LESSONS FOR AFRICA'S FINANCIAL SECTOR FROM MOODY'S RATINGS COMMENTARIES AND RATING ACTIONS ON KENYA (2023–2025)

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APRM
African Peer Review Mechanism

An Institution of the African Union

I. ABOUT THIS BRIEF

Decision [Assembly/AU/Dec.631(XXVII)] of the African Union Assembly of Heads of State and Government, along with Article 6(g) of the African Peer Review Mechanism (APRM) Statute (2020), mandates the APRM to support African countries in the area of credit ratings. In line with this mandate, the APRM routinely conducts independent analyses of rating actions and commentaries issued by international credit rating agencies on African sovereigns and multilateral financial institutions.

II. EXECUTIVE SUMMARY

Between June 2023 and October 2025, Kenya's Eurobond market experienced significant volatility, largely triggered by Moody's premature commentary and subsequent rating actions. These developments directly affected Kenya's fiscal strategy, borrowing costs, and market confidence. This brief outlines the chronology of events, quantifies the market impact, and highlights key policy lessons for African countries in managing communication and engagement with credit rating agencies.

III. BACKGROUND - KENYA'S PROACTIVE DEBT MANAGEMENT PLAN

In June 2023, Kenya announced plans to repurchase at least half of its USD 2 billion 2024 Eurobond. The strategy aimed to raise between USD 500 million and USD 1 billion in new commercial loans to finance the buyback. The objectives included managing debt maturity profiles, avoiding repayment concentration, and stabilising the Kenyan shilling to reduce exchange rate volatility. The plan also sought to reassure investors of Kenya's ability to meet its 2024 Eurobond obligations.

Market reaction was initially positive: Kenya's 2028 Eurobond traded near 97 cents on the dollar, with yields around 7.2%.

IV. AUGUST 2023: MOODY'S COMMENTARY TRIGGERS MARKET SELLOFF

On 2 August 2023, in a Bloomberg interview, a Moody's analyst stated that Kenya's planned buyback would be treated as a "default" and

categorised as a distressed debt exchange. This remark was both premature and analytically flawed for several reasons:

- No official buyback terms had been announced.
- The proposed transaction was voluntary, allowing investors to opt out.
- The statement contradicted market practice, which assesses such operations only after official documentation is available.

Immediate market response:

- Eurobond prices fell from approximately 97 to 91 cents (a 6-7% loss).
- Yields spiked from 7.2% to 9.1% (+190 bps).
- The Kenyan shilling depreciated from KSh 124/USD to KSh 128/USD.

The commentary eroded investor confidence, triggered an artificial market panic, and significantly increased Kenya's external financing costs.

V. FISCAL FALLOUT- DERAILMENT OF THE BOND BUYBACK PROGRAMME

The sudden rise in yields and investor caution undermined the feasibility of the planned buyback. Instead of purchasing its bonds at discounted prices, Kenya faced a steep premium. As a result, the Treasury increased domestic borrowing and delayed fiscal consolidation. Moody's commentary directly derailed a key debt management strategy aimed at market stability and refinancing risk reduction.

VI. JULY 2024: MOODY'S DOWNGRADE BASED ON PROTESTS

On 8 July 2024, Moody's downgraded Kenya's credit rating from B3 to Caa1, citing "heightened political and social risks" amid protests over the Finance Bill. This downgrade was seen as premature, as key fiscal data had not yet been published. In contrast, S&P indicated a more cautious approach, choosing to wait until the midterm fiscal data became available in August 2024.

The downgrade was widely perceived as politically motivated rather than based on fiscal fundamentals. Investor sentiment weakened again, leading to temporary selloffs.

VII. JANUARY 2025: MOODY'S RATING REVERSAL – FROM NEGATIVE TO POSITIVE

On 24 January 2025, Moody's revised Kenya's outlook from 'negative' to 'positive' (skipping the intermediate 'stable' outlook) while affirming its Caa1 rating. The change cited improved liquidity and debt affordability, effectively reversing its previous pessimistic stance.

Immediate market response:

- Eurobond yields fell by 90–100 bps.
- The Kenyan shilling strengthened by 2–3%.

The revision implicitly acknowledged that the earlier downgrade and negative outlook had been mistaken. However, the government had already incurred significant financial costs.

VIII. OCTOBER 2025: KENYA COMPLETES A SUCCESSFUL BOND BUYBACK

Between 2 and 15 October 2025, Kenya successfully executed a bond buyback and new issuance programme, significantly extending its debt maturity profile. The operation attracted strong investor participation, although at a higher redemption premium.

Kenya restored market access and credibility, but continued to pay elevated spreads relative to peers, an enduring consequence of earlier disruptions. Its foreign exchange reserves have risen to a record high[1].

1 https://www.dawan.africa/news/kenyas-reserves-hit-record-usdollar12-billion-but-at-what-cost

IX. LESSONS FOR AFRICA'S FINANCIAL SECTOR

Kenya's experience offers critical lessons for African financial markets. The events of 2024-2025 highlighted how rating actions and premature commentary can distort market perception, derail financing strategies, and raise borrowing costs. The following five key lessons emerge:

a) Premature rating actions and commentaries create self-fulfilling fiscal crises. Rating agencies should refrain from speculative statements until full fiscal data and transaction details are available.

b) African portfolio managers must reduce overreliance on global ratings. They should complement them with domestic ratings, independent research, and local market intelligence to better assess risk and avoid mispricing of African assets.

c) Governments must institutionalise structured engagement with rating agencies. Planned financial operations should be communicated transparently, while agencies must respect due process in line with the AU Guidelines on engagement with credit rating agencies.

d) Market sensitivity to rating narratives remains high. A single media comment from a rating analyst can move yields by over 200 basis points, leading to tens of millions of dollars in additional borrowing costs.

e) Regaining lost confidence is costly. Although Kenya's 2025 bond buyback succeeded, it came at a higher premium. Once market confidence is disrupted, it takes significant time and resources to rebuild.

X. CONCLUSION

The Kenyan case highlights the material and immediate fiscal consequences of rating agency commentary and timing. Moody's premature treatment of a voluntary debt management operation as a "default" distorted market pricing and imposed real economic costs.

Although the January 2025 outlook upgrade partially restored investor confidence, the broader lesson is that Africa must play a more assertive role in managing its interactions with global credit rating institutions. Transparent communication, enhanced local analytical capacity, and implementation of AU Guidelines can help mitigate the negative impacts of speculative or inconsistent rating narratives.

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