



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

JANUARY 2013

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end January 2013, public and publicly guaranteed debt stood at Kshs 1,812.01 billion or 46.87 percent of GDP (see Table 1). The increase of 0.1 percent over the end December 2012 position is attributed to increase in both domestic debt and external debt. Domestic debt increased by Ksh 7.13 billion to stand at Ksh 978.40 billion, while external debt increased by Ksh 11.64 billion to stand at Ksh 833.61 billion in January 2013 due to exchange rate depreciation against the US Dollar and the Euro. (See Table 1).

Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	978.40	11.17
External Debt	833.61	9.51
Total	1,812.01	20.68

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.0 percent of the total debt is domestic debt while 46.0 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 29.2 years while the average grant element was 68.3 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 January 2013.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period November 2012 to January 2013. The Kenya shilling depreciated against the US dollar and the Euro by 1.84 percent and 4.75 percent respectively while it appreciated against the Sterling Pound and the Japanese Yen by 0.32 percent and 3.61 percent respectively. The Kenya shilling stood at Kshs 87.61 to the US Dollar at end of January 2013. The depreciation of the Kenya Shilling has the effect of increasing external debt stock and the cost of debt service.

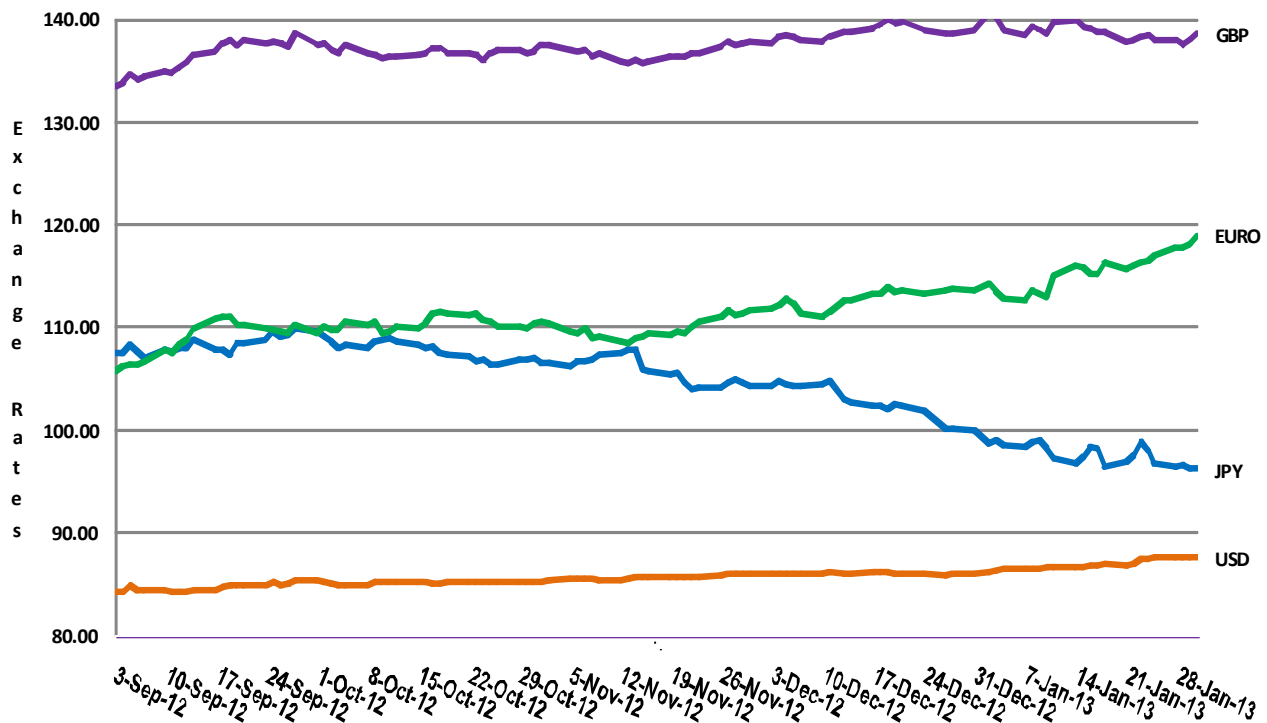
Table 2: Movement in exchange rates

Currency	November 2012	December 2012	January 2013
US Dollar	85.93	86.03	87.61
STG Pound	137.82	139.02	138.57
Euro	111.61	113.56	118.95
JPY (100)	104.22	99.90	96.29

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 2012 to January 2013. The four major currencies have recorded mixed performance over the month of January 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 increased by Kshs 11.64 billion to Kshs 833.61 billion in January 2013 from Kshs 821.97 billion in December 2012 as shown in Table 3.

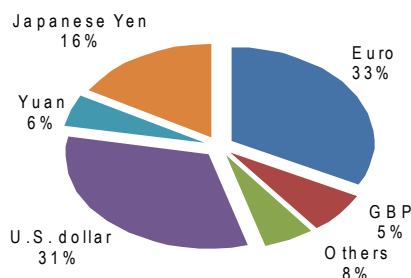
Table 3: External debt stock, in billions

	December 2012		January 2013	
	Kshs	USD	Kshs	USD
Bilateral	224.41	2.61	226.98	2.59
Multilateral	478.84	5.56	487.70	5.57
Guaranteed	44.88	0.52	43.45	0.49
Others	15.46	0.18	15.84	0.18
Commercial Banks	58.38	0.68	59.64	0.68
<b>Total</b>	<b>821.97</b>	<b>9.55</b>	<b>833.61</b>	<b>9.51</b>

Source: Ministry of Finance

These increase can be attributed to the weakening of the Kenya Shilling against the Euro and the US Dollar. Chart 3 below indicates the currency composition of external debt, it shows that the Euro forms the largest share of the external debt portfolio.

Chart 3. Currency Composition

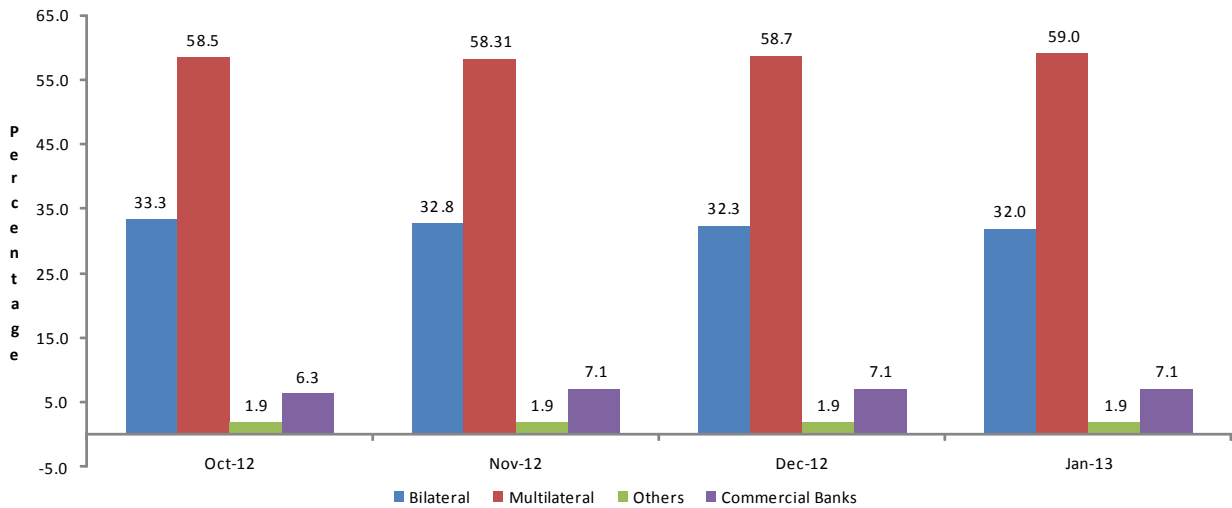


Source: Ministry of Finance

### 2.2 Structure of External Debt by Creditor

Official creditors account for 90.95 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 491.64 billion including Ksh 3.94 billion guaranteed debt owed to IDA) dominate the portfolio (58.98 percent of the total). Bilateral debt stands at Kshs 266.48 billion (31.97 percent of the total), which includes Kshs 39.51 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 7.16 percent of the total public and publicly guaranteed external debt.

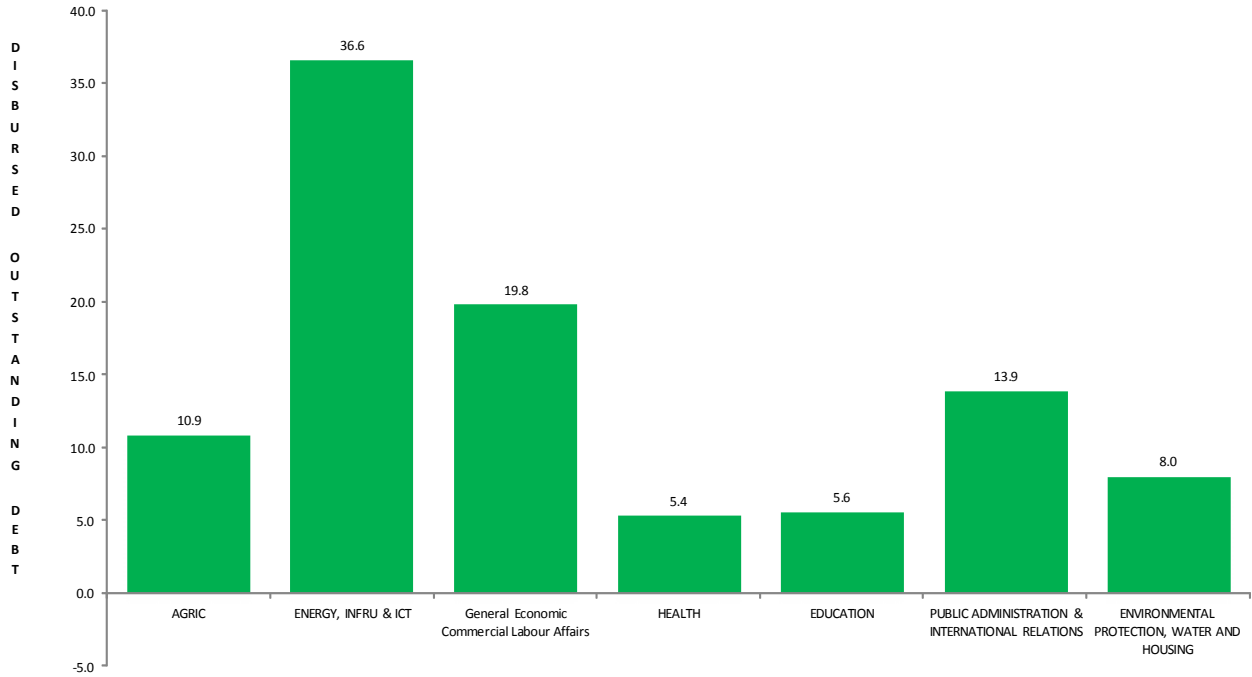
Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 External Debt by Sector

Health and Education sector receives the least share of external loan funding as illustrated by the graph below.



## 2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end January 2013 stood at Kshs 22.34 billion. Principal and interest projections for the month of January 2013 were Kshs 2.40 billion and Kshs 1.31 billion, respectively. Multilateral and bilateral creditors constitute 49.0 percent and 43.6 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Table 4: Projected Cumulative External Debt Service as at end of January 2013, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	7,607.36	2,123.06	9,730.42
Multilateral	7,895.17	3,050.44	10,945.61
Commercial	-	1,661.38	1,661.38
Total	15,502.53	6,834.88	22,337.41

Source: Ministry of Finance

## 2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end January 2013 was Kshs 19.44 billion as reflected in Table 5. Actual principal and interest payments for the month of January 2013 was Kshs 1.93 billion and Kshs 0.51 billion respectively.

Table 5: Actual cumulative external debt service as at end of January 2013, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	6,553.27	2,604.28	9,157.55
Multilaterals	7,323.05	1,947.87	9,270.92
Commercials	-	1,009.21	1,009.21
Totals	13,876.32	5,561.35	19,437.68

Source: Ministry of Finance

## 2.6 Budget Deviation

The actual cumulative debt service for January 2013 was below the projected debt service by Kshs 2.90 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 1.42 billion to Kshs 43.45 billion in January 2013 from Ksh 44.88 billion in December 2012. The decrease is due to the strengthening of the Kenya Shilling against the Japanese Yen which forms the largest share of Guaranteed debt.

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

<b>Creditor</b>	<b>November 2012</b>	<b>December 2012</b>	<b>January 2013</b>
Japan	42,023.78	40,414.76	38,953.92
Canada	369.19	369.94	367.98
U.S.A	218.93	219.38	186.17
IDA (KR Concessionaire)	3,863.50	3,871.35	3,942.50
Totals	46,475.40	44,875.43	43,450.58

**Source: Ministry of Finance**

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 27.94 billion to Kshs 838.63 billion in January 2013 from Kshs 810.69 billion in December 2012 due to significant decrease in Government deposits at the Central Bank as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	November 2012	December 2012	January 2013
Gross domestic debt	958.44	971.27	978.40
<i>less</i>			
Govt. deposits at CBK	-42.65	-46.29	-26.63
Govt. deposits at commercial banks	-104.75	-108.59	-107.44
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	805.34	810.69	838.63

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of January 2013, Government securities worth Kshs 48.00 billion were advertised. Bids worth Kshs 60.45 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 28.10 billion and Kshs 32.35 billion respectively. Successful bids amounted to Kshs 44.71 billion against the months redemptions of Kshs 30.06 billion leaving exchequer with a surplus of Kshs 14.65 billion as revenue.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	33,000	15,000	48,000
Bids received	28,105	32,347	60,452
Successful bids	22,637	22,077	44,714
Redemptions (cost)	(15,122)	(14,939)	(30,061)
Net domestic borrowing	7,515	7,139	14,653

Source: Ministry of Finance



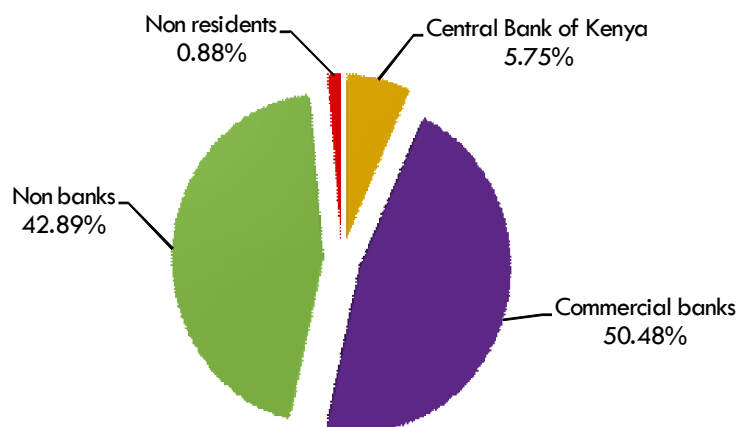
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	343.50	368.39	0.51	3.01	715.41
Treasury bills	147.05	51.20	0.67	5.57	204.49
Others	3.35	0.07	54.93	0.00	58.50
<b>Total</b>	<b>493.90</b>	<b>419.66</b>	<b>56.21</b>	<b>8.58</b>	<b>978.40</b>
Percentage Holding	50.48	42.89	5.75	0.88	100.00

Source: Central Bank of Kenya

At the end of January 2013 commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 493.90 billion or 50.48 percent as shown in Table 9 and Chart 5. The non banks held 42.89 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 8.58 billion or 0.88 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 56.26 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 January 2013

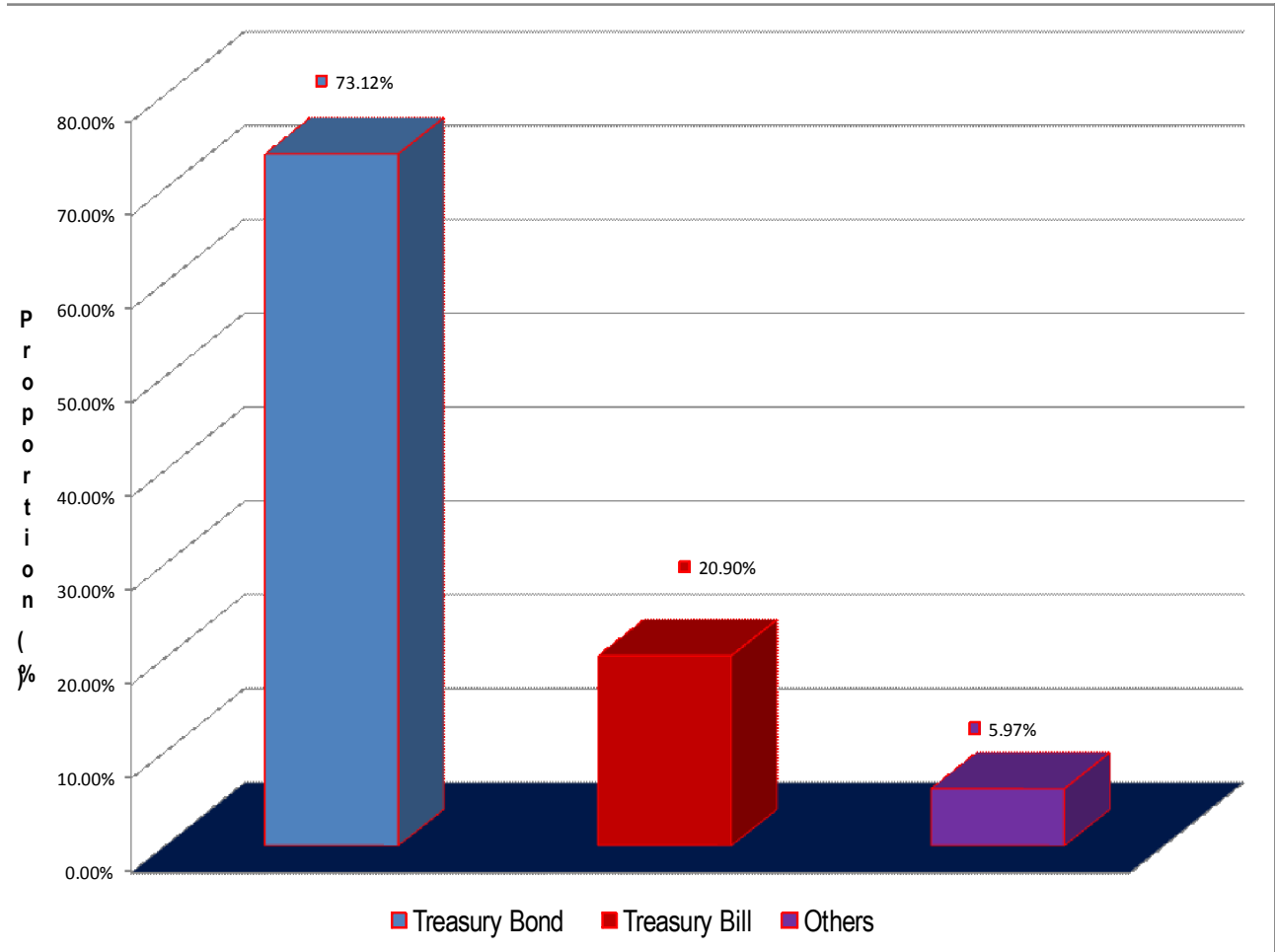


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end January 2013. 73.12 percent of Government domestic debt was in Treasury Bonds, 20.90 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 January 2013, the net domestic financing stood at Kshs 122.98 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	January-2013	Change
Treasury Bills	120.82	191.51	70.69
Treasury Bonds	661.30	687.11	25.81
Pre-1997 Govt. Overdraft debt	30.00	30.00	0.00
Other	7.81	26.35	18.54
<i>of which Overdraft (from CBK)</i>	7.26	25.10	17.84
Govt. deposits	93.69	85.75	(7.94)
Net Domestic Credit	726.24	849.22	122.98

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end January 2013, Government actual cumulative domestic interest payments stood at Kshs 59.31 billion against the cumulative projected interest payments of Kshs 59.41 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 44.71 billion and Kshs 11.65 billion respectively.

Table 11: Domestic interest payments, in Kshs million

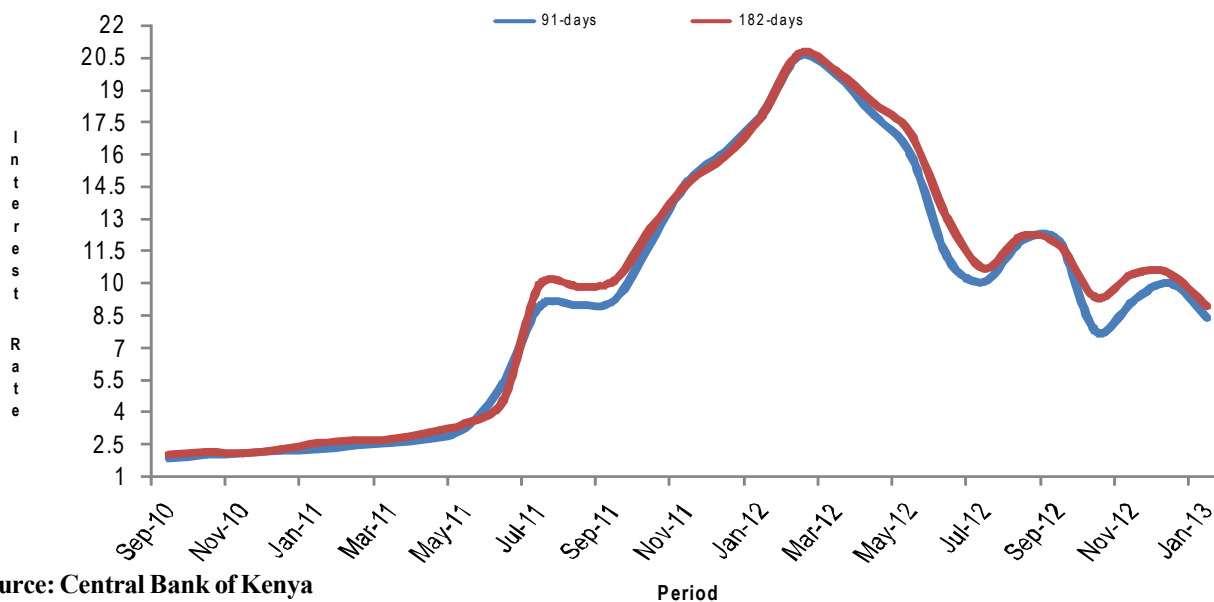
Type of debt	Projected	Actual	Variance
Treasury bonds	44,728.54	44,707.20	(21.34)
Treasury bills	11,765.02	11,650.25	(114.77)
Overdraft	1,819.49	1,769.76	(49.73)
Pre-1997 overdraft debt	1,096.48	1,180.31	83.83
Totals	59,409.53	59,307.52	(102.01)

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 2010. During the month of January 2013, the average interest rates for the 91-day Treasury bills decreased by 231 basis points to 6.07 percent and the 182-day Treasury bills declined by 83 basis points to 8.09 percent per annum from the end December 2012 position, 364-day Treasury bills stood at an average of 11.66 percent per annum in January 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

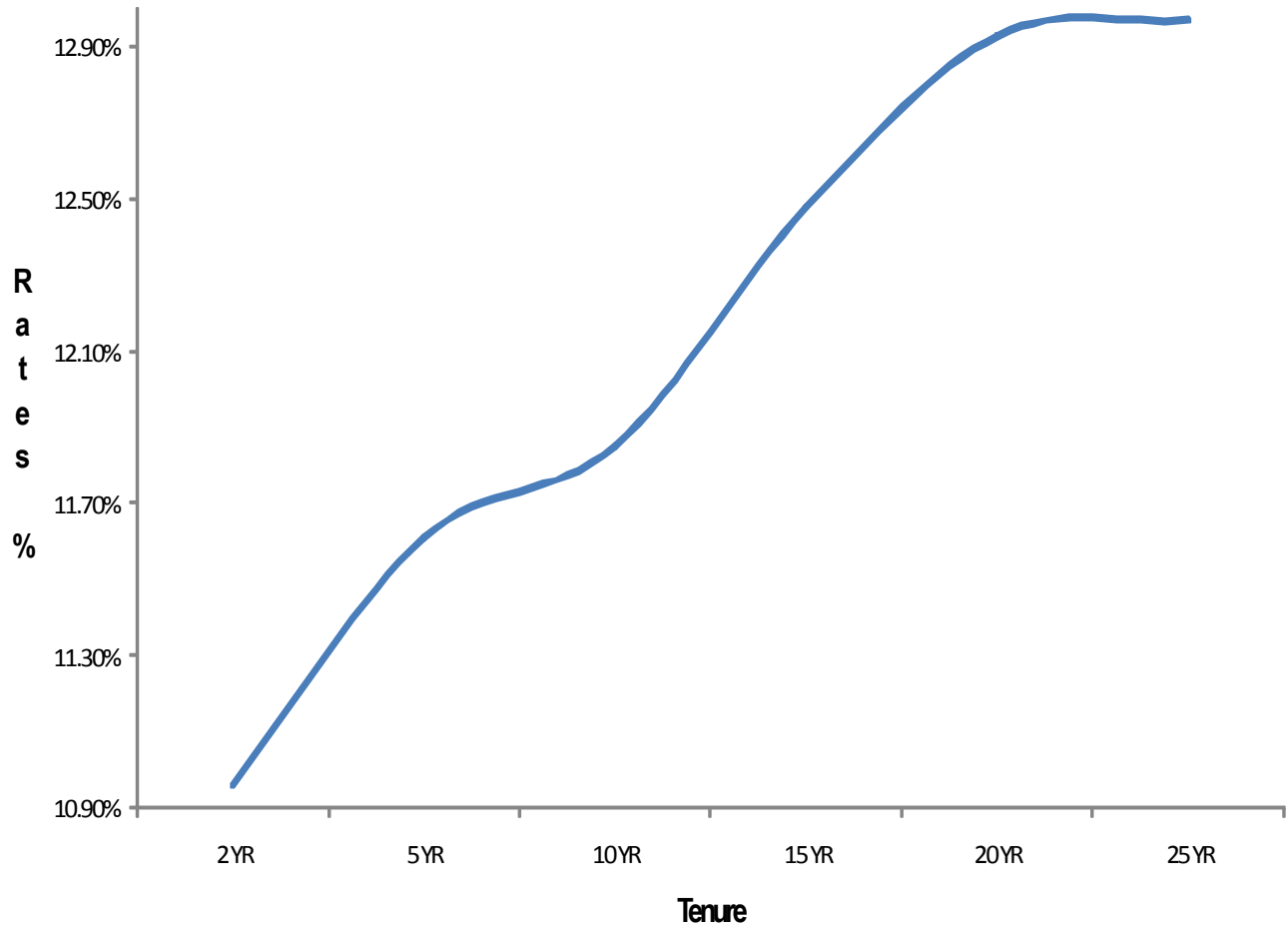
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.96%
5 YR	11.61%
10 YR	11.85%
15 YR	12.48%
20 YR	12.93%
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)**

<b>CREDITOR</b>	<b>Stock at end December 2012</b>	<b>Stock at end January 2013</b>	<b>Change</b>
<b>CENTRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,234.36	1,292.95	58.59
BELGIUM	7,864.80	8,129.53	264.73
CANADA	1,092.10	1,112.18	20.08
DENMARK	2,109.80	2,211.43	101.63
FINLAND	103.6	107.04	3.44
FRANCE	45,590.17	47,539.29	1,949.12
GERMANY	25,514.69	26,759.51	1,244.82
ITALY	2,204.73	2,308.01	103.28
JAPAN	56,056.04	53,428.38	(2,627.66)
NETHERLANDS	2,976.86	3,063.26	86.40
UK	1,950.32	1,938.13	(12.19)
USA	4,861.24	4,922.36	61.12
PARIS CLUB OTHERS	4,871.91	5,024.04	152.13
NON PARIS CLUB	67,982.10	69,140.02	1,157.92
o/w CHINA	61,295.65	62,452.74	1,157.09
<b>Sub total</b>	<b>224,412.72</b>	<b>226,976.13</b>	<b>2,563.41</b>
<b>MULTILATERAL</b>			
ADB/AFDB	75,343.03	75,721.06	378.03
EEC/EIB	12,717.41	13,276.47	559.06
IDA	306,408.54	312,319.73	5,911.19
IFAD	7,764.69	8,169.25	404.56
IMF	67,393.21	68,830.07	1,436.86
OTHERS	9,216.26	9,379.04	162.78
<b>Sub total</b>	<b>478,843.14</b>	<b>487,695.62</b>	<b>8,852.48</b>
<b>COMMERCIAL BANKS</b>	<b>58,378.30</b>	<b>59,647.84</b>	<b>1,269.54</b>
<b>SUPPLIERS CREDIT</b>	<b>15,463.22</b>	<b>15,839.30</b>	<b>376.08</b>
<b>Sub Total</b>	<b>777,097.38</b>	<b>790,158.88</b>	<b>13,061.50</b>
<b>GUARANTEED DEBT</b>			
CANADA	369.94	367.98	(1.96)
JAPAN	40,414.76	38,953.92	(1,460.84)
USA	219.38	186.17	(33.21)
IDA (KR Concessionaire)	3,871.35	3,942.50	71.15
<b>Sub Total</b>	<b>44,875.43</b>	<b>43,450.58</b>	<b>(1,424.85)</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>821,972.81</b>	<b>833,609.46</b>	<b>11,636.65</b>

Source: Ministry of Finance

Memorandum item

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

Source: BPS January 2013

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