Ninety Ninth Sovereign Debt News Update: Kenya Begins Talks with the IMF and World Bank on Repayment of USD$2 Billion Eurobond

By:

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With a USD$2 billion (Ksh297.6 billion) Eurobond repayment due in June 2024, Kenya has begun discussions with the International Monetary Fund (IMF), the World Bank, and other development financial organisations about a fresh loan to assist them pay it off. The 10-year bond, which was issues in 2014, is due for repayment or refinancing at a time when rising yields have essentially shut off several frontier economies from the market. The 10-year bond priced at 6.78 per cent was issued to fund infrastructure projects under the then-Jubilee administration. Kenya took up the USD$2 billion in two tranches – a 10-year paper at a 6.78 percent interest rate and a five-year issuance at 5.87 per cent. The five-year paper was repaid partly using the proceeds of another $2.1 billion

Eurobond issued in May 2019.Concerns over the maturing bond have also been exacerbated by its debt load and the declining value of the shilling.

Recently, Kenya’s Eurobonds took a tumble after President William Ruto called for a debt restructuring initiative by developed countries at the UN General Assembly in New York in September 2023. In a speech, the Kenyan President called for a new debt initiative that does not wait for nations "*to plunge over the cliff into debt distress before providing relief.” According to Ruto, “the new sovereign debt architecture should extend the tenor of sovereign debt and provide a 10-year grace period for countries that are in debt distress*." The investors were therefore concerned by his remarks on debt restructuring, resulting in the plunge of the Eurobonds. Kenya’s Eurobonds also took another plunge after Moody’s Investors Service said Kenya might treat a planned buyback of some of the debt as a default. According to Moody's vice president and senior credit officer, David Rogovic, “…*redeeming the bonds at a price below par value would constitute an economic loss to investors*.”

According to a senior finance ministry official, Kenya's government is reported to have picked Citi and South Africa's Standard Group to advise it on how to handle the same $2 billion Eurobond. The two have also been chosen as the lead arrangers for Kenya’s planned return to the global markets for a new Eurobond. A research note by U.S. investment bank JPMorgan posits that the East African nation is "*walking a tightrope*" to avoid a crisis due to a maturing dollar bond and persistent currency weakness. In response, Njuguna Ndung'u, who is the Finance Minister, said Kenya's struggle with a heavy debt load and pressure on its hard currency reserves is not unique since other nations are facing the same situation. According to Ndung’u, the upcoming Eurobond maturity "*should not be a big deal since Kenya can use its reserves at the central bank to pay off the debt*.”

Can Kenya afford to use its reserves to pay off the debt?

Taking a different stance from Ndung’u, the Central Bank of Kenya (CBK) Governor Kamau Thugge, indicated that the government is leaning more towards tapping into concessional financing to settle the maturing obligation, stating that, “*[c]urrently, the credit market conditions are not favourable for refinancing the Eurobond. We have been engaging our lead managers and lead* *advisers on how to address the issue of the 2024 Eurobond. We have looked at several options, we are talking with multilateral institutions, the World Bank and the IMF, to see how much additional resources they can make available to us,"*

The ability of Kenya to use its reserves at the central bank to pay off the debt is questionable considering that the country has breached its debt ceiling. As noted in the AfSDJN Seventy Seventh Sovereign Debt News Update, for the first time in Kenya's history, debt costs surpassed the recurrent expenditure as debt repayments for the first nine months of the 2023 financial year overtook the national government's recurrent spending on items like civil servant salaries.

Further, a breach of the debt ceiling signals the possibility that the country's debt could be excessive and unsustainable. The stock of Kenya's overall debt has crossed the Ksh10 trillion ($68 billion) mark on increased borrowing during President Willam Ruto's first year in office, thereby burdening the taxpayer with more repayment obligations. New data from the Treasury and the Central Bank of Kenya (CBK) place Kenya's debt stock at Ksh10.189 trillion ($69.3 billion) at the end of June 2023, in contrast to Ksh8.579 trillion ($58.4 billion) in June last year.

The National Assembly amended the Public Finance Management Act of 2012, revising Kenya's debt ceiling from a cap of Ksh10 trillion to a moving target/placeholder of no more than 55 percent of GDP and present value terms. The debt stock has already surpassed the Ksh10.13 trillion ($69 billion) estimate for June 2024, reflecting the faster-than-anticipated growth of governmental debt and borrowing. For this, National Treasury CS Njuguna Ndung'u has come under fire over the breach of the Sh10 trillion debt ceiling set in June 2022 for the 2022/2023 Financial Year. Further, members of the National Assembly's Public Debt and Privatisation Committee have censured Ndung'u for not alerting the House in advance when the government was just about to breach the ceiling. In response Ndung'u has pleaded with the Members of Parliament to be patient, adding that "*by the time the children know there is no food, we will have tried all we can*". The Finance Minister's tone-deaf attitude towards keeping Kenyans in the dark as illustrated by his reference to them as "children" underscores the lack of commitment to transparency and the right to access information on Kenya's indebtedness to its citizens.

Another reason why the Kenyan government may be unable to use its reserves to pay back the debt is the gloomy picture painted by the report by the Office of the Controller of Budget. Statistics from the report indicate that an astounding 83% of all revenues collected by the government have been spent on debt repayment. According to Controller of Budget Margaret Nyakango, public debt is expected to consume 83% of the Ksh. 4.18 trillion (USD$28 billion) budget for the 2022–23 financial year, leaving a pitiful 17% for other government programmes. This budget mainly depends on Kenya Revenue Authority tax collections. Even though the Kenya Revenue Authority (KRA) is targeting collecting Ksh. 2.7 trillion (USD18 billion) by the conclusion of the 2023–24 fiscal year, a larger portion of the funds would be used to pay off debt.

Despite being largely shut out of the global capital markets, Kenya has been able to maintain access to multilateral funding, with lenders like the World Bank and the International Monetary Fund (IMF) continuing to be essential for budget support. In addition, other multilateral lenders have also stepped in to plug Kenya's external financing needs including the Trade and Development Bank (TDB) and the African Development Bank (AfDB). However, as one of the beneficiaries of the IMF's loans, Kenya will be subject new conditions announced, with the lender saying the conditions are compounding problems related to rising inequality in fragile states. Further, the issue of non-performing loans has been a cause of concern as the Public Debt and Privatisation Committee has raised a red flag over loans secured by the government and whose details remain unknown, thereby risking exposing the country to huge penalties and closing off the access to more credit.

It is clear that it would not be feasible for the Kenyan government to rely on the reserves at the central bank to pay off the USD$2 billion Eurobond. At the same time, the financial/debt operations in Kenya do not inspire confidence to investors to pour in money into the economy at present. The AfSDJN urges the Kenyan government to proceed with caution in the discussions with IMF and the World Bank for favourable credit market conditions as access to concessional loans at low interest rates.

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