

**RELATIONSHIP BETWEEN PUBLIC SECTOR WAGE BILL AND THE GROSS  
DOMESTIC PRODUCT IN KENYA**

**JOSEPH MACHARIA MUNENE  
MPA/09/213/1349**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD  
OF A MASTERS DEGREE IN PUBLIC ADMINISTRATION OF MOUNT-KENYA  
UNIVERSITY**

**OCTOBER 2014**

## ABSTRACT

Public wage bill as a percentage of GDP in sub Saharan countries has continued to rise over the years. There seems to be no consistent pattern in its rise, although countries like Lesotho register a public wage bill that is almost 18 percent of GDP yet in Equatorial Guinea, the wage bill accounts for less than 2 percent of GDP on average. Kenya's public wage bill remains higher compared to other East African countries such as Tanzania and Rwanda which stands at below five percent of GDP in the review period. However, it is worth noting that the country's wage bill GDP ratio has increased significantly since the review period. This study seeks establish the relationship between the Kenya's public wage bill and the GDP growth. The study will utilize secondary data. The secondary data collected was analyzed using SPSS using regression analysis and presented in Tables and figures. It was clear that the higher the public sector wage, the more it affected the growth of the real GDP in the country and this is attributed to the trade unions actions on increment of civil servants wages, increment of the retirement age from the 55 years to 60 years, devolution which duplicated various roles in the country. It was established that the highest growth of the real GDP was 7% and the least was 0.6% while 12.1% was the highest value of central government public wage bill as % of GDP and minimum of 6%. The central government public wage bill as % of GDP has doubled within a period of 15 years while puts much strain on the economic development in Kenya. The current public wage bill to GDP ratio (11.7%) is too high and may become unsustainable if not contained. It is expected that recruitment for county governments is likely to worsen the wage bill to GDP ratio. Salaries should be reviewed on the basis of the prevailing social, economic and environmental factors, the prevailing labour market trends, sustainability of employment levels, and the productivity of employees and this would reduce the current bloated wage bill. There is need for a competitive pay in the public service, and cascading of performance contracts to all staff. A measure that is not directly linked to pay concerns the establishment of 'equality plans', which is a widespread practice among European governments