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THE NATIONAL TREASURY AND ECONOMIC PLANNING

**ANNUAL PUBLIC DEBT MANAGEMENT REPORT
FOR FINANCIAL YEAR 2022/2023**

PAPERS LAID	
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SEPTEMBER 2023

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FOREWORD

The preparation of the Annual Public Debt Management Report is guided by the principles of financial management enshrined in the Constitution of Kenya, the Public Finance Management (PFM) Act 2012, and the Public Finance Management Regulation (National Government) Regulations, 2015, which specifies the reporting format and set timelines for preparation and submission to Parliament and the Commission for Revenue Allocation.

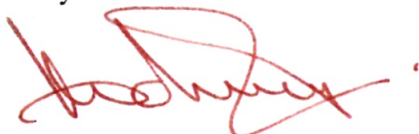
The Report covers the legal framework underpinning public debt management, the level of public and publicly guaranteed debt, the borrowing and debt service obligations, outlook for the medium-term, implementation of the Medium-Term Debt Management Strategy, Debt Sustainability Analysis and public debt management reforms. The Report will serve as a reliable reference for the public and investors on the public debt stock, status of debt sustainability and major reforms aimed at entrenching international best practices in public debt management.

Kenya's public debt is within sustainable levels and the Government is committed to pursuing a fiscal consolidation path aimed at lowering fiscal deficits to ensure a slower growth in the public debt stock.

The Report has been prepared on the background of global financial challenges which have affected capital flows and caused a depreciation of the Kenya Shilling against the US Dollar. The depreciation of the shilling has translated to a significant increase in nominal stock of external debt of about Ksh. 940 billion. Market interest rates have also increased leading to liquidity constraints in both local currency market and in the global financial sphere. These challenges have compressed fiscal flexibility.

The National Treasury will continue to undertake reforms to improve public debt management towards developing a sound institutional structure and policies for efficiency and mitigation of operational and debt-related risks.

The government will continue to provide accurate and timely public debt information to promote transparency in accordance with international best practices.



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ACKNOWLEDGEMENT

Publication of the Financial Year 2022/23 *Annual Public Debt Management Report* is pursuant to provisions of Section 64(2) (c) of the PFM Act, 2012 and Regulation 200 of the Public Finance Management (National Government) Regulations, 2015 with the main aim of promoting transparency in reporting and accountability in the management of public debt.

The Report seeks to promote fiscal transparency, minimize information asymmetries on public debt and strengthen good governance by enhancing scrutiny of debt management by oversight bodies, the general public and investors. The borrowing and debt management operations are governed by the Debt and Borrowing Policy and the Medium Term-Debt Management Strategy supported by an effective public debt management system.

Kenya's public debt remains within sustainable levels with the Government implementing a fiscal consolidation path to reduce the rate of debt accumulation and the overall debt to GDP ratio. The Government has demonstrated its commitment to providing accurate and timely debt information to the public, and as such, the contents of this report will provide insights into the public debt portfolio and public debt management process in Kenya.

I would like to acknowledge the Public Debt Management Office of the National Treasury and the Central Bank of Kenya for taking lead in the preparation of the FY 2022/23 Annual Public Debt Management Report. I trust that the report will provide valuable insights on Kenya's public debt to the public, investors and other stakeholders.

This report and other public debt related reports and publications can be accessed on the National Treasury website: www.treasury.go.ke.



DR. CHRIS K. KIPTOO, CBS
PRINCIPAL SECRETARY / THE 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 Section 64 (2) (c) of the Public Finance Management Act, 2012 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 and

Regulation 200 of the PFM (National Government) Regulations, 2015 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; Publicly guaranteed debt;
- c. On-lent loans and contingent liabilities; Debt strategy and debt sustainability
- d. Outlook for the Medium Term; and
- e. Any commitment fees and penalties paid on any undisbursed amounts of a loan.

ABBREVIATIONS AND ACRONYMS

ACFC	Agro Chemical & Food Company
ADB	African Development Bank
ADF	African Development Fund
AEFPF-K	African Emergency Food Production Facility-Kenya
AFD	Agence Francaise de Development
A-I-A	Appropriation in Aid
APDMR	Annual Public Debt Management Report
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BETA	Bottom-Up Economic Transformation Agenda
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CERSP	Competitiveness and Economic Recovery Support Programme
CFS	Consolidated Fund Services
CI	Composite Indicator
CMA	Capital Markets Authority
COVID-19	Coronavirus Disease 2019
CRAs	Credit Rating Agencies
CSD	Central Securities Depositories
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DEG	Development Effectiveness Group
DeMPA	Debt Management Performance Assessment
DGIPE	Department of Government Investment Portfolio Enterprise
DPO	Development Policy Operations
DSA	Debt Sustainability Analysis
EDC	Effective Development Cooperation
ESAMI	Eastern and Southern African Management Institute
ESG	Environment Social and Governance
EULA	End User Licensing Agreement

EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FLLOCA	Financing Locally-Led Climate Action Program
FX	Foreign Exchange
FY	Financial year
GBP	Sterling Pound
GDC	Geothermal Development Company
GDP	Gross Domestic Product
GESDeK	Governance for Enabling Service Delivery and public investment in Kenya
GIMIS	Government Investment Management Information System
GoK	Government of Kenya
HSBC	Hong Kong and Shanghai Banking Corporation
IB	Internet Banking
ICRA	International Credit Rating Agency
IDA	International Development Association
IDAVR	IDA Variable
IIF	Institute of International Finance
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
IMFVR	IMF Variable
IRU	Investor Relations Unit
ISB	International Sovereign Bond
JPY	Japan Yen
KAA	Kenya Airports Authority
KCB	Kenya Commercial Bank
KENGEN	Kenya Electricity Generating Company
KISIP	Kenya Informal Settlements Improvement Project
KNBS	Kenya National Bureau of Statistics
KPA	Kenya Ports Authority
KPC	Kenya Pipeline Company
KPLC	Kenya Power and Lighting Company

KPRL	Kenya Petroleum Refineries Limited
Ksh	Kenya Shilling
LIBOR	London Interbank Offered Rate
LIBD6	Libor Denominated
LISF6	Libor Swiss Franc
LMO	Liability Management Operation
MCDAs	Ministries, Counties, Departments and Government Agencies
MDAs	Ministries Departments and Agencies
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MSME	Micro, Small and Medium Enterprise
MTDS	Medium Term Debt Management Strategy
NBFI	Non-Bank Financial Institution
NCBA	National Commercial Bank of Africa
NoCK	National Oil Corporation of Kenya
NSSF	National Social Security Fund
OAFPs	Official Aid Funded Projects
OTC	Over-The-Counter
O/W	Of which
PDMO	Public Debt Management Office
PFM	Public Finance Management
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
PV	Present Value
Q4	Quarter four
S&P	Standard & Poor's
SC	State Corporations
SDR	Special Drawing Rights
SGR	Standard Gauge Railway
SOEs	State Owned Enterprises
SOFR	Secured Overnight Financing Rate

T-Bills	Treasury Bills
TNT	The National Treasury
UBA	United Bank for Africa
USD	United States Dollar
WAIR	Weighted Average Interest Rate
WB	World Bank

EXECUTIVE SUMMARY

The Public Debt Management Office (PDMO) is established under Section 62 of the PFM Act, 2012 as a Directorate within the National Treasury (TNT). The core objectives of debt management are to: Minimize the cost of public debt and borrowing taking account of risks, promote development of the domestic debt market and to maintain intergeneration equity of the benefits and costs of public debt. The Debt and Borrowing Policy provides a framework for accountable borrowing and debt management practices.

The 2022 MTDS aimed at reducing refinancing risk and lowering debt service costs. The optimal strategy projected a 32 percent and 68 percent of net financing from external sources and domestic market respectively. The outturn of net external financing to domestic financing was 40:60, deviating slightly from the optimal strategy with Ksh 770,306 million raised, of which Ksh 310,759 million being net external borrowing while net domestic financing was Ksh 459,548 million. This performance was however achieved in a challenging domestic environment coupled with global supply shocks and inflationary pressures, geo-political tension and tight liquidity conditions.

As at end June 2023, the public debt increased to Ksh 10,248,713 million (70.6 percent of GDP) from Ksh 8,629,047 million in June 2022. This comprised Ksh 5,416,600 million of external debt and Ksh 4,832,113 million of domestic debt. Secondary market trading for Government securities reduced by Ksh 207,823 million to Ksh 665,151 million in June 2023 from Ksh 872,975 million in June 2022.

Projections indicate a rise in total public debt by end June 2027, reaching Ksh 13,192,241 million. Meanwhile, the debt service is anticipated to increase to Ksh 1,899,715 million by FY 2026/27. Kenya's debt remains within sustainable limits with high risk of debt distress for both overall and external debt rating. The fiscal deficit is expected to decline from 5.4 percent of GDP in FY 2022/23 to 4.4 percent of GDP in FY 2023/24 and below 4 percent of GDP over the medium-term.

The PDMO spearheaded an array of debt management reforms. These included deepening the domestic debt market to ensure predictable outcome of government funding needs at the least cost and prudent level of risk, develop Sinking Fund regulations to effectively manage the risk in

settlement of debt obligations, strengthen the operational capability of the PDMO to effectively perform its mandate, diversify sources of borrowing, shifting the debt limit from a numerical figure to a debt anchor, expand coverage of public debt reporting to include fiscal risk and contingent liabilities posed by PPPs, to enhance public debt transparency and liability management operation and implementation of Commonwealth Meridian Debt Management System to automate debt management processes.

CHAPTER ONE

LEGAL, REGULATORY AND INSTITUTIONAL FRAMEWORK FOR PUBLIC DEBT MANAGEMENT

1.0 Legal Framework

Prudent debt management based on international best practices requires that public debt management processes be guided by enabling statutes. Sound legal framework enhance achievement of the main goal of borrowing that is minimum costs and at desired prudent levels of risks. To achieve this objective, the National Treasury has endeavoured to work within the existing laws as well as spearhead amendments to the existing laws to increase efficiency in public debt management. Borrowing, debt servicing, debt recording and reporting is guided by the Constitution of Kenya (Supreme law of Kenya), the Public Finance Management (PFM) Act, 2012; (The Primary law in managing public finances in Kenya); and the attendant Regulations namely the PFM (National Government) Regulations, 2015 and the PFM (County Governments) Regulations, 2015 (Secondary statutes).

- i. **The Constitution of Kenya, 2010:** Article 214 (2) defines '*public debt*' as loans raised or guaranteed and securities issued and guaranteed by the national government. Chapter 12 of the Constitution of Kenya outlines the Principles of Public Finance which include openness and accountability, including public participation; equity in sharing of benefits and costs of debt between present and future generations; prudent use of public resources; and clear fiscal reporting.
- ii. **Public Finance Management Act, 2012:** The Act vests powers to borrow and execute loan contracts to the Cabinet Secretary, National Treasury and Economic Planning. The Authority to approve and issue guarantees is on Parliament and Cabinet Secretary, National Treasury and Economic Planning, respectively. The PFM Act, 2012 provides clear institutional arrangement for public debt management by establishing the Public Debt Management Office and clearly states the roles of the office and the Cabinet Secretary, in public debt management. The objectives of public debt management as stipulated in the PFM Act, 2012 are to:

- a. Ensure that borrowing and debt management are at the lowest cost possible over the medium to long run, consistent with a prudent degree of risk;
 - b. Promote the development of domestic debt market for government securities; and
 - c. Ensure there is sharing of the benefits and costs of public debt between the current and future generations.
- iii. **PFM (National Government) Regulations, 2015 and the PFM (County Governments) Regulations, 2015:** The Regulations sets the public debt limit as a numerical figure of Ksh. 10 trillion, however, there are ongoing efforts to amend it to a debt anchor of 55 percent of debt to GDP ratio in present value terms. The regulations also provide for proper financial records, auditing of debt accounts, reporting and disclosure on loans and issuance of guarantees. In addition, it guides borrowing by County Governments and State-Owned Enterprises (SOEs).

The National Assembly established the Public Debt and Privatization Oversight Committee in the FY 2022/2023 dedicated to matters on public debt and PPPs that were initially handled by the Budget and Appropriation Committee. This committee has enhanced parliamentary oversight on public debt management, further improving the transparency and reporting of public debt.

1.2 Institutional Framework for Public Debt Management

The Public Finance Management (PFM) Act, 2012, Section 62 (1) (2) (3) and Section 63 provide for the establishment of the Public Debt Management Office (PDMO) within the National Treasury. In executing its functions, the PDMO is organised into three departments namely: Resource Mobilization Department (Front Office); Debt Policy, Strategy and Risk Management Department (Middle Office); and, the Debt Recording and Settlement Department (Back Office). The functions of each department are distinct, but inter-related calling for a collaboration in the execution of the overall mandate of the Directorate.

Functions of the Public Debt Management Office include:

- i. Carrying out the government's debt management policy aimed at minimising its costs over the long-term taking account of risks;

- ii. Maintaining a reliable debt register for all loans taken by the national government including loans guaranteed by the national government;
- iii. Preparing and updating the annual medium-term debt management strategy including debt sustainability analysis;
- iv. Preparing and implementing the national government borrowing plan including servicing of outstanding debt;
- 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 public 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 international best practices benchmarked; and
- ix. Ensure management operations are supported by an accurate, reliable and comprehensive management information system with proper safeguards and controlled roles to specified users.

1.3 PDMO Performance for the financial year 2022/23

The following are seven (7) Key Result Areas on public debt management implemented during the FY 2022/23.

Key Result Area 1: Strengthen PDMO organizational structure and operational capability

The objectives include:

- i. Consolidation of core debt functions [borrowing, recording and settlement; policy and strategy] under the respective departments;
- ii. Preparation of workflow plans and manuals for business operations;
- iii. Staff capacity building through establishment of a PDMO capacity building project.

Achievements

This strategic objective was aimed at ensuring synergy and workflow that ensures smooth implementation of the PDMO functions as the following results have been achieved:

- i. Each department is responsible for its own functions, and thus bringing accountability and transparency in job execution. Resources required to facilitate this included more office space, more staff and equipment. This strategic initiative was well achieved in the financial year by advertising of positions within PDMO that will be filled in due course. The Director Resources Mobilization and Debt Recording and Settlement will be filled amongst others. However, office space is still a challenge.
- ii. Every department now has a workflow plan that feed into the Directorate and ministerial work plan.
- iii. Business operation manuals have been prepared for each department and have assisted in audit processes by the Office of the Auditor General.
- iv. All staff are now being appraised in the online Government Human Resource Information System thus enhancing their performance and mandate delivery levels.
- v. Staff capacity has been provided by the National Treasury alongside development partners.

Recommendations

- i. Review of organization structure and update business operation procedures within PDMO, preferably under expert advice;
- ii. Seek relocation of PDMO Departments preferably within two successive floors to enhance coordination of debt management operations; and
- iii. Provide capacity building through staff training across the Directorate using a pooled fund for the PDMO managed by a Joint Directorate Committee.

Key Result Area 2: Establishment of a comprehensive, accurate and reliable public debt database

PDMO planned to have in place, a

- i. Reliable electronic debt register running on a robust debt management system; and
- ii. Versatile debt data warehouse system for data analysis and reporting.

Achievements

The Directorate was able to undertake the following debt service processes:

- i. Debt Ledgers were digitally recorded and uploaded in treasury servers;
- ii. End User Licensing Agreement (EULA) for the Commonwealth Meridian was signed;
- iii. Commonwealth Meridian Demo for IFMIS Interface was undertaken;
- iv. Data migration from CS-CDRMS to Commonwealth Meridian achieved;
- v. Digitization of all loan records including loan agreements, legal opinion and other statutory documents; and
- vi. Parallel run of CS-CDRMS and Commonwealth Meridian.

Recommendations

- i. Full stabilization of the Commonwealth Meridian System;
- ii. Integration of debt management system (Meridian) with IFMIS and Internet Banking (IB);
- iii. Debt data reconciliation with creditors to be undertaken and reviewed quarterly to improve accuracy of debt reports; and
- iv. Training of PDMO staff and other stakeholders on usage of Commonwealth Meridian system.

Key Result Area 3: Preparation of Annual Borrowing Plan

The PDMO planned to:

- i. Prepare the Annual Borrowing Plan; and
- ii. Review the Kenya External Resources Policy.

Achievement

The Annual borrowing plan for FY 2022/23 was prepared. This guided the borrowing in the financial year.

Recommendations

- i. Disseminate debt policy to the public and stakeholders;
- ii. Review annual implementation of the MTDS and publicize it.
- iii. To include all stakeholders in the development of the Annual Borrowing Plan every financial year
- iv. Review of the Kenya External Resources Policy.

Key Result Area 4: Strengthen administration of grants and loans to fund projects and programs

- i. Enhanced budgeting of donor-funded projects particularly the provision of GoK counterpart funds.
- ii. Close monitoring of project implementation continued to improve absorption of project funds;
- iii. **Mobilization of External Resources:** Resource Mobilisation Department mobilized a total of Ksh 300,114 million of development partners' commitments in the FY 2022/2023 to finance the budget deficit.
- iv. **Budget Preparation and review**
 - a. Timely departmental annual budgets, work plans and procurement plans prepared and submitted to the Principal Secretary, National Treasury.
 - b. Estimate Working Groups meetings (comprising Budget Department, Resource Mobilization Department and Ministries Departments and Agencies) convened to prepare and finalize the Supplementary I and II Estimates for FY 2022/2023 and printed Estimates for (FY 2023/2024).

Recommendations

- i. Full participation of staff during budget preparation recommended;
- ii. Ensure provision of GOK counterpart funds for donor funded projects in the financing agreements and also ensure provision of additional conditional grants for the projects implemented in the Counties;
- iii. Need for more collaboration with the Budget Department and the Macro Economic Working Group;
- iv. Joint Portfolio performance reviews, supervision missions, fiduciary clinics and field visits to be held to review the project implementation status, disbursement levels, financial and procurement management of projects funded by the Development Partners; and
- v. Meetings to be held regularly with major stakeholders to discuss policy issues affecting donor funded projects such as Tax exemptions, availability of GOK counterpart funds and low absorption of donor funded projects.

Key Result Area 5: Broaden and deepen the domestic debt market

- i. Auction Management Rules and Guidelines published on the Central Bank of Kenya (CBK) website;
- ii. The Medium-Term Debt Management Strategy (MTDS) has provided clarity on government funding strategy enhancing investor confidence in the domestic debt market;
- iii. PDMO has closely collaborated with the Central Bank of Kenya (CBK) through regular consultative forums with relevant stakeholders to support successful issuance of government securities; and

Recommendations

- i. Operationalize the Over-The-Counter Trading for Treasury Bonds to improve liquidity;
- ii. Reengineering of retail bonds issuance to promote a saving culture and enhance financial inclusion;
- iii. Build staff capacity in the IRU; and

- iv. The IRU microsite should be updated.
- v. The Investor Relations Unit (IRU) to be revamped to provided transparent and accurate data on the government debt and other relevant information to stakeholders.

Key Result Area 6: Risk Management

Existence of a risk management procedures manual, a business continuity and disaster recovery plan for PDMO is imperative in addressing potential risks while providing mitigating measures in the event risks materialize. PDMO has developed an integrated risk management framework with the support of AFD technical assistance.

Recommendations

- i. Develop an operational risk management framework for the PDMO;
- ii. Develop a Business Continuity and Disaster Recovery Plan; and
- iii. Update the guarantee register.

Key Result Area 7: Restructure the debt portfolio to minimize risks and costs

- i. The primary objective of public debt management is to borrow at the optimal cost and at a prudent degree of risk;
- ii. Over the period under review, PDMO successfully applied for concessional financing from the World Bank under Development Policy Operations program, African Development Bank (ADB) and IMF budget support. This strategic initiative led to significant increase in the composition of concessional debt in the public debt portfolio;
- iii. Fiscal consolidation measures adopted in order to reduce the fiscal deficits to GDP ratio to a projected 3.6% in the FY 2025/26; and
- iv. Focus on the refinancing the 2024 International Sovereign Bond maturity.

Recommendations

- i. Implement strategic liability management operations on ongoing basis to lower costs and risks in the debt portfolio in accordance with the Medium-Term Debt Strategy; and
- ii. Initiate active Liability Management Operation (LMO) targeting outstanding Eurobonds.

CHAPTER TWO

REVIEW OF THE 2022 MEDIUM TERM DEBT MANAGEMENT STRATEGY

2.0 Introduction

Preparation of the Medium-Term Debt Management Strategy (MTDS) is anchored in Section 33 of the Public Finance Management Act, 2012. The strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement (BPS) and it guides borrowing over the medium-term. The MTDS is submitted to Parliament for approval and shared with Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council as required by law.

2.1 The 2022 Optimal Strategy Objective

The 2022 MTDS aimed at minimize costs and risks by utilising a net financing mix of 32 percent from external sources and 68 percent from domestic debt market. Externally, the strategy aimed at maximizing concessional borrowing and minimize on commercial borrowing, thereby lowering the debt service cost.

On the domestic borrowing, the strategy aimed at reducing the risk of refinancing by maintaining the existing stock of Treasury bills while issuing medium to long-term debt securities under the benchmark Treasury bond programme.

2.2 2022 MTDS Borrowing Out-turn

The actual ratio of net domestic financing to external financing was 60:40, deviating slightly from the optimal strategy of 68:32. The deviation was on account of tightness of liquidity in the domestic debt market as a result of monetary policy stance pursued by CBK during the fiscal year aimed at containing inflationary pressures. The resources raised to finance the fiscal deficit during the FY 2022/23 amounted to Ksh 759,663 million of which the net external financing totalled Ksh 257,267 million while net domestic financing was Ksh 502,396 million with Treasury bonds dominating at Ksh 453,758 million.

2.3 Evaluation of Costs and Risk Characteristics

The 2022 MTDS aimed at lowering debt service cost and minimize refinancing risk. Interest payment as a share of GDP rose due to accumulation of debt and rising interest rates regime. This was as a result of global supply shocks and monetary policy stances by CBK both in the domestic and international capital markets to contain inflationary pressures. Interest rate risk rose marginally on account of increase in debt re-fixing within one year. To lower interest rate risk, gradual reduction of treasury bills stock and external debt variable interest rate is necessary. About 52.9 percent of the total public debt was exposed to exchange rate risk as at end June 2023. The main exposure was the external debt stock denominated in USD accounting for 66.9 percent.

Table 2.3- 1: Evaluation of costs and risks characteristics

Risk Indicators	Scenario 3		Scenario 4		Remark on deviation
	2022 MTDS Targets	Actual 23-Jun	Deviation (4-3)		
Interest payment as % of GDP	4.3	5.2	0.9		Increased debt service cost by Ksh 317,104 million due to increase in interest rates in the international and domestic debt market, accumulation of debt and exchange rate depreciation
	Debt maturing in 1yr (% of total debt)	10.1	13.3	3.2	
	Debt maturing in 1yr (% of GDP)	6.4	9.3	2.9	
Refinancing risk	ATM External Portfolio (years)	14.1	9.4	-4.7	Increased refinancing risk due to increased issuance of short-term instruments.
	ATM Domestic Portfolio (years)	9.1	7.4	-1.7	
	ATM Total Portfolio (years)	11.5	8.5	-3	
	ATR (years)	11.3	7.7	-3.6	
Interest rate risk	Debt refixing in 1yr (% of total)	14.1	26.6	12.5	
	Fixed rate debt (% of total)	95.3	85.2	-10.1	Marginal increase in interest rate risk indicators
	T-bills (percent of the total)	7	6.1	-0.9	
Foreign exchange (FX) risk	FX debt as % of total debt	47.1	52.9	4.4	Increased foreign exchange rate exposure due to currency depreciation

Source: National Treasury

CHAPTER THREE

BORROWING AND RELATED FINANCING ACTIVITIES

3.0 Introduction

The Kenya economy remained resilient despite the lingering effects of COVID-19 pandemic, continuation of the Russian-Ukraine conflict, geo-political tensions, global inflationary trends as well as increased costs of servicing debts arising from the effects of rising interest rates and escalating debt vulnerabilities. In addition, extreme climate change effects and other environmental stressors emerged as key drivers of food insecurity and elevated cost of living in the economy. The multiple and persistent shocks constrained the fiscal space, depressed the International financial flows and increased the cost of borrowing.

During the period under review, the Government financed its fiscal deficit through foreign and domestic sources. The Government is committed to the fiscal consolidation program, which entails reduction of the pace of debt accumulation and the risk of elevated debt distress. This chapter reports on the outcome of the borrowing and related financing activities and absorption of borrowed funds.

3.1 Macroeconomic Context

The Government has continued to progressively implement policies and programmes under Vision 2030 and the subsequent Medium-Term Plans. The Government is currently implementing the Bottom-Up Economic Transformation Agenda (BETA). The agenda is aimed at economic turnaround and inclusive growth focusing in five core thematic areas that are expected to accelerate growth in the economy. These include: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Economy. Specific focus is placed on increased employment, equitable distribution of income, social security while expanding the tax revenue base and increasing foreign exchange earnings.

Kenya's Gross Domestic Product (GDP) declined from a revised growth of 7.6 percent in 2021 to 4.8 percent in 2022. This was due to the impact of climate change that led to drought adversely

affecting agricultural productivity, consequently slowing down growth in manufacturing sector and wholesale and retail trade. The growth in 2022 was spread across all sectors of the economy but was more prominent in service-oriented activities.

During the period under review, all economic activities registered positive growths except Agriculture, Forestry and Fishing, which contracted by 1.6 percent. Some of the key sectors that supported the growth in 2022 were Transportation and Storage, Financial and Insurance, Information and Communication Technology, Accommodation and Food service activities.

Macroeconomic coordination is focused on linking debt management with fiscal policy through the provision of accurate and timely forecasts on public debt and debt service under different scenarios. The National Treasury provides debt service forecasts for government debt as part of the budget formulation process and for the preparation of various debt management reports in compliance with transparency and disclosure levels under PFM Act, 2012 and its attendant regulations.

3.2 Deficit Financing

In the FY 2022/23, the fiscal deficit stood at Ksh 759,663 million (5.3% of GDP) against a target deficit of Ksh 846,223 million (5.8 percent of GDP). This was financed through domestic and external sources.

3.3 External Financing

A total amount of Ksh 505,323 million was received from external disbursements against a target of Ksh 597,178 million during the period under review. This comprise of; Project Loans A.I.A of Ksh 74,245 million, Ksh 61,975 million for Project Cash Loans, Ksh 266,885 million for Programme Loans and Ksh 102,218 million from Commercial borrowing. The principal repayment on external debt was Ksh 248,056 million leading to a net foreign financing of Ksh 257,267 million.

3.4 Domestic Financing

During the period under review, the total disbursement received from domestic borrowing was Ksh 503,506 million, comprising of Ksh 437,527 million from Government securities, Ksh 42,847

million from use of IMF SDR Allocation to Kenya, Ksh 18,819 million from Government overdraft, Ksh 2,854 million on domestic loan repayments (net receipt) and Ksh 1,459 million from Government deposit to CBK. The domestic repayments of principal debt amounted to Ksh 1,110 million leading to a net domestic financing of Ksh 502,396 million.

Table 3.4- 1: Actual Financing Fiscal Deficit (Ksh Million)

Debt Instrument	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Net Foreign Financing	414,518	340,431	323,310	142,524	257,267
Net Domestic financing	306,536	450,373	626,926	605,301	502,396
Total Net Refinancing	721,054	790,804	950,235	747,825	759,663
As percentage of GDP					
Net Foreign Financing	4.4	3.3	2.9	1.1	2.1
Net Domestic financing	3.2	4.4	5.6	4.8	3.2
Total Net Refinancing	7.6	7.8	8.5	5.9	5.3

**Provisional*

Source: National Treasury

CHAPTER FOUR

TOTAL PUBLIC AND PUBLICLY GUARANTEED DEBT STOCK

4.0 Introduction

Kenya public and publicly guaranteed debt stock increased by Ksh 1,643,674 million (19.1 percent) from Ksh 8,634,909 million in FY 2021/22 to Ksh 10,278,673 million by the end of FY 2022/23. These comprise of Ksh 5,446,561 million external debt (52.9% of the Total Public Debt) and Ksh 4,832,113 million domestic debt (47.1% of the Total Public Debt) (See Table 4.0-1 below).

Table 4.0- 1: Trends in Kenya's Public Debt (Ksh Million)

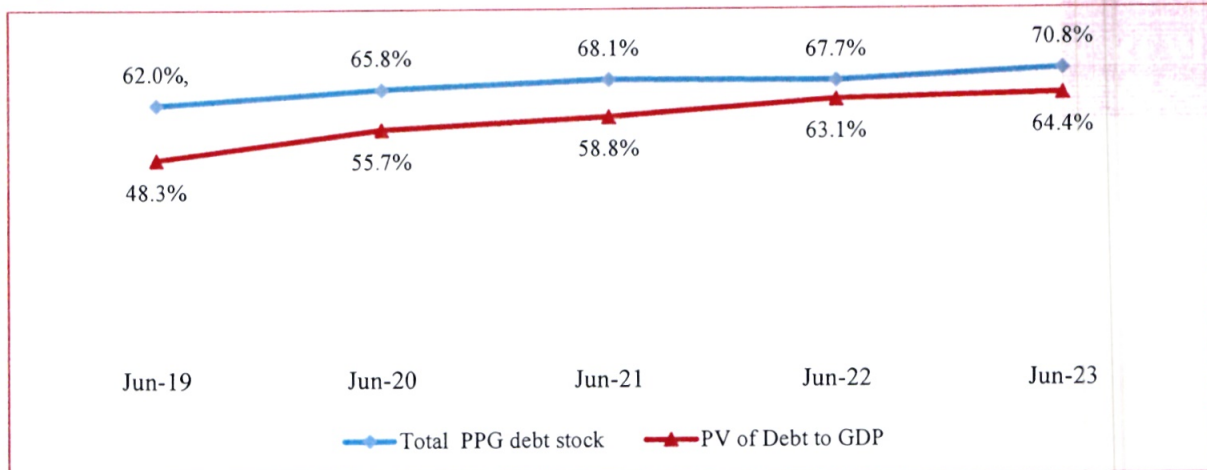
	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Total PPG debt stock	5,808,622	6,693,338	7,696,634	8,634,909	10,278,673
O/w External	3,023,139	3,515,812	3,999,541	4,305,835	5,446,561
O/w Domestic	2,785,483	3,177,526	3,697,093	4,329,074	4,832,113
% share of External debt	52.0	52.5	52.0	49.8	52.9
% share of Domestic debt	48.0	47.5	48.0	50.2	47.1
Nominal GDP	9,367,317	10,175,226	11,304,100	12,752,164	14,521,624
As percentage of GDP					
Total PPG debt stock	62.0	65.8	68.1	67.7	70.8
O/w External	32.3	34.6	35.4	33.7	38.2
O/w Domestic	29.7	31.2	32.7	33.9	33.3
PV of Debt to GDP	48.3	55.7	58.8	63.1	64.4
Annual Growth rate					
Total PPG debt stock	18.3	15.2	15.0	12.1	19.1
O/w External	24.3	16.3	13.8	7.5	28.9
O/w Domestic	12.4	14.1	16.4	17.1	11.6
Real GDP Growth	5.1	-0.3	7.6	4.8	5.3

**Provisional*

Source: National Treasury and Central Bank of Kenya

Table 4.0-1 indicates that over the last five years the stock of debt-to-GDP has been cumulatively increasing from 62.0 percent in FY 2018/19 to 70.8 percent in FY 2022/23. In Present Value (PV) terms, the PV of Debt-to-GDP rose from 48.3 percent in FY 2018/19 to 64.4 percent in FY 2022/23. The upward trend has been attributed to depreciation of Kenya shilling against major currencies and new borrowing to finance fiscal deficits over the years.

Figure 4.0- 1: Evaluation of costs and risks characteristics



**Provisional*

Source: National Treasury

The share of public debt to GDP in nominal terms and the PV of debt to GDP spread has narrowed due to change in the structure of public debt over the years. This was as a result of changes of terms of new borrowing due to Kenya's graduation from a Lower to Middle-Lower Income country.

4.1 Debt Service

The total public debt service increased by Ksh 281,659 million (30.7%) from Ksh 917,777 million as at end June 2022 to Ksh 1,199,436 million as at end June 2023. External debt service increased by Ksh 96,700 million (31.6%) from Ksh 305,665 million as at end June 2022 to Ksh 402,365 million as at end June 2023 while the domestic debt service increased by Ksh 184,959 million (30.2 percent) from Ksh 612,112 million as at end June 2022 to Ksh 797,071 million during the period under review. During the period, a liability management operation related to Treasury bills and bonds maturing was carried out in December 2022 that led to Ksh 47,315 million switched to a six-year bond thereby reducing redemption pressure.

Table 4.1- 1: Total Public Debt Service (Ksh Million)

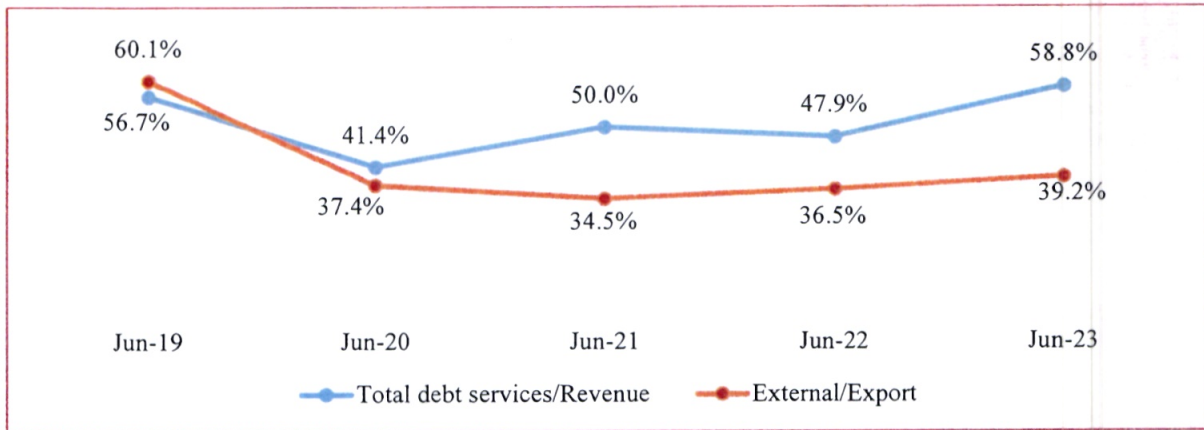
	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Total Debt Service	850,071	651,473	780,628	917,778	1,199,436
Total interest	375,723	437,293	495,142	577,979	689,005
External Debt Service					
External Principal	368,478	223,440	234,590	305,666	402,365
External Interest	103,372	121,840	106,312	121,130	155,907
Domestic Debt	481,593	428,033	546,038	612,112	797,071
Domestic Interest	272,351	315,453	388,830	456,849	533,098
Domestic Principal	209,242	112,580	157,208	155,263	263,973
Memorandum items					
As a percentage of Revenues					
Total debt services	56.7	41.4	50.0	47.9	58.8
Total interest	25.0	27.8	31.7	30.1	33.8
External interest	6.9	7.7	6.8	6.3	7.6
Domestic interest	18.2	20.0	24.9	23.8	26.1
Ordinary Revenue	1,500,482	1,573,732	1,562,015	1,917,911	2,041,119
As a percentage of Export					
External Debt Service	60.1	37.4	34.5	36.5	39.2
Export Earnings (Goods only)	612,900	596,677	680,731	838,024	1,026,479

*Provisional

Source: National Treasury and Central Bank of Kenya

In the year ending June 2023, the total debt service as a percentage of ordinary revenue increased to 58.8 percent from 47.9 percent in June 2022 as a results of high interest payment on the domestic debt and depreciation of Kenya shilling as indicated in Table 4.1-1 and Figure 4.1-1. The total interest payment as a percentage of revenue increased to 33.8 percent in June 2023 from 30.1 percent in June 2022. While external and domestic interest payments increased from 6.3 percent and 23.8 percent in June 2022 to 7.6 and 26.1 percent in June 2023, respectively. The total external debt service as a percentage of exports increased to 39.2 percent in FY 2022/23 from 36.5 percent in FY 2021/22.

Figure 4.1- 1: Debt service as percentage of revenue and export



Source: National Treasury

CHAPTER FIVE

DOMESTIC DEBT

5.0 Introduction

Domestic debt comprises of Treasury bills and bonds, Central Bank of Kenya (CBK) overdraft advanced to Government, pre-1997 CBK debt, historical bank advances from Commercial Banks and CBK on lent loan to Government (IMF SDR allocations to Kenya).

5.1 Domestic Debt Stock

As at end June 2023, the domestic debt stock was Ksh 4,832,113 million, an increase of Ksh 503,039 million (11.6%) from Ksh 4,329,074 million in June 2022. The increase was attributed to new domestic borrowing during the fiscal year to finance government requirements. The stock of Treasury bonds was Ksh 4,013,891 million in June 2023, an increase of 12.5 percent in June 2022 while Treasury Bills was Ksh 614,726 million in June 2023, a reduction of 2.3 percent from previous period. This is consistent with government's objective of managing refinancing risk and lengthening the domestic debt maturity profile by gradually reducing the stock of Treasury bills and issuing medium to long-term Treasury bonds.

The pre-1997 CBK debt reduced to Ksh 17,789 million in June 2023 from Ksh 18,899 million in June 2022. The CBK overdraft to the Government increased to Ksh 76,457 million in June 2023 from Ksh 58,502 million in June 2022 (*See Table 5.1.1 below*).

Table 5.1- 1: Outstanding Domestic Debt (Ksh Million)

Instrument	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Total Domestic Debt (A+B+C)	2,785,937	3,177,527	3,697,094	4,329,074	4,832,113
A Government Securities (1+2+3)	2,725,082	3,128,260	3,635,320	4,216,745	4,646,406
1) Treasury Bills	954,250	887,142	765,375	628,754	614,726
Banking Institutions	598,071	587,684	452,891	287,684	263,082
Others	356,179	299,458	312,484	341,070	351,644
2) Treasury Bonds	1,748,603	2,219,444	2,849,936	3,569,092	4,013,890
Banking Institutions	842,952	1,093,517	1,367,100	1,710,357	1,826,599
Others	905,650	1,125,927	1,482,835	1,858,735	2,187,292
3) Pre-1997 Government Debt	22,229	21,674	20,009	18,899	17,789
B. Others	60,855	49,267	61,774	71,588	90,191
O/w CBK Overdraft	57,328	47,150	59,279	58,502	76,457
C IMF SDR Allocation	0	0	0	40,741	95,516
As a percentage of Total Domestic Debt					
Government Securities	97.8	98.4	98.3	97.4	96.2
o/w Treasury bills	34.3	27.9	20.7	14.5	12.7
Treasury bonds	62.8	69.8	77.1	82.4	83.1
Pre-1997 Government Debt	0.8	0.7	0.5	0.4	0.4
Others (CBK Overdraft)	2.2	1.6	1.7	1.7	1.6
IMF SDR Allocation	0.0	0.0	0.0	0.9	2.0

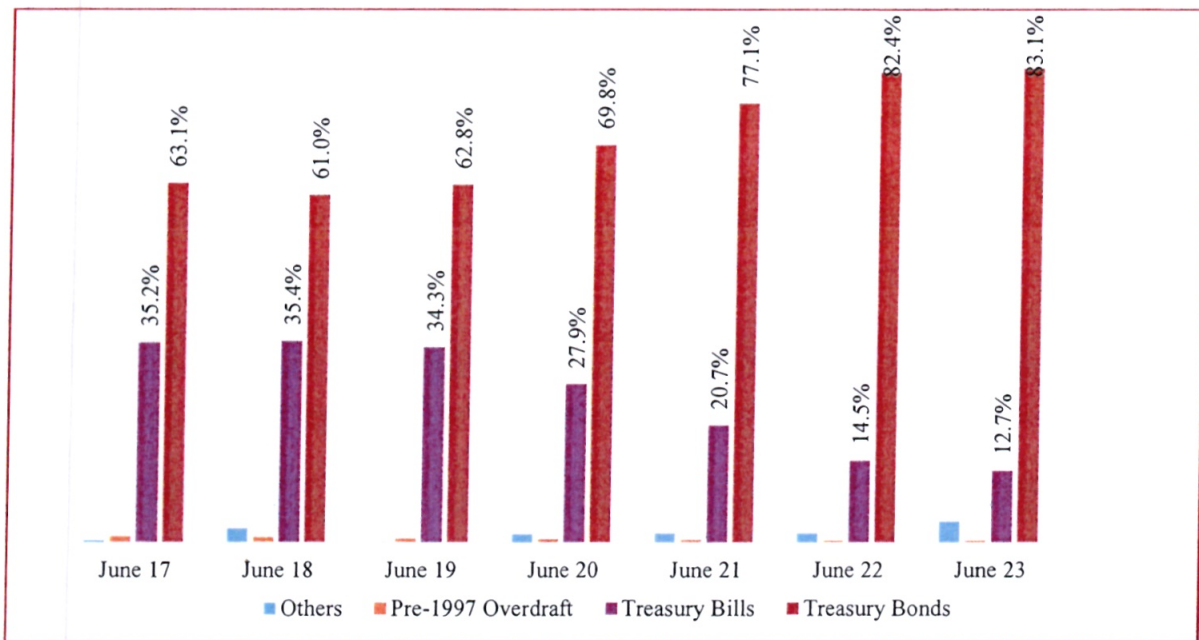
*Provisional

Source: Central Bank of Kenya

5.2 Domestic Debt by Type of Instrument

Treasury bonds and Treasury bills accounted for 83.1 percent and 12.7 percent of the total domestic debt respectively as at end June 2023. Pre-1997 debt and others including CBK Overdraft were 0.4 percent and 3.8 percent, respectively. The stock of Treasury Bonds increased by 12.5 percent while Treasury Bills decreased by 2.2 percent between June 2022 and June 2023.

Figure 5.2- 1: Domestic Debt by Instruments



Source: Central Bank of Kenya

5.3 Domestic Debt by Investor Category

In the FY 2022/23, the Non-bank institutions holdings in Government securities increased to 52.5 percent from 51.3 percent in June 2022 while banks holdings decreased to 47.5 percent from 49.2 percent. The shift in securities holdings reflects a diversified investor base compared to previously reported trend where banks have been the dominant player in the domestic Government securities market. The non-residents holding remained stable at 0.7 percent in June 2023.

Table 5.3- 1: Domestic Debt by Investor Category (Ksh Million)

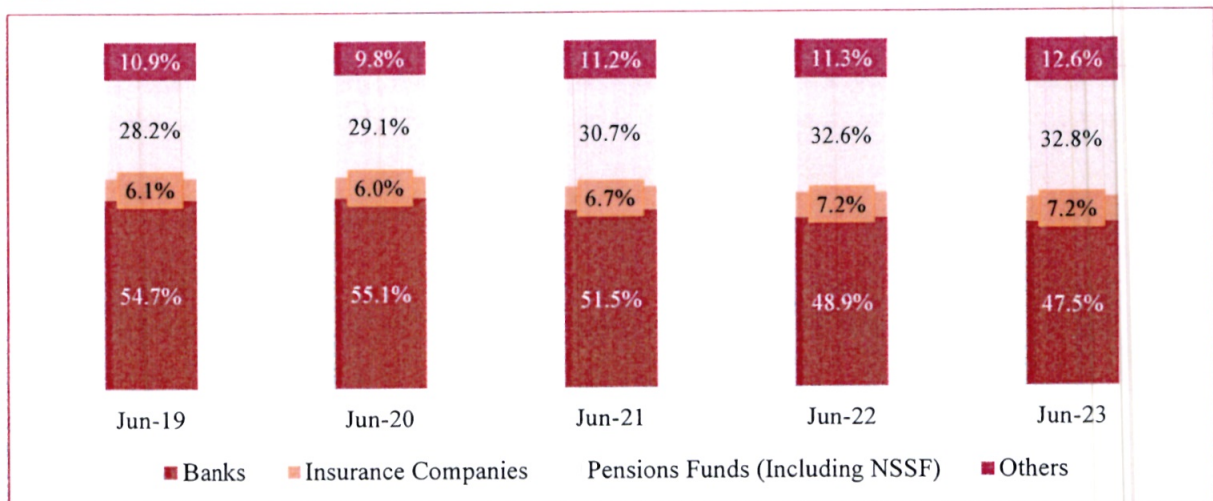
Description	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Banks	1,524,037	1,752,072	1,901,774	2,129,269	2,293,177
Central Bank of Kenya	109,607	98,878	87,575	125,882	198,108
Commercial Banks	1,414,275	1,653,194	1,814,199	2,003,387	2,095,069
Non-Banks	1,261,899	1,425,454	1,795,319	2,199,805	2,538,935
Non-Residents	27,984	33,154	31,086	31,881	31,965
Non-Financial Institutions	1,233,915	1,392,300	1,764,233	2,167,924	2,506,970
Total	2,785,483	3,177,526	3,697,093	4,329,074	4,832,112
As a Percentage of the Domestic Debt					
Banks	54.7	55.1	51.4	49.2	47.5
Central Bank of Kenya	3.9	3.1	2.4	2.0	4.1
Commercial Banks	50.8	52	49.1	46.7	43.4
Non-Banks	45.3	44.9	48.6	51.3	52.5
Non-Residents	1	1	0.8	0.7	0.7
Non-Financial Institutions	44.3	43.8	47.7	50.6	51.9
Total	100	100	100	100	100

*Provisional

Source: Central Bank of Kenya

Domestic debt stock held by insurance companies increased to 32.8 percent in June 2023 from 32.6 percent in June 2022 whereas that of pension funds was stable at 7.2 percent.

Figure 5.3- 1: Outstanding Domestic Debt Stock by Holders



Source: Central Bank of Kenya

5.4 Treasury Bills by Investor Category

The main holders of Treasury bills were banks (CBK and commercial banks) accounting for 42.8 percent followed by others including parastatals, savings and credit societies, retail investors and non-residents at 29.0 percent. Pension Funds and insurance companies were at 27.1 percent and at 1.1 percent, respectively.

Table 5.4- 1: Outstanding Stock of Treasury Bills by Investor Category (Ksh Million)

Holder	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Banks	598,071	587,684	452,891	287,684	263,082
NBFIs					
Insurance companies	18,225	7,640	7,176	6,581	6,937
Pensions Funds (including NSSF)	170,298	161,007	144,434	167,554	166,420
Others	167,657	130,811	160,874	166,936	178,286
Total	954,251	887,142	765,375	628,755	614,725
As a percentage of the Total Outstanding Domestic Debt					
Banks	62.7	66.2	59.2	45.8	42.8
NBFIs					
Insurance companies	1.9	0.9	0.9	1	1.1
Pensions Funds (including NSSF)	17.8	18.1	18.9	26.6	27.1
Others	17.6	14.7	21	26.6	29.0
Total	100	100	100	100	100

*Provisional

Source: Central Bank of Kenya

5.5 Treasury Bonds by Investor Category

The stock of outstanding Treasury bonds held by Banks decreased by 2.4 percent. Pension funds and other investor categories increased by 1.0 percent and 1.5 percent respectively. However, the stock held by Insurance companies remained constant.

Table 5.5- 1: Outstanding Stock of Treasury Bonds by Holder (Ksh Million)

Holder	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Banks	842,952	1,093,517	1,367,100	1,710,357	1,826,599
NBFIs					
Insurance companies	152,608	184,576	239,174	301,265	338,657
Pensions Funds (including NSSF)	616,243	762,088	990,615	1,224,108	1,416,117
Others	136,616	179,080	252,863	333,179	432,517
Total	1,748,603	2,219,444	2,849,935	3,569,092	4,013,891
As a percentage of Total Treasury Bonds					
Banks	48.2	49.3	48	47.9	45.5
NBFIs					
Insurance companies	8.7	8.3	8.4	8.4	8.4
Pensions Funds (including NSSF)	35.2	34.3	34.8	34.3	35.3
Others	7.8	8.1	8.9	9.3	10.8
Total	100	100	100	100	100.0

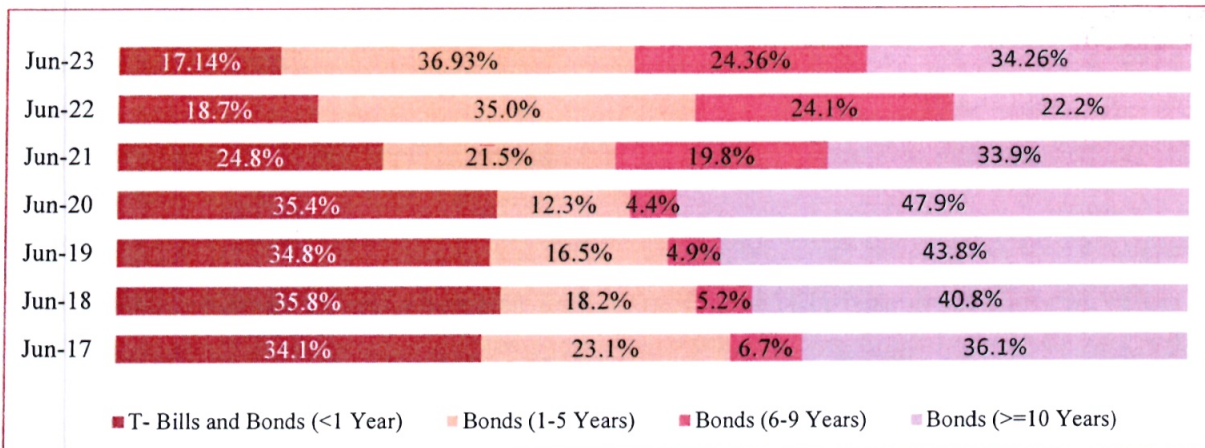
**Provisional*

Source: Central Bank of Kenya

5.6 Treasury Bills and Treasury Bonds by Remaining Time to Maturity

The Treasury bills and bonds maturing within one year declined from 18.7 percent in June 2022 to 17.1 percent in June 2023 indicating reduced refinancing risk. In June 2023, the proportion of Treasury bonds with remaining time to maturity of between 1-5 years increased to 36.9 percent from 35.0 percent, and those with more than 10 years increased to 34.3 percent from 22.2 percent in June 2022.

Figure 5.6- 1: Government Domestic Debt Securities by Remaining Time to Maturity

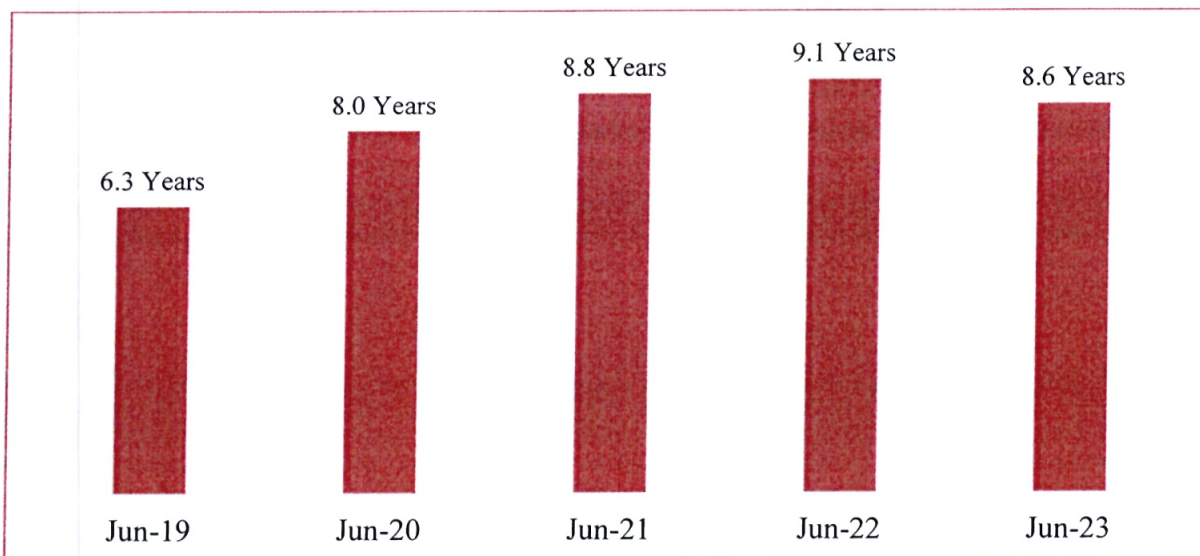


Source: Central Bank of Kenya

5.7 Treasury Bonds Maturity Profile

The Treasury Bonds’ Average Time to Maturity (ATM) declined to 8.6 years in June 2023 from 9.1 years in June 2022. This was driven by investors preference for short to medium-term Treasury bonds in the second half of the FY 2022/23.

Figure 5.7- 1: Average Time to Maturity of Treasury bonds

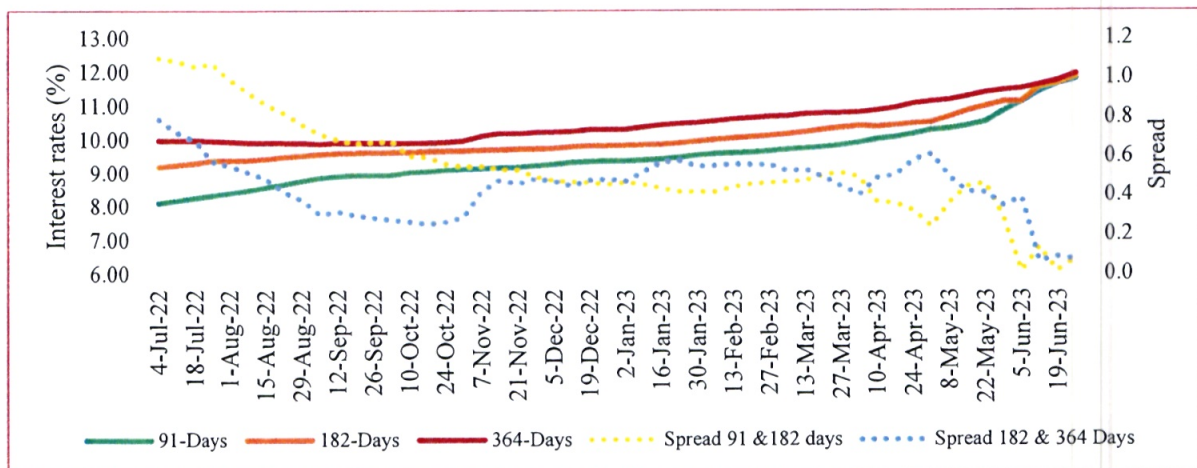


Source: Central Bank of Kenya

5.8 Average Interest Rates on Treasury Bills

Overall, average interest rates remained relatively stable during the fiscal year under review with the spread between the tenors narrowing as interest rates for the three tenors converged towards end of fourth quarter (Q4) of FY 2022/23 (See *Figure 5.8-1*). The average interest rates for the 91-day, 182-day and 364-day Treasury bills were 11.8 percent, 11.9 percent and 11.9 percent in June 2023 compared to 8.0 percent, 9.2 percent and 10.0 percent respectively in June 2022.

Figure 5.8- 1: Average Interest Rates and spreads on Treasury Bills

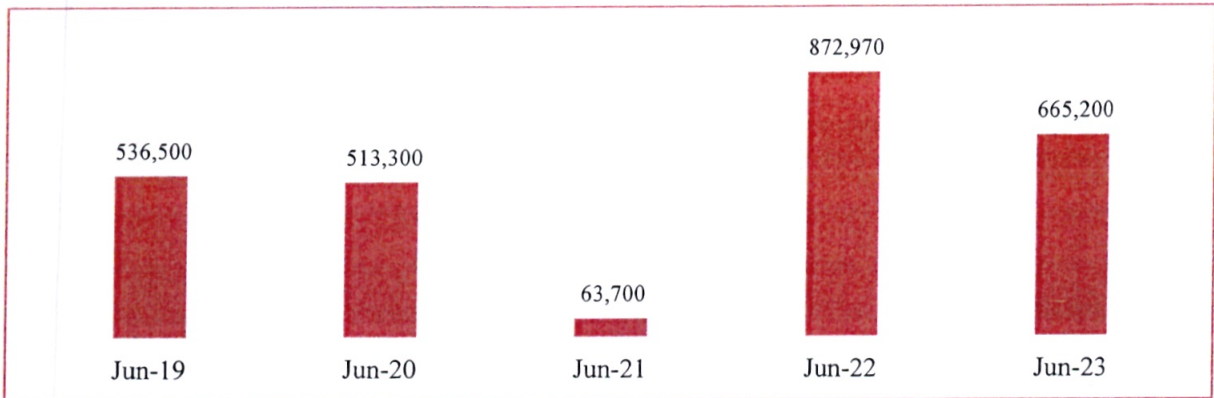


Source: Central Bank of Kenya

5.9 Government Securities Trading

The annual turnover of Treasury bonds in the secondary market decreased by Ksh 207,823 million (23.8 percent) in FY2022/23 to Ksh 665,151 million as compared to Ksh 872,975 million traded in FY2021/22 due to the decreased activities as a result of tightening liquidity (See *Figure 4.9-1* below).

Figure 5.9- 1: Annual Treasury Bonds Trading, June 2011-June 2023 (Ksh. Million)

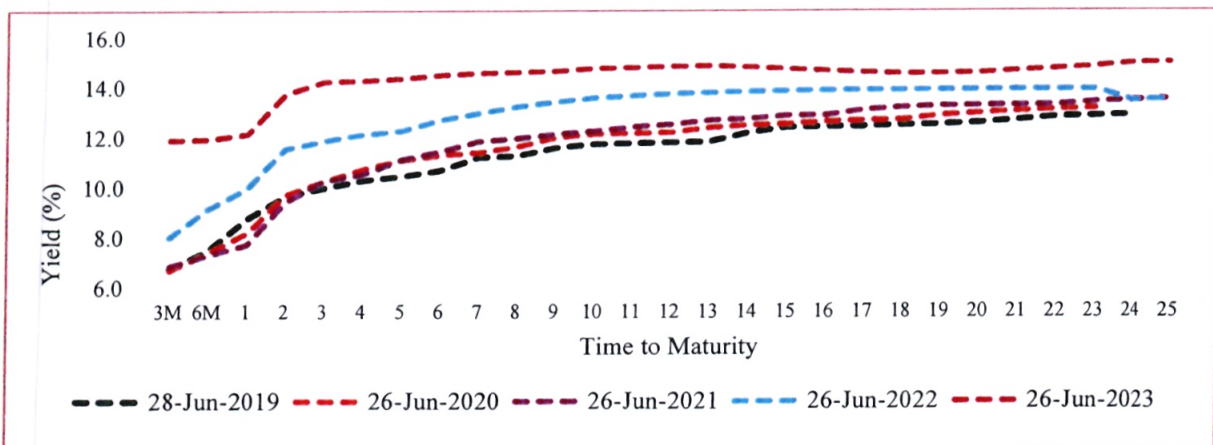


Source: Nairobi Securities Exchange

5.10 Government Securities Yield Curve

Figure 5.10-1 shows an upward shift of the yield curve from previous years. This reflects increased interest rates arising from global high interest rates environment as a result of global commodity shocks related to geo-political tensions and monetary policy stances in developed and developing economies. The yield curve was steeper in the short end segment but remained relatively stable in the medium to long-term segment.

Figure 5.10- 1: Government of Kenya Securities Yield Curve, June 2023



Source: National Securities Exchange

5.11 Interest Payments on Domestic Debt

The total interest payments and other charges on domestic debt was Ksh 533,098 million as at end June 2023, an increment of 16.7 percent from Ksh 456,849 million in June 2022. The discount cost on Treasury bills reduced from Ksh 61,374 million to Ksh 58,987 million, while interest on Treasury bonds increased from Ksh 389,819 million in June 2022 to Ksh 463,582 million June 2023. By end June 2023, the ratios of domestic interest payments to total revenue decreased to 22.5 percent from 23.8 percent in June 2022 whereas the ratio of interest to GDP increased to 3.7 percent from 3.6 percent.

Table 5.11- 1: Interest Payments on Domestic Debt (Ksh Million)

Type of Debt	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Treasury Bills	81,876	80,517	74,903	61,374	58,987
Treasury Bonds	184,771	228,028	308,412	389,819	466,396
CBK Commission	3,000	3,000	3,000	3,000	3,000
Pre - 1997 Debt	707	669	628	592	557.29
Others (Overdraft)	1,997	3,239	1,892	2,064	4,158
Total	272,351	315,453	388,834	456,849	533,098
Nominal GDP	9,367,317	10,175,226	11,304,100	12,752,164	14,521,624
Revenue	1,500,482	1,573,732	1,562,015	1,917,911	2,041,119
Ratios					
Domestic Interest/Revenue	18.1	20	24.9	23.8	26.1
Domestic Interest/GDP	2.9	3.1	3.4	3.6	3.7

**Provisional*

Source: Central Bank of Kenya

CHAPTER SIX

PUBLIC EXTERNAL DEBT

6.0 Introduction

The external debt excluding guaranteed external debts shows an increase of Ksh 1,140,727 million (26.5%) from Ksh 4,305,835 million in June 2022 to Ksh 5,446,561 million in June 2023 (*See Table 6.0-1*).

Table 6.0- 1: External Debt Stock by Creditor Type (Ksh Million)

Creditor Type	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Bilateral	917,980	993,696	1,064,272	1,173,269	1,339,503
Multilateral	909,791	1,316,835	1,659,411	1,923,444	2,654,934
Commercial	1,019,030	1,022,402	1,106,476	1,196,968	1,437,276
O/w ISB holders	624,020	649,787	766,445	836,610	997,717
Suppliers' Credit	16,932	17,631	12,162	12,154	14,848
Total	2,863,733	3,350,564	3,842,321	4,305,835	5,446,561
As a percentage of Total External Debt					
Bilateral	32.1	29.7	27.7	26.6	23.8
Multilateral	31.8	39.3	43.2	46.3	50.5
Commercial	35.6	30.5	28.8	26.8	25.4
O/w ISB holders	21.8	19.4	19.9	20.1	19.0
Suppliers' Credit	0.6	0.5	0.3	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0

**Provisional*

Source: National Treasury

The increase in external debt stock as shown in Table 6.0-1 above is attributed to significant depreciation of the Kenya shilling against major foreign currencies and inflows of external disbursements. The exchange rate depreciation led to an increase of debt by Ksh 883,459 million (20.5%) between June 2022 and June 2023 (*See Table 6.0-2 below*). The total external disbursements were Ksh 505,323 million against repayment of Ksh 248,056 million leaving a net new borrowing of Ksh 257,267 million.

Table 6.0- 2: Effects of Kenya shilling depreciation on public debt considering inflows and outflows

External Debt Stock (Ksh million)				
External Stock Jun-22	External Stock Jun-23	Disbursements (Ksh million)	Repayments (Ksh million)	Change of stock between June 2022 and June 2023 due to Ksh depreciation (million)
4,305,835	5,446,561	505,323	248,056	883,459

Source: The National Treasury

In the period under review, the Kenya Shilling experienced an average depreciation of 20 percent against four major currencies as illustrated in Table 6.0-3 below.

Table 6.0- 3: Exchange rate movement against major currencies

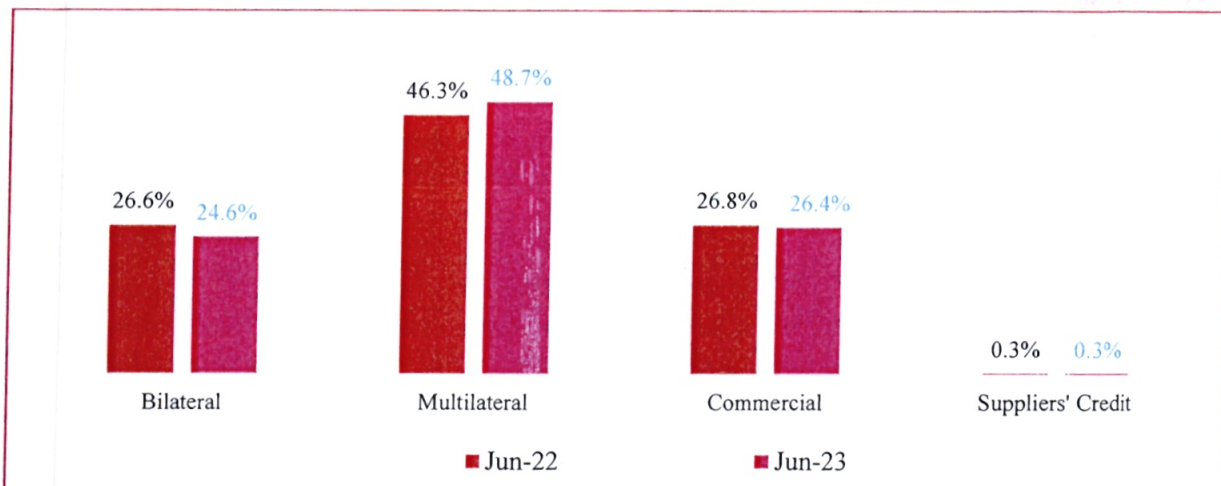
Major Currencies	Exchange rate		Percentage Change
	Jun-22	Jun-23	
US Dollar (USD)	117.8	140.5	19.3
Euro (EUR)	124	153	23.4
Sterling Pound (GBP)	143.7	177.3	23.4
Japanese Yen (JPY)	86.3	97	10.7
Chinese Yuan	17.6	19.4	1.8

Source: National Treasury

6.1 External Debt by Creditor Category

The share of multilateral debt increased to 48.7 percent as at end June 2023 from 46.3 percent of the total external debt stock as at end June 2022. The increase was due to government's strategy to maximise on concessional financing and reduce refinancing risk. The share of external debt owed to bilateral and commercial creditors decreased from 26.6 percent and 26.8 percent to 24.6 percent and 26.4 percent, respectively, between June 2022 and June 2023.

Figure 6.1- 1: External Debt by Creditor Category for end June 2022 and end June 2023

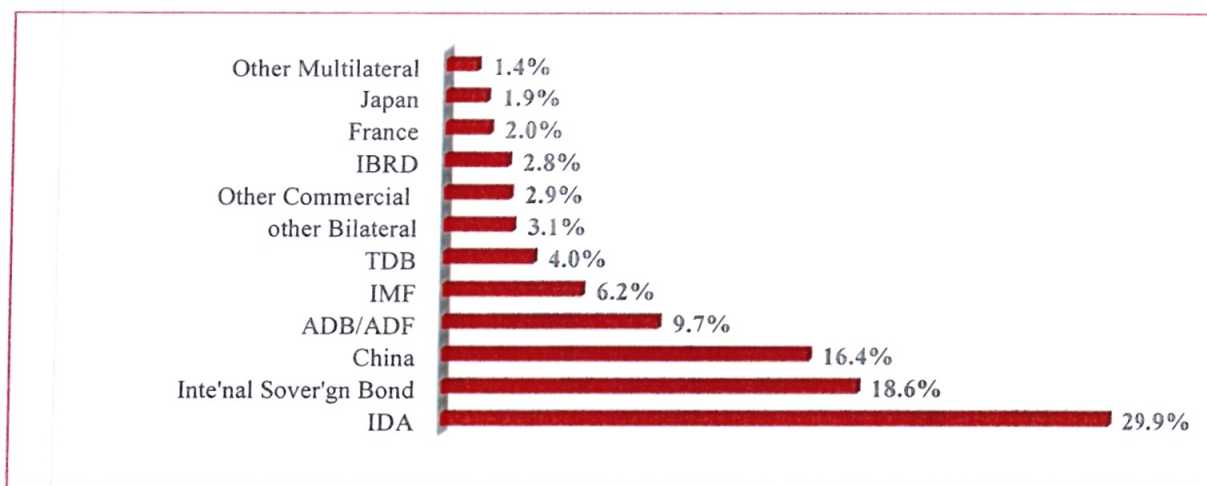


Source: National Treasury

6.2 External Debt by Major Creditor

The major external creditors to Kenya as at end June 2023 were International Development Association (IDA), International Sovereign Bond holders (ISB) and Government of China at 29.9 percent, 19.0 percent and 16.8 percent respectively (*See Chart 3.2-1 below*).

Figure 6.2- 1: External Debt by Major Creditors

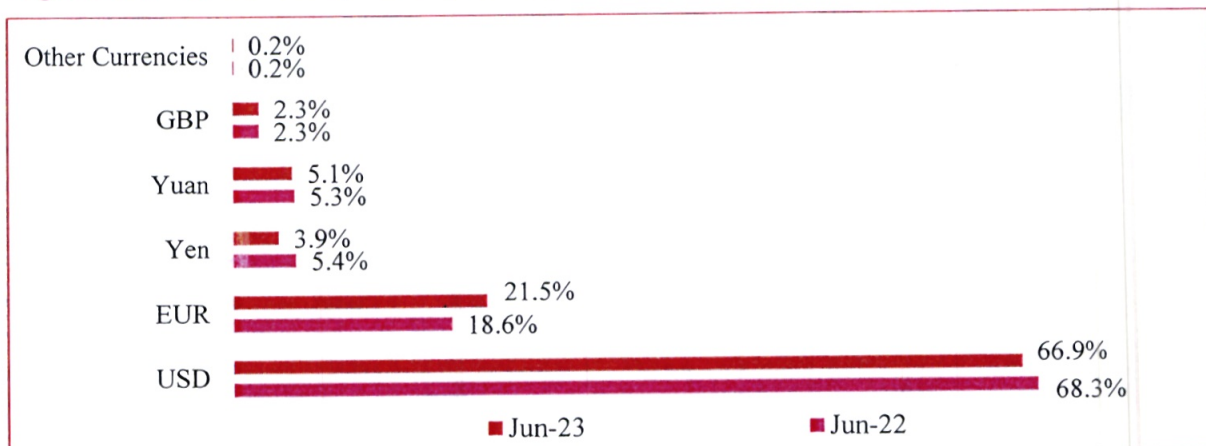


Source: National Treasury

6.3 Currency Composition of External Debt

The United States Dollar (USD) remained the most dominant currency in Kenya’s external public debt portfolio. The share of external debt held in USD decreased from 68.2 percent in June 2022 to 66.9 percent in June 2023 (*See Figure 6.3-1*). Euro associated debt increased to 21.5 percent from 18.6 percent while the portfolio held in Japanese Yen was 3.9 percent, Chinese Yuan at 5.1 percent and the Sterling Pound (GBP) at 2.3 percent and other currencies accounted for 0.2 percent in the same period. A diversified currency mix will mitigate against exchange rate risks on external debt.

Figure 6.3- 1: Currency Composition of the External Debt Stock



Source: National Treasury

6.4 Maturity Structure of External Debt

During the financial year ended June 2023, the proportion of external debt with remaining maturity of more than 10 years decreased to 63.8 percent of total external debt stock from 65.1 percent in the previous year. The share of total external debt stock with remaining maturity of between 0-1 years increased from 0.8 percent to 5.6 percent, while between 2-5 and 6-10 years decreased from 11.0 percent and 23.1 percent to 10.5 percent and 20.2 percent, respectively (*See Table 6.4-1*).

Table 6.4- 1: Outstanding External Debt by Remaining Maturity (Percentage)

Maturity Structure (Years)	Jun-21	Jun-22	Jun-23
0-1	0.3	0.8	5.6
2-5	8.0	11.0	10.5
6-10	22.6	23.1	20.2
Over 10 years	69.0	65.1	63.8

Source: National Treasury

6.5 External Debt Service

The National Government total external debt service on public debt as at end June 2023 amounted to Ksh 402,365 million compared to Ksh 305,665 million in June 2022 representing an increase of Ksh 96,700 million (31.6%). External debt service paid to multilateral creditors amounted to Ksh 75,190 million, bilateral creditors Ksh 152,551 million and commercial creditors Ksh 174,624 million.

Principal repayments increased to Ksh 246,458 million in June 2023 from Ksh 184,535 million in June 2022 while interest payments increased to Ksh 155,907 million from Ksh 121,130 million under the same period. Out of the interest payments amounting to Ksh 155,907 million during the FY 2022/23, the commitment fees payments on undisbursed external loans were Ksh 1,359 million, a decline from Ksh 1,643 million in the previous year due to improved absorption of externally financed projects.

Table 6.5- 1: External Debt Service by Creditor Category (Ksh Million)

		Jun-18	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Multilateral	Principal	16,205	17,786	18,782	25,122	32,249	44,245
	Interest	6,038	7,422	9,788	15,324	19,074	30,945
	Sub Total	22,243	25,208	28,570	40,446	51,323	75,190
Bilateral	Principal	21,357	30,119	40,149	37,518	75,161	115,831
	Interest	30,255	33,379	34,344	18,475	27,356	36,720
	Sub Total	51,612	63,498	74,493	55,993	102,517	152,551
Commercial	Principal	100,083	217,201	42,669	65,638	77,125	86,382
	Interest	45,281	62,571	77,708	72,513	74,700	88,242
	Sub Total	145,364	279,772	120,377	138,151	151,825	174,624
Grand Total	Principal	137,645	265,106	101,600	128,278	184,535	246,458
	Interest	81,574	103,372	121,840	106,312	121,130	155,906
	Sub Total	219,219	368,478	223,440	234,590	305,665	402,365
		Jun-18	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Multilateral		10.1	6.8	12.8	17.2	16.8	18.7
Bilateral		23.5	17.2	33.3	23.9	33.5	37.9
Commercial		66.3	75.9	53.9	58.9	49.7	43.4
Total		100.0	100.0	100.0	100.0	100.0	100.0

Source: National Treasury

6.6 External Loan Disbursements

The total external loans disbursements during FY 2022/23 amounted to Ksh 505,323 million, against a budget of Ksh 597,178 million. This performance was attributed to the performance of budget support loan disbursements at 73.0 percent while project support loans performed at 27.0 percent during the year.

Table 6.6- 1: External loans disbursements

Type of Disbursement	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23*
Project Cash Loans	41,681	47,798	77,492	58,601	61,975
Project Loans A-I-A	100,622	104,525	95,215	92,619	74,245
Projects Loans A-I-A, SGR	35,201	12,242	4,643	0	0
Project Loans A-I-A, SGR-Phase 2A	44,759	32,569	6,871	0	0
Commercial Financing	373,712	5,870	114,292	0	102,218
Programme Loans	84,784	239,399	168,644	175,840	266,885
Total	680,759	442,403	467,157	327,060	505,323
As percentage of Total					
Project Loans	32.6	44.6	39.4	46.2	27.0
Project Cash Loans	6.1	10.8	16.6	17.9	12.3
Project Loans A-I-A	14.8	23.6	20.4	28.3	14.7
Budget Support Loans	67.4	55.4	60.6	53.8	73.0
Commercial Financing	54.9	1.3	24.5	-00	20.2
Programme Loans	12.5	54.1	36.1	53.8	52.8

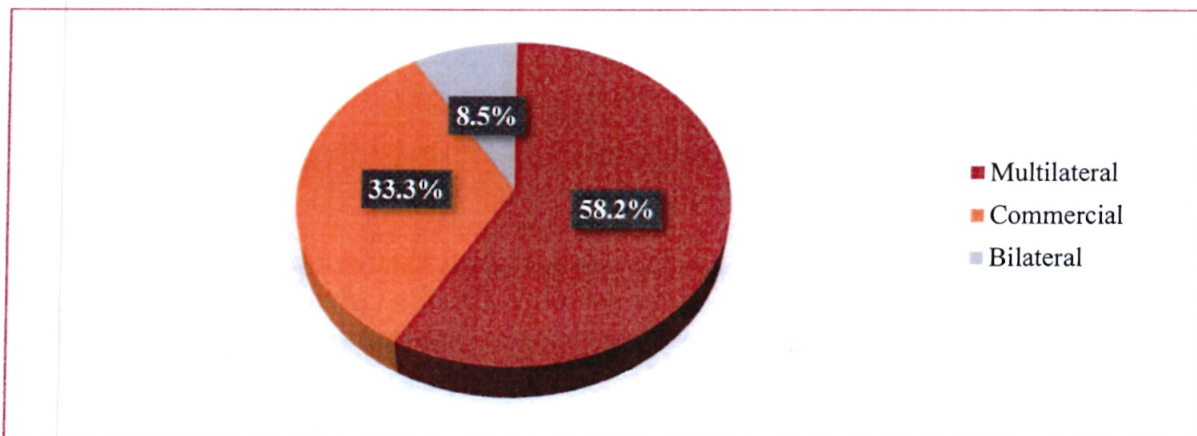
**Provisional*

Source: National Treasury

6.7 New Commitments

The Government contracted eighteen (18) new external loans equivalent to Ksh 345,892 million out of which, eight (8) were from multilateral lenders, six (6) from bilateral lenders and four (4) from commercial banks during the FY 2022/23. This borrowing is consistent with the medium-term debt management strategy of contracting concessional financing to finance the budget deficit.

Figure 6.7- 1: Composition of new external borrowings by Creditor Category



Source: National Treasury

CHAPTER SEVEN

FORECASTING AND BUDGETING FOR DEBT SERVICE

7.0 Introduction

Public debt service is a first charge to the Consolidated Fund Services (CFS). The CFS is a financial account created by Article 206 (1) of the Constitution and provided for in section 46 of the PFM Act, 2012. The CFS account is maintained by the National Treasury and Economic Planning at the Central Bank of Kenya into which is paid all monies raised or received by or on behalf of the National Government; and from which budgeted public expenditures are funded with the authority of the Controller of Budget and as approved by Parliament.

The charges to the CFS include among others expenditure on public debt service. One of the core duties entrusted to the PDMO involves the formulation of projections of the public debt servicing obligations, which serves as a critical component within the framework of the annual budgetary process. To fulfil this obligation, the PDMO assessed the maturity patterns and accrued interest liabilities associated with the public debt portfolio. PDMO generated estimates intended to constitute the budgetary allocations for debt service during the FY 2022/23 and over the medium-term.

In the context of the fiscal year 2022/23, it was projected that Domestic and external public debt interest payment was Ksh 537,380 million and Ksh 138,441 million, respectively, while the aggregate external debt principal repayments were projected at Ksh 223,757 million.

7.1 Assumption of Projections

The projections were based on the following assumptions:

- i. Government Overdraft facility was to be utilized during the year, but would be repaid and close at zero outstanding balance at the end of the financial year;
- ii. The Treasury bonds and bills interest rates were assumed to remain constant at prevailing rates of 8.0 percent for 91 days, 9.2 percent for 182 days and 9.9 percent for 364 days

Treasury bills. The Treasury bonds issuances were to be benchmark bonds of 2, 5, 10, 15 and 25 years with yields ranging between 11.3 percent and 13.9 percent per annum;

- iii. Assumed exchange rate variations due to the depreciation of the Kenyan shilling against major foreign currencies within the specified period resulting from worldwide instabilities including global inflation and geopolitical tension;
- iv. Deficit financing and other targeted Commercial debts in the portfolio would be successful;
- v. The out-turn as at end June 2023 indicates a relatively stable domestic interest rates trend with gradual increase due to external shocks; and
- vi. Domestic debt interest payments of Ksh 533,019 million due to decreased uptake of both treasury bills and bonds in the domestic debt market.

Table 7.1- 1: Projected Debt Service (Ksh million)

	Jun-23	Jun-24	Jun-25	Jun-26	Jun-26
External Debt	403,963	840,410	579,735	666,296	614,297
Interest	155,907	272,482	250,017	239,492	226,638
Principal	248,056	567,928	329,718	426,804	387,659
Domestic Debt	795,473	1,206,300	1,292,020	1,098,775	1,253,419
Interest	533,098	646,407	716,067	739,903	791,431.00
Redemption	262,375	559,893	575,953	358,872	461,988
Total debt service	1,199,436	2,046,710	1,871,755	1,765,071	1,867,716

Source: National Treasury

In the Medium term, the Debt service projection is expected to rise with a peak in FY2023/24 due to the International Sovereign Bond maturities before stabilizing.

CHAPTER EIGHT

SOVEREIGN CREDIT RATING

8.1 Introduction

A country's credit rating is an independent assessment of credit risk with respect to the ability to repay debt obligations when they fall due. Rating agencies assign rating score ranging from the top most A grades to the bottom C grades, indicating the level of credit worthiness of a borrower that in turn influences the pricing of debt.

The major global rating agencies are: Fitch, Standard and Poor's (S&P) and Moody's. Kenya has formally engaged Fitch and S&P to conduct a credit rating assessment to reflect the country's credit worthiness to the global debt market while Moody's issuing unsolicited ratings for Kenya. The credit rating levels determine the cost of credit of a borrower. The cost of credit is determined by credit reference rate (LIBOR/SOFR, EURIBOR), credit spread and country risk premium.

Kenya is currently rated at B with a negative outlook by both S&P (February 2023) and Fitch (July 2023) while Moody's recent rating is B3 (July 2023) with a negative outlook. The variations in the credit rating scores of the three agencies shows the influence of subjectivity and the perceptions generated in the qualitative analysis. Table 8.1-1 shows the rating scale (various letter grades) used by the three major rating agencies that reflects the level of credit worthiness.

Table 8.1- 1: Rating scales

Moody's	S&P	Fitch	Description	Grade
Aaa	AAA	AAA	Highest credit quality, minimum credit risk	Investment Grade
Aa1, Aa2, Aa3	AAA+, AA, AA-	AAA+, AA, AA-	Very high credit quality, very low credit risk	
A1, A2, A3	A+, A, A-	A+, A, A-	High credit quality (upper-medium grade)	
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	Good credit quality, currently low credit risk	Non-Investment Grade
Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-	Speculative elements, issuer faces major uncertainties and adverse conditions	
B1, B2, B3	B+, B, B-	B+, B, B-	High credit risk, but issuer still able to meet its financial commitments	
Caa1, Caa1, Caa3	CCC+, CCC, CCC-	CCC	Issuer currently highly vulnerable, default likely	Non-Investment Grade
Ca	CC	CC	Issuer currently highly vulnerable near default	
C	R, SD, D	C, RD, D	Lowest rating, typically in default on some (SD, RD) or all its financial obligations	

Source: Credit Rating institutions

The investment grade rating reflects countries that are able to attract low-cost of borrowing due to the perceived low credit risk while the non-investment grade depicts those that incur higher cost of credit due to the perceived high credit risk.

Table 8.1- 2: Kenya's historical Credit Ratings since November 2010

Agency	Rating	Outlook	Date
Moody's	B3	Negative	July 28 2023
Fitch	B	Negative	July 20 2023
Standard and Poor's	B	Negative	Feb 27 2023
Standard and Poor's	B	Stable	Mar 05 2021
Standard and Poor's	B+	Negative	Jul 14 2020
Fitch	B+	Negative	Jun 19 2020
Moody's	B2	Negative	May 07 2020
Moody's	B2	Stable	Feb 13 2018
Fitch	B+	Stable	Feb 09 2018
Moody's	B1	Under Review	Oct 02 2017
Standard and Poor's	B+	Stable	Oct 14 2016
Standard and Poor's	B+	Negative	Oct 16 2015
Fitch	B+	Negative	Jul 17 2015
Moody's	B1	Stable	Nov 08 2012
Standard and Pooers	B+	Stable	Nov 19 2010

Source: Credit Rating institutions

8.2 Rating methodology

The rating methodology varies from one rating agency to the other. The major rating assessments are done under the following broad areas: institutional; economic; external; fiscal and monetary assessment criteria. The institutional assessment analyses how government's institutions and policymaking affect credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic or political shocks. The assessment considers effectiveness, stability, and predictability of its policymaking and political institutions; and transparency and accountability of its institutions (CBK, KNBS, NT) data, processes and the coverage and reliability of statistical information.

The key drivers of Economic Assessment are; income levels, growth prospects and economic diversity and volatility. The history of sovereign defaults suggests that a wealthy, diversified, resilient, market-oriented, and adaptable economy coupled with a track record of sustained economic growth provides a sovereign with a strong revenue base. This consequently enhances its fiscal and monetary policy flexibility, and ultimately boosts its debt-carrying capacity.

The External Assessment score reflects a country's ability to obtain funds from external sources to meet its public and private sector maturing obligations to non-residents. It refers to the transactions and positions of all residents (public and private sector entities) vis-à-vis those of non-residents because it is the totality of these flows and stocks that affects a country's level of reserves and exchange rate developments.

There are three factors which determine a country's external assessment score: the status of its currency in international transactions (degree to which our currency is used for international transactions); the country's external liquidity, which provides an indication of the economy's ability to generate the foreign exchange necessary to meet its public and private sector obligations to non-residents; and the country's external balance position, which shows residents' assets and liabilities (in both foreign and local currency) relative to the rest of the world.

The Fiscal Assessment focuses on the sustainability of fiscal balances and debt burden. It considers: fiscal flexibility; long-term fiscal trends and vulnerabilities; debt structure and funding access; and potential risks associated with contingent liabilities.

The Monetary Assessment results from the analysis of: the exchange rate regime; which influences a sovereign's ability to have an independent monetary policy tailored to the needs of its domestic economy; and the credibility of its monetary policy, as measured, among other factors, by inflation trends over an economic cycle or by the impact of market-oriented monetary mechanisms on the real economy. This is largely a function of the depth and diversification of the resident financial system and capital markets.

8.3 Rating agencies key findings for Kenya and the basis for ratings

- i. **Institutional assessment** has revealed institutional and governance exposures to weak fiscal policy effectiveness, high levels of governance issues and low adherence to the rule of law;
- ii. **Economic assessment** indicate that Kenya has a diversified economy albeit high levels of poverty, health and safety risks, high unemployment rates, and limited access to basic services. Economic growth has not been sustained due to the global economic shocks having a negative impact on the sovereign ratings;
- iii. **External assessment** underscored declining international reserves; continuing limited access to international debt capital markets limiting external liquidity and increasing currency risk. The economy has reduced its ability to generate the foreign exchange necessary to meet its public and private sector obligations to non-residents majorly due to low export;
- iv. **Monetary assessment** indicated a flexible exchange rate regime, independent and credible monetary policy that has reigned on inflation. The financial system and capital markets are relatively deep and diversified. There is perceived high intervention in the foreign exchange market; and
- v. **Fiscal assessment** found limited fiscal flexibility due to historical high fiscal deficits, lack of liquidity buffers to safeguard the country during economic shocks, high debt burdens and potential risks of contingent liabilities from the state-owned enterprises. Kenya's domestic debt market is characterized by a narrow investor base dominated by banks and pension funds. It is recommended that Kenya pursues domestic market reforms aimed at widening the investor base and enhancing market depth to reinforce the domestic market's capability to meet funding needs.

The various rating agencies had the following key basis for rating Kenya.

Table 8.3- 1: Summary of key findings by rating agencies

	Fitch	Moody's	S&P
A. Rating levels	B negative outlook	B3 negative outlook	B negative Outlook
B. Basis for the ratings			
1	Increased external financing constraints amid high funding requirements, including a USD 2 billion Eurobond maturity in 2024	Downside risks relate primarily to liquidity risk exemplified by lack of international market access	Curtailed access to foreign funding resulting in a sustained decrease in foreign currency
2	Weakening international reserves	Elevated refinancing needs against limited external financing options	
3	High Debt, Currency Risk	Substantial external amortizations even after the 2024 Eurobond maturity	
4	Rising financing costs, and uncertainty regarding the fiscal trajectory,	Reliance on costly domestic financing weighing on debt affordability	
5	Tighter Domestic Financing Conditions		
6	Political risk associated with protests threatening the Socio-Political Climate		

Source: National Treasury

8.4: Factors that could lead to ratings upgrade or downgrade

According to the rating agencies, if the government is able to meet its net fiscal financing needs without an increase in borrowing costs combined with an improvement in the debt burden and debt affordability overtime, this would move the ratings from a negative outlook to a stable outlook. Additional realization of external financing over and above what is already included in the government's financing strategy would provide fiscal flexibility and support taking out the upcoming high external maturing obligations in 2024. A return to international capital market and access to a wide range of funding options would lead to a decline in liquidity risk which will enhance credit availability. Continued improvement of Kenya's international reserves and strict

adherence to fiscal consolidation commitment will have a positive impact on debt sustainability indicators.

8.5: Kenya credit rating improvement strategy

Kenya is developing a credit rating improvement strategy in a quest to ensure the country attains the investment grade. Improved credit rating is likely to translate to reduced cost of credit which would boost the economic activities and improve the per capita income. Thus, yielding positive spiral effects to future rating. A credit rating score improvement to investment grade would yield more cost savings on Kenya's public debt. Some of the key interventions to improve Kenya's credit rating score have been classified as general recommendations involving broader and cross-cutting policy issues, and specifically involve narrow actions that are implementable at Ministry/Department/Agency level. The general recommendations include:

- i. **Ease of Doing Business:** ensure thriving of local economy with low cost of doing business to promote diversification of local investments as well as foreign direct investments while improving exports;
- ii. **Trading Blocs:** encourage integration of regional trading blocs to reduce tariff barriers to lower cost of cross-border trade;
- iii. **Sound Macro-economic Policies:** the existing policies have managed to stabilize the economy hence need for its sustenance in order to curb shocks in the economy;
- iv. **Institutionalize Framework for International Credit Rating Agency (ICRA) Liaison Teams:** National Treasury to coordinate with the task force already in place including Investor Relations Unit (IRU) and teams from the agencies to oversee the institutionalization of framework for international credit rating agencies; and
- v. **Develop Comprehensive National Strategy:** which will engage with the different agencies to guide the government on specific focus areas to improve credit ratings, mechanisms for periodic monitoring, risk exposures and all stakeholders on how they respond to issues raised by the International Credit Rating Agencies in previous reviews and how relevant government MDAs are addressing them.

CHAPTER NINE

INVESTOR RELATIONS

9.0 Introduction

The Investor Relations Unit (IRU) continues to play an important role in provision of data and information to sovereign creditors/investors to undertake a review and assess the risks inherent in lending thereby making informed decisions. The IRU also facilitates interactive communication with investors, creditors, financial intermediaries and credit rating agencies and other stakeholders, while promoting fiscal transparency, which is important for establishing the government's credibility of fiscal plans and ensuring market confidence.

9.1 Investor Relations Microsite

The National Treasury developed the Investor Relations website as a microsite. The development of the IRU microsite was one of the key policy reforms and structural benchmark under the Kenya-IMF Extended Fund Facility, Extended Credit Facility Program and the World Bank's Development Policy Operations phase 3 (DPO3).

The IRU microsite has been reviewed for further improvements and enhancements which included: Translation to local language (Swahili) by launching google translate; Activation of reciprocal links with Central Bank of Kenya (CBK) and Kenya National Bureau of Statistics (KNBS); The Environment Social and Governance (ESG) data prominently displayed on the landing page; reorganize the presentation of public debt data; improve the Investor subscription template; continuously updating the information and data on the microsite; improve how credit rating scores are displayed and train users in PDMO on how to access the back-end of the microsite to enable regular updating of information.

9.2 IRU Survey

The Institute of International Finance (IIF) undertakes on annual basis, a Survey of Sovereign Investor Relations and Data Transparency Practices. The IIF has developed and implemented a set of twenty (20) criteria for evaluating Investor Relations and twenty-three (23) criteria for evaluating data dissemination practices, which are based on the core principles for effective

sovereign Investor Relations. A weighting system reflects the relative importance of different criteria from an investor perspective and a country's performance is measured against the index.

In 2022 IIF survey, Kenya scored thirty-four (34) out of fifty (50), which was a major improvement attributed by the presence of an investor relations office, IRU microsite and improved public debt data publication and publicizing. In 2023, the IIF survey preliminary result is thirty-six point five four (36.54) out of fifty (50), a slight improvement from the last two years, which shows Kenya is performing better than most Sub-Saharan countries in fiscal transparency. The IIF periodic updates of assessments provides a unique opportunity to convey to market participants the efforts governments are making to strengthen their dialogue with investors relative to other countries.

9.3 Engagement with Credit Rating Agencies

One of the key roles of IRU is to actively manage the relationship with Credit Rating Agencies (CRAs) and ensures that the CRAs are able to conduct their due diligence as effectively and efficiently as possible. The unit also ensures that key economic, fiscal and financial statistics shared with CRAs are consistent with published information. It is the mandate of IRU to coordinate dialogue between TNT, other government agencies and CRA to ensure information published in the CRA reports are accurate and credible.

9.4 Investor Conference Calls including Deal and Non-Deal Road Shows

The IRU has coordinated several investor conference calls, deal and non-deal road shows with international investors to discuss on the macroeconomic policies, economic development and public debt management. The investor calls and meetings organized targeted: JP Morgan Group; The Standard Chartered Group; Citi Bank Group; Jefferies Investor Group, Wellington, Ninety-one, Payden, Goldman Sachs Asset management, Prudential, Ashmore and Eaton Vance.

The IRU participates in the weekly Technical Working Group meetings between the TNT and CBK and also monthly Bond Market Forum, which is chaired by the Central Bank of Kenya, acting as fiscal agent for the National Treasury. In addition, the IRU coordinated investor meetings in the margins of the 2022 Annual World Bank Meetings, the 2023 Annual World Bank -IMF Spring Meetings both held in Washington DC and the 2023 African Development Bank Annual Meetings held in Sharm- E I-Sheikh, Egypt.

9.5 Donor Coordination

Effective Development Cooperation (EDC) promotes a cordial working relationship with all development actors to maximize cooperation for the realization of sustainable development. The objective is to promote development effectiveness through improvements in harmonization, alignment and coordination in Kenya.

The IRU convened monthly meetings of the Development Effectiveness Group (DEG) to discuss operational issues on implementation of the Official Aid Funded Projects (OAFPs). In addition, the DEG workshop was held in 1st December 2022 to discuss on the Fourth Medium-Term Plan process and the engagement of the Development Partners, the progress of devolution in Kenya and the Budget Rationalization and Government Priorities.

9.6 Stakeholder Engagement

A number of stakeholders and institutions play key roles in borrowing and debt related transactions at the operational level. Individual functions and tasks related to debt management are dispersed across the Ministries, Counties, Departments and Agencies, Development Partners among other institutions.

The Parliament plays an important role in enacting laws and regulations governing public debt management, approving the Budget Policy Statement and Medium-Term Debt Management Strategy, setting the public debt ceiling, approving government guarantees and providing oversight on public debt management. The Cabinet considers and approves various statutory and policy documents, which include the Borrowing and Debt Management Policy, BPS, MTDS and new debt funded project in accordance with the relevant laws, regulations and guidelines.

The Office of the Attorney General and Department of Justice provides legal advisory on all loan contracts drafting, vetting and interpreting local and international documents, agreements and treaties, issues legal clearance before the signing of financing agreements, issues legal opinion as required by the creditor on the validity of loan agreements and represents the Government in courts or any legal proceedings to which Government is a party.

The Office of the Auditor General carries out performance, financial and procurement audits on all public debt and borrowing in accordance with the law. In addition, the OAG issues audit reports for externally financed projects. The Controller of Budget oversees implementation of the budgets by authorizing withdrawals from the exchequer and other Public Funds and prepares reports on implementation of the budgets. The CBK acts a fiscal agent for the National Treasury in making external and domestic debt payments services, maintaining bank accounts of public funds, advising the Government on debt related issues, and providing depository facilities for government domestic debt.

CHAPTER TEN

PUBLIC DEBT RISK MANAGEMENT

10.0 Introduction

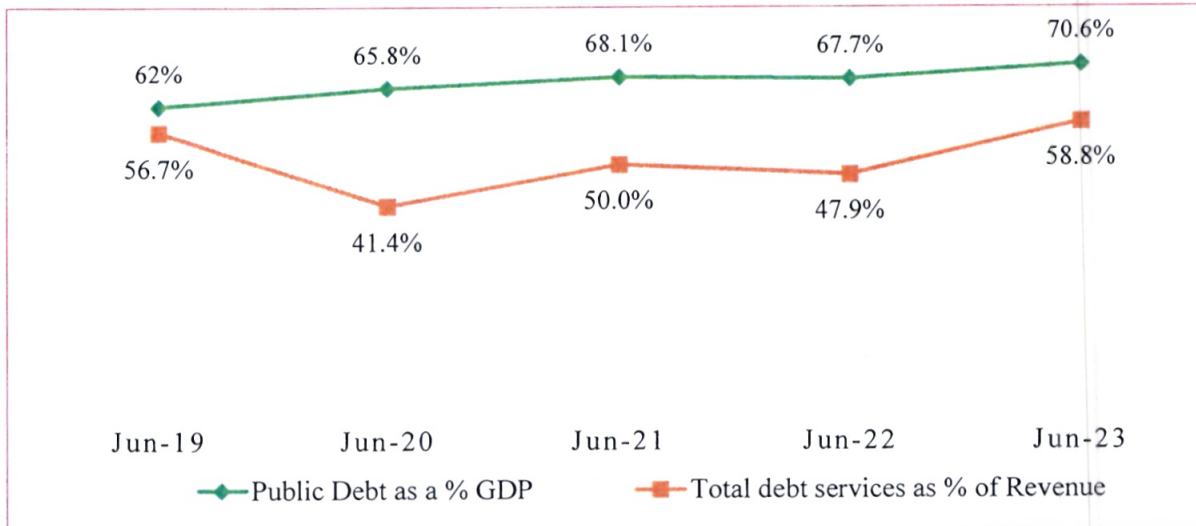
The Public Finance Management Act, 2012, Section 15 (2) (e) requires the National Treasury to manage fiscal risk prudently as one way of adhering to the fiscal responsibility principles. Section 33 (3) (c) of the PFM Act, 2012 mandates the National Treasury to prepare the MTDS and include in the strategy a statement on the principal risks associated with loans and guarantees.

The National Treasury manages, reports and monitors the risks associated with debt in the MTDS, which is updated annually. The major risks are market related risk including: rollover and refinancing risks; interest rates risks; exchange rate risks; bunching maturity risks; and lack of access to a wide range of financing option including lack of access to international capital markets. The major cost drivers are payment of; interest, principal, fees, and obligation arising from guaranteed contingent debt.

10.1 Debt Service as a Percentage of Revenue and Total Debt as a Percentage of GDP

Kenya's debt service costs as at end June 2023 was 58.8 percent of the revenue up from 47.9 per cent in June 2022. The increase in the share of debt service to revenue is characterised by increased external debt repayment that resulted from the depreciation of Kenya Shillings against the dominant foreign currencies within the external debt portfolio and high interest payments on domestic debt due to the high domestic interest rate environment.

Figure 10.1- 1: Debt Service as a percentage of revenue and Total Public Debt as a percentage of GDP

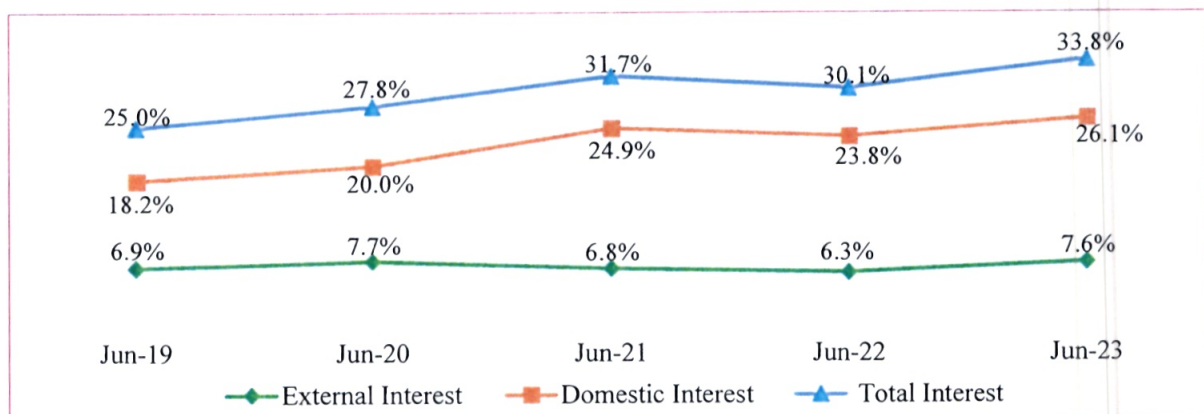


Source: National Treasury

10.2 Interest Payment as a percent of Revenue

Interest payment as a percentage of revenue increased to 33.8 percent as at end June 2023 from 30.1 percent as at end June 2022. The interest payment on overall debt increased due to depreciation of Kenya Shillings and the high domestic interest rate environment.

Figure 10.2- 1: Interest Payments as a Percentage of Revenue

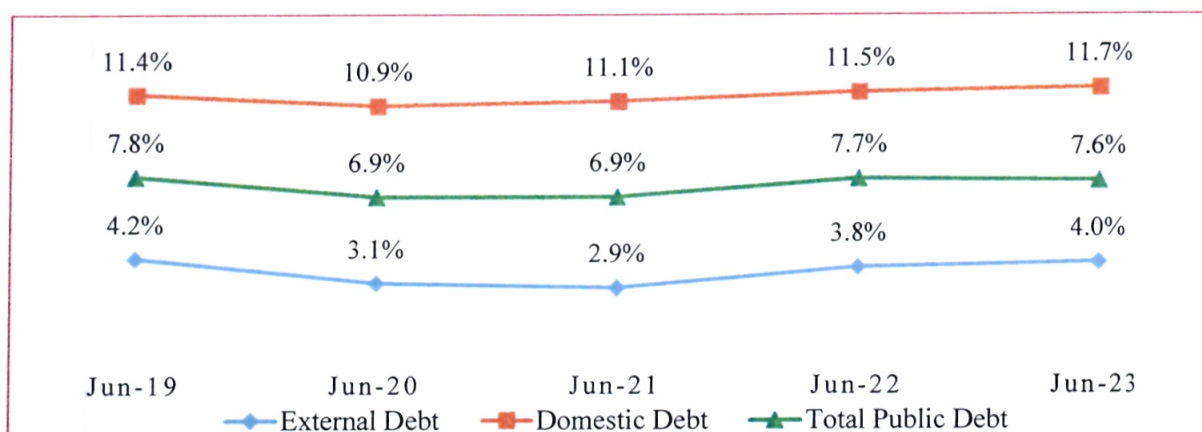


Source: National Treasury

10.3 Weighted Average Interest Rate

Weighted Average Interest Rate (WAIR) of the public debt decreased from 7.7 percent in June 2022 to 7.6 percent in June 2023. The external WAIR slightly increased from 3.8 percent as at end June 2022 to 4.0 percent as end June 2023 while the WAIR on the domestic debt marginally increased by 0.2 percent during the period under review.

Figure 10.3- 1: Trend on Weighted Average Interest Rate of Public Debt

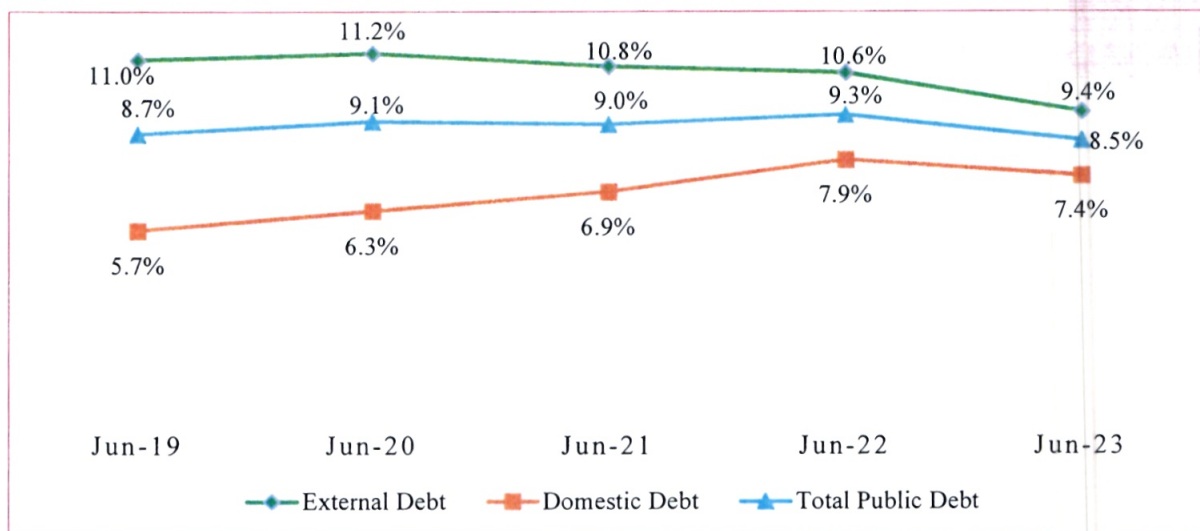


Source: National Treasury

10.4 Average Time to Maturity

Average Time to Maturity (ATM) for the total debt had risen from 8.7 years as at end June 2019 to 9.3 years as at end June 2022 in line with the MTDS of lengthening the overall maturity structure. However, as at end June 2023 the ATM declined marginally to 8.5 years driven by marginal decline in ATM for both domestic and external debt.

Figure 10.4- 1: Average Time to Maturity

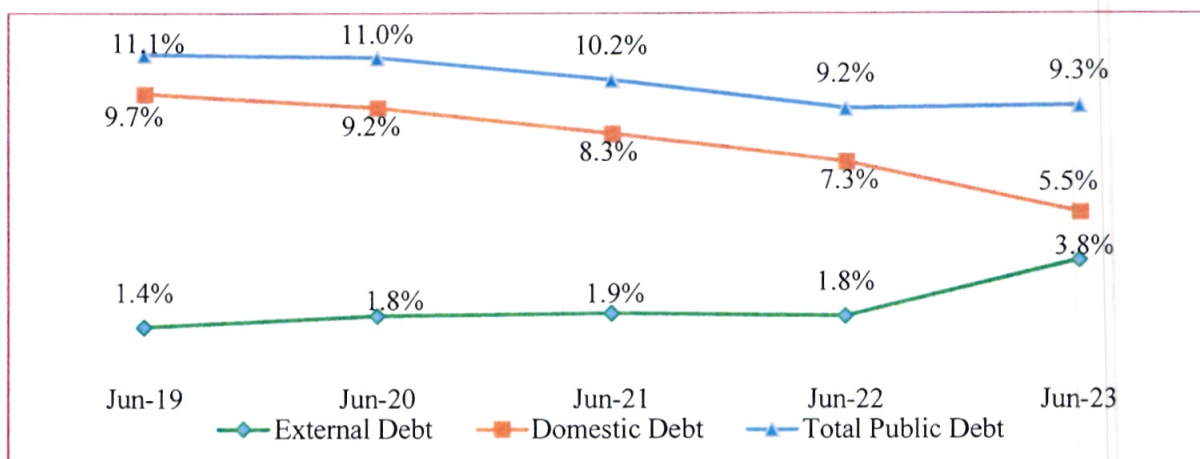


Source: National Treasury

10.5 Debt Maturing in One-Year as a Percentage of GDP

The proportion of total public debt and domestic debt maturing in one-year as a percentage of GDP has reduced over the past four years. Nonetheless, external debt maturing in one-year has fairly remained constant over the same period with a sharp increase in the last financial year. The decline in debt maturing in one-year as a percentage of GDP is in line with Government’s strategy to elongate the tenor bonds and external debt to lower refinancing risk associated with the amount of debt repayment over the past five years.

Figure 10.5- 1: Debt Maturing in One-Year as a Percentage of GDP

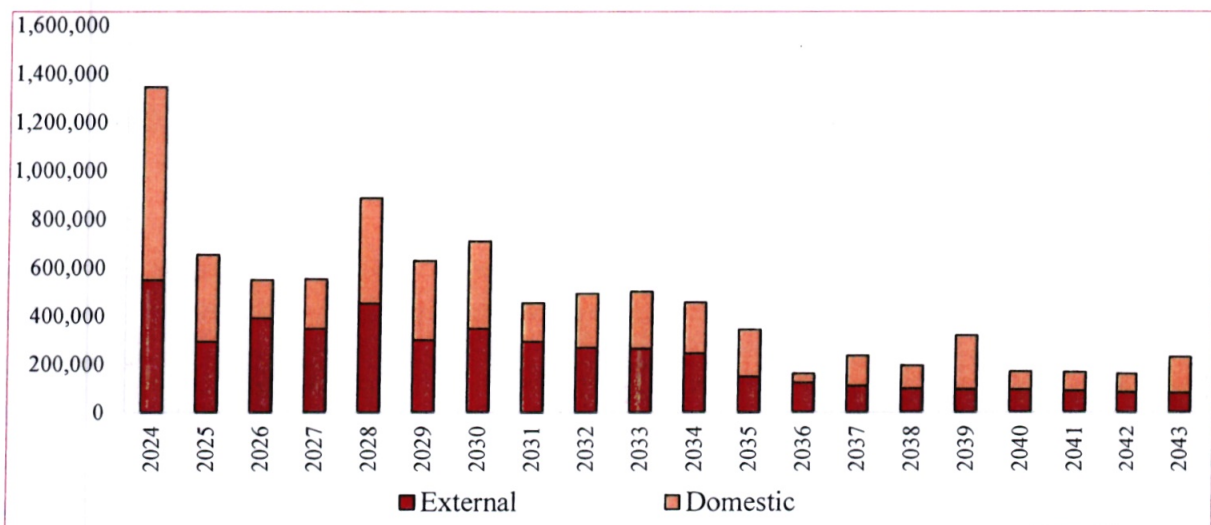


Source: National Treasury

10.6 Redemption Profile

The overall redemption profile is generally smooth except for the fiscal years ending June 2024 and June 2028 (Figure 10.6-1). The high maturities in June 2024 are mainly due to the maturing USD 2,000 million International Sovereign Bond and short-term Treasury bills. The high redemption profile in June 2028 is also due to the maturing USD 1,000 million International Sovereign Bond.

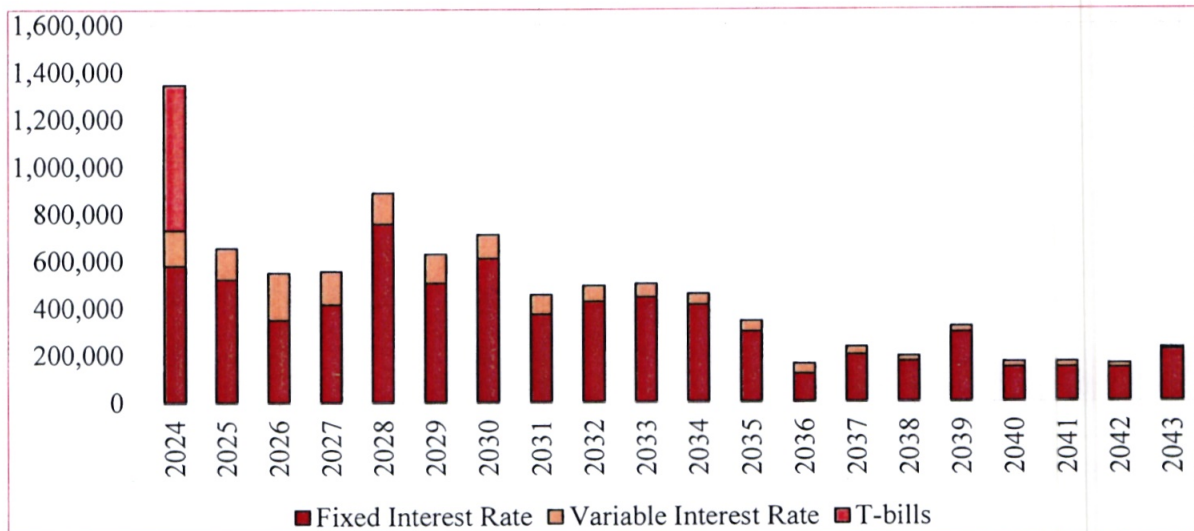
Figure 10.6- 1: Redemption Profile of Total Public Debt (Ksh Million)



Source: National Treasury

Figure 10.6-2 below indicates that a great proportion of public debt are in fixed interest rate. The share of public debt exposed to variable interest rates is expected to be relatively stable in the long-term. The proportion of fixed rate debt inclusive of Treasury bills in June 2024 is 90 percent of total debt while variable rate is 10 percent of total debt.

Figure 10.6- 2: Redemption Profile of Total Public Debt by Interest Rate Type (Ksh Million)

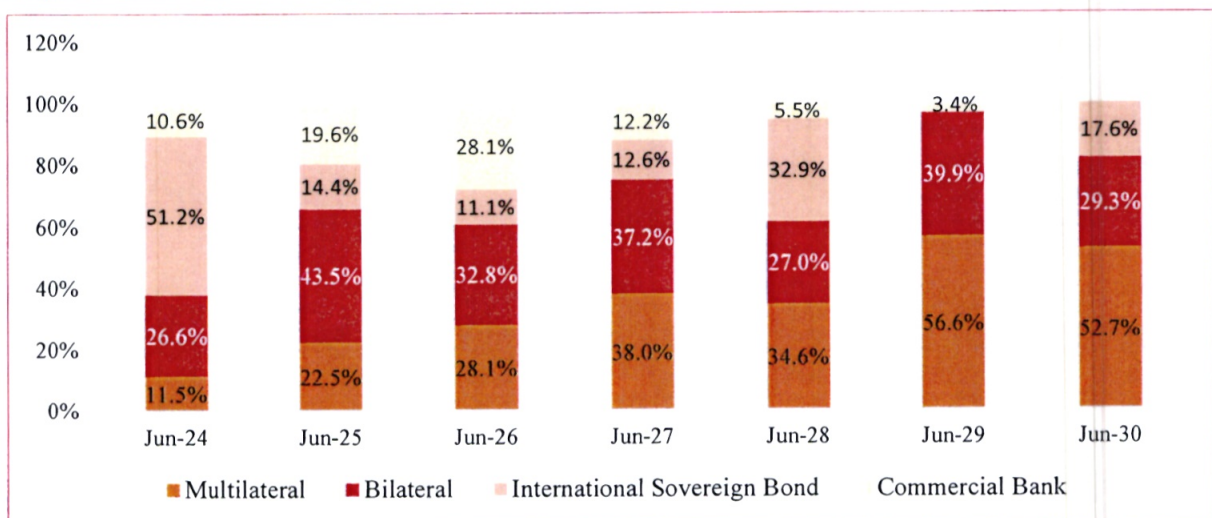


Source: National Treasury

10.7 Redemption Profile of External Debt by Creditor Category

The redemption profile of multilateral debt is projected to increase while those of commercial debt, bilateral debt and International Sovereign Bond are projected to decrease in the medium-term (See Figure 10.7.1-1). The increment in multilateral debts is in line with the strategy of continued maximization of concessional borrowing.

Figure 10.7- 1: Redemption Profile of External Debt by Creditor Category

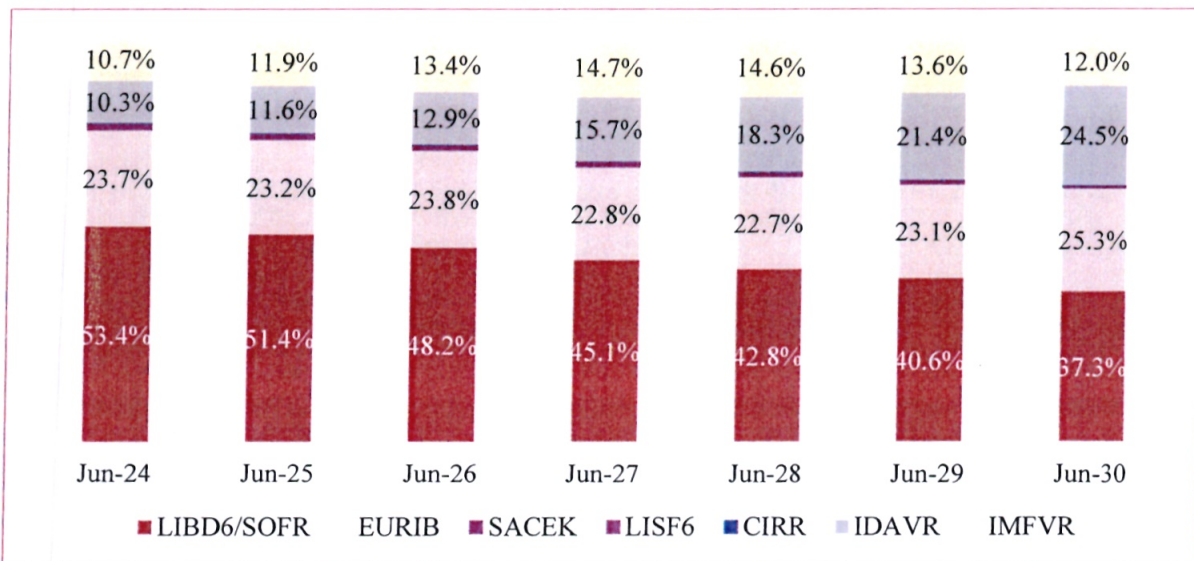


Source: National Treasury

10.8 Libor/SOFR, Euribor, IDAVR, and other Variable Rate Associated Public Debt

The external debt with LIBOR/SOFR interest rate is expected to decline in the medium-term (**Figure 10.8-1**). LIBOR/SOFR associated debt is projected to decrease from 53.4 percent as at end June 2024 to 37.3 percent as at end June 2030. Euribor-based and IDA-variable external debt are projected to increase by 1.6 percent and 14.2 percent to 25.3 percent and 24.5 percent, respectively. In addition, IMF-Variable interest rate associated debt is projected to increase from 10.7 percent in June 2024 to 12.0 percent in June 2030. Overall, the proportion of external debt exposed to variable interest rate is projected to decline in the medium-term, thus reducing the exposure of total public debt to variable interest rate risk.

Figure 10.8- 1: Composition of Variable Interest Rate External Debt

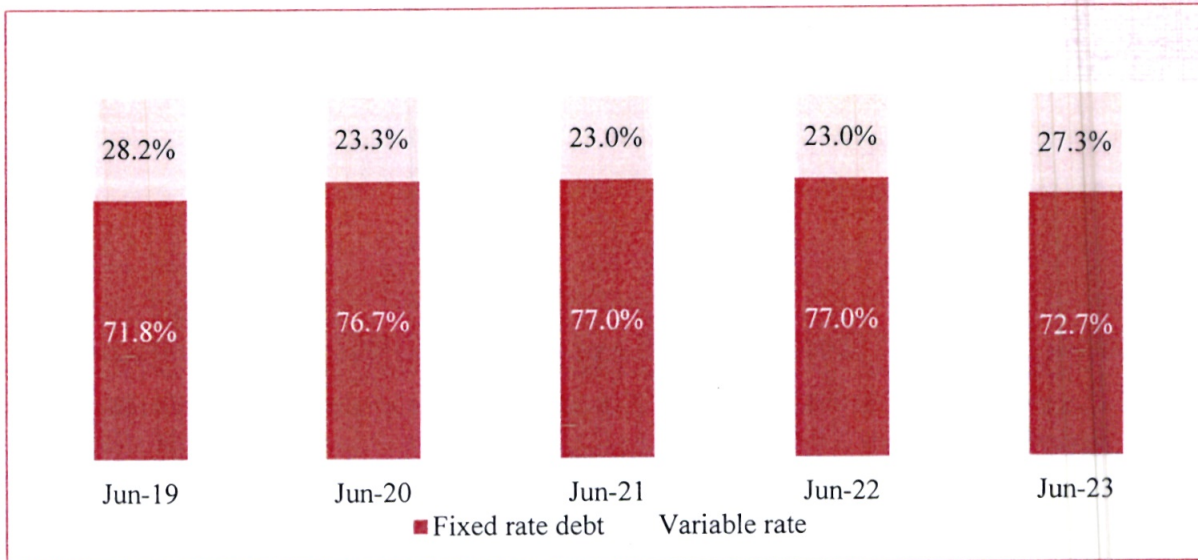


Source: National Treasury

10.9 Composition of Fixed and Variable Rate External Debt

The exposure of external debt to interest rate risk is still moderate (**Figure 10.9-1**). As at end June 2023, the proportion of fixed-rated external debt slightly declined by 4.3 percent from 77.0 percent in June 2022 to 72.7 percent whereas variable-rated external debt increased by the same margin to 27.3 percent.

Figure 10.9- 1: Composition of Fixed and Variable Rate External Debt

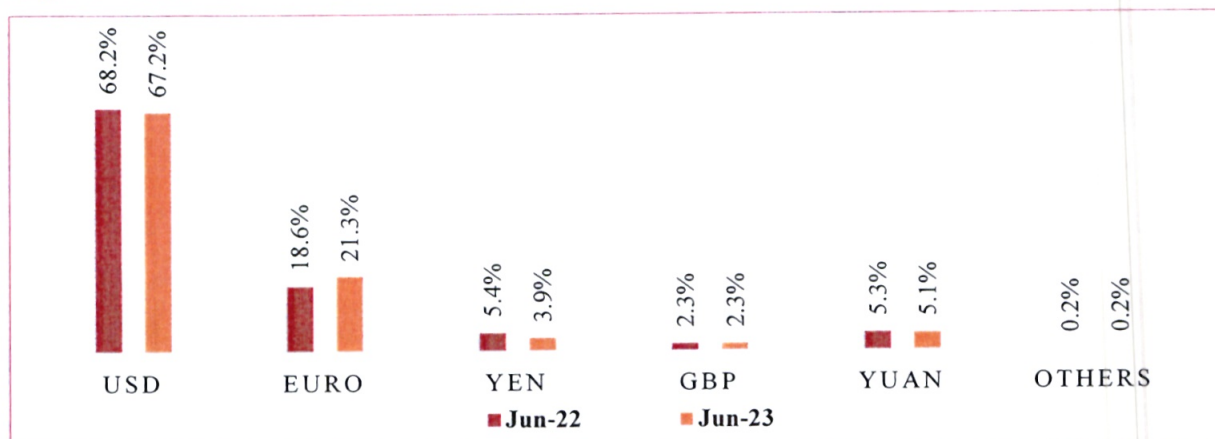


Source: National Treasury

10.10 Foreign Currency Composition

Kenya’s debt portfolio is exposed to foreign exchange risk. The major currencies in Kenya’s external debt are USD, EURO, YEN, GBP and YUAN. The debt contracted in USD (67.2 %) has the largest share of the foreign debt. Proportion of external debt denominated in other currencies include EURO (21.3%), YEN (3.9 %), GBP (2.3%) and YUAN (5.1%). Other currencies account for 0.2 percent.

Figure 10.10- 1: Foreign Currency Composition



Source: National Treasury

CHAPTER ELEVEN

PUBLIC DEBT MANAGEMENT REFORMS

11.0 Introduction

The PDMO has been undertaking reforms to improve public debt management. The reforms are geared towards developing a sound institutional structure and policies aimed at improving efficiency and mitigating operational risks. The reforms include deepening the debt market to ensure predictable outcome of government funding needs at least cost and prudent level of risk, develop the sinking fund regulations to effectively manage the risk in settlement of debt obligations, strengthen the operational capability of the PDMO to effectively performs its mandate under the PFM act 2012, diversify sources of borrowing (Sukuk bonds, Green bonds, Samurai bonds, Panda bonds and Diaspora bonds), Shifting the debt limit from a numerical figure to a debt anchor in line with the Country`s debt carrying capacity, expand coverage of public debt reporting to include fiscal risk and contingent liabilities posed by PPPs to enhance public debt transparency and perform liability management operations (debt swaps, buy backs).

11.1 Shift from a debt limit to a debt anchor

The National Treasury has finalized the process of amending the debt limit and replacing it with a debt anchor of 55 percent of the Gross Domestic Product (in Present Value terms). A debt anchor is a desired level of public debt as a ratio of GDP that is supportive of economic growth and development, the debt carrying capacity and ability to service debt. This is unlike the nominal figure currently at Ksh 10,000,000 million, which is not based on productivity.

The anchor is also based on the country`s debt carrying capacity and international best practices that allows for flexibility and recognition of the periodic impacts of exogenous shocks (exchange rate, inflation etc.) on debt and GDP. In case of an unexpected breach that may be occasioned by the exogenous shocks such as currency depreciation, there is a provision for the Cabinet Secretary responsible for finance to report to Parliament on the prescribed measures, thereby reducing uncertainty about future fiscal policy implementation.

11.2 Liability management operations

The Government will endeavour to maintain its presence in the international financial markets through refinancing the existing commercial maturities. It may consider performing liability management measures on debt maturities ahead of time if the international debt capital market conditions improve with an aim of improving its debt profile. In the medium-term, the Government may explore new debt instruments such as derivatives.

11.3 Diversified sources of borrowing

The government in the course of reducing the risks exposed to the available debt portfolio, may explore access to alternatives to the conventional bonds that are more flexible and less costly. Examples of these include the Sukuk bonds, Green/sustainable bonds, Samurai bonds, Panda bonds and Diaspora bonds. Sukuk bonds are financial products issued in accordance with Sharia Law.

Green/ sustainable Bonds are fixed income instruments whose proceeds are earmarked exclusively for projects aligned to climate change mitigation. A Samurai bond is a yen-denominated bond issued in Tokyo by a non-Japanese company and subject to Japanese regulations. A Panda bond is a Chinese renminbi-denominated bond from a non-Chinese issuer, sold in the People's Republic of China. A diaspora bond is a bond issued by a country to its Diaspora population.

11.4 Operationalization of Sinking Fund

The Government is in the process of developing sinking fund regulations in order to operationalize the sinking fund whose objective is to solely provide funding for the redemption of Government loans and securities, and payment of expenses of, or incidental to redemption of an issue of national government loans. Expenditures from the Sinking Fund are:

- i. The redemption of national government loans;
- ii. Payment of expenses including interest on Treasury bills and Treasury bonds, outstanding overdraft (related to debt) and debt-related interest on the overdraft facility, exchange rate

losses, or expenses incidental to, redemption of an issue of National Government loans; and

- iii. Refinancing outstanding debt or repaying a loan prior to its date of repayment.

11.5 Strengthen the operational capability of the PDMO

This strategic objective is aimed at ensuring work related synergy and efficient workflow that will result in smooth implementation of the PDMO functions. In particular, each department is to be responsible for its own functions, and thus bringing accountability and transparency in execution of PDMO's mandate. It will involve reviewing of the organizational structure and updating business operation procedures within PDMO, and providing capacity building through staff training across the Directorate.

11.6 Expand coverage of public debt reporting

The government is committed to expand coverage in reporting of public debt to include non-guaranteed public sector debt through a gradual approach to promote debt transparency and accountability. During the FY 2020/21, the PDMO reported on non-guaranteed debt for the first time and since then, this has been institutionalized and reporting is done annually.

11.7 Domestic debt market reforms

Economic growth in a modern economy hinge on an efficient financial sector that pools domestic savings and mobilizes foreign capital for productive investments. The financial sector plays a crucial role in economic development of a country and this has been proven to correlate with economic growth. Further, a well-functioning capital market promotes investment, economic efficiency, growth and eliminates pricing distortion. In this regard, capital market development is an important component of financial sector development and supplements the role of the financial institutions in economic development. Particularly, capital markets assist in price discovery, liquidity expansion, reduction in capital market transaction costs, transfer of risks and enhancing information symmetry.

Kenya's capital market is still developing and is yet to attain the desired financial market depth. The current challenges include inadequate and inefficient legal framework, lack of transparency

in the secondary market, lengthy settlement cycles, inconsistency in disseminating market information, market discipline and limited innovation.

The Government of Kenya through Vision 2030 Development Plan aims at increasing stock market capitalization to 90 percent of GDP. The focus on the capital market is on three key fronts, which includes: market infrastructure, institutional development of capital markets, and introduction and diversification of the capital market products. These efforts are expected to deepen the capital market and facilitate mobilization and efficient allocation of adequate resources to achieve the country's economic growth, and consequently spur economic development.

The National Treasury has been undertaking reforms in collaboration with other financial sector players, which include, but not limited to the Capital Market Authority, the Central Bank of Kenya and Nairobi Securities Exchange, among others. These reforms include:

- i. Preparation and publication of an issuance calendar;
- ii. Separation of the retail and wholesale markets;
- iii. Establishment of the Over-the-Counter (OTC) market for Treasury bonds;
- iv. Creation of electronic platform for primary and secondary markets;
- v. Market enabling initiatives such as:
 - a. The establishment of an efficient horizontal repo market; and
 - b. Establishment of securities lending and borrowing

The reforms are targeted at identifying and eliminating barriers to the development of Kenya's domestic debt market and capital market at large. The goals are to democratize investment opportunities in Government securities; deepen the capital market; diversify the range of capital market products; strengthen capital market infrastructure and institutions; increase oversight, governance and compliance of market participants.

11.7.1 Status of Implementation of Domestic Debt Reforms

- i. **Publication of an issuance calendar:** Regular publication of an issuance calendar for government securities is a good strategy to support predictability in the issuance process and provide a guide for investor planning. The National Treasury working with the CBK and CMA is in the process of preparation and publication of an issuance calendar for the next financial years.
- ii. **Separation of the Retail and Wholesale Market for Government Securities:** In a bid to facilitate separation of the retail and wholesale market, the CBK developed a new Central Securities Depository system called *Dhow-CSD*, which went live on 31st July 2023. The system will enhance access to Government securities market by retail investors including buying and selling Treasury bills and bonds online, without the need for intermediaries or physical documents. CBK *Dhow-CSD* incorporates vital services such the Central Security Depository enabling opening and bidding for government securities. The services are accessible via the CBK *Dhow-CSD* website or *Dhow-CSD* App on mobile phone, Tablets, iPad, and Laptops or computers. The system Application (App) can be downloaded from the **Play-Store** by interested users.

The National Treasury is currently undertaking *M-Akiba* issuance re-engineering process with the support of E-citizen Directorate to further deepen the Government securities at the retail level. The re-engineering process is intended to incorporate recommendations spelt out in the post *M-Akiba* Issuance survey report while addressing the challenges therein. The re-engineering of *M-Akiba* issuance will contribute to the automation of Government securities market by providing a structured separation of retail segment from wholesale investors. The introduction of these measures will democratize investment opportunities and improve efficiency and access in the government securities market.

- iii. **Establishment of the Over-the-Counter (OTC) Market for Government Securities:** The development of the OTC trading for Government securities is being undertaken separately for Treasury bills and bonds. Treasury bills have been trading on OTC. The Capital Market Authority has been coordinating development of the OTC trading guidelines which will inform CBK support in the implementation of the OTC for Treasury

bonds trading in *Dhow-CSD*. The CMA has approved NSE trading rules for its proposed OTC platform, i.e., Unquoted Securities Platform (USP). The establishment of OTC platform is envisaged to boost liquidity in the bond market.

- iv. **Establishment of Electronic Platform for Primary and Secondary Markets:** The Government of Kenya, through the National Treasury and CBK, has been fast-tracking the automation of Government securities, both in the primary and secondary market. The CBK has introduced *Dhow-CSD* system, a new digital platform that offers a simple efficient and secure way that enable the public and diaspora community to invest in government securities.
- v. **Establishment of an Efficient Horizontal Repo Market and Securities Lending and Borrowing (SLB):** The CBK *Dhow-CSD* system will now allow full transfer of securities ownership for Repo transactions through a collateral management module. The launch of Repo market and securities lending and borrowing through *Dhow-CSD* system will provide a critical anchor to the financial sector in Kenya. It will promote the distribution of liquidity among the capital markets stakeholders and enhance uptake of Government securities in financial market.
- vi. **Other pending Initiatives in the Domestic Debt Market, include:**
 - a. Formalization of monthly financial markets stakeholders meeting and feedback;
 - b. Initiate local private placements for Government securities targeting specific segment of the market; and
 - c. Establishment of offshore issuance of local currency denominated debt instrument to diversify investor base without elevating foreign currency risk.

11. Implementation of Commonwealth Meridian

The National Treasury plans to implement the Commonwealth Meridian system, a new public debt data management system to replace the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). The Commonwealth Meridian is particularly designed to take into account emerging issues in public debt management while tapping into technological

advancements. The system has capabilities of integrating with other financial management systems such as Integrated Financial Management Information System (IFMIS), CBK T24 core banking system and *Dhow-CSD*.

The key advantages of the Commonwealth Meridian include:

- i. Provides the flexibility to model different workflow arrangements and institutional structures for debt management;
- ii. A centralized repository of data, enabling key stakeholders to access real-time information, even from remote offices; and
- iii. The ability to integrate with external systems such as the IFMIS, facilitating straight-through processing and ensuring the provision of accurate data to stakeholders.

A team from the Commonwealth Secretariat have been providing technical assistance in migrating the public debt portfolio from CS-DRMS database to Commonwealth Meridian System as well as conducting induction training sessions to key officers to carry out post-migration activities and ensure a seamless transition of data.

11.8.1 Implementation Status of Commonwealth Meridian

Following the successful migration of data and training of the technical staff, the technical staff began a six-month parallel run of the two systems and completed the following tasks:

- i. Data validation and reconciliation of stock balances between the two systems for each loan as at 30th June 2023 - This exercise involved comparing balances per creditor between CS-DRMS and Meridian Debt Management System;
- ii. Ensured all actual transactions, including disbursements and debt payments are well captured in Commonwealth Meridian System;
- iii. Reconciled the stock balances and debt payment forecasts with creditor statements; this reconciliation process ensured accuracy and transparency in tracking loan balances and forecasting debt payments;

- iv. Created data entry templates for recording new loans for different Creditors; these templates streamlined the data entry process, ensuring fast recording of loan details;
- v. Created Business calendars for different creditors; - Among the challenges faced from the previous CS-DRMS was the inability to add specific calendar days for computation of debt payment forecasts;
- vi. Configured business day conventions for all creditors; the business day convention determines how business days are calculated for financial transactions, such as interest accrual, payment dates, and settlement dates. By setting consistent business day conventions across all creditors, there was uniformity in the calculation of important financial dates and deadlines. This consistency helped avoid confusion and potential disputes related to payment due dates, interest accruals, or settlement dates;
- vii. Reviewed and updated user defined reference data such as interest and exchange rates; User defined reference data feature allows for creation of data set managed by users or organizations according to their specific needs and requirements;
- viii. Recorded all details for the creditors/participants was crucial for maintaining comprehensive records. This feature also allows for specific mapping of information on various debt data and reports;
- ix. Created World Bank economic sector codes, among others; Commonwealth Meridian System allows for updating project Economic sector codes as per World Bank references to ensure completeness of Debtor Reporting System;
- x. Uploaded loan agreements and legal opinions in the Commonwealth Meridian System; a key improvement from CS-DRMS, Commonwealth Meridian System's capability to hold data will assist in the digitization of loan documents thereby improving productivity and institutional memory. Loan agreements can be obtained through the click of a button without having to go through the time-consuming process of obtaining files from the registry;

- xi. Recorded of Debt Service Suspension Initiative (DSSI) loans in the Commonwealth Meridian System. The system's feature allows for improved recording of debt restructurings;
- xii. Developed and uploaded domestic debt securities' templates in the Commonwealth Meridian System. CS-DRMS offered little productivity in recording domestic debt instruments. The system has reinvented how treasury bills and bonds are recorded to capture securities holders, deals and transfers;

CHAPTER TWELVE

PUBLIC DEBT SUSTAINABILITY

12.0 Introduction

The Debt Sustainability Analysis (DSA) conducted in June 2023 shows that Kenya's public debt remains sustainable with high risk of debt distress for both total public and external debt rating. The scope of the analysis covers public debt from central Government, Central Bank debt taken on behalf of the Government, and Government guaranteed debt. The analysis excludes non-guaranteed debt of the public sector and arrears which are disclosed in the regular reports.

12.1 Assumptions underlying the DSA

Real GDP growth is projected to increase from 4.8 percent in 2022 to 5.4 percent over the medium-term supported by the continued tourism recovery, increased regional integration, anticipated productivity growth and increased credit to the private sector. The fiscal deficit is expected to decline from 5.4 percent of GDP in FY 2022/23 to 4.4 percent of GDP in FY 2023/24 and below 4 percent of GDP over the medium-term. This reflects implementation of ongoing fiscal consolidation program through domestic revenue mobilization and spending rationalization measures.

The current account deficit is expected to stabilize around 5 percent over the medium-term compared to 5.1 percent of GDP in 2022, supported by robust goods exports and tourism receipts and gradual expectation of global commodity market recovery. Export of goods and services is projected to reach 16 percent of GDP by 2029 supported by resilient service sector, rebound in agriculture and implementation of measures to boost economic activities in priority areas by the Government. To reduce debt related vulnerabilities, the Government will maximize the use of concessional financing for development while tapping into international financial markets to roll-over maturing International Sovereign Bonds and optimize the debt service profile.

12.2 Debt Carrying Capacity

Kenya is assessed as a medium performer, in terms of debt carrying capacity, with an estimated Composite Indicator (CI) of 2.98 in June 2023 (*See Table 13:2-1*). The CI captures the impact of

various factors through a weighted average of an institutional indicator, real GDP growth, remittances, international reserves, and world economic growth. The applicable thresholds for the PPG external and total public debt benchmark for a medium performer are shown on Table 12.2-2 below. The June 2023 CI score was marginally lower relative to the December 2022 DSA report due to weaker global growth prospects and lower projected path of import coverage of reserves. These were partly offset by higher real GDP growth and the ratio of remittances to GDP.

Table 12.2- 1: Kenya’s Debt Carrying Capacity Classification

	May-19	Oct-20	Dec-21	Dec-22	Jun-23
Debt carry capacity	Strong	Medium	Medium	Medium	Medium
Composite index (CI)	3.12	3.01	3.04	3.02	2.98

Source: IMF Country Reports

Table 12.2- 2: Applicable Thresholds and Benchmark for Medium Performer

	Debt Burden Indicators	Applicable thresholds
External Debt Thresholds	PV of debt in % of Exports	180
	PV of debt in % of GDP	40
	Debt service in % of Exports	15
	Debt service in % of Revenue	18
Total Public Debt Benchmark	PV of total public debt in % of GDP	55

Source: Guidance Note on Bank-Fund Debt Sustainability Framework for Low Income Countries

To revert Kenya to a strong debt carrying capacity status with higher thresholds and benchmark for the debt burden indicators, the domestic economy has to remain robust and continue growing over the medium-term. The growth will be supported by a broad-based private sector growth, including recoveries in agriculture and implementation of the priority projects under the Bottom-up Economic Transformation Agenda (BETA). Additionally, robust remittance inflows and improvement in reserves coverage will improve Kenya’s CI rating.

12.3 External Debt Sustainability Analysis

The external debt burden indicators in terms of exports and revenues exceed their respective thresholds under the baseline (*See Table 12.3-1*), resulting to a mechanical high-risk signal. The PV of PPG external debt-to-exports (solvency indicator) remains above the threshold (180%)

through 2026, while the debt service-to-exports (liquidity indicator) exceeds its threshold (15%). The trend in PPG debt service-to-exports partly reflects International Sovereign Bond repayments in 2024 and 2028. Additionally, the anticipated rollovers of maturing commercial financing will cause the PPG debt service-to-revenue ratio to exceed its threshold (18%). The PV of PPG external debt-to- GDP ratio remains well below the 40 percent indicative threshold. This is bolstered by improvement in financing mix in favour of concessional borrowing.

Table 12.3- 1: Kenya’s External Debt Sustainability Analysis

Indicators	Thresholds	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
		Projections					
PV of PPG external debt-to-GDP ratio	40	27.8	29.5	30.5	29.4	28	27.1
PV of PPG external debt-to-exports ratio	180	228.3	220.4	210.8	195.6	181.7	170.3
PPG debt service-to-exports ratio	15	21.2	22	31.1	21.7	22	19.7
PPG debt service-to-revenue ratio	18	14.8	16.6	24.9	18.2	19.2	17.6

Source: IMF Country Report No. 23/266, June 2023

12.4 Public Debt Sustainability Analysis

The PV of total public debt to GDP remains above the 55 percent benchmark through 2027, resulting to a mechanical high-risk signal as shown in Table 12.4-1 below. To improve the ratio, the government is committed to a multi-year growth-friendly fiscal consolidation program, which is aimed at broadening tax base to raise revenues and curtailing overall spending while prioritizing high-impact social and investment expenditure.

Table 12.4- 1: Kenya’s Public Debt Sustainability Analysis

Indicators	Benchmark	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
		Projections					
PV of debt-to-GDP ratio	55	63.1	64.4	61.9	60.2	58.3	56.6
PV of public debt-to-revenue and grants ratio		355.2	357.8	338.1	331.7	325.8	313.3
Debt service-to-revenue and grants ratio		54.5	55.1	65.9	56.7	56.9	52.8

Source: IMF Country Report No. 23/266, June 2023

12.5 Improving Debt Sustainability

Kenya's overall and external public debt remains sustainable in the medium-term, but with elevated risk of debt distress. The PV of external debt-to-exports (solvency), external debt service-to-exports (liquidity) ratios and the PV of the overall public debt-to-GDP ratio show breaches of thresholds under the baseline scenario.

To reduce debt vulnerabilities, the Government has committed to a fiscal consolidation program and optimising on the financing mix in favour of concessional borrowing to finance capital investments. Additionally, a steady and strong inflow of remittances and a favourable outlook for exports will play a major role in supporting external debt sustainability.

CHAPTER THIRTEEN

OUTLOOK FOR THE MEDIUM TERM

13.0 Projected Public Debt Stock

The total public debt is projected to rise from Ksh. 10,278,673 million as at end June 2023 to Ksh. 13,192,241 million as at end June 2027. As share of GDP, the total public debt is expected to decline from 70.8 percent as at end June 2023 to 57.7 percent as at end June 2027, which is in line with the Government's strategy on fiscal consolidation (Fiscal deficit as a percent of GDP < 5%). The GDP is also expected to increase by average of 12 percent per annum. Domestic and external debt are also expected to increase to Ksh 6,806,207 million and Ksh 6,386,034 million respectively for the same period.

Table 13.0- 1: Projected Public Debt Stock

	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
External Debt	5,446,561	5,548,067	5,828,895	6,048,101	6,386,034
% of GDP	38.2	34.1	32.1	29.6	27.9
Domestic Debt	4,832,113	5,419,526	5,850,220	,365,654	6,806,207
% of GDP	33.3	33.3	32.2	31.1	29.8
Total Public Debt	10,278,673	10,967,593	11,679,115	12,413,755	13,192,241
% of GDP	70.8	67.3	64.2	60.7	57.7
Fiscal Deficit % of GDP	4.9	4.4	3.9	3.6	3.6
Nominal GDP	14,521,624	16,290,270	18,180,171	20,436,860	22,872,268
Ordinary Revenue	2,041,119	2,894,923	3,231,095	3,669,969	4,195,230

**Provisional*

Source: National Treasury

13.1 Debt Service

The total debt service as at end June 2023 was Ksh 1,199,436 million and is expected to rise to Ksh 1,899,715 million in end June 2027. Total debt service as a share of revenue is projected to decline to 45.3 percent as end June 2027 from 58.8 percent in 2023. The debt service as a percentage of GDP is projected to be 8.3 percent by June 2027.

Table 13.1- 1: Projected Public Debt Stock

	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
Domestic Interest	533,098	628,264	680,924	730,847	787,884
% of GDP	3.7	3.9	3.7	3.6	3.4
% of Revenue	26.1	21.7	21.1	19.9	18.8
External Interest	155,907	146,875	152,687	154,396	187,147
% of GDP	1	0.9	0.8	0.8	0.8
% of Revenue	7.6	5.1	4.7	4.2	4.5
Total Interest Payments	689,005	775,139	833,612	885,243	975,030
% of GDP	4.7	4.8	4.6	4.3	4.3
% of Revenue	33.8	26.8	25.8	24.1	23.2
Domestic Treasury Bond Redemption	262,375	374,539	512,577	516,858	564,457
% of GDP	1.8	2.3	2.8	2.5	2.5
% of Revenue	12.9	12.9	15.9	14.1	13.5
External Principal Repayments	248,056	475,596	281,459	302,197	360,227
% of GDP	1.7	2.9	1.5	1.5	1.6
% of Revenue	12.2	16.4	8.7	8.2	8.6
Total Debt Service	1,199,436	1,625,274	1,627,648	1,704,299	1,899,715
% of GDP	8.3	10	9	8.3	8.3
% of Revenue	58.8	56.1	50.4	46.4	45.3
Ordinary Revenue	2,041,119	2,894,923	3,231,095	3,669,969	4,195,230
Nominal GDP	14,521,624	16,290,270	18,180,171	20,436,860	22,872,268

Source: National Treasury

Total interest payment is projected to grow in nominal terms. Nonetheless, as a share of GDP and Revenue, it is expected to reduce to 4.3 percent and 23.2 percent in June 2027 from 4.7 percent and 33.8 percent in June 2023, respectively. Domestic interest payments are expected to rise to Ksh 787,884 million as at end June 2027 from Ksh 533,098 million as at end June 2023. During the same period, domestic interest payments are projected to decrease to 3.4 percent and 18.8 percent in June 2027 from 3.7 percent and 26.1 percent as a proportion of GDP and Revenue as at end June 2023, respectively.

External interest payment is expected to rise to Ksh. 187,147 million in June 2027 from Ksh. 155,907 million in June 2023. As a ratio of GDP and Revenue, external interest payments will decline to 0.8 percent and 4.5 percent from 1.1 percent and 7.6 percent, respectively, over the medium term. External principal repayment is expected to increase to Ksh. 360,227 million in June 2030 from Ksh. 248,056 million in June 2023. As a proportion of GDP, principal repayment is

projected to decrease to 1.6 percent over the medium-term from 1.7 percent in June 2023. Principal repayment as a percent of revenue will be at an average of 8.6 percent as at end June 2027.

CHAPTER FOURTEEN

PUBLIC DEBT DISSEMINATION

14.0 Introduction

Public debt management operations are carried out by the National Treasury through the PDMO Directorate and Central Bank of Kenya as the fiscal agent. Clarity of roles, responsibilities and objectives of public debt management are provided for in the relevant legal and regulatory framework. Clear and open process for policy formulation on public debt management and operational manuals are well documented. The PDMO ensures that information on public debt management and applicable policies are regularly published and publicized to ensure transparency, accountability and assurances of integrity. Debt management activities and processes are audited annually by the Office of the Auditor General in accordance with the Public Audit Act, 2015. The PFM Act, 2012 and its attendant Regulations mandates that the National Treasury prepare, publish and publicize reports on issues related to public debt. The debt reports include the following:

14.1 Annual Public Debt Management Report (APDMR)

The APDMR offers a reflection of the developments in public debt and borrowing under the year of review. This report is prepared in conjunction with the PDMO, Department of Government Investment Portfolio Enterprises (DGIPE) and CBK. During the FY 2022/23, PDMO prepared the 2022 APDMR which was published and publicized as provided by the law. The dynamics surrounding public debt, public debt market reforms, the quantum of public debt, guaranteed and non-guaranteed loans to SOEs and the progress of MTDS implementation as well as Debt Sustainability Analysis are covered in the report. Annual public debt management reports can be accessed on the National Treasury website (<https://www.treasury.go.ke/annual-debt-management-reports>).

14.2 Medium-Term Debt Management Strategy (MTDS)

Preparation of the MTDS by the National Treasury in pursuant to Sections 33 (1) and 62 (2)(b) of the PFM Act, 2012 and submitted it to the Commission for Revenue Allocation and Parliament. In the FY 2022/23, the National Treasury prepared, published and publicized the 2023 MTDS as required by the law.

14.3 Report to Parliament on new loans contracted by Government

According to the PFM Act, 2012, Section 31(3) the National Treasury must prepare a report on any new loans contracted by the Government in every four months for presentation to parliament. During the FY 2022/23, the government contracted eighteen (18) new external loans where six (6) were from bilateral lenders, four (4) from commercial lenders and eight (8) from multilateral lenders. This is consistent with the MTDS approach to minimize commercial borrowing and maximize the use of concessional funds. The eighteen (18) external loans had a net value of Ksh 345,891.53 million.

Table 14.3- 1: Loans Contracted in the FY 2022/23 by the Government and reported to Parliament (Ksh Million)

No	Purpose of the Loan	Creditor	Creditor Type	Amount
1	Eastern Africa Regional Statistics Program for Results	International Development Association	Multilateral	16,399.60
2	Horn of Africa - Groundwater for Resilience Project	International Development Association	Multilateral	18,617.90
3	Competitiveness and Economic Recovery Support Programme (CERSP-II)	African Development Bank	Multilateral	13,615.40
4	Support to the MSME Sector Program	Khalifa Fund for Enterprise Development	Bilateral	4,215.70
5	USD 300 Million Syndicated Short-Term Multicurrency Facility	Trade and Development Bank	Commercial Bank	42,157.10
6	Upgrading Maternal and Newborn Care Units Project	Mizuho Bank Europe N. V	Commercial Bank	2,963.10
7	Support to Waste Water Management at Lake Victoria South	Govt of Fed. Republic of Germany - GTZ	Bilateral	2,753.70
8	Programme for promotion of Entrepreneurship and Employment - (Centre for Entrepreneurship)	Govt of Fed. Republic of Germany - GTZ	Bilateral	3,962.20
9	Food Security and Youth Employment in Western Kenya Through Local Climate Resilience (FLLOCA)	Govt of Fed. Republic of Germany - GTZ	Bilateral	4,742.40
10	Second Kenya Informal Settlements Improvement Project (KISIP 2)	Agence Francaise De Development	Bilateral	6,884.20
11	Olkaria I & IV Uprating Geothermal Project	Govt of Fed. Republic of Germany - GTZ	Bilateral	6,884.20
12	East Africa's Centres of Excellence for Skills and Tertiary Education in Biomedical Sciences - Phase I	African Development Fund (ADF)	Multilateral	2,616.70
13	African Emergency Food Production Facility - Kenya (AEFPF-K)	African Development Bank	Multilateral	9,637.80
14	The US Dollars 600 Million Term Loan Facilities (US 200 Million)	The Standard Bank of South Africa Ltd	Commercial Bank	28,104.70
15	The US Dollars 600 Million Term Loan Facilities (EUR 273 Million)	Africa Export-Import Bank (Afrexim Bank)	Commercial Bank	41,813.50
16	The Fiscal Sustainability and Inclusive Green Growth Development Policy Operation (DPO5)	Intl Bank for Reconstruction & Development	Multilateral	70,261.80
17	The Fiscal Sustainability and Inclusive Green Growth Development Policy Operation- IDA (DPO5)	International Development Association	Multilateral	25,996.90
18	The Fiscal Sustainability and Inclusive Green Growth Development Policy Operation- IDA-(DPO5)	International Development Association	Multilateral	44,264.90
Total				345,891.50

Source: National Treasury

14.4 Statistical Debt Bulletins

Monthly debt bulletins published every month shows the total amount of public and publicly guaranteed debt, the structure of external debt and domestic instruments, the external debt service, and domestic borrowing by the government. The bulletins were prepared and published during the financial year under review. The monthly bulletins are available at <https://www.treasury.go.ke/monthly-bulletins/>

Weekly bulletins are internal document prepared and it highlights the overall performance of domestic borrowing, an update on Kenya's International Sovereign Bonds, and changes in government deposits. 52 weekly bulletins were prepared during the financial year and submitted to the Cabinet Secretary, The National Treasury and Economic Planning.

14.5 External Resources Estimates Handbook

The External Resources Estimates Handbook aims at informing the public, Ministries, Counties, Departments, Agencies (MCDAs) and development partners about programmes and projects funded within a financial year. The External Resources Estimate Handbook for FY 2021/22 was prepared and published by the National Treasury and is posted on the website (<https://www.treasury.go.ke/kenya-external-resources-policy/>).

14.6 External Public Debt Register

The PFM Act 2012 and the Public Audit Act 2003 provides that the National Treasury prepares information on external public debt and the report is to be audited annually by the auditor general and laid before the National Assembly. The information contained in this report includes details of loans contracted with the original amount and currency, terms of payments, amount repaid and outstanding balances during the financial year.

During the FY 2021/22, National Treasury prepared external public debt register and submitted copies to the Office of Controller of Budget and Office of the Auditor General as required by the law. The report was subsequently posted on the National Treasury's website.

14.7 Statement of Outstanding Obligations Guaranteed by the Government

The PFM Act, 2012 requires the Cabinet Secretary, National Treasury and Economic Planning to submit a record of all guarantees given by the national government during the financial year. The report includes names of the parties to the loan that are guaranteed, loan amount, and terms and conditions. In the financial year under review, The National Treasury did not offer any guarantees. Other documents prepared by PDMO and related agencies on public debt management include:

- i. **Debt and Borrowing Policy:** This is the anchor document that guides public debt management and borrowing in Kenya;
- ii. **Debt Sustainability Analysis (DSA) reports:** The report analyses levels of debt against respective sustainability indicators depending on the debt carrying capacity of the country. The DSA is produced in collaboration with the IMF and the World;
- iii. **Annual Financial Statements:** These are statutory reports on all financial undertakings on public debt within the particular financial year;
- iv. **Guarantees Register:** It is a list of all outstanding guarantees including project name, loan amount, outstanding loan, guaranteed agency, creditor, interest chargeable and type and last repayment date;
- v. **Risk Management Framework:** The framework guides the conduct of stress tests on the debt portfolio on the basis of the economic and financial shocks; and
- vi. **Contingent Liabilities:** This is a list of all possible contingent liabilities and their impact on the government's financial position, including its overall liquidity, when making borrowing decisions.

All these reports can be accessed through the National Treasury's Website

<https://www.treasury.go.ke/publicdebt-management>

CHAPTER FIFTEEN

CONTINGENT LIABILITIES

15.0 Introduction

Contingent explicit liabilities are legal obligations for governments to make payments only if particular events occur. Because their fiscal cost is invisible until they come due, they represent a hidden subsidy and a drain on future government finances, and complicate fiscal analysis. The State-owned Enterprises (SOEs) that have been guaranteed by the Government of Kenya include Kenya Electricity Generating Company PLC (KENGEN), Kenya Airways (KQ) and Kenya Ports Authority (KPA).

15.1 Government Guaranteed Debt Stock

The stock of Government guaranteed debt as at end June 2023 was at Ksh 170,229 million, which was an increment from Ksh 151,244 million as at end June 2022 as a result of exchange rate fluctuations.

Table 15.1- 1: Stock of Public Guaranteed External Debt by Creditor Category (Ksh. Million)

Debt Type	Jun-19	Jun-20	Jun-21	Jun-22	Jul-23*
Guaranteed Debt					
Bilateral	78,079	80,562	76,257	67,532	82,005
Commercial	76,724	79,892	80,963	83,712	88,224
Multilateral	4,603	4,794	0	0	0
Total	159,406	165,248	157,220	151,244	170,229

Source: National Treasury

The Government has provided guarantee to loans secured by KPA, KENGEN and Kenya Airways as indicated in Table 2 below.

Table 15.1- 2: List of Guaranteed Stock Balances as at end June 2023 (Ksh Million)

Agency	Year	Project	Creditor	Amount
KPLC	1995	Mombasa Diesel Generating Power Plant	Government of Japan	825
	1997	Sondu Miriu Hydropower Project	Government of Japan	1,148
	2004	Sondu Miriu Hydro Power II	Government of Japan	7,049
KPA	2015	Kenya Port Development Project Phase 2	Government of Japan	27,048
	2015	Kenya Port Development Project Phase 2	Government of Japan	3,739
	2007	Mombasa Port Modernization Project	Government of Japan	19,755
	2021	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Government of Japan	1,413
KenGen Ltd	2007	Sondu - Miriu Hydropower Project Sang'oro Power Plant	Government of Japan	3,227
	2010	Olkaria 1 Unit 4 and 5 Geothermal Power Project	Government of Japan	14,938
	2010	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Govt of Fed. Republic of Germany - GTZ	947
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Govt of Fed. Republic of Germany - GTZ	1,916
Kenya Airways	2017	Kenya Airways	Exim Bank U.S.A.	88,224
Total				170,229

Source: National Treasury

15.2 Called-up Kenya Airways Guaranteed Debt

During the FY2022/23, the government serviced guaranteed debt on behalf of Kenya Airways (KQ) amounting to Ksh 12,326.9 million. This comprises principal repayment of Ksh 10,643.4 million and interest payment of Ksh. 1,683.5 million.

15.3 State-Owned Enterprises Non-Guaranteed Debt

State-Owned Enterprises (SOE) are legal entities established by the Government under Section 3 of the State Corporations (SC) Act, Cap 446, or by an Act of Parliament, or under the Companies Act, Cap 486 where the Government holds all or majority of shares. The entities are mandated to provide public goods, implement the government's development agenda, policies, and projects

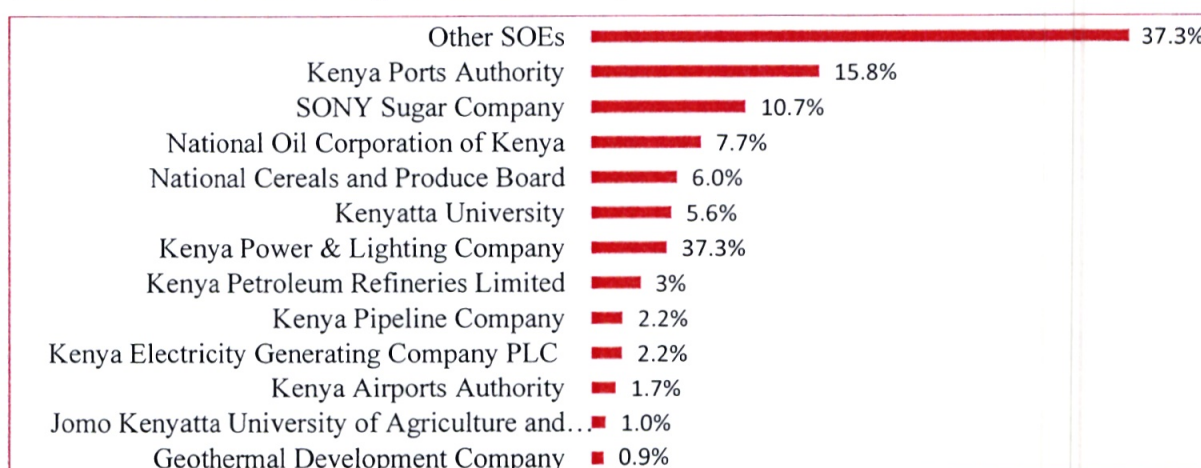
within the social, business, and commercial sectors of the economy. SOEs fund their budgets through Government transfers (recurrent grants), Appropriation-in-Aid (A-in-A) and loans.

As a reform initiative, the Government continues to expand reporting on public debt by including non-guaranteed debt held by SOEs to enhance accountability and transparency in debt management. The Government is in the process of implementing a digital platform, Government Investment Management Information System (GIMIS), to digitize and ease the collection of these critical public finance statistics. Over the medium-term, the coverage and reporting of SOEs' outstanding debt is expected to improve significantly.

The Government reported non-guaranteed debt in the Annual Public Debt Management Report as at end June, 2022. The *Annual Public Debt Management Report* for FY 2022/23 reports information provided by various State-Owned Enterprises and outstanding as at end June 2023. Twenty-five (25) SOEs had non-guaranteed debt amounting to Ksh 111,805 million (1.0% GDP) (*See Annex I*).

The local currency denominated debt of 58 percent was obtained from local banks while foreign currency denominated debt of 42 percent was from Agence Française De Développement (AFD), First Rand Bank, HSBC of London and local commercial banks.

Figure 15.3- 1: Distribution of State-Owned Enterprises Non-Guaranteed Debt (as a % of the total non-guaranteed debt)



Source: National Treasury

The analysis of total non-guaranteed debt stock held by State-Owned Enterprises indicates that majority of debt is held by the energy sector at 50 percent by Kenya Power & Lighting Company (KPLC), Kenya Electricity Generating Company (KenGen) and Geothermal Development Company (GDC). Within the transport sector, Kenya Ports Authority (KPA) and Kenya Airports Authority (KAA) collectively hold 22 percent. The petroleum sector represents 16 percent of total public non-guaranteed debt stock held by Kenya Pipeline Company (KPC), National Oil Corporation of Kenya (NoCK) and Kenya Petroleum Refineries Limited (KPRL). Education sector debt stood at between 1 percent and 2 percent of total debt, with a significant portion of non-guaranteed debt held by universities as overdraft facilities.

15.4 Sector Analysis of State-Owned Enterprises Non-guaranteed loans

Sector analysis of non-guaranteed debt indicated that the largest stock of debt is held by four key sectors, the Energy and Petroleum at 65.6 percent amounting to Kshs. 73,373 million, Roads and Transport at 21.4 percent at Ksh 23,934 million, Agriculture and Livestock development amounted to Ksh 9,334 million (8.3%) and Education at 4.3 percent amounting to Ksh 4,800 million (4.3%).

Table 15.4- 1: Outstanding Balance by Sector as at June 2023 (Ksh Million)

Sector	Outstanding balance	As a % of Total Non-Guaranteed Debt
Agriculture and Livestock Development	9,334	8.3
ASALs and Regional Development	215	0.2
Education	4,800	4.3
Energy and Petroleum	73,373	65.6
Information, Technology and Digital Economy	138	0.1
Roads and Transport	23,934	21.4
Tourism, Wildlife and Heritage	12	0
Total	111,805	100

Source: National Treasury

15.5 On-Lent Loans

The cumulative stock of on-lent loans amounted to Ksh 983,204 million while the cumulative amounts of on-lent loans repaid and/or written off during the period was Ksh 57,552 million which represents 5.8 percent of total on-lent loans (*See Annex II*).

15.6 On-Lent Loans (Arrears)

The total outstanding on-lent loan arrears for SOEs was Ksh 983,204 million as at the end of June 2023, out of which Ksh 566,120 million accounting for about 57.6 percent of the total amount is on-lent to Kenya Railways Corporation in support of the Standard Gauge Railway (SGR) Project. Kenya Railways Corporation is yet to start repaying the loan.

Most of the SOEs have applied for their loans to be written-off on account of financial constraints and inability to service the loans. The amount in arrears for East African Sugar Industries (Muhoroni), Miwani Out Growers Mills Ltd, Mumias Out Growers Mills Ltd, South Nyanza Sugar Company, Nzoia Sugar Company and Miwani Sugar Company were in the process of being written-off. Agro-Chemical and Food Processing Company (ACFC) Limited and Kenya Meat Commission (KMC) have been earmarked for privatization. The treatment of their on-lent loans will hence fourth be addressed under the privatization framework.

CHAPTER SIXTEEN

PUBLIC DEBT MANAGEMENT OFFICE CAPACITY DEVELOPMENT

16.0 Introduction

In pursuit of excellence, proficiency, and operational efficiency, the PDMO embarked on a series of technical assistance, capacity-building initiatives and training programs. These initiatives aimed to enhance the Directorate's skills and knowledge, enabling it to navigate the complex landscape of public debt management with greater precision and effectiveness. This chapter delves into the technical assistance and capacity-building initiatives and their impact in PDMO functions.

16.1 Technical Assistance

PDMO received technical assistance and training from the Government of Kenya and Development Partners including Agence Francaise de Development (AFD), the African Development Bank (ADB) and World Bank (WB) jointly funding the Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK) programme embedded within the Public Finance Management Reforms. The technical assistance and training aimed at restructuring the PDMO, strengthening skills capacity gaps and facilitating requisite office equipment for the smooth running of the PDMO.

16.2 Staff Capacity Development

Rapid evolution and increasing complexity of public debt arena necessitates a full complement of trained staff and supporting infrastructure to provide exposure and keep abreast to emerging issues in public debt management. During the period under review, the respective Departmental Training Committees in the PDMO undertook training needs assessment and forwarded the reports to the Ministerial Human Resource and Advisory Committee for consideration and further approval by the Authorized Officer. From time to time, Development Partners also complemented Government's effort on training by sponsoring staff to undertake emerging training programmes. A summary of courses projected during the financial year under review and their implementation status have been presented in the **Annex III**.

ANNEX

Annex I: Kenya's Outstanding Non-Guaranteed Public Debt as at end June 2023

No.	State Corporation/Agency	Lender	Borrowing Currency	Amount Borrowed (Original Currency Millions)	Amount Outstanding, June 2023 (In Kshs. Million)
1	Agricultural Development Corporation	KCB Bank Kenya	KSH.	231.7	156.4
		Agricultural Finance Corporation	KSH.	123.5	12.3
2	Agricultural Finance Corporation	GoK Restructured Redeemable	KSH.	533.8	533.8
3	Egerton University	KCB Bank	KSH.	100	100
4	Geothermal Development Company	Co-operative Bank of Kenya	USD	29.1	2,509.90
5	Jaramogi Oginga Odinga University of Science & Technology	Co-operative Bank of Kenya	KSH.	174	96.7
6	Jomo Kenyatta University of Agriculture and Technology Enterprises and Services Ltd	KCB Bank Kenya	KSH.	4,447.80	2,466.60
7	Kenya Airports Authority	Agence française de développement (AFD)	USD	57.1	8,891.40
		Agence française de développement (AFD)	USD	90.8	8,312.00
		IDA	USD	5	450
8	Kenya Electricity Generating Company PLC (Kengen)	Agence française de développement (AFD)	EURO	20	255
		HSBC of London	USD	33.8	474.8
		ABSA Bank Kenya PLC	USD	80	11,241.90
		CFC Stanbic Bank Limited			
9	Kenya Pipeline Company	Citibank Kenya	USD	347.7	6,734.90
		NCBA Bank Kenya			
		Co-operative Bank of Kenya			

No.	State Corporation/Agency	Lender	Borrowing Currency	Amount Borrowed (Original Currency Millions)	Amount Outstanding, June 2023 (In Kshs. Million)
		Rand Merchant Bank			
		Standard Chartered Bank			
10	Kenya Petroleum Refineries Limited	NCBA Bank Kenya	KSH.	521	357.9
		Citibank Kenya	USD	5	367.4
		ABSA Bank Kenya PLC	USD	13.5	1,213.80
11	Kenya Ports Authority	Stanbic Bank of Kenya	USD	63	5,285.10
		Stanbic Bank of Kenya	USD	40	995.1
		NCBA Bank Kenya	KSH.	6,750.00	6,750.00
		Equity Bank - Medium Term Loan	USD	150	1,465.00
12	Kenya Power & Lighting Company	Standard Chartered (Syndicated USD 350 M Loan)	USD	350	23,054.60
		First Rand Medium Term Loan	USD	29.2	4,098.60
		Stanbic Bank of Kenya	USD	63	5,285.10
		Stanbic Bank of Kenya	USD	40	995.1
13	Kenya Safari Lodges and Hotels	Kenya Development Corporation	KSH.	18.1	11.7
14	Kenyatta University	Co-operative Bank of Kenya	KSH.	820	442.4
		Equity Bank	KSH.	450	331.1
		Equity Bank	KSH.	250	250
15	Kerio Valley Development Authority	KCB Bank Kenya	KSH.	392.3	214.8
		KCB Bank Kenya - Fertilizer Loan	KSH.	4,133.20	5,035.70
16	National Cereals and Produce Board	Co-operative Bank - Yara Fertilizer	KSH.	500	500
		Co-operative Bank - Export Trading Fertilizer	KSH.	400	400
17	National Oil Corporation of Kenya	KCB Bank Kenya	KSH.	3,595.70	6,358.00
		Stanbic Bank of Kenya	KSH.	1,303.60	2,210.50
18	New Kenya Creameries Cooperative	Co-operative Bank of Kenya	KSH.	503.6	361.6

No.	State Corporation/Agency	Lender	Borrowing Currency	Amount Borrowed (Original Currency Millions)	Amount Outstanding, June 2023 (In Kshs. Million)
		Co-operative Bank of Kenya	KSH.	400	280
		Co-operative Bank of Kenya	KSH.	500	487.9
19	Maseno University	Equity Bank	KSH.	500.4	407.1
		Credit Bank Limited	USD	3.5	323.4
20	Nyayo Tea Zones Development Corporation	UBA Kenya Bank Ltd	USD	1	71.2
21	Postal Corporation of Kenya	NCBA Bank Kenya	KSH.	220	137.6
		Commodities Fund	KSH.	420.7	503.3
22	South Nyanza Sugar Company Limited	Co-operative Bank of Kenya	KSH.	834.4	668.6
23	Taita Taveta University	KCB Bank Kenya	KSH.	50	29.7
24	University of Kabianga	Co-operative Bank of Kenya	KSH.	300	148.8
25	University of Nairobi	ABSA Bank Kenya PLC	KSH.	950	527.8
Total					111,804.70

Source: National Treasury

Annex II: Summary Schedule of Outstanding On-lent Loans as at 30th June 2023 (Ksh Million)

No.	On-Lenders	Amount Lent	Amount Disbursed	Amount Repaid/ Written Off	Amount Outstanding
1	Agricultural Finance Corporation	823	823	16	807
2	Agricultural Settlement Fund and Central Land Board.	126	126	52	74
3	Agro-chemical & food Company Ltd	2,942	2,942	-	2,942
4	Athi Water Services Board	65,048	47,673	533	47,140
5	Catering Levy Trustee/Kenya Utalii College	140	140	18	122
6	Central Rift Valley Water Works Development Agency	4,157	4,157	-	4,157
7	Coast Water Service Board	32,444	15,840	-	19,997
8	Co-operative Bank of Kenya Ltd	339	339	72	267
9	East African Sugar Industries Limited, Muhoroni	177	177	-	104
10	Eldoret Municipal Council/ Eldoret Water & Sanitation Co. Ltd	1,059	1,059	802	257
11	Equity Bank Ltd	256	256	246	9
12	Halal Meat Products	28	28	-	28
13	IDB Capital Limited	531	531	-	531
14	Industrial and Commercial Dev. Corporation	892	892	128	764
15	Kenya Airports Authority	2,993	2,993	1,491	1,502
16	Kenya Airways PLC	41,270	41,270	-	41,270
17	Kenya Civil Aviation Authority	2,801	2,726	1,061	1,664
18	Kenya Electricity Generating Co. Ltd.	115,223	115,223	38,861	100,341
19	Kenya Electricity Transmission Co. Ltd.	2,306	2,306	-	2,823
20	Kenya Meat Commission	940	940	-	940
21	Kenya Mortgage Refinance Company	18,927	18,927	-	18,927
22	Kenya Power and Lighting Co. Limited	94,247	83,204	13,266	69,939
23	Kenya Railways Corporation	566,120	566,120	-	566,120
24	Kenya Tourist Development Corporation	48	48	-	48
25	Kenya Urban Transport Various Towns	41	41	-	41
26	Kenyatta University	10,858	10,858	-	10,858
27	Kilifi Mariakani Water & Sewerage Co. Ltd	616	616	-	616

No.	On-Lenders	Amount Lent	Amount Disbursed	Amount Repaid/ Written Off	Amount Outstanding
28	Kwale Water & Sewerage Co. Ltd	435	435	-	864
29	Lake Basin Development Authority (LBDA)	2,000	2,000	-	2,000
30	Lake Victoria North Water Services Board	11,619	11,619	24	11,594
31	Lake Victoria South Water Services Board	11,903	11,903	5	11,898
32	Local Government Loans Authority	7,689	7,689	95	7,594
33	Malindi Water, Sewerage & Sanitation Co. Ltd	647	647	-	647
34	Miwani Out-growers Mills Limited	7	7	-	7
35	Miwani Sugar Company (1989) Limited	16	16	-	94
36	Moi University	250	250	19	231
37	Mombasa Pipeline Board	63	63	40	23
38	Mombasa Water & Sanitation Co. Ltd	737	737	-	737
39	Mumias Out-growers Company Limited	43	43	27	17
40	Mumias Sugar Company Limited	3,000	3,000	-	3,000
41	Nairobi City Council	123	123	21	102
42	National Irrigation Board	1,128	1,128	-	1,128
43	National Water Conservation and Pipeline Corporation	2,461	4,823	-	4,823
44	Northern Water Services Board	3,762	3,762	-	3,762
45	Nyeri Water and Sewerage Company	1,160	1,160	706	454
46	Nzoia Sugar Company Limited	482	482	24	10,764
47	Rural Electrification Authority	13,649	13,426	-	13,578
48	South Nyanza Sugar Company Limited	253	253	46	208
49	Tana Water Services Board	7,069	7,069	-	7,069
50	Tanathi Water Services Board	9,714	9,714	-	8,011
51	Tavevo Water & Sewerage Co. Ltd	1,507	413	-	749
52	Uchumi Supermarkets Limited	1,200	1,200	-	1,200
53	Water Resource Management Authority	363	363	-	363
		1,046,629	1,002,578	57,552	983,204

Source: National Treasury

Annex III: Courses attended by PDMO staff during the June 2023

No.	Course	Training Institution	Department	Physical/Virtual	No. of Staff Trained	Remarks
1.	Debt Management Performance Assessment (DeMPA)	Macroeconomic and Financial Management Institute for Eastern and Southern Africa and the Commonwealth Secretariat	All	Physical	25	Training done
2.	Commonwealth Secretariat Meridian Debt Management System Training		Back office	Physical	12	Training done
3.	Loan Analysis and Interpretation Training	Macroeconomic and Financial Management Institute for Eastern and Southern Africa and the Commonwealth Secretariat	All	Physical	25	Training done
4.	Project Management for Donor Funded Programme	Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)	All	Physical	77	Training done
5.	Public Debt Restructuring	Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)	All departments	Virtual	15	Training done
6.	Medium Term Debt Management Strategy Course	Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)	Front Office	Physical	3	Training done
7.	Public Debt Operational Risk Management	Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI),	All Departments	Virtual	15	Training done
8.	Government Finance and Public Sector Debt Statistics Training	Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI),	Back Office	Virtual	6	Done
9.	Financial Planning, budgeting and Management Reporting	ESAMI	Front Office	Physical	7	Training done
10.	Innovation in Public Expenditure Management	ESAMI	All	Physical	2	Done
11.	Training Needs Assessment and Evaluation	ESAMI	Front Office	Physical	11	Training done
12.	Procurement of Consulting Services for Donor Funded projects	ESAMI	Front Office	Physical	10	Training done
13.	The Executive Secretary and Office Assistants in the Fourth Revolution	ESAMI	All	Physical	55	Training done

No.	Course	Training Institution	Department	Physical/Virtual	No. of Staff Trained	Remarks
14.	Public Sector Financial and Management	ESAMI	Front Office	Physical	40	Training done
15.	Project Resource Mobilization, Budgeting Cost Control and Financial Planning	ESAMI	Front Office	Physical	10	Training done
16.	Supervisory Skills for Executive Assistants	ESAMI	All	Physical	62	Training done
17.	Key Skills for enhancing work team cohesion, competence and performance	ESAMI	Front Office	Physical	31	Training Done

Source: National Treasury