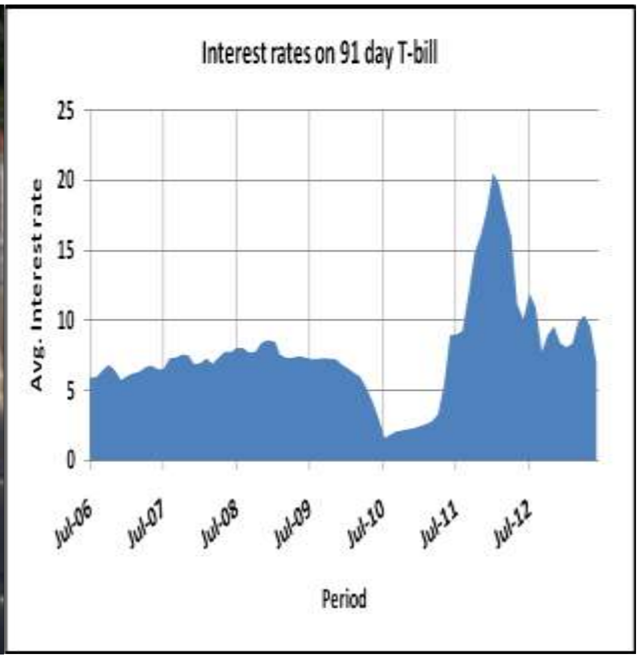
REPUBLIC OF KENYA

THE NATIONAL TREASURY



Annual Public Debt Report 2012-2013

December 2013

REPUBLIC OF KENYA

THE NATIONAL TREASURY

ANNUAL PUBLIC DEBT REPORT

JULY 2012 – JUNE 2013

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Message from the Cabinet Secretary for Finance

Kenya's economic growth has been positive over the years maintaining a steady path even with increased domestic demand for resources and the prevalence of some external global shocks. Kenya's public debt is sustainable in the medium term and conforms to the country's Vision 2030 and the Millennium Development Goal 8, target 8D on debt sustainability.

Public debt management in Kenya is enshrined in the 2010 Constitution currently under implementation and entails a new form of governance that introduces fiscal devolution. In this regard, the Public Finance Management (PFM) Act of 2012 is the relevant legislation for effective public debt management which has repealed all earlier legislations on domestic and external government borrowing. This Law will promote prudent and sound debt management practices for both Central and County Governments with an aim to enhance efficiency and transparency.

The national policy for public debt management is the Medium Term Debt Strategy (MTDS) which entails raising resources through borrowing to meet central government's budgetary requirements at minimum cost whilst maintaining a prudent degree of risk. It also involves promoting the development of a vibrant domestic debt market. The Government borrowing requirement and the level of public debt have been consistent with the overall fiscal framework supporting macro-economic stability for sustainable growth over the medium term. In terms of public debt monitoring and in line with international best practice, Kenya undertakes Debt Sustainability Analysis (DSA) on a regular basis. The results of the latest DSA conducted in April 2013 affirmed that Kenya's public debt is sustainable over the medium term.

This 2013 Annual Public Debt Management Report is part of the reporting requirements for public debt under the PFM Act. Additional requirements for reporting include submission to Parliament of a statement of all loans contracted by the national government, national government entities and county governments.

Mr. Henry Rotich
Cabinet Secretary for Finance

Message from the Principal Secretary

The National Treasury has been preparing the Medium Term Debt Management Strategy (MTDS) since 2009 which outlines the government borrowing policy by evaluating the cost and risk characteristics of both the existing public debt portfolio and alternative borrowing mix. In line with the 2012 MTDS, the Government implemented the domestic borrowing plan by issuing Treasury Bills and Treasury Bonds of medium term maturity in FY 2012/13.

This 8th Annual Public Debt Management Report provides detailed information on the status, general developments and the medium term outlook of Kenya's public debt. The country's public debt consists of both domestic and external components. In gross terms, total debt in June 2013 was Ksh 1,894,117 million (51.7 percent of GDP) compared to Ksh 1,622,801 million (49.5 percent of GDP) in June 2012. The domestic component grew by Ksh 191,725 to Ksh 1,050,555 million (28.7 percent of GDP) in June 2013. The external component also increased by Ksh 79,591 million in June 2013 to Ksh 843,562 million (23.0 percent of GDP) over the same period. As a percentage of revenue, total debt service rose to 18.7 percent in June 2013 from 16.5 percent in June 2012.

In the medium term outlook, overall public debt as a proportion of GDP, is projected to decrease from 51.7 percent in June 2013 to 44.0 percent in June 2017. Government's strategy is to reduce the debt to GDP ratio to below 45 percent in the medium term.

With regard to implementation of the PFM Act, the National Treasury is in the process of developing regulations to operationalize the Act which will partly address the institutional reorganization of the Treasury including the setting up of the Public Debt Management Office (PDMO). The objective of establishing the PDMO is to ensure prudent and sound debt management in accordance with best practice. In addition, the Treasury in compliance with provisions of the Act has enhanced the reporting on public debt.

Dr. Kamau Thugge, EBS
Principal Secretary/National Treasury

List of Abbreviations

ADB	African Development Bank
ADF	African Development Fund
A-I-A	Appropriation in Aid
CBK	Central Bank of Kenya
CCN	City Council of Nairobi
CDS	Central Depository System
CMA	Capital Markets Authority
COMSEC	Commonwealth Secretariat
CPIA	Country Policy and Institutional Assessment
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSD	Central Securities Depository
DGIPE	Department of Government Investment and Public Enterprises
DMD	Debt Management Department
PDMO	Public Debt Management Office
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DX	Domestic Currency
EACC	Ethics and Anti-Corruption Commission
ECB	European Central Bank
EEC	European Economic Commission
EIB	European Investment Bank
ERD	External Resources Department
EUROSTAT	European Union Statistical Agency
FLSTAP	Financial and Legal Sector Technical Assistance Project
FX	Foreign Currency
FXD	Fixed Discounted Treasury Bonds
GDP	Gross Domestic Product
GoK	Government of Kenya
GSMM	Government Securities Market Makers
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFB	Infrastructure Bond
IFC	International Finance Corporation
IMF	International Monetary Fund
JPY	Japanese Yen
KBC	Kenya Broadcasting Corporation
KenGen	Kenya Electricity Generating Company
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MLF	Market Leaders' Forum
MODM	Monetary Operations and Debt Management Department
MT	Medium Term
MTEF	Medium Term Expenditure Framework
NBFI	Non-Bank Financial Institution
NPV	Net Present Value
NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
NT	National Treasury
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OTC	Over the Counter
PA	Payment Advice

PD	Primary Dealers
PFMB	Public Financial Management Bill
PMG	Pay Master General
PPG	Public and Publicly Guaranteed
PV	Present Value
PwC	PricewaterhouseCoopers
QEBR	Quarterly Economic and Budgetary Review
SDB	Savings Development Bond
SDR	Special Drawing Rights
SFX	Special Fixed Discounted Treasury Bonds
ST	Short Term
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TDS	Total Debt Service
TARDA	Tana and Athi River Development Authority
TEDS	Total External Debt Service
UK	United Kingdom
USA	United States of America
USD	US Dollar
YTM	Yield to Maturity

Executive Summary

The principal objective of Kenya's public debt management is to meet the Central Government financing requirements at the least cost with a prudent degree of risk while the secondary objective is to facilitate Government's access to financial markets and support development of a well-functioning vibrant domestic debt market.

In this regard, the Government through the National Treasury and the Central Bank is committed to pursuing prudent debt management strategies aimed at ensuring that public debt remains within sustainability thresholds. The strategy is outlined in the 2012 Medium Term Debt Strategy (MTDS) published in June 2012 which is subject to annual updates. The medium term strategy is to lower the level of public and publicly guaranteed debt to 45 percent of GDP and this entails adherence to prudent debt management and a reduction in the overall fiscal deficit to below 5 percent from the current level of over 6 percent.

Kenya's total public debt increased to Ksh 1,894,117 million or 51.7 percent of GDP in June 2013 from Ksh 1,622,801 million or 49.5 percent of GDP in June 2012. Domestic debt rose to Ksh 1,050,555 million or 28.7 percent of GDP from Ksh 858,830 million or 26.2 percent of GDP in the same period. Similarly, external debt rose to Ksh 843,562 million in June 2013 from Ksh 763,971 million in June 2012. As a percentage of GDP, external debt decreased from 23.3 percent to 23.0 percent over the period.

A large proportion of domestic debt is held by commercial banks although the holdings by non-bank investors such as pension funds and insurance companies continue to grow. A large share of outstanding Government bonds will mature in the short to medium term horizon. In terms of structure of securities by type, the ratio of Treasury Bills to bonds as at June 2012 was 26:74 which is an indication of successful restructuring of the domestic debt portfolio to minimize refinancing risk and promote development of the market. The amount of outstanding bonds across the remaining maturity profile was Ksh 744,174 million in June 2013 compared to Ksh 686,951 million in June 2012.

A review of Kenya's external debt portfolio shows that the debt was mainly owed to official multilateral and bilateral creditors. Whereas the overall external debt is long term and concessional in nature, there has been hardening of borrowing terms in the recent past.

Total Debt Service (TDS) on Kenya's Central Government debt as a percentage of revenue increased to 18.7 percent from 16.5 percent in June 2013 and June 2012 respectively. In nominal terms under the domestic debt component, there was an increase in debt service partly attributed to the increased uptake of Treasury Bills and higher service cost for Treasury Bonds during fiscal year.

The Public Finance Management (PFM) Act 2012 provides the legal framework for issuance of Government loan guarantees to public entities in which all debt service paid on their behalf shall become liabilities payable to the Government. The net cumulative balances on guaranteed debt paid by the Government on behalf of public enterprises over the last 22 years amounts to Ksh 30,049.5 million.

There have been continuous reforms at the National Treasury to improve debt management in line with international best practice. The PFM Act 2012 establishes the Public Debt Management Office (PDMO) and has consolidated all pre-existing laws on Public Financial Management. In particular, it has repealed all Acts related to public debt management such as the External Loans and Credit Act, the Internal Loans Act and the National Government Loans Guarantee Act. At the Central Bank, a number of market development initiatives continue to be implemented. These include but are not limited to, execution of the benchmark bonds program, product diversification, establishment of the Treasury Mobile Direct (TMD) project, introduction of Over the Counter (OTC) trading platform and the setting up of the Government Securities Market Makers (GSMM) program as a first phase of the Primary Dealers (PD) framework.

The outlook in the medium term indicates that overall public debt is projected to rise in nominal terms to Ksh 2,057,312 million in June 2014 from Ksh 1,894,117 million in June 2013 and later increase to Ksh 2,556,105 million in June 2017. However, as a proportion of GDP, public debt in nominal terms is projected to decrease to 49.4 percent in June 2014 from 51.7 percent in June 2013 and decrease further to 44.0

percent in June 2017. Overall debt service is projected to increase by 3 percent but as a ratio to GDP, the debt burden indicators will be within sustainable levels.

Introduction

The Fiscal Year ***2012/13 Annual Public Debt Management Report*** presents the major developments in Kenya's public debt management activities during the financial year ended June 2013. The Report is organised under the following chapters:

1. Financing of Budget Deficit
2. Domestic Debt
3. External Debt
4. Publicly Guaranteed Debt
5. On-Lent Loans and Contingent Liabilities
6. Disputed External Commercial Debt
7. Debt Strategy and Debt Sustainability
8. Legislation On Public Debt Management
9. Reforms in Public Debt Management
10. Outlook for the Medium Term

1. FINANCING OF BUDGET DEFICIT

1.1 Financing of the Deficit

The 2012/13 Central Government budget deficit (including grants) of Ksh 250.8 billion or 6.5 percent of GDP was to be financed partly through net foreign financing of Ksh 144.1 billion (3.7 percent of GDP). The remaining Ksh 106.7 billion was to be financed through net domestic borrowing (2.8 percent of GDP). No privatization proceeds were expected.

A review of the actual budget outturn resulted in a revised deficit of Ksh 311.8 billion. This deficit was 8.5 percent of GDP and to be financed through net foreign financing of Ksh 134.9 billion (3.7 percent of GDP) and net domestic borrowing of Ksh 176.9 billion (4.8 percent of GDP).

The actual budget performance as at end June 2013 resulted in an overall fiscal deficit of Ksh 232.5 billion which was financed through net domestic borrowing of Ksh 169.8 billion (4.6 percent of GDP) and net foreign financing of Ksh 62.7 billion (1.7 percent of GDP). In 2012/2013, there was no issuance of an Infrastructure Bond.

1.2 Total Public Debt

Kenya's public and publicly guaranteed debt increased from Ksh 1,622,801 million or 49.5 percent of GDP in June 2012 to Ksh 1,894,117 million or 51.7 percent of GDP in June 2013 as indicated in Table 1.1 and Chart 1.1. Domestic debt rose from Ksh 858,830 million or 26.2 percent of GDP to Ksh 1,050,555 million or 28.7 percent of GDP over the period under review. Similarly, external debt rose from Ksh 763,971 million in 2012 to Ksh 843,562 million in 2013. As a percentage of GDP, external debt decreased from 23.3 percent to 23.0 percent over the period.

The share of domestic debt in total debt increased from 52.9 percent to 55.5 percent as shown in Table 1.1 while external debt decreased from 47.1 percent to 44.5 percent. The increase in domestic debt is attributed to increased demand for government securities in the domestic market. The external debt portfolio consists mainly of multilateral and bilateral creditors at 60.7 percent and 30.5 percent respectively.

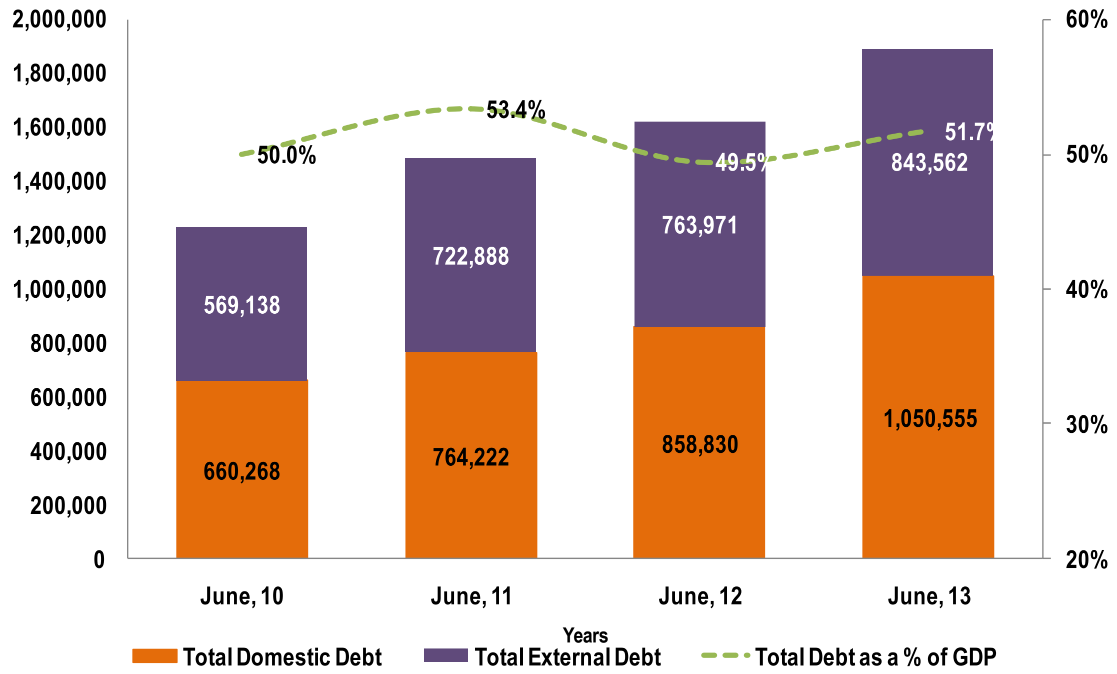
For the past three years, total debt in nominal terms has been increasing steadily. In the medium term, the Government plans to lower the level of public and publicly guaranteed debt to 45 percent of GDP.

Table 1.1: Public and Publicly Guaranteed Debt, Ksh Million

	June 2010	June 2011	June 2012	June 2013	Change 2012/13
DOMESTIC (Gross)					
Banks					
Central Bank	50,215	39,691	47,383	39,170	(8,213)
Commercial Banks	351,579	384,640	411,867	524,505	112,638
Sub-total	**401,794**	**424,331**	**459,250**	**563,675**	**104,425**
Non-banks					
Non-bank Financial Institutions	2,956	10,013	4,103	13,083	8,980
Other Non-bank Sources	255,518	329,878	395,477	473,797	78,320
Sub-total	**258,474**	**339,891**	**399,580**	**486,880**	**87,300**
Total Domestic	**660,268**	**764,222**	**858,830**	**1,050,555**	**191,725**
As a % of GDP	*26.9*	*27.4*	*26.2*	*28.7*	2.5
As a % of total debt	*53.7*	*51.4*	*52.9*	*55.5*	2.6
EXTERNAL					
Central Government					
Bilateral	159,687	215,035	199,950	217,970	18,020
Multilateral	348,647	436,838	451,287	507,920	56,633
Commercial Banks	0	0	50,540	58,928	8,388
Suppliers Credits	20,458	25,041	14,811	15,207	396
Sub-Total	**528,792**	**676,914**	**716,588**	**800,025**	**83,437**
Guaranteed					
Bilateral	36,660	41,930	43,593	39,667	(3,926)
Multilateral	3,686	4,044	3,790	3,870	80
Sub-Total	**40,346**	**45,974**	**47,383**	**43,537**	**(3,846)**
Total External	**569,138**	**722,888**	**763,971**	**843,562**	**79,591**
As a % of GDP	*23.2*	*25.9*	*23.3*	*23.0*	(0.3)
(As a % of total debt)	*46.3*	*48.6*	*47.1*	*44.5*	(2.6)
GRAND TOTAL	**1,229,406**	**1,487,110**	**1,622,801**	**1,894,117**	**271,317**
As a % of GDP	*50.0*	*53.4*	*49.5*	*51.7*	2.2
Memorandum item					
GDP	2,458,400	2,787,300	3,281,200	3,662,600	381,400

Source: National Treasury and Central Bank of Kenya

Chart 1.1: Trend in Public and Publicly Guaranteed Debt Stock, Ksh Million



Source: National Treasury and Central Bank of Kenya

1.3 Debt Service

Total Debt Service (TDS) on Kenya's Central Government debt increased by 27.8 percent from Ksh 113,644 million in 2011/12 to Ksh 145,228 million in 2012/13 as shown in Table 1.2 and Chart 1.2. Debt service on both domestic and external debt increased by Ksh 27,845 million and Ksh 3,739 million respectively. The increase in debt service for domestic debt was partly attributed to the increased uptake of Treasury Bills and higher service cost for Treasury Bonds during fiscal year.

The increase in debt service for domestic debt was partly attributed to the increased uptake of Treasury Bills and higher service cost for Treasury Bonds during fiscal year.

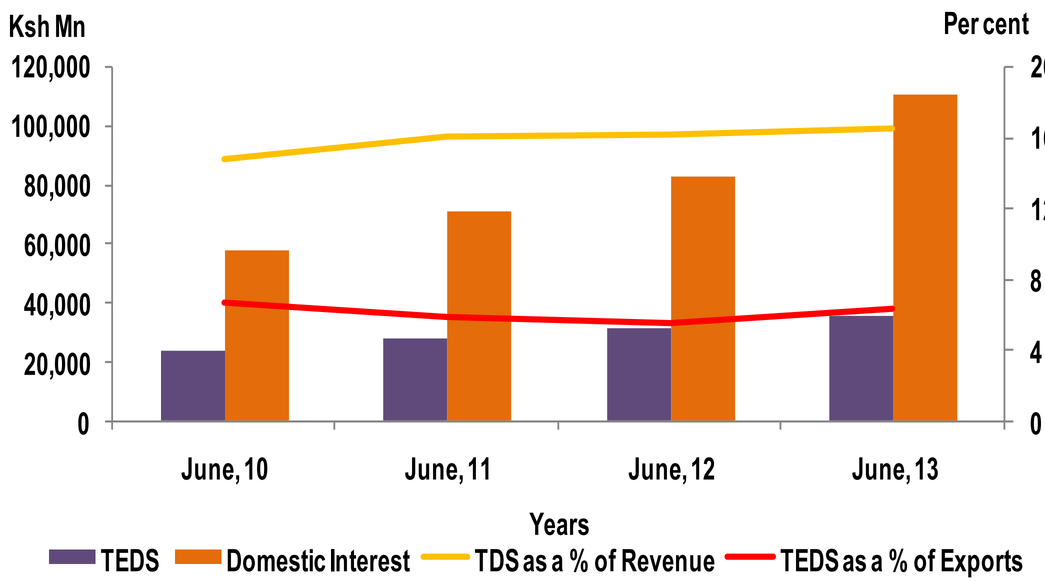
As a proportion of total debt service, the external component declined from 27.5 percent to 24.1 percent while the domestic portion increased from 72.5 percent to 75.9 percent in 2011/12 and in 2012/13 respectively. This indicates that the structure of Central Government debt service remained relatively unchanged with a large share comprised of the domestic component.

Table 1.2: Debt Service on Kenya's Central Government Debt, Ksh Million

Item Description	June 2010	June 2011	June 2012	June 2013	Change 2012/13
External Principal	17,373	21,020	23,954	23,993	39
External Interest	6,238	7,035	7,351	11,051	3,700
TEDS	**23,611**	**28,055**	**31,305**	**35,044**	**3,739**
TEDS as a % of TDS	*29.2*	*28.5*	*27.5*	*24.1*	-3.4
Domestic Interest	**57,381**	**70,497**	**82,339**	**110,184**	**27,845**
Dom Interest as a % of TDS	*70.8*	*71.5*	*72.5*	*75.9*	3.4
TDS	**80,992**	**98,552**	**113,644**	**145,228**	**31,584**
Ordinary Revenue	507,500	609,200	690,700	777,000	86,300
Export Earnings (goods only)	400,024	511,577	499,737	528,900	29,163
TDS as a % of Revenue	*16.0*	*16.2*	*16.5*	*18.7*	2.2
TEDS as a % of Exports	*5.9*	*5.5*	*6.3*	*6.6*	0.3

Source: National Treasury and Central Bank of Kenya

Chart 1.2: Kenya's Central Government Debt Service, Ksh Million



Source: National Treasury and Central Bank of Kenya

Total External Debt Service (TEDS) as a percentage of export earnings increased by 0.3 percent from 6.3 percent to 6.6 percent in the period between

2011/12 and 2012/13. The overall debt service as a percent of revenue increased by 2.2 percent.

1.4 Cost/Risk Characteristics of Public Debt

Arising from the Government external debt strategy of contracting external loans on highly concessional terms to minimise interest rate cost, the average interest rate and grace period on new external loans contracted in financial year 2012/13 was 1.2 percent and 8.0 years, respectively. This profile, together with the long maturity of 33.7 years yields an average grant element of 68.6 percent for new external loans.

On the other hand, the average maturity profile of outstanding Government domestic debt has decreased from 5.3 years in June 2012 to 5.2 years in June 2013.

2. DOMESTIC DEBT

2.1 Total Domestic Debt

Government domestic debt consists of stock of Government securities and Government Overdraft at Central Bank of Kenya. Government securities comprise of Treasury Bills, Treasury Bonds, Infrastructure bonds and the Pre-1997 Government Debt. During the Financial Year 2012/13, the Government raised Ksh 175,510 million as net proceeds through borrowing from the domestic market by sale of Treasury Bills and Treasury Bonds.

As shown in Table 2.1, on a net basis, the outstanding stock of domestic debt rose by Ksh 191,725 million (22.3 percent growth) to stand at Ksh 1,050,555 million in June 2013 compared to Ksh 858,830 million in June 2012. This increase was mainly attributed to an increase of Ksh 135,164 million and Ksh 57,223 million in the stock of Treasury Bills and Treasury Bonds respectively. The level of domestic debt was partly offset by a repayment of Ksh 1,100 million of the Pre-1997 Government Debt.

Table 2.1: Domestic Debt Stock, Ksh Million

Instrument	June 2012		June 2013		Change
	Amount	%	Amount	%	
Total Stock of Domestic Debt (A+B)	**858,830**	***100***	**1,050,555**	***100***	**191,725**
A. Government Securities(1-3)	**848,997**	***98.9***	**1,040,274**	***99.0***	**191,277**
1.Treasury Bills	**132,047**	***15.4***	**267,211**	***25.4***	**135,164**
Banking Institutions	75,497	*8.8*	183,451	*17.5*	107,954
Others	56,550	*6.6*	83,760	*8.0*	27,210
2.Treasury Bonds	**686,951**	***80.0***	**744,174**	***70.8***	**57,223**
Banking Institutions	337,412	*39.3*	341,050	*32.5*	3,638
Others	349,539	*40.7*	403,124	*38.4*	53,585
3. Pre-1997 Government Debt	**29,999**	***3.5***	**28,889**	***2.7***	**(1,110)**
B. Others[1]	**9,833**	***1.1***	**10,281**	***1.0***	**448**
Of which CBK Overdraft	7,257	*0.8*	6,999	*0.7*	(258)

Source: Central Bank of Kenya

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

2.2 Domestic Debt by Instrument

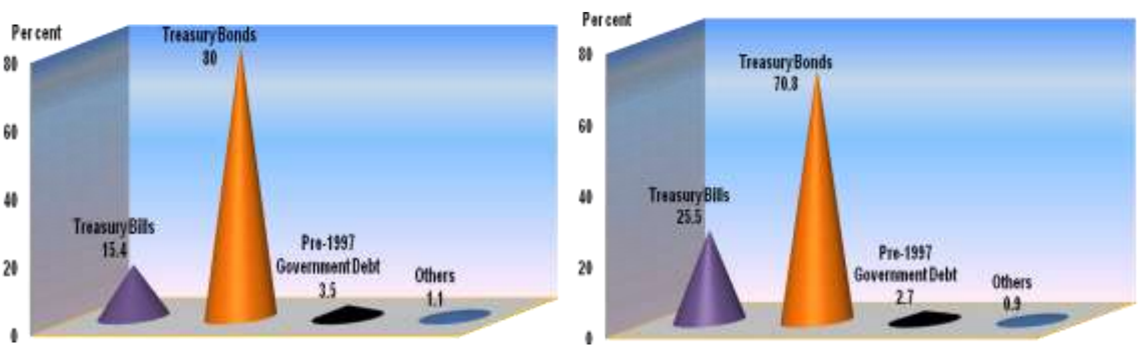
The stock of outstanding Treasury Bonds increased by 8.3 percent from Ksh 686,951 million in June 2012 to Ksh 744,174 million in June 2013 while Treasury Bills increased by 102.4 percent from Ksh 132,047 million to Ksh 267,211 million over the same period as shown in Table 2.1 and Charts 2.1. (a) and (b). Consequently, the proportion of Treasury Bonds in total domestic debt decreased from 80.0 percent to 70.8 percent while Treasury Bills rose from 15.4 percent to 25.4 percent during the period as shown in Charts 2.1(a) and 2.1(b).

The proportion of Treasury Bonds in total domestic debt decreased from 80.0 percent to 70.8 percent while Treasury Bills increased from 15.4 percent to 25.4 percent during the period

As at end June 2013, the ratio of Treasury Bills to Bonds stood at 26:74 which was in accordance with the domestic debt borrowing strategy, where the Government sought to achieve and maintain the ratio of Treasury Bills to Treasury Bonds at 30:70. The proportion of Pre-1997 CBK advances to Government dropped from 3.5 percent to 2.7 percent due to a net repayment of Ksh 1,110 million made during the fiscal year 2012/13. The level of Government Overdraft reduced by Ksh 258 million from Ksh 7,257 million by end June 2012 to Ksh 6,999 million as at end June 2013.

Chart 2.1: Domestic Debt by Instrument

(a)June 2012 **(b) June 2013**



Source: National Treasury and Central Bank of Kenya

2.3 Domestic Debt by Holder

The holding of domestic debt by commercial banks rose to 49.9 percent up from 48.0 percent in June 2012 as shown in Table 2.2. and they remained the largest holders among all investor categories. However, the share of domestic debt held by non-bank investors decreased marginally from 46.5 percent in June 2012 to 46.3 percent in June 2013.

Table 2.2: Domestic Debt by Holder, Ksh Million

Holder	June 2012		June 2013		Change
	Amount	%	Amount	%	
Banks	**459,294**	***53.5***	**563,675**	***53.7***	**104,381**
o/w* Central Bank	47,382	*5.5*	39,170	*3.7*	(8,212)
Commercial Banks	411,867	*48.0*	524,505	*49.9*	112,638
Non-Banks	**399,580**	***46.5***	**486,880**	***46.3***	**87,300**
o/w* Non-Bank Financial Institutions	11,039	*1.3*	13,083	*1.2*	2,044
Other Non-Bank Sources	388,541	*45.2*	473,797	*45.1*	85,256
Total	**858,830**	***100***	**1,050,555**	***100***	**191,725**

***Of which*

Source: Central Bank of Kenya

2.4 Treasury Bills and Bonds by Holder

As shown in Table 2.3 and Chart 2.2, commercial banks held the highest stock of Treasury bills and bonds at 51.9 percent as end June 2013 compared to 50 percent at end June 2012. Pension funds increased their portfolio to 28.3 percent by June 2013 from 26.6 percent by June 2013.

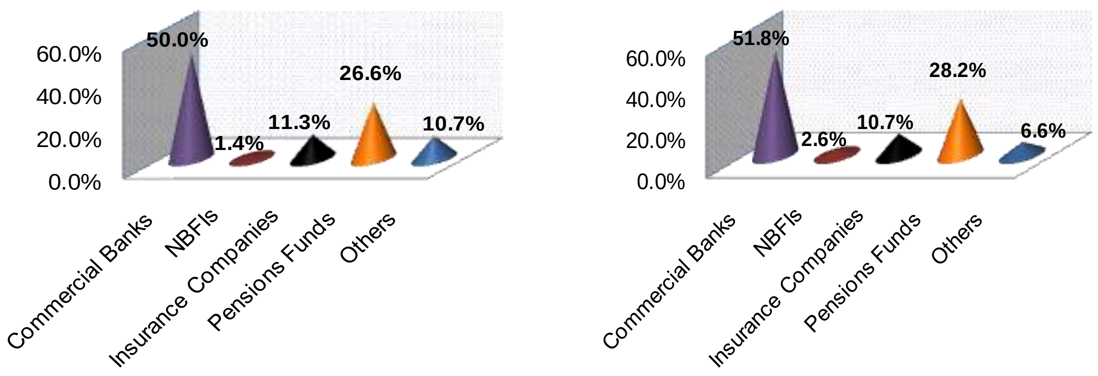
Table 2.3: Treasury Bills and Bonds by Holder

Holder	June 2012		June 2013	
	Amount	%	Amount	%
Commercial Banks	409,611	*50.0*	524,505	*51.9*
NBFIs	11,731	*1.4*	13,083	*1.3*
Insurance Companies	92,357	*11.3*	108,609	*10.7*
Pensions Funds (including NSSF)	217,697	*26.6*	285,778	*28.3*
Others	39,462	*4.8*	79,410	*7.9*
Total	**818,999**	***100***	**1,011,385**	***100***

Source: Central Bank of Kenya

Chart 2.2 Treasury Bills and Bonds by holders

(a) June 2012 **(b) June 2013**



Source: Central Bank of Kenya

2.5 Treasury Bills by Holder

The stock of Treasury Bills increased by 102.4 percent from Ksh 132,047 million in June 2012 to Ksh 267,211 million in June 2013 as shown in Table 2.4. The proportion held by Commercial Banks increased from Ksh 75,497 million (57.2 percent) in June 2012 to Ksh 183,458 million (68.7 percent) in June 2013. Insurance companies scaled up their holdings marginally to 5.6 percent while pension funds' holding declined to 16.1 percent during the period under review.

Table 2.4: Outstanding Treasury Bills, Ksh Million

Holder	June 2012		June 2013	
	Amount	%	Amount	%
Commercial Banks	75,497	*57.2*	183,458	*68.7*
NBFIs	6,297	*4.8*	5,613	*2.1*
Insurance companies	7,220	*5.5*	14,923	*5.6*
Pensions Funds (including NSSF)	28,686	*21.7*	42,917	*16.1*
Others	14,347	*10.9*	20,300	*7.6*
Total [2]	**132,047**	***100***	**267,211**	***100***

Source: Central Bank of Kenya

2.6 Treasury Bonds by Holder

As shown in Table 2.5, outstanding Treasury Bonds increased from Ksh 686,951 million in June 2012 to Ksh 744,174 million in June 2013. Although the

[2] ***Excludes repurchase order (Repo) bills for monetary policy***

holdings by commercial banks decreased slightly during the period under review, they continue to dominate as the highest holders of Treasury Bonds. Holdings by Pension funds increased as a proportion of total outstanding bonds, to 32.6 percent in June 2013 from 27.5 percent in June 2012.

Table 2.5: Outstanding Treasury Bonds, Ksh Million

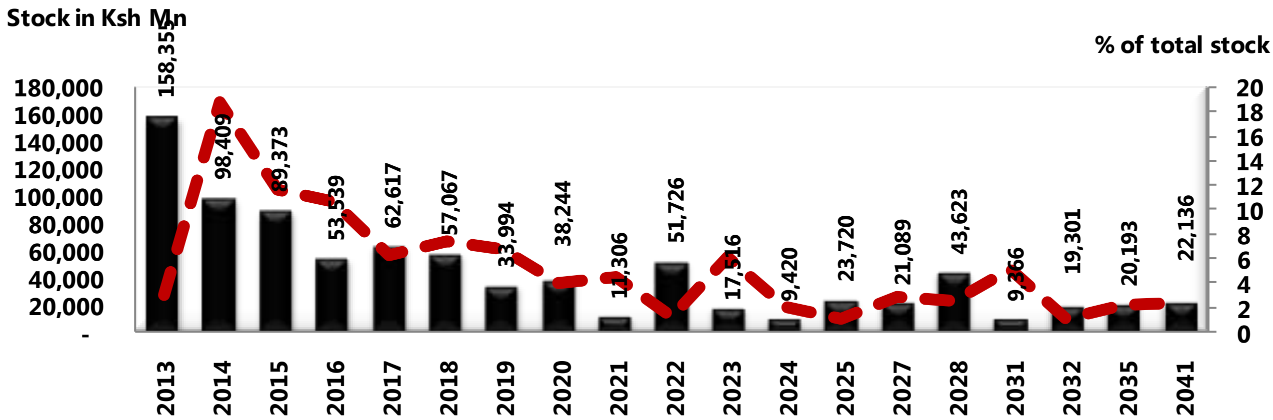
Holder	June 2012		June 2013	
	Amount	%	Amount	%
Commercial Banks	334,114	*48.6*	341,047	*45.8*
NBFIs	5,434	*0.8*	7,470	*1.0*
Insurance Companies	85,137	*12.4*	93,686	*12.6*
Pensions Funds (including NSSF)	189,011	*27.5*	242,861	*32.6*
Others	73,255	*10.7*	59,110	*7.9*
Total	**686,951**	***100***	**744,174**	***100***

Source: Central Bank of Kenya

2.7 Outstanding Treasury Bonds

The outstanding bonds across the various remaining maturities amounted to Ksh 744,174 million at the end of June 2013 compared to Ksh 686,951 million as at end June 2012 (see Appendix 2). As shown in Chart 2.3, the bulk of outstanding government bonds will be retired in the next 5 years.

Chart 2.3 Outstanding Government Bonds



Source: Central Bank of Kenya

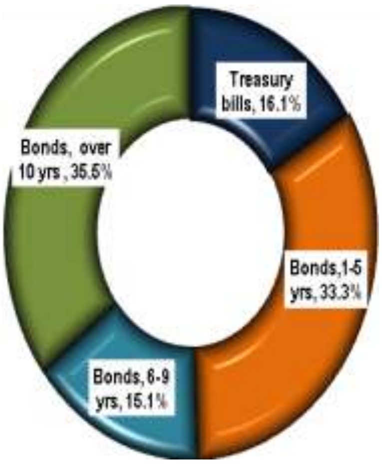
2.8 Treasury Bills and Bonds by Tenor

Of the total outstanding Government securities held as at end June 2013, Treasury Bills accounted for 26.4 percent, up from 16.1 percent as at end June 2012 as shown in Chart 2.4 and Table 2.6 below. During the financial year, the proportion of the outstanding 91 day and 364 day Treasury Bills stock rose by 0.6 percent and 13.8 percent while the stock of 182-day Treasury Bills dropped by 4.1 percent respectively. This reflected increased investor preference for the 91 day and 364 day Treasury Bills during the period under review.

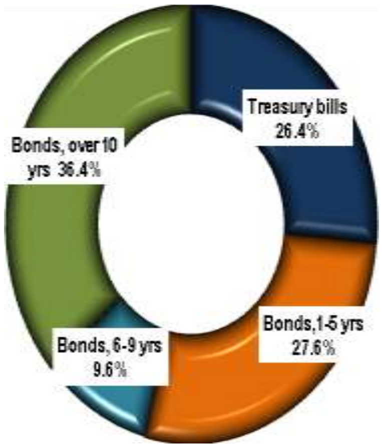
Treasury Bonds accounted for 73.6 percent of the outstanding Government securities as at end June 2013. Out of these, Treasury Bonds with original maturity range of 1 year to 5 years amounted to Ksh 279,492 million (27.6 percent) while those with a maturity range of between 6 and 9 years was Ksh 109,914 million (10.9 percent). Treasury Bonds with original maturity profile of 10 years and above amounted to Ksh 354,768 million (35.1 percent).

Chart 2.4 Outstanding Government Securities

(a)June 2012



(b)June 2013



Source: Central Bank of Kenya

Table 2.6: Outstanding Treasury Bills and Bonds by Tenor, Ksh Million

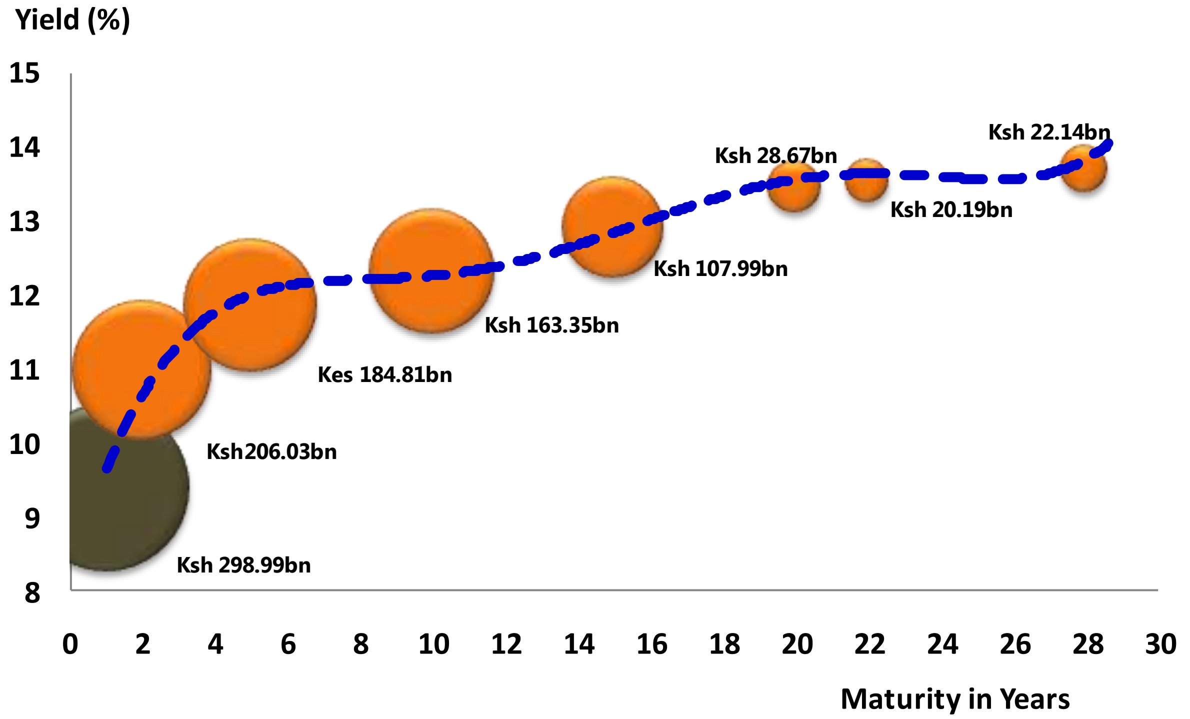
Security Type	June 2012 Amount	June 2012 (%) of total	June 2013 Amount	June 2013 (%) of total	Change Amount	Change (%) of total
Treasury Bills (Days)						
91	24,323	*3.0*	36,203	*3.6*	11,880	*0.6*
182	75,669	*9.2*	52,167	*5.2*	(23,502)	*(4.1)*
364	32,056	*3.9*	178,840	*17.7*	146,784	*13.8*
Sub totals	**132,048**	***16.1***	**267,211**	***26.4***	**135,163**	***10.3***
Treasury Bonds (Years)						
1	51,522	*6.3*	0	*0.0*	(51,522)	*(6.3)*
2	86,462	*10.6*	122,014	*12.1*	35,552	*1.5*
3	0	*0.0*	0	*0.0*	-	*0.0*
4	19,121	*2.3*	19,121	*1.9*	-	*(0.4)*
5	115,333	*14.1*	138,357	*13.7*	23,024	*(0.4)*
Sub totals	**272,438**	***33.3***	**279,492**	***27.6***	**7,054**	***(5.6)***
6	47,241	*5.8*	40,653	*4.0*	(6,588)	*(1.7)*
7	22,523	*2.8*	19,288	*1.9*	(3,235)	*(0.8)*
8	28,944	*3.5*	31,796	*3.1*	2,852	*(0.4)*
9	25,364	*3.1*	18,177	*1.8*	(7,187)	*(1.3)*
Sub totals	**124,072**	***15.1***	**109,914**	***10.9***	**(14,158)**	***(4.3)***
10	95,725	*11.7*	126,767	*12.5*	31,042	*0.8*
11	4,031	*0.5*	4,031	*0.4*	0	*(0.1)*
12	43,186	*5.3*	30,206	*3.0*	(12,980)	*-2.3*
15	75,443	*9.2*	102,408	*10.1*	26,965	*0.9*
20	29,727	*3.6*	49,027	*4.8*	19,300	*1.2*
25	20,193	*2.5*	20,193	*2.0*	-	*(0.5)*
30	22,136	*2.7*	22,136	*2.2*	0	*(0.5)*
Sub total	**290,441**	***35.5***	**354,768**	***35.1***	**64,327**	***-0.4***
Grand Total	**818,999**		**1,011,384**		**192,386**	

Source: Central Bank of Kenya

2.9 Treasury Bills and Bonds By Time to Maturity

The maturity distribution in Chart 2.5 below indicates a large concentration of Government securities stock at the short to medium segment of the yield curve. There was a shift in the proportion of longer dated Bonds as the portfolio decreased marginally to 35.1 percent from 35.5 percent while the portfolio of the short dated bonds decreased from 33.3 percent to 27.6 percent in June 2013 from June 2012.

Chart 2.5: Stock of Treasury Bills and bonds across the Yield Curve as at 30 June 2013



Source: Central Bank of Kenya

2.10 Benchmark Bond Program

A benchmark program involves issuance of large size bonds and management of maturity structure through strategies such as reopening, tap sales, conversions, buy-backs, bond exchange (switch) and swaps.

The benchmark tenors identified are 2, 5, 10, 15, 20, and 25 year maturities.

In Kenya, the benchmark bond program was initiated by Government in September 2007 to address illiquidity in the domestic bond market, lengthen maturity of domestic debt in order to minimize rollover risk and strengthen the Government securities market by promoting secondary trading. The benchmark tenors identified are 2, 5, 10, 15, 20, and 25 year maturities.

As a result of the successful implementation of this program, the average maturity profile of outstanding Government securities increased from 0.5 years in June 2001 to 5.1 years in June 2013 and the ratio of Treasury Bonds to Treasury Bills improved to 74:26 from 30:70 in 2001. Since 2009, 33 benchmark bonds of different maturities worth Ksh 317, 466 million have been issued of which 15 benchmark bonds worth Ksh 204, 690 million were reopened.

During the period under review, 11 bonds worth Ksh 159,310 million were issued with 6 bonds worth Ksh 58,374 million reopened. To smoothen out the maturity profile of bonds, manage refinancing risk and minimize the fragmentation problem at the secondary market, the Government and the Central Bank are considering strategies such as bond switches and swaps under the benchmark bonds program.

In addition, improved liquidity both at the primary and the secondary market for bonds has been observed due to the benchmark bonds program. As shown in Table 2.3 and Charts 2.3(a) and 2.3(b), Benchmark Bonds account for the largest share of outstanding Treasury Bonds with over 50 percent as at end June 2013. Turnover of bonds traded at the Nairobi Securities Exchange (NSE) was Ksh 619,109 million in 2012/2013 compared to Ksh 390,271 million in 2011/12. Riding on the success of the Benchmark Bonds program, a total of twenty four (24) corporate bonds have been listed and are trading at the NSE.

2.11 Infrastructure Bonds (IFBs) Program

The issuance of Infrastructure Bonds in Kenya began in February 2009 to mobilise resources for specific projects in roads, energy and water sectors to support economic development.

The primary objective of the Government in issuing the Infrastructure Bonds was to show State Owned Enterprises (SOEs) and Local Authorities (LAs) with strong balance sheets how to tap into the capital markets to finance their infrastructure and deliver on their mandate effectively.

To date, a total of Ksh 120,794 billion on cost value terms has been raised through the sale of five (5) IFBs as reflected in Table 2.7. In 2012/2013, no IFB was issued.

Table 2.7: Performance of Infrastructure Bond (IFB) at Primary Market Auction (Ksh Mn)

Bond Issue Number	Date of Issue	Offer Amount	Bids Received F.V.	Successful Bids		Coupon Rate (%)	Successful Average Rate (%)
				Cost	F.V.		
IFB 1/2009/12	23-02-09	18,500	26,884	18,576	19,727	12.500	13.505
IFB 2/2009/12	07-12-09	18,500	44,121	18,400	18,898	12.000	12.537
IFB 1/2010/8	01-03-10	14,500	35,273	16,042	15, 908	9.750	9.579
IFB 2/2010/9	30-08-10	31,600	37,362	30,585	32,872	6.000	7.293
IFB1/2011/12	3-10-11	20,000	13,297	11,597	14.098	12.000	16.640
IFB1/2011/12	7-11-11	8,403	274	274	329	12.000	16.640
IFB1/2011/12	05-12-11	8,129	209	209	248	12.000	16.640
IFB1/2011/12	02-01-12	7,920	1,390	1,390	1,627	12.000	16.640
IFB1/2011/12	06-02-12	6,530	5,060	5,060	5.833	12.000	16.640
IFB1/2011/12	27-02-12	18,370	18,661	18,661	21,314	12.000	16.640

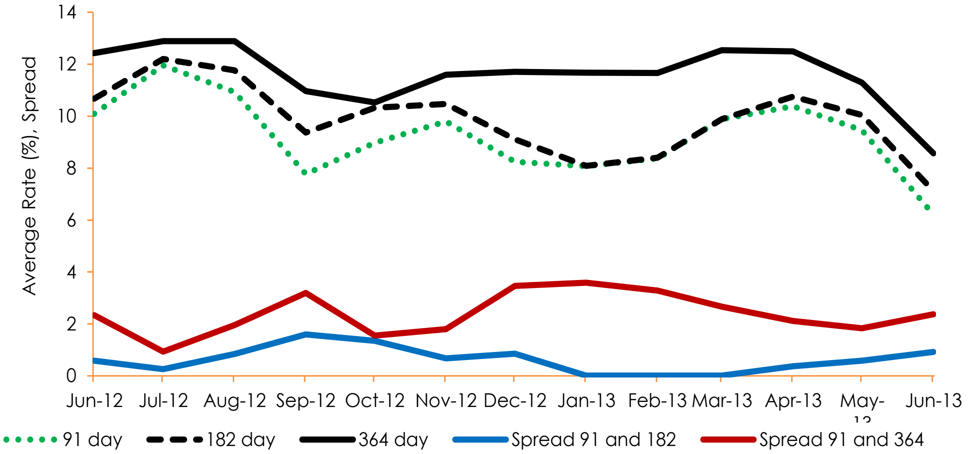
Source: Central Bank of Kenya

2.12 Average Interest Rates on Treasury Bills

As shown in Chart 2.6, the 91-day Treasury bill rate declined by 313 basis points from 10.09 percent in June 2012 to 6.96 percent in June 2013. Likewise, average interest rate for the 182-day Treasury bill fell by 355 basis points from 10.67 percent to 7.12 percent during the period while the average for the 364-day Treasury bill decreased by 386 basis points from 12.43 percent in June 2012 to 8.58 percent in June 2013.

The 91-day and 182-day Treasury Bills average rates act as reference interest rates for pricing other financial products, making adjustments to commercial banks' deposit and lending rates as well as structuring of investment portfolios.

Chart 2.6: Interest Rates on Treasury Bills, July 2012- June 2013

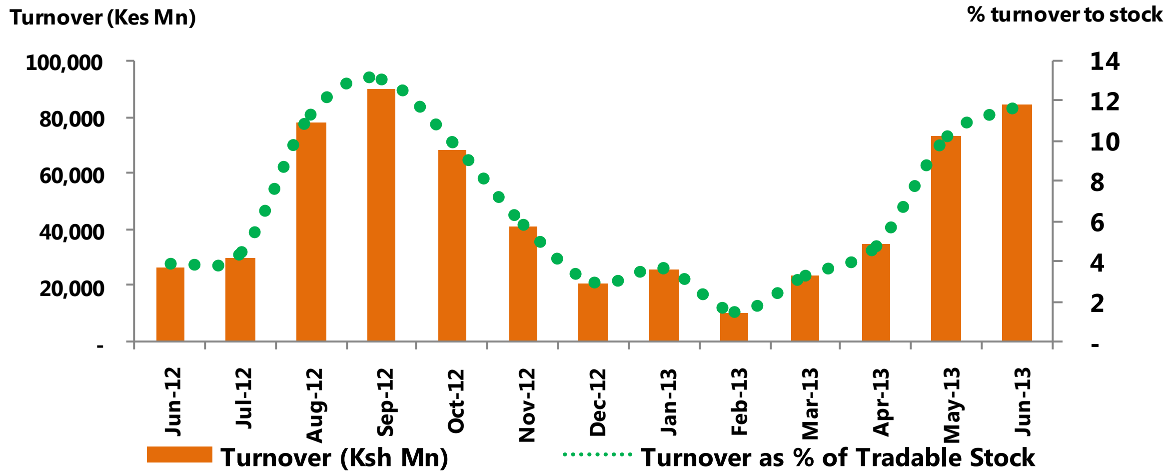


Source: Central Bank of Kenya

2.13 Government Securities Trading

Government bonds trading was highest in the first and fourth quarters of the financial year with notable decline in quarters two and three as shown in Chart 2.7 below.

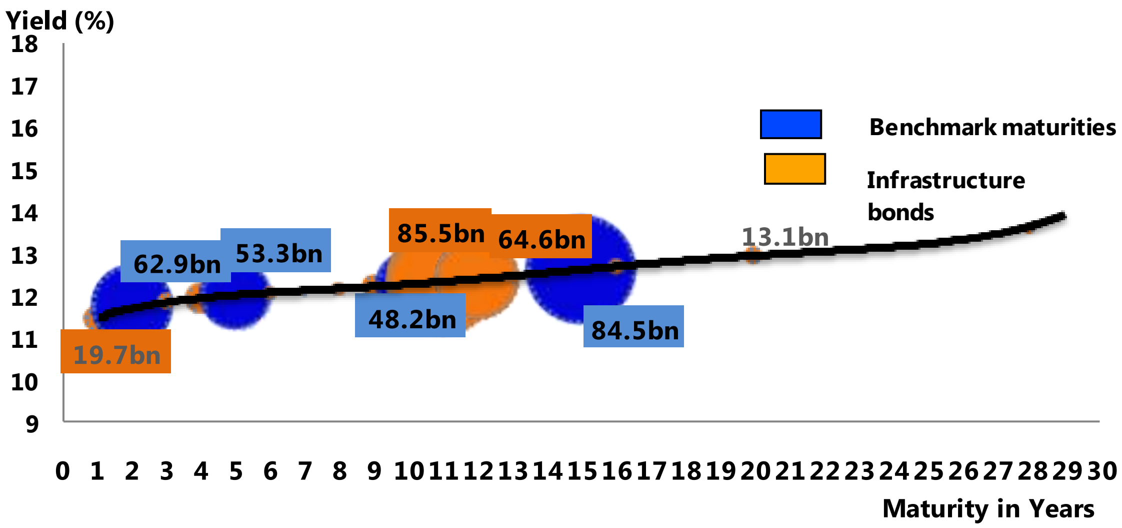
Chart 2.7: Bonds Trading, July 2012- June 2013



Source: Central Bank of Kenya

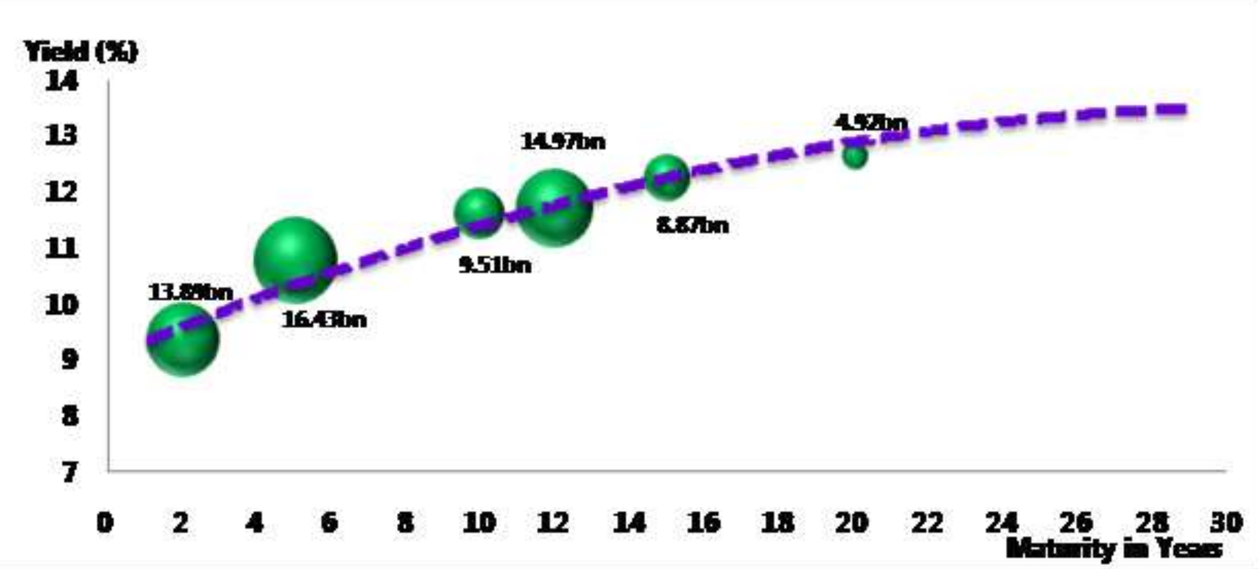
Using the average yield curve for the year, Charts 2.8 and 2.9 below show that trading activity was concentrated in the short to medium segments of the yield curve with the bulk of it in benchmark maturities of 2, 5, 10 and 15 years and Infrastructure Bonds. This outcome is a reflection of positive gains from the implementation of the benchmark bonds and infrastructure bonds programs.

Chart 2.8: Treasury Bonds Turnover (Ksh Bn) along the Yield Curve during FY 2012-2013



Source: Central Bank of Kenya

Chart 2.9: Bond Trading along the Yield Curve in June 2013



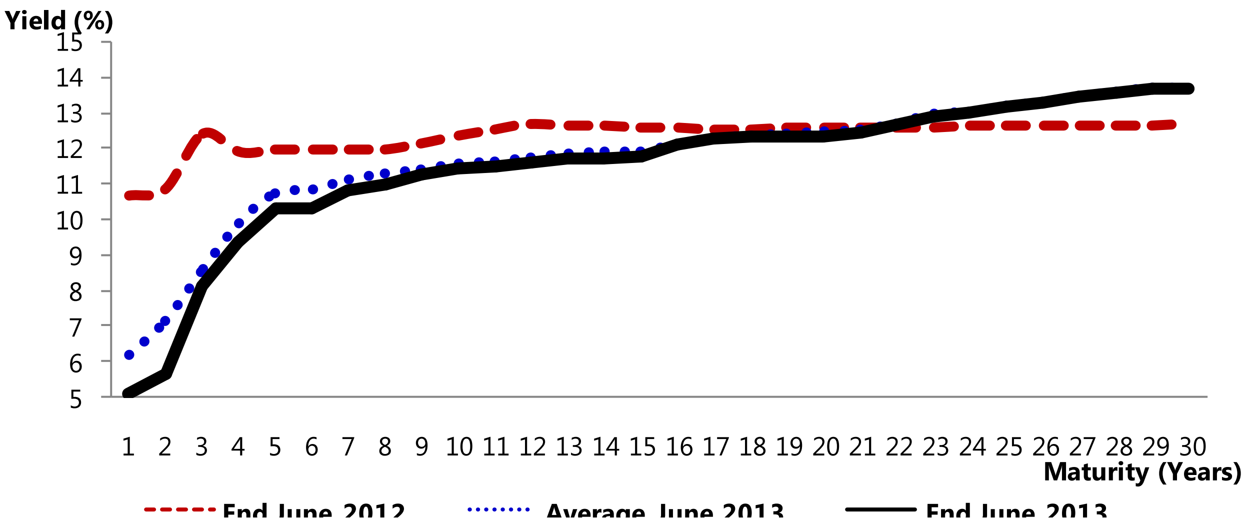
Source: Central Bank of Kenya

2.14 Government Securities Yield Curve

As shown in Chart 2.10, the Government securities yield curve depicts a normal trend as at end June 2013 but steady shift during the financial year from June 2012 position, indicating stability of pricing along the maturity profile.

This movement is also in line with trends in inflation during the year which reflected on the confidence and certainty of the market. The yield curve reflects the risk premium associated with the uncertainty about the future rate of inflation and the risk this poses to the future value of investment.

Chart 2.10: Government of Kenya Securities Yield Curve, June 2013



Source: Central Bank of Kenya

2.15 Domestic Interest Payments

Compared to 2011/12, Government expenditure on interest and other charges on domestic debt amounted to Ksh 110,184 million in 2012/13 which is a 33.8 percent increase as shown in Table 2.8. There was a significant increase in interest payments on Treasury Bills compared to Treasury Bonds attributed to increased uptake of shorter term Government securities. Domestic interest as a proportion of revenue increased slightly but remained relatively the same as a proportion of expenditure and GDP.

Table 2.8: Domestic Interest Payments and Ratios

Type of Debt	**Interest (Ksh Million)**		***Percent change***
	2011/12	**2012/13**	
Treasury Bills	11,055	19,505	*76.4*
Treasury Bonds	64,620	82,560	*27.8*
CBK Commission	3,000	3,000	*0.0*
Pre - 1997 Debt	0.00	1,698	*100.0*
Others	3,664	3,421	*-6.6*
Total	**82,339**	**110,184**	***33.8***
Ratios (Percent)			
Domestic Interest/Revenue	11.9	12.7	*0.8*
Domestic Interest/Expenditure	8.7	9.2	*0.5*
Domestic Interest/GDP	2.5	3.0	*0.5*
Domestic Interest/Total Interest	91.8	90.8	*-1.0*

Source: National Treasury and Central Bank of Kenya

3. EXTERNAL DEBT

3.1 Total External Debt

Total public and publicly guaranteed external debt increased from Ksh 763,971 million in June 2012 to Ksh 843,562 million in June 2013 as shown in Table 3.1. On net basis, the external debt stock increased by Ksh 79,591 million majorly due to disbursements and fluctuations of the exchange rates during the financial year.

Table 3.1: External Debt Stock (Ksh Mn)

Classification	June 2012	June 2013	Percent change
Bilateral	199,950	217,970	9.0
Multilateral	451,287	507,920	12.5
Commercial Banks	50,540	58,928	16.6
Supplier Credits	14,811	15,207	2.7
Guaranteed	47,383	43,537	(8.1)
Total	**763,971**	**843,562**	**10.4**

Source: National Treasury

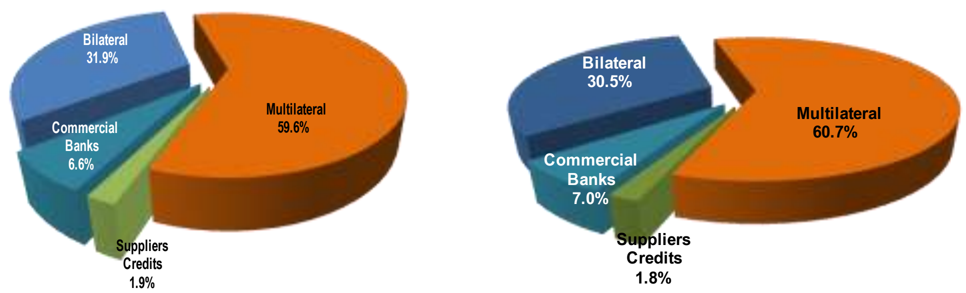
3.2 The Structure of External Debt

3.2.1 External Debt by Creditor Category

At the beginning of the financial year 2012/13, Kenya's external debt portfolio was mainly owed to multilateral (59.6 percent), bilateral (31.9 percent), commercial creditors (6.6 percent) and 1.9 percent owed to suppliers credit as shown in Chart 3.1(a). This structure remained relatively unchanged over the period under review as depicted in Chart 3.1(b). Multilateral debt increased by 1.1 percent to 60.7 percent in June 2013, whereas bilateral debt decreased slightly from 31.9 percent to 30.5 percent. The increase in the share of debt owed to commercial creditors is attributed to a loan contracted to purchase Biometric Voter Registration (BVR) kits in 2012/2013.

Chart 3.1: External Debt stock by Broad Creditors

(a)June 2012 **(b) June 2013**

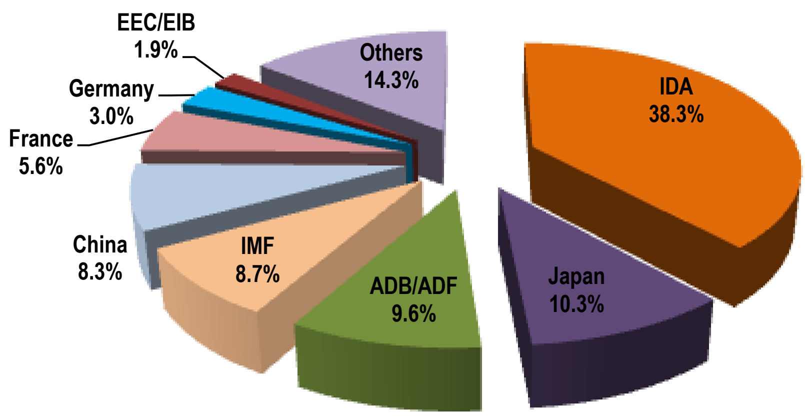


Source: National Treasury

3.2.2 External Debt by Major Creditors

The World Bank (IDA) is the leading creditor in the external debt portfolio at 38.3 percent of total external debt, followed by Japan at 10.3 percent and thereafter African Development Bank Group at 9.6 percent as shown in Chart 3.2. Among other major creditors are IMF, China, France, Germany, and the European Union/European Investment Bank.

Chart 3.2: External Debt by Major Creditors, June 2013

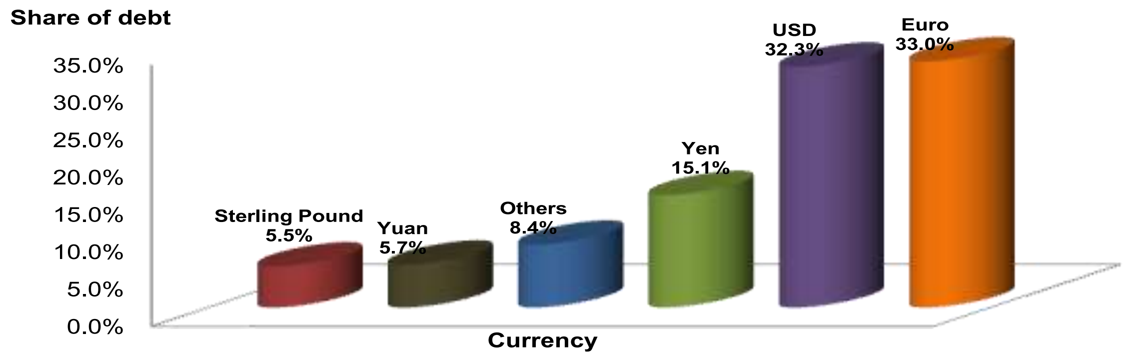


Source: National Treasury

3.2.3 Currency Structure of External Debt

A diversified currency structure is important for hedging against exchange rate risks on a country's external debt. Kenya's external debt portfolio is mainly denominated in Euro, US Dollar and Yen as shown in Chart 3.3. However, the currency mix is not an outcome of a deliberate debt management strategy but more a reflection of source of funding.

Chart 3.3: External Debt by Currency, June 2013

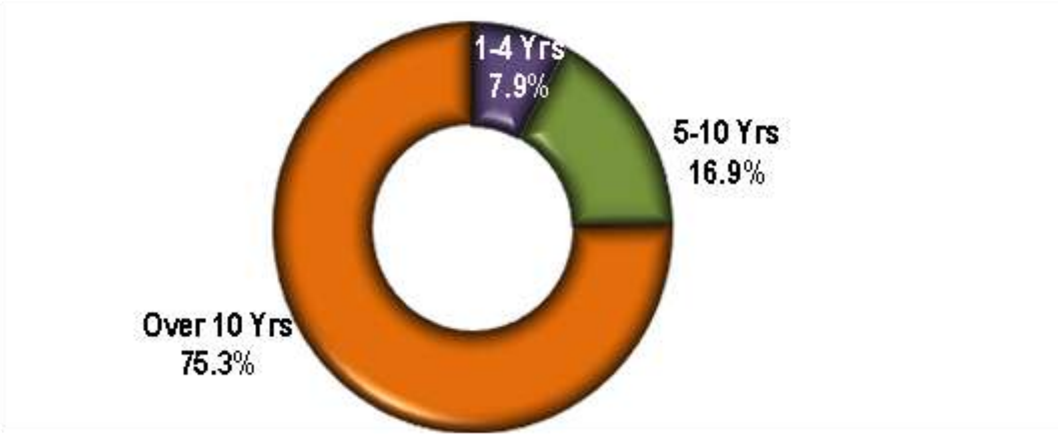


Source: National Treasury

3.2.4 Maturity Structure

As at the end of June 2013 as shown in Chart 3.4, the proportion of external debt with remaining maturities of more than 10 years was 75.3 percent indicating that the country's external debt is long term. The fact that only 7.9 percent of the debt portfolio will mature within 4 years is a benefit to the economy in terms of time value of money.

Chart 3.4: External Debt by Remaining Maturity, June 2013



Source: National Treasury

3.2.5 Average Terms of New External Loan Commitments

As shown in Table 3.2, the average grant element of new external loan commitments was 68.6 percent in 2012/13 compared to 65.8 percent in 2011/12 indicating softening of borrowing terms. The average interest rate, grace period and average maturity on new external loan commitments as at the end of June 2013 was 1.2 percent, 8.0 years and 33.7 years respectively. Overall, these borrowing terms are favorable to the country and are in line with the Government's external debt strategy of contracting external loans from both multilateral and bilateral sources on concessional or "soft" terms.

Table 3.2: Average Terms of Loan Commitments

	June 2012	June 2013
Average Maturity (yrs)	26.3	33.7
Grace Period (yrs)	6.2	8.0
Average Interest Rate (%)	0.8	1.2
Grant Element (%)	65.8	68.6

Source: National Treasury

3.3 External Debt Service

As shown in Table 3.3, total principal and interest payments on Central Government debt increased from Ksh 31,305 million in 2011/12 to Ksh 35,044 million in 2012/13. The ratio of multilateral and bilateral external debt service to total debt service was 45:48.

Table 3.3: External Debt Service on Central Government Debt by Creditor, Ksh Million

Payments	Multilateral		Bilateral		Commercial	Total	
	June 2012	June 2013	June 2012	June 2013	June 2013	June 2012	June 2013
Principal	12,560	12,210	11,394	11,783	0	23,954	23,993
Interest	3,781	3,702	3,570	5,012	2,337	7,351	11,051
Total	**16,341**	**15,912**	**14,964**	**16,795**	**2,337**	**31,305**	**35,044**

Source: National Treasury

3.4 Disbursements of External Loans

As at end June 2013 as shown in Table 3.4, total disbursements on external project loans and A-I-A increased to Ksh 86,191 million (21.8 percent growth) from Ksh 70,736 million in June 2012.

Table 3.4: External Loans Disbursements, Ksh Million

Type of disbursement	June 2012		June 2013	
	Amount	%	Amount	%
Project Cash Loans	19,343	27.3	23,569	27.3
Project A-I-A	51,393	72.7	62,622	72.7
Total	**70,736**	**100**	**86,191**	**100**

Source: National Treasury

4. PUBLICLY GUARANTEED DEBT

Publicly guaranteed debt refers to the debt owed by the country's public entities to both foreign and local creditors but guaranteed by Central Government. The debts may be denominated in domestic or foreign currency.

4.1 Stock of Publicly Guaranteed Debt

Table 4.1 shows that outstanding Government guaranteed debt decreased by Ksh 3,846 million to Ksh 43,537.2 million in June 2013 from Ksh 47,383 million in June 2012. The decrease was mainly attributed to repayments done during the fiscal year 2012/13.

Table 4.1: Publicly Guaranteed Debts, Ksh Million

Agency	Year Loan Contracted	Purpose of Loan	Creditor	Loan Balance		Change
				June 2012	June 2013	
City Council of Nairobi	1985	Umoja II Housing Project	USA	214.8	146.2	(68.6)
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	5,996.6	3,933.9	(2,062.7)
Telkom Kenya Ltd	1990	Purchase of Microwave Telephone System	Canada	362.2	352.6	(9.6)
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	2,495.5	1,790.6	(704.9)
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	3,102.2	2,225.9	(876.3)
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	5,868.9	4,442.4	(1,426.5)
	1997	Sondu Miriu Hydropower Project	Japan	5,564.1	4,268.4	(1,295.7)
	2004	Sondu Miriu Hydropower Project II	Japan	11,202.6	9,186.4	(2,016.2)
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	4,184.9	3,670.7	(514.2)
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	51.2	42.0	(9.2)
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	4,549.9	9,607.8	5,057.9
Kenya Railways	2008	Kenya Railways Concessioning	IDA	3,790.5	3,870.3	79.8
Kenya Farmers Association	2005	Revival of KFA	Local banks	Unutilized	Unutilized	
National Cereals & Produce Board (GSM-102)[3]	2009	Importation of maize under GSM-102	USA	Unutilized	Unutilized	
Total				**47,383.4**	**43,537.2**	**(3,846.2)**

Source: National Treasury

[3] ***GSM-102: USA Export Credit Guarantee Program***

4.2 Payments by the Government on Publicly Guaranteed Debt

During the period under review, Ksh 1,290.6 million was spent by the Government as a guarantor to service guaranteed debts owed by City Council of Nairobi, Tana and Athi River Development Authority and Kenya Broadcasting Corporation which were experiencing financial distress as shown in Table 4.2.

Table 4.2: Payments by the Government on Guaranteed Debt in 2012/13, Ksh Million

Borrower	Quarter I	Quarter II	Quarter III	Quarter IV	Cumulative
CCN	37.8	-	38.5	-	76.3
TARDA	193.4	-	158.7	-	352.1
KBC	-	461.8	-	400.4	862.2
Total	**231.2**	**461.8**	**197.2**	**400.4**	**1,290.6**

Source: National Treasury

4.3 Cumulative GoK Payments of Guaranteed Debt

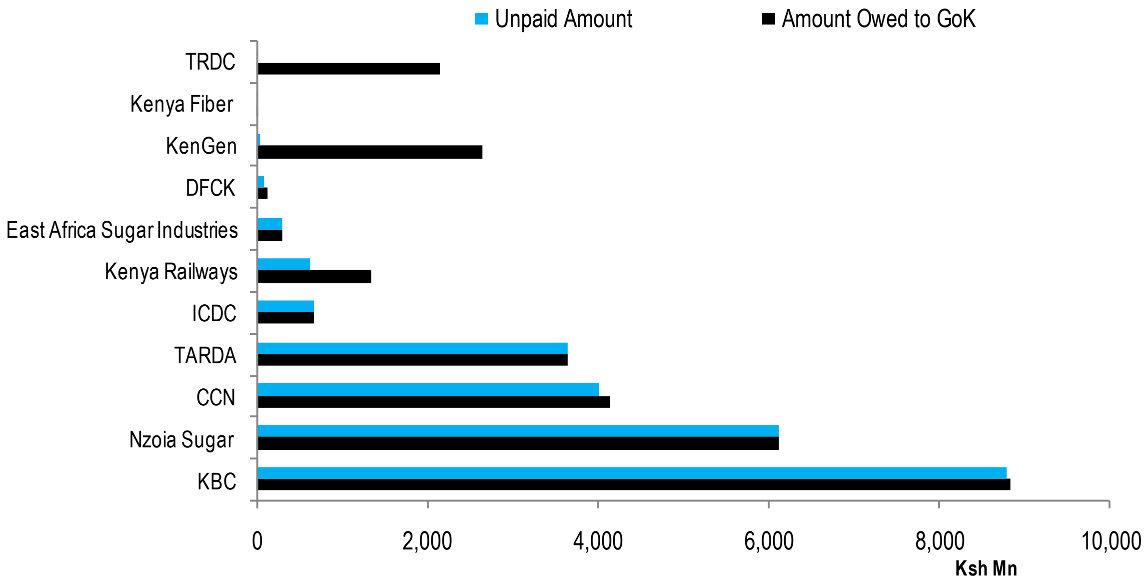
The net cumulative balances on guaranteed debt paid by the Government on behalf of public enterprises over the last twenty two years was Ksh 30,049.5 million as shown in Table 4.3 and Chart 4.1.The top net debtors are Kenya Broadcasting Corporation, Nzoia Sugar Company, City Council of Nairobi and Tana and Athi River Development Authority, all four accounting for over 70 percent of un-reimbursed balances.

Table 4.3: Cumulative Balances Owed to Central Government on Guaranteed Debt, Ksh Million, 1991-2012/13

	Parastatals	Principal	Interest	Total	Reimbursement to GoK by Parastatals	Balance
1	Kenya Broadcasting Corporation	5,739.9	3,110.5	8,850.4	44.0	8,806.4
2	Nzoia Sugar Company	4,605.8	1,523.5	6,129.3	1.5	6,127.8
3	City Council of Nairobi	1,984.0	2,161.1	4,145.0	124.7	4,020.3
4	Tana and Athi River Development Authority	2,502.5	1,152.0	3,654.6	0.3	3,654.3
5	Industrial and Commercial Development Corporation	484.9	181.4	666.3	-	666.3
6	Kenya Railways	1,151.0	203.9	1,354.9	715.1	639.8
7	East Africa Sugar Industries Muhoroni	226.7	75.8	302.5	-	302.5
8	Development Finance Company of Kenya	92.4	39.9	132.3	45.0	87.3
9	KenGen	1,487.4	1,156.5	2,643.9	2,609.7	34.2
10	Kenya Fiber Corporation	-	14.7	14.7	-	14.7
11	Tana and Athi River Development Company	1,001.3	1,154.3	2,155.6	2,148.4	7.2
	Total	**19,275.9**	**10,773.6**	**30,049.5**	**5,688.7**	**24,360.8**

Source: National Treasury

Chart 4.1: Unpaid Balances owed to GoK by State Corporations



Source: National Treasury

5. ON-LENT LOANS AND CONTINGENT LIABILITIES

5.1 Background

The arrangement where a Central Government through the National Treasury contracts loans from external or domestic sources or uses tax revenue and lends it to public enterprises is referred to as Government on-lending. The basis for this lending arrangement is as follows:

- The object of a public enterprise is strategic and hence requires funding by Government;
- In the case of a social welfare project that would be efficiently executed by a public enterprise on behalf of the Government;
- The public enterprise has a weak balance sheet and cannot attract competitive funding from external or domestic sources.

In recording on-lending transactions, the Central Government recognizes a liability and a corresponding asset in its portfolio depending on the source of borrowing.

Substantial default by the borrowers of on-lent loans severely constrains efficient debt management, ultimately impacting on debt sustainability. Such default calls for establishment of better institutional processes as well as monitoring of contingent liabilities to promote efficient management of costs and risks in government debt portfolio.

5.2 Stock of On-Lent Loans

During the period under review, the outstanding on-lent loans excluding arrears and interest increased by Ksh 77,433.2 million from Ksh 87,976.9 million to Ksh 166,939.6 million. This increase is attributed to new loans on-lent to the Water & Irrigation and Energy & Petroleum sectors. The Energy & Petroleum sector received Ksh 92,235.2 million up from Ksh Ksh 29,630.0 in FY 2012/13.

Table 5.1: Stock of On-Lent Loans (Ksh Million)

Ministry/Sector	Outstanding loans		Change	
	June 2012	June 2013	Absolute	Percent
Education	11,107.6	11,088.9	(18.7)	(0.2)
Environment & Natural Resources	2,486.6	-	(2,486.6)	(100.0)
Finance	1,370.3	1,667.1	296.8	21.7
Water & Irrigation	22,326.7	40,261.8	17,935.1	80.3
Lands, Housing & Urban Development	87.7	-	(87.7)	(100.0)
Tourism	188.0	182.0	(6.0)	(3.2)
Energy & Petroleum	29,630.0	92,235.2	62,605.0	211.3
Transport & Infrastructure	6,705.2	3,924.9	(2,780.3)	(41.5)
Planning & Devolution	7,634.9	8,757.0	1,122.1	14.7
Agriculture , Livestock & Fisheries	5,675.2	7,293.2	1,618.0	28.5
Trade	764.7	-	(764.7)	(100.0)
Industry	-	453.9	453.9	100.0
Cooperative	-	1,075.6	1,075.6	100.0
Total	**87,976.9**	**166,939.6**	**77,433.2**	

Source: National Treasury

5.3 Status of On-Lent Loans including Arrears

As at June 2013, the total on-lent loan portfolio amounted to Ksh 203,460.8 million, out of which outstanding loans, arrears and accrued interest stood at Ksh166,939.6 million, Ksh 12,300.0 million and Ksh 24,221.2 million, respectively, as shown in Table 5.2. Notably, over 90 percent of the loan portfolio is non-performing.

Table 5.2: Status of On-Lent Loans Portfolio (Ksh Million) as at June 2013

Ministry/Sector	Outstanding loans	Principal Arrears	Accrued interest	Total
Energy & Petroleum	92,235.2	953.5	996.3	94,185.0
Water & Irrigation	40,261.8	1,564.0	4,336.7	46,162.5
Planning & Devolution	8,757.0	4,843.8	10,715.7	24,316.5
Agriculture , Livestock & Fisheries	7,293.2	4,167.3	7,383.6	18,844.1
Education	11,088.9	68.8	19.1	11,176.8
Transport	3,924.9	-	14.3	3,939.2
Finance	1,667.1	158.8	2.7	1,828.6
Cooperative	1,075.6	402.5	173.3	1,651.4
Tourism	182.0	140.0	578.3	900.3
Industry	453.9	1.3	1.2	456.4
Total	**166,939.6**	**12,300.0**	**24,221.2**	**203,460.8**

Source: National Treasury

5.4 Receipts From On-Lent Loans

The total receipts by GoK from on-lent loans amounted to Ksh 3,366.8 million during 2012/13, out of which Ksh 1,967.4 million was principal and Ksh 1,399.4 million was interest as shown in Table 5.3.

Table 5.3 Principal and Loan Interest Receipts, 2012/13, Ksh Million

Organization	Principal Receipts	Interest Receipts	Total
Kenya Power & Lighting Co.	797.7	554.3	1,352.0
Kenya Generating Company	893.2	430.6	1,323.8
Agro-Chemical and Food Co. Ltd	0.0	150.0	150.0
K - Rep Bank Ltd	51.2	49.3	100.5
Nyeri Water and Sewerage	50.4	24.9	75.3
Kenya Airports Authority	0.0	72.1	72.1
Uchumi Supermarkets Ltd	40.7	19.3	60.0
Athi Water Services Board	40.0	19.8	59.8
Kenya Civil Aviation Authority	23	34.5	57.5
Equity Bank Ltd	17.4	13.7	31.1
Co-operative Bank of Kenya	27.9	1.9	29.8
Moi University	18.8	8	26.8
Industrial & Commercial Development Corporation	0.0	20	20.0
Kenya Utalii College	6.0	0.0	6.0
Total	**1,967.4**	**1,399.4**	**3,366.8**

Source: National Treasury

5.5 Contingent Liabilities

Possible materialization of potentially large and unreported contingent liabilities has been identified as posing additional risk to the sustainability of public debt. Borrowing by state-owned entities with or without Government guarantees constitutes potential contingent liability to the Government. In the event of default on on-lent loans and guaranteed or non-guaranteed loans, Central Government will bear the cost of the debt.

With the implementation of a devolved system of Government, the extent of contingent liabilities is expected to increase as liabilities of County Governments are taken into account.

6. DISPUTED EXTERNAL COMMERCIAL DEBT

6.1 Background

Kenya's external commercial debt estimated at Kshs 15,207.4 million or 1.8 percent of total public debt at end June 2013 is in arrears. In August 2004, the Government suspended payments pending verification of the amount due on each of the eleven (11) suppliers' credit contracts which constitute external commercial debt. Soon after the suspension, the Controller and Auditor General undertook a special audit on eighteen (18) suppliers' credit contracts as follows:

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

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

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

6.2 Audits on External Commercial Debts

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

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

Specifically, the PwC Report cited:

i. Significant overpricing
ii. Serious contraventions of Kenya public expenditure law
iii. Circumstantial evidence that these contracts were corruptly procured
iv. Financing charged in excess of the financing that was needed
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 SWIFT and placed in the local dailies.

6.3 Government Position on Existing Commercial Debts

The Government is committed to resolving the dispute on the outstanding external commercial debts on the basis of fair value received by the Government on each contract as determined by independent valuers and based on legal advice. On the other hand, the Government will take legal measures to recover from the suppliers any payments over and above the fair value received. Two of the 11 projects in dispute, Project Nexus and Naval Vessel have been successfully resolved. Resolution of the remaining projects is ongoing and two Cabinet Memoranda are awaiting submission to the Cabinet to seek approval for their resolution. To achieve this, co-ordination by the arms of the Government involved, including, the State Law Office, Ethics and Anti-Corruption Commission, Directorate of Public Prosecution and the National Treasury will be enhanced.

6.4 Lessons Learnt from External Commercial Debt

Some key lessons have been learnt on this matter referred to by the media as the “Anglo Leasing” scandal. First, weak institutional arrangement of public debt management undermined accountability and transparency in the contracting, disbursement and payment processing of external loans. To address this weakness, the Government has embarked on a comprehensive public debt management reform program to set up a fully functional Public Debt Management Office (PDMO) at the National Treasury responsible for all matters relating to public debt. Second, inadequate public financial management system weakens budget formulation and implementation. This partly explains payment of suppliers' credit contracts against under-deliveries.

Public Financial Management Reforms have been undertaken to strengthen the budget, accounting and control systems in Central 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 2005.

Finally, lack of formal debt policy and strategy that guides debt management operations created fiscal risk through high cost borrowing to finance non-priority expenditures. As a remedial measure, the Government has in the last four years been preparing a Medium Term Debt Strategy (MTDS) that indicates the sources, amount and loans of preferred borrowing to finance the budget deficit taking into account both cost, risk and debt sustainability. Specifically, external commercial borrowing will be contracted transparently from reputable financial institutions or through issuance of an International Sovereign Bond.

7. DEBT STRATEGY AND DEBT SUSTAINABILITY

7.1 Debt Strategy

Since 2009, the National Treasury has been preparing the Medium Term Debt Management Strategy (MTDS) which outlines the government borrowing policy by evaluating the cost and risk characteristics of both the existing public debt portfolio and alternative borrowing mix. In addition, the strategy incorporates initiatives to develop a vibrant domestic debt market. A summary of the *2013 MTDS* is presented in Box 1.

Box 1: 2012 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)

I. Alternative Borrowing Strategies

The 2013 MTDS evaluated the following five (5) possible debt financing strategies (See Table 1 below):

1. Strategy 1 (S1. 2012 MTDS) was the preferred strategy which assumes 35% external and 65% domestic financing.
2. Strategy 2 (S2. More external borrowing) assumes 40% external financing on semi-concessional and concessional credit terms and 60% domestic financing.
3. Strategy 3 (S3. Medium term domestic debt) assumes 30% external financing on semi-concessional and concessional credit terms and 70% domestic financing. The concentration of issuance with 5 and 10 year maturities assumes the initiative to reduce cost of domestic debt associated with longer dated securities is maintained.
4. Strategy 4 (S4. More domestic borrowing) assumes 25% external (semi-concessional and concessional) and 75% domestic financing.
5. Strategy 5 (S5. Semi-concessional external financing). Under this strategy, domestic debt is 75% while external debt is 25%, mainly from semi-concessional sources.

Table 1: Alternative Debt Management Strategies

Envisaged New debt	***2012 MTDS* S1**	**More external debt S2**	**Medium term domestic debt S3**	**More domestic debt S4**	**Semi-concessional external debt S5**
Domestic	**65%**	**60%**	**70%**	**75%**	**75%**
1-year	9%	9%	10%	11%	14%
2-year	11%	11%	7%	13%	11%
5-year	17%	12%	23%	18%	14%
10-year	12%	10%	16%	14%	14%
15-year	8%	9%	7%	10%	11%
20-year	8%	9%	7%	9%	11%
External	**35%**	**40%**	**30%**	**25%**	**25%**
Semi-concessional	4%	3%	3%	2%	2%
Concessional	26%	16%	6%	2%	2%
5-Yr Syndicate	5%	0%	0%	0%	0%
10-yr ISB	0%	21%	21%	21%	21%

II. 2012 MTDS

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

- 60% net domestic financing and 40% external financing;
- The domestic borrowing will be on medium term basis;
- External borrowing will comprise of 16% on concessional terms, 3% on semi concessional terms while 21% will be contracted on commercial terms.

Source: National Treasury

7.2 Implementing the 2013 MTDS

The Government is implementing the 2013 MTDS domestic borrowing plan by issuing Treasury Bills and Treasury Bonds of medium term maturity.

7.3 Debt Sustainability

The Joint World Bank-IMF Debt Sustainability Analysis (DSA) published in April 2013 concludes that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. There are four ratings for the risk of external debt distress:

- Low risk - when all the debt burden indicators are well below the thresholds;
- Moderate risk - when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies;
- High risk - when the baseline scenario and stress tests indicate a protracted breach of debt or debt-service thresholds, but the country does not currently face any repayment difficulties; or
- In debt distress - when the country is already having repayment difficulties.

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.

Kenya is rated a strong policy country and as such is subject to the following thresholds:-

Table 7.1: External Debt sustainability thresholds

Classification	PV of Debt in percent of:			Debt Service in percent of:	
	GDP	Exports	Revenue	Exports	Revenue
Strong Policy Performer	50	200	300	25	22

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (April 2013) and IMF Staff Guidance Note

7.3.1 External debt sustainability

Under the baseline scenario, Kenya's debt ratios listed in Table 7.2 suggest that external debt is within sustainable levels for a country rated as a medium performer. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

Table 7.2: External debt sustainability

Indicator	2012	2013	2014	2015	2016	2017	2018	2023	2033
PV of debt–to-GDP ratio (50)	19.0	20.1	19.2	19.1	18.8	18.7	18.5	16.1	8.2
PV of debt-to-exports ratio (200)	72.1	83.6	83.3	86.0	88.1	88.5	89.5	82.9	49.4
PV of debt-to-revenue ratio (300)	79.7	82.9	78.5	77.3	76.4	75.7	75.0	65.1	33.2
Debt service-to-exports ratio (25)	4.1	6.3	9.8	4.9	5.3	5.6	5.5	6.2	4.0
Debt service-to-revenue ratio (22)	4.6	6.3	9.3	4.4	4.6	4.8	4.6	4.9	2.7

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (April 2013) and IMF Staff Guidance Note

7.3.2 Public debt sustainability

Under the baseline scenario shown in Table 7.3, the PV of public debt-to-GDP increased from 39.4 percent in 2012 to 40.3 percent in 2013 but gradually declines to 38.3 percent of GDP by 2016. In the long term, the PV of public debt-to-GDP is expected to decline by about 50 percent in 2033.

The PV of public debt-to-revenue is not expected to breach the threshold of 300 percent at any point during the period of analysis, given Kenya's relative strong revenue performance. The debt service-to-revenue ratio consistently remains below the 30 percent threshold. Overall, the results from the DSA indicate that Kenya's public debt remains sustainable over the medium term.

Table 7.3: Public debt sustainability

Indicator (Threshold)	2012	2013	2014	2015	2016	2017	2018	2023	2033
PV of public sector debt to GDP ratio (74)	39.4	40.3	38.7	38.1	38.3	38.7	38.6	36.2	18.8
PV of public sector debt-to-revenue ratio (300)	165.1	165.7	158.5	154.6	155.6	156.7	156.5	146.5	75.6
Debt service-to-revenue ratio (30)	26.6	27.3	28.9	23.3	23.3	23.1	22.5	22.2	19.1

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (April 2013) and IMF Staff Guidance Note

In Table 7.4, a worst-case scenario, a "borrowing shock" scenario is presented which assumes a Government borrowing of 10 percent of GDP in FY2013/14.

The results indicate that in the medium term, the debt burden indicator does not breach any of the debt sustainability thresholds.

Table 7.4: Sensitivity Analysis for Key Indicators of Public Debt

Indicator	Threshold	2014 ratios	Impact of 10% of GDP increase in borrowing in 2014 on debt indicators in 2016
PV of Debt as % of GDP	74	39	48
PV of Debt as % of Revenue	300	151	189
Debt Service as % of Revenue	30	28	27

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (April 2013) and IMF Staff Guidance Note

In the financial year 2013/14, the Government plans to borrow, on a net basis, an amount equivalent to 4.8 percent of GDP to finance the budget. The net borrowing is expected to decline to 3.7 percent of GDP in FY 2015/16.

The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing policy. Recourse to significant uptake of domestic debt financing could further increase the domestic interest rates, and put pressure on the debt sustainability position. In addition, non-concessional external financing carries an inherent foreign exchange risk, worsens the PV of debt and therefore increases the risk of debt distress.

8. LEGISLATION ON PUBLIC DEBT MANAGEMENT

8.1 Provisions under the Constitution

8.1.1. Public debt as defined under the Constitution

Public debt is a charge on the Consolidated Fund, but an Act of Parliament may provide for charging all or part of the public debt to other public funds. Public debt is all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national government.

The relevant legislation with regard to public finance management in Kenya is the Public Finance Management Act of 2012.

8.1.2. Borrowing by the National Government

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

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

8.1.3. Borrowing by Counties

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

8.1.4. Loan guarantees by national government

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

8.2 Public Finance Management Act

The PFM Act has consolidated all pre-existing laws on Public Financial Management. In the area of public debt management, the Act repealed the External Loans and Credit Act, the Internal Loans Act and the National

Government Loans Guarantee Act which provided a legal framework for Government to raise loans outside Kenya, within Kenya and to guarantee loans extended to public entities, respectively.

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

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

The Act (PFM) provides for a number of reforms with respect to management and control of public finance including public borrowing.

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

Article 49: Authority for borrowing by the National Government
The Cabinet Secretary for finance may, on behalf of the national government, raise a loan within Kenya or from outside Kenya only if the loan and the terms and conditions for the loan are set out in writing and conditional to:

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

Article 50 provides for the obligations and restrictions on national government guaranteeing and borrowing. The national government may borrow money in accordance with PFM Act or any other legislation and shall not exceed a limit set by Parliament. The national government may borrow money only for the budget as approved by Parliament and the allocations for loans approved by Parliament. The guarantee of debt shall be done in terms of criteria agreed with the Intergovernmental Budget and Economic Council and prescribed in regulations approved by Parliament.

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

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

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

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

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

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

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

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

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

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

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

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

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

- carrying out the government's debt management policy of minimizing its financing cost over the long-term taking account of risk
- maintaining a reliable debt data base for all loans taken by the national government, county governments and their entities including other loans guaranteed by the national government
- prepare and update the annual medium-term debt management strategy including debt sustainability analysis
- prepare and implement the national government borrowing plan including servicing of outstanding debts

- acting as the principal in the issuance of Government debt securities on behalf of the National Treasury
- monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy
- process the issuance of loan guarantees including assessment and management of risks in national government guarantees
- transact in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

The Cabinet Secretary under Article 64 shall develop the policy and financial framework in accordance with Constitutional principles within which the Public Debt Management Office operates.

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

8.3 Reporting under PFM Act

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

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

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

9. REFORMS IN PUBLIC DEBT MANAGEMENT

9.1 Introduction

There have been continuous reforms at the National Treasury to improve debt management in line with international best practice. These reforms are carried out jointly by the National Treasury and the Central Bank of Kenya (CBK).

9.2 Next Steps in Reforming Public Debt Management

To further strengthen public debt management, the NT through DMD plans to implement the following reforms in accordance with the PFM Act:

i. To establish a fully-fledged PDMO, addressing segregation of roles of various departments.
ii. To build capacity and competence of the PDMO staff and equip them with new skills in areas such as evaluation of risks in guarantees and GoK contingent liabilities.
iii. Adopt the new reporting framework and requirements under the PFM Act.

9.3 Market Development Initiatives by the Central Bank of Kenya

The Central Bank of Kenya in liaison with the National Treasury and other stakeholders has continued to put in place a number of initiatives geared towards developing the domestic market for government securities. These include:

i. To lengthen maturity of domestic debt, smoothen the maturity profile of bonds, manage refinancing risk and minimize fragmentation of bonds at the secondary market; the Government and the Central Bank are considering strategies such as bond exchanges and swaps under the benchmark bonds program.
ii. To support East African integration agenda, Kenya is in the process of harmonizing financial market practices, such as, those related to issuance of Government securities and management of public debt.
iii. Under the product diversification program and building on the success of the Infrastructure Bonds (IFBs) program since 2009, the CBK issued 5 infrastructure bonds worth Ksh 130.85 billion.
iv. To boost secondary market activity, establishment of Over the Counter (OTC) trading platform is on-going.
v. Efforts are underway to put in place a National Central Depository System (CDS) for all securities to facilitate efficient secondary market trading. In addition, there are further plans to establish a Single Central Depository System for East African region.

vi. To deepen the investor base by expanding the retail segment, the implementation of the Treasury Mobile Direct (TMD) project is on course to enable sale of Government Securities through mobile phones.

The implementation of the Treasury Mobile Direct (TMD) project is on course to enable sale of Government Securities through mobile phones

vii. As part of pursuit of a vibrant domestic debt market, the GSMM program is on the course of implementation as a first phase in the PD framework.

10. OUTLOOK FOR THE MEDIUM TERM

10.1 Public Debt Stock in the Medium Term

Overall, public debt is projected to rise in nominal terms to Ksh 2,219,732 million in June 2014 from Ksh 1,894,118 million in June 2013 and later increase to Ksh 2,881,428 million in June 2017 as shown in Table 10.1. However, as a proportion of GDP, public debt in nominal terms is projected to increase to 53.3 percent in June 2014 from 51.7 percent in June 2013 and then decline further to 49.6 percent in June 2017.

As a percent of GDP, external debt is projected to increase to 29.4 percent in June 2014 from 23.0 percent in June 2013 and decline further to 23.5 percent in June 2017. As a proportion of GDP, domestic debt decreases from 28.7 percent in June 2013 to 23.9 percent in June 2014 and increase to 26.1 percent in June 2017.

Table 10.1: Projected Public Debt Stock, Ksh Million

	2012/13	2013/14	2014/15	2015/16	2016/17
External Debt	**843,562**	**1,224,392**	**1,196,269**	**1,298,142**	**1,408,144**
% of GDP	*23.0%*	*29.4%*	*25.8%*	*24.6%*	*23.5%*
Domestic Debt	**1,050,555**	**995,339**	**1,214,815**	**1,382,574**	**1,563,938**
% of GDP	*28.7%*	*23.9%*	*26.2%*	*26.2%*	*26.1%*
Total Public Debt	**1,894,117**	**2,219,732**	**2,411,084**	**2,680,716**	**2,972,082**
% of GDP	*51.7%*	*53.3%*	*52.0%*	*50.8%*	*49.6%*
Memoranda Items					
Nominal GDP	3,662,600	4,164,600	4,636,700	5,277,000	5,992,100
Ordinary Revenue	779,400	931,400	1,070,400	1,217,500	1,386,400

Source: National Treasury

10.2 Debt Service in the Medium Term

Table 10.2 shows that although in nominal terms overall debt service is projected to increase by 3 percent in the medium term, as a ratio to GDP, the debt burden indicators will be within sustainable levels. Total debt service is projected to decrease from 22.5 percent of revenue in 2013/14 to 14.3 percent in 2014/15, mainly on account of redemption of the two-year syndicated loan, and thereafter decline to 10.9 percent of revenue in 2016/17.

Domestic interest is projected to increase marginally from Ksh 112,645 million in 2013/14 to Ksh 113,040 million in 2014/15 and decline to Ksh 105,000 million in 2016/17. However, as a percentage of revenue, domestic interest will remain at an average of 10.9 percent in the medium term. On the other hand, interest on external debt is projected to decrease from Ksh 13,780 million in 2013/14 to Ksh 10,227 million in 2014/15 and increase to Ksh 12,000 million in 2016/17, an average of 1.1 percent of revenue over the period.

Annual principal repayment on external debt is projected to decline from Ksh 80,791 million in 2013/14 to Ksh 28,815 million in 2014/15 and, increase thereafter to Ksh 38,000 million in 2016/17 or an annual average of 4.1 percent of revenue. The sharp spike in external principal repayment in FY 2014/15 is attributed to a bullet repayment of the two-year syndicated loan of USD 600 million contracted in May 2012. The Government plans to issue a Eurobond to retire the loan.

Table 10.2: Central Government Projected Debt Service, Ksh million

	2012/13	2013/14	2014/15	2015/16	2016/17
Domestic Interest	**111,993**	**112,645**	**113,040**	**106,296**	**105000**
% of Revenue	14.4%	12.1%	10.6%	8.7%	7.6%
External Interest	**11,620**	**13,780**	**10,227**	**11,444**	**12,000**
% of Revenue	*1.5%*	*1.5%*	*1.0%*	*0.9%*	*0.9%*
Total Interest	**123,613**	**126,425**	**123,267**	**117,740**	**117,000**
% of Revenue	*15.9%*	*13.6%*	*11.5%*	*9.7%*	*8.4%*
External Principal Repayments	**26,931**	**80,791**	**28,815**	**35,280**	**38000**
% of Revenue	*3.5%*	*8.7%*	*2.7%*	*2.9%*	*2.7%*
Total Debt service	**150,544**	**207,216**	**152,082**	**153,020**	**155,000**
% of Revenue	*19.3%*	*22.2%*	*14.2%*	*12.6%*	*11.2%*
Memoranda Item					
Ordinary Revenue	779,400	931,400	1,070,400	1,217,500	1,386,400

Source: National Treasury

GLOSSARY

- **Bond Conversion**

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

- **Bond Reopening**

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

- **Bond Switching**

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

- **Buy back**

This is the sale of securities, usually Treasury Bonds, with an agreement from the seller to buy back the security at a later date.

- **Concessionality**

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

- **Debt Relief**

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

- **Debt Rescheduling**

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

- **Debt Service**

The amount of funds necessary for or used in the payment of interest or amortization charges 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 was 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 these 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 international transfer of financial resources or of goods or services by the lender to the borrower.

- **Domestic Borrowing**

Government borrowing through issuance of 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 the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

- **External Borrowing**

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

- **Government Securities**

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

- **Grant Element**

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

- **London Club**

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

- **Monetary Policy**

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

- **Present Value**

The present value (PV) of debt is a measure that takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the appropriate market rate. Whenever the interest rate on a loan is lower than the market rate, the resulting PV of debt is smaller 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 percent). Loans and credits for military purposes are excluded in this definition.

- **Over the Counter**

This is when debt securities and other financial instruments such as derivatives, are traded in a dealer network other than on a formal centralised exchange, such as, the Nairobi Securities Exchange.

- **Paris Club**

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

- **Primary Market**

A market in which initial issue of financial instruments is made.

- **Public Debt**

Outstanding financial liabilities 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 and individuals.

- **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**

A market for already issued financial instruments.

- **Suppliers' Credit**

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

- **Tap sale**

Ongoing issuance in the same series.

- **Treasury Bills**

Short term debt instruments currently with maturities of 91, 182 and 364 days issued by the Treasury. In Kenya, this instrument is issued by the Treasury through the CBK.

- **Treasury Bonds**

Medium to long-term term debt instruments issued by the Treasury. In Kenya, this instrument is issued by the Treasury through the CBK.

- **Yield Curve**

Relationship between the interest rate and maturity of securities. A rising yield curve, that is, where interest rated for short-term securities are lower than interest rates for long-term securities, is called normal. A falling yield curve is described as inverted.

APPENDICES

Appendix 1: Outstanding Government Securities by Tenor, Ksh Million

Tenor	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
91-DAY	29,500	42,761	37,632	22,017	17,980	23,523	23,663	69,135	24,323	36,203
182-DAY	33,439	29,177	57,144	72,405	58,313	93,271	85,337	22,528	75,669	52,167
364-DAY	-	-	-	-	-	-	49,494	34,942	32,056	178,840
1-YEAR	9,343	30,953	1,000	8,728	13,191	14,789	-	-	51,522	-
1.5 YEAR	-	-	-	-	-	-	-	-	0.00	-
2-YEAR	28,237	24,686	39,738	37,652	31,747	45,206	46,577	73,012	86,462	122,014
3-YEAR	44,817	27,898	31,225	31,174	26,663	12,798	1,781	-	-	0
4-YEAR	26,520	26,160	26,287	19,281	16,539	12,914	3,384	-	19,121	19,121
5-YEAR	23,086	22,740	28,391	28,787	43,511	52,787	86,582	114,551	115,333	138,357
6-YEAR	17,909	20,434	33,105	48,333	47,589	38,769	48,986	60,661	47,241	40,653
7-YEAR	8,558	10,330	13,566	15,884	24,154	24,153	21,353	24,296	22,523	19,288
8-YEAR	11,969	11,969	15,287	17,944	17,944	17,944	26,721	22,813	28,944	31,796
9-YEAR	9,555	9,555	12,615	12,615	12,615	12,615	17,760	27,732	25,364	18,177
10-YEAR	8,634	8,634	17,113	22,113	34,415	44,415	69,090	91,391	95,725	126,767
11-YEAR	-	-	-	4,031	4,031	4,031	4,031	4,031	4,031	4,031
12-YEAR	-	-	-	8,766	8,766	28,494	33,051	33,051	43,186	30,206
15-YEAR	-	-	-	16,892	32,114	42,303	61,929	75,443	75,443	102,408
20-YEAR	-	-	-	-	1,912	9,526	20,361	29,727	29,727	49,027
25-YEAR	-	-	-	-	-	-	7,008	20,193	20,193	20,193
30- YEAR	-	-	-	-	-	-	-	18,760	22,136	22,136
TOTAL	**251,567**	**265,297**	**313,103**	**366,622**	**391,484**	**477,538**	**607,109**	**722,266**	**818,998**	**1,011,384**

Source: Central Bank of Kenya

Appendix 2: Outstanding Treasury Bonds, June 2013

Serial No.	Issue No.	Tenor (Yrs)	Accepted at FV (Ksh M)	Yrs to Maturity	Accepted at cost (Ksh M)	Issue or Reopen date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100 at YTM	Market Outcome Yield
1	FXD2/2003/10	10	5,929.00	0.12	6,352.87	25-Aug-03	12-Aug-13	8.500	7.474	107.137	7.677
2	FXD3/2008/5	5	4,350.80	0.14	4,127.50	25-Aug-08	19-Aug-13	9.500	10.860	94.857	10.861
3	FXD3/2008/5 (R1)	5	10,458.35	0.14	10,007.56	24-Aug-09	19-Aug-13	9.500	10.858	95.687	10.919
4	FXD3/2011/2	2	677.55	0.23	638.52	26-Sep-11	23-Sep-13	10.500	13.897	94.240	16.026
5	FXD3/2011/2 (R1)	2	233.15	0.23	213.43	31-Oct-11	23-Sep-13	10.500	16.526	90.456	20.364
6	FXD4/2008/5	5	4,416.45	0.31	4,080.04	27-Oct-08	21-Oct-13	9.500	11.549	92.378	11.678
7	FXD4/2008/5 (R1)	5	5,591.05	0.31	5,328.40	27-Apr-09	21-Oct-13	9.500	10.849	95.295	11.165
8	FXD4/2011/2	2	9,972.75	0.41	9,980.05	28-Nov-11	25-Nov-13	22.844	22.844	100.000	23.522
9	FXD4/2011/2 (TAP)	2	13,455.50	0.41	13,455.50	28-Nov-11	25-Nov-13	22.844	22.844	100.000	0.000
10	FXD2/2006/7	7	2,317.95	0.46	2,261.63	25-Dec-06	16-Dec-13	12.000	12.533	97.563	12.832
11	FXD1/2006/8	8	3,318.80	0.64	3,198.71	27-Feb-06	17-Feb-14	13.250	14.012	96.402	14.241
12	FXD1/2012/2	2	6,418.05	0.83	6,418.09	30-Apr-12	28-Apr-14	13.826	13.826	100.000	15.183
13	FXD1/2007/7	7	8,269.85	1.06	7,999.98	30-Jul-07	21-Jul-14	9.750	10.421	96.723	10.521
14	FXD2/2012/2	2	16,312.35	1.16	16,312.60	27-Aug-12	25-Aug-14	11.114	11.114	100.000	11.638
15	FXD1/2009/5	5	3,452.80	1.21	3,244.27	21-Sep-09	15-Sep-14	9.500	11.108	93.955	11.376
16	FXD1/2009/5 (R1)	5	9,786.30	1.21	10,091.01	1-Feb-10	15-Sep-14	9.500	9.592	99.640	9.771
17	FXD3/2012/2	2	13,764.30	1.33	13,764.80	29-Oct-12	27-Oct-14	12.496	12.496	100.000	13.160
18	FXD4/2012/2	2	20,774.00	1.48	20,774.36	24-Dec-12	22-Dec-14	12.382	12.382	100.000	13.012
19	FXD1/2007/8	8	2,656.90	1.64	2,630.10	26-Feb-07	16-Feb-15	12.750	12.955	98.997	13.250
20	FXD1/2013/2	2	20,445.80	1.66	20,446.11	25-Feb-13	23-Feb-15	12.844	12.844	100.000	13.232
21	FXD2/2013/2	2	19,960.65	1.73	19,960.93	25-Mar-13	23-Mar-15	12.940	12.940	100.000	13.276
22	FXD1/2006/9	9	3,060.25	1.79	3,045.05	24-Apr-06	13-Apr-15	13.500	13.599	99.495	13.729
23	FXD1/2010/5	5	11,924.85	1.89	11,985.76	24-May-10	18-May-15	6.951	6.829	100.510	6.951
24	FXD2/2010/5	5	11,968.75	2.41	11,970.15	29-Nov-10	23-Nov-15	6.671	6.671	100.000	7.078
25	FXD2/2010/5 (R1)	5	1,723.40	2.41	1,399.84	27-Jun-11	23-Nov-15	6.671	12.529	80.546	13.884
26	FXD2/2010/5 (R2)	5	1,280.95	2.41	991.21	29-Aug-11	23-Nov-15	6.671	13.887	77.378	16.473
27	FXD1/2011/5	5	10,810.20	2.58	10,810.80	31-Jan-11	25-Jan-16	7.636	7.636	100.000	7.746
28	FXD1/2011/5 (R1)	5	11,272.90	2.58	11,023.16	28-Mar-11	25-Jan-16	7.636	8.501	96.605	8.591
29	FXD1/2006/10	10	3,451.05	2.71	3,344.97	27-Mar-06	14-Mar-16	14.000	14.595	96.920	14.812
30	FXD2/2006/10	10	5,028.10	2.89	5,088.33	29-May-06	16-May-16	14.000	13.778	101.186	13.930
31	FXD1/2012/5	5	4,905.55	3.91	4,907.43	28-May-12	22-May-17	11.855	11.855	100.000	12.624
32	FXD1/2012/5 (R1)	5	7,925.80	3.91	7,458.74	30-Jul-12	22-May-17	11.855	13.548	94.097	13.906
33	FXD1/2012/5 (R2)	5	18,248.20	3.91	18,061.53	28-Jan-13	22-May-17	11.855	12.791	96.920	13.200
34	FXD1/2006/11	11	4,031.40	4.21	3,909.72	25-Sep-06	11-Sep-17	13.750	14.308	96.953	14.473
35	FXD1/2007/10	10	9,308.80	4.31	9,000.02	29-Oct-07	16-Oct-17	10.750	11.316	96.662	11.604
36	FXD1/2008/10	10	2,992.75	4.64	2,901.99	25-Feb-08	12-Feb-18	10.750	11.266	96.951	11.933
37	FXD1/2013/5	5	20,240.75	4.83	20,240.57	29-Apr-13	23-Apr-18	12.892	12.892	100.000	13.090
38	FXD2/2008/10	10	882.00	5.06	847.39	28-Jul-08	16-Jul-18	10.750	11.420	96.066	12.490
39	FXD2/2008/10 (R1)	10	12,622.70	5.06	11,889.72	27-Jul-09	16-Jul-18	10.750	11.821	94.163	11.958
40	FXD1/2006/12	12	3,900.95	5.14	3,823.67	28-Aug-06	13-Aug-18	14.000	14.355	97.996	14.582
41	FXD3/2008/10	10	4,151.60	5.23	3,910.96	29-Sep-08	17-Sep-18	10.750	11.758	86.922	11.893
42	FXD1/2009/10	10	4,966.85	5.81	4,688.23	27-Apr-09	15-Apr-19	10.750	11.723	94.357	12.215
43	FXD1/2007/12	12	4,864.60	5.89	4,999.04	28-May-07	13-May-19	13.000	12.548	102.766	12.804
44	FXD1/2010/10	10	12,052.60	6.81	12,178.30	26-Apr-10	13-Apr-20	8.790	8.633	101.038	8.790
45	FXD1/2010/10 (R1)	10	7,341.55	6.81	5,894.84	30-May-11	13-Apr-20	8.790	12.531	80.242	12.621
46	FXD2/2010/10	10	13,847.90	7.33	14,462.48	1-Nov-10	19-Oct-20	9.307	8.646	104.366	9.307
47	FXD2/2010/10 (R1)	10	1,111.65	7.33	1,085.65	31-Jan-11	19-Oct-20	9.307	9.683	97.634	10.503
48	FXD2/2010/10 (R2)	10	3,890.35	7.33	3,112.57	25-Jul-11	19-Oct-20	9.307	13.089	79.990	13.624
49	FXD1/2007/15	15	3,654.60	8.71	3,568.80	26-Mar-07	7-Mar-22	14.500	14.896	97.650	15.246
50	FXD2/2007/15	15	7,236.95	8.96	7,489.08	25-Jun-07	6-Jun-22	13.500	12.968	103.479	13.284
51	FXD1/2012/10	10	443.15	8.98	443.29	25-Jun-12	13-Jun-22	12.705	12.705	100.000	15.820
52	FXD1/2012/10 (R1)	10	5,298.85	8.98	5,038.01	30-Jul-12	13-Jun-22	12.705	13.630	95.020	13.982
53	FXD1/2012/10 (R2)	10	11,061.75	8.98	10,828.90	25-Mar-13	13-Jun-22	12.705	13.720	94.717	13.858
54	FXD3/2007/15	15	7,841.10	9.39	7,434.42	26-Nov-07	7-Nov-22	12.500	13.313	94.777	13.350
55	FXD3/2007/15	15	10,189.10	9.39	9,547.61	26-May-09	7-Nov-22	12.500	13.530	93.687	13.737

	(R1)									
56	FXD1/2008/15	15	7,380.90	9.73	6,998.56	31-Mar-08	13-Mar-23	12.500	13.310	94.795	13.697
57	FXD1/2009/15	15	9,420.45	11.31	8,704.40	26-Oct-09	7-Oct-24	12.500	13.709	92.388	13.812
58	FXD1/2010/15	15	10,206.45	11.73	10,419.79	29-Mar-10	10-Mar-25	10.250	9.980	102.078	10.133
59	FXD2/2010/15	15	7,329.35	12.48	6,316.19	27-Dec-10	8-Dec-25	9.000	10.923	85.966	11.978
60	FXD2/2010/15 (R1)	15	6,183.75	12.48	4,782.54	25-Apr-11	8-Dec-25	9.000	12.388	77.308	12.848
61	FXD1/2012/15	15	21,089.45	14.23	19,525.73	24-Sep-12	6-Sep-27	11.000	12.089	92.541	12.385
62	FXD1/2013/15	15	5,875.70	14.66	4,986.66	25-Feb-13	7-Feb-28	11.250	13.629	84.960	14.081
63	FXD2/2013/15	10	17,385.85	14.83	15,560.86	29-Apr-13	10-Apr-28	12.000	13.661	89.516	13.780
64	FXD1/2008/20	20	1,912.25	14.98	1,791.77	30-Jun-08	5-Jun-28	13.750	14.741	93.668	16.913
65	FXD1/2008/20 (R1)	20	7,613.90	14.98	7,197.88	29-Jun-09	5-Jun-28	13.750	14.614	94.493	14.926
66	FXD1/2008/20 (R2)	20	10,834.80	14.98	10,878.06	28-Dec-09	5-Jun-28	13.750	13.691	100.394	13.909
67	FXD1/2011/20	20	8,138.50	17.91	5,984.55	30-May-11	5-May-31	10.000	13.974	73.470	13.993
68	FXD1/2011/20 (R1)	20	1,227.30	17.91	870.32	27-Jun-11	5-May-31	10.000	14.822	69.328	16.965
69	FXD1/2012/20	20	3,461.35	19.41	3,095.34	26-Nov-12	1-Nov-32	12.000	13.540	89.454	14.218
70	FXD1/2012/20 (R1)	20	4,956.50	19.41	4,488.73	28-Jan-13	1-Nov-32	12.000	13.694	88.480	13.883
71	FXD1/2012/20 (R2)	20	10,882.70	19.41	10,132.10	27-May-13	1-Nov-32	12.000	12.981	93.093	13.310
72	FXD1/2010/25	25	7,008.15	21.98	7,497.64	28-Jun-10	28-May-35	11.250	10.438	106.981	10.787
73	FXD1/2010/25 (R1)	25	13,184.35	21.98	15,029.47	26-Jul-10	28-May-35	11.250	9.839	113.880	9.937
74	SDB1/2011/30	30	8,718.10	27.66	8,097.58	28-Feb-11	21-Jan-41	12.000	12.959	92.771	14.145
75	SDB1/2011/30 (R1)	30	10,041.55	27.66	9,033.18	28-Mar-11	21-Jan-41	12.000	13.520	88.956	13.832
76	SDB1/2011/30 (R2)	30	3,376.80	27.66	2,481.80	29-Aug-11	21-Jan-41	12.000	16.397	73.441	18.815
	Total		**602,322.45**		**582,541.79**						
Infrastructure Bonds											
77	IFB1/2010/8	6	8,776.47	2.66	8,850.65	1-Mar-10	22-Feb-16	9.750	9.579	100.498	9.860
78	IFB1/2010/8	8	7,131.58	4.66	7,191.86	1-Mar-10	19-Feb-18	9.750	9.579	100.498	9.860
			15,908.05		*16,042.51*						
79	IFB 2/2010/9	6	14,200.00	3.16	13,163.18	30-Aug-10	22-Aug-16	6.000	7.293	92.916	7.737
80	IFB 2/2010/9	7	8,700.00	4.16	8,114.92	30-Aug-10	21-Aug-17	6.000	7.293	92.916	7.737
81	IFB 2/2010/9	9	9,971.55	6.16	9,306.92	30-Aug-10	19-Aug-19	6.000	7.293	92.916	7.737
			32,871.55		*30,585.02*						
82	IFB1/2009/12	6	8,482.55	1.64	7,987.60	23-Feb-09	16-Feb-15	12.500	13.505	94.109	13.883
83	IFB1/2009/12	8	4,497.70	3.64	4,235.29	23-Feb-09	13-Feb-17	12.500	13.505	94.109	13.883
84	IFB1/2009/12	12	6,746.60	7.64	6,352.93	23-Feb-09	8-Feb-21	12.500	13.505	94.109	13.883
			19,726.85		*18,575.82*						
85	IFB2/2009/12	6	9,193.70	2.43	8,951.44	7-Dec-09	30-Nov-15	12.000	12.537	97.352	13.182
86	IFB2/2009/12	9	5,145.00	5.43	4,746.05	7-Dec-09	26-Nov-18	12.000	12.537	97.352	13.182
87	IFB2/2009/12	12	4,558.95	8.43	4,702.18	7-Dec-09	22-Nov-21	12.000	12.537	97.352	13.182
			18,897.65		***18,399.67***						
			87,404.10		**83,603.02**						
Diaspora bond tap & amortization											
88	IFB1/2011/12	12	6,204.46	2.25	5,103.62	3-Oct-11	28-Sep-15	12.000	16.640	82.082	17.173
89	IFB1/2011/12 (Tap 1)	12	144.70	2.25	120.62	7-Nov-11	28-Sep-15	12.000	16.640	83.353	16.640
90	IFB1/2011/12 (Tap 2)	12	109.03	2.25	92.01	5-Dec-11	28-Sep-15	12.000	16.640	84.384	16.640
91	IFB1/2011/12 (Tap 3)	12	716.00	2.25	611.66	2-Jan-12	28-Sep-15	12.000	16.640	85.428	16.640
92	IFB1/2011/12 (Tap 4)	12	2,566.91	2.25	2,226.82	6-Feb-12	28-Sep-15	12.000	16.640	86.751	16.640
93	IFB1/2011/12 (Tap 5)	12	9,380.07	2.25	8,212.72	27-Feb-12	28-Sep-15	12.000	16.640	87.555	16.640
	First Tranche Maturing 28-Sep-2015		**19,121.18**		**16,367.45**						
94	IFB1/2011/12	12	4,604.85	6.25	3,787.82	3-Oct-11	23-Sep-19	12.000	16.640	82.082	17.173
95	IFB1/2011/12 (Tap 1)	12	107.40	6.25	89.52	7-Nov-11	23-Sep-19	12.000	16.640	83.353	16.640
96	IFB1/2011/12 (Tap 2)	12	80.92	6.25	68.29	5-Dec-11	23-Sep-19	12.000	16.640	84.384	16.640
97	IFB1/2011/12 (Tap 3)	12	531.40	6.25	453.97	2-Jan-12	23-Sep-19	12.000	16.640	85.428	16.640
98	IFB1/2011/12 (Tap 4)	12	1,905.11	6.25	1,652.70	6-Feb-12	23-Sep-19	12.000	16.640	86.751	16.640
99	IFB1/2011/12	12	6,961.72	6.25	6,095.34	27-Feb-12	23-Sep-19	12.000	16.640	87.555	16.640

	(Tap 5)									
	Second Tranche Maturing 23-Sep-2019		**14,191.40**		**12,147.63**					
100	IFB1/2011/12	12	3,288.54	10.25	2,705.07	3-Oct-11	18-Sep-23	12.000	16.640	82.082	17.173
101	IFB1/2011/12 (Tap 1)	12	76.70	10.25	63.93	7-Nov-11	18-Sep-23	12.000	16.640	83.353	16.640
102	IFB1/2011/12 (Tap 2)	12	57.79	10.25	48.77	5-Dec-11	18-Sep-23	12.000	16.640	84.384	16.640
103	IFB1/2011/12 (Tap 3)	12	379.50	10.25	324.20	2-Jan-12	18-Sep-23	12.000	16.640	85.428	16.640
104	IFB1/2011/12 (Tap 4)	12	1,360.53	10.25	1,180.28	6-Feb-12	18-Sep-23	12.000	16.640	86.751	16.640
105	IFB1/2011/12 (Tap 5)	12	4,971.71	10.25	4,352.98	27-Feb-12	18-Sep-23	12.000	16.640	87.555	16.640
	Final Tranche Maturing 18-Sep-2023		**10,134.77**		**8,675.21**					
	Total Diaspora Bond		**43,447.35**		**37,190.29**					
	Total For IFBs		**130,851.45**		**120,793.31**					
	Outstanding Special Bonds									
106	SFX1/2007/10	10	5,000.00	3.90	5,000.00	1-Jun-07	19-May-17	13.000	N/A	100.000	100.000
107	SFX1/2007/15	15	6,000.00	8.90	6,000.00	1-Jun-07	13-May-22	14.500	N/A	100.000	100.000
	Sub-total		**11,000.00**		**11,000.00**					
	Grand Total		**744,173.90**		**714,335.11**					

Source: Central Bank of Kenya

R1 › First Reopening
R2 › Second Reopening
R3 › Third Reopening

Appendix 3: Treasury Bonds Issues, July 2012 - June 2013, Order by Issue Date

Issue no	Tenure (Years)	Amount at face (Ksh Million)	Amount at cost (Ksh Million)	Issue date	Maturity date
FXD 1/2012/5	5	7,925,800,000.00	7,458,742,356.50	30/07/2012	22/05/2017
FXD 1/2012/10*	10	5,298,850,000.00	5,038,005,087.00	30/07/2012	13/06/2022
FXD 2/2012/2	2	16,312,350,000.00	16,312,601,096.00	27/08/2012	25/08/2014
FXD 1/2012/15	15	21,089,450,000.00	19,525,726,149.50	24/09/2012	06/09/2027
FXD 3/2012/2	2	13,764,300,000.00	13,764,796,022.00	29/10/2012	27/10/2014
FXD 1/2012/20	20	3,461,350,000.00	3,095,343,270.50	26/11/2012	01/11/2032
FXD 4/2012/2	2	20,774,000,000.00	20,774,356,888.00	24/12/2012	22/12/2014
FXD 1/2012/5*	5	18,248,200,000.00	18,061,529,560.00	28/01/2013	22/05/2017
FXD 1/2012/20*	20	4,956,500,000.00	4,488,730,202.50	28/01/2013	01/11/2032
FXD 1/2013/2	2	20,445,800,000.00	20,446,110,361.00	25/02/2013	23/02/2015
FXD 1/2013/15	15	5,875,700,000.00	4,986,659,185.00	25/02/2013	07/02/2028
FXD 1/2012/10*	10	11,061,750,000.00	10,828,896,261.50	25/03/2013	13/06/2022
FXD 2/2013/2	2	19,960,650,000.00	19,960,925,347.50	25/03/2013	23/03/2015
FXD 1/2013/5	5	20,240,750,000.00	20,240,569,350.00	29/04/2013	23/04/2018
FXD 2/2013/15	15	17,385,850,000.00	15,560,859,557.50	29/04/2013	10/04/2028
FXD 1/2012/20*	20	10,882,700,000.00	10,132,095,728.00	27/05/2013	01/11/2032
Total		**217,684,000,000.00**	**210,675,946,422.50**		

Source: Central Bank of Kenya

***Reopened Bonds**

Appendix 4: Government Securities Market Yields for June 2013

Tenor		Current Market Yield (%)	Last issue average rate (%)	Dated	Last issue coupon rate (%)	Tenor Differential
91-days	0.25	5.1750	5.1100	24.06.13	-	
182-days	0.5	5.5490	5.6420	24.06.13	-	0.374
364-days	1	8.1410	8.1410	24.06.13	-	2.592
1 year	1	8.1410	18.030	27.02.12	-	0.000
2 year	2	9.3715	12.940	25.03.13	12.940	1.231
3 year	3	10.3141	9.696	25.09.06	8.250	0.943
4 year	4	10.3450	9.438	26.02.07	11.000	0.031
5 year	5	10.8000	12.892	29.04.13	12.892	0.455
6 year	6	10.9911	11.288	30.04.07	11.500	0.191
7 year	7	11.2523	10.325	26.07.07	9.750	0.261
8 year	8	11.4660	9.579	01.03.10	9.750	0.214
9 year	9	11.4976	13.599	24.04.06	13.500	0.032
10 year	10	11.6169	13.661	29.04.13	12.000	0.119
11 Year	11	11.6982	14.308	25.09.06	13.750	0.081
12 Year	12	11.7279	12.363	21.10.13	12.000	0.030
13 Year	13	11.7711	-	-	-	0.043
14 Year	14	12.1171	-	-	-	0.346
15 Year	15	12.2771	13.629	25.02.13	11.250	0.160
18 Year	20	12.3593	13.262	28.12.09	13.750	0.082
20 Year	20	12.6521	12.981	27.05.13	12.000	0.293
25 Year	25	13.4594	9.839	26.07.10	11.250	0.807
28 Year	28	13.6999	16.397	29.08.11	12.000	0.240

Source: Central Bank of Kenya

Appendix 5(a): Public and Publicly Guaranteed External Debt by Creditor, Ksh Million

CREDITOR	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
1. BILATERAL									
AUSTRIA	2,468	2,437	3,031	3,252	2,217	1,814	2,018	1,318	1,024
BELGIUM	5,188	5,247	4,625	4,750	7,078	6,775	9,037	7,365	7,607
CANADA	1,297	1,267	1,470	1,400	1,585	1,609	1,676	1,481	1,390
DENMARK	2,365	2,392	2,144	2,336	2,354	2,291	2,775	2,077	1,988
FINLAND	134	160	118	120	129	119	132	105	97
FRANCE	18,106	18,643	18,886	22,903	28,103	28,173	40,347	36,709	47,397
GERMANY	12,941	13,910	13,479	15,764	16,441	16,235	26,670	24,879	25,042
ITALY	7,182	8,741	7,151	6,344	5,750	4,347	4,388	2,928	2,132
JAPAN	84,469	79,464	66,167	72,845	90,839	98,847	111,842	107,403	86,789
NETHERLANDS	2,208	2,752	2,367	2,318	2,140	1,877	3,012	2,926	2,600
UK	2,818	2,705	2,628	2,458	2,354	2,128	2,328	1,936	1,732
USA	6,057	5,842	5,206	4,863	5,669	5,729	5,901	5,136	4,816
CHINA	2,486	2,398	3,132	4,024	11,821	14,385	32,453	36,662	63,123
OTHERS	9,949	8,918	11,300	9,823	9,453	12,018	14,386	12,618	11,900
TOTAL	**157,669**	**154,877**	**141,706**	**153,200**	**185,933**	**196,347**	**256,965**	**243,543**	**257,637**
2. MULTILATERAL									
ADB/ADF	23,560	25,837	23,630	30,134	32,651	41,000	52,645	70,863	80,729
EEC/EIB	8,468	13,335	10,248	11,235	11,063	10,498	12,497	10,934	15,769
IBRD	38	-	-	-	-	-	-	-	-
IDA/IFAD	210,311	204,306	190,877	209,545	246,485	260,108	319,268	297,588	332,624
IMF	12,641	11,409	13,703	17,548	35,125	34,110	47,582	66,593	73,779
OTHERS	655	663	1,801	2,673	5,781	6,617	8,890	9,099	8,890
TOTAL	**255,764**	**255,550**	**240,259**	**271,135**	**331,105**	**352,333**	**440,882**	**455,076**	**511,791**
3.COMMERCIAL BANKS	**1,776**	**1,274**	**574**	**-**	**-**	**-**	**-**	**50,540**	**58,928**
4.EXPORT CREDIT	**19,244**	**19,536**	**18,427**	**18,543**	**23,837**	**20,458**	**25,041**	**14,812**	**15,207**
GRAND TOTAL	**434,453**	**431,237**	**400,966**	**442,878**	**540,875**	**569,138**	**722,888**	**763,972**	**843,562**

Source: National Treasury

Appendix 5(b): Public and Publicly Guaranteed External Debt by Creditor, USD Million

CREDITOR	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
1. BILATERAL									
AUSTRIA	32.4	33.0	45.6	50.3	28.7	22.1	22.5	15.6	11.9
BELGIUM	68.0	71.0	69.6	73.4	91.7	82.7	100.6	87.4	88.4
CANADA	17.0	17.2	22.2	21.6	20.5	19.6	14.2	17.6	16.2
DENMARK	31.0	32.4	32.3	36.1	30.5	28.0	35.4	24.7	23.1
FINLAND	1.8	2.2	1.8	1.9	1.7	1.5	1.5	1.2	1.1
FRANCE	237.3	252.3	277.8	354.0	364.2	343.9	449.0	435.8	551.1
GERMANY	169.6	188.3	198.1	243.7	213.1	198.2	296.8	295.4	291.2
ITALY	94.1	118.3	107.6	98.1	74.5	53.1	48.8	34.8	24.8
JAPAN	1,109.5	1,075.6	1,006.0	1,126.0	1,177.3	1,206.7	1,244.6	1,275.1	1,009.1
NETHERLANDS	28.9	37.3	35.6	35.8	27.7	22.9	33.5	34.7	30.2
UK	36.9	36.6	39.6	38.0	30.5	26.0	25.9	23.0	20.1
USA	79.4	79.1	70.9	75.1	73.5	69.9	65.7	61.0	56.0
CHINA	32.1	32.5	46.9	62.2	153.2	175.6	361.1	466.8	734
OTHERS	130.9	120.7	117.7	151.9	122.7	146.7	160.08	150.3	138.4
TOTAL	**2,069.0**	**2,096.3**	**2,071.5**	**2,368.1**	**2,409.8**	**2,396.9**	**2,859.5**	**2,923.4**	**2,995.6**
2. MULTILATERAL									
ADB/ADF	310.0	349.7	353.1	465.8	423.2	500.5	585.8	811.1	938.6
EEC/EIB	111.0	180.5	150.4	173.7	143.4	128.2	139.1	129.8	183.3
IBRD	0.5	-	-	-	-	-	-	-	-
IDA/IFAD	2,757.0	2,765.4	2,867.7	3,239.0	3,194.5	3,175.3	3,552.8	3,532.0	3,867.4
IMF	165.7	154.4	206.9	271.2	244.6	416.4	529.5	909.6	857.8
OTHERS	6.0	9.0	32.7	41.3	74.9	80.8	98.9	112.8	103.4
TOTAL	**3,350.2**	**3,459.0**	**3,610.8**	**4,191.0**	**4,080.6**	**4,301.2**	**4,906.1**	**5,495.3**	**5,950.5**
3.COMMERCIAL BANKS	**23.3**	**17.2**	**4.3**	**-**	**-**	**-**	**-**	**600.0**	**685.1**
4.EXPORT CREDIT	**252.3**	**264.4**	**271.0**	**286.6**	**286.6**	**249.7**	**278.7**	**175.8**	**176.8**
GRAND TOTAL	**5,694.8**	**5,837.0**	**5,957.6**	**6,845.7**	**6,777.0**	**6,947.8**	**8,044.3**	**9,194.5**	**9,808.0**

Source: National Treasury