



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DEBT MANAGEMENT DEPARTMENT

MONTHLY DEBT BULLETIN

AUGUST 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end August 2014, public and publicly guaranteed debt stood at Kshs 2,372.09 billion or 51.7 percent of GDP (see Table 1). The decrease of 0.59 percent over the end July 2014 position is attributed to decrease in domestic debt. Gross domestic debt decreased by Ksh 15.35 billion to stand at Ksh 1,281.10 billion, while external debt increased by Ksh 1.33 billion to stand at Ksh 1,090.99 billion in August 2014 . (See Table 1).

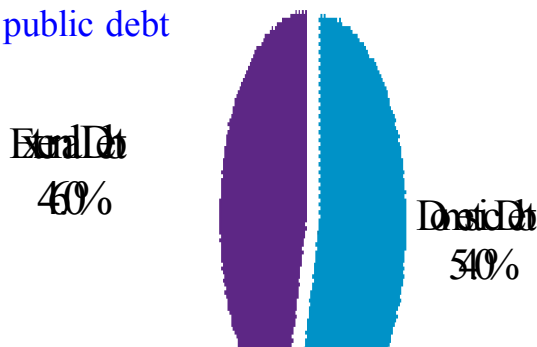
Table 1: Size of public debt, end August 2014, in billion

Debt Category	Kshs	USD
Domestic Debt	1,281.10	14.49
External Debt	1,090.99	12.34
Total	2,372.09	26.83

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 54.0 percent of the total debt is domestic debt while 46.0 percent is external debt as shown in Chart 1.

Chart 1: Composition of public debt



Source: The National Treasury

1.2 Cost/Risk Characteristics of Public Debt

Reflecting Government external debt strategy of contracting or guaranteeing external loans with highly concessional terms to minimise interest rate cost, the average interest rate and grace period on the external debt portfolio was 2.8 percent and 6.0 years, respectively. In addition, the average maturity period for external loans was 16.5 years while the average grant element was 62.0 percent.

As an indication of the success in the lengthening of maturity structure of domestic debt to minimise refinancing risk in line with the 2014 Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt stood at 4 years 11 months as at end August 2014 .

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period June to August 2014. During this period, the Kenya shilling appreciated against the Sterling Pound, Euro and Japanese Yen by 1.75, 2.55 and 1.60 percent respectively but it depreciated against the US Dollar by 0.87 percent. The shilling stood at Kshs 88.39 to the US Dollar at end of August 2014.

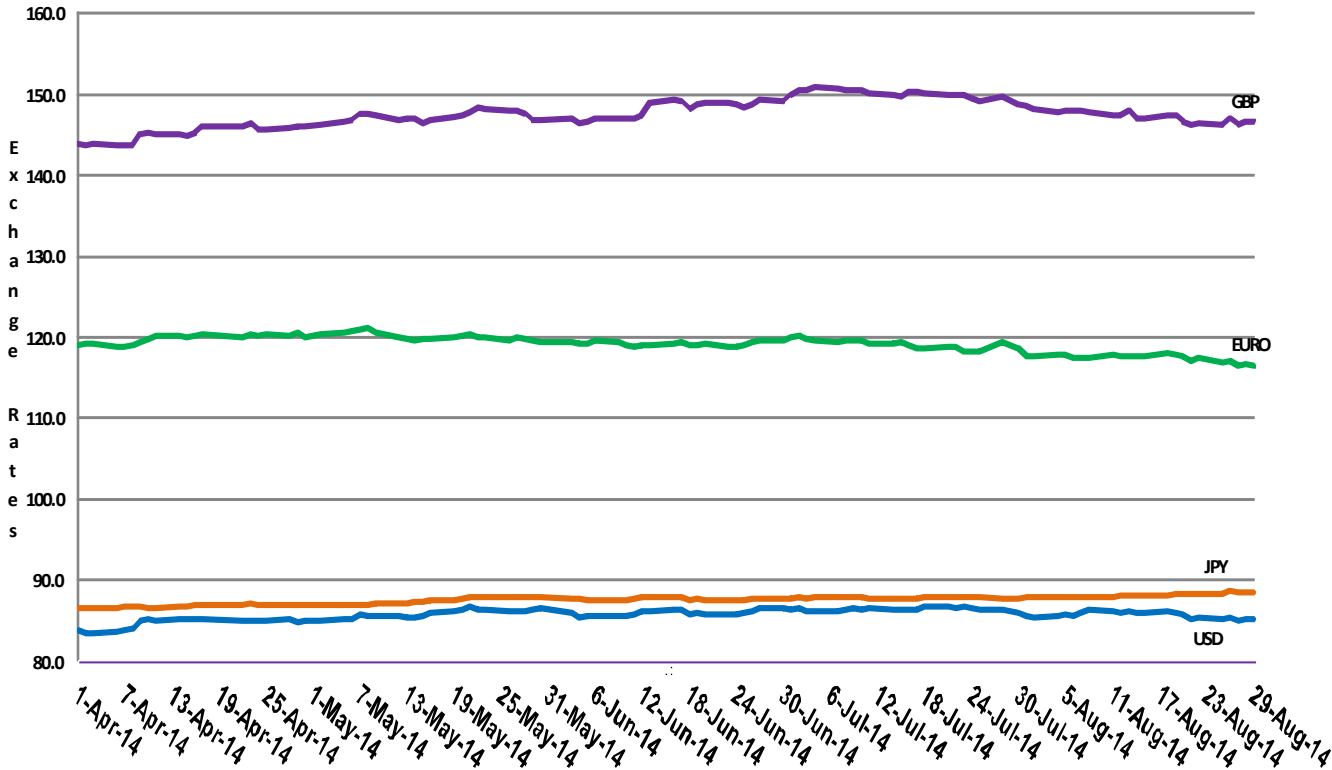
Table 2: Movement in exchange rates

Currency	June 2014	July 2014	August 2014
US Dollar	87.63	87.80	88.40
STG Pound	149.20	148.58	146.59
Euro	119.55	117.64	116.50
JPY(100)	86.51	85.54	85.13

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from April 2014 to August 2014. The exchange rate against the four major currencies depicted a more stable movement during the month of August 2014.

Chart 2: Kenya Shilling Exchange Rate



Source: Central Bank of Kenya

2.0 EXTERNAL DEBT

2.1 Size of Public and Publicly Guaranteed External Debt

Overall, public and publicly guaranteed external debt increased by Kshs 1.33 billion as at end August 2014 to Kshs 1,090.99 billion from Kshs 1,089.66 billion at the end of July 2014 as shown in Table 3.

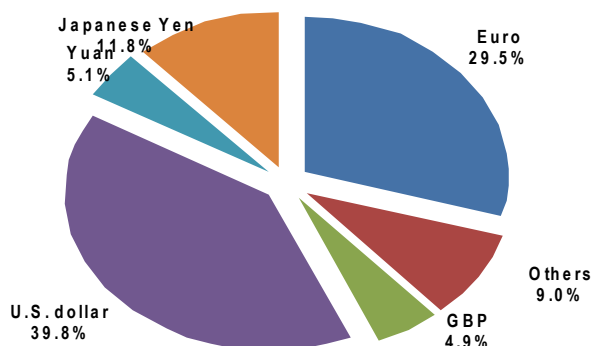
Table 3: External debt stock, in billions

	July 2014		August 2014	
	Kshs	Kshs	Kshs	USD
Bilateral	245.57	2.79	245.09	2.77
Multilateral	600.77	6.84	601.81	6.81
Guaranteed	44.54	0.51	44.22	0.50
Others	16.32	0.19	16.28	0.19
Commercial Banks	182.47	2.08	183.59	2.08
Total	1,089.66	12.41	1,090.99	12.34

Source: The National Treasury

Chart 3 below indicates the currency composition of external debt, and it shows that the US Dollar forms the largest share of the external debt portfolio at 39.8 percent followed by the Euro at 29.5 percent.

Chart 3. Currency Composition



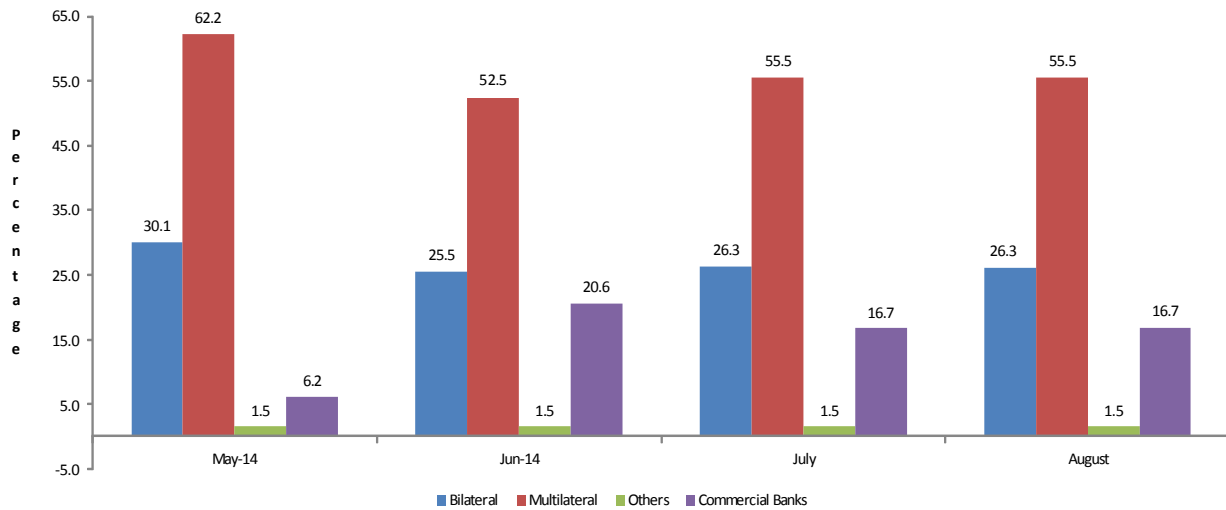
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 81.8 percent of the total public and publicly guaranteed external debt, out of which debt owed to multilateral creditors amounts to Ksh 604.7 billion (including Ksh 3.95 billion guaranteed debt owed to IDA) dominates the portfolio at 55.5 percent of the total. Bilateral debt stands at Kshs 286.2 billion (26.3 percent of the total), inclusive of Kshs 40.58 billion guaranteed debt, as shown in Chart 4 and Annex 1.

In the multilateral category, IDA, ADB/ADF, IMF and EEC/EIB account for the largest proportion of external credit, while China, France and Japan are the leading creditors in the bilateral category. The Commercial debt constitutes 16.7 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

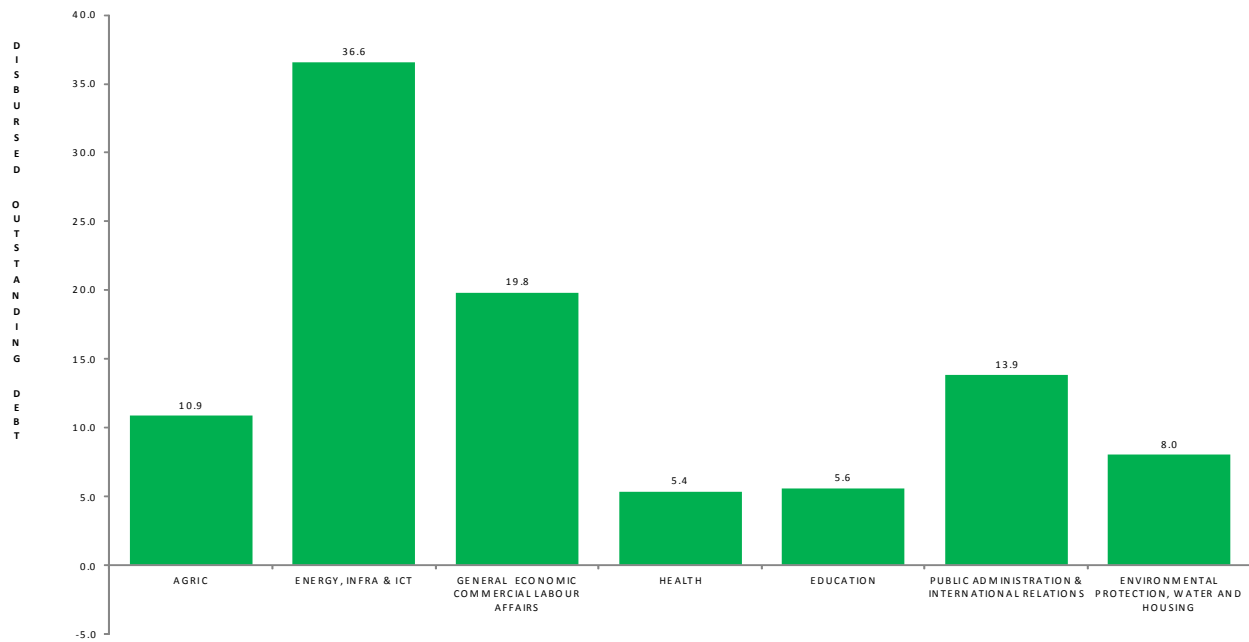


Source: The National Treasury

2.3 External Debt by Sector

Chart 5 below illustrates how the outstanding external debt is shared among the economic and social sectors of the economy.

Chart 5: External Debt Share by Sectors



Source: The National Treasury

2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end August 2014 stood at Kshs 59.81 billion. Principal and interest projections for the month of August 2014 was Kshs 1.44 billion and Kshs 0.34 billion, respectively. Multilateral and bilateral creditors constitute 4.7 percent and 4.2 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Table 4: Projected Cumulative External Debt Service as at end of August 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	1,894.84	633.56	2,528.40
Multilateral	2,343.17	479.41	2,822.58
Commercial	54,458.08	0.00	54,458.08
o/w Guaranteed	0.00	0.00	0.00
Total	58,696.09	1,112.97	59,809.06

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end August 2014 was Kshs 57.16 billion as shown in Table 5. Actual principal and interest payments for the month of August 2014 was Kshs 1.18 billion and Kshs 0.59 billion respectively.

Table 5: Actual cumulative external debt service as at end of August 2014, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	1,194.38	657.20	1,851.58
Multilaterals	1,888.26	394.02	2,282.28
Commercials	53,025.00	-	53,025.00
Totals	56,107.64	1,051.22	57,158.86

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for August 2014 was below the projected debt service by Kshs 2.7 billion and this is attributed to the exchange rate variations between the projected and actual exchange rates.

2.7 Guaranteed External Debt

Under the Public Finance Management Act, 2012, the government may issue guarantees under various conditions so long as it does not exceed the statutory ceiling set by Parliament which currently stands at Kshs 200 billion. In the month of August 2014, the guaranteed external debt decreased by Kshs 310.58 million to Kshs 44.22 billion from Ksh 44.54 billion in July 2014 due to appreciation of exchange rates during the period.

Table 6: Guaranteed outstanding debt by creditor, in Kshs million

Creditor	June 2014	July 2014	August 2014
Japan	40,852.92	40,166.95	39,826.76
Canada	350.52	342.45	344.77
U.S.A	74.48	74.63	75.14
IDA (KR Concessionaire)	3,943.21	3,951.19	3,977.97
Totals	45,221.13	44,535.22	44,224.64

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 28.56 billion to Kshs 1,081.85 billion in August 2014 from Kshs 1,053.29 billion in July 2014 due to decreases in Government deposits at CBK and in gross domestic debt over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	June 2014	July 2014	August 2014
Gross domestic debt	1,284.33	1,296.45	1,281.10
<i>less</i>			
Govt. deposits at CBK	-67.26	-104.82	-64.72
Govt. deposits at commercial banks	-132.56	-132.64	-128.83
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,078.81	1,053.29	1,081.85

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of August 2014, Government securities worth Kshs 60.00 billion were advertised. Bids worth Kshs 35.86 billion and 27.95 billion were received for the Treasury Bills and Treasury Bonds during the month respectively. Successful bids amounted to Kshs 43.82 billion against redemptions of Kshs 57.19 billion leaving exchequer with a deficit of Kshs 13.37 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	45,000	15,000	60,000
Bids received	35,863	27,953	63,816
Successful bids	28,767	15,057	43,824
Redemptions (cost)	(40,881)	(16,313)	(57,194)
Net domestic borrowing	(12,114)	(1,256)	(13,370)

Source: The National Treasury

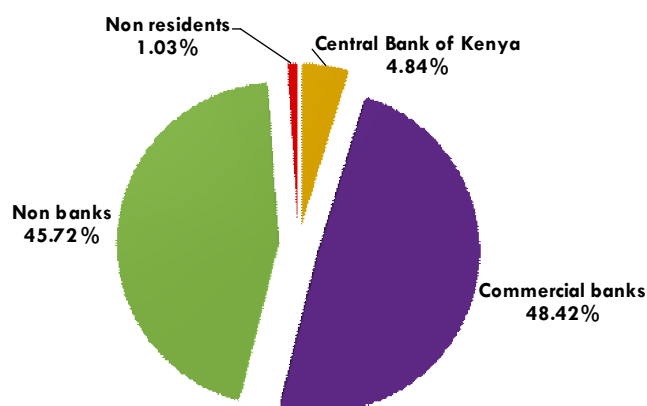
Table 9: Domestic debt instruments by holder end August 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	432.57	477.19	0.05	3.43	913.24
Treasury bills	183.70	108.40	3.72	9.80	305.62
Others	3.98	0.07	58.18	0.00	62.23
Total	620.25	585.66	61.95	13.23	1,281.09
Percentage Holding	48.42	45.72	4.84	1.03	

Source: Central Bank of Kenya

At the end of August 2014, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 620.25 billion or 48.42 percent as shown in Table 9 and Chart 6. This percentage comprises mostly Treasury Bonds and Bills. The non banks category comprises non bank financial institutions, National Social Security Fund (NSSF), parastatals, insurance companies, building societies, pension funds and individuals. The Non Banks held Kshs 585.66 billion or 45.72 percent while the Government debt worth Kshs 13.23 billion or 1.03 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 61.95 billion held by Central Bank of Kenya comprises the Government overdraft and Repo Treasury Bills used for execution of monetary policy.

Chart 6: Domestic debt by holder as at end August 2014

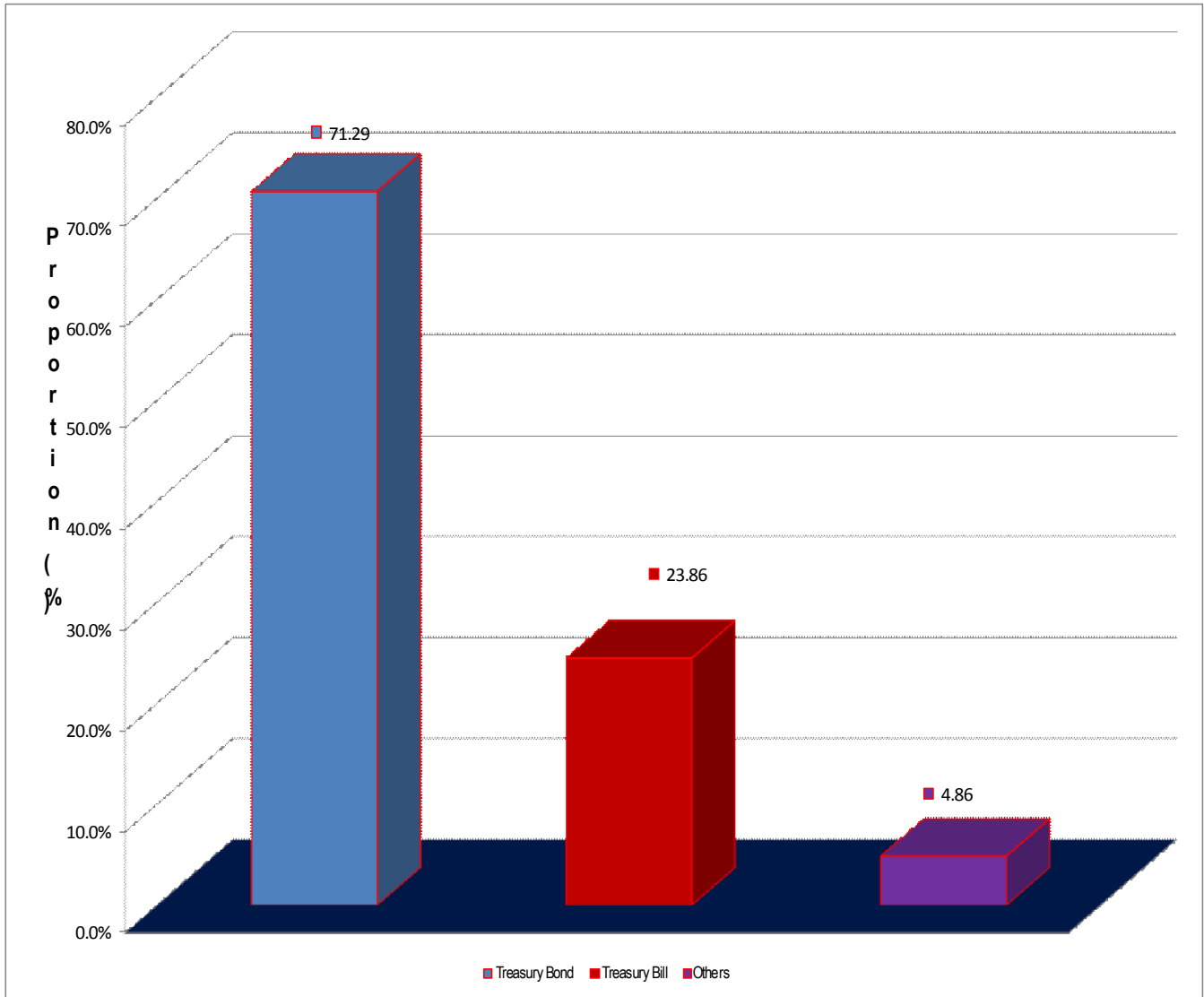


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end August 2014. 71.29 percent of Government domestic debt was in Treasury Bonds, 23.86 percent in Treasury Bills while the balance is mainly the Government overdraft at the Central Bank of Kenya. The structure of the holding is consistent with the debt strategy of holding more domestic debt on longer dated instruments to minimise refinancing risk and promote development of domestic markets for Government securities.

Chart 7: Domestic debt by instrument



3.4 Net Domestic Financing

Table 10 shows that as at end August 2014, the net domestic financing stood at Kshs 0.93 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2014	August-2014	Change
Treasury Bills	279.48	284.56	5.08
Treasury Bonds	879.33	878.36	(0.97)
Pre-1997 Govt. Overdraft debt	27.78	27.78	0.00
Other	39.74	32.64	(7.10)
<i>of which Overdraft (from CBK)</i>	37.24	30.38	(6.86)
Govt. deposits	125.76	121.84	(3.92)
Net Domestic Credit	1,100.57	1,101.50	0.93

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end August 2014, Government actual cumulative domestic interest payments stood at Kshs 18.63 billion against the cumulative projected interest payments of Kshs 10.06 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 13.35 billion and Kshs 4.77 billion respectively. The variance of Kshs 8.6 million is attributed to a high actual interest rates realized in the market compared to the projected interest rates.

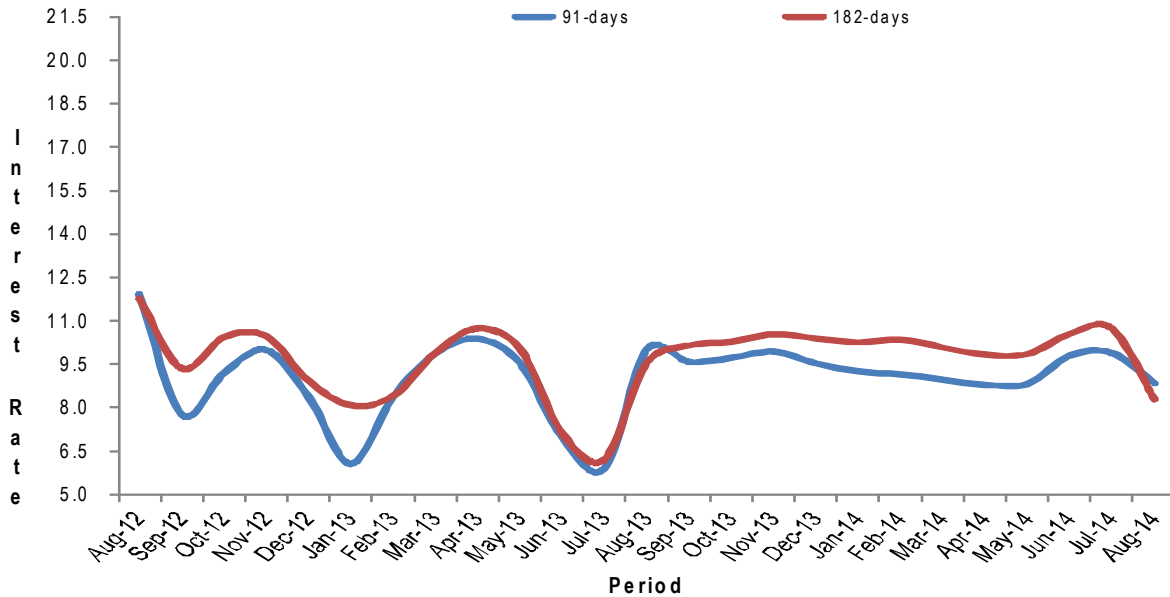
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	7,599.44	13,351.41	5,751.97
Treasury Bills	1,978.49	4,770.05	2,791.56
Overdraft	166.66	364.09	197.43
Pre-1997 overdraft debt	313.03	141.56	(171.47)
Totals	10,057.62	18,627.11	8,569.49

3.6 Average Interest rates for Treasury Bills

Chart 8 shows the monthly trends on average interest rates for both the 91-day and 182-day Treasury Bills since August 2012. During the month of August 2014, the average interest rates for the 91-day Treasury bills decreased by 160 basis points to 8.29 percent from 9.89 percent in July 2014 and the 182-days Treasury bill decreased by 188 basis point to 8.85 per cent from 10.73 percent per annum. 364-days Treasury bill rate stood at an average of 10.28 percent per annum in August 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

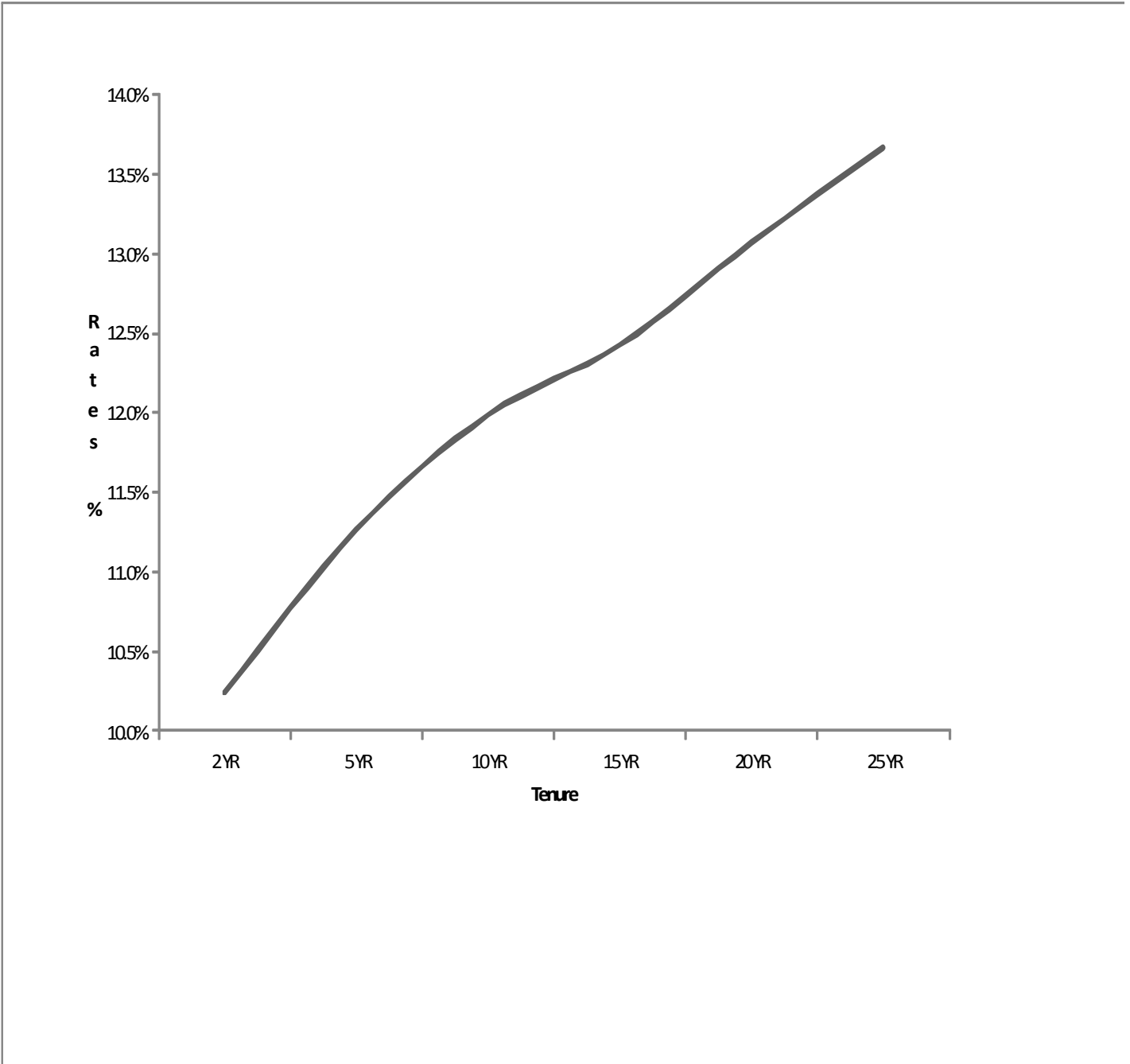
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end August 2014.

Table 12 :Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.25
5 YR	11.27
10 YR	11.99
15 YR	12.43
20 YR	13.07
25 YR	13.67

Source: Nairobi Securities Exchange (NSE)

Chart 9: Secondary Market yields on selected Treasury Bonds



**ANNEX 1: STOCK OF PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT BY
SOURCE (IN KSHS MILLIONS)**

CREDITOR	Stock at end July 2014	Stock at end August 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	649.15	642.87	(6.28)
BELGIUM	7,555.44	7,490.26	(65.18)
CANADA	936.93	943.28	6.35
DENMARK	1,923.80	1,906.15	(17.65)
FINLAND	85.49	85.35	(0.14)
FRANCE	61,493.10	61,028.41	(464.69)
GERMANY	25,842.80	25,592.56	(250.24)
ITALY	1,172.75	1,161.79	(10.96)
JAPAN	42,734.02	42,618.93	(115.09)
NETHERLANDS	2,519.48	2,495.09	(24.39)
UK	1,698.02	1,675.22	(22.80)
USA	4,374.24	4,376.10	(1.86)
PARIS CLUB OTHERS	5,894.15	5,865.12	(29.03)
NON PARIS CLUB	88,689.42	89,204.25	514.83
o/w CHINA	81,329.27	81,812.48	483.21
Sub total	245,568.79	245,085.38	(483.41)
MULTILATERAL			
ADB/AFDB	107,208.48	107,120.99	(88.49)
EEC/EIB	21,884.91	21,673.00	(211.91)
IDA	371,756.38	373,242.27	1,485.89
IFAD	10,741.77	10,722.01	(19.76)
IMF	80,166.24	80,028.17	(138.07)
OTHERS	9,011.18	9,021.98	10.80
Sub total	600,768.96	601,808.41	1,039.46
COMMERCIAL BANKS	182,466.06	183,590.06	1,124.00
SUPPLIERS CREDIT	16,316.70	16,275.83	(40.87)
Sub Total	1,045,120.55	1,046,759.69	(1,639.18)
GUARANTEED DEBT			
CANADA	342.45	344.77	2.32
JAPAN	40,166.95	39,826.76	(340.19)
USA	74.63	75.14	0.51
IDA (Kenya Railway Concessionaire)	3,951.19	3,977.97	26.78
Sub Total	44,535.22	44,224.64	(310.58)
GOK+ GUARANTEED TOTAL	1,089,655.73	1,090,984.33	(1,328.60)

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 4,586.9

Source: BROPA

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

Enquiries covering the publication should be addressed to:

**The Director,
Debt Management Department,
National Treasury**

1st Floor, Treasury Building, Harambee Avenue

P.O Box 30007-00100, Nairobi, Kenya

Tel: (254) 20 2252299

Fax: (254) 20 315294

Email: dmd@treasury.go.ke