Forty Fourth Sovereign Debt News Update: Kenya’s Bond Performances in Context

By:

The African Sovereign Debt Justice Network

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On Thursday, May 5, 2022, the Kenyan Human Rights Commission (KHRC) and the national coordinator of the Institute for Social Accountability, Wanjiru Gikonyo filed a petition against the National Treasury and Attorney General seeking to compel the disclosure of information on Kenya’s debt treaties, agreements and contracts. Prior to this, the Treasury Secretary had ignored a letter sent by the Human Rights Commission requesting for information.

In another case filed by Wanjiru Gikonyo of the Institute for Social Accountability, an institutional partner of the AfSDJN, the High Court of Kenya ordered the Kenyan government to disclose loan contracts for the Standard Guage Railway, one of Kenya's flagship infrastructural projects. The ruling which was delivered on Friday, May 13, 2022, signified a major victory following a protracted campaign.

In its first bond sale in April 2022, the Kenyan government raised Ksh 33.1 billion ($285.5 million) from its 3-year bond, although the government projected to raise the sum of Ksh 40 billion ($345 million). The Central Bank of Kenya received bids worth Sh34 billion ($376.3 million) but rejected Sh 908 million ($7.8 million).

In its second bond sale in April 2022, the Kenyan government raised the sum of Ksh 27.6 billion ($237 million) from the sale of its 15-year bond, although it proposed to raise the sum of Ksh30 billion ($257.5 million). The bond was sold as a long-term bond at an average interest rate of 13.94% as set by the market, making it the most lucrative 15-year bond sale in the primary market.

Kenya's bond which is due in 20 years jumped to 8.55% on April 27 from 7.18% on April 20 in yield. Also, the 12-year bond due in 2032 jumped to 10.14% from 9.43% in yield. This connotes an increase in the return the investors get from buying the fixed income securities. The increase in Eurobond yields was accompanied by reports of dollar shortages in the country thus adding to increased credit risk perceptions.

In April, 2022, Kenya's National Treasury hinted that as a result of the elevated yields in the traded securities on the international capital market, which they consider to amount to unfavourable market conditions, there is the likelihood that no Eurobond will be fleshly issued in the current fiscal year. However, on Thursday, May 5, 2022, the Treasury Secretary, Ukur Yatani, reported that the government still intends to raise $1 billion in Eurobond sale before the end of June as it is part of its financing plans for 2021-22 fiscal year.

As Kenya braces for a transition in government, it is projected that the incoming government will be required to pay an average of Ksh3.74 billion($32.3 million) daily in debt. The treasury chiefs also project that Kenya will spend Ksh 1.39 trillion ($12.1 billion) annually on debt repayment starting from July, which is 21% more than the estimated debt cost of the current fiscal year. The debt repayment expenses is projected to cost 60% of the country's tax revenue.

The United States Treasury Secretary, Janet Yellen in encouraging the United Stated Congress to continue its support to the International Monetary Fund (IMF), revealed that emergency loans from the IMF cushioned Kenya's economy

which was at the brink of collapsing. According to Yellen, the IMF finance helped put the country back on the path of financial sustainability.

In April 2022, Fitch, a global rating agency, has reduced its outlook on Kenya's sovereign debt from stable to negative, making reference to reduced growth in the country's Gross Domestic Products (GDP). According to Fitch, the negative outlook shows that there are uncertainties about the country's planned fiscal consolidation and the attendant risk to economic growth. Fitch also based its decision on perceived ambivalence resulting from the forthcoming elections.

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