Seventh Sovereign Debt News Update

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Seventh Sovereign Debt News Update: IMF's SDR Allocation in Context

In Kenya, more of tax payers revenue is now going to debt servicing than recurrent expenditure. With the recent 32% increase in debt servicing costs, the Kenyan government's payments to its domestic and external creditors represent almost 101% of the amount disbursed to State ministries, departments and agencies as general administrative expenses and wages on a yearly basis. Development spending has reduced by 0.3% while recurrent expenditure remain relatively the same.

In May 2020, the International Monetary Fund provided an interest-free loan of $739 Million to Kenya under its Rapid Credit Facility program, with the aim of cushioning the effect of the pandemic on government spending as well as to enable the government to provide health and social protection. In 2021, the Kenyan government is continuing discussion with the International Monetary Fund with a view to securing a 2.4 billion low-cost financing under its Extended

Credit Facility program. The understanding is that the funds will help in supporting the next phase of the country's Covid-19 response. The goal is to consolidate the Extended Credit Facility and the Rapid Credit Facility in the medium term.

The Executive Secretary of the Economic Commission for Africa (ECA) has expressed her delight in the recent allocation of the Special Drawing Rights. She noted this allocation sets the right tone for the forthcoming IMF and World Bank Spring Meeting as well as the African Finance Ministers meeting. She expressed her optimism that the Special Drawing Rights will enable the stakeholders think bigger and out of the box.

In terms of thinking boldly, it is worth remembering that in 2020, the German government under the leadership of Chancellor Angela Merkel relieved Nigeria of debt repayments of up to €3.25 billion which is the equivalent of N1.3 trillion. In addition, the German government also pledged the sum of €12 million which is the equivalent of N4.8 billion to support the West African Health Organization. Further, it is notable that Pope Francis is a major proponent of the campaign for debt cancellation for most vulnerable countries in the light of the Covid-19 crisis.

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