Abstract

The impacts of public debt on any economy may be twofold, when employed into productive ventures and in sustainable levels, it improves societal welfare and stimulates economic growth and development. However, when improperly used for instance in meeting recurrent expenditure, and in excess, it results in debilitating effects on the economy. Many scholars and economists have divergent views on the effects of public debt on economic growth. Some believe it negatively affects growth while others hold that it has positive effects on the growth of an economy. This research seeks to investigate the impacts of public debt on Kenya's economic growth. The study also attempts to establish whether there exists an optimal debt level for the Kenyan economy. This research used secondary data collected from various sources including publications, reports and statistical databases of the International Monetary Fund, World Bank, Central Bank of Kenya, and Kenya National Bureau of Statistics. The study period included 2002-2020. The data was collected using a data collection sheet that was edited, coded and cleaned. To establish the relationship between public debt and economic growth, the researcher carried out multivariate regression analysis and employ the descriptive research design to describe the relationship between public debt and economic growth. The study established a negative effect of public debt on economic growth. however, the relationship was insignificant for the period under study. The effect of external debt was also negative but not significant on changes in GDP; while its effect on inflation rates was positive but insignificant. Domestic debt had insignificant positive effects on changes in GDP while its effect on inflation was negative but insignificant as well. The insignificant effect of domestic debt could be in part attributed to the underdeveloped capital markets in the Kenyan economy. From the findings of this study, the researcher recommends that public debt should be the last resort to public finance as it depicted negative effects on economic growth and additionally, Kenya should pursue comprehensive debt relief measures.