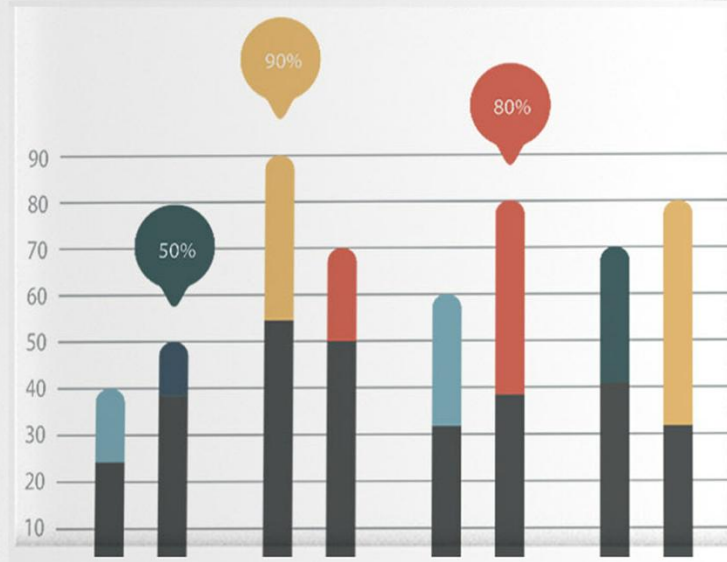




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AIB-AXYS Africa Primary Bond Auction Note

AIB-AXYS May 2025 Primary Bond Auction Note

Summary – “Tax Shortfalls and Debt Pressures”

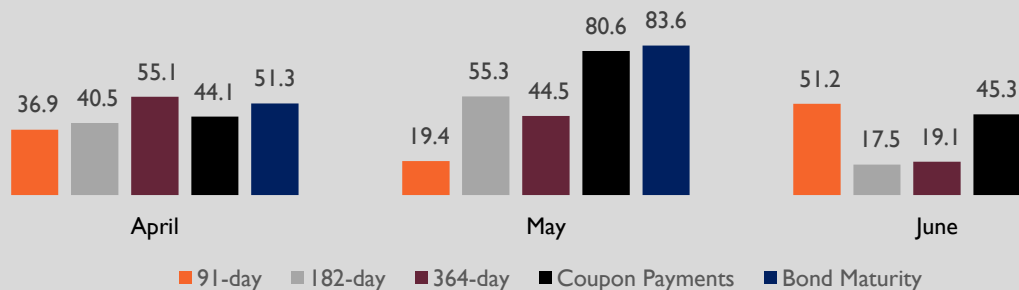
- The Exchequer is seeking to raise KES 80.0Bn through the re-opening of the FXD1/2012/020, FXD1/2022/015 & FXD1/2022/025 treasury bonds earmarked for budgetary support in FY24/25.
- As the financial year nears its end, tax revenue performance remains below expectations, despite a downward revision of the annual collection target by KES 516.0Bn. This persistent underperformance highlights underlying weaknesses in revenue mobilization efforts while exacerbating fiscal pressures at a time when the government seeks to optimize its debt profile. This has pressured its existing strategy of reopening longer-dated bonds to lower interest costs by leveraging the declining yield environment, as growing fiscal vulnerabilities are expected to prompt investors to seek higher risk premiums, counteracting efforts to drive yields lower. Furthermore, upcoming maturities are expected to heighten yield demands as liquidity requirements increase. However, anticipated disbursements from multilateral lenders and the initial tranche of a UAE-backed facility could provide critical support, moderating upward pressure on yields and easing short-term fiscal risks.
- The weighted average tenor to maturity of the Fixed Income Bond (FXD) series stands at c. 7.44 years. Further, the government has approximately KES 283.40Bn worth of treasury bill redemptions, coupon repayments, and bond maturities due in May 2025.

Table 1: Key Auction Highlights

FXD1/2012/020, FXD1/2022/015 & FXD1/2022/025

Issuer:	Republic of Kenya
Total Amount:	KES 80 billion
Purpose:	Budgetary Support FY24/25
Tenor:	FXD1/2012/020- (7.6 Years) – Re-opened FXD1/2022/015- (12.0 Years) – Re-opened FXD1/2022/025- (22.5 Years) – Re-opened
Coupon Rate:	FXD1/2012/020 – 12.0000% FXD1/2022/015 – 13.9420% FXD1/2022/025 – 14.1880%
Price Quote:	Discounted/Premium/Par
Period of sale:	16-April-2025 to 30-April-2025 for FXD1/2022/015 & FXD1/2022/025 16-April-2025 to 7 th -May-2025 for the FXD1/2012/020
Minimum Amount:	KES 50,000.00
Taxation:	10.00% Withholding Tax
Maturity Dates:	FXD1/2012/020 – 1-November-2037 FXD1/2022/015- 6-April-2037 FXD1/2022/025 – 23-September-2047
Non-competitive bids per CSD A/C:	Maximum KES 50 million per CDS A/c
Competitive bid per CSD A/C:	Minimum KES 2 million per CDS A/c
AIB-AXYS Competitive Bidding Range Recommendation:	FXD1/2012/020 – 13.77%-13.97% FXD1/2022/015 – 14.07%-14.27% FXD1/2022/025 – 14.39%-14.59%

Chart 1: Government Obligations Q2 2025 (KES Bn)



Term Structure of Interest Rates

Downward momentum on the yield curve persisted in April, augmented by the recent 75bps interest rate cut enacted by the CBK. Longer-term tenors experienced the largest declines, with 22-year yields declining by 260.74bps YTD by the end of the month. The recent interest rate cut by the Central Bank surpassed our expectations, as the Bank proceeded with its easing cycle to further support private sector lending, which showed a modest recovery in March — growing by 0.2% after a 1.3% contraction in February. However, this remained far below the desired target range of 11%-15%, prompting the CBK to enact further rate cuts amidst an uncertain global macroeconomic backdrop plagued by trade tensions. Looking ahead, we see potential for additional rate cuts, particularly as global trade policy risks recede following the 90-day tariff truce announced by President Trump. However, yield declines may be limited by fiscal pressures, with the government expected to rely heavily on domestic debt markets to finance its revenue shortfalls.

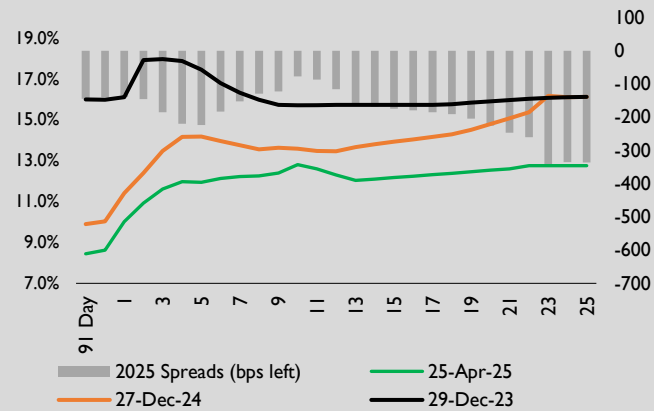
Market Liquidity

Interbank lending activity over the month of April contracted by 7.43% m/m, continuing the trend witnessed in the previous month. This decrease was in contrast to the 46bps m/m decline in the average lending rate to 10.21%, which was prompted by the recent 75bps interest rate cut enacted by the CBK. We attribute the decline to the injection of additional liquidity into the banking sector, following the 100bps reduction in the Cash Reserve Ratio, which reduced the demand for borrowing in the interbank market. Going forward, we expect interbank rates to remain stable around the 10% level, supported by the narrowing of the interest rate corridor from 150bps to 75bps by the CBK, as it sought to enhance stability and better align the interbank rate with the Central Bank Rate.

Price Levels

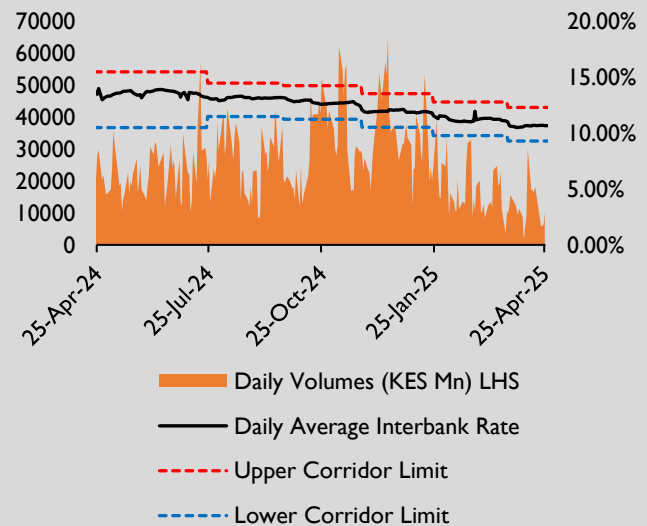
Latest statistics from the Kenya National Bureau of Statistics indicate that the yearly headline inflation rate as measured by the Consumer Price Index (CPI) ticked up by 10bps to 3.6% in March 2025 compared to 3.5% in the preceding month. The latest figure, however, continues to mark an improvement from a similar period last year when the headline inflation rate averaged at 5.7%. This maintains our view of moderating price pressures in the consumer economy. The uptick in the headline inflation rate came on the back of a 20bps increase in food inflation to 6.6% from 6.4% in February. Fuel inflation increased by 10bps to 0.8%, whilst core inflation (Non-Food Non-Fuel) rose by 30bps to at 2.3%. Looking ahead, we anticipate moderate inflation as favorable weather conditions persist.

Chart 2: Domestic Yield Curve Evolution



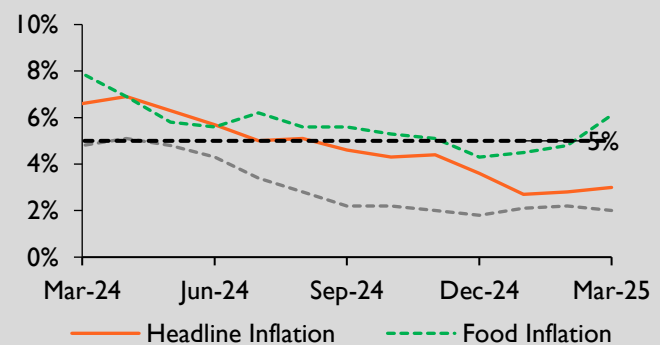
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels



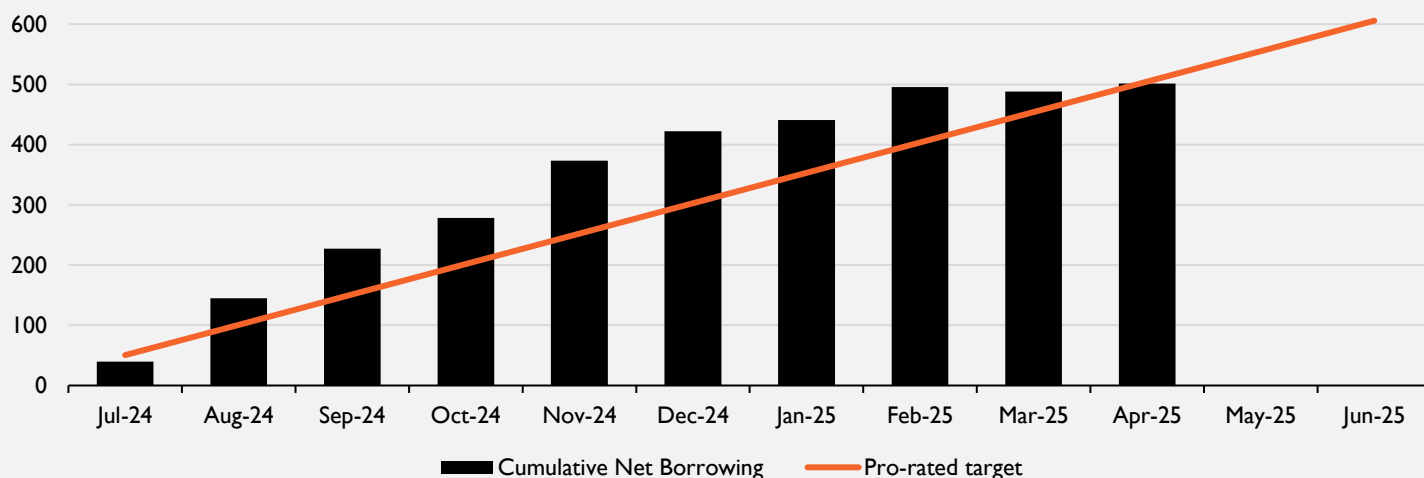
Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

Table 2: Comparable Bond Duration Yields

Issue No.	Maturity Date	Remaining Tenor in Years	Outstanding Amount KES Mn.	Fixed Coupon Rate	Implied Yield to Maturity
Comparable Yields for the FXD1/2012/020- (7.6 Years)					
FXD1/2022/010	3-May-32	7.1	80,901.70	13.4900%	12.2250%
FXD1/2012/020	1-Nov-32	7.6	87,285.65	12.0000%	12.2384%
FXD1/2023/010	31-Jan-33	7.8	73,595.17	14.1510%	12.2451%
Comparable Yields for the FXD/2022/015- (12.0 Years)					
FXD1/2016/020	1-Sep-36	11.5	21,972.90	14.0000%	12.4764%
FXD1/2022/015	5-Feb-35	12.0	103,909.49	13.9420%	12.2950%
FXD1/2018/020	1-Mar-38	13.0	115,257.30	13.2000%	12.0250%
Comparable Yields for the FXD/2022/025- (22.5 Years)					
FXD1/2021/025	9-Apr-46	21.0	90,490.00	13.9240%	12.3930%
FXD1/2022/025	23-Sep-47	22.5	78,038.28	14.1880%	12.8239%

Source: CBK, AIB-AXYS Africa Research

Cumulative Net Domestic Borrowing vs FY/24/25 Borrowing Target (KES Bn)



Source: CBK, AIB-AXYS Africa Research

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)	Deviation from Yield Curve
May-24	25,000	FXD1/2024/010 - Re-opened	9.9	16.668%	16.000%	16.668%	16.227%	7.23
	15,000	FXD1/2024/010 - Tap Sale	9.9	46.8%	16.000%			
Jun-24	30,000	FXD1/2023/002 - Re-opened	1.2		16.972%	17.187%	17.123%	37.25
		FXD1/2024/003 - Re-opened	2.6	102.9%	18.385%	17.627%	17.586%	40.47
	30,000	FXD1/2023/005 - Re-opened	4.1		16.844%	18.277%	18.165%	85.81
		FXD1/2023/010 - Re-opened	8.7	138.5%	14.151%	16.571%	16.392%	163.34
	20,000	FXD1/2023/002 - Tap Sale	1.2		16.972%			
		FXD1/2024/003 - Tap Sale	2.6		18.385%			
		FXD1/2023/005 - Tap Sale	4.1		16.844%			
		FXD1/2023/010 - Tap Sale	8.7	125.7%	14.151%			
Jul-24	20,000	FXD1/2023/002 - Tap Sale	1.2	2.4%	16.972%			
	30,000	FXD1/2024/010 - Re-opened	9.7		16.000%	16.636%	16.592%	166
FXD1/2008/020- Re-opened		3.9	48.9%	13.750%	18.475%	18.290%	53	
Aug-24	50,000	IFB1/2023/6.5 - Re-opened	5.8		17.933%	18.469%	18.299%	76.58
		IFB1/2023/17 - Re-opened	15.7	252.6%	14.399%	18.158%	17.728%	32.39
Sep-24	15,000	IFB1/2023/17 -Tap Sale	15.7	234.6%	14.399%			
	30,000	FXD1/2024/010 - Re-opened	9.5		16.000%	16.972%	16.870%	17.82
FXD1/2016/020 - Re-opened		12.0	75.5%	14.000%	17.349%	17.285%	175.8	
Oct-24	30,000	FXD1/2016/010 Re-opened	1.8		15.039%	17.064%	16.984%	14
		FXD1/2022/010 Re-opened	7.6	169.9%	13.490%	17.340%	16.952%	1
	15,000	FXD1/2022/010 Tap sale	7.6	110.0%	13.490%			
Nov-24	25,000	FXD1/2023/010 Re-opened	8.3		14.151%	16.150%	15.972%	-17
		FXD1/2022/015 Re-opened	12.5	132.2%	13.942%	16.385%	16.299%	-21
	20,000	FXD1/2024/010 Re-opened	9.4	277.9%	16.000%	16.113%	15.855%	25
Dec-24	25,000	FXD1/2023/010 Re-opened	8.2		14.151%	14.864%	14.691%	84
		FXD1/2018/020 Re-opened	13.3	285.3%	13.200%	15.271%	15.112%	85
	20,000	FXD1/2024/010 Re-opened	9.3	268.1%	16.000%	14.782%	14.685%	4
Jan-25	30,000	FXD1/2018/015 Re-opened	8.3		12.650%	14.329%	14.210%	75
		FXD1/2022/025 Re-opened	22.8	196.7%	14.188%	15.743%	15.683%	8
Feb-25	70,000	IFB1/2022/014 Re-opened	11.8		13.938%	14.086%	13.978%	27
		IFB1/2023/017 Re-opened	15.1	277.0%	14.399%	14.416%	14.281%	118.5
Mar-25	25,000	FXD1/2018/025 Re-opened	18.3	188.1%	13.400%	13.938%	13.803%	51
Apr-25	70,000	FXD1/2020/015 Re-opened	9.9		12.756%	13.671%	13.665%	82.39
		FXD1/2022/015 Re-opened	12.1		13.942%	13.837%	13.828%	124.3
		FXD1/2022/025 Re-opened	22.6	102.5%	14.188%	14.237%	14.234%	65.33
	10,000	FXD1/2020/015 Tap-sale	9.9	132.4%	12.756%			
Average*	34,000		10.2	168.8%	14.810%	16.097%	15.955%	58.600

Source: CBK, AIB-AXYS Research, * - Yearly average results excludes tap sales

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