

Improving public policy making for economic growth and poverty reduction

Kenya now a Middle Income Economy but Wanjiku Still Crying

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Kenya has rebased its economy to make the measure of GDP more inclusive in terms of productive sectors and industrial output. The rebasing included changing the base year from 2001 to 2009 and also incorporating new information sourced from several surveys, censuses and recent administrative records. Sometimes the annual estimates are based on comparatively less comprehensive information than five or ten year estimates derived from such sources as household surveys and population census.

The Kenyan economy after the rebasing of its national accounts is now 25% larger than the previous estimates. Per capita has grown to US\$ 1,269 for the year 2013, surpassing the World Bank benchmark for middle income countries at US\$ 1,036, and thus making Kenya join the category of lower middle income countries.

The benefit is that Kenya can now be eligible for extra borrowing in the international markets and have more access to World Bank's non-concessional facilities. It also means that Kenya has more room to borrow from both domestic and international sources to finance development expenditures, particularly for infrastructural projects.

Statistically, the public wage bill has now declined to around 10%, which shows a good position as compared to many country averages of 12%. The central government's wage bill, which is normally targeted to below 8% of GDP, is also now at 5.9% and within target, which means that civil service remuneration can now be better structured to link it to productivity indexes.

The new data also shows that revenue efforts are not as strong as previously thought. Kenya's tax revenue stands at 18% of GDP having declined from 21% a decade ago.

This is simply because economic expansion has been enhanced by heavy investments in mainly public infrastructure, which does not yield much revenue.

Therefore, while Kenyans may not see much improvement in their pockets, the situation gives Kenya a unique international standing in the eyes of investors and development partners. The new statistics raise Kenya's profile as a credit-worthy economy. Being designated a middle income economy comes with a psychological boost for investors and its gives Kenyans a boost towards self-esteem and freedom from servitude. Rebased wealth statistics can do Kenya some good wealth-to-debt ratios will the elevation equally gives the country a positive image to potential investors.

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However, being a middle income economy also means that the country will have to start thinking on the best way of taking full responsibility of running her affairs. The revision should energize the government efforts in lowering poverty, reducing cost of production challenges, improving the quality of human life, and improving on agricultural productivity.

Moreover, it is important to keep in mind that Kenya will henceforth not qualify for interest free loans and grants from the World Bank, which has been critical in the country's

infrastructural development. Secondly, the new figures may create an illusion that could see Kenya underestimate its liabilities. The rebasing will definitely make debt levels look small for Kenya, and could entice the government to borrow more, thus exerting massive inflationary pressure to the economy.

Ultimately, the positive results of rebased economic statistics can be felt only if proper investment policies are instituted and subsequently implemented.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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