KENYA | MACROECONOMIC UPDATE | BUDGET ANALYSIS | INSIGHTS

FUNDAMENTALS

KENYA FY25 BUDGET UPDATE

KEEPING THE IMF AT BAY

27 FEBRUARY 2025

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IN BRIEF

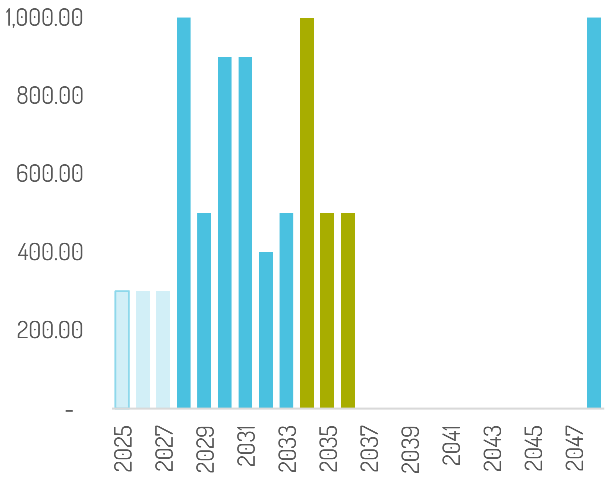
- The Government of Kenya sold USD 1.5bn KENINT 2036 on 26 February 2025 with a settlement date of 5 March 2025. The yield settled at 9.95% having tightened 55bps from the initial price talk. Like KENINT 2031 that was issued last year, KENINT 2036 was discounted with an issue price of 97.195% given its coupon rate of 9.50%.
- The UAE commercial financing has been well telegraphed in the fiscal year and the dual-tranche USD 1.5bn bond will have a similar 8.25% coupon rate on the 2032 and 2037 maturities. Interestingly, this private placement bond will be structured as a Musharakah Sukuk, suggesting that the authorities may have viable projects in the pipeline.
- With these recent developments around commercial financing in FY25, we shift our base case to a no-successor IMF programme from our earlier expectation of a non-funded IMF programme. In line with our expectation, the 2025 Budget Policy Statement (BPS) tabled in Parliament laid bare the challenges surrounding the ninth and final review, outlining a zero-disbursement scenario.
- The National Treasury tabled the second FY25 Supplementary Budget Estimates in Parliament on 18 February 2025 and is currently undergoing the necessary legislative approval process. Spending by the national government is expected to increase by KES 85.9bn, equivalent to 0.5% of GDP. Notably, guaranteed debt was increased by KES 19.7bn which we suspect to be the reconversion of the initial Kenya Airways debt service obligations from the main public debt and back to guaranteed debt.
- Weak revenue outturn in FY25 has amplified the fiscal constraints facing the authorities. We were disappointed by the authorities' guidance of KES 44.0bn as the target collection from the Tax Laws (Amendment) and Tax Procedures (Amendment) laws that were passed in December 2024 which was significantly lower than the initial target of KES 175.0bn. We project FY25 ordinary revenue will fall short by KES 76.7bn or 3.0% lower than the revised target.
- We revise our FY25 fiscal deficit projection from 4.5% to 5.1% of GDP. With the outsized external financing, we estimate a much lower net domestic financing requirement of KES 449.6bn against the estimated KES 595.1bn in the 2025 Budget Policy Statement.

Longer Kenya USD curve duration profile post KENINT 2027 buyback

The Government of Kenya sold USD 1.5bn KENINT 2036 on 26 February 2025 with a settlement date of 5 March 2025. The yield settled at 9.95% having tightened 55bps from the initial price talk. Like KENINT 2031 that was issued last year, KENINT 2036 was discounted with an issue price of 97.195%, given its coupon rate of 9.50%. Amidst an issuance size of USD 1.5bn on KENINT 2036 and the attractive tender offer price for KENINT 2027, the authorities have announced the maximum tender offer size at USD 900.0mn. Assuming 100.0% uptake and factoring in the tender offer price and accrued interest, the balance of USD 537.0mn will be channeled as FY25 budget support and likely to refinance the outsized c USD 870mn Trade Development Bank syndicated loan maturity in 3Q2025.

The choice of KENINT 2027 with an outstanding USD 900.0mn for the liability management operation caught markets by surprise given its amortizing nature compared to the USD 1.0bn bullet maturity for KENINT 2028. The negative optics of a KENINT 2027 maturity, albeit a manageable quantum, in an electioneering year may have swayed the preferred choice of the targeted buyback instrument. This notwithstanding, the buyback and the tender offer results in a more prolonged USD debt maturity profile.

PROLONGED DEBT MATURITY PROFILE WITH A 100.0% TENDER OFFER UPTAKE



SOURCE: NATIONAL TREASURY, BLOOMBERG, IC INSIGHTS

UAE financing is still on course

Media outlets also reported that the authorities are finalizing the UAE commercial financing later this week. This financing has been well telegraphed in the fiscal year and the dual-tranche USD 1.5bn bond will have a similar 8.25% coupon rate on the 2032 and 2037 maturities. Interestingly, this private placement bond will be structured as a Musharakah Sukuk suggesting that the authorities may have viable projects in the pipeline that will benefit from the proceeds from this financing. In our view, the necessity of publicizing the beneficiary projects will compensate for the seeming opacity of this private placement transaction.

Keeping the IMF at bay

With these recent developments around commercial financing in FY25, we shift our base case to a no-successor IMF programme from our earlier expectation of a non-funded IMF programme. In line with our expectation, the 2025 Budget Policy Statement (BPS) tabled in Parliament laid bare the challenges surrounding the ninth and final review, outlining a zero-disbursement scenario under the ninth review scheduled to be completed in mid-March 2025 compared to the previously telegraphed c. USD 850.0mn. With the missed revenue targets in the latter part of the IMF programme and the delay in implementing the structural benchmarks, the zero-disbursement scenario is not surprising. The tone from the fiscal authorities and the timing of securing commercial financing further cements the disengaged approach with the IMF ahead of the IMF mission scheduled for next month. As such, we believe the discussion will center on Article IV Consultation.

The long shadow of the second FY25 Supplementary Budget

The National Treasury tabled the second FY25 Supplementary Budget Estimates in Parliament on 18 February 2025 and is currently undergoing the necessary legislative approval process. Spending by the national government is expected to increase by KES 85.9bn, equivalent to 0.5% of GDP. The increased spending was necessitated by wage hikes and salary arrears amongst some public servants, drought-related expenditures and identified higher Appropriation-in-Aid revenue. Furthermore, Article 223 expenditures, spending outside Appropriations and that needs approval through Supplementary Budgets, totaled KES 68.5bn which implies rigidity to the budget revisions. Notably, guaranteed debt was increased by KES 19.7bn which we suspect to be the reconversion of the initial Kenya Airways debt service obligations from the main public debt and back to guaranteed debt. The Public Debt and Privatization Committee had expressed its reservations in FY24 on the treatment of the Kenya Airways debt under the main public debt segment.

The weak revenue outturn in FY25 has amplified the fiscal constraints facing the authorities. Ordinary revenue, that is tax revenue plus non-tax revenue, between July 2024 and January 2025 fell short of target by KES 113.0bn, equivalent to 0.6% of GDP. We were disappointed by the authorities' guidance of KES 44.0bn as the target collection from the Tax laws (Amendment) and Tax Procedures (Amendment) laws that were passed in December 2024 which was significantly lower than the initial target of KES 175.0bn. This raises some credibility concerns, if not belated realism, in revenue forecasting. Against the backdrop of missed revenue performance and lower yield from the tax laws, the authorities have lowered FY25 ordinary revenue target by KES 50.5bn. We project FY25 ordinary revenue will fall short by KES 76.7bn or 3.0% lower than the revised target.

Revising upward our FY25 fiscal target from 4.5% to 5.1%

We revise our FY25 fiscal deficit projection from 4.5% to 5.1% of GDP. With the outsized external financing, we estimate a much lower net domestic financing requirement of KES 449.6bn against the estimated KES 595.1bn in the 2025 Budget Policy Statement. This revised domestic financing will anchor steady decline in rates as the domestic buyback operation conducted earlier this month partly smoothed the high maturity Treasury-bond wall in 2Q2025.

REVISED FISCAL FRAMEWORK

	FY25 BUDGET, KES BN'S			% of GDP		
	Revised 1	Revised 2	IC Projections	Revised 1	Revised 2	IC Projections
National Government	2,232.76	2,318.63	2,128.04	12.4%	13.3%	13.6%
Counties' equitable revenue	410.83	418.26	410.83	2.3%	2.4%	2.5%
Consolidated Fund Services	1,237.23	1,242.74	1,230.59	6.9%	7.1%	7.3%
o/w Interest	*1,009.87*	*995.77*				
o/w Guaranteed Debt	-	*19.69*				
Expenditure and Net Lending	**3,880.82**	**3,979.62**	**3,769.47**	**21.5%**	**22.8%**	**23.4%**
Total Revenue	3,060.00	3,065.20	2,936.33	16.9%	17.6%	18.0%
Ordinary Revenue	2,631.40	2,580.90	2,504.20	14.6%	14.8%	15.2%
Appropriations-in-Aid	428.60	484.30	432.13	2.4%	2.8%	2.8%
Grants	52.28	50.30	45.00	0.3%	0.3%	0.3%
Total Revenue and Grants	**3,112.28**	**3,115.50**	**2,981.33**	**17.2%**	**17.9%**	**18.3%**
Fiscal Deficit (Financing)	**768.54**	**864.12**	**788.14**	**4.3%**	**5.0%**	**5.1%**
Net Foreign Financing	355.53	269.00	338.50	2.0%	1.5%	1.6%
Net Domestic Financing	413.01	595.12	449.64	2.3%	3.4%	3.5%
NOMINAL GDP				**18,053.70**	**17,434.50**	**16,999.97**

SOURCE: NATIONAL TREASURY, IC INSIGHTS

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