



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JULY 2012

1.0 PUBLIC DEBT

1.1 Introduction

As at end July 2012, public and publicly guaranteed debt stood at Kshs 1,640.03 billion or 49.6 percent of GDP (see Table 1). The increase of 1.06 percent over the end June 2012 position is attributed to increase in domestic debt. External debt rose by Ksh 3.42 billion to stand at Ksh 767.39 billion, while domestic debt decreased by Ksh 13.81 billion to stand at Ksh 872.64 billion in July 2012. (See Table 1).

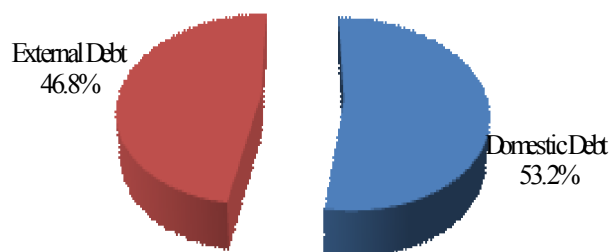
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	872.64	10.36
External Debt	767.39	9.11
Total	1,640.03	19.47

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 53.2 percent of the total debt is domestic debt while the rest 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 0.8 percent and 6.2 years, respectively. In addition, the average maturity period for external loans was 26.3 years while the average grant element was 65.8 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 stood at 5 years 2 months at end July 2012 compared to 5 years 4 months at end June 2012.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period May 2012 to July 2012. The Kenya shilling appreciated against the Euro and the US Dollar by 2.4 percent and 0.02 percent respectively and it depreciated against the Sterling Pound and the Japanese Yen by 0.7 percent and 1.45 percent respectively. The Kenya shilling stood at Kshs 84.21 to the US Dollar at end July 2012. The depreciation of the Kenya Shilling againsts the foreign currencies leads to increase of the external debt stock and the cost of debt service.

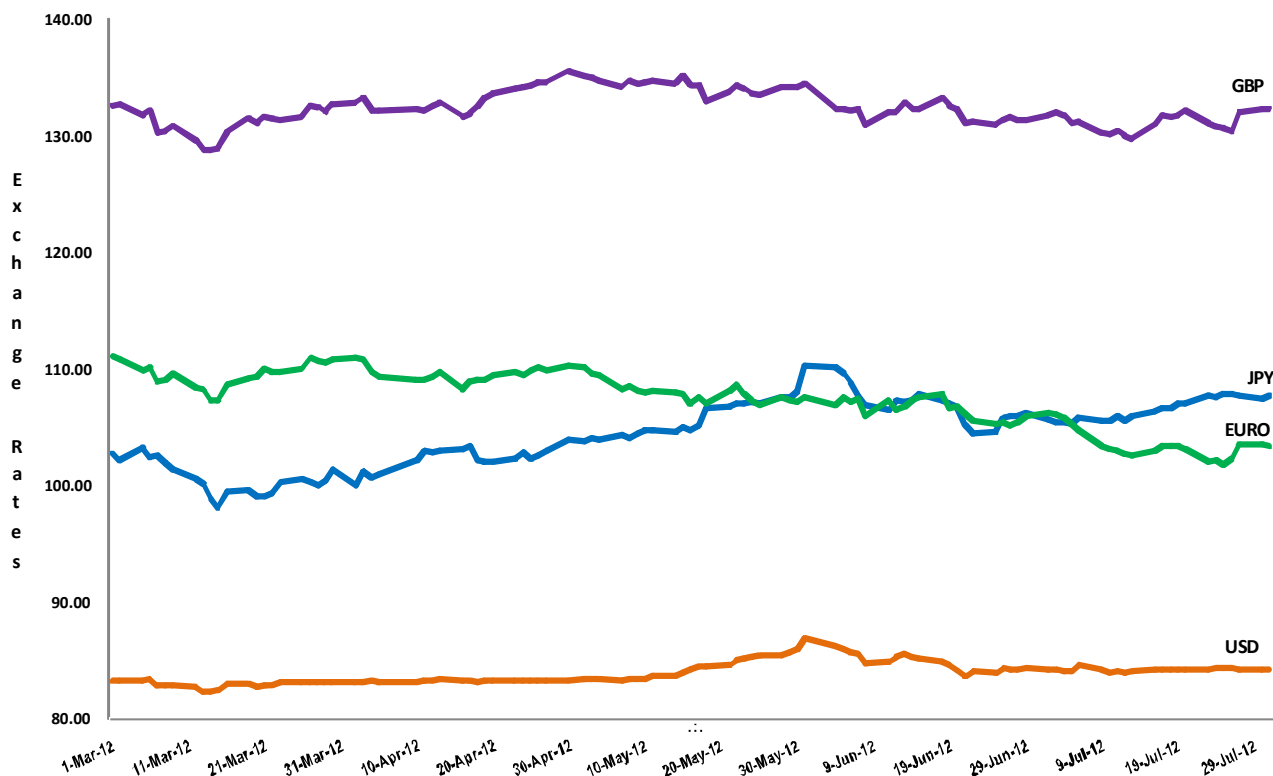
Table 2: Movement in exchange rates

Currency	May 2012	June 2012	July 2012
US Dollar	86.83	84.23	84.21
STG Pound	134.51	131.42	132.37
Euro	107.61	105.96	103.41
JPY(100)	110.22	106.15	107.69

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from March 2012 to July 2012. In the second half of the fiscal year 2011/12, the US Dollar, Sterling Pound and the Euro have remained relatively stable.

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 3.42 billion to Kshs 767.39 billion in July 2012 from Kshs 763.97 billion in June 2012 as shown in Table 3.

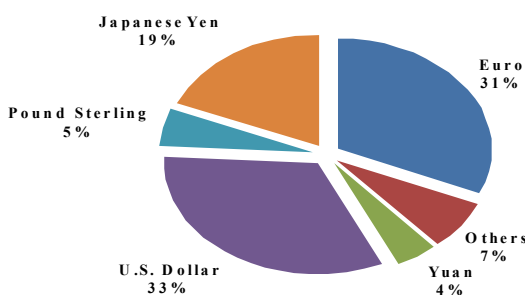
Table 3: External debt stock, in billions

	June 2012		July 2012	
	Kshs	USD	Kshs	USD
Bilateral	199.95	2.37	199.55	2.37
Multilateral	451.29	5.36	455.09	5.40
Guaranteed	47.38	0.56	47.60	0.57
Others	14.81	0.18	14.61	0.17
Commercial Banks	50.54	0.60	50.54	0.60
Total	763.97	9.07	767.39	9.11

Source: Ministry of Finance

The external debt stock for bilateral creditor category right relatively constant, with Multilateral debt stock increasing by Ksh 3.80 billion. These decreases can be attributed to the strengthening of the Kenya Shilling against the Euro. Chart 3 below illustrates that 31 percent of Kenya's external debt is denominated in the Euro while about 7 percent is in other currencies including Kuwait Dinar and Swiss Franc among others.

Chart 3. Currency Composition



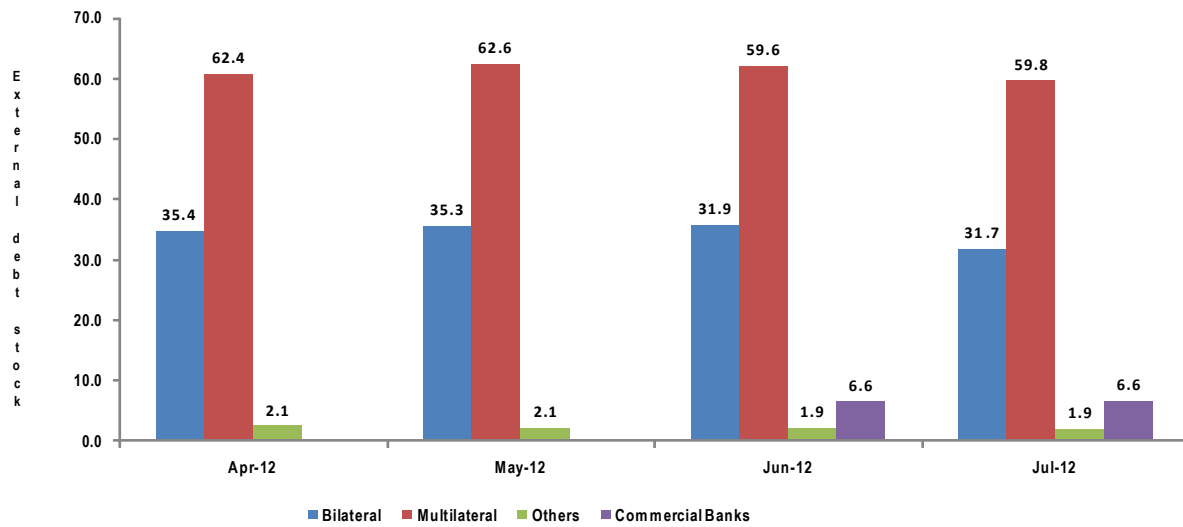
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 91.5 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 458.88 billion including Ksh 3.79 billion guaranteed debt owed to IDA) dominate the portfolio (59.8 percent of the total). Bilateral debt stands at Kshs 243.37 billion (31.7 percent of the total), which includes Kshs 43.81 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 Syndicated Loan constitutes 6.5 percent of the total public and publicly guaranteed external debt.

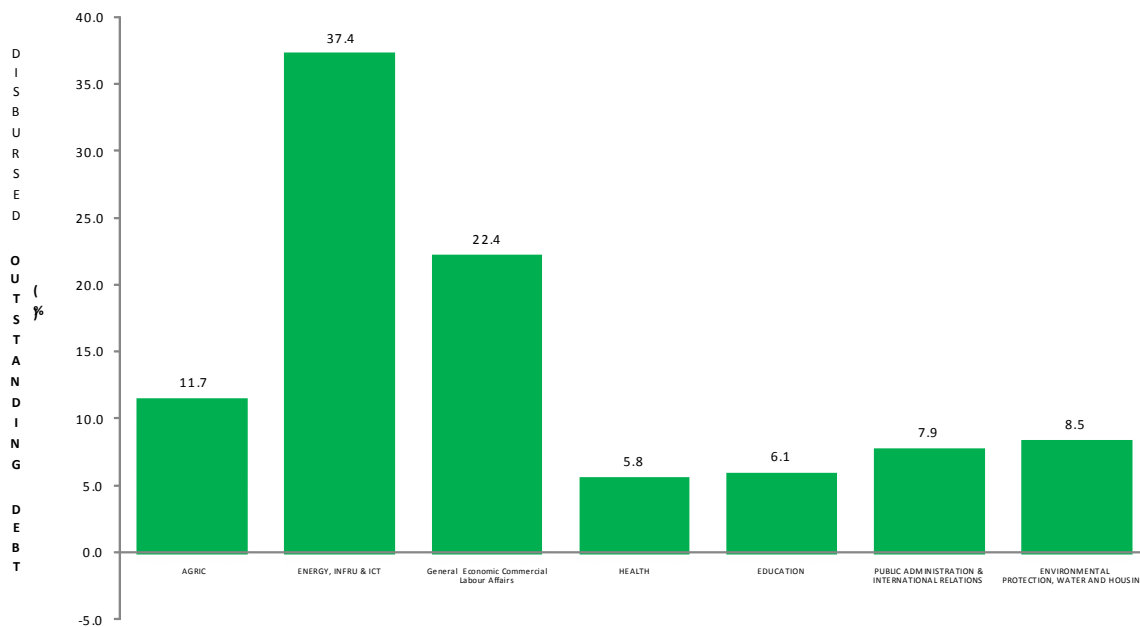
Chart 4: External Debt by Creditor



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 37 percent of the total while agriculture received 12 percent.



2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end July, 2012 stood at Kshs 3.30 billion. Principal and interest projections for the month of July 2012 were Kshs 2.61 billion and Kshs 0.70 billion, respectively. Multilateral and bilateral creditors constitute 44.9 percent and 47.9 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Creditor category	Principal	Interest	Total
Bilateral	1,356.23	225.13	1,581.36
Multilateral	1,248.86	235.68	1,484.54
Commercial	-	237.34	237.34
Total	2,605.09	698.15	3,303.24

Source: Ministry of Finance

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end July 2012 was Kshs 2.64 billion as reflected in Table 5. Actual principal and interest payments for the month of July 2012 was Kshs 2.46 billion and Kshs 0.64 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	845.00	270.00	1,115.00
Multilaterals	1,155.80	205.54	1,361.34
Commercials	-	166.15	166.15
Totals	2,467.30	641.68	2,642.49

Source: Ministry of Finance

2.6 Budget Deviation

The actual cumulative debt service for July 2012 was below the projected debt service by Kshs 0.66 billion. Which is explained by favourable exchange rates in the market.

2.7 Guaranteed External Debt

Under the National Government Loans Guarantee Act, 2011, 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 increased by Kshs 219.76 million to Kshs 47.60 billion in July 2012 from Ksh 47.38 billion in June 2012. The increase is due to the depreciation of the Kenya shilling against the Japanese Yen which constitute over 90 percent of the outstanding guaranteed debt. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor.

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

Creditor	May 2012	June 2012	July 2012
Japan	44,438.57	43,015.86	43,236.23
Canada	382.04	362.22	362.17
U.S.A	221.40	214.79	214.76
IDA (KR Concessionaire)	3,907.13	3,790.50	3,789.97
Totals	48,949.15	47,383.37	47,603.13

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 7.95 billion to Kshs 709.18 billion in July 2012 from Ksh 701.23 billion in June 2012. This is because of increased Government deposits in Central Bank.

Table 7: Government domestic debt, in Kshs billion

	May 2012	June 2012	July 2012
Gross domestic debt	888.86	858.83	872.64
<i>less</i>			
Govt. deposits at CBK	-36.12	-43.02	-48.88
Govt. deposits at commercial banks	-114.95	-108.88	-108.88
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	732.09	701.23	709.18

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of July 2012, Government securities worth Kshs 39.00 billion were advertised. Bids worth Kshs 37.13 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 21.10 billion and Kshs 16.02 billion respectively. Successful bids amounted to Kshs 27.44 billion against the months redemptions of Kshs 32.01 billion leaving exchequer with a deficit of Kshs 4.57 billion to be financed by the revenues.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	29,000	10,000	39,000
Bids received	21,103	16,023	37,126
Successful bids	14,939	12,505	27,444
Redemptions (cost)	(23,852)	(8,162)	(32,014)
Net domestic borrowing	(8,913)	(4,343)	(4,570)

Source: Ministry of Finance

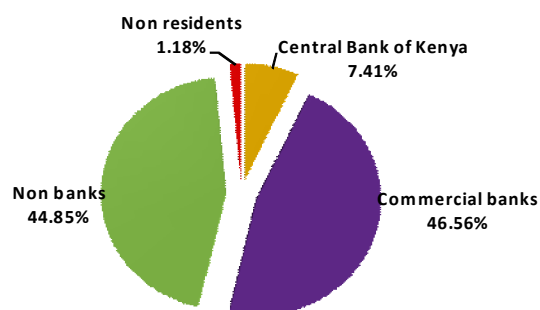
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	337.25	348.88	2.42	4.45	693.00
Treasury bills	66.82	42.41	6.77	5.88	121.86
Others	12.26	0.07	55.45	0.00	57.78
Total	406.33	391.35	64.63	10.33	872.64
Percentage Holding	46.56	44.85	7.41	1.18	100.00

Source: Central Bank of Kenya

At the end of July 2012 commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 406.33 billion or 46.6 percent as shown in Table 9 and Chart 5. The non banks held 44.9 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 securities worth Kshs 10.33 billion or 1.18 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 64.63 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 July 2012

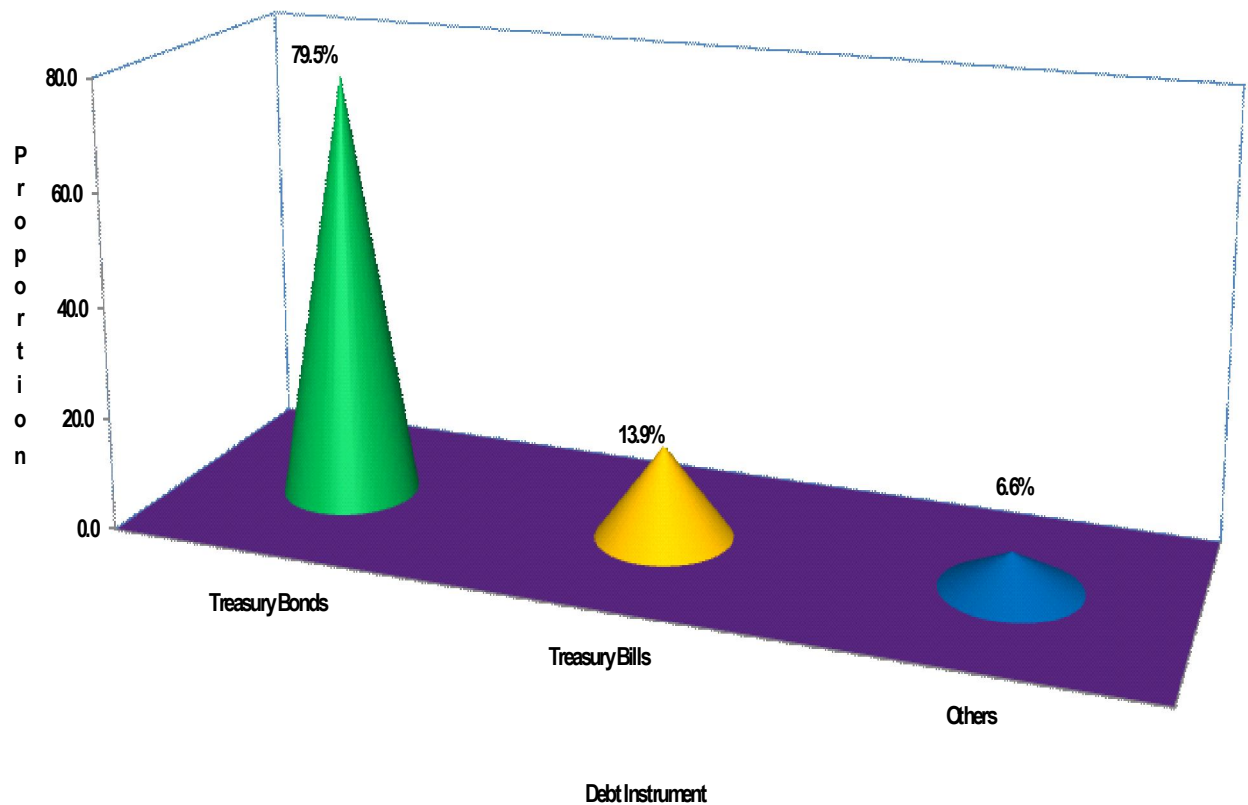


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end July 2012. 79.5 percent of Government domestic debt was in Treasury Bonds, 13.9 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 July 2012, the net domestic financing stood at Kshs 16.89 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	July-2012	Change
Treasury Bills	120.82	111.25	(9.57)
Treasury Bonds	661.30	666.36	5.06
Pre-1997 Govt. Overdraft debt	30.00	30.00	0.00
Other	7.81	25.71	17.90
<i>of which Overdraft (from CBK)</i>	7.26	25.37	18.11
Govt. deposits	93.69	90.19	(3.50)
Net Domestic Credit	726.24	743.13	16.89

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end July 2012, Government actual cumulative domestic interest payments stood at Kshs 6.62 billion against the cumulative projected interest payments of Kshs 6.79 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 4.36 billion and Kshs 2.01 billion respectively. The cumulative variance of Ksh 0.18 billion is attributed to differences in the interest projected and the actual interest rates paid.

Table 11: Domestic interest payments, in Kshs million

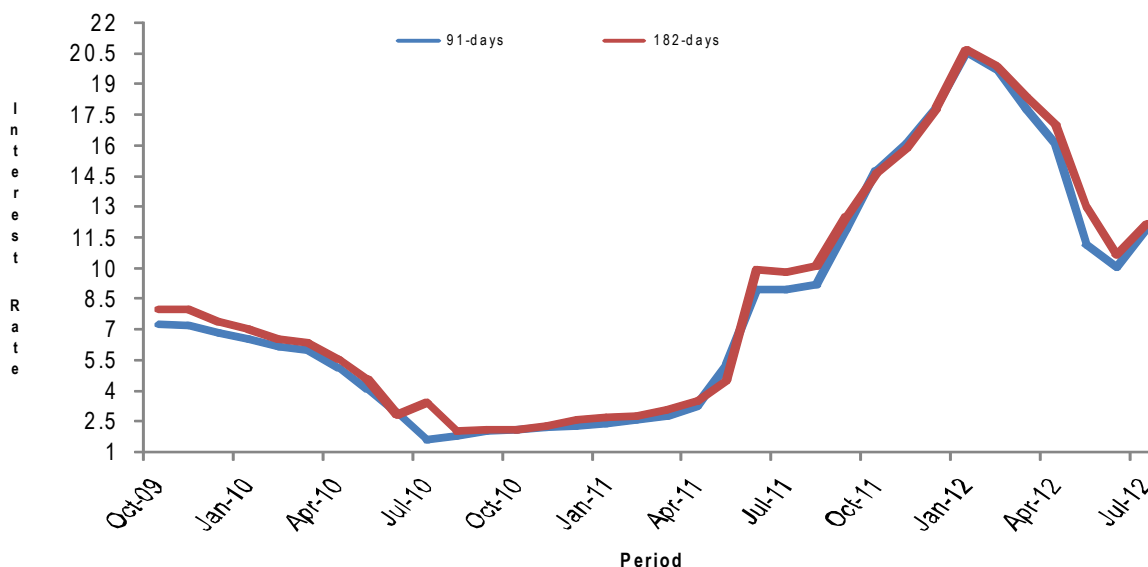
Type of debt	Projected	Actual	Variance
Treasury bonds	5,928.9	4,365.0	(1,563.9)
Treasury bills	469.4	2,015.2	1,545.8
Overdraft	318.2	237.5	(80.7)
Pre-1997 overdraft debt	76.2	0.0	(76.2)
Totals	6,792.7	6,617.7	175.0

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 October 2009. During the month of July 2012, the average interest rates for the 91-day Treasury bills rose by 186 basis points to 11.95 percent and the 182-day Treasury bills rose by 154 to 12.21 percent per annum. 364-day Treasury bills stood at 13.00 percent per annum in July 2012.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

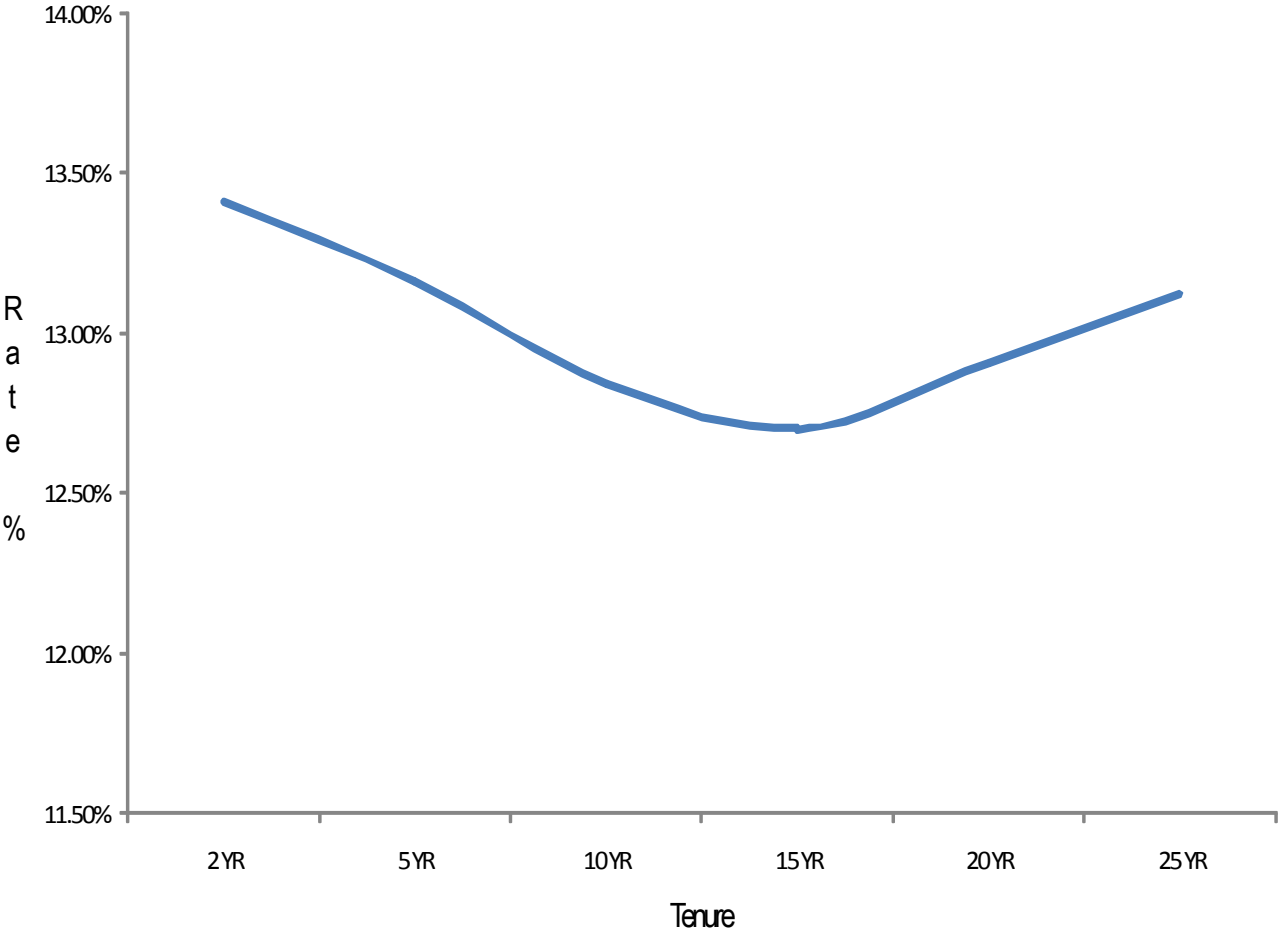
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	13.41%
5 YR	13.16%
10 YR	12.84%
15 YR	12.70%
20 YR	12.91%
25 YR	13.12%

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 June 2012	Stock at end July 2012	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,317.77	1,285.57	(32.20)
BELGIUM	7,365.07	7,171.00	(194.07)
CANADA	1,118.65	1,118.49	(0.16)
DENMARK	2,076.63	2,020.70	(55.93)
FINLAND	104.81	103.53	(1.28)
FRANCE	36,708.95	35,811.33	(897.62)
GERMANY	24,878.81	24,270.88	(607.93)
ITALY	2,927.51	2,857.37	(70.14)
JAPAN	64,386.91	62,299.03	(2,087.88)
NETHERLANDS	2,925.79	2,854.30	(71.49)
UK	1,936.87	1,950.92	14.05
USA	4,921.99	4,906.06	(15.93)
PARIS CLUB OTHERS	4,956.87	4,909.71	(47.16)
NON PARIS CLUB	44,323.10	47,995.52	3,672.42
o/w CHINA	36,661.87	40,546.03	3,884.16
Sub total	199,949.71	199,554.40	(395.31)
MULTILATERAL			
ADB/AFDB	70,863.36	67,258.24	(3,605.12)
EEC/EIB	10,933.89	10,294.69	(639.20)
IDA	286,503.45	284,771.77	(1,731.68)
IFAD	7,294.79	7,206.53	(88.26)
IMF	66,593.02	76,144.62	9,551.60
OTHERS	9,098.87	9,415.67	316.80
Sub total	451,287.38	455,091.51	3,804.13
COMMERCIAL BANKS	50,539.98	50,532.90	(7.08)
SUPPLIERS CREDIT	14,811.51	14,608.08	(203.43)
Sub Total	716,588.58	719,786.89	3,198.31
GUARANTEED DEBT			
CANADA	362.22	362.17	(0.05)
JAPAN	43,015.86	43,236.23	220.37
USA	214.79	214.76	(0.03)
IDA(KR Concessionaire)	3,790.50	3,789.97	(0.53)
Sub Total	47,383.37	47,603.13	219.76
GOK+ GUARANTEED TOTAL	763,971.96	767,390.02	3,418.06

Source: Ministry of Finance

Memorandum item

Nominal GDP (in Kshs Billion) **3,306.31**

Source fourth quarter 2011-12 QEBR

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