

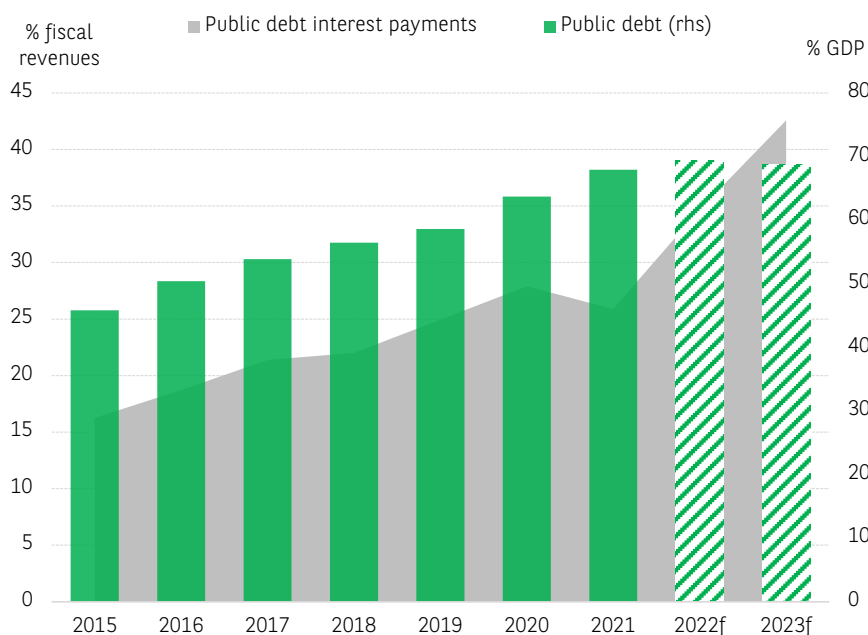
CHART OF THE WEEK



5 October 2022

KENYA: FOCUS ON FISCAL CONSOLIDATION

Perrine Guerin



Source: IMF, Kenya's Treasury, BNP Paribas

Significant uncertainty remains following the general elections in Kenya. Against a sensitive socio-economic backdrop, the first challenge for William Ruto, the new president, is the continuation of fiscal consolidation and public debt reduction measures.

Although he rules out a preventive debt restructuring, the high level of sovereign risk requires a slowdown in the deterioration of public finances. The budget deficit averaged -7.7% of GDP over the period 2015/21 and public debt reached almost 70% of GDP in 2021 (compared with 49% in 2015). Moreover, the interest charge on public debt now represents more than 20% of budgetary revenues and its total service absorbs 50% of revenues (compared with 38% in 2015).

Kenya's financing capacity is currently heavily constrained. Support from multilateral lenders, including the IMF, allows the country to meet its financing needs. Nevertheless, fiscal consolidation efforts, a prerequisite for concessional lending, will have to be pursued rigorously.

The debt repayment schedule reduces the short-term default risk as Eurobond repayments are limited. However, Kenya has not been able to refinance its Eurobond (USD 2 billion) due in mid-2024. Kenyan sovereign risk could therefore increase if financing conditions remain prohibitive. This is true for other economies in sub-Saharan Africa, where the risk of debt distress has increased considerably.

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