



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DIRECTORATE OF PUBLIC DEBT MANAGEMENT

MONTHLY DEBT BULLETIN

AUGUST 2015

1.0 PUBLIC DEBT

1.1 Introduction

As at end August 2015, total public and publicly guaranteed debt stood at Kshs 2,933.69 billion or 51.29 percent of GDP (Table 1). The increase of 1.45 percent over the end July 2015 position is attributed to an increased disbursements on external debt and depreciation of Kenya shilling against all foreign currencies. External debt increased by Ksh 57.54 billion to stand at Ksh 1,530.68 billion, while the gross domestic debt decreased by Ksh 15.56 billion to stand at Ksh 1,403.01 billion in August 2015 (Table 1).

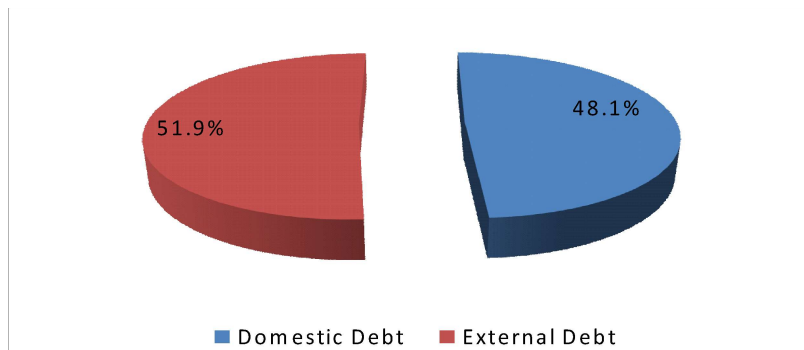
Table 1: Size of public debt, end August 2015, in billion

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,403.01	13.51	24.53
External Debt	1,530.68	14.74	26.76
Total	2,933.69	28.24	51.29

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 48.10 percent of the total debt is domestic debt while 51.90 percent is external debt (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 0.7 percent and 6.3 years, respectively. In addition, the average maturity period for external loans was 37.7 years while the average grant element was 53.8 percent.

As an indication of the success in the lengthening of maturity structure of domestic debt to minimise refinancing risk in line with the 2015 Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt remained at 5 years 2 months as at end August 2015.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period June to August 2015. During this period, the Kenya shilling depreciated against all the major currencies by 5.30, 3.36, 5.81 and 7.46 percent respectively for the USD Dollar, Sterling Pound, Euro and Japanese Yen. The shilling stood at Kshs 103.87 to the US Dollar at end of August 2015.

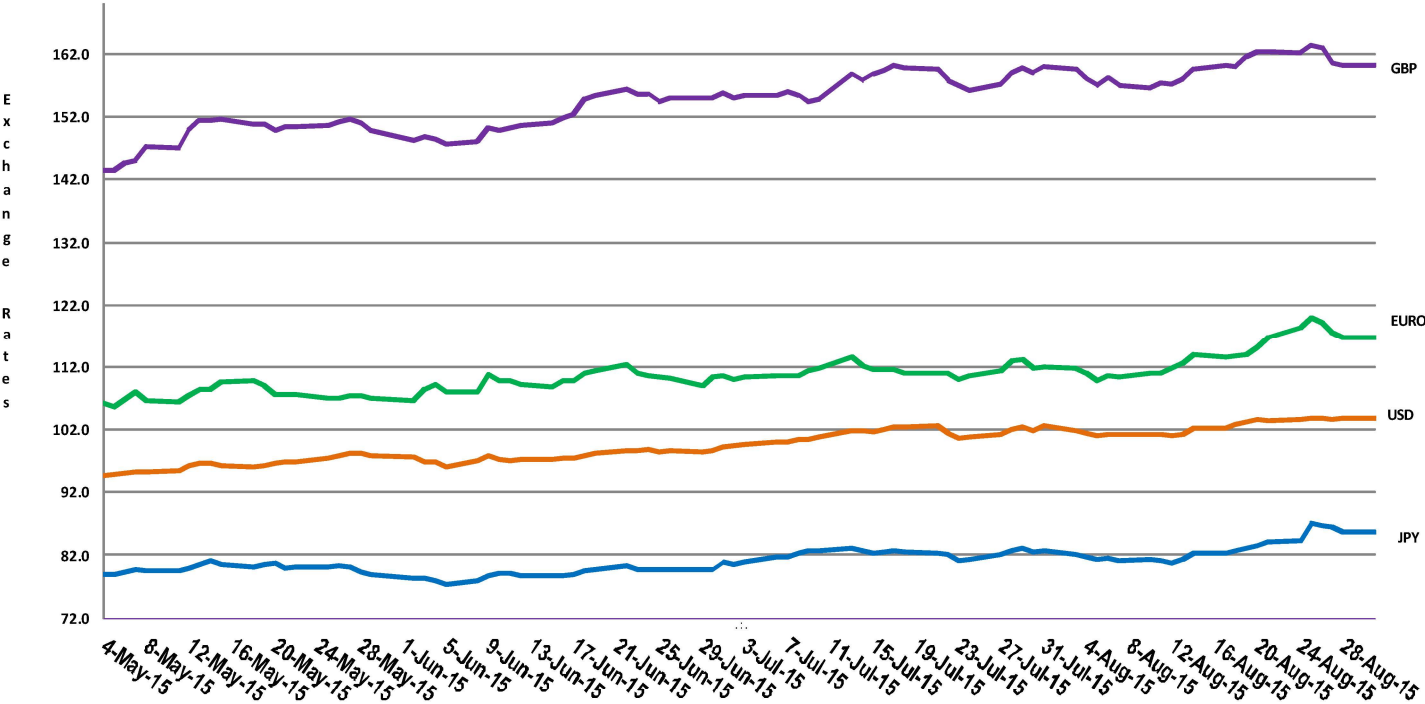
Table 2: Movement in exchange rates

Currency	June 2015	July 2015	August 2015
US Dollar	98.64	102.52	103.87
STG Pound	155.10	159.99	160.31
Euro	110.39	112.07	116.81
JPY(100)	79.77	82.59	85.72

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from May 2015 to August 2015. The Kenya shilling continued to depreciate against all major currencies within the month of August 2015.

Chart 2: Kenya Shilling Exchange Rate



2.0 EXTERNAL DEBT

2.1 Size of Public and Publicly Guaranteed External Debt

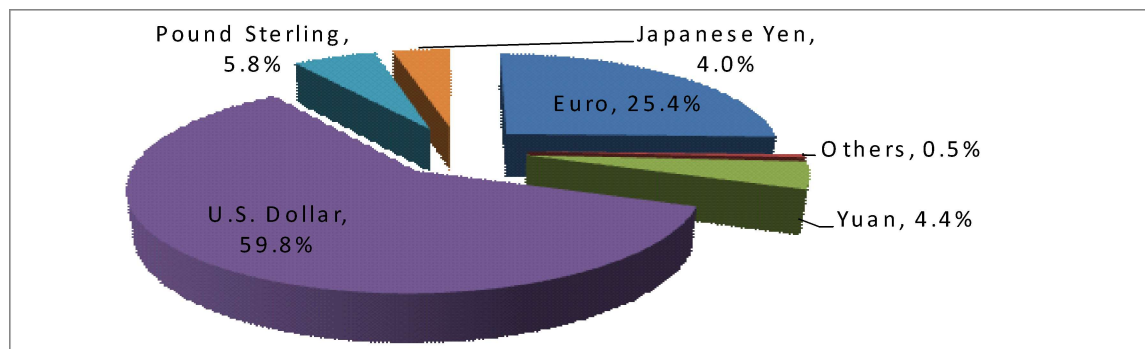
Overall, public and publicly guaranteed external debt increased by Kshs 57.53 billion as at end August 2015 to Kshs 1,530.68 billion from Kshs 1,473.14 billion at the end of July 2015 (Table 3). The increase is mainly attributed to weakening of the shilling against major currencies and disbursement from IDA and ADF during the period.

Table 3: External debt stock, in billions

	July 2015		August 2015	
	Kshs	USD	Kshs	USD
Bilateral	419.99	4.10	427.77	4.12
Multilateral	702.67	6.85	746.36	7.18
Guaranteed	45.72	0.44	47.34	0.45
Suppliers Credit	17.07	0.17	17.55	0.17
Commercial Banks	287.70	2.81	291.64	3.32
o/w International Sovereign Bond	281.93	2.75	285.64	2.75
Total	1,473.14	14.37	1,530.68	14.74

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 56.8 percent followed by the Euro at 25.4 percent.

Chart 3. Currency Composition



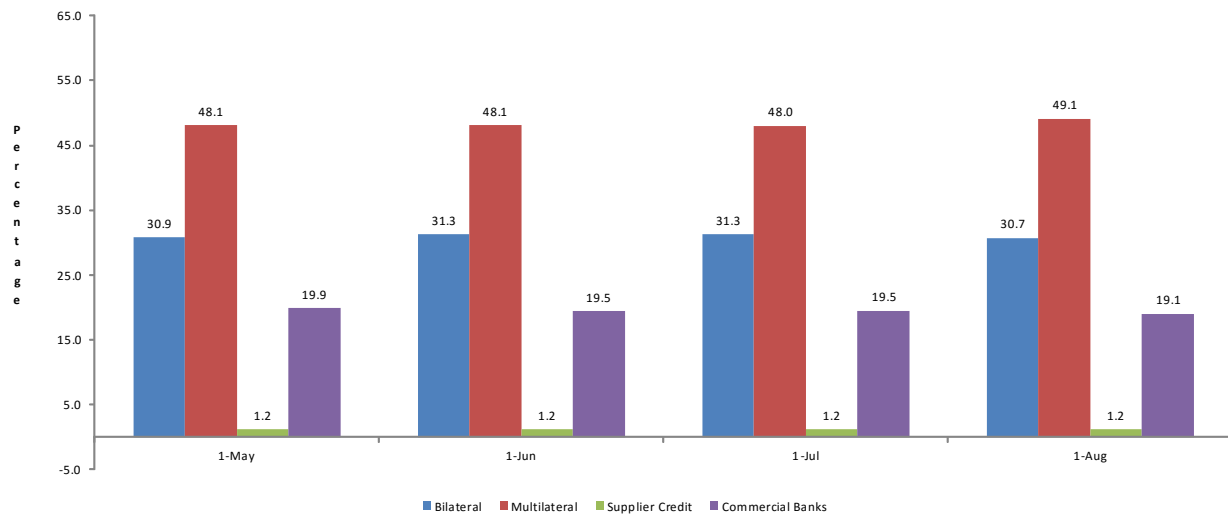
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 79.80 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditors amounts to Ksh 751.04 billion (including Ksh 4.67 billion guaranteed debt owed to IDA) dominates the portfolio at 49.07 percent of the total. Bilateral debt stands at Kshs 470.44 billion (30.73 percent of the total), inclusive of Kshs 42.66 billion guaranteed debt, (Chart 4 and Annex 1).

In the multilateral category, IDA, ADB/ADF and IMF 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 19.05 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

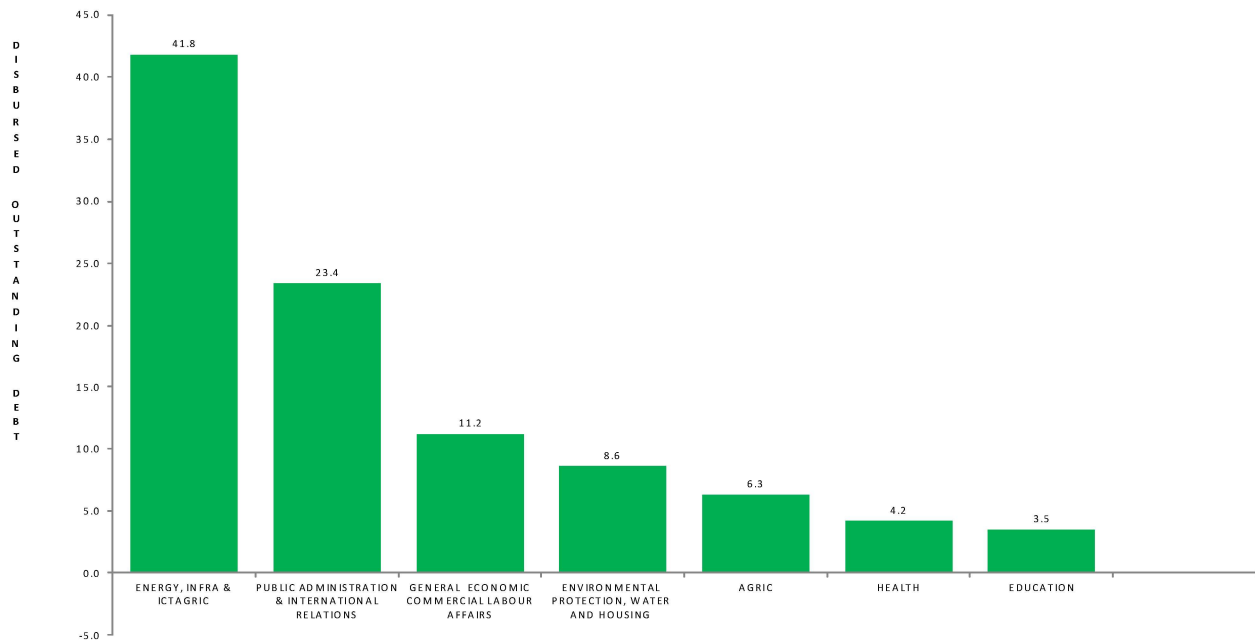


Source: The National Treasury

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 2015 stood at Kshs 6.58 billion. Principal and interest projections for the month of August 2015 was Kshs 1.37 billion and Kshs 0.48 billion, respectively. Bilateral and multilateral creditors constitute 53.68 percent and 46.32 percent of the cumulative projected debt service respectively during the period under review (Table 4).

Table 4: Projected Cumulative External Debt Service as at end of August 2015, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	1,666.08	1,869.35	3,535.43
Multilateral	2,466.30	584.85	3,051.15
Commercial	0.00	0.00	0.00
Guaranteed	0.00	0.00	0.00
Total	4,132.38	2,454.20	6,586.58

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual debt service as at end August 2015 stood at Kshs 12.51 billion (Table 5). Actual principal and interest payments during the month of August 2015 was Kshs 2.59 billion and Kshs 0.62 billion respectively.

Table 5: Actual cumulative external debt service as at end of August 2015, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	1,687.92	2,018.37	3,706.29
Multilateral	3,138.14	5,667.85	8,805.99
Commercial	0.00	0.00	0.00
Guaranteed	0.00	0.00	0.00
Totals	4,826.06	7,686.22	12,512.28

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for June 2015 was above the projected debt service by Kshs1.62 million. This is attributed to exchange rate fluctuations during the year.

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 2015, the guaranteed external debt stock increased by Kshs 1.62 billion to Kshs 47.34 billion from Ksh 45.72 billion in July 2015 (Table 6). This increase is attributed to exchange rate fluctuations.

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

Creditor	June 2015	July 2015	August 2015
Japan	39,119.95	40,713.07	42,270.93
Canada	374.84	389.59	394.72
U.S.A	0.00	0.00	0.00
IDA (KR Concessionaire)	4,438.77	4,613.45	4,674.14
Totals	43,933.56	45,716.12	47,339.80

Source: The National Treasury

The national government has not issued any new guarantees to either County and State Corporations in the period July 1st, 2014 to date.

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 13.09 billion to Kshs 1,198.57 billion in August 2015 from Kshs 1,185.48 billion in July 2015 due to decrease in deposits over the period under review. (Table 7).

Table 7: Government domestic debt, in Kshs billion

	June 2015	July 2015	August 2015
Gross domestic debt	1,420.44	1,418.57	1,403.10
<i>less</i>			
Govt. deposits at CBK	-86.33	-82.45	-61.77
Govt. deposits at commercial banks	-150.23	-144.93	-137.06
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,178.18	1,185.48	1,198.57

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of August 2015, Government securities worth Kshs 75.00 billion were advertised. Bids worth Kshs 57.81 billion were received of which Treasury Bills was Ksh 33.95 and Treasury Bond was Ksh 23.86 billion. Successful bids amounted to Kshs 37.45 billion against redemptions of Kshs 56.21 billion leaving exchequer with a deficit of Kshs 18.76 billion to be financed. (Table 8).

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	55,000	20,000	75,000
Bids received	33,951	23,861	57,812
Successful bids	26,264	11,185	37,449
Redemptions (cost)	(38,282)	(17,928)	(56,210)
Net domestic borrowing	(12,018)	(6,743)	(18,761)

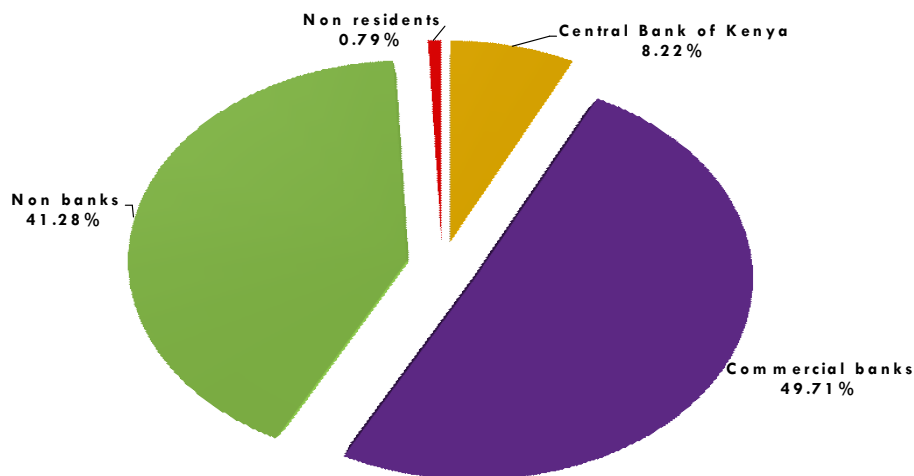
Source: The National Treasury

Table 9: Domestic debt instruments by holder end August 2015, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	508.33	520.33	42.49	3.96	1,075.11
Treasury bills	187.17	58.92	0.00	7.10	253.19
Others	2.01	0.00	72.79	-	74.80
Total	697.51	579.25	115.28	11.06	1,403.10
Percentage Holding	49.71%	41.28%	8.22%	0.79%	100%

At the end of August 2015, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 697.51 billion or 49.71 percent (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 579.25 billion or 41.28 percent while the Government debt worth Kshs 11.06 billion or 0.79 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 115.28 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 2015

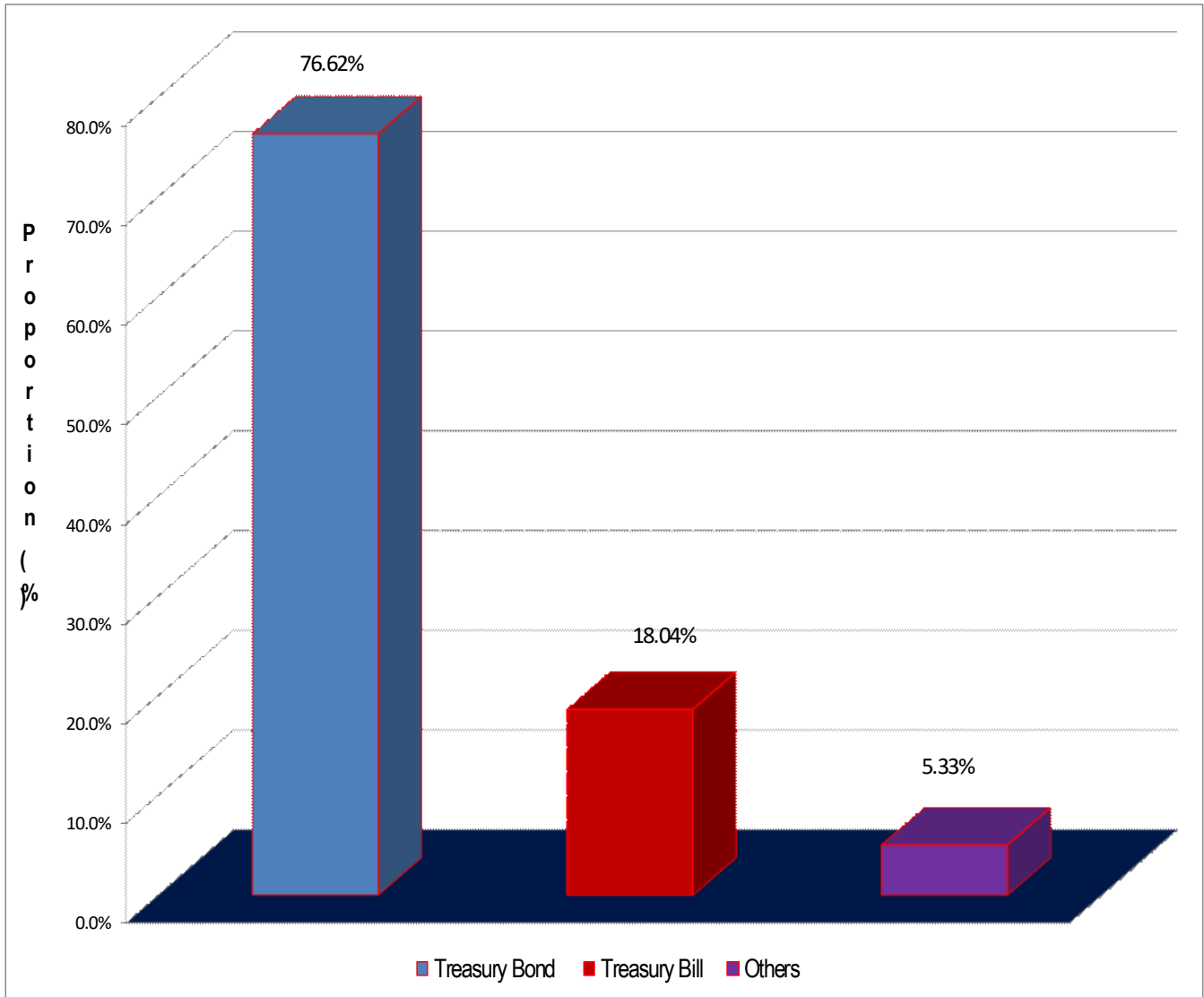


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end August 2015. 76.62 percent of Government domestic debt was in Treasury Bonds, 18.04 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 in longer dated instruments to minimise refinancing risk and promote liquidity in domestic secondary markets for Government bonds

Chart 7: Domestic debt by instrument



3.4 Net Domestic Financing

Table 10 shows that as at end August 2015, the net domestic financing was at Kshs 7.43 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2015	August 2015	Change
Treasury Bills	293.52	262.89	(30.63)
Treasury Bonds	994.44	999.67	(5.23)
Pre-1997 Govt. Overdraft debt	26.68	26.68	(0.00)
Other	38.83	46.55	7.72
<i>of which Overdraft (from CBK)</i>	36.44	46.07	9.63
Govt. deposits	141.28	105.71	(35.57)
Net Domestic Credit	1,211.19	1,230.07	7.43

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end August 2015, Government actual domestic interest payments stood at Kshs 19.22 billion against the projected interest payments of Kshs 18.85 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 13.67 billion and Kshs 4.72 billion respectively (Table 11).

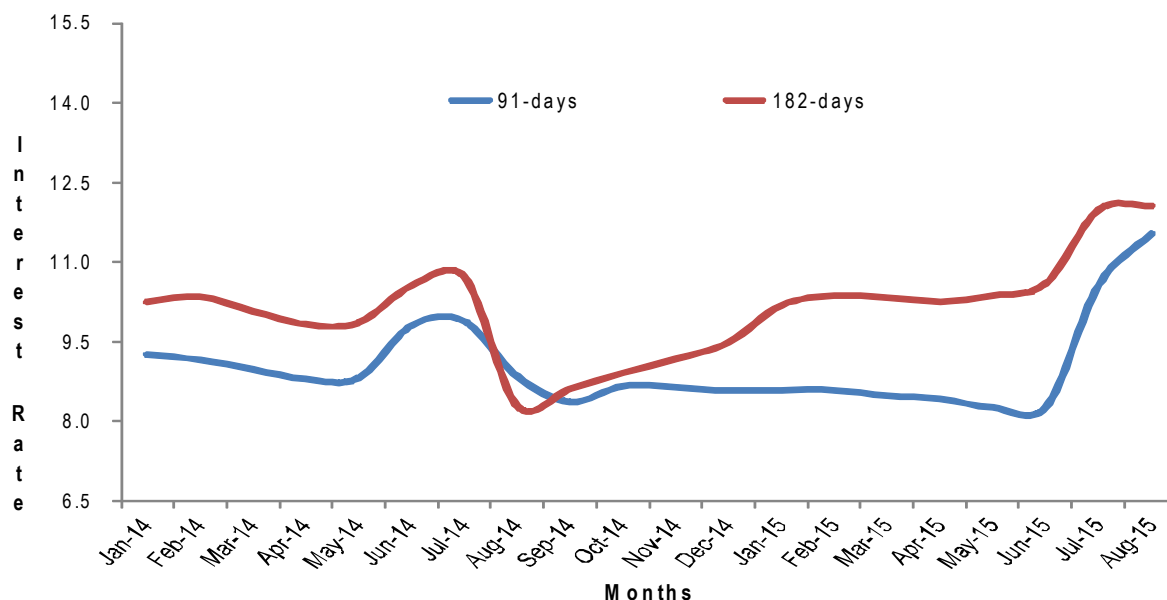
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	12,511.30	13,669.20	(1,157.90)
Treasury Bills	5,653.48	4,723.03	(930.45)
Overdraft	554.24	693.24	139.00
Pre-1997 overdraft debt	135.90	135.94	0.04
Totals	18,854.92	19,221.41	366.49

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 January 2014. During the month of August 2015, the average interest rates for the 91-day Treasury bills rose by 97 basis point to stand at 11.54 percent from 10.57 percent in July and the 182-days Treasury bill increased by 7 basis point to 12.06 per cent from 11.99 percent per annum. 364-days Treasury bill rate stood at an average of 13.30 percent per annum in August 2015.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

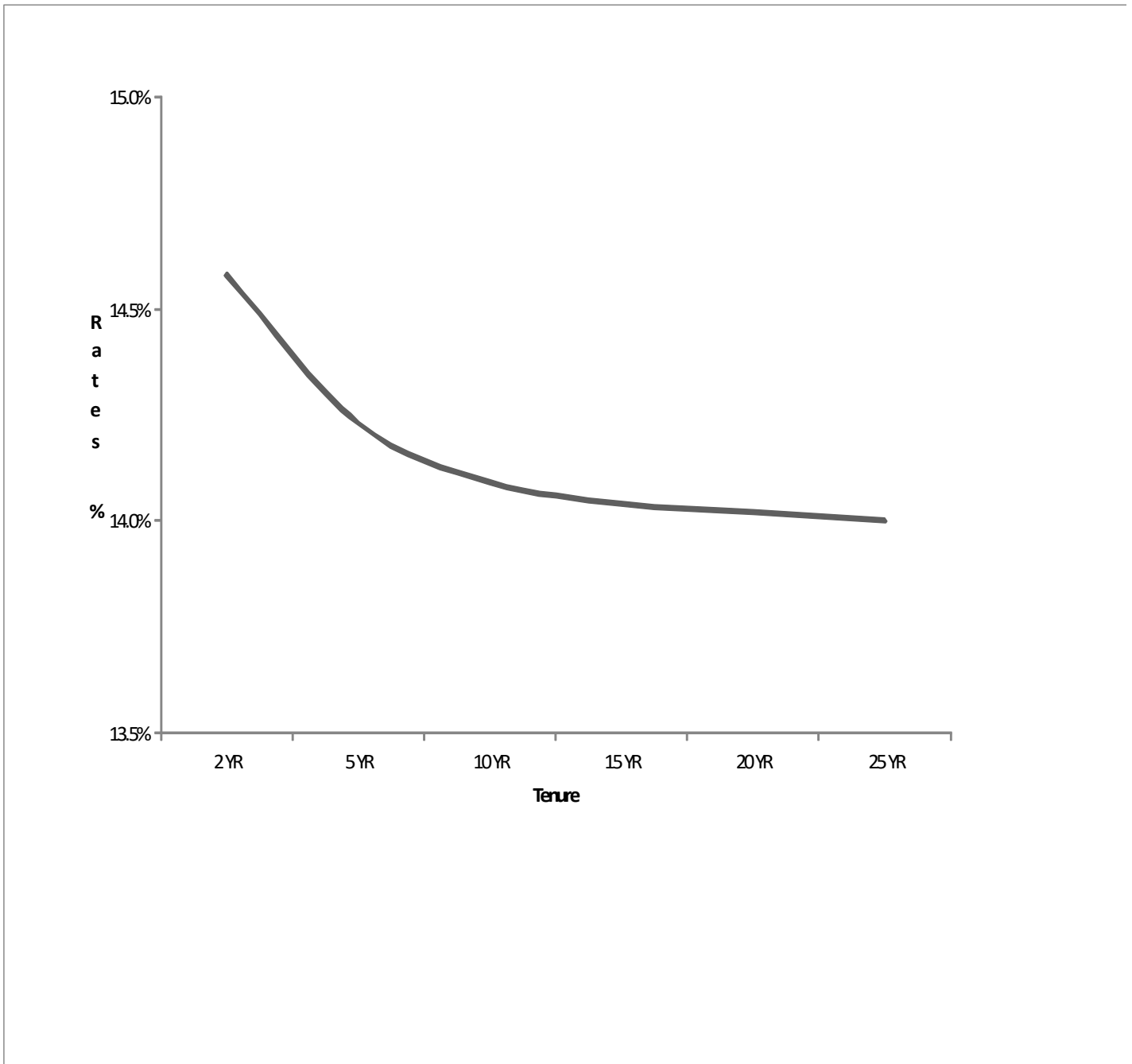
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 and Chart 9 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end August 2015. The Yield curve is inverted due to limited trading in the secondary market.

Table 12 : Yields on selected Treasury Bonds as at end August, 2015

Tenure	Rate (%)
2 YR	14.58
5 YR	14.23
10 YR	14.09
15 YR	14.04
20 YR	14.02
25 YR	14.00

Source: Nairobi Securities Exchange (NSE)

Chart 9: Secondary Market yields on selected Treasury Bonds as at end August,2015



Source: Nairobi Securities Exchange (NSE)

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

CREDITOR	Stock at end July 2015	Stock at end August 2015	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	754.14	785.99	31.85
BELGIUM	6,461.47	7,513.73	1,052.26
CANADA	930.55	942.80	12.25
DENMARK	1,459.31	1,520.59	61.28
FINLAND	288.02	299.03	11.01
FRANCE	61,113.46	63,728.82	2,615.36
GERMANY	22,900.81	23,867.87	967.06
ITALY	1,118.02	663.99	(454.03)
JAPAN	40,893.38	42,647.16	1,753.78
NETHERLANDS	1,928.95	2,010.41	81.46
UK	1,512.83	1,515.83	3.00
USA	4,432.47	4,447.63	15.16
PARIS CLUB OTHERS	6,270.40	6,468.83	198.43
NON PARIS CLUB	269,922.61	271,359.99	1,437.38
o/w CHINA	261,549.48	263,295.87	1,746.39
Sub total	419,986.44	427,772.68	7,786.24
MULTILATERAL			
ADB/AFDB	157,103.96	168,374.49	11,270.53
EEC/EIB	20,728.31	22,942.31	2,214.00
IDA	415,016.77	443,039.12	28,022.35
IFAD	11,615.33	11,838.96	223.63
IMF	88,795.93	90,551.06	1,755.13
OTHERS	9,409.26	9,616.79	207.53
Sub total	702,669.56	746,362.75	43,693.19
COMMERCIAL BANKS	287,697.78	291,650.13	3,952.35
O/W International Sovereign Bond	281,933.30	285,642.22	3,708.92
SUPPLIERS CREDIT	17,073.79	17,553.25	479.46
Sub Total	1,427,427.58	1,483,338.81	55,911.23
GUARANTEED DEBT			
CANADA	389.59	394.72	5.13
JAPAN	40,713.07	42,270.93	1,557.86
USA	0.00	0.00	0.00
IDA (KR Concessionaire)	4,613.45	4,674.14	60.69
Sub Total	45,716.12	47,339.80	1,623.68
GOK+ GUARANTEED TOTAL	1,473,143.69	1,530,678.61	57,534.92

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 5,719

Source: 4th Quarter QEBR 2015

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