EFFECTS OF FISCAL POLICY ON ECONOMIC GROWTH IN KENYA

BY

DANIEL KIMEU NTHIW'A

REG: BUS-4-2735-18

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELORS OF COMMERCE ACCOUNTING OPTION OF GRETSA UNIVERSITY

DECEMBER 2019

DECLARATION

This is my original work and has not been presented in part or whole for a degree or any certificate award in any other University/college here in Kenya

Signature... Date...

DANIEL KIMEU NTHIW'A

APPROVAL

This research project has been submitted for examination with my approval as University supervisor.

Signature... Date..

Supervisor

DR ODHIAMBO ODERA

DEDICATION

I would like to dedicate this project to my family, my lecturers and my fellow students for their valuable and continued support and motivation during the entire period.

ACKNOWLEDGEMENTS

This research project is as a result of support from several sources and I wish to acknowledge them all. It is with great pleasure that I acknowledge with gratitude the work of Almighty God in enhancing completion of this research project. I would like to appreciate my supervisor Dr Odhiambo Odera for his valued advice, guidance, patience and encouragement throughout the entire period, without him, this project would not be successful.

I also thank the management and the university staff too for the opportunity to be a part of them and also for availing literature materials that helped shape this work. To you all, I will forever be grateful.

Finally, I would like to acknowledge my friends who with their prayers, love, encouragement and support helped me to make this project a reality

Table of Contents

Definition of Terms

Fiscal policy – is the use government spending and taxation to influence the economy. When the government decides on the goods and services it purchases, the transfer payment it distributes, or the taxes it collects, it is engaging in fiscal policy (Ocran ,2009).

Economic growth - according to Joseph Schumpeter (1961), involves transferring capital from established methods of production to new innovative productivity enhancing methods. This conceptualization was focused on understanding the origin of the business cycle and the condition that gave rise to new opportunities that propelled the economy forward to a higher growth trajectory. Economic development addresses the functioning of the economy as is essential to creating the condition for economic growth. Without economic development economic growth is limited (Feldman et al, 2014).

Government expenditure- according to Cooray, (2009) government expenditure refers to general government final consumption expenditure as a share of GDP larger government provides public goods; in Kenya it is divided into two major categories that is recurrent expenditure and capital (development) expenditure

Tax -Soyode and Kajola (2006) defined tax as a compulsory exaction of money by a public authority for public purposes.

External\ debt-according to Mailatiya, (2010) is the debt owed to external creditors.

ABBREVIATIONS

GNP-	Gross National Product
CBK-	Central Bank of Kenya
ERS -	Economic Recovery Strategy
KNBS-	Kenya Bureau of Statistics
IMF-	International Monetary Fund
ANOVA –	Analysis of Variance

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The purpose of this study was to examine the impact of fiscal policy variable on economic development in Kenya. The fiscal policy variables considered in this study included Government recurrent and development (capital) expenditure, Tax revenue as well as external debt. Variables used to measure economic development were Gross Domestic Product (GDP) and Inflation rates. The study covered the period 2008 – 2017. Annual data was used in the estimation of multiple regression equations with the aid of excel spreadsheet model which produced output functions that showed that the variables were not statistically significance in the model. The independent variables used had too little predictive value in explaining the movement of dependent variables

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

The key purpose of fiscal policy is stimulation of economic and social growth by pursuing a policy guideline that ensures a sense of balance between taxation, expenditure and borrowing that is consistent with sustainable economic development and growth (Ocran, 2009). Fiscal policy is given light by John Maynard Keynes theories, which states that variation of government revenue (taxes) and expenditure levels affects inflation, employment and the cash flow through the economic system.

It is often used in together with monetary policy to make variations in the economy and achieve economic objectives of the nation. The fiscal policies mostly considered are taxes and spending. Taxes impact on the economy by determination of the amount of cash the government expends in various economic segments and the amount of money single households spends (disposable income). Spending as a tool for fiscal policy can be used to drive government expenditure to various economic sectors that need revival. Fiscal policies are categorized in two. Expansionary policies- are made purposely to accelerate and stimulation of the economy, they are applied at most when there is a recession, higher levels of unemployment or the business cycle shut down. This is evidenced by government spending more, lowering tax rates or both. The objective is to increase money supply among the individual households for them to spend more and stimulate the economy. Contractionary fiscal policies- are applied to lower down economic growth, as in the case of high inflation. The government increases tax rates and cuts its spending. In Kenya the central bank is laid with the mandate of setting and formulating the fiscal and monetary policies in order to maintain and develop the economy.

Kenya is a developing African economy whose experience in the growth and developing path has been full of ups and downs based on the political structure in power thus for almost two decades the economy was stagnant. The implementation of this strategy was viewed as very successful. The economic impact of the politically instigated community feuds that took place in 2008 was immediately felt in the key economic sector (that is, agricultural and tourism) that drive the economy. Like most African economies, Kenya's economy is primarily agro- based, with agricultural sector contributing about 24% of the GDP (Economic survey, 2009). Before the post-election violence, the economic recovery had been impressive and the economy was on steady growth and was targeted to grow at even higher growth rate in 2008, sustaining the growth momentum to 10%in the medium- term. Kenya as developing economy had a unique experience in the sense that by the time the impact of global financial crisis became manifest,.

Central bank responded to the crises by loosening monetary policy complemented by other intervention measures. It was envisaged that the expansionary monetary policy would facilitate release of resources that would eventually be channeled to the real sector to finance economic recovery. However, to be more effective, this needed to be complimented by a fiscal economic stimulus to stimulate demand. Thus the government initiated an infrastructure bond program to finance public investment in targeted infrastructure project and the infrastructure bond was issued in February 2009. It was envisaged that lower interest rate would facilitate the government to spend more on infrastructure without crowding out the private sector (Were &Tiringo, 2012).

1.2 Statement of the problem

The importance of effective regulation and a sound financial system will never overemphasized in a highly and uncertain globalized world today. A sound financial sector not only fosters economic development by mobilizing resource for investments, but also provides a framework for undertaking effective, monetary and fiscal policy. Material prosperity and high standards of living are universal goals for most democratic governments.

In light of the above view therefore, the question that comes is what has been the effect of fiscal policy on economic development in the period of study? The objective of the study is to contribute to the debate by investigating on the impact of fiscal policy on the economic development in Kenya over the period of study. The debate on impact of fiscal policy in stimulating economic development seems to have received scant attention.

The study therefore seeks to contribute to the public discourse on the matter but from the Kenyan focused empirical effort in the period of between 2008 and 2017.

1.3 Research objectives

The general objective was to evaluate effect of fiscal policies on the economic growth in Kenya.

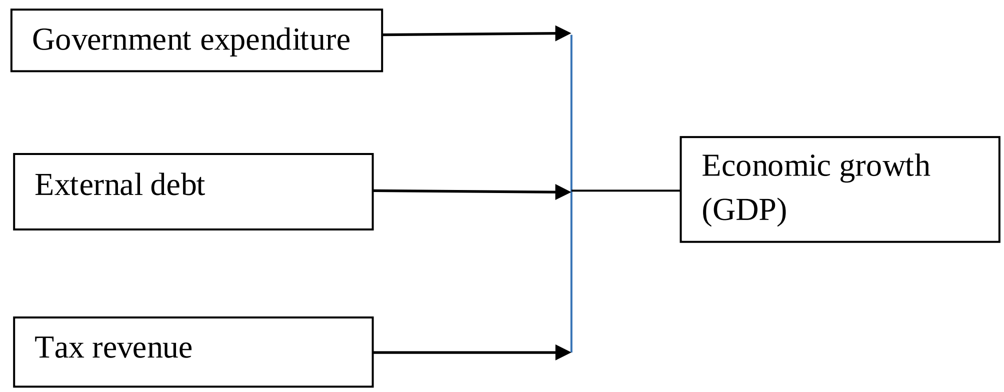
The specific objectives of the study

1. To investigate how the government expenditure affect economic growth.
2. To assess the effect of tax revenue on the economic growth.
3. To evaluate the impact of external debt on the economic growth.

1.4 Conceptual Framework

Figure 1.1 The Conceptual Framework

Independent variables **Dependent variable**



1.5 Research questions

1. How does government expenditure affect economic growth?
2. What are the effects of tax revenue on economic growth?
3. What is the impact of external debt on economic growth?

1.6 Significance of the study

The study is considered important and of the benefit in the following ways:

The Central Bank of Kenya

The study will help the Central Bank of Kenya on its preparation to settle economic crises using the fiscal policy. This will enable the country to maintain and foresee stable economic policies which in turn will foster growth and development.

State Departments

The study will be helpful to other government departments as it will pursue a great deal of information which if studied well will give each state department its autonomy. This will impact on information generating on their dependence in order to protect them from systematic risk that may come with such crisis and learn more on policy guidelines for exploitation in the process of economic recovery and thus stimulating economic growth.

Academicians, Researchers and Economist

It will also be of benefit to academicians, economists and researchers by providing more knowledge on the effects of fiscal policies on economic development to developing countries.

1.7 Justification of the study

In most developing countries like Kenya, fiscal policy discussion and its effectiveness in economic stimulation and growth has not been taken with much weight. This is because the government has constantly been viewed as a bureaucratic as opposed to democratic kind of system as it is claimed by the constitution.

The study therefore is important to the discussion by investigating on the fiscal policy impacts on economic growth focusing on the Kenya's unique experience over the time period under study.

1.8 Scope of the study

The study of this paper was carried out in Kenya .The main study was to investigate the effects of fiscal policy in stimulating economic development and economic recovery process. For purpose of this study, secondary data was collected from the Central Bank Of Kenya, Kenya Bureau of Statistics, The National Treasury and International Monetary Fund for the periods between 2008 and 2017.

.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter contains the reviewed literature on the variables of fiscal policies. The following sub-topics were used during the review. They include the theoretical framework which checks on different school of thoughts on the effects of fiscal policy on economic growth, the empirical review where past research on the highlighted variables of fiscal policy are narrated in relation to the specific objectives of the study. Finally conceptual framework of the study was presented clearly showing the dependent and independent.

2.2 Theoretical Review

This section looks into some of the theories on fiscal policy. It looks at the different schools of thoughts and how they view fiscal policies and its variables.

2.2.1 Keynesian Theory

The Keynesian model indicates that during recession a policy of budgetary expansion should be undertaken to increase the aggregate demand in the economy thus boosting the GDP. This is with a view that increases in government spending leads to increased employment in public sector and firms in the business sector. The employment rises; income and profit of the firms' increases, and this would result in the firms hiring more workers to produce the goods and services needed by the government. However, one of the greatest weaknesses of Keynesian theory is that it fails to adequately consider the problem of inflation which might be brought about by the increase in government spending.

2.3 Empirical Review

2.3.1 Effect of government expenditure on economic growth

According to Cooray, (2009) government expenditure refers to general government final consumption expenditure as a share of GDP larger government provides public goods, further increases in government expenditure can increase the disposable income of the citizens which encourages growth. However, large government spending can lead to transfer of additional resources away from the most productive sectors of the economy to government where they are used less effectively and thus undermining growth.Cooray (2009) concludes that expansion of government expenditure contributes positively to economic development and growth. Muthui et al (2013) set out to investigate the impact of government expenditure components (education; infrastructure; health; defense; and public order and security) on economic growth in Kenya. They found out that on average there is a long run relationship between public expenditure and potential economic growth. The composition of government expenditure was found to influence growth with public expenditure components like education, transport and communication, and public order and security being the main drivers of economic growth. Expenditure on health was, however, found to be negatively related to economic growth, a possible explanation according to authors being that Kenya is a net importer of Medicare facilities and drugs.

2.3.2 Impact of tax revenue on the growth of the economy

Tax revenue is the primary revenue source in Kenya and it represents payment by communities as a whole for public goods and services. In the years of this study the Kenya government has committed itself to provision of additional public goods and services such as free primary and secondary education, free health care and physical infrastructures. The tax revenue raised by the government depends to a large extent on the state of the economy; therefore the impact of tax revenue on economic growth is an issue of great importance. Heinemann (2001) notes that fiscal drag effect may be split into two parts: Inflationary fiscal drag and real fiscal drag. Inflationary fiscal drag refer to the variation of tax revenue due to nominal moving across income brackets while real fiscal drag refer to variation of tax revenue generated by real income growth.

Garriet (2009) notes that a government has several taxes from which it generates total tax revenue. The percentage change in total state tax revenue is therefore a weighted average of the portfolio of taxes from which revenues are obtained. Generally, the level of development of the economy is expected to positively influence tax revenue performance and a large non-agricultural sector, urbanization and high per capita income levels are all expected to positively influence tax revenue mobilization.

Pessino&Fenochietto (2010) show that the tax effort is determined by the level of development as proxied by per capita GDP, the level of trade openness and public expenditure on education. Further, they showed that these positive effects can however, be undermined by macroeconomic instability and disparities in income distribution.

Sennoga and Mativu (2010) compiled Computable General Equilibrium (CGE) approaches on Uganda to show that efficient public expenditure are important in promoting economic growth and poverty reduction.

2.3.3 Effect of external debt on the economic growth

External debt is the debt owed to external creditors. These are World Bank (WB), African Development Bank (ADB), and International Monetary Fund (IMF). Others are countries like example China , USA ,Japan, Italy, Germany as well as Commercial creditors essentially private institutions, for example Standard Bank United Kingdom. In addition to these factors, drought conditions have also contributed to the external debt burden.

External debt refers to credit owed to foreign lenders. The service of external debt may negatively affect growth by discouraging private investment. Clement et al (2005) argue that larger debt service can inhibit growth by squeezing public resources available for investment in infrastructure and human capital. Also external debt has string attached and interest payment on the debt can reduce public saving by widening a countries' budget deficit. If interest rates rise the credit available for private investment is crowded out, thereby depressing economic development.

From the studies it is observed that none of the three conventional fiscal policy variables on its own adequately captures the fiscal policy stance of any give economy.

The literature review amply demonstrates that no single indicator sufficiently represent fiscal policy stance, however, as suggested by Fu et al (2003) pair-wise combinations of the fiscal indicators better illustrate a series of fiscal policy actions.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section of the study will outline methodology to be used in this research project. It gives details of research design, target population, sample size and sampling, data collection procedure and data analysis techniques.

3.2 Research design

According to Mugenda and Mugenda (1999) a research design is defined as an overall strategy that the researcher chooses to integrate the different components of the study in a coherent and logical way. It has taken to be one of the best methods of analysis due to the fact that the data will be collected in both quantitative and qualitative and ensure that no relevant information is omitted.

3.3 Target population and sample frame

In this research the target population is the data collected from the central bank of Kenya (CBK), the National treasury, Kenya bureau of statistics which represents the whole country data, especially from these organizations because they are directly involved in the formulation and in implementation of economic policies and custodian of the country's economic reports and statistics.

3.4 Sample and sampling procedure

This selection of suitable sample for study was carried out from Central Bank of Kenya (CBK), Kenya Bureau Of Statistic (KNBS) and the National Treasury keep records of economic statistics and this is where data was drawn from for the research. The data collected in this study was a sample of the reports of between 2008 and 2017 in the Kenya's economic development journey. This is preferred because that is when the grand coalition government and jubilee governments came into power with a different approach into the economic development view of creating wealth and employment to replace the old view of poverty eradication, and the effects could be felt by bigger population of Kenya and more so the majority poor

3.5 Instrumentation

Research instruments are tools or techniques that were used to collect data. Secondary data allows for comparison of, say, several years' worth of statistical information relating to, for example a sector of the economy, where the information may be used to measure the effects of change or what is the subject of research, as it is with this research it is to show the effects of fiscal policy on economic growth thus the study used secondary data only, that is the annual report, library search, internet and published research papers was used in this study as instrument of data that was collected.

3.6 Data Collection Methods and Instrument

Secondary data was be collected from data kept by Central bank of Kenya (CBK), Kenya bureau of statistics (KNBS), the National Treasury and International Monetary Fund (IMF) this will ensure that high degree of data is obtained and which is both reliable and relevant. Schedules and tables were used to record data collected.

3.7 Data Analysis

Data collected was analyzed through descriptive measures and statistics. Descriptive statistics utilizes data collection analysis technique that yields reports concerning the measure of central tendency, variation and correlations. Analysis of variables will be in the form of figures and percentage, the results will then be tabulated and graphically presented using ANOVA tables, excel output and graphs.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter provides a critical analysis of the research finding and the result of the data collected. Data was presented using bar graph, charts and tables. The study sought to establish the effects of fiscal policy on the economic growth in the period between 2008 and 2017.

Years	**Independent variables (shilling in millions)**					
	Inflation rates (%)	**GDP (%)**	**Tax Revenue**	**Recurrent Expenditure**	**Capital Expenditure**	**External Debt**
2008	16.2	1.5	196059	208312	58119	439309.4579
2009	9.3	2.6	226232	238813	70155	527257.7778
2010	4.1	5.7	249892	278234	100597	562877.3068
2011	14	4.5	288263	301628	109237	706450.0283
2012	9.38	4.56	293156	312652	111456	763971.1239
2013	5.72	5.88	311664	321203	119237	843562.8773
2014	6.88	5.36	324501	329111	123670	1138505.2341
2015	6.58	5.72	369981	371456	126329	1423252.1123
2016	6.32	5.87	379901	381345	138920	1796198.0012
2017	7.99	4.9	393128	4398234	154981	1891771.8880

Source: Treasury and Central Bank of Kenya

Table 4.1 shows the summary of data collected, data ranged from 2008 – 2017. The summary consists of the dependent variables (GDP and inflation rates) and independent variables (tax revenue, recurrent expenditure, capital (development) expenditure and external debt). Each independent variable had 108 observations which were annualized to 9 observations by getting their average annually. Dependent variables had 9 observations.

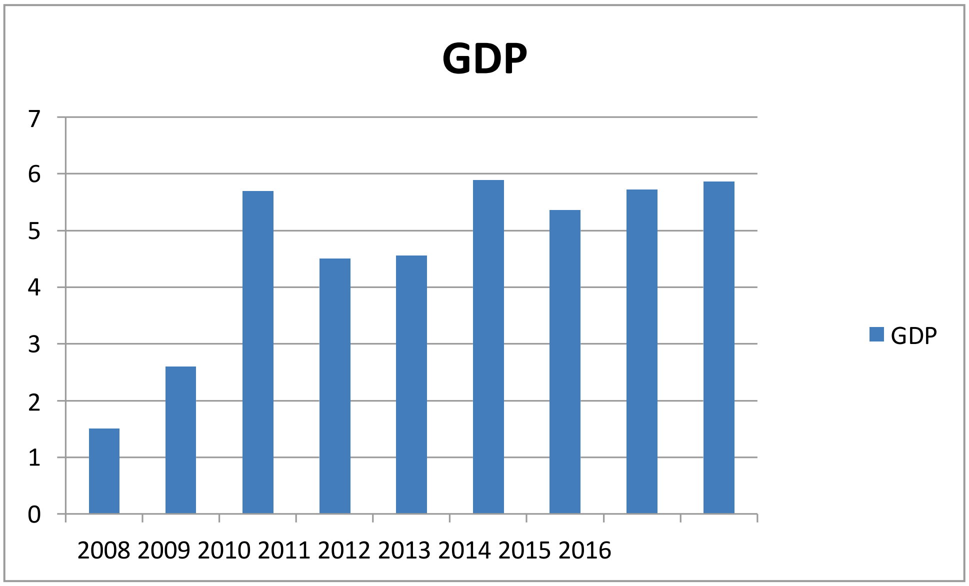
Figure 4.1 Show trends of independent variables over the period.

year	**dependent variables**		**independent variables**			
years	GDP	INFLATION RATES	TAX R	RE EXP	KE EXP	EXT DEBT
2008	1.5	16.2	196059	208312	58119	439309.5
2009	2.6	9.3	226232	238813	70155	527257.8
2010	5.7	4.1	249892	278234	100597	562877.3
2011	4.5	14	288263	301628	109237	706450
2012	4.56	9.38	293156	312652	111456	763971.1
2013	5.88	5.72	311664	321203	119237	843562.9
2014	5.36	6.88	324501	329111	123670	1138505
2015	5.72	6.58	369981	371456	126329	1423252
2016	5.87	6.32	379901	381345	138920	1796198
2017	6.44	6.81	389978	398884	145553	1810628

Source: Authors own computations 2019

Figure 4.1 shows the trend of the independent variables over the period of study, an upward trend was observed on the external debt, with tax revenue and recurrent expenditure growing on almost same rate with recurrent expenditure slightly higher. Capital expenditure also was observed to have a potential upward trend; the Grand coalition government and Jubilee government focused on the economic development with their economic recovery strategy to create wealth and employment.

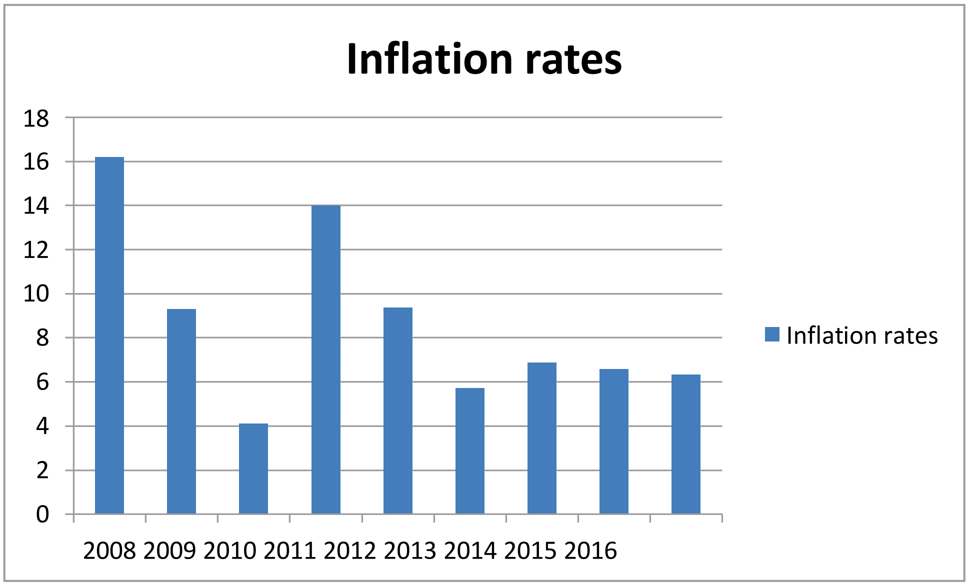
Figure 4.2 GDP growth rate over the period



Source: Authors own computations 2019

Figure 4.2 shows the real GDP growth rate over the period, in 2008 the economy recorded slower growth of 1.6% due to the uncertainties regarding election reflecting in low demand for imports, low for credits and donors waiting for Kenya's decision. From then the economy experienced remarkable sustained economic growth for the period 2009-2012 with the real GDP growth rate reaching 14% in 2011, the highest growth rate over the period as observed. However, 2013 was affected by internal shocks (post-election disruption, unfavorable weather conditions, and high cost of food and fuel prices) and external shocks (high crude oil prices, global financial crisis) real GDP in 2008 was 5.72% this was a decline in growth rate over the period as observed. The renewed expansion has mainly been on account of the economy's resilience, improved business confidence, stable macro-economic and a rebound of the global economy this is as observed on the GDP growth rates from 2014 onwards as Jubilee government took over.

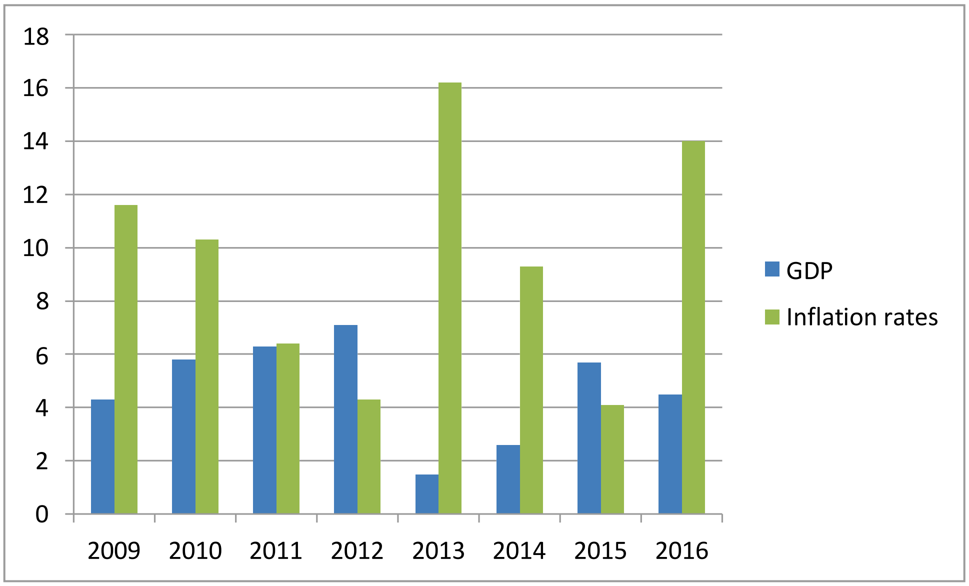
Figure 4.3 Inflation rates trend over the period.



Source: Authors own computations 2019

Figure 4.3 shows the movement of inflation rates over the period, as observed inflation rates were moving in a sustainable rate from 2008 – 2017 although the rate was in double digit, the objective of the government was to grow the economy on a single digit inflation and as observed this was achieved for the period of 2013 onwards this was attributed to reduction in food and fuel prices, appreciation of Kenya shilling and sound monetary policy framework. However, in 2012 there was a sharp increase in inflation as observed was as result of the internal and external shocks which in-turn raised food and fuel prices. Reduction in food and fuel prices, competition between the mobile telephone operators which resulted in reduction in calling rates accessioned the decline observed in 2010. Rise in inflation in 2011 was mainly on account of sharp increase in oil prices, increased food prices, weakening of Kenya shilling against major currencies.

Figure 4.4 Show the summary trends of dependent variables over the period



Source: Authors own computations 2019

Figure 4.4 shows the summary of the dependent variables to show their relationship as measures of economic development. As observed the two are inversely related, in 2013 the GDP was at its lowest rates while on the same year inflation hit the highest rate, in 2011 GDP rate was highest observed over the period and inflation was lowest on the same year. We conclude that for the economy to develop and sustain the growth it ought to make sure that these two variables are in sustainable rates.

Table 4.2 Show the summary of the output for GDP growth rates.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.278157
R Square	0.077372
Adjusted R Square	-0.84526
Standard Error	2.571514
Observations	9

Source: Authors own computations

Table 4.2 Show the summary output, this gives the overall goodness of fit measure.

Adjusted R^2 is the goodness of fit measure that analyses the percentage of total variability in the dependent variable that occurs because of variability in the independent variables.

The higher the value of adjusted R^2 the better, Value of 30% is universally accepted to satisfy the minimum requirement for goodness of fit.

Table 4.3 Show the GDP growth rates ANOVA and Regression coefficient output

ANOVA						
	Df	*SS*	*MS*	*F*	*Significance F*	
Regression	4	2.218155	0.554539	0.08386	0.982967	
Residual	4	26.45073	6.612683			
Total	8	28.66889				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-3.76136	16.1979	-0.23221	0.82777	-48.7339	41.21121
TAX R	-7.1E-05	0.000156	-0.4581	0.670661	-0.0005	0.000361
RE EXP	0.000129	0.000236	0.548932	0.612254	-0.00052	0.000783
KE EXP	-0.00013	0.000249	-0.51146	0.63597	-0.00082	0.000563
EXT DEBT	4.98E-06	2.15E-05	0.230903	0.82872	-5.5E-05	6.48E-05

Source: Authors own computations 2019

ANOVA (analysis of variance) is used to test the overall explanatory power of the regression model. It uses the F statistics to test the hypothesis that the variation in the independent variables explains a significance proportion of the variation in the dependent variable

The column labeled F gives the overall F-test of

H_O: $^{2}{}_{1} = 0$, $^{2}{}_{2}=0$ $^{2}{}_{3} = 0$ and$^{2}{}_{4}$ versus Ha: at least one of them does not equal zero.

The column labeled significance F has the associated P-value. Since 0.982967 > 0.05, we do not reject H_0 at significance level 0.05.

A simple summary of the above output is that the fitted line is

$y = -3.76136 -7.1E\text{-}05^{2}{}_{1} +0.000129^{2}{}_{2} -0.00013^{2}{}_{3} +4.98E\text{-}06^{2}{}_{4}$

Table 4.4 Show the summary of output for inflation rates.

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.577504
R Square	0.333511
Adjusted R Square	-0.33298
Standard Error	4.773756
Observations	9

Source: Authors own computations 2019

Table 4.5 Show the trend of inflation rates ANOVA and Regression coefficient output.

ANOVA						
	Df	*SS*	*MS*	*F*	*Significance F*	
Regression	4	45.61391	11.40348	0.5004	0.740504	
Residual	4	91.15498	22.78874			
Total	8	136.7689				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	14.61809	30.06976	0.486139	0.6523	-68.8689	98.10514
TAX R	0.000309	0.000289	1.070389	0.344734	-0.00049	0.001111
RE EXP	-0.0004	0.000437	-0.91504	0.411942	-0.00161	0.000814
KE EXP	0.000116	0.000462	0.252204	0.813312	-0.00116	0.001398
EXT DEBT	2.49E-05	4E-05	0.622637	0.567261	-8.6E-05	0.000136

Source: Authors own computations 2019

ANOVA (analysis of variance) is used to test the overall explanatory power of the regression model. It uses the F statistics to test the hypothesis that the variation in the independent variables explains a significance proportion of the variation in the dependent variable

The column labeled F gives the overall F-test of

H_0: $^{2}{}_{1} = 0$, $^{2}{}_{2}=0$ $^{2}{}_{3} = 0$ and$^{2}{}_{4}$ versus H_a: at least one of them does not equal zero.

The column labeled significance F has the associated P-value. Since 0.740504> 0.05, we do not reject H_0 at significance level 0.05.

A simple summary of the above output is that the fitted line is

y = 14.61809 +0.00309$^{2}{}_{1}$ -0.0004$^{2}{}_{2}$ +0.000116$^{2}{}_{3}$ +2.49E-05$^{2}{}_{4}$

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of finding

The study sought to find out the effect of fiscal policy on economic growth in Kenya, in terms of the effect of government expenditure, tax revenue and external debt on economic growth.

5.2 Government expenditure

In the study this was discussed in terms of recurrent and development expenditure, taking the year 2011 where we witnessed the highest growth rates in GDP, the major sources of growth for that year were transport and communication, taxes on product, wholesale and retail trade, and manufacturing which contributed heavily on the growth. Additionally the sectors that witnessed remarkable improvement include transport and communication, mining and quarrying and electricity and water, this are all government expenditure and there increase showed boost in the economic growth and development. In relation to the effect of fiscal policy on the economic growth the study found that for this variable of fiscal policy it has an effect on the economic growth.

5.3 Tax revenue

Every government receives income from its citizens in form of tax, thus tax is the primary income source of the government. Improved trading environment increases the tax revenue of the government. The study found that tax revenue boost the economic growth and sustains the recurrent expenditure.

5.4 External debt

The government budgets for every financial year and if there is a deficit in the budget if borrows to fund the budget. In 2010 for instance the total public debt was low and sustainable, domestic borrowing rose, the stock of external debt registered a marginal decline, this show that as the economy develops to maintain the growth the external debt deficit should be maintained as low as possible.

Conclusion

The study sought to examine the impact of a selection of fiscal policy variables and economic development. Regression model and descriptive measures were used to estimate the effects of government expenditure, tax revenue and external debt on economic development. The analysis covered the period 2008 to 2017 using annualized secondary data.

The outcome showed that these variables had no statistical significance effect on economic growth. This is in contrast with some studies done before. The policy lesson that can be learnt from the findings is that a continued sensible use of government recurrent and development expenditure as a policy tool can speed up economic growth and development, additionally, if the fiscal policy tool is undertaken there should be an associate monetary policy to take care of the spillover of the fiscal policy like inflation.

5.5 Research limitation

Unavailability of quarterly data was the main limitation of the study. The study was designed to use quarterly data on both dependent and independent variable and since only monthly data was available, it was analyzed to give annual data. Lack of adequate information on fiscal policy stand was also a limitation since no much information has been availed bearing in mind that it is not much known to the private sector due to its incline to the government and all the political influences.

5.6 Areas of further research

The study concentrated on government expenditure (recurrent and development), tax revenue and external debt. Further studies need to be carried on the effect of fiscal policy on economic growth, with other variables of fiscal policy into much detail.

It’s also recommended that further studies be carried out on debt sustainability in Kenya to establish whether it has any significant effect on the economic growth and fiscal policy formation. There is need to use a combination of both primary and secondary data in order to qualitatively gather issues that may affect government expenditure, tax revenue and external debt in Kenya as these methodologies have not been explored in the study.

REFERENCES

Aschauer, D. A. (1989a). Is Public Expenditure Productive? Journal of Monetary Economics, 23, 177-200

Chigbu, E.E., Akujuobi, L. E. &Appah, E. (2012) An Empirical Study on the Causality between Economic Growth and Taxation in Nigeria. Current Research Journal of Economic Theory, 4(2), 29-38.

Clement.B.,Bhattacharya. R., Nguyen. T.Q.(2005). Can Debt Relief Boost Growth in Poor Countries. IMF.

Cooray.A. (2009).Government Expenditure, Governance and Economic Growth.Comparative Econ. Stud. S(3): 401-418.

Devarajan, S.V., Swaroop, V. and Zhou, H., (1996), "The composition of public expenditure and economic growth", Journal of Monetary Economics, 37, 313-344.

Folster, S. and M. Henrekson (2001), 'Growth Effects of Government Expenditure and Taxation in rich Countries', European Journal of Political Economy, 45: 1501-1520.

Fu, D., Taylor, L.L. and Yucel, M.K. (2003), "Fiscal policy and growth", Research Department Working Paper 0301, Federal Reserve Bank of Dallas.

Heinemann, F.(2001).After the death of inflation: Will fiscal drag survive?.Fiscal Studies, 22, 527–46.

IMF, (2005), International financial statistics, CD Rom, Washington, D.C.: International Monetary Fund.

Karran,T.(1985). The Determinants of Taxation in Britain: An Empirical Test. Journal of Public Policy, 5(3), 365-386.

Kinyua .J.D. (2013).The Relationship Between Tax Revenue and Economic Growth in Kenya.Masters. Thesis, Nairobi, University of Nairobi: Unpublished.

M'Amanja, D. and Morrisey, O., (2005), Fiscal policy and economic growth in Kenya, CREDIT Research Paper, No. 05/06, Centre for Research in Economic Development and International Trade, University of Nottingham.

Mailafia, L., (2010). Financing Infrastructural Development in Nigeria through Government Bonds.Nigerian Journal of Accounting Research.Vol.6, No.2, Pp.40-57.

Maingi, J. (2010). The impact of public expenditure on economic growth in Kenya. Ph.D. Thesis, Nairobi, Kenyatta University: Unpublished.

Moore, M. (2013), “Obstacles to increasing tax revenues in low income countries”, International Centre for Tax and Development, Working Paper 15.

Mustafa, M. &Kasipillai, J., (2000).Buoyancy Estimates of Malaysia’s Tax System. Management Journal, 4, 75-87.

Ocran, M. K. (2009). Fiscal Policy and Economic Growth in South Africa.University of Forthare.

Patillo.C.,Poirson. H.,Ricci. R.(2004), What are the Channels Through which External Debt affect Growth. IMF Working Paper, No. 04/15.

Republic of Kenya. (2018),Medium Term Debt Strategy(MTDS)

Pessino, C., &Fenochietto, R. (2010), “Determining countries’ tax effort”, Revista de EconomíaPública, 195:61-68.

Republic of Kenya. (2001). Poverty Reduction Strategy Paper (PRSP) for the Period 2001-2004. Nairobi: Government Printers.

Republic of Kenya.(2008). Kenya Vision 2030. Nairobi: Government Printers.

Schumpeter, J. A. (1961). The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle (Vol. 55). Transaction Books.

Sennoga, E.B. and Matovu, J.M (2010), “Public spending composition and public sector efficiency: implications for growth and poverty reduction in Uganda”, Economic Policy Research Centre, Research Series No. 66.

Wawire, N.H.W. (2006). The determinants of tax revenue in Kenya.Ph.D. Thesis, Nairobi, Kenyatta University: Unpublished.

Were, M. (2001). The impact of External Debt on Economic Growth and Private Investment in Kenya: An Empirical Assessment, A Paper Presented at the Wider Development Conference on Debt Relief, Helsinki.

Republic of Kenya. (2016)Annual Public Debt Management Report

Republic of Kenya. (2016), The Strategy For Public Financial Management Reforms In Kenya