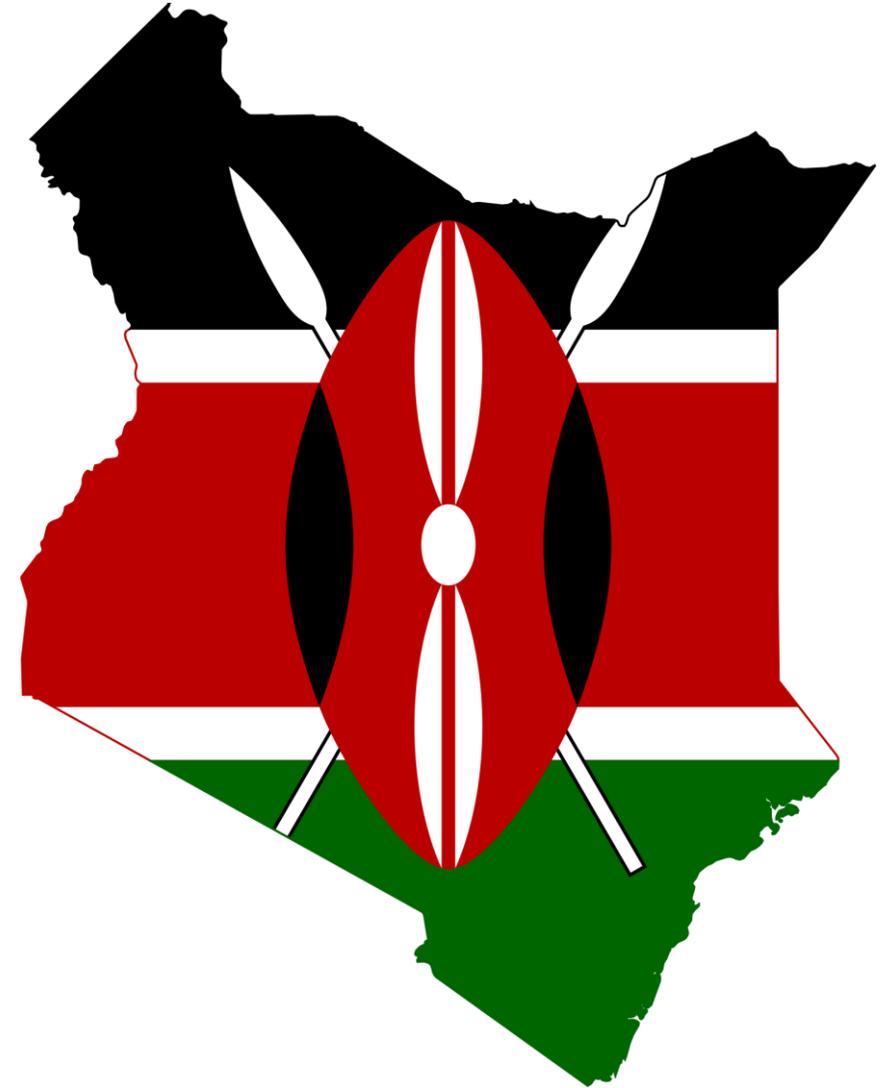


Overview of Kenya's Political Economy Post- 2022 General Elections and COVID-19

Kenia Seminar March 9-10, 2024

Presentation by Christopher Otieno Omolo, PhD





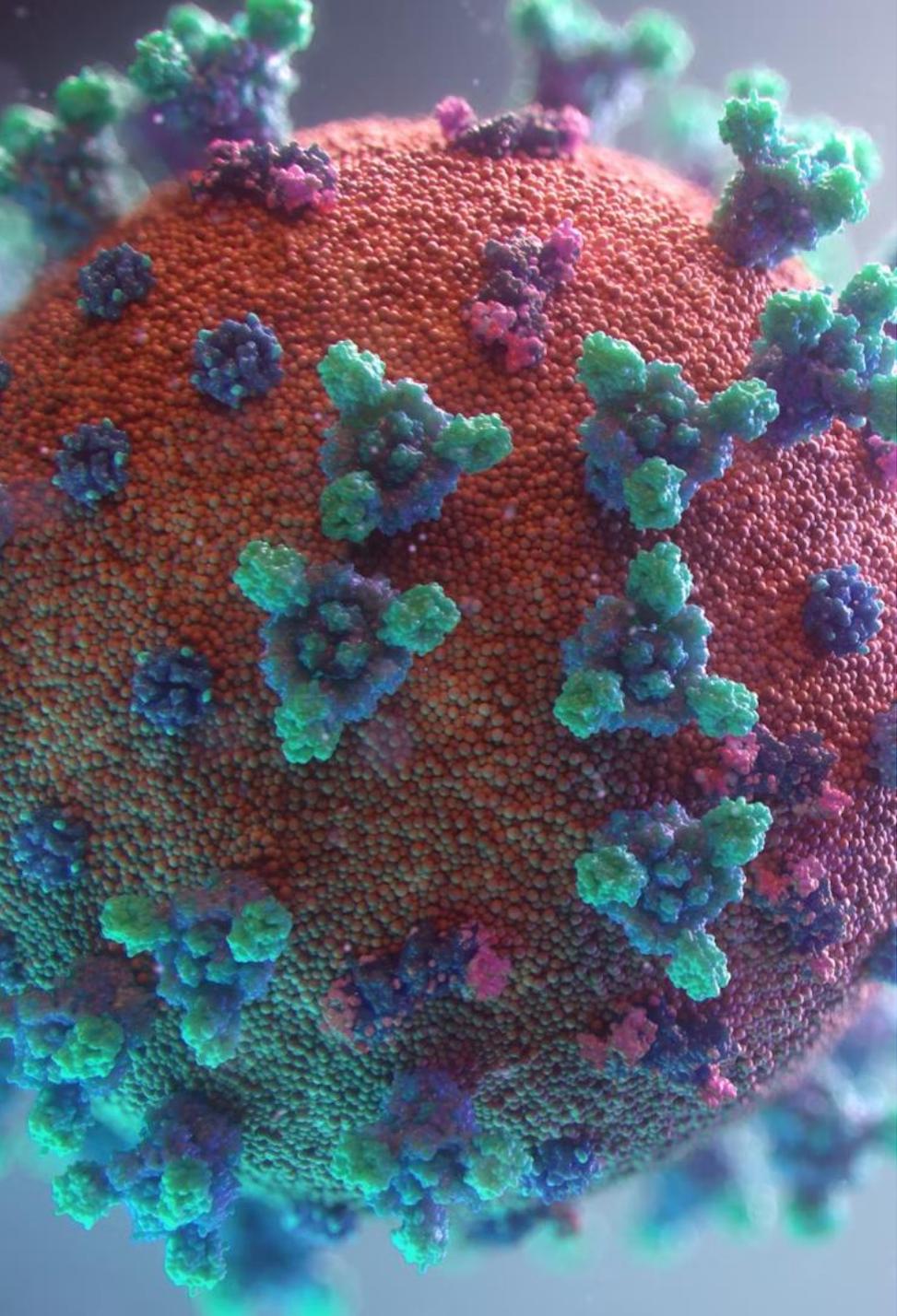
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- Political Developments -2023/2024
- Socio-Economic Developments 2023/2024
- Conclusion



Introduction

- Kenya has weathered the political and economic storms caused by Covid-2019, a hotly contested general elections in 2022, and fragile regional and global contexts to emerge stronger in 2024.
- Kenyan GDP growth projected to stay healthy in 2024 (because of favourable rainfall and a strong performance in agriculture)
- Challenges: Persistence of tight fiscal and monetary policy, and fragile global context

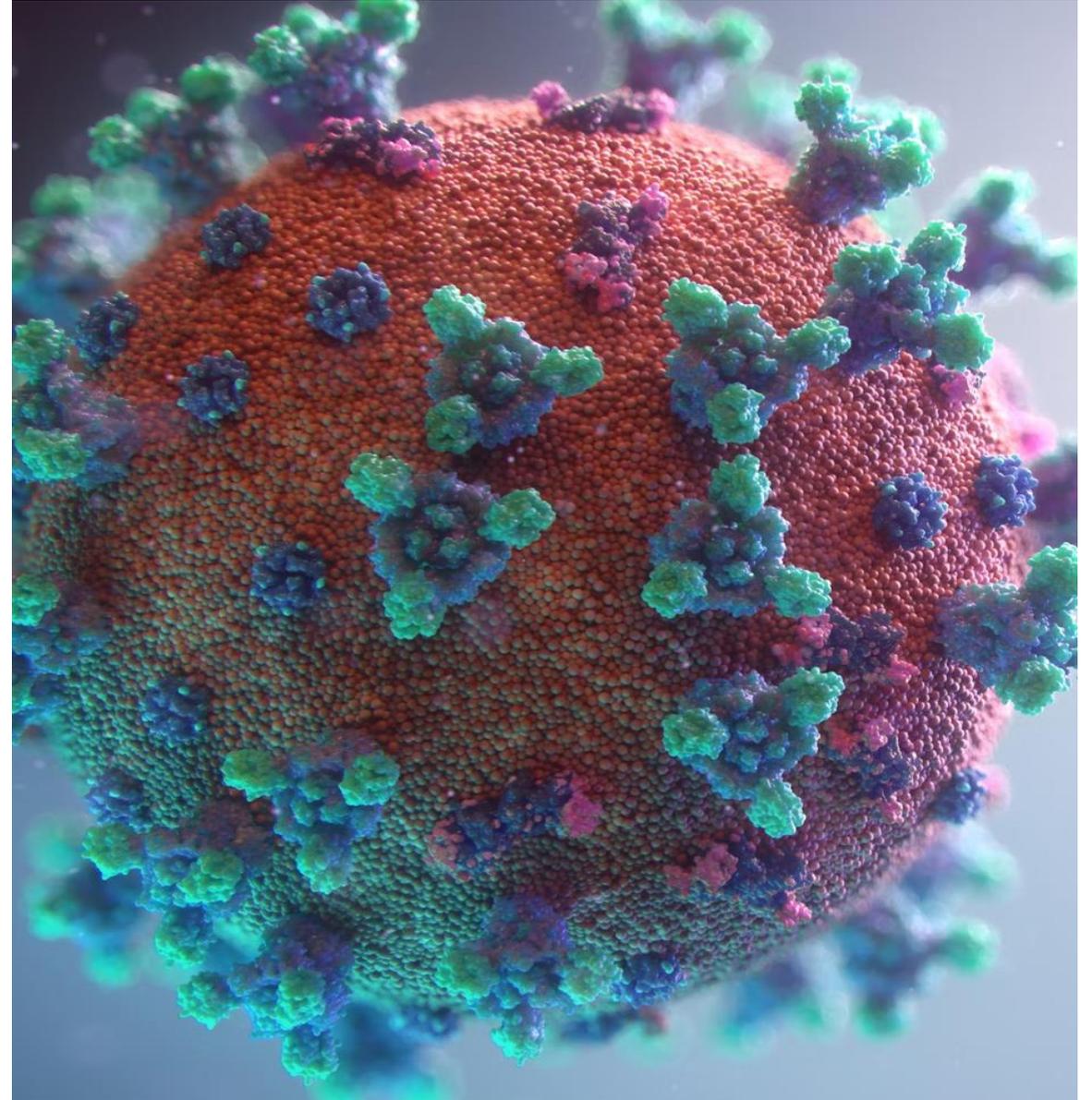


Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Covid 19

- Pre COVID-19 pandemic Kenya one of the fastest growing economies in Africa, with an annual average growth of 5.9% between 2010 and 2018.
- With a GDP of \$95 billion, Kenya reached lower-middle income status in 2014
- Kenya successfully established a diverse and dynamic economy.
- Kenya serves as the point of entry to the larger East African market.

Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Covid 19

- However, Kenya faces several challenges related to sustainable and inclusive economic growth, including corruption and economic inequality
- Growing gap between the rich and poor, with approximately 70 percent of families chronically vulnerable due to poor nutrition, food insecurity, and preventable diseases.
- Two-thirds of Kenyans live in poverty, making less than \$3.20 per day
- Many Kenyans suffer from economic inequality while a minority elite exploits their labor, resources, and opportunities.
- These Challenges exacerbated by COVID-19
- COVID-19 eroded progress made in the fight against poverty



Introduction: Events that Shaped Kenya's Political Economy in 2023/2024 : 2022 General elections

- General elections held on 9 August 2022 for the president, governors, senators, members of the National Assembly, and members of county assemblies.
- It was the 3rd general election and the 4th presidential one since the promulgation of the 2010 constitution.
- William Ruto elected President with 50.5% of the vote, defeating Raila Odinga who received 48.85% of the vote.
- On 22 August, Odinga filed a petition with the Supreme Court of Kenya challenging the results.
- The Supreme Court rejected the challenge and upheld Ruto's victory.
- Reverberations of the elections still felt in Kenya's current foreign and public policies



Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Russian War in Ukraine

- Kenyan economy significantly affected by the global supply chain disruptions stemming from the Russian invasion of Ukraine.
- The war resulted in disruptions to the value chains of critical inputs for the manufacturing and agriculture sectors, delays of exports destined for Russia and Ukraine and exchange rate depreciation in the first quarter of 2022
- Price of food and energy commodities rose, reflecting similar changes at the global level.
- Between January and June 2022, diesel, petrol and wheat prices increased by 20%, 11% and 28%, respectively, in Kenya
- Food and transport account for 42.6% of Kenya's inflation basket, the price increases and currency depreciation increased Kenya's import bill, reduce aggregate demand and slow down employment



Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Russian War in Ukraine

- Macroeconomic impacts largely driven by global fertiliser and fossil fuel price increases.
- Effects of high commodity prices varied among urban and rural households, with low-income groups being more vulnerable to price increases.
- The Kenyan government intervention through fossil fuel subsidies contributed to easing the cost-of-living crisis by reducing prices but came at a considerable fiscal cost.
- Fertiliser subsidies helped to enhance food security by boosting agricultural output, with positive secondary effects on government revenue.



Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Russian War in Ukraine

- Kenyan economy is a commodity market – it generates most of its revenue through commodity exports – coffee, tea, cut flowers and vegetables.
- The sanctions against Russia directly impact Kenya, with the disruption in trade of Kenya's primary commodities.
- Flower farms in Kenya are already reducing production because of depressed demand.
- The tea sector – Russian tea buyers have kept off the auction following the announcement of the sanctions.
- The major shipping companies are also keeping away in response to the sanctions.



Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Russian War in Ukraine

- The exclusion of Russian banks in the SWIFT payment system has made it difficult to receive payment for sales of commodities to Russia.
- Kenya imports wheat, oil, iron, steel, and fertilisers from Russia and Ukraine.
- Russia and Ukraine dominate wheat imports to the East African region. In Kenya, 67% of wheat is from Russia, 22% from Ukraine and 11% from the rest of the world.
- Russia is the world's largest exporter of fertiliser and exports a significant volume of fertiliser to the East Africa region.
- Disruption in fertiliser production and exportation has already caused a spike in the price of fertiliser in Kenya.
- In March 2022, fertiliser costs doubled during the long rains planting season of March-April-May 2021 from 21 USD (KES2,500) to more than 42 USD (KES 5,000).



Introduction: Events that Shaped Kenya's Political Economy in 2023/2024: Climate Change

- Key climate change risk for Kenya derive from extreme weather events – droughts and floods
- Droughts and floods increasing in frequency and intensity
- Adverse knock-on effects of drought and floods - soil erosion, land degradation, pest breakouts.
- Between 2010 and 2020, adverse climate change-related events led to annual socio-economic losses equivalent to 3-5 percent of the GDP
- Climate change impact on Kenyan economy channeled mainly through agriculture and water sectors



Political Developments -2023/2024

- The impact of 2022 elections still being felt in 2024 – the elections dominate public discourses, and the outcome of the elections continue to shape the conduct of Kenya’s domestic and foreign policy:
 - ❑ country remains divided politically
 - ❑ State appointments shaped by the elections – government appointment skewed in favor of its supporters
 - ❑ Political realignments already taking place
 - ❑ Government has struggled to implement its promises



Political Developments - 2023/2024

- Early 2023 dominated by country-wide street protests, mainly in the opposition zones, but also in areas that supported the Kenya Kwanza government
- Objective of the protests:
 - Lowering of cost of living
 - Lowering of taxes
 - Reform of IEBC
 - Review of the last elections
- Government and opposition convene a national dialogue committee (NADCO) which produces the NADCO document



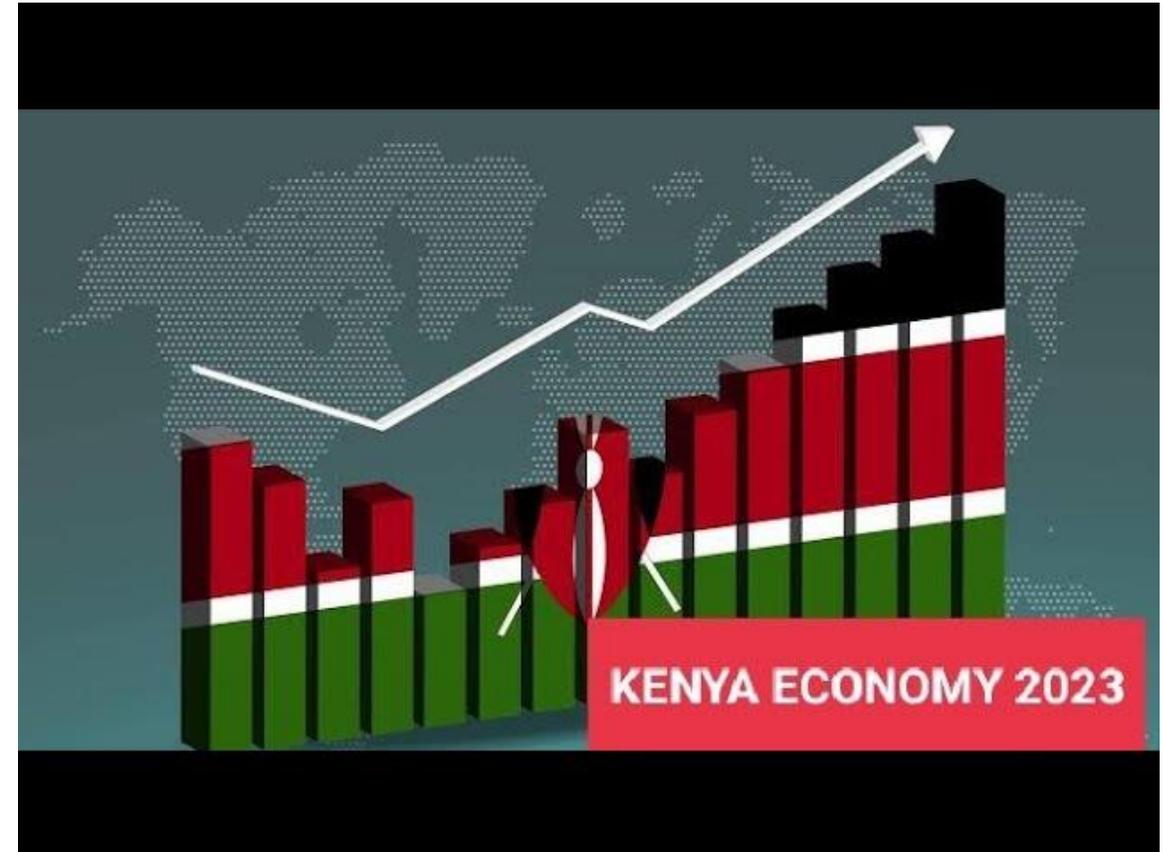
Political Developments -2023/2024

- Government reaches out to the opposition – pledging support for Raila Odinga’s candidacy for the chairmanship of the African Union Commission
- Opposition considerably weakened by the ‘handshake’ by Raila Odinga and President Ruto



Kenya's Socio-Economic Developments 2023-2024 – State of the Economy

- After a GDP growth at 4.8 percent in 2022, economic performance softened after the strong rebound from the COVID-19 crisis at 7.5 percent in 2021.
- The growth rate, however, has remained in line with Kenya's long-term growth trajectory, even though the economy faced challenging global financial conditions, fuel, and food price shocks, and a historic drought that affected the economy, especially in the second half of 2022.
- Growth momentum was driven by the service sector which contributed about 80 percent of the increase in total GDP.
- Financial services, tourism, and transport sectors performed especially strongly.
- Kenya's GDP growth outpaced that of Sub-Saharan Africa which is estimated to have grown at 3.6 percent in 2022.
- GDP growth amid the poly-crisis highlights the resilience of the Kenyan economy.



Socio-Economic Developments 2023/2024:

- Kenya has grappled with five main socio-economic challenges in the since January 2022:
 1. Rising cost of living
 2. Unsustainable public debt
 3. Burdensome taxes
 4. Government corruption and profligacy
 5. Weakening currency



Socio-Economic Developments 2023/2024: Rising cost of living and Burdensome Taxes

- In mid-2023, waves of deadly protests hit Kenya over tax hikes and the cost of living
- During protests several people killed in clashes between police and protesters
- Government adopted the Finance Bill, in which it increased tax on petroleum products which led to a rise in cost of transport and staples.



Socio-Economic Developments 2023/2024: Rising cost of living and Burdensome Taxes

- In 2023 government adopted the Finance Bill 202
- The bill proposes that contributions be refundable or be used to finance purchase of houses under affordable housing
- the legislated change is a non-refundable levy of 1.5% payable by both the employer and employee.
- withholding tax of 5% for payments relating to digital content monetisation
- amended the Income Tax Act by introducing Digital asset tax (DAT) at a rate of 3% deducted by a person who owns of a platform or facilitates the exchange or transfer of a digital asset



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Monthly Bands of Taxable Income (KES)	Tax Rate
0 – 24,000	10%
On the next 8,333	25%
On the next 467,667	30%
On the next 300,000	32.5%

Socio-Economic Developments 2023/2024: Rising cost of living and Burdensome Taxes

- Government reasons taxes will help create jobs and increase domestic revenue.
- Ruto government inherited a battered economy grappling with soaring inflation, a high debt burden, unemployment and post-COVID stagnation.
- Government halted food subsidies introduced the Uhuru government, proposing shift to food production.
- Government also terminated subsidies for fuel and electricity, describing them as unsustainable



Socio-Economic Developments 2023/2024: Unsustainable public debt

- Kenya Government debt accounted for 68.3 % of the country's Nominal GDP in Mar 2023, compared with the ratio of 68.4 % in the previous quarter
- This is lower than an all-time high of 68.6 % in Sep 2021
- But far higher than the record low of 39.7 % in Mar 2010, during the Mwai Kibaki regime



Socio-Economic Developments 2023/2024: Weakening currency

- a steady sliding trajectory Kenyan currency since 2021 when one USD exchanged at an average of KES109.7428
- In January 2022 one USD exchanged for an average of KES 112.8349; while in January 2023, one USD exchanged at an average of KES. 123.3806 KES.
- In January 2024, one USD is exchanging at KES.162.50





Conclusion

- Kenya is a resilient nation
- For Kenyans, 2023 the hardest year, things can only get better
- The economy already showing signs of stable recovery
- Political tensions have receded, a handshake with the opposition looks likely.
- Despite the challenges, Kenyans are, as always, hopeful for a good year ahead