



REPUBLIC OF KENYA

MINISTRY OF FINANCE

MONTHLY DEBT BULLETIN

MARCH 2011

1.0 PUBLIC DEBT

1.1 Introduction

As at end March 2011, public and publicly guaranteed debt stood at Kshs 1,396.90 billion or 51.63 percent of GDP. The increase of 1.44 percent over the end February 2011 position is attributed to domestic debt which stands at Kshs 754.05 billion. External debt stock stood at USD 7.75 billion as shown in Table 1.

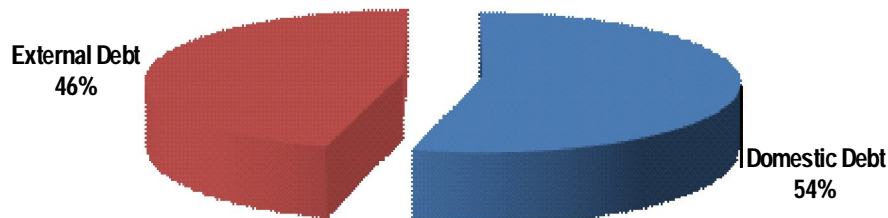
Table 1: Size of public debt, in billion

| Debt category | Kshs | USD |
|---------------|-----------------|--------------|
| Domestic debt | 754.05 | 9.08 |
| External debt | 642.85 | 7.75 |
| Total | 1,396.90 | 16.83 |

Source: Ministry of Finance

The structure of public and publicly guaranteed debt shows that 54.0 percent of the total is domestic debt and 46.0 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 March 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 5.17 years in March 2011.

1.3 Movements in Exchange Rates

Table 2 shows market indicative end month foreign exchange rates for the period January to March 2011. In March 2011, the Kenya shilling depreciated against the US Dollar, the Sterling Pound and the Euro by 0.8 percent, 0.7 percent and 3.7 percent, respectively. However, it appreciated against the Japanese Yen by 0.4 percent. 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.

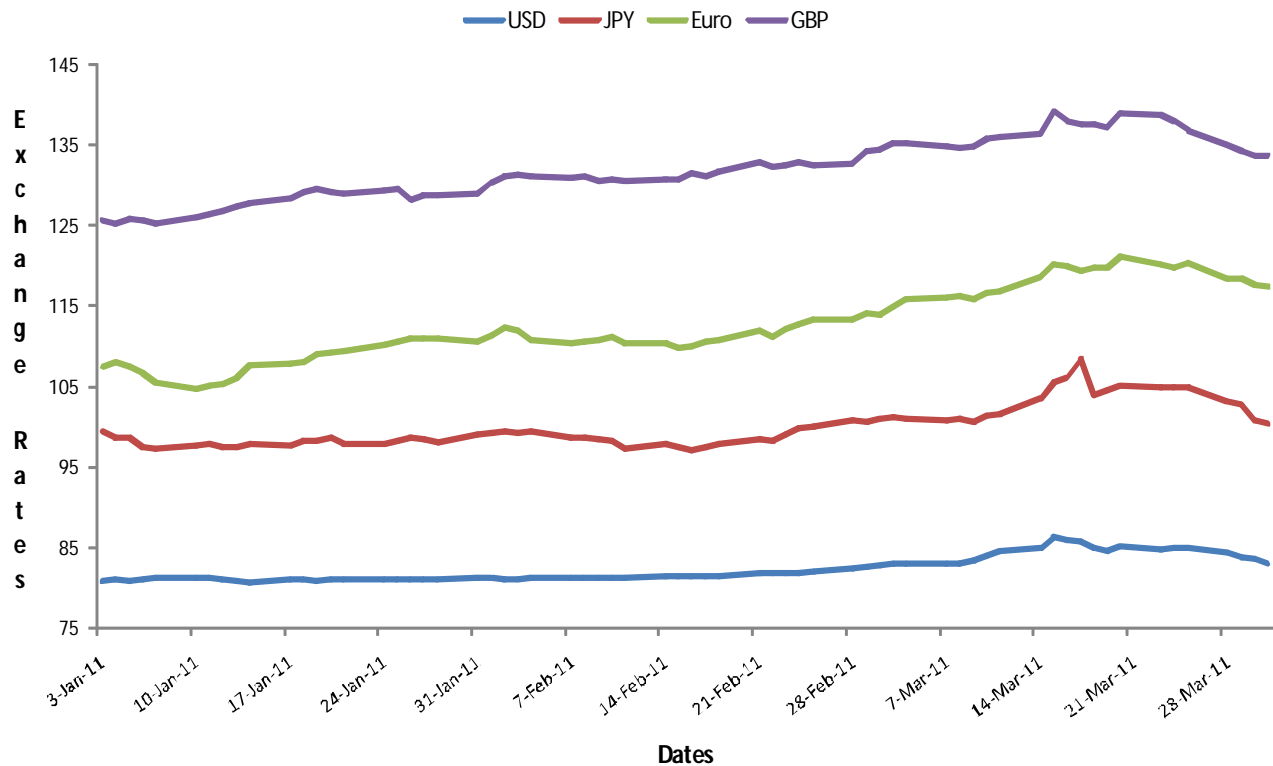
Table 2: Movements in exchange rates

| Currency | January 2011 | February 2011 | March 2011 |
|-----------|--------------|---------------|------------|
| US Dollar | 81.27 | 82.36 | 82.99 |
| STG Pound | 128.98 | 132.69 | 133.64 |
| Euro | 110.61 | 113.37 | 117.51 |
| JPY(100) | 99.05 | 100.79 | 100.35 |

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 January 2011 to March 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 12.45 billion from Kshs 630.40 billion in February 2011 to Kshs 642.85 billion in March 2011 as shown in Table 3.

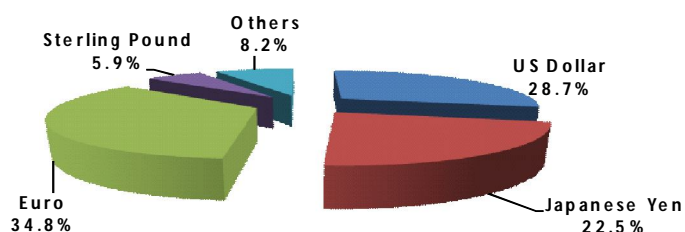
Table 3: Movement in external debt stock, in billion

| | K shs | USD |
|--------------------|---------------|-------------|
| Bilateral | 182.66 | 2.20 |
| Multilateral | 395.42 | 4.76 |
| Guaranteed | 41.99 | 0.52 |
| Others(Commercial) | 22.78 | 0.27 |
| Total | 642.85 | 7.75 |

Source: Ministry of Finance

Significance increase was observed in multilateral debt which increased by Kshs 11.02 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.

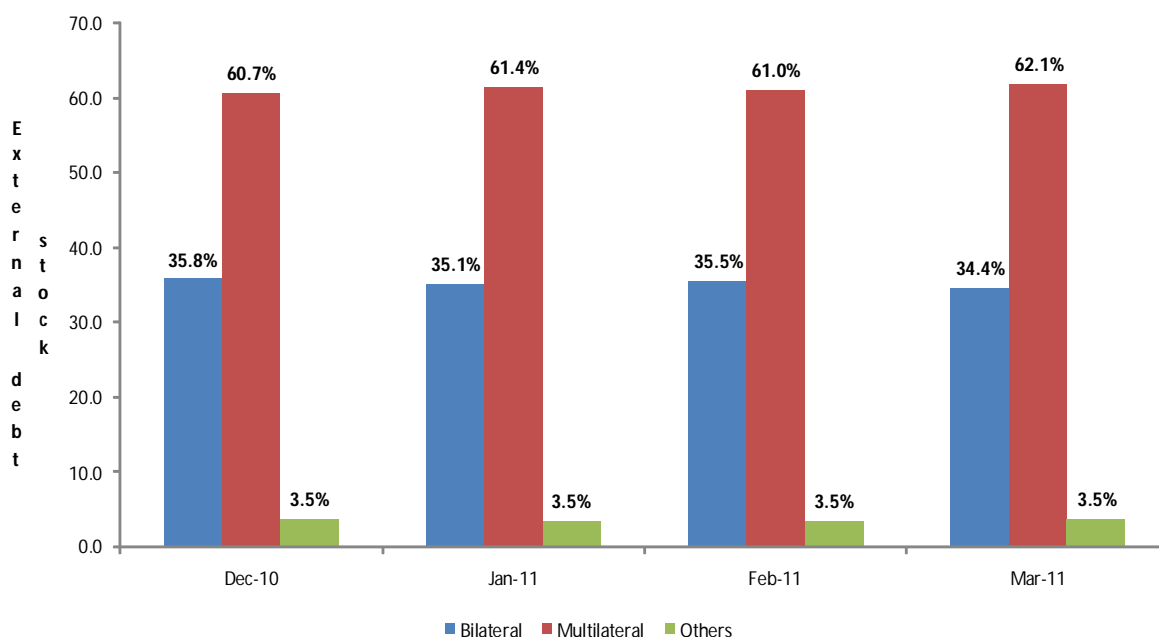


Structure of External Debt by Creditor Category

Official creditors account for 96.5 percent of the total public and publicly guaranteed external debt, out of which debts owed to multilateral creditors (Kshs 399.15 billion, including guaranteed debt owed to IDA) dominate the portfolio (62.1 percent of the total). Bilateral debts stands at Kshs 220.91 billion (34.4 percent of the total), which includes Kshs 38.25 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 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

Projected cumulative external debt service for the period to end March 2011 stood at Kshs 20.90 billion. Principal and interest projections for the month of March were Kshs 2.39 billion and Kshs 0.73 billion, respectively. Multilateral and bilateral creditors constitute 51.88 percent and 48.12 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 March 2011, in Kshs million

| Creditor category | Principal | Interest | Total |
|-------------------|------------------|-----------------|------------------|
| Bilateral | 7,345.15 | 2,712.20 | 10,057.35 |
| Multilateral | 8,398.58 | 2,447.01 | 10,845.59 |
| Commercial | - | - | - |
| Total | 15,743.73 | 5,159.21 | 20,902.94 |

Source: Ministry of Finance

2.4 Actual Cumulative External Debt Service

Actual cumulative debt service as at end March 2011 was Kshs 21.02 billion as reflected in Table 5. The principal and interest for the month of March 2011 was Kshs 3.73 billion and Kshs 0.88 billion respectively.

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

| Credit category | Principal | Interest | Total |
|-----------------|-----------|----------|-----------|
| Bilateral | 7,279.95 | 2,543.70 | 9,823.65 |
| Multilaterals | 8,828.80 | 2,370.56 | 11,199.36 |
| Commercial | - | - | - |
| Totals | 16,108.75 | 4,914.26 | 21,023.01 |

Source: Ministry of Finance

2.5 Budget Deviation

The projected debt service for March 2011 was below the actual debt service by Kshs 120.07 million. 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 publicly guaranteed external debt increased by Kshs 2.83 billion to Kshs 41.99 billion in March 2011. The increase is due to the depreciation of the Kenyan shilling against other foreign 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 (Cap 461) 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 | January | February | March |
|----------|-----------|-----------|-----------|
| Japan | 37,756.26 | 38,470.27 | 37,587.74 |
| Canada | 373.87 | 378.89 | 381.76 |
| U.S.A | 310.87 | 315.04 | 282.16 |
| IDA | - | - | 3,734.50 |
| Totals | 38,441.00 | 39,164.20 | 41,986.16 |

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 24.63 billion to Kshs 614.69 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

| | January | February | March |
|------------------------------------|---------|----------|--------|
| Gross domestic debt | 726.32 | 746.67 | 754.05 |
| <i>less</i> | | | |
| Govt. deposits at CBK | -41.87 | -63.87 | -53.18 |
| Govt. deposits at commercial banks | -85.07 | -87.04 | -80.48 |
| Govt. advances to parastatals | -5.70 | -5.70 | -5.70 |
| Net domestic debt | 593.68 | 590.06 | 614.69 |

Source: Central Bank of Kenya

3.2 Government Domestic Borrowing

During the month of March 2011, Government securities worth Kshs 36.0 billion were advertised. Bids worth Kshs 53.90 billion were received, out of which Kshs 27.97 billion and Kshs 25.93 billion were Treasury Bills and Treasury Bonds, respectively. Successful bids amounted to Kshs 39.37 billion against the months redemptions of Kshs 30.28 billion leaving a surplus of Kshs 9.09 billion as new money to the exchequer.

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.

Table 8: Government domestic borrowing, in Kshs million

| | Treasury bills | Treasury bonds | Total |
|------------------------|----------------|----------------|--------|
| Advertised | 18,000 | 18,000 | 36,000 |
| Bids received | 27,965 | 25,938 | 53,903 |
| Successful bids | 19,515 | 19,859 | 39,374 |
| Redemptions (cost) | 21,782 | 8,496 | 30,278 |
| Net domestic borrowing | (2,267) | 11,363 | 9,096 |

Source: Ministry of Finance

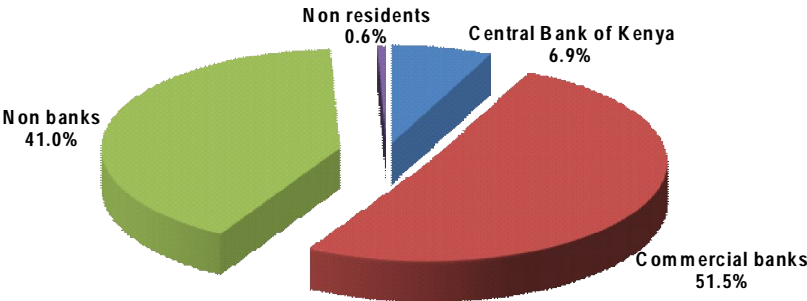
Table 9: Domestic debt instruments by holder, in Kshs billion

| Instrument/Holder | Commercial banks | Non banks | Central Bank of Kenya | Non residents | Total |
|-------------------|------------------|-----------|-----------------------|---------------|--------|
| Treasury bonds | 281.16 | 288.73 | 0.01 | 0.87 | 570.77 |
| Treasury bills | 104.77 | 20.59 | 0.22 | 3.81 | 129.39 |
| Others | 2.36 | 0.08 | 51.45 | 0.00 | 53.89 |
| Total | 388.29 | 309.40 | 51.68 | 4.68 | 754.05 |

Source: Central Bank of Kenya

Commercial banks held the largest proportion of the outstanding Government debt securities amounting to Kshs 388.29 billion or 51.5 percent as shown in Table 9 and Chart 5. Government debt securities worth Kshs 4.68 billion or 0.6 percent were held by non residents who invest through nominee accounts in the local banks. Kshs 51.68 billion held by Central Bank of Kenya comprises of Repo Treasury Bills used for monetary policy. The non banks held 41.0 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 March 2011

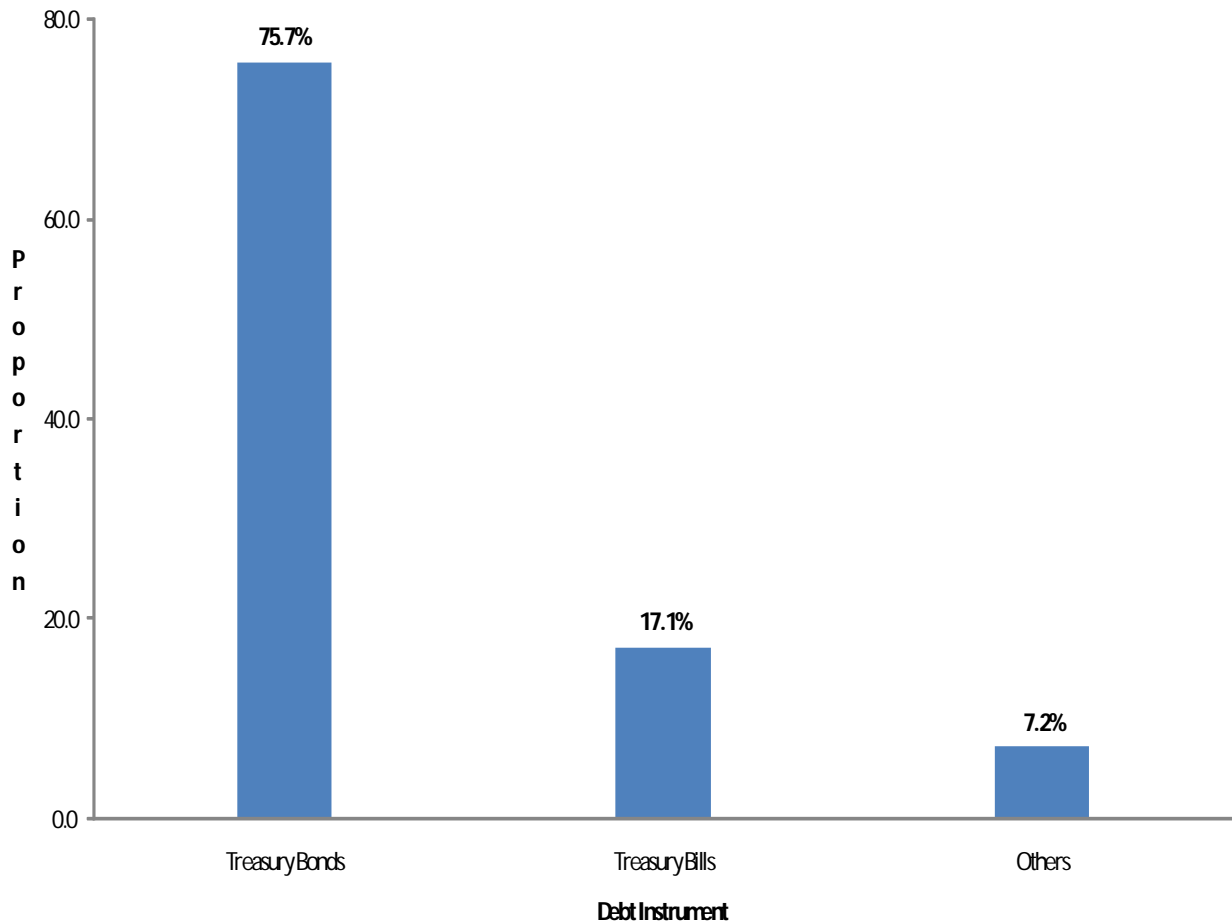


Source: Central Bank of Kenya

3.3 Domestic Debt Instruments

Chart 6 shows that as at end March 2011, 75.7 percent of Government domestic debt is in Treasury Bonds, 17.1 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 March 2011, the net domestic financing stood at Kshs 79.38 billion.

Table 10: Net domestic financing, in Kshs billion

| | June-2010 | March-2011 | Change |
|--------------------------------------|---------------|---------------|--------------|
| Treasury Bills | 152.97 | 126.96 | (26.01) |
| Treasury Bonds | 441.76 | 561.29 | 119.53 |
| Long term Stock | 0.75 | 0.00 | (0.75) |
| Pre-1997 Govt. Overdraft debt | 32.22 | 31.78 | (0.44) |
| Other | 18.28 | 19.75 | 1.47 |
| <i>of which Overdraft (from CBK)</i> | <i>17.65</i> | <i>19.92</i> | <i>2.27</i> |
| Govt. deposits | 84.71 | 99.12 | 14.41 |
| Net Domestic Credit | 561.28 | 640.66 | 79.38 |

Source: Central Bank of Kenya

3.5 Cumulative Domestic Interest Payments

During the financial year 2010/11, the Government has projected to pay Kshs 67.19 billion as interest on domestic debt. As at March 2011, Government actual cumulative domestic interest payments stood at Kshs 46.54 billion against the cumulative projected interest payments of Kshs 49.83 billion. Actual interest payments on Treasury Bonds and Treasury Bills was Kshs 38.32 billion and Kshs 7.48 billion, respectively. The total variance of Kshs 3.29 billion constitutes savings arising from lower than projected interest rates on Government securities.

Table 11: Cumulative domestic interest payments, in Kshs million

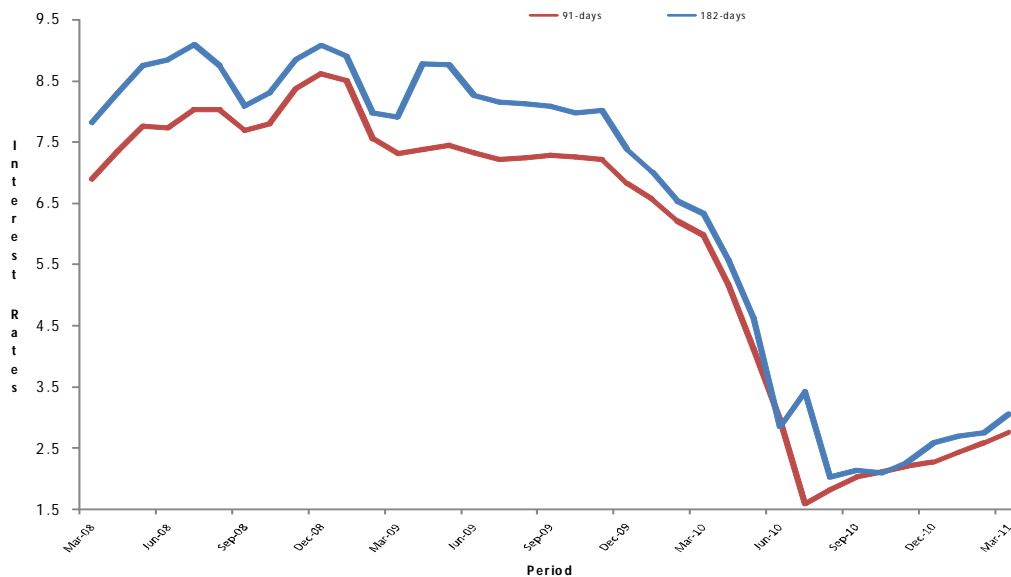
| Type of debt | Projected | Actual | Variance |
|-------------------------|------------------|------------------|-------------------|
| Treasury bonds | 39,235.19 | 38,323.15 | (912.04) |
| Treasury bills | 9,383.33 | 7,475.93 | (1,907.40) |
| Overdraft | 411.08 | 618.04 | 206.96 |
| Pre-1997 overdraft debt | 720.87 | 82.09 | (638.78) |
| Government stocks | 75.34 | 37.67 | (37.67) |
| Totals | 49,825.81 | 46,536.88 | (3,288.93) |

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 March 2008. Average interest rates have been rising since the beginning of the financial year 2010/11 after a long sustained drop. During the month of March 2011, the average interest rates for the 91-day, 182-day and 364-day rose by 18, 30 and 28 basis points respectively to stand at 2.77 percent p.a, 3.06 percent p.a and 4.00 percent p.a, respectively.

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 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 | 5.3% |
| 5 YR | 7.8% |
| 10 YR | 7.6% |
| 15 YR | 9.4% |
| 20 YR | 10.5% |
| 25 YR | 10.7% |

Source: Central Bank of Kenya

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

| CREDITOR | Stock at end February 2011 | Stock at end March 2011 | Change (Kshs Mn) |
|------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| CENRAL GOVERNMENT | | | |
| BILATERAL | | | |
| AUSTRIA | 1,907.25 | 1,859.66 | (47.59) |
| BELGIUM | 7,615.82 | 7,851.70 | 235.88 |
| CANADA | 1,203.93 | 1,213.07 | 9.14 |
| DENMARK | 2,519.75 | 2,611.18 | 91.43 |
| FINLAND | 122.89 | 125.67 | 2.78 |
| FRANCE | 34,709.24 | 35,819.63 | 1,110.39 |
| GERMANY | 17,548.51 | 18,189.83 | 641.31 |
| ITALY | 4,611.00 | 4,228.24 | (382.76) |
| JAPAN | 65,722.70 | 64,976.34 | (746.36) |
| NETHERLANDS | 2,219.88 | 2,312.01 | 92.13 |
| UK | 2,216.95 | 2,312.91 | 15.96 |
| USA | 5,234.66 | 2,232.91 | 39.73 |
| PARIS CLUB OTHERS | 5,182.93 | 5,284.15 | 101.22 |
| NON PARIS CLUB | 33,829.81 | 30,684.06 | (3,145.75) |
| Sub total | 184,645.31 | 182,662.83 | (1,982.48) |
| MULTILATERAL | | | |
| ADB/AFDB | 45,259.45 | 46,229.93 | 970.48 |
| EEC/EIB | 11,137.25 | 11,544.26 | 407.01 |
| IDA | 270,608.09 | 279,339.71 | 8,731.62 |
| IFAD | 6,420.67 | 6,520.59 | 99.92 |
| IMF | 42,863.95 | 43,531.04 | 667.09 |
| OTHERS | 8,109.05 | 8,255.83 | 146.78 |
| Sub total | 384,398.46 | 395,421.36 | 11,022.90 |
| SUPPLIERS CREDIT | 22,192.06 | 22,777.57 | 585.51 |
| Sub Total | 591,235.83 | 600,861.76 | 9,625.93 |
| GUARANTEED DEBT | | | |
| CANADA | 378.88 | 381.76 | 2.88 |
| JAPAN | 38470.27 | 37,587.74 | (882.53) |
| USA | 315.04 | 282.16 | (32.88) |
| IDA | - | 3,734.50 | 3,734.50 |
| Sub Total | 39,164.20 | 41,986.16 | 2,821.96 |
| GOK+ GUARANTEED TOTAL | 630,400.03 | 642,847.92 | 12,447.89 |

Source: Ministry of Finance

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