



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DEBT MANAGEMENT DEPARTMENT

MONTHLY DEBT BULLETIN

JULY 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end July 2014, public and publicly guaranteed debt stood at Kshs 2,386.10 billion or 57.3 percent of GDP (see Table 1). The decrease of 1.5 percent over the end June 2014 position is attributed to decrease in external debt. Gross domestic debt increased by Ksh 12.11 billion to stand at Ksh 1,296.44 billion, while external debt decreased by Ksh 48.85 billion to stand at Ksh 1,089.66 billion in July 2014 . (See Table 1).

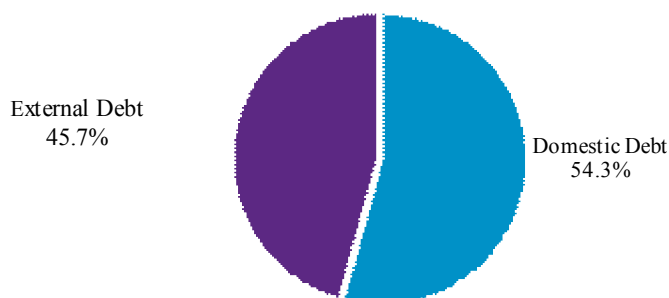
Table 1: Size of public debt, end July 2014, in billion

Debt Category	Kshs	USD
Domestic Debt	1,296.44	14.76
External Debt	1,089.66	12.41
Total	2,386.10	27.17

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 54.3 percent of the total debt is domestic debt while 45.7 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 2.6 percent and 6.2 years, respectively. In addition, the average maturity period for external loans was 18.1 years while the average grant element was 63.9 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 4 years 9 months as at end July 2014 .

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period May to July 2014. During this period, the Kenya shilling appreciated against the Euro and Japanese Yen by 1.51, and 1.02 percent respectively but it depreciated against the Sterling Pound by 1.13 percent. The shilling stood at Kshs 87.80 to the US Dollar at end of July 2014.

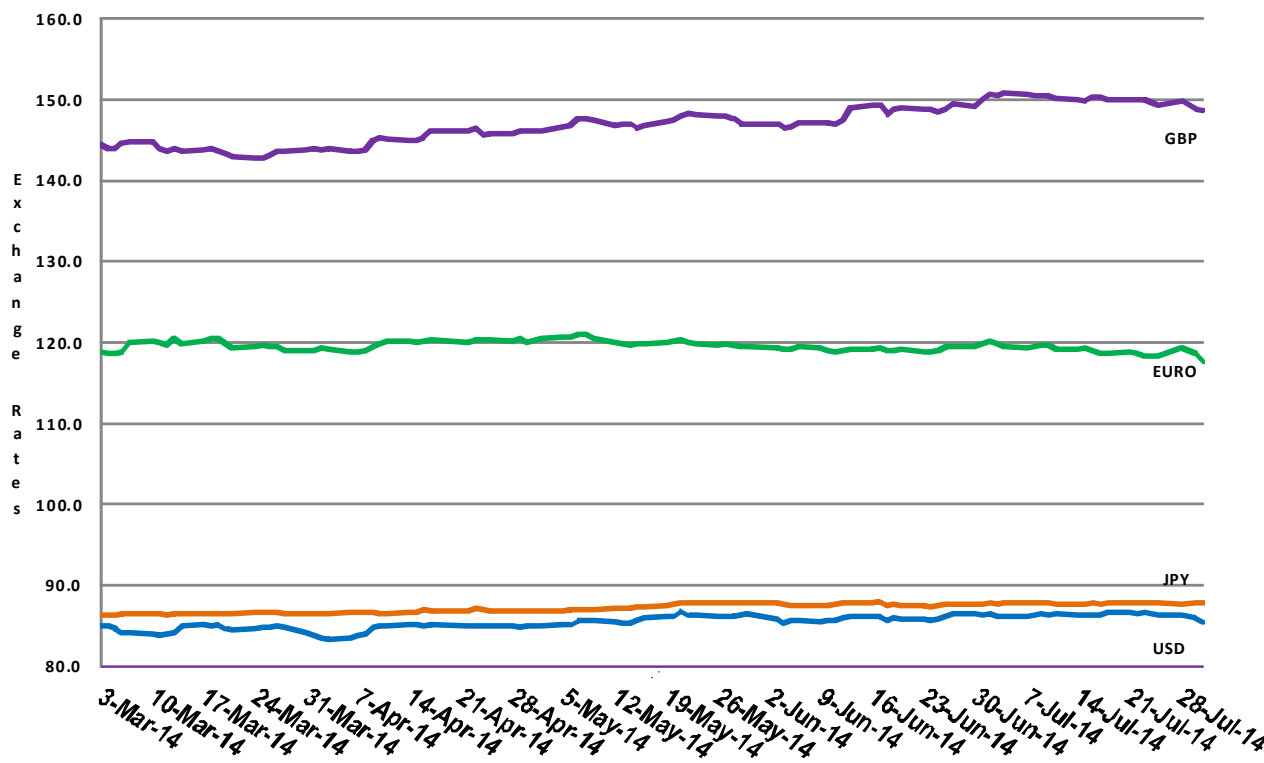
Table 2: Movement in exchange rates

Currency	May 2014	June 2014	July 2014
US Dollar	87.80	87.63	87.80
STG Pound	146.92	149.20	148.58
Euro	119.44	119.55	117.64
JPY(100)	86.42	86.51	85.54

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from March 2014 to July 2014. The exchange rate against the four major currencies depicted a more stable movement during the months of May and July 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 decreased by Kshs 48.85 billion as at end July 2014 to Kshs 1,089.66 billion from Kshs 1,138.51 billion at the end of June 2014 as shown in Table 3.

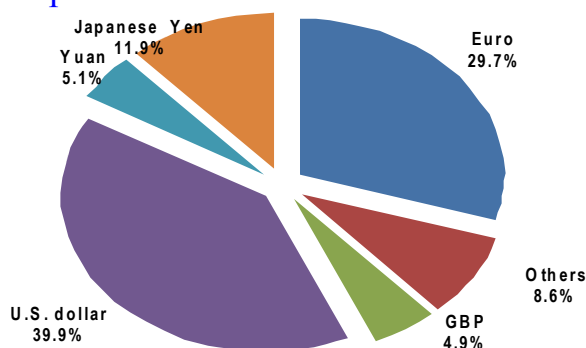
Table 3: External debt stock, in billions

	June 2014		July 2014	
	Kshs	USD	Kshs	USD
Bilateral	248.64	2.84	245.57	2.79
Multilateral	593.40	6.77	600.77	6.84
Guaranteed	45.22	0.52	44.54	0.51
Others	16.45	0.19	16.32	0.19
Commercial Banks	234.80	2.68	182.47	2.08
Total	1,138.51	12.99	1,089.66	12.41

Source: The National Treasury

This decrease is mainly attributed to repayment in July of Ksh 53.025 billion, equivalent to USD 600 million in respect of the syndicated loan from commercial banks. Chart 3 below depicts the currency composition of external debt, showing that the US Dollar forms the largest share of the external debt portfolio at 39.9 percent followed by the Euro at 29.7 percent.

Chart 3. Currency Composition

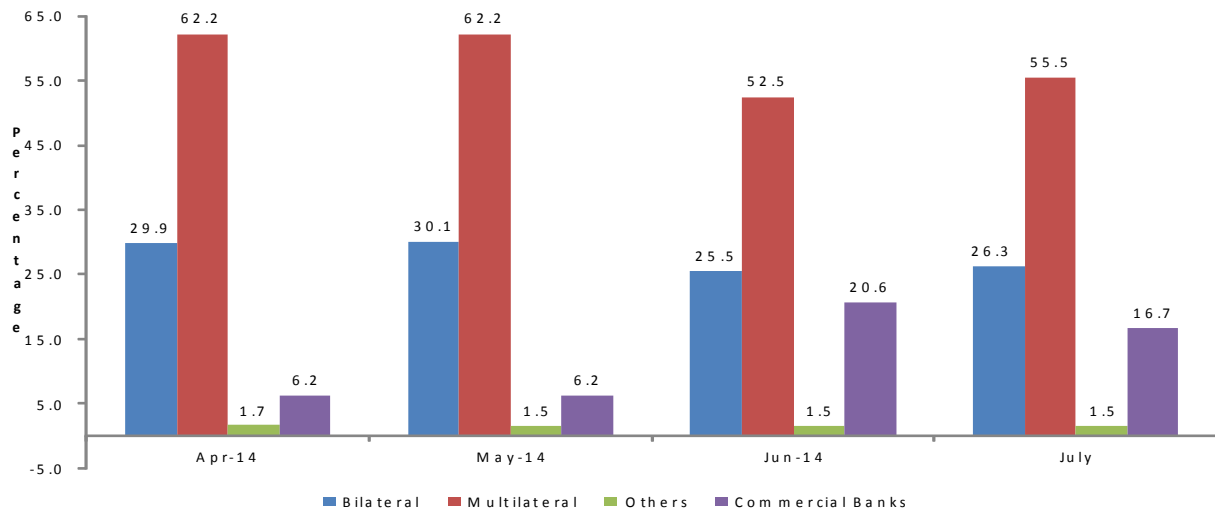


Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 81.8 percent of the total public and publicly guaranteed external debt, out of which debt owed to multilateral creditors amounts to Ksh 604.72 billion (including Ksh 3.95 billion guaranteed debt owed to IDA) dominates the portfolio at 55.5 percent of the total. Bilateral debt stands at Kshs 286.15 billion (26.3 percent of the total), inclusive of Kshs 40.58 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 16.7 percent of the total public and publicly guaranteed external debt. The decrease in the commercial debt portion is attributed to the repayment of the USD 600 million syndicated loan in the month of July 2014.

Chart 4: External Debt by Creditor

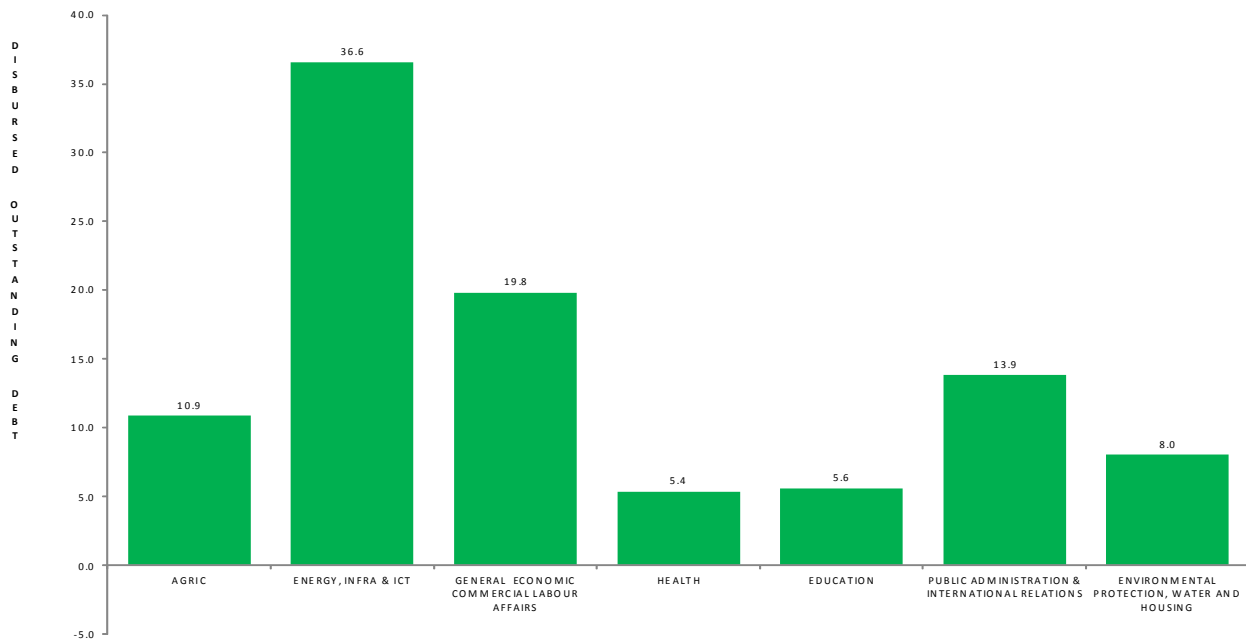


Source: The National Treasury

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 in the FY 2014/15 for the period to end July 2014 stood at Kshs 58.03 billion. Principal and interest projections for the month of July 2014 was Kshs 57.26 billion and Kshs 0.78 billion, respectively. Multilateral and bilateral creditors constitute 2.4 percent and 3.7 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4. The syndicated Commercial loan formed the bulk of the projected debt service in the month of July.

Table 4: Projected Cumulative External Debt Service as at end of July 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	1,593.36	571.00	2,164.36
Multilateral	1,207.52	200.72	1,408.24
Commercial	54,458.08	0.00	54,458.08
Total	57,258.96	771.72	58,030.68

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end July 2014 was Kshs 55.39 billion as shown in Table 5. Actual principal and interest payments for the month of July 2014 was Kshs 54.93 billion and Kshs 0.46 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	804.72	270.98	1,075.70
Multilaterals	1,096.96	191.70	1,288.65
Commercials	53,025.00	-	53,025.00
Totals	54,926.68	462.68	55,389.35

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for July 2014 was below the projected debt service by Kshs 2.6 billion and this is attributed to the exchange rate variations between the projected and actual exchange rates.

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 July 2014, the guaranteed external debt decreased by Kshs 547.59 million to Kshs 44.53 billion from Ksh 45.08 billion in May 2014 due to appreciation of major exchange rates during the period.

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

Creditor	May 2014	June 2014	July 2014
Japan	40,706.11	40,852.92	40,166.95
Canada	351.20	350.52	342.45
U.S.A	74.63	74.48	74.63
IDA (KR Concessionaire)	3,950.87	3,943.21	3,951.19
Totals	45,082.81	45,221.13	44,535.22

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt decreased by Kshs 25.52 billion to Kshs 1,053.29 billion in July 2014 from Kshs 1,078.81 billion in June 2014 mainly due to increases in Government deposits at CBK over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	May 2014	June 2014	July 2014
Gross domestic debt	1,232.49	1,284.33	1,296.45
<i>less</i>			
Govt. deposits at CBK	-23.63	-67.26	-104.82
Govt. deposits at commercial banks	-131.55	-132.56	-132.64
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,071.61	1,078.81	1,053.29

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of July 2014, Government securities worth Kshs 42.00 billion were advertised. Bids worth Kshs 71.4 billion and 20.2 billion were received for the Treasury Bills and Treasury Bonds during the month respectively. Successful bids amounted to Kshs 45.69 billion against redemptions of Kshs 19.94 billion leaving exchequer with a surplus of Kshs 25.75 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	42,000	10,000	52,000
Bids received	71,372	20,248	91,620
Successful bids	37,814	7,874	45,688
Redemptions (cost)	(19,941)	-	(19,941)
Net domestic borrowing	17,873	7,874	25,747

Source: The National Treasury

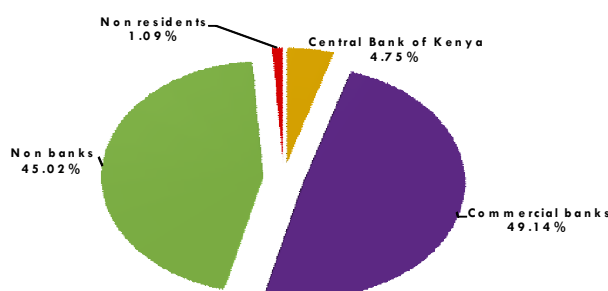
Table 9: Domestic debt instruments by holder end July 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	436.13	474.69	2.04	3.49	916.35
Treasury bills	197.64	108.84	0.05	10.66	317.19
Others	3.36	0.07	59.47	0.00	62.90
Total	637.13	583.60	61.56	14.15	1,296.44
Percentage Holding	49.14%	45.02%	4.75%	1.09%	

Source: Central Bank of Kenya

At the end of July 2014, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 637.13 billion or 49.14 percent as shown in 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 583.60 billion or 45.02 percent while the Government debt worth Kshs 14.15 billion or 1.09 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 61.56 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 July 2014

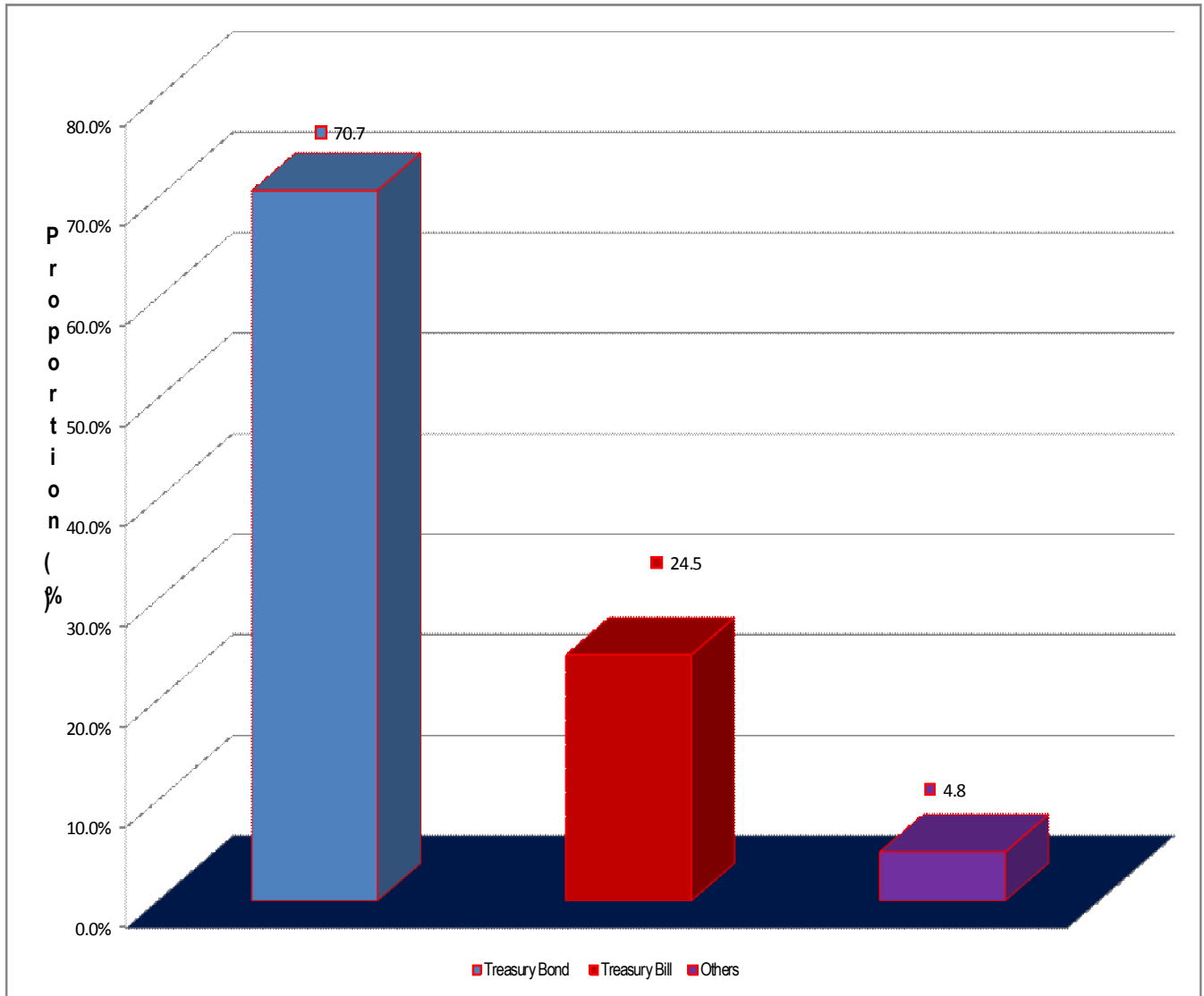


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end July 2014. 70.7 percent of Government domestic debt was in Treasury Bonds, 24.5 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 July 2014, the net domestic financing stood at Kshs 29.00 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2014	July -2014	Change
Treasury Bills	279.48	297.32	17.84
Treasury Bonds	879.33	879.34	0.01
Pre-1997 Govt. Overdraft debt	27.78	27.78	0.00
Other	39.74	32.91	(6.83)
<i>of which Overdraft (from CBK)</i>	37.24	31.66	(5.58)
Govt. deposits	125.76	165.78	40.02
Net Domestic Credit	1,100.57	1,071.57	29.00

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end July 2014, Government actual cumulative domestic interest payments stood at Kshs 5.07 billion against the cumulative projected interest payments of Kshs 3.25 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 3.16 billion and Kshs 1.62 billion respectively. The variance of Kshs 1.82 billion 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

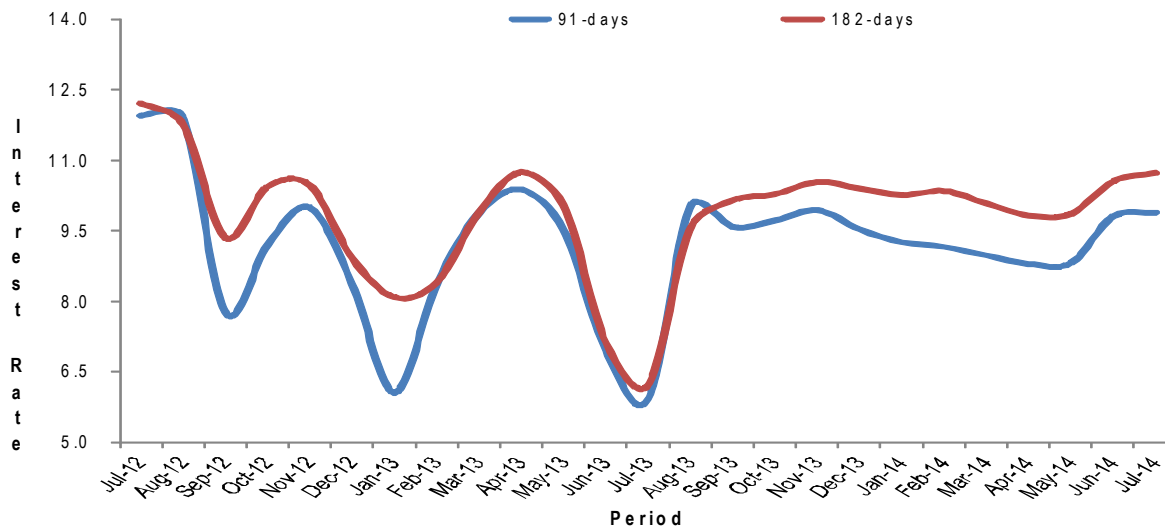
Type of debt	Projected	Actual	Variance
Treasury bonds	1,854.91	3,157.37	1,302.46
Treasury bills	1,239.24	1,624.61	385.37
Overdraft	83.33	219.17	135.84
Pre-1997 overdraft debt	70.78	70.78	0.00
Totals	3,248.26	5,071.93	1,823.67

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 July 2012. During the month of July 2014, the average interest rates for the 91-day Treasury bills increased by 8 basis points to 9.89 percent from 9.81 percent in June 2014 and the 182-days Treasury bill increased by 17 basis point to 10.73 per cent from 10.56 percent per annum. 364-days Treasury bill rate stood at an average of 10.96 percent per annum in July 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

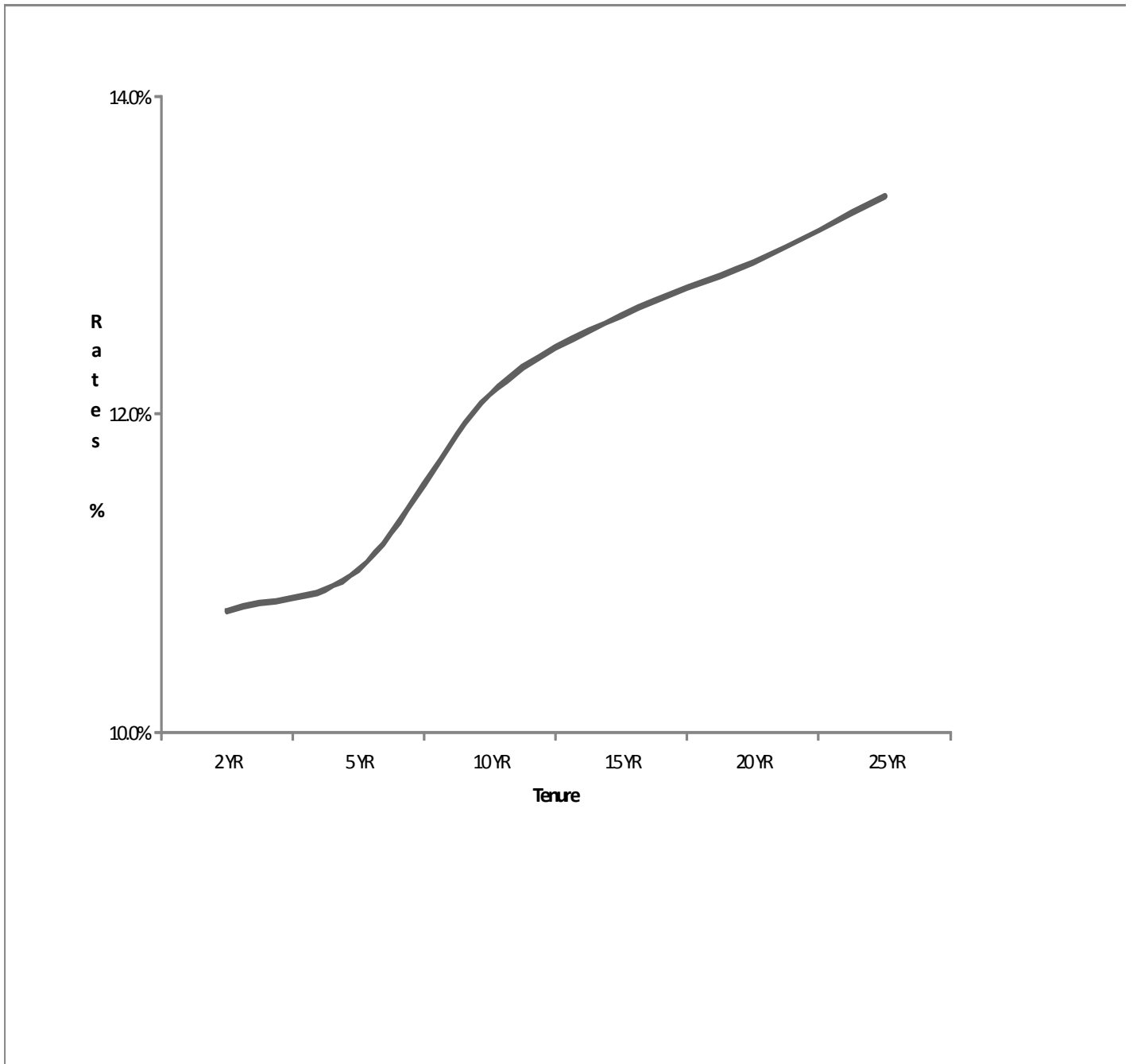
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to reduce fragmentation as well as lower both refinancing risk and cost of borrowing by the Government. Table 12 and Chart 9 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end July 2014.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.76
5 YR	11.02
10 YR	12.12
15 YR	12.62
20 YR	12.96
25 YR	13.37

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 June 2014	Stock at end July 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	716.98	649.15	(67.83)
BELGIUM	8,096.36	7,555.44	(540.92)
CANADA	998.26	936.93	(61.33)
DENMARK	1,991.76	1,923.80	(67.96)
FINLAND	93.59	85.49	(8.10)
FRANCE	61,579.73	61,493.10	(86.63)
GERMANY	26,571.29	25,842.80	(728.49)
ITALY	1,716.35	1,172.75	(543.60)
JAPAN	43,661.59	42,734.02	(927.57)
NETHERLANDS	2,701.91	2,519.48	(182.43)
UK	1,840.86	1,698.02	(142.84)
USA	4,467.78	4,374.24	(93.54)
PARIS CLUB OTHERS	6,082.06	5,894.15	(187.91)
NON PARIS CLUB	88,117.48	88,689.42	571.94
o/w CHINA	80,858.59	81,329.27	470.68
Sub total	248,636.01	245,568.81	(3,067.20)
MULTILATERAL			
ADB/AFDB	102,118.16	107,208.48	5,090.32
EEC/EIB	20,657.26	21,884.91	1,227.65
IDA	367,431.20	371,756.38	4,325.18
IFAD	10,851.21	10,741.77	(109.44)
IMF	83,282.16	80,166.24	(3,115.92)
OTHERS	9,056.67	9,011.18	(45.49)
Sub total	593,396.67	600,768.98	7,372.31
COMMERCIAL BANKS	234,799.04	182,466.06	(52,332.98)
SUPPLIERS CREDIT	16,451.86	16,316.70	(135.16)
Sub Total	1,093,283.58	1,045,120.55	(48,163.03)
GUARANTEED DEBT			
CANADA	350.52	342.45	(8.07)
JAPAN	40,852.92	40,166.95	(685.97)
USA	74.48	74.63	0.15
IDA (Kenya Railway Concessionaire)	3,943.21	3,951.19	7.98
Sub Total	45,221.13	44,535.22	(685.91)
GOK+ GUARANTEED TOTAL	1,138,504.71	1,089,655.77	(48,848.94)

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) : 4,164.56 Source: QEBR

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