



REPUBLIC OF KENYA

# MINISTRY OF FINANCE

## *MONTHLY DEBT BULLETIN*

**FEBRUARY 2012**

# 1.0 PUBLIC DEBT

## 1.1 Introduction

As at end February 2012, public and publicly guaranteed debt stood at Kshs 1,540.34 billion or 46.8 percent of GDP (see Table 1). The increase of 3.0 percent over the end January 2012 position is attributed to increased uptake of domestic debt. The total external debt decreased to Kshs 663.05 billion in February 2012 from Kshs 686.72 billion in January 2012. (See Table 1).

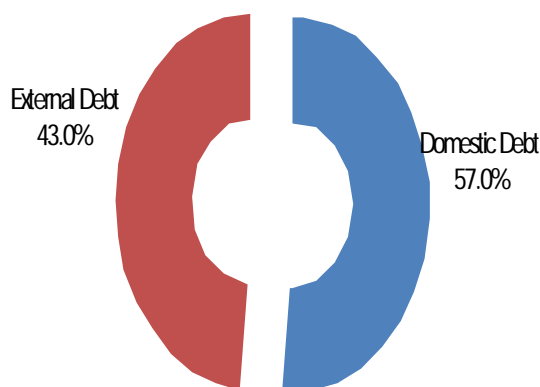
Table 1: Size of public debt, in billion

Debt Category	Kshs	USD
Domestic Debt	877.29	10.57
External Debt	663.05	7.99
Total	1,540.34	18.56

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 57.0 percent of the total debt is domestic debt while 43.0 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 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 10 months at end February 2012.

### 1.3 Movement in Exchange Rates

Table 2 shows market indicative end-month foreign exchange rates for the period December 2011 to February 2012. The Kenya shilling appreciated against all the major currencies except against the Euro. The Kenya shilling appreciated against the US dollar by 1.9 percent, Sterling Pound by 0.7 percent and the Japanese Yen by 7.0 percent respectively. However, against the Euro, it depreciated by 0.1 percent. Movements in the exchange rate have implications on both the size of the external debt and the cost of debt service. A depreciating Kenya shilling increases the external debt stock and also leads to increased costs of external debt service.

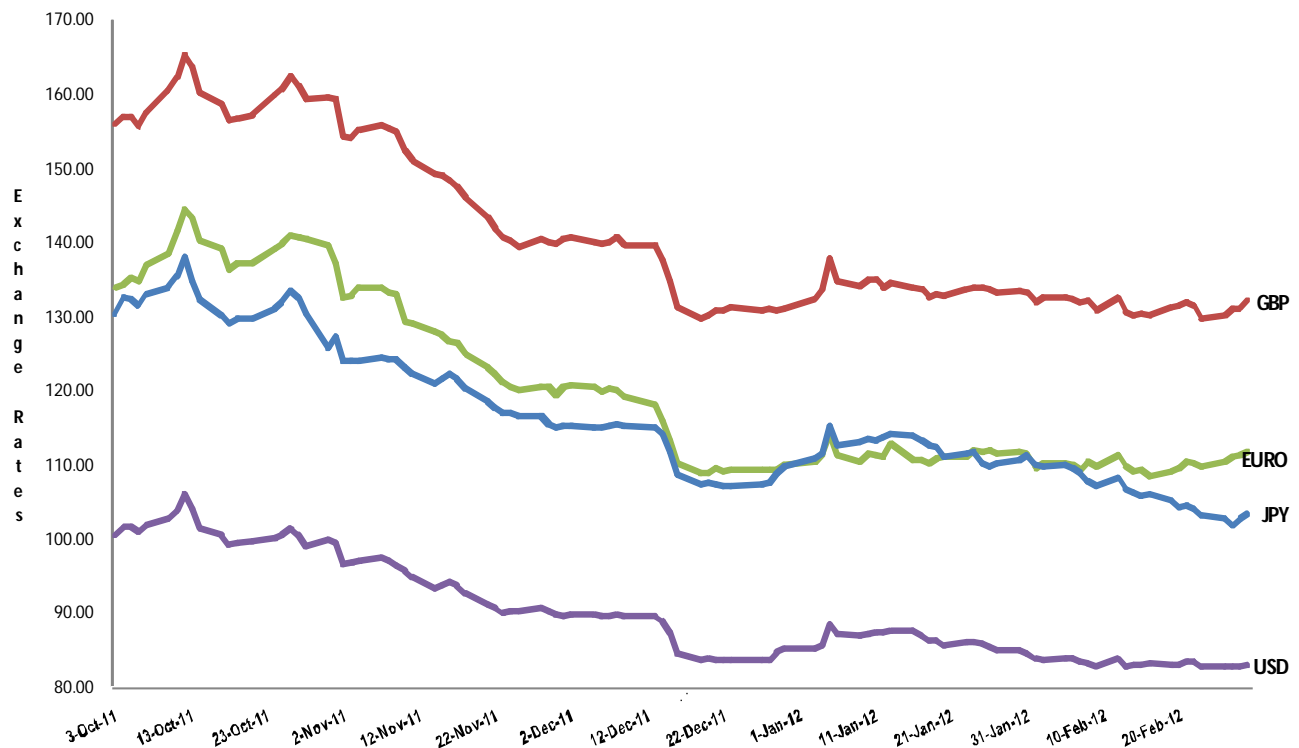
Table 2: Movement in exchange rates

Currency	December 2011	January 2012	February 2012
US Dollar	85.06	84.59	82.97
STG Pound	131.12	133.17	132.20
Euro	110.06	111.61	111.75
JPY(100)	109.69	111.25	103.48

Source: Central Bank of Kenya

Chart 2 shows the trends in daily exchange rates between Kenya Shilling and the four major foreign currencies from October 2011 to February 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 decreased by Kshs 23.67 billion to Kshs 663.05 billion in February 2012 from Kshs 686.72 billion in January 2012 as shown in Table 3.

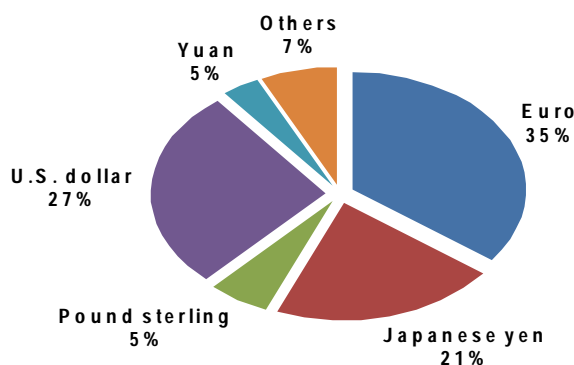
Table 3: External debt stock, in billions

Creditor Category	January 2012		February 2012	
	Kshs	USD	Kshs	USD
Bilateral	198.63	2.35	195.75	2.36
Multilateral	419.67	4.96	407.23	4.91
Guaranteed	46.24	0.55	43.48	0.52
Others	22.18	0.26	16.59	0.20
Total	686.72	8.12	663.05	7.99

Source: Ministry of Finance

The major decrease was observed under multilateral debt which decreased by Kshs 12.44 billion and the suppliers credit under others by Ksh 5.59 billion due to successful resolution of one contract. 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 percent of Kenya's external debt is denominated in the Euro while about 5 percent is in Chinese Yuan.

Chart 3. Currency Composition



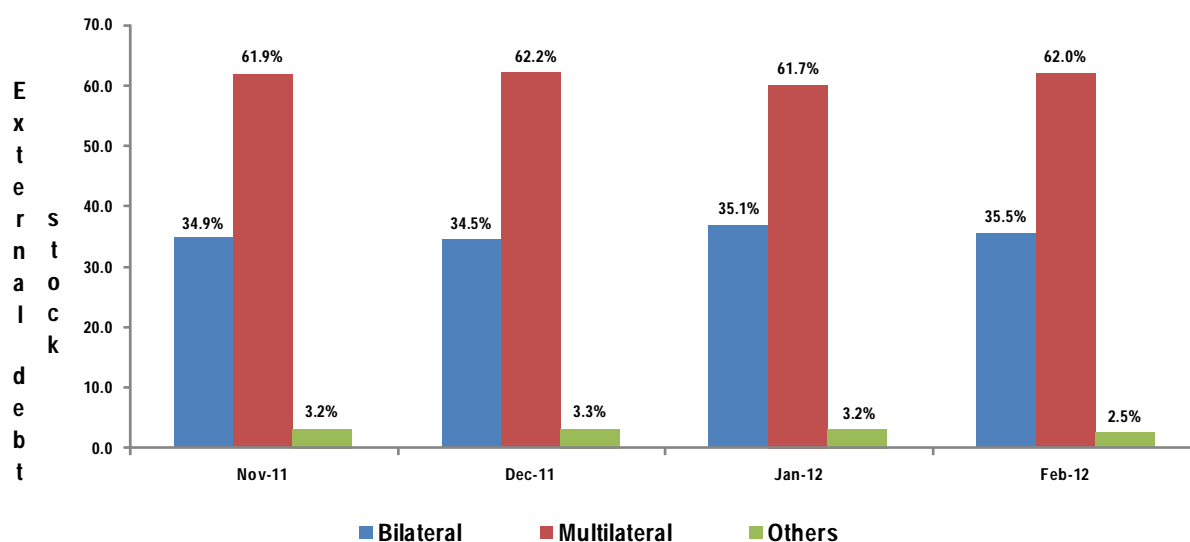
Source: Ministry of Finance

### 2.2 Structure of External Debt by Creditor

Official creditors account for 97.5 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 410.96 billion including Kshs 3.73 billion guaranteed debt owed to IDA) dominate the portfolio (62.0 percent of the total). Bilateral debt stands at Kshs 235.50 billion (35.5 percent of the total), which includes Kshs 39.75 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, China and Germany are the leading creditors in the bilateral category. Supplier credit debt declined to 2.5 per cent due to the successful resolution of one contract. (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 February 2012 stood at Kshs 21.34 billion. Principal and interest projections for the month of February were Kshs 1.78 billion and Kshs 0.28 billion, respectively. Multilateral and bilateral creditors constitute 49.9 percent and 50.1 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 February 2012, in Kshs million

Creditor category	Principal	Interest	Total
Bilateral	8,378.34	2,312.50	10,690.84
Multilateral	8,618.80	2,026.55	10,645.35
Commercial	-	-	-
Total	16,997.14	4,339.05	21,336.19

Source: Ministry of Finance

## 2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end February 2012 was Kshs 21.78 billion as reflected in Table 5. Actual principal and interest payments for the month of February 2012 was Kshs 1.51 billion and Kshs 0.40 billion respectively.

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

Credit category	Principal	Interest	Total
Bilateral	7,691.29	2,708.65	10,399.94
Multilateral	8,889.52	2,489.59	11,379.11
Commercial	-	-	-
Totals	16,580.81	5,198.24	21,779.05

Source: Ministry of Finance

## 2.5 Budget Deviation

The actual cumulative debt service for February 2012 was above the projected debt service by Kshs 0.44 billion due to fluctuations in exchange rates.

## 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. In February 2012, public guaranteed external debt decreased by Kshs 2,758.80 million to Kshs 43.48 billion. The decrease is due to net repayments during the month and appreciation of the Kenya shilling against the Japanese Yen. Ninety (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	December 2011	January 2012	February 2012
Japan	41,177.84	41,810.30	39,136.16
Canada	374.31	372.20	365.09
U.S.A	253.08	251.65	246.84
IDA (KR Concessionaire)	3,828.06	3,806.44	3,733.69
Totals	45,633.29	46,240.58	43,481.78

Source: Ministry of Finance

## 3.0 DOMESTIC DEBT

### 3.1 Central Government Domestic Debt

As indicated in Table 7, Government net domestic debt increased by Kshs 34.21 billion to Kshs 721.81 billion.

Table 7: Government domestic debt, in Kshs billion

	December 11	January 12	February 12
Gross domestic debt	800.68	809.28	877.29
<i>less</i>			
Govt. deposits at CBK	-13.71	-14.08	-43.74
Govt. deposits at commercial banks	-97.33	-101.90	-106.04
Govt. advances to parastatals	-5.70	-5.70	-5.70
Net domestic debt	683.94	687.60	721.81

Source: Central Bank of Kenya

### 3.2 Government Domestic Borrowing

During the month of February 2012, Government securities worth Kshs 58.70 billion were advertised. Bids worth Kshs 108.82 billion were received, out of which Kshs 56.39 billion and Kshs 52.43 billion were bids for the Treasury Bills and Treasury Bonds respectively. Successful bids amounted to Kshs 71.51 billion against the month's redemptions of Kshs 16.88 billion leaving a surplus of Kshs 54.63 billion.

Table 8: Government domestic borrowing, in Kshs million

	Treasury Bills	Treasury Bonds	Total
Advertised	31,000	27,700	58,700
Bids received	56,393	52,431	108,824
Successful bids	43,363	28,147	71,510
Redemptions (cost)	16,877	0.00	16,877
Net domestic borrowing	26,486	28,147	54,633

Source: Ministry of Finance

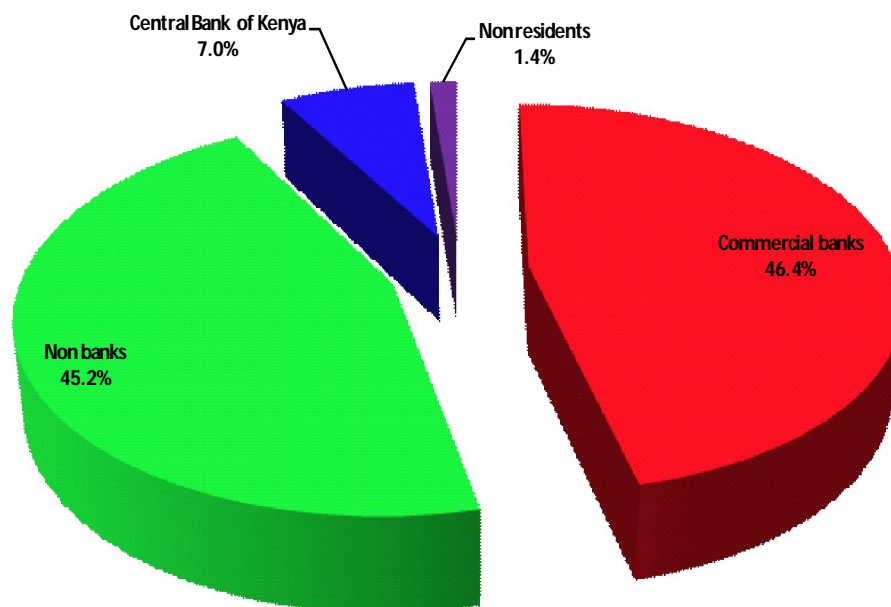
Table 9: Domestic debt instruments by holder, in Kshs billion

Instrument/Holder	Commercial banks	Non banks	Central Bank of Kenya	Non residents	Total
Treasury bonds	326.53	342.98	3.81	4.46	677.78
Treasury bills	77.86	53.10	1.88	7.81	140.65
Others	2.80	0.07	55.99	0.00	58.86
Total	407.19	396.15	61.68	12.27	877.29
Percentage holding	46.4	45.2	7.0	1.4	100

Source: Central Bank of Kenya

From the table above, commercial banks hold the largest proportion of the outstanding Government debt securities amounting to Kshs 407.19 billion or 46.4 percent as shown in Table 9 and Chart 5. The non banks hold 45.2 percent of the outstanding Government paper. The 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 12.27 billion or 1.4 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 61.68 billion held by Central Bank of Kenya comprises Repo Treasury Bills used for execution of monetary policy.

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



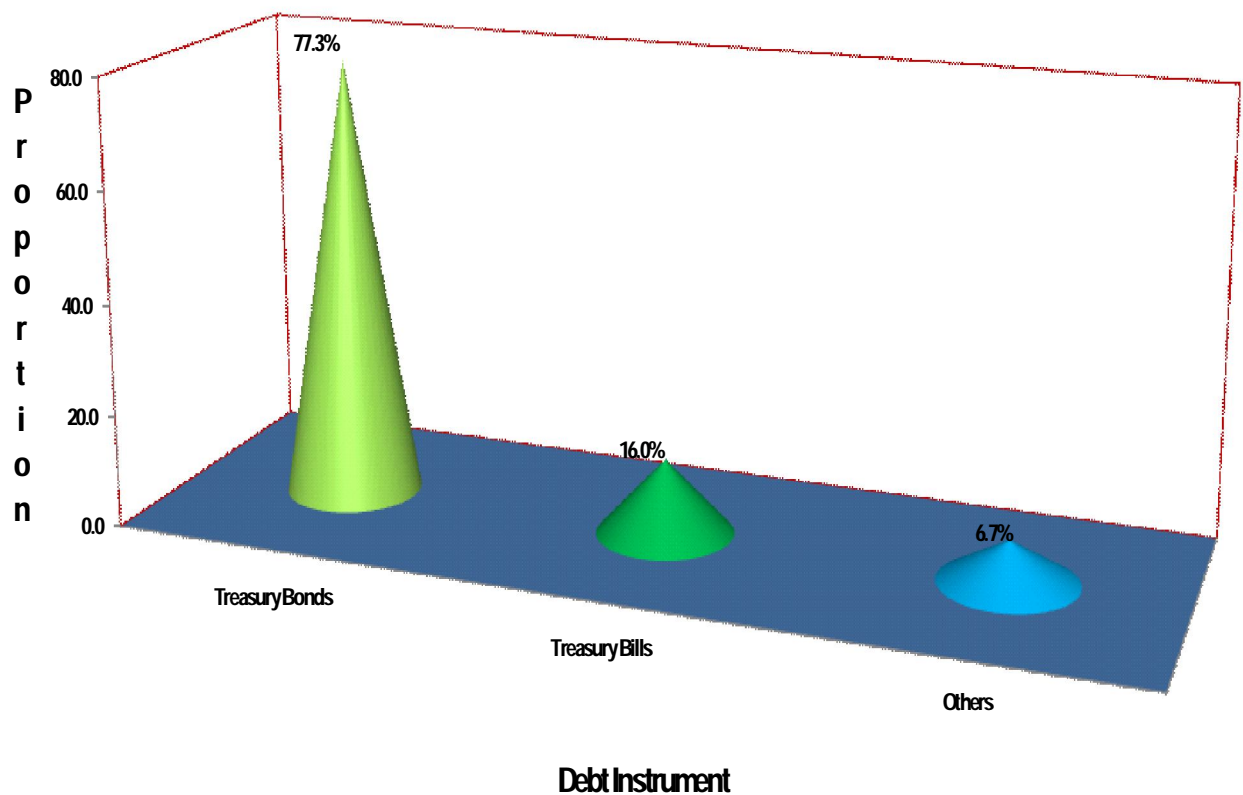
Source: Central Bank of Kenya



### 3.3 Domestic Debt by Instruments

Chart 6 shows that as at end February 2012, 77.3 percent of Government domestic debt was in Treasury Bonds, 16.0 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 February 2012, the net domestic financing stood at Kshs 74.15 billion.

Table 10: Net domestic financing, in Kshs billion

	June-2011	February 2012	Change
Treasury Bills	123.53	130.21	6.68
Treasury Bonds	579.67	652.19	72.52
Long term Stock	0.00	0.00	0.00
Pre-1997 Govt. Overdraft debt	31.66	30.55	(1.11)
Other	8.11	25.52	17.41
<i>of which Overdraft (from CBK)</i>	7.57	25.37	17.80
Govt. deposits	89.95	111.29	21.34
Net Domestic Credit	653.03	727.18	74.15

Source: Central Bank of Kenya

### 3.5 Cumulative Domestic Interest Payments

As at end February 2012, Government actual cumulative domestic interest payments stood at Kshs 51.18 billion against the cumulative projected interest payments of Kshs 46.37 billion. Actual interest payments on Treasury Bonds and Treasury Bills amounted to Kshs 41.07 billion and Kshs 7.97 billion respectively. The total variance of Kshs 4.81 billion is attributed to high interest rates for Government securities over the period than was projected.

Table 11: Domestic interest payments, in Kshs million

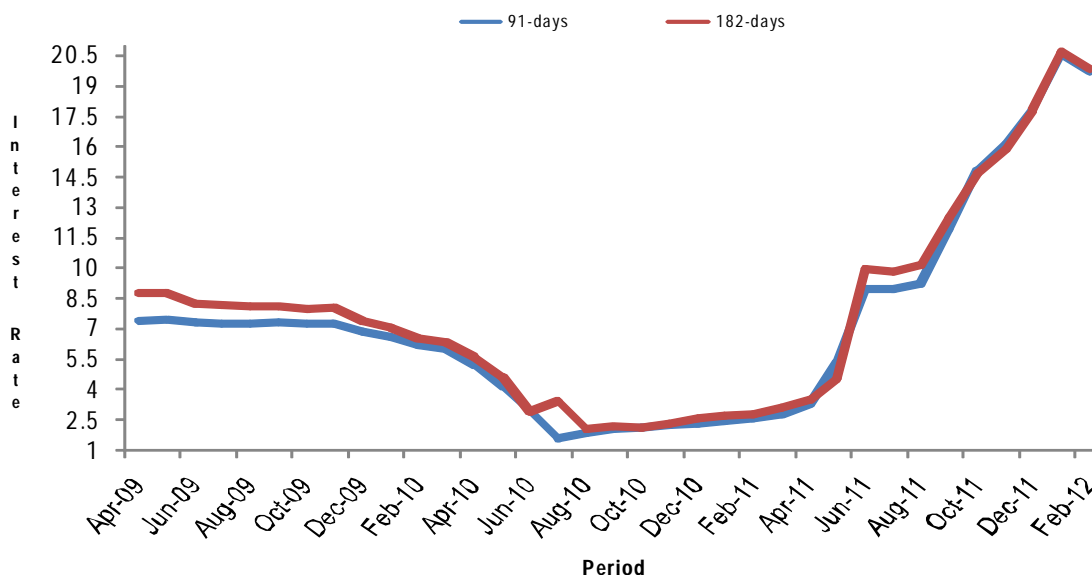
Type of debt	Projected	Actual	Variance
Treasury bonds	36,630.10	41,073.60	(4,443.50)
Treasury bills	8,284.77	7,970.69	314.08
Overdraft	831.78	2,133.71	1,301.93)
Pre-1997 overdraft debt	619.49	0.00	619.49
Totals	46,366.14	51,178.00	4,811.86

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 April 2009. During the month of February 2012, the average interest rates for the 91-day Treasury bills declined by 86 basis points to 19.70 percent while the 182-day and 364-day Treasury bills decreased by 81 and 100 basis points respectively to 19.88 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

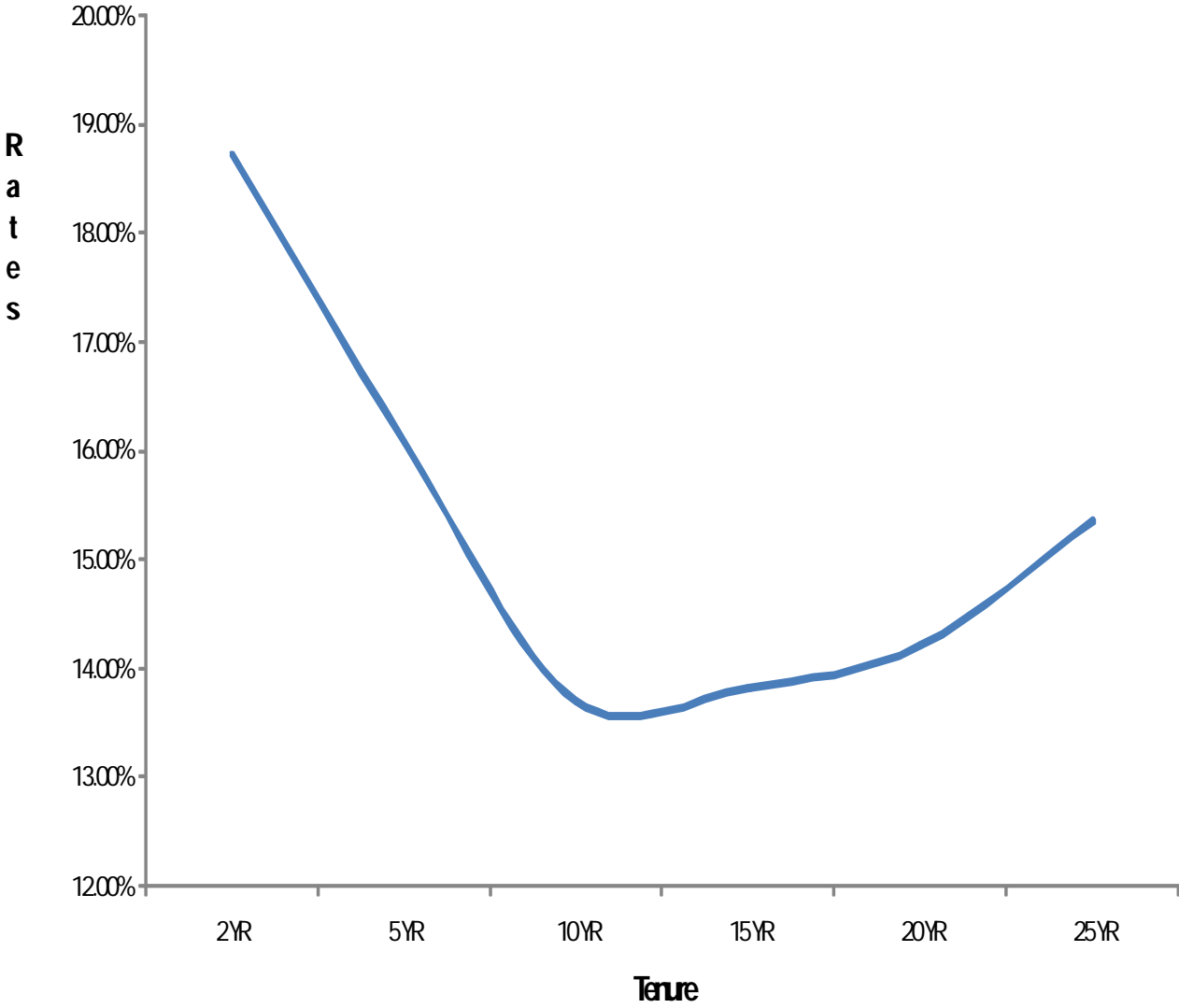
The Government has been implementing a Benchmark Bond programme to increase liquidity around selected Bonds and promote secondary trading. One of the key objectives of the programme is to lower both refinancing risk and cost of borrowing by the Government. Table 12 shows the yields on selected Treasury 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	18.71%
5 YR	16.06%
10 YR	13.70%
15 YR	13.82%
20 YR	14.20%
25 YR	15.36%

Source: Central Bank of Kenya

Chart 8: Yields on selected Treasury Bonds



## 4.0 DEBT SUSTAINABILITY

### 4.1 Introduction

Debt sustainability is defined as the ability of a country to meet its debt obligations without requiring debt relief or accumulating arrears. There are internationally accepted measures of debt sustainability developed by international organisations such as the World Bank and IMF. One of these measures is the Debt Sustainability Analysis (DSA). The various DSA measures of debt sustainability includes, net present value of total public debt to Gross Domestic Product (GDP), total debt to export ratio and total debt service to GDP measures among others. The Joint World Bank-IMF DSA published on 23 November 2011 concludes that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20- year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. There are four ratings for the risk of external debt debt distress:

**Low risk**-when all the debt burden indicators are well below the threshold;

**Moderate risk**-when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies;

**High risk**-when the baseline scenario and stress tests indicate a protracted breach of debt or debt-service thresholds, but the country does not currently face any repayments difficulties; or

**In debt distress**-when the country is already having repayment difficulties

However, debt sustainability is measured in present value terms and not in nominal terms. this enables similar comparison of the debt burden. Countries are classified into one of three policy performance categories (strong, medium, and poor) using the World Bank's Country Policy and Institutional Assessment (CPIA) index, which uses different indicative thresholds for debt burdens in present value terms depending on the quality of a country's policies and institutions. Kenya is rated a medium policy country and as such is subject to the following thresholds.

Table 13: Debt sustainability thresholds

	NPV of debt in percent of			Debt Service in percent of	
	GDP	Exports	Revenue	Exports	Revenue
<b>Medium Performer Policy</b>	<b>40</b>	<b>150</b>	<b>250</b>	<b>20</b>	<b>30</b>

Under the baseline scenario , Kenyas initial external debt ratios listed in the table below are well below all of the indicative thresholds for a medium performer, even if they increase over the medium- term reflecting a higher rate of debt accumulation. As such, Kenya faces a low risk of external debt distress reflecting the limited reliance on external borrowing and an expected improvement in macroeconomic performance.

**Table 14: External debt sustainability**

<b>Indicator (Threshold)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2020</b>	<b>2030</b>
PV of Debt to GDP Ratio (40)	15.8	17.7	18.7	19.1	18.9	18.7	15.0	7.7
PV of debt-to-exports ratio (150)	58.5	57.0	65.3	68.9	73.4	76.4	76.5	43.5
PV of debt-to-revenue ratio (250)	66.1	72.2	76.2	76.6	75.4	75.8	62.0	32.3
Debt service-to-exports ratio (20)	4.0	3.8	4.2	4.2	4.7	4.8	5.1	3.9
Debt service-to-revenue ratio (30)	4.5	4.8	4.9	4.7	4.8	4.7	4.2	2.9

*Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)*

Total public debt(external and domestic) is also within sustainable levels as illustrated below

<b>Indicator (Threshold)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2020</b>	<b>2030</b>
PV of public sector Debt to GDP Ratio (40)	38.5	39.3	40.3	39.9	38.7	37.9	34.7	25.6
PV of public sector debt –to-revenue ratio (250)	156.5	154.2	156.1	151.5	145.6	147.8	140.4	106.1
Debt service-to-revenue ratio (30)	25.5	21.9	24.5	23.5	21.6	21.5	20.0	15.5

*Source: World Bank-IMF Debt Sustainability Analysis- Kenya (November 2011)*

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

<b>CREDITOR</b>	<b>Stock at end January 2012</b>	<b>Stock at end February 2012</b>	<b>Change</b>
<b>CENRAL GOVERNMENT</b>			
<b>BILATERAL</b>			
AUSTRIA	1,560.16	1,562.14	1.98
BELGIUM	7,859.90	7,866.57	6.67
CANADA	1,169.44	1,147.09	(22.35)
DENMARK	2,284.32	2,288.02	3.70
FINLAND	113.39	112.40	(0.99)
FRANCE	38,048.46	38,096.67	48.21
GERMANY	23,721.93	23,751.99	30.06
ITALY	2,992.66	2,995.27	2.61
JAPAN	67,023.58	62,340.32	(4,683.26)
NETHERLANDS	3,251.34	3,255.46	4.12
UK	2,056.43	2,041.39	(15.04)
USA	5,093.50	4,996.14	(121.02)
PARIS CLUB OTHERS	5,023.86	5,001.86	(100.36)
NON PARIS CLUB	38,429.68	40,297.53	1,867.85
o/w CHINA	31,016.74	33,044.66	2,027.92
<b>Sub total</b>	<b>198,628.65</b>	<b>195,752.85</b>	<b>(2,875.80)</b>
<b>MULTILATERAL</b>			
ADB/AFDB	64,404.59	56,997.63	(7,406.96)
EEC/EIB	11,551.41	11,548.75	(2.66)
IDA	286,002.60	281,340.74	(4,661.86)
IFAD	6,970.07	6,836.71	(133.36)
IMF	41,438.31	40,775.76	(662.55)
OTHERS	9,303.28	9,726.90	(423.62)
<b>Sub total</b>	<b>419,670.26</b>	<b>407,226.49</b>	<b>(12,443.77)</b>
<b>SUPPLIERS CREDIT</b>	<b>16,727.49</b>	<b>16,585.70</b>	<b>(141.79)</b>
<b>Sub Total</b>	<b>635,026.40</b>	<b>619,565.04</b>	<b>(15,461.36)</b>
<b>GUARANTEED DEBT</b>			
CANADA	372.20	365.09	(7.11)
JAPAN	41,810.30	39,136.16	(2,674.14)
USA	251.65	246.84	(4.81)
IDA(KR Concessionaire)	3,806.44	3,733.69	(72.75)
<b>Sub Total</b>	<b>46,240.58</b>	<b>43,481.78</b>	<b>(2,758.80)</b>
<b>GOK+ GUARANTEED TOTAL</b>	<b>681,266.98</b>	<b>663,046.82</b>	<b>(18,220.16)</b>

Source: Ministry of Finance

*Information in this publication may be reproduced without restriction provided that due acknowledgement of the source is made .*

Enquiries covering the publication should be addressed to:

**The Director,  
Debt Management Department,  
Ministry of Finance**  
1st Floor, Treasury Building, Harambee Avenue  
P.O Box 30007-00100, Nairobi, Kenya  
Tel: (254) 20 2252299  
Fax: (254) 20 315294  
Email: [dmd@treasury.go.ke](mailto:dmd@treasury.go.ke)