Forty Ninth Sovereign Debt News Update: IMF Programs and Events in Africa in Context

By:

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On Monday 18 July 2022, the Executive Board of the International Monetary Fund completed the Third reviews under the 38-month arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for Kenya. The decision allows for an immediate disbursement of SDR 179.13 million (about US$235.6 million), usable for budget support, bringing Kenya's total disbursements for budget support so far to about US$1,208.2 million. This comes after a prior request by Kenya on 13 July 2022 to the IMF for waivers on its loan conditions and an additional Sh28 billion ($244 million) in emergency loans, even as the country fell behind on key commitments such as the establishing a central payroll, reforming State enterprises, conducting a special audit on Covid-19 expenditure, and enforcing wealth declaration by public servants to access the loan in tranches. These commitments were set in April 2021 when the fund approved a $2.34 billion (about Sh257 billion) loan to Kenya. The IMF Executive Board was set to meet on July 18 2022 to review the government's request for the additional Sh28 billion ($244 million) emergency loan. The foregoing notwithstanding, the country's National Treasury observed that Kenya's debt stock to the World Bank and commercial sovereign bonds have taken the huge bulk of the country's public debt, with the World Bank's lending through International Development Association (IDA) growing by Sh20.6 billion to Sh1.2 trillion, being the largest creditor to Kenya. Besides, borrowing through the International Sovereign Bond increased by Sh6.85 billion to Sh821.99 billion, even as bilateral creditors' debts such as those owed to China shot up by Sh10.8 billion in May, the fastest month-on-month growth since January 2022 on the back of increased clearance of principal sums.

On Thursday July 14 2022, the International Monetary Fund called on creditor committees for Zambia, Chad, and Ethiopia to quickly reach agreements with authorities to restructure the countries' debts, saying this could unlock IMF financing programs and disbursements for them. This comes at a time when Zambia's ministry of finance had announced it plans to not only maintain its foreign exchange reserves at three months' worth of import cover, but also to cancel $2bn worth of projects financed by commercial loans to help with the country's debt. According to the Ministry, the cancellations have the potential to reduce the risk of accumulating more non-concessional debt. The decision to axe the projects is part of a broader debt-restructuring process given that the country expected bilateral creditors would provide adequate financing assurances for approval of an IMF programme being discussed. The announcement was also to the effect that the country's medium-term macroeconomic goals for 2023-5 included keeping inflation in the single digits – 9.2% in 2023, 8.2% in 2024 and 7.3% in 2025. Being the first country to default in 2020 on its debt servicing obligations, by the end of 2021, the country's external debt stood at $17.27 billion, out of which $5.78 billion belonged to China. Notwithstanding the country's precarious debt situation, in December 2020, the government secured a $1.4 billion bailout from the International Monetary Fund, but the three-year agreement in principle was given in exchange for the government's commitment to undertake deep economic reforms. But for the bailout package to move forward, Zambia needed assurance from creditors that its debt could be restructured. Meanwhile, as a result of the unsustainable debt, the country has seen its spending on social services including health and education reduce by 21 per cent between 2019 and 2021.

At the same time, Benin continues to face significant headwinds from a deteriorating security situation at its northern border, COVID-19-induced scars, the war in Ukraine, as well as significant climate risks, which could erode hard-won economic gains in recent years. To mitigate these challenges, the Beninese government requested a new Fund-supported program. Consequently, on July 8, 2022, the Executive Board of the International Monetary Fund approved 42-month arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for Benin in the amount of SDR 484.058 million (equivalent of 391 percent of quota or US$638 million). The program seeks to address pressing financing needs (related to security, COVID-19 scars, and the war in Ukraine), support the implementation of the country's National Development Plan centred on achieving Sustainable Development Goals (SDGs) and catalyse donor support. At about four times Benin's quota at the IMF, it is one of the largest Fund-supported programs in the region. The new program is the first case under High Combined Credit Exposure (HCCE) since the IMF adopted the policy in 2020 to support member countries experiencing exceptional balance of payment needs and with institutional capacity to implement a program in amounts exceeding the normal combined access limit for a blended EFF/ECF arrangement.

On Tuesday June 7, 2022, Tanzania's Minister for Finance and Planning revealed to the country's Parliament that the country's government plans to spend a total of TSh9.09 (approximately $3.9 billion) on debt servicing in the financial year 2022/2023. The amount is part of the TSh14.94 trillion that the Minister requested the Tanzanian Parliament to endorse for his ministry's budget for the financial year that began on July 1. As of April 2022, the country's national debt had reached TSh69.44 trillion from TSh60.72 trillion in 2021, with the increase in debt attributed to the receipt of soft loans for financing development projects and release of special bonds worth TSh2.18 trillion for the funding of the Public Service Social Security Fund (PSSSF) debt derived from staff contributions before 1999. Nonetheless, the Tanzanian government insists that its debt is still sustainable in the short, medium and long term based on both international measures and East African Community (EAC) standards. Compared to other EAC countries, Tanzania's present value of public debt to GDP is at 38.0 percent as of July 2022, less than a threshold of 55.0 percent. For context purposes, Burundi’s public debt to GDP ratio in 2022 is at approximately 70.2%, Rwanda’s debt-to-GDP ratio climbed from 71.2% in 2020 to 74.6% in 2021, with a further increase to 78% in 2022. At the same time, Kenya’s public debt to GDP ratio is at 69% and is expected to plateau at 70% over the medium term. Fitch also rated Uganda’s debt outlook to be stable having recorded a the country’s net debt to GDP ratio as 29.1%.

Fitch Ratings, an international credit rating agency, has also warned debt stabilization in South Africa will remain a challenge as it maintained its stable outlook on the country’s sub-investment grade credit rating. In early July, the agency affirmed South Africa’s long-term foreign-currency rating at BB-, three levels into junk status, even as it expects South Africa’s government debt to continue rising. This is happening at a time when the country’s National Treasury is seeking to hire a legal firm to advise it on how to reorganize the ZAR396 billion ($24 billion) debt burden held by national power utility, Eskom Holdings SOC Ltd, a debt that has left the utility reliant on state handouts to survive because it has been unable to earn sufficient revenue to cover its running costs and interest payments. Consequently, South Africa is in talks with the US, UK, and the European Union to secure the funds to help transition away from coal which is currently used to generate more than 80% of its power. As a result, debt guarantees along with loans with interest charges that are lower than what Eskom currently pays may form part of a $8.5 billion climate finance deal offered to South Africa by the United States. According to the stakeholders in the agreement, South Africa’s deal is expected to serve as a prototype for other coal-dependent developing countries that may secure similar funding concessions. On the other hand, South Africa’s public debt has had some undesirable impacts on the residents. Some critics have drawn attention to the disturbing consumer debt cycle which is plaguing South Africans, stating that the vicious cycle of debt could have far-reaching implications for the entire payments industry. This is because many South Africans are finding it increasingly difficult to keep up with debt payments, with other suggesting that it takes an average of five days for a middle-income consumer to spend up to 80 percent of their monthly salary. At the same time, the number of civil judgments recorded for debt increased by 7.4 per cent in the three months ended February 2022 compared with the three months ended February 2021, proof that credit providers are increasingly taking action against non-paying borrowers.

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