



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

DECEMBER 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end December 2011, public and publicly guaranteed debt stood at Kshs 1,486.29 billion or 45.1 percent of GDP (see Table 1). The decrease of 2.9 percent over the end November 2011 position is attributed to appreciation of the Kenya shilling against the world major currencies which has led to a decrease in the total external debt in December 2011 to Kshs 685.61 billion from Kshs 728.64 billion in November 2011. (See Table 1).

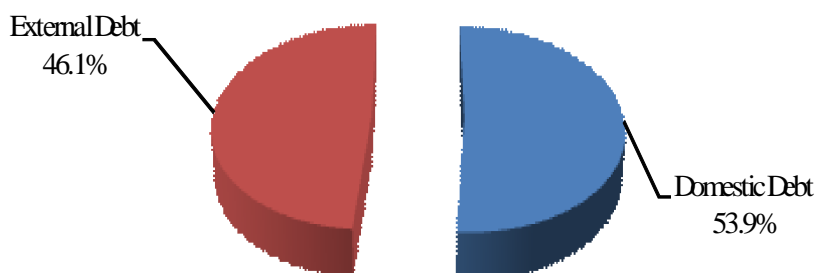
Table 1: Size of public debt, in billion

| Debt Category | Kshs | USD |
|---------------|----------|-------|
| Domestic Debt | 800.68 | 9.41 |
| External Debt | 685.61 | 8.06 |
| Total | 1,486.29 | 17.47 |

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 53.9 percent of the total debt is domestic debt while the rest is external debt as shown in Chart 1. The structure reversed from October 2011 where the proportion of external debt was higher due to the weak shilling against other foreign currencies. The current structure has changed due to the strengthening 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 1.0 percent and 7.6 years, respectively. In addition, the average maturity period for external loans was 24 years while the average grant element was 66.4 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 9 months at end December 2011.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period October 2011 to December 2011. The Kenya shilling appreciated against all the major currencies. Between November and December the Kenya shilling appreciated against the Sterling Pound, Euro, US Dollar and Japanese Yen by 6.2 percent, 7.9 percent, 5.2 percent and 4.7 percent respectively. The Kenya shilling stood at 85.06 Kshs to the US Dollar at end December. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. The strengthening of the Kenya shilling in the past has decreased the external debt stock and also led to lower costs of external debt service.

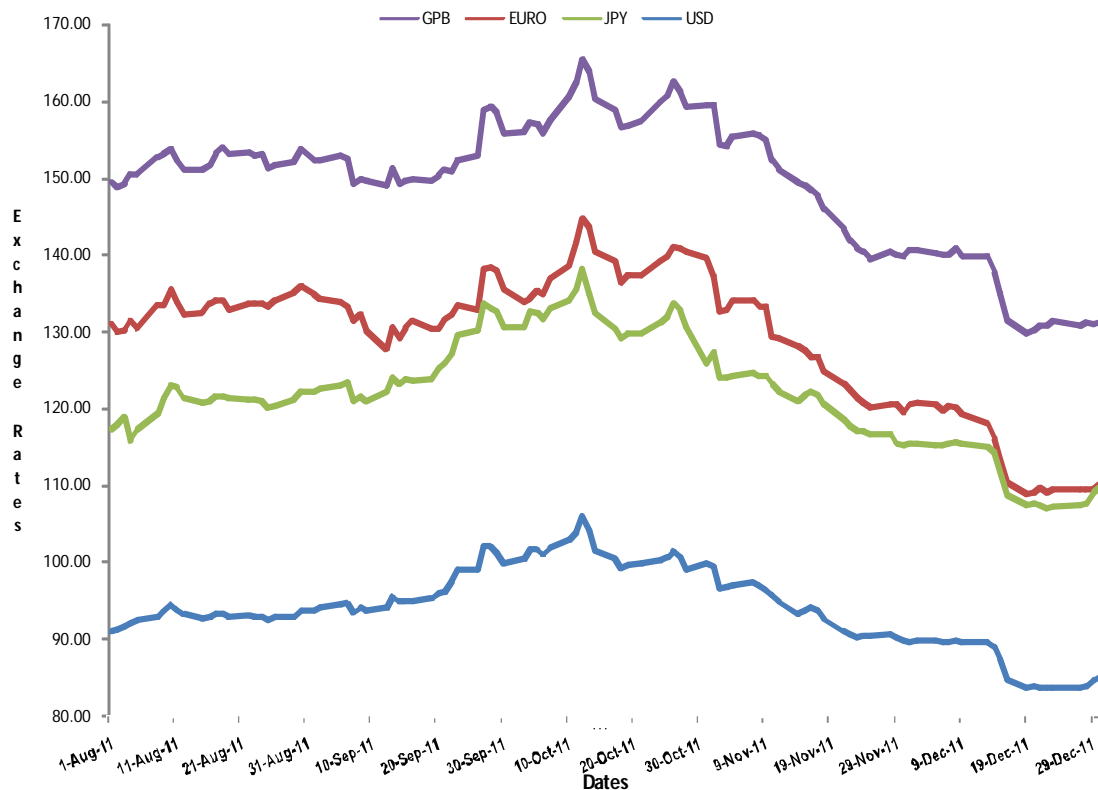
Table 2: Movement in exchange rates

| Currency | October 2011 | November 2011 | December 2011 |
|-----------|--------------|---------------|---------------|
| US Dollar | 99.78 | 89.72 | 85.06 |
| STG Pound | 159.56 | 139.81 | 131.12 |
| Euro | 139.62 | 119.53 | 110.06 |
| JPY(100) | 125.78 | 115.10 | 109.69 |

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from August 2011 to December 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 decreased by Kshs 43.03 billion from Kshs 728.64 billion in November 2011 to Kshs 685.61 billion in December 2011 as shown in Table 3.

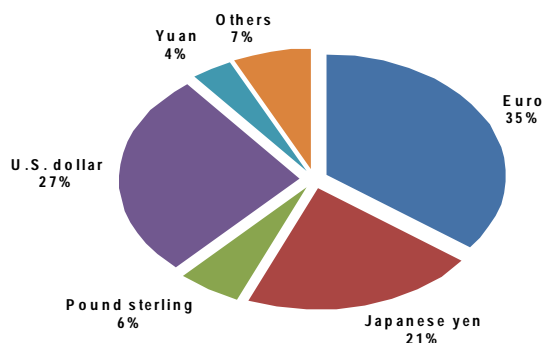
Table 3: External debt stock, in billions

| Creditor Category | November 2011 | | December 2011 | |
|-------------------|---------------|------|---------------|------|
| | Kshs | USD | Kshs | USD |
| Bilateral | 209.91 | 2.34 | 195.02 | 2.29 |
| Multilateral | 446.74 | 4.98 | 422.93 | 4.97 |
| Guaranteed | 48.32 | 0.54 | 45.63 | 0.53 |
| Others | 23.67 | 0.26 | 22.03 | 0.26 |
| Total | 728.64 | 8.12 | 685.61 | 8.05 |

Source: Ministry of Finance

The major decrease was observed in multilateral external debt which decreased by Kshs 23.82 billion on account of appreciation 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 35.1 percent of Kenya's external debt is denominated in the Euro while about 4 percent is in Chinese Yuan.

Chart 3. Currency Composition



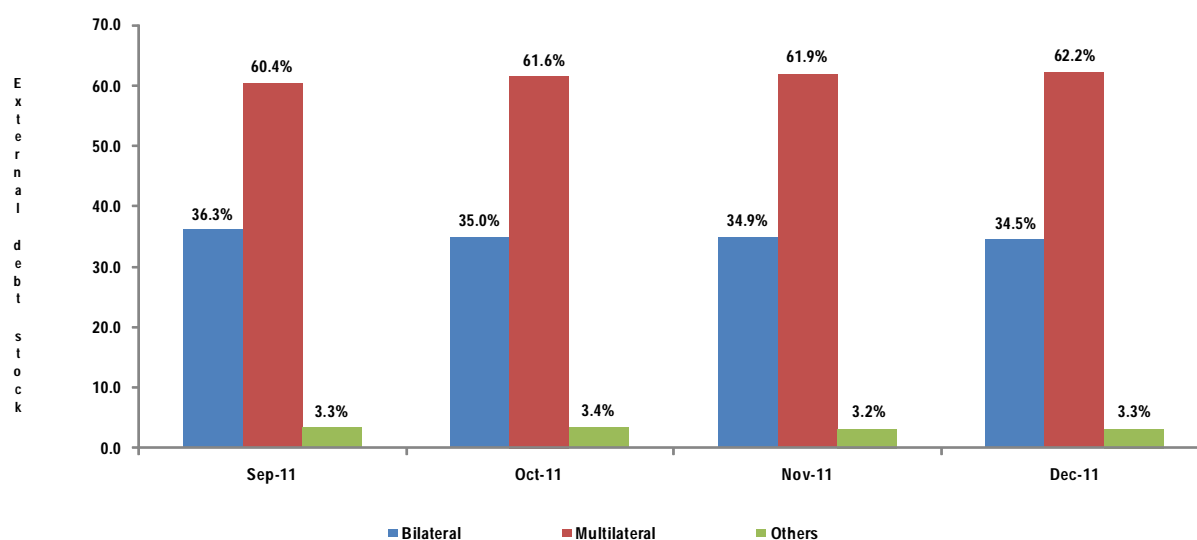
Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 96.7 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 426.75 billion including Kshs 3.83 billion guaranteed debt owed to IDA) dominate the portfolio (62.2 percent of the total). Bilateral debt stands at Kshs 236.83 billion (34.5 percent of the total), which includes Kshs 41.81 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 Annex 1).

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 December 2011 stood at Kshs 16.45 billion. Principal and interest projections for the month of December were Kshs 2.47 billion and Kshs 0.90 billion, respectively. Multilateral and bilateral creditors constitute 53.2 percent and 46.8 percent, of the cumulative projected debt service, respectively during the period under review as shown in Table 4.

Table 4: Cumulative Debt Service Projections as at end December 2011, in Kshs million

| Creditor category | Principal | Interest | Total |
|-------------------|-----------|----------|-----------|
| Bilateral | 6,869.07 | 1,886.16 | 8,755.23 |
| Multilateral | 6,126.45 | 1,568.45 | 7,694.90 |
| Commercial | - | - | - |
| Total | 12,995.52 | 3,454.61 | 16,450.13 |

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end December 2011 was Kshs 14.79 billion as reflected in Table 5. Actual principal and interest payments for the month of December 2011 was Kshs 0.44 billion and Kshs 0.15 billion respectively.

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

| Credit category | Principal | Interest | Total |
|------------------------|------------------|-----------------|------------------|
| Bilateral | 4,629.08 | 1,528.78 | 6,157.86 |
| Multilaterals | 6,614.65 | 2,024.75 | 8,639.40 |
| Commercials | - | - | - |
| Totals | 11,243.73 | 3,553.53 | 14,797.26 |

Source: Ministry of Finance

2.5 Budget Deviation

The actual cumulative debt service for December 2011 was below the projected debt service by Kshs 1.65 billion.

2.6 Guaranteed External Debt

Under the National Government Loans Guarantee Act, 2011, the government may issue guarantees so long as it does not exceed the ceiling which currently stands at Kshs 200 billion. Between November and December the amount of public guaranteed external debt decreased by Kshs 1.48 billion to Kshs 45.63 billion in December 2011. The decrease is due to the repayments made during the month and the appreciation of the Kenya shilling against the world major world currencies. 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 | October | November | December |
|-------------------------|------------------|------------------|------------------|
| Japan | 46,346.95 | 42,409.97 | 41,177.84 |
| Canada | 449.02 | 403.76 | 374.31 |
| U.S.A | 296.84 | 266.92 | 253.08 |
| IDA (KR Concessionaire) | 4,490.02 | 4,037.44 | 3,828.06 |
| Totals | 51,582.83 | 47,118.09 | 45,633.29 |

Source: Ministry of Finance

3.0 DOMESTIC DEBT

3.1 Central Government Domestic Debt

As indicated in Table 7, Government net domestic debt decreased by Kshs 3.47 billion to Kshs 683.94 billion. This is attributed to declining Government deposits in Central Bank of Kenya.

Table 7: Government domestic debt, in Kshs billion

| | October | November | December |
|------------------------------------|---------|----------|----------|
| Gross domestic debt | 795.21 | 803.89 | 800.68 |
| <i>less</i> | | | |
| Govt. deposits at CBK | -30.05 | -18.99 | -13.71 |
| Govt. deposits at commercial banks | -97.40 | -91.79 | -97.33 |
| Govt. advances to parastatals | -5.70 | -5.70 | -5.70 |
| Net domestic debt | 662.06 | 687.41 | 683.94 |

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of December 2011, Government securities worth Kshs 59.40 billion were advertised. Bids worth Kshs 70.17 billion were received, out of which Kshs 37.66 billion and Kshs 32.51 billion were bids for the Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 45.66 billion against the months redemptions of Kshs 47.48 billion leaving a deficit of Kshs 1.83 billion.

Table 8: Government domestic borrowing, in Kshs million

| | Treasury Bills | Treasury Bonds | Total |
|------------------------|----------------|----------------|---------|
| Advertised | 31,000 | 28,400 | 59,400 |
| Bids received | 37,662 | 32,507 | 70,169 |
| Successful bids | 20,863 | 24,792 | 45,655 |
| Redemptions (cost) | 40,172 | 7,308 | 47,480 |
| Net domestic borrowing | (19,309) | 17,484 | (1,825) |

Source: Ministry of Finance

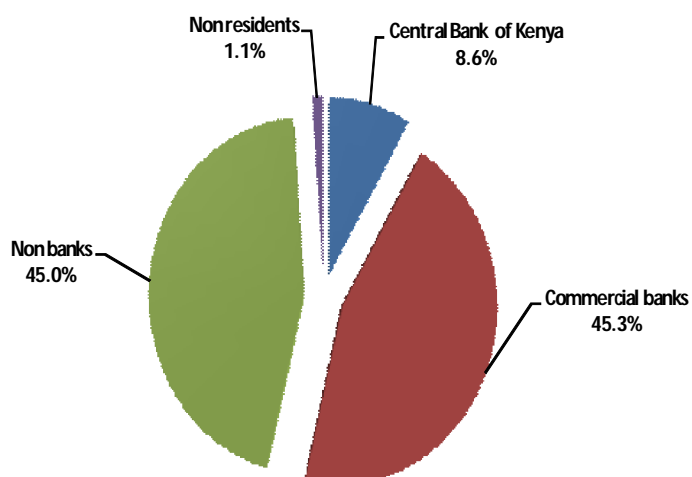
Table 9: Domestic debt instruments by holder, in Kshs billion

| Instrument/Holder | Commercial banks | Non banks | Central Bank of Kenya | Non residents | Total |
|-------------------|------------------|---------------|-----------------------|---------------|---------------|
| Treasury bonds | 305.95 | 318.88 | 4.10 | 4.62 | 633.55 |
| Treasury bills | 54.09 | 41.50 | 7.05 | 4.45 | 107.09 |
| Others | 2.64 | 0.07 | 57.33 | 0.00 | 60.04 |
| Total | 362.68 | 360.45 | 68.48 | 9.07 | 800.68 |

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 362.68 billion or 45.3 percent as shown in Table 9 and Chart 5. The non banks held 45.0 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 securities worth Kshs 9.07 billion or 1.1 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 68.47 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy.

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

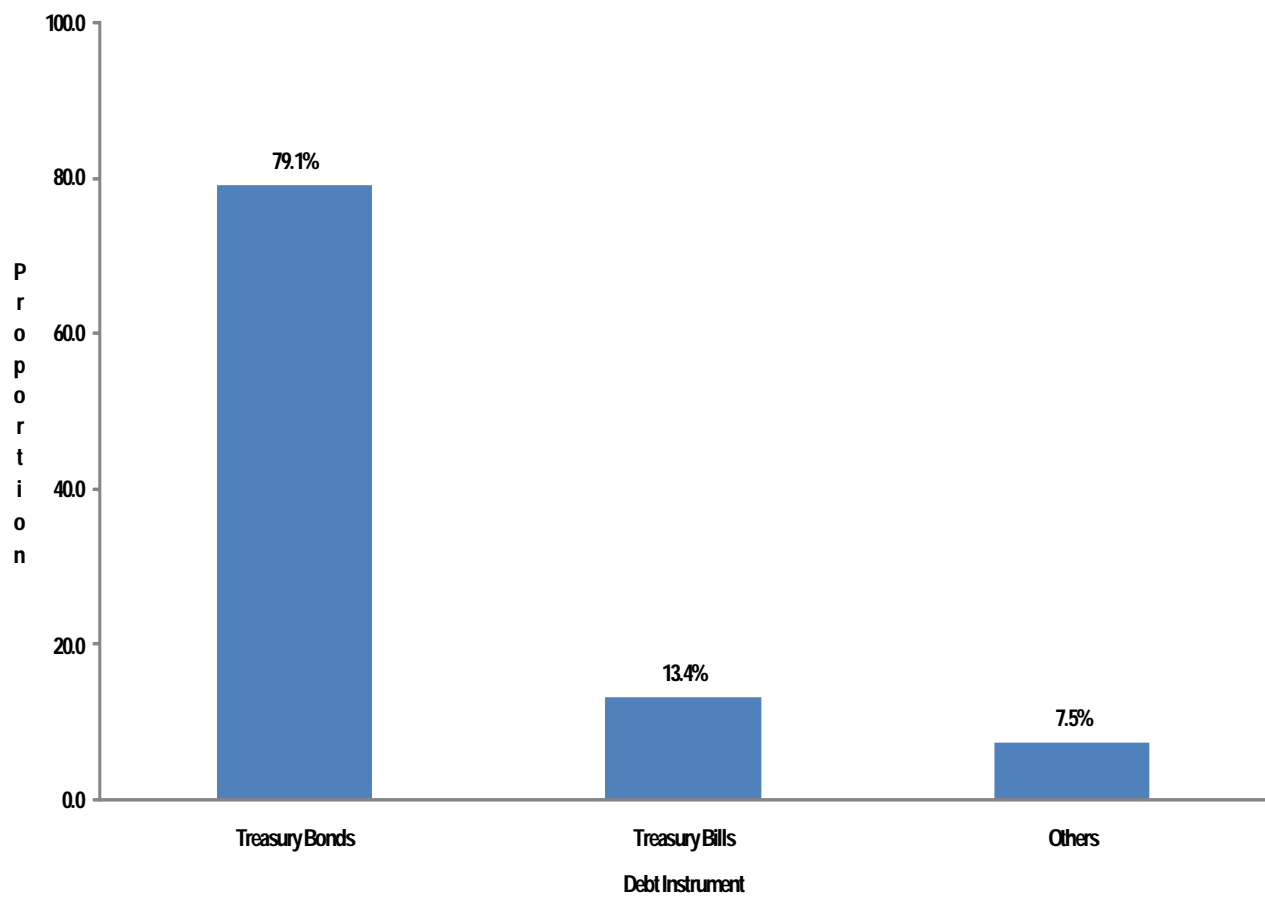


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end December 2011, 79.1 percent of Government domestic debt was in Treasury Bonds, 13.4 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 December 2011, the net domestic financing stood at Kshs 62.21 billion.

Table 10: Net domestic financing, in Kshs billion

| | June-2011 | December | Change |
|--------------------------------------|---------------|---------------|--------------|
| Treasury Bills | 123.53 | 101.90 | (21.63) |
| Treasury Bonds | 579.67 | 612.87 | 33.20 |
| Long term Stock | 0.00 | 0.00 | 0.000 |
| Pre-1997 Govt. Overdraft debt | 31.66 | 31.11 | (0.55) |
| Other | 8.11 | 25.50 | 17.39 |
| <i>of which Overdraft (from CBK)</i> | 7.57 | 25.37 | (17.80) |
| Govt. deposits | 89.95 | 56.14 | (33.80) |
| Net Domestic Credit | 653.03 | 715.24 | 62.21 |

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end December 2011, Government actual cumulative domestic interest payments stood at Kshs 37.75 billion against the cumulative projected interest payments of Kshs 35.58 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 31.04 billion and Kshs 5.7 billion respectively. The total variance of Kshs 2.17 billion is attributed to rising interest rates for Government securities.

Table 11: Domestic interest payments, in Kshs million

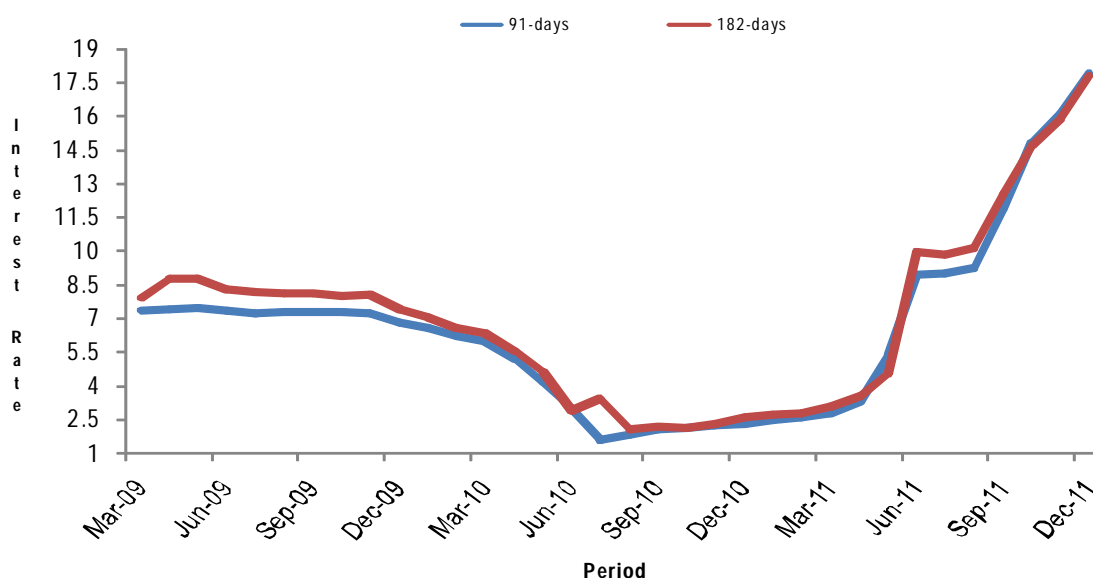
| Type of debt | Projected | Actual | Variance |
|-------------------------|------------------|------------------|-------------------|
| Treasury bonds | 27,852.05 | 31,039.46 | (3,187.41) |
| Treasury bills | 6,660.08 | 5,737.51 | 922.57 |
| Overdraft | 623.84 | 972.13 | (348.29) |
| Pre-1997 overdraft debt | 446.70 | 0.00 | 446.70 |
| Totals | 35,582.67 | 37,749.10 | (2,166.43) |

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 January 2009. After a sustainable decline, the interest rates have been increasing since the beginning of the financial year 2010/11. During the month of December 2011, the average interest rates for the 91-day Treasury bills rose by 176 basis points to 17.9 percent while the 182-day and 364-day Treasury bills increased by 191 and 396 basis points respectively to 17.81 and 20.96 percent per annum respectively.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

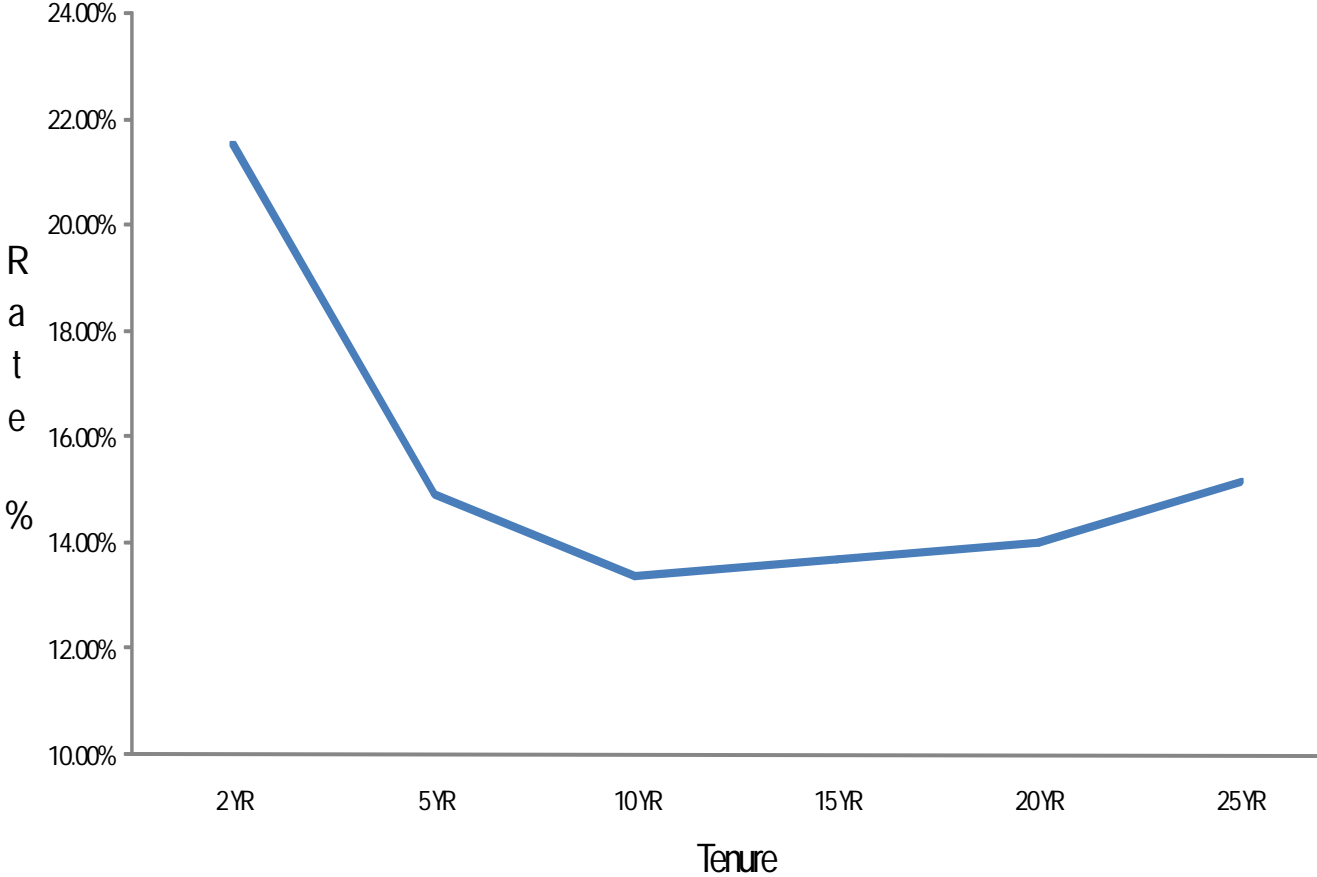
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected Treasury Bonds in the secondary market. The curve is inverted reflecting the current market trends with high yields at the short end of the market but trending upwards in the mid to long term. The yields are illustrated in Chart 8.

Table 12 : Yields on selected Treasury Bonds

| Tenure | Rate (%) |
|--------|----------|
| 2 YR | 21.50% |
| 5 YR | 14.92% |
| 10 YR | 13.37% |
| 15 YR | 13.69% |
| 20 YR | 14.00% |
| 25 YR | 15.17% |

Source: Central Bank of Kenya

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 November 2011 | Stock at end December 2011 | Change |
|------------------------------|---------------------------------------|---------------------------------------|--------------------|
| CENRAL GOVERNMENT | | | |
| BILATERAL | | | |
| AUSTRIA | 1,713.07 | 1,538.46 | (174.61) |
| BELGIUM | 8,664.19 | 7,750.68 | (913.51) |
| CANADA | 1,269.64 | 1,176.08 | (93.56) |
| DENMARK | 2,481.87 | 2,253.42 | (228.45) |
| FINLAND | 126.44 | 112.91 | (13.53) |
| FRANCE | 38,237.10 | 34,806.46 | (3,430.64) |
| GERMANY | 25,377.81 | 23,207.34 | (2,170.47) |
| ITALY | 4,034.43 | 2,952.16 | (1,082.27) |
| JAPAN | 70,756.89 | 66,973.67 | (3,783.22) |
| NETHERLANDS | 3,479.12 | 3,203.39 | (275.73) |
| UK | 2,250.54 | 2,109.37 | (141.17) |
| USA | 5,512.58 | 5,214.52 | (298.06) |
| PARIS CLUB OTHERS | 5,397.27 | 5,000.27 | (397.00) |
| NON PARIS CLUB | 40,610.52 | 38,723.56 | (1,886.96) |
| Sub total | 209,911.48 | 195,022.34 | (14,889.18) |
| MULTILATERAL | | | |
| ADB/AFDB | 65,662.07 | 64,695.82 | (966.25) |
| EEC/EIB | 11,107.40 | 10,227.12 | (880.28) |
| IDA | 301,992.36 | 283,721.63 | (18,270.73) |
| IFAD | 7,442.22 | 6,963.80 | (478.42) |
| IMF | 51,055.63 | 47,899.77 | (3,155.86) |
| OTHERS | 9,483.39 | 9,416.94 | (66.45) |
| Sub total | 446,743.07 | 422,925.11 | (23,817.99) |
| SUPPLIERS CREDIT | 23,670.74 | 22,027.17 | (1,643.57) |
| Sub Total | 680,325.28 | 639,974.62 | (40,350.74) |
| GUARANTEED DEBT | | | |
| CANADA | 412.73 | 374.31 | (38.42) |
| JAPAN | 43,602.88 | 41,177.84 | (2,425.04) |
| USA | 266.92 | 253.08 | (13.84) |
| IDA(KR Concessionaire) | 4,037.44 | 3,828.06 | (209.38) |
| Sub Total | 48,319.97 | 45,633.29 | (2,686.68) |
| GOK+ GUARANTEED TOTAL | 728,645.25 | 685,607.92 | (43,037.42) |

Source: Ministry of Finance

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