



Central Bank of Kenya

Quarterly Economic Review

January-March 2020



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability, and issuing currency.

The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the payments, clearing and settlement systems, financial stability, and fosters liquidity, solvency and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy, and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

The CBK's monetary policy is designed to support the Government's objectives with respect to growth. The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the target prescribed by the National Treasury at the beginning of the financial year. Currently, this target is a range between 2.5 percent and 7.5 percent.

The achievement and maintenance of a low and stable inflation rate coupled with adequate liquidity in the market facilitates higher levels of domestic savings and private investment. This leads to improved economic growth, higher real incomes and increased employment opportunities.

HIGHLIGHTS

Overall inflation remained within the medium-term target band in the first quarter of 2020. It stabilized at 6.8 points in the fourth quarter of 2019 and the first quarter of 2020 on account of elevated food prices. Fuel inflation remained low, while Non-Food-Non-Fuel (NFNF) inflation stabilized, reflective of muted demand pressures in the economy.

Broad money supply (M3) growth increased to 3.9 percent in the first quarter of 2020 from 1.5 percent in the previous quarter, mainly reflecting growth in deposits.

The economy remained buoyant in the first quarter of 2020, despite the onset of the effects of the COVID-19 pandemic. It grew by 4.9 percent supported by improvement in agricultural production following the favorable weather conditions, and resilient services sector.

Performance of the Global economy was expected to worsen significantly due to the COVID-19 pandemic with output growth projected to contract by 3.0 percent in 2020 compared to a growth of 2.9 percent in 2019 and a 6.3 percentage points lower than January 2020 projections (IMF World Economic Outlook, April 2020)

The current account deficit widened by 9.5 percent to USD 1,093 million in the first quarter of 2020 from USD 998 million in the first quarter of 2019, largely attributed to lower receipts from services.

The banking sector was stable in the first quarter of 2020. Total assets increased by 3.5 percent to KSh 5,001.2 billion in March 2020 from KSh 4,832.3 billion in December 2019. The deposit base also increased by 3.8 percent to KSh 3,688.1 billion in the quarter ended March 2020 from KSh 3,554.4 billion in the quarter ended December 2019. The sector was well capitalized and met the minimum capital requirements. Quarterly profitability increased by 10.7 percent due to increase in total income. Credit risk deteriorated slightly with gross non-performing loans (NPLs) to gross loans ratio increasing from 12.0 percent in December 2019 to 12.54 percent in March 2020.

The Government's budgetary operations at the end of the third quarter of FY 2019/2020 resulted in a deficit (including grants) of 5.0 percent of GDP. Revenue collection remained below target, as was the case with the expenditure.

Kenya's public and publicly guaranteed debt increased by 3.8 percent during the third quarter of the FY 2019/20. Domestic and external debt increased by 4.2 percent and 3.3 percent, respectively.

The overall equity market activity declined in the first quarter of 2020 compared to the fourth quarter of 2019. The NSE 20 share price index and NASI declined by 25.9 percent and 20.73 percent, respectively, while the equity turnover and market capitalization declined by 2.9 percent and 20.6 percent, respectively.

Chapter 1 Inflation

Overview

Overall inflation remained within the medium-term target band in the first quarter of 2020. It stabilized at 6.8 percent in the fourth quarter of 2019 and the first quarter of 2020. Food inflation remained elevated at 12.3 percent during the quarter. Fuel inflation increased to 4.9 percent from 2.9 percent

in the previous quarter, reflecting increased cost of energy. Meanwhile, Non-Food-Non-Fuel (NFnF) inflation remained low and stable at 2.2 percent, despite the impact of tax measures in the 2019/20 Fiscal Year (FY) Budget, reflecting muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

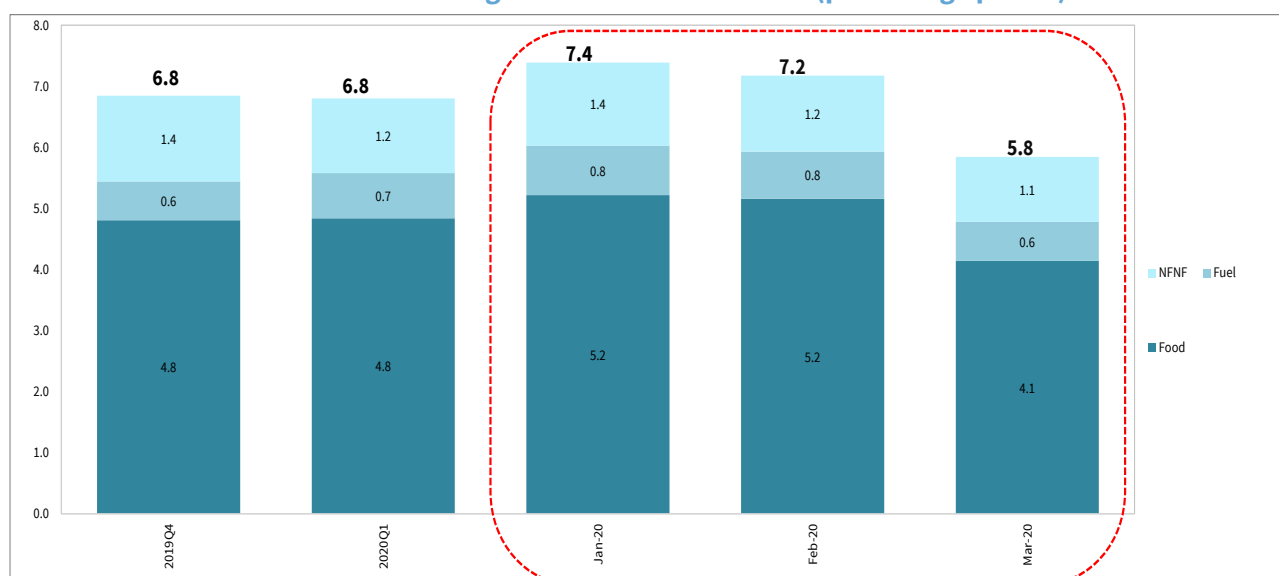
	2019	2020			
	Q4	Q1	Jan	Feb	Mar
Overall inflation	6.8	6.8	7.4	7.2	5.8
Food Inflation	14.8	14.7	16.0	15.7	12.3
Fuel Inflation	2.9	4.9	4.9	5.5	4.4
Non-Food-Non-Fuel (NFnF) Inflation	2.2	2.2	2.3	2.3	1.9
Annual Average Inflation	5.2	5.8	5.3	6.7	5.3
Three Months Annualised Inflation	4.7	7.2	7.7	7.8	6.0

Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food inflation remained the dominant driver of overall inflation during the quarter under review. Its contribution to overall inflation remained stable at 4.8 percentage points in the fourth quarter of 2019 and the first quarter of 2020. This was largely on account of vegetables inflation which remained elevated during the quarter. The contribution of fuel inflation to overall inflation increased marginally to

0.7 percentage points from 0.6 percentage points in the previous quarter, driven by increased cost of selected energy items, while the contribution of Non-Food-Non-Fuel (NFnF) inflation declined to 1.2 percentage points from 1.4 percentage points reflective of declining demand pressures in the economy (**Chart 1.1**).

Chart 1.1: Contribution of broad categories to overall inflation (percentage points)



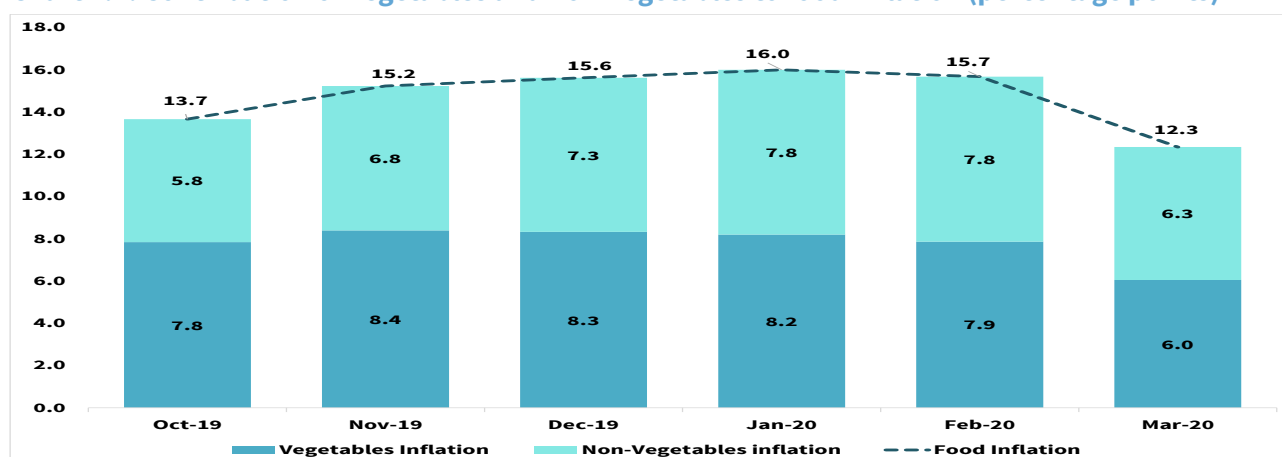
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation remained elevated at 14.7 percent during the quarter under review, compared to 14.8 percent in the previous quarter. This was on account of increased vegetables inflation arising from elevated prices of key food items such as tomatoes, potatoes and onions. However, in March 2020, the contribution of non-vegetables inflation

to food inflation surpassed that of vegetables, as prices of fast-growing food items declined following increased production due to favorable weather conditions. Non-vegetables inflation was mainly driven by elevated prices of maize and milk products (**Chart 1.2**).

Chart 1.2: Contribution of vegetables and non-vegetables to food inflation (percentage points)



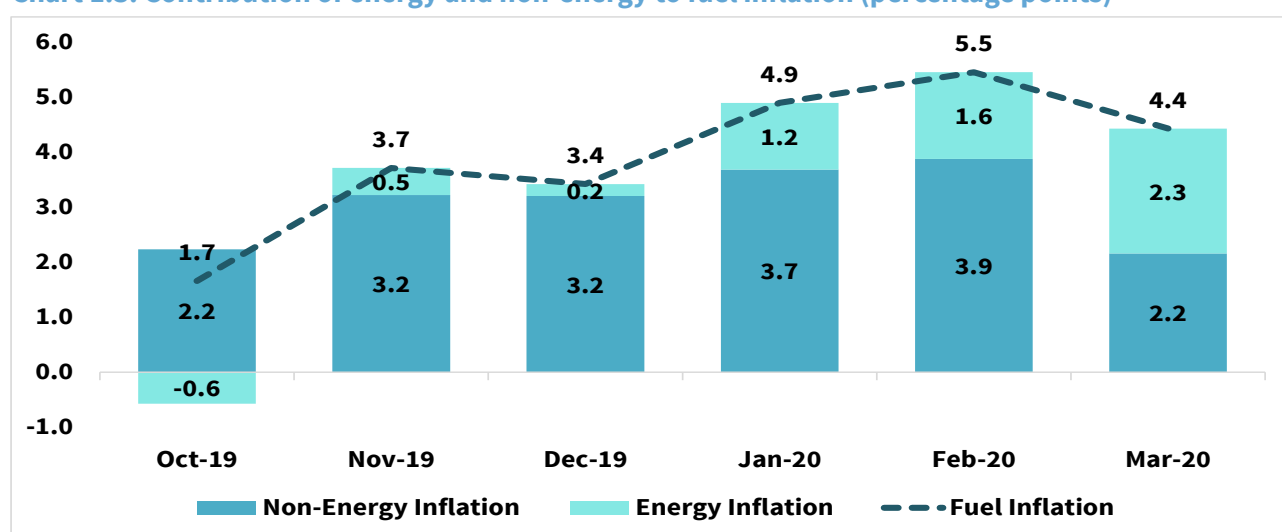
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel inflation

Fuel inflation increased to 4.9 percent in the quarter under review from 2.9 percent in the previous quarter driven by higher cost of selected energy items. This increase was mainly reflected in the energy component, whose contribution to fuel inflation remained elevated during the quarter,

driven by high fuel costs, fares and flight costs (**Chart 1.3**). However, increased hydro power generation during the period supported by the above average rainfall led to declining electricity costs which moderated fuel inflation during the quarter under review.

Chart 1.3: Contribution of energy and non-energy to fuel inflation (percentage points)



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

1 Maize components includes green maize, maize grain-loose, maize flour- loose and maize flour- sifted.

2 Milk components include fresh packeted milk and fresh unpacked milk.

3. Housing components include Bungalow, Flat, Maisonette, Other types of houses, Maintenance and Repair and Water Service.

4. Transport refers to Cars, Motorcycles, Bicycles, Driving Lessons, Parking Charges, all types of fares, primary and secondary transport, local and international flights.

Non-Food Non-Fuel inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation remained low and stable at 2.2 percent during the quarter. Despite the impact of tax measures in the FY 2019/20

Budget, NFNF inflation remained low, reflecting muted demand pressures in the economy (**Table 1.2**).

Table 1.2: Non-food-non-fuel inflation by cpi categories (percent)

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2019	Q4	8.7	2.2	1.2	2.4	1.9	1.2	1.2	1.4	2.4	0.8	3.2	2.2
	Q1	8.9	2.6	1.6	2.2	1.4	0.9	1.8	1.2	2.3	0.7	2.9	2.2
2020	Jan	9.7	2.8	1.4	2.4	1.7	1.1	1.9	1.2	2.3	0.8	3.2	2.3
	Feb	8.8	2.8	1.6	2.3	1.4	1.0	1.9	1.3	2.5	0.7	3.0	2.3
	Mar	8.2	2.3	1.4	1.9	1.2	0.7	1.6	1.1	2.1	0.6	2.4	1.9

Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Chapter 2

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Broad money growth increased to 3.9 percent in the first quarter of 2020 from 1.5 percent in the previous quarter, mainly reflecting growth in deposits. Total deposits increased by KSh 137.3 billion in the first quarter of 2020 compared to an increase of KSh 9.8 billion in the fourth quarter of 2019, mainly reflected in both corporate and household sector deposit holdings, partly supported by increased government spending, including payments for pending bills and Covid-19 related expenditures as

well as increased precautionary savings. In terms of deposit maturities, growth was recorded across the tenures, with stronger growth in demand deposits for the households, partly reflecting increased precautionary savings due to increased uncertainties with covid-19 pandemic; and time and savings deposits for the corporate sector, partly reflecting efforts by commercial banks to attract deposits by offering favorable rates (Tables 2.1 & 2.2).

Table 2.1: Monetary aggregates (Ksh Billions)

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Components of M3																		
1. Money supply, M1 (1.1+1.2+1.3)	1477.5	1520.3	1575.5	1459.7	1525.2	1595.1	7.1	2.9	3.6	-7.3	4.5	4.6	98.0	42.7	55.2	-115.8	65.5	69.9
1.1 Currency outside banks	230.3	225.2	196.9	157.7	198.6	198.3	7.4	-2.2	-12.6	-19.9	25.9	-0.2	16.0	-5.1	-28.3	-39.2	40.9	-0.4
1.2 Demand deposits	1175.6	1209.0	1212.8	1190.7	1253.4	1306.3	7.4	2.8	0.3	-1.8	5.3	4.2	80.9	33.4	3.8	-22.1	62.7	52.9
1.3 Other deposits at CBK 1/	71.7	86.2	165.8	111.4	73.4	90.7	1.3	20.2	92.5	-32.8	-34.2	23.6	0.9	14.5	79.7	-54.4	-38.1	17.3
2. Money supply, M2 (1+2.1)	2756.0	2838.4	2943.7	2866.0	2904.4	3018.9	2.6	3.0	3.7	-2.6	1.3	3.9	71.1	82.4	105.3	-77.7	38.4	114.5
2.1 Time and saving deposits	1278.4	1318.1	1368.2	1406.3	1379.1	1423.7	-2.1	3.1	3.8	2.8	-1.9	3.2	-26.9	39.7	50.1	38.0	-27.1	44.6
3. Money supply, M3 (2+3.1)	3337.8	3415.3	3564.2	3473.4	3524.0	3661.0	2.4	2.3	4.4	-2.5	1.5	3.9	76.8	77.5	148.9	-90.8	50.6	137.0
3.1 Foreign Currency Deposits	581.9	576.9	620.5	607.4	619.7	642.2	1.0	-0.8	7.6	-2.1	2.0	3.6	5.7	-4.9	43.6	-13.1	12.3	22.5
Sources of M3																		
1. Net foreign assets 2/	714.1	720.0	939.9	835.4	804.5	767.7	-3.8	0.8	30.5	-11.1	-3.7	-4.6	-28.0	5.9	219.9	-104.5	-31.0	-36.8
Central Bank	739.5	747.5	941.0	871.5	833.3	800.6	-3.8	1.1	25.9	-7.4	-4.4	-3.9	-28.8	8.0	193.5	-69.5	-38.2	-32.7
Banking Institutions	-25.4	-27.5	-1.1	-36.1	-28.8	-32.9	-3.2	8.3	-96.0	3217.2	-20.0	14.0	0.8	-2.1	26.4	-35.0	7.2	-4.0
2. Net domestic assets (2.1+2.2)	2623.7	2695.3	2624.3	2637.9	2719.6	2893.3	4.2	2.7	-2.6	0.5	3.1	6.4	104.7	71.6	-71.0	13.6	81.6	173.7
2.1 Domestic credit	3381.1	3508.1	3490.0	3566.6	3628.1	3789.0	3.0	3.8	-0.5	2.2	1.7	4.4	98.5	127.0	-18.1	76.6	61.5	160.9
2.1.1 Government (net)	858.2	964.2	890.5	894.3	941.2	1036.8	11.4	12.4	-7.6	0.4	5.2	10.2	87.9	106.1	-73.7	3.8	46.9	95.6
2.1.2 Private sector	2422.0	2444.2	2503.0	2572.4	2594.6	2661.2	0.7	0.9	2.4	2.8	0.9	2.6	18.0	22.2	58.8	69.4	22.2	66.6
2.1.3 Other public sector	100.9	99.7	96.4	99.8	92.3	90.9	-6.8	-1.2	-3.3	3.5	-7.6	-1.5	-7.4	-1.2	-3.3	3.4	-7.6	-1.4
2.2 Other assets net	-757.3	-812.8	-865.6	-928.6	-908.5	-895.6	-0.8	7.3	6.5	7.3	-2.2	-1.4	6.2	-55.4	-52.9	-63.0	20.1	12.9
Memorandum Items																		
4. Overall liquidity, L (3+4.1)	4551.0	4696.9	4896.0	4864.6	4927.1	5180.2	1.9	3.2	4.2	-0.6	1.3	5.1	84.0	145.9	199.1	-31.4	62.5	253.0
4.1 Non-bank holdings of government securities	1213.1	1281.6	1331.7	1391.2	1403.1	1519.2	0.6	5.6	3.9	4.5	0.9	8.3	7.3	68.4	50.2	59.5	11.9	116.1

Source: Central Bank of Kenya

Table 2.2: Deposit holdings of corporates and household sectors

	End Month Levels (KSh Billions)						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
1. Household Sector 1/	1493.4	1518.8	1629.0	1638.1	1641.5	1693.3	1.0	1.7	7.3	0.6	0.2	3.2	14.7	25.4	110.2	9.1	3.4	51.8
1.1 Demand Deposits	562.1	583.5	604.3	598.1	591.8	618.0	0.3	3.8	3.6	-1.0	-1.1	4.4	1.7	21.4	20.9	-6.3	-6.3	26.3
1.2 Time and Saving Deposits	701.3	707.8	749.6	774.5	793.3	811.5	1.7	0.9	5.9	3.3	2.4	2.3	11.6	6.6	41.7	25.0	18.8	18.2
1.3 Foreign Currency Deposits	230.0	227.5	275.1	265.5	256.4	263.7	0.6	-1.1	20.9	-3.5	-3.4	2.9	1.4	-2.6	47.6	-9.6	-9.1	7.3
2. Corporate Sector	1518.0	1559.5	1556.5	1549.7	1595.5	1662.1	2.5	2.7	-0.2	-0.4	3.0	4.2	37.0	41.5	-3.0	-6.8	45.8	66.6
2.1 Demand deposits	593.6	604.0	596.0	578.8	648.1	674.1	14.1	1.8	-1.3	-2.9	12.0	4.0	73.4	10.4	-8.0	-17.2	69.4	26.0
2.2 Time and Saving Deposits	574.7	607.9	616.0	629.1	583.3	609.0	-6.3	5.8	1.3	2.1	-7.3	4.4	-38.9	33.1	8.1	13.0	-45.8	25.7
2.3 Foreign Currency Deposits	349.7	347.6	344.5	341.9	364.1	379.0	0.7	-0.6	-0.9	-0.8	6.5	4.1	2.5	-2.1	-3.1	-2.6	22.2	14.9

Absolute and percentage changes may not necessarily add up due to rounding

1/ Includes individuals Deposits, Non-profit Institutions serving Households (NPISH) and unincorporated businesses of Households

Source: Central Bank of Kenya

The 12-month growth in broad money supply, M3, increased to 7.2 percent in March 2020 from 5.6 percent in December 2019, mainly supported by increased lending to the private sector and government.

Sources of Broad Money

The primary source of the increase in M3 in the first quarter of 2020 was the net domestic assets (NDA) of the banking system, which increased by KSh 173.7 billion compared to an increase of KSh 81.6 billion in the previous quarter, mainly supported by increased domestic credit. Meanwhile, the net foreign asset (NFA) of the banking system decreased in the first quarter of 2020, largely reflecting scheduled government external payments (Table 2.1).

Developments in Domestic Credit

Quarterly growth in domestic credit picked up in the first quarter of 2020 to 4.4 percent from 1.7 percent in the previous quarter, reflecting a strong recovery in private sector credit as well as increased net lending to government. Net lending to government increased by KSh 95.6 billion in the quarter under review compared to KSh 46.9 billion in the previous quarter, mainly on account of drawdown of government deposits at the Central bank as well as increased subscription of government securities by commercial banks (Table 2.3).

Loans and advances extended to the private sector improved by KSh 66.6 billion in first quarter of 2020 compared to KSh 22.2 billion in the previous quarter,

Table 2.3: Banking sector net domestic credit

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
1. Credit to Government	858.2	964.2	890.5	894.3	941.2	1,036.8	11.4	12.4	-7.6	0.4	5.2	10.2	87.9	106.1	-73.7	3.8	46.9	95.6
Central Bank	-95.1	-98.6	-189.6	-182.4	-182.4	-118.7	-55.7	3.6	92.4	-3.8	0.0	-34.9	119.5	-3.4	-91.1	7.3	-0.1	63.7
Commercial Banks & NBFIs	953.3	1,062.8	1,080.2	1,076.7	1,123.7	1,155.5	-3.2	11.5	1.6	-0.3	4.4	2.8	-31.6	109.5	17.4	-3.5	47.0	31.9
2. Credit to other public sector	100.9	99.7	96.4	99.8	92.3	90.9	-6.8	-1.2	-3.3	3.5	-7.6	-1.5	-7.4	-1.2	-3.3	3.4	-7.6	-1.4
Local government	4.3	4.3	3.8	4.5	4.3	4.3	-0.4	-0.6	-12.9	20.0	-4.7	-0.1	0.0	0.0	-0.6	0.8	-0.2	0.0
Parastatals	96.6	95.4	92.7	95.3	88.0	86.6	-7.1	-1.2	-2.9	2.9	-7.7	-1.5	-7.4	-1.2	-2.7	2.7	-7.3	-1.4
3. Credit to private sector	2,422.0	2,444.2	2,503.0	2,572.4	2,594.6	2,661.2	0.7	0.9	2.4	2.8	0.9	2.6	18.0	22.2	58.8	69.4	22.2	66.6
Agriculture	83.0	83.0	86.2	89.7	81.0	84.2	-2.4	0.0	3.9	4.1	-9.7	3.9	-2.0	0.0	3.2	3.5	-8.7	3.2
Manufacturing	334.6	336.1	357.6	360.0	365.4	387.6	-0.1	0.4	6.4	0.6	1.5	6.1	-0.2	1.5	21.5	2.3	5.4	22.3
Trade	429.3	440.3	447.1	456.5	467.4	481.8	1.1	2.6	1.5	2.1	2.4	3.1	4.8	11.0	6.8	9.4	10.9	14.3
Building and construction	114.0	108.2	109.2	114.5	115.8	118.5	-5.7	-5.1	0.9	4.8	1.2	2.3	-6.9	-5.8	1.0	5.3	1.3	2.7
Transport & communications	172.7	172.7	174.7	178.0	186.7	184.9	1.9	0.0	1.2	1.9	4.9	-0.9	3.2	0.0	2.1	3.3	8.7	-1.8
Finance & insurance	96.5	95.6	92.8	102.5	96.9	101.8	7.8	-1.0	-2.9	10.4	-5.4	5.1	7.0	-0.9	-2.8	9.7	-5.6	4.9
Real estate	368.7	370.5	377.4	377.1	374.1	378.6	-0.1	0.5	1.9	-0.1	-0.8	1.2	-0.4	1.8	6.9	-0.3	-3.0	4.5
Mining and quarrying	14.7	13.4	13.3	13.3	13.9	13.9	4.8	-9.2	-0.5	0.2	4.1	0.2	0.7	-1.3	-0.1	0.0	0.5	0.0
Private households	415.1	424.9	429.6	440.6	438.3	439.5	2.5	2.4	1.1	2.5	-0.5	0.3	10.2	9.8	4.7	10.9	-2.3	1.3
Consumer durables	195.8	205.7	220.1	236.7	246.7	255.2	6.2	5.1	7.0	7.5	4.2	3.5	11.5	9.9	14.4	16.6	10.0	8.6
Business services	150.4	149.3	146.6	150.7	154.1	154.3	3.0	-0.7	-1.8	2.7	2.3	0.2	4.4	-1.1	-2.7	4.0	3.4	0.3
Other activities	47.1	44.5	48.2	53.0	54.6	60.9	-23.3	-5.4	8.3	9.9	2.9	11.6	-14.3	-2.5	3.7	4.8	1.6	6.3
4. TOTAL (1+2+3)	3,381.1	3,508.1	3,490.0	3,566.6	3,628.1	3,789.0	3.0	3.8	-0.5	2.2	1.7	4.4	98.5	127.0	-18.1	76.6	61.5	160.9

Source: Central Bank of Kenya

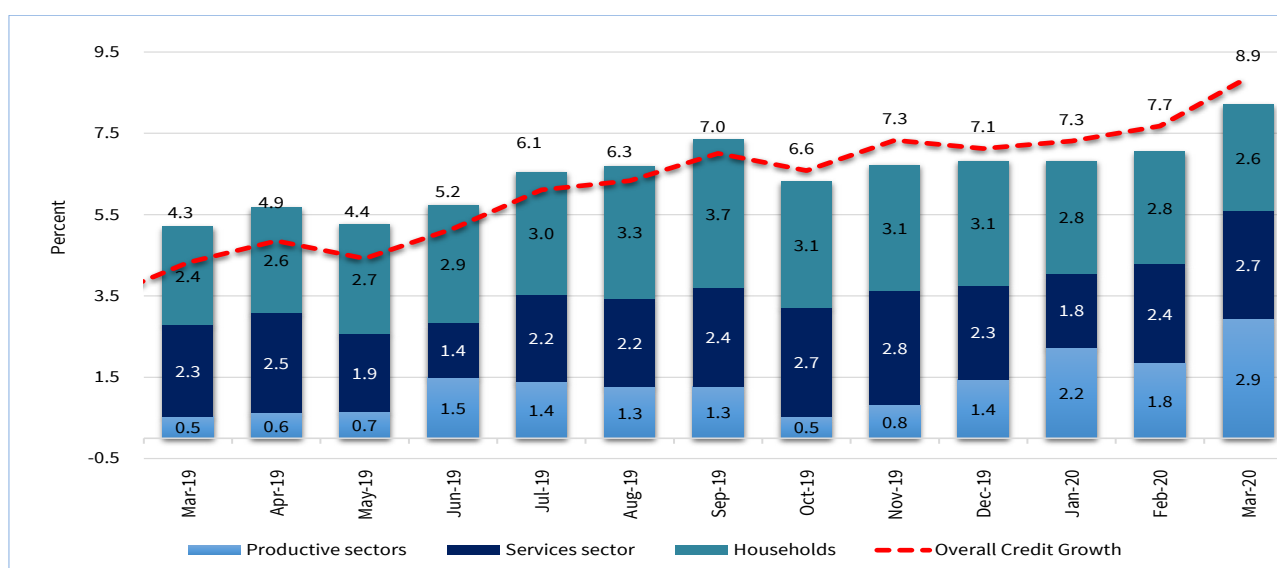
Table 2.4: Gross bank loans to the private sector

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
1. Household	743.7	756.9	766.2	787.2	816.6	821.3	-0.8	1.8	1.2	2.7	3.7	0.6	-5.8	13.2	9.3	21.1	29.3	4.7
2. Corporate	1,735.7	1,745.5	1,796.3	1,847.5	1,837.5	1,903.0	1.7	0.6	2.9	2.8	-0.5	3.6	29.5	9.8	50.8	51.2	-10.0	65.5
Gross Loans	2,479.4	2,502.4	2,562.5	2,634.7	2,654.1	2,724.3	1.0	0.9	2.4	2.8	0.7	2.6	23.8	23.0	60.1	72.2	19.3	70.2

1/ Includes individuals. Unincorporated businesses of households and non-profit organizations

Source: Central Bank of Kenya

Chart 2.1: Contribution to overall credit growth by activity group (percent)



Source: Central Bank of Kenya

largely driven by lending to the corporate sector. Increased lending to the corporate sector mainly reflected increased demand for working capital requirements, especially in the manufacturing and trade sectors. Meanwhile, lending to the household sector, slowed with demand for credit likely affected by uncertainties caused by Covid-19 pandemic shock (**Tables 2.3 & 2.4**).

On an annual basis, growth in lending to the private sector increased to 8.9 percent in March 2020 from 7.1 percent in December 2019, largely reflected in credit growth to productive and services sectors (**Chart 2.1**).

Reserve Money

Reserve money, which comprises currency held by the non-bank public and commercial bank reserves, declined by 3.4 percent in the first quarter of 2020 compared to an increase of 13.1 percent in the previous quarter. The decline was mainly reflected in bank reserves, largely reflecting a reduction in the Cash Reserve Ratio (CRR) by Monetary Policy Committee from 5.25 percent to 4.25 percent in March 2020, which availed KSh 35.2 billion in additional liquidity to banks to support their clients affected by the Covid-19 pandemic (**Table 2.5**).

Table 2.5: Reserve money (rm) and its sources

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
1. Net Foreign Assets	739.5	747.5	941.0	871.5	833.3	800.6	-3.8	1.1	25.9	-7.4	-4.4	-3.9	-28.8	8.0	193.5	-69.5	-38.2	-32.7
2. Net Domestic Assets	-247.5	-291.0	-501.2	-463.7	-372.2	-355.1	-22.3	17.6	72.2	-7.5	-19.7	-4.6	70.9	-43.5	-210.2	37.5	91.5	17.1
2.1 Government Borrowing (net)	-95.1	-98.6	-189.6	-182.4	-182.4	-118.7	-55.7	3.6	92.4	-3.8	0.0	-34.9	119.5	-3.4	-91.1	7.3	-0.1	63.7
2.2 Commercial banks (net)	23.2	-0.7	-21.3	-19.0	10.7	-1.3	-59.9	-102.9	3114.8	-10.7	-156.4	-112.4	-34.7	-23.9	-20.7	2.3	29.8	-12.1
2.3 Other Domestic Assets (net)	-178.9	-195.1	-293.7	-265.8	-204.0	-238.5	8.4	9.1	50.5	-9.5	-23.2	16.9	-13.8	-16.2	-98.5	27.9	61.8	-34.5
3. Reserve Money	492.0	456.5	439.8	407.8	461.1	445.5	9.4	-7.2	-3.7	-7.3	13.1	-3.4	42.1	-35.5	-16.7	-32.0	53.3	-15.6
3.1 Currency outside banks	230.3	225.2	196.9	157.7	198.6	198.3	7.4	-2.2	-12.6	-19.9	25.9	-0.2	16.0	-5.1	-28.3	-39.2	40.9	-0.4
3.2 Bank reserves	261.7	231.3	242.8	250.0	262.5	247.3	11.1	-11.6	5.0	3.0	5.0	-5.8	26.1	-30.4	11.6	7.2	12.4	-15.2

Source: Central Bank of Kenya

On the asset side, the decline in reserve money was due to a decline in net foreign assets (NFA) of Central Bank, which more than offset the increase in net domestic assets (NDA). The decline in NFA of the Central Bank was mainly due to payments of government scheduled external debt service. The increase in NDA was mainly on account of net lending to government due to increased government drawdown of deposits at the Central Bank.

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) meeting in January 2020 lowered the Central Bank Policy rate (CBR) by 25 basis points to 8.25 percent as they saw room for accommodative monetary policy to support economic activity. The MPC noted that while inflation expectations were well anchored within the target range, the economy was operating below potential amidst a tightening of fiscal policy. In March 2020, the MPC meetings were held in the context of the COVID-19 (coronavirus) pandemic. In order to prevent the COVID-19 health crisis from becoming a severe economic and financial crisis, MPC decided to: (i) lower the CBR to 7.25 percent from 8.25 percent; (ii) reduce the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent, releasing KSh 35.2 billion as additional liquidity availed to banks to directly support borrowers that were distressed as a result of COVID-19, and (iii) extend

the maximum tenor of Repurchase Agreements (REPOs) from 28 to 91 days to enable banks secure longer-term liquidity.

b. Interbank rate

The weighted average interbank rate declined during the first quarter of 2020, consistent with the reduction in the policy rate (CBR); and the improved liquidity conditions supported by increased government payments and the CRR reduction from 5.25 percent to 4.25 percent in March 2020. The average interbank rate declined from 6.03 percent in December 2019 to 4.40 percent in March 2020.

c. Treasury bill rates

The average 91-day Treasury bill rate remained stable at 7.29 percent in March 2020 from 7.17 percent in December 2019 while the average 182-day Treasury bill declined slightly from 8.16 percent to 8.14 percent over the same period (**Table 2.6**).

d. Lending and Deposit Rates

Commercial banks' lending rates declined in the first quarter of 2020 in line with the reduction in the policy rate, and improved liquidity conditions. The weighted average lending rate decreased from 12.24 percent in December 2019 to 12.09 percent in March 2020, and the weighted average deposit rate declined from 7.11 percent to 7.07 percent. Consequently, the spread declined to an average of 5.02 percent from 5.14 percent in the previous quarter.

Table 2.6: Interest rates (Percent)

	2018				2019												2020		
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	8.02	7.87	7.64	7.34	7.23	7.06	7.13	7.41	7.23	6.94	6.81	6.44	6.35	6.38	6.65	7.17	7.23	7.31	7.29
182-day Treasury bill rate	10.39	9.99	8.82	8.40	8.95	8.62	8.32	8.16	7.90	7.71	7.57	7.12	7.10	7.23	7.61	8.16	8.17	8.25	8.14
Interbank rate	4.90	5.03	4.28	8.15	3.32	2.51	3.72	4.12	5.61	2.98	2.28	3.70	6.59	6.86	4.24	6.03	4.39	4.84	4.40
Repo rate	0.00	6.16	4.77	7.72	3.70	3.15	3.49	3.03	0.00	4.23	4.55	7.37	8.69	7.83	6.52	7.45	5.38	4.44	6.13
Reverse Repo rate	9.95	9.56	9.03	11.34	-	9.03	-	9.13	9.18	-	-	-	-	-	-	-	-	-	-
Central Bank Rate (CBR)	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	8.50	8.50	8.25	8.25	7.25
Average lending rate (1)	13.49	13.22	12.66	12.51	12.50	12.47	12.51	12.50	12.47	12.47	12.39	12.46	12.47	12.43	12.38	12.24	12.29	12.19	12.09
Overdraft rate	13.40	13.23	12.52	12.17	12.15	12.13	12.13	12.15	12.13	12.12	11.89	11.97	11.99	11.88	11.63	11.67	11.97	11.82	11.79
1-5years	13.67	13.39	12.85	12.70	12.68	12.62	12.70	12.68	12.62	12.64	12.58	12.67	12.67	12.62	12.68	12.50	12.44	12.35	12.20
Over 5years	13.31	13.00	12.51	12.47	12.47	12.48	12.49	12.48	12.47	12.46	12.42	12.48	12.46	12.47	12.43	12.29	12.28	12.16	12.11
Average deposit rate (2)	8.16	8.04	7.76	7.41	7.34	7.28	7.22	7.17	7.20	7.19	6.97	6.91	6.98	6.96	6.56	7.11	7.07	7.06	7.07
0-3months	8.48	8.41	8.22	7.83	7.73	7.69	7.62	7.56	7.58	7.55	7.26	7.28	7.42	7.40	7.37	7.60	7.39	7.40	7.42
Over 3 months deposit	8.26	8.14	7.64	7.67	7.58	7.49	7.43	7.48	7.50	7.53	7.34	7.21	7.23	7.21	6.27	7.50	7.52	7.53	7.56
Savings deposits	6.85	6.60	6.33	5.13	5.14	5.16	5.05	4.75	4.71	4.77	4.77	4.54	4.58	4.44	4.47	4.02	4.25	4.20	4.15
Spread (1-2)	5.33	5.18	4.91	5.09	5.16	5.19	5.29	5.34	5.27	5.28	5.42	5.56	5.48	5.47	5.82	5.14	5.22	5.13	5.02

Source: Central Bank of Kenya

Chapter 3

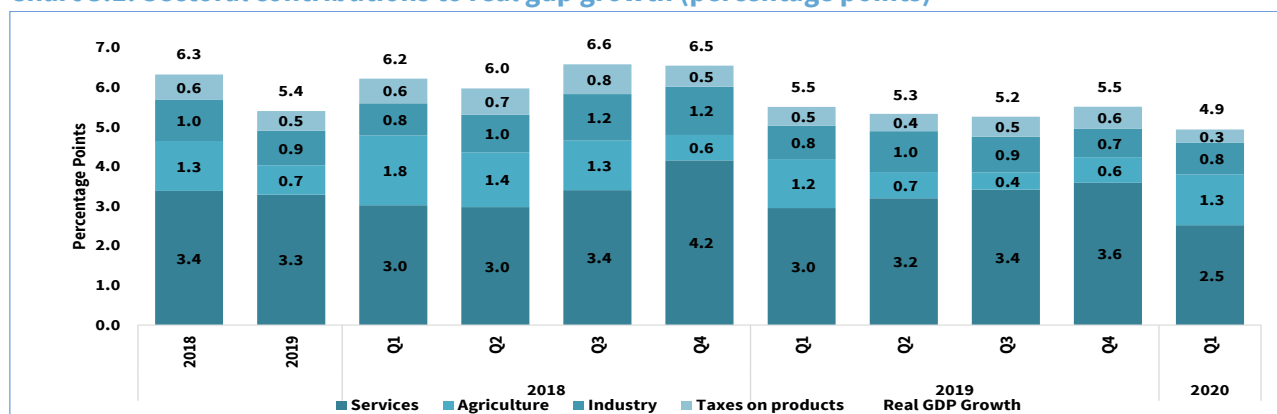
The Real Sector

Overview

Economic growth remained strong in the first quarter of 2020, despite the adverse effects of COVID-19 pandemic that started to take root in the last month of the quarter. The economy grew by 4.9 percent, compared to 5.5 percent in the previous quarter and a similar quarter of 2019. Growth was mainly supported by improved agricultural production following the favourable weather conditions experienced in the country, and resilient services sectors (**Chart 3.1, Table 3.1**).

Services sectors remained the main driver of growth in the first quarter of 2020, and contributed 2.5 percentage points to overall GDP growth. Agriculture sector contributed 1.3 percentage points, while industry sectors contributed 0.8 percentage points. However, the contributions of the services and industry sectors were lower compared to a similar quarter of 2019 (**Chart 3.1, Table 3.3**).

Chart 3.1: Sectoral contributions to real GDP growth (percentage points)



Source: Kenya National Bureau of Statistics

Table 3.1: Sectorial contribution to real GDP growth (percentage points)

	Annual		2018				2019				2020
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Agriculture	6.0	3.6	6.7	5.9	6.8	3.9	4.7	2.9	2.4	4.0	4.9
2.1 Industry	5.5	4.7	4.5	5.0	6.0	6.4	4.7	5.4	4.7	3.8	4.4
Mining & Quarrying	2.7	2.5	3.1	3.5	3.2	1.2	1.4	5.0	3.4	0.3	9.5
Manufacturing	4.3	3.3	3.2	3.9	5.1	5.2	3.5	4.0	3.2	2.3	2.9
Electricity & water supply	8.0	7.0	6.1	8.3	8.1	9.5	7.8	7.3	6.4	6.4	6.3
Construction	6.9	6.4	6.7	5.6	7.3	7.7	6.1	7.2	6.6	5.7	5.3
2.2 Services	7.0	6.7	6.7	6.4	6.8	8.0	6.5	6.8	6.7	6.8	5.5
Wholesale & Retail Trade	6.9	6.6	5.6	6.5	7.3	7.9	6.3	7.8	6.1	6.4	6.4
Accommodation & restaurant	16.6	10.3	13.3	15.1	15.5	21.5	11.0	12.1	9.9	9.0	-9.3
Transport & Storage	8.5	7.8	6.5	6.6	8.5	11.8	6.4	7.6	7.6	9.2	6.2
Information & Communication	11.3	9.0	13.2	11.7	9.8	10.6	10.2	7.8	8.1	9.4	9.8
Financial & Insurance	5.3	6.6	4.0	3.5	5.1	8.5	6.3	5.2	8.1	6.6	6.0
Public administration	6.7	8.1	5.5	6.1	7.1	8.1	8.9	8.7	8.4	6.2	6.7
Professional, Administration & Support Services	5.9	4.9	6.2	7.5	6.6	3.5	5.5	4.2	4.8	4.9	4.4
Real estate	4.1	5.3	5.2	4.5	3.8	3.1	4.8	6.0	5.5	5.1	4.3
Education	5.8	5.4	5.3	5.2	5.5	7.0	4.3	6.0	6.0	5.5	5.3
Health	4.4	5.8	4.1	3.4	5.3	4.5	5.4	6.2	5.5	6.2	5.8
Other services	4.9	5.1	3.6	4.6	5.0	6.5	5.6	5.6	5.3	3.8	3.4
FISIM	0.9	6.1	-3.1	-2.4	1.9	7.4	4.6	7.3	6.8	5.7	4.7
2.3 Taxes on products	5.6	4.4	6.1	6.0	6.2	4.3	4.7	4.0	4.2	4.5	3.4
Real GDP Growth	6.3	5.4	6.2	6.0	6.6	6.5	5.5	5.3	5.2	5.5	4.9

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral contributions as a share of real gdp (Percent)

	Annual		2018				2019				2020
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Agriculture	21.2	20.8	26.2	23.4	18.5	16.5	26.0	22.8	18.0	16.2	26.0
2.1 Industry	18.9	18.8	18.2	19.0	19.4	19.1	18.1	19.1	19.3	18.8	18.0
Mining & Quarrying	1.0	1.0	1.1	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.1
Manufacturing	9.7	9.5	9.7	9.9	9.9	9.3	9.5	9.7	9.7	9.0	9.3
Electricity & water supply	2.6	2.7	2.5	2.8	2.7	2.5	2.6	2.9	2.7	2.5	2.6
Construction	5.6	5.7	5.0	5.4	5.8	6.3	5.0	5.5	5.9	6.3	5.0
2.2 Services	48.5	49.1	45.3	46.6	50.1	52.1	45.7	47.3	50.8	52.7	46.0
Wholesale & Retail Trade	7.6	7.7	6.8	7.2	8.8	7.9	6.8	7.3	8.8	7.9	6.9
Accommodation & restaurant	1.4	1.4	1.5	1.0	1.3	1.7	1.6	1.0	1.3	1.7	1.3
Transport & Storage	7.1	7.3	6.1	6.7	7.5	8.1	6.2	6.9	7.6	8.4	6.2
Information & Communication	4.3	4.4	4.2	3.4	3.8	5.5	4.4	3.5	3.9	5.7	4.6
Financial & Insurance	6.1	6.1	5.8	5.8	6.3	6.3	5.9	5.8	6.5	6.3	5.9
Public administration	3.9	4.0	3.5	4.3	3.7	4.0	3.6	4.4	3.9	4.0	3.7
Professional, Administration & Support Services	2.2	2.2	2.0	2.2	2.3	2.3	2.0	2.2	2.3	2.3	2.0
Real estate	8.4	8.4	8.1	8.3	8.6	8.5	8.1	8.3	8.6	8.4	8.0
Education	6.9	6.9	6.7	6.8	7.0	7.0	6.6	6.8	7.1	7.0	6.6
Health	1.7	1.7	1.5	1.8	1.8	1.8	1.5	1.8	1.8	1.8	1.5
Other services	1.2	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.3	1.3	1.2
FISIM	-2.2	-2.2	-2.2	-2.1	-2.3	-2.3	-2.2	-2.1	-2.4	-2.3	-2.2
2.3 Taxes on products	11.4	11.3	10.3	11.0	12.1	12.3	10.2	10.9	12.0	12.2	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics and CBK Staff Computations

Table 3.3: Sectoral contribution to real GDP growth (percentage points)

	Annual		2018				2019				2020
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Agriculture	1.3	0.7	1.8	1.4	1.3	0.6	1.2	0.7	0.4	0.6	1.3
2. Non-Agriculture (o/w)	5.1	4.6	4.5	4.6	5.3	5.9	4.3	4.7	4.8	4.9	3.7
2.1 Industry	1.0	0.9	0.8	1.0	1.2	1.2	0.8	1.0	0.9	0.7	0.8
Mining & Quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Manufacturing	0.4	0.3	0.3	0.4	0.5	0.5	0.3	0.4	0.3	0.2	0.3
Electricity & water supply	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Construction	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.4	0.4	0.4	0.3
2.2 Services	3.4	3.3	3.0	3.0	3.4	4.2	3.0	3.2	3.4	3.6	2.5
Wholesale & Retail Trade	0.5	0.5	0.4	0.5	0.6	0.6	0.4	0.6	0.5	0.5	0.4
Accommodation & restaurant	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.1	0.1	0.2	-0.1
Transport & Storage	0.6	0.6	0.4	0.4	0.6	1.0	0.4	0.5	0.6	0.8	0.4
Information & Communication	0.5	0.4	0.6	0.4	0.4	0.6	0.5	0.3	0.3	0.5	0.5
Financial & Insurance	0.3	0.4	0.2	0.2	0.3	0.5	0.4	0.3	0.5	0.4	0.4
Public administration	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.3	0.2	0.2
Professional, Administration & Support Services	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Real estate	0.3	0.4	0.4	0.4	0.3	0.3	0.4	0.5	0.5	0.4	0.3
Education	0.4	0.4	0.4	0.4	0.4	0.5	0.3	0.4	0.4	0.4	0.3
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
FISIM	0.0	-0.1	0.1	0.0	0.0	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1
2.3 Taxes on products	0.6	0.5	0.6	0.7	0.8	0.5	0.5	0.4	0.5	0.6	0.3
Real GDP Growth	6.3	5.4	6.2	6.0	6.6	6.5	5.5	5.3	5.2	5.5	4.9

Source: Kenya National Bureau of Statistics

Performance by Sector

Sectoral performance was mixed in the first quarter of 2020, but overall, the services sectors continued to drive the strong performance of the economy.

Agriculture

Agriculture sector recorded improved growth in the first quarter of 2020, supported by favourable weather conditions experienced in the country. It

grew by 4.9 percent, which was stronger than 4.0 percent in the previous quarter and 4.7 percent in a similar quarter of 2019 (Table 3.1). Growth was reflected in increased production of key products such as tea, horticultural crops for export, coffee and sugarcane. The sector contributed 1.3 percentage points to overall GDP growth during the quarter under review, higher than 0.6 percentage points the previous quarter and 1.2 percentage points in a similar quarter of 2019 (Table 3.3).

Tea

Tea production increased by 11.6 percent compared to the previous quarter, which was reflected in increased monthly production in January and March (Table 3.4). The average auction price per kilogram decreased by 7.1 percent compared to the previous quarter.

Coffee

Coffee sales increased significantly by 177.8 percent compared to the previous quarter, on account of

increased quantity available for auction following the November-December 2019 harvest period (Table 3.4). The average auction prices increased by 25.4 percent compared to the previous quarter.

Horticulture

Total exports of horticultural crops improved by 42 percent compared to the previous quarter, supported by increased production of fresh vegetables, fruits and nuts. All months of the quarter under review recorded improved exports (Table 3.4).

Sugarcane output was higher by 43.6 percent compared to the previous quarter, with the improved production recorded in all months of the quarter (Table 3.4).

Milk intake, however, decreased by 3.4 percent compared to the previous quarter. Monthly data showed lower monthly intake in January and February, followed by a pickup in March (Table 3.4).

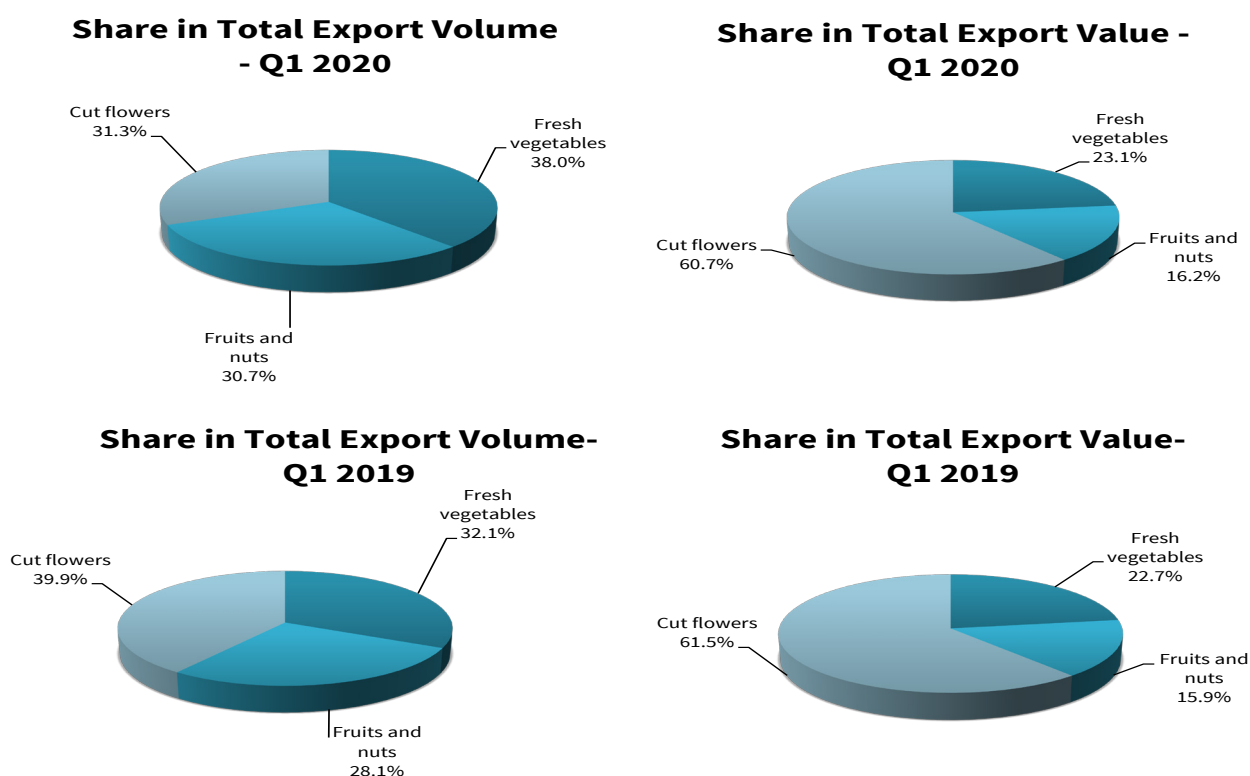
Table 3.4: Quarterly performance of key agricultural output indicators

	2019				2020*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-20	Feb-20	Mar-20
Tea								
Output (Metric tonnes)	106,293	106,315	104,192	142,053	158,570	53,636	49,201	55,733
Growth (%)	-27.57	0.02	-2.00	36.34	11.63	5.9	-8.3	13.3
Horticulture								
Exports (Metric tonnes)	103,204	84,183	75,387	79,578	112,995	35,550	38,707	38,738
Growth (%)	35.7	-18.4	-10.4	5.6	42.0	61.3	8.9	0.1
Coffee								
Sales (Metric tonnes)	13,948	11,412	3,840	4,428	12,304	3,049	4,410	4,845
Growth (%)	117.8	-18.2	-66.4	15.3	177.8	295.5	44.6	9.9
Milk								
Output (million litres)	177.1	142.1	187.2	179.5	173.4	63.4	53.9	56.1
Growth %	2.4	-19.8	31.8	-4.1	-3.4	-8.0	-15.0	4.1
Sugar Cane								
Output ('000 Metric tonnes)	1,485	972	990	1,140	1,636	523	530	583
Growth (%)	6.7	-34.5	1.8	15.1	43.6	34.6	1.3	10.0

* Provisional

Source: Kenya National Bureau of Statistics

Chart 3.2: Horticultural exports



Manufacturing

The Manufacturing sector recorded improved growth in the first quarter of 2020, growing by 2.9 percent compared to 2.3 percent in the previous quarter (**Table 3.1**). Growth was supported by increased production of various food and non-food products, as well as increased credit advanced to the sector during the quarter. The sector's contribution to overall GDP growth increased slightly to 0.3 percentage points compared to 0.2 percent in the previous quarter (**Table 3.3**).

Cement production increased by 10.7 percent compared to the previous quarter, with increased production recorded in all the months of the quarter (**Table 3.5**). The increased production was supported by continued strong activity in the construction sector.

Production of **assembled vehicles** increased by 7.5 percent compared to the previous quarter. The increased monthly production in January and February 2020 offset the decline recorded in March (**Table 3.5**).

Production of processed sugar increased significantly by 50.4 percent compared to the previous quarter, supported by increased production of sugarcane. Monthly production data showed increased production in January and March 2020, which more than offset the decline recorded in February (**Table 3.5**).

Production of **galvanized sheets** declined by 4.7 percent compared to the previous quarter. Monthly production data showed a decline in production in February and March 2020, which offset the increased production recorded in January (**Table 3.5**).

Soft drinks production also decreased by 1.4 percent compared to the previous quarter. Monthly data shows a decline in production in January and February followed by a marginal increase in March (**Table 3.5**).

Table 3.5: Quarterly production statistics of selected manufactured goods

	2019				2020*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-20	Feb-20	Mar-20
Cement production								
Output (MT)	1,462,361	1,465,653	1,558,955	1,480,218	1,638,646	530,404	548,818	559,424
Growth %	-1.76	0.23	6.37	-5.05	10.70	6.8	3.5	1.9
Assembled vehicles								
Output (No.)	1,678	2,027	1,952	2,145	2,305	614	861	830
Growth %	22.3	20.8	-3.7	9.9	7.5	12.7	40.2	-3.6
Galvanized sheets								
Output (MT)	69,186	70,382	67,820	67,037	63,912	23,397	21,989	18,527
Growth %	1.7	1.7	-3.6	-1.2	-4.7	3.8	-6.0	-15.7
Processed sugar								
Output (MT)	144,662.00	100,164.00	91,288.00	104,482.00	157,137.00	53,155.00	51,083.00	52,899.00
Growth %	18.2	-30.8	-8.9	14.5	50.4	38.7	-3.9	3.6
Soft drinks								
Output ('000 litres)	170,216	157,390	149,632	153,698	151,554	52,654	49,406	49,494
Growth %	12.9	-7.5	-4.9	2.7	-1.4	-5.0	-6.2	0.2

*Provisional

Source: Kenya National Bureau of Statistics

Electricity and Water Supply

Electricity and Water Supply sector recorded strong growth of 6.3 percent in the first quarter of 2020 compared to 6.4 percent in the previous quarter (**Table 3.1**). Its contribution to overall GDP growth remained stable at 0.2 percentage points during the quarter (**Table 3.3**).

Electricity generation increased marginally by 0.2 percent compared to the previous quarter, supported by increased generation of hydroelectricity following increased rainfall.

Consequently, generation of the relatively more expensive thermal electricity declined. Similarly, generation of geothermal electricity as well as renewable sources of electricity decreased during the quarter (**Table 3.6**).

Consumption of electricity increased by 2.5 percent during the quarter. Meanwhile, international oil prices declined by 18.6 percent during the same period, as global demand for oil began to decline on account of slowed economic activity due to the onset of COVID-19 pandemic (**Table 3.6**).

Table 3.6: Quarterly performance in the energy sector

	2019				2020*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-20	Feb-20	Mar-20
Electricity Supply (Generation)								
Output (million KWH)	2,825.1	2,805.2	2,895.6	2,882.8	2,888.4	986.1	933.6	968.7
Growth %	-1.1	-0.7	3.2	-0.4	0.2	4.9	-5.3	3.8
Of which:								
Hydro-power Generation (million KWH)	815.7	707.0	754.2	928.5	1058.8	357.7	342.0	359.1
Growth (%)	-17.5	-13.3	6.7	23.1	14.0	-0.9	-4.4	5.0
Geo-Thermal Generation (million KWH)	1,236.9	1,238.5	1,319.7	1,439.6	1,367.6	476.6	430.7	460.3
Growth (%)	-1.3	0.1	6.6	9.1	-5.0	2.7	-9.6	6.9
Thermal Generation (million KWH)	311.6	437.7	370.0	194.1	163.9	54.5	53.8	55.6
Growth (%)	20.4	40.5	-15.5	-47.5	-15.6	-12.4	-1.3	3.4
Wind Generation (million KWH)	437.8	398.7	429.2	297.0	275.7	89.7	100.2	85.9
Growth (%)	27.4	-8.9	7.7	-30.8	-7.2	96.8	11.7	-14.3
Solar Generation (million KWH)	23.1	23.2	22.4	23.5	22.3	7.6	6.9	7.8
Growth (%)	70.1	0.4	-3.2	4.6	-4.9	0.1	-8.6	12.4
Co-Generation (million KWH)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Growth (%)	-37.5	20.0	33.3	37.5	-54.5	-80.0	100.0	0.0
Consumption of electricity (million KWH)	2,221.7	2,191.9	2,235.6	2,223.6	2,279.4	774.0	741.7	763.7
Growth %	0.8	-1.3	2.0	-0.5	2.5	9.1	-4.2	3.0
Murban crude oil average price (US \$ per barrel)	65.0	68.5	62.5	63.7	51.8	66.1	55.5	33.9
Growth %	-6.5	5.4	-8.8	1.9	-18.6	-0.9	-16.0	-38.9

N/A - Not Available

Source: Kenya National Bureau of Statistics

Construction and Real Estate

Growth in the Construction sector was strong at 5.3 percent in the first quarter of 2020, supported by ongoing Government infrastructure projects and increased credit advanced to the sector. However, this was lower than 5.7 percent growth recorded in the previous quarter (**Table 3.1**). The sector contributed 0.3 percentage points to real GDP growth, a slight decline compared to 0.4 percentage points in the previous quarter (**Table 3.3**).

Cement consumption increased by 11.0 percent compared to the previous quarter. In addition, the total value of building plans approved by Nairobi County's Planning, Compliance & Enforcement Department increased significantly in January and February 2020 by 163.1 percent and 30.7 percent, respectively (**Table 3.7**).

The Real Estate sector grew by 4.3 percent, which was slower than 5.1 percent in the previous quarter (**Table 3.1**). Its contribution to real GDP growth also

declined slightly to 0.3 percentage points compared to 0.4 percentage points in the previous quarter (**Table 3.3**).

Accommodation and Restaurants

Accommodation and Restaurant sector growth contracted by 9.3 percent compared to the previous quarter, reflecting the adverse impact of domestic and international travel restrictions on hotels. The measures were enforced to mitigate the spread of COVID-19 (**Table 3.1**).

Tourist Arrivals

Tourist arrivals declined by 27.9 percent compared to the previous quarter, owing to domestic and international travel restrictions enforced to mitigate the spread of COVID-19. The most significant declines in arrivals were recorded in March 2020, owing to border closures enforced both domestically and internationally (**Table 3.8**).

Table 3.7: Quarterly statistics of selected construction indicators

	2019				2020*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-20	Feb-20	Mar-20
Cement Consumption								
Output (Tonnes)	1,459,021	1,453,917	1,553,790	1,466,605	1,628,361	492,670	448,081	497,872
Growth %	-1.3	-0.3	6.9	-5.6	11.0	2.8	-9.1	11.1
Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department								
Residential (KSh, millions)	33,048.82	42,830.80	38,669.71	23,657.32	N/A	14,155.64	49,022.50	N/A
Growth (%)	-8.6	29.6	-9.7	-38.8		41.2	246.3	
Non-residential (KSh, millions)	23,491.41	21,884.37	16,530.44	15,512.02	N/A	27,831.56	5,851.17	N/A
Growth (%)	3.7	-6.8	-24.5	-6.2		369.1	-79.0	
Total (KSh, millions)	56,540.23	64,715.17	55,200.15	39,169.34	N/A	41,987.20	54,873.67	N/A
Growth (%)	-3.9	14.5	-14.7	-29.0		163.1	30.7	

*Provisional

N/A - Not Available

Source: Kenya Tourism Board (KTB)

Table 3.8: Quarterly tourist arrivals by point of entry

	2019				2020*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-20	Feb-20	Mar-20
Total Tourist Arrivals	361,479	339,250	449,185	402,279	290,010	125,283	117,431	47,296
Growth (%)	-2.5	-6.1	32.4	-10.4	-27.9	-5.1	-6.3	-59.7
o.w. JKIA - Nairobi	312,819	324,240	420,478	366,434	262,769	113,078	106,345	43,346
Growth (%)	-6.5	3.7	29.7	-12.9	-28.3	-5.5	-6.0	-59.2
MIAM - Mombasa	48,660	15,010	28,707	35,845	27,241	12,205	11,086	3,950
Growth %	34.7	-69.2	91.3	24.9	-24.0	-1.4	-9.2	-64.4

Source: Kenya National Bureau of Statistics, Kenya Pipeline Company Limited

Transport and Storage

Transport and Storage sector recorded slower growth of 6.2 percent compared to 9.2 percent in the previous quarter (**Table 3.1**). The slowdown was mainly occasioned by significant declines in passenger transport due to domestic and international travel restrictions to contain the spread of COVID-19. However, cargo transport remained strong during the quarter. The contribution of the sector to overall GDP growth was lower at 0.4 percentage points compared to 0.8 percentage points in the previous quarter (**Table 3.3**).

Total passenger flows through JKIA declined by 23.1 percent compared to the previous quarter, reflected in both incoming and outgoing passenger flows. Consumption of fuels decreased by 2.3 percent compared to the previous quarter. However, the volume of oil that passed through the Kenya Pipeline increased by 4.7 percent compared to the previous quarter (**Table 3.9**).

Table 3.9: Quarterly throughput of selected transport companies

	2019				2020*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-20	Feb-20	Mar-20
Number of Passengers thro' JKIA								
Total passenger flows	1,145,280	1,212,177	1,468,305	1,330,983	1,023,393	432,067	376,923	214,403
Growth (%)	-9.0	5.8	21.1	-9.4	-23.1	-9.6	-12.8	-43.1
o.w. Incoming	729,230	773,597	902,957	831,193	640,852	269,918	242,621	128,313
Growth (%)	-9.1	6.1	16.7	-7.9	-22.9	-12.7	-10.1	-47.1
Outgoing	416,050	438,580	565,348	499,790	382,541	162,149	134,302	86,090
Growth %	-8.9	5.4	28.9	-11.6	-23.5	-4.0	-17.2	-35.9
Kenya Pipeline Oil Throughput								
Output ('000 litres)	1,859,793	1,791,759	1,763,400	1,816,132	1,900,764	683,035	601,511	616,219
Growth %	12.1	-3.7	-1.6	3.0	4.7	11.4	-11.9	2.4
Consumption of Fuels								
Output ('000 litres)	1,296.6	1,302.3	1,249.9	1,255.6	1,226.4	413.6	411.3	401.5
Growth (%)	5.7	0.4	-4.0	0.5	-2.3	-1.3	-0.6	-2.4

N/A - Not Available

Source: Kenya National Bureau of Statistics, Kenya Pipeline Company

Chapter 4

Global Economy

Global Developments

Performance of the Global economy was expected to worsen significantly due to the COVID-19 pandemic with output growth projected to contract by 3.0 percent in 2020 compared to a growth of 2.9 percent in 2019 and a 6.3 percentage points lower than January 2020 projections (IMF World Economic Outlook, April 2020). However, the rebound of global output in 2021 depends critically on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence. Therefore, the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes largely boosted by policy support.

Growth in the advanced economy group where several economies are experiencing widespread outbreaks and deploying containment measures is projected at -6.1 percent in 2020. Most economies in the group are forecast to contract this year, including the United States (-5.9 percent), Japan (-5.2 percent), the United Kingdom (-6.5 percent), Germany (-7.0 percent), France (-7.2 percent), Italy (-9.1 percent), and Spain (-8.0 percent). Although essential to contain the virus, lockdowns and restrictions on mobility are extracting a sizable effect on economic activity with adverse confidence

effects likely to further weigh on economic prospects

In the emerging market and developing economies, growth is projected to contract by 1.0 percent in 2020, a markdown by 5.4 percentage points relative to the January WEO projection. It is expected to pick up to 6.6 percent in 2021. The significant downward revision to the 2020 growth projection largely reflects anticipated domestic disruptions to economic activity from COVID-19. Growth in Latin America is expected to contract by 5.2 percent with Brazil's growth forecast at -5.3 percent and Mexico's at -6.6 percent. Emerging Asia is the only region with a projected positive growth of 1.0 percent, albeit a 4.8 percentage points markdown relative to the January 2020 WEO update.

In Sub-Saharan Africa (SSA), economic activity is expected to decline to -1.6 percent in 2020 and improve to 4.1 percent in 2021. The 2020 growth in South Africa, and Nigeria, is expected to contract by 3.4 percent and 5.8 percent, respectively. Growth is expected to worsen most in tourism-dependent and resource-intensive countries, while that of non-resource intensive countries is expected to stall completely in 2021 (**Table 4.1**).

The COVID-19 pandemic differs from past triggers of

Table 4.1: Global economic outlook

REAL GDP GROWTH (%): IMF YEAR OVER YEAR					
	Actual	April 2020 Projections		Difference from January 2020 WEO Update	
Country/Region	2019	2020	2021	2020	2021
World Output	2.9	-3.0	5.8	-6.3	2.4
Advanced economies	1.7	-6.1	4.5	-7.7	2.9
United States	2.3	-5.9	4.7	-7.9	3.0
Euro Area	1.2	-7.5	4.7	-8.8	3.3
Germany	0.6	-7.0	5.2	-8.1	3.8
France	1.3	-7.2	4.5	-8.5	3.2
Italy	0.3	-9.1	4.8	-9.6	4.1
Spain	2.0	-8.0	4.3	-9.6	2.7
Japan	0.7	-5.2	3.0	-5.9	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5
Emerging market and Developing economies	3.7	-1.0	6.6	-5.4	2.0
Russia	6.1	1.2	9.2	-7.4	1.5
China	4.2	1.9	7.4	-4.8	3.4
India	1.3	-5.5	3.5	-3.9	0.9
Brazil	1.1	-5.3	2.9	-7.5	0.6
Middle East and North Africa	0.3	-3.3	4.2	-5.9	1.2
Sub-Saharan Africa	3.1	-1.6	4.1	-5.1	0.6
Nigeria	2.2	-3.4	2.4	-5.9	-0.1
South Africa	0.2	-5.8	4.0	-6.6	3.0
Source: IMF, World Economic Outlook (WEO), April 2020					

economic crisis. There is reduced labor supply due to infections; activity is affected in sectors that rely on social interactions such as travel, hospitality, tourism and entertainment are affected; supply chain disruptions and lower productivity. The shock is amplified through the financial markets leading to a flight to safety, increase in borrowing costs and scarce credit with tight financial conditions expected in the first half of 2020 and gradually easing in the second half of 2020. The sharp drop in commodity prices affects oil exporters with undiversified revenues with the average petroleum spot price per barrel estimated at \$35.60 in 2020 and \$37.90 in 2021 way below its historical trends.

The global economic outlook is subject to high uncertainty. The downside risks include stronger and longer lasting effects of the health crisis on

economic activity and financial markets thus testing the limits of central banks to backstop the financial system and further raising the fiscal burden. The easing of containment measures could lead to an even quicker acceleration in infections, with potentially devastating effects on health systems. Slower global growth could weigh on activity through trade and financial links, and financial market dislocations could add to the stress.

Appropriate policy measures and reforms are necessary to mitigate the above downside risks, strengthen growth, securing adequate resources for the Health Care System, shared economic policy objectives across countries to limit the propagation of the health crisis to economic activities.

Chapter 5

Balance of Payments and Exchange Rates

The current account deficit widened by 9.5 percent to USD 1,093 million in the first quarter of 2020 from USD 998 million in the first quarter of 2019, largely attributed to lower receipts from services (**Table 5.1**).

Table 5.1: Balance of payments (USD Millions)

ITEM	2019*				2020**				Q1 2020-Q1 2019	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Q1			Jan-Mar		%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
1. Overall Balance	-253	-932	-126	252	230	118	119	466	719	-284.4
2. Current account	-998	-1,341	-1,527	-1,675	-586	-306	-200	-1,093	-94	9.5
Exports (fob)	1,566	1,453	1,424	1,429	529	610	625	1,764	198	12.7
Imports (fob)	3,955	4,196	4,066	4,336	1,440	1,246	1,230	3,916	-39	-1.0
Services: credit	1,492	1,392	1,343	1,395	387	422	395	1,204	-288	-19.3
Services: debit	877	1,013	944	1,019	358	337	309	1,004	126	14.4
<i>Balance on goods and services</i>	-1,774	-2,363	-2,243	-2,532	-882	-551	-519	-1,952	-178	10.0
Primary income: credit	56	61	57	55	19	18	17	53	-3	-5.3
Primary income: debit	552	507	584	501	180	131	102	413	-139	-25.2
<i>Balance on goods, services, and primary income</i>	-2,269	-2,809	-2,771	-2,978	-1,043	-664	-604	-2,311	-42	1.9
Secondary income : credit	1,285	1,481	1,257	1,317	462	362	408	1,232	-53	-4.1
o.w Remittances	673	797	658	711	264	215	227	705	32	4.8
Secondary income: debit	14	14	13	13	5	5	4	14	0	-3.1
3. Capital Account	42	86	27	52	15	5	4	24	-18	-42.6
4. Financial Account	-937	-2,813	-1,167	-1,322	-223	13	-208	-419	518	-55.3

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya

The Current Account

The trade balance worsened by 10 percent from a deficit of USD 1,774 million in the first quarter of 2019 to a deficit of USD 1,952 million in the first quarter of 2020, attributed to reduced earnings from services exports (**Table 5.2**). The value of merchandise exports increased by 12.7 percent to USD 1,764 million in the first quarter of 2020 largely due to increased proceeds from re-exports, tea, raw materials as well as chemicals and related products. The value of tea exports increased by 8 percent to USD 335 million mainly reflecting increased production and relatively stable prices in the first quarter of 2020 compared to a similar period in 2019. Receipts from horticulture exports declined by 10 percent to USD 273 million on account of COVID-19 related disruptions that affected the global market for cut flowers towards the end of March 2020.

The value of merchandise imports declined slightly by 1 percent to USD 3,916 million in the first quarter of 2019 from USD 3,955 million, in the first quarter

of 2019. The reduction was largely on account of lower imports of chemicals, manufactured goods and transport equipment. Imports of oil products and machinery increased during the review period.

The balance on the services account decreased by 67.5 percent to USD 200 million in the first quarter of 2020 compared with USD 615 million in the first quarter of 2019 reflecting lower receipts from other services (financial services, insurance and pension). Earnings from travel services declined by 5.2 percent in the first quarter of 2020. The balance on the primary account improved by 27.5 percent from a deficit of USD 495 million in the first quarter of 2019 to deficit of USD 359 million in the first quarter of 2020, reflecting lower reinvestment of earnings. The balance on secondary income declined by 4.1 percent to USD 1,218 million largely on account of lower receipts of other current transfers. Remittance inflows remained robust and improved by 3.7 percent during the period under review (**Table 5.2**).

Table 5.2: Balance on current account (USD Millions)

ITEM	2019*				2020**				Q1 2020-Q1 2019	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Q1			Jan-Mar	%	
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
CURRENT ACCOUNT	-998	-1,341	-1,527	-1,675	-586	-306	-200	-1,093	-94	9.5
Goods	-2,389	-2,743	-2,642	-2,907	-911	-636	-605	-2,152	237	-9.9
Exports (fob)	1,566	1,453	1,424	1,429	529	610	625	1,764	198	12.7
o.w Coffee	57	72	43	33	10	17	24	52	-5	-9.1
Tea	311	248	249	305	113	109	112	335	24	7.6
Horticulture	303	259	221	228	86	92	95	273	-30	-9.9
Oil products	8	8	26	15	5	7	2	14	6	76.6
Manufactured Goods	96	100	109	98	23	31	40	94	-2	-1.9
Raw Materials	77	93	79	78	44	26	31	101	24	31.7
Chemicals and Related Products (n.e.s)	113	112	116	106	34	48	40	122	10	8.6
Miscellaneous Man. Articles	133	156	145	137	56	47	42	145	12	9.0
Re-exports	192	174	204	173	57	131	143	331	139	72.2
Other	267	224	224	247	97	97	92	285	18	6.9
Imports (fob)	3,955	4,196	4,066	4,336	1,440	1,246	1,230	3,916	-39	-1.0
o.w Oil	742	1,020	772	781	229	250	300	778	36	4.9
Chemicals	660	632	576	618	238	201	214	653	-7	-1.1
Manufactured Goods	684	758	802	721	236	209	204	649	-35	-5.1
Machinery & Transport Equipment	1,157	1,095	1,151	1,469	427	350	285	1,061	-96	-8.3
Machinery	663	709	791	944	297	266	182	746	83	12.6
Transport equipment	494	386	360	525	129	83	102	315	-180	-36.3
Other	869	915	924	910	381	289	280	950	81	9.3
o.w Food	433	440	453	429	158	151	126	435	2	0.5
Services	615	379	398	375	29	85	86	200	-415	-67.5
Transport Services (net)	218	159	185	190	28	85	50	163	-56	-25.5
Credit	557	551	532	559	145	188	160	493	-64	-11.4
Debit	339	393	347	370	117	103	110	331	-8	-2.4
Travel Services (net)	189	202	194	227	63	60	56	179	-10	-5.2
Credit	235	249	244	280	81	75	69	225	-10	-4.3
Debit	46	47	50	53	17	15	13	46	0	-0.5
Other Services (net)	207	19	20	-41	-63	-60	-20	-142	-349	-168.6
Primary Income	-495	-445	-527	-446	-161	-113	-85	-359	136	-27.5
Credit	56	61	57	55	19	18	17	53	-3	-5.3
Debit	552	507	584	501	180	131	102	413	-139	-25.2
Secondary Income	1,271	1,468	1,244	1,303	457	357	404	1,218	-52	-4.1
Credit	1,285	1,481	1,257	1,317	462	362	408	1,232	-53	-4.1
Debit	14	14	13	13	5	5	4	14	0	-3.1

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya

Direction of Trade

Imports from China accounted for 23.6 percent of total imports to Kenya in the first quarter of 2020, making it the largest single source of imports. In value terms, Kenya's imports from China amounted to USD 797 million compared with USD 767 million in the first quarter of 2019. Imports from The European union accounted for 14.5 percent of the total imports an increase from 12.5 percent in a similar period in 2019. The share of imports from Africa decreased to 11.6 percent in the first quarter of 2020 from 13.4 percent in the first quarter of 2019, reflecting a decrease in imports from COMESA and the EAC region. The share of imports from India decreased to 11.4 percent from 11.7 percent, over the same period in 2019 (Table 5.3).

The share of exports to the rest of the world declined

from 65.9 percent in the first quarter of 2019 to 63.7 percent in the first quarter of 2020 largely attributed to decrease in exports to Netherlands, India and US. The share of exports to Africa however, increased to 36.3 percent in the first quarter of 2020 from 34.1 percent in the first quarter of 2019. This reflected higher exports to the EAC region (Table 5.4).

Capital and Financial Account

Inflows to the capital account on a net basis declined by USD 18 million to USD 24 million in the first quarter of 2020. The financial account recorded lower net inflows of USD 419 million in the first quarter of 2020, reflecting a decrease across all categories of investment flows (Table 5.5).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)	2019*				2020**				Share of Imports (%)	
	Jan-Mar	Apr-Jun	Jul-Sep		Jan-Mar					
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2019	Q1 2020
Africa	525	562	597	512	165	144	151	461	13.4	11.6
<i>Of which</i>										
South Africa	173	208	177	133	49	39	53	141	5.0	3.1
Egypt	105	87	111	113	40	39	26	106	2.1	2.9
Others	245	267	309	265	76	66	72	214	6.4	5.5
EAC	122	151	197	149	42	41	37	119	3.6	3.3
COMESA	286	267	319	309	91	87	80	258	6.4	6.6
Rest of the World	3,430	3,633	3,469	3,824	1,274	1,102	1,079	3,455	86.6	88.4
<i>Of which</i>										
India	369	492	424	424	154	208	206	568	11.7	11.4
United Arab Emirates	312	561	324	438	124	35	111	271	13.4	4.4
China	767	930	785	1,126	347	294	156	797	22.2	23.6
Japan	197	257	216	277	81	65	77	223	6.1	5.8
USA	137	173	146	127	43	42	42	128	4.1	5.0
United Kingdom	83	88	67	93	27	19	26	72	2.1	2.0
Singapore	29	12	8	18	3	2	27	32	0.3	0.4
Germany	105	117	116	100	39	23	31	93	2.8	3.2
Saudi Arabia	366	299	303	279	87	63	87	237	7.1	3.1
Indonesia	144	117	106	116	75	48	76	199	2.8	5.2
Netherlands	184	40	55	33	40	22	11	73	0.9	1.7
France	66	49	49	70	23	20	14	57	1.2	1.7
Bahrain	2	7	2	1	0	1	0	1	0.2	0.1
Italy	53	46	48	53	17	26	13	57	1.1	1.5
Others	844	446	820	669	215	234	200	649	10.6	19.4
Total	3,955	4,196	4,066	4,336	1,440	1,246	1,230	3,916	100.0	100.0
EU	654	524	490	594	212	169	155	535	12.5	14.5
China	767	802	785	1,126	347	294	156	797	19.1	23.6

Source: Kenya Revenue Authority

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)	2019*								Share of Exports (%)	
	Jan-March	Apr-Jun	Jul-Sep	Oct-Dec	2020**					
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2019	Q1 2020
Africa	531	534	551	574	192	224	225	640	34.1	36.3
<i>Of which</i>										
Uganda	161	143	158	162	50	69	66	185	10.4	10.5
Tanzania	74	83	84	89	26	22	30	78	4.7	4.4
Egypt	52	47	41	45	21	17	15	53	3.4	3.0
Sudan	16	14	12	14	6	18	6	29	1.0	1.6
South Sudan	28	41	21	33	32	20	32	84	1.8	4.8
Somalia	31	33	24	28	5	6	14	25	2.0	1.4
DRC	33	35	30	34	8	14	11	33	2.1	1.9
Rwanda	42	55	68	61	18	19	23	60	2.7	3.4
Others	93	83	112	108	27	38	28	93	6.0	5.3
EAC	298	297	345	361	130	136	155	420	19.1	23.8
COMESA	370	358	374	375	121	160	140	421	23.7	23.8
Rest of the World	1,027	950	873	855	337	386	401	1,124	65.9	63.7
<i>Of which</i>										
United Kingdom	118	84	91	98	40	49	41	131	7.6	7.4
Netherlands	144	119	98	110	39	52	39	129	9.2	7.3
USA	121	137	137	114	46	38	36	119	7.8	6.8
Pakistan	130	96	95	123	42	46	45	132	8.3	7.5
United Arab Emirates	103	101	102	74	33	77	17	127	6.6	7.2
Germany	31	33	24	22	9	12	12	34	2.0	1.9
India	17	13	13	10	4	5	3	12	1.1	0.7
Afghanistan	7	9	9	10	5	6	3	14	0.5	0.8
Others	356	356	306	293	119	101	205	425	22.9	24.1
Total	1,558	1,484	1,424	1,429	529	610	625	1,764	100.0	100.0
EU	406	315	289	301	130	141	121	391	26.0	22.2
China	34	40	33	42	16	6	19	41	1.8	2.3

Source: Kenya Revenue Authority

Table 5.5: Balance on capital and financial account (USD Millions)

ITEM	2019 *							Q1 2020-Q1 2019	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Q1			Jan-Mar	Absolute
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change
Capital account credit	42	86	27	52	15	5	4	24	-18
Capital account credit	42	86	27	52	15	5	4	24	-18
Capital account: debit	0	0	0	0	0	0	0	0	0
Financial Account	-937	-2,813	-1,167	-1,322	-223	13	-208	-419	518
Direct investment: assets	49	74	33	48	23	26	21	71	21
Direct investment: liabilities	284	410	284	359	28	41	35	104	-180
Portfolio investment: assets	259	198	227	272	52	112	145	309	50
Portfolio investment: liabilities	1	2,136	42	89	12	-26	-87	-101	-102
Financial derivatives: net	-6	-4	4	1	-7	5	6	3	10
Other investment: assets	34	230	125	184	56	180	-244	-8	-42
Other investment: liabilities	988	765	1,230	1,380	308	296	188	791	-196

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 6 percent during the first quarter of 2020. Official reserves held by the Central

Bank constituted 69 percent of gross reserves and stood at USD 8,635 million, equivalent to 5.2 months of import cover (**Table 5.6**).

Table 5.6: Foreign exchange reserves and residents' foreign currency deposits (End of Period, USD Million)

	2018	2019				Q1			
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Q1			Jan-Mar
	Q4	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1
1. Gross Reserves	11,516	11,772	13,187	13,187	12,919	12,766	12,835	12,447	12,447
of which:									
Official	8,230	8,468	9,656	9,656	9,116	8,880	8,754	8,635	8,635
import cover*	5.3	5.4	6.0	5.8	5.5	5.3	5.3	5.2	5.2
Commercial Banks	3,286	3,304	3,531	3,531	3,803	3,886	4,081	3,812	3,812
2. Residents' foreign currency deposits	6,078	6,068	6,415	6,196	6,393	6,350	6,473	6,445	6,445

*Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Exchange Rates

Kenya's foreign exchange market remained relatively stable during the first quarter of 2020, largely supported by resilient inflows from diaspora remittances, better earnings from exports and lower imports. The Kenya Shilling weakened by 0.6 percent against the US Dollar to exchange at an average of 101.8 during the first quarter compared with 100.73

in the first quarter of 2019. It also weakened against the Japanese Yen but strengthened against the Sterling Pound and the Euro. In the EAC region, it weakened against Uganda and Tanzania shilling but strengthened against the Burundi and Rwanda Franc (**Table 5.7 and Chart 5.1**).

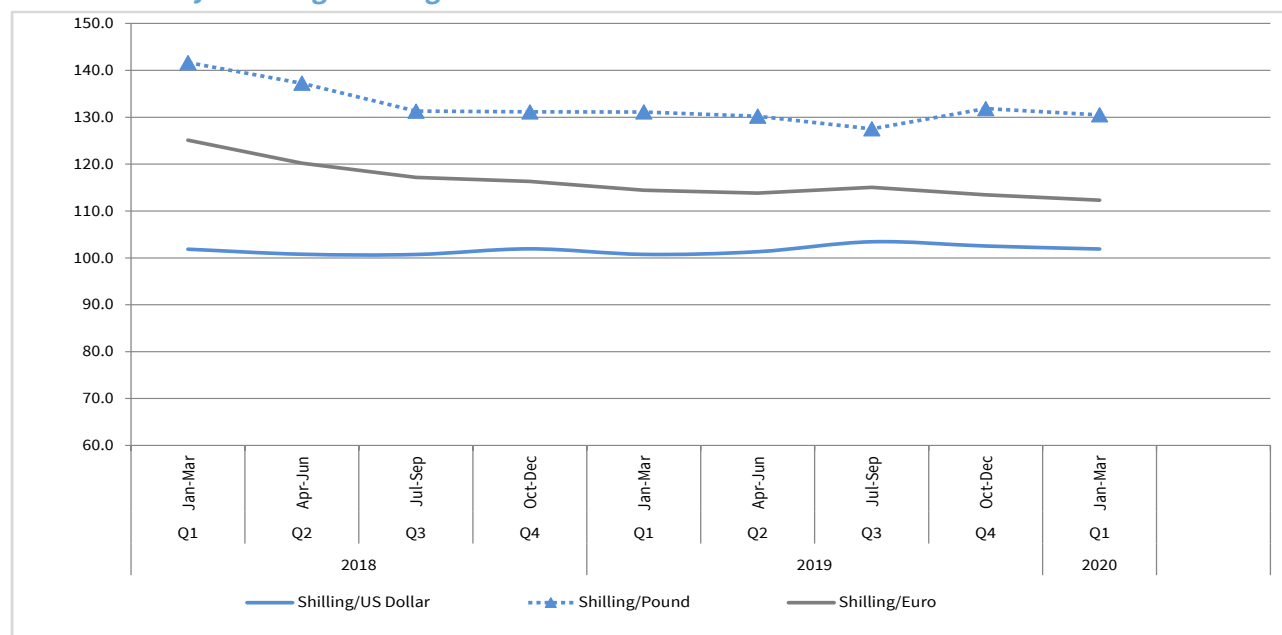
Table 5.7: Kenya Shilling exchange rate

	2019				2020				% change Q1 2020 - Q1 2019
	Jan-Mar Q1	Apr-Jun Q2	Jul-Sep Q3	Oct-Dec Q4	Jan	Feb	Mar	Q1	
US Dollar	100.73	101.30	103.42	102.52	101.09	100.79	103.74	101.88	-0.62
Pound Sterling	131.11	130.22	127.51	131.83	132.15	130.83	128.54	130.51	-1.00
Euro	114.42	113.82	115.05	113.44	112.29	109.94	114.67	112.30	-1.00
100 Japanese Yen	91.44	92.21	93.05	94.50	92.47	91.58	96.37	93.47	-1.09
Uganda Shilling*	36.67	36.97	35.67	35.99	36.41	36.45	36.33	36.40	1.13
Tanzania Shilling*	23.11	22.74	22.23	22.44	22.79	22.91	22.23	22.64	0.88
Rwanda Franc*	8.90	8.94	8.87	9.07	9.38	9.43	9.16	9.32	2.76
Burundi Franc*	17.88	18.10	17.83	18.12	18.61	18.71	18.22	18.51	2.15

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling exchange rate



Source: Central Bank of Kenya

Chapter 6

Banking Sector

Overview

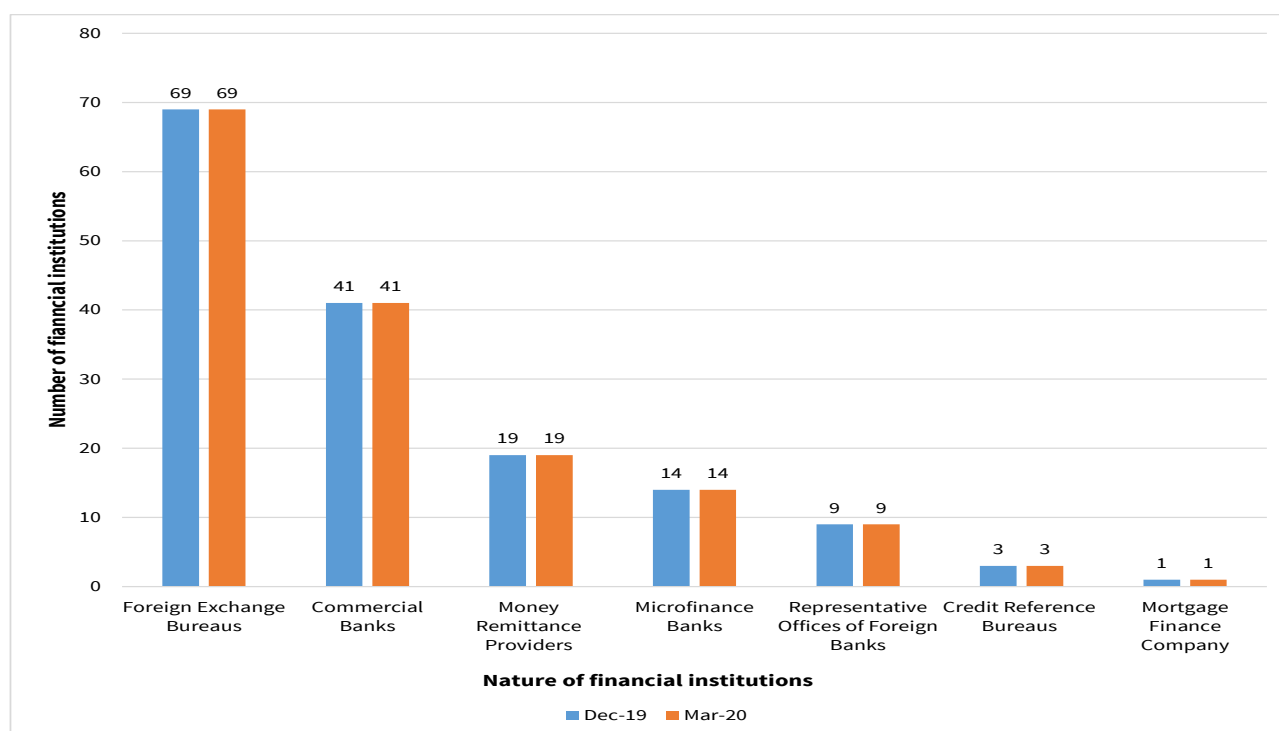
The banking sector remained stable in the first quarter of 2020. Total assets increased by 3.5 percent to KSh 5,001.2 billion in March 2020 from KSh 4,832.3 billion in December 2019. The deposit base also increased by 3.8 percent to KSh 3,688.1 billion in the quarter ended March 2020 from KSh 3,554.4 billion in the quarter ended December 2019. The sector was well capitalized and met the minimum capital requirements. Quarterly profitability increased by 10.7 percent due to increase in total income. Credit risk deteriorated slightly with gross non-performing loans (NPLs) to gross loans ratio

increasing from 12.0 percent in December 2019 to 12.54 percent in March 2020.

1. Structure of the Banking Sector

The Kenyan banking sector comprised 41 Commercial Banks¹, 1 Mortgage Finance company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 69 Foreign Exchange Bureaus, 19 Money Remittance Providers and 3 Credit Reference Bureaus as at March 31, 2020. **Chart 6.1** below shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the Kenyan Banking Sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

i) Growth in banking sector assets

Total assets increased by 3.5 percent to KSh 5,001.2 billion in March 2020 from KSh 4,832.3 billion in December 2019. The increase in total assets

was mainly as a result of a significant increase in investment in Government securities by KSh 93.4 billion (7.1 percent). However, loans and advances,

¹ Includes Charterhouse Bank Limited, which is under Statutory Management, Chase Bank (K) Limited and Imperial Bank Limited, which are in Receivership. However, the data for the three banks have been excluded in this report.

which increased by 2.6 percent, remained the main component of assets, accounting for 52.2 percent in the first quarter of 2020, a slight decrease from 52.9 percent recorded in the last quarter of 2019.

ii) Loans and Advances

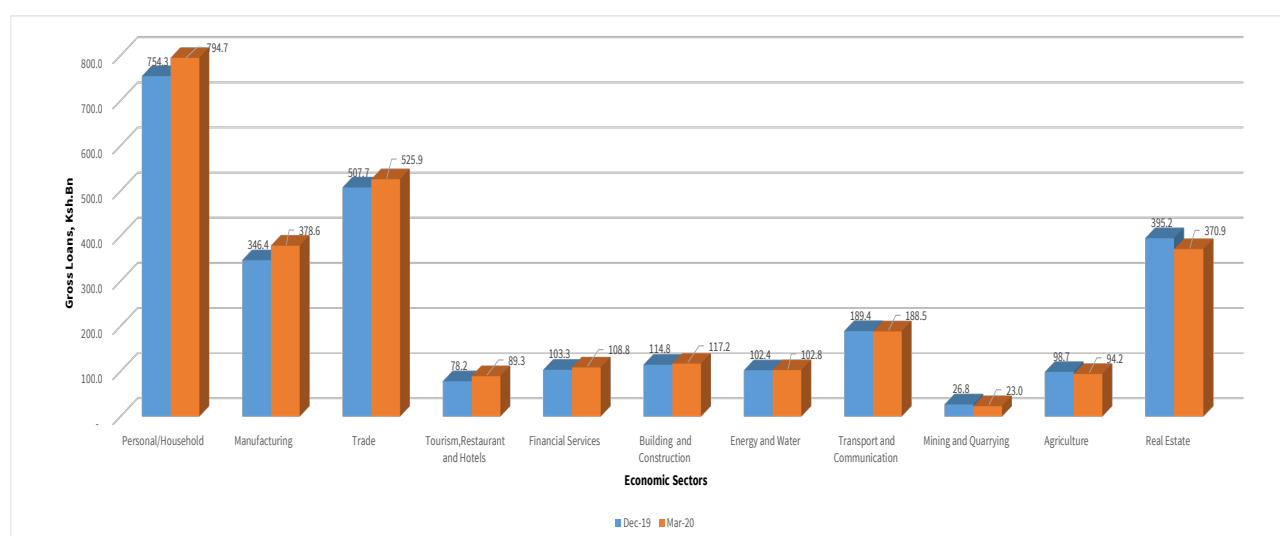
Total banking sector lending increased by 2.6 percent to KSh 2,847.4 billion in the first quarter of 2020 from KSh 2,774.6 billion in the last quarter of 2019. The increase in gross loans and advances was largely witnessed in the Personal/ Household, Manufacturing and Trade sectors. The general increase in gross loans was mainly due to increased

loans granted to individual borrowers and credit granted for working capital purposes. The sectoral distribution of gross loans as at March 31, 2020 is highlighted in (Chart 6.2).

iii) Deposit Liabilities

Customer deposits remain the main source of funding to the banks, accounting for 73.7 percent of the banking sector total liabilities and shareholders' funds, as at the end of the first quarter of 2020. This was a slight increase from 73.6 percent recorded as at the end of the last quarter of 2019. The customer

Chart 6.2: Kenyan Banking Sector Gross Loans (KSh Billion)



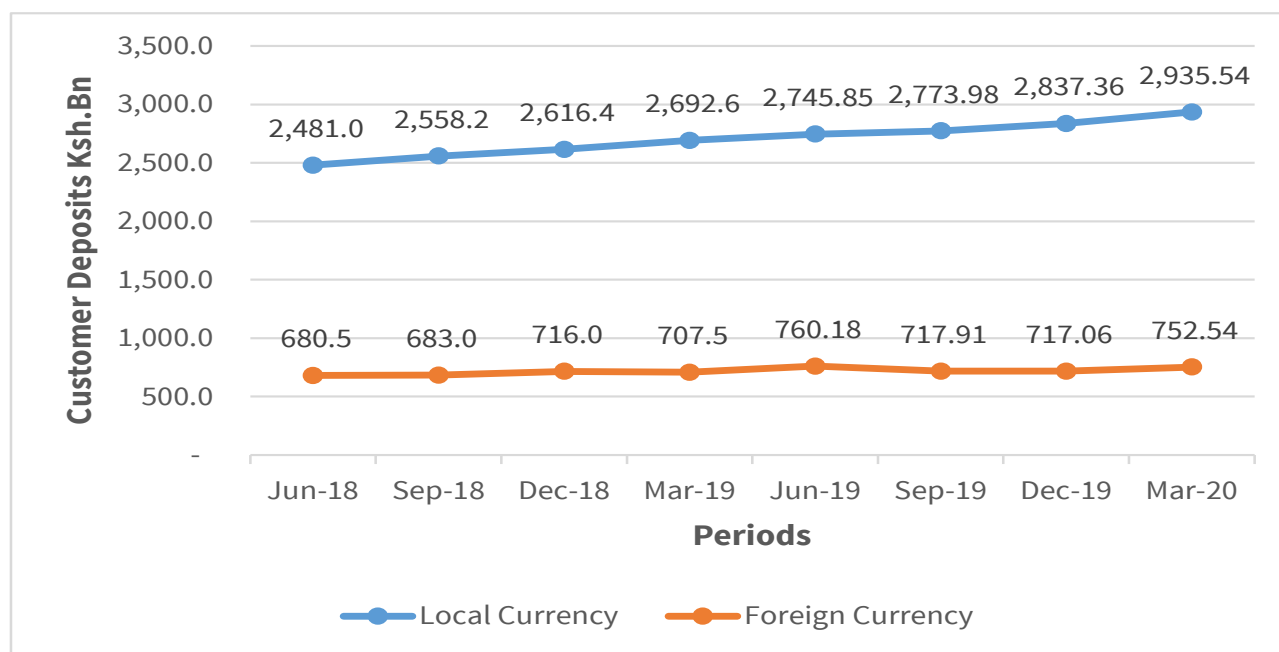
Source: Central Bank of Kenya

deposit base increased by 3.8 percent to KSh.3,688.1 billion from KSh 3,554.4 billion during the first quarter of 2020. Local currency deposits increased by KSh 98.1 billion (3.5 percent) to KSh.2,935.5 billion in the first quarter of 2020 from KSh.2,837.4 billion in the last quarter of 2019. Foreign currency deposits increased by KSh 35.4 million (4.9 percent) to KSh 752.5 billion in the first quarter of 2020 from KSh 717.1 billion in the third quarter of 2019. Chart 1.3 shows the trend of deposit liabilities.

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 0.2 percent to KSh 640.3 billion in the first quarter of 2020 compared to KSh 639.1 billion in the last quarter of 2019. Total capital also increased by 1.1 percent to KSh 723.8 billion in the first quarter of 2020 from KSh 715.6 billion in the last quarter of 2019.

Chart 6.3: Customer Deposits



Source: Central Bank of Kenya

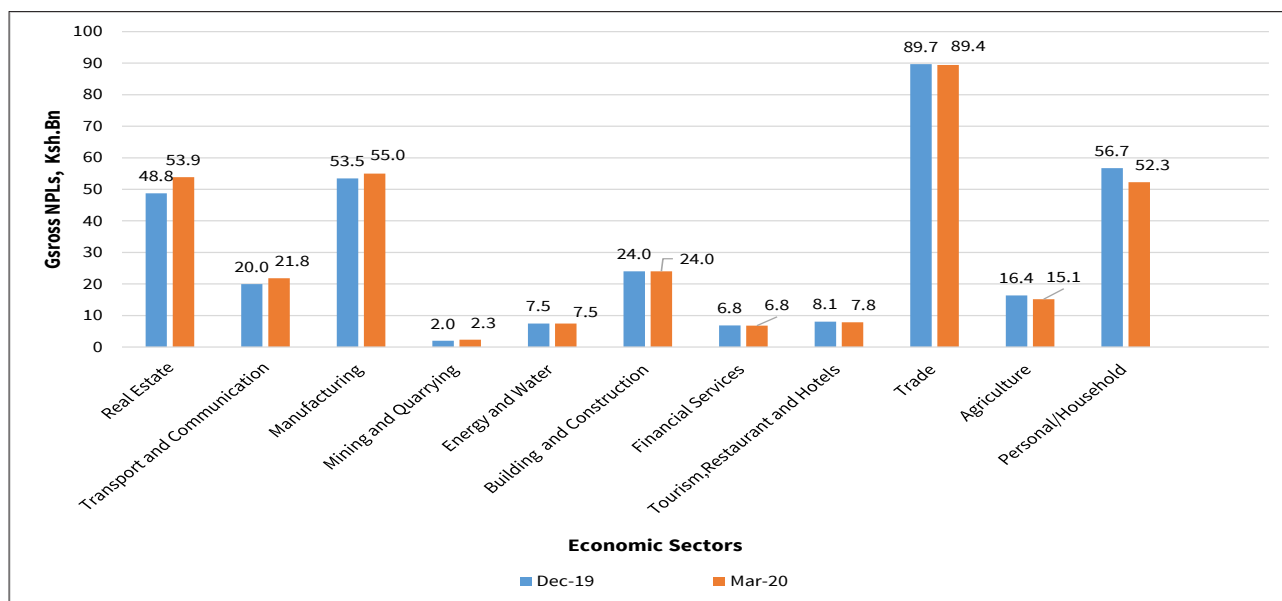
Core capital to total risk-weighted assets ratio decreased slightly to 16.4 percent in the first quarter of 2020 from 16.8 percent in the last quarter of 2019. Similarly, total capital to total risk-weighted assets ratio decreased slightly to 18.5 percent from 18.8 percent.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.36 percent in the first quarter of 2020, a slight decrease from 17.98 percent recorded in the last quarter of 2019. The decrease was attributable to a 3.8 percent increase in total deposits, which was higher than the 0.2 percent increase in core capital between the two quarters.

Asset Quality

The gross non-performing loans (NPLs) increased by 7.1 percent to KSh 356.97 billion as at the end of the first quarter of 2020 from KSh 333.3 billion as at the end of the last quarter of 2019. The gross NPLs to gross loans ratio deteriorated to 12.54 percent in the first quarter of 2020 from 12 percent in the last quarter of 2019. The decrease was attributable to a 2.6 percent increase in gross loans as compared to a 7.1 percent increase in gross NPLs between the two quarters. Chart 1.4 highlights the sectoral distribution of gross NPLs.

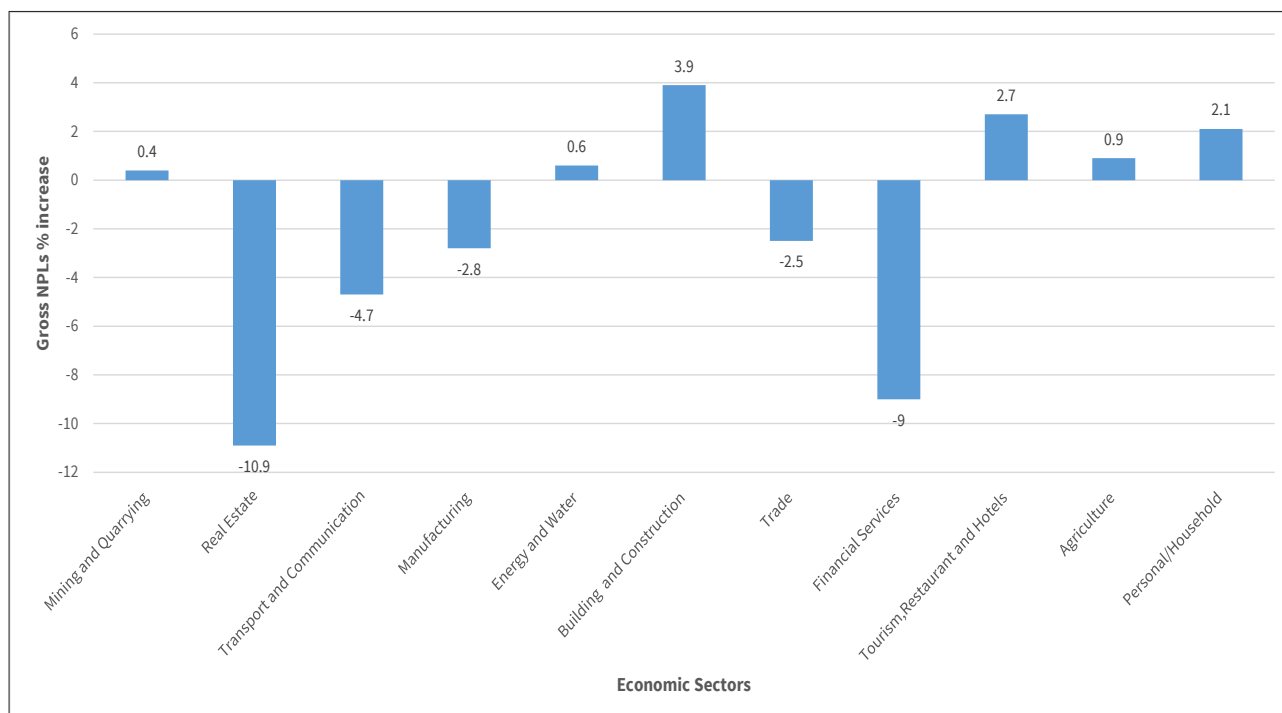
Chart 6.4: Kenyan Banking Sector Gross non-performing Loans (KSh Bn)



Source: Central Bank of Kenya

The increase in gross NPLs was spread across five economic sectors as highlighted in **Chart 6.5**.

Chart 6.5: Movement in gross NPLs



Source: Central Bank of Kenya

The sectors with the highest increase in NPLs were Building and Construction (3.9 percent), Tourism, Restaurant and Hotels (2.7 percent), Personal/Household (2.1 percent) and Agriculture (0.9 percent).

The banking sector's asset quality, as measured by the proportion of net non-performing loans to gross loans, improved slightly to 5.4 percent in the first quarter of 2020 from 5.5 percent in the

last quarter of 2019. The coverage ratio, which is measured as a percentage of specific provisions to total NPLs, increased from 43.7 percent in the last quarter of 2019 to 45.8 percent in first quarter of 2020 due to a higher increase in specific provisions (10.5 percent) as compared to the increase in total NPLs (5.4 percent). A summary of asset quality for the banking sector over the period is shown in Table 1.1 below.

Table 6.1 Asset Quality

		December 2019	March 2020
1	Gross Loans and Advances (Ksh.Bn)	2,774.6	2,847.4
2	Interest in Suspense (Kshs.Bn)	62.8	66.4
3	Loans and Advances (net of interest suspended) (Ksh.Bn)	2,711.8	2,781.1
4	Gross Non-Performing loans (Ksh.Bn)	333.3	351.4
5	Specific Provisions (Ksh.Bn)	118.1	130.5
6	General Provisions (Ksh.Bn)	36.8	39.1
7	Total Provisions (5+6) (Ksh.Bn)	155.0	169.6
8	Net Advances (3-7) (Ksh.Bn)	2,556.8	2,611.5
9	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	270.5	285.1
10	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	152.4	154.6
11	Total NPLs as % of Total Advances (9/3) (%)	1000.0%	1020.0%
12	Net NPLs as % of Gross Advances (10/1) (%)	550.0%	540.0%
13	Specific Provisions as % of Total NPLs (5/9) (%)	4370.0%	4580.0%
14	Gross NPLs to Gross Loans Ratio (%)	1200.0%	1250.0%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in quarterly pre-tax profits by KSh 3.7 billion (10.7 percent) to KSh 38.3 billion in the first quarter of 2020 from KSh 34.6 billion in the last quarter of 2019. The increase in profitability was mainly attributable to higher increase in total income by KSh 10.9 billion (8.6 percent) compared to increase in total expenses which increased by KSh 7.15 billion (7.7 percent).

The increase in income was largely attributable to interest on Government securities which increased by KSh 5.5 billion (19.4 percent) between the two quarters.

Interest on advances, interest on government securities and other incomes were the major sources of income accounting for 48.4 percent, 24.5 percent and 19.1 percent of total income respectively. On the other hand, interest on deposits, other expenses,

and salaries and wages were the key components of expenses, accounting for 31.5 percent, 24.1 percent and 24.1 percent of total expenses respectively.

Total income increased by KSh.10.88 billion (8.6 percent) to KSh 137.82 billion in the first quarter of 2020 from KSh 126.95 billion in the last quarter of 2019. The increase in total income was driven by 19.4 percent increase in interest on Government securities.

Return on assets (ROA) stood at 2.33 percent in the first quarter of 2020, a slight increase from 2.20 percent registered in the last quarter of 2019. Similarly, the return on equity (ROE) increased to 20.38 percent in the first quarter of 2020 from 18.38 percent in the last quarter of 2019. The increase in both ROA and ROE was mainly attributable to increase in quarterly pre-tax profit.

Liquidity

The banking sector's overall liquidity ratio increased to 51.4 percent in the first quarter of 2020 from 46.7 percent in the last quarter of 2019. This is explained by Government securities which increased by KSh 91.7 billion (14.1 percent) from KSh 1,301 billion in the last quarter of 2019 to KSh 1,392.7 billion in the first quarter of 2020. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

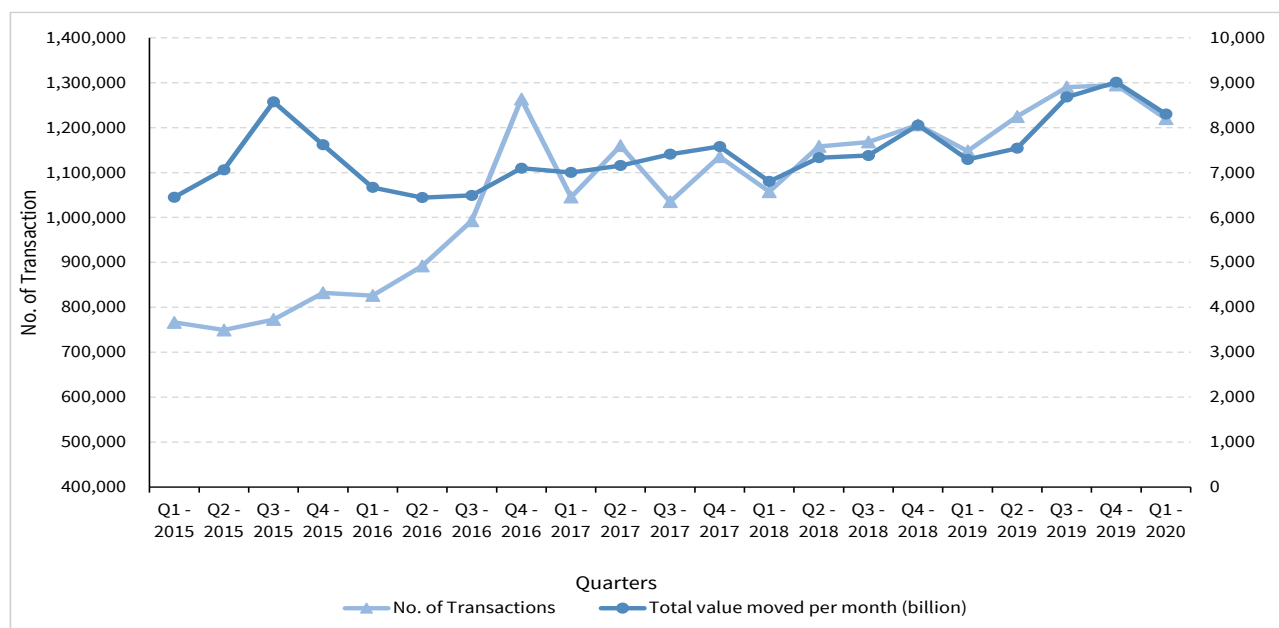
The banking sector is projected to remain resilient and stable though business continuity and operational risk will be the main elevated risk resulting from Covid-19 pandemic. This will be monitored closely. Credit risk is expected to remain

elevated in the short to medium term while liquidity risk is expected to continue easing.

Kenya Shilling Flows In KEPSS

Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.22 million transaction messages worth KSh 8.3 trillion in the first quarter of 2020, compared to the fourth quarter of 2019, which recorded 1.3 million transactions worth KSh 9.0 trillion. Volume and value decreased by 5.81 percent and 7.84 percent, respectively. **Chart 6.6** below highlights recent trends in KEPSS transactions.

Chart 6.6: Trends in monthly flows through KEPSS



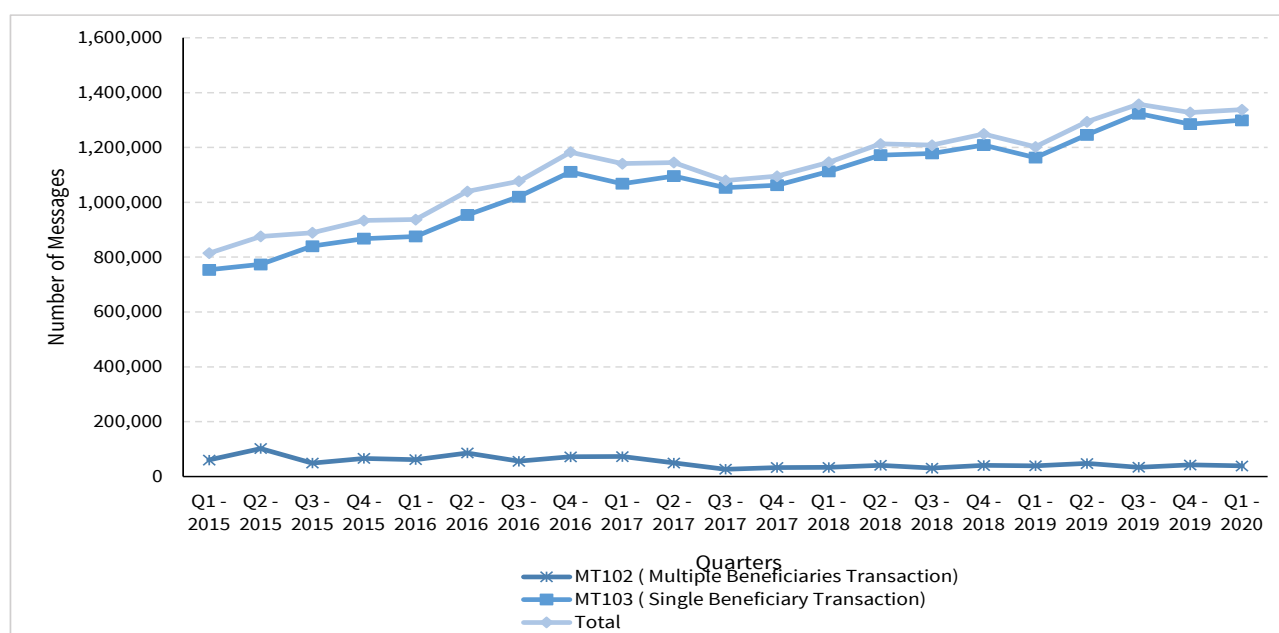
Source: Central Bank of Kenya

Bank Customer Payments Processed Through KEPSS

In transmitting payments through the RTGS for customers, commercial banks submit the payment instructions vide multiple third party Message Type (MT 102) used for several credit transfers and single third party Message Type (MT 103) used for single credit transfers.

During the period under review, MT 102 usage decreased by 8.71 per cent, to 38,739 messages recorded in the first quarter of 2020 from 42,434 messages processed in the fourth quarter of 2019. The MT 103 payments increased by 1.08 per cent, to 1,299,031 messages in the first quarter of 2020 from 1,285,139 messages in the fourth quarter of 2019 (**Chart 6.7**).

Chart 6.7: Trends in Mt102 and Mt103 volumes processed through KEPSS



Source: Central Bank of Kenya

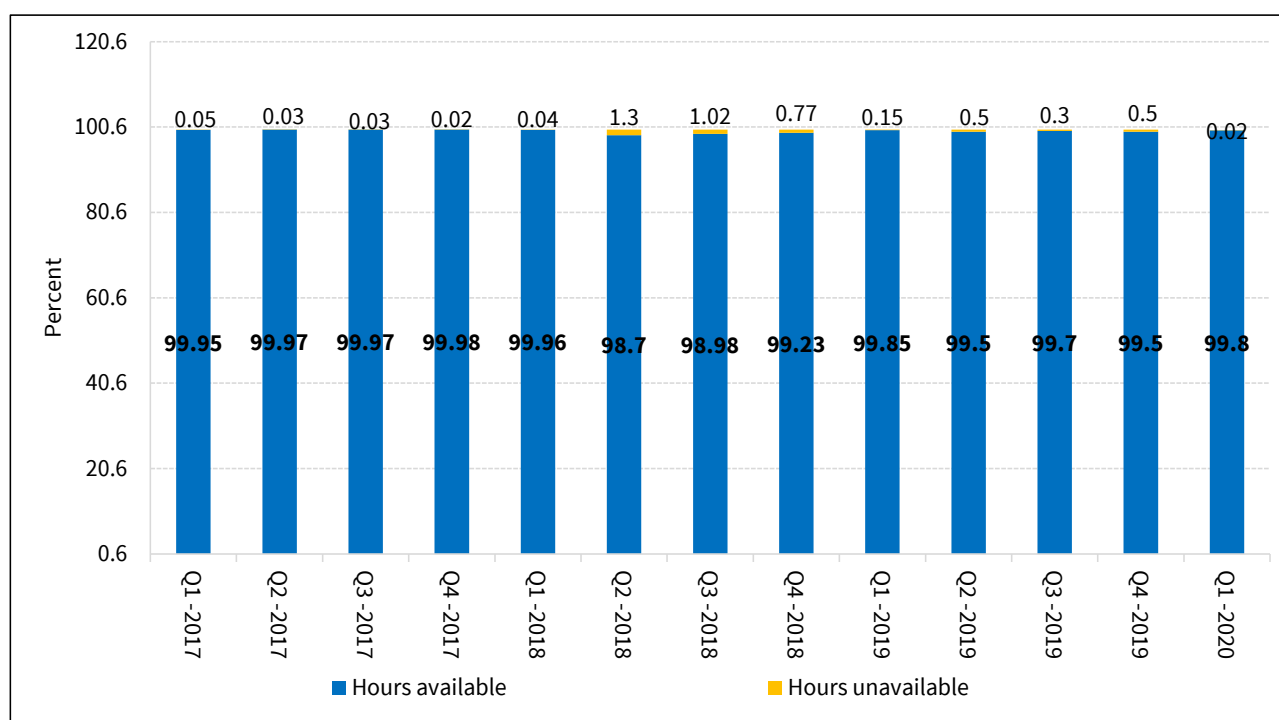
System Availability

The KEPSS system is available to the commercial banks and other participants for 8 hours per day

from 8.30 AM to 4.30 PM.

During the quarter under review, KEPSS availability maintained an average 99.80 percent (**Chart 6.8**).

Chart 6.8: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budget Performance

The Government's budgetary operations at the end of the third quarter of FY 2019/2020 resulted in a deficit of 5.0 percent of GDP, which was above the target of 4.4 percent of GDP. Both revenues and expenditures were below their respective targets with the shortfall in total revenues and grants at 13.7 percent, and total expenses and net lending at 7.5 percent.

Table 7.1: Statement of government operations in the third quarter of FY 2019/2020 (KSh Billions)

	FY 2018/19		FY 2019/20					Over (+) /	%
	Q3	Jan	Feb	March	Q3	Cumulative to March-2020	Target	Below (-) Target	Variance
1. TOTAL REVENUE & GRANTS	370.5	134.5	114.9	155.9	405.2	1,345.8	1,560.0	(214.2)	(13.7)
Ordinary Revenue	362.5	131.1	114.3	156.4	401.8	1,332.2	1,537.0	(204.8)	
Tax Revenue	337.8	117.9	97.5	124.2	339.6	1,096.2	1223.1	(126.9)	
Non Tax Revenue	8.9	6.0	10.2	8.5	24.7	137.6	124.9	12.6	
Appropriations-in-Aid	15.8	7.2	6.6	23.7	37.5	98.4	188.9	(90.6)	
External Grants	8.0	3.4	0.5	(0.5)	3.4	13.6	23.0	(9.4)	
2. TOTAL EXPENSES & NET LENDING	568.9	218.8	177.6	253.8	650.1	1,868.2	2019.6	(151.3)	(7.5)
Recurrent Expenses	409.9	113.5	123.7	116.6	353.8	1,181.5	1281.0	(99.5)	
Development Expenses	73.0	67.0	25.4	111.4	203.8	472.0	487.2	(15.2)	
County Transfers	86.0	38.3	28.5	25.8	92.6	214.8	251.4	(36.6)	
Others	-	-	-	-	-	-	0	-	
3. DEFICIT (INCL. GRANTS) (1-2)	(198.4)	(84.3)	(62.7)	(97.9)	(244.9)	(522.5)	(459.6)	(62.9)	13.7
As percent of GDP	(2.0)	-	-	-	-	(5.0)	(4.4)	(0.6)	
4. ADJUSTMENT TO CASH BASIS	-	-	-	11.5	11.5	11.5	0.0	11.5	
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(198.4)	(84.3)	(62.7)	(86.4)	(233.4)	(511.0)	(459.6)	(51.4)	11.2
As percent of GDP	(2.0)	-	-	-	-	(4.9)	(4.4)	(0.5)	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-	11.9	-28.6	-19.9	(36.7)	(43.0)	-	(43.0)	
7. FINANCING	232.3	114.2	34.1	66.5	214.8	467.9	459.6	8.4	1.8
Domestic (Net)	196.9	114.4	27.1	55.1	196.5	367.4	237.6	129.9	
External (Net)	34.5	(0.2)	6.5	11.4	17.7	98.4	222.8	(124.4)	
Capital Receipts (domestic loan receipts)	0.9	0.0	0.6	-	0.6	2.2	0.0	2.2	
Others	-	-	-	-	-	-	-	-	

Source: Central Bank of Kenya

Revenue

The Government receipts, comprising revenue and grants increased by 9.4 percent to KSh 405.2 billion in the third quarter of FY 2019/2020, compared to KSh 370.5 billion in the third quarter of FY 2018/19. The increase was reflected in both tax and non-tax revenue categories, and Appropriation in Aid (A-in-A). However, external grants decreased over the same period.

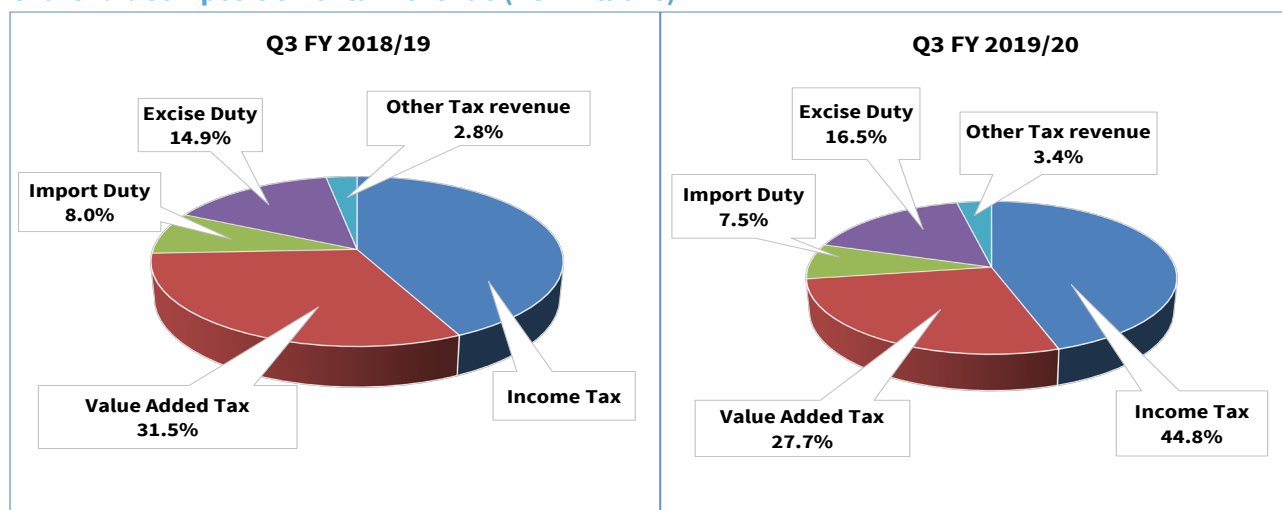
There was a minor shift in the composition of tax revenues in the third quarter of FY 2019/2020 compared with a similar period in the previous financial year (**Chart 7.1**). The share of import duty and Value Added Tax (VAT) declined while the share of Excise Duty, Other Tax Revenues and Income Tax rose by 1.6 percentage points, 0.7 percentage points and 2 percentage points, respectively.

Cumulatively, the Government total revenue and grants stood at KSh 1,345.8 billion (13.0 percent of GDP) during the FY 2019/2020 against a target of KSh 1,560.0 billion (15.1 percent of GDP). All taxes fell below set targets with the shortfalls partly reflecting a subdued performance of the economy, which adversely affected revenue collection.

External grants in the financial year to March 2020 stood at KSh 13.6 billion, which was KSh 9.4 billion lower than target, due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected during the financial year to March 2020 amounted to KSh 98.4 billion, which was KSh 90.6 billion lower than target due to under reporting in ministerial expenditure returns.

Chart 7.1: Composition of tax revenue (KSh Billions)



Source: Central Bank of Kenya

Expenditure and Net Lending

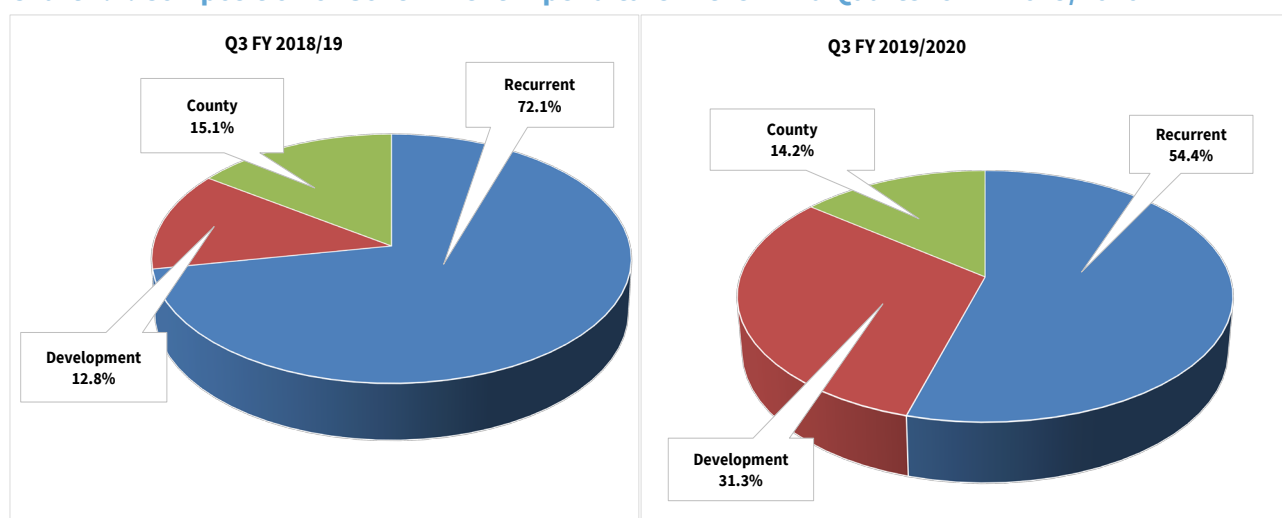
Government expenditure and net lending increased by 14.3 percent to KSh 650.1 billion in the third quarter of the FY 2019/2020 compared to KSh 568.9 billion in the third quarter of the FY 2018/19. The increase in expenditures reflected the rise in national government development and county transfers by 179.1 percent and 7.7 percent, respectively. This more than offset the decline in recurrent expenditure of 13.7 percent.

In terms of composition, recurrent expenditure remained the largest share in total government expenditure accounting for 54.4 percent in the third quarter of the FY 2019/2020, which was 17.6

percent points lower than the level recorded in a similar quarter the previous fiscal year. The share of development expenditure increased by 18.5 percent while the county allocation remained stable during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in FY 2019/2020 amounted to KSh 1,868.2 billion (18.0 percent of GDP), against a target of KSh 2,019.6 billion (19.5 percent of GDP). The shortfall of KSh 151.3 billion was attributed to lower absorption of development expenditures by the National and County Governments.

Chart 7.2: Composition of Government Expenditure in the Third Quarter of FY 2019/2020



Source: Central Bank of Kenya

Financing

The budget deficit including grants amounted to KSh 544.0 billion or 4.9 percent of GDP at the end of the third quarter of FY 2019/2020. The deficit financing mix was 21.0 percent and 79.0 percent external and domestic resources, respectively. The domestic borrowing comprised KSh 73.7 billion in Government deposits held at the Central Bank,

KSh 155.2 billion from commercial banks, KSh 134.9 billion from non-banks and KSh 3.6 billion from Non-residents (**Table 7.2**). The net domestic borrowing by the end of the third quarter of FY 2019/2020 was above target by KSh 129.9 billion while net external borrowing was below the target by KSh 124.4 billion.

Table 7.2 Domestic financing to March 2020

	FY 2018/19	FY 2019/2020				
	Q3	Q1	Q2	Q3		
	Mar-19	Sep-19	Dec-19	Jan-20	Feb-20	Mar-20
1. From CBK	99.7	8.3	10.0	6.8	33.6	73.7
2. From commercial banks	109.2	13.2	80.2	125.7	163.6	155.2
4. From Non-banks	111.6	57.8	78.1	96.0	120.6	134.9
5. From Non-Residents	0.2	1.5	2.6	2.5	2.9	3.6
Change in Credit from banks (From 30th June 2019)	208.9	21.5	90.2	132.5	197.2	228.9
Change in Credit from non-banks (From 30th June 2019)	111.6	57.8	78.1	96.0	120.6	134.9
Change in Credit from non-residents (From 30th June 2019)	0.2	1.5	2.6	2.5	2.9	3.6
6. Total Change in Dom. Credit (From 30th June 2019)	320.7	80.8	170.9	231.1	320.7	367.4

Source: Central Bank of Kenya

Outlook for FY 2019/2020

In the revised Budget estimates from the National Treasury for the FY 2019/20, total revenue is projected at KSh 2,126.0 billion (20.5 percent of GDP) while external grants are projected at KSh 41.8 billion. Government expenditure is projected at KSh 2,876.1 billion (27.8 percent of GDP), of which KSh 1,754.7 billion will be for recurrent expenses, KSh 378.3 billion for transfers to county governments and KSh 738.1 billion for development expenses.

The overall budget deficit including grants is, therefore, projected at KSh 657.4 billion (6.3 percent of GDP) in 2019/20, to be financed through net external borrowing of KSh 353.5 billion and net domestic borrowing of KSh 300.7 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2019/2020 (KSh Billions)

	Ksh (Billions)	%age of GDP
1. TOTAL REVENUE (Including Grants)	2,126.0	20.5
Total Revenue	1,843.8	17.8
Appropriations-in-Aid	240.4	2.3
External Grants	41.8	0.4
2. TOTAL EXPENSES & NET LENDING	2,874.2	27.8
Recurrent Expenses	1760.0	17.0
Development Expenses	730.8	7.1
County Transfer	378.3	3.7
Contingency Fund	5.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	-748.2	-7.2
Adjustment to Cash Basis	90.7	0.9
4. FINANCING	657.4	6.3
Domestic (Net)	300.7	2.9
External (Net)	353.5	3.4
Domestic loan repayments(receipts)	3.2	0.0

Source: National Treasury: Supplementary Estimates, Nov. 2019

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 3.9 percent during the third quarter of the FY 2019/20. Domestic and external debt increased by 4.4 percent and 3.4 percent, respectively. Consequently, the ratio of public

debt to GDP increased by 0.9 percentage points to 63.0 percent during the quarter. The ratios of domestic and external debt to GDP increased by 0.6 percentage points and 0.3 percentage points, respectively (**Table 8.1**).⁷

Table 8.1 Kenya's public and publicly guaranteed debt

	2018/19				2019/20							
	Q1	Q2	Q3	Q4	Q1	Oct-19	Nov-19	Q2	Jan-20	Feb-20	Q3	Change Q on Q
EXTERNAL												
Bilateral	812.5	894.0	916.6	996.1	1,001.8	1,020.6	1,018.2	1,023.8	1,016.5	1,015.8	1,075.9	52.1
Multilateral	877.7	874.7	846.6	914.4	1,024.1	1,033.8	1,036.3	1,037.5	1,027.2	1,028.3	1,060.6	23.1
Commercial Banks	898.3	938.2	941.8	1,095.8	1,068.7	1,056.2	1,043.4	1,028.7	1,052.5	1,056.2	1,058.8	30.1
Supplier Credits	16.7	16.9	16.7	16.9	17.2	17.1	17.0	16.8	16.6	16.7	17.3	0.6
Sub-Total	2,605.3	2,723.7	2,721.6	3,023.1	3,111.8	3,127.6	3,115.0	3,106.8	3,112.9	3,117.0	3,212.6	105.8
(As a % of GDP)	30.0	30.6	29.8	32.5	32.8	32.1	32.0	31.9	31.2	31.3	32.2	
(As a % of total debt)	50.6	51.7	50.2	52.0	52.1	51.9	51.6	51.4	50.9	50.6	51.1	
DOMESTIC												
Banks	1,405.5	1,407.8	1,487.5	1,524.0	1,535.5	1,582.4	1,595.4	1,607.4	1,650.5	1,662.6	1,677.0	69.6
Central Bank	90.2	118.2	89.7	109.6	120.5	117.8	109.5	116.0	111.4	82.7	106.4	-9.5
Commercial Banks	1,315.3	1,289.6	1,397.8	1,414.4	1,415.0	1,464.6	1,485.9	1,491.4	1,539.1	1,579.8	1,570.6	79.2
Non-banks	1,109.8	1,114.8	1,185.7	1,233.9	1,291.5	1,288.7	1,291.6	1,304.1	1,322.7	1,347.6	1,363.3	59.1
Pension Funds	689.1	694.3	743.4	786.5	819.8	818.6	823.3	841.3	857.1	877.5	891.4	50.1
Insurance Companies	154.1	154.3	166.5	170.8	183.1	185.1	187.5	189.0	192.3	191.3	193.6	4.6
Other Non-bank Sources	266.5	266.3	275.8	276.5	288.6	285.0	280.7	273.9	273.3	278.8	278.3	4.4
Non-residents	25.4	26.2	25.4	28.0	29.6	30.2	30.4	30.6	30.5	30.8	31.6	1.0
Sub-Total	2,540.7	2,548.8	2,698.5	2,785.9	2,856.6	2,901.3	2,917.4	2,942.1	3,003.7	3,041.0	3,071.9	129.8
(As a % of GDP)	29.2	28.7	29.5	29.9	30.1	29.8	30.0	30.2	30.1	30.5	30.8	
(As a % of total debt)	49.4	48.3	49.8	48.0	47.9	48.1	48.4	48.6	49.1	49.4	48.9	
GRAND TOTAL	5,146.0	5,272.5	5,420.1	5,809.1	5,968.4	6,028.9	6,032.3	6,048.9	6,116.6	6,158.0	6,284.5	235.6
(As a % of GDP)	59.2	59.3	59.3	62.4	63.0	61.9	61.9	62.1	61.4	61.8	63.0	

Source: National treasury and CBK

Domestic Debt

Domestic debt build-up was faster relative to the 3.0 percent build-up in the previous quarter. The pick-up in the uptake of government securities was associated with increased liquidity in the market and accelerated execution of government budget during the third quarter of the financial year. The share of domestic debt to total debt increased by 0.3 percentage points to 48.9 percent by the end of

the third quarter of the FY 2019/20. The proportion of debt securities to total domestic debt increased by 0.4 percentage points during the quarter under review. As the uptake of domestic debt securities increased, the government repaid Ksh 9.5 billion of the overdraft facility advanced by the Central Bank (**Table 8.2**).

⁷ The quarterly analysis is based on the Fiscal year quarters; Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Table 8.2: Government gross domestic debt (Ksh Billions)

	Ksh (Billions)							Change:Q on Q		Propotions (%)						
	2018/19		2019/20							2018/19		2019/20				
	Q3	Q4	Q1	Q2	Jan-20	Feb-20	Q3	Ksh(Bn)	%	Q3	Q4	Q1	Q2	Jan-20	Feb-20	Q3
Total Stock of Domestic Debt (A+B)	2,698.5	2,785.9	2,856.6	2,942.1	3,003.7	3,041.0	3,071.9	129.8	4.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	2,635.3	2,702.4	2,757.7	2,853.6	2,918.7	2,984.8	2,992.6	138.9	4.9	97.7	97.0	96.5	97.0	97.2	98.2	97.4
1. Treasury Bills (excluding Repo Bills)	949.7	954.3	928.9	878.9	880.0	917.9	902.3	23.4	2.7	35.2	34.3	32.5	29.9	29.3	30.2	29.4
Banking Institutions	591.2	598.1	576.8	570.3	571.9	610.4	597.0	26.7	4.7	21.9	21.5	20.2	19.4	19.0	20.1	19.4
The Central Bank	20.6	20.6	20.6	20.6	20.6	20.6	20.6	0.0	0.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Commercial Banks	570.6	577.5	556.2	549.7	551.4	589.8	576.4	26.7	4.9	21.1	20.7	19.5	18.7	18.4	19.4	18.8
Pension Funds	169.5	170.3	165.2	143.3	145.1	152.4	153.2	9.9	6.9	6.3	6.1	5.8	4.9	4.8	5.0	5.0
Insurance Companies	18.5	18.2	18.9	17.7	17.4	12.0	10.1	-7.6	-42.9	0.7	0.7	0.7	0.6	0.6	0.4	0.3
Others	170.4	167.7	168.0	147.6	145.6	143.0	142.0	-5.6	-3.8	6.3	6.0	5.9	5.0	4.8	4.7	4.6
2. Treasury Bonds	1,685.7	1,748.1	1,828.8	1,974.7	2,038.7	2,066.9	2,090.3	115.6	5.9	62.5	62.7	64.0	67.1	67.9	68.0	68.0
Banking institutions	833.2	843.0	864.8	948.7	993.7	996.0	1,000.8	52.1	5.5	30.9	30.3	30.3	32.2	33.1	32.8	32.6
The Central Bank	9.4	9.4	9.4	9.4	9.4	9.4	9.4	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Commercial Banks	823.7	833.5	855.4	939.3	984.3	986.6	991.4	52.1	5.5	30.5	29.9	29.9	31.9	32.8	32.4	32.3
Insurance Companies	148.0	152.6	164.2	171.2	174.9	179.3	183.5	12.2	7.1	5.5	5.5	5.7	5.8	5.8	5.9	6.0
Pension Funds	573.8	616.2	654.7	698.0	712.0	725.1	738.3	40.3	5.8	21.3	22.1	22.9	23.7	23.7	23.8	24.0
Others	130.6	136.3	145.1	156.8	158.1	166.6	167.8	11.0	7.0	4.8	4.9	5.1	5.3	5.3	5.5	5.5
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	22.8	22.2	22.2	22.2	22.2	22.2	22.2	0.0	0.0	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Of which: Repo T/Bills	21.6	21.1	21.1	21.1	21.1	21.1	21.1	0.0	0.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7
B. Others:	40.4	61.3	76.7	66.2	62.8	34.0	57.0	-9.2	-13.9	1.5	2.2	2.7	2.3	2.1	1.1	1.9
Of which CBK overdraft to Government	36.9	57.3	68.2	63.7	59.2	30.5	54.2	-9.5	-15.0	1.4	2.1	2.4	2.2	2.0	1.0	1.8

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 2.7 percent increase during the third quarter of the FY 2019/20. Conversely, the proportion of Treasury bills to total domestic debt decreased by 0.5 percentage points during the period under review. By the end of the third quarter of FY 2019/20, the dominance of Commercial banks in Treasury bills market persisted with their holdings at 63.9 percent up from 62.5 percent in the previous quarter. Other significant holders of Treasury bills included Pension funds (17.0 percent) and parastatals-included in other holders (12.1 percent) (**Table 8.2**).

Treasury Bonds

Treasury bond holdings increased by 5.9 percent during the third quarter of the FY 2019/20. This faster build up than that of Treasury bills was in line with government objective of mitigating refinancing risk through issuance of longer dated securities (**Table 8.2**). The largest component of this buildup was attributable to proceeds from 5-year and a 25-year fixed rate Treasury bonds issued during the quarter (**Table 8.3**). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance

companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated securities during the period under review. The current domestic debt portfolio is dominated by medium- and long-term debt securities with a ratio of 69.9: 30.1 Treasury bonds to Treasury bills. This ratio is approaching the 70:30 Treasury bonds: bills medium term target set by the Public Debt Management Office. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year accounted for 78.8 percent of the total outstanding Treasury Bonds, representing a 0.8 percentage points decrease from the previous quarter. Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates.

The refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 29.4 percent from 29.9 percent in December 2019 (**Table 8.3**).

Table 8.3: Outstanding domestic debt by tenor (Ksh Billions)

		Kshs (Billions)							Change Q on Q		Proportions						
		2018/19		2019/20							2018/19		2019/20				
		Q3	Q4	Q1	Q2	Jan-20	Feb-20	Q3	Kshs(Bn)	%	Q3	Q4	Q1	Q2	Jan-20	Feb-20	Q3
Treasury bills	91-Day	44.9	40.0	58.7	35.3	34.1	35.1	32.8	-2.5	-7.0	1.7	1.4	2.1	1.2	1.1	1.2	1.1
	182-Day	147.3	164.7	108.8	78.1	67.0	89.2	95.9	17.8	22.8	5.5	5.9	3.8	2.7	2.2	2.9	3.1
	364-Day	757.4	749.6	761.4	765.6	778.3	797.2	771.9	6.4	0.8	28.1	26.9	26.7	26.0	25.9	26.2	25.1
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	69.2	69.2	37.4	37.4	37.4	37.4	37.4	0.0	0.0	2.6	2.5	1.3	1.3	1.2	1.2	1.2
	3-Year	0.6	0.8	1.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	4.8	4.8	4.8	4.8	4.8	4.8	4.8	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	5-Year	293.2	269.5	269.5	298.0	342.8	342.8	342.8	44.8	15.0	10.9	9.7	9.4	10.1	11.4	11.3	11.2
	6-Year	8.5	8.5	8.5	8.5	8.5	8.5	8.5	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	7-Year	50.1	50.1	50.1	50.1	50.1	50.1	50.1	0.0	0.0	1.9	1.8	1.8	1.7	1.7	1.6	1.6
	8-Year	33.7	33.7	19.3	19.3	19.3	19.3	19.3	0.0	0.0	1.2	1.2	0.7	0.7	0.6	0.6	0.6
	9-Year	71.2	71.2	55.3	55.3	55.3	55.3	55.3	0.0	0.0	2.6	2.6	1.9	1.9	1.8	1.8	1.8
	10-Year	336.0	359.8	404.8	441.2	460.5	460.5	460.5	19.2	4.4	12.5	12.9	14.2	15.0	15.3	15.1	15.0
	11-Year	8.8	8.8	8.8	8.8	8.8	8.8	8.8	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	12-Year	120.3	115.4	115.4	115.4	115.4	115.4	115.4	0.0	0.0	4.5	4.1	4.0	3.9	3.8	3.8	3.8
	15-Year	446.4	505.1	588.0	597.3	597.3	602.5	602.5	5.2	0.9	16.5	18.1	20.6	20.3	19.9	19.8	19.6
	16- Year	0.0	0.0	0.0	71.7	71.7	71.7	71.7	0.0	0.0	0.0	0.0	0.0	2.4	2.4	2.4	2.3
	20-Year	171.9	180.9	195.5	195.5	195.5	195.5	203.8	8.3	4.3	6.4	6.5	6.8	6.6	6.5	6.4	6.6
	25-Year	42.2	42.2	42.2	42.2	42.2	65.2	80.2	38.1	90.3	1.6	1.5	1.5	1.4	1.4	2.1	2.6
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9
	Repo T bills	21.6	21.1	21.1	21.1	21.1	21.1	21.1	0.0	0.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7
	Overdraft	36.9	57.3	68.2	63.7	59.2	30.5	54.2	-9.5	100.0	1.4	2.1	2.4	2.2	2.0	1.0	1.8
	Other Domestic debt	5.3	5.1	9.7	3.7	5.3	1.1	5.7	2.0	54.6	0.2	0.2	0.3	0.1	0.2	0.0	0.2
Total Debt		2,698.5	2,785.9	2,856.6	2,942.1	3,003.7	3,041.0	3,071.9	129.8	4.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

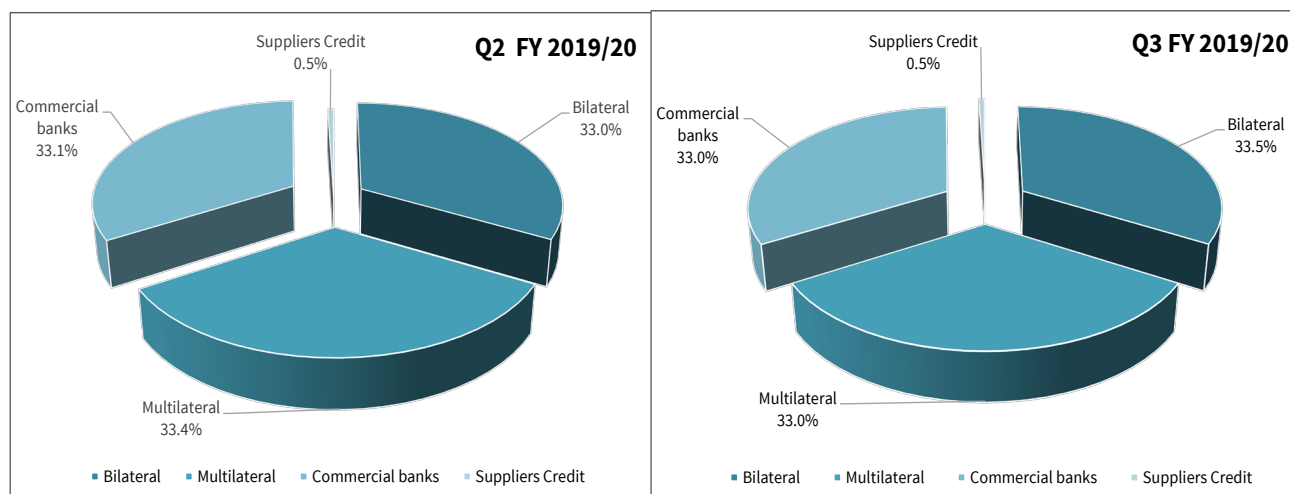
External Debt

Public and publicly guaranteed external debt increased by 3.4 percent during the third quarter of the FY 2019/20. This increase was attributed to receipt of USD 269.5 million from the Austrian government and a 3.7 percent depreciation of the Kenya shilling against the US dollar while the retirement of USD 346.3 million owed to Trade Development Bank had an offsetting effect on the increase in external debt. Foreign exchange risk on external debt increased with the onset of the COVID-19 pandemic in Kenya.

Composition of External Debt by Creditor

There was no major shift in external debt composition during the period under review. The share of outstanding debt from official multilateral and bilateral lenders (who provide both concessional and semi-concessional loans) increased by 0.1 percentage points to 66.5 percent from 66.4 percent held in the previous quarter. The proportion of commercial debt decreased by 0.1 percentage points by the end of the third quarter of FY 2019/20.

Chart 8a: Composition of external debt by lender classification

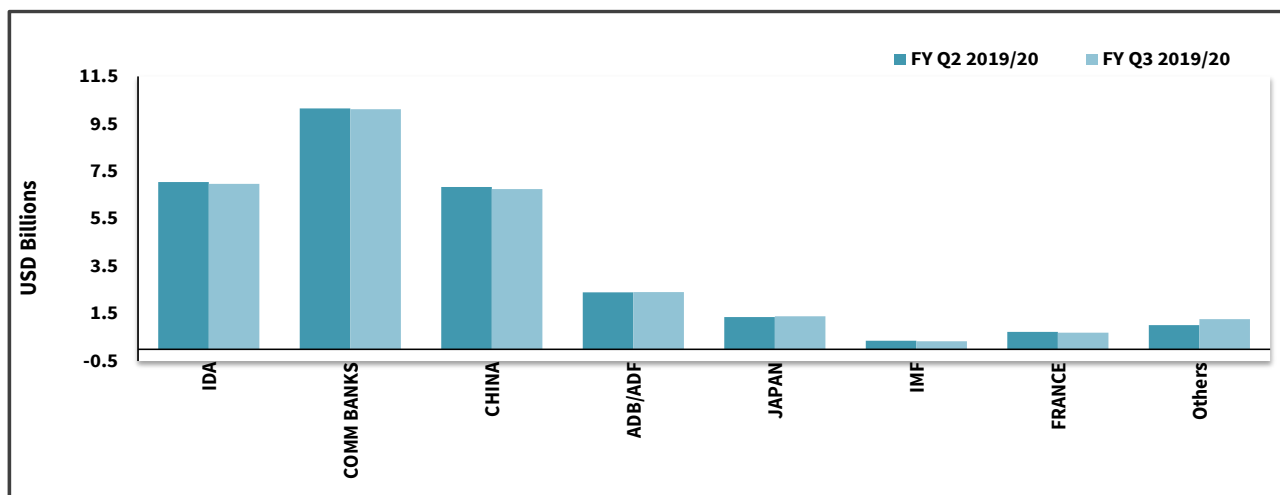


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 7.0 billion or 22.7 percent of total external debt while that owed to China,

Kenya's largest bilateral lender, amounted to USD 6.7 billion, or 22.0 percent of the total external debt in the third quarter of the FY 2019/20 (**Chart 8b**).

Chart 8b: External debt by creditor



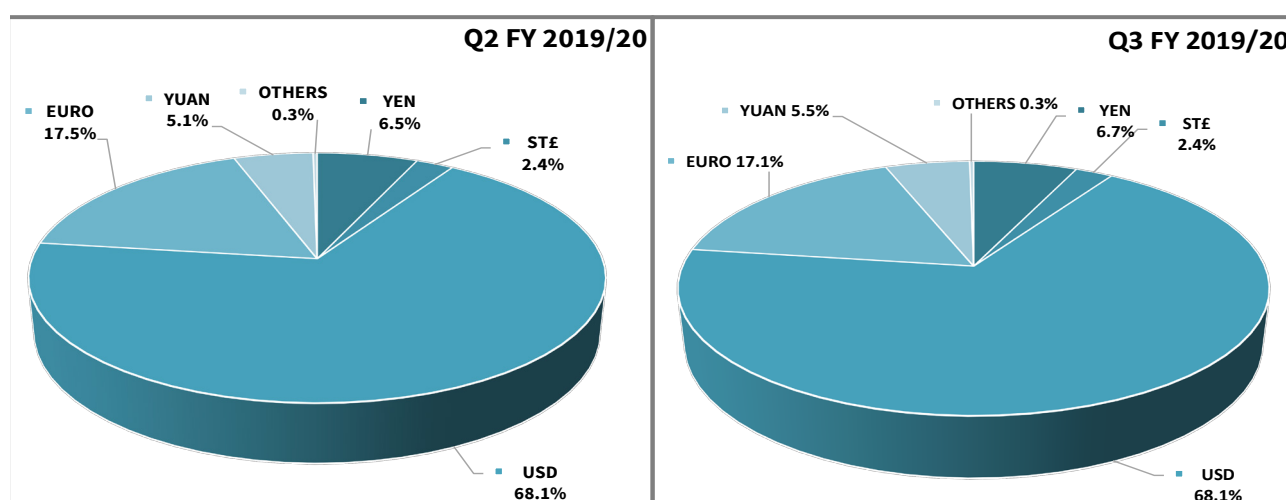
Source: The National Treasury

Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 85.2 percent of the total currency composition at the end of the third quarter of the

FY 2019/20. The proportion held in Euro decreased by 0.4 percentage points while that held in the Japanese Yen and Chinese Yuan increased by 0.2 percentage points and 0.4 percentage points, respectively (**Chart 8c**).

Chart 8c: Debt composition by currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 18.8 percent during the third quarter of the FY 2019/20. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the third quarter of FY 2019/20 amounted to KSh 64.5

billion. Liquidity indicators of external indebtedness worsened and were below the composite indicator thresholds (21 percent of exports and 23 percent of revenues) with a deterioration in debt dynamics indicators as compared to the previous quarter (**Table 8.4**).

Table 8.4: Liquidity external debt sustainability indicators

	Q3 FY 2018/19	Q4 FY 2018/19	Q1 FY 2019/20	Q2 FY 2019/20	Q3 FY 2019/20
Debt service to Revenues (23%)	40.4	28.3	12.6	10.1	15.9
Debt service to Exports (21%)	51.7	47.4	19.2	18.7	21.5

Source: Central Bank of Kenya

Debt Sustainability Analysis

The IMF October 2018 Debt sustainability update showed deteriorating debt dynamics with a downgrade from low risk of external debt distress to moderate risk of external debt distress. All the liquidity and solvency debt burden indicators were below the CPIA thresholds in the baseline

scenarios but there were prolonged breaches in the alternative scenarios. Public DSA sensitivity analysis shows that if primary deficit were to remain at the current levels, public debt would trend upwards and rise above the debt sustainability benchmark for strong policy performers. This points to the need for immediate fiscal consolidation.

Chapter 9

The Capital Markets

The overall equity market activity declined in the first quarter of 2020 compared to the fourth quarter of 2019. The NSE 20 share price index and NASI declined by 25.9 percent and 20.73 percent, respectively, while the equity turnover and market

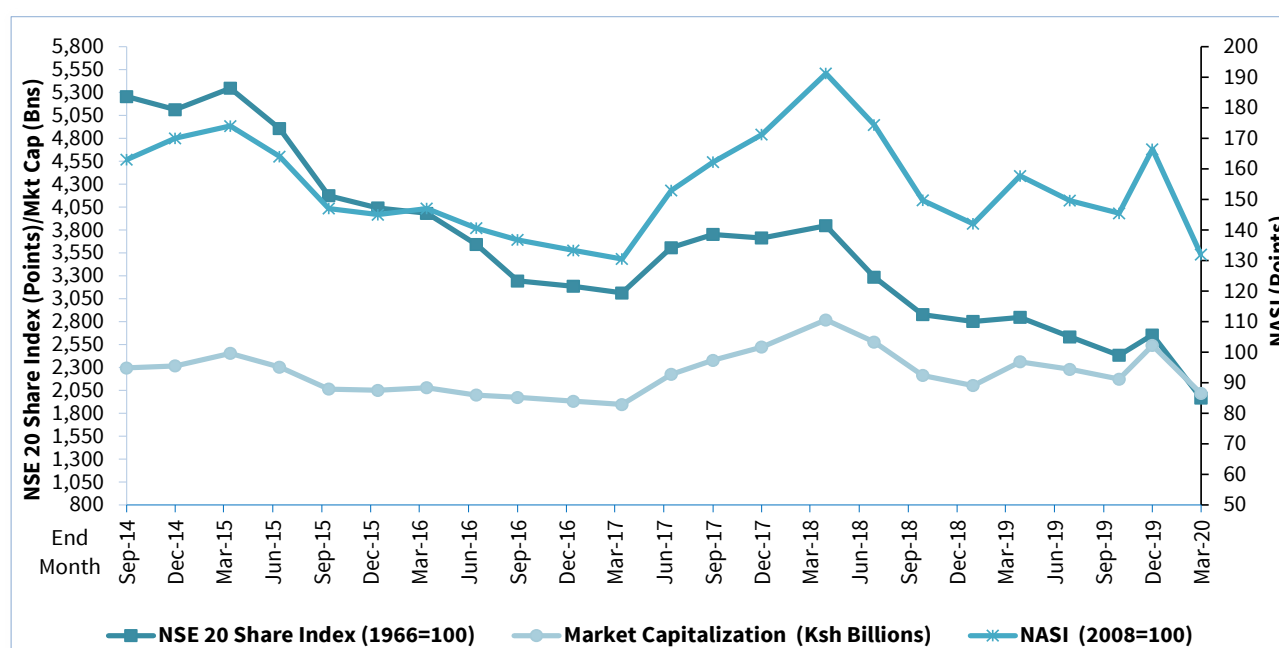
capitalization declined by 2.9 percent and 20.6 percent, respectively. However, the total number of shares traded rose by 5.5 percent (**Table 9.1 and Chart 9.1**).

Table 9.1: Selected stock market indicators

INDICATOR	2018	2019				2020	% CHANGE (2020Q1-2019Q4)
	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	2,801.0	2,846.4	2,633.3	2,432.0	2,654.4	1,966.1	-25.93
NASI (2008=100)	142.0	157.7	149.6	145.5	166.4	131.9	-20.73
Number of Shares Traded (Millions)	1,570.5	1,396.7	1,081.6	1,063.8	1,290.1	1,360.5	5.45
Equities Turnover (Ksh Millions)	35,434.5	45,248.8	32,897.2	30,663.2	45,006.1	43,693.3	-2.92
Market Capitalization (Ksh Billions)	2,102.0	2,360.5	2,278.9	2,172.0	2,540.0	2,016.0	-20.63
Foreign Purchase (Ksh Millions)	23,323.0	35,039.3	23,896.3	20,114.8	27,615.1	21,045.5	-23.79
Foreign Sales (Ksh Millions)	29,994.0	34,438.0	22,537.9	19,852.7	28,459.1	32,229.2	13.25
Ave. Foreign Investor Participation to Equity Turnover (%)	75.1	74.9	71.1	65.7	73.8	61.0	-17.43
Bond Turnover (Ksh Millions)	118,171.3	158,068.8	201,714.9	185,440.1	106,457.8	157,985.2	48.40
FTSE NSE Kenya Govt. Bond Index (Points)	95.40	96.48	97.30	98.56	97.50	96.00	-1.54
5-Year Eurobond Yield (%)	5.866	5.258	5.015				
7-Year Eurobond Yield (%)			6.406	6.411	7.269	8.777	1.51*
10-Year Eurobond Yield (%) -2024	8.349	6.275	5.481	5.565	6.433	8.260	1.83*
10-Year Eurobond Yield (%) -2028	8.996	7.114	6.784	6.680	7.746	8.574	0.83*
12-Year Eurobond Yield (%) -2032			6.784	7.398	8.280	9.084	0.80*
30-Year Eurobond Yield (%) -2048	9.752	8.148	7.891	8.068	8.838	9.026	0.19*

Source: Nairobi Securities Exchange

Chart 9.1: NSE 20, NASI and market capitalization



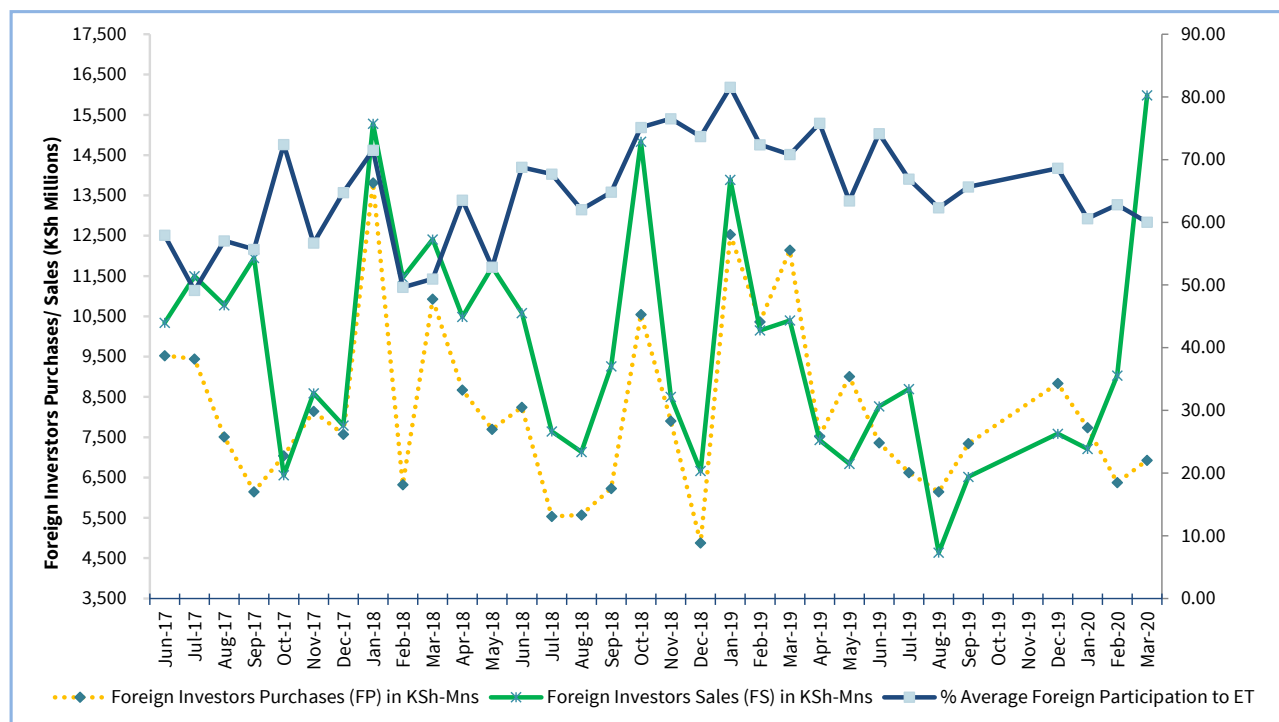
Source: Nairobi Securities Exchange

Foreign Investors' Participation

The value of foreign investors' equity purchases at the NSE declined by 23.8 percent against the 13.3 percent increase in the value of equity sold by foreign investors in the first quarter of 2020. Average net foreign investors' participation at the NSE as a proportion to total equity turnover

declined to 60.0 percent in the first quarter of 2020 from 73.8 percent in the fourth quarter of 2019. There was net foreign investor outflows as sales exceeded purchases in the quarter under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Securities Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market increased by 48.4 percent in the first quarter of 2020 compared to fourth quarter of 2019. The FTSE NSE Kenyan Government Bond Index declined by 1.5 percent in the first quarter of

2020, reflecting an increase in market yields. In the international market, yields on Kenya's Eurobonds rose by an average of 73.6 basis points during the quarter under review (**Table 9.1**).

Chapter 10

Statement of Financial Position of the Central Bank of Kenya (Kenya Shilling Million)

	2019			2020	Absolute Quarterly Changes (KSh Million)				Quarterly Growth Rates (%)			
1.0 ASSETS	Jun	Sept	Dec	Mar	Q1,2020	Q4, 2019	Q3, 2019	Q2, 2019	Q1,2020	Q4, 2019	Q3, 2019	Q2, 2019
1.1 Reserves and Gold Holdings	1,047,463	966,089	932,958	897,100	(35,858)	(33,131)	(81,374)	198,667	(3.8)	(3.4)	(7.8)	23.4
					-	-	-	-				
1.2 Funds Held with IMF	1,008	11,478	5,974	4,541	(1,433)	(5,504)	10,470	(7,335)	(24.0)	(48.0)	1,038.7	(87.9)
					-	-	-	-				
1.21 Investment in Equity (Swift Shares)	9	9	9	9	0	(0)	(0)	0	1.8	(0.2)	(2.4)	2.9
					-	-	-	-				
1.3 Items in the Course of Collection	36	20	5	9	4	(15)	(16)	21	74.9	(74.5)	(45.2)	131.5
					-	-	-	-				
1.4 Advances to Commercial Banks	66,909	63,657	55,266	55,053	(212)	(8,391)	(3,252)	(862)	(0.4)	(13.2)	(4.9)	(1.3)
					-	-	-	-				
1.5 Loans and Other Advances	3,362	3,380	3,435	3,368	(66)	55	18	763	(1.9)	1.6	0.5	29.4
					-	-	-	-				
1.6 Other Assets	5,309	4,733	4,542	14,014	9,472	(192)	(576)	2,968	208.5	(4.0)	(10.8)	126.8
					-	-	-	-				
1.7 Retirement Benefit Asset	4,329	4,329	4,329	4,329	-	-	-	(2,256)	-	-	-	(34.3)
					-	-	-	-				
1.8 Property and Equipment	30,001	29,468	29,621	29,918	297	153	(533)	1,669	1.0	0.5	(1.8)	5.9
					-	-	-	-				
1.81 Intangible Assets	837	790	886	1,044	158	95	(47)	81	17.9	12.1	(5.6)	10.7
					-	-	-	-				
1.9 Due from Government of Kenya	79,556	90,574	86,164	76,688	(9,477)	(4,409)	11,017	19,470	(11.0)	(4.9)	13.8	32.4
					-	-	-	-				
TOTAL ASSETS	1,238,821	1,174,527	1,123,189	1,086,073	(37,116)	(51,338)	(64,295)	213,187	(3.3)	(4.4)	(5.2)	20.8
					-	-	-	-				
2.0 LIABILITIES					-	-	-	-				
					-	-	-	-				
2.1 Currency in Circulation	249,509	207,066	258,945	246,779	(12,166)	51,880	(42,444)	(22,414)	(4.7)	25.1	(17.0)	(8.2)
					-	-	-	-				
2.2 Investments by Banks -Repos					-	-	-	(9,992)				(100.0)
					-	-	-	-				
2.3 Deposits	741,000	696,019	622,487	570,199	(52,288)	(73,532)	(44,981)	232,635	(8.4)	(10.6)	(6.1)	45.8
					-	-	-	-				
2.4 International Monetary Fund	83,653	81,845	75,634	75,821	187	(6,212)	(1,807)	(5,945)	0.2	(7.6)	(2.2)	(6.6)
					-	-	-	-				
2.5 Other Liabilities	6,165	13,683	5,338	7,175	1,837	(8,345)	7,518	2,429	34.4	(61.0)	121.9	65.0
					-	-	-	-				
TOTAL LIABILITIES	1,080,327	998,613	962,404	899,974	(62,430)	(36,210)	(81,714)	196,712	(6.5)	(3.6)	(7.6)	22.3
					-	-	-	-				
3.0 EQUITY AND RESERVES	158,494	175,914	160,785	186,100	25,314	(15,129)	17,420	16,474	15.7	(8.6)	11.0	11.6
Share Capital	20,000	35,000	35,000	35,000	-	-	15,000	15,000	-	-	75.0	300.0
General reserve fund -Unrealized	44,432	48,776	48,776	48,776	-	0	4,344	-	-	0.0	9.8	-
-Realized	10,927	15,000	15,000	15,000	-	0	4,073	(19,764)	-	0.0	37.3	(64.4)
-Capital Projects	24,473	26,523	26,523	26,523	-	-	2,050	-	-	-	8.4	-
Period surplus/(Deficit)	25,465	21,420	6,291	24,218	17,927	(15,129)	(4,045)	12,428	284.9	(70.6)	(15.9)	95.3
Asset Revaluation	17,801	17,801	17,801	17,801	-	-	-	-	-	-	-	-
Fair Value Reserves -OCI	7,066	7,066	7,066	7,066	-	-	(0)	7,066	-	-	(0.0)	
Retirement Benefit Asset Reserves	4,329	4,329	4,329	4,329	-	-	(1)	(2,255)	-	-	(0.0)	(34.2)
Consolidated Fund	4,000			7,388	7,388	-	(4,000)	4,000			(100.0)	
4 TOTAL LIABILITIES AND EQUITY	1,238,821	1,174,527	1,123,189	1,086,073	(37,116)	(51,338)	(64,295)	213,187	(3.3)	(4.4)	(5.2)	20.8

Source: Central Bank of Kenya

Chapter 11

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet declined by 3.3 percent in the first quarter of 2020, largely reflecting KSh 35.6 billion decline in Reserve and gold holdings as well as a decline of KSh 9.5 billion in debt due from government which arose from reduced Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long-term debt with effect from 1 November 1997. Other asset categories that contributed to the decline include Funds held with the IMF which declined by KSh 4.5 billion, Advances to commercial banks, largely for liquidity management, which declined marginally by KSh 0.2 billion in the first quarter of 2020 and Loans and other advances including outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF), and IMF funds on lent to Government, declined by 1.9 percent compared to an increase of 1.6 percent in the previous quarter.

The decline in Reserve and gold holdings which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank partly reflects scheduled debt service and other central bank operations.

Items in the course of collection, which represent the value of clearing instruments held by the CBK while awaiting clearing by respective commercial banks, increased by KSh 4.0 million compared to a decline of KSh 15.0 million in the fourth quarter of 2019.

Other assets, which largely consist of prepayments and sundry debtors, and deferred currency expense increased by KSh 9.5 billion in the first quarter of 2020 compared to a decline of KSh 0.2 billion in the previous quarter.

Liabilities

Currency in circulation decreased by 4.7 percent in the first quarter of 2020 compared to an increase of 25.1 percent in the previous quarter.

Deposits at the CBK by Government of Kenya, local commercial banks, other public entities and project accounts and local banks' forex settlement accounts declined by 8.4 percent compared to a decrease of 10.6 percent in the previous quarter.

Equity and reserves increased by 15.7 percent in the first quarter of 2020 compared to a decline of 8.6 percent in the previous quarter.



Central Bank of Kenya

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