Sovereign Debt News Update No. 141: Amidst Sustainable Debt Concerns and Socioeconomic Challenges, Kenya Floats its Panda Bond

By:

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Kenya has reportedly turned to the Chinese markets by issuing a ‘Panda bond’ in order to support its standard gauge railway (SGR) project, which will stretch from Naivasha to Malaba at the border with Uganda. The funding represents the fruits of the talks held with China to secure approximately USD $2.77 billion (358 billion Kenyan shillings) from Chinese financial markets. The Panda Bond is a yuan-denominated bond sold by a foreign entity in China's domestic market. Reported by major publications in late June and envisaged as early as March 2024, it represents an attempt by the country to diversify its financing sources.

This update will examine this new financing strategy, examining it within the broader context of Kenya's debt portfolio and sustainability levels, particularly amidst the rising concerns of the Kenyan populace regarding their government.

The Panda Bond

In March 2024, Bloomberg reported that the Government of Kenya was planning to raise USD$ 500 million through a debut panda bond. According to the report, the bond was issued to finance the country's budget deficit, with the broader aim of diversifying its funding sources. Indeed, Kenya’s decision to issue a Panda Bond signifies a strategic shift in its external financing approach. This substantial injection of funds is intended to revive and complete a key infrastructure project, the SGR, which is central to Kenya's economic development ambitions and regional connectivity. Also in alignment with this report is that earlier in 2025, the Chairperson of the Presidential Council of Economic Advisers David Ndii, highlighted it as one of the government’s strategies to diversify sovereign bond issuances from the London Eurobond market and avoid a repetition of the Eurobond 2024 refinancing risk. The initiative, reportedly confirmed by Public Treasury Director General John Mbadi, follows President William Ruto’s visit to China in April. Local media reports such as Newsflash further state that the financing arrangement will include additional contributions from the Kenyan government. Mbadi also has stated that the bond will be listed on the Shanghai Stock Exchange.

Altogether, the Panda bond is expected to help finance Kenya's reduced share of the railway project. If successful, Kenya would reportedly become only the second African country, after Egypt, to access the Chinese domestic bond market via a Panda bond. Nairobi is also exploring other avenues, including Sukuk (Shariah-compliant bonds) and Samurai bonds (issued in Japanese Yen), to diversify its funding sources. Although the government has relied more on domestic borrowing since 2022, weak economic growth has prompted this search for new financing options.

Analysis

It is imperative to contextualize these financial developments by highlighting that the timing of the Panda Bond is notably synchronous with a period of intense public unrest in Kenya. The one-year anniversary of the 2024 'Gen Z protests,' which was marked by protests in June 2025, have become a symbol of growing discontent in the country. According to one source, about 60 people were killed during the 2024 anti-government demonstrations. The 2025 protests, which left 19 demonstrators dead and at least 500 injured, all by gunfire, according to Amnesty International, marked not only the Kenyan people voicing their discontent with the Ruto administration, but a signal that the socioeconomic status quo remains unchanged. The Kenyan government's response to the 2025 protests was harsh, as it entailed an emergency order from the Communications Authority of Kenya (CA) banning live protest coverage, a step which significantly escalated concerns over freedom of expression in the country. Although judges swiftly revoked the order (which cited a constitutional exemption for incitement to violence), the attempt itself has nonetheless caused considerable damage. Furthermore, Reuters reported that Kenya's Interior Minister, Kipchumba Murkomen, accused protestors of attempting to overthrow the government during a day of deadly demonstrations. Protest leaders, however, dismissed his remarks as an effort to distract from their demands.

The government's response to these protests has been met with significant criticism. Following the protests, the emergency order from the Communications Authority of Kenya (CA), was compounded by a harsh crackdown by security forces. While judges swiftly revoked the CA order, citing a constitutional exemption for incitement to violence, the very attempt to stifle media freedom and the heavy crackdown on protestors have been widely regarded as inconsistent with the protection of freedom of expression in the country.

This new Panda Bond issuance must also be viewed through the lens of Kenya's existing debt challenges. As previously highlighted, Kenya has faced a tough external financing environment, notably failing to meet key benchmarks with the International Monetary Fund (IMF) in March 2025, leading to the forfeiture of an anticipated $850 million in budget support. These unmet benchmarks included shortfalls in tax revenue, a breach of the agreed fiscal deficit ceiling, and delays in clearing government arrears and reforming inefficient state-owned agencies. Furthermore, anticipated financing from the African Development Bank (AfDB) and a significant World Bank disbursement for

2024/25 have been either reduced or made contingent on legislative action, such as the Conflict of Interest Bill, which was vetoed in May by President William Ruto over concerns about accountability. In June however, changes were made to the bill by the President, and the Bill has now been approved by the National Assembly and is to proceed to the Senate for consideration.

It is also imperative to note that Kenya’s attempts to ‘diversify its funding sources’ have not exactly been the smoothest either. While China heavily funded the SGR's earlier phases, it initially withdrew from the Malaba extension due to concerns over debt sustainability and the project's commercial viability. After extensive efforts to secure alternative financing, Kenya eventually returned to Beijing. China ultimately agreed to fund only 30 percent of the extension, a significant reduction from its previously agreed 90 percent support.

The continuous pursuit of new debt, even for critical infrastructure, against a backdrop of public protests, unmet fiscal targets, and allegations of past financial mismanagement, raises serious questions about Kenya's long-term debt sustainability. The public's growing concern, as evidenced by the widespread demonstrations, is not merely about new borrowing but about the transparency, accountability, and ultimate benefit of such debt to the average citizen. The government's ability to manage its existing debt portfolio, adhere to fiscal discipline, and ensure that new borrowing genuinely translates into tangible development that benefits all Kenyans will be crucial in restoring public trust and ensuring long-term stability.

Conclusion

Kenya stands at a crossroads, balancing its ambition for infrastructure development with the pressing realities of its debt burden and a restive populace. China, the primary financier of the SGR's first two phases (Mombasa-Nairobi and Nairobi-Naivasha), is set to be a key player once again through this new bond. The acquisition of the Panda Bond for the SGR extension, while potentially vital for economic growth, occurs amidst a climate of heightened scrutiny over government spending and accountability, fueled by recent protests and concerns about freedom of expression. The challenge for the Kenyan government lies not just in securing financing, but in demonstrating a clear, transparent, and equitable strategy for managing its overall debt, ensuring fiscal sustainability, and rebuilding the trust of its citizens who increasingly demand that public funds serve national development, not political or personal gain.

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