



REPUBLIC OF KENYA

# THE NATIONAL TREASURY

## *MONTHLY DEBT BULLETIN*

**JULY 2013**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end July 2013, public and publicly guaranteed debt stood at Kshs 1,951.80 billion or 53.3 percent of GDP (see Table 1). The increase of 3.15 percent over the end June 2013 position is mainly attributed to a increase in both domestic and external debt. Gross domestic debt increased by Ksh 28.04 billion to stand at Ksh 1,078.60 billion, while external debt increased by Ksh 31.67 billion to stand at Ksh 875.23 billion in July 2013 due to increased disbursements and exchange rate depreciation against world major currencies during the month. (See Table 1).

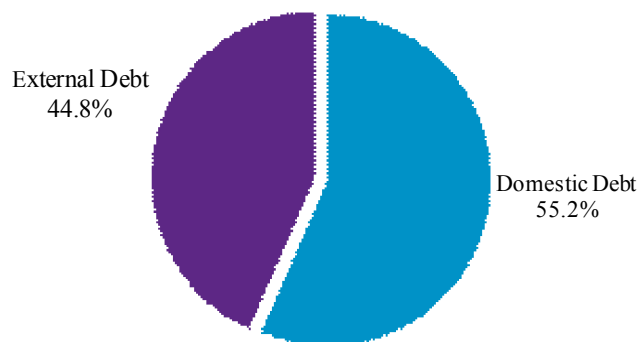
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	1,078.60	12.35
External Debt	875.23	10.03
Total	1,953.83	22.38

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 55.2 percent of the total debt is domestic debt while 44.8 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 1.9 percent and 7.2 years, respectively. In addition, the average maturity period for external loans was 36.2 years while the average grant element was 68.3 percent.

As an indication of the success in lengthening the 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 remained at 5 years 3 month as at end July 2013.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period May 2013 to July 2013. The Kenya shilling depreciated against the US Dollar, Sterling Pound, Euro and the Japanese Yen by 1.48, 1.50, 2.98 and 2.68 percent respectively. The shilling stood at Kshs 87.28 to the US Dollar at end of July 2013. Depreciation of the Kenya Shilling has the effect of increasing external debt stock and the cost of debt service.

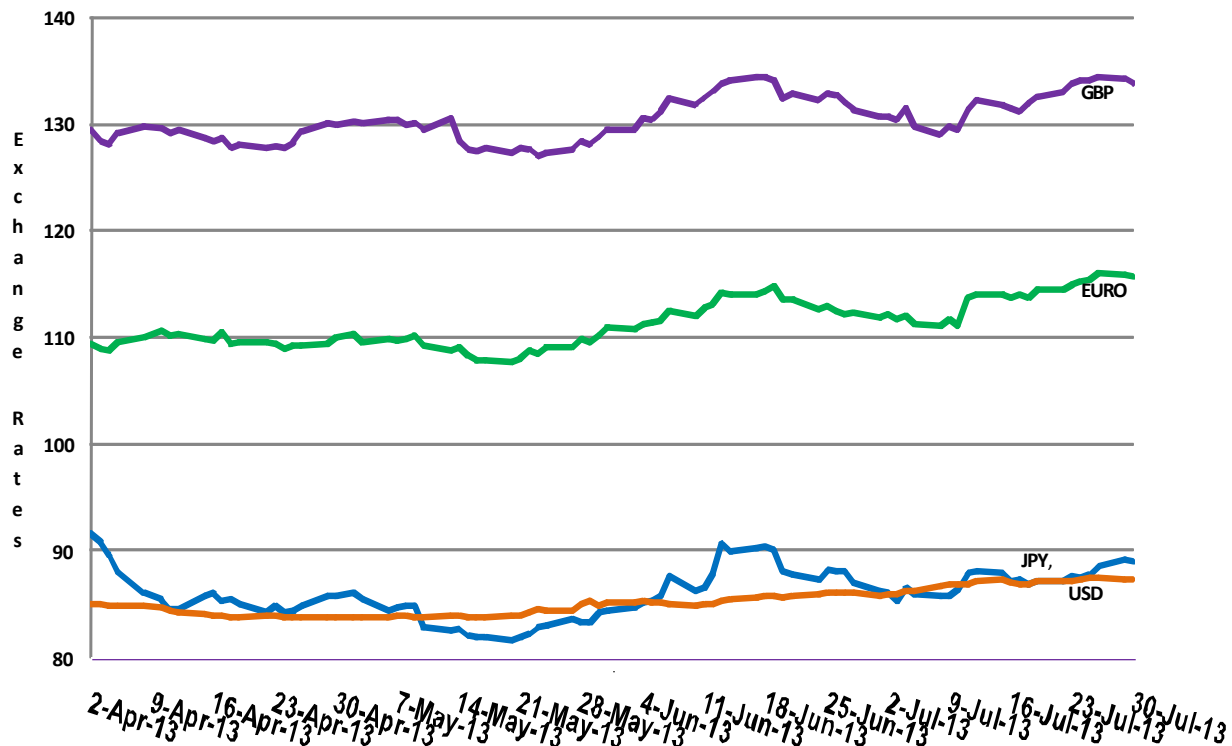
Table 2: Movement in exchange rates

Currency	May 2013	June 2013	July 2013
US Dollar	85.12	86.01	87.28
STG Pound	129.50	131.34	133.31
Euro	110.92	112.40	115.75
JPY(100)	84.32	87.04	89.37

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from April 2013 to July 2013. The four major currencies depreciated against the major world currencies over the month of July.

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 31.67 billion as at end July 2013 to Kshs 875.23 billion from Kshs 843.56 billion in June 2013 as shown in Table 3.

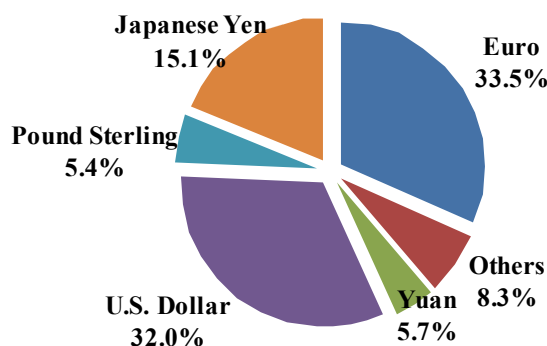
Table 3: External debt stock, in billions

	June 2013		July 2013	
	Kshs	USD	Kshs	USD
Bilateral	217.97	2.53	229.34	2.63
Multilateral	507.92	5.91	525.22	6.02
Guaranteed	43.53	0.51	45.20	0.52
Others	15.21	0.18	15.56	0.18
Commercial Banks	58.93	0.68	59.91	0.68
Total	843.56	9.81	875.23	10.03

Source: The National Treasury

This increase can be attributed to increased disbursements and depreciation of the Kenya Shilling against the major currencies. Chart 3 below indicates the currency composition of external debt, it shows that the Euro forms the largest share of the external debt portfolio followed by the US Dollar at 33.48 percent.

Chart 3. Currency Composition

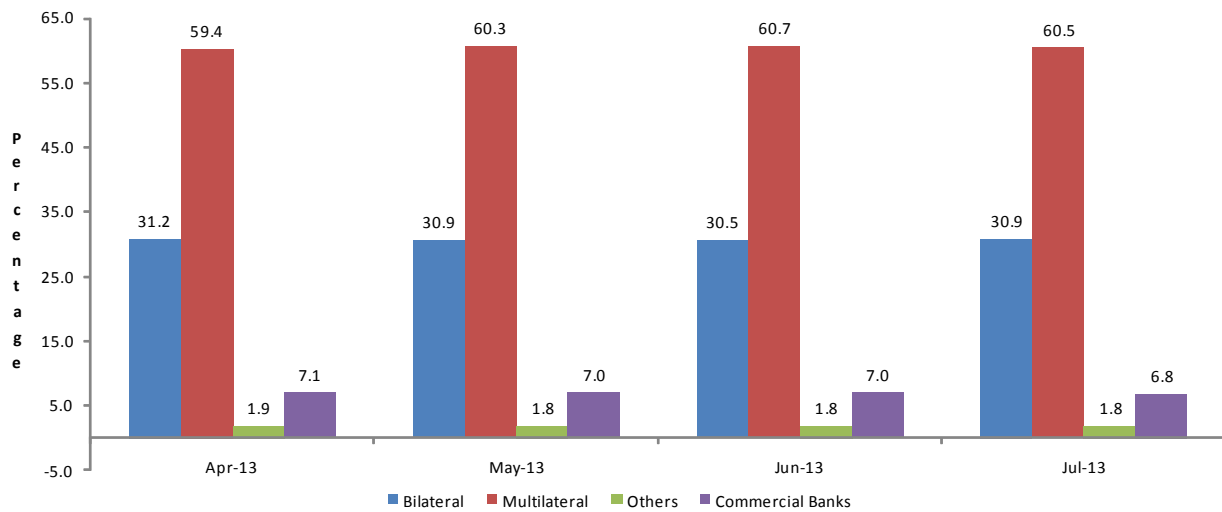


Source: The National Treasury

### 2.2 Structure of External Debt by Creditor

Official creditors account for 91.38 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors of Ksh 529.14 billion including Ksh 3.93 billion guaranteed debt owed to IDA dominate the portfolio (60.46 percent of the total). Bilateral debt stands at Kshs 270.61 billion (30.92 percent of the total), inclusive of Kshs 41.27 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 Japan, France and Germany are the leading creditors in the bilateral category. The Commercial debt constitutes 6.84 percent of the total public and publicly guaranteed external debt.

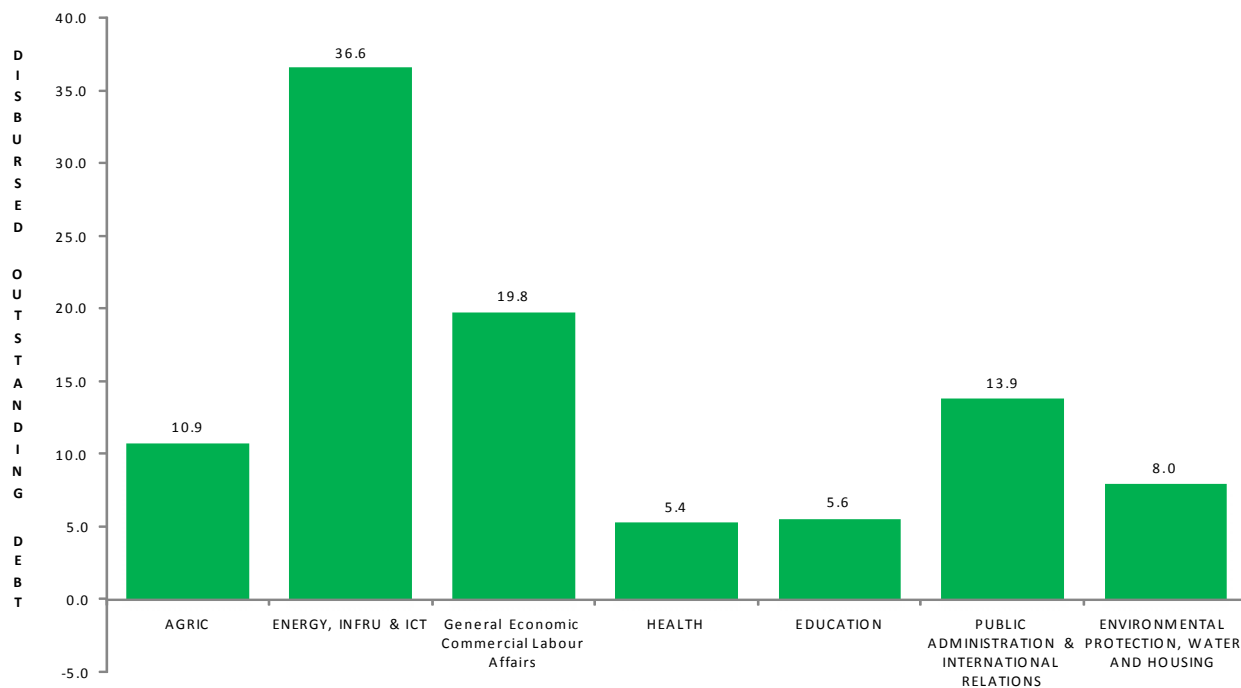
Chart 4: External Debt by Creditor



Source: National Treasury

### 2.3 External Debt by Sector

The graph below illustrates how the outstanding external debt is shared among the economic and social sectors of the economy.



## 2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end July 2013 stood at Kshs 3.38 billion. Principal and interest projections for the month of July 2013 were Kshs 2.87 billion and Kshs 0.51 billion, respectively. Multilateral and bilateral creditors constitute 43.3 percent and 56.7 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 July 2013, in Kshs million

<b>Creditor category</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Bilateral	1,590.29	327.72	1,918.01
Multilateral	1,281.91	108.94	1,466.48
Commercial	-	-	-
<b>Total</b>	<b>2,872.20</b>	<b>512.30</b>	<b>3,384.49</b>

Source: The National Treasury

## 2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end July 2013 was Kshs 1.83 billion as reflected in Table 5. Actual principal and interest payments for the month of July 2013 was Kshs 1.32 billion and Kshs 0.51 billion respectively.

Table 5: Actual cumulative external debt service as at end of July 2013, in Kshs million

<b>Credit category</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Bilateral	620.77	396.53	1,017.30
Multilaterals	702.09	108.94	811.03
Commercials	-	-	-
<b>Totals</b>	<b>1,322.86</b>	<b>505.46</b>	<b>1,828.33</b>

Source: The National Treasury

## 2.6 Budget Deviation

The actual cumulative debt service for July 2013 was below the projected debt service by Kshs 1.56 billion. The deviation is explained by changes in exchange rates between the actual and projected debt service payments.

## 2.7 Guaranteed External Debt

Under the Public Financial Management Act, 2012, the government may issue guarantees so long as it does not exceed the statutory ceiling set by Parliament which currently stands at Kshs 200 billion. The guaranteed external debt increased by Kshs 1.65 million to Kshs 45.19 billion in July 2013 from Ksh 43.54billion in June 2013 due to exchange rate depreciation during the month.

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

<b>Creditor</b>	<b>May 2013</b>	<b>June 2013</b>	<b>July 2013</b>
Japan	38,270.20	39,168.04	40,761.58
Canada	357.53	352.64	357.86
U.S.A	144.71	146.21	148.38
IDA (KR Concessionaire)	3,830.56	3,870.34	3,927.40
Totals	42,603.00	43,537.23	45,195.40

**Source: The National Treasury**

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 55.86 billion to Ksh 944.99 billion in July 2013 from Kshs 889.13 billion in June 2013 due to decrease in Government deposits in commercial banks and increase the gross domestic debt over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	May 2013	June 2013	July 2013
Gross domestic debt	1,078.40	1,050.56	1,078.60
<i>less</i>			
Govt. deposits at CBK	-68.10	-57.32	-96.11
Govt. deposits at commercial banks	-104.81	-98.41	-31.81
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	899.79	889.13	944.99

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of July 2013, Government securities worth Kshs 76 billion were advertised. Bids worth Kshs 13 billion and 41 billion were received from Treasury Bills and Treasury Bond issued during the month. Successful bids amounted to Kshs 43.6 billion against the months redemptions of Kshs 18.1 billion leaving exchequer with a surplus of Kshs 25.5 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	41,000	35,000	76,000
Bids received	13,048	41,226	54,274
Successful bids	12,215	31,381	43,596
Redemptions (cost)	(18,083)	-	(18,083)
Net domestic borrowing	(5,868)	31,381	25,513

Source: National Treasury



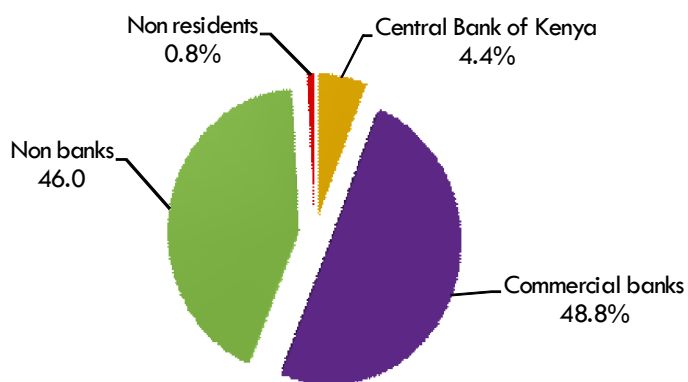
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	344.26	428.56	0.34	3.53	776.69
Treasury bills	179.06	67.45	2.93	5.34	254.79
Others	2.64	0.07	44.41	0.00	47.12
Total	525.96	496.08	47.68	8.88	1,078.60
Percentage Holding	48.8	46.0	4.4	0.8	100.00

Source: Central Bank of Kenya

At the end of July 2013, commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 525.96 billion or 48.8 percent as shown in Table 9 and Chart 5. The non banks held 46.0 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 8.88 billion or 0.8 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 47.68 billion held by Central Bank of Kenya comprises the Government overdraft and Repo Treasury Bills used for execution of monetary policy.

Chart 5: Domestic debt by holder as at end July 2013

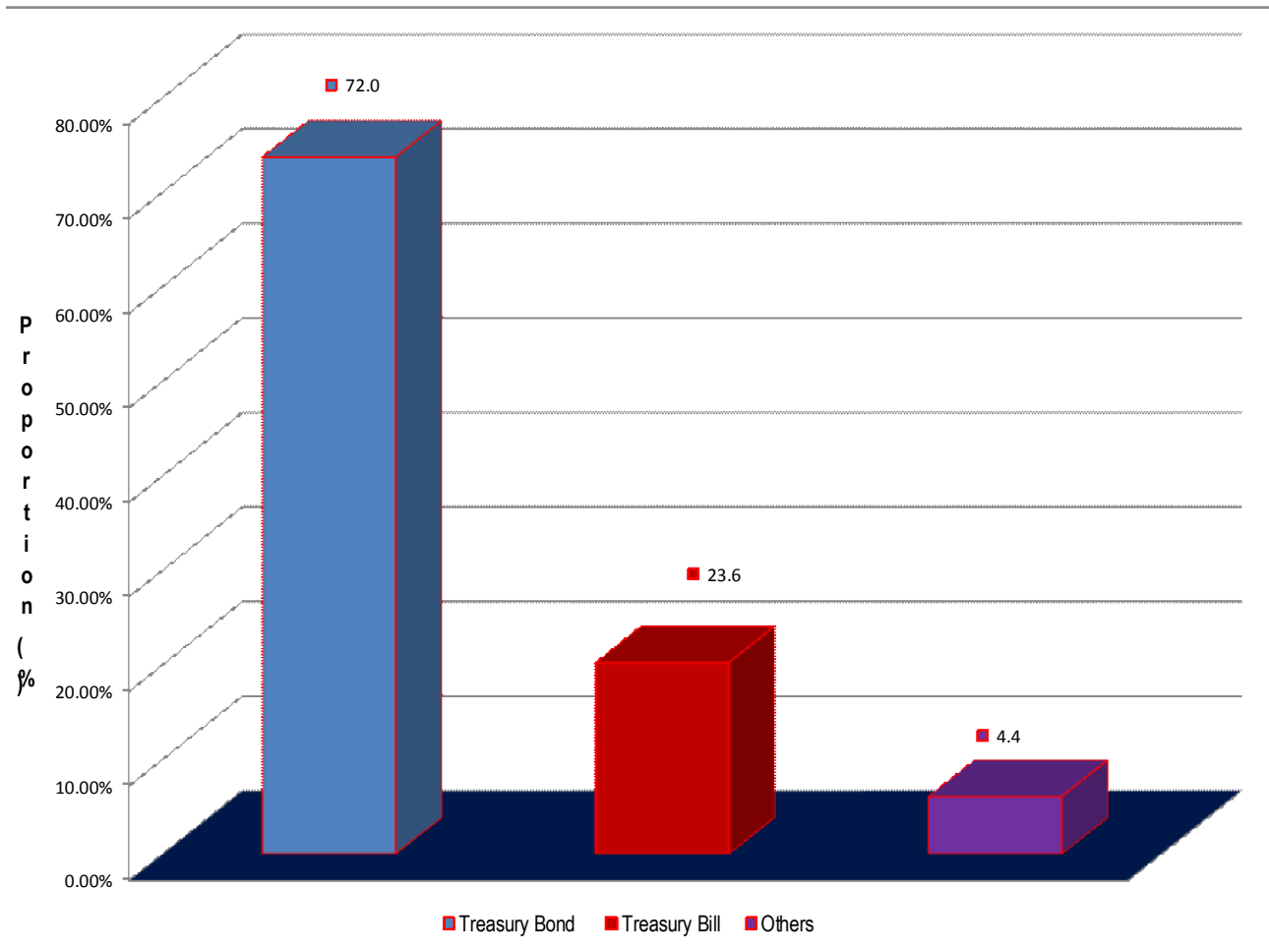


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end July 2013. 72.0 percent of Government domestic debt was in Treasury Bonds, 23.6 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 6: Domestic debt by instrument



Source: Central Bank of Kenya

### 3.4 Net Domestic Financing

Table 10 shows that as at end July 2013, the net domestic financing stood at a net repayment of Kshs 2.22 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2013	July-2013	Change
Treasury Bills	245.48	238.44	(7.04)
Treasury Bonds	713.12	738.13	25.01
Pre-1997 Govt. Overdraft debt	28.89	28.89	0.00
Other	8.72	17.23	8.51
<i>of which Overdraft (from CBK)</i>	6.99	15.64	8.64
Govt. deposits	97.37	126.07	28.70
<b>Net Domestic Credit</b>	<b>898.84</b>	<b>896.63</b>	<b>(2.22)</b>

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end July 2013, Government actual cumulative domestic interest payments stood at Kshs 3.32 billion against the cumulative projected interest payments of Kshs 3.84 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 2.51 billion and Kshs 0.72 billion respectively.

Table 11: Domestic interest payments, in Kshs million

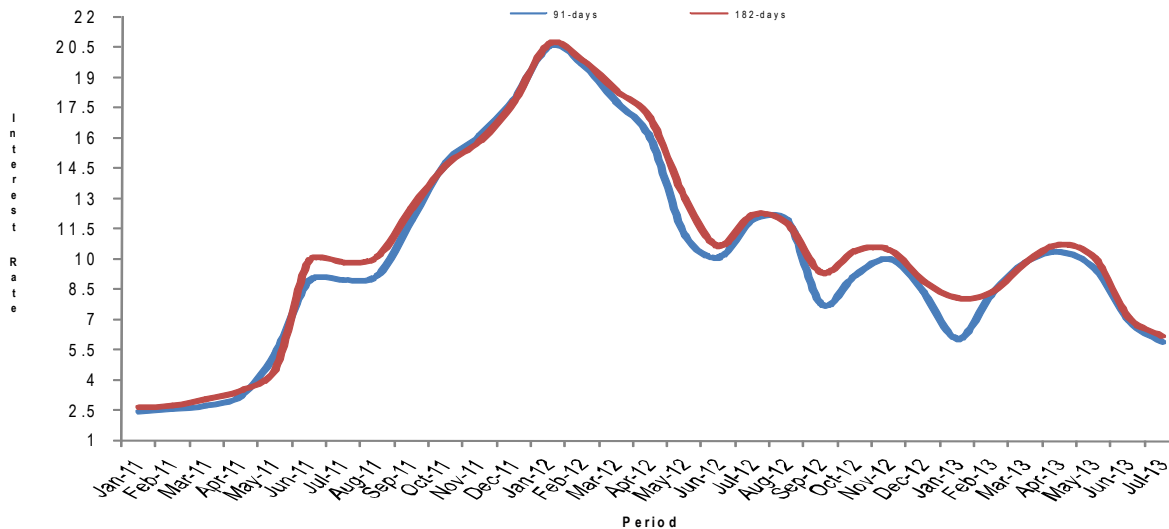
Type of debt	Projected	Actual	Variance
Treasury bonds	2,512	2,516	4
Treasury bills	1,181	724	457
Overdraft	74	74	-
Pre-1997 overdraft debt	71	-	71
<b>Totals</b>	<b>3,837</b>	<b>3,315</b>	<b>522</b>

Source: Central Bank of Kenya

### 3.6 Average Interest rates for Treasury Bills

Chart 7 shows the monthly trends on average interest rates for both the 91-day and 182-day Treasury Bills since January 2011. During the month of July 2013, the average interest rates for the 91-day Treasury bills decreased by 104 basis points to 5.92 percent from 6.96 percent in June 2013 and the 182-days Treasury bill decreased by 89 basis points from 6.93 per cent to 6.22 percent per annum. 364-days Treasury bill rate stood at an average of 8.81 percent per annum in July 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

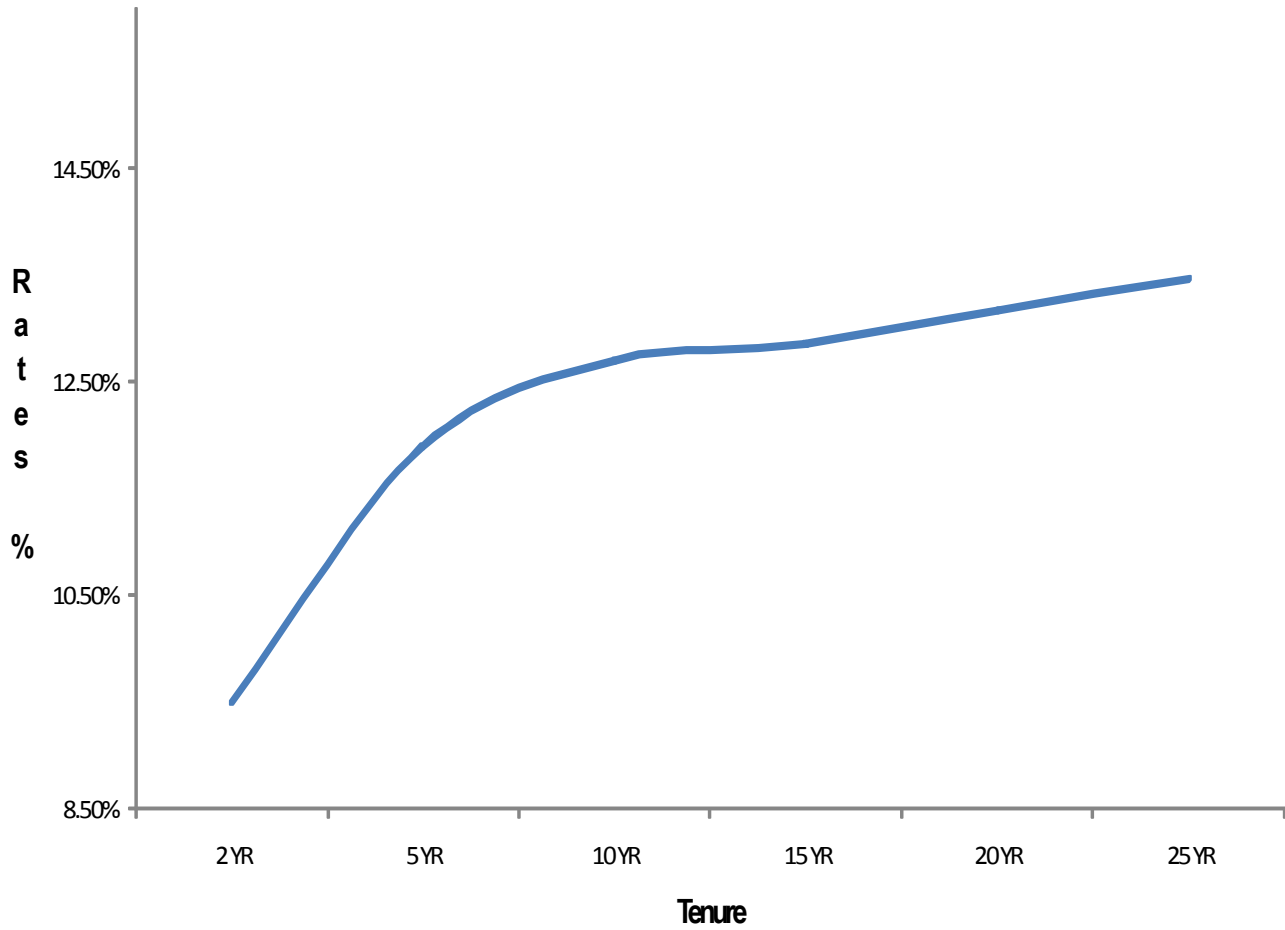
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end JuLY 2013.

Table 12 :Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	9.50
5 YR	11.89
10 YR	12.70
15 YR	12.85
20 YR	13.18
25 YR	13.46

Source: Nairobi Securities Exchange (NSE)

Chart 8: Yields on selected Treasury Bonds



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

<b>CREDITOR</b>	<b>Stock at end June 2013</b>	<b>Stock at end July 2013</b>	<b>Change</b>
<b>CENTRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,024.09	1,054.66	30.57
BELGIUM	7,607.22	7,593.17	(14.05)
CANADA	1,037.71	1,053.06	15.35
DENMARK	1,987.79	2,046.20	58.41
FINLAND	96.64	98.81	2.17
FRANCE	47,397.05	53,310.60	5,913.55
GERMANY	25,042.37	25,789.87	747.50
ITALY	2,131.74	2,194.66	62.92
JAPAN	47,620.46	48,936.48	1,316.02
NETHERLANDS	2,599.67	2,677.27	77.60
UK	1,731.62	1,757.72	26.10
USA	4,669.83	4,716.82	46.99
PARIS CLUB OTHERS	5,144.11	5,276.60	132.49
NON PARIS CLUB	69,879.33	72,835.64	2,956.31
o/w CHINA	63,123.40	65,958.41	2,835.01
<b>Sub total</b>	<b>217,969.64</b>	<b>229,341.55</b>	<b>11,371.91</b>
<b>MULTILATERAL</b>			
ADB/AFDB	80,728.61	87,156.67	6,428.06
EEC/EIB	15,769.40	16,024.29	254.89
IDA	319,592.79	329,295.01	9,702.22
IFAD	9,160.50	9,270.45	109.95
IMF	73,779.44	74,430.09	650.65
OTHERS	8,889.77	9,040.34	150.57
<b>Sub total</b>	<b>507,920.52</b>	<b>525,216.86</b>	<b>17,296.34</b>
<b>COMMERCIAL BANKS</b>	<b>58,927.52</b>	<b>59,909.43</b>	<b>981.91</b>
<b>SUPPLIERS CREDIT</b>	<b>15,207.35</b>	<b>15,564.68</b>	<b>357.33</b>
<b>Sub Total</b>	<b>800,025.04</b>	<b>830,032.52</b>	<b>30,007.48</b>
<b>GUARANTEED DEBT</b>			
CANADA	352.64	357.86	5.22
JAPAN	39,168.04	40,761.58	1,593.54
USA	146.21	148.38	2.17
IDA (KR Concessionaire)	3,870.34	3,927.59	57.25
<b>Sub Total</b>	<b>43,537.23</b>	<b>45,195.40</b>	<b>1,658.17</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>843,562.27</b>	<b>875,227.92</b>	<b>31,665.65</b>

Source: National Treasury

**Memorandum item**

**Nominal GDP (in Kshs Billion)      3,662.56**

**Source: QEBR June 2013**

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