

**REPUBLIC OF KENYA**



**THE NATIONAL TREASURY**

**DIRECTORATE OF PUBLIC DEBT MANAGEMENT**

***MONTHLY DEBT BULLETIN***

**DECEMBER 2016**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end December 2016, total public and publicly guaranteed debt stood at KShs 3,763.43 billion or 50.62 per cent of GDP (Table 1). The increase of 0.26 per cent over the end November 2016 position is attributed to a slight increase on the domestic debt. Domestic debt increased by Ksh 12.32 billion to stand at Ksh 1,930.98 million, while the external debt decreased by Ksh 2.46 billion to stand at Ksh 1,832.45 billion in December 2016 (Table 1).

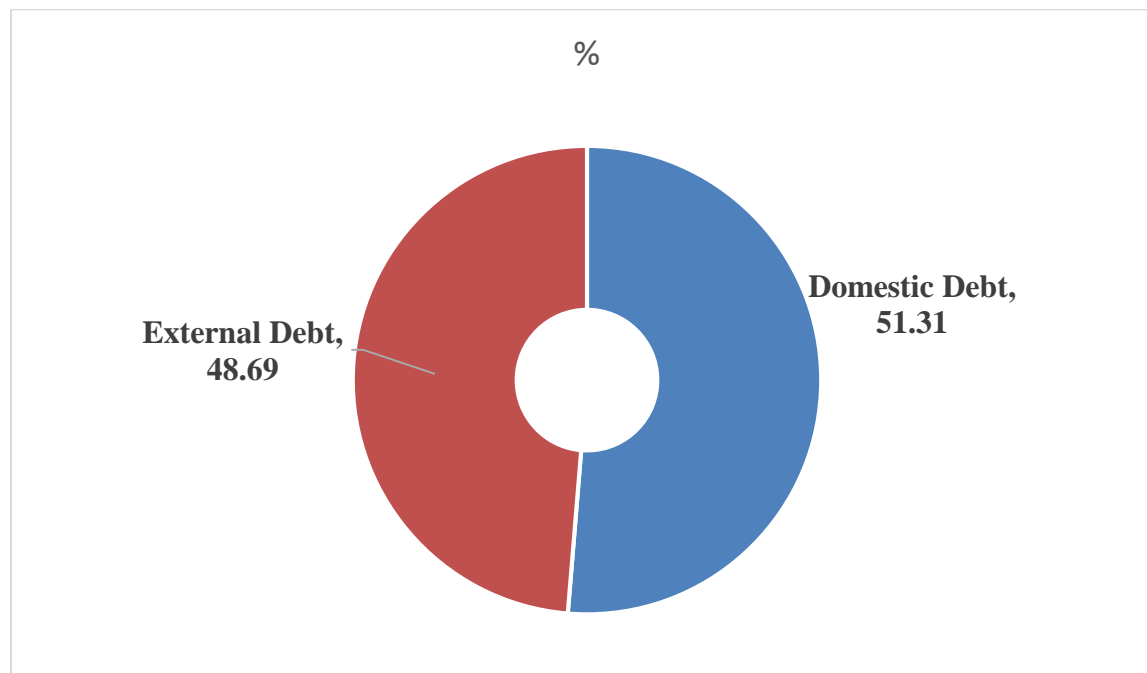
Table 1: Size of public debt, end December 2016, in billions

Debt Category	KShs	USD	Percentage of GDP
Domestic Debt	1,930.98	18.72	25.97
External Debt	1,832.45	17.88	24.65
Total	3,763.43	36.60	50.62

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 51.31 per cent of the total debt is domestic debt while 48.69 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 December 2016.

## 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period October to December 2016. During the month, the Kenya shilling depreciated against US Dollar and STG Pound by 1.015 per cent and 1.637 per cent respectively, but appreciated against the JPY and Euro by 10.136 per cent and 3.662 per cent respectively. The shilling stood at KShs 102.486 to the US Dollar at end of December 2016.

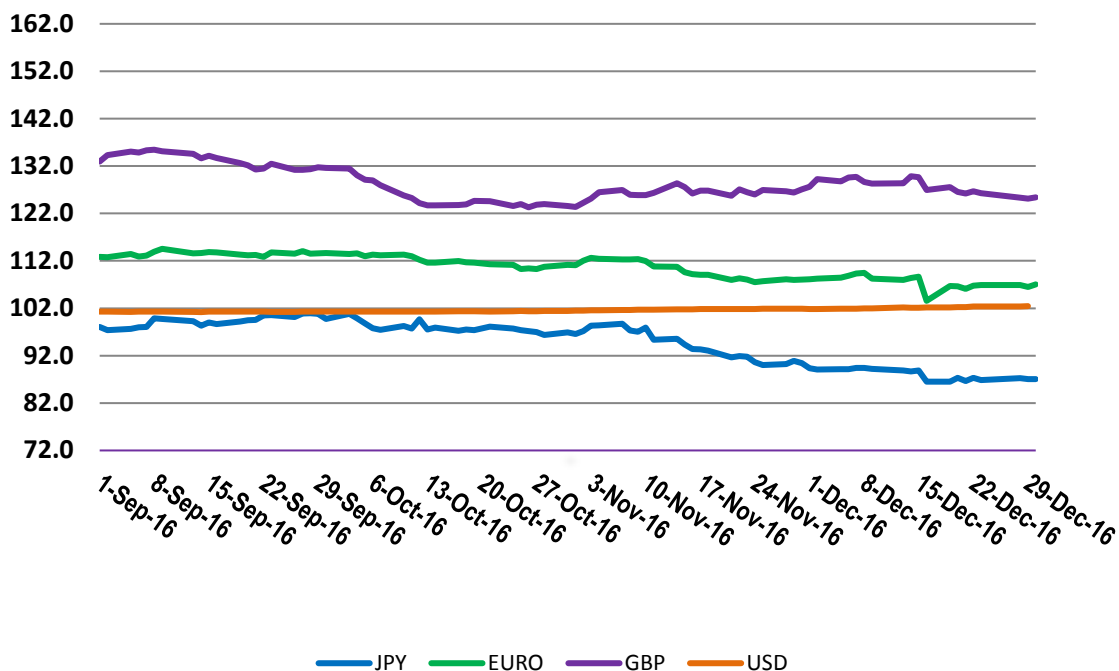
Table 2: Movement in exchange rates

Currency	October 2016	November 2016	December 2016	Appreciation/ (Depreciation)
US Dollar	101.46	101.88	102.49	1.015%
STG Pound	123.40	127.10	125.42	1.637%
Euro	111.13	108.07	107.06	(3.662%)
JPY(100)	96.88	90.39	87.06	(10.136%)

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from September to December 2016. The Kenya shilling strengthened against the Euro and Japanese yen during the month under review while it weakened relative to the Sterling Pound and the USD...

**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

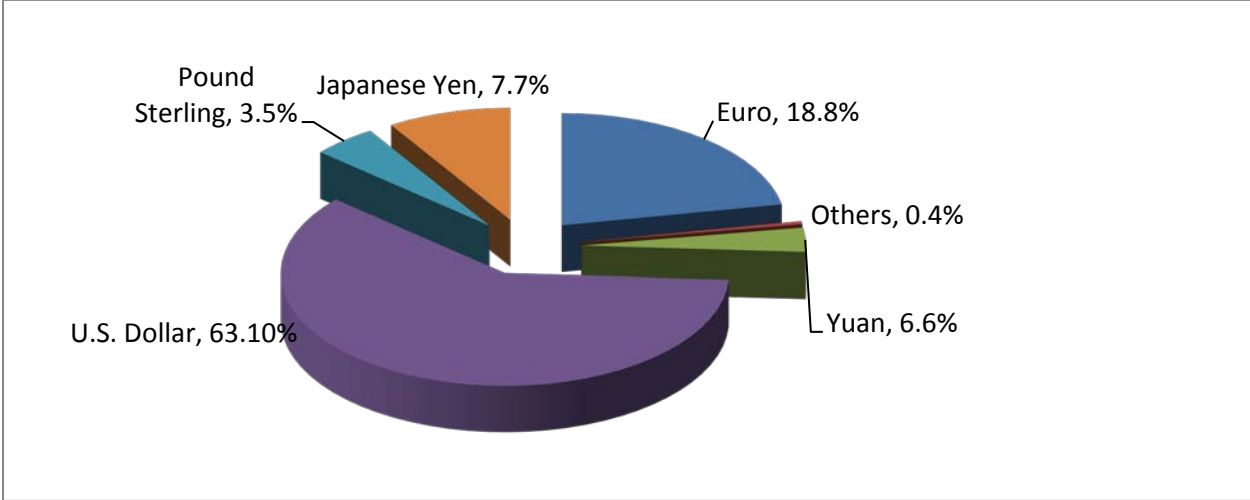
Overall, public and publicly guaranteed external debt decreased by KShs 2.46 billion as at end December 2016 to KShs 1,832.45 billion from KShs 1,834.91 billion at the end of November 2016 (Table 3).

Table 3: External debt stock, in billions

	November 2016		December 2016	
	KShs	USD	KShs	USD
Bilateral	585.54	5.75	527.33	5.15
Multilateral	788.81	7.74	776.64	7.58
Guaranteed	57.29	0.56	55.06	0.54
Suppliers Credit	15.28	0.15	15.30	0.15
Commercial Banks	445.28	4.37	458.12	4.47
o/w International Sovereign Bond	280.16	2.75	281.84	2.75
Total	1,834.91	18.01	1,832.45	17.88

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 63.1 percent followed by the Euro at 18.8 percent.

**Chart 3. Currency Composition, December 2016**



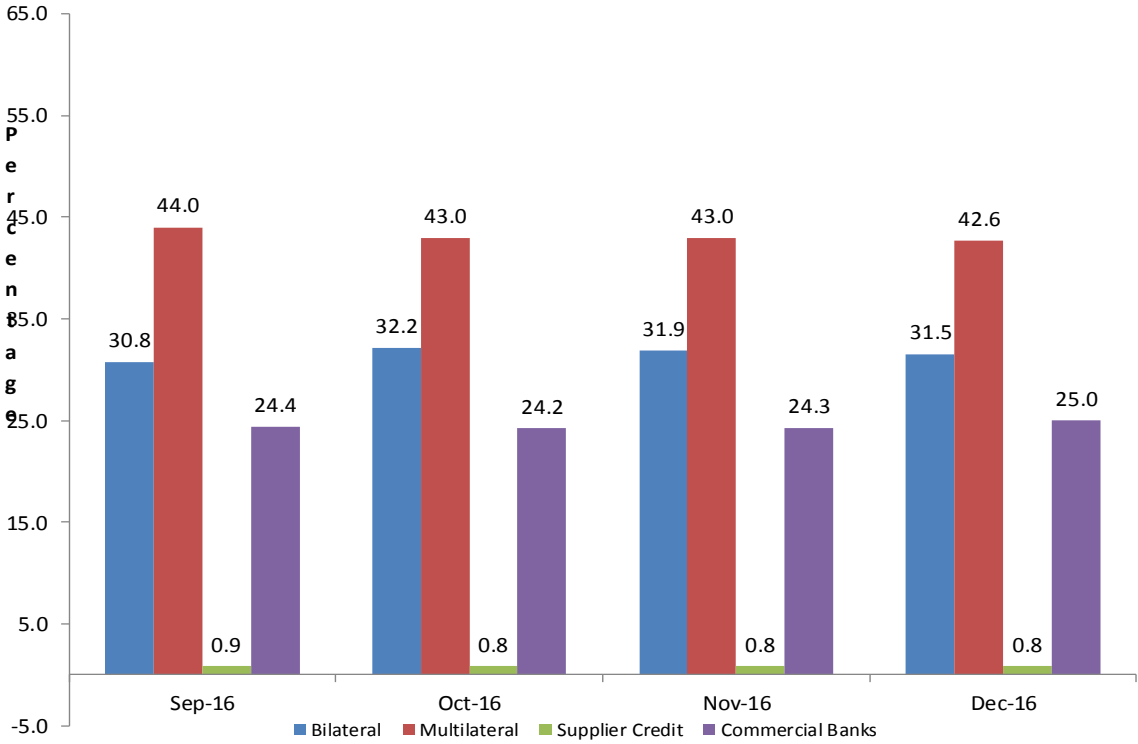
**Source: The National Treasury**

**2.2 Structure of External Debt by Creditor**

Official creditors account for 71.16 percent of the total public and publicly guaranteed external debt. Debt owed to multilateral creditor’s amounts to Ksh 781.26 billion (including Ksh 4.61 billion guaranteed debt owed to IDA) dominates the portfolio at 42.63 percent of the total. Bilateral debt stands at KShs 577.77 billion (31.53 percent of the total), inclusive of KShs 50.44 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 25 percent of the total public and publicly guaranteed external debt.

**Chart 4: External Debt by Creditor**

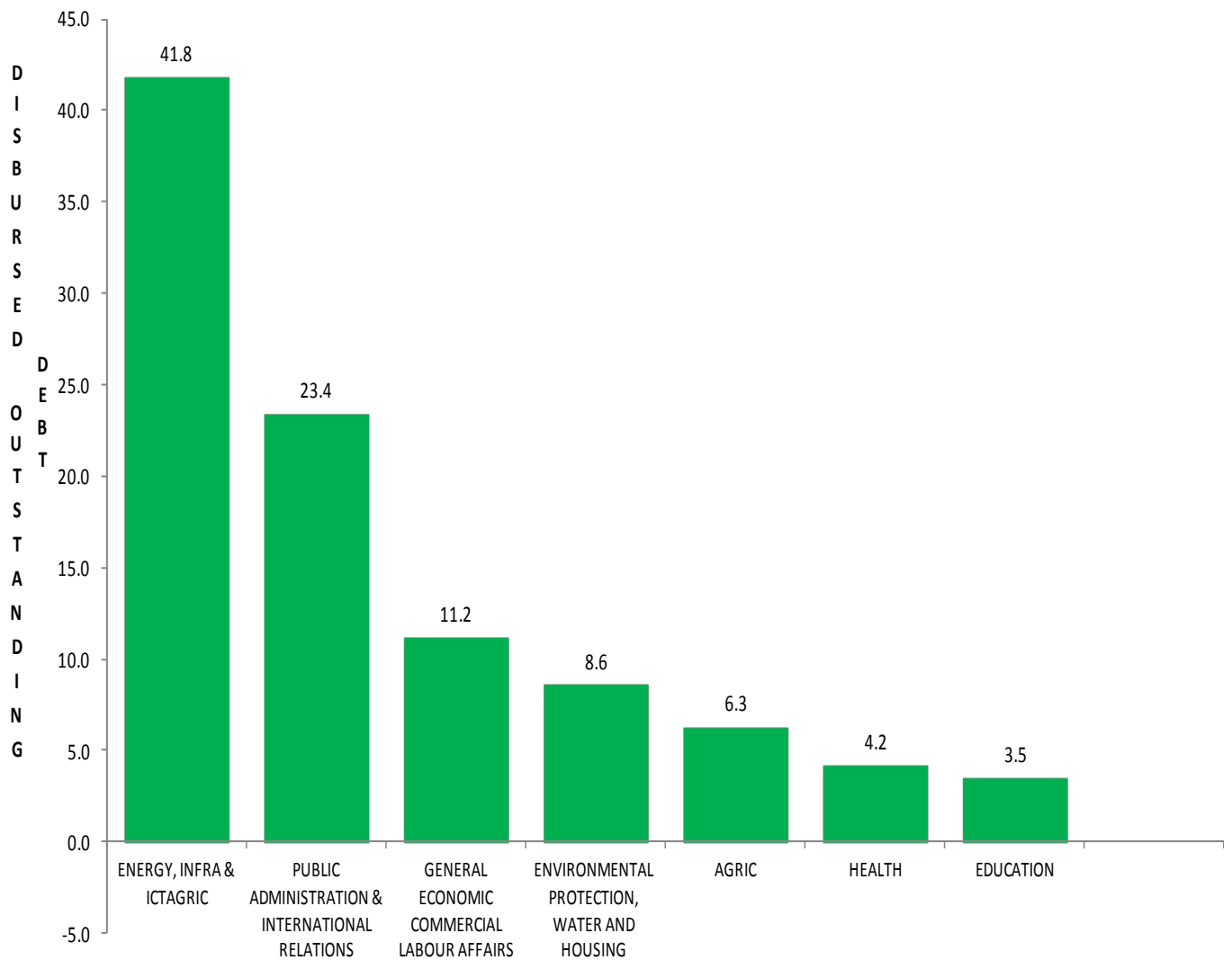


**Source: The National Treasury**

## 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 December 2016 stood at KShs 46.86 billion.

Principal and interest projections for the month of December 2016 were KShs 5.24 billion and KShs 10.57 billion, respectively. Bilateral, multilateral and commercial creditors constitute 47.70 percent, 25.67 percent and 26.63 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 December 2016, in KShs million**

Creditor category	Principal	Interest	Total
Bilateral	12,613.51	9,736.48	22,349.99
Multilateral	8,449.43	3,578.75	12,028.18
Commercial	415.75	12,064.99	12,480.74
Guaranteed	0.00	0.00	0.00
Total	21,478.69	25,380.22	46,858.91

Source: The National Treasury

### 2.5 Actual Cumulative External Debt Service

Actual debt service as at end December 2016 stood at KShs 40.25 billion (Table 5). Actual principal and interest payments during the month of December 2016 were KShs 4.22 billion and KShs 13.07 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	7,631.79	9,497.60	17,129.39
Multilateral	6,922.46	3,033.28	9,955.74
Commercial	54.58	12,910.00	12,964.58
Guaranteed	201.08	0.00	201.08
Totals	14,809.91	25,440.88	40,250.79

Source: The National Treasury

### 2.6 Budget Deviation

The projected cumulative debt service for December 2016 was above the actual debt service by KShs 6.61 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. In the month of December 2016, the guaranteed external debt stock decreased by KShs 2.25 billion to KShs 55.04 billion from Ksh 57.29 billion in November 2016 (Table 6).

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

<b>Creditor</b>	<b>October 2016</b>	<b>November 2016</b>	<b>December 2016</b>
Japan	47.32	44.65	42.95
Germany	8.08	8.08	7.48
IDA (KR Concessionaire)	4.57	4.56	4.61
Totals	59.97	57.29	55.04

**Source: The National Treasury**

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by KShs 36.14 billion to KShs 1,552.27 billion in December 2016 from KShs 1,516.13 billion in November 2016 due to an increase in gross debt over the period under review (Table 7).

Table 7: Government domestic debt, in KShs billion

	October 2016	November 2016	December 2016
Gross domestic debt	1,877.68	1,918.66	1,930.98
less			
Govt. deposits at CBK	-177.67	-201.76	-181.80
Govt. deposits at commercial banks	-204.97	-195.07	-191.21
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	1,489.34	1,516.13	1,552.27

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of December 2016, Government securities worth KShs 94.0 billion were advertised. Bids worth KShs 112.7 billion were received of which Treasury Bills was Ksh 67.2 billion and Treasury bond was Ksh 45.5 billion. Successful bids amounted to KShs 64.7 billion against redemptions of KShs 85.6 billion leaving exchequer with a deficit of KShs 20.9 billion. (Table 8).

Table 8: Government domestic borrowing, in KShs million, December 2016

	Treasury Bills	Treasury Bonds	Total
Advertised	64,000	30,000	94,000
Bids received	67,191	45,518	112,709
Successful bids	44,166	20,513	64,679
Redemptions (cost)	(56,477)	(29,120)	(85,597)
Net domestic borrowing	-12,311	-8,607	-20,918

Source: The National Treasury

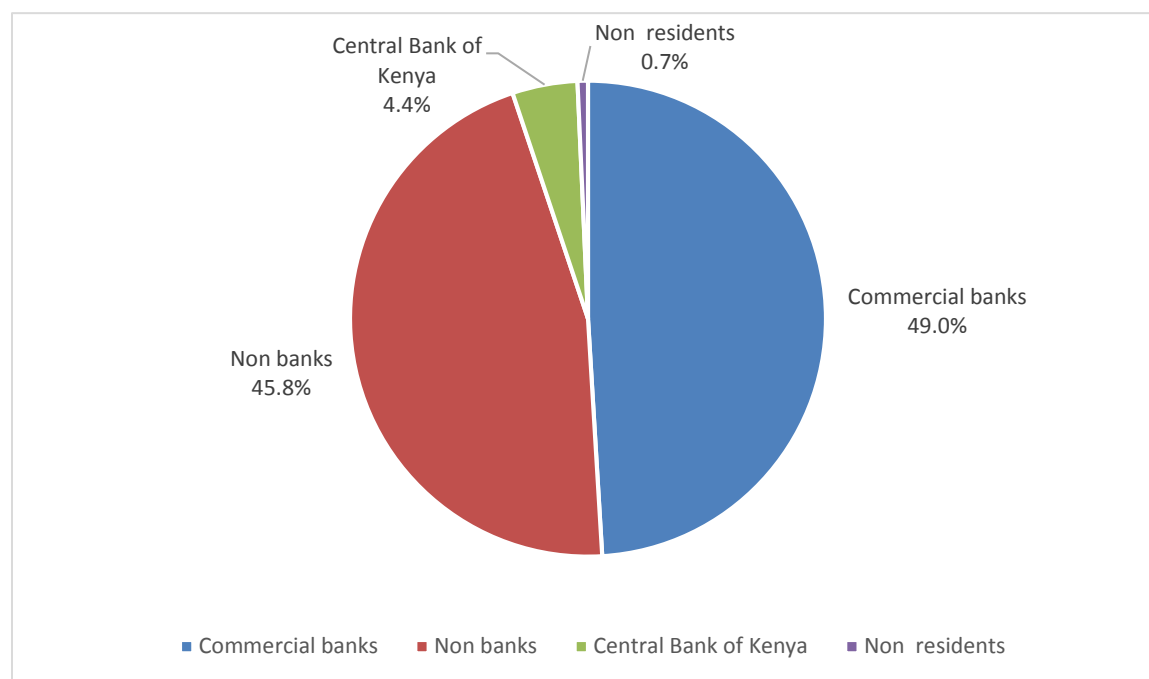
At the end of December 2016, banks held the largest proportion of the outstanding Government debt securities amounting to KShs 947.0 billion or 49.0 percent (Table 9 and Chart 6.) This percentage comprises mostly Treasury Bonds and Bills. The non-banks category comprises non-bank financial institutions, National Social Security Fund (NSSF), parastatals, insurance companies, building societies, pension funds and individuals. The Non-Banks held KShs 884.7 billion or 45.8 percent while the Government debt worth KShs 13.6 billion or 0.7 percent was held by non-residents who invest through nominee accounts in the local banks. KShs 85.5 billion held by Central Bank of Kenya comprises the Government overdraft and Repo Treasury Bills used for execution of monetary policy.

**Table 9: Domestic debt instruments by holder end December 2016, in KShs billion**

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	591.6	640.7	9.4	7.6	1,249.3
Treasury bills	349.5	244.0	20.6	6.1	620.2
Others	5.9	-	55.5	-	61.4
Total	947.0	884.7	85.5	13.6	1,930.9
Percentage Holding	49.0	45.8	4.4	0.7	100.0

Source: The National Treasury

**Chart 6: Domestic debt by holder as at end December, 2016**

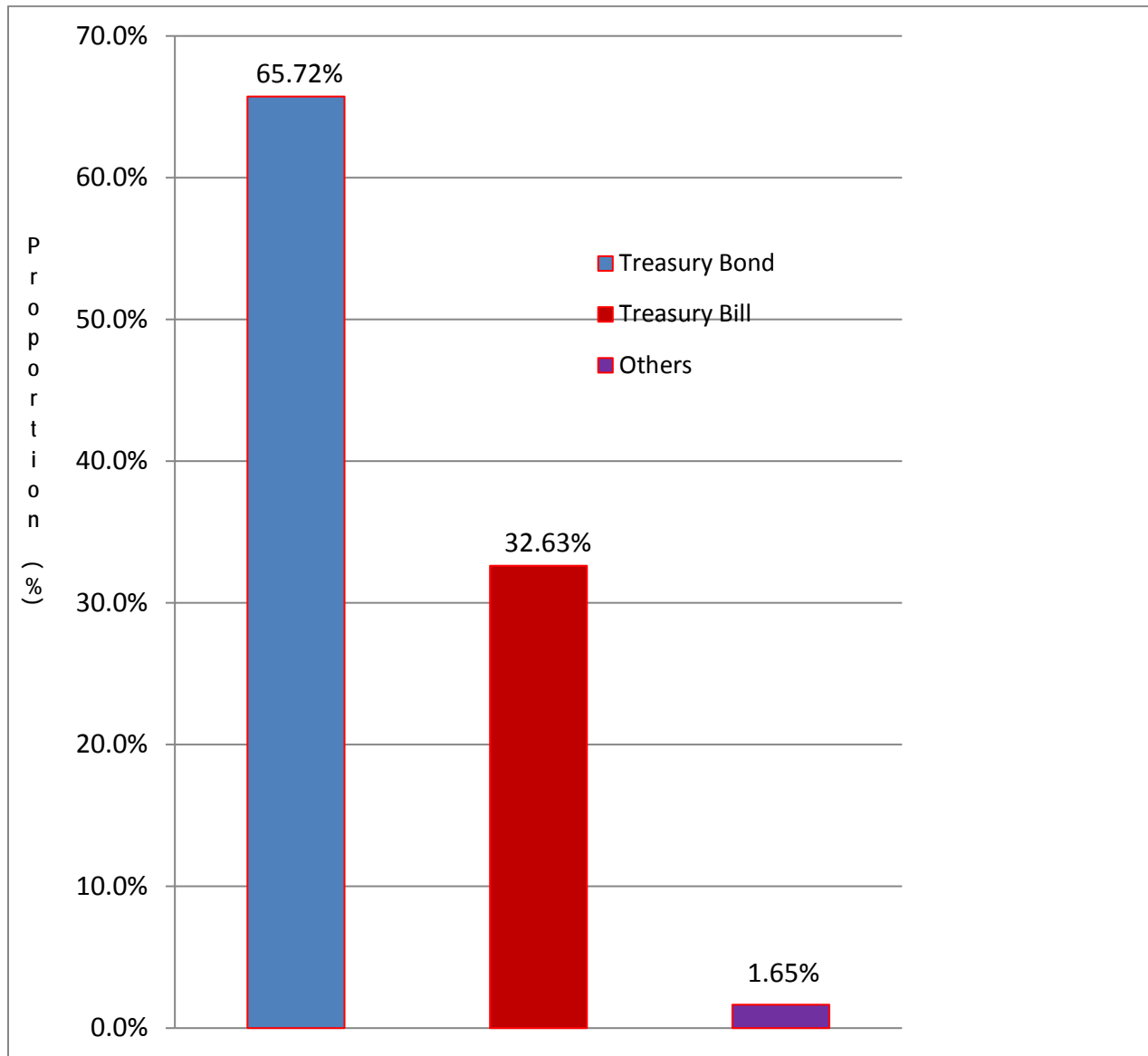


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 7 shows the composition of the domestic debt as at end December 2016. 65.72 per cent of Government domestic debt was in Treasury Bonds, 32.63 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, December 2016



Source: Central Bank of Kenya

### 3.4 Net Domestic Financing

Table 10 shows that as at end November 2016, the net domestic financing was at KShs 164.60 billion.

Table 10: Net domestic financing, in KShs billion

	June 2016	December 2016	Change
Treasury Bills	537.28	570.85	33.57
Treasury Bonds	1,103.05	1197.12	94.07
Pre-1997 Govt. Overdraft debt	25.56	25.56	0
Other	48.37	34.32	-14.05
<i>of which Overdraft (from CBK)</i>	44.2	29.93	-14.27
Govt. deposits	283.01	231.99	-51.02
Net Domestic Credit	1,431.25	1,595.85	164.60

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end December 2016, Government actual domestic interest payments stood at KShs 100.09 billion against the projected interest payments of KShs 96.36 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to KShs 66.35 billion and KShs 32.51 billion respectively (Table 11).

Table 11: Domestic interest payments, in KShs million, end December 2016

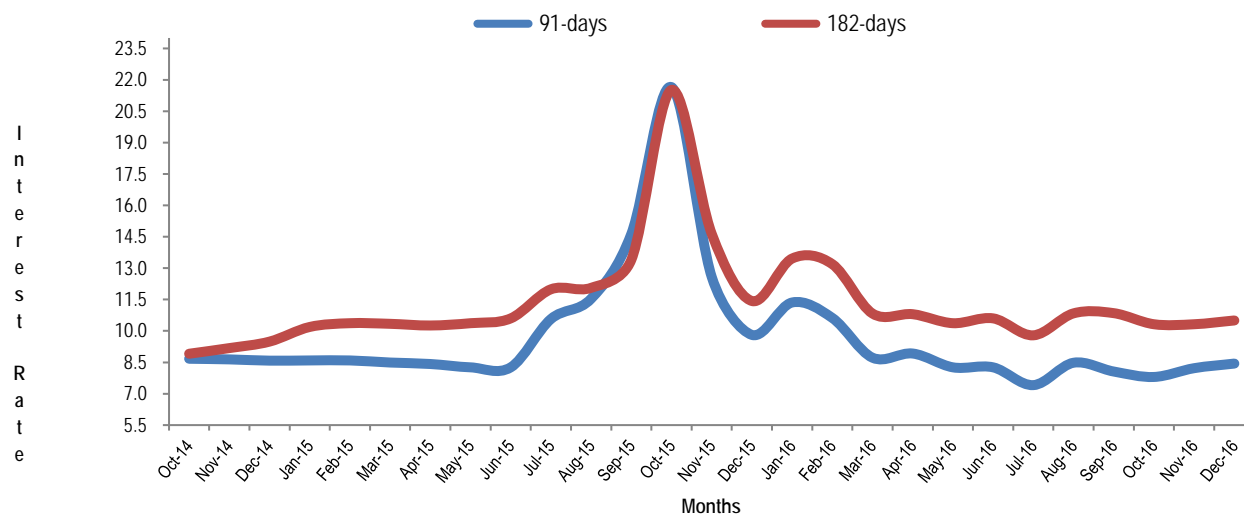
Type of Debt	Projected	Actual	Variance
Treasury Bonds	63,943.57	66,346.31	2,402.74
Treasury Bills	29,349.98	32,505.87	3,155.89
Overdraft	2,691.74	849.70	- 1,842.04
Pre-1997 overdraft debt	379.25	386.53	7.28
<b>Totals</b>	<b>96,364.54</b>	<b>100,088.41</b>	3,723.87

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 October 2014. During the month of December 2016, the average interest rates for the 91-day Treasury bills increased by 22 bps to stand at 8.44 per cent while that of 182-days Treasury bill increased by 18 bps to stand at 10.50 per cent per annum from 10.32 per cent in November 2016. The 364-days Treasury bill rate stood at an average of 11.02 percent per annum in December 2016.

Chart 8: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

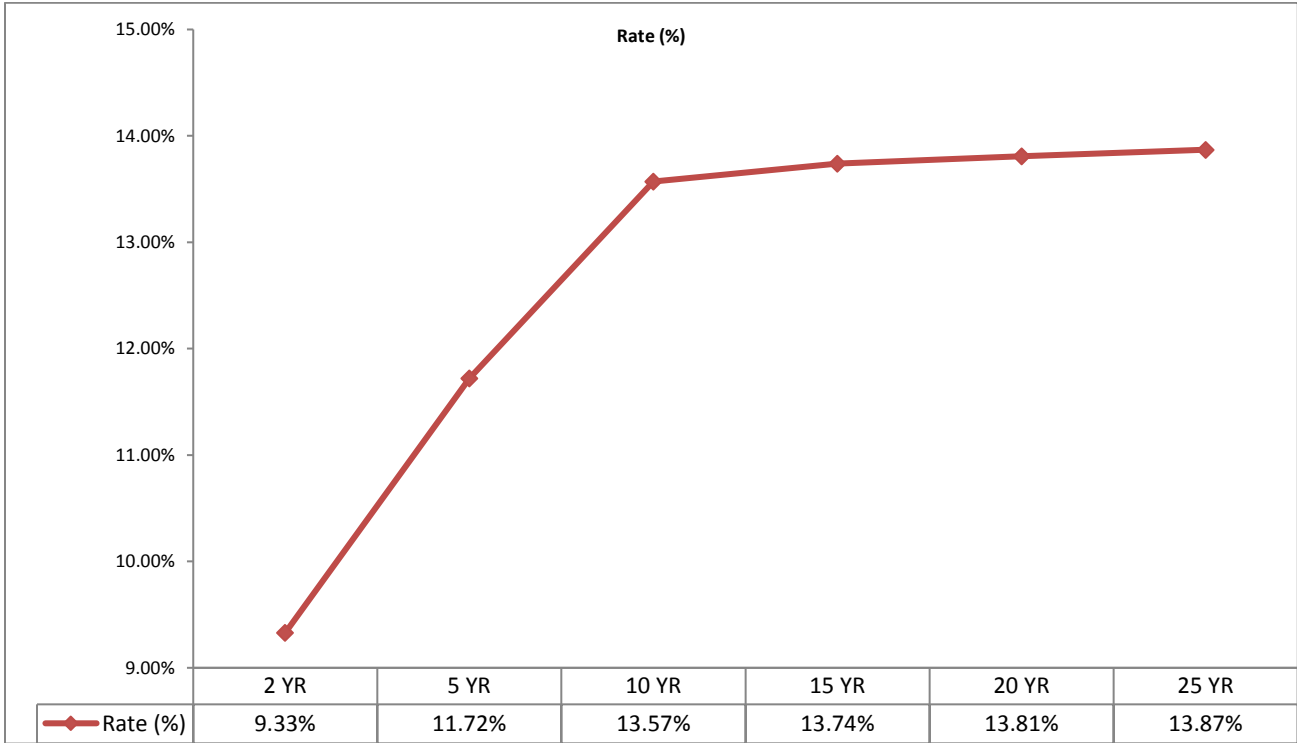
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. Table 12 and Chart 9 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end December 2016. The Yield curve is flatter at the longer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

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

Tenure	Rate (%)
2 YR	9.333
5 YR	11.721
10 YR	13.567
15 YR	13.744
20 YR	13.807
25 YR	13.872

Source: Nairobi Securities Exchange (NSE)

Chart 9: Secondary Market yields on selected Treasury Bonds as at end December, 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 November 2016	Stock at end December 2016	Change
<b>Central Government</b>			
AUSTRIA	991.11	853.73	-137.38
BELGIUM	7,976.73	7,220.04	-756.69
CANADA	815.57	744.01	-71.56
DENMARK	1,446.14	1,398.02	-48.12
FINLAND	1,361.97	1,161.71	-200.26
FRANCE	57,650.71	56,140.43	-1,510.28
GERMANY	21,927.84	21,714.33	-213.51
ITALY	598.45	119.66	-478.79
JAPAN	46,403.68	43,297.43	-3,106.25
NETHERLANDS	2,010.79	1,699.55	-311.24
UK	924.23	765.05	-159.18
USA	3,747.77	3,724.15	-23.62
PARIS CLUB OTHERS	22,625.56	22,495.07	-130.49
NON PARIS CLUB	364,326.76	365,997.39	1,670.63
o/w CHINA	353,584.46	355,079.69	1,495.23
<b>Sub total</b>	<b>532,807.31</b>	<b>527,330.57</b>	<b>-5,476.74</b>
<b>MULTILATERAL</b>			
ADB/AFDB	180,500.64	180,393.20	-107.44
EEC/EIB	19,403.41	19,202.45	-200.96
IDA	480,359.71	480,087.20	-272.51
IFAD	12,069.53	11,998.72	-70.81
IMF	82,741.85	75,953.34	-6,788.51
OTHERS	9,173.06	9,008.96	-164.10
<b>Sub total</b>	<b>784,248.20</b>	<b>776,643.87</b>	<b>-7,604.33</b>
<b>COMMERCIAL BANKS</b>	<b>445,280.58</b>	<b>458,122.37</b>	<b>12,841.79</b>
O/W International Sovereign Bond	280,161.48	281,835.95	1,674.47
<b>SUPPLIERS CREDIT</b>	<b>15,281.57</b>	<b>15,301.50</b>	<b>19.93</b>
<b>Sub Total</b>	<b>1,777,617.66</b>	<b>1,777, 398.31</b>	<b>-219.35</b>
<b>GUARANTEED DEBT</b>			
JAPAN	44,647.06	42,953.98	-1,693.08
GERMANY	8,083.93	7,484.39	-599.54
IDA (KR Concessionaire)	4,565.64	4,611.86	46.22
<b>Sub Total</b>	<b>57,296.63</b>	<b>55,050.23</b>	<b>-2,246.40</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>1,834,914.29</b>	<b>1,832,448.54</b>	<b>-2,465.75</b>

Source: National Treasury



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