



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

OCTOBER 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end October 2011, public and publicly guaranteed debt stood at Kshs 1,605.22 billion or 48.7 percent of GDP (see Table 1). The increase of 2.6 percent over the end September 2011 position is attributed to rising domestic debt which stands at Kshs 795.21 billion from Kshs 764.28 billion in September. External debt stock stood at USD 8.12 billion an increase from USD 8.01 billion in September (see Table 1).

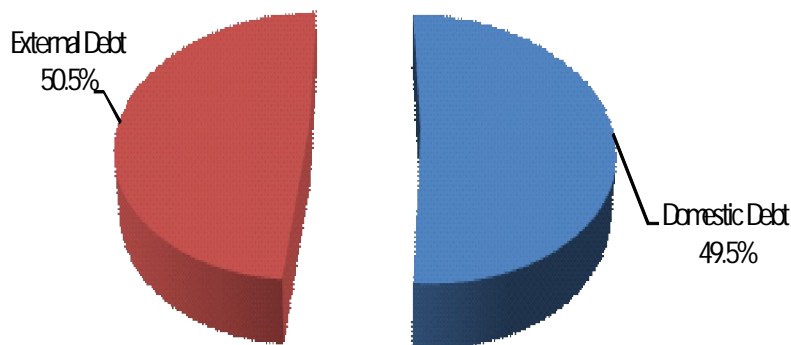
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	795.21	7.97
External Debt	810.01	8.12
Total	1,605.22	16.09

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 49.5 percent of the total debt is domestic debt while the rest is external debt as shown in Chart 1. The structure reversed due to the weakening of the Kenya shilling against other foreign currencies thus affecting the external stock.

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 0.9 percent and 7.7 years, respectively. In addition, the average maturity period for external loans was 24.3 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 stood at 5 years 11 months at end October 2011.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period August 2011 to October 2011. The Kenya shilling had a mixed performance against the major currencies. It depreciated against the Sterling Pound and the Euro by 2.4 percent and 3.1 percent respectively, and appreciated against the US Dollar and the Japanese Yen by 0.05 percent and 3.64 percent respectively. The Kenya shilling stood at 99.78 Kshs to the US Dollar at end October. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. The weakening of the Kenya shilling in the past few months have significantly increased the external debt stock and also led to higher costs of external debt service.

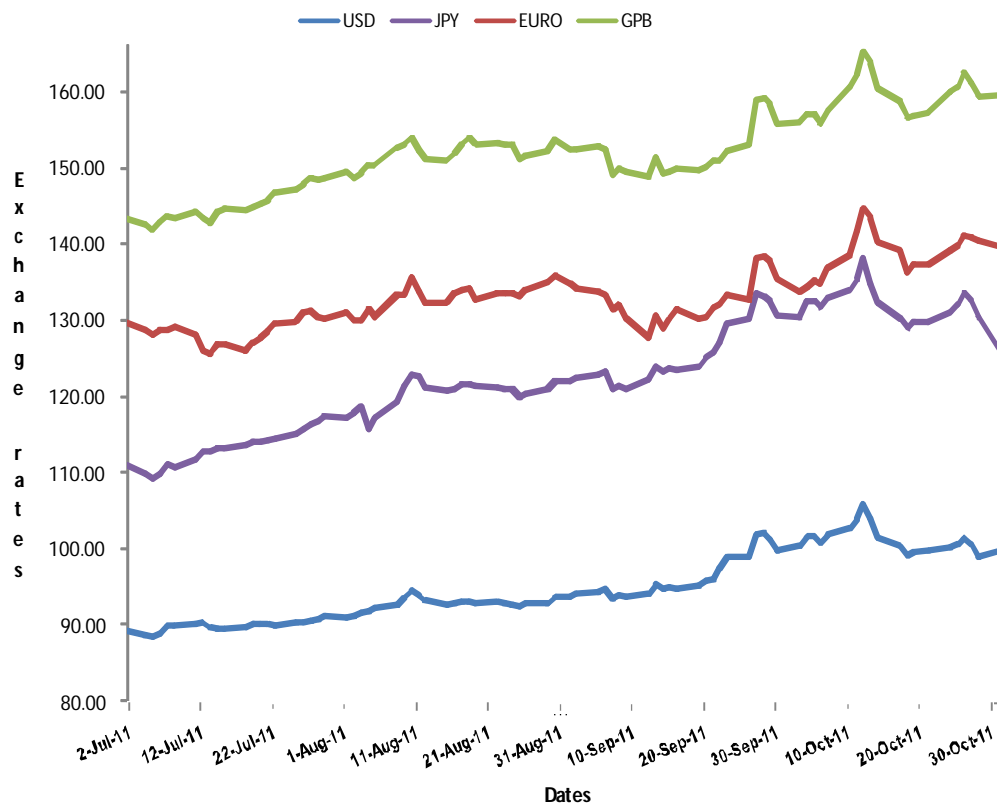
Table 2: Movement in exchange rates

Currency	August 2011	September 2011	October 2011
US Dollar	93.62	99.83	99.78
STG Pound	153.73	155.78	159.56
Euro	135.94	135.38	139.62
JPY(100)	122.10	130.54	125.78

Source: Central Bank of Kenya

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

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 10.18 billion from Kshs 799.83 billion in September 2011 to Kshs 810.01 billion in October 2011 as shown in Table 3.

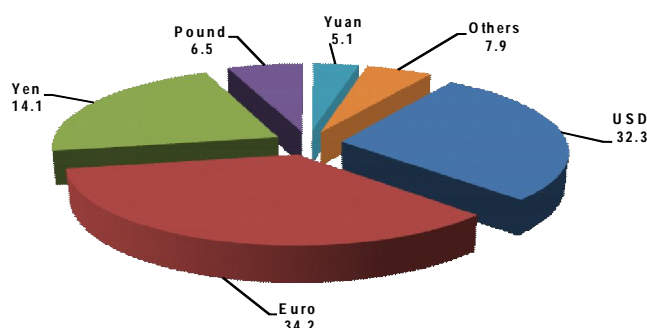
Table 3: Movement in external debt stock, in billion

Creditor Category	Kshs	USD
Bilateral	236.47	2.37
Multilateral	494.78	4.96
Guaranteed	51.58	0.52
Others	27.18	0.27
Total	810.01	8.12

Source: Ministry of Finance

The major increase was observed in multilateral external debt which increased by Kshs 12.08 billion on account of 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 32.3 percent of Kenya's external debt is denominated in the US Dollar while about 7.9 percent is in other currencies.

Chart 3. Currency Composition



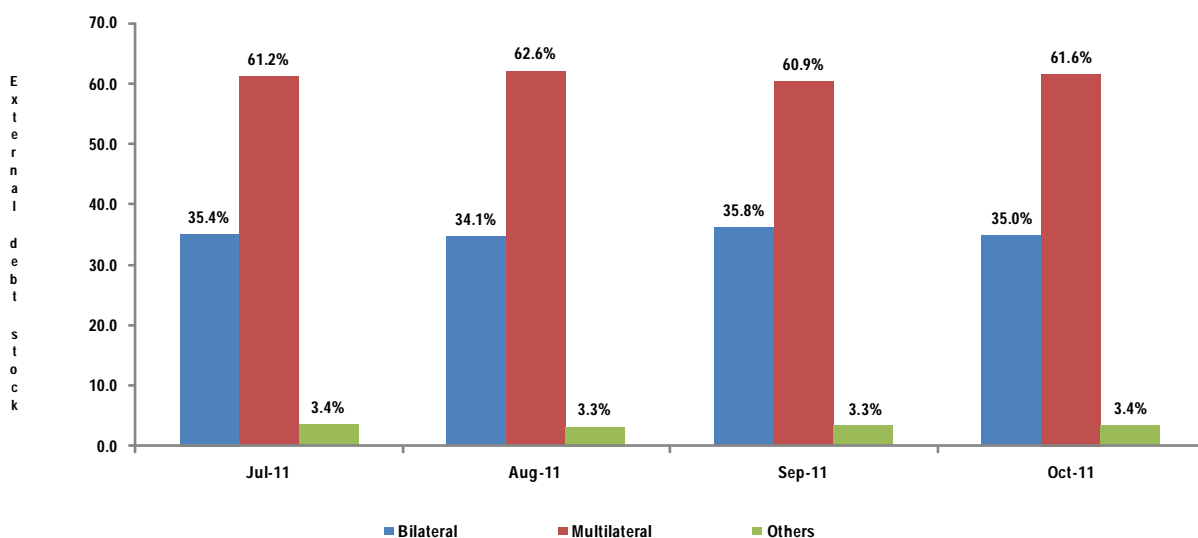
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 96.6 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 499.27 billion including Kshs 4.49 billion guaranteed debt owed to IDA) dominate the portfolio (61.6 percent of the total). Bilateral debt stands at Kshs 283.57 billion (35.0 percent of the total), which includes Kshs 47.09 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 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 October 2011 stood at Kshs 12.02 billion. Principal and interest projections for the month of October were Kshs 2.37 billion and Kshs 0.55 billion, respectively. Multilateral and bilateral creditors constitute 52 percent and 48 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 October 2011, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	4,686.32	1,108.16	5,794.48
Multilateral	5,228.96	993.70	6,222.66
Commercial	-	-	-
Total	9,915.28	2,101.86	12,017.14

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end October 2011 was Kshs 12.65 billion as reflected in Table 5. Actual principal and interest payments for the month of October 2011 was Kshs 3.24 billion and Kshs 1.08.

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

Credit category	Principal	Interest	Total
Bilateral	4,139.23	1,392.34	5,531.57
Multilaterals	5,925.78	1,194.97	7,120.75
Commercials	-	-	-
Totals	10,065.01	2,587.31	12,652.32

Source: Ministry of Finance

2.5 Budget Deviation

The actual debt service for October 2011 was above the projected debt service by Kshs 0.63 billion. This variance is attributed to higher actual exchange rates compared to the projected rates.

2.6 Guaranteed External Debt

Under the Guarantee Loans Act (Cap 461), the government may issue guarantees so long as it does not exceed the ceiling which currently stands at Kshs 200 billion. The amount of public guaranteed external debt decreased by Kshs 1.75 billion to Kshs 51.58 billion in October 2011. The decrease is due to the repayments made during the month. 90 percent of the guaranteed debt is owed to Japan. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor.

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

Creditor	August	September	October
Japan	45,214.47	48,099.04	46,346.95
Canada	421.32	449.26	449.02
U.S.A	318.32	296.99	296.84
IDA (KR Concessionaire)	4,213.00	4,492.44	4,490.02
Totals	50,167.11	53,337.73	51,582.83

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 30.19 billion to Kshs 662.06 billion. This is attributed to raising gross domestic debt and declining government deposits.

Table 7: Government domestic debt, in Kshs billion

	August	September	October
Gross domestic debt	776.69	764.27	795.21
<i>less</i>			
Govt. deposits at CBK	-42.48	-30.39	-30.05
Govt. deposits at commercial banks	-93.81	-96.31	-97.40
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	634.70	631.87	662.06

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of October 2011, Government securities worth Kshs 70.00 billion were advertised. Bids worth Kshs 57.05 billion were received, out of which Kshs 41.52 billion and Kshs 15.54 billion were bids for the Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 47.02 billion against the months redemptions of Kshs 21.34 billion leaving a surplus of Kshs 25.68 billion to the Exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	40,000	30,000	70,000
Bids received	41,517	15,537	57,054
Successful bids	35,155	11,867	47,022
Redemptions (cost)	21,335	-	21,335
Net domestic borrowing	13,820	11,867	25,687

Source: Ministry of Finance

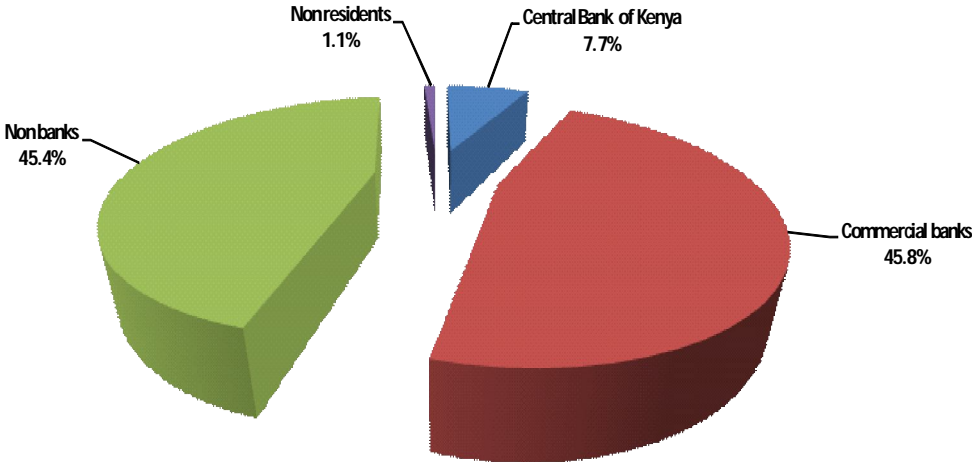
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	282.71	318.57	0.03	4.53	605.84
Treasury bills	78.02	42.28	3.82	4.45	128.57
Others	3.51	0.07	57.22	0.00	60.80
Total	364.24	360.92	61.07	8.98	795.21

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 364.24 billion or 45.8 percent as shown in Chart 5 below. Government debt securities worth Kshs 8.98 billion or 1.1 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 61.07 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy. The non banks held 45.4 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 individuals.

Chart 5: Domestic debt by holder as at end October 2011

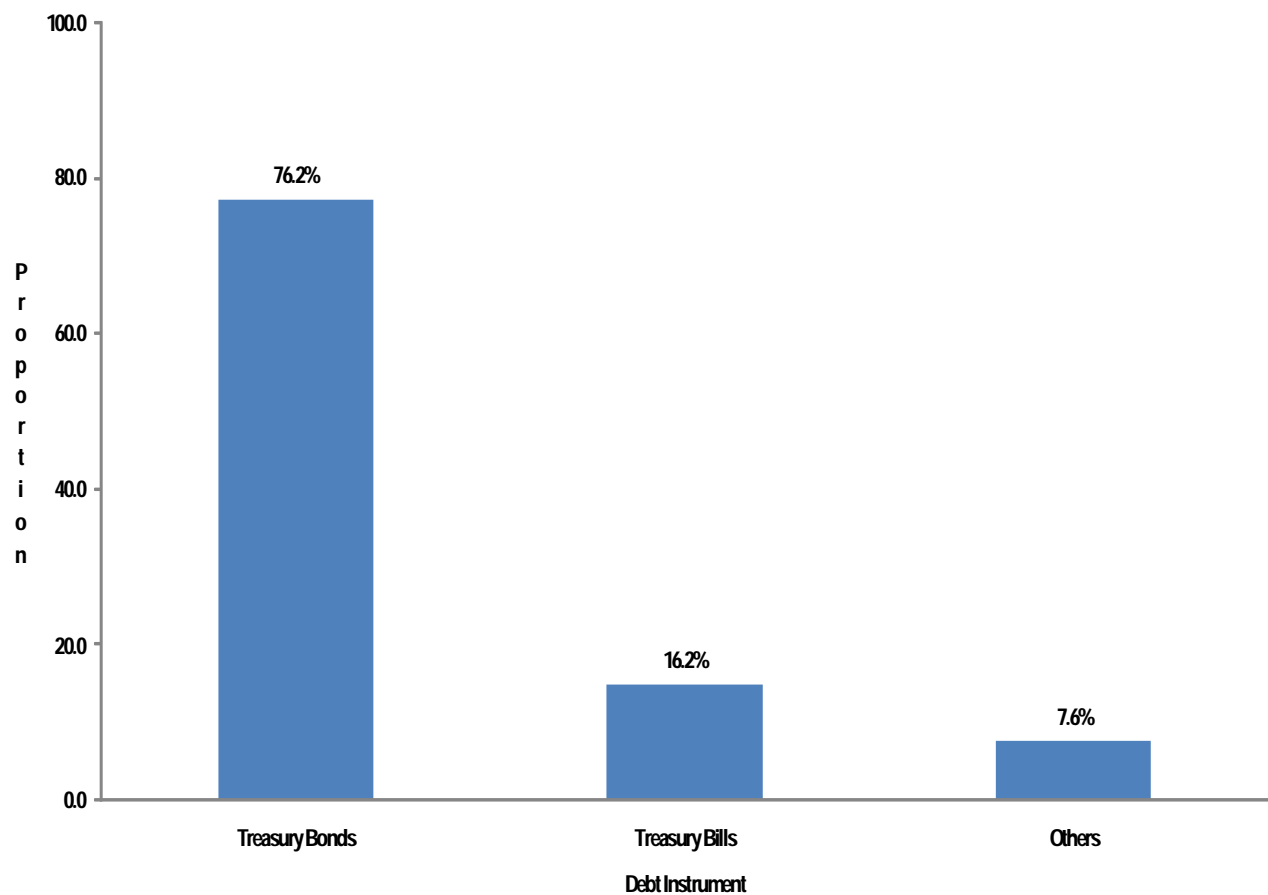


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end October 2011, 76.2 percent of Government domestic debt was in Treasury Bonds, 16.2 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 October 2011, the net domestic financing stood at Kshs 37.83 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	October	Change
Treasury Bills	123.53	123.54	0.01
Treasury Bonds	579.66	585.17	5.51
Long term Stock	0.00	0.00	0.00
Pre-1997 Govt. Overdraft debt	31.66	31.11	(0.55)
Other	8.11	26.21	18.10
<i>of which Overdraft (from CBK)</i>	<i>7.57</i>	<i>25.37</i>	<i>17.80</i>
Govt. deposits	89.95	75.19	(14.76)
Net Domestic Credit	653.01	690.84	37.83

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end October 2011, Government actual cumulative domestic interest payments stood at Kshs 23.74 billion against the cumulative projected interest payments of Kshs 23.53 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 19.61 billion and Kshs 3.53 billion respectively. The total variance of Kshs 205.1 million is attributed to rising interest rates in the Government securities auctions.

Table 11: Domestic interest payments, in Kshs million

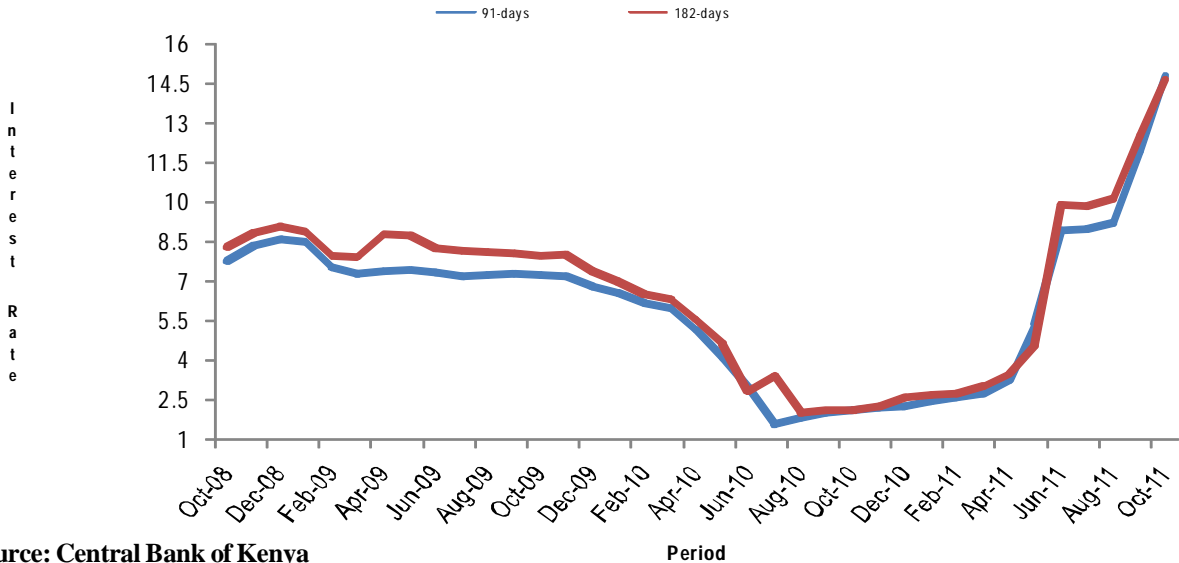
Type of debt	Projected	Actual	Variance
Treasury bonds	16,808.66	19,608.07	(2,799.41)
Treasury bills	5,995.76	3,528.54	2,466.92
Overdraft	415.89	601.65	(185.76)
Pre-1997 overdraft debt	313.13	0.00	313.13
Totals	23,531.44	23,728.26	(205.12)

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 October 2008. After a sustainable decline, the interest rates have been increasing since the beginning of the financial year 2010/11. During the month of October 2011, the average interest rates for the 91-day Treasury bills rose by 287 basis points to 14.80 percent while the 182-day and 364-day Treasury bills increased by 340 and 196 basis points respectively to 14.68 and 14.50 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 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	18.6%
5 YR	14.9%
10 YR	13.4%
15 YR	13.7%
20 YR	14.0%
25 YR	15.2%

Source: Central Bank of Kenya

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

CREDITOR	Stock at end September 2011	Stock at end October 2011	Change
CENRAL GO VERNMENT			
BILATERAL			
AUSTRIA	1,940.20	2,000.95	60.75
BELGIUM	9,534.72	9,993.27	458.55
CANADA	1,412.72	1,411.96	(0.76)
DENMARK	2,887.22	2,900.25	13.03
FINLAND	141.97	144.2213889	2.25
FRANCE	43,763.95	44,662.99	899.04
GERMANY	27,982.97	28,737.99	755.02
ITALY	4,567.90	4,708.33	140.43
JAPAN	80,614.12	77,325.35	(3,288.77)
NETHERLANDS	4,195.37	4,326.73	131.36
UK	2,507.60	2,568.47	60.87
USA	6,173.75	6,130.52	(43.23)
PARIS CLUB OTHERS	6,361.10	6,220.42	(140.68)
NON PARIS CLUB	45,062.44	45,341.93	279.49
Sub t total	237,146.03	236,473.39	(672.64)
MULTILATERAL			
ADB/AFDB	64,126.80	69,054.42	4,927.62
EEC/EIB	12,744.11	13,123.27	379.16
IDA	331,023.32	336,243.42	5,220.10
IFAD	7,759.20	8,459.66	700.46
IMF	57,177.70	58,035.52	857.82
OTHERS	9,878.65	9,865.07	(13.58)
Sub t total	482,709.79	494,781.34	12,071.55
SUPPLIERS CREDIT	26,640.48	27,174.04	533.56
Sub Total	746,496.29	758,428.77	11,932.48
GUARANTEED DEBT			
CANADA	449.26	449.02	(0.24)
JAPAN	48,099.04	46,346.95	(1,752.09)
USA	296.99	296.84	(0.15)
IDA(KR Concessionaire)	4,492.44	4,490.02	(2.42)
Sub Total	53,337.73	51,582.83	(1,754.90)
GOK+ G UARANTEED TOTAL	799,834.03	810,011.60	10,177.57

Source: Ministry of Finance

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