



**REPUBLIC OF KENYA**

**THE NATIONAL TREASURY**

**DIRECTORATE OF PUBLIC DEBT MANAGEMENT**

***MONTHLY DEBT BULLETIN***

**OCTOBER 2016**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end October 2016, total public and publicly guaranteed debt stood at Kshs 3,721.16 billion or 56.52 per cent of GDP (Table 1). The increase of 1.34 per cent over the end September 2016 position is attributed to a slight increase to both the domestic and external debt. Domestic debt increased by Ksh 22.88 billion to stand at Ksh 1,877.68 million, while the external debt increased by Ksh 26.19 billion to stand at Ksh 1,843.48 billion in October 2016 (Table 1).

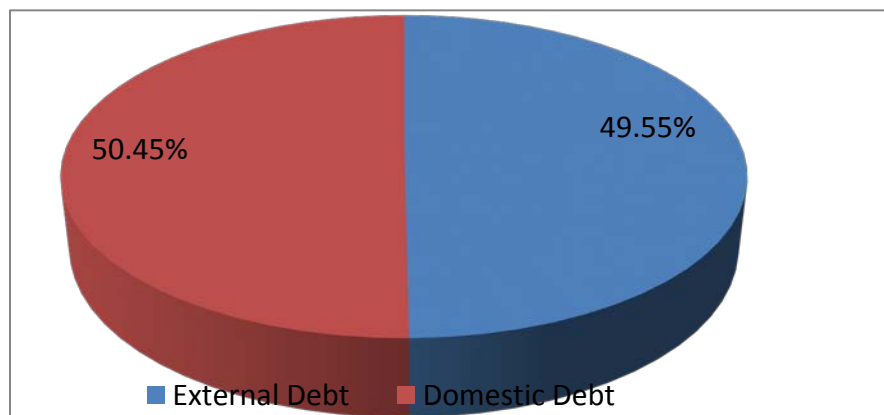
Table 1: Size of public debt, end October 2016, in billions

Debt Category	Kshs	USD	Percentage of GDP
Domestic Debt	1,877.68	18.36	28.51
External Debt	1,843.48	18.04	28.01
Total	3,721.16	36.40	56.52

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 50.45 per cent of the total debt is domestic debt while 49.55 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 minimize 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 minimize 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 October 2016. During the month, the Kenya shilling depreciated against US Dollar by 0.098 per cent, but appreciated against the STG Pound, Euro and Japanese Yen by 7.134 per cent, 1.724 per cent and 1.913 percent respectively. The shilling stood at Kshs 101.46 to the US Dollar at end of October 2016.

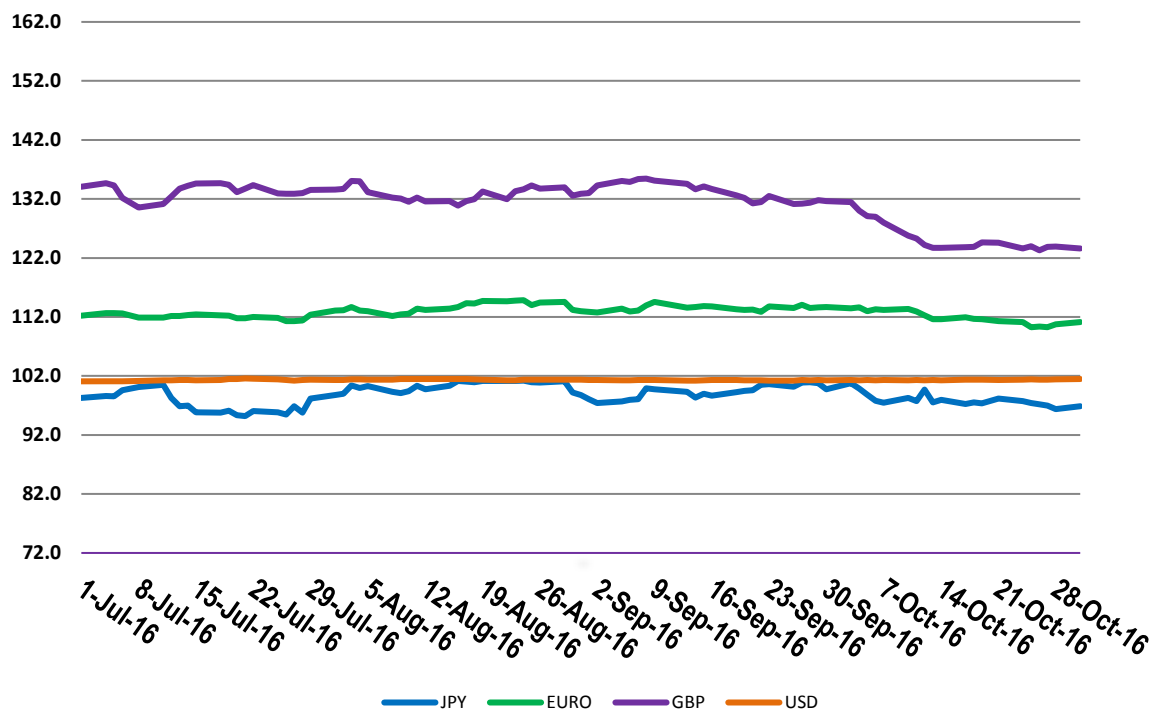
Table 2: Movement in exchange rates

Currency	August 2016	September 2016	October 2016	Appreciation/(Depreciation)
US Dollar	101.36	101.26	101.46	0.098%
STG Pound	132.88	131.64	123.40	(7.134%)
Euro	113.08	113.65	111.13	(1.724%)
JPY(100)	98.77	99.74	96.88	(1.913%)

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 October 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

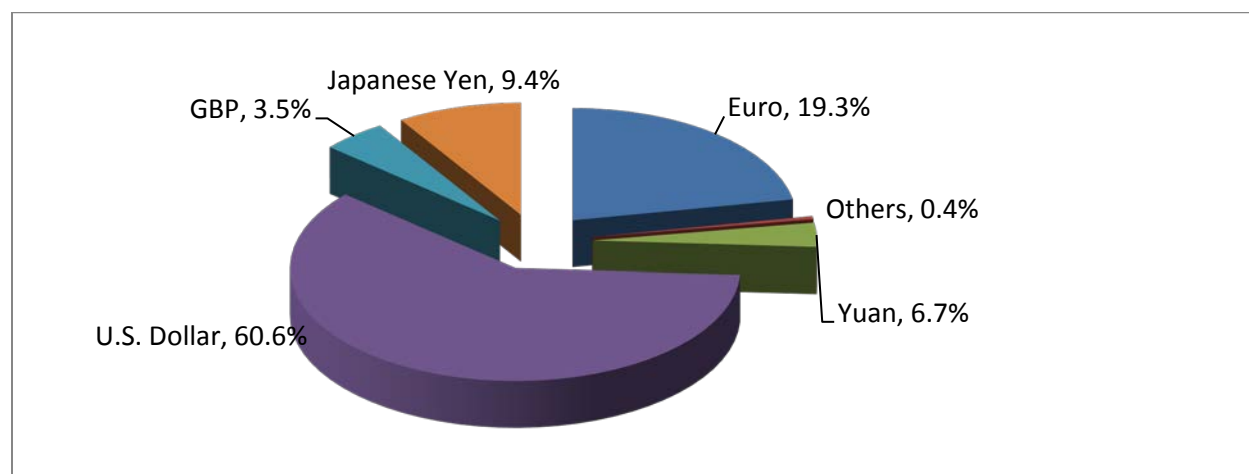
Overall, public and publicly guaranteed external debt increased by Kshs 26.19 billion as at end October 2016 to Kshs 1,843.48 billion from Kshs 1,817.29 billion at the end of September 2016 (Table 3).

Table 3: External debt stock, in billions

	September 2016		October 2016	
	Kshs	USD	Kshs	USD
Bilateral	502.98	4.97	536.60	5.28
Multilateral	795.20	7.85	787.96	7.77
Guaranteed	60.41	0.60	59.96	0.59
Suppliers Credit	15.46	0.15	15.37	0.15
Commercial Banks	443.23	4.38	443.59	4.37
o/w International Sovereign Bond	278.47	2.75	279.01	2.75
Total	1,817.29	17.95	1,843.48	20.91

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 60.6 percent followed by the Euro at 19.3 percent.

#### Chart 3. Currency Composition



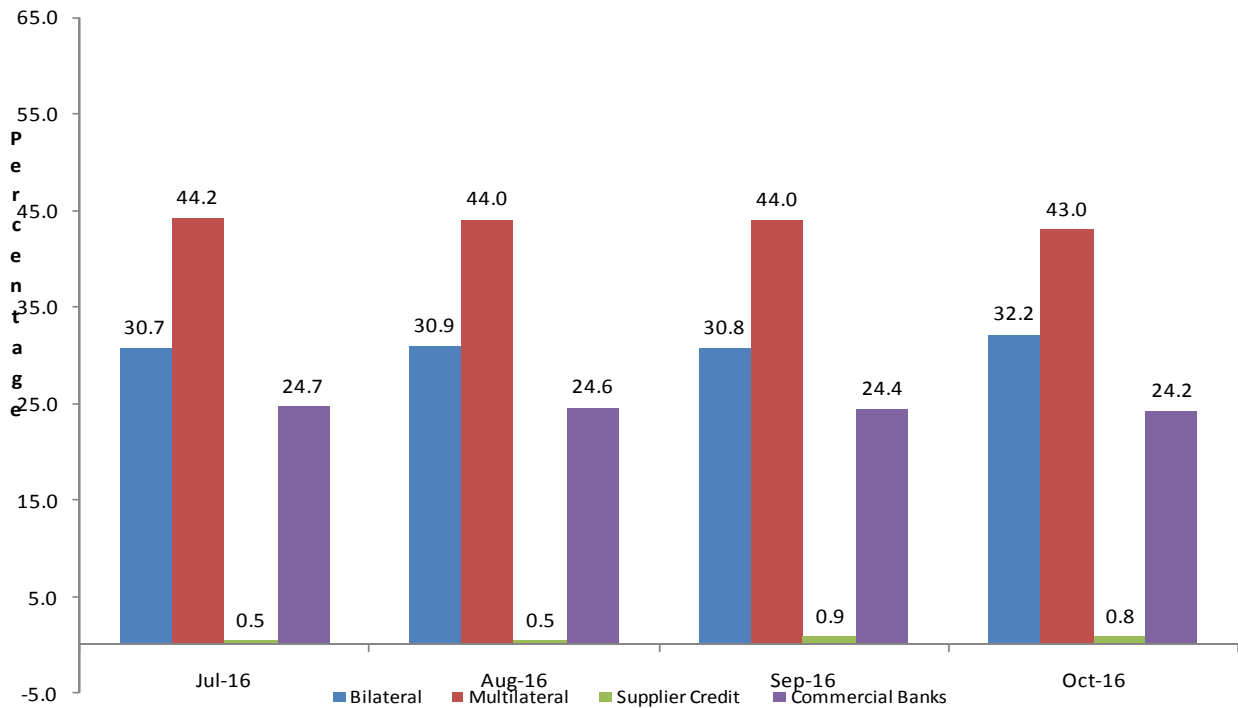
Source: The National Treasury

## 2.2 Structure of External Debt by Creditor

Official creditors account for 75.10 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditor's amounts to Ksh 792.53 billion (including Ksh 4.57 billion guaranteed debt owed to IDA) dominates the portfolio at 42.99 percent of the total. Bilateral debt stands at Kshs 592.00 billion (32.11 percent of the total), inclusive of Kshs 55.4 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 24.1 percent of the total public and publicly guaranteed external debt.

**Chart 4: External Debt by Creditor**

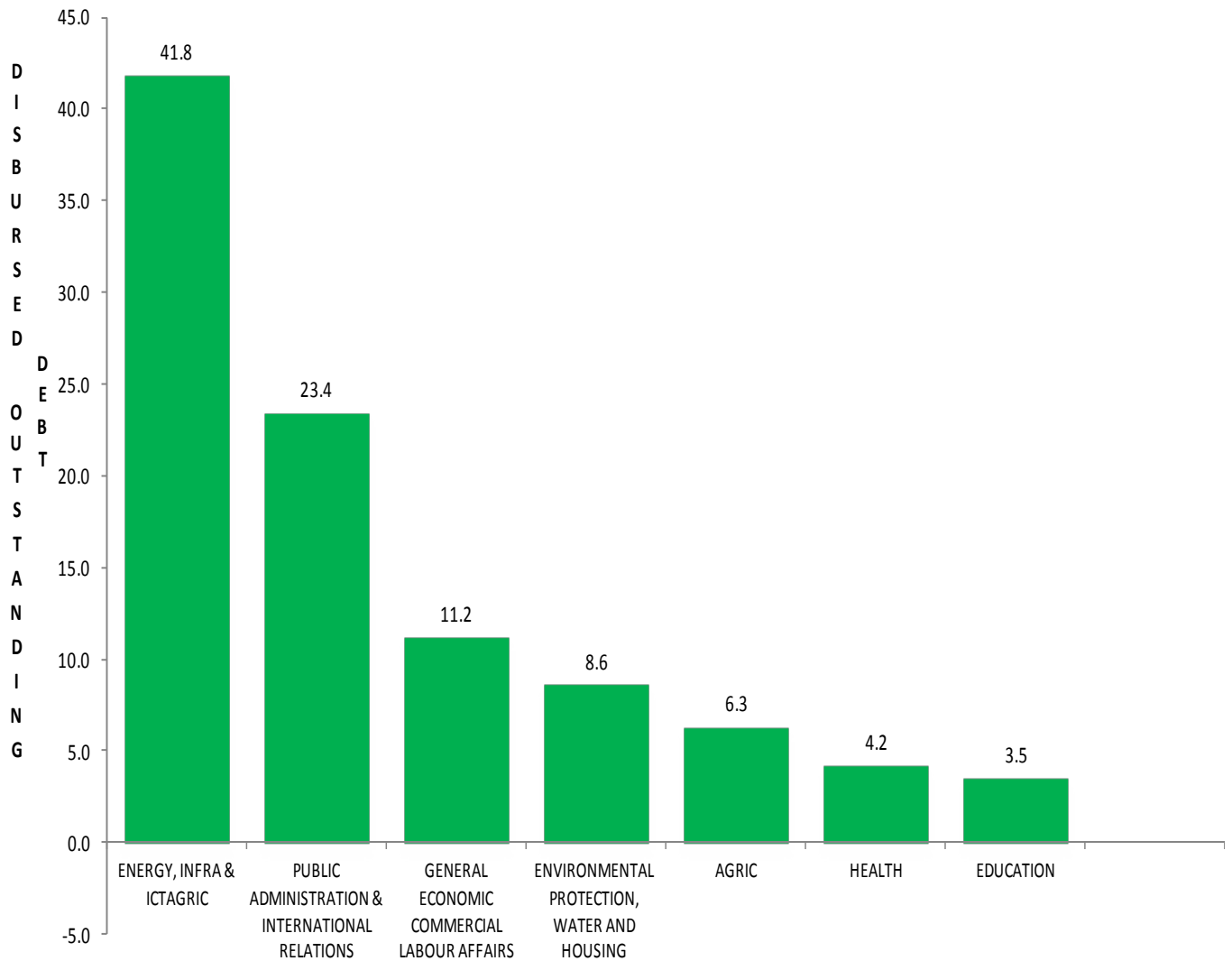


Source: The National Treasury

## 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 October 2016 stood at Kshs 25.70 billion.

Principal and interest projections for the month of October 2016 were Kshs 15.05 billion and Kshs 10.6 billion, respectively. Bilateral and multilateral creditors constitute 64.57 percent and 33.59 percent whereas commercial constitute 1.84 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 2016, in KShs million**

Creditor category	Principal	Interest	Total
Bilateral	7,802.50	8,796.95	16,599.45
Multilateral	6,830.57	1,805.76	8,636.33
Commercial	413.07	60.05	473.12
Guaranteed	0.0	0.00	0.00
Total	15,046.14	10,662.76	25,708.9

Source: The National Treasury

### 2.5 Actual Cumulative External Debt Service

Actual debt service as at end October 2016 stood at KShs 19.39 billion (Table 5). Actual principal and interest payments during the month of October 2016 were KShs 1.24 billion and KShs 2.49 billion respectively.

**Table 5: Actual cumulative external debt service as at end of October 2016, in KShs million**

Credit category	Principal	Interest	Total
Bilateral	3,875.1	7,343.96	11,219.06
Multilateral	5,384.22	2,149.76	7,533.98
Commercial	54.58	384.16	438.74
Guaranteed	201.08	0.00	201.08
<b>Totals</b>	<b>9,514.98</b>	<b>9,877.88</b>	<b>19,392.86</b>

Source: The National Treasury

### 2.6 Budget Deviation

The projected cumulative debt service for October 2016 was above the actual debt service by Kshs 6.31 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 of the total public debt levels in the Net Present terms. At the end of October 2016, the guaranteed external debt stock decreased by Kshs 0.43 billion to Kshs 59.97 billion from Ksh 60.40 billion in September 2016 (Table 6).

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

<b>Creditor</b>	<b>August 2016</b>	<b>September 2016</b>	<b>October 2016</b>
Japan	38.98	47.56	47.32
Germany	8.22	8.28	8.08
IDA (KR Concessionaire)	4.56	4.56	4.57
<b>Totals</b>	<b>51.77</b>	<b>60.40</b>	<b>59.97</b>

**Source: The National Treasury**



## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 46.18 billion to Kshs 1,489.33 billion in October 2016 from Kshs 1,443.15 billion in September 2016 due to an increase in gross debt over the period under review (Table 7).

Table 7: Government domestic debt, in Kshs billion

	August 2016	September 2016	October 2016
Gross domestic debt	1,815.96	1,854.80	1,877.68
less			
Govt. deposits at CBK	-199.22	-217.63	-177.67
Govt. deposits at commercial banks	-188.32	-188.32	-204.97
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,422.72	1,443.15	1,489.33

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of October 2016, Government securities worth Kshs 110.0 billion were advertised. Bids worth Kshs 143.94 billion were received of which Treasury Bills was Ksh 104.38 billion and Treasury bond was Ksh 39.56 billion. Successful bids amounted to Kshs 126.37 billion against redemptions of Kshs 114.62 billion leaving exchequer with a surplus of Kshs 11.71 billion. (Table 8)

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	80,000	30,000	110,000
Bids received	104,383	39,559	143,942
Successful bids	95,116	31,257	126,373
Redemptions (cost)	(104,383)	(10,241)	(114,624)
Net domestic borrowing	(9,267)	21,016	11,714

Source: The National Treasury

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

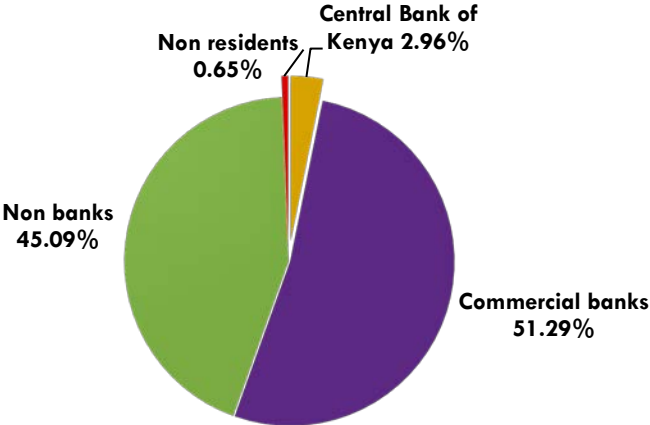
Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	590.00	622.28	9.43	7.22	1,228.93
Treasury bills	366.67	224.37	20.59	5.07	616.70
Others	6.38	0	25.56	0.00	31.94
Total	963.05	846.65	55.58	12.29	1,877.68
Percentage Holding	51.29%	45.09%	2.96%	0.65%	100%

Source: The National Treasury

At the end of October 2016, banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 963.05 billion or 51.29 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 846.65 billion or 45.09 percent while the Government debt worth Kshs 12.29 billion or 0.65 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 55.58 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 October, 2016**

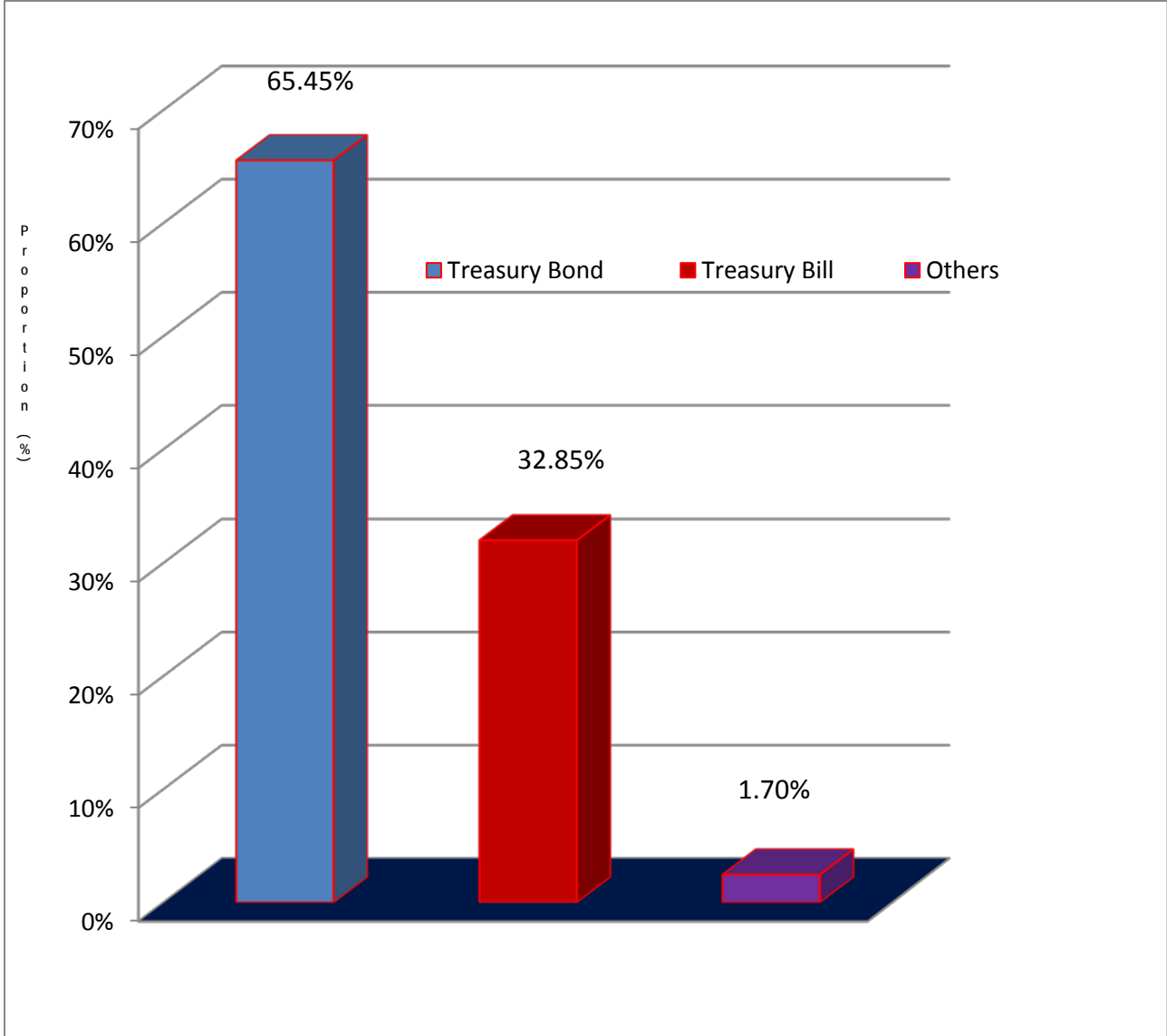


Source: Central Bank of Kenya

**3.3 Domestic Debt by Instruments**

Chart 7 shows the composition of the domestic debt as at end October 2016. 65.45 per cent of Government domestic debt was in Treasury Bonds, 32.85 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 October 2016, the net domestic financing was at KShs 116.79 billion.

Table 10: Net domestic financing, in KShs billion

	June 2016	October 2016	Change
Treasury Bills	537.28	567.90	30.65
Treasury Bonds	1,103.05	1,177.52	74.47
Pre-1997 Govt. Overdraft debt	25.56	25.56	0
Other	48.37	4.32	-44.05
<i>of which Overdraft (from CBK)</i>	44.2	0	-44.20
Govt. deposits	283.01	227.26	-55.75
Net Domestic Credit	1,431.25	1,548.04	116.79

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end October 2016, Government actual domestic interest payments stood at KShs 59.16 billion against the projected KShs 63.07 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to KShs 33.48 billion and KShs 24.72 billion respectively (Table 11).

Table 11: Domestic interest payments, in KShs million

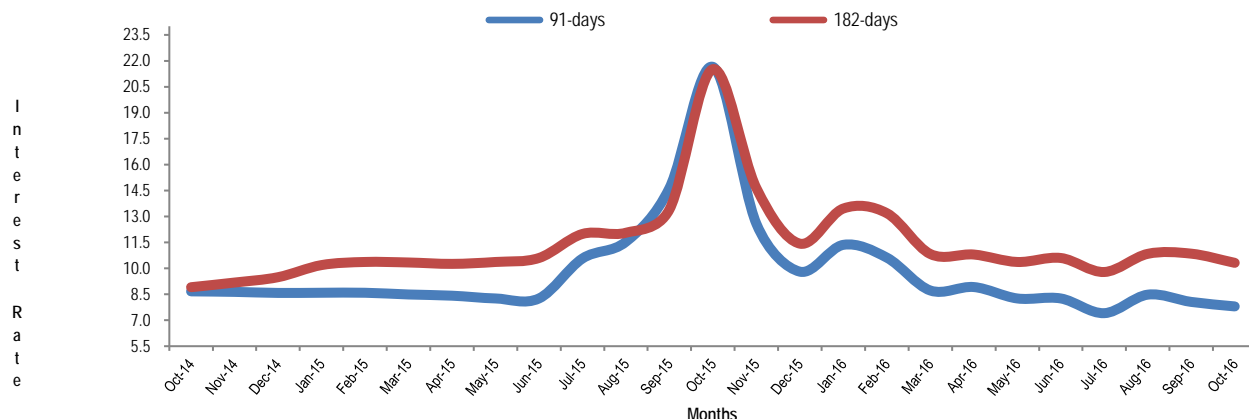
Type of Debt	Projected	Actual	Variance
Treasury Bonds	41,454.37	33,483.28	7,971.09
Treasury Bills	19,566.65	24,723.38	- 5,156.73
Overdraft	1,794.49	698.90	1,095.59
Pre-1997 overdraft debt	252.84	258.39	- 5.55
<b>Totals</b>	<b>63,068.35</b>	<b>59,163.95</b>	<b>3,904.40</b>

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 October 2016, the average interest rates for the 91-day Treasury bills decreased by 26 bps to stand at 7.80 per cent while that of 182-days Treasury bill decreased by 53 basis points to 10.32 per cent per annum from 10.85 per cent in September 2016. The 364-days Treasury bill rate stood at an average of 10.41 percent per annum in October 2016.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

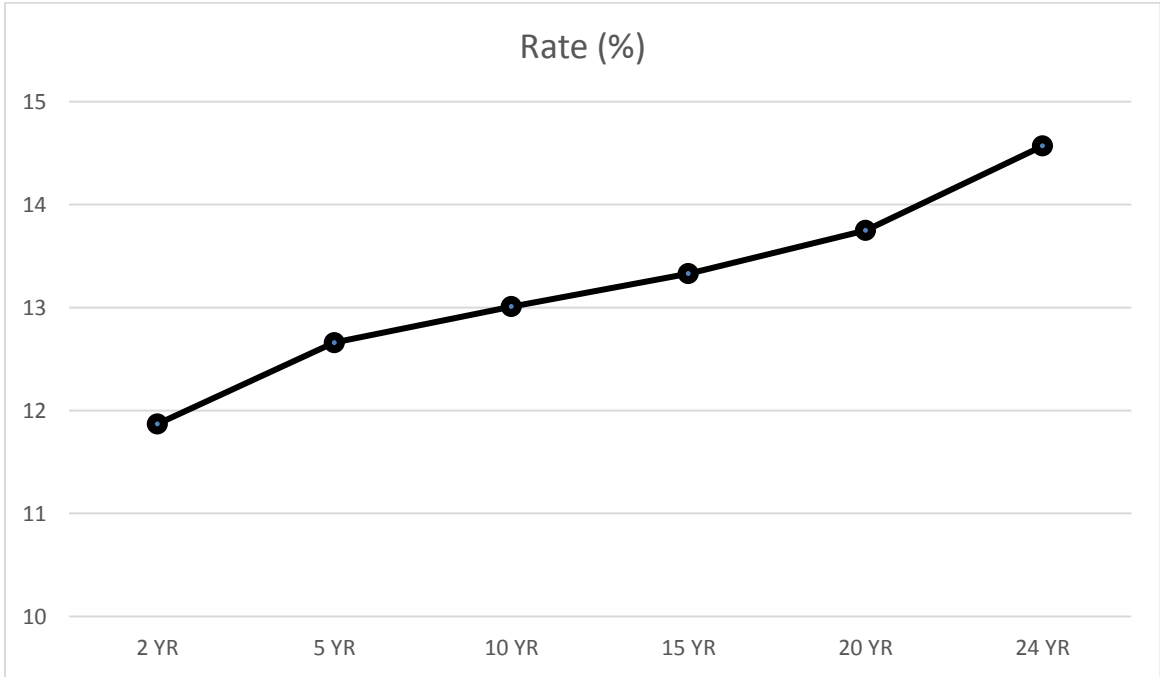
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. Table 12 and Chart 9 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end October 2016. The Yield curve is flatter at the longer end due to limited trading in the secondary market.

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

Tenure	Rate (%)
<b>2 YR</b>	<b>11.87</b>
<b>5 YR</b>	<b>12.66</b>
<b>10 YR</b>	<b>13.01</b>
<b>15 YR</b>	<b>13.33</b>
<b>20 YR</b>	<b>13.75</b>
<b>24 YR</b>	<b>14.57</b>

Source: Nairobi Securities Exchange (NSE)

Chart 9: Secondary Market yields on selected Treasury Bonds as at end October, 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 September 2016	Stock at end October 2016	Change
<b>Central Government</b>			
AUSTRIA	1,042.32	1,019.14	-23.18
BELGIUM	7,800.89	7,990.07	189.18
CANADA	810.65	812.22	1.57
DENMARK	1,555.31	1,486.36	-68.95
FINLAND	1,430.65	1,399.54	-31.11
FRANCE	60,010.71	58,596.71	-1,414.00
GERMANY	23,060.77	22,547.89	-512.88
ITALY	629.50	614.93	-14.57
JAPAN	53,434.66	70,892.83	17,458.17
NETHERLANDS	2,218.69	2,208.12	-10.57
UK	957.20	898.73	-58.47
USA	3,770.05	3,749.25	-20.80
PARIS CLUB OTHERS	25,298.52	20,460.3	-4,838.22
NON PARIS CLUB	320,962.46	343,927.16	22,964.70
o/w CHINA	312,828.81	331,514.54	18,685.73
<b>Sub total</b>	<b>502,982.38</b>	<b>536,603.25</b>	<b>33,620.87</b>
<b>MULTILATERAL</b>			
ADB/AFDB	179,013.29	179,206.81	193.52
EEC/EIB	20,446.56	19,952.96	-493.60
IDA	489,260.66	483,667.26	-5,593.40
IFAD	12,402.04	12,209.73	-192.31
IMF	84,796.78	83,624.98	-1,171.80
OTHERS	9,277.19	9,301.16	23.97
<b>Sub total</b>	<b>795,196.52</b>	<b>787,962.9</b>	<b>-7,233.62</b>
<b>COMMERCIAL BANKS</b>	<b>443,238.02</b>	<b>443,596.29</b>	<b>358.27</b>
O/W International Sovereign Bond	278,469.68	279,011.15	541.47
<b>SUPPLIERS CREDIT</b>	<b>15,458.16</b>	<b>15,369.71</b>	<b>-88.45</b>
<b>Sub Total</b>	<b>1,756,875.09</b>	<b>1,783,532.15</b>	<b>26,657.06</b>
<b>GUARANTEED DEBT</b>			
JAPAN	47,585.57	47,317.66	-267.91
GERMANY	8,267.81	8,083.93	-183.88
IDA (KR Concessionaire)	4,556.78	4,565.64	8.86
<b>Sub Total</b>	<b>60,410.16</b>	<b>59,967.23</b>	<b>-442.93</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>1,817,285.24</b>	<b>1,843.48</b>	<b>27,189.71</b>

Source: National Treasury

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