SIB Standard Investment Bank

Regulated by the Capital Markets Authority

18TH AUGUST 2025

"MPC Cuts Base Rate by 25bps to 9.50%; Cites Commitment to Spur Credit Growth"

WEEKLY FIXED INCOME REPORT

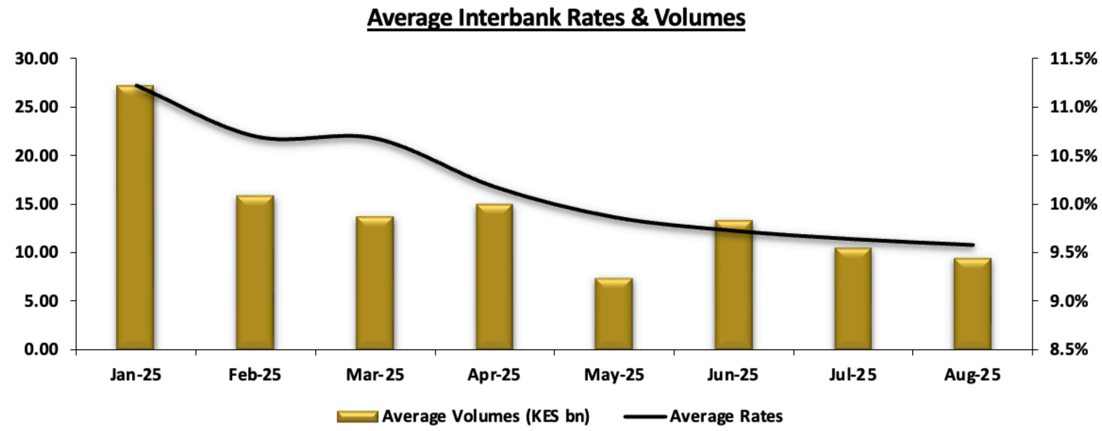
July Tax Revenues Fire Up 7.5% y/y to Kick Off FY25/26

MONEY MARKET STATISTICS

Interbank lending volumes rose to KES 9.79bn from KES 7.68bn over the week, supported by higher transaction activity. In contrast, the average interbank rate eased to 9.53% from 9.61%, mirroring the impact of recent monetary policy actions. The table below summarizes market liquidity indicators:

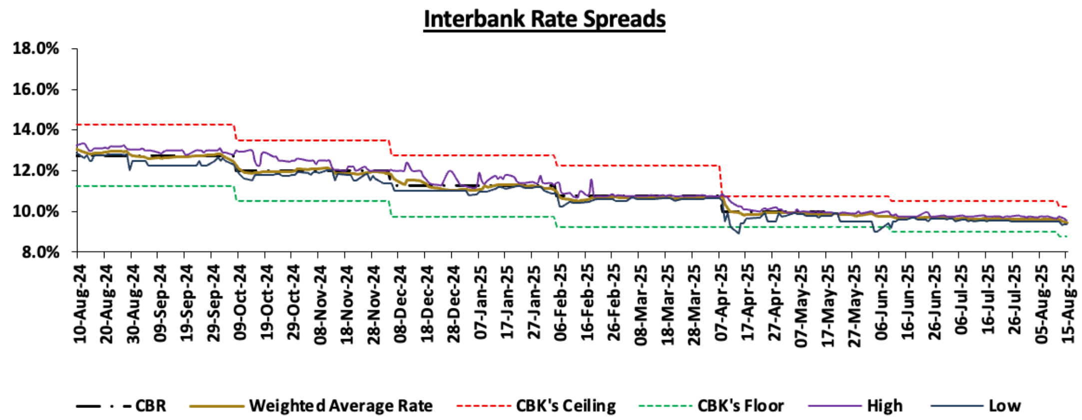
Average	Previous Week	Current Week	Change
Interbank Deals	16.00	23.00	43.75%
Inter- Bank volumes (KES bn)	7.68	9.79	27.51%
Inter – Bank Rates (bps)	9.61%	9.53%	(7.25)
Window Borrowing Volumes (KES bn)	-	0.25	-

Overall, activity in the interbank market remains subdued, with greater focus shifting towards Open Market Operations (OMO). The chart below illustrates the trends in volumes and rates:



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

This week, the interbank corridor narrowed further after the reduction of the Central Bank Rate (CBR), now standing at 8.75%–10.25%. However, interbank rates continue to hover closely around the CBR, as illustrated below;



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

GOVERNMENT SECURITIES MARKET

T-Bills:

This week's Treasury bills auction was undersubscribed focus continued to be on the infrastructure bond issuance, with the subscription rate easing slightly to 96.6% from 97.6% last week. Investors submitted bids worth KES 23.18bn, of which the fiscal agent accepted nearly all, resulting in a net repayment of KES 1.19bn. The 364-day paper led performance for the third consecutive week in absolute terms.

The weighted average rates of accepted bids edged lower to 8.01% (-6.92bps), 8.12% (-5.37bps), and 9.58% (-13.06bps) for the 91-, 182-, and 364-day papers, respectively, as the fiscal agent continues to signal a softer interest rate environment in the near term.

KES Bn

18-Aug-25	91-day	182-day	364-day	Totals
	17-Nov-25	16-Feb-26	17-Aug-26	
Amount offered	4.00	10.00	10.00	24.00
Bids received	4.93	7.46	10.80	23.18
Subscription rate (%)	123.2%	74.6%	108.0%	96.6%
Amount accepted	**4.91**	**7.46**	**10.79**	**23.16**
Acceptance rate (%)	99.7%	100.0%	100.0%	99.9%
Of which: Competitive Bids	2.19	5.91	8.06	16.16
Non-competitive bids	2.72	1.55	2.73	7.00
Rollover/Redemptions	8.14	11.44	4.76	24.35
New Borrowing/(Net Repayment)	**(3.23)**	**(3.98)**	**6.03**	**(1.19)**
Weighted Average Rate of Accepted Bids	8.01%	8.12%	9.58%	
Inflation	4.1%	4.1%	4.1%	
Real Return	**3.9%**	**4.0%**	**5.4%**	

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

T-Bonds: Investors Flood August Infrastructure Bond, Setting a New Subscription Record

The August infrastructure bond issuance attracted robust investor appetite, with bids totaling KES 323.43bn against an offer of KES 90bn — setting a new record, surpassing the February 2024 subscription amount of 288.66bn. This was in line with our expectations, albeit to a far greater extent than anticipated. The shorter-tenor IFB1/2018/15 captured more than half of the bids despite its slightly lower coupon, signaling investors' preference for the short-term outlook.

However, the fiscal agent exercised restraint, rejecting 70.6% of the bids and only taking enough to roll over the concurrent maturity. Of the bids accepted, 67.5% were non-competitive, skewed toward the shorter tenor, hinting that the bulk of rejections came from competitive offers.

The average accepted rates settled at 12.99% for IFB1/2018/15 (below our estimates) and 14.0% for IFB1/2022/19 (in line with our midpoint projections). The outstanding bond amounts now stand at KES 92.26bn and KES 145.27bn for IFB1/2018/15 and IFB1/2022/19, respectively.

See the summary of performance below:

18-Aug-25	IFB1/2018/15	IFB1/2022/19	Totals
Due Date	**10-Jan-33**	**28-Jan-41**	
Amount offered (KES bn)			90.00
Bids received (KES bn)	215.94	107.49	323.43
Subscription rate (%)	239.94%	119.43%	359.37%
Amount accepted	**50.66**	**44.36**	**95.01**
Acceptance rate (%)	23.46%	41.26%	29.38%
Of which: Competitive Bids	8.48	22.39	30.87
Non-competitive bids	42.18	21.96	64.14
Bid to Cover ratio	4.26	2.42	3.40
Redemptions			0.00
New Borrowing/(Net Repayment)			**95.01**
Market weighted average rate of accepted bids	12.99%	14.00%	
Coupon Rate	12.50%	12.97%	
Price per KES 100 at average yield	99.15	94.60	
Inflation	4.14%	4.14%	
Real Return	**8.36%**	**8.83%**	

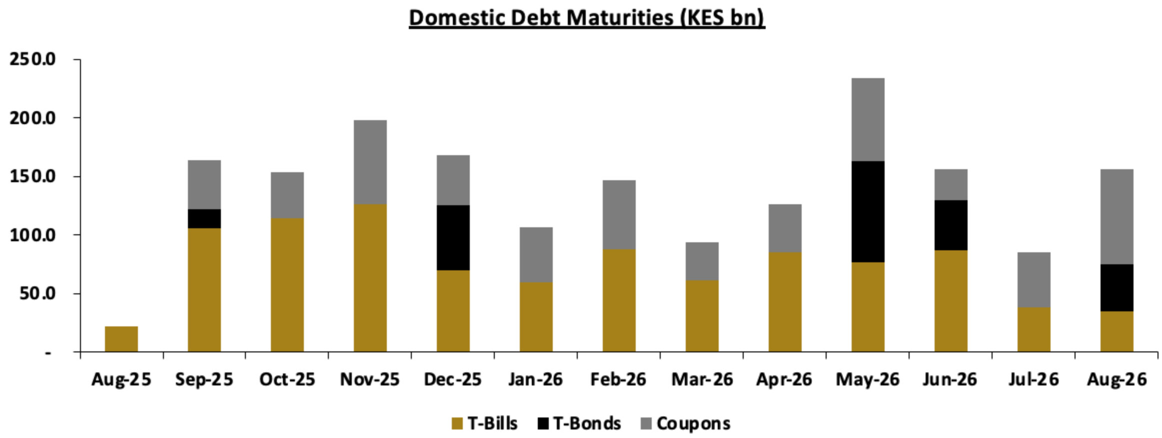
Source: Central Bank of Kenya (CBK), SIB Estimates | Table: SIB

In the secondary bond market, turnover plunged by 28.9% to KES 27.90bn, from KES 39.22bn the previous week.

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

As of this week, the Government's outstanding maturities for the next 12 months stand at KES 971.24bn in T-Bills and KES 240.54bn in T-Bonds. When coupons are factored in, the total maturity profile rises to KES 1.81tn. For immediate obligations, the maturity curve is weighted towards the last four months of the year, with a concentration in short-term T-Bill obligations. Nevertheless, we expect a smooth rollover given prevailing liquidity conditions and sustained investor demand.

See the chart below;



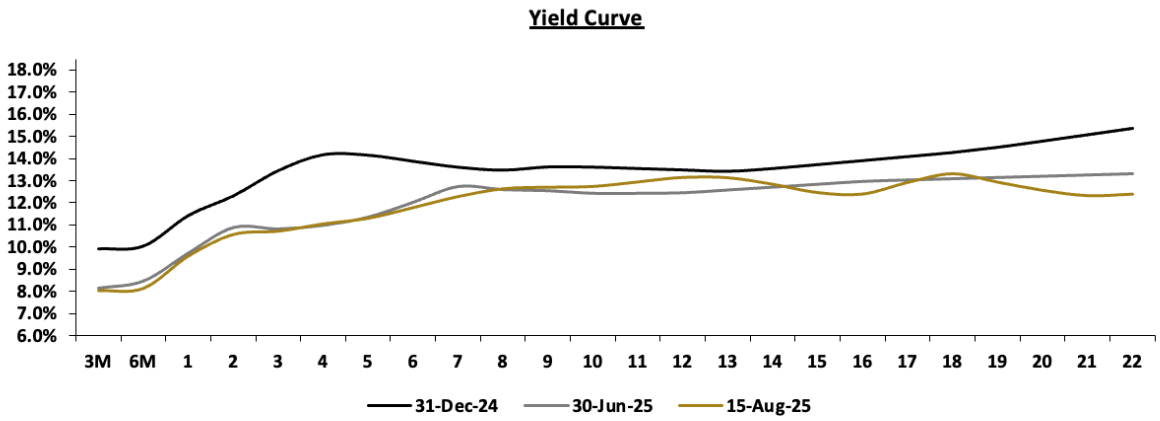
Source: Central Bank of Kenya (CBK), Chart: SIB

This week's auction lowered the Government's net domestic borrowing position to KES 74.85bn, following the August bond maturity. The Government now stands 11% behind its prorated borrowing target.

Yield Curve:

Local interest rates trended lower with the average decline on the yields on government securities coming in at 42.70bps w/w, in contrast to the 16.42 bps increase the previous week.

Below is a visual representation;



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

THE INTERNATIONAL SCENE

Kenyan Eurobonds:

Yields on Kenyan Eurobonds extended their downward trajectory, posting an average decline of 16.13 bps over the week. The table below summarizes the performance across maturities:

Issuance	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Maturity Date	28-Feb-28	16-Feb-31	22-May-32	1-Jun-34	28-Feb-48
Tenor to Maturity	2.5	5.5	6.8	8.8	22.5
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
7-Aug-25	7.6%	8.9%	9.0%	9.5%	10.1%
11-Aug-25	7.6%	8.9%	9.1%	9.6%	10.2%
12-Aug-25	7.6%	8.9%	9.1%	9.6%	10.2%
13-Aug-25	7.5%	8.8%	9.0%	9.4%	10.1%
14-Aug-25	7.4%	8.7%	8.9%	9.4%	10.0%
Weekly Change	(0.2%)	(0.2%)	(0.1%)	(0.1%)	(0.1%)
YTD Change	(1.6%)	(1.4%)	(1.2%)	(0.7%)	(0.3%)

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

Currency Performance

The Kenyan shilling posted a mixed performance against tracked currencies, with its only gain recorded against the TZS. It held steady against the USD, extending the resilience it has maintained for a year now.

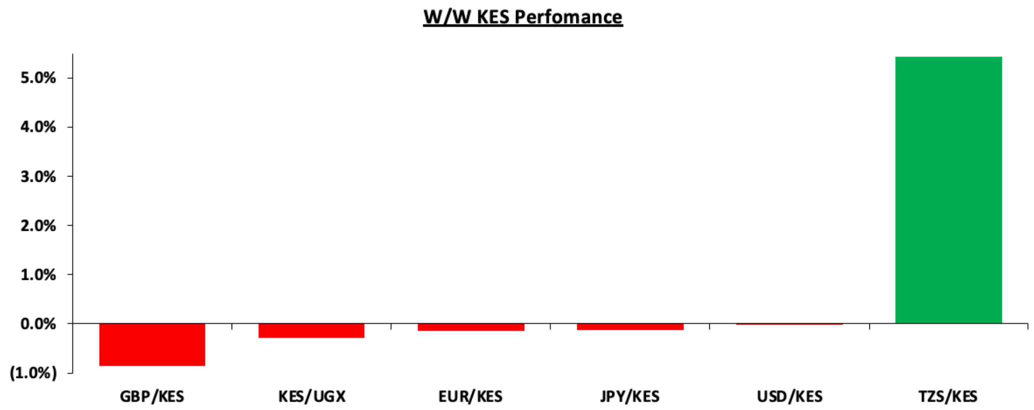
See the table below;

Currencies	30 April 2025 (vs KES)	Previous Week	Current	w/w Change	M/m change
GBP/KES	162.3	173.6	175.1	(0.9%)	(7.9%)
KES/UGX	28.4	27.6	27.5	(0.3%)	(3.1%)
EUR/KES	134.3	150.5	150.7	(0.1%)	(12.2%)
JPY/KES	82.1	87.7	87.8	(0.1%)	(6.9%)
USD/KES	129.3	129.2	129.2	(0.0%)	0.0%
TZS/KES	19.0	19.2	20.3	5.4%	6.8%

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

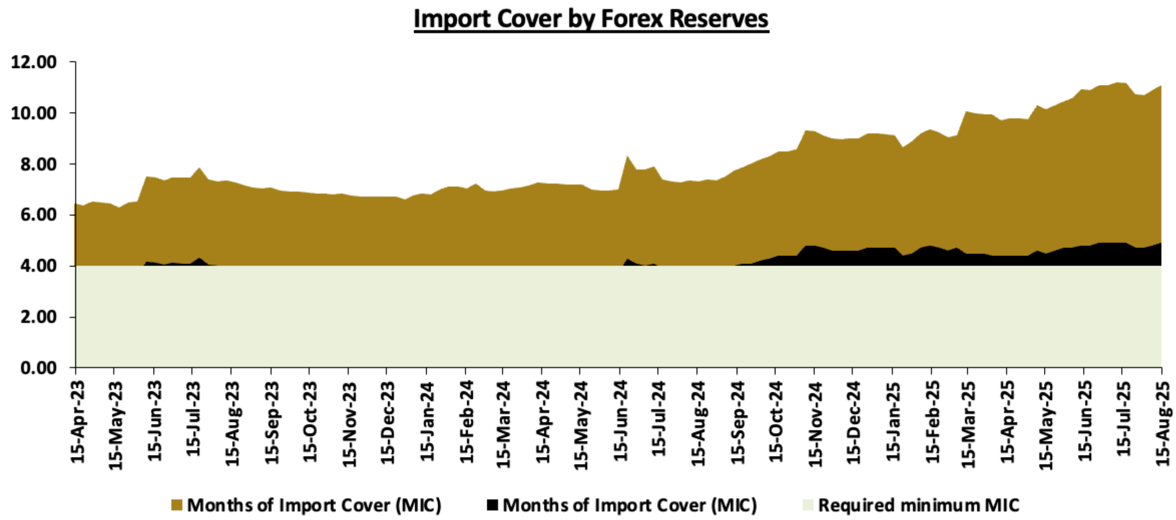
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

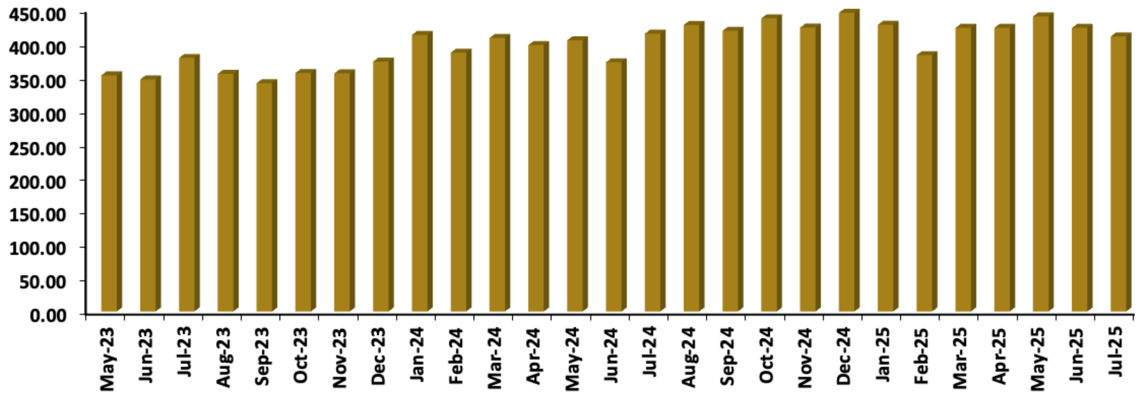
Kenya's foreign exchange reserves extended last week's gain by another 2.0% increase to USD 11.11bn from USD 10.89bn, pushing the import cover to 4.9 months. See the chart below for a visual summary;



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

Meanwhile, diaspora remittances remained resilient, despite July inflows easing by 3.0% m/m and 1.0% y/y to USD 410.10m (from USD 422.83m and USD 414.30m, respectively). Cumulative inflows for 2025 so far stand at USD 2.93bn. See the chart below for a visual summary;

Diaspora Remittances (USD bn)



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

THE MACRO WRAP

1. Tax Revenues Fire Up 7.5% y/y to Kick Off FY25/26

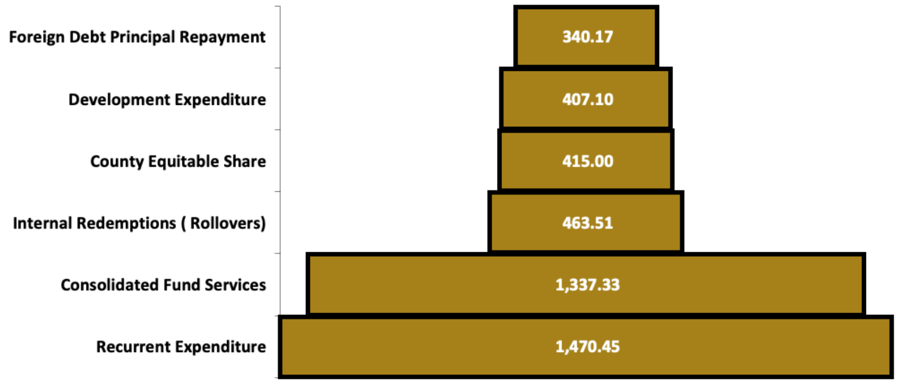
The National Treasury has published the actual receipts and releases for the first month of FY 2025/26 - below is our assessment;

1.1. Overall Budget – FY25/26

Overall, the approved budget for FY25/26 stands at KES 4.43tn with the largest allocation extended to consolidated fund services at 48.3%. Recurrent expenditure commands the second largest share at 33.2%, followed by county equitable share at 9.4%. Development expenditure has the least allocation of 9.2%.

See the chart below for a visual representation of the FY25/26 budget allocation.;

FY25/26 Budget Breakdown (KES bn)



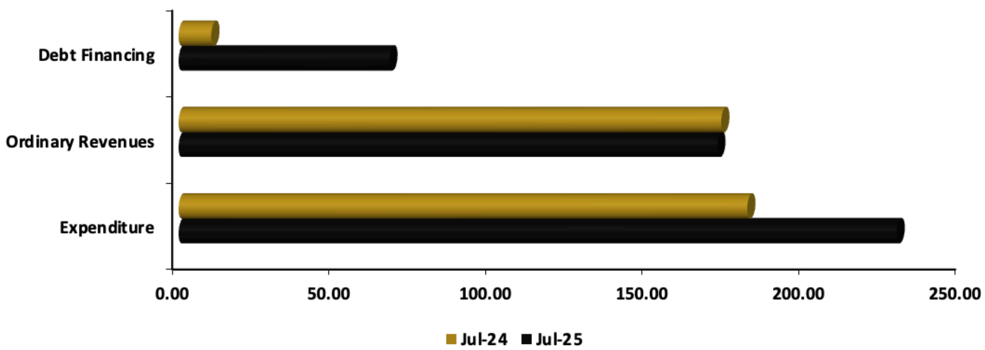
Source: Treasury, Chart: SIB

1.2. Year-on-year Performance

- The government collected KES 171.95bn in ordinary revenues in July 2025, a 0.7% decline from KES 173.22bn collected in July 2024. Of the amount, tax revenues which contributed almost the whole amount, recorded a 7.5% increase to KES 171.53bn, from KES 159.51bn.
- Total expenditure came in at KES 229.20bn, marking an 26.3% increase from KES 181.51bn in the prior financial year. This performance is attributable to an increase in both recurrent and debt service expenditure. County governments did not receive any disbursements associated with the current fiscal year.
- The budget deficit came in at KES 57.25bn for the month, a strong jump compared to the KES 8.29bn recorded in July 2024. This shortfall was financed by domestic borrowing, which came in at KES 67.26bn for the period.

See the chart below for a quick summary;

Actual Budget Performance (KES bn)



Source: Treasury, Chart: SIB

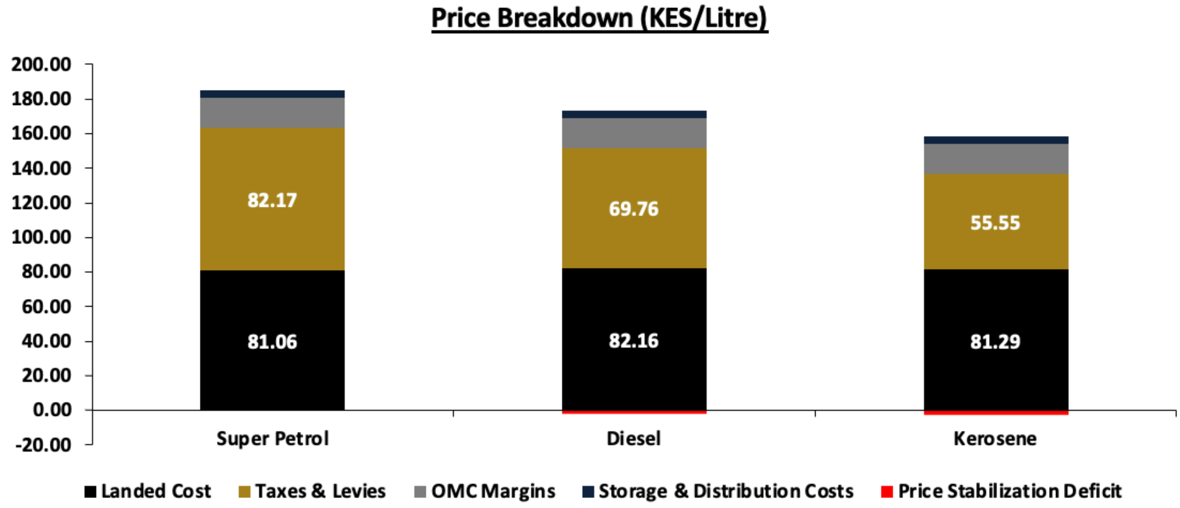
The fiscal year has kicked off on a strong footing, with tax revenues expanding by 7.5% y/y—well above the 2.9% growth recorded in July last year. Despite a relatively narrow Finance Bill, we expect this fiscal year to deliver stronger revenue performance, supported by a lower base, improving business conditions as credit growth gains momentum, and the absence of overly aggressive new tax measures.

Nonetheless, debt sustainability remains a key challenge for the country's finances. While easing interest rates should provide some relief, the government would do well to diversify its funding mix by leaning more on multilateral loans, thereby reducing pressure on the domestic market.

2. Fuel Prices Steady as Gov't Reinstates Stabilization on Diesel & Kerosene

The Energy and Petroleum Regulatory Authority (EPRA) released fuel prices for the pricing cycle running 15th August–14th September 2025. Petrol and kerosene edged lower by 0.5% and 0.6% to KES 185.31 and KES 155.57 per litre, respectively, in Nairobi while diesel prices were unchanged over the review period.

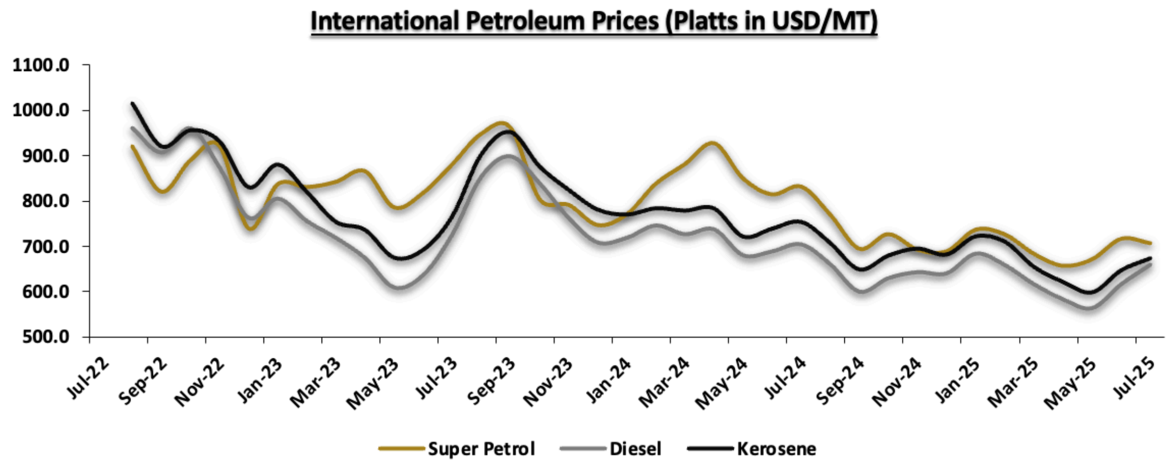
See below the price breakdown;



Source: EPRA, Chart: SIB

On the key pricing metrics, we note the following:

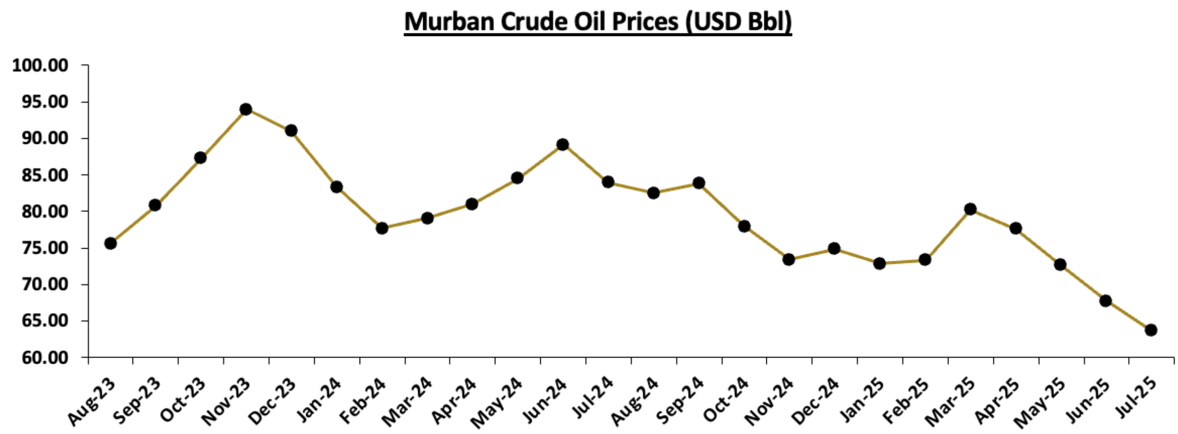
i. Landed costs per litre imported increased for both diesel and kerosene, while those of petrol declined. This trend is consistent with the performance of landed costs in USD per cubic metre as well as movements in the Platts prices, as illustrated below;



Source: EPRA, Chart: SIB,

ii. A resumption of the price stabilization component for diesel and kerosene, set at KES 2.04 and KES 2.86 per litre, respectively. Super petrol prices were not moderated in this cycle.

ii. A 6.1% decline in crude oil prices in July to USD 63.62 per barrel, from USD 67.73 per barrel (Bbl), extending the downward trend observed since April 2025, as shown below;

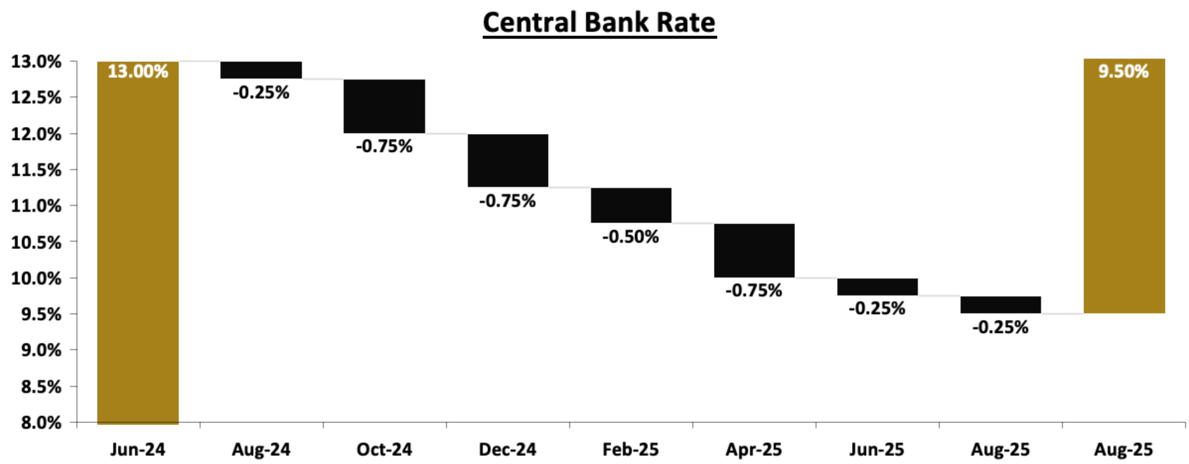


Source: EPRA, Chart: SIB

The August/September fuel review cycle has not generated significant shifts, as fuel prices remain largely stable. This stability is expected to sustain some relief within the business environment and may ease pressure on the prices of goods and services. However, we note that fuel price movements remain subject to uncertainty, particularly due to the government's discretionary application of the stabilization levy.

3. MPC Cuts Base Rate to 9.50%; Cites Commitment to Spur Credit Growth

The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) convened on Tuesday, 12th August 2025, and resolved to cut the Central Bank Rate (CBR) by a further 25bps to 9.50%, in line with our expectations. This decision extends a full year of sustained monetary easing, with the MPC lowering the policy rate in every sitting since August 2024. The August adjustment brings the cumulative reduction in the benchmark rate to 350bps, down from 13.0%, as illustrated below;

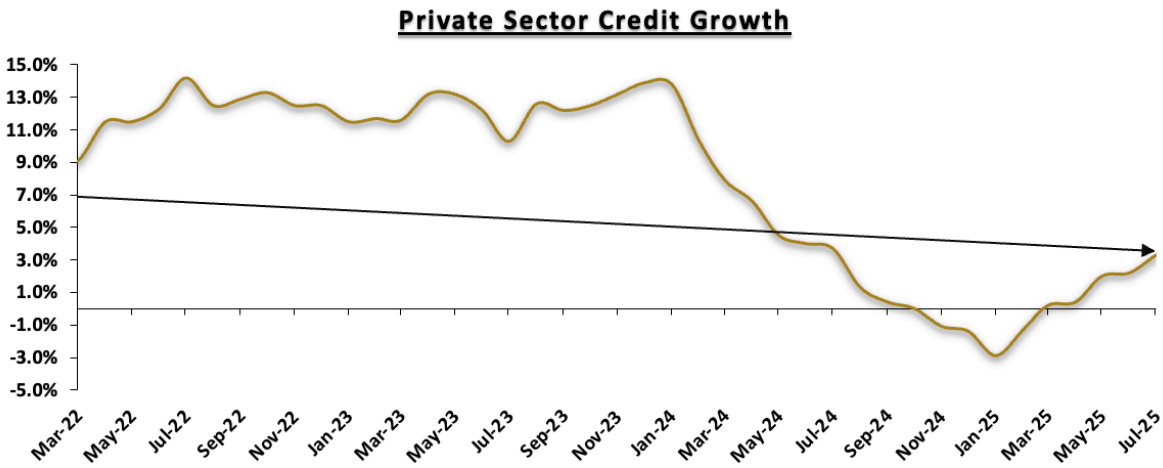


Source: CBK, Chart: SIB

The sustained rate cuts by the CBK are primarily geared towards stimulating economic activity and easing liquidity conditions, with the broader aim of bolstering private sector credit growth. This policy stance has been supported by a stable exchange rate against the US dollar and inflation that remains comfortably within the CBK's target band. Inflation is projected to average 4.1% in 2025, lower than the 4.5% recorded in 2024, with short-term expectations remaining well contained.

On the external front, the MPC highlighted a 7.7% y/y increase in exports in the twelve months to June 2025, outpaced by a 9.9% rise in imports. Consequently, the current account deficit narrowed to 1.6% of GDP over the period, down from 1.8% in 2024, a 20bps improvement. Looking ahead, the deficit is expected to ease further to 1.5% of GDP in 2025.

Credit conditions have continued to show signs of improvement, with private sector credit growth rising to 3.3% in July from 2.2% in April 2025. Nonetheless, banking sector vulnerabilities persist, with Non-Performing Loans (NPLs) still elevated at 17.6%, unchanged from April 2025. See chart below;



Source: CBK, Chart: SIB

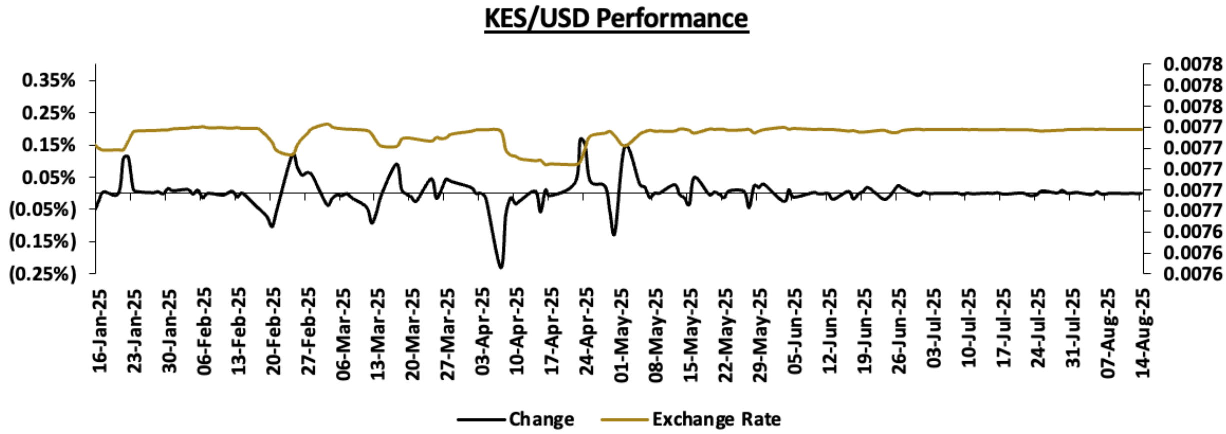
For the fourth MPC meeting of the year, our expectations were largely anchored on the continued stability of consumer prices which, notably, remain not only stable but also below the mid-point of CBK's target range. We also placed significant weight on the yields of government securities, a key determinant of both the cost and volume of private sector credit. These yields still remain elevated relative to pre-2022 levels—before the turbulence of a depreciating currency and elevated interest rates set in.

Encouragingly, we observe faster transmission of policy easing into interbank rates, which the CBK and stakeholders recently agreed to adopt as a benchmark for lending rates. Once this transition is finalized, we expect private sector credit uptake to gain traction, with banks gradually reducing their cautious stance linked to elevated NPLs. That said, the momentum will also hinge on how far yields on Treasury bills and bonds decline, given that further policy easing is expected to feed through to these instruments, which continue to crowd out the private sector.

The committee will meet again in October 2025.

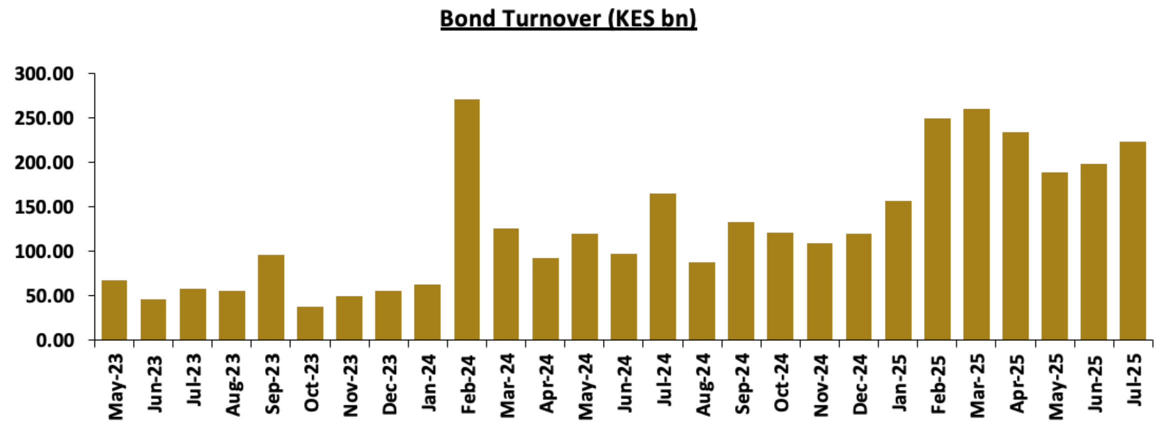
BACKGROUND CHARTS

KES/USD Performance



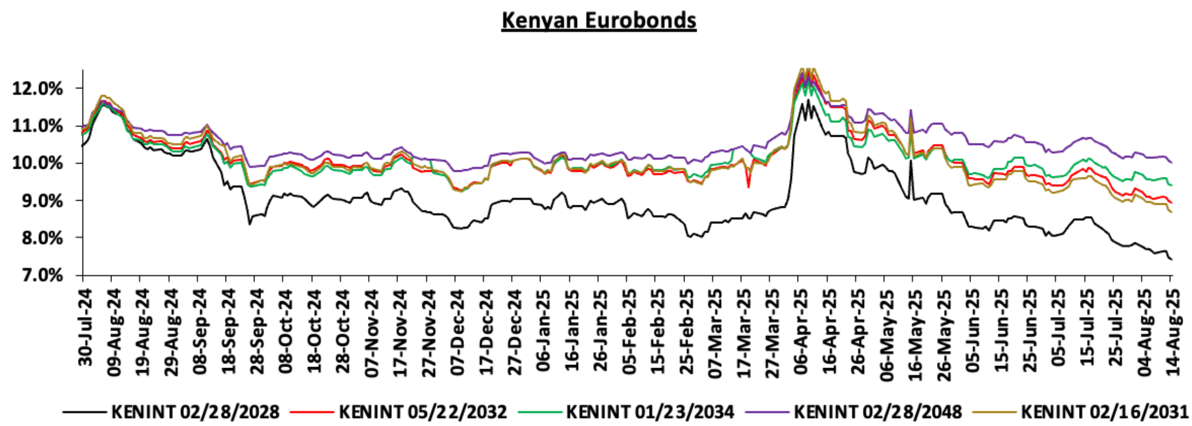
Source: Nairobi Securities Exchange (NSE)

Bond Turnover



Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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