



PART II

APPRAISAL OF THE DEBT CEILING



DEBT CEILING

Definition

- [A debt ceiling](#) is a statutory mandated upper limit on a country's total outstanding public debt, usually expressed in absolute terms or as a ratio of GDP.
- The legislative arm of governments has established national debt ceilings with an aim of checking the excessive borrowing by the executive.

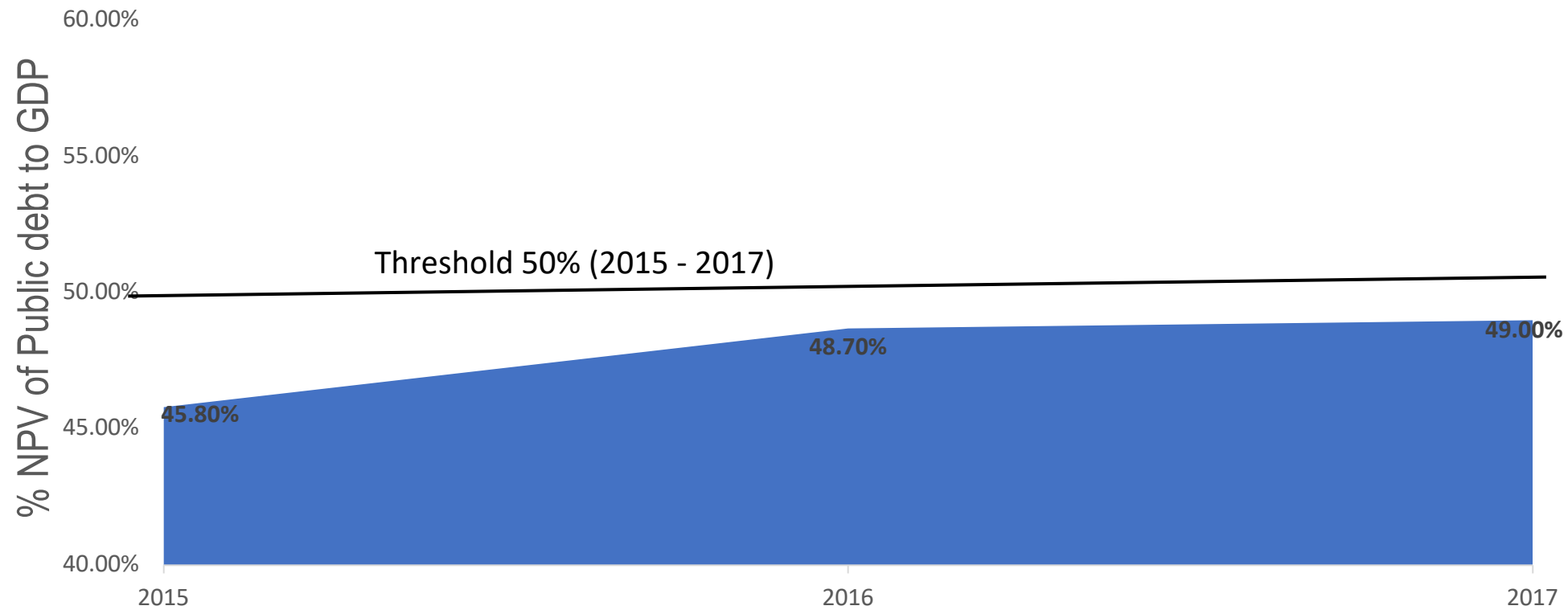
The legal basis of Kenya's debt ceiling

- The legal basis of Kenya's debt ceiling is stipulated in Section 50(5) of the PFM Act 2012 which states that 'Parliament shall provide for thresholds for the borrowing entitlements of the national government and county governments and their entities'
- The set ceiling should be reviewed annually.
- Government borrowing cannot exceed the annual limit, which is in accordance with the Section 50(2) of the PFM Act 2012 that states 'The national government may borrow money in accordance with this Act or any other legislation and shall not exceed a limit set by Parliament'

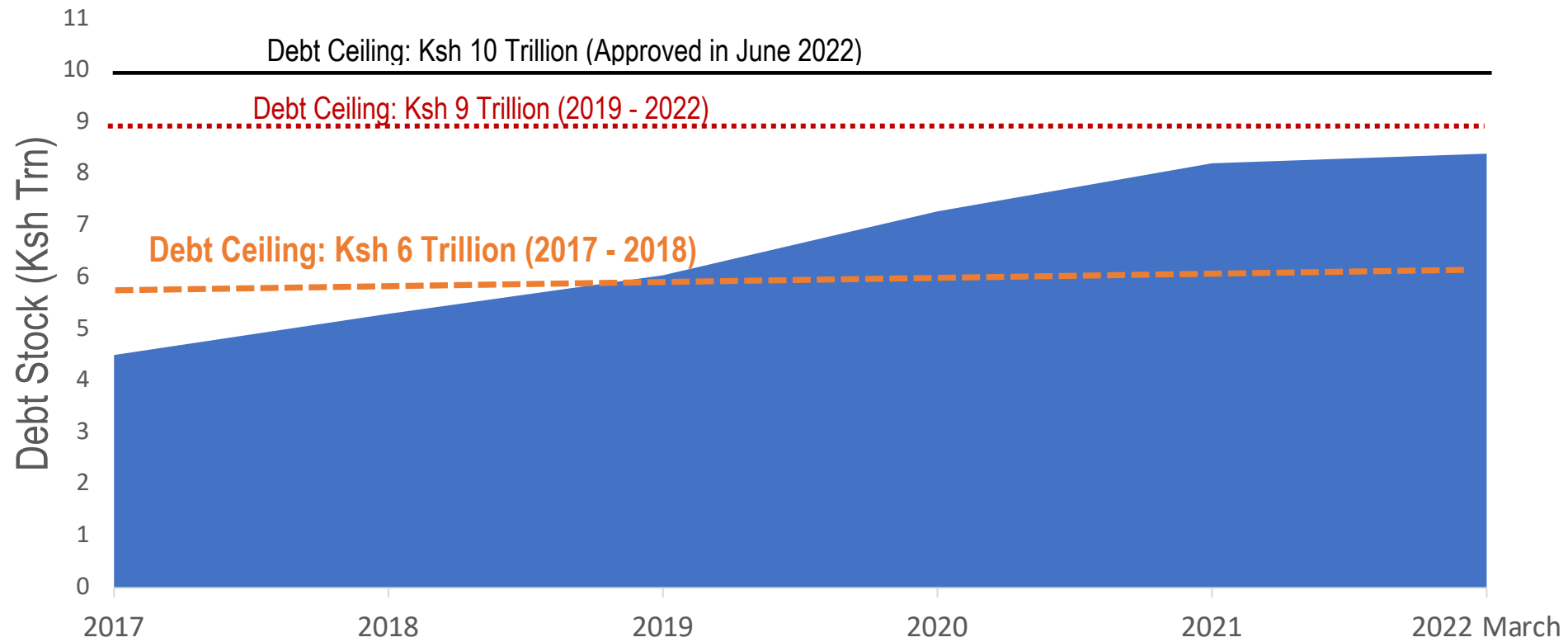
Economic consequences of a debt ceiling

- Minimize risk of high debt - It ensures that the country maintains a sustainable level of debt stock important in minimizing risks associated with high burden of debt such as penalties on default, high interest charges and fluctuations of exchange rates.
- Consideration of tax burden - optimal level of debt stock puts less pressure on the government to meet the obligations of debt servicing charges hence relatively less tax burden on the citizens.
- Ensures accountability – the debt ceiling strengthens oversight function of the parliament which is significant for the treasury to be accountable.

Debt ceiling as % of NPV of public debt to GDP



The state of play



Conclusion

- The Parliament of Kenya has been formulating debt ceilings as a strategy in managing the level of debt as required by the PFM ACT
- The debt ceiling has been undergoing occasional revisions due to:
 1. The pressure by the government to finance budget deficits
 2. To ensure that it does not violate the existing ceilings
- The numerous revisions in the debt ceiling have reduced the credibility of this strategy in managing the level of debt.