



“Fiscal Stress: Impact on Volatility in Major World Currencies on Public Debt during and Post-COVID19”

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Outline

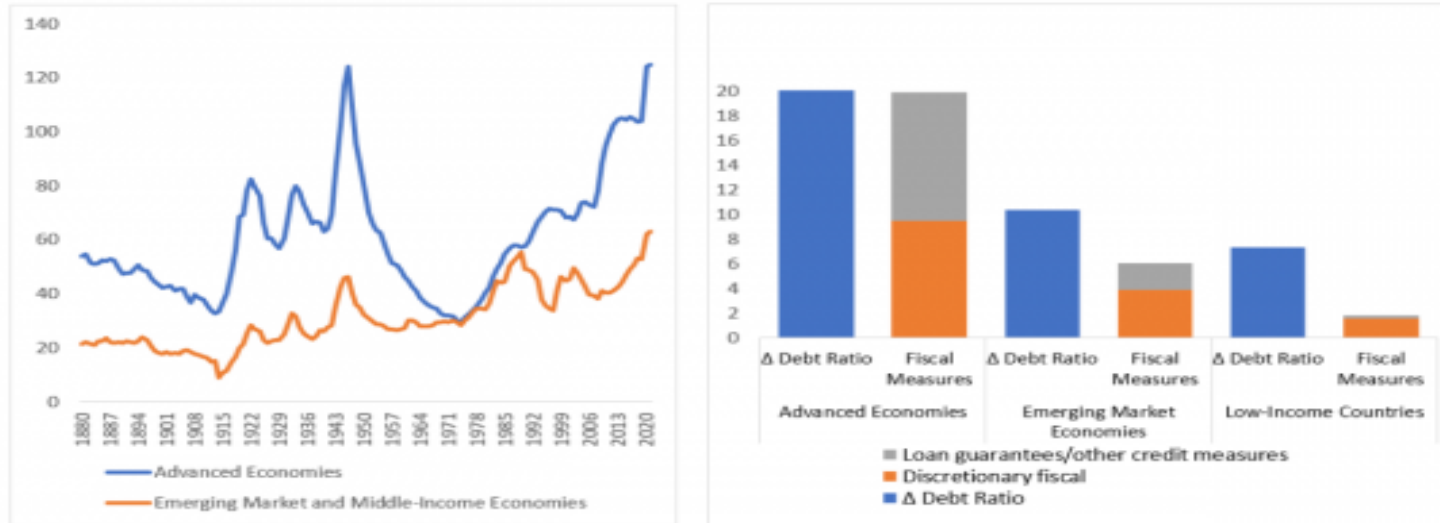
- Introduction
- Public Debt Trends
- Constrained Fiscal Space
- External Debt Currency Composition
- Trends in Exports
- Some Hypothetical Scenarios
- Conclusions

Introduction

- What is the nature of the Covid-19 Crisis?
- Debt levels were historically high
- Kenya: deficits were double the safe level of 3% of GDP
- Effects of economic shock/contraction on debt servicing

Debt and deficits

Projections for 2019–21 show the COVID-19 pandemic has pushed debt to historically high levels.
(percent of GDP)



Sources: IMF Historical Public Debt Database, IMF World Economic Outlook, and IMF staff calculations.

Note: The left chart shows historical and projected 2020 debt for AEs and EMEs based on a constant sample of 25 and 27 countries, respectively, weighted by GDP in purchasing power parity terms. The right chart shows the projected increase in 2021 debt over 2019 debt for the AEs, EMEs and LICs as defined in the IMF's World Economic Outlook, as well as key fiscal measures governments announced or taken in selected economies in response to the COVID-19 pandemic as of September 2020.

INTERNATIONAL MONETARY FUND

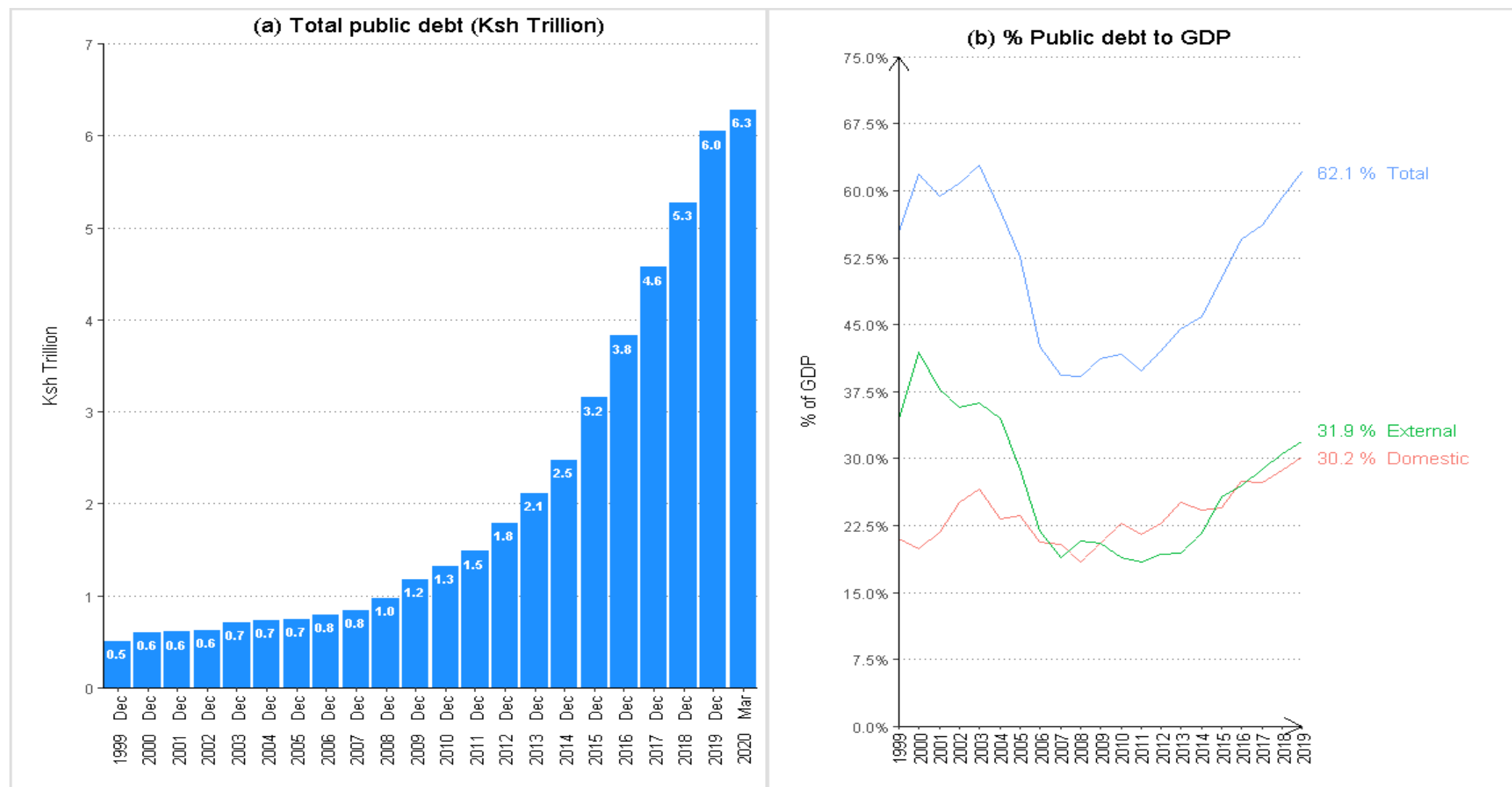
Source: Georgieva, Pazarbasioglu, & Weeks-Brown, 2020

Trends in Public Debt upto COVID19

Year	Public Debt (Ksh Trillion)			Public Debt as % of GDP			GDP Ksh Trn
	Domestic	External	Total	Domestic	External	Total	
2020 Mar	3.07	3.21	6.28	29.8%	31.2%	61.0%	10.300
2019 Dec	2.94	3.11	6.05	30.2%	31.9%	62.1%	9.740
2018 Dec	2.55	2.72	5.27	28.6%	30.6%	59.2%	8.905
2017 Dec	2.22	2.35	4.57	27.3%	28.8%	56.1%	8.144
2016 Dec	1.93	1.90	3.83	27.5%	27.0%	54.5%	7.023
2015 Dec	1.54	1.62	3.16	24.5%	25.7%	50.2%	6.284
2014 Dec	1.31	1.17	2.48	24.2%	21.7%	45.9%	5.403
2013 Dec	1.19	0.92	2.11	25.1%	19.4%	44.5%	4.745
2012 Dec	0.97	0.82	1.79	22.8%	19.3%	42.1%	4.261
2011 Dec	0.80	0.69	1.49	21.5%	18.4%	39.9%	3.726
2010 Dec	0.72	0.60	1.32	22.7%	18.9%	41.7%	3.169
2009 Dec	0.59	0.59	1.18	20.6%	20.6%	41.1%	2.864
2008 Dec	0.46	0.52	0.97	18.4%	20.8%	39.2%	2.483
2007 Dec	0.44	0.41	0.84	20.4%	18.9%	39.3%	2.151
2006 Dec	0.39	0.41	0.79	20.7%	21.9%	42.6%	1.862
2005 Dec	0.34	0.41	0.74	23.7%	28.9%	52.5%	1.416
2004 Dec	0.30	0.44	0.74	23.2%	34.5%	57.7%	1.274
2003 Dec	0.30	0.41	0.71	26.6%	36.2%	62.9%	1.132
2002 Dec	0.26	0.37	0.63	25.1%	35.7%	60.8%	1.035
2001 Dec	0.22	0.38	0.61	21.8%	37.7%	59.4%	1.020
2000 Dec	0.19	0.41	0.60	19.9%	41.9%	61.8%	0.968
1999 Dec	0.19	0.31	0.50	21.0%	34.4%	55.4%	0.907

Source: Central Bank of Kenya & The National Treasury

Trends in Public Debt stock for Kenya up to COVID19



Source: Central Bank of Kenya and The National Treasury

Measurement Concerns on Debt Stock

- Pensions
- Inflation
- Contingent Liabilities
- Any other government obligations

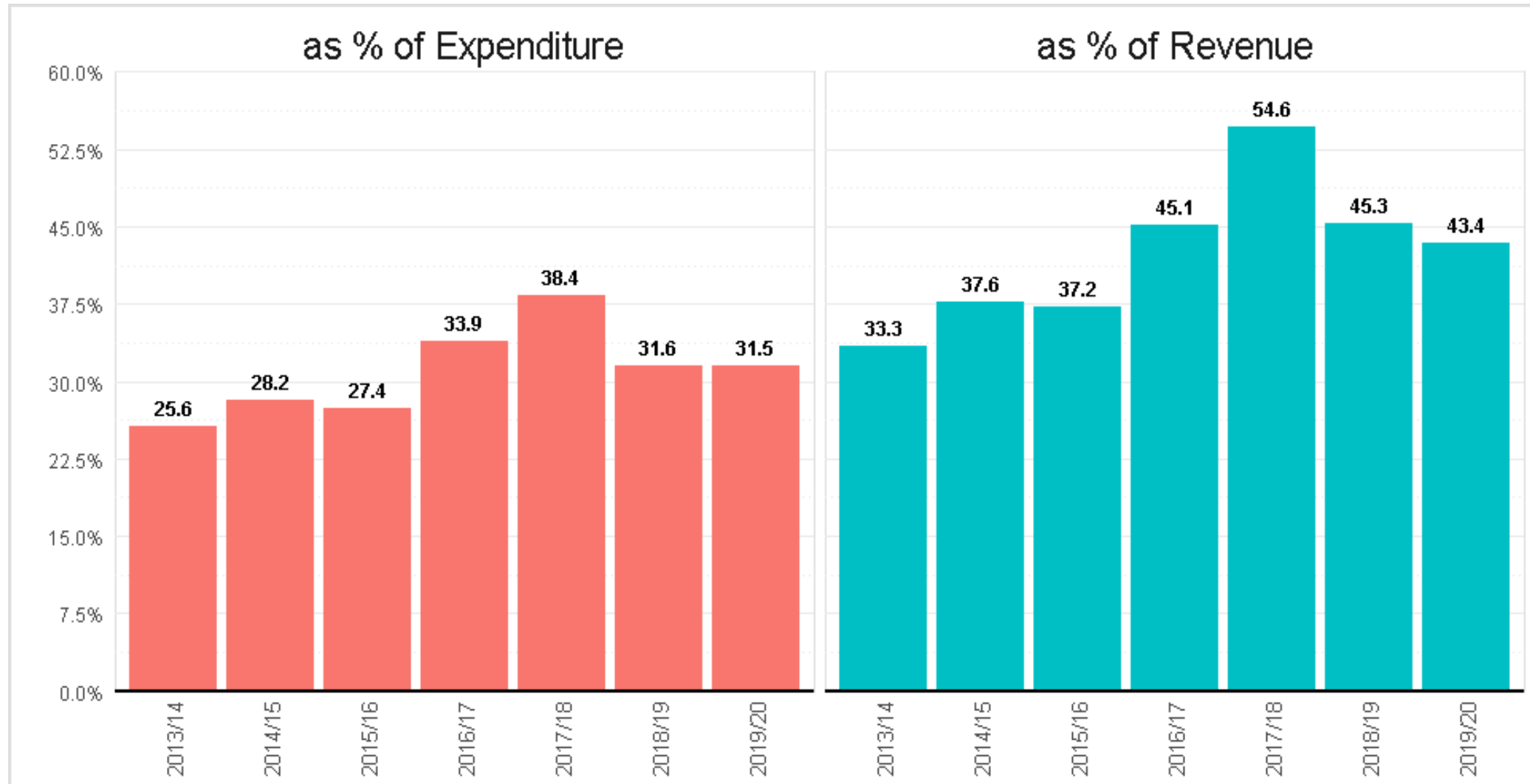
Sources: (Elmendorf and Mankiw 1998), (Mankiw 2012)

Debt Treadmill; Trends in Net Public Debt



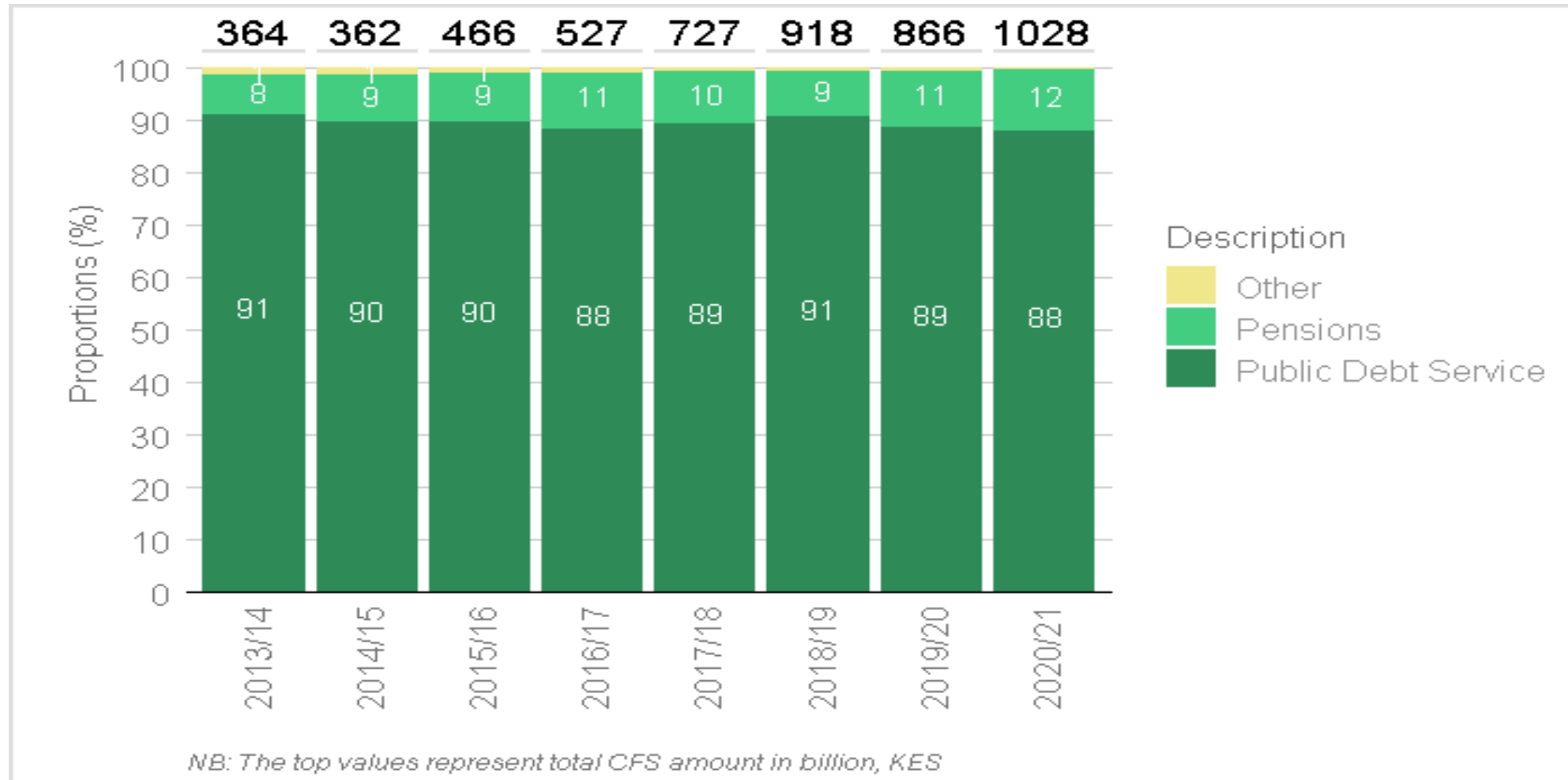
Source: The National Treasury | Quarterly Economic and Budget Review (QEBR) various issues

Constrained Fiscal Space; Trends in public debt Service



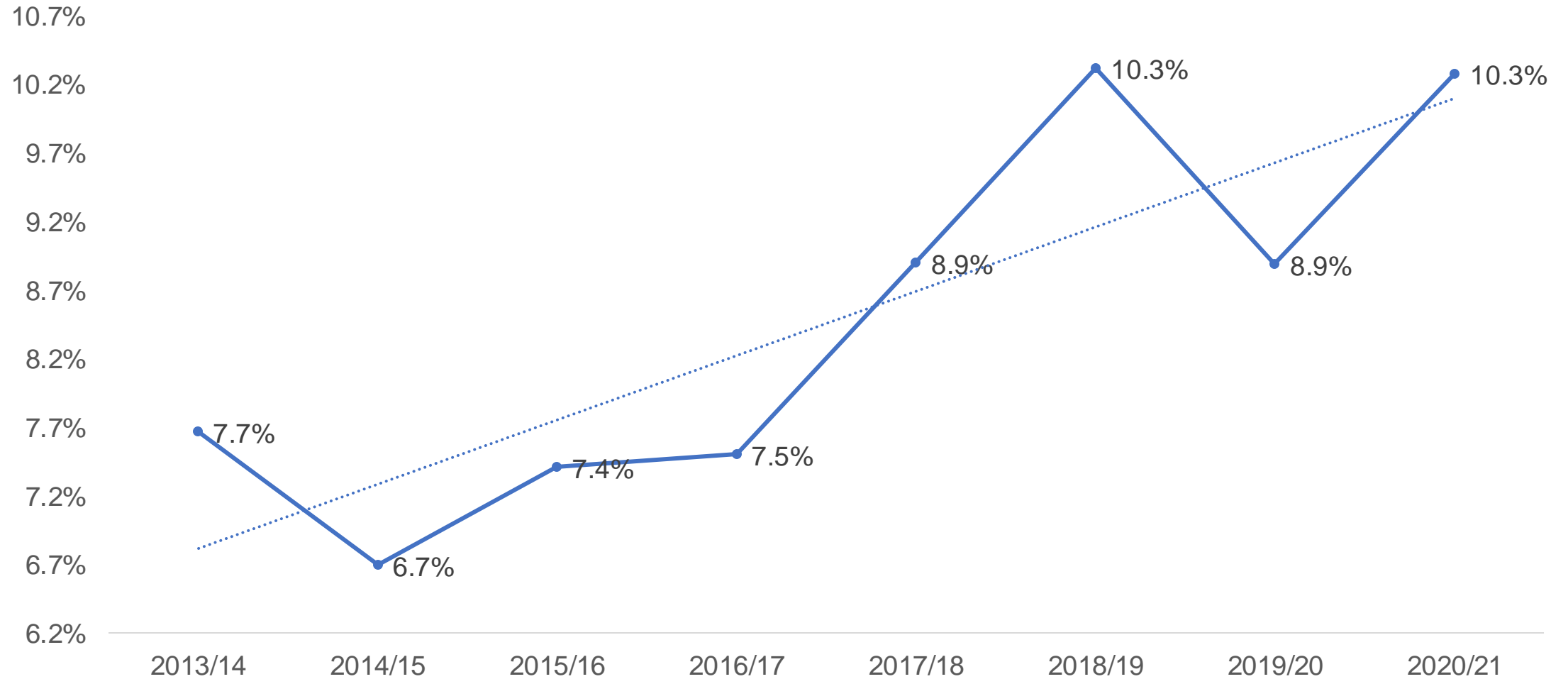
Source: National Treasury

Mandatory (Non-Discretionary) Expenditures



Source: The National Treasury

CFS as Share of GDP



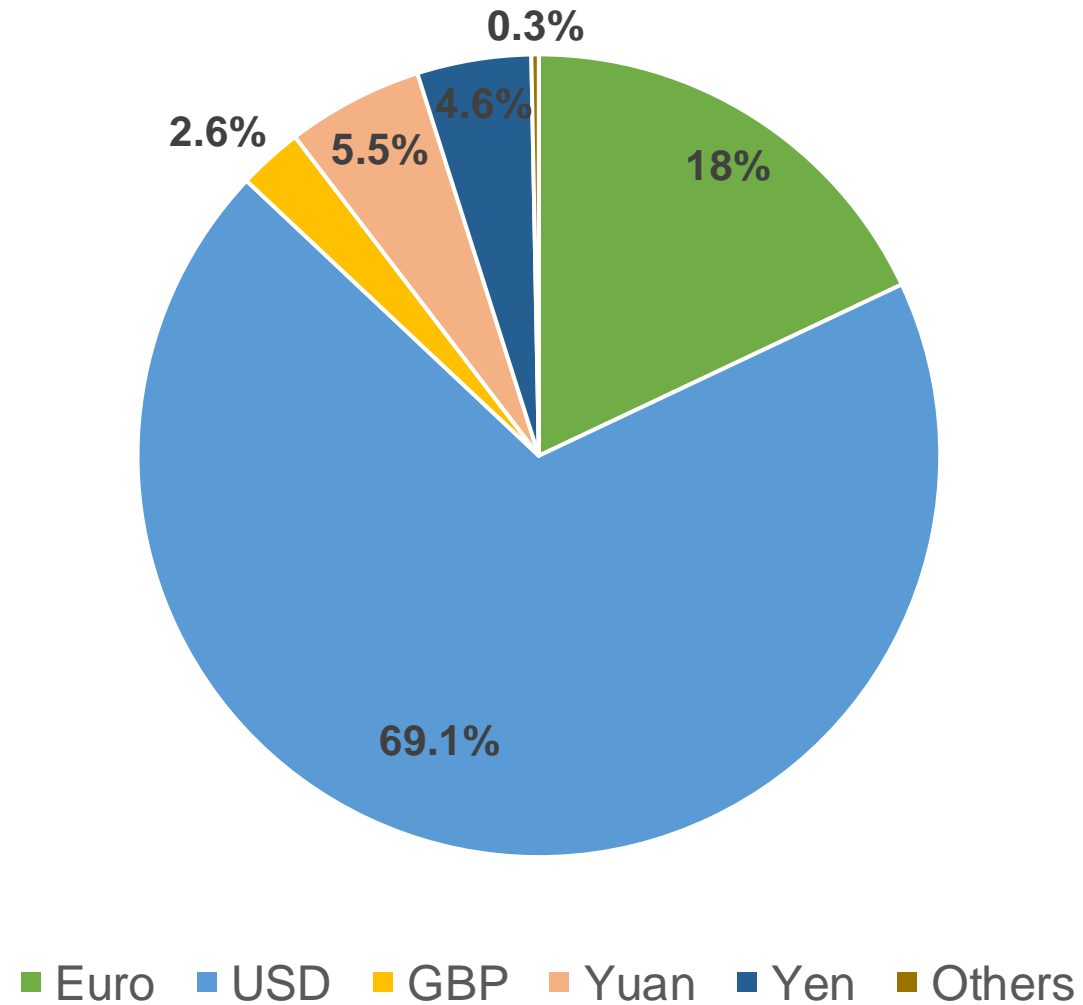
Authors Own Calculation, Source: KNBS Economic Survey 2020, The National Treasury

Growth of Public Debt Service

Year	Expenditure (Ksh Trillion)	Revenue (Ksh Trillion)	Public Debt (Ksh Trillion)	Public Debt Service (Ksh Trillion)
2012/13 June	1.05	0.87	1.89	0.33
2013/14 June	1.27	0.97	2.37	0.32
2014/15 June	1.48	1.11	2.83	0.42
2015/16 June	1.70	1.25	3.62	0.47
2016/17 June	1.92	1.44	4.41	0.65
2017/18 June	2.17	1.52	5.04	0.83
2018/19 June	2.43	1.70	5.81	0.77
2019/20 March	2.87	2.08	6.28	0.90

Source: Central Bank of Kenya and The National Treasury

Currency Composition of External Debt (Dec,2019)



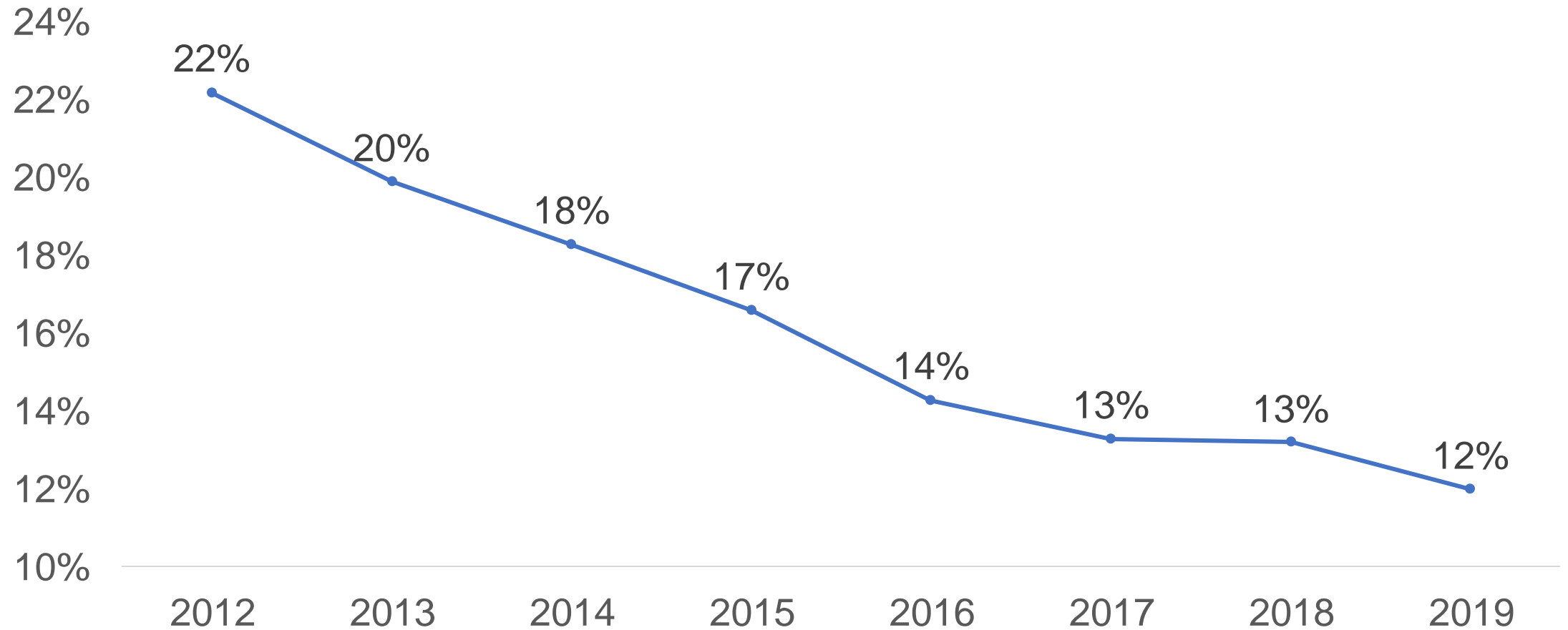
Source: The National Treasury

15-Oct-20

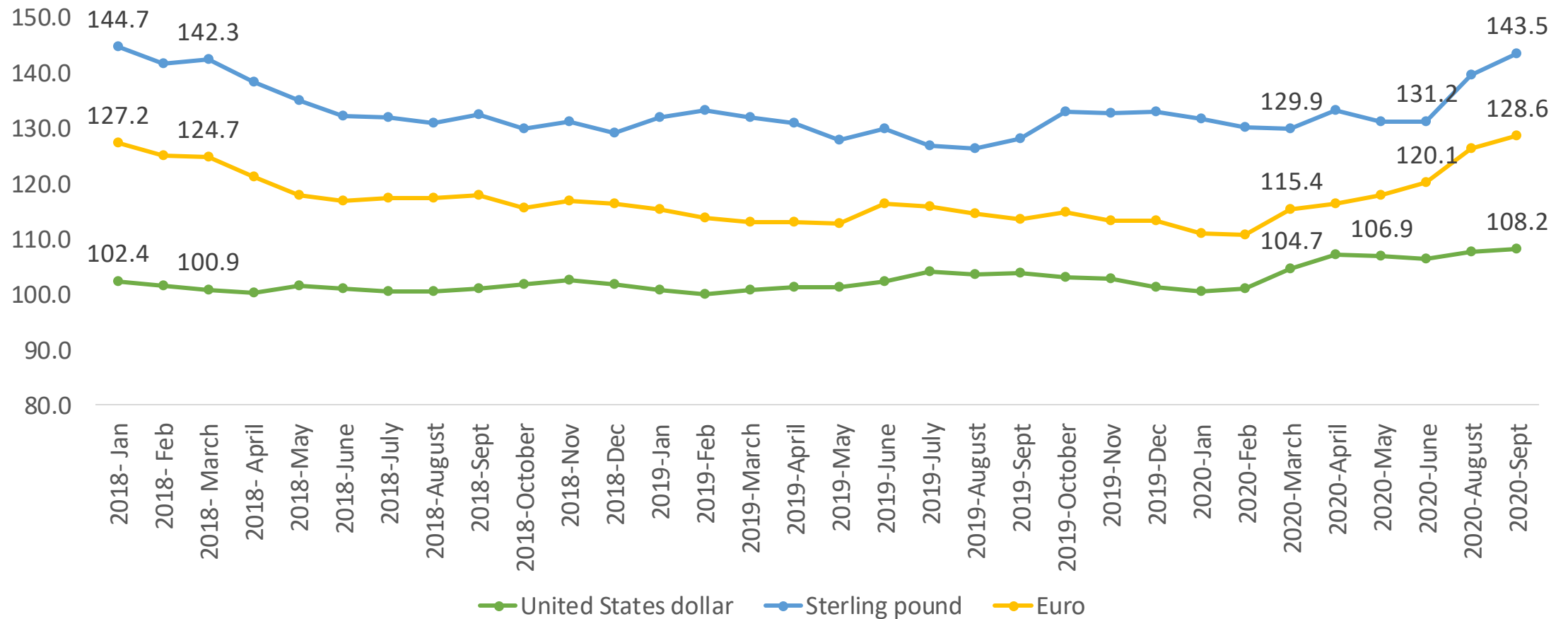
Institute of Economic Affairs Presentation to ICPAK

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Export of Goods and Services as a share of GDP



Performance of Major Currencies Against the Kenyan Shilling



Source: Central Bank of Kenya

Some Hypothetical Scenarios

Currency	Currency Composition of External Debt	\$US Increases by 1%	Major Currencies Increases by 1%	Major Currencies Increases by 5%
US\$	69.1			
GBP	2.6			
Euro	18			
3 Major Currencies(\$,GBP,EURO)	89.7			
Rest of Other Currencies	10.3			
June 2020 External Debt(Ksh Billion)	3516	24.30	31.54	175.8
Debt Position Change (Share of GDP)		0.25%	0.32%	1.8%

Sources: Authors Own Calculations

Conclusions

- Kenya's debt stress problem preceded Covid-19
- Medium term Risk of default: Real
- What keep IEA-Kenya PFM team awake? -
 - Convergence of contraction,
 - L shaped recovery
 - Currency shock

References

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Stay Safe!

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