

Planning in Kenya's Macro- Economic Environment

“Cost Leadership as a Strategy for Competitive Advantage”

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OUTLINE OF PRESENTATION



- Introduction
- Recent Macroeconomic Performance
- How does it matter for Business Planning

Introduction



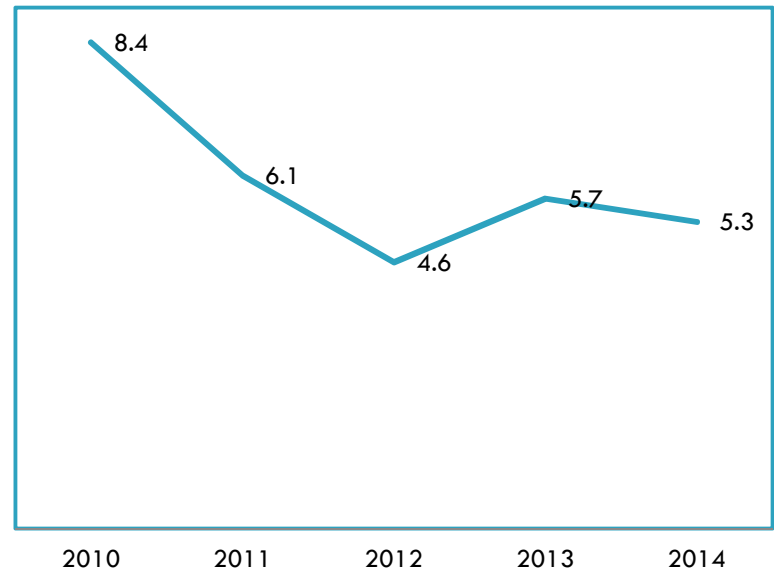
“growth prospects remain strong, inflation has been contained at single digit, interest rates are trending downwards and exchange rate is broadly stable, public debt remains sustainable and both fiscal and external buffers have been strengthened” BPS - par.5 - Theme: ENHANCING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY IN KENYA

Recent Macroeconomic Performance

GDP growth slowed in 2014 averaging 5.3 percent as compared to 5.7 percent in 2013. Growth in 2014 was mainly driven by increased spending by both government and households, which grew by 2.7 percent and 5.5 percent respectively.

Kenya is a low middle income country following GDP rebasing in 2014.

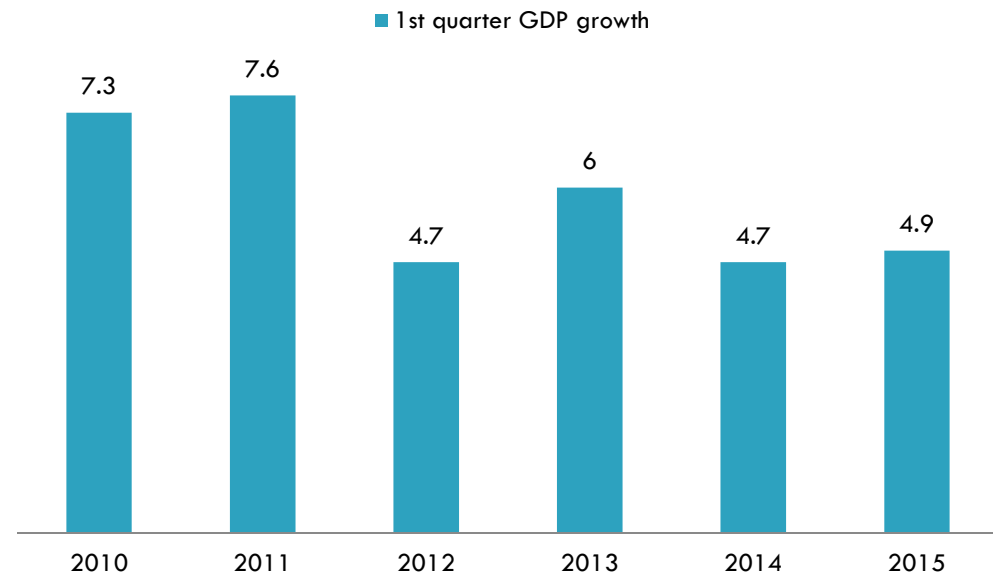
GDP Growth



Recent Performance

Economic performance stronger at 4.9 per cent during the first quarter of 2015 compared to a growth of 4.7 per cent, the same quarter in 2014

1st quarter GDP growth



Sector Growth Performance

There was a slow down in agriculture and manufacturing but major decline in Hotels and restaurants. Services have been a major driver of growth

	2011	2012	2013	2014
Agriculture	2.4	2.9	5.2	3.5
Mining and quarrying	19.0	19.0	-9.0	14.2
Manufacturing	7.2	-0.5	5.6	3.4
Electricity	13.3	13.6	9.8	6.8
Water	3.6	3.2	0.9	3.6
Construction	4.0	11.2	5.8	13.1
Wholesale and retail trade & repairs	8.3	7.0	8.5	6.9
Hotels and restaurants	4.1	3.1	-4.6	-17.2
Transport	7.1	2.8	1.2	5.0
Communication	22.0	2.4	12.3	13.4
Financial services	4.7	6.0	8.1	8.3
Real estate, renting and business services	5.1	4.0	4.1	5.6
Public administration	2.5	4.0	3.1	5.5
Education	7.5	11.1	6.3	7.5
Health	-2.6	-2.8	7.7	7.2
Other services	1.1	4.0	7.3	6.5

Manufacturing or services?

- ❑ Services (modern and traditional) have been major source of growth.
- ❑ In aspirational countries – manufacturing dynamism contributed to rapid industrialization.
- ❑ Manufacturing sector in Kenya – Internal (labor costs) and external costs (electricity, transport and logistics, corruption and a dual economy)

Summary Fiscal Framework

- ❑ The fiscal framework indicates a lower deficit in the medium and strengthening fiscal position
- ❑ Implications reduced 'crowding out'

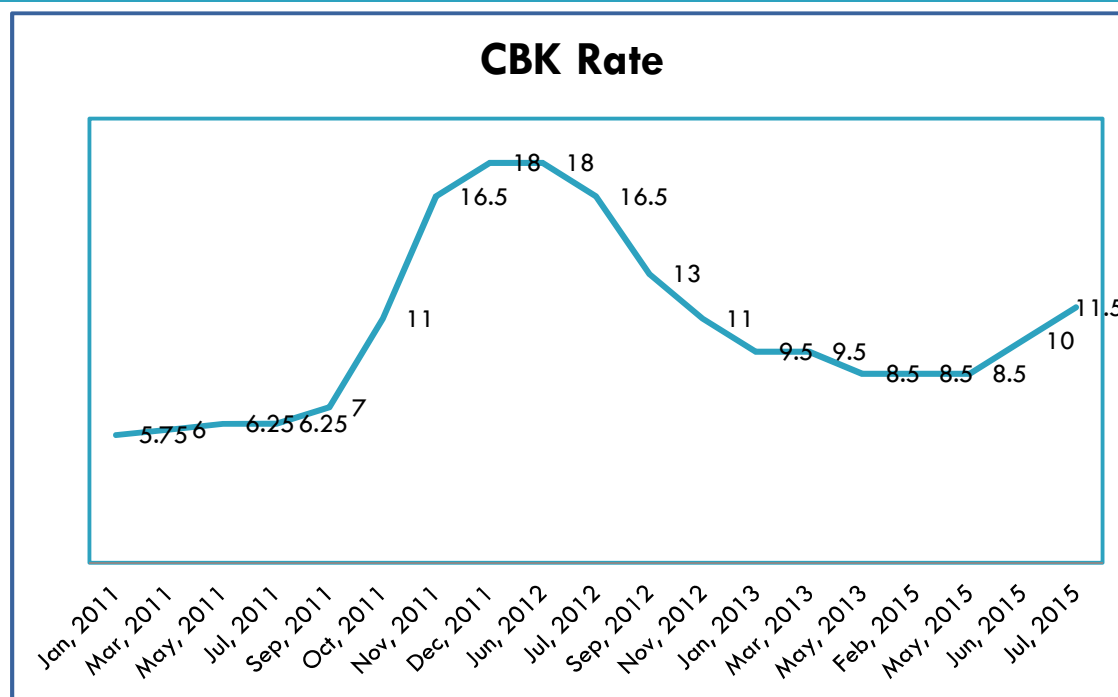
		2015/16	2015/16	2016/17
		KES	% of GDP	
Total Expenditure		1, 998,527	30.6%	27.6%
Total Revenue incl. grants		1,431,575	22.0%	22.3%
Deficit		566,952	8.7%	5.3%
Domestic Borrowing		219,249	3.4%	2.3%

Monetary Policy Stance

Monetary Policy Stance tightening since December 2011, when the rate stood at a peak of 18 percent.

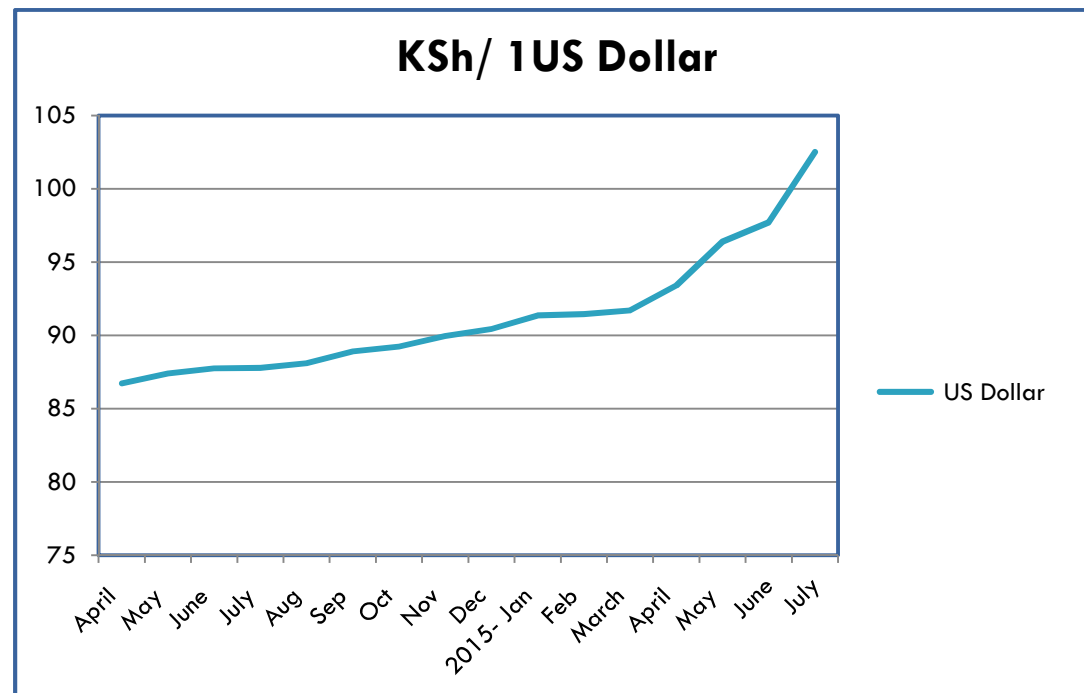
Implications for cost of credit and slowing demand?

■



Exchange Rate Movements

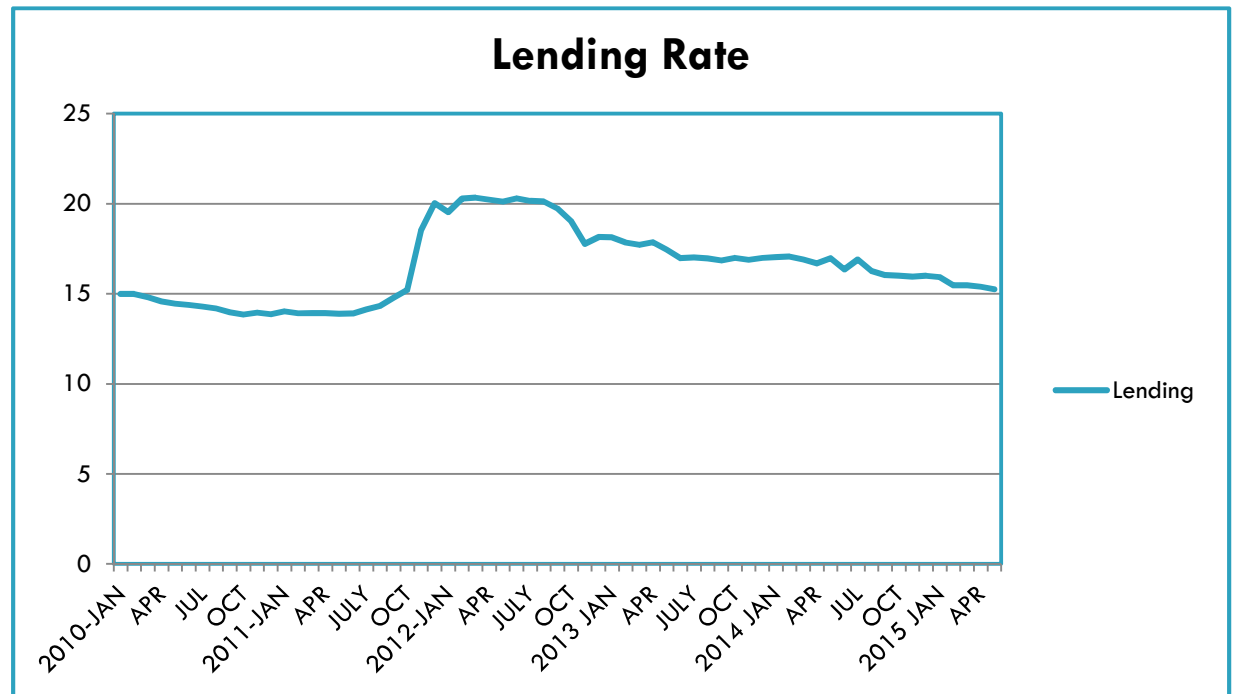
Between January and July 2015, the shilling has depreciated by about 11 percent. Key concerns – inflationary, high cost of imported inputs, and external loan repayment costs grow.



Lending Rate

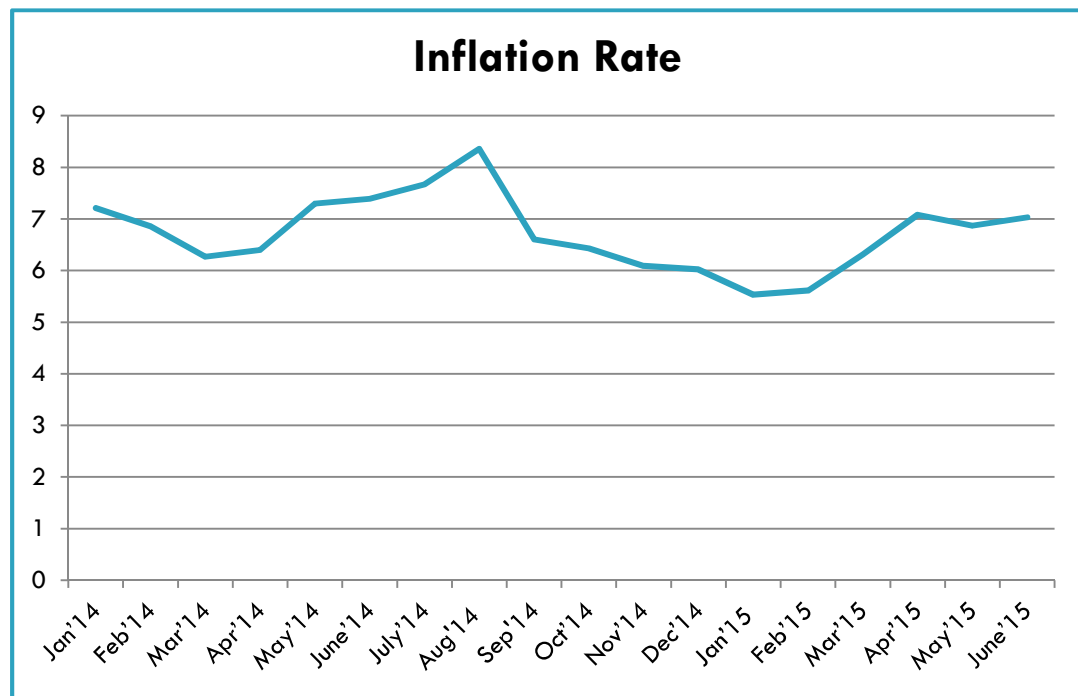
Lending Rates have been trending downwards but relatively slowly in relation to the CBR.

The average lending rate fell from 16.97 per cent in June 2013 to 16.36 per cent in June 2014, and further to 15.26 percent in May 2015



Inflation Rate

Inflation remains within the monetary policy target range 5 ± 2.5 . But inflationary expectations are growing.....
Exchange rate shocks and fuel prices



Savings and Investment Performance

Kenya's growth model – a growing investment-savings gap. Investment financed by foreign savings. This is reflected in a growing current account deficit. Long-term growth sustainability undermined? Vision 2030 target 31 percent consistent with East Asian Experience. (Physical and human capital and productivity)



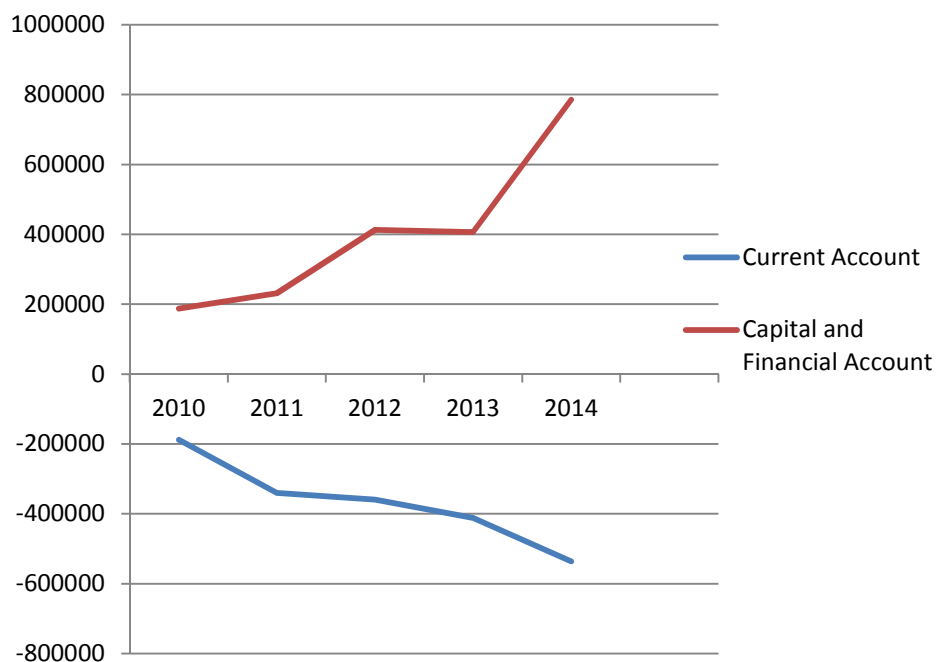
Can oil be the game changer? When ?

Why low savings?

- Why are savings low? High youth unemployment, macroeconomic stability- negative deposit rates, financial development, income growth, demographic factors, pension reforms, & public savings

External Sector Performance

Current account deficit continues to widen (KES 536,083 million in 2014). Imports have been growing faster. Exports as a % of GDP have stagnated.



Business Environment: Government Action is also critical



- ❑ Kenya's position on the doing business index has deteriorated despite many initiatives: From 78th in 2008 to 136th position in 2015. Key areas:
- ❑ Key areas include: starting a business; paying taxes; getting electricity; enforcing contracts; and registering a property.
- ❑ Devolution and business environment (multiple licenses and coordination) and service delivery

Other important factors

- ❑ Global oil prices
- ❑ Growth in emerging markets and key trading partners
- ❑ International Interest rates especially US
- ❑ Weather conditions
- ❑ Security
- ❑ Regional integration
- ❑ Devolution

Implications for planning

- Recent developments – are they short-run shocks or medium term?:
 - ▣ Investment plans;
 - ▣ Production plans;
 - ▣ Consumption partners;
 - ▣ Macroeconomic management;
- How will the MPC respond on 5th August?

Growth projections (REO)

	2014	2015	2016
Sub-Saharan Africa	5.0	4.5	5.1
Kenya	5.3	6.9	7.2
Uganda	4.9	5.4	5.6
Tanzania	7.2	7.2	7.1
Rwanda	7.0	7.0	7.0
Burundi	4.7	4.8	5.0
Ethiopia	10.3	8.6	8.5
Botswana	4.9	4.2	4.0
Ghana	4.2	3.5	6.4
South Africa	1.5	2.0	2.1
Zambia	5.4	6.7	6.9



END OF PRESENTATION

THANK YOU