



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

JUNE 2013

1.0 PUBLIC DEBT

1.1 Introduction

As at end June 2013, public and publicly guaranteed debt stood at Kshs 1,894.12 billion or 51.71 percent of GDP (see Table 1). The decrease of 0.86 percent over the end May 2013 position is mainly attributed to a decrease in domestic debt. Gross domestic debt decreased by Ksh 27.84 billion to stand at Ksh 1,050.56 billion, while external debt increased by Ksh 11.32 billion to stand at Ksh 843.56 billion in June 2013 due to increased disbursements and exchange rate depreciation against world major currencies during the month. (See Table 1).

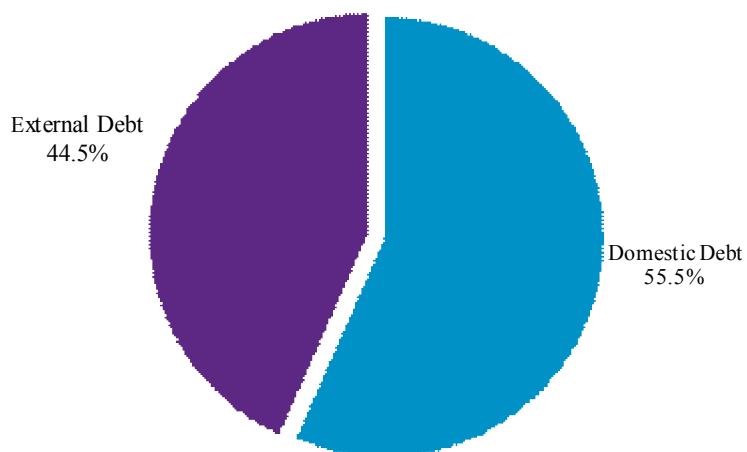
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	1,050.56	12.22
External Debt	843.56	9.81
Total	1,894.12	22.03

Source: The National Treasury and Central Bank of Kenya

The structure of public and publicly guaranteed debt shows that 55.5 percent of the total debt is domestic debt while 44.5percent is external debt as shown in Chart 1.

Chart 1: Composition of public debt



Source: The National Treasury

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 10.1 years, respectively. In addition, the average maturity period for external loans was 29.2 years while the average grant element was 68.3 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 remained at 5 years 1 month as at end June 2013.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period April 2013 to June 2013. The Kenya shilling depreciated against all the major currencies, Sterling Pound, Japanese Yen, US Dollar and the Euro by 1.42, 3.18, 1.05 and 1.33 percent respectively. The shilling stood at Kshs 86.01 to the US Dollar at end of June 2013. Appreciation or depreciation of the Kenya Shilling has the effect of decreasing or increasing external debt stock and the cost of debt service.

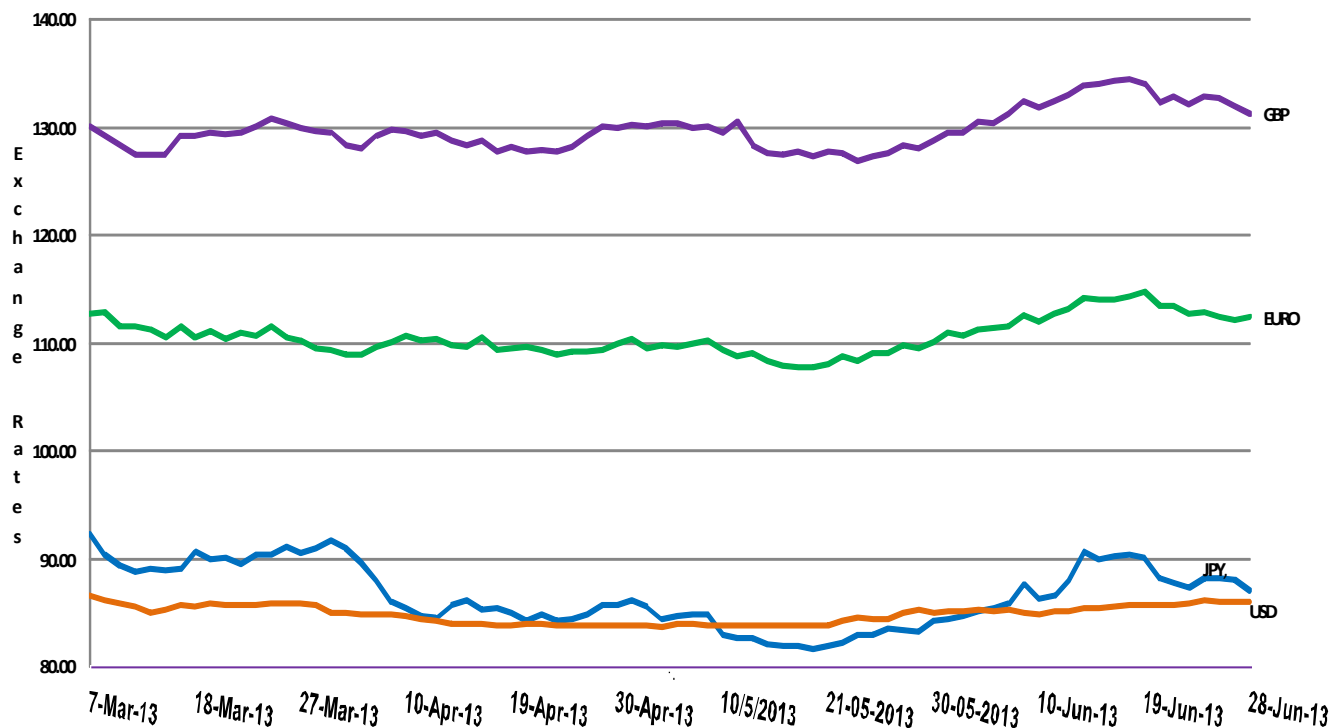
Table 2: Movement in exchange rates

Currency	April 2013	May 2013	June 2013
US Dollar	83.82	85.12	86.01
STG Pound	130.00	129.50	131.34
Euro	109.95	110.92	112.40
JPY(100)	85.75	84.32	87.04

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 2013 to June 2013. The four major currencies recorded a mixed performance over the month of June against all major world currencies.

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 as at end June increased by Kshs 11.32 billion to Kshs 843.56 billion from Kshs 832.24 billion in May 2013 as shown in Table 3.

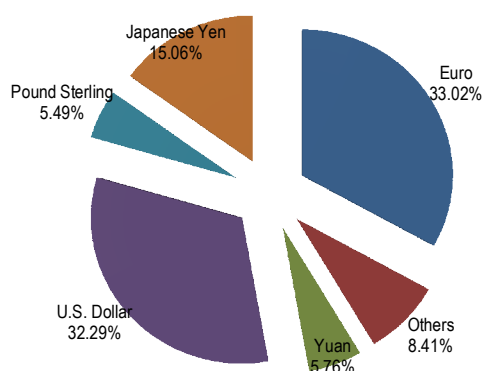
Table 3: External debt stock, in billions

	May 2013		June 2013	
	Kshs	USD	Kshs	USD
Bilateral	215.99	2.54	217.97	2.53
Multilateral	500.32	5.88	507.92	5.91
Guaranteed	42.60	0.50	43.53	0.51
Others	15.03	0.18	15.21	0.18
Commercial Banks	58.30	0.68	58.93	0.68
Total	832.24	9.78	843.56	9.81

Source: The National Treasury

This increase can be attributed to increased disbursements and depreciation of the Kenya Shilling against the major currencies. Chart 3 below indicates the currency composition of external debt, it shows that the Euro forms the largest share of the external debt portfolio followed by the US Dollar at 32.29 percent.

Chart 3. Currency Composition

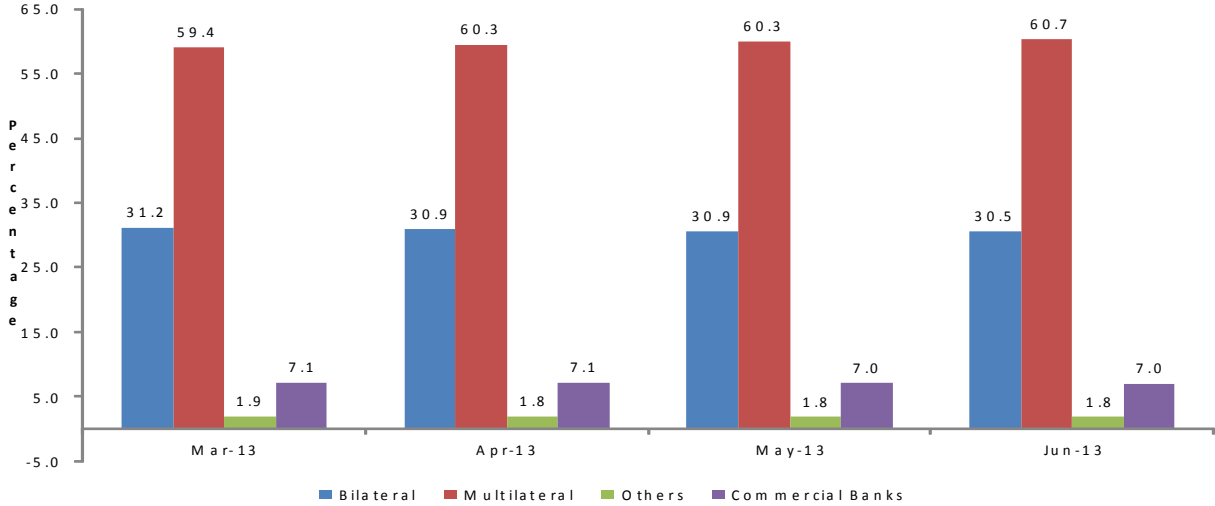


Source: The National Treasury

2.2 Structure of External Debt by Creditor

Official creditors account for 91.21 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors of Ksh 511.79 billion including Ksh 3.87 billion guaranteed debt owed to IDA dominate the portfolio (60.67 percent of the total). Bilateral debt stands at Kshs 257.63 billion (30.54 percent of the total), inclusive of Kshs 39.67 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 debt constitutes 6.99 percent of the total public and publicly guaranteed external debt.

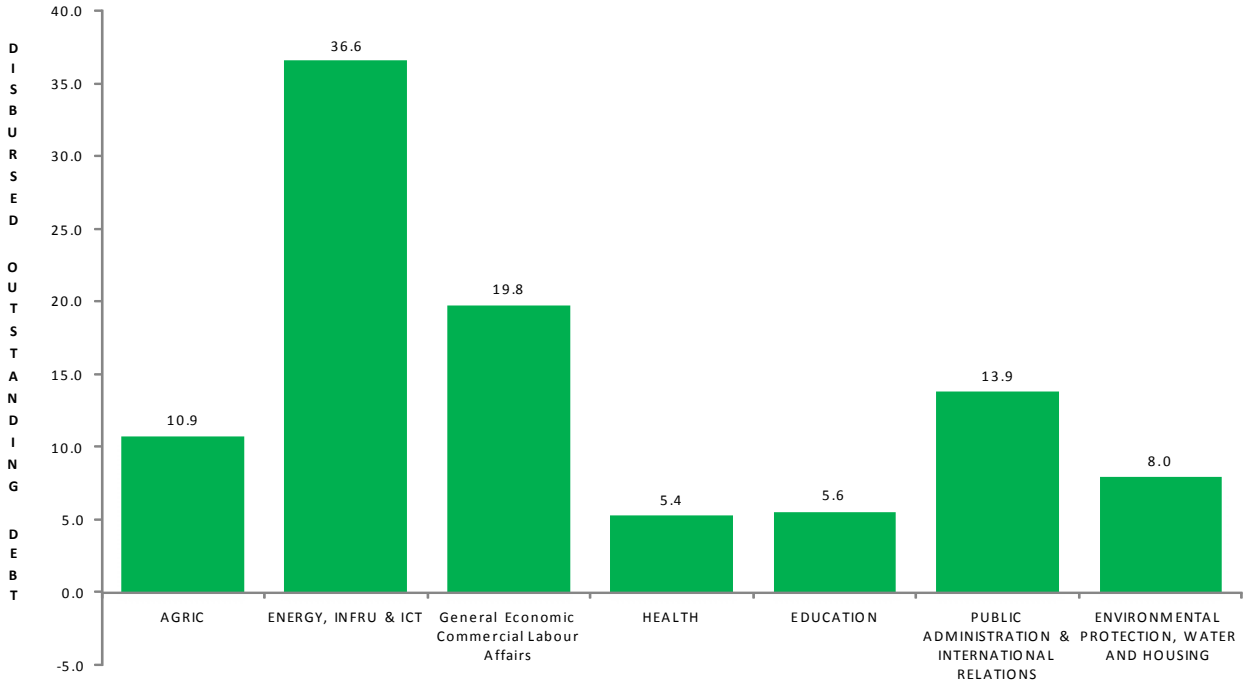
Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 External Debt by Sector

The graph below illustrates how the outstanding external debt is shared among the economic and social sectors of the economy, most external loans are used to fund the Energy, infrastructure and IT sectors.



2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end June 2013 stood at Kshs 37.55 billion. Principal and interest projections for the month of June 2013 were Kshs 2.25 billion and Kshs 1.04 billion, respectively. Multilateral and bilateral creditors constitute 47.88 percent and 44.54 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Table 4: Projected Cumulative External Debt Service as at end of June 2013, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	12,921.13	3,800.93	16,722.06
Multilateral	13,291.51	4,686.20	17,977.71
Commercial	-	2,848.09	2,848.09
Total	26,212.64	11,335.22	37,547.86

Source: The National Treasury

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end June 2013 was Kshs 36.34 billion as reflected in Table 5. Actual principal and interest payments for the month of June 2013 was Kshs 2.97 billion and Kshs 0.90 billion respectively.

Table 5: Actual cumulative external debt service as at end of June 2013, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	12,889.71	5,196.78	18,086.49
Multilaterals	12,210.08	3,701.98	15,912.06
Commercials	-	2,337.48	2,337.48
Totals	25,099.79	11,236.24	36,336.03

Source: The National Treasury

2.6 Budget Deviation

The actual cumulative debt service for June 2013 was below the projected debt service by Kshs 1.21 billion. The deviation is explained by changes in exchange rates between the actual and projected debt service payments and the monthly interest payments on the syndicated loan which is now payable semi-annually instead of the projected monthly payments.

2.7 Guaranteed External Debt

Under the Public Financial Management Act, 2012, 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 934.23 million to Kshs 43.54 billion in June 2013 from Ksh 42.60 billion in May 2013 due to exchange rate depreciation made during the month.

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

Creditor	April 2013	May 2013	June 2013
Japan	38,326.17	38,270.20	39,168.04
Canada	352.06	357.53	352.64
U.S.A	142.50	144.71	146.21
IDA (KR Concessionaire)	3,771.94	3,830.56	3,870.34
Totals	42,592.67	42,603.00	43,537.23

Source: The National Treasury

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt decreased by Kshs 10.66 billion to Ksh 889.13 billion in June 2013 from Kshs 899.79 billion in May due to decrease in the gross domestic debt by Ksh 27.84 billion over the same period as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	April 2013	May 2013	June 2013
Gross domestic debt	1,067.31	1,078.40	1,050.56
<i>less</i>			
Govt. deposits at CBK	-10.37	-68.10	-57.32
Govt. deposits at commercial banks	-104.81	-104.81	-98.41
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	946.43	899.79	889.13

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of June 2013, Government securities worth Kshs 29 billion were advertised. Bids worth Kshs 59.2 billion were received, from only Treasury Bills. No Treasury Bond was issued during the month. Successful bids amounted to Kshs 29.5 billion against the months redemptions of Kshs 26.7 billion leaving exchequer with a surplus of Kshs 2.83 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	29,000	-	29,000
Bids received	59,229	-	59,229
Successful bids	29,501	-	29,501
Redemptions (cost)	(23,965)	(2,705)	(26,670)
Net domestic borrowing	5,536	2,705	2,831

Source: Ministry of Finance

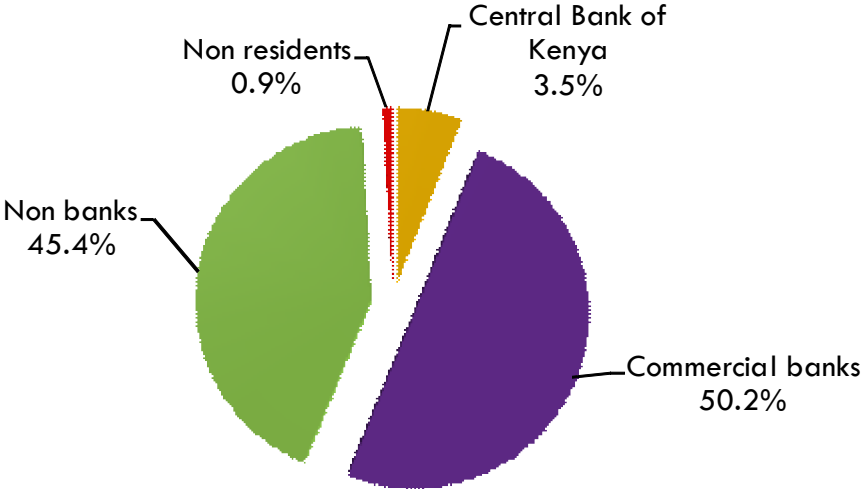
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	341.05	399.30	0.33	3.49	744.17
Treasury bills	183.45	78.16	0.01	6.08	267.70
Others	2.58	0.07	36.04	0.00	38.69
Total	527.08	477.53	36.38	9.57	1,050.56
Percentage Holding	50.2	45.4	3.5	0.9	100.00

Source: Central Bank of Kenya

At the end of June 2013, commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 527.08 billion or 50.2 percent as shown in Table 9 and Chart 5. The non banks held 45.4 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 worth Kshs 9.57 billion or 0.9 percent was held by non residents who invest through nominee accounts in the local banks. Kshs 36.38 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 2013

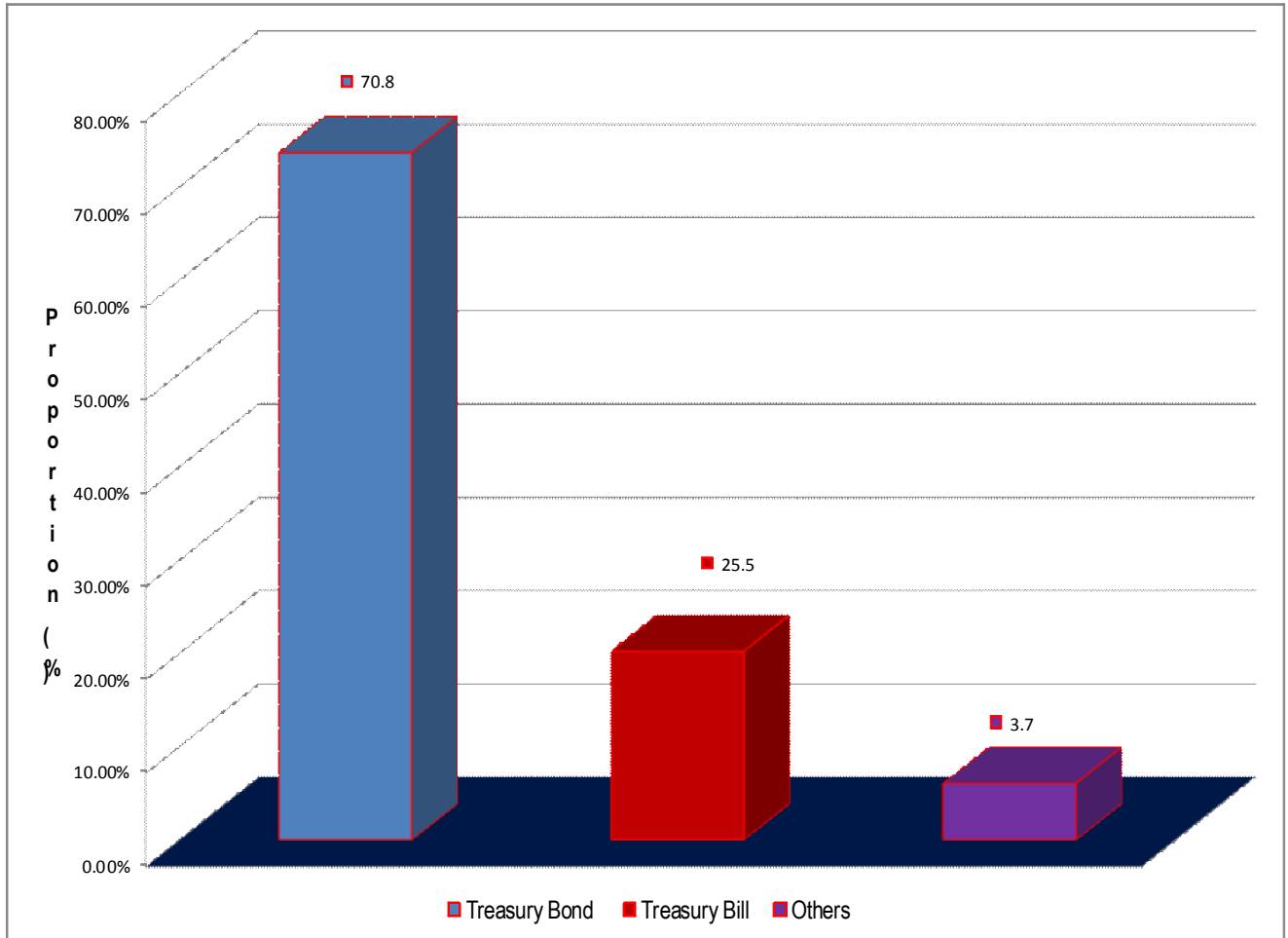


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end June 2013. 70.8 percent of Government domestic debt was in Treasury Bonds, 25.5 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 2013, the net domestic financing stood at Kshs 172.60 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	June-2013	Change
Treasury Bills	120.82	245.48	124.66
Treasury Bonds	661.30	713.12	51.82
Pre-1997 Govt. Overdraft debt	30.00	28.89	(1.11)
Other	7.81	8.72	0.91
<i>of which Overdraft (from CBK)</i>	7.26	6.99	(0.27)
Govt. deposits	93.69	97.37	3.68
Net Domestic Credit	726.24	898.84	172.60

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end June 2013, Government actual cumulative domestic interest payments stood at Kshs 110.18 billion against the cumulative projected interest payments of Kshs 107.66 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 83.95 billion and Kshs 21.57 billion respectively.

Table 11: Domestic interest payments, in Kshs million

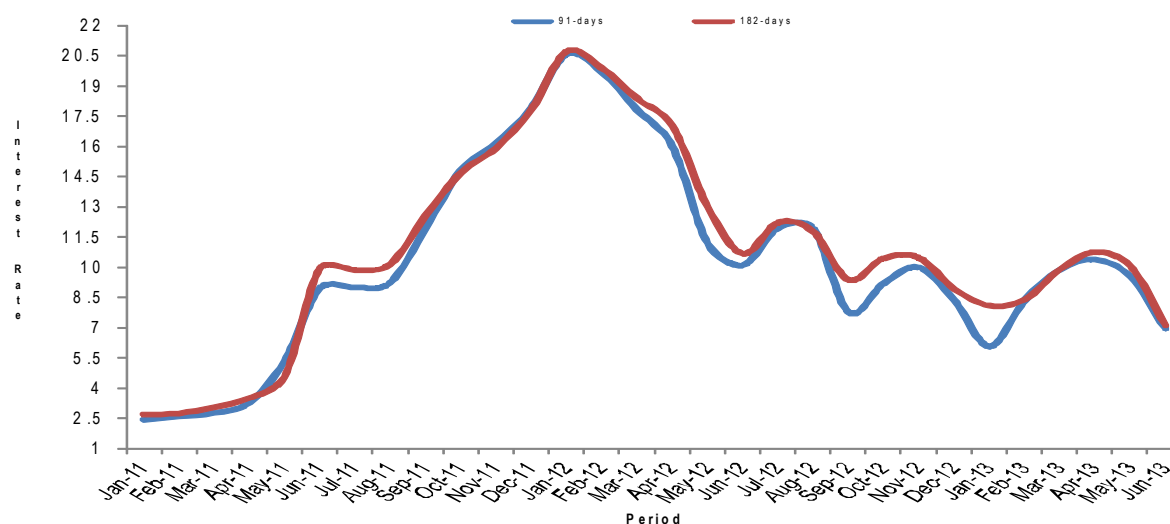
Type of debt	Projected	Actual	Variance
Treasury bonds	82,006	83,953	1,947
Treasury bills	21,357	21,573	-
Overdraft	2,904	2,960	56
Pre-1997 overdraft debt	1,392	1,698	306
Totals	107,659	110,184	2,309

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 2011. During the month of June 2013, the average interest rates for the 91-day Treasury bills decreased by 257 basis points to 6.96 percent from 9.53 percent in May 2013 and the 182-days Treasury bill decreased by 292 basis points from 10.04 per cent to 7.12 percent per annum. 364-days Treasury bill rate stood at an average of 8.57 percent per annum in June 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

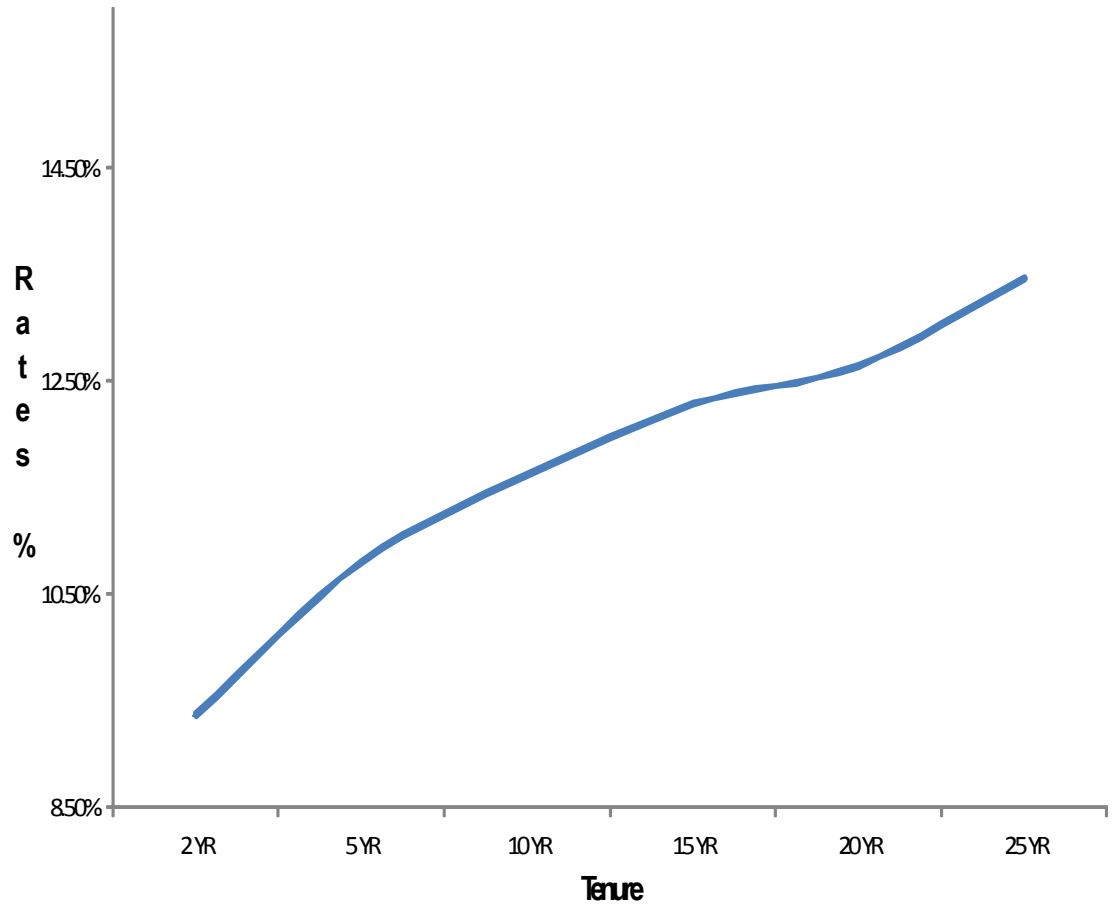
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark Treasury Bonds in the secondary market as at end June 2013.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	9.37
5 YR	10.80
10 YR	11.62
15 YR	12.28
20 YR	12.65
25 YR	13.46

Source: Nairobi Securities Exchange (NSE)

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 2013	Stock at end June 2013	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,058.07	1,024.09	(33.98)
BELGIUM	7,644.83	7,607.22	(37.61)
CANADA	1,080.60	1,037.71	(42.89)
DENMARK	1,997.55	1,987.79	(9.76)
FINLAND	101.84	96.64	(5.2)
FRANCE	46,915.62	47,397.05	481.43
GERMANY	24,986.23	25,042.37	56.14
ITALY	2,119.15	2,131.74	12.59
JAPAN	46,502.12	47,620.46	1,118.34
NETHERLANDS	2,762.62	2,599.67	(162.95)
UK	1,811.34	1,731.62	(79.72)
USA	4,711.15	4,669.83	(41.32)
PARIS CLUB OTHERS	5,138.22	5,144.11	5.89
NON PARIS CLUB	69,156.02	69,879.33	723.31
o/w CHINA	62,405.02	63,123.40	718.38
Sub total	215,985.35	217,969.64	1,984.29
MULTILATERAL			
ADB/AFDB	79,902.90	80,728.61	825.71
EEC/EIB	15,704.45	15,769.40	64.95
IDA	314,037.21	319,592.79	5,555.58
IFAD	8,800.33	9,160.50	360.17
IMF	73,088.18	73,779.44	691.26
OTHERS	8,790.02	8,889.77	99.75
Sub total	500,323.09	507,920.52	7,597.43
COMMERCIAL BANKS	58,300.89	58,927.52	626.64
SUPPLIERS CREDIT	15,025.81	15,207.35	181.54
Sub Total	789,635.14	800,025.04	10,389.89
GUARANTEED DEBT			
CANADA	357.53	352.64	(4.89)
JAPAN	38,270.20	39,168.04	897.84
USA	144.71	146.21	1.50
IDA (KR Concessionaire)	3,830.56	3,870.34	39.78
Sub Total	42,603.00	43,537.23	934.23
GOK+ GUARANTEED TOTAL	832,238.14	843,562.27	11,324.13

Memorandum item

Nominal GDP (in Kshs Billion) 3,662.56

Source: QEBR June 2013
Source: Ministry of Finance

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