



Financing the State

A review of the main coalitions' manifestos



Taking Stock: Economic Performance



Global Growth Rates

- Global growth rates for 2014 to 2017:

Year	2014	2015	2016	2017F	2018F
Growth Rate (%)	2.7	2.7	2.3	2.7	2.9

Source : World Bank - Global Economic Prospects January, 2017

- Lacklustre outturn in 2016 due to:
 - Stalling global trade - Contracting imports in China
 - Drop in major commodity transactions
 - Drop in Oil price at start of 2016
 - Collapse of commodity prices
 - Political uncertainty (Brexit, US elections)
- Economic activity is projected to pick up in 2017 and 2018

Sub - Saharan Growth Rates

- Sub-Saharan growth rates 2014 to 2017

Year	2014	2015	2016	2017F	2018F
Growth Rate (%)	4.7	3.1	1.2	2.9	3.6

Source : World Bank - Global Economic Prospects January, 2017

- Declining performance due to:
 - Low commodity prices
 - Weak external demand
 - Un-favourable weather conditions
 - Security Problems
 - Depreciation in currency of regions major economies

Kenya's Growth Rates

- Kenyan growth rates 2014 to 2017:

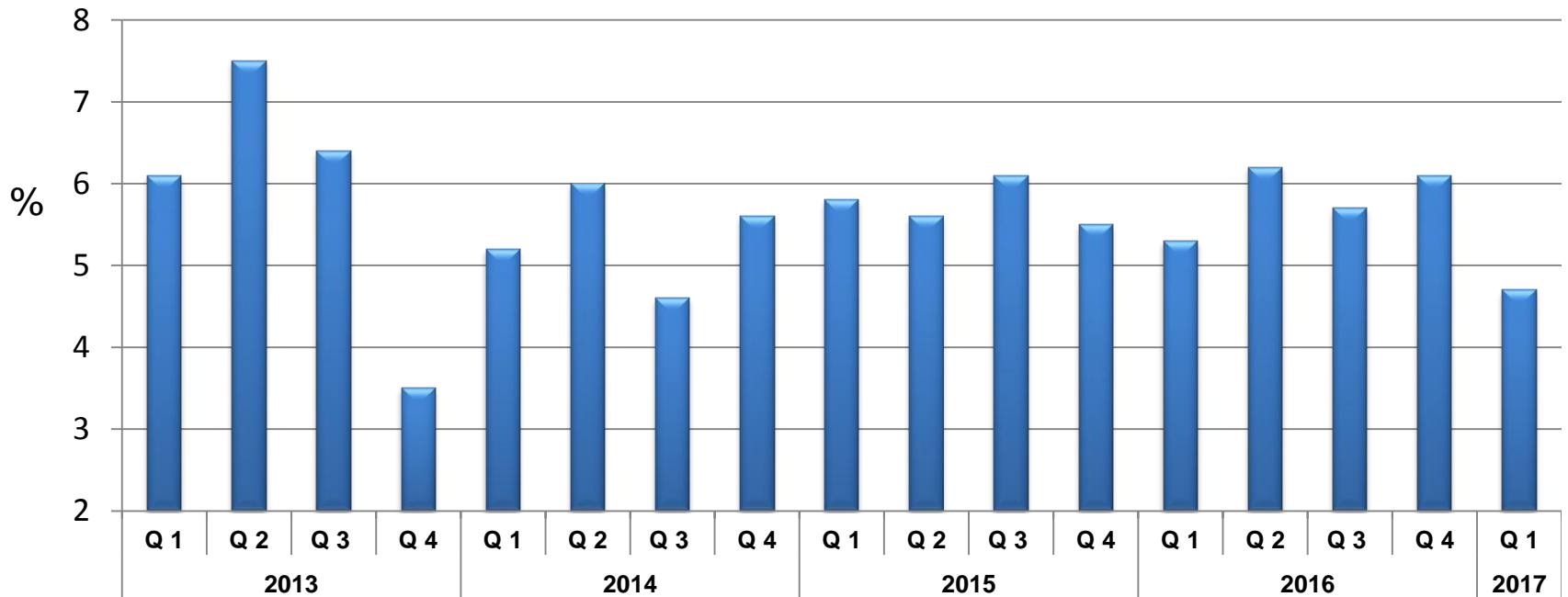
Year	2014	2015	2016	2017F	2018F
Growth Rate (%)	5.3	5.6	5.9	6.0	6.1

Source : World Bank - Global Economic Prospects January, 2017

- This is supported by improved performance in :
 - Hospitality
 - Transport and logistics
 - Information and communication
 - Wholesale and retail trade
- Projected growth is mainly supported by on-going recovery in tourism, completion of key public infrastructure projects and energy generation.

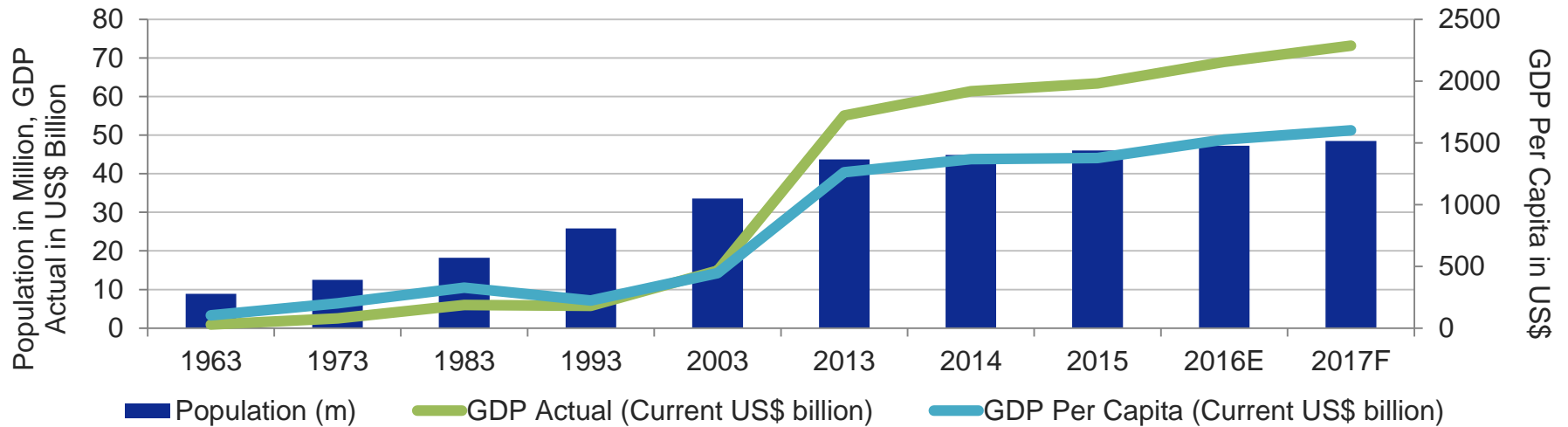
Kenya's Growth Rate – Quarter on Quarter

GDP Growth Rates per Quarter

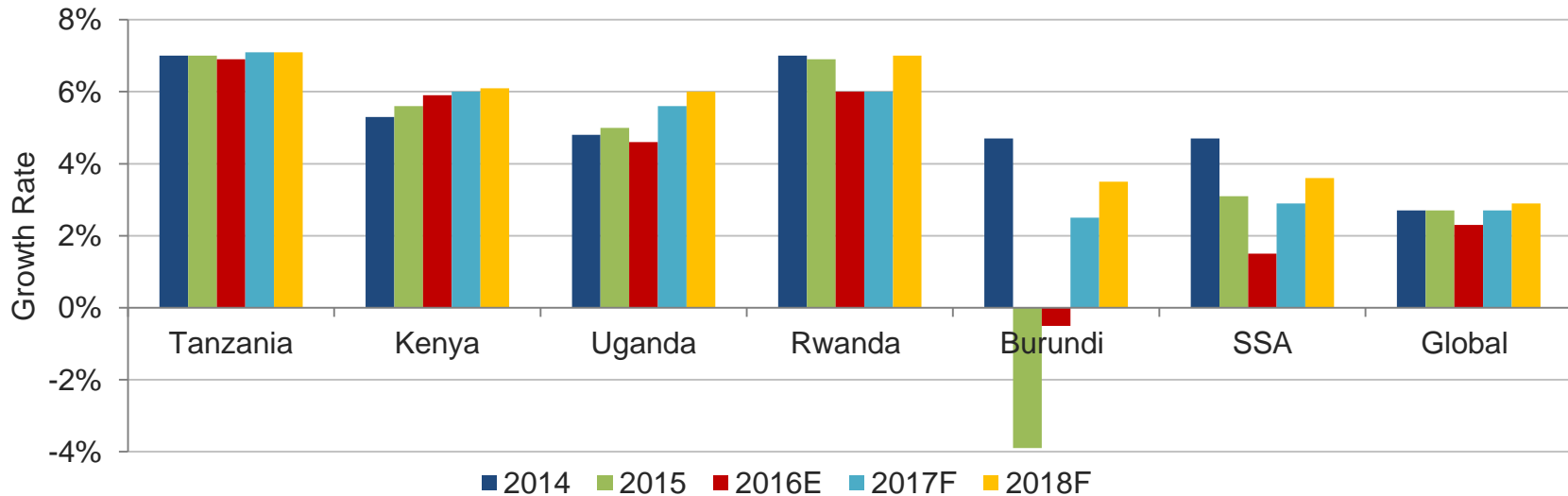


- Source: Quarterly GDP Reports KNBS

GDP Performance



Source: World Bank



Source: World Bank

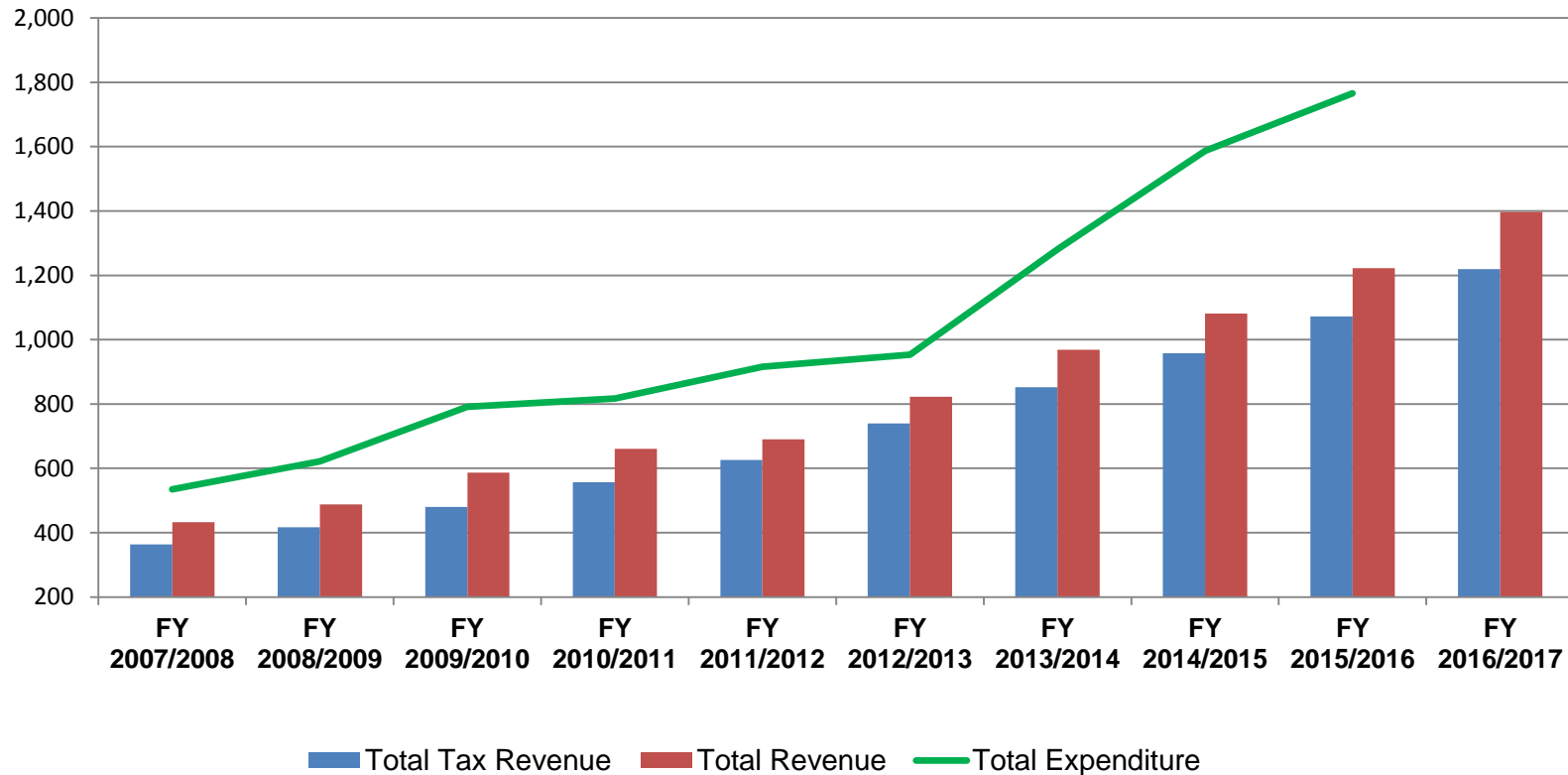
Budgetary Performance



Government Revenue Vis a' Vis Expenditure

KShs. Billion

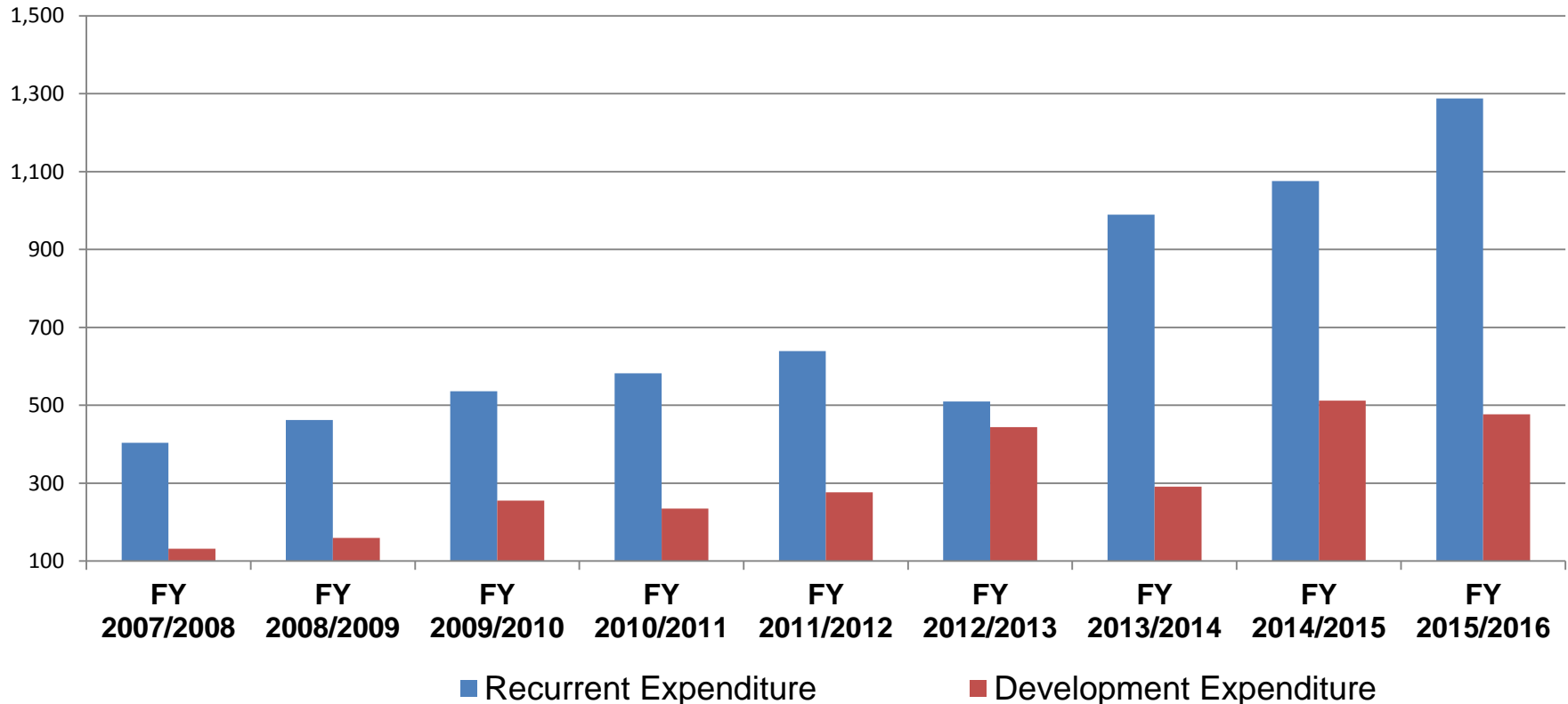
Revenue Vs Expenditure



- Source: CBK Statistical bulletin

Development Vs Recurrent Expenditure

KShs. Billion



- Source: CBK Statistical bulletin



Public Debt

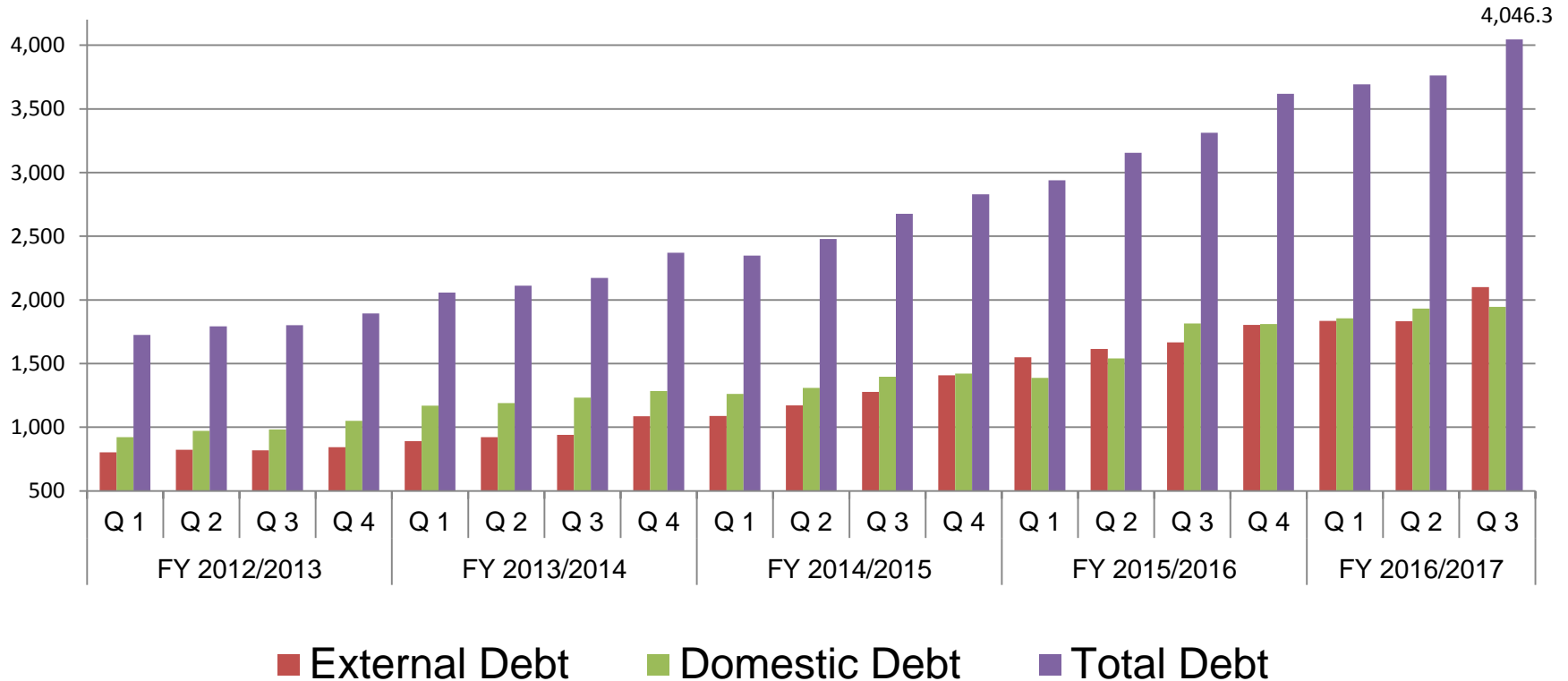


Public Debt: An Emotive Issue

- Have we borrowed excessively?
- Are our current debt levels sustainable?
- How well are we utilising the funds?

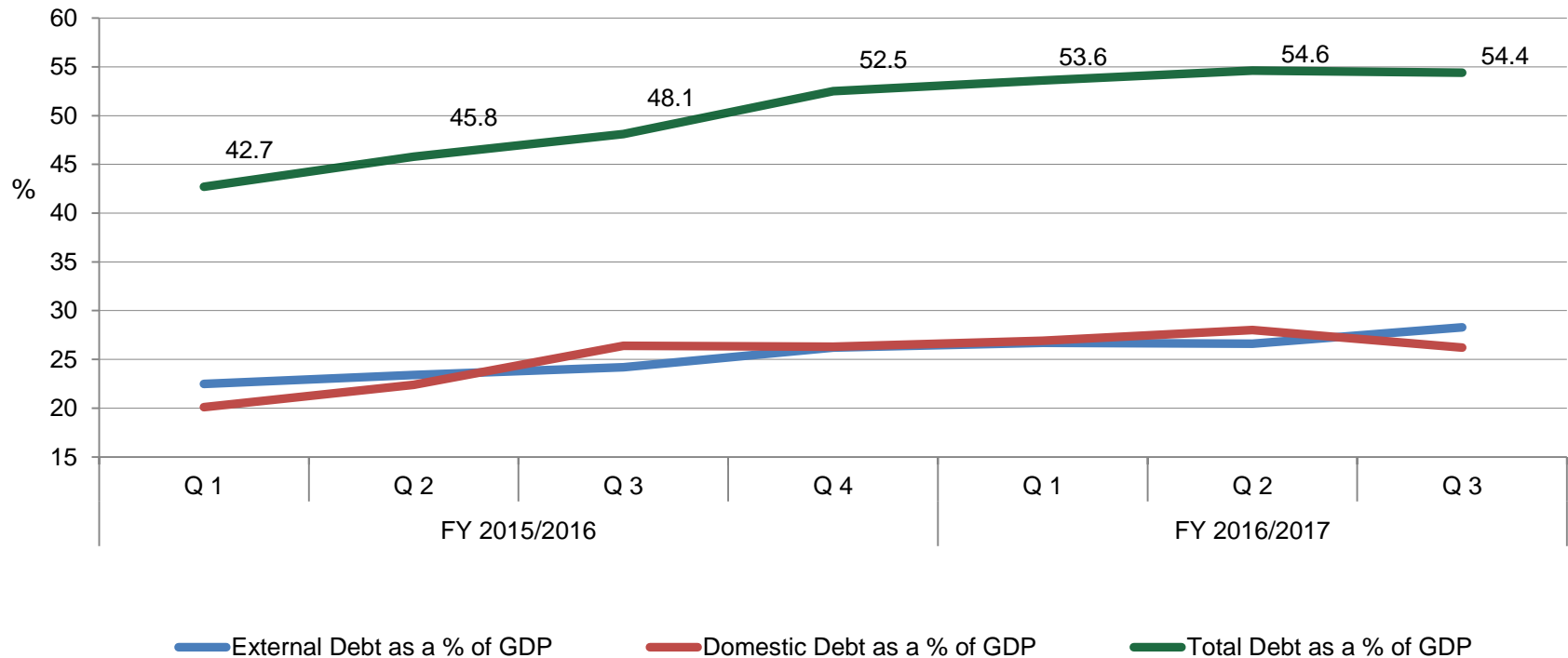
Public Debt Level

KShs. Billion



• Source: CBK statistical bulletin

Public Debt Level



- Source: CBK statistical bulletin

Kenya's Debt Sustainability

Indicator	Indicator (Threshold)	Position				
		2013/14	2014/15	2015/16	2016/17	2017/18
Debt-to-GDP Ratio	74.0	44.1	43.9	43.7	42.6	41.3
External Debt-to-Exports Ratio	300.0	207.9	204.3	190.1	180.8	175.3
Debt Service-to-Revenue Ratio	30.0	14.7	13.8	13.1	12.3	11.9
Debt Service-to-Exports Ratio	25.0	24.6	23.1	21.7	21	20.9

- *Source: Budget Policy Statement 2017*

Kenya's Debt Sustainability...

Indicator	Indicator (Threshold)	Position (%)				
		2015	2016	2017F	2019F	2026F
External Debt Sustainability						
PV of External Debt-to-GDP Ratio	50	20.3	21.7	22.6	21.4	18.3
PV of External Debt-to-Exports Ratio	200	122.8	137.4	137.9	124.4	103.5
PV of External Debt-to-Revenue Ratio	300	107.7	110.1	107.7	98.9	82.8
PPG Debt Service-to-Exports Ratio	25	7.3	8.9	15.2	13.8	12.2
PPG Debt Service-to-Revenue Ratio	22	6.4	6.7	12.0	11.0	9.8
Public Debt Sustainability						
PV of Public Sector Debt-to- GDP Ratio	74		48.4	49.0		
PV of Public Sector Debt-to- Revenue Ratio	300		247.2	235.7		

Source: IMF Country Report No 17/25, January 2017

Kenya's Debt Sustainability...Cont'd

- IMF – ‘Kenya’s risk of external debt distress remains low, while overall public sector debt dynamics continue to be sustainable.’
- Vulnerability of shocks has however increased
- Bulk of the debt carries concessional terms (e.g. SGR Loan) , but commercial debt has increased

Kenya's Debt Sustainability...Cont'd

- Significant repayment needs:
 - 2017 – The 2015 Syndicated loan (USD 750 million)
 - 2019 – Part of the Sovereign Bond (USD 500 million)
 - 2024 – bulk of the Sovereign Bond (USD 1.5 Billion)

Key considerations

- Avoid crowding out of domestic credit to private sector
- Contain risks of external debt from export shocks
- Contain the ballooning budget deficit
- Faster growth expected in future predicated on the assumption that bulk of the borrowing is put into infrastructural projects will enable meet the expected maturities.

Debt Analysis – South Africa

- Low economic growth rate
- Increased public debt
- Perceptions of a weakening governance
- Downgrade of the local currency and sovereign credit ratings below investment grade

Debt Analysis – South Africa

	2013	2014	2015	2016E	2017 Proj.	2018 Proj.
GDP Growth Rates (%)	2.5	1.7	1.3	0.3	1	1.2
Domestic debt as a % of GDP	44.1	47	49.3	51.7	52.6	54.7
External debt as a % of GDP	37.2	41.3	39.1	48.5	45.2	46.2
Total Debt as a % of GDP			49.3	51.7	52.6	54.7

Debt Analysis – Ethiopia

- One of the fastest growth rates in Africa
- Borrowing largely to fund infrastructure projects
e.g railway, Grand Renaissance Dam
- IMF has flagged the rapid increase in external debt as not sustainable in the medium-term
- Faced with similar issues as Kenya e.g. Drought

Debt Analysis – Ethiopia

	2013/14	2014/15	2015/16 E	2016/17 Proj	2017/18 Proj	2018/19 Proj	2019/20 Proj
GDP Growth Rates	10.3	10.2	6.5	7.5	7.5	7.5	7.4
Domestic debt as a percentage of GDP	20.5	24.3	24	25.1	25.4	25.8	25.6
External debt as a % of GDP	25.2	31	30.2	35.1	35.4	34.9	34
Total Public Debt as a % of GDP	45.7	55.3	54.2	60.3	60.8	60.7	59.5

- Source: IMF

Debt Analysis – Singapore

- Technology & Innovation driven economy
- Huge investments in digitization & development of skills
- Moderate economic growth rates anchored on strong economic fundamentals
- Government does not borrow to fund its budget: Net public debt is negative and operates on a fiscal surplus
- High levels of domestic savings

Debt(Savings) Analysis – Singapore

	2013	2014	2015	2016	2017 Proj	2018 Proj
GDP Growth Rates	5	3.6	1.9	2	2.3	2.5
Gross National Saving as a % of GDP	47.4	48.4	44.9	44.4	44.3	44.2
Fiscal balance as a % of GDP	7.1	5.9	3.7	2.2	1.2	1.1

- Source: IMF

The Manifestos



A Review of the Ruling Party Manifesto

- Current political landscape was un-anticipated
- One of the two main coalitions will be the ruling coalition in a month's time
- The two manifestos hinged on huge public investments and ambitious infrastructural projects

Jubilee Party Manifesto

- Hinged on a continued transformation agenda especially major infrastructure spending
- Key milestones split into 3 pillars:
 - **Transforming lives**
 - **Transforming societies**
 - **Transforming the nation**

Jubilee Manifesto...

- Healthcare:
 - Free healthcare for all Kenyans
 - Scale up of the managed equipment programme
- Free public primary education and public day secondary education
- Mass housing production of at least 500,000 low cost affordable homes and the slum upgrade programme

Jubilee Projects....

- Manage water deficit in major coastal towns
- Construction of 3 new stadia and upgrading of regional stadia
- Automation of public service delivery systems
- Security:
 - upgrade by acquiring more specialised vehicles and forensic equipment
 - Construction of 20,000 houses annually for the police force

Jubilee Projects...

- Food availability - irrigation of at least 1 million acres, completion of the 57 dams and continue with fertiliser subsidy programme
- Infrastructure projects:
 - Integrated transport infrastructure system linking the three major corridors
 - Second phase of SGR project
 - Major roads projects including the 7,000km of roads under construction and Mombasa Road upgrade
 - New power plants
- Reviving the blue economy

Financing the Jubilee projects

- **No major announcements** on how the ambitious projects will be financed
- Current GDP growth levels and revenue collection levels not sufficient to provide financing
- Borrowing will not be prudent based on the already high debt levels
- Raising taxation levels also not a viable route

Jubilee Projects....Financing

- Jubilee highlights a few austerity measures and financing alternatives:
 - Scale up PPPs in major projects
 - Use of technology to curb corruption in the public sector
 - Increased penalty for economic crimes to include jail term
 - Review of the taxation, duty and customs frameworks to increase predictability, transparency and fairness
 - Reduce wastage in utilisation of public resources
 - Increase savings levels in the economy

Jubilee Projects....Financing

- Liaising with county governments to rationalise public sector wage bill
- Review existing PPPS framework to ensure faster approval and implementation of projects
- Promote the informal sector
- Promote tourism sector to increase number of tourists

NASA Manifesto

- Anchored on a 'Change' paradigm
- To be achieved through the following 5 objectives:
 - Promote national unity
 - Dignity of all individuals and communities
 - Constitutional and democratic development
 - End the culture of impunity
 - Prudent management of economy and public affairs
- **Focuses more on the social fabric of the country**

NASA Manifesto – Major Projects

- Increase resource allocation to the county governments
- Security reforms – capacity building, welfare improvement and sector resourcing
- Overhaul national identification and citizen registration infrastructure
- Improve food availability in the country
- Expand the income transfer programme to the elderly, orphans and vulnerable children
- Health – establish a National Universal Health Service Fund funded by public budget

NASA Projects....

- Education:
 - Free primary and secondary education and increased capitation levels
 - Increase funding for tertiary education

Infrastructure:

- Upgrading select airstrips
- Major roads in the northern corridor and around L. Victoria
- Likoni bridge
- Commuter rail at the coast and mass transit system in Nairobi

NASA Projects - Financing

- Like Jubilee's Nasa Manifesto is **silent** on how they intend to finance the major projects
- Though hinged more on a social perspective of the country, the major changes they intend to undertake come at a cost
- The main sources of funding – Taxes and Debt – can only be stretched as much
- New and innovative ways required

NASA Projects...Financing

- NASA highlights a few measures and plans to finance its manifesto:
 - Alleviate corruption through transparent dealings devoid of conflict of interest
 - Streamline public processes, cut bureaucracy and modernize administrative services
 - Austerity measures to end extravagance
 - A fair and taxpayer friendly tax system with uncompromising revenue protection
 - Work with stakeholders and increase PPPs

Fiscal Implications of the two Manifestos

- Increased taxation to fund projects
- Widen the tax base
- Efficient tax collection
- Debt increase
- Focus on PPPs
- Increased Recurrent expenditure
- County Governments borrowing and taxes(levies)

right people

right size

right solutions

