

Central Bank of Kenya

KENYA'S PUBLIC DEBT STATUS

PRESENTATION TO THE SENATE COMMITTEE ON FINANCE AND BUDGET

September 15, 2021

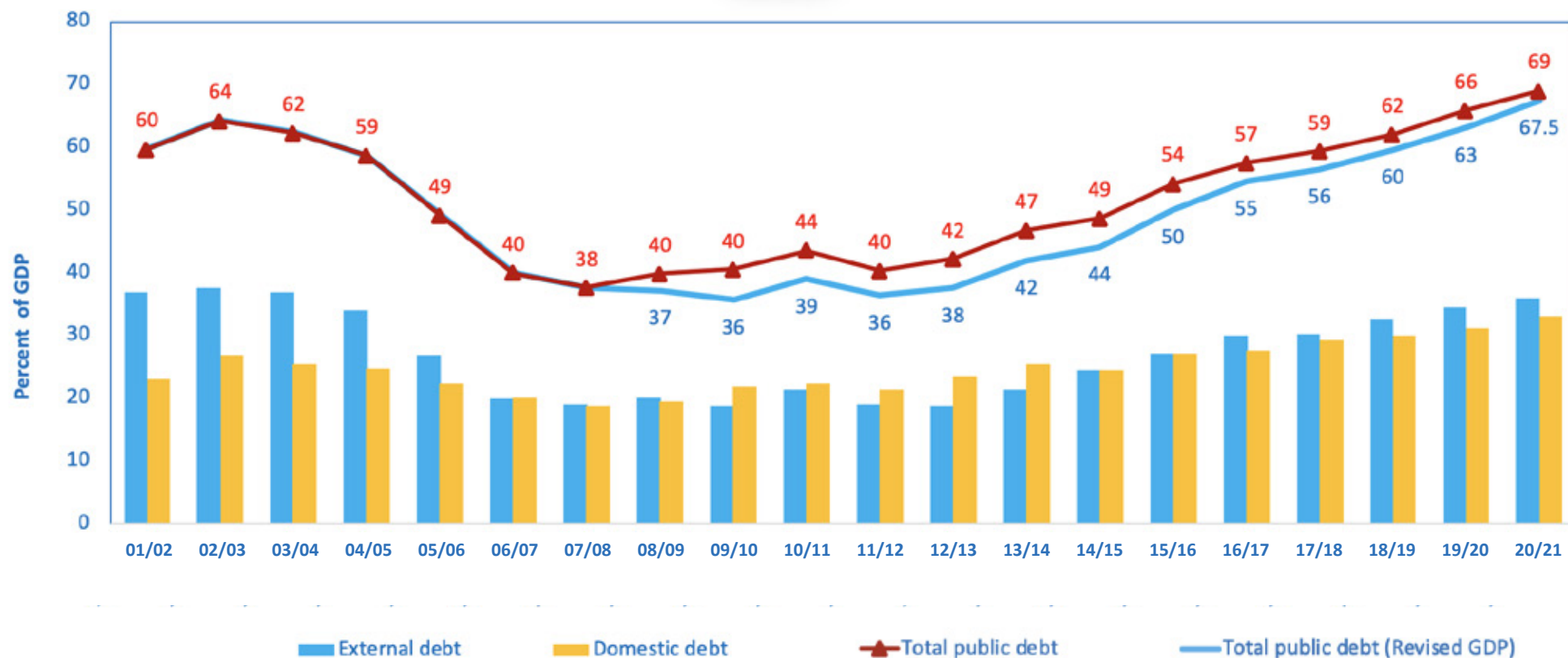
Dr. Patrick Njoroge

WWW.CENTRALBANK.GO.KE

1.

Evolution of Kenya's Public Debt...

➤ Debt to GDP ratio

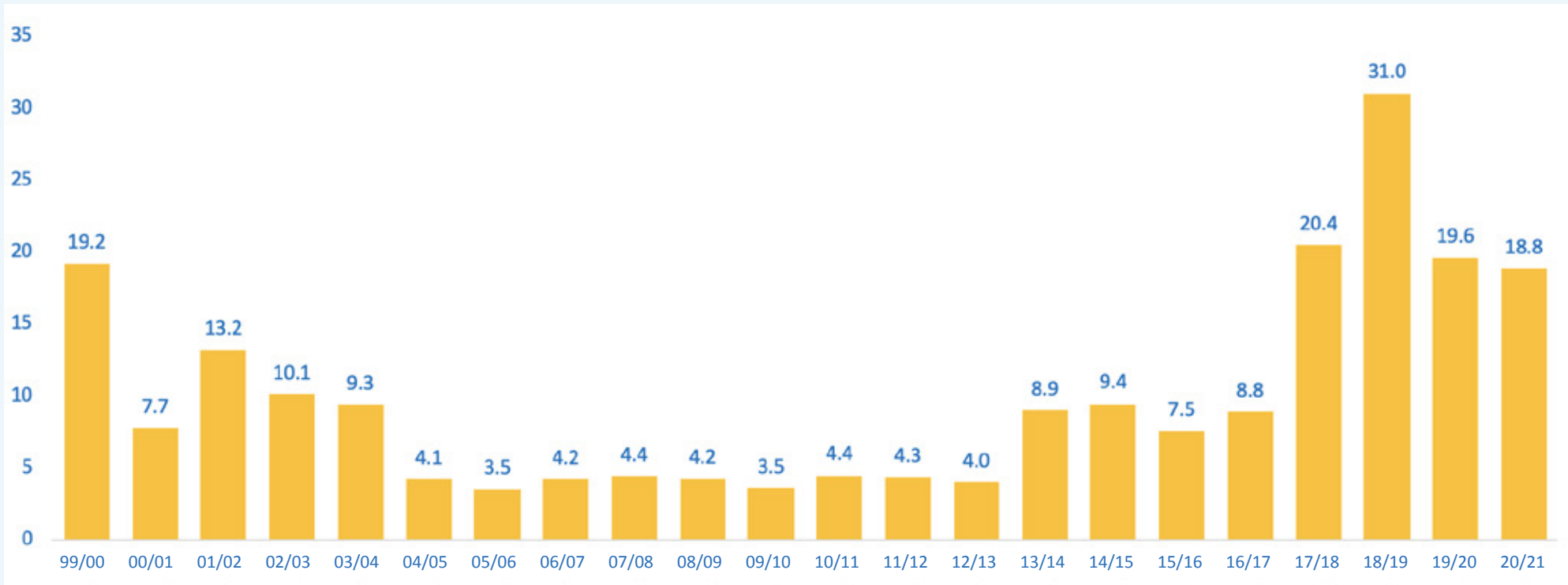


- Kenya's public debt to GDP ratio declined from 64.1 percent in June 2003 to 38.1 percent in June 2012, but increased thereafter driven largely by spending on infrastructure and more recently, COVID-19 related spending.

2.

Evolution of Kenya's Public Debt...

➤ External Debt Service to Exports ratio

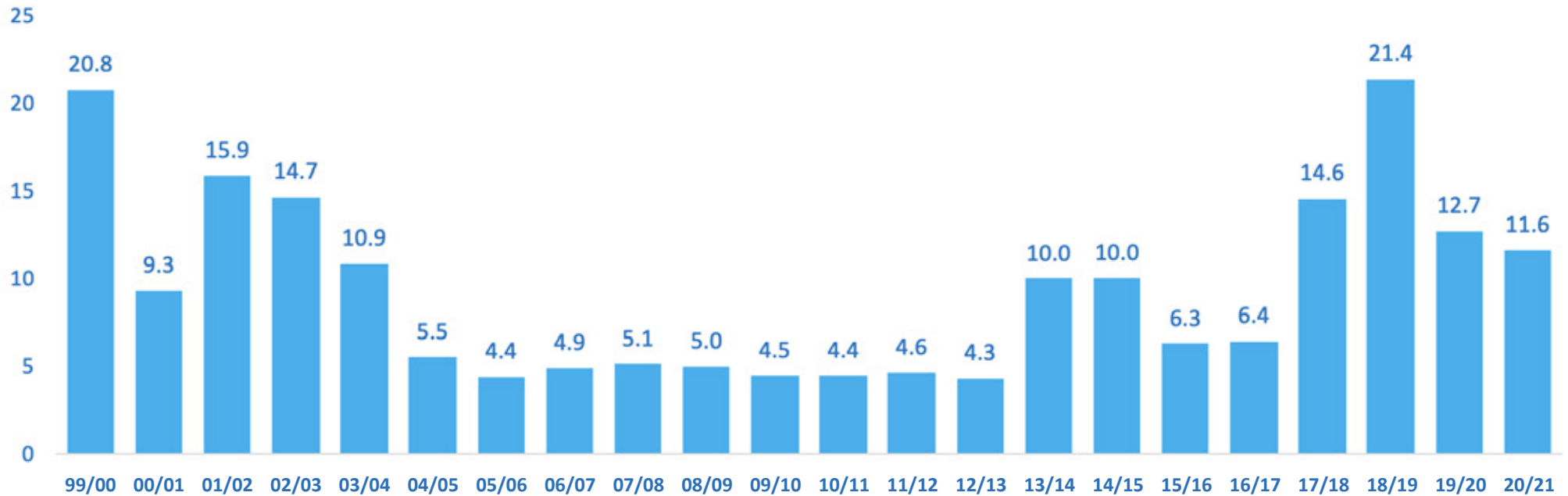


- External debt service to exports ratio declined from 19.2 percent in June 2000 to 3.5 percent in 2010, then rose to a high of 31 percent in June 2019.
- The high ratio in 2019 was mainly on account of a one-off USD 750 million Eurobond repayment.
- The ratio has been declining in the last 2 years also due to an improvement of the terms on new external loans.

3.

Evolution of Kenya's Public Debt...

➤ External Debt Service to Revenues ratio

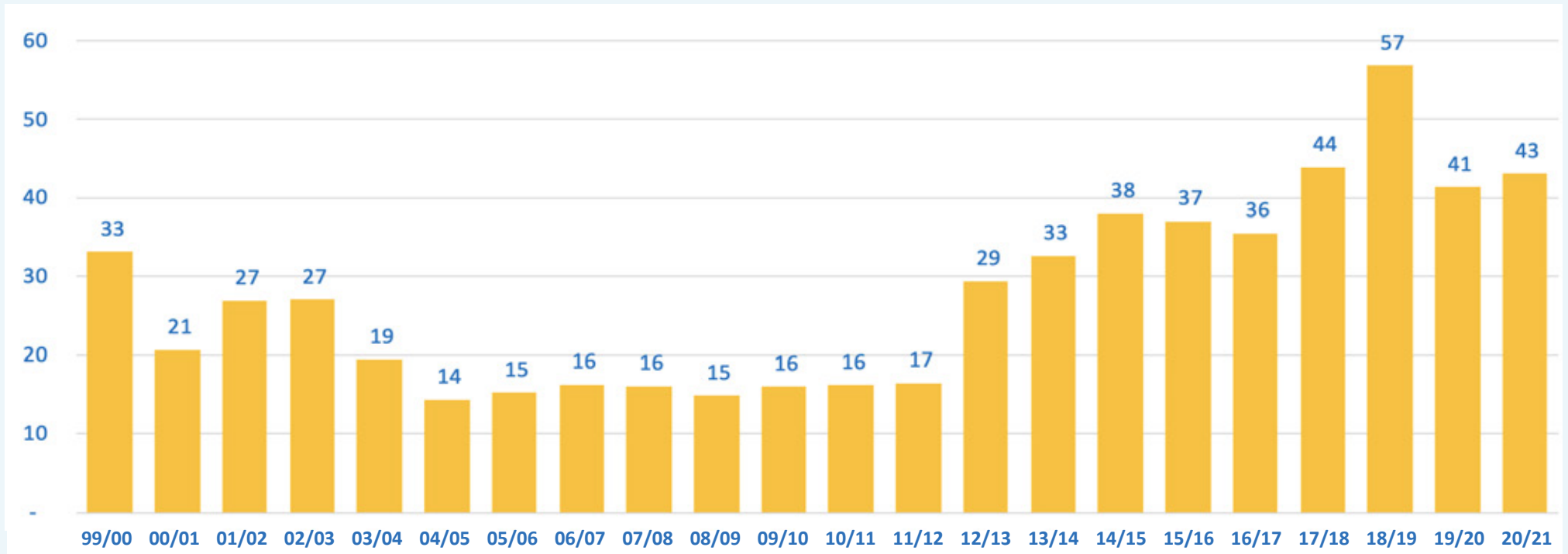


- External debt service to revenues ratio declined from 20.8 percent in June 2000 to 4.3 percent in June 2013, then rose to a high of 21.4 percent in June 2019.
- The high ratio in June 2019 was mainly on account of a one-off USD 750 million Eurobond repayment
- The ratio has been declining in the last 2 years also due to an improvement of the terms on new external loans.

4.

Evolution of Kenya's Public Debt...

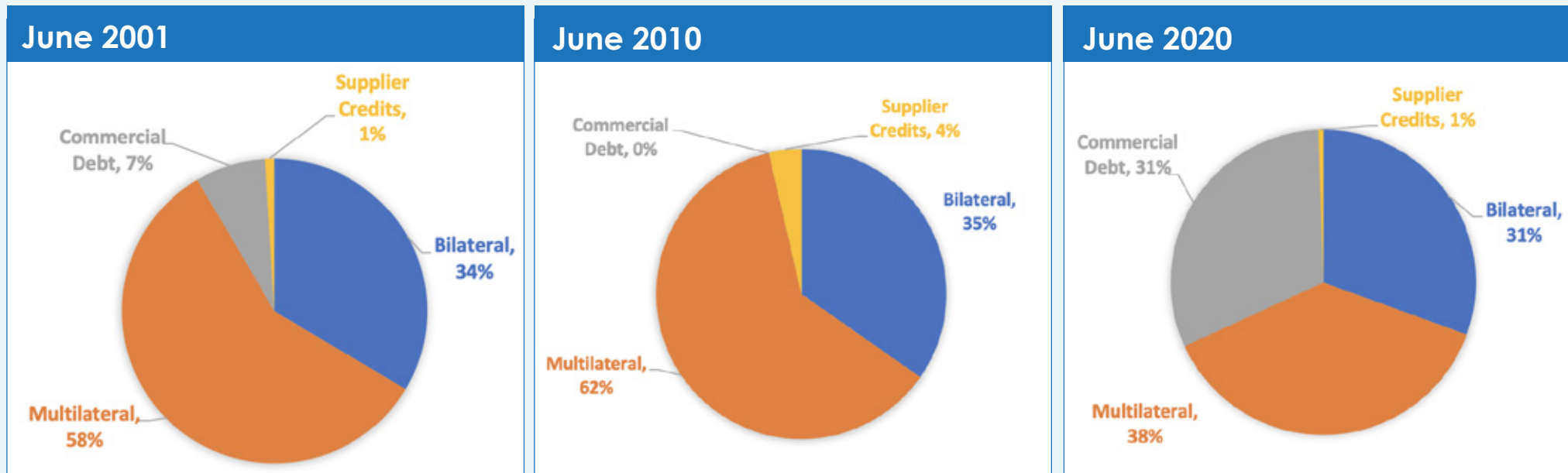
➤ Total Debt Service to Revenues ratio



- Total debt service to revenues increased to 57 percent in 2019 from 17 percent in 2012 due to an increased debt stock and changing terms on new loans including one-off repayment of syndicated loans and Eurobonds in 2019.
- This trend is expected to reverse in the medium term due to improving terms on new loans, and the restructuring of external commercial loans that have heavy maturities and high interest cost.

5.

Composition of External Debt by Lender Category

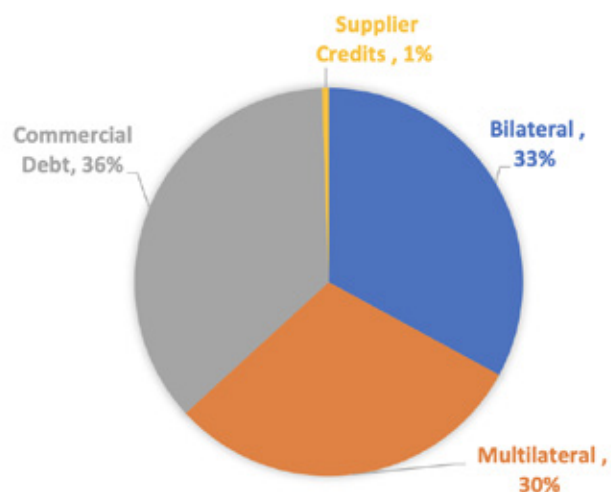


- The structure of Kenya's external (public and publicly guaranteed) debt changed significantly between 2010 and 2020, with increased uptake of commercial debt to improve Kenya's presence in the international financial markets to diversify Kenya's sources of external financing.

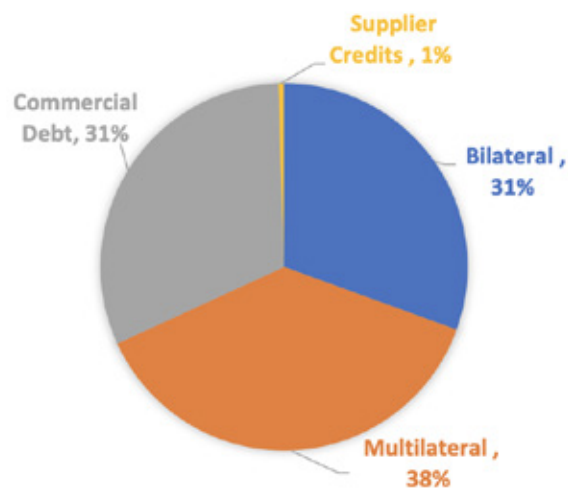
6.

Composition of External Debt by Lender Category

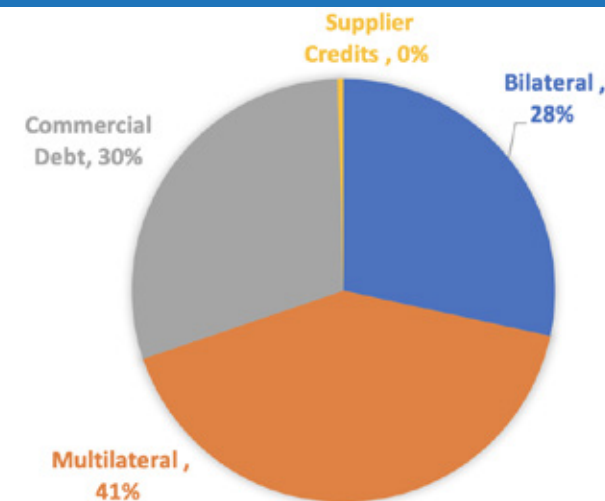
June 2019



June 2020



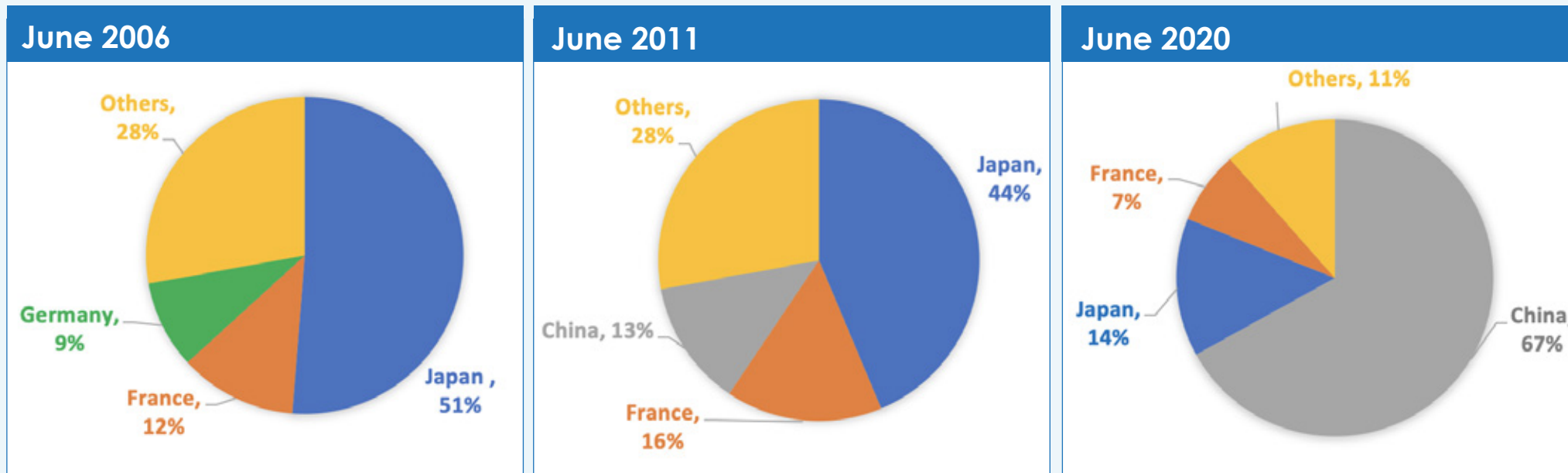
June 2021



- Recent efforts to increase Kenya's concessional public debt led to a 10.1 percentage points increase in the proportion of multilateral debt from 30.2 percent in June 2019 to 41.3 percent in June 2021

7.

Composition of Bilateral Lenders of External Debt



- The leading bilateral lender shifted from Japan to China between 2011 and 2020

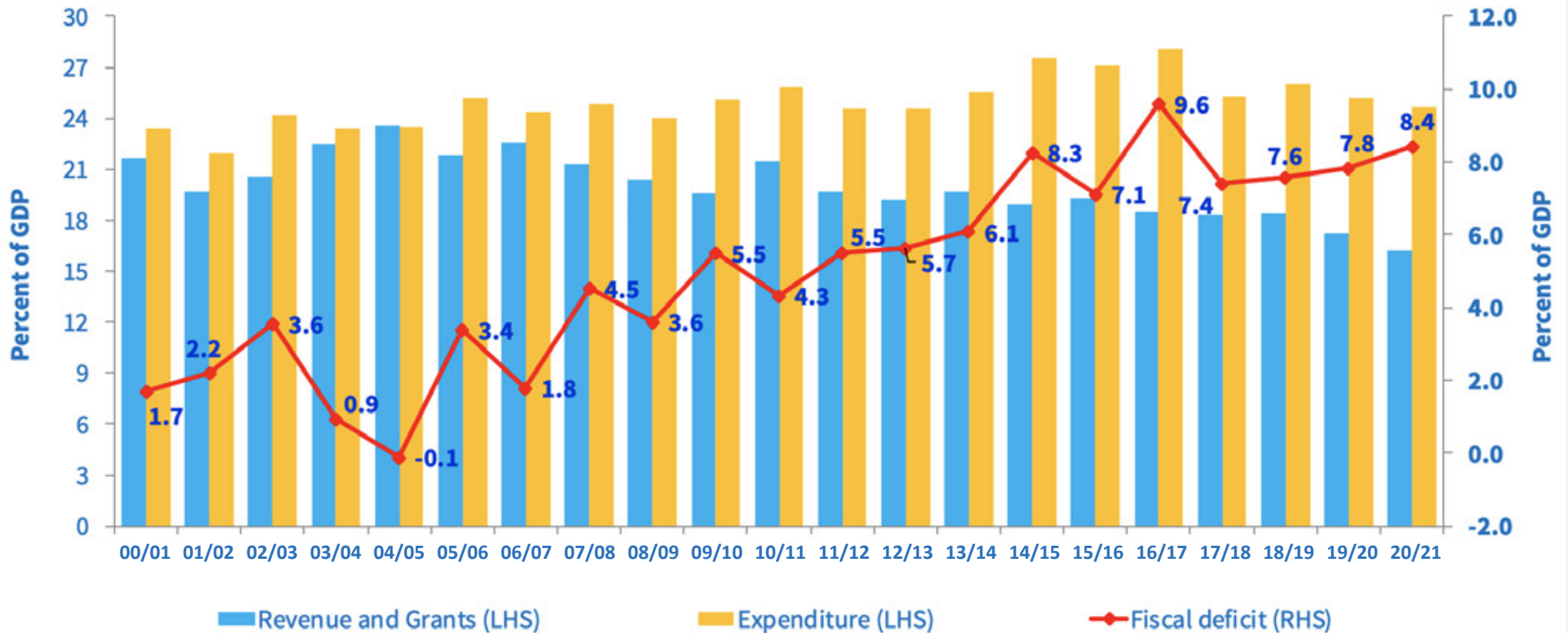
8.

Leading Causes of Increased Indebtedness...

- Increased fiscal deficit largely due to development expenditure (e.g, infrastructure) but also recurrent (e.g, education, health), and increased guaranteed debt
 - Worsening terms on new loans, such as lower concessionality and increased commercial loans
 - Exogenous economic shocks, such as drought or COVID-19
- Overarching concern is limited capture of the returns from expenditures (investments) through increased exports, taxes, and faster economic growth

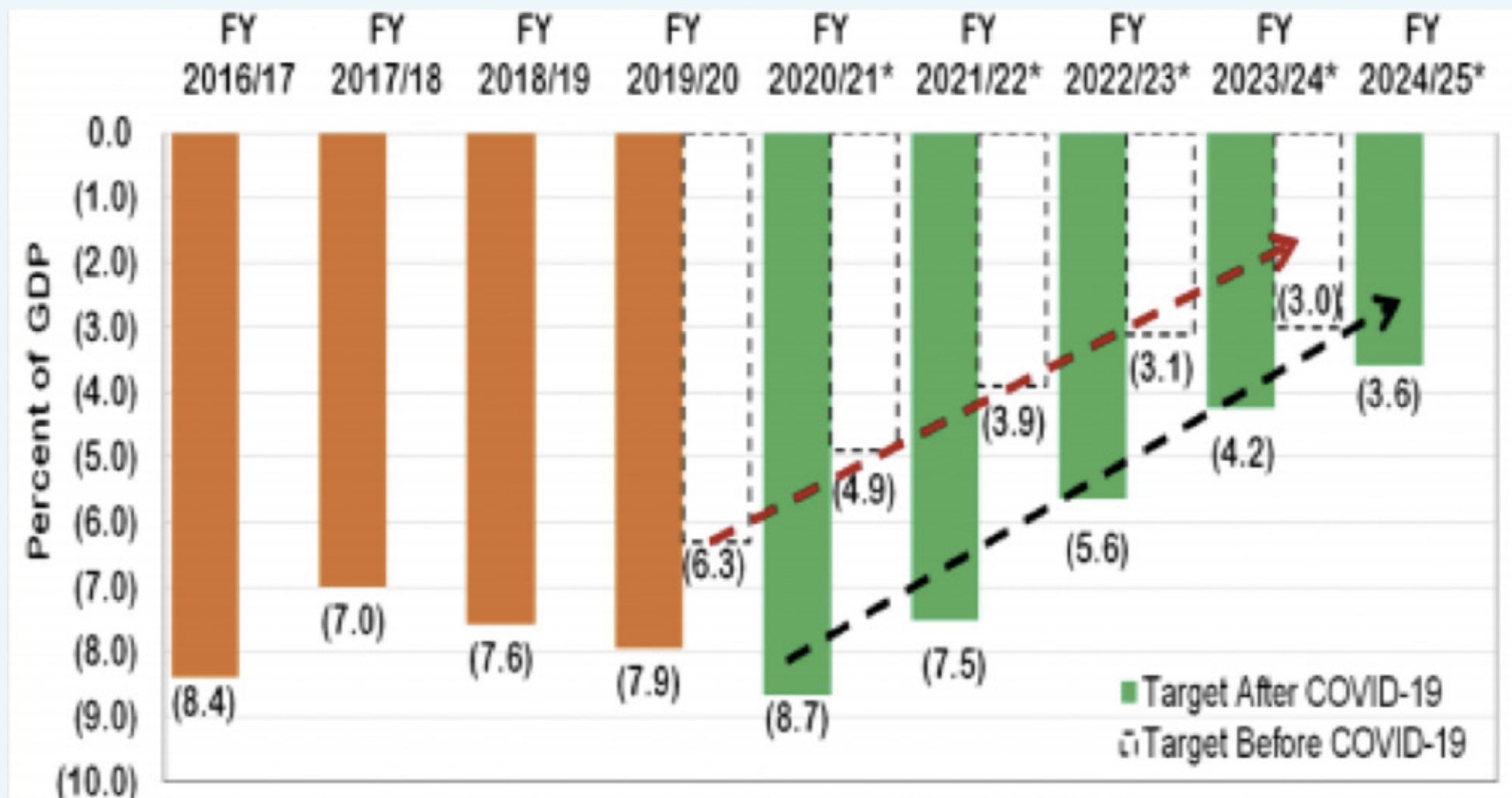
9.

Overall Fiscal Performance

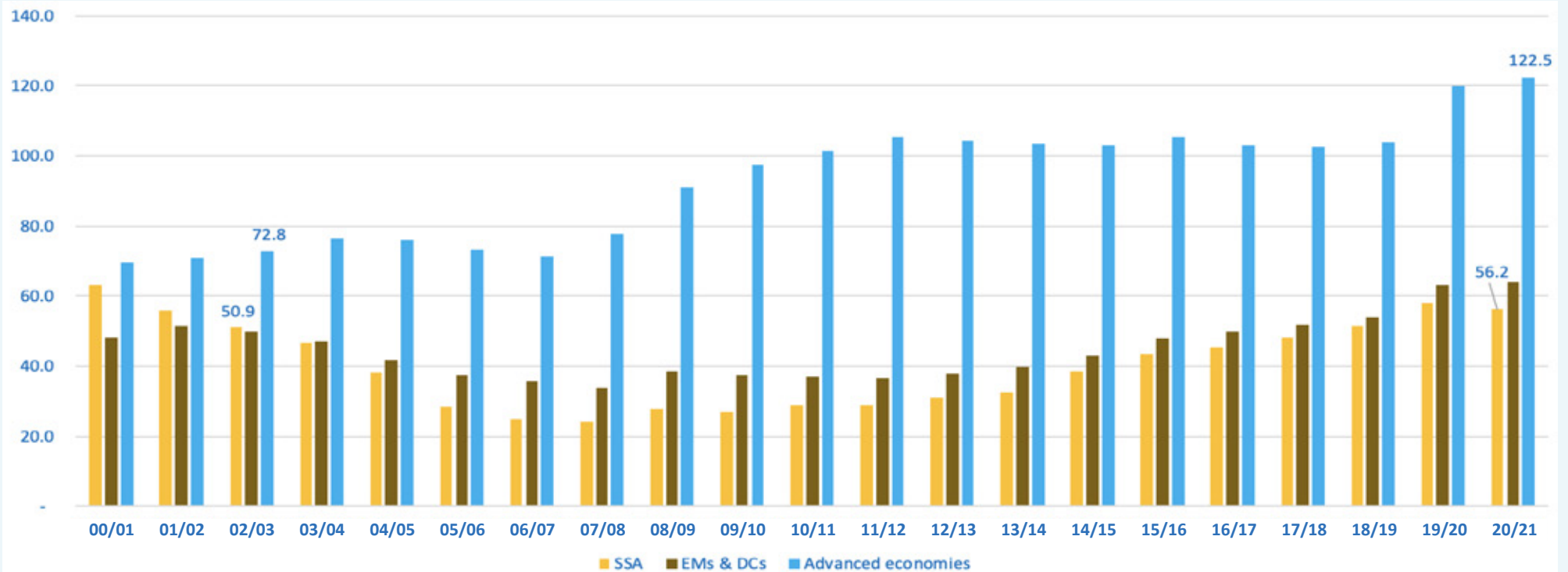


10.

Projected Fiscal Consolidation Path



Source: National Treasury BPS February 2021

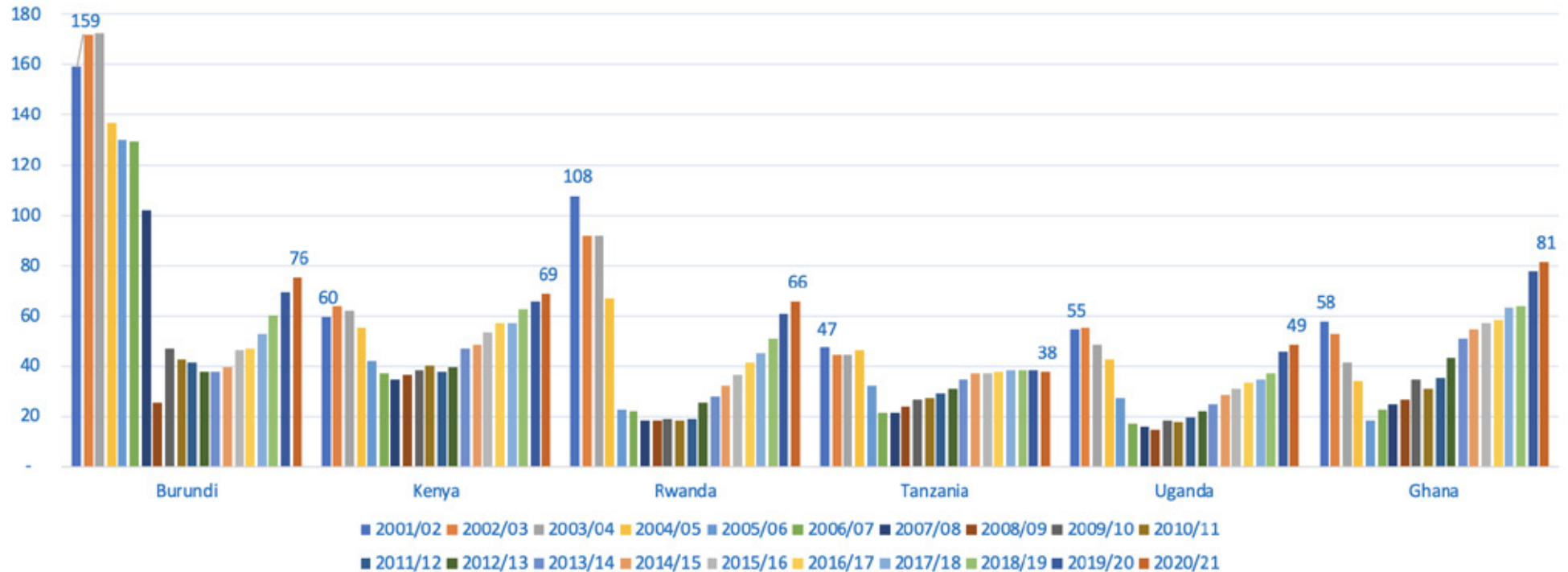


Source: WEO April 2021

- Government debt to GDP ratio in Advanced Economies (AEs), Emerging Markets and Developing Countries (EMs & DCs) and Sub-Saharan Africa (SSA) has been on an upward trend in the last decade.
- The Sub-Saharan Africa debt to GDP ratio decreased during 2000 - 2010 as several countries in the region benefitted from Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt relief programmes.

12.

Government Debt to GDP ratio; EAC & Ghana

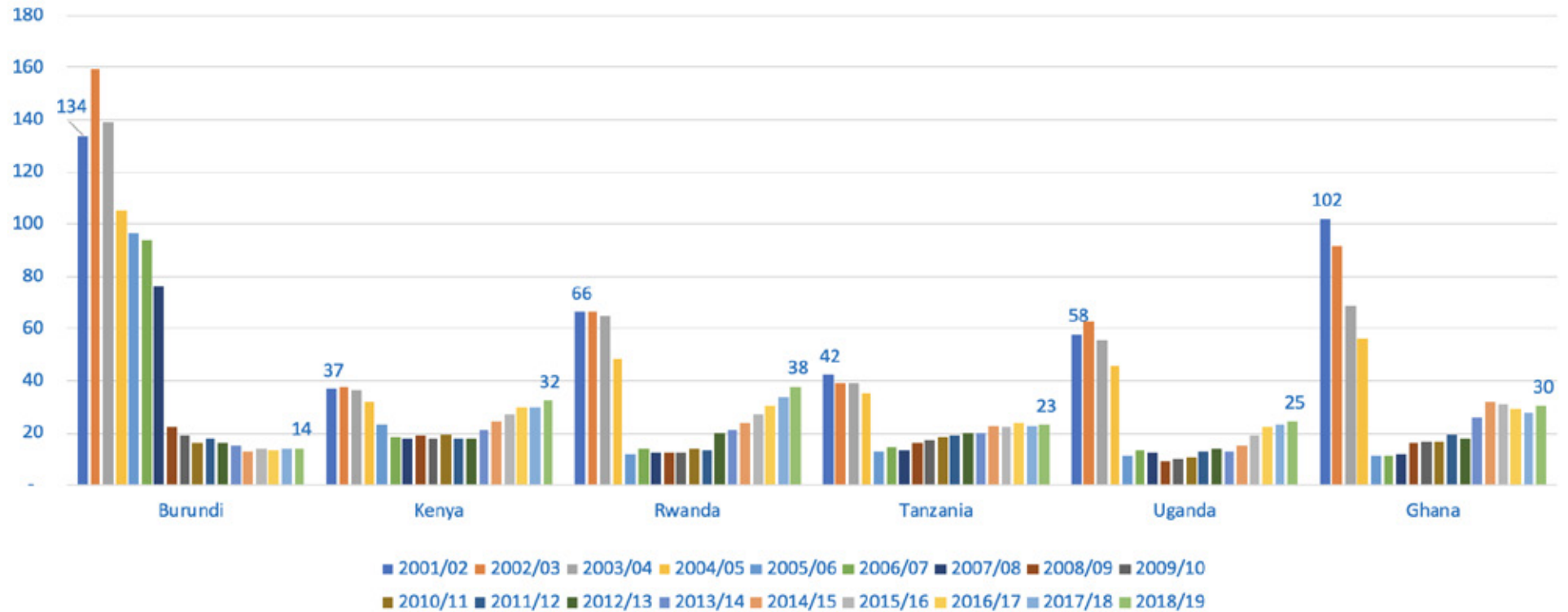


Public and publicly guaranteed debt
Source: WEO April 2021

- General government debt to GDP ratio decreased in early 2000s for all the countries under analysis.
- The decrease was on account of HIPC debt relief, other than Kenya whose decline was driven by improved economic growth.
- With increased fiscal space, the countries embarked on an infrastructural upgrade programme that resulted to increased debt to GDP ratio.

13.

External Debt to GDP ratio: EAC & Ghana



Public and publicly guaranteed debt

Source: World Bank

- With the HIPC debt relief, external debt to GDP ratio decreased significantly in Ghana, Burundi, Tanzania, Rwanda and Uganda
- The recent upward trend is associated with the countries' increased access to international financial markets

- DSA is an assessment of the impact of a country's current debt level and prospective borrowing on its present and future ability to meet debt service obligations.
- Kenya's DSA is assessed using the Low Income Debt Sustainability Framework Tool despite being a lower middle income country due the high concessionality of its external debt.
- The tool focuses on external DSA which has two broad categories of indicators related to solvency and liquidity;
 - **Solvency indicators**
 - Present Value of PPG external debt to GDP ratio
 - Present Value of PPG external debt to exports
 - **Liquidity indicators**
 - External debt service to revenues ratio
 - External debt service to exports ratio

15.

DSA Risk Rating Criteria

Low

- All debt indicators are below their relevant thresholds, including under stress tests
- Use judgement in cases where only one indicator is above its benchmark

Moderate

- Baseline scenario does not indicate a breach of thresholds
- Stress tests result in a significant rise in debt-service indicators over projection period (nearing thresholds) or a breach of debt or debt-service thresholds

High

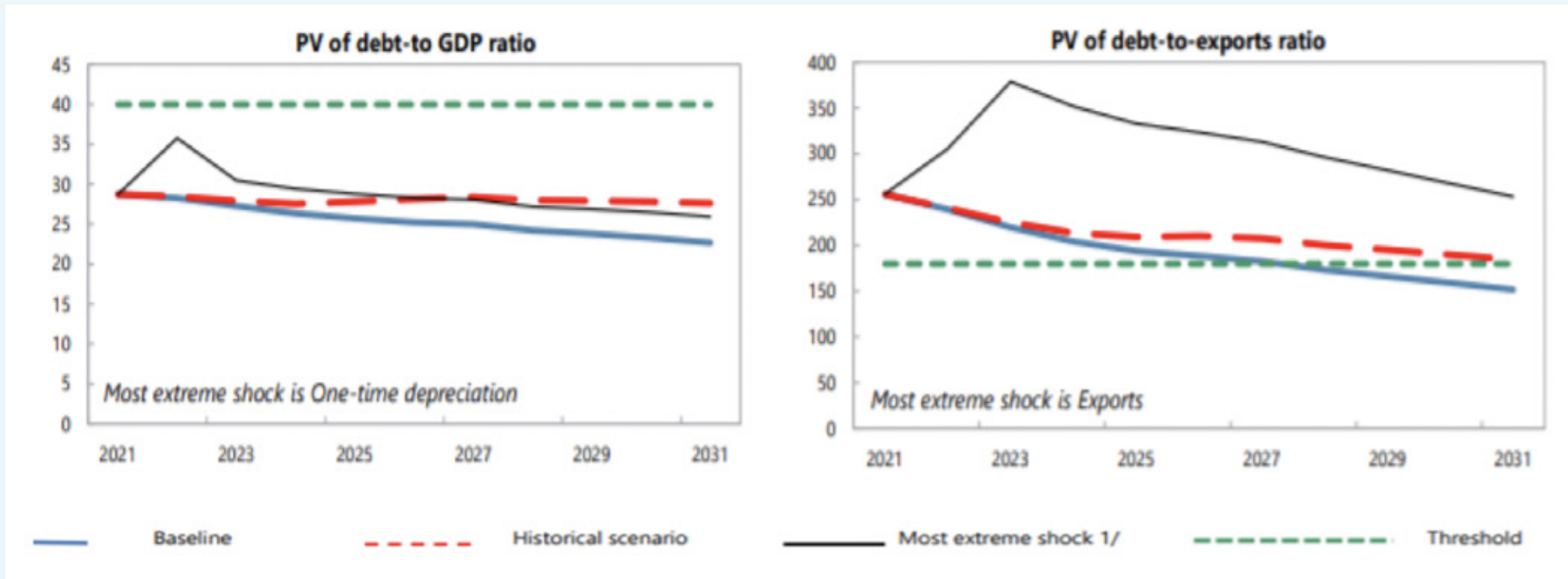
- Baseline scenario results in a breach of one or more thresholds, but the country does not currently face any payment difficulties
- This is exacerbated by the alternative scenarios or stress tests

Distress

- Current debt and debt service ratios are in significant or sustained breach of thresholds
- Actual or impending debt restructuring negotiations
- Existence of arrears, would generally suggest that a country is in debt distress

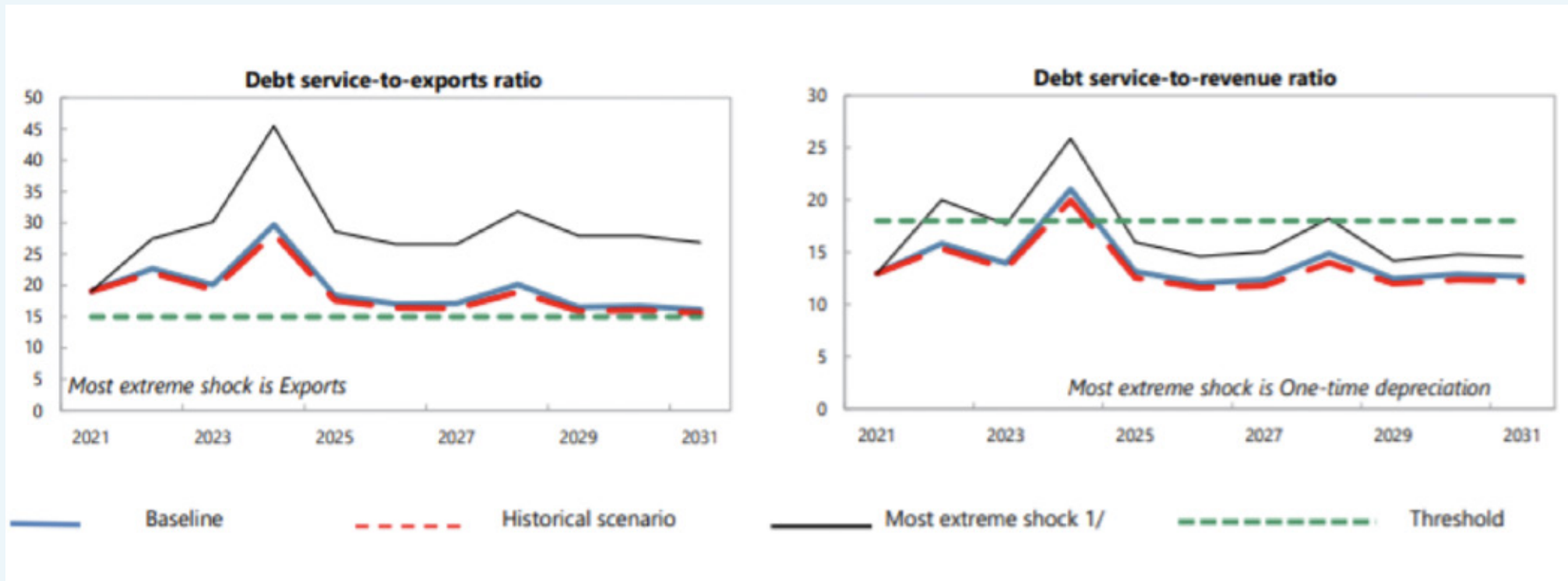
16.

External DSA: Solvency Indicators



Source: IMF

- The Present value of PPG external debt to GDP ratio remains within the threshold.
- However, historical and shocks scenarios reveal major risks, in case of suppressed growth in exports



Source: IMF

- The debt service to exports ratios have prolonged breaches in baseline, historical and shock scenarios while the debt service to revenue ratio reveal short lived breaches associated with heavy maturities of Eurobond procured in June 2014

- In March 2021, the IMF assessed Kenya's public and publicly guaranteed debt as **sustainable but with high risk of debt distress**
- Kenya's debt was subjected to **lower thresholds and benchmark** during this assessment due to a downgrade in the debt carrying capacity from strong to medium debt carrying capacity majorly due to subdued world growth driven by the COVID-19 pandemic
- Main factors driving this assessment were;
 - high deficits from the past and the COVID-19 shock,
 - sharp decline in exports and economic growth caused by the pandemic
- The assessment highlighted the following as the main risks to Kenya's DSA outlook
 - Financial weaknesses in State Owned Enterprises (SOEs),
 - subdued export growth,
 - and economic impact of COVID-19 pandemic
- Kenya's debt sustainability is expected to improve as fiscal consolidation progresses and exports and output recover from the global shock

- **It narrows the fiscal space**, therefore limited resources for development and recurrent expenditure
- **Narrows the fiscal buffers**, thus limited space to pursue countercyclical fiscal policy leading to increased volatility and lower growth rates
- **Increases the interest rate structure for the sovereign and the private sector**, thus stifling innovation and productivity and eventually reducing the economy's growth potential

- Stay the course on the fiscal consolidation path
- Explore non-debt creating financing options for public investments
- Increasing efficiency of public spending
- Refinancing operations; refinancing expensive debt with debt on more favorable terms
- Frequent reporting and monitoring

Thank You!

WWW.CENTRALBANK.GO.KE