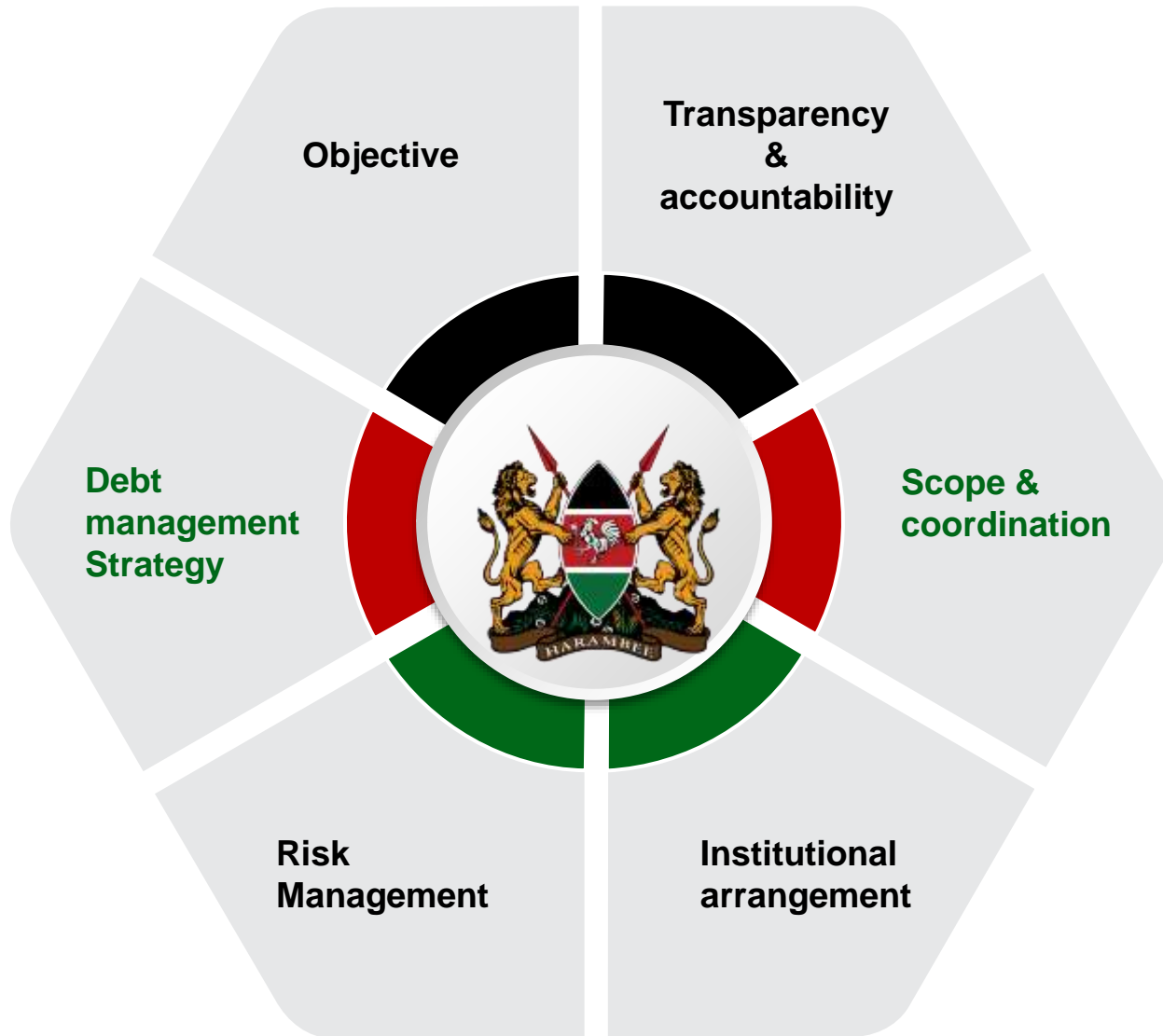




Key Highlights of Kenya's Public Debt & Borrowing Policy



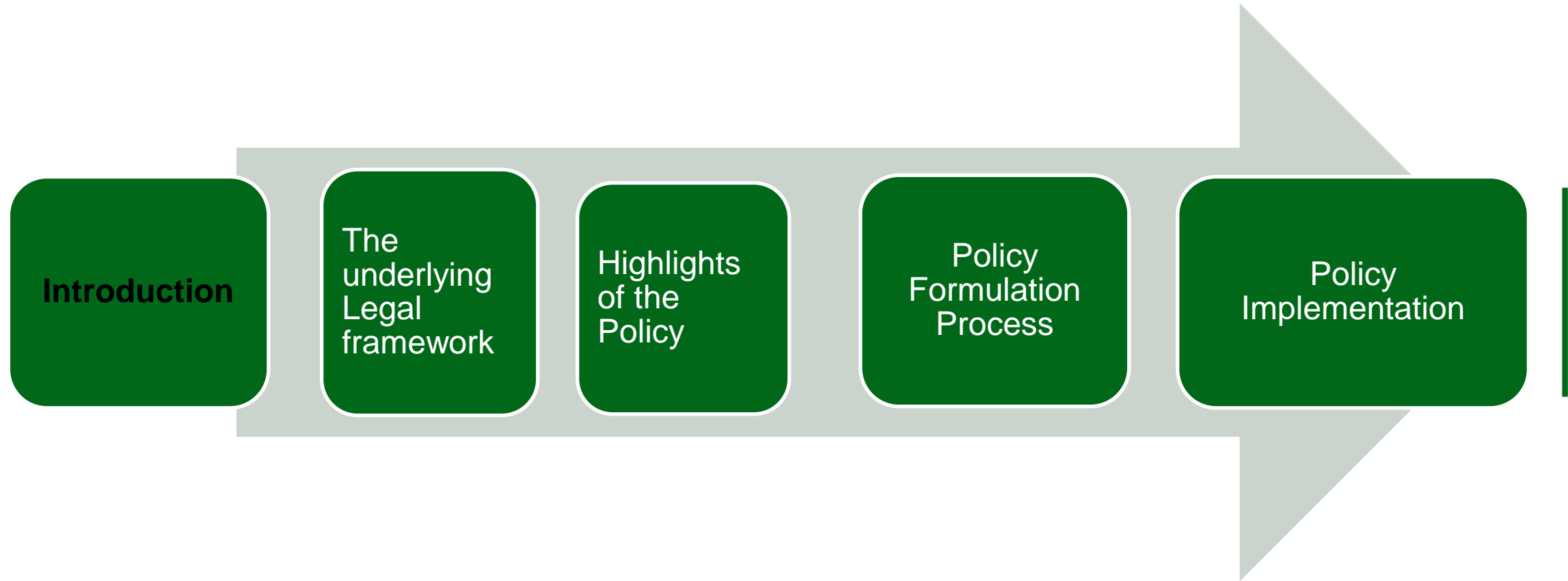
Public Debt Management Office

**NATIONAL TREASURY &
PLANNING**

JULY 2020



Outline of the presentation





A. Introduction – Composition and structure of public debt has changed over time as shown in the next 3 slides

Comparison Slide 1: End June 2010 and end June 2020

Public Debt stock was **Kshs 6.7 trillion** (US\$62.8 Billion) equivalent to 65.7% of GDP as at end June, 2020, while Public Debt stock was **Kshs 1,229.4 Billion** (US\$15.1 Billion) equivalent to 39% of GDP as at end June 2010. The stock was made up of:

Foreign currency Debt

Kshs 3.5 trillion debt as at end June, 2020 and Kshs 569.1 Billion as at end June 2010

Domestic currency debt

Kshs 3.2 trillion as at end June, 2020 and Kshs 660.3 Billion as at end June 2010

Budget Deficit for Fiscal Year 2019/2020 is **Kshs 657.4 billion** while Budget Deficit for Fiscal Year 2009/2010 was **Kshs 163.0 billion**. The deficit to be financed from external & domestic as follows:

Net Foreign Financing

Kshs 353.5 billion FY2019/20 and
Kshs 38.0 billion FY2009/10

Net Domestic Financing

Kshs 303.9 billion FY2019/20 and
Kshs 125.0 billion FY2009/10

Interest payments for Fiscal Year 2019/2020 is **Kshs 441.4 billion** equivalent to 24% of ordinary revenues and Interest payments for Fiscal Year 2009/2010 was **Kshs 63.6 billion** equivalent to 12% of ordinary revenues. The two components are:

Foreign debt interest

Kshs 150.9 billion FY2019/20 and
Kshs 6.2 billion FY2009/10

Domestic debt interest

Kshs 290.5 billion FY2019/20 and
Kshs 57.4 billion FY2009/10



A. Comparison Slide 2: Structure of public debt end June 2010 and June 2020

- Structure of public debt has significantly changed:

	2010	2020
▪ Multilateral	66%	38%
▪ Bilateral	30%	31%
▪ Commercial	4%	31%
- Multilateral share has declined by 40%
- Bilateral has generally remained the same.
- While commercial share has grown by over 650% ; raising the cost of debt servicing.



A. The need for Policy

- The Constitution of Kenya & Public Finance Management law provides the **legal framework** for debt and borrowing.
- **However, despite the significant growth and complexity of public debt there has been No formal/documented public policy on management of public debt.**
- Kenya Government has relied on ad hoc public debt policy pronouncements.
- The **Public Debt and Borrowing Policy** is therefore meant to fill this gap and enable the country manage cost and risk associated with the growing debt complexities.



B. Legal Framework (1): The Constitution of Kenya, 2010

- Chapter 12 outlines the **principles** for public finance;
- Art. 212 to 214 defines **public debt and borrowing** at the two levels of Government and **issuance of Government guarantees**;
- Art. 211 & 225: Parliament to provide legislation:
 1. to **prescribe the terms** on which the National Government may **borrow and impose reporting requirements**;
 2. for the **establishment, functions and responsibilities of the National Treasury.**”



B. Legal Framework (2): The PFM Act, 2012

- Establishes the National **Treasury to manage public debt**;
- Stipulates that public debt must be maintained at **sustainable level**;
 - *Medium Term Debt Strategy*;
 - *Debt limits*;
- **Outlines fiscal responsibility principles**;
- Defines **role of the Cabinet Secretary (CS) National Treasury**:-
 - *Borrow from domestic and external sources*;
 - *Issue guarantees with approval from Parliament*;
 - *Report to Parliament and the public on public debt*.
- CS-NT to delegate mandate to Public Debt Management Office (PDMO) on the **operational decisions** on debt management and the **day-to-day management of the Office**;
- CS-NT to ensure PDMO **has the resources and skills** to manage the debt and borrowing;
- PDMO required to **generate reports for the CS/NT** and to Parliament;
- CS-NT **to be accountable to Parliament** for the work of the PDMO.



C. Highlights of the debt policy and borrowing framework

The objective of Public Debt and Borrowing Policy

- **Primary objective**
 - to ensure that the government's *financing needs* and its *payment obligations* are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.
 - **Secondary objective**
 - Promote the *development of domestic debt market* for government securities.
- The policy will provide guidance on debt management and contracting of public debt, ensure value for money from debt funded programs and safeguard debt sustainability.



C. Highlights of the debt policy and borrowing framework

Policy thrust is in eleven (11) key areas:

- Objectives of the Policy
- Scope and Coordination
- Transparency and Accountability
- Guidelines for Public Debt Management
- Institutional Framework
- Public Debt Risk Management
- Development of Domestic Market for Government Debt Securities
- Procedures for Borrowing
- Borrowing on Behalf of County Governments and Government Entities
- Public Guaranties and On-lending
- Disclosure and Reporting of Contingent Liabilities.



D. Policy Implementation

The Policy is in effect after Cabinet approved it on 23 March 2020. Implementation to follow.

- 1) NT &P to take leadership role in implementation (*in collaboration with all agencies involved in debt and borrowing*).
- 2) Enforcement shall be through relevant laws & regulations.
- 3) Where necessary Parliament may enact legislation to align policy.
- 4) Operational Manuals will also guide implementation.
- 5) NT&P to publish and publicize the policy.



E. Implementation Timetable

Activity	Timeline
1. Publication & dissemination of the Policy – Sensitation to stakeholders counties, government entities, the public.	1. 2020
2. Consequential Legislation review.	2. 2020
3. Performance Contract (PC) between CS-NT&P and PDMO.	3. 2020
4. Realignment of PDMO functions to the Policy.	4. July 2020 – June 2021 through PC implementation
5. Address PDMO staffing needs	5. On-going



End

