



REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

**ANNUAL PUBLIC DEBT MANAGEMENT REPORT
FOR FINANCIAL YEAR 2021/2022**

For comments and clarifications, please contact:

Public Relations Office

The National Treasury and Planning
Treasury Building
P. O. Box 30007-00100
NAIROBI, KENYA

Tel: +254-20-2252-299

Email: ps@treasury.go.ke

The document is also available on the website at: www.treasury.go.ke

Information in this publication may be reproduced without restriction provided that due acknowledgement of the source is made.

© ANNUAL PUBLIC DEBT MANAGEMENT REPORT FOR FY 2021/2022

**ANNUAL PUBLIC DEBT MANAGEMENT REPORT
FOR FINANCIAL YEAR 2021/2022**

TABLE OF CONTENTS

LIST OF FIGURES.....	V
LIST OF TABLES	VI
FOREWORD.....	VII
EXECUTIVE SUMMARY.....	XII
CHAPTER ONE.....	1
LEGAL AND INSTITUTIONAL ARRANGEMENTS FOR PUBLIC DEBT MANAGEMENT IN KENYA.....	1
1.0 Introduction.....	1
1.1 Legal Framework	1
1.2 Institutional set up	2
CHAPTER TWO	4
REVIEW OF THE 2021 MEDIUM TERM DEBT MANAGEMENT STRATEGY	4
2.0 Introduction.....	4
2.1 Implementation of 2021 MTDS.....	4
2.2 MTDS Implementation Outturn.....	4
2.3 Highlights of the 2022 MTDS	4
CHAPTER THREE.....	5
BORROWING AND RELATED FINANCING ACTIVITIES.....	5
3.0 Introduction.....	5
3.1 Macroeconomic Context	5
3.2 Deficit and Deficit Structure	5
3.3 Debt Maturities.....	6
3.4 Liability Management Operations for FY 2021/22	8
3.5 Loan Guarantees and Called-up Guarantees.....	8
3.6 KQ Novation.....	8
3.7 New Loans and Absorption.....	8
3.8 Program Loans	8
CHAPTER FOUR.....	10
TOTAL PUBLIC AND PUBLICLY GUARANTEED DEBT.....	10
4.0 Introduction.....	10
4.1 Debt Service.....	11
CHAPTER FIVE.....	13
DOMESTIC DEBT	13
5.0 Introduction.....	13
5.1 Domestic Debt Stock	13

5.2 Domestic Debt by Type of Instrument	14
5.3 Domestic Debt by Holder	14
5.4 Treasury Bills by Holder	16
5.5 Treasury Bonds by Holder	17
5.6 Treasury Bills and Treasury Bonds by Remaining Time to Maturity	17
5.7 Treasury Bonds by Time to Maturity	18
5.8 Average Interest Rates on Treasury Bills	18
5.9 Government Securities Trading	18
5.10 Government Securities Yield Curve.....	20
5.11 Interest Payments on Domestic Debt	20
CHAPTER SIX.....	22
PUBLIC EXTERNAL DEBT	22
6.0 Introduction.....	22
6.1 Change in External Debt by Creditor Type	22
6.2 External Debt by Major Creditor	23
6.3 Currency Composition of External Debt	23
6.4 Maturity Structure of External Debt.....	24
6.5 External Debt Service	24
6.6 External Loan Disbursements	25
6.7 New Commitments	26
CHAPTER SEVEN.....	27
SOVEREIGN CREDIT RATING	27
7.0 Introduction.....	27
7.1 Sovereign Ratings for Kenya.....	27
7.2. Drivers of Rating for Kenya	27
7.3 Kenya’s Public Debt Metrics.....	28
7.3.1 Kenya’s Prospects for Better Rating	29
CHAPTER EIGHT.....	30
INVESTOR RELATIONS.....	30
8.0 Introduction.....	30
8.1 The Mandate and Functions	30
8.2 Benefits of IRU	30
8.3 IRU Survey	30
8.4 Engagement with Credit Rating Agencies.....	31
8.5 Investor Conference Calls including Deal and Non-deal Road Shows	31

CHAPTER NINE.....	32
COUNTY DEBT MANAGEMENT AND CAPACITY DEVELOPMENT.....	32
9.1 Legal Framework	32
9.2 County Borrowing in the FY 2021/22.....	32
9.3 County Governments Capacity Building on Borrowing.....	32
CHAPTER TEN.....	33
PUBLIC DEBT RISK MANAGEMENT	33
10.1 Introduction.....	33
10.2 Cost and Risk Profile of Public Debt	33
10.2.1 Total Debt as Percentage of GDP.....	33
10.2.2 Interest Payments as a Percentage of Revenue.....	34
10.2.3 Weighted Average Interest Rate.....	34
10.3 Refinancing Risk	35
10.3.1 Average Time to Maturity (ATM).....	35
10.3.2 Debt Maturing in One-Year as a Percentage of GDP.....	36
10.3.3 Redemption Profile	36
10.4 Interest Rate Risk.....	38
10.4.1 Composition of Public Debt in Fixed and Variable Interest Rates.....	38
10.4.2 Libor, Euribor and IDA Variable Rate Associated Public Debt	39
10.4.3 Average Time to Re-fixing	39
10.5 Exchange Rate Risk.....	40
10.5.1 External Debt as a percentage of Total Debt	40
10.5.2 Foreign Currency Composition	40
10.6 Debt Management Risk Register	41
10.7 Fiscal Risk Reporting.....	41
10.8 Business Continuity Plans	41
CHAPTER ELEVEN	42
DOMESTIC DEBT MARKET REFORMS AND FISCAL AGENCY RELATIONS.....	42
11.0 Introduction.....	42
11.1 Domestic Debt Market Reforms	42
11.1.1 Status of Implementation of Reforms	42
11.2 Other Debt Management Reforms	43
11.2.1 Adoption of Commonwealth Meridian	43
11.3 Fiscal Agency Relation	43
CHAPTER TWELVE	44

PUBLIC DEBT SUSTAINABILITY	44
12.0 Introduction	44
12.1 Assumptions underlying the DSA.....	44
12.2 Debt Carrying Capacity	44
12.3 External Debt Sustainability Analysis	45
12.4 Public Debt Sustainability Analysis	45
12.5 Improving Debt Sustainability	45
CHAPTER THIRTEEN.....	46
CASHFLOW FORECASTING AND BUDGETING FOR PUBLIC DEBT SERVICE.....	46
CHAPTER FOURTEEN	47
PUBLIC DEBT REPORTING.....	47
14.0 Introduction	47
14.1 2021 Annual Public Debt Management Report (APDMR).....	47
14.2 Medium-Term Debt Management Strategy (MTDS)	47
14.3 Report to Parliament on New Loans Contracted by Government.....	47
14.4 Statistical Debt Bulletins	49
14.5 External Resources Estimates Handbook	49
14.6 Statements of Public Debt Stock.....	49
14.7 Statement of Outstanding Obligations Guaranteed by the Government.....	49
CHAPTER FIFTEEN	50
CONTINGENT LIABILITIES	50
15.0 Introduction	50
15.1 Government Guaranteed Debt	50
15.2 Called-up Kenya Airways Guaranteed Debt.....	51
15.3 Public Non-guaranteed Debt	52
CHAPTER SIXTEEN	55
OUTLOOK FOR THE MEDIUM TERM	55
16.1 Projected Public Debt Stock	55
16.2 Debt Service	55

LIST OF FIGURES

Figure 3.3-1: Maturities of Domestic Debt (KSh. Million)	7
Figure 3.3-2: Maturities of External Debt (KSh. Million)).....	7
Figure 4.0-1: Trends in Kenya’s Total Public Debt in (KSh. Million)	11
Figure 4.1-1: Total Public Debt Service (KSh. Million)	12
Figure 5.2-1: Domestic Debt by Instruments	14
Figure 5.3-1: Outstanding Domestic Debt Stock by Holders.....	16
Figure 5.6 1: Government Domestic Debt Securities by Tenor	17
Figure 5.7-1: Average Time to Maturity of Treasury bonds.....	18
Figure 5.8-1: Average Interest Rates and Spreads on Treasury Bills	18
Figure 5.9-1: Annual Treasury Bonds Trading, June 2010-June 2022 (KSh. Billion).....	20
Figure 5.10- 1: Government of Kenya Securities Yield Curve, June 2022.....	20
Figure 6.1-1: External Debt by Creditor Category (percent) for end June 2021 and end June 2022	23
Figure 6.2-1: External Debt by Major Creditors.....	23
Figure 10.2.1-1: Total Debt as a Percentage of GDP	33
Figure 10.2.2-1: Interest Payments as a Percentage of Revenue.....	34
Figure 10.2.3-1: Weighted Average Interest Rate	35
Figure 10.3.1-1: Average Time to Maturity (ATM)	36
Figure 10.3.2-1: Debt Maturing in One Year as Percentage of GDP	36
Figure 10.3.3-1: Redemption Profile of the Total Debt.....	37
Figure 10.3.3-2: Redemption Profile by Interest rate type	38
Figure 10.4.1-1: Type of Interest Rate Composition in External Debt	38
Figure 10.4.3-1: Average Time to Re-fixing.....	39
Figure 10.4.2 1: Libor, Euribor and IDAVR Public Debt	39
Figure 10.5.1-1: External Debt as a Percentage of Total Debt.....	40
Figure 10.5.2-1: Foreign Currency Composition.....	40
Figure 15.3-1: Composition of Non-guaranteed Debt.....	54

LIST OF TABLES

Table 3.2-1: Financing Fiscal Deficit (KSh. Million)	5
Table 3.8-1: Committed and Disbursed Loans (KSh. Million)	9
Table 4.0-1: Trends in Kenya's Total Public Debt in (KSh. Million)	10
Table 4.1-1: Total Public Debt Service (KSh. Million).....	11
Table 5.1-1: Outstanding Domestic Debt (in KSh. Million).....	13
Table 5.3-1: Domestic Debt by Holder (KSh. Million).....	15
Table 5.4-1: Outstanding Stock of Treasury Bills by Holder (KSh. Million)	16
Table 5.5-1: Outstanding Stock of Treasury Bonds by Holder (KSh. Million).....	17
Table 5.11-1: Interest Payments on Domestic Debt (KSh. Million).....	21
Table 6.0-1: External Debt Stock by Creditor Type (KSh. Million)	22
Table 6.3-1: Currency Composition of the External Debt Stock (Percent).....	24
Table 6.4-1: Outstanding External Debt by Remaining Maturity	24
Table 6.5-1: External Debt Service by Creditor Category.....	25
Table 6.6-1: External Loans Disbursements (KSh. Million)	26
Table 12.2-1: Kenya's Debt Carrying Capacity Classification	44
Table 12.2-2: Thresholds and Benchmark	44
Table 12.3-1: Kenya's External Debt Sustainability Analysis	45
Table 12.4-1: Kenya's Public Debt Sustainability Analysis	45
Table 14.3-1: Loans Contracted in FY 2021/22 by the Government and Reported to Parliament (KSh. Million)	48
Table 15.1-1: Stock of Publicly Guaranteed External Debt by Creditor Category (KSh. Million)	50
Table 15.1-2: List of Guaranteed Loans and Balances as at 30th June, 2022	51
Table 15.3-1: Kenya's Outstanding Non-guaranteed Public Debt as at end June 2022	53
Table 16.1-1: Projected Public Debt Stock in (KSh. Million)	55
Table 16.2-1: Projected Debt Service (KSh. Million).....	56

FOREWORD

The Annual Public Debt Management Report (APDMR) is prepared in accordance with the provisions of Chapter 12 of the Constitution of Kenya and the Public Finance Management (PFM) Act, 2012 on reporting of public debt. The Financial Year (FY) 2021/22 APDMR presents borrowing and debt service activities during the FY 2021/22. This report takes cognizance of the legal framework underpinning public debt management, contingent liabilities, and evaluation of the Medium-Term Debt Management Strategy (MTDS) implementation during the review period and highlights the key issues in the most recent Debt Sustainability Analysis (DSA). The evolving structure of public debt portfolio and debt service profile are also covered in the report.

During the period under review, the stock of public debt increased by KSh. 891,646 million from KSh. 7,696,635 million in June 2021 to KSh. 8,588,281 million in June 2022 or 67.3 percent of GDP. As at end June 2022, the external and domestic debt accounted for 50.1 percent and 49.9 percent of total debt portfolio respectively. Most of the external debt portfolio comprise loans on concessional terms while domestic debt has gradually shifted to medium to long term. The average maturity period of public debt has lengthened in line with the Medium-Term Debt Management Strategy (MTDS).

Planned debt management operations to lower cost and risks were not fully implemented due to volatility in the global debt markets. The uncertainties created by the conflict in Eastern Europe led to disruptions of the key supply chains, triggering rise in prices particularly food and energy prices and tighter global financial conditions.

Just as Kenya was gradually recovering from the COVID-19 pandemic, the ripple effects from the Eastern Europe crisis and the adverse effects of climate change on food insecurity increased pressure on the fiscal position and debt vulnerability. Debt sustainability indicators deteriorated but the outlook in the medium-term show positive outturn. Going forward, with limits to raising taxes and expenditure cuts, the country will need to access concessional financing and promote the development of debt markets. Kenya's credit rating remained strong at B with a stable outlook as at end June 2022.

The Government is committed to providing accurate and timely debt information to promote debt transparency in accordance with the best practices. The scope and coverage in FY 2021/22 Annual Debt Management Report has been expanded to include non-guaranteed debt related to State-Owned Enterprises.



HON. (AMB). UKUR K. YATANI, E.G.H.

Cabinet secretary, The National Treasury and Planning

ACKNOWLEDGEMENT

The Public Debt Management Office (PDMO) prepared the FY 2021/22 APDMR highlighting the major developments in Kenya's public debt management. The borrowing and debt management operations at the PDMO is guided by the Borrowing and Debt Management Policy and MTDS anchored on a robust, reliable and accurate public debt management system and skilled and experienced staff. During the year under review, the PDMO has strengthened its capabilities on loan and grants administration, deepened investor engagement and improved operational efficiency to minimise costs and risks in public debt management.

Public debt to GDP ratio declined and is projected to fall further over the medium-term. Interest payments as a percentage of revenue also declined and the Government continued to meet its debt service payment obligations and no debt arrears have been accumulated.

The Government will closely monitor contingent liabilities arising from State-owned Enterprises (SoEs) as they pose major fiscal risks. The report has expanded coverage of public debt to include non-guaranteed SoEs debts.

The preparation of this Report involved collaborative efforts and material inputs from the National Treasury and the Central Bank of Kenya. I take this opportunity to recognize the key role played by the PDMO in its lead role in enabling production of the 2021/22 APDMR and welcome the public to read this report. It is my hope that it will provide valuable insights that will augment disclosure of levels of debt thereby enhancing transparency and accountability in debt management in Kenya.

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

A handwritten signature in black ink, appearing to be 'J. Muia', written over a horizontal line.

JULIUS MUIA, PhD., C.B.S.
Principal Secretary, The National Treasury

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
A-I-A	Appropriation in Aid
ATM	Average Time to Maturity
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CI	Composite Index
CMA	Capital Markets Authority
COB	Controller of Budget
COVID-19	Coronavirus Disease 2019
CRA	Commission on Revenue Allocation
CSD	Central Securities Depositories
CUB	Committed Undisbursed Balance
DPO	Development Policy Operations
DPS&RM	Debt Policy, Strategy and Risk Management Department
DSA	Debt Sustainability Analysis
EAPCC	East African Portland Cement
EBR	Economic Budget Review
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EURIBOR	Euro Interbank Offered Rate
FCCL	Fiscal Commitments and Contingent Liabilities
FY	Financial year
GBP	Sterling Pound
GDP	Gross Domestic Product
GoK	Government of Kenya
IBEC	Intergovernmental Budget and Economic Council
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDVR	IDA-Variable interest
IFB	Infrastructure Bond
IMF	International Monetary Fund
IRU	Investor Relations Unit

ISB	International Sovereign Bond
JKUAT	Jomo Kenyatta University of Advanced Technology
KAA	Kenya Airports Authority
KBA	Kenya Bankers' Association
KBC	Kenya Broadcasting Corporation
KenGen	Kenya Electricity Generating Company
KMC	Kenya Meat Commission
KPC	Kenya Pipeline Company
KPLC	Kenya Power and Lighting Company
KU	Kenyatta University
MCDAs	Ministries, Counties, Departments and Government Agencies
MSMEs	Micro, Small and Medium Enterprises
MTDS	Medium Term Debt Management Strategy
NBFI	Non-Bank Financial Institution
NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
OAG	Office of the Auditor General
OTC	Over-The-Counter
PCK	Postal Corporation of Kenya
PDMO	Public Debt Management Office
PFF	Project Facilitation Fund
PFMA	Public Finance Management Act
PPA	Power Purchase Agreements
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
PRG	Partial Risk Guarantees
PV	Present Value
Q4	Quarter four
QEBR	Quarterly Economic Budget Review
SBLC	Stand by Letter of Credit
SGR	Standard Gauge Railway
SLB	Securities Lending and Borrowing
SOEs	State Owned Enterprises
T-Bills	Treasury Bills
TDS	Total Debt Service

TEDS	Total External Debt Service
TMD	Treasury Mobile Direct
TNT	The National Treasury
UON	University of Nairobi
USA	United States of America
USD	United States Dollar

EXECUTIVE SUMMARY

The PDMO is established in accordance with Section 62 of the PFM Act, 2012 as an Office within the National Treasury (TNT) as envisaged. The main objective of the PDMO is to minimize the public debt management cost and borrowing in the long run while taking into consideration the associated risks. Debt and Borrowing Policy was developed and adopted in March 2020 to provide a strong accountability framework in the borrowing and management of public debt. The PDMO is committed to promoting sustainable professional capacity to manage public debt and developing policies that respond to emerging debt issues. The Directorate is building capacity on the development of the Medium-Term Debt Strategy (MTDS) to continue identifying optimal strategies for debt management.

The 2021 MTDS targeted a gradual reduction of T-bills and lengthening the redemption profile of the public debt. It projected raising 43 percent and 57 percent of net financing from the resident and non-resident creditors, respectively. The commercial, concessional and semi-concessional was projected to be 10 percent, 21 percent, and 26 percent, respectively. The total borrowing was projected at KSh. 1,031,206 million, of which external and domestic sources were to account for 27 percent and 73 percent respectively. The outturn of the public debt amounted to KSh. 732, 297.8 million, with domestic and external borrowings amounting to KSh. 589,773.8 million and KSh. 142,524 million, respectively, a deviation from the 2021 MTDS proposed optimal strategy. The total external disbursement amounted to KSh. 327,059 million against a target of KSh. 545,151 million.

As at end June 2022, the public debt stood at KSh. 8,588,281 million rising from KSh. 7,696,635 million in June 2021. This comprised of external and domestic debt which stood at KSh. 4,299,948 million and KSh. 4,288,333 million, respectively. The debt to GDP ratio declined from 68.1 percent in June 2021 to 67.3 percent in June 2022. The external debt to GDP ratio declined from 35.4 percent in June 2021 to 33.7 percent in June 2022, while domestic debt as a percentage of GDP was at 33.6 percent in June 2022 rising from 32.7 percent in June 2021. The ratio of debt service to revenue decreased from 50.0 percent in June 2021 to 47.9 percent in June 2022. Treasury bills and Treasury bonds are the main instruments for contracting domestic debt. Treasury bonds accounted for 83.2 percent of total domestic debt while Treasury bills share was 14.7 percent, pre-1997 debt 0.4 percent, and others 1.7 percent. Non-financial institutions were the main holders of the domestic debt at 50.6 percent while banks held 48.7 percent. Reforms in the domestic debt market have improved market liquidity and broadened the investor base. Secondary market trading for Government securities rose from KSh. 637,000 million in June 2021 to KSh. 872,975 million in June 2022.

The current crediting rating by the major International Sovereign Rating Agencies is at B (stable outlook), B+ (negative outlook), and B2 (negative outlook) by Standard and Poor's, Fitch, and Moody's, respectively. Despite the rating, the economy has been resilient with a remarkable recovery from the COVID-19 shocks. The economy grew by 7.5 percent in the last fiscal year from a contraction of 0.3 percent in 2020. To continue developing the capacity in PDMO, the Investor Relation Unit has been established and mandated to provide transparent, accurate, and timely market-relevant data including public debt and other relevant information to stakeholders. The PDMO is also carrying out capacity-building on the county government borrowing programme. Out of the 47 counties, Laikipia County Government is the first County that submitted a request for a guarantee for the issuance of a KSh. 1.16 billion domestic infrastructure Bond, and was approved by the Intergovernmental Budget and Economic Council (IBEC). However, Parliament's approval did not come through due to adjournment for the 2022 general elections. Other counties that have submitted a similar request are Kirinyaga and Nakuru counties.

The PDMO spearheaded the implementation of several debt reforms which include: the automation of both primary and secondary market processes; the establishment of the Central Securities Depository (CSD); and an internet banking platform for both retail and institutional investors. Institutional and policy reforms that have been implemented are the creation and publication of auction rules and guidelines for government securities. The Directorate has adopted the Commonwealth Meridian Debt Management System as a replacement of CS-DRMS to enhance management of public debt. The Directorate, on behalf of the National Treasury, reviewed the Fiscal Agency Agreement between the National Government and the Central Bank of Kenya.

The total stock of public debt in nominal terms as at the end June 2022 was KSh. 8,588,281 million and is expected to rise to KSh. 11, 423,200 million as at end June 2026. The debt service stood at KSh. 945,081(49.2 percent of revenue) and is projected to increase to KSh. 2,123,476 million in the FY 2025/26 (64.9 percent of revenue). The fiscal deficit declined to 6.2 percent of GDP in FY 2021/22 from 8.2 percent in FY 2020/21. Exports of goods and services are projected to reach 13.4 percent of GDP in 2026. Kenya is a *Medium Performer* in terms of Debt Carrying Capacity (DCC). The Present Value (PV) of external debt-to-export and Public and Publicly Guaranteed (PPG) of debt-service-to-exports indicators were breached under the baseline and the most extreme scenario. It is projected that the PV of total public debt to GDP remains above the 55 percent benchmark up to 2025. Overall, Kenya's debt remains sustainable. The PDMO developed, published, and publicized reports on debt matters. The publicized reports during the previous fiscal year include the Annual Debt Management Reports, the Medium-Term Debt Management Strategy (MTDS) and Reports on New Loans to Parliament, among others.

CHAPTER ONE

LEGAL AND INSTITUTIONAL ARRANGEMENTS FOR PUBLIC DEBT MANAGEMENT IN KENYA

1.0 Introduction

Legal and institutional set up for public debt management is enshrined in the governance and managerial structure that facilitates debt management. This is a key component in the assessment of sound debt management practices. Governance structures provide the anchor to prudent management of debt through institution of checks and controls which work to moderate the effects of cost overruns and risky borrowing.

1.1 Legal Framework

Kenya has a robust public finance management law which includes clear debt management objectives and provides delegation of authority for government borrowing and issuance of government guarantees. PFM Act, 2012 and the attendant regulations also envisage improved institutional structure of TNT including the establishment of the consolidated PDMO. Implementation of this provision began with the creation of three offices with separate functions in line with international best practice. The Debt and Borrowing Policy was developed by TNT and adopted in March 2020 by the Cabinet. It is anchored in the Constitution of Kenya, PFM Act, 2012 and the attendant Regulations. The policy provides for a strong accountability framework in borrowing and management of public debt. It also seeks to promote the development of the domestic market for Government debt securities. The policy therefore is meant to act as a guide for public debt and borrowing practices of the National and County Governments including the issuance process and management of the debt portfolio. The policy also provides a better articulation of debt management goals, clearer guidelines for the structure of debt issuance, and a demonstration of commitment to long-term capital and financial planning.

The PDMO is established within TNT under Section 62 of the PFM Act, 2012 with the following objectives:

- a) Minimise the cost of public debt management and borrowing over the long-term taking account of risk;
- b) Promote the development of the market institutions for Government debt securities;
- c) Ensure the sharing of the benefits and costs of public debt between the current and future generations.

Regulation 26 (1) (c) of the Public Finance Management (National Government) Regulations, 2015 was amended in 2019 to shift the debt ceiling from a ratio of 50 percent of debt to GDP in Net Present Value Terms to a numerical ceiling of KSh. 9,000 billion. This was done in order to create the fiscal space required to restructure the debt stock and bring debt down to sustainable levels. The Regulation was further amended to KSh. 10,000 billion in 2022 to support the budget for the FY 2022/23.

The PFM Act, 2012 provides that the Cabinet Secretary may, by regulations approved by Parliament, establish a sinking fund or funds for the redemption of loans raised under this Act by the national government. During the year under review, TNT initiated the development of Sinking Fund guidelines in compliance with the law. The draft guidelines were prepared and presented before the National Assembly and Senate Committees for approval. However, the guidelines were not approved because they were not subjected to public participation as required by the Constitution.

The Central Bank of Kenya Act Cap 491 Section 44 (1) provides that the Bank shall act as fiscal agent of and banker to the Government. The Act also enables the Bank to perform the functions of fiscal agent and banker for any other public entity in accordance with, and within the scope determined by, any special arrangements made between the Bank and the public entity concerned.

The Act further defines the functions of the Fiscal Agent as follows:

1. Be the official depository of the public entity concerned and accept deposits and effect payments for the account of that public entity;
2. Maintain and operate special official accounts in accordance with arrangements made between the Bank and the public entity concerned;
3. As an agent of the Government, administer the public debt including the issuance of, payment of a return on, and redemption of, bonds and other securities of the Government;
4. Pay, remit or accept for deposit or custody funds in Kenya or abroad;
5. Purchase, sell, transfer or except for custody cheques, bills of exchange and securities;

1.2 Institutional set up

Section 64 of the PFM Act, 2012 provides that the role of Cabinet Secretary in the PDMO is as follows:

1. Develop the policy and financial framework in accordance with Constitutional principles within which the Public Debt Management Office operates;
2. Delegate to the Head of the Public Debt Management Office the operational decisions on borrowing and debt management and the day-to-day management of the Office;
3. Ensure that the Public Debt Management Office has the resources and skills to manage the debt and borrowing according to international best practices for liability management; and
4. Be accountable to Parliament for the work of the Public Debt Management Office.

The PDMO is focused on strengthening sustainable institutional and professional capacity to manage debt and develop policies that respond to emerging financing needs. Broad focus on strengthening the quantitative analysis is an ongoing process with a specific emphasis on employing tools for evaluating the cost and risk associated with debt and borrowing. The PDMO continues to build capacity in the development of MTDS, a tool that utilizes macroeconomic data to identify the most optimal borrowing mix strategy for adoption. The governance structure for public debt management has endeavoured to adopt international best practice in debt management while raising awareness on key emerging challenges and opportunities.

The National Assembly through Standing Order number 207A adopted in June 2022 proposed the establishment of a select committee to be designated as the Public Debt and Privatization Committee. The National Assembly has a key role of ensuring that public debt management complies with the relevant laws and policies. The proposed committee shall undertake the following functions:

- a) Oversight of public debt and guarantees pursuant to Article 214 of the Constitution;
- b) Examination of matters relating to debt guarantees by the National government;
- c) Oversight of consolidated fund services excluding audited accounts;

- d) Examination of reports on the status of the economy in respect of the public debt;
- e) Oversight of public private partnership programmes by the national government in respect of the public debt; and
- f) Oversight of the privatization of national assets.

CHAPTER TWO

REVIEW OF THE 2021 MEDIUM TERM DEBT MANAGEMENT STRATEGY

2.0 Introduction

Implementation of MTDS to guide borrowing strategies in the medium term during the fiscal year has been the hallmark of the PDMO activities since its establishment. The preparation of MTDS is carried out in compliance with Section 33 of the PFM Act, 2012. It is one of the key documents prepared by TNT and submitted with the National Budget to Parliament for approval.

2.1 Implementation of 2021 MTDS

The main objective of the 2021 MTDS was to achieve a gradual reduction of the stock of Treasury bills and lengthen the maturity profile of public debt through liability management operations for selected commercial debts. The strategy envisaged raising 43:57 ratio of net financing from the domestic and external sources respectively. External strategy envisaged borrowing from concessional, semi concessional and commercial sources at 21 percent, 26 percent and 10 percent respectively. Gross domestic and external borrowing, accounted for 73 percent and 27 percent, respectively during the period under review.

Under domestic borrowing, the strategy objective was to gradually reduce the stock of Treasury bills and lengthen maturity profile of domestic debt through issuance of medium to long term bonds in order to reduce refinancing and rollover risks hence support deepening of the domestic debt market.

2.2 MTDS Implementation Outturn

During the FY 2021/22, a total of Ksh. 747,825 million net new borrowing was raised to fund the fiscal deficit. External borrowing was Ksh. 142,524 million, while net domestic financing was Ksh 605,301 million of which net domestic borrowing from Treasury bonds was Ksh. 589,774 million. The stock of Treasury bills as at end June 2022 was Ksh. 628,754 million, reflecting a reduction of 17.8 percent from end June 2021. The average time to maturity for Treasury bonds increased to 9.1 years by end June 2022 from 8.6 years in June 2021 while the ratio of Treasury bills to Treasury bonds improved to 15:85 from 21:79 in June 2021. The net repayment of Treasury bills and the lengthening of the average time to maturity for Treasury bonds, was consistent with 2021 MTDS thus achieving the objective of the strategy.

The outturn was in the ratio of 81:19 of net domestic to external financing deviating from the 2021 MTDS proposed optimal strategy of 43:57. The deviation was on account of volatilities in international capital markets leading to suspension of USD 1.0 billion commercial borrowing plans as emerging bonds yields deteriorated due to the monetary policy tightening in the USA and western Europe.

2.3 Highlights of the 2022 MTDS

The 2022 MTDS aims at minimizing costs and risks associated with debt contraction through net financing mix of 32 percent from external sources and 68 percent from domestic sources subject to favourable market conditions. In gross borrowing terms, the strategy seeks to achieve 25 percent and 75 percent in external and domestic financing, respectively.

On the external debt component, the strategy objective is to minimise the cost of funding the fiscal deficit by optimizing concessional financing and reducing commercial borrowing. On the domestic debt component, the strategy aims at reducing refinancing risk through maintaining the existing stock of Treasury bills at the current levels while issuing medium to long term debt securities under the benchmark bond programme. Performance evaluation of the strategy will be conducted in FY 2022/23 *Annual Debt Management Report*.

CHAPTER THREE BORROWING AND RELATED FINANCING ACTIVITIES

3.0 Introduction

The COVID-19 pandemic and the conflict in Eastern Europe created uncertainties in the global economy that depressed the International financial flows and increased the cost of borrowing. During the period under review, the Government financed its fiscal deficit through foreign and domestic financing. The Government is committed to the policy on fiscal consolidation, which will reduce the rate of debt accumulation and the risk of increased debt distress. This chapter reports on the outcome of the borrowing and related financing activities, including outlining the new loans and absorption of borrowed funds.

3.1 Macroeconomic Context

The Government has continued to progressively implement policies and programmes under Vision 2030 through various Medium-Term Plans. The Third Medium Term Plan covering the period 2018-2023 focusses on supporting the “Big Four Agenda” which aims at fostering the socio-economic development. The programme, however, faced challenges arising from the COVID-19 pandemic which slowed down full realization of the expected benefits. The Conflict in Eastern Europe created uncertainties that continue to worsen the global economic outlook through disruption of the commodity supply chains leading to the rise of global oil prices and increased inflationary pressures. The flow of capital in the International financial markets has been depressed with the cost of borrowing rising due to the prevailing uncertainties. During this period, the Government adjusted its fiscal policy stance by adopting an accelerated expenditure on health-related matters to contain the spread of COVID-19.

The resilience in Kenya’s economy has been remarkable towards recovery from the COVID-19 shock. In 2021, Kenya’s GDP grew by 7.5 percent from the contraction of 0.3 percent in 2020 as a result of service and industry sectors expansion. The economy further grew by 6.8 percent in the first quarter of 2022. This growth in GDP was higher compared to the 2.7 percent growth reported in the first quarter of 2021. The strong growth in 2022 was embedded on the ongoing recovery in manufacturing, food services, accommodation, wholesale, retail, transport, administration, professional, storage, financial, insurance, and support services sectors. In general, all sectors posted a positive growth except the agricultural sector which registered a contraction of 0.7 percent due to low crop production resulting from unfavourable weather conditions in most parts of Kenya.

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

3.2 Deficit and Deficit Structure

The external financing during FY 2021/22 amounted to KSh. 327,059 million against a target of KSh. 545,151 million. The shortfall was mainly attributed to the limited amount of commercial borrowing (KSh. 124,318 million) which the Government was unable to mobilize sufficiently due to unfavourable market conditions. The external disbursements comprised KSh. 92,619 million Project Loans A.I.A, KSh. 175,840 million program loans and KSh. 58,601 million Project Cash Loans. The external repayments amounted to KSh. 184,536 million, resulting to a net external financing of KSh. 142,524 million.

Table 3.2-1: Financing Fiscal Deficit (KSh. Million)

Source of financing	Jun - 2018		Jun - 2019		Jun -2020		Jun - 2021		Jun – 2022*	
	Amount	% of GDP								
Fiscal Deficits	631,309	7.1	708,918	7.3	790,191	7.4	929,286	8.2	784,811	6.2
Net External Financing	354,977	3.9	414,518	4.4	340,431	3.3	323,310	2.9	142,524	1.1%
Net Domestic financing	276,104	3.1	306,536	3.2	450,373	4.4	626,926	5.6	605,301	4.8%
Total	631,081	7.1	721,054	7.6	790,804	7.8	950,235	8.5	747,825	5.9%

**Provisional*

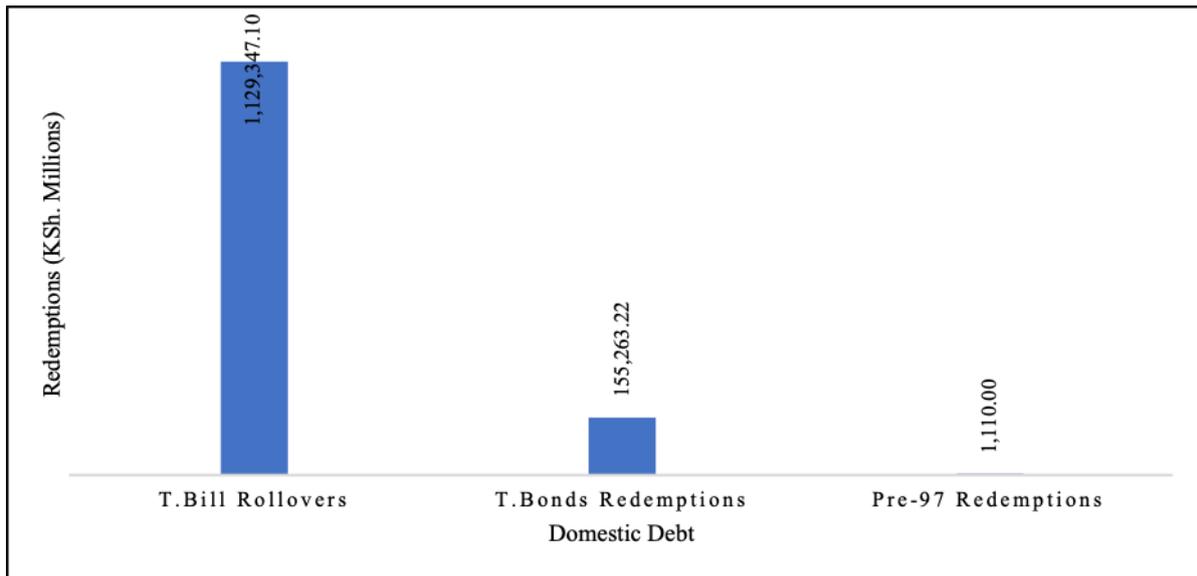
Source: National Treasury, QEBR Q4, 2022

The actual net domestic financing amounted to KSh. 605,301 million during the FY 2021/22 against the target of KSh. 688,121 million leaving a shortfall of KSh. 82,820 million (12.0 percent). Domestic borrowing was projected to be KSh. 678,077 million. However, the Government was able to mobilize KSh. 589,545 million. The shortfall of KSh. 88,532 million was due to tight liquidity in the second and third quarters of the fiscal year.

3.3 Debt Maturities

In the FY 2021/22, a total of KSh. 1,285,720 million was paid towards the domestic debt maturities (9.8 percent of GDP). Out of total domestic maturities, the Treasury bonds redemptions comprised KSh. 155,263 million while KSh. 1,110 million was attributed to the pre-1997 debt. The Treasury bills rollovers which amounted to KSh. 1,129,347 million constituted the largest amount of domestic debt maturities followed by Treasury bonds and the pre-1997 debt respectively (Figure 3.3-1). The Treasury bonds redeemed during FY 2021/22 had tenors ranging from 2 years to 30 years.

Figure 3.3-1: Maturities of Domestic Debt (KSh. Million)

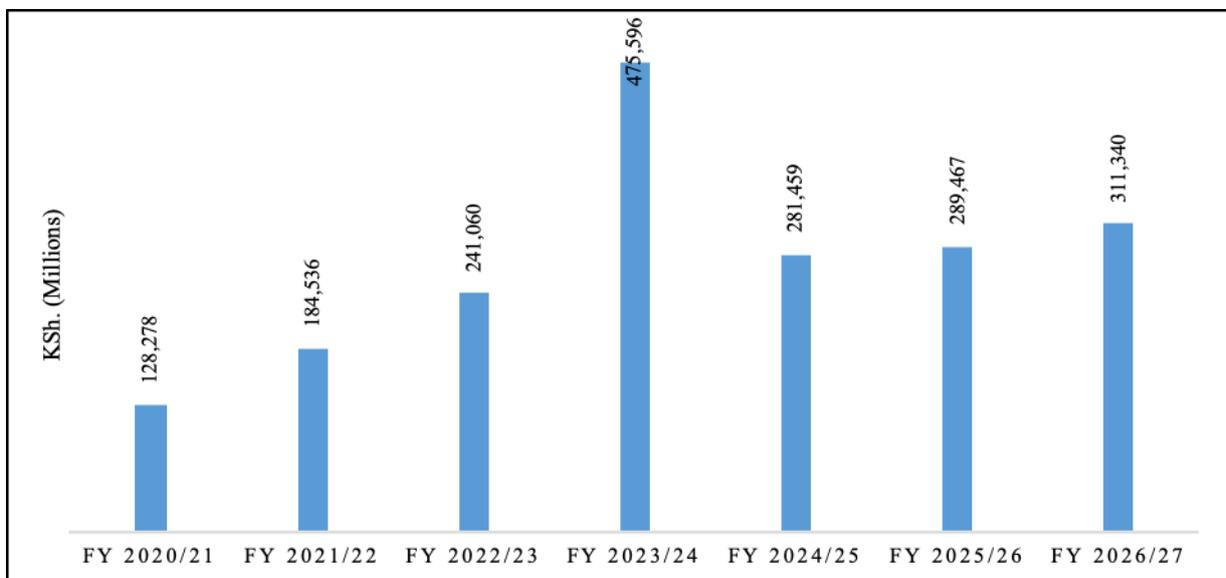


Source: National Treasury

In the FY 2021/22, the payment of principal of external debt amounted to KSh. 184,536 million (1.4 percent of the GDP) against a projected amount of KSh. 202,066 million comprising bilateral, multilateral and commercial loans. This represented a growth of 43.9 percent from KSh. 128,278 million in FY 2020/21.

The projections of external debt maturities show that a total of KSh. 241,060 million, KSh. 475,596 million, KSh. 281,459 million, KSh. 289,467 million and KSh. 311,340 million will be due in the FY 2022/23, FY 2023/24, FY 2024/25, FY 2025/26 and FY 2026/27 respectively (Figure 3.3-2). Overall, repayment of external debt is expected to increase in the medium term. The FY 2023/24 is projected to have a higher repayment of external debt because of the maturing 2024 Eurobond.

Figure 3.3-2: Maturities of External Debt (KSh. Million)



Source: National Treasury

3.4 Liability Management Operations for FY 2021/22

The National Treasury planned to undertake liability management operations in the FY 2021/22 with the aim of lengthening the maturity structure and reducing the refinancing risks in the debt portfolio. The operations targeted to employ a market-based debt re-profiling approach to repay the Eurobond maturing in FY 2023/24. These liability management operations were not implemented as the international market conditions were unfavorable due to the elevated yields as a result of the global monetary policy to increase rates to avert inflation rates as well as the Ukraine and Russia Crisis.

The National Treasury initiated engagements with the holders of targeted commercial debt earmarked for re-profiling and proposed amendments to the facility agreements. The proposed review of terms included repeal of the punitive prepayment clauses which require prepayment fees that could arise as a result of voluntary pre-payment of any amount outstanding. Owing to heightened yields on emerging sovereign debts that persisted during the year, the re-profiling initiative did not materialize and the National Treasury deferred implementation of the initiative indefinitely.

3.5 Loan Guarantees and Called-up Guarantees

The PFM Act, 2012 (Sections 58 and 59) provides that the National Government shall guarantee loans contracted by county governments and state-owned enterprises. During the FY 2021/22, the Government did not guarantee any new loan. A request from Laikipia County is still pending at the National Treasury. During the same period, Kenya Airways (KQ) guaranteed debt was called-up by lenders (see. Section 3.6).

3.6 KQ Novation

A Cabinet decision was made to novate Kenya Airways guaranteed debt to government which was in arrears. Kenya Airways borrowed a total of USD 841.6 million from Exim Bank of USA to purchase seven (7) aircrafts and one (1) engine. Out of this amount, the National Government guaranteed USD. 525 million. Kenya Airways defaulted on both the guaranteed portion of the loan amount as well as the non-guaranteed portion. The National Government is in the process of novating the debt to be finalized during FY 2022/23.

3.7 New Loans and Absorption

During FY 2021/22 new commitments negotiated and contracted by the Government amounted to KSh. 223,549 million. Grants received amounted to KSh. 50,503 million.

3.8 Program Loans

During the period under review, the amount of loan commitments towards budget support was KSh. 135,019 million. The Development Policy Operations (DPO) program supported by World Bank secured to support institutional reforms and Post COVID Recovery initiatives amounted to KSh. 101,922 million, while Program for Results (PforR) secured support of KSh. 4,025 million. In addition, the Government of Kenya secured budget support of KSh. 29,072 million under the 38-month IMF Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Program.

Table 3.8-1: Committed and Disbursed Loans (KSh. Million)

Program	Projected commitments (KSh. millions)	Disbursed (KSh. millions)
International Monetary Fund	57,450	29,072
World Bank- Development Policy Operation	82,500	86,321
African Development Bank Program Based Operation	11,671	11,266
Other WB Program for Results	3,500	4,025
Support for COVID-19 Vaccine Purchase	8,075	4,335
TOTAL	163,196	135,019

Source: National Treasury

Disbursement of the program loans are based on Government meeting all the prior actions as agreed with the lenders. Out of the projected program loan commitments of KSh. 163,196 million, the Government of Kenya received KSh. 135,019 million and the deviation was attributed to exchange rate fluctuations and delays in achieving the agreed targets.

CHAPTER FOUR
TOTAL PUBLIC AND PUBLICLY GUARANTEED DEBT

4.0 Introduction

The total public and publicly guaranteed debt stock in nominal terms as at June, 2022 was KSh. 8,588,281 million against a debt ceiling of KSh. 10,000,000 million. This comprises external debt of KSh. 4,299,948 million and domestic debt of KSh. 4,288,333 million. The proportion of external and domestic debt accounted for 50.1 percent and 49.9 percent of the total debt portfolio respectively. The stock of public debt increased by 11.6 percent in FY 2021/22. The increase in public debt stock in nominal terms was mainly attributed to new borrowing for budget support, financing of ongoing and new development projects and exchange rate fluctuations.

The ratio of total public debt stock to GDP decreased from 68.1 percent in June 2021 to 67.3 percent in FY 2021/22.

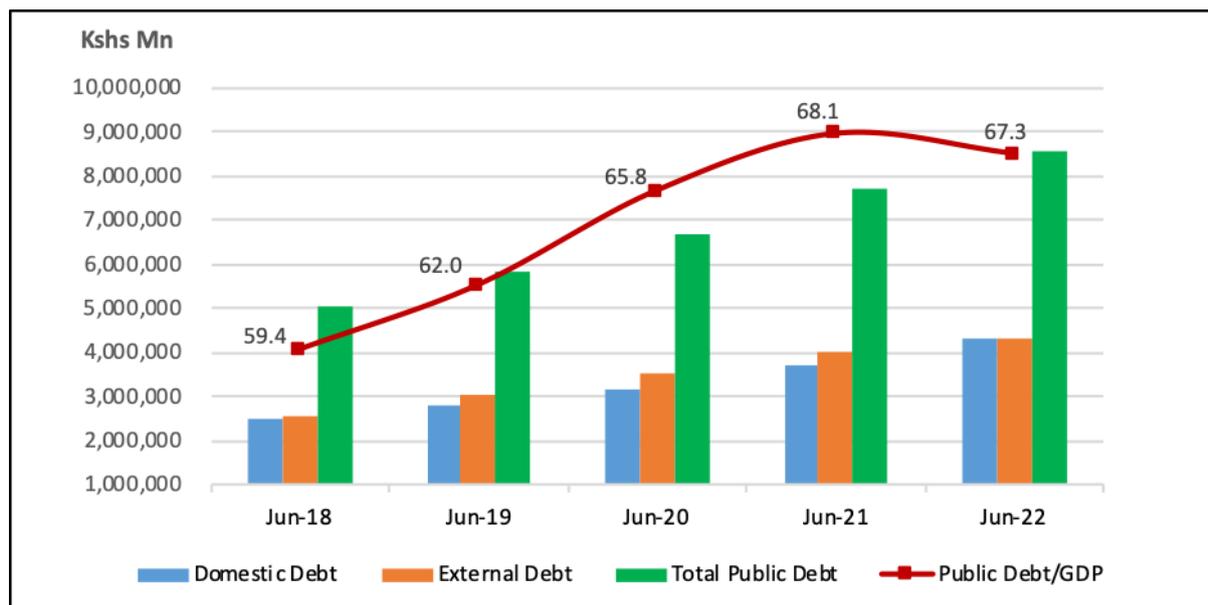
Table 4.0-1: Trends in Kenya's Total Public Debt in (KSh. Million)

Debt Type	Jun-18	Jun-19	Jun-20	Jun-21	Jun-2022*
DOMESTIC DEBT					
Central Bank	110,782	109,607	98,878	87,575	85,141
Commercial Banks	1,266,457	1,414,275	1,653,194	1,814,199	2,003,387
Sub-total: Banks	1,377,239	1,523,882	1,752,072	1,901,774	2,088,528
Non-Banks	1,101,596	1,261,601	1,425,454	1,795,319	2,199,805
Total Gross Domestic	2,478,835	2,785,483	3,177,526	3,697,093	4,288,333
As a % of GDP	29.2	29.7	31.2	32.7	33.6
As a % of total debt	49.1	48	47.5	48	49.9
EXTERNAL DEBT					
Bilateral	759,017	917,980	993,696	1,064,272	1,105,737
Multilateral	825,299	909,791	1,316,835	1,659,411	1,923,444
Commercial Banks	830,652	1,019,030	1,022,402	1,106,476	1,113,256
Suppliers Credits	16,725	16,932	17,631	12,162	12,154
Sub-Total	2,431,693	2,863,734	3,350,564	3,842,322	4,154,591
GUARANTEE DEBT					
Bilateral	56,371	78,079	80,562	76,257	67,533
Commercial	75,788	76,724	79,892	80,963	77,824
Sub-Total	136,706	159,406	165,248	157,220	145,357
Total External debt	2,568,399	3,023,139	3,515,812	3,999,542	4,299,948
As a % of GDP	30.2	32.3	34.6	35.4	33.7
As a % of total debt	50.9	52	52.5	52	50.1
GRAND TOTAL	5,047,234	5,809,076	6,693,338	7,696,635	8,588,281
Total debt as a % of GDP	59.4	62	65.8	68.1	67.3
Memorandum item					
Nominal GDP at Market Price (in Ksh million)	8,500,582	9,367,317	10,175,226	11,304,100	12,752,164

**Provisional*

Source: National Treasury and Central Bank of Kenya

Figure 4.0-1: Trends in Kenya's Total Public Debt in (KSh. Million)



Source: National Treasury

4.1 Debt Service

The total public debt service increased by 17.6 percent from KSh. 780,628 million as at end June 2021 to KSh. 917,777 million as at end June 2022. External debt service increased by 30.3 percent from KSh. 234,590 million as at end June 2021 to KSh. 305,665 million at June 2022 while domestic debt service increased by 12.1 percent from KSh. 546,038 million in June 2021 to KSh. 612,112 million in June 2022.

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

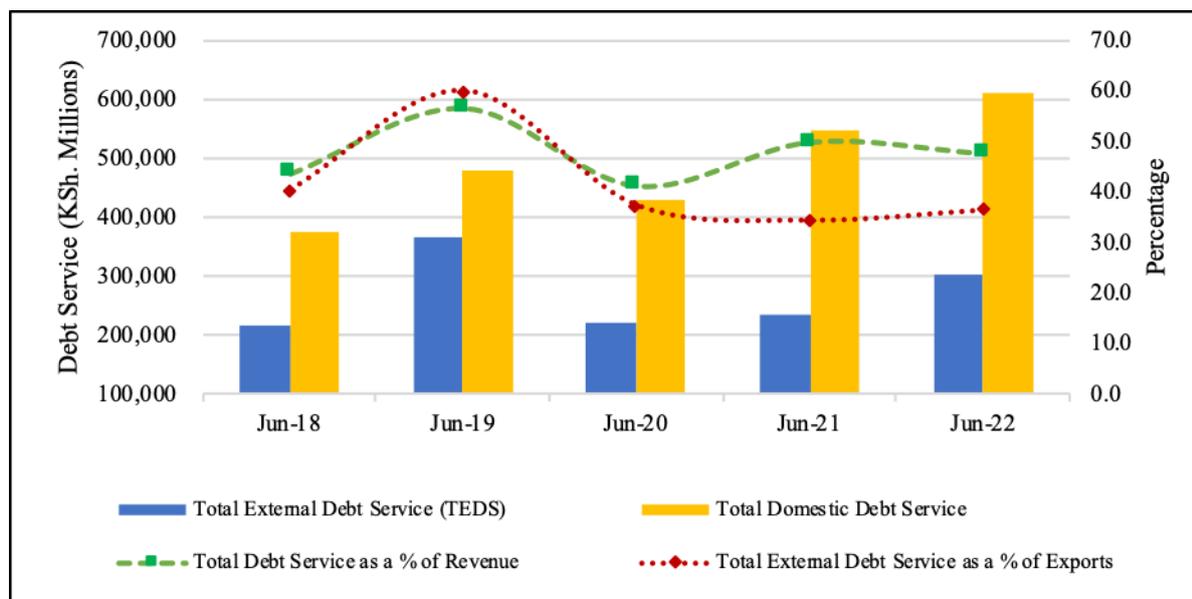
	Jun-2018	Jun-2019	Jun-2020	Jun-2021	Jun-2022*
External Principal	137,645	265,106	101,600	128,278	184,536
External Interest	81,574	103,372	121,840	106,312	121,130
Total External Debt Service (TEDS)	219,220	368,478	223,440	234,590	305,665
TEDS as a % of Total Debt Service (TDS)	36.9	43.3	34.3	30.1	33.3
Domestic Interest	239,497	272,351	315,453	388,830	456,849
Treasury bond Redemption	138,373	209,242	112,580	157,208	155,263
Total Domestic Debt Service	377,870	481,593	428,033	546,038	612,112
Domestic Debt Service as a % of TDS	63.1	56.7	65.7	69.9	66.7
Total Debt Service (TDS)	597,089	850,071	651,473	780,628	917,777
Ordinary Revenue	1,365,063	1,500,482	1,573,732	1,562,015	1,917,911
Export Earnings (goods only)	544,666	612,900	596,677	680,731	838,024
Total Debt Service as a % of Revenue	43.7	56.7	41.4	50.0	47.9
Total External Debt Service % of Exports	40.2	60.1	37.4	34.5	36.5

**Provisional*

Source: National Treasury and Central Bank of Kenya

In the FY 2021/22, the total debt service as a percentage of ordinary revenue declined to 47.9 percent from 50.0 percent in FY 2020/21. The total external debt service as a percentage of exports increased to 36.5 percent in FY 2021/22 up from 34.5 percent in FY 2020/21.

Figure 4.1-1: Total Public Debt Service (KSh. Million)



Source: National Treasury

CHAPTER FIVE DOMESTIC DEBT

5.0 Introduction

Domestic debt entails gross government debt, including treasury bills, bonds, notes, and government stocks. In this chapter, domestic debt is defined as debt owed to creditor residents in the country.

5.1 Domestic Debt Stock As at end June 2022, the stock of domestic debt was KSh. 4,288,333 million, an increase of KSh. 591,240 million from KSh. 3,697,093 million in June 2021. The increase in stock was due to a net increase in domestic borrowing during the fiscal year to finance the government deficit. The stock of Treasury bonds increased from KSh. 2,849,936 million to KSh. 3,569,092 million while the stock of Treasury bills reduced from KSh. 765,375 million to KSh. 628,754 million in June 2022

The structure of Treasury bonds and bills reflected the 2021 MTDS which intended to lengthen the maturity structure of debt and reduce the rollover risk. The pre-1997 debt reduced from KSh. 20,009 million to KSh. 18,899 million as a result of repayment made during the fiscal year. The Central Bank overdraft to the Government declined from KSh. 59,279 million to KSh. 58,502 million in June 2022 as shown in table 5.1-1 below.

Table 5.1-1: Outstanding Domestic Debt (in KSh. Million)

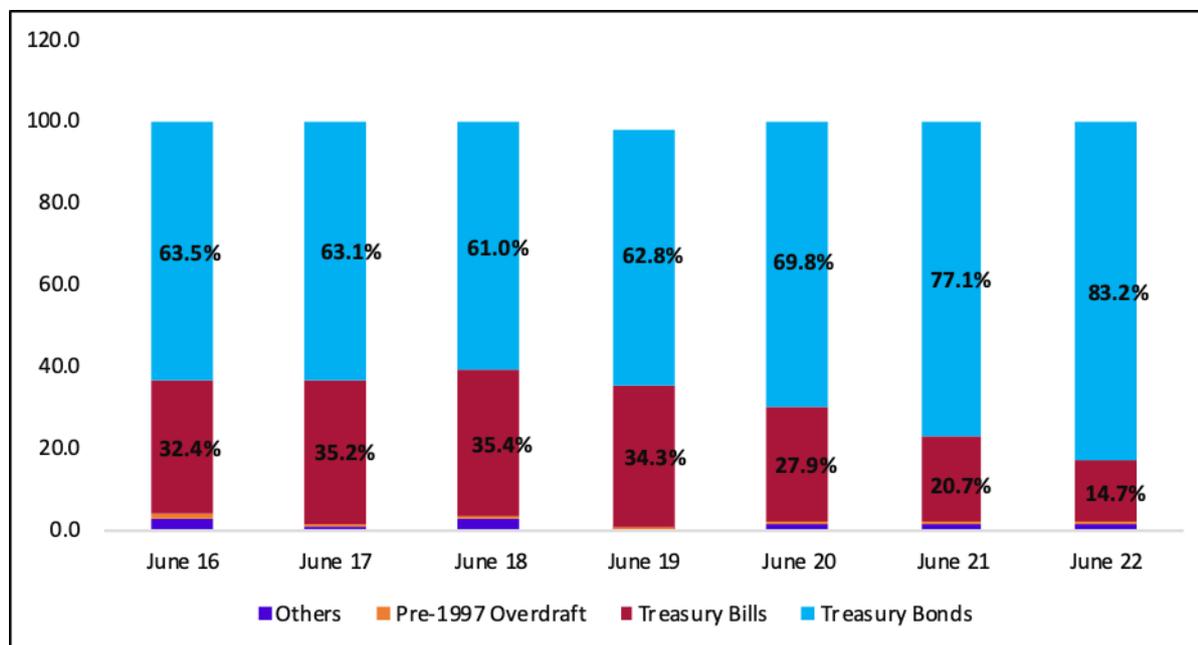
Instrument	Jun-18		Jun-19		Jun-20		Jun-21		Jun-22	
	KSh.	% of stock								
Total Domestic Debt (A+B)	2,478,835	100	2,785,483	100	3,177,526	100	3,697,093	100	4,288,333	100
A Government Securities (1+2+3)	2,414,388	97.4	2,724,629	97	3,128,260	98.4	3,635,319	98.3	4,216,744	98.3
1) Treasury Bills	878,622	35.4	954,250	34.3	887,142	27.9	765,375	20.7	628,754	14.7
Banking Institutions	502,606	20.3	598,071	21.5	587,684	18.5	452,891	12.2	287,684	6.7
Others	376,016	15.2	356,179	12.8	299,458	9.4	312,484	8.5	341,070	8
2) Treasury Bonds	1,511,872	61	1,748,150	62.8	2,219,444	69.8	2,849,936	77.1	3,569,092	83.2
o/w Banking Institutions	786,361	31.7	842,952	30.3	1,093,517	34.4	1,367,100	37	1,710,357	39.9
Others	725,511	29.3	905,650	32.5	1,125,927	35.4	1,482,835	40.1	1,858,735	43.3
3) Pre-1997 Government Debt	23,894	1	22,229	0.8	21,674	0.7	20,009	0.5	18,899	0.4
B. Others	64,447	2.6	60,854	2.2	49,267	1.6	61,774	1.7	71,588	1.7
Of which CBK Overdraft	56,849	2.3	57,328	2.1	47,150	1.5	59,279	1.6	58,502	1.4

Source: Central Bank of Kenya

5.2 Domestic Debt by Type of Instrument

Domestic debt instruments are mainly Treasury bills and bonds, pre-1997 debt and others which include government overdraft, Tax Reserve Certificates and bank advances. Treasury bonds accounted for 83.2 percent, Treasury bills 14.7 percent, pre-1997 debt 0.4 percent and others 1.7 percent. The Treasury bonds increased by 6.1 percent while Treasury bills decreased by the same percentage between June 2021 and June 2022.

Figure 5.2-1: Domestic Debt by Instruments



Source: Central Bank of Kenya

5.3 Domestic Debt by Holder

The Non-bank financial institutions holding increased to 51.3 percent from 48.6 percent while banks decreased their holding to 48.7 percent from 51.4 percent in June 2022. This was a major shift from the past experience where banks have been dominant in the domestic government securities market. The non-residents holding declined by 10 basis points to 0.7 percent in June 2022 from June 2021 position.

Table 5.3-1: Domestic Debt by Holder (KSh. Million)

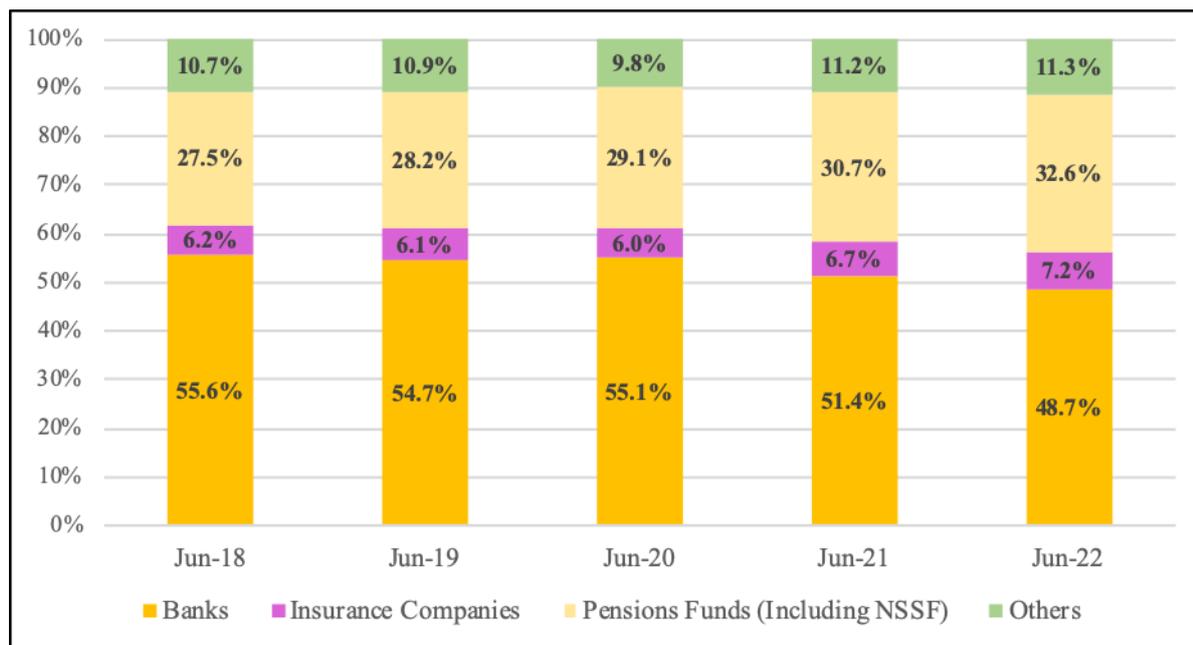
Description		Jun-2018	Jun-2019	Jun-2020	Jun-2021	Jun-2022
1. Banks	% of total	55.6	54.7	55.1	51.4	48.7
	KSh.	1,377,239	1,524,037	1,752,072	1,901,774	2,088,529
I Central Bank of Kenya	% of total	4.5	3.9	3.1	2.4	2.0
	KSh.	110,782	109,607	98,878	87,575	85,141
ii Commercial Banks	% of total	51.1	50.8	52	49.1	46.7
	KSh.	1,266,457	1,414,275	1,653,194	1,814,199	2,003,387
2. Non - banks	% of total	44.4	45.3	44.9	48.6	51.30
	KSh.	1,101,596	1,261,899	1,425,454	1,795,319	2,199,804
i Non-residents	% of total	1	1	1	0.8	0.7
	KSh.	25,308	27,984	33,154	31,086	31,881
ii Non-bank Financial Institutions	% of total	43.4	44.3	43.8	47.7	50.6
	KSh.	1,076,288	1,233,915	1,392,300	1,764,233	2,167,924
Total = 1+2	KSh.	2,478,835	2,785,483	3,177,526	3,697,093	4,288,333
	% of total	100	100	100	100	100

**Provisional*

Source: Central Bank of Kenya

Domestic debt stock held by pension funds and insurance companies increased to 32.6 percent and 7.2 percent in June 2022 from 30.7 percent and 6.7 percent in June 2021 respectively while others remained unchanged.

Figure 5.3-1: Outstanding Domestic Debt Stock by Holders



Source: Central Bank of Kenya

5.4 Treasury Bills by Holder

Overall, the proportion of stock of Treasury bills in domestic debt declined significantly by 17.9 percent, from KSh. 765,375 million in June 2021 to KSh. 628,359 million in June 2022. This reflects the conscious steps the Government has taken to reduce uptake. The main holders of Treasury bills stocks were banks (CBK and commercial banks) accounting for 45.8 percent followed by Pension Funds at 26.7 percent and others (parastatals, building societies, retail investors and non-residents) at 26.5 percent. The proportion held by insurance companies slightly increased to 1.0 percent during the same period.

Table 5.4-1: Outstanding Stock of Treasury Bills by Holder (KSh. Million)

Holder	Jun-2018		Jun-2019		Jun-2020		Jun-2021		Jun-2022*	
	KSh.	%								
Banks	502,606	57.2	598,071	62.7	587,684	66.2	452,891	59.2	287,684	45.8
NBFIs	-	-	-	-	-	-	-	-	-	-
Insurance companies	21,172	2.4	18,225	1.9	7,640	0.9	7,176	0.9	6,581	1.0
Pensions Funds (including NSSF)	180,140	20.5	170,298	17.8	161,007	18.1	144,434	18.9	167,554	26.7
Others	174,705	19.9	167,657	17.6	130,811	14.7	160,874	21	166,541	26.5
Total	878,623	100	954,251	100	887,142	100	765,375	100	628,359	100

**Provisional*

Source: Central Bank of Kenya

5.5 Treasury Bonds by Holder

The proportion of stock of Treasury bonds increased significantly by 25.2 percent, from KSh. 2,849,936 million in June 2021 to KSh. 3,569,092 million in June 2022. Increased bond uptake is consistent with the strategy of creating liquidity around benchmark bond issues. The outstanding stock of Treasury bonds holdings by Banks, Pension funds, Insurance companies and others remained relatively unchanged.

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

Holder	Jun-2018		Jun-2019		Jun-2020		Jun-2021		Jun-2022	
	KSh.	%								
Banks	786,361	52	842,952	48.2	1,093,517	49.3	1,367,100	48	1,710,357	47.9
NBFIs	183	0	183	0	183	0	183	0	183	0.0
Insurance companies	133,337	8.8	152,608	8.7	184,576	8.3	239,174	8.4	301,265	8.4
Pensions Funds (including NSSF)	501,643	33.2	616,243	35.2	762,088	34.3	990,615	34.8	1,224,108	34.3
Others	90,348	6	136,616	7.8	179,080	8.1	252,863	8.9	333,179	9.3
Total	1,511,873	100	1,748,603	100	2,219,444	100	2,849,936	100	3,569,092	100

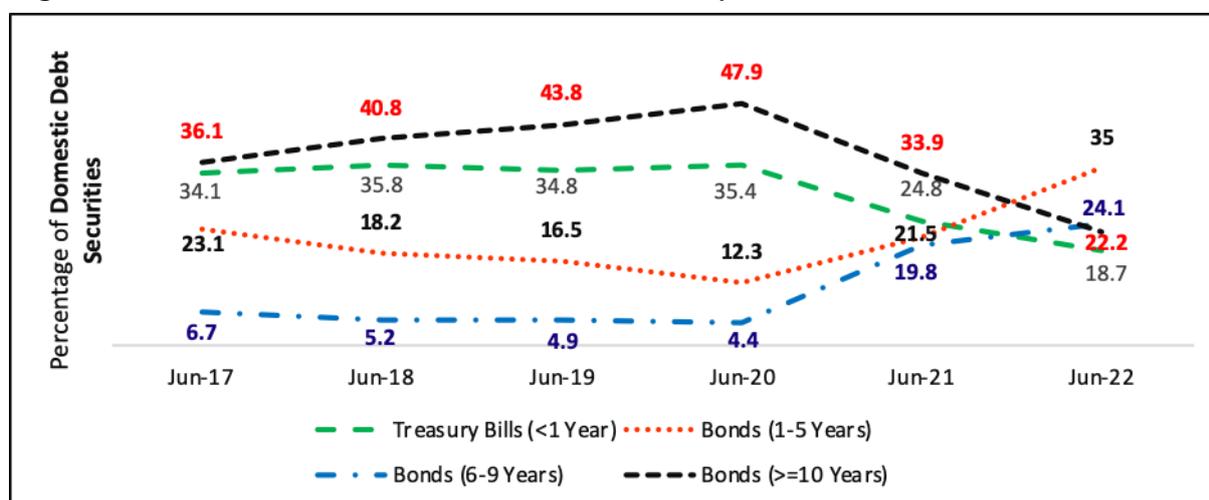
**Provisional*

Source: Central Bank of Kenya

5.6 Treasury Bills and Treasury Bonds by Remaining Time to Maturity

The Treasury bills and bonds maturing within one year has declined over the years from 35.8 percent in June 2018 to 18.7 percent in June 2022. The proportion of Treasury bonds of between 1-5 years increased to 35.0 percent in June 2022 from 21.5 percent in June 2021. The share of Treasury bonds of between 6-9 years increased from 19.8 percent to 24.1 percent while bonds with maturity of more than 10 years declined from 33.9 percent to 22.2 percent in the same period.

Figure 5.6-1: Government Domestic Debt Securities by Tenor

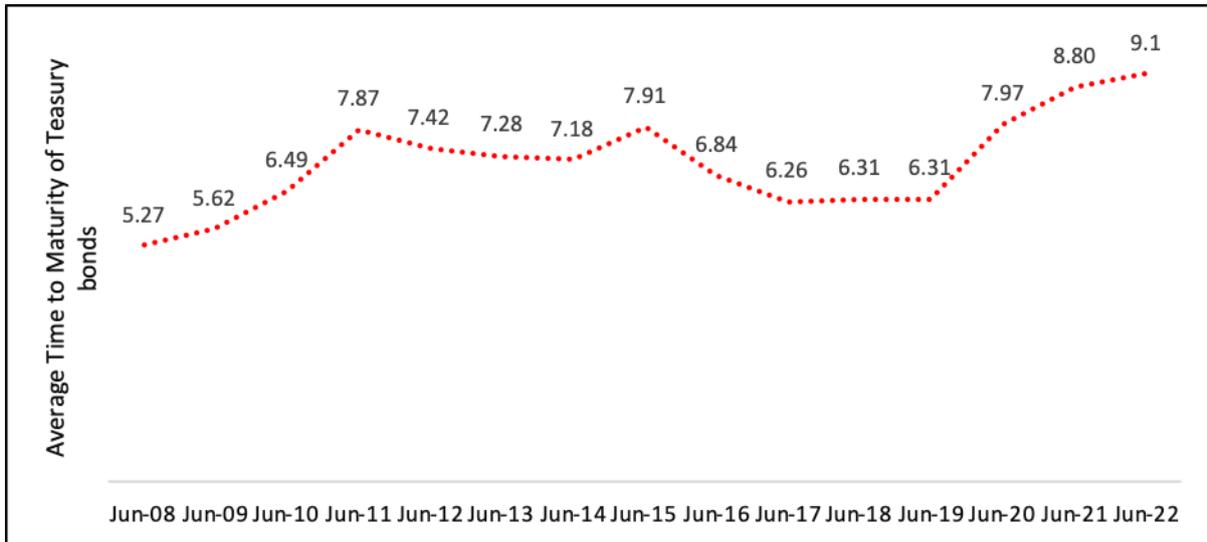


Source: Central Bank of Kenya

5.7 Treasury Bonds by Time to Maturity

The Treasury bonds Average Time to Maturity (ATM) increased to 9.1 years in June 2022 from 8.8 years in June 2021.

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

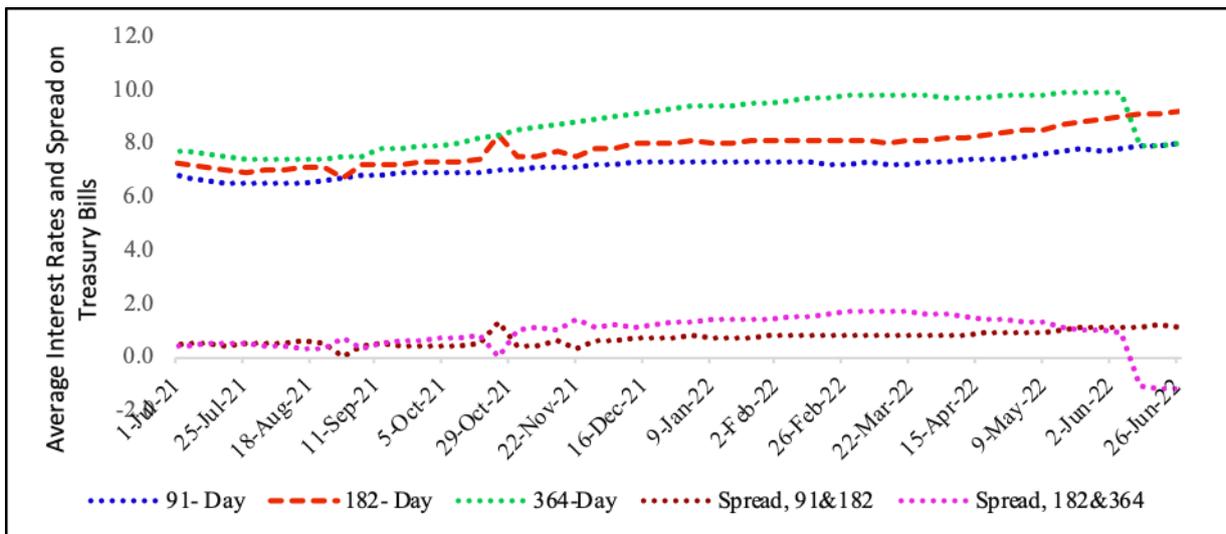


Source: Central Bank of Kenya

5.8 Average Interest Rates on Treasury Bills

Overall, average interest rates remained relatively stable during the fiscal year as shown by the marginal spreads in the Figure 5.8-1 below. The Average interest rates for the 91-day, 182-day and 364-day Treasury bills were 7.9 percent, 9.1 percent and 10.0 percent in June 2022 compared to 6.7 percent, 7.3 percent and 8.4 percent per annum respectively in June 2021.

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



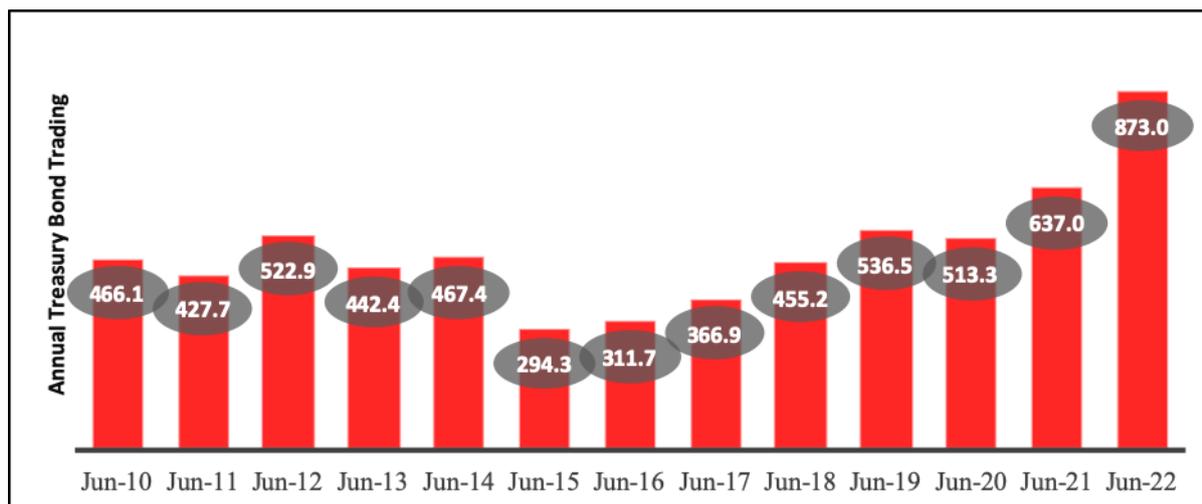
Source: Central Bank of Kenya

5.9 Government Securities Trading

The annual stock turnover of bonds increased by KSh. 235,975 million in June 2022 to KSh. 872,975 million as compared to KSh. 637,000 million traded in June 2021 (Figure 5.9-1). The

improvement in stock turnover in the secondary market is due to the reforms being undertaken by the government.

Figure 5.9-1: Annual Treasury Bonds Trading, June 2010-June 2022 (KSh. Billion)

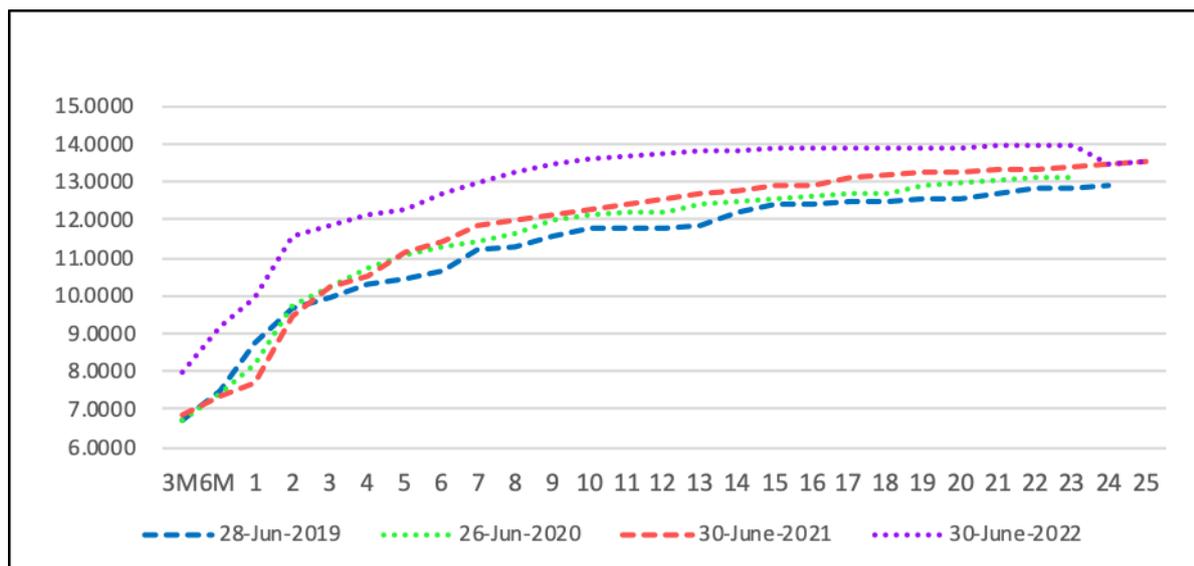


Source: Central Bank of Kenya

5.10 Government Securities Yield Curve

Figure 5.10-1 shows a normal upward sloping yield curve for government securities with a shift to the left indicating high rates compared to previous years. The medium to long-term rates were relatively stable indicating little activities at the long end. The investors preferred short-term securities due to high yields occasioned by global commodity shocks related to the war in Ukraine. The war has further increased the market rates by the USA and European economies following the disruptions in commodity supply chains.

Figure 5.10-1: Government of Kenya Securities Yield Curve, June 2022



Source: National Securities Exchange

5.11 Interest Payments on Domestic Debt

The total interest payments and other charges on the overall domestic debt was KSh. 456,849 million as at end June 2022, an increment of 17.5 percent from KSh. 388,834 million in June 2021. The interest payment on Treasury bills reduced from KSh. 74,903 million to KSh. 61,374 million, while Treasury bonds increased from KSh. 308,412 million to KSh. 389,819 million from June 2021 to June 2022. By end June 2022, the ratios of domestic interest

payments to total revenue decreased to 23.8 percent from 24.9 percent, while the ratio of interest to GDP increased to 3.6 percent from 3.4 percent in June 2021 respectively.

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

Type of Debt	Jun - 2018	Jun – 2019	Jun - 2020	Jun - 2021	Jun– 2022*
Treasury Bills	66,545	81,876	80,517	74,903	61,374
Treasury Bonds	167,030	184,771	228,028	308,412	389,819
CBK Commission	3,000	3,000	3,000	3,000	3,000
Pre - 1997 Debt	725	707	669	628	592
Others (Overdraft)	2,197	1,997	3,239	1,892	2,064
Total	239,497	272,351	315,453	388,834	456,849
Ratios (Percent)					
Domestic Interest/Revenue	17.5	18.1	20.0	24.9	23.8
Domestic Interest/GDP	2.7	2.9	3.1	3.4	3.6

Source: Central Bank of Kenya

CHAPTER SIX PUBLIC EXTERNAL DEBT

6.0 Introduction

The outstanding stock of public external debt excluding guaranteed debt increased by 8.1 percent from KSh. 3,842,321 million at end June 2021 to KSh. 4,154,591 million at end June 2022. The increase was mainly attributed to significant disbursements from multilateral and bilateral lenders and exchange rate depreciation.

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

Creditor type	Jun-18	Jun-19	Jun-20	Jun-21	Jun-2022*
Bilateral	759,017	917,980	993,696	1,064,272	1,105,737
Multilateral	825,299	909,791	1,316,835	1,659,411	1,923,444
Commercial	830,652	1,019,030	1,022,402	1,106,476	1,113,256
<i>o/w ISB holders</i>	479,988	624,020	649,787	766,445	836,610
Suppliers' Credit	16,725	16,932	17,631	12,162	12,154
Total	2,431,693	2,863,733	3,350,564	3,842,321	4,154,591
As a percentage of total external debt					
Bilateral	31.2	32.1	29.7	27.7	26.6
Multilateral	33.9	31.8	39.3	43.2	46.3
Commercial	34.2	35.6	30.5	28.8	26.8
<i>o/w ISB holders</i>	19.7	21.8	19.4	19.9	20.1
Suppliers Credits	0.7	0.6	0.5	0.3	0.3

**Provisional*

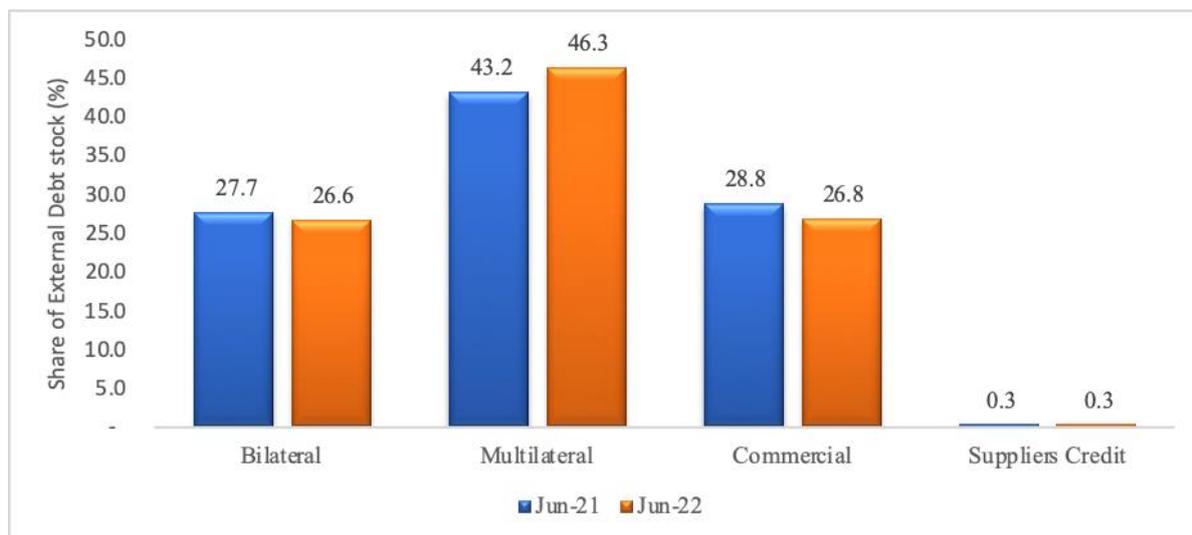
Source: National Treasury

6.1 Change in External Debt by Creditor Type

The share of multilateral debt increased to 46.3 percent at end June 2022 from 43.2 percent at end June 2021. The increasing trend of multilateral loans was as a result of the Government contracting concessional loans from the World Bank (WB), International Monetary Fund (IMF) and African Development Bank (AfDB) to finance the projects and programs in the budget under the Development Policy Operation (DPO). The long term and highly concessional loans contribute to lower costs and risks in the overall public debt portfolio and improvement in debt sustainability. The share of debt from bilateral and

commercial creditors decreased from 27.7 and 28.8 percent to 26.6 and 26.8 percent between June 2021 and June 2022 respectively. The share of debt from suppliers' credit remained constant at 0.3 percent in June 2022.

Figure 6.1-1: External Debt by Creditor Category (percent) for end June 2021 and end June 2022

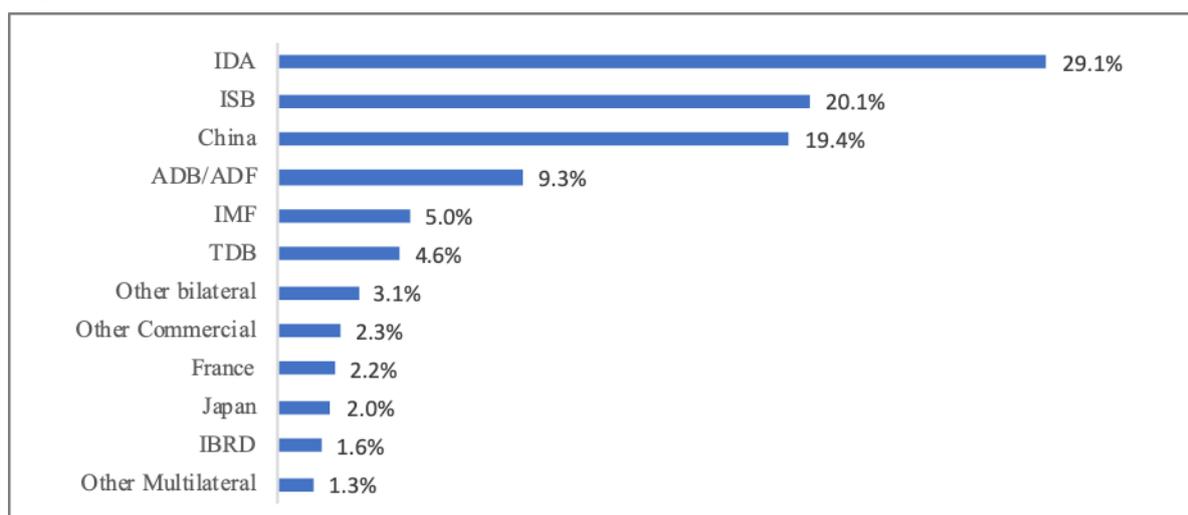


Source: National Treasury

6.2 External Debt by Major Creditor

The major external creditors to Kenya as at end June 2022 were International Development Association (IDA), International Sovereign Bond holders (ISB) and China at 29.1 percent, 20.1 percent and 19.4 percent respectively. Consistent with medium-term debt strategy to optimize concessional borrowing and reduce commercial borrowing, the Government engages creditors with softer lending terms with long gestation period. The intention is to reduce the cost of debt meant to finance public capital investments.

Figure 6.2-1: External Debt by Major Creditors



Source: National Treasury

6.3 Currency Composition of External Debt

The US Dollar (USD) remained the most dominant currency in Kenya’s external public debt portfolio. The share of external debt held in USD increased from 66.0 percent in June 2021 to 68.2 percent in June 2022 (Table 6.3-1). The share of external debt in Euro declined to 18.6 percent as at end June 2022 from 19.4 percent in June 2021. The composition of external debt held in Japanese Yen was 5.4 percent, Chinese Yuan was 5.3 percent and the Sterling Pound

(GBP) was 2.3 percent while other currencies accounted for 0.2 percent as at end of June 2022.

Table 6.3-1: Currency Composition of the External Debt Stock (Percent)

Currency	Jun-2021	Jun-2022
USD	66.0	68.2
EUR	19.4	18.6
Yen	6.3	5.4
Yuan	5.6	5.3
GBP	2.5	2.3
Other Currencies	0.2	0.2

Source: National Treasury

6.4 Maturity Structure of External Debt

During the financial year ended June 2022, the proportion of external debt maturing in more than 10 years contracted to 64.8 percent of total external debt stock from 68.0 percent in the previous year. The share of total external debt stock maturing between 1-4 years and 5-10 years increased from 8.5 percent and 23.5 percent to 11.6 percent and 23.6 percent respectively as shown in Table 6.4-1 below.

Table 6.4-1: Outstanding External Debt by Remaining Maturity

Remaining Maturity	Jun - 2018	Jun - 2019	Jun -2020	Jun - 2021	Jun - 2022
1 -4 years	6.7	2.9	9	8.5	11.6
5-10 years	21.9	20.7	27.8	23.5	23.6
Over 10 years	71.4	76.3	63.1	68	64.8

Source: National Treasury

6.5 External Debt Service

The total external debt service (principal repayments and interest payments) on Government debt as at end June 2022 amounted to KSh. 305,665 million compared to KSh. 234,590 million in June 2021. This represented an increase of KSh. 71,075 million (30.3 percent). External debt service paid to multilateral creditors was KSh. 51,005 million (16.7 percent), bilateral creditors KSh. 101,931 million (33.4 percent) and commercial creditors KSh. 151,825 million (49.7 percent). The increase in debt service payments due to bilateral debt is attributed to the end of Debt Service Suspension (DSSI) extended to Kenya.

Principal repayments increased to KSh. 184,536 million in June 2022 from KSh. 128,278 million in June 2021. Moreover, interest payments increased to KSh. 121,130 million in June 2022 from KSh. 106,312 million in the financial year 2020/21.

Out of the interest payments amounting to KSh. 121,130 million during the FY 2021/22, commitment fees payments on undisbursed external loans were KSh. 1,643 million, a decline from KSh. 1,813 million in the previous year due to improved absorption of externally financed projects.

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

		Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Multilateral	Principal	16,205	17,786	18,782	25,122	32,249
	Interest	6,038	7,422	9,788	15,324	18,756
	Sub Total	22,243	25,208	28,570	40,446	51,005
Bilateral	Principal	21,357	30,119	40,149	37,518	74,592
	Interest	30,255	33,379	34,344	18,475	27,339
	Sub Total	51,612	63,498	74,493	55,993	101,931
Commercial	Principal	100,083	217,201	42,669	65,638	77,125
	Interest	45,281	62,571	77,708	72,513	74,700
	Sub Total	145,364	279,772	120,377	138,151	151,825
Grand Total	Principal	137,645	265,106	101,600	128,278	184,536
	Interest	81,574	103,372	121,840	106,312	121,130
	Total	219,219	368,478	223,440	234,590	305,665
As a percentage of total external debt service						
Multilateral		<i>10.1</i>	<i>6.8</i>	<i>12.8</i>	<i>17.2</i>	<i>16.8</i>
Bilateral		<i>23.5</i>	<i>17.2</i>	<i>33.3</i>	<i>23.9</i>	<i>33.4</i>
Commercial		<i>66.3</i>	<i>75.9</i>	<i>53.9</i>	<i>58.9</i>	<i>49.8</i>
Total		<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: National Treasury

6.6 External Loan Disbursements

Disbursements of external loans decreased by 30.0 percent to KSh. 327,060 million as at end June 2022 from KSh. 467,157 million in the previous year. The major category of external financing were programme loans (World Bank's Development Policy Operation loans), Project loans A-I-A and Project Cash Loans. The disbursements in programme loans increased to KSh. 175,840 million from 168,644 million in 2021, while project cash loans declined from KSh. 77,492 million to KSh. 58,601 million and project loans A-I-A decreased marginally to KSh. 92,619 million from KSh. 95,215 million.

Table 6.6-1: External Loans Disbursements (KSh. Million)

Type of disbursement	Jun-2018		Jun-2019		Jun-2020		Jun-2021		June-2022	
	KSh.	%								
Project Cash Loans	24,214	5.5	41,681	6.1	47,798	10.8	77,492	16.6	58,601	17.9
Project loans A-I-A	162,872	36.9	100,622	14.8	104,525	23.6	95,215	20.4	92,619	28.3
Project loans A-I-A, SGR	54,000	12.2	35,201	5.2	12,242	2.8	4,643	1	-	-
Project loans A-I-A, SGR - Phase 2A	-	-	44,759	6.6	32,569	7.4	6,871	1.5	-	-
Commercial Financing	200,000	45.3	373,712	54.9	5,870	1.3	114,292	24.5	-	-
Programme loans	-	-	84,784	12.5	239,399	54.1	168,644	36.1	175,840	53.8
Total	441,086	100	680,759	100	442,403	100	467,157	100	327,060	100

Source: National Treasury

6.7 New Commitments

During the FY 2021/22, the Government contracted fifteen (15) external loans. Eleven (11) of which were from multilateral lenders and four (4) from bilateral lenders. This is consistent with the medium-term debt management strategy of contracting concessional financing to finance the budget deficit. The total value of the fifteen (15) external loans was equivalent to KSh. 221,531 million.

CHAPTER SEVEN SOVEREIGN CREDIT RATING

7.0 Introduction

Kenya's quest to attain the investment grade rating (BBB) through improvement of its sovereign credit rating score has been a matter of great focus by policymakers, as the economy continues to grow and demonstrate the need for increased development financing. Credit rating score remains a key feature in the global financial markets, which determines the cost at which both sovereigns and corporates access capital. The focus, however, has been on short-term (transitory) impact of the credit rating announcement as opposed to the long-term structural impact on capital flows. In particular, a major policy focus has been invariably on the impact of the ratings announcement on bond yield spreads and equity market returns. Kenya like many other African countries is complementing development financing through issuance of bonds in the international capital markets. Access to this market is influenced by many factors some of which are determined exogenously. Key issues that constrain attainment of the investment grade have been associated with inherent regional risks, policy uncertainty and the lack of transparency which contribute to capacity retardation, propagating the inability to access international capital markets.

7.1 Sovereign Ratings for Kenya

Major International Sovereign Rating Agencies including Fitch, Standard and Poors, and Moody's play a key role in assigning rating scores to sovereigns and corporates. The scores influence the terms of funding from capital markets and the investment decisions of lenders in the international markets. Kenya has received relatively stable ratings over the last decade from the three rating agencies. In 2006, Kenya received its first rating of B+ from Standard and Poors (S&P) and a similar rating in 2007 from Fitch Rating agency. Moody's assigned Kenya a B+ equivalent of B1 rating in 2012, which is the only rating agency to upgrade Kenya's sovereign rating to B2 in 2018. Currently, the ratings stand at B (stable outlook), B+ (negative outlook) and B2 (negative outlook) by Standard and Poors, Fitch and Moody's, respectively. Despite the effect of the COVID-19 pandemic, the country has remained resilient, being downgraded only by Standard and Poors from B+ (negative outlook) to B (stable outlook) on 5 March 2021.

7.2. Drivers of Rating for Kenya

Key drivers of Kenya's sovereign risk rating have been the following:

- a) Governance exposure from weak fiscal policy effectiveness, high levels of corruption and weak rule of law.
- b) Exposure to social risks from high levels of poverty, health and safety risks, high unemployment rates, and limited access to basic services.
- c) High debt and interest burden that poses financing risks driven by slow implementation of fiscal consolidation. The debt service to tax revenue ratio has increased from 17.5 percent in 2014 to 50 percent in 2021.
- d) Increased fiscal risk posed by deteriorating financial performance by large state-owned enterprises (SoEs) through budget support and contingent liabilities.
- e) High exposure to environmental risks posed by climate events on the economy and government finances.
- f) Institutional and governance weaknesses that is failing to support fiscal policy effectiveness leading to deterioration in fiscal metrics.

- g) Potential policy uncertainty posed by the elections in 2022 which could disrupt the reform agenda, damage business confidence and undermine growth.
- h) Slim revenue base coupled with ineffective tax collection system. Kenya still faces a challenge with ineffective tax measures.
- i) The country continues to face liquidity risk due to high gross financing needs.

Other more specific challenges that drive sovereign credit rating score have been identified as follows:

- a) Past policy choices such as high historical fiscal deficit has led to a weakened and potentially unsustainable public finance management. High fiscal deficits have led to accumulation of high stock of public debt. Further, the de-linking of the debt ceiling from a percentage of GDP to a numerical number which is unrelated to the sustainability of debt is perceived to weaken the ability to sustain public debt.
- b) Perceived political instability related to ethnic/electoral related tensions witnessed during past electioneering periods depict Kenyan society as lacking national social cohesion and hence highly prone to social unrest which in turn would negatively impact its creditworthiness.

Kenya is developing a strategy dubbed “**Kenya Sovereign Rating Improvement Strategy**” which aims at improving its credit rating score to an investment grade (BBB/Moodys) where it can access capital/financing at much lower cost.

7.3 Kenya’s Public Debt Metrics

The stock of Kenya’s public debt has grown from KSh. 629,558 million in 2002 to KSh. 8,588,281 million by June 2022. External debt grew from KSh. 369,729 million in 2002 to KSh. 4,299,948 million in 2022. Kenya’s external public debt is composed of the following sources/categories: The proportion of commercial external debt increased from 8.5 percent in 2002 to 26.8 percent in June 2022. External commercial debt includes debts issued in form of Eurobonds; syndicated commercial banks loans and supplier credit lines. The average weighted cost of external commercial debt is below 10 percent per annum. Typically, the costs of external debt are determined by the combination of: *Credit reference rate (LIBOR/SOFR, EURIBOR) plus credit spread plus country risk premium.*

Each of these items are in turn determined by the underlying category specific dynamics. For instance, the **reference rates** are determined by the general cost of credit obtaining at any particular point in time and informed by the overnight cost of credit in a particular currency market. **Credit spread** also known as ‘bond spread’ or ‘default spread’ is the difference between US treasuries yields (risk free security) and yield of another security of the same tenor but of different credit quality. Credit spread allows comparison between a risk-free security and a corporate bond alternative.

A country risk premium is the difference between the market interest rates of a benchmark country and that of the subject country or the additional return or premium demanded by investors to compensate them for the higher risk associated with investing in a foreign country, compared with investing in the domestic market. The country risk premium is generally higher for developing markets than for developed nations.

Credit spreads and country risk premium (CRP) are closely linked to sovereign credit rating of a country. The calculation of CRP involves estimating the risk premium for a mature market such as the United States, and adding a default spread to it. Country risk is akin to risk of doing business assessment for a country and encompasses numerous factors, including: political stability assessment; monetary policy, consumer price index and currency stability

assessment; debt burden and default probability assessment; economic risks; and the risk of adverse government regulations (such as expropriation and nationalization or currency controls). Country Risk Premium can have a significant impact on valuation and corporate finance calculations.

7.3.1 Kenya's Prospects for Better Rating

Some of the key interventions to improve Kenya's credit rating score have been classified as **general recommendations** involving broader and cross-cutting policy issues and specifically involve narrow actions that are implementable at Ministry/Department/Agency level. They are enumerated as follows:

General Recommendations:

- a) Ease of doing business – ensure thriving of local economy like low cost of doing business which encourages diversification in investment as well as foreign direct investments and encourage exports.
- b) Trading blocs – encourage regional trading blocs which lowers cost of transactions and tariff barriers (blocks in existence are not working as recommended hence inefficiencies).
- c) Sound macro-economic policies – the policies have managed to stabilize largely the economy hence need for sustenance in curbing shocks in the economy.
- d) Institutionalize framework for International Credit Rating Agency (ICRA) Liaison teams – coordinate from the Treasury with the task force already in place to oversee the implementation including IRU and teams from the agencies. There is need for a standing task force to coordinate improvement in Kenya's sovereign credit rating.
- e) Develop comprehensive National Strategy – which will engage with the different agencies to guide the government on specific focus areas to improve credit ratings, mechanisms for periodic monitoring, risk exposures and all stakeholders on how they respond to issues raised by the International Credit Rating Agencies in previous reviews and how relevant government MDAs are addressing them.
- f) Regularize periodic engagement with the International Credit Rating Agencies – the liaison team with Investor Relations Unit to periodically engage the agencies in case of any perceptions which is unlikely to be true.
- g) Enhanced regulation on credit rating services. The Regulations to be in line with international regulations to merge the magnitude of subjectivity.

Specific Recommendations:

- a) Implement policies that support sustainable public finance management. Such policies would include linking the debt ceiling to Kenya's GDP rather than a numerical number would lead to more prudent public finance management.
- b) The Fiscal Consolidation Path needs to be given greater importance, with respect to its implementation, and timelines therein adhered to.

CHAPTER EIGHT INVESTOR RELATIONS

8.0 Introduction

The Investor Relations Unit (IRU) was established in September 2020 and is domiciled under the PDMO in TNT. Investor relations has an important role to play in enabling sovereign creditors to undertake an effective assessment of the risks involved in lending.

The IRU facilitates interactive communication with investors, creditors, financial intermediaries and credit rating agencies and other stakeholders, while promoting fiscal transparency which is important for establishing the Government's credibility of fiscal plans and inspiring market confidence.

8.1 The Mandate and Functions

The IRU was established with the primary objective of providing transparent, accurate and timely market relevant data including on the government's public debt and other relevant information to stakeholders. Specifically, the functions of IRU include the following:

- a) Dissemination of credible, timely, high-quality data and policy transparency to investors, analysts and bankers;
- b) Provide a direct channel of feedback between creditors and other stakeholders and the National Treasury management;
- c) Managing communication with credit rating agencies during the rating exercise;
- d) Controlling the positioning of credit profile in the domestic, regional and international press;
- e) Maintaining and improving contact with domestic and international investors;
- f) Co-ordinating investor conference calls including deal and non-deal road shows; and
- g) Preparing investor presentation and ensuring they are available on the IRU website.

8.2 Benefits of IRU

The benefits of IRU are;

- a) the Unit promotes fiscal transparency which is important for establishing the credibility;
- b) disseminated by the Government of Kenya which may be of interest to them in making decisions to invest in Kenya;
- c) IRU minimizes information asymmetries that might lead to negative investor perceptions, public misinformation, and potential capital outflows. Investors are appraised of the status of the government's economic and fiscal management, debt portfolio and future financing plans on a regular basis; and
- d) Further, through disclosures, IRU strengthens good governance by allowing more detailed scrutiny of debt management and borrowing by Parliament, the public and the international community.

8.3 IRU Survey

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

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

In 2020, Kenya scored thirteen (13) out of fifty (50), while in 2022 IIF survey, Kenya scored thirty-two point seven five (32.75) out of fifty (50), which was a major improvement. The IIF periodic updates of assessments provides a unique opportunity to convey to market participants the efforts that borrowing Governments are making to strengthen their dialogue with investors relative to other countries. The 2022 score indicates that Kenya has improved in its sovereign investor relations and data transparency practices which is important for investor confidence.

8.4 Engagement with Credit Rating Agencies

A key role of IRU is to actively manage the relationship with Credit Rating Agencies (CRAs). The IRU should ensure that the CRAs are able to conduct their due diligence as efficiently as possible. IRU should also ensure that the narrative and underlying key economic, fiscal and financial statistics shared with CRAs are consistent with published data, information and narrative made public to other stakeholders, such as debt investors.

In this regard, the IRU coordinated dialogue between TNT, other government agencies and CRA to ensure that the information published in the CRA reports are accurate and credible. Ensuring consistency and impartial disclosure of information is important for the Government as a principle for gaining transparency and maintaining credibility through the information shared with the investors and the public.

8.5 Investor Conference Calls including Deal and Non-deal Road Shows

Investor conference calls, deal and non-deal road shows are useful as they provide investors with a chance to interact with policy makers, while providing an opportunity for policymakers to comprehend investors' concerns. Conference calls also complement roadshows and enable stakeholders to understand how specific policy and economic developments impact debt management.

Since its inception, the IRU has coordinated investor calls and virtual meetings with the international creditors which are organized by commercial banks including Standard Chartered Group, Citi Bank and Goldman Sachs. At the domestic level, IRU participated in the Bond Market Leaders Forum (primary dealers) which is held monthly and chaired by the Central Bank of Kenya, acting as fiscal agent for the National Treasury.

In addition, the IRU co-ordinated investor meetings in the margins of the 2021 Annual World Bank Meetings, the 2022 Annual World Bank Spring Meetings both held in Washington DC and the 2022 African Development Bank Annual Meetings held in Accra, Ghana.

CHAPTER NINE

COUNTY DEBT MANAGEMENT AND CAPACITY DEVELOPMENT

9.1 Legal Framework

All borrowing by the National Government and County Governments' debts constitutes public debt as defined in Article 214 of the Constitution. The County Governments borrowing are guided by Article 212 of the Constitution of Kenya, which highlights the requisite approvals for guarantees which legally shall be provided by the National Government. Other important provisions include: -

- i. Section 58 of the PFM Act, 2012 outlines the powers of the Cabinet Secretary in charge of Finance in relation to loan guarantees to County Governments.
- ii. Section 65 of the PFM Act, 2012 mandates the National Treasury's PDMO at the request of a County, to assist the County Government in its debt management and borrowing.
- iii. Section 65 (2) of the PFM Act, 2012 at the request of the PDMO, the County Treasury should supply the Office with any information that shall enable it to execute its mandate efficiently.
- iv. Section 141 of the PFM Act, 2012 stipulates that; in borrowing money, a County Government shall ensure that its financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

9.2 County Borrowing in the FY 2021/22

Since the Constitution of Kenya was promulgated in 2010, none of the 47 County Governments have borrowed on a National Government guarantee. However, in 2021 Laikipia County Government submitted a request to the National Government for a guarantee to issue a KSh. 1,160 million domestic Infrastructure Bond. The proposed bond was for a 7- year tenor with an indicative interest rate of 12 percent per annum, with a bullet payment at the end of the maturity period. Those terms were only indicative as the actual pricing was to be determined by the market during the issuance.

Following the request, TNT in collaboration with Laikipia County prepared and submitted a sessional paper to Parliament for approval of the guarantee. However, the sessional paper was time barred as Parliament adjourned *Sine Die* in July 2022 for the General Elections in August, 2022.

Kirinyaga and Nakuru counties also submitted requests for guarantees for similar infrastructure bonds. The PDMO reviewed the requests and provided guidance to the two counties on the next steps.

9.3 County Governments Capacity Building on Borrowing

Several County Governments have expressed interest in capacity building on county borrowing to the National Treasury. Following the expression of interest, the National Treasury in collaboration with the Commission on Revenue Allocation and the Capital Markets Authority has developed a training programme to all county treasuries in Kenya. This will be executed in the second quarter of the FY 2022/23.

CHAPTER TEN PUBLIC DEBT RISK MANAGEMENT

10.1 Introduction

Section 62 (3)(a) of the PFM Act, 2012 provides that one of the objectives of the PDMO shall be to minimize the cost of public debt taking into account a prudent degree of risk.

Further, Section 63 (f) of the PFM Act, 2012 states the function of the PDMO is to monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy.

The PDMO developed a risk management framework that sets out how risks associated with debt are to be identified, quantified and mitigated. The debt related risks include; operational risk, market risk, default risk and liquidity risk. The objective is to maximize upside potential and minimize the consequences of negative events to ensure debt sustainability is not impaired. The framework provides guidelines on the acceptable risk tolerance levels.

Macro-economic analysis and market monitoring are necessary in assessing financial risks, while prevention of operational risks requires legal compliance and knowledge of the institutional set-up.

During the period under review, the PDMO developed a Public Debt Risk Management Framework (PDRMF) and Risk Register which are fundamental elements of sound governance and important strategic tools for the achievement of its mandate. The framework was prepared to guide the PDMO in effectively mitigating the uncertainties and vulnerabilities associated with public debt management that may lead to elevated risks of debt exposure. This chapter outlines costs and risks measures of public debt.

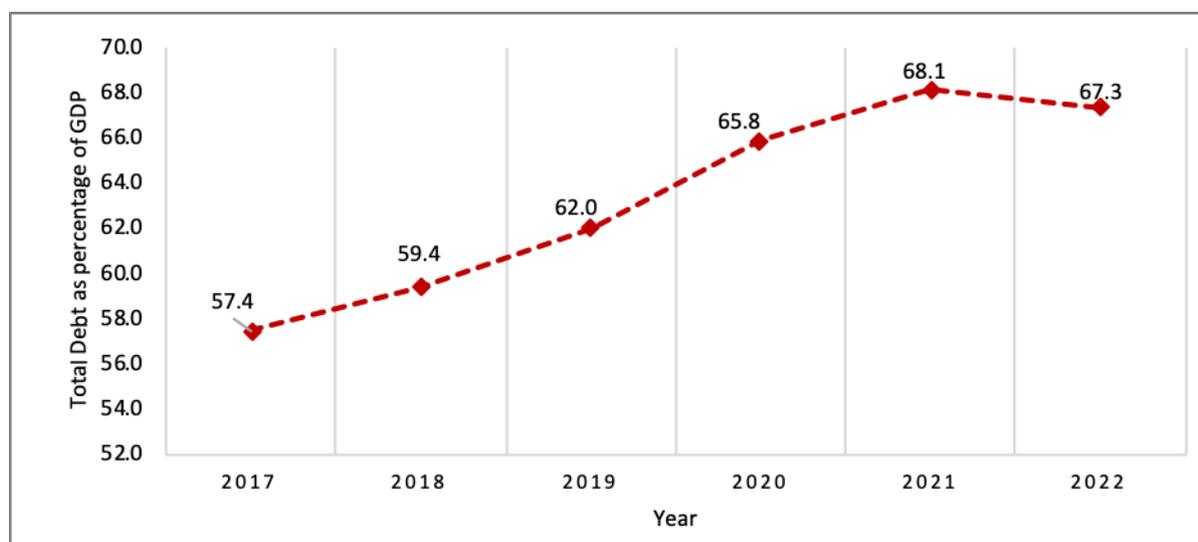
10.2 Costs and Risk Profile of Public Debt

The following are some of the parameters used to gauge the cost and risk of public debt;

10.2.1 Total Debt as Percentage of GDP

The total public debt stock to GDP ratio has been increasing steadily from June 2017 reaching 68.1 percent in June 2021, and then declined to 67.3 percent in June 2022. High ratios for prolonged periods may lead to significant slowdown in economic growth and increased default risks.

Figure 10.2.1-1: Total Debt as a Percentage of GDP

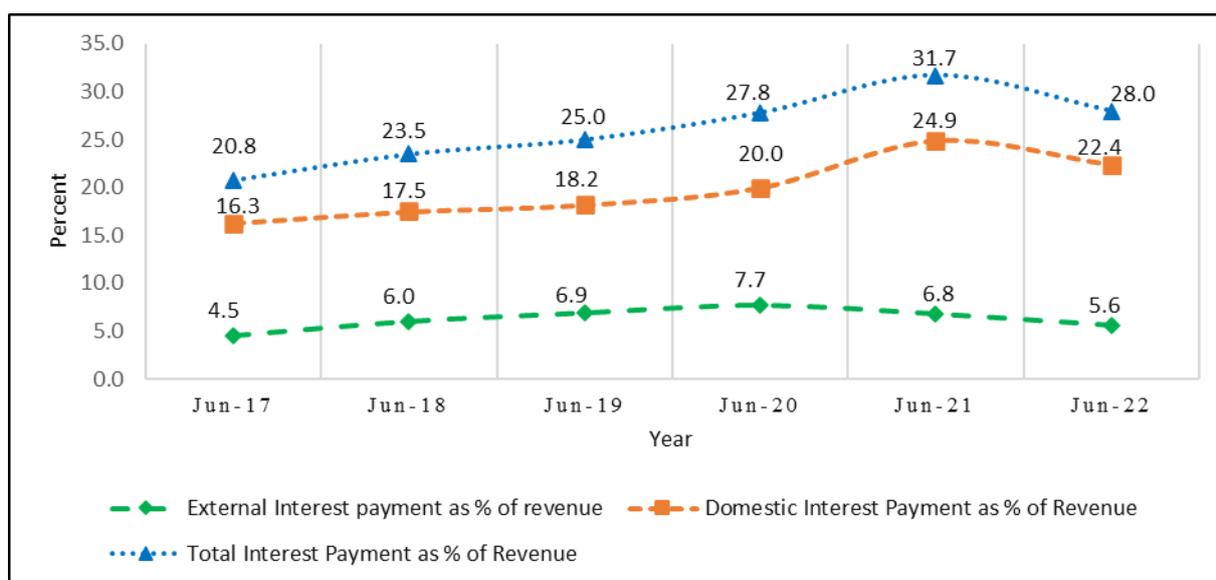


Source: National Treasury

10.2.2 Interest Payments as a Percentage of Revenue

High interest payments as a share of revenue implies high public debt and related costs leaving scarce resources for development. The total interest payments as a share of revenue have been increasing steadily from 20.8 percent in June 2017 to 31.7 percent in June 2021 before declining to 28.0 percent in June 2022. The increase is attributed to the growth of the total public debt portfolio over the years, high interest payments on domestic debt and the growth of commercial external debt over time. Notably, interest payments as a percentage of revenue for external debt has remained constant and low due to the high proportion of external debt portfolio on concessional terms. However, domestic debt as a percentage of revenues has been increasing due to high interest rates in the domestic market. Overall, there was a decline in interest payments as a percentage of revenue as at June 2022 from June 2021 due to growth in revenues, borrowing on concessional terms and reduction in the stock of Treasury bills in the domestic debt portfolio.

Figure 10.2.2-1: Interest Payments as a Percentage of Revenue

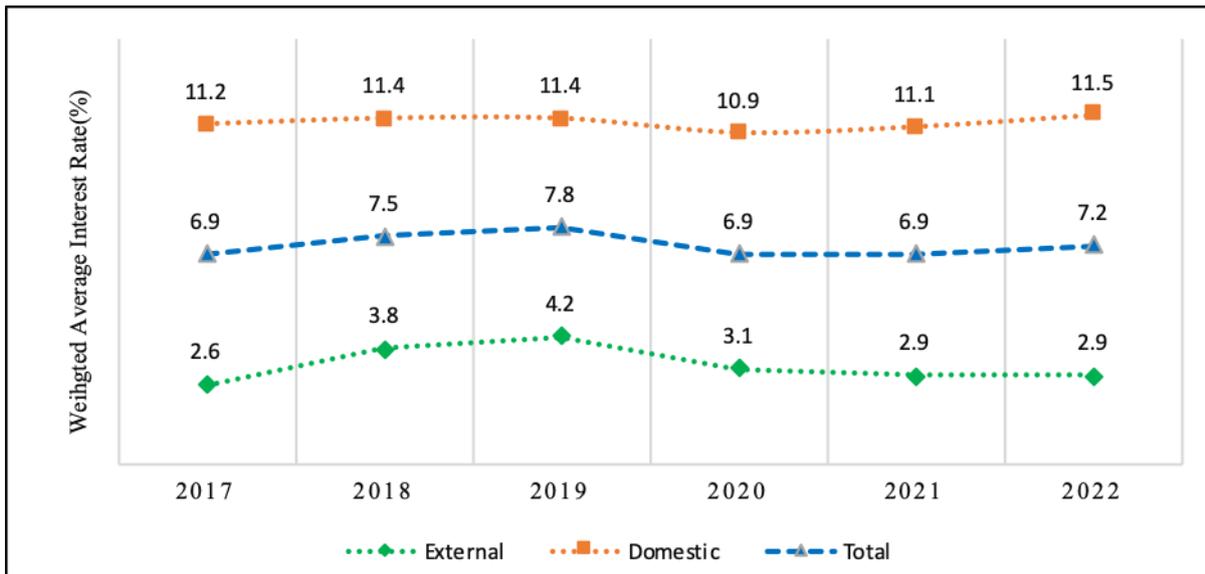


Source: National Treasury

10.2.3 Weighted Average Interest Rate

The weighted average interest rate for the total public and public guaranteed debt, external debt and domestic debt have remained fairly constant over the last five years (figure 10.2.3-1). During the period under review, the weighted average interest rate of the total debt portfolio and domestic debt increased to 7.2 percent and 11.5 percent in June 2022 up from 6.9 percent and 11.1 percent in June 2021 respectively while that of external debt remained at 2.9 percent during the same period. An increase in this indicator implies that Government uses higher revenues for debt service payments leaving meagre resources for development. The change in domestic weighted interest rate was due tightened liquidity coupled with the rise in global rates that has implications in the domestic government securities market.

Figure 10.2.3-1: Weighted Average Interest Rate



Source: National Treasury

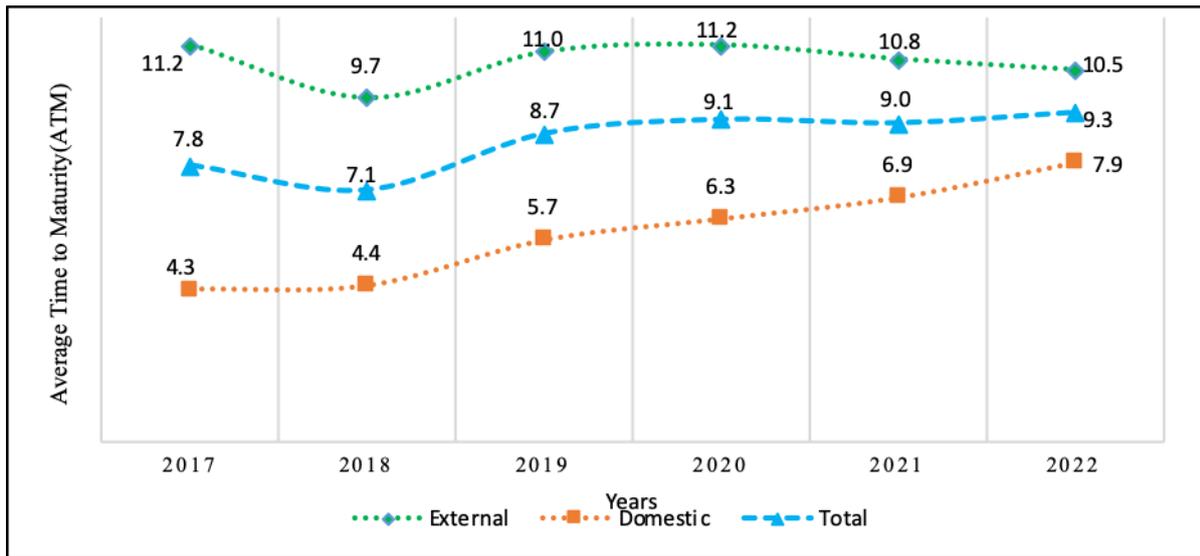
10.3 Refinancing Risk

Refers to the uncertainty that the Government may be unable to raise funds for the debts maturing or may raise them at an unusually high interest cost. The risk is higher when the maturity profile is concentrated on or around a particular maturity and when the maturity profile is short with large individual redemptions. The major indicators of the risk include: Average Time to Maturity (ATM) and the Redemption Profile.

10.3.1 Average Time to Maturity (ATM)

The ATM of the total debt has been increasing steadily from 2017 to 2022 indicating a decreased exposure to refinancing risks (figure 10.3.1-1). ATM of domestic debt has been rising over time due to the Government’s deliberate strategy of implementing benchmark long-term securities (T-Bonds) for resource mobilization, while short-term securities (T-bills) are used for cash management purposes. The slight decline in ATM of external debt was due to Government’s contraction of commercial and semi-concessional loans.

Figure 10.3.1-1: Average Time to Maturity (ATM)

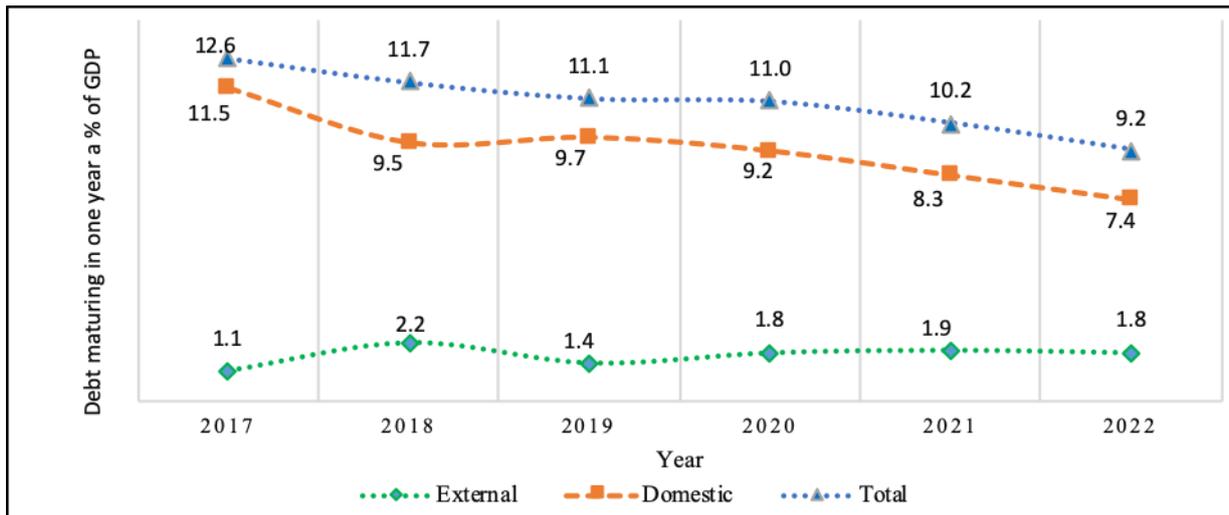


Source: National Treasury

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

The ratio of the total debt maturing in one year as a share of GDP has gradually declined over time, thus reducing the refinancing risk (figure 10.3.2-1). The reduction is largely due to continuous shift from Treasury Bills (short-term bills) to Treasury bonds (long to medium-term bonds).

Figure 10.3.2-1: Debt Maturing in One Year as Percentage of GDP

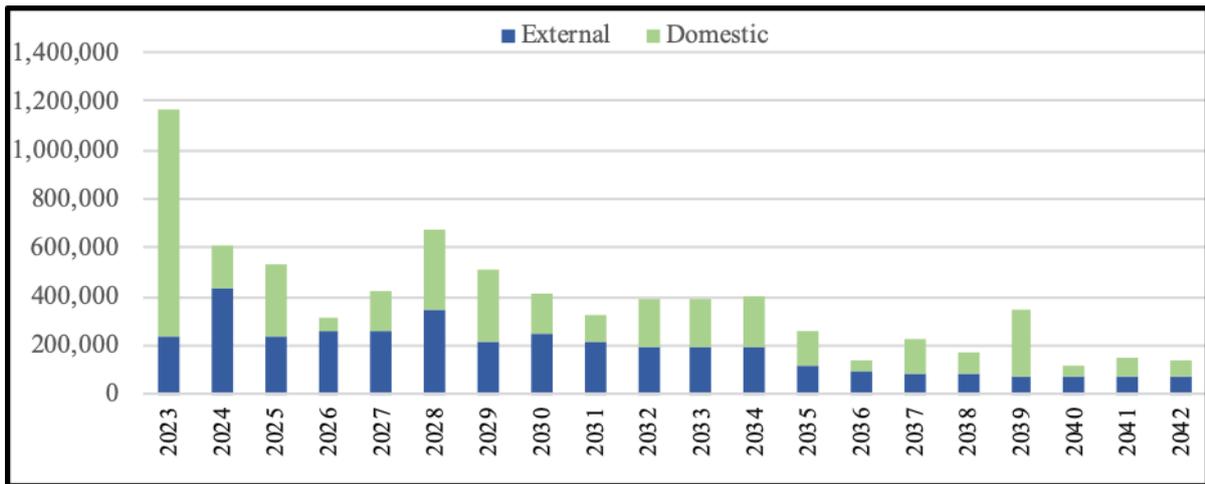


Source: National Treasury

10.3.3 Redemption Profile

The redemption profile (Figure 10.3.3-1) below shows the large maturities of total public debt in 2023, 2024 and 2028 which poses refinancing risks. The larger share of maturities in these years are attributed to maturing Treasury bills (2023) and Eurobonds (2024,2028).

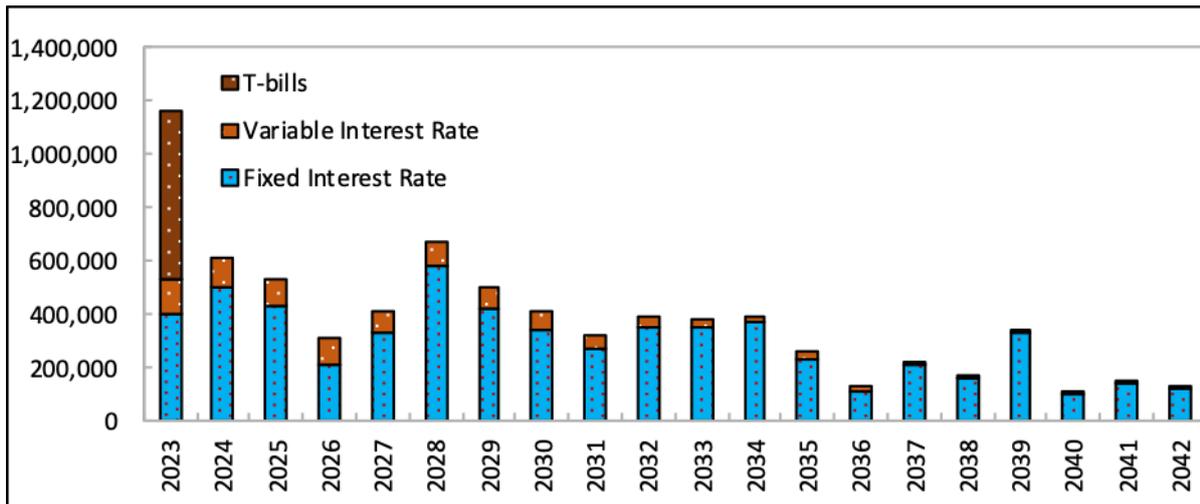
Figure 10.3.3-1: Redemption Profile of the Total Debt



Source: National Treasury

Figure 10.3.3-2 below shows the exposure posed by the maturities associated with variable interest rate. The exposure to variable interest rate in the long-term is low due to a large portion of total public debt in fixed interest rates. The higher proportion in 2023 is due to the short term (91, 182 and 364 day) Treasury bills.

Figure 10.3.3-2: Redemption Profile by Interest rate type



Source: National Treasury

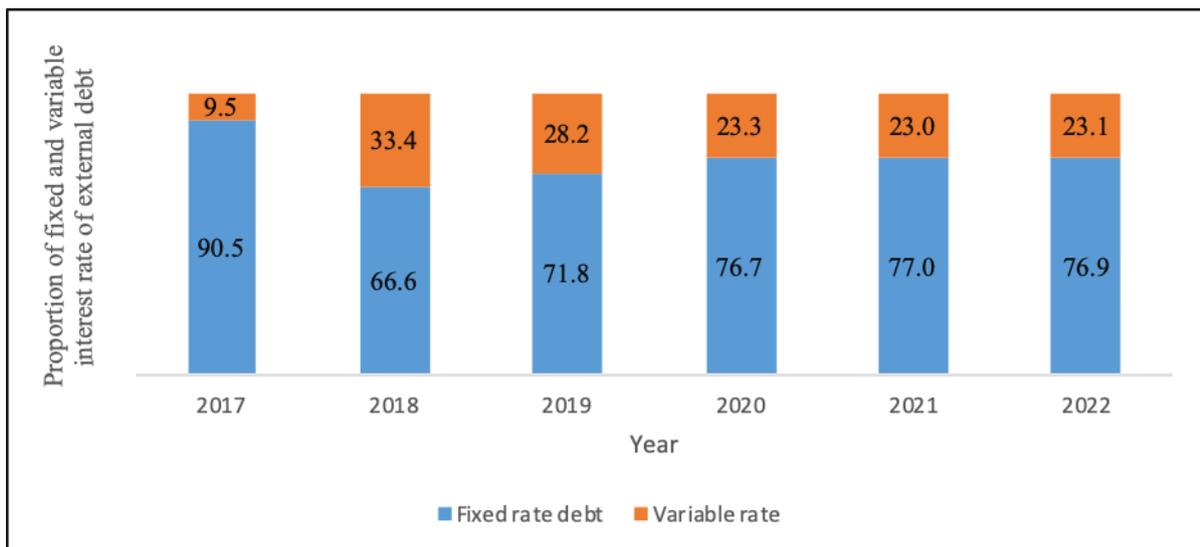
10.4 Interest Rate Risk

This risk refers to the uncertainties associated with change in the market interest rates that could affect the cost of the public debt portfolio either through variable rates or when rolling over the debts.

10.4.1 Composition of Public Debt in Fixed and Variable Interest Rates

Kenya’s existing external debt portfolio is exposed to a moderate interest rate risk as shown in figure 10.4.1-1. As at end June 2022, the share of fixed rate debt in the overall debt portfolio is 76.9 percent while only 23.1 percent is floating rate debt.

Figure 10.4.1-1: Type of Interest Rate Composition in External Debt



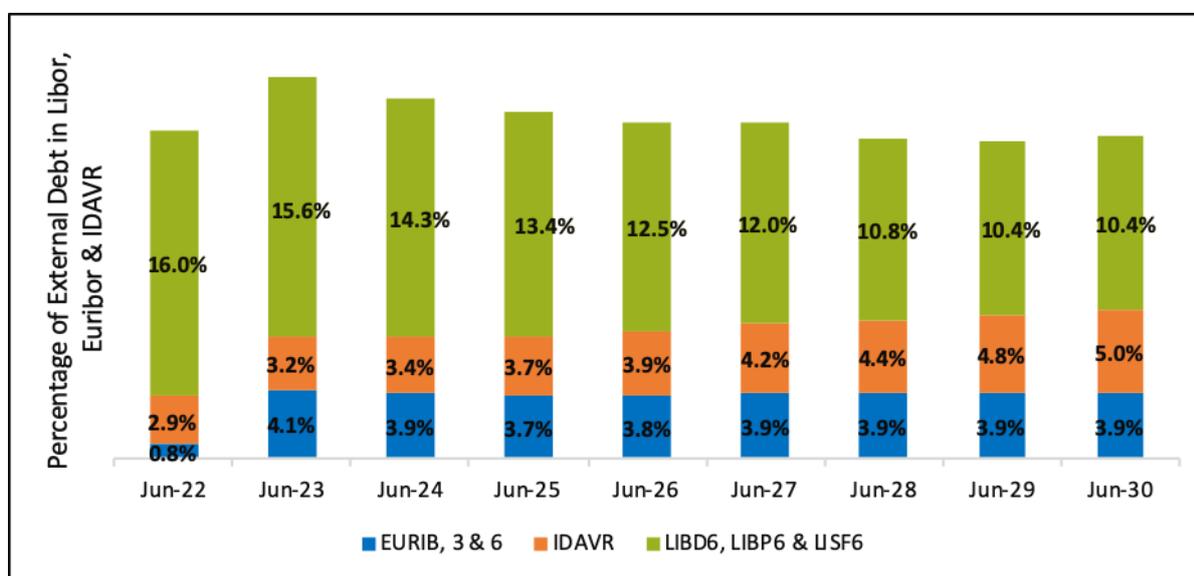
Source: National Treasury

10.4.2 Libor, Euribor and IDA Variable Rate Associated Public Debt

Libor¹ associated external debt is projected to decline from 16.0 percent in June 2022 to 10.4 percent in June 2030, while Euribor based debt will rise from 0.8 percent in June 2022 to 4.1 percent in June 2023 and thereafter remain fairly constant till 2030 (figure 10.4.4-2).

IDA-Variable interest-based loans are expected to rise from 2.9 percent to 5.0 percent during the same period. Given the overall decline in external debt associated to variable interest, there is a projected reduced exposure to variable interest rate risk in the debt portfolio.

Figure 10.4.2-1: Libor, Euribor and IDAVR Public Debt

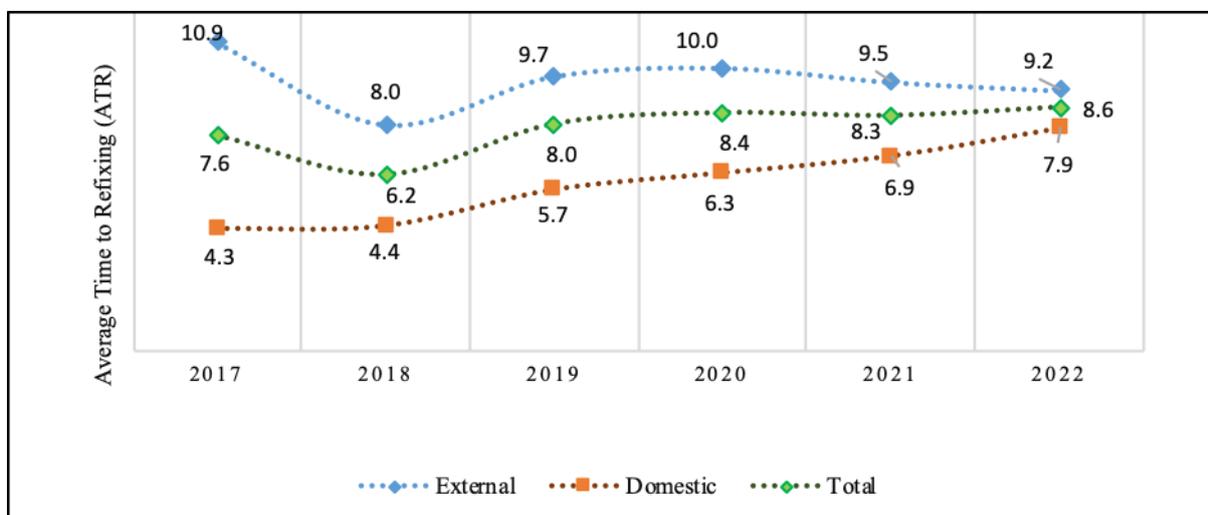


Source: National Treasury

10.4.3 Average Time to Re-fixing

The Average time to re-fixing (interest rates) of the total debt increased to 8.6 years in June 2022 from 8.3 years in June 2021. The increase was due to the reduction in the loans contracted in the FY2021/22 on variable rate terms compared to previous years.

Figure 10.4.3-1: Average Time to Re-fixing



Source: National Treasury

¹ Transition from Libor is ongoing

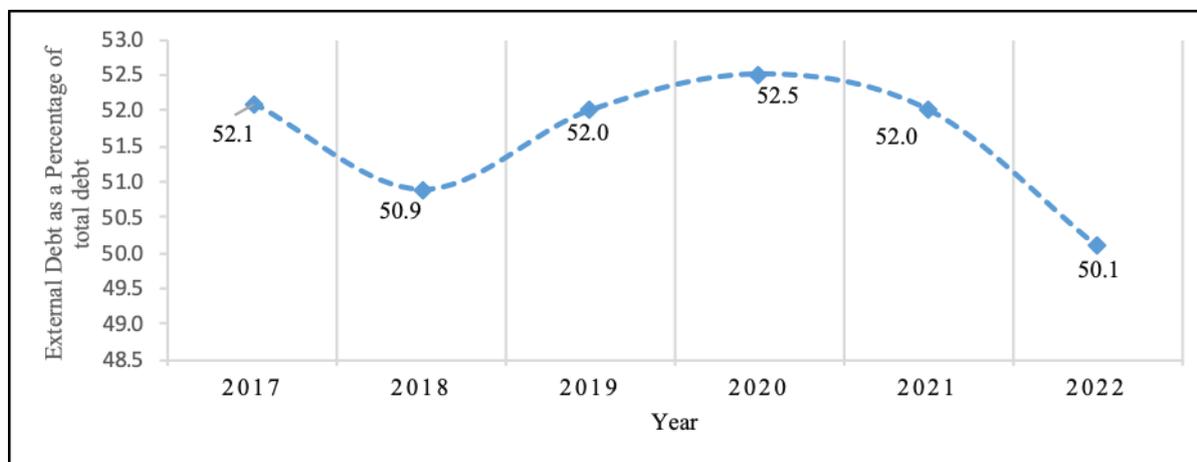
10.5 Exchange Rate Risk

Exchange rate risk arises from the change in the value of foreign currency against the local currency. This risk is imminent when a country's debt portfolio has a multi-currency composition.

10.5.1 External Debt as a Percentage of Total Debt

External debt comprises of 50.1 percent of total debt as at June 2022 compared to 52.0 percent in June 2021 (See Figure 10.5.1-1).

Figure 10.5.1-1: External Debt as a Percentage of Total Debt

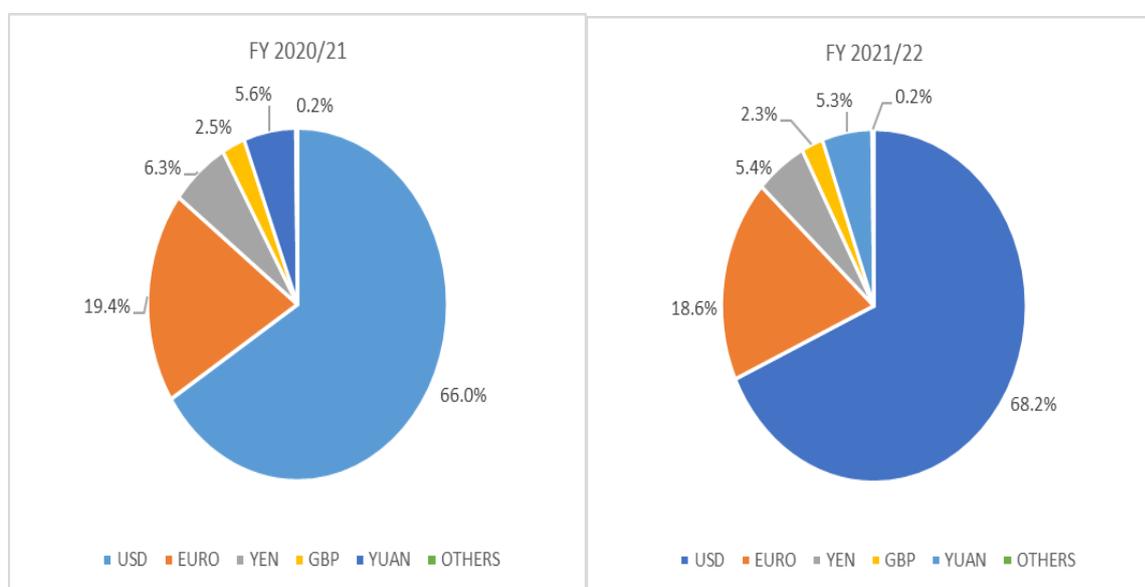


Source: National Treasury

10.5.2 Foreign Currency Composition

Out of the total external debt, 68.2 percent is U.S. dollar denominated, 18.6 percent is in Euro, 5.4 percent in Japanese Yen, 5.3 percent in Chinese Yuan, 2.3 percent in Great Britain Pound while other currencies account for 0.2 percent.

Figure 10.5.2-1: Foreign Currency Composition



Source: National Treasury

10.6 Debt Management Risk Register

The PDMO has developed a debt management risk register which is updated with each department assuming the ultimate responsibility and implementation of the proposed actions to minimize adverse effects.

The PDMO will improve the existing business continuity plans and support internal and external audit functions as they perform oversight roles on borrowing and debt management to enhance accountability and transparency.

10.7 Fiscal Risk Reporting

TNT requested technical assistance from the IMF in managing the fiscal risks within Government. One of the recommendations was to form a fiscal risk unit within the National Treasury. Once operational, the PDMO will be providing periodic input to the comprehensive fiscal risk reporting of the National Treasury. Specifically, the scope and coverage shall include sensitivity of the stock of public debt and debt-servicing costs to variations in key parameters (e.g., interest rates and exchange rates); discussion of medium-term debt management strategies; and summary results of debt sustainability analysis.

In addition, in the fiscal risk reporting, the PDMO will state the policy purpose of Government guarantees issued and any guarantee programs under implementation; intended beneficiaries; total guaranteed amounts (gross exposure); the likelihood that guarantees will be called (where appropriate and feasible) and the associated costs; the history of guarantee calls (i.e., amount of government payments on servicing guaranteed loans); information on any recoveries; guarantee fees; and budget provisions.

10.8 Business Continuity Plans

The PDMO has embraced the use of Information and Communication Technology (ICT) enabled tools and digital platforms to ensure business continuity. The PDMO, in collaboration with Commonwealth Secretariat (COMSEC), piloted implementation of the Commonwealth Meridian a web based debt recording platform. Prior to the new software, the PDMO has been using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). The migration to the Meridian architecture is for ease of accessing Government public debt database and improved functionality in the recording and management of debt. Plans are underway to complete the migration process for the back office to fully run on Meridian. This initiative will strengthen Kenya's institutional capacity for the management of public debt within a Public Debt Risk Management framework.

To enhance succession management, additional recruited economists and graduate trainees were deployed to the directorate. This has enhanced performance and delivery of the PDMO mandate. The PDMO received technical assistance and training was from Development Partners including Office of Technical Assistance (OTA) of the US Government, African Development Bank, Agence Francaise de Development (AFD) and World Bank jointly funding the Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK) programme. The technical assistance and training aimed at assisting in the restructuring of the PDMO, strengthening the staffing and skills capacity gaps and facilitating requisite office equipment for the smooth running of the PDMO.

CHAPTER ELEVEN

DOMESTIC DEBT MARKET REFORMS AND FISCAL AGENCY RELATIONS

11.0 Introduction

The PDMO has been leading the implementation of the planned debt reforms through consultations with the concerned stakeholders. This has led to the development of medium-term strategic initiatives aimed at strengthening organizational and operational capability of the PDMO, establishment of a robust, reliable and accurate public debt database, development of debt and borrowing policy, building capacities in administration of loans and grants fund, broadening and deepening of the domestic debt market, development of risk management framework and restructuring of debt portfolio to minimise costs and risks.

11.1 Domestic Debt Market Reforms

The PDMO spearheaded *the 7-point reforms* that are at different implementation stages. These reforms included:

- i. Prepare and Post the Issuance calendar on the NT & CBK Websites;
- ii. Separate retail segment from wholesale investors;
- iii. Launch of Over the Counter (OTC trading) for Treasury Bills;
- iv. Launch of Over the Counter (OTC trading) for Treasury Bonds;
- v. Formalize monthly stakeholders meeting and feedback;
- vi. Introduce electronic platforms for Primary and Secondary market;
- vii. Launch the Repo-market and short selling for government securities.

The reforms were intended to enhance market deepening, transform financial market, promote efficiency of operations and improve the growth of the capital market and promote the distribution of market liquidity. Automation of both primary and secondary market processes, and establishment of a new Central Securities Depository (CSD) to improve market infrastructure. The new CSD was to promote the efficiency of settlement and custodial services, trading and auction processes, and separation of upscale registry.

11.1.1 Status of Implementation of Reforms

- a) The deployment of the Internet Banking platforms for retail and institutional investors has improved domestic debt market operational;
- b) Institutional and retail investors had access to bidding and receipt of auction result and viewing of portfolio position for Government securities through the platforms;
- c) The implemented institutional and policy reforms entailed the following:

Creation and publication of auction rules and guidelines for government market securities. The reform aimed at enhancing primary market transparency and confidence, improving price stability and reducing cost of public debt. The CBK published auction rules and guidelines on its website in January 2021. The publication of the issuance calendar was regularly undertaken during the fiscal year;
- d) Efficiency improvement in secondary market through the ongoing creation of the Over-The-Counter (OTC) trading platform, complemented by NSE, increased price discovery, transparency and liquidity;

- e) Pending reforms in the domestic debt market include formalization of monthly stakeholder meeting feedback and launch of the Repo-market and short selling government securities for key market participants.

11.2 Other Debt Management Reforms

11.2.1 Adoption of Commonwealth Meridian

The PDMO has adopted Meridian, the new Debt Recording and Management System (DRMS) designed by the Commonwealth Secretariat. Meridian is web-based thus improves accessibility and usage compared to Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). Meridian is vastly superior to CS-DRMS both from functional and technological viewpoints. The software has advanced and improved functions and features including:

- a) Public and publicly guaranteed debt, portfolios as well as private sector external debt can be recorded, managed and analysed;
- b) Flexibility in adding and maintaining a wide range of financing products including any future financing products through the use of instrument templates;
- c) Organised around a central repository of data from which key stakeholders can access information. This ensures that real time data is always available even to remote offices;
- d) Has the ability to model any workflow arrangement/institutional structure for debt management;
- e) Driven by alerts and notifications, integrated with mail exchange systems to support the business workflow process;
- f) Accommodates SWIFT payments as an optional payment mechanism and caters for messages in the SWIFT format;
- g) Enhances accountability and transparency through data driven work flow; and
- h) Integrates with external systems to provide straight through processing and accurate data to stakeholders.

11.3 Fiscal Agency Relation

The National Treasury and Planning in line with the IMF's Memorandum on Economic and Financial Policies (MEFP) set forth annual performance reform targets, one of which was to review the Fiscal Agency Agreement between the National Treasury and the Central Bank of Kenya. During the Fiscal Year 2021/22 Performance Contracting Cycle, the National Treasury committed to undertake a review of the debt market. The review of the Agency Agreement was one of the key targets set to be evaluated by an independent team from the Public Service Commission by 30th June, 2022.

The review of the agreement was guided by the Constitution of Kenya, 2010; the PFM Act, 2012; and the Central Bank of Kenya Act, 2021 among others. The Fiscal Agency Agreement also incorporated other requisite provisions of an effective agency agreement that were inadvertently omitted.

CHAPTER TWELVE PUBLIC DEBT SUSTAINABILITY

12.0 Introduction

The Debt Sustainability Analysis (DSA) conducted in December 2021 shows that Kenya's debt remains sustainable with high risk of debt distress for both overall and external debt rating. The scope of analysis covers public debt from central government, Central Bank debt taken on behalf of the Government, and government guaranteed debt. The analysis excludes non-guaranteed debt of the public sector and arrears which are disclosed in the regular reports.

12.1 Assumptions underlying the DSA

The fiscal deficit was 6.2 percent of GDP in FY 2021/22, a decline from 8.2 percent of GDP in FY 2020/21 due to fiscal consolidation and is expected to stay below 4 percent of GDP over the medium-term as tax revenues increase and expenditures are controlled.

Export of goods and services is projected to reach 13.4 percent of GDP in 2026, with the economy recovering from COVID-19 shock, improvement in the business environment, implementation of the Big Four (4) development agenda and Economic Recovery Strategy.

To reduce debt related vulnerabilities, the Government will maximize the use of concessional financing for development while tapping into international financial markets to roll over maturing Eurobonds and optimize the debt service profile.

12.2 Debt Carrying Capacity

Kenya is assessed as a *medium performer*, in terms of Debt Carrying Capacity (DCC), with an estimated Composite Indicator (CI) of 3.04 since October 2020 (Table 12:2-1).

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

	2019	2020	2021
Debt Carrying Capacity	Strong	Medium	Medium

Source: IMF Country Reports

The revision from strong to medium was due to reduction in the 10-year average global growth to 2.9 percent from 3.5 percent and a decline in domestic 10-year average growth to 5.1 percent from 5.7 percent. The global and domestic growth contribute more weight in the calculation of composite index, which in turn determines DCC. Subsequently, the DCC determines external debt thresholds and the public debt benchmark (Table 12:2-2).

Table 12.2-2: Thresholds and Benchmark

	Debt Burden Indicators	Strong DCC	Medium DCC
External Debt Thresholds	PV of debt in % of Exports	240	180
	PV of debt in % of GDP	55	40
	Debt service in % of Exports	21	15
	Debt service in % of Revenue	23	18
Total Public Debt Benchmark	PV of total public debt in % of GDP	70	55

Source: IMF Country Reports

To be a strong performer in terms of DCC, and thus higher thresholds and benchmark for the debt burden indicators, domestic economy has to remain robust and continue growing over the medium term. The growth is supported by a broad-based private sector growth, including recoveries in agriculture and implementation of the ongoing priority projects and the Economic Recovery Strategy. In addition, there is need to increase reserves coverage and remittances.

12.3 External Debt Sustainability Analysis

Table 12.3-1 shows that the Present Value (PV) of external debt-to-export and Public and Publicly Guaranteed (PPG) of debt-service-to-exports indicators were breached under the baseline and the most extreme scenario. Both indicators remain above the thresholds over the medium-term projection period and this is due to sharp slowdown in exports. To improve the two debt burden indicators, export growth supported by the improvement of the business environment, agricultural sector and implementation of the Big Four (4) development agenda and Economic Recovery Strategy is crucial.

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

Indicators	Thresholds	2020	2021	2022	2023	2024	2025
PV of debt-to-GDP ratio	40	27.1	28.2	27.2	26.9	25.9	25.6
PV of debt-to-exports ratio	180	280.1	278.5	241.7	225.6	207.5	198.8
PPG Debt service-to-exports ratio	15	24.7	21.6	23.7	19.5	28.8	17.4
PPG Debt service-to-revenue ratio	18	14.6	13.6	16.0	13.3	20.0	12.2

Source: IMF Country Report No. 21/275, December 2021

12.4 Public Debt Sustainability Analysis

The PV of total public debt to GDP remains above the 55 percent benchmark until 2025. (Table 12.4-1). To improve the ratio, the government is committed to continuous tax reforms aimed at broadening tax base to raise revenues and also control expenditures hence limiting the expansion of fiscal deficits.

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

Indicators	Benchmark	2020	2021	2022	2023	2024	2025
PV of debt-to-GDP ratio	55	60.3	61.7	62.2	61.2	59.2	56.3
PV of public debt-to-revenue and grants ratio		362.8	375.5	364.5	343.7	323.9	300.8
Debt service-to-revenue and grants ratio		53.7	51.8	58.2	56.0	58.1	46.8

Source: IMF Country Report No. 21/275, December 2021

12.5 Improving Debt Sustainability

Kenya's debt remains sustainable but with elevated risk of debt distress for both overall and external ratings. The Government is committed to fiscal consolidation combined with maximization in the use of concessional borrowing to finance capital investment. Efforts to have strong remittances will play a major role in supporting a sustainable path.

CHAPTER THIRTEEN

CASHFLOW FORECASTING AND BUDGETING FOR PUBLIC DEBT SERVICE

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

One of the responsibilities of the PDMO is to prepare focus for public debt service as input in the annual budget. In this regard, the PDMO undertook a review of public debt maturities and interest expenses and prepared the debt service budget estimates for FY 2021/22 and FY 2022/23.

Domestic and external public debt interest payment projection for the FY 2021/22 was KSh. 479,223 million and KSh. 126,059 million respectively, while total external debt principal repayments were projected at KSh. 202,066 million. These projections were based on the following assumptions;

- a) Domestic borrowing for the FY 2021/22 was to be KSh. 678,077 million as per the approved Budget. The borrowing ratio was assumed at 30:70 from Treasury Bills and Bonds respectively. All the outstanding Treasury Bills were expected to be rolled over but KSh. 200,000 million was provided for in the budget estimates for net repayments for Treasury Bills in the event that rollover would not be fully realized.
- b) Government Overdraft facility will be utilized during the year but would be repaid and close at zero outstanding balance at the end of the financial year;
- c) The Treasury bonds and bills interest rates were assumed to remain constant (as worst-case outturn) and the budget projections were based on the prevailing rates of 6.90 percent for 91 days, 7.4 percent for 182 days and 8.3 percent for 364 days Treasury bills. The Treasury bonds would be benchmark bonds of 2, 5, 10, 15 and 25 years with coupons ranging between 10.7 percent and 13.4 percent.
- d) For floating interest rate external debt, Libor rates was assumed to remain constant based on the market trends.
- e) There would be exchange rate fluctuations due to the depreciation of the Kenya shilling during the period as a result of the global shocks (COVID -19 and Ukraine Russia Crisis)
- f) The Liability Management Operation to pre-finance the 2024 Eurobond Maturities and other targeted Commercial debts in the portfolio would be successful.

In terms of the outturn at end June 2022, domestic interest rates had remained relatively stable, but there has been gradual increase due to external shocks. The Kenya shilling depreciated against major foreign currencies during the period under review. Domestic debt service payments were below budget due to the tightening of liquidity and uncertainties as a result of the general elections which led to shortfalls due to lower uptake of treasury bills and bonds in the domestic debt market.

CHAPTER FOURTEEN

PUBLIC DEBT REPORTING

14.0 Introduction

The PFM Act, 2012 and attendant Regulations requires the PDMO to develop, publish and publicize various reports on public debt matters. These reports include the following: -

14.1 2021 Annual Public Debt Management Report (APDMR)

The PDMO prepared the 2021 APDMR which provides a broad analysis of the developments in public debt and borrowing. The report covers the legal framework on public debt, public debt market reforms, and level of public debt, non-guaranteed debt and the status of implementation of MTDS. It also highlights the Debt Sustainability Analysis.

The previously published annual public debt management reports can be accessed through the National Treasury website (<https://www.treasury.go.ke/annual-debt-management-reports>).

14.2 Medium-Term Debt Management Strategy (MTDS)

The PDMO prepared the 2022 MTDS and submitted it to Commission for Revenue Allocation and Parliament as required by section 33 (1) and 62 (2) b of the PFM Act, 2012.

14.3 Report to Parliament on new loans contracted by Government

Section 31 (3) of the PFM Act, 2012 requires the PDMO to prepare a report on all new loans contracted by the Government and submit to Parliament at the end of every four months. During the FY 2021/22 the Government contracted fifteen (15) new external loans. Eleven (11) of these loans were from multilateral lenders and four (4) from bilateral lenders (Table 14.3-1). This is in line with MTDS proposal to maximise use of concessional funding and reduce commercial borrowing. The total value of the fifteen (15) external loans was KSh. 221,531 million.

Table 14.3-1: Loans Contracted in FY 2021/22 by the Government and Reported to Parliament (KSh. Million)

No	Purpose of the Loan	Creditor	Creditor Type	Amount (KSh. Million)
1	Second additional Financing for Kenya COVID-19 Health Emergency Response Project	International Development Association	Multilateral	13,847
2	Engineering and Science Complex of the University of Nairobi	Agence Francaise De Development	Multilateral	3,885
3	Private Nationwide Governmental Network with voice & data applications Phase IV and Phase V	KBC Bank NV, Belgium	Bilateral	6,785
4	Financing for locally-Led Climate Action Program	International Development Association	Multilateral	17,009
5	Second Accelerating Reforms for an Inclusive and Resilient Recovery Development Policy Financing	International Development Association	Multilateral	60,292
6	Second Accelerating Reforms for an Inclusive and Resilient Recovery Development Policy Financing	International Bank for Reconstruction and Development	Multilateral	26,668
7	Supporting Access to Finance and Enterprise Recovery Project	International Development Association	Multilateral	10,511
8	Additional Financing Emergency Locust Response Project	International Development Association	Multilateral	3,842
9	Additional Financing for Coastal Region Water Security and Climate Resilience Project	International Development Association	Multilateral	15,760
10	Linking Farmers to Markets through Improvement of Rural Roads in Western Kenya	Government of the Federal Republic of Germany	Bilateral	2,080
11	Malindi Integrated Social Health Development Program – MISHDP Phase II	Government of the Italian Republic	Bilateral	783
12	Primary Education Equity in Learning Program	International Development Association	Multilateral	15,307
13	Supply of Forest Firefighting Equipment and Associated Services to the Kenya Forest Service in Kenya	Government of the French Republic	Bilateral	2,692
14	De-Risking, Inclusion and Value Enhancement of Pastoral Economies in the Horn of Africa Project	International Development Association	Multilateral	15,675
15	National Agricultural Value Chain Development Project	International Development Association	Multilateral	26,396
	Total			221,531

Source: National Treasury

14.4 Statistical Debt Bulletins

The PDMO prepares monthly bulletins which highlight the total public and publicly guaranteed debt, external debt composition and domestic instruments, external debt service and government domestic borrowing. During the financial year under review, the PDMO prepared and published debt bulletins from July 2021 to June 2022. The bulletins are published in the National Treasury Website (<https://www.treasury.go.ke/monthly-bulletins/>).

The PDMO prepares the weekly bulletins which highlight the overall performance of the domestic borrowing, Kenya's Eurobonds update and movement of Government deposits. During the review period, the PDMO prepared 52 weekly bulletins which were submitted to the Cabinet Secretary, National Treasury and Planning.

14.5 External Resources Estimates Handbook

External Resources Estimates Handbook provides insight on programmes and projects financed through external resources. The PDMO develops the annual handbook which is published in the National Treasury website (<https://www.treasury.go.ke/kenya-external-resources-policy/>).

14.6 Statements of Public Debt Stock

The statement of public debt stock records the contracted debt, disbursements during the year, and principal debt repayments during the year and the outstanding balance at the end of the reporting period. The statement also discloses information on Government guaranteed debt, constitution of external obligations by creditor and the currency denomination. It also includes the domestic debt obligations with emphasis on redemptions and interest payments during the financial year.

The PDMO prepared the FY 2021/22 statement of public debt stock and submitted it to the Auditor General with copies to the Controller of Budget by 30th September as provided by the law. The statement of public debt stock is then published in the National Treasury official website upon completion of the annual audit by the Auditor-General.

14.7 Statement of Outstanding Obligations Guaranteed by the Government

The National Treasury on behalf of the government acts as a guarantor when National Government Entities acquire external loans in their own Capacity. The statement is prepared and submitted to the Attorney-General's Office with a copy to Parliament as required by the law. During the year under review, no guarantee was issued by the National Treasury.

CHAPTER FIFTEEN CONTINGENT LIABILITIES

15.0 Introduction

Contingent liabilities are possible economic outflows due to materialising event(s) in the future. Contingent liabilities are related to debt guarantees issued by the Government to State owned Enterprises. The SOEs that have been issued Guarantees include Kenya Electricity Generation Company (Kengen), Kenya Ports Authority (KPA), and Kenya Airways.

15.1 Government Guaranteed Debt

The total outstanding Government guaranteed debt declined to KSh. 145,357 million in June, 2022 from KSh. 157,220 million at end June 2021 (Table 15.1-1).

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

Creditor Category	June-18	June-19	June-20	June-21	June-22
Commercial	75,787	76,724	79,892	80,963	77,824
Bilateral	56,371	78,079	80,562	76,257	67,533
Multilateral (IDA-KR)	4,547	4,603	4,794	0	0
Total	136,705	159,406	165,248	157,220	145,357

Source: National Treasury

The Government has guaranteed power generation and port development projects to Kengen and KPA as shown in table 15.1-2. These projects were considered high level priority to the Government and has helped improve power generation and efficiency at the Port.

Table 15.1-2: List of Guaranteed Loans and Balances as at 30th June, 2022

Agency	Year	Purpose of the loan	Creditor	Amount *(KSh. million)
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	1,652
	1997	Sondu Miriu Hydropower Project	Japan	1,751
	2004	Sondu Miriu Hydropower Project II	Japan	6,720
	2007	Sondu Miriu Hydropower Project – Sang’oro Power Plant	Japan	3,177
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	16,397
	2010	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Germany	1,455
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Germany	2,848
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	19,439
	2015	Kenya Port Development Project Phase 2	Japan	14,094
Kenya Airways	2017	Kenya Airways	Exim USA and Various Banks	77,824
Total				145,357

*** Provisional**

Source: *The National Treasury*

15.2 Called-up Kenya Airways Guaranteed Debt

During the FY2021/22, the National Treasury guarantee to Kenya Airways (KQ) was called as a result of loan payment defaults. The loan was for the purchase of seven (7) aircrafts and one (1) engine. The lender of the loan is Private Export Funding Corporation (PEFCO) of USA and guaranteed by Exim Bank of USA who in turn were guaranteed by the Government of Kenya. The guarantee issued in 2017 was for USD 525 million. The loan tenure is ten years up to in FY2027/28. KQ has experienced cash flow challenges in the past which were exacerbated following strict COVID-19 containment measures that cut down business operations and global travels.

Following the default KQ sought GoK intervention and the Cabinet gave approvals for the Government to pay the loan arrears on behalf of KQ and the loan balance to be novated to Government. The arrears have been paid and the novation process is on-going and is expected to be finalized in the FY2022/23. The loan repayments done on behalf of KQ shall be

recovered through a subsidiary loan agreement between Government and the airline as per the requirements of the PFM Act, 2012.

15.3 Public Non-guaranteed Debt

The Government is committed to expanding coverage in the reporting of the public debt by gradually including the non-guarantee debt by state owned enterprise (SoEs) to increase accountability and transparency in debt management. Measures have been put in place to ensure that the disclosure of non-guaranteed debts by SoEs is hence fourth reported in the *Annual Public Debt Management Report*.

State-owned Enterprises are legal entities established by Government through various Acts of Parliament and the Government holds partial or full ownership. The entities implement priority government policies, projects and programmes in social, business and commercial sectors of the economy. As legal entities, they finance their operations through internally generated revenues, borrowings and government transfers from Exchequer.

The Government reported non-guaranteed debt of eighteen (18) entities in the *Annual Public Debt Management Report* as at end June, 2021 for the first time. The *Annual Public Debt Management Report* for FY 2021/22 reports information provided by various state-owned enterprises and outstanding as at end June 2022.

The Government has a total of around 260 state corporations. As at end June 2022, out of the twenty-six (26) entities that submitted the status of outstanding loans, nineteen (19) SoEs had non-guaranteed debt amounting to KSh. 99,253 million (equivalent to 0.8 percent of GDP). Seven (7) SoEs reported balances for either guaranteed or on-lent loans and some had no loan. The loans were sourced in foreign currency accounts for 84.8 percent while those obtained from commercial banks in local currency accounts for 15.2 percent of total amount. The loans are performing and none was reported to be in arrears as at end June, 2022.

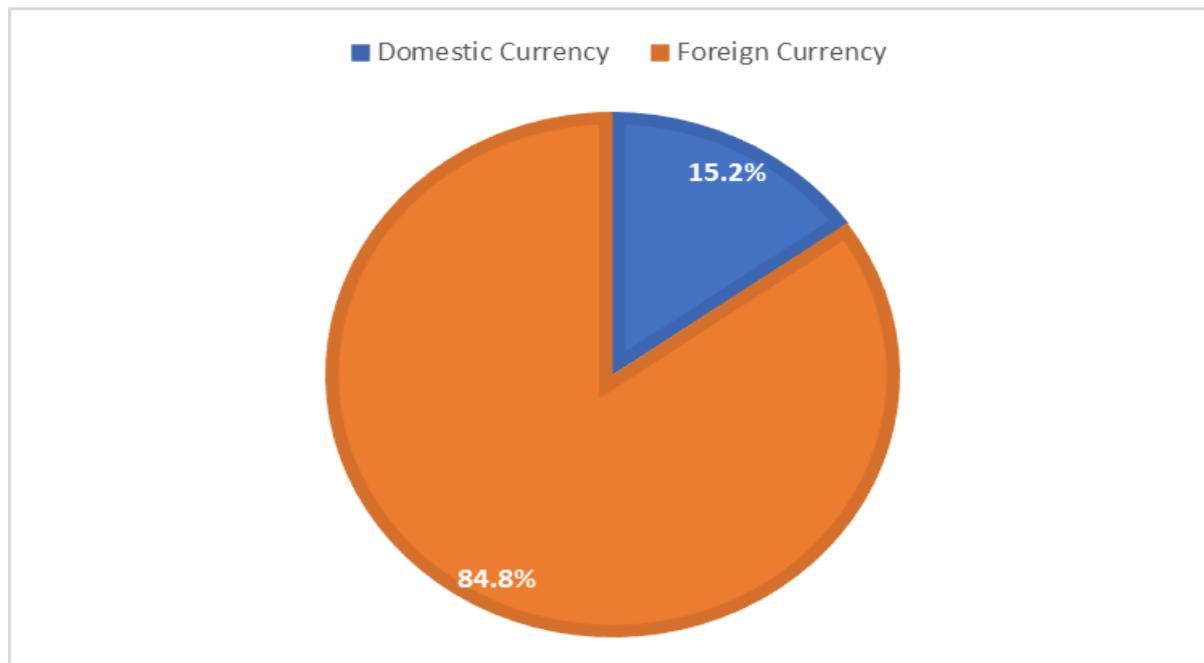
Table 15.3-1: Kenya's Outstanding Non-guaranteed Public Debt as at end June 2022

	State Corporation	Creditor	Original Currency	Amount Borrowed	Outstanding amount (KSh.)
1	Postal Corporation of Kenya	NCBA Bank	KSh.	220,000,000	170,308,199
2	Kenya Ports Authority	Stanbic Bank	USD	63,000,000	4,842,979,569
3	Agricultural Development Corporation	Various Banks and entities	KSh.	1,436,775,516	675,772
4	Kerio Valley Development Authority	Kenya Commercial Bank (KCB)	KSh.	392,322,494	251,522,260
5	Agricultural Finance Corporation	USAID	USD	141,334,118	141,334,118
6	Kenya Safari Lodges and Hotels	Kenya Development Corporation	KSh.	23,958,264	13,393,351
7	Maseno University	Equity Bank	KSh.	452,952,448	452,952,448
8	New Kenya Cooperative Creameries	Co-operative Bank	KSh.	1,403,600,000	1,124,435,926
9	Geothermal Development Company	Co-operative Bank	USD	29,125,281	2,491,508,781
10	South Nyanza Sugar Company Ltd	Commodity Fund	KSh.	420,736,552	521,501,750
		Co-operative Bank	KSh.	834,438,174	863,266,299
11	National Oil Corporation of Kenya	KCB Bank	KSh.	4,650,450,690	5,410,323,667
		Stanbic Bank	KSh.	1,550,423,348	1,913,581,944
12	Kenya Petroleum Refineries Ltd	NCBA Bank	KSh.	521,000,000	364,067,582
		Citi Bank	KSh.	276,784,727	161,749,448
		Citi Bank	USD	1,597,647	187,253,935
		ABSA	USD	13,500,000	1,070,590,725
13	Taita Taveta University	KCB Bank	KSh.	50,000,000	49,212,308
14	Jomo Kenyatta University of Agriculture & Technology	KCB Bank	KSh.	4,447,777,010	2,670,158,094
15	University of Nairobi	ABSA	KSh.	950,000,000	633,333,333
16	Kenya Airports Authority	AFD	USD	66,000,000	6,064,627,029
		AFD	USD	93,000,000	4,752,379,357
		IDA	USD	5,000,000	450,044,320
17	Kenya Power and Lighting Company	NCBA Bank	KSh.	6,750,000,000	6,750,000,000
		Standard Chartered Bank	KSh.	15,180,000,000	3,036,000,000
		Equity Bank	USD	150,000,000	2,214,976,063
		Standard Chartered Bank	USD	350,000,000	23,713,770,500
		First Rand Bank	USD	70,000,000	4,811,489,667
18	KenGen	HSBC	USD	33,790,866	796,331,732
		NCBA Bank	USD	100,000,000	7,768,061,696
		AFD	EUR	20,000,000	413,400,983
19	Kenya Pipeline Company	Syndicated loan (6 Banks)	USD	347,705,076	15,148,259,654
	Totals				99,253,490,511.6

Source: National Treasury

With the non-guaranteed debt of KSh. 99,253 million, the total public and publicly guaranteed debt moves to KSh. 8,687,534 million which is 68.1 percent of GDP.

Figure 15.3-1: Composition of Non-guaranteed Debt



Source: National Treasury

The foreign currency debt comprised of 84.8 percent contracted mainly from Agence Française de Development (AFD), Citi Bank, ABSA, First Rand Bank, HSBC and local commercial banks while domestic currency debt of 15.2 percent loans was obtained from local banks.

As a proportion of total non-guaranteed debt stock, majority existed in the energy sector with KPLC, KPC, KenGen, National Oil Corporation of Kenya, Kenya Petroleum Refineries Limited and GDC holding 76.8 percent. The transport sector represented by KAA, had 11.4 percent while the education sector represented by JKUAT, Taita Taveta University, and UON collectively had 3.8 percent. The remaining balance represented by Postal Corporation of Kenya, Agricultural Development Corporation, Kerio Valley Development Authority, Agricultural Finance Corporation, Kenya Safari Lodges and Hotels, New Kenya Cooperative Creameries, South Nyanza Sugar Company Limited accounted for 8.0 percent.

**CHAPTER SIXTEEN
OUTLOOK FOR THE MEDIUM TERM**

16.1 Projected Public Debt Stock

The total stock of public debt in nominal terms as at the end of June 2022 was KSh. 8,588,281 million and is projected to rise to KSh. 11,423,200 million as at end June 2026. As a percentage of GDP, total debt is projected to decrease to 57.9 percent as at end June 2026 from 67.3 percent as at end June 2022. This improvement is based on the planned Government fiscal consolidation. The GDP is also projected to grow over the period.

Table 16.1-1: Projected Public Debt Stock in (KSh. Million)

	June-22	June-23	June-24	June-25	June-26
External Debt	4,299,948	4,571,500	4,770,100	4,869,800	4,985,400
% of GDP	33.7	32.6	30.4	27.7	25.3
Domestic Debt	4,288,333	4,870,500	5,368,400	5,933,900	6,437,800
% of GDP	33.6	34.7	34.2	33.8	32.7
Total Public Debt	8,588,281	9,442,000	10,138,500	10,803,700	11,423,200
% of GDP	67.3	67.3	64.5	61.6	57.9
Fiscal deficit % of GDP	6.2	6.1	4.4	3.8	3.2
Nominal GDP	12,752,200	14,038,400	15,707,500	17,549,100	19,712,400
Ordinary Revenue	1,917,900	2,141,600s	2,516,300	2,840,600	3,272,200

**Provisional*

Source: The National Treasury

External and domestic public debt stock is projected to continue to grow in nominal values but as a percentage of GDP is projected to decline to 25.3 percent and 32.7 percent respectively as at end June 2026 from 33.7 percent and 33.6 percent as at end June 2022.

16.2 Debt Service

As at end June 2022, the total debt service was KSh. 917,777 million and is projected to increase in nominal terms to KSh. 1,431,650 million in June 2026. As a proportion of the debt service is projected to decrease to 43.8 percent in FY2025/26 from 47.9 percent in FY2021/22 due to projected growth in revenue. Similarly, debt service as a percentage of GDP, is projected to increase to 7.3 percent in FY 2025/26 from 7.2 percent in FY 2021/22.

Table 16.2-1: Projected Debt Service (KSh. Million)

		June-22	June-23	June-24	June-25	June-26
Domestic Interest		456,849	553,407	572,338	614,956	637,151
	% of GDP	3.6	3.9	3.6	3.5	3.2
	% of Revenue	23.8	25.8	22.7	21.6	19.5
External Interest	Amount (KSh. Million)	121,130	137,241	145,702	151,541	159,606
	% of GDP	0.9	1	0.9	0.9	0.8
	% of Revenue	6.3	6.4	5.8	5.3	4.9
Total Interest payments	Amount (KSh. Million)	577,979	690,648	718,039	766,497	796,757
	% of GDP	4.5	4.9	4.6	4.4	4
	% of Revenue	30.1	32.2	28.5	27	24.3
Domestic Treasury Bond Redemption	Amount (KSh. Million)	155,263	260,298	276,734	319,699	345,426
	% of GDP	1.2	1.9	1.8	1.8	1.8
	% of Revenue	8.1	12.2	11	11.3	10.6
External Principal Repayments	Amount (KSh. Million)	184,536	241,060	475,596	281,459	289,467
	% of GDP	1.6	1.7	3	1.6	1.5
	% of Revenue	9.6	11.3	18.9	9.9	8.8
Total Debt service	Amount (KSh. Million)	917,777	1,192,006	1,470,369	1,367,655	1,431,650
	% of Revenue	47.9	55.7	58.4	48.1	43.8
	% of GDP	7.2	8.5	9.4	7.8	7.3
Ordinary Revenue	Amount (KSh. Million)	1,917,911	2,141,600	2,516,300	2,840,600	3,272,200
Nominal GDP	Amount (KSh. Million)	12,752,200	14,038,400	15,707,500	17,549,100	19,712,400

Source: National Treasury

Nominal interest payments are expected to increase over the medium term, but as a percent of GDP and revenue it is expected to remain relatively constant at an average of 4.5 percent and 28.4 percent respectively.

Domestic interest payments are projected to increase to KSh. 637,151 million in FY 2025/26 from KSh. 456,849 million in FY 2021/22. As a percentage of revenue, it is projected to decrease to 19.5 percent in FY 2025/26 from 23.8 percent in the period under review while as a ratio to GDP, domestic interest is projected to decrease to 3.2 percent in FY 2025/26 from 3.6 percent in FY2021/22.

Interest payments on external debt is projected to increase to KSh. 159,606 million in FY 2025/26 from KSh. 121,130 million in FY 2021/22. As a ratio of GDP and revenue, external interest payments will be at an average of 0.9 percent and 5.7 percent respectively over the medium term.

Principal repayments on external debt are projected to increase from KSh. 184,536 million in FY2021/22 and peak to KSh. 475,596 million in FY2023/24 due to the Eurobond maturities before declining to KSh. 289,467 million in FY 2025/26. As a ratio of GDP and revenue, the external repayments will peak to 3.0 percent and 18.9 percent in FY 2023/24 from 1.6 percent and 9.6 percent in FY 2021/22 before decreasing to 1.5 percent and 8.8 percent in FY 2025/26 respectively.

Annex 1: Outstanding Stock of Treasury Bonds as at 30th June, 2022

Maturity Date	Issue Number	Face Value	Coupon Rate
22-Aug-2022	FXD1/2017/005	12,109,150,000	12.465%
22-Aug-2022	FXD1/2017/005	17,490,000,000	12.465%
17-Oct-2022	FXD2/2017/005	13,492,100,000	12.517%
17-Oct-2022	FXD2/2017/005	7,220,000,000	12.517%
17-Oct-2022	IFB1/2014/012	11,297,363,775	11.000%
07-Nov-2022	FXD3/2007/015	7,841,100,000	12.500%
07-Nov-2022	FXD3/2007/015	10,189,100,000	12.500%
07-Nov-2022	FXD3/2007/015	14,927,900,000	12.500%
21-Nov-2022	IFB1/2017/007	20,734,725,000	12.500%
05-Dec-2022	IFB1/2015/009	8,093,236,864	11.000%
09-Jan-2023	FXD1/2021/002	55,851,550,000	9.486%
13-Mar-2023	FXD1/2008/015	7,380,900,000	12.500%
13-Mar-2023	FXD1/2008/015	4,695,250,000	12.500%
13-Mar-2023	FXD1/2008/015	2,692,550,000	12.500%
13-Mar-2023	FXD1/2008/015	20,021,100,000	12.500%
20-Mar-2023	FXD1/2018/005	23,055,800,000	12.299%
20-Mar-2023	FXD1/2018/005	7,739,750,000	12.299%
15-May-2023	IFB1/2016/009	8,244,650,432	12.500%
29-May-2023	IFB1/2020/006	10,113,325,000	10.200%
19-Jun-2023	FXD1/2013/010	12,121,350,000.00	12.371%
19-Jun-2023	FXD1/2013/010	521,700,000	12.371%
19-Jun-2023	FXD1/2013/010	11,909,050,000	12.371%
19-Jun-2023	FXD1/2013/010	4,737,700,000	12.371%
19-Jun-2023	FXD1/2013/010	9,958,400,000	12.371%
18-Sep-2023	IFB1/2011/012	11,735,500,000	12.000%
15-Jan-2024	FXD1/2014/010	15,030,150,000	12.180%
15-Jan-2024	FXD1/2014/010	15,587,650,000	12.180%
15-Jan-2024	FXD1/2014/010	5,234,350,000	12.180%
19-Feb-2024	FXD1/2019/005	20,587,250,000	11.304%
19-Feb-2024	FXD1/2019/005	44,772,250,000	10.872%
18-Mar-2024	IFB1/2015/012	21,279,697,929	11.000%
06-May-2024	FXD2/2019/005	39,201,400,000	12.500%

Maturity Date	Issue Number	Face Value	Coupon Rate
07-Oct-2024	FXD1/2009/015	9,420,450,000	12.500%
07-Oct-2024	FXD1/2009/015	11,806,950,000	12.500%
07-Oct-2024	FXD1/2009/015	10,725,050,000	12.500%
18-Nov-2024	IFB1/2017/007	20,734,725,000	12.500%
02-Dec-2024	IFB1/2015/009	8,386,913,137	11.000%
09-Dec-2024	FXD3/2019/005	18,737,950,000	11.492%
09-Dec-2024	FXD3/2019/005	9,747,300,000	11.492%
09-Dec-2024	FXD3/2019/005	16,345,250,000	11.492%
10-Mar-2025	FXD1/2010/015	10,206,450,000	10.250%
10-Mar-2025	FXD1/2010/015	12,129,800,000	10.250%
10-Mar-2025	FXD1/2010/015	5,000,000,000	10.250%
10-Mar-2025	FXD1/2010/015	357,650,000	10.250%
07-Apr-2025	IFB1/2020/009	39,486,800,000	10.850%
07-Apr-2025	FXD1/2022/003	33,112,900,000	11.766%
07-Apr-2025	FXD1/2022/003	3,606,950,000	11.766%
05-May-2025	FXD1/2020/005	20,774,600,000	11.667%
05-May-2025	FXD1/2020/005	8,960,350,000	11.667%
05-May-2025	FXD1/2020/005	8,842,900,000	11.667%
05-May-2025	FXD1/2020/005	27,107,400,000	11.667%
12-May-2025	IFB1/2016/009	19,790,749,568	12.500%
15-Sep-2025	IFB1/2013/012	16,060,205,597	11.000%
08-Dec-2025	FXD2/2010/015	7,329,350,000	9.000%
08-Dec-2025	FXD2/2010/015	6,183,750,000	9.000%
08-Dec-2025	FXD2/2010/015	11,686,700,000	9.000%
25-May-2026	IFB1/2020/006	10,113,325,000	10.200%
17-Aug-2026	FXD1/2016/010	18,306,450,000	15.039%
17-Aug-2026	IFB1/2020/011	40,124,800,000	10.900%
12-Oct-2026	IFB1/2014/012	15,748,586,226	11.000%
12-Oct-2026	IFB1/2016/015	10,001,466,651	12.000%
09-Nov-2026	FXD1/2021/005	53,634,100,000	11.277%
09-Nov-2026	FXD1/2021/005	8,509,550,000	11.277%
09-Nov-2026	FXD1/2021/005	3,932,200,000	11.277%
15-Mar-2027	IFB1/2015/012	12,206,852,072	11.000%

Maturity Date	Issue Number	Face Value	Coupon Rate
19-Jul-2027	FXD1/2017/010	5,178,850,000	12.966%
19-Jul-2027	FXD1/2017/010	7,014,300,000	12.966%
19-Jul-2027	FXD1/2017/010	5,488,450,000	12.966%
19-Jul-2027	FXD1/2017/010	6,307,250,000	12.966%
19-Jul-2027	FXD1/2017/010	624,700,000	12.966%
19-Jul-2027	FXD1/2017/010	5,388,400,000	12.966%
19-Jul-2027	FXD1/2017/010	5,172,450,000	12.966%
06-Sep-2027	FXD1/2012/015	21,089,450,000	11.000%
06-Sep-2027	FXD1/2012/015	6,004,150,000	11.000%
06-Sep-2027	FXD1/2012/015	21,843,500,000	11.000%
06-Sep-2027	FXD1/2012/015	8,721,250,000	11.000%
06-Sep-2027	FXD1/2012/015	2,564,900,000	11.000%
06-Sep-2027	FXD1/2012/015	30,716,650,000.00	11.000%
17-Jan-2028	IFB1/2018/015	16,473,920,000	12.500%
07-Feb-2028	FXD1/2013/015	5,875,700,000	11.250%
07-Feb-2028	FXD1/2013/015	7,507,100,000	11.250%
07-Feb-2028	FXD1/2013/015	15,582,800,000	11.250%
07-Feb-2028	FXD1/2013/015	13,172,850,000	11.250%
07-Feb-2028	FXD1/2013/015	7,152,850,000	11.250%
07-Feb-2028	FXD1/2013/015	9,648,100,000	11.250%
07-Feb-2028	FXD1/2013/015	23,533,850,000.00	11.250%
10-Apr-2028	FXD2/2013/015	17,385,850,000	12.000%
10-Apr-2028	FXD2/2013/015	9,615,400,000	12.000%
10-Apr-2028	FXD2/2013/015	9,186,600,000	12.000%
10-Apr-2028	FXD2/2013/015	3,688,750,000	12.000%
10-Apr-2028	FXD2/2013/015	25,515,300,000	12.000%
05-Jun-2028	FXD1/2008/020	1,912,250,000	13.750%
05-Jun-2028	FXD1/2008/020	7,613,900,000	13.750%
05-Jun-2028	FXD1/2008/020	10,834,800,000	13.750%
05-Jun-2028	FXD1/2008/020	9,683,350,000	13.750%
05-Jun-2028	FXD1/2008/020	8,100,800,000	13.750%
14-Aug-2028	FXD1/2018/010	19,363,100,000	12.686%
14-Aug-2028	FXD1/2018/010	21,221,500,000	12.686%

Maturity Date	Issue Number	Face Value	Coupon Rate
06-Nov-2028	IFB1/2018/020	18,393,650,000	11.950%
04-Dec-2028	FXD2/2018/010	26,143,600,000	12.502%
04-Dec-2028	FXD2/2018/010	6,623,550,000	12.502%
04-Dec-2028	FXD2/2018/010	20,133,950,000	12.502%
04-Dec-2028	FXD2/2018/010	7,312,550,000	12.502%
12-Feb-2029	FXD1/2019/010	32,800,400,000	12.438%
12-Feb-2029	FXD1/2019/010	19,243,600,000	12.438%
12-Feb-2029	FXD1/2019/010	15,480,850,000	12.438%
12-Feb-2029	IFB1/2017/012	11,402,850,000	12.500%
02-Apr-2029	FXD2/2019/010	51,325,000,000	12.300%
02-Apr-2029	IFB1/2020/009	39,486,800,000	10.850%
06-Aug-2029	FXD3/2019/010	23,738,400,000	10.850%
06-Aug-2029	FXD3/2019/010	45,005,050,000	11.517%
12-Nov-2029	FXD4/2019/010	28,344,450,000	12.280%
12-Nov-2029	FXD4/2019/010	8,082,100,000	12.280%
12-Nov-2029	FXD4/2019/010	32,923,550,000	12.280%
12-Nov-2029	FXD4/2019/010	20,622,750,000.00	12.280%
14-Oct-2030	IFB1/2019/016	35,514,275,000	11.750%
05-May-2031	FXD1/2011/020	8,138,500,000	10.000%
05-May-2031	FXD1/2011/020	1,227,300,000	10.000%
05-May-2031	FXD1/2011/020	8,404,900,000	10.000%
05-May-2031	FXD1/2011/020	19,258,700,000	10.000%
02-Jun-2031	IFB1/2022/018	36,810,275,000	13.742%
11-Aug-2031	IFB1/2020/011	40,124,800,000	10.900%
01-Sep-2031	IFB1/2021/021	53,371,100,000	12.737%
06-Oct-2031	IFB1/2016/015	20,003,233,349	12.000%
09-Feb-2032	IFB1/2022/019	49,188,775,000	12.965%
03-May-2032	FXD1/2022/010	5,936,850,000	13.490%
03-May-2032	FXD1/2022/010	28,558,900,000	13.490%
01-Nov-2032	FXD1/2012/020	3,461,350,000	12.000%
01-Nov-2032	FXD1/2012/020	4,956,500,000	12.000%
01-Nov-2032	FXD1/2012/020	10,882,700,000	12.000%
01-Nov-2032	FXD1/2012/020	9,363,050,000	12.000%

Maturity Date	Issue Number	Face Value	Coupon Rate
01-Nov-2032	FXD1/2012/020	2,060,550,000	12.000%
01-Nov-2032	FXD1/2012/020	13,857,500,000	12.000%
01-Nov-2032	FXD1/2012/020	4,054,300,000	12.000%
01-Nov-2032	FXD1/2012/020	6,465,800,000	12.000%
01-Nov-2032	FXD1/2012/020	23,555,300,000	12.000%
01-Nov-2032	FXD1/2012/020	8,628,600,000.00	12.000%
10-Jan-2033	IFB1/2018/015	24,710,880,000	12.500%
09-May-2033	FXD1/2018/015	13,223,850,000	12.650%
09-May-2033	FXD1/2018/015	17,482,750,000	12.650%
09-May-2033	FXD1/2018/015	15,116,850,000	12.650%
09-May-2033	FXD1/2018/015	3,431,400,000	12.650%
09-May-2033	FXD1/2018/015	27,096,800,000.00	12.650%
03-Oct-2033	FXD2/2018/015	7,848,300,000	12.750%
03-Oct-2033	FXD2/2018/015	21,216,050,000	12.750%
31-Oct-2033	IFB1/2018/020	9,196,825,000	11.950%
09-Jan-2034	FXD1/2019/015	14,716,500,000	12.857%
09-Jan-2034	FXD1/2019/015	15,850,150,000	12.857%
09-Jan-2034	FXD1/2019/015	48,530,200,000	12.857%
06-Mar-2034	IFBI/2019/025	8,414,325,000	12.857%
24-Apr-2034	FXD2/2019/015	19,314,450,000	12.734%
24-Apr-2034	FXD2/2019/015	17,227,200,000	12.734%
24-Apr-2034	FXD2/2019/015	5,905,650,000	12.734%
24-Apr-2034	FXD2/2019/015	9,747,500,000	12.734%
24-Apr-2034	FXD2/2019/015	7,421,600,000	12.734%
24-Apr-2034	FXD2/2019/015	6,131,200,000	12.734%
24-Apr-2034	FXD2/2019/015	15,897,150,000	12.734%
10-Jul-2034	FXD3/2019/015	50,552,950,000	12.340%
10-Jul-2034	FXD3/2019/015	3,366,850,000.00	12.340%
05-Feb-2035	FXD1/2020/015	5,191,250,000	12.756%
05-Feb-2035	FXD1/2020/015	44,725,900,000	12.756%
05-Feb-2035	FXD1/2020/015	6,595,800,000	12.756%
05-Feb-2035	FXD1/2020/015	15,561,650,000	12.756%
28-May-2035	FXD1/2010/025	20,192,500,000	11.250%

Maturity Date	Issue Number	Face Value	Coupon Rate
08-Oct-2035	IFB1/2019/016	35,514,275,000	11.750%
01-Sep-2036	FXD1/2016/020	12,761,200,000	14.000%
05-Jan-2037	IFB1/2021/016	80,958,350,000	12.257%
06-Apr-2037	FXD1/2022/015	15,955,700,000	13.942%
06-Apr-2037	FXD1/2022/015	27,623,400,000	13.942%
01-Mar-2038	FXD1/2018/020	8,564,250,000	13.200%
01-Mar-2038	FXD1/2018/020	7,841,300,000	13.200%
01-Mar-2038	FXD1/2018/020	6,856,600,000	13.200%
01-Mar-2038	FXD1/2018/020	8,321,600,000	13.200%
01-Mar-2038	FXD1/2018/020	27,450,400,000	13.200%
01-Mar-2038	FXD1/2018/020	17,766,600,000.00	13.200%
01-Mar-2038	FXD1/2018/020	17,714,850,000.00	13.200%
05-Jul-2038	FXD2/2018/020	10,635,550,000	13.200%
05-Jul-2038	FXD2/2018/020	5,211,100,000	13.200%
05-Jul-2038	FXD2/2018/020	40,221,850,000	13.200%
05-Jul-2038	FXD2/2018/020	33,130,100,000	13.200%
25-Oct-2038	IFB1/2018/020	9,196,825,000	11.950%
21-Mar-2039	FXD1/2019/020	9,018,150,000	12.873%
21-Mar-2039	FXD1/2019/020	14,541,900,000	12.873%
21-Mar-2039	FXD1/2019/020	13,741,000,000	12.873%
21-Mar-2039	FXD1/2019/020	29,810,600,000.00	12.873%
21-Mar-2039	FXD1/2019/020	16,238,350,000.00	12.873%
21-Mar-2039	IFB1/2021/018	81,785,600,000	12.667%
21-May-2040	IFB1/2022/018	36,810,275,000	13.742%
21-Jan-2041	SDB1/2011/030	8,718,100,000	12.000%
21-Jan-2041	SDB1/2011/030	10,041,550,000	12.000%
21-Jan-2041	SDB1/2011/030	3,376,800,000	12.000%
21-Jan-2041	SDB1/2011/030	1,752,500,000	12.000%
21-Jan-2041	SDB1/2011/030	2,003,350,000	12.000%
21-Jan-2041	SDB1/2011/030	667,900,000	12.000%
21-Jan-2041	SDB1/2011/030	19,000,000	12.000%
21-Jan-2041	SDB1/2011/030	712,400,000	12.000%
21-Jan-2041	SDB1/2011/030	853,100,000	12.000%

Maturity Date	Issue Number	Face Value	Coupon Rate
28-Jan-2041	IFB1/2022/019	49,188,775,000	12.965%
22-Jul-2041	FXD1/2021/020	28,235,450,000.00	13.444%
22-Jul-2041	FXD1/2021/020	39,530,700,000.00	13.444%
18-Aug-2042	IFB1/2021/021	53,371,100,000.00	12.737%
25-May-2043	FXD1/2018/025	5,152,600,000	13.400%
25-May-2043	FXD1/2018/025	22,991,850,000	13.400%
25-May-2043	FXD1/2018/025	15,073,650,000	13.400%
25-May-2043	FXD1/2018/025	43,156,400,000	13.400%
25-May-2043	FXD1/2018/025	7,952,200,000	13.400%
22-Feb-2044	IFBI/2019/025	8,414,325,000	12.200%
09-Apr-2046	FXD1/2021/025	5,015,600,000	13.924%
09-Apr-2046	FXD1/2021/025	14,243,500,000	13.924%
09-Apr-2046	FXD1/2021/025	22,186,100,000.00	13.924%
09-Apr-2046	FXD1/2021/025	25,703,350,000.00	13.924%
09-Apr-2046	FXD1/2021/025	3,929,300,000.00	13.924%
09-Apr-2046	FXD1/2021/025	5,389,300,000.00	13.924%
09-Apr-2046	FXD1/2021/025	2,988,100,000.00	13.924%
09-Apr-2046	FXD1/2021/025	11,034,750,000	13.924%
Total		3,569,092,005,597	

Annex 2: Outstanding Stocking of Treasury Bills as at 30th June, 2022

Maturity Date	Issue Number	Face Value	Weighted Average Interest Rate (%)
04-Jul-22	2351/364	5,888,600,000.00	7.661
04-Jul-22	2427/182	2,412,350,000.00	8.095
04-Jul-22	2467/091	1,539,650,000.00	7.302
11-Jul-22	2352/364	4,545,950,000.00	7.576
11-Jul-22	2428/182	6,582,400,000.00	8.041
11-Jul-22	2468/091	2,391,450,000.00	7.377
18-Jul-22	2353/364	5,601,200,000.00	7.506
18-Jul-22	2429/182	14,261,200,000.00	8.081
18-Jul-22	2469/091	4,840,850,000.00	7.424
25-Jul-22	2354/364	3,656,200,000.00	7.432
25-Jul-22	2430/182	12,723,250,000.00	8.069
25-Jul-22	2470/091	8,303,250,000.00	7.448
01-Aug-22	2355/364	2,968,300,000.00	7.426
01-Aug-22	2431/182	5,258,450,000.00	8.112
01-Aug-22	2471/091	10,361,100,000.00	7.497
08-Aug-22	2356/364	3,016,550,000.00	7.418
08-Aug-22	2432/182	8,564,500,000.00	8.095
08-Aug-22	2472/091	5,344,650,000.00	7.580
15-Aug-22	2357/364	1,163,450,000.00	7.418
15-Aug-22	2433/182	6,651,500,000.00	8.108
15-Aug-22	2473/091	5,373,100,000.00	7.683
22-Aug-22	2358/364	1,072,450,000.00	7.420
22-Aug-22	2434/182	10,349,650,000.00	8.075
22-Aug-22	2474/091	2,541,000,000.00	7.758
29-Aug-22	2359/364	4,337,100,000.00	7.492
29-Aug-22	2435/182	4,085,400,000.00	8.062
29-Aug-22	2475/091	455,400,000.00	7.744
05-Sep-22	2360/364	10,634,950,000.00	7.517
05-Sep-22	2436/182	12,779,650,000.00	8.063
05-Sep-22	2476/091	3,562,400,000.00	7.811
12-Sep-22	2361/364	3,046,700,000.00	7.777

Maturity Date	Issue Number	Face Value	Weighted Average Interest Rate (%)
12-Sep-22	2437/182	6,028,400,000.00	8.032
12-Sep-22	2477/091	3,277,450,000.00	7.866
19-Sep-22	2362/364	3,180,200,000.00	7.845
19-Sep-22	2438/182	8,568,150,000.00	8.093
19-Sep-22	2478/091	3,098,000,000.00	7.925
26-Sep-22	2363/364	745,350,000.00	7.890
26-Sep-22	2439/182	3,996,450,000.00	8.134
26-Sep-22	2479/091	8,206,800,000.00	8.013
03-Oct-22	2364/364	1,775,150,000.00	7.949
03-Oct-22	2440/182	3,248,050,000.00	8.164
10-Oct-22	2365/364	2,582,400,000.00	8.028
10-Oct-22	2441/182	4,089,050,000.00	8.219
17-Oct-22	2366/364	6,290,800,000.00	8.225
17-Oct-22	2442/182	2,695,450,000.00	8.315
24-Oct-22	2367/364	5,117,100,000.00	8.355
24-Oct-22	2443/182	9,384,250,000.00	8.373
31-Oct-22	2368/364	6,278,350,000.00	8.489
31-Oct-22	2444/182	9,040,650,000.00	8.458
07-Nov-22	2369/364	20,896,550,000.00	8.624
07-Nov-22	2445/182	3,873,550,000.00	8.542
14-Nov-22	2370/364	7,966,300,000.00	8.745
14-Nov-22	2446/182	8,264,050,000.00	8.722
21-Nov-22	2371/364	8,993,950,000.00	8.840
21-Nov-22	2447/182	8,701,200,000.00	8.832
28-Nov-22	2372/364	7,129,500,000.00	8.944
28-Nov-22	2448/182	2,942,700,000.00	8.901
05-Dec-22	2375/364	8,237,500,000.00	9.016
05-Dec-22	2449/182	2,598,300,000.00	8.974
12-Dec-22	2376/364	5,622,100,000.00	9.091
12-Dec-22	2450/182	4,134,150,000.00	9.037
19-Dec-22	2377/364	5,588,250,000.00	9.164
19-Dec-22	2451/182	7,647,700,000.00	9.096

Maturity Date	Issue Number	Face Value	Weighted Average Interest Rate (%)
26-Dec-22	2378/364	4,354,550,000.00	9.265
26-Dec-22	2452/182	5,063,150,000.00	9.163
02-Jan-23	2379/364	5,396,400,000.00	9.367
09-Jan-23	2380/364	12,189,200,000.00	9.444
16-Jan-23	2381/364	14,237,950,000.00	9.474
23-Jan-23	2382/364	15,178,950,000.00	9.510
30-Jan-23	2383/364	19,296,800,000.00	9.544
06-Feb-23	2384/364	15,642,950,000.00	9.594
13-Feb-23	2385/364	11,760,750,000.00	9.668
20-Feb-23	2386/364	16,077,900,000.00	9.724
27-Feb-23	2387/364	7,306,550,000.00	9.764
06-Mar-23	2388/364	4,803,100,000.00	9.774
13-Mar-23	2389/364	9,879,300,000.00	9.771
20-Mar-23	2390/364	9,706,400,000.00	9.763
27-Mar-23	2391/364	7,723,950,000.00	9.767
03-Apr-23	2392/364	2,660,050,000.00	9.752
10-Apr-23	2393/364	8,904,650,000.00	9.743
17-Apr-23	2394/364	4,525,750,000.00	9.745
24-Apr-23	2395/364	7,162,750,000.00	9.755
01-May-23	2396/364	10,155,100,000.00	9.756
08-May-23	2397/364	8,639,600,000.00	9.840
15-May-23	2398/364	10,842,300,000.00	9.860
22-May-23	2399/364	13,134,550,000.00	9.879
29-May-23	2400/364	10,074,250,000.00	9.881
05-Jun-23	2401/364	5,507,000,000.00	9.935
12-Jun-23	2402/364	7,418,850,000.00	9.952
19-Jun-23	2403/364	8,502,150,000.00	9.961
26-Jun-23	2404/364	8,098,300,000.00	9.974
Total		628,753,700,000.00	