**ANALYSIS OF THE RELATIONSHIP BETWEEN EXPENDITURE ON OIL IMPORTS AND PUBLIC SPENDING ON SELECTED SOCIAL SERVICES IN KENYA**

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**Abstract**

Since independence, oil imports in Kenya have been rising mainly to sustain the nascent transport, manufacturing, energy, agriculture and maritime sectors among other uses in the country. The growth in the country’s oil import bill has however been closely related to public spending in the health and education sectors which experienced shocks owing to the growth in expenditures apportioned to the rising volume of oil imports. Given the significance of the social pillar of the Kenya Vision 2030 and the inconsistency in the progress towards achieving the Sustainable Development Goals, which is inherent in the Kenya Vision 2030, understanding the linkages between the aforementioned trends in expenditures can help in explaining the progress towards attaining the education and health facets of the social pillar. The purpose of this study was to analyze the relationship between aggregate expenditure on oil imports and public spending on health and education. The data used was time series data sourced from Kenya National Bureau of Statistics, Central Bank of Kenya and World Bank. The study employed granger causality and correlation analysis. Based on standard Chi-square tests and F-tests, the findings of the study revealed that there exists bi-directional causality between government expenditure on health and aggregate expenditure on oil imports on one hand; and a unidirectional causality running from government spending on education to aggregate expenditure on oil imports on the other hand, both in the long-run and short-run. It is therefore recommended that the government should define what is deemed economically sustainable in regard to government expenditure on health as a proportion of the exchequer budget. It should also put in place policies that will institute reasonable margins for government expenditures on health and education to adjust as a measure to keep the rising oil import bill in check.

**Keywords:** Public Spending, Causality, Oil price shock.

**JEL Class:** D61, H12, H51, H52, Q48.