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INSTITUTE OF PUBLIC FINANCE

Annual Public Debt Management Report 2023/24 Explainer

The Annual Public Debt Management report provides a review of Government's borrowing and public debt management activities in FY 2023/2024, and covers all public and publicly guaranteed debt.

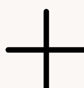
The objective of the report is to inform the public, oversight bodies, investors and stakeholders about government's public debt portfolio, and the steps taken to manage the portfolio.

This explainer provides a snapshot of the report. The full report can be obtained from the National Treasury Website

What constitutes public debt in Kenya?

Public debt is made up of domestic debt and external debt.

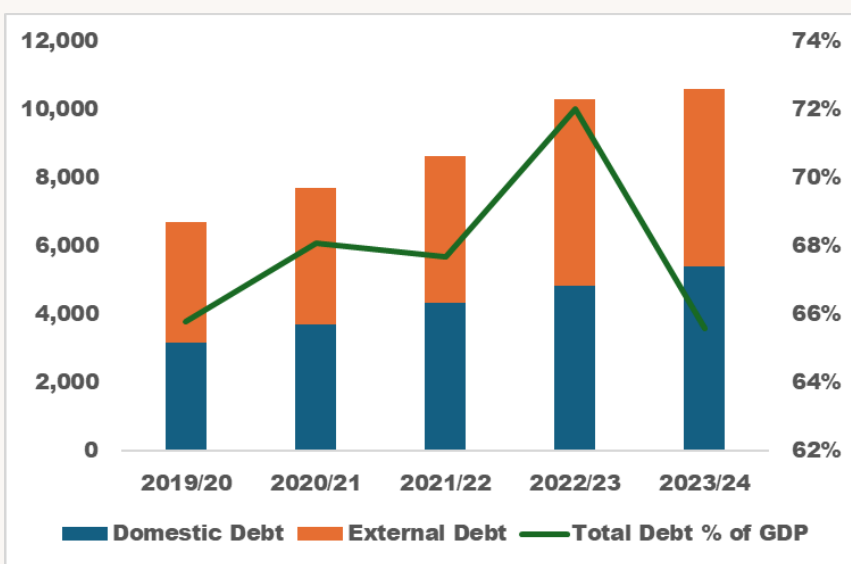
Domestic Debt refers to borrowing from within Kenya's own financial markets. It particularly includes debt instruments like Treasury bills and bonds issued by the Central Bank of Kenya to domestic financial institutions, corporations, and individuals. Though domestic debt does not suffer from exchange rate risk, it tends to have higher interest rates, owing to competition with the private sector.



External Debt refers to loans from foreign lenders, which can include multilateral financial institutions like the International Monetary Fund (IMF) or World Bank, bilateral agreements with other nations, and international commercial banks. It is denominated in foreign currencies.

How much debt does Kenya owe?

The total public and publicly guaranteed debt stock has increased by only 3% in FY 2023/24, compared to a 19% increase in FY 2022/23

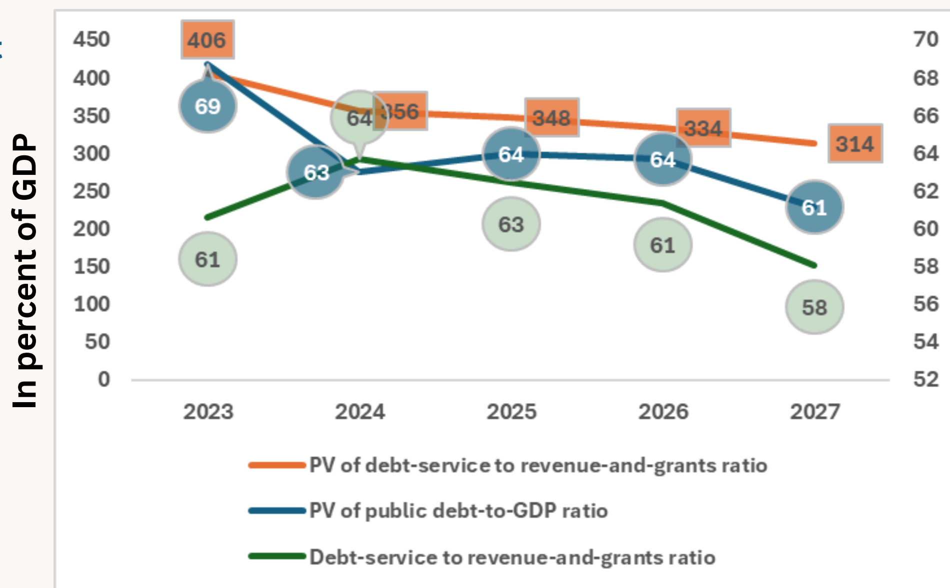


- Total debt stock increased from Ksh. 10,279 billion in FY 2022/23 to Ksh 10,582 billion in the FY 2023/24.
- Domestic debt, increased by 12% but this increase was consistent with the increase in the previous year.
- In FY 2022/23 external debt increased by 27 percent. However in FY 2023/24 external debt reduced by 5 percent due to limited access to external credit and payment of US$0.5 billion Eurobond within the year.

Is the debt sustainable?

- PV of debt-to-GDP ratio dropped by 6 percent between 2023 and 2024. It is projected to increase slightly in the medium term and reduce to 61 percent in 2027 due to fiscal consolidation.
- The PV of public debt to revenue and grant ratio increased from 61 to 64 percent of GDP between 2023 and 2024. However, it is projected to slowly decline in the medium term as a result of fiscal consolidation and enhanced measures to improve revenue collection through taxation and curtailing of government spending.
- While the trend of debt service-to-revenue ratio is positive, the levels remain high, implying that a significant portion of revenue will still need to be allocated toward debt obligations.

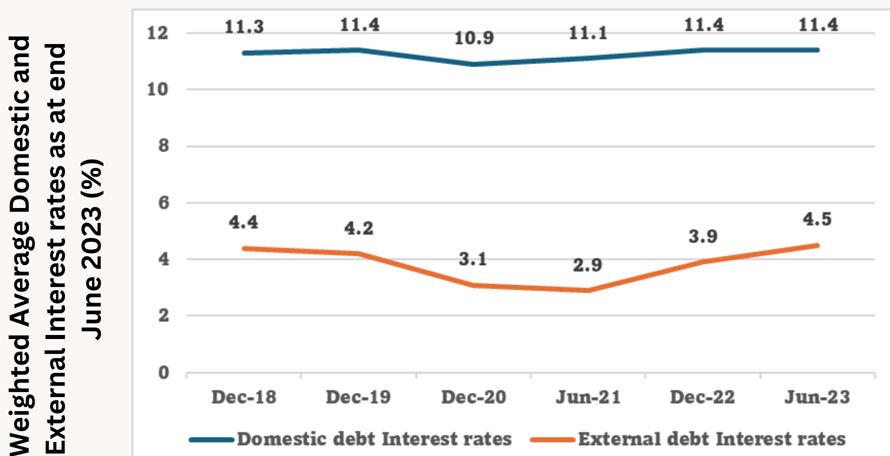
Significant drop in PV of debt-to-GDP ratio in 2024 and a downward path towards the 55 percent target in the medium term



Present Value (PV) of debt refers to the current value of future debt payments, discounted to account for the time value of money

Grants are funds provided by donors which do not need to be repaid. They boost government revenue without adding to debt.

In the past three years, both domestic and external debt interest rates have been growing steadily

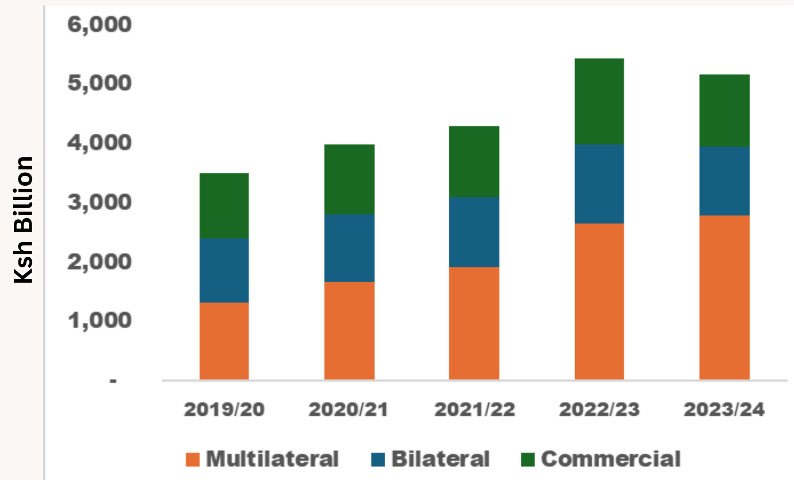


- Domestic debt is more expensive than external debt due to higher interest rates.
- As at June 2024, the domestic interest rate rose to 16.5, which attracted more domestic debt.

The Good (What are the positive developments in public debt in Kenya?)

- The total stock of public external debt decreased by 5 percent from Ksh 5,447 billion in FY 2022/23 to Ksh 5,172 billion. The decrease is attributed to the appreciation of the Kenyan shilling against major foreign currencies
- In 2023/24, as a share of total external debt, multilateral loans grew by 5 percent, while commercial loans fell by 3 percent from the previous year. This aligned with the government's strategy to reduce commercial loans and increase multilateral (concessional) loans which are more affordable than commercial loans due to their lower interest rates.
- External debts maturing within one year also reduced from 5.6 percent to 0.3 percent. This signals reduced pressure on fiscal space in the short run.

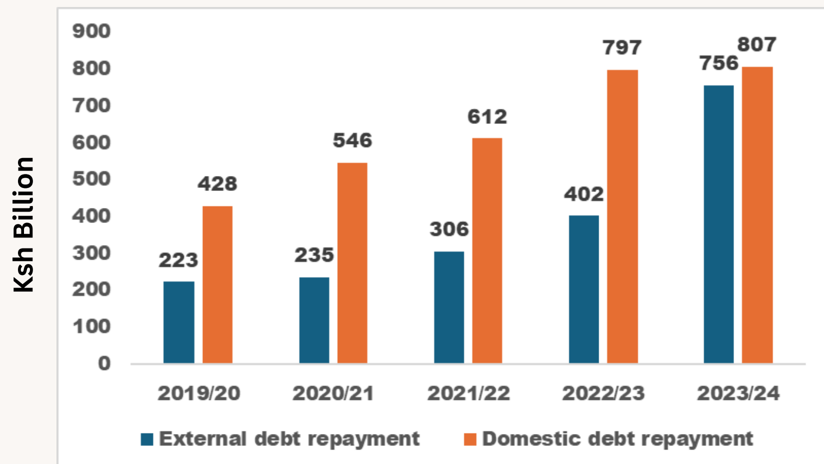
What are the main components of Kenya's external debt?



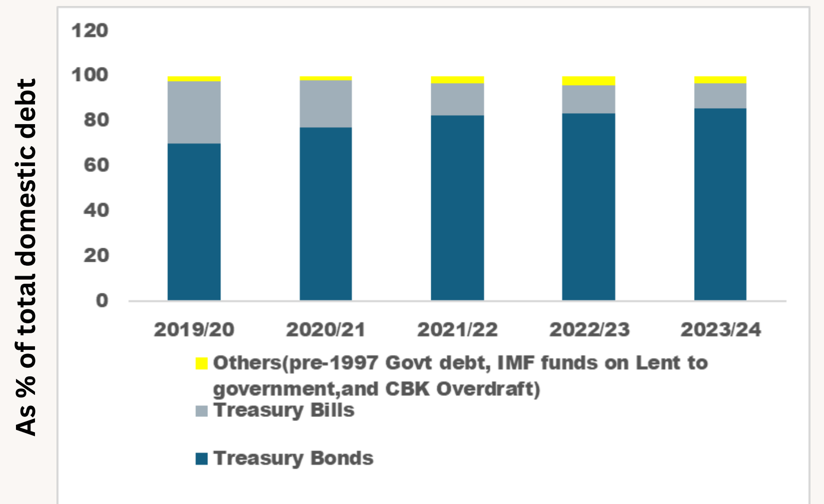
THE BAD(What are the negative developments in public debt in Kenya?)

- The total public debt repayment increased by 30 percent from Ksh 1.2 trillion in FY 2022/23 to Ksh 1.56 trillion in FY 2023/24.
- As a proportion of the country's revenues, debt repayment increased from 59 percent to 68 percent. This means that only 32 percent of ordinary revenues was available for the rest of the government spending, both recurrent and development.
- There was a reduction in Treasury Bonds average time to maturity from 8.6 years in FY 2022/23 to 7.5 years in FY 2023/24. This can be attributed to the investor's preference for short to medium term bonds due to high interest rates in the past year.
- The number of Treasury bonds and bills maturing within one year increased from 17 percent in FY 2022/23 to 19 percent in FY 2023/24. There will be increased fiscal space pressure due to the increased debt repayment obligation in the short term.

Total debt repayments

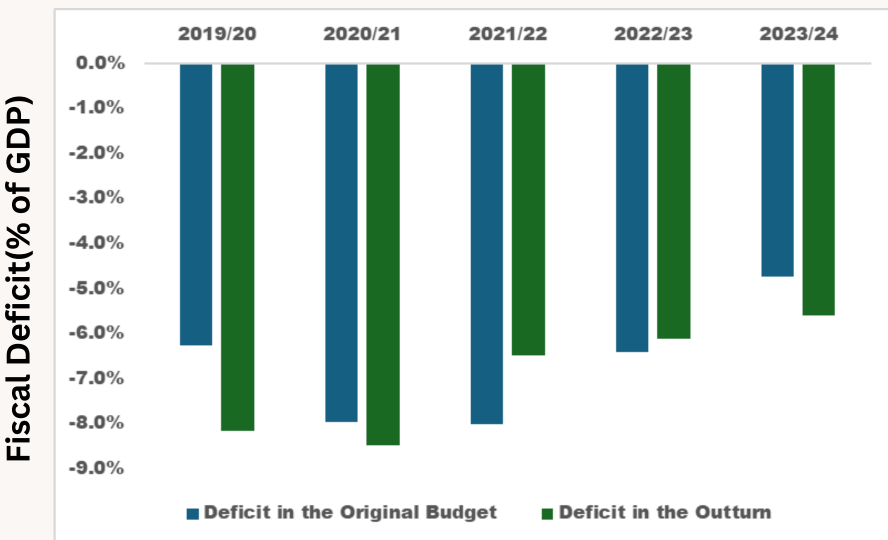


The largest share of domestic debt is held in treasury bonds



TRENDS TO WATCH

Fiscal consolidation ensures that the government gradually reduces the size of the fiscal deficit. If the govt doesn't stick to the fiscal consolidation plan, it will accumulate more debt than originally anticipated.



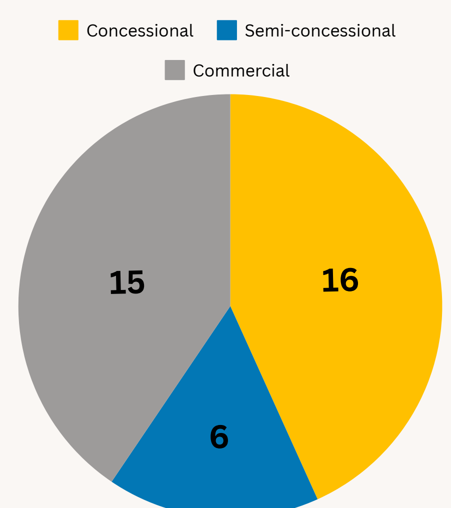
Fiscal Deficit(commitment basis excl. grants)

- The trend is the government always deviates from its fiscal consolidation path.
- Fiscal deficit was 5.6 percent of GDP in FY 2023/24. It is projected to decline to around 4 percent of GDP in the medium term on account of fiscal consolidation.

Will the government adhere to the strategies laid out in the 2024 Medium Term Debt Strategy? Will it still be able to access 16 percent of its external debt from multilateral/ concessional borrowing going forward?

- In FY 2023/24, the government deviated from the MTDS borrowing plan from a financing mix of 50:50 to 73:27 for domestic and external sources respectively. This was attributed to limited access to external financing. It came with the burden of increased cost of borrowing because domestic interest payments are relatively higher than the external rates.
- In FY 2024/25, the government targets a financing mix of 37 percent domestic and 63 percent external borrowing in net terms, while focusing more on financing the budget externally through concessional borrowing. This may be challenging to achieve, given the government's tendency not to strictly adhere to its borrowing plans.

Gross external financing - Medium Term Debt Strategy(MTDS) target



Source: National Treasury, Annual Public Debt Management Report 2023/24