



REPUBLIC OF KENYA

# THE NATIONAL TREASURY

DIRECTORATE OF PUBLIC DEBT MANAGEMENT

## *MONTHLY DEBT BULLETIN*

December 2015

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end December 2015, total public and publicly guaranteed debt stood at Kshs 3,155.2 billion or 47.79 percent of GDP (Table 1). The increase of 2.48 percent over the end November 2015 position is attributed to an increase in External debt. External debt increased by Ksh 52.66 billion to stand at Ksh 1,615.18 billion, while the gross domestic debt increased by Ksh 23.65 billion to stand at Ksh 1,540.02 billion in December 2015 (Table 1).

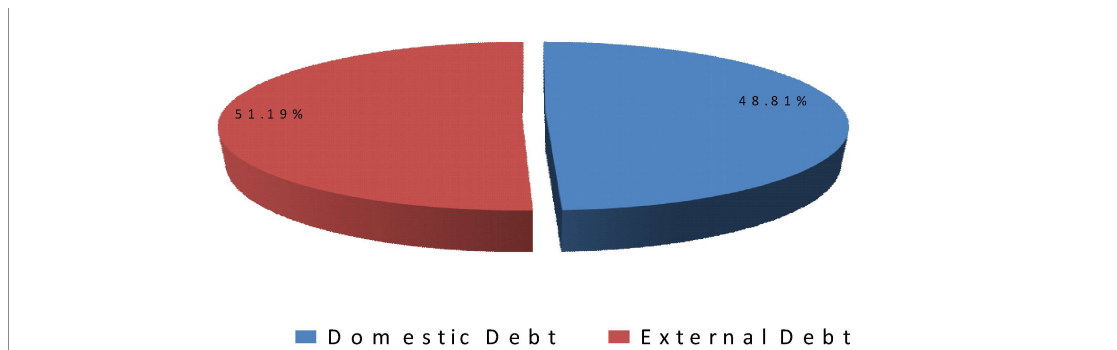
**Table 1: Size of public debt, end December 2015, in billions**

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,540.02	15.05	23.90
External Debt	1,615.18	15.79	25.07
Total	3,155.20	30.84	48.97

**Source: The National Treasury and Central Bank of Kenya**

The structure of public and publicly guaranteed debt shows that 48.81 percent of the total debt is domestic debt while 51.19 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 December 2015.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period October to December 2015. During the period October- December, the Kenya shilling appreciated against STG by 2.44 percent but depreciated against all the other major currencies by 0.50, 0.17, and 1.11 percent for the USD Dollar, Euro and JPY respectively. The shilling stood at Kshs 102.31 to the US Dollar at end of December 2015.

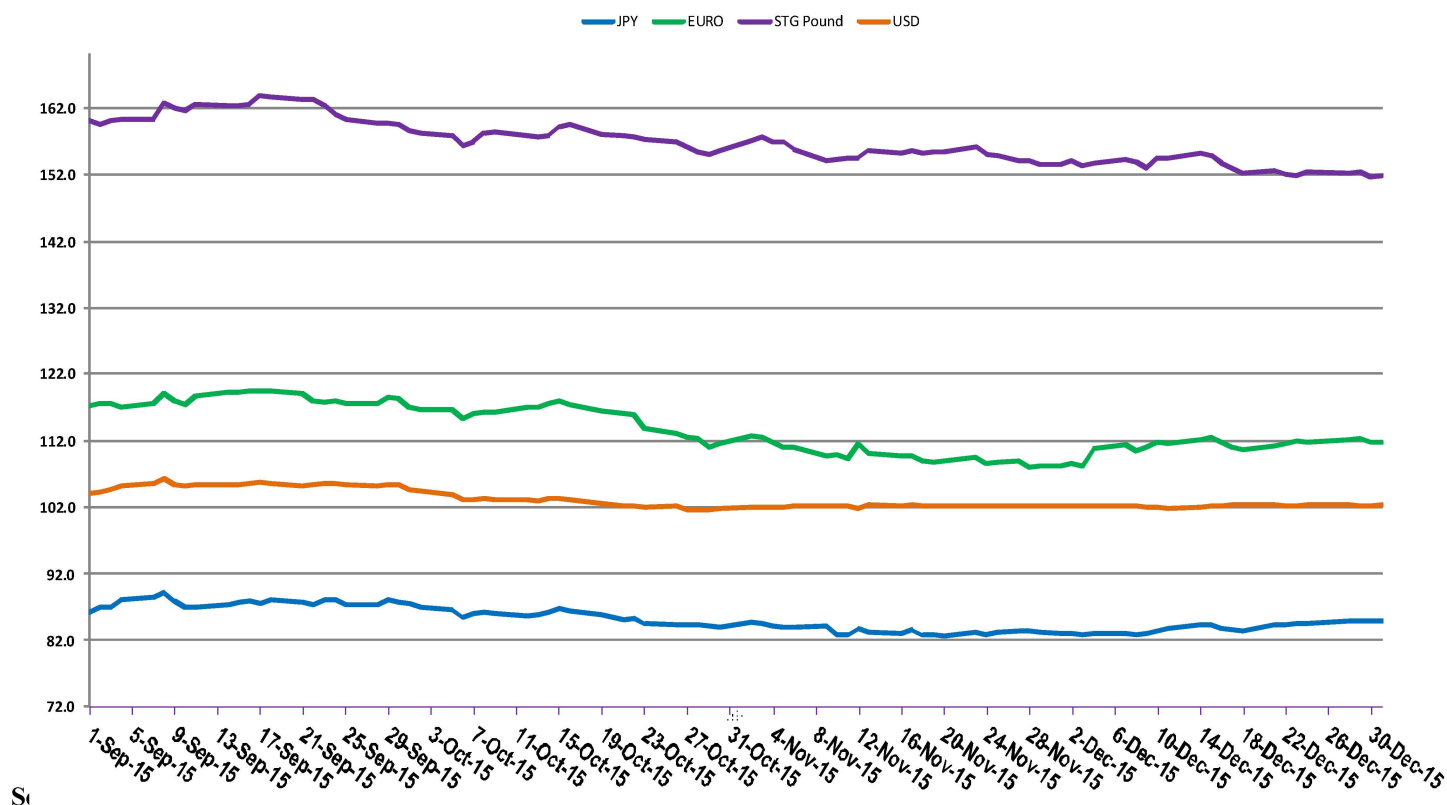
Table 2: Movement in exchange rates

Currency	October 2015	November 2015	December 2015
US Dollar	101.80	102.11	102.31
STG Pound	155.60	153.56	151.80
Euro	111.59	108.15	111.78
JPY(100)	84.04	83.20	84.97

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from September 2015 to December 2015. Except for the Sterling Pound, the Kenya shilling depreciated against the other three major currencies within the month of December 2015.

Chart 2: Kenya Shilling Exchange Rate



## 2.0 EXTERNAL DEBT

### 2.1 Size of Public and Publicly Guaranteed External Debt

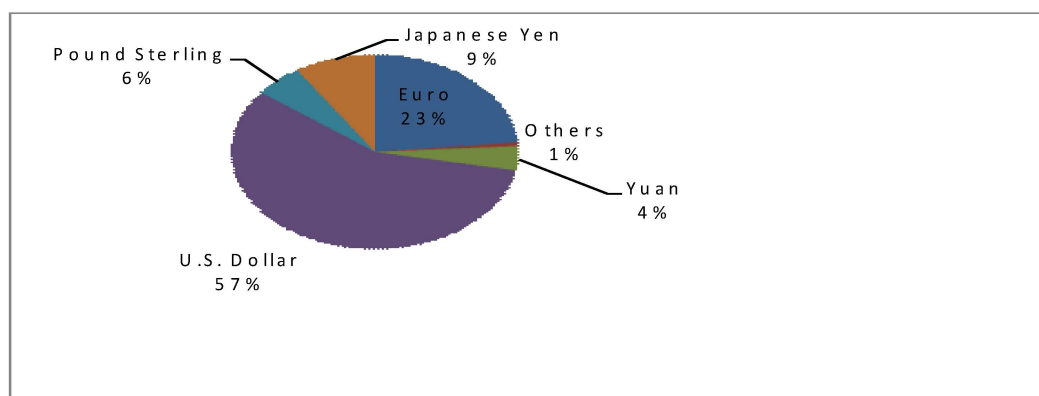
Overall, public and publicly guaranteed external debt increased by Kshs 52.66 billion as at end December 2015 to Kshs 1,615.18 billion from Kshs 1,562.52 billion at the end of November 2015 (Table 3).

Table 3: External debt stock, in billions

	November 2015		December 2015	
	Kshs	USD	Kshs	USD
Bilateral	411.70	4.03	439.67	4.29
Multilateral	725.20	7.10	746.75	7.30
Guaranteed	43.15	0.42	41.61	0.41
Suppliers Credit	17.02	0.17	16.52	0.16
Commercial Banks	365.43	3.58	366.23	3.58
o/w International Sovereign Bond	280.87	2.75	281.36	2.75
Total	1562.52	15.30	1,615.18	15.79

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 23.0 percent.

Chart 3. Currency Composition



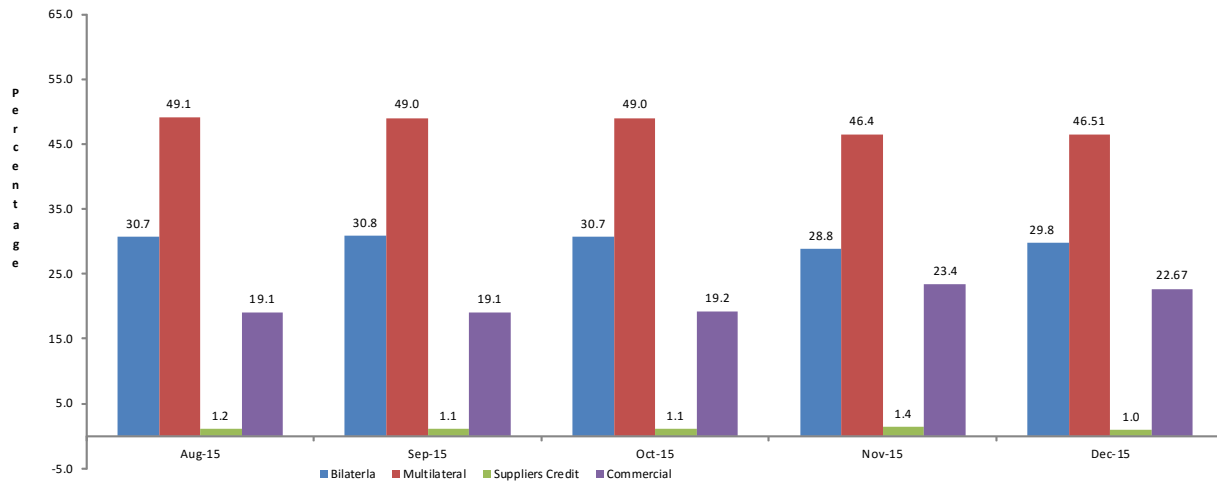
Source: The National Treasury

### 2.2 Structure of External Debt by Creditor

Official creditors account for 76.30 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditors amounts to Ksh 751.15 billion (including Ksh3.6 billion guaranteed debt owed to IDA) dominates the portfolio at 46.51 percent of the total. Bilateral debt stands at Kshs 481.28 billion (29.80 percent of the total), inclusive of Kshs 38.0 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 22.67 percent of the total public and publicly guaranteed external debt.

## Chart 4: External Debt by Creditor

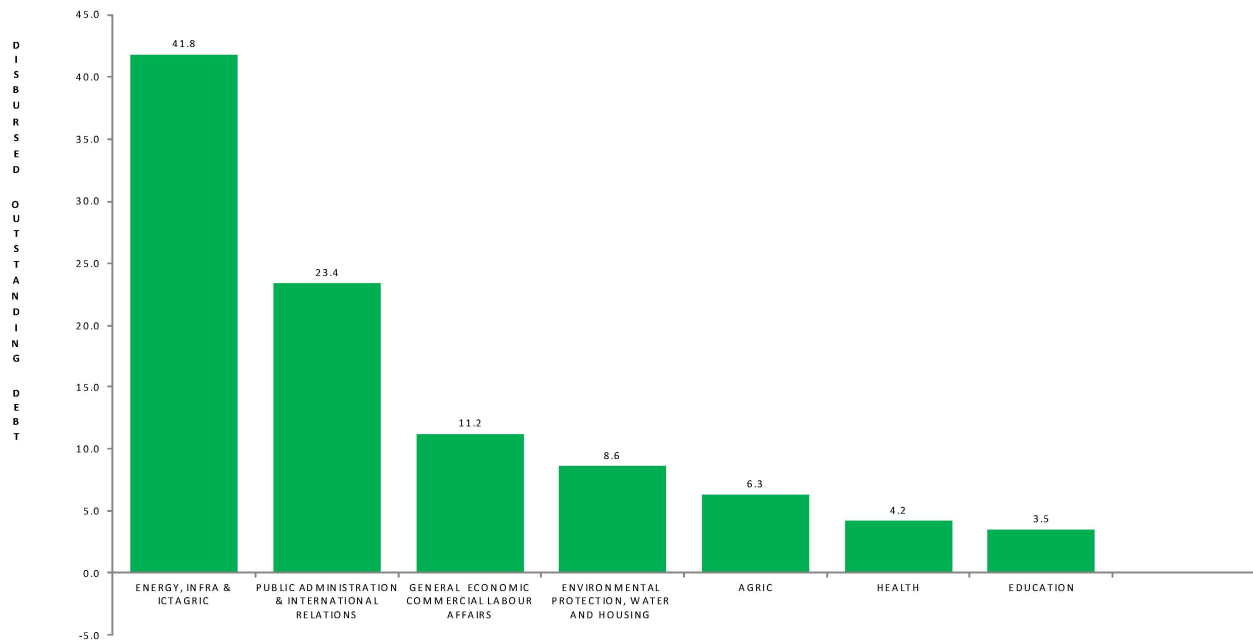


Source: The National Treasury

## 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 2015 stood at Kshs 32.85 billion. Principal and interest projections for the month of December 2015 was Kshs 5.88 billion and Kshs 9.10 billion, respectively. Bilateral and multilateral creditors constitute 41.2 percent and 30.8 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 December 2015, in Kshs billions

Creditor category	Principal	Interest	Total
Bilateral	9,671.63	3,855.14	13,526.77
Multilateral	7,218.64	2,893.83	10,112.47
Commercial	377.78	8,318.29	8,696.07
Guaranteed	473.07	42.72	515.79
Total	17,741.12	15,109.98	32,851.10

Source: The National Treasury

## 2.5 Actual Cumulative External Debt Service

Actual debt service as at end December 2015 stood at Kshs 35.59 billion (Table 5). Actual principal and interest payments during the month of December 2015 was Kshs 4.82 billion and Kshs 10.35 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	8,124.23	6,366.49	14,490.72
Multilateral	7,875.21	2,673.49	10,548.70
Commercial	404.05	9,640.0	10,044.05
Guaranteed	454.96	49.01	503.97
Totals	16,858.45	18,728.99	35,587.44

Source: The National Treasury

## 2.6 Budget Deviation

The actual cumulative debt service for December 2015 was above the projected debt service by Kshs 2.7 billion. 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 December 2015, the guaranteed external debt stock decreased by Kshs 1.56 billion to Kshs 41.60 billion from Ksh 43.16 billion in November 2015 (Table 6). This decrease is attributed to repayment made during the month.

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

<b>Creditor</b>	<b>October 2015</b>	<b>November 2015</b>	<b>December 2015</b>
Japan	41.67	38.56	38.00
Canada	0.39	0.00	0.00
U.S.A	0.00	0.00	0.00
IDA (KR Concessionaire)	4.58	4.60	3.60
<b>Totals</b>	<b>46.64</b>	<b>43.16</b>	<b>41.60</b>

**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 decreased by Kshs 49.61 billion to Kshs 1,228.82 billion in December 2015 from Kshs 1,278.43 billion in November 2015 due to an increase in deposits over the period under review. (Table 7).

Table 7: Government domestic debt, in Kshs billion

	October 2015	November 2015	December 2015
Gross domestic debt	1,454.24	1,516.36	1,540.02
<i>less</i>			
Govt. deposits at CBK	-114.64	-101.54	-146.84
Govt. deposits at commercial banks	-130.69	-130.69	-158.66
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,203.21	1,278.43	1,228.82

### 3.2 Government Domestic Borrowing

During the month of December 2015, Government securities worth Kshs 94.00 billion were advertised. Bids worth Kshs 83.18 billion were received of which Treasury Bills was Ksh 60.62 billion and Treasury Bond was Ksh 22.56 billion. Successful bids amounted to Kshs 66.64 billion against redemptions of Kshs 59.40 billion leaving exchequer with a surplus of Kshs 7.24 billion (Table 8).

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	64,000	30,000	94,000
Bids received	60,622	22,557	83,179
Successful bids	46,691	19,947	66,638
Redemptions (cost)	(34,148)	(25,251)	(59,399)
Net domestic borrowing	12,543	(5,304)	7,239

Source: The National Treasury

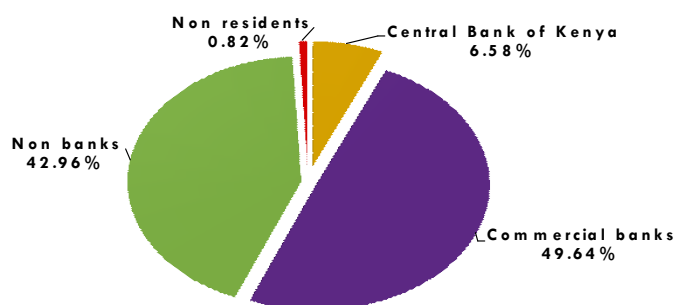


**Table 9: Domestic debt instruments by holder end December 2015, in Kshs billion**

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	514.79	543.73	9.43	4.45	1,072.40
Treasury bills	244.17	117.92	20.59	8.13	390.80
Others	5.45	0.00	71.37	-	76.82
<b>Total</b>	<b>764.41</b>	<b>661.65</b>	<b>101.39</b>	<b>12.58</b>	<b>1,540.02</b>
<b>Percentage Holding</b>	<b>49.64%</b>	<b>42.96%</b>	<b>6.58%</b>	<b>0.82%</b>	<b>100%</b>

At the end of December 2015, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 764.41 billion or 49.64 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 661.65 billion or 42.96 percent while the Government debt worth Kshs 12.58 billion or 0.82 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 101.39 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 2015**

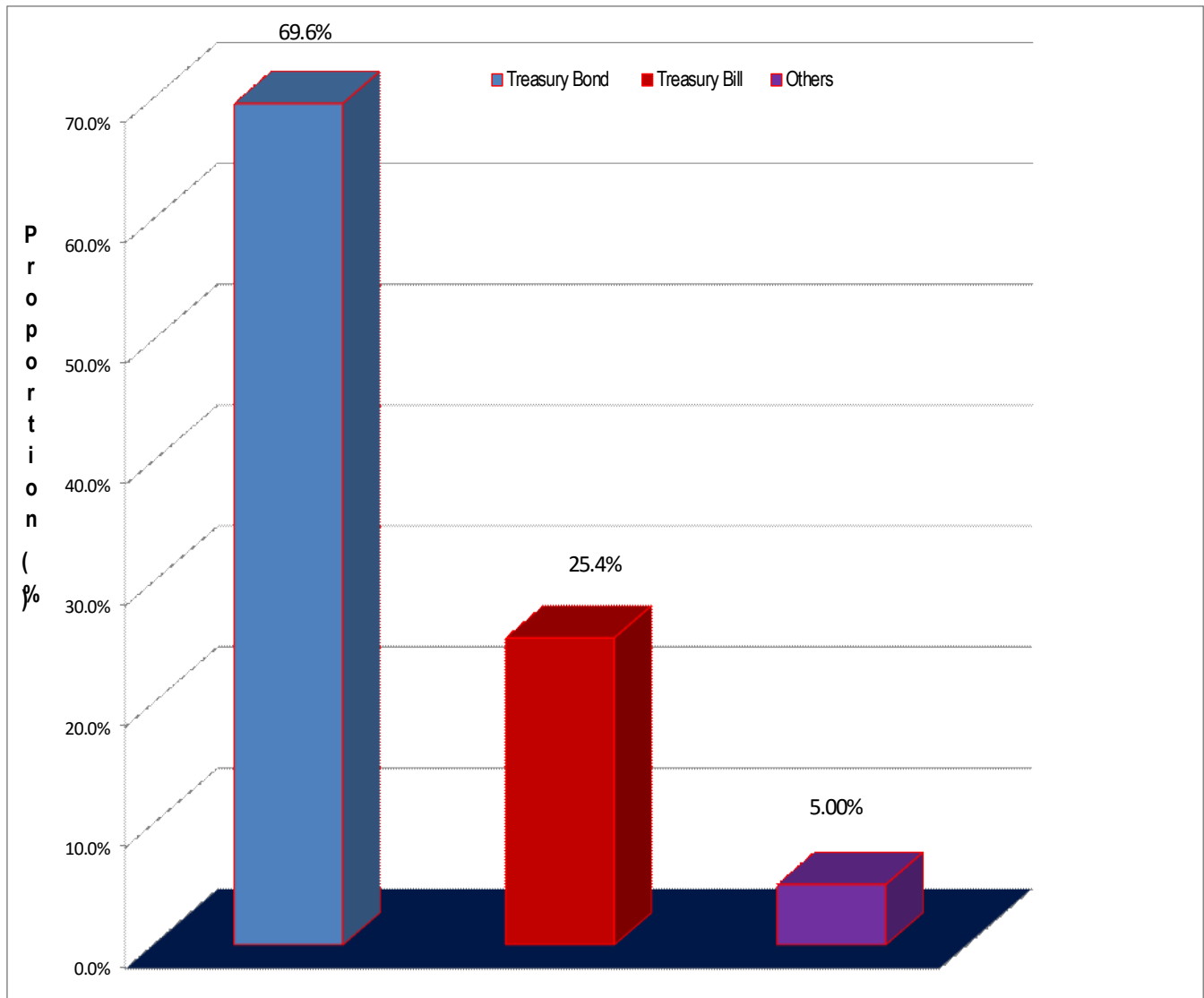


**Source: Central Bank of Kenya**

### 3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end December 2015. 69.6 percent of Government domestic debt was in Treasury Bonds, 25.4 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 December 2015, the net domestic financing was at Kshs 44.96 billion.

Table 10: Net domestic financing, in Kshs billion

	June 2015	December 2015	Change
Treasury Bills	293.53	355.33	61.80
Treasury Bonds	994.44	1,030.06	35.62
Pre-1997 Govt. Overdraft debt	26.68	26.11	(0.57)
Other	37.83	49.37	11.54
<i>of which Overdraft (from CBK)</i>	36.49	45.23	8.74
Govt. deposits	141.29	204.72	63.43
Net Domestic Credit	1,211.19	1,256.15	44.96

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end December 2015, Government actual domestic interest payments stood at Kshs83.98 billion against the projected interest payments of Kshs 78.09 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 62.04 billion and Kshs 19.51 billion respectively (Table 11).

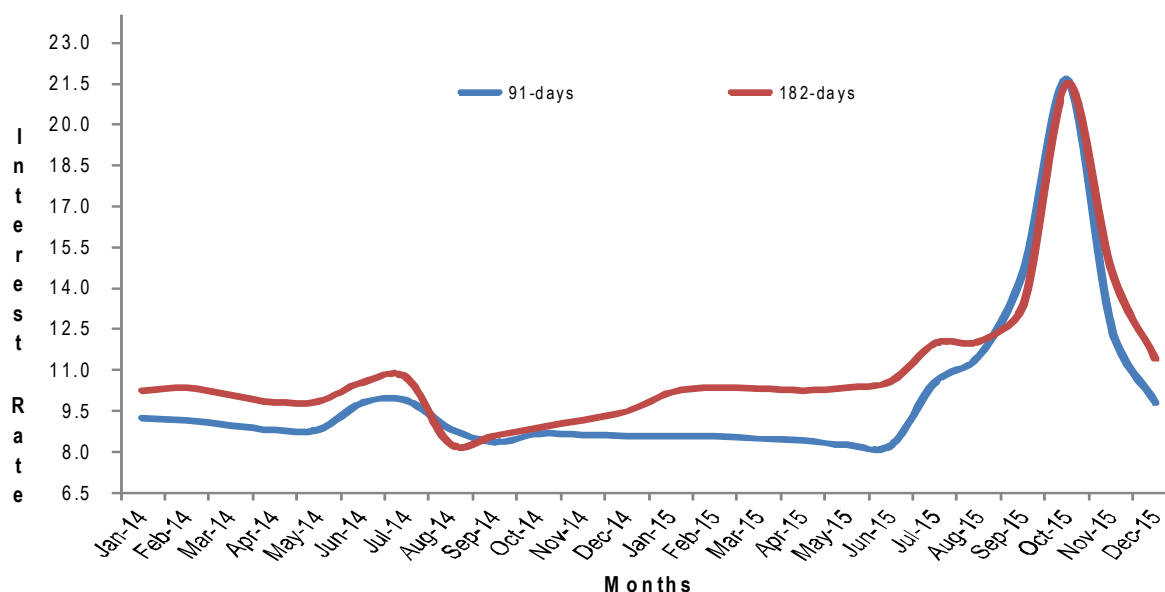
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	58,632.99	62,043.66	3,410.67
Treasury Bills	16,960.43	19,512.14	2,551.71
Overdraft	2,073.64	2,011.85	(61.79)
Pre-1997 overdraft debt	420.11	405.32	(14.79)
<b>Totals</b>	<b>78,087.17</b>	<b>83,972.97</b>	<b>5,885.8</b>

### 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 December 2015, the average interest rates for the 91-day Treasury bills dropped by 277 basis points to stand at 9.81 percent from 12.58 percent in November and the 182-days Treasury bill decreased by 321 basis points to 11.43 per cent per annum from 14.64 per cent in November 2015. The 364-days Treasury bill rate stood at an average of 12.50 percent per annum in December 2015.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

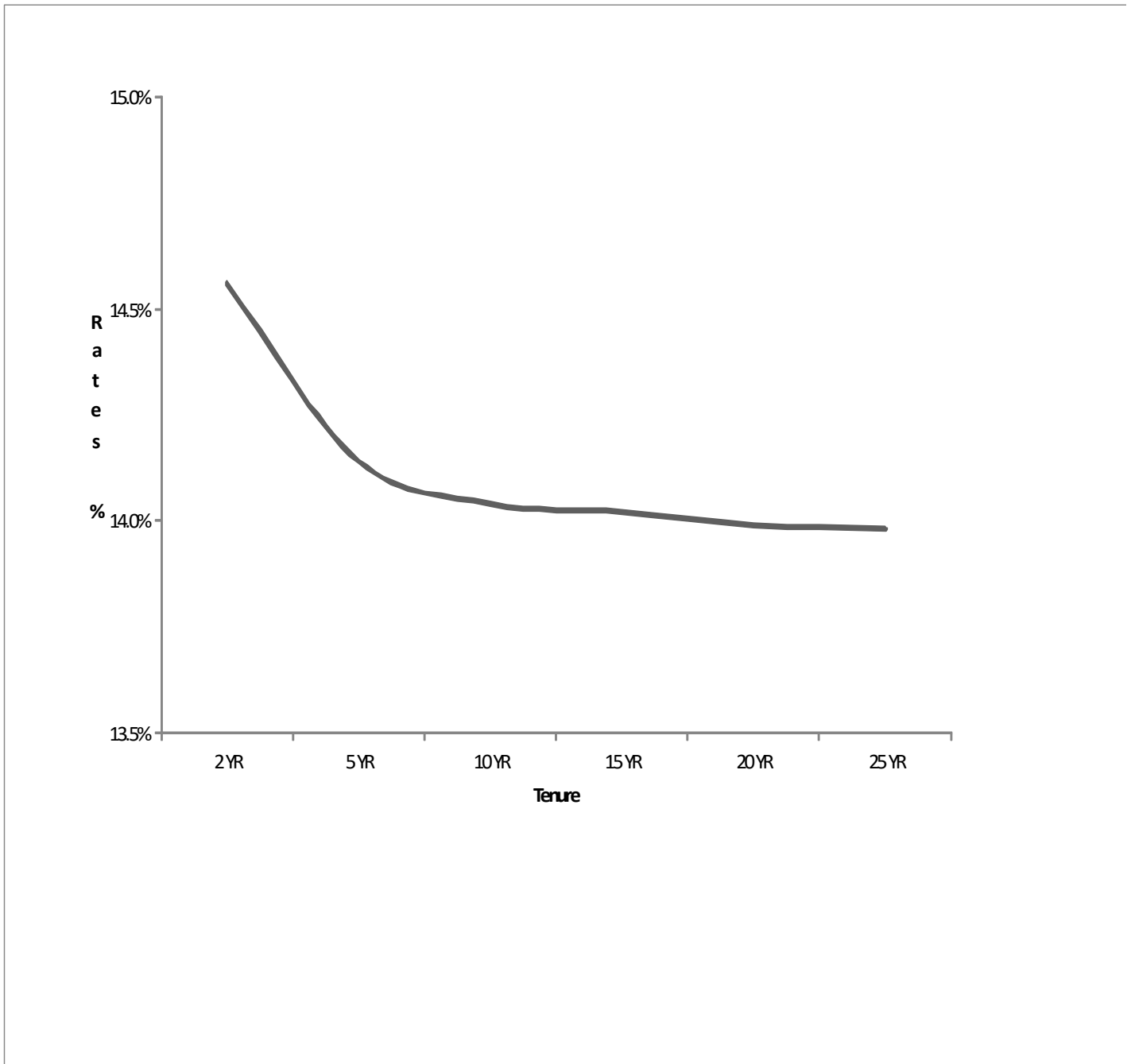
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 and Chart 9 shows the yields on selected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

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

Tenure	Rate (%)
2 YR	14.56
5 YR	14.14
10 YR	14.04
15 YR	14.02
20 YR	13.99
25 YR	13.98

Source: Nairobi Securities Exchange (NSE)

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



Source: Nairobi Securities Exchange (NSE)

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

<b>Creditor</b>	<b>Stock at end November 2015</b>	<b>Stock at end December 2015</b>	<b>Change</b>
<b>Central Government</b>			
AUSTRIA	727.14	703.35	(23.79)
BELGIUM	6,873.17	6497.85	(375.32)
CANADA	927.06	930.11	3.05
DENMARK	1,587.54	1759.51	171.97
FINLAND	3,028.98	5886.5	2,857.52
FRANCE	59,035.05	58002.86	(1,032.19)
GERMANY	22,080.99	21358.64	(722.35)
ITALY	595.37	545.94	(49.43)
JAPAN	40,382.27	40043.35	(338.92)
NETHERLANDS	1,948.31	1895.12	(53.19)
UK	19.57	-1432.2	(1,451.77)
USA	4,173.36	3990.76	(182.60)
PARIS CLUB OTHERS	7,111.87	6926.29	(185.58)
NON PARIS CLUB	261784.146	257466.216	(4,317.93)
o/w CHINA	255,484.85	252,622.52	(2,862.33)
<b>Sub total</b>	<b>411,704.85</b>	<b>404,574.30</b>	<b>(4,270.51)</b>
<b>MULTILATERAL</b>			-
ADB/AFDB	165,169.98	168,382.84	1,159.64
EEC/EIB	20,964.01	21,455.32	(703.25)
IDA	435,380.82	451,966.32	4,729.00
IFAD	11,382.97	11,482.74	(146.86)
IMF	86,069.53	88,044.30	(2,238.94)
OTHERS	6,232.81	6,223.04	(3,032.44)
<b>Sub total</b>	<b>725,200.12</b>	<b>747,554.56</b>	<b>22,354.44</b>
<b>COMMERCIAL BANKS</b>	365,434.56	366,230.99	796.43
<b>O/W International Sovereign Bond</b>	280,874.82	281,356.35	481.53
SUPPLIERS CREDIT	17,020.43	16,516.30	(504.13)
Sub Total	1,519,359.96	1,534,876.15	38,635.65
<b>GUARANTEED DEBT</b>			
CANADA	-	-	0.
JAPAN	38,559.47	38010.662	(548.81)
USA			
IDA (KR Concessionaire)	5,596.13	3,600	(1,996.13)
<b>Sub Total</b>	<b>43,155.60</b>	<b>41610.66</b>	<b>(1,544.94)</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>1,562,515.56</b>	<b>1615184.2</b>	<b>52,668.64</b>

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