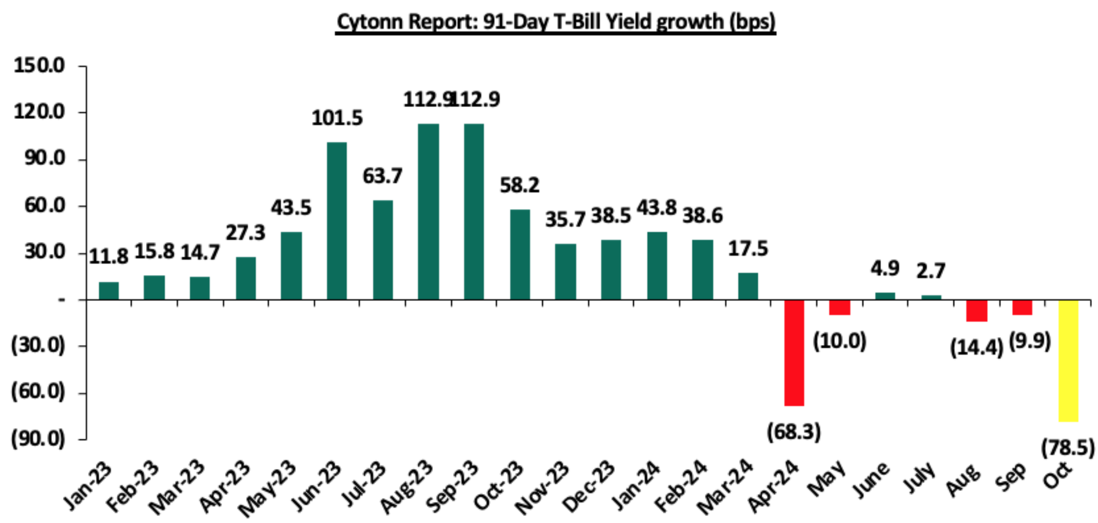
Cytonn Monthly – October 2024

Fixed Income

Money Markets, T-Bills Primary Auction:

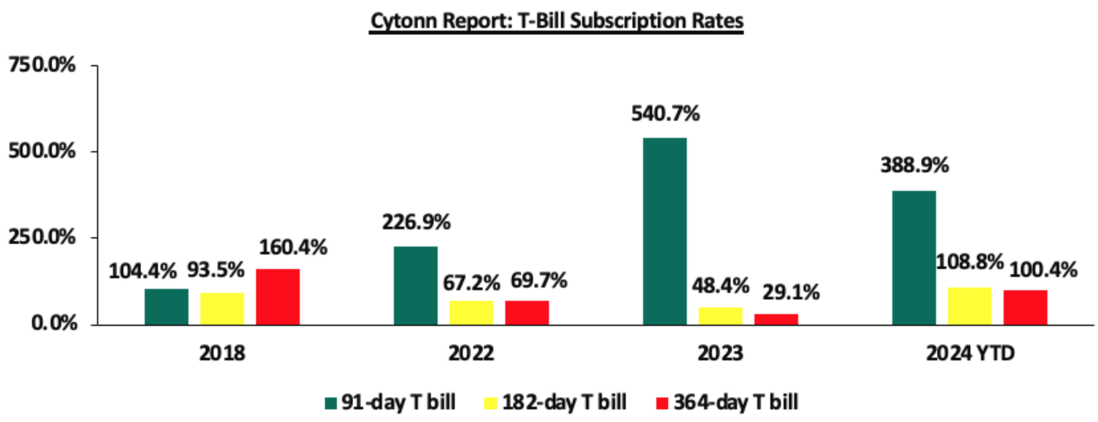
During the month of October 2024, T-bills were oversubscribed, with the overall average oversubscription rate coming in at 305.9%, significantly higher than the oversubscription rate of 113.2% recorded in September 2024. The overall average subscription rate for the 91-day paper increased to 546.6% from 365.8%, while the overall average subscription rates for the 182-day and 364-day paper increased to 278.4% and 237.2% respectively, from 63.5% and 61.8% respectively, which was recorded in September 2024. The average yields on the government papers were on a downward trajectory during the month, with the 91-day, 182-day, and 364-day papers yields decreasing by 78.5 bps, 77.3 bps, and 70.7 bps to 15.0%, 15.8%, and 16.1% respectively from 15.8%, 16.6%, and 16.8% recorded the previous month. For the month of October, the government accepted a total of Kshs 136.7 bn of the Kshs 293.7 bn worth of bids received in T-Bills, translating to an acceptance rate of 46.5% compared to an acceptance rate of 87.3% in the month of September:



This week, T-bills were oversubscribed for the fifth consecutive week, with the overall oversubscription rate coming in at 259.0%, albeit lower than the oversubscription rate of 357.3% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 15.0 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 375.2%, significantly lower than the oversubscription rate of 855.7% recorded the previous week. The subscription rates for the 182-day paper decreased to 232.4% from the 281.5% recorded the previous week, while that of the 364-day paper increased to 239.2% from the 233.8% recorded the previous week. The government accepted a total of Kshs 28.1 bn worth of bids out of Kshs 62.2 bn bids received, translating to an acceptance rate of 45.3%. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day, and 91-day papers decreasing by 50.1 bps, 62.3 bps, and 46.7 bps to 15.0%, 14.5%, and 14.0% respectively from 15.5%, 15.1% and 14.4% respectively recorded the previous week.

So far in the current FY'2024/25, government securities totalling Kshs 646.0 bn have been advertised. The government has accepted bids worth Kshs 686.0 bn, of which Kshs 489.4 bn and Kshs 196.6 bn were treasury bills and bonds, respectively. The government has a domestic borrowing surplus of Kshs 316.6 bn in FY'2024/25.

The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year to Date (YTD):



Additionally, October 2024 bonds were oversubscribed, with the overall average oversubscription rate coming in at 139.9%, albeit lower than the oversubscription rate of 155.0% recorded in September 2024. The reopened bonds FXD1/2016/010 and FXD1/2022/010, with tenors to maturity of 1.8 and 7.6 years respectively and fixed coupon rates of 15.0% and 13.5% respectively, received bids worth Kshs 51.0 bn against the offered Kshs 30.0 bn translating to an oversubscription rate of 169.9%, with the government accepting bids worth Kshs 31.3 bn, translating to an acceptance rate of 61.5%, with the average accepted yields coming at 17.0% each. Additionally, the tapsale of the bond FXD1/2022/010, with a tenor to maturity of 7.5 years and a fixed coupon rate of 13.5%, received bids worth Kshs 16.5 bn against the offered Kshs 15.0 bn translating to an oversubscription rate of 110.0%, with the government accepting bids worth Kshs 15.1 bn, translating to an acceptance rate of 91.5%, with the average accepted yield remaining unchanged at 17.0%. The table below provides more details on the bonds issued in August, September, and October 2024:

Cytonn Report: Bond Issuances in September and October 2024

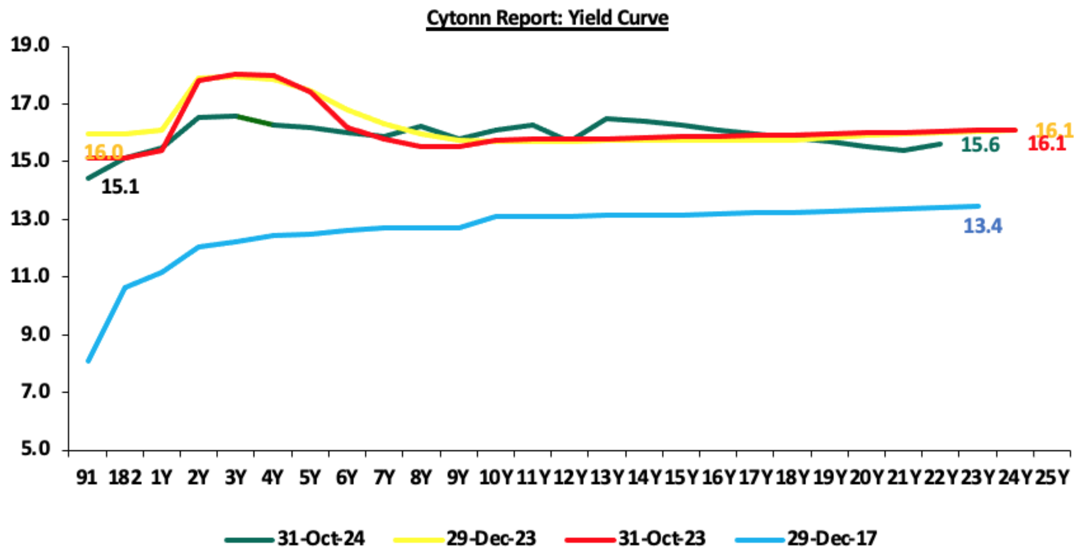
Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
02/09/2024	IFB1/2023/17- Tapsale	15.7	14.4%	15.0	32.0	35.2	17.7%	234.6%	91.0%
23/09/2024	FXD1/2016/020 - Re-opened	12.0	14.0%	30.0	19.3	22.6	17.3%	75.5%	85.1%
	FXD1/2024/010 - Re-opened	9.5	16.0%				16.9%		
14/10/2024	FXD1/2016/010- Re-opened	1.8	15.0%	30.0	31.3	51.0	17.0%	169.9%	61.4%
	FXD1/2022/010- Re-opened	7.6	13.5%				17.0%		
21/10/2024	FXD1/2022/010-Tapsale	7.5	13.5%	15.0	15.1	16.5	17.0%	110.0%	91.5%
October 2024 Average		**5.6**	**14.0%**	**22.5**	**15.5**	**22.5**	**17.0%**	**139.9%**	**76.4%**
September 2024 Average		**12.4**	**14.8%**	**45.0**	**51.3**	**57.8**	**17.3%**	**155.0%**	**88.1%**
2023 Average		**6.1**	**14.8%**	**740.3**	**735.2**	**872.4**	**15.5%**	**117.8%**	**82.0%**

Source: Central Bank of Kenya (CBK)

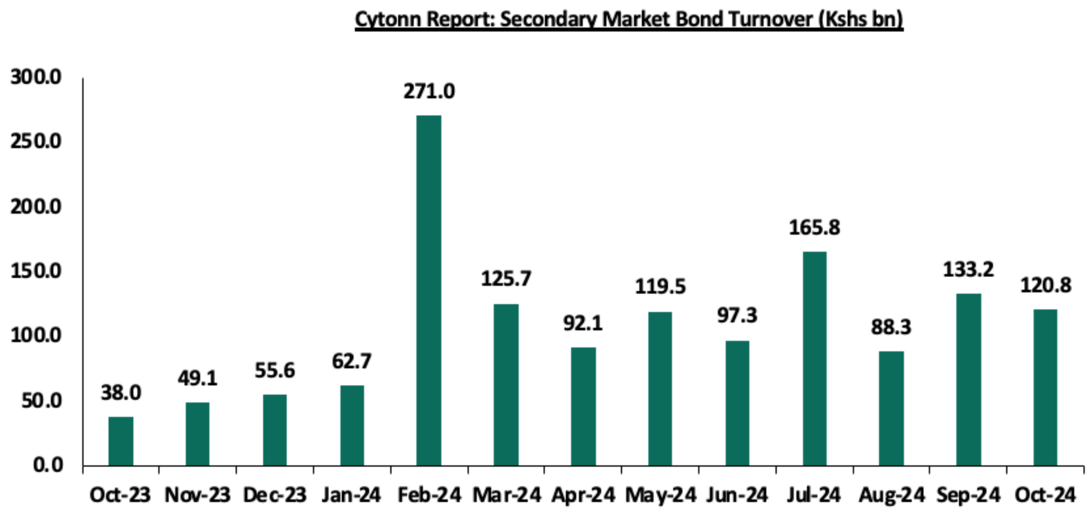
Secondary Bond Market:

The yields on the government securities were on a downward trajectory during the month compared to September 2024, attributed to easing interest rates following the Monetary Policy Committee

(MPC) decision to decrease the Central Bank Rate (CBR) by 75.0 bps to 12.00% from 12.75% earlier in the month and relatively stable inflation which came in at 2.7% in October 2024, which have fostered a more positive outlook among investors. The shift in sentiment indicates increased confidence in the economic landscape. The chart below shows the yield curve movement during the period:

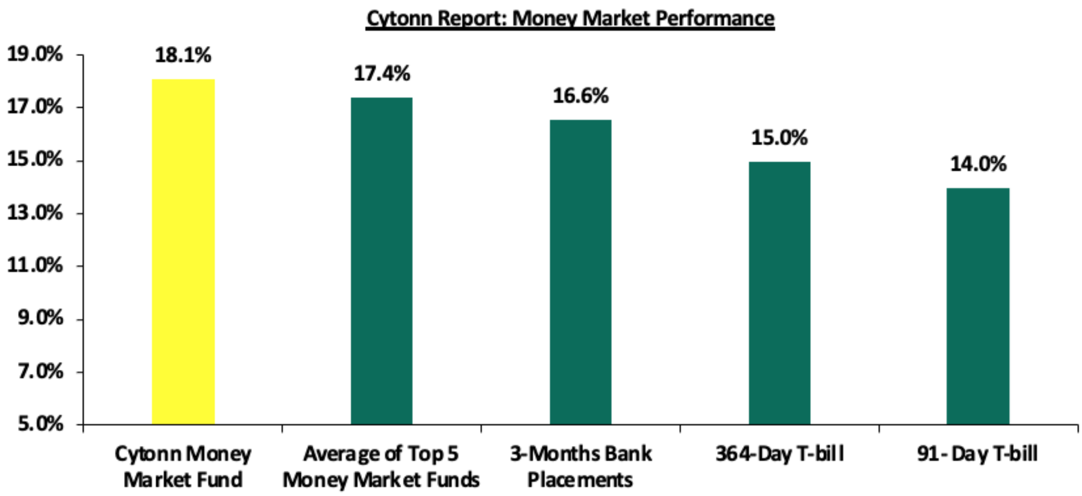


The secondary bond turnover decreased by 9.3% to Kshs 120.8 bn, from Kshs 133.2 bn recorded in September 2024, pointing towards decreased activities by commercial banks in the secondary bonds market for the month of October. However, on a year-on-year basis, the bond turnover increased by 217.9% from Kshs 38.0 bn worth of treasury bonds transacted over a similar period last year. The chart below shows the bond turnover over the past 12 months;



Money Market Performance:

In the money markets, 3-month bank placements ended the week at 17.6% (based on what we have been offered by various banks), while the yield on the 364-day and 91-day papers decreased by 50.1 bps and 46.7 bps to 15.0% and 14.0% from the 15.5% and 14.4% respectively recorded the previous week. The yield of Cytonn Money Market Fund decreased marginally by 1.0 bps to remain unchanged at 18.1% recorded the previous week, and the average yields on the Top 5 Money Market Funds decreased marginally by 6.0 bps to remain unchanged from the 17.4% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 1st November 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 1st November 2024

Rank	Fund Manager	Effective Annual
1	Cytonn Money Market Fund *(Dial *809# or download the Cytonn App)*	18.1%
2	Lofty-Corban Money Market Fund	17.9%
3	Etica Money Market Fund	17.4%
4	Arvocap Money Market Fund	16.9%
5	Kuza Money Market fund	16.8%
6	GenAfrica Money Market Fund	15.7%
7	Ndovu Money Market Fund	15.5%
8	Jubilee Money Market Fund	15.5%
9	Nabo Africa Money Market Fund	15.4%
10	Co-op Money Market Fund	15.4%
11	Madison Money Market Fund	15.3%
12	Mali Money Market Fund	15.2%
13	KCB Money Market Fund	15.2%
14	Absa Shilling Money Market Fund	15.0%
15	Sanlam Money Market Fund	14.9%
16	Apollo Money Market Fund	14.9%
17	Enwealth Money Market Fund	14.9%
18	Orient Kasha Money Market Fund	14.7%
19	Genghis Money Market Fund	14.6%
20	Faulu Money Market Fund	14.5%
21	Mayfair Money Market Fund	14.4%
22	Dry Associates Money Market Fund	14.1%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 1st November 2024

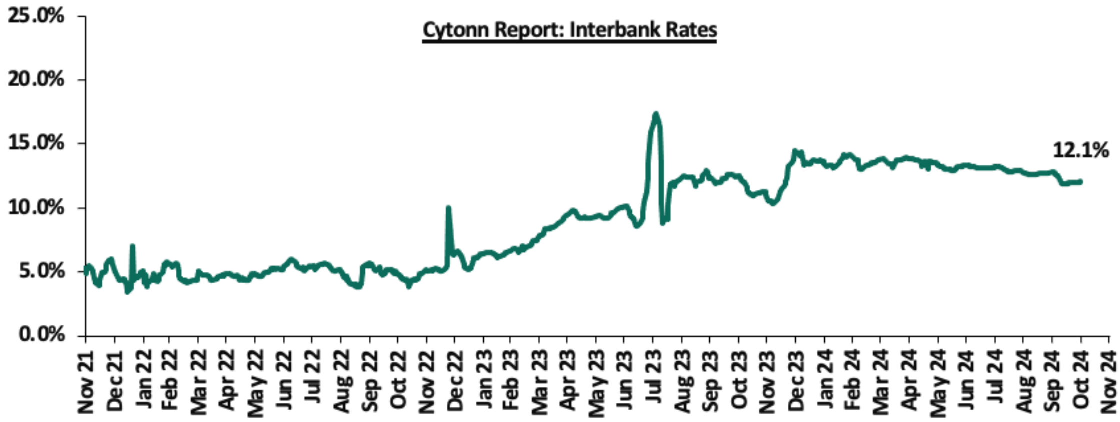
Rank	Fund Manager	Effective Annual
23	Old Mutual Money Market Fund	13.9%
24	Stanbic Money Market Fund	13.8%
25	CIC Money Market Fund	13.5%
26	ICEA Lion Money Market Fund	13.4%
27	British-American Money Market Fund	13.3%
28	Equity Money Market Fund	13.2%
29	AA Kenya Shillings Fund	11.9%

Source: Business Daily

Liquidity:

Liquidity in the money markets eased in the month of October 2024, with the average interbank rate decreasing by 52.9 bps to 12.2% from 12.7% recorded the previous month. However, during the month of August, the average interbank volumes traded increased by 28.6% to Kshs 34.1 bn, from Kshs 26.5 bn recorded in September.

Also, during the week, liquidity in the money markets tightened, with the average interbank rate increasing by 3.8 bps to remain relatively unchanged from 12.0% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 24.8% to Ksh 31.5 bn from Kshs 41.9 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the month, the yields on the Eurobonds were on an upward trajectory, with the yield on the 12-year Eurobond issued in 2019 increasing the most by 31.7 bps to 9.9% from 9.6%, recorded at the end of September 2024. However, during the week, the yields on Eurobonds were on a downward trajectory, with the yields on the 12-year Eurobond issued in 2019 decreasing the most by 22.9 bps to 9.9% from 10.1% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 31st October 2024;

Cytonn Report: Kenya Eurobonds Performance

	2018		2019		2021	2024
Tenor	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**13-year issue**	**7-year issue**
Amount Issued (USD)	**1.0 bn**	**1.0 bn**	**0.9 bn**	**1.2 bn**	**1.0 bn**	**1.5 bn**
Years to Maturity	**3.6**	**23.6**	**2.8**	**7.8**	**9.9**	**6.5**
Yields at Issue	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**	**10.4%**
01-Jan-24	9.8%	10.2%	10.1%	9.9%	9.5%	
30-Sep-24	8.6%	9.9%	8.3%	9.6%	9.4%	9.5%
24-Oct-24	9.1%	10.3%	8.4%	10.1%	9.9%	10.0%
25-Oct-24	9.0%	10.2%	8.5%	10.0%	9.8%	9.9%
28-Oct-24	9.0%	10.2%	8.4%	10.0%	9.8%	9.9%
29-Oct-24	9.0%	10.2%	8.3%	9.9%	9.8%	9.9%
30-Oct-24	9.0%	10.2%	8.3%	9.9%	9.7%	9.8%
31-Oct-24	8.9%	10.1%	8.2%	9.9%	9.7%	9.8%
Weekly Change	**(0.2%)**	**(0.2%)**	**(0.2%)**	**(0.2%)**	**(0.2%)**	**(0.2%)**
M/M Change	**0.3%**	**0.2%**	**(0.1%)**	**0.3%**	**0.3%**	**0.3%**
YTD Change	**(0.9%)**	**(0.0%)**	**(1.9%)**	**(0.0%)**	**0.2%**	**-**

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

During the month, the Kenya Shilling depreciated marginally by 0.3 bps against the US Dollar, to close the month relatively unchanged at Kshs 129.2 recorded at the end of September 2024. Also, during the week, the Kenya Shilling depreciated marginally by 0.3 bps against the US Dollar to remain unchanged from the Kshs 129.2 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 17.7% against the US Dollar, a sharp contrast to the 26.8% depreciation recorded in 2023.

We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,723.0 mn in the 12 months to September 2024, 14.0% higher than the USD 4,142.0 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the September 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 55.4% in the period,
ii. The tourism inflow receipts which came in at USD 352.5 bn in 2023, a 31.5% increase from USD 268.1 bn inflow receipts recorded in 2022, and owing to tourist arrivals that improved by 21.0% in the 12 months to August 2024, compared to a similar period in 2023, and,
iii. Improved forex reserves currently at USD 8.5 bn (equivalent to 4.4-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, but slightly lower than the EAC region's convergence criteria of 4.5-months of import cover.

The shilling is however expected to remain under pressure in 2024 as a result of:

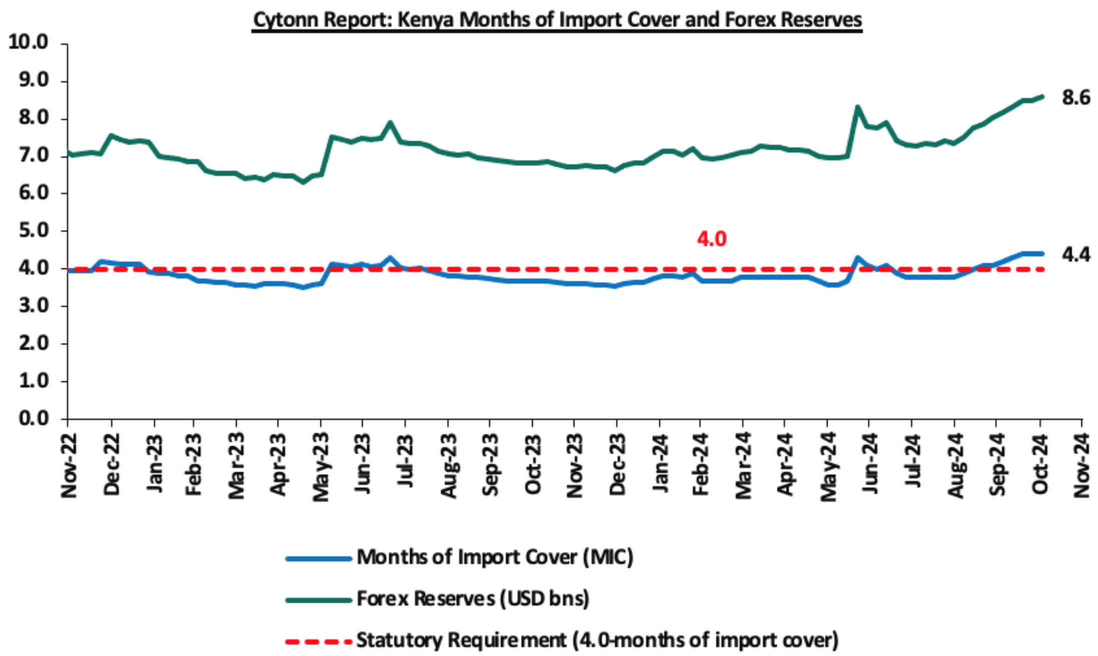
i. An ever-present current account deficit which came at 3.8% of GDP in Q2'2024 from 3.7%

recorded in Q2'2023, and,

ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.9% of Kenya's external debt is US Dollar-denominated as of March 2024.

Key to note, during the month of October 2024, Kenya's forex reserves increased by 7.0% to USD 8.6 bn at USD 8.0 bn recorded the previous month, and the months of import cover increased to 4.4 months from 4.1 months, recorded at the end of September 2024. Also, Kenya's forex reserves increased by 1.1% during the week to USD 8.6 bn from USD 8.5 bn recorded the previous week, equivalent to 4.4 months of import cover, and above the statutory requirement of maintaining at least 4.0-months of import cover.

The chart below summarizes the evolution of Kenya's months of import cover over the years:



Monthly Highlights:

1. During the month, the Kenya National Bureau of Statistics (KNBS) released the Q2'2024 Quarterly Gross Domestic Product Report, highlighting that the Kenyan economy recorded a 4.6% growth in Q2'2024, slower than the 5.6% growth recorded in Q2'2023. The main contributor to Kenyan GDP remains to be the Agriculture, Fishing, and Forestry sector which grew by 4.8% in Q2'2024, lower than the 7.8% expansion recorded in Q2'2023. All sectors in Q2'2024, except Mining and Quarrying; and Construction recorded positive growths, with varying magnitudes across activities. Most sectors recorded declining growth rates compared to Q2'2023 with Accommodation and Food Services; Financial & Insurance; and Construction Sectors recording the highest declines of 16.2%, 8.1%, and 5.6% points, respectively. Other sectors that recorded a contraction in growth rate, from what was recorded in Q2'2023 were Financial Services Indirectly Measured, Agriculture and Forestry, and Real Estate sectors, of 4.0%, 3.0%, and 2.1% points respectively. For more information, see our Cytonn Q3'2024 Markets review,
2. During the month, the Kenya National Bureau of Statistics released the Q2'2024 Balance of Payment Report, highlighting that Kenya's balance of payments position deteriorated by 45.0% in Q2'2024, coming in at a surplus of Kshs 84.1 bn, from a surplus of Kshs 152.9 bn in Q2'2023, and a significant improvement from the Kshs 36.0 bn deficit recorded in Q1'2024. For more information, see our Cytonn Q3'2024 Markets review,
3. During the month, Stanbic Bank released its monthly Purchasing Manager's Index (PMI)highlighting that the index for the month of September 2024 declined, coming in at 49.7, down from 50.6 in August 2024, signalling a deterioration in business conditions. This is attributable to the slowdown in business activity and reduced intake of new business intakes,

owing to challenging economic conditions. This also implied that the uptick in August was due to some recovery after disruptions by the protests. For more information, see our Cytonn Q3'2024 Markets review,

4. Additionally, during the month, the National Treasury gazettedthe revenue and net expenditures for the third month of FY'2024/2025, ending 30th September 2024, highlighting that the total revenue collected as at the end of September 2024 amounted to Kshs 592.0 bn, equivalent to 22.5% of the revised estimates of Kshs 2,631.4 bn for FY'2024/2025 and is 90.0% of the prorated estimates of Kshs 657.9 bn. For more information, see our Cytonn Weekly #42/2024,
5. During the month, the National Treasury publishedthe Annual Borrowing Plan for FY'2024/25, with details of the government's borrowing requirements for the fiscal year. The 2024 Annual Borrowing Plan outlines the requirements and sources of borrowing for FY'2024/25 as specified in Supplementary Estimates 1 for FY'2024/2025 and the 2024 Medium Term Debt Management Strategy (MTDS). For more information, see our Cytonn Weekly #42/2024,
6. During the month, the US Federal Reserve announced their decision to cut its benchmark interest rate by 50 bps, to a range of 4.75%-5.00% from a range of 5.25%-5.50%. The decision came after the Federal Open Market Committee (FOMC) voted eleven to one to lower the federal funds rates after holding it for more than a year at its highest level in two decades. Notably, it was the Fed's first rate cut in more than four years,
7. During the month, the Monetary Policy Committee (MPC) met on October 8th, 2024, to review the outcome of its previous policy decisions against a backdrop of improved global outlook for growth, easing in inflation in advanced economies as well as the persistent geopolitical tensions. The MPC decided to lowerthe CBR rate by 75.0 bps to 12.00%, from 12.75% which was in line with our expectation for the MPC to lower the CBR rate. Our expectation to cut the rate was mainly on the back of rate cuts by some major economies, a stable exchange rate, and anchored inflationary pressures, with inflation coming in at 3.6% in September 2024 from 4.4% in August, remaining within the CBK preferred range of 2.5%-7.5% for the fifteenth consecutive month, as well as the need to support the economy by adopting an accommodative policy that will ease financing activities. For more information, see our Cytonn Weekly #41/2024.

Weekly Highlights:

I. **October 2024 Inflation Highlight**

The y/y inflation in October 2024 decreased by 0.9% points to 2.7%, from the 3.6% recorded in September 2024. This was below our projected range of 3.4% to 3.8%, where our decision was mainly driven by the reduction in the Central Bank Rate (CBR) by 75.0 bps to 12.00% from 12.75%, which would increase the money supply, coupled with increased electricity prices. The headline inflation in October 2024 was majorly driven by an increase in prices of commodities in the following categories; Food & Non-Alcoholic Beverages, Housing, Water, Electricity, Gas & other fuels by 4.3% and 0.4% respectively. However, the commodity prices in the Transport sector declined by 1.3%. The table below shows a summary of both the year-on-year and month-on-month commodity indices performance:

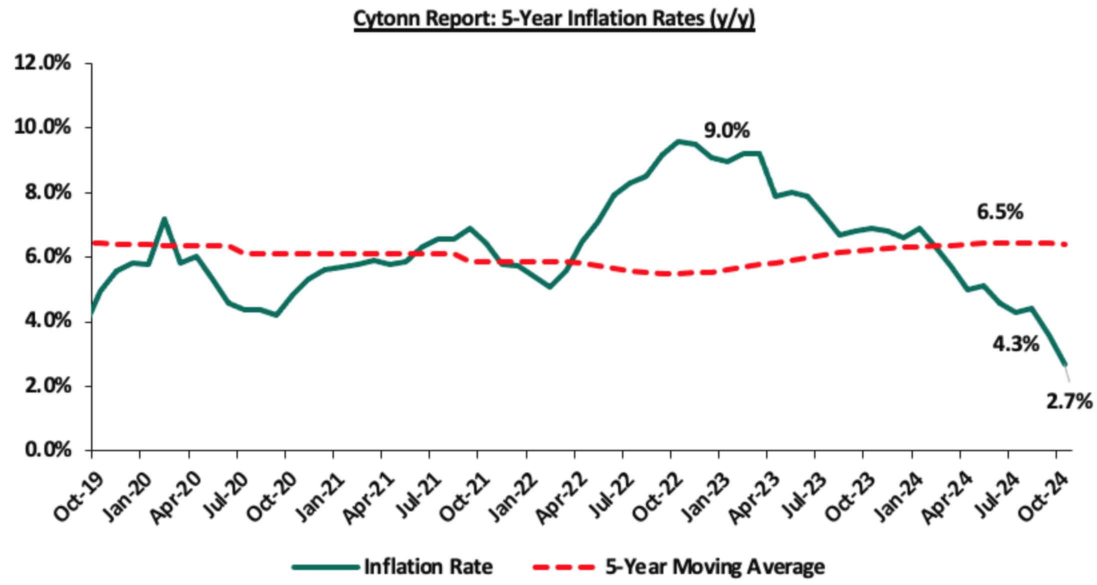
Cytonn Report: Major Inflation Changes – October 2024

Broad Commodity Group	Price change m/m (October-2024/September -2024)	Price change y/y (October-2024/October-2023)	Reason
Food and non-alcoholic beverages	0.5%	4.3%	The m/m increase was mainly driven by the increase in prices of commodities such as mangoes, carrots and oranges by 9.9%, 5.7% and 5.1% respectively. However, the increase was supported by decrease in prices of sugar, maize flour sifted and fortified maize flour by 2.8%, 2.1%, and 0.6%, respectively

Cytonn Report: Major Inflation Changes – October 2024

Broad Commodity Group	Price change m/m (October-2024/September-2024)	Price change y/y (October-2024/October-2023)	Reason
Transport	(0.3%)	(1.3%)	The m/m decrease recorded in the transport index was mainly on the back of a decrease in the prices of Super Petrol and Diesel by 4.3% and 2.1% to Kshs 180.7 and Kshs 168.1 from Kshs 188.8 and Kshs 168.1 per litre respectively recorded in September 2024.
Housing, water, electricity, gas and other fuels	(0.3%)	0.4%	The m/m performance was mainly driven by the decrease in prices of Kerosene by 4.4% to Kshs 151.4, from Kshs 158.4 per litre recorded in September 2024. The decrease was however weighed down by an increase in prices of 50 kWh of electricity and 200 kWh of electricity by 0.3% and 0.2% respectively
Overall Inflation	**0.2%**	**2.7%**	**The m/m increase was mainly attributable to the 0.5% increase in Food and non-alcoholic beverages.**

Notably, October's overall headline inflation declined sharply, following the decline recorded in September 2024. The decrease in headline inflation in October 2024 comes amid the decrease in the maximum allowed price for Super Petrol, Diesel, and Kerosene by Kshs 8.2, Kshs 3.5, and Kshs 6.9 per litre respectively to retail at Kshs 180.7, Kshs 168.1 and Kshs 151.4 per litre respectively, from Kshs 188.8, Kshs 171.6 and Kshs 158.4 per litre respectively in the last month. Furthermore, it has remained within the Central Bank of Kenya (CBK) target range of 2.5% to 7.5% for the sixteenth consecutive month. The chart below shows the inflation rates for the past 5 years:



We note that while prices of commodities still increased as reflected in the cost of living pressures felt by netizens in the country, the rate of increase was the slowest it has been, since 2010. Going forward, we expect inflation to remain within the CBK's preferred range of 2.5%-7.5%, mainly on the back of a strengthened currency and reduced fuel prices. The risk, however, lies in the fuel prices which despite their decline over the last months, still remain elevated compared to historical levels. Additionally, favourable weather conditions will also contribute to stabilizing food prices, further supporting lower inflation rates. Key to note is that the Monetary Policy Committee cut the Central Bank Rate by 75.0 bps to 12.00% from 12.75% in its October 2024 meeting, with the aim of easing the monetary policy and maintaining exchange rate stability, and will meet again on December 2024. This cut in the Central Bank Rate is likely to elevate inflationary pressures as consumer spending rises leading to demand-pull inflation. The committee is expected to lower rates further, though gradually, to provide further support for the economy.

II. **International Monetary Fund (IMF) Loan facility**

During the week, The International Monetary Fund (IMF) executive board completed the seventh and eighth reviews under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF), alongside a review under the Resilience Sustainability Facility (RSF). This decision enables the immediate disbursement of approximately USD 606.1 mn to support Kenya's efforts to stabilize its economy, address fiscal challenges, and enhance resilience to climate-related shocks. The IMF's approval allows Kenya to receive USD 485.8 mn under the EFF/ECF arrangements, aimed at reducing Kenya's debt vulnerabilities, safeguarding funds for social and developmental priorities, and supporting broader economic reforms and USD 120.3 mn under the RSF, which focuses on reinforcing Kenya's climate-related initiatives and catalysing additional private sector climate finance. Earlier this year, Kenya faced intense financial pressures with discussions of a possible debt default. However, following the USD 1.5 mn Eurobond buyback, market confidence improved, the Kenyan Shilling stabilized and this allowed Kenya to quickly rebuild its foreign currency reserves. However, pushback against the new tax reforms due to concerns about how the government handles funds has further hindered the government's efforts on fiscal consolidation and reducing debt. The Board noted that as the government continues to increase domestic revenues mainly through taxes and meet high debt repayment obligations, delivering on these calls for the government to build public trust by making government spending more accountable and transparent.

In addition to the approval of the immediate disbursement of USD 606.1 mn, in response to Kenya's recent fiscal challenges, the IMF approved a reduction in the total access under the EFF/ECF arrangements from exceptional access that was approved in January 2024 to align with normal access limits. In the Annual Debt Plan, the government had factored in a disbursement of USD. 874.0 mn, which brings the shortfall for this disbursement to USD 267.9 mn. This deficit now means the government will need to look in other directions to get this funding. Last month, the Cabinet Secretary of Finance had alluded to a USD 1.5 mn commercial loan from the United Arab Emirates, which the IMF wasn't comfortable with on account of the cost. On revenue-raising, Treasury already proposed some amendments to the Tax Procedures Act, aimed at mobilizing revenue collection, which is now under public participation.

The IMF also rebalanced access toward the zero-interest ECF, which, combined with changes to the IMF's charges and surcharges policy, will reduce Kenya's interest obligations. This adjustment is intended to alleviate Kenya's debt burden and make it more sustainable. This approval is part of Kenya's broader program with the IMF, which has provided a combined financial commitment of approximately USD 3.6 bn under the EFF/ECF programs and USD 541.3 mn under the RSF arrangement. Under the EFF/ECF arrangements, about USD 3.1 bn has already been approved while USD 180.4mn has already been approved under the RSF arrangement.

The IMF Executive Board noted that Kenya's progress under the EFF/ECF programs has been promising, particularly in reducing inflation, strengthening financial reserves, and stabilizing the currency. Given Kenya's recent corrective steps, including passing a revised FY'2024/25 budget, the IMF approved waivers on some missed revenue and budget targets. These adjustments, coupled with a medium-term fiscal strategy, are intended to address Kenya's debt vulnerabilities. However, achieving sustainable progress will require Kenya to improve the quality of its fiscal policies, address weaknesses in the financial sector, and implement structural reforms.

The IMF commended the Central Bank of Kenya's proactive steps to support price stability and improve exchange rate flexibility, which is crucial for resilience against external shocks. The CBK's decisions this year have so far led to an ease in inflationary pressures, coming in at 2.7% as of October 2024, and a stability of the Kenyan Shilling against the USD with the year-to-date gain at 17.7%. However, the IMF recommends that the Central Bank closely monitor banks' asset quality and address emerging risks within the financial sector.

Cytonn Report: International Monetary Fund (IMF) EFF and ECF Financing Programme

Date	Amount Received (USD mn)	Amount Received (Kshs bn, 1 USD= Kshs 160.8)
Apr-21	307.5	49.4
Jun-21	407.0	65.4
Dec-21	258.1	41.5
Jul-22	235.6	37.9
Nov-22	433.0	69.6
Jul-23	415.4	66.8
Jan-24	624.5	100.4
Nov-24	485.8	62.8
Total Amount Received	**3,166.9**	**493.9**
Amount Pending	**713.1**	**114.7**

*Funds expected upon IMF management and executive board disbursement

This latest disbursement brings the total amount received in this program to USD 3.2 bn, USD 0.7 bn short of the USD 3.9 bn expected from the whole program. Given the program ends in April 2025, there's still room for another review and disbursement of the remaining amount.

Cytonn Report: International Monetary Fund (IMF) RSF Financing Programme

Date	Amount Received (USD mn)	Amount Received (Kshs bn, 1 USD= Kshs 160.8)
Jan-24	60.2	7.8
Nov-24	120.3	15.5
Total Amount Received	**180.5**	**23.3**
Amount Pending	**360.9**	**63.7**

*Funds expected upon IMF management and executive board disbursement

This financing will go a long way in solving some of the liquidity issues faced by the government including debt servicing, pending bill payments, and the public sector wage bill. However, we expect introduction of revenue-raising measures to curb the shortfall from the funding, including tax reforms through the Tax Procedures (Amendment) Bill, 2024, and a probable Supplementary II budget to revise the budget. The disbursements under the RSF program are also expected to give a boost to the climate agenda, whose progress the IMF team noted was quite strong. Finally, the loan disbursement will support the country's Medium Term Debt Strategy, which aims to optimize the use of concessional loans and reduce the use of costly commercial loans, and the current administration's plans to cut public expenditure to reduce the budget deficit.

Rates in the Fixed Income market have been on an upward trend given the continued high demand for cash by the government and the occasional liquidity tightness in the money market. The government is 123.9% ahead of its prorated net domestic borrowing target of Kshs 141.4 bn, having a net borrowing position of Kshs 316.6 bn. However, we expect a downward readjustment of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating pressure in the domestic market. As such, we expect the yield curve to normalize in the medium to long-term and hence investors are expected to shift towards the long-term papers to lock in the high returns.
