

# **34th Annual Seminar**

## **Public Debt & Its Implications**

**Sarova Whitesands Beach Resort & Spa, Mombasa**

**Wednesday, 23<sup>rd</sup> May 2018**



**Life can be pulled by goals just as surely as it can be pushed by drives...**

**....Viktor E. Frankl, psychiatrist and holocaust survivor....**



## Overarching Issues

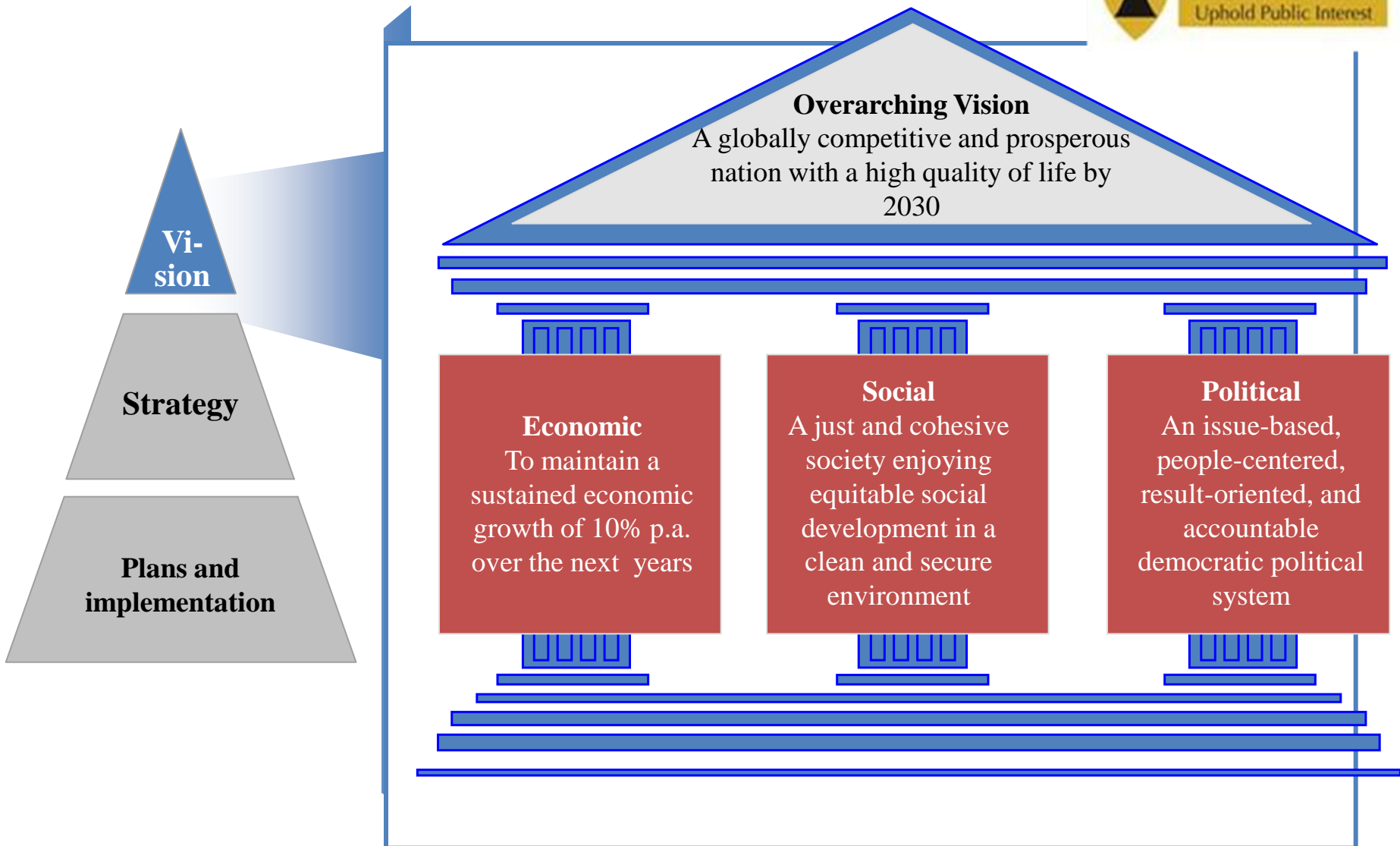


# SDGs?





# National Strategic Visioning – SDGs Compliant?





## **Legal Provisions on Public Debt**



## Constitution of Kenya, 2010

- Article 201: Principles of Public Finance – Equity around debt management and shall be applied exclusively for funding development expenditure;
- Article 211: Debt – Circumstances, reporting in respect of loan balances, use and provision for servicing the loan;
- Article 212: County borrows only if guaranteed by NG and with CA approval
- Article 214: Debt is a charge on Consolidated Fund is cumulative reporting must be on all financial obligations – including guarantees issued.

## PFM Act, 2012

- Section 15: Fiscal Responsibility Principles – Debt shall not exceed limits set over the medium term period and at sustainable levels as provided for in DMSP approved by Parliament;
- Section 31: CS of the NT to provide accountability reports on debt to National Assembly.
- Section 33: National Treasury to present DMSP to parliament by 15<sup>th</sup> February;
- Section 38: Budget estimates to provide projected debt to bridge funding gaps in budgets.
- Section 51: Charge to debt of NG agencies only if guaranteed
- Section 55: Establishes office of the Registrar of Govt Securities under PDMO;



## **Global Scenarios**



## Global Benchmarks

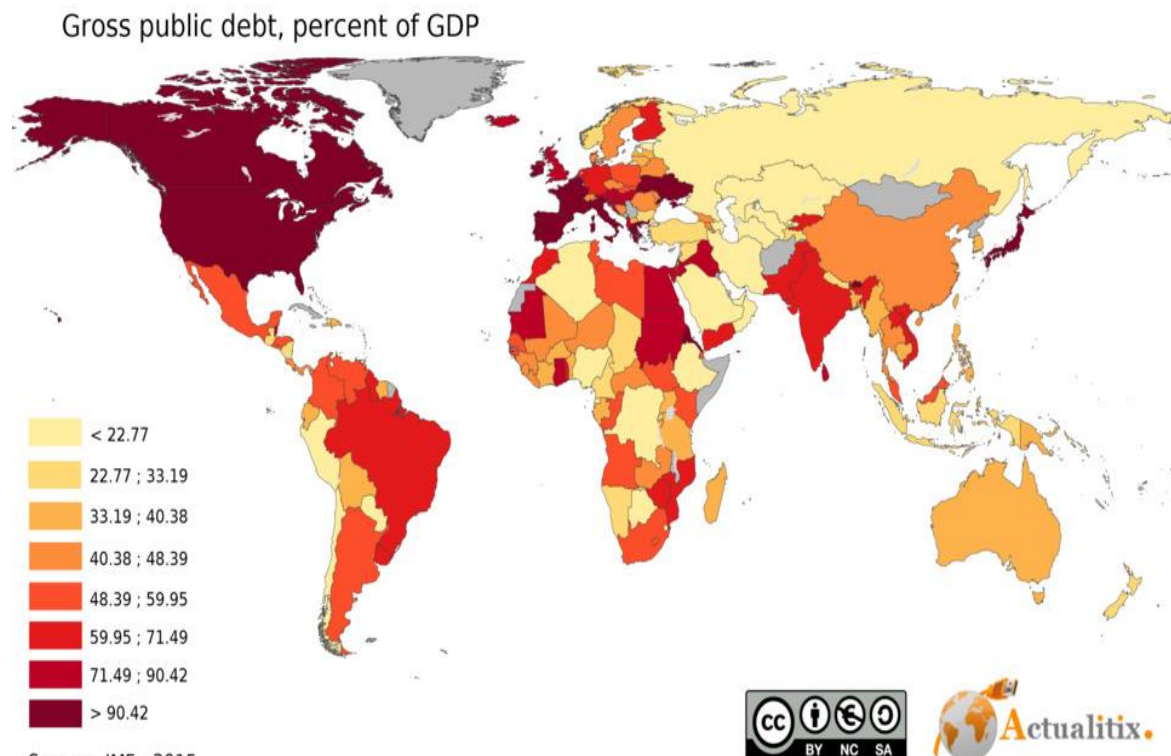


50 per cent of global debt held by US, China and Japan. What then, make these nations the world strongest economies, in spite of the astronomical levels of indebtedness – Japan at 229% debt/GDP ratio?



# Comparative Debt/DGP Ratios

Country	Debt/GDP 2016
Japan	229.3
Greece	180.18
Lebanon	152.29
Italy	133.02
Cabo Verde	128.75
Eritrea	127.42
Portugal	125.72
Republic of Congo	117.7
Buhtan	112.83
Gambia	112.68
Singapore	110.58
United States of America	105
Kenya	55.2
Kazakhstan	17.37
Russia	17.35
Saudi Arabia	17.01
DRC	16.99
Botswana	15.45
Uzbekistan	14.14
Solomon Islands	10.04
Estonia	8.71
Afghanistan	7.64



Source : IMF - 2015  
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# Comparative Debt/DGP Ratios



Country	Debt/GDP - 2017
Kenya	57.10
Burundi	37.20
Tanzania	37.40
Uganda	38.60
Rwanda	40.20
South Sudan	66.34





## **The Kenyan Economic Picture**



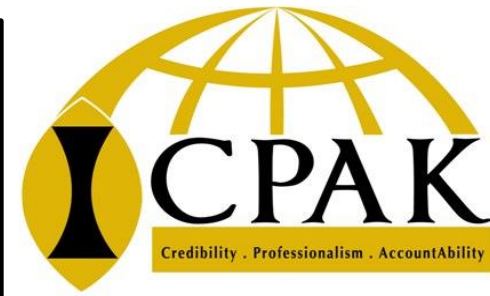
# Kenyan Macro Economic Environment



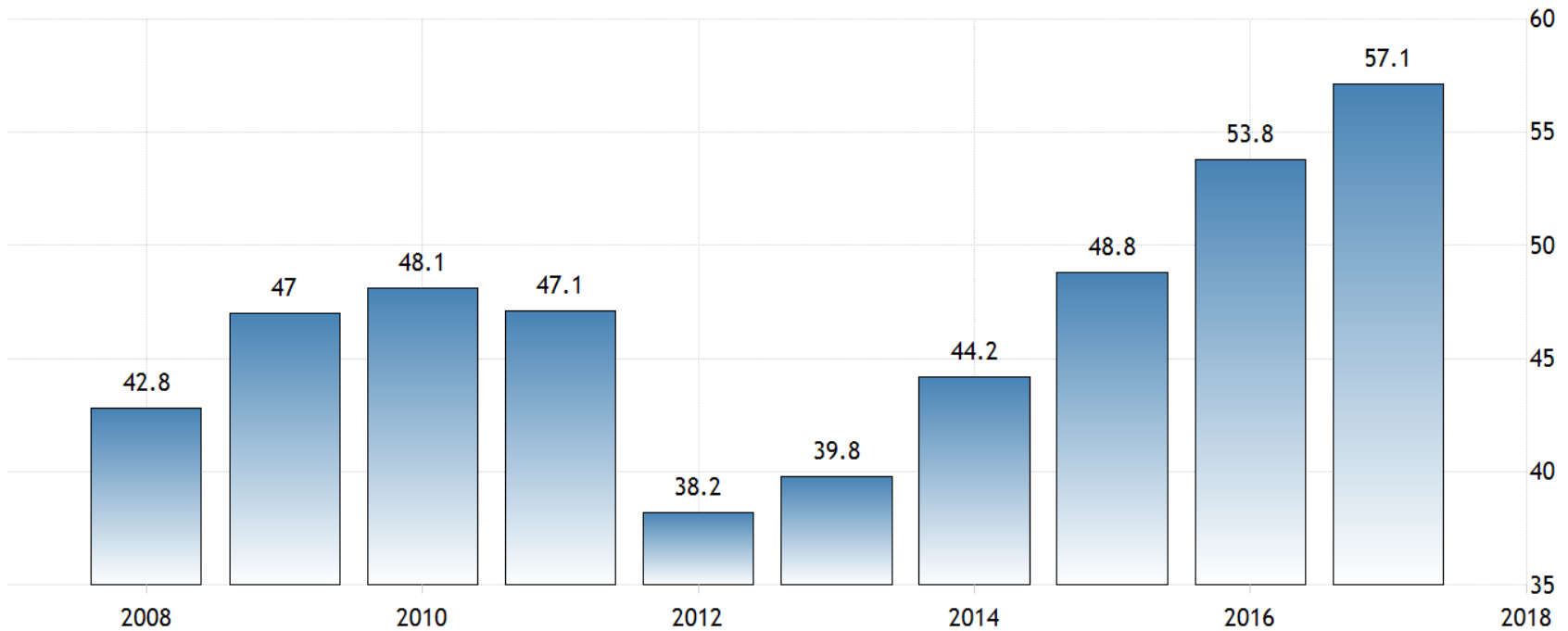
Macro Economic Variables	2012	2013	2014	2015	2016
Population (million)	40.7	41.8	43.0	44.2	45.5
GDP per capita (USD)	1,243	1,322	1,433	1,427	1,558
GDP (USD Bn)	50.6	55.3	61.6	63.1	70.8
Economic Growth (GDP, annual variation in %)	4.5	5.9	5.4	5.7	5.8
Consumption (annual variation in %)	5.7	8.5	4.6	5.1	4.8
Investment (annual variation in %)	12.7	1.2	14.8	6.7	-9.3
Industrial Production (annual variation in %)	4.1	5.4	5.3	6.1	6.0
Fiscal Balance (% of GDP)	-6.0	-6.8	-7.0	-9.6	-8.1
Public Debt (% of GDP)	42.1	44.5	45.9	50.4	53.5



# Debt/GDP Analysis – the Kenyan Case



KENYA GOVERNMENT DEBT TO GDP



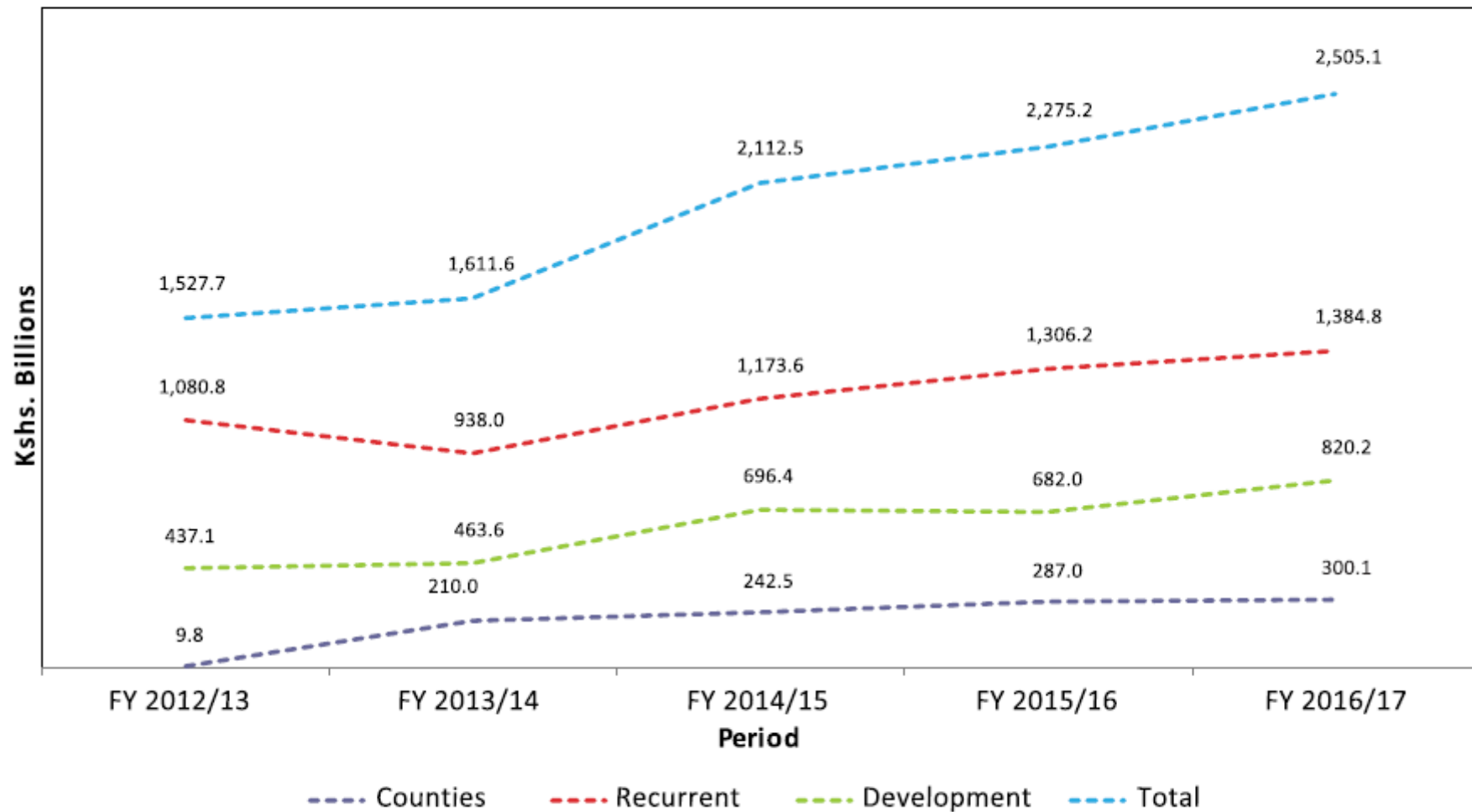
SOURCE: [TRADINGECONOMICS.COM](http://TRADINGECONOMICS.COM) | CENTRAL BANK OF KENYA



# National Budget Trends



ANNUAL BUDGET TREND FROM FY 2012/13 TO FY 2016/17





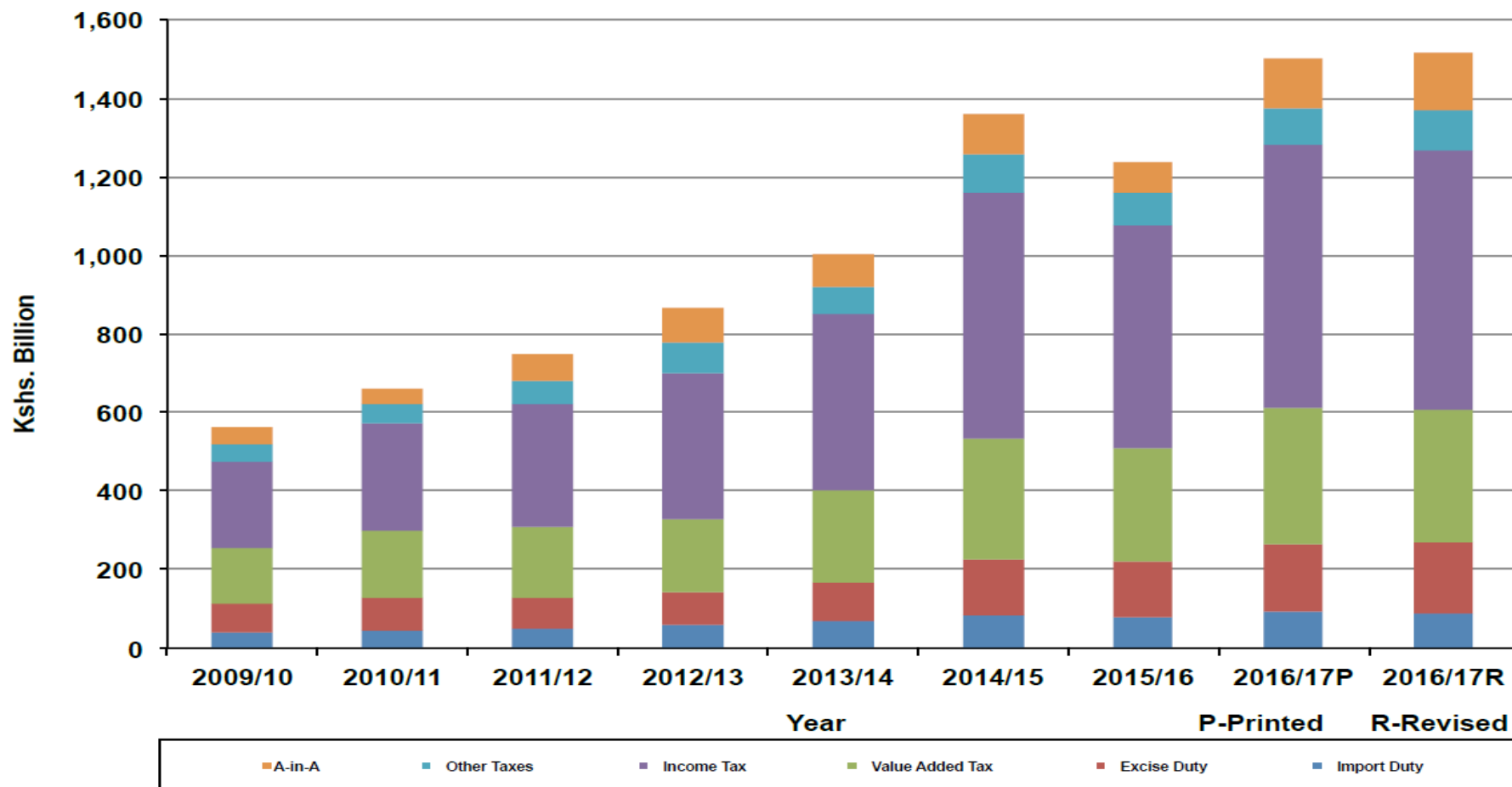
# Overall Revenue Performance



	KSh Million				
	2012/13	2013/14	2014/15	2015/16 <sup>*</sup>	2016/17 <sup>+</sup>
<b>Taxes on income, profits and capital gains</b> .....	<b>373,086.04</b>	<b>449,590.07</b>	<b>509,159.84</b>	<b>569,811.18</b>	<b>662,854.07</b>
Income tax from individuals (P.A.Y.E) <sup>1</sup> .....	199,847.16	249,872.80	279,795.65	286,166.16	343,772.88
Income tax from corporations (other income tax) .....	173,238.88	199,717.27	228,785.25	279,834.49	316,030.12
Capital gains taxes .....	..	..	578.95	3,810.54	3,051.08
<b>Taxes on property</b> .....	<b>653.73</b>	<b>0.00</b>	<b>0.00</b>	<b>88.26</b>	<b>100.00</b>
Immovable property .....	169.58	0.00	0.00	0.00	0.00
Financial and capital transactions .....	484.15	0.00	0.00	88.26	100.00
<b>Value Added Tax (VAT)</b> .....	<b>184,916.31</b>	<b>232,630.32</b>	<b>259,685.20</b>	<b>289,213.47</b>	<b>338,680.18</b>
VAT on domestic goods and services .....	90,713.83	107,737.35	127,904.57	160,389.01	191,149.88
VAT on imported goods and services .....	94,202.48	124,892.97	131,780.63	128,824.45	147,530.31
<b>Taxes on other goods and services</b> .....	<b>114,821.86</b>	<b>125,363.91</b>	<b>140,243.32</b>	<b>162,593.81</b>	<b>205,016.46</b>
Excise taxes .....	85,660.29	102,029.10	115,871.72	139,540.34	178,366.69
Taxes on use of goods and on permission to use the goods or to perform services and activities .....	2,458.44	4,910.49	4,650.51	5,780.10	7,751.18
Taxes on goods and services collected as AIA .....	26,703.12	18,424.32	19,721.08	17,273.37	18,898.59
<b>Taxes on international trade transactions</b> .....	<b>81,812.59</b>	<b>94,232.51</b>	<b>101,040.90</b>	<b>104,433.27</b>	<b>119,643.24</b>
Custom duties .....	57,649.68	67,554.64	74,047.72	79,187.93	90,397.91
Other taxes on international trade and transactions .....	24,162.91	26,677.87	26,993.18	25,245.33	29,245.33
<b>Other taxes not elsewhere classified</b> .....	<b>8,537.81</b>	<b>9,986.89</b>	<b>11,467.76</b>	<b>10,423.54</b>	<b>11,990.10</b>
<b>TOTAL TAX REVENUE</b> .....	<b>763,828.34</b>	<b>911,803.70</b>	<b>1,021,597.03</b>	<b>1,136,563.52</b>	<b>1,338,284.06</b>



# Overall Revenue Performance

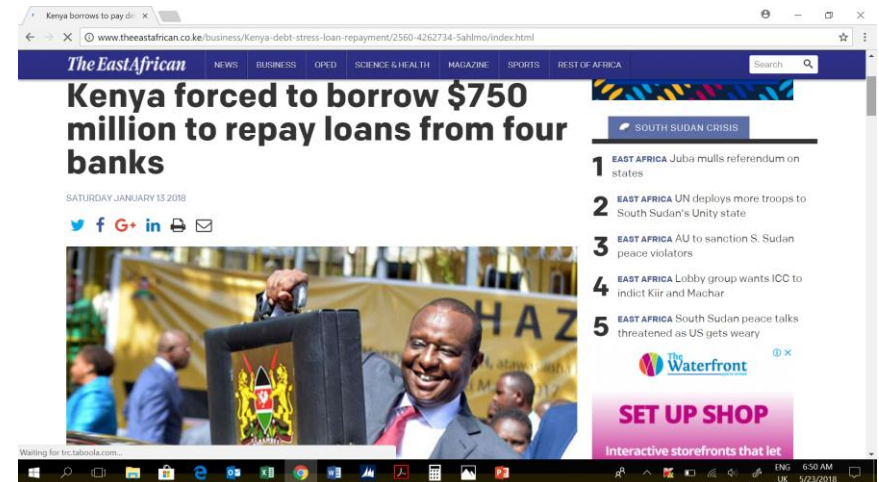
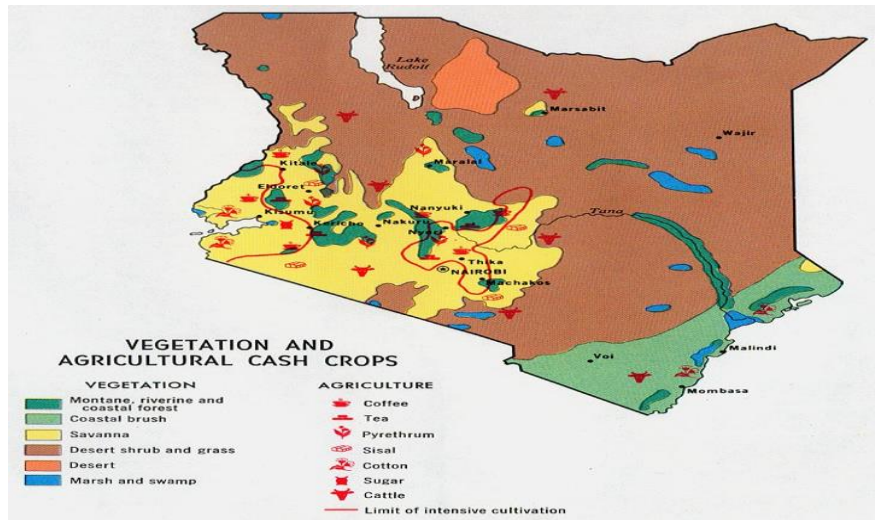
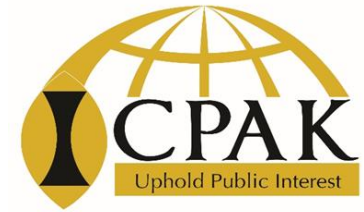




## **The Debt Issues – Is Kenya's Debt Level Sustainable?**



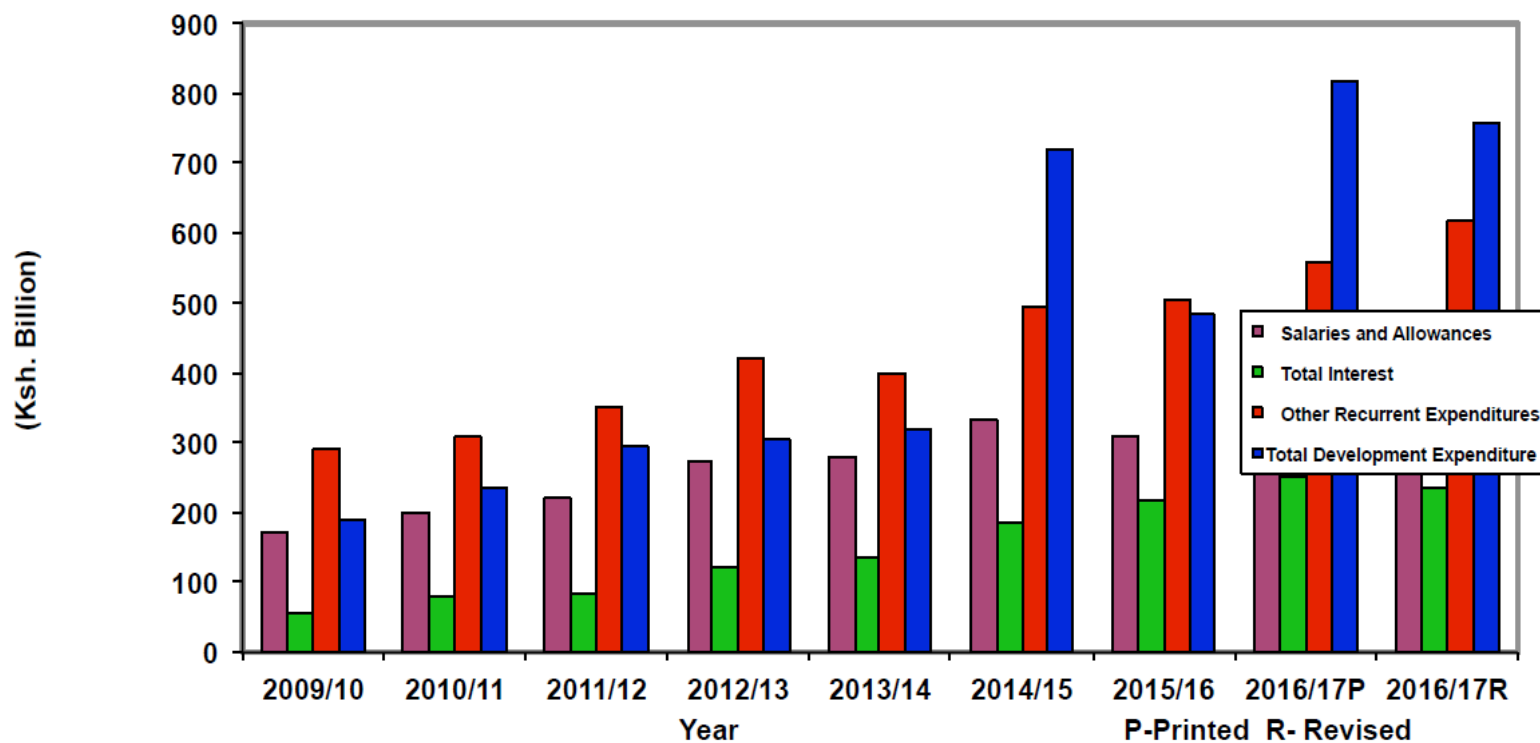
# Debt Service Costs



How sustainable is the Kenyan DEBT SITUATION?



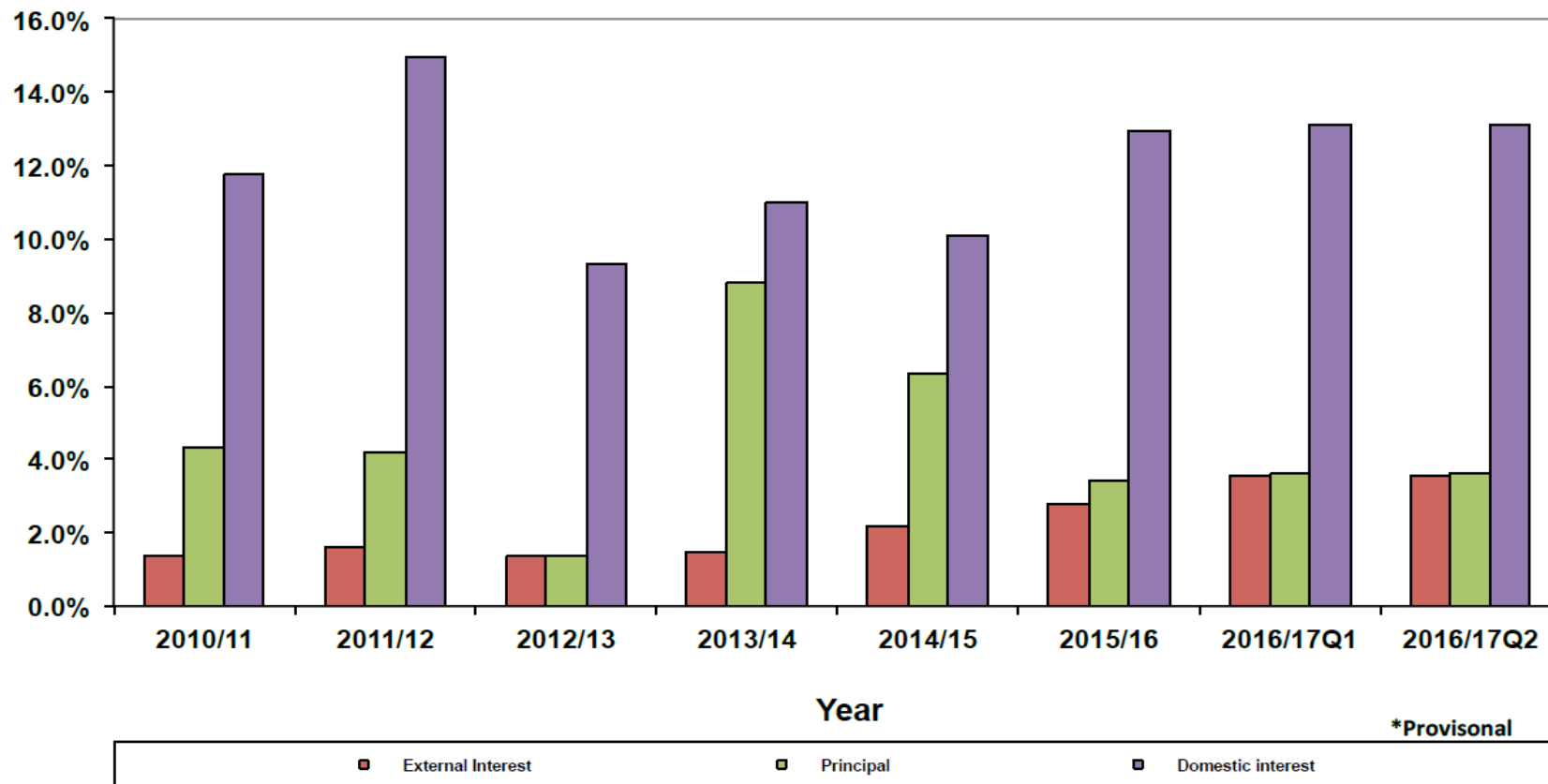
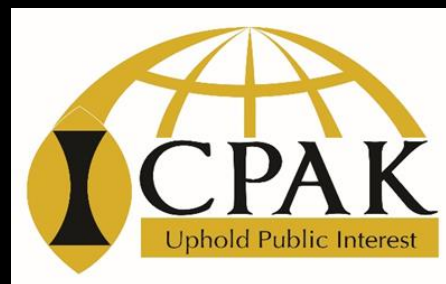
# Government Expenditure



Source: National Treasury – Statistical Annex to Budget 2017



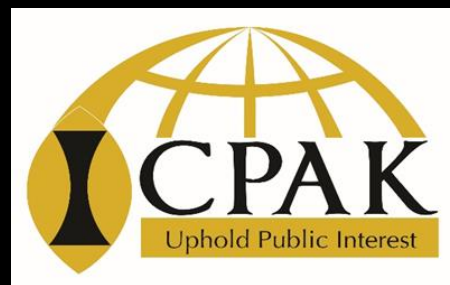
# Debt Service Costs as Percentage of Budget



Source: National Treasury – Statistical Annex to Budget 2017



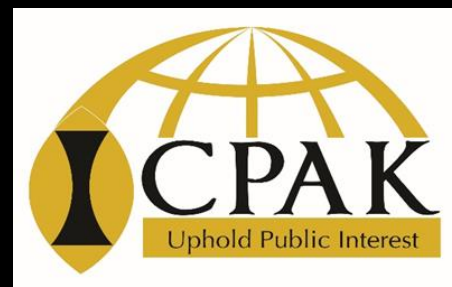
# Key Questions



- Are all government debt stocks appropriately costed?
- Have proceeds from debt been applied in full compliance with the law?
- Are we running on appropriate tenures?
- Have we struck an appropriate mix between domestic and external debt stocks?
- How complete and comprehensive in reporting is the national debt register?
- In all these, the fundamental question what lessons can we borrow from Japan to better out debt management strategy?



## Keys Issues to Ponder On



- The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.
- PDMO, fiscal policy advisers at the National Treasury, and the Central Bank should share an understanding of the objectives of debt management, fiscal, and monetary policies given the interdependencies between their different policy instruments. Debt managers should convey to fiscal authorities their views on the costs and risks associated with government financing requirements and debt levels.
- Transparency and accountability key to effectiveness of debt as a financing option in public finance.



# Key Issues



- Transparency and accountability key to effectiveness of debt as a financing option in public finance through:
  - Open process for formulating and reporting debt management policies
  - Public availability of information on debt management policies and overall national debt book;
  - Accountability and assurances of integrity by agencies responsible for debt management – Is Parliament exercising adequate oversight?
- Japan US Model against the Kenyan DMS – negotiate concessional rates and longer loans



