



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

FEBRUARY 2013

1.0 PUBLIC DEBT

1.1 Introduction

As at end February 2013, public and publicly guaranteed debt stood at Kshs 1,770.02 billion or 45.78 percent of GDP (see Table 1). The decrease of 2.3 percent over the end January 2013 position is attributed to decrease in both domestic debt and external debt. Domestic debt decreased by Ksh 34.65 billion to stand at Ksh 943.75 billion, while external debt decreased by Ksh 7.34 billion to stand at Ksh 826.27 billion in February 2013 due to exchange rate appreciation against all world major currencies during the month. (See Table 1).

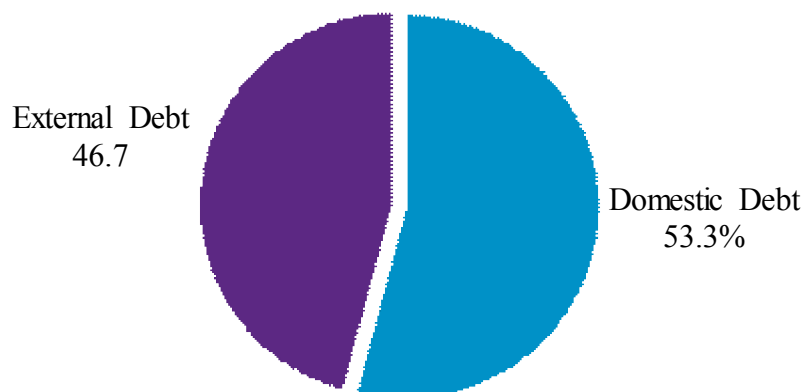
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	943.75	10.94
External Debt	826.27	9.58
Total	1,770.02	20.52

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 53.3 percent of the total debt is domestic debt while 46.7 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 was 0.8 percent and 10.1 years, respectively. In addition, the average maturity period for external loans was 29.2 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 1 month as at end February 2013.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period December 2012 to February 2013. The Kenya shilling appreciated against the US dollar, Sterling Pound, Euro and the Japanese Yen by 1.57 percent, 5.65 percent, 4.62 percent and 3.15 percent respectively. The shilling stood at Kshs 86.24 to the US Dollar at end of February 2013. Appreciation or depreciation of the Kenya Shilling has the effect of decreasing or increasing external debt stock and the cost of debt service.

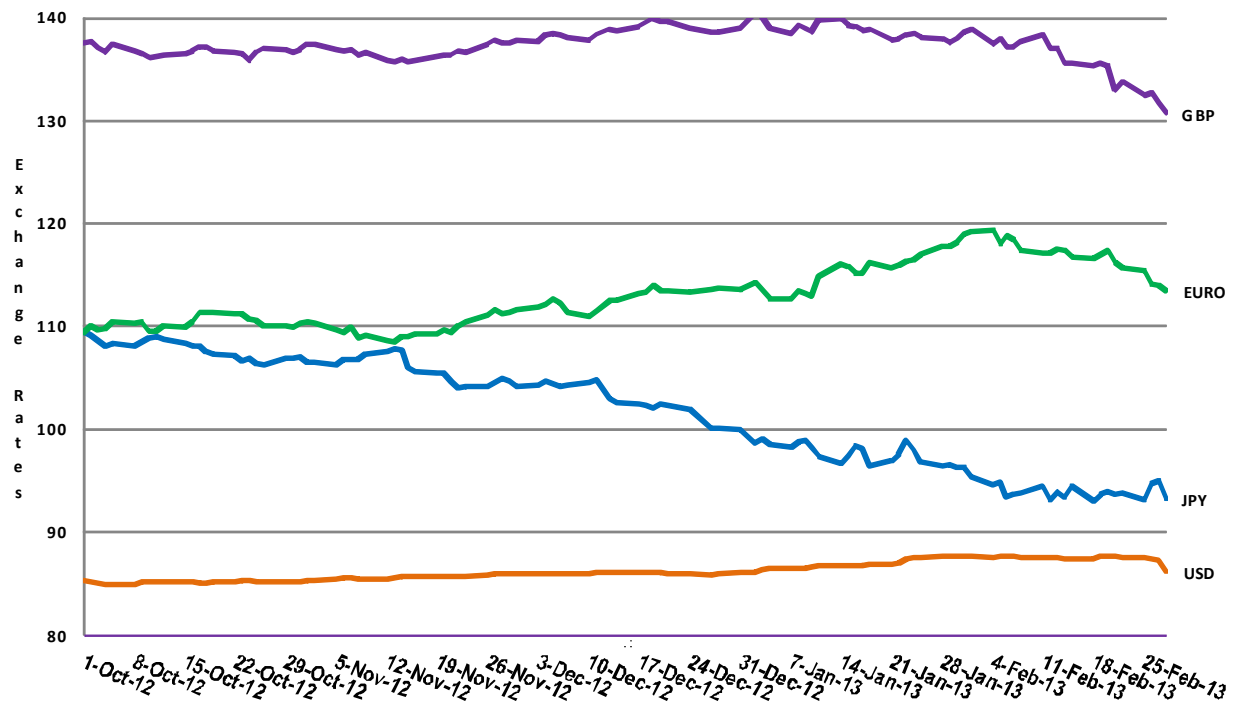
Table 2: Movement in exchange rates

Currency	December 2012	January 2013	February 2013
US Dollar	86.03	87.61	86.24
STG Pound	139.02	138.57	130.74
Euro	113.56	118.95	113.45
JPY(100)	99.90	96.29	93.25

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from October 2012 to February 2013. The four major currencies have recorded a strong performance over the month of February against all major world currencies.

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 decreased by Kshs 7.34 billion to Kshs 826.27 billion in February 2013 from Kshs 833.61 billion in January 2013 as shown in Table 3.

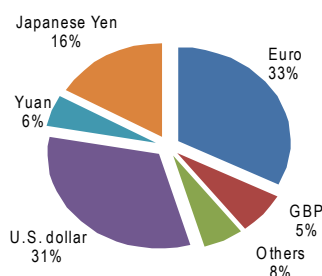
Table 3: External debt stock, in billions

	January 2013		February 2013	
	Kshs	USD	Kshs	USD
Bilateral	226.98	2.59	221.57	2.57
Multilateral	487.70	5.57	487.14	5.65
Guaranteed	43.45	0.49	43.76	0.51
Others	15.84	0.18	15.31	0.18
Commercial Banks	59.64	0.68	58.50	0.67
Total	833.61	9.51	826.27	9.58

Source: Ministry of Finance

These increase can be attributed to the weakening of the Kenya Shilling against the Euro and the US Dollar. Chart 3 below indicates the currency composition of external debt, it shows that the Euro forms the largest share of the external debt portfolio.

Chart 3. Currency Composition



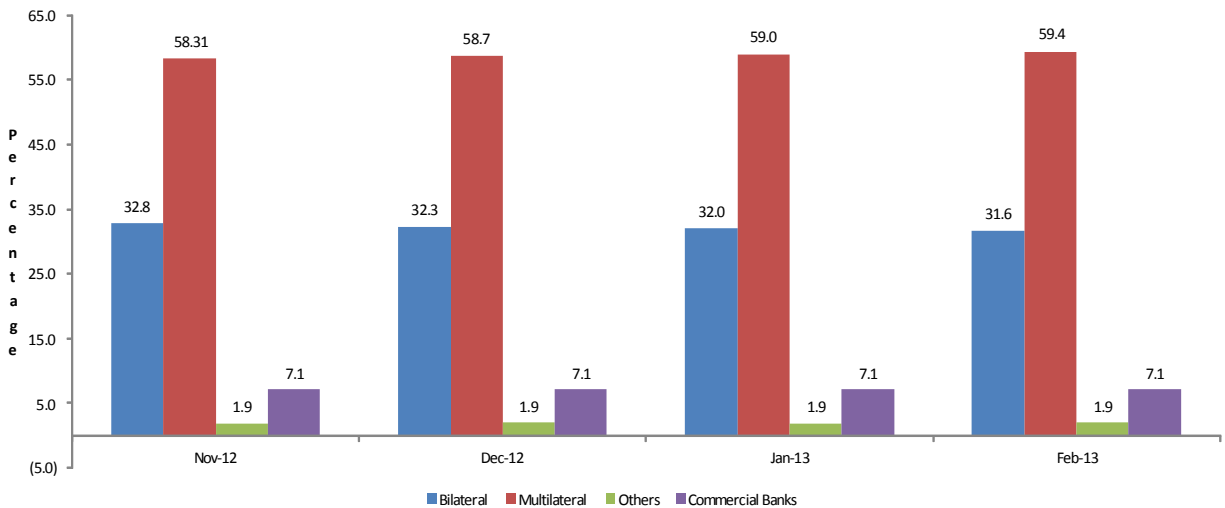
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 91.07 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors of Ksh 491.02 billion including Ksh 3.88 billion guaranteed debt owed to IDA dominate the portfolio (59.43 percent of the total). Bilateral debt stands at Kshs 261.45 billion (31.64 percent of the total), which includes Kshs 39.88 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 debt constitutes 7.08 percent of the total public and publicly guaranteed external debt.

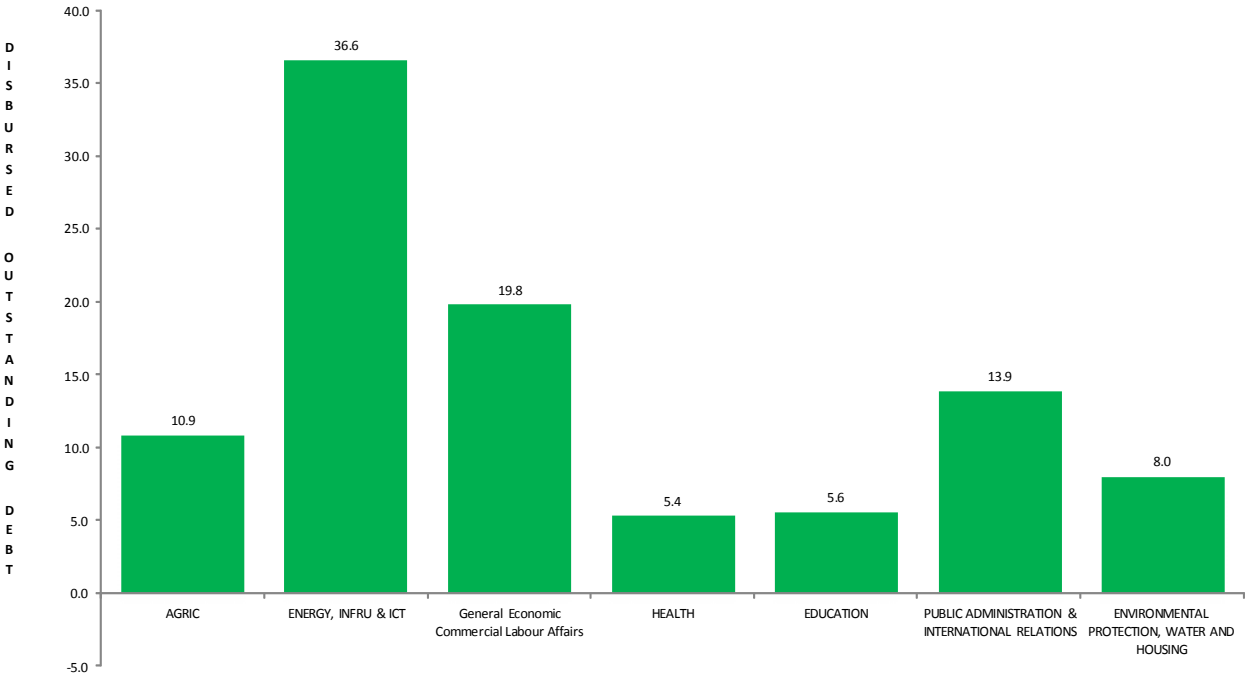
Chart 4: External Debt by Creditor



Source: Ministry of Finance

2.3 External Debt by Sector

Health and Education sector receives the least share of external loan funding as illustrated by the graph below.



2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end February 2013 stood at Kshs 24.57 billion. Principal and interest projections for the month of February 2013 were Kshs 1.64 billion and Kshs 0.59 billion, respectively. Multilateral and bilateral creditors constitute 50.1 percent and 42.2 percent of the cumulative projected debt service respectively during the period under review as shown in Table 4.

Table 4: Projected Cumulative External Debt Service as at end of February 2013, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	8,110.30	2,245.81	10,356.11
Multilateral	9,032.68	3,283.18	12,315.86
Commercial	-	1,898.73	1,898.73
Total	17,142.98	7,427.72	24,570.70

Source: Ministry of Finance

2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end February 2013 was Kshs 20.48 billion as reflected in Table 5. Actual principal and interest payments for the month of February 2013 was Kshs 1.04 billion and Kshs 0.20 billion respectively.

Table 5: Actual cumulative external debt service as at end of February 2013, in Kshs million

Credit category	Principal	Interest	Total
Bilateral	6,807.69	2,670.40	9,478.09
Multilaterals	8,111.53	2,079.20	10,190.73
Commercials	-	816.67	816.67
Totals	14,919.22	5,566.27	20,485.49

Source: Ministry of Finance

2.6 Budget Deviation

The actual cumulative debt service for February 2013 was below the projected debt service by Kshs 4.09 billion. The deviation is explained by changes in exchange rates between the actual and projected debt service payments and the monthly interest payments on the syndicated loan which is now payable semi-annually instead of the projected monthly payments.

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 rose by Kshs 0.31 billion to Kshs 43.76 billion in February 2013 from Ksh 43.45 billion in January 2013. The increase is due to the disbursement from Japan during the month.

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

Creditor	December 2012	January 2013	February 2013
Japan	40,414.76	38,953.92	39,331.74
Canada	369.94	367.98	362.21
U.S.A	219.38	186.17	183.25
IDA (KR Concessionaire)	3,871.35	3,942.50	3,880.62
Totals	44,875.43	43,450.58	43,757.82

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

Government net domestic debt decreased by Kshs 8.36 billion to Kshs 830.20 billion in February 2013 from Kshs 838.63 billion in January 2013 due to significant decrease in Government deposits at the Central Bank as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	December 2012	January 2013	February 2013
Gross domestic debt	971.27	978.40	943.75
<i>less</i>			
Govt. deposits at CBK	-46.29	-26.63	-2.60
Govt. deposits at commercial banks	-108.59	-107.44	-105.25
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	810.69	838.63	830.20

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of February 2013, Government securities worth Kshs 54 billion were advertised. Bids worth Kshs 64.51 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 44.76 billion and Kshs 19.75 billion respectively. Successful bids amounted to Kshs 41.57 billion against the months redemptions of Kshs 77.34 billion leaving exchequer with a deficit of Kshs 35.77 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	39,000	15,000	54,000
Bids received	19,573	44,755	64,508
Successful bids	16,106	25,462	41,568
Redemptions (cost)	(52,600)	(24,739)	(77,339)
Net domestic borrowing	(36,494)	724	(35,770)

Source: Ministry of Finance

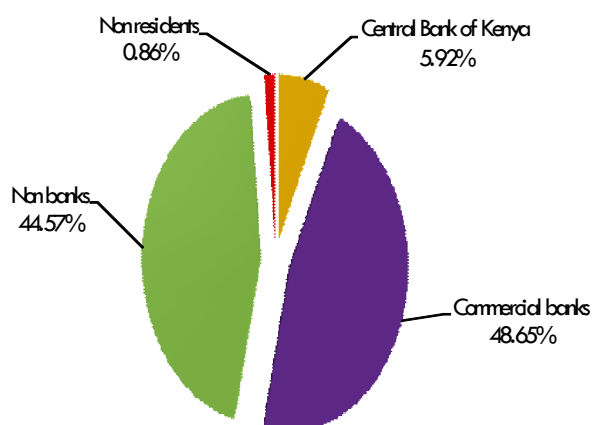
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	343.38	370.39	0.38	3.00	717.15
Treasury bills	108.93	50.21	0.51	5.07	164.72
Others	6.80	0.07	55.01	0.00	61.88
Total	459.11	420.67	55.90	8.07	943.75
Percentage Holding	48.65	44.67	5.92	0.86	100.00

Source: Central Bank of Kenya

At the end of February 2013 commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 459.11 billion or 48.65 percent as shown in Table 9 and Chart 5. The non banks held 44.67 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 8.07 billion or 0.86 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 55.90 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 February 2013

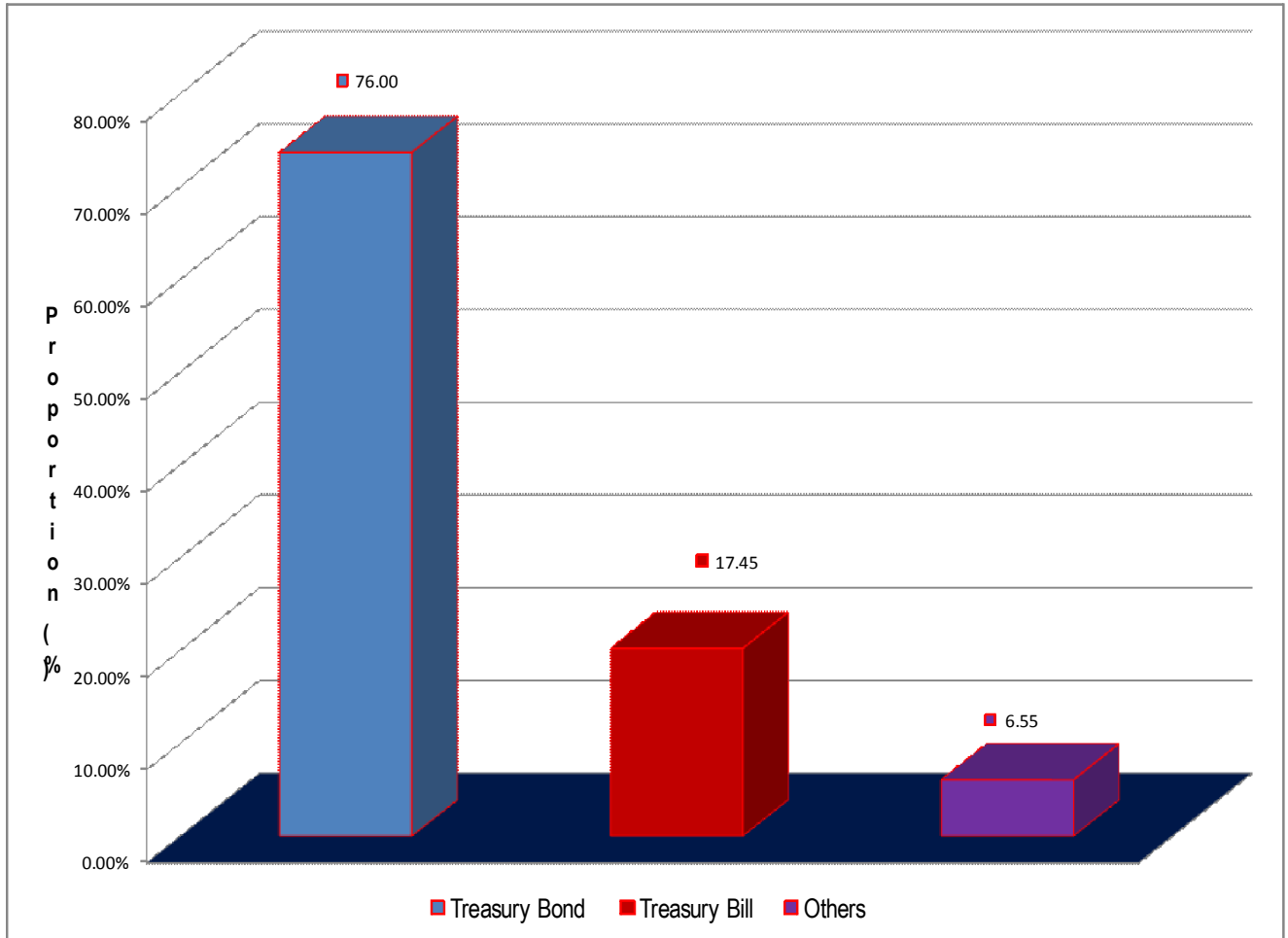


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end February 2013. 76.00 percent of Government domestic debt was in Treasury Bonds, 17.45 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 February 2013, the net domestic financing stood at Kshs 139.61 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	February-2013	Change
Treasury Bills	120.82	154.23	33.41
Treasury Bonds	661.30	687.82	26.53
Pre-1997 Govt. Overdraft debt	30.00	29.59	(0.40)
Other	7.81	30.70	22.89
<i>of which Overdraft (from CBK)</i>	7.26	25.37	18.12
Govt. deposits	93.69	36.52	(57.18)
Net Domestic Credit	726.24	865.84	139.61

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end February 2013, Government actual cumulative domestic interest payments stood at Kshs 71.50 billion against the cumulative projected interest payments of Kshs 71.46 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 53.09 billion and Kshs 15.29 billion respectively.

Table 11: Domestic interest payments, in Kshs million

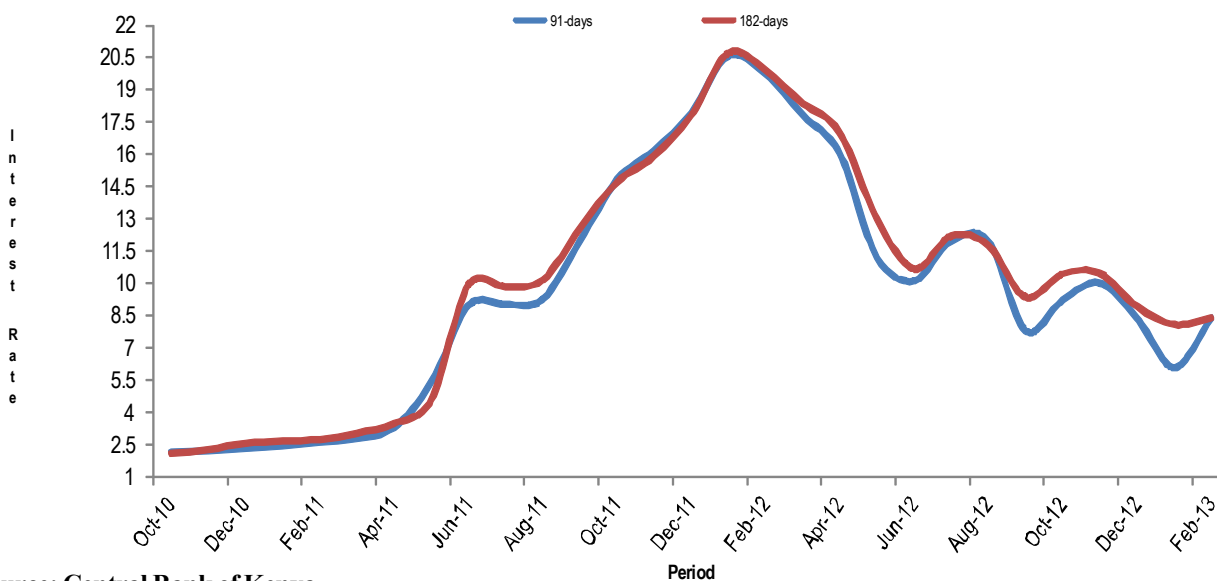
Type of debt	Projected	Actual	Variance
Treasury bonds	53,105	53,093	(12.00)
Treasury bills	15,091	15,294	203.00
Overdraft	2,091	1,945	(146.00)
Pre-1997 overdraft debt	1,170	1,180	10.00
Totals	71,457	71,502	55.00

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 2010. During the month of February 2013, the average interest rates for the 91-day Treasury bills increased by 231 basis points to 8.37 percent and the 182-day Treasury bills increased by 31 basis points to 8.40 percent per annum from the end January 2013 position, 364-day Treasury bills stood at an average of 11.662 percent per annum in February 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

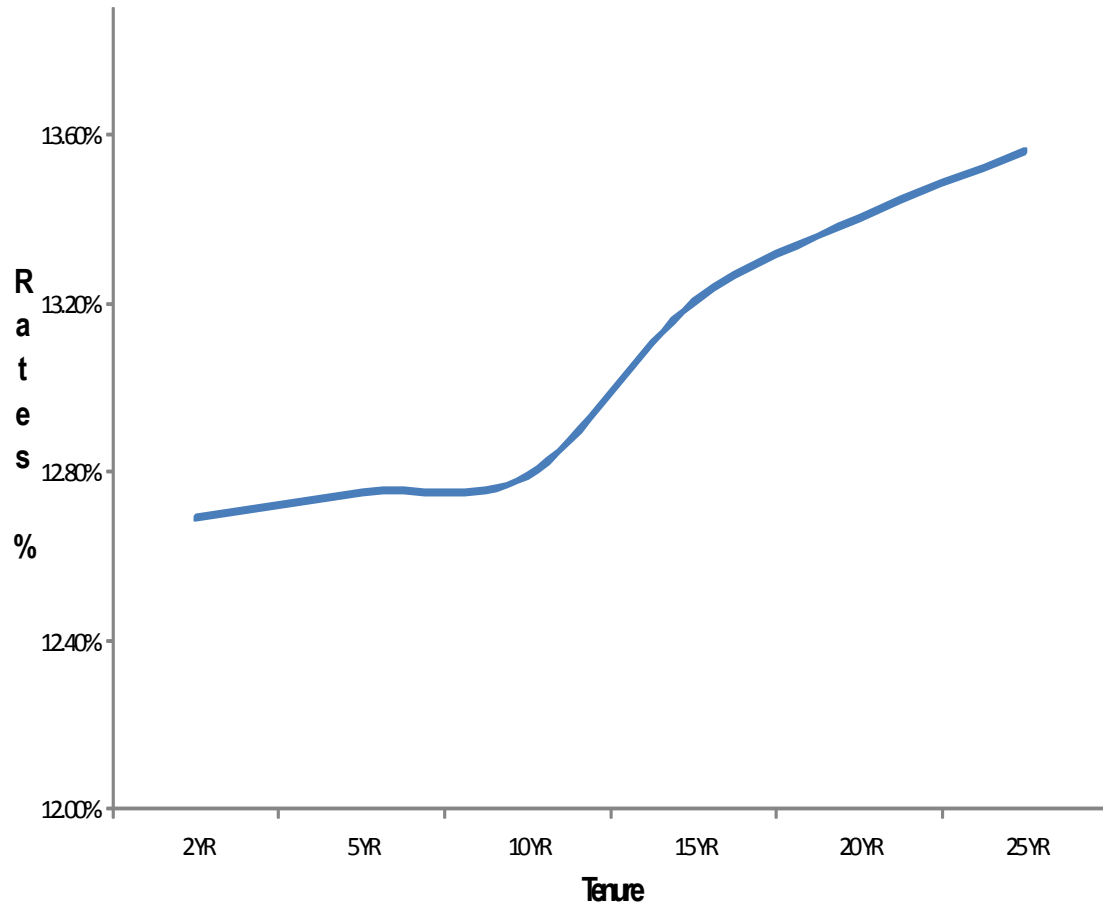
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	12.69
5 YR	12.75
10 YR	12.79
15 YR	13.20
20 YR	13.40
25 YR	13.56

Source: Nairobi Securities Exchange (NSE)

Chart 8: Yields on selected Treasury Bonds



CREDITOR	Stock at end January 2013	Stock at end February 2013	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,292.95	1,233.22	(59.73)
BELGIUM	8,129.53	7,753.97	(375.56)
CANADA	1,112.18	1,094.72	(17.46)
DENMARK	2,211.43	2,107.25	(104.18)
FINLAND	107.04	103.68	(3.36)
FRANCE	47,539.29	46,753.31	(785.98)
GERMANY	26,759.51	25,523.44	(1,236.07)
ITALY	2,308.01	2,202.85	(105.16)
JAPAN	53,428.38	51,724.08	(1,704.3)
NETHERLANDS	3,063.26	2,921.75	(141.51)
UK	1,938.13	1,828.57	(109.56)
USA	4,922.36	4,809.60	(112.76)
PARIS CLUB OTHERS	5,024.04	5,175.63	151.59
NON PARIS CLUB	69,140.02	68,337.09	(802.93)
o/w CHINA	62,452.74	61,494.20	(958.54)
Sub total	226,976.13	221,569.17	(5,406.97)
MULTILATERAL			
ADB/AFDB	75,721.06	82,498.75	6,777.69
EEC/EIB	13,276.47	16,184.89	2,908.42
IDA	312,319.73	305,520.72	(6,799.01)
IFAD	8,169.25	7,889.81	(279.44)
IMF	68,830.07	65,931.41	(2,898.66)
OTHERS	9,379.04	9,112.47	(266.57)
Sub total	487,695.62	487,138.05	(557.57)
COMMERCIAL BANKS	59,647.84	58,495.71	(1,152.13)
SUPPLIERS CREDIT	15,839.30	15,306.93	(532.37)
Sub Total	790,158.88	782,509.86	(7,649.04)
GUARANTEED DEBT			
CANADA	367.98	362.21	(5.77)
JAPAN	38953.92	39,331.74	377.82
USA	186.17	183.25	(2.92)
IDA (KR Concessionaire)	3,942.50	3,880.62	(61.88)
Sub Total	43,450.58	43,757.82	307.24
GOK+ GUARANTEED TOTAL	833,609.46	826,267.67	(7,341.79)

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