



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

APRIL 2012

1.0 PUBLIC DEBT

1.1 Introduction

As at end April 2012, public and publicly guaranteed debt stood at Kshs 1,596.94 billion or 47.9 percent of GDP (see Table 1). The increase of 2.1 percent over the end March 2012 position is attributed to depreciation of the Kenya shilling and increased disbursements from external creditors. External debt rose by Ksh 24.57 billion to Ksh 700.90 billion in April 2012. (See Table 1).

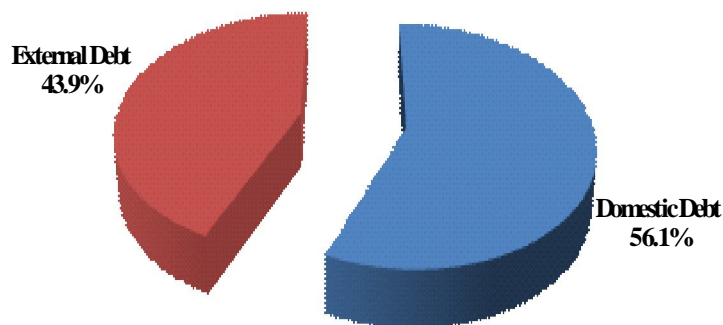
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	896.04	10.76
External Debt	700.90	8.42
Total	1,596.94	19.18

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 56.1 percent of the total debt is domestic debt while the rest is external debt as shown in Chart 1. The current structure has changed due to the increased uptake of domestic borrowing thus increasing the level of domestic debt.

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 0.7 percent and 5.5 years, respectively. In addition, the average maturity period for external loans was 23.6 years while the average grant element was 48.5 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 5 months at end April 2012.

1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period February 2012 to April 2012. The Kenya shilling depreciated against the US Dollar, Sterling Pound and the Yen by 0.2 percent, 2.1 percent and 2.5 percent respectively, but appreciated against Euro by 0.5 percent. The Kenya shilling stood at Kshs 83.22 to the US Dollar at end April 2012. These movements have implications on both the size of the external debt and the cost of debt service.

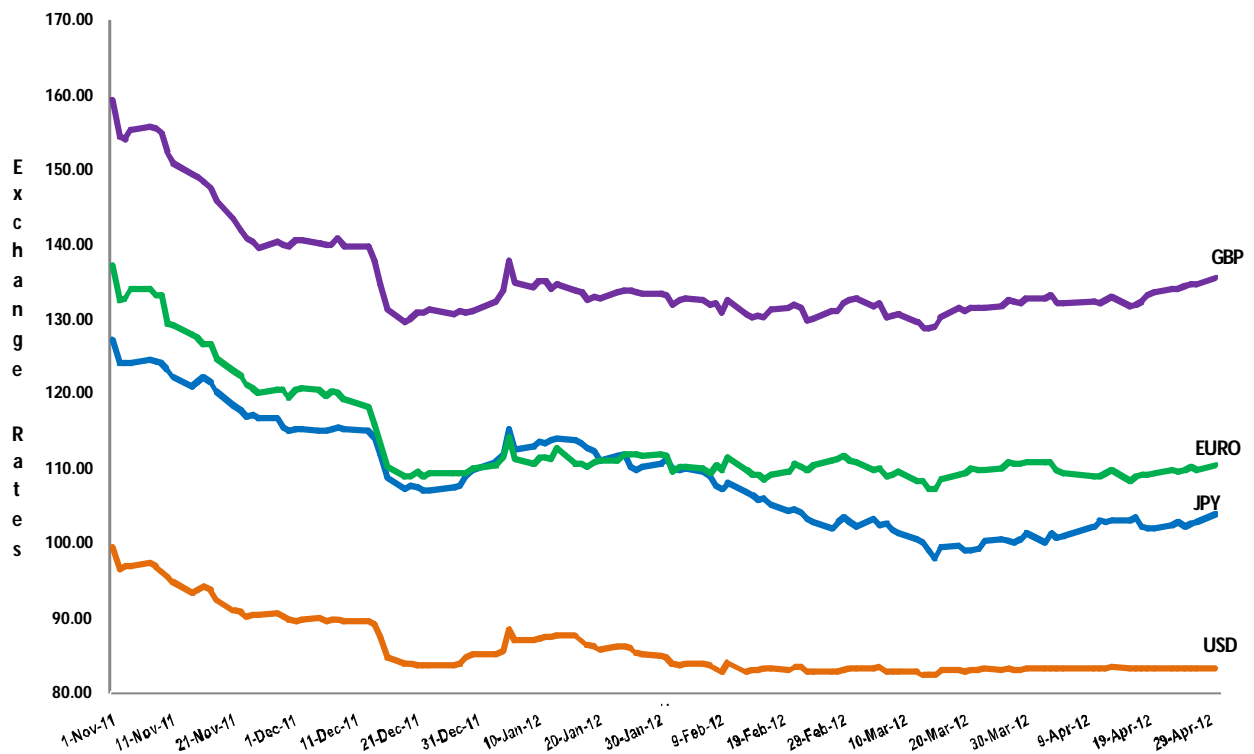
Table 2: Movement in exchange rates

Currency	February 2012	March 2012	April 2012
US Dollar	82.97	83.06	83.22
STG Pound	132.20	132.75	135.51
Euro	111.75	110.86	110.30
JPY(100)	103.48	101.34	103.84

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from November 2011 to April 2012.

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 24.57 billion to Kshs 700.90 billion in April 2012 from Kshs 676.33 billion in March 2012 as shown in Table 3.

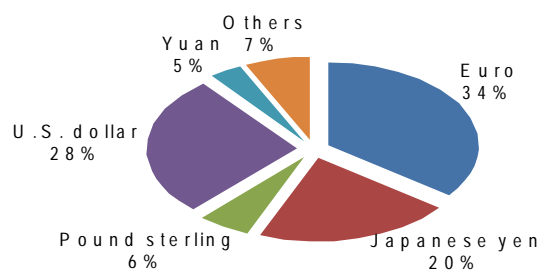
Table 3: External debt stock, in billions

Creditor Category	March 2012		April 2012	
	Kshs	USD	Kshs	USD
Bilateral	204.58	2.46	205.78	2.47
Multilateral	413.31	4.98	433.86	5.21
Guaranteed	41.92	0.50	46.19	0.56
Others	16.52	0.20	15.07	0.18
Total	676.33	8.14	700.90	8.42

Source: Ministry of Finance

There was an increase across all the creditor categories due to increased disbursements and depreciation of the Kenya shilling against the US dollar, the Sterling Pound and the Japanese Yen. The major increase was in the multilateral category due to disbursements from International Monetary Fund (IMF). The high proportion of debt from official external sources demonstrates a conscious effort to contract loans on concessional terms. Chart 3 below illustrates that 34 percent of Kenya's external debt is denominated in the Euro while about 7 percent is in other currencies e.g. Kuwait Dinar, Swiss Franc, etc.

Chart 3. Currency Composition

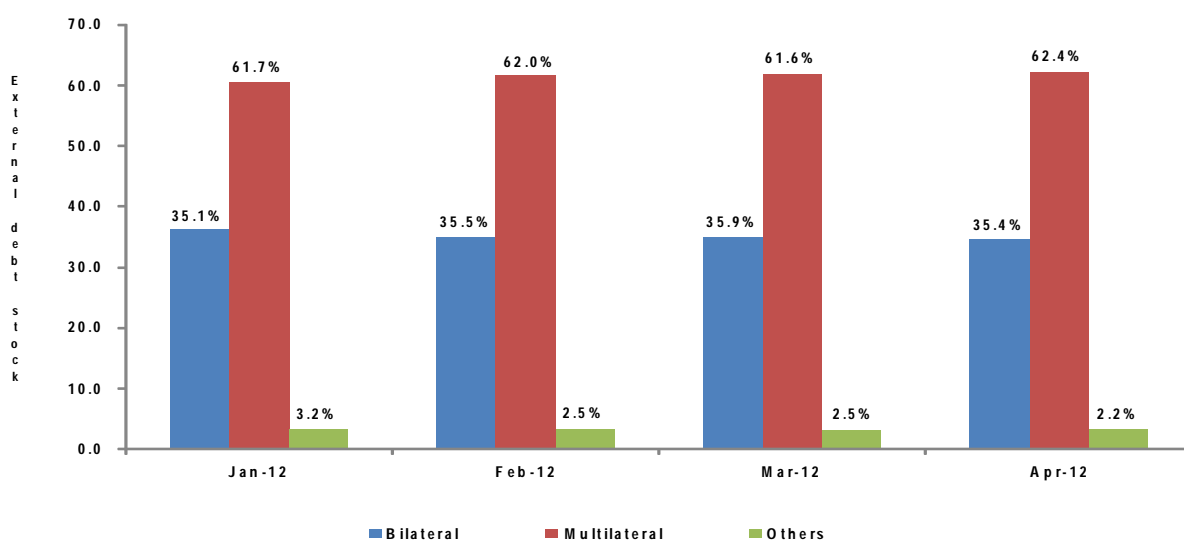


Source: Ministry of Finance

2.2 Structure of External Debt by Creditor

Official creditors account for 97.80 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Ksh 437.60 billion including Ksh 3.74 billion guaranteed debt owed to IDA) dominate the portfolio (62.4 percent of the total). Bilateral debt stands at Kshs 248.23 billion (35.4 percent of the total), which includes Kshs 42.45 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 April, 2012 stood at Kshs 28.27 billion. Principal and interest projections for the month of April 2012 were Kshs 2.49 billion and Kshs 0.55 billion, respectively. Multilateral and bilateral creditors constitute 49.6 percent and 50.4 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 April 2012, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	11,184.64	3,048.79	14,233.43
Multilateral	11,437.64	2,596.02	14,033.66
Commercial	-	-	-
Total	22,622.28	5,644.81	28,267.09

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end April 2012 was Kshs 26.44 billion as reflected in Table 5. Actual principal and interest payments for the month of April 2012 was Kshs 1.84 billion and Kshs 0.25 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	9,086.90	2,890.94	11,977.84
Multilaterals	11,569.22	2,891.36	14,460.58
Commercials	-	-	-
Totals	20,656.12	5,782.30	26,438.42

Source: Ministry of Finance

2.5 Budget Deviation

The actual cumulative debt service for April 2012 was below the projected debt service by Kshs 1.83 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. The guaranteed external debt increased by Kshs 4.27 billion to Kshs 41.92 billion in April 2012 from 42.10 in March 2012. The increase is due to the depreciation of the Kenya shilling against the Japanese Yen which constitute 90 percent of the guaranteed debt owed. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor.

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

Creditor	February 2012	March 2012	April 2012
Japan	39,136.16	37,602.80	41,868.42
Canada	365.09	365.46	366.17
U.S.A	246.84	211.79	212.20
IDA (KR Concessionaire)	3,733.69	3,737.50	3,744.74
Totals	43,481.78	41,917.55	46,191.53

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 1.33 billion to Kshs 735.76 billion. This is attributed to increased Government deposits in Central Bank of Kenya and Commercial Banks.

Table 7: Government domestic debt, in Kshs billion

	February 2012	March 2012	April 2012
Gross domestic debt	877.29	887.87	896.04
<i>less</i>			
Govt. deposits at CBK	-43.74	-40.90	-43.30
Govt. deposits at commercial banks	-106.04	-104.18	-111.28
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	721.81	737.09	735.76

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of April 2012, Government securities worth Kshs 40.0 billion were advertised. Bids worth Kshs 72.77 billion were received, out of which, bids for the Treasury Bills and Treasury Bonds were Kshs 45.05 billion and Kshs 27.72 billion respectively. Successful bids amounted to Kshs 40.19 billion against the months redemptions of Kshs 32.28 billion leaving a surplus of Kshs 7.92 billion to exchequer.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	35,000	5,000	40,000
Bids received	45,052	27,715	72,767
Successful bids	33,724	6,469	40,193
Redemptions (cost)	32,275	0	32,275
Net domestic borrowing	1,449	6,469	7,918

Source: Ministry of Finance

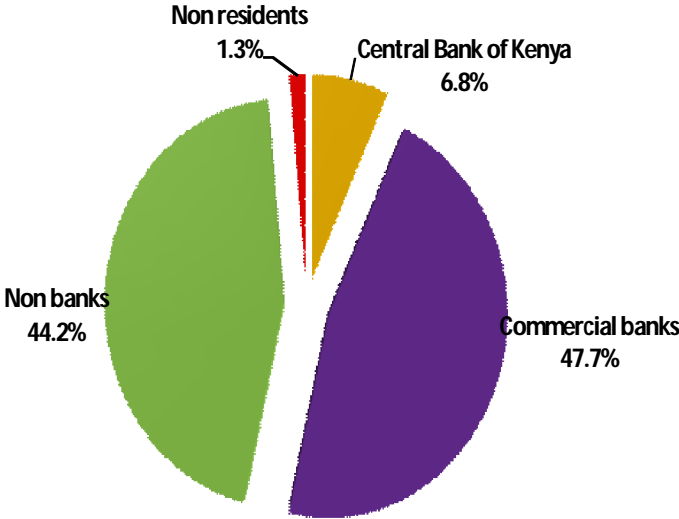
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	335.44	346.26	3.84	4.46	690.00
Treasury bills	89.77	49.55	1.22	7.07	147.61
Others	2.31	0.07	56.05	0.00	58.43
Total	427.52	395.88	61.11	11.53	896.04
Percentage Holding	47.71	44.18	6.82	1.29	100.0

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 427.52 billion or 47.7 percent as shown in Table 9 and Chart 5. The non banks held 44.2 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 11.53 billion or 1.3 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 61.11 billion held by Central Bank of Kenya comprises of the Government overdraft and Repo Treasury Bills used for execution of monetary policy.

Chart 5: Domestic debt by holder as at end April 2012

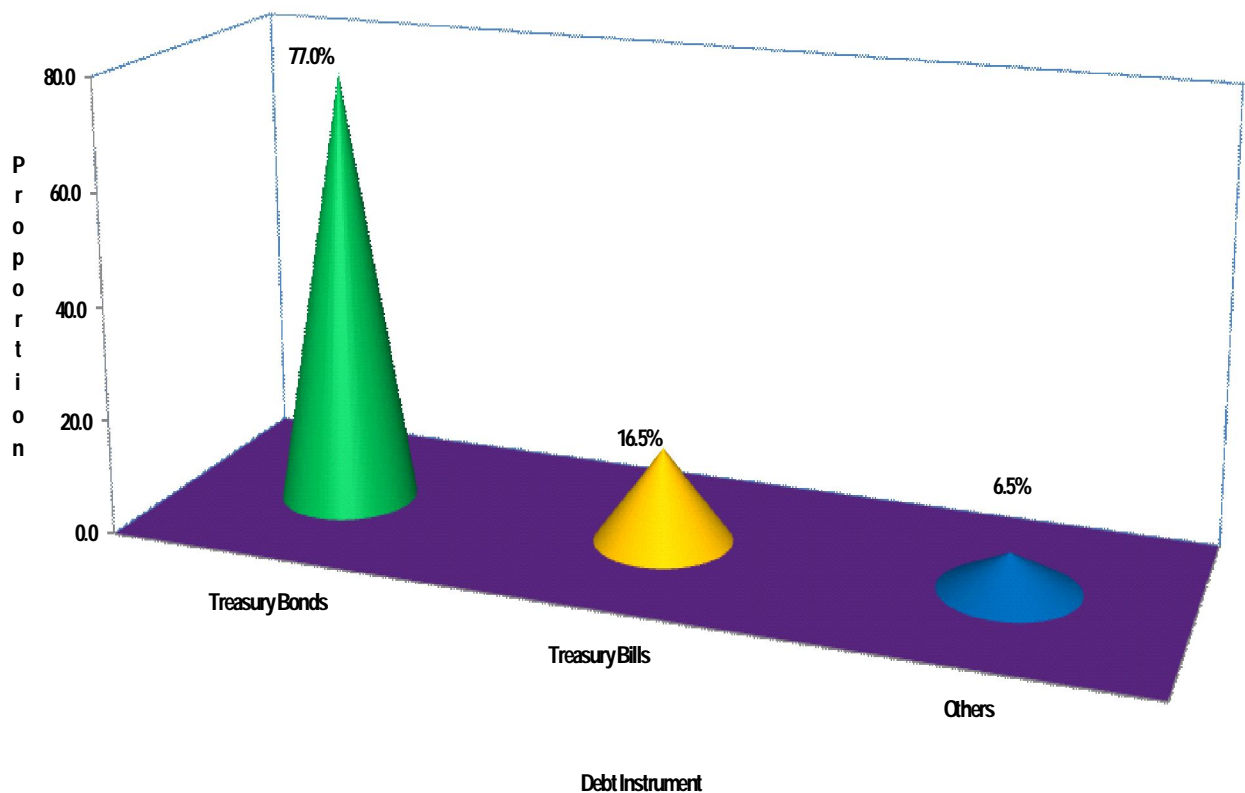


Source: Central Bank of Kenya

3.3 Domestic Debt by Instruments

Chart 6 shows that as at end April 2012 the composition of the domestic debt remained the same as the position in March 2012. 77.0 percent of Government domestic debt was in Treasury Bonds, 16.5 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 April 2012, the net domestic financing stood at Kshs 93.83 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	April-2012	Change
Treasury Bills	123.53	134.82	11.29
Treasury Bonds	579.67	664.45	84.78
Long term Stock	0.00	0.00	0.00
Pre-1997 Govt. Overdraft debt	31.66	30.55	(1.11)
Other	8.11	25.54	17.43
<i>of which Overdraft (from CBK)</i>	7.57	25.37	(17.80)
Govt. deposits	89.95	108.51	18.56
Net Domestic Credit	653.03	746.85	93.83

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

As at end April 2012, Government actual cumulative domestic interest payments stood at Kshs 65.75 billion against the cumulative projected interest payments of Kshs 56.61 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 51.92 billion and Kshs 10.99 billion respectively. The cumulative variance of Kshs 9.14 billion is attributed to high interest rates for Government securities than was projected.

Table 11: Domestic interest payments, in Kshs million

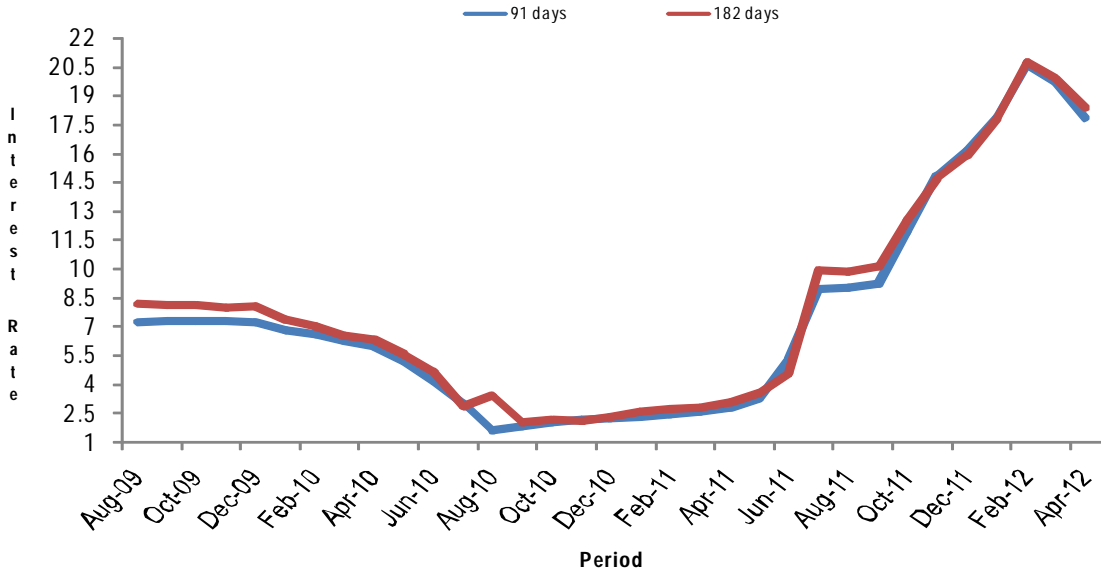
Type of debt	Projected	Actual	Variance
Treasury bonds	44,915.79	51,915.79	(7,000.00)
Treasury bills	9,887.08	10,986.22	(1,099.14)
Overdraft	1,039.73	2,850.75	(1,811.02)
Pre-1997 overdraft debt	772.28	0.00	772.28
Totals	56,614.88	65,752.76	(9,137.88)

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 August 2009. During the month of April 2012, the average interest rates for the 91-day Treasury bills declined by 179 basis points to 16.01 percent while the 182-day and 364-day Treasury bills decreased by 143 and 12 basis points respectively to 16.94 and 16.92 percent per annum respectively.

Chart 7: Average interest rates on Treasury Bills



Source: Central Bank of Kenya

3.7 Yields on Treasury Bonds

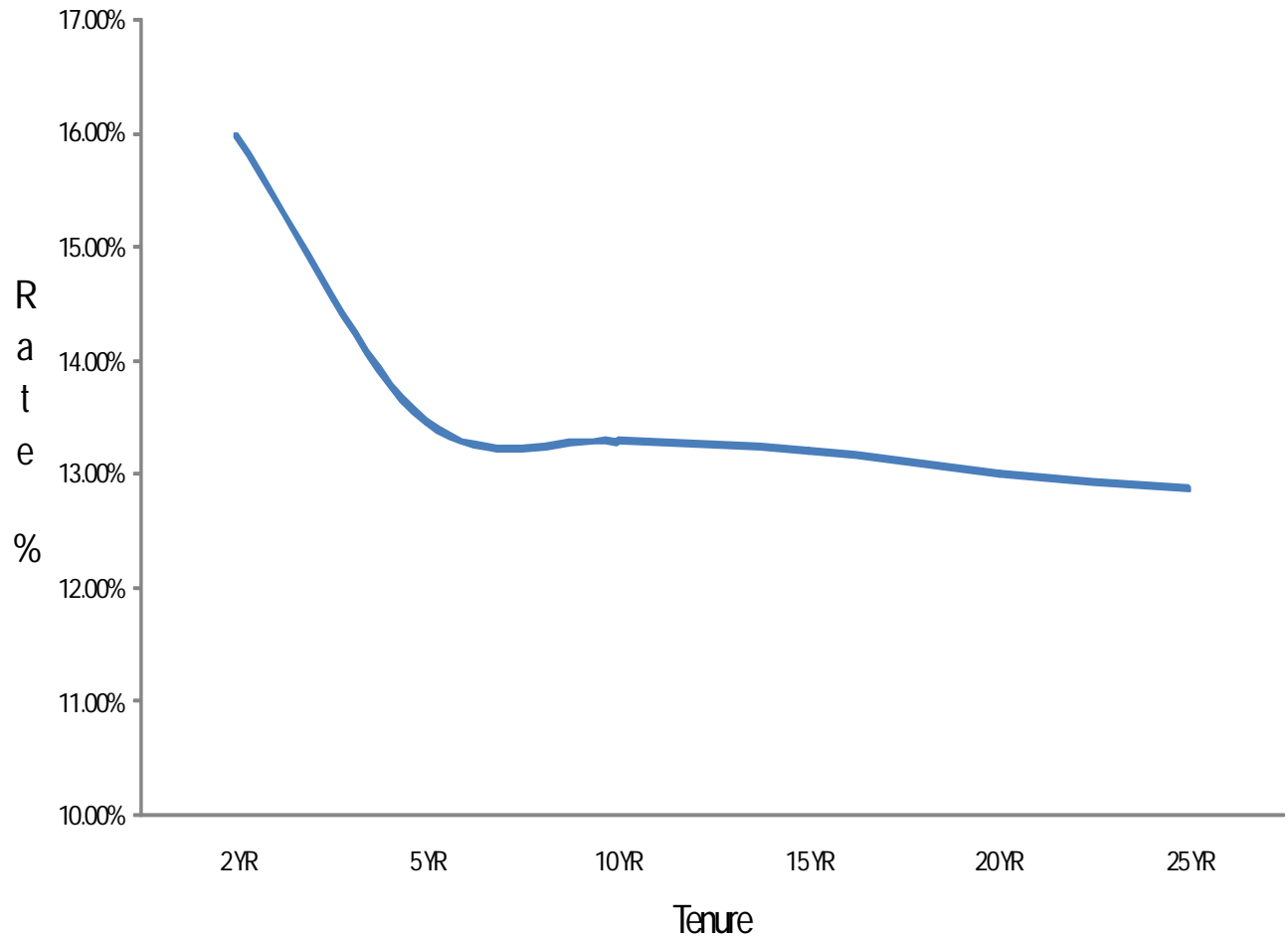
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected benchmark 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 as illustrated in Chart 8.

Table 12 : Yields on selected Treasury Bonds

Tenure	Rate (%)
2 YR	15.98%
5 YR	13.47%
10 YR	13.29%
15 YR	13.20%
20 YR	13.01%
25 YR	12.88%

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 March 2012	Stock at end April 2012	Change
CENTRAL GOVERNMENT			
BILATERAL			
AUSTRIA	1,420.54	1,413.41	(7.31)
BELGIUM	7,758.17	7,691.20	(66.97)
CANADA	1,148.26	1,150.48	2.22
DENMARK	2,268.68	2,190.32	(78.36)
FINLAND	111.99	111.81	(0.18)
FRANCE	39,135.77	38,643.30	(492.47)
GERMANY	23,568.66	23,450.34	(118.32)
ITALY	2,940.31	2,925.95	(14.36)
JAPAN	60,336.17	61,213.77	877.60
NETHERLANDS	3,117.59	3,097.99	(19.60)
UK	2,049.90	2,092.52	42.62
USA	4,965.82	4,942.15	(23.67)
PARIS CLUB OTHERS	4,944.11	4,931.31	(12.80)
NON PARIS CLUB	50,812.13	51,927.93	1,115.80
Sub total	204,578.10	205,782.48	1,204.38
MULTILATERAL			
ADB/AFDB	63,011.31	63,031.48	20.17
EEC/EIB	11,428.90	11,355.73	(73.17)
IDA	276,575.34	278,386.43	1,811.09
IFAD	6,805.77	7,283.70	477.93
IMF	46,222.61	63,805.14	17,582.53
OTHERS	9,264.76	9,996.03	731.27
Sub total	413,308.69	433,858.51	20,549.82
SUPPLIERS CREDIT	16,523.73	15,072.40	(1,451.33)
Sub Total	634,410.52	654,713.39	20,302.87
GUARANTEED DEBT			
CANADA	365.46	366.17	0.71
JAPAN	37,602.80	41,868.42	4,265.62
USA	211.79	212.20	0.41
IDA(KR Concessionaire)	3,737.50	3,744.74	7.24
Sub Total	41,917.55	46,191.53	4,273.98
GOK+ GUARANTEED TOTAL	676,328.07	700,904.92	24,576.85

Source: Ministry of Finance

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