Twenty Third Sovereign Debt News Update: East African Sovereign Debts and the Decisions for the Future

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On Thursday, June 10, 2021, the World Bank approved $750 million in development policy financing for Kenya. The aim is to support policy reforms that will strengthen transparency and accountability in public procurement while promoting efficiency in public investment spending and improving medium-term fiscal and debt sustainability. Apart from the health and power reform policy that the financing is expected to achieve, it is also designed towards the establishment of public finance management systems that will enable electronic tracking of government procurement activities in order to boost transparency. It is projected that the system would yield savings of up to $2.6 billion. This development policy operation financing or DPO is a concessional loan at the interest rate of 3.1% and payable over a term of 30 years.

Kenya, Uganda and Tanzania, three major members of the East African Community, had their respective finance ministers present their budgets on Thursday, June 10, 2021. The respective budgets project economic growth in the coming year, even though this growth is insufficient to finance the entirety of these budgets without additional borrowing. From external sources, Uganda projects borrowing Ush 6,744 Billion ($1,915,296,000) for project loans and Ush 5,585 billion ($1,586,140,000) as budget support loans, while Ush 2,484 Billion ($705,456,000) which constitutes 1.5% of GDP would be borrowed domestically. For Kenya, the deficit in the budget is projected to be financed with Ksh 291.3 billion ($2,703,555,301) (2.4% of GDP) in external financing and Ksh 661.9 billion ($6,143,093,901) (5.3% of GDP) in domestic borrowing. As for Tanzania, Domestic debt is set to increase by Tsh1,838,796,200,000 ($792,521,163) while External debt is set to increase by Tsh1,154,884,500,000 ($497,755,220)bringing the total value of debt increase to Tsh2,993,680,700,000 ($ 1,290,276,384). The three countries combined, project to borrow roughly $16 Billion to finance their deficits.

After Kenya's Budget reading on Thursday, a report by the Parliamentary Budget Office, highlighted the fact that Kenya's debt servicing costs are likely to escalate to 1.17 trillion Shillings ($11 billion). Indicating the resulting fiscal inflexibility and the tendency for debt default that may likely follow the continuous increase in Kenya's debt stock in the absence of a restructuring, the agency called for a revamping of the nation's debt.

In a bid to strengthen Uganda's digital inclusion by facilitating the expansion of access to high speed and affordable internet, and efficient digitally-enabled public service delivery, the World Bank approved the sum of $200 million, with $140 million as financing from the International Development Association and $60 million in grant. It is projected that the program will benefit different kinds of beneficiaries including the private sector. Tony Thompson, a representative of the World Bank noted that the transformation of Uganda's digital infrastructure is an urgent necessity for a post covid-19 recovery.

Meanwhile, on Monday, June 7, the International Monetary fund approved $650 million as arrangement under Standby Credit Facility to Senegal. This will result in an immediate disbursement of $187 million. This marks the completion of the third review of its pending Policy Coordination Instrument which will provide policy framework for the country’s COVID-19 response and economic recovery. This comes as a sequel to the emergency fund support granted to Senegal in April, 2020.

Gabon also reached a staff-level agreement on a three-year program under the Extended Fund Facility (ETF) with the International Monetary Fund (IMF). This will facilitate the government’s policy and reform efforts in recovering from the economic shocks arising from the pandemic while bolstering strong, sustainable and inclusive growth. According to representative of the IMF, Mr. Boileau Loko, the emergency financing through the Rapid financing Instrument to the tune of $299.61 from the IMF was necessary to enable Senegal to reduce its fiscal deficit which got widened as a result of the oil price shock in 2014 and subsequently the COVID-19 pandemic. This new program aims to, in addition to improving the country’s response to the pandemic, reduce Senegal’s fiscal and debt vulnerabilities.

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