



## Effect of domestic debt on Kenya's manufactured exports to Uganda and Tanzania

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### ABSTRACT

As the foremost pillar of Kenya's economy, manufacturing was planned to be a major catalyst for Kenya's economic growth and job creation, targeting to reduce the cost of living and uplift the quality of life through an annual contribution of at least 15% to Gross Domestic Product (GDP). However, current understanding is limited regarding how different macroeconomic aggregates specifically influence the growth of manufactured exports in the country. This creates a knowledge gap for policymakers, making it difficult to develop appropriate interventions that effectively stimulate the growth of Kenya's manufactured exports. This study, therefore, sought to determine the effect of domestic debt (DMD) on Kenya's manufactured exports to Uganda and Tanzania between 2007 and 2018. This study was grounded in Linder's hypothesis of trade and employed the gravity model. The study employed a correlational design and utilised secondary panel data from the World Bank, Central Bank of Kenya, Kenya National Bureau of Statistics, and Kenya Export Promotion and Branding Agency. The Hausman test was used to select the random effect models. The results for Kenya's exports to Uganda and Tanzania indicated that the effect of DMD was negative and significant ( $\beta_4 = -0.207$ , p-value  $0.002 < 0.05$ ). The findings were according to theoretical expectations. The findings can be explained by the phenomenon whereby domestic debt financing displaces private investment. This study therefore recommends that the Government of Kenya observe fiscal discipline according to the provisions of the PFM Act, 2012, Section 15 (1) (c) by investing resources generated from domestic debt in development projects and restricting domestic borrowing by exploring cheaper long-term credit from foreign sources.

**Keywords:** Domestic Debt, Kenya's Manufactured Exports, Tanzania, Uganda

### I. INTRODUCTION

The manufacturing sector is projected to grow from 9.2% to a minimum of 15% of Kenya's Gross Domestic Product (GDP) annually by 2022, generate one million new jobs each year, and grow Foreign Direct Investments (FDI) to \$2 billion (Government of Kenya [GoK], 2022). This sector holds the potential to significantly kindle the agricultural sector, which currently serves as the largest employer in rural areas, while at the same time presenting substantial opportunities for enhancing exports and reducing imports.

However, despite the East African Community's (EAC) intra-regional exports experiencing a notable growth of 5.6%, rising from USD 2.9 billion in 2017 to USD 3.2 billion in 2018, Kenya's exports to its regional partner states registered only a modest increase of 0.1% in 2018 (EAC, 2018). This disparity underscores the inherent value and potential of the trading bloc but simultaneously invites a critical reassessment of Kenya's regional export strategy. Of particular significance is the fact that Uganda and Tanzania collectively accounted for 70% of Kenya's exports to the EAC in 2018, amounting to USD 0.914 billion out of a total of USD 1.3 billion. These figures position Uganda and Tanzania as Kenya's primary trade partners within the East African Community (EAC, 2018).

In light of the government's ambitious objective to raise the share of manufactured goods in the regional market to 15%, a pivotal concern that may hinder the success of manufacturing exports is domestic borrowing. Theoretically, when governments engage in domestic borrowing, they compete for credit that would otherwise be available to the private sector. This phenomenon typically yields two distinct outcomes. First, lenders often exhibit a preference for extending credit to governments, which are low-risk borrowers, over the private sector. To achieve this, lenders raise domestic interest rates for the private sector. Second, even in contexts where interest rates are regulated, substantial domestic borrowing can result in credit restriction and the dislocation of private-sector investment. This "crowding out" effect on private capital consequently restrains capital investment, leading to reduced, stunted, or declining industrial

output and manufactured exports. On the other hand, if the borrowed funds are strategically allocated to development projects, there is a potential for a reduction in production costs, thereby stimulating industrial output and enhancing the competitiveness of manufactured exports. These scenarios explain the theoretical anticipation of either a positive or negative correlation between domestic debt and manufactured exports.

Therefore, this study specifically sought to examine the effect of Kenya's domestic debt on its manufacturing exports to Uganda and Tanzania.

### 1.1 Statement of the Problem

Kenya's strategic aspirations project a significant expansion of the manufacturing sector. It targets an increase in manufacturing's GDP contribution from 9.2% to a minimum of 15% annually by 2022, the creation of one million new jobs, and the attraction of \$2 billion in Foreign Direct Investments (FDI). This growth is anticipated to invigorate the agricultural sector, a major rural employer, while concurrently boosting exports and curtailing imports (GoK, 2022).

Despite the EAC's robust intra-regional export growth, rising 5.6% from USD 2.9 billion in 2017 to USD 3.2 billion in 2018, Kenya's exports to its regional partners saw only a marginal 0.1% increase in 2018. Notably, Uganda and Tanzania constituted 70% (USD 0.914 billion) of Kenya's total EAC exports (USD 1.3 billion) in 2018, positioning them as key trade partners (EAC, 2018). This disparity necessitates a critical evaluation of Kenya's regional export strategy, particularly given the government's ambitious 15% regional market share target for manufactured goods.

A crucial concern influencing manufacturing export success is domestic borrowing. Theoretically, government domestic borrowing competes for private sector credit. This leads lenders to favour low-risk government bonds, thus increasing private sector interest rates, or, even with regulated rates, ration credit and displace private investment—a "crowding out" effect. This can restrain capital investment, hindering industrial output and manufactured exports. Conversely, if borrowed funds are strategically invested in development projects, production costs can decrease, stimulating industrial output and enhancing export competitiveness. These theoretical viewpoints suggest either a positive or a negative correlation between domestic debt and manufactured exports. Consequently, this study specifically investigates the effect of Kenya's domestic debt on its manufacturing exports to Uganda and Tanzania.

### 1.2 Research Objective

To analyse the effect of domestic debt on Kenya's manufactured exports to Uganda and Tanzania.

## II. LITERATURE REVIEW

### 2.1 Theoretical Review

#### 2.1.1 Ricardo's Theory of Public Debt

Concerned with the ever-rising government debt, Ricardo in the 1820s addressed the issue of public debt from the perspective of the growth rate of England's capital stock and its future prosperity. He was concerned that growing debts do not benefit the future. He therefore argued against financing government expenditure using loans. Ricardo showed that public debt affects economic growth in the context of the unproductive nature of public expenditure and possibly extravagant use of the debt. As a result, there will be a decrease in private investments arising from wealth illusion at the time debt is contracted and the incentive to export capital to escape tremendous taxes arising from requirements to service the debt. Consequently, he recommended debt redemption to reverse capital flight. Since capital growth is an important part of economic growth in classical growth models, Ricardo observed that public borrowing may harm capital by misleading the population as to the extent of government squander and to the degree of their personal (public's) wealth safety. Thus, recommended present debt redemption and tax financing of prudent government expenditure in future times would be a good formula to prosper England's economic growth and the growth of any other country, for that matter (Bittante, 2013). This theory will be useful in assessing the effect of domestic debt on Kenya's manufactured exports to the EAC, since capital is key in manufacturing.

### 2.2 Empirical Review

Lotto (2018) analysed the influence of domestic debt on economic growth in Tanzania from 1990 to 2015, employing the Ordinary Least Squares (OLS) regression method to assess the effects. The analysis revealed an inverse albeit minor correlation between domestic debt and Tanzania's economic growth, as indicated by annual GDP growth rates. The study focused on the impact of domestic debt on economic growth, rather than on manufactured exports. Consequently, this research has the potential to investigate the impact of domestic debt on manufactured exports.

Babu *et al.* (2015) conducted an empirical investigation into the impact of domestic debt, expressed as a percentage of Gross Domestic Product (GDP), on economic growth within the East Africa Community (EAC) during the timeframe of 1990 to 2010. The findings indicate that domestic debt exerts a significantly positive influence on the

growth rate of per capita GDP within the EAC. This research illustrates the impact of domestic debt on the economic growth of the EAC, yet it does not establish a direct correlation with manufacturing exports within the region.

Pegkas (2018) empirically examined the interplay between economic growth and various determinants, including investment, private and government consumption, trade openness, population growth, and government debt, within the context of Greece. The findings indicate a sustained connection among the variables over an extended period. The study found a detrimental long-term impact of government debt and population growth on economic advancement. The research examined the impact of debt on economic growth in Greece; consequently, it is essential to determine whether this phenomenon can be observed in the East African Community. Concurrently, the study addressed government debt in a general sense rather than focusing specifically on domestic debt, thereby creating an opportunity for this research to contribute meaningfully.

Akhter and Hassan (2012) investigated whether the government of Bangladesh was engaging in excessive borrowing from public sources, potentially leading to adverse effects on the nation's economy from 1980-81 to 2011-12. The research indicated a noteworthy positive correlation between total public debt and investment, as well as between total public debt and government reserves. However, regarding domestic debt, a negative relationship was observed, albeit with minimal statistical significance. The research focused on Bangladesh; thus, examining the EAC is crucial to ascertain the generalizability of the findings. Additionally, it is essential to specifically investigate the impact of domestic debt on Kenya's manufactured exports to the EAC.

This study aimed to examine the effect of domestic debt on Kenya's manufactured goods from Kenya to Uganda and Tanzania. The data presented here can help academics, business leaders, and policymakers in Kenya increase the regional market share of manufactured goods from 7% to 15% by 2022 (as per the MTP III) and, eventually, boost the country's export growth rate from 0.1% in 2018 to a higher level. The studies above, though useful, indicate that none have addressed the impact of Kenya's domestic debt on its manufactured exports to the EAC, particularly to Uganda and Tanzania. Consequently, our work aims to address such deficiencies.

### III. METHODOLOGY

#### 3.1 Research Design

This study used a correlational design to examine the relationship between the dependent and independent variables. This design is used to explore the relationships between two or more variables. Further, it determines the existence and extent of a relationship and is useful in exploring patterns and associations. Panel data was analysed using Stata Software, with Ricardo's Theory on Public Debt serving as the guiding theoretical framework and Newton's gravity model as the analytical formula. Pre-estimation tests conducted included the unit root test, Hausmann's test, and descriptive statistics, while post-diagnostic tests checked for multicollinearity, serial correlation, and heteroscedasticity.

#### 3.2 Data Sources

Secondary time-series data for the period 2007 to 2018 were used for this study. The dataset comprised manufactured exports, capital expenditure, domestic debt, population, GDP, and GDP per Capita. Precisely, domestic debt data were obtained from two sources: The Annual Statistical Abstracts of the Kenya National Bureau of Statistics (KNBS) and the Annual Debt Sustainability Report of the Central Bank of Kenya. Capital expenditure and population data were obtained from the KNBS Annual Statistical Abstracts. Simultaneously, GDP and GDP per Capita data were sourced from the World Bank database. Manufactured exports data were sourced from the Kenya Export Promotion and Branding Agency. All collected data were analysed using Stata software.

#### 3.3 Data Analysis

##### 3.3.1 Econometric Model

This study applied the following regression function to test the hypothesised relationship between manufactured exports to Uganda and Tanzania and domestic debt:

##### Augmented Gravity Model

$$\ln M X P_{kjt} = \beta_0 + \beta_1 \ln (G D P)_{kt} + \beta_2 \ln (G D P)_{jt} + \beta_3 \ln (D M D)_{kt} + \beta_4 \ln (D I S)_{kjt} + \varepsilon_{kjt}$$

The variables are defined as:

*k*: Kenya

*j*: The two trading partners, that is, Uganda and Tanzania

*t*: Time

*MXE*: The monetary value of the bilateral trade flow in manufactured goods between Kenya and Its trading partners are expressed in millions of USD.



*GDP*: The gross domestic product is quantified as the absolute value of real GDP in USD, expressed in billions of USD.

*DIS*: the geographic separation, expressed in kilometres (KM), between Kenya's trading partners and its economic hubs

*DMD*: Domestic debt, quantified in millions of USD

$\epsilon$ : error term.

### 3.4 Data Presentation

The findings were presented in tables.

## IV. FINDINGS & DISCUSSION

### 4.1 Descriptive Statistics

Table 1 shows the descriptive statistics for manufactured exports in USD Millions same as domestic debt. First, the mean of each variable was calculated to give the measure of central tendency that represents the average value of a particular variable. Secondly, standard deviation was also calculated to show the measure of dispersion of each variable, explaining how far the observations are from the sample average. Lastly, Kurtosis and skewness were measured. Kurtosis measures the flatness or peakedness of a distribution (Mittelhammer and Mittelhammer, 2013), while Skewness is used to measure the degree of asymmetry.

**Table 1**

*Descriptive Statistics*

Variables	Obs.	Mean	Std. Dev.	Min	Max	Skew.	Kurt.
<b>MXE</b>	24	5.450e+08	1.620e+08	2.741e+08	8.452e+08	.038	1.989
<b>DMD</b>	36	5.590e+09	4.380e+09	1.350e+09	1.949e+10	1.58	4.857

From Table 1, Kenya's manufactured exports (MXE) reported a mean of USD 545.0 million, a minimum of USD 274 million, a maximum of USD 845.25 million, and a standard deviation of USD 162.0 million. Further, the variable has a skewness of 0.038 ( $0 < 0.038 < 0.5$ ), implying that the variable has a normal skewness and a kurtosis of  $1.989 < 3$ , indicating a negative distribution, i.e. it has lower values compared to the sample mean, thus platykurtic.

Domestic debt (DMD) reported a mean of USD 5,590 million, a minimum of 1,350 million, and a maximum of USD 1.949 million, and a standard deviation of USD 4,380 million, which is also a small variation from the mean. This indicates that all the EAC countries have a similar domestic debt burden. A closer look, however, shows Kenya's annual borrowing (a mean of 10162 million USD) is much higher than her neighbours (Uganda - a mean of 2,420.80 million USD and Tanzania- a mean of 4184.33 million USD). Further, it has a skewness of  $1.58 > 0.5$ , meaning it has a positive skewness and kurtosis of  $4.857 > 3$ , indicating positive distribution, hence Leptokurtic, meaning it has higher values than the sample mean.

### 4.2 Correlation Analysis

Correlation analysis helps to establish the type of relationship between different variables, that is, the strength and direction. The relationship can either be negative, positive or neutral. If the correlation value is +1 or close to that, then there is a strong positive correlation. Similarly, if the correlation value is -1 or close to that, it means there is a strong negative correlation (Baker, 2018). However, if the correlation value is closer to 0, there is a weak correlation, while 0 means it is neutral or there is no correlation. Pairwise correlation analysis was performed to determine the direction and nature of association between variables in this study, and the results are shown in Table 2.

**Table 2**

Correlation analysis with the level of significance

Variables	MXE	DMD
MXE	1.000	-0.709*
DMD	-0.709*	(0.000)
	(0.000)	1.000

MXE- Manufactured Exports

DMD- Domestic Debt



According to the correlation results in Table 2, manufactured exports (MXE) had a strong, negative and significant association with domestic debt (DMD), as indicated by a correlational value of -0.709 and a p-value of 0.000 <0.05.

#### 4.2.1 Panel Unit Root Tests

Having established the correlation and described the data, it was necessary to test for unit root among the time-variant variables. These are manufactured variables and domestic debt. The results are presented in Table 3.

**Table 3**

*Unit Root Tests*

Variable	Levin Lin Chu			Haris-Tzavalis		
	t-statistic	p-value	Conclusion	t-statistic	p-value	Conclusion
MXE	-1.955	0.025	1(2)	-4.653	0.000	1(1)
DMD	-7.8487	0.000	1(1)	-5.1104	0.0000	1(1)

Note: I (0)= Integrated at Levels, I(1)= Integrated of First Order, I(2)= Integrated of Second Order

Domestic debt data was integrated at first difference using the Haris-Tzavalis test, which meant that the null hypothesis of unit root data was rejected with a p-value of less than 0.05 and at first difference using Levin Lin Chu. Manufactured exports were integrated at first difference using the Haris-Tzavalis test and the second difference using Levin Lin Chu.

#### 4.3 Regression Results

Table 4 displays the output of the regression analysis. Random and fixed effect models were estimated. The Hausman test was used to determine the best model for the gravity model between random and fixed effects. The random effect regression model (REM) was chosen. As per the study objectives, the findings were discussed in the following sections based on the random effect model regression results shown in Table 4 below.

**Table 4**

*Random Effect Regression Model*

Random-effects GLS regression Group variable: Country_en~e R-sq within = 0.283 between = 1.000 overall = 0.783 corr(u_i, X) = 0 (assumed)				Number of obs = 24 Number of groups = 2 Obs per group: min = 12 avg = 12.0 max = 12 Wald chi <sup>2</sup> (1) = 195.010 Prob > chi <sup>2</sup> = 0.000			
lnMXE	Coef.	St.Err.	t-value	p-value	(95% Confidence Interval)		Sig
lnKXM	0.588	0.150	3.90	0.000	0.292	0.883	***
lnDMD	-0.207	0.067	-3.08	0.002	-0.338	-0.075	***
lnPOP	0.208	0.063	3.30	0.001	3.299	0.851	***
lnGDP	0.588	0.151	3.90	0.000	0.293	0.884	***
lnDIS	-0.027	0.032	0.85	0.396	-0.036	0.090	*
CMC	0.068	0.023	2.96	0.003	0.023	0.113	***
CMB	-0.029	0.045	-0.65	0.513	-0.118	0.059	
Constant	13.515	1.275	10.60	0	11.017	16.013	***
Sigma_e	0.164						
Sigma_u	0.462						
rho	0.888 (fraction of variance due to u_i)						

Results from the random effects model in Table 4 the probability of the F-test is significant, i.e. Prob (F-statistic) = 0.000 < 0.05, showing all the independent variables affect Kenya’s manufactured exports to Uganda and Tanzania. The overall R Square is 0.783, showing that the independent variables explained 78.30 % of the variation in the dependent variable. In comparison, the remaining 21.7% is explained by other factors not considered by this study.

#### 4.4 Post-Estimation Diagnostic Tests

The diagnostic assessments performed encompassed evaluations for multicollinearity, autocorrelation, and heteroscedasticity. The examinations were conducted to ascertain that the principles of classical linear regression remained intact and unbreached. Results are presented below.

#### 4.4.1 Tests for Multicollinearity

**Table 5**

*Variance Inflation Factor (VIF) Test for Multicollinearity*

Variable	VIF	1/VIF
lnDMD	4.28	0.233
lnGDP	5.64	0.177
lnDIS	4.10	0.244
<b>Mean VIF</b>	<b>4.67</b>	

Table 5 delineates the findings of the multicollinearity assessment concerning the variables. The mean VIF value of 4.67 is below the threshold of 10, leading to the conclusion that multicollinearity is absent. In other words, the independent variables exhibit no intercorrelation

#### 4.4.2 Test for Autocorrelation

**Table 6**

*Test for Serial Autocorrelation*

Variable	HR-stat	p-value	Reject Null Hypothesis	Interpretation
lnMXE	1.01	0.167	No	No evidence of first-order serial correlation
lnDMD	-1.88	0.376	No	No evidence of first-order serial correlation
lnGDP	0.98	0.326	No	No evidence of first-order serial correlation
lnDIS	-0.03	0.974	No	No evidence of first-order serial correlation

The data presented in Table 6 indicates that the p-values for all variables exceed 0.05, leading to the conclusion that the null hypothesis of no serial correlation cannot be rejected. Consequently, it is inferred that there exists no serial correlation among the error terms.

#### 4.4.3 Test for Heteroskedasticity

H<sub>0</sub>: Constant variance/homoscedastic

H<sub>1</sub>: heteroscedasticity

**Table 7**

*Breusch-Pagan / Cook-Weisberg Test Results*

Chi-square	P-value
0.79	0.373

Table 7 indicates that the P-value of 0.373, being greater than 0.05, suggests that the null hypothesis was not rejected at the 5 per cent level of significance, interpreted as the absence of heteroscedasticity in the model. Consequently, it was determined that the variability of the errors remains consistent throughout the observations.

#### 4.5 Discussion

The primary aim of the study was to determine the impact of domestic debt on Kenya's manufactured exports to Uganda and Tanzania. The findings from the random effect regression model revealed that domestic debt exhibited a negative and statistically significant coefficient of 0.207 (p-value 0.002 < 0.05). This suggests that an increase of 1 per cent in domestic debt results in a decrease of 0.207 per cent in Kenya's manufactured exports, all else being equal. The observed negative and significant correlation between domestic debt and manufactured exports can be ascribed to the phenomenon whereby domestic debt financing displaces private investment. Governments utilize domestic private savings that would otherwise remain accessible to the private sector when engaging in domestic borrowing. This results in two outcomes: firstly, lenders exhibit a preference for extending credit to governments rather than to the private sector. Lenders typically demonstrate their preference by elevating domestic interest rates on credit extended to the private sector, in contrast to the public sector, which negatively impacts private investment's access to capital. Furthermore, even in scenarios where interest rates are regulated, domestic borrowing may result in credit rationing and the displacement of private-sector investment.

Another consideration is the presence of corruption, which exerts an indirect influence on manufactured exports. (Hope, 2014) asserts that seventy-five per cent of firms in Kenya indicated the necessity of making informal or illegal

payments to facilitate operations (Iarossi, 2009). Corruption is estimated to impose a significant burden on Kenyan firms, costing them around 4 per cent of their annual sales, a figure that is regarded as exceedingly high in the context of international standards (Iarossi, 2009). Furthermore, it has been observed that Kenyan enterprises face an additional burden of 12 per cent of the value of a public contract due to informal or illegal payments (Iarossi, 2009). Moreover, it is noteworthy that the practice of bribing tax inspectors is prevalent in Kenya, with approximately one-third of surveyed firms indicating that tax inspectors have solicited informal or illegal payments. Comparably, there exist requests for informal or illicit payments for licensing and utility connections (Iarossi, 2009). A notable 71 per cent of firms indicated an expectation to provide gifts (essentially illegal contributions) to secure government contracts, in stark contrast to the 38 per cent observed across sub-Saharan Africa and the 28 per cent on a global scale (Ingram *et al.*, 2007). The phenomenon of police and other officials soliciting payments from trucks in transit is perceived as a distinctive characteristic of Kenya.

The prevalence of bribes that the private sector must concede to secure government contracts and services compels them, logically, to safeguard their profits by inflating project costs, a failure that ultimately manifests in substandard work quality. Considering that Kenya's budgetary allocation for capital expenditure is entirely reliant on debt financing, it is expected that the projects will either experience inflation exceeding 12 per cent or be executed inadequately, despite being supported by public debt. The Public Finance Management Act (PFM) Act, 2012, Section 12 (2) (c) states one of the fiscal responsibility principles:

*“Over the medium term, the national government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.”*

Evidence from the Kenya National Bureau of Statistics (KNBS) suggests a different conclusion. The KNBS Statistical Abstracts from the Financial Year 2011/12 to 2017/18 reveal a persistent infringement of this principle and law, as demonstrated in Appendix VI. The public debt accumulated to support non-capital expenditure experienced a consistent increase from Kshs. negative 14.8 billion to Kshs. 215.1 billion. This information indicates that public debt is allocated not solely to capital investment within the economy, but also to recurrent expenditures and the servicing of public debt. As a result, the presumption that domestic debt is allocated to capital investment is refuted, thereby skewing the anticipated impact of domestic debt on the dependent variable.

According to the assertions made by (Hope, 2014) regarding the prevalence of corruption in government development projects, the expected outcomes of debt-funded initiatives are further compromised, elucidating the adverse influence of domestic debt on Kenya's manufactured exports to the EAC.

The results concerning domestic debt corroborate earlier research conducted by Abbas and Christensen (2010), which indicated that elevated levels of debt are associated with a decline in economic growth. The research revealed that moderate domestic debt levels, expressed as a percentage of GDP, exert notable positive influences on economic growth. Nonetheless, debt levels surpassing 35 per cent of total bank deposits impede economic growth. Moreover, Adofu and Abula (2010) investigated the impact of domestic debt on the Nigerian economy from 1986 to 2005, uncovering that domestic debt had a detrimental effect on economic growth. They suggested that the government should implement measures to address the existing domestic debt. Ultimately, the findings of the World Bank and the International Monetary Fund (2001) indicate that the widespread reliance on domestic borrowing may lead to significant adverse effects on the economy. The analysis indicated that the servicing of domestic debt can absorb a considerable portion of government revenues, particularly because domestic interest rates surpass those of foreign counterparts. The expense associated with domestic borrowing can escalate rapidly in conjunction with the growth of the outstanding debt stock, particularly in less developed financial markets. The escalation of interest rates could become significantly more evident if the pool of investors is somewhat limited, as the government may find itself constrained by the demands of a specific faction of investors.

Nonetheless, this study presents a divergence from the prior conclusions drawn by Maana *et al.* (2008), who investigated the effects of domestic debt on the economy of Kenya during the timeframe of 1996 to 2007. The research indicated that the expansion of domestic debt exerted a positive yet statistically insignificant influence on economic growth throughout the examined period. Nevertheless, the research revealed no indication that the expansion of domestic debt inhibits private-sector lending in Kenya. Putunoi and Mutuku (2013) conducted an examination of the influence of domestic debt on Kenya's economic growth during the years 2000-2010, demonstrating that domestic debt markets are becoming progressively significant in fostering economic advancement. Their research indicated that the expansion of domestic debt exerted a positive and significant influence on economic growth over the long term. Furthermore, Sheikh *et al.* (2010) examined the influence of domestic debt on the economic growth of Pakistan from 1972 to 2009, concluding that domestic debt positively contributes to economic growth in the country. Consequently, the research dismissed the null hypothesis, indicating that domestic debt indeed influences Kenya's manufactured exports to Uganda and Tanzania.

## V. CONCLUSION & RECOMMENDATIONS

### 5.1 Conclusions

The study examined the relation between domestic debt and Kenya's manufactured exports to Uganda and Tanzania, using panel data between 2007 and 2018. The results indicated a significant and negative correlation between domestic debt and manufactured exports. The findings of the regression model indicate that domestic debt exhibits a negative coefficient of 0.207, which is statistically significant. This means that domestic debt adversely affects manufactured exports. The coefficient indicates that all else being equal, an increase of one unit in domestic debt results in a fall of manufactured exports by 0.207 units. The study concludes that domestic debt negatively impacts the performance of Kenya's manufactured exports to Uganda and Tanzania.

### 5.2 Recommendations

To enhance the efficiency of domestic debt, the government should observe fiscal discipline according to the provisions of the PFM Act, 2012, Section 15 (1) (c), by investing resources generated from domestic debt in development projects, and limit domestic borrowing by exploring cheaper long-term credit from foreign sources.

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