



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JANUARY 2012

1.0 PUBLIC DEBT

1.1 Introduction

As at end January 2012, public and publicly guaranteed debt stood at Kshs 1,496.00 billion or 45.4 percent of GDP (see Table 1). The increase of 0.3 percent over the end December 2011 position is attributed to increased uptake of domestic debt. The total external debt rose to Kshs 686.72 billion in January 2012 from Kshs 685.61 billion in December 2011. (See Table 1).

Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	809.28	9.57
External Debt	686.72	8.12
Total	1,496.00	17.69

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.1 percent of the total debt is domestic debt while 45.9 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 1.0 percent and 7.6 years, respectively. In addition, the average maturity period for external loans was 24 years while the average grant element was 66.4 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 stood at 5 years 10 months at end January 2012.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period November 2011 to January 2012. The Kenya shilling depreciated against all the major currencies except against the US Dollar. The Kenya shilling depreciated against the Sterling Pound, Euro and Japanese Yen by 1.6 percent, 1.4 percent and 1.4 percent respectively, against the US Dollar it appreciated by 0.6 percent. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. A depreciating Kenya shilling increases the external debt stock and also leads to increased costs of external debt service.

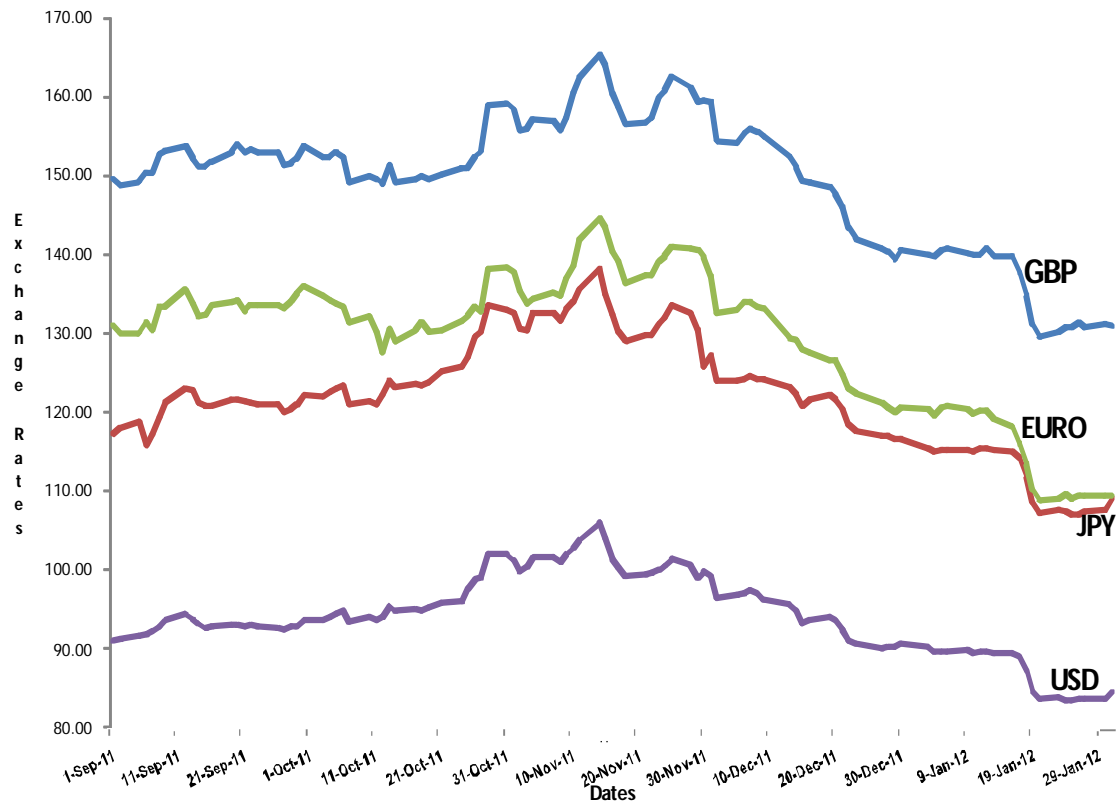
Table 2: Movement in exchange rates

Currency	November 2011	December 2011	January 2012
US Dollar	89.72	85.06	84.59
STG Pound	139.81	131.12	133.17
Euro	119.53	110.06	111.61
JPY(100)	115.10	109.69	111.25

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 2011 to January 2012.

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 1.11 billion to Kshs 686.72 billion in January 2012 from Kshs 685.61 billion in December 2011 as shown in Table 3.

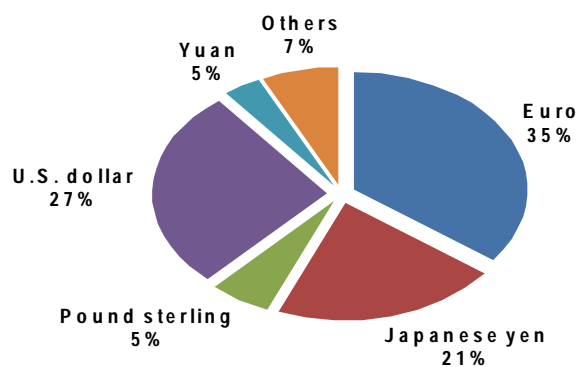
Table 3: External debt stock, in billions

Creditor Category	December 2011		January 2012	
	Kshs	USD	Kshs	USD
Bilateral	195.02	2.29	198.63	2.35
Multilateral	422.93	4.97	419.67	4.96
Guaranteed	45.63	0.53	46.24	0.55
Others	22.03	0.26	22.18	0.26
Total	685.61	8.05	686.72	8.12

Source: Ministry of Finance

The major decrease was observed in bilateral external debt which increased by Kshs 3.61 billion on account of depreciation of the Kenya shilling against the Sterling Pound, the Euro and the Yen. The high proportion of debt from official external sources demonstrates a conscious effort to contract loans on concessional terms. Chart 3 below illustrates that 35.1 percent of Kenya's external debt is denominated in the Euro while about 5 percent is in Chinese Yuan.

Chart 3. Currency Composition



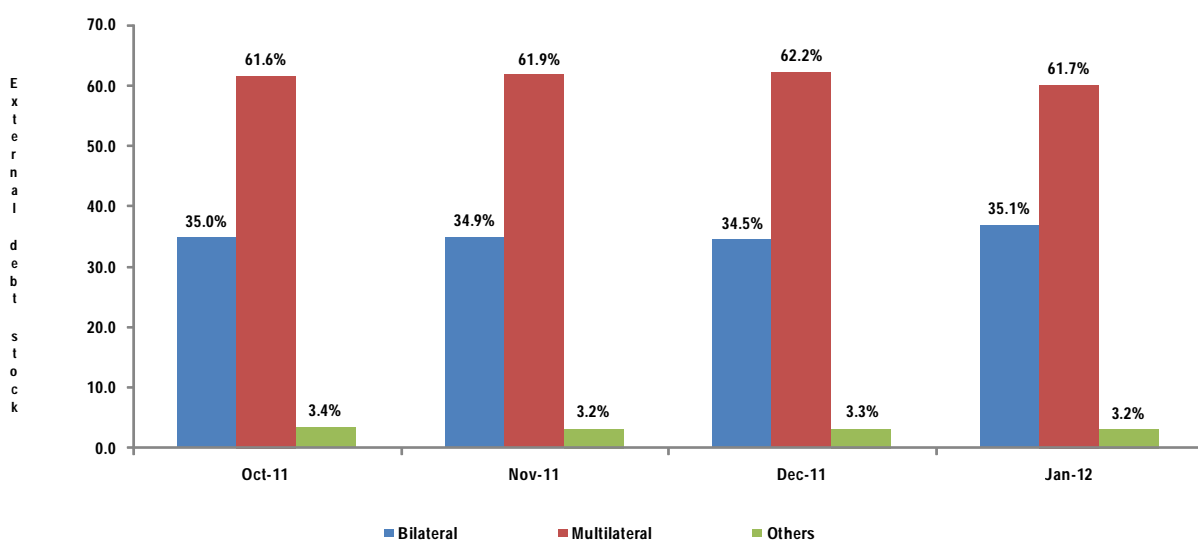
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 96.8 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 423.48 billion including Kshs 3.81 billion guaranteed debt owed to IDA) dominate the portfolio (61.7 percent of the total). Bilateral debt stands at Kshs 241.06 billion (35.1 percent of the total), which includes Kshs 42.43 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, China and Germany are the leading creditors in the bilateral category. Supplier credit debt remains relatively unchanged as these debts are not being serviced due to the current disputes with the creditors (see Annex 1).

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 2012 stood at Kshs 19.28 billion. Principal and interest projections for the month of January were Kshs 2.22 billion and Kshs 0.61 billion, respectively. Multilateral and bilateral creditors constitute 52.1 percent and 47.9 percent, of the cumulative projected debt service, respectively during the period under review as shown in Table 4.

Table 4: Cumulative Debt Service Projections as at end January 2012, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	7,780.82	2,258.91	10,039.74
Multilateral	7,434.78	1,801.88	9,236.66
Commercial	-	-	-
Total	15,215.60	4,060.79	19,276.40

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end January 2012 was Kshs 19.86 billion as reflected in Table 5. Actual principal and interest payments for the month of January 2012 was Kshs 3.82 billion and Kshs 1.24 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	7,294.40	2,516.11	9,810.51
Multilaterals	7,773.34	2,277.91	10,051.25
Commercials	-	-	-
Totals	15,067.74	4,794.02	19,861.76

Source: Ministry of Finance

2.5 Budget Deviation

The actual cumulative debt service for January 2012 was above the projected debt service by Kshs 0.59 billion.

2.6 Guaranteed External Debt

Under the National Government Loans Guarantee Act, 2011, the government may issue guarantees so long as it does not exceed the ceiling which currently stands at Kshs 200 billion. In January 2012 the amount of public guaranteed external debt increased by Kshs 607.3 million to Kshs 46.24 billion. The increase is due to the depreciation of the Kenya shilling against the major world currencies. 90 percent of the guaranteed debt is owed to Japan. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor.

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

Creditor	November 2011	December 2011	January 2012
Japan	42,409.97	41,177.84	41,810.30
Canada	403.76	374.31	372.20
U.S.A	266.92	253.08	251.65
IDA (KR Concessionaire)	4,037.44	3,828.06	3,806.44
Totals	47,118.09	45,633.29	46,240.58

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 3.65 billion to Kshs 687.59 billion.

Table 7: Government domestic debt, in Kshs billion

	November 11	December 11	January 12
Gross domestic debt	803.89	800.68	809.28
<i>less</i>			
Govt. deposits at CBK	-18.99	-13.71	-14.08
Govt. deposits at commercial banks	-91.79	-97.33	-101.90
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	687.41	683.94	687.60

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of January 2012, Government securities worth Kshs 56.40 billion were advertised. Bids worth Kshs 86.60 billion were received, out of which Kshs 53.47 billion and Kshs 33.13 billion were bids for the Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 54.61 billion against the month's redemptions of Kshs 46.29 billion leaving a surplus of Kshs 8.32 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	38,000	18,400	56,400
Bids received	53,468	33,134	86,602
Successful bids	38,322	16,332	54,605
Redemptions (cost)	36,381	9,905	46,286
Net domestic borrowing	1,941	6,427	8,319

Source: Ministry of Finance

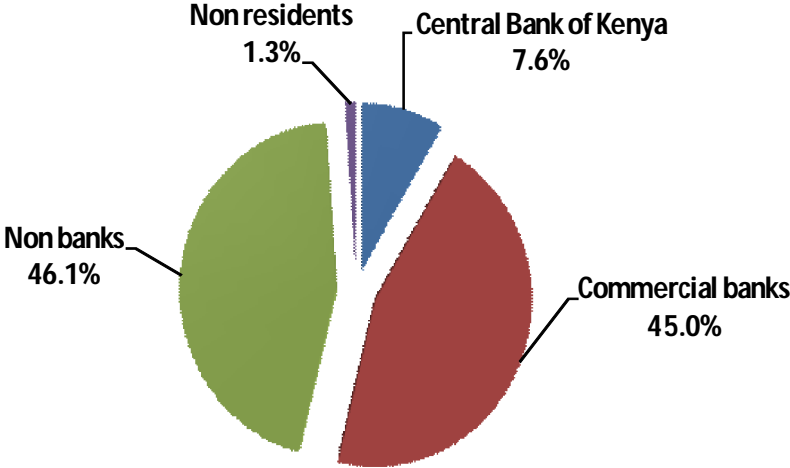
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	307.24	324.62	3.82	4.46	640.14
Treasury bills	53.94	48.50	1.88	6.29	110.60
Others	2.47	0.07	56.00	0.00	58.54
Total	363.65	373.18	61.70	10.75	809.28
Percentage holding	45.0	46.1	7.6	1.3	100

Source: Central Bank of Kenya

It should be noted that it is non-banks that now hold the largest proportion of the outstanding Government debt securities amounting to Kshs 373.18 billion or 46.1 percent as shown in Table 9 and Chart 5. The commercial banks which has been holding the largest portion of Government securities now hold 45.0 percent of the outstanding Government paper. 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 securities worth Kshs 10.75 billion or 1.3 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 61.70 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy.

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

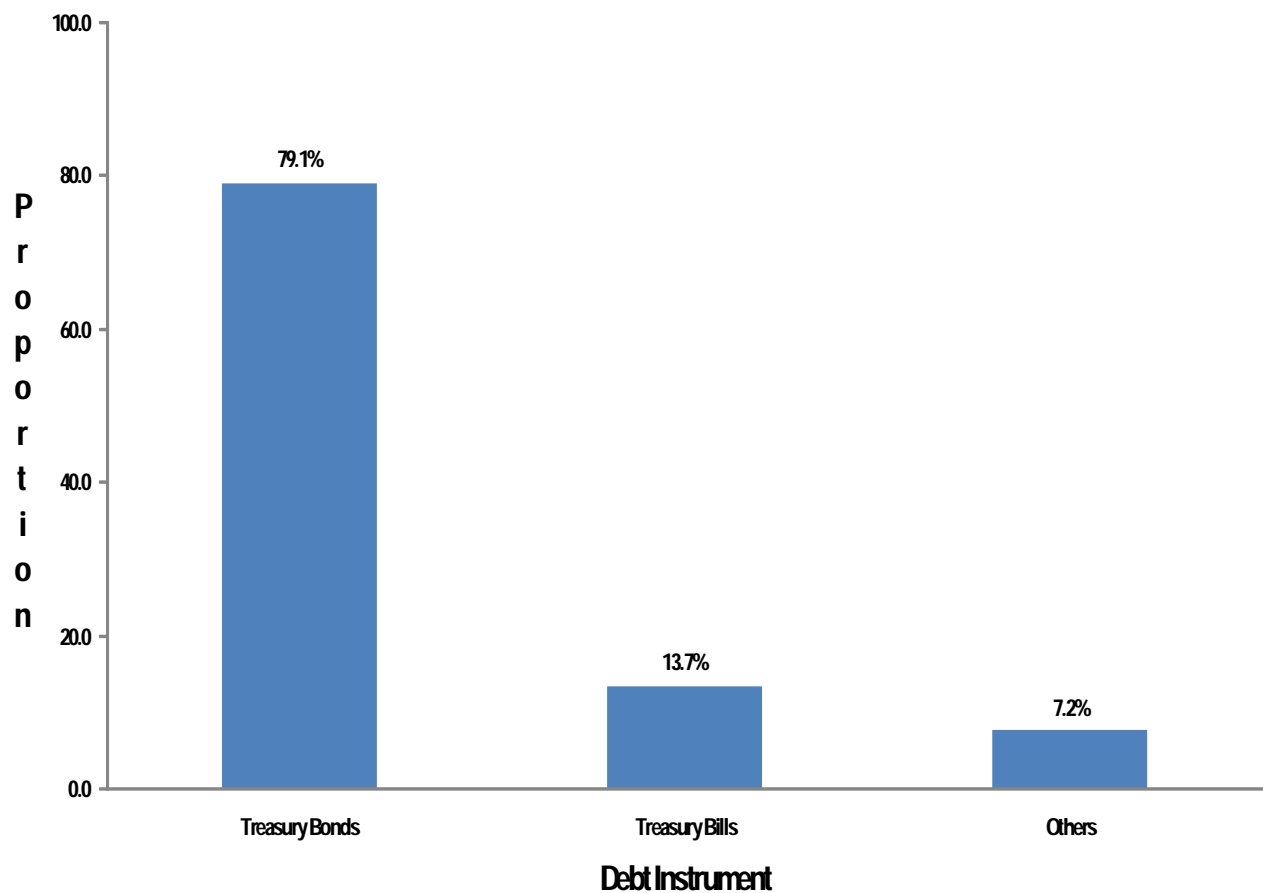


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end January 2012, 79.1 percent of Government domestic debt was in Treasury Bonds, 13.7 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

Table 10 shows that as at end January 2012, the net domestic financing stood at Kshs 67.57 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	January 2012	Change
Treasury Bills	123.53	102.80	(20.73)
Treasury Bonds	579.67	619.23	39.56
Long term Stock	0.00	0.00	0.00
Pre-1997 Govt. Overdraft debt	31.66	30.55	(1.11)
Other	8.11	26.53	18.42
<i>of which Overdraft (from CBK)</i>	7.57	25.37	17.80
Govt. deposits	89.95	58.52	(31.43)
Net Domestic Credit	653.03	720.59	67.57

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end January 2012, Government actual cumulative domestic interest payments stood at Kshs 41.63 billion against the cumulative projected interest payments of Kshs 39.58 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 33.15 billion and Kshs 7.13 billion respectively. The total variance of Kshs 2.05 billion is attributed to continued rising interest rates for Government securities over the period.

Table 11: Domestic interest payments, in Kshs million

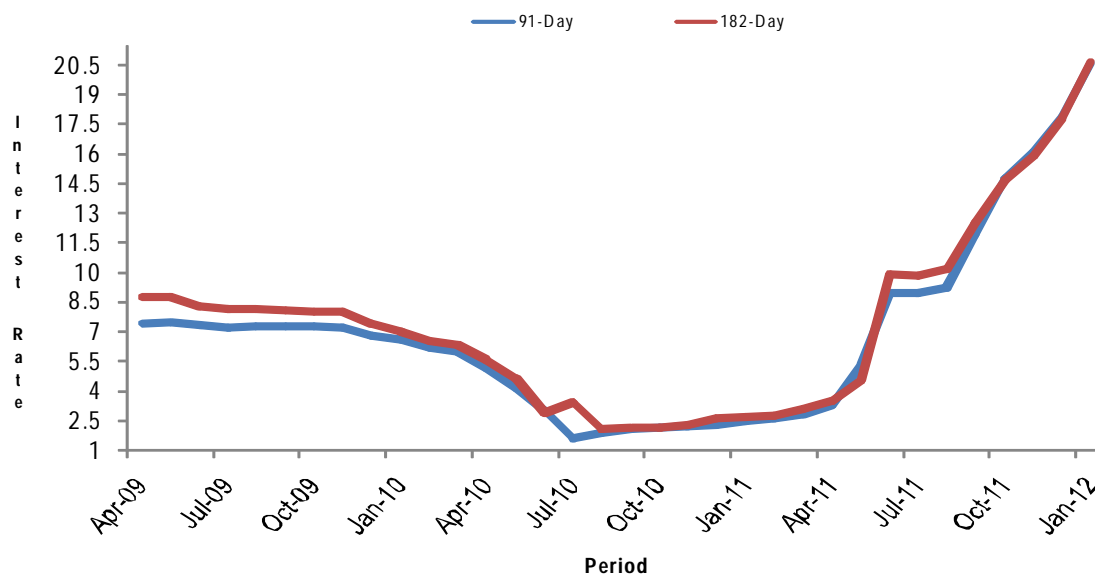
Type of debt	Projected	Actual	Variance
Treasury bonds	31,091.91	33,145.07	2,053.16
Treasury bills	7,214.81	7,131.38	(83.43)
Overdraft	727.81	1,355.51	627.70
Pre-1997 overdraft debt	543.09	0.00	(543.09)
Totals	39,577.61	41,631.93	2,054.32

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 January 2009. During the month of January 2012, the average interest rates for the 91-day Treasury bills rose by 266 basis points to 20.56 percent while the 182-day and 364-day Treasury bills increased by 288 and 100 basis points respectively to 20.69 and 21.96 percent per annum respectively.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

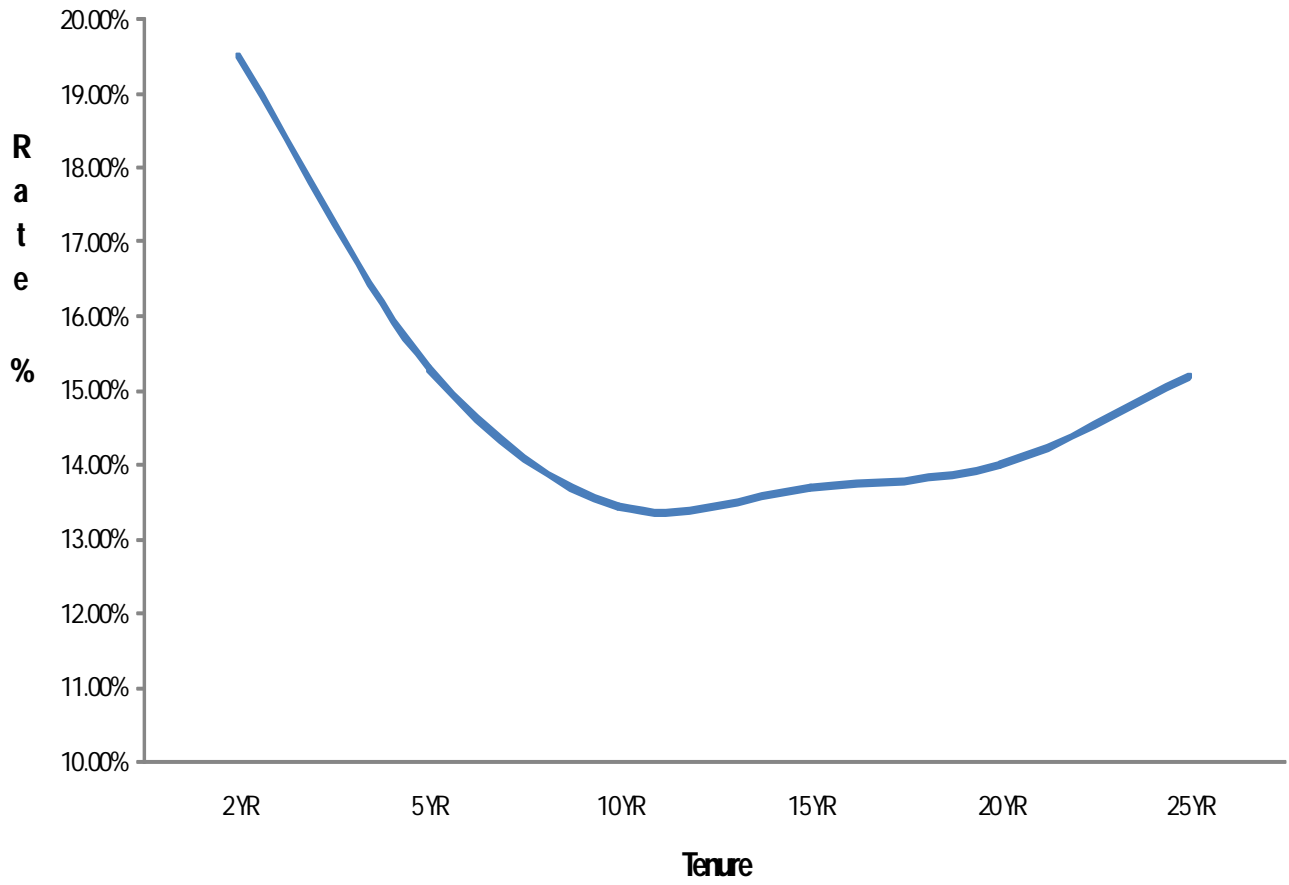
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected Treasury Bonds in the secondary market. The curve is inverted reflecting the current market trends with high yields at the short end of the market but trending upwards in the mid to long term. The yields are illustrated in Chart 8.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	19.50%
5 YR	15.29%
10 YR	13.44%
15 YR	13.69%
20 YR	14.00%
25 YR	15.17%

Source: Central Bank of Kenya

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 December 2011	Stock at end January 2012	Change
CENRAL GOVERMENT			
BILATERAL			
AUSTRIA	1,538.46	1,560.16	21.70
BELGIUM	7,750.68	7,859.90	109.22
CANADA	1,176.08	1,169.44	(6.64)
DENMARK	2,253.42	2,284.32	30.90
FINLAND	112.91	113.39	0.48
FRANCE	34,806.46	38,048.46	3,242.00
GERMANY	23,207.34	23,721.93	514.59
ITALY	2,952.16	2,992.66	40.50
JAPAN	66,973.67	67,023.58	49.91
NETHERLANDS	3,203.39	3,251.34	47.95
UK	2,109.37	2,056.43	(52.94)
USA	5,214.52	5,093.50	(121.02)
PARIS CLUB OTHERS	5,000.27	5,023.86	23.59
NON PARIS CLUB	38,723.56	38,429.68	(293.88)
o/w CHINA	31,363.15	31,016.74	(346.41)
Sub total	195,022.34	198,628.65	3,606.31
MULTILATERAL			
ADB/AFDB	64,695.82	64,404.59	(291.23)
EEC/EIB	10,227.12	11,551.41	1,324.29
IDA	283,721.63	286,002.60	2,280.97
IFAD	6,963.80	6,970.07	6.27
IMF	47,899.77	41,438.31	(6,461.46)
OTHERS	9,416.94	9,303.28	(113.66)
Sub total	422,925.11	419,670.26	(3,254.85)
SUPPLIERS CREDIT	22,027.17	22,178.98	151.81
Sub Total	639,974.62	640,477.89	503.27
GUARANTEED DEBT			
CANADA	374.31	372.20	(2.11)
JAPAN	41,177.84	41,810.30	585.87
USA	253.08	251.65	(1.43)
IDA(KR Concessionaire)	3,828.06	3,806.44	(21.62)
Sub Total	45,633.29	46,240.58	607.29
GOK+ GUARANTEED TOTAL	685,607.92	686,718.48	1,110.57

Source: Ministry of Finance

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