STERLING CAPITAL LIMITED

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State borrowing ahead of target as liquid market boosts bonds uptake

- The government's net domestic borrowing has hit KES.221.4Bn within the first two months of the fiscal year, staying ahead of the pro-rated target as a high liquid market supports lending to the State.
- The government has taken up KES.200Bn from the Treasury bonds floated in the market in the current fiscal year, which include July's three-tenor paper and a tap sale on a 2018 20-year bond, and the 11-year infrastructure bond whose sale concluded last week.
- In the 2020/2021 fiscal year, the government intends to borrow a net of KES.494Bn from the domestic market.
- The Treasury and CBK have in the past few months benefited from a highly liquid money market that has seen bids on government paper hit record highs, and in turn pushed yields lower.
- The prevailing conditions have therefore favoured front loading on domestic debt to take advantage of the cheaper money on offer from investors.
- The same level of appetite has been seen on the short term Treasury bills, which in mid-July saw weekly bids go as high as KES.85Bn against a target of KES.24Bn on the three tenors combined.

Our View:

- The ambitious borrowing over the short period should imply reduced borrowing pressure ahead and a shift to issuance of longer tenor primary bonds.
- **However, we expect the borrowing target to be revised upward leading to a higher domestic borrowing for FY2020/2021. In addition, revenue collections are behind target and this means that domestic borrowing is likely to exceed the KES.494Bn target to cover the fiscal deficit.**
- Liquidity in the market will remain high due to preservation of capital strategies employed by the banks and pension funds in this uncertain economic environment which has led to an increase in appetite for government securities and less for stocks which are deemed riskier.
- Currently, domestic borrowing is ahead of the curve at KES.221.4Bn equivalent to 44.8% of the total target. As such, domestic borrowing is ahead of the curve.
- On a pro-rated basis, the State ought to borrow about KES.41.2Bn per month from the domestic market to hit the target at the close of the fiscal year.

Source: Business Daily and Sterling Research