

National Debt Paradox & Challenge of Pending Bills

Public Financial Reporting for Counties & Other Public sector entities

Presentation Outline



- ❑ Constitutional & Legal Thresholds
- ❑ The Paradox
- ❑ 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 Paradox



**A sharp growth in public debt.....no clear
visible impact in the economy**

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 had grown to about 5.1 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

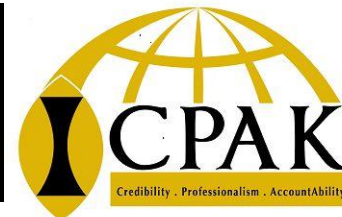
Relation to economic size



- 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 National Treasury Insists the ratio was still 48% to the GDP as at June 2018

Notable shifts



- Use of more expensive debt (often commercial /syndicated loans) to offset cheaper bilateral debts
- Loading of more debts through state corporations/agencies not officially included on reported public debts at the Central Bank data –e.g. **the KNH Chinese loan –treasury obligated to bail out this week**
- Some public debts not directly and unambiguously linked to development expenditure as required by the constitution –**to date it's still not clear which development was financed by Eurobond 1**
- **Domestic debts not included in debt redemption schedule in the budget – estimated at about Ksh 400 billion in current financial year**

The pending bills menace



- As at June 30, 2018, counties had accumulated Ksh 108.41143 billion in pending bills
- Audits in certain counties have not been able to authenticate part of the claims e.g. Meru County
- IPSAS requires they be 1st charge in the subsequent years revenues.....but they aren't budgeted for???
- **How about pending bills at the National government and state agencies??**
- **Technically pending bills are part of public debt....but not treated as such currently!!!**

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

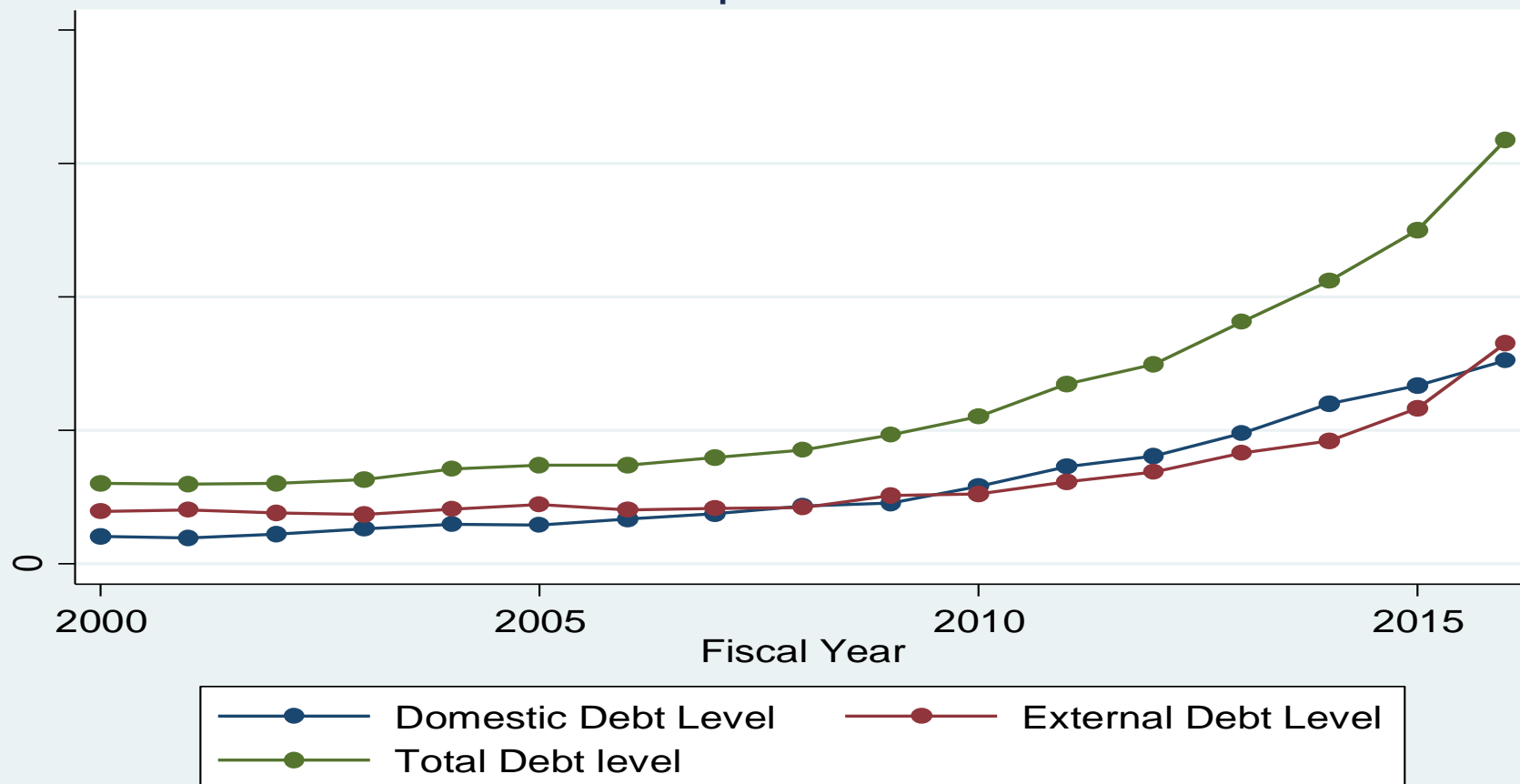


- Short falls on tax revenues have implications on the public debt levels
 - Generally, there have been concerns about the increase in the debt levels in the country
 - As at June 2015, the total debt level was 2,829.2 billion (52.8% of the GDP).
 - As at March 2016, this had increased to 3,312.1 billion (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!!!**

The Trends: June 2000 – March 2016



Growth in public debt levels

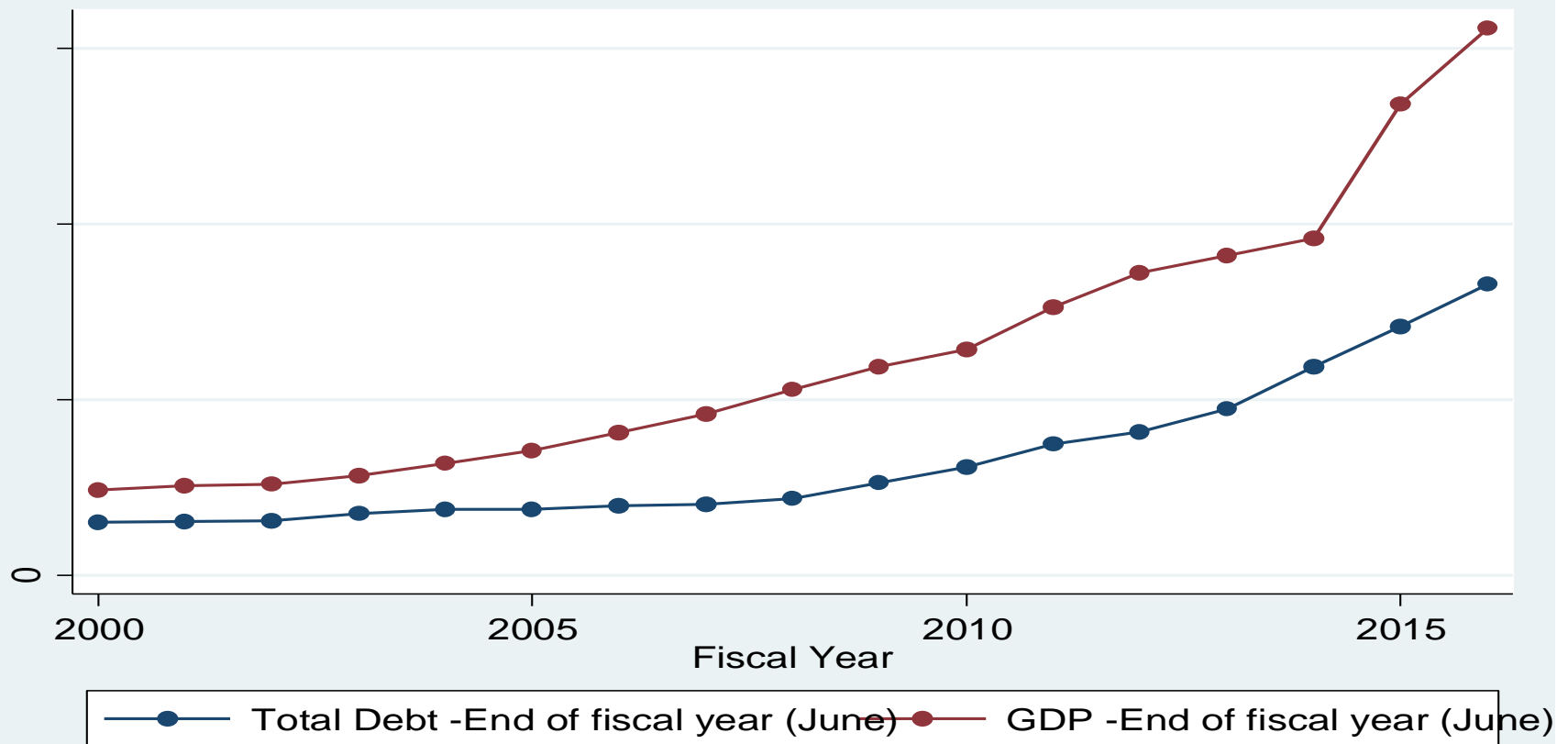


Source: Own drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Growth in Public Debt Vs. GDP



Debt Vs. GDP trends

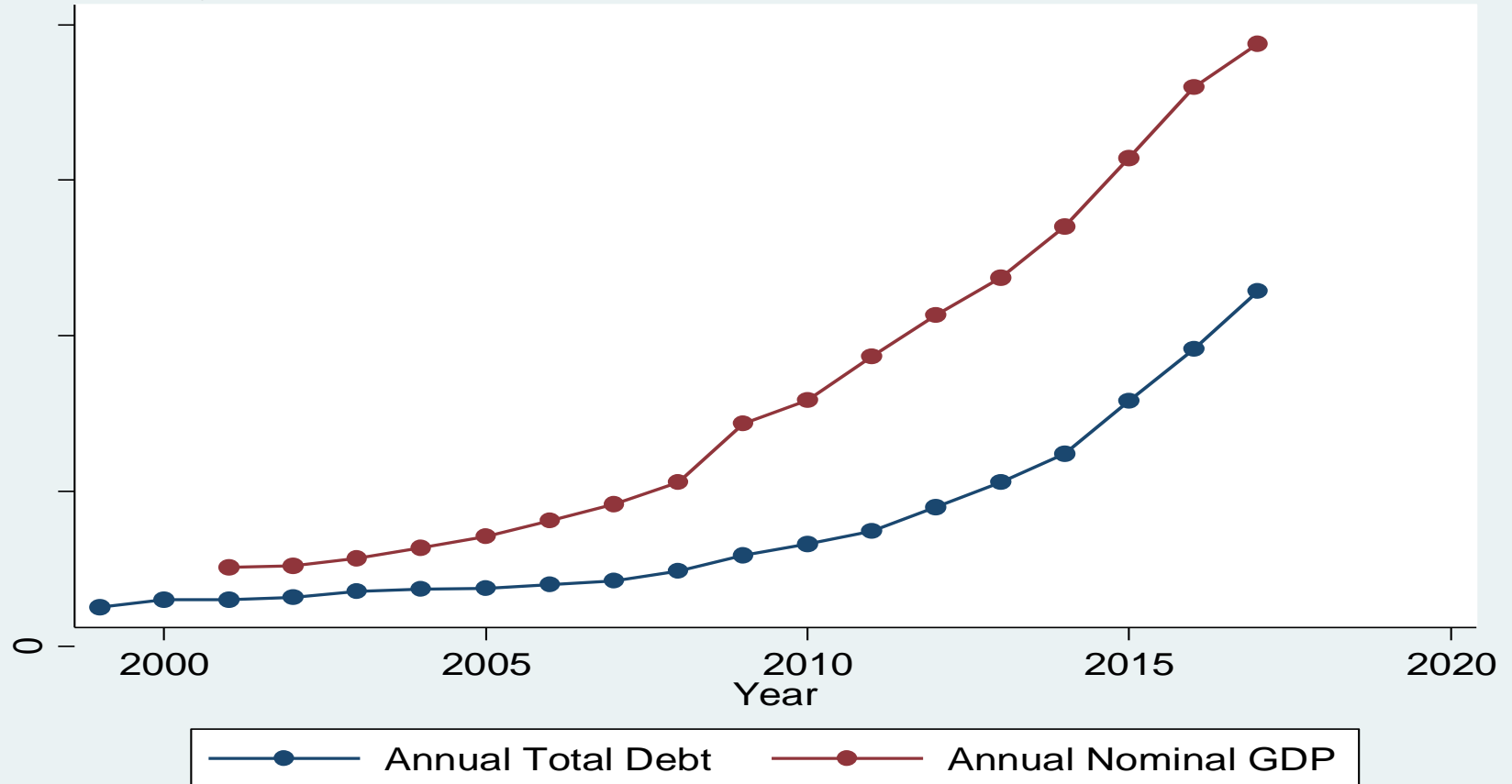


Source: Own drawing (CBK data –Annual Statistical Bulletin & Public debt data)

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



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

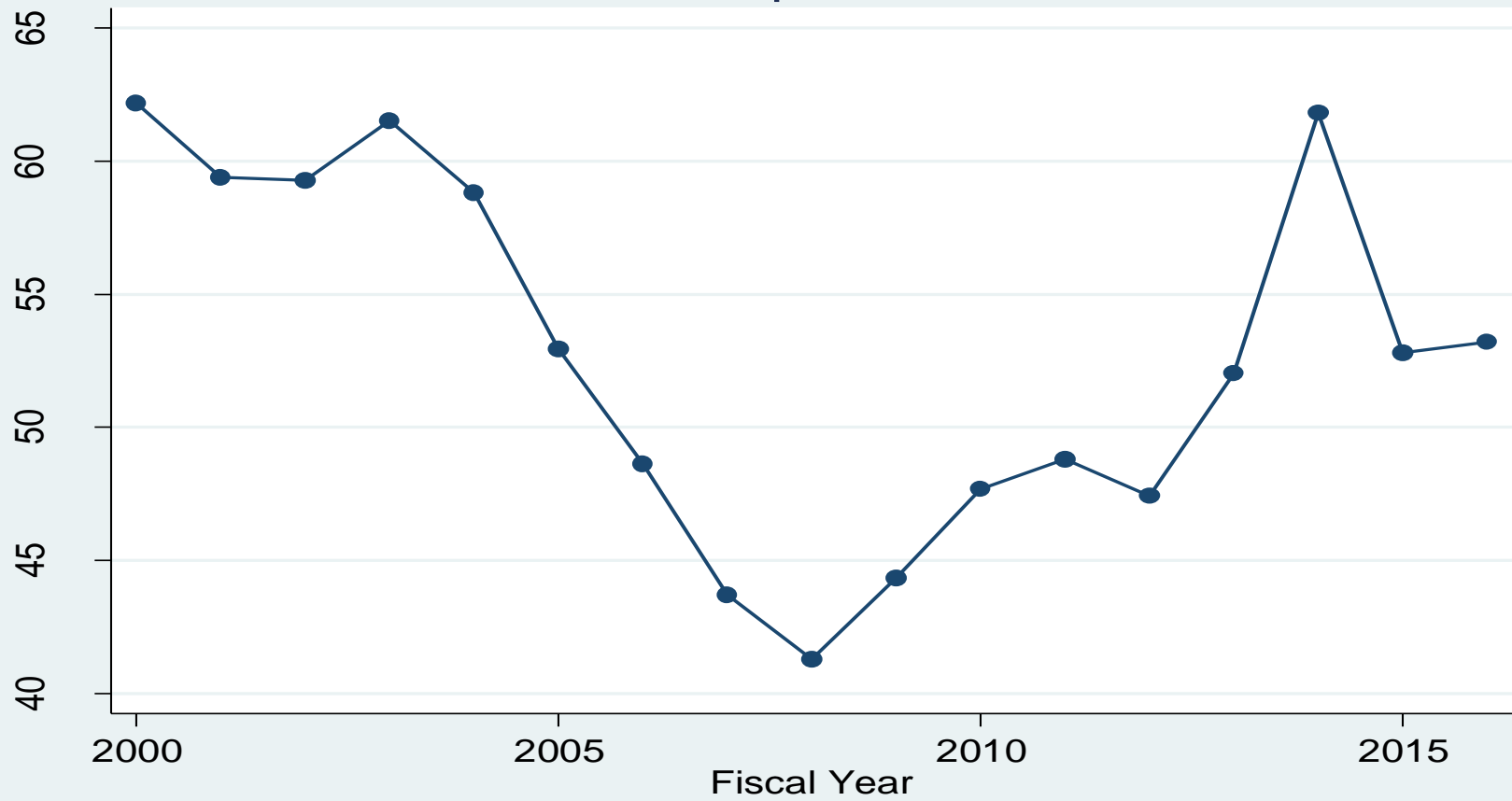


Source: Own drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Debt as a % of GDP



Debt per GDP

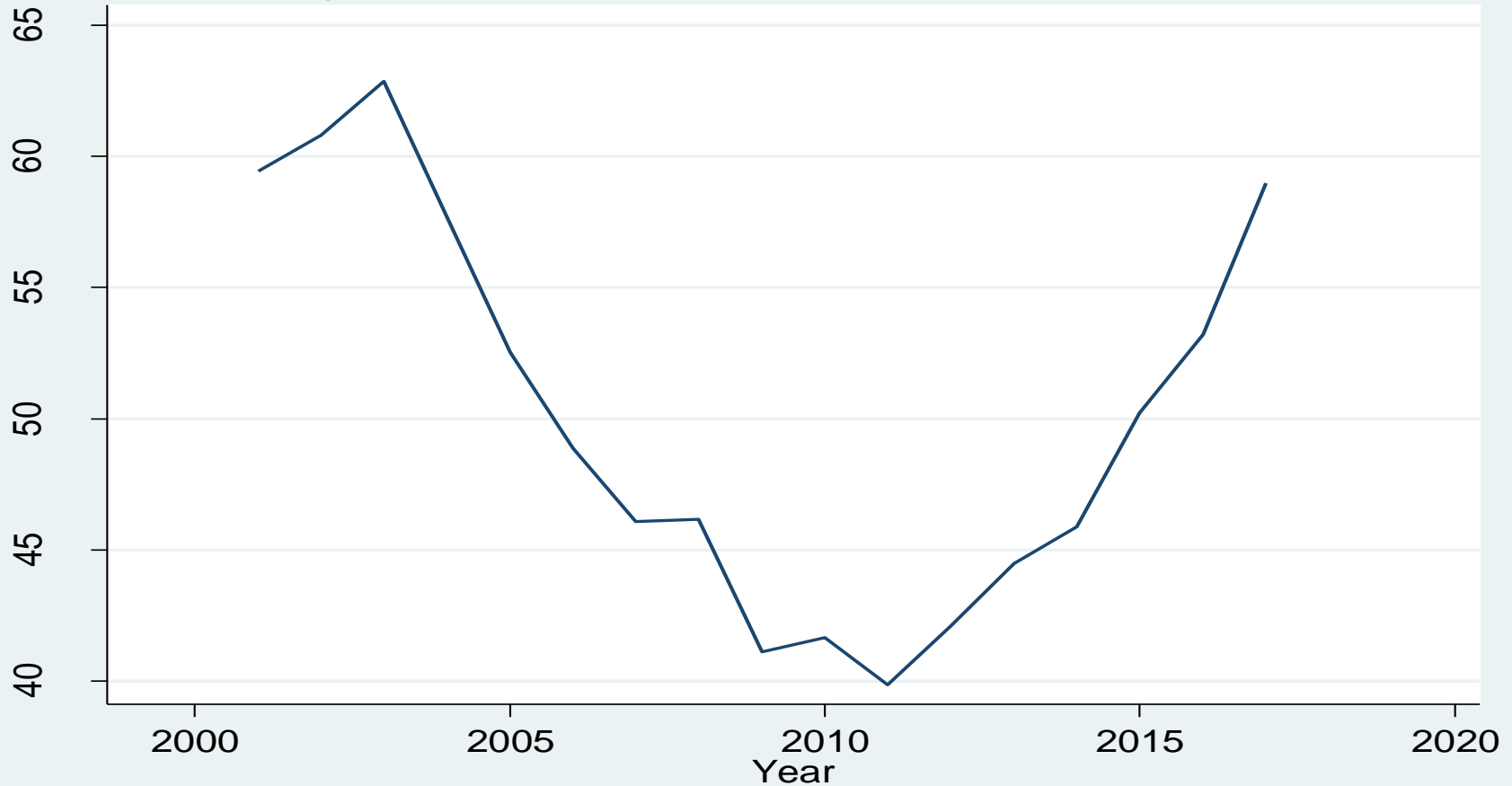


Source: Own computation & drawing (CBK data –Annual Statistical Bulletin & Public debt data)

Debt as a % of GDP (Calendar Year)



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

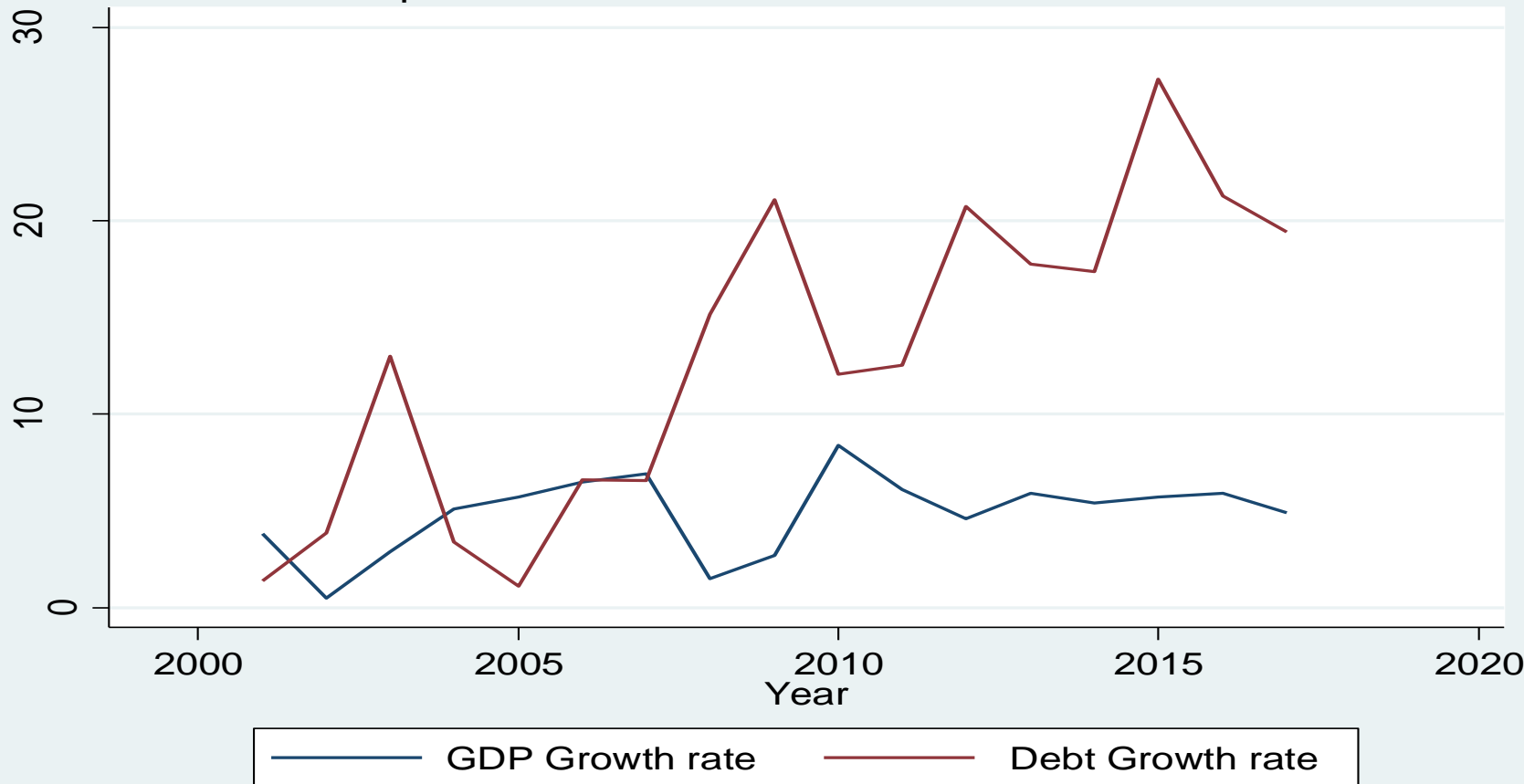


Source: Own computation & drawing (CBK data –Annual Statistical Bulletin & Public debt data)

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 projects without any trickle effect!!**
- The **trap of “commercially dead” investments** using borrowed funds
- Absence of supporting economic activities –infrastructure must be supported by production in the regions
- 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
(Comparative in Singapore: 37,400 Int'l companies (of this 7,000 MNCs) have headquarters in this tiny highland; March 2018 – had about 219,000 SMEs)

And Finally.....

