REPUBLIC OF KENYA

THE NATIONAL TREASURY

ANNUAL PUBLIC DEBT MANAGEMENT REPORT 2015/2016

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November 2016

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FOREWORD

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

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

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

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

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

ACKNOWLEDGEMENT

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

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

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

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

DR. KAMAU THUGGE, CBS
PRINCIPAL SECRETARY/ NATIONAL TREASURY

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

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

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

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

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

ABBREVIATIONS AND ACRONYMS

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

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

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KEY INDICATORS OF PUBLIC DEBT, 2012 – 2016						
Indicator	Unit	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
PUBLIC DEBT						
Total Public Debt (including guaranteed Debt)	Ksh million	1,622,801	1,894,117	2,422,832	2,843,696	3,611,331
	% of GDP	40.7	42.1	48	49.9	54.8%
Total Domestic Debt	Ksh million	858,830	1,050,555	1,284,327	1,420,444	1,815,133
	% of total debt	52.9	55.5	53	50	50.3%
Domestic Debt to GDP	%	21.5	23.3	25.5	24.9	27.5%
Total External Debt (including publicly guaranteed Debt)	Ksh million	763,971	843,562	1,138,505	1,423,252	1,796,198
	% of total debt	47.1	44.5	47	50	49.7%
External Debt to GDP	%	19.2	18.8	22.5	25	27.3%
DEBT SERVICE						
Total Debt Service	Ksh million	113,644	145,228	160,600	253,271	251,441
Domestic interest	Ksh million	82,339	110,184	119,200	139,727	172,857
External (interest and principal)	Ksh million	31,305	35,044	41,400	113,544	78,584
Total Debt Service as a % of Revenue	%	16.5	18.7	17.5	24.6	21.7
Total External Debt Service as a % of Exports	%	6.3	6.6	7.9	21.6	13.0
NEW EXTERNAL LOAN COMMITMENTS						
Average Maturity	Years	26.3	33.7	18.1	21	20.3
Average Grace Period	Years	6.2	8	6.2	6.4	6.2
Average Interest Rate	%	0.8	1.2	2.6	2.5	2.6
DOMESTIC DEBT STOCK BY INSTRUMENT						
Treasury Bills	Ksh million	132,047	267,211	299,406	318,929	588,088
	%	15.4	25.4	23.3	22.5	32.4
Treasury Bonds	Ksh million	686,951	744,174	914,762	1,035,662	1,152,041
	%	80	70.8	71.2	72.9	63.5
Others (Pre-1997 Government Debt, CBK Overdraft, etc.)	Ksh million	39,832	39,170	70,159	65,853	75,004
	%	4.6	3.8	5.5	4.6	4.1
DOMESTIC DEBT STOCK BY HOLDER						
Commercial Banks	Ksh million	411,867	524,505	617,221	730,419	927,307
	%	48	50	48.1	51.4	51.1
Non-bank Financial Institutions and Other sources	Ksh million	399,580	486,880	601,406	626,689	787,970
	%	46.5	46.3	46.8	44.1	43.4

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

Source: National Treasury

STRUCTURE OF THE REPORT

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

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

CHAPTER ONE

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

1.1 Economy

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

1.2 Fiscal Balance

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

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

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

Source: National Treasury, 2017 Budget Policy Statement

1.3 Total Public Debt

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

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

2016 respectively. By end June 2015, both domestic and external debt accounted for 50.0 per cent each.

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

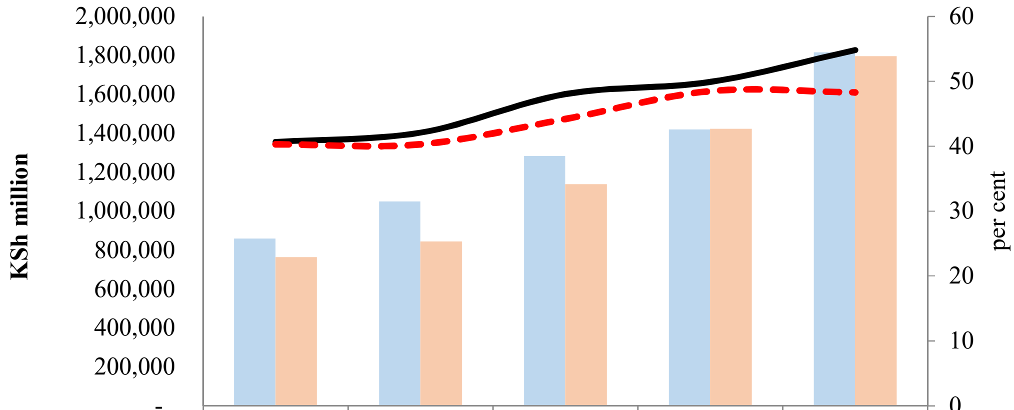
DEBT TYPE	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
DOMESTIC DEBT					
Central Bank	47,383	39,170	65,700	63,335	99,856
Commercial Banks	411,867	524,505	617,221	730,419	927,307
Sub-total: Banks	**459,250**	**563,675**	**682,921**	**793,754**	**1,027,163**
Non-bank Financial Institutions	399,580	486,880	601,406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

Source: National Treasury and Central Bank of Kenya

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

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

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



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

Source: National Treasury and Central Bank of Kenya

1.4 Debt Service

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

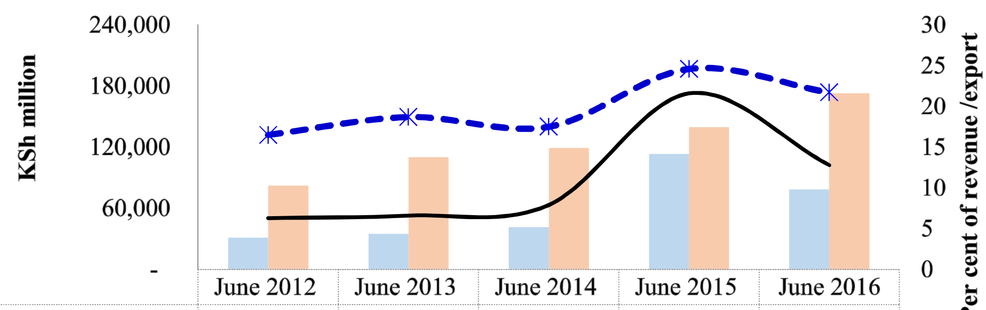
External and domestic debt service was Ksh 78,583 million and Ksh 172,857 million respectively as at end of June 2016. As a percentage of the total public debt service, external and domestic debt service was 31.3 per cent and 68.7 per cent by June 2016 compared to 44.8 per cent and 55.2 per cent respectively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

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

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

Source: National Treasury and Central Bank of Kenya

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



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

Source: National Treasury and Central Bank of Kenya

1.5 Cost and Risk Characteristics of Public Debt

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

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

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

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

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

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

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

CHAPTER TWO

DOMESTIC DEBT

This chapter presents the Government domestic debt which consists of stock of Government securities (Treasury Bills and Bonds), Pre 1997 Government debt and Government Overdraft at Central Bank of Kenya.

2.1 Total Domestic Debt

As at end June 2016, the stock of domestic debt was Ksh 1,815,133 million. This represents an increase of 27.8 per cent from the outstanding stock of Ksh 1,420,444 million by end June 2015 (Table 2-1 and Figure 2-1). The increase in the stock was driven by increased issuance of Treasury bills and bonds due to growing domestic borrowing needs.

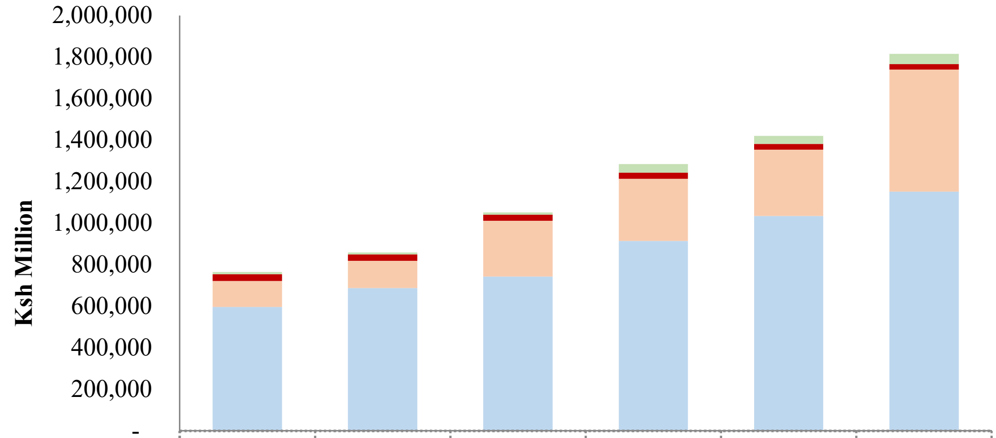
Table 2-1: Outstanding Domestic Debt (Ksh million)

	Instrument	Jun-12		Jun-13		Jun-14		Jun-15		Jun-16	
		Ksh	% of stock	Ksh	% of stock	Ksh	% of stock	Ksh	% of stock	Ksh	% of stock
	Total Stock of Domestic Debt (A+B)	**858,830**	**100**	**1,050,555**	**100**	**1,284,327**	**100**	**1,420,444**	**100**	1,815,133	100.0
A	Government Securities(1-3)	848,997	98.9	1,040,274	99	1,242,502	96.7	1,381,267	97.2	1,765,688	97.3
1)	Treasury Bills	132,047	15.4	267,211	25.4	299,406	23.3	318,929	22.5	588,088	32.4
	Banking Institutions	75,497	8.8	183,458	17.5	176,450	13.7	217,742	15.3	382,447	21.1
	Others	56,550	6.6	83,753	8	122,956	9.6	101,187	7.1	205,641	11.3
2)	Treasury Bonds	686,951	80	744,174	70.8	914,762	71.2	1,035,662	72.9	1,152,041	63.5
	Banking Institutions	337,412	39.3	341,047	32.5	436,381	34	510,228	35.9	569,781	31.4
	Others	349,539	40.7	403,127	38.4	478,381	37.2	525,434	37.0	582,260	32.1
3)	Pre-1997 Government Debt	29,999	3.5	28,889	2.7	28,334	2.2	26,676	1.9	25,559	1.4
B.	Others*	9,833	1.1	10,281	1	41,825	3.3	39,177	2.8	49,446	2.7
	Of which CBK Overdraft	7,257	0.8	6,999	0.7	37,238	2.9	36,494	2.6	44,204	2.4

* Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reserve Certificates
Source: Central Bank of Kenya

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

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



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

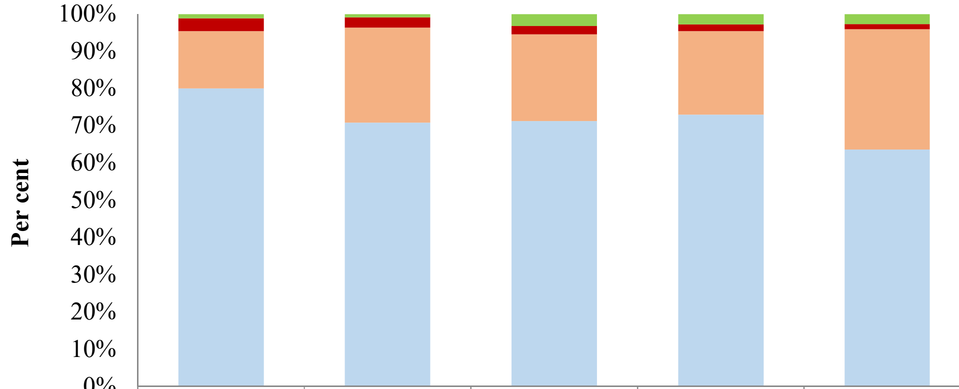
Source: Central Bank of Kenya

2.2 Domestic Debt by Instrument

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

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

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



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

Source: Central Bank of Kenya

2.3 Domestic Debt by Holder

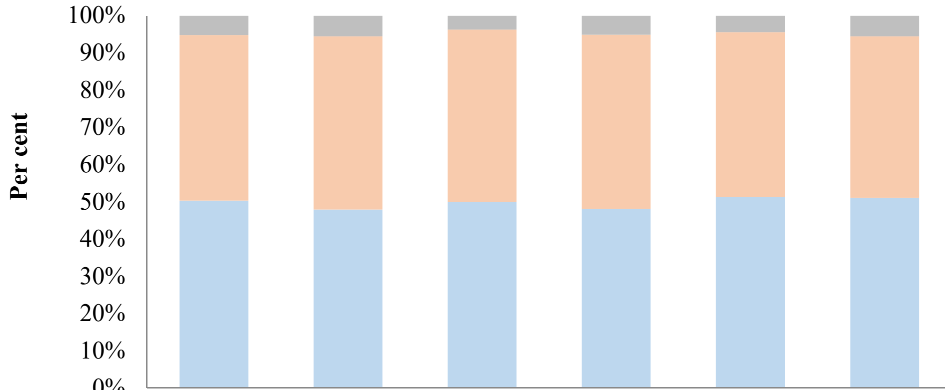
Of the total public domestic debt, commercial banks were the largest holders with Ksh 927,307 million (51.1 per cent) at end June 2016 compared to Ksh 730,419 million (51.4 per cent) in June 2015. The share held by Non-bank (Non-residents and non-bank Financial Institutions including insurance companies,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

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

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

Source: Central Bank of Kenya

Figure 2-3: Public Domestic Debt by Holder



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

Source: Central Bank of Kenya

2.4 Treasury Bills and Bonds by Holder

2.4.1 Treasury Bills and Bonds by Holder

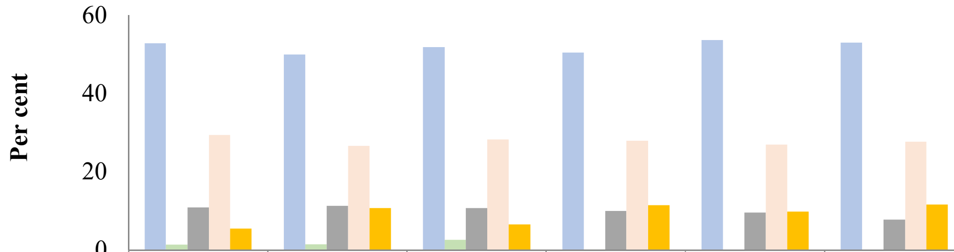
Of the total Treasury bills and bonds, commercial Banks were the major holders with 53.0 per cent in June 2016 compared to 53.7 per cent in June 2015. Pensions Funds (including NSSF) accounted for 27.7 per cent of Treasury bills and bonds in June 2016 compared to 27.0 per cent in June 2015 (Table 2-3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

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

Holder	Jun-12		Jun-13		Jun-14		Jun-15		Jun-16	
	Ksh	%	Ksh	%	Ksh	%	Ksh	%	Ksh	%
Commercial Banks	409,611	50	524,505	51.9	612,772	50.5	727,931	53.7	922,214	53.0
Non-Bank Financial Institutions (NBFIs)	11,731	1.4	26,332	2.6	662	0.1	320	0	183	0.0
Insurance Companies	92,357	11.3	108,609	10.7	121,024	10	127,889	9.4	134,392	7.7
Pensions Funds (including NSSF)	217,697	26.6	285,778	28.3	339,041	27.9	366,303	27.0	481,693	27.7
Others	87,602	10.7	66,161	6.5	140,669	11.5	132,154	9.8	201,648	11.6
Total	**818,998**	**100**	**1,011,385**	**100**	**1,214,168**	**100**	**1,354,597**	**100**	**1,740,130**	**53.0**

Source: Central Bank of Kenya

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



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

Source: Central Bank of Kenya

2.4.2 Treasury Bills by Holder

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

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

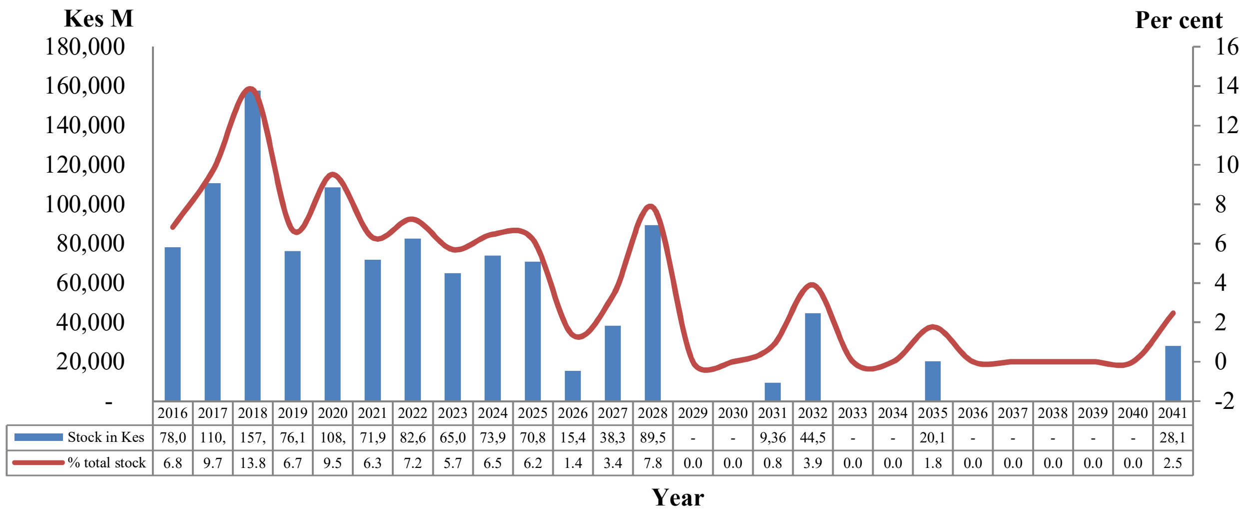
Holder	Jun-12		Jun-13		Jun-14		Jun-15		June 16	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Commercial Banks	75,497	57.1	183,458	68.7	176,437	58.9	217,742	68.3	361,859	61.5
NBFIs	6,297	4.8	5,631	2.1	0	0	0	0	0	0
Insurance companies	7,220	5.5	14,923	5.6	19,856	6.6	20,849	6.5	18,356	3.1
Pensions Funds (including NSSF)	28,686	21.7	42,917	16.1	67,803	22.6	40,946	12.8	117,948	20.1
Others	14,347	10.9	20,282	7.5	35,310	11.9	39,392	12.4	89,924	15.3
Total	**132,047**	**100**	**267,211**	**100**	**299,406**	**100**	**318,929**	**100**	**588,088**	**100.0**

Source: Central Bank of Kenya

2.5 Outstanding Treasury Bonds

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

Figure 2-5: Outstanding Treasury Bonds



2.5.1 Treasury Bonds by Holder

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

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

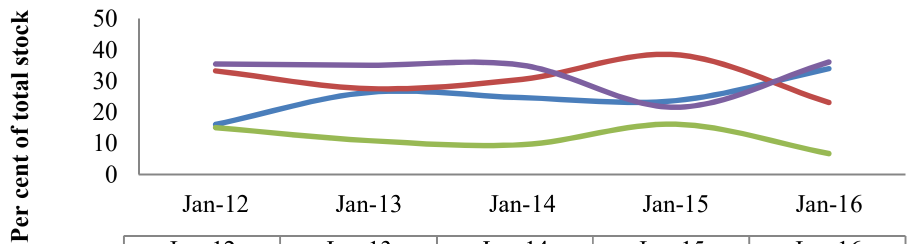
Holder	Jun-12		Jun-13		Jun-14		Jun-15		June 2016	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Commercial Banks	334,114	48.6	341,047	45.8	436,335	47.7	510,228	49.3	560,335	48.6
NBFIs	5,434	0.8	20,701	2.8	662	0.1	320	0	183	0.0
Insurance Companies	85,137	12.4	93,686	12.6	101,168	11.1	107,040	10.3	116,035	10.1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

Source: Central Bank of Kenya

2.6 Treasury Bills and Bonds by Tenor

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

Figure 2-6: Outstanding Government Securities by Tenor



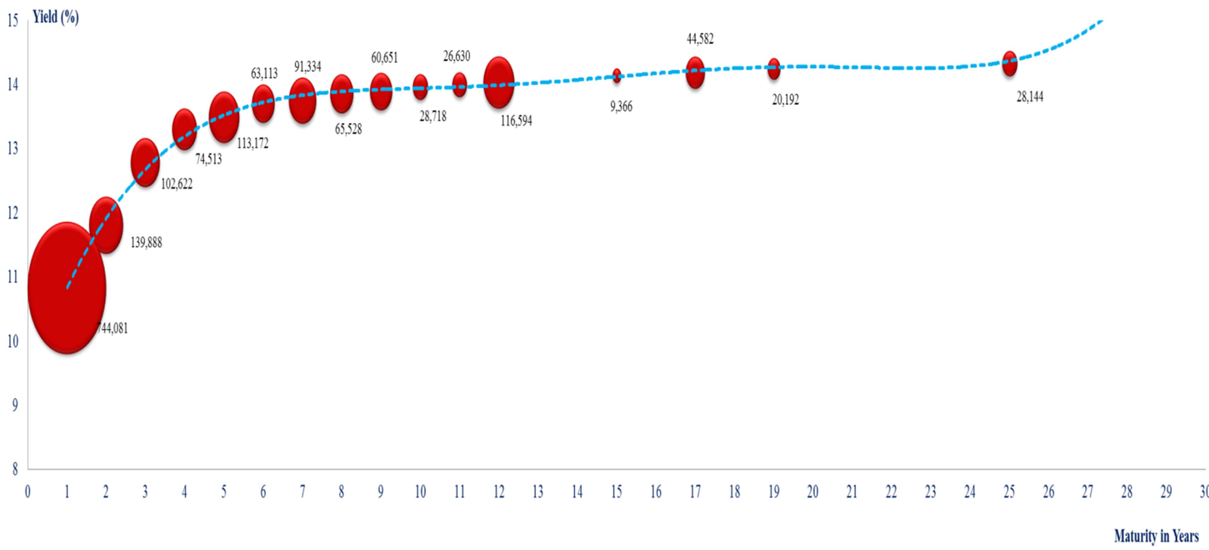
	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16
Treasury Bills (<1 year)	16.1	26.4	24.7	23.7	34.0
Bonds (1-5 years)	33.3	27.6	30.6	38.5	23.1
Bonds (6-9 years)	15.1	10.9	9.6	16.2	6.7
Bonds (>=10 years)	35.5	35.1	35.1	21.6	36.1

Source: Central Bank of Kenya

2.7 Treasury Bills and Bonds by Time to Maturity

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

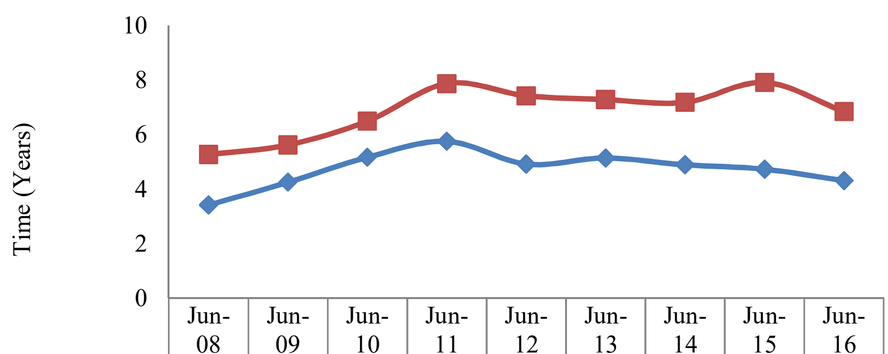
Figure 2-7: Stock of Treasury Bonds Along the June 2016 Average Yield Curve



Source: Central Bank of Kenya

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

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



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

2.8 Infrastructure Bonds (IFBs) Program

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

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

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

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

Source: Central Bank of Kenya

Notes

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

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

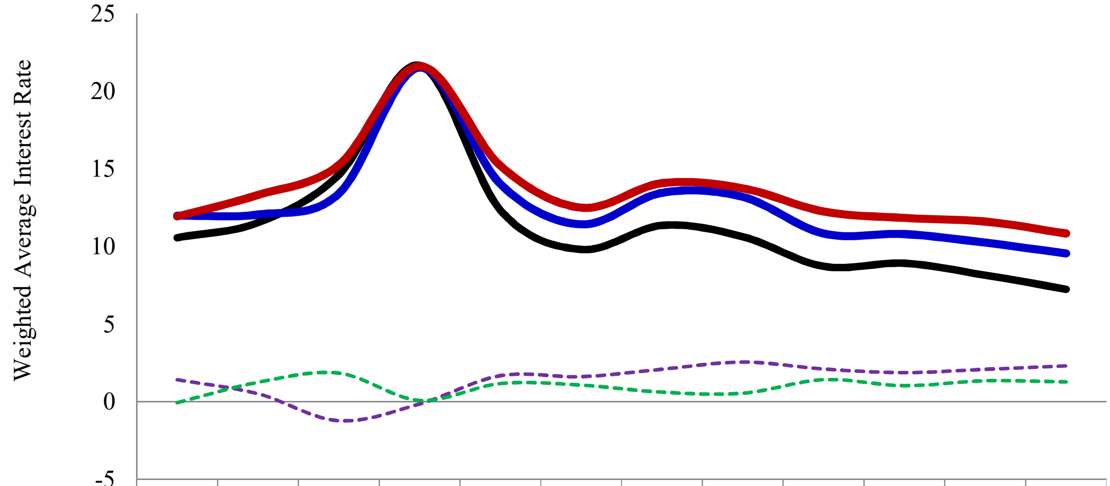
[3] This bond was reissued on tap on 3-Nov-14, 10-Nov-14 and 17-Nov-14. The bond will be amortized on 22-Oct-18, 17-Oct-22 and 12-Oct-26

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

2.9 Average Interest Rates on Treasury Bills

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

Figure 2-9: Treasury Bills Interest Rates

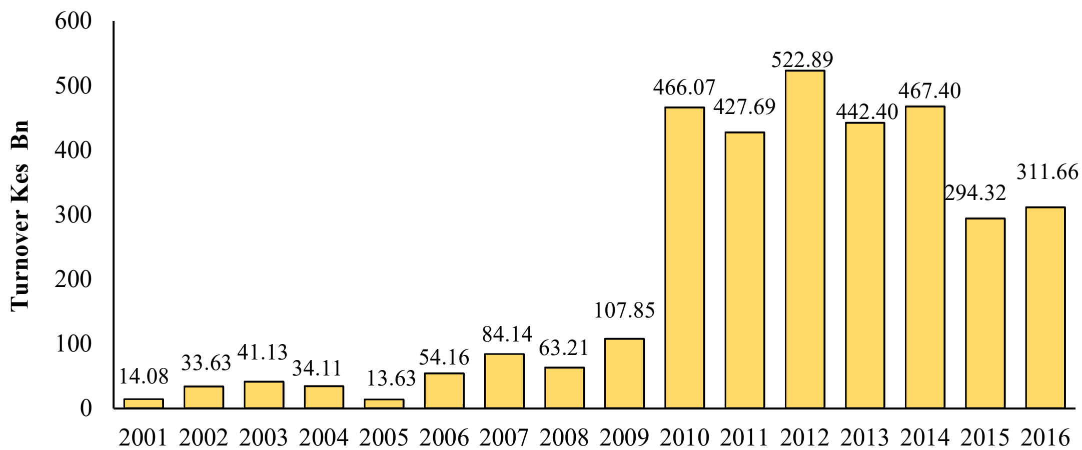


	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
91- Day	10.56	11.53	14.61	21.65	12.33	9.809	11.35	10.63	8.719	8.920	8.151	7.250
182- Day	11.98	12.05	13.39	21.51	14.01	11.42	13.45	13.18	10.83	10.79	10.24	9.558
364-Day	11.93	13.31	15.24	21.61	15.19	12.50	14.07	13.74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

2.10 Government Securities Trading

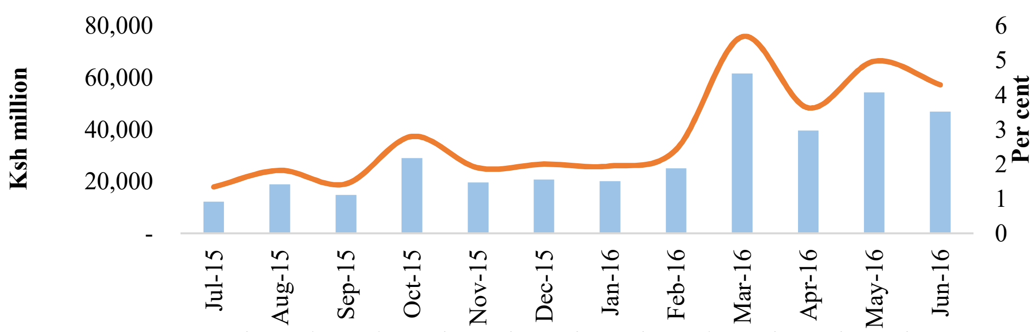
As shown figure 2-10, trading of Government bonds has increased significantly since 2010 as a result of various initiatives to improve secondary market activity for bonds. Turnover was Ksh 311, 660 million in 2016 compared to Ksh 294, 320 million in 2015.

Figure 2-10: Trend of Treasury Bonds Trading Turnover



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

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

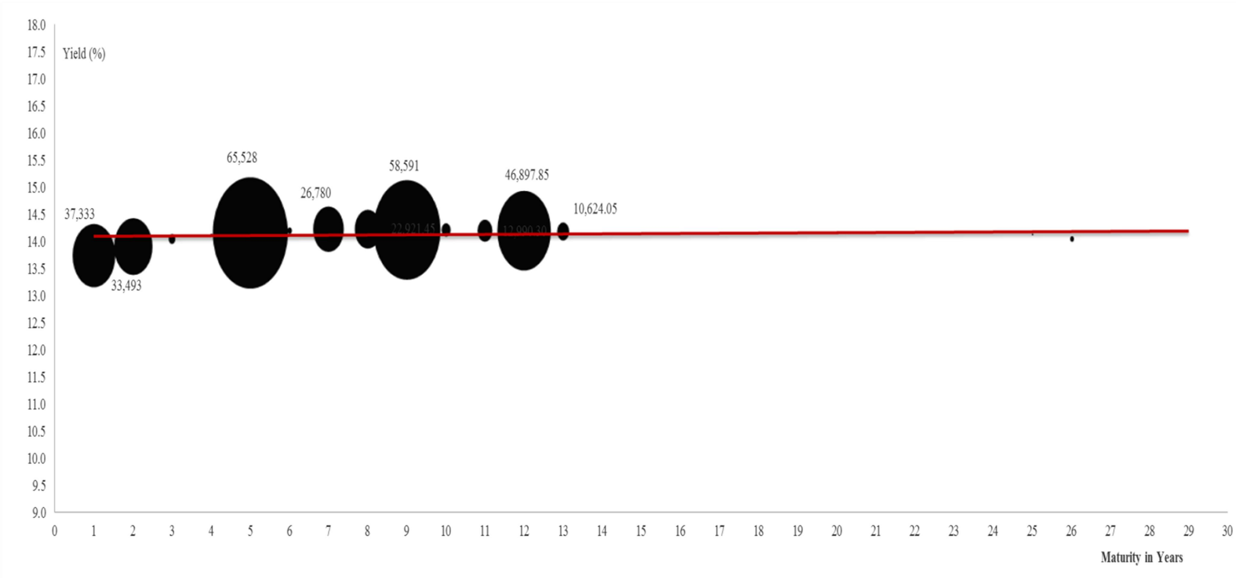


	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Turnover (Ksh Mn)	12,2	18,9	14,9	29,1	19,7	20,8	20,2	25,1	61,6	39,7	54,4	46,9
Turnover as % of Tradable Stock	1.35	1.83	1.44	2.80	1.90	2.01	1.95	2.43	5.69	3.63	4.98	4.30

Source: Central Bank of Kenya

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

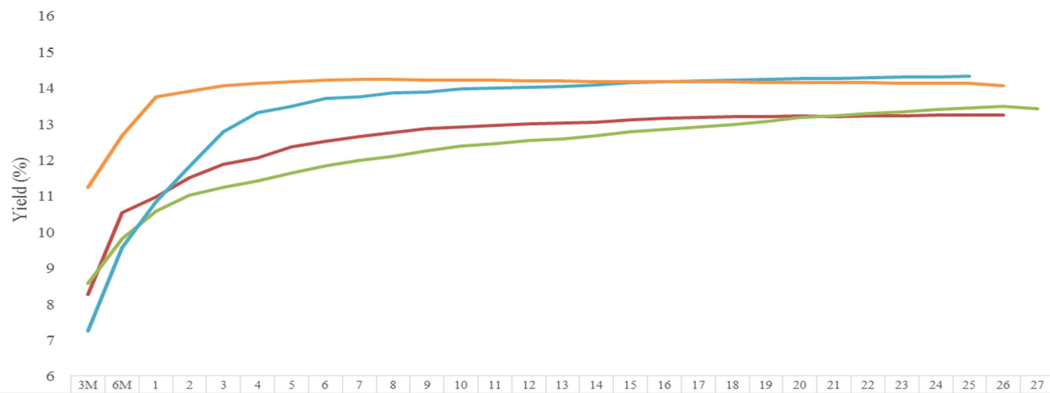
Figure 2-12: Bond Trading along the 2015- 2016 Average Yield Curve (Ksh Million)



2.11 Government Securities Yield Curve

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

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



	3M	6M	1	2	3	4	5	6	7	8	9	10	11	12
June 2015 Average	8.257	10.54	10.97	11.50	11.87	12.06	12.36	12.52	12.65	12.76	12.86	12.91	12.96	13.00
FY 2014-15 Average	8.566	9.815	10.58	11.02	11.24	11.42	11.63	11.82	11.98	12.10	12.25	12.37	12.46	12.53
June 2016 Average	7.250	9.557	10.84	11.81	12.79	13.30	13.48	13.69	13.74	13.85	13.89	13.96	13.99	14.02
FY 2015-16 Average	11.24	12.68	13.75	13.91	14.05	14.11	14.16	14.20	14.23	14.23	14.22	14.21	14.20	14.19

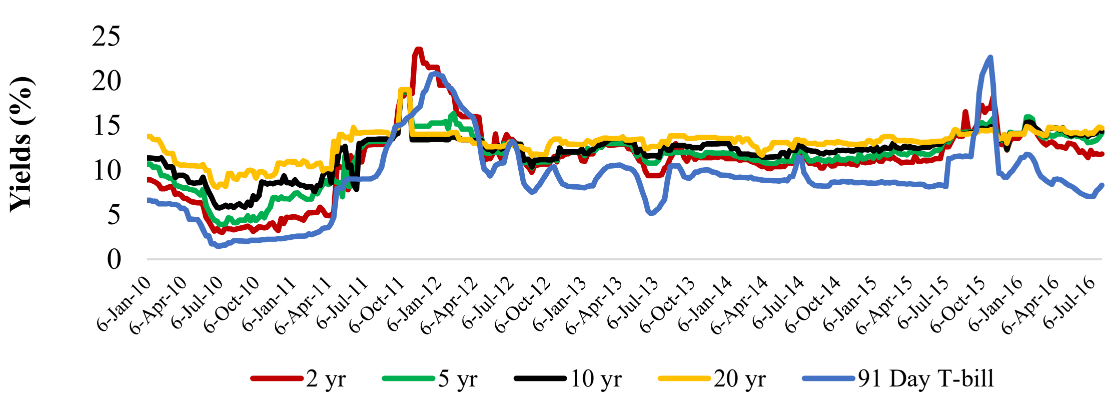
	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
June 2015 Average	13.03	13.05	13.11	13.15	13.18	13.19	13.20	13.21	13.21	13.21	13.22	13.23	13.24	13.25	
FY 2014-15 Average	12.58	12.66	12.77	12.85	12.91	12.97	13.06	13.17	13.21	13.28	13.34	13.39	13.44	13.49	13.41
June 2016 Average	14.04	14.09	14.13	14.18	14.18	14.20	14.23	14.25	14.26	14.28	14.29	14.30	14.32		
FY 2015-16 Average	14.18	14.17	14.17	14.16	14.16	14.16	14.15	14.15	14.14	14.14	14.13	14.13	14.12	14.05	

Time to Maturity (Years)

Source: Central Bank of Kenya

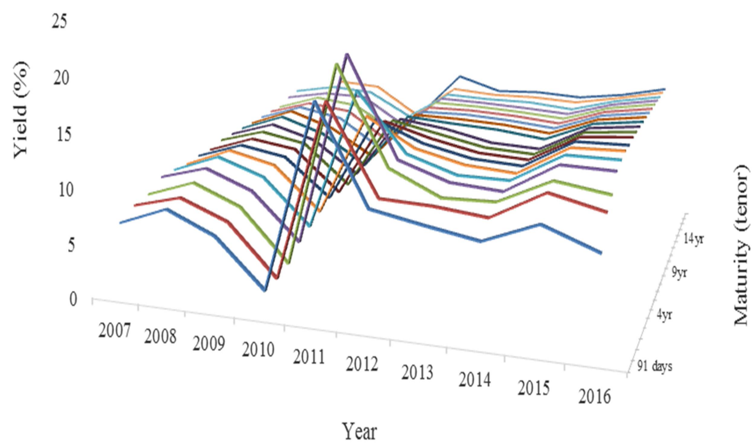
Increased issuance of benchmark tenors and reopening of bonds has attempted to address fragmentation problem, increased turnover in the secondary market, lowered interest rates, firmed up the yield curve and also minimized issuance costs as a result of narrow bond yield spreads in the secondary market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

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



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

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



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

2.12 Interest Payments on Domestic Debt

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

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

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

Source: National Treasury

CHAPTER THREE

EXTERNAL DEBT

3.1 Total External Debt

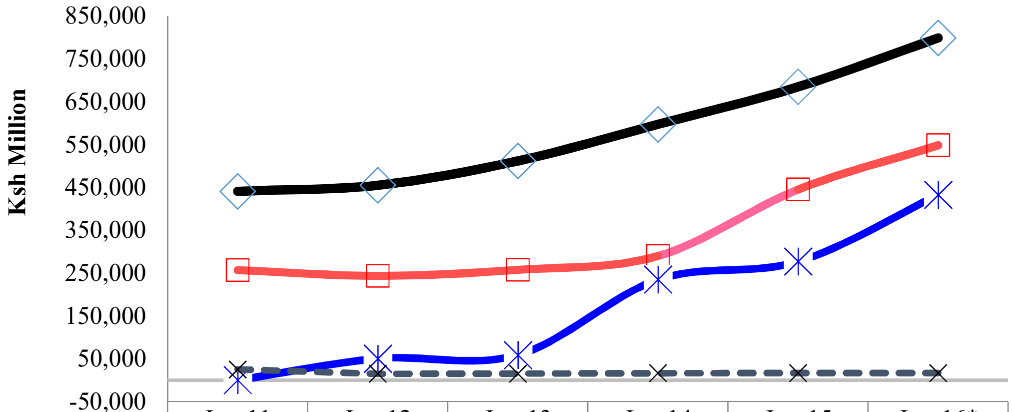
Public and publicly guaranteed (PPG) external debt stock has continued to rise over the last five years, increasing to Ksh 1,796,198 million in June 2016 from Ksh 1, 423,252 million in June 2015, a rise of 26.2 per cent (Table 3.1 and Figure 3-1). The increase was attributed to disbursements from commercial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

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

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

Source: National Treasury

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



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

Source: National Treasury

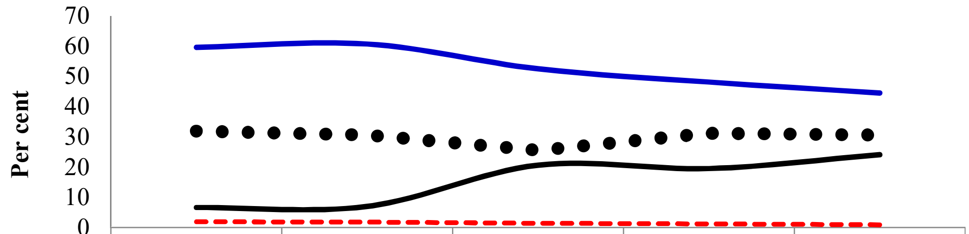
3.2 Structure of Public and Publicly Guaranteed External Debt

3.2.1 Classification by Creditor Category

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

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

Figure 3-2: PPG External Debt by Creditor Category



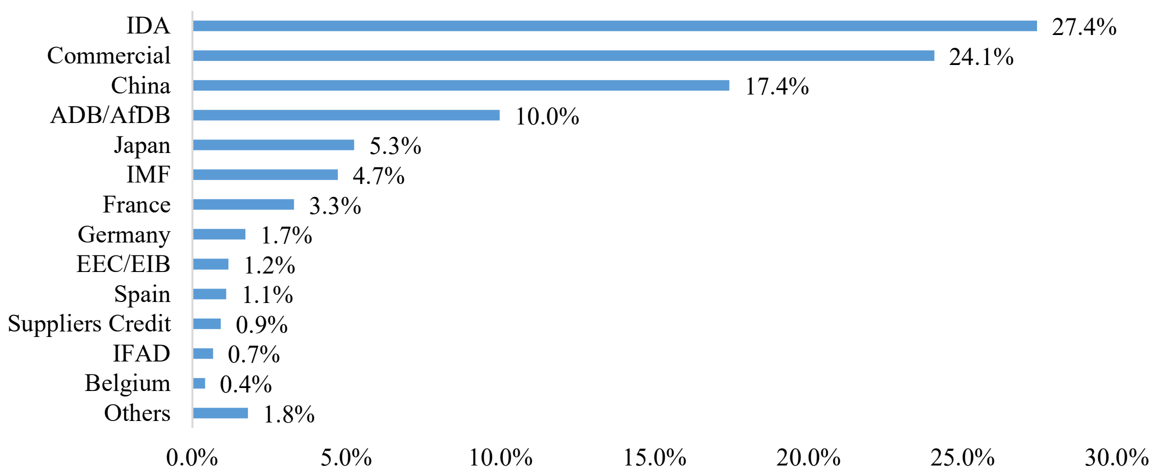
	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16*
Multilateral	59.6	60.7	52.5	48.1	44.5
Bilateral	31.9	30.5	25.5	31.2	30.5
Commercial Banks	6.6	7.0	20.6	19.5	24.1
Suppliers Credits	1.9	1.8	1.4	1.2	0.9

Source: National Treasury

3.2.2 Classification by Major Creditors

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

Figure 3-3: PPG External Debt by Major Creditors



Source: National Treasury

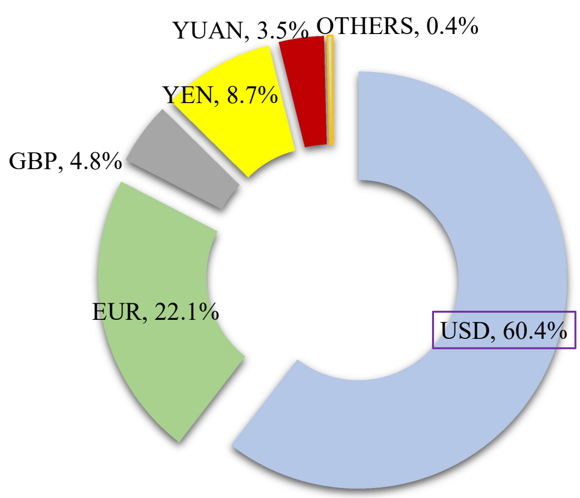
3.2.3 Classification by Currency Structure

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

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

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

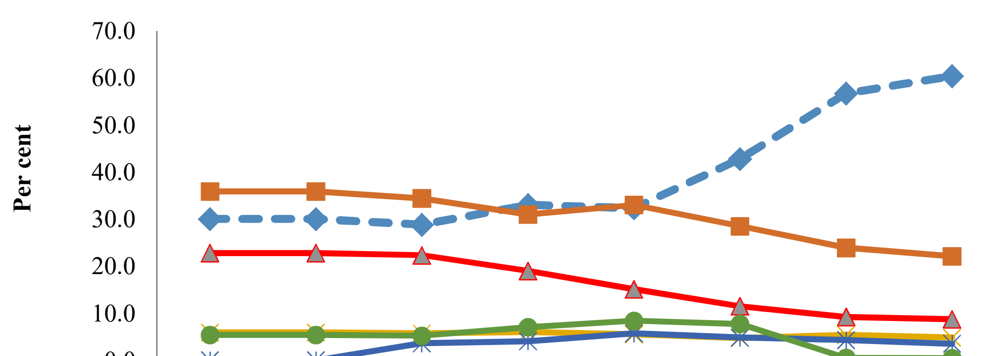
Figure 3-4: Composition of External Debt, end June 2016



Source: National Treasury

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

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



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

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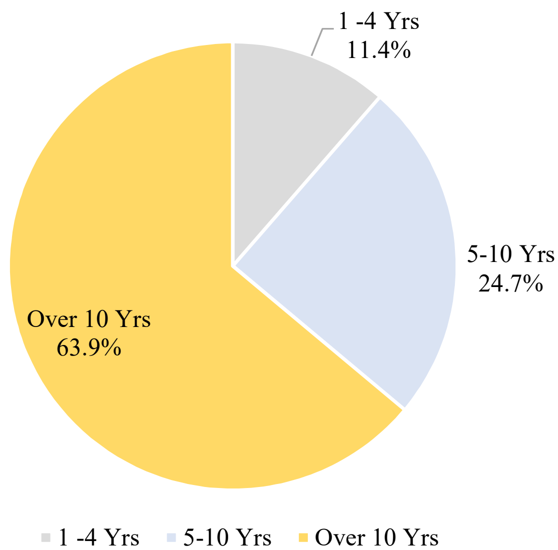
3.3 Maturity Structure

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

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



Source: National Treasury

Table 3-2: Outstanding External Debt by Maturity Structure

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

Source: National Treasury

3.3.1 Average Terms of New External Loan Commitments

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

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

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

3.4 External Debt Service

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

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

Creditor		June 2012	June 2013	June 2014	June 2015	June 2016	June 2016 (%)
Multilateral	Principal	12,560	12,210	11,550	13,349	15,424	19.6
	Interest	3,781	3,702	5,580	4,881	5,641	7.2
	Sub Total	**16,341**	**15,912**	**17,130**	**18,230**	**21,065**	**26.8**
Bilateral	Principal	11,394	11,783	13,419	13,097	19,789	25.2
	Interest	3,570	5,012	6,640	10,574	15,270	19.4
	Sub Total	**14,964**	**16,795**	**20,059**	**23,671**	**35,059**	**44.6**
Commercial	Principal	0	0	831	53,768	802	1.0
	Interest	0	2,337	3,380	17,875	21,657	27.6
	Sub Total	**0**	**2,337**	**4,211**	**71,643**	**22,460**	**28.6**
Grand Total	Principal	23,954	23,993	25,800	80,214	36,015	45.8
	Interest	7,351	11,051	15,600	33,330	42,568	54.2
	Total	**31,305**	**35,044**	**41,400**	**113,544**	**78,583**	**100.0**
Percentage Distribution							
Multilateral		52.2%	45.4%	41.4%	16.1%	26.8%	
Bilateral		47.8%	47.9%	48.5%	20.8%	44.6%	
Commercial		0.0%	6.7%	10.2%	63.1%	28.6%	
Total		100.0%	100.0%	100.0%	100.0%	100.0%	

Source: National Treasury

3.5 External Loans Disbursements

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

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

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

Source: National Treasury

CHAPTER FOUR

ON-LENT LOANS

4.1 Introduction

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

i) The public enterprise has a strategic role;
ii) The public enterprise has a weak balance sheet and cannot attract competitive funding ; and
iii) A public enterprise is undertaking a social welfare project that would be more efficiently executed on behalf of the Government.

4.2 Stock of On-Lent Loans

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

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

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

Source: National Treasury

4.3 On-Lent Loans (including Arrears)

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

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

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

Source: The National Treasury

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

4.4 Receipts from On-Lent Loans

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

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

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

CHAPTER FIVE

FISCAL COMMITMENTS, CONTINGENT LIABILITIES AND PUBLICLY GUARANTEED DEBT

5.1 Fiscal Commitments and Contingent Liabilities

5.1.1 Recognizing Potential Fiscal Risks

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

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

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

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

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

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

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

Source: National Treasury, 2017 Budget Policy Statement

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

5.2 Publicly Guaranteed Debt

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

5.2.1 Stock of Publicly Guaranteed Debt

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

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

Agency	Year	Purpose of the loan	Creditor	Jun-13	Jun-14	Jun-15	Jun-16
Nairobi City County	1985	Umoja II Housing Project	USA	146	75	-	-
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	3,934	3,584	2,404	2,224
Telkom Kenya Ltd	1990	Purchase of Microwave Telephone System	Canada	353	351	375	-
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	1,791	1,526	1,172	1,156
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	2,226	1,896	1,457	1,438
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	4,442	4,048	3,393	3,767
	1997	Sondu Miriu Hydropower Project	Japan	4,268	3,950	3,372	3,827
	2004	Sondu Miriu Hydropower Project II	Japan	9,186	8,981	8,005	9,534
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	3,671	3,660	3,416	4,218

Agency	Year	Purpose of the loan	Creditor	Jun-13	Jun-14	Jun-15	Jun-16
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	42	42	44	55
	2010	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Germany				3,514
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Germany				4,656
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	9,608	13,167	15,856	22,099
Kenya Railways	2008	Kenya Railways Concessioning	IDA	3,870	3,943	4,439	4,044
Kenya Farmers Association	2005	Revival of KFA	Local banks	Unutilized	Unutilized	Unutilized	Unutilized
National Cereals & Produce Board (GSM-102)	2009	Importation of maize under GSM-102	USA	Unutilized	Unutilized	Unutilized	Unutilized
Total				**43,537**	**45,221**	**43,933**	**60,530**

Source: The National Treasury

5.2.2 Payments by the Government on Publicly Guaranteed Debt

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

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

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

Source: The National Treasury

CHAPTER SIX

DISPUTED EXTERNAL COMMERCIAL DEBT

6.1 Background

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

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

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

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

6.2 Audits on External Commercial Debts

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

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

Specifically, the PwC Report cited:

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

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

v) Under-delivery of supplies provided under the contracts

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

6.3 Government Position on Existing Commercial Debts

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

6.4 Lessons Learnt from External Commercial Debt

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

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

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

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

CHAPTER SEVEN

PUBLIC DEBT STRATEGY AND DEBT SUSTAINABILITY

7.1 Public Debt Strategy

7.1.1 The Medium Term Debt Management Strategy

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

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

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

I. Alternative Borrowing Strategies

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

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

Table 7-1: Alternative Debt Management Strategies

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

II. FY 2015/16 MTDS

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

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

Source: FY 2015 /16 MTDS, National Treasury

7.1.2 Implementation of the FY 2015/16 MTDS

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

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

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

Source: National Treasury

7.2 Public Debt Sustainability

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

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

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

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

Table 7-3: External Debt Sustainability Thresholds

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

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

7.2.1 External Debt Sustainability

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

Table 7-4: External Debt Sustainability Indicators

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

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

7.2.2 Public Debt Sustainability

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

Table 7-5: Public Debt Sustainability Indicators

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

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

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

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

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

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

CHAPTER EIGHT

LEGAL FRAMEWORK ON PUBLIC DEBT MANAGEMENT

8.1 Provisions under the Constitution

8.1.1 Public debt as defined under the Constitution

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

8.1.2 Borrowing by the National Government

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

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

8.1.3 Borrowing by Counties

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

8.1.4 Loan guarantees by national government

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

8.2 Public Finance Management Act (PFMA)

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

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

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

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

Section 49: Authority for borrowing by the National Government

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reporting under PFM Act

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

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

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

8.3 PFMA Regulations

The Legal Notice No. 35 of 2015 provides Regulations on Public Finance Management Act (No. 18 of 2012). The Regulations provide guidelines and clarity on all matters relating to public finance management at the national and county level. The PFM Regulations, 2015 are firmly anchored in Chapter 12 of the Constitution.
Public Debt Management issues are covered in Part XIV of the Regulations. This Part provides guiding principles for national and county government borrowing; policy frameworks on public debt management; medium term debt management strategy, annual government borrowing programme, use of borrowed monies and credits obtained, formalization of agreements for loans, credit purchases, modes of payment, borrowing purposes and objectives of public debt management.

The Part further elaborates on the functions of public debt management office; provides for redemption, conversion and consolidation of loans, provides for setting debt limit in the debt management strategy, the criteria for issuance of government securities both domestic and external, reporting of public debt by national government entities and county governments as well as annual debt reporting to Parliament.
Part XIV of the Regulations also provides for government guaranteed debt, eligibility and evaluation criteria for national government guarantees, process of approving a guarantee of a national government entity or a county government, the approval of a draft loan guarantee by Parliament.
The Regulations sets the overall debt limit for the country at 50% of the net present value of GDP while the debt limit for county governments is set at 20% of the audited total annual revenue and approved by the county assemblies. The roles of accounting officers in debt management and establishment of a Sinking Fund for debt redemption are provided for in the Regulations.
Specifically, section 200 of the PFMA Regulations states that not later than three months after the end of each financial year, the Cabinet Secretary shall prepare and submit an annual report to Parliament on public debt in the format set by the Cabinet Secretary. The annual public debt report shall include the following information:

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

d) On-lent loans and contingent liabilities;

e) Debt strategy and debt sustainability;

f) Outlook for the medium term; and

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

CHAPTER NINE

OUTLOOK FOR THE MEDIUM TERM

9.1 Public Debt Stock in the Medium Term

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

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

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

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

Source: National Treasury

9.2 Debt Service in the Medium Term

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

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

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

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

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

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

Source: National Treasury

GLOSSARY

- Bond Conversion

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

- Bond Reopening

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

- Bond Switching

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

- Buy back

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

- Concessionality

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

- Debt Relief

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

- Debt Rescheduling

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

- Debt Service

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

- Debt Sustainability

Glossary

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

- Debt Sustainability Analysis

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

- Disbursement

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

- Domestic Borrowing

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

- Export Credit

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

- External Borrowing

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

- Government Securities

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

- Grant Element

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

- London Club

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

- Monetary Policy

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

- Present Value

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

- Official Development Assistance

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

- Over the Counter

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

- Paris Club

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

- Primary Market

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

- Public Debt

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

- Public Domestic Debt

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

- Public External Debt

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

- Renminbi Bond

Glossary

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

• Samurai Bond

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

• Secondary Market

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

• Sovereign Bond

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

• Sukuk Bond

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

• Suppliers' Credit

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

Tap sale

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

• Treasury Bills

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

• Treasury Bond

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

• Yield Curve

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

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

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

Annex 1: Outstanding Treasury Bills and Bonds (KShs million) by Tenor, Kenya										
Security	**Jun-12**		**Jun-13**		**Jun-14**		**Jun-15**		**Jun-16**	
Treasury Bills (Days)										
91	24,323	3.0	36,203	3.6	54,660	4.5	18,554	1.4	81,784	4.7
182	75,669	9.2	52,167	5.2	88,949	7.3	75,251	5.6	191,841	11.1
364	32,056	3.9	178,840	17.7	155,797	12.8	225,123	16.8	314,464	18.2
Sub totals	**132,048**	**16.1**	**267,211**	**26.4**	**299,406**	**24.7**	**318,928**	**23.7**	**588,088**	**34.0**
Treasury Bonds (Years)										
1	51,522	6.3	-	-	-	-	165,912	12.3	34,502.03	2.0
2	86,462	10.6	122,014	12.1	166,679	13.7	109,936	8.2	122,086.75	7.1
3	0	0.0	-	-	-	-	89,515	6.7	-	-
4	19,121	2.3	19,121	1.9	29,891	2.5	102,622	7.6	10,770.23	0.6
5	115,333	14.1	138,357	13.7	175,296	14.4	49,123	3.7	232,840.35	13.5
Sub totals	**272,438**	**33.3**	**279,492**	**27.6**	**371,866**	**30.6**	**517,108**	**38.5**	**400,199**	**23.2**
6	47,241	5.8	40,653	4.0	40,653	3.3	46,038	3.4	21,331.58	1.2
7	22,523	2.8	19,288	1.9	16,970	1.4	44,462	3.3	24,312.72	1.4
8	28,944	3.5	31,796	3.1	40,866	3.4	61,025	4.5	26,579.77	1.5
9	25,364	3.1	18,177	1.8	18,177	1.5	65,528	4.9	44,010.43	2.5
Sub totals	**124,072**	**15.1**	**109,914**	**10.9**	**116,665**	**9.6**	**217,053**	**16.2**	**116,235**	**6.7**
10	95,725	11.7	126,767	12.5	148,511	12.2	31,757	2.4	183,542.80	10.6
11	4,031	0.5	4,031	0.4	4,031	0.3	28,718	2.1	4,031.40	0.2
12	43,186	5.3	30,206	3.0	45,411	3.7	26,630	2.0	136,581.78	7.9
15	75,443	9.2	102,408	10.1	125,498	10.3	100,975	7.5	177,805.75	10.3
20	29,727	3.6	49,027	4.8	60,451	5.0	74,140	5.5	74,308.40	4.3
25	20,193	2.5	20,193	2.0	20,193	1.7	28,145	2.1	20,192.50	1.2

Annex 1: Outstanding Treasury Bills and Bonds (KShs million) by Tenor, Kenya										
Security	**Jun-12**		**Jun-13**		**Jun-14**		**Jun-15**		**Jun-16**	
30	22,136	2.7	22,136	2.2	22,136	1.8	0	0.0	28,144.70	1.6
Sub total	**290,441**	**35.5**	**354,768**	**35.1**	**426,231**	**35.1**	**290,365**	**21.6**	**624,607**	**36.1**
Grand Total	**818,999**	**100.0**	**1,011,385**	**100.0**	**1,214,168**	**100.0**	**1,343,454**	**100.0**	**1,729,129**	**100.0**

Source: Central Bank of Kenya

Annex 2: Outstanding Government Bonds, June 2016

Issue No.	Tenor (Years)	Accepted at FV (Ksh M)	Years to Maturity	Accepted at cost (Ksh M)	Issue/Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
FXD1/2006/12	12	3,900.95	2.13	3,823.67	28-Aug-06	13-Aug-18	14.000	14.355	97.996	14.582
FXD1/2006/11	11	4,031.40	1.20	3,909.72	25-Sep-06	11-Sep-17	13.750	14.308	96.953	14.473
FXD1/2007/15	15	3,654.60	5.70	3,568.80	26-Mar-07	07-Mar-22	14.500	14.896	97.650	15.246
FXD1/2007/12	12	4,864.60	2.88	4,999.04	28-May-07	13-May-19	13.000	12.548	102.766	12.804
FXD2/2007/15	15	7,236.95	5.95	7,489.08	25-Jun-07	06-Jun-22	13.500	12.968	103.479	13.284
FXD1/2007/10	10	9,308.80	1.30	9,000.02	29-Oct-07	16-Oct-17	10.750	11.316	96.662	11.604
FXD3/2007/15	15	7,841.10	6.38	7,434.42	26-Nov-07	07-Nov-22	12.500	13.313	94.777	13.350
FXD1/2008/10	10	2,992.75	1.63	2,901.99	25-Feb-08	12-Feb-18	10.750	11.266	96.951	11.933
FXD1/2008/15	15	7,380.90	6.72	6,998.56	31-Mar-08	13-Mar-23	12.500	13.310	94.795	13.697
FXD1/2008/20	20	1,912.25	11.97	1,791.77	30-Jun-08	05-Jun-28	13.750	14.741	93.668	16.913
FXD2/2008/10	10	882.00	2.05	847.39	28-Jul-08	16-Jul-18	10.750	11.420	96.066	12.490
FXD3/2008/10	10	4,151.60	2.22	3,910.96	29-Sep-08	17-Sep-18	10.750	11.758	86.922	11.893
FXD1/2009/10	10	4,966.85	2.80	4,688.23	27-Apr-09	15-Apr-19	10.750	11.723	94.357	12.215
FXD3/2007/15(R1)	15	10,189.10	6.38	9,547.61	25-May-09	07-Nov-22	12.500	13.530	93.687	13.737
FXD1/2008/20(R1)	20	7,613.90	11.97	7,197.88	29-Jun-09	05-Jun-28	13.750	14.614	94.493	14.926
FXD2/2008/10(R1)	10	12,622.70	2.05	11,889.72	27-Jul-09	16-Jul-18	10.750	11.821	94.163	11.958
FXD1/2009/15	15	9,420.45	8.30	8,704.40	26-Oct-09	07-Oct-24	12.500	13.709	92.388	13.812
FXD1/2008/20(R2)	20	10,834.80	11.97	10,878.06	28-Dec-09	05-Jun-28	13.750	13.691	100.394	13.909
FXD1/2010/15	15	10,206.45	8.72	10,419.79	29-Mar-10	10-Mar-25	10.250	9.980	102.078	10.133
FXD1/2010/10	10	12,052.60	3.80	12,178.30	26-Apr-10	13-Apr-20	8.790	8.633	101.038	8.790
FXD1/2010/25	25	7,008.15	18.97	7,497.64	28-Jun-10	28-May-35	11.250	10.438	106.981	10.787
FXD1/2010/25(R1)	25	13,184.35	18.97	15,029.47	26-Jul-10	28-May-35	11.250	9.839	113.880	9.937
FXD2/2010/10	10	13,847.90	4.32	14,462.48	01-Nov-10	19-Oct-20	9.307	8.646	104.366	9.307
FXD2/2010/15	15	7,329.35	9.47	6,316.19	27-Dec-10	08-Dec-25	9.000	10.923	85.966	11.978

Annex 2: Outstanding Government Bonds, June 2016

Issue No.	Tenor (Years)	Accepted at FV (Ksh M)	Years to Maturity	Accepted at cost (Ksh M)	Issue/Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
FXD2/2010/10(R1)	10	1,111.65	4.32	1,085.65	31-Jan-11	19-Oct-20	9.307	9.683	97.634	10.503
SDB1/2011/30	30	8,718.10	24.65	8,097.58	28-Feb-11	21-Jan-41	12.000	12.959	92.771	14.145
SDB1/2011/30(R1)	30	10,041.55	24.65	9,033.18	28-Mar-11	21-Jan-41	12.000	13.520	88.956	13.832
FXD2/2010/15(R1)	15	6,183.75	9.47	4,782.54	25-Apr-11	08-Dec-25	9.000	12.388	77.308	12.848
FXD1/2010/10 (R1)	10	7,341.55	3.80	5,894.84	30-May-11	13-Apr-20	8.790	12.531	80.242	12.621
FXD1/2011/20	20	8,138.50	14.90	5,984.55	30-May-11	05-May-31	10.000	13.974	73.470	13.993
FXD1/2011/20(R1)	20	1,227.30	14.90	870.32	27-Jun-11	05-May-31	10.000	14.822	69.328	16.965
FXD2/2010/10(R2)	10	3,890.35	4.32	3,112.57	25-Jul-11	19-Oct-20	9.307	13.089	79.990	13.624
SDB1/2011/30(R2)	30	3,376.80	24.65	2,481.80	29-Aug-11	21-Jan-41	12.000	16.397	73.441	18.815
FXD1/2012/5	5	4,905.55	0.90	4,907.43	28-May-12	22-May-17	11.855	11.855	100.000	12.624
FXD1/2012/10	10	443.15	5.97	443.29	25-Jun-12	13-Jun-22	12.705	12.705	100.000	15.820
FXD1/2012/5(R1)	5	7,925.80	0.90	7,458.74	30-Jul-12	22-May-17	11.855	13.548	94.097	13.906
FXD1/2012/10(R1)	10	5,298.85	5.97	5,038.01	30-Jul-12	13-Jun-22	12.705	13.630	95.020	13.982
FXD1/2012/15	15	21,089.45	11.22	19,525.73	24-Sep-12	06-Sep-27	11.000	12.089	92.541	12.385
FXD1/2012/20	20	3,461.35	16.40	3,095.34	26-Nov-12	01-Nov-32	12.000	13.540	89.454	14.218
FXD1/2012/5(R2)	5	18,248.20	0.90	18,061.53	28-Jan-13	22-May-17	11.855	12.791	96.920	13.200
FXD1/2012/20(R1)	20	4,956.50	16.40	4,488.73	28-Jan-13	01-Nov-32	12.000	13.694	88.480	13.883
FXD1/2013/15	15	5,875.70	11.65	4,986.66	25-Feb-13	07-Feb-28	11.250	13.629	84.960	14.081
FXD1/2012/10(R2)	10	11,061.75	5.97	10,828.90	25-Mar-13	13-Jun-22	12.705	13.720	94.717	13.858
FXD2/2013/15	10	17,385.85	11.82	15,560.86	29-Apr-13	10-Apr-28	12.000	13.661	89.516	13.780
FXD1/2013/5	5	20,240.75	1.82	20,240.57	29-Apr-13	23-Apr-18	12.892	12.892	100.000	13.090
FXD1/2012/20(R2)	20	10,882.70	16.40	10,132.10	27-May-13	01-Nov-32	12.000	12.981	93.093	13.310
FXD2/2013/5	5	12,888.00	1.99	12,888.20	01-Jul-13	25-Jun-18	11.305	11.305	100.000	11.507
FXD1/2013/10	10	12,121.35	6.99	12,123.46	01-Jul-13	19-Jun-23	12.371	12.371	100.000	12.484
FXD1/2013/15(R1)	15	7,507.10	11.65	6,686.70	29-Jul-13	07-Feb-28	11.250	13.769	84.307	13.975
FXD1/2013/10(R1)	10	521.70	6.99	531.42	26-Aug-13	19-Jun-23	12.371	12.371	99.961	13.973
FXD3/2013/5	5	14,937.80	2.40	14,938.05	25-Nov-13	19-Nov-18	11.952	11.952	100.000	12.124
FXD1/2014/10	10	15,030.15	7.57	15,030.28	27-Jan-14	15-Jan-24	12.180	12.180	100.000	12.364
FXD1/2013/15(R2)	15	15,582.80	11.65	14,431.26	24-Feb-14	07-Feb-28	11.250	12.375	92.602	12.515
FXD1/2014/5	5	17,511.20	2.82	17,508.21	28-Apr-14	22-Apr-19	10.870	10.870	100.000	10.991
FXD2/2014/5	5	14,285.60	2.97	14,286.91	23-Jun-14	17-Jun-19	11.934	11.934	100.000	12.016
FXD1/2012/20(R3)	20	9,363.05	16.40	8,588.47	23-Jun-14	01-Nov-32	12.000	13.357	90.754	13.375
FXD2/2014/5 (Tap 1)	5	2,132.65	2.97	2,137.36	30-Jun-14	17-Jun-19	11.934	11.934	100.223	11.934
FXD1/2012/20 (Tap 1)	20	2,060.55	16.40	1,889.87	30-Jun-14	01-Nov-32	12.000	13.357	91.905	13.357

Annex 2: Outstanding Government Bonds, June 2016

Issue No.	Tenor (Years)	Accepted at FV (Ksh M)	Years to Maturity	Accepted at cost (Ksh M)	Issue/Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
FXD2/2013/5(R1)	5	13,452.05	1.99	13,755.56	25-Aug-14	25-Jun-18	11.305	11.126	100.516	11.315
SDB1/2011/30(R3)	30	1,752.50	24.65	1,533.24	25-Aug-14	21-Jan-41	12.000	13.775	86.171	14.152
SDB1/2011/30(Tap 1)	30	2,003.35	24.65	1,752.65	01-Sep-14	21-Jan-41	12.000	13.775	87.486	13.775
SDB1/2011/30(Tap 2)	30	667.90	24.65	584.28	08-Sep-14	21-Jan-41	12.000	13.775	87.492	13.775
SDB1/2011/30(Tap 3)	30	19.00	24.65	16.62	15-Sep-14	21-Jan-41	12.000	13.775	87.475	13.775
SDB1/2011/30(Tap 4)	30	712.40	24.65	623.14	22-Sep-14	21-Jan-41	12.000	13.775	87.470	13.775
SDB1/2011/30(Tap 5)	30	853.10	24.65	746.17	29-Sep-14	21-Jan-41	12.000	13.775	87.466	13.775
FXD1/2014/10(R1)	10	15,587.65	7.57	15,494.82	29-Sep-14	15-Jan-24	12.180	12.296	99.326	12.356
FXD1/2010/15(R1)	15	12,129.80	8.72	10,617.28	24-Nov-14	10-Mar-25	10.250	12.422	87.517	12.478
FXD3/2014/2	2	8,903.25	0.47	8,903.32	22-Dec-14	19-Dec-16	10.890	10.890	100.000	11.014
FXD1/2013/15(R3)	15	13,172.85	11.65	11,910.59	22-Dec-14	07-Feb-28	11.250	12.766	89.980	12.828
FXD1/2014/5 (R1)	5	8,222.50	2.82	8,028.78	26-Jan-15	22-Apr-19	10.870	11.576	97.643	11.821
FXD1/2012/20 (R4)	20	13,857.50	16.40	12,358.82	26-Jan-15	01-Nov-32	12.000	13.624	89.173	13.639
FXD1/2015/2	2	23,592.15	0.65	23,592.55	23-Feb-15	20-Feb-17	11.470	11.470	100.000	11.551
FXD1/2013/10(R2)	10	11,909.05	6.99	11,654.47	23-Feb-15	19-Jun-23	12.371	12.787	97.863	13.000
FXD3/2014/2(R1)	2	20,472.45	0.47	20,216.76	25-May-15	19-Dec-16	10.890	11.767	98.750	11.856
FXD1/2014/10(R2)	10	5,234.35	7.57	5,042.66	25-May-15	15-Jan-24	12.180	12.886	96.333	13.040
FXD2/2015/2	2	7,190.90	0.99	7,191.01	29-Jun-15	26-Jun-17	12.629	12.629	100.000	12.721
FXD1/2015/5	5	5,566.20	3.99	5,566.41	29-Jun-15	22-Jun-20	13.193	13.193	100.000	13.458
FXD1/2015/5(R1)	5	12,461.70	3.99	11,994.74	27-Jul-15	22-Jun-20	13.193	14.273	96.242	14.360
FXD2/2015/2(R1)	2	11,555.90	0.99	11,161.59	24-Aug-15	26-Jun-17	12.629	14.781	96.582	16.970
FXD1/2015/1	1	24,260.65	0.24	24,234.66	28-Sep-15	26-Sep-16	19.062	19.062	100.000	19.441
FXD2/2015/1	1	10,241.38	0.32	10,241.46	26-Oct-15	24-Oct-16	22.954	22.954	100.000	23.514
FXD2/2015/5	5	30,673.85	4.41	30,678.67	30-Nov-15	23-Nov-20	13.920	13.920	100.000	14.039
FXD1/2013/10(R3)	10	4,737.70	6.99	3,980.25	25-Jan-16	19-Jun-23	12.371	16.132	84.025	16.585
FXD1/2016/2	2	20,153.75	1.57	20,154.16	25-Jan-16	22-Jan-18	15.760	15.760	100.000	16.181
FXD1/2012/10(R3)	10	18,469.95	5.97	17,292.77	29-Feb-16	13-Jun-22	12.705	14.264	96.045	14.689
FXD1/2015/5(R2)	5	12,928.15	3.99	12,611.45	29-Feb-16	22-Jun-20	13.193	13.990	99.844	14.301
FXD2/2013/15(R1)	15	9,615.40	11.82	8,034.88	21-Mar-16	10-Apr-28	12.000	14.979	88.390	15.320
FXD1/2013/10(R4)	10	9,958.40	6.99	9,063.65	21-Mar-16	19-Jun-23	12.371	14.393	93.868	14.666
FXD1/2016/5	5	19,544.20	4.82	19,544.47	25-Apr-16	19-Apr-21	14.334	14.334	100.000	14.577
FXD2/2016/2	2	4,717.90	1.90	4,717.90	23-May-16	21-May-18	12.020	12.020	100.000	12.489
FXD2/2016/2 (R1)	2	25,500.45	1.90	25,714.65	20-Jun-16	21-May-18	12.020	11.508	101.764	11.725
FXD1/2012/15 (R1)	15	6,004.15	11.22	4,898.80	20-Jun-16	06-Sep-27	11.000	14.335	84.339	14.897

Annex 2: Outstanding Government Bonds, June 2016

Issue No.	Tenor (Years)	Accepted at FV (Ksh M)	Years to Maturity	Accepted at cost (Ksh M)	Issue/Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
Infrastructure Bonds										
IFB1/2010/8	8	7,131.58	1.65	7,191.86	01-Mar-10	19-Feb-18	9.750	9.579	100.498	9.860
IFB 2/2010/9	6	14,200.00	0.15	13,163.18	30-Aug-10	22-Aug-16	6.000	7.293	92.916	7.737
IFB 2/2010/9	7	8,700.00	1.15	8,114.92	30-Aug-10	21-Aug-17	6.000	7.293	92.916	7.737
IFB 2/2010/9	9	9,971.55	3.15	9,306.92	30-Aug-10	19-Aug-19	6.000	7.293	92.916	7.737
IFB1/2009/12	8	4,497.70	0.63	4,235.29	23-Feb-09	13-Feb-17	12.500	13.505	94.109	13.883
IFB1/2009/12	12	6,746.60	4.63	6,352.93	23-Feb-09	08-Feb-21	12.500	13.505	94.109	13.883
IFB2/2009/12	9	5,145.00	2.41	4,746.05	07-Dec-09	26-Nov-18	12.000	12.537	97.352	13.182
IFB2/2009/12	12	4,558.95	5.41	4,702.18	07-Dec-09	22-Nov-21	12.000	12.537	97.352	13.182
DIASPORA BOND TAP & AMORTIZATION - SORT SEPARATELY										
IFB1/2011/12	8	4,604.85	3.24	3,787.82	03-Oct-11	23-Sep-19	12.000	16.640	82.082	17.173
IFB1/2011/12 (Tap 1)	8	107.40	3.24	89.52	07-Nov-11	23-Sep-19	12.000	16.640	83.353	16.640
IFB1/2011/12 (Tap 2)	8	80.92	3.24	68.29	05-Dec-11	23-Sep-19	12.000	16.640	84.384	16.640
IFB1/2011/12 (Tap 3)	8	531.40	3.24	453.97	02-Jan-12	23-Sep-19	12.000	16.640	85.428	16.640
IFB1/2011/12 (Tap 4)	8	1,905.11	3.24	1,652.70	06-Feb-12	23-Sep-19	12.000	16.640	86.751	16.640
IFB1/2011/12 (Tap 5)	8	6,961.72	3.24	6,095.34	27-Feb-12	23-Sep-19	12.000	16.640	87.555	16.640
Second Tranche Maturing 23-Sep-2019										
IFB1/2011/12	12	3,288.54	7.24	2,705.07	03-Oct-11	18-Sep-23	12.000	16.640	82.082	17.173
IFB1/2011/12 (Tap 1)	12	76.70	7.24	63.93	07-Nov-11	18-Sep-23	12.000	16.640	83.353	16.640
IFB1/2011/12 (Tap 2)	12	57.79	7.24	48.77	05-Dec-11	18-Sep-23	12.000	16.640	84.384	16.640
IFB1/2011/12 (Tap 3)	12	379.50	7.24	324.20	02-Jan-12	18-Sep-23	12.000	16.640	85.428	16.640
IFB1/2011/12 (Tap 4)	12	1,360.53	7.24	1,180.28	06-Feb-12	18-Sep-23	12.000	16.640	86.751	16.640
IFB1/2011/12 (Tap 5)	12	4,971.71	7.24	4,352.98	27-Feb-12	18-Sep-23	12.000	16.640	87.555	16.640
Final Tranche Maturing 18-Sep-2023										
IFB1/2013/12	4	5,993.70	1.24	5,592.71	30-Sep-13	25-Sep-17	11.000	12.363	93.290	12.772
IFB1/2013/12 TAP	4	4,776.52	1.24	4,497.34	28-Oct-13	25-Sep-17	11.000	12.363	91.591	12.363
First Tranche Maturing 25-Sep-2017										

Annex 2: Outstanding Government Bonds, June 2016

Issue No.	Tenor (Years)	Accepted at FV (Ksh M)	Years to Maturity	Accepted at cost (Ksh M)	Issue/Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
IFB1/2013/12	8	6,894.21	5.24	6,432.97	30-Sep-13	20-Sep-21	11.000	12.363	93.290	12.772
IFB1/2013/12 TAP	8	5,494.16	5.24	5,173.03	28-Oct-13	20-Sep-21	11.000	12.363	91.591	12.363
Second Tranche Maturing 20-Sep-2021										
IFB1/2013/12	12	8,461.74	9.24	7,895.63	30-Sep-13	15-Sep-25	11.000	12.363	93.290	12.772
IFB1/2013/12 TAP	12	6,743.37	9.24	6,349.22	28-Oct-13	15-Sep-25	11.000	12.363	91.591	12.363
Final Tranche Maturing 15-Sep-2025										
IFB1/2014/12	4	4,060.89	2.32	4,005.10	27-Oct-14	22-Oct-18	11.000	11.263	98.622	11.633
IFB1/2014/12 (Tap 1)	4	2,735.61	2.32	2,703.64	03-Nov-14	22-Oct-18	11.000	11.263	98.288	11.263
IFB1/2014/12 (Tap 2)	4	1,797.70	2.32	1,772.82	10-Nov-14	22-Oct-18	11.000	11.263	98.616	11.263
IFB1/2014/12 (Tap 3)	4	404.10	2.32	398.50	17-Nov-14	22-Oct-18	11.000	11.263	98.613	11.263
First Tranche Maturing 22-Oct-2018										
IFB1/2014/12	8	4,992.24	6.32	4,923.66	27-Oct-14	17-Oct-22	11.000	11.263	82.082	11.633
IFB1/2014/12 (Tap 1)	8	3,363.02	6.32	3,323.71	03-Nov-14	17-Oct-22	11.000	11.263	98.288	11.263
IFB1/2014/12 (Tap 2)	8	2,210.00	6.32	2,179.41	10-Nov-14	17-Oct-22	11.000	11.263	98.616	11.263
IFB1/2014/12 (Tap 3)	8	496.78	6.32	489.89	17-Nov-14	17-Oct-22	11.000	11.263	98.613	11.263
Second Tranche Maturing 17-Oct-2022										
IFB1/2014/12	12	6,959.21	10.32	6,863.60	27-Oct-14	12-Oct-26	11.000	11.263	82.082	11.633
IFB1/2014/12 (Tap 1)	12	4,688.07	10.32	4,633.26	03-Nov-14	12-Oct-26	11.000	11.263	98.288	11.263
IFB1/2014/12 (Tap 2)	12	3,080.75	10.32	3,038.11	10-Nov-14	12-Oct-26	11.000	11.263	98.616	11.263
IFB1/2014/12 (Tap 3)	12	692.52	10.32	682.91	17-Nov-14	12-Oct-26	11.000	11.263	98.613	11.263
Final Tranche Maturing 12-Oct-2026										
IFB1/2015/12	6	10,565.61	4.74	10,260.65	30-Mar-15	22-Mar-21	11.000	11.556	97.110	11.747
IFB1/2015/12 (Tap 1)	6	9,876.46	4.74	9,590.74	13-Apr-15	22-Mar-21	11.000	11.556	97.530	11.747
First Tranche Maturing 22-Mar-2021										
IFB1/2015/12	9	10,099.77	7.74	9,808.26	30-Mar-15	18-Mar-24	11.000	11.556	97.110	11.747
IFB1/2015/12 (Tap 1)	9	9,441.01	7.74	9,167.88	13-Apr-15	18-Mar-24	11.000	11.556	97.530	11.747
Second Tranche Maturing 18-Mar-2024										
IFB1/2015/12	12	5,793.62	10.74	5,626.39	30-Mar-15	15-Mar-27	11.000	11.556	97.110	11.747
IFB1/2015/12 (Tap 1)	12	5,415.73	10.74	5,259.05	13-Apr-15	15-Mar-27	11.000	11.556	97.530	11.747
Final Tranche Maturing 15-Mar-2027										

Annex 2: Outstanding Government Bonds, June 2016

Issue No.	Tenor (Years)	Accepted at FV (Ksh M)	Years to Maturity	Accepted at cost (Ksh M)	Issue/Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
IFB1/2015/09	5	5,709.39	8.45	4,811.31	14-Dec-15	02-Dec-24	11.000	14.753	84.245	14.952
IFB1/2015/09 (Tap 1)	5	1,625.42	8.45	1,369.33	21-Dec-15	02-Dec-24	11.000	14.753	84.457	14.753
IFB1/2015/09 (Tap 2)	5	822.24	8.45	694.44	28-Dec-15	02-Dec-24	11.000	14.753	84.668	14.753
IFB1/2015/09 (Tap 3)	5	509.20	8.45	431.13	04-Jan-16	02-Dec-24	11.000	14.753	84.880	14.753
First Tranche Maturing 07-Dec-2020										
IFB1/2015/09	7	5,323.20	8.45	4,485.87	14-Dec-15	02-Dec-24	11.000	14.753	84.245	14.952
IFB1/2015/09 (Tap 1)	7	1,515.47	8.45	1,276.71	21-Dec-15	02-Dec-24	11.000	14.753	84.457	14.753
IFB1/2015/09 (Tap 2)	7	766.62	8.45	647.47	28-Dec-15	02-Dec-24	11.000	14.753		14.753
IFB1/2015/09 (Tap 3)	7	474.76	8.45	401.97	04-Jan-16	02-Dec-24	11.000	14.753		14.753
Second Tranche Maturing 05-Dec-2022										
IFB1/2015/09	9	5,516.36	8.45	4,648.64	14-Dec-15	02-Dec-24	11.000	14.753	84.245	14.952
IFB1/2015/09 (Tap 1)	9	1,570.46	8.45	1,323.04	21-Dec-15	02-Dec-24	11.000	14.753	84.457	14.753
IFB1/2015/09 (Tap 2)	9	794.44	8.45	670.96	28-Dec-15	02-Dec-24	11.000	14.753		14.753
IFB1/2015/09 (Tap 3)	9	491.99	8.45	416.56	04-Jan-16	02-Dec-24	11.000	14.753		14.753
Final Tranche Maturing 02-Dec-2024										
IFB1/2016/09	5	8,249.90	4.90	7,930.66	23-May-16	17-May-21	12.500	13.339	96.112	13.483
First Tranche Maturing 17-May-2021										
IFB1/2016/09	7	8,249.91	6.90	7,930.67	23-May-16	15-May-23	12.500	13.339	96.112	13.483
Second Tranche Maturing 15-May-2023										
IFB1/2016/09	9	19,803.38	8.90	19,037.06	23-May-16	12-May-25	12.500	13.339	96.112	13.483
Final Tranche Maturing 12-May-2025										
Special Bonds										
SFX1/2007/10	10	5,000.00	0.89	5,000.00	01-Jun-07	19-May-17	13.000	NA	100.000	100.000
SFX1/2007/15	15	6,000.00	5.89	6,000.00	01-Jun-07	13-May-22	14.500	NA	100.000	100.000
TOTAL		**1,152,041**		**1,102,930**						
Source: FM, CBK										

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

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