Parliamentary Budget Office
Enhancing the Legislative and Oversight Role of the Kenyan Parliament

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This brief provides a summary of key recent economic and budget developments and is intended to keep stakeholders especially the legislators updated on the latest trends in the economy.

The month of September 2014

Few things have captured the imagination of Kenyans like the latest buzz word on the street – GDP rebasing. Amidst high poverty and unemployment levels, underdeveloped infrastructure, food insecurity and high cost of living, Kenyans are having a really hard time visualizing what GDP rebasing[1] is all about and more so, why it should even matter to anyone.

With the release of the new GDP figures, overnight, Kenya has been propelled to lower middle income status with the economy reported to be 25 percent larger than previously estimated. Ideally, the economy is now not only more attractive to investors due to a perception of better performance, but also provides an opportunity for expansion of the tax base as well as increased borrowing (with reduced debt to GDP ratio) which will provide additional finances for development projects. However, for any of this to make sense, prevailing economic challenges need to be addressed urgently.

The recent closure of Eveready East Africa and Cadburys Kenya is a pointer that all is not well. Many industries have relocated from Kenya due to high operating costs, preferring to import from other low cost manufacturing countries - notably, Egypt which has been favoured by both Eveready and Cadburys as the preferred country of operation - to meet local demand. This is a major blow to the already struggling manufacturing industry and is likely to adversely affect employment and economic growth. Indeed, the share of manufacturing sector to GDP has been shrinking over the last decade. Latest figures from Economic Survey 2014 indicate that the sector contributed 10.5 percent in 2005 compared to 8.9 percent in 2013.

[1] Rebasing simply means recalculating of the country's GDP to ensure accuracy of national account statistics by changing the base year to a more recent year to incorporate any changes in economy which have not been captured in calculation of the country's GDP

Economic Growth

According to the figures released by the KNBS, Kenya's economy is larger by 25% and is currently valued at kshs. 4.7 trillion, up from Kshs. 3.8 billion in 2013. This implies an increase in income per capita.

However, it is worth noting that rebasing the country's GDP does not in any way mean a sudden change in the country's development indicators. Poverty levels remain persistently high, same for unemployment and the cost of living.

Indeed, the share of households below the poverty line is currently estimated at 47.8%[2]. Rural poverty is estimated at 50.4% while urban poverty is estimated at 41.6%.

For rebasing to lead to increased investment and therefore boost economic performance as envisaged, there is need to review laws and regulations which make it difficult to set up a business in the country, revamp infrastructure, lower energy costs and embrace technology in development. Currently, Kenya ranks position 129 in the Doing Business Rank 2014; a drop from position 122 in 2013. The deteriorating ranking implies that even after the previous ranking and concerns highlighted, little was done to address the situation.

[2] Parliamentary Budget Office Macro Model (PBOM)