



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DIRECTORATE OF PUBLIC DEBT MANAGEMENT

MONTHLY DEBT BULLETIN

February 2016

1.0 PUBLIC DEBT

1.1 Introduction

As at end February 2016, total public and publicly guaranteed debt stood at Kshs 3,263.00 billion or 50.64 percent of GDP (Table 1). The increase of 2.68 percent over the end January 2016 position is attributed to an increase in domestic debt. Domestic debt increased by Ksh 82.18 billion to stand at Ksh 1,605.23 billion, while the external debt increased by Ksh 3.03 billion to stand at Ksh 1,657.77 billion in February 2016 (Table 1).

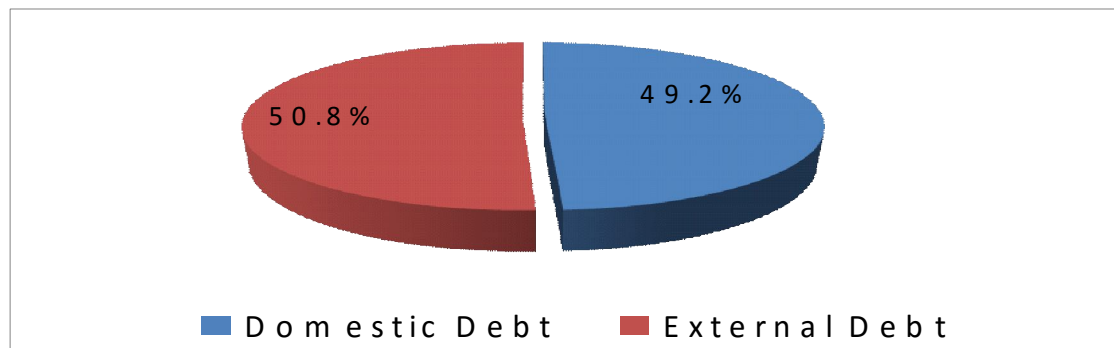
Table 1: Size of public debt, end February 2016, in billions

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,605.23	15.77	24.91
External Debt	1,657.77	16.29	25.73
Total	3,263.00	32.06	50.64

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 49.2 percent of the total debt is domestic debt while 50.8 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 as at end February 2016.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period December 2015 to February 2016. During these, the Kenya shilling appreciated against US Dollars and Sterling Pound by 0.01 and 0.03 percent respectively but depreciated against the Euro and Japanese Yen by 0.01 and 0.05 percent respectively. The shilling stood at Kshs 102.28 to the US Dollar at end of January 2016.

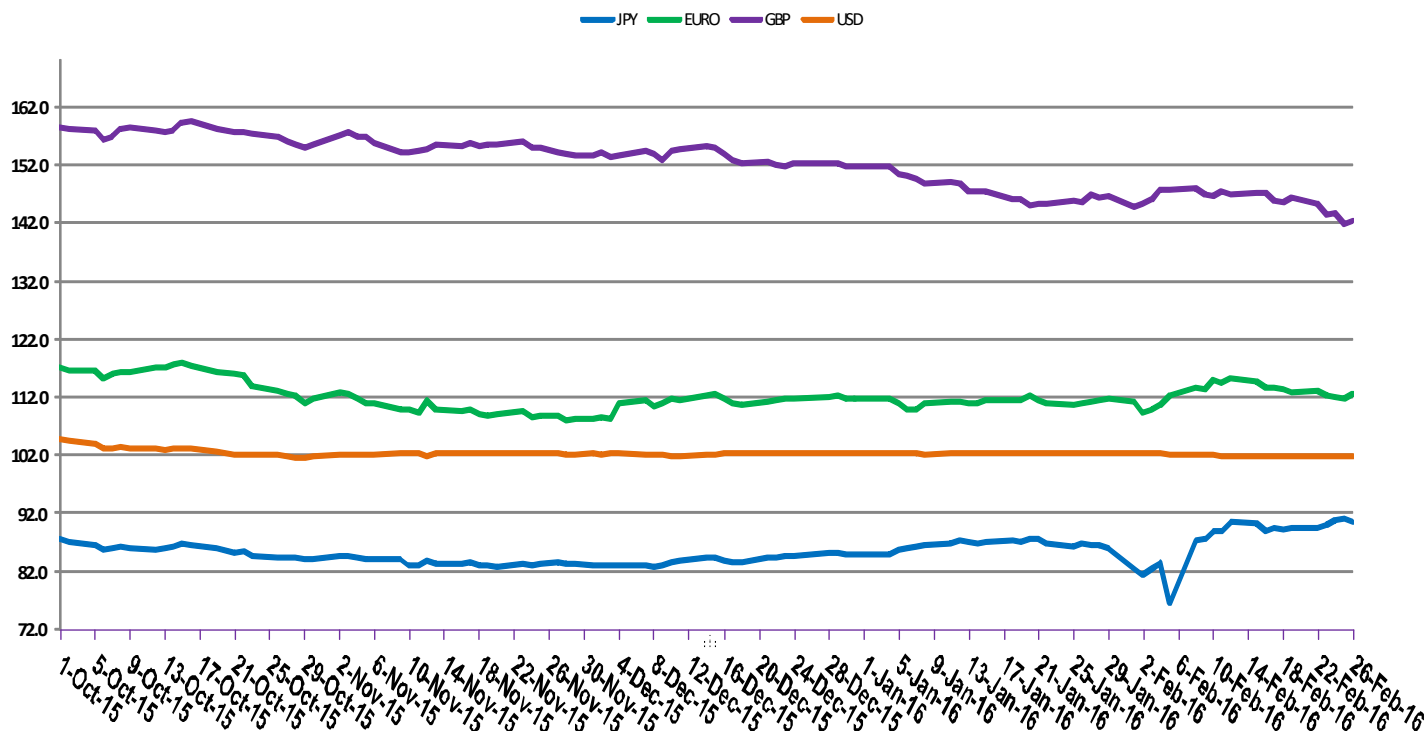
Table 2: Movement in exchange rates

Currency	December 2015	January 2016	February 2016
US Dollar	102.31	102.28	101.78
STG Pound	151.80	146.57	142.44
Euro	111.78	111.68	112.49
JPY(100)	84.97	86.03	90.37

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 2015 to February 2016. The Kenya shilling had a mixed performance against the major currencies within the month of February 2016.

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

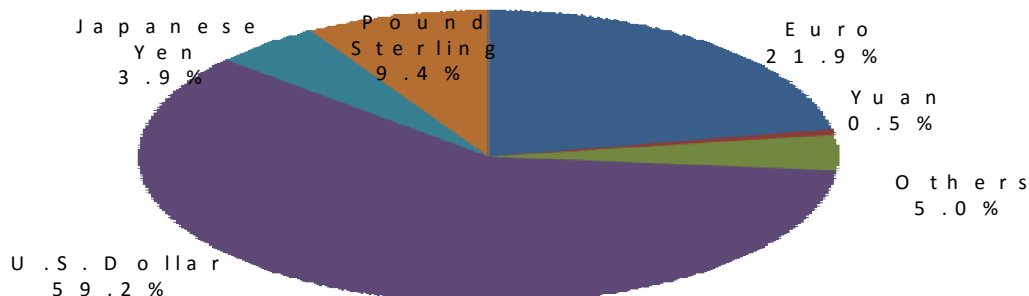
Overall, public and publicly guaranteed external debt increased by Kshs 3.03 billion as at end February 2016 to Kshs 1,657.77 billion from Kshs 1,654.74 billion at the end of January 2016 (Table 3).

Table 3: External debt stock, in billions

	January 2016		February 2016	
	Kshs	Kshs	Kshs	USD
Bilateral	476.28	476.28	476.40	4.68
Multilateral	757.01	757.01	752.39	7.39
Guaranteed	46.84	46.84	56.48	0.55
Suppliers Credit	8.48	8.48	8.46	0.08
Commercial Banks	366.12	366.12	364.05	3.58
o/w International Sovereign Bond	281.36	281.36	279.67	2.75
Total	1,654.74	1,654.74	1,657.77	16.29

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 59.2 percent followed by the Euro at 21.9 percent.

Chart 3. Currency Composition



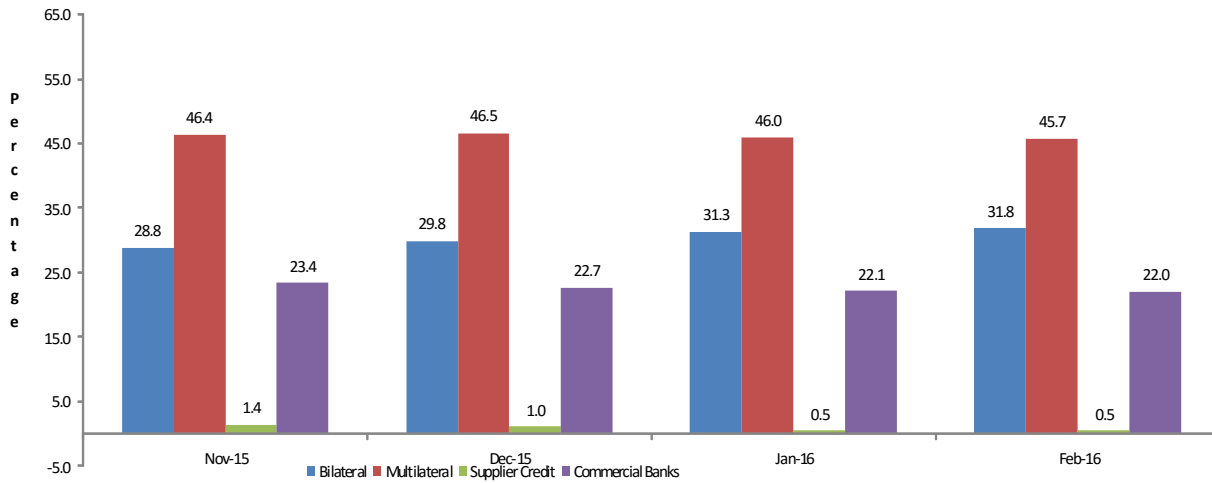
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 77.53 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditors amounts to Ksh 756.96 billion (including Ksh 4.58 billion guaranteed debt owed to IDA) dominates the portfolio at 45.67 percent of the total. Bilateral debt stands at Kshs 528.30 billion (31.87 percent of the total), inclusive of Kshs 56.48 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 16.9 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

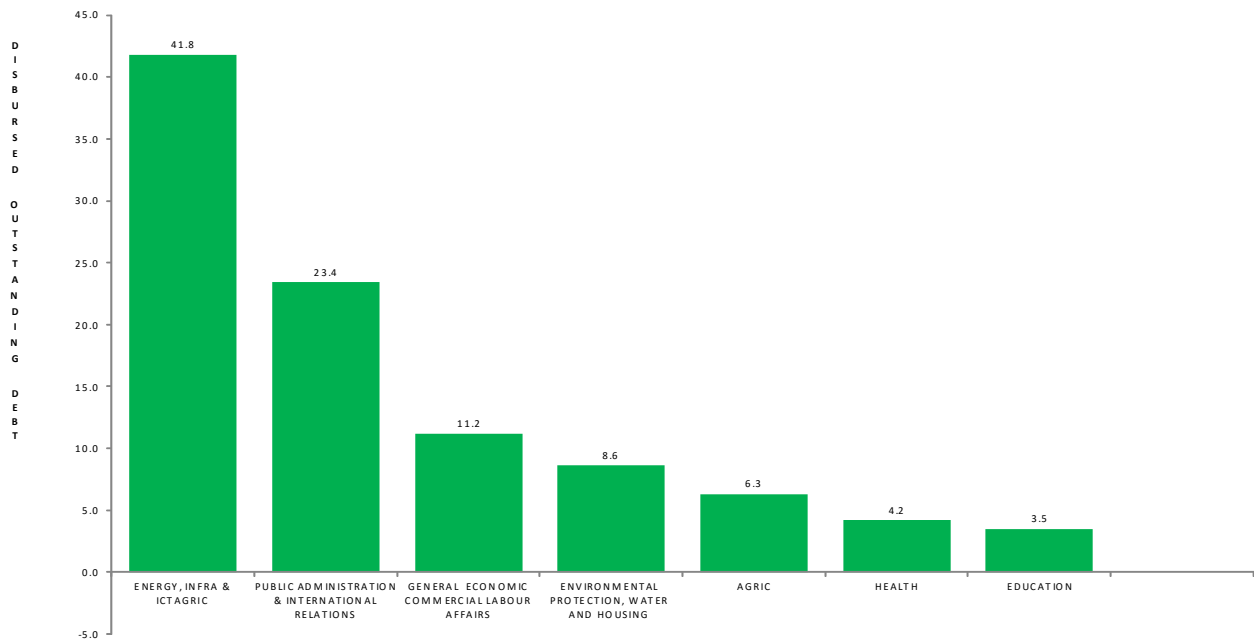


Source: The National Treasury

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 2016 stood at Kshs 40.46 billion. Principal and interest projections for the month of February 2016 was Kshs 1.62 billion and Kshs 0.56 billion, respectively. Bilateral and multilateral creditors constitute 42.96 percent and 32.95 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 February 2016, in Kshs billions

Creditor category	Principal	Interest	Total
Bilateral	11,316.23	6,067.47	17,383.71
Multilateral	9,781.62	3,551.55	13,333.17
Commercial	377.78	8,851.08	9,228.87
Guaranteed	473.07	42.72	515.79
Total	21,948.70	18,512.82	40,461.53

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual debt service as at end February 2016 stood at Kshs 46.78 billion (Table 5). Actual principal and interest payments during the month of February 2016 was Kshs 2.79 billion and Kshs 5.12 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	11,994.45	11,642.22	23,636.67
Multilateral	9,429.25	3,171.38	12,600.63
Commercial	404.05	9,640.0	10,044.05
Guaranteed	454.96	49.01	503.97
Totals	22,282.71	24,502.61	46,785.32

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for February 2016 was above the projected debt service by Kshs 6.32 billion. This is attributed partly to payments of some debts falling due in March 2016 in the month of February 2016 and partly to exchange rate fluctuations during the period under review.

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 February 2016, the guaranteed external debt stock increased by Kshs 9.64 billion to Kshs 56.48 billion from Ksh 46.84 billion in January 2016 (Table 6). This increase is attributed to disbursements of loans guaranteed to KenGen in 2010 and exchange rate fluctuations during the month.

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

Creditor	December 2015	January 2016	February 2016
Japan	38.00	42.24	43.80
Germany	0.00	0.00	8.19
IDA (KR Concessionaire)	3.60	4.60	4.58
Totals	41.60	46.84	56.48

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 94.94 billion to Kshs 1,317.35 billion in February 2016 from Kshs 1,222.41 billion in January 2016 due to an increase in gross debt and decline in Government deposits over the period under review.

(Table 7).

Table 7: Government domestic debt, in Kshs billion

	December 2015	January 2016	February 2016
Gross domestic debt	1,540.02	1,523.05	1,605.23
<i>less</i>			
Govt. deposits at CBK	-146.84	-143.93	-131.53
Govt. deposits at commercial banks	-158.66	-151.01	-150.65
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,228.82	1,222.41	1,317.35

3.2 Government Domestic Borrowing

During the month of February 2016, Government securities worth Kshs 105.0 billion were advertised. Bids worth Kshs 260.72 billion were received of which Treasury Bills was Ksh 207.13 billion and Treasury Bond was Ksh 53.59 billion. Successful bids amounted to Kshs 136.34 billion against redemptions of Kshs 58.32 billion leaving exchequer with a surplus of Kshs 78.02 billion (Table 8).

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	80,000	25,000	105,000
Bids received	207,132	53,585	260,717
Successful bids	106,045	30,297	136,342
Redemptions (cost)	(58,323)	(0.00)	(58,323)
Net domestic borrowing	47,722	30,297	78,019

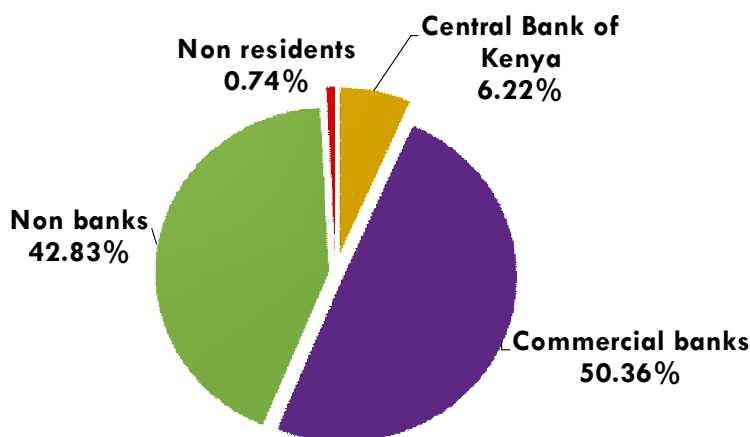
Source: The National Treasury

Table 9: Domestic debt instruments by holder end February 2016, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	538.09	546.53	9.43	5.18	1,099.23
Treasury bills	264.84	138.50	20.59	6.77	430.70
Others	5.48	0.00	69.75	-	75.30
Total	808.41	685.10	99.77	11.95	1,605.23
Percentage Holding	50.36%	42.68%	6.22%	0.74%	100%

At the end of February 2016, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 808.41 billion or 50.36 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 685.10 billion or 42.68 percent while the Government debt worth Kshs 11.95 billion or 0.74 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 99.77 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 2016

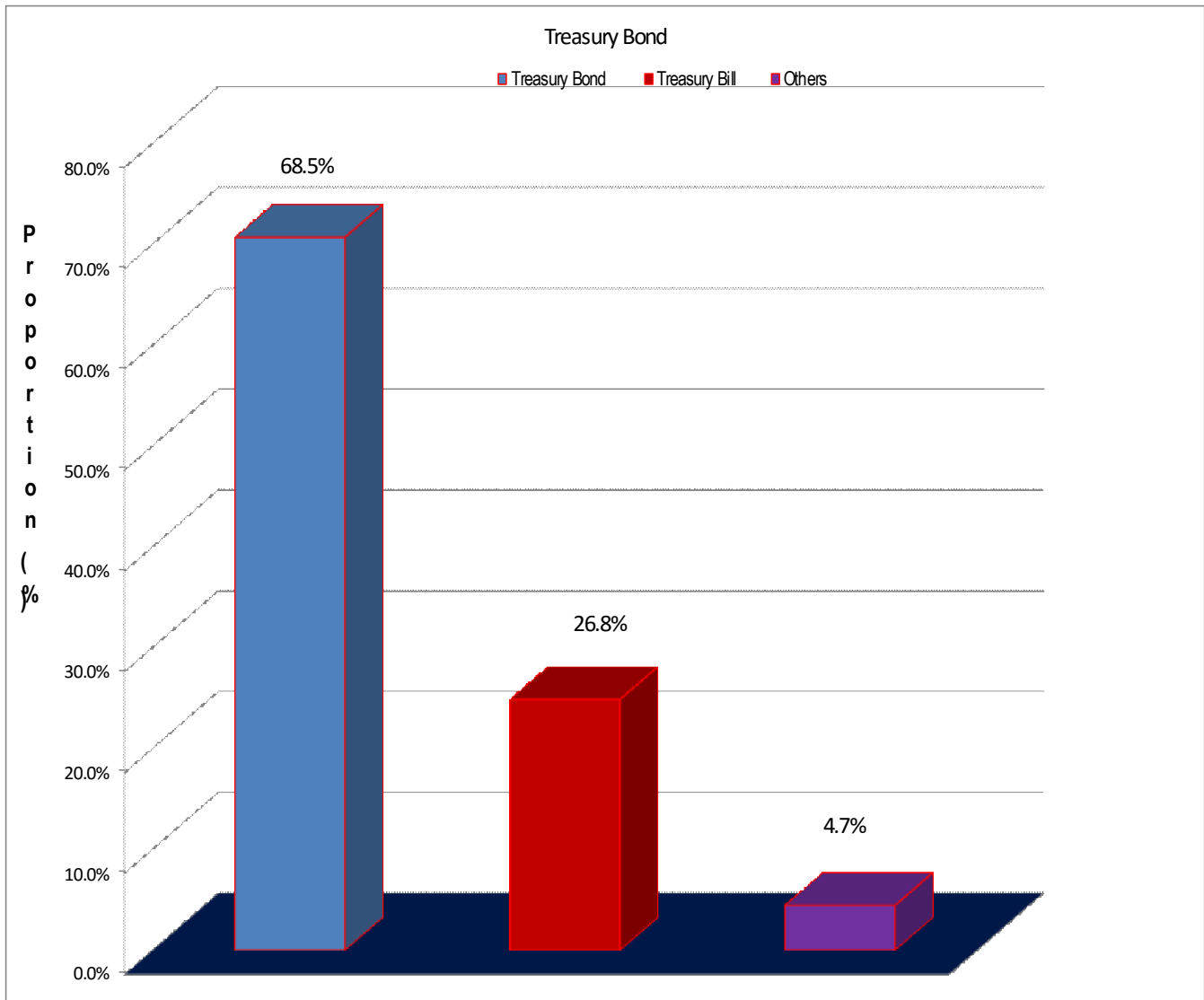


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end January 2016. 68.5 percent of Government domestic debt was in Treasury Bonds, 26.8 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 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 February 2016, the net domestic financing was at Kshs 44.96 billion.

Table 10: Net domestic financing, in Kshs billion

	June 2015	February 2016	Change
Treasury Bills	293.53	391.01	97.48
Treasury Bonds	994.44	1,054.67	60.23
Pre-1997 Govt. Overdraft debt	26.68	26.11	(0.57)
Other	37.83	47.89	10.06
<i>of which Overdraft (from CBK)</i>	36.49	43.58	7.09
Govt. deposits	141.29	187.84	46.55
Net Domestic Credit	1,211.19	1,331.84	102.65

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end February 2016, Government actual domestic interest payments stood at Kshs 105.15 billion against the projected interest payments of Kshs 95.86 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 74.40 billion and Kshs 27.51 billion respectively (Table 11).

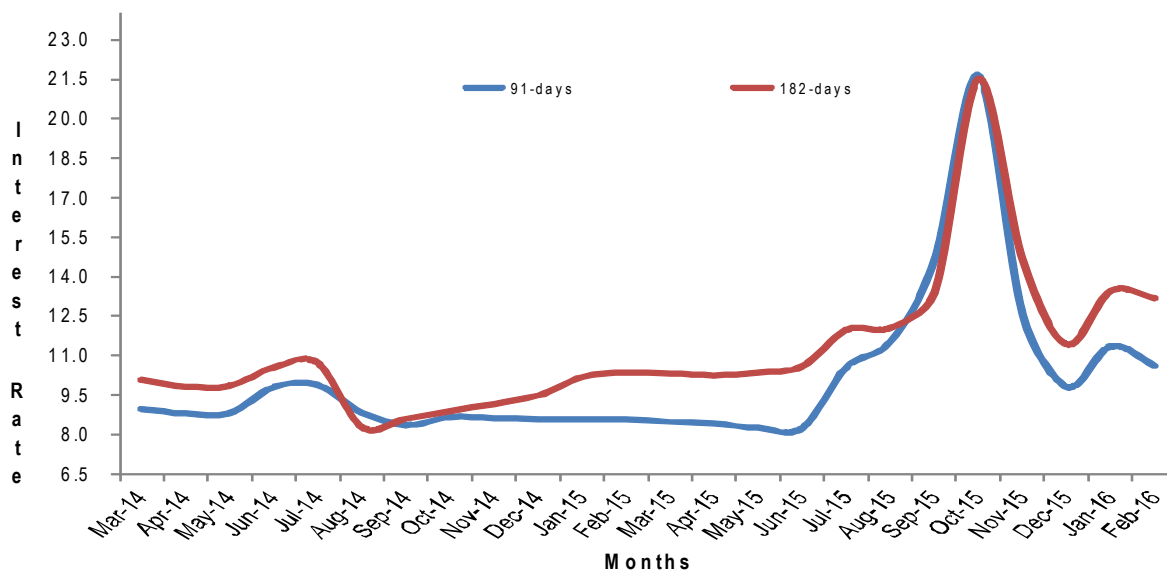
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	72,475.82	74,400.57	1,924.75
Treasury Bills	20,613.91	27,509.10	6,895.19
Overdraft	2,216.98	2,702.94	485.96
Pre-1997 overdraft debt	552.12	534.10	(18.02)
Totals	95,858.83	105,146.71	9,287.88

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 February 2016, the average interest rates for the 91-day Treasury bills dropped by 74 basis points to stand at 10.62 percent from 11.36 percent in January 2016 and the 182-days Treasury bill decreased by 27 basis points to 13.19 per cent per annum from 13.46 per cent in January 2016. The 364-days Treasury bill rate stood at an average of 13.74 percent per annum in January 2016.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

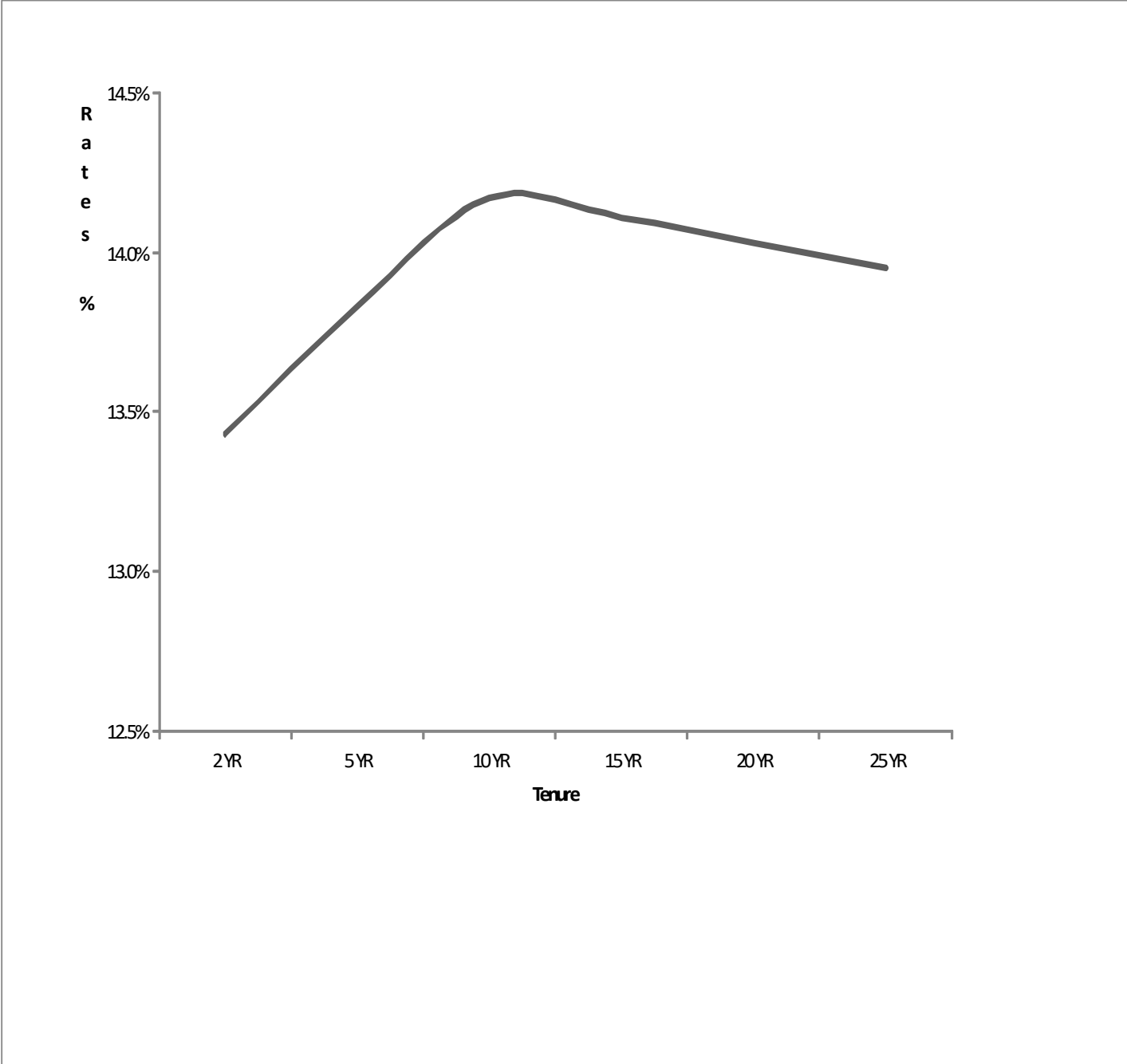
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 and Chart 9 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end February 2016. The Yield curve is inverted due to limited trading in the secondary market.

Table 12 :Yields on selected Treasury Bonds as at end February, 2016

Tenure	Rate (%)
2 YR	13.43
5 YR	13.82
10 YR	14.17
15 YR	14.11
20 YR	14.03
25 YR	13.95

Source: Nairobi Securities Exchange (NSE)

Chart 9: Secondary Market yields on selected Treasury Bonds as at end January, 2016



Source: Nairobi Securities Exchange (NSE)

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

Creditor	Stock at end January 2016	Stock at end February 2016	Change
Central Government			
AUSTRIA	1,024.23	1,022.34	(1.89)
BELGIUM	6,845.82	7,122.09	276.27
CANADA	838.46	833.66	(4.80)
DENMARK	1,601.78	1,598.60	(3.18)
FINLAND	2,317.78	277.30	(2,040.48)
FRANCE	60,219.19	59,973.26	(245.93)
GERMANY	22,440.75	22,427.90	(12.85)
ITALY	614.89	613.70	(1.19)
JAPAN	39,970.51	41,587.00	1,616.49
NETHERLANDS	1,701.42	1,926.69	225.27
UK	1,228.92	1,186.87	(42.05)
USA	4,182.95	4,133.93	(49.02)
PARIS CLUB OTHERS	9,744.32	8,243.92	(1,500.40)
NON PARIS CLUB	323,553.38	325,450.09	1,896.71
o/w CHINA	317,535.11	316,637.16	(897.95)
Sub total	476,284.40	476,397.34	112.94
MULTILATERAL			-
ADB/AFDB	173,810.25	172,803.88	(1,006.37)
EEC/EIB	21,265.05	21,169.52	(95.53)
IDA	455,676.67	452,750.05	(2,926.62)
IFAD	12,201.14	12,112.52	(88.62)
IMF	84,712.66	84,276.99	(435.67)
OTHERS	9,343.43	9,273.47	(69.96)
Sub total	757,009.20	752,386.43	(4,622.77)
COMMERCIAL BANKS	366,127.36	364,049.49	(2,077.87)
O/W International Sovereign Bond	281,279.35	279,667.03	(1,612.32)
SUPPLIERS CREDIT	8,485.05	8,455.15	(29.90)
Sub Total	1,607,906.01	1,601,288.42	(6,617.59)
GUARANTEED DEBT			-
CANADA			-
JAPAN	42,235.69	43,797.91	1,562.22
USA	-	-	-
GERMANY	-	8,109.29	8,109.29
IDA (KR Concessionaire)	4,602.75	4,576.37	(26.38)
Sub Total	46,838.44	56,483.57	9,645.13
GOK+ GUARANTEED TOTAL	1,654,744.45	1,657,771.99	3,027.54

Source: National Treasury

GDP Ksh 6,444.0 billion

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