REPUBLIC OF KENYA

THE NATIONAL TREASURY

ANNUAL PUBLIC DEBT MANAGEMENT REPORT 2016/2017

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November 2017

This Report is available on the National Treasury website www.treasury.go.ke. Other reports that may be downloaded include the Monthly Debt Bulletin and the Quarterly Economic and Budgetary Review. The Central Bank's website www.centralbank.go.ke hosts the Monthly Economic Review and Weekly Bulletin.

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FOREWORD

The legal basis for Public debt management is contained in the Public Finance Management (PFM) Act (2012) and the PFMA Regulations, Legal Notice No, 34 (2015) that entrenches and promotes prudent and sound debt management practices for both National and County Governments with the aim to enhance efficiency and transparency.

Kenya's economy remains stable despite the exposure to unfavourable shocks such as drought. The medium term focus indicates that Kenya's debt is sustainable. A large proportion of the efforts has focused on developing of markets for domestic government securities as a way of reducing economy's vulnerability to potential exogenous shocks attendant to overreliance on external funding.

This 2017 Annual Public Debt Management Report highlights the public debt developments during the Fiscal Year 2016/2017 including total public debt portfolio, composition and structure of the debt as well as debt service obligations. The report also includes the public guarantee debt, on-lent loans, debt management strategy and sustainability analysis and M-Akiba bond. The Report provides a broad view of the costs and risk characteristics of Kenya's public debt and debt related transactions.

In nominal terms, debt levels have been increasing and closed at a debt ratio to GDP of 57.2 per cent during the period under review. In Present Value terms, debt as a percentage of GDP stood at 49 percent. The Government statutory debt limit however stands at 50 percent in present value terms.

The major currency composition of debt comprise of the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and Chinese Yuan. The other currencies account for an insignificant proportion of the debt portfolio. The country's external debt has remained long-term although large infrastructure loans have affected the average time to maturity. As at end of June 2017, the average maturity, grace period and average interest rate on new external loan commitments were 17.6 years, 4.5 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 Government has demonstrated its commitment to providing accurate debt information to the public through its various publications. The publication of the 2016/17 Annual Public Debt Management Report in accordance with the Public Finance Management (PFM) Act (2012) underscores the relevance of the report to the wider public audience. The Government has continued to implement reforms in the public debt management office (PDMO) that have led creation of three separate offices (Front, Middle and Back Office) in line with international best practice. Other reforms in the financial markets are being implemented in collaboration with other key stakeholders.

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

ACKNOWLEDGEMENT

The key function of Public Debt Management Office is to ensure that public debt is managed in a prudent manner and that it remains sustainable over the medium term. Kenya's debt stands at Kshs 4,4 trillion composed of domestic and external debt at 27.4 per cent and 29.8 per cent of GDP respectively. Over the last financial year, major infrastructure projects have been funded through external financing which has seen external debt rise above the domestic debt. Domestic debt as a percentage of total debt stands at 47.9 percent while external debt stands at 52.1 percent. The deliberate effort by the Government to invest heavily in infrastructure projects has started improving people's welfare by creating investment opportunities. In the medium term, the ratio of public debt to GDP is forecasted to decline as GDP rise due to sound and sustained macroeconomic management of the economy.

The legal and institutional arrangement for public debt management continues to be strengthened. 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 Office and the Central Bank of Kenya in compilation of this report. The core team include: Daniel Ndolo, Dr. Dunstone Ulwodi, Livingstone Bumbe, Charles Kairu, Stella Osoro, Benard Gibet, Robert Osudi all from Debt Policy, Strategy and Risk Management Department and Gamariel Mwangi and Nahashon Mutai from Central Bank of Kenya.

I take this opportunity to invite you to read this report and we hope that it will provide valuable information that will enhance your understanding of public debt management in Kenya.

DR. KAMAU THUGGE, CBS
PRINCIPAL SECRETARY/ NATIONAL TREASURY

ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
A-I-A	Appropriation in Aid
ATM	Average Time to Maturity
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CCN	City Council of Nairobi
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
FCCL	Fiscal Commitments and Contingent Liabilities
FY	Financial year
GDP	Gross Domestic Product
GoK	Government of Kenya
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
NSSF	National Social Security Fund
PDMO	Public Debt Management Office
PFMA	Public Finance Management Act
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
PV	Present Value
SGR	Standard Gauge Railway
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TEDS	Total External Debt Service
UK	United Kingdom
USA	United States of America
USD	United States Dollar

Legal basis for the publication of the Annual Public Debt Management Report

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

- Section 64 (2) (c) of the Public Finance Management Act(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 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:

    - Review of previous year's financing of budget deficit;
    - Composition of External debt;
    - Publicly guaranteed debt;
    - On-lent loans and contingent liabilities;
    - Debt strategy and debt sustainability
    - Outlook for the Medium Term; and
    - Any commitment fees and penalties paid on any undisbursed amounts of a loan.

EXECUTIVE SUMMARY

Expansion in Kenya's Gross Domestic Product (GDP) experienced a marginal deceleration between 2016 and 2017. The GDP grew by 4.7 percent during the first quarter of 2017 compared to 5.3 percent during a similar period in 2016. The economy experienced multiple adverse shocks arising from prolonged drought, general elections fever and a slowdown in the global economic trends.

As at end June 2017, the outstanding total public and publicly guaranteed stood at Ksh 4,406,863 million compared to Ksh 3,611,331 million at end June 2016, an increase of 22 per cent. Domestic and external debt accounted for 47.9 per cent and 52.1 per cent of total public debt at end of June 2017, respectively. In nominal terms and as a per cent of GDP, total public debt was 57.2 per cent, while domestic debt was 27.4 per cent with external debt accounting for 29.8 per cent by June 2017.

The total public debt service payments as at end June 2017 amounted to Ksh 308,488 million. External and domestic debt service totalled Ksh 95,623 million and Ksh 212,865 million, respectively for the year ending June 2017. As a component of the total public debt service, external and domestic debt service was 31.0 per cent and 69.0 per cent by June 2017 compared to 31.3 per cent and 68.7 per cent respectively as at end June 2016. The ratio of debt service to revenues increased to 23.6 per cent by end June 2017 from 21.7 per cent by end June 2016.

The composition of domestic debt in terms of the stock of Treasury Bills and Bonds was 35.2 per cent and 63.1 per cent of total domestic debt respectively as at end June 2017. Commercial banks were the largest holders of the total public domestic debt (Ksh 1,142,889 million 54.1 per cent) while the share held by Non-bank (Non-residents and non-bank Financial Institutions including insurance companies, and pensions funds) was 43.3 per cent at end June 2017.

Secondary market trading activity has been on the rise following deliberate government effort to widen the investor base. Secondary market trading turnover rose to KSh 366,923 in FY 2017 from Kshs 311,660 million in 2016.

Total public external debt rose significantly during the last financial year due to large investment in infrastructure projects from Kshs 1,796,198 million in June 2016 to Ksh 2,294,153 million in June 2017. External financing sources has continued to be dominated by bilateral, multilateral and commercial creditors.

The major currency composition of debt are of the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and Chinese Yuan. The other currencies account for an insignificant proportion of the debt portfolio. The country's external debt has remained long-term although large infrastructure loans have affected the average time to maturity. As at end of June 2017, the average maturity, grace period and average interest rate on new external loan commitments were 17.6 years, 4.5 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 239,123 million to Ksh 811,372 million by end June 2017 from Ksh 572,249 million by end June 2016. This increase is attributed to new on-lent loans to transport, energy, roads and water sectors. The total receipts by Government from on-lent loans amounted to Ksh 4,966 million in 2016/17 from Ksh 4,990 million during FY2015/16.

The total outstanding Government guaranteed debt increased by Ksh 74,649.55 million to Ksh 135,180 million by June 2017 from Ksh 60,531 million by end June 2016. This increase is mainly attributed to issuance of a new guarantee to Kenya Airways and Kenya Ports Authority.

Kenya's public debt remains 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 4,857,911 million in June 2018 from Ksh 4,406,863 million in June 2017 with a further rise to Kshs 5,845,579 million in 2019/20. 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.

CHAPTER ONE

NATIONAL GOVERNMENT'S FISCAL DEFICIT FINANCING AND PUBLIC DEBT IN 2016/2017

1.1 Economy

Kenya's Gross Domestic Product (GDP) expanded by 4.7 per cent in quarter one of 2017 compared to 5.3 percent in similar quarter of 2016. The economy has remained resilient despite multiple shocks arising from prolonged drought, general elections and global economic slowdown. Agriculture recorded the first negative growth of 1.1 percent since 2009 which is attributable to adverse weather conditions during the last quarter of 2016 and the first quarter of 2017.

Annual average inflation stood at 6.3 percent in 2016. The month on month inflation rate stood at 9.2 percent in June 2017 from 11.7 percent in May 2017. The overall balance of payments position improved recorded a deficit of US$ 413.2 million (0.6 percent of GDP) in the year to June 2017 from a deficit of US$ 1,109 million (1.7 percent of GDP) in the year to June 2016. The current account balance had a deficit of US$ 4,638.5 million in the year to June 2017 from a deficit of US$ 3,122.1 million in the year to June 2016. The securities market received a boost from the inaugural M-Akiba bond listing in April 2017.

1.2 Fiscal Balance

The overall actual FY 2016/17 fiscal balance was Ksh 697,256 million (9.0 per cent of GDP) and was financed through external borrowing of Ksh 385,745 million (5.0 per cent of GDP), net domestic financing of Ksh 309,760 million (4.0 per cent of GDP) and other domestic financing of Ksh 1,751 million (Table 1-1).

SGR Mombasa Terminus

Table 1-1: Kenya Financing Fiscal Balance (Ksh million)

Financing item	2015/16		2016/17	
	Ksh million	As % of GDP	Ksh million	As % of GDP
Net Foreign Financing	269,924	4.2	385,745	5.0
Net Domestic financing	202,257	3.1	309,760	4.0
Other Domestic Financing[1]	2,389	0.0	1,751	0.0
Total	474,570	7.3	697,256	9.0

Source: National Treasury, QEBR Q4, 2017

1.3 Total Public Debt

As at end June 2017, the outstanding total public debt, including publicly guaranteed debt, amounted to Ksh 4,406,863 million (Table 1-2) compared to Ksh 3,611,331 million at end June 2016, an increase of 22 per cent. Domestic debt increased from Ksh 1,815,133 million in June 2016 to Ksh 2,112,710 million at end June 2017, an increase of 16.4 per cent.

On the other hand, external debt (including guaranteed debt) increased by 27.7 per cent from 1,796,198 million at end June 2016 to Ksh 2,294,153 million at end June 2017. The increase was largely on account of Kshs 77.8 billion commercial debt guarantee to the transport sector. Domestic and external debt accounted for 47.9 per cent and 52.1 per cent of total public debt at end of June 2017 compared to 50.3 percent and 49.7 percent for June 2016 respectively.

SGR Nairobi Terminus

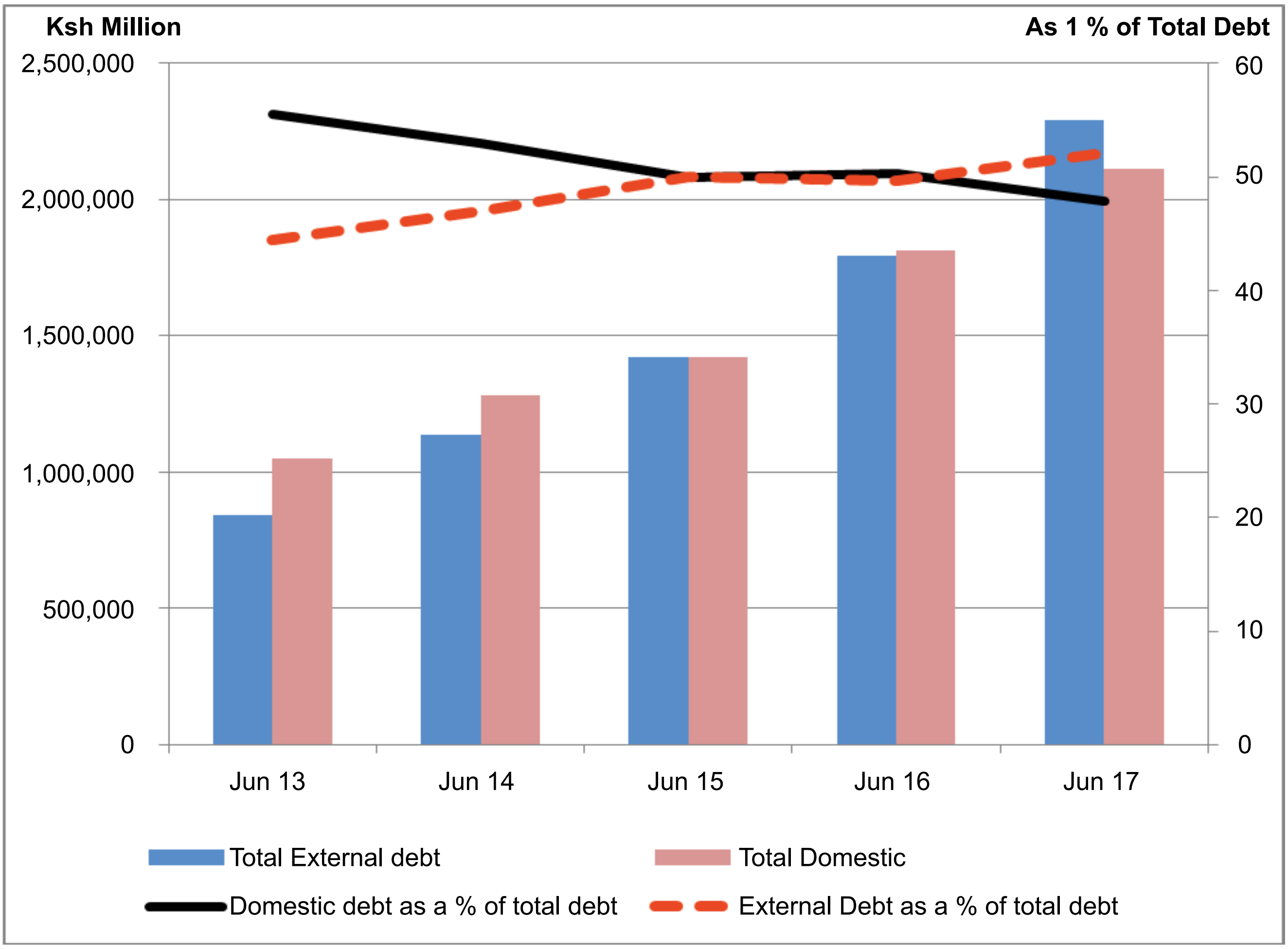
Table 1-2: Trends in Kenya's Total Public Debt in (Ksh million)

DEBT TYPE	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
DOMESTIC DEBT					
Central Bank	39,170	65,700	63,335	99,856	54,506
Commercial Banks	524,505	617,221	730,419	927,307	1,142,889
Sub-total: Banks	563,675	682,921	793,754	1,027,163	1,197,395
Non-bank Financial Institutions	486,880	601,406	626,690	787,970	915,315
Total Domestic	1,050,555	1,284,327	1,420,444	1,815,133	2,112,710
As a % of GDP	23.3	25.5	24.9	27.9	27.4
As a % of total debt	55.5	53	50	50.3	47.9
EXTERNAL DEBT					
Bilateral	217,970	248,636	405,562	491,864	669,839.7
Multilateral	507,920	593,397	680,192	794,797.5	839,721.7
Commercial Banks	58,928	234,799	276,937	432,377	634,108.9
Suppliers Credits	15,207	16,452	16,628	16,628	15,303.1
Sub-Total	800,025	1,093,284	1,379,319	1,735,667	2,158,973.4
GUARANTEED DEBT					
Bilateral	39,667	41,278	39,495	56,487	52,728.8
Multilateral	3,870	3,943	4,439	4,044	4,667.0
Commercial	0.00	0.00	0.00	0.00	77,783.8
Sub-Total	43,537	45,221	43,934	60,531	135,179.6
Total External debt	843,562	1,138,505	1,423,252	1,796,198	2,294,153
As a % of GDP	18.8	22.5	25	27.6	29.8
As a % of total debt	44.5	47	50	49.7	52.1
GRAND TOTAL	1,894,117	2,422,832	2,843,696	3,611,331	4,406,863
Total debt As a % of GDP	42.1	48	49.9	55.5	57.2
Memorandum item					
GDP (in Ksh million)	4,496,000	5,044,236	5,703,321	6,508084	7,710,947

Source: National Treasury and Central Bank of Kenya

In nominal terms and as a per cent of GDP, total public debt was 57.2 per cent as at end June 2017 compared to 55.5 per cent as at end June 2016 (Table 1-2 and Fig. 1-1). Domestic debt was 27.4 per cent compared to 27.9 per cent while external debt stood at 29.8 per cent and 27.6 per cent of GDP as at end June 2017 and 2016 respectively.

Figure 1-1: Kenya's public and publicly guaranteed debt stock: June 2013-2017 (Kshs Millions)



Source: National Treasury and Central Bank of Kenya

1.4 Debt Service

The total public debt service payments as at end June 2017 amounted to Ksh 308,488 million. Debt service increased by Ksh 57,048 million (or 22.7 per cent increase) from Ksh 251,440 million by June 2016. The increase was largely on account of higher in costs debt stock.

External and domestic debt service was Ksh 95,623 million and Ksh 212,865 million respectively as at end of June 2017. As a percentage of the total public debt service, external and domestic debt service was 31.0 per cent and 69.0 per cent by June 2017 compared to 31.3 per cent and 68.7 per cent respectively as at end June 2016.

The ratio of debt service to revenues increased to 23.6 per cent by end June 2017 from 21.7 per cent by end June 2016 (Table 1-3 and Figure 1-2). This was as a result of higher stock of debt at hardened terms than previously.

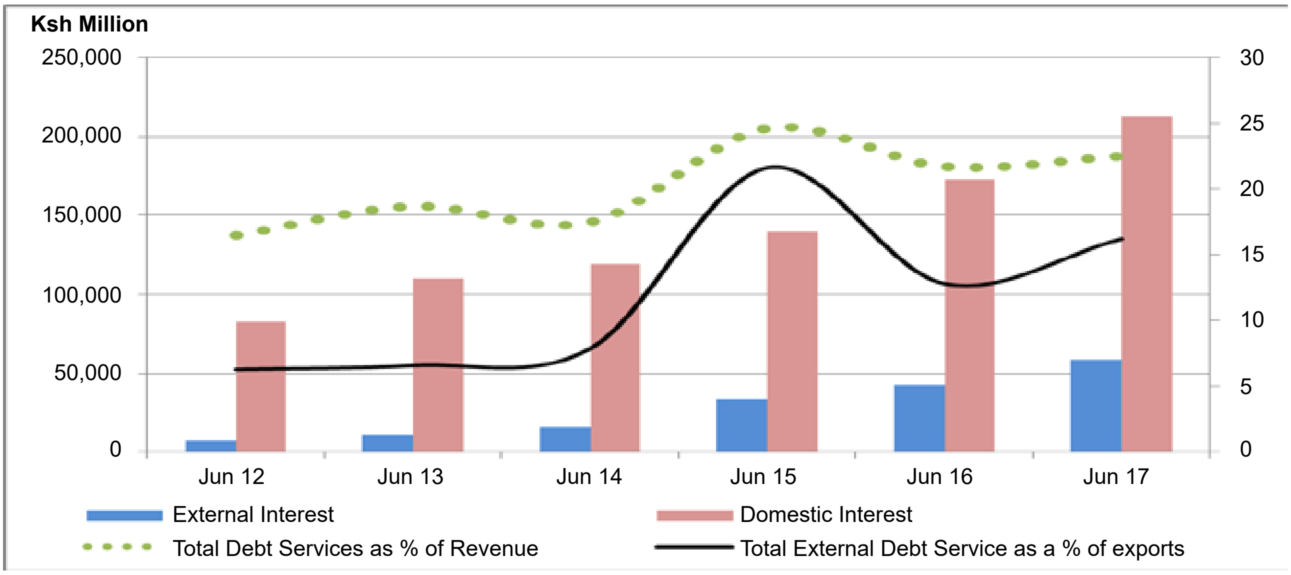
Passengers Boarding the New SGR Train

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

	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
External Principal	23,954	23,993	25,800	80,214	36,015	37,256
External Interest	7,351	11,051	15,600	33,330	42,568	58,367
Total External Debt Service (TEDS)	31,305	35,044	41,400	113,544	78,583	95,623
TEDS as a % of Total Debt Service (TDS)	27.5	24.1	25.8	44.8	31.3	31.0
Domestic Interest	82,339	110,184	119,200	139,727	172,857	212,865
Domestic Interest as a % of TDS	72.5	75.9	74.2	55.2	68.7	69.0
Total Debt Service (TDS)	113,644	145,228	160,600	253,271	251,440	308,488
Ordinary Revenue	690,733	779,436	918,990	1,031,248	1,158,200	1,305,794
Export Earnings (goods only)	499,737	528,900	523,059	524,992	615,125	583,219
Total Debt Service as a % of Revenue	16.5	18.7	17.5	24.6	21.7	23.6
Total External Debt Service as a % of Exports	6.3	6.6	7.9	21.6	12.8	16.4

Source: National Treasury and Central Bank of Kenya

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



Source: National Treasury and Central Bank of Kenya

Passengers Boarding the New SGR Train

1.5 Cost and Risk Characteristics of Public Debt[1]

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 3.0 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 fell due in FY 2016/17

The average time to maturity (ATM) for domestic and external debt was 4.3 years and 11.2 years in FY 2015/16 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 was 7.8 years.

Table 1-4: Kenya: Cost and risk indicators of existing debt, as at end FY 2015/16

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of KSh)		1, 787,453.8	1,740,128.9	3,527,582.7
Amount (in millions of USD)		17,036.8	16,477.70	34,600.8
Nominal debt as % GDP		26.1	25.3	51.4
PV as % of GDP		20.6	26.4	47.0
Cost of debt	Interest payment as % GDP	0.7	3.0	3.7
	Interest payment as % Total Revenue	3.1	13.0	16.1
	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)	4.8	49.9	54.7
	Debt maturing in 1 year (% of GDP)	1.1	11.4	12.5
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

Source: MTDS 2016

[1]2016/17 costs and risk characteristics of public debt will be published in 2018/19-2020/21 MTDS

CHAPTER TWO

DOMESTIC DEBT

This chapter analyses the National Government domestic debt in detail. Domestic debt is composed 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

The stock of domestic debt stood at Ksh 2,112,710 million as at end June 2017. This translates to an increase of 16.4 per cent from June 2016 position of Ksh 1,815,133 million (Table 2-1 and Figure 2-1). The increase in the stock was attributed to a net domestic financing of Kshs 309,760 million during the fiscal year to fund the government budget.

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

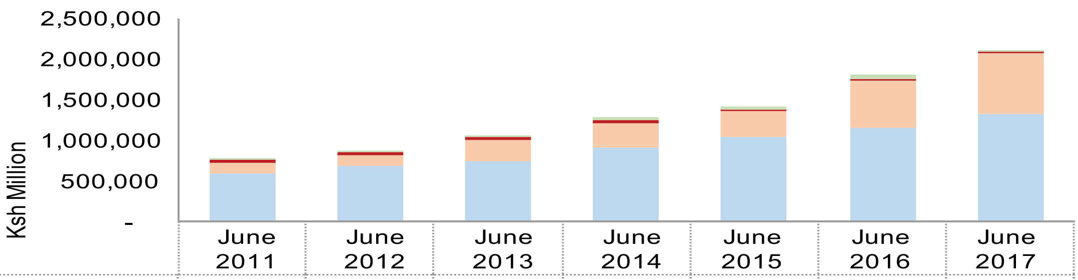
	Instrument	Jun 13		Jun 14		Jun 15		Jun 16		Jun 17	
		Ksh	% of stock	Ksh	% of stock	Ksh	% of stock	Ksh	% of stock	Ksh	%of stock
	Total Stock of Domestic Debt (A+B)	1,050,555	100	1,284,327	100	1,420,444	100	1,815,133	100	2,112,710	100..0
A	Government Securities(1-3)	1,040,274	99	1,242,502	96.7	1,381,267	97.2	1,765,688	97.3	2,101,579	99.5
1)	Treasury Bills	267,211	25.4	299,406	23.3	318,929	22.5	588,088	32.4	744,155	35.2
	Banking Institutions	183,458	17.5	176,450	13.7	217,742	15.3	382,447	21.1	436,511	20.7
	Others	83,753	8	122,956	9.6	101,187	7.1	205,641	11.3	307,644	14.6
2)	Treasury Bonds	744,174	70.8	914,762	71.2	1,035,662	72.9	1,152,041	63.5	1,332,418	63.1
	Banking Institutions	341,047	32.5	436,381	34	510,228	35.9	569,781	31.4	725,372	34.3
	Others	403,127	38.4	478,381	37.2	525,434	37	582,260	32.1	607,603	28.8
3)	Pre-1997 Government Debt	28,889	2.7	28,334	2.2	26,676	1.9	25,559	1.4	24,449	1.2
B.	Others*	10,281	1	41,825	3.3	39,177	2.8	49,446	2.7	11,132	0.5
	Of which CBK Overdraft	6,999	0.7	37,238	2.9	36,494	2.6	44,204	2.4	0	0.0

Source: Central Bank of Kenya

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

Overall, the level of domestic debt was partly offset by repayments of Ksh 1,110 million for the Pre-1997 Government debt and Ksh 44,204 million for the CBK overdraft facility.

Figure 2-1: Stock of Domestic debt



	June 2011	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017
Others	10,293	9,833	10,281	41,825	39,177	49,446	11,132
Pre-1997 Government Debt	31,663	29,999	28,889	28,334	26,676	25,559	24,449
Treasury Bills	126,605	132,047	267,211	299,406	318,929	588,088	744,155
Treasury Bonds	595,661	686,951	744,174	914,762	1,035,662	1,152,041	1,332,418

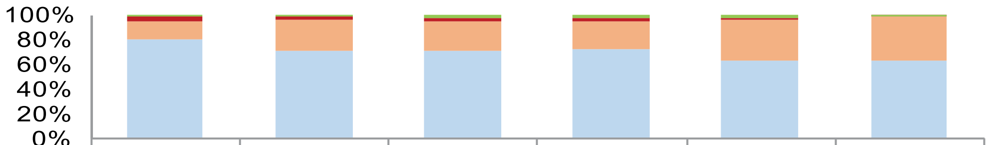
2.2 Domestic Debt by Instrument

The stock of Treasury bills and bonds accounted for 35.2 per cent and 63.1 per cent of total domestic debt as at end June 2017 compared to 32.4 per cent and 63.5 per cent as at end June 2016 respectively (Figure 2-2).

The proportion of Pre-1997 CBK advances to Government dropped to 1.2 per cent of total domestic debt due to repayment of Ksh 1,110 million during the year compared to 1.4 per cent in June 2016.

Digital Learning

Figure 2-2: Domestic Debt by Instrument



	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017
Others	1.1	0.9	3.3	2.8	2.7	0.5
Pre-1997 Government Debt	3.5	2.7	2.2	1.9	1.4	1.2
Treasury Bills	15.4	25.5	23.3	22.5	32.4	35.2
Treasury Bonds	80.0	70.8	71.2	72.9	63.5	63.1

Source: Central Bank of Kenya

2.3 Domestic Debt by Holder

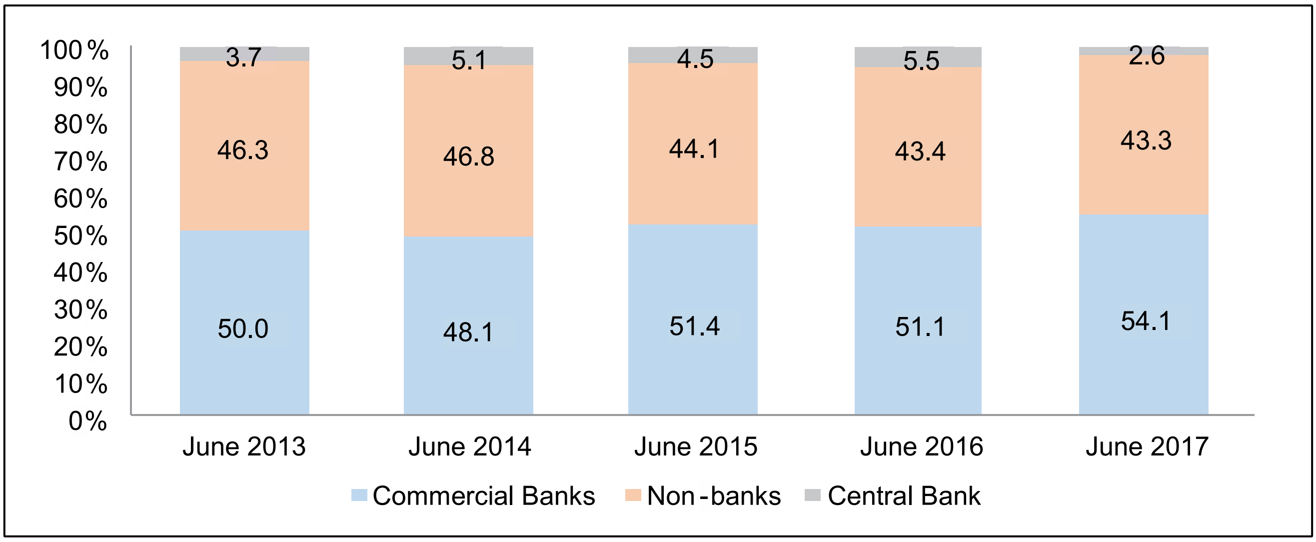
Commercial banks accounted for 54.1 per cent of the total domestic debt as at end June 2017 compared to 51.1 per cent in June 2016. The share held by Non-bank (Non-residents and non-bank Financial Institutions including insurance companies, and pensions funds) decreased marginally to 43.3 per cent in June 2017 from 43.4 per cent in June 2016 but with a marginal increase in non-residents from 0.7 per cent to 1.1 per cent in the same period. (Table 2-2 and Figure 2-3).

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

Description		Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Banks	**Ksh**	**563,675**	**682,921**	**793,754**	**1,027,163**	**1,197,395**
	% of total	53.7	53.2	55.9	56.6	56.7
Central Bank of Kenya	Ksh	39,170	65,700	63,335	99,856	54,506
	% of total	3.7	5.1	4.5	5.5	2.6
Commercial Banks	Ksh	524,505	617,221	730,419	927,307	1,142,889
	% of total	50.0	48.1	51.4	51.1	54.1
Non-banks	**Ksh**	**486,880**	**601,406**	**626,689**	**787,970**	**915,315**
	% of total	46.3	46.8	44.1	43.4	43.3
Non residents	Ksh	13,083	14,925	10,664	13,027	22,100
	% of total	1.2	1.2	0.8	0.7	1.0
Non-bank Financia Institutions	Ksh	473,797	586,481	616, 025	774,943	893,215
	% of total	45.1	45.6	39.9	42.7	42.3
Total	**Ksh**	**1,050,555**	**1,284,327**	**1,420,444**	**1,815,133**	**2,112,710**
	% of total	100	100	100	100	100

Source: Central Bank of Kenya

Figure 2-2: Domestic Debt by Holder



Source: Central Bank of Kenya

2.4 Treasury Bills and Bonds by Holder

Of the total Treasury bills and bonds, commercial banks were the major holders with 55.9 per cent in June 2017 compared to 53.0 per cent in June 2016. Pensions Funds (including NSSF) accounted for 28.5 per cent of Treasury bills and bonds in June 2017 compared to 27.7 per cent in June 2016 (Table 2-3 and Figure 2-3).

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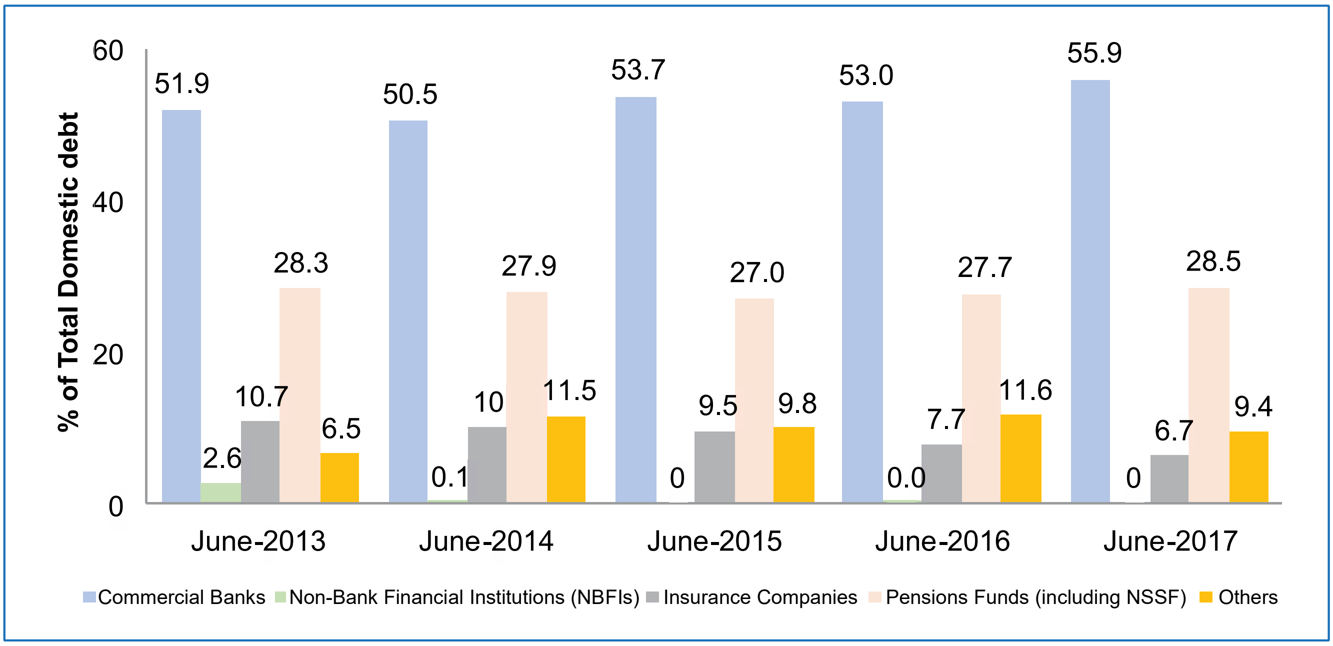
Table 2-3: Outstanding Stock of Treasury Bills and Bonds by Holders (Ksh million)

Holder	Jun-13		Jun-14		Jun-15		Jun-16		Jun-17	
	Ksh	%	Ksh	%	Ksh	%	Ksh	%	Ksh	%
Commercial Banks	524,505	51.9	612,772	50.5	727,931	53.7	922,214	53.0	1,161,883	55.9
Non-Bank Financial Institutions (NBFIs)	26,332	2.6	662	0.1	320	0	183	0.0	183	0.0
Insurance Companies	108,609	10.7	121,024	10	127,889	9.4	134,392	7.7	128,570	6.2
Pensions Funds (including NSSF)	285,778	28.3	339,041	27.9	366,303	27.0	481,693	27.7	591,758	28.5
Others	66,161	6.5	140,669	11.5	132,154	9.8	201,648	11.6	194,885	9.4
Total	1,011,385	100	1,214,168	100	1,354,597	100	1,740,130	53.0	2,077,280	100

Source: Central Bank of Kenya

Figure 2-3: Outstanding Stock of Treasury Bills and Bonds by Holders



Source: Central Bank of Kenya

2.5 Treasury Bills by Holder

In June 2017 compared to June 2016, the stock of Treasury bills increased by 26.5 per cent to Ksh 744,155 million from Ksh 588,088 million while the proportion held by commercial banks increased by 20.6 per cent to Ksh 436,511 million from Ksh 361,859 million respectively (Table 2-4). In the same period, holdings by pension fund institutions increased by 52.1 per cent while proportion held by insurance companies decreased to 1.8 per cent from 3.1 per cent.

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

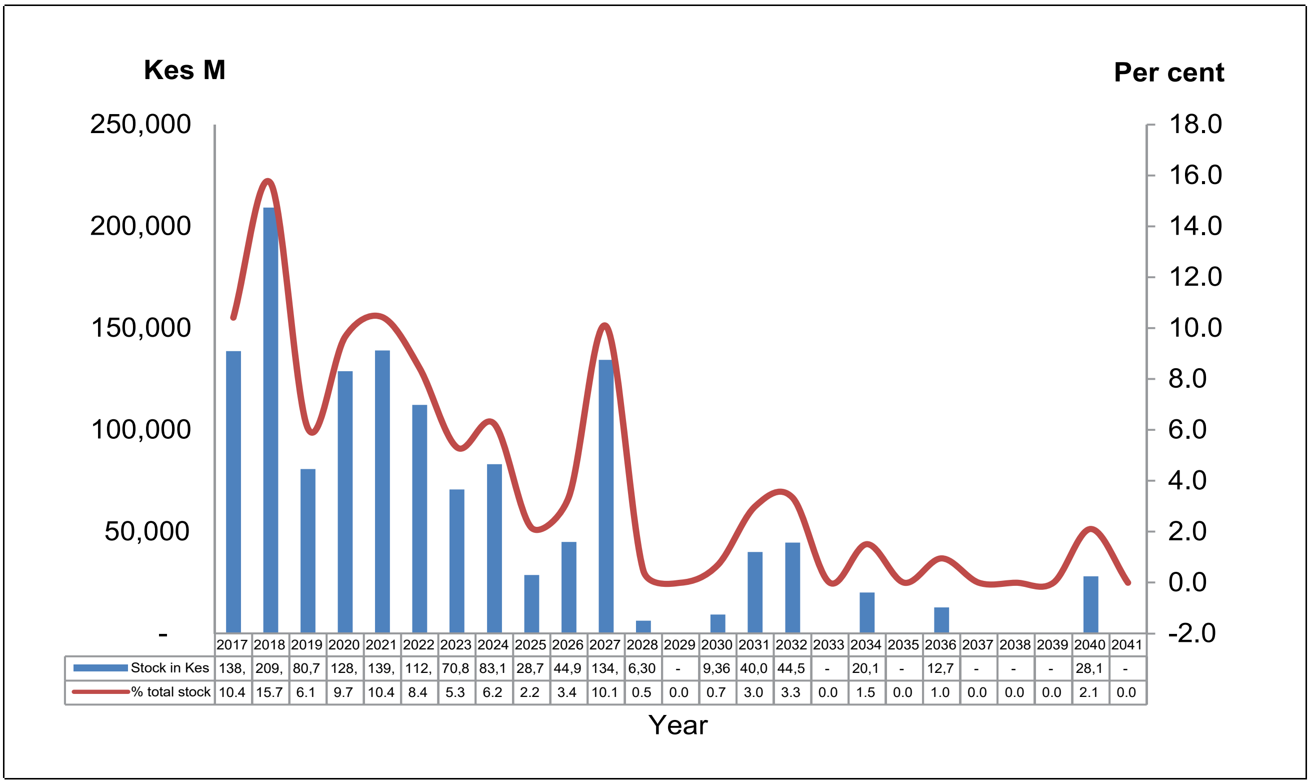
Holder	Jun-14		Jun-15		June 16		June-17	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Commercial Banks	176,437	58.9	217,742	68.3	361,859	61.5	436,511	58.7
NBFIs	0	0	0	0	0	0	0	0.0
Insurance companies	19,856	6.6	20,849	6.5	18,356	3.1	13,747	1.8
Pensions Funds (including NSSF)	67,803	22.6	40,946	12.8	117,948	20	179,456	24.1
Others	35,310	11.9	39,392	12.4	89,924	15	114,441	15.4
Total	**299,406**	**100**	**318,929**	**100**	**588,088**	**100.0**	**744,155**	**100.0**

Source: Central Bank of Kenya

2.6 Outstanding Treasury Bonds

As shown in Figure 2-4, the outstanding Treasury bonds amounted to Kshs 1,332,418 million in June 2017 compared to Ksh 1,141,041 million in June 2016. Heavy maturities are expected in 2018 (15.7% of outstanding bond stock), 2021(10.4%) and 2027 (10.1%).

Figure 2-4: Outstanding Treasury Bonds



2.7 Treasury Bonds by Holder

Outstanding Treasury Bonds increased by 15.66 per cent to Ksh 1,332,417 million in June 2017 from Ksh 1,152,041 million in June 2016. The holdings by commercial banks and pension funds increased by 29.4 per cent and 13.4 per cent to Ksh 724,814 million and Ksh 412,303 million respectively (Table 2-5).

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

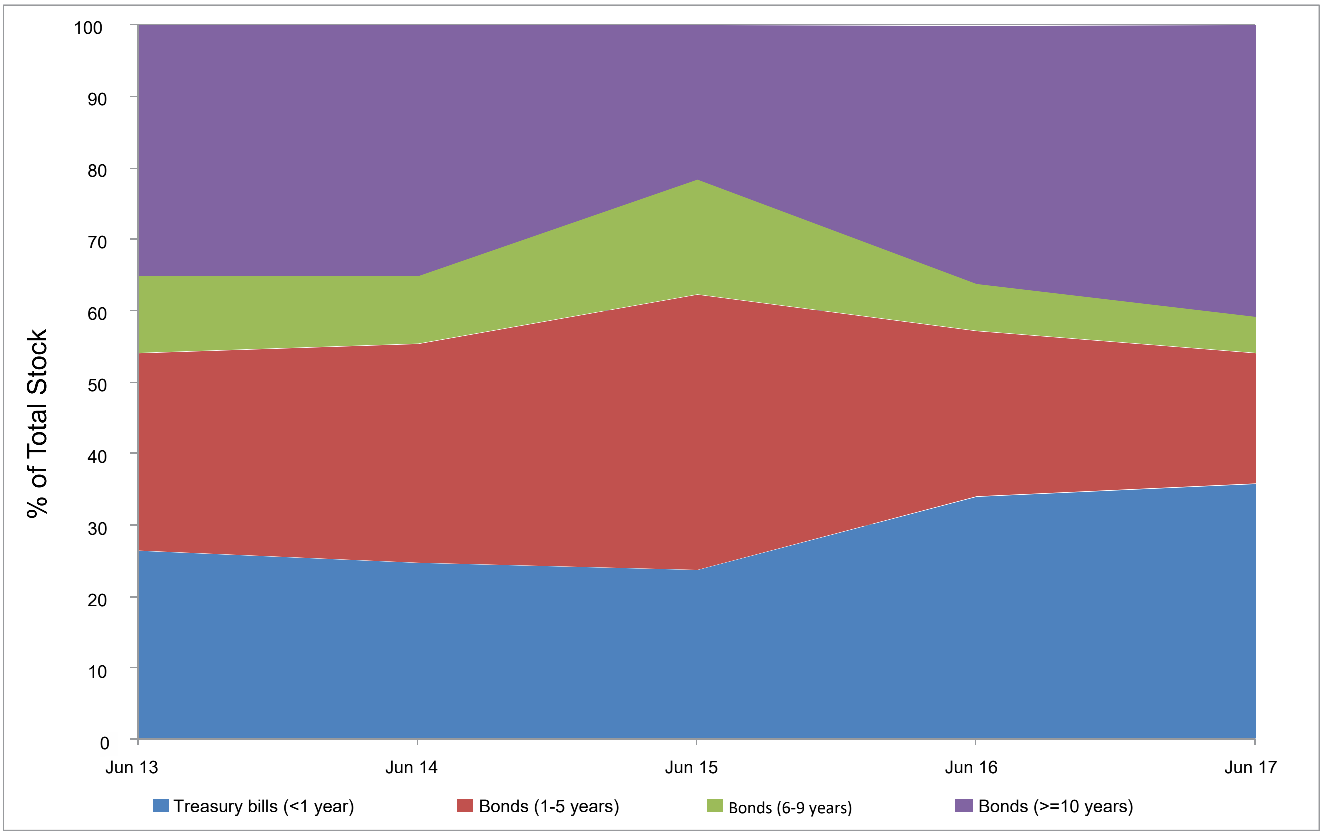
Holder	Jun-14		Jun-15		Jun-16		Jun-17	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Commercial Banks	436,335	47.7	510,228	49.3	560,335	48.6	724,814	54.4
NBFIs	662	0.1	320	0	183	0	322	0.0
Insurance Companies	101,168	11.1	107,040	10.3	116,035	10.1	114,673	8.6
Pensions Funds (including NSSF)	271,238	29.7	325,357	31.4	363,745	31.6	412,303	30.9
Others	105,359	11.5	92,717	9	111,723	9.7	80,306	6.0
Total	**914,762**	**100**	**1,035,662**	**100**	**1,152,041**	**100**	**1,332,417**	**100**

Source: Central Bank of Kenya

2.8 Treasury Bills and Bonds by Tenor

As a proportion of total stock of Treasury bills and bonds by end June 2017, Treasury Bills accounted for 35.8 per cent while Treasury Bonds with tenor of 1-5 years, 6-9 years and 10 years or more accounted for 18.1 per cent, 5.2 per cent and 40.9 per cent respectively. This reflects increased investor preference for medium to long term instruments (Figure 2-5).

Figure 2-5: Outstanding Government Securities by Tenor

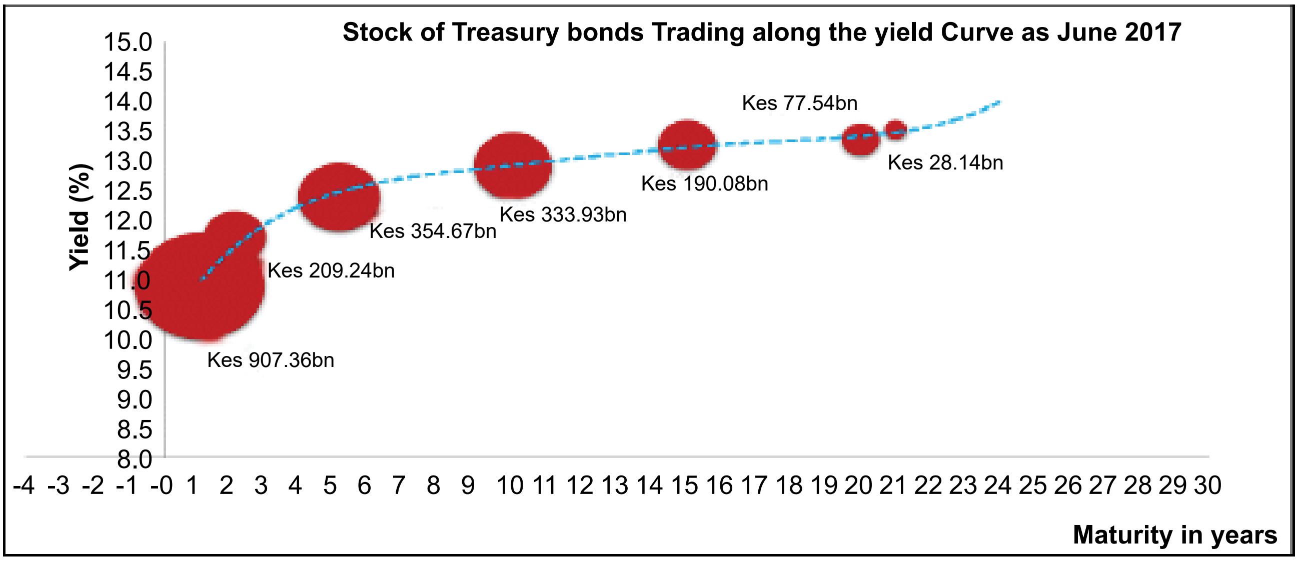


Source: Central Bank of Kenya

2.9 Treasury Bills and Bonds by Time to Maturity

Figure 2-6 shows the distribution of government securities by time to maturity along the yield curve as at June 2017. In developing the domestic securities' market, lengthening the maturity of domestic debt and increasing liquidity in the secondary market is important. The stock of Treasury bonds distribution along the yield curve reflects sustained medium-long term issuance which is an indication of positive gains from financial market reforms.

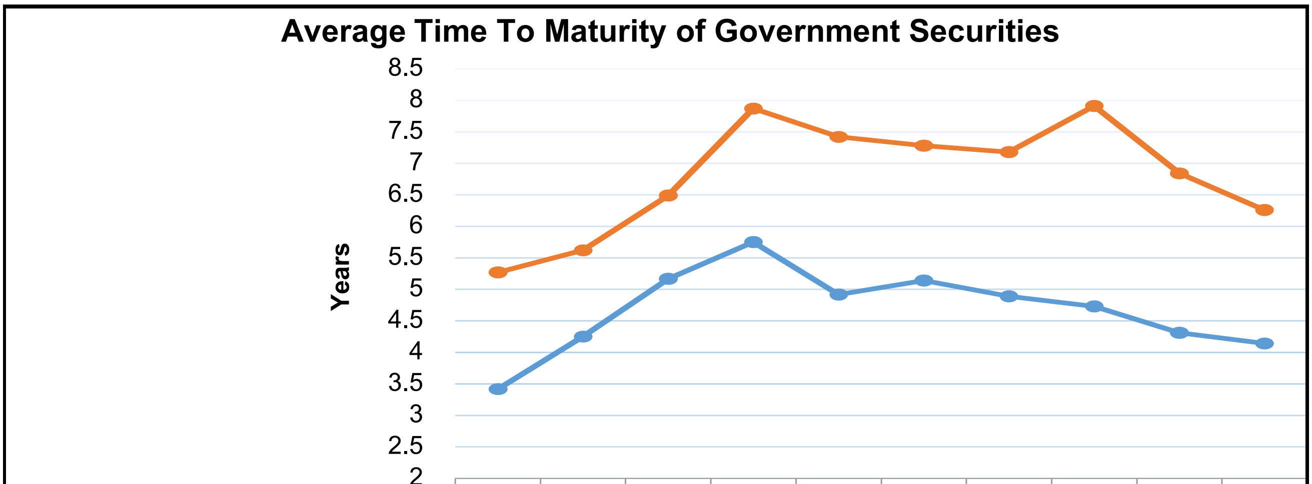
Figure 2-6: Stock of Treasury Bonds Along the June 2017 Average Yield Curve



Source: Central Bank of Kenya

In terms of refinancing risks, the average maturity of Government securities as at June 2017 was 4.1 years while for treasury bonds only was 7.25 years a rise from 6.84 years in June 2016 which was in line with the Medium Trem Debt strategy (MTDS) of issuing medium to long term bonds. This represented a ratio of 36:64 of Treasury bills and bonds (Figure 2-7).

Figure 2-7: 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	Jun-17
Average Time to Maturity (Years)-All Securities	3.417	4.25	5.167	5.75	4.917	5.14	4.89	4.73	4.31	4.14
Average Time To Maturity (Years)-Bonds	5.27	5.62	6.49	7.87	7.42	7.28	7.18	7.91	6.84	6.26

2.10 Infrastructure Bonds (IFBs) Program

The government continues to issue the Infrastructure Bonds as a way of creating some benchmark for State Corporations to raise funds for their development needs. This government paper continues to be popular among the investors since inception due to its withholding tax incentive and redemption structure. Since FY 2008/09, twelve (12) IFBs have been issued raising funds for infrastructure development; totaling Ksh 371,671 million as at end June 2017. (Table 2-6).

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

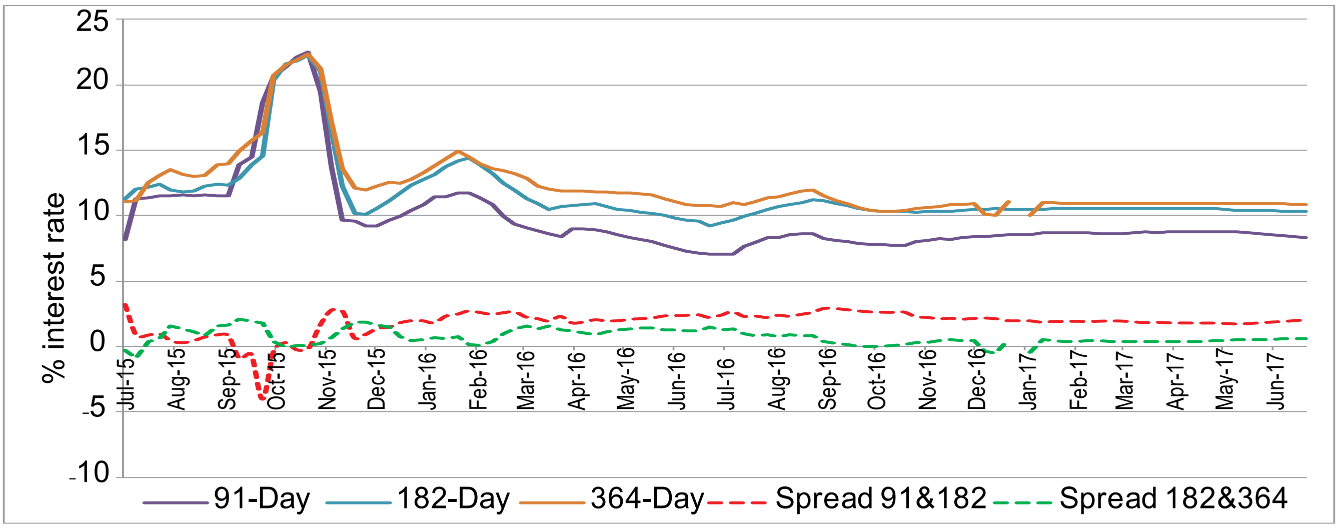
Issue No.	Issue Date	Face Value Amt	Cost Value Amt	Weighted Average	Coupon Rate
IFB1/2009/012	23-Feb-09	19,726.85	18,575.82	13.50	12.50
IFB2/2009/012	7-Dec-09	18,897.65	18,399.67	12.50	12.00
IFB1/2010/008	1-Mar-10	15,908.05	16,042.51	9.60	9.80
IFB2/2010/009	30-Aug-10	32,871.55	30,585.02	7.30	6.00
IFB1/2011/012	3-Oct-11	43,447.35	37,190.29	16.60	12.00
IFB1/2013/012	30-Sep-13	38,363.70	35,940.88	12.40	11.00
IFB 1/2014/012	27-Oct-14	35,480.90	35,014.61	11.30	11.00
IFB 1/2015/012	30-Mar-15	51,192.20	49,712.97	11.60	11.00
IFB1/2016/15	24-Oct-16	40,029.65	37,419.96	13.18	12.00
IFB 1/2015/009	14-Dec-15	25,119.55	21,177.42	14.80	11.00
IFB1/2016/009	23-May-16	36,303.20	34,898.38	13.30	12.50
IFB1/2017/12	27-Feb-17	14,330.40	13,587.97	13.60	12.50

Source: Central Bank of Kenya

2.11 Average Interest Rates on Treasury Bills

Figure 2-8 shows that the average interest rate for the 91-day, 182-day and 364-day Treasury bills increased by 125 basis points, 108 basis points and 13 basis points to 8.3 per cent, 10.3 per cent and 10.9 per cent in June 2017 from 7.06 per cent, 9.2 per cent and 10.7 per cent in June 2016 respectively. Treasury bills interest rates were stable throughout the year except a slight volatility in July-September 2017 due to liquidity tightness that led to upward pressure on interest rates.

Figure 2-8: Treasury Bills Interest Rates



Source: Central Bank of Kenya

2.12 Government Securities Trading

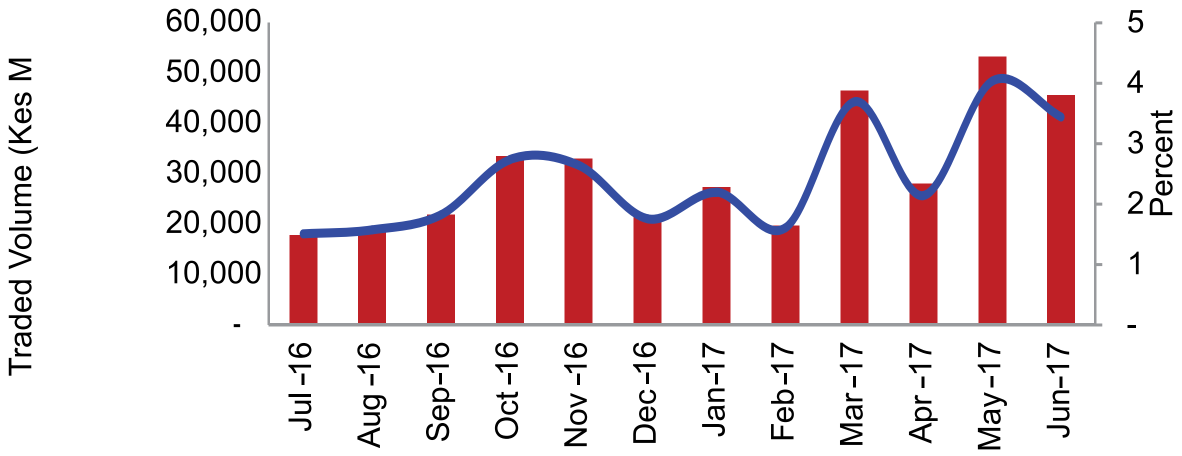
As shown figure 2-9, trading of Government bonds has increased significantly since FY 2006 has improved in the secondary market. Turnover was Ksh 366,923 million in FY 2017 compared to Ksh 311,660 million in FY2016.

Figure 2-9: Trends of Treasury Bonds Turnover FY2006-2017

Source: Central Bank of Kenya

As a percentage of outstanding treasury bonds, secondary trading in FY2016/2017 increased over the period from 1.51 per cent in July 2016 to 3.44 per cent in June 2017, (Figure 2-10).

Figure 2-10: Treasury Bonds Trading, FY 2016-2017

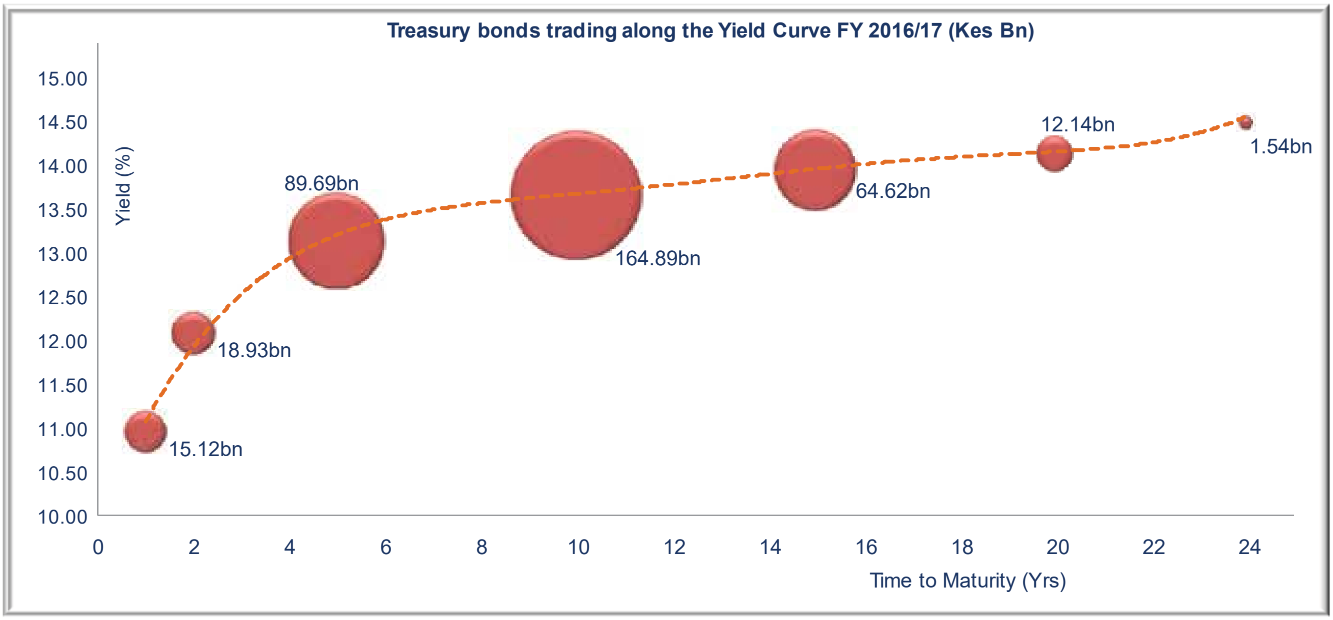


	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Ap-17	May-17	Jun-17
Turnover (Ksh Mn)	17,822.	18,638.	21,837.	33,493.	32,998.	21,823.	27,355.	19,693.	46,449.	27,964.	53,240.	45,605.
Turnover as % of Tradable Stock	1.51	1.57	1.82	2.74	2.64	1.75	2.20	1.61	3.69	2.14	4.03	3.44

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. This outcome is a reflection of positive gains from effective implementation of the benchmark bonds and Infrastructure bonds programs.

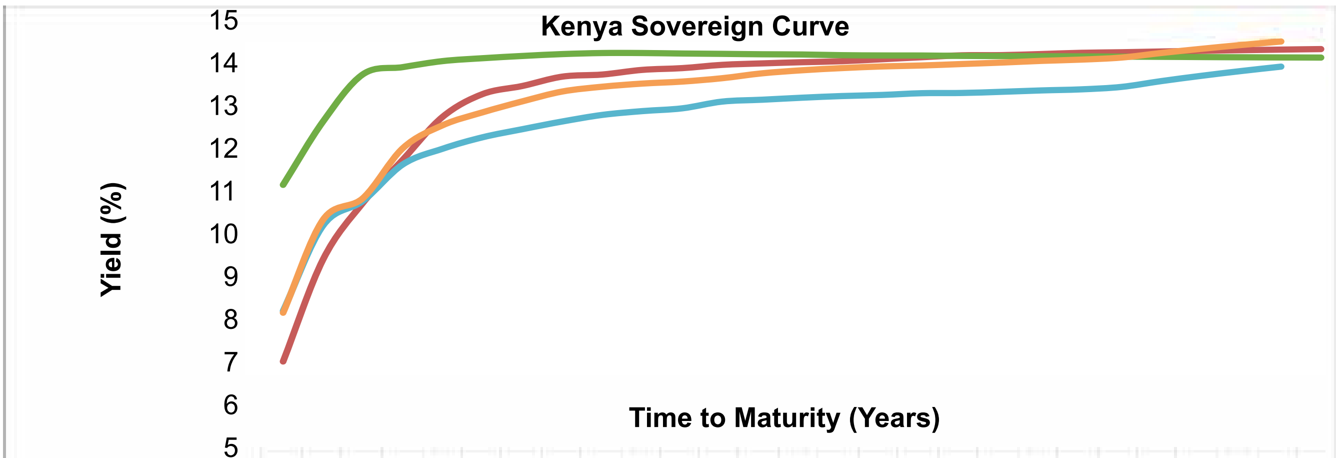
Figure 2-12: Bond Trading along the 2016 - 2017 Average Yield Curve (Ksh Billion)



2.13 Government Securities Yield Curve

The market demand for Treasury bonds was robust throughout the year. Positive performance of bond auctions supported by prudent issuance strategy with bond offerings aligned to market demands focusing on lowering the cost of borrowing. Stable macroeconomic and interest rate environment coupled with the market liquidity especially among institutional investors led to a stable yield curve with a parallel downward shift during the year to June 2017 from the June 2016 level (Figure 2-13).

Figure 2-13: Government of Kenya Securities Yield Curve, June 2017



	3M	6M	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
June 2016 Average	7.25	9.55	10.8	11.8	12.7	13.3	13.4	13.6	13.7	13.8	13.8	13.9	13.9	14.0	14.0	14.0	14.1	14.1	14.1	14.2	14.2	14.2	14.2	14.2	14.2	14.3	14.3
FY 2015-16 Average	11.2	12.6	13.7	13.9	14.0	14.1	14.1	14.2	14.2	14.2	14.2	14.2	14.2	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1	14.1
June 2017 Average	8.39	10.3	10.8	11.7	12.0	12.3	12.5	12.6	12.8	12.9	12.9	13.1	13.1	13.2	13.2	13.2	13.3	13.3	13.3	13.3	13.4	13.4	13.5	13.7	13.8	13.9	
FY 2016-17 Average	8.35	10.4	10.9	12.0	12.5	12.8	13.1	13.3	13.4	13.5	13.5	13.6	13.7	13.8	13.8	13.9	13.9	13.9	14.0	14.0	14.0	14.1	14.2	14.3	14.4	14.4	

Source: Central Bank of Kenya

This reflected positive market response to Government securities auctions signals as well as a positive effects of market development initiatives being undertaken. Based on the average financial year yields, the Government securities yield curve shifted downwards in 2016/2017 from the position in 2015/2016, with a larger spread on the short segment than the long end, and reflecting stability in the market (Figure 2-13).

Increased issuance of benchmark tenors and reopening of bonds continues to address the fragmentation in the bond market by increasing the turnover in the secondary market, lower interest rates, firm up the yield curve and also minimize issuance costs as a result of narrow bond yield spreads in the secondary market (Figure 2-13). In addition, there have been enhanced subscriptions in primary market and improved market confidence. A stable and reliable yield curve provides a pricing reference to all issuers of fixed income securities. Going forward, this positive outcome will increase the possibility and flexibility for issuance of longer dated bonds at lower yields help reduce refinancing risks of outstanding debt by lengthening the maturity profile and enhance benchmark building by increasing the size of bonds to improve liquidity, undertake liability management operations (LMOs) to smoothen maturities and replace expensive securities with cheaper ones to lower the cost of borrowing.

2.14 Interest Payments on Domestic Debt

The total domestic debt as at June 2017 attracted an overall interest and other charges amounting to Ksh 212,865 million. As a result of growth in domestic debt stock from the previous position of the fiscal year, interest payments increased by Ksh 40,008 million (Table 2-7). As a proportion of total domestic debt service by end of June 2017, interest on Treasury bills and bonds accounted for 31 per cent and 68 per cent respectively. There was an upward trend with marginal 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 2013	June 2014	June 2015	June 2016	June 2017
Treasury Bills	19,505	26,897	24,714	37,491	66,270
Treasury Bonds	82,560	85,758	108,948	127,496	144,566
CBK Commission	3,000	3,106	3,000	3,000	3,000
Pre - 1997 Debt	1,698	1,138	825	794	759
Others (Overdraft)	3,421	2,301	2,240	4,077	1270
Total	**110,184**	**119,200**	**139,727**	**172,857**	**212,865**
Ratios (Per cent)					
Domestic Interest/Revenue	12.7	13	13.5	14.9	15.2
Domestic Interest/Expenditure	9.2	9.2	8.5	9.7	10.1
Domestic Interest/GDP	2.5	2.4	2.4	2.6	2.8
Domestic Interest/Total Interest	90.9	88.4	80.7	80.2	78.5

CHAPTER THREE

EXTERNAL DEBT

3.1 Total National Government External Debt

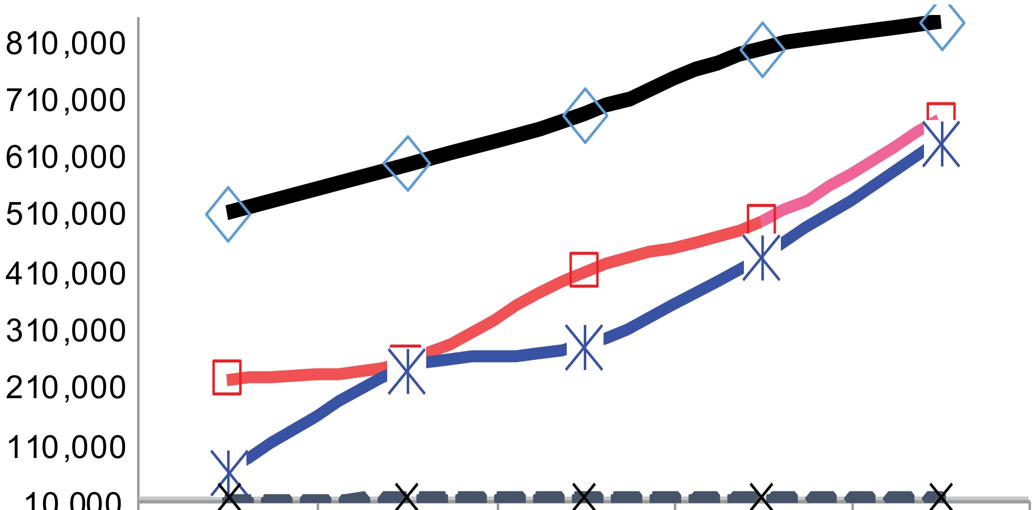
National government external debt stock mainly from official and commercial creditors stood at Ksh 2,158,973 million in June 2017 from Ksh 1,735,667 million in June 2016, a rise of 24.4 percent (Table 3.1 and Figure 3-1). The increase was attributed to disbursements from commercial syndicated loans, multilateral and bilateral creditors as well as foreign exchange rate movements.

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

Creditor type	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
External Debt					
Bilateral	217,970	248,636	405,562	491,864	669,840
Multilateral	507,920	593,397	680,192	794,797	839,721
Commercial Banks	58,928	234,799	276,937	432,377	634,109
Suppliers Credits	15,207	16,452	16,628	16,628	15,303
Sub-Total	**800,025**	**1,093,284**	**1,379,319**	**1,735,667**	**2,158,973**

SGR Construction going on

Figure 3-1: National Government External Debt by Creditor Type (Ksh Million)



	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Multilateral	507,920	593,397	680,192	794,797	839,721
Bilateral	217,970	248,636	405,562	491,864	669,840
Commercial Banks	58,928	234,799	276,937	432,377	634,109
Suppliers Credits	15,207	16,452	16,628	16,628	15,303

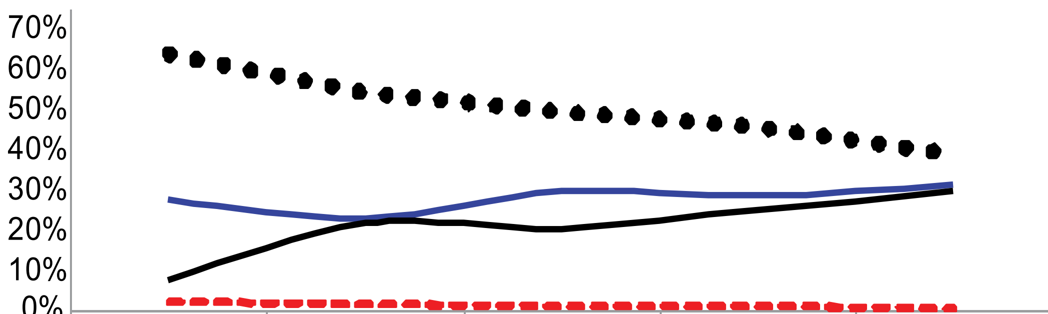
Source: National Treasury

3.2 Structure of National Government External Debt

a. Classification by Creditor Category

As shown in Figure 3-2, the share of multilateral and commercial banks increased from 28.3 per cent and 24.9 per cent as at end June 2016 to 31.0 per cent and 29.4 per cent while bilateral creditors declined from 45.8 per cent as at end June 2016 to 38.9 per cent as at end June 2017 respectively. Suppliers' credit declined from 1.0 per cent in June 2016 to 0.7 per cent in June 2017.

Figure 3-2: National Government External Debt by Creditor Category



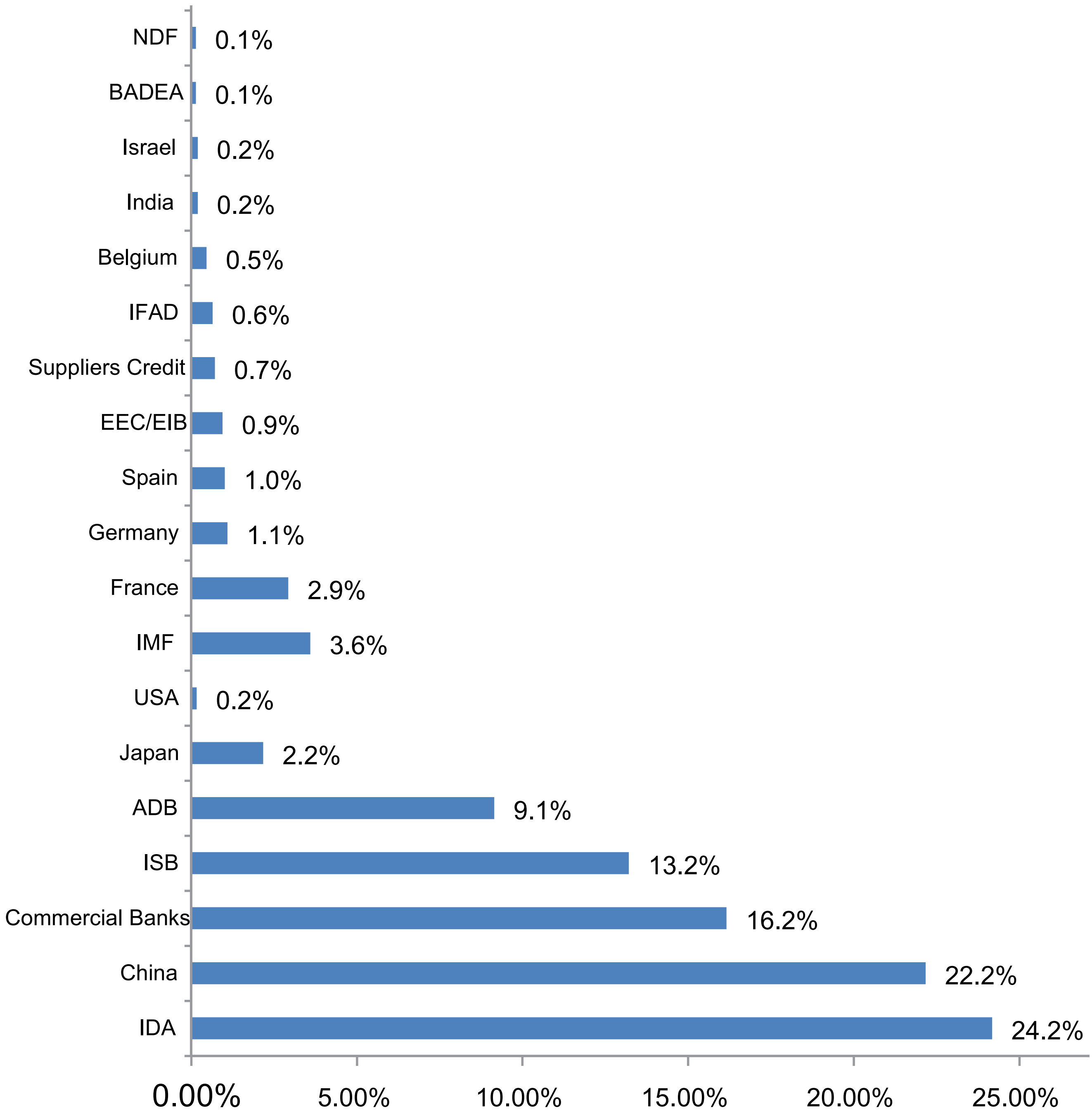
	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17*
Multilateral	27.2	22.7	29.4	28.3	31.0
Bilateral	63.5	54.3	49.3	45.8	38.9
Commercial Banks	7.4	21.5	20.1	24.9	29.4
Suppliers Credits	1.9	1.5	1.2	1.0	0.7

Source: National Treasury

b. Classification by Major Creditors

As at June 2017, the World Bank (IDA), China and commercial lenders were the main creditors at 24.2 per cent, 22.2 per cent and 16.2 per cent respectively. AFDB/ADF, Japan, France and IMF were among other major multilateral and bilateral creditors (Figure 3-3).

Figure 3-3: Classification by Major Creditors



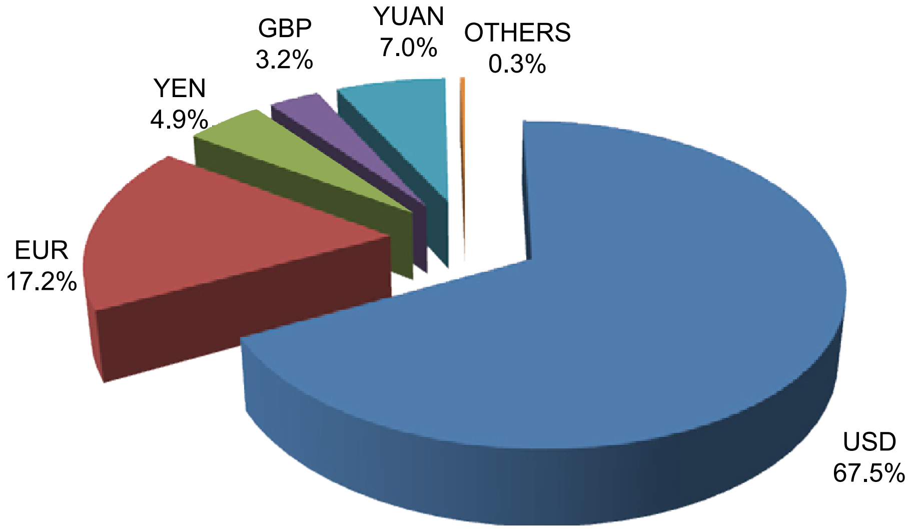
Source: National Treasury

c. Classification by Currency

As at end of June 2017, the currency composition of the external debt stock mainly comprised the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and Chinese Yuan accounted for 67.5 per cent, 17.2

per cent, 4.9 per cent, 3.2 per cent and 7.0 per cent respectively while other currencies accounted for 0.3 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.

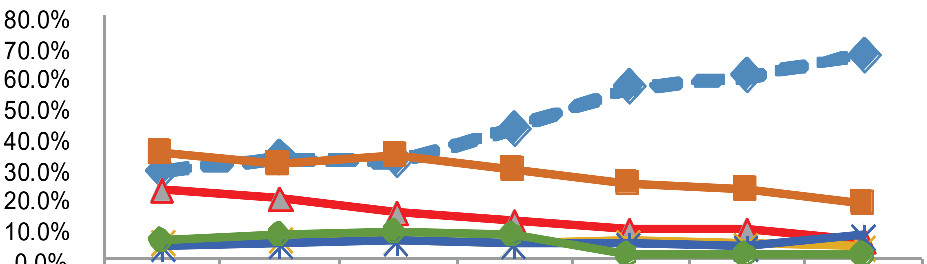
Figure 3-4: Currency composition of National Government External Debt, end June 2017



Source: National Treasury

As shown in Figure 3-5, the dominant currency in 2011 was the Euro at 34.4 per cent while the USD dominated in 2017 at 67.5 per cent due to various USD denominated loans contracted during the period.

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



	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
US Dollar	28.8	33.0	32.3	42.8	56.7	60.4	67.5
Euro	34.4	31.0	33.0	28.5	23.9	22.1	17.2
Yen	22.3	19.0	15.1	11.5	9.2	8.7	4.9
Sterling Pound	5.7	6.0	5.5	4.7	5.4	4.8	3.2
Yuan	3.6	4.0	5.7	4.8	4.3	3.5	7.0
Others	5.2	7.0	8.4	7.7	0.5	0.4	0.3

Source: National Treasury

Recently completed section of Dongo Kundu Road, Mombasa

3.3 Maturity Structure

By end of June 2017, over 62.1 per cent of the external debt has maturity longer than 10 years with only 15.4 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 from 66.3 percent in 2015 and 63.9 percent in 2016 while category of debt between 1-4 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 2017

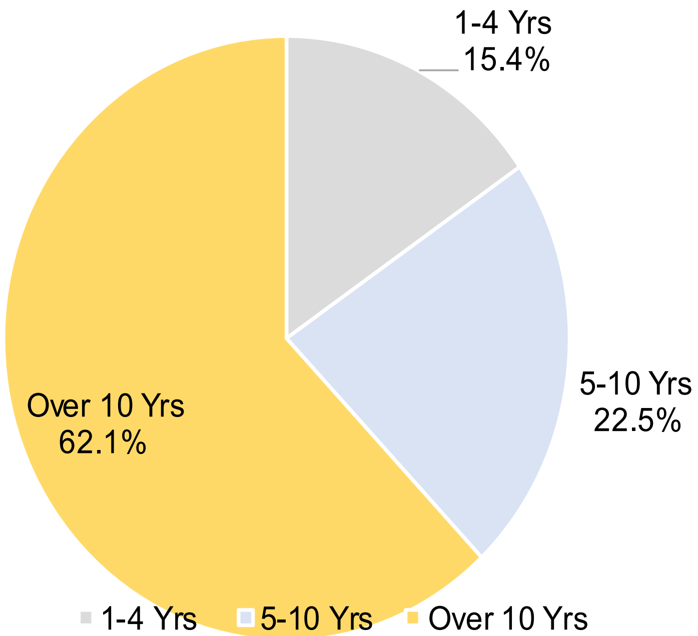


Table 3-2: Outstanding External Debt by Maturity Structure

Remaining Maturity	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017
1 -4 years	6.6	7.9	14.7	8.2	11.4	15.4
5-10 years	15.8	16.9	22.9	25.5	24.7	22.5
Over 10 years	77.6	75.3	62.4	66.3	63.9	62.1

Source: National Treasury

3.4 Average Terms of New External Loan Commitments

Average maturity is one of the measures of refinancing risk. As at end of June 2017, the average maturity, grace period and average interest rate on new external loan commitments were 17.6 years, 4.5 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	Jun-17
Average Maturity (years)	26.3	33.7	18.1	21.0	20.3	17.6
Grace Period (years)	6.2	8.0	6.2	6.4	6.2	4.5
Average Interest Rate (%)	0.8	1.2	2.6	2.5	2.6	2.6

Mombasa Port Berths

3.5 External Debt Service

The total principal and interest payments on public external debt increased to Ksh 94,180 million by end June 2017 from Ksh 78,583 million by end June 2016, on account of payments to commercial and bilateral creditors (Table 3- 4).

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

Creditor		Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Multilateral	Principal	12,560	12,210	11,550	13,349	15,424	15,821
	Interest	3,781	3,702	5,580	4,881	5,641	5,764
	Sub Total	**16,341**	**15,912**	**17,130**	**18,230**	**21,065**	**21,585**
Bilateral	Principal	11,394	11,783	13,419	13,097	19,789	19,329
	Interest	3,570	5,012	6,640	10,574	15,270	22,613
	Sub Total	**14,964**	**16,795**	**20,059**	**23,671**	**35,059**	**41,942**
Commercial	Principal	0	0	831	53,768	802	771
	Interest	0	2,337	3,380	17,875	21,657	29,882
	Sub Total	**0**	**2,337**	**4,211**	**71,643**	**22,460**	**30,653**
Grand Total	Principal	23,954	23,993	25,800	80,214	36,015	35,921
	Interest	7,351	11,051	15,600	33,330	42,568	58,259
	Total	**31,305**	**35,044**	**41,400**	**113,544**	**78,583**	**94,180**
Percentage Distribution							
Multilateral		52.2%	45.4%	41.4%	16.1%	26.8%	22.6%
Bilateral		47.8%	47.9%	48.5%	20.8%	44.6%	45.4%
Commercial		0.0%	6.7%	10.2%	63.1%	28.6%	32.1%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury

Commitment fees paid on undisbursed loans was Ksh 3,137.9 million during FY 2016/2017.

Lamu Port

3.6 External Loans Disbursements

By end June 2017, total disbursements on external project loans and A-I-A grew by 38.3 per cent to Ksh 421,667 million from Ksh 304,986 million in June 2016 mainly due to increased disbursements for infrastructure projects (Table 3-5).

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

Type of disbursement	Jun-13		Jun-14		Jun-15		Jun-16		Jun-17	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Project Cash Loans	23,569	27.3	28,432	21.6	8,600	2.8	43,654	14.3	30,908	7.3
Project loans A-I-A	62,622	72.7	68,420	52	151,400	49.6	55,369	18.2	86,322	20.5
Project loans A-I-A, SGR	-	-	-	-	-	-	52,357	17.2	111,367	26.4
Commercial Financing	0	0	34,600	26.3	145,000	47.5	145,031	47.6	186,303	44.2
Programme loans	-	-	-	-	-	-	8,574	2.8	6,767	1.6
Total	**86,191**	**100**	**131,452**	**100**	**305,000**	**100**	**304,986**	100.0	**421,667**	100.0

Source: National Treasury

3.7 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 are denominated in either domestic or foreign currency. As at end June 2017, the National Government has not guaranteed any County Government.

d. Stock of Publicly Guaranteed Debt

As shown in Table 3-6 the total outstanding Government guaranteed debt increased by Ksh 74,649.55 million to Ksh 135,180 million by June 2017 from Ksh 60,531 million by end June 2016. This increase is mainly attributed to issuance of a new guarantee to Kenya Airways and Kenya Ports Authority respectively. **See Appendix – for detailed breakdown of publicly guaranteed debt by Agencies.**

Table 3-6: Stock of Publicly Guaranteed External Debt by Creditor Category

Creditor Category	Jun 13	Jun 14	Jun 15	Jun 16	Jun 17
Commercial	-	-	-	-	77,784
Bilateral	39,667	41,278	39,495	56,487	52,729
Multilateral	3,870	3,943	4,439	4,044	4,667
Total	**43,537**	**45,221**	**43,934**	**60,531**	**135,180**

e. Payments by the Government on Publicly Guaranteed Debt

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. During the FY 2016/2017, Government paid Ksh 1,443 million as called up guaranteed debts owed by public enterprises who were in financial distress. As shown in Table 3-7 East Africa Portland Cement (EAPC), and Kenya Broadcasting Corporation (KBC) accounts for 28.8 per cent and 51.8 per cent respectively of the payments made in 2016/17.

Table 3-7: Payments by the Government on Guaranteed Debt 2013/2014-2016/17 (Ksh million)

Year	Borrower	Quarter I	Quarter II	Quarter III	Quarter IV	Total
2013/14	CCN	-	38	38	-	**76**
	TARDA	155	-	148	-	**302**
	KBC	-	361	-	374	**735**
	Total	155	398	186	374	**1,113**
2014/15	CCN	39	-	40	-	**79**
	TARDA	142	-	130	-	**273**
	KBC	-	325	-	339	**664**
	Total	181	325	170	339	**1,015**
2015/16	CCN	-	-	-	-	**-**
	TARDA	148	-	149	-	**297**
	KBC	-	356	-	398	**753**
	Total	**148**	**356**	**149**	**398**	**1,050**
2016/17	EAPC	-	199	188	-	**387**
	TARDA	164	-	146	-	**309**
	KBC	-	366	-	382	**747**
	Total	**164**	**565**	**333**	**382**	**1,443**

Source: The National Treasury

3.8 Disputed External Commercial Debt

Kenya's disputed external commercial debt is estimated at Ksh 15,303 million or 0.7 per cent of total public debt at end June 2017. In August 2004, the Government suspended payments on these disputed debt 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 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.

f. 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.

g. Government Position on Existing Disputed 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 the dispute have been successfully resolved. Resolution of the remaining projects is on-going. To resolve the remaining disputes, there is enhanced co-ordination by state organs including; State Law Office, Ethics and Anti-Corruption Commission, Directorate of Public Prosecutions and the National Treasury.

h. 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, paying due regard to separate debt contracting from debt payment.

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 when these contracts were procured. 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.

Southern by-pass

CHAPTER FOUR

ON-LENT LOANS

4.1 Introduction

The National Government through the National Treasury has been contracting loans from either external or domestic sources and in turn lends to state corporations as exercised within the Public Finance Management Act 2012. A state corporation is only eligible for on-lending under the following circumstances:

i) The Corporation plays a strategic role;

ii) Has weak balance sheet and cannot attract competitive funding; and

iii) Is performing a social project that would be more efficiently executed on behalf of the Government.

4.2 Stock of On-Lent Loans

The outstanding debt stock for all on-lent loans to parastatals increased by Ksh 239,123 million to Ksh 811,372 million by end June 2017 from Ksh 572,249 million by end June 2016 (41.8 per cent rise). New on-lent loans were issued to transport sector mainly to Kenya Railways Corporation for the development of the standard gauge railway, energy sector and water sectors (Table 4-1).

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

Sector	June 2014	June 2015	June 2016	June 2017
Education	11,089	11,089	11,108	11,108
Finance	2,110	1,088	1,236	3,868
Water and Irrigation	40,131	49,388	56,251	61,782
Tourism	181	181	181	188
Energy and Petroleum	107,211	114,053	123,133	212,493
Transport and Infrastructure	3,779	3,583	363,179	501,383
Planning and Devolution	8,757	8,757	8,757	8,877
Agriculture, Livestock and Fisheries	7,562	7,267	7,241	10,286
Trade and Industry	461	454	454	457
Cooperative	6	993	729	931
Total	**181,287**	**196,853**	**572,249**	**811,372**

Source: National Treasury

4.3 On-Lent Loans (including Arrears)

The outstanding stock together with arrears on the on-lent loan portfolio as at end June 2017 was Ksh 850,675 million of which the outstanding stock, principal arrears and accrued interest accounted for Ksh 811,372 million, Ksh 14,900 million and Ksh 24,402 million, respectively (Table 4-2).

Table 4-2: On-Lent Loans (including Arrears) as at June 2017 (Ksh million)

Ministry/Sector	Outstanding loans	Principal Arrears	Accrued interest	Total
Education	11,108	169	32	11,309
Finance	3,868	128	3	3,998
Water & Irrigation	61,782	4,425	2,720	68,926
Tourism	188	128	556	872
Energy & Petroleum	212,493	-	-	212,493
Transport and Infrastructure	501,383	3	73	501,458
Planning & Devolution	8,877	4,844	10,716	24,437
Agriculture, Livestock & Fisheries	10,286	4,801	10,088	25,175
Trade and Industry	457	1	42	500
Cooperative	931	403	173	1,507
Total	**811,372**	**14,900**	**24,402**	**850,675**

Source: The National Treasury

Table 4-2 shows that arrears on on-lent loans (with accrued interest) had accumulated to Ksh 39,302 million by end June 2017.

4.4 Receipts from On-Lent Loans

The total receipts by Government from on-lent loans amounted to Ksh 4,966 million during FY2016/17, out of which Ksh 2,369 million was principal and Ksh 2,596 million was interest (Table 4-3).

Table 4-3: Receipts from On-Lent Loans, by End June 2017 (Ksh million)

Organization	Principal Receipts	Interest receipts	Total
Agricultural Finance Corporation	21	-	21
Agro-Chemical &Food Co. Ltd	-	150	150
Faulu Micro-Finance Bank Ltd	20	6	26
Athi Water Services Board	121	45	166
Kenya Utalii College	6		6
Equity Bank Ltd.	23	17	39
Kenya Women Micro-Finance Bank Ltd	20	6	26
KenGen	361	1,791	2,151
Kenya Power	1,405	386	1,791
Kenya Airport Authority	200	117	317
Kenya Civil Aviation Authority	94	43	137
Nyeri Water Services Board	50	20	70
Rafiki Micro-Finance Bank Ltd	9	3	12
SMEP	10	3	13
Rift Valley Water Services Board	10	11	21
ICDC	20	-	20
Total	**2,369**	**2,596**	**4,966**

Source: National Treasury

CHAPTER FIVE

FISCAL COMMITMENTS AND CONTINGENT LIABILITIES

5.1 Recognizing Potential Fiscal Risks

Kenya is aware of increased accumulation of debt to fund major infrastructure development as a catalyst to foster economic growth. To minimize exposure and risks associated with debt accumulation the Government has embraced the Public Private Partnerships. The Public Private Partnership (PPP) initiatives have been on the rise owing to increased demand to finance projects with high rate of return. The PPP model is evident in the energy sector through the provision of power by independent Power Producers and health sector through provision of medical equipment services.

Lake Turkana Wind Power

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

No.	Project Name	Project Description	Project Values ($million)	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Status as at June 2017
1.	Africa Geothermal International 140 MW	25-year Power Purchase Agreement on a Build, Own, and Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya.	760	• Total Project Cost depreciated at 5% per annum. • Expenses incurred by the Seller as a result of termination. • Net Present Value of 5 Years profits at 10% discount rate	US$ 77.3 million	Implementation on-going
2.	Lake Turkana Wind Power – 300 MW	The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit County, on a 20-year PPA with Kenya Power.	847	• 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 Generated Energy Payments Euros 110.4 million	Implementation on-going
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	Production stage
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	Production stage

No.	Project Name	Project Description	Project Values ($million)	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Status as at June 2017
5.	Thika Power – 87 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in Thika, on a 20-year PPA with KPLC.	146	• Total Project Cost depreciated at 5% per annum. • Expenses incurred by the Seller as a result of termination. • Net Present Value of 5 Years profits at 10% discount rate.	Euros 17.1 million	Production stage
6.	Kinangop wind Power – 60.8 MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	• Total Project Cost depreciated at 5% per annum. • Expenses incurred by the Seller as a result of termination. • Net Present Value of 5 Years profits at 10% discount rate.	Deemed Energy Payment US$ 26.8 million	Stalled
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	Implementation on-going
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	Implementation on-going
9.	Mumias Bagasse Cogeneration Power Plant – 35MW	10 Years-BOO	50	None	US$ 5.3 million	Implementation on-going

No.	Project Name	Project Description	Project Values ($million)	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Status as at June 2017
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	Implementation on-going
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. • The value of the stock of fuel and other consumables and spare parts at the Plant	US$9.62 million	Production stage
12.	Imenti tea Factory Limited 0.28 MW	Feed in Tariff Power Plant on a BOO basis		None	None	Implementation on-going
13.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis		None	None	Implementation on-going
14.	Rift Valley Railways	Provision for the concession of Kenya-Uganda railway freight and passenger services	389	The lesser of: 1. Concession Fees for the previous 2 years 2. US$ 10 Million	None	Reverted to Kenya Railways Corporation

No.	Project Name	Project Description	Project Values ($million)	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Status as at June 2017
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	Implementation on-going
16	Medical Equipment's Services to National and County Government Hospitals					

Source: National Treasury, 2017 Budget Policy Statement

The PPP financing model is new to Kenya and has inherent challenges. However, lessons have been learnt which helped in informing the approval process of the PPP projects through government support measures which took into account risk allocation to parties' best positioned to mitigate against them.

Loyangalani Transmission Line

CHAPTER SIX

PUBLIC DEBT STRATEGY AND DEBT SUSTAINABILITY

6.1 Public Debt Strategy

a. 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), 2012. 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 2016/2017, the Government's debt management strategy was to borrow 60 per cent of its financing needs from external sources focusing on medium term instruments and 40 per cent from domestic sources. External borrowing is composed of 23 per cent concessional, 23 per cent semi concessional and 14 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 2016/17 MTDS evaluated the following four (4) possible debt financing strategies (Table 6-1):

1. Strategy 1 (S1. FY 2015/16 MTDS) was the preferred strategy in 2015 foresees an increase in share of external debt and assumed that by end FY2018/19 the ratio of outstanding debt portfolio will be 60% mainly from concessional debt while outstanding domestic debt will be 40%. The objective was to reduce the share of treasury bills in total net domestic financing.
2. Strategy 2 (S2. FY 2016/17 MTDS, increased issuance of International Sovereign Bonds) assumes that outstanding external debt by end FT2018/19 will be 62% while outstanding domestic debt will be 38%. The strategy increases the size of external commercial borrowing and helps reduce the issuance of treasury bills.
3. Strategy 3 (S3. Decreased issuance of International Sovereign Bonds) the strategy reduces the volume of external commercial borrowing while the resulting gap was to be met by issuance of treasury bills. The outstanding external debt was expected to be 56% and outstanding domestic debt will be 44%.
4. Strategy 4 (S4. Increased Issuance of Treasury Bonds) assumes outstanding external debt to be 60% and 40% outstanding domestic debt. This strategy increases the size of domestic bond issuance. Treasury bill issuance will be primarily to manage government cash position.

Eldoret-Turkana road under construction

Table 6-1: Composition of Debt by Instrument under Alternative Debt Management Strategies as at end FY2018/19 (in per cent of outstanding portfolio)

Envisaged New debt	***2015/16 MTDS*** ***Existing debt***	**Status quo** **S1**	**Increased issuance of International Sovereign Bonds** **S2**	**Decreased issuance of Eurobonds** **S3**	**Increased issuance of T-Bonds** **S4**
Domestic	**50**	**40**	**38**	**44**	**40**
Treasury Bills	12	12	9	14	10
Treasury Bonds	38	28	29	30	30
External	**50**	**60**	**62**	**56**	**60**
Concessional	23	23	23	23	23
Semi-concessional	17	23	23	23	23
Commercial	10	14	16	11	13

Source: FY 2016 /17 MTDS, National Treasury

II. Box 2: Medium Term Debt Strategy For the FY 2016/17

After analysing the strategies, S4 was identified as the optimal strategy which entails:

- 41% outstanding domestic debt and 45% outstanding external debt by end FY2018/19;
- The domestic borrowing will be on medium term basis;
- External borrowing will comprise of outstanding concessional debt of 23%, 23% on semi concessional terms while 14% will be contracted on commercial terms.

b. Implementation of the FY 2016/17 MTDS

As shown in Table 6-2, there were deviations of actual financing mix outturn compared to MTDS plan in FY2016/17.

Table 6-2: Planned Net Financing under MTDS and Actual Outturn (Per cent)

Financing source		2013/14	2014/15	2015/16	2016/17
External	MTDS	40	45	45	60
	Actual	68	64	61	55
	Deviation	-28	-19	-16	5
Domestic	MTDS	60	55	55	40
	Actual	*32*	*36*	*39*	45
	Deviation	28	19	16	-5

Source: National Treasury

6.2 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.

In the Debt Sustainability Framework (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 6-3). Kenya is rated a strong policy performer and as such is subject to the following thresholds.

Table 6-3: 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. 17/25, February 2017

1. External debt sustainability

Given the above thresholds, under the baseline scenario, Kenya's debt ratios listed in Table 6-4 indicates that external debt is within sustainable levels for a country rated as a strong performer. The debt sustainability indicators show that Kenya faces a low risk of external debt distress. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

Table 6-4: External debt sustainability

Indicator s	2015	2016	2017	2019	2026
PV of debt–to-GDP ratio (50)	20.3	21.7	22.6	21.4	18.3
PV of debt-to-exports ratio (200)	122.8	137.4	137.9	124.1	103.5
PV of debt-to-revenue ratio (300)	107.7	110.1	108.7	98.9	82.8
PPG Debt service-to-exports ratio (25)	7.3	8.3	15.2	13.8	12.2
PPG Debt service-to-revenue ratio (22)	6.4	6.7	12.0	11.0	9.8

Source: IMF Country Report No. 17/25, February 2017

2. Public debt sustainability

Kenya's public debt sustainability threshold on PV of Debt/GDP as a strong performer and a low middle-income country is **74 percent**[2].

Under the baseline scenario shown in Table 6-5, the PV of public debt-to-GDP, decreases from 48.7 percent in 2016 to 47.1 percent of GDP by 2019. In the long term, the PV of public debt-to-GDP is expected to decline to about 35.6 percent by 2026. Given Kenya's relatively strong revenue performance, the PV of public debt-to-revenue ratio would gradually decline from 247.2 percent in 2016 to about 217.4 percent in 2019. Going forward, the debt service-to-revenue ratio is expected to decline from 32.8 percent in 2016 to about 24.3 percent in 2026. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

Table 6-5: Public debt sustainability

Indicator (Threshold)	2016	2017	2019	2026
PV of public sector debt to GDP ratio (74)	48.7	49.0	47.1	35.6
PV of public sector debt-to-revenue ratio	247.2	235.7	217.4	161.4
Debt service-to-revenue ratio	32.8	35.8	33.4	24.3

Source: IMF Country Report No. 17/25, February 2017

In Table 6-6, a worst-case scenario, a "borrowing shock" scenario is presented which assumes Government borrowing 10 percent of GDP in FY2016/17. The results indicate that in the medium term, one of the debt burden indicators will lead to a temporary breach. However, this ratio is expected to remain within sustainability threshold given the Government commitment to implement ongoing fiscal consolidation.

[2]The EAC public debt convergence criterion for PV of Debt/GDP is 50 percent.

Table 6-6: 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*
PV of Debt as % of GDP	74	48.7	58
PV of Debt as % of Revenue	300	247.2	272
Debt Service as % of Revenue	30	32.8	35

Isiolo International Airport under construction

CHAPTER SEVEN

OUTLOOK FOR THE MEDIUM TERM

7.1 Public Debt Stock in the Medium Term

The total public debt in nominal terms rose to Ksh 4,406,863 million in June 2017 from Ksh 3,611,331 million in June 2016 and is further projected to increase to Ksh 5,845,579 million in June 2020 (Table 7-1). However, as a proportion of nominal GDP, public debt is projected to decrease to 51.7 per cent in June 2020 from 57.2 per cent in June 2017.

As a proportion of GDP, external debt is projected to decrease to 25.3 per cent in June 2020 from 29.8 per cent in June 2017. The domestic debt will decrease to 26.4 per cent in June 2020 from 27.4 per cent in June 2017.

Table 7-1: Projected Public Debt Stock in (Ksh million)

	2015/16	2016/17	2017/18	2018/19	2019/20
External Debt	1,796,198.00	2,294,153.00	2,424,946.00	2,561,057.00	2,863,614.00
% of GDP	27.60	29.75	27.54	25.62	25.31
Domestic Debt	1,815,133.00	2,112,710.00	2,432,965.00	2,772,965.00	2,981,965.00
% of GDP	27.89	27.40	27.63	27.74	26.36
Total Public Debt	3,611,331.00	4,406,863.00	4,857,911.00	5,334,022.00	5,845,579.00
% of GDP	55.49	57.15	55.17	53.35	51.67
Memoranda items					
Nominal GDP	6,508,084.41	7,710,947.27	8,804,904.60	9,997,675.81	11,313,999.96
Ordinary Revenue	1,152,875.00	1,305,790.00	1,549,400.00	1,767,000.00	2,013,500.00

Source: National Treasury

7.2 Debt Service in the Medium Term

In nominal terms, the total debt service as a proportion of revenue is projected to decrease from 37.2 per cent in 2018/19 to 24.0 per cent in 2019/20 (Table 7-2). As a percentage of GDP, total debt service is projected to decrease from 6.6 per cent in 2018/19 to 4.3 per cent in 2019/20.

Domestic interest is projected to increase to Ksh 237,883 million in 2019/20 from Ksh 212,865 million in 2016/17. However, as a percentage of revenue, domestic interest is projected to decrease to 11.8 per cent in 2019/20 from 16.3 per cent in 2016/17. As a ratio of GDP, domestic interest will decrease to 2.1 per cent in 2019/20 from 2.8 per cent 2016/17.

Interest on external debt is projected to increase to Ksh 112,081 million in 2019/20 from Ksh 58,369 million in 2016/17. As a ratio of GDP, interest on external debt will rise to 1.0 per cent in 2019/20 from 0.8 per cent in 2016/17.

Principal repayments on external debt is projected to increase to Ksh 132,756 million in 2019/20 from Ksh 35,922 million in 2016/17. The rise in medium term external debt service is attributed to the maturity of 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 1.2 per cent in 2019/20 from 0.5 per cent in 2016/17.

Table 7-2: Projected Debt Service (Ksh million)

Debt Service		2016/17	2017/18	2018/19	2019/20
Domestic interest	Amount (Ksh million)	**212,865**	**210,148**	**236,342**	**237,883**
	% of GDP	2.8	2.4	2.4	2.1
	% of Revenue	16.3	13.6	13.4	11.8
External Interest	Amount (Ksh million)	**58,369**	**70,572**	**104,080**	**112,081**
	% of GDP	0.8	0.8	1.0	1.0
	% of Revenue	4.5	4.6	5.9	5.6
Total Interest payments	Amount (Ksh million)	**271,234**	**280,720**	**340,422**	**349,964**
	% of GDP	3.5	3.2	3.4	3.1
	% of Revenue	20.8	18.1	19.3	17.4
External Principal Repayments	**Amount (Ksh million)**	**35,922**	**149,046**	**316,752**	**132,756**
	% of GDP	0.5	1.7	3.2	1.2
	% of Revenue	2.8	9.6	17.9	6.6
Total Debt service	Amount (Ksh million)	**307,156**	**429,766**	**657,174**	**482,720**
	% of GDP	4.0	4.9	6.6	4.3
	% of Revenue	23.5	27.7	37.2	24.0
Memo items					
Ordinary Revenue	**Amount (Ksh million)**	**1,305,790**	**1,549,400**	**1,767,000**	**2,013,500**
Nominal GDP	**Amount (Ksh million)**	**7,710,947**	**8,804,905**	**9,997,676**	**11,314,000**

Source: National Treasury

CHAPTER EIGHT

INITIATIVES IN RETAIL GOVERNMENT SECURITIES MARKET SEGMENT

8.1 Background

The Kenyan bond market traces its origin back to the 1980s when the Government of Kenya first launched a bid to use Treasury Bonds as a source of funds to finance government deficit. Similarly, the first corporate bond was issued on 8th November 1996 by the East African Development Bank (EADB), which issued a multi-lateral bond. The Kenyan bond market experienced a major grounding in 2001 when the government re-launched Treasury Bonds. In both cases, the rates applicable were floating rates pegged to the 91-day Treasury bill rates. The bonds market has been relatively more active after 2001 and an increased number of bonds issues have been made. By end of 2005, there were 65 Treasury bonds (Floating Rate, Special and Fixed Rate Bonds) and five corporate bonds listed on the NSE. Faulu Kenya, a microfinance institution listed a medium term bond on 11th April 2005. There has been a tremendous growth in terms of the size of the bond market. Total bond value has increased from just over Kshs. 800 million in 1996, to over 1.3 trillion in 2017.

The government debt market reform agenda has focused on deepening the domestic debt securities market by broadening the scope of coverage by targeting retail investors who have often been excluded from formal capital market. The initiative dubbed M-Akiba is a government retail bond that leverages on the widespread money transfer services to offer a unique savings product that is mobile based. M-Akiba bond concept was borne out of the realization that the bond market in Kenya was highly segmented. A large proportion of investors in the bond market were mainly institutional accounting for about 96 percent of the value of the bond while only 4 percent were retail investors.

8.2 Context of the M-Akiba Bond

In March, 2015, the National Treasury formed a Committee to oversee the development of a platform for the trading of Government debt securities through the mobile phone. Members of the committee were drawn from the National Treasury, the Central Bank of Kenya, the Capital Markets Authority, the Central Depository and Settlement Corporation, the Nairobi Securities Exchange, Kenya Association of Investment Banks and Stock Brokers, and Mobile Network Operators. The committee was mandated to develop a product that would meet both the technical sophistication and appropriate regulatory requirements. The product that was later renamed M-Akiba bond became synonymous with the National Treasury. The technical requirements for the issuance of the bond could not be achieved without the National Treasury forging partnerships with the private sector. The private sector was largely to provide the systems infrastructure necessary for the issuance of the bond. The National Treasury naturally became the coordinating institution and convenor of all the meetings that were meant to develop the M-Akiba bond.

The M-Akiba bond was first launched on a pilot basis in March 2017 where the government issued Kshs 150 million to the public. The bond was fully subscribed two days before the closure period. A total of 102,000 investors had registered with only 6 percent managing to purchase the bond. On average, Kshs 26,000 worth of the bond was invested daily. This was a major success given that this was the first time such a bond was being issued to the public. Although challenges were abound, critical lessons were learnt that ensured continuity beyond the pilot phase.

M-Akiba bond was issued with the following objectives:

- To promote financial inclusion,
- To raise resources for the government for infrastructure development purposes
- To develop the domestic securities market by broadening the scope and coverage of retail market segments.
- To create visibility and enhance Kenya's image and reputation in the global arena.

Other long term objectives of the M-Akiba bond include:

- Reducing cost of government borrowing - As at year 2015, the average rate paid by banks on retail savings deposits was 1.8 percent whereas rates on Treasury Bonds were above 10 percent. Broadening the government securities investor base by allowing retail investors to directly access these securities will enable the government obtain the debt at lower cost.

- Reduce interest rate spreads – Lack of effective competition for deposits is one of the causes of low rates paid to retail depositors and high spreads. Retail investors will henceforth have an alternative vehicle to invest their deposits putting pressure on the banks to raise interest on deposits.

- Encourage savings – Many potential savers may currently be unwilling to save through formal channels due to the unattractiveness and difficulty of access of existing savings products. The higher interest rate and ease of saving through M-Akiba plus the sense of contributing to Government infrastructure investment programs will increase overall savings rates.

- Development of the Capital Markets- the M-Akiba product by allowing secondary trading of the bond through the Nairobi Securities Exchange through the mobile phone is expected to enhance awareness about trading amongst the participants who will in time graduate to more sophisticated products.

The following were the key features of the bond:

- Purpose – Government development/infrastructure expenditure
- Mobile Traded Bond – Registration, trading, settlement using mobile money.
- Target Amount – Kshs 5 Billion
- Minimum investment amount per account – Kshs. 3,000
- Maximum Investment per account / per day – Kshs. 140,000 (mobile money limit and Kshs 999,999 for users of Pesalink channel)
- Tenor of Bond - 3 years
- Coupon Rate (10%) paid semi-annually.
- Price traded – at par (factoring in the accrued interest)
- Taxation – Tax-exempt

8.3 The Role of key Players in the M-Akiba bond issuance process

Table 8-1: Mandated responsibilities under contractual arrangements by various stakeholders

DESCRIPTION		CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION (RESPONSIBILITIES)
	Primary activities	Provide sub-registry, depository and settlement services
		Handle the distribution of M-Akiba bond
		Open a nominee CDS account with CBK
		Create M-Akiba retail bond holders register
		Receive bond proceeds from investors
		Reconcile applications for the bond versus payments received
		Remit bond proceeds to National Treasury via CBK within a day of receiving proceeds from investors
		Submit the M-Akiba bond holders register to the CBK CDS system
		Appoint Central Depository Agents
		Apply for paybill number from MNOs
		Sign contract and SLA with CBK and other stakeholders as may be necessary for the performance of the agency services under these services.
		Process and pay all coupons/interest biannually
		Process and pay bond redemption at the end of the tenor
		Provide all the bond uptake reports, during and after issuance
		Perform such other services as may be mutually agreed in writing between CDSC and the Client
	CDSC Market responsibilities	Maintain and manage the sub-register which will also double up as the trading register
		Provide the list of holders for interest payments and redemptions
		Reconcile the register of bond holders against the applications made
		Management of the payment of coupons
		Management of the payment of redemptions
		Prepare regulatory reports
		Define requirements and processes and funds requirements
		Provide securities settlement, that ensure delivery versus payment
		Conduct risk management for failed trades, complaints, claims and system of monitoring
		Conduct oversight and market supervision of CDAs
		NAIROBI SECURITIES EXCHANGE AND CENTRAL DEPOSITORY AND SETTLEMENT CORPORATION(JOINT RESPONSIBILITIES
	Support services	Organize all aspects of the issuance of M-Akiba bond

		Sign contract with National Treasury, SLAs with CBK, MNOs, and other stakeholders as may be necessary for the performance of the agency services under the contract
		Champion investor education through training of trainers and support for all parties through the NSE Training Institute or other appropriate avenues
		Champion information dissemination on the M-Akiba bond through appropriate channels
		Handle all the transaction enquiries and customer service during and after the bond issue
		Set-up and manage the call centre for the M-Akiba bond
		NAIROBI SECURITIES EXCHANGE RESPONSIBILITIES
	Secondary trading	Ensure **liquidity in the secondary market**, through market making via trading participants
		Manage the secondary trading of the bond
		Conduct oversight and market supervision of the trading participants
		Participate in the marketing through initiatives including the set up and running an m-Akiba website and managing the social media pages on Facebook and twitter
		Perform such other services as may be mutually agreed in writing between NSE and the Client

GLOSSARY

• Bond Re-opening
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.

• 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 per centage 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 Service
The amount of funds used for repayment of principal and interest of a debt.

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

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

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

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

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

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

- **Government Securities**

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

- **Grant Element**

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

- **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.

- **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.

- **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.

- **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.

APPENDICES

Appendix I: Stock of Publicly Guaranteed Debt by June 2017 (Ksh Million)

Agency	Year	Purpose of the loan	Creditor	Jun-14	Jun-15	Jun-16	Jun-17
Nairobi City County	1985	Umoja II Housing Project	USA	75	-	-	-
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	3,584	2,404	2,224	1,385.68
Telkom Kenya Ltd	1990	Purchase of Microwave Telephone System	Canada	351	375	-	-
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	1,526	1,172	1,156	810.93
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	1,896	1,457	1,438	1,008.06
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	4,048	3,393	3,767	3,325.24
	1997	Sondu Miriu Hydropower Project	Japan	3,950	3,372	3,827	3,421.77
	2004	Sondu Miriu Hydropower Project II	Japan	8,981	8,005	9,534	8,752.71
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	3,660	3,416	4,218	3,971.68
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	42	44	55	51.09
	2010	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Germany			3,514	3,301.60
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Germany			4,656	4,874.96

Agency	Year	Purpose of the loan	Creditor	Jun-14	Jun-15	Jun-16	Jun-17
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	13,167	15,856	22,099	21,211.31
Kenya Railways	2008	Kenya Railways Concessioning	IDA	3,943	4,439	4,044	4,667.03
Kenya Ports Authority	2016	Kenya Port Development Project Phase 2	Japan				613.72
Kenya Airways	2017	Kenya Airways	Afrexim	0	0	0	77,783.78
Kenya Farmers Association	2005	Revival of KFA	Local banks	Unutilized	Unutilized	Unutilized	
National Cereals & Produce Board (GSM-102)	2009	Importation of maize under GSM-102	USA	Unutilized	Unutilized	Unutilized	
Total				**45,221**	**43,933**	**60,530**	**135,179.55**

Source: National Treasury

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

CREDITOR	Jun 13	Jun 14	Jun 15	Jun 16	Jun 17
1. BILATERAL					
AUSTRIA	1,024	717	743	1,030	513
BELGIUM	7,607	8,096	6,142	7,469	9,938
CANADA	1,390	1,349	1,270	809	538
DENMARK	1,988	1,992	1,437	1,541	1,356
FINLAND	97	94	71	269	1,712
FRANCE	47,397	61,580	59,032	59,371	63,262
GERMANY	25,042	26,571	22,559	-	31,669
ITALY	2,132	1,716	1,101	622	654
JAPAN	86,789	84,515	79,017	-	91,456
NETHERLANDS	2,600	2,702	1,960	2,350	1,753
UK	1,732	1,841	1,467	992	650
USA	4,816	4,542	4,462	4,035	3,497
CHINA	63,123	80,859	252,039	313,127	478,607
OTHERS	11,900	13,341	13,756	31,385	36,963
TOTAL	**257,637**	**289,914**	**445,056**	**798,841**	**722,568**
2. MULTILATERAL					
ADB/ADF	80,729	102,118	161,532	179,227	197,490
EEC/EIB	15,769	20,657	20,625	21,073	20,399
IDA/IFAD	332,624	371,374	407,294	488,330	540,515
IMF	73,779	83,282	86,150	84,847	77,637
OTHERS	8,890	9,057	9,030	9,204	8,347
TOTAL	511,791	597,340	320,871	492,908	844,389
3. COMMERCIAL BANKS	**58,928**	**234,799**	**276,937**	**432,377**	**711,893**
4. EXPORT CREDIT	**15,207**	**16,452**	**16,628**	**16,628**	**15,303**
GRAND TOTAL	**843,562**	**1,138,505**	**1,423,252**	**1,796,198**	**2,294,153**

Source: National Treasury

Appendix III: Outstanding Treasury Bills and Bonds (KShs million) by Tenor, Kenya

Security Type	Jun-13		Jun-14		Jun-15		Jun-16		Jun-17	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Treasury Bills (Days)										
91	36,203	3.6	54,660	4.5	18,554	1.4	81,784	4.7	92,168	4.4
182	52,167	5.2	88,949	7.3	75,251	5.6	191,841	11.1	234,255	11.3
364	178,840	17.7	155,797	12.8	225,123	16.8	314,464	18.2	417,733	20.1
Sub totals	267,211	26.4	299,406	24.7	318,928	23.7	588,088	34.0	744,155	35.8
Treasury Bonds (Years)										
1	-	-	-	-	165,912	12.3	34.502.03	2.0	-	0.0
2	122,014	12.1	166,679	13.7	109,936	8.2	122,086.75	7.1	75,850	3.7
3	-	-	-	-	89,515	6.7	-	-	150	0.0
4	19,121	1.9	29,891	2.5	102,622	7.6	10,770.23	0.6	10,770	0.5
5	138,357	13.7	175,296	14.4	49,123	3.7	232,840.35	13.5	289,610	13.9
Sub totals	**279,492**	**27.6**	**371,866**	**30.6**	**517,108**	**38.8**	**400,199**	**23.1**	**376,380**	**18.1**
6	40,653	4	40,653	3.3	46,088	3.4	21,331.58	1.2	9.186	0.4
7	19,288	1.9	16,970	1.4	44,462	3.3	24,312.72	1.4	21,185	1.0
8	31,796	3.1	40,866	3.4	61,025	4.5	26,579.77	1.5	26,787	1.3
9	18,177	1.8	18,177	1.5	65,528	4.9	44,010.43	2.5	50.130	2.4
Sub totals	**109,914**	**10.9**	**116,665**	**9.6**	**217,053**	**16.2**	**116,235**	**6.7**	**107,289**	**5.2**
10	126,767	12.5	148,511	12.2	31,757	2.4	183,542.80	10.6	256,910	12.4
11	4,031	0.4	4,031	0.3	28,718	2.1	4,031.40	0.2	4,031	0.2
12	30,206	3	45,411	3.7	26,630	2.0	136,581.78	7.9	147,875	7.1
15	102,408	10.1	125,498	10.3	100,975	7.5	177,805.75	10.3	286,741	13.8
20	49,027	4.8	60,451	5	74,140	5.5	74,308.40	4.3	104,854	5.0
25	20,193	2	20,193	1.7	28,145	2.1	20,192.50	1.2	20,193	1.0
30	22,136	2.2	22,136	1.8	0	0.0	28,144.70	1.6	28,145	1.4
Sub total	**354,768**	**35.1**	**426,231**	**35.1**	**290,365**	**21.6**	**624,607**	**36.1**	**848,748**	**40.9**
Grand Total	**1,011,384**	**100**	**1,214,168**	**100**	**1,343,454**	**100**	**1,729,129**	**100**	**2,076,572**	**100**

Source: Central Bank of Kenya

Appendix IV: Treasury Bonds stock as at June 30, 2017

Issue Number	Tenor	Face Value Amount	Cost Amount	Maturity Date	Issue Date	Time to Maturity
FXD1/2006/11	11	4,031,400,000.00	3,909,723,547.00	11-Sep-17	25-Sep-06	0.20
FXD1/2006/12	12	3,900,950,000.00	3,823,671,231.50	13-Aug-18	28-Aug-06	1.12
FXD1/2007/10	10	9,308,800,000.00	9,000,020,710.00	16-Oct-17	29-Oct-07	0.30
FXD1/2007/12	12	4,864,600,000.00	4,999,039,736.00	13-May-19	28-May-07	1.87
FXD1/2007/15	15	3,654,600,000.00	3,568,804,283.50	7-Mar-22	26-Mar-07	4.70
FXD1/2008/10	10	2,992,750,000.00	2,901,985,703.50	12-Feb-18	25-Feb-08	0.62
FXD1/2008/15	15	7,380,900,000.00	6,998,561,231.50	13-Mar-23	31-Mar-08	5.72
FXD1/2008/20	20	9,683,350,000.00	9,100,180,812.50	5-Jun-28	25-Jul-16	10.97
FXD1/2008/20	20	1,912,250,000.00	1,791,767,495.00	5-Jun-28	30-Jun-08	10.97
FXD1/2008/20	20	10,834,800,000.00	10,878,059,346.00	5-Jun-28	28-Dec-09	10.97
FXD1/2008/20	20	8,100,800,000.00	7,870,437,168.00	5-Jun-28	28-Nov-16	10.97
FXD1/2008/20	20	7,613,900,000.00	7,197,877,061.00	5-Jun-28	29-Jun-09	10.97
FXD1/2009/010	10	4,009,600,000.00	3,925,558,784.00	15-Apr-19	1-May-17	1.80
FXD1/2009/10	10	4,966,850,000.00	4,688,234,329.50	15-Apr-19	27-Apr-09	1.80
FXD1/2009/15	15	10,725,050,000.00	10,402,547,746.50	7-Oct-24	29-May-17	7.30
FXD1/2009/15	15	11,806,950,000.00	11,452,054,561.00	7-Oct-24	22-May-17	7.30
FXD1/2009/15	15	9,420,450,000.00	8,704,400,015.00	7-Oct-24	26-Oct-09	7.30
FXD1/2010/10	10	7,341,550,000.00	5,894,844,502.00	13-Apr-20	30-May-11	2.80
FXD1/2010/10	10	12,052,600,000.00	12,178,301,620.00	13-Apr-20	26-Apr-10	2.80
FXD1/2010/15	15	10,206,450,000.00	10,419,787,590.00	10-Mar-25	29-Mar-10	7.72
FXD1/2010/15	15	12,129,800,000.00	10,617,279,605.00	10-Mar-25	24-Nov-14	7.72
FXD1/2010/25	25	13,184,350,000.00	15,029,468,782.50	28-May-35	26-Jul-10	17.97
FXD1/2010/25	25	7,008,150,000.00	7,497,638,186.50	28-May-35	28-Jun-10	17.97
FXD1/2011/20	20	8,138,500,000.00	5,984,553,392.50	5-May-31	30-May-11	13.89
FXD1/2011/20	20	1,227,300,000.00	870,315,400.45	5-May-31	27-Jun-11	13.89
FXD1/2012/10	10	5,298,850,000.00	5,038,005,087.00	13-Jun-22	30-Jul-12	4.97
FXD1/2012/10	10	11,061,750,000.00	10,828,896,261.50	13-Jun-22	25-Mar-13	4.97
FXD1/2012/10	10	18,469,950,000.00	17,292,772,641.00	13-Jun-22	29-Feb-16	4.97
FXD1/2012/10	10	443,150,000.00	443,286,861.00	13-Jun-22	25-Jun-12	4.97
FXD1/2012/15	15	6,004,150,000.00	4,898,804,932.50	6-Sep-27	20-Jun-16	10.22
FXD1/2012/15	15	21,089,450,000.00	19,525,726,149.50	6-Sep-27	24-Sep-12	10.22
FXD1/2012/20	20	3,461,350,000.00	3,095,343,270.50	1-Nov-32	26-Nov-12	15.39
FXD1/2012/20	20	13,857,500,000.00	12,358,824,822.00	1-Nov-32	26-Jan-15	15.39
FXD1/2012/20	20	4,956,500,000.00	4,488,730,202.50	1-Nov-32	28-Jan-13	15.39
FXD1/2012/20	20	9,363,050,000.00	8,588,473,088.00	1-Nov-32	23-Jun-14	15.39
FXD1/2012/20	20	10,882,700,000.00	10,132,095,728.00	1-Nov-32	27-May-13	15.39
FXD1/2012/20	20	2,060,550,000.00	1,889,866,998.50	1-Nov-32	30-Jun-14	15.39
FXD1/2013/10	10	521,700,000.00	531,424,488.00	19-Jun-23	26-Aug-13	5.99
FXD1/2013/10	10	11,909,050,000.00	11,654,470,022.00	19-Jun-23	23-Feb-15	5.99
FXD1/2013/10	10	9,958,400,000.00	9,063,651,466.00	19-Jun-23	21-Mar-16	5.99
FXD1/2013/10	10	4,737,700,000.00	3,980,251,064.00	19-Jun-23	25-Jan-16	5.99

Issue Number	Tenor	Face Value Amount	Cost Amount	Maturity Date	Issue Date	Time to Maturity
FXD1/2013/10	10	12,121,350,000.00	12,123,458,664.00	19-Jun-23	1-Jul-13	5.99
FXD1/2013/15	15	15,582,800,000.00	14,431,264,050.00	7-Feb-28	24-Feb-14	10.64
FXD1/2013/15	15	13,172,850,000.00	11,910,586,790.50	7-Feb-28	22-Dec-14	10.64
FXD1/2013/15	15	7,507,100,000.00	6,686,702,802.50	7-Feb-28	29-Jul-13	10.64
FXD1/2013/15	15	5,875,700,000.00	4,986,659,185.00	7-Feb-28	25-Feb-13	10.64
FXD1/2013/5	5	20,240,750,000.00	20,240,569,350.00	23-Apr-18	29-Apr-13	0.82
FXD1/2014/10	10	15,587,650,000.00	15,494,820,028.00	15-Jan-24	29-Sep-14	6.57
FXD1/2014/10	10	15,030,150,000.00	15,030,284,060.50	15-Jan-24	27-Jan-14	6.57
FXD1/2014/10	10	5,234,350,000.00	5,042,660,436.50	15-Jan-24	25-May-15	6.57
FXD1/2014/5	5	17,511,200,000.00	17,508,206,205.00	22-Apr-19	28-Apr-14	1.82
FXD1/2014/5	5	8,222,500,000.00	8,028,777,490.00	22-Apr-19	26-Jan-15	1.82
FXD1/2015/5	5	12,461,700,000.00	11,994,737,942.50	22-Jun-20	27-Jul-15	2.99
FXD1/2015/5	5	5,566,200,000.00	5,566,405,887.00	22-Jun-20	29-Jun-15	2.99
FXD1/2015/5	5	12,928,150,000.00	12,611,454,529.50	22-Jun-20	29-Feb-16	2.99
FXD1/2016/10	10	18,306,450,000.00	18,307,083,379.50	17-Aug-26	29-Aug-16	9.16
FXD1/2016/2	2	20,153,750,000.00	20,154,160,340.00	22-Jan-18	25-Jan-16	0.57
FXD1/2016/20	20	12,761,200,000.00	12,268,051,962.00	1-Sep-36	26-Sep-16	19.24
FXD1/2016/5	5	19,544,200,000.00	19,544,465,144.50	19-Apr-21	25-Apr-16	3.82
FXD1-2009-010	10	18,537,600,000.00	18,146,846,220.00	15-Apr-19	24-Apr-17	1.80
FXD2/2007/15	15	25,445,650,000.00	26,343,788,249.00	6-Jun-22	26-Jun-17	4.95
FXD2/2007/15	15	7,236,950,000.00	7,489,082,427.50	6-Jun-22	25-Jun-07	4.95
FXD2/2008/10	10	882,000,000.00	847,391,380.50	16-Jul-18	28-Jul-08	1.05
FXD2/2008/10	10	12,622,700,000.00	11,889,719,842.45	16-Jul-18	27-Jul-09	1.05
FXD2/2010/10	10	13,847,900,000.00	14,462,477,148.00	19-Oct-20	1-Nov-10	3.32
FXD2/2010/10	10	3,890,350,000.00	3,112,570,889.00	19-Oct-20	25-Jul-11	3.32
FXD2/2010/10	10	5,200,100,000.00	4,800,056,307.00	19-Oct-20	29-May-17	3.32
FXD2/2010/10	10	1,111,650,000.00	1,085,650,371.00	19-Oct-20	31-Jan-11	3.32
FXD2/2010/10	10	9,337,900,000.00	8,532,672,633.00	19-Oct-20	22-May-17	3.32
FXD2/2010/15	15	6,183,750,000.00	4,782,536,624.00	8-Dec-25	25-Apr-11	8.47
FXD2/2010/15	15	7,329,350,000.00	6,316,191,993.00	8-Dec-25	27-Dec-10	8.47
FXD2/2013/15	15	17,385,850,000.00	15,560,859,557.50	10-Apr-28	29-Apr-13	10.82
FXD2/2013/15	15	9,615,400,000.00	8,034,876,907.50	10-Apr-28	21-Mar-16	10.82
FXD2/2013/5	5	13,452,050,000.00	13,755,556,737.50	25-Jun-18	25-Aug-14	0.99
FXD2/2013/5	5	12,888,000,000.00	12,888,196,290.00	25-Jun-18	1-Jul-13	0.99
FXD2/2014/5	5	13,080,100,000.00	12,957,709,064.00	17-Jun-19	27-Mar-17	1.97
FXD2/2014/5	5	7,623,800,000.00	7,552,974,898.00	17-Jun-19	3-Apr-17	1.97
FXD2/2014/5	5	14,285,600,000.00	14,286,912,004.50	17-Jun-19	23-Jun-14	1.97
FXD2/2014/5	5	2,132,650,000.00	2,137,360,009.50	17-Jun-19	30-Jun-14	1.97
FXD2/2015/5	5	30,673,850,000.00	30,678,670,084.00	23-Nov-20	30-Nov-15	3.41
FXD2/2016/2	2	25,500,450,000.00	25,714,648,193.50	21-May-18	20-Jun-16	0.89
FXD2/2016/2	2	4,717,900,000.00	4,717,901,350.00	21-May-18	23-May-16	0.89
FXD2/2016/5	5	24,395,300,000.00	24,396,503,759.00	19-Jul-21	25-Jul-16	4.07

Issue Number	Tenor	Face Value Amount	Cost Amount	Maturity Date	Issue Date	Time to Maturity
FXD3/2007/15	15	14,927,900,000.00	14,284,884,779.00	7-Nov-22	28-Nov-16	5.37
FXD3/2007/15	15	7,841,100,000.00	7,434,415,955.00	7-Nov-22	26-Nov-07	5.37
FXD3/2007/15	15	10,189,100,000.00	9,547,609,462.50	7-Nov-22	25-May-09	5.37
FXD3/2008/010	10	3,252,100,000.00	3,227,676,729.00	17-Sep-18	1-May-17	1.22
FXD3/2008/010	10	14,723,700,000.00	14,612,421,511.00	17-Sep-18	24-Apr-17	1.22
FXD3/2008/10	10	4,151,600,000.00	3,910,958,676.50	17-Sep-18	29-Sep-08	1.22
FXD3/2013/5	5	14,937,800,000.00	14,938,051,950.00	19-Nov-18	25-Nov-13	1.39
FXD3/2013/5	5	11,868,900,000.00	11,888,067,444.00	19-Nov-18	27-Mar-17	1.39
FXD3/2013/5	5	7,830,150,000.00	7,842,834,843.00	19-Nov-18	3-Apr-17	1.39
FXD3/2016/2	2	10,513,650,000.00	10,513,703,210.00	17-Dec-18	19-Dec-16	1.47
FXD3/2016/2	2	1,354,000,000.00	1,353,823,980.00	17-Dec-18	2-Jan-17	1.47
FXD3/2016/2	2	13,609,900,000.00	13,608,947,307.00	17-Dec-18	26-Dec-16	1.47
FXD3/2016/5	5	23,051,050,000.00	23,051,192,178.00	20-Sep-21	26-Sep-16	4.24
IFB 1/2013/12	4	4,776,524,397.00	4,497,336,546.00	25-Sep-17	28-Oct-13	0.24
IFB 1/2013/12	8	5,494,159,494.72	5,173,025,872.26	20-Sep-21	28-Oct-13	4.24
IFB 1/2013/12	12	6,743,366,108.28	6,349,216,359.25	15-Sep-25	28-Oct-13	8.24
IFB1/2009/12	12	7,868,365,500.00	6,352,929,358.40	8-Feb-21	23-Feb-09	3.62
IFB1/2010/8	6	9,186,146,894.00	7,191,858,447.00	19-Feb-18	1-Mar-10	0.64
IFB1/2011/12	8	14,399,101,836.00	12,147,630,582.33	23-Sep-19	3-Oct-11	2.24
IFB1/2011/12	12	10,283,098,164.00	8,675,213,159.88	18-Sep-23	3-Oct-11	6.24
IFB1/2013/12	4	5,993,700,741.00	5,592,706,212.03	25-Sep-17	30-Sep-13	0.24
IFB1/2013/12	8	6,894,206,979.00	6,432,966,186.73	20-Sep-21	30-Sep-13	4.24
IFB1/2013/12	12	8,461,742,280.00	7,895,629,204.24	15-Sep-25	30-Sep-13	8.24
IFB1/2014/12	12	2,735,614,987.00	2,703,635,647.80	22-Oct-18	3-Nov-14	1.32
IFB1/2014/12	12	4,060,892,083.50	4,005,099,515.73	22-Oct-18	27-Oct-14	1.32
IFB1/2014/12	12	404,102,174.00	398,497,276.85	22-Oct-18	17-Nov-14	1.32
IFB1/2014/12	12	1,797,701,804.50	1,772,821,611.53	22-Oct-18	10-Nov-14	1.32
IFB1/2014/12	12	4,992,243,486.30	4,923,655,088.17	17-Oct-22	27-Oct-14	5.32
IFB1/2014/12	12	3,363,018,720.78	3,323,705,031.93	17-Oct-22	3-Nov-14	5.32
IFB1/2014/12	12	2,209,998,428.74	2,179,412,050.49	17-Oct-22	10-Nov-14	5.32
IFB1/2014/12	12	496,781,594.90	489,891,234.18	17-Oct-22	17-Nov-14	5.32
IFB1/2014/12	12	6,959,214,430.20	6,863,601,832.10	12-Oct-26	27-Oct-14	9.32
IFB1/2014/12	12	4,688,066,292.22	4,633,262,797.26	12-Oct-26	3-Nov-14	9.32
IFB1/2014/12	12	3,080,749,766.76	3,038,112,189.99	12-Oct-26	10-Nov-14	9.32
IFB1/2014/12	12	692,516,231.10	682,911,030.98	12-Oct-26	17-Nov-14	9.32
IFB1/2015/12	12	9,876,461,424.00	9,590,735,395.00	22-Mar-21	13-Apr-15	3.74
IFB1/2015/12	12	10,565,607,880.00	10,260,647,786.39	22-Mar-21	30-Mar-15	3.74
IFB1/2015/12	12	9,441,011,662.89	9,167,883,195.48	18-Mar-24	13-Apr-15	6.74
IFB1/2015/12	12	10,099,773,890.50	9,808,259,381.72	18-Mar-24	30-Mar-15	6.74
IFB1/2015/12	12	5,793,618,229.50	5,626,394,310.38	15-Mar-27	30-Mar-15	9.74
IFB1/2015/12	12	5,415,726,913.11	5,259,049,933.51	15-Mar-27	13-Apr-15	9.74
IFB1/2015/9	5	5,709,387,750.00	4,811,306,995.76	7-Dec-20	14-Dec-15	3.45

Issue Number	Tenor	Face Value Amount	Cost Amount	Maturity Date	Issue Date	Time to Maturity
IFB1/2015/9	5	509,202,750.00	431,131,784.37	7-Dec-20	4-Jan-16	3.45
IFB1/2015/9	5	1,625,415,750.00	1,369,331,498.59	7-Dec-20	21-Dec-15	3.45
IFB1/2015/9	5	822,238,500.00	694,437,969.95	7-Dec-20	28-Dec-15	3.45
IFB1/2015/9	7	5,323,200,625.35	4,485,866,704.11	5-Dec-22	14-Dec-15	5.45
IFB1/2015/9	7	798,225,420.67	672,465,005.64	5-Dec-22	21-Dec-15	5.45
IFB1/2015/9	7	766,621,692.03	647,465,682.44	5-Dec-22	28-Dec-15	5.45
IFB1/2015/9	7	474,759,907.00	401,969,718.06	5-Dec-22	4-Jan-16	5.45
IFB1/2015/9	9	2,287,708,829.33	1,927,280,303.27	2-Dec-24	21-Dec-15	7.45
IFB1/2015/9	9	491,987,343.00	416,555,843.57	2-Dec-24	4-Jan-16	7.45
IFB1/2015/9	9	794,439,807.97	670,960,028.61	2-Dec-24	28-Dec-15	7.45
IFB1/2015/9	9	5,516,361,624.65	4,648,643,679.14	2-Dec-24	14-Dec-15	7.45
IFB1/2016/15	15	2,633,350,000.00	2,432,636,063.00	6-Oct-31	7-Nov-16	14.32
IFB1/2016/15	15	32,673,450,000.00	30,563,289,037.50	6-Oct-31	24-Oct-16	14.32
IFB1/2016/15	15	4,722,850,000.00	4,424,035,280.50	6-Oct-31	31-Oct-16	14.32
IFB1/2016/9	5	8,249,902,200.00	7,930,657,564.82	17-May-21	23-May-16	3.89
IFB1/2016/9	7	8,249,913,817.02	7,930,668,732.30	15-May-23	23-May-16	5.89
IFB1/2016/9	9	19,803,383,982.98	19,037,056,826.39	12-May-25	23-May-16	7.89
IFB1/2017/12	12	1,607,920,000.00	1,524,147,368.00	21-Feb-22	6-Mar-17	4.66
IFB1/2017/12	12	1,258,160,000.00	1,193,446,782.70	21-Feb-22	27-Feb-17	4.66
IFB1/2017/12	12	2,264,688,000.00	2,148,204,208.86	19-Feb-24	27-Feb-17	6.66
IFB1/2017/12	12	2,894,256,000.00	2,743,465,262.40	19-Feb-24	6-Mar-17	6.66
IFB1/2017/12	12	3,537,424,000.00	3,353,124,209.60	12-Feb-29	6-Mar-17	11.66
IFB1/2017/12	12	2,767,952,000.00	2,625,582,921.94	12-Feb-29	27-Feb-17	11.66
IFB2/2009/12	9	5,361,889,815.00	4,746,053,148.60	26-Nov-18	7-Dec-09	1.41
IFB2/2009/12	12	4,749,160,185.00	4,702,177,296.00	22-Nov-21	7-Dec-09	4.41
IFB2/2010/9	7	5,572,635,066.27	8,114,919,636.45	21-Aug-17	30-Aug-10	0.14
IFB2/2010/9	9	15,874,483,887.00	9,306,922,044.30	19-Aug-19	30-Aug-10	2.14
MAB1/2017/3	3	150,050,000.00	150,050,000.00	6-Apr-20	10-Apr-17	2.78
SDB1/2011/30	30	3,376,800,000.00	2,481,796,760.00	21-Jan-41	29-Aug-11	23.64
SDB1/2011/30	30	10,041,550,000.00	9,033,178,376.50	21-Jan-41	28-Mar-11	23.64
SDB1/2011/30	30	8,718,100,000.00	8,097,583,053.50	21-Jan-41	28-Feb-11	23.64
SDB1/2011/30	30	853,100,000.00	746,172,446.00	21-Jan-41	29-Sep-14	23.64
SDB1/2011/30	30	667,900,000.00	584,278,920.00	21-Jan-41	8-Sep-14	23.64
SDB1/2011/30	30	1,752,500,000.00	1,533,238,531.00	21-Jan-41	25-Aug-14	23.64
SDB1/2011/30	30	19,000,000.00	16,620,250.00	21-Jan-41	15-Sep-14	23.64
SDB1/2011/30	30	712,400,000.00	623,136,280.00	21-Jan-41	22-Sep-14	23.64
SDB1/2011/30	30	2,003,350,000.00	1,752,650,781.00	21-Jan-41	1-Sep-14	23.64
SFX1/2007/15	15	6,000,000,000.00	6,000,000,000.00	13-May-22	1-Jun-07	4.88
Total		1,332,417,581,347.27	1,272,160,419,366.38			

Source: Central Bank of Kenya

REPUBLIC OF KENYA

HARAMBEE

THE NATIONAL TREASURY