

# REPUBLIC OF KENYA



## THE NATIONAL TREASURY

### PRESS RELEASE

#### **RESPONSE TO ALLEGATIONS THAT KSH 140 BILLION OF THE EUROBOND MONEY IS MISSING**

Our attention has been drawn to press reports and articles alleging that Ksh 140 billion of the Eurobond money is missing. The accusation was that the National Treasury had deliberately and misleadingly reduced net domestic borrowing from Ksh 251.1 billion to Ksh. 110.6 billion.

The basis of the false accusation is that in the Budget Review and Outlook Paper (BROP) (September 2015), the National Treasury presented two tables (see pages 7 and 34) in the same document (BROP) which showed different numbers for net domestic borrowing for the same year as per the table below:

	FY2014/15	
	BROP TABLE 4	BROP ANNEX TABLE 2
	COLUMN A	COLUMN B
Deficit Financing	470.5	470.5
Net Foreign Financing	216.4	216.4
Eurobond	0	140.5
Domestic loan Repayment receipts	3	3
Domestic Borrowing	251.1	110.6

It is alleged that the Column B above, showing Ksh 110.6 billion is deliberately understating domestic borrowing which should be Ksh 251.1 billion. Apparently, this is also the source of the claim by some political leaders that Ksh 140 billion is missing.

What the National Treasury has done in moving from Column A to Column B is to disaggregate the figure of Ksh 251.1 billion into Ksh. 140.5 billion for the Eurobond (as these were now Government deposits in the Consolidated Fund) and Ksh. 110.6 billion of actual domestic borrowing mainly Treasury bills and bonds for that financial year. The disaggregation was for purposes of transparency in order to show separately the use of the Eurobond proceeds. This treatment is also in the earlier Budget Policy Statement 2015 that was submitted to Parliament in February 2015 and was therefore not a new way of presenting the Eurobond proceeds. Indeed the IMF's most recent report treats the Eurobond deposits as part of domestic financing, exactly how it is treated in the BROP (see page 27 of the IMF report on Kenya September 2015—[www.imf.org](http://www.imf.org)).

Below we can demonstrate using official statistics from the Central Bank of Kenya that the figure of Ksh 251.1 billion does indeed include the proceeds of the Eurobond.

### **WHAT CONSTITUTES DOMESTIC BORROWING?**

We wish to inform Kenyans that the Government's net domestic borrowing by standard fiscal statistics comprises of **Treasury bills and bonds; the overdraft at the Central Bank; and Government deposits**. Since the Eurobond proceeds had been received and were now Government deposits with the CBK, they were correctly treated as part of net domestic borrowing for FY2014/15.

To demonstrate that Ksh 140.5 billion of Eurobond money is not missing, one needs to **UNPACK** the components of net domestic financing of Ksh 251.1 billion to see what is inside there. This is done using data from the Central Bank of Kenya as follows:

## Net Domestic Financing for the Financial Year 2014/2015

Net Domestic Financing (Ksh Billions)			
	30-Jun-14	30-Jun-15	Change in the Year
	1	2	(2-1)
<b>A. Government Securities &amp; Others (1+2+3)</b>	<b>1226.3</b>	<b>1352.5</b>	<b>126.2</b>
<b>1. Treasury Bills (excluding Repo Bills)</b>	<b>278.9</b>	<b>293.5</b>	<b>14.6</b>
Banking institutions	164.5	199.0	34.6
Others	114.5	94.5	-20.0
<b>2. Treasury Bonds</b>	<b>879.3</b>	<b>994.4</b>	<b>115.1</b>
Banking institutions	422.8	493.8	71.1
Others	456.6	500.6	44.0
<b>3. Other Domestic Financing</b>	<b>68.1</b>	<b>64.5</b>	<b>-3.6</b>
<b>B. Government Deposits excl. Sovereign Bond Proceeds 1/</b>	<b>125.8</b>	<b>141.3</b>	<b>-15.5</b>
<b>C. Net Domestic Borrowing EXCLUDING Sovereign Bond (A+B)</b>	<b>1100.6</b>	<b>1211.2</b>	<b>110.6</b>
<b>D. Sovereign Bond Proceeds 1/</b>	<b>140.5</b>	<b>0.0</b>	<b>140.5</b>
<b>E. Net Domestic Borrowing INCLUDING Sovereign Bond (C+D)</b>	<b>960.1</b>	<b>1211.2</b>	<b>251.1</b>

1/ Note that an increase in deposits indicates reduced financing while a reduction denotes increased financing.

As shown in the Table above, Treasury bills, Treasury bonds, and the overdraft increased in the FY 2014/15 by Ksh 126.2 billion (line A). Including other Government deposits of Ksh. 15.5 billion (line B), the net domestic borrowing **WITHOUT** the Eurobond amounts to Ksh 110.6 billion (line C). This is the figure we have shown in the BROP Annex Table 2. Clearly, if we now add the Eurobond of Ksh 140.5 billion to the other domestic borrowing of Ksh 110.6 billion we get a total of Ksh. 251.1 billion.

It is, therefore, a gross mistake for some commentators to show Ksh 141.1 billion Eurobond separately while still retaining domestic borrowing at Ksh 251.1 billion (see Column A in Table below). If treated this way, the financing figures would add up to Ksh 611.7 billion compared with the correct deficit of Ksh. 470.5 billion (see Column A in Table below). The high figure reflects the double counting of the Eurobond proceeds—once by showing it in a separate line on its own and secondly by including it again in the figure of Ksh 251.1 billion.

	FY2014/15	FY2014/15
	Treasury	COLUMN A
Deficit	470.5	611.7
Net Foreign Financing	216.4	216.5
Eurobond	140.5	141.1
Domestic Loan Repayment receipts	3	3
Domestic Borrowing	110.6	251.1

This clearly demonstrates that the National Treasury is correct in its accounting and that there is no missing Ksh 140 billion. The National Treasury is vigilant in accounting for public resources entrusted to it by Kenyans and abides by the Constitution and the Public Finance Management Act, 2012.

Further, as Kenyans may recall, in February 2015, the IMF Board approved a program for Kenya designed to cushion the economy against external shocks. Under this program, strict reporting of all Governments accounts are done and with the regular IMF missions to review this programme, it would not be possible to hide figures as alleged in the newspaper reports since the reviews would have detected this.

### **Conclusion**

To our dear Kenyans, investors and friends of Kenya, the National Treasury has in this brief demonstrated how the Ksh 140.5 billion Eurobond proceeds were correctly accounted for in the Government books. The report by a commentator in one of the Newspapers last Saturday December 5, misled Kenyans on what he called “Correct Accounting” by adding an extra Ksh 140 billion to official figures! This is absolutely wrong. We call upon these commentators and others, to apologize to Kenyans for misleading them into believing that Ksh 140 billion disappeared from Government accounts or that the Treasury cooked figures.

Finally we urge those who want to find out the truth to visit the Treasury website ([www.Treasury.go.ke](http://www.Treasury.go.ke)) to see authenticated documents showing the bank statements of JP Morgan Chase bank (New York) and Citibank (New York), and SWIFT messages showing the transfer of all Eurobond proceeds to the CBK.

We shall remain truthful and accountable to Kenyans on this and other matters of public finances as per the provisions of the Constitution and the Public Finance Management Act, 2012. We assure the public, investors and all friends of Kenya that there was no Ksh 140.5 billion lost from the Eurobond proceeds. We would like to strongly assure our foreign investors that no money went missing and that the money they lent to Kenya was indeed used for the purposes it was intended for.

**HENRY K. ROTICH**

**CABINET SECRETARY/THE NATIONAL TREASURY**

**11<sup>th</sup> December 2015**