



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

**FEBRUARY 2011**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end February 2011, public and publicly guaranteed debt stood at Kshs 1,377.07 billion or 53.18 percent of GDP . The increase of 0.88 percent over the end January 2011 position is attributed to domestic debt which stands at Kshs 746.67 billion.External debt stock stood at USD 7.65 billion as shown in Table 1.

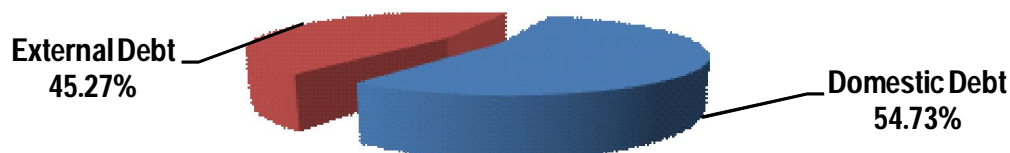
**Table 1: Size of public debt, in billion**

Debt category	Kshs	USD
Domestic debt	746.67	9.07
External debt	630.40	7.65
<b>Total</b>	<b>1,377.07</b>	<b>16.72</b>

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.73 percent of the total is domestic debt and 45.27 percent external debt as shown in Chart 1. This structure is consistent with Government’s Medium Term Debt Strategy of maintaining a relatively large domestic debt stock to hedge against exchange rate risk.

**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 and guaranteeing external loans with highly concessional terms to minimise interest rate cost, the average interest rate and grace period on the external debt portfolio as at the end January 2011 was 0.8 percent and 8.9 years, respectively. In addition, the average maturity period for external loans was 32.9 years while the average grant element was 58.7 percent.

As an indication of the success in lengthening the maturity of domestic debt to minimise refinancing risk in line with the Medium Term Debt Strategy, the average maturity profile of outstanding Government domestic debt increased from 4.58 years in end June 2010 to 5.1 years in February 2011.

### 1.3 Movements in exchange rates

Table 2 shows market indicative foreign exchange rates for the period December 2010 to February 2011. In the month of February, the Kenya shilling depreciated against the US dollar, the Sterling pound, the Euro and the Japanese Yen by 1.1 percent, 3.7 percent and 2.8 percent, and 1.74 percent respectively. The Kenya shilling closed the month at 82.36 Kshs to the US Dollar. Movements in the exchange rates have implications on the size of the external debt and the cost of debt service. Strengthening of the Kenya Shilling against the exchange rates means a lower level of external debt stock and lower costs of debt service while a depreciation has the reverse effect.

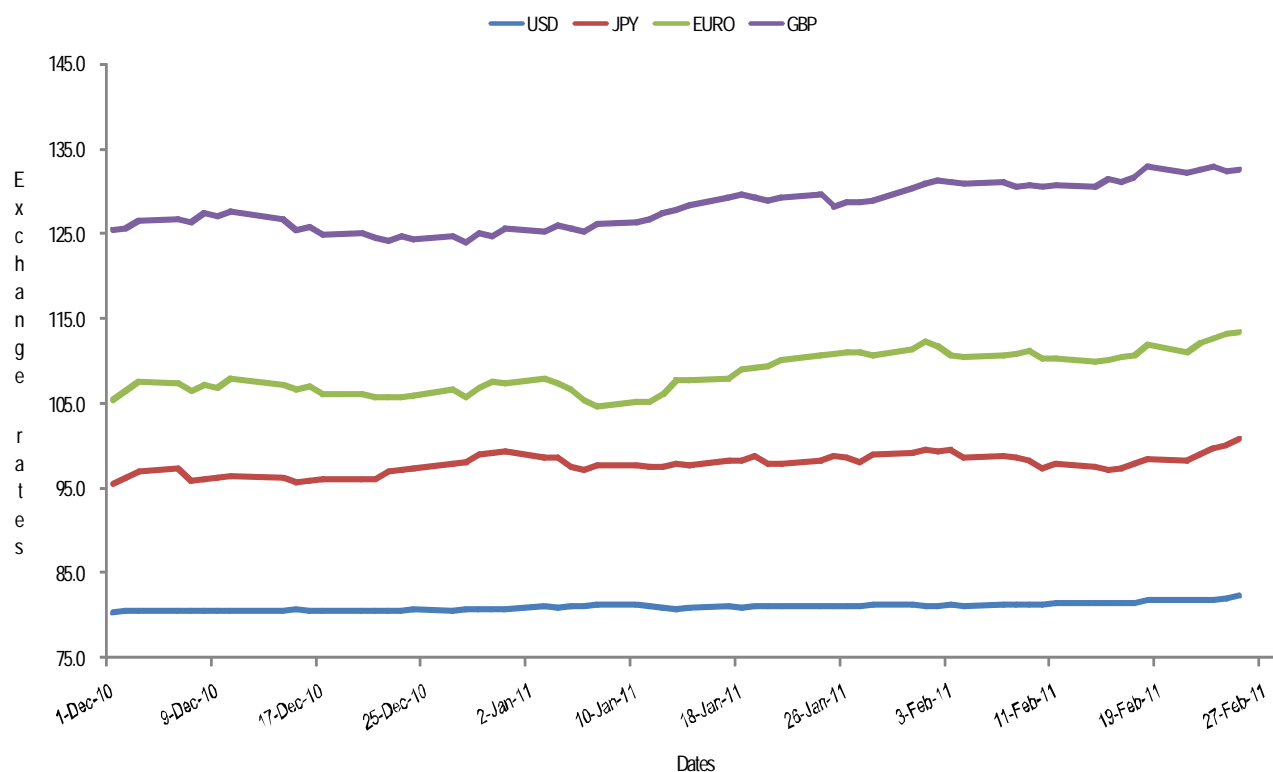
**Table 2: Movements in exchange rates**

Currency	December 2010	January 2011	February 2011
US Dollar	80.75	81.27	82.36
STG Pound	124.77	128.98	132.69
Euro	107.63	110.61	113.37
JPY(100)	99.12	99.05	100.79

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between the Kenya Shilling and the four major foreign currencies from December 2010 to February 2011. On average, the US Dollar exchange rate has remained relatively stable.

**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 stock increased by Kshs 14.80 billion from Kshs 615.60 billion in January 2011 to Kshs 630.40 billion in February 2011 as shown in Table 3.

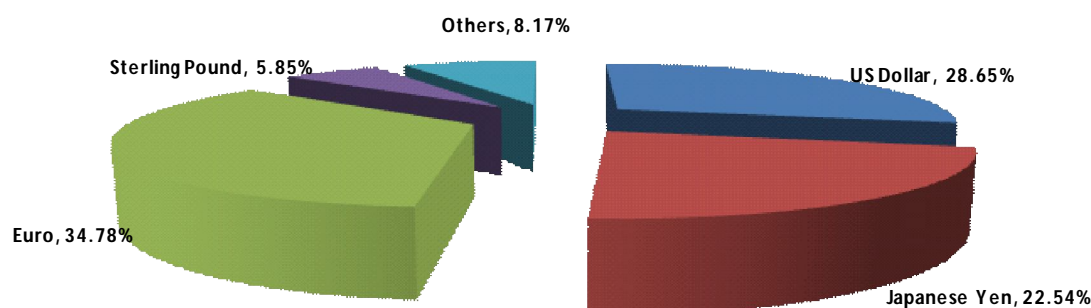
**Table 3: Movement in external debt stock, in billion**

	<b>Kshs</b>	<b>USD</b>
Bilateral	184.65	2.24
Multilateral	384.40	4.67
Guaranteed	39.16	0.48
Others	22.19	0.27
<b>Total</b>	<b>630.40</b>	<b>7.57</b>

Source: Ministry of Finance

Significant increase was observed in multilateral debt which increased by Kshs 6.44 billion on account of depreciation of the Kenya shilling against other major world currencies. The high proportions of debt from the two official external sources demonstrates a conscious effort to contract loans on concessional terms. Chart 3 below illustrates that 34.8 percent of Kenya's external debt is denominated in Euro while about 5.9 percent is denominated in Sterling Pound.

**Chart 3. Currency Composition.**

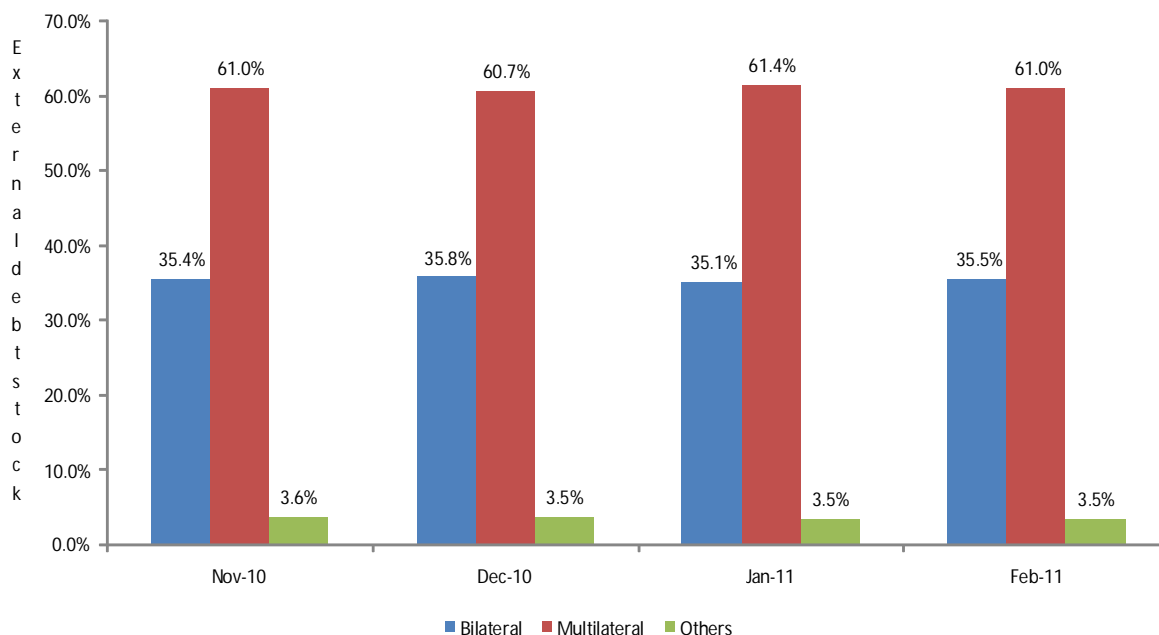


### Structure of external debt by Creditor category

Official creditors account for 96.5 percent of the total external debt, out of which debts owed to multilateral creditors( Kshs 384.40 billion) dominate the portfolio( 61 percent of the total). Bilateral debts stands at Kshs 184.65 billion or (35.5 percent of the total) as shown in Chart 4.

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 amount of debt owed to commercial creditors 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

For the month of February 2011, cumulative external debt service projections stood at Kshs 17.78 billion. Principal and interest projections for the month of February 2011 were Kshs 1.53 billion and Kshs 0.26 billion, respectively. Multilateral and bilateral creditors constitute 52.39 percent and 47.61 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 February 2011, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	6,232.50	2,234.55	8,467.05
Multilateral	7,122.32	2,194.76	9,317.08
Commercial	-	-	-
<b>Total</b>	<b>13,354.82</b>	<b>4,429.31</b>	<b>17,784.13</b>

Source: Ministry of Finance

## 2.4 Actual Cumulative External Debt Service

Cumulative actual debt service as at end February 2011 was Kshs 16.41 billion as reflected in Table 5. The principal and interest for the month of February 2011 was Kshs 1.17 billion and Kshs 0.26 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	5,475.20	2,192.69	7,667.89
Multilaterals	6,902.70	1,843.84	8,746.54
Commercials	-	-	-
Totals	12,377.90	4,036.53	16,414.43

Source: Ministry of Finance

## 2.5 Budget Deviation

The projected debt service for February 2011 was above the actual debt service by Kshs 0.02 billion. This variance is attributed to exchange rate fluctuations. No debt arrears were accumulated during the month under review.

## 2.6 Guaranteed External Debt

The amount of Public and Publicly guaranteed external debt increased marginally by Kshs 0.72 billion to Kshs 39.16 billion in February 2011. The increase is due to the depreciation of the Kenya Shilling against the major world currencies. Over 90 percent of the guaranteed debt is owed by the Kenya Broadcasting Corporation, which was guaranteed by the Government. The Guaranteed Loans Act provides a framework within which Government guarantees are issued. This Act sets the ceiling for guaranteed debts, which currently stands at Kshs 80 billion. Table 6 shows the disbursed outstanding guaranteed debt stock by creditor of which Japan is the leading creditor.

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

Creditor	December	January	February
Japan	37,784.09	37,756.26	38,470.27
Canada	371.47	373.87	378.89
U.S.A	308.88	310.87	315.04
Totals	38,464.44	38,441.00	39,164.20

Source: Ministry of Finance

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

As indicated in Table 7, Government net domestic debt declined by Kshs 3.62 billion to Kshs 590.06 billion in line with the 2010 Medium Term Debt Strategy and Government borrowing plan for the financial year 2010/11.

Table 7: Government domestic debt, in Kshs billion

	December	January	February
Gross domestic debt	720.33	726.32	746.67
<i>less</i>			
Govt. deposits at CBK	-51.53	-41.87	-63.87
Govt. deposits at commercial banks	-81.90	-85.07	-87.04
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	581.20	593.68	590.06

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of February 2011, Government securities worth Kshs 37.5 billion were advertised. Bids worth Kshs 60.38 billion were received, out of which Kshs 26.72 billion and Kshs 33.67 billion were Treasury Bills and Treasury Bonds, respectively. The net repayments of Treasury Bills shown in Table 8 is consistent with the Government borrowing plan and strategy of raising more resources using longer dated instruments.

Successful bids amounted to Kshs 44.87 billion against the months redemptions of Kshs 30.43 billion leaving a surplus of Kshs 14.44 billion as new money to the exchequer.

Table 8: Government domestic borrowing in Kshs million

	Treasury bills	Treasury bonds	Total
Advertised	19,500	18,000	37,500
Bids received	26,723	33,655	60,378
Successful bids	22,473	22,396	44,869
Redemptions (cost)	27,047	3,387	30,434
Net domestic borrowing	(4,574)	19,009	14,435

Source: Ministry of Finance

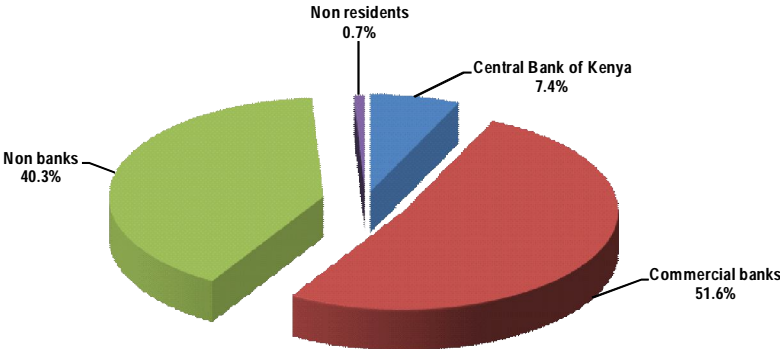
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	278.19	279.06	0.01	0.87	558.13
Treasury bills	105.15	22.08	0.27	4.03	131.53
Others	2.21	0.07	54.73	0.00	57.01
Total	385.55	301.21	55.01	4.90	746.67

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 385.55 billion or 51.6 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 4.90 billion or 0.7 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 55.01 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for monetary policy. The non banks held 40.3 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 others.

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



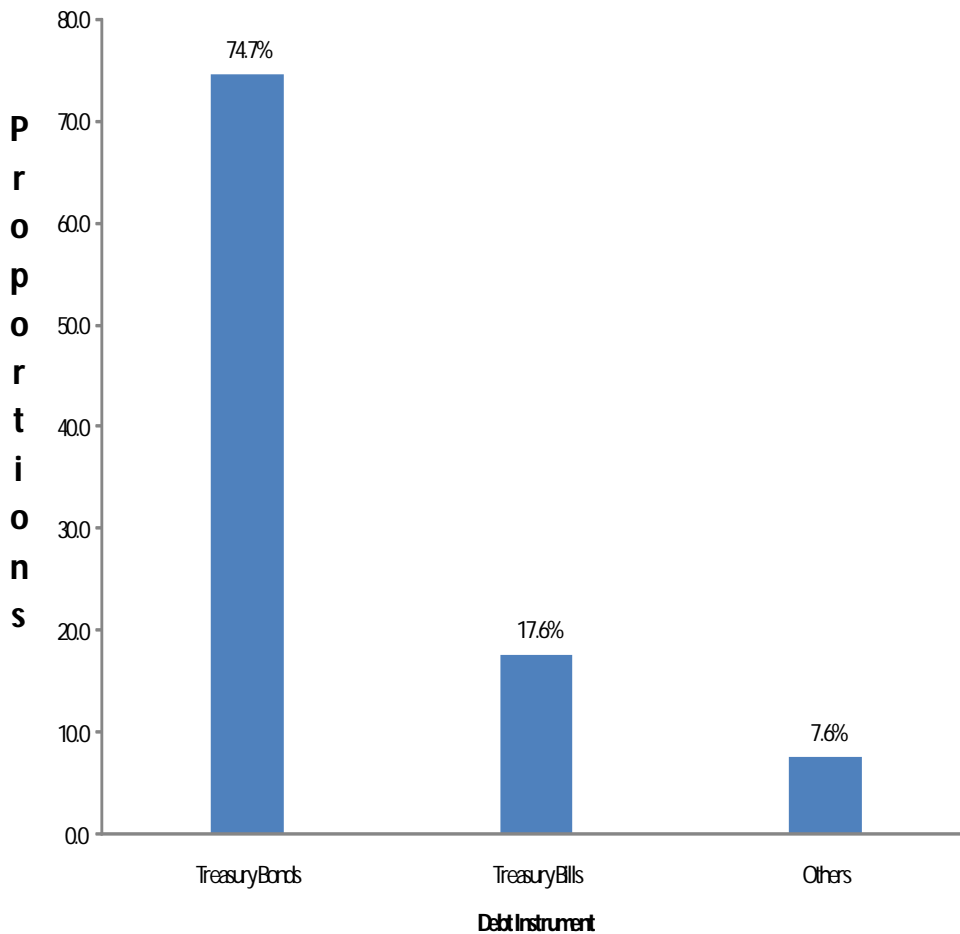
Source: Central Bank of Kenya



### 3.3 Domestic Debt instruments

Chart 6 shows that as at end February 2011, 74.7 percent of Government domestic debt is in Treasury Bonds, 17.6 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

During the financial year 2010/11 the end June 2011 target for net domestic financing is Kshs 125 billion. Table 10 shows that as at end February 2011, the net domestic financing stood at Kshs 68.84 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2010	February-2011	Change
Treasury Bills	152.97	129.24	(23.73)
Treasury Bonds	441.76	549.96	108.20
Long term Stock	0.75	0.00	(0.75)
Pre-1997 Govt. Overdraft debt	32.22	31.78	(0.44)
Other	18.28	23.01	4.73
<i>of which Overdraft (from CBK)</i>	<i>17.65</i>	<i>22.93</i>	<i>5.28</i>
Govt. deposits	84.71	103.87	19.16
<b>Net Domestic Credit</b>	<b>561.28</b>	<b>630.12</b>	<b>68.84</b>

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

During the financial year 2010/11, the Government has projected to pay Kshs 66.03 billion as interest on domestic debt. As at February 2011, Government actual cumulative domestic interest payments stood at Kshs 41.64 billion against the cumulative projected interest payments of Kshs 44.89 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 33.69 billion and Kshs 7.29 billion, respectively. The variance of Kshs 3.24 billion constitutes savings arising from lower projected interest rates on Government securities.

Table 11: Cumulative Domestic interest payments, in Kshs million.

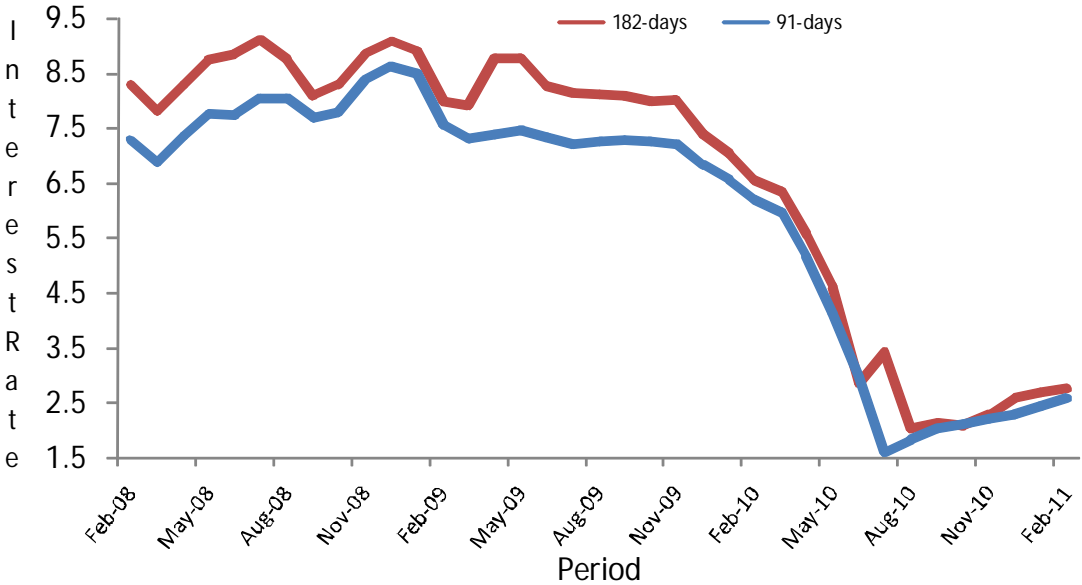
Type of debt	Projected	Actual	Variance
Treasury bonds	35,029.44	33,694.49	(1,334.95)
Treasury bills	8,832.35	7,294.40	(1,537.95)
Overdraft	347.67	618.04	270.37
Pre-1997 overdraft debt	641.69	0.00	(641.69)
Government stocks	37.67	37.67	0.00
<b>Totals</b>	<b>44,888.82</b>	<b>41,644.60</b>	<b>(3,244.22)</b>

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 February 2008. Average interest rates have been rising since the beginning of the financial year 2010/11. During the month of February 2011, the average interest rates for the 91-day Treasury bills rose by 15 basis points from 2.44 percent p.a. in January 2011 to 2.59 percent p.a. in February 2011. However, the average interest rates for 182-day Treasury bills increased by 6 basis points to stand at 2.76 percent p.a.

Chart 7: Average interest rates on Treasury bills



Source: Central Bank of Kenya

### 3.7 Yield on Treasury Bonds

The Government has been implementing a BenchmarkBond program to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the program 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	4.4%
5 YR	7.0%
10 YR	8.3%
15 YR	10.0%
20 YR	10.9%
25 YR	11.3%

Source: Central Bank of Kenya

## ANNEX 1: STOCK OF PUBLIC AND PUBLICLY GUARANTEED DEBT BY SOURCE

	Stock at end January 2011	Stock at end February 2011	Change
<b>CREDITOR</b>			
<b>CENRAL GOVERMENT</b>			<b>(Kshs Mn)</b>
<b>BILATERAL</b>			
AUSTRIA	1,860.82	1,907.25	46.43
BELGIUM	7,506.16	7,615.82	109.66
CANADA	1,187.97	1,203.93	15.96
DENMARK	2,461.24	2,519.75	58.51
FINLAND	120.55	122.89	2.34
FRANCE	33,864.36	34,709.24	844.88
GERMANY	17,121.35	17,548.51	427.16
ITALY	4,499.63	4,611.00	111.37
JAPAN	64,621.68	65,722.70	1,101.02
NETHERLANDS	2,056.10	2,219.88	163.78
UK	2,155.06	2,216.95	61.89
USA	5,196.81	5,234.66	37.85
PARIS CLUB OTHERS	5,084.21	5,182.93	98.71
NON PARIS CLUB	29,726.33	33,829.81	4,103.48
<b>Sub total</b>	<b>177,462.29</b>	<b>184,645.31</b>	<b>7,183.03</b>
<b>MULTILATERAL</b>			
ADB/AFDB	44,788.34	45,259.45	471.11
EEC/EIB	10,883.16	11,137.25	254.09
IDA	266,212.53	270,608.09	4,395.55
IFAD	6,312.46	6,420.67	108.21
IMF	41,997.69	42,863.95	866.26
OTHERS	7,769.3051	8,109.05	339.75
<b>Sub total</b>	<b>377,963.49</b>	<b>384,398.46</b>	<b>6,434.96</b>
<b>SUPPLIERS CREDIT</b>	<b>21,738.21</b>	<b>22,192.06</b>	<b>453.85</b>
<b>Sub Total</b>	<b>577,163.99</b>	<b>591,235.83</b>	<b>14,071.84</b>
<b>GOVERNMENT GUARANTEED DEBT</b>			
CANADA	373.87	378.88	5.02
JAPAN	37,756.26	38,470.27	714.00
USA	310.87	315.04	4.18
<b>Sub Total</b>	<b>38,441.00</b>	<b>39,164.20</b>	<b>723.20</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>615,604.98</b>	<b>630,400.03</b>	<b>14,795.04</b>

Source: Ministry of Finance

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