



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JANUARY 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end January 2011, public and publicly guaranteed debt stood at Kshs 1,345.80 billion or 52.84 percent of GDP (see Table 1). The increase of 1.94 percent over the end December 2010 position is attributed to exchange rate depreciation on external debt stock which stands at Kshs 615.42 billion, or USD 7.57 billion as shown in Table 1.

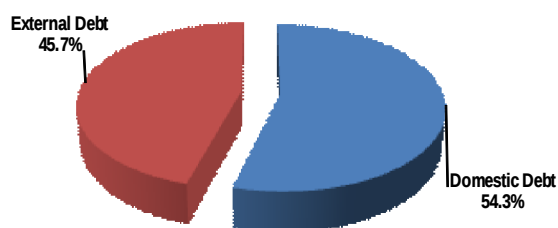
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	730.20	8.98
External Debt	615.60	7.57
Total	1,345.80	16.55

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.3 percent of the total is domestic debt while the rest is external debt as shown in Chart 1. This structure is consistent with Government's Medium Term Debt Strategy of maintaining a relatively large domestic debt stock to hedge against exchange rate risk.

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 0.8 percent and 8.9 years, respectively. In addition, the average maturity period for external loans was 32.9 years while the average grant element was 58.7 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 increased from 4.58 years in end June 2010 to 5.1 years in end January 2011.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period November 2010 to January 2011. The Kenya shilling depreciated against the world major currencies. It depreciated by 0.6 percent, 3.4 percent and 2.8 percent against the US Dollar, the Sterling Pound and the Euro respectively. However it appreciated against the Japanese Yen by 0.1 percent. The Kenya shilling closed the month at 81.27 Kshs to the US Dollar. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. Strengthening of the Kenya shilling suggests a lower level of external debt stock and lower costs of debt service while a depreciation has the opposite effect.

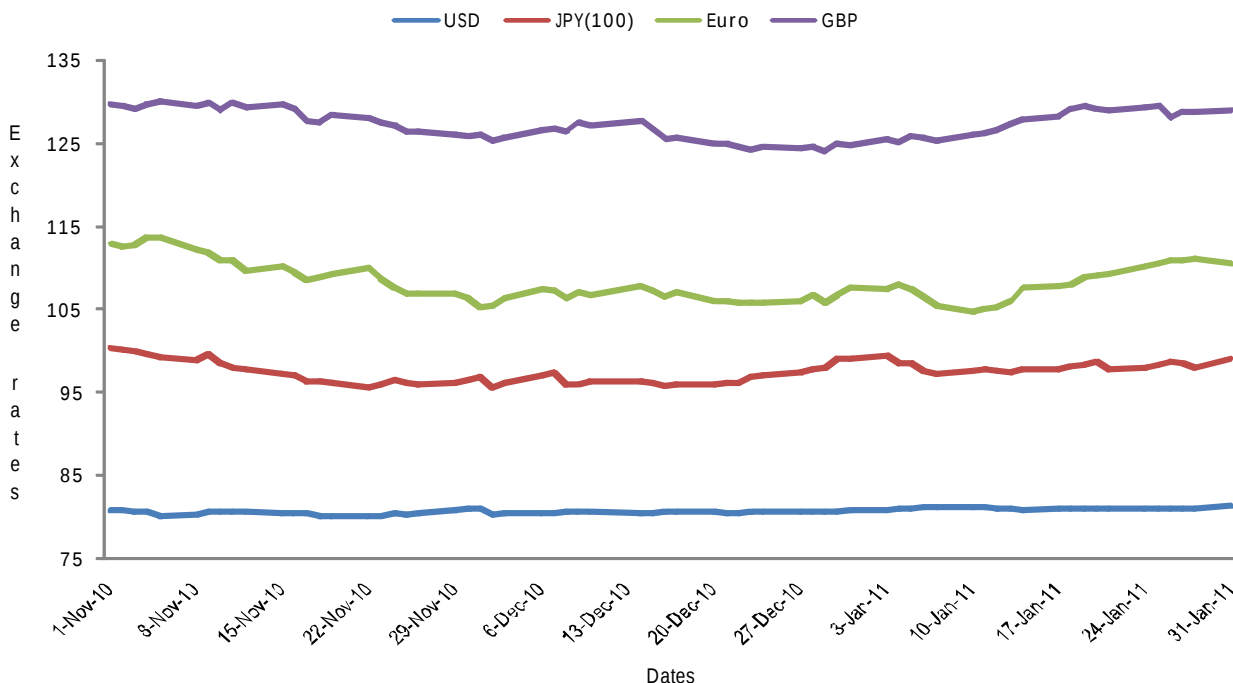
Table 2: Movement in exchange rates

Currency	November 2010	December 2010	January 2011
US Dollar	80.97	80.75	81.27
STG Pound	125.99	124.77	128.98
Euro	106.33	107.63	110.61
JPY(100)	96.46	99.12	99.05

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from November 2010 to January 2011. On average, the US Dollar exchange rate has remained relatively stable while the Kenya shilling has depreciated against the Sterling Pound, Euro and appreciated against the 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 15.68 billion from Kshs 599.93 billion in December 2010 to Kshs 615.60 billion in January 2011 as shown in Table 3.

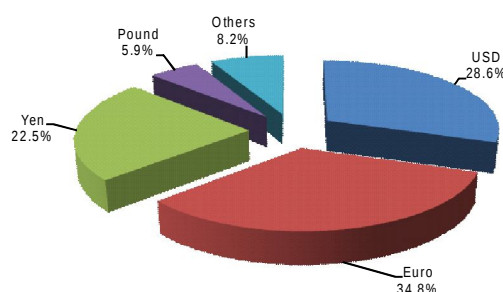
Table 3: Movement in external debt stock, in billion

Creditor Category	Kshs	USD
Bilateral	177.46	2.18
Multilateral	377.96	4.65
Guaranteed	38.44	0.47
Others	21.74	0.27
Total	615.60	7.57

Source: Ministry of Finance

Significant increase was observed in multilateral external debt which increased by Kshs 14.06 billion on account of depreciation of the Kenya shilling against other major world currencies. The high proportions of debt from the two official external sources demonstrates a conscious effort to contract loans on concessional terms. Chart 3 below illustrates that 34.8 percent of Kenya's external debt is denominated in Euro while about 5.9 percent is denominated in Sterling Pound.

Chart 3. Currency composition

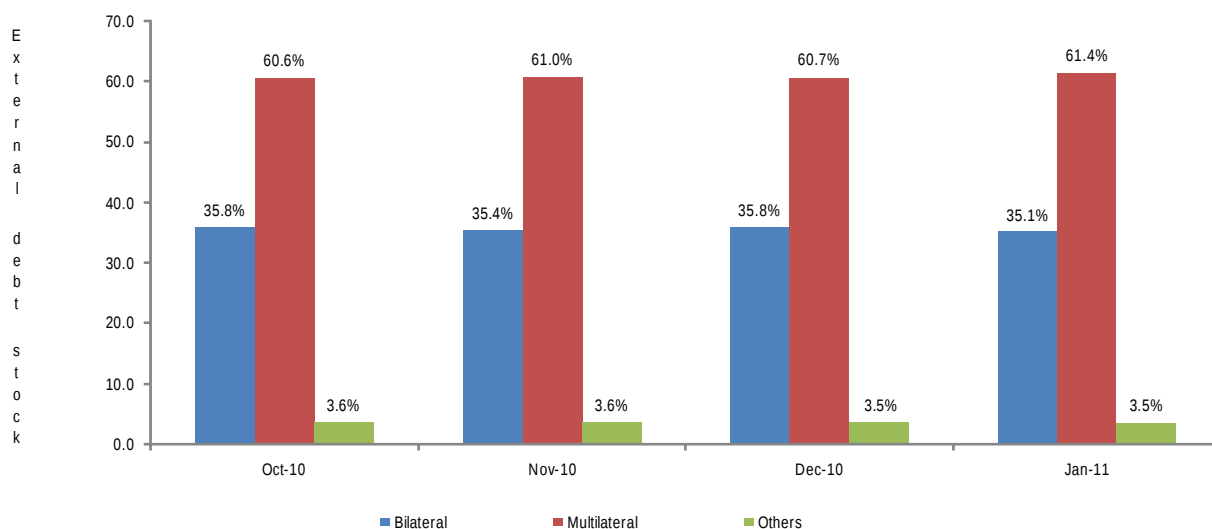


2.2 Structure of External Debt by Creditor

Official creditors account for 96.5 percent of the total external debt, out of which debts owed to multilateral creditors (Kshs 377.96 billion) dominate the portfolio (61.4 percent of the total). Bilateral debt stands at Kshs 215.9 billion or (35.1 percent of the total) as shown in Chart 4.

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 amount of debt owed to other creditors remains relatively unchanged as these debts are not being serviced due to the current disputes with the creditors (see Table 3).

Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end January 2011 stood at Kshs 15.99 billion. Principal and interest projections for the month of January were Kshs 1.96 billion and Kshs 0.54 billion, respectively. Multilateral and bilateral creditors constitute 50.32 percent and 49.68 percent, of the projected debt service, respectively during the period under review as shown in Table 4.

Table 4: Cumulative Debt Service Projections as at end January 2011, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	5,772.11	2,172.34	7,944.46
Multilateral	6,051.98	1,996.20	8,048.18
Commercial	-	-	-
Total	11,824.09	4,168.54	15,992.63

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end January 2011 was Kshs 15.00 billion as reflected in Table 5. Actual principal and interest payments for the month of January 2011 was Kshs 2.91 billion and Kshs 1.23 billion, respectively.

Table 5: Actual cumulative external debt service as at end of January 2011, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	5,375.20	2,157.42	7,532.62
Multilaterals	5,845.43	1,621.22	7,466.65
Commercials	-	-	-
Totals	11,220.62	3,778.64	14,999.27

Source: Ministry of Finance

2.5 Budget Deviation

The projected debt service for January 2011 was above the actual debt service by Kshs 0.99 billion. This variance is attributed to exchange rate fluctuations. No debt arrears were accumulated during the month under review.

2.6 Guaranteed External Debt

The amount of public guaranteed external debt decreased marginally by Kshs 0.02 billion to Kshs 38.44 billion in January 2011. The decrease is due to the appreciation of the Kenya shilling against the Japanese Yen. Over 90 percent of the guaranteed debt is owed by Kenya Broadcasting Corporation, which was guaranteed by the Government. The Guarantee Loans Act (Cap 461) provides a framework within which Government guarantees are issued. This Act sets the ceiling for guaranteed debts, which currently stands at Kshs 80 billion. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor of which Japan is the leading creditor.

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

Creditor	November	December	January
Japan	37,093.36	37,784.09	37,756.26
Canada	380.59	371.47	373.87
U.S.A	309.73	308.88	310.87
Totals	37,783.68	38,464.44	38,441.00

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

As indicated in Table 7, Government net domestic debt increased by Kshs. 7.36 billion to Kshs 581.26 billion in line with the 2010 Medium Term Debt Strategy and Government borrowing plan for the financial year 2010/11.

Table 7: Government domestic debt, in Kshs billion

	November	December	January
Gross domestic debt	711.45	720.20	730.20
<i>less</i>			
Govt. deposits at CBK	-41.77	-58.70	-58.17
Govt. deposits at commercial banks	-90.27	-81.90	-85.07
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	573.11	573.90	581.26

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of January 2011, Government securities worth Kshs 46.0 billion were advertised. Bids worth Kshs 66.99 billion were received, out of which Kshs 36.49 billion and Kshs 30.50 billion were Treasury Bills and Treasury Bonds, respectively. The net repayments of Treasury Bills shown in Table 8 is consistent with Government borrowing plan and strategy of raising more resources using longer dated instruments. Successful bids amounted to Kshs 38.28 billion against the months redemptions of Kshs 26.99 billion leaving a surplus of Kshs 11.29 billion as new money to the exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	30,000	16,000	46,000
Bids received	36,487	30,502	66,989
Successful bids	26,379	11,896	38,275
Redemptions (cost)	23,862	3,125	26,987
Net domestic borrowing	2,517	8,771	11,288

Source: Ministry of Finance

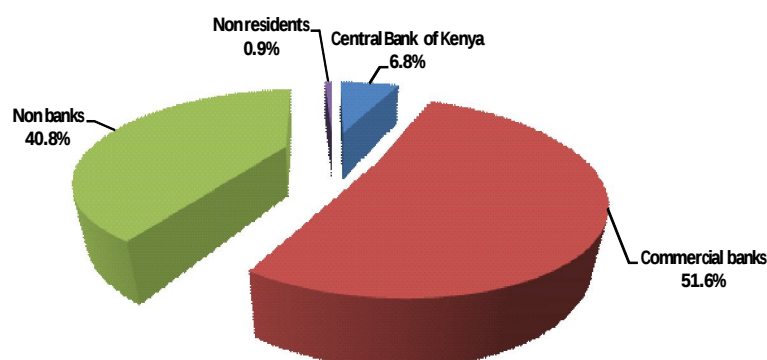
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	266.90	270.79	0.01	0.87	538.57
Treasury bills	108.08	27.09	0.01	5.39	140.57
Others	1.65	0.07	49.34	0.00	51.06
Total	376.63	297.95	49.36	6.26	730.20

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 376.63 billion or 51.6 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 6.26 billion or 0.9 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 49.36 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy. The non banks held 40.8 percent of the outstanding Government paper, mostly Treasury Bonds as illustrated in Chart 5. The non banks category comprises non bank financial institutions, National Social Security Fund (NSSF), parastatals, insurance companies, building societies, pension funds and others.

Chart 5: Domestic debt by holder as at end January 2011

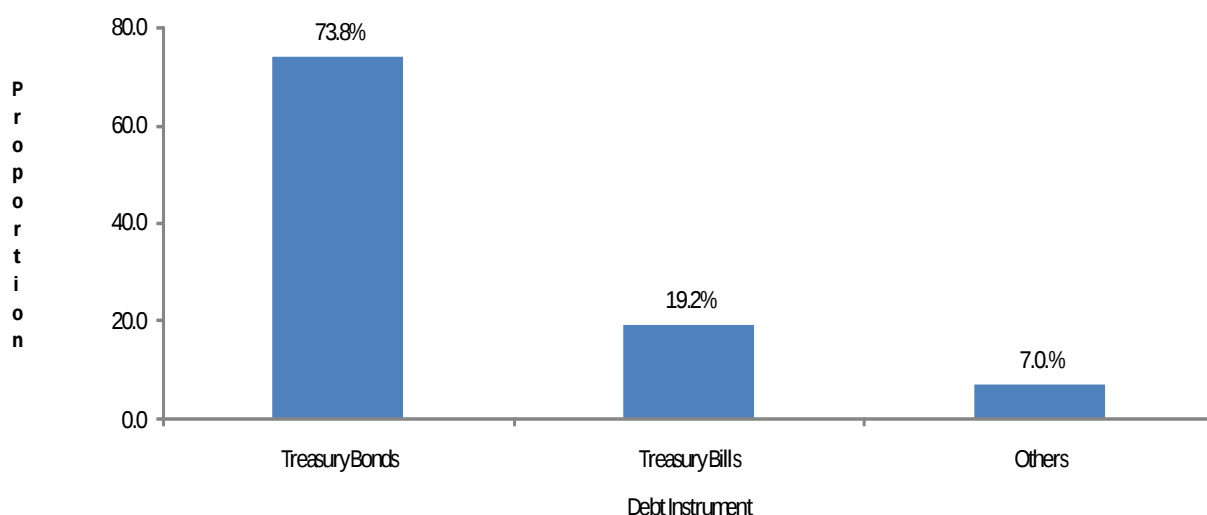


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end January 2011, 73.8 percent of Government domestic debt is in Treasury Bonds, 19.2 percent in Treasury Bills while the balance is mainly the 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 debt.

Chart 6: Domestic debt by instrument



Source: Central Bank of Kenya

3.4 Net Domestic Financing

During the financial year 2010/11, the end June 2011 target net domestic financing is Kshs 125 billion. Table 10 shows that as at end January 2011, the net domestic financing is Kshs 57.52 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2010	January-2011	Change
Treasury Bills	152.97	133.85	(19.12)
Treasury Bonds	441.76	531.02	89.26
Long term Stock	0.75	0.00	(0.75)
Pre-1997 Govt. Overdraft debt	32.22	31.78	0.00
Other	18.28	21.65	3.37
<i>of which Overdraft (from CBK)</i>	17.65	17.63	(0.02)
Govt. deposits	84.71	99.50	14.79
Net Domestic Credit	561.28	618.80	57.52

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

During the financial year 2010/11, the Government was projected to pay Kshs 66.03 billion as interest on domestic debt. As at January 2011, Government actual cumulative domestic interest payments stood at Kshs 36.74 billion against the cumulative projected interest payments of Kshs 38.91 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 29.22 billion and Kshs 7.02 billion, respectively. The variance of Kshs 2.17 billion constitutes savings arising from lower than projected interest rates on Government securities.

Table 11: Domestic interest payments, in Kshs million

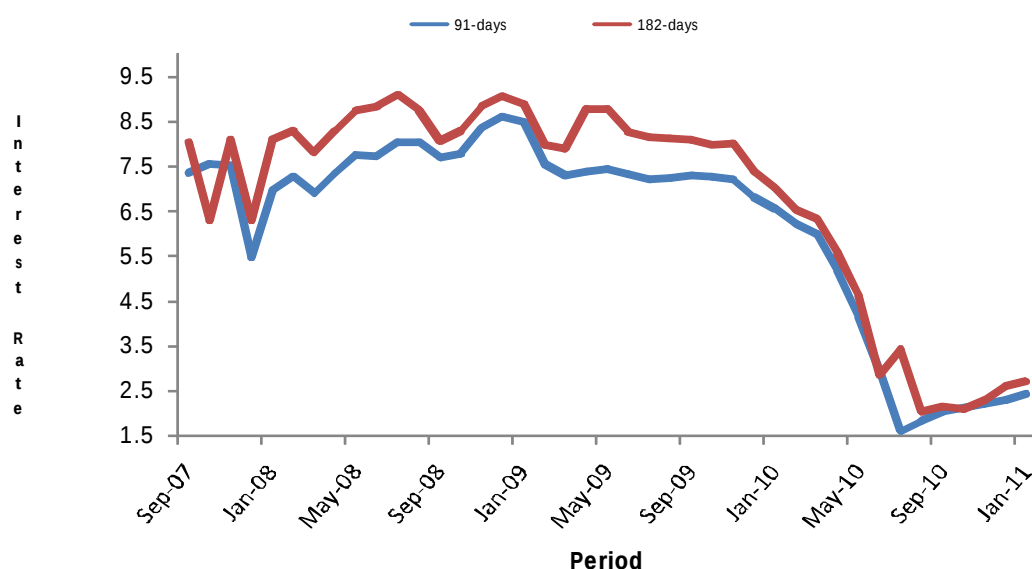
Type of debt	Projected	Actual	Variance
Treasury bonds	30,245.95	29,217.43	(1,028.52)
Treasury bills	7,762.39	7,017.56	(744.93)
Overdraft	296.75	464.47	167.72
Pre-1997 overdraft debt	562.52	0.00	(562.52)
Government stocks	37.67	37.67	0.00
Totals	38,905.26	36,737.13	(2,168.25)

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 September 2007. Average interest rates have been declining since the beginning of the financial year 2009/10. During the month of January 2011, the average interest rates for the 91-day Treasury Bills rose by 16 basis points to 2.44 percent p.a. However, the average interest rates for 182-day Treasury bills rose by 11 basis points to stand at 2.70 percent p.a.

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 program 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 Treasury Bonds which suggests a positive correlation between tenure and yield implying a normal upward sloping yield curve.

Table 12 :Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	4.7%
5 YR	7.1%
10 YR	8.4%
15 YR	10.7%
20 YR	10.9%
25 YR	10.9%

Source: Central Bank of Kenya

ANNEX 1: STOCK OF PUBLIC AND PUBLICLY GUARANTEED DEBT BY SOURCE

	Stock at end December 2010	Stock at end January 2011	Change
CREDITOR			
CENTRAL GOVERNMENT			(Kshs Mn)
BILATERAL			
AUSTRIA	1,810.66	1,860.82	50.17
BELGIUM	7,318.45	7,506.16	187.71
CANADA	1,180.37	1,187.97	7.61
DENMARK	2,397.83	2,461.24	63.42
FINLAND	118.50	120.55	2.05
FRANCE	32,893.24	33,864.36	971.12
GERMANY	16,659.75	17,121.35	461.60
ITALY	4,379.92	4,499.63	119.72
JAPAN	65,434.77	64,621.68	(813.09)
NETHERLANDS	2,089.47	2,056.10	(33.37)
UK	2,084.63	2,155.06	70.42
USA	5,163.54	5,196.81	33.27
PARIS CLUB OTHERS	5,020.84	5,084.21	63.38
NON PARIS CLUB	29,703.19	29,726.33	23.14
Sub Total	176,255.15	177,462.29	1,207.14
MULTILATERAL			
ADB/AFDB	44,118.07	44,788.34	670.27
EEC/EIB	10,744.52	10,883.16	138.64
IDA	261,505.11	266,212.53	4,707.42
IFAD	6,208.22	6,312.46	104.24
IMF	33,663.69	41,997.69	8,334.00
OTHERS	7,660.51	7,769.30	108.79
Sub Total	363,900.12	377,963.49	14,063.36
SUPPLIERS CREDIT	21,310.11	21,738.21	428.10
Sub Total	561,465.39	577,163.99	15,698.60
GOVERNMENT GUARANTEED DEBT			
CANADA	371.47	373.87	2.39
JAPAN	37,784.09	37,756.26	(27.83)
USA	308.88	310.87	1.99
Sub Total	38,464.44	38,441.00	(23.44)
GRAND TOTAL	599,929.82	615,604.98	15,675.15

Source: Ministry of Finance

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