

The foreign debt burden and economic growth under structural adjustment: the Kenyan experience

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This study analyses the impact of foreign debt burden on economic growth during the period of structural adjustment programmes (SAPs) implementation by the Kenyan government. Like many other countries in the sub-Saharan Africa, Kenya is a severely indebted low-income country. Kenya's total debt stock as at the end of 1999 was estimated at US\$ 6.3 billion, with a debt service ratio of nearly 15 percent. A look at Kenya's debt trend since the introduction of SAPs reveals a composition of debt mainly from multilateral creditors. As a result, a large proportion of Kenya's debt is not eligible for rescheduling. The study particularly links debt to economic growth. A major empirical finding is the significance of debt overhang variables in the investment equation, suggesting that mounting external debt depresses investment through both a "disincentive" effect and a "crowding out" effect. Foreign debt burden is a fundamental cause of low economic growth. The main concern is whether the Kenyan economy can sustain a rapid growth and maintain satisfactory domestic investment given its heavy reliance on foreign capital flows and the debt problem. Thus, the results demonstrate that debt forgiveness could provide a much-needed stimulus to investment recovery and economic growth in Kenya. In light of the above results, the study gives some appropriate policy recommendations.