THE 25TH ECONOMIC SYMPOSIUM (ICPAK)

“THE NATIONAL PUBLIC DEBT CONTROVERSY”

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KENYA’S PUBLIC DEBT

- Government expenditure over time seems to be increasing while revenues have lagged behind.
- This has led to increased borrowing hence increased public debt.
- Borrowing is done both from domestic and foreign financial markets.
- At the end of September 2016, Kenya’s public debt stood at Ksh. 3.6 trillion up from Ksh. 1.5 trillion in 2012.
- Of the above debt, foreign debt was Ksh 1.7 trillion and Ksh 1.85 trillion domestic debts.
- In essence currently Kenya is spending Ksh 32 for every Ksh 100 collected by KRA to service its debts.
- The 2017 Budget is estimated at Ksh 2.6 trillion with KRA targeting Ksh 1.7 hence a shortfall of Ksh 900 trillion.
- This is likely to lead to either increased taxes or further borrowing for debt servicing.

- **CAUSES OF DEFICITES INCUDE:**
- Actual Revenue collection falling short of projected amount.
- Poor economic performance.
- Insecurity and Terrorism.
- Global crisis particularly in financial Markets.
- Natural disasters.
- Corruption
- Unwarranted public expenditures
- High non-compliance rate among Tax-payers and attitude.

- Borrowing involves issuing domestic debt instruments like:-

(i) Treasury Bills (99 days, 182 and 364 days)
(ii) Treasury Bonds
(iii) Government stocks
(iv) Central Bank overdrafts
(v) Advances from Commercial Banks

- Key Mkt players include:-
  (i) Commercial Banks
  (ii) Non-financial institutions (pension funds, insurance fund corporations and individuals)

- Other avenue is through external borrowing from international Mkts bilateral and multi-lateral relations and institutional.
- It is important to observe that overtime growth been enhanced through public investments -deficit financing.
- At independence the economy grew at an annual average of 6.6% through public investments.
- Between 1974/1990 the economy declined in terms of growth due to:-
  (i) Inappropriate policies.
  (ii) Inadequate funding (credit).
  (iii)Poor international lending terms.

- From 1991/1993 Kenya had its worst economic performance i.e. growth was at 3.9%.
- Inflation recoded highest levels of 100% of GDP.
- As a result multi-lateral donors suspended programme Aid in 1991.
- In 2000, GDP growth was negative, but recorded a growth of slightly 1.8% in 2003 and 6.4% in 2006.
- There has been moderate economic recovery since 2010.
- In 2014 the economy grew at 5.2% while in 2015 it grew at 5.6% and in 2016 at 5.4%.This has resulted into increased public debts.
- Total stock of the debt at the end of 2014/2015 stood at Ksh 2.6 trillion’
- Kenya’s public debt as a % of GDP has been as follows:-

YEAR	% OF GDP
2010	19.4
2011	48.5
2012	47.2
2013	45.3
2014	45.3
2015	52.8
2016	55.1

Source: International Monetary Fund (IMF)

- The high debt ratio as a % of GDP has raised the issue of debt sustainability.
- Such situation can lead to debt over hang.
- In such situation much of the generated revenue goes into servicing debts.
- Total debts in Kenya in nominal terms have been increasing steadily.
- In terms of a % of GDP it has been averaging 49.2%.

	2011/12	2012/13	2013/14	2014/15	2015/16
External Debts	1,532,541.19	1,732,743.04	2,217,311.96	2,601,432.13	2,601,432.13
Internal Debts	1,320,541.19	1,732,743.04	2,217,311.96	2,601,432.	3,631,433.31

(Source: Government of Kenya. Economic Survey 2016)

- From the table above the Kenya public debt increased from Ksh 750 billion in 2005 to Ksh. 2,422 Billion in 2014.
- National borrowing hit a record of Ksh. 506 billion in 2015/2016 financial year.
- During this period, the government spent Ksh. 421 billion on servicing public debt.

CHALLENGES

- A high level of borrowing has led to high levels of debt service in terms of interest payments and principal repayments. This is likely to raise taxes in order to raise revenue to service such huge debts.
- Large public borrowing increases the interest cost for the government and it increases the refinancing risk of paying it.
- Huge public debts undermines the effectiveness and sustainability of reform programmers. It hinders requisite reduction in tax rates in an economy.
- The high burden in debt servicing affects investments.
- It crowds out other expenditures in an economy and places a big burden to the future generations who have to pay. It raises taxes and increases prices of essential commodities which ultimately inflicts pain to consumers.
- Government borrowing may be more inflationary than tendencies.
- High levels of public borrowing crowds out private investments which is the engine of growth.
- After debt servicing and governments salaries payments there is little left for core functions of the government basic infrastructure, education, health and other essential services, which is a prerequisite for growth.
- **The heavy investment** that have currently enhanced huge public debts have been done mainly in public infrastructure which does not yield much revenue.

WAY FORWARD

i. There is need to introduce various austerity measures to cut down on the recurrent expenditure.
ii. There is need to avoid un-procedural procurement.
iii. The two tier system of government a raising from the constitution of Kenya 2010 need to be revisited in order to introduce well-coordinated policy interventions with respect to service delivery.
iv. There seems to be duplication of duties and blotted wage bill and uncontrolled spending within county governments.
v. External financing can be achieved by attracting foreign direct investments by creating a conclusive macro-economic environment.
vi. There is need for a comprehensive debt servicing management policy.

vii. Loans should be directed to productive investment ventures and not unproductive ventures.
viii. There is need for improved management and governance and reduce government inefficiencies.
ix. There is need for improved Kenya’s tax administrative system and increase the tax base through improved investments.
x. The overall domestic debt need to be maintained at levels that allow for credit expansion to enable private sector participation in development.
xi. There is need to establish a National Advisory Credit control, regulatory and management board.
xii. There is need for improved exports as a source of foreign currency earnings and equally need is there for diversification and rapid industrialization.

THANK YOU