



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JUNE 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end June 2011, public and publicly guaranteed debt stood at Kshs 1,487.11 billion or 53.84 percent of GDP (see Table 1). The increase of 4.5 percent over the end May 2011 position is mostly attributed to external debt which stands at Kshs 722.89 billion. Domestic debt stock stood at USD 8.51 billion as shown in Table 1.

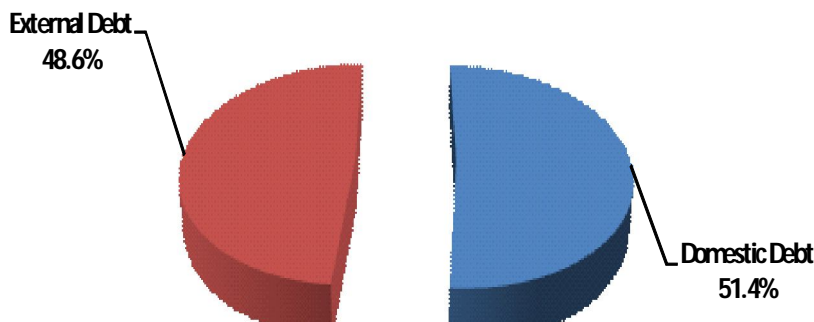
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	764.22	8.51
External Debt	722.89	8.04
Total	1,487.11	16.55

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 51.4 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 4.58 years in end June 2010 to 5.83 years in end June 2011.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period April to June 2011. The Kenya shilling depreciated against the world major currencies. It depreciated against the US Dollar, the Euro, the Sterling Pound and the Japanese Yen by 4.8 percent, 5.4 percent, 2.1 percent and 5.7 percent respectively. The Kenya shilling closed the month at 89.86 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.

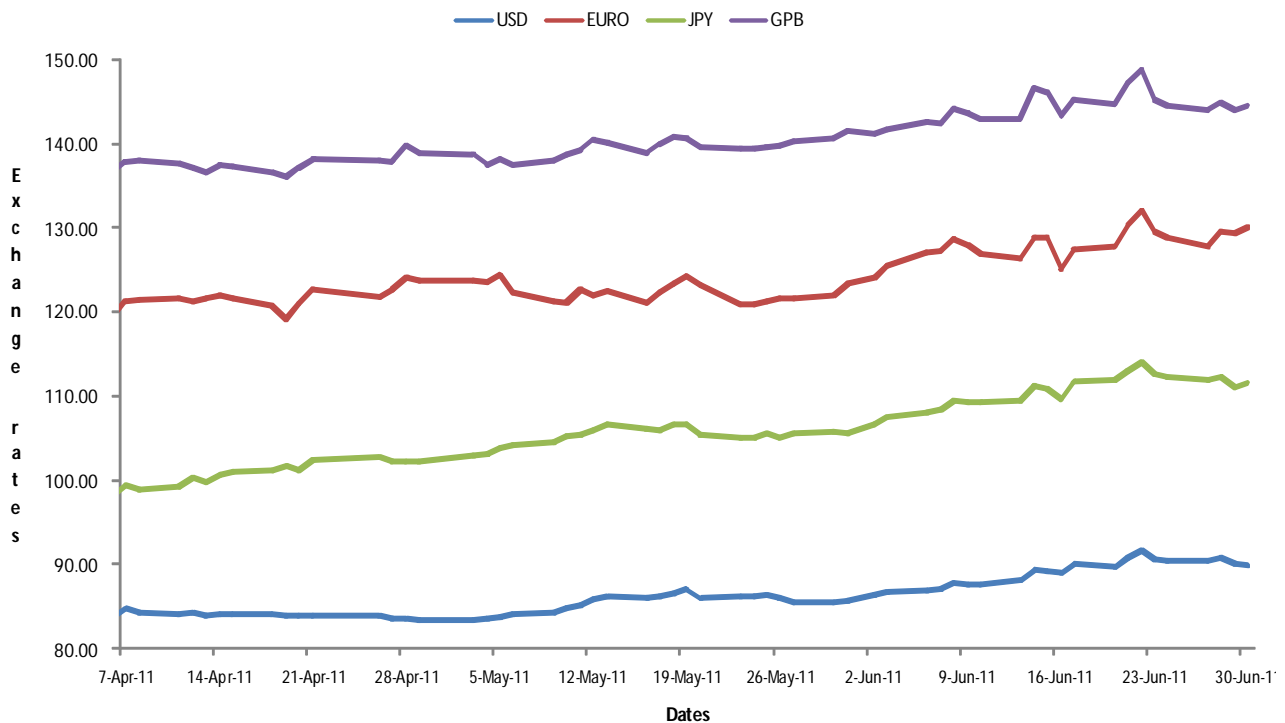
Table 2: Movement in exchange rates

Currency	April 2011	May 2011	June 2011
US Dollar	83.42	85.70	89.86
STG Pound	138.91	141.63	144.62
Euro	123.74	123.47	130.21
JPY(100)	102.18	105.52	111.55

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from April 2011 to June 2011. On average, the Kenya shilling has depreciated against the US Dollar 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 47.01 billion from Kshs 675.88 billion in May 2011 to Kshs 722.89 billion in June 2011 as shown in Table 3.

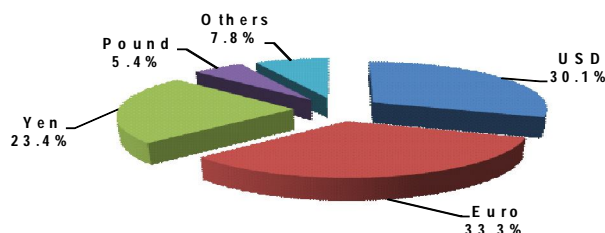
Table 3: Movement in external debt stock, in billion

Creditor Category	Kshs	USD
Bilateral	215.04	2.39
Multilateral	436.84	4.86
Guaranteed	45.97	0.51
Others	25.04	0.28
Total	722.89	8.04

Source: Ministry of Finance

Significant increase was observed in bilateral external debt which increased by Kshs 25.27 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 33.3 percent of Kenya's external debt is denominated in Euro while about 5.4 percent is Sterling Pound.

Chart 3. Currency composition



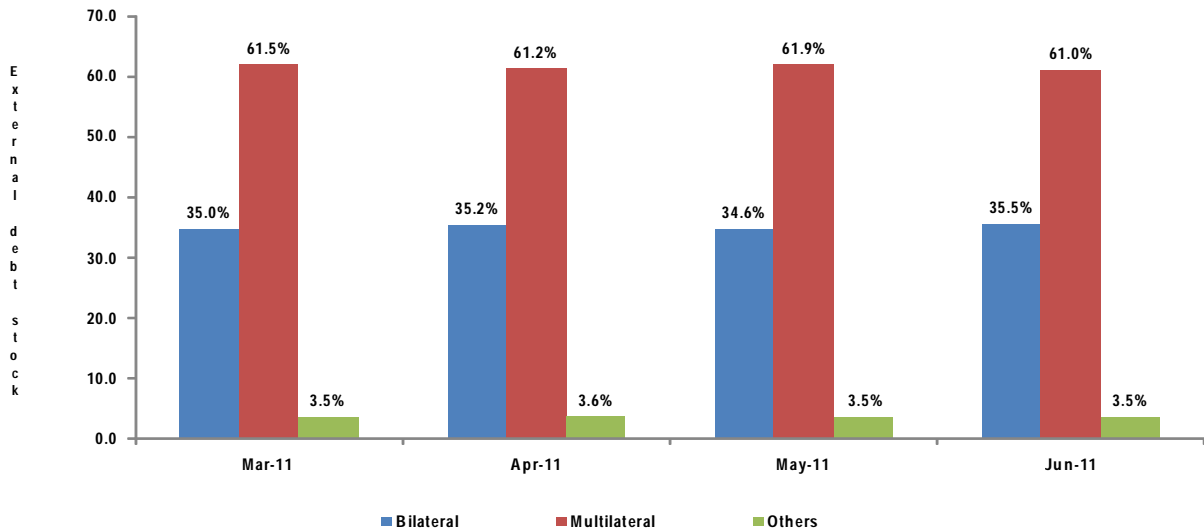
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 96.4 percent of the total external debt, out of which debts owed to multilateral creditors (Kshs 440.88 billion including guaranteed debt owed to IDA) dominate the portfolio (61.0 percent of the total). Bilateral debt stands at Kshs 256.97 billion or (35.5 percent of the total) as shown in Chart 4, which includes Kshs 41.93 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 June 2011 stood at Kshs 27.45 billion. Principal and interest projections for the month of June were Kshs 2.15 billion and Kshs 0.72 billion, respectively. Multilateral and bilateral creditors constitute 48.6 percent and 51.4percent, 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 June 2011, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	10,436.29	3,665.04	14,101.33
Multilateral	10,024.25	3,324.27	13,348.52
Commercial	-	-	-
Total	20,460.54	6,989.31	27,449.85

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end June 2011 was Kshs 28.05 billion as reflected in Table 5. Actual principal and interest payments for the month of June 2011 was Kshs 3.05 billion and Kshs 0.94 billion, respectively.

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

Credit category	Principal	Interest	Total
Bilateral	10,061.80	3,188.61	13,250.41
Multilaterals	10,958.52	3,846.55	14,805.07
Commercials	-	-	-
Totals	21,020.32	7,006.01	28,055.48

Source: Ministry of Finance

2.5 Budget Deviation

The projected debt service for June 2011 was above the actual debt service by Kshs 0.61 billion. This variance is attributed to the exchange rate fluctuations. N

2.6 Guaranteed External Debt

The amount of public guaranteed external debt rose marginally by Kshs 1.90 billion to Kshs 45.97 billion in June 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, 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 200 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	April	May	June
Japan	38,283.33	39,536.37	41,220.03
Canada	383.74	394.26	404.40
U.S.A	283.63	291.39	305.54
IDA (KR Concessionaire)	3,753.87	3,856.70	4,043.88
Totals	42,704.57	44,078.72	45,973.85

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 17.33 billion to Kshs 624.75 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

	April	May	June
Gross domestic debt	735.46	746.58	764.22
<i>less</i>			
Govt. deposits at CBK	-50.93	-49.09	-46.79
Govt. deposits at commercial banks	-96.31	-84.36	-86.98
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	582.51	607.42	624.75

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of April 2011, Government securities worth Kshs 37.50 billion were advertised. Bids worth Kshs 103.16 billion were received, out of which Kshs 84.17 billion and Kshs 18.99 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 51.01 billion against the months redemptions of Kshs 20.62 billion leaving a surplus of Kshs 30.39 billion to be financed through revenues.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	19,500	18,000	37,500
Bids received	84,174	18,990	103,164
Successful bids	42,108	8,991	51,009
Redemptions (cost)	20,622	-	20,622
Net domestic borrowing	21,396	8,991	30,387

Source: Ministry of Finance

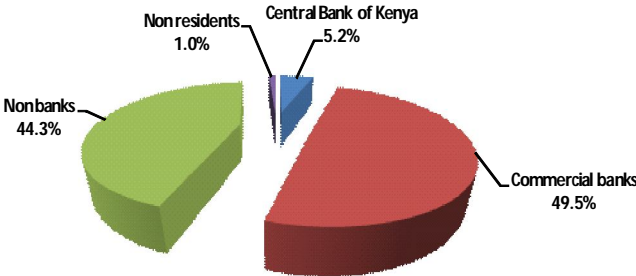
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	288.39	302.59	0.02	4.64	595.64
Treasury bills	87.74	35.64	0.02	3.22	126.62
Others	2.24	0.07	39.65	0.00	41.96
Total	378.37	338.30	39.69	7.86	764.22

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 378.30 billion or 49.5 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 7.86 billion or 1.0 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 39.69 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy. The non banks held 44.3 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 June 2011

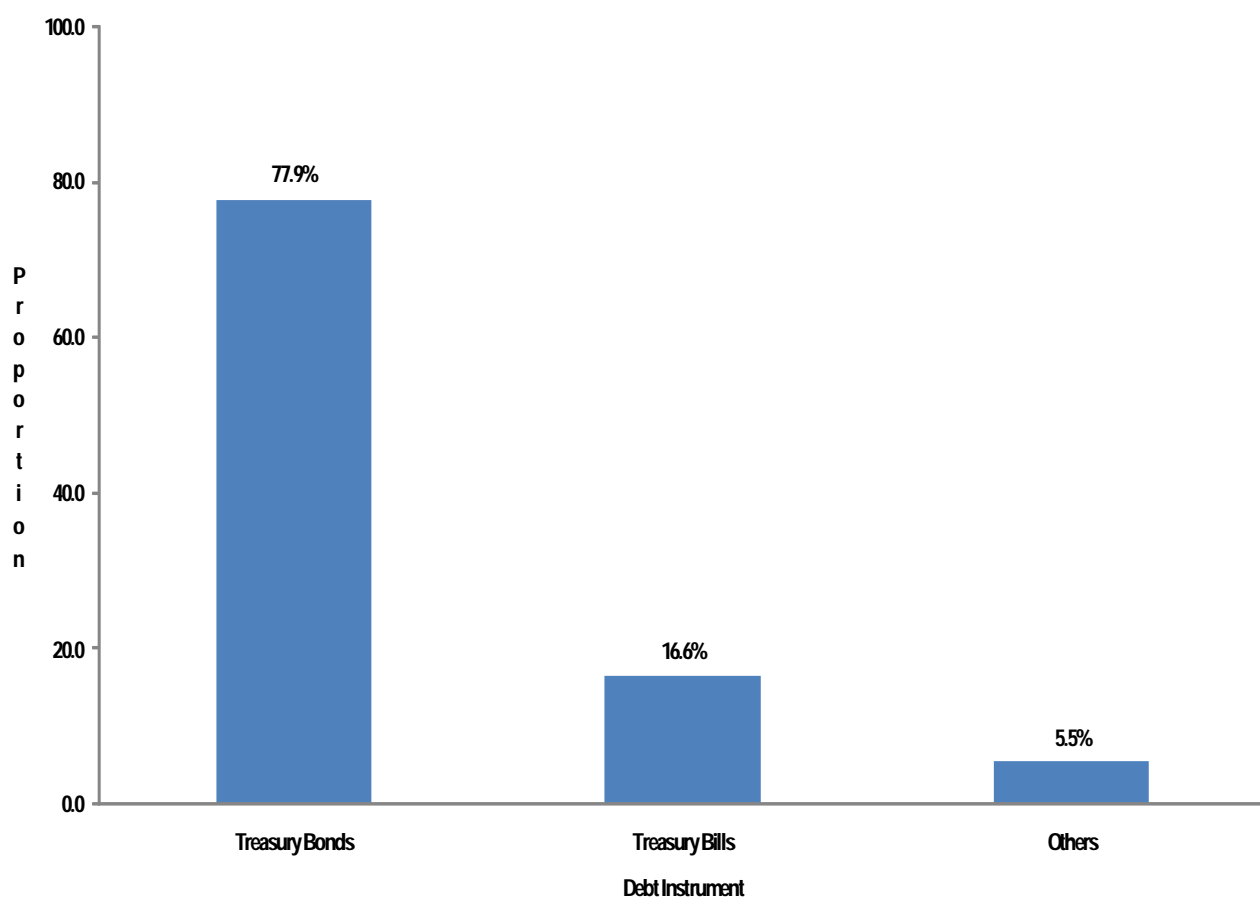


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end June 2011, 77.9 percent of Government domestic debt is in Treasury Bonds, 16.6 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 June 2011, the net domestic financing is Kshs 90.38 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2010	June-2011	Change
Treasury Bills	152.97	123.53	(29.44)
Treasury Bonds	441.76	579.67	137.91
Long term Stock	0.75	0.00	(0.75)
Pre-1997 Govt. Overdraft debt	32.22	31.66	(0.56)
Other	18.28	8.03	(10.25)
<i>of which Overdraft (from CBK)</i>	17.65	7.57	(10.08)
Govt. deposits	84.71	91.23	(6.52)
Net Domestic Credit	561.28	651.66	90.38

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

During the financial year 2010/11, the Government projected to pay Kshs 66.03 billion as interest on domestic debt. As at June 2011, Government actual cumulative domestic interest payments stood at Kshs 70.04 billion against the cumulative projected interest payments of Kshs 66.03 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 59.32 billion and Kshs 8.72 billion, respectively. The variance of Kshs 3.18 billion constitutes deficit arising from higher than projected interest rates on Government securities.

Table 11: Domestic interest payments, in Kshs million

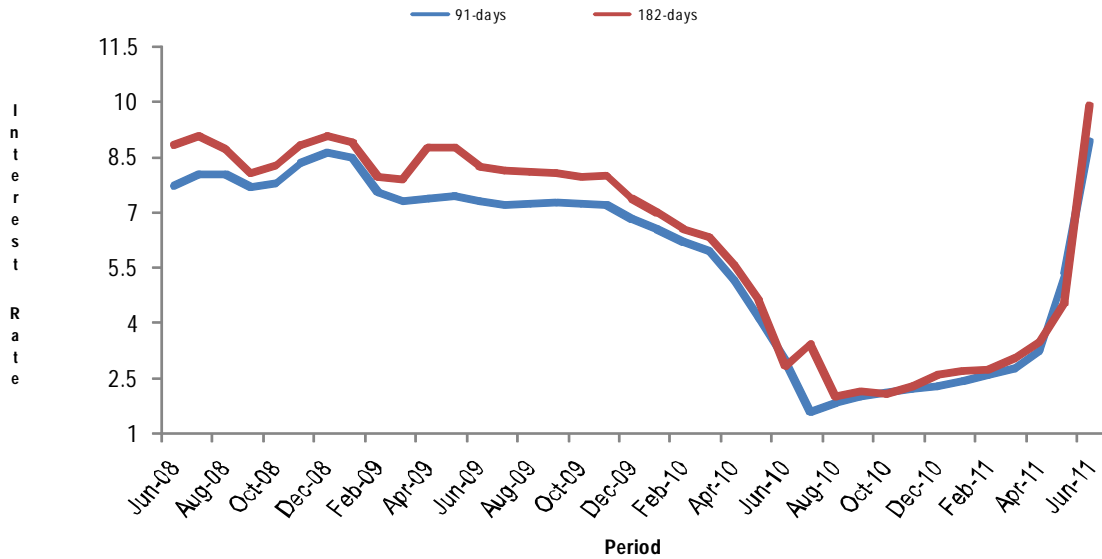
Type of debt	Projected	Actual	Variance
Treasury bonds	52,503.34	59,319.84	6,816.50
Treasury bills	12,036.52	8,719.63	(3,316.89)
Overdraft	453.53	890.02	436.49
Pre-1997 overdraft debt	985.37	958.00	(27.37)
Government stocks	75.34	155.51	80.17
Totals	66,054.10	70,043.00	(3,988.90)

Source: Central Bank of Kenya

3.6 Average Interest rates for Treasury Bills

Chart 6 shows the monthly trends on average interest rates for both the 91-day and 182-day Treasury Bills since April 2008. Average interest rates have been increasing since the beginning of the financial year 2010/11. During the month of June 2011, the average interest rates for the 91-day, 182-day and 364-day Treasury bills rose by 360,536 and 348 basis points respectively to stand at 8.95, 9.93 and 10.25 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 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	10.9%
5 YR	10.8%
10 YR	8.5%
15 YR	8.4%
20 YR	14.0%
25 YR	14.4%

Source: Central Bank of Kenya

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

CREDITOR	Stock at end May 2011	Stock at end June 2011	Change
CENRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,953.92	2,017.70	63.79
BELGIUM	8,201.50	9,037.18	835.69
CANADA	1,252.76	1,271.67	18.90
DENMARK	2,663.56	2,774.66	111.10
FINLAND	130.96	132.30	1.34
FRANCE	37,350.54	40,347.13	2,996.59
GERMANY	19,111.78	26,670.05	7,558.28
ITALY	4,441.34	4,388.35	(52.98)
JAPAN	67,696.10	70,622.69	2,926.59
NETHERLANDS	2,131.86	3,011.87	880.01
UK	2,366.32	2,328.00	(38.32)
USA	5,410.45	5,595.08	184.63
PARIS CLUB OTHERS	5,187.78	6,066.90	879.11
NON PARIS CLUB	31,862.42	40,771.53	8,909.10
Sub to tal	189,761.29	215,035.11	25,273.82
MULTILATERAL			
ADB/AFDB	50,633.68	52,645.14	2,011.45
EEC/EIB	16,058.55	12,496.71	(3,561.84)
IDA	291,032.42	308,005.56	16,973.14
IFAD	6,774.48	7,219.05	444.57
IMF	45,286.60	47,581.72	2,295.12
OTHERS	8,460.26	8,890.30	430.60
Sub to tal	418,246.00	436,838.47	18,592.49
SUPPLIERS CREDIT	23,791.11	25,040.88	1,249.77
Sub Total	631,798.40	676,914.46	45,116.08
GUARANTEED DEBT			
CANADA	394.26	404.40	10.15
JAPAN	39,536.37	41,220.03	1,683.66
USA	291.39	305.54	14.14
IDA (KR Concessionaire)	3,856.70	4,043.88	187.18
Sub Total	44,078.72	45,973.85	1,895.13
GOK+ GUARANTEED TOTAL	675,877.12	722,888.31	47,011.21

Source: Ministry of Finance

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