



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

**MARCH 2013**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end March 2013, public and publicly guaranteed debt stood at Kshs 1,800.43 billion or 46.56 percent of GDP (see Table 1). The increase of 1.7 percent over the end February 2013 position is attributed to increase in domestic debt. Domestic debt increased by Ksh 37.92 billion to stand at Ksh 981.67 billion, while external debt decreased by Ksh 7.51 billion to stand at Ksh 818.76 billion in March 2013 due to exchange rate appreciation against world major currencies during the month. (See Table 1).

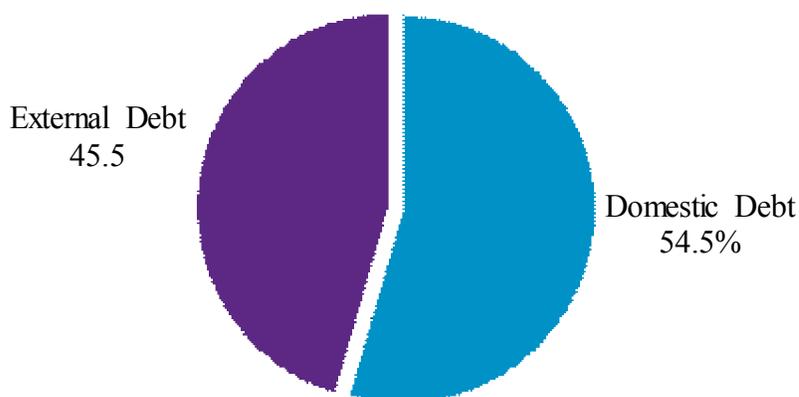
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	981.67	11.46
External Debt	818.76	9.56
Total	1,800.43	21.02

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.5 percent of the total debt is domestic debt while 45.5 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 remained at 5 years 1 months as at end March 2013.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period January 2013 to March 2013. The Kenya shilling appreciated against the US dollar, Sterling Pound, Euro and the Japanese Yen by 0.69 percent, 0.86 percent, 3.44 percent and 2.46 percent respectively. The shilling stood at Kshs 85.64 to the US Dollar at end of March 2013. Appreciation or depreciation of the Kenya Shilling has the effect of decreasing or increasing external debt stock and the cost of debt service.

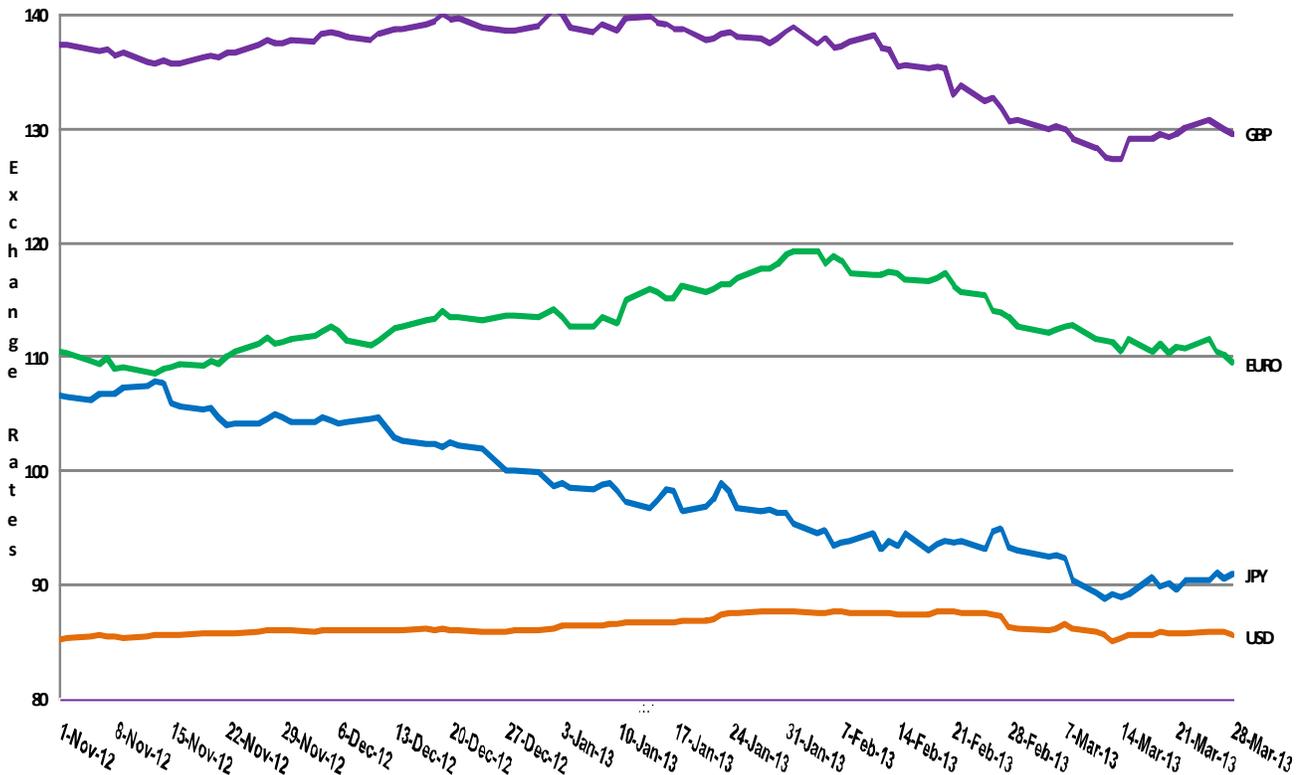
Table 2: Movement in exchange rates

Currency	January 2013	February 2013	March 2013
US Dollar	87.61	86.24	85.64
STG Pound	138.57	130.74	129.61
Euro	118.95	113.45	109.55
JPY(100)	96.29	93.25	90.96

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from November 2012 to March 2013. The four major currencies recorded a mixed performance over the month of March 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 7.51 billion to Kshs 818.76 billion in March 2013 from Kshs 826.27 billion in February 2013 as shown in Table 3.

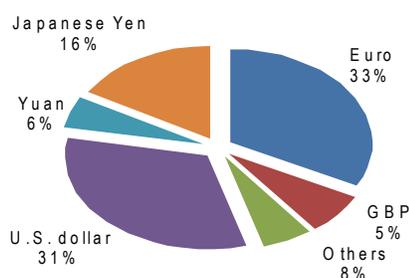
Table 3: External debt stock, in billions

	February 2013		March 2013	
	Kshs	USD	Kshs	USD
Bilateral	221.57	2.57	217.06	2.53
Multilateral	487.14	5.65	486.76	5.68
Guaranteed	43.76	0.51	42.08	0.49
Others	15.31	0.18	14.96	0.18
Commercial Banks	58.50	0.67	57.90	0.68
Total	826.27	9.58	818.76	9.56

Source: Ministry of Finance

These decrease can be attributed to the strengthening of the Kenya Shilling against the four major world currencies. Chart 3 below indicates the currency composition of external debt, it shows that the Euro forms the largest share of the external debt portfolio followed by the US Dollar at 31 per cent.

Chart 3. Currency Composition



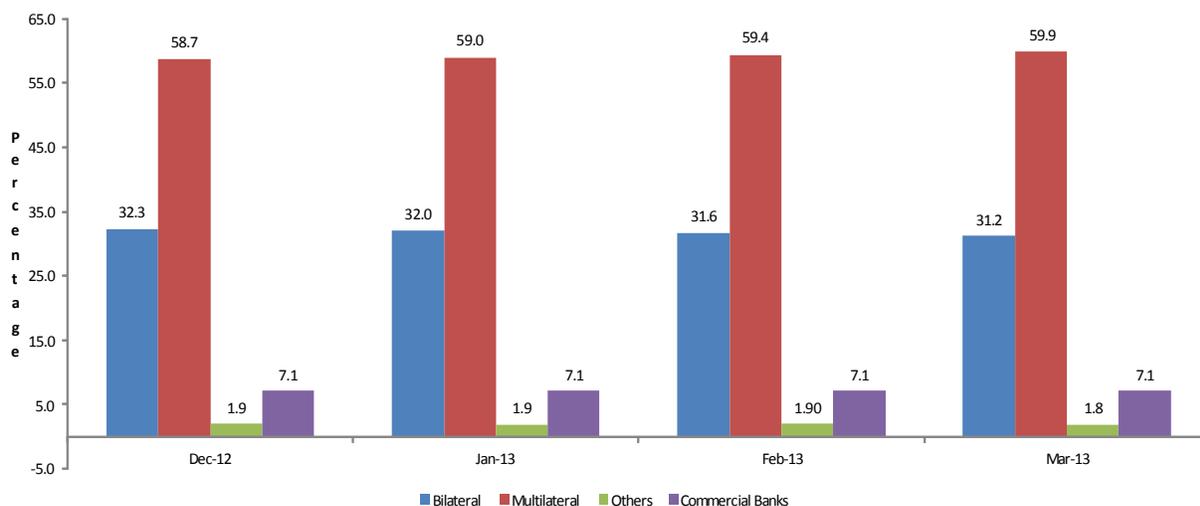
Source: Ministry of Finance

### 2.2 Structure of External Debt by Creditor

Official creditors account for 91.10 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors of Ksh 490.61 billion including Ksh 3.85 billion guaranteed debt owed to IDA dominate the portfolio (59.92 percent of the total). Bilateral debt stands at Kshs 255.29 billion (31.18 percent of the total), which includes Kshs 38.23 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 7.07 percent of the total public and publicly guaranteed external debt.

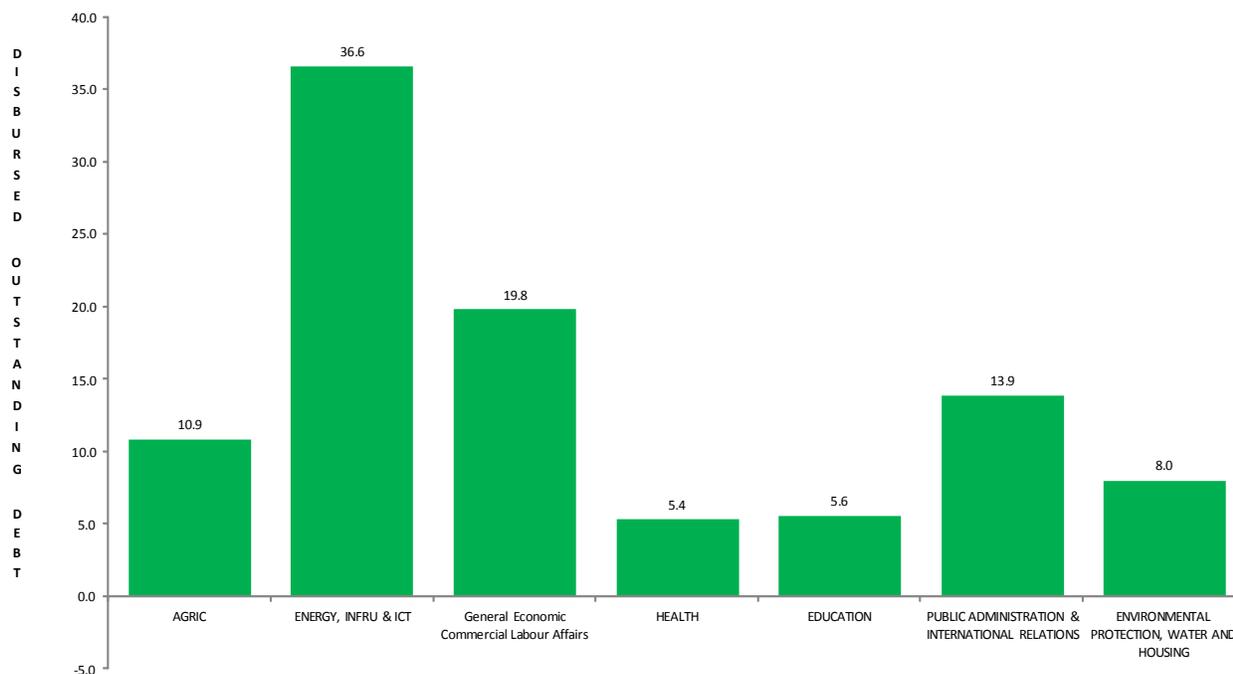
Chart 4: External Debt by Creditor



Source: Ministry of Finance

### 2.3 External Debt by Sector

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



## 2.4 Projected Cumulative External Debt Service

Projected cumulative external debt service for the period to end March 2013 stood at Kshs 29.68 billion. Principal and interest projections for the month of March 2013 were Kshs 3.80 billion and Kshs 1.3 billion, respectively. Multilateral and bilateral creditors constitute 46.4 percent and 46.4 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 March 2013, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	10,146.26	2,968.57	13,114.83
Multilateral	10,800.26	3,627.63	14,427.89
Commercial	-	2,136.07	2,136.07
Total	20,946.52	8,732.26	29,678.79

Source: Ministry of Finance

## 2.5 Actual Cumulative External Debt Service

Actual cumulative debt service as at end March 2013 was Kshs 24.93 billion as reflected in Table 5. Actual principal and interest payments for the month of March 2013 was Kshs 2.58 billion and Kshs 1.86 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	7,777.35	2,826.86	10,604.21
Multilaterals	9,721.78	2,353.25	12,075.03
Commercials	-	2,249.26	2,249.26
Totals	17,499.13	7,429.37	24,928.50

Source: Ministry of Finance

## 2.6 Budget Deviation

The actual cumulative debt service for March 2013 was below the projected debt service by Kshs 4.75 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 declined by Kshs 1.68 billion to Kshs 42.08 billion in March 2013 from Ksh 43.76 billion in February 2013. The decrease is due to the strengthening of the Kenya Shilling against the Japanese Yen which forms the largest share of Guaranteed debt.

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

<b>Creditor</b>	<b>January 2013</b>	<b>February 2013</b>	<b>March 2013</b>
Japan	38,953.92	39,331.74	37,718.26
Canada	367.98	362.21	359.70
U.S.A	186.17	183.25	145.58
IDA (KR Concessionaire)	3,942.50	3,880.62	3,853.74
<b>Totals</b>	<b>43,450.58</b>	<b>43,757.82</b>	<b>42,077.28</b>

**Source: Ministry of Finance**

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

Government net domestic debt increased by Kshs 45.69 billion to Kshs 875.89 billion in March 2013 from Kshs 830.20 billion in February 2013 due to significant borrowing from the domestic market as indicated in Table 7.

Table 7: Government domestic debt, in Kshs billion

	January 2013	February 2013	March 2013
Gross domestic debt	978.40	943.75	981.67
<i>less</i>			
Govt. deposits at CBK	-26.63	-2.60	5.17
Govt. deposits at commercial banks	-107.44	-105.25	-105.25
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	838.63	830.20	875.89

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of March 2013, Government securities worth Kshs 74 billion were advertised. Bids worth Kshs 110.44 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 86.68 billion and Kshs 53,76 billion respectively. Successful bids amounted to Kshs 85.59 billion against the months redemptions of Kshs 50.71 billion leaving exchequer with a surplus of Kshs 34.88 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	54,000	20,000	74,000
Bids received	86,685	53,759	110,444
Successful bids	55,100	30,488	85,588
Redemptions (cost)	(35,735)	(14,971)	(50,706)
Net domestic borrowing	19,365	15,517	34,882

Source: Ministry of Finance

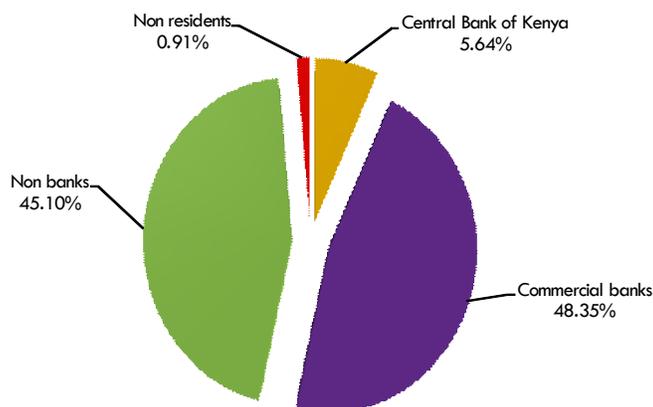
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	341.53	388.27	0.39	3.01	733.20
Treasury bills	126.28	54.39	0.02	5.91	186.60
Others	6.80	0.07	55.00	0.00	61.87
Total	474.61	442.73	55.41	8.92	981.67
Percentage Holding	48.35	45.10	5.64	0.91	100.00

Source: Central Bank of Kenya

At the end of March 2013 commercial banks continued to hold the largest proportion of the outstanding Government debt securities amounting to Kshs 474.61 billion or 48.35 percent as shown in Table 9 and Chart 5. The non banks held 45.10 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 8.92 billion or 0.91 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 55.41 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 March 2013

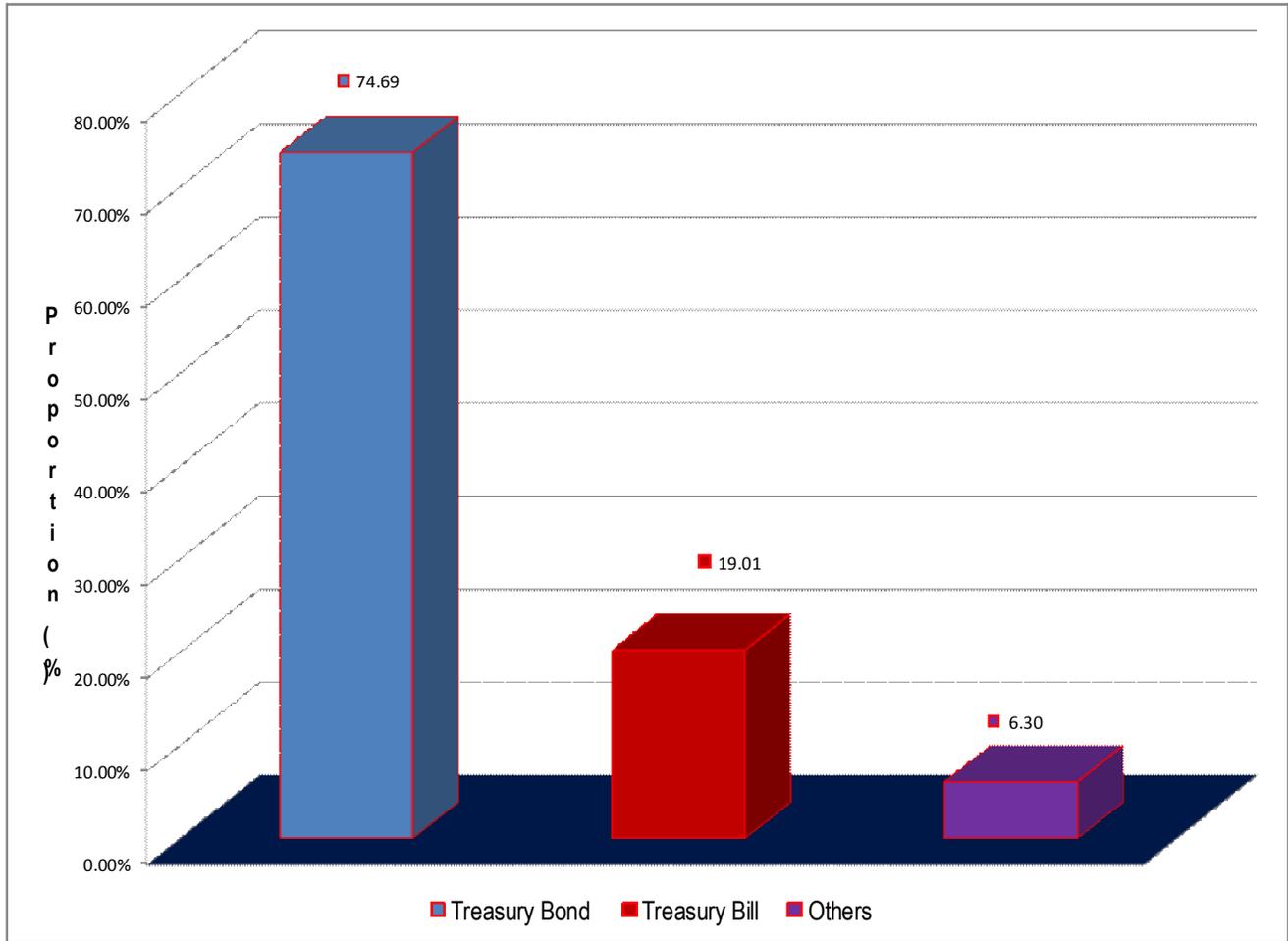


Source: Central Bank of Kenya

### 3.3 Domestic Debt by Instruments

Chart 6 shows the composition of the domestic debt as at end March 2013. 74.69 percent of Government domestic debt was in Treasury Bonds, 19.01 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 March 2013, the net domestic financing stood at Kshs 177.27 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2012	March-2013	Change
Treasury Bills	120.82	173.66	52.84
Treasury Bonds	661.30	703.65	42.35
Pre-1997 Govt. Overdraft debt	30.00	29.53	(0.47)
Other	7.81	30.62	22.81
<i>of which Overdraft (from CBK)</i>	7.26	25.37	18.12
Govt. deposits	93.69	33.94	(59.75)
Net Domestic Credit	726.24	903.52	177.27

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end March 2013, Government actual cumulative domestic interest payments stood at Kshs 78.93 billion against the cumulative projected interest payments of Kshs 78.76 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 58.15 billion and Kshs 17.39 billion respectively.

Table 11: Domestic interest payments, in Kshs million

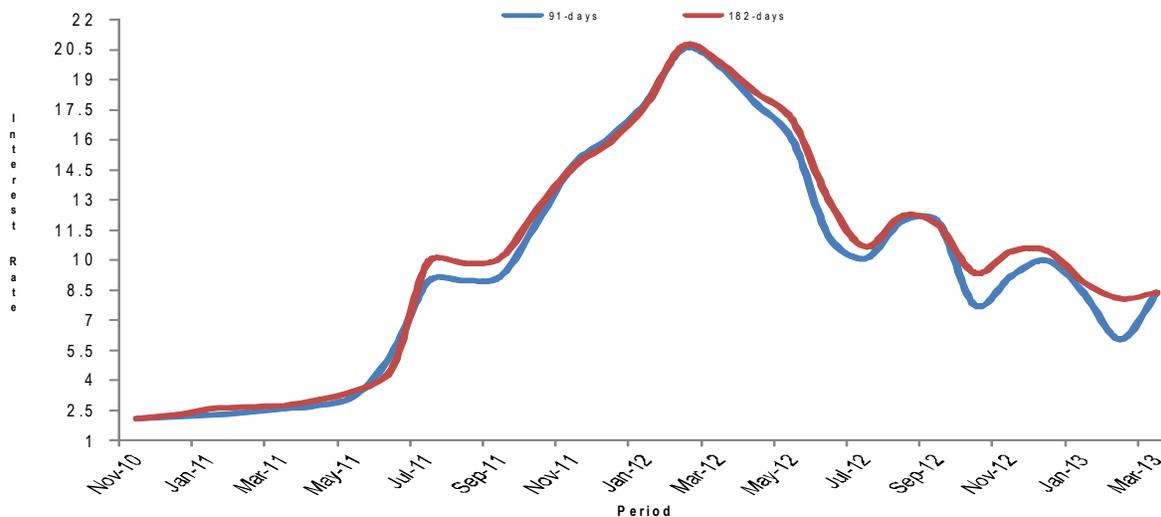
Type of debt	Projected	Actual	Variance
Treasury bonds	58,200	58,151	(49)
Treasury bills	16,951	17,391	440
Overdraft	2,362	2,207	(155)
Pre-1997 overdraft debt	1,244	1,180	(64)
Totals	78,757	78,929	300

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 November 2010. During the month of March 2013, the average interest rates for the 91-day Treasury bills increased by 151 basis points to 9.88 percent and the 182-day Treasury bills increased by 149 basis points to 9.89 percent per annum from the end February 2013 position, 364-day Treasury bills stood at an average of 12.54 percent per annum in March 2013.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

### 3.7 Yields on Treasury Bonds

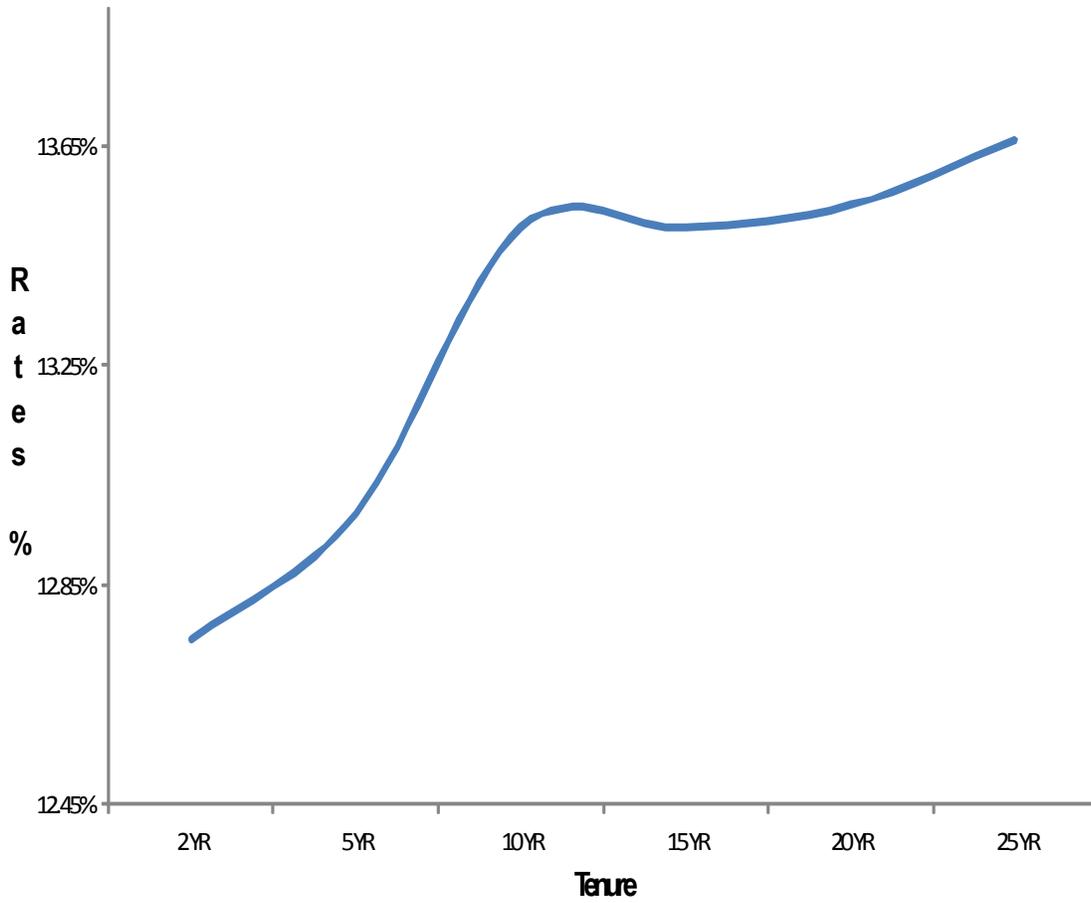
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark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

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	12.75
5 YR	12.98
10 YR	13.50
15 YR	13.50
20 YR	13.54
25 YR	13.66

Source: Nairobi Securities Exchange (NSE)

Chart 8: Yields on selected Treasury Bonds



<b>CREDITOR</b>	<b>Stock at end February 2013</b>	<b>Stock at end March 2013</b>	<b>Change</b>
<b>CENTRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,233.22	1,045.05	(188.17)
BELGIUM	7,753.97	7,442.68	(311.29)
CANADA	1,094.72	1,087.13	(7.59)
DENMARK	2,107.25	2,039.23	(68.02)
FINLAND	103.68	101.51	(2.17)
FRANCE	46,753.31	45,823.06	(930.25)
GERMANY	25,523.44	24,646.38	(877.06)
ITALY	2,202.85	2,097.33	(105.52)
JAPAN	51,724.08	49,673.68	(2,050.4)
NETHERLANDS	2,921.75	2,750.82	(170.93)
UK	1,828.57	1,812.79	(15.78)
USA	4,809.60	4,773.90	(35.7)
PARIS CLUB OTHERS	5,175.63	4,914.28	(261.35)
NON PARIS CLUB	68,337.09	68,850.13	513.04
o/w CHINA	61,494.20	62,266.13	771.93
<b>Sub total</b>	<b>221,569.17</b>	<b>217,058.01</b>	<b>(4,511.19)</b>
<b>MULTILATERAL</b>			
ADB/AFDB	82,498.75	81,552.66	(946.09)
EEC/EIB	16,184.89	15,601.44	(583.45)
IDA	305,520.72	298,951.24	(6,569.48)
IFAD	7,889.81	7,739.52	(150.29)
IMF	65,931.41	74,032.92	8,101.51
OTHERS	9,112.47	8,887.94	(224.53)
<b>Sub total</b>	<b>487,138.05</b>	<b>486,765.73</b>	<b>(372.33)</b>
<b>COMMERCIAL BANKS</b>	<b>58,495.71</b>	<b>57,905.16</b>	<b>(590.55)</b>
<b>SUPPLIERS CREDIT</b>	<b>15,306.93</b>	<b>14,957.46</b>	<b>(349.47)</b>
<b>Sub Total</b>	<b>782,509.86</b>	<b>776,686.36</b>	<b>(5,823.50)</b>
<b>GUARANTEED DEBT</b>			
CANADA	362.21	359.70	(2.51)
JAPAN	39,331.74	37,718.26	(1,613.48)
USA	183.25	145.58	(37.67)
IDA (KR Concessionaire)	3,880.62	3,853.74	(26.88)
<b>Sub Total</b>	<b>43,757.82</b>	<b>42,077.28</b>	<b>(1,680.54)</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>826,267.68</b>	<b>818,763.64</b>	<b>(7,504.04)</b>

Source: Ministry of Finance  
Memorandum item

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

Source: BPS January 2013

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