



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DIRECTORATE OF PUBLIC DEBT MANAGEMENT

MONTHLY DEBT BULLETIN

October 2015

1.0 PUBLIC DEBT

1.1 Introduction

As at end October 2015, total public and publicly guaranteed debt stood at Kshs 2,981.6 billion or 46.28 percent of GDP (Table 1). The increase of 1.63 percent over the end September 2015 position is attributed to an increase in domestic debt. External debt decreased by Ksh 22.83 billion to stand at Ksh 1,527.36 billion, while the gross domestic debt increased by Ksh 66.27 billion to stand at Ksh 1,454.24 billion in October 2015 (Table 1).

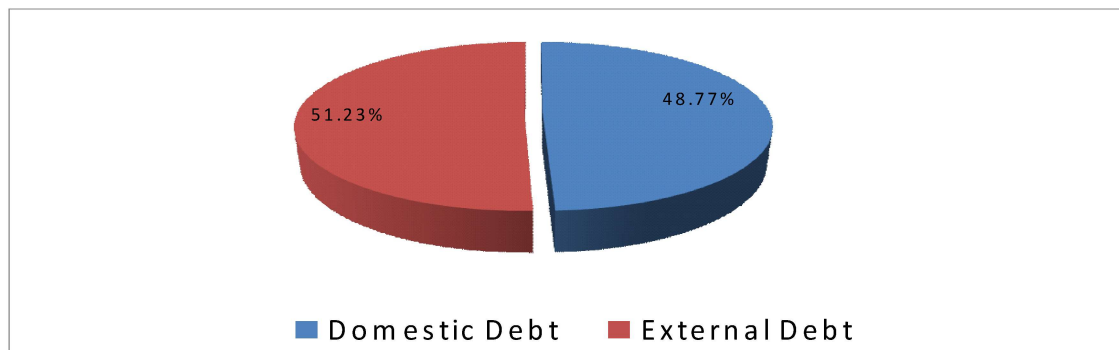
Table 1: Size of public debt, end October 2015, in billions

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,454.24	14.28	22.57
External Debt	1,527.36	15.02	23.71
Total	2,981.60	29.30	46.28

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 48.77 percent of the total debt is domestic debt while 51.23 percent is external debt (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 0.7 percent and 6.3 years, respectively. In addition, the average maturity period for external loans was 37.7 years while the average grant element was 53.8 percent.

As an indication of the success in the lengthening of maturity structure of domestic debt to minimise refinancing risk in line with the 2015 Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt remained at 5 years 2 months as at end October 2015.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period August to October 2015. During the period August-October, the Kenya shilling appreciated against all the major currencies by 3.3, 2.5, 5.7 and 4.3 percent for the USD Dollar, STG, Euro and JPY respectively. The shilling stood at Kshs 101.8 to the US Dollar at end of October 2015.

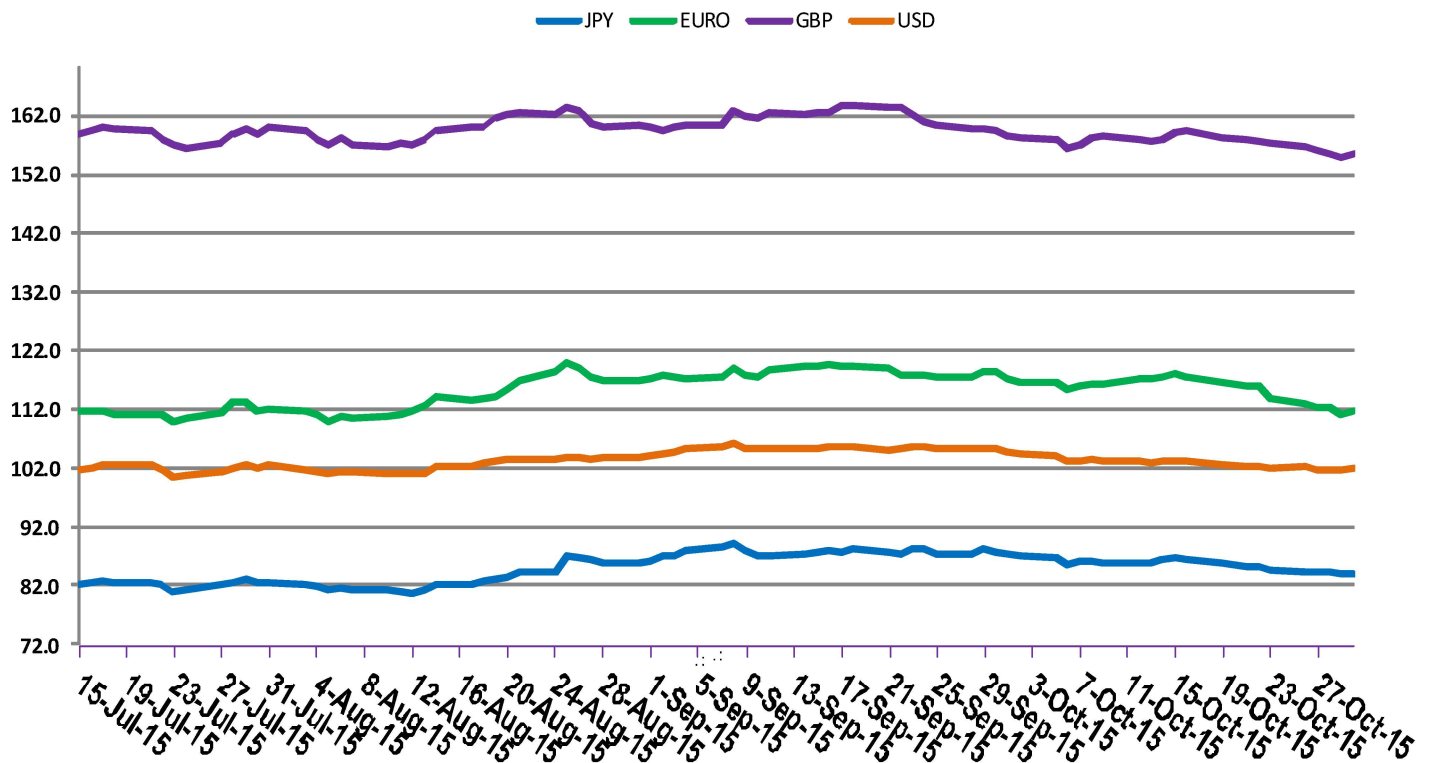
Table 2: Movement in exchange rates

Currency	August 2015	September 2015	October 2015
US Dollar	103.87	105.29	101.80
STG Pound	160.31	159.58	155.60
Euro	116.81	118.33	111.59
JPY(100)	85.72	87.78	84.04

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 2015 to October 2015. Save for the Japanese Yen, the Kenya shilling continued to appreciate against the other three major currencies within the month of October 2015.

Chart 2: Kenya Shilling Exchange Rate



2.0 EXTERNAL DEBT

2.1 Size of Public and Publicly Guaranteed External Debt

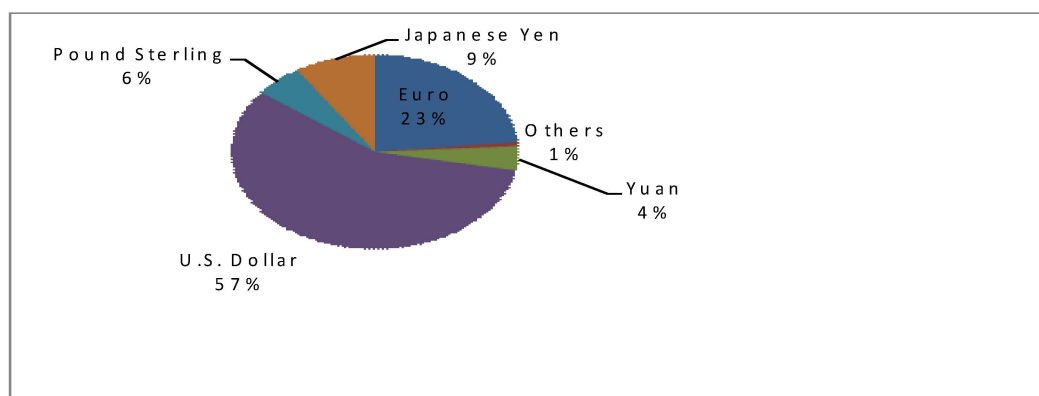
Overall, public and publicly guaranteed external debt decreased by Kshs 22.83 billion as at end October 2015 to Kshs 1,527.4 billion from Kshs 1,550.23 billion at the end of September 2015 (Table 3).

Table 3: External debt stock, in billions

	September 2015		October 2015	
	Kshs	USD	Kshs	USD
Bilateral	434.24	4.12	415.97	4.09
Multilateral	754.60	7.17	725.43	7.13
Guaranteed	47.96	0.46	46.64	0.46
Suppliers Credit	17.79	0.17	16.98	0.17
Commercial Banks	295.64	2.80	322.38	3.17
o/w International	289.56	2.75	279.95	2.75
Sovereign Bond				
Total	1550.23	14.72	1,527.4	15.02

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 56.8 percent followed by the Euro at 23 percent.

Chart 3. Currency Composition



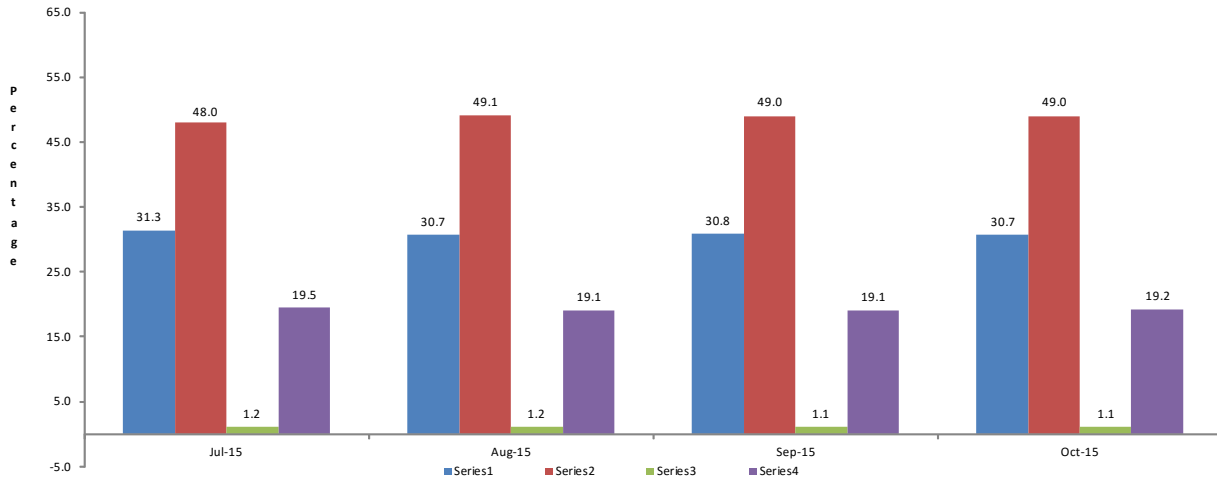
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 79.7 percent of the total public and publicly guaranteed external debt as at end October. Debt owed to multilateral creditors amounts to Ksh 730.01 billion (including Ksh 4.58 billion guaranteed debt owed to IDA) dominates the portfolio at 49.01 percent of the total. Bilateral debt stands at Kshs 458.03 billion (30.73 percent of the total), inclusive of Kshs 42.06 billion guaranteed debt, (Chart 4 and Annex 1).

In the multilateral category, IDA, ADB/ADF and IMF 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 19.16 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

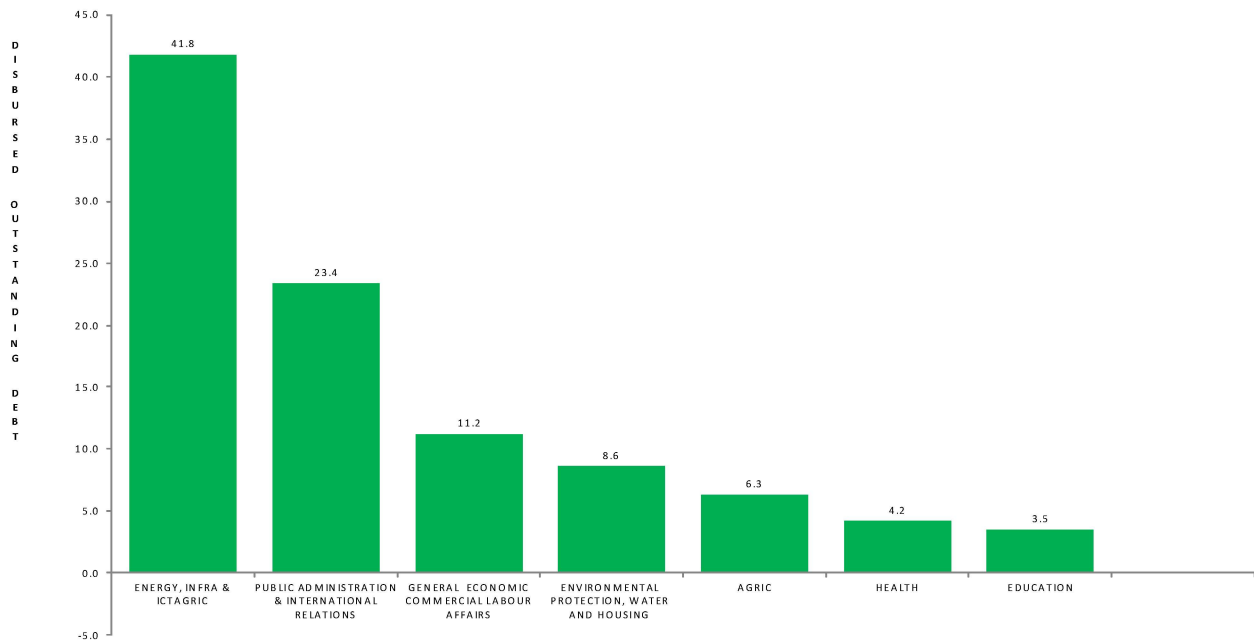


Source: The National Treasury

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 October 2015 stood at Kshs 15.62 billion. Principal and interest projections for the month of October 2015 was Kshs 2.65 billion and Kshs 0.85 billion, respectively. Bilateral and multilateral creditors constitute 51.67 percent and 45.45 percent of the cumulative projected debt service respectively during the period under review (Table 4).

Table 4: Projected Cumulative External Debt Service as at end of October 2015, in

Creditor category	Principal	Interest	Total
Bilateral	4.93	3.14	8.07
Multilateral	5.60	1.50	7.10
Commercial	0.38	0.07	0.45
Guaranteed	0.00	0.00	0.00
Total	10.91	4.71	15.62

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual debt service as at end October 2015 stood at Kshs 17.24 billion (Table 5). Actual principal and interest payments during the month of October 2015 was Kshs 1.82 billion and Kshs 1.55 billion respectively.

Table 5: Actual cumulative external debt service as at end of October 2015, in Kshs billion

Credit category	Principal	Interest	Total
Bilateral	3.79	5.69	9.48
Multilateral	5.71	1.43	7.14
Commercial	0.40	0.07	0.47
Guaranteed	0.13	0.02	0.15
Totals	10.03	7.21	17.24

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for October 2015 was above the projected debt service by Kshs 1.62 billion. This is attributed to exchange rate fluctuations during the year.

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 October 2015, the guaranteed external debt stock decreased by Kshs 1.32 billion to Kshs 46.64 billion from Ksh 47.96 billion in September 2015 (Table 6). This decrease is attributed to exchange rate fluctuations.

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

Creditor	August 2015	September 2015	October 2015
Japan	42.27	42.82	41.67
Canada	0.39	0.40	0.39
U.S.A	0.00	0.00	0.00
IDA (KR Concessionaire)	4.67	4.74	4.58
Totals	47.33	47.96	46.64

Source: The National Treasury

The national government has not issued any new guarantees to either County and State Corporations in the period July 1st, 2014 to date.

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 29.81 billion to Kshs 1,203.21 billion in October 2015 from Kshs 1,173.40 billion in September 2015 due to an increase in deposits over the period under review. (Table 7).

Table 7: Government domestic debt, in Kshs billion

	August 2015	September 2015	October 2015
Gross domestic debt	1,403.10	1,387.97	1,454.24
<i>less</i>			
Govt. deposits at CBK	-61.77	-63.16	-114.64
Govt. deposits at commercial banks	-136.04	-145.72	-130.69
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,199.59	1,173.40	1,203.21

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of October 2015, Government securities worth Kshs 68.00 billion were advertised. Bids worth Kshs 154.145 billion were received of which Treasury Bills was Ksh 122.67 billion and Treasury Bond was Ksh 31.48 billion. Successful bids amounted to Kshs 117.36 billion against redemptions of Kshs 49.90 billion leaving exchequer with a surplus of Kshs 67.46 billion (Table 8).

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	48,000	20,000	68,000
Bids received	122,665	31,480	154,145
Successful bids	96,873	20,491	117,364
Redemptions (cost)	(49,905)	(0.00)	(49,905)
Net domestic borrowing	46,968	20,491	67,459

Source: The National Treasury

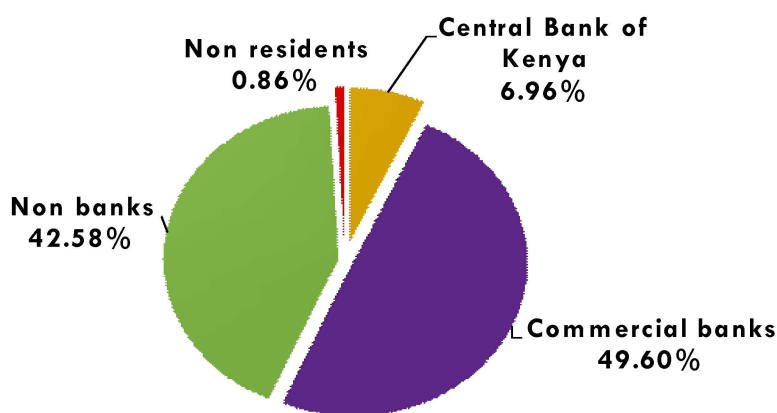
Table 9: Domestic debt instruments by holder end October 2015, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	520.92	532.44	9.93	4.13	1,067.42
Treasury bills	198.97	86.74	27.59	8.39	321.69
Others	1.43	0.06	63.63	-	65.12
Total	721.31	619.25	101.15	12.53	1,454.25
Percentage Holding	49.60%	42.58%	6.96%	0.86%	100%

Source: Central Bank of Kenya

At the end of October 2015, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 721.31 billion or 49.60 percent (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 619.25 billion or 42.58 percent while the Government debt worth Kshs 12.53 billion or 0.86 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 101.15 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 October 2015

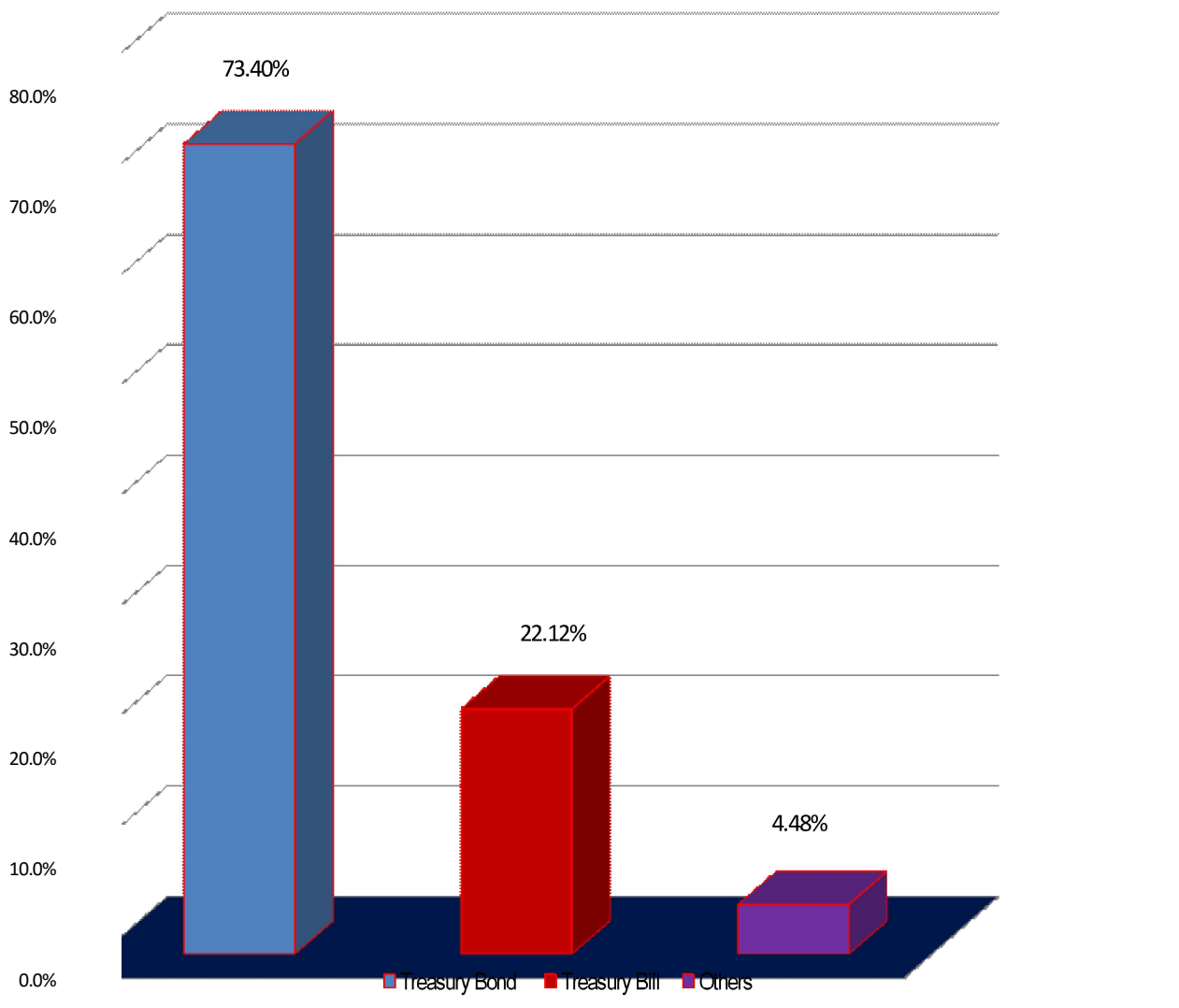


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end October 2015. 73.40 percent of Government domestic debt was in Treasury Bonds, 22.12 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 in longer dated instruments to minimise refinancing risk and promote liquidity in domestic secondary markets for Government bonds

Chart 7: Domestic debt by instrument



Source: Central Bank of Kenya

3.4 Net Domestic Financing

Table 10 shows that as at end October 2015, the net domestic financing was at Kshs 14.54 billion.

Table 10: Net domestic financing, in Kshs billion

	June 2015	October 2015	Change
Treasury Bills	293.53	291.16	(2.37)
Treasury Bonds	994.44	1,028.02	33.58
Pre-1997 Govt. Overdraft debt	26.68	26.68	0.00
Other	37.83	37.21	(0.62)
<i>of which Overdraft (from CBK)</i>	36.49	36.87	0.38
Govt. deposits	141.29	157.34	16.05
Net Domestic Credit	1,211.19	1,225.73	14.54

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end October 2015, Government actual domestic interest payments stood at Kshs 51.56 billion against the projected interest payments of Kshs 47.83 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 35.55 billion and Kshs 14.27 billion respectively (Table 11).

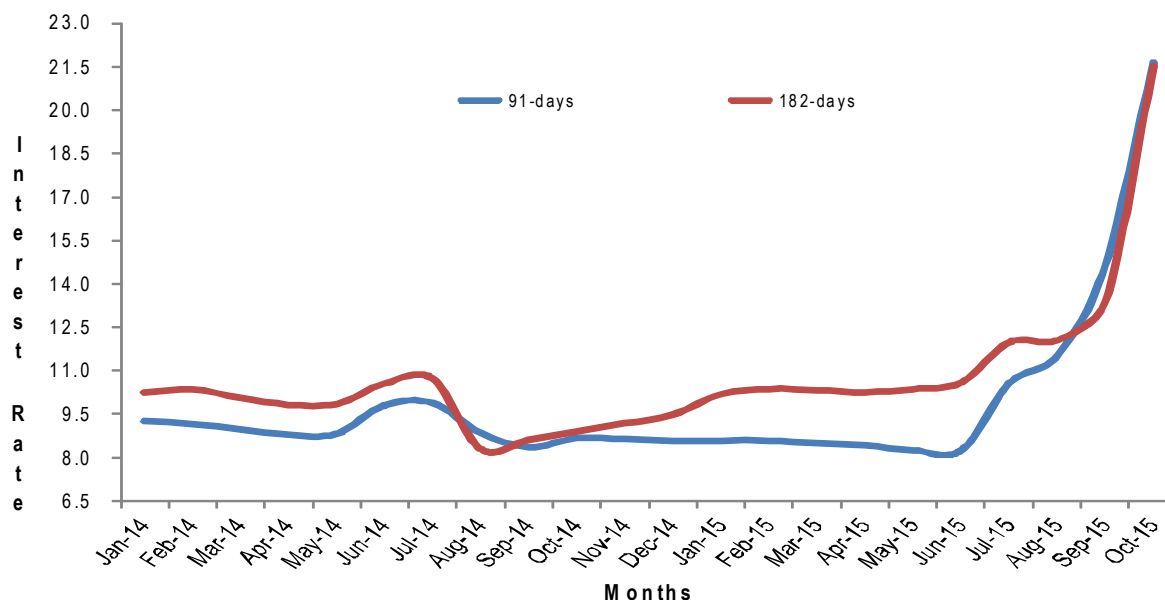
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	35,002.58	35,554.76	552.18
Treasury Bills	11,306.96	14,267.56	2,960.60
Overdraft	1,382.43	1,466.23	83.80
Pre-1997 overdraft debt	135.90	269.61	133.71
Totals	47,827.87	51,558.16	3,730.29

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 2014. During the month of October 2015, the average interest rates for the 91-day Treasury bills rose by 704 basis points to stand at 21.65 percent from 14.61 percent in September and the 182-days Treasury bill increased by 812 basis points to 21.52 per cent per annum from 13.40 per cent in September 2015. The 364-days Treasury bill rate stood at an average of 21.61 percent per annum in October 2015.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

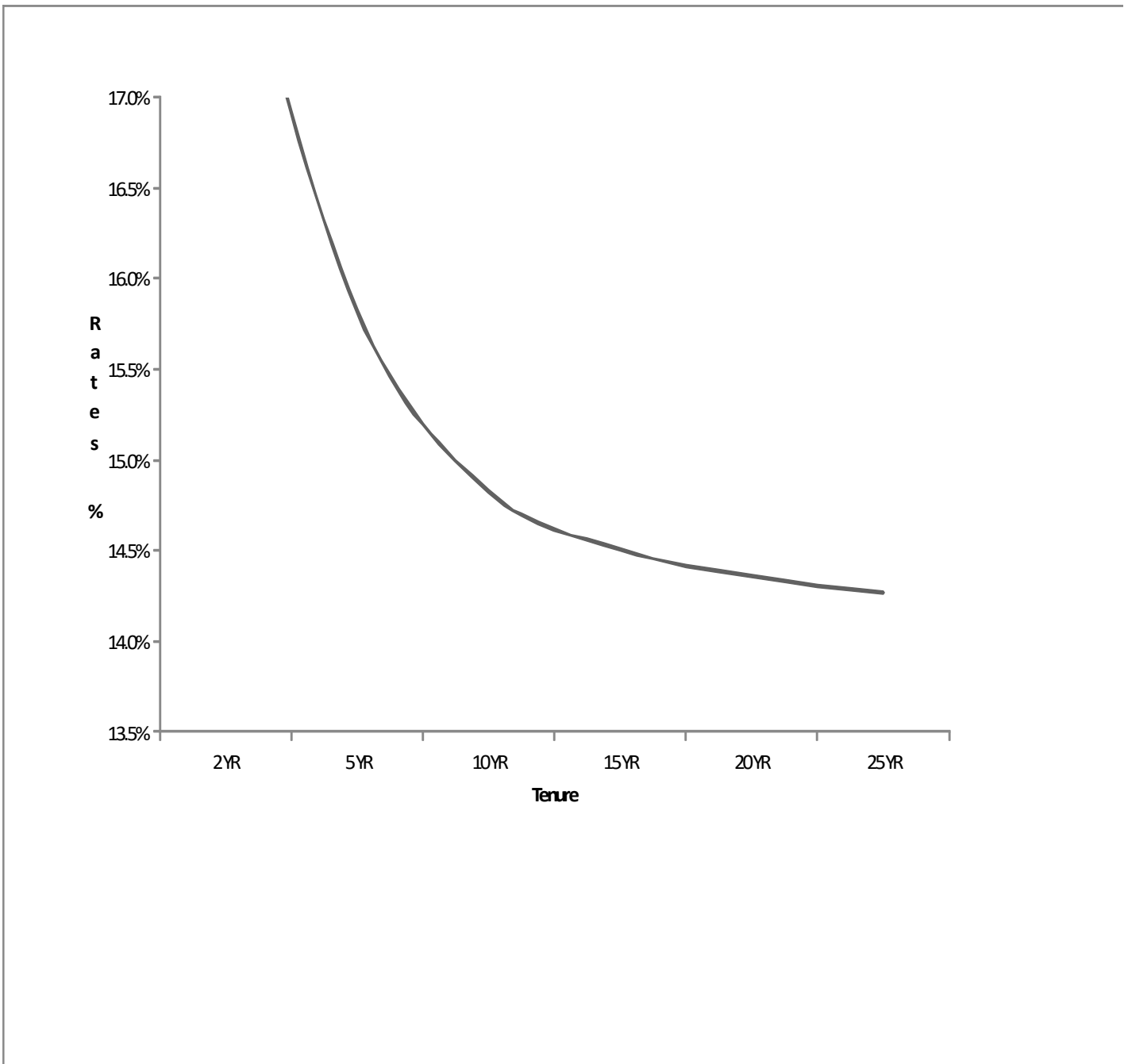
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 and Chart 9 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end October 2015. The Yield curve is inverted due to limited trading in the secondary market.

Table 12 :Yields on selected Treasury Bonds as at end October, 2015

Tenure	Rate (%)
2 YR	18.20
5 YR	15.83
10 YR	14.83
15 YR	14.51
20 YR	14.36
25 YR	14.27

Source: Nairobi Securities Exchange (NSE)

Chart 9: Secondary Market yields on selected Treasury Bonds as at end October, 2015



Source: Nairobi Securities Exchange (NSE)

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

Creditor	Stock at end September 2015	Stock at end October 2015	Change
Central Government			
AUSTRIA	796.28	750.93	(45.35)
BELGIUM	7,689.06	7,248.49	(440.57)
CANADA	955.71	924.01	(31.70)
DENMARK	1,541.51	1,415.57	(125.94)
FINLAND	180.79	171.46	(9.33)
FRANCE	64,630.27	60,067.24	(4,563.03)
GERMANY	24,180.39	22,803.34	(1,377.05)
ITALY	672.69	644.8	(27.89)
JAPAN	42,915.30	40,721.19	(2,194.11)
NETHERLANDS	2,122.37	2,001.50	(120.87)
UK	1,508.91	1,471.34	(37.57)
USA	4,505.41	4,355.96	(149.45)
PARIS CLUB OTHERS	7,344.32	7,297.45	(46.87)
NON PARIS CLUB o/w CHINA	275,196.68 267,046.53	266,102.08 258,347.18	(9,094.60) (8,699.35)
Sub total	434,239.69	415,975.36	(18,264.33)
MULTILATERAL			
ADB/AFDB	170,293.48	164,010.34	-6,283.14
EEC/EIB	23,212.37	21,667.26	-1,545.11
IDA	447,578.82	430,651.82	-16,927.00
IFAD	11,988.29	11,529.83	-458.46
IMF	91,787.59	88,308.47	-3,479.12
OTHERS	9,738.88	9,265.25	-473.63
Sub total	754,599.43	725,432.97	-29,166.46
COMMERCIAL BANKS	295,641.77	322,337.94	26,696.17
O/W International Sovereign Bond	289,555.20	279,950.00	-9,605.20
SUPPLIERS CREDIT	17,788.18	16,978.04	-810.14
Sub Total	1,502,269.07	1,480,724.31	-21,544.76
GUARANTEED DEBT			
CANADA	400.13	386.86	-13.27
JAPAN	42,825.37	41,669.58	-1155.79
USA		0	0
IDA (KR Concessionaire)	4,738.18	4,581.00	-157.18
Sub Total	47,963.68	46,637.44	-1326.24
GOK+ GUARANTEED TOTAL	1,550,232.75	1,527,361.75	-22,871.00

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 6,443

Source: BPS 2016

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