



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

**MAY 2011**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end May 2011, public and publicly guaranteed debt stood at Kshs 1,422.46 billion or 54.30 percent of GDP (see Table 1). The increase of 2.47 percent over the end April 2011 position is mostly attributed to external debt which stands at Kshs 675.88 billion. Domestic debt stock stood at USD 8.71 billion as shown in Table 1.

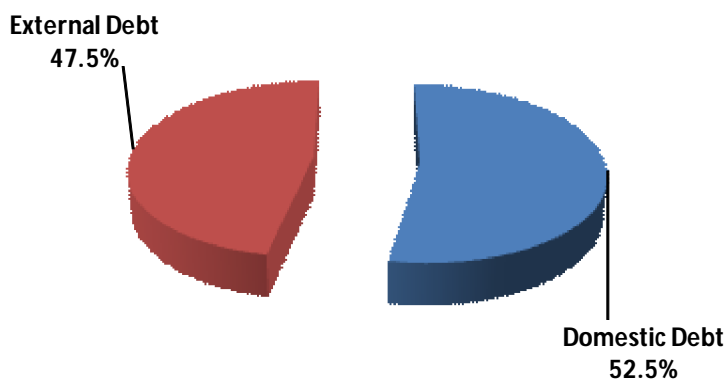
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	746.58	8.71
External Debt	675.88	7.88
Total	1,422.46	16.59

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 52.5 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 0.6 percent and 8.9 years, respectively. In addition, the average maturity period for external loans was 22.1 years while the average grant element was 58.7 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 5.17 years in end May 2011.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period March to May 2011. The Kenya shilling depreciated against the three world major currencies. It depreciated against the US Dollar, the Sterling Pound and the Japanese Yen by 2.7 percent, 2.0 percent and 3.3 percent respectively and appreciated against the Sterling Pound by 0.2 percent. The Kenya shilling closed the month at 85.70 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.

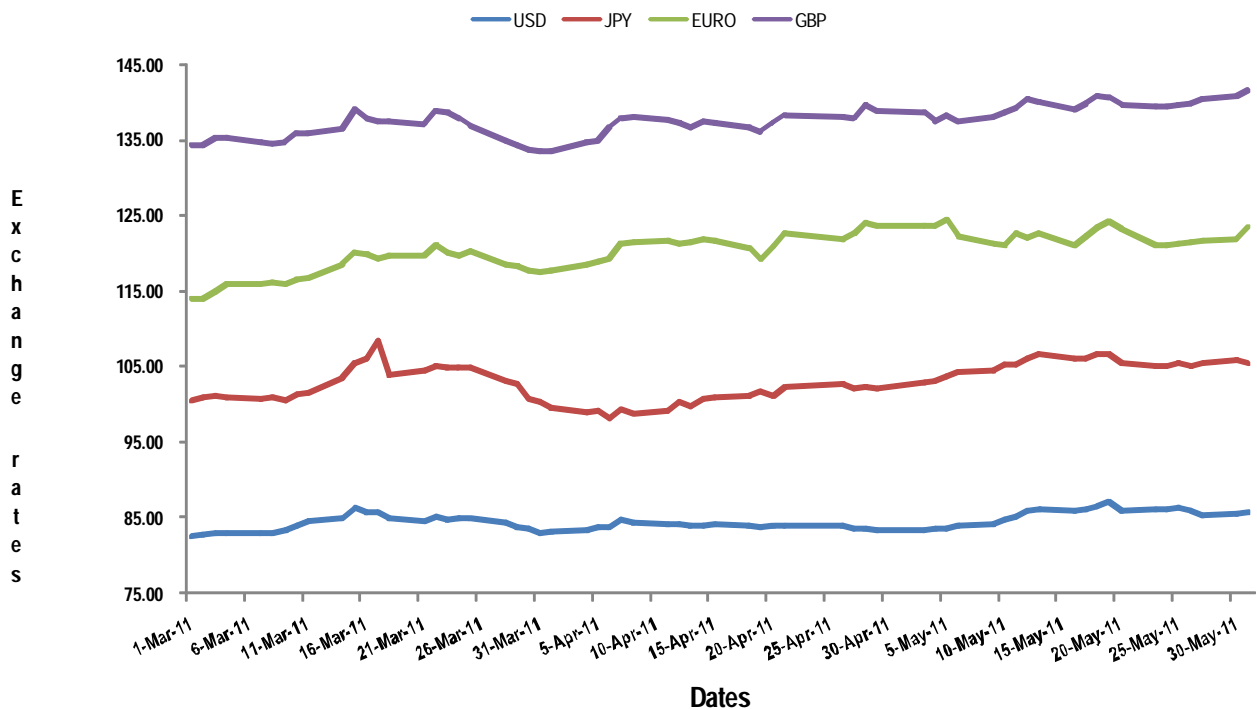
Table 2: Movement in exchange rates

Currency	March 2011	April 2011	May 2011
US Dollar	82.99	83.42	85.70
STG Pound	133.64	138.91	141.63
Euro	117.51	123.74	123.47
JPY(100)	100.35	102.18	105.52

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 2011 to May 2011. On average, the US Dollar and the Japanese Yen exchange rate has remained relatively stable while the Kenya shilling has depreciated against the Sterling Pound and the Euro.

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 23.2 billion from Kshs 652.68 billion in April 2011 to Kshs 675.88 billion in May 2011 as shown in Table 3.

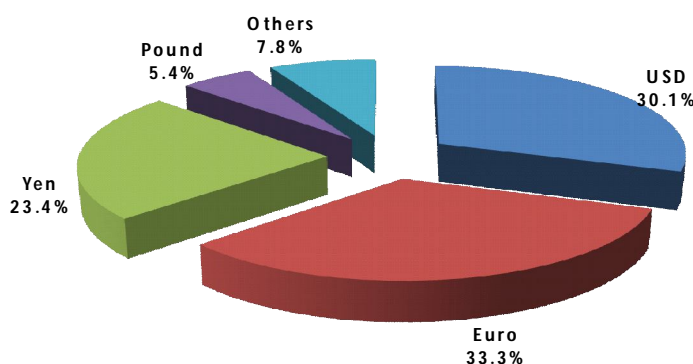
Table 3: Movement in external debt stock, in billion

Creditor Category	Kshs	USD
Bilateral	189.76	2.21
Multilateral	418.25	4.88
Guaranteed	44.08	0.51
Others	23.79	0.28
<b>Total</b>	<b>675.88</b>	<b>7.88</b>

Source: Ministry of Finance

Significant increase was observed in multilateral external debt which increased by Kshs 19.12 billion on account of depreciation of the Kenya shilling against other major world currencies and disbursements during the month. 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 30.1 percent of Kenya's external debt is denominated in USD while about 7.8 percent is other currencies.

Chart 3. Currency Composition

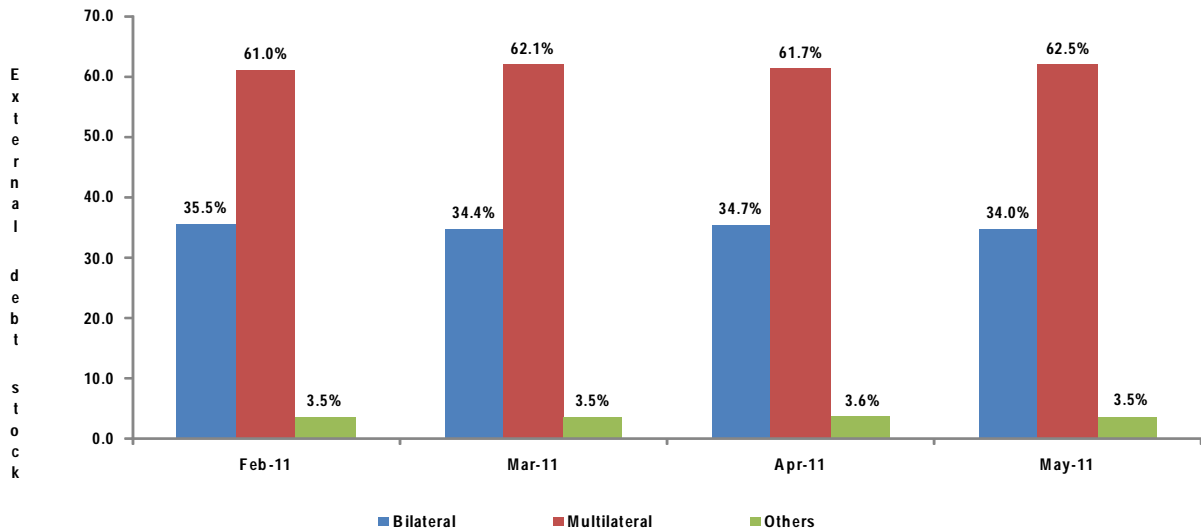


### 2.2 Structure of External Debt by Creditor

Official creditors account for 96.5 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 422.11 billion, including guaranteed debt owed to IDA) dominate the portfolio (62.5 percent of the total). Bilateral debt stands at Kshs 229.98 billion (34.0 percent of the total), which includes Kshs 40.22 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 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 May 2011 stood at Kshs 24.48 billion. Principal and interest projections for the month of May were Kshs 0.42 billion and Kshs 0.50 billion, respectively. Multilateral and bilateral creditors constitute 53.0 percent and 47.0 percent, 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 May 2011, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	8,547.53	2,958.86	11,506.39
Multilateral	9,761.83	3,215.39	12,977.22
Commercial	-	-	-
<b>Total</b>	<b>18,309.36</b>	<b>6,174.25</b>	<b>24,483.61</b>

Source: Ministry of Finance

## 2.4 Actual Cumulative External Debt

Actual cumulative debt service as at end May 2011 was Kshs 24.03 billion as reflected in Table 5. Actual principal and interest payments for the month of May 2011 was Kshs 0.27 billion and Kshs 0.29 billion, respectively.

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

<b>Credit category</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Bilateral	8,802.12	3,127.72	11,929.84
Multilaterals	9,593.85	3,056.34	12,650.19
Commercials	-	-	-
Totals	18,395.97	6,184.06	24,580.03

Source: Ministry of Finance

## 2.5 Budget Deviation

The projected debt service for May 2011 was below the actual debt service by Kshs 0.96 million. This variance is attributed to the exchange rate fluctuations. No debt arrears were accumulated during the month under review.

## 2.6 Guaranteed External Debt

The amount of public guaranteed external debt rose marginally by Kshs 1.37 billion to Kshs 44.08 billion in May 2011. The increase is due to the depreciation of the Kenya shilling against other foreign currencies especially the Japanese Yen. 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

<b>Creditor</b>	<b>March</b>	<b>April</b>	<b>May</b>
Japan	37,587.74	38,283.33	39,536.37
Canada	381.76	383.74	394.26
U.S.A	282.16	283.63	291.39
IDA (KR CONCESSIONAIRE)	3,734.50	3,753.87	3,856.70
Totals	41,986.16	42,704.57	44,078.72

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 24.91 billion to Kshs 607.42 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

	March	April	May
Gross domestic debt	754.05	735.46	746.58
<i>less</i>			
Govt. deposits at CBK	-53.18	-50.93	-49.09
Govt. deposits at commercial banks	-80.48	-96.31	-84.36
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	614.69	582.51	607.42

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of May 2011, Government securities worth Kshs 39.0 billion were advertised. Bids worth Kshs 52.9 billion were received, out of which Kshs 33.8 billion and Kshs 19.1 billion were Treasury Bills and Treasury Bonds, respectively. Successful bids amounted to Kshs 47.1 billion against the months redemptions of Kshs 39.6 billion leaving a surplus of Kshs 7.6 billion as new money.

The net repayments of Treasury Bills shown Table 8 is consistent with Government borrowing plan and strategy of raising more resources using longer dated instruments.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	21,000	18,000	39,000
Bids received	33,810	19,060	52,870
Successful bids	28,540	18,602	47,142
Redemptions (cost)	28,195	11,397	39,592
Net domestic borrowing	345	7,205	7,550

Source: Ministry of Finance

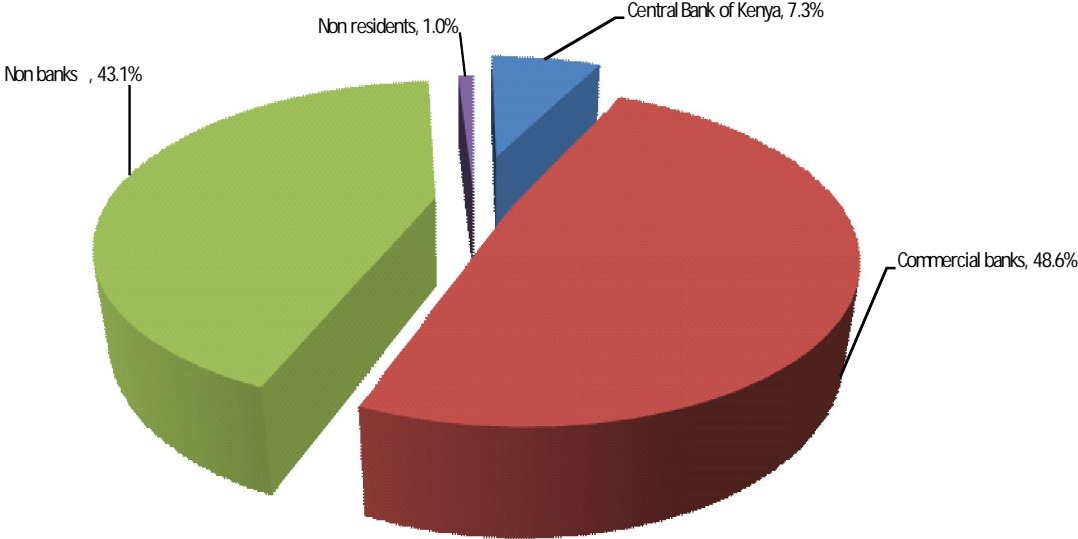
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	282.07	298.72	0.02	4.40	585.21
Treasury bills	78.28	23.24	0.01	2.82	104.35
Others	2.34	0.07	54.61	0.00	57.02
Total	362.69	322.03	54.64	7.22	746.58

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 362.69 billion or 48.6 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 7.22 billion or 1.0 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 54.64 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy. The non banks held 43.13 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 May 2011



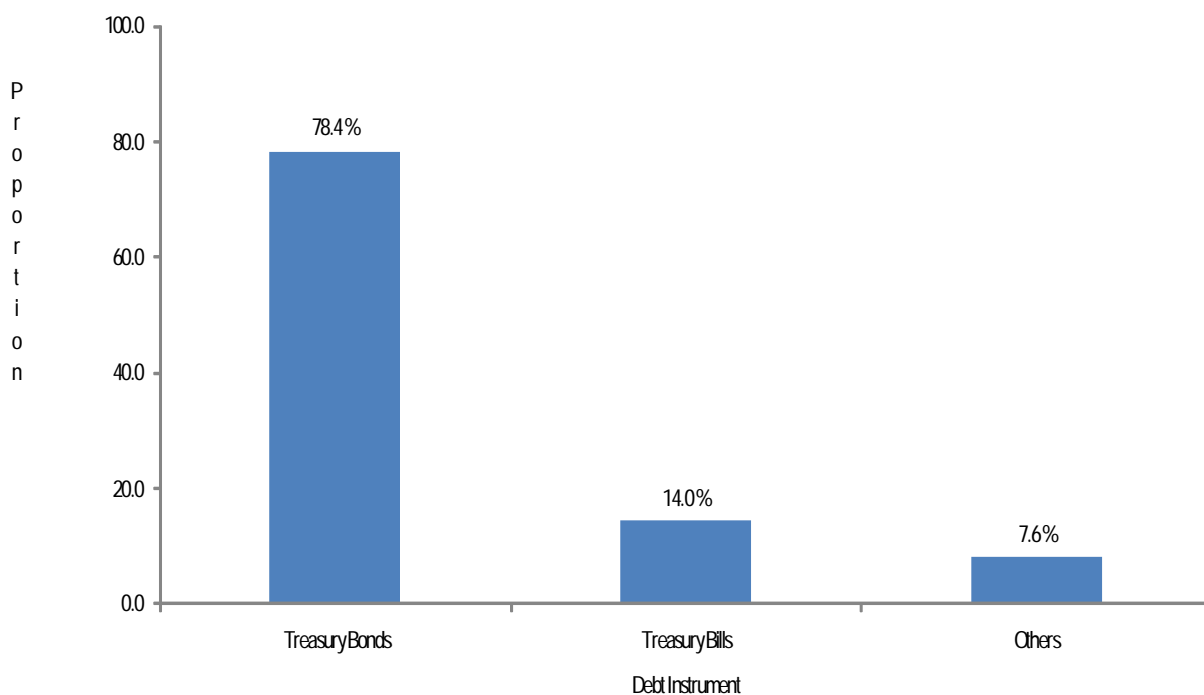
Source: Central Bank of Kenya



### 3.3 Domestic Debt by Instruments

Chart 6 shows that as at end May 2011, 78.4 percent of Government domestic debt is in Treasury Bonds, 14.0 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 May 2011, the net domestic financing is Kshs 80.58 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2010	May-2011	Change
Treasury Bills	152.97	102.12	(50.85)
Treasury Bonds	441.76	570.69	128.93
Long term Stock	0.75	0.00	(0.75)
Pre-1997 Govt. Overdraft debt	32.22	31.66	(0.56)
Other	18.28	23.01	4.73
<i>of which Overdraft (from CBK)</i>	17.65	22.93	5.28
Govt. deposits	84.71	85.62	0.91
Net Domestic Credit	561.28	641.86	80.58

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

During the financial year 2010/11, the Government projected to pay Kshs 67.19 billion as interest on domestic debt. As at May 2011, Government actual cumulative domestic interest payments stood at Kshs 58.18 billion against the cumulative projected interest payments of Kshs 56.88 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 48.76 billion and Kshs 8.38 billion, respectively. The total variance of Kshs 1.30 billion constitutes a deficit arising from higher than projected interest rates on Government securities.

Table 11: Domestic interest payments, in Kshs million

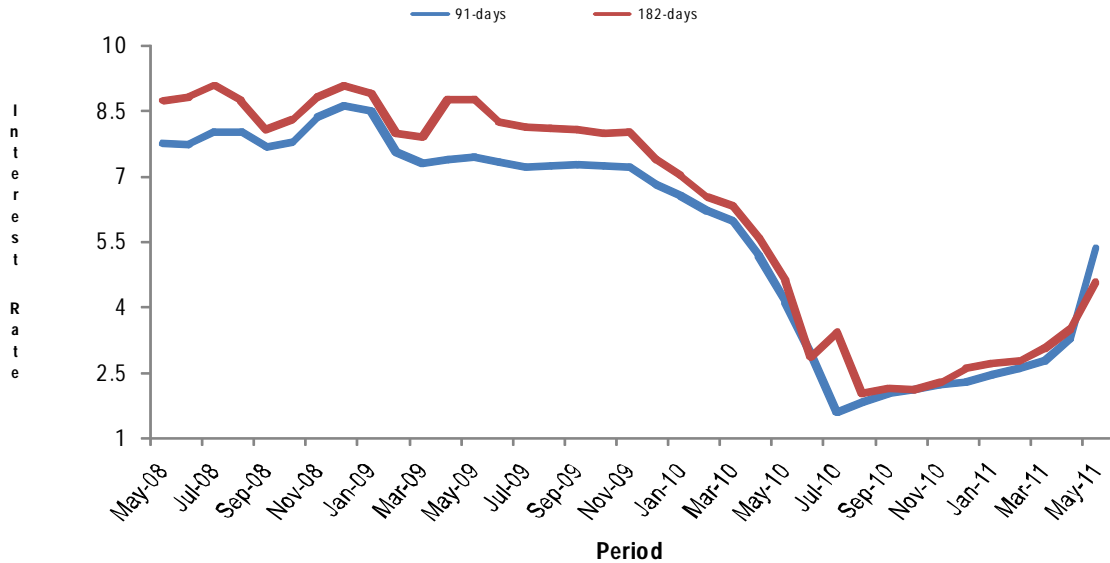
Type of debt	Projected	Actual	Variance
Treasury bonds	44,467.22	48,763.69	4,296.47
Treasury bills	11,008.91	8,384.97	(2,623.94)
Overdraft	453.53	754.83	301.30
Pre-1997 overdraft debt	879.20	242.21	(636.99)
Government stocks	75.33	37.67	(37.66)
Totals	56,884.19	58,183.37	1,299.18

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 May 2008. Average interest rates have been increasing since the beginning of the financial year 2010/11. During the month of May 2011, the average interest rates for the 91-day Treasury Bills rose by 207 basis points to 5.35 percent p.a. However, the average interest rates for 182-day Treasury bills rose by 106 basis points to stand at 4.57 percent p.a.

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 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	7.8%
5 YR	8.2%
10 YR	10.3%
15 YR	7.7%
20 YR	14.0%
25 YR	13.4%

Source: Central Bank of Kenya

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

	Stock at end April 2011	Stock at end May 2011	Change
<b>CREDITOR</b>			
<b>CENTRAL GOVERNMENT</b>			<b>(Kshs Mn)</b>
<b>BILATERAL</b>			
AUSTRIA	1,958.23	1,953.92	(97.23)
BELGIUM	8,219.60	8,201.50	(18.10)
CANADA	1,219.36	1,252.76	33.40
DENMARK	2,675.72	2,663.56	(12.16)
FINLAND	129.48	130.96	1.48
FRANCE	37,395.73	37,350.54	(45.19)
GERMANY	19,153.97	19,111.78	(42.19)
ITALY	4,449.12	4,441.34	(7.78)
JAPAN	65,550.57	67,696.10	2,145.53
NETHERLANDS	2,508.57	2,131.86	(376.71)
UK	2,320.91	2,366.32	45.41
USA	5,266.20	5,410.45	144.25
PARIS CLUB OTHERS	5,487.14	5,187.78	(299.36)
NON PARIS CLUB	30,898.77	31,862.42	963.65
<b>Sub Total</b>	<b>187,233.38</b>	<b>189,761.29</b>	<b>2,527.91</b>
<b>MULTILATERAL</b>			
ADB/AFDB	47,376.43	50,633.68	3,257.25
EEC/EIB	12,108.15	16,058.55	3,950.40
IDA	279,793.63	291,032.42	11,238.79
IFAD	6,692.03	6,774.48	82.45
IMF	44,735.48	45,286.60	551.12
OTHERS	8,422.34	8,460.26	37.92
<b>Sub Total</b>	<b>399,128.07</b>	<b>418,245.99</b>	<b>19,117.92</b>
<b>SUPPLIERS CREDIT</b>	<b>23,609.71</b>	<b>23,791.11</b>	<b>181.40</b>
<b>Sub Total</b>	<b>609,971.16</b>	<b>631,798.39</b>	<b>21827.23</b>
<b>GOVERNMENT GUARANTEED DEBT</b>			
CANADA	383.74	394.26	10.52
JAPAN	38,283.33	39,536.37	1253.04
USA	283.63	291.39	7.76
IDA(KR Concessionaire)	3,753.87	3,856.70	102.83
<b>Sub Total</b>	<b>42,704.57</b>	<b>44,078.72</b>	<b>1,374.15</b>
<b>GRAND TOTAL</b>	<b>652,675.73</b>	<b>675,877.12</b>	<b>23,201.39</b>

Source: Ministry of Finance

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