



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JUNE 2012

1.0 PUBLIC DEBT

1.1 Introduction

As at end June 2012, public and publicly guaranteed debt stood at Kshs 1,622.80 billion or 49.1 percent of GDP (see Table 1). The increase of 0.8 percent over the end May 2012 position is attributed to disbursements from the International Syndicated Bank Loan. External debt rose by Ksh 43.48 billion to stand at Ksh 763.97 billion, while domestic debt declined by Ksh 30.03 billion to stand at Ksh 858.83 billion in June 2012. (See Table 1).

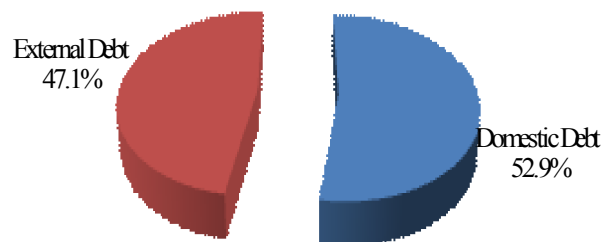
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	858.83	10.20
External Debt	763.97	9.07
Total	1,622.80	19.27

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 52.9 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 June 2012.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period April 2012 to June 2012. The Kenya shilling appreciated against all the major currencies, Sterling Pound, Euro, US Dollar and Japanese Yen by 2.3 percent, 1.5 percent, 3.0 percent and 3.70 percent respectively. The Kenya shilling stood at Kshs 84.23 to the US Dollar at end June 2012. These movements have implications on both the size of the external debt and the cost of debt service.

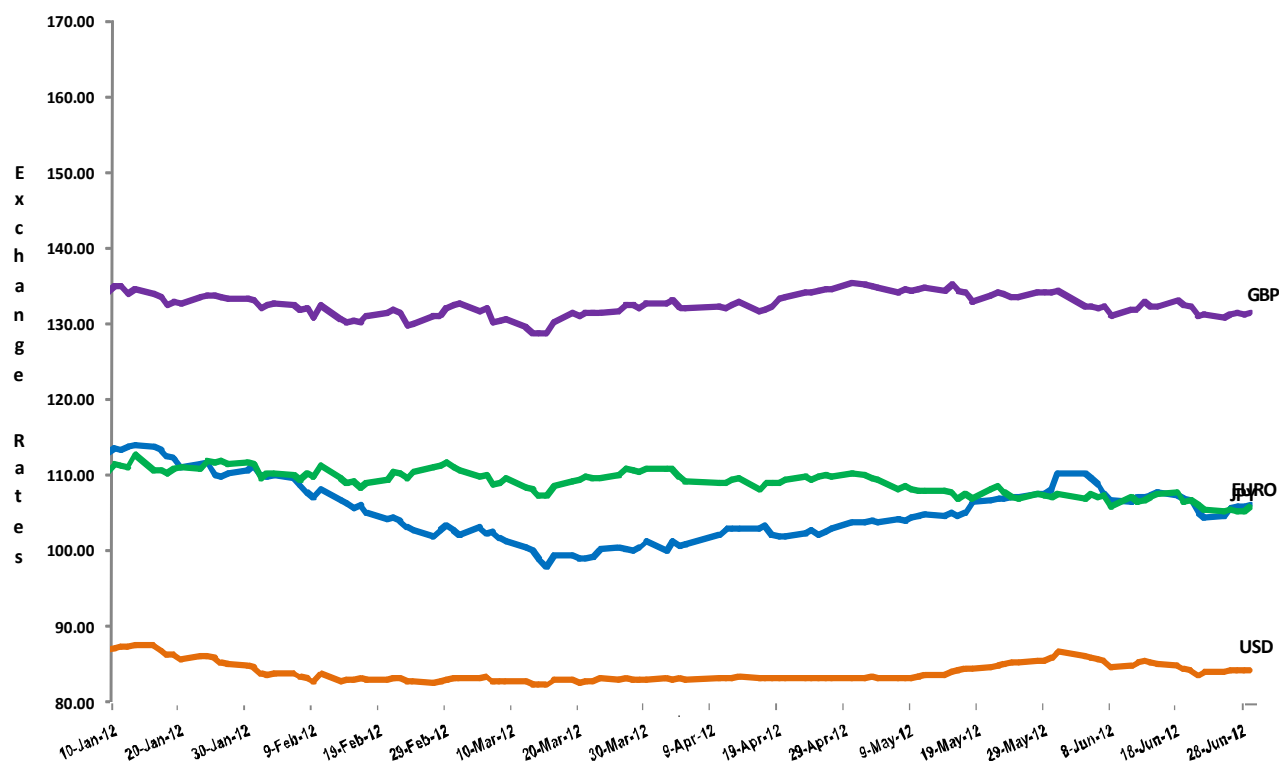
Table 2: Movement in exchange rates

Currency	April 2012	May 2012	June 2012
US Dollar	83.22	86.83	84.23
STG Pound	135.51	134.51	131.42
Euro	110.30	107.61	105.96
JPY(100)	103.84	110.22	106.15

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from January 2012 to June 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 42.93 billion to Kshs 763.97 billion in June 2012 from Kshs 721.04 billion in May 2012 as shown in Table 3.

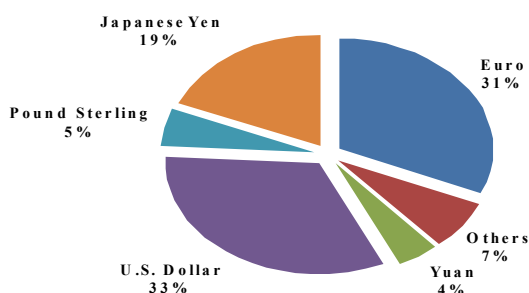
Table 3: External debt stock, in billions

	May 2012		June 2012	
	K shs	USD	K shs	USD
Bilateral	209.64	2.41	199.95	2.37
Multilateral	447.31	5.15	451.29	5.36
Guaranteed	48.95	0.56	47.38	0.56
Others	15.14	0.17	14.81	0.18
Commercial Banks			50.54	0.60
Total	721.04	8.30	763.97	9.07

Source: Ministry of Finance

There was a major increase in the Commercial Bank creditor category due to disbursement worth Ksh 50.54 billion, from the International Syndicated Bank Loan during the month and the increase in the multilateral category was due to disbursements from IDA. The Syndicated Loan was contracted as a substitute for domestic borrowing and external concessional borrowing remains the focus of Government policy. 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

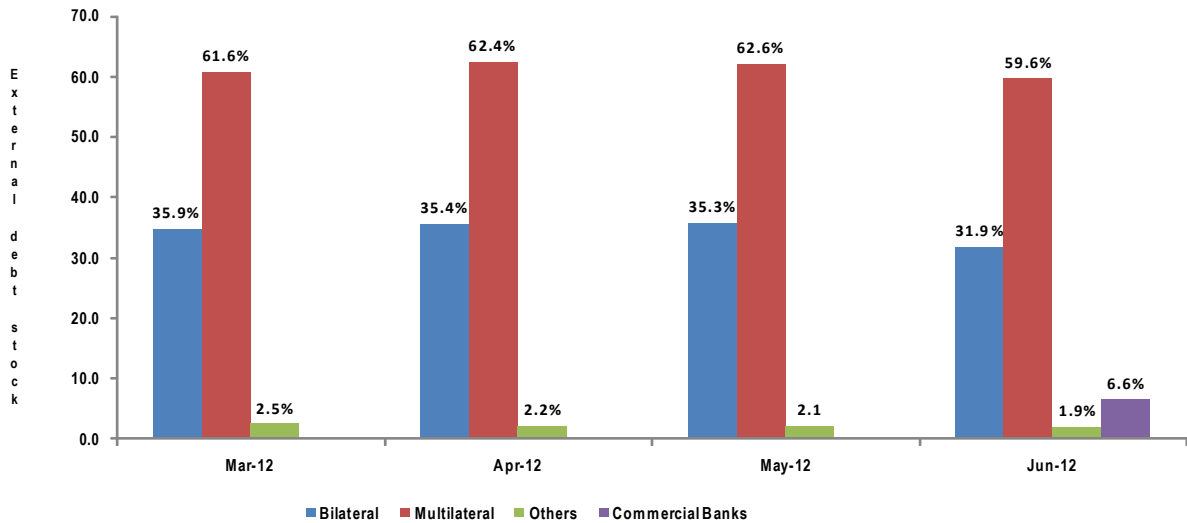


Source: Ministry of Finance

2.2 Structure

Official creditors account for 91.4 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 455.08 billion including Ksh 3.79 billion guaranteed debt owed to IDA) dominate the portfolio (59.6 percent of the total). Bilateral debt stands at Kshs 243.54 billion (31.9 percent of the total), which includes Kshs 43.59 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 6.6 percent of the total public and publicly guaranteed external debt.

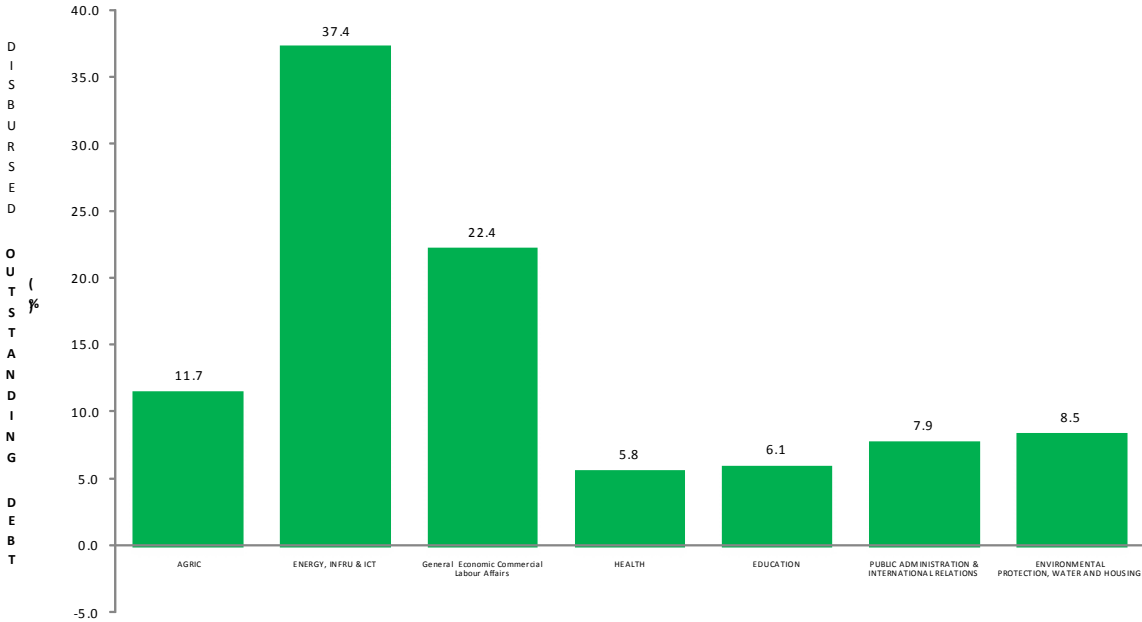
Chart 4: External Debt by Creditor



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 June, 2012 stood at Kshs 32.83 billion. Principal and interest projections for the month of June 2012 were Kshs 2.33 billion and Kshs 1.32 billion, respectively. Multilateral and bilateral creditors constitute 51.5 percent and 48.5 percent, of the cumulative projected debt service, respectively during the period under review as shown in Table 4.

Creditor category	Principal	Interest	Total
Bilateral	13,167.61	3,701.90	15,909.36
Multilateral	12,207.45	3,752.93	16,920.54
Commercial	-	-	-
Total	25,375.06	7,454.83	32,829.90

Source: Ministry of Finance

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end June 2012 was Kshs 31.31 billion as reflected in Table 5. Actual principal and interest payments for the month of June 2012 was Kshs 1.86 billion and Kshs 0.59 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	11,393.79	3,570.41	14,964.20
Multilaterals	12,560.06	3,781.01	16,341.07
Commercials	-	-	-
Totals	23,953.85	7,351.42	31,305.27

Source: Ministry of Finance

2.6 Budget Deviation

The actual cumulative debt service for June 2012 was below the projected debt service by Kshs 1.52 billion. Which is explained by favourable exchange rates in the market have stabilised.

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 decreased by Kshs 1.56 billion to Kshs 47.38 billion in June 2012 from Ksh 48.95 in May 2012. The decrease is due to the appreciation 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	April 2012	May 2012	June 2012
Japan	41,868.42	44,438.57	43,015.86
Canada	366.17	382.04	362.22
U.S.A	212.20	221.40	214.79
IDA (KR Concessionaire)	3,744.74	3,907.13	3,790.50
Totals	46,191.53	48,949.15	47,383.37

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

As indicated in Table 7, Government net domestic debt decreased by Kshs 30.86 billion to Kshs 701.23 billion from Ksh 732.09 billion in May 2012. This is attributed to increased Government deposits in Central Bank.

Table 7: Government domestic debt, in Kshs billion

	April 2012	May 2012	June 2012
Gross domestic debt	896.04	888.86	858.83
<i>less</i>			
Govt. deposits at CBK	-43.30	-36.12	-43.02
Govt. deposits at commercial banks	-111.28	-114.95	-108.88
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	735.76	732.09	701.23

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of June 2012, Government securities worth Kshs 23.00 billion were advertised. Bids worth Kshs 13.50 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 9.43 billion and Kshs 4.07 billion respectively. Successful bids amounted to Kshs 9.55 billion against the months redemptions of Kshs 15.42 billion leaving a deficit of Kshs 11.43 billion to be financed by the exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	18,000	5,000	23,000
Bids received	9,428	4,069	13,497
Successful bids	9,101	446	9,547
Redemptions (cost)	14,976	5,999	15,422
Net domestic borrowing	(5,875)	(5,553)	(11,428)

Source: Ministry of Finance

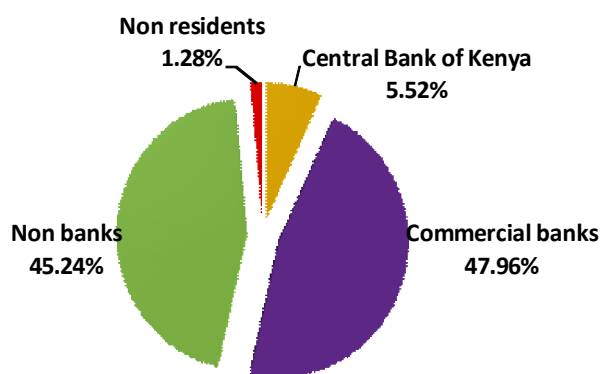
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	334.11	345.09	3.30	4.44	686.94
Treasury bills	75.50	43.38	6.57	6.60	132.05
Others	2.26	0.07	37.51	0.00	39.84
Total	411.87	388.54	47.38	11.04	858.83
Percentage Holding	47.96	45.24	5.52	1.28	100.0

Source: Central Bank of Kenya

At the end of June 2012 commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 411.87 billion or 47.96 percent as shown in Table 9 and Chart 5. The non banks held 45.24 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 11.04 billion or 1.28 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 47.38 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 June 2012

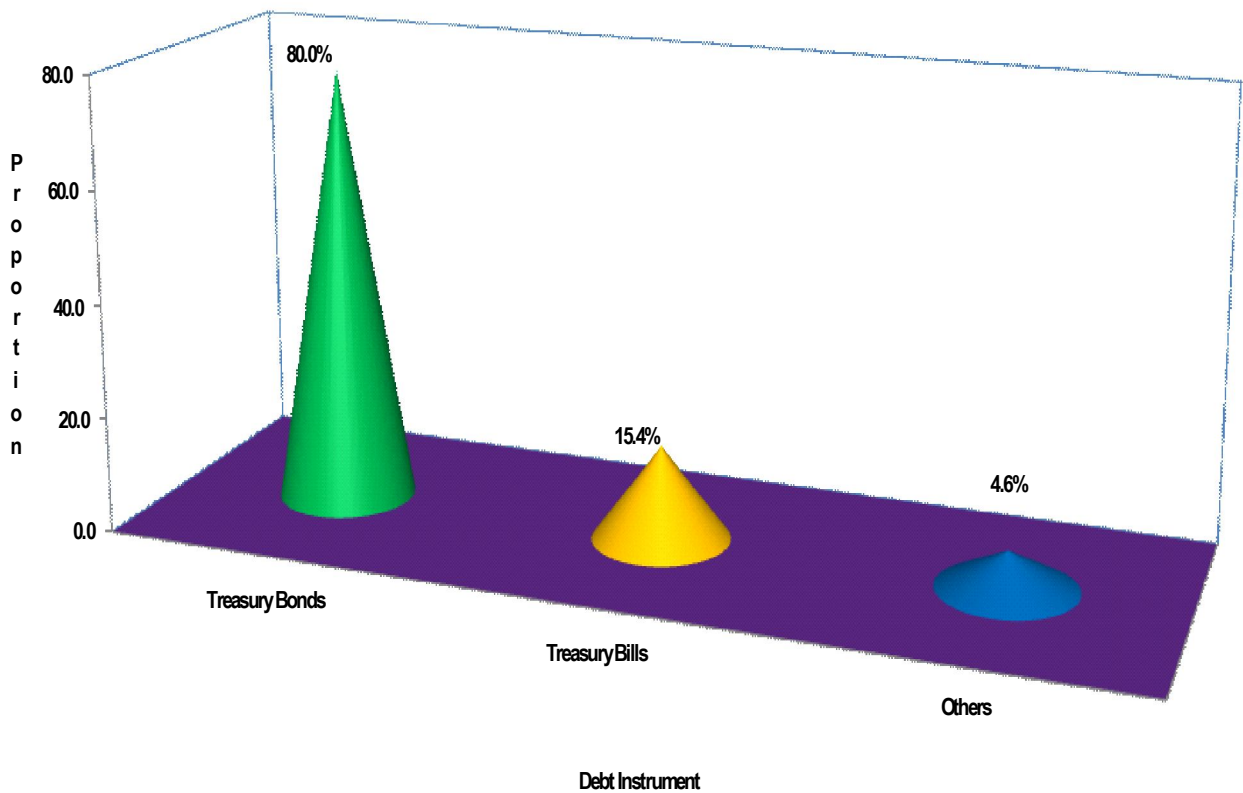


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end June 2012 the composition of the domestic debt remained largely the same as the position in May 2012. 80.0 percent of Government domestic debt was in Treasury Bonds, 15.4 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 June 2012, the net domestic financing stood at Kshs 73.21 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	June-2012	Change
Treasury Bills	123.53	120.82	(2.71)
Treasury Bonds	579.67	661.30	81.63
Pre-1997 Govt. Overdraft debt	31.66	30.00	(1.66)
Other	8.11	7.81	(0.30)
<i>of which Overdraft (from CBK)</i>	7.57	7.26	(0.31)
Govt. deposits	89.95	93.69	3.74
Net Domestic Credit	653.03	726.24	73.21

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end June 2012, Government actual cumulative domestic interest payments stood at Kshs 82.34 billion against the cumulative projected interest payments of Kshs 77.69 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 65.40 billion and Kshs 13.28 billion respectively. The cumulative variance of Kshs 4.65 billion is attributed to higher interest rates for Government securities than was projected.

Table 11: Domestic interest payments, in Kshs million

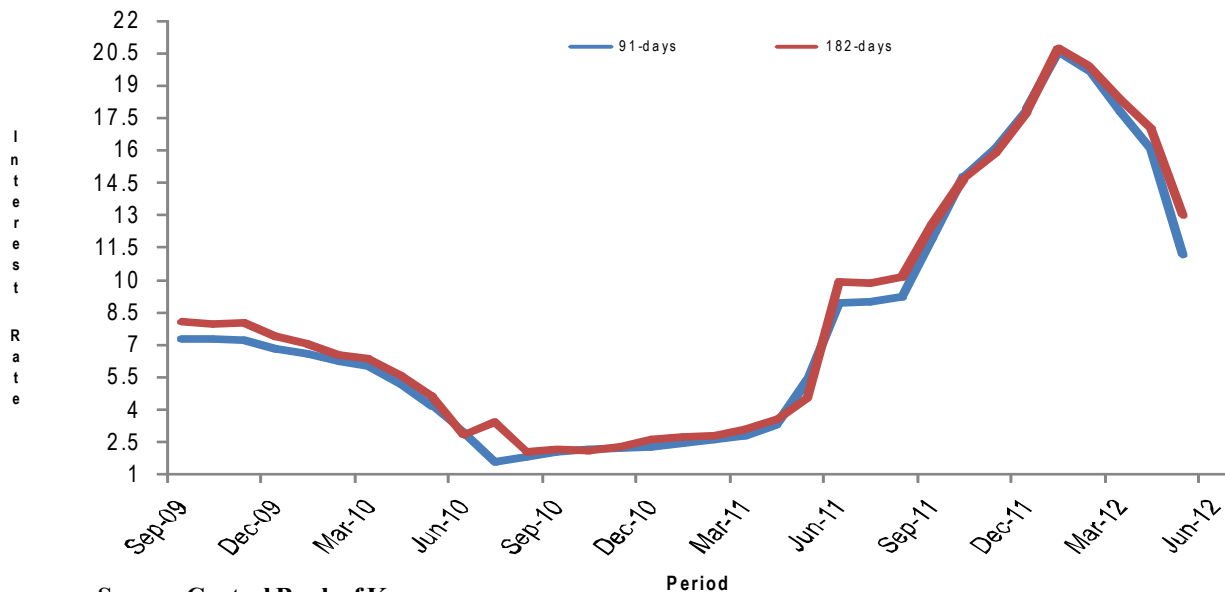
Type of debt	Projected	Actual	Variance
Treasury bonds	62,004.03	65,396.34	3,392.31
Treasury bills	11,488.94	13,278.95	1,790.01
Overdraft	3,272.43	3,663.84	391.41
Pre-1997 overdraft debt	926.27	0.00	(926.27)
Totals	77,691.67	82,339.13	4,647.46

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 2009. During the month of June 2012, the average interest rates for the 91-day Treasury bills declined by 109 basis points to 10.09 percent while the 182-day Treasury bills decreased by 233 to 10.67 percent per annum. 364-day Treasury bills stood at 12.00 percent per annum recording no change from May position.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

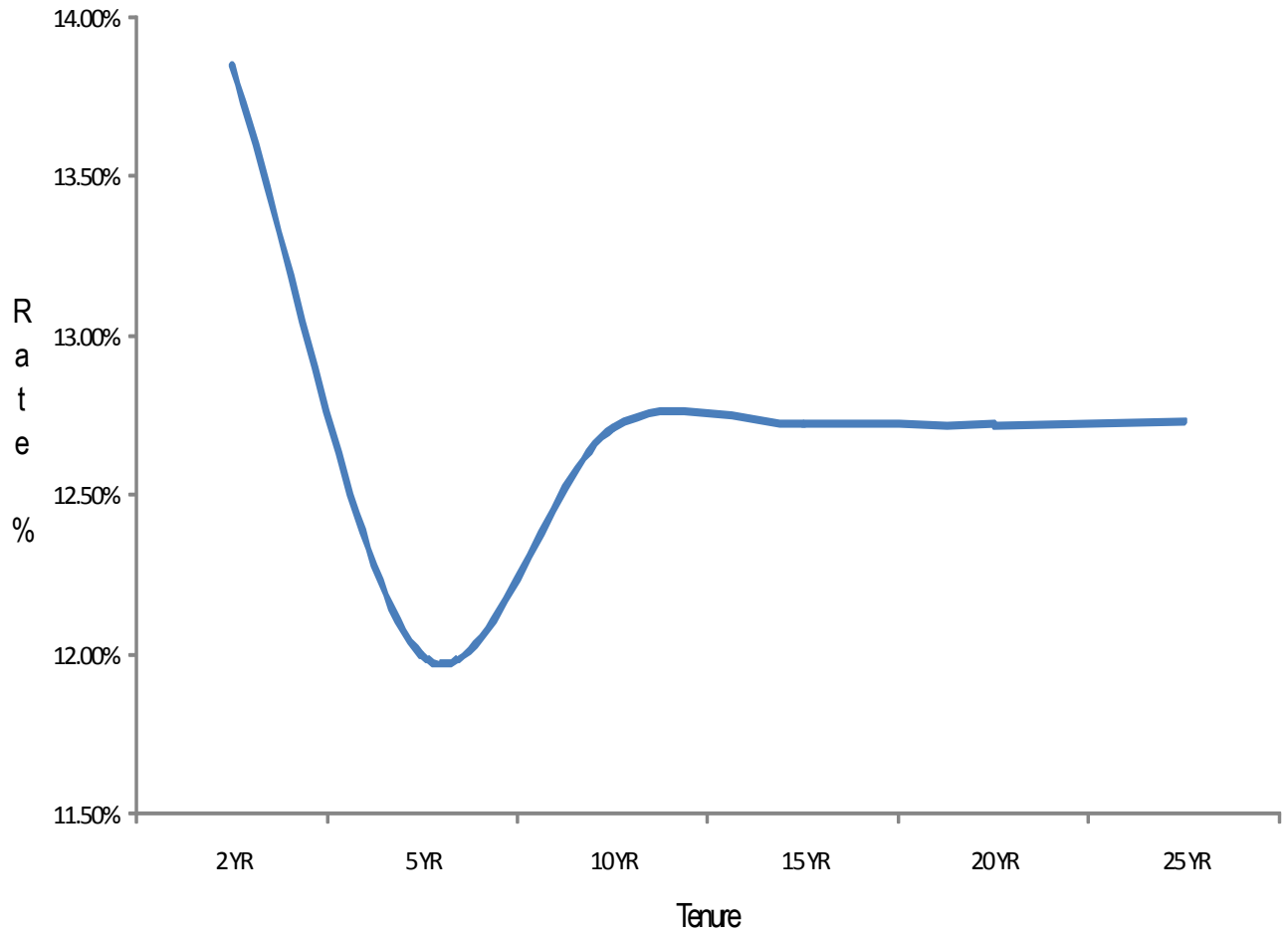
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark 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	13.85%
5 YR	12.00%
10 YR	12.71%
15 YR	12.72%
20 YR	12.72%
25 YR	12.73%

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 May 2012	Stock at end June 2012	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,378.90	1,317.76	(61.14)
BELGIUM	7,450.00	7,365.07	(84.93)
CANADA	1,200.37	1,118.65	(81.72)
DENMARK	2,138.84	2,076.63	(62.21)
FINLAND	112.80	104.81	(7.99)
FRANCE	37,705.81	36,708.95	(996.86)
GERMANY	22,877.85	24,878.80	2,000.95
ITALY	2,856.65	2,927.51	70.86
JAPAN	64,971.46	64,386.91	(584.55)
NETHERLANDS	2,951.53	2,925.78	(25.75)
UK	2,077.09	1,936.87	(140.22)
USA	5,156.46	4,921.99	(234.47)
PARIS CLUB OTHERS	4,912.15	4,956.87	44.72
NON PARIS CLUB	53,854.09	44,323.10	(9,530.99)
o/w CHINA	46,583.06	36,661.87	(9,921.19)
Sub total	209,644.00	199,949.7	(9,694.30)
MULTILATERAL			
ADB/AFDB	62,619.33	70,863.36	8,244.03
EEC/EIB	11,077.69	10,933.89	(143.80)
IDA	290,944.83	286,503.45	(4,441.38)
IFAD	7,409.05	7,294.79	(114.26)
IMF	64,903.28	66,593.02	1,689.74
OTHERS	10,354.94	9,098.86	(1,256.43)
Sub total	447,309.12	451,287.37	3,978.25
COMMERCIAL BANKS		50,539.98	50,539.98
SUPPLIERS CREDIT	15,141.25	14,811.51	(329.74)
Sub Total	672,094.37	716,588.56	44,494.19
GUARANTEED DEBT			
CANADA	382.04	362.22	(19.82)
JAPAN	44,438.57	43,015.86	(1,422.71)
USA	221.40	214.79	(6.61)
IDA(KR Concessionaire)	3,907.13	3,790.50	(116.63)
Sub Total	48,949.15	47,383.37	(1,565.77)
GOK+ GUARANTEED TOTAL	721,043.52	763,971.93	42,928.41

Source: Ministry of Finance

Memorandum item

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

Source fourth quarter 2011-12 QEBR

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