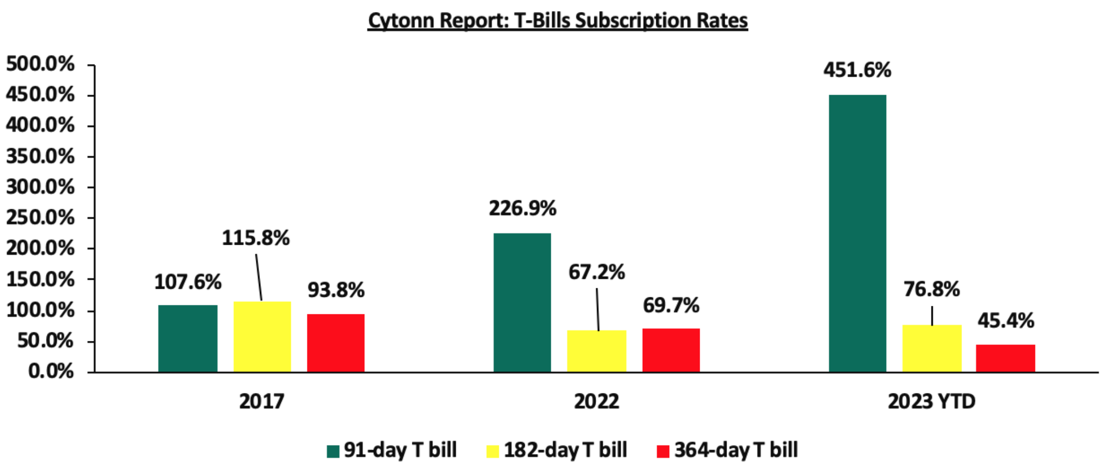
Kenya's Public Debt Review 2023, & Cytonn Weekly #15/2023

Fixed Income

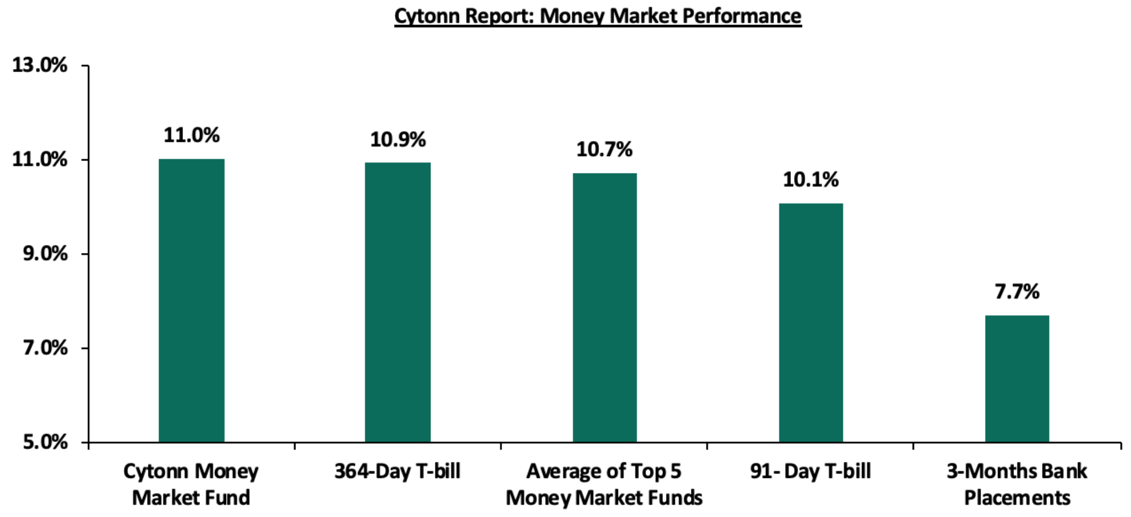
Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the second consecutive week, with the overall subscription rate coming in at 122.6%, down from an oversubscription of 134.8% recorded the previous week. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 24.9 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 621.9%, lower than the 643.3% recorded the previous week. Notably, the 182-day and 364-day papers recorded continued undersubscriptions of 24.7% and 20.7%, from undersubscription rates of 5.8% and 60.3%, respectively, recorded the previous week. The government accepted bids worth Kshs 27.4 bn and rejected Kshs 2.0 bn out of the total Kshs 29.4 bn bids received, translating to an acceptance rate of 93.0%. The yields on the government papers were on upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 7.5 bps, 6.0 bps and 6.8 bps to 10.9%, 10.4% and 10.1%, respectively. The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):



In the Primary Bond Market, the government sought to raise additional Kshs 10.0 bn to fund infrastructural projects by offering a tap sale of an infrastructure bond IFB1/2023/17 with tenor to maturity of 17 years. The bond received bids worth Kshs 5.1 bn, translating to an undersubscription rate of 51.2%, partly attributable to continued tightened liquidity in the money market with the average interbank rate increasing by 0.3% points to 8.4%, from 8.1% recorded last week. The acceptance rate for the tap sale was 100.0% and both the weighted average yield and the coupon rate were at 14.4%. Key to note, this is the second Tap Sale for the infrastructure bond offered in the market after the first one was offered on 8 March 2023 which was also undersubscribed at 63.6%, mainly attributable to tightened liquidity.

Money Market Performance:



In the money market, the 3-month bank placements closed the week at 7.7%, similar to what was recorded the previous week (based on what we have been offered by various banks). The average yield on the 91-day T-bill increased by 0.1% points to 10.1%, from 10.0% recorded the previous week while the 364-day T-bill remained relatively unchanged at 10.9%, as was recorded last week. On the other hand, yields on the average Top 5 Money Market Funds declined by 0.1% points to 10.7%, from 10.6% recorded the previous week while Cytonn Money Market Fund (CMMF) remained relatively unchanged at 11.0%, from what was recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 14th April 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 14th April 2023

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download Cytonn App)	11.0%
2	Madison Money Market Fund	10.8%
3	Etica Money Market Fund	10.8%
4	Dry Associates Money Market Fund	10.5%
5	Apollo Money Market Fund	10.5%
6	Jubilee Money Market Fund	10.4%
7	Nabo Africa Money Market Fund	10.1%
8	NCBA Money Market Fund	10.1%
9	Kuza Money Market fund	10.0%
10	AA Kenya Shillings Fund	10.0%
11	Zimele Money Market Fund	9.9%
12	Sanlam Money Market Fund	9.8%
13	Old Mutual Money Market Fund	9.8%
14	Enwealth Money Market Fund	9.6%
15	GenCap Hela Imara Money Market Fund	9.4%
16	CIC Money Market Fund	9.4%

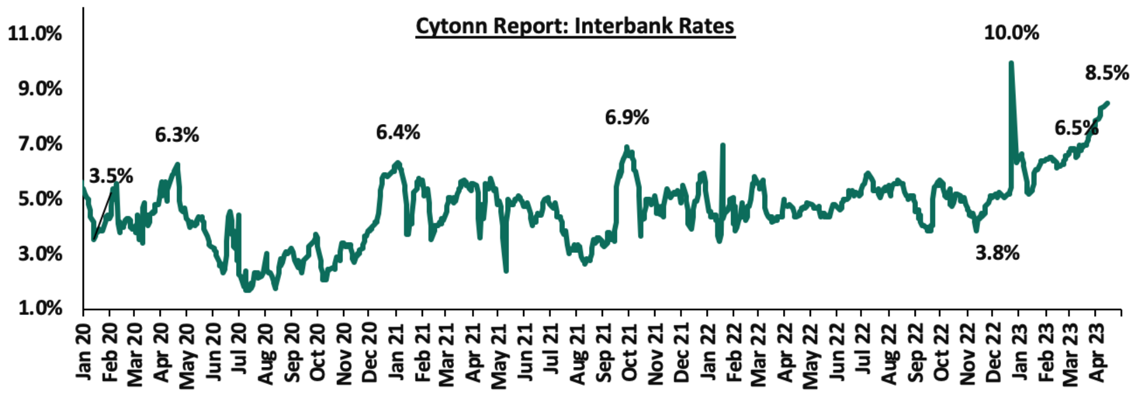
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 14th April 2023

Rank	Fund Manager	Effective Annual Rate
17	KCB Money Market Fund	9.4%
18	Co-op Money Market Fund	9.4%
19	British-American Money Market Fund	9.3%
20	GenAfrica Money Market Fund	9.3%
21	Orient Kasha Money Market Fund	9.1%
22	ICEA Lion Money Market Fund	9.0%
23	Absa Shilling Money Market Fund	8.6%
24	Mali Money Market Fund	8.2%
25	Equity Money Market Fund	6.7%

Source: Business Daily, M-PESA App

Liquidity:

During the week, liquidity in the money markets continued to tighten, with the average interbank rate increasing to 8.4%, from 8.1% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volume traded consequently declined by 19.0% to Kshs 24.0 bn, from Kshs 29.6 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Source: CBK

Kenya Eurobonds:

During the week, the yields on Eurobonds were on an upward trajectory with the yield on the 10-year Eurobond issued in 2018, increasing the most, having increased by 0.5% points to 14.7%, from 14.2% recorded the previous week. The rise in the country's Eurobond yields is mainly on the back of increased concerns about the continued depreciation of the Kenyan shilling, United States dollar shortages currently experienced in the economy and increased debt servicing concerns with debt service to revenue coming in at 56.4% as of March 2023, compared to 54.2% recorded in February 2023. The table below shows the summary of the performance of the Kenyan Eurobonds as of 13 April 2023;

Cytonn Report: Kenya Eurobonds Performance

	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
Amount Issued (USD bn)	**2.0**	**1.0**	**1.0**	**0.9**	**1.2**	**1.0**
Years to Maturity	**1.3**	**5.0**	**25.0**	**4.2**	**9.2**	**11.3**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
2-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
3-Apr-23	13.7%	12.2%	11.4%	13.2%	11.6%	11.2%
6-Apr-23	14.2%	12.5%	11.6%	13.3%	12.0%	11.4%
7-Apr-23	14.2%	12.5%	11.6%	13.3%	12.0%	11.4%
10-Apr-23	14.2%	12.5%	11.7%	13.3%	12.0%	11.4%
11-Apr-23	14.6%	12.7%	11.7%	13.6%	12.2%	11.5%
12-Apr-23	14.8%	12.7%	11.8%	13.6%	12.1%	11.6%
13-Apr-23	14.7%	12.7%	11.7%	13.6%	12.1%	11.6%
Weekly Change	**0.5%**	**0.2%**	**0.1%**	**0.3%**	**0.1%**	**0.2%**
MTD change	**0.9%**	**0.5%**	**0.3%**	**0.5%**	**0.5%**	**0.4%**
YTD Change	**1.8%**	**2.2%**	**0.9%**	**2.7%**	**1.4%**	**1.7%**

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.8% against the US dollar to close the week at Kshs 134.4, from Kshs 133.3 recorded the previous week, partly attributable to increased dollar demand from manufacturers and importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 8.9% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 as a result of:

i. High global crude oil prices on the back of persistent supply chain constraints coupled with high demand. The high crude oil prices have inflated Kenya's import bill and as a result, petroleum products imports have continued to weigh heavily on the country's import bill, and accounted for 27.6% of the total import bill in Q3'2022, up from 25.6% in Q2'2022 and much higher than 15.2% recorded in Q3'2021,
ii. An ever-present current account deficit estimated at 4.9% of GDP in the 12 months to January 2023, from 5.6% recorded in a similar period last year,
iii. The need for Government debt servicing which continues to put pressure on forex reserves given that 68.1% of Kenya's External debt was US Dollar denominated as of December 2022, and,
iv. A continued interest rate hikes in the USA and the Euro Area with the Fed and European Central Bank increasing their benchmark rates to 4.75%-5.00% and 3.50% respectively in March 2023, which has strengthened the dollar and sterling pound against other currencies following capital outflows from other global emerging markets.

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 658.6 mn in 2023 as of February 2023, albeit 0.3% lower than the USD 660.3 mn recorded over the same period in 2022, and,
ii. The tourism inflow receipts that came in at USD 268.1 bn in 2022, a significant 82.9% increase from USD 146.5 bn inflow receipts recorded in 2021.

Key to note, Kenya's forex reserves remained relatively unchanged at USD 6.4 bn as at 13 April 2023, similar to what was recorded the previous week. As such, the country's months of import cover also remained unchanged at 3.6 months, similar to what was recorded the previous week, and below the statutory requirement of maintaining at least 4.0-months of import cover. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years:

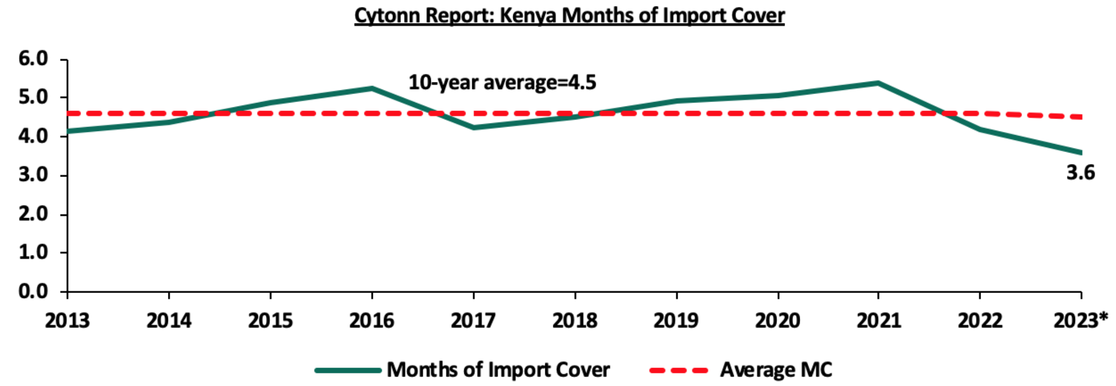


**Figure as of 13 April 2023*

Weekly Highlight:

i. **Revenue and Net Exchequer for FY'2022/2023**

The National Treasury gazetted the revenue and net expenditures for the first nine months of FY'2022/2023, ending 31 March 2023. Below is a summary of the performance:

FY'2022/2023 Budget Outturn - As at 31st March 2023

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Revised Estimates	Actual Receipts/Release	Percentage Achieved of the Revised Estimates	Prorated	% achieved of the Prorated
Opening Balance			0.6			
Tax Revenue	2,071.9	2,108.3	1,393.4	66.1%	1,581.2	88.1%
Non-Tax Revenue	69.7	83.7	50.7	60.6%	62.7	80.9%
Total Revenue	**2,141.6**	**2,192.0**	**1,444.7**	**65.9%**	**1,644.0**	**87.9%**
External Loans & Grants	349.3	520.6	235.5	45.2%	390.4	60.3%
Domestic Borrowings	1,040.5	886.5	396.3	44.7%	664.9	59.6%
Other Domestic Financing	13.2	13.2	15.5	117.4%	9.9	156.5%
Total Financing	**1,403.0**	**1,420.3**	**647.3**	**45.6%**	**1,065.3**	**60.8%**
Recurrent Exchequer issues	1,178.4	1,266.0	814.7	64.4%	949.5	85.8%
CFS Exchequer Issues	1,571.8	1,552.9	886.5	57.1%	1,164.7	76.1%
Development Expenditure & Net Lending	424.4	393.8	174.8	44.4%	295.4	59.2%
County Governments + Contingencies	370.0	399.6	212.8	53.2%	299.7	71.0%
Total Expenditure	**3,544.6**	**3,612.3**	**2,088.7**	**57.8%**	**2,709.2**	**77.1%**
Fiscal Deficit excluding Grants	**1,403.0**	**1,420.3**	**644.0**	**45.3%**	1,065.3	60.5%
Total Borrowing	**1,389.8**	**1,407.1**	**631.8**	**44.9%**	**1,055.3**	**59.9%**

The key take-outs from the report include:

a. Total revenue collected as at the end of March 2023 amounted to Kshs 1,444.7 bn, equivalent to 65.9% of the revised estimates of Kshs 2,192.0 bn for FY'2022/2023 and is 87.9% of the prorated estimates of Kshs 1,644.0 bn. We note that the government has not been able to meet its prorated revenue targets nine months into the FY'2022/2023, partly attributable to the tough macroeconomic environment in the country as a result of elevated inflationary pressures with March 2023 coming in at 9.2%, above the CBK target range of 2.5%-7.5%. Despite the poor performance, the government revised the revenue target upwards indicating that the government believes its revenue collection strategies will bear fruit in the coming months. Cumulatively, tax revenues amounted to Kshs 1,393.4 bn, equivalent to 66.1% of the revised estimates of Kshs 2,108.3 bn and 88.1% of the prorated estimates of Kshs 1,581.2 bn,
b. Total financing amounted to Kshs 647.3 bn, equivalent to 45.6% of the revised estimates of Kshs 1,420.3 bn and is equivalent to 60.8% of the prorated estimates of Kshs 1,065.3 bn. Additionally, domestic borrowing amounted to Kshs 396.3 bn, equivalent to 44.7% of the revised estimates of Kshs 886.5 bn and is 59.6% of the prorated estimates of Kshs 664.9 bn,
c. The total expenditure amounted to Kshs 2,088.7 bn, equivalent to 57.8% of the revised estimates of Kshs 3,612.3 bn, and is 77.1% of the prorated expenditure estimates of Kshs 2,709.2 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 814.7 bn, equivalent to 64.4% of the revised estimates of Kshs 1,266.0 bn and 85.8% of the prorated estimates of Kshs 949.5 bn, and development expenditure amounted to Kshs 174.8 bn, equivalent to 44.4% of the revised estimates of Kshs 393.8 bn and is 59.2% of the prorated estimates of Kshs 295.4 bn,
d. Consolidated Fund Services (CFS) Exchequer issues (refers to the Consolidated Fund established in the Kenya's constitution into which development partners deposit funds before disbursing to the Exchequer accounts for projects such as servicing of public debt, payment of pensions and gratuities, salaries and allowances and subscription to International Organizations) came in at Kshs 886.5 bn, equivalent to 57.1% of the revised estimates of Kshs 1,552.9 bn, and 76.1% of the prorated amount of Kshs 1,164.7 bn. The cumulative public debt servicing cost amounted to Kshs 815.4 bn which is 59.9% of the revised estimates of Kshs 1,361.0 bn, and is 79.9% of the prorated estimates of Kshs 1,020.7 bn. Notably, the Kshs 815.4 bn debt servicing cost is equivalent to 56.4% of the actual revenues collected as at the end of March 2023, further emphasizing on how much public debt servicing weighs on the country's expenditure. Additionally, Recurrent Exchequer issues came in at Kshs 814.7 bn equivalent to 64.4% of the revised estimates of Kshs 1,266.0 bn and are 85.8% of the prorated estimates of Kshs 949.5 bn, and,
e. Total Borrowings as at the end of March 2023 amounted to Kshs 631.8 bn, equivalent to 44.9% of the revised estimates of Kshs 1,407.1 bn for FY'2022/2023, and are 59.9% of the prorated estimates of Kshs 1,055.3 bn. The cumulative domestic borrowing target of Kshs 886.5 bn comprises of adjusted Net domestic borrowings of Kshs 425.1 bn and Internal Debt Redemptions (rollovers) of Kshs 461.4 bn.

The government has been unable to meet its prorated revenue targets for the nine months of the FY'2022/2023, mainly on the back of the tough economic situation exacerbated by the elevated inflationary pressures that have remained above the CBK target range of 2.5%-7.5%, with the year on year inflation rate in March 2023 coming in at 9.2%, similar to what was recorded in February. Additionally, the US dollar shortage and currency depreciation currently being experienced in the economy has resulted in high consumer prices as companies pass the high cost of import and production to consumers. Despite the March 2023 Purchasing Managers Index (PMI) coming in at 49.2, higher than 46.6 in February 2023, it remained below the 50-threshold mark indicating persistent deterioration in the country's business environment denting revenue collection efforts. In light of this, the government is yet to fully benefit from the strategies put in place to improve revenue collection such as expanding the revenue base and sealing tax leakages, and suspension of all tax relief payments. Going forward, we assert that the government revenue targets are relatively ambitious, owing to the tough economic conditions evidenced by the deteriorating business environment with the PMI index averaging 49.3% in 2023.

ii. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 April 2023 to 14 May 2023. Notably, fuel prices remained unchanged for the month at Kshs 179.3, Kshs 162.0 and Kshs 145.9 per liter of Super Petrol, Diesel and Kerosene, respectively. This comes after a Kshs 2.0 hike in the price of Super Petrol in the previous fuel price release, however, the prices of Kerosene and Diesel have remained unchanged for the fifth consecutive month. Other key take-outs from the performance include;

i. The average landed costs for diesel and kerosene decreased by 7.1% and 7.3% to USD 705.8 per cubic metre and USD 707.5 per cubic metre in March 2023, from USD 759.9 per cubic metre and USD 763.3 per cubic metre in February 2023, respectively. However, the landed cost for Super Petrol increased by 1.1% to USD 666.5 per cubic metre in March 2023 from USD 659.5 per cubic metre in February,
ii. The Free On Board (FOB) price of Murban crude oil increased by 3.2% to USD 82.6 per barrel in March 2023 from USD 80.1 per barrel recorded in February 2023,
iii. The Kenyan Shilling depreciated against the US Dollar by 4.2% to Kshs 139.6 in March 2023 from 134.0 in February 2023, and,
iv. The price of diesel has been cross subsidized with that of super-petrol, while maintaining a subsidy of Kshs 17.2 per litre on Kerosene from a subsidy of Kshs 23.5 in February in order to cushion consumers from the otherwise high prices.

Key to note, EPRA maintained the Kshs 12.4 per litre margin to Oil Marketing Companies for Super Petrol and increased Diesel margins significantly by 109.3% to Kshs 6.1 per litre, from 2.9 per litre, while Kerosene margins remained withheld. This is attributable to super-petrol recording a price stabilization surplus of Kshs 5.8 per litre, diesel remaining balanced, while kerosene recorded a deficit of Kshs 3.5 per litre.

Fuel prices remained unchanged and elevated for the month of March 2023, despite the global fuel prices dropping by 25.5% to USD 87.7 per barrel as of 13 April 2023, from a peak of USD 117.7 per barrel recorded on 1 June 2022 and the average landed costs declining during the month except for Super Petrol. Notably, the maintained prices are mainly on the back of the scaling down of fuel subsidies coupled with the US dollar shortage and currency depreciation being experienced in the economy hence elevating the cost of fuel import. However, the government in a bid to alleviate the high demand of US dollar by petroleum importers which consequently leads to high cost of fuel importation, signed a government-government deal involving firms such as the Saudi Aramco (ARAMCO), Abu Dhabi National Oil Company (ADNOC) and Emirates National Oil Company (ENOC) to supply Kenya with diesel and super petrol for the next six months on credit. The first batch of fuel importation was received on 13 April 2023. However, we remain reluctant on the effectiveness of the deal to fix the current situation and the government will need long term strategies to buffer foreign reserves and resuscitate the currently frail interbank forex market. Furthermore, we still maintain the view that the government should gradually eliminate the fuel subsidies to ease the expenditure and ensure fiscal consolidation.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 11.2% ahead of its prorated borrowing target of Kshs 338.7 bn having borrowed Kshs 376.6 bn of the new domestic borrowing target of Kshs 425.1 bn as per the March 2023 revised domestic borrowing target for FY'2022/23. We believe that the projected budget deficit of 5.7% is relatively ambitious given the downside risks and deteriorating business environment occasioned by high inflationary pressures. Further, revenue collections are lagging behind, with total

revenue as at March 2023 coming in at Kshs 1.4 tn in the FY'2022/2023, equivalent to 65.9% of its revised target of Kshs 2.2 tn and 87.9% of the prorated target of Kshs 1.6 tn. Therefore, we expect a continued upward readjustment of the yield curve in the short and medium term, with the government looking to bridge the fiscal deficit through the domestic market. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.