



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

SEPTEMBER 2012

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end September 2012, public and publicly guaranteed debt stood at Kshs 1,724.66 billion or 44.60 percent of GDP (see Table 1). The increase of 2.9 percent over the end August 2012 position is attributed to increase in both domestic and external debt. External debt increased by Ksh 30.69 billion to stand at Ksh 802.45 billion, while domestic debt increased by Ksh 19.18 billion to stand at Ksh 922.21 billion in September 2012. (See Table 1).

Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	922.21	10.82
External Debt	802.45	9.42
Total	1,724.66	20.24

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 53.5 percent of the total 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 7.3 years, respectively. In addition, the average maturity period for external loans was 25.5 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 4 months at end August 2012 compared to 5 years 3 months at end September 2012.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period July 2012 to September 2012. The Kenya shilling depreciated against the Euro, Sterling Pound, Japanese Yen and the US dollar by 4.3 percent, 4.0 percent, 2.2 percent and 1.0 percent respectively. The Kenya shilling stood at Kshs 85.19 to the US Dollar at end of September 2012. The depreciation of the Kenya Shilling has the effect of increasing external debt stock and the cost of debt service.

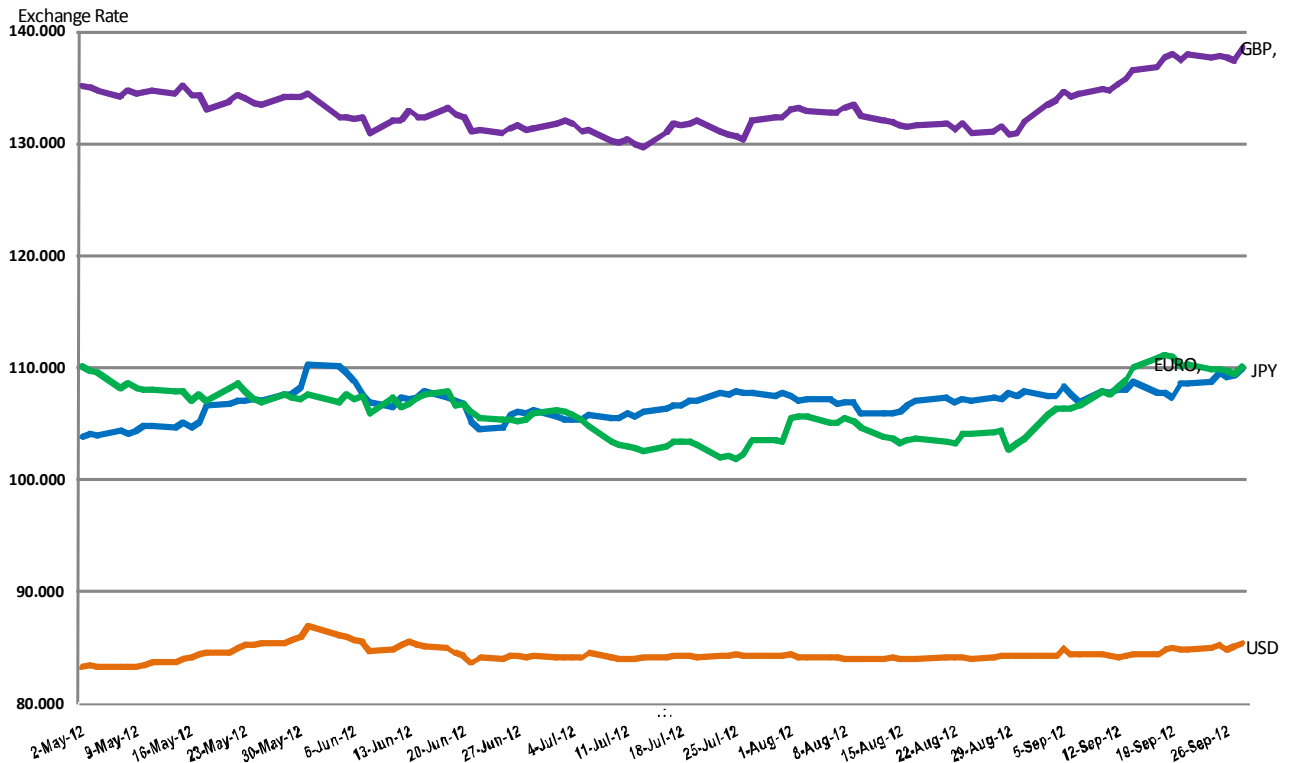
Table 2: Movement in exchange rates

Currency	July 2012	August 2012	September 2012
US Dollar	84.21	84.32	85.19
STG Pound	132.37	133.13	138.39
Euro	103.41	105.43	110.01
JPY(100)	107.69	107.45	109.84

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from May 2012 to September 2012. From the first quarter of the fiscal year 2012/13, the four major currencies remained slightly stable except in the month of September 2012 where they changed by a higher margin.

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 4.0 percent to Kshs 802.45 billion in September 2012 from Kshs 771.76 billion in August 2012 as shown in Table 3.

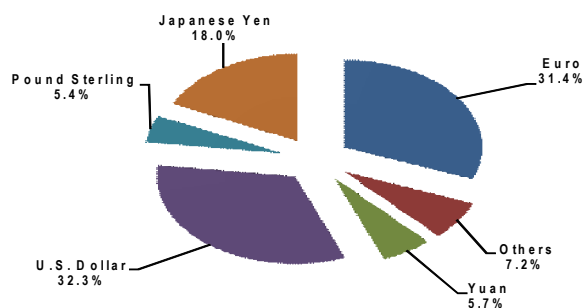
Table 3: External debt stock, in billions

	August 2012		September 2012	
	K shs	USD	K shs	USD
Bilateral	214.74	2.55	224.99	2.64
Multilateral	444.20	5.27	463.14	5.44
Guaranteed	47.52	0.56	48.09	0.56
Others	14.70	0.17	15.12	0.18
Commercial Banks	50.59	0.60	51.11	0.60
<b>Total</b>	<b>771.76</b>	<b>9.15</b>	<b>802.45</b>	<b>9.42</b>

Source: Ministry of Finance

These increase can be attributed to the weakening of the Kenya Shilling against the major currencies across all the major creditors. Chart 3 below illustrates that 31 percent of Kenya's external debt is denominated in the Euro while about 7 percent is in other currencies including Kuwait Dinar and Swiss Franc among others.

Chart 3. Currency Composition



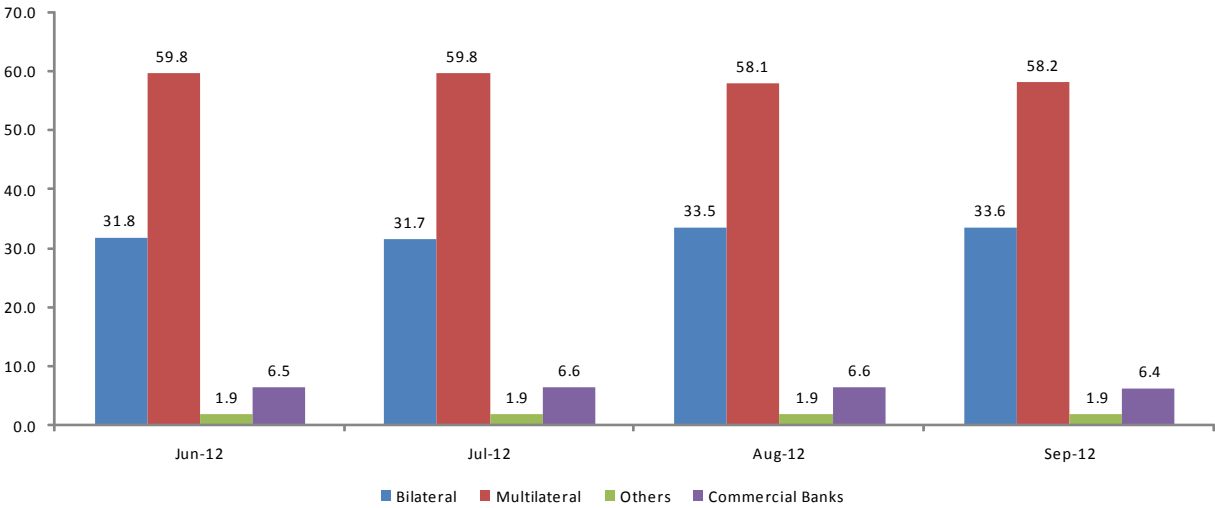
Source: Ministry of Finance

### 2.2 Structure of External Debt by Creditor

Official creditors account for 91.74 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 466.97 billion including Ksh 3.83 billion guaranteed debt owed to IDA) dominate the portfolio (58.05 percent of the total). Bilateral debt stands at Kshs 269.25 billion (33.55 percent of the total), which includes Kshs 44.26 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 6.36 percent of the total public and publicly guaranteed external debt.

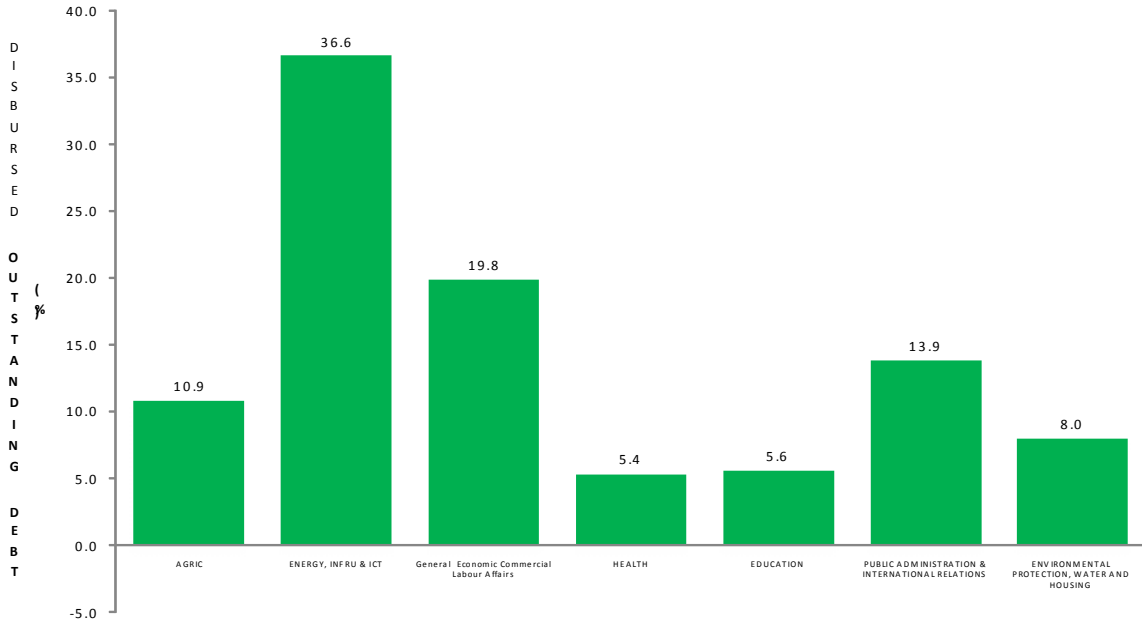
Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 External Debt by Sector

Energy and Infrastructure sector has been receiving the biggest share of the external loan funding receiving more than 36 percent of the total while agriculture received 11 percent.



## 2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end September, 2012 stood at Kshs 11.15 billion. Principal and interest projections for the month of September 2012 were Kshs 3.85 billion and Kshs 2.34 billion, respectively. Multilateral and bilateral creditors constitute 48.8 percent and 44.7 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

<b>Creditor category</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Bilateral	4,048.89	1,059.35	5,108.24
Multilateral	4,146.50	1,182.92	5,329.42
Commercial	-	712.02	712.02
<b>Total</b>	<b>8,195.39</b>	<b>2,954.29</b>	<b>11,149.68</b>

Source: Ministry of Finance

## 2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end September 2012 was Kshs 5.61 billion as reflected in Table 5. Actual principal and interest payments for the month of September 2012 was Kshs 2.31 billion and Kshs 0.87 billion respectively.

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

<b>Credit category</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Bilateral	2,832.71	1,249.83	4,082.54
Multilaterals	4,720.42	820.61	5,541.03
Commercials	-	624.13	624.13
<b>Totals</b>	<b>7,553.13</b>	<b>2,694.57</b>	<b>10,247.7</b>

Source: Ministry of Finance

## 2.6 Budget Deviation

The actual cumulative debt service for September 2012 was below the projected debt service by Kshs 0.91 billion. Which is explained by changes in exchange rates between the actual and projected.

## 2.7 Guaranteed External Debt

Under the National Government Loans Guarantee Act, 2011, 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 565.72 million to Kshs 48.09 billion in September 2012 from Ksh 48.09 billion in August 2012. The increase is due to the depreciation of the Kenya shilling against the Japanese Yen in which the guaranteed debt is denominated.

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

<b>Creditor</b>	<b>July 2012</b>	<b>August 2012</b>	<b>September 2012</b>
Japan	43,236.23	43,152.66	43,709.73
Canada	362.17	362.59	366.31
U.S.A	214.76	215.02	181.02
IDA (KR Concessionaire)	3,789.97	3,794.44	3,833.37
Totals	47,603.13	47,524.71	48,090.43

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 14.14 billion to Kshs 760.68 billion in September 2012 from Ksh 746.44 billion in August 2012. This is because of increased Government deposits in Commercial Bank.

Table 7: Government domestic debt, in Kshs billion

	July 2012	August 2012	September 2012
Gross domestic debt	872.64	903.03	922.20
<i>less</i>			
Govt. deposits at CBK	-48.88	-50.30	-45.41
Govt. deposits at commercial banks	-108.88	-100.59	-110.41
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	709.18	746.44	760.68

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of September 2012, Government securities worth Kshs 54.00 billion were advertised. Bids worth Kshs 66.72 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 42.57 billion and Kshs 24.15 billion respectively. Successful bids amounted to Kshs 50.63 billion against the months redemptions of Kshs 38.51 billion leaving exchequer with a surplus of Kshs 12.12 billion as revenue to the exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	39,000	15,000	54,000
Bids received	42,566	24,154	66,720
Successful bids	31,101	19,526	50,627
Redemptions (cost)	(16,742)	(21,766)	(38,508)
Net domestic borrowing	14,359	(2,240)	12,119

Source: Ministry of Finance



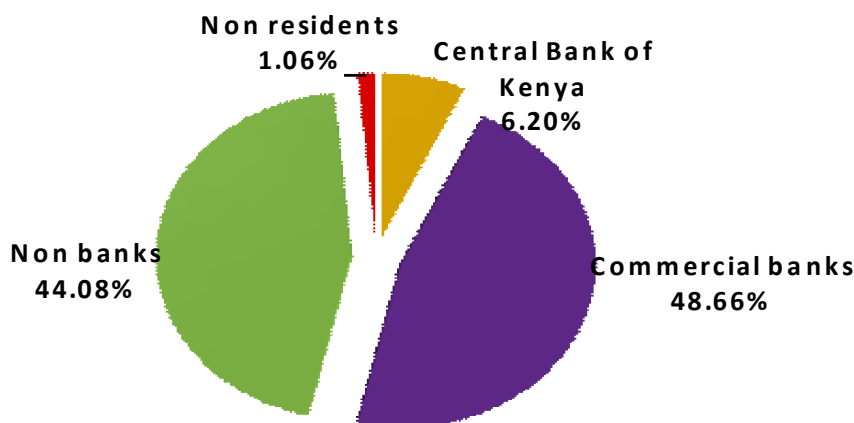
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	342.03	356.62	0.97	4.49	704.11
Treasury bills	103.69	49.80	0.74	5.29	159.52
Others	3.02	0.07	55.49	0.00	58.58
Total	448.74	406.49	57.20	9.78	922.21
Percentage Holding	48.66	44.08	6.20	1.06	100.00

Source: Central Bank of Kenya

At the end of September 2012 commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 448.74 billion or 48.66 percent as shown in Table 9 and Chart 5. The non banks held 44.08 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 9.78 billion or 1.06 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 September 2012

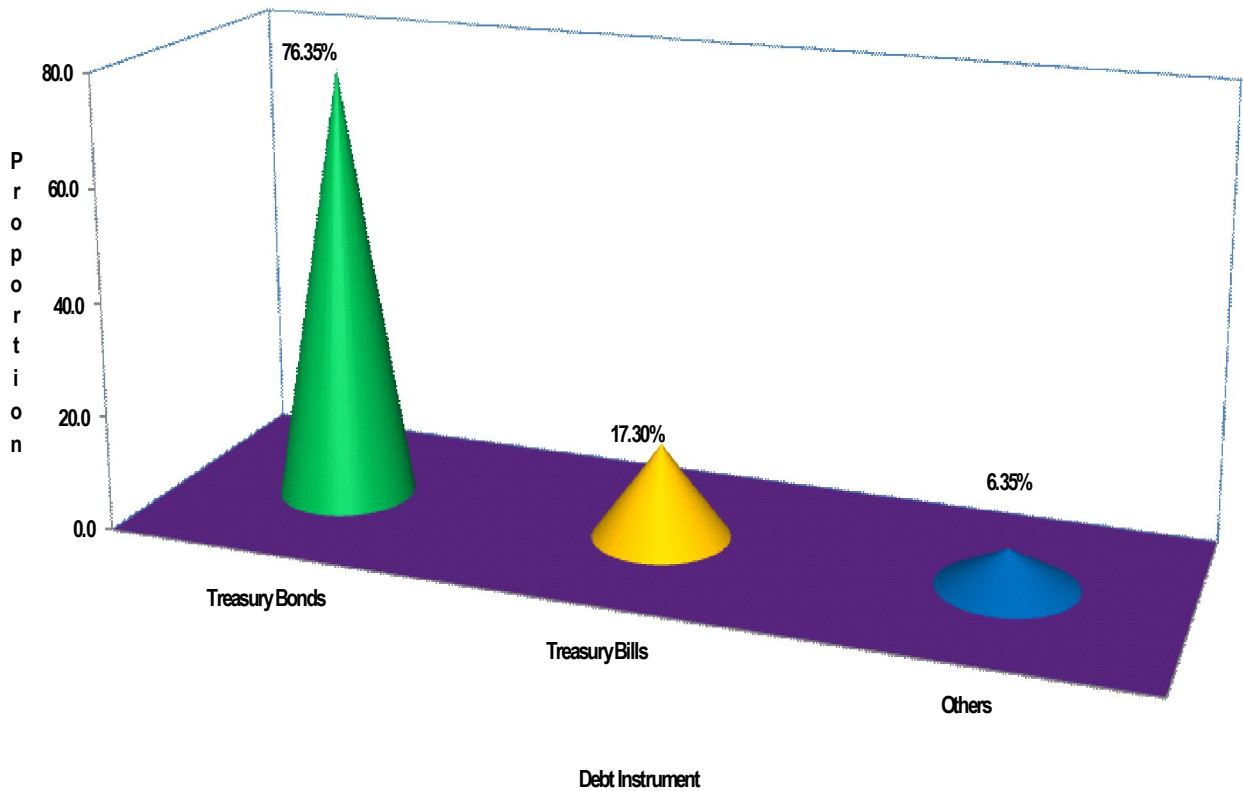


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end September 2012. 76.35 percent of Government domestic debt was in Treasury Bonds, 17.30 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 September 2012, the net domestic financing stood at Kshs 69.40 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	September-2012	Change
Treasury Bills	120.82	148.18	27.36
Treasury Bonds	661.30	675.87	14.57
Pre-1997 Govt. Overdraft debt	30.00	30.00	0.00
Other	7.81	27.02	19.21
<i>of which Overdraft (from CBK)</i>	7.26	25.37	18.11
Govt. deposits	93.69	85.44	(8.25)
Net Domestic Credit	726.24	795.64	69.40

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end September 2012, Government actual cumulative domestic interest payments stood at Kshs 25.21 billion against the cumulative projected interest payments of Kshs 22.18 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 17.42 billion and Kshs 6.26 billion respectively.

Table 11: Domestic interest payments, in Kshs million

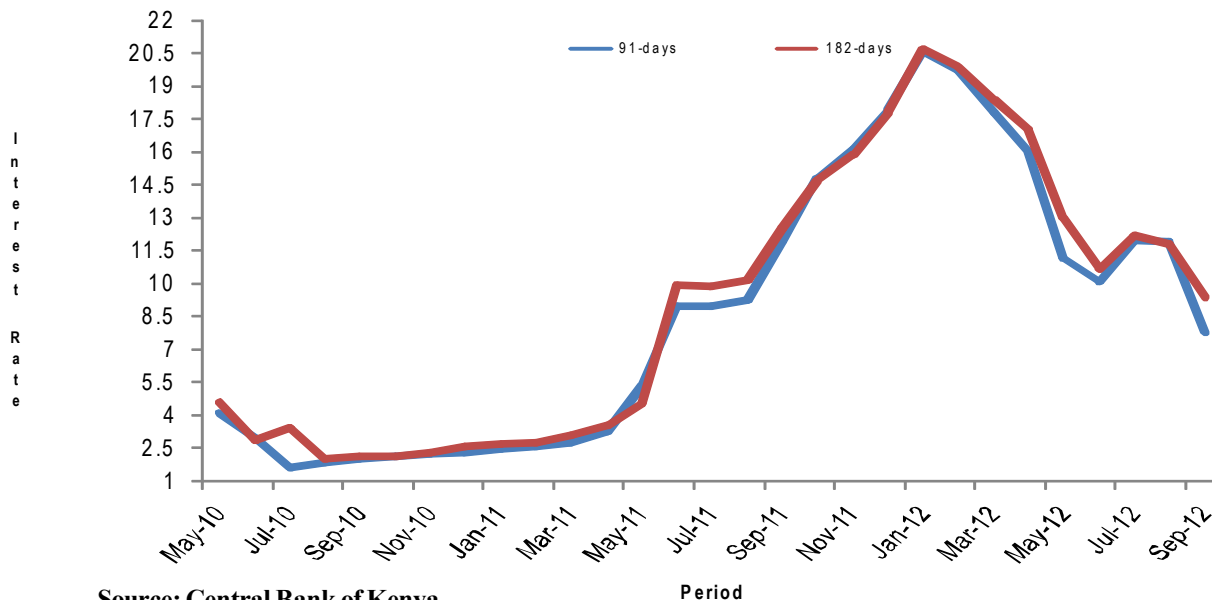
Type of debt	Projected	Actual	Variance
Treasury bonds	19,235.37	17,416.00	(1,819.40)
Treasury bills	1,991.95	6,257.00	4,265.05
Overdraft	729.45	735.00	5.55
Pre-1997 overdraft debt	226.22	801.00	574.78
Totals	22,182.99	25,209	3,026.07

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 2010. During the month of September 2012, the average interest rates for the 91-day Treasury bills declined by 316 basis points to 7.77 percent and the 182-day Treasury bills declined by 241 to 9.36 percent per annum. 364-day Treasury bills stood at 10.34 percent per annum in September 2012.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

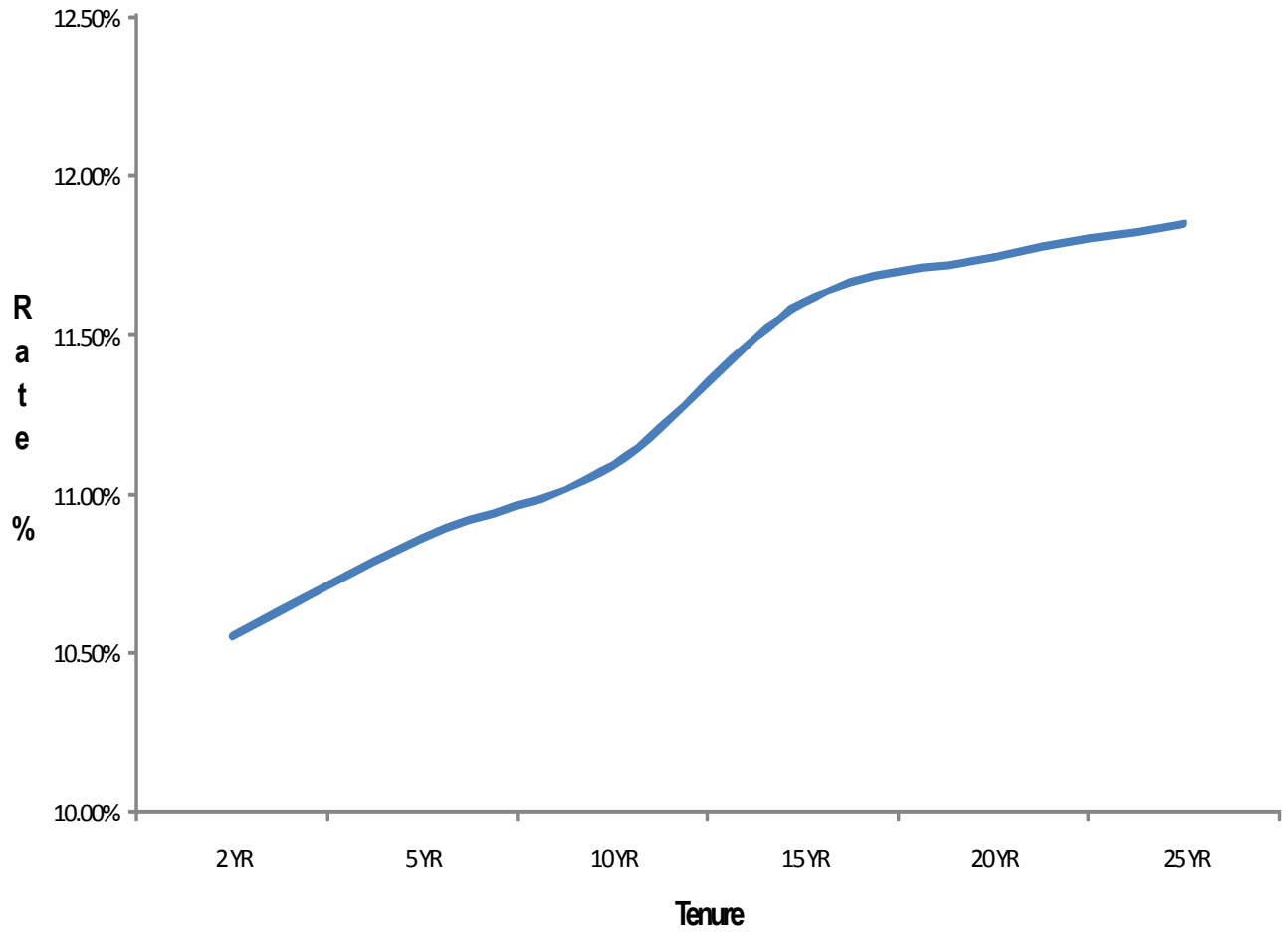
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark Treasury Bonds in the secondary market. The curve shows higher yields in the short end of the yield curve and stable yields in the medium to long term.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	10.55%
5 YR	10.86%
10 YR	11.09%
15 YR	11.60%
20 YR	11.75%
25 YR	11.85%

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)**

<b>CREDITOR</b>	<b>Stock at end August 2012</b>	<b>Stock at end September 2012</b>	<b>Change</b>
<b>CENTRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,311.17	1,240.02	(71.15)
BELGIUM	7,313.85	7,586.44	272.59
CANADA	1,119.81	1,131.30	11.49
DENMARK	2,057.25	2,147.54	90.29
FINLAND	104.60	107.39	2.79
FRANCE	38,897.82	41,392.87	2,495.05
GERMANY	23,338.60	24,838.30	1,499.70
ITALY	2,067.19	2,155.45	88.26
JAPAN	62,124.08	62,597.32	473.24
NETHERLANDS	2,881.63	2,902.44	20.81
UK	1,962.12	2,039.64	77.52
USA	4,887.64	4,925.36	37.72
PARIS CLUB OTHERS	4,754.10	4,793.68	39.58
NON PARIS CLUB	61,930.70	67,134.94	5,204.24
o/w CHINA	55,018.15	60,209.53	5,191.39
<b>Sub total</b>	<b>214,740.54</b>	<b>224,992.69</b>	<b>10,242.13</b>
<b>MULTILATERAL</b>			
ADB/AFDB	65,922.59	72,986.46	7,063.87
EEC/EIB	10,483.35	10,911.35	428.00
IDA	285,999.95	294,956.58	8,956.63
IFAD	7,193.43	7,422.94	229.51
IMF	65,619.96	67,782.89	2,162.93
OTHERS	8,985.40	9,081.20	95.80
<b>Sub total</b>	<b>444,204.68</b>	<b>463,141.42</b>	<b>18,936.74</b>
<b>COMMERCIAL BANKS</b>	<b>50,592.48</b>	<b>51,111.66</b>	<b>519.18</b>
<b>SUPPLIERS CREDIT</b>	<b>14,696.72</b>	<b>15,121.08</b>	<b>424.36</b>
<b>Sub Total</b>	<b>724,234.42</b>	<b>754,366.85</b>	<b>30,122.41</b>
<b>GUARANTEED DEBT</b>			
CANADA	362.59	366.31	3.72
JAPAN	43,152.66	43,709.73	557.07
USA	215.02	181.02	(34.00)
IDA(KR Concessionaire)	3,794.44	3,833.37	38.93
<b>Sub Total</b>	<b>47,524.71</b>	<b>48,090.43</b>	<b>565.72</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>771,759.13</b>	<b>802,457.28</b>	<b>30,688.13</b>

Source: Ministry of Finance

**Memorandum item**

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

**Source: BPS April 2012**

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