



REPUBLIC OF KENYA

THE NATIONAL TREASURY

DIRECTORATE OF DEBT MANAGEMENT

MONTHLY DEBT BULLETIN

SEPTEMBER 2014

1.0 PUBLIC DEBT

1.1 Introduction

As at end September 2014, public and publicly guaranteed debt stood at Kshs 2,348.71 billion or 51.2 percent of GDP (see Table 1). The decrease of 0.99 percent over the end August 2014 position is mainly attributed to decrease in domestic debt. Gross domestic debt decreased by Ksh 20.22 billion to stand at Ksh 1,260.88 billion, while external debt decreased by Ksh 3.16 billion to stand at Ksh 1,087.83 billion in September 2014. (See Table 1).

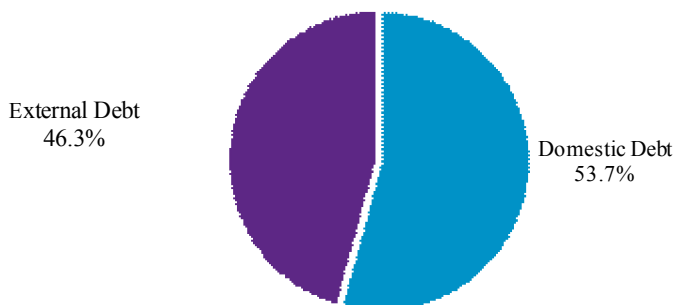
Table 1: Size of public debt, end September 2014, in billion

Debt Category	Kshs	USD
Domestic Debt	1,260.88	14.12
External Debt	1,087.83	12.18
Total	2,348.71	26.30

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 53.7 percent of the total debt is domestic debt while 46.3 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 6.0 years, respectively. In addition, the average maturity period for external loans was 16.5 years while the average grant element was 62.0 percent.

As an indication of the success in the lengthening of maturity structure of domestic debt to minimise refinancing risk in line with the 2014 Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt stood at 5 years 1 months as at end September 2014.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period July to September 2014. During this period, the Kenya shilling appreciated against the Japanese Yen, Euro and Sterling Pound by 4.57, 3.71 and 2.33 percent respectively but it depreciated against the US Dollar by 1.69 percent. The shilling stood at Kshs 89.28 to the US Dollar at end of September 2014.

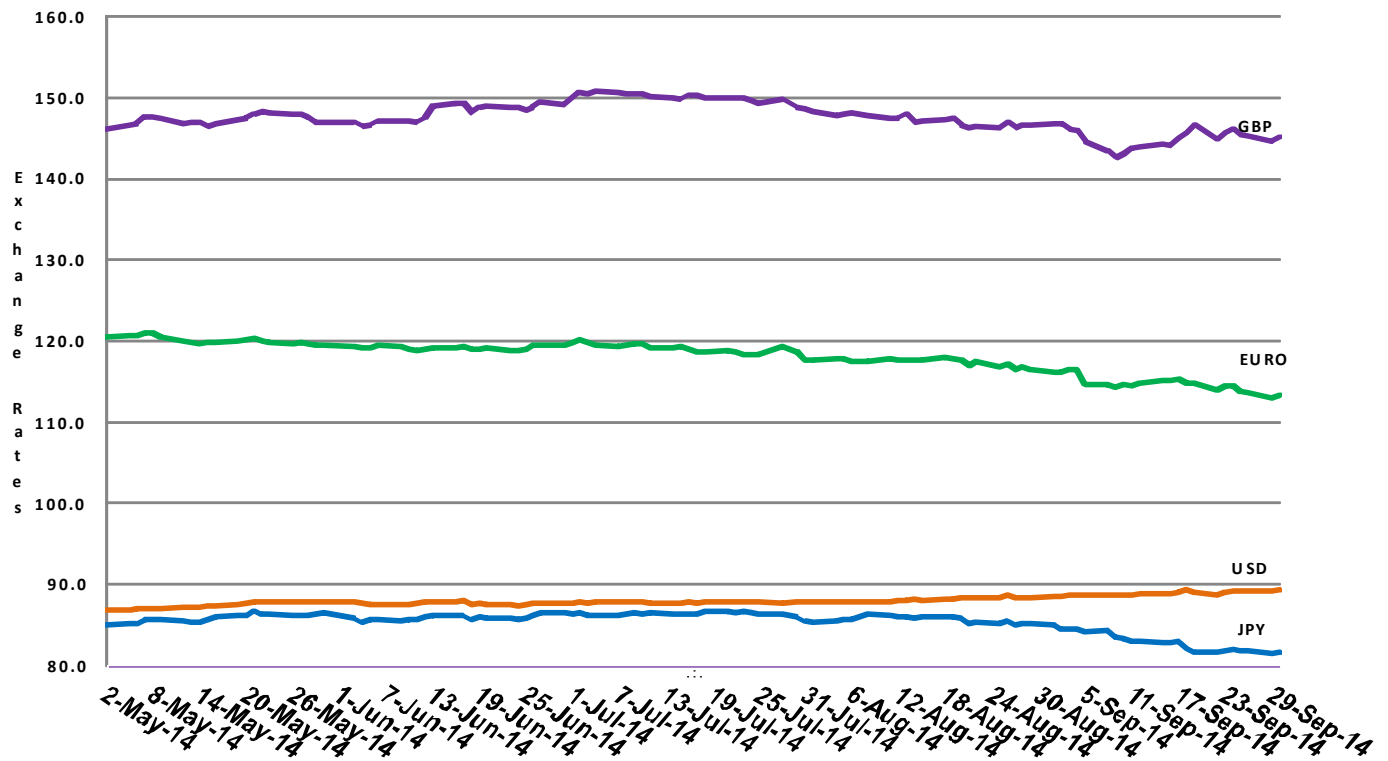
Table 2: Movement in exchange rates

Currency	July 2014	August 2014	September 2014
US Dollar	87.80	88.40	89.28
STG Pound	148.58	146.59	145.12
Euro	117.64	116.50	113.28
JPY(100)	85.54	85.13	81.63

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from May 2014 to September 2014. The exchange rate against the four major currencies depicted volatile movement for the Sterling Pound, the Euro and the Yen during the month of September 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 decreased by Kshs 3.16 billion as at end September 2014 to Kshs 1,087.83 billion from Kshs 1,090.99 billion at the end of August 2014 as shown in Table 3.

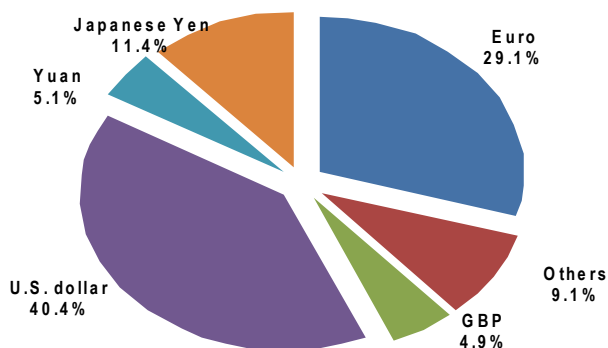
Table 3: External debt stock, in billions

	August 2014		September 2014	
	Kshs	USD	Kshs	USD
Bilateral	245.09	2.77	240.19	2.69
Multilateral	601.81	6.81	604.00	6.77
Guaranteed	44.22	0.50	42.37	0.47
Others	16.28	0.19	16.10	0.18
Commercial Banks	183.59	2.08	185.16	2.07
Total	1,090.99	12.34	1,087.83	12.18

Source: The National Treasury

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 40.4 percent followed by the Euro at 29.1 percent.

Chart 3. Currency Composition



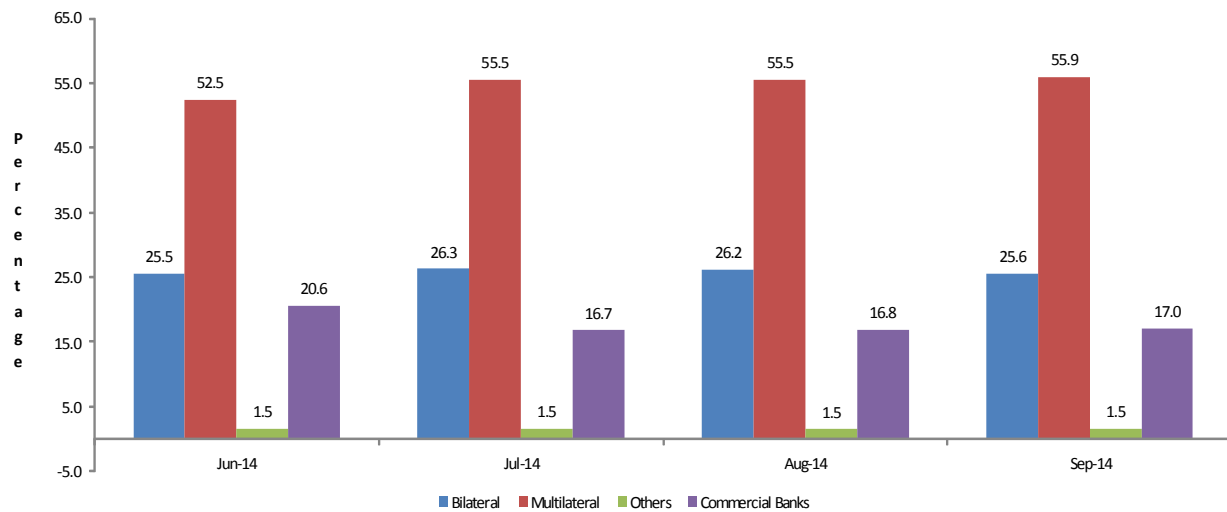
Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 81.5 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditors amounts to Ksh 608.0 billion (including Ksh 4.0 billion guaranteed debt owed to IDA) and dominates the portfolio at 55.9 percent of the total. Bilateral debt stands at Kshs 278.6 billion (25.6 percent of the total), inclusive of Kshs 38.4 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 17.0 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

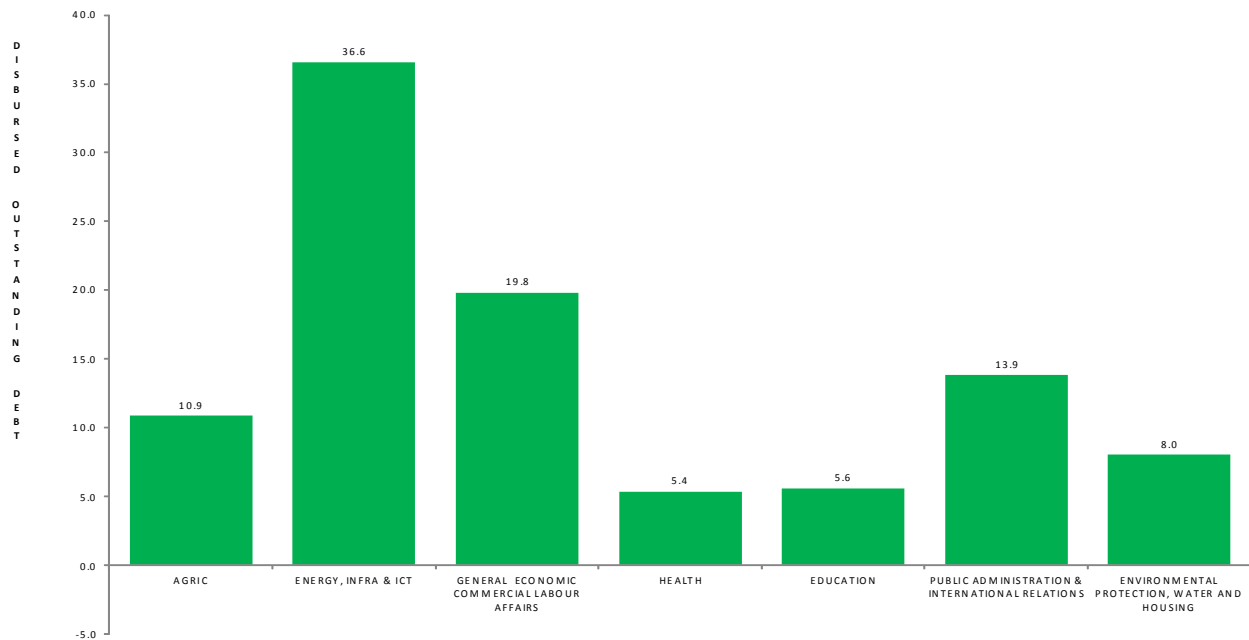


Source: The National Treasury

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 September 2014 stood at Kshs 64.38 billion. Principal and interest projections for the month of September 2014 was Kshs 3.32 billion and Kshs 1.24 billion, respectively. Multilateral and bilateral creditors constitute 7.4 percent and 8.0 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 2014, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	3,619.31	1,558.31	5,177.62
Multilateral	3,943.56	799.44	4,743.00
Commercial	54,458.08	0.00	54,458.08
o/w Guaranteed	0.00	0.00	0.00
Total	62,020.95	2,357.75	64,378.70

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end September 2014 was Kshs 63.34 billion as shown in Table 5. Actual principal and interest payments for the month of September 2014 was Kshs 3.89 billion and Kshs 2.82 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	3,292.81	3,213.82	6,506.64
Multilaterals	3,680.33	653.76	4,334.09
Commercials	53,025.00	-	53,025.00
Totals	59,998.14	3,867.58	63,865.72

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for September 2014 was below the projected debt service by Kshs 0.51 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 September 2014, the guaranteed external debt decreased by Kshs 1.85 billion to Kshs 42.37 billion from Ksh 44.22 billion in August 2014 due to appreciation of Kenyan Shilling during the period.

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

Creditor	July 2014	August 2014	September 2014
Japan	40,166.95	39,826.76	37,970.02
Canada	342.45	344.77	348.20
U.S.A	74.63	75.14	37.94
IDA (KR Concessionaire)	3,951.19	3,977.97	4,017.57
Totals	44,535.22	44,224.64	42,373.74

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt decreased by Kshs 66.23 billion to Kshs 1,015.62 billion in September 2014 from Kshs 1,081.85 billion in August 2014 due to increases in Government deposits at CBK over the period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	July 2014	August 2014	September 2014
Gross domestic debt	1,296.45	1,281.09	1,260.88
<i>less</i>			
Govt. deposits at CBK	-104.82	-64.72	-110.81
Govt. deposits at commercial banks	-132.64	-128.82	-128.75
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,053.29	1,081.85	1,015.62

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of September 2014, Government securities worth Kshs 95.00 billion were advertised. Bids worth Kshs 58.91 billion and 20.84 billion were received for the Treasury Bills and Treasury Bond during the month respectively. Successful bids amounted to Kshs 63.96 billion against redemptions of Kshs 86.84 billion leaving exchequer with a deficit of Kshs 22.88 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	60,000	35,000	95,000
Bids received	58,912	20,838	79,750
Successful bids	44,660	19,302	63,962
Redemptions (cost)	(73,604)	(13,239)	(86,843)
Net domestic borrowing	(28,944)	6,063	(22,881)

Source: The National Treasury

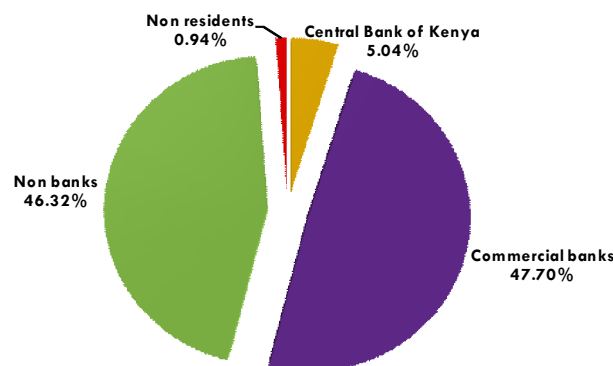
Table 9: Domestic debt instruments by holder end September 2014, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	437.16	479.21	0.05	3.44	919.86
Treasury bills	161.53	104.78	1.36	8.37	276.04
Others	2.74	0.07	62.17	0.00	64.98
Total	601.43	584.06	63.58	11.81	1,260.88
Percentage Holding	47.70	46.32	5.04	0.94	

Source: Central Bank of Kenya

At the end of September 2014, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 601.43 billion or 47.70 percent as shown in 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 584.06 billion or 46.32 percent while the Government debt worth Kshs 11.81 billion or 0.94 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 63.58 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 September 2014

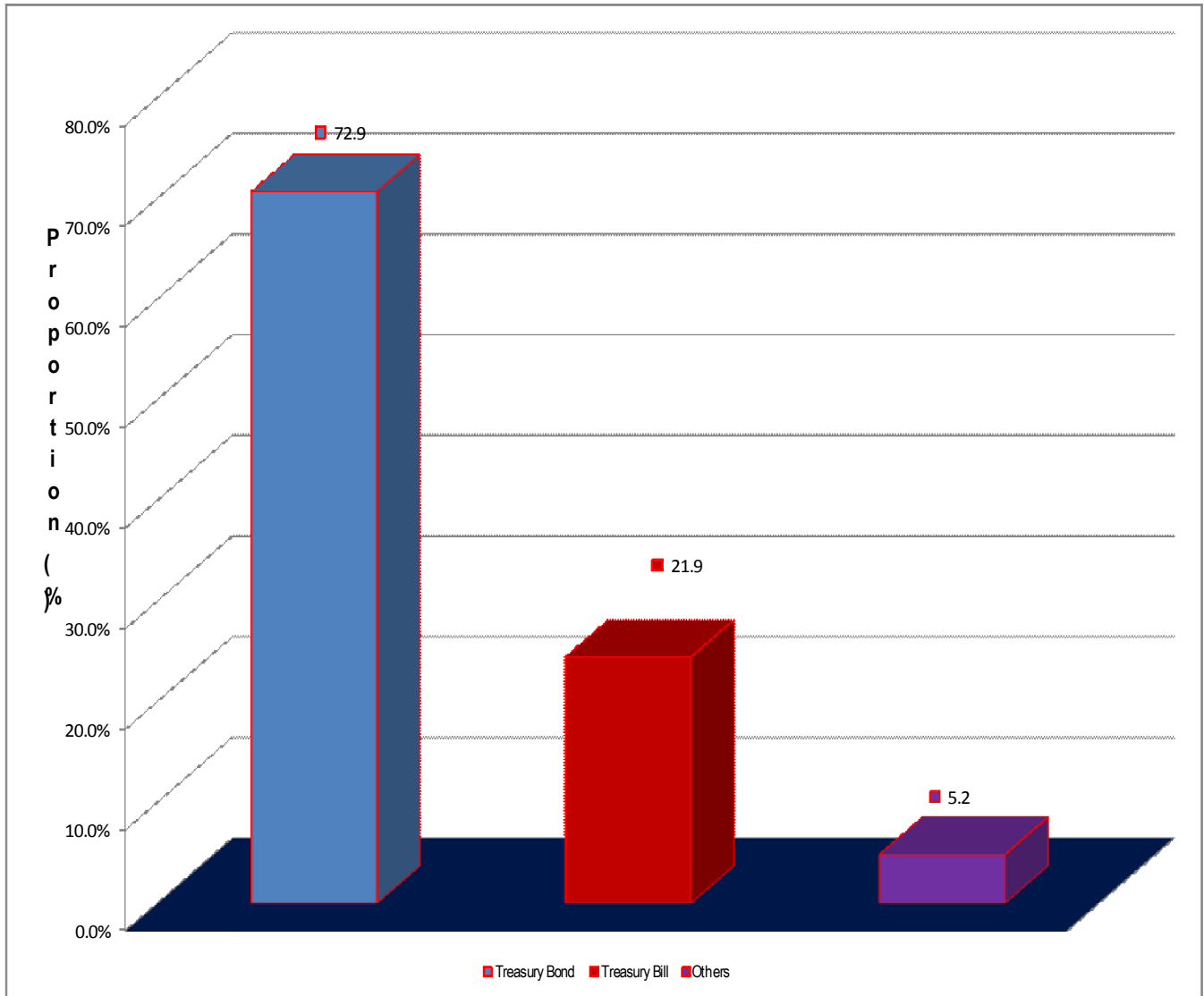


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end September 2014. 72.9 percent of Government domestic debt was in Treasury Bonds, 21.9 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 September 2014, the net domestic financing stood at a net repayment of Kshs 61.69 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2014	September-2014	Change
Treasury Bills	279.48	255.58	(23.92)
Treasury Bonds	879.33	884.58	(45.25)
Pre-1997 Govt. Overdraft debt	27.78	27.78	0.00
Other	39.74	36.19	(3.55)
<i>of which Overdraft (from CBK)</i>	37.24	34.37	(2.87)
Govt. deposits	125.76	165.23	39.47
Net Domestic Credit	1,100.57	1,038.88	(61.69)

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end September 2014, Government actual cumulative domestic interest payments stood at Kshs 34.67 billion against the cumulative projected interest payments of Kshs 27.88 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 24.46 billion and Kshs 9.43 billion respectively. The variance of Kshs 6.79 million is attributed to a high actual interest rates realized in the market compared to the projected interest rates.

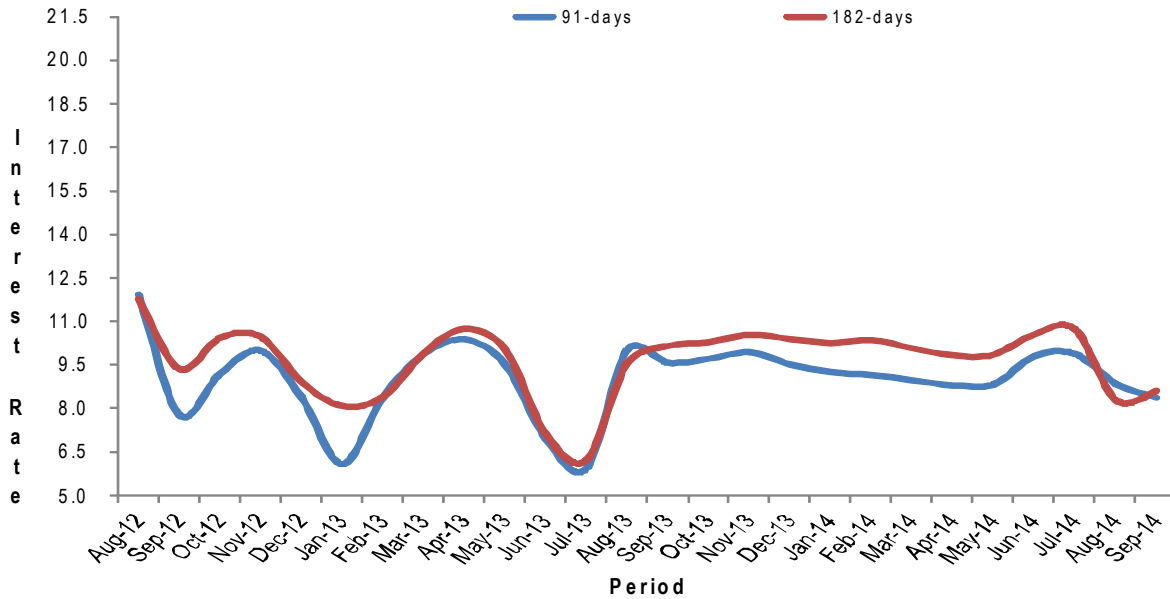
Table 11: Domestic interest payments, in Kshs million

Type of Debt	Projected	Actual	Variance
Treasury Bonds	23,440.76	24,464.19	1,023.43
Treasury Bills	2,967.73	9,427.31	6,459.58
Overdraft	1,000.00	571.14	(428.86)
Pre-1997 overdraft debt	469.55	210.05	(259.50)
Totals	27,878.04	34,672.69	6,794.65

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 August 2012. During the month of September 2014, the average interest rates for the 91-day Treasury bills increased by 8 basis points to 8.37 percent from 8.29 percent in August 2014 and the 182-days Treasury bill decreased by 24 basis point to 8.61 per cent from 8.85 percent per annum. 364-days Treasury bill rate stood at an average of 10.26 percent per annum in September 2014.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

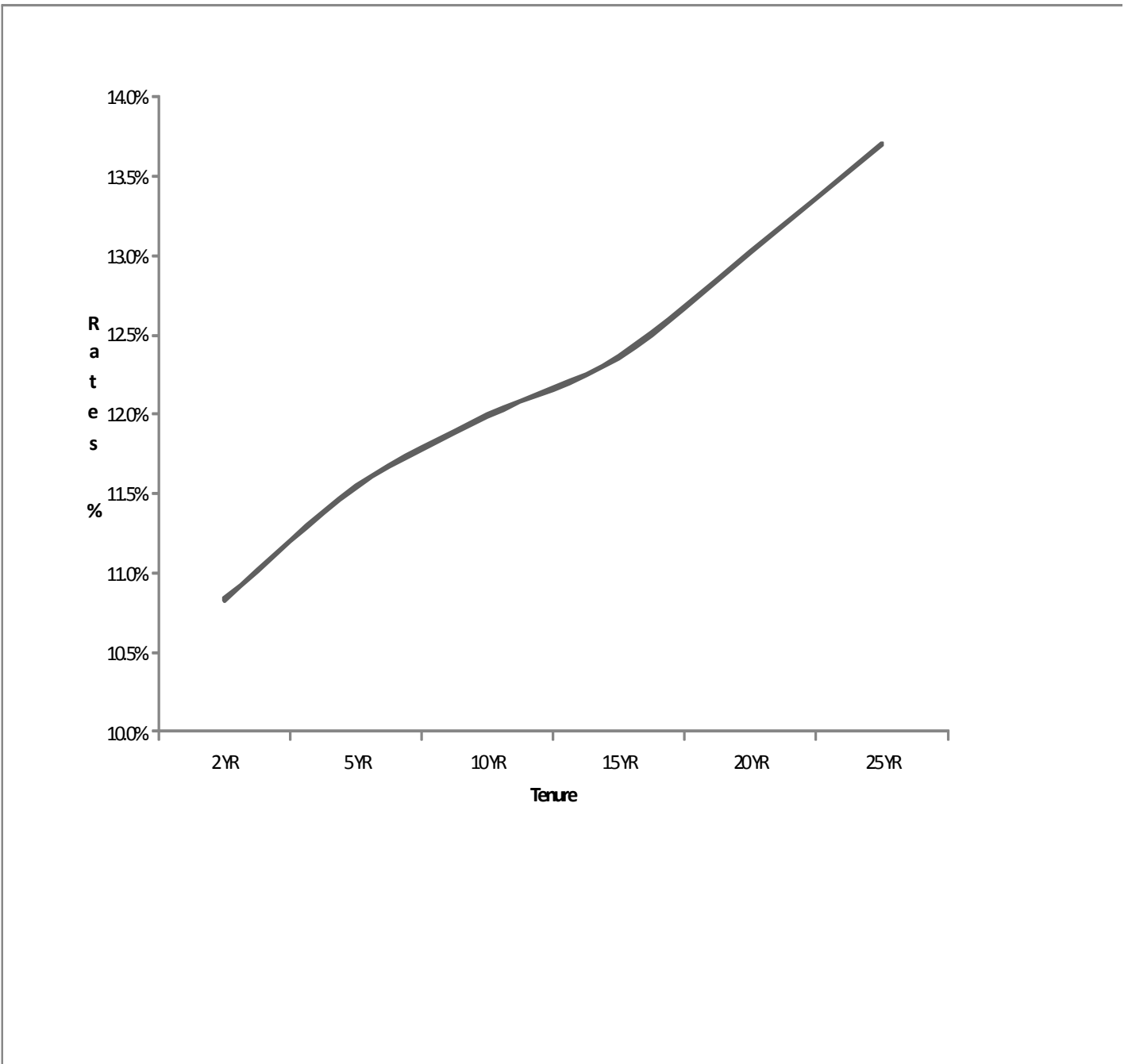
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 :Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.83
5 YR	11.54
10 YR	11.99
15 YR	12.36
20 YR	13.02
25 YR	13.70

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 August 2014	Stock at end September 2014	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	642.87	625.13	(17.74)
BELGIUM	7,490.26	7,237.24	(253.02)
CANADA	943.28	952.67	9.39
DENMARK	1,906.15	1,855.70	(50.45)
FINLAND	85.35	84.57	(0.78)
FRANCE	61,028.41	59,445.37	(1,583.04)
GERMANY	25,592.56	24,886.64	(705.92)
ITALY	1,161.79	1,130.65	(31.14)
JAPAN	42,618.93	40,173.12	(2,445.81)
NETHERLANDS	2,495.09	2,353.32	(141.77)
UK	1,675.22	1,658.45	(16.77)
USA	4,376.10	4,402.24	26.14
PARIS CLUB OTHERS	5,865.12	5,811.69	(53.43)
NON PARIS CLUB	89,204.25	89,573.99	369.74
o/w CHINA	81,812.48	82,342.82	530.34
Sub total	245,085.36	240,190.79	(4,894.57)
MULTILATERAL			
ADB/AFDB	107,120.99	111,519.66	4,398.67
EEC/EIB	21,673.00	21,028.38	(644.62)
IDA	373,242.27	373,009.82	(232.45)
IFAD	10,722.01	10,560.32	(161.69)
IMF	80,028.17	78,919.17	(1,109.00)
OTHERS	9,021.98	8,967.25	(54.73)
Sub total	601,808.42	604,004.61	2,196.19
COMMERCIAL BANKS	183,590.06	185,162.73	1,572.68
SUPPLIERS CREDIT	16,275.83	16,095.80	(180.03)
Sub Total	1,046,759.69	1,045,453.93	1,305.76
GUARANTEED DEBT			
CANADA	344.77	348.20	3.43
JAPAN	39,826.76	37,970.02	(1,856.75)
USA	75.14	37.94	(37.20)
IDA (KR Concessionaire)	3,977.97	4,017.57	39.60
Sub Total	44,224.65	42,373.74	(1,850.91)
GOK+ GUARANTEED TOTAL	1,090,984.32	1,087,827.67	(3,156.65)

Source: The National Treasury

Memorandum item

Nominal GDP (in Kshs Billion) 4,586.9

Source: BROPA

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