



**REPUBLIC OF KENYA**

# **THE NATIONAL TREASURY**

**DIRECTORATE OF PUBLIC DEBT MANAGEMENT**

## ***MONTHLY DEBT BULLETIN***

**SEPTEMBER 2016**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end September 2016, total public and publicly guaranteed debt stood at Kshs 3,672.09 billion or 50.39 per cent of GDP (Table 1). The increase of 1.46 per cent over the end August 2016 position is attributed to a slight increase to both the domestic and external debt. Domestic debt increased by Ksh 38.84 billion to stand at Ksh 1,854.80 million, while the external debt increased by Ksh 14.03 billion to stand at Ksh 1,817.29 billion in September 2016 (Table 1).

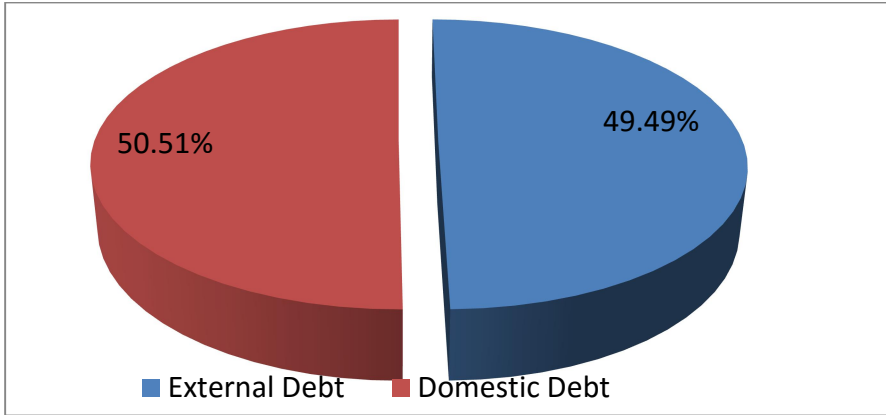
**Table 1: Size of public debt, end September 2016, in billions**

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,854.80	18.32	25.95
External Debt	1,817.29	17.95	24.44
Total	3,672.09	36.27	50.39

**Source: The National Treasury and Central Bank of Kenya**

The structure of public and publicly guaranteed debt shows that 50.18 per cent of the total debt is domestic debt while 49.82 per cent 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 0.6 percent and 6.9 years, respectively. In addition, the average maturity period for external loans was 30.6 years while the average grant element was 49.22 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 as at end August 2016.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period July to September 2016. During the month, the Kenya shilling appreciated against STG Pound and US Dollar by 1.428 per cent and 0.128 per cent respectively, but depreciated against the Euro and Japanese Yen by 1.109 per cent and 1.594 per cent respectively. The shilling stood at Kshs 101.26 to the US Dollar at end of September 2016.

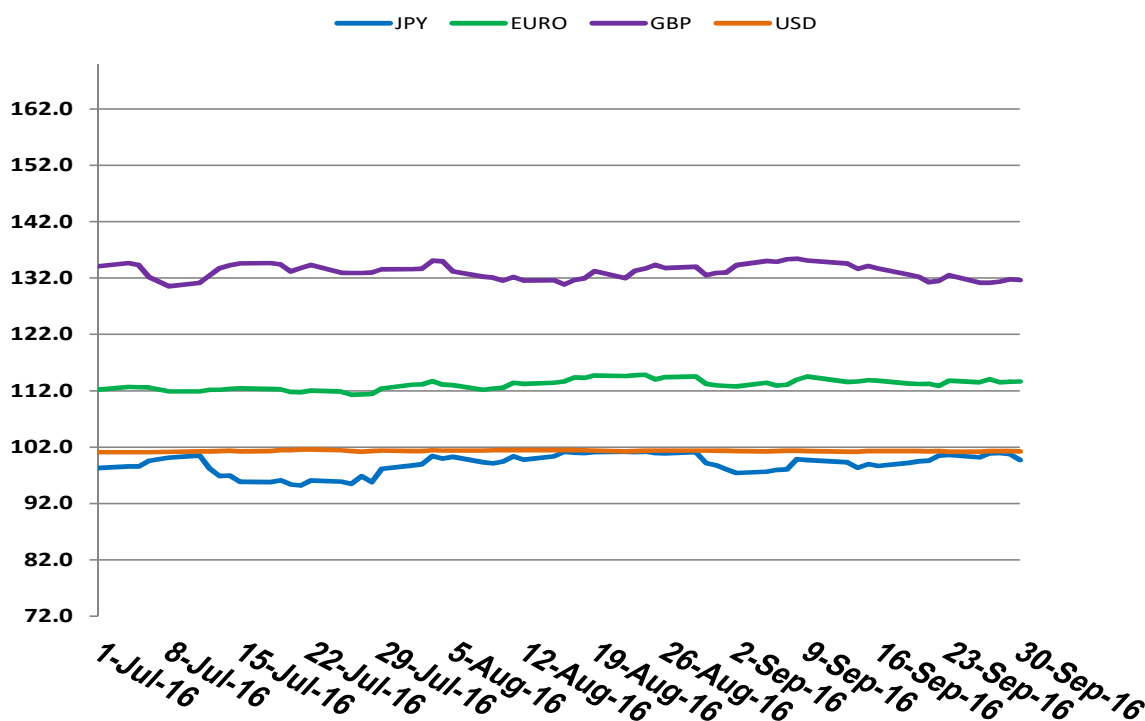
**Table 2: Movement in exchange rates**

Currency	July 2016	August 2016	September 2016	Appreciation/(Depreciation)
US Dollar	101.39	101.36	101.26	0.128%
STG Pound	133.52	132.88	131.64	1.428%
Euro	112.39	113.08	113.65	(1.109%)
JPY(100)	98.15	98.77	99.74	(1.594%)

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 to September 2016. The Kenya shilling strengthened against the Sterling Pound during the month under review while it remained relatively constant against the USD, Euro and Japanese yen.

**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

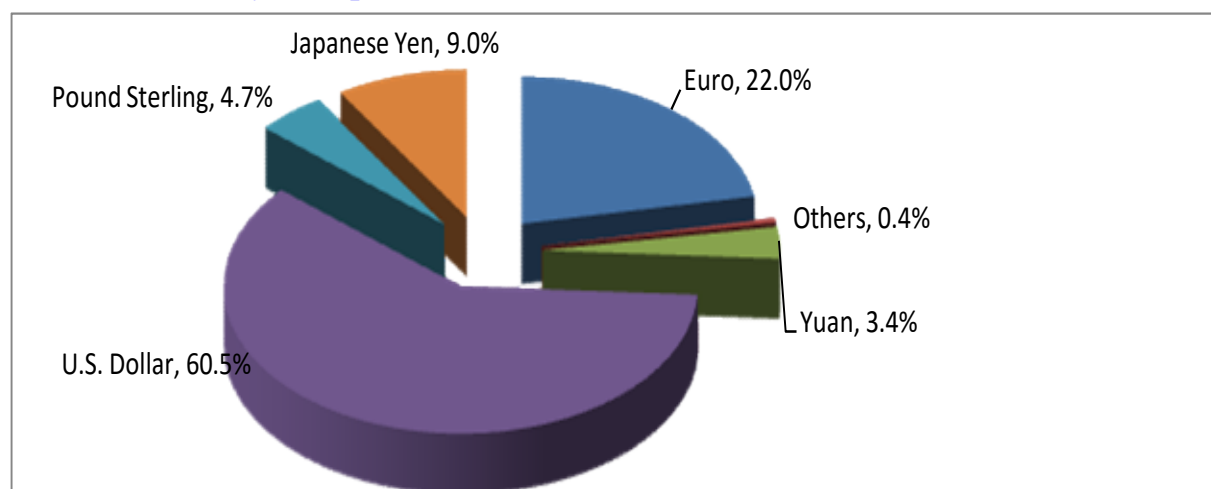
Overall, public and publicly guaranteed external debt increased by Kshs 14.03 billion as at end September 2016 to Kshs 1,817.29 billion from Kshs 1,803.26 billion at the end of September 2016 (Table 3).

Table 3: External debt stock, in billions

	August 2016		September 2016	
	Kshs	Kshs	Kshs	USD
Bilateral	510.03	5.03	502.98	4.97
Multilateral	789.32	7.79	795.20	7.85
Guaranteed	51.78	0.51	60.41	0.60
Suppliers Credit	8.51	0.08	15.46	0.15
Commercial Banks	443.63	4.38	443.23	4.38
o/w International Sovereign Bond	278.74	2.75	278.47	2.75
Total	1,803.26	17.79	1,817.29	17.95

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 60.5 percent followed by the Euro at 22.0 percent.

Chart 3. Currency Composition



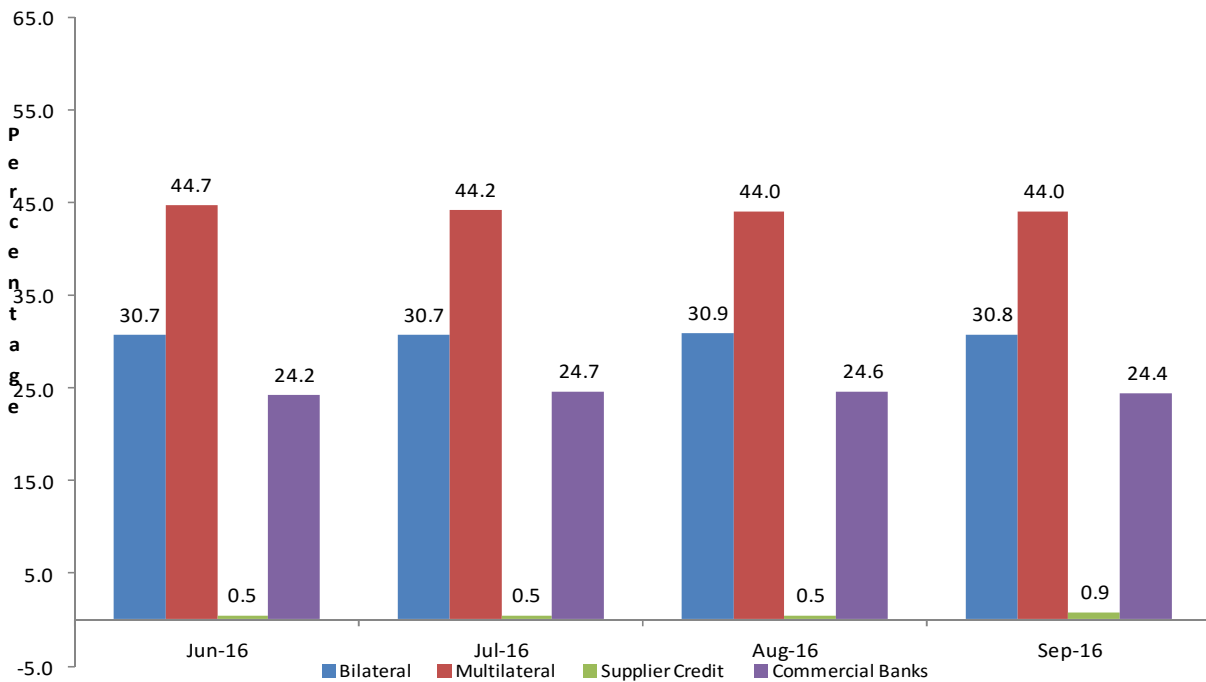
Source: The National Treasury

## 2.2 Structure of External Debt by Creditor

Official creditors account for 74.76 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditor's amounts to Ksh 799.75 billion (including Ksh 4.56 billion guaranteed debt owed to IDA) dominates the portfolio at 44.01 percent of the total. Bilateral debt stands at Kshs 558.84 billion (30.75 percent of the total), inclusive of Kshs 56.8 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 24.39 percent of the total public and publicly guaranteed external debt.

Chart 4: External Debt by Creditor

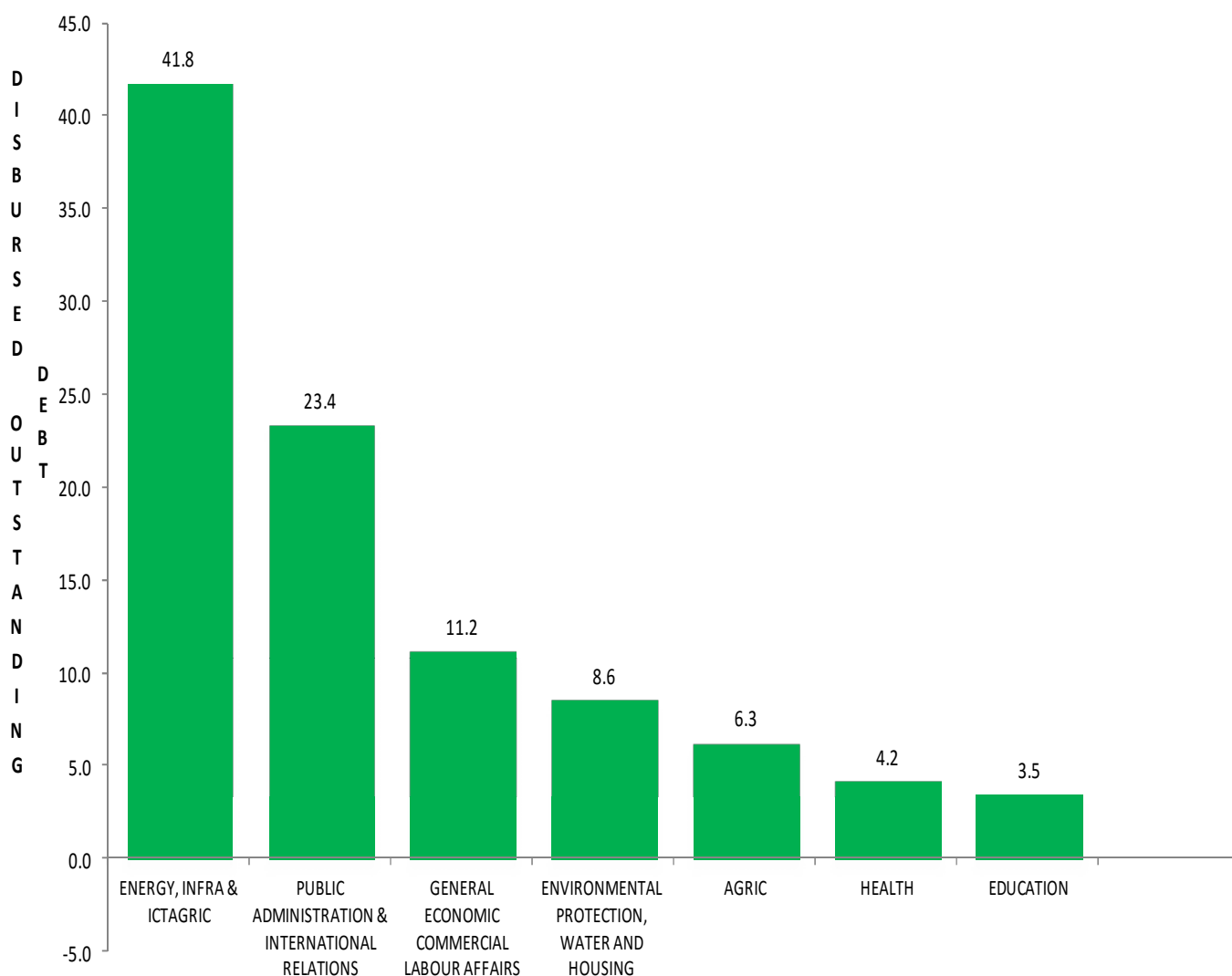


Source: The National Treasury

## 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

### 2.3 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end September 2016 stood at Kshs 21.07 billion.

Principal and interest projections for the month of September 2016 were Kshs 5.5 billion and Kshs 1.64 billion, respectively. Bilateral and multilateral creditors constitute 70.32 percent and 29.68 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 September 2016, in Kshs billions

Creditor category	Principal	Interest	Total
Bilateral	6,415.21	8,399.77	14,814.98
Multilateral	5,241.28	1,009.82	6,251.1
Commercial	0.00	0.00	0.00
Guaranteed	0.00	0.00	0.00
<b>Total</b>	<b>11,656.49</b>	<b>9,409.59</b>	<b>21,066.08</b>

Source: The National Treasury

## 2.5 Actual Cumulative External Debt Service

Actual debt service as at end September 2016 stood at Kshs 15.47 billion (Table 5). Actual principal and interest payments during the month of September 2016 were Kshs 4.19 billion and Kshs 1.90 billion respectively.

Table 5: Actual cumulative external debt service as at end of August 2016, in Kshs billion

Credit category	Principal	Interest	Total
Bilateral	3,511.15	6,118.88	9,630.03
Multilateral	4,554.27	1,288.53	5,842.80
Commercial	0.00	0.00	0.0
Guaranteed	0.00	0.00	0.0
<b>Totals</b>	<b>8,065.42</b>	<b>7,407.41</b>	<b>15,472.83</b>

Source: The National Treasury

## 2.6 Budget Deviation

The projected cumulative debt service for September 2016 was above the actual debt service by Kshs 5.59 billion.

## 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 50 per cent of the GDP billion of the total public debt levels in the Net Present terms. In the month of September 2016, the guaranteed external debt stock increased by Kshs 8.63 billion to Kshs 60.40 billion from Ksh 51.77 billion in August 2016 (Table 6).



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

<b>Creditor</b>	<b>July 2016</b>	<b>August 2016</b>	<b>September 2016</b>
Japan	38.69	38.98	47.56
Germany	8.17	8.22	8.28
IDA (KR Concessionaire)	4.56	4.56	4.56
<b>Totals</b>	<b>51.42</b>	<b>51.77</b>	<b>60.40</b>

**Source: The National Treasury**

The national government issued a new guarantee to Kenya Ports Authority in the month of September 2016 but the loan has not disbursed.

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 20.44 billion to Kshs 1,443.15 billion in September 2016 from Kshs 1,422.71 billion in August 2016 due to an increase in gross debt over the period under review (Table 7).

Table 7: Government domestic debt, in Kshs billion

	July 2016	August 2016	September 2016
Gross domestic debt	1,809.29	1,815.96	1,854.80
less			
Govt. deposits at CBK	-233.02	-199.22	-217.63
Govt. deposits at commercial banks	-180.10	-188.32	-188.32
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,390.46	1,422.71	1,443.15

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of September 2016, Government securities worth Kshs 89 billion were advertised. Bids worth Kshs 183.8 billion were received of which Treasury Bills was Ksh 127.38 billion and Treasury Bond was Ksh 56.43 billion. Successful bids amounted to Kshs 122.11 billion against redemptions of Kshs 77.66 billion leaving exchequer with a surplus of Kshs 44.49 billion. (Table 8).

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	64,000	25,000	89,000
Bids received	127,386	56,453	183,839
Successful bids	86,764	35,343	122,107
Redemptions (cost)	(53,407)	(24,261)	(77,668)
Net domestic borrowing	33,407	11,082	44,489

Source: The National Treasury

Table 9: Domestic debt instruments by holder end September 2016, in Kshs billion

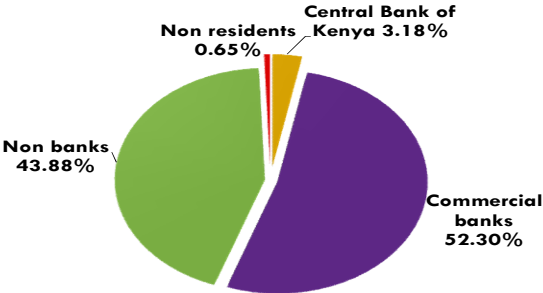
Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	582.15	602.94	9.43	7.26	1,201.78
Treasury bills	382.11	210.79	20.59	4.76	618.25
Others	5.77	0.07	28.93	0.00	34.77
Total	970.03	813.80	58.95	12.02	1,854.8
Percentage Holding	52.30%	43.88%	3.18%	0.65%	100%

Source: The National Treasury

At the end of September 2016, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 970.03 billion or 52.30 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 813.80 billion or 43.88 percent while the Government debt worth Kshs 12.02 billion or 0.65 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 58.95 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, 2016

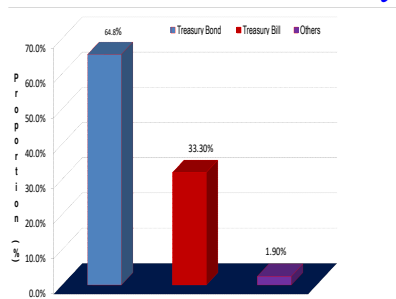


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end September 2016. 64.8 per cent of Government domestic debt was in Treasury Bonds, 32.30 per cent 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 minimize 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 September 2016, the net domestic financing was at Kshs 53.04 billion.

Table 10: Net domestic financing, in Kshs billion

	June 2016	September 2016	Change
Treasury Bills	537.28	563.82	26.54
Treasury Bonds	1,103.05	1,152.78	49.73
Pre-1997 Govt. Overdraft debt	25.56	25.56	0
Other	48.37	7.71	-40.66
<i>of which Overdraft (from CBK)</i>	44.2	3.32	-40.88
Govt. deposits	283.01	265.58	-17.43
Net Domestic Credit	1,431.25	1,484.29	53.04

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end September 2016, Government actual domestic interest payments stood at Kshs 36.11 billion against the projected interest payments of Kshs 27.52 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 21.95 billion and Kshs 13.26 billion respectively (Table 11).

Table 11: Domestic interest payments, in Kshs million

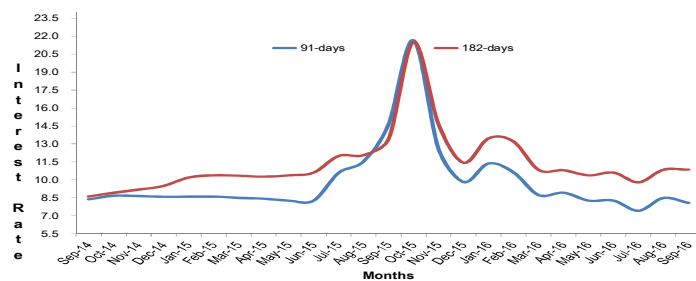
Type of Debt	Projected	Actual	Variance
Treasury Bonds		21,954.66	
Treasury Bills		13,264.11	
Overdraft		698.34	
Pre-1997 overdraft debt		193.27	
<b>Totals</b>		<b>36,110.38</b>	

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 September 2014. During the month of September 2016, the average interest rates for the 91-day Treasury bills decreased by 42 bps to stand at 8.06 per cent while that of 182-days Treasury bill increased by 1 basis points to 10.85 per cent per annum from 10.84 per cent in August 2016. The 364-days Treasury bill rate stood at an average of 11.03 percent per annum in September 2016.

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. Table 12 and Chart 9 shows the yields on

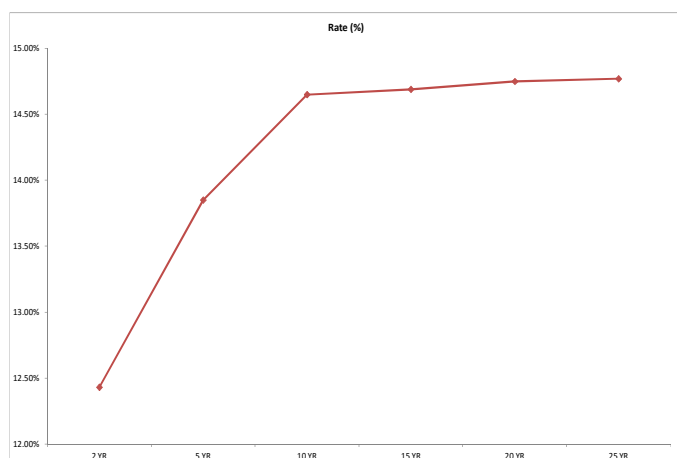
selected benchmark Treasury Bonds in the secondary market as at end September 2016. The Yield curve is flatter at the longer end due to limited trading in the secondary market.

**Table 12: Yields on selected Treasury Bonds as at end September, 2016**

<b>Tenure</b>	<b>Rate (%)</b>
2 YR	11.1994
5 YR	12.3239
10 YR	12.8500
15 YR	13.6466
20 YR	13.7582
24 YR	14.2497

**Source: Nairobi Securities Exchange (NSE)**

**Chart 9: Secondary Market yields on selected Treasury Bonds as at end August, 2016**



**Source: Nairobi Securities Exchange (NSE)**

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

Creditor	Stock at end August 2016	Stock at end September 2016	Change
<b>Central Government</b>			
AUSTRIA	1,037.05	1,042.32	5.27
BELGIUM	7,427.80	7,800.89	373.09
CANADA	811.42	810.65	-0.77
DENMARK	1,549.82	1,555.31	5.49
FINLAND	1,575.33	1,430.65	(144.68)
FRANCE	59,774.10	60,010.71	236.61
GERMANY	22,944.28	23,060.77	116.49
ITALY	626.40	629.50	3.1
JAPAN	60,339.88	53,434.66	(6,905.22)
NETHERLANDS	2,280.29	2,218.69	(61.6)
UK	966.26	957.20	(9.06)
USA	3,773.67	3,770.05	(3.62)
PARIS CLUB OTHERS	20,261.58	25,298.52	5,036.94
NON PARIS CLUB	326,083.81	320,962.46	(5,121.35)
o/w CHINA	313,254.92	312,828.81	(426.11)
<b>Sub total</b>	<b>510,026.49</b>	<b>502,982.38</b>	<b>(7,044.11)</b>
<b>MULTILATERAL</b>			
ADB/AFDB	179,077.01	179,013.29	(63.72)
EEC/EIB	20,582.90	20,446.56	(136.34)
IDA	483,076.50	489,260.66	6,184.16
IFAD	12,462.62	12,402.04	(60.58)
IMF	84,788.78	84,796.78	8.0
OTHERS	9,330.48	9,277.19	(53.29)
<b>Sub total</b>	<b>789,318.29</b>	<b>795,196.52</b>	<b>5,878.23</b>
<b>COMMERCIAL BANKS</b>	<b>443,633.03</b>	<b>443,238.02</b>	<b>(395.01)</b>
O/W International Sovereign Bond	278,736.97	278,469.68	267.29
<b>SUPPLIERS CREDIT</b>	<b>8,512.21</b>	<b>15,458.16</b>	<b>6,945.95</b>
<b>Sub Total</b>	<b>1,751,490.02</b>	<b>1,756,875.09</b>	<b>5,385.07</b>
<b>GUARANTEED DEBT</b>			
JAPAN	38,983.26	47,585.57	8,602.31
GERMANY	8,226.05	8,267.81	41.76
IDA (KR Concessionaire)	4,561.15	4,556.78	(4.37)
<b>Sub Total</b>	<b>51,770.46</b>	<b>60,410.16</b>	<b>8,639.70</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>1,803,260.48</b>	<b>1,817,285.24</b>	<b>14,024.76</b>

Source: National Treasury

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