
Economic analysis

*Transformation and
prosperity...Results
must be seen.*

Time to Transform the Economy

Stability but not prosperity

The Kenyan economy saw a GDP growth of 4.6% in 2012 (2011: 4.4%) attributed to agriculture, construction and a relatively stable macro-economic environment. This was against a target of 5.2%, which was not achieved due to an unprecedented rise in cost of petroleum, election uncertainties having reduced the appetite for new investments and a weakened Kenya Shilling. Additionally, security concerns led to 'travel advisories' issued by countries across Europe that are major sources of tourists for us. These advisories were issued in response to election violence and an increased risk of terrorist attacks following Kenya's incursion into Somalia. Additionally, agricultural production was depressed due to delays in long rains.

However, the marginal growth in GDP was supported by a stable macroeconomic environment, increased domestic demand, modest growth in credit, and growth in agriculture (3.8%), wholesale and retail trade (6.4%) and transport and communication (4.0%).

Agriculture continues to be significantly important to the economy, representing 17.6% of GDP. The budget seeks to improve food security by diversifying agricultural produce, reducing reliance on rain-fed agriculture through irrigation, providing access to agri-business funds to small-scale farmers and facilitating the purchase of machinery and equipment.

With elections having passed peacefully and the new government in place, all now expect the country's economy to flourish. However, there are still challenges and the Kshs 1.641 trillion 2013/14 budget is expected to provide a good base for economic stability. However, it might take more than just the annual budget to achieve prosperity.

Job creation is expected to grow by 1,000,000 jobs a year with the youth expected to be the biggest beneficiaries. Job creation must focus on the value and impact of those jobs to the economy. Low skill, low value jobs introduce low marginal returns which increase the cost of production and lower the quality of final product.

Macro-Economic Environment

With a budget of Kshs 1.6 trillion, the economy is expected to grow to 5.8% in 2013 and reach 7% in the medium term. But the budget deficit of 7.9% of GDP is a cause for concern, given the relatively low rate of GDP growth. The inflation rates for the Eastern African countries are expected to remain stable, between 5-10 %. Exchange rates have stabilised and interest rates have declined considerably creating access to credit and encouraging trade. This is expected to continue in the foreseeable future leading to better informed, long term investment decisions.

Employment creation must focus on the value and impact of the jobs on the economy.

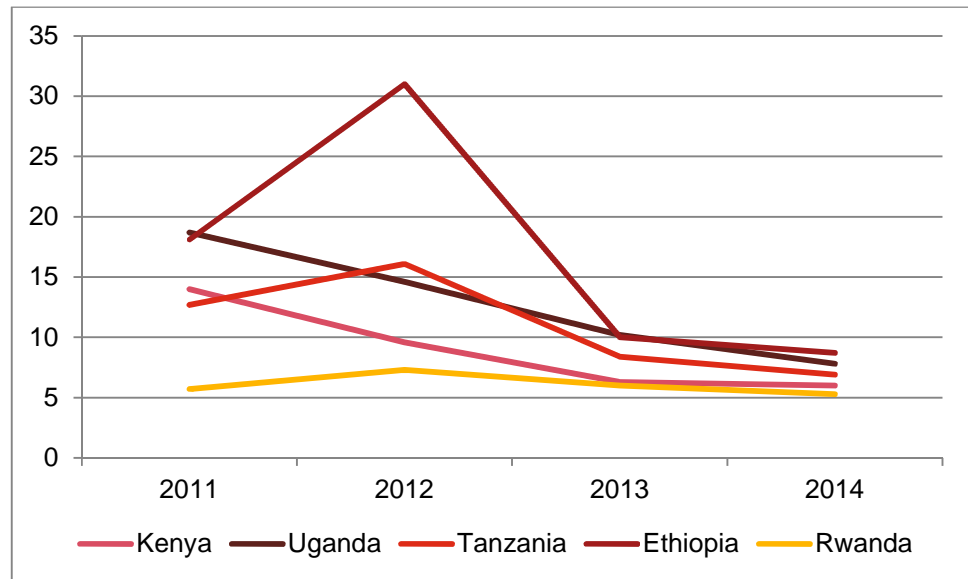


Figure 1: Inflation rate from 2011- 2014 (African Economic Outlook 2013)

Youth unemployment, poverty and the vulnerability of agriculture and hydropower to rainfall remain the most critical development challenges facing Kenya. Kenya suffers from chronic underemployment where factors of production are underutilised leading to low productivity.

The debt to GDP ratio has reduced to 46%; this may appear reasonable compared to other countries across the world. To lessen the debt burden by enhancing economic growth, government will need to reengineer the way it provides services and responds to business requirements for clear linkages to real economic fundamentals.

Social spending and support to devolution

In recognition of the high poverty levels in Kenya, where 46% of the population lives below the poverty line, the Cabinet Secretary focused on providing services to the low-income earners and access to credit. Financing of large social programmes such in education and health will also increase disposable income for discretionary spending which will spur production of more goods and services and in the process create employment. Their implementation will need to focus on results that have high impact and will require regular monitoring to enhance sustainability.

Devolution is expected to improve governance and public service delivery that will directly benefit rural and marginalized populations. The Kshs 210 billion allocation to county government represents 35% of the ordinary revenue. It is expected that this amount will spur economic growth at the grassroots level and lead to increased income levels. Proper mechanisms for county planning, implementation, monitoring and accounting of activities and finances will need to be in place to ensure the success of devolution.

An enabling environment

The budget also focused on creating an enabling environment for businesses by allocating Kshs 288.5 billion to various infrastructure projects such as ICT, cheaper energy and efficient transport systems, which will reduce the cost of production in the long-term. In addition, the government is looking to streamline the procurement process by reducing the lead-time to 30 days. These improvements

Government needs to reengineer its way of doing things to accelerate growth.

are meant to reduce the cost of doing business and thus increasing the competitiveness of Kenyan goods. It will also encourage businesses to participate in government contracts while ensuring that more government projects are implemented on time and increasing the absorption capacity of development funds.

Security is a national concern, which continues to threaten foreign and local investments. The Cabinet Minister allocated Kshs 74 billion to national security and a large proportion of the Kshs 149.12 billion in public administration will contribute to security enhancement. This will help boost investor confidence and further address the unemployment question.

Will businesses results be transformed?

There were no shifts in the government's policy direction. This is important for businesses to continue operating within a predictable, consistent and stable policy environment. We are now seeing more expansion plans by businesses and increased activity by potential investors. In addition, increased efficiencies, product diversification, new markets and government agencies' vigilance in protecting local industry from cheap imports and counterfeits will enhance productivity. However the external pressures in the global economy will need to be countered with more regional trade.

In conclusion, the new government has its plate full delivering on its promises. Real results are what all will be looking at. The framework of the Constitution provides the much needed environment for the political stability. The direction the government is taking to address the social pillar and the economic pillar will set the country on the path to prosperity. Transformation in the way the government delivers will determine the rate at which this is actualised.