Sovereign Debt News Update No. 132: Examining Kenya's Attempts at Regaining Fiscal Momentum

By:

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The most recently publicized news of Kenya's fiscal challenges surfaced on the public stage in 2024 when countrywide protests erupted in response to the government's attempts to introduce a Finance Bill which would have increased a variety of consumption tax rates, including an initial proposal to impose a 16% sales tax on bread and a 25% duty on cooking oil. These protests were reported in the One Hundred and Twenty-First Sovereign Debt News Update in which the country's high risk of debt distress was not only underscored, but also contextualized within public discontent with the extravagant government-funded lifestyle of the ruling elite while ordinary citizens were faced with harsh austerity measures. Against the backdrop of a rise in cost of living, this triggered unrest which led to the deaths of at least 39 people and an attack on the Parliament building which was reportedly set on fire. Nevertheless, the Government of Kenya (GOK) attempted again later in the year to bridge this budgetary gap by enacting two related laws: the Tax Laws (Amendment) Act and the Business Laws (Amendment) Act to widen the tax base and improve its revenue channels in order to improve its fiscal framework. These legislative efforts are part of a broader government strategy to manage debt and optimize its maturity profile. This update will zero in on the fiscal measures implemented by the GOK so far which are aimed at addressing the country's economic challenges—particularly that of high debt service costs and examine the potential difficulties or challenges these measures may present.

GOK's Initiatives at External Debt Profile Smoothening

Kenya has for a while faced a cash crunch, and it was reported to have been in negotiations with the United Arab Emirates (UAE) for a loan agreement to bridge this budget-financing gap since 2024 . The $1.5 billion (Ksh 193 billion) facility is a private bond placement to be offered to select investors, and has been described by the Chairperson of the Presidential Council of Economic Advisers David Ndii, 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. Additionally, he shared that in the works are Panda (RMB) and Samurai (Yen) issues. While the facility was initially envisaged as a staggered disbursement, it is anticipated to be received as a bullet payment. The facility has an 8.25% interest rate and will be repaid in installments of $500 million in 2032, 2034 and 2036, and possibilities for the utilization of these funds could be liability management, partly for budgetary support, or exclusively for budgetary support. According to the Finance Minister, however, the country will wait to draw cash from the bond in order for it to examine the extent to which it would fit into its fiscal framework for the financial year, which will run from July 1st 2025 to June 30th 2026 . The National Assembly Liaison Committee also tabled its 2025/26 spending plan, which featured some notable changes to expenditure ceilings and budget cuts to sectors including health, transportation and infrastructure, among others.

To put the Minister's decision in perspective, the Government of Kenya has already raised $1.5 billion in a 10-year notes issuance in order to manage expected maturities, and is expecting more than $950 million in external funding from other external sources such as Germany, the World Bank, and the African Development Bank. Hence the Minister of Finance expressed a desire to wait to get a fuller picture of the country's economic situation and the facilities' capability to fill existing gaps before drawing down the facility. The government also announced in 2024 that it intends to use $900 million of the $1.5 billion bond issued to buy back a 2027-maturing Eurobond, and will use the balance to retire syndicated loans that are falling due later this year. This strategy, which forms part of its efforts at managing external debt and smoothening out the maturity profile of its debt, ran until March 3 2025, and allowed investors to sell their notes at $1,002.50 per $1,000 in principal amount. Eventually, this registered about $579.69 million.

It is imperative to highlight that these attempts to strengthen its financing structure came whilst engaging in discussions with the International Monetary Fund (IMF) regarding a new lending program that will replace the current arrangement that was set to expire in April. This is important because as at October 2024 when Kenya’s Treasury revealed that the country was in discussions to procure the $1.5 billion facility from the United Arab Emirates, Treasury Secretary John Mbadi had disclosed that the IMF expressed concerns about the facility and stressed a need to reconsider its impact on the Kenyan shilling, insisting on risks of debt distress and the likelihood of the loan exposing the country to foreign exchange risks. In particular, the facility was above the Sh168 billion ($1.3 billion) commercial-borrowing ceiling set by the IMF. Also worthy of note is that at the time of the announcement, the arrangement was for disbursement to be done in tranches in order to remain within the IMF’s borrowing limits. As stated earlier in this update, the government has changed plans and will in fact receive it as a bullet payment—when it does eventually draw down on the facility. In a recent turn of events, Kenya was reported to have failed the IMF’s ninth review, which would qualify it to receive the final tranche of USD $ 850 million under the $3.6B extended fund facility (EFF) and extended credit facility (ECF) programs. A press release by the IMF however has stated that the GOK has sent a formal request for a new program.

A Rundown of the GOK’s Domestic Debt Management Efforts

This section of the Update will consider the efforts on the domestic front by the Kenyan Government to address domestic debt challenges. The government’s fiscal attempts at debt management have not been limited to foreign debts, and extend also to attempts at managing its domestic debt. In February 2025, the Central Bank of Kenya announced a pioneer domestic debt buyback where investors sold back three bond issues worth KSh 50 billion (USD385.87 million) before their intended maturity. The intended buyback in fact surpassed its intended target, and about KSh 50.09 billion (USD386.57 million) in bonds was bought back. The buyback, which targeted three bonds, sought to ease refinancing pressures in mid-2025 when the bonds were expected to mature. The total value of the three bonds was KSh 185.1 billion (USD1.43 billion) which comprised the 3-year paper to mature in April 2025 (FXD1/2022/003), the 5-year paper (FXD1/2020/005) and the 9-year infrastructure bond (IFB1/2016/009) to mature in May. However, demand was reportedly skewed to the 5-year paper, which attracted offers worth KSh 40.1 billion (USD309.47 million) with the 3-year paper receiving offers worth KSh 10.3 billion (USD79.5 million). The 9-year infrastructure bond on the other hand received bids worth KSh 5.7 billion (USD43.9 million) with an 11.48% performance rate. Collectively, the buyback attracted bids worth KSh 56.1 billion (USD432.9 million) with CBK accepting around KSh 50.1 billion (USD386.6 million). To facilitate this, the CBK also raised around KSh 70 Billion (USD540.2 million) through two re-opened infrastructure bonds.

According to CBK, investors were paid based on the buyback price per KSh 100 (USD0.77) at an average yield. The government paid KSh 103.9422 (USD0.80) for the 5-year paper inclusive of a 3.43 accrued interest. With a similar accrued interest, the 9-year infrastructure bond returned KSh 104.1433 (USD0.80) while the 3-year paper yielded 104.6775 with an accrued interest of 4.3638.

Analysis

The various steps highlighted above mark several attempts by the Government to manage its debt burden. However, in addition to this, there have also been non-fiscal attempts to strengthen government responsibility and stem corruption, which was part of the major grievances of the protests in 2024. As a result, the IMF was reported to have begun a review of the country’s corruption and governance issues. According to the Prime Cabinet Secretary and Cabinet Secretary for Foreign and Diaspora Affairs Musalia Mudavadi, the review will enable the Government to implement priority reforms which will assist in fighting corruption and instituting much-needed government reform. The review shall entail a Governance Diagnostic Assessment, which will commence with a scoping mission and then a full assessment later in the year. Rebecca A. Sparkman, deputy division chief at the Fiscal Affairs Department of the IMF, has stated that the review will encompass corruption vulnerabilities in six core areas: fiscal governance, central bank governance and operations, financial sector oversight, market regulation, rule of law, and anti-money laundering and combating terrorism financing. This sort of assessment is not in fact new, and has been conducted in other countries such as the Republic of Benin, where the IMF Fiscal Affairs Department (FAD), Legal Department (LEG), and Monetary and Capital Markets Department (MCM) conducted a governance diagnostic mission from June 7 to September 27, 2022. However, the success or failure of this assessment does depend on the efforts at improvement which the GOK may make to its current structure to ensure efficiency and accountability. The outcome of this was a report which proposed changes to revenue mobilization, public financial management among others. An IMF report on the exercise also states that the country has achieved notable progress in public financial management through some related comprehensive reforms. This is evidenced by its internal control and audit reforms, modernization of its public procurement, improved tax expenditure oversight, strengthened anti-money laundering efforts, and judicial and legal system advancements. Between 2018 and 2024, twenty Governance Diagnostic reports were finalized as of November 19 2024. Other countries which have utilized this include Sri Lanka, Zambia, Cameroon, etc.

However, the increasing burden of debt service payments continues to crowd out essential spending on healthcare, education, and infrastructure. With a larger portion of the budget going towards debt service, less remains for crucial areas such as healthcare, education, and infrastructure development. By opting to wait on drawing down the UAE funds until the overall fiscal framework is clearer however, the government is taking a measured approach to ensure that new borrowing does not exacerbate the existing fiscal imbalance and affect the national budget overall. This also is a marked shift from the country's usual pattern of borrowing from the usual Paris Club creditors or others such as China, however it also highlights the fruits of President's Ruto's attempts to foster a relationship with the UAE. At the same time, the high interest rates still underscore the high cost of borrowing encountered by African countries in the international financial markets. It is hoped then, that the discussions which the country will engage in with the IMF will help open doors to increased technical assistance and concessional financing. However, the recent failure under the IMF's ninth review which Bloomberg has reported was due to the government's failure to meet its tax revenue targets, highlights the revenue generation challenges the country continues to face, and has affected progress under the ECF and EFF.

Conclusion

In conclusion, the government's multifaceted approach to addressing its economic challenges and debt burden is evident in both its fiscal and non-fiscal strategies. While the implemented fiscal measures represent attempts to manage the debt crisis, the focus on governance and anti-corruption, exemplified by the IMF's comprehensive review, signifies a recognition of the underlying systemic issues. This review, mirroring similar assessments conducted in countries like Benin, where the IMF engaged in a detailed governance diagnostic mission from June to September 2022, is crucial. The success of this initiative, however, hinges on the government's genuine commitment to implementing the necessary reforms to enhance efficiency and accountability.

Despite these efforts, the persistent strain of debt service payments continues to impede crucial investments in essential sectors like healthcare, education, and infrastructure. The government's decision to strategically delay the utilization of UAE funds until a clearer fiscal framework is established demonstrates a prudent approach, mitigating the risk of further exacerbating the existing fiscal imbalance. This strategic move, while showcasing strengthened ties with the UAE, also underscores the financial pressures faced by African nations in international markets due to high interest rates. Hence, it is necessary to remedy the problem of unsustainable debt by promoting the continual push for a reform of the global debt architecture, ensuring equitable access for African countries to the international financial markets.