

Kenya 2023 State of the Nation Address

Nairobi | 10 November 2023

Buyback? Going lower, lower, and lower

President William Ruto delivered the 2023 State of the Nation Address to a joint sitting of the bicameral Parliament on 09 November 2023. The address focused on the cost-of-living challenges, fiscal developments, and some hits by the Kenya Kwanza government. The President doubled down on recent commentary about potential KENINT 2024 buyback, only that the USD 300.0mn target buyback scheduled for December 2023 was much lower than his initial target of USD 1.0bn signaled in July 2023. The yield on KENINT 2024 fell 102bps in Thursday's trading session as mid Z-spread widened to 950.7 (from a prior 877.9) in the ensuing market confusion.

Highlights of the 2023 State of the Nation Address

- The first USD 300mn buyback instalment out of the USD 2.0bn June 2024 Eurobond maturity is scheduled for December 2023
- The Financial Inclusion Fund, the *Hustler Fund*, has seen disbursements totaling KES 36.6bn and with savings of KES 2.3bn. The repayment rate is currently at 73.0% with 7.5mn repeat customers.
- A total of 47,000 housing units are being constructed under Affordable Housing, with another 40,000 units to commence construction without indication of the start date. The President also announced the pipeline has 750,000 housing units.
- Interest rates for social housing, affordable housing, and market rates were set at 3.0%, 6.0% and 9.0%, respectively, under the Affordable Housing program.
- Monthly contribution to the National Social Security Fund has increased to KES 6.5bn, up from KES 1.4bn, following the High Court decision in February 2023 that implemented Section 20 of the National Social Security Fund Act.
- Waiver of KES 117.0bn non-performing debt for Government-owned sugar factories

Our views:

Flying blind with delayed publishing of the fourth Medium Term Plan

- Admittedly as the President focused on some progress off the Kenya Kwanza manifesto in agricultural production, human capital sectors, such as Health and Education, and on the Affordable Housing, the sense we have is that we are flying blind. The fourth Medium Term Plan (2023 – 2027) is yet to be published and it makes it difficult to track the hits and misses as the government executes on its plan. For instance, the President was ambiguous on the completion timeline for the 750,000 affordable housing units in the pipeline. Whereas the targets for affordable housing units under the third Medium Term Plan averaged 100,000 units annually, the stated number of units suggests an average of 150,000 units per year. Nevertheless, off-taking of the affordable housing units will be supported with the Housing Levy Fund, in place with the Finance Act 2023.

The devil will be in the details of the KENINT 2024 buyback

- The market struggled to wrap its head around the President's announcement of a potential buyback next month. Early in the week, the Chair of the Presidential Council of Economic Advisors (CEA) Dr David Ndii had alluded to a buyback by the end of the year. However, the uncertain travel path with the buyback's quantum – USD 1.0bn announced by President Ruto in July 2023 to be executed by end-2023, USD 500.0mn announced during WB/IMF annual meetings to be executed in 1Q2024 and the latest USD 300.0mn indication – cements the twists and turns that has accompanied the partial retirement of KENINT 2024. Two things stood out for us.
- Firstly, the rhetoric by rating agencies – Moody's and Fitch Ratings – flagging default event stemming from their definition perspectives. We thus think that a USD 300.0mn buyback, or 15.0% of the USD 2.0bn outstanding, is within safer thresholds without triggering alarm bells from the rating agencies. Under this scenario, this may require the government to follow through with another buyback sometime in 1Q2024, to reduce the exposure on KENINT 2024. We also think that the 15.0% buyback as tabled could entail the portion held by local institutional investors.
- Secondly, we wondered whether there are any further curveballs? Without stating the obvious, what is becoming clearer is that the partial buyback will be finalized when it is concluded. We posit that the authorities may possibly consider USD 200.0mn partial buyback, 10.0% of the outstanding principal, to enable a discrete conclusion of the buyback via open market purchases. In our view, this seems like the path of least resistance, but the transparency by the President/Presidential CEA Chair may want us to reflect otherwise. Why announce a transaction that is to be conducted discreetly?
- Overall, we think the flip flopping around KENINT 2024 buyback has left a dent on the authorities' credibility. While this seems like a case of jumbled messaging, what the market treasures most is coherent communication. The yield on KENINT 2024 fell 102bps in Thursday's trading session as mid Z-spread widened to 950.7 (from a prior 877.9) in the ensuing market confusion. As we argued previously [here](#), the authorities may need to tone down the open mouth operations as they rather tend to heighten market misconception of Kenya's sovereign risk.

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