

Why business is slow in Kenya

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The business environment is unfavourable and has slowed down productivity of Kenyan businesses. This is despite low consumer prices, which saw inflation drop to 6.45% year-on-year in March 2016, compared to a 6.84% recorded the previous month.



Image by 123RF

According to Ken Karuga, the chief economist at Mentoria Consulting, the slowdown in the business environment has stemmed from the combined effects of a volatile banking sector, an austerity campaign by the National Treasury, and a general global economic slowdown.

Central Bank of Kenya shut down three banks between September 2015 and April 2016, resulting in low confidence in the banking sector. The banks include Dubai Bank, Imperial Bank, and Chase Bank.

“Structural reforms will be needed to salvage a fractional reserve banking system that is threatening to come off the rails,” Karuga said

“Given that the government is the largest spender in the economy, a clear payment schedule to suppliers and contractors will help these parties reduce their likelihood of defaulting on their loan obligations,” he added.

The latest CFC Stanbic's Purchasing Managers' Index indicates the deterioration in business conditions peaked in March, causing productivity and new work to slip back towards the lows seen in October and September 2015.

The slowdown in productivity resulted in the loss of clients, while incoming new orders followed a similar pattern. "However, the rate of expansion in total new work was robust, supported by improving client demand and another rise in new business from abroad," the survey indicates.

The seasonally adjusted PMI dropped to a five-month low of 52.6 in March, from 55.2 in February. Readings above 50 signal an improvement in business conditions on the previous month, while readings below 50 show a deterioration. The latest reading pointed to a second successive loss of momentum since January and it was also the third-lowest in 27 months of data collection.

However, businesses maintained a solid rate of hiring in March amid a continued increase in backlogs of work. On the other hand, salaries rose to the least extent. According to panellists, a lack of production had resulted in fewer overtime payments.

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