



REPUBLIC OF KENYA

THE NATIONAL TREASURY

MONTHLY DEBT BULLETIN

JUNE 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end June 2014, public and publicly guaranteed debt stood at Kshs 2,422.83 billion or 58.2 percent of GDP (see Table 1). The increase of 10.6 percent over the end May 2014 position is attributed to increase in both domestic and external debt. Gross domestic debt increased by Ksh 51.84 billion to stand at Ksh 1,284.33 billion, while external debt increased by Ksh 180.61 billion to stand at Ksh 1,138.50 billion in June 2014. (See Table 1).

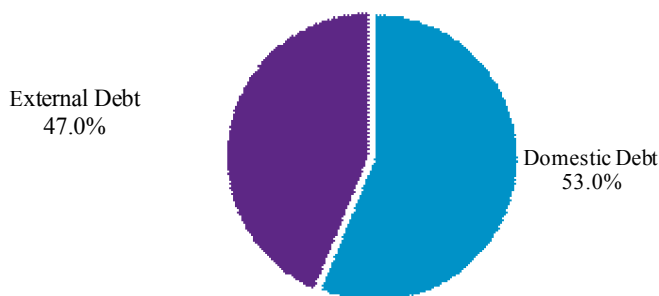
Table 1: Size of public debt, end June 2014, in billion

Debt Category	Kshs	USD
Domestic Debt	1,284.33	14.65
External Debt	1,138.50	12.99
Total	2,422.83	27.65

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 53.0 percent of the total debt is domestic debt while 47.0 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 Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt stood at 4 years 9 months as at end June 2014.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period April to June 2014. During this period, the Kenya shilling depreciated against the Sterling Pound, US Dollar and Japanese Yen by 2.09, 0.87 and 1.87 percent respectively. It appreciated against the Euro by 0.39 percent. The shilling stood at Kshs 87.63 to the US Dollar at end of June 2014.

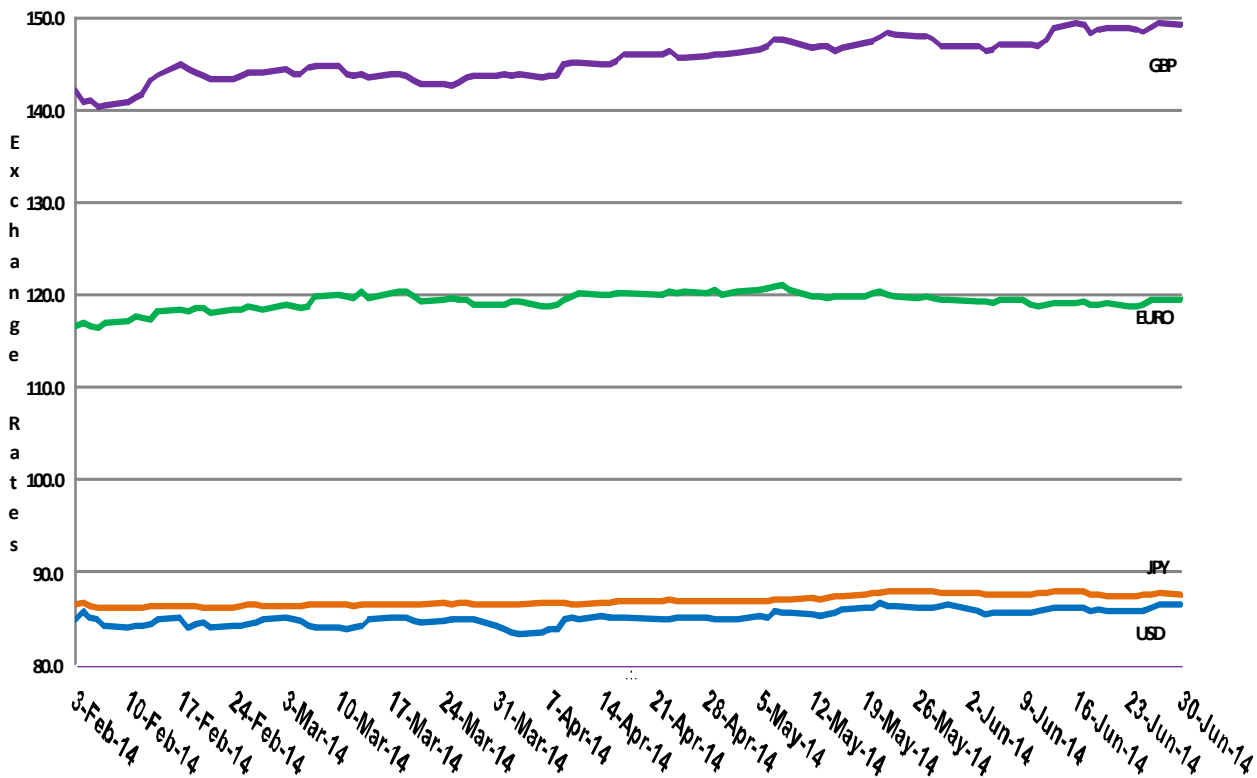
Table 2: Movement in exchange rates

Currency	April 2014	May 2014	June 2014
US Dollar	86.87	87.80	87.63
STG Pound	146.14	146.92	149.20
Euro	120.02	119.44	119.55
JPY(100)	84.92	86.42	86.51

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from February 2014 to June 2014. The exchange rate against the four major currencies depicted a more stable movement during the month of June 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 180.6 billion as at end June 2014 to Kshs 1,138.50 billion from Kshs 957.89 billion at the end of May 2014 as shown in Table 3.

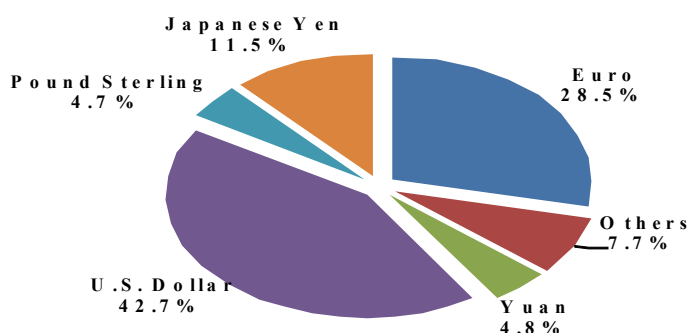
Table 3: External debt stock, in billions

	May 2014		June 2014	
	Kshs	USD	Kshs	USD
Bilateral	247.22	2.82	248.64	2.84
Multilateral	591.66	6.74	593.40	6.77
Guaranteed	45.08	0.51	45.22	0.52
Others	14.29	0.16	16.45	0.19
Commercial Banks	59.64	0.68	234.80	2.68
Total	957.89	10.91	1,138.50	12.99

Source: The National Treasury

This increase is attributed to disbursements from IDA, China and the issuance of the International Sovereign Bond. 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 42.7 percent followed by the Euro at 28.5 percent.

Chart 3. Currency Composition



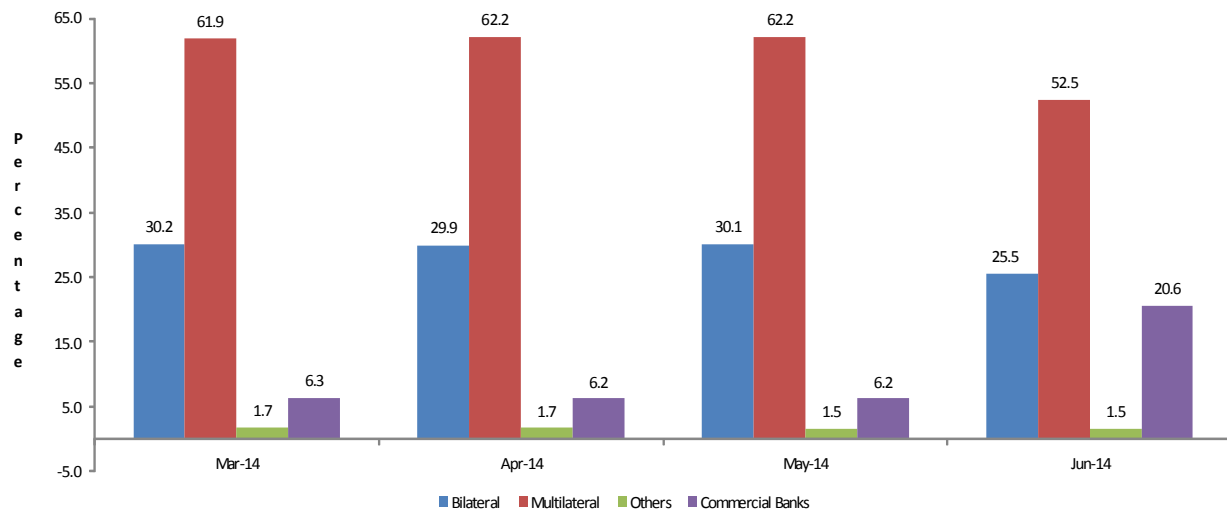
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 77.93 percent of the total public and publicly guaranteed external debt, out of which debt owed to multilateral creditors amounts to Ksh 597.34 billion (including Ksh 3.94 billion guaranteed debt owed to IDA) dominates the portfolio at 52.47 percent of the total. Bilateral debt stands at Kshs 289.91 billion (25.46 percent of the total), inclusive of Kshs 41.28 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 22.07 percent of the total public and publicly guaranteed external debt. The increase in the commercial debt portion is attributed to the issuance of the International Sovereign Bond in June 2014.

Chart 4: External Debt by Creditor

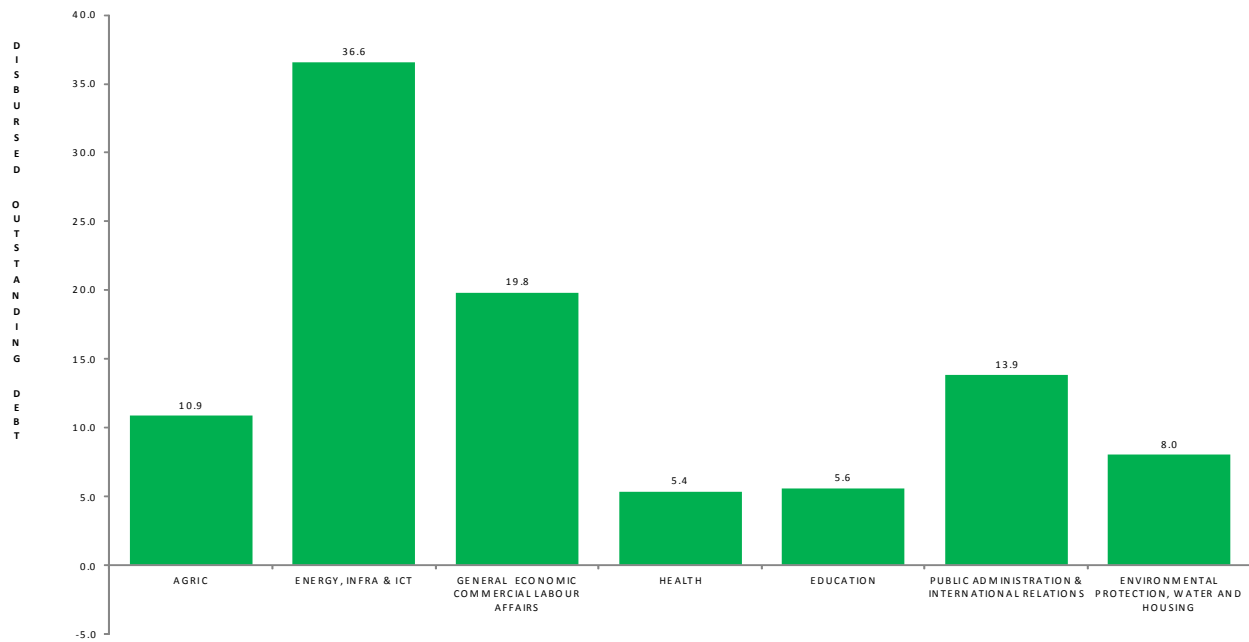


Source: The National Treasury

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 for the period to end June 2014 stood at Kshs 95.61 billion. Principal and interest projections for the month of June 2014 was Kshs 57.01 million and Kshs 1.31 million, respectively. Multilateral and bilateral creditors constitute 52.9 percent and 39.5 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 June 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	17,159.91	5,056.33	22,216.24
Multilateral	13,051.91	3,505.60	16,557.51
Commercial	0.00	3,184.77	3,184.77
Total	30,211.82	11,746.70	41,958.52

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end June 2014 was Kshs 93.5 billion as shown in Table 5. Actual principal and interest payments for the month of June 2014 was Kshs 2.78 billion and Kshs 1.26 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	14,087.23	5,076.96	19,164.19
Multilaterals	11,846.81	4,275.06	16,121.87
Commercials	830.83	3,379.77	4,210.60
Totals	26,764.87	12,731.79	39,496.66

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for June 2014 was below the projected debt service by Kshs 2.46 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 June 2014, the guaranteed external debt increased by Kshs 138.32 million to Kshs 45.22 billion from Ksh 45.08 billion in May 2014 due to depreciation of exchange rates during the period.

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

Creditor	April 2014	May 2014	June 2014
Japan	40,000.58	40,706.11	40,852.92
Canada	347.50	351.20	350.52
U.S.A	73.84	74.63	74.48
IDA (KR Concessionaire)	3,909.20	3,950.87	3,943.21
Totals	44,331.12	45,082.81	45,221.13

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 7.2 billion to Kshs 1,078.81 billion in June 2014 from Kshs 1,071.61 billion in May 2014 due to increase in Government gross debt over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	April 2014	May 2014	June 2014
Gross domestic debt	1,216.97	1,232.49	1,284.33
<i>less</i>			
Govt. deposits at CBK	-32.47	-23.63	-67.26
Govt. deposits at commercial banks	-133.10	-131.55	-132.56
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,045.70	1,071.61	1,078.81

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of June 2014, Government securities worth Kshs 103.00 billion were advertised. Bids worth Kshs 61.81 billion and 27.91 billion were received for Treasury Bills and Treasury Bond during the month respectively. Successful bids amounted to Kshs 84.62 billion against redemptions of Kshs 34.29 billion leaving exchequer with a surplus of Kshs 50.32 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	57,000	46,000	103,000
Bids received	61,807	27,908	89,715
Successful bids	57,823	26,792	84,615
Redemptions (cost)	(34,293)	-	(34,293)
Net domestic borrowing	23,530	26,792	50,322

Source: The National Treasury

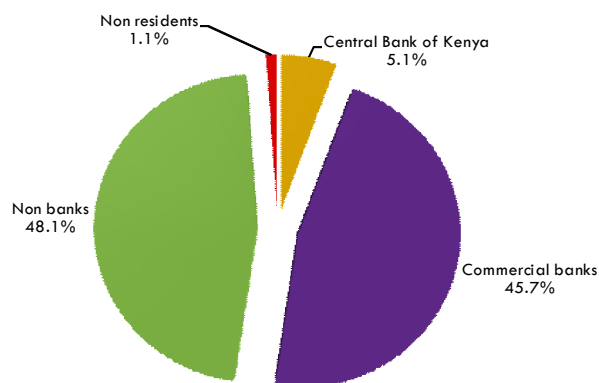
Table 9: Domestic debt instruments by holder end June 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	436.33	474.90	0.05	3.48	914.76
Treasury bills	176.44	111.51	0.01	11.44	299.40
Others	4.45	0.07	65.64	0.00	70.16
Total	617.22	586.48	65.70	14.92	1,284.33
Percentage Holding	48.1%	45.7%	5.1%	1.1%	

Source: Central Bank of Kenya

At the end of June 2014, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 617.22 billion or 48.1 percent as shown in Table 9 and Chart 6. This percentage constitute 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 586.48 billion or 45.7 percent while the Government debt worth Kshs 14.92 billion or 1.2 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 65.70 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 June 2014

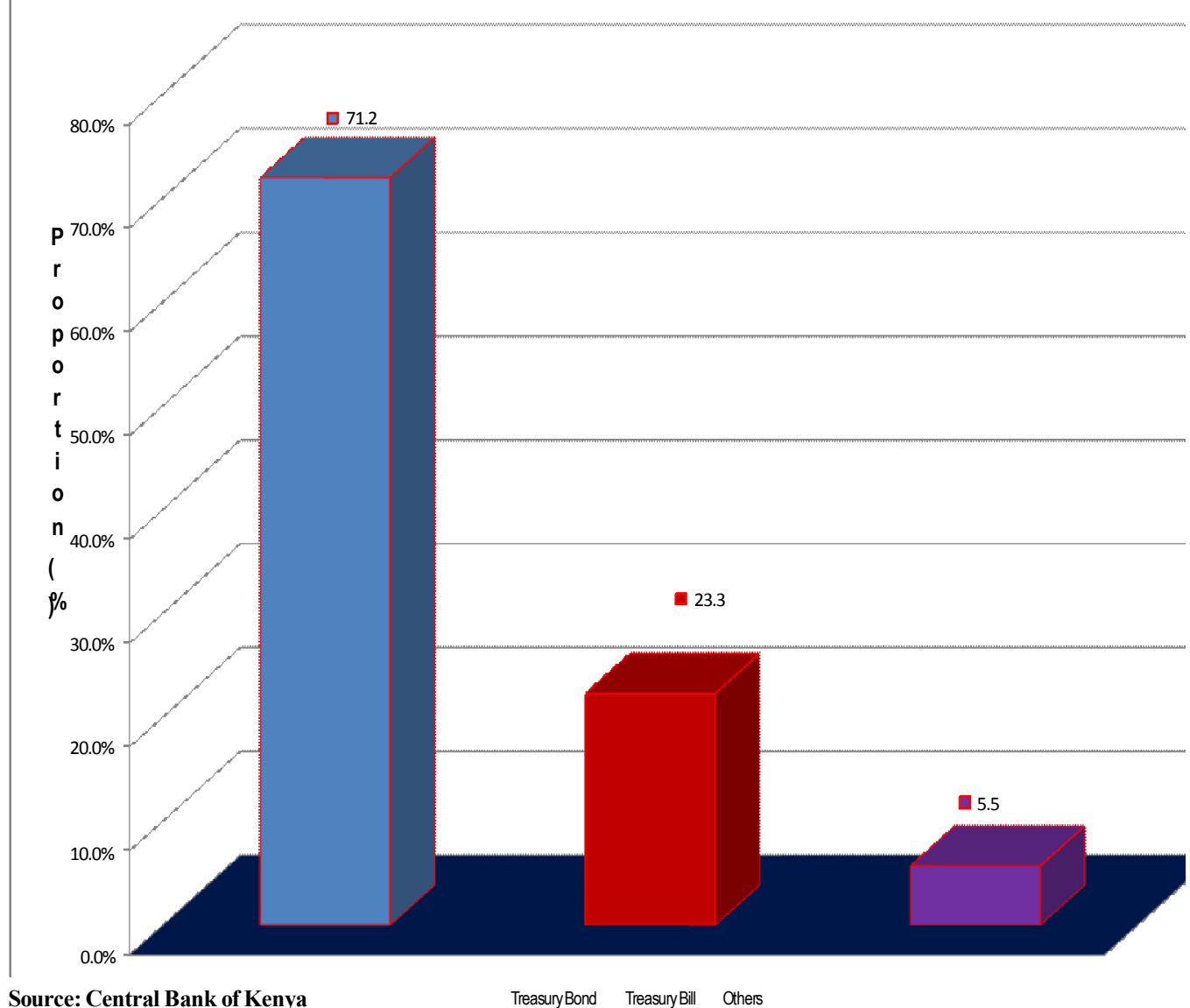


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end June 2014. 71.2 percent of Government domestic debt was in Treasury Bonds, 23.3 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 June 2014, the net domestic financing stood at Kshs 201.72 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2013	June -2014	Change
Treasury Bills	245.48	278.92	33.44
Treasury Bonds	713.12	879.33	166.21
Pre-1997 Govt. Overdraft debt	28.89	28.33	(0.56)
Other	8.72	39.74	31.02
<i>of which Overdraft (from CBK)</i>	7.00	37.24	30.24
Govt. deposits	97.37	125.70	28.38
Net Domestic Credit	898.84	1,100.56	201.72

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end June 2014, Government actual cumulative domestic interest payments stood at Kshs 119.19 billion against the cumulative projected interest payments of Kshs 122.27 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 86.90 billion and Kshs 28.86 billion respectively. The variance of Kshs 3.08 million is attributed to a lower actual interest rates realized in the market compared to the projected interest rates.

Table 11: Domestic interest payments, in Kshs million

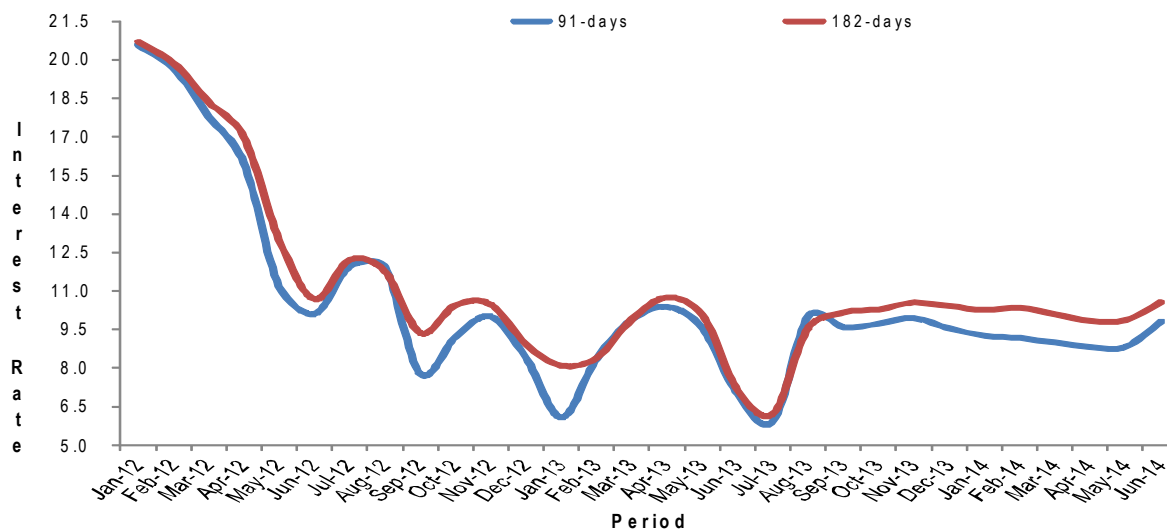
Type of debt	Projected	Actual	Variance
Treasury bonds	88,741.71	86,901.93	(1,839.78)
Treasury bills	30,622.84	28,859.73	(1,763.11)
Overdraft	2,055.12	2,293.97	238.85
Pre-1997 overdraft debt	854.79	1,137.72	282.93
Totals	122,274.46	119,193.35	(3,081.11)

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 January 2012. During the month of June 2014, the average interest rates for the 91-day Treasury bills increased by 99 basis points to 9.81 percent from 8.82 percent in May 2014 and the 182-days Treasury bill increased by 70 basis point to 10.56 per cent from 9.86 percent per annum. 364-days Treasury bill rate stood at an average of 10.49 percent per annum in June 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

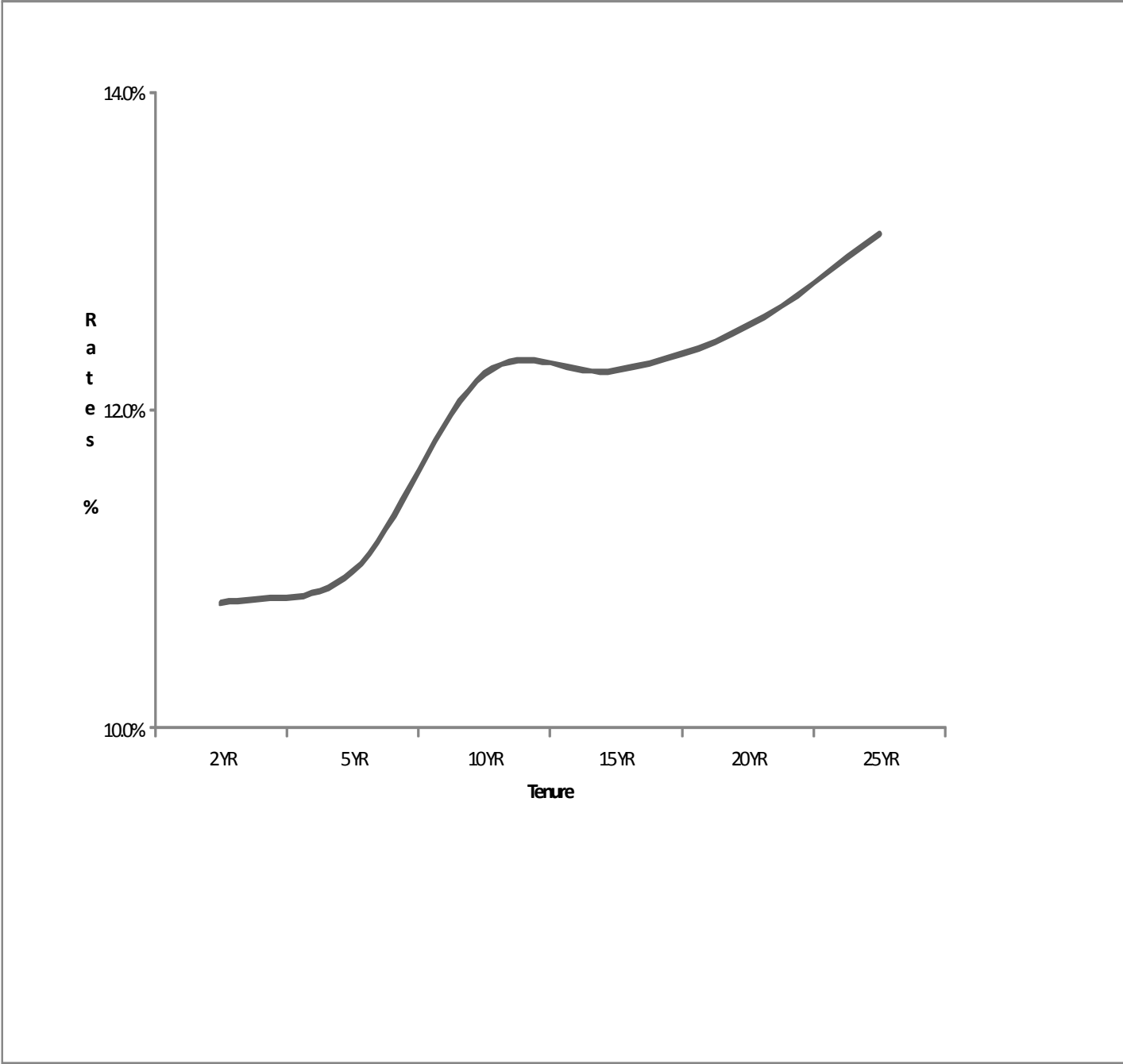
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.98
5 YR	11.85
10 YR	12.31
15 YR	12.90
20 YR	13.46
25 YR	13.64

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 May 2014	Stock at end June 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	716.31	716.98	0.67
BELGIUM	8,197.27	8,096.36	(100.91)
CANADA	1,000.20	998.26	(1.94)
DENMARK	1,987.84	1,991.76	3.92
FINLAND	93.64	93.59	(0.05)
FRANCE	60,039.04	61,579.73	1,540.69
GERMANY	26,580.32	26,571.29	(9.03)
ITALY	1,714.86	1,716.35	1.49
JAPAN	43,969.36	43,661.59	(307.77)
NETHERLANDS	2,675.38	2,701.91	26.53
UK	1,812.07	1,840.86	28.79
USA	4,474.70	4,467.78	(6.92)
PARIS CLUB OTHERS	6,053.55	6,082.06	28.51
NON PARIS CLUB	87,909.14	88,117.48	208.34
o/w CHINA	80,909.36	80,858.59	(50.77)
Sub total	247,223.68	248,636.01	1,412.33
MULTILATERAL			
ADB/AFDB	100,897.18	102,118.16	1,220.98
EEC/EIB	20,795.96	20,657.26	(138.70)
IDA	366,937.58	367,431.20	493.62
IFAD	10,810.39	10,851.21	40.82
IMF	83,150.92	83,282.16	131.24
OTHERS	9,065.36	9,056.67	(8.69)
Sub total	591,657.39	593,396.67	1,739.28
COMMERCIAL BANKS	59,640.95	234,799.04	175,158.09
SUPPLIERS CREDIT	14,288.38	16,451.86	2,163.48
Sub Total	912,810.40	1,093,283.58	180,473.18
GUARANTEED DEBT			
CANADA	351.20	350.52	(0.68)
JAPAN	40,706.11	40,852.92	146.81
USA	74.63	74.48	(0.15)
IDA (KR Concessionaire)	3,950.87	3,943.21	(7.66)
Sub Total	45,082.81	45,221.13	138.32
GOK+ GUARANTEED TOTAL	957,893.21	1,138,504.71	180,611.50

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 4,164.56

Source: QEBR March 2014

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