REPUBLIC OF KENYA
MINISTRY OF FINANCE

ANNUAL PUBLIC DEBT REPORT
JULY 2011 – JUNE 2012

December 2012

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Message from the Minister for Finance

Kenya's economy has maintained a steady path over the years despite strong domestic demand and a number of external pressures such as the global financial crisis and the debt crisis. In terms of public debt management, the country's debt has and continues to be sustainable in the medium term. This is line with the Millennium Development Goal 8, target 8D on debt sustainability and the country's Vision 2030 under the Economic Pillar.

The Government's Medium Term Debt Strategy (MTDS) entails raising resources through borrowing to meet central government budgetary requirements at minimum cost whilst maintaining a prudent level of risk. It also involves promoting the development of domestic debt markets. 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.

This 2012 Annual Public Debt Report presents an overview of debt developments during the fiscal year. In nominal terms, debt levels have been increasing but as a percentage of GDP, reduced from 53 per cent to 49 per cent during the period under review. The Government policy however is to achieve a public debt level of 45 per cent of GDP in the medium term. The foregoing outcome in terms of debt management did not come without challenges. For instance, volatility in the money market and investor uncertainty constrained domestic borrowing during the fiscal year.

The 2010 Constitution that Kenya has started to implement overhauls the form of governance and introduces fiscal devolution. In this regard, the Public Finance Management (PFM) Law has ushered in a new era in public debt management that will entrench and promote prudent and sound debt management practices for both Central and County Governments with an aim to enhance efficiency and transparency. The PFM has repealed all earlier legislations on domestic and external government borrowing.

Hon. Robinson Njeru Githae, EGH, MP

Minister for Finance

Message from the Permanent Secretary

This 7th Annual Public Debt Report provides detailed information on the status, general developments and the medium term outlook of the country's public debt. Kenya's public debt consists of both domestic and external components. In gross terms, total debt increased to Ksh 1,622,801 million representing 49.5 per cent of GDP in June 2012 from Ksh 1,487,110 million which was 53.4 per cent of GDP in June 2011. The domestic component grew to Ksh 858,830 million which is equivalent to 26.2 per cent of GDP in June 2012 compared to Ksh 764,222 million or 27.4 per cent of GDP in June 2011. The external component also increased by Ksh 41,083 million in June 2012 to Ksh 763,971 million over the same period. As a percentage of GDP, external debt decreased from 25.9 per cent to 23.3 per cent.

As a percentage of revenue, total debt service declined to 15.5 per cent in June 2012 from 16.5 per cent in June 2011. In nominal terms under the domestic debt component, there was slight increase in debt service attributed to high interest rates in the domestic market particularly during the first half of the financial year.

During the period under review, domestic borrowing was constrained by the volatility in the money market interest rates and investor uncertainty occasioned by high inflation and weakening of the shilling. Consequently, there was under subscription of Treasury Bills and bonds in the auction markets for Government securities. Following this development, Government sought alternative sources of funding by way of a syndicated loan of up to Ksh 51.3 billion to substitute the shortfall in domestic borrowing.

In the medium term outlook, overall public debt is projected to rise in nominal terms to Ksh 1,882,900 million in June 2013 from Ksh 1,622,801 million in June 2012 and later increase to Ksh 2,414,600 million in June 2016. However, as a proportion of GDP, public debt in nominal terms is projected to decrease from 49.5 per cent in June 2012 to 43.9 per cent in June 2016. This is in line with Government strategy of reducing debt to GDP to below 45 per cent in the medium term.

The Ministry of Finance is the process of drawing up the regulations to reorganize the institutional structure of the Treasury including the setting up of the Public Debt Management Office (PDMO) as established by the Public Finance Management Law. The objective of establishing the PDMO is to ensure prudent and sound debt management in accordance with best practice.

Joseph K. Kinyua, CBS
Permanent Secretary/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
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
KACC	Kenya Anti-Corruption Commission
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
MOF	Ministry of Finance
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
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	Restructuring 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 Ministry of Finance 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 1,622,801 million or 49.5 per cent of GDP in June 2012 from Ksh 1,487,110 million or 53.4 per cent of GDP in June 2011. Domestic debt rose to Ksh 858,830 million or 26.2 per cent of GDP from Ksh 764,222 million or 27.4 per cent of GDP in the same period. Similarly, external debt rose to Ksh 763,971 million in June 2012 from Ksh 722,888 million in June 2011. As a percentage of GDP, external debt decreased from 25.9 per cent to 23.3 per cent 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 as a result of issuance of short term non-benchmark bonds during the first half of the financial year. In terms of structure of securities by type, the ratio of Treasury Bills to bonds as at June 2012 was 16:84 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 686,951 million in June 2012 compared to Ksh 595,661 million in June 2011.

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 16.5 per cent from 16.2 per cent in June 2012 and June 2011 respectively. In nominal terms under the domestic debt component, there was slight increase in debt service that was attributed to the high interest rates in the domestic market particularly during the first half of the financial year.

The Public Financial 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 21 years amounts to Ksh 22,109 million.

There have been continuous reforms at the Ministry of Finance 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 1,882,900 million in June 2013 from Ksh 1,622,801 million in June 2012 and later increase to Ksh 2,414,600 million in June 2016. However, as a proportion of GDP, public debt in nominal terms is projected to increase to 49.9 per cent in June 2013 from 49.5 per cent in June 2012 and then decline to 43.9 per cent in June 2016. Overall debt service is projected to increase by 44 per cent but as a ratio to GDP, the debt burden indicators will be within sustainable levels.

Introduction

The Fiscal Year ***2011/12 Annual Public Debt Management Report*** presents the major developments in Kenya's public debt management activities during the financial year ended June 2012. 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. Reforms in Public Debt Management
9. Outlook for the Medium Term

1. FINANCING OF BUDGET DEFICIT

1.1 Financing of the Deficit

The 2011/12 Central Government budget deficit (including grants) of Ksh 170.9 billion or 5.4 per cent of GDP was to be financed partly through net foreign financing of Ksh 51.4 billion (1.6 per cent of GDP). The remaining Ksh 119.5 billion was to be financed through net domestic borrowing (3.8 per cent of GDP) inclusive of Infrastructure Bonds amounting to Ksh 31.6 billion. No privatization proceeds were expected.

A review of the actual budget outturn resulted in a revised deficit of Ksh 227.3 billion. This deficit was 6.9 per cent of GDP and to be financed through net foreign financing of Ksh 165.2 billion (5.0 per cent of GDP) including an external commercial bank syndicated loan of USD 600 million equivalent to Ksh 51.3 billion (Ksh 85.5 per USD) and net domestic borrowing of Ksh 62.1 billion (1.9 per cent of GDP).

The actual budget performance as at end June 2012 resulted in an overall fiscal deficit of Ksh 161.9 billion which was financed through net domestic borrowing of Ksh 63.4 billion (1.9 per cent of GDP). The net foreign financing of Ksh 98.5 billion (3.0 per cent of GDP) included commercial financing of USD 600 million which was equivalent to Ksh 51.3 billion (Ksh 85.5 per USD).

1.2 Syndicated Loan to Finance the Budget

Since the implementation of the 2011/12 budget in July 2011, the economic environment worsened resulting to revenue short fall and constrained domestic borrowing resulting from volatility in the money market interest rates and investor uncertainty brought about by high inflation and weakening of the Shilling. Consequently, there was under subscription of Treasury Bills and Bonds in the auction market for government securities. Meanwhile, to continue implementing critical investment programmes in infrastructure, social sectors, as well as irrigation programmes and implementation of the new Constitution, the Government sought alternative sources of funding by way of a syndicated loan of up to Ksh. 51.3 billion (equivalent of about USD 600 million) to overcome the low uptake of Government securities by investors. In addition, the foreign currency inflows associated with the proposed borrowing eased pressure on domestic interest rates, boosted international reserves and reduced pressure on the Kenya shilling. Taking into account this external loan, the revised domestic borrowing was revised downwards to Ksh 62.1 billion, down from Ksh 119.5 billion in the original budget.

1.3 Total Public Debt

Kenya's public and publicly guaranteed debt increased from Ksh 1,487,110 million or 53.4 per cent of GDP in June 2011 to Ksh 1,622,801 million or 49.5 percent of GDP in June 2012 as indicated in Table 1.1 and Chart 1.1. Domestic debt rose from Ksh 764,222 million or 27.4 per cent of GDP to Ksh 858,830 million or 26.2 percent of GDP over the period under review. Similarly, external debt rose from Ksh 722,888 million in 2011 to Ksh 763,971 million in 2012. As a percentage of GDP, external debt decreased from 25.9 per cent to 23.3 per cent over the period.

The share of domestic debt in total debt increased from 51.4 per cent to 52.9 per cent as shown in Table 1.1 while external debt decreased from 48.6 per cent to 47.1 per cent. The increase in domestic debt is attributed to increased demand for government securities in the domestic market. From the table, the external debt portfolio consists mainly of multilateral and bilateral creditors at 59.6 per cent and 31.9 per cent respectively.

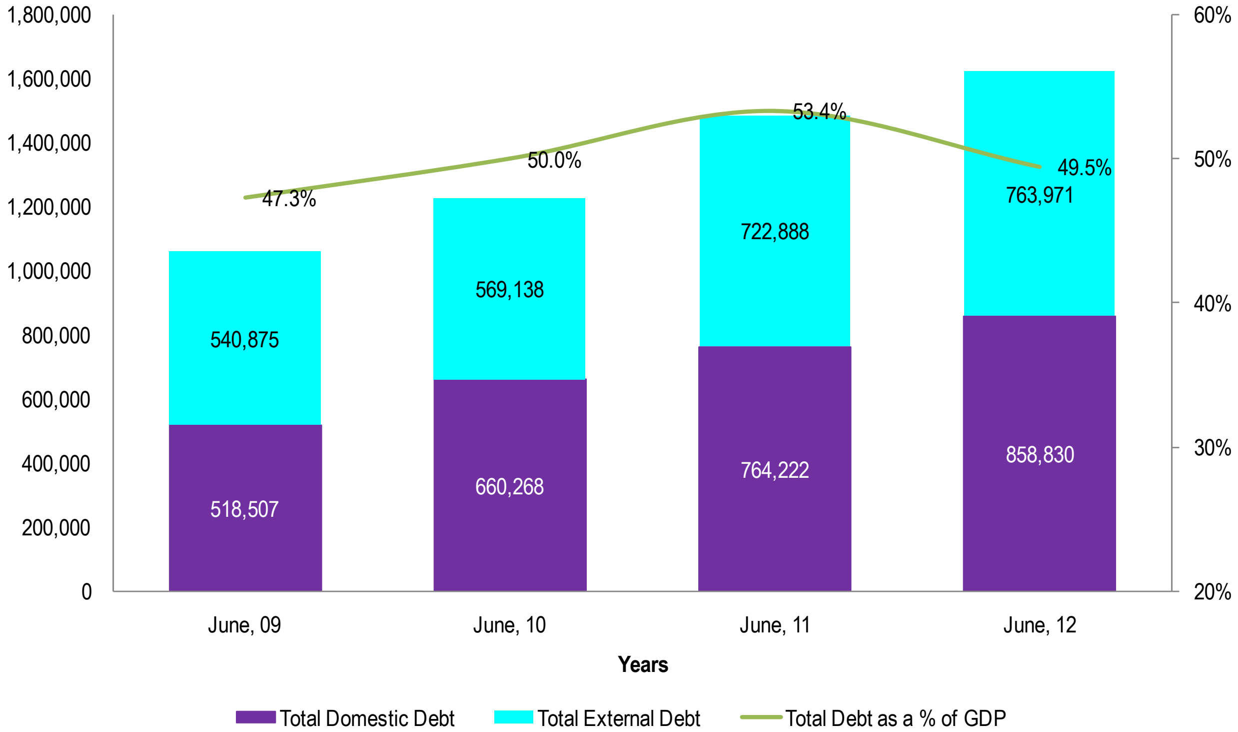
For the past three years, total debt has been increasing both in nominal terms and as a percentage of GDP. In the year under review, although total debt increased in nominal terms, it declined as percentage of GDP by 4.0 per cent from 53.4 per cent in June 2011 to 49.5 per cent in June 2012. This indicates that the economy has grown faster than the increase in debt. In the medium term, the Government plans to lower the level of public and publicly guaranteed debt to 45 per cent of GDP.

Table 1.1: Public and Publicly Guaranteed Debt, Ksh Million

	June 2009	June 2010	June 2011	June 2012	Change 2011/12
DOMESTIC (Gross)					
Banks					
Central Bank	40,061	50,215	39,691	47,383	7,692
Commercial Banks	250,717	351,579	384,640	411,867	27,227
Sub-total	**290,778**	**401,794**	**424,331**	**459,250**	**34,919**
Non-banks					
Non-bank Financial Institutions	3,651	2,956	10,013	4,103	(5,910)
Other Non-bank Sources	224,078	255,518	329,878	395,477	65,599
Sub-total	**227,729**	**258,474**	**339,891**	**399,580**	**59,689**
Total Domestic	**518,507**	**660,268**	**764,222**	**858,830**	**94,608**
As a % of GDP	*22.7*	*26.9*	*27.4*	*26.2*	(1.2)
As a % of total debt	*48.9*	*53.7*	*51.4*	*52.9*	1.5
EXTERNAL					
Central Government					
Bilateral	152,985	159,687	215,035	199,950	(15,085)
Multilateral	327,633	348,647	436,838	451,287	14,449
Commercial Banks	0	0	0	50,540	50,540
Suppliers Credits	23,837	20,458	25,041	14,811	(10,230)
Sub-Total	**504,455**	**528,792**	**676,914**	**716,588**	**39,674**
Guaranteed					
Bilateral	32,948	36,660	41,930	43,593	1,663
Multilateral	3,472	3,686	4,044	3,790	(254)
Sub-Total	**36,420**	**40,346**	**45,974**	**47,383**	**1,409**
Total External	**540,875**	**569,138**	**722,888**	**763,971**	**41,083**
As a % of GDP	23.7	23.2	25.9	23.3	(2.6)
(As a % of total debt)	*51.1*	*46.3*	*48.6*	*47.1*	(1.5)
GRAND TOTAL	**1,059,382**	**1,229,406**	**1,487,110**	**1,622,801**	**135,691**
As a % of GDP	*46.4*	*50.0*	*53.4*	*49.5*	(3.9)
Memorandum item					
GDP	2,283,000	2,458,400	2,787,300	3,281,200	

Source: Treasury and Central Bank of Kenya

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



Source: Treasury and Central Bank of Kenya

1.4 Debt Service

Total Debt Service (TDS) on Kenya's Central Government debt increased by 15.3 per cent from Ksh 98,552 million in 2010/11 to Ksh 113,644 million in 2011/12 as shown in Table 1.2 and Chart 1.2. Debt service on both domestic and external debt increased by Ksh 11,842 million and Ksh 3,250 million respectively. The slight rise in debt service for domestic debt was attributed to the high interest rates in the domestic market particularly during the first half of the financial year under review.

As a proportion of total debt service, the external component declined from 28.5 per cent to 27.5 per cent while the domestic portion increased from 71.5 per cent to 72.5 per cent in 2010/11 and in 2011/12 respectively. This indicates that the structure of Central Government debt service remained relatively unchanged with a large share falling under the domestic component.

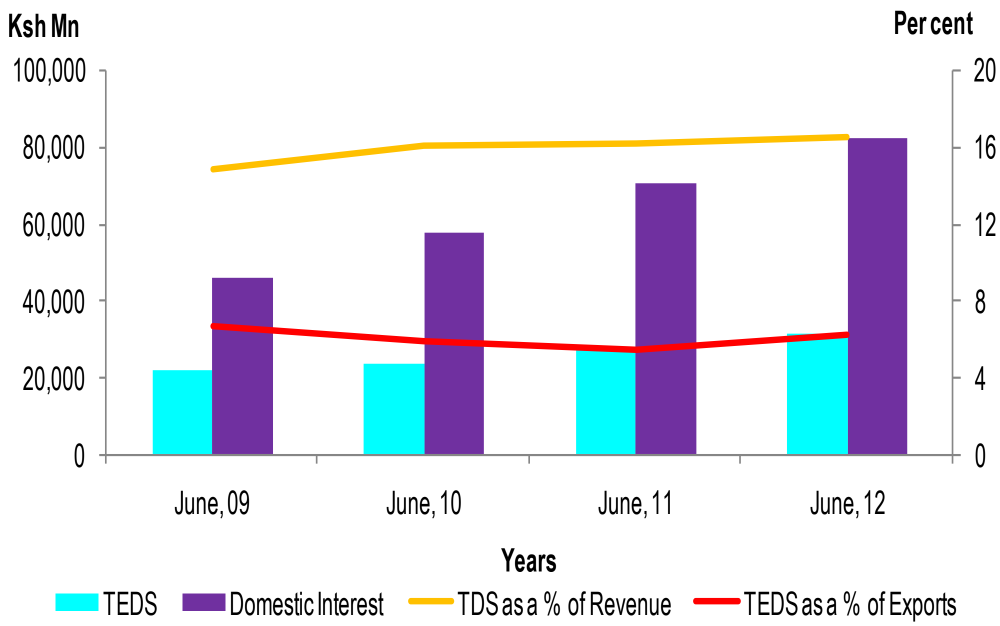
> Slight rise in debt service for domestic debt was attributed to the high interest rates in the domestic market particularly during the first half of the financial year under review

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

Item Description	June 2009	June 2010	June 2011	June 2012	Change 2011/12
External Principal	16,013	17,373	21,020	23,954	2,934
External Interest	5,632	6,238	7,035	7,351	316
TEDS	**21,645**	**23,611**	**28,055**	**31,305**	**3,250**
TEDS as a % of TDS	32.0	29.2	28.5	27.5	(1.0)
Domestic Interest	45,949	57,381	70,497	82,339	11,842
Dom Interest as a % of TDS	68.0	70.8	71.5	72.5	1.0
TDS	**67,594**	**80,992**	**98,552**	**113,644**	**15,092**
Ordinary Revenue	456,000	507,500	609,200	690,700	81,500
Export Earnings (goods only)	358,136	400,024	511,577	499,737	(11,840)
TDS as a % of Revenue	14.8	16.0	16.2	16.5	0.3
TEDS as a % of Exports	6.7	5.9	5.5	6.3	0.8

Source: Treasury and Central Bank of Kenya

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



Source: Treasury and Central Bank of Kenya

Total External Debt Service (TEDS) as a percentage of export earnings increased by 0.8 per cent from 5.5 per cent to 6.3 per cent over the same period. During the period under review, the overall debt service as a per cent of revenue increased by 0.3 per cent.

1.5 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 2011/12 was 0.8 per cent and 6.2 years, respectively. This profile, together with the long maturity of 26.3 years yields an average grant element of 65.8 per cent for new external loans.

On the other hand, the average maturity profile of outstanding Government domestic debt has decreased from 5.8 years in June 2011 to 5.3 years in June 2012.

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 2011/12, the Government raised Ksh 79,186.48 million as net proceeds through borrowing from the domestic market by sale of Treasury Bills, Treasury Bonds and Infrastructure Bonds.

As shown in Table 2.1, on a net basis, the outstanding stock of domestic debt rose by Ksh 94,608 million (12.4 percent growth) to stand at Ksh 858,830 million in June 2012 compared to Ksh 764,222 million in June 2011. This increase was mainly attributed to an increase of Ksh 91,290 million and Ksh 5,442 million in the stock of Treasury Bonds and Treasury Bills respectively. The level of domestic debt was partly offset by a repayment of Ksh 1,664 million of the Pre-1997 Government Debt.

Table 2.1: Domestic Debt Stock, Ksh Million

Instrument	June 2011		June 2012		Change
	Amount	%	Amount	%	
Total Stock of Domestic Debt (A+B)	**764,222**	**100**	**858,830**	**100**	**94,608**
A. Government Securities(1-3)	**753,929**	**98.7**	**848,997**	**98.9**	**95,068**
1.Treasury Bills	126,605	16.6	132,047	15.4	5,422
Banking Institutions	87,736	11.5	75,497	8.8	(12,239)
Others	38,869	5.1	56,550	6.6	17,681
2.Treasury Bonds	595,661	77.9	686,951	80.0	91,290
Banking Institutions	294,206	38.5	337,412	39.3	43,206
Others	301,455	39.4	349,539	40.7	48,084
3. Pre-1997 Government Debt	31,663	4.1	29,999	3.5	(1,664)
B. Others[1]	**10,293**	**1.3**	**9,833**	**1.1**	**(460)**
Of which CBK Overdraft	7,571	1	7,257	0.8	(314)

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

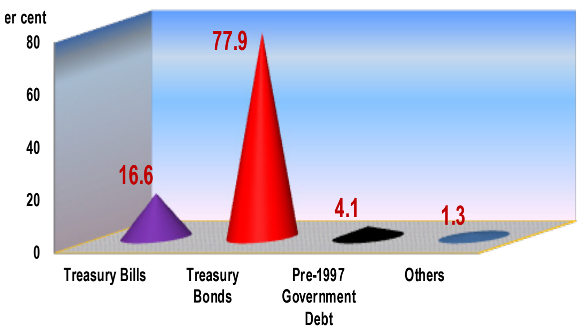
The stock of outstanding Treasury Bonds increased by 15.3 percent from Ksh 595,661 million in June 2011 to Ksh 686,951 million in June 2012 while Treasury Bills increased by 4.3 percent from Ksh 126,605 million to Ksh 132,047 million over the same period as shown in Table 2.1 and Charts 2.1. (a) and (b). Consequently, the proportion of Treasury Bonds in total domestic debt increased from 77.9 percent to 80.0 percent while Treasury Bills declined from 16.6 percent to 15.4 percent during the period as shown in Charts 2.1(a) and 2.1(b).

As at end June 2012, the ratio of Treasury Bills to bonds stood at 16:84 which was in accordance with the domestic debt borrowing strategy, where the Government sought to achieve and maintain the ratio of Treasury Bills and Treasury Bonds at 30:70. The proportion of Pre-1997 CBK advances to Government dropped from 4.1 percent to 3.5 percent due to a net repayment of Ksh 1,664 million made during the fiscal year 2011/12. The level of Government Overdraft reduced by Ksh 314 million from Ksh 7,571 million by end June 2011 to Ksh 7,257 million as at end June 2012.

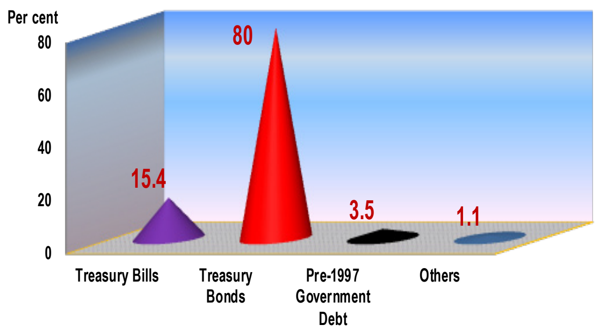
> The proportion of Treasury Bonds in total domestic debt increased from 77.9% to 80.0% while Treasury Bills declined from 16.6% to 15.4% during the period

Chart 2.1: Domestic Debt by Instrument

(a) June 2011



(b) June 2012



Source: Treasury and Central Bank of Kenya

2.3 Domestic Debt by Holder

Although the holding of domestic debt by commercial banks declined to 48.0 percent down from 50.3 percent in June 2011 as shown in Table 2.2., they still remained the largest holders among all investor categories. However, the share of domestic debt held by non-bank investors increased from 43.2 percent in June 2011 to 45.2 percent in June 2012.

Table 2.2: Domestic Debt by Holder, Ksh Million

Holder	June 2011		June 2012		Change
	Amount	%	Amount	%	
Banks	**424,331**	**55.5**	**459,294**	**53.5**	**34,963**
o/w* Central Bank	39,691	5.2	47,382	5.5	7,691
Commercial Banks	384,640	50.3	411,867	48.0	27,227
Non-Banks	**339,891**	**44.5**	**399,580**	**46.5**	**39,689**
o/w* Non-Bank Financial Institutions	10,013	1.3	11,039	1.3	1,026
Other Non-Bank Sources	329,878	43.2	388,541	45.2	58,663
Total	**764,222**	**100**	**858,830**	**100**	**94,608**

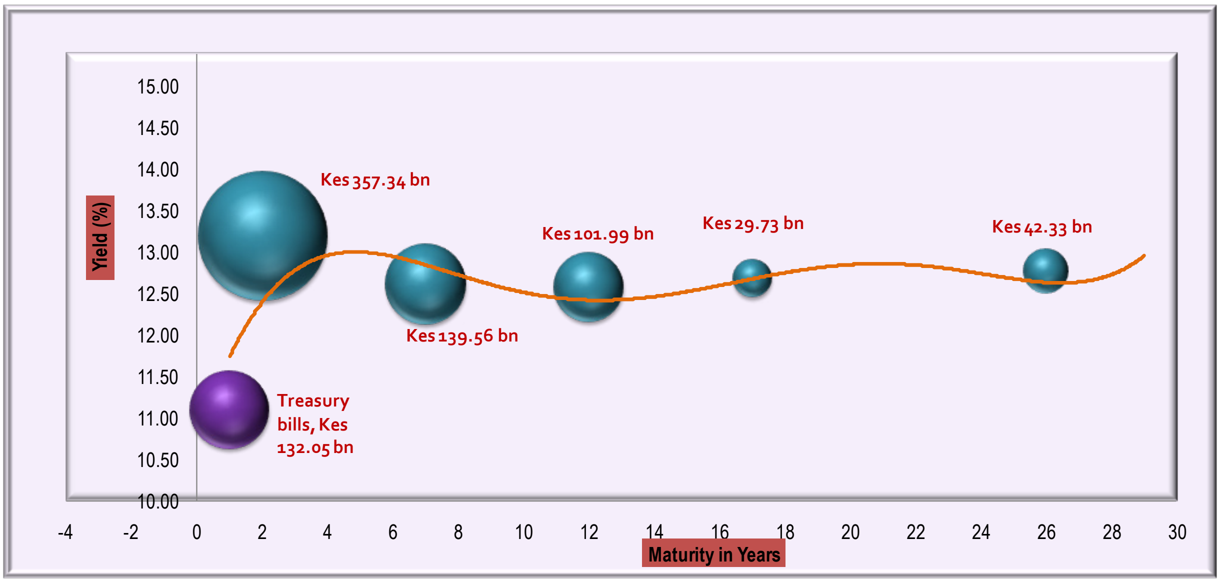
**Of which*
Source: Central Bank of Kenya

2.4 Treasury Bills and Bonds by Tenor

Of the total outstanding Government securities held as at end June 2012, Treasury Bills accounted for 16.1 percent, down from 17.5 percent as at end June 2011 as shown in Table 2.3 below. During the financial year, the proportion of the outstanding 91 day and 364 day Treasury Bills stock dropped by 5.5 per cent and 0.4 per cent while the stock of 182-day Treasury Bills rose by 6.5 per cent respectively. This indicates enhanced investor preference for the 182-day Treasury Bills during the period under review.

Treasury Bonds accounted for 83.9 per cent of the outstanding Government securities as at end June 2012. Out of these, Treasury Bonds with original maturity range of 1 year to 5 years amounted to Ksh 272,439 million (33.3 percent) while those with a maturity range of between 6 and 9 years stood at Ksh 124,072 million (15.1 percent). Treasury Bonds with original maturity profile of 10 years and above amounted to Ksh 290,441 million (35.5 percent).

Chart 2.2: Stock of Treasury Bills and bonds across the Yield Curve as at 30 June 2012



Source: Central Bank of Kenya

The maturity distribution in Chart 2.2 above and Table 2.3 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 to 35.5 percent from 37.7 percent while the portfolio of the short dated bonds increased from 26.0 percent to 33.3 percent in June 2012 from June 2011.

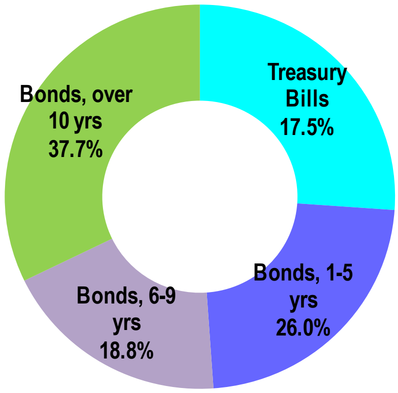
Table 2.3: Outstanding Treasury Bills and Bonds by Tenor, Ksh Million

Security Type	June 2011		June 2012		Change	
	Amount	(%) of total	Amount	(%) of total	Amount	(%) of total
Treasury Bills (Days)						
91	69,135	9.6	24,323	3.0	(44,812)	(5.5)
182	22,528	3.1	75,669	9.2	53,141	6.5
364	34,942	4.8	32,056	3.9	(2,886)	(0.4)
Sub totals	**126,605**	**17.5**	**132,048**	**16.1**	**5,443**	**0.7**
Treasury Bonds (Years)						
1	0	0.0	51,522	6.3	51,522	6.3
2	73,012	10.1	86,462	10.6	13,450	1.6
3	0	0.0	0.00	0.0	0.00	0.0
4	0	0.0	19,121	2.3	19,121	2.3
5	114,551	15.9	115,333	14.1	782	0.1
Sub totals	**187,563**	**26.0**	**272,439**	**33.3**	**145,834**	**17.8**
6	60,661	8.4	47,241	5.8	(13,420)	(1.6)
7	24,296	3.4	22,523	2.8	(1,773)	(0.2)
8	22,813	3.2	28,944	3.5	6,131	0.7
9	27,732	3.8	25,364	3.1	(2,368)	(0.3)
Sub totals	**135,502**	**18.8**	**124,072**	**15.1**	**(11,430)**	**(1.4)**
10	91,391	12.7	95,725	11.7	4,334	0.5
11	4,031	0.6	4,031	0.5	0	0.0
12	33,051	4.6	43,186	5.3	10,135	1.2
15	75,443	10.4	75,443	9.2	0	0.0
20	29,727	4.1	29,727	3.6	0	0.0
25	20,193	2.8	20,193	2.5	0	0.0
30	18,760	2.6	22,136	2.7	3,376	0.4
Sub total	**272,596**	**37.7**	**290,441**	**35.5**	**17,845**	**2.2**
Grand Total	**722,266**		**818,998**		**96,732**	

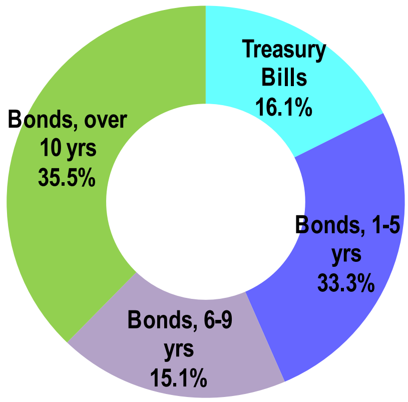
Source: Central Bank of Kenya

Chart 2.3 Outstanding Government Securities

(a) June 2011



(b) June 2012



Source: Central Bank of Kenya

2.4.1 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 and swaps.

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.

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 has increased from 0.5 years in June 2001 to 5.3 years in June 2012 and the ratio of Treasury Bonds to Treasury Bills improved to 84:16. Since 2009, 34 benchmark bonds of different maturities worth Ksh 363,684.9 million have been issued of which 16 benchmark bonds worth Ksh 146,316.3 million have been reopened.

During the period under review, 13 bonds worth Ksh 100,172.0 million were issued of which 5 worth Ksh 12,777.2 were 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 exchanges and switches under the program.

In addition, there has been improved liquidity both at the primary and the secondary markets for bonds. 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 2012. Turnover of bonds traded at the Nairobi Securities Exchange (NSE) was Ksh 390,271 million in 2011/2012 compared to Ksh 421,769 million in 2010/11. However, riding on the success of the Benchmark Bonds program, a total of twenty (20) corporate bonds have been listed and are trading at the NSE.

2.5 Infrastructure Bonds (IFBs) Program

The issuance of Infrastructure Bonds in Kenya begun 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 act an example to State Owned Enterprises (SOEs) and Local Authorities (LAs) with strong balance sheets on how to tap into the capital markets to finance their infrastructure and deliver on their mandate effectively.

To date, a total of Ksh 120.79 billion on face value terms has been raised through the sale of five (5) IFBs as reflected in Table 2.4. In 2011/2012, one IFB worth Ksh 37.19 billion was issued through an original auction in October 2012 and four subsequent monthly tap auctions up to February 2012.

Table 2.4: Performance of Infrastructure Bond (IFB) at Primary Market Auction

Bond Issue Number	Date of Issue	Offer Amount (Ksh Mn)	Bids Received FV (Ksh Mn)	Successful Bids (Ksh Mn)	Coupon Rate (%)	Successful Average Rate (%)
IFB 1/2009/12	23-02-09	18,500	26,884	18,576	12.500	13.505
IFB 2/2009/12	07-12-09	18,500	44,121	18,400	12.000	12.537
IFB 1/2010/8	01-03-10	14,500	35,273	16,042	9.750	9.579
IFB 2/2010/9	30-08-10	31,600	37,362	30,585	6.000	7.293
IFB1/2011/12	3-10-11	20,000	13,297	11,597	12.000	16.640
IFB1/2011/12	7-11-11	8,403	274	274	12.000	16.640
IFB1/2011/12	05-12-11	8,129	209	209	12.000	16.640
IFB1/2012/12	02-01-12	7,920	1,390	1,390	12.000	16.640
IFB1/2012/12	06-02-12	6,530	5,060	5,060	12.000	16.640
IFB1/2011/12	27-02-12	18,370	18,661	18,661	12.000	16.640

Source: Central Bank of Kenya

2.6 Treasury Bills by Holder

The stock of Treasury Bills increased by 4.3 percent from Ksh 126,605 million in June 2011 to Ksh 132,047 million in June 2012 as shown in Table 2.5 and Chart 2.4. The proportion held by Commercial Banks decreased from Ksh 87,736 million (69.3 percent) in June 2011 to Ksh 75,497 million (57.2 percent) in June 2012. Insurance companies, and pension funds scaled up their holdings to 5.5 percent and 21.7 percent respectively during the period under review.

Table 2.5: Outstanding Treasury Bills, Ksh Million

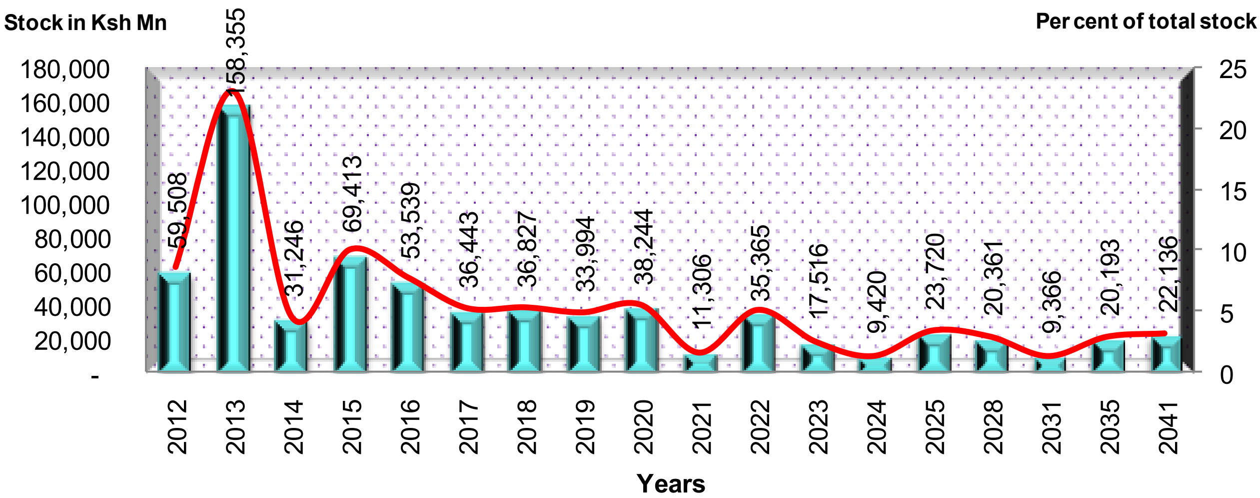
Holder	June 2011		June 2012	
	Amount	%	Amount	%
Commercial Banks	87,736	69.3	75,497	57.2
NBFIs	546	0.4	6,297	4.8
Insurance companies	4,931	3.9	7,220	5.5
Pensions Funds (including NSSF)	25,077	19.8	28,686	21.7
Others	8,315	6.6	14,347	10.9
Total[2]	**126,605**	**100.0**	**132,047**	**100.0**

Source: Central Bank of Kenya

2.7 Outstanding Treasury Bonds

The outstanding bonds across the various remaining maturities amounted to Ksh 686,951 million at the end of June 2012 compared to Ksh 595,661 million as at end June 2011 (see Appendix 2). As shown in Chart 2.4, the bulk of outstanding government bonds will be retired in the next 5 years.

Chart 2.4 Outstanding Government Bonds



Source: Central Bank of Kenya

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

2.8 Treasury Bonds by Holder

As shown in Table 2.6 and Chart 2.5, outstanding Treasury Bonds increased from Ksh 595,661 million in June 2011 to Ksh 686,951 million in June 2012. Although the holdings by commercial banks decreased slightly during the period under review, they continue to dominate as the highest holders of Treasury Bonds. Absolute holdings by Pension funds increased but as a proportion of total outstanding bonds, decreased to 27.5 percent in June 2012 from 31.5 percent in June 2011.

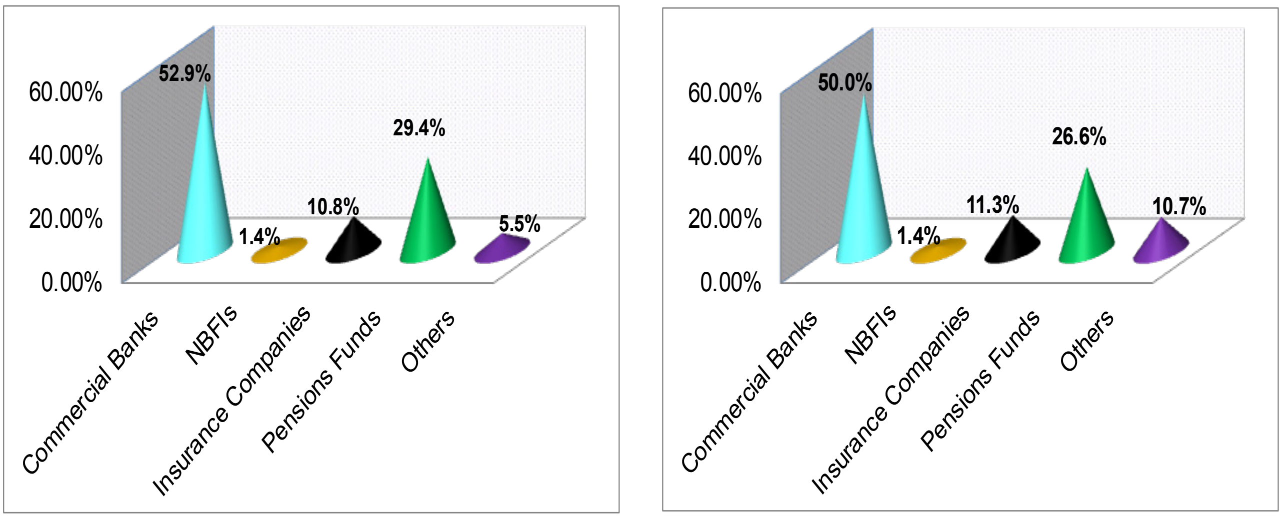
Table 2.6: Outstanding Treasury Bonds, Ksh Million

Holder	June 2011		June 2012	
	Amount	%	Amount	%
Commercial Banks	294,206	49.4	334,114	48.6
NBFIs	9,467	1.6	5,434	0.8
Insurance Companies	73,349	12.3	85,137	12.4
Pensions Funds (including NSSF)	187,392	31.5	189,011	27.5
Others	31,147	5.2	73,255	10.7
Total	**595,661**	**100**	**686,951**	**100**

Source: Central Bank of Kenya

Chart 2.5 Treasury Bills and Bonds by holders

(a) June 2011 **(b) June 2012**



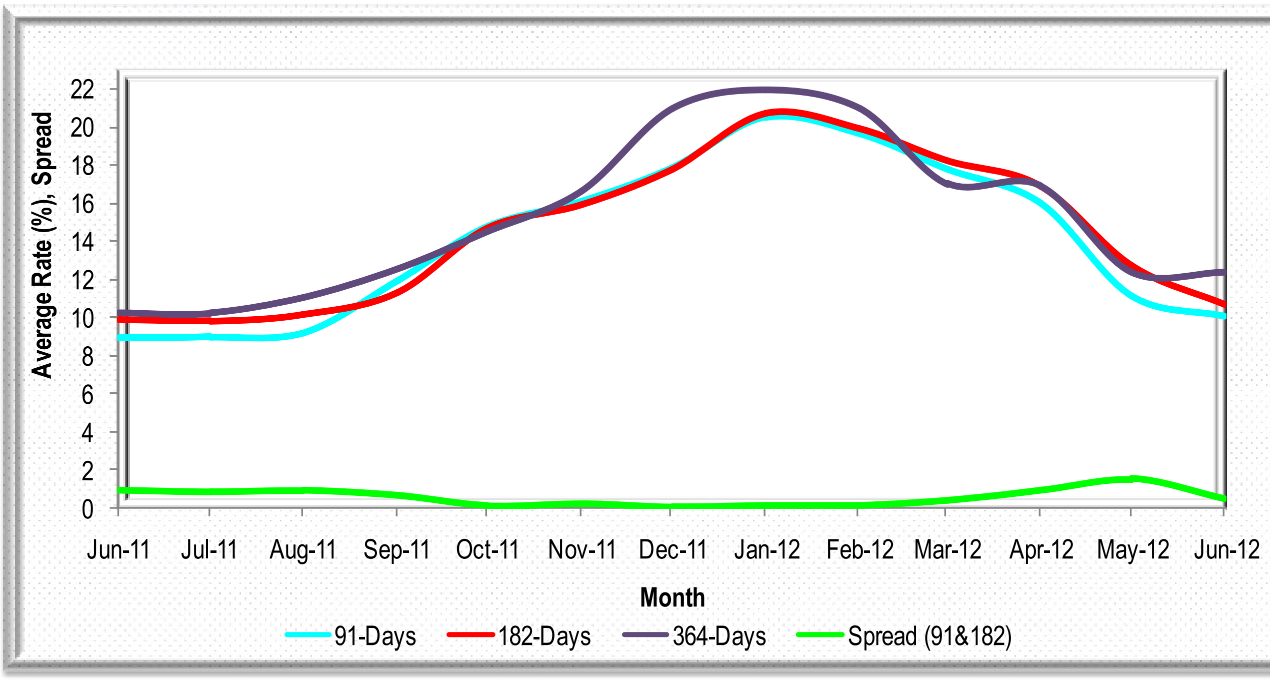
Source: Central Bank of Kenya

2.9 Average Interest Rates on Treasury Bills

During the first half of the financial year, average interest rates for Treasury Bills sustained an upward trend with the 91-day Treasury bill at an average of 20.8 percent at mid-January but begun to decline steadily from end-January to June 2012. As shown in Chart 2.6, the 91-day Treasury bill rate rose by 114 basis points from 8.95 percent in June 2011 to 10.09 percent in June 2012. Likewise, average interest rate for the 182-day Treasury bill rose by 74 basis points from 9.93 percent to 10.67 percent during the period while the average for the 364-day Treasury bill increased by 218 basis points from 10.25 percent in June 2011 to 12.43 percent in June 2012.

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 2011 - June 2012



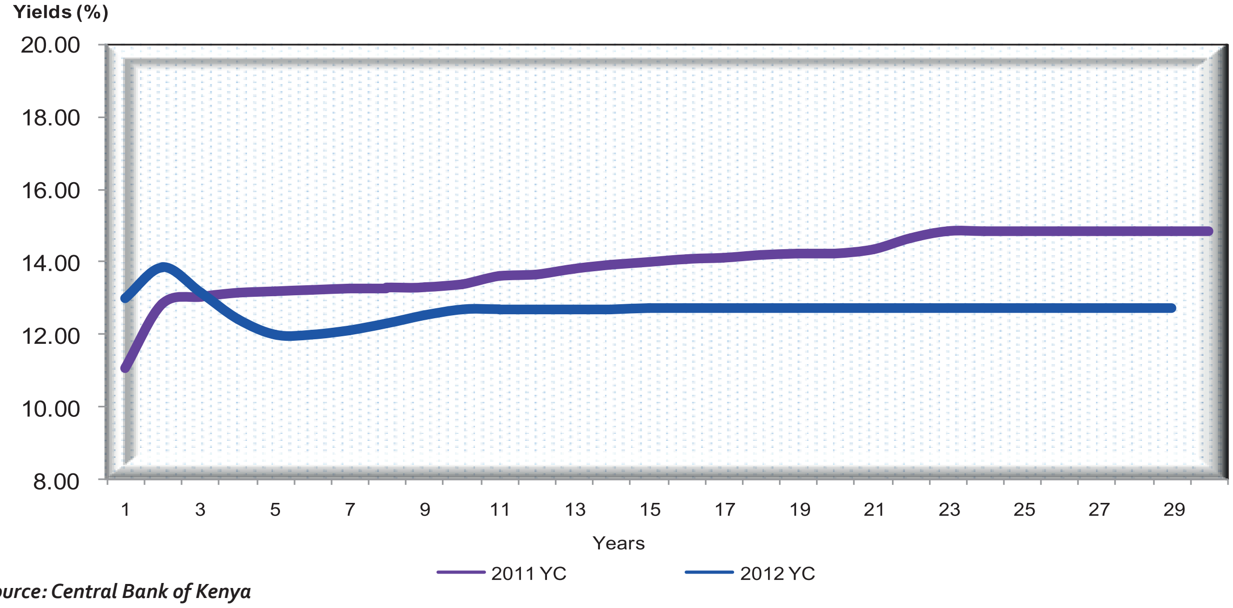
Source: Central Bank of Kenya

2.10 Government Securities Yield Curve

As shown in Chart 2.7, the Government securities trading yield curve depicts more or less a parallel and steady downward shift during the financial year 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 cash flows.

Chart 2.7: Government of Kenya Securities Yield Curve, June 2012



Source: Central Bank of Kenya

2.11 Domestic Interest Payments

Compared to 2010/11, Government expenditure on interest and other charges on domestic debt amounted to Ksh 82,339 million in 2011/12 which is a 16.8 percent increase as shown in Table 2.7. There was a significant increase in interest payments on Treasury Bills compared to Treasury Bonds. Domestic interest as a proportion of revenue increased over the period largely due to high interest rates in the domestic market but remained the same as a proportion of expenditure and GDP.

Table 2.7: Domestic Interest Payments and Ratios

Type of Debt	Interest (Ksh Million)		Per cent change
	2010/11	2011/12	
Treasury Bills	7,369	11,055	50.0
Treasury Bonds	58,162	64,620	11.1
CBK Commission	3,000	3,000	0.0
Pre - 1997 Debt	1,171	0.00	-100.0
Others	795	3,664	360.9
Total	**70,497**	**82,339**	**16.8**
Ratios (Per cent)			
Domestic Interest/Revenue	11.6	11.9	2.6
Domestic Interest/Expenditure	8.7	8.7	0.0
Domestic Interest/GDP	2.5	2.5	0.0
Domestic Interest/Total Interest	90.9	91.8	1.0

Source: Treasury and Central Bank of Kenya

3. EXTERNAL DEBT

3.1 Total External Debt

Total public and publicly guaranteed external debt increased from Ksh 722,888 million in June 2011 to Ksh 763,971 million in June 2012 as shown in Table 3.1. On net basis, the external debt stock increased by Ksh 41,083 million majorly due to disbursements of a syndicated loan amounting to Ksh 50,540 million during the financial year.

Table 3.1: External Debt Stock (Ksh Mn)

Classification	June 2011	June 2012	Per cent change
Bilateral	215,035	199,950	(7.02)
Multilateral	436,838	451,287	3.31
Commercial Banks	0	50,540	100
Supplier Credits	25,041	14,811	(40.85)
Guaranteed	45,974	47,383	3.06
Total	**722,888**	**763,971**	**5.68**

Source: Ministry of Finance

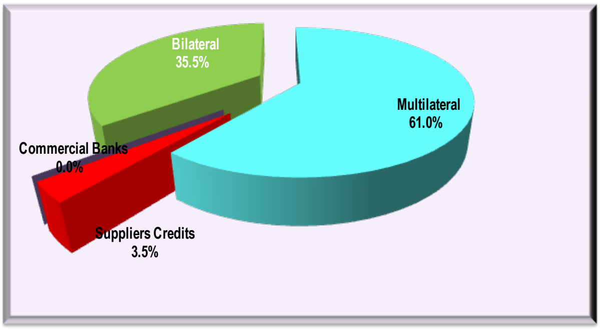
3.2 The Structure of External Debt

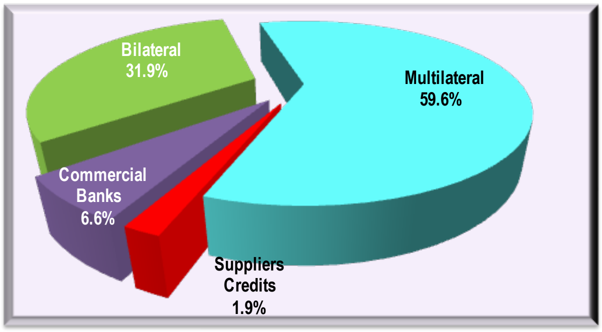
3.2.1 External Debt by Creditor Category

At the beginning of the financial year 2011/12, Kenya's external debt portfolio shows that the debt was mainly owed to multilateral (61.0 percent), bilateral (35.5 percent), commercial creditors (6.6 percent) and a small proportion owed to suppliers credit (3.5 percent) as shown in Chart 3.1(a). This structure remained unchanged over the period under review as demonstrated in Chart 3.1(b). Multilateral debt decreased by 1.4 percent to 59.6 percent in June 2012, whereas bilateral debt decreased slightly from 35.5 percent to 31.9 percent. The increase in the share of debt owed to commercial creditors is attributed to the contraction of a syndicated loan of up to Ksh. 51.3 billion (equivalent of about USD 600 million).

Chart 3.1: External Debt stock by Broad Creditors

(a) June 2011 **(b) June 2012**



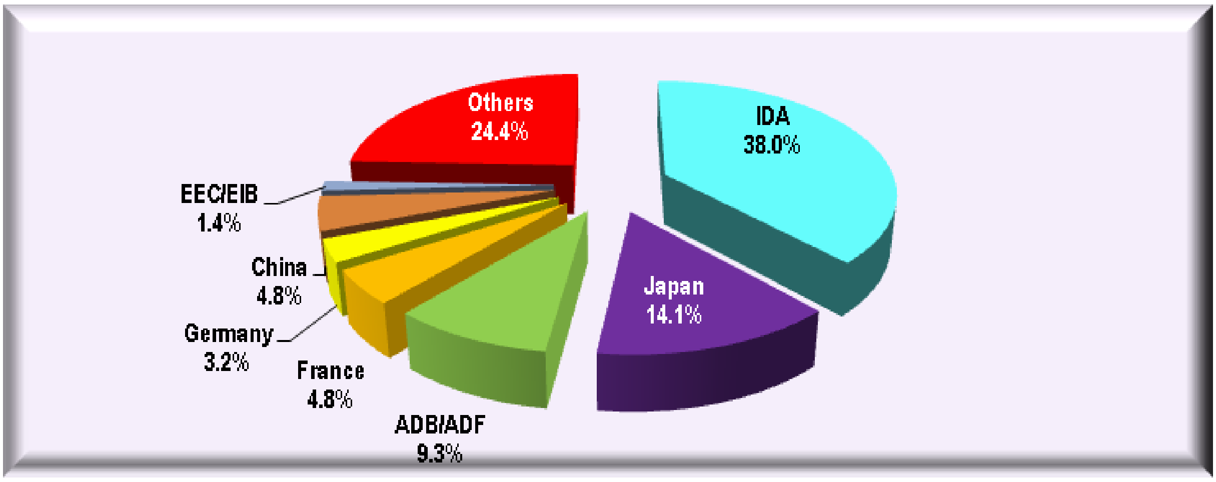


Source: Treasury

3.2.2 External Debt by Major Creditors

The World Bank (IDA) is the leading creditor in the external debt portfolio at 38.0 percent of total external debt, followed by Japan at 14.1 per cent and thereafter African Development Bank Group at 9.3 percent as shown in Chart 3.2. Among other major creditors are China, France, Germany, and the European Union/European Investment Bank.

Chart 3.2: External Debt by Major Creditors, June 2012

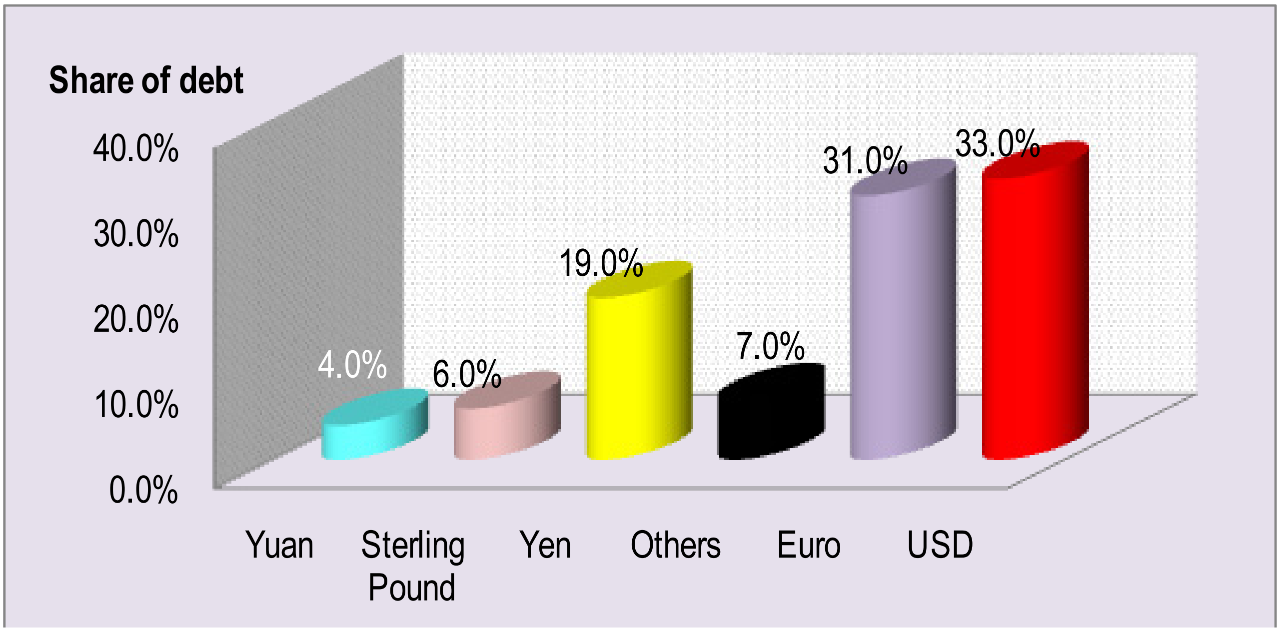


Source: Treasury

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 2012

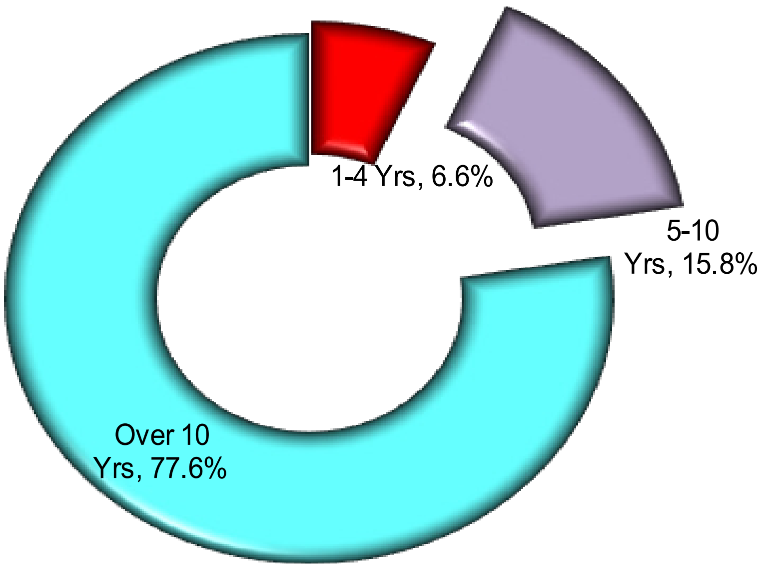


Source: Treasury

3.2.4 Maturity Structure

As at the end of June 2012, the proportion of external debt with remaining maturities of more than 10 years was 77.6 percent indicating that the country's external debt is long term. The fact that only 6.6 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 2012



Source: 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 65.8 per cent in 2011/12 compared to 69.8 per cent in

2010/11 indicating hardening of borrowing terms. The average interest rate, grace period and average maturity on new external loan commitments as at the end of June 2012 was 0.8 percent, 6.2 years and 26.3 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 2011	June 2012
Average Maturity (yrs)	26.6	26.3
Grace Period (yrs)	8.1	6.2
Average Interest Rate (%)	0.8	0.8
Grant Element (%)	69.8	65.8

Source: Treasury

3.3 External Debt Service

As shown in Table 3.3, total principal and interest payments on Central Government debt increased from Ksh 28,055 million in 2010/11 to Ksh 31,305 million in 2011/12. The ratio of multilateral and bilateral external debt service was 52:48.

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

Payments	Multilateral		Bilateral		Total	
	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012
Principal	10,062	12,560	10,958	11,394	21,020	23,954
Interest	3,189	3,781	3,846	3,570	7,035	7,351
Total	**13,251**	**16,341**	**14,804**	**14,964**	**28,055**	**31,305**

Source: Treasury

3.4 Disbursements of External Loans

As at end June 2012, total disbursements on external project loans and budget support increased to Ksh 70,736 million from Ksh 59,678 million in June 2011 as shown in Table 3.4. Specifically, the actual amount disbursed under project loans decreased to 27.3 per cent while that under Appropriation-in-Aid (A-I-A) increased to 72.7 per cent.

Table 3.4: External Loans Disbursements, Ksh Million

Type of disbursement	June 2011		June 2012	
	Amount	%	Amount	%
Project Cash Loans	28,390	47.6	19,343	27.3
Project A-I-A	31,288	52.4	51,393	72.7
Total	**59,678**	**100**	**70,736**	**100**

Source: 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 increased by Ksh 1,409.5 million to Ksh 47,383.4 million in June 2012 from Ksh 45,973.9 million in June 2011. The increase was mainly attributed to new disbursements for KenGen under the Sondu Miriu Hydropower Project and Kenya Ports Authority under the Mombasa Port Modernization Project.

Table 4.1: Publicly Guaranteed Debts, Ksh Million

Agency	Year Loan Contracted	Purpose of Loan	Creditor	Loan Balance		Change
				June 2011	June 2012	
City Council of Nairobi	1985	Umoja II Housing Project	USA	305.5	214.8	(90.7)
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	6,722.2	5,996.6	(725.6)
Telkom Kenya Ltd	1990	Purchase of Microwave Telephone System	Canada	404.4	362.2	(42.2)
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	2,950.5	2,495.5	(455.0)
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	3,667.7	3,102.2	(565.5)
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	6,642.3	5,868.9	(773.4)
	1997	Sondu Miriu Hydropower Project	Japan	6,224.8	5,564.1	(660.7)
	2004	Sondu Miriu Hydropower Project II	Japan	11,773.2	11,202.6	(570.6)
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	3,238.2	4,184.9	946.7
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	0.0	51.2	51.2
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	1.2	4,549.9	4,548.7
Kenya Railways	2008	Kenya Railways Concessioning	IDA	4,043.9	3,790.5	(253.4)
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				**45,973.9**	**47,383.4**	**1,409.5**

Source: 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 961.3 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 2011/12, Ksh Million

Borrower	Quarter I	Quarter II	Quarter III	Quarter IV	Cumulative
CCN	42.5	-	-	-	42.5
TARDA	229.4	-	-	185.3	414.6
KBC	-	-	504.2	-	504.2
Total	**271.9**	**0.0**	**504.2**	**185.3**	**961.3**

Source: Treasury

4.3 Cumulative GoK Payments of Guaranteed Debt

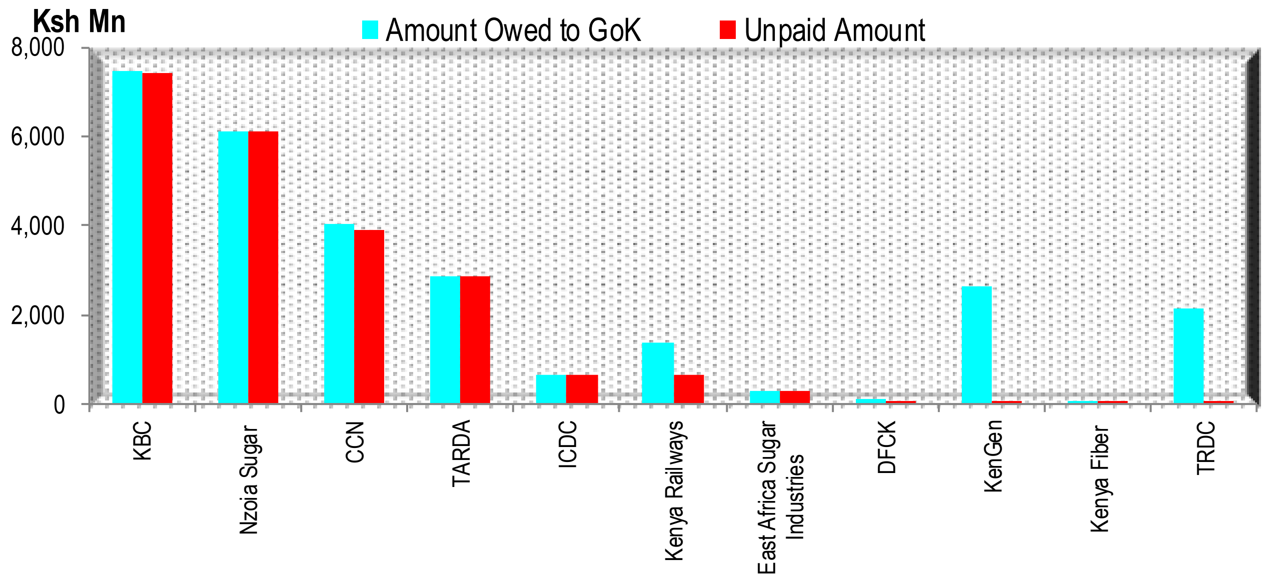
The net cumulative balances on guaranteed debt paid by the Government on behalf of public enterprises over the last twenty one years was Ksh 22,109 million as shown in Table 4.3 and Chart 4.1.The top net debtors are Kenya Broadcasting Corporation, Nzoia Sugar Company, City Council of Nairobi and Tana and Athi River Development Authority, all four accounting for over 90 percent of un-reimbursed balances.

Table 4.3: Cumulative Balances Owed to Central Government on Guaranteed Debt, Ksh Million, 1991-2011/12

	Parastatals	Principal	Interest	Total	Reimbursement to GoK by Parastatals	Balance
1	Kenya Broadcasting Corporation	5,002.5	2,985.7	7,988.2	44.0	7,944.2
2	Nzoia Sugar Company	4,605.8	1,523.5	6,129.3	1.5	6,127.8
3	City Council of Nairobi	1,910.3	2,158.5	4,068.8	124.7	3,944.1
4	Tana and Athi River Development Authority	2,207.8	1,094.7	3,302.5	0.3	3,302.2
5	Industrial and Commercial Development Corporation	484.9	181.4	666.3	0.0	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	0.0	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	0.0	14.7	14.7	0.0	14.7
11	Tana and Athi River Development Company	1,001.3	1,154.3	2,155.6	2,148.4	7.2
	Total	**18,170.1**	**10,589.0**	**28,759.1**	**5,688.7**	**23,070.4**

Source: Treasury

Chart 4.1: Unpaid Balances owed to GoK by State Corporations



5. ON-LENT LOANS AND CONTINGENT LIABILITIES

5.1 Background

The arrangement where a Central Government through the Ministry of Finance 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 and enhancement of transparency in on-lending operations 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 41,310.9 million from Ksh 46,666.0 million to Ksh 87,976.9 million. This increase is attributed to new loans on-lent to the Education, Water, Lands & Settlement and Tourism and Information sectors.

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

Ministry/Sector	Outstanding loans		Change	
	June 2011	June 2012	Absolute	Per cent
Education	564.3	11,107.6	10,543.3	1,868.4
Environment & Natural Resources	634.8	2,486.6	1,851.8	291.7
Finance	554.9	1,370.3	815.4	146.9
Water & Irrigation	9,121.2	22,326.7	13,205.5	144.8
Lands & Settlement	-	87.7	87.7	100.0
Tourism & Information	-	188.0	188.0	100.0
Energy	15,112.5	29,630.0	14,517.5	96.1
Transport	5,636.4	6,705.2	1,068.8	19.0
Local Government	7,729.4	7,634.9	(94.5)	(1.2)
Agriculture	6,076.6	5,675.2	(401.4)	(6.6)
Trade	1,235.9	764.7	(471.2)	(38.1)
Total	**46,666.0**	**87,976.9**	**41,310.9**	

Source: Treasury

5.3 Status of On-Lent Loans including Arrears

As at June 2012, the total on-lent loan portfolio amounted to Ksh 143,851.1 million, out of which outstanding loans, arrears and accrued interest stood at Ksh 87,976.9 million, Ksh 16,257.6 million and Ksh 39,616.6 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 2012

Ministry/Sector	Outstanding loans	Principal Arrears	Accrued interest	Total
Energy	29,630.0	3,354.7	4,192.8	37,177.5
Water & Irrigation	22,326.7	140.2	1,557.5	24,024.4
Local Government	7,634.9	4,843.8	10,715.6	23,194.3
Transport	6,705.2	2,405.7	13,003.6	22,114.5
Agriculture	5,675.2	3,731.3	6,369.7	15,776.2
Education	11,107.6	62.5	19.9	11,190.0
Environment & Natural Resources	2,486.6	1,262.4	3,149.5	6,898.5
Finance	1,370.3	104.2	-	1,474.5
Tourism & Information	188.0	140.0	574.5	902.5
Trade	764.7	128.8	3.9	897.4
Lands & Settlement	87.7	84.0	29.6	201.3
Total	**87,976.9**	**16,257.6**	**39,616.6**	**143,851.1**

Source: Treasury

5.4 Receipts From On-Lent Loans

The total receipts by GoK from on-lent loans amounted to Ksh 2,951.5 million during 2011/12, out of which Ksh 1,812.8 million was principal and Ksh 1,138.7 million was interest as shown in Table 5.3.

Table 5.3 Principal and Loan Interest Receipts, 2011/12, Ksh Million

Organization	Principal Receipts	Interest Receipts	Total
KenGen	940.5	471.2	1,411.7
Kenya Power and Lighting Company	505.1	184.2	689.3
Agro Chemical and Food Company Ltd	0.0	150.0	150.0
Uchumi Supermarkets	81.4	38.6	120.0
Equity Bank	72.3	24.9	97.2
K -Rep Bank	72.5	19.2	91.7
Kenya Civil Aviation Authority	0.0	91.6	91.6
Nyeri Water and Sewerage	50.4	26.1	76.5
Cooperative Bank of Kenya	35.7	23.5	59.2
Kenya Airports Authority	0.0	56.7	56.7
Industrial & Commercial Devt Corportn	0.0	40.0	40.0
New Kenya Cooperative Creameries	33.0	1.6	34.6
Athi Water Services Board	20.0	9.9	29.9
Agricultural Settlement Fund	1.9	1.2	3.1
Total	**1,812.8**	**1,138.7**	**2,951.5**

Source: 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 14,811.51 million or 0.9 percent of total public debt at end June 2012 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:

- Eleven (11) contracts that are in dispute;
- Three (3) contracts though fully paid by the Government, relate to projects in dispute as under (1) above; and
- 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 ex perienced 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 Ministry of Finance 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 Ministry of Finance 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 Debt Management Office (DMO) at the Ministry of Finance 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 three 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 Ministry of Finance 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 alterative borrowing mix. In addition, the strategy incorporates initiatives to develop a vibrant domestic debt market. A summary of the 2012 MTDS is presented in Box 1.

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

I. Alternative Borrowing Strategies

The 2012 MTDS evaluated the following five (5) possible debt financing strategies (See Table 1 below):

1. Strategy 1 (S1. 2011 MTDS) was the preferred strategy which assumes 30% external and 70% domestic financing.
2. Strategy 2 (S2. More external borrowing) assumes 35% external financing on semi-concessional and concessional credit terms and 65% domestic financing.
3. Strategy 3 (S3. Medium term domestic debt) similar to S1 with more domestic issuance at 5- and 10- year maturities in line with market needs and cost reduction.
4. Strategy 4 (S4. More domestic borrowing) assumes 25% external (semi-concessional and concessional) and 75% domestic financing.
5. Strategy 5 (S5. International Sovereign Bond (ISB)) assumes the Government would issue an international bond[4] as an alternative to increasing domestic borrowing.

Table 1: Alternative Debt Management Strategies

Envisaged New debt	2011 MTDS S1	More external debt S2	Medium term domestic debt S3	More domestic debt S4	ISB S5
Domestic	70%	65%	70%	75%	65%
1-year	8%	8%	10%	11%	12%
2-year	12%	12%	7%	13%	10%
5-year	16%	17%	23%	18%	12%
10-year	18%	12%	13%	14%	12%
15-year	8%	8%	8%	10%	10%
20-year	8%	8%	9%	9%	10%
External	30%	35%	30%	25%	35%
Semi-concessional	7%	4%	4%	4%	9%
Concessional	20%	26%	22%	16%	11%
5-Yr Syndicate	3%	5%	5%	5%	5%
10-yr ISB	0%	0%	0%	0%	10%

II. 2012 MTDS

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

- 65% net domestic financing and 35% external financing;
- The domestic borrowing will be on medium term basis;
- External borrowing will comprise of 26% on concessional terms, 4% on semi concessional terms while 5% will be contracted as a syndicated bank loan;
- There will be no issuance of the Euro bond during the year as developments in the international markets are monitored.

4 *Issued in U.S. Dollars, with 10-year maturity and bullet repayment, carrying a spread of 450 basis points above US Treasuries.*

7.2 Implementing the 2012 MTDS

The Government implemented the 2012 MTDS domestic borrowing plan by issuing Treasury Bills and Treasury Bonds.

Due to the low uptake of government securities, domestic debt financing of the budget deficit was revised to 1.9 percent of GDP from the planned 3.8 percent of GDP. Government's decision to substitute domestic borrowing by way of a USD 600 million (Ksh 51.3 billion) syndicated external loan, combined with austerity measures resulted in net external financing rising to 3.0 percent of GDP from the planned 1.6 percent of GDP.

7.3 Debt Sustainability

- The Joint World Bank-IMF Debt Sustainability Analysis (DSA) published in November 2011 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 medium policy country and as such is subject to the following thresholds:-

Table 7.1: Debt sustainability thresholds

Classification	PV of Debt in percent of:			Debt Service in percent of:	
	GDP	Exports	Revenue	Exports	Revenue
Medium Policy Performer	40	150	250	20	30

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)

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. The debt sustainability indicators show that Kenya faces a low risk of external debt distress. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

Table 7.2: External debt sustainability

Indicator (Threshold)	2010	2011	2012	2013	2014	2015	2020	2030
PV of debt–to-GDP ratio (40)	15.8	17.7	18.7	19.1	18.9	18.7	15.0	7.7
PV of debt-to-exports ratio (150)	58.5	57.0	65.3	68.9	73.4	76.4	76.5	43.5
Debt service-to-exports ratio (20)	4.0	3.8	4.2	4.2	4.7	4.8	5.1	3.9

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)

7.3.2 Public debt sustainability

Under the baseline scenario shown in Table 7.3, the PV of public debt-to-GDP increases from 39.3 percent in 2011 to 40.3 percent in 2012 but gradually declines to 38.7 percent of GDP by 2014. In the long term, the PV of public debt-to-GDP is expected to decline to about 25 percent by 2031.

The PV of public debt-to-revenue remains well below the threshold of 250 percent throughout 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 remain sustainable over the medium term.

Table 7.3: Public debt sustainability

Indicator (Threshold)	2010	2011	2012	2013	2014	2015	2020	2030
PV of public sector debt to GDP ratio (40)	38.5	39.3	40.3	39.9	38.7	37.9	34.7	25.6
PV of public sector debt-to-revenue ratio (250)	156.5	154.2	156.1	151.5	145.6	147.8	140.4	106.1
Debt service-to-revenue ratio (30)	25.5	21.9	24.5	23.5	21.6	21.5	20.0	15.5

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)

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 FY2012/13. The results indicate that in the medium term, the debt burden indicators will breach one of the debt sustainability thresholds.

Table 7.4: Sensitivity Analysis for Key Indicators of Public Debt

Indicator	Threshold	2011 ratios	Impact of 10% of GDP increase in borrowing in 2012 on debt indicators in 2015
PV of Debt as % of GDP	40	39	48
PV of Debt as % of Revenue	250	154	180
Debt Service as % of Revenue	30	22	26

Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)

In the financial year 2012/13, the Government plans to borrow, on a net basis, an amount equivalent to 5.0 percent of GDP to finance the budget. The net borrowing is expected to decline to 3.7 percent of GDP in FY2014/15.

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. The borrowing envisaged under the 2012 MTDS will be undertaken with caution taking these factors into account.

8. REFORMS IN PUBLIC DEBT MANAGEMENT

8.1 Introduction

There have been continuous reforms at the Ministry of Finance to improve debt management in line with international best practice. The new Public Finance Management (PFM) Act 2012 provides guidelines on how the Public Debt Management Office (PDMO) will be established and operationalised. These reforms are carried out jointly by the Treasury and the Central Bank of Kenya (CBK).

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

8.2 PFM Act 2012 and Public Borrowing

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:

- Article 11: Establishment of the National Treasury (NT) headed by the Cabinet Secretary to be in charge of responsible fiscal policy and managing public finances.
- 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.
- Article 28-29: the NT to establish a Treasury Single Account (TSA) and associated cash management framework.
- 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.

8.2.1 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, segregation of roles of various departments will be addressed.

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. Contribute in the preparation of regulations for debt management operations both for the Central Government and the County Governments. In relation to County Government borrowing, prescribe the responsibility of the PDMO.

iv. Adopt the new reporting frameworks and requirements under the PFM Act.

8.3 Market Development Initiatives by Central Bank of Kenya

The Central Bank of Kenya in liaison with the Ministry of Finance 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. Continued implementation of the benchmark bonds program and the lengthening of maturity of domestic debt. To smoothen out the maturity profile of bonds, manage the refinancing risk and minimize the fragmentation problem at the secondary market, the Government and the Central Bank are considering strategies such as bond exchanges and switches under the program.

ii. Under the product diversification program and building on the success of the Infra-

The implementation of the Treasury Mobile Direct (TMD) project is on course to enable sale of Government Securities through mobile phones structure Bonds (IFBs) program since 2009, the CBK issued an IFB with a Diaspora Component in FY 2011/12. However, the sale of this IFB was met with limited success mainly due to financial legislations in the target countries, mainly the USA and the UK. The Bank also successfully issued a number of bonds on tap sale basis during the period.

iii. There are plans to put in place a National Central Depository System (CDS) for all securities to facilitate efficient secondary market trading.

iv. The implementation of the Treasury Mobile Direct (TMD) project is on course to enable sale of Government Securities through mobile phones particularly the retail segment thereby deepening investor base.

v. To boost secondary market activity, establishment of Over the Counter (OTC) trading platform is on-going.

vi. The project on GSMM program as a first phase in the PD framework is continuous.

9. OUTLOOK FOR THE MEDIUM TERM

9.1 Public Debt Stock in the Medium Term

Overall, public debt is projected to rise in nominal terms to Ksh 1,882,900 million in June 2013 from Ksh 1,622,802 million in June 2012 and later increase to Ksh 2,414,600 million in June 2016 as shown in Table 9.1. However, as a proportion of GDP, public debt in nominal terms is projected to increase to 49.9 per cent in June 2013 from 49.5 per cent in June 2012 and then decline to 43.9 percent in June 2016.

As a per cent of GDP, external debt is projected to rise to 24.3 per cent in June 2013 from 23.3 per cent in June 2012 and then decline to 21.5 per cent in June 2016. On the contrary, as a proportion of GDP domestic debt shows a declining trend from 26.2 per cent in June 2012 to 25.6 per cent in June 2013 to 22.4 per cent in June 2016.

Table 9.1: Projected Public Debt Stock, Ksh Million

	2011/12	2012/13	2013/14	2014/15	2015/16
External Debt	763,971	917,300	969,800	1,072,300	1,181,800
% of GDP	23.3%	24.3%	22.7%	22.2%	21.5%
Domestic Debt	858,830	965,600	1,053,600	1,144,900	1,232,800
% of GDP	26.2%	25.6%	24.7%	23.7%	22.4%
Total Public Debt	**1,622,801**	**1,882,900**	**2,023,400**	**2,217,200**	**2,414,600**
% of GDP	49.5%	49.9%	47.4%	45.9%	43.9%
Memoranda Items					
Nominal GDP	3,281,200	3,775,400	4,268,500	4,836,500	5,502,400
Ordinary Revenue	690,700	849,700	945,500	1,077,000	1,233,200

Source: Treasury

9.2 Debt Service in the Medium Term

Table 9.2 shows that although in nominal terms overall debt service is projected to increase by 44 per cent in the medium term, as a ratio to GDP, the debt burden indicators will be within sustainable levels. Total debt service is projected to increase from 15.5 per cent of revenue in 2012/13 to 20.2 per cent of revenue in 2013/14, mainly on account of redeeming the two-year syndicated loan, and thereafter decline to 13.2 per cent of revenue in 2015/16.

Domestic interest is projected to decrease from Ksh 94,500 million in

2012/13 to Ksh 93,800 million and then increase to Ksh 99,300 million in 2013/14 and 2015/16, respectively. However, as a percentage of revenue, domestic interest will remain at an average of 9 percent in the medium term. On the other hand, interest on external debt is projected to increase from Ksh 11,300 million in 2012/13 to Ksh 11,400 million in 2013/14 and rise further to Ksh 16,100million in 2015/16, an average 1.2 percent of revenue over the period.

Annual principal repayment on external debt is projected to increase from Ksh 26,200 million in 2012/13 to Ksh 86,000 million in 2013/14 and, decline thereafter to Ksh 49,700 million in 2015/16 or an annual average of 4.6 percent of revenue. The sharp spike in external principal repayment in FY 2013/14 is due 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 9.2: Central Government Projected Debt Service, Ksh million

	2011/12	2012/13	2013/14	2014/15	2015/16
Domestic Interest	82,339	94,500	93,800	91,400	99,300
% of Revenue	11.9%	11.1%	9.9%	8.5%	8.1%
External Interest	7,351	11,300	11,400	13,800	16,100
% of Revenue	1.1%	1.3%	1.2%	1.3%	1.3%
Total Interest	**89,690**	**105,800**	**105,200**	**105,200**	**115,400**
% of Revenue	13.0%	12.5%	11.1%	9.8%	9.4%
External Principal Repayments	23,954	26,200	86,000	36,300	47,900
% of Revenue	3.5%	3.1%	9.1%	3.4%	3.9%
Total Debt Service	**113,644**	**132,000**	**191,200**	**141,500**	**163,300**
% of Revenue	16.5%	15.5%	20.2%	13.1%	13.2%
Memoranda Item					
Ordinary Revenue	690,700	849,700	945,500	1,077,000	1,233,200

Source: 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 per cent). 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.

Appendix 1: Outstanding Government Securities by Tenor, Ksh Million

Tenor	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012
91-DAY	48,186	29,500	42,761	37,632	22,017	17,980	23,523	23,663	69,135	24,323
182-DAY	30,558	33,439	29,177	57,144	72,405	58,313	93,271	85,337	22,528	75,669
364-DAY								49,494	34,942	32,056
1-YEAR	14,593	9,343	30,953	1,000	8,728	13,191	14,789	-	0.0	51,522
1.5 YEAR	-	-	-	-	-	-	-	-	0.0	0.00
2-YEAR	44,214	28,237	24,686	39,738	37,652	31,747	45,206	46,577	73,012	86,462
3-YEAR	40,973	44,817	27,898	31,225	31,174	26,663	12,798	1,781	0.0	0.00
4-YEAR	20,187	26,520	26,160	26,287	19,281	16,539	12,914	3,384	0.0	19,121
5-YEAR	18,003	23,086	22,740	28,391	28,787	43,511	52,787	86,582	114,551	115,333
6-YEAR	11,800	17,909	20,434	33,105	48,333	47,589	38,769	48,986	60,661	47,241
7-YEAR	2,801	8,558	10,330	13,566	15,884	24,154	24,153	21,353	24,296	22,523
8-YEAR	3,907	11,969	11,969	15,287	17,944	17,944	17,944	26,721	22,813	28,944
9-YEAR	2,368	9,555	9,555	12,615	12,615	12,615	12,615	17,760	27,732	25,364
10-YEAR	2,705	8,634	8,634	17,113	22,113	34,415	44,415	69,090	91,391	95,725
11-YEAR	-	-	-	-	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
15-YEAR	-	-	-	-	16,892	32,114	42,303	61,929	75,443	75,443
20-YEAR	-	-	-	-	-	1,912	9,526	20,361	29,727	29,727
25-YEAR	-	-	-	-	-	-	-	7,008	20,193	20,193
30- YEAR		-	-	-	-	-	-	-	18,760	22,136
TOTAL	**240,295**	**251,567**	**265,297**	**313,103**	**366,622**	**391,484**	**477,538**	**607,109**	**722,266**	**818,998**

Source: Treasury and Central Bank of Kenya

Appendix 2: Outstanding Treasury Bonds, June 2012

Serial No.	Issue No.	Tenure (Yrs)	Accepted at FV (Ksh M)	Yrs to Maturity	Accepted at cost (Ksh M)	Issue or Re-open date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
1	FXD2/2003/9	9	7,187.35	0.04	8,162.19	28-Jul-03	16-Jul-12	9.500	7.408	113.559	7.789
2	FXD2/2007/5	5	4,575.55	0.14	4,528.25	27-Aug-07	20-Aug-12	9.500	9.767	98.963	9.976
3	FXD3/2007/5	5	9,188.60	0.22	8,996.55	24-Sep-07	17-Sep-12	9.500	10.043	95.106	10.189
4	FXD3/2010/2	2	12,740.95	0.24	12,769.63	27-Sep-10	24-Sep-12	3.814	3.698	100.222	3.814
5	FXD2/2006/6	6	5,767.45	0.39	5,695.01	27-Nov-06	19-Nov-12	11.500	11.804	98.719	11.881
6	FXD4/2010/2	2	8,946.20	0.49	8,946.61	27-Dec-10	24-Dec-12	4.586	4.586	100.000	5.039
7	FXD1/2011/1	1	11,102.30	0.49	11,103.11	26-Dec-11	24-Dec-12	21.408	21.408	100.000	23.215
8	FXD1/2006/7	7	3,235.40	0.56	3,177.01	30-Jan-06	21-Jan-13	13.250	13.661	98.184	14.139
9	FXD1/2008/5	5	5,530.85	0.56	5,261.59	28-Jan-08	21-Jan-13	9.500	10.792	95.106	10.925
10	FXD1/2012/1	1	14,938.45	0.58	14,938.60	30-Jan-12	28-Jan-13	21.082	21.082	100.000	22.041
11	FXD1/2011/2	2	14,226.50	0.66	14,227.02	28-Feb-11	25-Feb-13	5.284	5.284	100.000	5.438
12	FXD2/2012/1	1	10,511.60	0.66	10,511.75	27-Feb-12	25-Feb-13	18.030	18.030	100.000	19.189
13	FXD3/2012/1	1	14,969.85	0.74	14,970.53	26-Mar-12	25-Mar-13	16.432	16.432	100.000	16.452
14	FXD1/2007/6	6	5,948.00	0.81	6,001.26	30-Apr-07	22-Apr-13	11.500	11.288	100.906	11.533
15	FXD2/2008/5	5	4,095.80	0.81	3,828.33	28-Apr-08	22-Apr-13	9.500	11.249	93.448	11.351
16	FXD2/2011/2	2	1,438.90	0.81	1,438.97	25-Apr-11	22-Apr-13	7.439	7.439	100.000	8.477
16	FXD2/2011/2(R1)	2	7,034.50	0.81	6,684.49	30-May-11	22-Apr-13	7.439	10.387	95.009	10.411
16	FXD2/2011/2(R2)	2	7,322.00	0.81	6,836.12	27-Jun-11	22-Apr-13	7.439	12.442	92.017	12.590
16	FXD2/2011/2(R3)	2	3,995.95	0.81	3,674.50	25-Jul-11	22-Apr-13	7.439	12.684	91.964	13.468
17	FXD1/2003/10	10	2,704.80	0.95	3,096.54	23-Jun-03	10-Jun-13	13.250	10.826	114.589	11.799
18	FXD2/2003/10	10	5,929.00	1.12	6,352.87	25-Aug-03	12-Aug-13	8.500	7.474	107.137	7.677
19	FXD3/2008/5	5	4,350.80	1.14	4,127.50	25-Aug-08	19-Aug-13	9.500	10.860	94.857	10.861
19	FXD3/2008/5(R1)	5	10,458.35	1.14	10,007.56	24-Aug-09	19-Aug-13	9.500	10.858	95.687	10.919
20	FXD3/2011/2	2	677.55	1.24	638.52	26-Sep-11	23-Sep-13	10.500	13.897	94.240	16.026
20	FXD3/2011/2(R1)	2	233.15	1.24	213.43	31-Oct-11	23-Sep-13	10.500	16.526	90.456	20.364
21	FXD4/2008/5	5	4,416.45	1.31	4,080.04	27-Oct-08	21-Oct-13	9.500	11.549	92.378	11.678
21	FXD4/2008/5(R1)	5	5,591.05	1.31	5,328.40	27-Apr-09	21-Oct-13	9.500	10.849	95.295	11.165
22	FXD4/2011/2	2	9,972.75	1.41	9,980.05	28-Nov-11	25-Nov-13	22.844	22.844	100.000	23.522
22	FXD4/2011/2(TAP)	2	13,455.50	1.41	13,455.50	28-Nov-11	25-Nov-13	22.844	22.844	100.000	0.000
23	FXD2/2006/7	7	2,317.95	1.47	2,261.63	25-Dec-06	16-Dec-13	12.000	12.533	97.563	12.832
24	FXD1/2006/8	8	3,318.80	1.64	3,198.71	27-Feb-06	17-Feb-14	13.250	14.012	96.402	14.241
25	FXD1/2012/2	2	6,418.05	1.83	6,418.09	30-Apr-12	28-Apr-14	13.826	13.826	100.000	15.183
26	FXD1/2007/7	7	8,269.85	2.06	7,999.98	30-Jul-07	21-Jul-14	9.750	10.421	96.723	10.521
27	FXD1/2009/5	5	3,452.80	2.22	3,244.27	21-Sep-09	15-Sep-14	9.500	11.108	93.955	11.376
27	FXD1/2009/5(R1)	5	9,786.30	2.22	10,091.01	1-Feb-10	15-Sep-14	9.500	9.592	99.640	9.771
28	FXD1/2007/8	8	2,656.90	2.64	2,630.10	26-Feb-07	16-Feb-15	12.750	12.955	98.997	13.250
29	FXD1/2006/9	9	3,060.25	2.79	3,045.05	24-Apr-06	13-Apr-15	13.500	13.599	99.495	13.729
30	FXD1/2010/5	5	11,924.85	2.89	11,985.76	24-May-10	18-May-15	6.951	6.829	100.510	6.951
31	FXD2/2010/5	5	11,968.75	3.41	11,970.15	29-Nov-10	23-Nov-15	6.671	6.671	100.000	7.078
31	FXD2/2010/5(R1)	5	1,723.40	3.41	1,399.84	27-Jun-11	23-Nov-15	6.671	12.529	80.546	13.884
31	FXD2/2010/5(R2)	5	1,280.95	3.41	991.21	29-Aug-11	23-Nov-15	6.671	13.887	77.378	16.473
32	FXD1/2011/5	5	10,810.20	3.58	10,810.80	31-Jan-11	25-Jan-16	7.636	7.636	100.000	7.746
32	FXD1/2011/5(R1)	5	11,272.90	3.58	11,023.16	28-Mar-11	25-Jan-16	7.636	8.501	96.605	8.591
33	FXD1/2006/10	10	3,451.05	3.72	3,344.97	27-Mar-06	14-Mar-16	14.000	14.595	96.920	14.812
34	FXD2/2006/10	10	5,028.10	3.89	5,088.33	29-May-06	16-May-16	14.000	13.778	101.186	13.930
35	FXD1/2012/5	5	4,905.55	4.91	4,907.43	28-May-12	22-May-17	11.855	11.855	100.000	12.624

Serial No.	Issue No.	Tenure (Yrs)	Accepted at FV (Ksh M)	Yrs to Maturity	Accepted at cost (Ksh M)	Issue or Re-open date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
36	FXD1/2006/11	11	4,031.40	5.22	3,909.72	25-Sep-06	11-Sep-17	13.750	14.308	`	14.473
37	FXD1/2007/10	10	9,308.80	5.31	9,000.02	29-Oct-07	16-Oct-17	10.750	11.316	96.662	11.604
38	FXD1/2008/10	10	2,992.75	5.64	2,901.99	25-Feb-08	12-Feb-18	10.750	11.266	96.951	11.933
39	FXD2/2008/10	10	882.00	6.06	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	6.06	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	6.14	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	6.24	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	6.81	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	6.89	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	7.81	12,178.30	26-Apr-10	13-Apr-20	8.790	8.633	101.038	8.790
44	FXD1/2010/10(R1)	10	7,341.55	7.81	5,894.84	30-May-11	13-Apr-20	8.790	12.531	80.242	12.621
45	FXD2/2010/10	10	13,847.90	8.33	14,462.48	1-Nov-10	19-Oct-20	9.307	8.646	104.366	9.307
45	FXD2/2010/10(R1)	10	1,111.65	8.33	1,085.65	31-Jan-11	19-Oct-20	9.307	9.683	97.634	10.503
45	FXD2/2010/10(R2)	10	3,890.35	8.33	3,112.57	25-Jul-11	19-Oct-20	9.307	13.089	79.990	13.624
46	FXD1/2007/15	15	3,654.60	9.72	3,568.80	26-Mar-07	7-Mar-22	14.500	14.896	97.650	15.246
47	FXD2/2007/15	15	7,236.95	9.97	7,489.08	25-Jun-07	6-Jun-22	13.500	12.968	103.479	13.284
48	FXD1/2012/10	10	443.15	9.99	443.29	25-Jun-12	13-Jun-22	12.705	12.705	100.000	15.820
49	FXD3/2007/15	15	7,841.10	10.39	7,434.42	26-Nov-07	7-Nov-22	12.500	13.313	94.777	13.350
49	FXD3/2007/15(R1)	15	10,189.10	10.39	9,547.61	26-May-09	7-Nov-22	12.500	13.530	93.687	13.737
50	FXD1/2008/15	15	7,380.90	10.74	6,998.56	31-Mar-08	13-Mar-23	12.500	13.310	94.795	13.697
51	FXD1/2009/15	15	9,420.45	12.31	8,704.40	26-Oct-09	7-Oct-24	12.500	13.709	92.388	13.812
52	FXD1/2010/15	15	10,206.45	12.74	10,419.79	29-Mar-10	10-Mar-25	10.250	9.980	102.078	10.133
53	FXD2/2010/15	15	7,329.35	13.49	6,316.19	27-Dec-10	8-Dec-25	9.000	10.923	85.966	11.978
53	FXD2/2010/15(R1)	15	6,183.75	13.49	4,782.54	25-Apr-11	8-Dec-25	9.000	12.388	77.308	12.848
54	FXD1/2008/20	20	1,912.25	15.99	1,791.77	30-Jun-08	5-Jun-28	13.750	14.741	93.668	16.913
54	FXD1/2008/20(R1)	20	7,613.90	15.99	7,197.88	29-Jun-09	5-Jun-28	13.750	14.614	94.493	14.926
54	FXD1/2008/20(R2)	20	10,834.80	15.99	10,878.06	28-Dec-09	5-Jun-28	13.750	13.691	100.394	13.909
55	FXD1/2011/20	20	8,138.50	18.91	5,984.55	30-May-11	5-May-31	10.000	13.974	73.470	13.993
55	FXD1/2011/20(R1)	20	1,227.30	18.91	870.32	27-Jun-11	5-May-31	10.000	14.822	69.328	16.965
56	FXD1/2010/25	25	7,008.15	22.99	7,497.64	28-Jun-10	28-May-35	11.250	10.438	106.981	10.787
56	FXD1/2010/25(R1)	25	13,184.35	22.99	15,029.47	26-Jul-10	28-May-35	11.250	9.839	113.880	9.937
57	SDB1/2011/30	30	8,718.10	28.66	8,097.58	28-Feb-11	21-Jan-41	12.000	12.959	92.771	14.145
57	SDB1/2011/30(R1)	30	10,041.55	28.66	9,033.18	28-Mar-11	21-Jan-41	12.000	13.520	88.956	13.832
57	SDB1/2011/30(R2)	30	3,376.80	28.66	2,481.80	29-Aug-11	21-Jan-41	12.000	16.397	73.441	18.815
	Total		**540,099.45**		**526,713.90**						
Infrastructure Bonds											
1	IFB1/2010/8	6	8,776.47	3.66	8,850.65	1-Mar-10	22-Feb-16	9.750	9.579	100.498	9.860
	IFB1/2010/8	8	7,131.58	5.66	7,191.86	1-Mar-10	19-Feb-18	9.750	9.579	100.498	9.860
	Subtotal		*15,908.05*		*16,042.51*						
2	IFB 2/2010/9	6	14,200.00	4.16	13,163.18	30-Aug-10	22-Aug-16	6.000	7.293	92.916	7.737
	IFB 2/2010/9	7	8,700.00	5.16	8,114.92	30-Aug-10	21-Aug-17	6.000	7.293	92.916	7.737
	IFB 2/2010/9	9	9,971.55	7.16	9,306.92	30-Aug-10	19-Aug-19	6.000	7.293	92.916	7.737
	Subtotal		*32,871.55*		*30,585.02*						
3	IFB1/2009/12	6	8,482.55	2.64	7,987.60	23-Feb-09	16-Feb-15	12.500	13.505	94.109	13.883
	IFB1/2009/12	8	4,497.70	4.64	4,235.29	23-Feb-09	13-Feb-17	12.500	13.505	94.109	13.883
	IFB1/2009/12	12	6,746.60	8.64	6,352.93	23-Feb-09	8-Feb-21	12.500	13.505	94.109	13.883
	Subtotal		*19,726.85*		*18,575.82*						
4	IFB2/2009/12	6	9,193.70	3.43	8,951.44	7-Dec-09	30-Nov-15	12.000	12.537	97.352	13.182
	IFB2/2009/12	9	5,145.00	6.43	4,746.05	7-Dec-09	26-Nov-18	12.000	12.537	97.352	13.182

Serial No.	Issue No.	Tenure (Yrs)	Accepted at FV (Ksh M)	Yrs to Maturity	Accepted at cost (Ksh M)	Issue or Re-open date	Maturity date	Coupon rate (%)	Redemption Yield (%)	Price per Ksh 100.00 at YTM	Market Outcome Yield
	IFB2/2009/12	12	4,558.95	9.43	4,702.18	7-Dec-09	22-Nov-21	12.000	12.537	97.352	13.182
	Subtotal		*18,897.65*		*18,399.67*						
Diaspora Bond Tap & Amortization											
5	IFB1/2011/12	12	6,204.46	3.26	5,103.62	3-Oct-11	28-Sep-15	12.000	16.640	82.082	17.173
	IFB1/2011/12 (Tap 1)	12	144.70	3.26	120.62	7-Nov-11	28-Sep-15	12.000	16.640	83.353	16.640
	IFB1/2011/12 (Tap 2)	12	109.03	3.26	92.01	5-Dec-11	28-Sep-15	12.000	16.640	84.384	16.640
	IFB1/2011/12 (Tap 3)	12	716.00	3.26	611.66	2-Jan-12	28-Sep-15	12.000	16.640	85.428	16.640
	IFB1/2011/12 (Tap 4)	12	2,566.91	3.26	2,226.82	6-Feb-12	28-Sep-15	12.000	16.640	86.751	16.640
	IFB1/2011/12 (Tap 5)	12	9,380.07	3.26	8,212.72	27-Feb-12	28-Sep-15	12.000	16.640	87.555	16.640
First Tranche maturing 28 Sept 2015			***19,121.18***		***16,367.45***						
	IFB1/2011/12	12	4,604.85	7.26	3,787.82	3-Oct-11	23-Sep-19	12.000	16.640	82.082	17.173
	IFB1/2011/12 (Tap 1)	12	107.40	7.26	89.52	7-Nov-11	23-Sep-19	12.000	16.640	83.353	16.640
	IFB1/2011/12 (Tap 2)	12	80.92	7.26	68.29	5-Dec-11	23-Sep-19	12.000	16.640	84.384	16.640
	IFB1/2011/12 (Tap 3)	12	531.40	7.26	453.97	2-Jan-12	23-Sep-19	12.000	16.640	85.428	16.640
	IFB1/2011/12 (Tap 4)	12	1,905.11	7.26	1,652.70	6-Feb-12	23-Sep-19	12.000	16.640	86.751	16.640
	IFB1/2011/12 (Tap 5)	12	6,961.72	7.26	6,095.34	27-Feb-12	23-Sep-19	12.000	16.640	87.555	16.640
Second Tranche maturing 23 Sept 2019			***14,191.40***		***12,147.63***						
	IFB1/2011/12	12	3,288.54	11.26	2,705.07	3-Oct-11	18-Sep-23	12.000	16.640	82.082	17.173
	IFB1/2011/12 (Tap 1)	12	76.70	11.26	63.93	7-Nov-11	18-Sep-23	12.000	16.640	83.353	16.640
	IFB1/2011/12 (Tap 2)	12	57.79	11.26	48.77	5-Dec-11	18-Sep-23	12.000	16.640	84.384	16.640
	IFB1/2011/12 (Tap 3)	12	379.50	11.26	324.20	2-Jan-12	18-Sep-23	12.000	16.640	85.428	16.640
	IFB1/2011/12 (Tap 4)	12	1,360.53	11.26	1,180.28	6-Feb-12	18-Sep-23	12.000	16.640	86.751	16.640
	IFB1/2011/12 (Tap 5)	12	4,971.71	11.26	4,352.98	27-Feb-12	18-Sep-23	12.000	16.640	87.555	16.640
Final Tranche maturing 18 Sept 2023			***10,134.77***		***8,675.21***						
Total Diaspora Bond			**43,447.35**		**37,190.29**						
Total Infrastructure Bonds			**130,851.45**		**120,793.31**						
Outstanding Special Bonds											
1	SFX1/2007/6	6	5,000.00	0.90	5,000.00	1-Jun-07	24-May-13	11.500	NA	100.000	100.000
2	SFX1/2007/10	10	5,000.00	4.90	5,000.00	1-Jun-07	19-May-17	13.000	NA	100.000	100.000
3	SFX1/2007/15	15	6,000.00	9.90	6,000.00	1-Jun-07	13-May-22	14.500	NA	100.000	100.000
	Subtotal		*16,000.00*		*16,000.00*						
	Total		**686,950.90**		**663,507.21**						

Source: Central Bank of Kenya
R1 › First Reopening
R2 › Second Reopening
R3 › Third Reopening

Appendix 3: Treasury Bonds Issues, July 2011 - June 2012, Order by Issue Date

Issue no	Tenure (Years)	Amount at face (Ksh Million)	Amount at cost (Ksh Million)	Issue date	Maturity date
FXD 2/2011/2*	2	3,995,950,000.00	3,674,497,697.50	25/07/2011	22/04/2013
FXD 2/2011/10*	10	3,890,350,000.00	3,112,570,889.00	25/07/2011	19/10/2020
FXD 2/2010/5*	5	1,280,950,000.00	991,206,774.50	29/08/2011	23/11/2015
SBD 1/2011/30*	30	3,376,800,000.00	2,481,796,760.00	29/08/2011	21/01/2041
FXD 3/2011/2	2	677,550,000.00	638,522,956.00	26/09/2011	23/09/2013
IFB 1/2011/1	4	19,121,178,735.00	16,367,446,920.79	03/10/2011	29/09/2015
IFB 1/2011/1	8	14,191,404,000.67	12,147,630,582.33	03/10/2011	23/09/2019
IFB 1/2011/12	12	10,134,769,198.64	8,675,213,159.88	03/10/2011	18/09/2023
FXD 3/2011/2*	2	233,150,000.00	213,428,156.50	31/10/2011	23/09/2013
FXD 4/2011/2	2	13,455,500,000.00	13,455,500,000.00	28/11/2011	25/11/2013
FXD 4/2011/2	2	9,972,750,000.00	9,980,045,791.50	28/11/2011	25/11/2013
IFB 1/2011/12	1	11,102,300,000.00	11,103,107,684.50	26/12/2011	24/12/2012
FXD 1/2012/2	1	14,938,450,000.00	14,938,598,127.50	30/01/2012	28/01/2013
FXD 3/2012/1	1	10,511,600,000.00	10,511,752,560.00	27/2/2012	25/02/2013
FXD 3/2012/1	1	14,969,850,000.00	14,970,532,229.00	26/03/2012	25/03/2013
FXD 1/2012/2	2	6,418,050,000.00	6,418,087,500.00	30/04/2012	28/04/2014
FXD 1/2012/5	5	4,905,550,000.00	4,907,425,153.00	28/05/2012	22/05/2017
FXD 1/2012/10	10	443,150,000.00	443,286,861.00	25/062012	13/06/2022
Total		**143,619,301,934.31**	**131,356,152,105.50**		

Source: Central Bank of Kenya
**Reopened Bonds*

Appendix 4: Government Securities Market Yields for June 2012

Tenor		Current Market Yield (%)	Last issue average rate (%)	Dated	Last issue coupon rate (%)	Tenor Differential
91-day	0.25	10.835	10.835	09.07.12	-	-
182-day	0.5	11.415	11.415	09.0712	-	0.580
364-day	1	13.000	13.000	09.0712	-	1.585
1 year	1	14.104	18.030	27.02.12	-	1.104
2 year	2	13.194	13.826	30.04.12	4.586	-0.910
3 year	3	13.000	9.696	25.09.06	8.250	-0.194
4 year	4	13.000	9.438	26.02.07	11.000	0.000
5 year	5	12.946	11.855	29.08.11	6.671	-0.055
6 year	6	12.824	11.288	30.04.07	11.500	-0.121
7 year	7	12.617	10.325	26.07.07	9.750	-0.207
8 year	8	12.400	9.579	01.03.10	9.750	-0.217
9 year	9	12.432	13.599	24.04.06	13.500	0.032
10 year	10	12.511	12.705	25.09.12	9.307	0.079
11 year	11	12.540	14.308	25.09.06	13.750	0.029
12 year	12	12.588	16.640	07.10.11	12.000	0.048
13 year	13	12.599	-	-	-	0.011
14 year	14	12.617	-	-	-	0.018
15 year	15	12.663	12.388	25.04.10	9.000	0.047
18 year	20	12.699	13.691	28.12.09	13.750	0.035
20 year	20	12.702	14.822	27.06.11	10.000	0.004
25 year	25	12.775	9.839	26.07.10	11.250	0.076
30 year	30	12.775	16.397	29.08.11	12.000	0.000

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

Source: 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
1. BILATERAL								
AUSTRIA	32.4	33.0	45.6	50.3	28.7	22.1	22.5	15.6
BELGIUM	68.0	71.0	69.6	73.4	91.7	82.7	100.6	87.4
CANADA	17.0	17.2	22.2	21.6	20.5	19.6	14.2	17.6
DENMARK	31.0	32.4	32.3	36.1	30.5	28.0	35.4	24.7
FINLAND	1.8	2.2	1.8	1.9	1.7	1.5	1.5	1.2
FRANCE	237.3	252.3	277.8	354.0	364.2	343.9	449.0	435.8
GERMANY	169.6	188.3	198.1	243.7	213.1	198.2	296.8	295.4
ITALY	94.1	118.3	107.6	98.1	74.5	53.1	48.8	34.8
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
NETHERLANDS	28.9	37.3	35.6	35.8	27.7	22.9	33.5	34.7
UK	36.9	36.6	39.6	38.0	30.5	26.0	25.9	23.0
USA	79.4	79.1	70.9	75.1	73.5	69.9	65.7	61.0
CHINA	32.1	32.5	46.9	62.2	153.2	175.6	361.1	466.8
OTHERS	130.9	120.7	117.7	151.9	122.7	146.7	160.08	150.3
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. MULTILATERAL								
ADB/ADF	310.0	349.7	353.1	465.8	423.2	500.5	585.8	811.1
EEC/EIB	111.0	180.5	150.4	173.7	143.4	128.2	139.1	129.8
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
IMF	165.7	154.4	206.9	271.2	244.6	416.4	529.5	909.6
OTHERS		9.0	32.7	41.3	74.9	80.8	98.9	112.8
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**
3.COMMERCIAL BANKS	23.3	17.2	4.3	-	-	-	-	600
4.EXPORT CREDIT	252.3	264.4	271.0	286.6	286.6	249.7	278.7	175.8
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**

Source: Treasury