-15 | | Jun-16 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ksh | % | Ksh | % | Ksh | % | Ksh | % | Ksh | % |
| Commercial Banks | 409,611 | 50 | 524,505 | 51.9 | 612,772 | 50.5 | 727,931 | 53.7 | 922,214 | 53.0 |
| Non-Bank Financial Institutions (NBFIs) | 11,731 | 1.4 | 26,332 | 2.6 | 662 | 0.1 | 320 | 0 | 183 | 0. |
| Insurance Companies | 92,357 | 11.3 | 108,609 | 10.7 | 121,024 | 10 | 127,889 | 9.4 | 134,392 | 7.7 |
| Pensions Funds (including NSSF) | 217,697 | 26.6 | 285,778 | 28.3 | 339,041 | 27.9 | 366,303 | 27.0 | 481,693 | 27.7 |
| Others | 87,602 | 10.7 | 66,161 | 6.5 | 140,669 | 11.5 | 132,154 | 9.8 | 201,648 | 11.6 |
| **Total** | **818,998** | **100** | **1,011,385** | **100** | **1,214,168** | **100** | **1,354,597** | **100** | **1,740,130** | **53.0** |

Source: Central Bank of Kenya

**Figure 2-4: Outstanding Stock of Treasury Bills and Bonds by Holders**




| | June 2011 | June 2012 | June -2013 | June -2014 | June -2015 | June -2016 |
|---|---|---|---|---|---|---|
| Commercial Banks | 52.9 | 50.0 | 51.9 | 50.5 | 53.7 | 53.0 |
| Non-Bank Financial Institutions (NBFIs) | 1.4 | 1.4 | 2.6 | 0.1 | 0 | 0.0 |
| Insurance Companies | 10.8 | 11.3 | 10.7 | 10 | 9.5 | 7.7 |
| Pensions Funds (including NSSF) | 29.4 | 26.6 | 28.3 | 27.9 | 27.0 | 27.7 |
| Others | 5.5 | 10.7 | 6.5 | 11.5 | 9.8 | 11.6 |

Source: Central Bank of Kenya

### 2.4.2 Treasury Bills by Holder

In June 2016 compared to June 2015, the stock of Treasury bills increased by 84.4 per cent to Ksh 588,088 million from Ksh 318,929 million while the proportion held by commercial banks increased by 67.4 per cent to Ksh 361,859 million from Ksh 217,742 million respectively (Table 2-4). In the same period, holdings by pension fund institutions increased to 20.1 per cent from 12.8 per cent while proportion held by insurance companies decreased to 3.1 per cent from 6.5 per cent.

**Table 2-4: Outstanding Stock of Treasury Bills by Holder (Ksh million)**

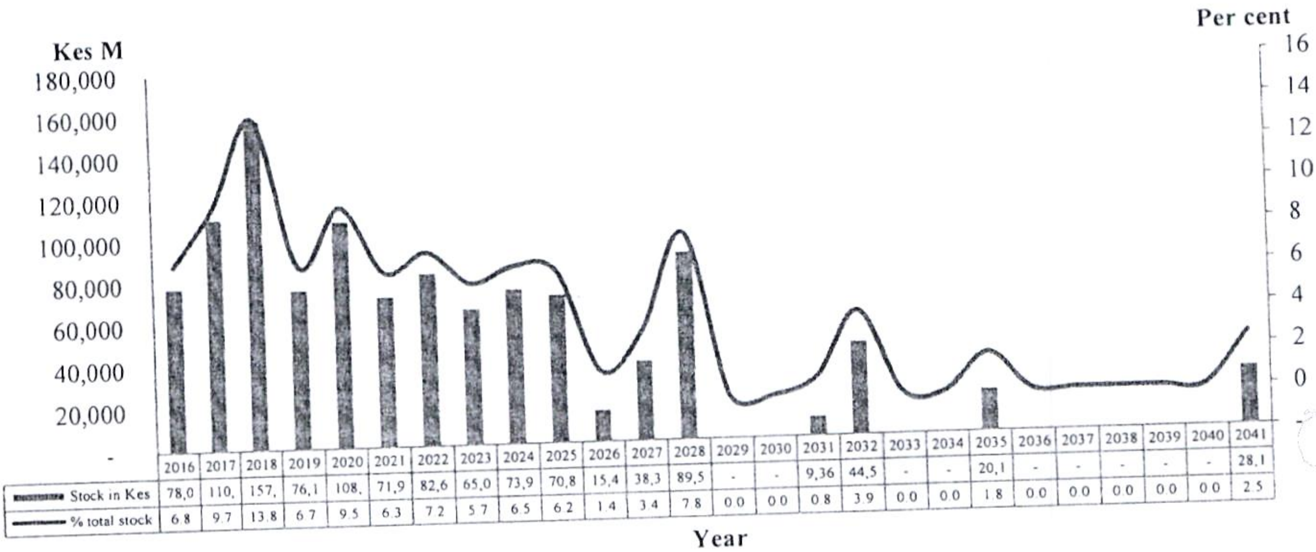
| Holder | Jun-12 | | Jun-13 | | Jun-14 | | Jun-15 | | June 16 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ksh M | % | Ksh M | % | Ksh M | % | Ksh M | % | Ksh M | % |
| Commercial Banks | 75,497 | 57.1 | 183,458 | 68.7 | 176,437 | 58.9 | 217,742 | 68.3 | 361,859 | 61.5 |
| NBFIs | 6,297 | 4.8 | 5,631 | 2.1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Insurance companies | 7,220 | 5.5 | 14,923 | 5.6 | 19,856 | 6.6 | 20,849 | 6.5 | 18,356 | 3.1 |
| Pensions Funds (including NSSF) | 28,686 | 21.7 | 42,917 | 16.1 | 67,803 | 22.6 | 40,946 | 12.8 | 117,948 | 20 |
| Others | 14,347 | 10.9 | 20,282 | 7.5 | 35,310 | 11.9 | 39,392 | 12.4 | 89,924 | 15 |
| **Total** | **132,047** | **100** | **267,211** | **100** | **299,406** | **100** | **318,929** | **100** | **588,088** | **100.0** |

Source: Central Bank of Kenya

## 2.5 Outstanding Treasury Bonds

As shown in Figure 2-5, the outstanding Treasury bonds amounted to Ksh 1,141,041miilion in June 2016 compared to Ksh 1,035,662 million in June 2015. This excludes special bonds amounting to Ksh 11,000 million. 46 per cent of outstanding government bonds will be retired in the next 5 years. Heavy redemptions are expected in 2018 (13.8% of outstanding bond stock), 2020 (9.5%) and 2028 (7.8%).

**Figure 2-5: Outstanding Treasury Bonds**




### 2.5.1 Treasury Bonds by Holder

Outstanding Treasury Bonds increased by 11.2 per cent to Ksh 1,152,041 million in June 2016 from Ksh 1,035,662 million in June 2015. In the same period, the holdings by commercial banks and pension fund institutions increased by 17.8 per cent (dominating the portfolio by 48.6 per cent of total outstanding Treasury bonds stock) and 18.2 per cent respectively (Table 2 5).

**Table 2-5: Outstanding Stock of Treasury Bonds by Holder (Ksh million)**

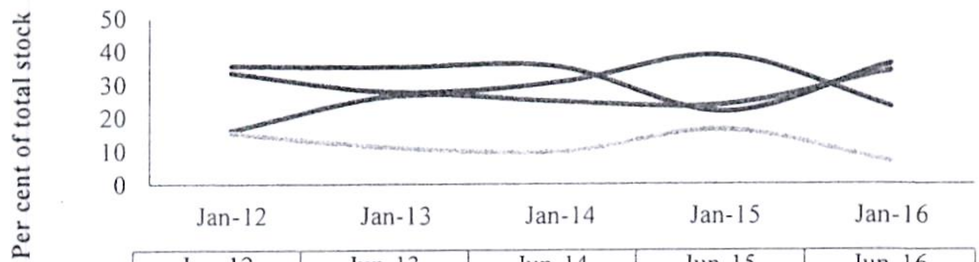
| Holder | Jun-12 | | Jun-13 | | Jun-14 | | Jun-15 | | June 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ksh M | % | Ksh M | % | Ksh M | % | Ksh M | % | Ksh M | % |
| **Commercial Banks** | 334,114 | 48.6 | 341,047 | 45.8 | 436,335 | 47.7 | 510,228 | 49.3 | 560,335 | 48.6 |
| **NBFIs** | 5,434 | 0.8 | 20,701 | 2.8 | 662 | 0.1 | 320 | 0 | 183 | 0.0 |
| **Insurance Companies** | 85,137 | 12.4 | 93,686 | 12.6 | 101,168 | 11.1 | 107,040 | 10.3 | 116,035 | 10.1 |
| **Pensions Funds (including NSSF)** | 189,011 | 27.5 | 242,861 | 32.6 | 271,238 | 29.7 | 325,357 | 31.4 | 363,745 | 31.6 |
| **Others** | 73,255 | 10.7 | 45,879 | 6.2 | 105,359 | 11.5 | 92,717 | 9 | 111,723 | 9.7 |
| Total | **686,951** | **100** | **744,174** | **100** | **914,762** | **100** | **1,035,662** | **100** | **1,152,041** | **100.0** |

Source: Central Bank of Kenya

## 2.6 Treasury Bills and Bonds by Tenor

As a proportion of total stock of Treasury bills and bonds by end June 2016, Treasury Bills accounted for 34 per cent while Treasury Bonds with tenor of 1-5 years, 6-9 years and 10 years or more accounted for 23.1 per cent, 6.7 per cent and 36.1 per cent respectively. This reflects increased investor preference for medium to long term instruments (Figure 2-6).

**Figure 2-6: Outstanding Government Securities by Tenor**



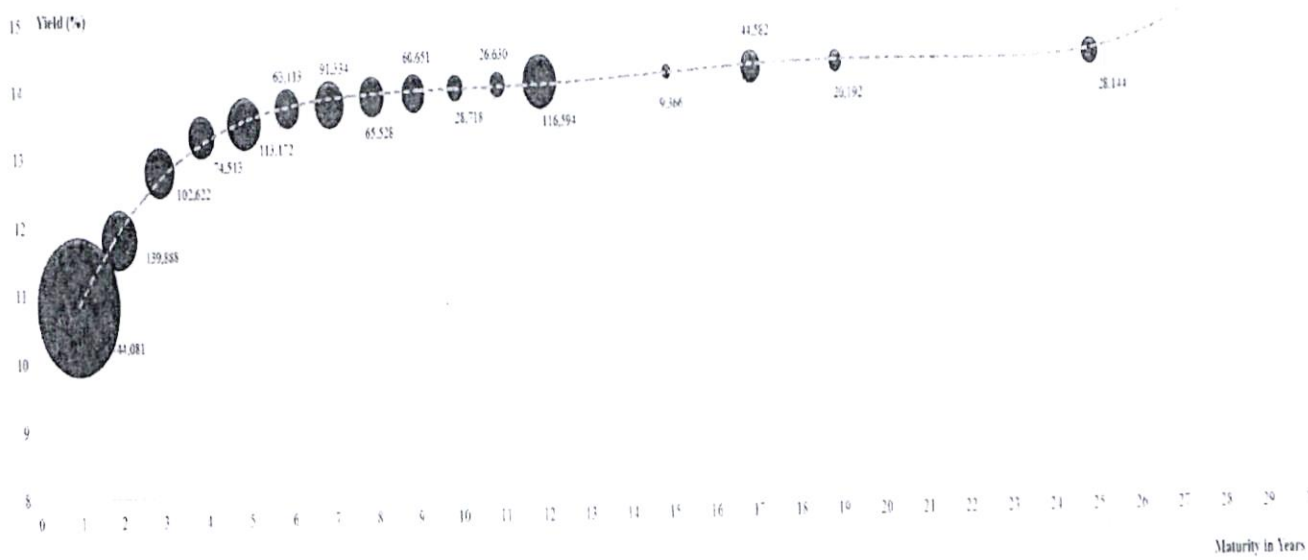

| | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|
| Treasury Bills (<1 year) | 16.1 | 26.4 | 24.7 | 23.7 | 34.0 |
| Bonds (1-5 years) | 33.3 | 27.6 | 30.6 | 38.5 | 23.1 |
| Bonds (6-9 years) | 15.1 | 10.9 | 9.6 | 16.2 | 6.7 |
| Bonds (>=10 years) | 35.5 | 35.1 | 35.1 | 21.6 | 36.1 |

Source: Central Bank of Kenya

## 2.7 Treasury Bills and Bonds by Time to Maturity

Figure 2-7 shows the distribution of the stock of Treasury Bills and Bonds by time to maturity along the yield curve as at June 2016. In line with the MTDS objective of developing the domestic securities market through lengthening the maturity of domestic debt, the stock distribution on the yield curve reflects increased medium-long term issuance which is an indication of positive gains from reforms aimed at restructuring the debt portfolio.

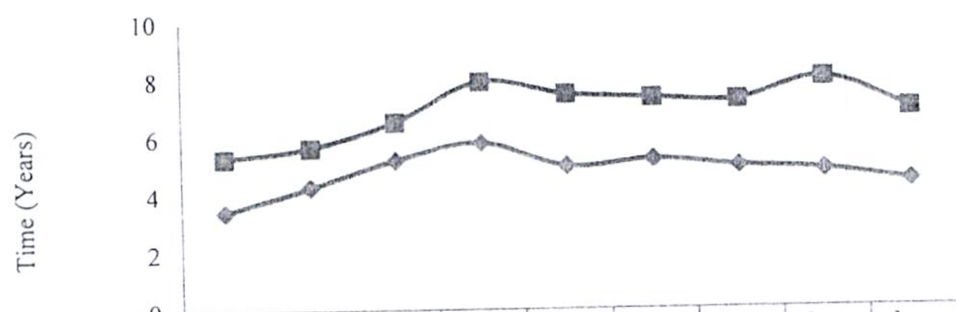
**Figure 2-7: Stock of Treasury Bonds Along the June 2016 Average Yield Curve**




***Source: Central Bank of Kenya***

Average maturity of Government securities as at June 2016 was 4.31 years while for bonds only was 6.84 years. This represented a ratio of 36:64 of Treasury bills and bonds (Figure 2 8).

Figure 2-8: **Average Time to Maturity of Government Securities**




| | Jun-08 | Jun-09 | Jun-10 | Jun-11 | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|---|---|---|---|
| Average Time To Maturity (Years)- All securities | 3.417 | 4.250 | 5.167 | 5.750 | 4.917 | 5.14 | 4.89 | 4.73 | 4.31 |
| Average Time To Maturity (Years)-bonds | 5.27 | 5.62 | 6.49 | 7.87 | 7.42 | 7.28 | 7.18 | 7.91 | 6.84 |

## 2.8 Infrastructure Bonds (IFBs) Program

The issuance of Infrastructure Bonds in Kenya began in February 2009 to mobilize resources for specific projects in roads, energy and water sectors to support economic development. The primary objective of the Government in issuing the Infrastructure Bonds was to set precedence for government agencies and corporate institutions with strong balance sheets to tap into the capital markets to finance their capital requirements and deliver on their mandate effectively.

As at end June 2016, ten (10) IFBs had been issued raising proceeds worth a total of Ksh 258, 584 million for financing development projects in the country. Specifically, two (2) IFBs worth Ksh 56,076 million were issued in 2015/2016. (Table 2 6)

**Table 2-6: Primary Market Auction Performance of Infrastructure Bonds (Ksh Million)**

| Bond | | Offer Amount | Bids Received | Successful Bids | | Coupon Rate (%) | Successful Average Rate (%) |
|---|---|---|---|---|---|---|---|
| Issue Number | Issue Date | | F.V. | Cost | F.V. | | |
| IFB 1/2009/12 | 23-02-09 | 18,500 | 26,884 | 10,588 | 11,244 | 12.5 | 13.505 |
| IFB 2/2009/12 | 12/07/2009 | 18,500 | 44,121 | 9,448 | 9,704 | 12 | 12.537 |
| IFB 1/2010/8 | 03/01/2010 | 14,500 | 35,273 | 7,192 | 7,132 | 9.75 | 9.579 |
| IFB 2/2010/9 | 30-08-10 | 31,600 | 37,362 | 17,422 | 18,672 | 6 | 7.293 |
| IFB1/2011/12 | 3-10-11 [1] | 35,850 | 38,999 | 37,190 | 24,326 | 12 | 16.64 |
| IFB1/2013/12 | 30-09-13 [2] | 36,000 | 37,629 | 35,941 | 38,364 | 11 | 12.363 |
| IFB1/2014/12 | 27-10-14 [3] | 35,000 | 41,003 | 35,015 | 35,481 | 11 | 11.263 |
| IFB1/2015/12 | 30-03-15 [4] | 50,000 | 76,394 | 49,712 | 51,192 | 11 | 11.556 |
| IFB1/2015/09 | 14-12-15 | 30,000 | | 21,178 | 25,120 | 11 | 14.753 |
| IFB1/2016/09 | 23-05-16 | 30,000 | 39,429 | 34,898 | 36,303 | 12.5 | 13.339 |
| **Grand Total** | | | | **258,584** | **257,537** | | |

Source: Central Bank of Kenya

**Notes**

[1] This bond was reissued on tap on 7-Nov-11, 5-Dec-11, 2-Jan-12, 6-Feb-12 and 27-Feb-12. The bond will be amortized on 28-Sep-15, 23-Sep-19 and 18-Sep-23

[2]This bond was reissued on tap on 28-Oct-13. The bond will be amortized on 25-Sep-17, 20-Sep-21 and 15-Sep-25

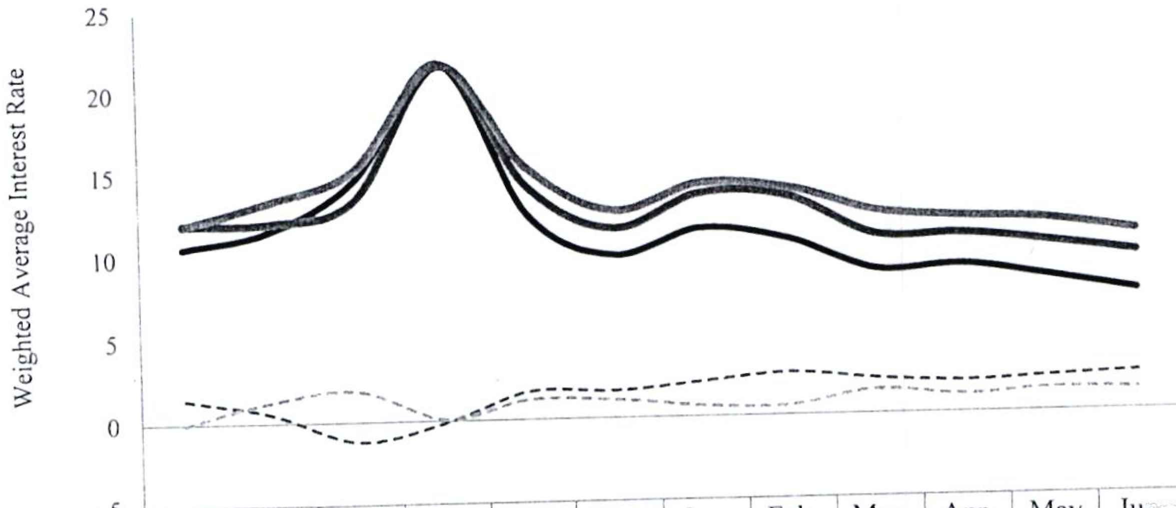
[3] This bond was reissued on tap on 3-Nov-14, 10-Nov-14 and 17-Nov-14. The bond will be amortized on 22-Oct-18, 17-Oct-22 and 12-Oct-26

[4] This bond was reissued on tap on 13-Apr-15. The bond will be amortized on 22-Mar-21, 18-Mar-24 and 15-Mar-27

## 2.9 Average Interest Rates on Treasury Bills

Figure 2-9 shows that the average interest rate for the 91-day, 182-day and 364-day Treasury bills declined by 110 basis points, 210 basis points and 30 basis points to 7.06 per cent, 9.2 per cent and 10.7 per cent in June 2016 from 8.16 per cent, 11.3 per cent and 11.0 per cent in June 2015 respectively. The spike in interest rates in October 2015 was likely due to tight liquidity and placement of two banks in receivership.

**Figure 2-9: Treasury Bills Interest Rates**

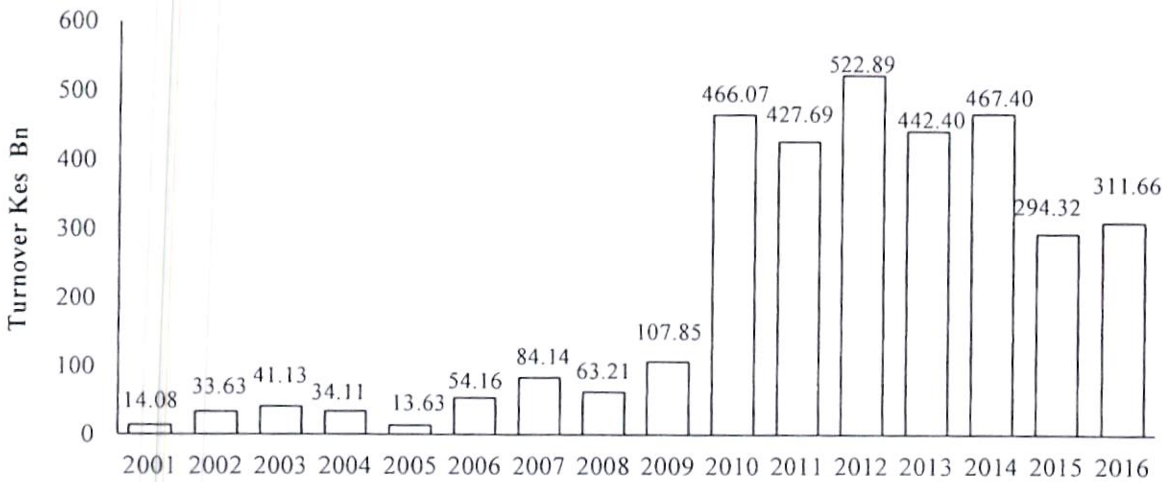



| | Jul-15 | Aug-15 | Sep-15 | Oct-15 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Ju 1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 91- Day | 10.56 | 11.53 | 14.61 | 21.65 | 12.33 | 9.809 | 11.35 | 10.63 | 8.719 | 8.920 | 8.151 | 7.250 |
| 182- Day | 11.98 | 12.05 | 13.39 | 21.51 | 14.01 | 11.42 | 13.45 | 13.18 | 10.83 | 10.79 | 10.24 | 9.558 |
| 364-Day | 11.93 | 13.31 | 15.24 | 21.61 | 15.19 | 12.50 | 14.07 | 13.74 | 12.25 | 11.83 | 11.60 | 10.84 |
| Spread 91&182 | 1.423 | 0.518 | -1.21 | -0.13 | 1.684 | 1.618 | 2.097 | 2.558 | 2.111 | 1.878 | 2.094 | 2.308 |
| Spread 182&364 | -0.05 | 1.258 | 1.848 | 0.092 | 1.177 | 1.073 | 0.622 | 0.554 | 1.425 | 1.039 | 1.358 | 1.283 |

## 2.10 Government Securities Trading

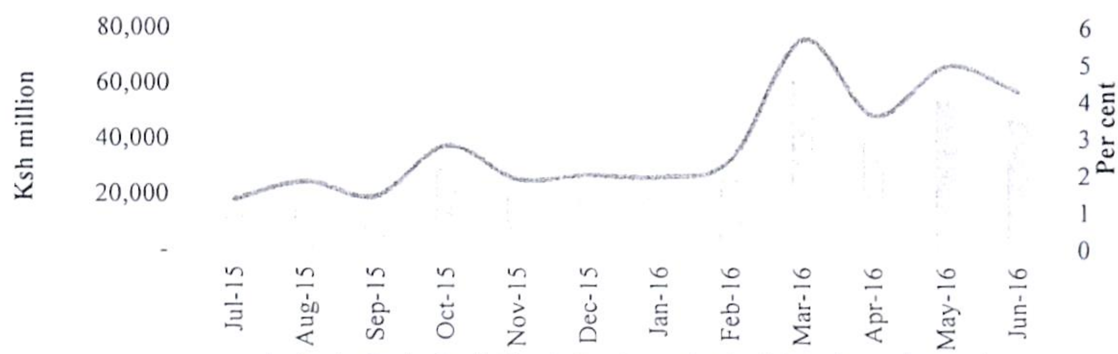
As shown figure 2-10, trading of Government bonds has increased significantly since 2010 as a result of various initiatives to improve secondary market activity for bonds. Turnover was Ksh 311, 660 million in 2016 compared to Ksh 294, 320 million in 2015.

**Figure 2-10: Trend of Treasury Bonds Trading Turnover**




There was improved trading activity during the last quarter of the financial year 2015/2016. (Figure 2-11).

**Figure 2-11: Treasury Bonds Trading, FY 2015 - 2016**

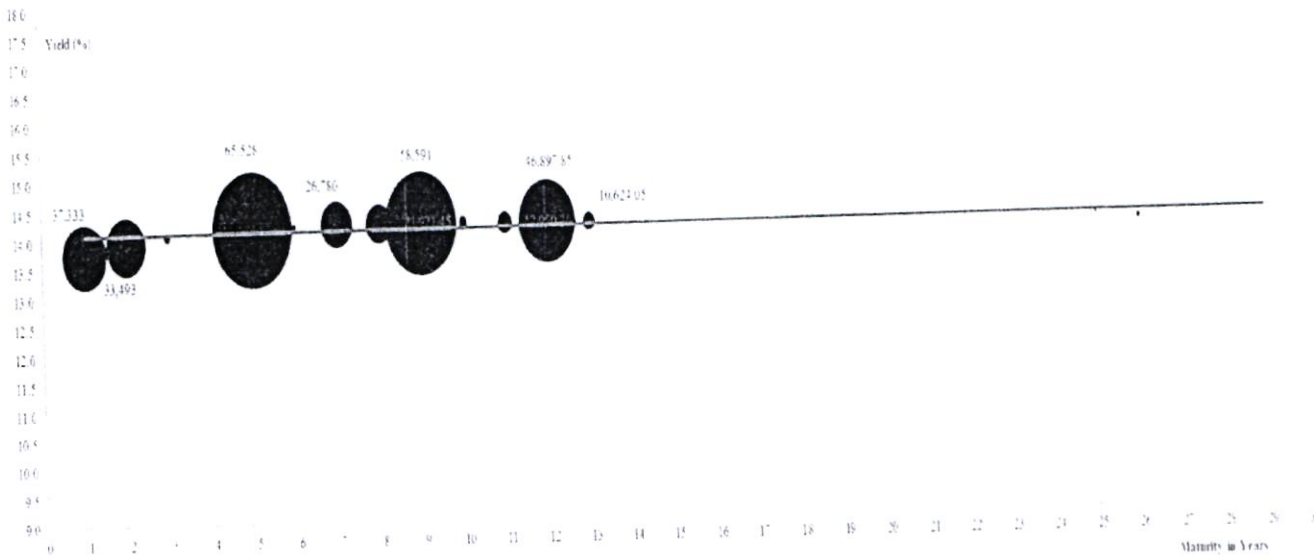



| | Jul-15 | Aug-15 | Sep-15 | Oct-15 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Turnover (Ksh Mn) | 12,2 | 18,9 | 14,9 | 29,1 | 19,7 | 20,8 | 20,2 | 25,1 | 61,6 | 39,7 | 54,4 | 46,9 |
| Turnover as % of Tradable Stock | 1.35 | 1.83 | 1.44 | 2.80 | 1.90 | 2.01 | 1.95 | 2.43 | 5.69 | 3.63 | 4.98 | 4.30 |

Source: Central Bank of Kenya

Figure 2-12 shows that trading activity was concentrated in the medium to long segments of the yield curve with the bulk of it in benchmark maturities of 5 and 10 years. Active trading is also depicted at the 12 year maturity which represents infrastructure bonds. This outcome is a reflection of positive gains from effective implementation of the benchmark bonds and Infrastructure bonds programs.

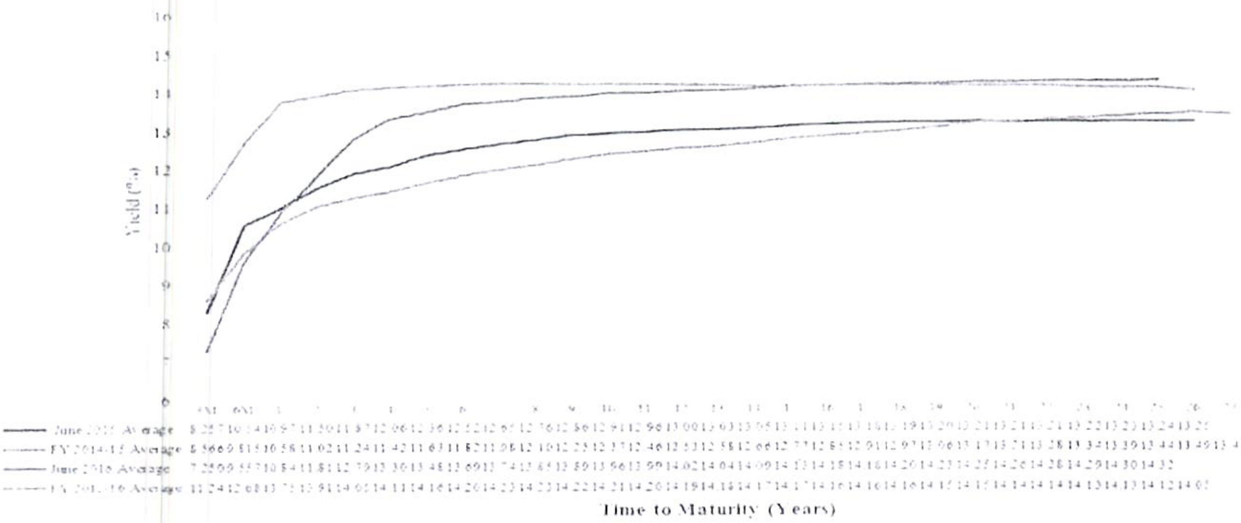
**Figure 2-12: Bond Trading along the 2015- 2016 Average Yield Curve (Ksh Million)**




## 2.11 Government Securities Yield Curve

Based on the average financial year yields, the Government securities yield curve shifted upwards in 2015/2016 from the position in 2014/2015, with a larger spread on the short segment than the long end, and reflecting stability in the market (Figure 2-13). The shape of the yield curve was in line with trends in inflation during the year which reflected on the confidence and certainty of the market.

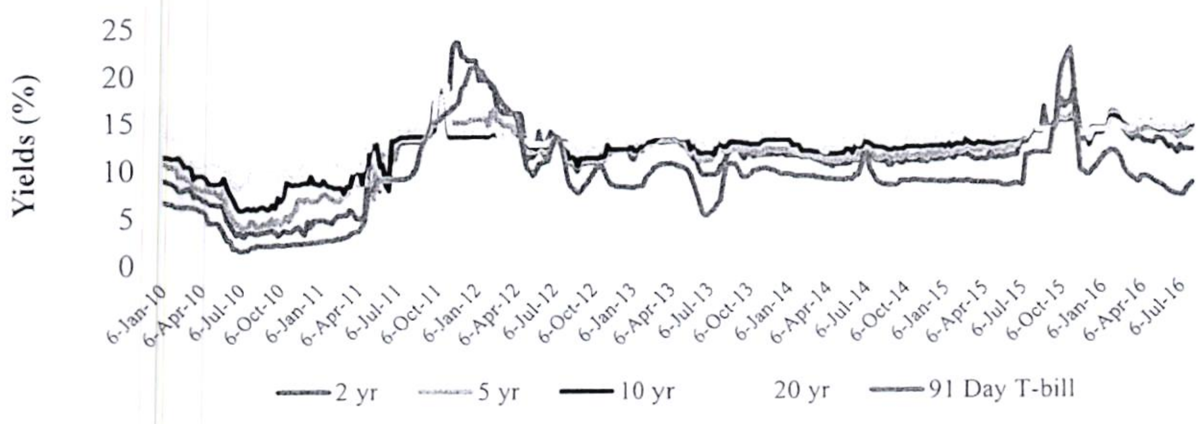
**Figure 2-13: Government of Kenya Securities Yield Curve, June 2016**




Source: Central Bank of Kenya

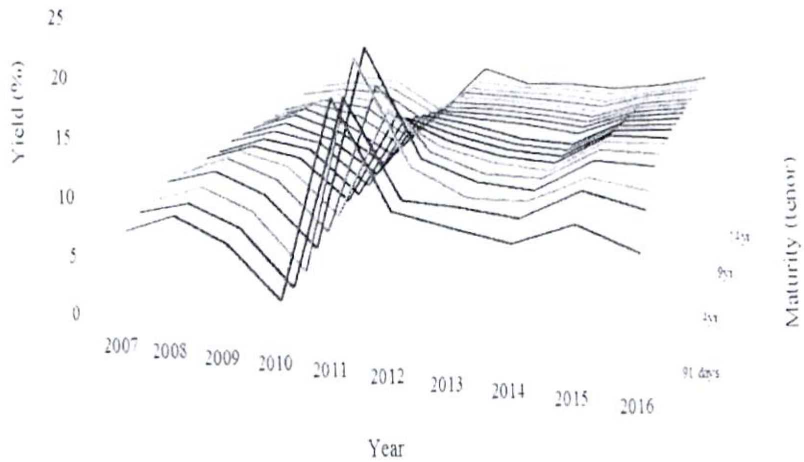
Increased issuance of benchmark tenors and reopening of bonds has attempted to address fragmentation problem, increased turnover in the secondary market, lowered interest rates, firmed up the yield curve and also minimized issuance costs as a result of narrow bond yield spreads in the secondary market (Figure 2-14). In addition, there have been enhanced subscriptions in primary market auctions and improved market confidence. With a well-defined, stable and reliable yield curve, all issuers stand to gain in terms of pricing new issues.

**Figure 2-14: Evolution of Kenya Government Benchmark Bond Yields**




Before 2007, Kenya's bond market was characterized by many small bonds of similar and/or different maturities scattered along the yield curve. This bond fragmentation phenomenon led to an illiquid secondary market (Figure 2-15), reflected by infrequent trades and wide spreads on the yields. The net result was an unstable and unreliable yield curve, with most investors pursuing buy-hold rather than buy-trade strategies due to lack of reliable pricing mechanism. To develop a robust domestic bond market, it is important to have a reliable yield curve as a pricing tool and the bond index as portfolio valuation tool. Bond market fragmentation discourages the development of the yield curve and bond index.

**Figure 2-15: Evolution of Kenya Government Bond Yield Curve**




Increased issuance of benchmark tenors and reopening of bonds has attempted to address the fragmentation problem, increased turnover in the secondary market (Figure 2-10), lowered interest rates, firmed up the yield curve (Figures 2-13, 2-14 and 2-15) and also minimized issuance costs as a result of narrow bond yield spreads in the secondary market (Figure 2-14). In addition, there have been enhanced subscriptions in primary market auctions and improved market confidence. With a well-defined, stable and reliable yield curve, all issuers stand to gain in terms of pricing new issues.

## 2.12 Interest Payments on Domestic Debt

Interest and other charges on domestic debt increased to Ksh 172,857 million by June 2016 from Ksh 139,727 million by June 2015 (Table 2-7) as a result of increase in domestic debt stock. As a proportion of total domestic debt service by end of June 2016, interest on Treasury bills and bonds accounted for 21.7 per cent and 73.8 per cent respectively. There was minimal change in the ratios of domestic interest payment to domestic revenue and expenditure during the period under review.

**Table 2-7: Interest Payments on Domestic Debt (Ksh Million)**

| Type of Debt | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|
| **Treasury Bills** | 11,055 | 19,505 | 26,897 | 24,714 | 37,491 |
| **Treasury Bonds** | 64,620 | 82,560 | 85,758 | 108,948 | 127,496 |
| **CBK Commission** | 3,000 | 3,000 | 3,106 | 3,000 | 3,000 |
| **Pre - 1997 Debt** | 0 | 1,698 | 1,138 | 825 | 794 |
| **Others (Overdraft)** | 3,664 | 3,421 | 2,301 | 2,240 | 4,077 |
| Total | **82,339** | **110,184** | **119,200** | **139,727** | **172,857** |
| Ratios (Per cent) | | | | | |
| **Domestic Interest/Revenue** | 11.9 | 12.7 | 13 | 13.5 | 14.9 |
| **Domestic Interest/Expenditure** | 8.7 | 9.2 | 9.2 | 8.5 | 9.7 |
| **Domestic Interest/GDP** | 2.1 | 2.5 | 2.4 | 2.4 | 2.6 |
| **Domestic Interest/Total Interest** | 91.8 | 90.9 | 88.4 | 80.7 | 80.2 |

Source: National Treasury

CHAPTER THREE

# EXTERNAL DEBT

## 3.1 Total External Debt

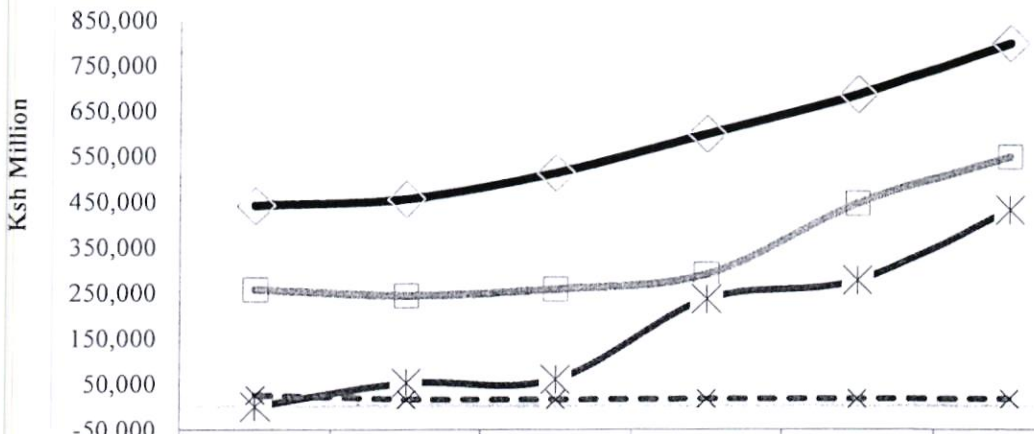
Public and publicly guaranteed (PPG) external debt stock has continued to rise over the last five years, increasing to Ksh 1,796,198 million in June 2016 from Ksh 1, 423,252 million in June 2015, a rise of 26.2 per cent (Table 3.1 and Figure 3-1). The increase was attributed to disbursements from commercial syndicated loans, multilateral and bilateral creditors as well as foreign exchange rate movements. Guaranteed external debt increased to 3.4 per cent of total external debt as at June 2016 from 3.1 per cent at end June 2015.

**Table 3-1: External Debt by Creditor Type (Ksh Million)**

| Creditor type | Jun-2012 | Jun-2013 | Jun-2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|
| **Bilateral** | 199,950 | 217,970 | 248,636 | 405,562 | 491,864 |
| **Multilateral** | 451,287 | 507,920 | 593,397 | 680,192 | 794,797 |
| **Commercial Banks** | 50,540 | 58,928 | 234,799 | 276,937 | 432,377 |
| **Suppliers Credits** | 14,811 | 15,207 | 16,452 | 16,628 | 16,628 |
| **Sub-Total** | **716,588** | **800,025** | **1,093,284** | **1,379,319** | **1,735,667** |
| | | | *Memorandum item (guaranteed debt )* | | |
| **Bilateral** | 43,593 | 39,667 | 41,278 | 39,495 | 56,487 |
| **Multilateral** | 3,791 | 3,870 | 3,943 | 4,439 | 4,044 |
| **Sub-Total** | **47,383** | **43,537** | **45,221** | **43,934** | **60,531** |
| **Total External (including public guaranteed debt)** | **763,971** | **843,562** | **1,138,505** | **1,423,252** | **1,796,198** |

Source: National Treasury

**Figure 3-1: Public and Publicly Guaranteed External Debt by Creditor Type (Ksh Million)**




| | Jun-11 | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16* |
|---|---|---|---|---|---|---|
| Multilateral | 440,882 | 455,077 | 511,790 | 597,340 | 684,631 | 798,842 |
| Bilateral | 256,965 | 243,543 | 257,637 | 289,914 | 445,056 | 548,351 |
| Commercial Banks | - | 50,540 | 58,928 | 234,799 | 276,937 | 432,377 |
| Suppliers Credits | 25,041 | 14,811 | 15,207 | 16,452 | 16,628 | 16,628 |

Source: National Treasury

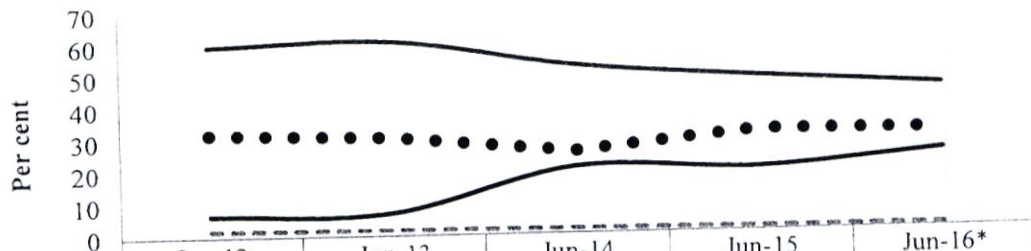
## 3.2 Structure of Public and Publicly Guaranteed External Debt

### 3.2.1 Classification by Creditor Category

As shown in Figure 3-2, the share of multilateral and bilateral creditors decreased from 59.6 per cent and 31.9 per cent as at end June 2012 to 44.5 per cent and 30.5 per cent as at end June 2016 respectively. Debt owed to suppliers' credit ranged between 1.9 per cent in June 2012 and 0.9 per cent in June 2016.

The proportion of debt owed to commercial creditors increased to 24.1 per cent in June 2016 from 6.6 per cent in June 2012. The increase is attributed to issuance of the International Sovereign Bond and contracting of syndicated loans.

**Figure 3-2: PPG External Debt by Creditor Category**



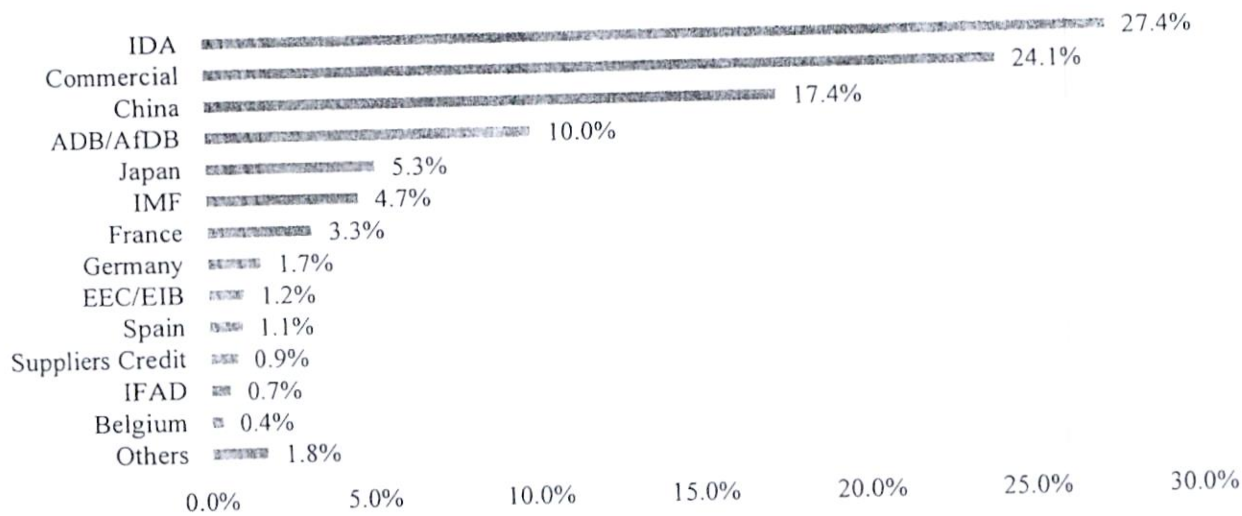

| | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16* |
|---|---|---|---|---|---|
| Multilateral | 59.6 | 60.7 | 52.5 | 48.1 | 44.5 |
| Bilateral | 31.9 | 30.5 | 25.5 | 31.2 | 30.5 |
| Commercial Banks | 6.6 | 7.0 | 20.6 | 19.5 | 24.1 |
| Suppliers Credits | 1.9 | 1.8 | 1.4 | 1.2 | 0.9 |

Source: National Treasury

### 3.2.2 Classification by Major Creditors

As at June 2016, the World Bank (IDA), commercial lenders and China were the main creditors at 27.4 per cent, 24.1 per cent and 17.4 per cent respectively. AfDB/ADF, Japan, France and IMF were among other major multilateral and bilateral creditors (Figure 3-3).

**Figure 3-3: PPG External Debt by Major Creditors**




**Source: National Treasury**

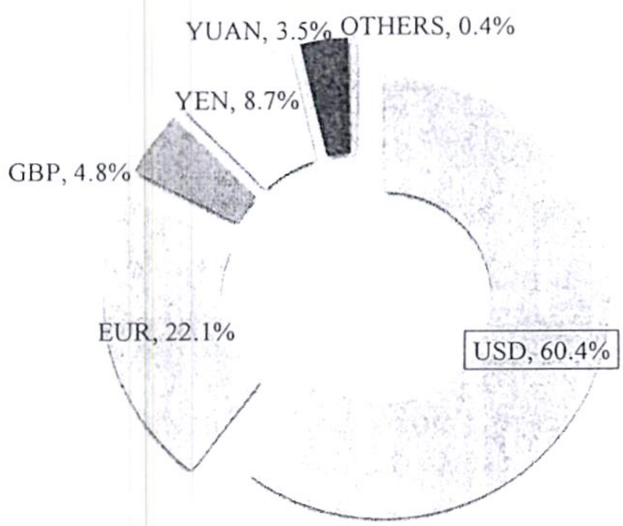
### 3.2.3 Classification by Currency Structure

As at end of June 2016, the currency composition of the external debt stock mainly comprised the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and Chinese Yuan. The USD, Euro, Japanese Yen, GBP, and Chinese Yuan accounted for 60.4

per cent, 22.1 per cent, 8.7 per cent, 4.8 per cent and 3.5 per cent respectively while other currencies accounted for 0.4 per cent of the portfolio (Figure 3 4).

The currency mix reflects source of funding but not an outcome of a deliberate debt management strategy. A diversified currency mix mitigates against exchange rate risks on external debt.

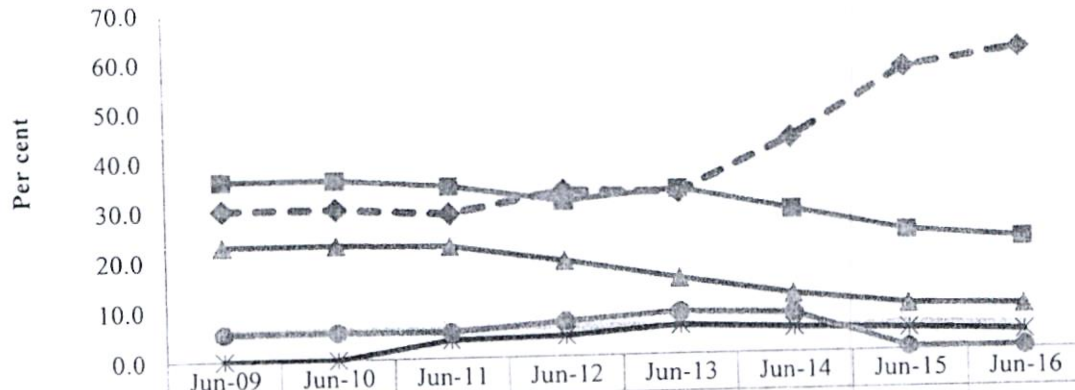
**Figure 3-4: Composition of External Debt, end June 2016**




Source: National Treasury

As shown in Figure 3-5, the dominant currency in 2010 was the Euro at 35.9 per cent while the USD dominated in 2016 at 60.4 per cent due to various USD denominated loans contracted during the period.

**Figure 3-5: Trends in Currency Composition of External Debt**

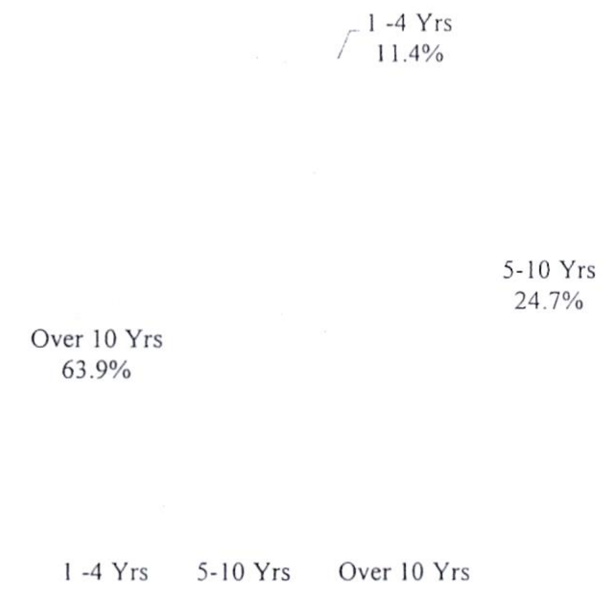



| | Jun-09 | Jun-10 | Jun-11 | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|---|---|---|
| US Dollar | 30.0 | 30.0 | 28.8 | 33.0 | 32.3 | 42.8 | 56.7 | 60.4 |
| Euro | 35.9 | 35.9 | 34.4 | 31.0 | 33.0 | 28.5 | 23.9 | 22.1 |
| Yen | 22.8 | 22.8 | 22.3 | 19.0 | 15.1 | 11.5 | 9.2 | 8.7 |
| Sterling Pound | 5.9 | 5.9 | 5.7 | 6.0 | 5.5 | 4.7 | 5.4 | 4.8 |
| Yuan | | 0 | 3.6 | 4.0 | 5.7 | 4.8 | 4.3 | 3.5 |
| Others | 5.4 | 5.4 | 5.2 | 7.0 | 8.4 | 7.7 | 0.5 | 0.4 |

### 3.3 Maturity Structure

The country's external debt is largely long term. By end of June 2016, over 63 per cent of the debt has maturity longer than 10 years with only 11.4 per cent maturing within 4 years (Figure 3-6). However, Table 3-2 shows that the external debt with maturity of more than 10 years has been declining while category of debt between 1-10 years has been rising, indicating hardening of average external debt terms. Longer average term-to-maturity of loans allows the government more time to repay its obligations.

**Figure 3-6: Outstanding External Debt by Maturity Structure, end June 2016**




Source: National Treasury

**Table 3-2: Outstanding External Debt by Maturity Structure**

| Remaining Maturity | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 |
|---|---|---|---|---|---|
| 1 -4 years | 6.6 | 7.9 | 14.7 | 8.2 | 11.4 |
| 5-10 years | 15.8 | 16.9 | 22.9 | 25.5 | 24.7 |
| Over 10 years | 77.6 | 75.3 | 62.4 | 66.3 | 63.9 |

Source: National Treasury

### 3.3.1 Average Terms of New External Loan Commitments

Average maturity is one of the measures of refinancing risk. As at the end of June 2016, the average maturity, grace period and average interest rate on new external loan commitments were 20.3 years, 6.2 years and 2.6 per cent respectively (Table 3 3). Overall, these are favourable borrowing terms in line with the Government's external debt strategy of contracting loans on highly concessional or "soft" terms.

**Table 3-3: Average Terms of New External Loan Commitments**

| Terms | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|
| **Average Maturity (years)** | 26.3 | 33.7 | 18.1 | 21.0 | 20.3 |
| **Grace Period (years)** | 6.2 | 8.0 | 6.2 | 6.4 | 6.2 |
| **Average Interest Rate (%)** | 0.8 | 1.2 | 2.6 | 2.5 | 2.6 |

### 3.4 External Debt Service

The total principal and interest payments on public external debt decreased to Ksh 78,583 million by end June 2016 from Ksh 113,544 million by end June 2015 (or 30.8 per cent decrease), on account of repayment of the US Dollar 600 million (Ksh 53 billion) syndicated loan during the period under review (Table 3 4). Commitment fees paid on undisbursed loans was Ksh 3, 137.9 million during FY 2015/2016.

**Table 3-4: External Debt Service Payments by Creditor Category (Ksh million)**

| Creditor | | June 2012 | June 2013 | June 2014 | June 2015 | June 2016 | June 2016 (%) |
|---|---|---|---|---|---|---|---|
| Multilateral | Principal | 12,560 | 12,210 | 11,550 | 13,349 | 15,424 | 19.6 |
| | Interest | 3,781 | 3,702 | 5,580 | 4,881 | 5,641 | 7.2 |
| | **Sub Total** | **16,341** | **15,912** | **17,130** | **18,230** | **21,065** | **26.8** |
| Bilateral | Principal | 11,394 | 11,783 | 13,419 | 13,097 | 19,789 | 25.2 |
| | Interest | 3,570 | 5,012 | 6,640 | 10,574 | 15,270 | 19.4 |
| | **Sub Total** | **14,964** | **16,795** | **20,059** | **23,671** | **35,059** | **44.6** |
| Commercial | Principal | 0 | 0 | 831 | 53,768 | 802 | 1.0 |
| | Interest | 0 | 2.337 | 3.380 | 17.875 | 21.657 | 27.6 |
| | **Sub Total** | **0** | **2,337** | **4,211** | **71,643** | **22,460** | **28.6** |
| Grand Total | Principal | 23,954 | 23,993 | 25,800 | 80,214 | 36,015 | 45.8 |
| | Interest | 7,351 | 11,051 | 15,600 | 33,330 | 42,568 | 54.2 |
| | **Total** | **31,305** | **35,044** | **41,400** | **113,544** | **78,583** | **100.0** |
| *Percentage Distribution* | | | | | | | |
| Multilateral | | 52.2% | 45.4% | 41.4% | 16.1% | 26.8% | |
| Bilateral | | 47.8% | 47.9% | 48.5% | 20.8% | 44.6% | |
| Commercial | | 0.0% | 6.7% | 10.2% | 63.1% | 28.6% | |
| Total | | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |

Source: National Treasury

### 3.5 External Loans Disbursements

As at end June 2016, total disbursements on external project loans and A-I-A grew by 2.8 per cent to Ksh 305,000 million from Ksh 296, 572 million in June 2015 (Table 3-5).

**Table 3-5: External Loans Disbursements (Ksh million)**

| Type of disbursement | June 2012 | | June 2013 | | June 2014 | | June 2015 | | June 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ksh M | % | Ksh M | % | Ksh M | % | Ksh M | % | Ksh M | % |
| Project Cash Loans | 19,343 | 27.3 | 23,569 | 27.3 | 28,432 | 21.6 | 3,454 | 1.2 | 8,600 | 2.8 |
| Project A-I-A | 51,393 | 72.7 | 62,622 | 72.7 | 68,420 | 52.0 | 218,159 | 73.6 | 151,400 | 49.6 |
| Commercial Financing | 0 | 0.0 | 0 | 0.0 | 34,600 | 26.3 | 74,961 | 25.3 | 145,000 | 47.5 |
| Total | 70,736 | 100 | 86,191 | 100 | 131,452 | 100 | 296,574 | 100 | 305,000 | 100.0 |

Source: National Treasury

CHAPTER FOUR

# ON-LENT LOANS

## 4.1 Introduction

On-lending is an arrangement where the National Government through the National Treasury contracts loans from external or domestic sources and in turn lends to public enterprises. This arrangement is guided by the following considerations:

i ) The public enterprise has a strategic role;

ii ) The public enterprise has a weak balance sheet and cannot attract competitive funding ; and

iii ) A public enterprise is undertaking a social welfare project that would be more efficiently executed on behalf of the Government.

## 4.2 Stock of On-Lent Loans

The outstanding on-lent loans increased by Ksh 375,396 million to Ksh 572,249 million by end June 2016 from Ksh 196,853 million by end June 2015 (190.7 per cent rise). This increase is attributed to new on-lent loans to transport, energy, roads and water sectors where Ksh 359,597 million accounted for Standard Gauge Railway (SGR) and to revive the airline industry (Table 4-1).

**Table 4-1: Stock of On-Lent Loans in (Ksh million)**

| Sector | June 2014 | June 2015 | June 2016 |
|---|---|---|---|
| **Education** | 11,088.9 | 11,088.9 | 11,107.6 |
| **Finance** | 2,110.2 | 1,088.4 | 1,235.9 |
| **Water and Irrigation** | 40,131.4 | 49,387.6 | 56,250.5 |
| **Tourism** | 181.0 | 181.0 | 181.0 |
| **Energy and Petroleum** | 107,211.0 | 114,053.4 | 123,132.5 |
| **Transport and Infrastructure** | 3,779.0 | 3,582.5 | 363,179.0 |
| **Planning and Devolution** | 8,757.0 | 8,757.0 | 8,757.0 |
| **Agriculture , Livestock and Fisheries** | 7,561.5 | 7,267.1 | 7,241.1 |
| **Trade and Industry** | 461.0 | 453.9 | 453.9 |
| **Cooperative** | 6.3 | 993.3 | 729.1 |
| Total | **181,287.3** | **196,853.1** | **572,248.8** |

Source: National Treasury

### 4.3 On-Lent Loans (including Arrears)

The outstanding total on-lent loan portfolio by end June 2016 was Ksh 609,883 million of which stock, principal arrears and accrued interest accounted for Ksh 572,249 million, Ksh 24,631 million and Ksh 13,004 million, respectively (Table 4-2).

**Table 4-2: On-Lent Loans (including Arrears) as at June 2016 (Ksh million)**

| Ministry/Sector | Outstanding loans | Principal Arrears | Accrued interest | Total |
|---|---|---|---|---|
| **Education** | 11,107.60 | 32.1 | 118.8 | 11,258.50 |
| **Finance** | 1,235.90 | 2.7 | 127.5 | 1,366.10 |
| **Water & Irrigation** | 56,250.50 | 4,425.00 | 2,719.60 | 63,395.10 |
| **Tourism** | 181 | 556.4 | 134 | 871.4 |
| **Energy & Petroleum** | 123,132.50 | - | - | 123,132.50 |
| **Transport and Infrastructure** | 363,179.00 | 115.9 | 96.7 | 363,391.60 |
| **Planning & Devolution** | 8,757.00 | 10,715.60 | 4,843.80 | 24,316.40 |
| **Agriculture , Livestock & Fisheries** | 7,241.10 | 8,608.30 | 4,559.50 | 20,409.00 |
| **Trade and Industry** | 453.9 | 1.2 | 1.3 | 456.4 |
| **Cooperative** | 729.1 | 173.3 | 402.5 | 1,304.90 |
| Total | **572,248.80** | **24,630.60** | **13,003.70** | **609,883.00** |

Source: The National Treasury

Table 4-2 shows that arrears on on-lent loans (with accrued interest) had accumulated to Ksh 37, 634 million by end June 2016. To promote efficient management of costs and risks of government debt, reduce non-payment of on-lent loans and ensure debt sustainability, the government will support a strong institutional framework.

### 4.4 Receipts from On-Lent Loans

The total receipts by Government from on-lent loans amounted to Ksh 4,990 million during FY2015/16, out of which Ksh 2,306 million was principal and Ksh 2,683 million was interest (Table 4-3).

**Table 4-3: Receipts from On-Lent Loans, by End June 2016 (Ksh million)**

| Organization | Principal Receipts | Interest receipts | Total |
|---|---|---|---|
| Agricultural Settlement Fund | 0.1 | 0.0 | 0.07 |
| Agro-Chemical &Food Co. Ltd | 0.0 | 150.0 | 150.00 |
| AFC | 26.0 | 0.0 | 26.00 |
| Athi Water Services Board | 140.6 | 51.7 | 192.34 |
| Co-operative Bank of Kenya | 263.9 | 46.7 | 310.59 |
| Equity Bank Ltd. | 71.0 | 23.4 | 94.41 |
| K-Rep Bank | 62.5 | 6.4 | 68.87 |
| KenGen | 756.0 | 1355.2 | 2,111.24 |
| Kenya Power | 1010.5 | 317.9 | 1,328.36 |
| Kenya Airport Authority | 200.2 | 123.7 | 323.92 |
| Kenya Civil Aviation Authority | 96.7 | 156.1 | 252.81 |
| Nyeri Water Services Board | 50.4 | 21.1 | 71.53 |
| Lake Victoria South Water Board | 0.0 | 0.0 | 0.00 |
| Rift Valley Water Services Board | 5.0 | 17.1 | 22.14 |
| Tanathi Water Services Board | 0.0 | 0.0 | 0.00 |
| Meru Central Farmers Union | 0.3 | 0.0 | 0.30 |
| ICDC | 0 | 37 | 37.00 |
| Total | **2,683.19** | **2,306.39** | **4,989.58** |

CHAPTER FIVE

# FISCAL COMMITMENTS, CONTINGENT LIABILITIES AND PUBLICLY GUARANTEED DEBT

## 5.1 Fiscal Commitments and Contingent Liabilities

### 5.1.1 Recognizing Potential Fiscal Risks

Increased demand for quality and affordable services from citizens in transport, water and sewerage, health and energy has led to the Government to look for alternative sources of financing which does not directly impact on Kenya's debt portfolio and associated risks. To this end, Kenya has seen the growth of private sector financing public investments through the Private Public Partnership (PPP) initiatives.

The PPP model has facilitated public investments funded by the private sector in the area power generation and provision of medical equipment services in public hospitals (Table 5 1). In the pipeline, are projects in roads, water and education sectors to be funded through the PPP initiatives.

**Table 5-1: Public Private Partnership (PPP) Projects and termination terms – Kenya**

| No. | Project Name | Project Description | Project Values ($million) | Amount for Termination Payment (default by GoK) | Obligation for fixed Capacity Payments(Annual) |
|---|---|---|---|---|---|
| 1. | Africa Geothermal International 140 MW | 25-year Power Purchase Agreement on a Build, Own, and Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya. | 760 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination.<br>• Net Present Value of 5 Years profits at 10% discount rate | US$ 77.3 million |
| 2. | Lake Turkana Wind Power – 300 MW | The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit County, on a 20- | 847 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination | Deemed Generated Energy Payments Euros 110.4 million |

| No. | Project Name | Project Description | Project Values ($million) | Amount for Termination Payment (default by GoK) | Obligation for fixed Capacity Payments(Annual) |
|---|---|---|---|---|---|
| | | year PPA with Kenya Power. | | • Net Present Value of 5 Years profits at 10% discount rate. | |
| 3. | Gulf Power - 80.32 MW | The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC. | 108 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination.<br>• Net Present Value of 5 Years profits at 10% discount rate. | Euros 16.3 million |
| 4. | Triumph Power - 82MW | The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20- year PPA with KPLC. | 156.5 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination.<br>• Net Present Value of 5 Years profits at 10% discount rate. | US$ 24.5 million |
| 5. | Thika Power – 87 MW | The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in Thika, on a 20-year PPA with KPLC. | 146 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination.<br>• Net Present Value of 5 Years profits at 10% discount rate. | Euros 17.1 million |
| 6. | Kinangop wind Power – 60.8 MW | The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20- | 150 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination. | Deemed Energy Payment US$ 26.8 million |

| No. | Project Name | Project Description | Project Values ($million) | Amount for Termination Payment (default by GoK) | Obligation for fixed Capacity Payments(Annual) |
|---|---|---|---|---|---|
| | | year PPA with KPLC. | | • Net Present Value of 5 Years profits at 10% discount rate. | |
| 7. | Orpower Olkaria III Geothermal Power Plant – 129 mw (1st Plant 48MW, 2nd Plant 36MW, 3rd Plant 16MW), and 4th Plant 29MW) | Description: 20 year - BOO | 558 | • Total Project Cost depreciated at 5% per annum.<br>• Expenses incurred by the Seller as a result of termination.<br>• Losses incurred by the seller | US$ 70.98 million |
| 8. | Rabai Power Plant- 90MW | 20 year - BOO | 155 | Net Present Value of Non-Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum | Euros 19.7 million |
| 9. | Mumias Bagasse Cogeneration Power Plant – 35MW | 10 Years-BOO | 50 | None | US$ 5.3 million |
| 10. | Kipevu III-120MW | Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20- year period | 134 | None | Ksh 2,209 million |
| 11. | Kipevu II Power plant - 74 MW | Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO | 85 | • Net Present Value of Non-escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum. | US$9.62 million |

| No. | Project Name | Project Description | Project Values (Smillion) | Amount for Termination Payment (default by GoK) | Obligation for fixed Capacity Payments(Annual) |
|---|---|---|---|---|---|
| | | basis a 20-year period | | • Expenses incurred by the Seller as a result of termination.<br>• The value of the stock of fuel and other consumables and spare parts at the Plant | |
| 12. | Imenti tea Factory Limited 0.28 MW | Feed in Tariff Power Plant on a BOO basis | | None | None |
| 13. | Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW | Feed in Tariff Power Plant on a BOO basis | | None | None |
| 14. | Rift Valley Railways | Provision for the concession of Kenya- Uganda railway freight and passenger services | 389 | The lesser of:<br>1. Concession Fees for the previous 2 years<br>2. US$ 10 Million | None |
| 15 | Kenyatta university student Hostel | Development of students Hostels to accommodate 6,000 students The private party will design, build and operate the hostels for a minimum period of 25 years. | 525 | GOK Letter of Support covering political risk events:<br>• Total cost of the project depreciated at 5% p.a,<br>• NPV of 5 years profits at 10% discount rate,<br>• 100% occupancy guarantee provided by the KU | None |

Source: National Treasury, 2017 Budget Policy Statement

Challenges have, however, emerged from the international arena that Kenya is no exceptional with regard to fiscal risks inherent with the PPP initiatives. These implicit financial obligations are not captured in financial debt statistics or accounting protocols until they crystalize. The obligations have proven to be potent fiscal risks due to their off-balance sheet nature. Their occurrence can trigger a substantial funding call on government financial resources thereby undermining the implementation of government projects as approve by Parliament.

## 5.2 Publicly Guaranteed Debt

Publicly guaranteed debt, refers to the debt owed by National Government public entities and County Governments to both foreign and local creditors but guaranteed by national government. The debts may be denominated in domestic or foreign currency.

### 5.2.1 Stock of Publicly Guaranteed Debt

As shown in Table 5-2 the total outstanding Government guaranteed debt increased by Ksh 16,597 million to Ksh 60,530 million by June 2016 from Ksh 43,933 million by end June 2015. This increase is mainly attributed to disbursements of Ksh. 8,170 million and Ksh 6,243 million from Germany and Japan for projects under KenGen and Kenya Ports Authority respectively.

Table 5-2: Stock of Publicly Guaranteed Debt by June 2016 (Ksh Million)

| Agency | Year | Purpose of the loan | Creditor | Jun-13 | Jun-14 |
|---|---|---|---|---|---|
| **Nairobi City County** | 1985 | Umoja II Housing Project | USA | 146 | 75 |
| **Kenya Broadcasting Corporation** | 1989 | KBC Modernization Project | Japan | 3,934 | 3,584 |
| **Telkom Kenya Ltd** | 1990 | Purchase of Microwave Telephone System | Canada | 353 | 351 |
| **Tana and Athi River Development Authority** | 1990 | Tana Delta Irrigation Project | Japan | 1,791 | 1,526 |
| **East African Portland Cement** | 1990 | Cement Plant Rehabilitation Project | Japan | 2,226 | 1,896 |
| **KenGen Ltd** | 1995 | Mombasa Diesel Generating Power Project | Japan | 4,442 | 4,048 |
| | 1997 | Sondu Miriu Hydropower Project | Japan | 4,268 | 3,950 |
| | 2004 | Sondu Miriu Hydropower Project II | Japan | 9,186 | 8,981 |
| | 2007 | Sondu Miriu Hydropower Project – Sang'oro Power Plant | Japan | 3,671 | 3,660 |

| Agency | Year | Purpose of the loan | Creditor | Jun-13 | Jun-14 |
|---|---|---|---|---|---|
| | 2010 | Olkaria Unit 4 and 5 Geothermal Power Project | Japan | 42 | 42 |
| | 2010 | Rehabilitation and Expansion of the Hydropower Plant Kindaruma | Germany | | |
| | 2011 | Rehabilitation and Upgrade of the Geothermal Plant Olkaria | Germany | | |
| **Kenya Ports Authority** | 2007 | Mombasa Port Modernization Project | Japan | 9,608 | 13,167 |
| **Kenya Railways** | 2008 | Kenya Railways Concessioning | IDA | 3,870 | 3,943 |
| **Kenya Farmers Association** | 2005 | Revival of KFA | Local banks | Unutilized | Unutilized |
| **National Cereals & Produce Board (GSM-102)** | 2009 | Importation of maize under GSM-102 | USA | Unutilized | Unutilized |
| Total | | | | **43,537** | **45,221** |

Source: The National Treasury

### 5.2.2 Payments by the Government on Publicly Guaranteed Debt

During the FY 2015/16, Government paid Ksh 1,050 million as called up guaranteed debts owed by public enterprises who were in financial distress. As shown in Table 5-3, Tana and Athi River Development Authority (TARDA) and Kenya Broadcasting Corporation (KBC) accounts for 28.3 per cent and 71.7 per cent respectively of the payments made in 2015/16. The PFMA section 61 and the regulations to the PFMA section 201 require that any money paid by the National Treasury in respect of a guarantee shall be a debt to the National Government and is recoverable from the borrower whose loan was guaranteed.

**Table 5-2: Payments by the Government on Guaranteed Debt (Ksh million)**

| Year | Borrower | Quarter I | Quarter II | Quarter III | Quarter IV | Total |
|---|---|---|---|---|---|---|
| **2011/12** | CCN | 42.5 | - | - | - | 42.5 |
| | TARDA | 229.4 | - | - | 185.3 | 414.7 |
| | KBC | - | - | 504.2 | - | 504.2 |
| | Total | 271.9 | - | 504.2 | 185.3 | 961.4 |
| **2012/13** | CCN | 37.8 | - | 38.5 | - | 76.3 |
| | TARDA | 193.4 | - | 158.7 | - | 352.1 |
| | KBC | - | 461.8 | - | 400.4 | 862.2 |
| | Total | 231.2 | 461.8 | 197.2 | 400.4 | 1,290.6 |
| **2013/14** | CCN | - | 37.7 | 38.1 | - | 75.8 |
| | TARDA | 154.8 | - | 147.5 | - | 302.3 |
| | KBC | - | 360.7 | - | 373.8 | 734.5 |
| | Total | 154.8 | 398.4 | 185.6 | 373.8 | 1,112.6 |
| **2014/15** | CCN | 38.8 | - | 40.0 | - | 78.7 |
| | TARDA | 142.4 | - | 130.1 | - | 272.6 |
| | KBC | - | 324.7 | - | 338.9 | 663.6 |
| | Total | 181.2 | 324.7 | 170.1 | 338.9 | 1,014.9 |
| **2015/16** | CCN | - | - | - | - | - |
| | TARDA | 148.22 | - | 148.53 | - | **296.75** |
| | KBC | - | 355.75 | - | 397.72 | **753.47** |
| | **Total** | **148.22** | **355.75** | **148.53** | **397.72** | **1,050.22** |

Source: The National Treasury

# CHAPTER SIX

# DISPUTED EXTERNAL COMMERCIAL DEBT

## 6.1 Background

Kenya's disputed external commercial debt is estimated at Ksh 16,628 million or 1.2 per cent of total public debt at end June 2015. In August 2004, the Government suspended payments pending verification of the amount due on each of the eighteen (18) suppliers' credit contracts which constitutes external commercial debt. Soon after the suspension, the Controller and Auditor General undertook a special audit on eighteen (18) suppliers' credit contracts as follows:

1. Eleven (11) contracts that are in dispute;
2. Three (3) contracts though fully paid by the Government, relate to projects in dispute as under (1) above; and
3. Four (4) contracts in which the creditors voluntarily returned all funds paid by the Government.

In four (4) of the eleven (11) suppliers' credit contracts in dispute, the creditors sought legal re-dress in courts or arbitrations in UK, The Hague and Switzerland for breach of contract. In response, the Government engaged reputable and experienced international law firms to represent its interest.

In February 2005, the Ethics and Anti-Corruption Commission (EACC) began investigations on these contracts. Although some progress has been made, the pace has been slowed down by court orders that have prohibited EACC from carrying out investigations in some areas.

## 6.2 Audits on External Commercial Debts

The Controller and Auditor General's Special Audit Report was tabled in Parliament in May 2006. The findings indicated that procurement laws and regulations were violated in the contracting process, that the projects were overpriced and in most cases, no credit was extended by the creditors. The Report recommended that professional valuation of works, goods and services be carried out to determine value for money.

In January 2007, the National Treasury contracted PricewaterhouseCoopers (PwC) to conduct forensic audit and valuation. PwC submitted the forensic audit and valuation report on 31st July, 2007. The PwC Report established that those contracts were procured in an irregular manner and that the pricing, financing, and other terms of the contract do not reflect terms obtained on arm's length commercial transactions.

Specifically, the PwC Report cited:

i ) Significant overpricing
ii ) Serious contraventions of Kenya public expenditure law
iii ) Circumstantial evidence that these contracts were corruptly procured

iv ) Evidence of pre-financing (i.e. upfront payments) by the Government but paying interest on own funds.

v ) Under-delivery of supplies provided under the contracts

As a precautionary measure, the Government sought to eliminate financial risk exposure on Promissory Notes issued under seven (7) contracts. The Minister for Finance, in consultation with the Attorney General, issued a Caveat Emptor in December 2007 informing all parties that the underlying contracts were fraudulent and hence the Promissory Notes were illegal and the Government would not honor them. The Caveat Emptor was circulated to banks worldwide through Society for Worldwide Interbank Financial Telecommunication (SWIFT) and placed in the local dailies.

## 6.3 Government Position on Existing Commercial Debts

The Government is committed to resolving the dispute on the outstanding external commercial debts on the basis of fair value received by the Government on each contract as determined by independent valuers and based on legal advice. On the other hand, the Government will take legal measures to recover from the suppliers any payments over and above the fair value received. Four of the 11 contracts in dispute have been successfully resolved. Resolution of the remaining projects is on-going. To achieve this, there will be enhanced co-ordination by state organs including; State Law Office, Ethics and Anti-Corruption Commission, Directorate of Public Prosecutions and the National Treasury.

## 6.4 Lessons Learnt from External Commercial Debt

Some key lessons have been learnt on this matter referred to by the media as the "Anglo Leasing" scandal. First, weak institutional arrangement of public debt management undermined accountability and transparency in the contracting, disbursement and payment processing of external loans. To address this weakness, the Government has embarked on a comprehensive public debt management reform program to set up a fully functional Public Debt Management Office (PDMO) at the National Treasury responsible for all matters relating to public debt.

Second, inadequate public financial management system weakens budget formulation and implementation. This partly explains payment of suppliers' credit contracts against under-deliveries. Public Financial Management Reforms have been undertaken to strengthen the budget, accounting and control systems in National Government.

Third, weak legal framework on public procurement permitted single sourcing on account of national security concerns. Whereas restricted tendering system or single sourcing is not wrong per se, it can be subject to abuse in absence of robust framework of checks and balances. This matter has to a large extent been addressed in the Public Procurement and Disposal Act.

Finally, lack of formal debt policy and strategy that guides debt management operations created fiscal risk through high cost borrowing to finance non-priority expenditures. As a remedial measure, the National Government prepares an annual Medium Term Debt Strategy (MTDS) that indicates the preferred borrowing sources and levels to finance the budget deficit taking into account debt sustainability in terms of cost and risk. Specifically, external commercial borrowing will be contracted transparently from reputable financial institutions or through issuance of International Sovereign Bond as was done in June and December 2014.

## CHAPTER SEVEN

# PUBLIC DEBT STRATEGY AND DEBT SUSTAINABILITY

## 7.1 Public Debt Strategy

### 7.1.1 The Medium Term Debt Management Strategy

The Kenya Government through the National Treasury prepares the Medium Term Debt Management Strategy (MTDS) in line with section 33 of the Public Finance Management Act (PFMA). The Medium Term Debt Management Strategy (MTDS) is a useful public debt management tool that recognizes the cost and risk trade-offs in setting sustainable borrowing limits and ensuring that debt is serviced under a wide range of shocks without risk of default. The aim of the MTDS is to achieve the debt management objectives enshrined in the PFMA as (a) to minimize the cost of public debt management and borrowing over the long-term taking account of risk; (b) to promote the development of the market institutions for Government debt securities; and (c) to ensure the sharing of the benefits and costs of public debt between the current and future generations.

In FY 2015/2016, the Government's debt management strategy was to borrow 55 per cent of its financing needs from domestic sources focusing on medium term instruments and 45 per cent from external sources, composed of 28 per cent concessional, 11 per cent semi concessional and 6 per cent on commercial terms. This strategy was arrived at after considering alternatives as presented in Box 1 below.

**Box 1: FY 2015/16 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)**

**I. Alternative Borrowing Strategies**

The FY 2015/16 MTDS evaluated the following five (5) possible debt financing strategies (Table 7-1):

1. Strategy 1 (S1. FY 2014/15 MTDS) was the preferred strategy in 2014 and assumed 40% external mainly from concessional borrowing and 60% domestic financing. The concentration of issuance with 5 and 10 years maturities assumes an initiative to reduce cost of domestic debt associated with longer dated securities.
2. Strategy 2 (S2. FY 2015/16 MTDS, more concessional external borrowing) assumes 45% gross external financing and 55% gross domestic financing. Concentration on more concessional debt to reduce cost.
3. Strategy 3 (S3. Medium to long-term domestic borrowing) maximizes domestic borrowing assuming 60% of gross financing needs is from domestic sources, especially issuance of medium to long-term debt securities. 40% gross external financing needs would be met by the same sources.
4. Strategy 4 (S4. More domestic borrowing) assumes 35% gross external and 65% domestic financing. External borrowing from concessional and semi concessional creditors.
5. Strategy 5 (S5. Semi-concessional external financing). Under this strategy, domestic debt is 65% while external debt is 35% mainly from semi concessional sources.

**Table 7-1: Alternative Debt Management Strategies**

| Envisaged New debt | 2015/16 MTDS S1 | Concessional external debt S2 | More domestic debt S3 | Medium term domestic debt S4 | Semi-concessional external debt S5 |
|---|---|---|---|---|---|
| **Domestic** | 60% | 55% | 60% | 65% | 65% |
| 1-year | 9% | 6% | 5% | 5% | 10% |
| 2-year | 10% | 8% | 10% | 11% | 11% |
| 5-year | 14% | 13% | 14% | 15% | 15% |
| 10-year | 4% | 4% | 5% | 5% | 5% |
| 15-year | 15% | 13% | 14% | 15% | 14% |
| 20-year | 7% | 11% | 13% | 14% | 10% |
| **External** | 40% | 45% | 40% | 35% | 35% |
| Concessional | 26% | 28% | 21% | 19% | 8% |
| Semi-concessional | 8% | 11% | 13% | 9% | 21% |
| Commercial | 6% | 6% | 6% | 6% | 6% |

**II. FY 2015/16 MTDS**

After analysing the strategies, S2 was identified as the optimal strategy which entails:

- 55% domestic financing and 45% external financing;
- The domestic borrowing will be on medium term basis;
- External borrowing will comprise of 28% on concessional terms, 11% on semi concessional terms while 6% will be contracted on commercial terms.

***Source: FY 2015 /16 MTDS, National Treasury***

### 7.1.2 Implementation of the FY 2015/16 MTDS

As shown in Table 7-2, there were deviations of actual financing mix outturn compared to MTDS plan in FY2012/13, FY2013/14, FY2014/15 and FY2015/16. With exception of budget for FY2011/12, the proportion of external financing in the budget plan has always been higher and domestic debt financing lower than the proportions included in the respective MTDS documents. For instance, the 2015/2016 MTDS envisaged external and domestic financing in the proportion of 45:55 whereas the actual outturn was 61:39 respectively.

**Table 7-2: Planned Net Financing under MTDS and Actual Outturn (Per cent)**

| Financing source | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|---|
| **External** | MTDS | 30 | 35 | 40 | 45 | 45 |
| | Actual | 30 | 57 | 68 | 64 | 61 |
| | Deviation | 0 | -22 | -28 | -19 | -16 |
| **Domestic** | MTDS | 70 | 65 | 60 | 55 | 55 |
| | Actual | *70* | *43* | *32* | *36* | *39* |
| | Deviation | 0 | 22 | 28 | 19 | 16 |

Source: National Treasury

## 7.2 Public Debt Sustainability

The Kenya Government through the National Treasury endeavours to maintain public debt and obligations at sustainable levels in line with section 15 (2) (d) of the Public Finance Management Act (PFMA). Public debt sustainability is the ability of a country to service its debt obligations as they fall due without disrupting its budget implementation.

Kenya use the Debt Sustainability Framework (DSF) developed jointly by the International Monetary Fund (IMF) and World Bank (WB) to conduct Debt Sustainability Analysis (DSA). The DSA conducted jointly by the IMF, WB and Government of Kenya in March 2016 concluded that Kenya's debt was sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. There are four levels of the risk of external debt distress as follows:

i ) *Low risk* - when all the debt burden indicators are well below the thresholds;
ii ) *Moderate risk* - when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies;
iii ) *High risk* - when one or more thresholds are breached under the baseline scenario but the country does not currently face any repayment difficulties; or
iv ) *Debt distress* - when the country is already experiencing difficulties in servicing its debt.

Under the DSF, countries are classified into one of three policy performance categories (strong, medium, and poor) using the World Bank's Country Policy and Institutional Assessment (CPIA) index, which uses different indicative thresholds for debt burdens depending on the quality of a country's policies and institutions (Table 7-3 ). Kenya is rated a strong policy performer and as such is subject to the following thresholds.

**Table 7-3: External Debt Sustainability Thresholds**

| Classification | NPV of Debt in per cent of: | | | Debt Service in per cent of: | |
|---|---|---|---|---|---|
| | GDP | Exports | Revenue | Exports | Revenue |
| **Strong Policy Performer** | 50 | 200 | 300 | 25 | 22 |

Source: IMF Country Report No. 16/85, March 2016

### 7.2.1 External Debt Sustainability

As shown in Table 7-4, as a strong policy performer, Kenya's external debt is within sustainable levels attributed to among others, stable macroeconomic environment.

**Table 7-4: External Debt Sustainability Indicators**

| Indicator | Threshold | 2015 | 2016 | 2017 | 2019 | 2025 |
|---|---|---|---|---|---|---|
| NPV of debt–to-GDP ratio | 50 | 21.7 | 24.8 | 24.8 | 24.4 | 23.8 |
| NPV of debt-to-exports ratio | 200 | 118.5 | 140.9 | 138.8 | 134.3 | 130.3 |
| NPV of debt-to-revenue ratio | 300 | 109.5 | 122.2 | 118.6 | 114.5 | 109.3 |
| PPG Debt service-to-exports ratio | 25 | 6.4 | 8.0 | 14.8 | 13.9 | 9.7 |
| PPG Debt service-to-revenue ratio | 22 | 5.9 | 6.9 | 12.7 | 11.9 | 8.1 |

Source: IMF Country Report No. 16/85, March 2016

### 7.2.2 Public Debt Sustainability

Overall, Table 7.5 shows that Kenya's public debt is within sustainable levels over the medium term and well within the 50 per cent limit of GDP in NPV terms in line with PFMA regulations and the requirements of the East Africa Community (EAC) convergence criteria.

**Table 7-5: Public Debt Sustainability Indicators**

| Indicator | Threshold | 2015 | 2016 | 2017 | 2019 | 2025 |
|---|---|---|---|---|---|---|
| NPV of public sector debt to GDP ratio | 74 | 45.8 | 48.3 | 48.5 | 47.9 | 40.9 |
| NPV of public sector debt-to-revenue ratio | 300 | 231.8 | 237.8 | 232.0 | 224.5 | 187.6 |
| Debt service-to-revenue and grants ratio | 30 | 29.7 | 29.4 | 34.1 | 31.6 | 21.7 |

Source: IMF Country Report No. 16/85, March 2016

As part of sensitivity analysis as shown in Table 7-6, the debt sustainability indicators are subjected to a borrowing shock of 10 per cent of GDP as a worst-case scenario. The results show that even with this shock, the debt burden indicators largely do not breach the debt sustainability thresholds in the medium term. In 2016, even though the debt service as per cent of revenue indicator was higher than the threshold of 30 per cent, the fiscal deficit was 7. 2 per cent of GDP which was lower than the amount of shock at 10 per cent of GDP.

**Table 7-6: Sensitivity Analysis for Key Indicators of Public Debt**

| Indicator | Threshold | 2016 ratios | *Impact of 10% of GDP increase in borrowing in 2016 on debt indicators in 2017* |
|---|---|---|---|
| NPV of Debt as % of GDP | 74 | 48.3 | 58 |
| NPV of Debt as % of Revenue | 300 | 231.8 | 272 |
| Debt Service as % of Revenue | 30 | 30.4 | 34 |

Source: IMF Country Report No. 16/85, March 2016 and National Treasury

CHAPTER EIGHT

# LEGAL FRAMEWORK ON PUBLIC DEBT MANAGEMENT

## 8.1 Provisions under the Constitution

### 8.1.1 Public debt as defined under the Constitution

Public debt is all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national government. Public debt is a charge on the Consolidated Fund, but an Act of Parliament may provide for charging all or part of the public debt to other public funds. The relevant legislation with regard to public finance management in Kenya is the Public Finance Management Act of 2012.

### 8.1.2 Borrowing by the National Government

Parliament may prescribe the terms on which the national government may borrow and impose reporting requirements. Parliament may request the Cabinet Secretary responsible for Finance to present information concerning any particular loan or guarantee. The information may consist of:

- Extent of the total indebtedness by way of principal and accumulated interest;
- The use of the proceeds of the loan; and
- Provision made for servicing or repayment of the loan.

### 8.1.3 Borrowing by Counties

The two important conditions for a county government to qualify for own borrowing are; possession of national government guarantee and approval of the borrowing by the county government's assembly (Section 212).

### 8.1.4 Loan guarantees by national government

Parliament shall prescribe terms and conditions under which the national government may guarantee loans and a report on guarantees issued within a financial year will be published within two months after the end of the year.

## 8.2 Public Finance Management Act (PFMA)

The PFM Act has consolidated all pre-existing laws on Public Financial Management. In the area of public debt management, the Act repealed the External Loans and Credit Act, the Internal Loans Act and the National Government Loans Guarantee Act which provided a legal framework for Government to raise loans outside Kenya, within Kenya and to guarantee loans extended to public entities, respectively.

The Act provides for a number of reforms with respect to management and control of public finance including public borrowing as follows:

a) Section 11: Establishment of the National Treasury (NT) headed by the Cabinet Secretary to be responsible for fiscal policy and managing public finances.
b) Sections 25 and 33: NT to prepare and submit to Cabinet the Budget Policy Statement (BPS) and Debt Management Strategy by 15th February each year. Thereafter, Parliament shall discuss the BPS and MTDS within 2 weeks and NT will publish the same within 15 days.
c) Sections 28-29: NT to establish a Treasury Single Account (TSA) and associated cash management framework.
d) Sections 47-65: Prescribe for the receipt and the use of grants and loans, guaranteeing loans, lending money, entering into derivative transactions and the establishing of a fully-fledged Public Debt Management Office (PDMO) in the NT.

Sections 47 and 48 provides for the conditions for receiving grants and donations by National Government or its entities or third parties as well as regulations on the administration of the same.

Section 49: Authority for borrowing by the National Government

The Cabinet Secretary for Finance may, on behalf of the national government, raise a loan within Kenya or from outside Kenya only if the loan and the terms and conditions for the loan are set out in writing and in accordance with:

- The fiscal responsibility principles and the financial objectives set out in the most recent Budget Policy Statement
- Debt management strategy of the national government over the medium term

Section 50 provides for the obligations and restrictions on national government guaranteeing and borrowing. The national government may borrow money in accordance with PFM Act or any other legislation and shall not exceed a limit set by Parliament. The national government may borrow money only for the budget as approved by Parliament and the allocations for loans approved by Parliament. The guarantee of debt shall be done in terms of criteria agreed with the Intergovernmental Budget and Economic Council (IBEC) and prescribed in regulations approved by Parliament. In addition, the Cabinet Secretary may, by regulations approved by Parliament, establish a sinking fund or funds for the redemption of loans raised under this Act by the national government.

Section 51 contains provisions for borrowing by national government entities where a national government entity may borrow in accordance with PFM Act or any other Act of Parliament. A national government entity shall obtain the approval of the Cabinet Secretary for its intended program of borrowing, refinancing and repayment of loans over the medium term; and for the forthcoming financial year, prior to the beginning of that financial year.

Under Section 52, persons authorized to execute loan documents at national government are the Cabinet Secretary or any person designated by the Cabinet Secretary, accounting officer responsible for a national government entity, or any other specified officer authorized by legislation to execute loan documents on behalf of the entity.

Section 53 provides for issuance of securities by national government where the national government may issue national government securities, whether for money that it has borrowed or for any other purpose, only in circumstances expressly authorized by the PFM Act.

Section 54 provides that no duty is chargeable under the Stamp Duty Act for the issue of a national government security.

Section 55 establishes the office of the Registrar of the National Government Securities which shall be an office under the Public Debt Management Office. Securities issued by or on behalf of the national government shall be published and publicized.

Under Section 56, the national government may enter into derivative transactions, either directly or indirectly through an intermediary, but only within the framework and limits of the Budget Policy Statement and in a manner prescribed by regulations.

Section 57 allows the national government to lend money but only in accordance with terms and conditions prescribed by the regulations approved by Parliament.

Under Section 58, the Cabinet Secretary may guarantee a loan of a county government or any other borrower on behalf of the national government and that loan shall be approved by Parliament.

According to Section 59, the Cabinet Secretary shall submit a statement on loan guarantees to Parliament within fourteen days after the guarantee is entered into.

Section 60 relates to money payable in respect of a guarantee to be a charge on the Consolidated Fund. Money payable on a guarantee shall be paid only if the payment has been authorized by the Controller of Budget. On this account, money payable on a guarantee is a charge on, and is payable out of, the Consolidated Fund without further appropriation than this section.

Section 61 provides for recovery of amounts paid on a guarantee where money paid by the Cabinet Secretary on a guarantee, including any expenses incurred by the Cabinet Secretary in respect of the guarantee, shall be a debt due to the national government from the borrower whose loan was guaranteed; and be recoverable from the borrower as a debt due to the national government by proceedings brought in a court of competent jurisdiction or withholding a transfer of money in terms of Section 225 of the Constitution, if the borrower receives appropriations.

Section 62 provides for the establishment and objectives of the Public Debt Management Office (PDMO) within the National Treasury with objectives to: minimize the cost of public debt management and borrowing over the long-term taking account of risk, promote the development of the market institutions for Government debt securities and ensure the sharing of the benefits and costs of public debt between the current and future generations.

The functions of the Public Debt Management Office are provided under Section 63 and they include:

i) carrying out the government's debt management policy of minimizing its financing cost over the long-term taking account of risk;
ii) maintaining a reliable debt data base for all loans taken by the national government, county governments and their entities including other loans guaranteed by the national government;
iii) prepare and update the annual medium-term debt management strategy including debt sustainability analysis;
iv) prepare and implement the national government borrowing plan including servicing of outstanding debts;
v) acting as the principal in the issuance of Government debt securities on behalf of the National Treasury;
vi) monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;
vii) process the issuance of loan guarantees including assessment and management of risks in national government guarantees;
viii) Transact in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

The Cabinet Secretary under Section 64 shall develop the policy and financial framework in accordance with Constitutional principles within which the Public Debt Management Office operates. Section 64 (2) (c) of the Public Finance Management Act(PFMA) which states that the PDMO shall prepare statistical and analytical reports on debt and borrowing and submit to the Cabinet Secretary and the Commission on Revenue Allocation.

Section 65 stipulates the relationship between the PDMO with county treasuries in debt management where the PDMO shall assist the county government in its debt management and borrowing at the request of a County Treasury.

**Reporting under PFM Act**

Section 31 requires that the Cabinet Secretary submits to Parliament, every four months, a report of all loans made to the national government, national government entities and county governments, in accordance with Section 211(2) of the Constitution.

Section 32 requires the Cabinet Secretary to submit to Parliament, a record of all guarantees given by the national government, not later than seven days after receiving a request to do so from either House of Parliament.

Section 33 requires that on or before the 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities.

## 8.3 PFMA Regulations

The Legal Notice No. 35 of 2015 provides Regulations on Public Finance Management Act (No. 18 of 2012). The Regulations provide guidelines and clarity on all matters relating to public finance management at the national and county level. The PFM Regulations, 2015 are firmly anchored in Chapter 12 of the Constitution.

Public Debt Management issues are covered in Part XIV of the Regulations. This Part provides guiding principles for national and county government borrowing; policy frameworks on public debt management; medium term debt management strategy, annual government borrowing programme, use of borrowed monies and credits obtained, formalization of agreements for loans, credit purchases, modes of payment, borrowing purposes and objectives of public debt management.

The Part further elaborates on the functions of public debt management office; provides for redemption, conversion and consolidation of loans, provides for setting debt limit in the debt management strategy, the criteria for issuance of government securities both domestic and external, reporting of public debt by national government entities and county governments as well as annual debt reporting to Parliament.

Part XIV of the Regulations also provides for government guaranteed debt, eligibility and evaluation criteria for national government guarantees, process of approving a guarantee of a national government entity or a county government, the approval of a draft loan guarantee by Parliament.

The Regulations sets the overall debt limit for the country at 50% of the net present value of GDP while the debt limit for county governments is set at 20% of the audited total annual revenue and approved by the county assemblies. The roles of accounting officers in debt management and establishment of a Sinking Fund for debt redemption are provided for in the Regulations.

Specifically, section 200 of the PFMA Regulations states that not later than three months after the end of each financial year, the Cabinet Secretary shall prepare and submit an annual report to Parliament on public debt in the format set by the Cabinet Secretary. The annual public debt report shall include the following information:

a) Review of previous year's financing of budget deficit;
b) Composition of External debt;
c) Publicly guaranteed debt;

d) On-lent loans and contingent liabilities;

e) Debt strategy and debt sustainability;

f) Outlook for the medium term; and

g) Any commitment fees and penalties paid on any undisbursed amounts of a loan.

CHAPTER NINE

# OUTLOOK FOR THE MEDIUM TERM

## 9.1 Public Debt Stock in the Medium Term

The total public debt in nominal terms is projected to rise to Ksh 3,766,900 million in June 2017 from Ksh 3,611,331 million in June 2016 and further increase to Ksh 5,321,100 million in June 2020 (Table 9-1). However, as a proportion of GDP, public debt is projected to decrease to 50.7 per cent in June 2017 from 54.8 per cent in June 2016 then increase to 53.1 per cent in June 2020.

As a proportion of GDP, external debt is projected to decrease to 24.1 per cent in June 2017 from 27.3 per cent in June 2016 then increase to 24.7 per cent in June 2020. The domestic debt will decrease to 26.6 per cent in June 2017 from 27.5 per cent in June 2016 then increase to 28.4 per cent in June 2020.

**Table 9-1: Projected Public Debt Stock in (Ksh million)**

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| **External Debt** | 1,796,198 | 1,791,900 | 2,026,600 | 2,272,300 | 2,471,100 |
| **% of GDP** | 27.3 | 24.1 | 24.5 | 24.5 | 24.7 |
| **Domestic Debt** | 1,815,133 | 1,975,000 | 2,292,600 | 2,636,200 | 2,850,000 |
| **% of GDP** | 27.5 | 26.6 | 27.7 | 28.5 | 28.4 |
| **Total Public Debt** | **3,611,331** | **3,766,900** | **4,319,200** | **4,908,500** | **5,321,100** |
| **% of GDP** | 54.8 | 50.7 | 52.1 | 53.0 | 53.1 |
| **Memoranda items** | | | | | |
| **Nominal GDP** | 6,586,000 | 7,435,200 | 8,284,300 | 9,258,800 | 10,021,800 |
| **Ordinary Revenue** | 1,158,200 | 1,363,500 | 1,549,400 | 1,767,000 | 2,013,500 |

Source: National Treasury

## 9.2 Debt Service in the Medium Term

In nominal terms, the total debt service as a proportion of revenue is projected to decrease to 20.1 per cent in 2016/17 from 21.7 per cent in 2015/16, and then increase to 21.5 per cent in 2019/20 (Table 9-2). As a percentage of GDP, total debt service is projected to decrease to 3.7 per cent in 2016/17 from 3.8 per cent in 2015/16 then increase to 4.3 per cent in 2019/20.

Domestic interest is projected to decrease to Ksh 172.6 billion in 2016/17 from Ksh 172.9 billion in 2015/16 and further increase to Ksh 257.6 billion in 2019/20. However, as a percentage of revenue, domestic interest is projected to decrease to 12.7 per cent in 2016/17 from 14.9 per cent in 2016/17 and further increase to 12.8 per cent in 2019/20. As a ratio of GDP, domestic interest will decrease to 2.3 per cent in 2016/17 from 2.6 per cent 2015/16 and thereafter increase to 2.6 per cent in 2019/20.

Interest on external debt is projected to increase to Ksh 58.4 billion in 2016/17 from Ksh 42.6 billion in 2015/16 and further increase to Ksh 66.4 billion in 2019/20. As a ratio of GDP, interest on external debt will rise to 0.8 per cent in 2016/17 from 0.6 per cent in 2015/16 and thereafter decrease to 0.7 per cent in 2019/20.

Principal repayments on external debt is projected to increase to Ksh 43.6 billion in 2016/17 from Ksh 36.0 billion in 2015/16, but increase thereafter to Ksh 109.2 billion in 2019/20. The spikes in 2017/18 are attributed to the maturing USD 950 million syndicated loans and the 5 year sovereign bond maturing in 2018/19. As a ratio of GDP, the external repayments will increase to 3.2 per cent in 2016/17 from 3.1 per cent in 2015/16 and further increase to 5.4 per cent in 2019/20.

**Table 9-2: Projected Debt Service (Ksh billion)**

| Debt Service | | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|
| Domestic interest | Amount (Ksh billion) | **172.9** | **172.6** | **215.2** | **226** | **257.6** |
| | % of GDP | 2.6 | 2.3 | 2.6 | 2.4 | 2.6 |
| | % of Revenue | 14.9 | 12.7 | 13.9 | 12.8 | 12.8 |
| External Interest | Amount (Ksh billion) | **42.6** | **58.4** | **68.3** | **68.5** | **66.4** |
| | % of GDP | 0.6 | 0.8 | 0.8 | 0.7 | 0.7 |
| | % of Revenue | 3.7 | 4.3 | 4.4 | 3.9 | 3.3 |
| Total Interest payments | Amount (Ksh billion) | **215.4** | **231.0** | **283.5** | **294.5** | **324.0** |
| | % of GDP | 3.3 | 3.1 | 3.4 | 3.2 | 3.2 |
| | % of Revenue | 18.6 | 16.9 | 18.3 | 16.7 | 16.1 |
| External Principal Repayments | **Amount (Ksh billion)** | **36.0** | **43.6** | **142.5** | **226.4** | **109.2** |
| | % of GDP | 0.5 | 0.6 | 1.7 | 2.4 | 1.1 |
| | % of Revenue | 3.1 | 3.2 | 9.2 | 12.8 | 5.4 |
| Total Debt service | **Amount (Ksh billion)** | **251.4** | **274.6** | **426.0** | **520.9** | **433.2** |
| | % of Revenue | 21.7 | 20.1 | 27.5 | 29.5 | 21.5 |
| | % of GDP | 3.8 | 3.7 | 5.1 | 5.6 | 4.3 |
| Memo items | | | | | | |
| Ordinary Revenue | Amount (Ksh billion) | 1,158.20 | 1,363.50 | 1,549.40 | 1,767.00 | 2,013.50 |
| Nominal GDP | Amount (Ksh billion) | 6,586.00 | 7,435.20 | 8,284.30 | 9,258.80 | 10,021.80 |

Source: National Treasury

## GLOSSARY

- Bond Conversion

This is a strategy where the outstanding volume of the bond is redeemed or converted into another or a new one with longer maturity provided the holders of such a portion are agreeable.

- Bond Reopening

This involves opening up or offering the same paper to the primary market on a date other than its original issue date with a view to increasing its outstanding size.

- Bond Switching

This a strategy in which a portion of an existing bond is exchanged through an auction process into another existing bond preferably of longer maturity or a new one to build the volume of the benchmark issue.

- Buy back

This is the sale of securities, usually Treasury Bonds, with an agreement from the seller to buy back the security within its life.

- Concessionality

A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

- Debt Relief

Agreements by creditors to lessen the debt burden of debtor countries by either rescheduling interest and principal payments falling due over a specified time period, sometimes on concessional basis, or by partially or fully cancelling debt service payments falling due in a specified period of time.

- Debt Rescheduling

A form of debt reorganization in which payments of principal and/or interest previously due at a specified time are deferred for repayment on a new schedule following negotiations between the creditor and debtor.

- Debt Service

The amount of funds used for repayment of principal and interest of a debt.

- Debt Sustainability

Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

- Debt Sustainability Analysis

This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.

- Disbursement

The actual transfer of financial resources or of goods or services by the lender to the borrower.

- Domestic Borrowing

Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.

- Export Credit

Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by public or private entity. If extended by the private entity, they may be supported by an official government guarantee.

- External Borrowing

Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.

- Government Securities

Financial instruments used by the Government to raise funds from the primary market.

- Grant Element

It measures the concessionality of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan.

- London Club

An international group of private commercial banks whose credits are not covered by government guarantees or insurance. The group is designed to provide a common approach to rescheduling of such debts owed by debtor countries.

- Monetary Policy

The management of money supply by the Central Bank in an economy to achieve desired economic conditions such as the overall level of prices.

- Present Value

The present value (PV) is defined as the sum of all future cash flows (interest and principal) discounted at the appropriate market rate. For a loan, whenever the interest rate on a loan is lower than the market rate, the resulting PV is lower than its face value.

- Official Development Assistance

Loans from official development agencies to countries received by the public sector, for promotion of economic development and welfare as the main objective and, extended at concessional financial terms (with minimum grant element of 25 per cent). Loans and credits for military purposes are excluded in this definition.

- Over the Counter

This is when financial instruments such as derivatives are traded outside a formal centralised exchange, such as, the Nairobi Securities Exchange.

- Paris Club

The Paris Club is an ad-hoc gathering of creditor Governments, chaired by high ranking official of the French Treasury, which meets for the purpose of rescheduling debts. The Paris Club is open to all creditor governments that are willing to adhere to its unwritten rules and practices and that have claims against a debtor country seeking rescheduling. Debtor countries must have strong adjustment programs supported by the upper credit tranche IMF arrangements before being considered for debt relief.

- Primary Market

This is a market where financial instruments are originated through initial issuance.

- Public Debt

This refers to outstanding financial obligations of the Government arising from past borrowing. It includes Government guaranteed debts to State Corporations and Local Authorities.

- Public Domestic Debt

Part of the overall debt owed by the Government to creditors domiciled in the economy. The debt includes money owed to commercial banks, non-bank financial institutions, individuals among others.

- Public External Debt

Part of the overall debt owed by the Government to creditors domiciled outside the economy. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and World Bank.

- Renminbi Bond

A bond issued outside of China but denominated in Chinese Renminbi (official currency of the People's Republic of China) rather than the local currency.

- Samurai Bond

A yen-denominated bond issued in Tokyo by a non-Japanese company and subject to Japanese regulations. These bonds provide the issuer with an access to Japanese capital, which can be used for local investments or for financing operations outside Japan.

- Secondary Market

This is a market where already issued financial instruments are traded.

- Sovereign Bond

A debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency.

- Sukuk Bond

An Islamic financial certificate, similar to a bond in Western finance, that complies with Sharia, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a sukuk sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.

- Suppliers' Credit

An arrangement under which a supplier or exporter agrees to allow the customer to defer payment under a sales contract.

Tap sale

It is a continued issuance of a security after its original auction where there was an under subscription.

- Treasury Bills

It is a short-term borrowing instrument issued by the Government to finance the budget.

- Treasury Bond

This is a medium to long-term term debt instrument issued by the Government to finance the budget.

- Yield Curve

It is the relationship between the interest rate and maturity of bonds. A normal yield curve shows interest rates for short-term securities lower than interest rates for long-term securities.

## REFERENCES

1) Kenya National Bureau of Statistics, Economic Survey, 2016

2) The National Treasury, Budget Review and Outlook Paper 2016

3) The National Treasury, Annual Public Debt Reports, (various issues)

4) The National Treasury, Medium Term Debt Strategy, 2015.

Annex 1: Outstanding Treasury Bills and Bonds (KShs million) by Tenor, Kenya

| Security | Jun-12 | | Jun-13 | | Jun-14 | | Jun-15 |
|---|---|---|---|---|---|---|---|
| **Treasury Bills (Days)** | | | | | | | |
| **91** | 24,323 | 3.0 | 36,203 | 3.6 | 54,660 | 4.5 | 18,554 |
| **182** | 75,669 | 9.2 | 52,167 | 5.2 | 88,949 | 7.3 | 75,251 |
| **364** | 32,056 | 3.9 | 178,840 | 17.7 | 155,797 | 12.8 | 225,123 |
| **Sub totals** | **132,048** | **16.1** | **267,211** | **26.4** | **299,406** | **24.7** | **318,928** |
| **Treasury Bonds (Years)** | | | | | | | |
| **1** | 51,522 | 6.3 | - | - | - | - | 165,912 |
| **2** | 86,462 | 10.6 | 122,014 | 12.1 | 166,679 | 13.7 | 109,936 |
| **3** | 0 | 0.0 | - | - | - | - | 89,515 |
| **4** | 19,121 | 2.3 | 19,121 | 1.9 | 29,891 | 2.5 | 102,622 |
| **5** | 115,333 | 14.1 | 138,357 | 13.7 | 175,296 | 14.4 | 49,123 |
| **Sub totals** | **272,438** | **33.3** | **279,492** | **27.6** | **371,866** | **30.6** | **517,108** |
| **6** | 47,241 | 5.8 | 40,653 | 4.0 | 40,653 | 3.3 | 46,038 |
| **7** | 22,523 | 2.8 | 19,288 | 1.9 | 16,970 | 1.4 | 44,462 |
| **8** | 28,944 | 3.5 | 31,796 | 3.1 | 40,866 | 3.4 | 61,025 |
| **9** | 25,364 | 3.1 | 18,177 | 1.8 | 18,177 | 1.5 | 65,528 |
| **Sub totals** | **124,072** | **15.1** | **109,914** | **10.9** | **116,665** | **9.6** | **217,053** |
| **10** | 95,725 | 11.7 | 126,767 | 12.5 | 148,511 | 12.2 | 31,757 |
| **11** | 4,031 | 0.5 | 4,031 | 0.4 | 4,031 | 0.3 | 28,718 |
| **12** | 43,186 | 5.3 | 30,206 | 3.0 | 45,411 | 3.7 | 26,630 |
| **15** | 75,443 | 9.2 | 102,408 | 10.1 | 125,498 | 10.3 | 100,975 |
| **20** | 29,727 | 3.6 | 49,027 | 4.8 | 60,451 | 5.0 | 74,140 |
| **25** | 20,193 | 2.5 | 20,193 | 2.0 | 20,193 | 1.7 | 28,145 |

| Annex 1: Outstanding Treasury Bills and Bonds (KShs million) by Tenor, Kenya | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Security** | **Jun-12** | | **Jun-13** | | **Jun-14** | | **Jun-15** |
| 30 | 22,136 | 2.7 | 22,136 | 2.2 | 22,136 | 1.8 | 0 |
| **Sub total** | **290,441** | **35.5** | **354,768** | **35.1** | **426,231** | **35.1** | **290,365** |
| **Grand Total** | **818,999** | **100.0** | **1,011,385** | **100.0** | **1,214,168** | **100.0** | **1,343,454** |

Source: Central Bank of Kenya

## Annex 2: Outstanding Government Bonds, June 2016

| Issue No. | Tenor (Years) | Accepted at FV (Ksh M) | Years to Maturity | Accepted at cost (Ksh M) | Issue/Reopen date | Maturity date | Coupon rate (%) |
|---|---|---|---|---|---|---|---|
| FXD1/2006/12 | 12 | 3,900.95 | 2.13 | 3,823.67 | 28-Aug-06 | 13-Aug-18 | 14.000 |
| FXD1/2006/11 | 11 | 4,031.40 | 1.20 | 3,909.72 | 25-Sep-06 | 11-Sep-17 | 13.750 |
| FXD1/2007/15 | 15 | 3,654.60 | 5.70 | 3,568.80 | 26-Mar-07 | 07-Mar-22 | 14.500 |
| FXD1/2007/12 | 12 | 4,864.60 | 2.88 | 4,999.04 | 28-May-07 | 13-May-19 | 13.000 |
| FXD2/2007/15 | 15 | 7,236.95 | 5.95 | 7,489.08 | 25-Jun-07 | 06-Jun-22 | 13.500 |
| FXD1/2007/10 | 10 | 9,308.80 | 1.30 | 9,000.02 | 29-Oct-07 | 16-Oct-17 | 10.750 |
| FXD3/2007/15 | 15 | 7,841.10 | 6.38 | 7,434.42 | 26-Nov-07 | 07-Nov-22 | 12.500 |
| FXD1/2008/10 | 10 | 2,992.75 | 1.63 | 2,901.99 | 25-Feb-08 | 12-Feb-18 | 10.750 |
| FXD1/2008/15 | 15 | 7,380.90 | 6.72 | 6,998.56 | 31-Mar-08 | 13-Mar-23 | 12.500 |
| FXD1/2008/20 | 20 | 1,912.25 | 11.97 | 1,791.77 | 30-Jun-08 | 05-Jun-28 | 13.750 |
| FXD2/2008/10 | 10 | 882.00 | 2.05 | 847.39 | 28-Jul-08 | 16-Jul-18 | 10.750 |
| FXD3/2008/10 | 10 | 4,151.60 | 2.22 | 3,910.96 | 29-Sep-08 | 17-Sep-18 | 10.750 |
| FXD1/2009/10 | 10 | 4,966.85 | 2.80 | 4,688.23 | 27-Apr-09 | 15-Apr-19 | 10.750 |
| FXD3/2007/15(R1) | 15 | 10,189.10 | 6.38 | 9,547.61 | 25-May-09 | 07-Nov-22 | 12.500 |
| FXD1/2008/20(R1) | 20 | 7,613.90 | 11.97 | 7,197.88 | 29-Jun-09 | 05-Jun-28 | 13.750 |
| FXD2/2008/10(R1) | 10 | 12,622.70 | 2.05 | 11,889.72 | 27-Jul-09 | 16-Jul-18 | 10.750 |
| FXD1/2009/15 | 15 | 9,420.45 | 8.30 | 8,704.40 | 26-Oct-09 | 07-Oct-24 | 12.500 |
| FXD1/2008/20(R2) | 20 | 10,834.80 | 11.97 | 10,878.06 | 28-Dec-09 | 05-Jun-28 | 13.750 |
| FXD1/2010/15 | 15 | 10,206.45 | 8.72 | 10,419.79 | 29-Mar-10 | 10-Mar-25 | 10.250 |
| FXD1/2010/10 | 10 | 12,052.60 | 3.80 | 12,178.30 | 26-Apr-10 | 13-Apr-20 | 8.790 |
| FXD1/2010/25 | 25 | 7,008.15 | 18.97 | 7,497.64 | 28-Jun-10 | 28-May-35 | 11.250 |
| FXD1/2010/25(R1) | 25 | 13,184.35 | 18.97 | 15,029.47 | 26-Jul-10 | 28-May-35 | 11.250 |
| FXD2/2010/10 | 10 | 13,847.90 | 4.32 | 14,462.48 | 01-Nov-10 | 19-Oct-20 | 9.307 |
| FXD2/2010/15 | 15 | 7,329.35 | 9.47 | 6,316.19 | 27-Dec-10 | 08-Dec-25 | 9.000 |

## Annex 2: Outstanding Government Bonds, June 2016

| Issue No. | Tenor (Years) | Accepted at FV (Ksh M) | Years to Maturity | Accepted at cost (Ksh M) | Issue/Reopen date | Maturity date | Coupon rate (%) |
|---|---|---|---|---|---|---|---|
| FXD2/2010/10(R1) | 10 | 1,111.65 | 4.32 | 1,085.65 | 31-Jan-11 | 19-Oct-20 | 9.307 |
| SDB1/2011/30 | 30 | 8,718.10 | 24.65 | 8,097.58 | 28-Feb-11 | 21-Jan-41 | 12.000 |
| SDB1/2011/30(R1) | 30 | 10,041.55 | 24.65 | 9,033.18 | 28-Mar-11 | 21-Jan-41 | 12.000 |
| FXD2/2010/15(R1) | 15 | 6,183.75 | 9.47 | 4,782.54 | 25-Apr-11 | 08-Dec-25 | 9.000 |
| FXD1/2010/10 (R1) | 10 | 7,341.55 | 3.80 | 5,894.84 | 30-May-11 | 13-Apr-20 | 8.790 |
| FXD1/2011/20 | 20 | 8,138.50 | 14.90 | 5,984.55 | 30-May-11 | 05-May-31 | 10.000 |
| FXD1/2011/20(R1) | 20 | 1,227.30 | 14.90 | 870.32 | 27-Jun-11 | 05-May-31 | 10.000 |
| FXD2/2010/10(R2) | 10 | 3,890.35 | 4.32 | 3,112.57 | 25-Jul-11 | 19-Oct-20 | 9.307 |
| SDB1/2011/30(R2) | 30 | 3,376.80 | 24.65 | 2,481.80 | 29-Aug-11 | 21-Jan-41 | 12.000 |
| FXD1/2012/5 | 5 | 4,905.55 | 0.90 | 4,907.43 | 28-May-12 | 22-May-17 | 11.855 |
| FXD1/2012/10 | 10 | 443.15 | 5.97 | 443.29 | 25-Jun-12 | 13-Jun-22 | 12.705 |
| FXD1/2012/5(R1) | 5 | 7,925.80 | 0.90 | 7,458.74 | 30-Jul-12 | 22-May-17 | 11.855 |
| FXD1/2012/10(R1) | 10 | 5,298.85 | 5.97 | 5,038.01 | 30-Jul-12 | 13-Jun-22 | 12.705 |
| FXD1/2012/15 | 15 | 21,089.45 | 11.22 | 19,525.73 | 24-Sep-12 | 06-Sep-27 | 11.000 |
| FXD1/2012/20 | 20 | 3,461.35 | 16.40 | 3,095.34 | 26-Nov-12 | 01-Nov-32 | 12.000 |
| FXD1/2012/5(R2) | 5 | 18,248.20 | 0.90 | 18,061.53 | 28-Jan-13 | 22-May-17 | 11.855 |
| FXD1/2012/20(R1) | 20 | 4,956.50 | 16.40 | 4,488.73 | 28-Jan-13 | 01-Nov-32 | 12.000 |
| FXD1/2013/15 | 15 | 5,875.70 | 11.65 | 4,986.66 | 25-Feb-13 | 07-Feb-28 | 11.2[illegible] |
| FXD1/2012/10(R2) | 10 | 11,061.75 | 5.97 | 10,828.90 | 25-Mar-13 | 13-Jun-22 | 12.[illegible] |
| FXD2/2013/15 | 10 | 17,385.85 | 11.82 | 15,560.86 | 29-Apr-13 | 10-Apr-28 | 12.000 |
| FXD1/2013/5 | 5 | 20,240.75 | 1.82 | 20,240.57 | 29-Apr-13 | 23-Apr-18 | 12.892 |
| FXD1/2012/20(R2) | 20 | 10,882.70 | 16.40 | 10,132.10 | 27-May-13 | 01-Nov-32 | 12.000 |
| FXD2/2013/5 | 5 | 12,888.00 | 1.99 | 12,888.20 | 01-Jul-13 | 25-Jun-18 | 11.305 |
| FXD1/2013/10 | 10 | 12,121.35 | 6.99 | 12,123.46 | 01-Jul-13 | 19-Jun-23 | 12.371 |
| FXD1/2013/15(R1) | 15 | 7,507.10 | 11.65 | 6,686.70 | 29-Jul-13 | 07-Feb-28 | 11.250 |
| FXD1/2013/10(R1) | 10 | 521.70 | 6.99 | 531.42 | 26-Aug-13 | 19-Jun-23 | 12.371 |
| FXD3/2013/5 | 5 | 14,937.80 | 2.40 | 14,938.05 | 25-Nov-13 | 19-Nov-18 | 11.952 |
| FXD1/2014/10 | 10 | 15,030.15 | 7.57 | 15,030.28 | 27-Jan-14 | 15-Jan-24 | 12.180 |
| FXD1/2013/15(R2) | 15 | 15,582.80 | 11.65 | 14,431.26 | 24-Feb-14 | 07-Feb-28 | 11.250 |
| FXD1/2014/5 | 5 | 17,511.20 | 2.82 | 17,508.21 | 28-Apr-14 | 22-Apr-19 | 10.870 |
| FXD2/2014/5 | 5 | 14,285.60 | 2.97 | 14,286.91 | 23-Jun-14 | 17-Jun-19 | 11.934 |
| FXD1/2012/20(R3) | 20 | 9,363.05 | 16.40 | 8,588.47 | 23-Jun-14 | 01-Nov-32 | 12.000 |
| FXD2/2014/5 (Tap 1) | 5 | 2,132.65 | 2.97 | 2,137.36 | 30-Jun-14 | 17-Jun-19 | 11.934 |
| FXD1/2012/20 (Tap 1) | 20 | 2,060.55 | 16.40 | 1,889.87 | 30-Jun-14 | 01-Nov-32 | 12.000 |

## Annex 2: Outstanding Government Bonds, June 2016

| Issue No. | Tenor (Years) | Accepted at FV (Ksh M) | Years to Maturity | Accepted at cost (Ksh M) | Issue/Reopen date | Maturity date | Coupon rate (%) |
|---|---|---|---|---|---|---|---|
| FXD2/2013/5(R1) | 5 | 13,452.05 | 1.99 | 13,755.56 | 25-Aug-14 | 25-Jun-18 | 11.305 |
| SDB1/2011/30(R3) | 30 | 1,752.50 | 24.65 | 1,533.24 | 25-Aug-14 | 21-Jan-41 | 12.000 |
| SDB1/2011/30(Tap 1) | 30 | 2,003.35 | 24.65 | 1,752.65 | 01-Sep-14 | 21-Jan-41 | 12.000 |
| SDB1/2011/30(Tap 2) | 30 | 667.90 | 24.65 | 584.28 | 08-Sep-14 | 21-Jan-41 | 12.000 |
| SDB1/2011/30(Tap 3) | 30 | 19.00 | 24.65 | 16.62 | 15-Sep-14 | 21-Jan-41 | 12.000 |
| SDB1/2011/30(Tap 4) | 30 | 712.40 | 24.65 | 623.14 | 22-Sep-14 | 21-Jan-41 | 12.000 |
| SDB1/2011/30(Tap 5) | 30 | 853.10 | 24.65 | 746.17 | 29-Sep-14 | 21-Jan-41 | 12.000 |
| FXD1/2014/10(R1) | 10 | 15,587.65 | 7.57 | 15,494.82 | 29-Sep-14 | 15-Jan-24 | 12.180 |
| FXD1/2010/15(R1) | 15 | 12,129.80 | 8.72 | 10,617.28 | 24-Nov-14 | 10-Mar-25 | 10.250 |
| FXD3/2014/2 | 2 | 8,903.25 | 0.47 | 8,903.32 | 22-Dec-14 | 19-Dec-16 | 10.890 |
| FXD1/2013/15(R3) | 15 | 13,172.85 | 11.65 | 11,910.59 | 22-Dec-14 | 07-Feb-28 | 11.250 |
| FXD1/2014/5 (R1) | 5 | 8,222.50 | 2.82 | 8,028.78 | 26-Jan-15 | 22-Apr-19 | 10.870 |
| FXD1/2012/20 (R4) | 20 | 13,857.50 | 16.40 | 12,358.82 | 26-Jan-15 | 01-Nov-32 | 12.000 |
| FXD1/2015/2 | 2 | 23,592.15 | 0.65 | 23,592.55 | 23-Feb-15 | 20-Feb-17 | 11.470 |
| FXD1/2013/10(R2) | 10 | 11,909.05 | 6.99 | 11,654.47 | 23-Feb-15 | 19-Jun-23 | 12.371 |
| FXD3/2014/2(R1) | 2 | 20,472.45 | 0.47 | 20,216.76 | 25-May-15 | 19-Dec-16 | 10.890 |
| FXD1/2014/10(R2) | 10 | 5,234.35 | 7.57 | 5,042.66 | 25-May-15 | 15-Jan-24 | 12.180 |
| FXD2/2015/2 | 2 | 7,190.90 | 0.99 | 7,191.01 | 29-Jun-15 | 26-Jun-17 | 12.629 |
| FXD1/2015/5 | 5 | 5,566.20 | 3.99 | 5,566.41 | 29-Jun-15 | 22-Jun-20 | 13.193 |
| FXD1/2015/5(R1) | 5 | 12,461.70 | 3.99 | 11,994.74 | 27-Jul-15 | 22-Jun-20 | 13.193 |
| FXD2/2015/2(R1) | 2 | 11,555.90 | 0.99 | 11,161.59 | 24-Aug-15 | 26-Jun-17 | 12.629 |
| FXD1/2015/1 | 1 | 24,260.65 | 0.24 | 24,234.66 | 28-Sep-15 | 26-Sep-16 | 19.062 |
| FXD2/2015/1 | 1 | 10,241.38 | 0.32 | 10,241.46 | 26-Oct-15 | 24-Oct-16 | 22.954 |
| FXD2/2015/5 | 5 | 30,673.85 | 4.41 | 30,678.67 | 30-Nov-15 | 23-Nov-20 | 13.920 |
| FXD1/2013/10(R3) | 10 | 4,737.70 | 6.99 | 3,980.25 | 25-Jan-16 | 19-Jun-23 | 12.371 |
| FXD1/2016/2 | 2 | 20,153.75 | 1.57 | 20,154.16 | 25-Jan-16 | 22-Jan-18 | 15.760 |
| FXD1/2012/10(R3) | 10 | 18,469.95 | 5.97 | 17,292.77 | 29-Feb-16 | 13-Jun-22 | 12.705 |
| FXD1/2015/5(R2) | 5 | 12,928.15 | 3.99 | 12,611.45 | 29-Feb-16 | 22-Jun-20 | 13.193 |
| FXD2/2013/15(R1) | 15 | 9,615.40 | 11.82 | 8,034.88 | 21-Mar-16 | 10-Apr-28 | 12.000 |
| FXD1/2013/10(R4) | 10 | 9,958.40 | 6.99 | 9,063.65 | 21-Mar-16 | 19-Jun-23 | 12.371 |
| FXD1/2016/5 | 5 | 19,544.20 | 4.82 | 19,544.47 | 25-Apr-16 | 19-Apr-21 | 14.334 |
| FXD2/2016/2 | 2 | 4,717.90 | 1.90 | 4,717.90 | 23-May-16 | 21-May-18 | 12.020 |
| FXD2/2016/2 (R1) | 2 | 25,500.45 | 1.90 | 25,714.65 | 20-Jun-16 | 21-May-18 | 12.020 |
| FXD1/2012/15 (R1) | 15 | 6,004.15 | 11.22 | 4,898.80 | 20-Jun-16 | 06-Sep-27 | 11.000 |

## Annex 2: Outstanding Government Bonds, June 2016

| Issue No. | Tenor (Years) | Accepted at FV (Ksh M) | Years to Maturity | Accepted at cost (Ksh M) | Issue/Reopen date | Maturity date | Coupon rate (%) |
|---|---|---|---|---|---|---|---|
| **Infrastructure Bonds** | | | | | | | |
| IFB1/2010/8 | 8 | 7,131.58 | 1.65 | 7,191.86 | 01-Mar-10 | 19-Feb-18 | 9.750 |
| | | | | | | | |
| IFB 2/2010/9 | 6 | 14,200.00 | 0.15 | 13,163.18 | 30-Aug-10 | 22-Aug-16 | 6.000 |
| IFB 2/2010/9 | 7 | 8,700.00 | 1.15 | 8,114.92 | 30-Aug-10 | 21-Aug-17 | 6.000 |
| IFB 2/2010/9 | 9 | 9,971.55 | 3.15 | 9,306.92 | 30-Aug-10 | 19-Aug-19 | 6.000 |
| | | | | | | | |
| IFB1/2009/12 | 8 | 4,497.70 | 0.63 | 4,235.29 | 23-Feb-09 | 13-Feb-17 | 12.500 |
| IFB1/2009/12 | 12 | 6,746.60 | 4.63 | 6,352.93 | 23-Feb-09 | 08-Feb-21 | 12.500 |
| | | | | | | | |
| IFB2/2009/12 | 9 | 5,145.00 | 2.41 | 4,746.05 | 07-Dec-09 | 26-Nov-18 | 12.000 |
| IFB2/2009/12 | 12 | 4,558.95 | 5.41 | 4,702.18 | 07-Dec-09 | 22-Nov-21 | 12.000 |
| DIASPORA BOND TAP & AMORTIZATION - SORT SEPARATELY | | | | | | | |
| IFB1/2011/12 | 8 | 4,604.85 | 3.24 | 3,787.82 | 03-Oct-11 | 23-Sep-19 | 12.000 |
| IFB1/2011/12 (Tap 1) | 8 | 107.40 | 3.24 | 89.52 | 07-Nov-11 | 23-Sep-19 | 12.000 |
| IFB1/2011/12 (Tap 2) | 8 | 80.92 | 3.24 | 68.29 | 05-Dec-11 | 23-Sep-19 | 12.[illegible] |
| IFB1/2011/12 (Tap 3) | 8 | 531.40 | 3.24 | 453.97 | 02-Jan-12 | 23-Sep-19 | 12.000 |
| IFB1/2011/12 (Tap 4) | 8 | 1,905.11 | 3.24 | 1,652.70 | 06-Feb-12 | 23-Sep-19 | 12.000 |
| IFB1/2011/12 (Tap 5) | 8 | 6,961.72 | 3.24 | 6,095.34 | 27-Feb-12 | 23-Sep-19 | 12.000 |
| Second Tranche Maturing 23-Sep-2019 | | | | | | | |
| IFB1/2011/12 | 12 | 3,288.54 | 7.24 | 2,705.07 | 03-Oct-11 | 18-Sep-23 | 12.000 |
| IFB1/2011/12 (Tap 1) | 12 | 76.70 | 7.24 | 63.93 | 07-Nov-11 | 18-Sep-23 | 12.000 |
| IFB1/2011/12 (Tap 2) | 12 | 57.79 | 7.24 | 48.77 | 05-Dec-11 | 18-Sep-23 | 12.000 |
| IFB1/2011/12 (Tap 3) | 12 | 379.50 | 7.24 | 324.20 | 02-Jan-12 | 18-Sep-23 | 12.000 |
| IFB1/2011/12 (Tap 4) | 12 | 1,360.53 | 7.24 | 1,180.28 | 06-Feb-12 | 18-Sep-23 | 12.000 |
| IFB1/2011/12 (Tap 5) | 12 | 4,971.71 | 7.24 | 4,352.98 | 27-Feb-12 | 18-Sep-23 | 12.000 |
| Final Tranche Maturing 18-Sep-2023 | | | | | | | |
| IFB1/2013/12 | 4 | 5,993.70 | 1.24 | 5,592.71 | 30-Sep-13 | 25-Sep-17 | 11.000 |
| IFB1/2013/12 TAP | 4 | 4,776.52 | 1.24 | 4,497.34 | 28-Oct-13 | 25-Sep-17 | 11.000 |
| First Tranche Maturing 25-Sep-2017 | | | | | | | |

## Annex 2: Outstanding Government Bonds, June 2016

| Issue No. | Tenor (Years) | Accepted at FV (Ksh M) | Years to Maturity | Accepted at cost (Ksh M) | Issue/Reopen date | Maturity date | Coupon rate (%) |
|---|---|---|---|---|---|---|---|
| IFB1/2013/12 | 8 | 6,894.21 | 5.24 | 6,432.97 | 30-Sep-13 | 20-Sep-21 | 11.000 |
| IFB1/2013/12 TAP | 8 | 5,494.16 | 5.24 | 5,173.03 | 28-Oct-13 | 20-Sep-21 | 11.000 |
| Second Tranche Maturing 20-Sep-2021 | | | | | | | |
| IFB1/2013/12 | 12 | 8,461.74 | 9.24 | 7,895.63 | 30-Sep-13 | 15-Sep-25 | 11.000 |
| IFB1/2013/12 TAP | 12 | 6,743.37 | 9.24 | 6,349.22 | 28-Oct-13 | 15-Sep-25 | 11.000 |
| Final Tranche Maturing 15-Sep-2025 | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| IFB1/2014/12 | 4 | 4,060.89 | 2.32 | 4,005.10 | 27-Oct-14 | 22-Oct-18 | 11.000 |
| IFB1/2014/12 (Tap 1) | 4 | 2,735.61 | 2.32 | 2,703.64 | 03-Nov-14 | 22-Oct-18 | 11.000 |
| IFB1/2014/12 (Tap 2) | 4 | 1,797.70 | 2.32 | 1,772.82 | 10-Nov-14 | 22-Oct-18 | 11.000 |
| IFB1/2014/12 (Tap 3) | 4 | 404.10 | 2.32 | 398.50 | 17-Nov-14 | 22-Oct-18 | 11.000 |
| First Tranche Maturing 22-Oct-2018 | | | | | | | |
| IFB1/2014/12 | 8 | 4,992.24 | 6.32 | 4,923.66 | 27-Oct-14 | 17-Oct-22 | 11.000 |
| IFB1/2014/12 (Tap 1) | 8 | 3,363.02 | 6.32 | 3,323.71 | 03-Nov-14 | 17-Oct-22 | 11.000 |
| IFB1/2014/12 (Tap 2) | 8 | 2,210.00 | 6.32 | 2,179.41 | 10-Nov-14 | 17-Oct-22 | 11.000 |
| IFB1/2014/12 (Tap 3) | 8 | 496.78 | 6.32 | 489.89 | 17-Nov-14 | 17-Oct-22 | 11.000 |
| Second Tranche Maturing 17-Oct-2022 | | | | | | | |
| IFB1/2014/12 | 12 | 6,959.21 | 10.32 | 6,863.60 | 27-Oct-14 | 12-Oct-26 | 11.000 |
| IFB1/2014/12 (Tap 1) | 12 | 4,688.07 | 10.32 | 4,633.26 | 03-Nov-14 | 12-Oct-26 | 11.000 |
| IFB1/2014/12 (Tap 2) | 12 | 3,080.75 | 10.32 | 3,038.11 | 10-Nov-14 | 12-Oct-26 | 11.000 |
| IFB1/2014/12 (Tap 3) | 12 | 692.52 | 10.32 | 682.91 | 17-Nov-14 | 12-Oct-26 | 11.000 |
| Final Tranche Maturing 12-Oct-2026 | | | | | | | |
| IFB1/2015/12 | 6 | 10,565.61 | 4.74 | 10,260.65 | 30-Mar-15 | 22-Mar-21 | 11.000 |
| IFB1/2015/12 (Tap 1) | 6 | 9,876.46 | 4.74 | 9,590.74 | 13-Apr-15 | 22-Mar-21 | 11.000 |
| First Tranche Maturing 22-Mar-2021 | | | | | | | |
| IFB1/2015/12 | 9 | 10,099.77 | 7.74 | 9,808.26 | 30-Mar-15 | 18-Mar-24 | 11.000 |
| IFB1/2015/12 (Tap 1) | 9 | 9,441.01 | 7.74 | 9,167.88 | 13-Apr-15 | 18-Mar-24 | 11.000 |
| Second Tranche Maturing 18-Mar-2024 | | | | | | | |
| IFB1/2015/12 | 12 | 5,793.62 | 10.74 | 5,626.39 | 30-Mar-15 | 15-Mar-27 | 11.000 |
| IFB1/2015/12 (Tap 1) | 12 | 5,415.73 | 10.74 | 5,259.05 | 13-Apr-15 | 15-Mar-27 | 11.000 |
| Final Tranche Maturing 15-Mar-2027 | | | | | | | |

## Annex 2: Outstanding Government Bonds, June 2016

| Issue No. | Tenor (Years) | Accepted at FV (Ksh M) | Years to Maturity | Accepted at cost (Ksh M) | Issue/Reopen date | Maturity date | Coupon rate (%) |
|---|---|---|---|---|---|---|---|
| IFB1/2015/09 | 5 | 5,709.39 | 8.45 | 4,811.31 | 14-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 1) | 5 | 1,625.42 | 8.45 | 1,369.33 | 21-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 2) | 5 | 822.24 | 8.45 | 694.44 | 28-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 3) | 5 | 509.20 | 8.45 | 431.13 | 04-Jan-16 | 02-Dec-24 | 11.000 |
| First Tranche Maturing 07-Dec-2020 | | | | | | | |
| IFB1/2015/09 | 7 | 5,323.20 | 8.45 | 4,485.87 | 14-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 1) | 7 | 1,515.47 | 8.45 | 1,276.71 | 21-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 2) | 7 | 766.62 | 8.45 | 647.47 | 28-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 3) | 7 | 474.76 | 8.45 | 401.97 | 04-Jan-16 | 02-Dec-24 | 11.000 |
| Second Tranche Maturing 05-Dec-2022 | | | | | | | |
| IFB1/2015/09 | 9 | 5,516.36 | 8.45 | 4,648.64 | 14-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 1) | 9 | 1,570.46 | 8.45 | 1,323.04 | 21-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 2) | 9 | 794.44 | 8.45 | 670.96 | 28-Dec-15 | 02-Dec-24 | 11.000 |
| IFB1/2015/09 (Tap 3) | 9 | 491.99 | 8.45 | 416.56 | 04-Jan-16 | 02-Dec-24 | 11.000 |
| Final Tranche Maturing 02-Dec-2024 | | | | | | | |
| | | | | | | | |
| IFB1/2016/09 | 5 | 8,249.90 | 4.90 | 7,930.66 | 23-May-16 | 17-May-21 | 12.5[illegible] |
| First Tranche Maturing 17-May-2021 | | | | | | | |
| IFB1/2016/09 | 7 | 8,249.91 | 6.90 | 7,930.67 | 23-May-16 | 15-May-23 | 12.500 |
| Second Tranche Maturing 15-May-2023 | | | | | | | |
| IFB1/2016/09 | 9 | 19,803.38 | 8.90 | 19,037.06 | 23-May-16 | 12-May-25 | 12.500 |
| Final Tranche Maturing 12-May-2025 | | | | | | | |
| | | | | | | | |
| Special Bonds | | | | | | | |
| SFX1/2007/10 | 10 | 5,000.00 | 0.89 | 5,000.00 | 01-Jun-07 | 19-May-17 | 13.000 |
| SFX1/2007/15 | 15 | 6,000.00 | 5.89 | 6,000.00 | 01-Jun-07 | 13-May-22 | 14.500 |
| TOTAL | | 1,152,041 | | 1,102,930 | | | |

Source: FM, CBK

**Appendix 2: Public and Publicly Guaranteed External Debt by Creditor, Ksh Million**

| CREDITOR | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 |
|---|---|---|---|---|---|
| 1. BILATERAL | | | | | |
| AUSTRIA | 1,318 | 1,024 | 717 | 743 | 1,030 |
| BELGIUM | 7,365 | 7,607 | 8,096 | 6,142 | 7,469 |
| CANADA | 1,481 | 1,390 | 1,349 | 1,270 | 809 |
| DENMARK | 2,077 | 1,988 | 1,992 | 1,437 | 1,541 |
| FINLAND | 105 | 97 | 94 | 71 | 269 |
| FRANCE | 36,709 | 47,397 | 61,580 | 59,032 | 59,371 |
| GERMANY | 24,879 | 25,042 | 26,571 | 22,559 | 0 |
| ITALY | 2,928 | 2,132 | 1,716 | 1,101 | 622 |
| JAPAN | 107,403 | 86,789 | 84,515 | 79,017 | 0 |
| NETHERLANDS | 2,926 | 2,600 | 2,702 | 1,960 | 2,350 |
| UK | 1,936 | 1,732 | 1,841 | 1,467 | 992 |
| USA | 5,136 | 4,816 | 4,542 | 4,462 | 4,035 |
| CHINA | 36,662 | 63,123 | 80,859 | 252,039 | 313,127 |
| OTHERS | 12,618 | 11,900 | 13,341 | 13,756 | 31,385 |
| TOTAL | **243,543** | **257,637** | **289,914** | 445,056 | 798,841 |
| 2. MULTILATERAL | | | | | |
| ADB/ADF | 70,863 | 80,729 | 102,118 | 161,531.85 | 179,226.58 |
| EEC/EIB | 10,934 | 15,769 | 20,657 | 20,624.97 | 21,073.19 |
| IDA/IFAD | 297,588 | 332,624 | 371,374 | 407,293.78 | 488,330.01 |
| IMF | 66,593 | 73,779 | 83,282 | 86,149.90 | 84,846.99 |
| OTHERS | 9,099 | 8,890 | 9,057 | 9,030.22 | 9,204.40 |
| TOTAL | **455,076** | **511,791** | **597,340** | 320,871 | 492,908 |
| 3. COMMERCIAL BANKS | **50,540** | **58,928** | **234,799** | 276,937 | 432,377 |
| 4. EXPORT CREDIT | **14,812** | **15,207** | **16,452** | 16,628 | 16,628 |
| GRAND TOTAL | 763,971 | **843,562** | **1,138,505** | **1,423,252** | **1,796,198** |