SIB Standard Investment Bank

Regulated by the Capital Markets Authority

22ND APRIL 2025

“Fuel Prices Fall Amid Lower Landed Costs - Narrower Subsidies”

WEEKLY FIXED INCOME REPORT

FY24/25 Revenue Target Trimmed by 1.9% to KES 2,580.93bn in Supplementary Budget II

MONEY MARKET ANALYSIS

Interbank lending experienced a notable decline during the week, with average traded volumes plunging by 64.8% to KES 6.99bn, compared to KES 19.83bn in the previous week. This coincided with a 27.3% drop in the number of transactions. This decline aligns with the recent trend, where interbank lending frequently alternates between periods of growth and contraction.

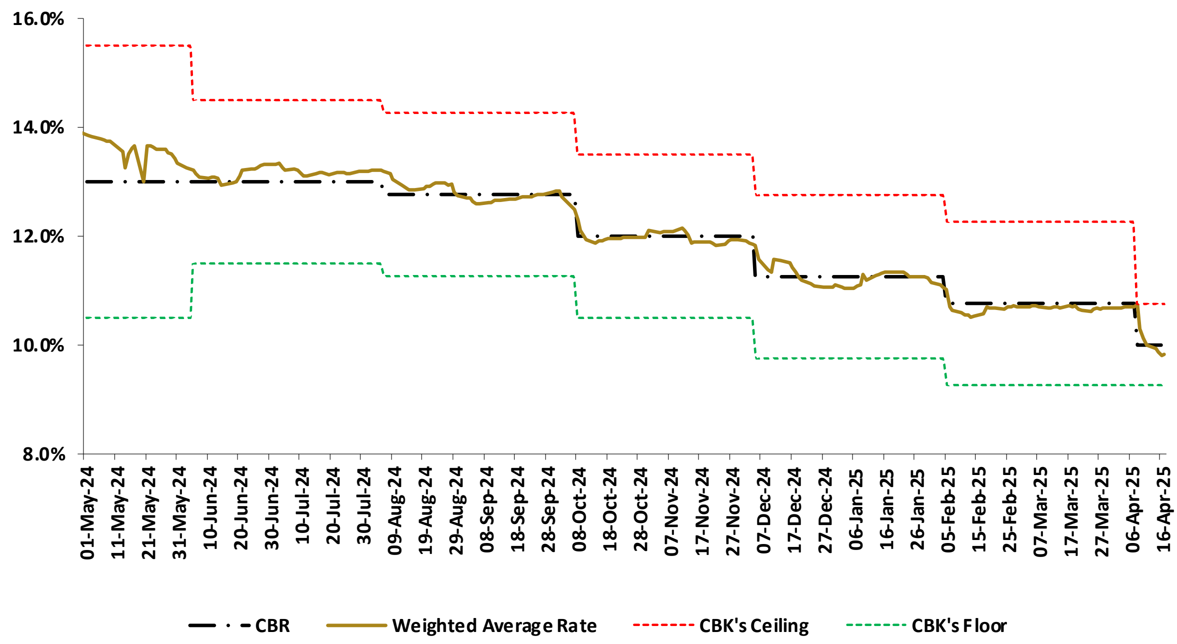
Meanwhile, the average interbank rate eased to 9.86% from 10.36%, as the effects of the Central Bank Rate (CBR) cut earlier in the week continue to take hold. This marked the first time since August 2023 that the interbank rate dipped into single digits. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	33.00	24.00	(27.27%)
Inter- Bank volumes (KES bn)	19.83	6.99	(64.77%)
Inter – Bank Rates (bps)	10.36%	9.86%	(50.53)

Source: Central Bank of Kenya (CBK), Table: SIB

As has been the trend, interbank rates remain firmly anchored to the Central Bank Rate, with the highs consistently aligned with the upper end and the lows now squarely within the discount window. See the chart below;

Interbank Rate Spreads



Source: Central Bank of Kenya (CBK), Chart: SIB

GOVERNMENT SECURITIES MARKET

T-bills

Demand for Treasury bills remained robust, though the subscription rate dipped to 160.1%, down from last week's 224.0%. The 364-day paper continued to be the most favored, accounting for 71.6% of the total bids. This remains the only short-term note offering a double-digit return, although this may change in the next two to three weeks—investors may be rushing to lock in yields while they remain attractive. In total, investors injected KES 38.42bn, with the fiscal agent accepting 94.6% of the bids.

Average accepted rates continued on a downward trend, with the 91-, 182-, and 364-day papers settling at 8.47% (- 3.07bps), 8.76% (-13.56bps), and 10.08% (-16.07bps), respectively. See the summary below;

KES bn

21-Apr-25	91-day 21-Jul-25	182-day 20-Oct-25	364-day 20-Apr-26	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	2.09	8.80	27.53	38.42
Subscription rate (%)	52.2%	88.0%	275.3%	160.1%
Amount accepted	**2.08**	**7.71**	**26.57**	**36.36**
Acceptance rate (%)	99.7%	87.6%	96.5%	94.6%
Of which: Competitive Bids	0.28	5.93	24.01	30.22
Non-competitive bids	1.80	1.78	2.56	6.14
Rollover/Redemptions	2.69	12.60	14.23	29.51
New Borrowing/(Net Repayment)	**(0.60)**	**(4.89)**	**12.34**	**6.85**
Weighted Average Rate of Accepted Bids	8.47%	8.76%	10.08%	
Inflation	3.6%	3.6%	3.6%	
Real Return	**4.9%**	**5.2%**	**6.5%**	

Source: Central Bank of Kenya (CBK), Table: SIB

T-Bonds

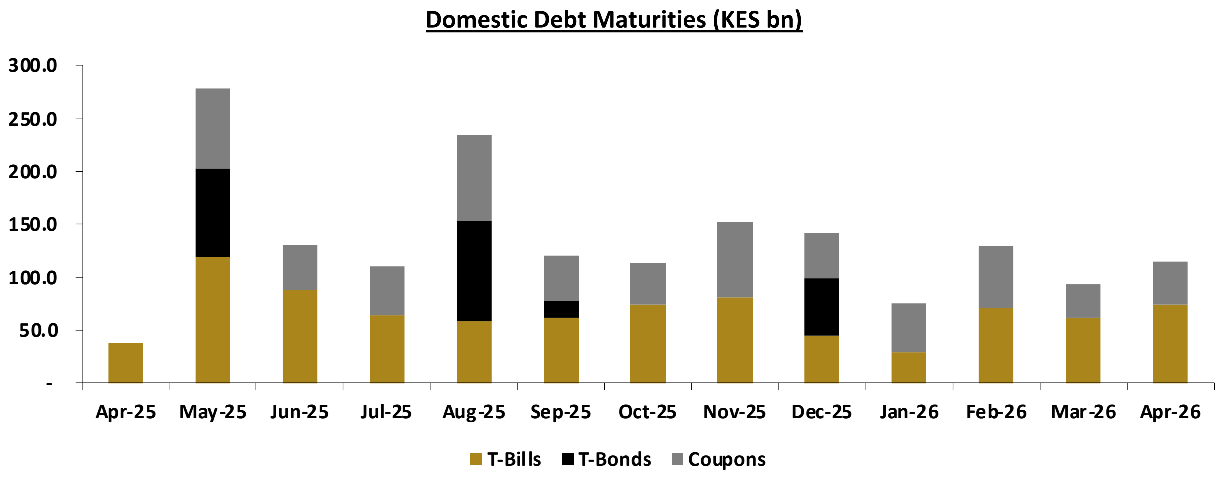
In the primary bond market, the Central Bank of Kenya (CBK) aims to raise KES 80bn through the reopening of three bonds. Two of the bonds, FXD1/2022/015 and FXD1/2022/025, were previously part of the April auction, and collectively raised KES 50.52bn, which may have influenced the target amount of KES 50bn for the current offering. The FXD1/2022/020 bond, with a target amount of KES 30bn, has the shortest tenor among the offerings, and we view this mix as a strategic approach to provide both long- and short-term options for investors.

It is also notable that the reopened bonds offer reasonable returns, considering their tenors, signaling that the government is cautious about sourcing expensive debt despite the need for funding. For the FXD1/2022/015 and FXD1/2022/025 bonds, the sale period runs until 30th April, while the FXD1/2022/020 bond will remain in the market until 7th May. See below a summary of the offer;

Bond Auction	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
FXD1/2022/015	06-Apr-37	12.0	50.00	13.94%	Up to 30th April 2025
FXD1/2022/025	23-Sep-47	22.4		14.19%	
FXD1/2012/020	01-Nov-32	7.5	30.00	12.00%	Up to 7th May 2025

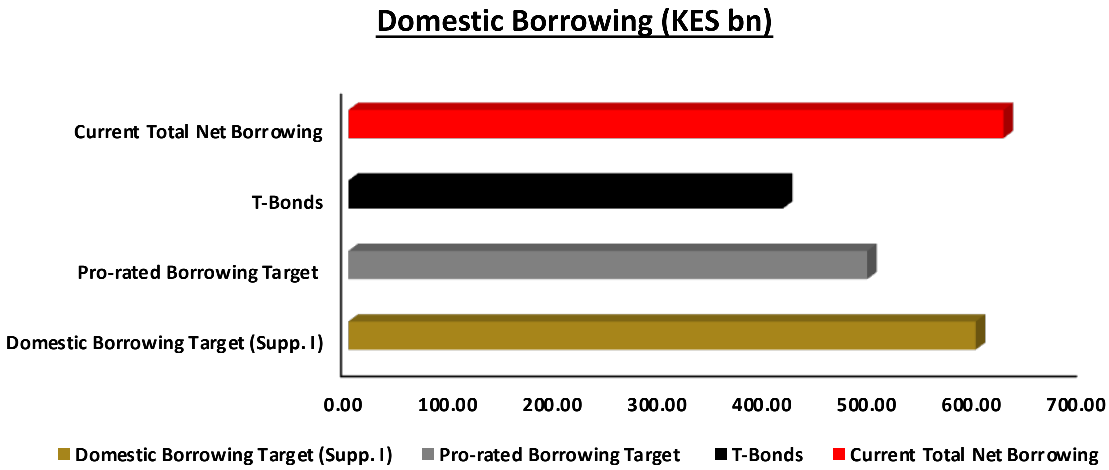
Outstanding Debt Maturities (T-Bills and T-Bonds):

As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are at KES 865.18bn and KES 249.24bn, respectively. Including coupon payments. May 2025 appears particularly stressful, with the total maturity profile is approximately KES 1.74tn, as outlined below;



Source: Central Bank of Kenya (CBK), Chart: SIB

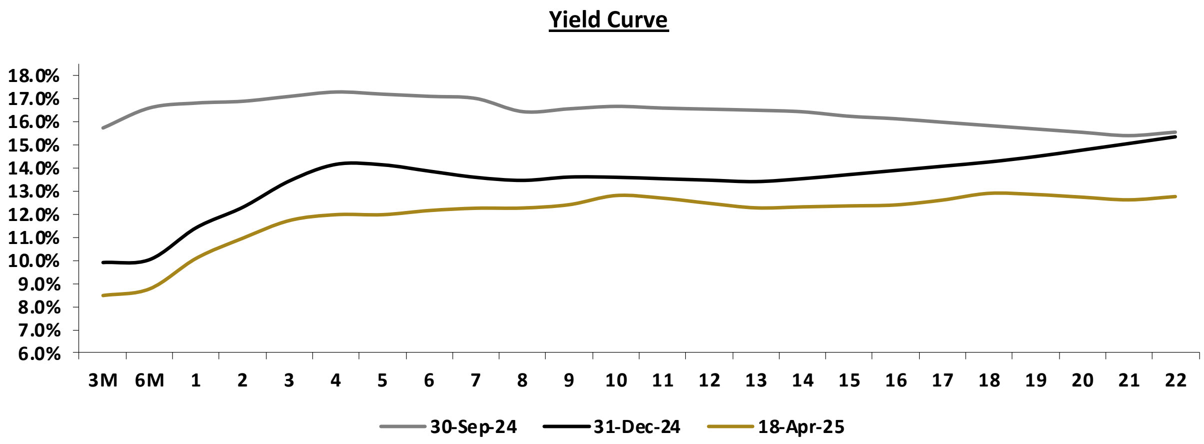
Total domestic government borrowing for FY24/25 now stands at KES623.62bn, drawn from both Treasury bills and bonds. Of this, Treasury bonds have contributed a hefty KES413.49bn, translating to 69.2% of the domestic borrowing target for FY24/25 currently set at KES 597.15bn.



Yield Curve

The yield curve posted mixed but notable movements across all tenors. On average, yields edged down by 3.16bps week-on-week, signaling a gradual transmission of the recent rate cut.

Below is a visual representation;



Source: Nairobi Securities Exchange (NSE), Chart: SIB

The International Front

Kenyan Eurobonds

This week, yields on Kenyan Eurobonds were on a downward trajectory, despite the global uncertainties. Below is a summary of the performance;

Kenyan Eurobonds						
Issuance	KENINT 05/22/2027	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Maturity Date	22-May-27	28-Feb-28	16-Feb-31	22-May-32	1-Jun-34	28-Feb-48
Tenor to Maturity	2.1	2.9	5.8	7.1	9.1	22.9
31-Dec-24	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
10-Apr-25	9.2%	11.2%	12.2%	12.1%	11.8%	12.1%
11-Apr-25	9.6%	11.5%	12.6%	12.4%	12.1%	12.2%
14-Apr-25	9.1%	10.9%	12.0%	11.8%	11.5%	11.8%
15-Apr-25	9.0%	10.8%	11.9%	11.6%	11.3%	11.6%
16-Apr-25	9.3%	10.8%	11.9%	11.6%	11.3%	11.6%
Weekly Change	(0.3%)	(0.7%)	(0.7%)	(0.7%)	(0.8%)	(0.6%)
YTD Change	0.8%	1.8%	1.8%	1.5%	1.2%	1.3%

Source: Central Bank of Kenya (CBK), Table: SIB

Currency Performance

The Kenyan shilling lost charge against all the currencies that we track, with the sharpest depreciation recorded against the GBP. The shilling slipped 0.1% against the USD as global uncertainties loom large.

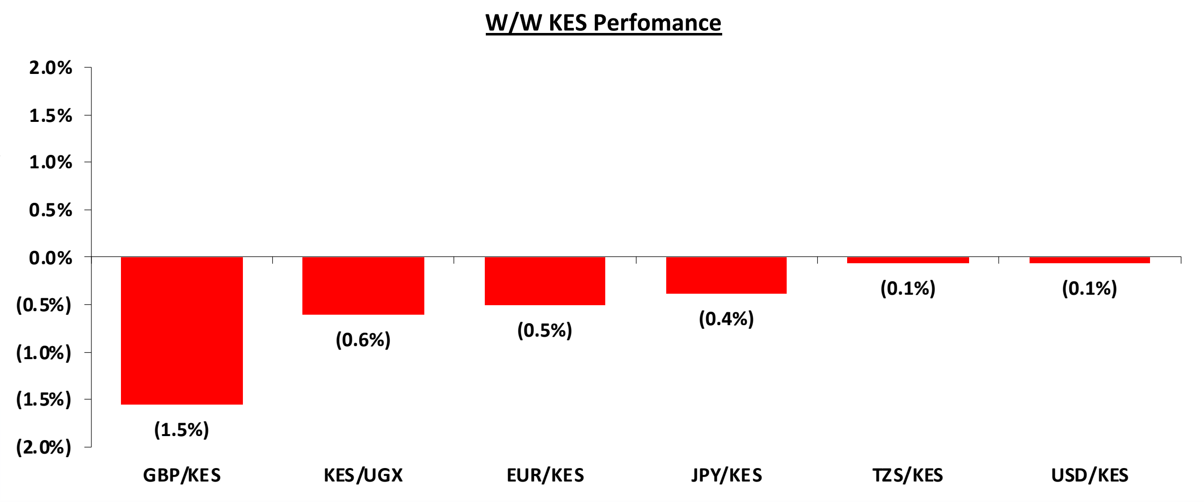
See the table below;

Currencies	29 Dec 2024	Previous Week	Current Week	w/w Change	YTD change
GBP/KES	162.3	168.8	171.4	(1.5%)	(5.6%)
KES/UGX	28.4	28.4	28.2	(0.6%)	(0.6%)
EUR/KES	134.3	146.6	147.4	(0.5%)	(9.7%)
JPY/KES	82.1	90.6	90.9	(0.4%)	(10.7%)
TZS/KES	19.0	20.6	20.6	(0.1%)	8.5%
USD/KES	129.3	129.7	129.8	(0.1%)	(0.4%)

Source: Central Bank of Kenya (CBK), Chart: SIB

Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



Source: Central Bank of Kenya (CBK), Chart: SIB

MARKET NEWS

i. FY24/25 Revenue Target Trimmed by 1.9% to KES 2,580.93bn in Supplementary Budget II

The National Treasury published the actual receipts and releases for the first three quarters of FY 24/25 incorporating the Second Supplementary Budget Estimates, which were assented to by the President in March 2025. Below is our assessment;

- The total exchequer revenue target was revised downward by 1.9%, to KES 2,580.93bn, from KES 2,631.42bn in Supplementary Budget I. Within this, tax revenue expectations declined by 3.0% to KES 2,400.72bn,
- Total expenditure rose by 6.4% to KES 4,475.57bn, up from KES 4,207.91bn in the first supplementary budget;
    - o CFS issues remained the largest expenditure line, increasing by 7.1% to KES 2,289.03bn, from KES 2,137.84bn. This represents 88.7% of total revenues, with 89.2% of CFS allocations directed to debt servicing,
    - o Recurrent spending increased by 8.1% to KES 1,413.34bn, up from KES 1,307.94bn, with the Teachers Service Commission and National Treasury receiving the largest upward adjustments,
    - o Transfers to counties rose modestly by 1.8% to KES 418.26bn, from KES 410.83bn. Contrary to the usual trend of reductions, development spending edged up by 1.0% to KES 354.93bn, compared to KES 351.29bn previously.
- For FY2024/25, total financing requirements are now estimated at KES 1,885.45bn, representing 42.1% of the total budget—a 20.0% increase from Supplementary Budget I projections.

See a summary of the figures below;

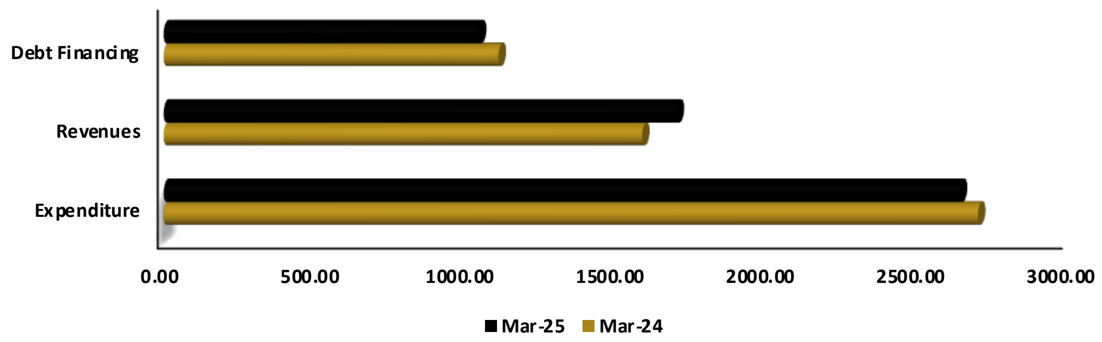
Item	Evolution of FY24/25 Budget			Change	
	Original Estimates (a)	Revised Estimates I (b)	Revised Estimates II (c)	c/b	c/a
Tax Revenue	2,745.22	2,475.06	2,400.72	-3.0%	-12.5%
Non-Tax Revenue	171.98	156.35	180.20	15.3%	4.8%
Total Revenue	**2,917.20**	**2,631.42**	**2,580.93**	**-1.9%**	**-11.5%**
Recurrent Expenditure	1,348.45	1,307.94	1,413.34	8.1%	4.8%
CFS Exchequer Issues	2,114.06	2,137.84	2,289.03	7.1%	8.3%
Development Expenditure	458.87	351.29	354.93	1.0%	-22.7%
Equitable Share	400.12	410.83	418.26	1.8%	4.5%
Total Expenditure	**4,321.49**	**4,207.91**	**4,475.57**	**6.4%**	**3.6%**
External Loans & Grants	571.22	593.50	718.40	21.0%	25.8%
Domestic Borrowings	828.38	978.30	1,167.04	19.3%	40.9%
Other Domestic Financing	4.69	4.69	8.52	81.8%	81.8%
Total Financing	**1,399.61**	**1,571.80**	**1,885.45**	**20.0%**	**34.7%**
Debt Servicing	**1,910.48**	**1,910.48**	**2,042.06**	**6.9%**	**6.9%**

With that context, we proceed to analyze the exchequer receipts for the first nine months of FY2024/25;

- The government collected KES 1,701.74bn in ordinary revenues, reflecting a 7.2% increase from KES 1,587.08bn collected during the same period in FY2023/24. Within this, tax revenues rose marginally by 2.9% y/y, reaching KES 1,579.44bn, up from KES 1,535.07bn.
- Total expenditure stood at KES 2,641.43bn, marking a 2.2% decline from KES 2,701.46bn in the corresponding period of FY2023/24. This reduction is primarily attributed to a 12.7% drop in debt servicing, following the Eurobond refinancing conducted in February 2024. However, recurrent expenditure rose by 9.5%, signaling sustained fiscal pressure on operational costs.
- The budget deficit amounted to KES 939.69bn, representing a 15.7% decrease from KES 1,114.38bn recorded in FY2023/24 over the same period. This shortfall was financed through a mix of external and domestic borrowing, with external borrowing notably higher, in line with the Eurobond issuance undertaken during the review period.

See the chart below for a quick summary;

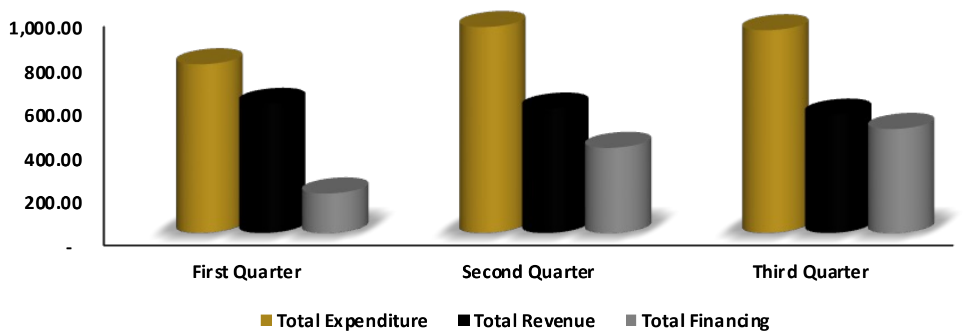
Actual Budget Performance Rate (KES bn)



Source: Treasury, Chart: SIB

On a q/q basis, ordinary revenues have been on a declining trend over the past three quarters, while debt financing has risen steadily to bridge the widening revenue shortfalls. See the chart below for a summary;

FY24/25 Quarterly Budget Performance (KES bn)

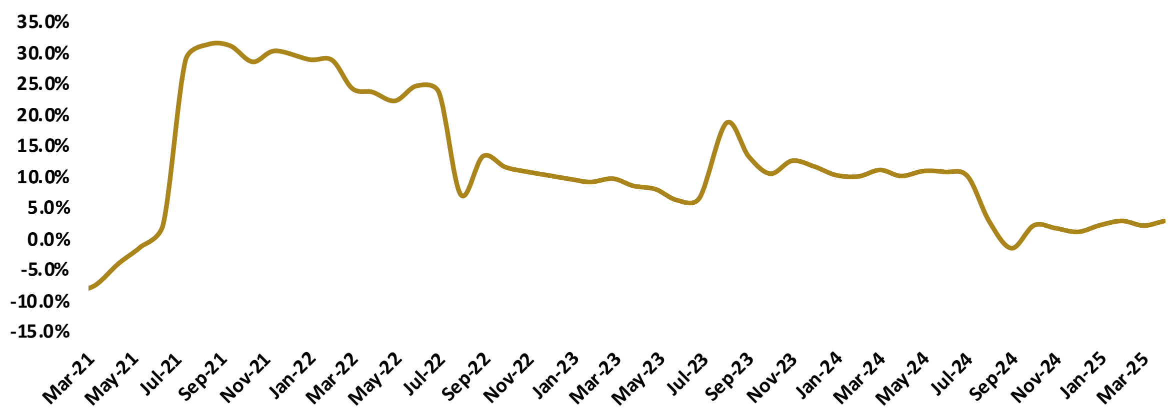


Source: Treasury, Chart: SIB

Over the nine-month period, cumulative tax revenue recorded an average growth of 1.8%. In March, year-on-year growth stood at 2.9%, with collections reaching KES 1,579.44bn, up from KES 1,535.07bn during the same period in FY23/24. While this reflects positive growth, the pace remains sluggish compared to the previous fiscal year, underscoring the government's continued reliance on additional tax measures to boost revenues.

See the chart below for a summary;

Y/Y Cumulative Revenue Performance



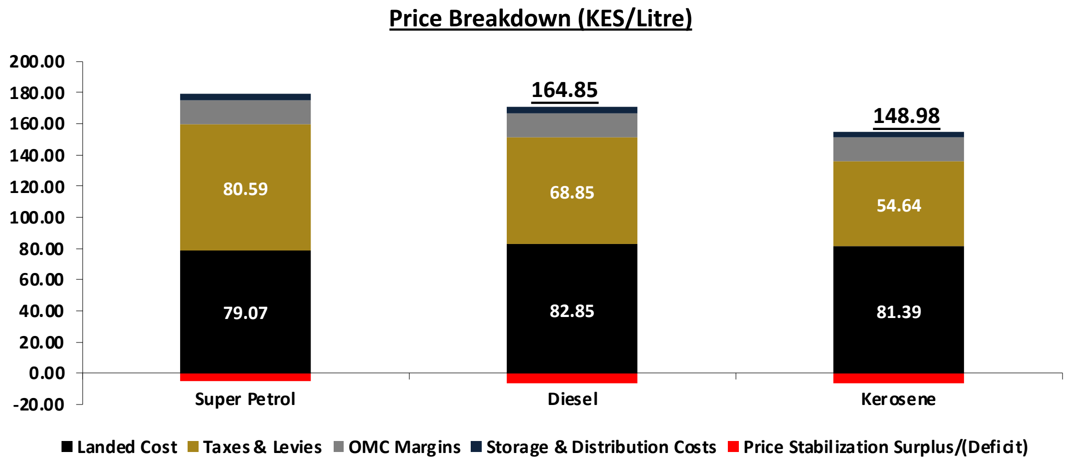
Source: Treasury, Chart: SIB

We observe a modest growth in spending and debt financing, which we largely attribute to lower debt servicing obligations in the current fiscal year as recurrent expenditure remains elevated compared to the previous fiscal year. We also recognize that revenue performance appears stagnant, particularly when adjusted for inflation. In parallel, debt financing needs continue to grow.

Thirdly, we wish to raise concerns about the rising expenditure levels, which persist despite clear signals of potential revenue shortfalls. Notably, the latest expenditure estimates equate to a 17.9% increase from the actual spending in FY23/24, implying that nearly half of current expenditure is reliant on debt. This trend reinforces our view that the government may have intentionally underplayed its spending plans in the first supplementary budget, with the expectation of scaling up expenditure in subsequent supplementary budgets — despite minimal changes in the underlying revenue position.

ii. Fuel Prices Fall Amid Lower Landed Costs - Narrower Subsidies

The Energy and Petroleum Regulatory Authority (EPRA) announced fuel prices for the period from 15th April 2025 to 14th May 2025. The prices of petrol, diesel, and kerosene rose by 1.1%, 1.3% and 1.6% with the retail prices at KES 174.63 per liter for petrol, KES 164.85 per liter for diesel, and KES 148.98 per liter for kerosene in Nairobi. See below the price breakdown;



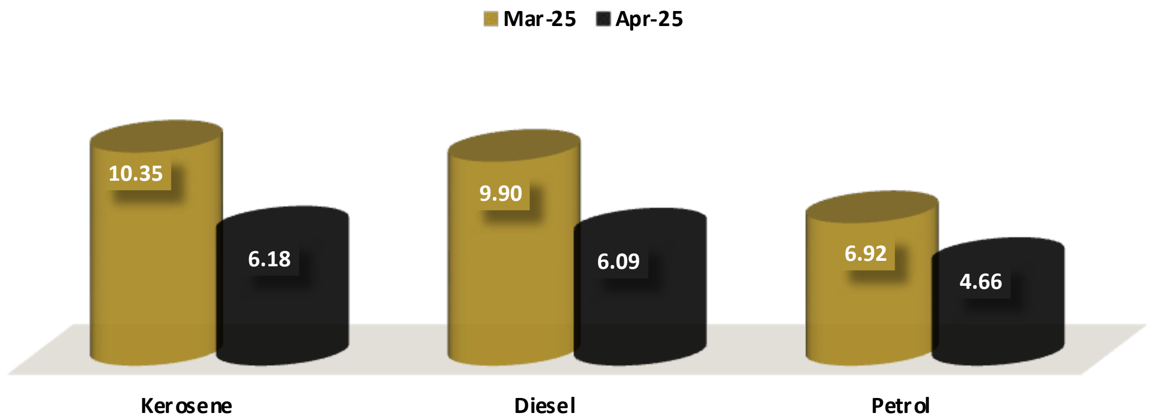
Source: EPRA, Chart: SIB

Notably, the landed costs of fuel saw a marked decline, with petrol dropping by 4.9% and both diesel and kerosene falling by 6.5%, measured in USD per cubic meter. On the global stage, the Platts index (USD/MT) reflected even steeper declines — petrol down 5.9%, diesel down 6.4%, and kerosene down 7.8%.

An enduring trend, the government continued to cushion consumers through subsidies, covering KES 4.66 for petrol, KES 6.09 for diesel, and KES 6.18 for kerosene per litre. These subsidy levels mark a decline across all fuel types, following a previous hike that helped maintain stable pump prices in the March cycle.

In addition, the government-to-government (G-G) fuel deal was extended to 2027, albeit at a lower price point than the previous arrangement — a development that could position Kenya to benefit from reduced landed fuel costs going forward. See a chart of the subsides below;

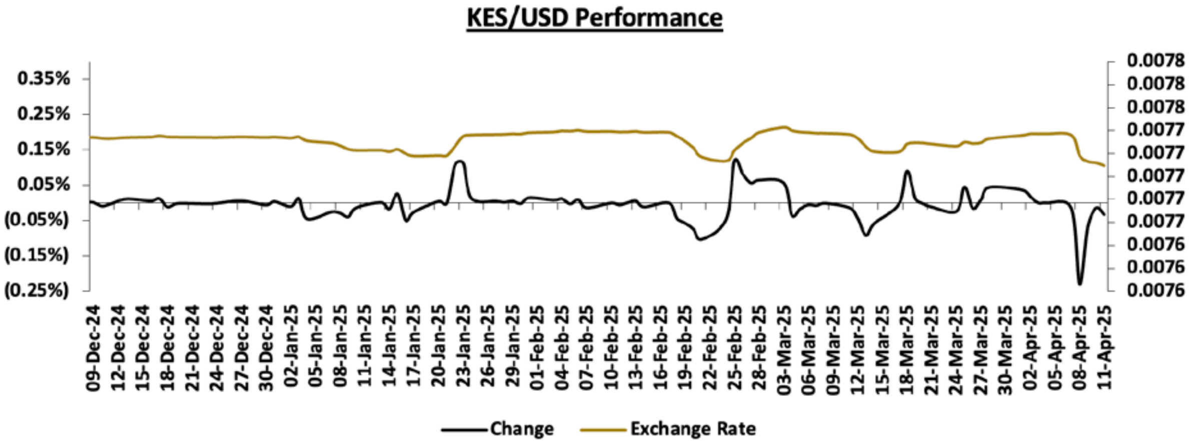
FUEL SUBSIDY PER LITRE (KES)



Source: EPRA, Chart: SIB,

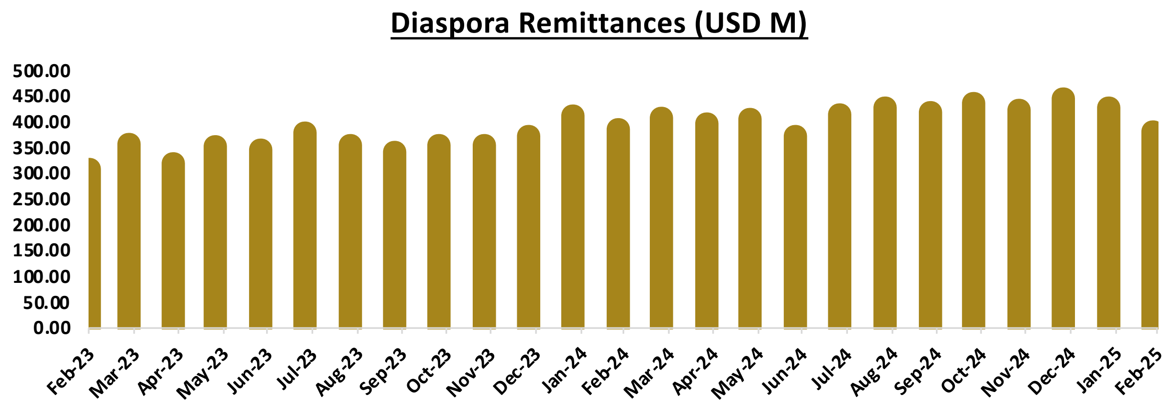
BACKGROUND CHARTS

KES/USD Performance



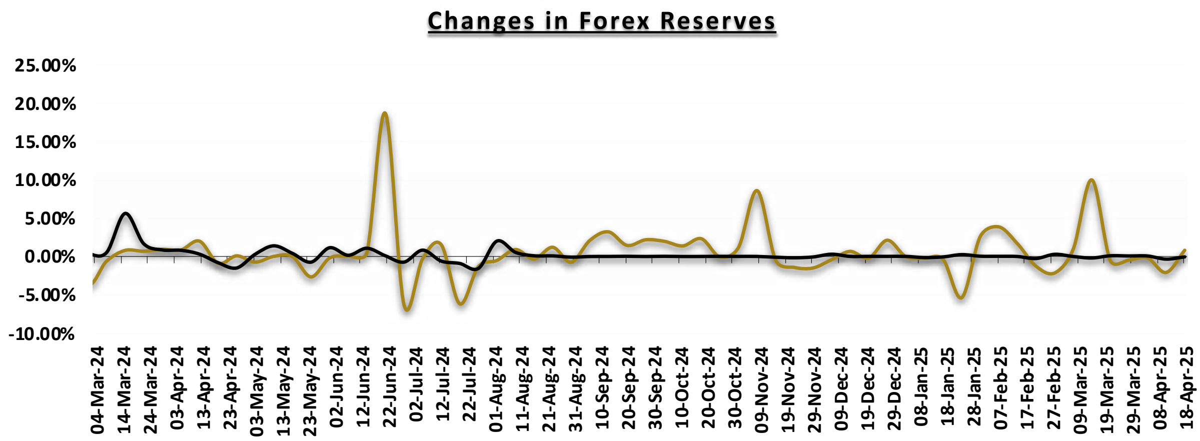
Source: Nairobi Securities Exchange (NSE)

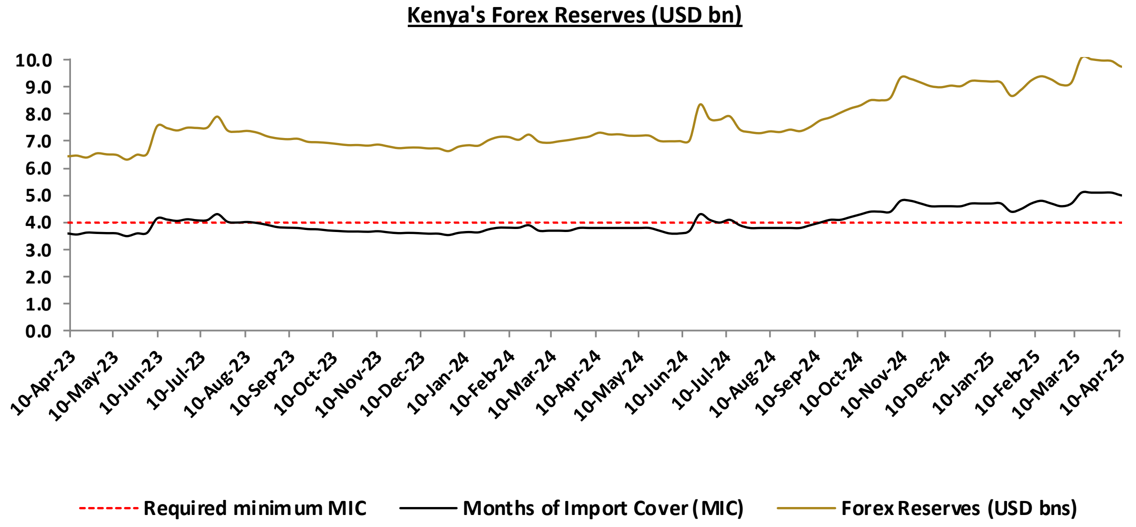
Diaspora Remittances



Source: Central Bank of Kenya (CBK)

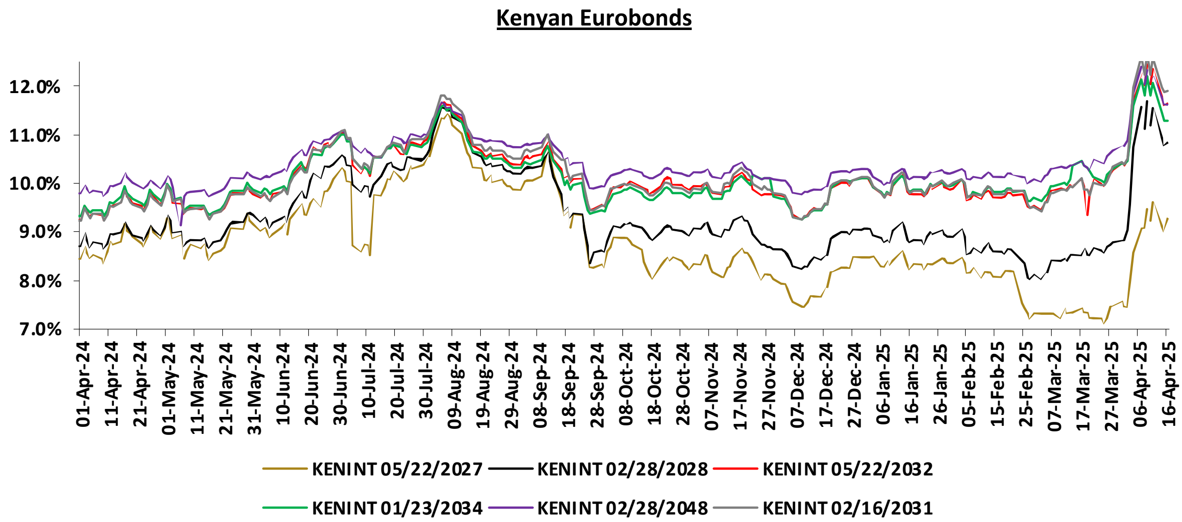
Forex Reserves





Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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