



REPUBLIC OF KENYA

THE NATIONAL TREASURY

MONTHLY DEBT BULLETIN

FEBRUARY 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end February 2014, public and publicly guaranteed debt stood at Kshs 2,166.75 billion or 52.0 percent of GDP (see Table 1). The increase of 2.14 percent over the end January 2014 position is mainly attributed to increase in both domestic and external debt. Gross domestic debt increased by Ksh 28.52 billion to stand at Ksh 1,229.42 billion, while external debt increased by Ksh 16.92 billion to stand at Ksh 937.33 billion in January 2014 . (See Table 1).

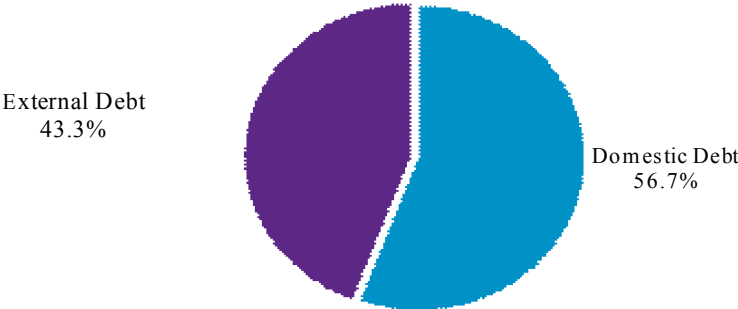
Table 1: Size of public debt, end February 2014, in billion

Debt Category	Kshs	USD
Domestic Debt	1,229.42	14.24
External Debt	937.33	10.86
Total	2,166.75	25.10

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 56.7 percent of the total debt is domestic debt while 43.3 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 1.1 percent and 6.7 years, respectively. In addition, the average maturity period for external loans was 21.4 years while the average grant element was 67.7 percent.

As an indication of the success in the lengthening of maturity structure of domestic debt to minimise refinancing risk in line with the Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt stood at 4 years 10 month as at end February 2014 compared with 4 years 11 months in January 2014.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period December 2013 to February 2014. During this period, the Kenya shilling depreciated against the US Dollar, Sterling Pound and Japanese Yen by 0.02, 1.18 and 2.97 percent respectively. It appreciated by 0.75 percent against the Euro. The shilling stood at Kshs 86.33 to the US Dollar at end of February 2014. Appreciation of the Kenya Shilling has the effect of decreasing external debt stock and the cost of debt service.

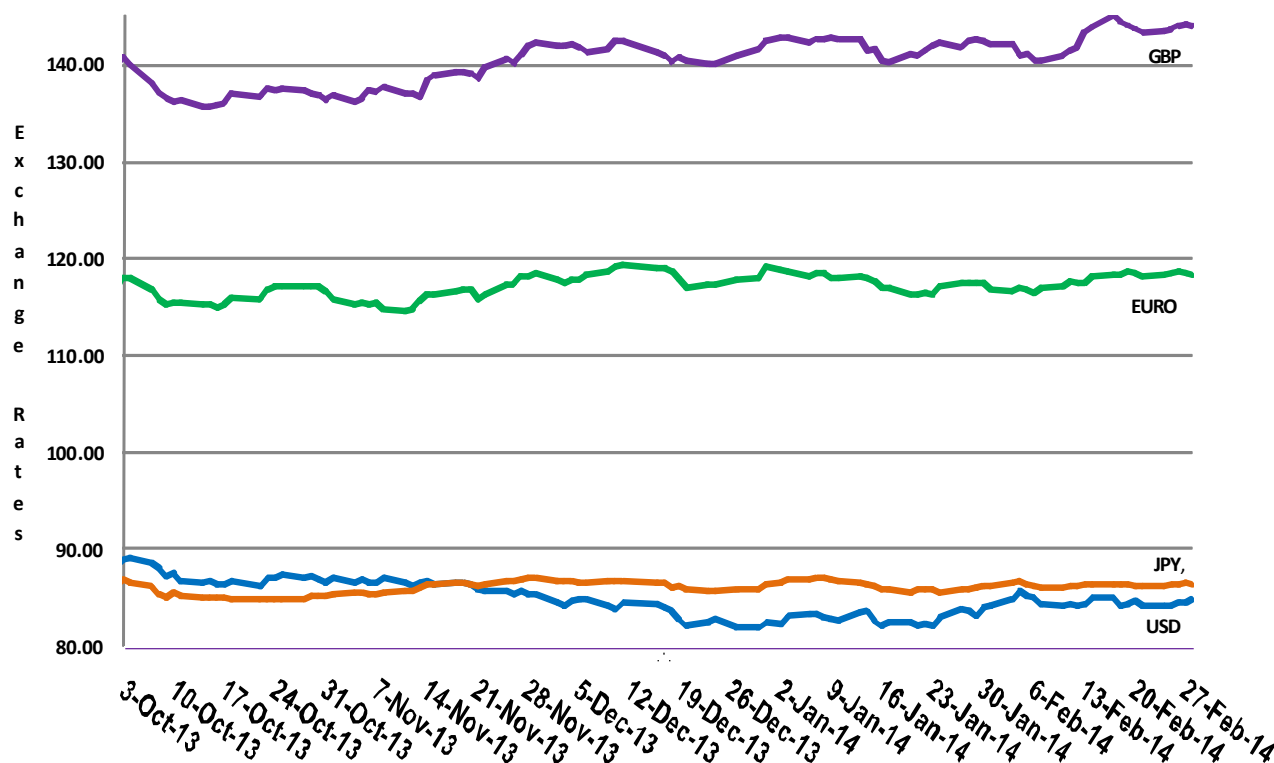
Table 2: Movement in exchange rates

Currency	December 2013	January 2014	February 2014
US Dollar	86.31	86.24	86.33
STG Pound	142.39	142.14	144.07
Euro	119.22	116.82	118.33
JPY(100)	82.42	84.10	84.87

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from October 2013 to February 2014. The exchange rate against the four major currencies showed mixed movements during the month of February 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 16.92 billion as at end February 2014 to Kshs 937.33 billion from Kshs 920.41 billion as shown in Table 3.

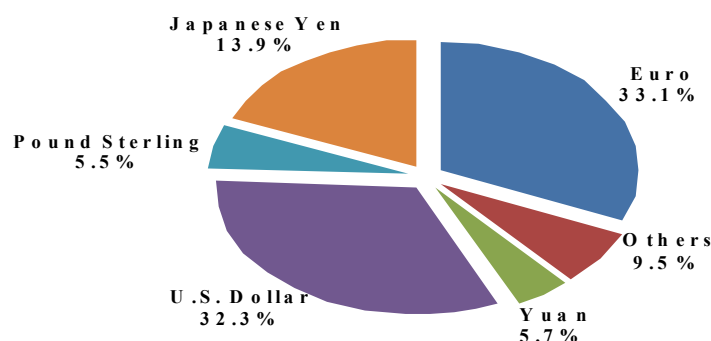
Table 3: External debt stock, in billions

	January 2014		February 2014	
	Kshs	USD	Kshs	USD
Bilateral	243.35	2.82	244.19	2.83
Multilateral	557.85	6.47	573.34	6.64
Guaranteed	44.69	0.52	45.00	0.52
Others	15.57	0.18	15.70	0.18
Commercial Banks	58.95	0.68	59.10	0.68
Total	920.41	10.67	937.33	10.86

Source: The National Treasury

This increase is attributed to disbursements from IDA, France and China. Chart 3 below indicates the currency composition of external debt, and it shows that the Euro forms the largest share of the external debt portfolio at 33.1 percent followed by the US Dollar at 32.3 percent.

Chart 3. Currency Composition



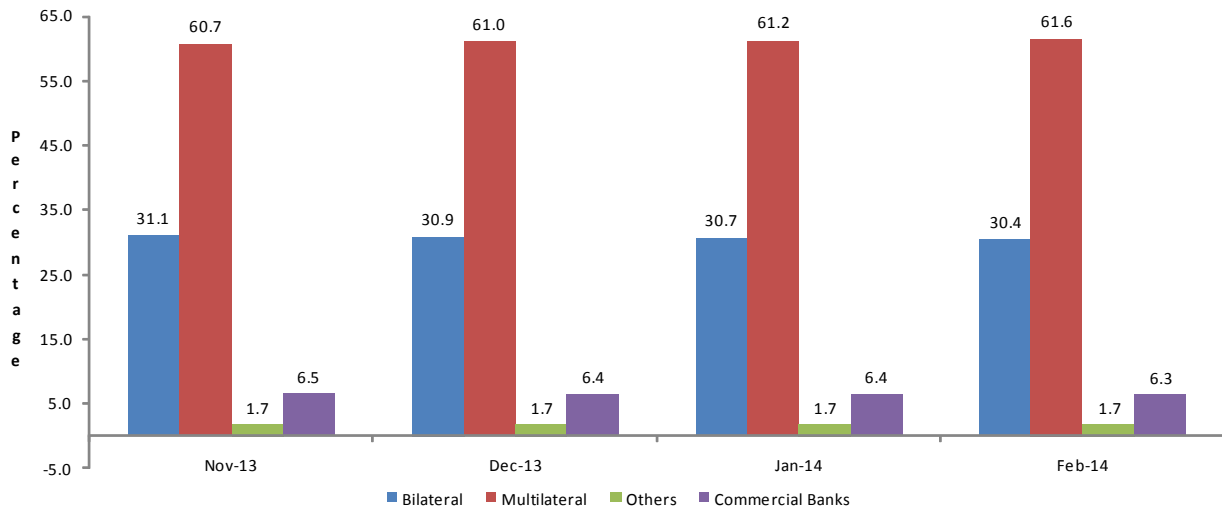
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 92.02 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors amounts to Ksh 577.22 billion (including Ksh 3.88 billion guaranteed debt owed to IDA) dominate the portfolio (61.58 percent of the total). Bilateral debt stands at Kshs 285.31 billion (30.44 percent of the total), inclusive of Kshs 41.12 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 7.98 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

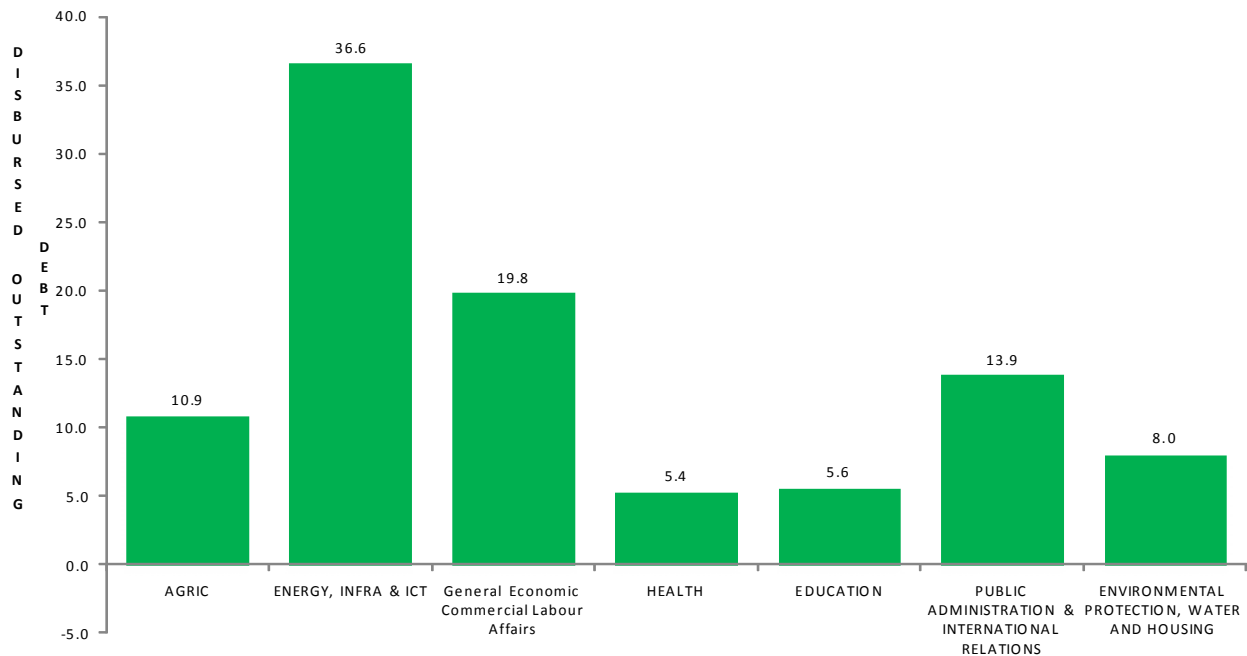


Source: The National Treasury

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 February 2014 stood at Kshs 25.92 billion. Principal and interest projections for the month of February 2014 was Kshs 1.90 billion and Kshs 0.35 billion, respectively. Multilateral and bilateral creditors constitute 42.8 percent and 51.0 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 February 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	10,196.53	3,032.52	13,229.05
Multilateral	9,027.93	2,066.15	11,094.08
Commercial	-	1,598.96	1,598.96
Total	19,224.46	6,697.63	25,922.09

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end February 2014 was Kshs 23.55 billion as shown in Table 5. Actual principal and interest payments for the month of February 2014 was Kshs 1.66 billion and Kshs 0.47 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	8,009.38	3,248.20	11,257.58
Multilaterals	7,956.83	2,413.13	10,369.96
Commercials	411.63	1,513.67	1,925.30
Totals	16,377.84	7,175.00	23,552.84

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for February 2014 was below the projected debt service by Kshs 2.37 billion and this is attributed to the exchange rate difference in the projected and actual debt service.

2.7 Guaranteed External Debt

Under the Public Financial 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 February 2014, the guaranteed external debt increased by Kshs 306.8 million to Kshs 45.00 billion in February 2014 from Ksh 44.69 billion in January 2014 due to disbursements during the period.

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

Creditor	December 2013	January 2014	February 2014
Japan	39,257.19	40,358.34	40,660.63
Canada	345.25	344.96	345.32
U.S.A	110.04	109.95	110.07
IDA (KR Concessionaire)	3,883.94	3,880.62	3,884.69
Totals	43,596.42	44,693.87	45,000.71

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 27.38 billion to Kshs 991.56 billion in February 2014 from Kshs 964.18 billion in January 2014 due to increase in gross domestic debt over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	December 2013	January 2014	February 2014
Gross domestic debt	1,189.18	1,200.90	1,229.42
<i>less</i>			
Govt. deposits at CBK	-115.56	-114.84	-114.71
Govt. deposits at commercial banks	-123.34	-116.18	-117.45
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	944.58	964.18	991.56

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of February 2014, Government securities worth Kshs 46 billion were advertised. Bids worth Kshs 27.99 billion and 23.44 billion were received for Treasury Bills and Treasury Bond respectively during the month. Successful bids amounted to Kshs 37.84 billion against redemptions of Kshs 21.97 billion leaving exchequer with a surplus of Kshs 15.87 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	36,000	10,000	46,000
Bids received	27,992	23,441	51,433
Successful bids	23,409	14,435	37,844
Redemptions (cost)	(21,973)	-	(21,973)
Net domestic borrowing	1,437	14,435	15,871

Source: The National Treasury

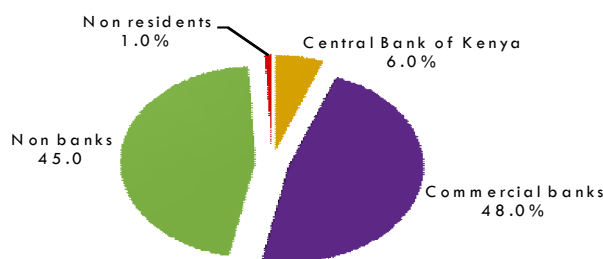
Table 9: Domestic debt instruments by holder end February 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	391.57	448.51	0.04	3.46	843.58
Treasury bills	193.65	105.14	10.71	8.26	317.76
Others	5.44	0.07	62.57	0.00	68.08
Total	590.66	553.72	73.32	11.72	1,229.42
Percentage Holding	48.0	45.0	6.0	1.0	100.00

Source: Central Bank of Kenya

At the end of February 2014, commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 590.66 billion or 48.0 percent as shown in Table 9 and Chart 6. The non banks held 45.0 percent of the outstanding Government paper, mostly Treasury Bonds. The non banks category comprises non bank financial institutions, National Social Security Fund (NSSF), parastatals, insurance companies, building societies, pension funds and individuals. Government debt worth Kshs 11.72 billion or 1.0 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 73.32 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 February 2014



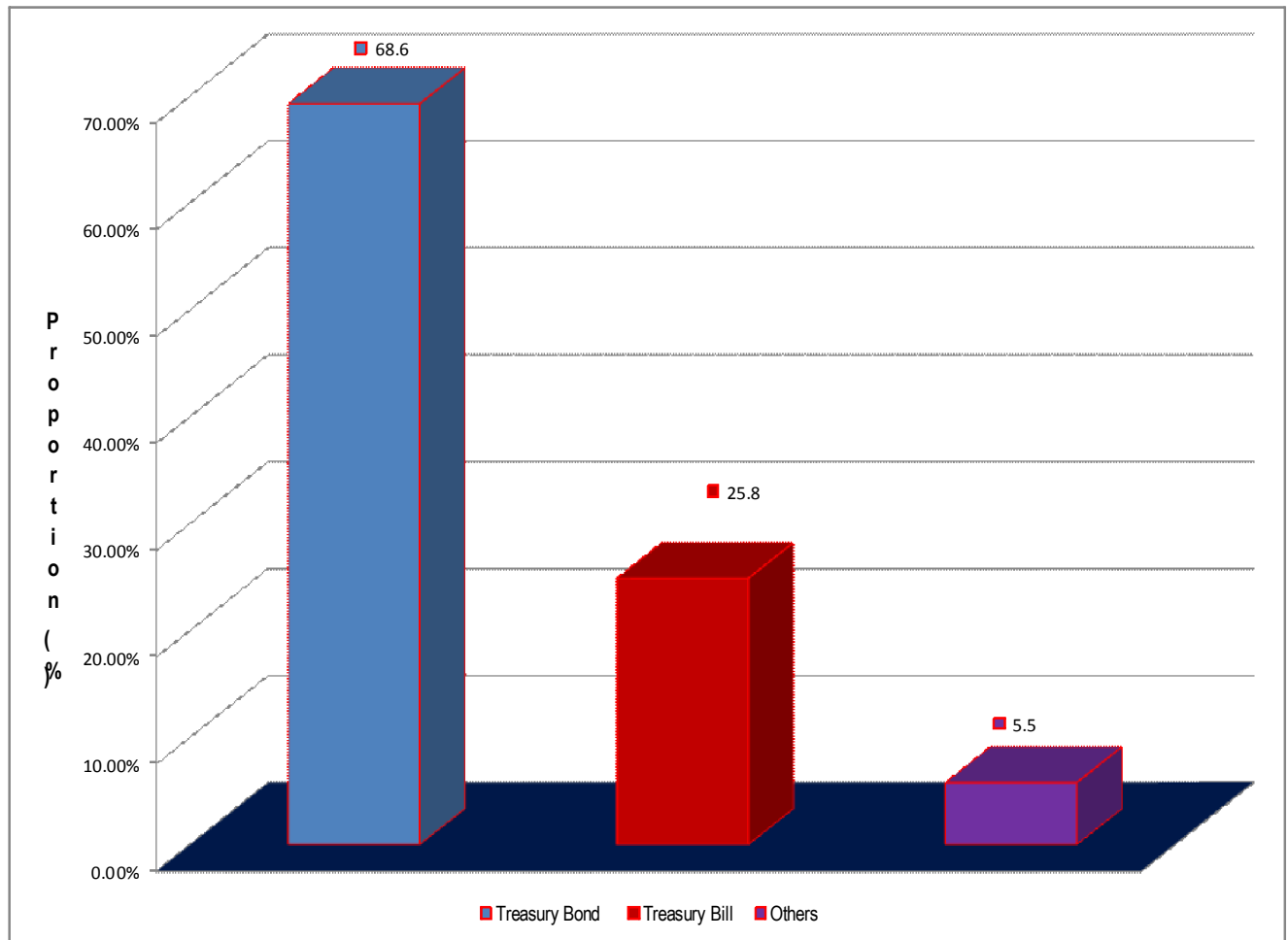
Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end February 2014.

68.6 percent of Government domestic debt was in Treasury Bonds, 25.8 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



Source: Central Bank of Kenya

3.4 Net Domestic Financing

Table 10 shows that as at end February 2014, the net domestic financing stood at Kshs 104.95 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2013	February -2014	Change
Treasury Bills	245.48	290.34	44.86
Treasury Bonds	713.12	809.17	96.05
Pre-1997 Govt. Overdraft debt	28.89	28.33	(0.56)
Other	8.72	35.85	27.13
<i>of which Overdraft (from CBK)</i>	7.00	34.19	27.19
Govt. deposits	97.37	159.89	62.52
Net Domestic Credit	898.84	1,003.79	104.95

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end February 2014, Government actual cumulative domestic interest payments stood at Kshs 75.10 billion against the cumulative projected interest payments of Kshs 68.69 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 62.0 billion and Kshs 11.36 billion respectively. The variance of Kshs 6.41 billion between actual and budgeted interest payments is attributed to higher interest payments on Treasury bonds.

Table 11: Domestic interest payments, in Kshs million

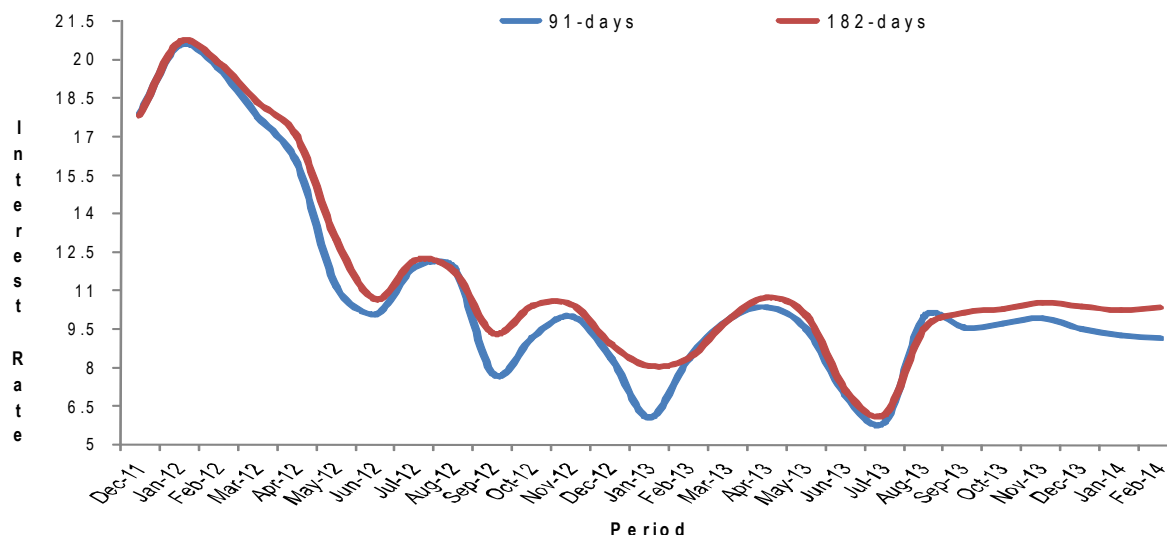
Type of debt	Projected	Actual	Variance
Treasury bonds	55,087.41	61,958.43	6,871.02
Treasury bills	11,720.37	11,359.35	(361.02)
Overdraft	1,312.30	530.39	(781.91)
Pre-1997 overdraft debt	569.86	1,248.73	678.87
Totals	68,689.94	75,096.89	6,406.96

Source: Central Bank of Kenya

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 December 2011. During the month of February 2014, the average interest rates for the 91-day Treasury bills decreased by 10 basis points to 9.16 percent from 9.26 percent in January 2014 and the 182-days Treasury bill decreased by 1 basis point to 10.35 percent from 10.36 percent per annum. 364-days Treasury bill rate stood at an average of 10.67 percent per annum in February 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

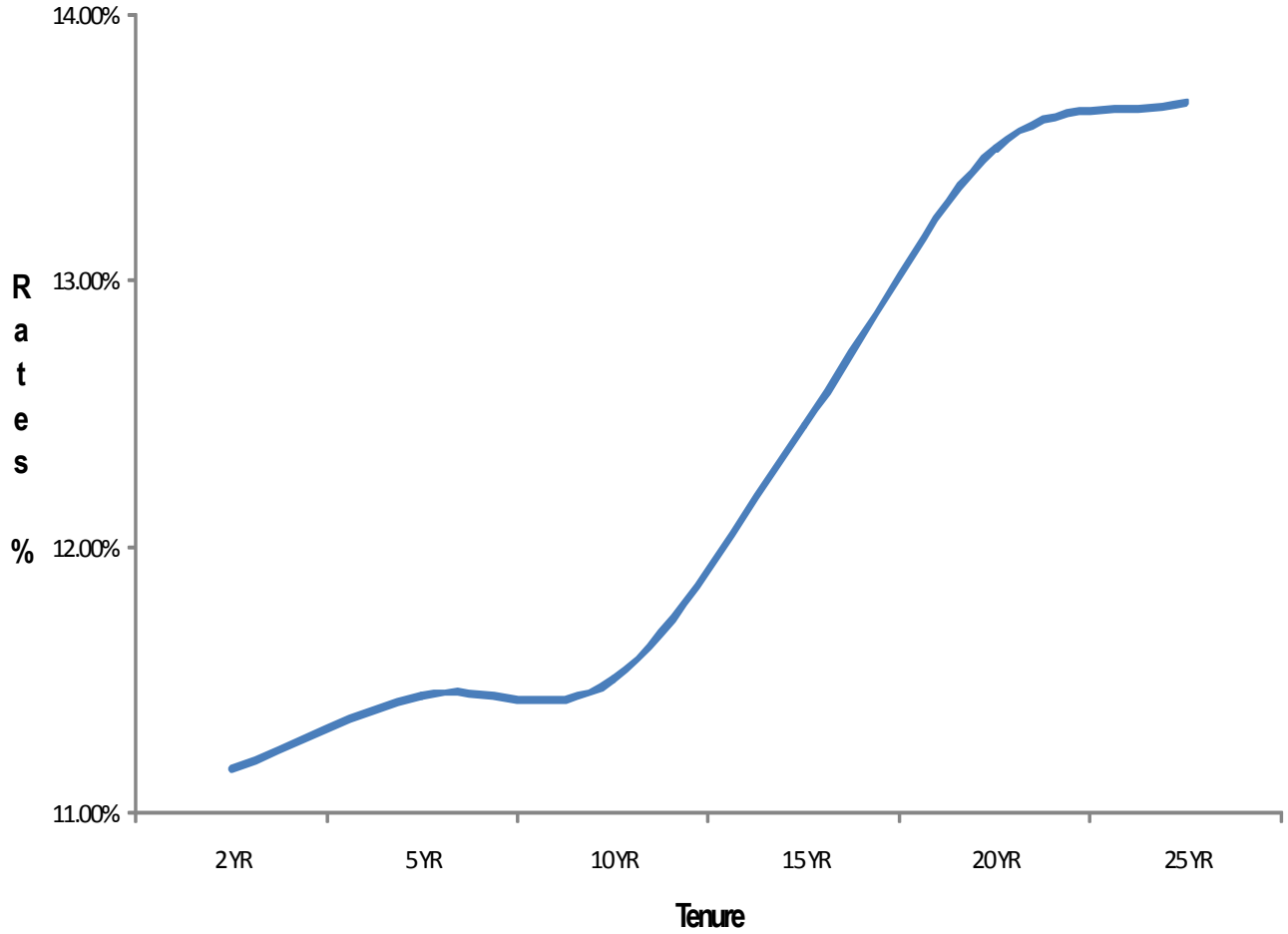
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 :Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	11.17
5 YR	11.44
10 YR	11.50
15 YR	12.45
20 YR	13.50
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 January 2014	Stock at end February 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	856.08	867.15	11.07
BELGIUM	7,909.38	8,011.68	102.30
CANADA	982.42	983.45	1.03
DENMARK	1,986.17	2,011.39	25.22
FINLAND	91.77	92.43	0.66
FRANCE	57,739.42	58,731.17	991.75
GERMANY	25,799.20	26,132.90	333.70
ITALY	1,681.06	1,702.38	21.32
JAPAN	43,776.22	44,157.85	381.63
NETHERLANDS	2,745.88	2,781.39	35.51
UK	1,753.02	1,776.86	23.84
USA	4,468.68	4,453.33	(15.35)
PARIS CLUB OTHERS	5,412.56	5,485.70	73.14
NON PARIS CLUB	88,146.17	87,005.11	(1,141.06)
o/w CHINA	80,811.98	79,997.11	(814.87)
Sub total	243,348.03	244,192.79	844.76
MULTILATERAL			
ADB/AFDB	95,139.39	102,570.16	7,430.77
EEC/EIB	15,658.02	15,841.81	183.79
IDA	345,935.29	352,856.59	6,921.30
IFAD	9,761.32	9,847.64	86.32
IMF	82,332.29	83,127.62	795.33
OTHERS	9,023.72	9,096.04	72.32
Sub total	557,850.01	573,339.86	15,489.85
COMMERCIAL BANKS	58,952.27	59,099.71	147.44
SUPPLIERS CREDIT	15,570.36	15,695.29	124.93
Sub Total	875,720.67	892,327.64	16,606.97
GUARANTEED DEBT			
CANADA	344.96	345.32	0.36
JAPAN	40,358.34	40,660.63	302.29
USA	109.95	110.07	0.12
IDA (KR Concessionaire)	3,880.62	3,884.69	4.07
Sub Total	44,693.87	45,000.71	306.84
GOK+ GUARANTEED TOTAL	920,414.54	937,328.35	16,913.81

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 4,164.56

Source: QEBR March 2014

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