Kenya's Public Debt – Should we be Concerned?

Abraham Rugo Muriu, PhD
Country Manager-IBP Kenya

Outline

- What we know
- What we do not know
- What should concern us
- What this means?

Kenya relies heavily on borrowing

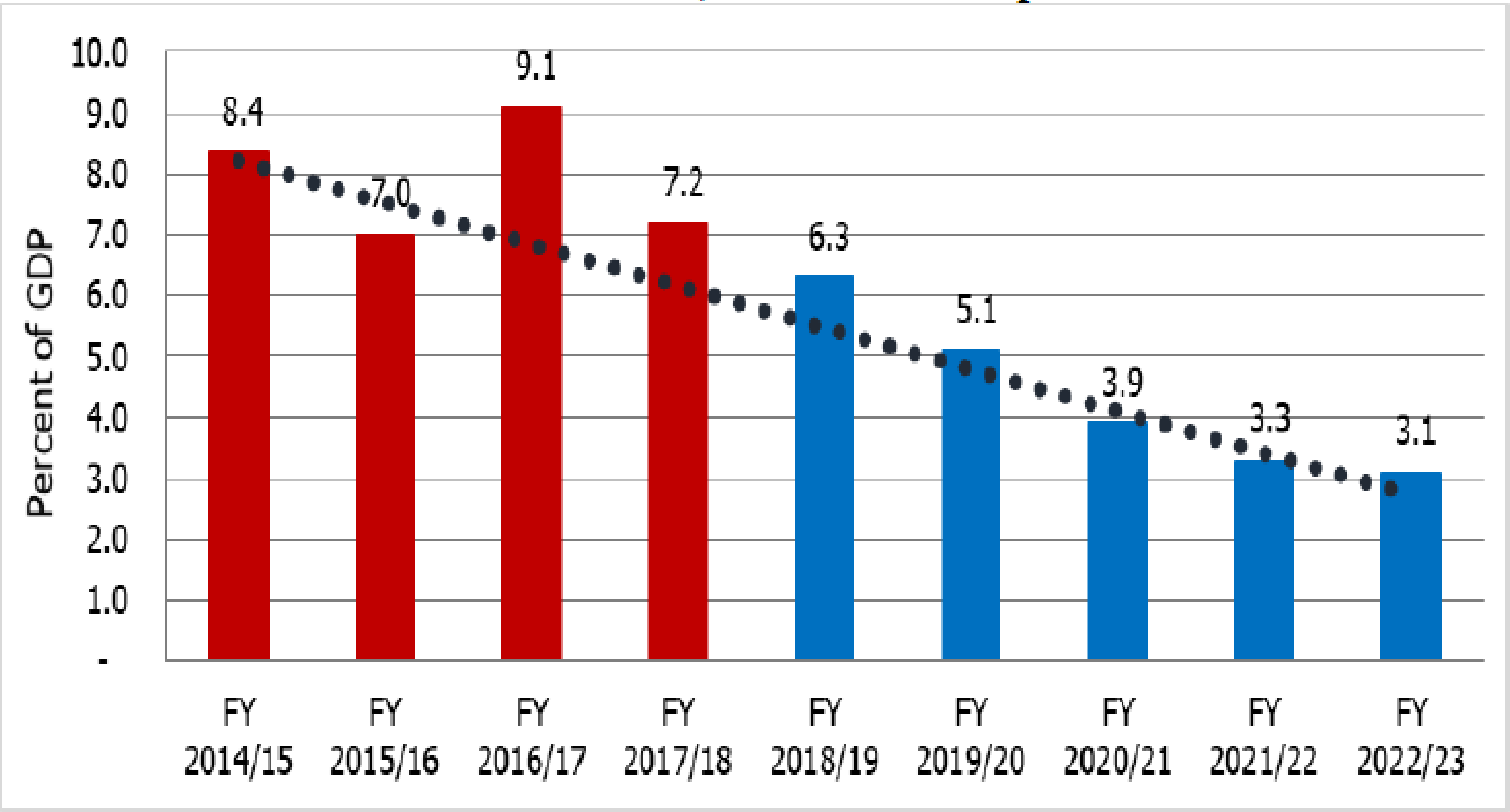
- Public debt is a means to plug in budget deficits (18/19 at 6.3 per cent of GDP)

- To be able to invest today for returns tomorrow…but are the returns assured?

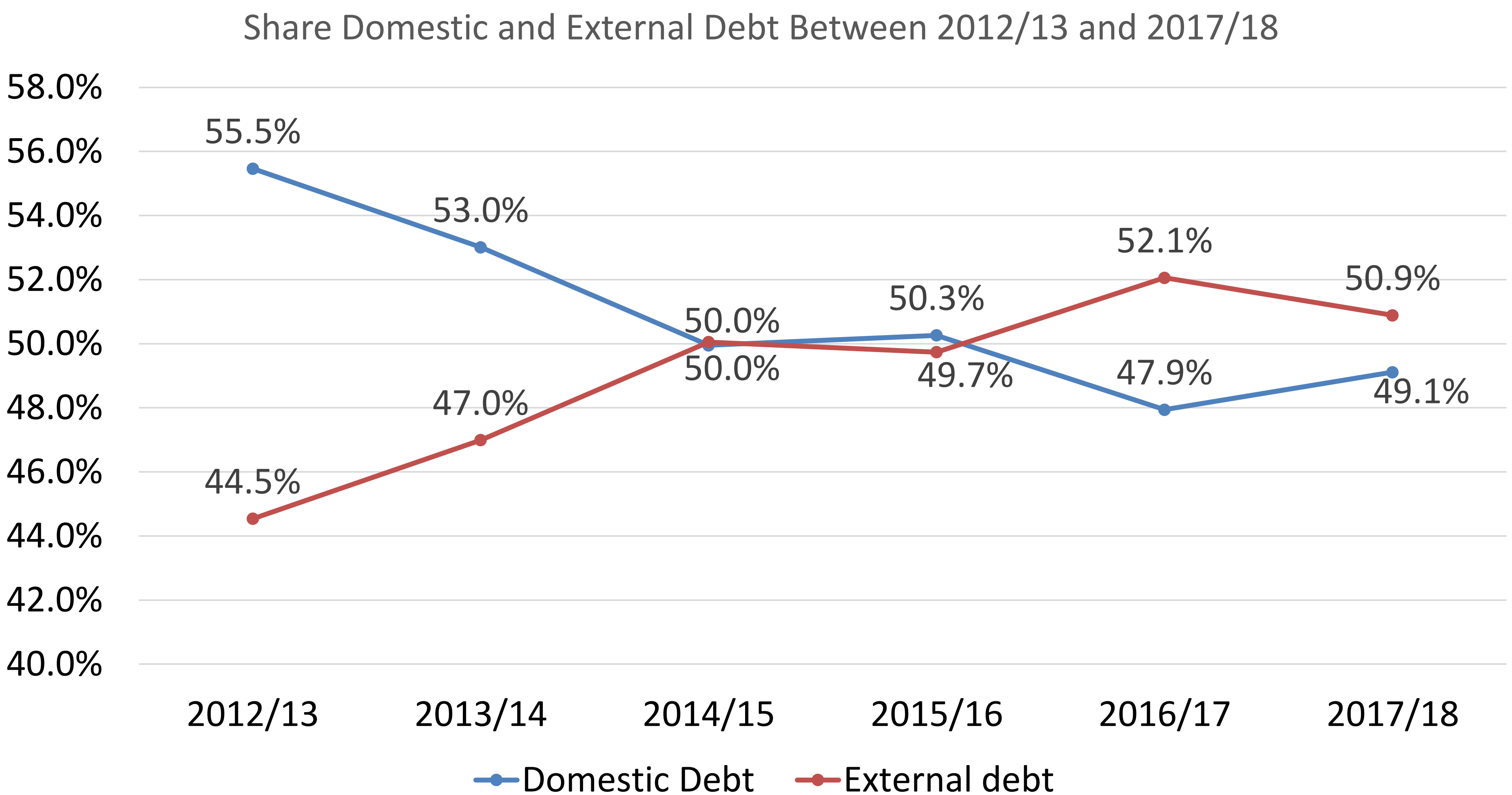
- As of June 30th, 2019, Kenya's total debt stock stood at **Ksh 5.80 trillion** equivalent to about **61 percent** of our total gross domestic product (GDP).

Fiscal Deficit is key Driver

Chart 2.6: Fiscal Consolidation Path, Fiscal Deficit a percent of GDP



Debt Mix is Changing

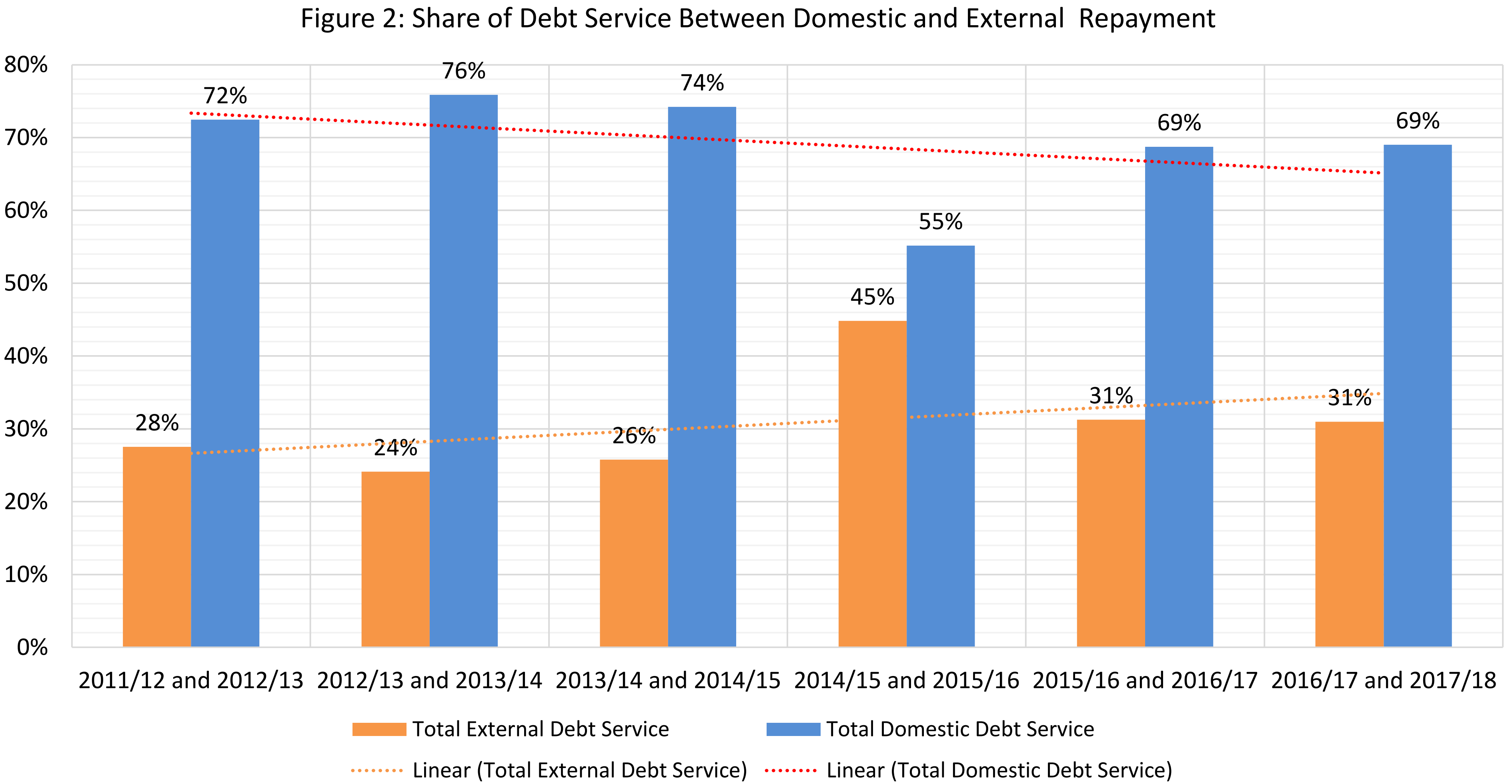


External Commercial is main source of debt

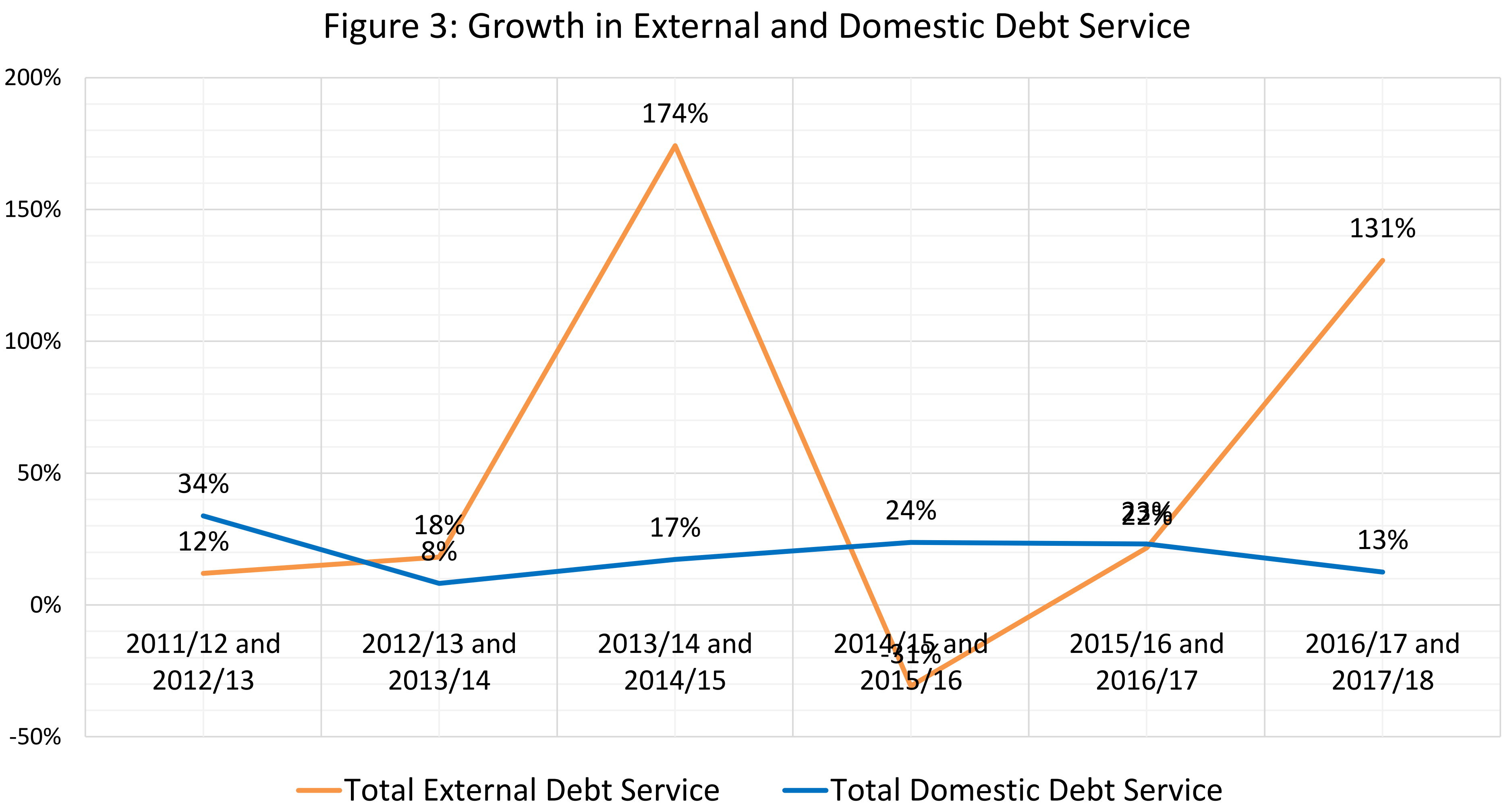
	Debt Type	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Change Between 2012/13 and 2017/18
1	**DOMESTIC DEBT**							
	Central Bank	2%	3%	2%	3%	1%	2%	0%
	Commercial Banks	28%	25%	26%	26%	26%	25%	-3%
	Non-bank Financial Institutions	26%	25%	22%	22%	21%	22%	-4%
2	**EXTERNAL DEBT**							
	Bilateral	12%	10%	14%	14%	15%	15%	4%
	Multilateral	27%	24%	24%	22%	19%	16%	-10%
	Commercial Banks	3%	10%	10%	12%	14%	16%	13%
	Suppliers Credits	1%	1%	1%	0%	0%	0%	0%
	Bilateral	2%	2%	1%	2%	1%	1%	-1%
	Multilateral	0%	0%	0%	0%	0%	0%	0%
	Commercial	0%	0%	0%	0%	2%	2%	2%
	Total Debt	100%	100%	100%	100%	100%	100%	0%

Source: National Treasury and Central Bank of Kenya

Debt service is our key expenditure



External Debt service is Erratic



Erratic nature of both principal and interest servicing

	2011/12 and 2012/13	2012/13 and 2013/14	2013/14 and 2014/15	2014/15 and 2015/16	2015/16 and 2016/17	2016/17 and 2017/18
External Principal	0%	8%	211%	-55%	3%	273%
External Interest	50%	41%	114%	28%	37%	40%
Total External Debt Service	12%	18%	174%	-31%	22%	131%

What we do not know

- The full extent and conditions attached to the various loans
- The prudent utilization of the loan proceeds
- The return on investments from the debt and how we shall pay in the future
- The equity with which the resources are applied across the country

What must concern us/1

Debt service to revenue ratio is very high and the BPS 2018 estimates it was higher than the threshold of 30 percent in 2017 at 36 percent. That level of performance remains high going into 2019.

Table 1.1: Kenya's Public Debt Sustainability Indicators

Indicator	Threshold	2016	2017	2019	2026
PV of public sector debt to GDP ratio	**74**	48.7	49.0	47.1	35.6
PV of public sector debt-to-revenue ratio	**300**	247.2	235.7	217.4	161.4
Debt service-to-revenue ratio	**30**	32.8	35.8	33.4	24.3

Source: IMF Staff Report for Kenya, February 2017

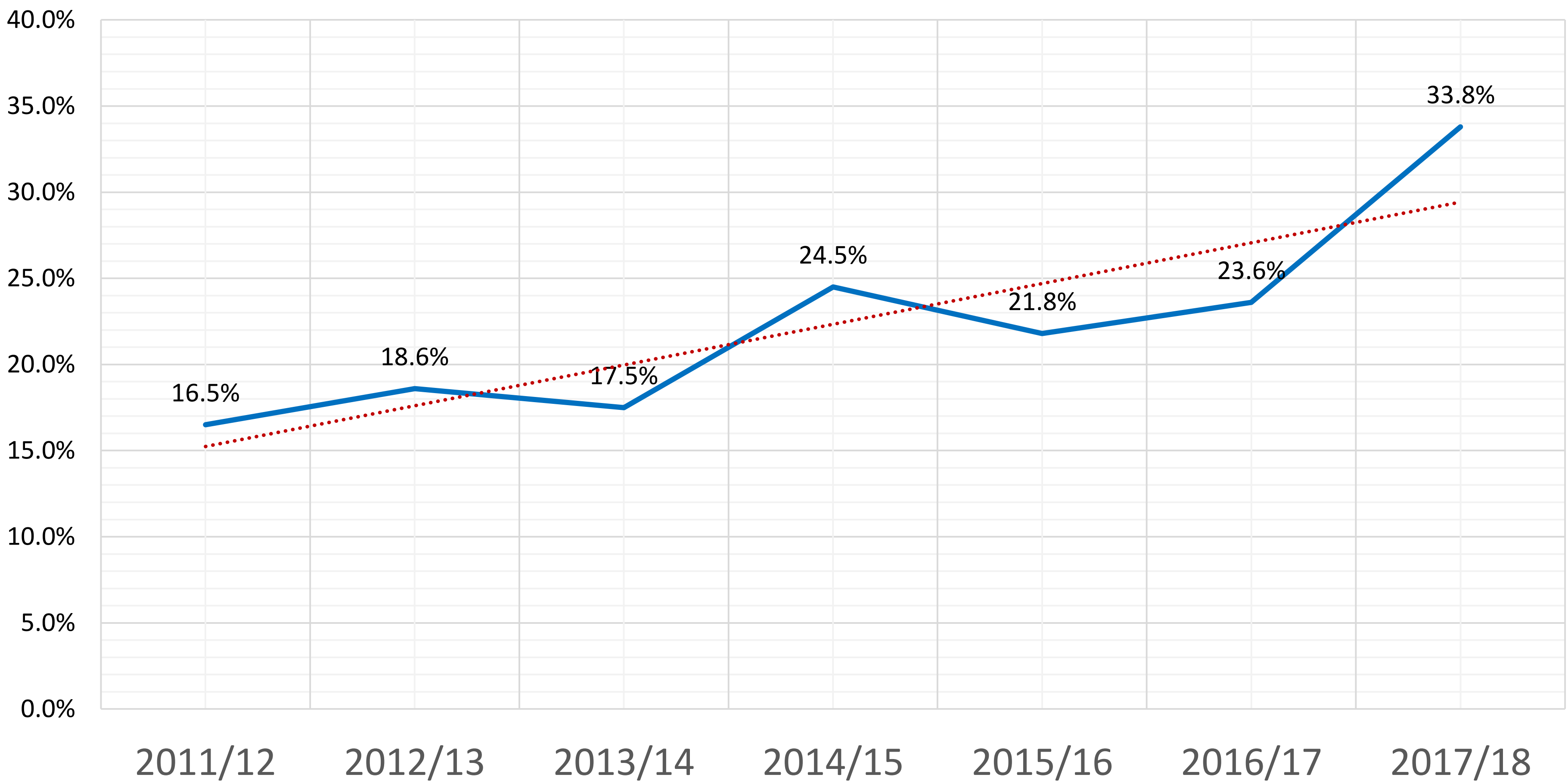
What must concern us/2

Allocations to debt service are rising at a much faster rate than the growth in ordinary revenue excluding Appropriation in Aid (AIA). Since 2014/15, the average growth in ordinary revenue has been 13 percent while the average growth in debt service has been more than twice that rate at 30 percent.

Year	Ordinary Revenue (excluding AIA)	Public Debt Service	Growth in Ordinary Revenue	Growth in Public Debt Service
2014/15	1,031.82	250.97		
2015/16	1,152.97	250.39	12%	0%
2016/17	1,305.79	307.16	13%	23%
2017/18	1,486.29	453.36	14%	48%
2018/19	1,688.49	687.57	14%	52%

What must concern us/2

Figure 4: Total Debt Service as a % of Revenue



What must concern us/3

As debt service grows from one year to the next the allocations to counties have been dropping. In addition, the sharable revenue has also not grown by much.

Year	Public Debt Service	Sharable Revenue	Counties' allocation	Growth in Public Debt Service	Growth in Sharable Revenue	Growth in County Allocation
2014/15	250.97	1,031.82	229.93			
2015/16	250.39	1,152.97	273.07	0%	12%	19%
2016/17	307.16	1,305.79	294.02	23%	13%	8%
2017/18	453.36	1,486.29	314.21	48%	14%	7%
2018/19	687.57	1,688.49	331.23	52%	14%	5%
Average				30%	13%	10%

What does this mean

- We are financially risky…moved from low to moderate risk

- Growth in debt repayment means there is less and less for discretionary spending

- The fairness principle in a case where investments are not feasible is negated

- Austerity now. Real fiscal consolidation. Tough choices ahead before we plunge under.

Discussion

- From where you seat, how does this manifest?

- What can you do?

- Is there hope? And will you be the hope ambassador?

Interactive Session