



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

MARCH 2012

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end March 2012, public and publicly guaranteed debt stood at Kshs 1,564.20 billion or 46.9 percent of GDP (see Table 1). The increase of 1.6 percent over the end February 2012 position is attributed to increased disbursements from creditors and marginal depreciation of the Kenya shilling against the world major leading to an increase of Ksh 13.27 billion in external debt as at end March 2012. (See Table 1).

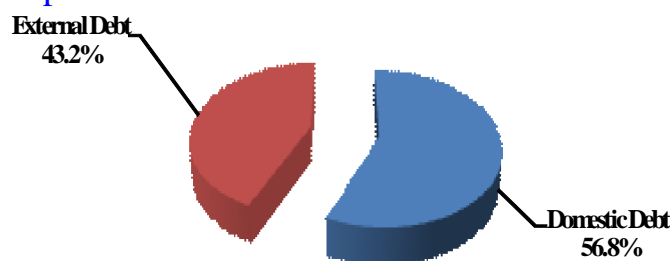
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	887.87	10.69
External Debt	676.33	8.14
Total	1,564.20	18.83

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 56.8 percent 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 1.0 percent and 7.6 years, respectively. In addition, the average maturity period for external loans was 24.1 years while the average grant element was 68.5 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 5 months at end March 2012.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period January 2012 to March 2012. The Kenya shilling depreciated marginally against the Sterling Pound and US Dollar by 0.4 percent and 0.1 percent respectively, but appreciated against Euro and Japanese Yen by 0.8 percent and 2.1 percent respectively. The Kenya shilling stood at 83.06 Kshs to the US Dollar at end March 2012. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. The strengthening of the Kenya shilling in the past decreases the external debt stock and also leads to lower costs of external debt service.

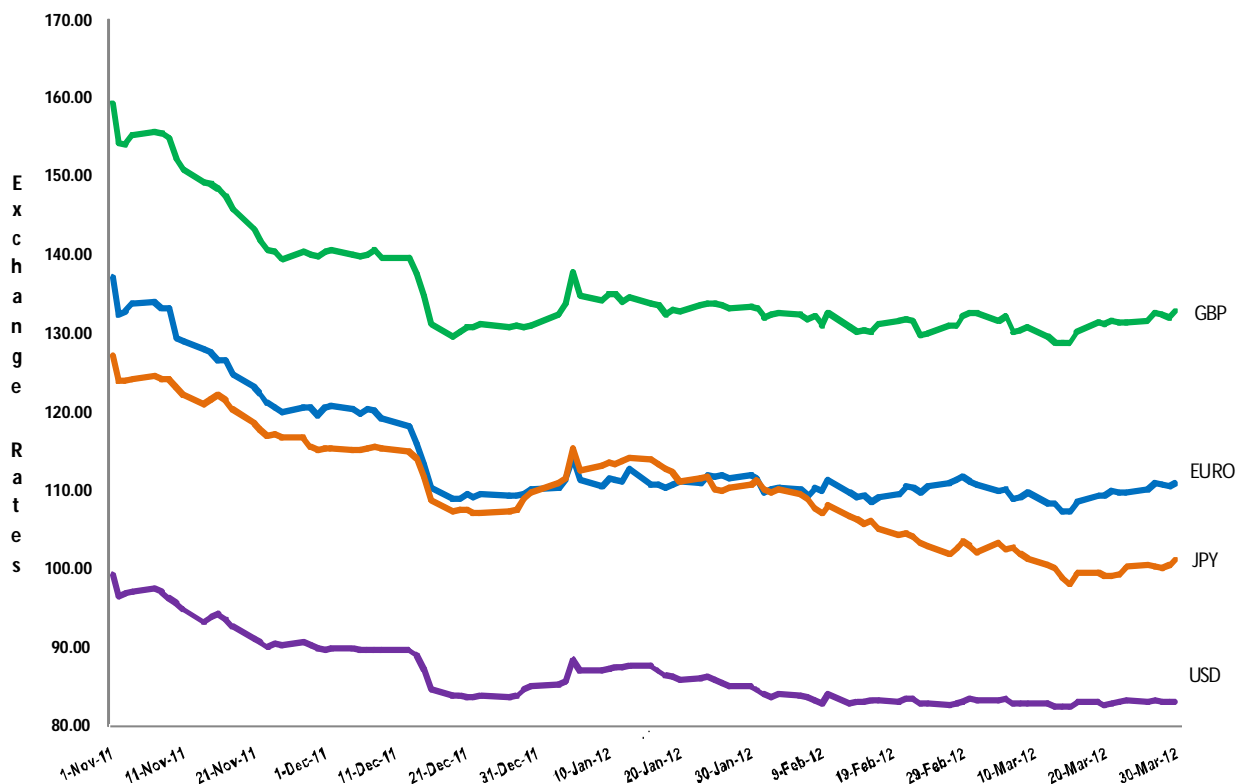
Table 2: Movement in exchange rates

Currency	January 2012	February 2012	March 2012
US Dollar	84.59	82.97	83.06
STG Pound	133.17	132.20	132.75
Euro	111.61	111.75	110.86
JPY(100)	111.25	103.48	101.34

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from November 2011 to March 2012.

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 13.28 billion from Kshs 663.05 billion in February 2012 to Kshs 676.32 billion in March 2012 as shown in Table 3.

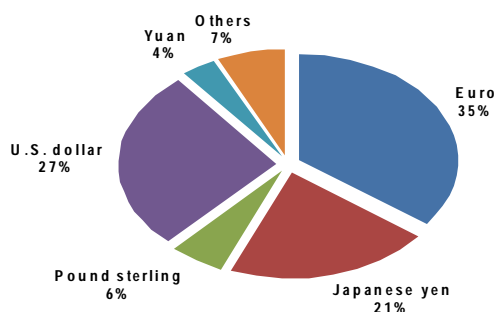
Table 3: External debt stock, in billions

Creditor Category	February 2012		March 2012	
	Kshs	USD	Kshs	USD
Bilateral	195.75	2.36	204.58	2.46
Multilateral	407.23	4.91	413.31	4.98
Guaranteed	43.48	0.52	41.92	0.51
Others	16.59	0.20	16.52	0.20
<b>Total</b>	<b>663.05</b>	<b>7.99</b>	<b>676.33</b>	<b>8.15</b>

Source: Ministry of Finance

The increase was observed in both multilateral and bilateral external debt which increased by Kshs 6.08 billion and Ksh 8.83 billion on account of disbursements and depreciation of the Kenya shilling against the major world currencies. The high proportion of debt from official external sources demonstrates a conscious effort to contract loans on concessional terms. Chart 3 below illustrates that 35 percent of Kenya's external debt is denominated in the Euro while about 7 percent is in other currencies e.g. Kuwait Dinar, Swiss Franc, etc.

Chart 3. Currency Composition

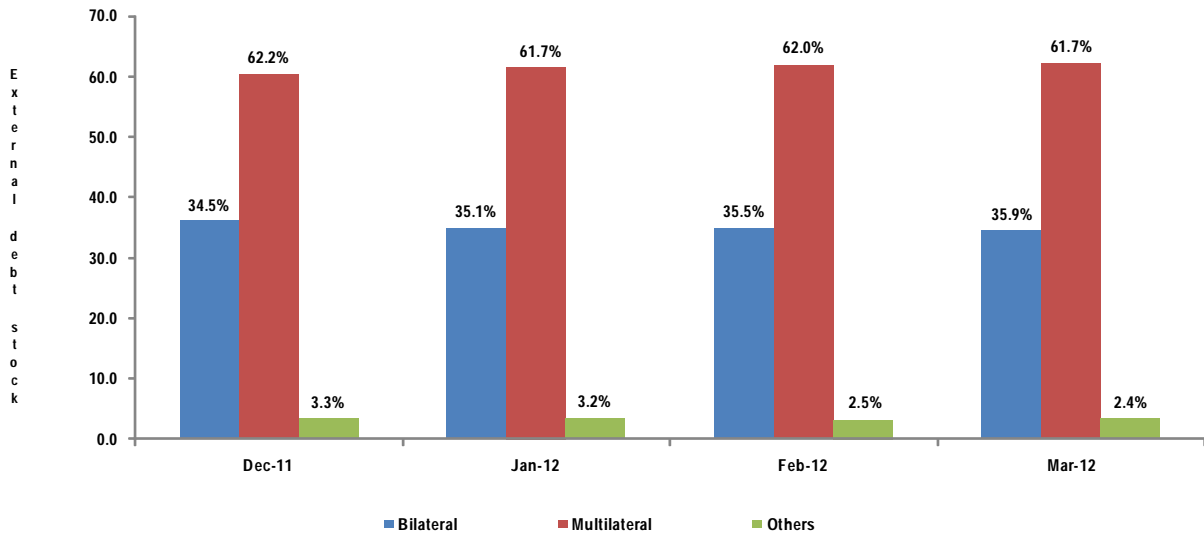


Source: Ministry of Finance

### 2.2 Structure of External Debt by Creditor

Official creditors account for 97.6 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 417.05 billion including Kshs 3.74 billion guaranteed debt owed to IDA) dominate the portfolio (61.6 percent of the total). Bilateral debt stands at Kshs 242.76 billion (35.9 percent of the total), which includes Kshs 38.18 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. Supplier credit debt remains relatively unchanged as these debts are not being serviced due to the current disputes with the creditors (see Annex 1).

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 March, 2012 stood at Kshs 25.23 billion. Principal and interest projections for the month of March, 2012 were Kshs 3.14 billion and Kshs 0.76 billion, respectively. Multilateral and bilateral creditors constitute 49.8 percent and 50.2 percent, of the cumulative projected debt service, respectively during the period under review as shown in Table 4.

Table 4: Cumulative Debt Service Projections as at end March 2012, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	9,872.90	2,793.16	12,666.06
Multilateral	10,261.14	2,306.13	12,567.27
Commercial	-	-	-
<b>Total</b>	<b>20,134.04</b>	<b>5,099.29</b>	<b>25,233.33</b>

Source: Ministry of Finance

## 2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end March 2012 was Kshs 24.35 billion as reflected in Table 5. Actual principal and interest payments for the month of March 2012 was Kshs 0.44 billion and Kshs 0.15 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	8,829.28	2,867.71	11,696.99
Multilateral	9,986.61	2,668.89	12,655.50
Commercial	-	-	-
Totals	18,815.89	5,536.60	24,352.49

Source: Ministry of Finance

## 2.5 Budget Deviation

The actual cumulative debt service for March 2012 was below the projected debt service by Kshs 0.88 billion.

## 2.6 Guaranteed External Debt

Under the National Government Loans Guarantee Act, 2011, the government may issue guarantees so long as it does not exceed the ceiling which currently stands at Kshs 200 billion. Between February, 2012 and March, 2012 the amount of public guaranteed external debt decreased by Kshs 1.56 billion to Kshs 41.92 billion in March 2012. The decrease is due to the appreciation of the Kenya shilling against the Japanese Yen in which 90 percent of the guaranteed debt is owed. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor.

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

Creditor	January 2012	February 2012	March 2012
Japan	41,810.30	39,136.16	37,602.80
Canada	372.20	365.09	365.46
U.S.A	251.65	246.84	211.79
IDA (KR Concessionaire)	3,806.44	3,733.69	3,737.50
Totals	46,240.58	43,481.78	41,917.55

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 15.28 billion to Kshs 737.09 billion. This is attributed to declining Government deposits in Central Bank of Kenya and Commercial Banks.

Table 7: Government domestic debt, in Kshs billion

	January 2012	February 2012	March 2012
Gross domestic debt	809.28	877.29	887.87
<i>less</i>			
Govt. deposits at CBK	-14.08	-43.74	-40.90
Govt. deposits at commercial banks	-101.90	-106.04	-104.18
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	687.60	721.81	737.09

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of March 2012, Government securities worth Kshs 41.0 billion were advertised. Bids worth Kshs 62.37 billion were received, out of which Kshs 47.22 billion and Kshs 15.14 billion were bids for the Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 44.50 billion against the months redemptions of Kshs 35.16 billion leaving a surplus of Kshs 9.34 billion to exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	31,000	10,000	41,000
Bids received	46,352	15,143	61,495
Successful bids	29,466	15,038	44,504
Redemptions (cost)	26,046	9,114	35,160
Net domestic borrowing	3,420	5,924	9,344

Source: Ministry of Finance

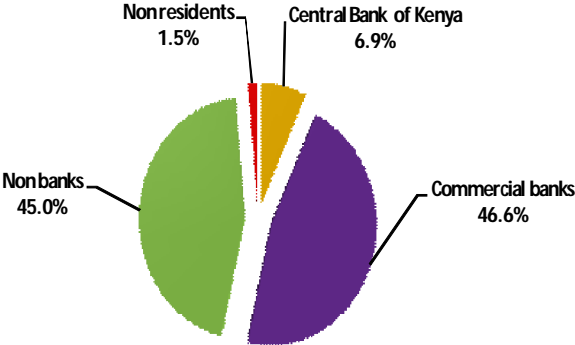
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	330.38	344.93	3.81	4.44	683.56
Treasury bills	80.84	54.25	1.88	8.50	145.47
Others	2.76	0.07	56.01	0.00	58.84
Total	413.98	399.25	61.70	12.94	887.87
Percentage Holding	46.6	45.0	6.9	1.5	100.0

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 413.98 billion or 46.6 percent as shown in Table 9 and Chart 5. The non banks held 45.0 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 12.94 billion or 1.5 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 61.70 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy.

Chart 5: Domestic debt by holder as at end March 2012



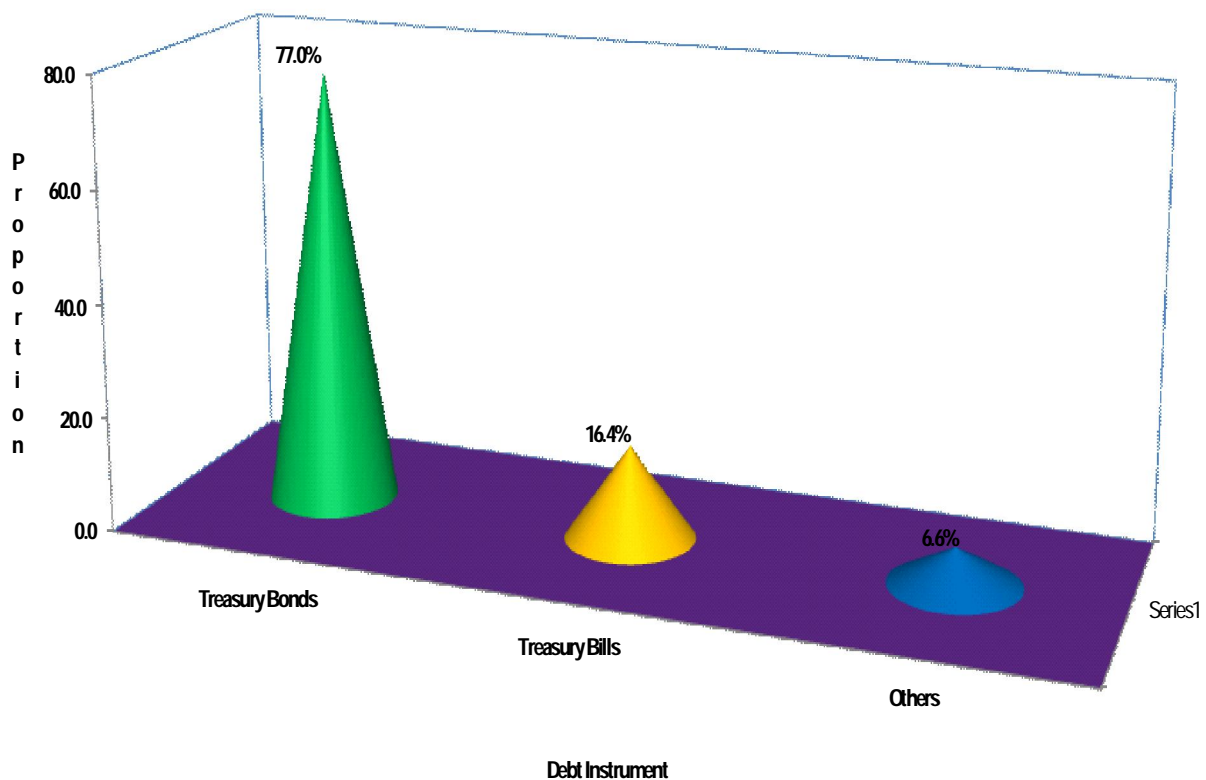
Source: Central Bank of Kenya



### 3.3 Domestic Debt by Instruments

Chart 6 shows that as at end March 2012, 77.0 percent of Government domestic debt was in Treasury Bonds, 16.4 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 March 2012, the net domestic financing stood at Kshs 106.97 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	March-2012	Change
Treasury Bills	123.53	133.52	9.99
Treasury Bonds	579.67	658.04	78.37
Long term Stock	0.00	0.00	0.000
Pre-1997 Govt. Overdraft debt	31.66	30.55	(1.11)
Other	8.11	21.13	13.02
<i>of which Overdraft (from CBK)</i>	<i>7.57</i>	<i>25.37</i>	<i>(17.80)</i>
Govt. deposits	89.95	83.25	(6.70)
Net Domestic Credit	653.03	760.02	106.97

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end March 2012, Government actual cumulative domestic interest payments stood at Kshs 51.18 billion against the cumulative projected interest payments of Kshs 51.88 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 31.04 billion and Kshs 5.7 billion respectively. The total variance of Kshs 2.17 billion is attributed to rising interest rates for Government securities.

Table 11: Domestic interest payments, in Kshs million

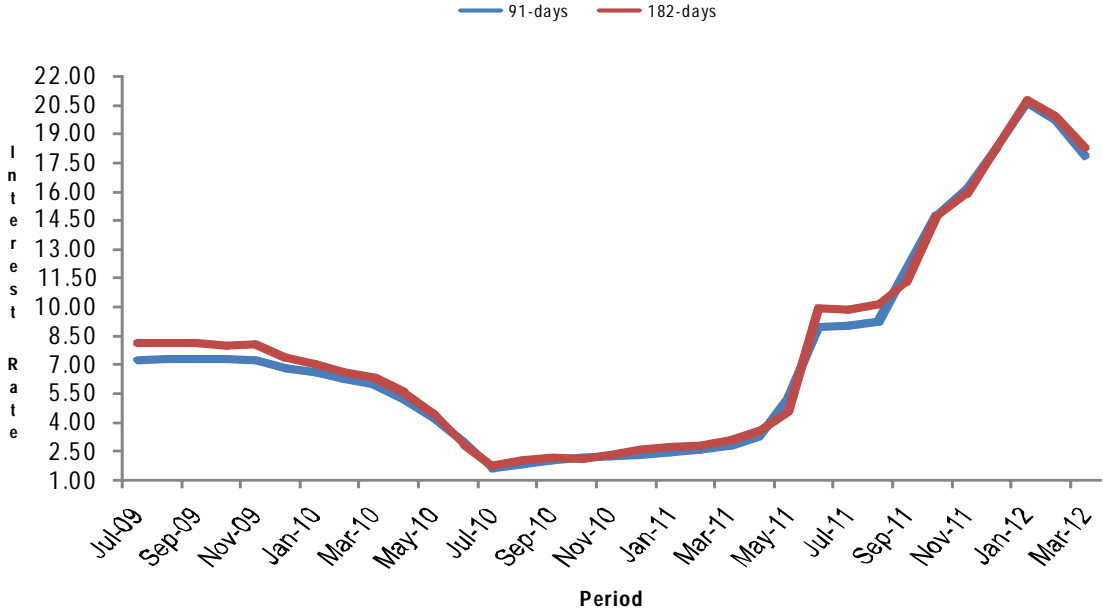
Type of debt	Projected	Actual	Variance
Treasury bonds	41,407.78	41,073.60	(334.18)
Treasury bills	8,835.74	7,970.69	(865.05)
Overdraft	935.75	2,133.71	1,197.96
Pre-1997 overdraft debt	695.88	0.00	(695.88)
Totals	51,875.15	51,178.00	(697.15)

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 July 2009. During the month of March 2012, the average interest rates for the 91-day Treasury bills declined by 190 basis points to 17.8 percent while the 182-day and 364-day Treasury bills decreased by 152 and 392 basis points respectively to 18.37 and 17.04 percent per annum respectively.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

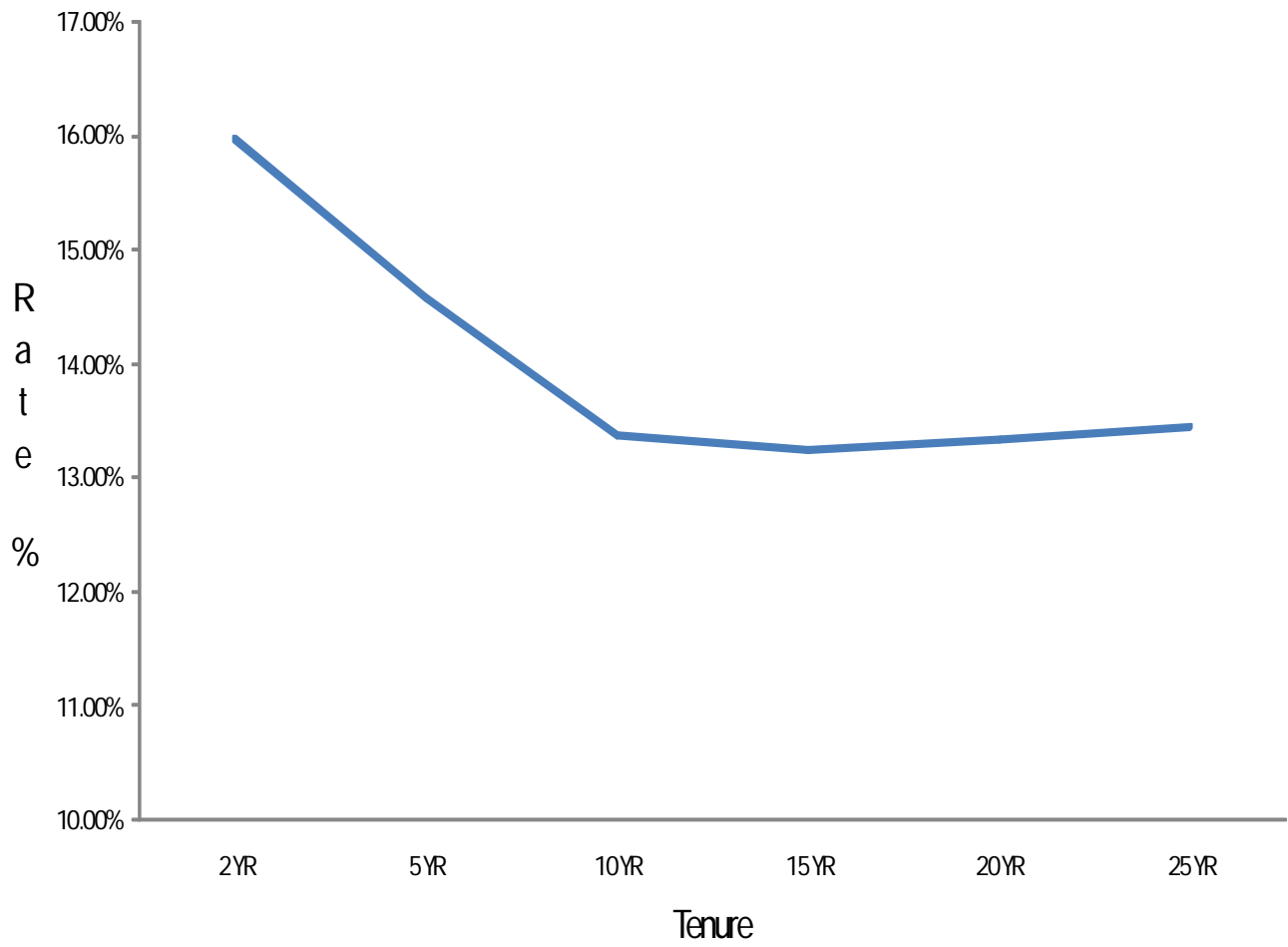
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark Treasury Bonds in the secondary market. The curve is inverted reflecting the current market trends with high yields at the short end of the market but trending upwards in the mid to long term as illustrated in Chart 8.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	15.98%
5 YR	14.58%
10 YR	13.38%
15 YR	13.25%
20 YR	13.38%
25 YR	13.45%

Source: Central Bank of Kenya

Chart 8: Yields on selected Treasury Bonds



## 4.0 DEBT SUSTAINABILITY

### 4.1 Introduction

Debt sustainability is defined as the ability of a country to meet its debt obligations without requiring debt relief or accumulating arrears. There are internationally accepted measures of debt sustainability developed by international organisations such as the World Bank and IMF. One of these measures is the Debt Sustainability Analysis (DSA). The various DSA measures of debt sustainability includes, net present value of total public debt to Gross Domestic Product (GDP), total debt to export ratio and total debt service to GDP measures among others. The Joint World Bank-IMF DSA published on 23 November 2011 concludes that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20- year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. There are four ratings for the risk of external debt distress:

**Low risk**-when all the debt burden indicators are well below the threshold;

**Moderate risk**-when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies;

**High risk**-when the baseline scenario and stress tests indicate a protracted breach of debt or debt-service thresholds, but the country does not currently face any repayments difficulties; or

**In debt distress**-when the country is already having repayment difficulties

However, debt sustainability is measured in present value terms and not in nominal terms. this enables similar comparison of the debt burden. Countries are classified into one of three policy performance categories (strong, medium, and poor) using the World Bank's Country Policy and Institutional Assessment (CPIA) index, which uses different indicative thresholds for debt burdens in present value terms depending on the quality of a country's policies and institutions. Kenya is rated a medium policy country and as such is subject to the following thresholds.

Table 13: Debt sustainability thresholds

	NPV of debt in percent of			Debt Service in percent of	
	GDP	Exports	Revenue	Exports	Revenue
<b>Medium Performer Policy</b>	40	150	250	20	30

Under the baseline scenario , Kenyas initial external debt ratios listed in the table below are well below all of the indicative thresholds for a medium performer, even if they increase over the medium- term reflecting a higher rate of debt accumulation. As such, Kenya faces a low risk of external debt distress reflecting the limited reliance on external borrowing and an expected improvement in macroeconomic performance.

**Table 14: External debt sustainability**

<b>Indicator (Threshold)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2020</b>	<b>2030</b>
PV of Debt to GDP Ratio (40)	15.8	17.7	18.7	19.1	18.9	18.7	15.0	7.7
PV of debt-to-exports ratio (150)	58.5	57.0	65.3	68.9	73.4	76.4	76.5	43.5
PV of debt-to-revenue ratio (250)	66.1	72.2	76.2	76.6	75.4	75.8	62.0	32.3
Debt service-to-exports ratio (20)	4.0	3.8	4.2	4.2	4.7	4.8	5.1	3.9
Debt service-to-revenue ratio (30)	4.5	4.8	4.9	4.7	4.8	4.7	4.2	2.9

*Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)*

Total public debt(external and domestic) is also within sustainable levels as illustrated below

<b>Indicator (Threshold)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2020</b>	<b>2030</b>
PV of public sector Debt to GDP Ratio (40)	38.5	39.3	40.3	39.9	38.7	37.9	34.7	25.6
PV of public sector debt –to-revenue ratio (250)	156.5	154.2	156.1	151.5	145.6	147.8	140.4	106.1
Debt service-to-revenue ratio (30)	25.5	21.9	24.5	23.5	21.6	21.5	20.0	15.5

*Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)*

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

<b>CREDITOR</b>	<b>Stock at end February 2012</b>	<b>Stock at end March 2012</b>	<b>Change</b>
<b>CENTRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,562.14	1,420.54	(141.60)
BELGIUM	7,866.57	7,758.17	(108.40)
CANADA	1,147.09	1,148.26	1.17
DENMARK	2,288.02	2,268.68	(19.34)
FINLAND	112.40	111.99	(0.41)
FRANCE	38,096.67	39,135.77	1,039.10
GERMANY	23,751.99	23,568.66	(183.33)
ITALY	2,995.27	2,940.31	(54.96)
JAPAN	62,340.32	60,336.17	(2,004.15)
NETHERLANDS	3,255.46	3,117.59	(137.87)
UK	2,041.39	2,049.90	8.51
USA	4,996.14	4,965.82	(30.32)
PARIS CLUB OTHERS	5,001.86	4,944.11	(57.75)
NON PARIS CLUB	40,297.53	50,812.13	10,514.60
<b>Sub total</b>	<b>195,752.85</b>	<b>204,578.10</b>	<b>8,825.25</b>
<b>MULTILATERAL</b>			
ADB/AFDB	56,997.63	63,011.31	6,013.68
EEC/EIB	11,548.75	11,428.90	(119.85)
IDA	281,340.74	276,575.34	(4,765.40)
IFAD	6,836.71	6,805.77	(30.94)
IMF	40,775.76	46,222.61	5,446.85
OTHERS	9,726.90	9,264.76	(462.14)
<b>Sub total</b>	<b>407,226.49</b>	<b>413,308.69</b>	<b>6,082.20</b>
<b>SUPPLIERS CREDIT</b>	<b>16,585.70</b>	<b>16,523.73</b>	<b>(61.97)</b>
<b>Sub Total</b>	<b>619,565.04</b>	<b>634,410.52</b>	<b>14,845.48</b>
<b>GUARANTEED DEBT</b>			
CANADA	365.09	365.46	0.37
JAPAN	39,136.16	37,602.80	(1,533.36)
USA	246.84	211.79	(35.05)
IDA(KR Concessionaire)	3,733.69	3,737.50	3.81
<b>Sub Total</b>	<b>43,481.78</b>	<b>41,917.55</b>	<b>(1,564.23)</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>663,046.82</b>	<b>676,328.07</b>	<b>13,281.25</b>

Source: Ministry of Finance

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Enquiries covering the publication should be addressed to:

**The Director,  
Debt Management Department,  
Ministry of Finance**  
1st Floor, Treasury Building, Harambee Avenue  
P.O Box 30007-00100, Nairobi, Kenya  
Tel: (254) 20 2252299  
Fax: (254) 20 315294  
Email: [dmd@treasury.go.ke](mailto:dmd@treasury.go.ke)