Forty Second Sovereign Debt Justice News Update: East and West African Countries in Context

By:

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With its risk of debt distress increasing from moderate to high and inherent structural imbalance between its revenues and expenditure, Malawi's Minister of Finance and Economic Analysis declared that the country's debt is unsustainable. A projection of 53% total debt to Gross Domestic Product (GDP) ratio, 22.4% external debt to GDP ratio, 44.1% debt service to exports ratio and 31.8% debt service to revenue ratio is anticipated. This is higher than IMF thresholds of 35%, 30%, 10% and 14% respectively.

In the 10-year period from 2011 to 2020, Ghana has spent $1.39 billion out of its Petroleum revenues in its Ghana Stabilisation Fund (GSF) on debt repayment, a sum amounting to 74% of the value in the Fund. The Fund, which was created by Section 9 of the Petroleum Revenue Management Act to cushion the impact of unanticipated petroleum revenue shortfalls and sustain public expenditure capacity had only 4% out of it spent on shoring up annual budget deficits.

The emergency financial assistance which Nigeria received from the international Monetary Fund in the sum of $3.4 billion under the Rapid Financing Instrument in 2020 has started getting due for payment. Nigeria is expected to make a payment of $37.40million in 2022, $889.34m in 2023, $1.72 billion in 2024, $856.77 million in 2025 and $389,200 in 2026. Notably, the payments to be made in 2022 and 2026 are only interest fees while the others comprise of both principal and interest fees.

In a recent Article IV consultation with Nigeria by IMF's Executive Board, it was projected that despite the recovery of oil prices, fiscal deficit is projected to have increased to 5.9% of GDP in 2021 as a result of implicit fuel subsidies and high security spending. Also, the consolidated government revenue to GDP ratio is projected at 7.5%, which is considered comparatively low. The IMF recommended a consolidation of fiscal policy and a reduction in debt sustainability risk by mobilizing domestic revenue, increasing Value Added Tax (VAT) rates, improving tax compliance and rationalizing tax incentives.

With Majority Leader, Amos Kimunya playing a key role, Kenya's Parliament has effected an amendment to the 2022/23 Budget Policy Statement which now directs the Treasury to increase the country's debt ceiling in order to allow the borrowing of Ksh 846 billion ($7.41billion) to plug budget deficit. This increase had however been projected by the Treasury in its 2021 Medium-Term Debt Management Strategy.

Meanwhile, the Central Bank of Kenya's sale of a 5-year, 15-year and 25-year Eurobond closed on Tuesday, March 8, 2022. The National Treasury hoped to raise Ksh50 billion ($438.2 million) from the sale of the three bonds.

With the collapse in tourism exports during the pandemic, which forms a quarter of its exports and foreign exchange earnings, Tanzania has had to borrow more non-concessional loans in order to keep its economy afloat. Meanwhile, the last IMF-World Bank Sustainability Analysis reveals that Tanzania's risk of external debt distress has increased from low to medium. However, the World Bank projects that Tanzania's economy would expand by 5.5% in 2022 as the roll back from the pandemic is likely to boosts tourism and trade.

On Wednesday, February 23, 2022, the Board of Directors of the African Development Bank Group (AfDB) approved a Sustainable Borrowing Policy which aims at strengthening debt sustainability among low-income countries in Africa. Through this policy, the AfDB hopes to emphasize debt management and transparency through agreed policy actions and technical assistance while coordinating and partnering with other multilateral development banks, development partners and lenders.

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