The state of Kenya's public debt:

the thin line between a rock and a hard place

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Paper

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KEY TERMS

Public debt – the sum of money owed by the national government to its creditors

Domestic debt – the portion of total government debt that is owed to lenders within the country and often borrowed in local currency

External debt – the portion of total government debt that is owed to foreign creditors

Guaranteed debt – debt that a national government assumes the obligation for, or guarantees, in case other entities (e.g. state corporations) default

Concessional loan – debt that is borrowed with interest rates that are below market rate and repayment periods that are longer or a mix of both conditions. Often, they have long grace periods before repayment is required

Semi-concessional loans – are borrowed at market rates but with longer repayment terms

Gross domestic product (GDP) – the monetary value of all finished goods and services made within a country during a specific period

Debt to GDP ratio – the ratio between a country's government debt and its Gross Domestic Product (GDP)

Debt to revenue ratio – the ratio between a country's government debt and its income (taxes and non-taxes)

Debt service – the set of payments made to satisfy a debt obligation, including principal, interest, and any late payment fees

Debt service to revenue ratio – the ratio of debt service payments made from a country to its government's income (taxes and non-taxes)

Debt service to exports ratio – the ratio of debt service payments from a country to that country's export earnings

Ordinary revenue – tax and non-tax revenue raised by a country from its own internal revenue sources. This includes sources such as income tax, value-added tax and customs

Shareable revenue – The amount of money available each year to be shared between the national and county government after netting off the statutory payment such as public debt and pensions

INTRODUCTION

As of the end of June 2020, Kenya's total debt stock stood at 6.7 trillion Kenyan shillings ($62 billion), equivalent to about 66 per cent of our total national wealth, as estimated by the gross domestic product (GDP). Since 2014, when Kenya floated its first Sovereign bond and began its negotiations for a loan from the Exim Bank of China to finance the standard gauge railway (SGR), the size of the public debt has become a key issue of debate in the country. During this period, Kenya has also been able to raise funds from global bond markets easily and attain infrastructure funding from other countries as well.

Increasingly, the risk of Kenya breaching the debt sustainability measures that it is a signatory to, such as the East Africa Economic Convergence Criteria which set debt ceilings for the region, has dominated discussions on fiscal consolidation even as the government pursues an expansionary budget framework. These measures include standards on debt that are commonly considered global good practice. They provide a sense of a country's ability to repay its loans without adversely affecting other budget obligations – especially those related to the delivery of basic and essential services. Often debt sustainability is evaluated in terms of the repayment ability over time, a period of about 20 years, according to the National Treasury. Common indicators include:

1. **Total public debt to GDP ratio**: An indicator often used to measure a country's ability to repay its debt, this describes the proportion of a country's public debt relative to its total economic output. It has not been clear what threshold Kenya has been working with. Official state PFM regulations set the limit at 50 percent of GDP.[1] Meanwhile, the Budget Review and Outlook Papers set the upper threshold for Kenya at 74 percent in the 2017 edition, but later changed it to 55 percent of the country's GDP. Finally, in 2019, the threshold was completely changed away from a base of GDP, and, rather, Parliament approved a new limit based on an absolute figure of 9 trillion Kenyan shillings (Ksh) by June 2024.

2. **Debt repayment bill to ordinary revenue ratio**: This is the proportion of a country's revenue that goes to settle its debt obligations each year. This indicator ensures the country keeps an eye on how much of its resources are available for provision of basic services after the debt bill is settled. For a country like Kenya, where government borrowing can only be used to fund capital expenditure, this is significant. All recurrent expenditure is dependent on what remains after the country has allocated resources for its debt repayment obligation that falls due within a particular financial year.

3. **Debt repayment to export ratio**: This measure is useful to gauge the capacity of a government to repay its debt especially in scenarios where most of the debt stock is in foreign currency. A country must engage

[1] Section 26 (1)(c)

in business that generates foreign exchange so that it is able to settle its foreign currency-based debt. Low export business in a country relative to what it owes could create a debt repayment problem for the country.

Moreover, the effect of increasing levels of debt servicing on Kenya's ability to deliver services and to meet obligations for intergovernmental transfers to counties will be a key point of discussion in budget debates for the coming years. The magnitude of Kenya's public debt notwithstanding, there has been very little discussion on the Medium-Term Debt Management Strategy Papers that are tabled together with the Budget Policy Statements (BPS) in the National Assembly each year in mid-February for approval. The National Treasury has been publishing annual Debt Management Reports on its website and the Central Bank of Kenya publishes month on month receipts from loans. While both are notable steps forward on transparency, public debt information remains very limited. Availability of such information has not contributed to a robust public discussion partly due to the fact that the debt information is difficult to read and understand.

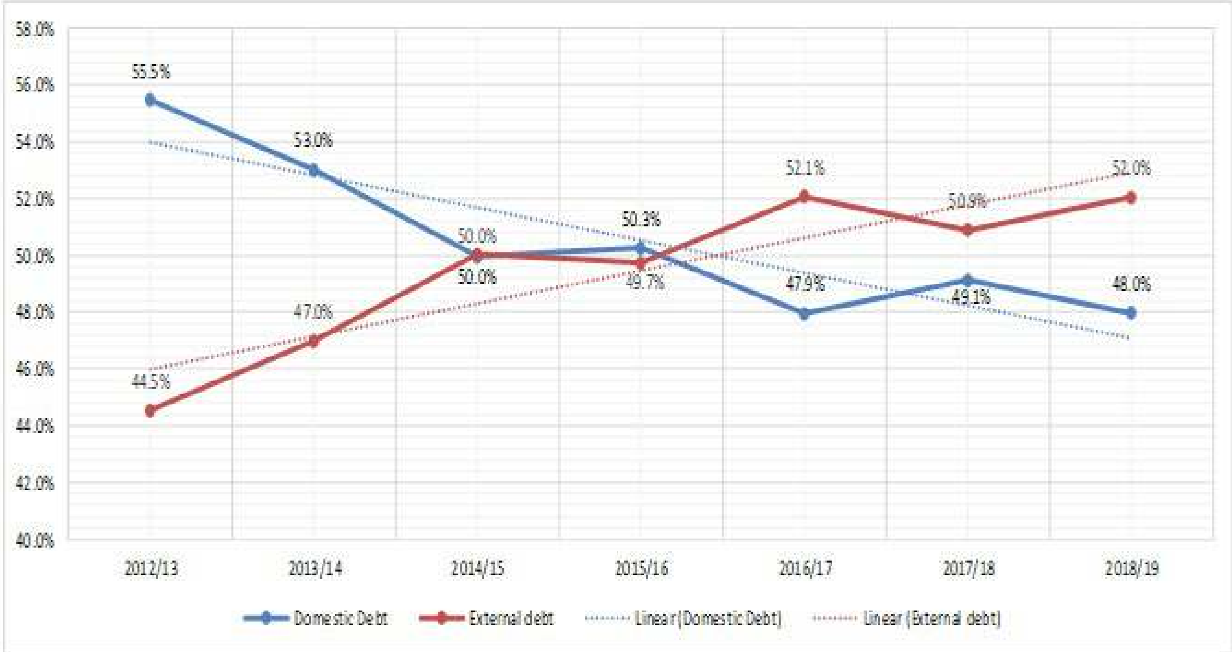
This analysis uses data from the annual reports for 2017/18 and 2018/19 which have historical data going back to 2011/12. Kenya's debt to GDP ratio has grown from 42 percent in 2012/13 to 61 percent at the end of 2018/19. Within this period debt was growing annually by an average of 20 percent.

DETAILED ANALYSIS

COMPOSITION OF PUBLIC DEBT (DOMESTIC AND EXTERNAL)

Kenya's borrowing and overall debt is now mostly from external sources. The share of public debt that is domestic versus external has changed significantly between 2012/13 and 2018/19. In 2012/13, domestic debt accounted for 56 percent of Kenya's total debt, 11 percentage points greater than the share of external debt. However, the relative proportions narrowed rapidly in 2014/15 and 2015/16, when the shares approached a 50-50 ratio. Around this time Kenya floated its initial sovereign bond and took the loan for the Standard Gauge Railway from the China Exim Bank. This could explain the substantial foreign loan injection and the fast increase in the share of external debt.

FIGURE 1. KENYA'S PUBLIC DEBT STOCK IS NOW MOSTLY FROM EXTERNAL SOURCES



Source: Annual Public Debt Reports 2017/18 and 2018/19

External debt has been growing more rapidly but also more erratically. As shown in Table 1 external debt grew much faster than domestic debt, especially between 2012/13 and 2014/15. More specifically, growth in external commercial loans grew at a faster rate than that of all other borrowing. For example, external commercial debt grew by 298 percent between 2012/13 and 2013/14. This was due to the receipt of over Ksh 200 billion from the first sovereign bond. In a period of seven years 2012-2018, commercial debt growth has been higher than the average growth in overall debt.

TABLE 1. RAPID GROWTH IN PUBLIC DEBT BETWEEN 2012/13 AND 2018/19 IS DRIVEN BY COMMERCIAL DEBT

	DEBT TYPE	SHARE of debt 2012/13	growth of debt 2012/13 and 2013/14	growth of debt 2013/14 and 2014/15	growth of debt 2014/15 and 2015/16	growth of debt 2015/16 and 2016/17	growth of debt 2016/17 and 2017/18	growth of debt 2016/17 and 2018/19	SHARE of debt 2018/19
1	**DOMESTIC DEBT**								
	Central Bank	*2%*	68%	-4%	58%	-45%	103%	-1%	*2%*
	Commercial Banks	*28%*	18%	18%	27%	23%	11%	12%	*24%*
	Sub-total: Banks	*30%*	***21%***	***16%***	***29%***	***17%***	***15%***	***11%***	*26%*
	Non-bank Financial Institutions	*26%*	24%	4%	26%	16%	20%	15%	*22%*
	Total Domestic	*55%*	**22%**	**11%**	**28%**	**16%**	**17%**	**12%**	*48%*
2	**EXTERNAL DEBT**								
	Bilateral	*12%*	14%	63%	21%	36%	13%	21%	*16%*
	Multilateral	*27%*	17%	15%	17%	6%	-2%	10%	*16%*
	Commercial Banks	*3%*	*298%*	*18%*	*56%*	*47%*	*31%*	23%	*18%*
	Suppliers Credits	*1%*	8%	1%	0%	-8%	9%	1%	*0%*
	Sub-Total	*42%*	***37%***	***26%***	***26%***	***24%***	***13%***	***18%***	*49%*
	GUARANTEE DEBT	-							-
	Bilateral	*2%*	4%	-4%	43%	-7%	7%	39%	*1%*
	Multilateral	*0%*	2%	13%	-9%	15%	-3%	1%	*0%*
	Commercial	*0%*					-3%	1%	*1%*
	Sub-Total	***2%***	***4%***	***-3%***	***38%***	***123%***	***1%***	***17%***	***3%***
	Total External debt	***45%***	**35%**	**25%**	**26%**	**28%**	**12%**	**18%**	***52%***
3	**Total Debt**	***100%***	**28%**	**17%**	**27%**	**22%**	**15%**	**15%**	***100%***

Source: National Treasury and Central Bank of Kenya

Kenya's external borrowing has shifted from multilateral to commercial sources. The composition of Kenya's debt has significantly changed through increased borrowing from external commercial sources such as Eurobonds and, more recently, from taking on syndicated loans from commercial banks. At the same time, however, the share of borrowing from multilateral lenders – i.e., institutions that provide financial assistance through loans or grants to support economic and social development – such as the World Bank and the African Development Bank has reduced significantly. Therefore, in the period of analysis between 2012 and 2019, the share of debt from external commercial sources to the total debt grew from 3 percentage points to 18 percentage points, the highest growth among all the debt sources. During this same period debt from multilateral donors dropped by 10 percentage points. This is the most significant change in Kenya's external debt structure (Table 2).

TABLE 2. CHANGE IN SHARE OF PUBLIC DEBT BETWEEN 2012/13 AND 2018/19

	Debt Type	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Change Between 2012/13 and 2018/19
1	**DOMESTIC DEBT**								
	Central Bank	2%	3%	2%	3%	1%	2%	2%	0%
	Commercial Banks	28%	25%	26%	26%	26%	25%	24%	-3%
	Non-bank Financial Institutions	26%	25%	22%	22%	21%	22%	22%	-4%
	Total Domestic	**55%**	**53%**	**50%**	**50%**	**48%**	**49%**	**48%**	**-8%**
2	**EXTERNAL DEBT**								0%
	Bilateral	12%	10%	14%	14%	15%	15%	16%	4%
	Multilateral	27%	24%	24%	22%	19%	16%	16%	-11%
	Commercial Banks	3%	10%	10%	12%	14%	16%	18%	14%
	Suppliers Credits	1%	1%	1%	0%	0%	0%	0%	-1%
	GUARANTEE DEBT	0%	0%	0%	0%	0%	0%	0%	0%
	Bilateral	2%	2%	1%	2%	1%	1%	1%	-1%
	Multilateral	0%	0%	0%	0%	0%	0%	0%	0%
	Commercial	0%	0%	0%	0%	2%	2%	1%	1%
	Total External debt	**45%**	**47%**	**50%**	**50%**	**52%**	**51%**	**52%**	**8%**
	Total Debt	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	

Source: Annual Public Debt Reports 2017/18 and 2018/19

Low budget credibility creates a challenge in managing budget deficits and the ever-growing need to borrow. One way to understand the borrowing demands in Kenya is to look at the changes in budget deficit along the budget cycle for each year. The level of Kenya's deficit between the approved budget and actual spending is indicative of budget financing required for a particular year. As shown in Table 3, the approved budget deficit level is often lower compared to the final budget as presented in the Budget Review and Outlook Papers (BROP). Additionally, notable changes happen through supplementary budgets which increase the deficit significantly within the year. This imbalance increases the need to borrow.

TABLE 3. REVISION OF BUDGET ALWAYS INCREASES THE SIZE OF DEFICITS

Year (Billions)	Deficit in the Approved Budget	Deficit in the Revised Budget	Increase in the deficit within the year
2014/15	-417.0	-732.0	76%
2015/16	-640.5	-732.6	14%
2016/17	-775.0	-871.6	12%
2017/18	-594.3	-670.4	13%
2018/19	-608.1	-760.6	25%
2019/20	-673.6	-789.9	17%

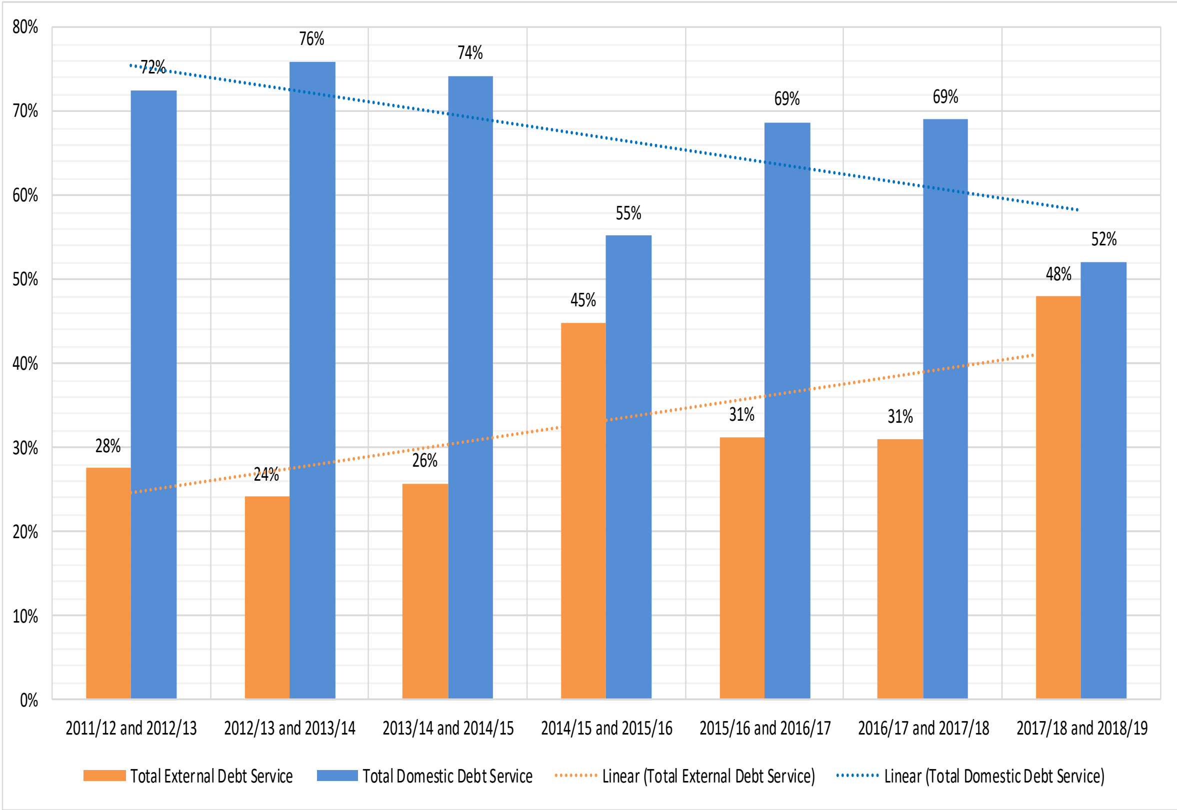
Source: Budget Policy Statements (BPS) and Budget Review and Outlook Papers (BROPs) 2014-2020

COMPOSITION OF DEBT SERVICE

External debt repayment has been growing as a share of total debt service. In 2017/18, Kenya's debt service was predominantly composed of domestic debt repayments amounting to 69 percent of the total as compared to 31 percent for external debt. However, this picture changed significantly in 2018 with the share of external debt rising from 31 percent to 48 percent. This was mainly driven by some of the commercial debt obligations that came due in 2019, including some to the Chinese Exim Bank for the SGR loan. This is a shift from previous years where approximately 70 percent of the debt service bill was to repay domestic debt. Generally, while domestic debt service still accounts for the larger share of all payments, its share has been gradually reduced as shown in Figure 2 as that of external debt increases.

There are advantages to having a large share of debt service being domestic. A key one is that it is in local currency which reduces the risks associated with foreign exchange volatility; and, secondly, it is easier to restructure domestic debt in case of shocks that could lead to defaults. The increase in the proportion of external debt service erodes these two advantages and is of concern.

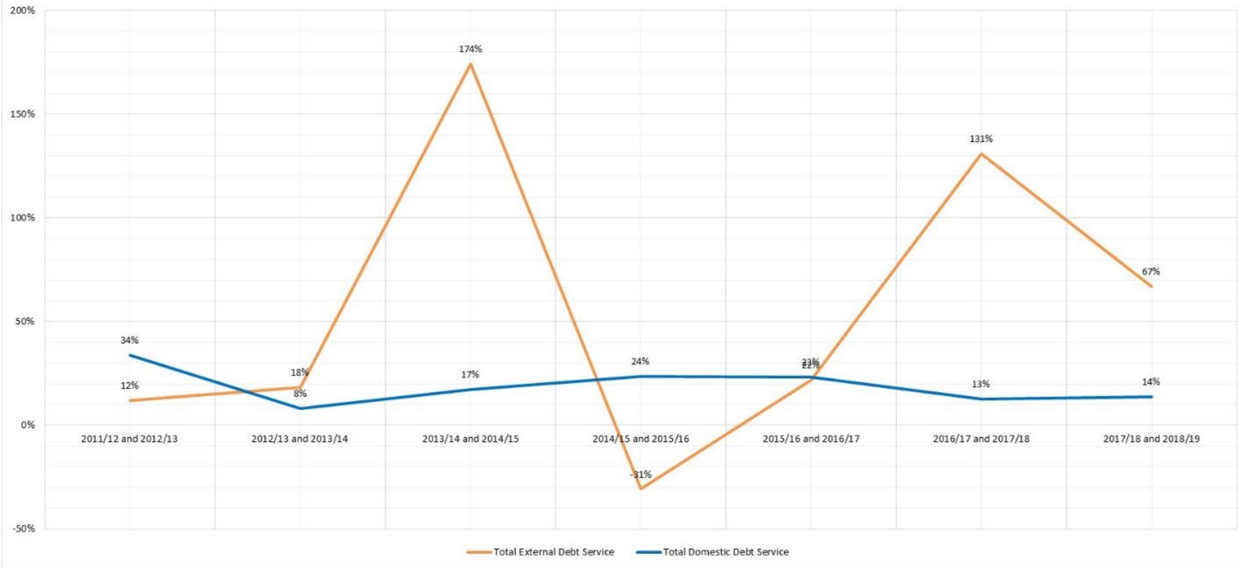
FIGURE 2. EXTERNAL DEBT SERVICE IS GROWING BUT ERRATICALLY



Source: Annual Public Debt Reports 2017/18 and 2018/19

Growth of external debt service has been high but very erratic. In terms of growth of debt service, total debt has seen an average growth of 28 percent between 2011/12 and 2017/18. External debt has seen a more rapid growth of 54 percent compared to 20 percent for domestic debt repayment. However, external debt's growth has not been steady and has seen some very high spikes and drops for example between 2013/14 and 2014/15 when it rose by 174 percent then dropped to a low of -31 percent in the next year. This raises questions on the debt maturity agreements that seem to cause this spike as large debt repayments fall due around the same period. Domestic debt repayment has been more stable in their growth as shown in Figure 3.

FIGURE 3. GROWTH IN EXTERNAL AND DOMESTIC DEBT SERVICE



Source: Annual Public Debt Reports 2017/18 and 2018/19

However, the erratic nature of the growth in external debt repayment is not only because of one source. Both principal and interest payments have seen sharp spikes in some years though more on the principal side as shown in the chart below. These spikes in spending on debt servicing mean that the ordinary revenue remaining available for the provision of basic services will be up and down, too. Such unpredictable patterns also make it more difficult for the government to plan its expenditures and creates irregular spending patterns over time.

TABLE 4. GROWTH IN DEBT SERVICE BY GROWTH OF SHARES OF REPAYMENT OF PRINCIPAL AND INTEREST ON EXTERNAL BORROWING

Total Debt	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	2017/18 and 2018/19
External Principal	0%	8%	211%	-55%	3%	273%	91%
External Interest	50%	41%	114%	28%	37%	40%	27%
Total Debt Service (TDS)	**28%**	**11%**	**58%**	**-1%**	**23%**	**49%**	**39%**

Source: Annual Public Debt Reports 2017/18 and 2018/19

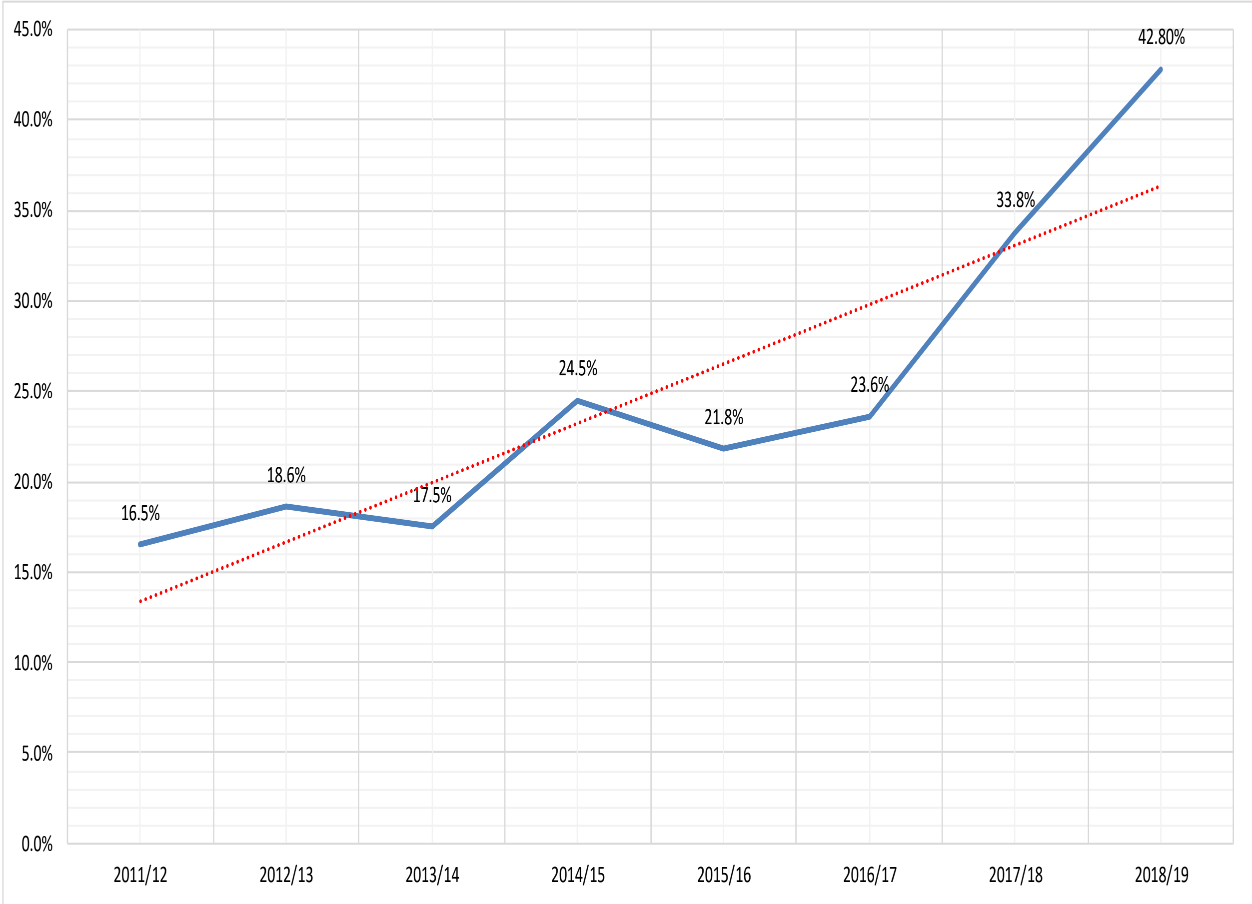
DEBT SERVICE TO REVENUE

One key measure of debt sustainability is the ratio of ordinary revenue that is used to pay outstanding debt. Being part of Consolidated Fund Services, debt is included among the items that the government is obligated to pay in the first charge of budget payments. This means that Kenya is obligated to pay its debt before spending money on service delivery.[2] Moreover, in Kenya loans can only be taken by the government to fund capital expenditure. Therefore, debt and all basic service-related recurrent expenditures have to compete for domestically raised resources. The more spent on repaying debt, the smaller the amount remaining to provide basic services. In Kenya's case this includes money that goes to government ministries, department agencies (MDAs) and also the allocation going to counties. For these reasons, the ratio of debt repayment to ordinary revenue has to be maintained at a level that does not constrain revenue from the two key service provision avenues. Therefore, when approving the Medium-Term Debt Strategy Management Paper, the National Assembly has to carefully evaluate the implications of current borrowing to future repayment impact.

Debt service has breached the ceiling and continues to grow rapidly. The International Monetary Fund sets a debt repayment to ordinary revenue ratio threshold of 30 percent for countries like Kenya. The ratio of Kenya's debt repayment to ordinary revenue has been growing steadily and stands at 42.8 percent as of 2018/19 – up from 16.5 percent in 2011/12.

[2] Other items included in Consolidated Fund Services, besides public debt, include pensions and some salaries for constitutional offices; these payments are obligatory and cannot be changed in any given year without major legal reforms.

FIGURE 4. RAPID GROWTH IN THE PROPORTION OF TOTAL DEBT SERVICE AS A PERCENT OF ORDINARY REVENUE



Source: Annual Public Debt Reports 2017/18 and 2018/19

GROWTH OF DEBT REPAYMENT: IMPACT ON COUNTY REVENUE

The intergovernmental transfers to counties that are commonly referred to as the equitable share are determined based on historical revenue collections and on the most recent audited accounts as approved by Parliament. This means that the country cannot borrow to make transfers to counties. Rather, the ordinary revenue raised each year must be shared between debt repayment, county allocations and delivery of basic services that are recurrent in nature. This means that when a bigger share of ordinary revenue is taken up by debt service, then the share that is left for allocation to counties is reduced.

Growth in debt service has been on an upward trajectory, growing on average by 32 percent between 2013/14 and 2017/18 (Table 5). Meanwhile, the county equitable share has grown at a much slower pace of just 12 percent or less than half the growth in debt repayment. In subsequent years the county equitable share has further dropped drastically, growing only at a rate of 2 percent between 2017/18 and 2018/19 – and the proposal of Ksh 310 in 2019/20 would amount to growth of only 1 percent. The sharable revenue has grown at an average rate of 14 percent, also a slower pace than debt service.

All this indicates that an increasingly large proportion of any additional revenue raised by the government goes to servicing debt rather than to county allocations.

TABLE 5. GROWTH IN DEBT SERVICE, COUNTY EQUITABLE REVENUE AND THE COUNTRY'S SHARABLE REVENUE

	2013/14 and 2014/15	2014/15 and 2015/16	2015/16 and 2016/17	2016/17 and 2017/18	**Average**
Total Debt Service	58%	-1%	23%	49%	**32%**
County Equitable Share	19%	15%	8%	8%	**12%**
Sharable Revenue	12%	21%	10%	12%	**14%**

Source: Annual Debt Report 2018/19, Budget Policy Statements 2013- 2019, Division of Revenue Act 2013-2019

The growth in national government budgets has been much slower than that of debt repayment. Table 6 shows the growth in debt service since 2011/12 through to 2017/18 and compares that to the growth in approved budgets (gross expenditure) and actual expenditure in the same period.

TABLE 6. GROWTH IN NATIONAL EXPENDITURE AND TOTAL DEBT SERVICE

Items	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	***Average***
Total Debt Service (TDS)	28%	11%	58%	-1%	23%	49%	***28%***
Gross Expenditure	20%	-2%	26%	4%	20%	-7%	***10%***
Actual Expenditure	17%	2%	14%	23%	26%	-5%	***13%***

Source: Annual Debt Report, 2017/18 and 2018/19

WHAT SECTORS ARE FUNDED BY LOANS?

The national government budget is funded through ordinary revenue but also through loans that are received each year by government to fill the funding deficit. This section looks at which sectors are funded by debt and how this

has changed over the years. However, the numbers provided in the government budget seem lower than the deficit and it is not clear what could account for the difference. One key question is whether debt received directly by the National Treasury is presented in these numbers. Generally, the budget does not provide details of the total debt received each year nor on the recipient ministries. Therefore, we assume that the numbers provided in the enacted budget are indicative of debt that is received directly by line ministries.

Capital-heavy sectors are more dependent on loans to fund their budgets. One of the fiscal responsibility principles in the PFM Act is that borrowing should only fund development and not recurrent expenditure.[3] Therefore, it is no surprise that sectors whose budgets have a higher proportion of loan financing are also the capital-heavy sectors including Energy, Infrastructure and Information Communication and Technology (EII) as well as Environment Protection Water and Natural Resources. On average the EII sector has about 44 percent of its budget funded through loans across the five years as presented in Table 7. This is followed by the environment sector, especially because of the water sector that is infrastructure heavy. Generally, three sectors have at least one-quarter of their budgets funded through loans.

TABLE 7. PROPORTION OF LOANS AS A SHARE OF THE TOTAL SECTOR BUDGET

	2015/16	2016/17	2017/18	2018/19	2019/20	
Sectors	Proportion of Loans to the Total Budget	Proportion of Loans to the Total Budget	Proportion of Loans to the Total Budget	Proportion of Loans to the Total Budget	Proportion of Loans to the Total Budget	Average
Energy, Infrastructure & ICT	56%	52%	37%	36%	38%	44%
Environment Protection, Water & Natural Resources	31%	47%	36%	43%	36%	39%
Agriculture, Rural & Urban Development	28%	27%	8%	26%	26%	24%
Health	9%	11%	13%	17%	7%	11%
General Economic & Commercial Affairs	0%	1%	4%	33%	7%	11%
National Security	0%	0%	0%	8%	8%	4%
Social Protection, Culture & Recreation	2%	1%	2%	2%	7%	3%
Public Administration & International Relations	2%	2%	2%	1%	2%	2%
Education	1%	1%	1%	2%	2%	2%
Governance, Justice. Law & Order	2%	1%	1%	1%	1%	1%
Total Loans	**19%**	**21%**	**13%**	**14%**	**14%**	**16%**

Source: Approved Budget Estimates, National Treasury 2015/16-2019/20

The Energy and Infrastructure sector accounts for the largest proportion of Kenya's budget funded through loans. Data across the five years show that, on average, the EII sector accounts for over 70 percent of the loans coming into the line ministries (MDAs) budget (Table 8). However, the proportion has been declining across the five years. In part, this could be explained by heavy investment in the Standard Gauge Railway between 2014/15 to 2017/18. On the other hand, the proportion of loans taken up by the environment and water sector has been growing and accounts for 11 percent of total loans across the five years.

[3] Section 15(2)(c)

TABLE 8. SHARE OF TOTAL LOANS BY SECTOR

Sectors	2015/16 Sector Share of Total Loans	2016/17 Sector Share of Total Loans	2017/18 Sector Share of Total Loans	2018/19 Sector Share of Total Loans	2019/20 Sector Share of Total Loans	Average
Energy, Infrastructure & ICT	80%	79%	75%	60%	65%	72%
Environment Protection, Water & Natural Resources	7%	12%	13%	13%	13%	11%
Agriculture, Rural & Urban Development	8%	4%	2%	6%	6%	5%
Health	2%	2%	4%	6%	3%	3%
Education	1%	1%	2%	4%	3%	2%
National Security	0%	0%	0%	4%	5%	2%
Public Administration & International Relations	1%	1%	2%	1%	2%	1%
General Economic & Commercial Affairs	0%	0%	0%	4%	1%	1%
Governance, Justice. Law & Order	1%	1%	1%	1%	1%	1%
Social Protection, Culture & Recreation	0%	0%	1%	0%	2%	1%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Approved Budget Estimates, National Treasury 2015/16-2019/20

Five of the ten sectors have at least one-quarter of their development budgets funded by loans. On average, 38 percent of MDA development budgets are dependent on loans and that proportion has been fairly consistent over the period (Table 9). The share ranges from 53 percent in the Environment Protection, Water and Natural Resources sector to only about 4 percent in Public Administration and International Relations (PAIR). This means that most service delivery sectors are dependent on loans for their capital expenditure compared to more administrative sectors such as GJLO and PAIR. This is also due to the recurrent nature of administrative sectors that cannot be funded by borrowing as provided in the PFM Act 2012.

TABLE 9. SHARE OF DEVELOPMENT BUDGETS FUNDED BY LOANS

Sectors	2015/16 Share of Loans to Development Estimates	2016/17 Share of Loans to Development Estimates	2017/18 Share of Loans to Development Estimates	2018/19 Share of Loans to Development Estimates	2019/20 Share of Loans to Development Estimates	Average
National Security	0%	0%	0%	73%	77%	75%
Environment Protection, Water & Natural Resources	43%	60%	52%	59%	50%	53%
Energy, Infrastructure & ICT	62%	56%	44%	44%	49%	52%
Agriculture, Rural & Urban Development	35%	40%	15%	39%	38%	35%
Health	17%	22%	25%	37%	20%	25%
Education	8%	20%	18%	29%	34%	21%
General Economic & Commercial Affairs	0%	3%	7%	49%	14%	19%
Governance, Justice. Law & Order	14%	10%	11%	7%	15%	11%
Social Protection, Culture & Recreation	3%	2%	4%	5%	12%	6%
Public Administration & International Relations	3%	4%	4%	2%	5%	4%
TOTAL	**39%**	**42%**	**32%**	**36%**	**37%**	**38%**

Source: Approved Budget Estimates, National Treasury 2015/16-2019/20

BORROWING DURING THE COVID-19 PERIOD

An effective government response to the emergency requires rapid mobilization of resources to deal with immediate expenditure needs that cannot necessarily wait for or depend on the usual budget cash flow. In Kenya, when COVID-19 cases were confirmed from mid-March 2020, borrowing was the only viable option to quickly raise the sizeable amount of resources required to meet the health care needs at the national and county level. Therefore, like many other countries around the world, Kenya borrowed domestically and externally to address the health pandemic as well as to cushion the poor who were affected by the measures put in place to reduce the rate of infections.

As shown in this paper, Kenya already had a debt sustainability issue, especially due to its debt repayment obligations. In the second half of financial year 2019/20, between January and June, Kenya borrowed Ksh 644 billion, an increase of 11percent in overall gross debt in that 6-month period. However, as shown in Table 10, this rate of growth was similar to the growth in the second half of the year in the previous two years.

TABLE 10. DEBT GROWTH DURING COVID-19 PERIOD IS SIMILAR TO PREVIOUS YEARS

Year (Billions)	Half Year	Full Year	Debt Growth	% Growth
2017/18	4,574.16	5,039.03	464.87	10%
2018/19	5,272.50	5,808.62	536.12	10%
2019/20	6,048.93	6,693.30	644.37	11%

Source: Quarterly Economic and Budget Survey (Q4), 2019/20

One significant difference in 2019/20 was that the debt incurred in the last four months of the year was framed as resources supporting the COVID-19 response. However, the supplementary budget passed in April of 2020 did not include budget lines that showed how these funds were allocated. Good practice would have listed emergency budget lines especially for measures that were short-term in nature such as testing and procurement of personal protective equipment. This was the case as well during the formulation and approval of the 2020/21 budget estimates in June 2020. Therefore, like in other countries, Kenya's expenditure of the funds borrowed in the COVID-19 period was not transparent.

CONCLUSION

Kenya's budget continues to experience deficits that have forced the country to continue borrowing heavily. Consequently, the debt repayment bill has grown rapidly, and the increasing proportion of ordinary revenue absorbed by debt has become a serious threat to other critical service provision areas. In the Budget Policy Statement 2020, the National Treasury indicated that all additional resources in 2020/21 will be taken up by debt servicing and pensions. The government has to find ways to reduce Kenya's debt repayment burden by restructuring some of its debt. In addition, the country has to reduce commercial borrowing that has been more expensive and with shorter maturity periods.