



REPUBLIC OF KENYA

THE NATIONAL TREASURY

MONTHLY DEBT BULLETIN

SEPTEMBER 2013

1.0 PUBLIC DEBT

1.1 Introduction

As at end September 2013, public and publicly guaranteed debt stood at Kshs 2,057.43 billion or 56.2 percent of GDP (see Table 1). The increase of 2.65 percent over the end August 2013 position is mainly attributed to an increase in domestic debt. Gross domestic debt increased by Ksh 51.44 billion to stand at Ksh 1,168.12 billion, while external debt increased by Ksh 1.77 billion to stand at Ksh 889.31 billion in September 2013 . (See Table 1).

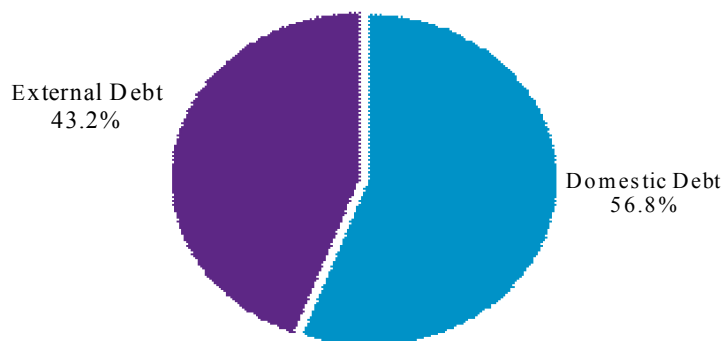
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	1,168.12	13.48
External Debt	889.31	10.26
Total	2,057.43	23.74

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 56.8 percent of the total debt is domestic debt while 43.2 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 1.3 percent and 6.9 years, respectively. In addition, the average maturity period for external loans was 33.6 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 1 month as at end September 2013.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period July 2013 to September 2013. The Kenya shilling depreciated against the Euro and Sterling Pound by 0.71 and 2.92 respectively while it strengthened against the Japanese Yen and US Dollar by 0.97 and 1.09 percent respectively. The shilling stood at Kshs 86.64 to the US Dollar at end of September 2013. Depreciation of the Kenya Shilling has the effect of increasing external debt stock and the cost of debt service.

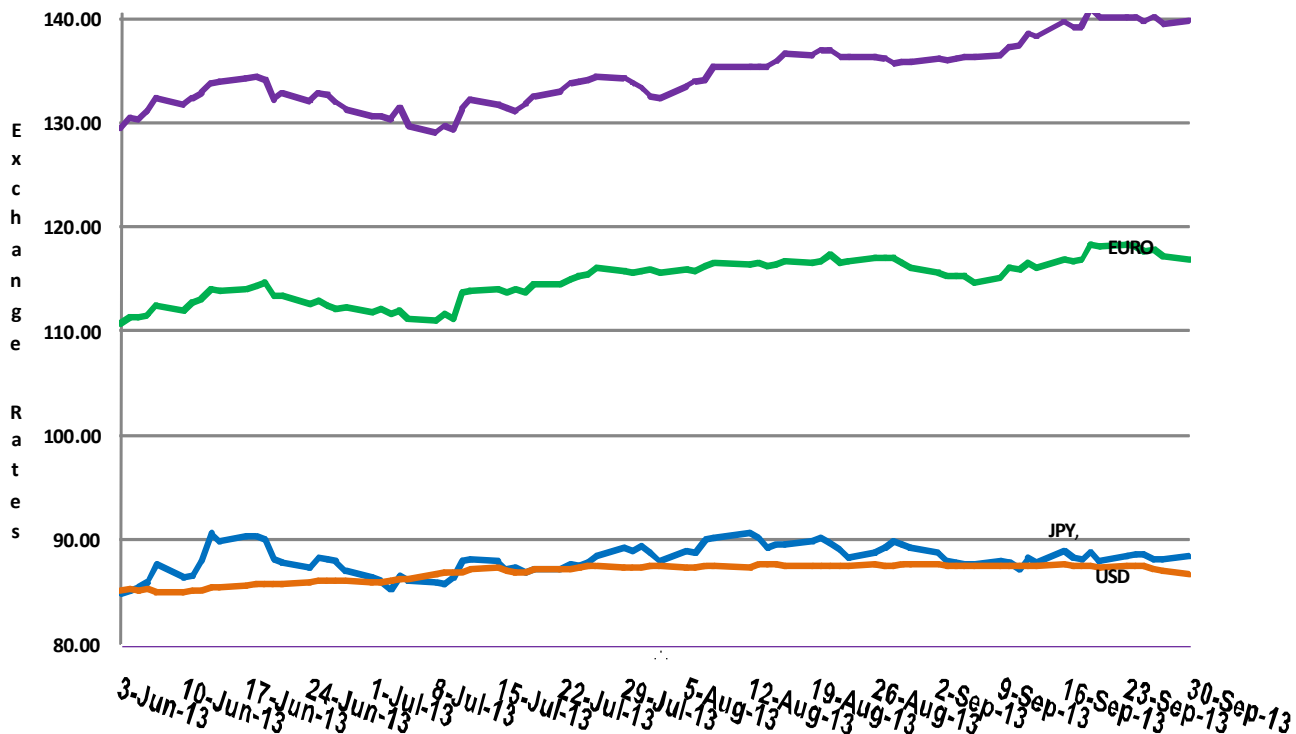
Table 2: Movement in exchange rates

Currency	July 2013	August 2013	September 2013
US Dollar	87.28	87.60	86.64
STG Pound	133.31	135.98	139.96
Euro	115.75	116.05	116.88
JPY(100)	89.37	89.26	88.39

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from June 2013 to September 2013. The exchange rate against the four major currencies showed mixed reactions during the month of September 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 increased by Kshs 1.77 billion as at end September 2013 to Kshs 889.31 billion from Kshs 887.54 billion as shown in Table 3.

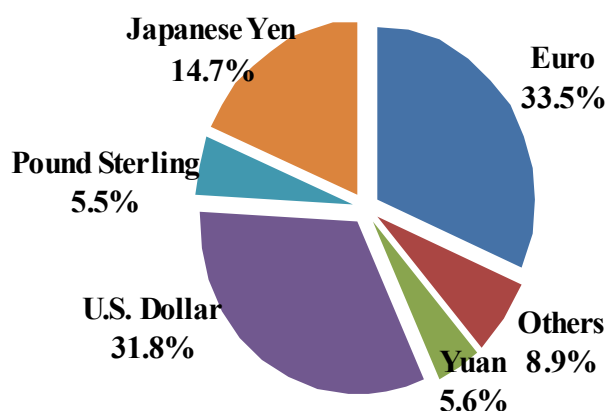
Table 3: External debt stock, in billions

	August 2013		September 2013	
	Kshs	USD	Kshs	USD
Bilateral	229.75	2.62	228.18	2.63
Multilateral	535.82	6.12	540.22	6.23
Guaranteed	46.24	0.53	45.71	0.53
Others	15.61	0.18	15.60	0.18
Commercial Banks	60.12	0.69	59.60	0.69
Total	887.54	10.13	889.31	10.26

Source: The National Treasury

This increase is attributed to increased disbursements especially from the creditor International Development Association (IDA). 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 33.5 percent followed by the US Dollar at 31.8 percent.

Chart 3. Currency Composition

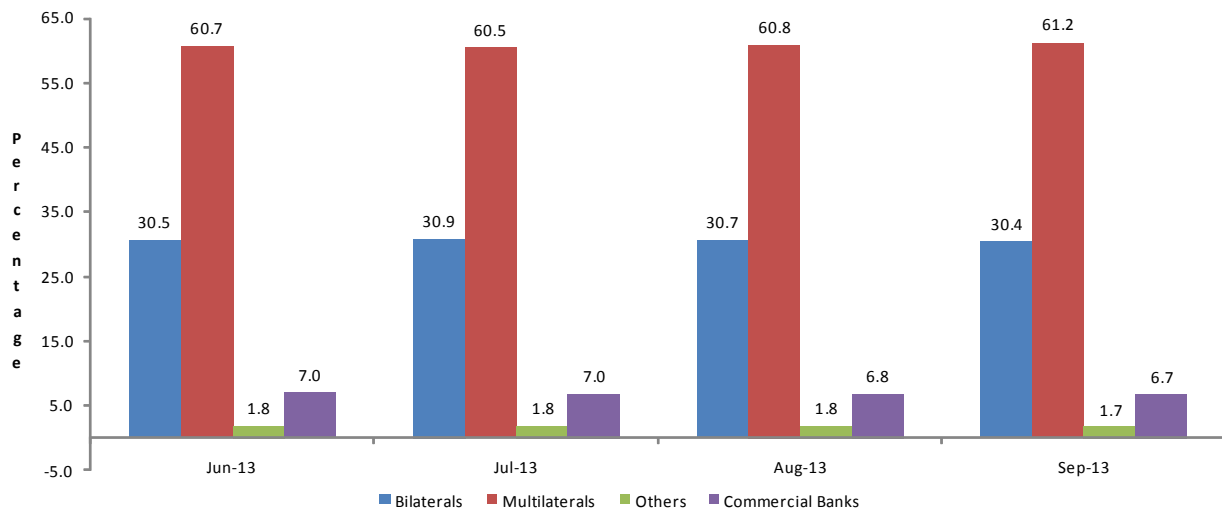


2.2 Structure of External Debt by Creditor

Official creditors account for 91.54 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors amounts to Ksh 544.11 billion including Ksh 3.90 billion guaranteed debt owed to IDA dominate the portfolio (61.18 percent of the total). Bilateral debt stands at Kshs 269.99 billion (30.36 percent of the total), inclusive of Kshs 41.8 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 6.70 percent of the total public and publicly guaranteed external debt.

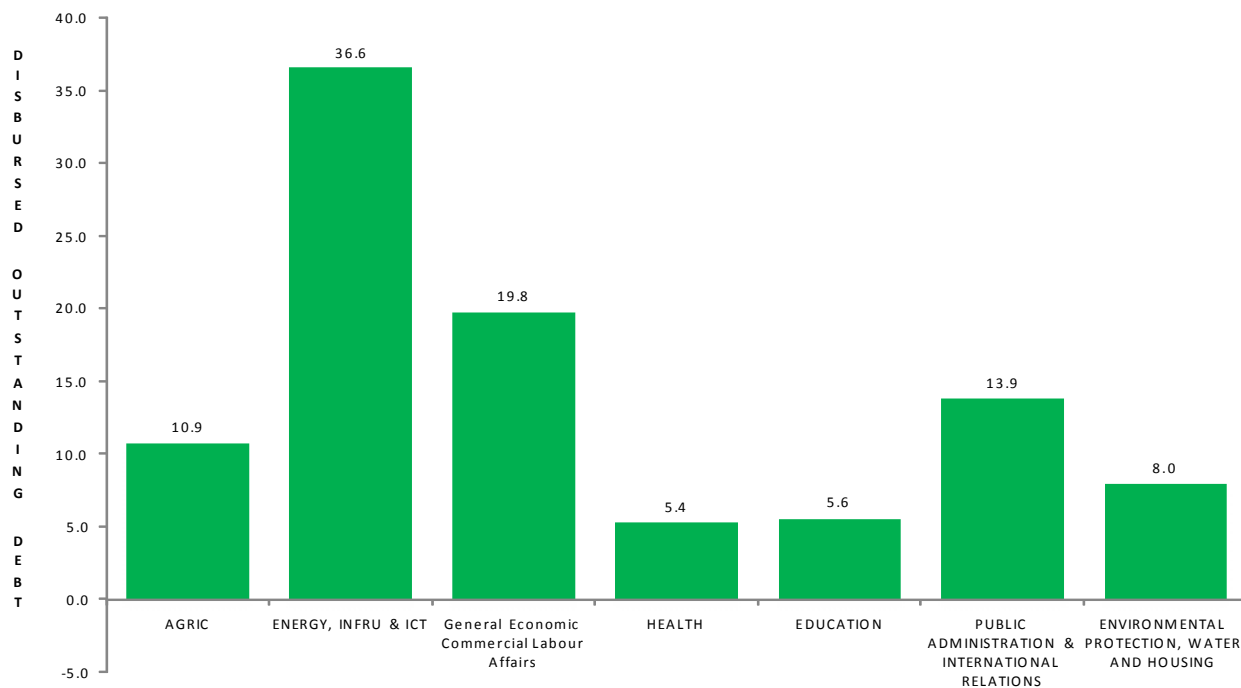
Chart 4: External Debt by Creditor



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 September 2013 stood at Kshs 11.83 billion. Principal and interest projections for the month of September 2013 was Kshs 3.17 billion and Kshs 2.45 billion, respectively. Multilateral and bilateral creditors constitute 50.6 percent and 42.3 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 September 2013, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	4,560.88	1,429.87	5,990.75
Multilateral	4,303.00	709.68	5,012.68
Commercial	-	828.33	828.33
Total	8,863.88	2,967.88	11,831.76

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end September 2013 was Kshs 9.15 billion as reflected in Table 5. Actual principal and interest payments for the month of September 2013 was Kshs 4.35 billion and Kshs 2.13 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	2,298.44	1,330.61	3,629.05
Multilaterals	3,529.00	559.87	4,088.87
Commercials	-	1,428.95	1,428.95
Totals	5,827.44	3,319.43	9,146.87

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for September 2013 was below the projected debt service by Kshs 2.68 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 534.37 million to Kshs 45.71 billion in September 2013 from Ksh 46.24 billion in August 2013 due to strengthening of the currency and repayments during the month.

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

Creditor	July 2013	August 2013	September 2013
Japan	40,761.58	41,793.66	41,307.59
Canada	357.86	359.16	355.26
U.S.A	148.38	148.91	147.30
IDA (KR Concessionaire)	3,927.40	3,941.85	3,899.06
Totals	45,195.40	46,243.58	45,709.21

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 48.54 billion to Ksh 930.56 billion in September 2013 from Kshs 882.02 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

	July 2013	August 2013	September 2013
Gross domestic debt	1,078.60	1,116.68	1,168.12
<i>less</i>			
Govt. deposits at CBK	-96.11	-110.03	-102.80
Govt. deposits at commercial banks	-102.32	-118.92	-129.06
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	874.48	882.02	930.56

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of September 2013, Government securities worth Kshs 65.0 billion were advertised. Bids worth Kshs 102.5 billion and 37.6 billion were received from Treasury Bills and Treasury Bonds issued during the month. Successful bids amounted to Kshs 75.6 billion against the months redemptions of Kshs 29.0 billion leaving exchequer with a surplus of Kshs 46.6 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	45,000	20,000	65,000
Bids received	102,522	37,629	140,151
Successful bids	55,710	19,924	75,634
Redemptions (cost)	(28,181)	(852)	(29,033)
Net domestic borrowing	27,528	19,072	46,600

Source: National Treasury

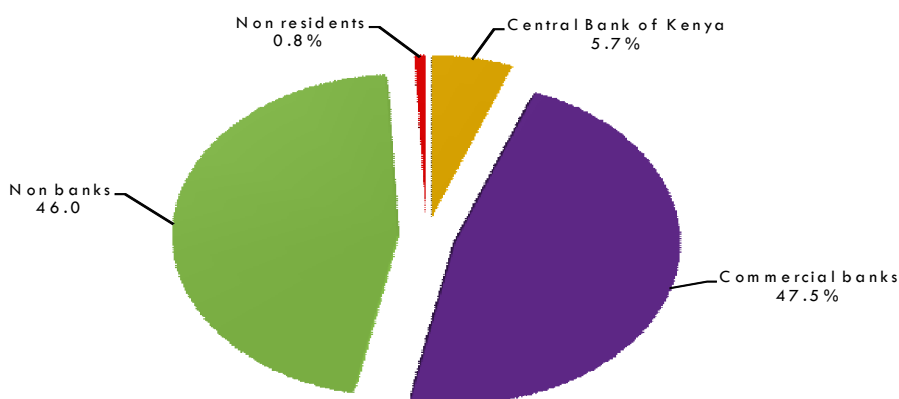
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	352.87	438.32	0.13	3.52	794.84
Treasury bills	199.29	99.09	3.04	6.21	307.63
Others	2.43	0.07	63.15	0.00	65.65
Total	554.59	537.48	66.32	9.73	1,168.12
Percentage Holding	47.5	46.0	5.7	0.8	100.00

Source: Central Bank of Kenya

At the end of September 2013, commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 554.59 billion or 47.5 percent as shown in Table 9 and Chart 5. The non banks held 46.0 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 9.73 billion or 0.8 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 66.32 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 September 2013

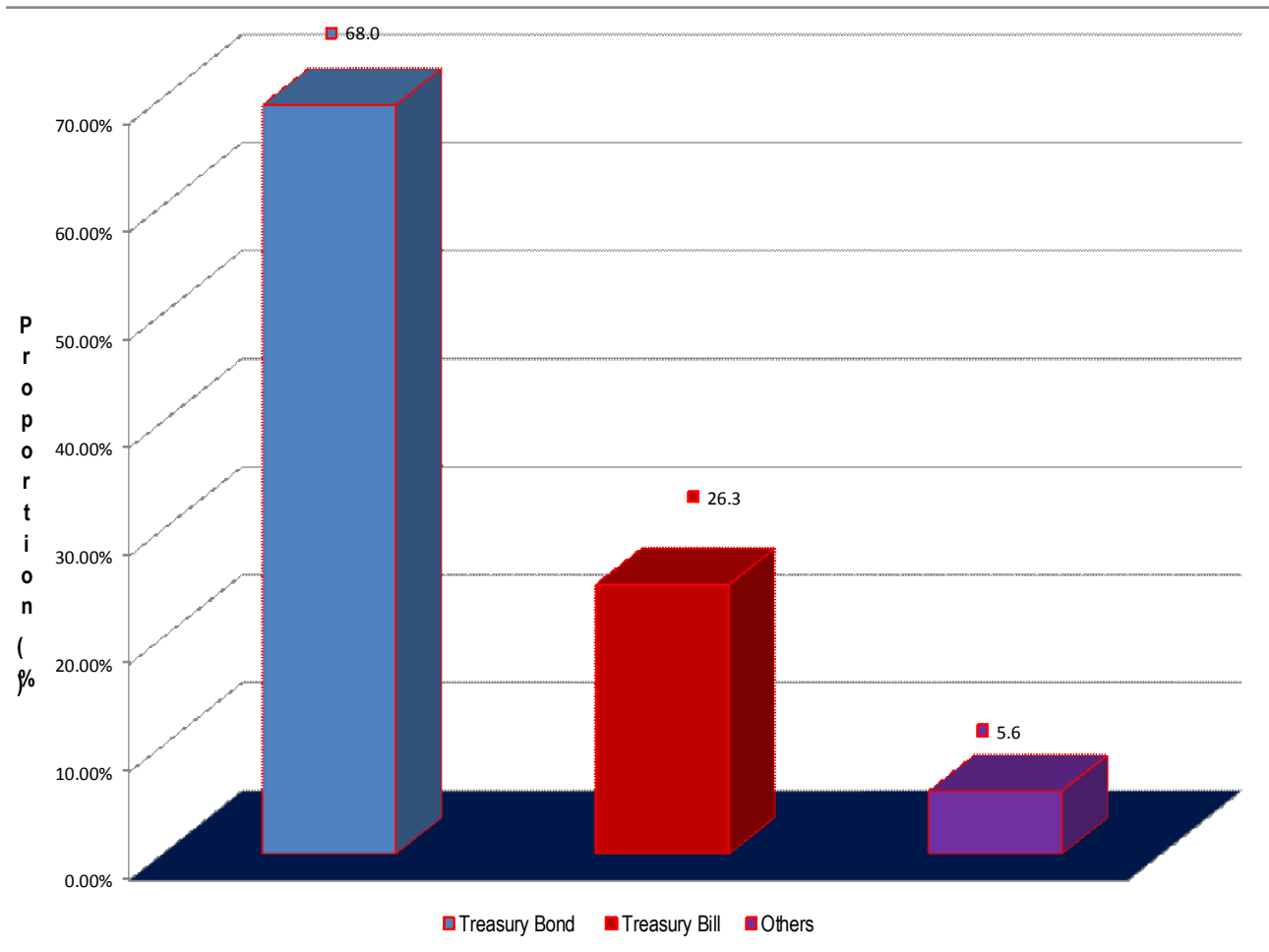


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end September 2013. 68.0 percent of Government domestic debt was in Treasury Bonds, 26.3 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 6: Domestic debt by instrument



Source: Central Bank of Kenya

3.4 Net Domestic Financing

Table 10 shows that as at end September 2013, the net domestic financing stood at Kshs 17.94 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2013	September -2013	Change
Treasury Bills	245.48	279.82	34.34
Treasury Bonds	713.12	741.92	28.80
Pre-1997 Govt. Overdraft debt	28.89	28.89	0.00
Other	8.72	34.84	26.12
<i>of which Overdraft (from CBK)</i>	6.99	33.13	26.14
Govt. deposits	97.37	168.69	71.32
Net Domestic Credit	898.84	916.78	17.94

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end September 2013, Government actual cumulative domestic interest payments stood at Kshs 25.0 billion against the cumulative projected interest payments of Kshs 25.47 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 20 billion and Kshs 4.6 billion respectively.

Table 11: Domestic interest payments, in Kshs million

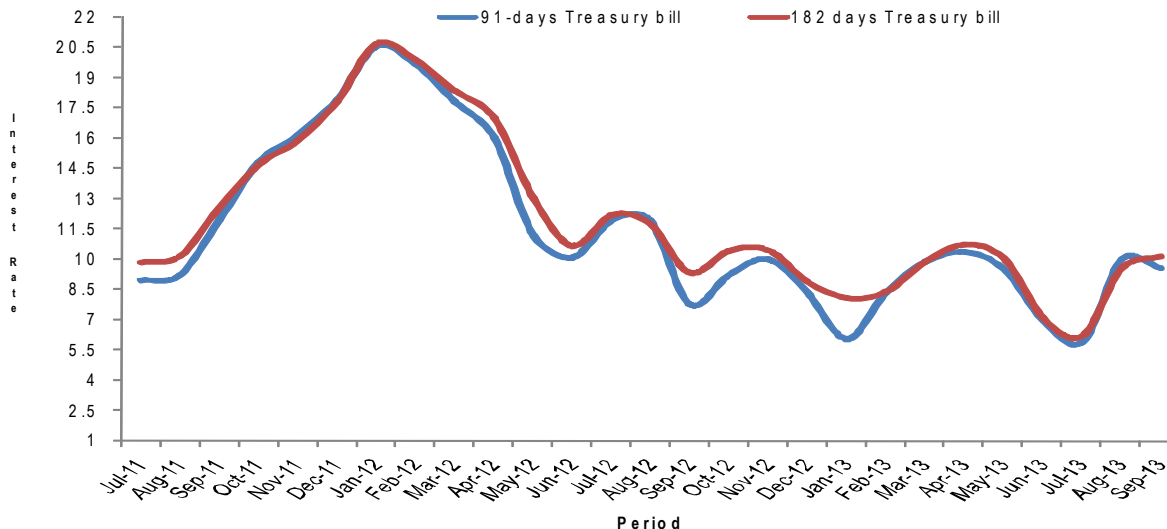
Type of debt	Projected	Actual	Variance
Treasury bonds	19,962	19,972	(10)
Treasury bills	4,912	4,630	(282)
Overdraft	384	407	23
Pre-1997 overdraft debt	214	-	(214)
Totals	25,472	25,009	463

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 September 2013, the average interest rates for the 91-day Treasury bills decreased by 45 basis points to 9.58 percent from 10.03 percent in August 2013 and the 182-days Treasury bill increased by 58 basis points from 9.57 per cent to 10.15 percent per annum. 364-days Treasury bill rate stood at an average of 10.91 percent per annum in September 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

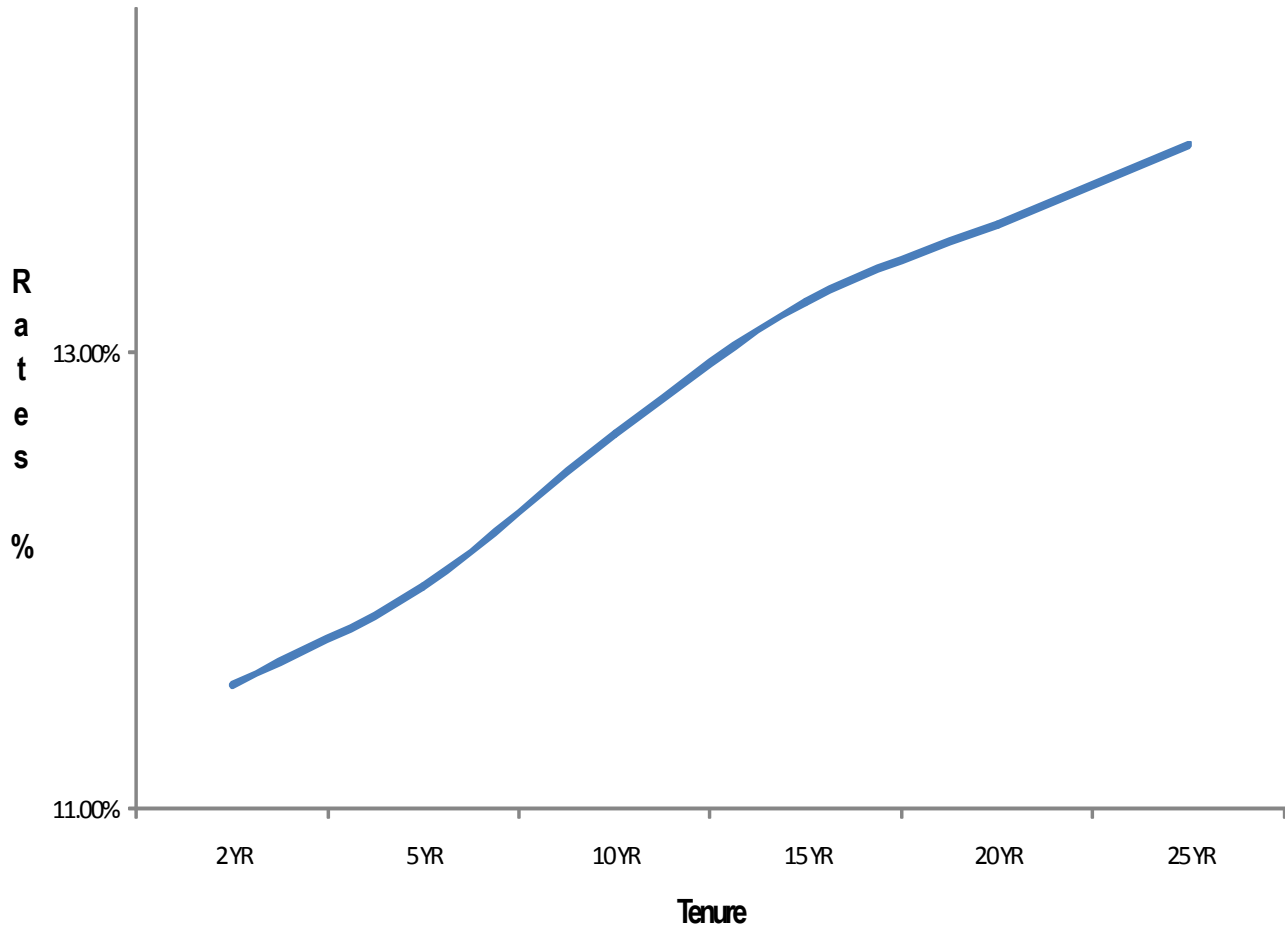
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	11.54
5 YR	11.97
10 YR	12.64
15 YR	13.22
20 YR	13.56
25 YR	13.90

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)**

CREDITOR	Stock at end August 2013	Stock at end September 2013	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,057.40	1,064.96	7.56
BELGIUM	7,665.16	7,720.10	54.94
CANADA	1,056.88	1,045.41	(11.47)
DENMARK	2,051.97	2,067.76	15.79
FINLAND	99.11	98.95	(0.16)
FRANCE	53,865.58	54,323.60	458.02
GERMANY	25,959.07	26,144.50	185.43
ITALY	1,690.44	1,701.87	11.43
JAPAN	48,298.30	47,077.91	(1,220.39)
NETHERLANDS	2,936.37	2,957.35	20.98
UK	1,792.92	1,845.35	52.43
USA	4,717.36	4,666.15	(51.21)
PARIS CLUB OTHERS	5,280.71	5,295.82	15.11
NON PARIS CLUB	73,274.08	72,170.57	(1,103.51)
o/w CHINA	66,328.98	65,267.50	(1,061.48)
Sub total	229,745.38	228,180.31	(1,565.07)
MULTILATERAL			
ADB/AFDB	92,527.00	93,983.91	1,456.91
EEC/EIB	16,065.96	16,151.36	85.40
IDA	333,543.88	336,378.55	2,834.67
IFAD	9,331.53	9,339.40	7.87
IMF	75,044.62	75,150.94	106.32
OTHERS	9,310.99	9,211.34	(99.65)
Sub total	535,823.97	540,215.50	4,391.53
COMMERCIAL BANKS	60,119.24	59,602.71	(516.53)
SUPPLIERS CREDIT	15,611.87	15,605.77	(6.10)
Sub Total	841,300.46	843,604.30	2,303.84
GUARANTEED DEBT			
CANADA	359.16	355.26	(3.90)
JAPAN	41,793.60	41,307.59	(486.01)
USA	148.91	147.30	(1.61)
IDA (KR Concessionaire)	3,941.85	3,899.06	(42.79)
Sub Total	46,243.58	45,709.21	(534.37)
GOK+ GUARANTEED TOTAL	887,544.04	889,313.51	1,769.47

Source: National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) **3,662.56**

Source: QEBR June 2013

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