CHART OF THE WEEK

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KENYA: STRONG PRESSURE ON EXTERNAL SOLVENCY

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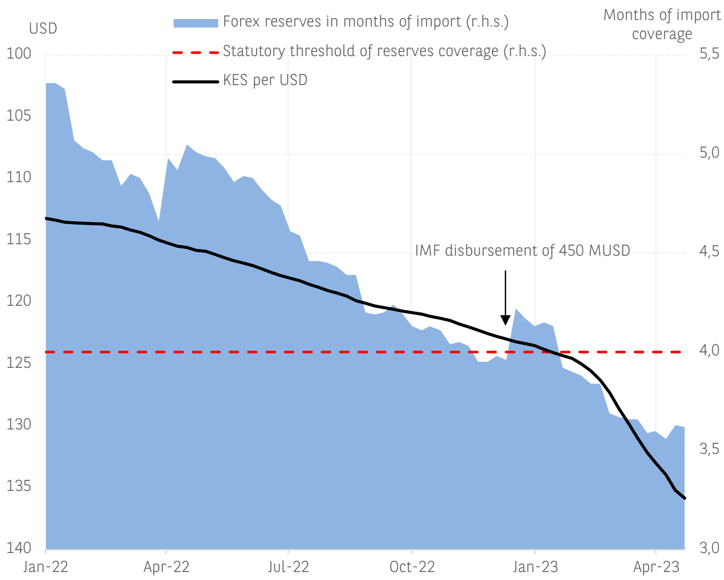

Source : Central Bank of Kenya, BNP Paribas calculations

Kenya's external solvency has been deteriorating for several months. After years of indebtedness to international markets and China, external public debt service rose significantly, accounting for 22% of export receipts in 2022. In addition, drought in the country has increased its dependence on imports, and the terms of trade have deteriorated significantly since the start of the war in Ukraine. On top of that are the dynamics of global monetary tightening, which prevented the issuance of a new Eurobond at attractive rates on international markets last June.

As a result, the country is facing unprecedented currency shortages. Faced with strong demand for the US dollar, the Kenyan shilling (KES) is depreciating rapidly (-10.1% since the beginning of the year) and external liquidity in the interbank market has dried up. Furthermore, in order to limit the depreciation of the shilling and meet foreign currency payment deadlines, the Central Bank (CBK) is forced to draw regularly on its foreign exchange reserves, which since the end of January cover less than four months of imports – the regulatory threshold set by the East African Community. They reached their lowest level in 10 years at the beginning of April, before recovering slightly.

Thanks to an agreement between Kenya and its Middle Eastern oil suppliers at the end of March, the country has been given a reprieve. Under the terms of this agreement, Kenya can import oil on credit until September. This will ease pressure on the shilling, as oil imports amount to USD 500 mn each month. Until then, the government is counting on the support of multilateral creditors to replenish its foreign exchange reserves. In particular, it expects the disbursement in June of a USD 1 bn loan from the World Bank, as well as the disbursement of USD 200 mn from the IMF as part of its extended credit facility.

While these solutions make it possible to contain the risk of default in the very short term, it remains very high beyond that. By June 2024, the government will have to find a way to refinance a USD 2 bn Eurobond that will reach maturity. Support from multilateral creditors will not be sufficient. The government has therefore recently announced plans to issue a new Eurobond on the international markets in the coming months. However, the price to be paid is prohibitive: on the secondary market, the yield on the 2024 Kenyan Eurobond is close to 15% and has only increased since the beginning of the year.

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