



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

DECEMBER 2012

1.0 PUBLIC DEBT

1.1 Introduction

As at end December 2012, public and publicly guaranteed debt stood at Kshs 1,793.24 billion or 46.38 percent of GDP (see Table 1). The increase of 0.6 percent over the end November 2012 position is attributed to increase in domestic debt. Domestic debt increased by Ksh 12.83 billion to stand at Ksh 971.27 billion, while external debt decreased by Ksh 2.61 billion to stand at Ksh 821.97 billion in December 2012 due to exchange rate appreciation against the Japanese Yen. (See Table 1).

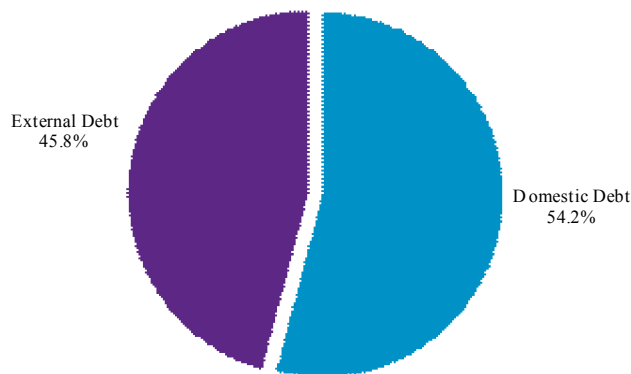
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	971.27	11.29
External Debt	821.97	9.55
Total	1,793.24	20.84

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.2 percent of the total debt is domestic debt while 45.8 percent is external debt as shown in Chart 1.

Chart 1: Composition of public debt



Source: Ministry of Finance

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 0.9 percent and 8.0 years, respectively. In addition, the average maturity period for external loans was 28.9 years while the average grant element was 68.1 percent.

As an indication of the success in lengthening the maturity structure of domestic debt to minimise refinancing risk in line with the Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt remained at 4 years 11 months as at end December 2012.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period October 2012 to December 2012. The Kenya shilling depreciated against the US dollar, Sterling Pound and the Euro by 0.12 percent, 0.87 percent and 1.75 percent respectively while it appreciated against the Japanese Yen by 4.15 percent. The Kenya shilling stood at Kshs 86.03 to the US Dollar at end of December 2012. The depreciation of the Kenya Shilling has the effect of increasing external debt stock and the cost of debt service.

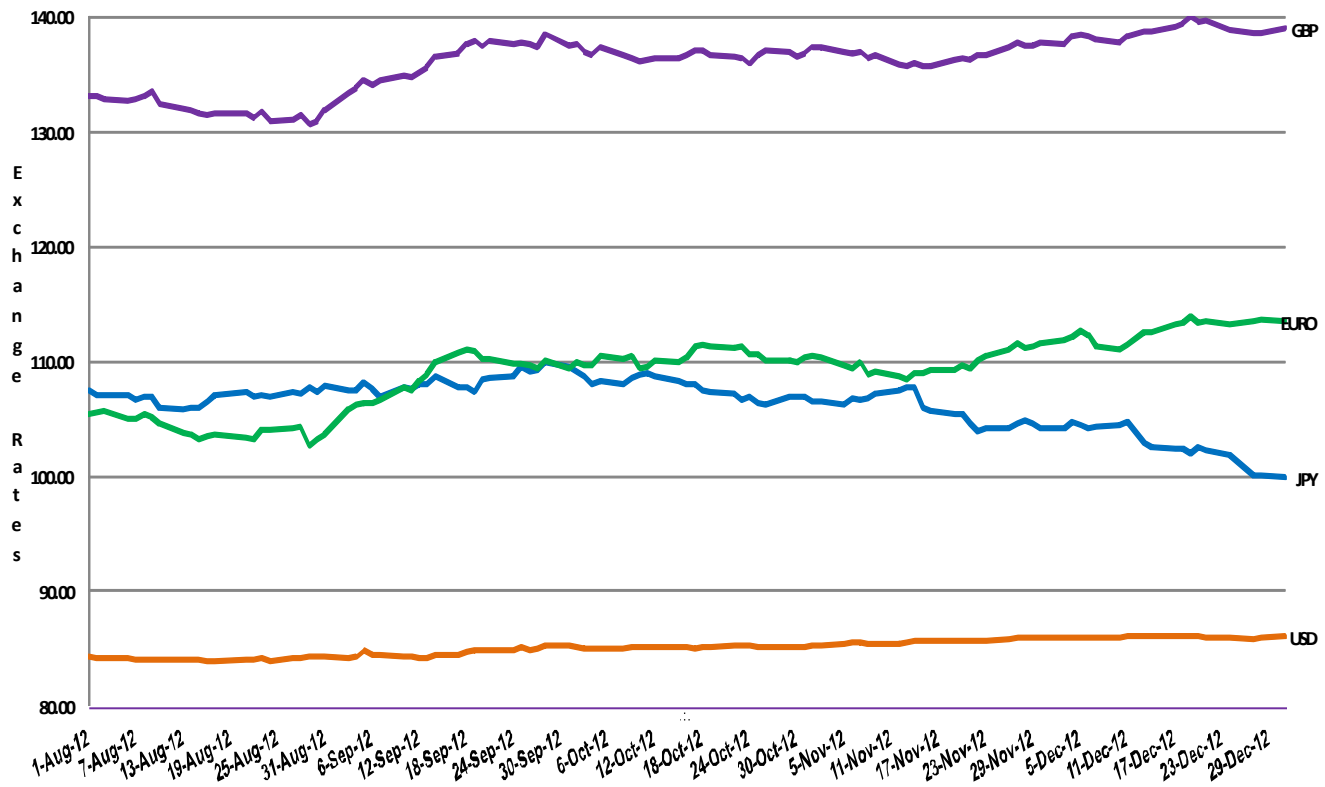
Table 2: Movement in exchange rates

Currency	October 2012	November 2012	December 2012
US Dollar	85.18	85.93	86.03
STG Pound	136.95	137.82	139.02
Euro	110.37	111.61	113.56
JPY(100)	107.00	104.22	99.90

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from August 2012 to December 2012. The four major currencies have recorded mixed performance over the month of December with little volatility in the US Dollar.

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 2.62 billion to Kshs 821.97 billion in December 2012 from Kshs 824.59 billion in November 2012 as shown in Table 3.

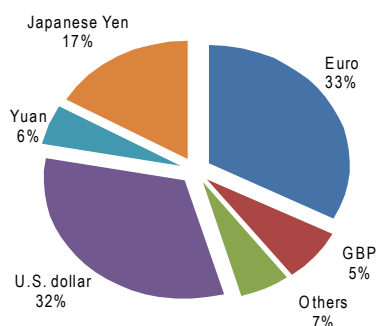
Table 3: External debt stock, in billions

	November 2012		December 2012	
	Kshs	USD	Kshs	USD
Bilateral	227.74	2.65	224.41	2.61
Multilateral	476.93	5.56	478.84	5.56
Guaranteed	46.48	0.54	44.88	0.52
Others	15.29	0.18	15.46	0.18
Commercial Banks	58.15	0.68	58.38	0.68
Total	824.59	9.61	821.97	9.55

Source: Ministry of Finance

These decrease can be attributed to the strengthening of the Kenya Shilling against the Japanese Yen. Chart 3 below illustrates that 32 percent of Kenya's external debt is denominated in the US Dollar while about 6 percent of the external loan is denominated in Yuan

Chart 3. Currency Composition

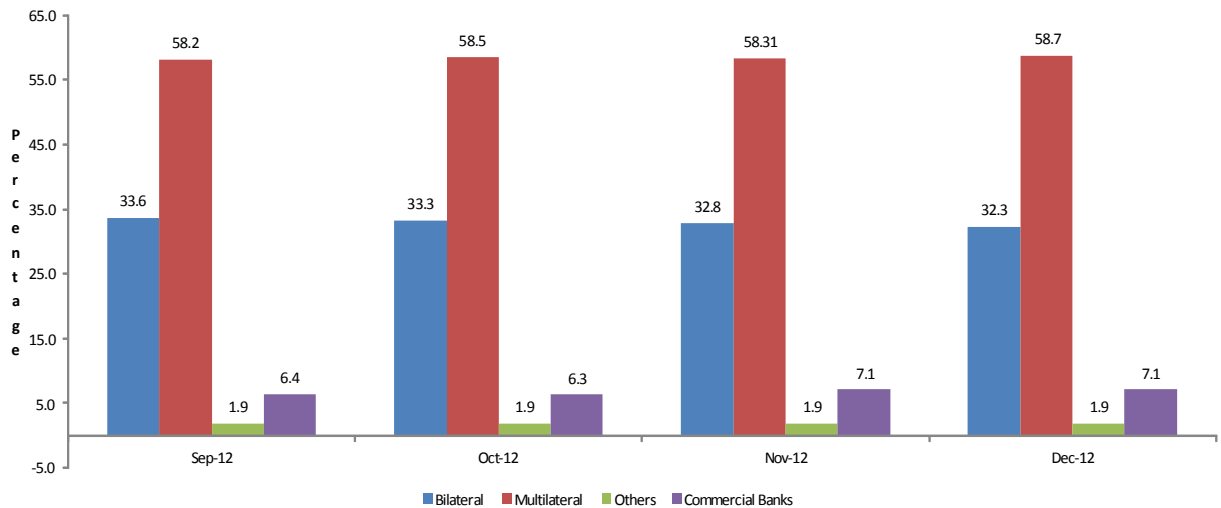


Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 91.02 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 482.71 billion including Ksh 3.87 billion guaranteed debt owed to IDA) dominate the portfolio (58.72 percent of the total). Bilateral debt stands at Kshs 265.42 billion (32.29 percent of the total), which includes Kshs 41.00 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 Japan, France and Germany are the leading creditors in the bilateral category. The Commercial debt constitutes 7.10 percent of the total public and publicly guaranteed external debt.

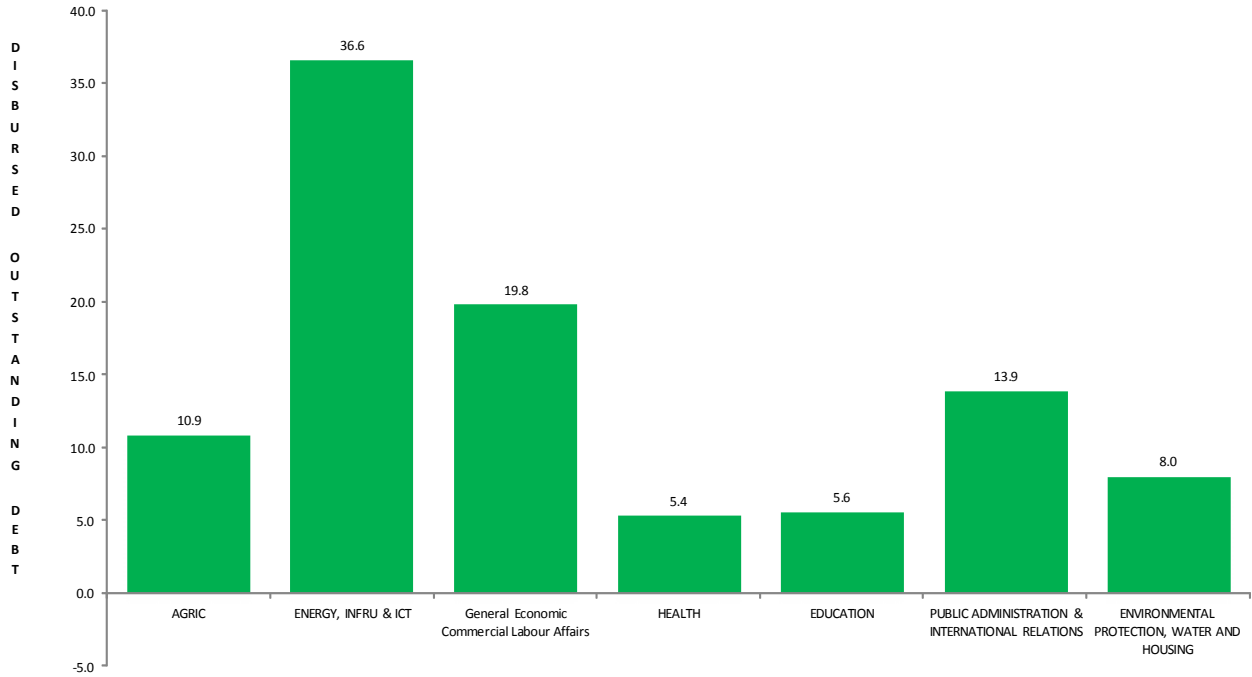
Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 External Debt by Sector

Energy and Infrastructure sector has been receiving the biggest share of the external loan funding receiving more than 36 percent of the total while the health sector received the lowest share of 5.4 percent.



2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end December, 2012 stood at Kshs 18.63 billion. Principal and interest projections for the month of December 2012 were Kshs 2.24 billion and Kshs 1.07 billion, respectively. Multilateral and bilateral creditors constitute 46.9 percent and 45.5 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Creditor category	Principal	Interest	Total
Bilateral	6,575.88	1,895.26	8,471.14
Multilateral	6,522.26	2,209.46	8,731.72
Commercial	-	1,424.05	1,424.05
Total	13,098.14	5,528.77	18,626.91

Source: Ministry of Finance

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end December 2012 was Kshs 16.80 billion as reflected in Table 5. Actual principal and interest payments for the month of December 2012 was Kshs 1.9 billion and Kshs 0.8 billion respectively.

Table 5: Actual cumulative external debt service as at end of December 2012, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	5,710.50	2,284.36	7,994.86
Multilaterals	6,231.33	1,761.75	7,993.08
Commercials	-	816.67	816.67
Totals	11,941.83	4,862.78	16,804.61

Source: Ministry of Finance

2.6 Budget Deviation

The actual cumulative debt service for December 2012 was below the projected debt service by Kshs 1.82 billion. The deviation is explained by changes in exchange rates between the actual and projected debt service payments and the monthly interest payments on the syndicated loan which is now payable semi-annually instead of the projected monthly payments.

2.7 Guaranteed External Debt

Under the Public Financial Management Act, 2012, the government may issue guarantees so long as it does not exceed the statutory ceiling set by Parliament which currently stands at Kshs 200 billion. The guaranteed external debt declined by Kshs 1.60 billion to Kshs 44.88 billion in December 2012 from Ksh 46.48 billion in November 2012. The decrease is due to the strengthening of the Kenya Shilling against the Japanese Yen during the month.

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

Creditor	October 2012	November 2012	December 2012
Japan	43,758.35	42,023.78	40,414.76
Canada	366.28	369.19	369.94
U.S.A	181.00	218.93	219.38
IDA (KR Concessionaire)	3,832.99	3,863.50	3,871.35
Totals	48,138.61	46,475.40	44,875.43

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 5.35 billion to Kshs 810.69 billion in December 2012 from Kshs 805.34 billion in November 2012 due to increased gross domestic debt as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	October 2012	November 2012	December 2012
Gross domestic debt	929.32	958.44	971.27
<i>less</i>			
Govt. deposits at CBK	-39.37	-42.65	-46.29
Govt. deposits at commercial banks	-102.99	-104.75	-108.59
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	781.26	805.34	810.69

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of December 2012, Government securities worth Kshs 57.00 billion were advertised. Bids worth Kshs 69.73 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 31.83 billion and Kshs 37.89 billion respectively. Successful bids amounted to Kshs 50.21 billion against the months redemptions of Kshs 37.36 billion leaving exchequer with a surplus of Kshs 12.85 billion as revenue.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	42,000	15,000	57,000
Bids received	31,831	37,894	69,725
Successful bids	29,433	20,777	50,210
Redemptions (cost)	(17,307)	(20,050)	(37,357)
Net domestic borrowing	12,126	727	12,853

Source: Ministry of Finance

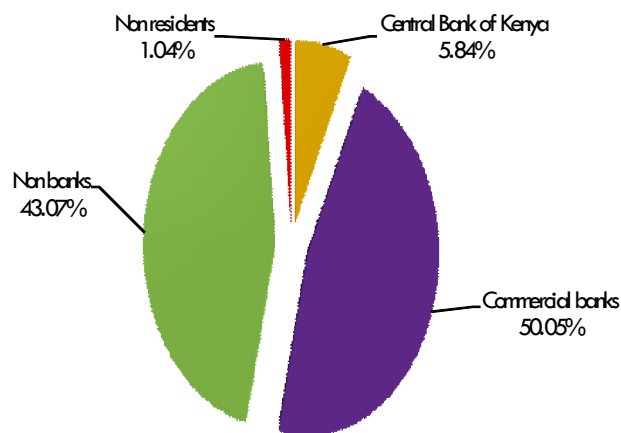
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	343.52	367.27	0.52	4.49	715.80
Treasury bills	139.16	51.00	0.79	5.57	196.52
Others	3.41	0.07	55.46	0.00	58.94
Total	486.09	418.34	56.77	10.06	971.26
Percentage Holding	50.05	43.07	5.84	1.04	100.00

Source: Central Bank of Kenya

At the end of December 2012 commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 486.09 billion or 50.05 percent as shown in Table 9 and Chart 5. The non banks held 43.07 percent of the outstanding Government paper, mostly Treasury Bonds. The non banks category comprises non bank financial institutions, National Social Security Fund (NSSF), parastatals, insurance companies, building societies, pension funds and individuals. Government debt worth Kshs 10.06 billion or 1.04 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 56.77 billion held by Central Bank of Kenya comprises the Government overdraft and Repo Treasury Bills used for execution of monetary policy.

Chart 5: Domestic debt by holder as at end December 2012

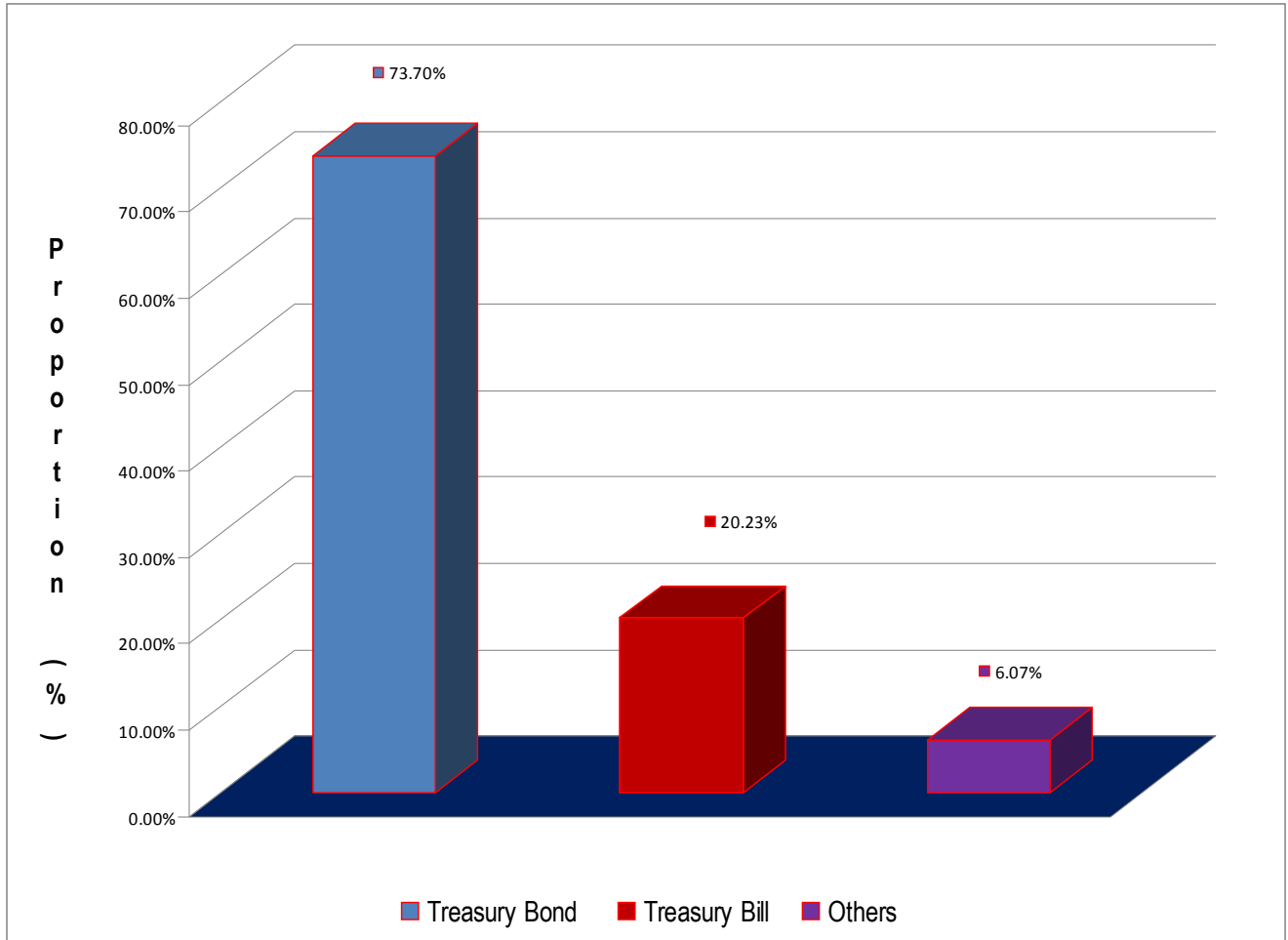


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end December 2012. 73.70 percent of Government domestic debt was in Treasury Bonds, 20.23 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 6: Domestic debt by instrument



Source: Central Bank of Kenya

3.4 Net Domestic Financing

Table 10 shows that as at end December 2012, the net domestic financing stood at Kshs 109.55 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	December-2012	Change
Treasury Bills	120.82	183.49	62.67
Treasury Bonds	661.30	687.96	26.66
Pre-1997 Govt. Overdraft debt	30.00	30.00	0.00
Other	7.81	27.07	19.26
<i>of which Overdraft (from CBK)</i>	7.26	25.37	18.11
Govt. deposits	93.69	92.73	(0.96)
Net Domestic Credit	726.24	835.16	109.55

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end December 2012, Government actual cumulative domestic interest payments stood at Kshs 53.63 billion against the cumulative projected interest payments of Kshs 53.99 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 40.64 billion and Kshs 10.63 billion respectively.

Table 11: Domestic interest payments, in Kshs million

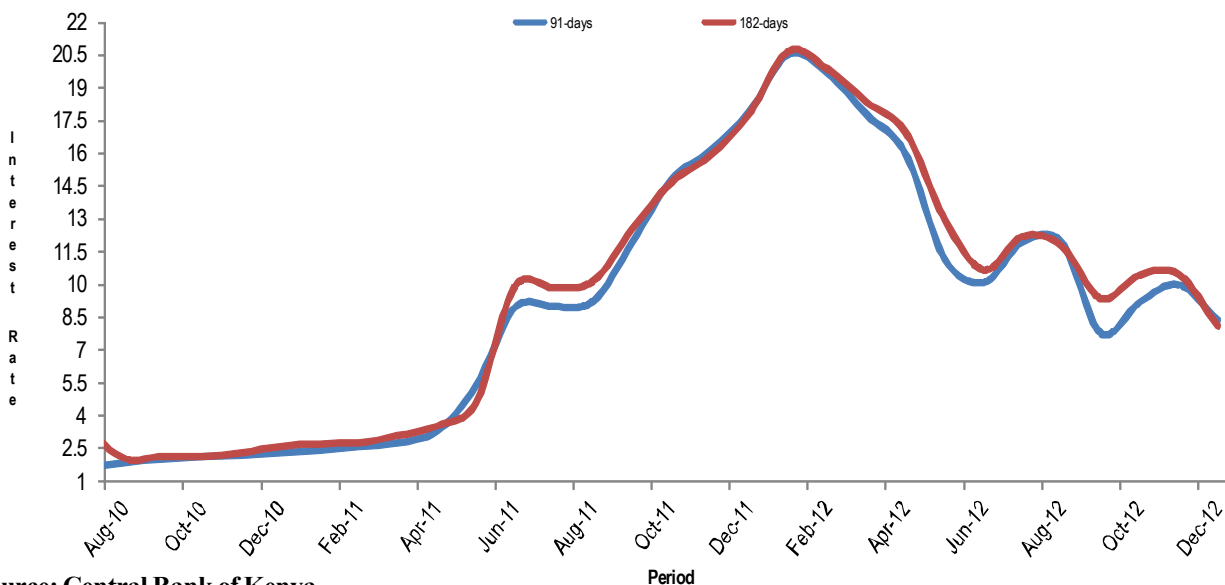
Type of debt	Projected	Actual	Variance
Treasury bonds	40,670	40,636	(33)
Treasury bills	10,744	10,631	(113)
Overdraft	1,548	1,555	7
Pre-1997 overdraft debt	1,023	801	(222)
Totals	53,985	53,623	(362)

Source: Central Bank of Kenya

3.6 Average Interest rates for Treasury Bills

Chart 7 shows the monthly trends on average interest rates for both the 91-day and 182-day Treasury Bills since August 2010. During the month of December 2012, the average interest rates for the 91-day Treasury bills decreased by 120 basis points to 8.38 percent and the 182-day Treasury bills declined by 155 basis points to 8.92 percent per annum from the end November 2012 position, 364-day Treasury bills stood at an average of 11.71 percent per annum in December 2012.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

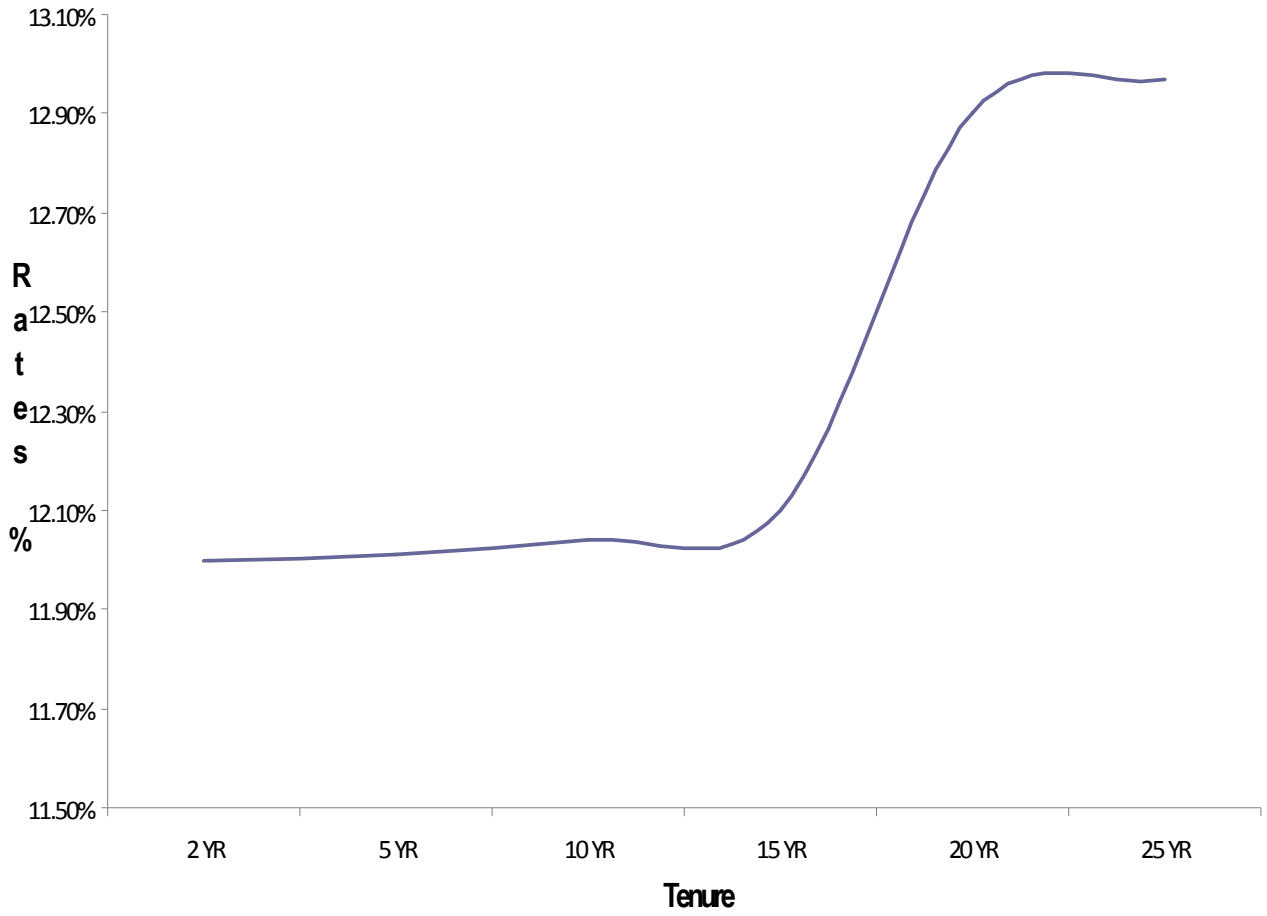
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark Treasury Bonds in the secondary market. The curve is flatter on the short and medium term tenors and higher yields on the longer tenors.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	12.00%
5 YR	12.01%
10 YR	12.04%
15 YR	12.10%
20 YR	12.90%
25 YR	12.97%

Source: Nairobi Securities Exchange (NSE)

Chart 8: Yields on selected Treasury Bonds



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

CREDITOR	Stock at end November 2012	Stock at end December 2012	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,256.75	1,234.36	(22.39)
BELGIUM	8,179.37	7,864.80	(314.57)
CANADA	1,140.19	1,092.10	(48.09)
DENMARK	2,175.99	2,109.80	(66.19)
FINLAND	108.54	103.6	(4.94)
FRANCE	44,825.07	45,590.17	765.10
GERMANY	25,176.46	25,514.69	338.23
ITALY	2,187.74	2,204.73	16.99
JAPAN	59,550.92	56,056.04	(3,494.88)
NETHERLANDS	3,016.72	2,976.86	(39.86)
UK	2,028.99	1,950.32	(78.67)
USA	4,949.47	4,861.24	(88.23)
PARIS CLUB OTHERS	4,849.43	4,871.91	22.48
NON PARIS CLUB	68,291.33	67,982.10	(309.23)
o/w CHINA	61,175.09	61,295.65	120.56
Sub total	227,736.97	224,412.72	(3,324.25)
MULTILATERAL			
ADB/AFDB	74,192.68	75,343.03	1,150.35
EEC/EIB	12,606.22	12,717.41	111.19
IDA	305,648.15	306,408.54	760.39
IFAD	7,764.59	7,764.69	0.10
IMF	67,494.56	67,393.21	(101.35)
OTHERS	9,225.36	9,216.26	(9.10)
Sub total	476,931.55	478,843.14	1,911.58
COMMERCIAL BANKS	58,150.77	58,378.30	227.53
SUPPLIERS CREDIT	15,288.42	15,463.22	174.80
Sub Total	778,107.71	777,097.38	(1,010.34)
GUARANTEED DEBT			-
CANADA	369.19	369.94	0.75
JAPAN	42,023.78	40,414.76	(1,609.02)
USA	218.93	219.38	0.45
IDA (KR Concessionaire)	3,863.50	3,871.35	7.85
Sub Total	46,475.40	44,875.43	(1,599.97)
GOK+ GUARANTEED TOTAL	824,583.11	821,972.81	(2,610.31)

Source: Ministry of Finance

Memorandum item

Nominal GDP (in Kshs Billion) **3,866.50**

Source: BPS January 2013

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