



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

OCTOBER 2012

1.0 PUBLIC DEBT

1.1 Introduction

As at end October 2012, public and publicly guaranteed debt stood at Kshs 1,741.49 billion or 45.04 percent of GDP (see Table 1). The increase of 0.97 percent over the end September 2012 position is attributed to increase in both domestic and external debt. Domestic debt increased by Ksh 7.11 billion to stand at Ksh 929.32 billion, while external debt increased by Ksh 9.72 billion to stand at Ksh 812.17 billion in October 2012. (See Table 1).

Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	929.32	10.91
External Debt	812.17	9.54
Total	1,741.49	20.45

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 53.4 percent of the total debt is domestic debt while 46.6 percent 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 remained unchanged at 1.0 percent and 7.3 years, respectively. In addition, the average maturity period for external loans was 25.3 years while the average grant element was 63.1 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 1 months at end October 2012.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period August 2012 to October 2012. The Kenya shilling appreciated against the US dollar, Sterling Pound and the Japanese Yen by 0.01 percent, 1.04 percent and 2.59 percent respectively while it depreciated against the Euro by 0.33 percent. The Kenya shilling stood at Kshs 85.18 to the US Dollar at end of October 2012. The depreciation of the Kenya Shilling has the effect of increasing external debt stock and the cost of debt service.

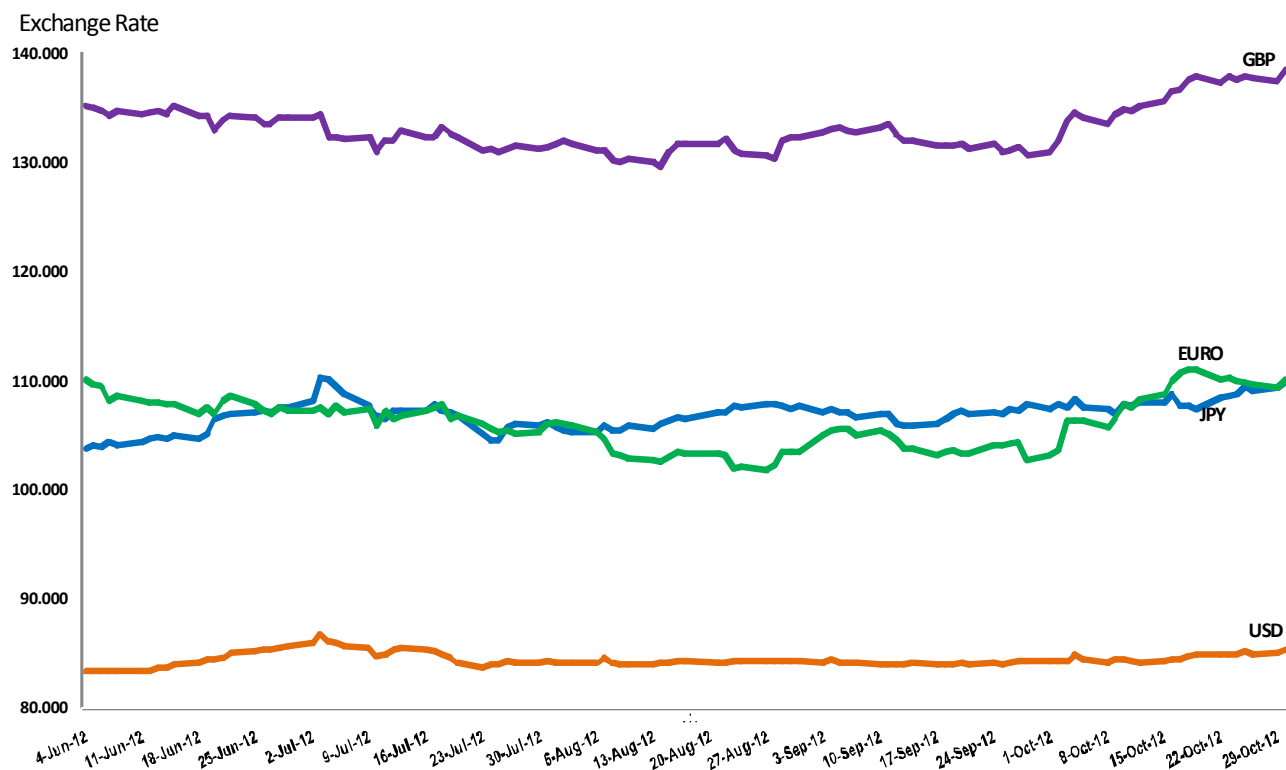
Table 2: Movement in exchange rates

Currency	August 2012	September 2012	October 2012
US Dollar	84.32	85.19	85.18
STG Pound	133.13	138.39	136.95
Euro	105.43	110.01	110.37
JPY(100)	107.45	109.84	107.00

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from June 2012 to October 2012. Three major currencies have recorded mixed performance over the month of October with the US Dollar showing signs of stability during the same period.

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 9.72 to Kshs 812.17 billion in October 2012 from Kshs 802.45 billion in September 2012 as shown in Table 3.

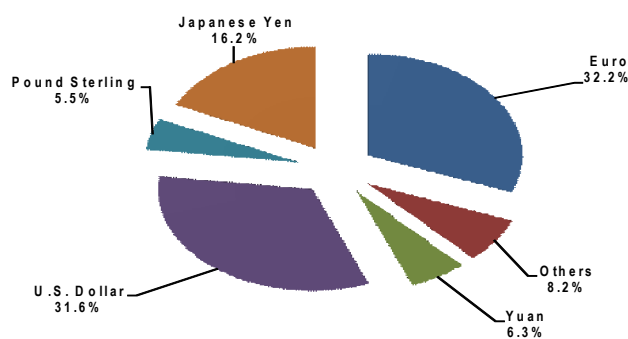
Table 3: External debt stock, in billions

	September 2012		October 2012	
	K shs	USD	K shs	USD
Bilateral	224.99	2.64	226.30	2.66
Multilateral	463.14	5.44	471.47	5.53
Guaranteed	48.09	0.56	48.14	0.57
Others	15.12	0.18	15.15	0.18
Commercial Banks	51.11	0.60	51.11	0.60
Total	802.45	9.42	812.17	9.54

Source: Ministry of Finance

These increase can be attributed to disbursements mainly from International Development Association (IDA). Chart 3 below illustrates that 31.6 percent of Kenya's external debt is denominated in the US Dollar while 6.3 percent is in Chinese Yuan

Chart 3. Currency Composition



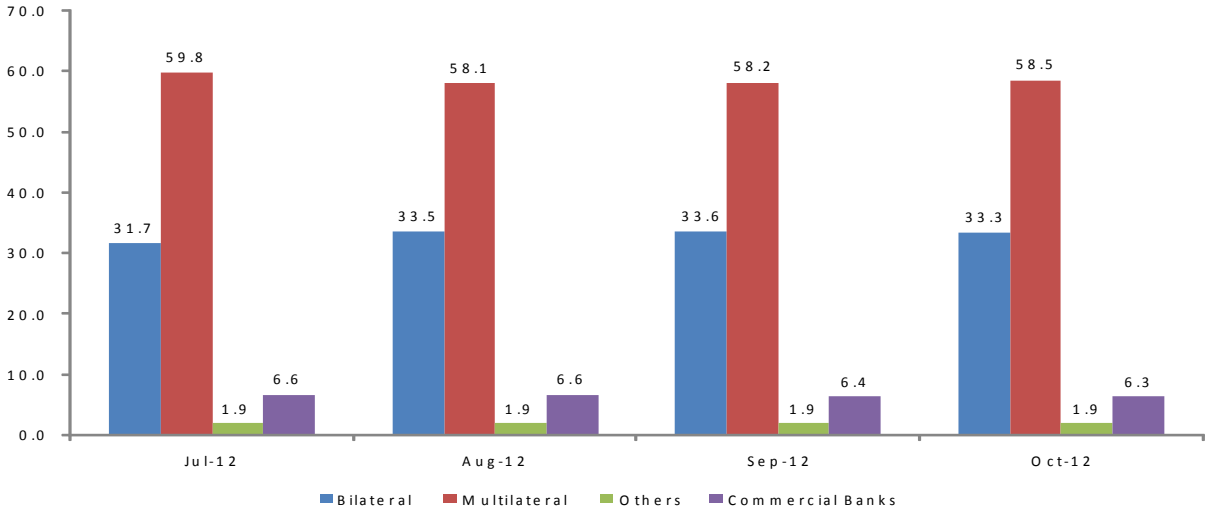
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 91.84 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 475.30 billion including Ksh 3.83 billion guaranteed debt owed to IDA) dominate the portfolio (58.52 percent of the total). Bilateral debt stands at Kshs 270.61 billion (33.32 percent of the total), which includes Kshs 44.31 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 6.29 percent of the total public and publicly guaranteed external debt.

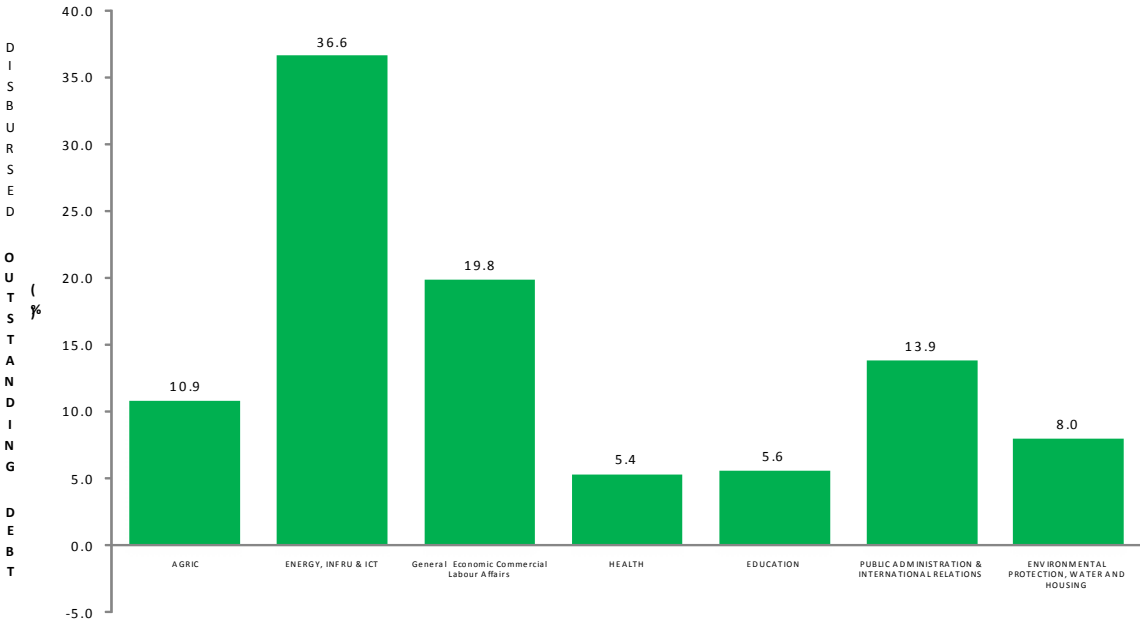
Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 External Debt by Sector

The health sector has been receiving the smallest share of the external loan funding of 5.4 percent of the total external debt while energy sector received 36.6 percent.



2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end October, 2012 stood at Kshs 14.24 billion. Principal and interest projections for the month of October 2012 were Kshs 2.33 billion and Kshs 0.76 billion, respectively. Multilateral and bilateral creditors constitute 51.1 percent and 42.2 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Creditor category	Principal	Interest	Total
Bilateral	4,627.11	1,390.36	6,017.47
Multilateral	5,713.83	1,563.15	7,276.97
Commercial	-	949.36	949.36
Total	10,340.94	3,902.87	14,243.81

Source: Ministry of Finance

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end October 2012 was Kshs 12.57 billion as shown in Table 5. Actual principal and interest payments for the month of October 2012 was Kshs 2.14 billion and Kshs 0.41 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	4,156.05	1,531.54	5,687.59
Multilaterals	5,340.02	918.66	6,258.68
Commercials	-	624.13	624.13
Totals	9,496.07	3,074.34	12,570.40

Source: Ministry of Finance

2.6 Budget Deviation

The actual cumulative debt service for October 2012 was below the projected debt service by Kshs 1.67 billion, which is explained by changes in exchange rates between the actual and projected debt service payments and the abandoned monthly interest payments on the syndicated loan which is now payable semi annually instead of monthly.

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 48.2 million to Kshs 48.14 billion in October 2012 from Ksh 48.09 billion in September 2012. The increase is due to the disbursements from the Japanese.

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

Creditor	August 2012	September 2012	October 2012
Japan	43,152.66	43,709.73	43,758.35
Canada	362.59	366.31	366.28
U.S.A	215.02	181.02	181.00
IDA (KR Concessionaire)	3,794.44	3,833.37	3,832.99
Totals	47,524.71	48,090.43	48,138.61

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 20.58 billion to Kshs 781.26 billion in October 2012 from Ksh 760.68 billion in September 2012, due to increased gross domestic debt and reduction in Government deposits in Central Bank and commercial banks as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	August 2012	September 2012	October 2012
Gross domestic debt	903.03	922.20	929.32
<i>less</i>			
Govt. deposits at CBK	-50.30	-45.41	-39.37
Govt. deposits at commercial banks	-100.59	-110.41	-102.99
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	746.44	760.68	781.26

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of October 2012, Government securities worth Kshs 50.00 billion were advertised. Bids worth Kshs 52.19 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 27.07 billion and Kshs 25.12 billion respectively. Successful bids amounted to Kshs 33.72 billion against the months redemptions of Kshs 23.76 billion leaving exchequer with a surplus of Kshs 9.96 billion as revenue.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	38,000	12,000	50,000
Bids received	27,067	25,120	52,187
Successful bids	19,929	13,787	33,716
Redemptions (cost)	(23,757)	-	(23,757)
Net domestic borrowing	(3,828)	13,787	9,959

Source: Ministry of Finance

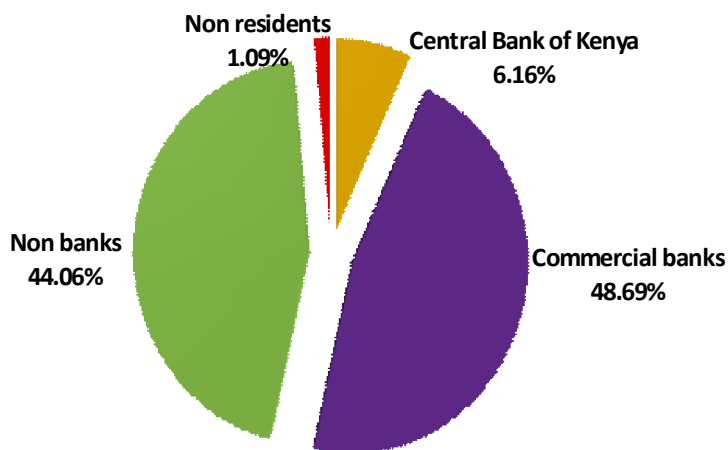
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	351.36	361.05	0.98	4.49	717.88
Treasury bills	98.11	48.39	0.75	5.65	152.90
Others	3.00	0.07	55.47	0.00	58.54
Total	452.47	409.51	57.20	10.14	929.32
Percentage Holding	48.69	44.06	6.16	1.09	100.00

Source: Central Bank of Kenya

At the end of October 2012 commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 452.47 billion or 48.69 percent as shown in Table 9 and Chart 5. The non banks held 44.06 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 10.14 billion or 1.09 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 57.20 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 October 2012

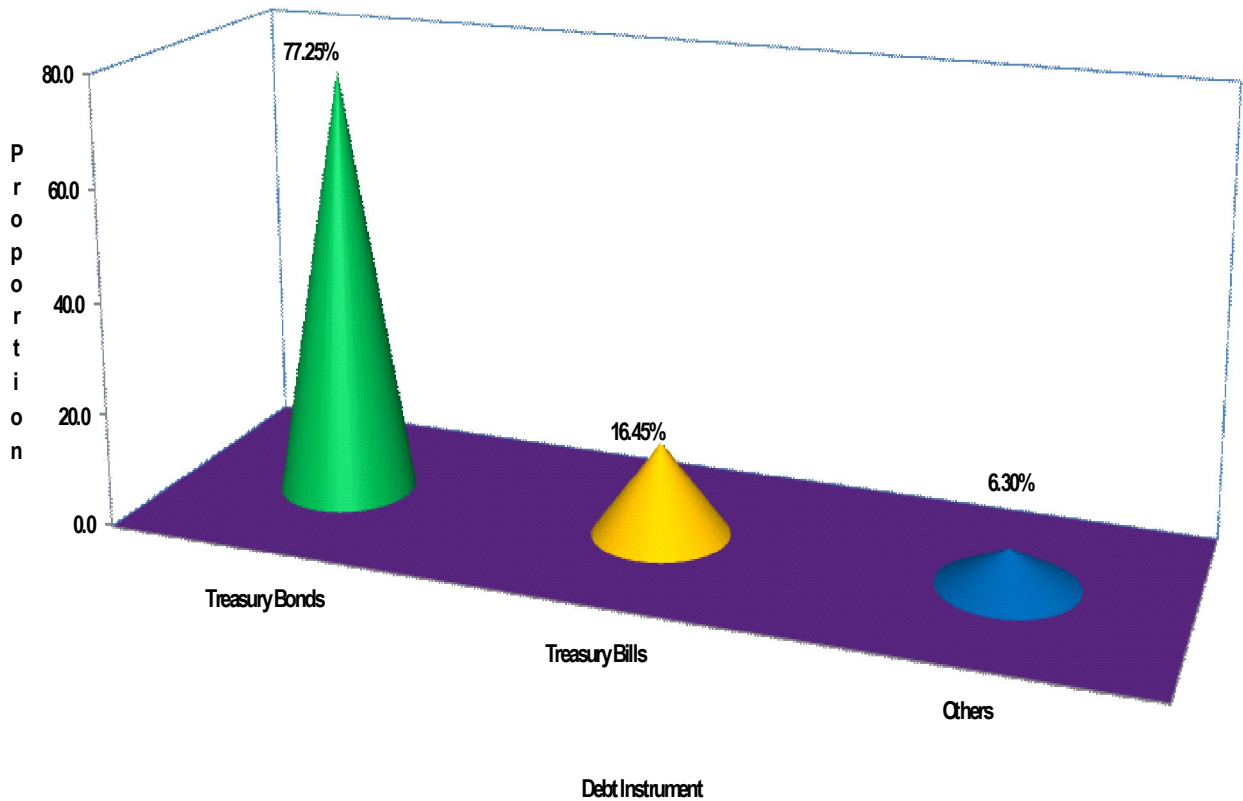


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end October 2012. 77.25 percent of Government domestic debt was in Treasury Bonds, 16.45 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 October 2012, the net domestic financing stood at Kshs 75.23 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	October-2012	Change
Treasury Bills	120.82	143.93	23.11
Treasury Bonds	661.30	689.56	28.26
Pre-1997 Govt. Overdraft debt	30.00	30.00	0.00
Other	7.81	27.04	19.23
<i>of which Overdraft (from CBK)</i>	7.26	25.37	18.11
Govt. deposits	93.69	89.05	(4.64)
Net Domestic Credit	726.24	801.47	75.23

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end October 2012, Government actual cumulative domestic interest payments stood at Kshs 36.13 billion against the cumulative projected interest payments of Kshs 36.23 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 25.74 billion and Kshs 8.56 billion respectively.

Table 11: Domestic interest payments, in Kshs million

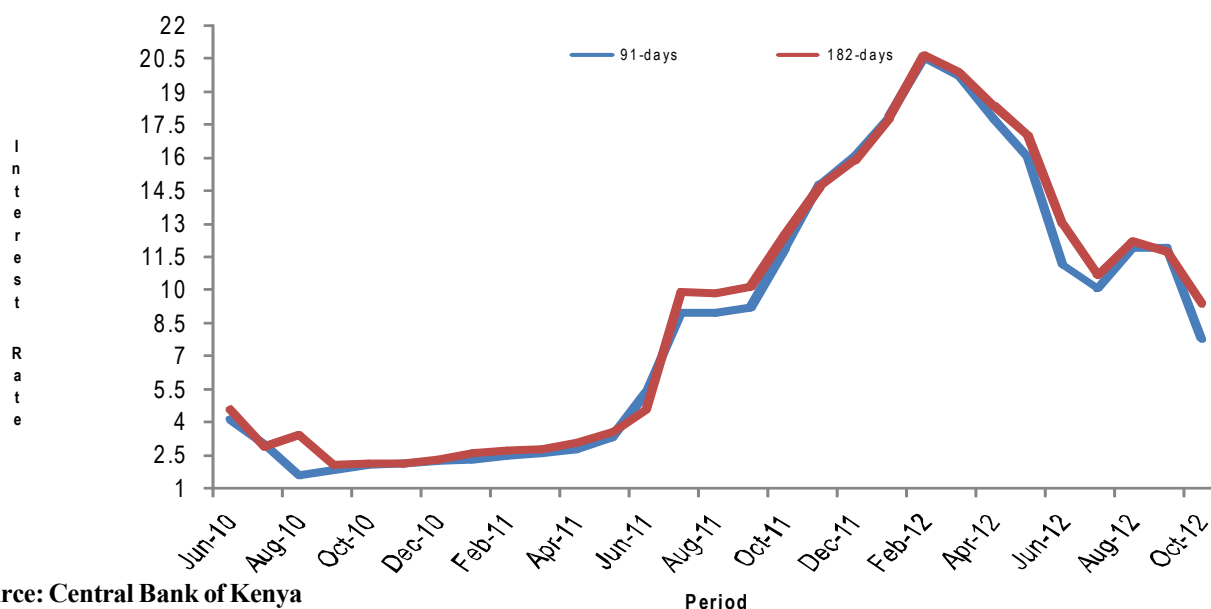
Type of debt	Projected	Actual	Variance
Treasury bonds	25,766.36	25,744.47	(21.86)
Treasury bills	8,586.54	8,561.11	(25.43)
Overdraft	1,006.12	1,023.06	16.94
Pre-1997 overdraft debt	874.57	800.60	(73.97)
Totals	36,233.56	36,129.24	(104.35)

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 June 2010. During the month of October 2012, the average interest rates for the 91-day Treasury bills increased by 143 basis points to 9.20 percent and the 182-day Treasury bills rose by 107 to 10.44 percent per annum while 364-day Treasury bills stood at an average of 10.57 percent per annum in October 2012.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

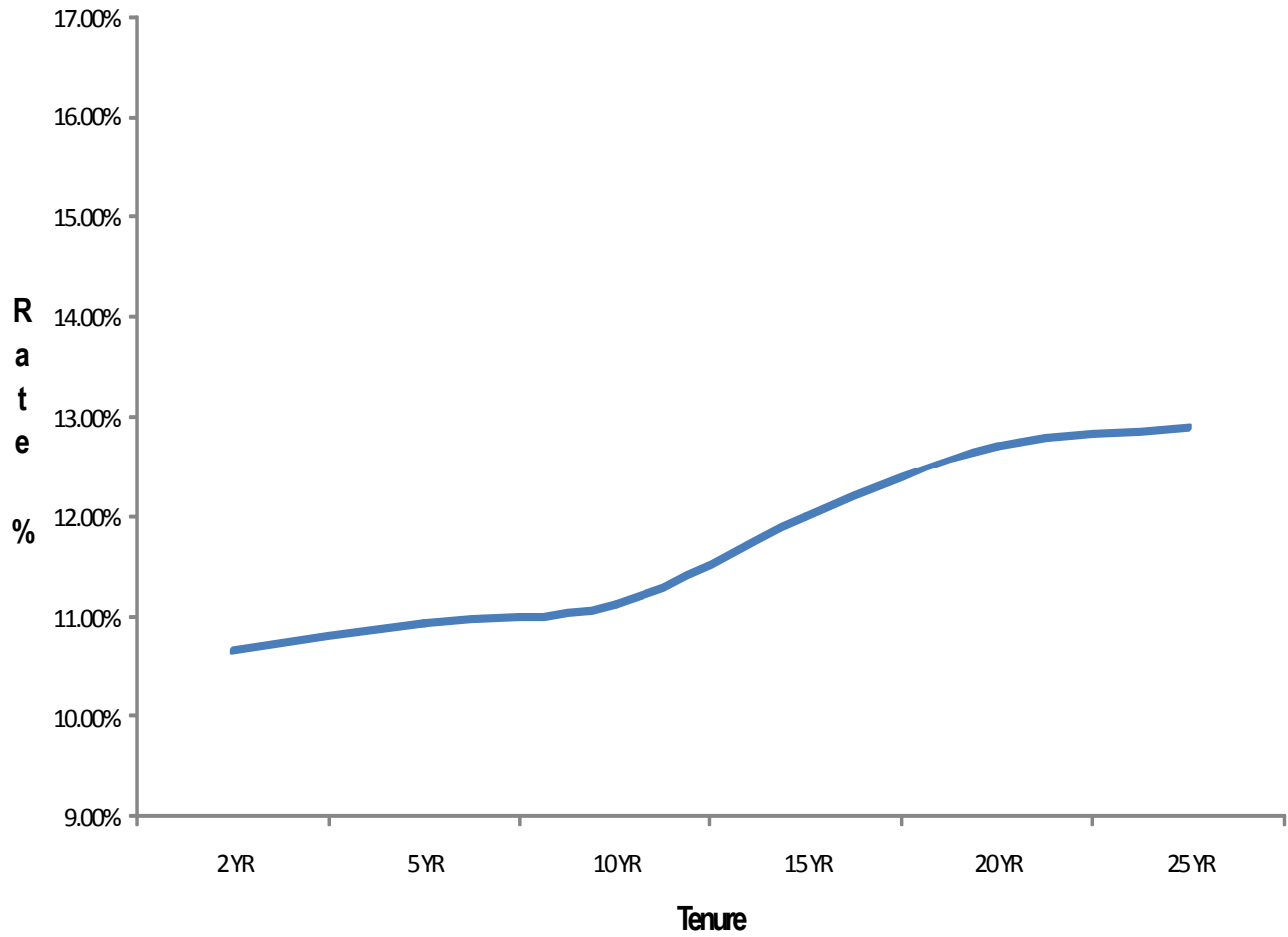
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.66%
5 YR	10.92%
10 YR	11.12%
15 YR	12.00%
20 YR	12.71%
25 YR	12.90%

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 September 2012	Stock at end October 2012	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,240.02	1,372.59	132.57
BELGIUM	7,586.44	8,147.62	561.18
CANADA	1,131.30	1,131.19	(0.11)
DENMARK	2,147.54	2,152.09	4.55
FINLAND	107.39	107.56	0.17
FRANCE	41,392.87	42,896.30	1,503.43
GERMANY	24,838.30	24,950.61	112.31
ITALY	2,155.45	2,235.49	80.04
JAPAN	62,597.32	60,490.21	(2,107.11)
NETHERLANDS	2,902.44	2,928.60	26.16
UK	2,039.64	2,018.37	(21.27)
USA	4,925.36	5,569.44	644.08
PARIS CLUB OTHERS	4,793.68	4,908.18	114.50
NON PARIS CLUB	67,134.94	67,393.89	258.95
o/w CHINA	60,209.53	60,589.44	379.91
Sub total	224,992.69	226,302.13	1,309.61
MULTILATERAL			-
ADB/AFDB	72,986.46	74,172.11	1,185.65
EEC/EIB	10,911.35	12,951.51	2,040.16
IDA	294,956.58	299,775.33	4,818.75
IFAD	7,422.94	7,724.58	301.64
IMF	67,782.89	67,704.86	(78.03)
OTHERS	9,081.20	9,146.15	64.95
Sub total	463,141.42	471,474.54	8,333.12
COMMERCIAL BANKS	51,111.66	51,111.66	(5.16)
SUPPLIERS CREDIT	15,121.08	15,121.08	27.46
Sub Total	754,366.85	764,031.72	9,664.87
GUARANTEED DEBT			-
CANADA	366.31	366.28	(0.03)
JAPAN	43,709.73	43,758.35	48.62
USA	181.02	181.00	(0.02)
IDA(KR Concessionaire)	3,833.37	3,832.99	(0.38)
Sub Total	48,090.43	48,138.61	48.18
GOK+ GUARANTEED TOTAL	802,457.28	812,170.33	9,713.05

Source: Ministry of Finance

Memorandum item

Nominal GDP (in Kshs Billion) **3,866.50**

Source: BPS January 2013

Information in this publication may be reproduced without restriction provided that due acknowledgement of the source is made .

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