ABSTRACT

The study investigates the effect of public debt on economic growth in Kenya, between 1980-2013.The choices of period was guided by data availability and escalation of Kenya's public debt. The main problem is that, Kenya government has been relying heavily on public debt, aid and grants as a source of finance. This has resulted to a buildup of the level of public debt stock which has led to funds being diverted to debt servicing at the expense of economic development and domestic consumption. The specific objectives for the research were to assess the effect of external debt on economic growth in Kenya, to determine the effect of domestic debt on economic growth in Kenya to find out the moderating effect the private investment has on public debt and economic growth in Kenya. The study adopted Debt overhang hypothesis, the Crowding out effect neo-classicalists theory and Endogenous growth theory for the study objectives. Causal research design was applied and annual financial data was collected from Kenya National Bureau of Statistics and Central Bank, while economic data was collected from World Bank for the period 1980-2013. The researcher used a data collection schedule as a tool to collect time series secondary data. For this purpose two models-public debt model and Growth model have been used in this study. Debt model has been used to identify the

nature and extent relationship of total public debt with the variables- total debt service, real exchange rate, real interest rate and inflation. In the debt model effect of domestic debt and external debt on the real GDP of Kenya has been captured. Times series regression model has been used to determine the effect of public debt on economic growth in Kenya and data was analyzed using E-views 8. Various tests were carried out