

ECONOMIC SCENARIO IN KENYA: A STUDY OF SELECTED SECTORS

Dr. Abhilash K. Srivatsava
Associate Professor & Head
Department of Commerce
Atarra P.G. College, Banda (UP)

&

Joel Mose Ayora
Doctoral Fellow Atarra P.G. College
Bundelkhand University, Jhansi

ABSTRACT

Kenya's economy was considered stable and strong in East Africa till 2008 when its growth was adversely affected by the aftermath of general election in December 2007. According to the Central Bank of Kenya, the economic growth in the country recorded spectacular figures from 0.5% in 2002 to 7.1% in 2007. In 2008, it slumped to 1.7% and the subdued growth reflected adverse aftermath-effects of post election crisis in the first quarter of 2008 and global financial crisis in the last quarter of 2008 among other causes which decreased production level and low demand of Kenya's exports. In 2009 there was modest improvement with 2.6% growth. This paper will examine the growth of Kenyan economy and evaluate the contribution of some selected sectors which lead to attractive economic growth of the country in the past few years. The result confirms that though Agriculture and tourism were the most affected in 2008 crisis, Agriculture, Transport and communication and tourism have been major contributors to the economic growth in the country.

Key Words: *Economy, Kenya, GDP, Global Crisis.*

Introduction

The financial crisis which originated in the US sub prime market led to a slowdown in economic activity in advanced economies while developing and emerging markets continued to grow at modest rates. Economic performance worsened from September 2008 with the default of Lehman brothers, a large US investment bank, the rescue of American International Group (AIG) – the largest insurance company, and intervention in a number of institutions both in the US and Europe. Furthermore, as the financial sector became risk averse, the ensuing stock market reaction was a flight to safety cascaded across the global financial system depressing market prices for major assets. According to the International Monetary Fund's July 2010 update of the World

Economic Outlook, the global economy grew by 3.1 percent in 2008 compared with 5.1 percent in 2007 however this declined by 0.6 percent in 2009. The decline occurred in the context of the global financial crisis had adversely impacted consumer and business confidence in the last quarter of 2008 that transformed into economic recession in 2009. Most of the slowdown was in advanced economies, particularly in the United States, which experienced housing market strains aggravated by financial stress.

According to countries categorized in terms of level of economic development, the decline in global output reflected in a decline for advanced economies and a sharp reduction for emerging and developing economies. In Europe, economic performance was not balanced as fiscal imbalances in some of the smaller European countries posed a challenge. Fiscal stimulus measures particularly in the advanced economies were instrumental in stemming the slowdown in real GDP growth in 2009. Private demand remained subdued and did not recover to pre-crisis levels. Weak labor markets and tight credit conditions continued to put a drag on private consumption.

Emerging and developing economies grew by 2.5 percent in 2009 compared with 6.1 percent in 2008 and 8.3 percent in 2007 respectively. The slowdown in economic activity in China and India, the leading countries in this region reflected weaker exports and investment respectively. Investment and consumption in China was robust, while export growth and private consumption in India continued to be strong leading to better economic performance compared with other countries in the region. In Sub-Saharan Africa real GDP growth moderated to 2.1 percent in 2009 down from 5.2 in 2008 and 6.2 percent in 2007 respectively in the face of the financial turmoil and high energy and food prices. Economic performance in oil exporting countries benefited from a big improvement in the terms of

trade in 2008 but this could not be replicated in 2009 since these countries were affected by the decline in international oil prices.

Going forward the world economy is projected to recover to about 4.5 percent growth in 2010-11 on account of stronger output performance in the first half of the year. Financial stability continues to be a major concern although the potential for financial stress spilling over into real activity is somewhat limited. There are, however, concerns that stress in the financial sector in the advanced economies could spill over into other countries through financial and trade channels. The recovery of global output is projected to gain momentum in 2010 and 2011. Output in advanced economies is expected to grow by 2.6 percent in 2010. High levels of public debt, unemployment and constrained growth in credit in some of these countries pose a challenge to the recovery process. In 2011, output growth in emerging and developing economies is expected at 6.5 percent. Asia leads the recovery in growth driven by strong exports and private domestic demand. Private fixed investment has gained momentum due to higher capacity utilization and low cost of capital. China and India are forecast to grow by 10.5 percent and 9.5 percent in 2010 and by 9.5 percent and 8.5 percent in 2011, respectively. Sub-Saharan Africa is expected to grow by 5 percent and 5.9 percent in 2010 and 2011, respectively.

Trends in key economic indicators capture succinctly the adverse impact of the global financial crisis in Kenya. The Kenya shilling depreciated against the major international currencies. Against the US dollar the Kenya Shilling depreciated by 13.3 percent from Ksh 67.8 in August 2008 to Ksh 78.0 percent by December 2008. The Kenya shilling depreciated by 4.1 percent in the year to June 2010 to Ksh 81 to the US Dollar from Ksh 77.9 to the US Dollar in June 2009. The depreciation reflected developments in the international currency market, and in particular the effect of the Greek debt crisis. In the East African Community, the Kenya Shilling strengthened marginally against the Tanzania and Uganda Shillings.

Gross official foreign exchange reserves, held by the Central Bank, declined by 16.5 percent from US\$3.4 million in June 2008 (equivalent to 4.5 months of imports cover) to US\$2.9 million (equivalent to 3.4 months of imports cover) in December 2008. The Central Bank of Kenya increased its holding of foreign exchange reserves

to about the statutory minimum of 4 months imports of goods and non factor services (at 3.9 months in June 2010 from 3.6 percent by June 2009). The sources of foreign exchange reserves have included the Special Allocation of SDR by the IMF in August and September 2009 and purchases from the inter bank market for the purpose of reserves accumulation.

The balance of payments outturn improved from an overall deficit of US \$ 422 million in the year to June 2009 to surplus of US £ 276 million in the year to June 2010. The improvement was largely in the current account and in particular the net inflow from non-factor services (mainly tourism, transport and financial services). Exports declined by 9.3 percent from US\$ 1312 million in the July-September 2008 Quarter to US\$ 1189 million in the October-December 2008 Quarter. The various export activities and their contribution to the absolute decline of exports included coffee (4 percent), tea (22 percent), manufactured goods (41 percent), raw materials (13 percent) and other exports (35 percent).

Tourism earnings, which were adversely impacted by the post election crisis in January 2008, declined by 9.9 percent to US\$ 190 million in the October-December 2008 Quarter from US\$ 211 million in the July September 2008 Quarter. Remittances from migrant workers to their countries of origin declined by 11.2 percent from US\$ 646.1 million in the year to June 2008 to US\$ 573.4 million in the year to June 2009. The Nairobi Stock Exchange (NSE) indicators of performance declined. In particular the NSE20 Share Index declined by 32.1 percent between July and December 2008, while market capitalization fell by 30.1 percent over the same period. Partly reflecting the adverse effects of the global financial crisis and the impact of the post election crisis, economic performance decelerated from a real GDP growth of 7.1 percent in 2007 to 1.7 percent growth in 2008 before recovering to 2.6 percent growth in 2009. The objectives of the paper were:

- To explore the current and performance of Kenya's economy in the last few years
- To examine the performance of the selected sectors and their contribution to the economic growth (GDP)

Research Methodology

The data source for this paper was only secondary as we try to examine the recorded statistics of the Government and other authorities to get an understanding of the Kenyan economy. The universe

included all sectors of the economy; however, a sample of four contributor sectors to the GDP was taken which include: Agriculture, Manufacturing, Transport & Communication and Tourism sectors. For the purpose of data collection, Central Bank of Kenya Annual reports were scanned, Kenya Revenue Authority, reports of Ministry of Finance and Data base of Kenya Bureau of Statistics. The result is analyzed and presented in Tables, and Figures.

Economic Scenario in Kenya

The Kenyan economy is considered the largest in East and Central Africa. The country branded as the super power of east and central Africa in the current decade has been recording impressive growth rate till after the election dispute in December 2007 and the global financial crisis which affected almost all economies including industrialized nations. Economic growth in the country recorded 2.6 percent growth in 2009 after slumbering to 1.7 percent in 2008, from 7.1 percent in the year 2007. The subdued growth reflected adverse after-effects of the post election crisis and high international crude oil prices which eventually stifled the transport sector and increased the cost of fuel and energy resources utilized in several other sectors. Similarly, the global financial crisis that emerged in the last quarter of 2008 further decreased production levels and export demand. It is clear from table 1 that economic growth in Kenya has been impressive since 2002 when the economy recorded 0.2% along 2005 when Kenya economy grew by 5.9% and 2007 as 7.1% (Fig1). This impressive growth was mainly contributed by six sectors chosen for analysis in this study.

The economy grew by 2.6 percent in 2009 compared with a revised growth of 1.6 percent in 2008 as indicated in figure 1 above. The recovery was weak in 2009 compared with the 7.0 percent growth in 2007, but modest compared with the drop to a 5 year low performance in 2008. Tourism, which was most affected bounced back in 2009 recording a growth rate of 42.8 percent from a decline of 36.1 percent in 2008. Similarly, agriculture recovered in 2009 despite the drought, with the margin of decline improving from -4.1 percent in 2008 to -2.6 percent. In the first quarter of 2010, the economy grew by 4.4 percent, a slower pace compared with a growth of 5.6 percent in the first quarter of 2009. This slower growth was largely attributed to over-reliance on the costly thermal- generated electricity among other reasons, which was reflected by a decline of 2.1 percent in the electricity and water supply sector due to drought in 2009.

Growth during the quarter was driven by agriculture, mining and quarrying, manufacturing, wholesale and retail and the financial sectors which expanded by 4.6 percent, 9.0 percent, 7.8 percent, 3.7 percent and 11.9 percent, respectively, compared with -1.1 percent, -11.9 percent, 5.0 percent, -2.6 percent and 2.1 percent in the first quarter of 2008. Total output during the first quarter of 2010 amounted to Ksh 356.6 billion. The growth momentum is projected to accelerate in 2010, largely impacted by good weather (that began towards the end of 2009 through June 2010) and from the fiscal stimulus spending and accommodative monetary policy that targets to support private sector activities. During the first quarter of 2010 real GDP growth was robust at 4.4 percent. The real GDP growth is projected to accelerate to 4.5 percent in 2010.

Table 1 shows annual growth of different sectors of the Kenyan economy from 2002-2009. Agriculture, Transport and domestic trade were the main contributors to the GDP growth in 2008. The performance in 2009 by sectors was, however, mixed. The services sectors continued to drive economic growth in 2009 with the tourism sector, the building and construction sector and the transport and communication sector recording the most significant growth rates at 42.8 percent, 14.1 percent and 6.4 percent, respectively.

Performance in Selected Sectors of the economy

In this section, the sample of four sectors was selected as the major contributors to the economic output. This includes: Agriculture, Manufacturing; Energy, Building and construction, Transport & Communication and Tourism sectors. These sectors have been the front contributors to the total GDP of Kenya in the recent years, Agriculture being the main one. Other sectors include the manufacturing, the mining and quarrying sector, the wholesale and retail sector and the financial intermediation sectors which grew respectively by 7.8 percent, 9.0 percent, 3.7 percent and 11.9 percent

4.1 Agriculture Sector

Agriculture's contribution to GDP increased from 23.4 percent in 2008 to 24.4 percent in 2009. Despite agriculture remaining a major contributor to GDP in 2009 at 24.4 percent, it expanded marginally from -5.0 percent in 2008 to -2.6 percent in 2009 compared to 2.1 percent in 2007, owing to the persistent drought in 2008. The growth momentum was sustained in the first quarter of 2010 with 4.4 percent growth compared with 5.6 percent growth in the first quarter of 2009. The continuing recovery is attributed to,

among other factors, the rainfall experienced towards the end of 2009 through 2010, which impacted positively on agriculture and electricity generation. Despite the overall increase in agricultural output, the sector still recorded mixed performances across activities with some cash crops performing better than others on account of rainfall distribution.

The amount of processed tea increased by 18.4 percent in July- June 2009/10 over 2008/09 period following rainfall experienced in the east and west Rift Valley tea growing regions at the end of 2009 and early 2010, which, under normal circumstances are dry months (Table 2). The amount of processed tea had declined by 0.1 percent in fiscal year 2008/09, compared with 11.9 percent fall in fiscal year 2007/08, as a result of both the shortage of labor in 2008 due to the post election violence and the drought experienced in the first half of 2009 (Table 2).

It is further indicated that from the Agriculture perspective, that coffee and sugar cane production continued to grow despite the 2008 crisis. In the sugar sector, cane deliveries increased marginally by 0.5 percent from 5,355,771 metric tonnes in 2008/09 to 5,382,888 metric tonnes in 2009/10. Coffee output, on the other hand declined by 35.5 percent in July-June 2009/10 as a result of climatic changes marked by severe drought in 2009 and unpredictable rainfall patterns in the coffee growing areas in 2010, which made crop management and disease control difficult and costly to farmers. Prices of fertilizers and other farm inputs also increased, further aggravating the situation in the sector.

Despite the shocks experienced by the horticultural industry in 2009/10, including flight cancellations due to the volcanic ash eruptions in Iceland (which adversely affected air transportation) in March/April 2010, horticultural exports increased marginally by 1.2 percent in 2009/10 compared with a volume of 245,618 metric tonnes in 2008/09 (Table 2). Further it is indicated that Horticulture was so much affected during the crisis as the sub sector recorded a negative 10.77 growth. This may be because of the demand for Kenya horticultural products in foreign market which almost stopped due to the global financial crisis which bitted hard in the developed countries especially in Europe which is Kenya's main market.

4.2 Manufacturing Sector

The contribution of manufacturing sector to GDP fell marginally from 9.8 percent in 2008 to 9.5 percent in 2009. In the first quarter of 2010, however,

total manufacturing output increased by 7.8 percent from Ksh 33,553 million to Ksh 36,164 million, thereby increasing the sector's share in real GDP to 10.1 percent during the quarter. It was the highest first quarter growth in manufacturing sector since 2001. This sector contributed 9.98% in 2008 and the sector grew by 3.8 percent in the same year, despite challenges posed by high cost of raw materials, depreciation of the shilling and after-effects of the post election crisis.

Table3 indicate the manufacturing sector growth annually and it is revealed that Beer and cement sub sector grew amidst crisis. Production of selected manufactured goods during the year 2009/10 was varied with that of milk and cement recording the highest growth rates at 27.2 percent and 12.1 percent, respectively. Cigarette production, on the other hand, declined in 2009/10 by 17.6 percent from 14,995,064 milles produced in 2008/09 to 12,357,719 milles. Production of processed sugar, soda ash and beer declined respectively by 6.1 percent, 0.7 percent and 12.0 percent in 2009/10 to a volume of 504,063.3 metric tonnes, 442,238 metric tonnes and 389.7 million litres, respectively, in 2009/2010 (Table 3).

4.3 Transport and communication Sector

The transport sector thrived in July-June 2009/10 reflecting increased economic activity during the year and more stable international crude oil prices, compared with the same period 2008/09. Cargo handled through the port of Mombasa increased by 8.7 percent, from 17,534,495 metric tonnes in July-June 2008/2009 to 19,064,028 metric tonnes in July-June 2009/10, while Kenya Pipeline throughput grew by 6.3 percent, during the same period (Table 4). In the telecommunications sector, excise duty on airtime grew by 8.6 percent from Ksh 6,630 million in 2008/09 to Ksh 7,203 million in 2009/10.

Transport and communication sector had been severely affected by post election violence in early 2008 and thereafter by high domestic fuel prices attributed to soaring international crude oil prices. These contributed to growth in the sector decelerating from 15.1 percent in 2007 to 3.1 percent in 2008. Table 4 shows the annual growth of transport sector activities. It is indicated that exercise duty on air time had increased with a decreasing growth trend (3.6%) in 2008. Also it was shown that cargo by KPA output continued to increase in all years under review and annual growth was impressive as the sector recorded 7.18% in 2007 and 7.64% in 2008.

Also, throughput by Kenya pipeline grew by 6.30% to 4,314,488 liters.

4.4 Tourism

In 2008, tourism sector declined by 35.9 percent from 16.3 percent growth in 2007 following insecurity in the first quarter of 2008, and subsequent travel bans due to the political instability in the country which drastically reduced the number of international arrivals by 30.4 percent from 1,048,732 visitors in 2007 to 729,490 visitors in 2008. In 2009/10 however, tourism bounced back from the after effects of the post election crisis to record a growth of 18.3 percent compared with 1.6 percent growth in 2008/09. Cruise ships arrivals, however, declined during the period by 98.2 percent following cancellations as a result of insecurity caused by Somali pirates off the Kenyan coast. Arrivals via Jomo Kenyatta International Airport (JKIA) and Moi International Airport, Mombasa (MIAM) increased during the period by 18.6 percent and 28.4 percent, respectively (Table 5).

Table 5 shows tourist arrivals by point of entry. It is clear that cruise ships which arrived grew by 339.48 in 2008 which might probably be due to the aid extended from other countries and the closure or non operation of Kenyan's international airports. The number of tourist who arrived through Moi

International Airport (MIAM) declined by -12.43% from 179,285 in 2007 to 156,991 in 2008.

Conclusion

The Kenyan economy over the last few years has been performing very well till 2008 when the economy was slapped by global economic crisis, drought, after general election violence, decline in demand of international commodities and rise of international commodity prices like crude oil. The combined force affected the growth from 7.1% growth rate of the economy to 1.7% growth in 2008. However it is expected to have recovered in 2009 and 2010 financial years. Further, it has been noted that Agriculture, Domestic trade, Transport and communication and Manufacturing sectors were the main contributors of the economic growth in Kenya.

References :

- Central Bank of Kenya (CBK) Annual report of 2002-2009
- Kenya Bureau of Statistics (KBS) Economic survey reports 2006-08
- Nairobi stock Exchange (NSE) Annual report 2006-08
- Association of Kenya Insurers (AKI) annual report 2005-09
- Kenya Revenue Authority (KRA) annual report 2002-09
- Capital Market Authority of Kenya (CMA) Annual reports, 2005-08

Fig1: Economic growth in Kenya since 2002 with 2010 estimate

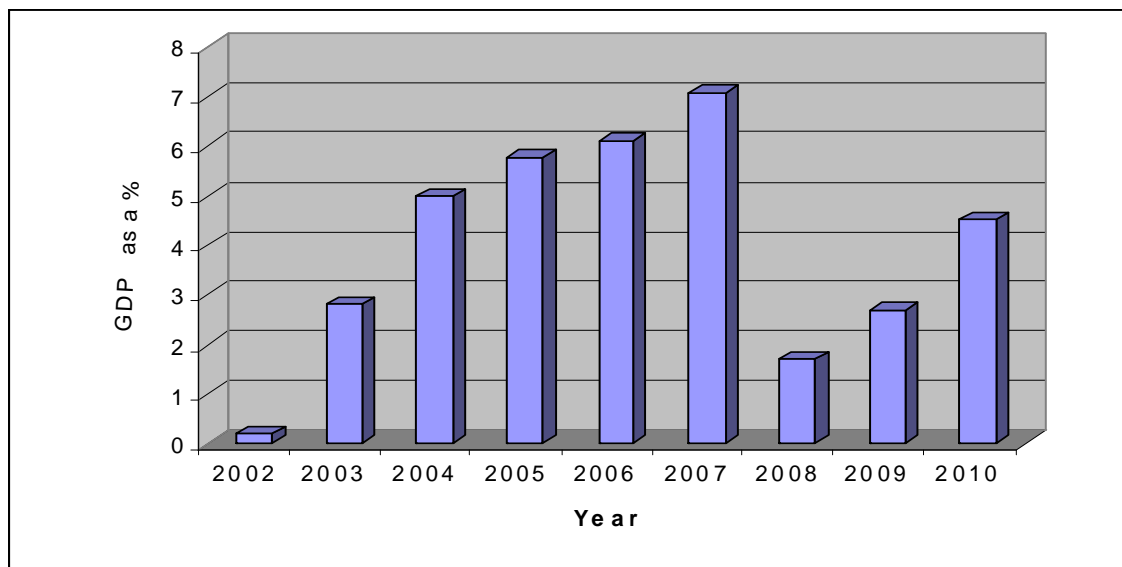


Table1: Share in Real GDP in 2009 and Sector-wise annual growth (%)

Sector	Share in GDP 2008 as a (%)	2003	2004	2005	2006
Agriculture, Forestry & Fishing	22.75	0.7	1.7	6.9	4.4
Mining & Quarrying	0.48	3.5	-0.3	2.7	4.1
Manufacturing	9.98	6.0	4.5	4.7	6.3
Wholesale and retail trade, repairs	10.19	1.5	8.5	5.6	11.6
Electricity and water supply	2.32	14.0	3.0	-0.1	-1.4
Health and social work	2.21	2.8	3.8	3.2	3.3
Public administration and defense	3.31	0.6	0.2	-1.3	-1.6
Hotels & Restaurants	0.98	1.0	3.8	13.3	14.9
Building & Construction	3.20	1.0	4.4	7.5	6.4
Transport & Communications	11.89	3.5	7.0	9.0	11.4
Financial intermediation	3.81	1.4	5.6	4.8	
Real estate, renting and business services	5.40	2.3	3.0	3.4	3.9
Education	5.90	2.0	0.7	0.3	
Other community, social and personal services	3.74	-0.0	3.7	3.0	4.3
Private households with employed persons	0.31	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	(0.83)	-3.3	4.7	4.3	5.1
Total GDP at basic	85.65	2.6	3.9	5.2	5.6

Source: Kenya Bureau of Statistics

Table2: Output growth in Key crops

PRODUCT	Jun 2004/05	Jun 2005/06	Jun 2006/07	Jun 2007/08	Jun 2008/09	Jun 2009/10
Tea						
Output (MT)	321,440	295,791	375,226	327,713	387,922	
Output Growth %	0.19	-8.07	25.24	-16.01%	18.97%	
Horticulture						
Output (MT)	160,729	162,099	167,959	206,485	184,239	
Output Growth %	18.24	3.98	8.00	22.77%	-10.77%	
Coffee						
Output (MT)	51,136	47,995	50,899	39,842	53,701	
Output Growth	-9.77	-7.14	12.58	-24.82%	30.82%	
Sugarcane						
Output (MT)	4,751,432	4,953,329	4,953,167	5,228,645	5,357,764	
Output Growth %	3.73	8.52	0.88	2.47%	2.41%	

Source: CBK Annual report 2010

Table3: Production of Selected Manufactured goods

PRODUCT	Jun 2004/ 05	Jun 2005/06	Jun 2006/07	Jun 2007/ 08	Jun 2008/09	Jun 2009/10
Processed Sugar						
Output (MT)	507, 306	504,589	474,944	530,129.00	536,135. 33	504,063.34
Output Growth (%)	-3.35	2.92	-5. 14	10.79	1.13	-6.11%
Cement Production *						
Output (MT)	1,975, 464	2,104, 918	2,370,982	2, 633,494	3,405,146	3,500,202
Output Growth (%)	22.86	2.64	14. 50	10.28	29.30	12.06%
Soda Ash						
Output (MT)	357, 521	364,760	385,756	439,958	445,220	442,238
Output Growth (%)	1.30	1.58	4.89	16.00	1.20	-0.67%
Milk						
Output ('000 liters)	284, 144	351,609	402,009	397,209	387,554	497,122
Output Growth (%)	17.19	17.71	14. 18	-1.23	-2.43	27.17%
Beer						
Output ('000 liters)	257, 124	278,905	328,345	381,164	442,877	389,700
Output Growth (%)	19.13	8.01	20. 70	15.99	16.19	-12.01%
Cigarettes						
Output (No. of sticks)	10,052,423	12,048, 634	13,280,558	15,075,078	14,995,064	12,357,719
Output Growth (%)	21.28	20.57	9.35	12.26	-0.53	-17.59%

Source: CBK Annual report 2010

Table4: Performance of Transport and communication Sub-Sectors

Activity	Jun 2004/05	Jun 2005/06	Jun 2006/07	Jun 2007/08	Jun 2008/09	Jun 2009/10
Cargo by KPA						
Output (MT)	13,284,921	13,524,051	15,198,435	16,290,399	17,534,495	19,064,028
Output Growth (%)	6.23	1.28	12.38	7.18	7.64	8.73%
Throughput by Kenya Pipeline						
Output ('000 liters)	3,459,298	3,627,232	3,963,076	3,873,855	4,058,727	4,314,488
Output Growth %	11.8	4.90	9.26	2.51	4.77	6.30%
Excise duty on Airtime						
Output (Ksh Mn)	2, 982	3,963	5,360	6,397	6,630	7,203
Growth (%)	32.74	35.41	35.28	16.49	3.64	8.64%

Source: CBK Annual report 2010

Table5: Tourist Arrivals by Point of entry

	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
Cruise ships	5,615	6,161	5,849	3,531	15,518	287
Output Growth (%)	172.18	9.72	-5. 06	-39.63	339.48	-98.15%
JKIA	553,437	637,545	731,252	667,640	691,244	819,843
Output Growth (%)	33.98	15.20	14. 70	-8. 70	3.54	18.60%
MIAM	194,572	243,425	273,877	179,285	156,991	201,611
Output Growth (%)	20.62	25.11	12. 50	-34.54	-12.43	28.42%
Total	753,624	884,728	1,010,978	850,456	863,753	1,021,741
Output Growth (%)	30.74	17.40	14. 28	-19.40	1. 56	18.29%

Source: CBK Annual report 2010