

## The Week in Review | Week 24

### The FY23/24 Budget

Growth in 2023 is expected to remain muted at 5.00% attributable to further tightening of the monetary policy and **increased cost of borrowing**, which in turn are expected to reduce domestic spending and public investments.

### Key Highlights

- **Income tax** is expected to continue generating the highest revenues, with projected revenues of KES 1,199 Billion in FY 2023/24, approximately 49% of the total projected tax revenue.
- **Fiscal deficit**, inclusive of grants, is projected to decline to KES 720.1bn (4.4% of GDP) in FY2023/2024 from KES 833.9bn (5.7% of GDP) in FY2022/2023. The decline in the fiscal deficit is expected to improve the country's debt sustainability position.
- The proportion of the national budget earmarked toward **recurrent expenditure** has recorded a marginal increase from 67% in the financial year 2022/23 to 69% in the financial year 2023/24.
- The **external debt** stock is expected to increase to **38%** in 2023 from 35% in 2022 owing to a **USD 1Bn** budget support loan approved by the World Bank in May 2023. The foreign debt repayment burden is expected to increase due to the unprecedented **depreciation of the Kenya Shilling** against major foreign currencies, considering **51.1%** of Kenya's external debt stock is denominated in foreign currency.
- The FY2023/24 budget is the first budget prepared under the new administration based on its "Bottom-up Economic Transformation Agenda" (BETA). The core pillars of the BETA that the current administration will focus on are as follows: Agricultural transformation and inclusive growth, Micro, Small and Medium Enterprises Economy, Housing and settlement, Healthcare and Digital superhighway and creative industry.

### The largest winners in the 2023/2024 budgetary allocation include:

- **Education**- allocation of KES 597.2Bn
- **Energy, infrastructure and ICT**- Allocation of KES442.0Bn to facilitate programs aligning with Kenya's Vision 2030 and BETA.
- **Public administration and international relations**- allocation of 308.9Bn.

### Sectorial Allocations.

Sector	Allocation in KES Bn
Agriculture	49.9Bn
Micro, Small and Medium Enterprise	10.9Bn
Healthcare	141.2 Bn
Digital superhighway & creative industry	15.1Bn
Tourism	6.1Bn

Source: National Treasury, NCBA IB Research

## EQUITIES

### Local Market Performance

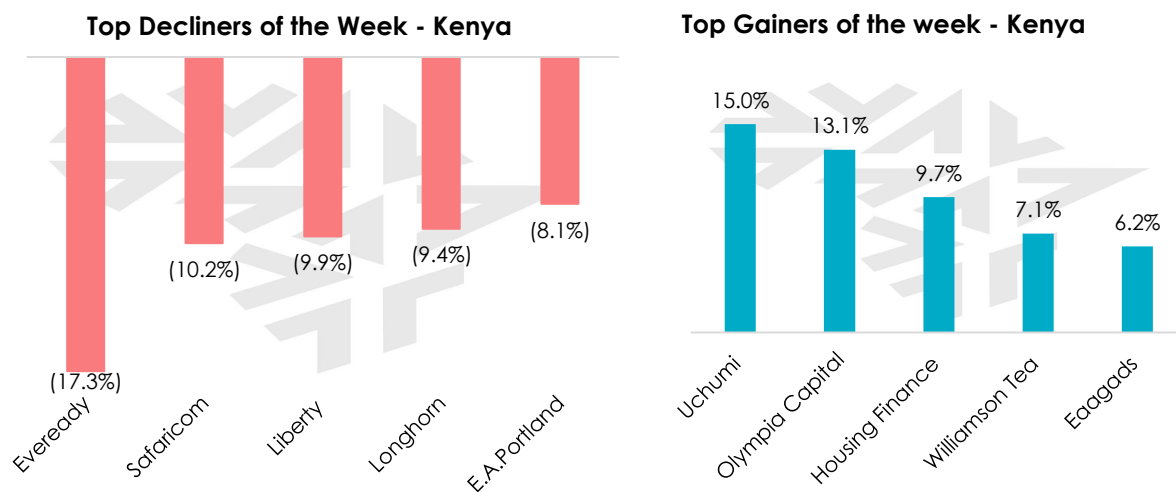
The market was down week on week, with all share index (NASI) closing the week at **100.35**, a **21.20%** decline year to date.

The NSE-20 and NSE-25 indices closed the week at **1,564.72**, a **6.61%** decline year to date and **2634.70**, a **16.05%** decline year to date, respectively.

Trading activity was concentrated on Safaricom, Equity, KCB, Stanbic and EABL accounting for **79.87%** of the total turnover.

Foreign investors accounted for **35.68%** of the total turnover and they were net buyers as foreign inflows stood at KES 27Mn last week. Foreign investors were mostly active on Safaricom, KCB, Equity, EABL and BAT in that order.




Market turnover increased to **KES 1.65Bn** from KES 0.61Bn traded the previous week.

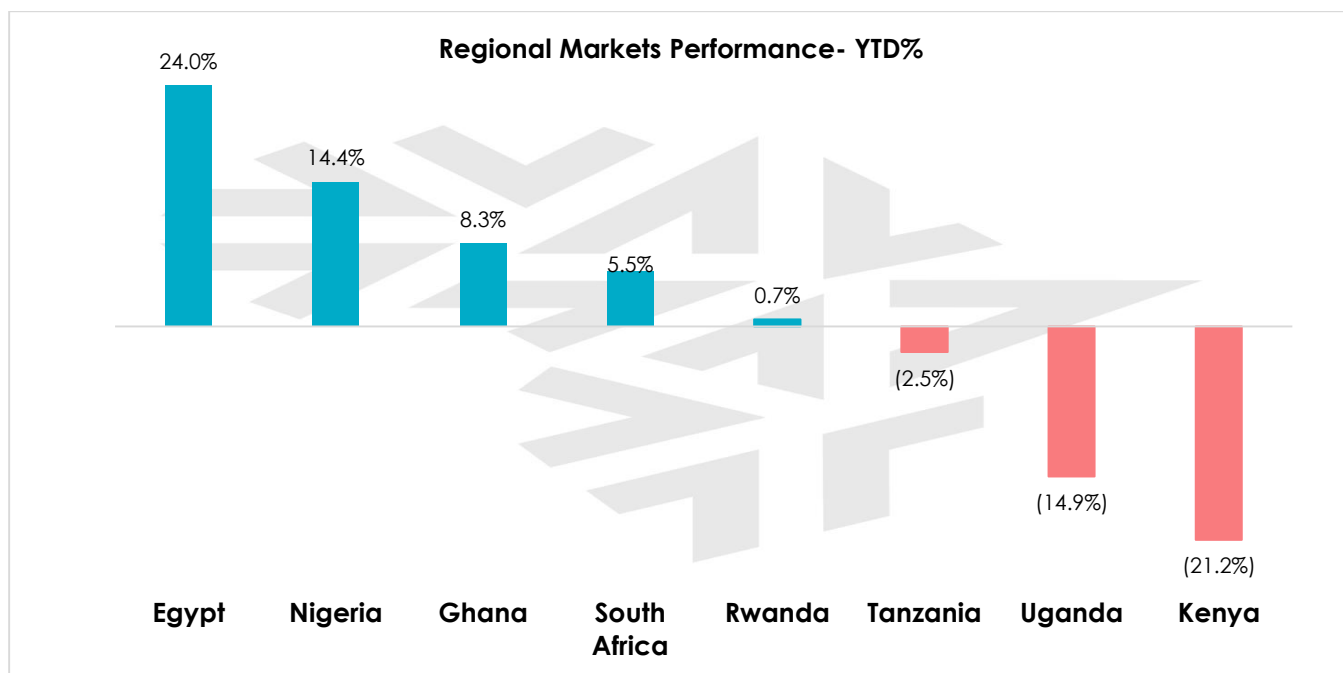


Source: NSE, NCBA IB Research

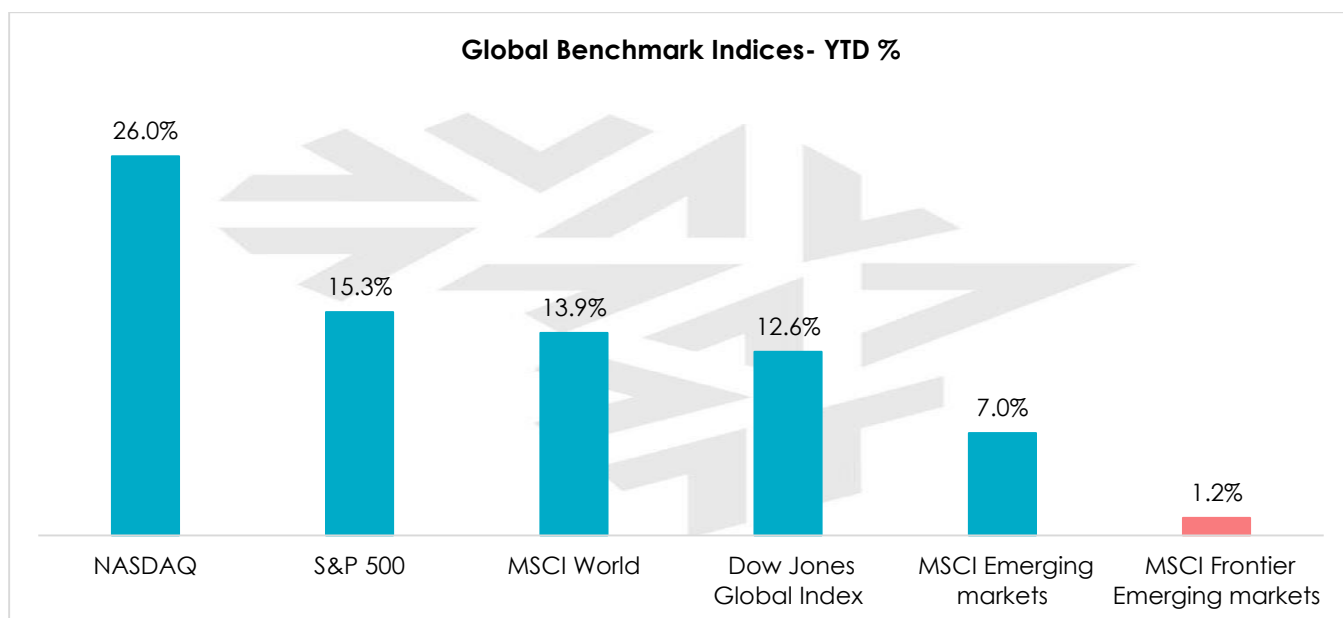
### Key Corporate Announcements during the week

- **Equity Group** is set to acquire a controlling stake of 91.93% in Cogebanque PLC Rwanda with a view to eventually amalgamate with its existing subsidiary- Equity Bank Rwanda PLC. Cogebanque is the fifth largest bank in Rwanda as measured by reported book value of total assets and shareholder's equity. Therefore, the acquisition will expand Equity Group's footprint and segment its market share.
- **Trans-century ltd** has been placed under receivership by Equity Bank over a debt estimated at about KES 4.2Bn, a target the company missed a KES 2Bn cash call target on its 2nd attempt.
- **East Africa Cables limited**, a subsidiary of Trans-century has been put under receivership which signals Equity's target to settle the debts owed to them

Counter	ANNOUNCEMENT	Dividend	SPx (As at 16/06/2023)	Dividend Yield (%)	Book Closure Date	Payment Date
 <b>BANK OF KIGALI</b> Financially transforming lives	First and final dividend	3.92	35.00	11.20%	22-Jun-23	1-Jul-23
 <b>UMEME</b>	Final dividend	2.25	15.95	14.11%	27-Jun-23	20-Jul-23
 <b>CROWN PAINTS KENYA PLC</b>	Final Dividend	4.00	43.00	9.30%	28-Jun-23	14-Aug-23



Source; Bloomberg, NCBA IB Research



Source; Bloomberg, NCBA IB Research

## FIXED INCOME

### Primary Market

#### Treasury Bill Results

Treasury bills were undersubscribed, with a subscription rate of **94.18%** (down from 138% the previous week) and an acceptance rate of 46.79%. Majority of the bids geared towards the 91-day paper, accounting for 39.08% of the bids received, to mitigate for duration risk.

**KES 10.58Bn** accepted at 11.640% (up 22.60bps), 11.649% (up 10.10bps) and 11.734% (up 12.60bps) for the 91, 182 and 364-day papers, respectively.

Year-to-date, the yield on T-bills has risen by an average of **168.63bps** across the curve.

Subscription	Amount offered KES Bn	Week 24	Week 23
91 day	4.00	18.19	29.02
182 day	10.00	2.66	1.89
364 day	10.00	1.75	2.20
<b>Total</b>	<b>24.00</b>	<b>22.61</b>	<b>33.11</b>

Prevailing rates	Week 24	Week 23	w/w change (bps)
91 Day	11.640%	11.414%	22.60
182 Day	11.649%	11.548%	10.10
364 Day	11.734%	11.608%	12.60

Source: CBK, NCBA IB Research

#### June Bond Results | IFB1/2023/007

The Central Bank of Kenya received a total of **KES 220.52Bn** (367.53% Subscription rate), out of which it accepted **KES 213.39Bn** (96.77% Acceptance rate).

See below a summary of the results:

Issue	IFB1/2023/007
Tenor to Maturity	7 yrs
Offered Amount (KES Mn)	60,000.00
Bids Received (KES Mn)	220,518.51
<b>Amount Accepted (KES Mn)</b>	<b>213,399.35</b>
<b>Weighted average rate of Accepted Bids (%)</b>	<b>15.837%</b>
Adjusted Average Price (Per KES 100)	100.00
<b>Coupon Rate (%)</b>	<b>15.837%</b>

Source: CBK, NCBA IB Research

## Secondary Market

In the secondary bonds market, **total turnover** declined by **46.39% WoW** to **KES 3.95Bn** from KES 7.37Bn traded in the previous week.

The S&P Sovereign Bond index declined to close at **100.38** from 100.62 in the previous week.

The S&P Kenya Sovereign Bond Index tracks the performance of local currency denominated public government debt and has an inverse relationship to yield curve.

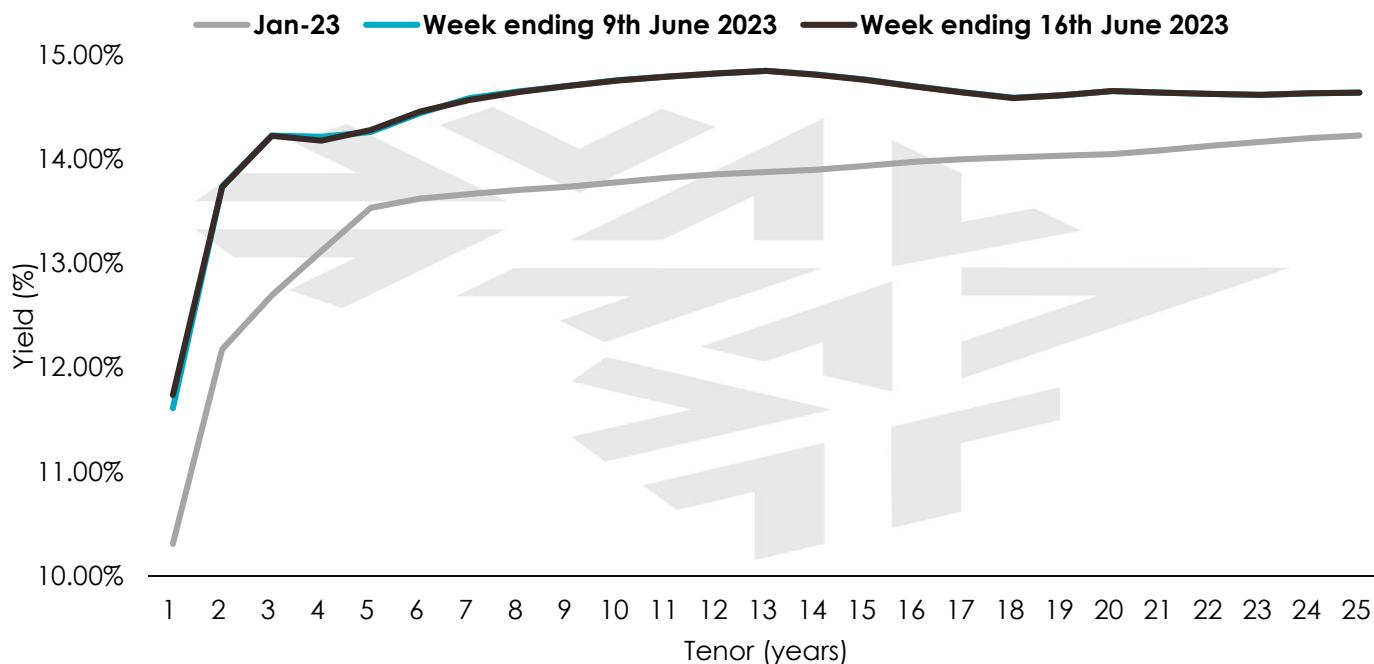
See the top moving bonds below:

Bond Identifier	Years to Maturity	Coupon	Average Yield	Total Value (KES Mn)	Number of Trades
IFB1/2023/17Yr	16.75	14.40%	<b>14.02%</b>	<b>2,756.00</b>	51
IFB1/2020/6Yr	2.95	10.20%	<b>11.53%</b>	<b>1,412.00</b>	25
IFB1/2021/21Yr	0.60	12.74%	<b>13.66%</b>	<b>1,000.00</b>	1
IFB1/2016/15Yr	8.35	12.00%	<b>14.50%</b>	<b>609.90</b>	9
FXD1/2009/15Yr	1.33	12.50%	<b>12.74%</b>	<b>600.00</b>	4

Source: NSE, NCBAIB Research

## Government Securities Yield Curve:

The yield on government securities has been on an **upward trajectory** with investors demanding higher returns to cushion against duration and interest risks. The government has also increased appetite for the domestic debt necessary to meet the net domestic debt target for FY 22/23.

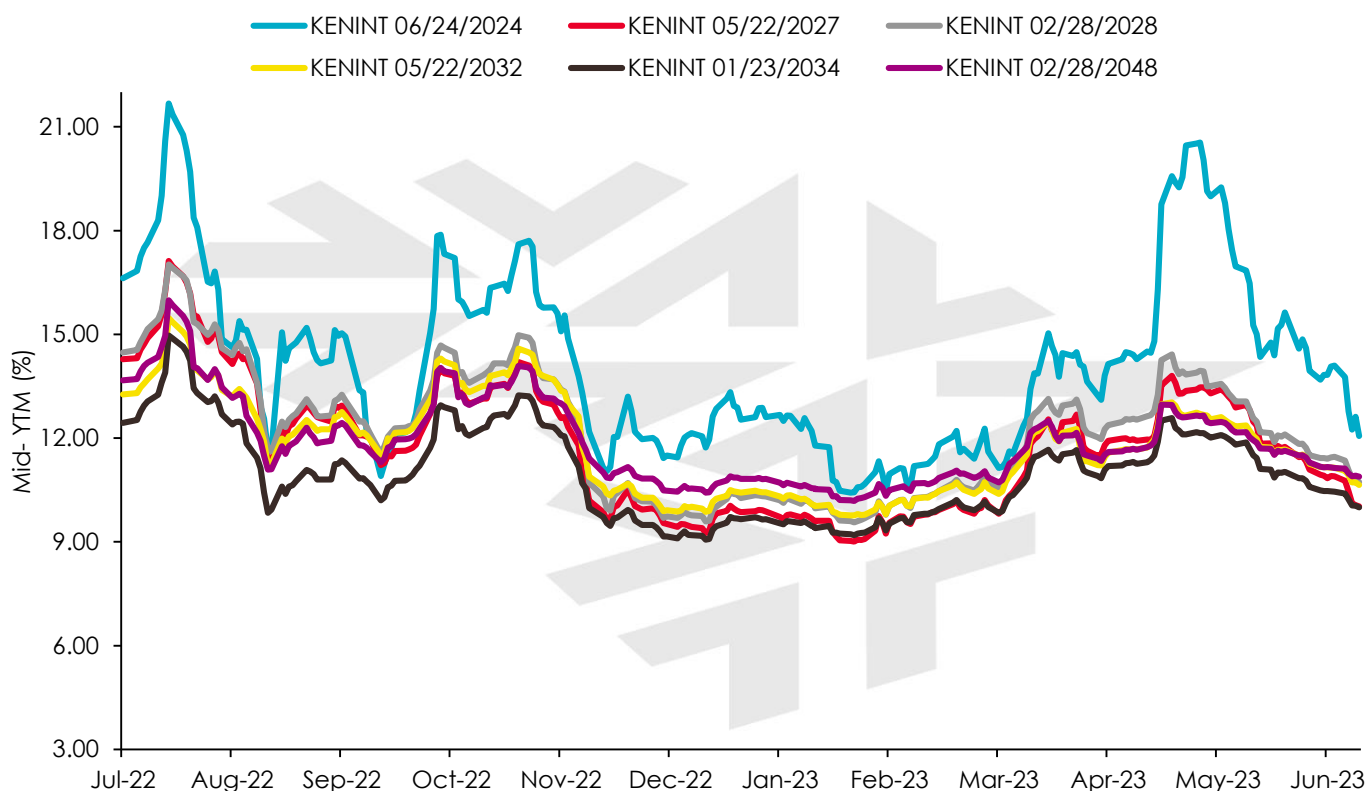


Source: NSE, NCBA IB Research

### Kenya International Debt Yield Curves:

Kenyan Eurobonds' yields were on a downward trend – declining by an average of 8 bps week on week.

**KENINT 2024**, whose principal amounts to **USD 2.0Bn** matures in **June 2024** and is currently trading at **12.06%**, down from 14.10% in the previous week.



Source: Bloomberg, NCBA IB Research

### Macroeconomic Developments:

Liquidity conditions in the interbank space improved. Indicatively, the overnight **interbank rate** declined by 2.3 bps week on week to close at **9.42%**.

The average daily traded volumes declined to **KES 18.30Bn** from KES 22.81Bn observed in the previous week.

Statistic	Current	Previous	change (bps)
CBR	9.50%	9.50%	-
Inflation	8.00%	7.90%	10.0
Average Interbank Rate	9.20%	9.36%	11.7

Source: NSE, NCBA IB Research

## Currency

On the FX front, the shilling ceded **65-cents** to the greenback, closing at **139.77/139.97** on Friday. With the average estimated **daily loss** now at **15-cents**, we anticipate the shilling will break the 140 –mark by end of June.

Year to date, the Kenya shilling has depreciated by **11.4%** against the dollar. Continued intervention by the central bank through activity in the interbank foreign exchange market and expected foreign currency inflows from the IMF will alleviate the downward pressure on the shilling.

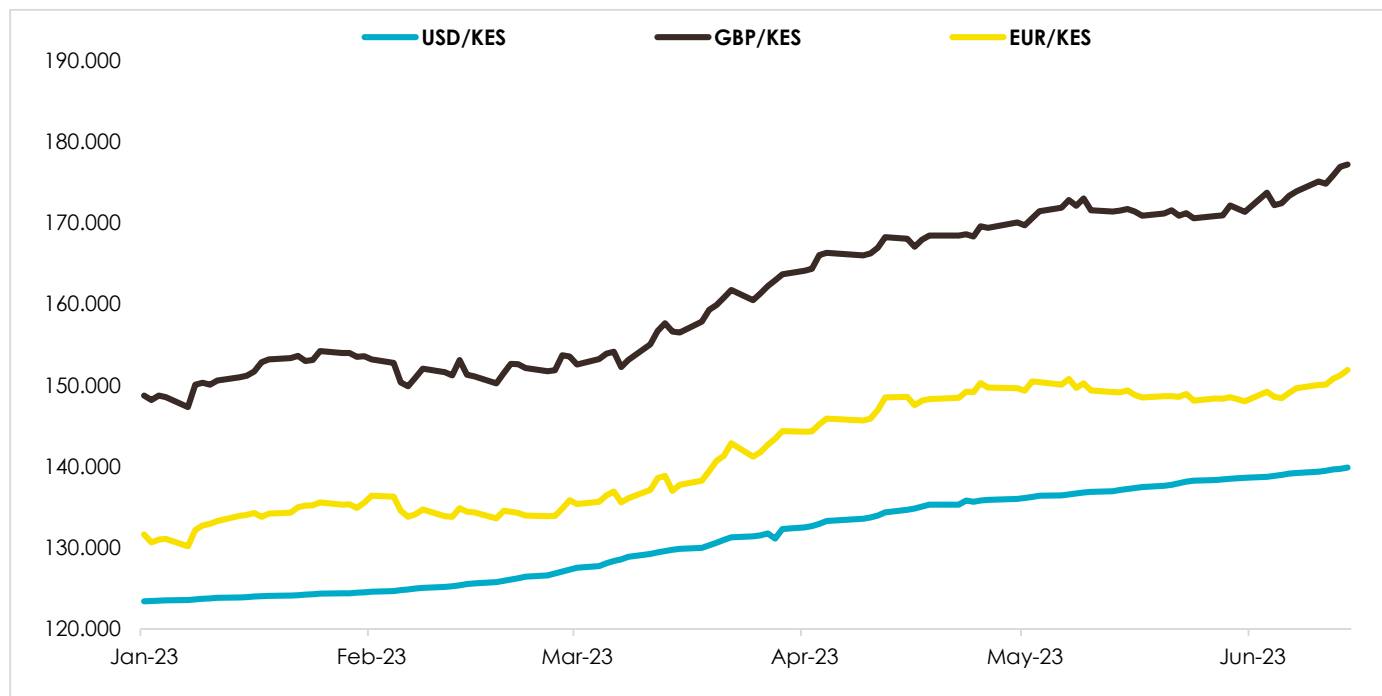
Foreign exchange reserves dropped marginally by **1.0%** week on week to close at **US \$7,459Mn**. Following an inflow from World bank under the development policy operation, the reserves represent **4.11 months** of import cover which meets CBK's statutory requirement of at least 4 months of import cover.

The **DXY** declined to close at **102.24** from 103.56 in the previous week.

The U.S. Dollar Index (DXY) indicates the general international value of the USD. The DXY does this by averaging the exchange rates between the US Dollar and major world currencies.

Currency	Week 24	Week 23	w/w change (%)
US Dollar	139.87	139.22	(0.5%)
STG Pound	177.18	173.85	(1.9%)
EURO	151.89	149.63	(1.5%)
Forex reserves (USD Mn)	7,459.00	7,532.00	(1.0%)

**Negative () = Depreciation, Positive = Appreciation**



Source: CBK, NCBA IB Research

## Fiscal Tracker- May 2023

The **total revenue** collected as reported by the National treasury stood at **KES 2,603.5Bn** which represents **72.07%** achievement. Net domestic borrowing stood at **KES 464.7 Bn** against a target of KES 886.5Bn in the FY 22/23 budget.

We expect the government to plug in the variance this month as evident with the increased **appetite** during the infrastructure bond auction. The auction has managed to raise KES 213.40Bn and activity in the weekly treasury bill auction remains robust.

The **total expenditure** decreased by KES 35.0Bn to **KES 2,601.1Bn** compared to KES 2,636.6Bn in 2023 same period. This is largely attributable to the decline in **recurrent expenditure** by KES 45.3Bn to KES 975.1Bn and **development expenditure** by KES 92.0Bn to KES 191.1Bn on the back of increased consolidation efforts by the government to lower the budget deficit.

Despite the efforts to lower the deficit, the government still has a long way to go in achieving the fiscal deficit to GDP of **5.7%** for FY'22/2023 and **4.4%** projection for FY'23/2024.

	FY 22/23 Budget	May-22	May-23	Variance (YoY)	Variance (MTD Vs FY Budget)	Variance (MTD Vs FY Budget)
<b>INCOME (KES Bn)</b>						
Total Tax Income	2,108.3	1,637.9	1,740.4	102.5	367.9	17.5%
Total Non-Tax Income	83.7	59.5	71.1	11.7	12.5	15.0%
Net Domestic Borrowing	886.5	783.5	464.7	(318.9)	421.9	47.6%
External Loans and Grants	520.6	172.2	311.8	139.6	208.8	40.1%
Other Domestic Financing	13.2	13.2	15.5	2.3	(2.3)	(17.4%)
<b>Total Revenue</b>	<b>3,612.3</b>	<b>2,666</b>	<b>2,603.5</b>	<b>(62.8)</b>	<b>1,008.8</b>	<b>27.9%</b>

<b>EXPENDITURE (KES Bn)</b>						
Recurrent	1,266.0	1,020.4	975.1	(45.3)	290.9	23.0%
CFS	1,552.9	1,046.6	1,130.1	83.5	422.8	27.2%
Development	393.8	283.1	191.1	(92.0)	202.7	51.5%
County Government	399.6	286.5	305.3	18.8	94.4	23.6%
<b>Total Expenditure</b>	<b>3,612.3</b>	<b>2,636.6</b>	<b>2,601.63</b>	<b>(35.0)</b>	<b>1,010.7</b>	<b>28.0%</b>

<b>Balances at end month</b>		<b>51.0</b>	<b>2.5</b>	<b>(48.5)</b>		
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Source: National treasury, NCBA IB Research



### Kenya Government Debt Maturities Schedule – June 2023:

The government has total domestic debt maturities of **KES 156.85Bn** for the month of June 2023 compared to **KES 159.98Bn** for May 2023.

The **high debt maturities** have seen **aggressive domestic borrowing** as seen with the government appetite for treasury bills as well as the latest primary auction (government accepted KES 213.39Bn from KES 220.52Bn bids received for the June 2023 infrastructure bond).

Going forward, we expect the **robust government activity** in the local market attributable to elevated debt obligations which will consequently lead to an upsurge in the yields.

Treasury Bond Maturities				
Issue No.	Maturity Date	Fixed Coupon Rate	Outstanding Amount KES 'Mn	Implied Yield To Maturity
FXD1/2013/010	June 19, 2023	12.37%	39,248.20	9.9222%
<b>Total</b>			<b>39,248.20</b>	

Coupon payments						
Issue No.	Next Coupon Payment Date	Tenor to Maturity	Outstanding Amount KES 'Mn	Fixed Coupon Rate	Coupon payment KES 'Mn	Implied Yield To Maturity
IFB1/2015/009	June 5, 2023	1.54	8,506.50	11.00%	467.86	12.5000%
IFB1/2022/006	June 5, 2023	5.54	59,561.98	13.22%	3,935.56	13.1000%
FXD3/2019/005	June 12, 2023	1.56	44,830.50	11.49%	2,575.96	13.0370%
FXD2/2010/015	June 12, 2023	2.56	25,199.80	9.00%	1,133.99	14.2450%
FXD1/2008/020	June 12, 2023	5.06	55,410.70	13.75%	3,809.49	13.7841%
FXD2/2018/010	June 12, 2023	5.56	63,574.02	12.50%	3,974.01	13.9335%
FXD1/2010/025	June 12, 2023	12.06	20,192.50	11.25%	1,135.83	14.2512%
IFB1/2022/018	June 12, 2023	17.06	79,827.50	13.74%	5,484.95	14.0472%
FXD1/2013/010	June 19, 2023	0.08	39,248.20	12.37%	2,427.70	9.9222%
FXD1/2018/025	June 19, 2023	20.08	94,326.70	13.40%	6,319.89	14.5650%
<b>Total</b>					<b>31,265.23</b>	

Treasury Bills	
Payment Date	Amount KES 'Mn
June 5, 2023	22,222.49
June 12, 2023	26,947.84
June 19, 2023	21,680.69
June 26, 2023	15,481.86
<b>Total</b>	<b>86,332.88</b>

Source: CBK, NCBA IB Research

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