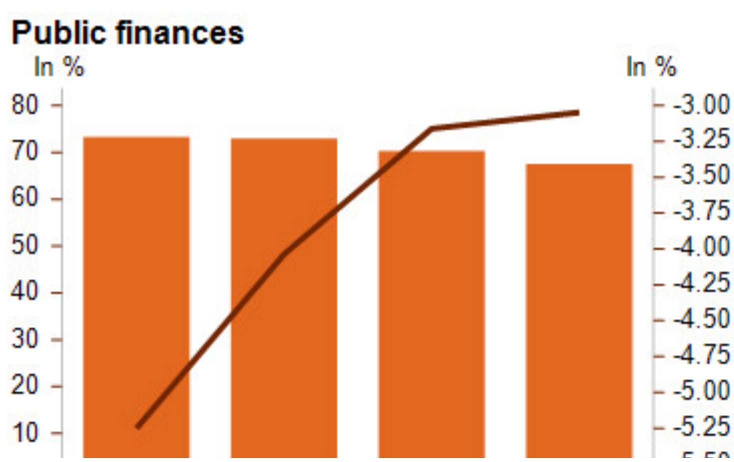
Event

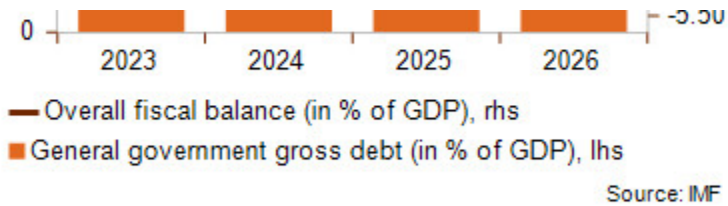
Widespread protests against a series of planned tax increases took place in Kenya in late June. The protests culminated in the storming of Kenya's parliament on 25 June. A heavy-handed response by the authorities has left at least 39 people dead, according to Kenya's national rights watchdog.

The day after the storming of the parliament building, President Ruto announced that he will not sign the controversial bill into law and has called for its withdrawal. So far, this has not satisfied protesters, who are denouncing the administration's failure to address corruption and are calling for President Ruto's resignation.

Impact

The withdrawal of the tax bill has not ended the protests and could jeopardise the badly needed fiscal consolidation. After all, the proposed fiscal measures were aimed at complying with an IMF programme that requires Nairobi to increase revenues, slash government spending and put public finances on a sustainable path. Indeed, the IMF and World Bank consider Kenya to have a high risk of debt distress. Kenya's public debt burden is high. It is above 70% of GDP (see graph) and 400% of public revenue in 2023. Moreover, a large share of the debt is owed to external creditors. This is an additional risk factor as Kenya's external debt has increased more rapidly than its current account receipts over the past decade. Moreover, it implies that the country relies on external financing to refinance its public debt. On the positive side, Kenya was able to **issue a new Eurobond earlier this year**, removing short-term liquidity concerns centred on the repayment of a large Eurobond that was due in June this year. However, the Eurobond was issued with a very high interest rate (10.375%). This will further increase public interest expenses – which were already elevated (above 25% of public revenue in 2023) – and therefore deteriorate public finances even more. In this challenging context, fiscal consolidation is badly needed to put public debt on a more sustainable trajectory and reduce the risk of a sovereign default in the coming years.





What is the impact of recent developments on Credendo's political risk classifications? The medium- to long-term political risk rating, which represents the solvency of a country, remains in category 7/7 with a stable outlook as the public and external debt burden remains very high. The short-term political risk, which represents the liquidity of a country, is classified in category 5/7. Looking ahead, the evolution of the current account balance and foreign exchange reserves – which cover slightly less than 4 months of imports, below the 4.5 months cover recommended by the East Africa Community (EAC) – will be key to determine the evolution of the classification.

Last but not least, the recent protests are a reminder of the challenges facing the government that wants to implement structural fiscal reforms. Looking forward, the risk of social unrest remains high in many Sub-Saharan African countries as the public finances of many countries are in bad shape and – as for Kenya – the population has already been affected by the Covid pandemic and fallout from the war in Ukraine.