

Abstract

The tenacity of the country's entrepreneurs and the favorable climate has been credited with the rapid expansion of private sector activity in the Kenyan economy. New technology and increased private investment propel the country's economy toward full employment, where resources are best used and economic development is achieved. Investment levels should be over 32 percent of Gross domestic product, with state investment comprising above 9 percent of Gross domestic product and private investment being 24 percent of Gross domestic product, according to Vision 2030. This objective does not appear to be attainable at the current growth pace. As a result, the goal of this research was to evaluate how recurrent government expenditure (independent variable) affects private investment (dependent variable) in Kenya. To find the casual effect link between the variables, a casual study design was used. From 1980 to 2022, a sample of 42 years from the annual series data was collected from the websites of the Kenya Revenue Authority, Kenya National Bureau of Statistics, and African Development Indicators. ARDL model was employed and the ECM was estimated since there was cointegration. Augmented Dickey Fuller was used in a unit root test to check for data stationarity. Granger Causality test and cointegration were undertaken on the stationary data to ascertain the kind of causality and presence of Long run equilibrium between variables. To confirm that the traditional linear regression assumption has been upheld, diagnostic tests were run. It was found that there was a negative significant effect of recurrent government expenditure both in the short run and in the long run on private investment in Kenya. The coefficients were, -0.363166 and -2.7596 respectively that were statistically significant at 10 percent significance level. This implies that 1 percentage increase in recurrent government expenditure lead to 0.363166 and 2.7596 decrease in private investment. A negative coefficient implies that more government spending on recurring costs may crowd out private investment. Additionally, it may increase the demand for borrowing by the government, which would raise interest rates. This may result in higher borrowing costs for businesses looking to make investments, which would discourage investment from the private sector in Kenya. The study suggests that the government implement changes to lower costs and improve the efficacy of ongoing expenditures. This means reducing bureaucracy, optimizing staffing levels, and streamlining the procurement process. Future studies may be done targeting other variables as well as in other countries.

