

## Presentation to Parliamentary Committee on Finance & National Planning

### Economic Overview of the Manufacturing Sector in Kenya

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# Presentation Outline

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Key wins for the manufacturing sector

State of manufacturing and the economy

Manufacturing employment contribution

Performance of manufacturing priority areas: exports, illicit trade, high cost of electricity

Key priorities on industrial competitiveness

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# Key wins for the economy and the private sector

## Monetary Policy

- Expansionary monetary policy to reduce the cost of credit

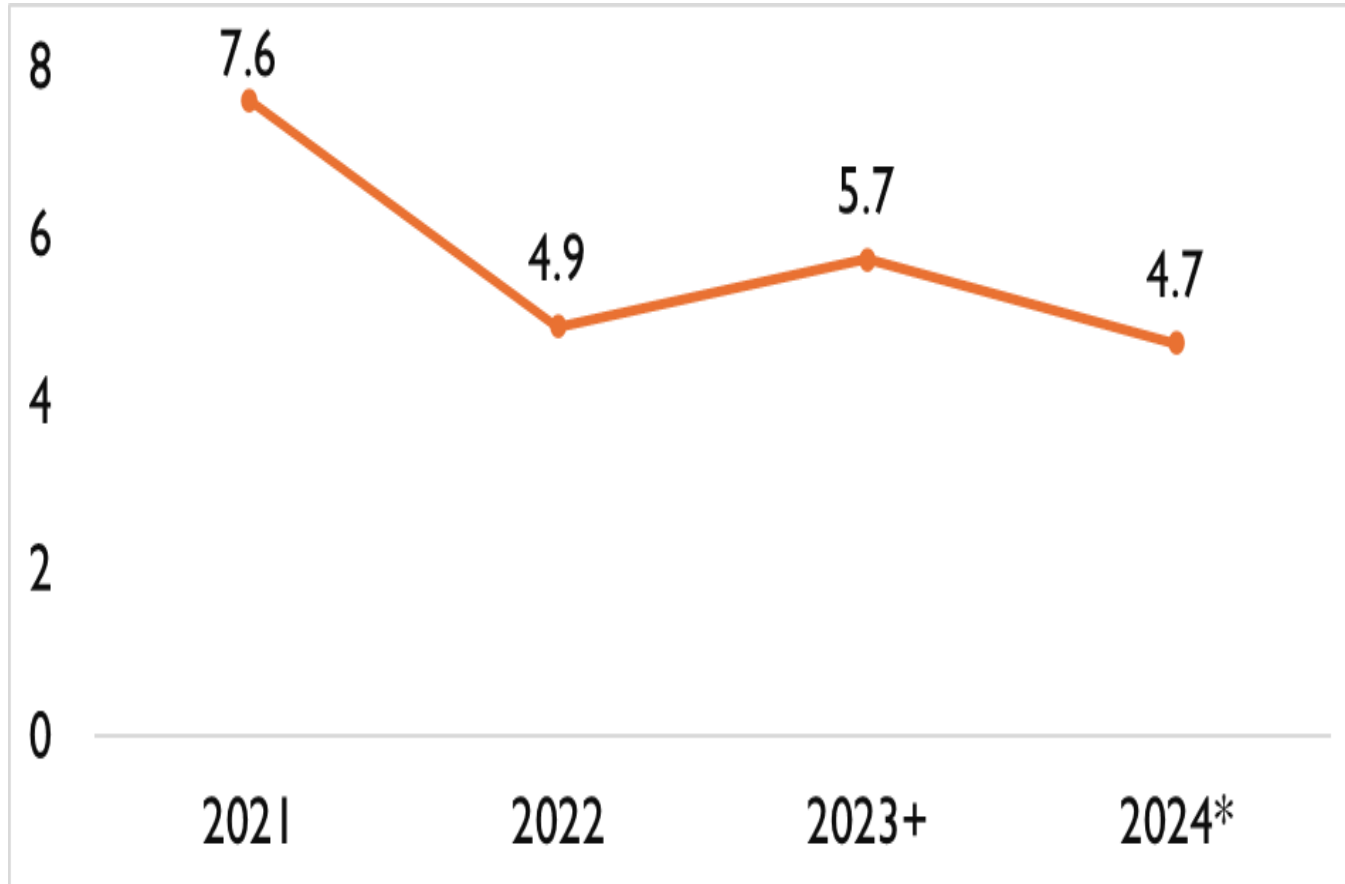
## Stable macroeconomic environment

- Stable exchange rate
- Single-digit inflation rate regime
- Reducing interest rates
- Relatively stable economic growth rate

## Appreciation

- Appreciate government commitment to revitalize the manufacturing sector

# Economic Growth Rate (%)

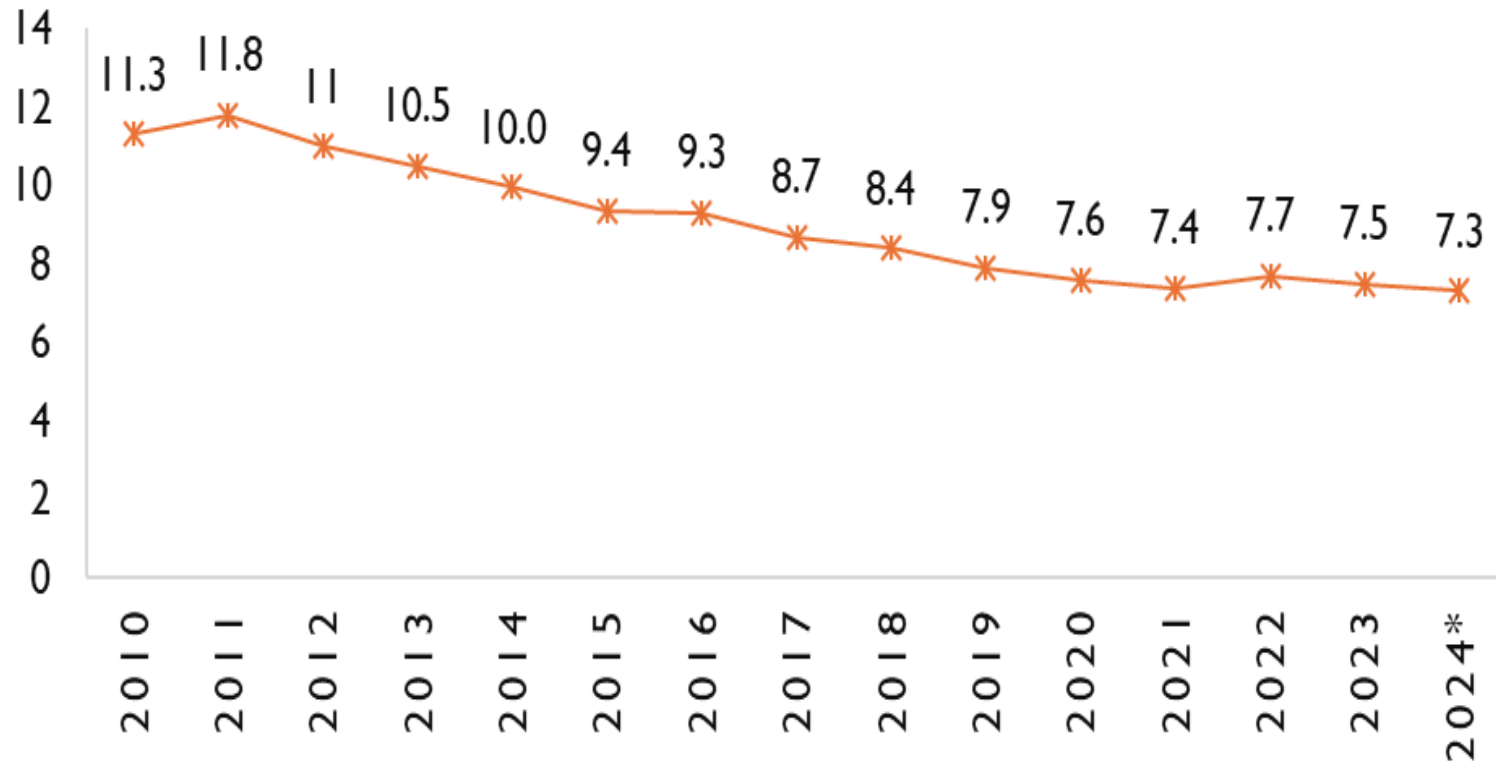


Data source: *Economic Survey 2025*

- ✓ Economic growth rate declined from 5.7% in 2023 to 4.7% in 2024
- ✓ According to a World Bank report released on Tuesday this week (27th May 2025) titled "*Beyond the budget: Fiscal policy for growth and jobs*" economic growth in Kenya has been driven by hard-to-tax sectors such as agriculture and services which are largely informal

# Kenya's Manufacturing GDP

**Share of manufacturing to GDP(%), 2010-2024**



Data source: Economic Surveys

- ✓ The share of manufacturing (easy to tax sector) to GDP has been reducing over time
- ✓ Key contributors of decline:
  - Taxation of industrial inputs
  - Accumulation of VAT refunds
  - Tax policy uncertainty due to frequent changes in tax laws
- ✓ KAM to propose some remedial measures in today's presentation

# Contribution of the manufacturing sector to employment



In 2024, total wage employees (both public and private sector) was 3.14 million of which 2.2 million Kenyans were employed in the private sector



Wage employees in the manufacturing sector was 369.2 thousand in 2024, accounting for 11.8% of formal wage employees

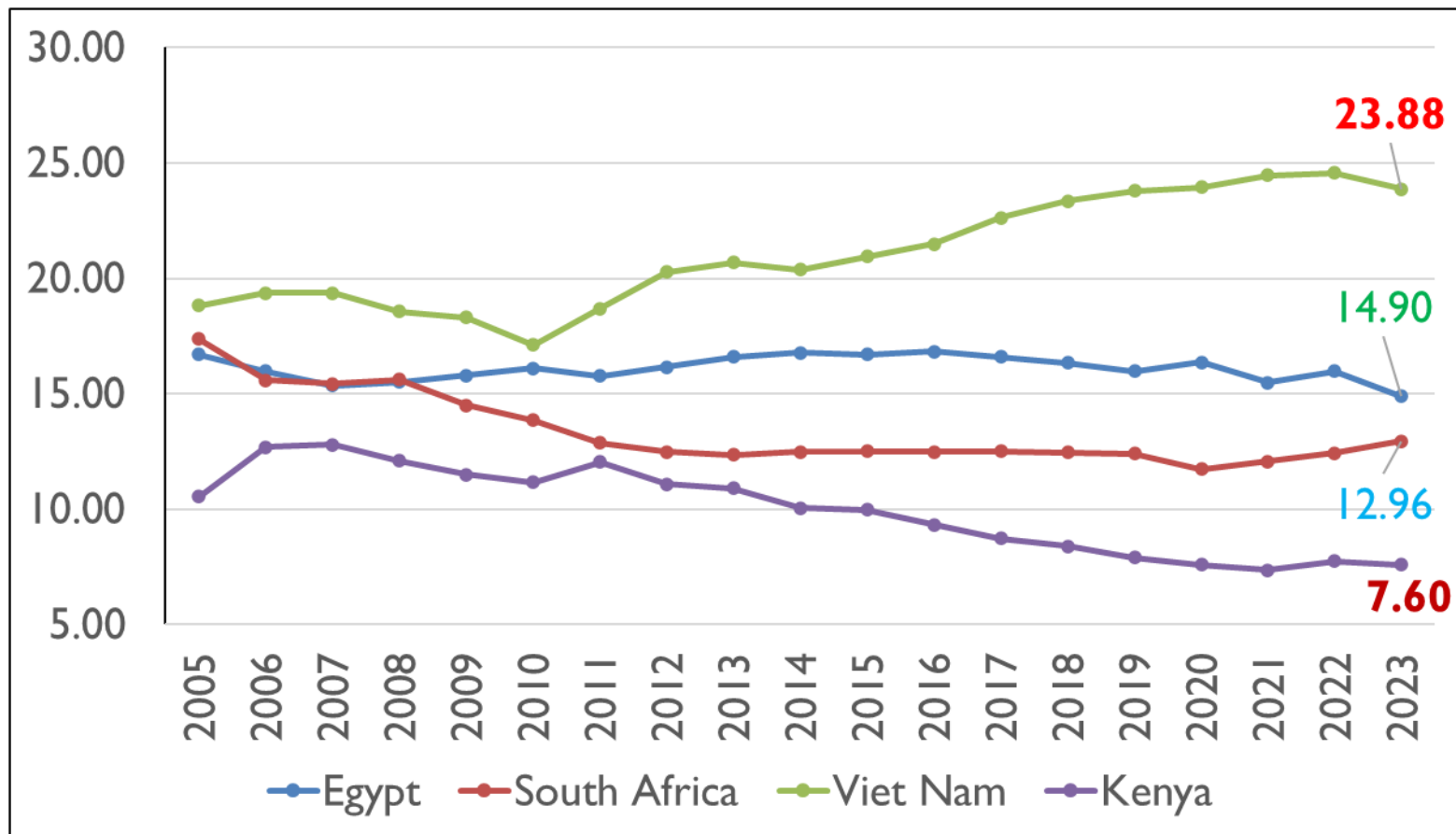


If the declining manufacturing GDP is reversed, there will be an increase in wage employees in the sector and consequently lead to an increase in direct tax contributions such as PAYE and indirect taxes such as VAT through increased consumption



# Manufacturing GDP contribution

## Kenya's manufacturing GDP contribution (%)



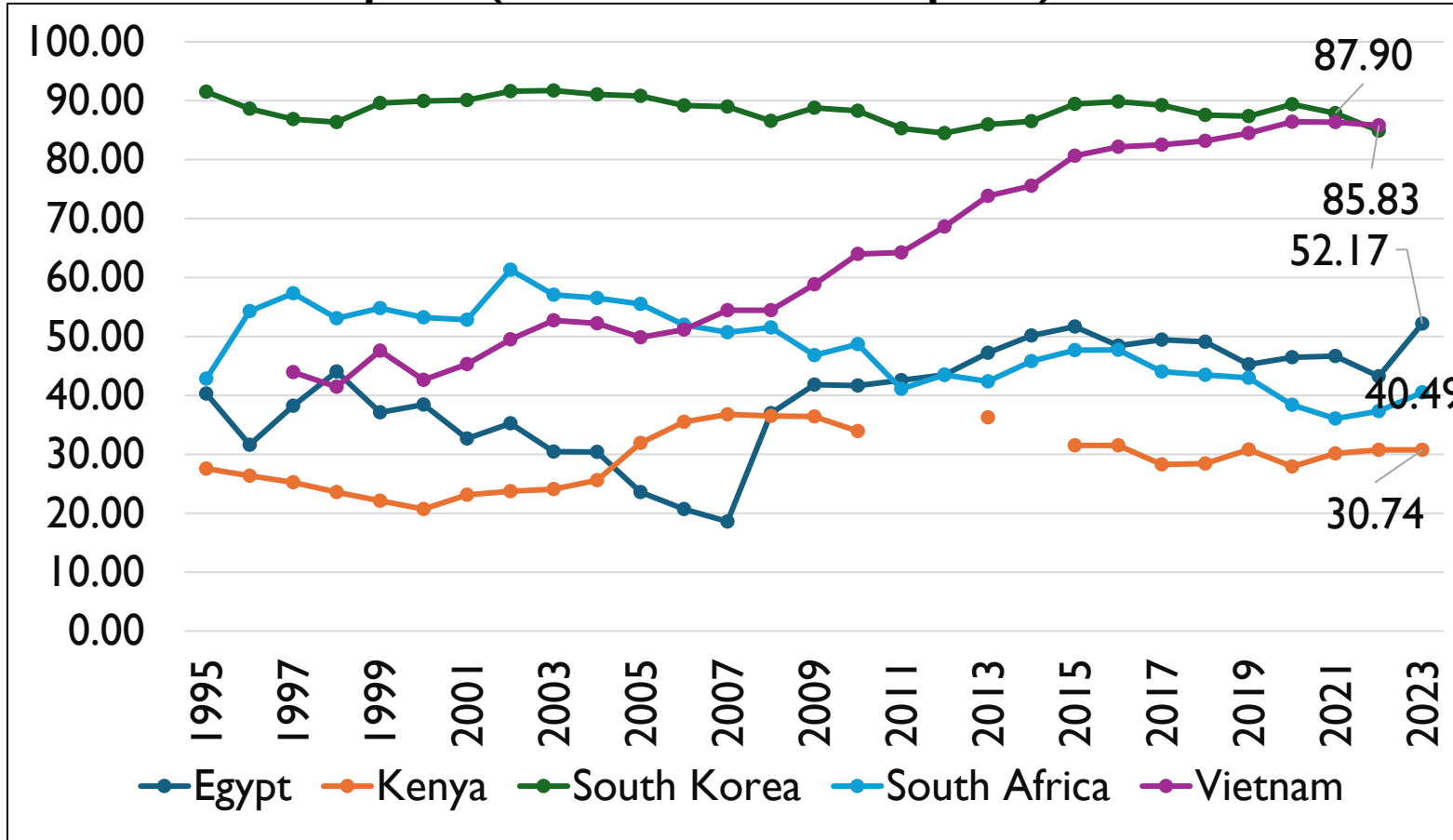
Data source: World Development Indicators

-Manufacturing GDP contribution reduced from 7.6% in 2023 to 7.3% in 2024

-Vietnam is growing its manufacturing sector

# Contribution to exports

## Manufactures exports (% of merchandise exports) 2019-2023



- ✓ Kenya is lagging behind comparator countries such as South Africa, Egypt, Vietnam and South Korea
- ✓ Trade deficit has averaged about Ksh. 1.6 trillion for 2022-2024 period
- ✓ Increased export of manufactured exports will reduce this deficit

Data source: World Development Indicators



# Contribution to exports

Vietnam is the 3<sup>rd</sup> leading exporter of textiles and apparels in the world after China and Bangladesh

- Textiles exports in 2024 were valued at US\$ 44 billion

Vietnam is also the 2<sup>nd</sup> largest exporter of cell phones in the world after China

- It's mobile phones and phones accessories exports were valued at US\$ 52.38 billion in 2023

What factors make Vietnam an attractive investment location for businesses?

- Cost competitiveness
- Skilled and young workforce
- Well-developed infrastructure
- Enhanced market access
- Supportive government policies

# Industrial competitiveness in Kenya

Unstable and unpredictable policies

Regulatory burden

High cost of industrial inputs

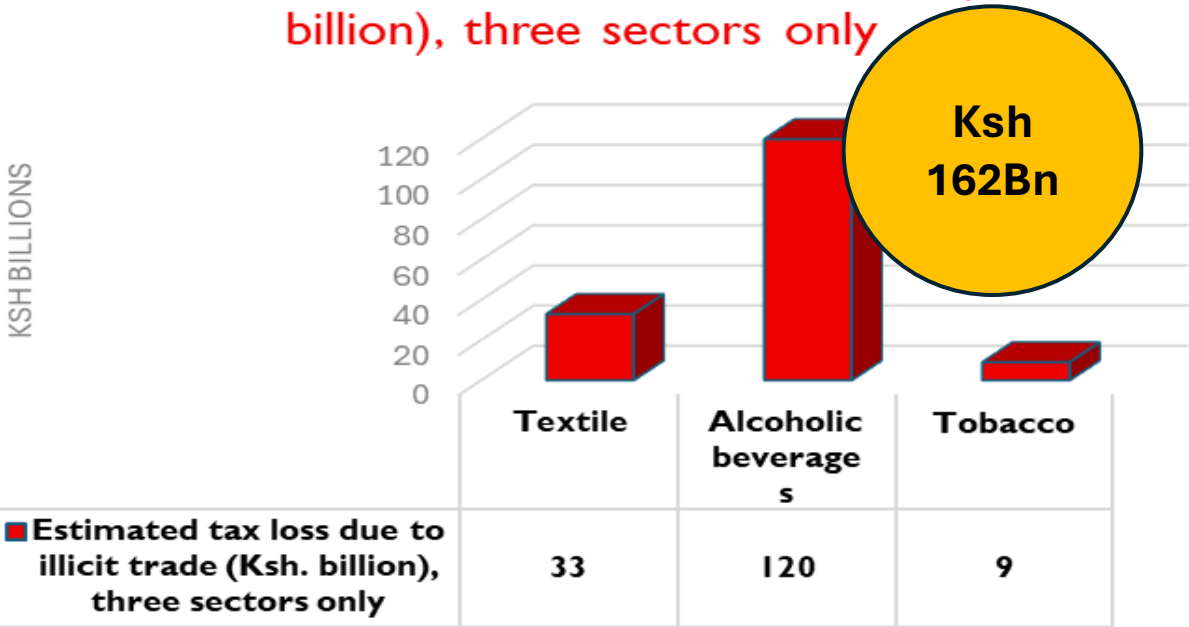
High cost of energy

Illicit trade

Cashflow constraints

# Cost impact of illicit trade on Kenya's revenue

Estimated tax loss due to illicit trade (Ksh. billion), three sectors only



Estimated fiscal deficit in the fiscal year 2025/26 of Ksh 876 billion can be reduced to Ksh 50 bn by eradicating illicit trade in Kenya.

**103Billion**  
Ksh Government revenue lost in 2018

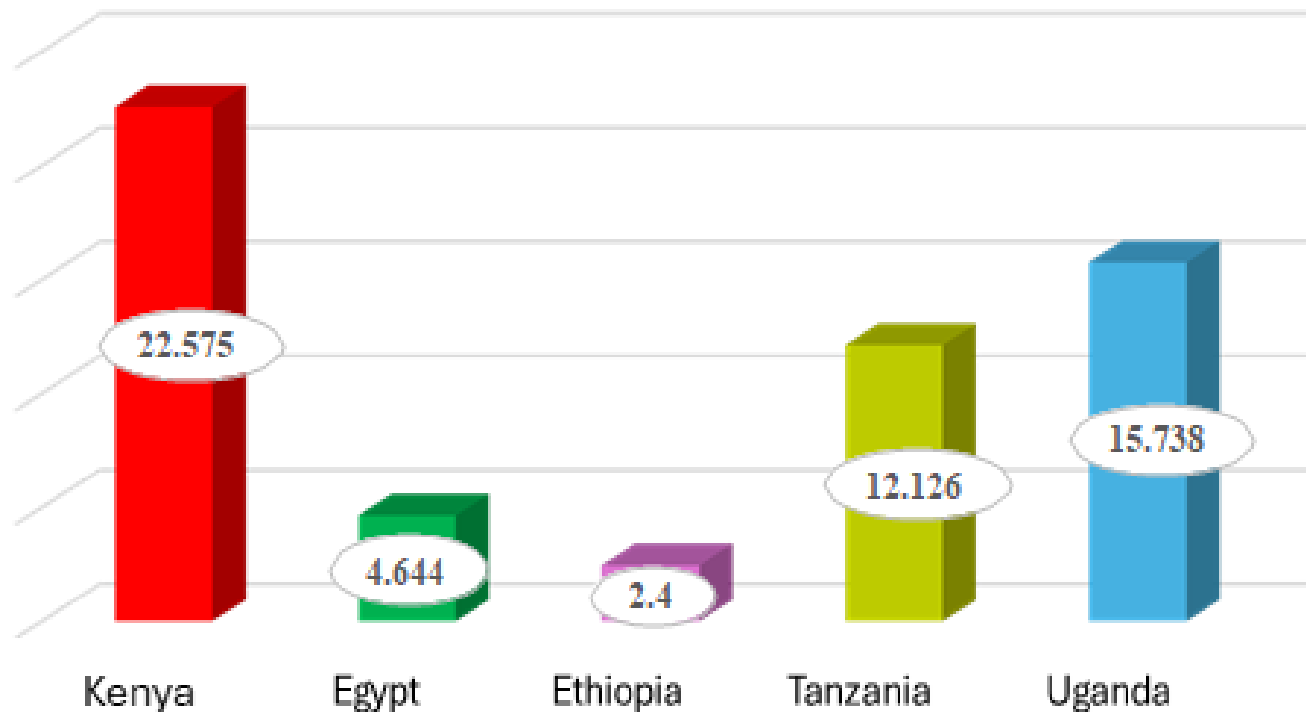
**7484**  
Jobs lost in Kenya due to counterfeiting

**826Billion**  
Kenya Shillings magnitude of illicit trade in Kenya

Data source:ACA

# High cost of electricity

Comparative analysis of the cost of power in Kenya and other jurisdictions



## Key energy challenges faced by manufacturers

- High cost of power
- Availability of consistent energy power
- High cost of alternative sources of energy

**Data source: KAM**

Data source:

[https://www.globalpetrolprices.com/electricity\\_prices/#hl75](https://www.globalpetrolprices.com/electricity_prices/#hl75)



## Public-Private Dialogue

- ✓ February 2025 engagement with the Finance & National Planning Committee
- ✓ Follow-up meeting with MITI, KRA and the National Treasury



## Data-driven decision making

- ✓ Use of verification reports to inform outcomes
- ✓ Data from recently released Economic Survey 2025 should act as a useful guide to government policy prescriptions to not only influence the economy but also other sectors such as manufacturing



## A predictable business and tax environment

- ✓ Adhering to the National Tax Policy 2023 in the Finance Bill 2025 discussions

