



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

SEPTEMBER 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end September 2011, public and publicly guaranteed debt stood at Kshs 1,564.11 billion or 56.6 percent of GDP (see Table 1). The increase of 1.2 percent over the end August 2011 position is attributed to external debt which stands at Kshs 799.83 billion from Kshs 768.51 billion in August. Domestic debt stock stood at USD 7.65 billion a decrease from USD 8.28 billion in August (see Table 1).

Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	764.28	7.65
External Debt	799.83	8.01
Total	1,564.11	15.66

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 48.9 percent of the total debt is domestic debt while the rest is external debt as shown in Chart 1. The structure reversed due to the weakening 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 0.6 percent and 7.6 years, respectively. In addition, the average maturity period for external loans was 22.6 years while the average grant element was 68.7 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 6 years 9 months at end September 2011.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period July to September 2011. The Kenya shilling depreciated against the major currencies. It depreciated against the US Dollar, Sterling Pound, Japanese Yen by 6.6 percent, 1.3 percent, 6.9 percent and appreciated against the Euro by 0.4 percent respectively. The Kenya shilling closed the month at 99.83 Kshs to the US Dollar. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. Weakening of the Kenya shilling suggests a higher level of external debt stock and higher costs of debt service while an appreciation has the opposite effect.

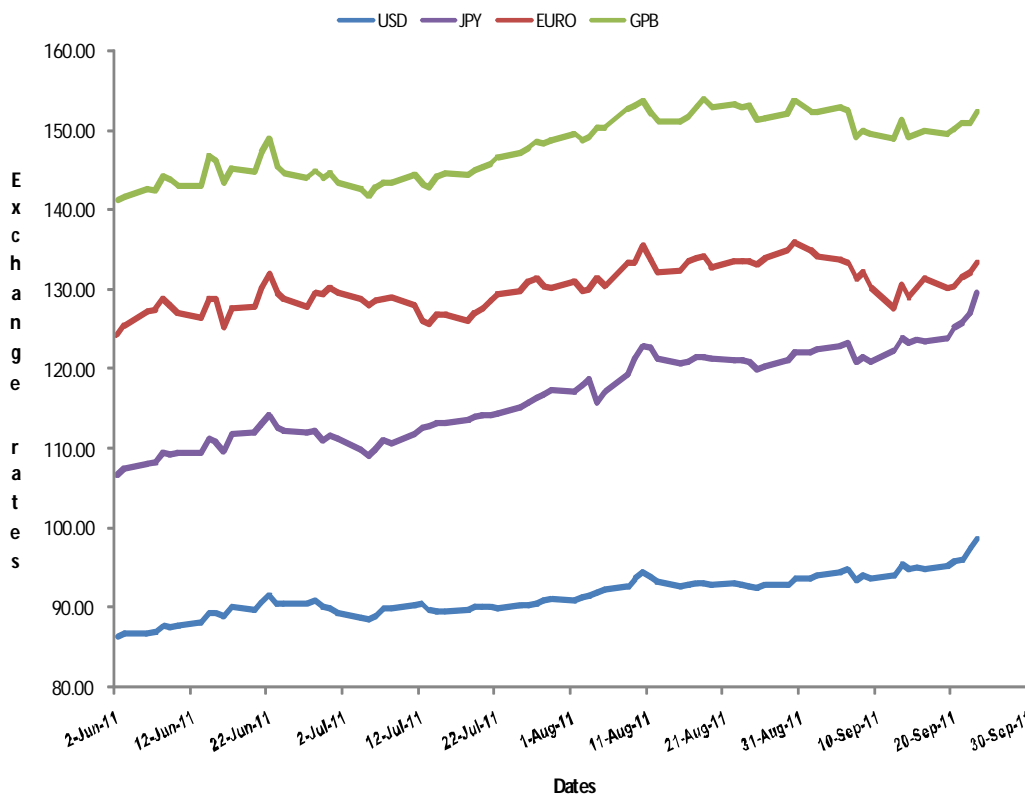
Table 2: Movement in exchange rates

Currency	July 2011	August 2011	September 2011
US Dollar	91.10	93.62	99.83
STG Pound	148.74	153.73	155.78
Euro	130.16	135.94	135.38
JPY(100)	117.42	122.10	130.54

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 2011 to September 2011. On average, the Kenya shilling depreciated against all the four major 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 31.32 billion from Kshs 768.51 billion in August 2011 to Kshs 799.83 billion in September 2011 as shown in Table 3.

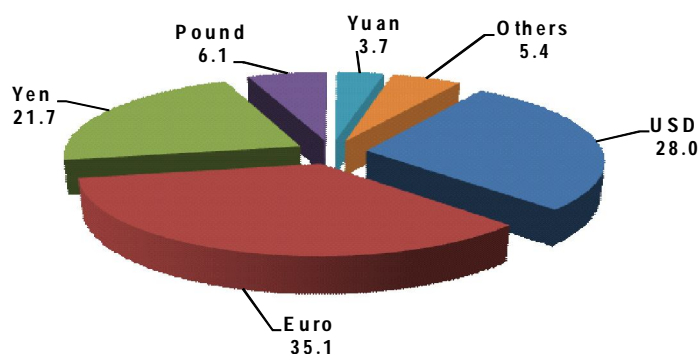
Table 3: Movement in external debt stock, in billion

Creditor Category	Kshs	USD
Bilateral	237.15	2.37
Multilateral	482.70	4.84
Guaranteed	53.34	0.53
Others	26.64	0.27
Total	799.83	8.01

Source: Ministry of Finance

The major increase was observed in multilateral external debt which increased by Kshs 20.07 billion on account of depreciation 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 3.7 percent is in Chinese Yuan.

Chart 3. Currency Composition



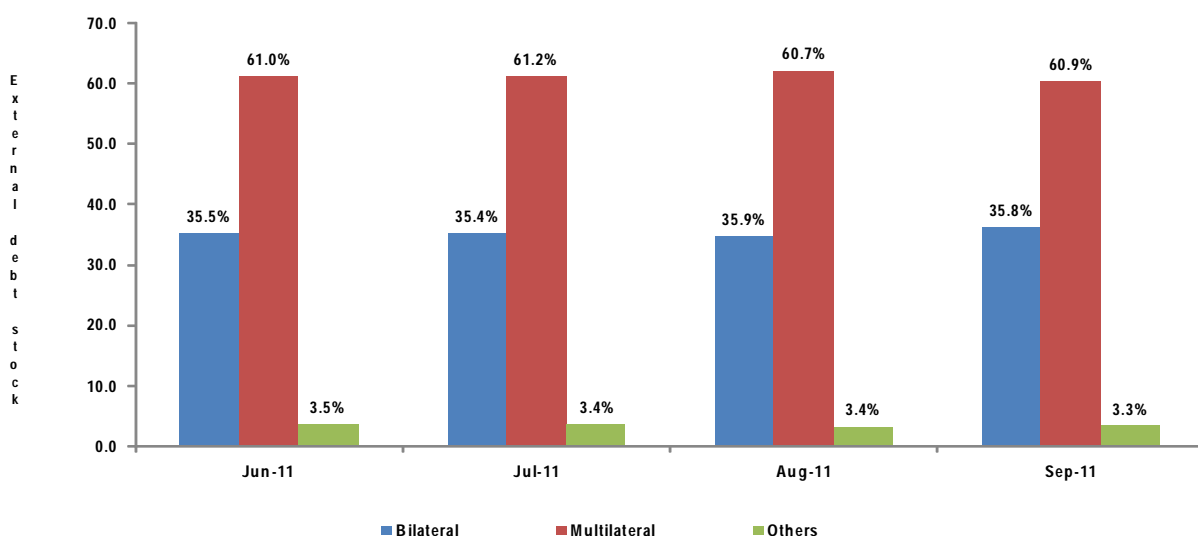
Source: Ministry of Finance

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 487.20 billion including Kshs 4.5 billion guaranteed debt owed to IDA) dominate the portfolio (60.9 percent of the total). Bilateral debt stands at Kshs 285.99 billion (35.8 percent of the total), which includes Kshs 48.85 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 Table 3).

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 September 2011 stood at Kshs 9.10 billion. Principal and interest projections for the month of September were Kshs 3.21 billion and Kshs 0.72 billion, respectively. Multilateral and bilateral creditors constitute 53 percent and 47 percent, of the projected debt service, respectively during the period under review as shown in Table 4.

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

Creditor category	Principal	Interest	Total
Bilateral	3,439.37	840.21	4,279.58
Multilateral	4,110.55	711.01	4,821.56
Commercial	-	-	-
Total	7,549.92	1,551.22	9,101.14

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end September 2011 was Kshs 8.34 billion as reflected in Table 5. Actual principal and interest payments for the month of September 2011 was Kshs 2.77 billion and Kshs 0.69

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

Credit category	Principal	Interest	Total
Bilateral	2,754.92	742.54	3,497.46
Multilaterals	4,073.68	768.00	4,841.68
Commercials	-	-	-
Totals	6,828.60	1,510.54	8,339.14

Source: Ministry of Finance

2.5 Budget Deviation

The actual debt service for September 2011 was below the projected debt service by Kshs 0.76 billion. This variance is attributed to the appreciation of the Kenya Shilling during the month of September.

2.6 Guaranteed External Debt

Under the Guarantee Loans Act (Cap 461), the government may issue guarantees so long as it does not exceed the ceiling which currently stands at Kshs 200 billion. The amount of public guaranteed external debt rose by Kshs 3.17 billion to Kshs 53.34 billion in September 2011. The increase is due to the depreciation of the Kenya shilling against other foreign currencies. Over 90 percent of the guaranteed debt is owed to Japan. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor with Japan as the leading creditor.

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

Creditor	July	August	September
Japan	43,478.40	45,214.47	48,099.04
Canada	409.97	421.32	449.26
U.S.A	309.74	318.32	296.99
IDA (KR Concessionaire)	4,099.50	4,213.00	4,492.44
Totals	48,297.61	50,167.11	53,337.73

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 2.83 billion to Kshs 631.87 billion. This was attributed to net repayments arising from the dismal domestic borrowing performance.

Table 7: Government domestic debt, in Kshs billion

	July	August	September
Gross domestic debt	781.71	776.69	764.28
<i>less</i>			
Govt. deposits at CBK	-65.99	-42.48	-30.38
Govt. deposits at commercial banks	-82.98	-93.81	-96.31
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	627.04	634.70	631.87

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of September 2011, Government securities worth Kshs 37.50 billion were advertised. Bids worth Kshs 48.57 billion were received, out of which Kshs 44.23 billion and Kshs 4.3 billion were Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 37.18 billion against the months redemptions of Kshs 49.59 billion leaving a deficit of Kshs 12.41 billion to be financed by the Exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	27,500	10,000	37,500
Bids received	44,228	4,343	48,571
Successful bids	36,540	639	37,179
Redemptions (cost)	36,733	12,859	49,592
Net domestic borrowing	(193)	(12,220)	(12,413)

Source: Ministry of Finance

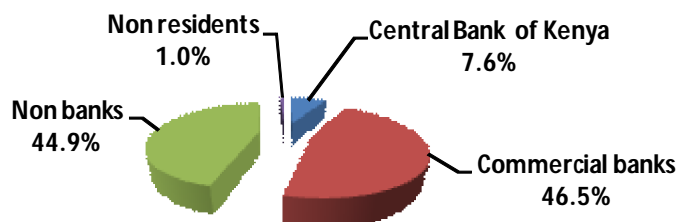
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	279.81	307.15	0.04	4.52	591.52
Treasury bills	72.87	35.84	1.48	3.55	113.74
Others	2.34	0.07	56.61	0.00	59.02
Total	355.02	343.06	58.13	8.07	764.28

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 355.02 billion or 46.5 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 8.07 billion or 1.0 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 58.13 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for execution of monetary policy. The non banks held 44.9 percent of the outstanding Government paper, mostly Treasury Bonds as illustrated in Chart 5. The non banks category comprises non bank financial institutions, National Social Security Fund (NSSF), parastatals, insurance companies, building societies, pension funds and individuals.

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

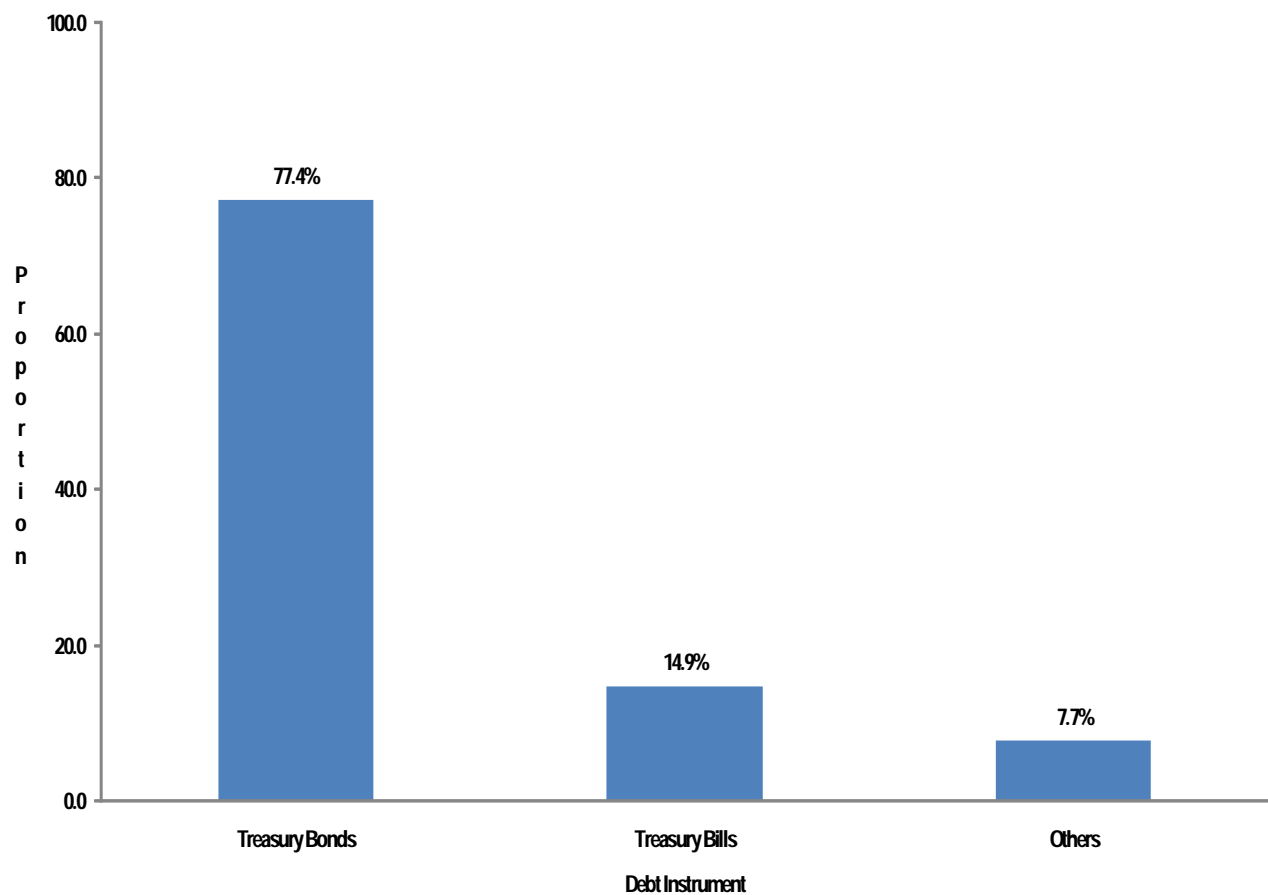


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end September 2011, 77.4 percent of Government domestic debt is in Treasury Bonds, 14.9 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 September 2011, the net domestic financing stood at Kshs 14.19 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	September	Change
Treasury Bills	123.53	109.76	(13.78)
Treasury Bonds	579.66	573.36	(6.31)
Long term Stock	0.00	0.00	(0.00)
Pre-1997 Govt. Overdraft debt	31.66	31.11	(0.55)
Other	8.11	25.59	17.48
<i>of which Overdraft (from CBK)</i>	7.57	25.37	17.80
Govt. deposits	89.95	72.60	(17.35)
Net Domestic Credit	653.01	667.22	14.19

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

During the month of September 2011, the Government projected to pay Kshs 6.23 billion as interest on domestic debt. As at September 2011, Government actual cumulative domestic interest payments stood at Kshs 17.37 billion against the cumulative projected interest payments of Kshs 17.70 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 14.56 billion and Kshs 2.48 billion, respectively. The total variance of Kshs 0.33 billion is attributed to higher interest rates than projected.

Table 11: Domestic interest payments, in Kshs million

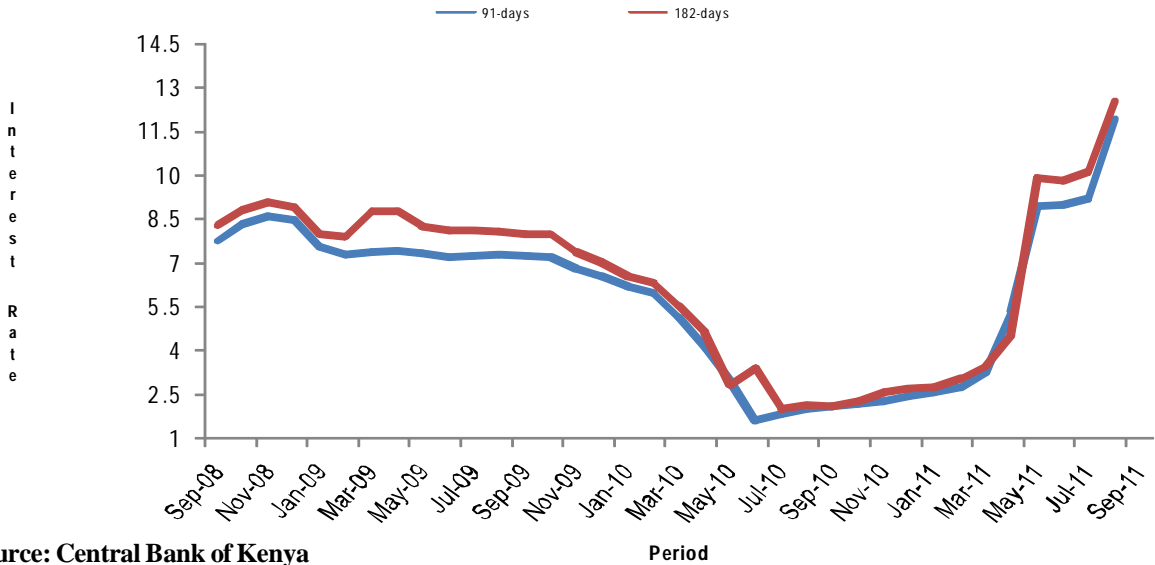
Type of debt	Projected	Actual	Variance
Treasury bonds	12,947.38	14,561.57	(1,614.19)
Treasury bills	4,206.61	2,475.22	1,731.39
Overdraft	311.92	329.19	(17.27)
Pre-1997 overdraft debt	233.35	0.00	233.35
Government stocks	0.00	0.00	0.00
Totals	17,699.25	17,365.98	333.28

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 September 2008. After a sustainable decline, the interest rates have been increasing since the beginning of the financial year 2010/11. During the month of September 2011, the average interest rates for the 91-day Treasury bills rose by 271 basis points to 11.93 percent while the 182-day and 364-day Treasury bills increased by 113 and 147 basis points respectively to stand at 11.28 and 12.54 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 which suggests a positive correlation between tenure and yield implying a normal upward sloping yield curve.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	13.9%
5 YR	13.6%
10 YR	13.5%
15 YR	13.6%
20 YR	13.9%
25 YR	15.3%

Source: Central Bank of Kenya

**ANNEX 1: STOCK OF PUBLIC AND PUBLICLY GUARANTEED DEBT BY SOURCE
(IN KSHS MILLIONS)**

CREDITOR	Stock at end August 2011	Stock at end September 2011	Change
CENRAL GOVERNMENT			
BILATERAL			
AUSTRIA	2,106.50	1,940.20	(166.30)
BELGIUM	9,623.13	9,534.72	(88.41)
CANADA	1,324.85	1,412.72	87.87
DENMARK	2,892.15	2,887.22	(4.93)
FINLAND	137.99	141.97	3.98
FRANCE	44,021.25	43,763.95	(257.30)
GERMANY	28,098.35	27,982.97	(115.38)
ITALY	4,581.31	4,567.90	(13.41)
JAPAN	76,452.14	80,614.12	4,161.98
NETHERLANDS	3,144.42	4,195.37	1,050.95
UK	2,474.64	2,507.60	32.96
USA	5,792.21	6,173.75	381.54
PARIS CLUB OTHERS	6,300.96	6,361.10	60.14
NON PARIS CLUB	42,629.43	45,062.44	2,433.01
Sub total	229,579.33	237,146.03	7,566.70
MULTILATERAL			
ADB/AFDB	55,234.70	64,126.80	8,892.10
EEC/EIB	13,083.49	12,744.11	(339.38)
IDA	322,573.22	331,023.32	8,450.10
IFAD	7,502.98	7,759.20	256.22
IMF	55,225.37	57,177.70	1,952.33
OTHERS	9,020.35	9,878.65	858.30
Sub total	462,640.11	482,709.79	20,069.68
SUPPLIERS CREDIT	26,124.30	26,640.48	516.18
Sub Total	718,343.74	746,496.29	28,152.55
GUARANTEED DEBT			
CANADA	421.32	449.26	27.94
JAPAN	45,214.47	48,099.04	2,884.57
USA	318.32	296.99	(21.33)
IDA(KR Concessionaire)	4,213.00	4,492.44	279.44
Sub Total	50,167.11	53,337.73	3,170.62
GOK+ GUARANTEED TOTAL	768,510.85	799,834.03	31,323.18

Source: Ministry of Finance

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