"RETHINKING KENYA'S ECONOMIC OUTLOOK"

AN ECONOMIC PAPER FOR DECISION MAKING IN TRADE UNIONS IN KENYA

BY

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1.0 INTRODUCTION

The Central Organization of Trade Unions, COTU (K) remains keen on its contributions to informed policy that leads to well-rounded workers globally. COTU (K) is pertinent to policy issues in the labour market as it acts as a watchdog to foresee worker-friendly policy initiatives. These policy concerns are in line with COTU (K)'s mandate to protect, promote and uphold decent work in Kenya through constant review of employment situation and opportunities in Kenya; promoting effective and consultative Social Dialogue; Enhancing Social protection by closely monitoring and influencing the operations of NSSF and NHIF while ensuring that the fundamental rights and freedoms of workers are upheld.

It is in line with this mandate that COTU (K)'s monthly economic papers analyze key economic and social outcomes in the labour market thereafter providing policy propositions for effective industrial relations, economic development and growth towards achievement of the Kenya Vision 2030.

After holding Labour Day Celebrations on May 1st 2016 with the theme "***Stop Outsourcing! Create Decent Jobs for Posterity!"*** COTU (K) embarked on its actualization throughout Kenya, the EAC, Africa and globally through advocacy. Furthermore, the Labour day celebrations was followed so closely with a democratic and successful COTU (K)'s 13th Quinquenial Delegates Conference that so into office newly elected leadership to spearhead the labour movement agenda in Kenya and beyond. With the theme, "***Eliminate Corruption for Kenya's Economic growth"*** the Secretary General COTU (K), Bro Francis Atwoli NOM (DZA), EBS, MBS called upon the government and all stakeholders to do away with the crime "Corruption" to deliver Kenya into its Vision 2030 as well as achieve the decent work agenda of the International Labour Organization (ILO).

On the basis of the two thematic areas of focus and the labour market concerns, this Economic paper focuses on the socioeconomic policy outcomes of Kenya in 2015 while providing policy proposals for the year 2016 and thereafter. The paper gives an overview of Kenya's economic performance in 2015; a brief analysis of the Consumer Price Indices and Inflation Rates for the month of April 2016; and concludes with policy recommendations geared towards promoting decent work in Kenya. In a nutshell, this paper "***Rethinking Kenya's Economic Outlook***" provides Kenya's economic strengths and provides policy propositions geared towards delivering the Kenya Vision 2030 and the ILO decent work agenda.

2.0 OVERVIEW OF ECONOMIC PERFORMANCE IN 2015

While the Global and regional economic growth slowed down in 2015, several economies showed varied performance. The World Gross Domestic Product (GDP) grew by 3.1 per cent in 2015 down from a 3.4 per cent growth in 2014. Similarly, the Sub-Saharan Africa's GDP fell slightly from a 2014 GDP growth of 5.1 per cent to a growth rate of 3.8 per cent in 2015. The economic slowdown was as well felt in the East African Community (EAC) whose GDP grew by 3.4 per cent in 2015 down from a 5.8 per cent GDP growth in 2014. Despite these regional and global economic slowdown, Kenya's economy expanded by 5.6 per cent in the year 2015, an improvement of 3.7 per cent from 2014's Gross Domestic Product (GDP) growth of 5.4 per cent. This growth resulted to a GDP of Kshs. 6,224.4 trillion at current market prices translating to a GDP per capita of Kshs. 140,961 at current prices (Republic of Kenya, 2016)
Table 1 presents the GDP growth rates in 2014 and 2015.

Table 1: Comparison of GDP growth rates in 2014 and 2015

Economic Entity	GDP growth in 2014	GDP growth in 2015	Percent change
World	3.4	3.1	-8.82
Sub-Saharan Africa	5.1	3.8	-25.49
EAC	5.8	3.4	-41.37
Kenya	5.4	5.6	3.7

Source: Economic Survey 2016

From table 1, East African Community (EAC) GDP growth rate reduced by about 41 per cent between 2014 and 2015 while the Sub –Saharan Africa (SSA) and the World GDP growth rates reduced by 25 per cent and 9 per cent respectively.
Notably, the World's poor economic performance could be linked to low commodity prices, weaker capital flows, reduced global trade as well as financial market volatility. On the other hand, the Sub-Saharan Africa's slowdown in economic performance can

be attributed to decline in prices of main commodities and weak economic performance of several economies within the region. For the EAC, poor economic performance resulted from political animosity in Burundi as well as uncertainties linked to the general elections in Tanzania and Uganda. Domestically, Kenya's economic growth culminated from stable macroeconomic environment and commendable improvements in the performance of key sectors such as Agriculture, Construction, Finance and Real Estate (Republic of Kenya, 2016).

3. SECTORIAL ECONOMIC PERFORMANCE IN KENYA

Different sectors of the economy contributed variedly to the overall economic performance in 2015. Table 2 shows the sectorial GDP contributions.

Table 2 : Sectorial contributions to Kenya's GDP in 2015

Sector	Percent Contribution to GDP in 2015
Agriculture	30
Manufacturing	10.3
Transport and Storage	8.4
Real Estate	7.6
Education	5.0
Construction	4.8
Others	33.9

Source: Economic Survey 2016

Table 2 shows that Agriculture was the main GDP contributor at 30 per cent in 2015. The second largest GDP contributor is Manufacturing that contributed 10.3 per cent of the GDP. Similarly, Transport and Storage, Real Estate, Education and Construction sectors contributed 8.4%, 7.6%, 5.0%, and 4.8 % respectively.

3.1 Agricultural Sector

This sector was the largest contributor to Kenya's GDP in 2015. It contributed about 30 per cent of the GDP, resulting from an increase of about 5.6 % increase in Value Added. The increase in Value Added mainly benefitted from abundant rainfall. In 2015, the total value of marketed production increased by 11.3% to Kshs. 371 billion.

The Sub sectors that improved in 2015 included Fresh Horticultural Produce that grew by 8.4% while the production of Maize and Rice increased by 9% and 24% respectively. On the other hand, key sub sectors such as Tea and Coffee performed poorly by recording 10.3 % and 16 % declines respectively (Republic of Kenya, 2016)

3.2 Manufacturing Sector

This sector contributed 10.3 % to the GDP in 2015. The sector recorded a growth of 3.5 per cent mainly pegged on reduced costs of inputs (such as petroleum products and electricity) and favorable macroeconomic environment. However, the sector suffered a big blow from high costs of credit and cheap imports (Republic of Kenya, 2016).

3.3 Money, Banking and Finance

This sector has recorded commendable improvements as a result of policy initiatives by the Treasury. The sector contributed about 2.7 % of the GDP, recording a growth of about 8.7% in 2015 (Republic of Kenya, 2016).

Some of the policy initiatives geared at containing inflation while controlling the exchange rates included raising the CBR to 10% in June 2015 and further to 11.5% in July 2015.

On the other hand, the domestic credit increased by 19.2% by December 2015 mainly attributed to increased credit to the national government to the tune of Kshs. 538 billion. Similarly, credit rendered to the private sector and other public bodies increased by 17.5% to Kshs. 2,292.4 billion which accounted for about 81% of the total credit.

3.4 Building and Construction

This sector contributed about 4.8% to the GDP in 2015. The sector recorded a growth of about 13.6% mainly attributed to the construction of the Standard Gauge Railway line (SGR) and other major road constructions underway by both the national and county governments. The credit extended to this sector by commercial banks increased by 32.3% to Kshs. 106.4 billion in 2015 (Republic of Kenya, 2016).

3.5 Tourism

The tourism sector is key to Kenya's rich wildlife. The sector recorded a 12.6% reduction in visitors to a low of 1.18 million visitors in 2015. Moreover, the sector's earnings declined by 2.9% to Kshs. 84.6 billion in 2015. Notably, the tourism sector's poor performance is linked to cases of insecurity and negative travel advisories advanced to Kenya by the tourist originating countries (Republic of Kenya, 2016).

3.6 Energy

The energy sector is very instrumental in the industrialization process towards the realization of the Kenya Vision 2030. Globally, there has been recorded rise in inventories due to sustained excess supply of crude oil; slowdown in global demand arising from the economic slowdown in China; substantial increase in the production of Shale in the USA as well as the oversupply by the Oil Producing and Exporting Countries (OPEC).

Domestically, in 2015, the average retail prices of diesel and petrol declined by about 13.4% and 11.6% respectively. Kerosene retail prices reduced by 25% while that of Liquefied Petroleum Gas (LPG) (13kg cylinder) declined by 21.5% in 2015. Similarly, electricity supply increased by about 9.7% while electricity generation increased by 4.1% to 9514.6 GWh (Gigawatt Hour) in 2015 (Republic of Kenya, 2016).

3.7 International Trade

Globalization has led to increased international trade between and among countries and regions. Since the balance of trade shows the relative economic strength of any particular country, its performance is closely linked to a country's susceptibility to external economic, social and political turbulence.

Kenya's balance of trade improved from a deficit of Kshs. 1,081 billion in 2014 to a deficit of Kshs. 997 billion in 2015. Such credible improvements resulted from increases in exports (8.2% to Kshs. 581 billion) and decline in imports (2.5% to Kshs. 1,578 billion). Notably, the decline in imports resulted from falling prices of mineral fuels (Republic of Kenya, 2016)

3.8 Employment

Employment creation is one of the key tenets of the Decent Work Agenda of the International Labour Organization (ILO). While on average, about 400, 000 new job entrants flood the Kenyan markets, Kenya's economy generated 841,600 new jobs in 2015. Out of these new jobs, the formal sector (modern sector) only generated 128,000 new jobs. This imply that the informal sector created about 713, 600 new jobs.

The total employment outside small scale agriculture and pastoralist activities increased by 5.9% to about 15.2 million while the informal sector employment increased by 6% totaling to about 12 million, a share of about 82.8% of Kenya's total employment (Republic of Kenya, 2016)

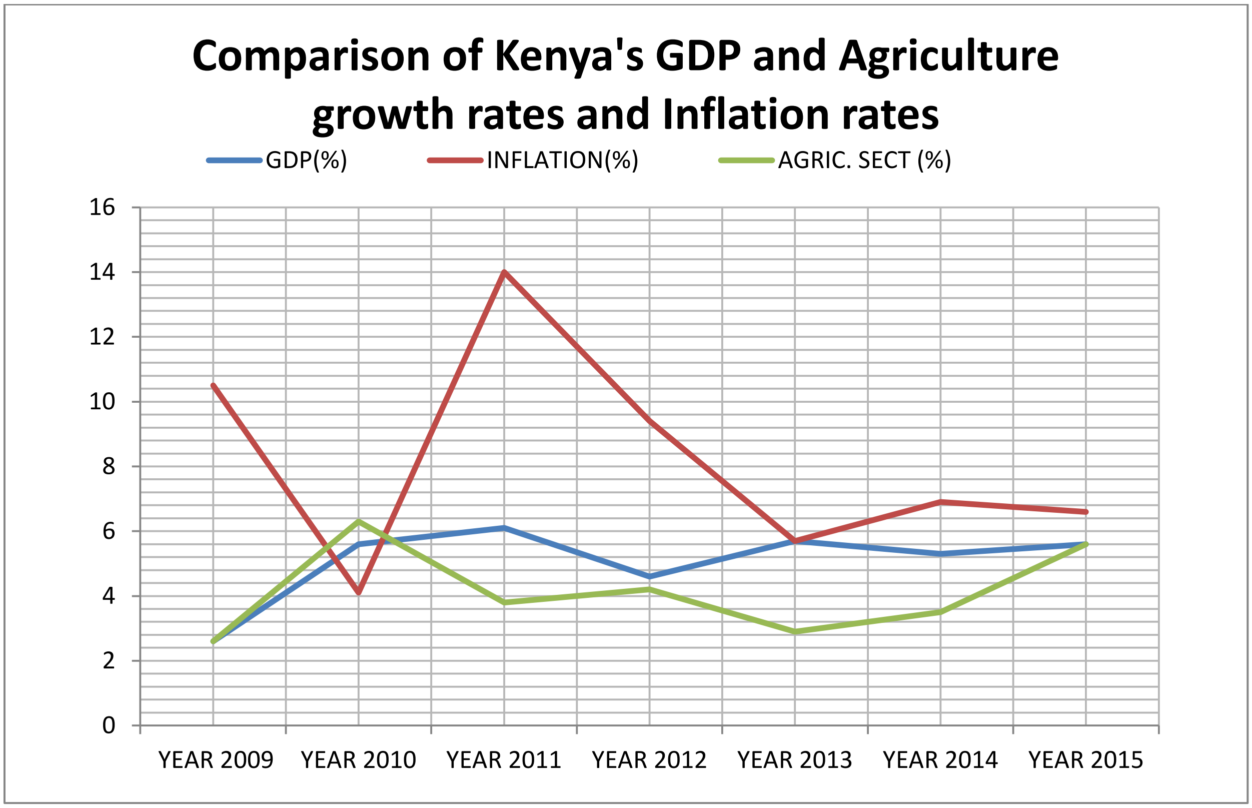
4.0 COMPARISON OF ANNUAL GDP, INFLATION AND AGRICULTURE SECTOR GROWTH RATES

Table 3: Comparison of Kenya's GDP, Inflation and Agricultural Sector growth rates for the period 2009 to 2015

Item (Growth rate)/Year	2009	2010	2011	2012	2013	2014	2015
GDP	2.6	5.6	6.1	4.6	5.7	5.3	5.6
Inflation	10.5	4.1	14	9.4	5.7	6.9	6.6
Agricultural Sector	2.6	6.3	3.8	4.2	2.9	3.5	5.6

Source: Economic Surveys (Various)

Figure 1: Comparison of Kenya's GDP, Inflation and Agricultural Sector growth rates for the period 2009 to 2015



Source: Author's manipulation based on table 3

A cursory look at table 3 and figure 1 shows that the growth rate of agricultural sector influences the GDP growth for Kenya. During the period under review, agricultural sector performance has been pulling GDP. For instance, between 2009 and 2010, agriculture grew and peaked at 6.3 per cent, while GDP peaked at 5.6 per cent. It should be noted that during this period, inflation rate decreased steadily and reached its lowest in 2010 when agriculture and GDP growth rates were at peak.

Between 2010 and 2011, while inflation was heightening, GDP and agricultural growth slowed down, with agriculture pulling down GDP. Moreover, between 2013 and 2014, inflation increased slightly and began to slow down steadily between 2014 and 2015. This has led to improvements in GDP and agriculture growth rates over the period.

It should be noted that investment in Agriculture in Kenya is very key in realizing economic excellence. And since the Central Bank of Kenya (CBK) has managed to control inflation through effective and prudent monetary and fiscal policies, a new tactful and value added-driven policy initiatives in the agricultural sector will see Kenya achieving economic growth above 10 per cent.

5.0 BRIEF ANALYSIS OF THE CONSUMER PRICE INDICES FOR THE PERIOD MARCH 2015 TO APRIL 2016

The CPI increased by 0.69 per cent from 165.92 in March 2016 to 167.07 in April 2016. It was observed that during the month of April, there were notable increases in prices of some food items. This led to a 1.48% increase in Food and Non-alcoholic drinks index. Moreover, due to price increases in respect of Kerosene and other cooking fuels, housing, Water, electricity, gas and other fuels index increased by 0.15 per cent.

The Consumer Price Indices for the last 14 months are as shown in the table 4 that follows (February 2009=100)

Table 4: CPIs for Kenya for the Period March 2015-April 2016

Month	**Consumer Price Indices**						
	Kenya	% change from previous month	Nairobi Lower Income Group	Nairobi Middle Income Group	Nairobi Upper Income Group	Nairobi Combined	Rest of Urban Areas
March 2015	155.86	1.12	158.81	137.09	137.07	152.75	155.86
April 2015	158.70	1.82	161.85	137.74	137.67	155.12	158.70
May 2015	159.98	0.81	162.09	138.95	138.93	155.63	159.98
June 2015	160.46	0.3	162.47	140.70	139.25	156.34	160.46
July 2015	160.57	0.07	162.74	141.17	141.35	156.72	160.57
August 2015	160.90	0.21	162.78	141.66	143.53	156.96	160.90
Sept 2015	161.33	0.27	163.13	142.04	143.35	157.30	161.33
Oct 2015	162.13	0.50	164.26	141.93	143.05	158.07	162.13
Nov 2015	162.97	0.39	166.02	141.75	142.70	159.29	162.97
Dec 2015	164.72	1.07	167.48	145.22	143.34	161.20	164.72
January 2016	165.37	0.39	167.60	144.24	144.30	161.09	165.37
February 2016	164.67	-0.42	166.90*	143.63*	143.69*	160.41*	164.68*
March 2016	165.92	0.76	168.17*	144.72*	144.78*	161.63*	165.93*

April 2016	167.07	0.69	169.33*	145.72*	145.78*	162.75*	167.07*

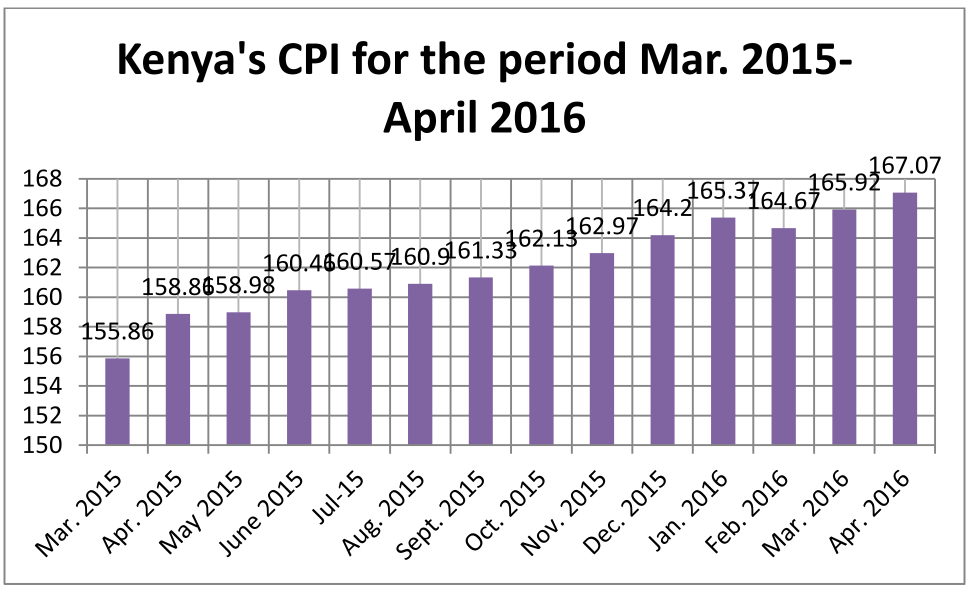
Source: KNBS

Notes: 1. * Authors' estimates based on overall change in the CPI

2. Nairobi Lower Income Group are households that spent less than Kshs. 23,670 in October 2005; Nairobi Middle Income Group are households that spent between Kshs. 23,671 to Kshs. 119,999 in October 2005 while Nairobi Upper Income Group are households that spent above Kshs. 120,000 in October 2005. The Rest of urban areas are Mombasa, Malindi, Machakos, Nyeri, Thika, Nakuru, Kisii, Kisumu, Eldoret, Nyahururu, Garissa and Bungoma.

The graphical representation of the CPI for the 14 months is shown in figure 2 that follows:

Figure 2: Graph of Kenya's CPIs for the period March 2015-April 2016



Source: Author's construction based on KNBS data

The data presented on table 4 and figure 2 show almost a steady trend of CPI for the last fourteen months, March 2015 to April 2016. The overall CPI increased by 0.69 from 165.92 in March 2016 to 167.07 in April 2016.

Table 4 and figure 2 show that the cost of living will continue to rise as the purchasing power of the workers go down month by month.

6.0 BRIEF ANALYSIS OF THE INFLATION RATES FOR THE PERIOD MARCH 2015 TO APRIL 2016

The overall inflation rate for April 2016 has been stated by KNBS as 5.27, the lowest since June 2013. This is an 18.29 per cent decline from the March 2016 inflation rate of 6.45 per cent.

The inflation rates for the last 14 months are as shown in the table 5 that follows (February 2009=100)

Table 5: Kenya's Inflation rates for the period March 2015- April 2016

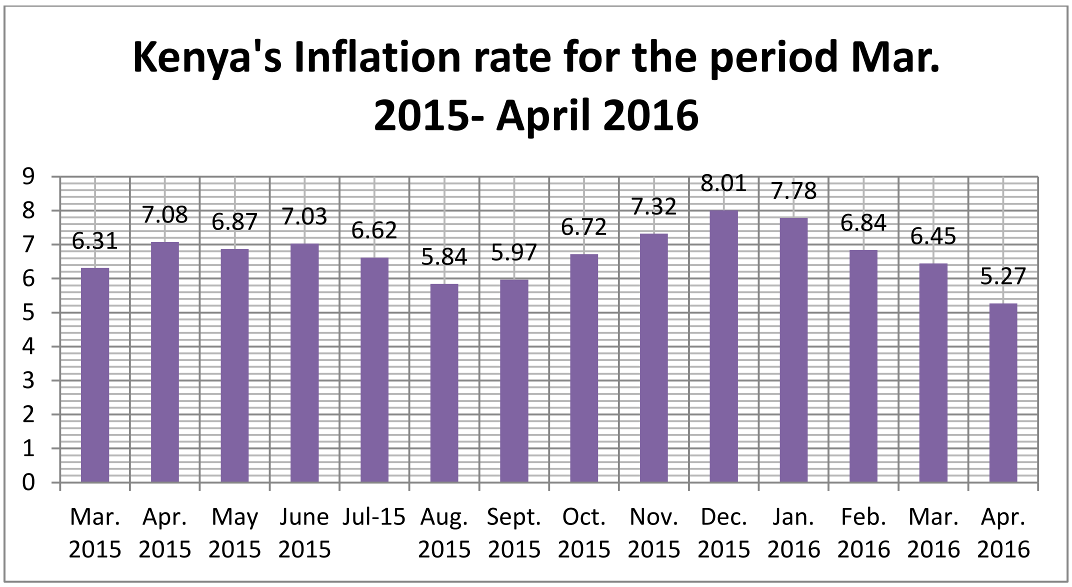
Month	**Inflation Rates (%)**						
	Kenya	% change from previous month	Nairobi Low Income Group	Nairobi Middle Income Group	Nairobi Upper Income Group	Nairobi Overall	Other Urban Areas
February 2015	5.61	1.45	5.22	3.23	1.74	4.66	6.26
March 2015	6.31	12.48	6.32	3.24	1.81	5.48	6.88
April 2015	7.08	10.88	7.49	3.39	1.90	6.39	7.55
May 2015	6.87	-2.97	6.98	3.76	1.86	6.09	7.39
June 2015	7.03	2.33	7.32	4.63	1.77	6.53	7.38
July 2015	6.62	-5.83	7.26	4.22	2.95	6.44	6.75
August 2015	5.84	-11.78	6.03	4.34	2.56	5.54	6.05
Sept 2015	5.97	2.23	6.18	4.84	2.79	5.77	6.10
Oct 2015	6.72	12.56	7.23	4.87	3.50	6.58	6.82
Nov 2015	7.32	8.93	8.60	5.03	3.38	7.63	7.12
Dec 2015	8.01	9.43	8.70	7.09	4.83	8.21	7.87
January 2016	7.78	-2.87	7.68	5.91	5.44	7.22	8.16
February 2016	6.84	-12.08	6.75*	5.20*	4.78*	6.35*	7.17*
March 2016	6.45	-5.70	6.37*	4.90*	4.51*	5.99*	6.76*
April 2016	5.27	-18.29	5.20*	4.05*	3.69*	4.90*	5.53*

Source: KNBS

*Author's estimate based on overall change in inflation

The graphical representation for the Inflation rates for the 14 months is shown in figure 4 that follows.

Figure 3: Kenya's Inflation rates for the period March 2015- April 2016



Source: Author's construction based on KNBS data

The data presented on table 5 and figure 4 shows almost an S-shaped trend of inflation for the last fourteen months, March 2015 to April 2016. The overall inflation reduced by 18.29 per cent from 6.45 per cent in March 2016 to 5.27 per cent in April 2016. This shows the magnitude and implications of the tactful monetary policies pursued by the Central Bank of Kenya (CBK). In fact, inflation rate has been falling from a high of 8.01 per cent in December 2015 to the lowest (5.27%) since June 2013. These policy implications point out the need for institutional transformation to address economic and social challenges

7.0 WHERE DID KENYA GO WRONG IN 2015?

In order to undertake policy positions that will lead Kenya to its industrialization vision, it is necessary that we analyze the sectorial changes. The data in table 6 shows the annual sectorial changes.

Table 6: Sectorial changes between 2014 and 2015

Sector	Growth rate in 2014 (%)	Growth rate in 2015 (%)	% change in growth rate*
Agriculture, Forestry and Fishing	3.5	5.6	60
Mining and Quarrying	14.5	11.0	-24.14
Wholesale and Retail trade and Repairs	7.5	6.0	-20
ICT	14.6	7.3	-50
Finance and Insurance	8.3	8.7	4.82
Building and Construction	13.1	13.6	3.82
Electricity Supply	7.3	9.7	32.88

Source: Economic Survey 2016

*Author's own manipulation

Table 6 shows Kenya's sectorial economic weaknesses between 2014 and 2015. The table shows that Kenya's economic potential was lost in the mining and quarrying (-24%), Wholesale and Retail (-20%) and ICT (-50%). However, reflecting on these three sectors in terms of job creation, they form a bigger per cent of the informal sector job creators. And given that 82.8 per cent of jobs were created in the informal sector, a turnaround of these sectors in 2016 would deliver more jobs that could support economic growth.

8.0 POLICY PROPOSITIONS

Having studied the performance of Kenya's economy over the last one year, the following policy propositions could be catapult Kenya towards being Africa's economic hub, a new economic outlook.

1. The Central Bank should enhance monetary tightening to cub financial fraud, contain inflation, control exchange rate, improve financial prudence and prevent Kenya from both domestic and external financial shocks. These policies should

go hand in hand with a radically curtailed fiscal year budget that controls wastages as has been witnessed in some counties and government institutions while initiating deficit financing national bonds. It is as well necessary that the direct interventions in Consumer Price Indices could be launched but only after revamping the Productivity Center of Kenya.

2. Transformation of Kenya's agricultural sector by embracing more value addition as well as irrigative agriculture is necessary to catapult Kenya to more than 10 per cent economic growth, given favorable monetary and fiscal policies.
3. The government should realign the public sector towards the decent work agenda by initiating enhanced domestic demand policy initiatives. Currently, the public is unbiased to the decent work objective of creating productive employment opportunities. This is clearly drawn from the 11.2 per cent (128,000) new jobs created in 2015 in the modern sector. Through such initiatives, the government will be able to utilize its demographic dividend that lies idle due to unemployment.
4. The government should initiate labour management which involves: cutting working hours; establishing and promoting an industrial relations structure that is consistent with international harmony and standards to address labour market challenges.
5. Actualization of the government's commitment to waive taxes on bonuses, overtime and service gratuity.
6. Enhancing technological advancement to improve total factors of production such as capital and labour
7. Enhancing effective political economy to reduce the negative economic effects of the forth coming general elections that could spur uncertainties as has been witnessed in Tanzania and Uganda as well as instabilities in Burundi.
8. Kenya being dependent on Agriculture calls for modernization and increased value addition in the agricultural production process. Promote irrigative agriculture since dependence on natural rain has registered unpredicted output limiting possible economic growth

9.0 CONCLUSION

This paper has provided clear policy propositions and thoughts that could redefine Kenya's economic outlook. The Central Organization of Trade Unions remains keen to see the initiation and implementation of the above policy proposals to enhance Kenya's economic growth and development while delivering on the decent work agenda.

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