



REPUBLIC OF KENYA

THE NATIONAL TREASURY

MONTHLY DEBT BULLETIN

MAY 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end May 2014, public and publicly guaranteed debt stood at Kshs 2,190.39 billion or 52.60 percent of GDP (see Table 1). The increase of 1.03 percent over the end April 2014 position is attributed to increase in domestic debt. Gross domestic debt increased by Ksh 15.53 billion to stand at Ksh 1,232.50 billion, while external debt increased by Ksh 6.91 billion to stand at Ksh 957.89 billion in May 2014 . (See Table 1).

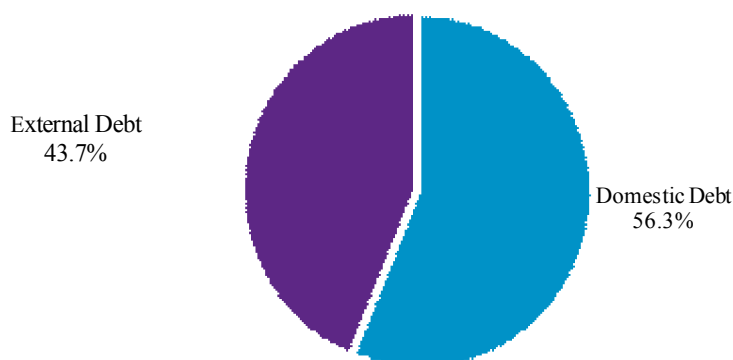
Table 1: Size of public debt, end May 2014, in billion

Debt Category	Kshs	USD
Domestic Debt	1,232.50	14.04
External Debt	957.89	10.91
Total	2,190.39	24.95

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 56.3 percent of the total debt is domestic debt while 43.7 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 2.8 percent and 6.1 years, respectively. In addition, the average maturity period for external loans was 16.7 years while the average grant element was 63.2 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 11 months as at end May 2014 .

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period March to May 2014. During this period, the Kenya shilling depreciated against the Sterling Pound, US Dollar, Euro and Japanese Yen by 2.16, 1.57, 2.66 and 0.44 percent respectively. The shilling stood at Kshs 87.80 to the US Dollar at end of May 2014.

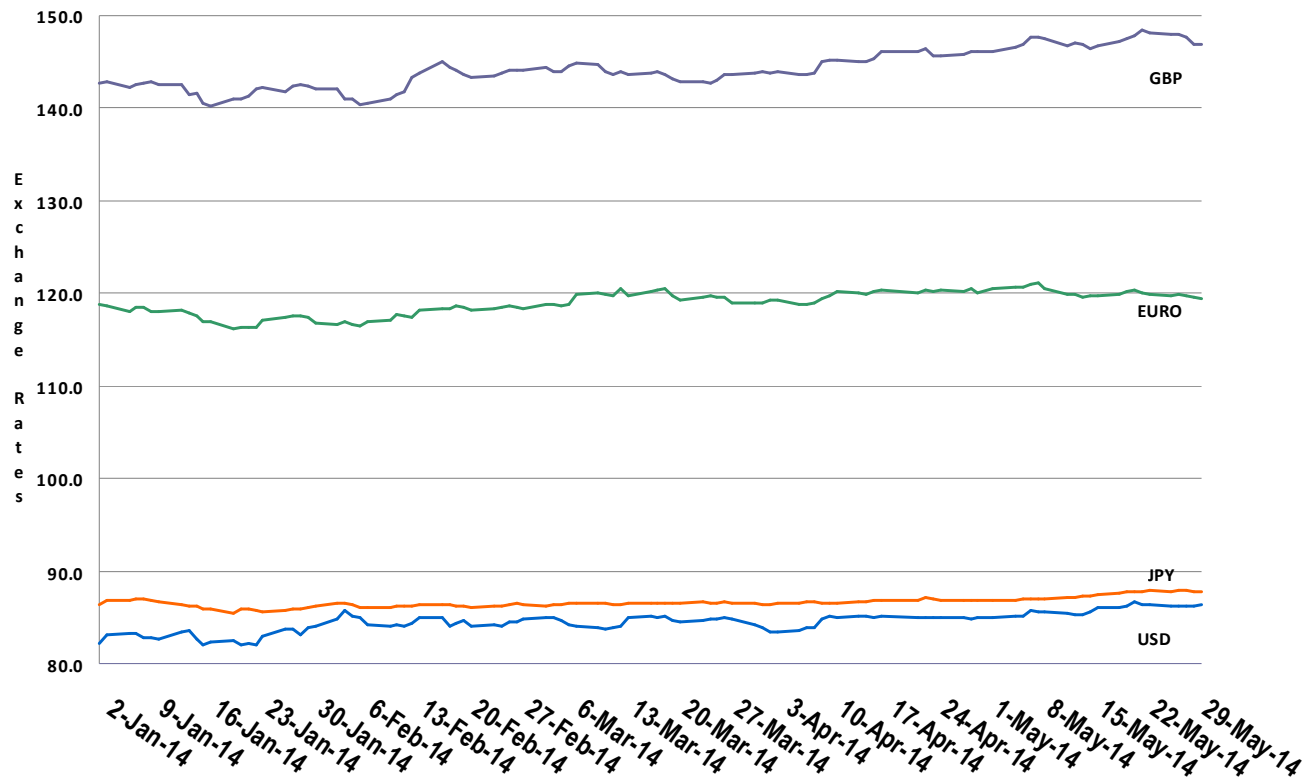
Table 2: Movement in exchange rates

Currency	March 2014	April 2014	May 2014
US Dollar	86.44	86.87	87.80
STG Pound	143.81	146.14	146.92
Euro	118.92	120.02	119.44
JPY(100)	84.18	84.92	86.42

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from January 2014 to May 2014. The exchange rate against the four major currencies depicted a more stable movement during the month of May 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 6.91 billion as at end May 2014 to Kshs 957.89 billion from Kshs 950.98 billion at the end of April 2014 as shown in Table 3.

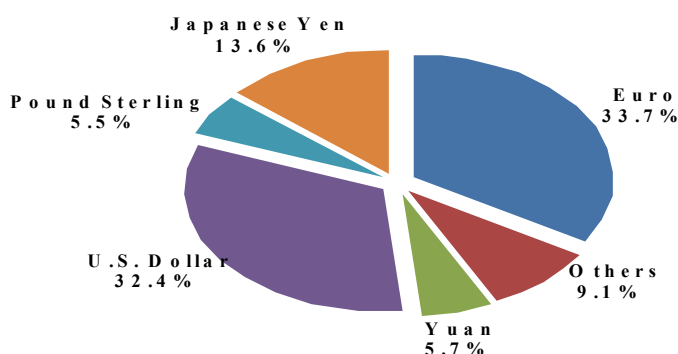
Table 3: External debt stock, in billions

	April 2014		May 2014	
	Kshs	USD	Kshs	USD
Bilateral	244.13	2.82	247.22	2.82
Multilateral	587.53	6.76	591.66	6.74
Guaranteed	44.33	0.51	45.08	0.51
Others	15.87	0.18	14.29	0.16
Commercial Banks	59.12	0.68	59.64	0.68
Total	950.98	10.94	957.89	10.91

Source: The National Treasury

This increase is attributed to disbursements from IDA 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 33.8 percent followed by the US Dollar at 32.4 percent.

Chart 3. Currency Composition



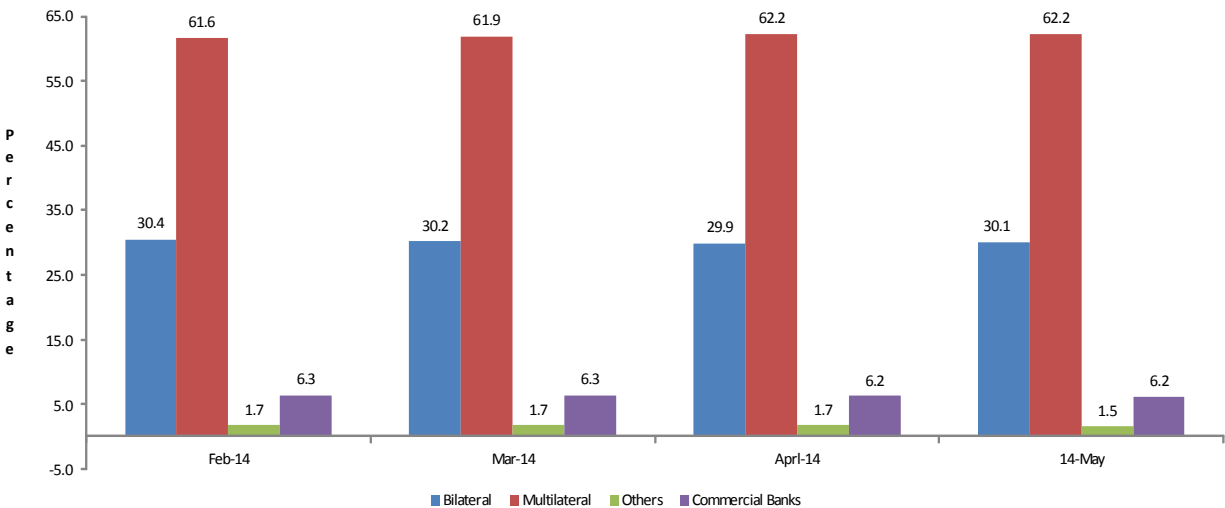
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 92.28 percent of the total public and publicly guaranteed external debt, out of which debt owed to multilateral creditors amounts to Ksh 595.61 billion (including Ksh 3.95 billion guaranteed debt owed to IDA) dominates the portfolio at 62.18 percent of the total. Bilateral debt stands at Kshs 288.36 billion (30.10 percent of the total), inclusive of Kshs 41.13 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 7.72 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

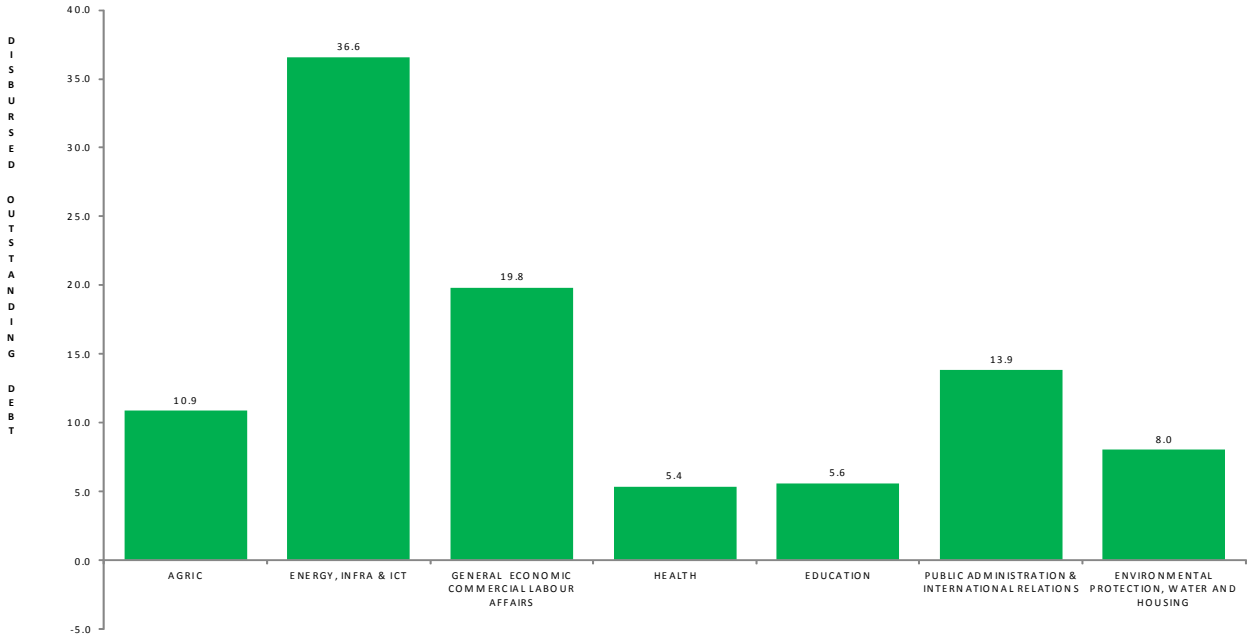


Source: The National Treasury

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 May 2014 stood at Kshs 37.69 billion. Principal and interest projections for the month of May 2014 was Kshs 741 million and Kshs 694 million, respectively. Multilateral and bilateral creditors constitute 42.57 percent and 48.98 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 May 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	14,1796.70	4,261.58	18,458.28
Multilateral	12,662.09	3,380.05	16,042.14
Commercial	-	3,184.77	3,184.77
Total	26,858.79	10,826.40	37,685.19

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end May 2014 was Kshs 35.95 billion as shown in Table 5. Actual principal and interest payments for the month of May 2014 was Kshs 0.36 billion and Kshs 1.52 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	10,147.76	4,335.60	15,483.06
Multilaterals	11,433.10	4,118.09	15,551.19
Commercials	830.83	4,086.33	4,917.16
Totals	23,411.39	12,540.02	35,951.41

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for May 2014 was below the projected debt service by Kshs 1.73 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 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 May 2014, the guaranteed external debt increased by Kshs 751.69 million to Kshs 45.08 billion from Ksh 44.33 billion in April 2014 due to depreciation of exchange rates during the period.

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

Creditor	March 2014	April 2014	May 2014
Japan	39,727.88	40,000.58	40,706.11
Canada	345.78	347.50	351.20
U.S.A	73.48	73.84	74.63
IDA (KR Concessionaire)	3,889.86	3,909.20	3,950.87
Totals	44,037.00	44,331.12	45,082.81

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 25.91 billion to Kshs 1,071.61 billion in May 2014 from Kshs 1,045.70 billion in April 2014 due to increase in Government gross debt over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	March 2014	April 2014	May 2014
Gross domestic debt	1,231.18	1,216.97	1,232.49
<i>less</i>			
Govt. deposits at CBK	-52.15	-32.47	-23.63
Govt. deposits at commercial banks	-120.07	-133.10	-131.55
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,053.26	1,045.70	1,071.61

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of May 2014, Government securities worth Kshs 51.00 billion were advertised. Bids worth Kshs 39.82 billion and 12.51 billion were received for Treasury Bills and Treasury Bond during the month respectively. Successful bids amounted to Kshs 47.30 billion against redemptions of Kshs 35.77 billion leaving exchequer with a surplus of Kshs 11.53 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	36,000	15,000	51,000
Bids received	39,816	12,507	52,323
Successful bids	35,030	12,270	47,300
Redemptions (cost)	(35,772)	-	(35,772)
Net domestic borrowing	(742)	12,270	11,528

Source: The National Treasury

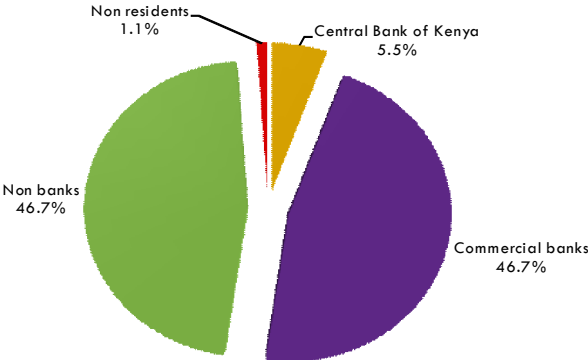
Table 9: Domestic debt instruments by holder end May 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	420.47	462.93	0.05	3.48	886.93
Treasury bills	152.39	112.30	0.54	9.58	274.81
Others	3.19	0.07	67.50	0.00	70.76
Total	576.05	575.30	68.09	13.06	1,232.50
Percentage Holding	46.7%	46.7%	5.5%	1.1%	

Source: Central Bank of Kenya

At the end of May 2014, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 576.05 billion or 46.7 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 575.30 billion or 46.7 percent while the Government debt worth Kshs 13.06 billion or 1.1 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 68.09 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 May 2014

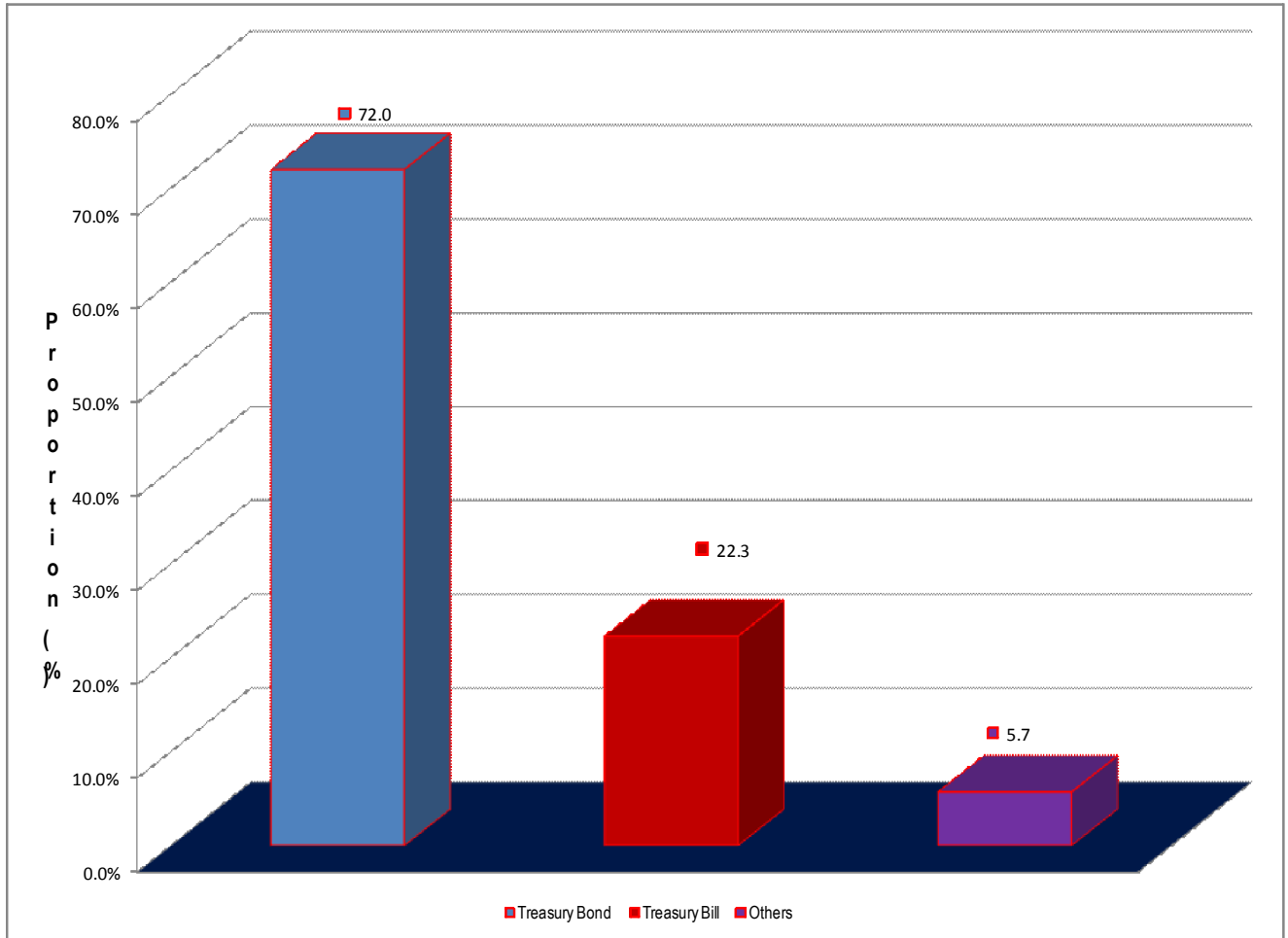


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end May 2014. 72.0 percent of Government domestic debt was in Treasury Bonds, 22.3 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



Source: Central Bank of Kenya

3.4 Net Domestic Financing

Table 10 shows that as at end May 2014, the net domestic financing stood at Kshs 206.27 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2013	May -2014	Change
Treasury Bills	245.48	255.84	10.36
Treasury Bonds	713.12	852.43	139.31
Pre-1997 Govt. Overdraft debt	28.89	28.33	(0.56)
Other	8.72	41.55	32.83
<i>of which Overdraft (from CBK)</i>	7.00	39.12	32.12
Govt. deposits	97.37	73.04	(24.33)
Net Domestic Credit	898.84	1,105.11	206.27

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end May 2014, Government actual cumulative domestic interest payments stood at Kshs 108.77 billion against the cumulative projected interest payments of Kshs 110.52 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 78.25 billion and Kshs 27.38 billion respectively. The variance of Kshs 1,747.5 million is attributed to a higher payment made for the pre-1997 overdraft debt against the projections.

Table 11: Domestic interest payments, in Kshs million

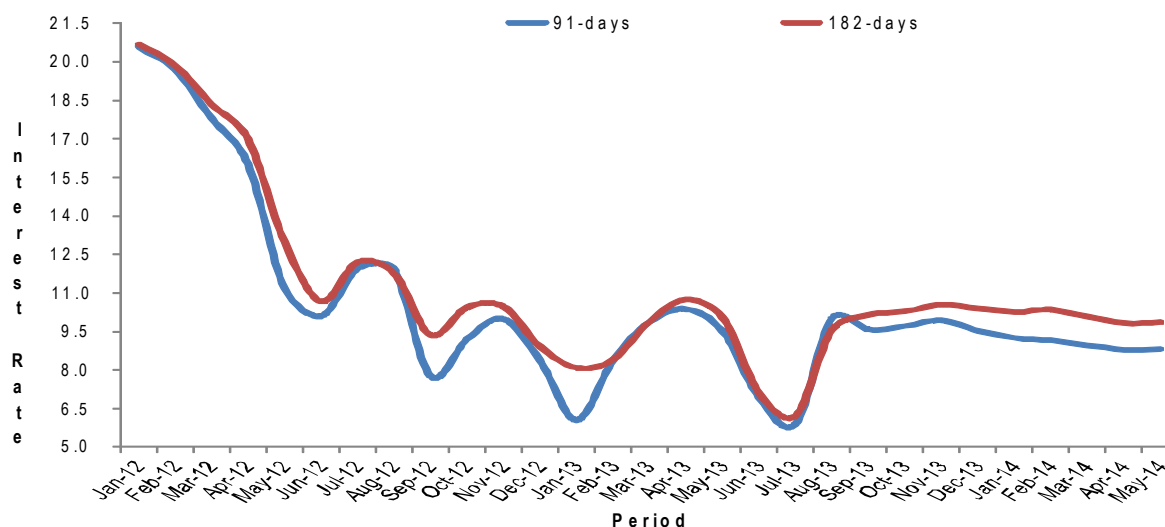
Type of debt	Projected	Actual	Variance
Treasury bonds	79,336.95	78,252.56	(1,084.39)
Treasury bills	28,527.62	27,380.74	(1,146.88)
Overdraft	1,869.41	1,999.06	129.65
Pre-1997 overdraft debt	783.56	1,137.72	354.16
Totals	110,517.54	108,770.09	(1,747.45)

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 May 2014, the average interest rates for the 91-day Treasury bills increased by 2 basis points to 8.82 percent from 8.80 percent in April 2014 and the 182-days Treasury bill increased by 3 basis point to 9.86 per cent from 9.83 percent per annum. 364-days Treasury bill rate stood at an average of 10.09 percent per annum in May 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

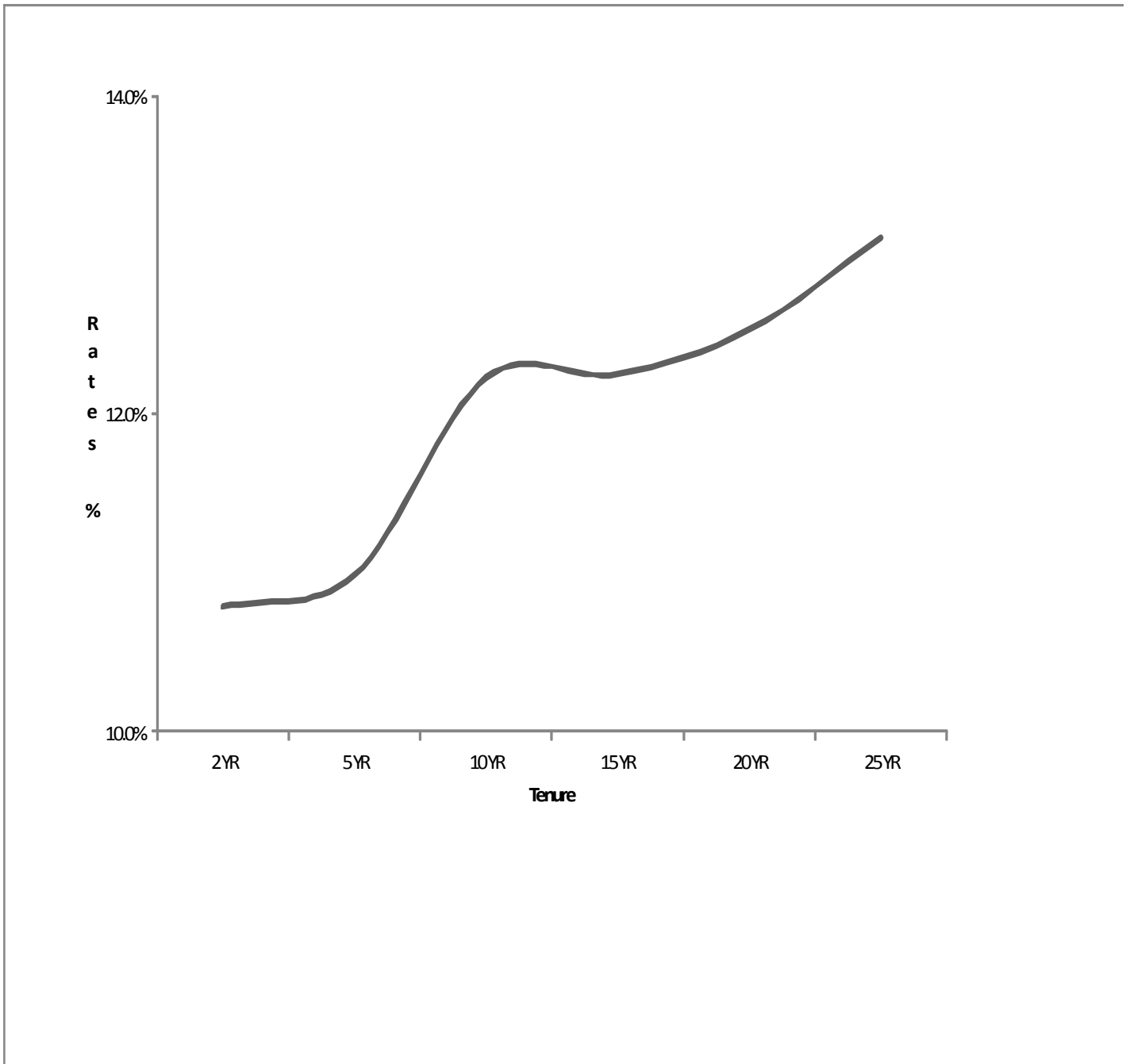
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.79
5 YR	10.99
10 YR	12.23
15 YR	12.25
20 YR	12.53
25 YR	13.11

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 April 2014	Stock at end May 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	719.80	716.31	(3.49)
BELGIUM	7,986.69	8,197.27	210.58
CANADA	989.65	1,000.20	10.55
DENMARK	2,038.15	1,987.84	(50.31)
FINLAND	93.39	93.64	0.25
FRANCE	59,351.08	60,039.04	687.96
GERMANY	26,711.65	26,580.32	(131.33)
ITALY	1,722.66	1,714.86	(7.80)
JAPAN	43,477.84	43,969.36	491.52
NETHERLANDS	2,743.81	2,675.38	(68.43)
UK	1,802.41	1,812.07	9.66
USA	4,427.50	4,474.70	47.20
PARIS CLUB OTHERS	5,531.26	6,053.55	522.29
NON PARIS CLUB	86,536.07	87,909.14	1,373.07
o/w CHINA	80,483.37	80,909.36	1,052.56
Sub total	244,131.96	247,223.68	3,091.72
MULTILATERAL			
ADB/AFDB	100,830.75	100,897.18	66.43
EEC/EIB	20,378.24	20,795.96	417.72
IDA	363,697.30	366,937.58	3,240.28
IFAD	10,762.44	10,810.39	47.95
IMF	82,766.25	83,150.92	384.67
OTHERS	9,095.82	9,065.36	(30.46)
Sub total	587,530.80	591,657.39	4,126.59
COMMERCIAL BANKS	59,119.22	59,640.95	521.73
SUPPLIERS CREDIT	15,868.03	14,288.38	(1,579.65)
Sub Total	906,650.01	912,810.40	6,160.39
GUARANTEED DEBT			
CANADA	347.50	351.20	3.70
JAPAN	40,000.58	40,706.11	705.53
USA	73.84	74.63	0.79
IDA (KR Concessionaire)	3,909.20	3,950.87	41.67
Sub Total	44,331.12	45,082.81	751.69
GOK+ GUARANTEED TOTAL	950,981.13	957,893.21	6,912.08

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 4,164.56

Source: QEBR March 2014

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