



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DIRECTORATE OF DEBT MANAGEMENT

MONTHLY DEBT BULLETIN

DECEMBER 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end December 2014, public and publicly guaranteed debt stood at Kshs 2,478.45 billion or 43.3 percent of GDP (Table 1). The increase of 3.6 percent over the end November 2014 position is mainly attributed to increase in external debt. External debt increased by Ksh 81.75 billion to stand at Ksh 1,170.70 billion, while the gross domestic debt increased by Ksh 4.39 billion to stand at Ksh 1,307.75 billion in December 2014 . (Table 1).

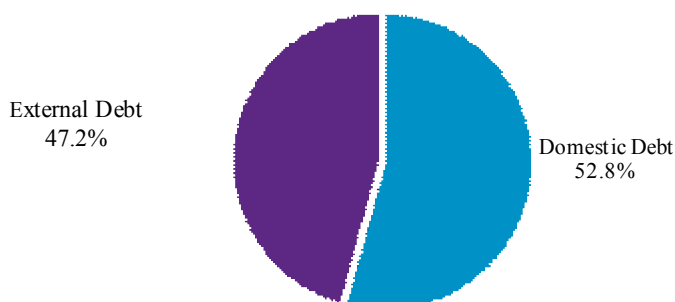
Table 1: Size of public debt, end December 2014, in billion

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,307.75	14.43	22.86
External Debt	1,170.70	12.92	20.47
Total	2,478.45	27.35	43.33

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 52.8 percent of the total debt is domestic debt while 47.2 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 2.9 percent and 7.3 years, respectively. In addition, the average maturity period for external loans was 15.5 years while the average grant element was 59.6 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 5 years 1 months as at end December 2014 .

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period October to December 2014. During this period, the Kenya shilling appreciated against the Japanese Yen, Euro and Sterling Pound by 6.86, 1.93 and 1.25 percent respectively but it depreciated against the US Dollar by 1.40 percent. The shilling stood at Kshs 90.60 to the US Dollar at end of December 2014.

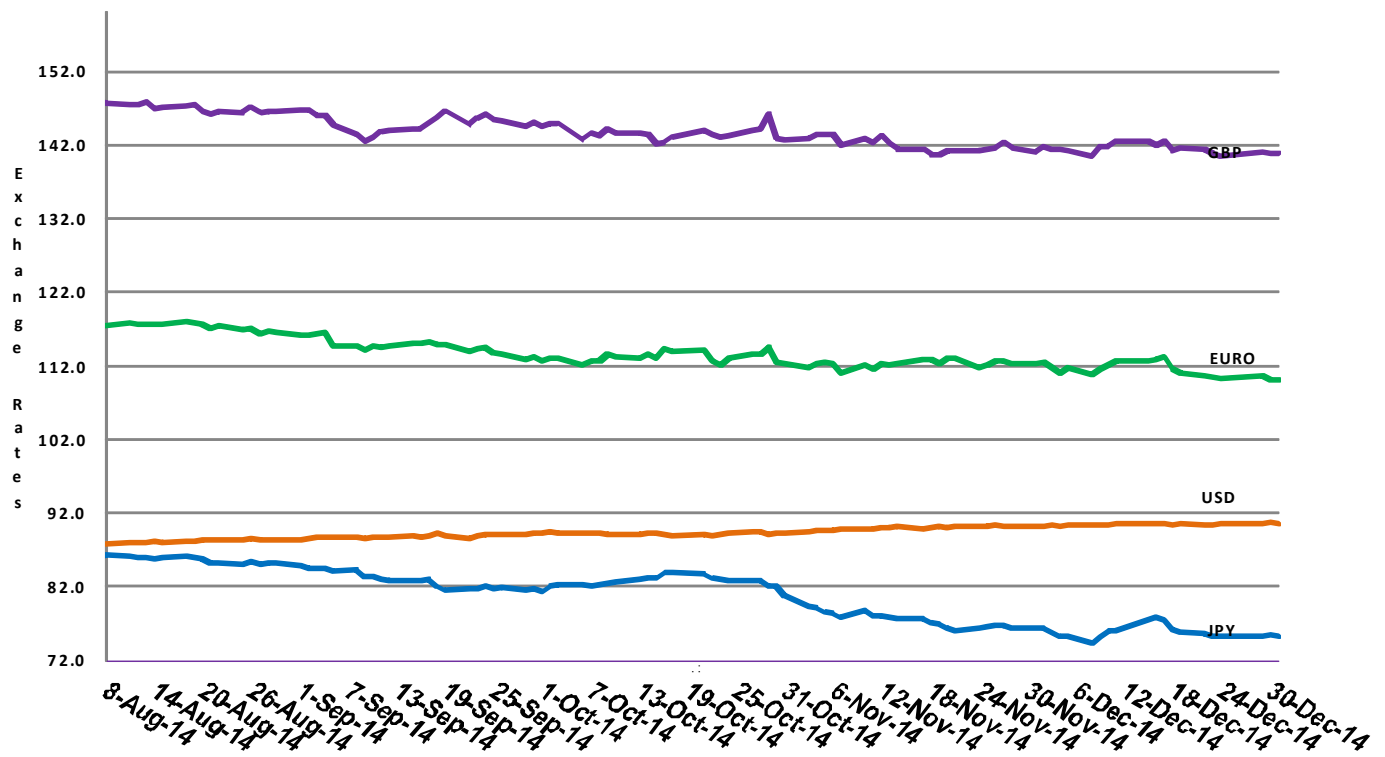
Table 2: Movement in exchange rates

Currency	October 2014	November 2014	December 2014
US Dollar	89.35	90.18	90.60
STG Pound	142.74	141.68	140.95
Euro	112.34	112.28	110.17
JPY(100)	80.85	76.27	75.30

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from August 2014 to December 2014. The exchange rate against the four major currencies depicted volatile movement for the Sterling Pound, the Euro and the Yen during the month of December 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 81.75 billion as at end December 2014 to Kshs 1,170.70 billion from Kshs 1,088.95 billion at the end of November 2014 (Table 3). The increase is attributed to the proceeds of the Sovereign bond tapping of USD 750 million and disbursement for Standard Gauge Railway during the period.

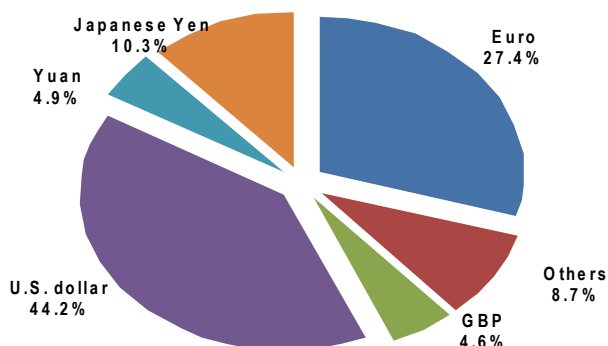
Table 3: External debt stock, in billions

	November 2014		December 2014	
	Kshs	USD	Kshs	USD
Bilateral	235.87	2.62	251.26	2.77
Multilateral	609.98	6.76	608.28	6.71
Guaranteed	40.49	0.45	40.01	0.44
Others	16.09	0.18	15.96	0.18
Commercial Banks	186.52	2.07	255.19	2.82
Total	1,088.95	12.08	1,170.70	12.92

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 44.2 percent followed by the Euro at 27.4 percent.

Chart 3. Currency Composition



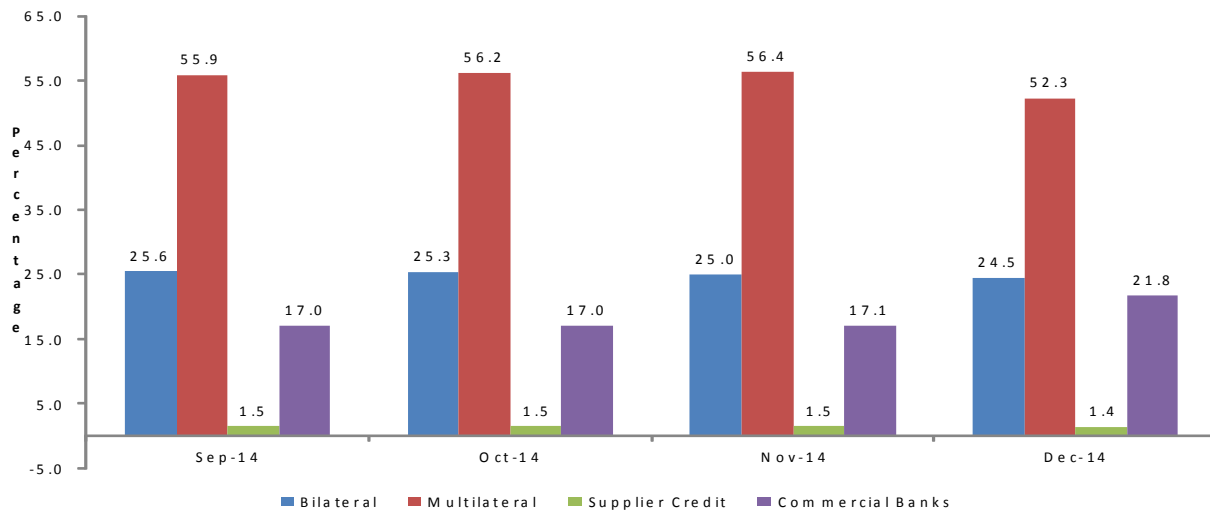
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 76.8 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditors amounts to Ksh 612.4 billion (including Ksh 4.1 billion guaranteed debt owed to IDA) dominates the portfolio at 52.3 percent of the total. Bilateral debt stands at Kshs 287.2 billion (24.5 percent of the total), inclusive of Kshs 35.9 billion guaranteed debt, a (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 21.8 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

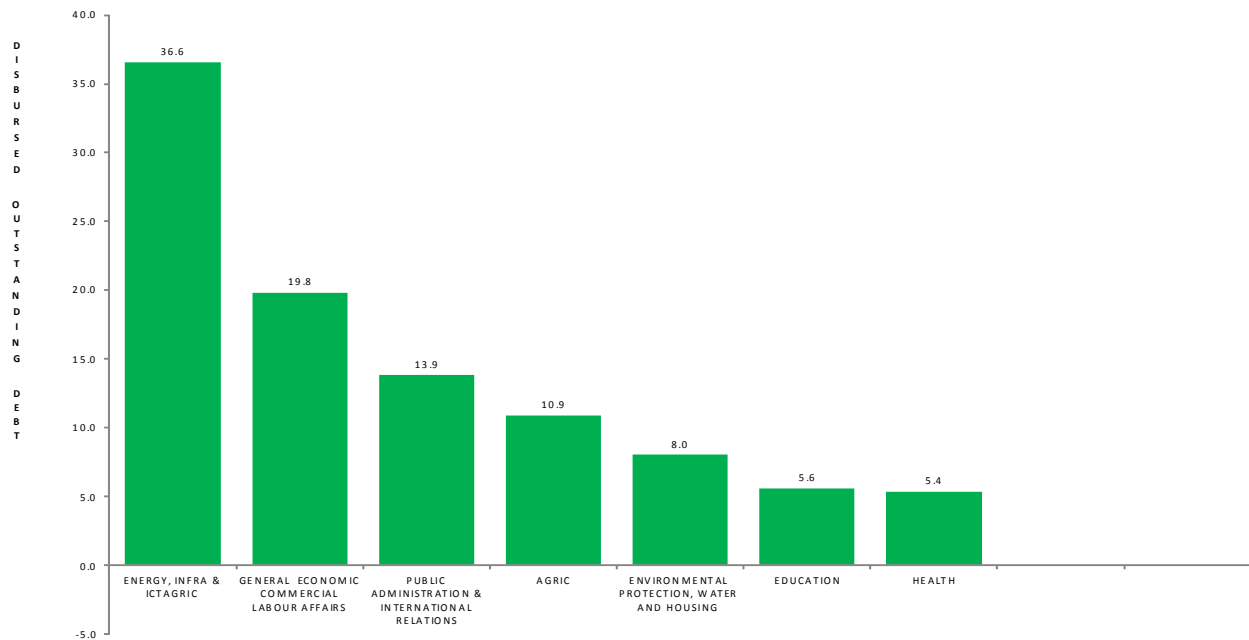


Source: The National Treasury

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 December 2014 stood at Kshs 78.56 billion. Principal and interest projections for the month of December 2014 was Kshs 2.97 billion and Kshs 6.63 billion, respectively. Multilateral and bilateral creditors constitute 10.8 percent and 11.9 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 December 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	6,921.15	2,405.89	9,327.04
Multilateral	6,212.63	2,284.23	8,496.86
Commercial	55,231.47	5,531.96	60,377.43
Guaranteed	453.58	55.82	509.40
Total	68,432.83	10,608.07	79,040.90

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end December 2014 was Kshs 81.95 billion as shown in Table 5. Actual principal and interest payments for the month of December 2014 was Kshs 2.62 billion and Kshs 9.14 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	6,183.41	4,218.16	10,401.57
Multilaterals	6,667.67	2,475.51	9,143.18
Commercials	53,417.12	8,486.19	61,903.31
Guaranteed	450.55	55.28	505.83
Totals	66,718.75	15,235.14	81,953.89

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for December 2014 was above the projected debt service by Kshs 2.91 billion and this is attributed to the payment of some charges on newly contracted loans and exchange rate variations between the projected and actual exchange rates. No arrears reported during this period.

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. The national government has not issued any new guarantees to either County or State Corporation. In the month of December 2014, the guaranteed external debt stock decreased by Kshs 0.48 billion to Kshs 40.00 billion from Ksh 40.49 billion in November 2014 due to appreciation of Kenyan Shilling during the period. against the Japanese Yen in which most of the guaranteed debt is denominated.

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

Creditor	October 2014	November 2014	December 2014
Japan	37,821.33	36,044.75	35,549.36
Canada	348.49	351.71	344.29
U.S.A	37.97	38.33	38.50
IDA (KR Concessionaire)	4,020.85	4,058.06	4,076.90
Totals	42,228.64	40,492.85	40,009.05

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt decreased by Kshs 62.89 billion to Kshs 1,003.17 billion in December 2014 from Kshs 1,066.06 billion in November 2014 due to increase in government deposits in commercial banks over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	October 2014	November 2014	December 2014
Gross domestic debt	1,254.30	1,303.36	1,307.75
<i>less</i>			
Govt. deposits at CBK	-99.11	-98.60	-151.26
Govt. deposits at commercial banks	-132.60	-133.00	-147.62
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,016.89	1,066.06	1,003.17

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of December 2014, Government securities worth Kshs 80.00 billion were advertised. Bids worth Kshs 63.49 billion were received. of which Treasury Bills was Ksh 36.47 and Treasury Bond was Ksh 27.01 billion. Successful bids amounted to Kshs 52.65 billion against redemptions of Kshs 62.68 billion leaving exchequer with a deficit of Kshs 10.02 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	60,000	20,000	80,000
Bids received	36,472	27,013	63,485
Successful bids	31,822	20,826	52,648
Redemptions (cost)	41,902	20,774	62,676
Net domestic borrowing	(10,080)	52	(10,028)

Source: The National Treasury

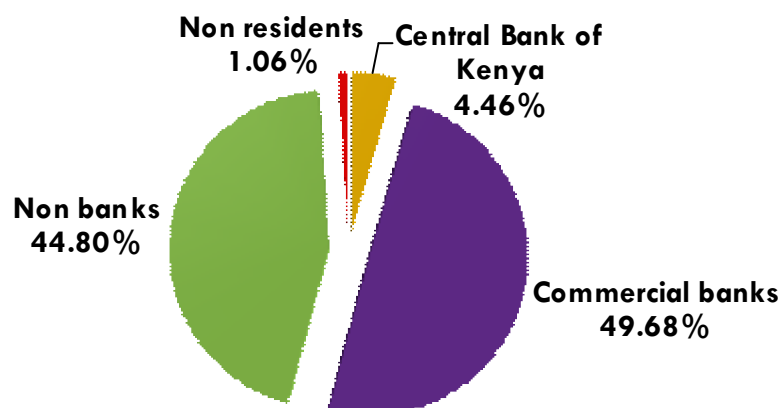
Table 9: Domestic debt instruments by holder end December 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	455.52	496.01	0.040	3.44	955.01
Treasury bills	191.13	89.84	0.061	10.37	291.40
Others	3.09	0.07	58.19	0.00	61.35
Total	649.74	585.92	58.28	13.81	1,307.75
Percentage Holding	49.68	44.80	4.46	1.06	

Source: Central Bank of Kenya

At the end of December 2014, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 649.74 billion or 49.68 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 585.92 billion or 44.80 percent while the Government debt worth Kshs 13.81 billion or 1.06 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 58.29 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 December 2014

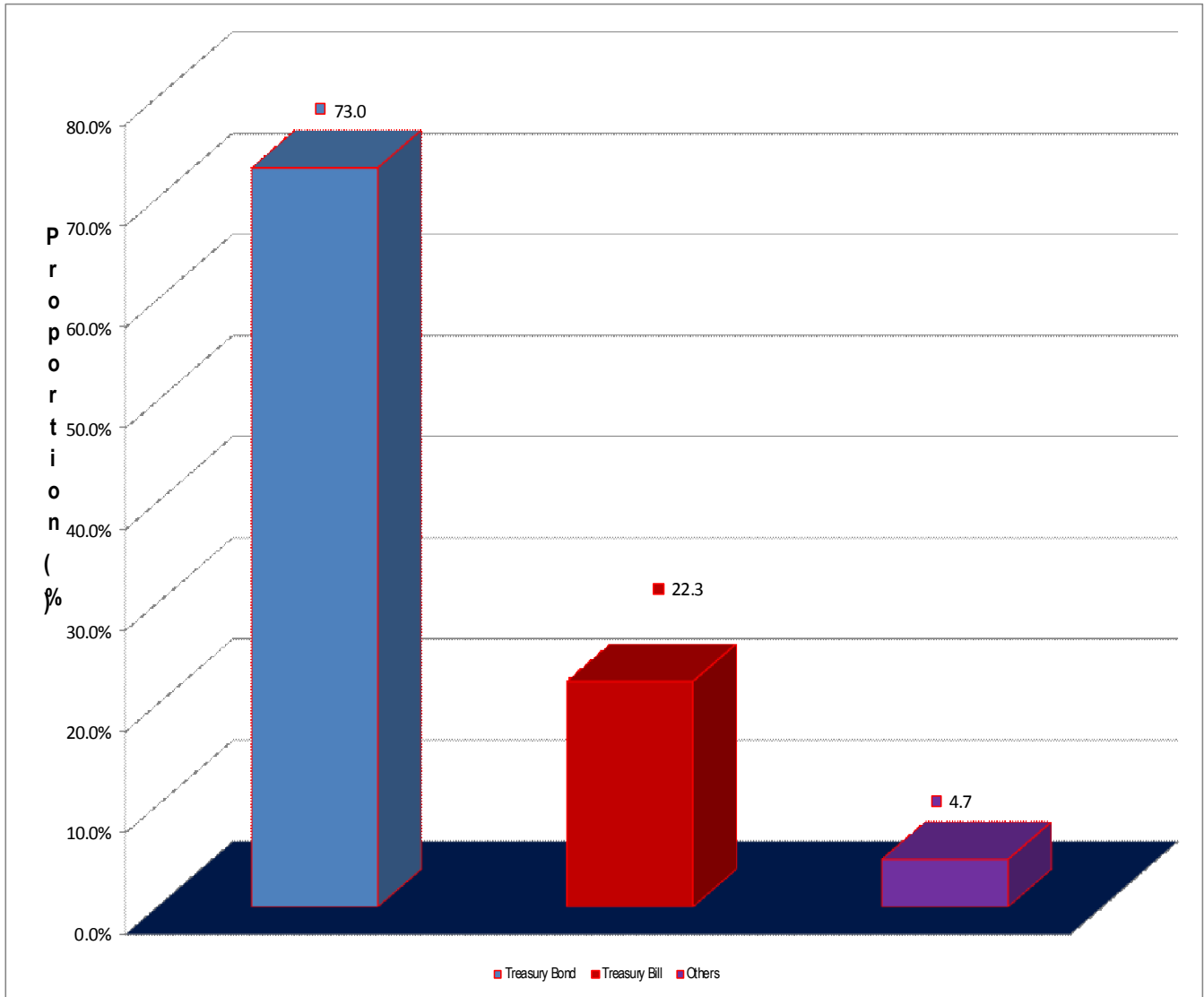


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end December 2014. 73.0 percent of Government domestic debt was in Treasury Bonds, 22.3 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 December 2014, the net domestic financing stood at a net repayment of Kshs 71.05 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2014	December-2014	Change
Treasury Bills	278.92	268.51	(10.41)
Treasury Bonds	879.33	916.52	37.19
Pre-1997 Govt. Overdraft debt	27.78	27.23	(0.55)
Other	39.74	32.76	(6.98)
<i>of which Overdraft (from CBK)</i>	37.24	30.93	(6.31)
Govt. deposits	125.76	216.06	90.30
Net Domestic Credit	1,100.01	1,028.96	(71.05)

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end December 2014, Government actual cumulative domestic interest payments stood at Kshs 56.11 billion against the cumulative projected interest payments of Kshs 53.55 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 39.14 billion and Kshs 15.59 billion respectively. The variance of Kshs 2.56 million is attributed to a high actual interest rates realized in the market compared to the projected interest rates.

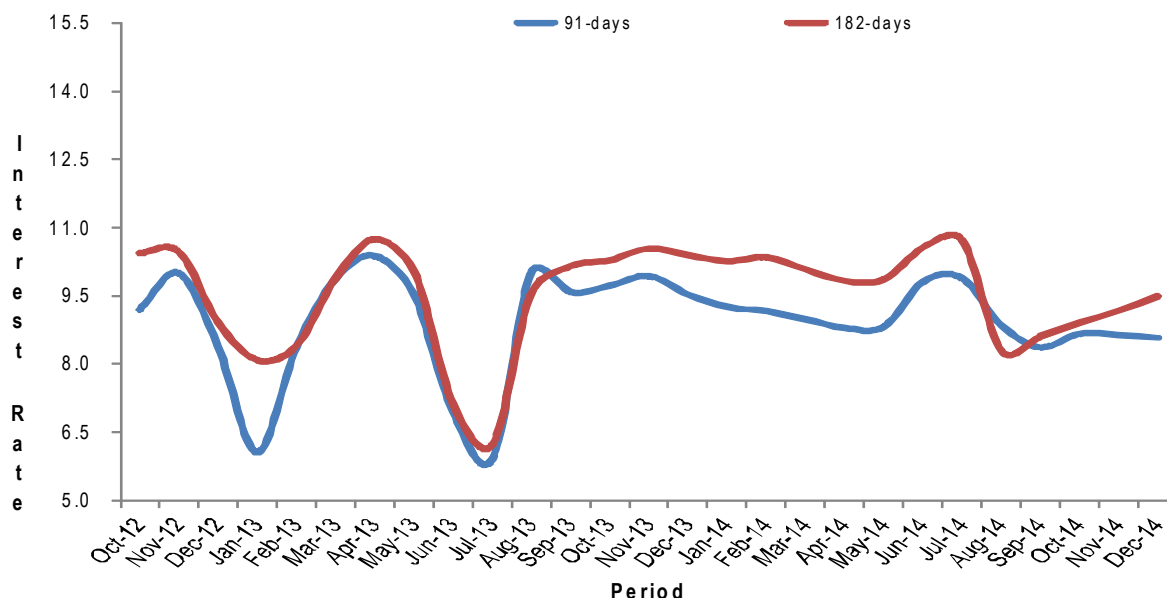
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	44,695.29	39,143.29	(5,552.01)
Treasury Bills	7,935.46	15,589.99	7,654.53
Overdraft	500.00	961.44	461.44
Pre-1997 overdraft debt	420.11	420.11	0.00
Totals	53,550.75	56,114.83	2,563.96

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 October 2012. During the month of December 2014, the average interest rates for the 91-day Treasury bills decreased by 6 basis points to 8.58 percent from 8.64 percent in November 2014 and the 182-days Treasury bill increased by 31 basis point to 9.49 per cent from 9.18 percent per annum. 364-days Treasury bill rate stood at an average of 10.38 percent per annum in December 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

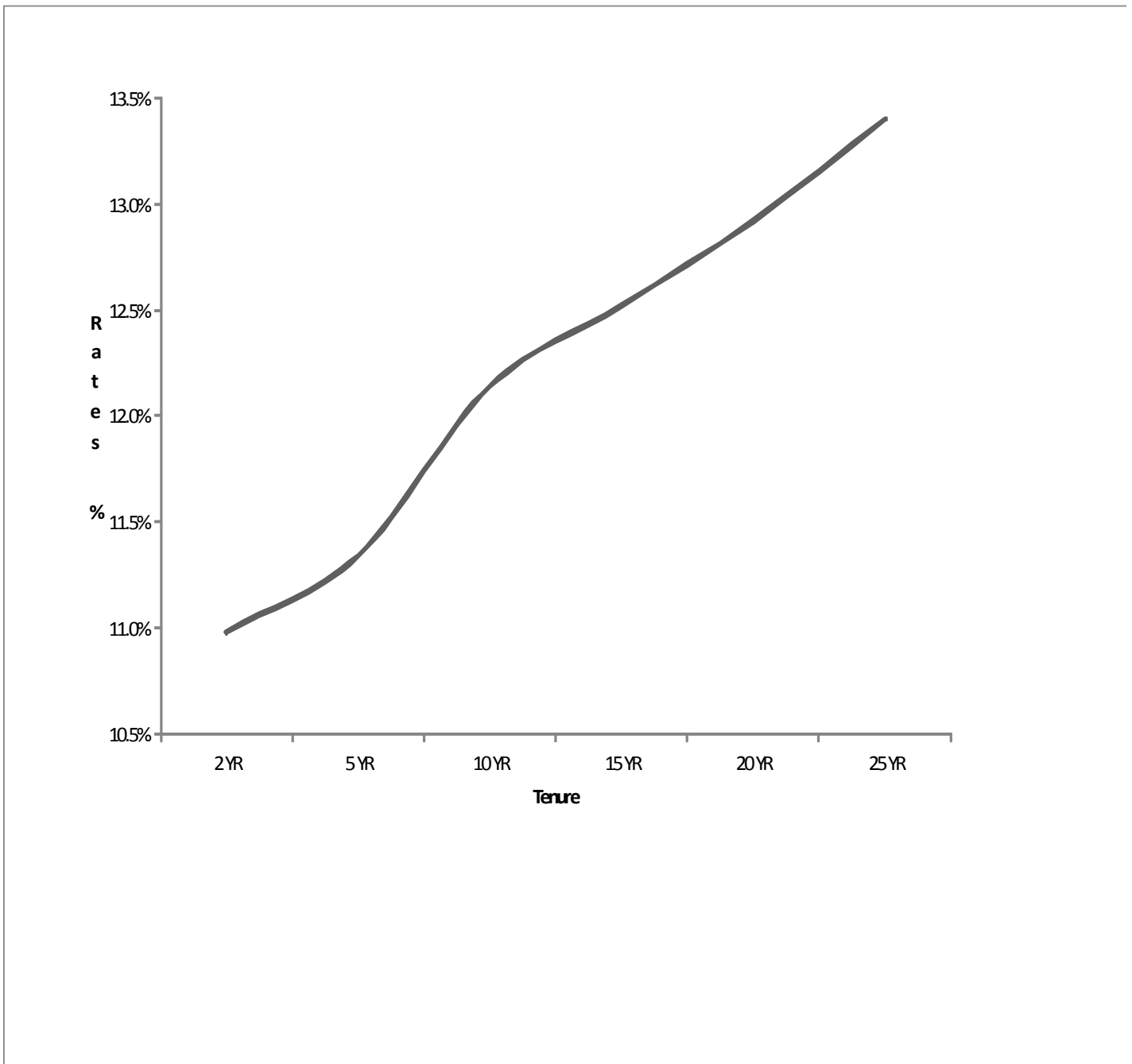
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.98
5 YR	11.34
10 YR	12.14
15 YR	12.52
20 YR	12.92
25 YR	13.40

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 November 2014	Stock at end December 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	619.60	552.33	(67.27)
BELGIUM	7,092.23	6,537.60	(554.63)
CANADA	962.27	896.92	(65.35)
DENMARK	1,798.97	1,729.71	(69.26)
FINLAND	84.62	76.35	(8.27)
FRANCE	58,169.80	60,189.70	2,019.90
GERMANY	24,666.37	23,847.72	(818.65)
ITALY	1,117.61	1,097.16	(20.45)
JAPAN	37,206.10	36,413.59	(792.51)
NETHERLANDS	2,306.17	2,183.60	(122.57)
UK	1,619.16	1,475.67	(143.49)
USA	4,386.69	4,356.35	(30.34)
PARIS CLUB OTHERS	5,691.50	5,579.38	(112.12)
NON PARIS CLUB	90,145.13	106,327.48	16,182.35
o/w CHINA	83,186.20	99,345.09	16,158.89
Sub total	235,866.22	251,263.57	15,397.35
MULTILATERAL			
ADB/AFDB	113,801.13	113,582.73	(218.4)
EEC/EIB	21,733.45	21,077.24	(656.21)
IDA	377,229.82	378,736.39	1,506.57
IFAD	10,661.10	10,592.73	(68.37)
IMF	77,738.13	75,494.79	(2,243.34)
OTHERS	8,819.72	8,792.27	(27.45)
Sub total	609,983.34	608,276.16	(1,707.18)
COMMERCIAL BANKS	186,518.85	255,188.51	68,669.66
SUPPLIERS CREDIT	16,090.29	15,958.99	(131.3)
Sub Total	1,048,458.69	1,130,687.23	(82,228.54)
GUARANTEED DEBT			
CANADA	351.71	344.28	(7.43)
JAPAN	36,044.75	35,549.36	(495.39)
USA	38.33	38.50	0.17
IDA (KR Concessionaire)	4,058.06	4,076.90	18.84
Sub Total	40,492.85	40,009.05	(483.8)
GOK+ GUARANTEED TOTAL	1,088,951.54	1,170,696.28	81,744.74

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 5,719.10

Source: BROPA

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