Government Spending, Public Debt and Economic Growth in Kenya

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ABSTRACT

Kenya economic growth has been declining despite the huge government spending and appetite for borrowing. Recently, the ratio of Kenya's debt to GDP was 63.0% in December 2022, 13.0% more than the IMF's suggested level of 50.0% for a middle level income economy. This paper highlighted how these two variables have influenced economic growth. Results indicate a negative impact and Kenyan government need to be extra cautious on borrowing because a debt crisis can result in significant losses for domestic and foreign banks, potentially jeopardizing the viability of financial systems both in the crisis-hit nation and beyond. This may hinder economic expansion and wreak havoc on international financial markets. The paper recommends that the proceeds from the borrowed money be used to finance government spending that will benefit the economy of the nation.

1. Introduction

Economic growth is the primary concern of any country's macroeconomic policy, and Gross Domestic Product (GDP) is regarded as a key indicator of this economic growth. If a country's GDP grows faster than its population, it indicates that the country's GDP per capita is increasing and the people's standard of living is improving (Chowdhury, Hamid & Akhi, 2019). A country's GDP is influenced by a variety of factors: including inflation, interest rates, exchange rates, domestic debt, foreign debt, foreign direct

investment, household consumption and so on. Macroeconomic variables are outside influence elements that are beyond the control or dominance of any country's management. With most African countries experiencing low growth rates, the importance of economic growth in Africa cannot be overstated. Policymakers' discussions on this topic have taken centre stage in recent years, with a focus on developing countries.

In previous decades, the Kenyan economy has remained volatile in terms of performance. Following independence, Kenya encouraged rapid economic growth through public investment, agricultural production support and incentives for private industrial investment. This resulted in GDP growing by an average of 6.6 percent from 1964 to 1972, but then a decline began, with average annual growth averaging 5.2 percent between 1972 and 1979, 4.0 percent between 1980 and 1989, and 2.4 percent between 1990 and 2000 (Republic of Kenya, 2007). Poor macroeconomic policies in the 1970s and 1980s, such as price control, import substitution, and exchange rate control, contributed to this poor performance. Furthermore, the government's poor governance standards discouraged domestic investment (Waiyaki, 2016).

Kenya's GDP was re-based in 2014, and the country's classification changed from low-income to lower-middle-income, according to the World Bank. To compile new constant price estimates, the GDP had to be re-based by using a more recent base year. The previous base year was 2001, and the new base year is 2009. It aids in accommodating changes in production structures as a result of developments and innovations, as well as demand-side changes such as consumption patterns. Poverty has remained above the 40% mark since 2006, according to World Bank estimates (Galego Mendes, & Pennings, 2017.), and it now ranges between 38% and 43%. The country's poverty situation is exacerbated by high levels of income.

Kenya's economy grew by 7.3 percent year in the fourth quarter of 2021, following a downwardly revised 9.3 percent increase in the previous period (KNBS, 2022). It was the fifth consecutive quarter of growth, with strong growth in accommodation and food serving activities (118.6 percent), mining and quarrying (34.5 percent), finance and insurance (9.9 percent), wholesale and retail trade (8.4 percent), and professional (8.4 percent), administrative and support services (8.1 percent). On the negative side, the agricultural sector shrank by 1.2 percent as a result of unfavourable weather conditions in most parts of the country. In 2021, GDP increased by 7.5 percent, compared to a 0.3 percent contraction in 2020, with most sectors showing significant improvement.

Despite significant efforts to reduce poverty in Kenya, poverty remains widespread. Kenya, for example, implemented a number of anti-poverty policies to this end, as outlined in the National Poverty Eradication Plan (NPEP), 1999-2005 and the Poverty Reduction Strategy Paper (PRSP), 2001-2004, (Republic of Kenya, 2001). In these plans, the government committed to reduce poverty by 2015 through increasing economic performance, implementing the International Development Goals, and shifting resources to pro-poor programs (Republic of Kenya, 2007). The Millennium Development Goals (MDGs) signed in 2000 also aimed to eradicate extreme poverty and were immediately succeeded by the Sustainable Development Goals (SDGs) when they expired in 2015. Other financial and non-financial public interventions are also available (Ronge et al., 2002), as is widespread support from development partners such as the World Bank, United Nations, IMF, and United Nations Office for Project Services. Kenya's debt to GDP was 63.0% in December 2022, 13.0% more than the IMF's suggested level of 50.0% for a middle level income economy

2. Problem Statement

The entire amount of governmental debt in Kenya has increased recently. The gross public debt increased from 48.6% of GDP at the end of 2015 to 63.0% in December 2022, 13.0% more than the IMF's suggested level of 50.0% for a middle level income economy, reflecting high deficits caused in part by prior spending on significant infrastructure projects and, in 2020, by the COVID-19 global shock. About half of Kenya's public debt is owed to foreign creditors (Laskaridis, 2021). By the end of 2022, Kenya's domestic public debt accounts for 33.2% and external debt account for 26.8% thus bring the total to 60% of GDP. The average time to maturity for government domestic debt instruments climbed from 5 years at the end of 2019 to 7.9 years at the end of 2020 as the authorities effectively implemented their policy to stretch the maturity profile of domestic debt (IMF, 2021). Several researchers have analyzed factors that have affected Kenya's economy for example Onsomu et al, (2021), Waiyaki (2016) and Ozili, and Arun (2020 with their focus on interest rates, foreign exchange rates and public debt. This paper majorly focused on whether the huge government spending and ever increasing appetite for borrowing have any improvement on economic growth.

3. Empirical Literature Review

3.1 Government Spending and Economic Growth

When Kenya won independence, it had a lower share of all government spending and government consumption in GDP than the remainder of the area. Until 1980, Kenya had a substantially faster growth rate in the proportion of national expenditure in national GDP than the rest of the region. Kenya's overall government expenditure in 1980 was 31 percent of GDP, roughly comparable to the average for all of Sub-Saharan Africa, whereas Sub-Saharan Africa's was 22.7 percent (Africa infrastructure nation diagnostic report 2010).

Abdullah (2000), Ranjan and Sharma (2008), and Cooray (2009) all agreed that increased government spending promotes economic growth. Some scholars, nevertheless, dispute that increased government expenditure promotes economic growth; rather, they suggest that increased government spending may harm the economy's performance as a whole because the government might increase taxes and/or borrow to finance increased spending. Ewa and Okoi (2018) investigated the impact of government spending on Nigerian economic development. The trajectory and type of economic growth are determined by the volume and organization of spending by the government. Nigeria's governmental spending is dominated by recurring expenditure, despite statistics indicating that the country's economy has grown at a rapid pace in recent years. Given that development is measured by capital expenditure, this suggests that the country continues to be increasing without developing. It also shows that a large percentage of the population of Nigeria does not benefit from government expenditures. As a result, the government's planned objectives and ambitions have been substantially defeated.

Suleiman and Aruwa (2009) experimentally investigated the relationship between government revenues and expenditures, expenditures and economic growth as a critical step in understanding the behaviour of Nigerian public expenditure and the economy. His findings support both Wagner's law of growing constantly public finance and Friedman's Hypothesis. The research found that real GDP growth was robust throughout the mid-1990s, but then dropped below average government revenue and expenditure after that. In their support, Cooray (2009) stated that increased government spending correlates positively to economic growth. However, some scholars disagree with the argument that raising government expenditures encourages economic growth, claiming that higher government spending may slow the economy's overall performance as the government raises taxes and/or borrows to finance rising spending.

INTERNATIONAL JOURNAL ON ECONOMICS, FINANCE AND SUSTAINABLE DEVELOPMENT ISSN (electronic): 2620-6269/ ISSN (printed): 2615-4021

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Morduch (1995) devised a paradigm for determining whether, indeed, the current account in developing nations acts as an insurance policy to calm consumption during challenging times of disruptions to the national supply of cash, which can be described as production minus investment minus government expenditure. The study made use of time series data collected from 45 developing countries. During the analysis, the vector autoregressive model was applied, and the optimal consumption-smoothing current account was estimated. The study discovered that the premise of full consumption smoothing was accepted for many of the nations studied, implying that capital mobility could alter everything and may be fairly high in all of the nations under review.

Dietrich, Malerba, Barrientos, Gassmann, Mohnen, and Tirivayi (2019) published an ex-ante evaluation of the countrywide scale-up of two experimental cash transfer programs in Uganda. Panel data were utilized in the study for estimating the consumption elasticity of child health status and school admittance. This variable contributes to the primary parameters of a micro-simulation model that predicts the impacts of cash transfers on human capital accumulation and feedback effects on consumption. The study followed the annual trend in rates of return by quantifying costs and direct and indirect benefits year after year. The study's findings revealed significant benefits in child health, education, and income development associated with program participation.

Eton, Uwonda, Fabian, Godfrey, and Benard (2019) conducted research on the influence of financial inclusion in economic growth in specific regions in western Uganda. The study used a cross-sectional research approach and collected both quantitative and qualitative data. To choose the sample frame, the study used simple random and purposive sampling approaches. According to the findings of the study, financial inclusion is important in supporting economic growth because it ensures the equitable distribution of growth benefits, transforms people's lifestyles, improves capital creation, and allows people to access financial services that are relevant to their needs.

Government expenditures and economic growth have a bidirectional link with theoretical basis on both sides (Saro, 2003). Wagner stated that a rise in economic activity would lead to an increase in public expenditure when asked about his thoughts on the subject. In contrast to Wagner, Keynes believed that public expenditures did not grow because of greater economic activity, but rather that public expenditures grew because of increasing economic activity.

Blanchard and Perotti (2002) identify exogenous shocks that affect government spending by supposing that the latter variable is fixed relative to the other variables in their VAR. The following is a summary of their most important discoveries. First, a positive shock to government spending causes that variable to climb indefinitely. Second, it produces a positive output response, with an estimated multiplier that is bigger than one in Fatas and Mihov (2001) but similar to one in Blanchard and Perotti (2002). (Khan, Ali, & Iqbal, 2019) investigated the influence of fluctuating discretionary government expenditure on economic growth for a group of selected countries. The study examined panel data from 55 nations spanning the years 1985 to 2014. Using the Generalized Method of Moment (GMM), it was discovered that volatility in discretionary public spending has a negative impact on economic growth throughout the entire list of research sample countries. Nonetheless, the impact appears to be minor in affluent countries.

According to Maingi, J. N. (2017) and M'Amanja et al., (2005) Kenya's economic growth may be divided into four phases. The first phase is from 1963 to 1972, when the economy was performing well. GDP growth averaged 6.7 percent, which was comparable to several of East Asia's newly industrialized countries. This unprecedented performance has been attributed to greater spending on development in infrastructure sectors such as roads, trains, and electricity, as well as an increase in recurrent

expenditure on critical services like as education, health, and housing. Beginning in the early 1970s, the increase in spending became increasingly noticeable.

The price hikes were largely due to increased regular expenditures on key services like education and health care, as well as the need to keep the real value of other services stable in the face of rising inflationary pressure. Recurrent spending rose from 109 million Kenya pounds in 1972/73 to 3505 million Kenya pounds in 1992/93 (Republic of Kenya, 2007). Several reasons influenced considerable increases in spending, including the 1973 and 1979 oil crises, which caused increased inflation; the dissolution of the East African Community, requiring the creation of autonomous corporations; Droughts in 1980 and 1984 necessitated enormous food imports as well as greater investment on internal security; and the coffee boom of 1976/77 (Wawire, 2006; Njuguna, 2009).

The GDP growth rate fell from 6.7 percent per year from 1963 to 1973 to 0.5 percent per year in 2002, indicating a period of moderate and persistent economic growth. The economy improved considerably between 2003 and 2008, with growth jumping from 2.9% in 2003 to 7.1 percent in 2008. This was attributed to proper resource allocation to infrastructural and social sectors such as education, health, financial affairs, defense, public order, and national security (Republic of Kenya, 2009). Throughout this period, both recurrent and development, government spending climbed significantly.

This was due to increasing earnings and salaries because of the government's pledge to improve public officials' terms and working conditions. The implementation of free primary education in 2002/03, a shortage of approximately $10 billion in foreign-financed advancement spending, the funding of a constitutional referendum, expenditures on the 2007 general election, changed the government's framework into a coalition government, the introduction of subsidized secondary education, resettling of those impacted of post-election violence, and compensatory government expenditure were the primary factors contributing to the sudden increase of spending. Important expenditure elements included governmental debt servicing, the use of goods and services, incentives and grants, and the purchase of non-financial assets (Republic of Kenya, 2007).

Finally, in 2008, the pace of GDP growth dropped dramatically. Government spending, on the other hand, grew at a slower pace. Since independence, Kenyan government spending adjustments have been undertaken. The measures were put in place to boost and sustain the country's economic growth rate. Education, health, and administration services provided by the government, as well as productive operations such as agriculture, manufacturing, transportation and communication, and trade, all contribute to GDP growth. The overall trajectory of economic growth is determined by the government via reforms to the public sector, which stipulate what percentage of the country's resources ought to be devoted to its own utilization as well as how those resources are to be distributed in order to increase GDP. The Kenyan government's expenditure changes have made a positive effect on each sector's contribution to Kenya's GDP growth rate. The main government spending strategy has been to reform overall spending by directing more monies to activities that promote faster economic growth. To attain this goal, many policy reforms have been enacted, including the rationalization of government expenditure, having additional funding dedicated to development and recurrent non-wage operating and operational expenditure to enhance economic growth (The Republic of Kenya, 2002).

3.2. Public Debt and Economic Growth

Karoney (2018) intended to address a gap in the literature by investigating the influence of domestic debt on economic growth while also investigating external debt in Kenya. The study analyzed a wide range of data and came to the following results. Planners in governments, central banks, and global

regulatory bodies must grasp the consequences of public debt on economic growth in depth. The government should learn more about the right mix of domestic and external debt, as well as how much they are able to borrow without severely impacting economic growth in both direct and indirect ways.

Kaimuri and Kosimbei (2017) used time series yearly data in Kenya from 1991 to 2014 to assess the factors of sustainable development in Kenya. The adjusted net savings were utilized as a proxy for gauging sustainable development in the study. The study used the auto-regressive distributed lag model for analysis and the limits test for co-integration to determine whether a long run relationship existed between the investigated parameters. The study's main finding was that the variables have a long run relationship. In addition, the analyzed coefficients of household consumption per capita were found to have a detrimental long-run influence on sustainable development, whilst the unemployment rate and energy efficiency both had a negative short-run impact on the achievement of sustainable development. In assessing sustainable development, resource productivity, real GDP per capita, and trade terms are negligible. According to the study's conclusions, growing the economy whilst promoting savings and advocating a contradictory approach to spending on deficits in government will improve long-term development.

Additionally, the concern of investors misinterpreting high public debt-to-GDP ratios as an outcome of time discrepancies or inflationary strategies should prompt governments to put in place immediately apparent and severe reductions in spending, as well as fiscal and different approaches to guarantee debt repayment sustainability. Furthermore, a high debt servicing load has an impact on investments since it may crowd out private investments. Finally, researching a specific country allows the study to examine country-specific fundamentals, yielding more conclusive conclusions than regional analysis.

Galego Mendes and Pennings (2017) examined the welfare effects of basic fiscal rules in a hypothetical scenario of a small commodity-exporting economy with a share of financially disadvantaged families, in which fiscal policy is implemented through transfers. One key conclusion is that balanced budget regulations for commodity revenues are frequently superior to more sophisticated fiscal regulations for commodity revenues saved in a Sovereign Wealth Fund (SWF). Considering commodity price shocks are often long-lasting, households' current income is near to their permanent income, implying that balanced budget rules are approximately ideal.

When it comes to commodities like oil, where price shocks are particularly persistent, it is best to spend more than two-thirds of windfall revenues, and in some situations, the whole windfall. However, for commodities with fewer persistent price shocks, such as bananas or sugar, the best approach includes spending less than half of above-average commodity income (with the remainder kept in an SWF). Non-resource GDP shocks are likewise best responded to counter-cyclically because they are shorter-lasting (and also affect households' other income). The government is unable to properly smooth limited households. Consumption that does not have a negative impact on unrestrained households.

Adedeji and Handa (2008) examined the excessiveness and sustainability of Nigerian current account deficits from 1960 to 2003 using two alternative sets of macroeconomic measurements and the integrate-temporal current account framework. The study's findings revealed an over-reliance on oil revenues, a misinterpretation of temporary increases in oil prices as permanent increases, and structural weaknesses in the economy that resulted in unsustainable current account deficits and external crises, necessitating the implementation of the Structural Adjustment Program in 1986. Nevertheless, both macroeconomic indicators and the inter-temporal approach indicate that the current account situation has improved over the last decade. In addition, the study reported empirical findings from the application of the Present Value Model of Current Account (PYMCA) to Nigeria. When the calculated

optimal and actual current account balances were compared, several years were found to have large deficits in current accounts.

Jorring (2018) used transaction-level data from a million US consumers to study the association between financial blunders and a lack of consumption smoothing. First, the study found that simple and preventable card fees are prevalent and persistent, even in a sample of more intelligent users. lesser account optimization, lesser participation in riskier asset markets, and lower mortgage re-financing are all associated with avoidable fees. The study used a case-control investigation of mortgage payment resets and a difference-in-differences technique to determine the marginal propensity to consume.

In contrast to models with rational borrowing limitations, consumers with a history of recurrent financial blunders exhibit low consumption smoothing out of predictable rises in debt payments. Based on these findings, the study analyzed several economic mechanisms that relate financial mistakes with a lack of consumption smoothing: the evidence favours financial ignorance over rational information obliviousness. According to a calibrated model of financial ignorance, the welfare loss for the 10% of consumers that commit the greatest number of mistakes is $1,740 every year, or eight percent of median annual not long-lasting consumption.

Utilizing the dynamic autoregressive technique (ARDL), Attamah (2019) investigated the impacts of public debt dynamics and inflation shocks on GDP per capita from 1981 to 2018. GDP per capita (dependent variable) and inflation rate, public debt, trade openness, health index, education index, electricity consumption, and oil price (independent and control variables) were the variables that were studied. The African Development Bank Socio-economic Database provided the data for these variables. According to the experimental estimations, the inflation rate has an adverse relationship with GDP per capita, which is consistent with the theoretical assumption, whereas public debt has a positive association with GDP per capita.

Amadi (2019) used the Ordinary Least Squares technique to study the maturity and repayments arrangement of sovereign debts in the Nigerian economy between 1981 and 2017 because debt has been the country's major source of capital flows for nearly five decades. As a result, the study used per capita income, employment, and mortality rate as dependent variables, whereas sovereign debt was measured using external debt stock, external debt service payment, domestic debt, sovereign repayment of debt strategies, and the exchange rate as independent variables. According to the study's outcomes, sovereign debt has a positive but insignificant impact on economic development, external debt service payment has a negative but insignificant impact on economic development, domestic borrowing has a beneficial and important effect on economic development, and sovereign debt repayment plans have a negative and significant impact on economic development in Nigeria.

As a result, the study determined that even though sovereign debt improved the performance of the Nigerian economy, repayment plans slowed economic development in Nigeria over the study period. Hayashi (1982) re-estimated and evaluated the permanent income hypothesis with reasonable expectations on the postwar United States using the instrumental variables technique. Aggregate time-series data. On a consumption series which involves service flows from consumer durable, the premise is accepted. The study discovered that if the discount rate for future tax liabilities that are necessary for servicing public debt corresponds to the rate of return on public debt, an upsurge in the stock of public debt is going to be precisely compensated by a reduction in people's wealth (and by a decrease in asset prices, to the degree that profit income bears the increase in future tax liabilities), leaving total wealth invariant to the stock of public debt outstanding despite the fact that public delinquency is not a factor.

In neoclassical growth models, Kim and Kim (2017) sought to measure the effect of crowding out of public debt and the resulting loss in long-run output. The study incorporates the government sector into the Ramsey-Cass-Koopmans (RCK) model, the Blanchard model, and the Solow model, which differ solely in their assumptions about household spending behaviour. In addition, the study offered a comprehensive methodology for estimating the burden of public debt in a neoclassical world in the event of any sort of consumption behaviour. The study's findings are divided into three categories. First, unlike the RCK model, public debt reduces long-run output in the Blanchard and Solow models, but to varying degrees: the crowding-out effect in the former is minimal, whereas it can be extremely high in the latter model. Second, the weight of public debt varies per country, with the saving rate and population growth rate being essential. Finally, even when distortionary taxes are considered, the highest limit of output loss due to public debt in wealthy countries is minor at best.

Camous and Gimber (2018) proposed a theory that linked tax policy cyclicality to inherited state debt. When debt is low and tax policy is counter-cyclical, in that the government responds to poor output by lowering the tax rate. Nevertheless, if a certain level of debt is reached, optimal taxation becomes pro-cyclical. This raises the prospect of their own fulfillment crises ("fiscal policy traps"), whereby output is low since households assume high taxes, and the government raises taxes as a result of low output. The study's model explained why highly indebted governments might undertake pro-cyclical tax policies even if they do not face significant sovereign risk premium.

Kiminyei (2019) used data from Kenya National Bureau of Statistics economic surveys to explore the relationships between public debt, tax revenue, and spending by the government between 1960 and 2011. In the study, a Vector error correction model, Cholesky forecast error variance decomposition, and dynamic forecasts were used. The vector error correction model results demonstrated that for the public debt and government expenditure equations, approximately 36 percent of variances from the long run equilibrium are rectified in the next period, as opposed to around 8% for the tax revenue equations. The short term model demonstrated that the size of government spending has a rising impact on debt whereas the size of tax revenue has a decreasing impact on debt. Employing Cholesky forecast error variance decomposition, impulse response functions reveal that over the long term, public debt responded positively to changes in both tax revenue and government expenditure. Forecasts indicated that these variables would continue to rise.

4. Methodology

The model used is autoregressive distributed lags regression model (ARDL). ARDL approach requires two steps. In the first step, the existence of any long run relationship among the variables of interest is determined by using the F-test. The second stage requires the estimation of the long run relationship between dependent and explanatory variables and to determine their values, thereafter the short run elasticity of the variables with the error correction representation of the ARDL model.

The model employed in this study is given as

$$L_n GDP_t = {}^\delta L_n GVS_t + L_n PDT_t + \varepsilon_t$$

Where:- $L_n GDP_t$ = Logarithm of Gross Domestic Product (Proxy for Economic Growth)

$L_n GVS_t$ = Logarithm of government spending, $L_n PDT_t$ = Logarithm of public debt and ε_t is the error term.

5. Results and Discussion

Selection-order criteria for GDP were two lags, government spending 1 lag and public debt was zero lags. Table 1 entailed developed ARDL regression to examine the impact of government spending and public debt on Kenyan economic growth. R-square of 99.92 percent, or the coefficient of determination, provided a measure of the model's predictive ability. The closer the value is to one, the better the regression equation fits the data. The F-value of 9317.30 and significance of $p < 0.01$ imply that the ARDL used to interpret the outcome was fit.

Table 1: ARDL Regression Results

ARDL(2,1,0) regression

Sample: 1978 - 2021
Number of obs = 44
F(5, 38) = 9317.30
Prob > F = 0.0000
R-squared = 0.9992
Adj R-squared = 0.9991

gdp	Coef.	Std.Err.	t	P>t	[95%Conf.	Interval]
gdp						
L1.	0.770	0.139	5.520	0.000	0.488	1.052
L2.	0.369	0.152	2.420	0.020	0.061	0.676
gvs						
--.	0.532	0.109	4.870	0.000	0.311	0.753
L1.	-0.483	0.119	-4.060	0.000	-0.723	-0.242
pdt	-22.788	9.081	-2.510	0.016	-41.172	-4.403
_cons	-7.75e+10	9.02e+10	-0.860	0.396	-2.60e+11	1.05e+11

The results indicate that the government expenditure has a significant negative relationship with Economic growth at both zero lag and at 1 lag. Public debt had negative and significant influence economic growth at zero lag. These results show that a 1 unit increase in government expenditure has a 0.483 unit inverse effect on Economic growth. The result of this study contradicts the work of Abdullah (2000), Ranjan and Sharma, (2008) and Cooray, (2009) that concluded that more government spending contributes to economic growth. However, some researchers disagree that greater government spending supports economic growth; instead, they argue that higher government spending may hinder the economy's overall performance since the government may raise taxes and/or borrow to cover rising spending.

Further, 1 unit increase in public debt has a 22.78 decrease effect in Economic growth. The results of this study were in an agreement with the study done by Karoney (2018) that established that borrowings could negatively affect economic growth both directly and indirectly. Karoney (2018) therefore concluded that there is an urgent need for policymakers in governments, central banks, and international policy organizations to understand the effects of public debt on economic growth extensively. Their research reveals that domestic debt in Kenya does not dislodge domestic investors due to the country's strong financial development.

6. Conclusion and Recommendations

This result therefore concludes that the negative relationship between government expenditure in Kenya has been as a result of the failed government policies of trying to enhance economic growth and therefore achieve the macroeconomic objectives of creating employment and boosting effective demand in the economy. Kenya had a smaller share of total government expenditure and government consumption in GDP when it gained independence than the rest of the region. Kenya had a much greater growth rate of the proportion of national spending in national GDP than the rest of the area until 1980. Kenya's overall government expenditure was 31 percent of GDP in 1980, roughly comparable to the average for all of Sub-Saharan Africa. Further, Kenya's government spending was 29.8% of GDP and Sub-Saharan Africa's was 22.7 percent (Africa infrastructure country diagnostic report 2010).

The study finally concluded that the size of the public debt is still one of the most negative influential aspects of economic growth, because it leads to rising inflation, rising interest rates, slower economic growth, more interest payments, decreased fiscal space, increased geopolitical risk, and developing generational imbalances are all consequences of high and rising deficits and debt. A debt crisis can result in significant losses for domestic and foreign banks, potentially jeopardizing the viability of financial systems both in the crisis-hit nation and beyond. This may hinder economic expansion and wreak havoc on international financial markets. They argue that the majority of developing nations will anticipate that public debt will have a positive impact on economic growth. As a result, the study recommends that the proceeds from the public debt be used to finance government spending that will benefit the economy of the nation.

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