



Public Debt Burden & it's implications

Nyanza Branch Annual Summit 2018

Dr. CPA Mumo

Credibility .

Professionalism

.

AccountAbility

Presentation Outline



- ❑ Constitutional & Legal Thresholds
- ❑ Public debt facts –statistics/data
- ❑ Implications

Constitutional & Legal Thresholds



❑ Article 201

- Equitable sharing of burdens and benefits of public borrowing
- Fiscal discipline –live within our means
- Public debt to be used for development expenditure only

The “BIG DEBATE” of the Kenya’s public debt

Should we be worried by our current level of public debt? Insights from monetary Economics

Implications of tax & non tax revenue short fall



- Short falls on tax revenues have implications on the public debt levels
 - Generally, there have been concerns about the increase in the debt levels in the country
 - As at June 2015, the total debt level was 2,829.2 billion (52.8% of the GDP).
 - As at March 2016, this had increased to 3,312.1 billion (53.2% of the GDP)
 - As at March 2018, the total debt level was Ksh. 4,884,081.46 Million **(63.025 % of the Nominal GDP as at December 2017).**
- ❑ Big Question: is there any problem with this debt increase?
Let's discuss!!!**

Public debt growth rates



- Nominal debt growth rates –April 2013 to march 2018 = 160% (by ksh. 3.002 trillion) i.e. from Ksh. 1.882 -4.884 trillion
- Its projected that by June 2018 it grown to about 5.12 trillion (thus April 2013 –June 2018 =172%) =6.167 years
- **Comparative**
- Nominal debt growth rates –December 2002 to April 2013 =199% (from Ksh. 0.630 to 1.882 trillion) =period 10.33 years

Relation to economic size

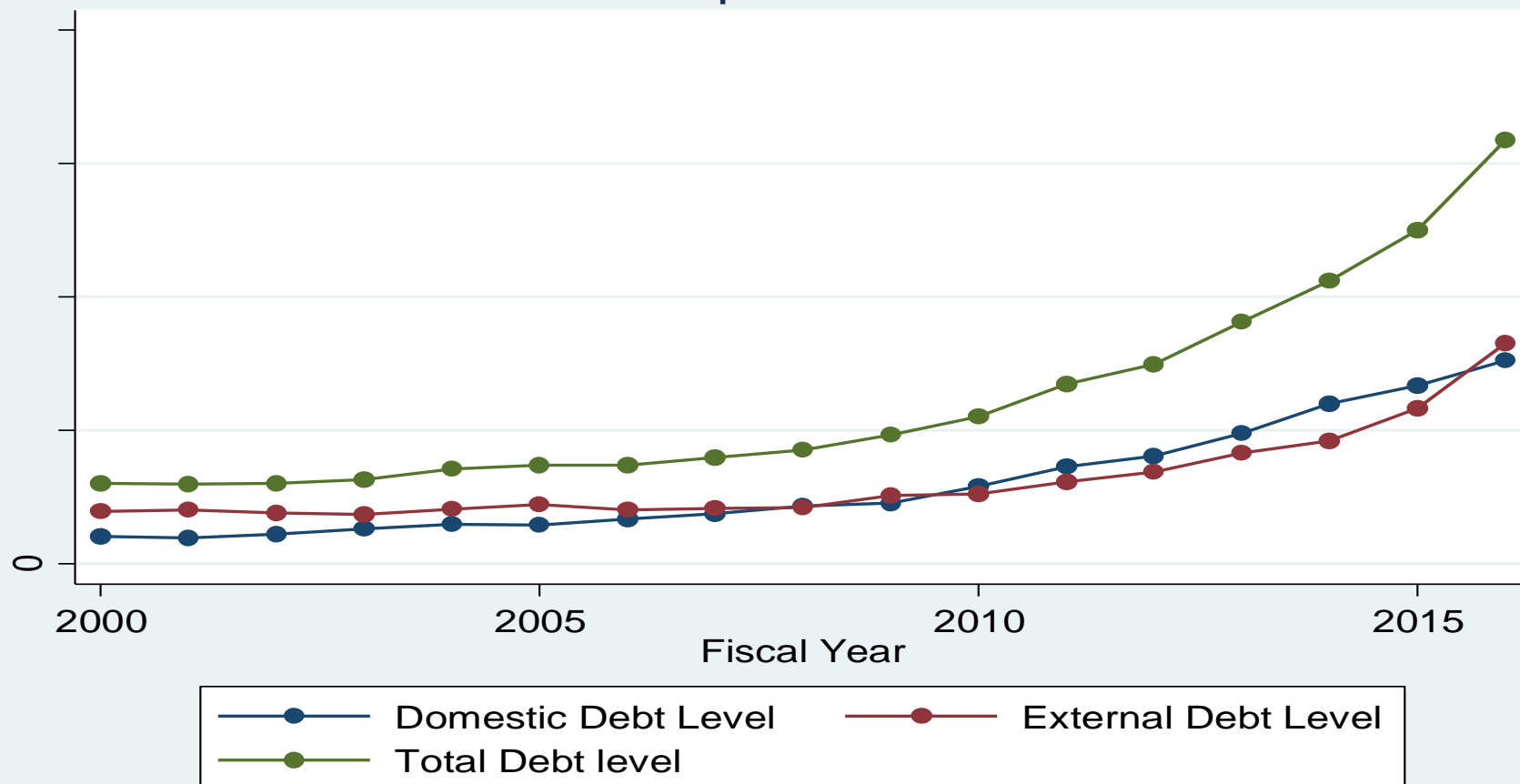


- Based on same data, the debt to GDP ratio in December 2002 was 61% ($0.630/1.035$)
- This had reduced to 42% as at December 2012 ($1.793/4.261$)
- But drastically grew to 59% ($4.570/7.749$) as at December 2017
- In the absence of monthly GDP data, the ratio as at March 2018 to December 2017 GDP is 63% ($4.884/7.749$)

The Trends: June 2000 –March 2016



Growth in public debt levels

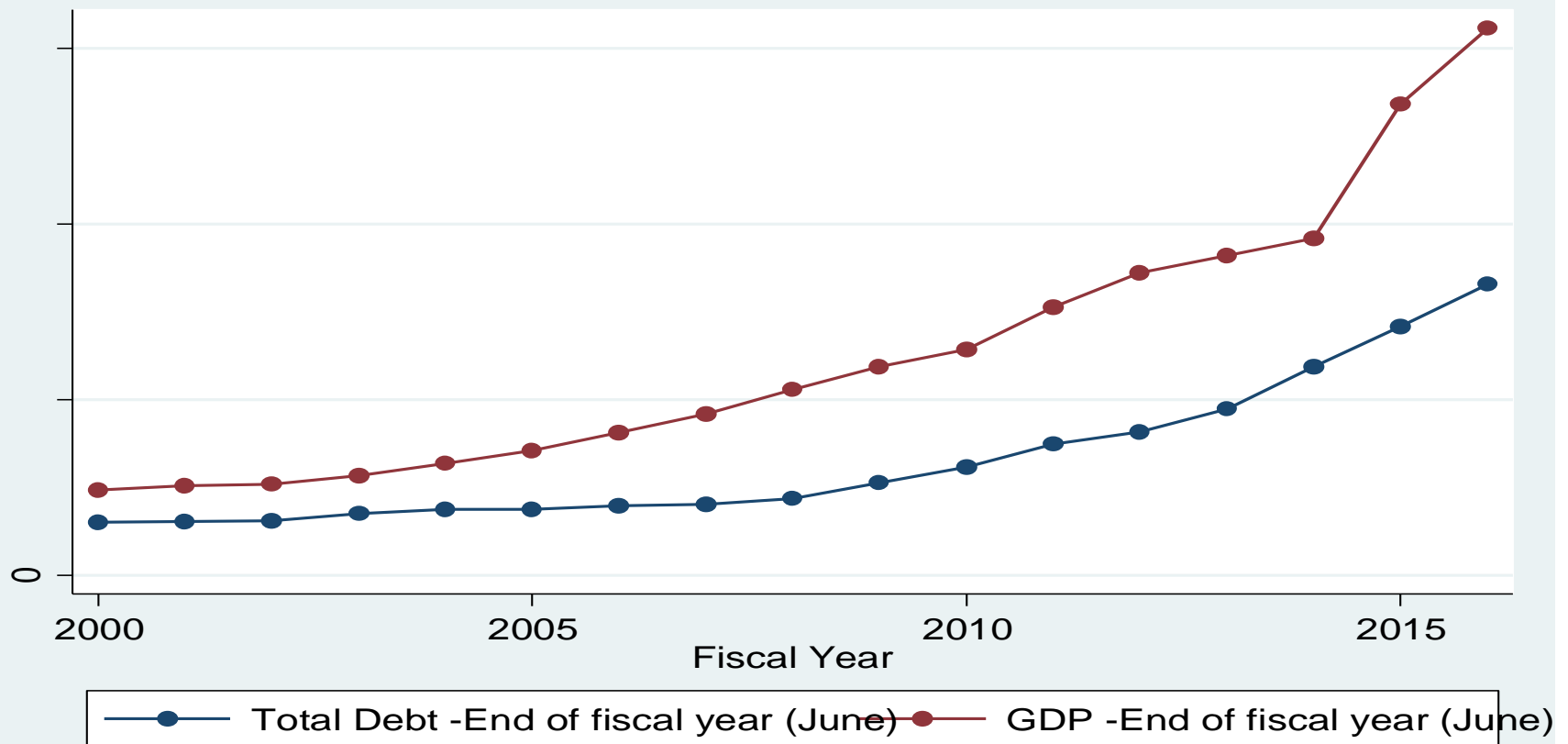


Source: Own drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Growth in Public Debt Vs. GDP



Debt Vs. GDP trends

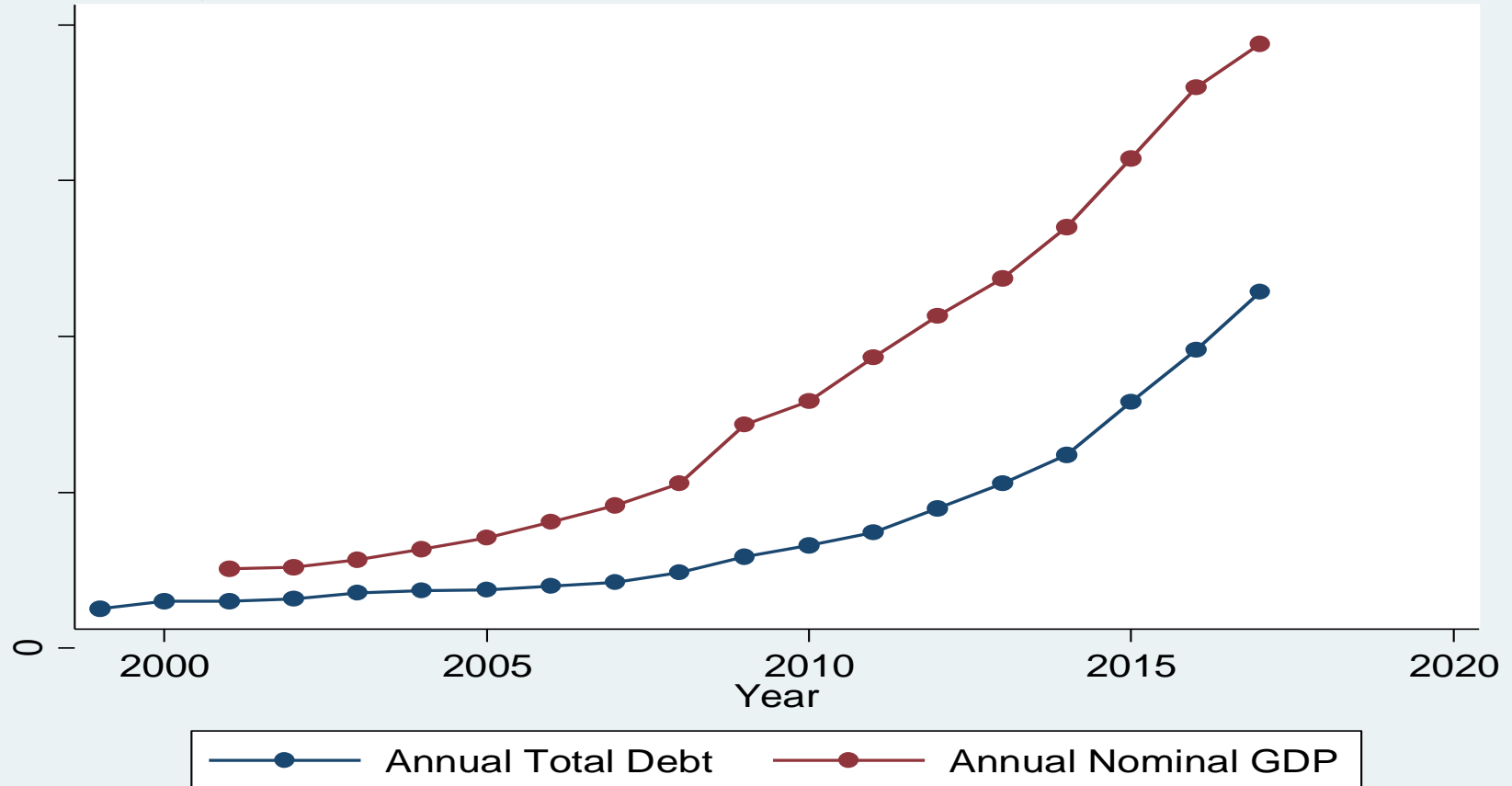


Source: Own drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Public Debt Vs. Annual GDP (Calendar Year): 2001 – 2017



Kenya's Annual Nominal and Total Public Debt trends 2001 -2017



Source: Own drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Debt as a % of GDP



Debt per GDP

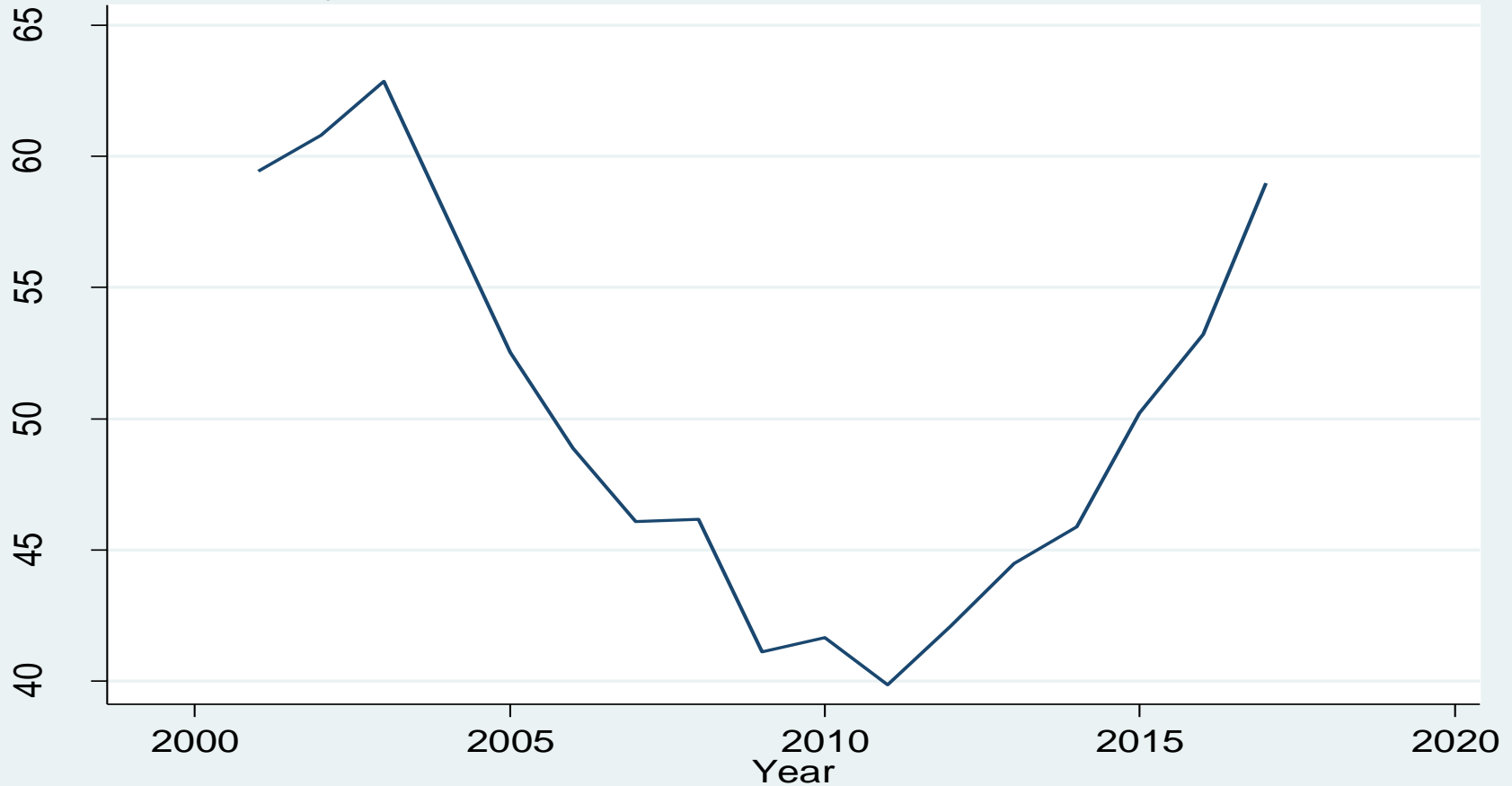


Source: Own computation & drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Debt as a % of GDP (Calendar Year)



Kenya's Annual Debt to Nominal GDP Ratio 2000 -2017

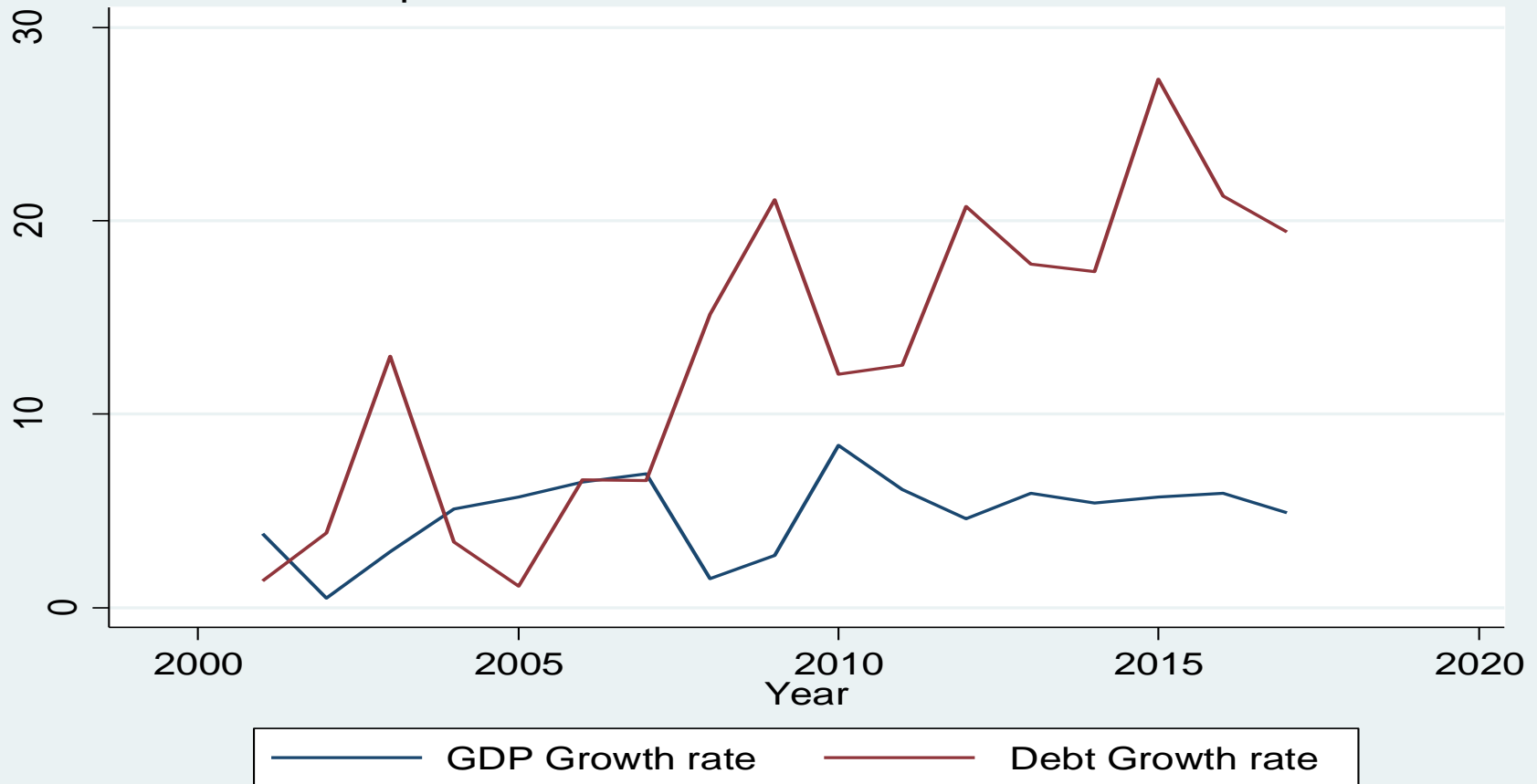


Source: Own computation & drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Annual growth trends: Public Debt Vs. GDP (Calendar Year)



Comparative Growth Trends: Public Debt Vs. GDP



Source: Own computation & drawing (CBK data –Annual Statistical Bulletin & Public debt data)

The Implications



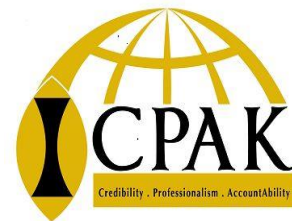
- Public debt has **direct implications** on taxes in later years
- We Must NEVER FORGET that public debt is simply taxes collected in advance –eventually, the government shall have to tax its citizenry to repay it
- Huge public debt **limits not only what the current government can borrow/do in future, but also what successive future governments can borrow/do!!!**

The Economic pitfalls



- Borrowing and under investing into the economy –generally, corruption & pilferage leads to over-estimation of actual investment into the economy on official data
- Foreign debt not actually getting injected into the economic system –**the mystery of our grandiose project without any trickle effect!!**
- The trap of “commercially dead” investments using borrowed funds
- Absence of supporting economic activities
- Informal sector driven growth as opposed to formal sector driven growth –**currently over 85% of the jobs are in the informal sector: Hard to quantify & determine its contribution to the economy!**

The Options out



- **Unfortunately, the only way out of public debt is Real growth/expansion of the economy**
- Troubling Statistics
 - ✓ Only 2.4 million people are paying taxes (individuals & corporate)
 - ✓ Only 290,400 of the over 20 million over 16 yrs old in gainful engagements are earning over Ksh. 100,000 per month
 - ✓ Of the about 1.56 million licensed MSME by the 47 county governments, over 90% are Micro (as at 2016)
 - ✓ Over 5.85 million enterprises are unlicensed (as at 2016)
 - ✓ Only 20 MNCs had their regional hub in Nairobi as at July 2013

And Finally.....

