

Kenya. Structure, problems, application

4.6% Real GDP growth 2025 (5.3% Q1 2026)	\$136 bn Nominal GDP 2025 (KSh 17.6 trn); East Africa's largest	~\$2,550 GDP per head 2025; lower-middle income	~\$13 bn Goods trade deficit 2025; imports ≈3× domestic exports	\$5.0 bn Remittances 2025, record; largest single FX source
6.8% CPI Sep 2026; target band 2.5–7.5%	83.8% Jobs informal ("jua kali") 2025; 18.1 m workers	~69% Public debt % of GDP (May 2026)	0.39 Gini (2021); poverty 39.8% (2022)	~121% Mobile money transactions % of GDP (2025)

STRUCTURE OF THE ECONOMY

SECTOR	% OF GDP (2025)	SECTOR	% OF GDP
Agriculture	23.2	Manufacturing	7.1 (11.5 in 2009)
Transport	11.8	ICT	2.3
Finance	8.3	Real estate	8.2

- Agriculture employs ~40% of workers, mostly smallholders → low productivity.
- AD mix:** consumption-led; (X–M) strongly negative; G squeezed by interest. Manufacturing shrinking: *premature deindustrialisation*.
- Goods gap covered by** remittances, tourism and transport services: current account deficit only ~1.7% of GDP (2025).

MAIN INDUSTRIES

- Tea:** world's largest black-tea exporter; KSh 187 bn (2025).
- Horticulture:** cut flowers KSh 103 bn; +13.8% in 2025.
- Tourism:** 2.55 m visitors (2025); hotels +15.6%.
- Finance & fintech:** M-Pesa (2007); 51 m mobile money subscriptions.
- Logistics:** Mombasa port + SGR serve Uganda, Rwanda, S. Sudan, DRC.
- Energy:** geothermal ~40% of electricity; ~90% renewable.

GROWTH STORY: TURNING POINTS

2007 M-Pesa launched: financial inclusion	2010 New constitution; 47 counties (from 2013)	2014 GDP rebased; first \$2 bn Eurobond	2017 SGR opens: \$3.6 bn, 90% China Exim
2020 COVID: GDP –0.3%, tourism collapses	2023 Fuel VAT doubled to 16%; housing levy	2024 Eurobond at 10.375%; Finance Bill protests, bill withdrawn	2025–26 IMF programme ends; CBR cut to 8.75%; debt ~69%

Why growth has held up (~5% a year): diversified exports, remittances, services and mobile money. **But** few formal jobs: real wages below 2009 level.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Debt distress	Debt ~69% GDP; interest ~25–35% of revenue	Crowding out
Weak tax base	Tax ~14.4% of GDP (~18% in 2014)	Taxation, equity
Jobs gap	81% of 2025 new jobs informal	Underemployment
Trade deficit	Imports ≈3× goods exports	Current account
Deindustrialisation	Manufacturing 11.5% → 7.1%	Structural change
Drought	Agri growth 3.1% (2025)	SRAS shocks
Regional poverty	Turkana food poverty 64%	Inequality
Real wages	Below 2009 level	Living standards

INEQUALITY & DEVELOPMENT

- Poverty 39.8% (2022) ≈ 20 m people; hardcore 7.1%.
- Gini 0.39 (2021): higher than Nigeria or Ethiopia; unequal land ownership.
- Food poverty: Turkana 64%, Mandera 60%; lowest in Nairobi, Kiambu.
- HDI 0.628 (2023), 152nd. Financial inclusion 84.8% (2024).
- M-Pesa lifted ~2% of households out of poverty (Suri & Jack 2016; disputed).

Austerity or default? Tax rises sparked protests; cuts hurt services; IMF deal not yet agreed. Compare Ethiopia's 2023 default.

CLASSIC CHAINS USING KENYA

- Mobile money:** cheaper, safer transfers and saving → households absorb shocks and invest in small firms → incomes ↑ → poverty ↓.
- Debt squeeze:** high debt → interest ~a third of revenue → less on health, schools, roads (opportunity cost) → lower human capital → slower LRAS growth.
- Oil shock:** oil price ↑ → fuel import bill ↑ → current account deficit widens → shilling pressure + transport costs ↑ → inflation ↑ (6.8%, Sep 2026).

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Diaspora remittances in 2025: _____
3. Public debt as % of GDP (2026): _____
4. Year M-Pesa was launched: _____
5. Share of jobs that are informal: _____
6. Manufacturing as % of GDP (2025): _____
7. Formal financial inclusion (2024): _____
8. Year of the Finance Bill protests: _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

KENYA EVIDENCE	LETTER	CONCEPT
1. Interest takes a large share of revenue		A. Trading bloc / trade creation
2. M-Pesa reaches people with no bank account		B. Premature deindustrialisation
3. Exports to Uganda grow after EAC tariffs end		C. Crowding out / opportunity cost
4. Manufacturing share falls from 11.5% to 7.1%		D. Financial inclusion
5. Drought cuts maize and tea output		E. Regressive taxation
6. VAT proposed on bread in 2024		F. Negative supply-side shock

C · COMPLETE THE CHAINS

1. Government raises VAT → _____ → consumption falls → _____.
2. Remittances rise → _____ → _____ → poverty falls.
3. World oil price rises → _____ → _____ → inflation rises.

D · EXAM-STYLE QUESTIONS

Extract. Kenya's public debt reached about 69% of GDP in 2026. Interest payments take between a quarter and a third of government revenue. In June 2024 the government withdrew a Finance Bill that aimed to raise KSh 346 bn in new taxes after mass protests. Tax revenue has fallen from nearly 18% of GDP in 2014 to about 14.4%.

(5 marks) With reference to the extract, explain one reason why high interest payments may reduce economic growth in Kenya.

(8 marks) Examine how mobile money may contribute to economic development in Kenya.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate the policies a developing economy such as Kenya could use to reduce its public debt burden.

POLICIES AND HOW THEY WORK (WITH KENYA EVIDENCE)	LIMITS / DIFFICULTIES
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 4.6%
2. \$5.0 bn (accept about \$5 bn / KSh 650–661 bn)
3. About 69% (accept 65–70%)
4. 2007
5. 83.8% (accept 80–85%)
6. 7.1%
7. 84.8% (accept about 85%)
8. 2024

B · MATCHING

1 → C · 2 → D · 3 → A · 4 → B · 5 → F · 6 → E

C · CHAINS

1. Prices rise / real disposable income falls → AD falls via the multiplier (and revenue grows less than planned).
2. Household incomes rise → more spending on food, school fees and health (C ↑, human capital ↑).
3. Fuel import bill rises / current account worsens → transport and production costs rise, shilling under pressure (cost-push).

D · EXAM-STYLE GUIDANCE

5 marks: Define public debt or opportunity cost (1). Use the extract: interest takes a quarter to a third of revenue; debt ~69% of GDP (1–2). Chain: more revenue spent on interest → less on infrastructure, health and education → less physical and human capital → LRAS grows more slowly (2). Alternative: heavy government borrowing keeps lending rates high → private investment crowded out.

8 marks: Knowledge/application: lower transaction costs, safer saving, easier receipt of remittances (\$5 bn in 2025), access to small loans; inclusion 84.8% (2024); transactions ~121% of GDP. Analysis: chain from inclusion → saving and small-firm investment → incomes ↑ → poverty ↓; households smooth shocks such as drought. Evaluation (2 points for full marks): high fees on small transfers; digital-loan debt traps; does not fix the lack of formal jobs; evidence on poverty effects is disputed.

E · 25-MARK PLAN: POINTS TO LOOK FOR

Policies

- Widen the tax base, cut exemptions (tax fell to ~14.4% of GDP).
- Cut current spending and waste (KSh 999 bn cuts, 2024).
- Faster growth lowers debt/GDP (Q1 2026 growth 5.3%).
- Swap costly Eurobonds (10.375%) for concessional IMF/World Bank loans.
- Lengthen maturities; restructure if needed.

Limits / difficulties

- 2024 protests: tax rises lack public consent.
- 83.8% of jobs informal: hard to tax.
- Cuts hit health, schools, investment → slower growth.
- IMF loans come with conditions; deal not agreed by Oct 2026.
- Restructuring (Ethiopia 2023) cuts market access.

Judgment: a mix is needed. Steady growth plus gradual base-widening is more sustainable than sharp austerity. Trust in how revenue is spent is the binding constraint. Compare Ethiopia's default and Greece's austerity.