GLOBAL SOVEREIGN
DEBT MONITOR 2025

Additional material for the article
'New solutions – old habits?
A case study of post-COVID debt architecture'
by Kristina Rehbein

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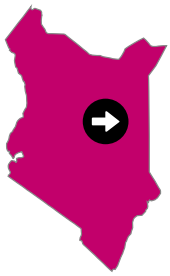
Full case studies

I. No suspension of payments during crises

First country group: Countries that have not yet suspended payments but have a heavy debt burden according to the analysis in the Global Sovereign Debt Monitor.

Examples: Kenya and Pakistan

Kenya: between IMF conditionalities, the debt crisis and human rights violations[1]



According to the Global Sovereign Debt Monitor analysis, Kenya's national budget is heavily burdened by interest and principal payments to external creditors (see article 'Global external debt burden'). Between 2024 and 2035, debt service obligations are expected to amount to more than USD 4.5 billion annually. In 2024, debt service payments to external creditors accounted for a quarter of government revenue.[2] Even though Kenya has high debt indicators and a high debt service burden, the Kenyan government has so far managed to avoid defaulting on payments or entering into debt restructuring negotiations. To maintain its debt service, Kenya has continued to borrow, including from the International Monetary Fund (IMF). In April 2021, the Kenyan government secured a three-year IMF loan of about USD 2.3 billion.[3] Two years later, Kenya received an additional USD 685 million, partly to pay off a Eurobond maturing in June 2023. In February 2025, Kenya issued a high-yield Eurobond on the international capital markets to service other commercial debt maturing this year.

The fact that Kenya has been able to avoid debt restructuring to date is also due to the fact that the IMF has continued to assess the situation as sustainable – and therefore has not made debt restructuring a condition for the approval of its loan programmes[4] – even though it has classified Kenya's risk of debt distress as high in its debt sustainability analyses since May 2020. In July 2023, the IMF said that reducing Kenya's risk of debt distress was a priority,[5] stating that Kenya's debt indicators would exceed sustainability thresholds even with the economic and fiscal developments it considers likely.

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[1] Collins Liko, coordinator of the Economic policy and Human Rights Program of the International Network for Economic, Social and Cultural Rights (ESCR-NET) contributed to this text.
[2] See IMF (2024): 'Kenya: Seventh and Eight Reviews under the Extended Fund Facility and Extended Credit Facility Arrangements', Country Report 2023/266', p. 22.
[3] However, the final review of the loan programme, which would have triggered the disbursement of the last instalment, was suspended in March 2025. Kenya is now negotiating a new successor programme with the IMF.
[4] A review of its programme conditionality by the IMF's Independent Evaluation Office found that IMF loan programmes are more successful when heavily indebted countries undergo debt restructuring either prior to or during the programme. See IMF (2019): 'IMF Review of Program Design and Conditionality', IMF Policy Paper.
[5] This is also important for implementing Kenya's development agenda. See IMF (2023): 'Kenya: Fifth Review under the Extended Fund Facility and Extended Credit Facility Arrangements', Country Report 2024/316 Figure 14.

Nevertheless, the IMF asserts that Kenya's debt is sustainable in all its programme documents. However, these statements are based on optimistic assumptions. Since 2018, the IMF has stated in each of its documents that the economic outlook and economic assumptions for the coming years are dominated by downside risks, some of which are exceptionally high. In reality, the IMF expects the situation to worsen, but does not take this into account in its recommendations, which governments rely on to make decisions such as entering into debt restructuring negotiations. Moreover, the option of debt restructuring to reduce the risk of debt distress is not mentioned in any of the IMF's recommendations.

The fact that Kenya continues to avoid any prospect of debt restructuring is also due to the agenda of Western creditor countries. They seek to portray the current debt crisis as a liquidity crisis and, instead of creating an environment conducive to early debt restructuring, favour an environment that encourages the mobilisation of private capital and further loans. In June 2024, shortly before the protests by citizens in Nairobi, Kenya was presented by the US government in Washington as a pilot case for this new strategy and the "Nairobi-Washington" vision was unveiled to great fanfare. This occurred despite the IMF having already made clear in its January 2024 debt sustainability analysis that certain indicators of the country's solvency (and not just its liquidity!) had been breached.

Instead, the Kenyan government introduced strict fiscal consolidation measures – at the expense of its development agenda. Among other things, it levied regressive taxes on essential goods such as cooking oil, bread and nappies, which hit low-income citizens particularly hard. Subsidies for essential goods were also abolished, despite already low investment in public services. Although the IMF warned back in January 2024 that the necessary tax increases could lead to unrest that would disrupt trade and tourism in Kenya,[6] it nevertheless called on the Kenyan government to stick to the reforms outlined in its programme.[7]

In the summer of 2024, nationwide protests broke out against the Finance Bill presented by the Kenyan government in this context. The Kenyan Kwanza regime ruled with extreme violence: Kenya's National Human Rights Commission estimates that over 60 Kenyans were killed and hundreds were injured or forcibly disappeared during the demonstrations.

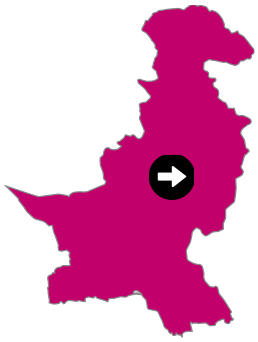
From the perspective of Kenyan civil society, the IMF is partly responsible for the protests, as its policies guided the drafting of the controversial Finance Bill. In return for disbursing its programme funds, the IMF demanded that the Kenyan government further reduce its existing budget deficit through tax increases and spending cuts. In July 2023, for example, instead of recommending debt restructuring, the IMF wrote that the Kenyan government's stated goal of fiscal consolidation would ensure debt sustainability even if the debt sustainability thresholds were exceeded. At that time, the budget deficit was only minus 0.4%. This is a very low figure in the midst of an economic crisis. The Kenyan government under President William Ruto attempted to further reduce this deficit through tax increases and spending cuts. These measures were implemented despite the fact that the

[6] See IMF (2024): 'Kenya: 2023 Article IV Consultation, Sixth Review under the Extended Fund Facility and Extended Credit Facility Arrangements', Country Report 2024/013.
[7] For a detailed account, see Fischer, A. (2024): '#RejectFinanceBill2024 Proteste in Kenia: Wenn Austerität zu Menschenrechtsverletzungen führt'.

population was already suffering from inflation, rising food prices and high youth unemployment.[8]

[8] The link between the IMF and these austerity measures is made clear in a statement issued by the IMF on 11 June 2024: *'A sizable and upfront fiscal adjustment in FY 2024/25 will be needed to correct the course, to this end, the authorities took decisive steps towards fiscal consolidation by introducing several measures in the context of the draft 2024/25 Budget and the 2024 Finance Bill. Importantly, the latter centred on measures to broaden the domestic tax base, cuts on public expenditure and wage bill reforms, state-owned enterprise restructuring, rationalizing unproductive current spending, and better targeting of subsidies and transfers.'.*

Pakistan: between IMF bailout and debt crisis



According to the Global Sovereign Debt Monitor analysis, Pakistan's national budget is very heavily burdened by interest and principal payments to external creditors (see article 'Global external debt burden', p. 14). In early 2023, Pakistan was once again on the brink of defaulting on its payments. The devastating floods two years earlier, which affected several million people, led to a prolonged and severe economic crisis. However, as in the past, Pakistan managed to avert default by taking out new loans and implementing austerity measures. In April 2023, the country managed to negotiate a nine-month bailout package with the International Monetary Fund (IMF). This eased the situation for the time being, not least because it allowed further bailout funds to be mobilised, for example from Saudi Arabia and the United Arab Emirates. The People's Republic of China has also repeatedly helped prevent Pakistan from defaulting on its payments by either restructuring or refinancing due payments. The 25th IMF programme was launched in September 2024, with a total value of approximately USD 7 billion. It is scheduled to run until October 2027. The IMF has long since abandoned its original role as a lender of last resort for Pakistan and has become one of the country's most important lenders.[9] In fact, Pakistan has been in an IMF programme almost continuously since the 1990s and its economic policies have been heavily influenced by IMF conditions for almost two decades.[10]

Despite the recent bailout agreement, experts say the risk of Pakistan defaulting on its payments remains high.[11] Public external debt service will average more than USD 14 billion per year until 2027 and more than USD 10 billion per year until 2031, equivalent to about 37-42 per cent of export earnings. In its documents, the IMF therefore speaks of "exceptionally high risks" and a "narrow" path to debt sustainability.[12] Pakistani financial experts have also identified other signs in the IMF programmes that point to an unsustainable level of debt.[13]

Nevertheless, the IMF confirms that Pakistan's debt is sustainable in its debt sustainability analysis. This is a prerequisite for continued lending to the country. If the IMF determines that the debt is no longer sustainable, loans must be linked to debt restructuring. According to its Statutes, the IMF cannot lend if it believes that the debt is so high that it cannot be repaid. In Pakistan's case, it can certainly be argued that this is indeed the case. However, since the country has not yet defaulted, the IMF can still argue that the debt is sustainable, even though the risks are high. The IMF therefore believes that Pakistan's debt problem can be resolved without debt relief, for example through austerity measures. The IMF is maintaining this position even though the economic situation of the population continues to deteriorate. In May 2024, for example, austerity measures sparked protests in

[9] See a detailed overview of the various IMF programmes for Pakistan and economic developments during these periods: EFSAS / 2024): 'Bailout Politics: Pakistan's Economy and the IMF', European Foundation for South Asian Studies.
[10] See a compilation for the period between 2013 and 2024 Ullah, A. et al (2024): 'Evaluating the Economic Implications of International Monetary Fund (IMF) programs on Pakistan: A decade-long analysis (2014-2024)'.
[11] See BNP Paribas (2023): 'Pakistan: Default risk remains very high'.
[12] See IMF (2024): 'Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility', Country Report 2024/310.
[13] See Syed, M. (2024): 'Pakistan's latest record-breaking, reality-denying IMF program'.

the country when flour and electricity prices soared following IMF-imposed subsidy cuts and the transition to a market-based exchange rate. In previous programme periods, similar measures had destabilised Pakistan's economy and adversely affected the lives of its citizens, for example by significantly reducing their purchasing power.[14] Civil society also says the IMF's conditions are to blame for numerous human rights violations in Pakistan.[15] In 2024, 2.5 million more people fell below the poverty line[16] than in the previous year. At the same time the adjustments required by the new IMF programme to reduce the debt burden are so restrictive that the urgently needed increase in social and infrastructure spending will not be possible.[17]

The recommendations for dealing with the risk of a sovereign debt crisis make no mention of debt restructuring. Instead, they focus on achieving a rapid fiscal surplus, which, according to a former Pakistani IMF staff member, is far too optimistic, as are other assumptions that need to be met to prevent the "house of cards" from collapsing.[18]

Pakistani civil society and financial experts believe Pakistan is caught in a debt trap. This is why they have long called for debt relief and for people's rights and needs to be prioritized over debt servicing.[19]

[14] See Ullah, A. et al (2024): 'Evaluating the Economic Implications of International Monetary Fund (IMF) programs on Pakistan: A decade-long analysis (2014-2024)', from p. 7.
[15] See Human Rights Watch (2023): 'Pakistan: Events of 2023'.
[16] See World Bank: 'The World Bank in Pakistan – Overview'.
[17] This also includes the restriction of the scope for action with regard to the adaptation to climate change: At the time of going to press, Pakistani and international civil society organisations criticised the current IMF conditions on Pakistan's tax policy for explicitly hindering the fulfilment of climate commitments and climate-friendly transformation, thereby restricting rather than expanding Pakistan's fiscal leeway.
[18] See Syed, M. (2024): 'Pakistan's latest record-breaking, reality-denying IMF program'.
[19] See Shah, Z. and Rafique, M. (2023): 'Impact of Foreign Debt on Labour Rights in Pakistan'.