



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JULY 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end July 2011, public and publicly guaranteed debt stood at Kshs 1,526.19 billion or 55.3 percent of GDP (see Table 1). The increase of 2.6 percent over the end June 2011 position is attributed to both domestic and external debt which stands at Kshs 781.71 billion and 744.5 billion respectively as shown in Table 1.

Table 1: Size of public debt, in billion

| Debt Category | Kshs | USD |
|---------------|----------|-------|
| Domestic Debt | 781.71 | 8.58 |
| External Debt | 744.48 | 8.17 |
| Total | 1,526.19 | 16.75 |

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 51.2 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 8.1 years, respectively. In addition, the average maturity period for external loans was 26.6 years while the average grant element was 69.8 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 5 years 8 months in end June 2011 to 5 years 9 months in end July 2011.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period May to July 2011. The Kenya shilling depreciated against the US Dollar and the Sterling Pound by 1.4 percent and 2.8 percent respectively but appreciated slightly against the Japanese Yen and the Euro by 0.04 percent and 0.1 percent respectively. The Kenya shilling closed the month at 91.10 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.

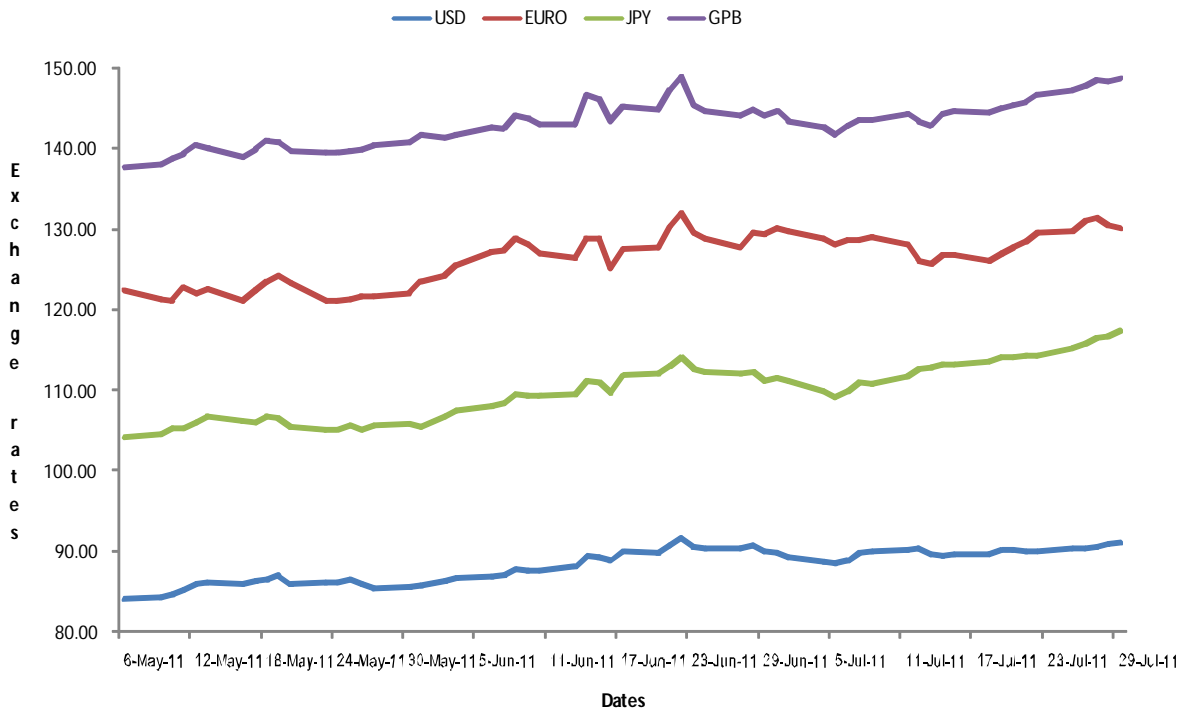
Table 2: Movement in exchange rates

| Currency | May 2011 | June 2011 | July 2011 |
|-----------|----------|-----------|-----------|
| US Dollar | 85.70 | 89.86 | 91.10 |
| STG Pound | 141.63 | 144.62 | 148.74 |
| Euro | 123.47 | 130.21 | 130.16 |
| JPY(100) | 105.52 | 111.55 | 111.42 |

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from May 2011 to July 2011. On average, the Kenya shilling depreciated against the US Dollar and the Sterling Pound, Euro and 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 21.59 billion from Kshs 722.89 billion in June 2011 to Kshs 744.48 billion in July 2011 as shown in Table 3.

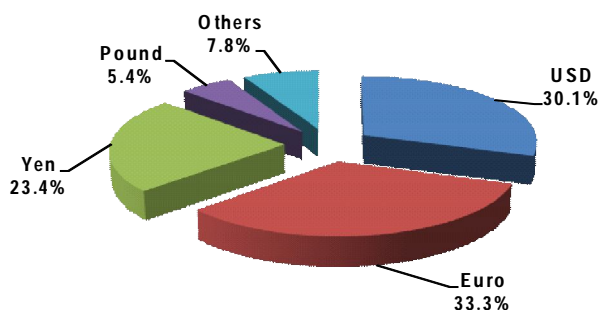
Table 3: Movement in external debt stock, in billion

| Creditor Category | Kshs | USD |
|-------------------|--------|------|
| Bilateral | 219.38 | 2.41 |
| Multilateral | 451.65 | 4.96 |
| Guaranteed | 48.30 | 0.53 |
| Others | 25.15 | 0.28 |
| Total | 744.48 | 8.17 |

Source: Ministry of Finance

The major increase was observed in multilateral external debt which rose by Kshs 10.43 billion on account of depreciation of the Kenya shilling against the US Dollar and the Sterling Pound. 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 23.4 percent of Kenya's external debt is denominated in Japanese Yen while about 7.8 percent is in other currencies.

Chart 3. Currency Composition



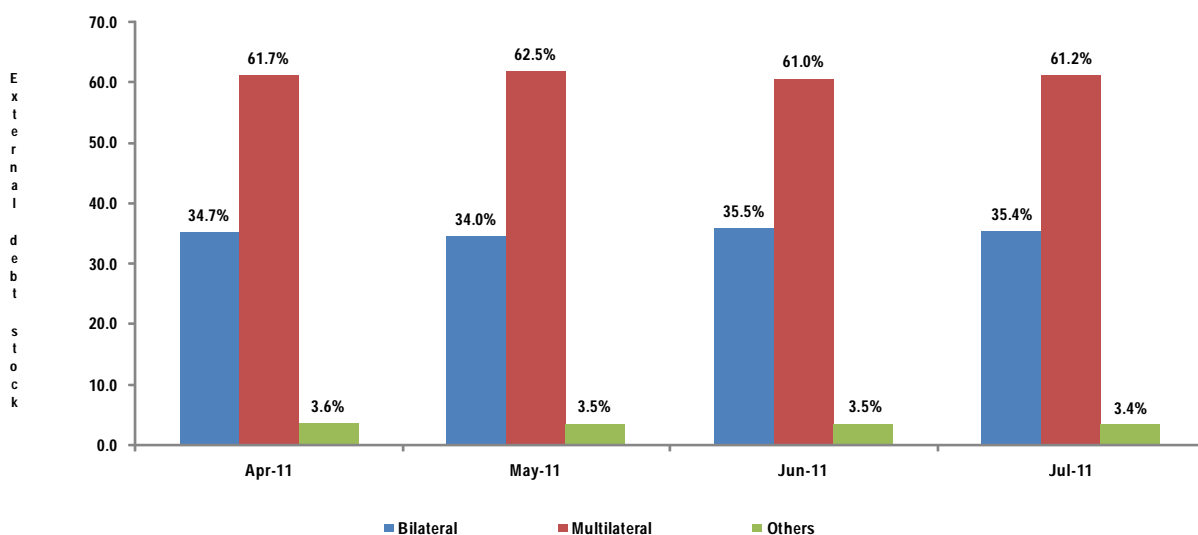
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 90 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 455.75 billion including guaranteed debt owed to IDA) dominate the portfolio (61.2 percent of the total). Bilateral debt stands at Kshs 263.58 billion (35.4 percent of the total), which includes Kshs 44.20 billions 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 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 July 2011 stood at Kshs 3.23 billion. Principal and interest projections for the month of July were Kshs 2.66 billion and Kshs 0.56 billion, respectively. Multilateral and bilateral creditors constitute 48.0 percent and 52.0 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 July 2011, in Kshs million

| Creditor category | Principal | Interest | Total |
|-------------------|-----------------|---------------|-----------------|
| Bilateral | 1,349.64 | 327.83 | 1,677.47 |
| Multilateral | 1,311.34 | 238.96 | 1,550.30 |
| Commercial | - | - | - |
| Total | 2,660.98 | 566.79 | 3,227.77 |

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end July 2011 was Kshs 2.57 billion as reflected in Table 5. Actual principal and interest payments for the month of July 2011 was Kshs 2.10 billion and Kshs 0.47 billion, respectively.

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

| Credit category | Principal | Interest | Total |
|------------------------|------------------|-----------------|-----------------|
| Bilateral | 807.66 | 228.45 | 1,306.11 |
| Multilaterals | 1,292.99 | 245.53 | 1,538.52 |
| Commercials | - | - | - |
| Totals | 2,100.65 | 473.98 | 2,574.63 |

Source: Ministry of Finance

2.5 Budget Deviation

The actual debt service for July 2011 was below the projected debt service by Kshs 0.65 billion. No debt arrears were accumulated during the month under review.

2.6 Guaranteed External Debt

The amount of public guaranteed external debt rose by Kshs 2.32 billion to Kshs 48.30 billion in July 2011. The increase is due to the depreciation of the Kenya shilling against other foreign currencies. Over 90 percent of the guaranteed debt is owed by Kenya Broadcasting Corporation. 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 200 billion. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor with Japan as the leading creditor.

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

| Creditor | May | June | July |
|-------------------------|------------------|------------------|------------------|
| Japan | 39,536.37 | 41,220.03 | 43,478.40 |
| Canada | 394.26 | 404.40 | 409.97 |
| U.S.A | 291.39 | 305.54 | 309.74 |
| IDA (KR Concessionaire) | 3,856.70 | 4,043.88 | 4,099.50 |
| Totals | 44,078.72 | 45,973.85 | 48,297.61 |

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

As indicated in Table 7, Government net domestic debt declined by Kshs 2.29 billion to Kshs 627.04 billion in line with the 2011 Medium Term Debt Strategy and Government borrowing plan for the financial year 2011/12.

Table 7: Government domestic debt, in Kshs billion

| | May | June | July |
|------------------------------------|--------|--------|--------|
| Gross domestic debt | 746.58 | 764.22 | 781.71 |
| <i>less</i> | | | |
| Govt. deposits at CBK | -49.09 | -46.79 | -65.99 |
| Govt. deposits at commercial banks | -84.36 | -86.98 | -82.98 |
| Govt. advances to parastatals | -5.70 | -5.70 | -5.70 |
| Net domestic debt | 607.42 | 624.75 | 627.04 |

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of July 2011, Government securities worth Kshs 31.50 billion were advertised. Bids worth Kshs 34.14 billion were received, out of which Kshs 18.81 billion and Kshs 15.32 billion were Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 21.28 billion against the months redemptions of Kshs 17.72 billion leaving a surplus of Kshs 3.56 billion as new money to Exchequer.

Table 8: Government domestic borrowing, in Kshs million

| | Treasury Bills | Treasury Bonds | Total |
|------------------------|----------------|----------------|--------|
| Advertised | 18,500 | 13,000 | 31,500 |
| Bids received | 18,814 | 15,323 | 34,137 |
| Successful bids | 14,485 | 6,793 | 21,278 |
| Redemptions (cost) | 15,080 | 2,641 | 17,721 |
| Net domestic borrowing | (595) | 4,152 | 3,557 |

Source: Ministry of Finance

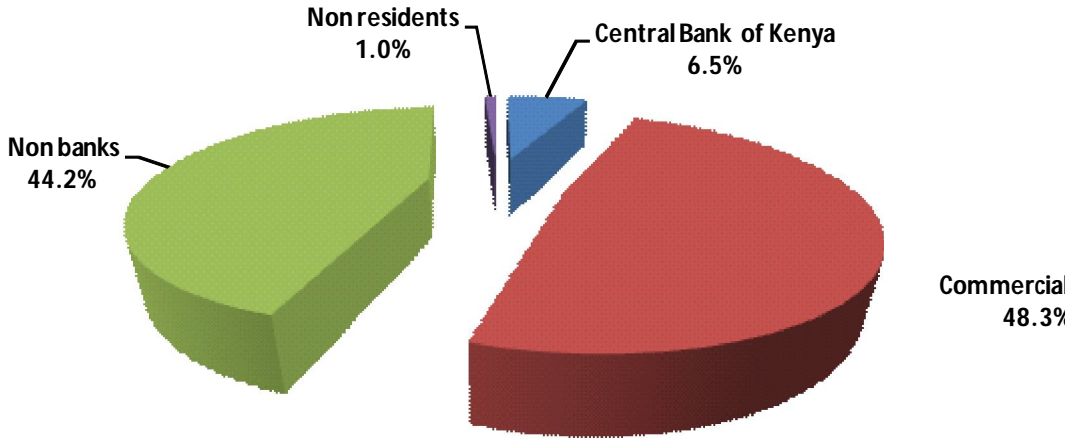
Table 9: Domestic debt instruments by holder, in Kshs billion

| Instrument/Holder | Commercial banks | Non banks | Central Bank of Kenya | Non residents | Total |
|-------------------|------------------|-----------|-----------------------|---------------|--------|
| Treasury bonds | 289.34 | 306.95 | 0.02 | 4.64 | 600.95 |
| Treasury bills | 85.88 | 38.28 | 0.03 | 2.73 | 126.92 |
| Others | 2.65 | 0.07 | 51.12 | 0.00 | 53.84 |
| Total | 377.87 | 345.30 | 51.17 | 7.37 | 781.71 |

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 377.87 billion or 48.3 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 7.37 billion or 1.0 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 51.17 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy. The non banks held 44.2 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 July 2011

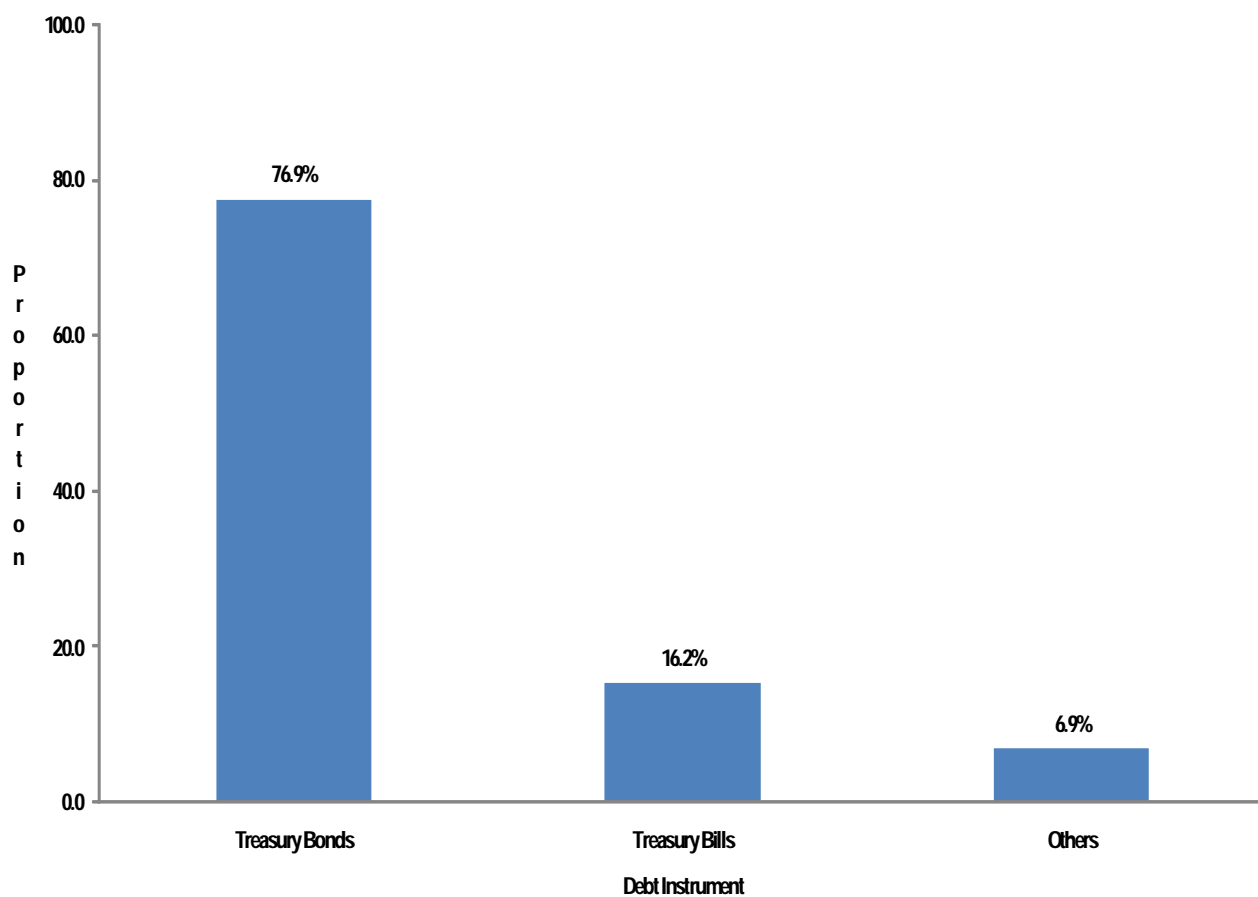


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end July 2011, 76.9 percent of Government domestic debt is in Treasury Bonds, 16.2 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

Table 10 shows that as at end July 2011, the net domestic financing is Kshs 7.75 billion.

Table 10: Net domestic financing, in Kshs billion

| | June-2011 | July-2011 | Change |
|--------------------------------------|-----------|-----------|--------|
| Treasury Bills | 123.52 | 123.47 | (0.05) |
| Treasury Bonds | 579.66 | 583.81 | 4.51 |
| Long term Stock | 0.00 | 0.00 | 0.00 |
| Pre-1997 Govt. Overdraft debt | 31.66 | 31.11 | (0.55) |
| Other | 8.06 | 20.11 | 12.05 |
| <i>of which Overdraft (from CBK)</i> | 7.57 | 19.93 | 12.36 |
| Govt. deposits | 91.23 | 106.86 | 15.63 |
| Net Domestic Credit | 651.66 | 651.64 | (0.02) |

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

During the July 2011, the Government projected to pay Kshs4.45 billion as interest on domestic debt. As at July 2011, Government actual cumulative domestic interest payments stood at Kshs 1.56 billion against the cumulative projected interest payments of Kshs 4.45 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 1.13 billion and Kshs 0.39 billion, respectively. The total variance of Kshs 2.89 billion constitutes a lower than projected interest rates on Government securities.

Table 11: Domestic interest payments, in Kshs million

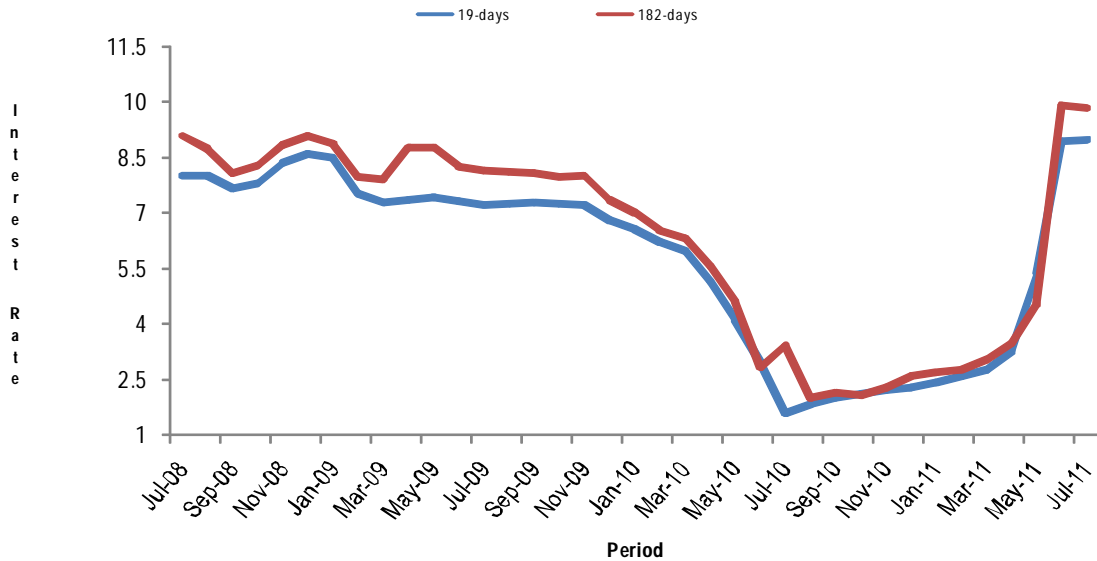
| Type of debt | Projected | Actual | Variance |
|-------------------------|-----------|----------|------------|
| Treasury bonds | 2,883.81 | 1,129.97 | (1,753.84) |
| Treasury bills | 1,389.83 | 391.32 | (998.51) |
| Overdraft | 103.97 | 44.40 | (59.57) |
| Pre-1997 overdraft debt | 77.78 | 0.00 | (77.78) |
| Government stocks | 0.00 | 0.00 | 0.00 |
| Totals | 4,455.41 | 1,565.69 | (2,889.70) |

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 June 2008. Average interest rates have been increasing since the beginning of the financial year 2010/11. During the month of July 2011, the average interest rates for the 91-day Treasury bills rose 4.00 basis points to 8.99 percent while the 182-day and 364-day Treasury bills decreased by 8.00 and 3.00 basis points respectively to stand at 9.85 and 10.22 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 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 | 12.9% |
| 5 YR | 13.2% |
| 10 YR | 13.4% |
| 15 YR | 14.1% |
| 20 YR | 14.2% |
| 25 YR | 15.2% |

Source: Central Bank of Kenya

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

| CREDITOR | Stock at end June 2011 | Stock at end July 2011 | Change |
|------------------------------|-----------------------------------|-----------------------------------|------------------|
| CENRAL GOVERMENT | | | |
| BILATERAL | | | |
| AUSTRIA | 2,017.70 | 2,016.99 | (0.71) |
| BELGIUM | 9,037.18 | 9,321.93 | 284.75 |
| CANADA | 1,271.67 | 1,289.16 | 17.49 |
| DENMARK | 2,774.66 | 2,777.91 | 3.25 |
| FINLAND | 132.30 | 133.13 | 0.83 |
| FRANCE | 40,347.13 | 40,650.99 | 303.86 |
| GERMANY | 26,670.05 | 26,904.37 | 234.32 |
| ITALY | 4,388.35 | 4,387.83 | (0.52) |
| JAPAN | 70,622.69 | 73,555.48 | 2,932.79 |
| NETHERLANDS | 3,011.87 | 2,655.16 | (356.71) |
| UK | 2,328.00 | 2,394.40 | 66.40 |
| USA | 5,595.08 | 5,672.04 | 76.96 |
| PARIS CLUB OTHERS | 6,066.90 | 6,097.91 | 31.01 |
| NON PARIS CLUB | 40,771.53 | 41,524.92 | 753.39 |
| Sub total | 215,035.11 | 219,382.20 | 4,347.09 |
| MULTILATERAL | | | |
| ADB/AFDB | 52,645.14 | 52,989.53 | 344.39 |
| EEC/EIB | 12,496.71 | 16,891.70 | 4,394.99 |
| IDA | 308,005.56 | 312,829.95 | 4,923.39 |
| IFAD | 7,219.05 | 7,300.52 | 81.47 |
| IMF | 47,581.72 | 47,100.00 | (481.72) |
| OTHERS | 8,890.30 | 14,543.21 | 5,652.91 |
| Sub total | 436,838.48 | 451,654.92 | 14,915.43 |
| SUPPLIERS CREDIT | 25,040.88 | 25,151.87 | 110.99 |
| Sub Total | 676,914.46 | 696,188.99 | 15,026.42 |
| GUARANTEED DEBT | | | |
| CANADA | 404.40 | 409.97 | 5.57 |
| JAPAN | 41,220.03 | 43,478.40 | 2,258.37 |
| USA | 305.54 | 309.74 | 4.20 |
| IDA(KR Concessionaire) | 4,043.88 | 4,099.50 | 55.62 |
| Sub Total | 45,973.85 | 48,297.61 | 2,323.76 |
| GOK+ GUARANTEED TOTAL | 722,888.31 | 744,486.60 | 17,350.18 |

Source: Ministry of Finance

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