



REPUBLIC OF KENYA

# THE NATIONAL TREASURY

## *MONTHLY DEBT BULLETIN*

OCTOBER 2013

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end October 2013, public and publicly guaranteed debt stood at Kshs 2,062.77 billion or 56.4 percent of GDP (see Table 1). The increase of 0.3 percent over the end September 2013 position is mainly attributed to an increase in domestic debt. Gross domestic debt increased by Ksh 6.66 billion to stand at Ksh 1,174.78 billion, while external debt decreased by Ksh 1.32 billion to stand at Ksh 887.99 billion in October 2013 . (See Table 1).

Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	1,174.78	13.80
External Debt	887.99	10.43
Total	2,062.77	24.23

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 57.0 percent of the total debt is domestic debt while 43.0 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 1.4 percent and 6.8 years, respectively. In addition, the average maturity period for external loans was 31.1 years while the average grant element was 65.0 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 5 years as at end October 2013.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period August 2013 to October 2013. The Kenya shilling appreciated against all the major currencies. The shilling appreciated against the US Dollar, Japanese Yen, Sterling Pound and Euro by 1.73, 2.06, 2.56 and 0.18 percent respectively. The shilling stood at Kshs 85.15 to the US Dollar at end of October 2013. Appreciation of the Kenya Shilling has the effect of decreasing external debt stock and the cost of debt service.

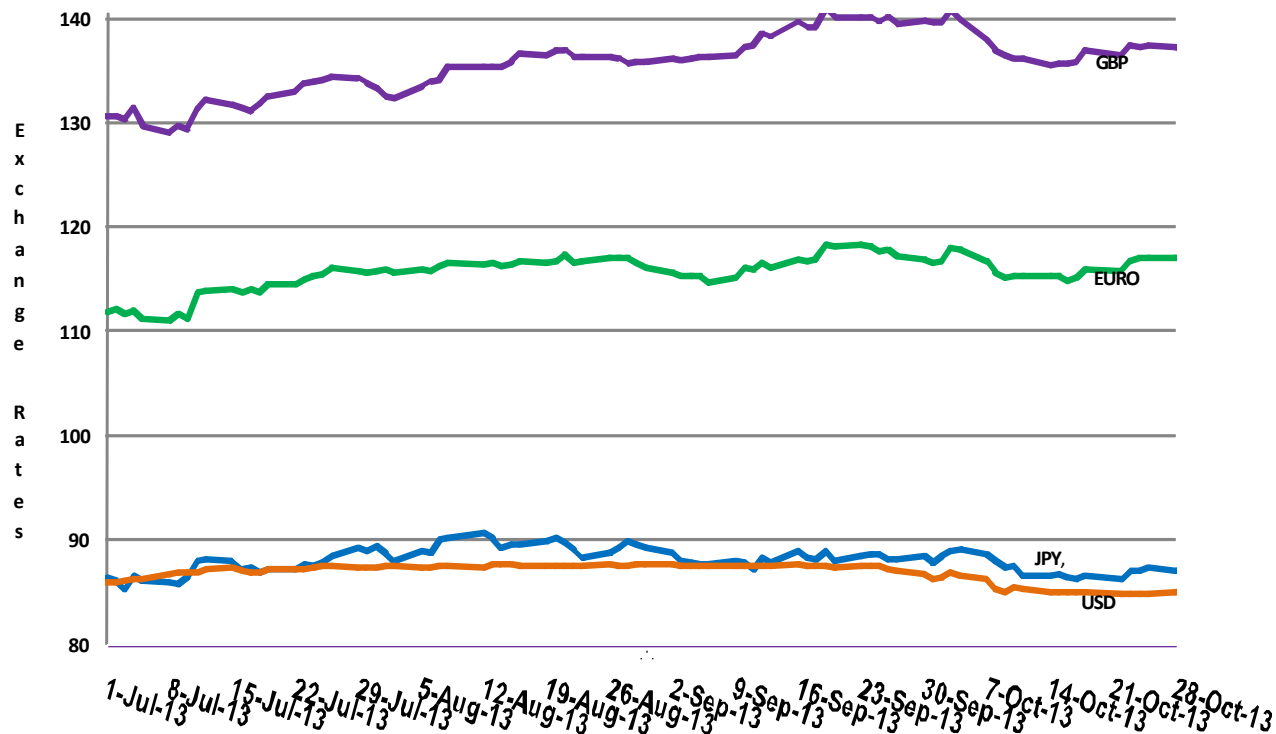
Table 2: Movement in exchange rates

Currency	August 2013	September 2013	October 2013
US Dollar	87.60	86.64	85.15
STG Pound	135.98	139.96	136.38
Euro	116.05	116.88	116.68
JPY(100)	89.26	88.39	86.57

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from July 2013 to October 2013. The exchange rate against the four major currencies showed mixed reactions during the month of October 2013.

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 1.32 billion as at end October 2013 to Kshs 887.99 billion from Kshs 889.31 billion as shown in Table 3.

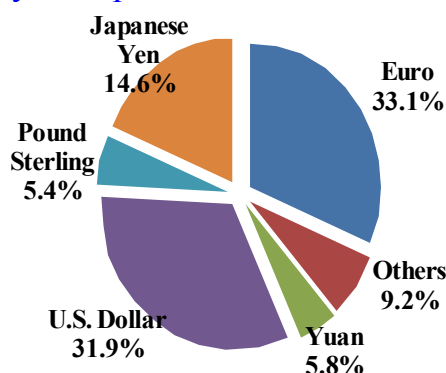
Table 3: External debt stock, in billions

	September 2013		October 2013	
	Kshs	USD	Kshs	USD
Bilateral	228.18	2.63	232.41	2.73
Multilateral	540.22	6.23	536.08	6.30
Guaranteed	45.71	0.53	45.33	0.53
Others	15.60	0.18	15.48	0.18
Commercial Banks	59.60	0.69	58.69	0.69
Total	889.31	10.26	887.99	10.43

Source: The National Treasury

This decrease is attributed to strengthening of the shilling against all 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 at 33.1 percent followed by the US Dollar at 31.9 percent.

Chart 3. Currency Composition



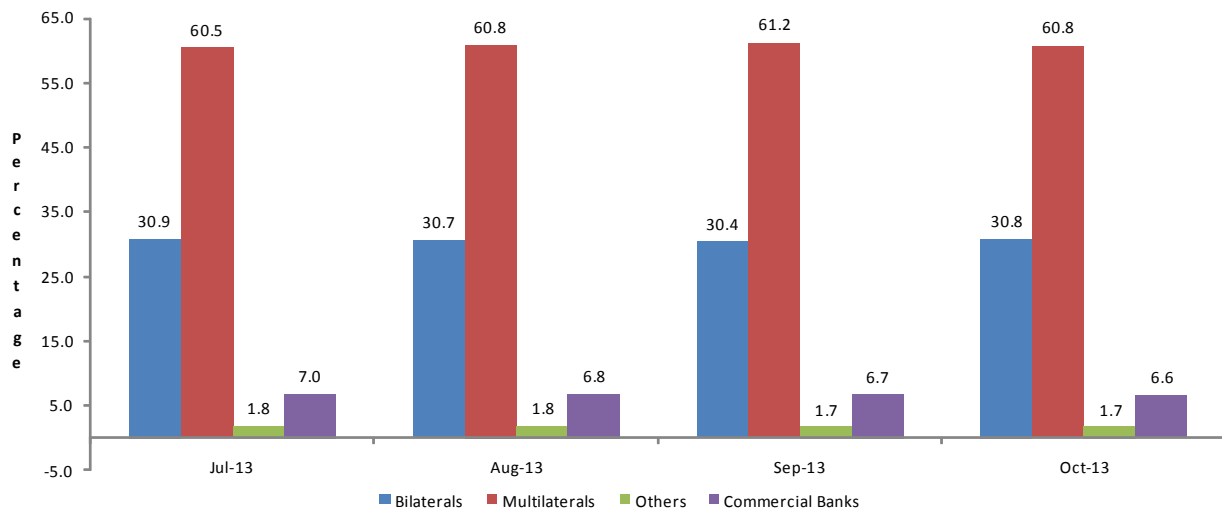
Source: The National Treasury

### 2.2 Structure of External Debt by Creditor

Official creditors account for 91.65 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors amounts to Ksh 539.92 billion (including Ksh 3.83 billion guaranteed debt owed to IDA) dominate the portfolio (60.80 percent of the total). Bilateral debt stands at Kshs 273.91 billion (30.85 percent of the total), inclusive of Kshs 41.5 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 6.61 percent of the total public and publicly guaranteed external debt.

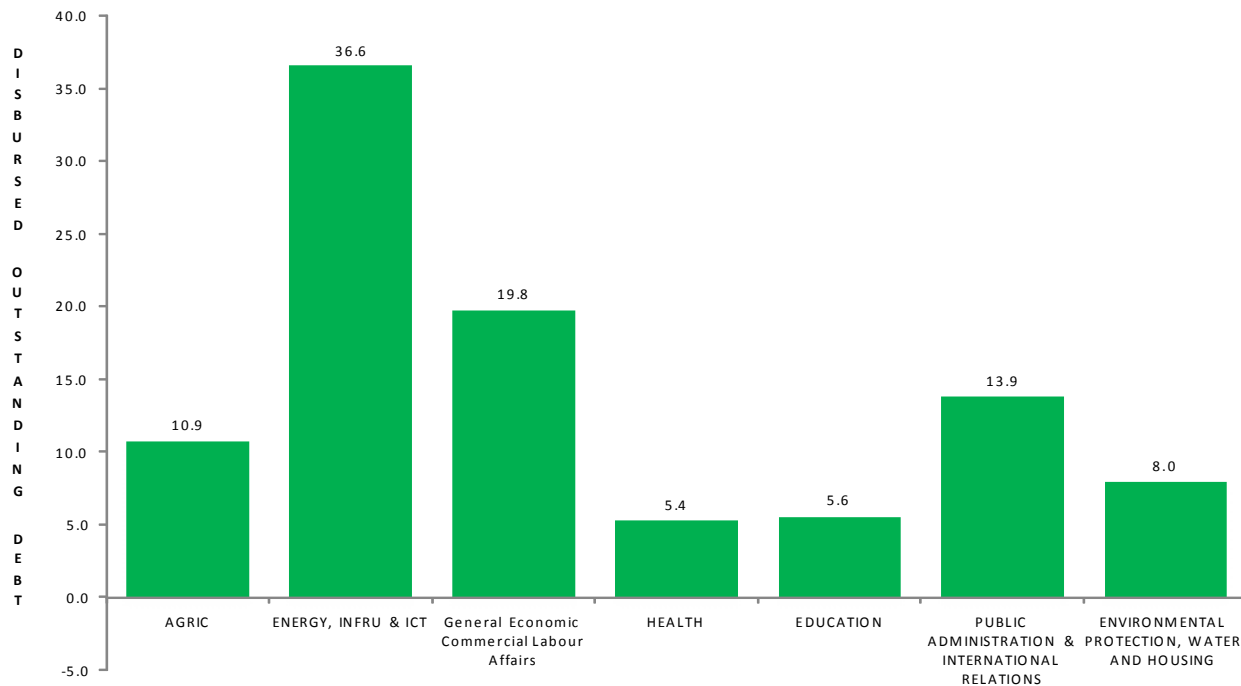
Chart 4: External Debt by Creditor



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 October 2013 stood at Kshs 15.91 billion. Principal and interest projections for the month of October 2013 was Kshs 3.54 billion and Kshs 0.54 billion, respectively. Multilateral and bilateral creditors constitute 49.0 percent and 45.8 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 October 2013, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	6,145.17	1,647.26	7,792.43
Multilateral	6,257.81	1,036.29	7,294.10
Commercial	-	828.33	828.33
Total	12,402.98	3,511.88	15,914.86

Source: The National Treasury

## 2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end October 2013 was Kshs 13.74 billion as reflected in Table 5. Actual principal and interest payments for the month of October 2013 was Kshs 3.51 billion and Kshs 1.08 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	4,193.17	1,891.98	6,085.15
Multilaterals	4,735.45	996.89	5,732.34
Commercials	411.63	1,513.67	1,925.30
Totals	9,340.25	4,402.54	13,742.79

Source: The National Treasury

## 2.6 Budget Deviation

The actual cumulative debt service for October 2013 was below the projected debt service by Kshs 2.17 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 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 decreased by Kshs 308.38 million to Kshs 45.33 billion in October 2013 from Ksh 45.71 billion in September 2013 due to strengthening of the currency and repayments during the month.

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

<b>Creditor</b>	<b>August 2013</b>	<b>September 2013</b>	<b>October 2013</b>
Japan	41,793.66	41,307.59	41,039.54
Canada	359.16	355.26	349.12
U.S.A	148.91	147.30	108.56
IDA (KR Concessionaire)	3,941.85	3,899.06	3,831.61
<b>Totals</b>	<b>46,243.58</b>	<b>45,709.21</b>	<b>45,328.83</b>

**Source: The National Treasury**

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 1.13 billion to Ksh 931.69 billion in October 2013 from Kshs 930.56 billion in August 2013 due to increase in gross domestic debt over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	August 2013	September 2013	October 2013
Gross domestic debt	1,116.68	1,168.12	1,174.78
<i>less</i>			
Govt. deposits at CBK	-110.03	-102.80	-114.54
Govt. deposits at commercial banks	-118.92	-129.06	-122.85
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	882.02	930.56	931.69

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of October 2013, Government securities worth Kshs 46 billion were advertised. Bids worth Kshs 26.50 billion and 16.99 billion were received from Treasury Bills and Treasury Bonds issued during the month. Successful bids amounted to Kshs 35.73 billion against the months redemptions of Kshs 25.14 billion leaving exchequer with a surplus of Kshs 10.60 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	30,000	16,000	46,000
Bids received	26,495	16,993	43,488
Successful bids	19,730	16,000	35,730
Redemptions (cost)	(15,727)	(9,408)	(25,135)
Net domestic borrowing	4,003	6,592	10,595

Source: National Treasury



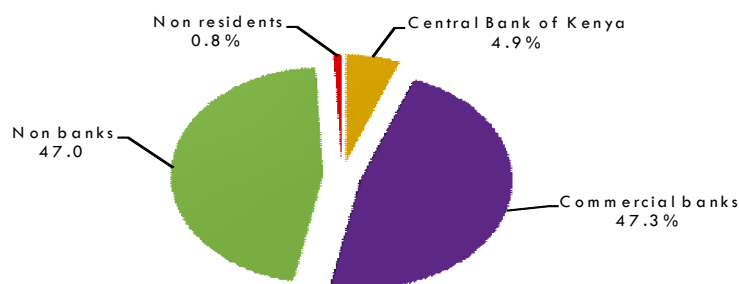
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	354.14	443.84	0.34	3.52	801.84
Treasury bills	197.39	107.74	0.08	6.83	312.04
Others	3.85	0.07	56.98	0.00	60.90
Total	555.39	551.65	57.40	10.35	1,174.78
Percentage Holding	47.3	47.0	4.9	0.8	100.00

Source: Central Bank of Kenya

At the end of October 2013, commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 555.39 billion or 47.3 percent as shown in Table 9 and Chart 5. The non banks held 47.0 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 10.35 billion or 0.8 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 57.40 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 October 2013

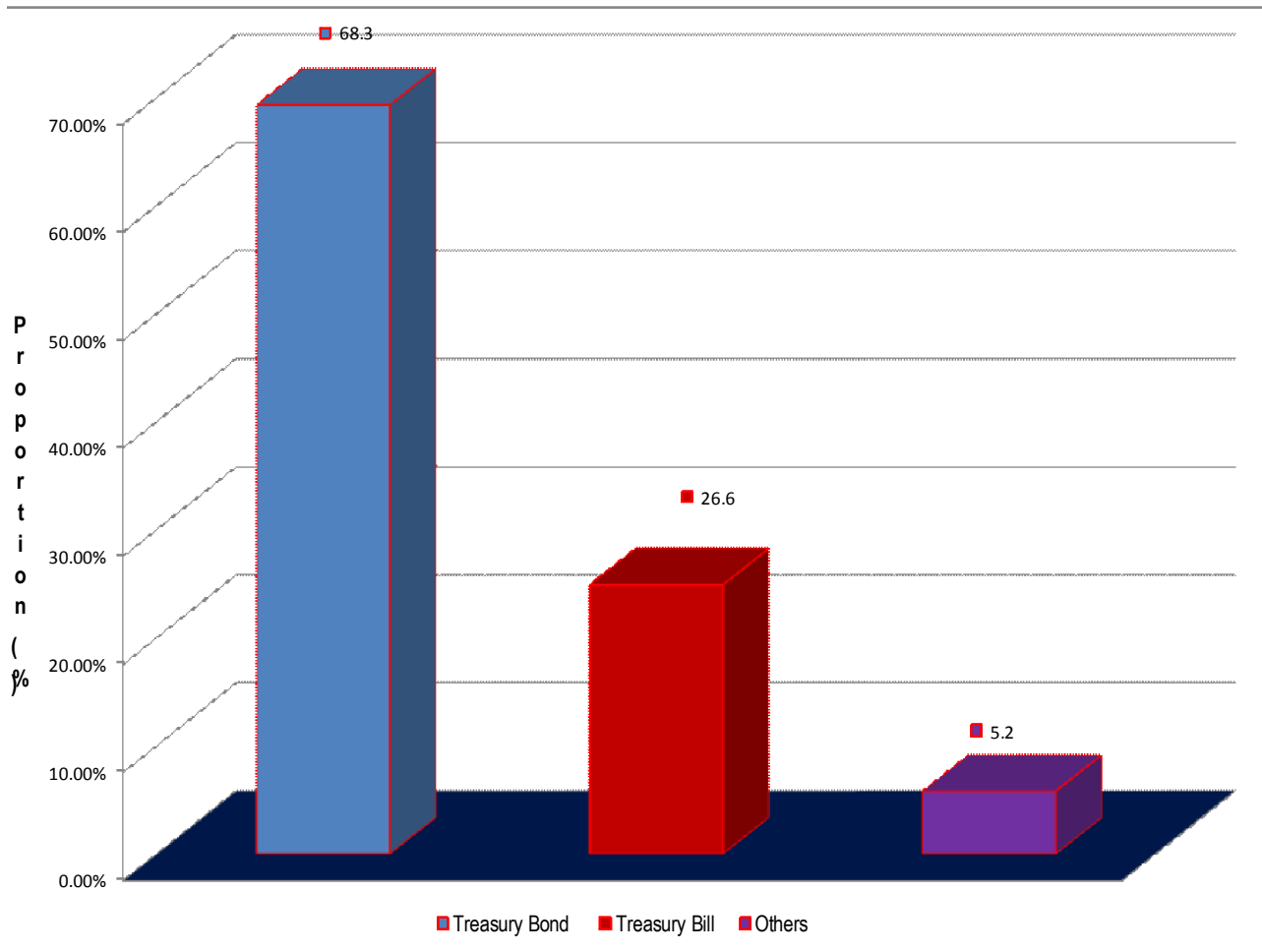


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end October 2013. 68.3 percent of Government domestic debt was in Treasury Bonds, 26.6 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 October 2013, the net domestic financing stood at Kshs 53.45 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2013	October -2013	Change
Treasury Bills	245.48	286.00	40.52
Treasury Bonds	713.12	768.47	55.35
Pre-1997 Govt. Overdraft debt	28.89	28.89	0.00
Other	8.72	29.63	20.91
<i>of which Overdraft (from CBK)</i>	7.00	27.98	20.98
Govt. deposits	97.37	160.70	63.33
Net Domestic Credit	898.84	952.29	53.45

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end October 2013, Government actual cumulative domestic interest payments stood at Kshs 37.68 billion against the cumulative projected interest payments of Kshs 34.16 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 30.92 billion and Kshs 5.90 billion respectively.

Table 11: Domestic interest payments, in Kshs million

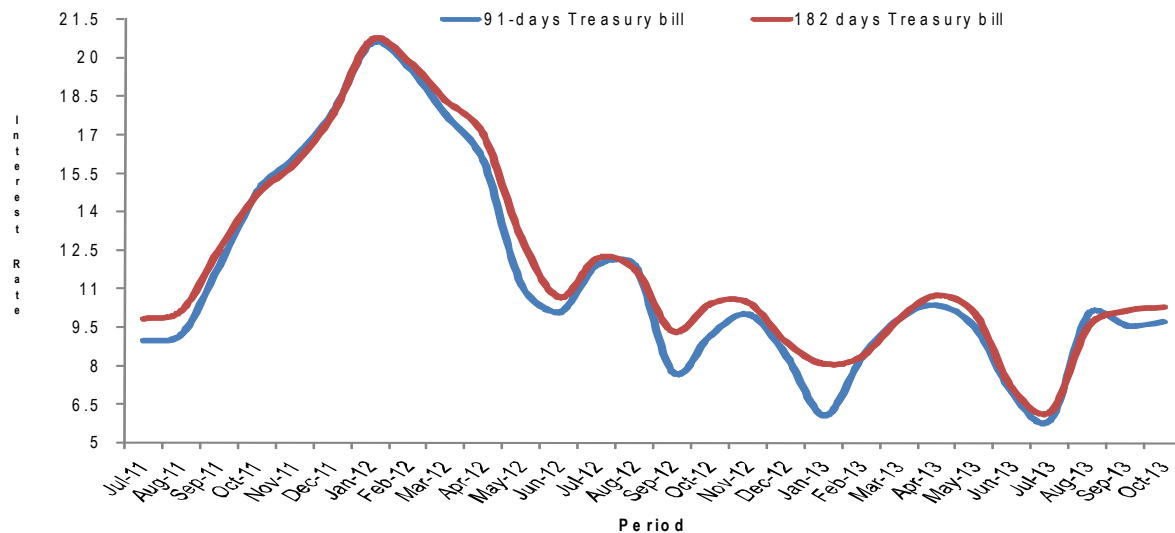
Type of debt	Projected	Actual	Variance
Treasury bonds	27,413.13	30,920.61	3,507.48
Treasury bills	5,888.81	5,899.18	10.37
Overdraft	569.48	530.39	(39.09)
Pre-1997 overdraft debt	284.93	327.96	43.03
Totals	34,156.35	37,678.14	3,521.79

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 July 2011. During the month of October 2013, the average interest rates for the 91-day Treasury bills increased by 14 basis points to 9.72 percent from 9.58 percent in September 2013 and the 182-days Treasury bill increased by 13 basis points from 10.15 per cent to 10.28 percent per annum. 364-days Treasury bill rate stood at an average of 10.75 percent per annum in October 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

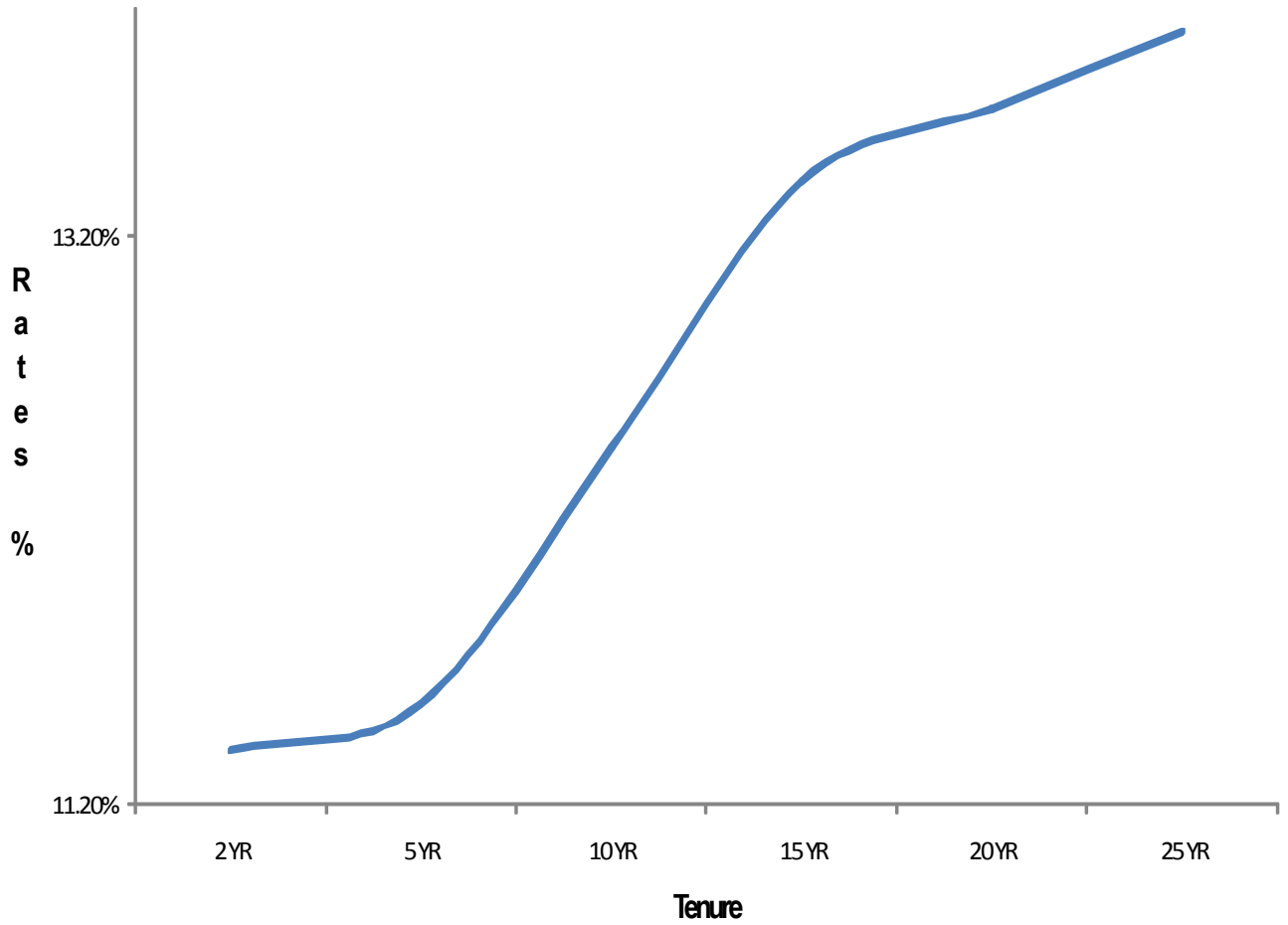
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	11.39
5 YR	11.55
10 YR	12.45
15 YR	13.39
20 YR	13.65
25 YR	13.92

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 September 2013</b>	<b>Stock at end October 2013</b>	<b>Change</b>
<b>CENTRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,064.96	907.80	(157.16)
BELGIUM	7,720.10	7,722.84	2.74
CANADA	1,045.41	1,027.32	(18.09)
DENMARK	2,067.76	2,020.22	(47.54)
FINLAND	98.95	98.03	(0.92)
FRANCE	54,323.60	53,314.83	(1,008.77)
GERMANY	26,144.50	26,098.42	(46.08)
ITALY	1,701.87	1,694.69	(7.18)
JAPAN	47,077.91	45,845.53	(1,232.38)
NETHERLANDS	2,957.35	2,951.35	(6.00)
UK	1,845.35	1,798.18	(47.17)
USA	4,666.15	4,529.51	(136.64)
PARIS CLUB OTHERS	5,295.82	5,316.52	20.70
NON PARIS CLUB	72,170.57	79,083.54	6,912.97
o/w CHINA	65,267.50	72,524.25	7,256.75
<b>Sub total</b>	<b>228,180.31</b>	<b>232,408.79</b>	<b>4,228.48</b>
<b>MULTILATERAL</b>			
ADB/AFDB	93,983.91	95,811.30	1,827.39
EEC/EIB	16,151.36	16,087.51	(63.85)
IDA	336,378.55	332,324.53	(4,054.02)
IFAD	9,339.40	9,716.09	376.69
IMF	75,150.94	73,059.33	(2,091.61)
OTHERS	9,211.34	9,087.04	(124.30)
<b>Sub total</b>	<b>540,215.50</b>	<b>536,085.80</b>	<b>(4,129.70)</b>
<b>COMMERCIAL BANKS</b>	<b>59,602.71</b>	<b>58,689.95</b>	<b>(912.76)</b>
<b>SUPPLIERS CREDIT</b>	<b>15,605.77</b>	<b>15,477.85</b>	<b>(127.92)</b>
<b>Sub Total</b>	<b>843,604.30</b>	<b>842,662.39</b>	<b>(941.91)</b>
<b>GUARANTEED DEBT</b>			
CANADA	355.26	349.12	(6.14)
JAPAN	41,307.59	41,039.54	(268.05)
USA	147.30	108.56	(38.74)
IDA (KR Concessionaire)	3,899.06	3,831.61	(67.45)
<b>Sub Total</b>	<b>45,709.21</b>	<b>45,328.83</b>	<b>(380.38)</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>889,313.51</b>	<b>887,991.23</b>	<b>(1,322.28)</b>

Source: National Treasury

Memorandum item

Nominal GDP (in Kshs Billion)      3,662.56

Source: QEBR June 2013

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