One Hundred and Ninth Sovereign Debt News Update: Kenya Successfully Issues a New $1.5 billion (Sh238 billion) Eurobond to Buy Back the $2 billion Eurobond due June 2024

By:

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Kenya has been hard-pressed for finances amid debt maturity pressure and highly ballooned debt-servicing costs in recent years. Most recently, the East African country is in the midst of figuring out how to settle the upcoming $2 billion Eurobond due for maturity in June 2024. The Kenyan government has therefore issued a new $1.5 billion (sh238 billion) Eurobond to buy back the $2 billion Eurobond due in June 2024. The upcoming payment comes hot on the heels of a recently made bond payment made in Feb 2024, with the Government having issued four Eurobonds each with a higher coupon rate thereby reflecting the likely unsustainability of the current debt portfolio. Kenya is therefore likely to face a potential debt repayment crunch this year.

As highlighted in the Ninety Ninth Sovereign Debt News Update, Kenya had begun talks with the International Monetary Fund (IMF) and the World Bank on the repayment of the USD$2 billion Eurobond. In 2023, Kenya lobbied for additional resources from the IMF, citing heightened balance of payment needs ahead of Eurobond maturity in June 2024 in the wake of difficulties the country is facing in accessing alternative funding from the international capital markets. As such, on the 18th of January 2024, the International Monetary Fund (IMF) approved a Sh110.6 billion ($684.7 million) loan to Kenya in a bid to ease pressure on the Eurobond repayment. These funds were part of the Sh152 billion ($941.2 million) from the augmentation/expansion of resources under the IMF's Extended Fund Facility (EFF) as well as the Extended Credit Facility (ECF). In this instance, and for the first time, Kenya tapped into IMF's Exceptional Access Window, an avenue used to extend concessional financing above the limits normally prescribed.

In a bid to intensify efforts to secure the Eurobond's refinancing, the National Treasury appointed Citi and Standard banks as lead managers last year to investigate the feasibility of issuing in the Eurobond market at a reasonable cost. The government had examined and planned a partial early buyback of bondholders in 2023, but the measure did not materialise. Kenya therefore managed to initiate a week-long repurchase of the US$2.0 billion note maturing on June 24th, 2024. With the process kicking off on the 7th of February and lapsing on the 14th of February, the invitation to tender called for eligible holders to register interest in its US$2 billion Eurobond at 6.875%. Results of the tender shared on the 15th of February revealed that Kenya had received "valid tenders of US$1,484,861,000 in aggregate principal amount of the Notes for purchase pursuant to the Offer". According to Kenyan President William Ruto, the Eurobond was oversubscribed, with an offer of Sh985bn (US$6.2 billion dollars) being offered. The government therefore chose Sh238bn (US$1,5 billion) in a bid to avoid going on a borrowing spree but make an attempt to "live within our means" instead.

Important Details about the 1.5 billion Eurobond:

In a statement, Kenya's National Treasury said the proceeds of the US$1.5 billion Eurobond will be deployed to retire the 2-billion-dollar Eurobond. Kenya continues to seek a diversified funding pool as the portion of the Eurobond that is not repurchased will be retired through a mix of syndicated financing, multilaterals financing & domestic financing. The sale of the $1.5 billion, 7-year bond concluded a frantic debt liability exercise but came at a price, with investors getting a 10.375% yield. This compared to the 6.875% on the bonds the government was replacing and was by some margin the highest rate offered at any sovereign debt sale so far this year. The bond is amortized in 3 equal instalments. In other words, instead of paying back the entire loan in 2031, Kenya will pay it back in three equal instalments of US$500.0M in 2029, 2030 and 2031. The money Kenya will get from this new Eurobond will be used to pay off some of the $2 billion Eurobond due to be repaid this year.

Kenya also offered a double-digit interest rate on new government bond on Monday so it could push back until 2031 a $2 billion payment crunch that had been looming in June. It is imperative to highlight that with the bond priced at 10.37%, the highest rate an African state has ever offered, with Cote D'Ivoire's January issuance and Benin's February bonds following closely between 8.5% and 7.5% for the raising of $2.6 billion and $750 million respectively. Proceeds from the buy back will be used to pay the inaugural debt to the same companies, with approximately US$155m leaving Kenya every year. There is therefore no form of development to be expected from this debt.

Reactions:

National Treasury PS Chris Kiptoo is on record saying the government was "*very confident about handling the Eurobond debt that has posed financial risks to the country*" and that "*Kenya has earned its rightful space in the international debt market*". Confidence that the Eurobond would be repaid lifted the local shilling currency, helping it recover to its strongest level against the dollar since June 2023. Investors have seemingly embraced Kenya's proactive approach to managing its liabilities, noting the country's attempts to preserve its foreign exchange reserves by managing its future debt maturities through the issuance of a new bond.

In a statement dated 21 February 2024, President Ruto highlighted that "*the successful execution of both the buy-back and the new bond issue demonstrate strong investor confidence in Kenya through the international capital markets, and a vote of confidence in the government's overall economic management, particularly our public debt management strategy.*" On the other hand, confidence in the buyback has not been entirely positive. Haron Sirima, who was Kenya's director-general in charge of debt management at the National Treasury, and had been at the helm of the debt management unit since June 2018, resigned in January 2024 amid escalating debt sustainability concerns that forced the Exchequer to retreat on a plan to buy back $300 million of the $2 billion Eurobond. S&P Global Ratings, a renowned credit rating agency, does not consider the repurchase a distress action under its criteria. According to the rating agency, Kenya's rating still retains at B with a negative outlook, saying the assessment reflects "*risks to Kenya's external debt-servicing capacity amid high external refinancing requirements*." The upside scenario is largely pegged on fiscal consolidation being strengthened and the downside scenario largely pegged on external debt financing pressures rising, with domestic financing pressures remaining a key challenge.

A number of financial analysts have also expressed concern over the terms of the repurchase. According to Viktor Szabo, an emerging market debt portfolio manager at Aberdeen (abrdn), "in theory no sovereign should issue at these levels and given that they have access to concessional lending (from multilateral development banks) really they should be using that." John Espinosa, Head of EMD at Asset Manager Nuveen, said the bond buyback had avoided a near-term problem. Over the medium-term, however, "*challenges remain around debt sustainability*." Francesc Balcells, Chief Investment Officer for emerging market debt at FIM Partners, said the issuance of the Eurobond was "not a good thing", especially considering that investors as well as policymakers seem to be concentrating on how the next bond can be settled, without thought to the cost of such action.

Conclusion:

As highlighted, Kenya is not the first African country to return to the global market for another Eurobond. Côte d'Ivoire is poised as the first African nation to re-enter the market post Covid-19, followed by Benin. The issuance, which is a first by an African country in two years, has signalled renewed investor appetite for the sovereign debt of emerging and frontier economies. It remains to be seen if Africa's Eurobond comeback, will end the debt-distress saga as evidenced by the "positive" market indicators for Côte d'Ivoire and Benin, and more recently, Kenya. More importantly, a closer analysis of the of the terms of the Eurobonds will serve as one of the yardsticks with which to measure the success of this alternative route. Kenya's acceptance of a double-digit interest rate undoubtedly poses a cause of concern. A double-digit borrowing cost may not be worth avoiding a default. The contraction of new debt to settle an old debt and at an even higher rate is not the solution. The AfSDJN calls for actions that do not further jeopardize the country's debt sustainability status, such as unhealthy debt contraction processes that keep the country in perpetual debt cycles.

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