Paper laid

By the Leader of the Majority Party on Tue 18/11/14

REPUBLIC OF KENYA

HARAMBEE

THE NATIONAL TREASURY

SESSIONAL PAPER NO. 14 OF 2014

INCREASE OF GOK EXTERNAL BORROWING CEILING

(PURSUANT TO SECTION 50(2) OF THE PUBLIC FINANCE MANAGEMENT ACT, 2012)

SESSIONAL PAPER NO.....OF 2014

INCREASE OF EXTERNAL DEBT CEILING PERSUANT TO SECTION 50 (2) OF THE PUBLIC FINANCE MANAGEMENT ACT, 2012

1. In accordance with the provisions of the PFM act, 2012, the following information is laid before the National Assembly for consideration and approval

2. On 11th January 2013, parliament raised the ceiling for external debt from US$ 10 Billion (Kshs 800 Billion) and set it at US$14 billion (Kshs 1,200 billion).

3. As at 30th September 2014 the GoK's total disbursed outstanding nominal external debt stock stood at Ksh 1,045 billion against the set statutory ceiling of Ksh 1,200 billion. This leaves headroom of Ksh 155 billion.

4. The ceiling was set when dollar/shilling exchange rate was 1 US dollar to Ksh 86 but now it is 1 US dollar to Ksh 89.

5. In the second Medium Term Plan 2013-2017, the Government is seeking massive financing to meet the cost of the country's infrastructure development. This includes; implementing the Standard Gauge Railway project, funding the on-going activities under the LAPSSET, 10,000 kilometres of Roads, the 5000+ MW in the Energy Sector and irrigation among others. The projects will be financed through borrowing.

6. The National Treasury on behalf of the government seeks to tap (increase) the recently issued sovereign bond for an amount not exceeding US$ 750 to finance on-going development projects, further the disbursements of the SGR loans are expected to accelerate having satisfied the conditions precedent to disbursements and thereby paving the way for implementation of the project. This taken together with funding (upcoming disbursements) of other projects loans to finance the

development budget will drive the quantum of external debt beyond the current ceiling of Ksh 1.2 trillion.

7. The Kenya Government is, in the context of the national vision 2030, committed to transforming Kenya to a middle income country by 2030. To realize this objective means among other things, the country must accelerate economic growth to around 10% annually and sustain it at that level for a long period. To achieve and sustain such high growth rates requires massive investments in infrastructural development. For this to happen, we need external assistance in areas of energy, roads and water among others. **Please note that the requested enhanced ceiling is for planning purposes only and the loans to be contracted will be subjected to scrutiny by the National Assembly.**

8. Issues regarding utilization, accountability and transparency of the proceeds from external loans and grants, continue to receive serious attention by the Government. The PFM Act, 2012 now provides elaborate provisions to strengthen management of this resource.

9. The National Treasury is finalizing the PFM regulations which propose to set the External debt ceiling at a present value of 50 percent to GDP, which is also a convergence criterion under the East Africa Community arrangements.

10. The National Treasury has carried out an analysis of the impact of the expected external loan disbursement on the Public Debt portfolio by end December 2014 and based on the following assumptions;

<u>Scenario one</u>

a. Exchange rate remains at 1 USD = 89.3522 its level on 31st October 2014

b. Absorption rate of 6 percent for the other externally funded projects (Source ERD)
c. Amount to be tapped from the Bond will not exceed USD 750 million dollars
d. Disbursement of SGR currently being processed USD 736,000,000 (civil works)
e. Disbursement of SGR currently being processed USD 458,716,403.50 (Locomotives & rolling stock)

The above disbursements of Ksh 185 billion if added to the current external debt stock of Ksh 1,045 billion leads to a total stock of Ksh 1,230 billion. This breaches the ceiling by Ksh 30 billion

Scenario two

a. Exchange rate remains at 1 USD = 89.3522 its level on 31st October 2014
b. Absorption rate of 6 percent for the other externally funded projects (Source ERD)
c. The amount to be tapped from the Bond USD 500 million dollars
d. Disbursement of SGR currently being processed USD 736,000,000 (civil works)
e. Disbursement of SGR currently being processed USD 458,716,403.50 (Locomotives & rolling stock)

The above disbursements of Ksh 163 billion if added to the current external debt stock of Ksh 1,045 billion leads to a total stock of Ksh 1,208 billion. This breaches the external debt ceiling by Ksh 8 billion.

11. The expected disbursements under the two scenarios will lead to a breach of the statutory limit set by parliament. Two options are then available to the Government:

a. Reduce the amount to be tapped from the Bond or
b. Raise the External debt ceiling

12. The National Assembly is requested to consider and approve the **the increase of total indebtedness for the time being outstanding in respect of principal amount of money borrowed from US$14 billion (Ksh 1.2 trillion) to US$ 28 billion (Ksh 2.5 trillion).**

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HENRY ROTICH
CABINET SECRETARY/NATIONAL TREASURY

DATE: 10/11/2014.