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Economic Turmoil in Debt Distressed Kenya During Post Pandemic Years

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***Abstract*—*Kenya went through a serious economic crisis from 2022 to 2024, which was defined by a sharp decline in the country's GDP and poor performance in many different areas of the economy. The nation's financial instability was made worse by the considerable government uncertainty and widespread corruption at this time. One of the main problems was the rising rate of unemployment and poverty, which was caused by both internal mismanagement and external shocks like the COVID-19 pandemic's repercussions and the chaos caused by the conflict in Ukraine. Kenya's economic problems stemmed from a high debt load, mostly from loans from China that were used to finance infrastructure projects. Although these loans were first viewed as engines of progress, they eventually became unsustainable, raising concerns about default and loss of sovereignty. Kenya urged the International Monetary Fund (IMF) to step in and try to stabilize the economy. But the support of the IMF came with strict austerity measures, such as substantial cuts to public spending. Social distress among the public was exacerbated by these actions, which resulted in a decline in social welfare services. The implementation of austerity measures, in conjunction with increases in income tax, excise taxes, and value-added tax (VAT), resulted in further financial strains for both individuals and corporations, especially small and medium-sized firms (SMEs). As a result, the economic situation got worse and many businesses closed, which resulted in a large loss of jobs. Years of progress in reducing poverty have been undone by the high rates of unemployment and poverty, with many Kenyans finding it difficult to pay for necessities in the face of skyrocketing inflation. The economic situation deteriorated due in large part to corruption, as public monies meant for relief and development were often embezzled. This weakened public confidence and impeded the government's ability to respond to the crisis effectively. This research paper has illustrated real economic challenge of Kenya in post pandemic period. Endeavour is made to clarify the root cause of the crisis, fallout of economic distress, social hardship, and actions taken to mitigate the disorder*.

***Keywords*— *Kenya's challenge, Economic turmoil, Debt burden, Chinese loan, Mismanagement, Social distress, Austerity measure*.

I. INTRODUCTION

Kenya experienced extreme economic instability brought on by a confluence of foreign shocks and internal mismanagement in post pandemic period. The nation, already beset by massive debt, was confronted with worsening financial instability as a result of a string of disastrous policies, widespread corruption, and an upsurge in unemployment and poverty. The outbreak of COVID-19 and the problems caused by the war in Ukraine exacerbated these economic problems. Kenya's high debt load—especially from Chinese loans that supported numerous infrastructure projects—was a contributing factor in the country's financial difficulties. Though at first these projects were viewed as potential engines of economic expansion, as the nation battled to pay down its debt, they soon became a financial burden. The possibility of default and loss of sovereignty over important national assets arose as a result of the unsustainable debt position caused by the high-interest loans from China.

Kenya turned to the International Monetary Fund (IMF) for support as its debt situation worsened. In an effort to stabilize the economy, the IMF offered a number of loans, although they had strict requirements. An already struggling population was made even more vulnerable by the IMF's austerity measures, which included drastic cuts to public spending. Social services were cut, public sector pay were frozen, and funding for vital areas like health and education was decreased. Despite the fact that these actions were meant to restore budgetary stability, many Kenyans' economic suffering increased. These difficulties were made worse by a notable increase in corruption. Government remedies to the economic crisis were rendered even more ineffective as a result of the regular embezzlement of public funds intended for relief and development by dishonest officials. The public's confidence in government institutions was eroded by the prevalence of corruption scandals, which also made it more difficult to address the economic problems. There was a general slowdown in economic operations, a reduction in foreign investment, and project delays as a result of financial mismanagement and a lack of responsibility.

Throughout 2022 to 2024, the COVID-19 pandemic's effects persisted, interfering with domestic production, trade, and tourism. Millions of people were left jobless and small businesses were completely destroyed by lockdowns and restrictions implemented to stop the virus's spread. Many businesses never recovered completely because the economic recovery was so gradual. The crisis was also made worse by the Ukraine War's knock-on consequences on the world economy. Inflation reached previously unheard-of levels as a result of the conflict's impact on the cost of basic goods like wheat and gasoline. Due to soaring living expenses and stagnant or declining wages, the most vulnerable groups were severely hurt by this price spike. The Kenyan government raised taxes on a number of items in an effort to collect money and pay off its debt. These included hikes in income tax, excise taxes, and value-added tax (VAT). Although these actions were required to increase government revenue, they increased the cost burden on individuals and companies. Economic development was further stalled as a result of lower consumer expenditure brought on by rising prices for goods and services. These tax increases disproportionately hurt small and medium-sized businesses (SMEs), which are essential for economic growth and job development. This resulted in several firm closures and employment losses.

During this period, poverty in Kenya increased dramatically, reversing years of progress in reducing poverty. Millions of people fell into impoverishment as a result of increased prices, job losses, and cuts to social spending. There was a concerning rise in unemployment, especially among young people. Numerous young people fled their home countries in quest of better possibilities after finding themselves with few options for employment. With the departure of skilled professionals, this brain drain severely damaged the nation's economic prospects. There was uneven progress in attempts to lessen the economic crisis. Permanent structural changes were obviously required to solve the underlying problems, even though the IMF's financial aid brought about some little respite. Enhancing transparency, lowering reliance on foreign debt, and strengthening governance were some of these measures. On the other hand, vested interests resisted these changes' gradual implementation.

Objectives of the study

The prime concern of the research based descriptive study is as follows

i. To elucidate about the real economic condition of Kenya in post pandemic period.
ii. To decipher about the gravity of economic challenges in Kenya from 2021-2024 and its impact on governance, sectorial performance, industrial work and business performance social life and political and diplomatic relationship.
iii. To demonstrate the effect of corrective measure on economy and society.

II. LIMITATIONS

There were some shortcomings in the research study on Kenya's economic unrest between 2022 and 2024. First, because of governmental inefficiencies and a lack of openness, economic data was inconsistent and inadequate, which made data collecting difficult. Accurate conclusions could not be drawn easily because many official reports were either incomplete or released beyond the deadline. The investigation was further complicated by the fact that widespread corruption in government organizations resulted in the manipulation of economic data. Political tensions and societal turmoil, put up hurdles to access to qualitative data by field survey. It was challenging to fully depict the dynamic environment that was created by the quickly shifting economic landscape and outside influences like the COVID-19 outbreak and the conflict in Ukraine. Moreover, the findings' trustworthiness got overshadowed by the dependence on secondary sources, which frequently contained contradicting information. A multidisciplinary approach was necessary due to the intricate nature of Kenya's economic difficulties, which are connected with global economic patterns and beyond the purview of this study. Last but not least, financial limitations restricted the scope and depth of the study, making it impossible to carry out lengthy longitudinal investigations that would have offered a more thorough comprehension of the economic downturn.

III. THEORETICAL BACKGROUND

The theoretical framework for the research paper "Economic Turmoil in Debt Distressed Kenya in Post Pandemic Years" is grounded in several economic and sociopolitical theories. First, debt-overhang theory provides a foundation for understanding how excessive national debt can inhibit economic growth. According to this theory, a high level of debt discourages investment because the expected returns are overshadowed by the debt servicing costs, leading to economic stagnation or decline. The study also draws on Keynesian economic principles, which emphasize the role of government intervention in stabilizing the economy. Keynesian theory suggests that during economic downturns, increased public spending can stimulate demand and pull an economy out of recession. However, in Kenya's case, fiscal mismanagement and corruption have undermined the effectiveness of such interventions, highlighting the importance of governance in economic recovery. Additionally, dependency theory provides insights into the economic relationships between Kenya and its creditors, particularly China. This theory postulates that developing countries often become dependent on developed nations through unequal economic arrangements, such as high-interest loans that can lead to a cycle of debt and underdevelopment. The research also incorporates aspects of institutional economics, focusing on how political instability, corruption, and weak institutions can exacerbate economic crises. The intersection of these theoretical perspectives allows for a comprehensive analysis of Kenya's economic turmoil, examining both macroeconomic factors and the micro-level impacts on poverty, unemployment, and social welfare. By integrating these theories, the research aims to provide a nuanced understanding of the multifaceted economic challenges faced by Kenya from 2022 to 2024.

IV. RESEARCH METHODOLOGY

The research study is analytical and descriptive. It has been secondary data and information based. There was epistemological journey to gain in-depth knowledge on the topic. The data and information has been collected from reliable sources. Well known sources such as IMF, World Bank, African Development Bank, Kenya National Bureau of Statistics, and Economist Intelligence Unit were explored and necessary information was ferreted out. Collected data and information were studied, analysed and interpreted for logical and simplified description. Published charts and diagram was studied and brought under the purview of analysis for highlighting the fact with graphical expression. Macro-economic factors and sectorial performance were checked along with budgetary allocation, taxation, deficit and debt, private investment to provide realistic narrative. Social impact due to economic turmoil was studied and social distress and civic hardship was scripted in lucid interpretation. No social media or networking site information was used to maintain research sanctity. The research is unquestionably contemporary and an accumulation to prevailing body of knowledge. There was sincere endeavour to avoid any bias and preconceived notion. It was thoroughly an effort to shed light on fact and bring reality to the light. This research paper can be a basis or foundation for future work in the similar field of study.

V. Literature Review

The literature on economic turmoil in debt-distressed Kenya in the post-pandemic years reflects a multidisciplinary approach, addressing various facets of the country's challenges. Scholars such as Mwangi and Kimani (2023) highlight the impact of corruption on economic development, emphasizing how mismanagement of public funds exacerbates debt burdens. Ndung'u (2023) discusses the role of fiscal policies in navigating economic crises, suggesting that effective fiscal management is crucial for sustainable growth. On the debt dynamics, Ondieki (2022) examines Kenya's reliance on Chinese loans and its implications for sovereignty and economic stability. Kinyanjui (2023) explores the socioeconomic consequences, arguing that high unemployment rates and poverty levels are linked to structural deficiencies and policy failures. Other scholars like Mutua et al. (2023) analyze the effectiveness of IMF interventions, noting both positive and negative impacts on Kenya's economy and social welfare. Theoretical perspectives from economic theories such as debt-overhang theory (Gathungu, 2022) and dependency theory (Oloo, 2023) provide frameworks to understand Kenya's economic relationships with global financial institutions and creditor nations. Social scientists like Nyambura and Kariuki (2023) focus on the human impact, discussing how austerity measures and reduced social welfare exacerbate social distress and inequality. Recent studies also examine the influence of external shocks such as the COVID-19 pandemic and global economic downturns (Kamau, 2024), illustrating their compounding effects on Kenya's already fragile economic situation. On the societal front, research by Claire M. O'Brien (2023) explores the human impacts of economic downturns, emphasizing how unemployment and reduced social welfare exacerbate social distress and hinder recovery efforts. Furthermore, analyses by Michael Chege (2022) underscore the need for comprehensive institutional reforms to address systemic governance failures and improve economic resilience. Collectively, these contributions underscore the complex interplay of economic policies, governance challenges, external dependencies, and social factors in shaping Kenya's economic trajectory amidst debt distress and post-pandemic recovery efforts.

VI. Economic background of Kenya

Kenya, an economic powerhouse on the east coast of Africa and a country with direct ties to prehistoric times, is located on the equator. Palaeontologists have found some of the earliest proof of the progenitors of modern humans in the East African Rift Valley. Kenya's ethnic variety today has given rise to a dynamic culture but has also been a cause of political unrest. Kenya, a former British colony, attained independence following the 1950s Mau Mau insurrection. Ever since gaining independence in 1963, Kenya's economy has comprised of state-owned and privately owned businesses. The majority of the nation's company is privately owned, with significant foreign investment; nevertheless, the government also influences the nation's economic growth through a variety of regulatory authorities and "parastatals," or businesses that it either fully or partially owns. This policy seeks to replace imported goods with domestically produced ones in order to achieve economic growth and stability, create jobs, and maximize foreign revenues through high agricultural export levels. This approach showed great promise for ten years after independence, as increased government revenue, employment, and wages allowed for the expansion of health, education, transportation, and communication services (BBC country profile, Encyclopaedia Britannica, 2024). Kenya's economy has struggled to keep a positive trade balance while tackling issues of persistent poverty and rising unemployment. These issues were first brought about by the 1973 increase in world oil prices, and they have since been made worse by recurring droughts and faster population growth. A number of issues have impeded the nation's industrialization process, including low domestic purchasing power, declining government spending, rising external and internal debt, inadequate infrastructure, and widespread corruption and poor management in the government. Incorporating horticultural items, apparel, cement, soda ash, and fluorspar to its export portfolio in the final decade of the 20th century was Kenya's endeavor to diversify its exports and lessen its reliance on unstable agricultural markets. Additionally, the nation prioritized exporting manufactured items like cars and paper. However, domestic import limits have been gradually lifted, therefore this approach has only had some success. Kenya's economy remained largely dependent on the outside world in the early 21st century, with tourism and agricultural exports remaining the main sources of foreign cash for the nation.

VII. Gravity of Economic and Social Challenge in Kenya

The COVID-19 inflation pressure persisted as well. In addition, there were supply chain hiccups in Kenya's agriculture as a result of Russia's invasion of Ukraine. Due to the accumulation of interest, all of these factors combined to cause food prices and living expenses to climb in 2022, as did Kenya's indebtedness. Its debt to China amounts to approximately $8 billion of its total debt of $82 billion. Saudi Arabia, the United States, the World Bank, and the IMF are among the other creditors. Domestic borrowing is also included in the debt. Repayment of debts accounts for more than half of government revenue. The following diagrams are divulging the real state of affair of Kenya evolved over the period of time.

Kenya's real GDP growth rate has seen significant fluctuations over recent years. Since 2015 to 2020, Kenya experienced robust growth, with the economy expanding at around 5-6% annually. However, the GDP growth rate fell sharply in 2020 due to the COVID-19 pandemic, which disrupted economic activities globally. It shrank to -0.3% during COVID period. In the coming years, Kenya's economic growth will improve with a growth rate of 5% by 2024. Despite this recovery, several challenges have hindered sustained economic growth. Factors contributing to the recent slowdown include high inflation rates, which increased the cost of living and reduced consumer spending, and adverse weather conditions that negatively impacted agricultural output. Additionally, global economic uncertainties, such as fluctuating commodity prices and reduced foreign direct investment, have also played a role. Domestic issues, including political instability and corruption, further exacerbated the economic difficulties. The government's efforts to manage debt and implement fiscal reforms are ongoing, but these measures have yet to fully restore the previous high growth rates.

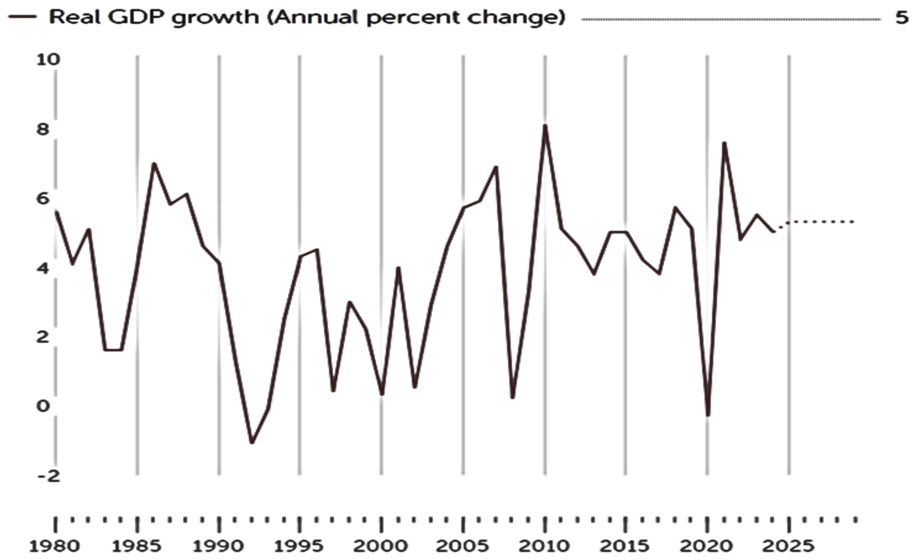

Diagram I: Kenya's real GDP growth (Annual percentage change)
Source: IMF country data, IMF DataMapper, April 2024

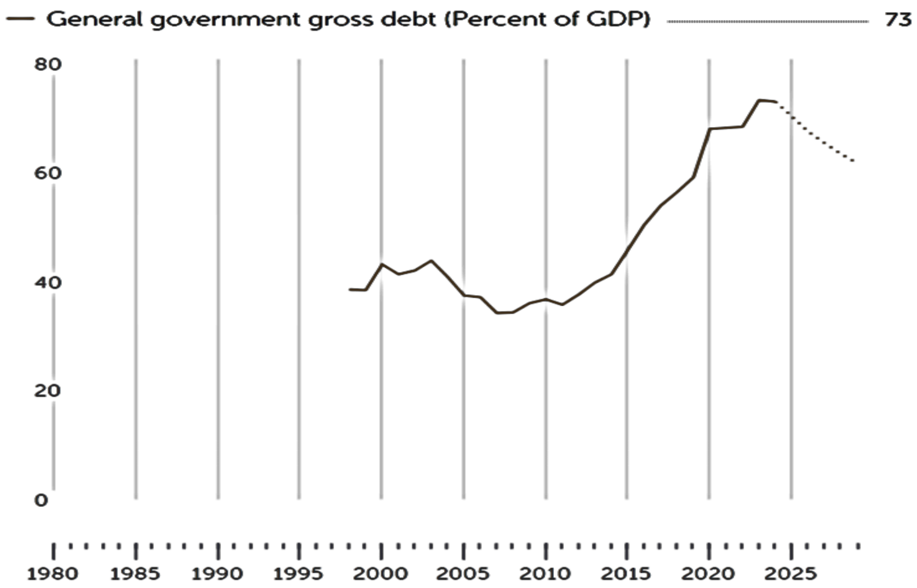

Diagram II: General government gross debt (Percent of GDP)
Source: IMF country data, IMF DataMapper, April 2024

The above diagram depicts the debt situation in Kenya over the years. Kenya's general government gross debt as a percentage of GDP has been on an upward trajectory since 2009, reaching approximately 73% in recent years. This mounting debt can be attributed to several factors. The COVID-19 pandemic significantly strained the government's finances as it increased spending on healthcare and social protection measures while revenues declined due to economic slowdowns. Additionally, large-scale infrastructure projects aimed at boosting long-term economic growth have been

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heavily financed through borrowing. Global economic uncertainties, such as fluctuating commodity prices and reduced foreign investment, have further exacerbated the debt situation. High levels of corruption and inefficient public spending have also contributed to the increasing debt burden. Moreover, adverse weather conditions affecting agricultural output have hindered economic stability, necessitating further borrowing to support the agricultural sector. The depreciation of the Kenyan shilling has increased the cost of servicing foreign-denominated debt, adding to the financial pressures. Efforts to manage and reduce this debt are ongoing, but the challenges remain significant, impacting the overall economic stability and growth prospects of the country.

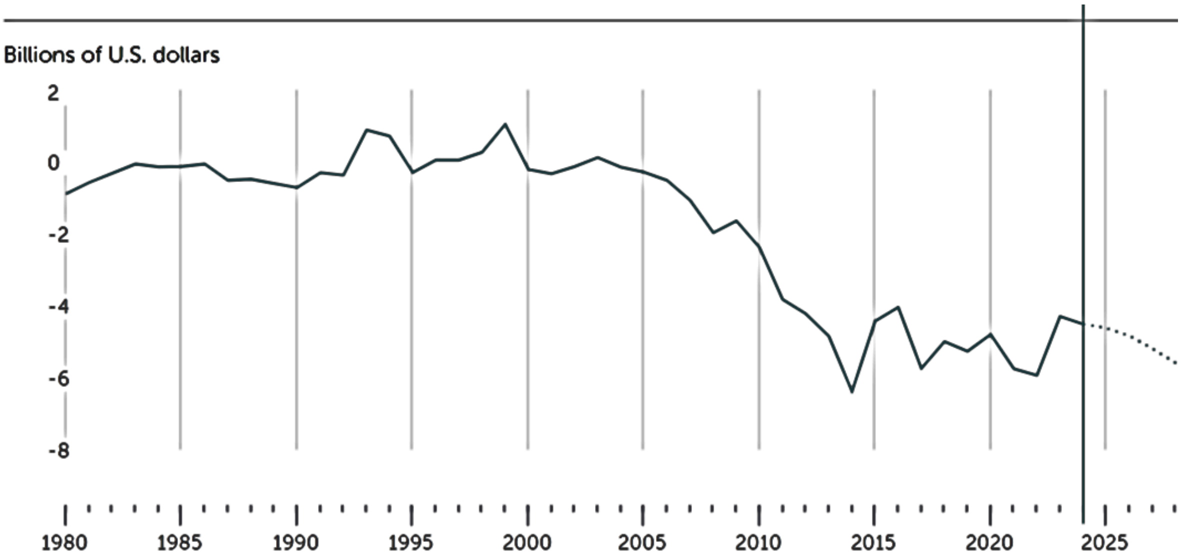

Diagram III: Current account balance U.S. dollars (Billions of U.S. dollars)

Source: IMF country data, IMF DataMapper, April 2024

Kenya's current account balance is now severely negative, with several billions of dollars in deficit. It did not see any positive value since 2003. It has declined to -4.5 billion US dollars in April 2024. There are both internal and external variables that have contributed to this severe decline. A major contributing factor is the growing import bill, which is a result of expanding consumer and capital goods demand. Additionally, export earnings have been impacted by the global economic downturn, especially in important industries like tourism and agriculture. The devaluation of the Kenyan shilling has resulted in higher import costs and a decrease in the foreign currency value of export revenues. Moreover, the cost of fuel imports has gone up due to rising global oil prices, worsening the trade imbalance. Reduced foreign direct investment has resulted from investor trust being eroded by political instability and governance problems. The impact of unfavourable weather on agricultural production has put further strain on export performance. Last but not least, the difficulties in keeping a steady current account balance have been exacerbated by external debt payment commitments that have depleted foreign exchange reserves.

VIII. Government Intervention to Bring Back Normalcy and Economic Stability

The government of Kenya has started a number of intervention initiatives to address the country's economic instability and bring things back to normal. First, it has put fiscal consolidation plans into action with the goal of lowering the deficit in the budget. Reducing unnecessary spending and increasing revenue collection by expanding the tax base and improving tax administration are two examples of this. By tightening monetary policy and using foreign exchange reserves to lessen volatility in the Kenyan shilling, the government has also concentrated on stabilising the exchange rate. Furthermore, it has pursued aid from global financial organisations, including the International Monetary Fund (IMF), which has furnished financing and technical support through several initiatives targeted at achieving economic stabilisation and structural modifications. Additionally, the government has started regulatory and governance changes, including steps to strengthen transparency and fight corruption, in an effort to bolster investor confidence and draw in foreign direct investment. In order to boost economic growth and generate jobs, infrastructure development projects have been given priority, especially in the transportation and energy sectors. In order to achieve long-term economic stability and sustainable growth, the government has also encouraged export diversification in order to lessen reliance on a small number of key commodities and improve the trade balance; expanded social protection programs have been put in place to protect the most vulnerable populations from the negative effects of economic adjustments; programs to support small and medium-sized enterprises (SMEs) through credit availability and business development services have been put in place to encourage domestic entrepreneurship and innovation; and lastly, modernisation and support for farmers have been implemented in order to increase agricultural productivity and ensure food security while also boosting export earnings.

IX. Conclusion

Kenya experienced severe economic difficulties between 2022 and 2024, which were made worse by a mix of internal mismanagement and outside shocks. The nation was in serious economic trouble due to its mounting debt load, which was mostly caused by high-interest Chinese loans used for the construction of infrastructure. Despite the initial promises of economic progress, Kenya's finances were ultimately stretched by these loans, raising concerns about default and jeopardizing national sovereignty. The economic problems facing Kenya were made worse by misguided policies and poor governance. Poverty and unemployment were made worse by widespread corruption in government organizations that embezzled public funds intended for social welfare and development. In addition to undermining public confidence, this corruption made it more difficult to implement policies effectively and support efforts for economic recovery. Kenya's economic trajectory was severely affected by external shocks, such as the COVID-19 pandemic's aftereffects and the Ukraine war's worldwide disruptions. The pandemic increased already pre-existing vulnerabilities, destroying industries like trade and tourism and driving up healthcare costs and unemployment rates. In the meantime, the conflict in Ukraine led to increases in the price of fuel and wheat globally, which increased inflation and put more pressure on Kenya's economy. Kenya went to the International Monetary Fund (IMF) for support as its economic situation grew worse. Financial assistance from the IMF was given, but only under strict austerity conditions that included tax increases, spending reductions from the government, and structural changes meant to stabilize the economy. Nevertheless, the most vulnerable groups were frequently disproportionately impacted by these policies, which decreased social welfare and widened social inequality. In an attempt to boost government coffers, tax increases and other austerity measures were imposed, but they also stunted economic expansion and consumer spending. Particular difficulties were experienced by small and medium-sized businesses (SMEs), which are essential for creating jobs and stimulating the economy. This resulted in several firm closures and job losses. Going forward, a diversified strategy is needed to tackle Kenya's economic issues. First and first, in order to rebuild public confidence and guarantee open administration of public funds, stronger governance and anti-corruption initiatives are desperately needed. To achieve sustainable economic management, regulatory scrutiny and institutional framework strengthening are essential. Second, in order to lessen the burden of debt repayment and protect national interests, it is imperative to reduce reliance on external debt and renegotiate the conditions of current loans, especially with China. Fiscal sustainability can be attained through encouraging domestic income creation through equitable taxation and effective resource management, as well as by diversifying financing sources. Investing in healthcare, education, and human capital development is also essential for promoting inclusive growth and long-term economic resilience. Prioritizing targeted actions and social safety nets to assist vulnerable populations—particularly during times of crisis—can help to lessen the negative effects of economic downturns and advance fair development. Last but not least, stimulating economic activity and generating employment prospects depends critically on developing an environment that is favorable to business, encouraging innovation, and drawing in sustainable foreign investment. Kenya may take a step toward resilience, sustainable development, and economic recovery by putting these policy recommendations into practice. This will guarantee a better future for its people in the face of uncertainty throughout the world.

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