



Central Bank of Kenya

Quarterly Economic Review

October-December 2021



CONTENTS

Highlights.....	3
Chapter 1: Inflation.....	4
Chapter 2: Developments in Money, Credit and Interest Rates.....	7
Chapter 3: Economic Performance.....	12
Chapter 4: Global Economy.....	16
Chapter 5: Balance of Payments and Exchange Rates.....	18
Chapter 6: Banking Sector.....	24
Chapter 7: Government Budgetary Performance.....	30
Chapter 8: Developments in Public Debt.....	34
Chapter 9: Capital Markets.....	39
Chapter 10: Statement of Financial Position of the Central Bank of Kenya... ..	41

The Quarterly Economic Review is prepared by the Research Department of the Central Bank of Kenya. Information in this publication may be reproduced without restrictions provided the source is duly acknowledged. Enquiries concerning the Review should be addressed to:

Director, Research Department,
Central Bank of Kenya,
P.O. Box 60000 – 00200
Nairobi, Kenya
Email: Researchstat@centralbank.go.ke

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

The economy rebounded strongly in 2021, as activity in industry and services sectors picked up following the easing of COVID-19 restrictions. It grew by an average of 7.8 percent in the first three quarters of 2021 compared to a contraction of 0.8 percent in a similar period of 2020. However, agriculture sector growth contracted by 0.8 percent compared to a growth of 4.5 percent in the same period of 2020. Real GDP grew by 9.9 percent in the third quarter of 2021, compared to a contraction of 2.1 percent in the third quarter of 2020.

According to the IMF's World Economic Outlook January 2022 update, growth of the global economy is estimated to have increased by 5.9 percent in 2021 and is expected to moderate to 4.4 percent in 2022, largely driven by lower economic activity in the world's two largest economies (the United States and China).

Overall inflation declined to 6.0 percent in the fourth quarter of 2021, from 6.7 percent in the third quarter of 2021. Food inflation declined, owing to improved weather conditions. Although fuel inflation remained elevated, it declined marginally owing to government interventions to stabilize pump prices. Non-food Non-fuel (NFNF) inflation declined, reflective of muted demand pressures in the economy.

Growth in broad money supply (M3) increased in the fourth quarter of 2021 to 1.4 percent from 1.0 percent in the previous quarter, largely due to an increase in corporate deposits.

The current account deficit is estimated to have widened to USD 1,490 million in the fourth quarter of 2021 from USD 1,269 million in the fourth quarter of 2020, on account of increased imports that offset gains in agriculture exports, services receipts and diaspora remittances.

The banking sector remained stable and resilient in the fourth quarter of 2021. Total net assets increased by 3.2 percent to Ksh 6,008.0 billion in December 2021, from Ksh 5,822.1 billion in September 2021. The deposit base also increased by 2.2 percent to Ksh 4,441.9 billion in the fourth quarter of 2021, from Ksh 4,345.7 billion in the third quarter of 2021. The sector was well capitalized with capital adequacy of 19.6 percent, which was above the minimum capital requirement (14.5 percent). Similarly, the sector remained profitable in the fourth quarter of 2021, with quarterly profit before tax of Ksh 49.3 billion, a marginal increase from Ksh 49.1 billion reported in the third quarter of 2021. Credit risk remained elevated but easing with gross non-performing loans (NPLs) to gross loans ratio standing at 13.1 percent in the fourth quarter of 2021, as compared to 13.6 percent in third quarter of 2021.

The Government's budgetary operations at the end of the second quarter of FY 2021/2022 resulted in a deficit (including grants) of 2.3 percent of GDP. Revenue collection was above target while expenditure remained below the target.

Kenya's public and publicly guaranteed debt increased by 2.6 percent during the second quarter of the FY 2021/22. Domestic and external debt increased by 2.4 percent and 2.9 percent, respectively.

Overall performance of equities market declined in the fourth quarter of 2021 compared to the third of 2021. The NSE 20 share index, NASI and market capitalization declined by 6.3 percent and 6.7 percent, respectively. However, total equities turnover and number of shares traded increased by 15.8 percent and 6.4 percent, respectively.

Chapter 1

Inflation

Overview

Overall inflation declined to 6.0 percent in the fourth quarter of 2021, from 6.7 percent in the third quarter, driven by easing prices of a number of items in the consumer basket. All the broad measures of inflation were lower in the fourth quarter of 2021, compared to the third quarter. Food inflation declined to 9.9 percent, from 10.1 percent in the previous quarter, as prices eased following improved weather conditions during

the quarter. Although fuel inflation remained elevated, it declined marginally to 10.1 percent from 10.8 percent in the third quarter supported by government interventions to stabilize pump prices. Meanwhile, Non-food Non-fuel (NFNF) inflation declined to 2.0 percent from 2.7 percent in the previous quarter, reflective of muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

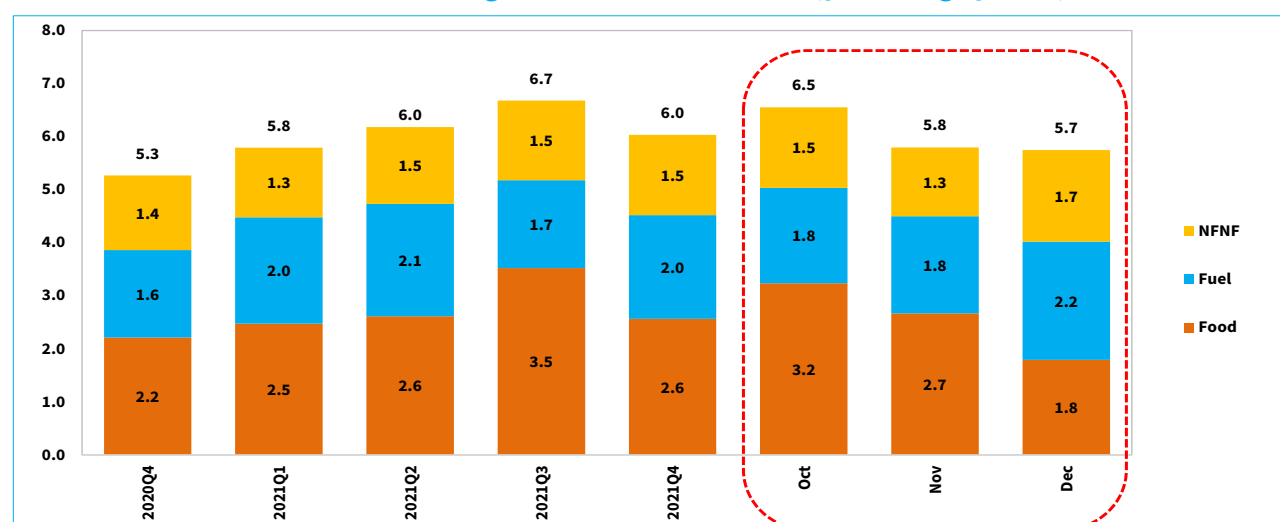
	2020	2021						
	Q4	Q1	Q2	Q3	Q4	Oct	Nov	Dec
Overall inflation	5.3	5.8	6.0	6.7	6.0	6.5	5.8	5.7
Food Inflation	6.3	7.0	7.3	10.1	9.9	10.6	9.9	9.1
Fuel Inflation	11.5	13.9	14.2	10.8	10.1	9.6	10.3	10.5
Non-Food-Non-Fuel (NFNF) Inflation	2.5	2.3	2.5	2.7	2.0	2.2	1.9	2.0
Annual Average Inflation*	5.5	5.0	5.2	5.7	6.1	6.1	6.1	6.1
Three Months Annualised Inflation	8.6	9.4	6.1	2.8	5.8	4.3	5.3	7.8

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

During the quarter under review, food and fuel inflation were the dominant drivers of overall inflation, jointly contributing 4.6 percentage points,

while NFNF contributed 1.5 percentage points (**Chart 1.1**).

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



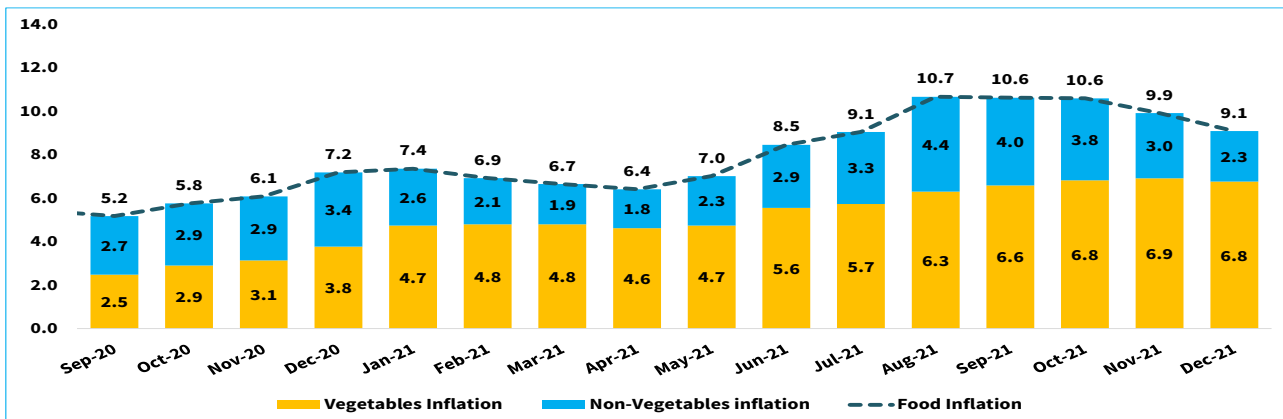
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined to 9.9 percent in the fourth quarter of 2021, from 10.1 percent in the third quarter, as prices eased, following improved weather conditions during the quarter. Prices of fresh produce remained the dominant driver of food inflation as reflected in the contribution of vegetables to food inflation, which averaged 6.8

percentage points in the fourth quarter, compared to 6.2 percentage points in the previous quarter. The contribution of non-vegetable food items to food inflation remained low averaging 3.0 percentage points in the fourth quarter, compared to 3.9 percentage points in the previous quarter (**Chart 1.2**).

Chart 1.2: Food inflation by category (percent)

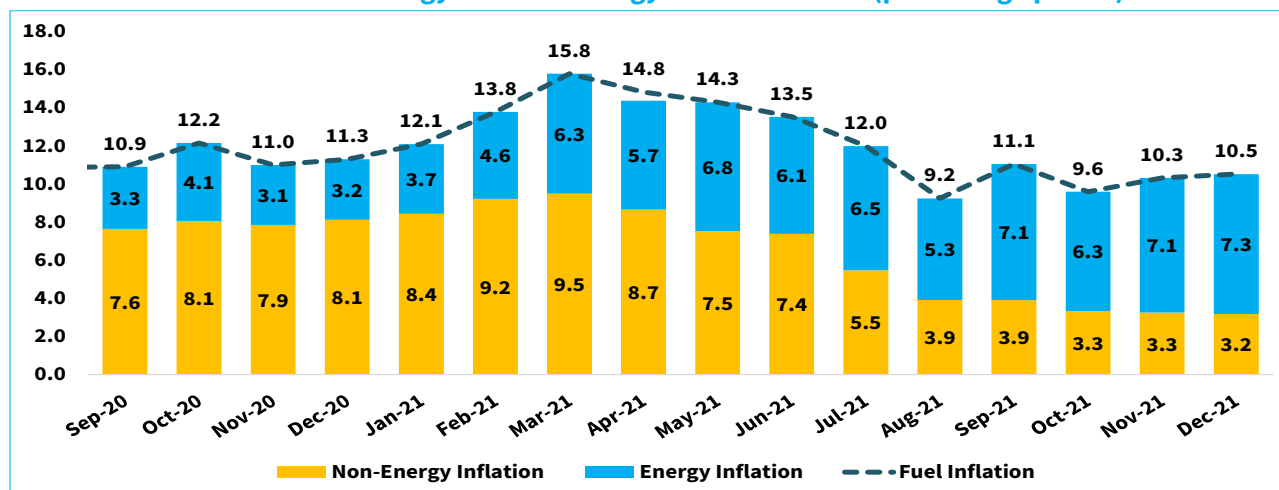


Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation remained elevated mainly on account of high global oil prices. However, it declined marginally to 10.1 percent in the fourth quarter of 2021, from 10.8 percent in the third quarter of 2021, supported by government interventions to stabilize domestic pump prices. In line with trends in the international oil prices, the energy component remained a key driver of fuel inflation as prices of key items such as LPG gas, petrol, diesel, and kerosene remained elevated. Consequently, the contribution of energy components to fuel

inflation increased to 6.9 percentage points during the quarter under review, from 6.3 percentage points in the previous quarter. However, the prices of non-energy items reduced largely due to easing of COVID-19 restrictions on transport sector and government intervention to stabilize pump prices. Accordingly, the contribution of non-energy components to fuel inflation declined to 3.3 percentage points in the fourth quarter compared to 4.4 percentage points in the third quarter (**Chart 1.3**).

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

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

Non-Food Non-Fuel Inflation (NFNF)

Non-food Non-fuel (NFNF) inflation remained low during the quarter under review, reflective of muted demand pressures in the economy. It declined to 2.0 percent in the period under review from 2.7 percent

in the previous quarter, reflected in a decline in all categories in the NFNF basket with the exception of 'alcoholic beverages, tobacco & narcotics' and 'housing & water' that increased marginally (**Table 1.2**).

Table 1.2: Non-food-non-fuel inflation by CPI category (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
2020	Q4	3.8	2.7	1.6	2.5	3.9	0.8	3.0	2.2	5.0	1.3	2.2	2.5
2021	Q1	2.7	2.3	0.8	3.4	4.3	0.9	2.8	2.0	4.5	1.6	2.3	2.3
	Q2	2.4	2.2	1.2	3.9	4.3	1.4	1.9	2.3	4.1	1.8	3.2	2.5
	Q3	2.9	2.8	1.5	4.8	3.6	2.9	1.2	1.9	3.5	2.1	3.2	2.7
	Q4	3.5	2.1	1.7	4.2	1.5	2.5	1.2	1.5	0.7	0.9	2.9	2.0
	Oct	3.3	2.5	1.2	3.9	2.3	2.9	1.2	1.9	1.6	1.0	3.1	2.2
	Nov	3.2	1.7	1.6	4.0	1.3	2.3	1.3	1.5	0.5	0.9	2.8	1.9
	Dec	4.0	2.1	2.3	4.7	0.9	2.2	1.1	1.3	0.2	0.9	2.8	2.0

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

Growth in broad money supply (M3) increased in the fourth quarter of 2021 to 1.4 percent from 1.0 percent in the previous quarter, largely due to increases in deposits. Growth in deposits was mainly on account of increased corporate deposit holdings, which grew by 4.4 percent in the fourth quarter compared to 2.6 percent in the previous quarter, partly reflecting improved business activities and economic recovery. The corporate sector deposits growth was mainly on account of increased demand deposits. Growth of household deposit holdings declined in the fourth

quarter, partly reflecting increased demand for cash during the end of year festivities. The increased demand for cash by households during the end of year was also reflected in increased currency outside banks (**Tables 2.1 and 2.2**).

The 12-month growth in broad money supply, M3 moderated to 6.1 percent in December 2021 compared to 8.7 percent in September 2021, partly reflecting net lending to government and net foreign assets of the banking system.

Table 2.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1720.1	1716.7	1779.2	1770.8	1848.1	3.3	-0.2	3.6	-0.5	4.4	54.4	-3.4	62.5	-8.4	77.3
1.1 Currency outside banks	233.7	225.8	225.9	234.4	253.5	7.4	-3.4	0.0	3.8	8.1	16.0	-7.9	0.1	8.5	19.1
1.2 Demand deposits	1385.9	1405.6	1409.9	1430.2	1498.4	1.1	1.4	0.3	1.4	4.8	14.8	19.8	4.3	20.2	68.2
1.3 Other deposits at CBK 1/	100.7	85.4	143.5	106.4	96.3	30.5	-15.1	68.0	-25.8	-9.5	23.5	-15.2	58.1	-37.1	-10.1
2. Money supply, M2 (1+2.1)	3250.2	3250.3	3377.5	3408.1	3431.6	2.2	0.0	3.9	0.9	0.7	69.7	0.1	127.2	30.7	23.4
2.1 Time and saving deposits	1530.1	1533.5	1598.2	1637.3	1583.5	1.0	0.2	4.2	2.4	-3.3	15.3	3.5	64.7	39.1	-53.9
3. Money supply, M3 (2+3.1)	3990.9	4030.0	4137.8	4177.7	4235.2	3.8	1.0	2.7	1.0	1.4	147.4	39.1	107.8	39.8	57.6
3.1 Foreign Currency Deposits	740.7	779.7	760.3	769.5	803.7	11.7	5.3	-2.5	1.2	4.4	77.7	39.0	-19.4	9.2	34.1
Sources of M3															
1. Net foreign assets 2/	746.9	691.0	783.8	661.9	590.1	-0.4	-7.5	13.4	-15.6	-10.8	-2.7	-55.9	92.8	-121.9	-71.8
Central Bank	738.5	690.7	835.8	760.8	700.6	-8.3	-6.5	21.0	-9.0	-7.9	-66.4	-47.8	145.1	-75.0	-60.2
Banking Institutions	8.5	0.3	-52.0	-98.9	-110.5	-115.3	-96.3	-16568.1	90.1	11.7	63.7	-8.1	-52.4	-46.9	-11.6
2. Net domestic assets (2.1+2.2)	3244.0	3339.0	3354.0	3515.8	3645.1	4.9	2.9	0.5	4.8	3.7	150.1	95.0	15.1	161.8	129.3
2.1 Domestic credit	4245.8	4361.2	4392.5	4590.2	4823.0	4.8	2.7	0.7	4.5	5.1	194.3	115.4	31.3	197.7	232.8
2.1.1 Government (net)	1343.3	1406.6	1406.9	1530.1	1669.7	12.3	4.7	0.0	8.8	9.1	147.3	63.4	0.3	123.1	139.6
2.1.2 Private sector	2811.3	2865.3	2901.1	2979.3	3053.2	1.6	1.9	1.3	2.7	2.5	44.5	54.0	35.9	78.2	73.9
2.1.3 Other public sector	91.2	89.3	84.4	80.8	100.1	2.9	-2.1	-5.5	-4.3	23.9	2.5	-1.9	-4.9	-3.6	19.3
2.2 Other assets net	-1001.8	-1022.2	-1038.5	-1074.4	-1177.9	4.6	2.0	1.6	3.5	9.6	-44.2	-20.4	-16.2	-35.9	-103.5
Memorandum items															
4. Overall liquidity, L (3+4.1)	5665.2	5769.1	5952.8	6127.6	6255.7	4.0	1.8	3.2	2.9	2.1	218.4	103.8	183.8	174.8	128.1
4.1 Non-bank holdings of government securities	1674.3	1739.1	1815.0	1949.9	2020.5	4.4	3.9	4.4	7.4	3.6	71.0	64.7	75.9	134.9	70.5

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

1/ Includes county deposits and special projects deposit

2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

Table 2.2: Deposit holdings of corporates and household sectors

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
1. Household Sector 1/	1765.0	1769.6	1738.3	1765.5	1732.8	-0.8	0.3	-1.8	1.6	-1.8	-13.9	4.6	-31.4	27.2	-32.7
1.1 Demand Deposits	627.2	606.1	583.7	581.0	571.4	-3.9	-3.4	-3.7	-0.5	-1.6	-25.5	-21.1	-22.4	-2.7	-9.6
1.2 Time and Saving Deposits	862.9	877.7	881.4	903.6	876.1	0.0	1.7	0.4	2.5	-3.0	-0.4	14.8	3.8	22.1	-27.5
1.3 Foreign Currency Deposits	274.9	285.8	273.2	280.9	285.3	4.6	4.0	-4.4	2.8	1.6	12.0	11.0	-12.7	7.7	4.4
2. Corporate Sector	1917.3	1973.5	2016.8	2068.6	2159.4	6.1	2.9	2.2	2.6	4.4	110.7	56.2	43.3	51.8	90.8
2.1 Demand deposits	738.1	774.3	799.9	820.2	904.2	5.3	4.9	3.3	2.5	10.2	37.2	36.2	25.6	20.3	84.0
2.2 Time and Saving Deposits	714.5	706.7	731.4	761.2	739.1	1.1	-1.1	3.5	4.1	-2.9	7.7	-7.8	24.7	29.8	-22.1
2.3 Foreign Currency Deposits	464.7	492.5	485.5	487.2	516.1	16.5	6.0	-1.4	0.4	5.9	65.8	27.8	-7.0	1.7	28.9

1/ Household Sector includes individuals, unincorporated businesses serving households and non-profit institutions

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the increase in M3 in the fourth quarter of 2021 was the increase in net domestic assets (NDA) of the banking system, which more than offset the decline in net foreign assets (NFA). The increase in net domestic assets was supported by net lending to government, and resilient growth in credit to the private sector as business activities improved. The decline in net foreign assets of the banking system, partly reflected the central bank payments of government external obligations and increased commercial banks' loans from non-residents (**Table 2.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system increased to 5.1 percent from 4.5 percent in the previous quarter, reflecting increased net lending to government and resilient private sector credit. Net lending to government increased in the quarter under review, partly attributed to drawdown of Government deposits at CBK due to

Government spending. The other public sector lending also increased in the fourth quarter, mainly reflecting borrowings by county governments and parastatals (**Table 2.3**).

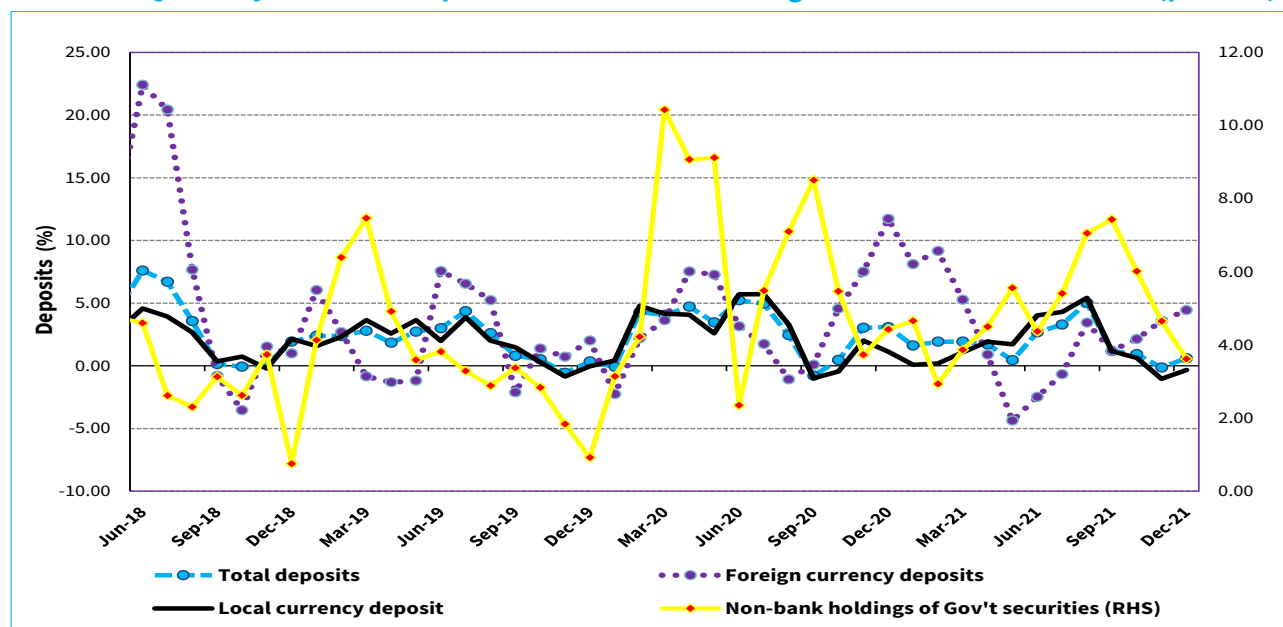
Quarterly growth in credit extended to the private sector remained resilient at 2.5 percent in the fourth quarter compared to 2.7 percent in the previous quarter, supported by the corporate and household sector credit demand with the improved economic activities and consumer confidence. Strong credit growth was recorded in manufacturing, trade, business services and consumer durables (**Table 2.3**).

On annual basis, growth in lending to private sector credit increased to 8.6 percent in December 2021 from 7.7 percent in September, supported by recovery in economic activities, the accommodative monetary policy and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy (**Chart 2.2**).

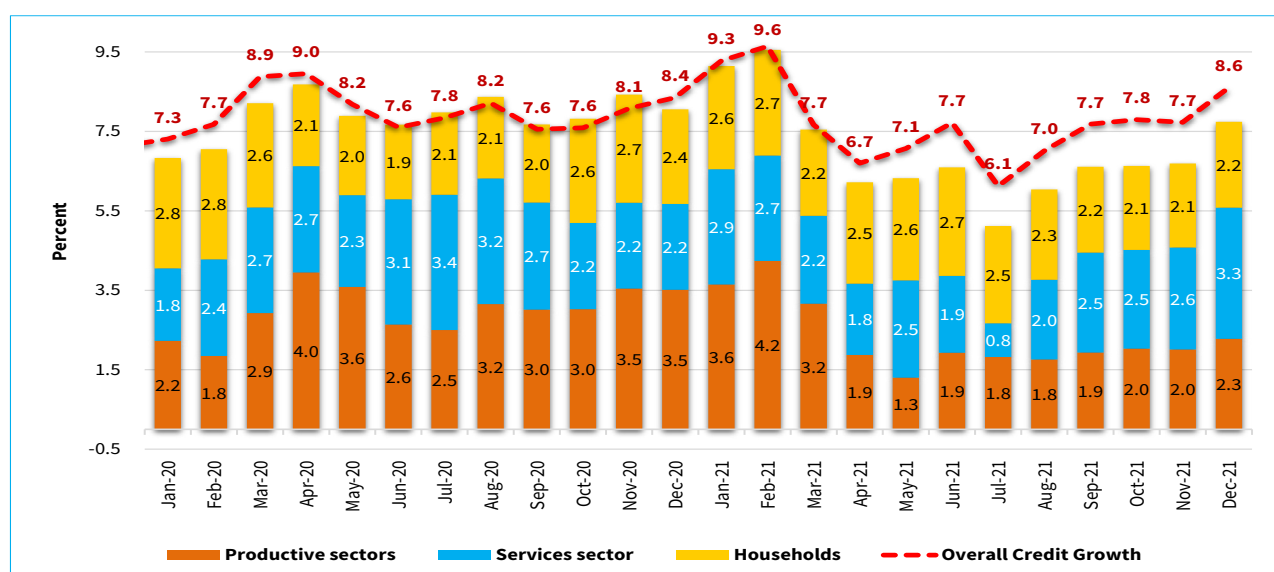
Table 2.3: Banking sector net domestic credit

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
1. Credit to Government	1,343.3	1,406.6	1,406.9	1,530.1	1,669.7	12.3	4.7	0.0	8.8	9.1	147.3	63.4	0.3	123.1	139.6
Central Bank	-31.5	-19.9	-50.3	-17.7	67.4	-82.2	-36.8	152.3	-64.7	-480.0	145.3	11.6	-30.3	32.5	85.2
Commercial Banks & NBFIs	1,374.8	1,426.6	1,457.2	1,547.8	1,602.3	0.1	3.8	2.1	6.2	3.5	2.0	51.8	30.6	90.6	54.4
2. Credit to other public sector	91.2	89.3	84.4	80.8	100.1	2.9	-2.1	-5.5	-4.3	23.9	2.5	-1.9	-4.9	-3.6	19.3
Local government	5.7	5.7	6.6	6.6	18.3	22.2	1.5	15.7	-0.1	175.4	1.0	0.1	0.9	0.0	11.6
Parastatals	85.5	83.6	77.8	74.2	81.9	1.8	-2.3	-6.9	-4.6	10.3	1.5	-2.0	-5.8	-3.6	7.7
3. Credit to private sector	2,811.3	2,865.3	2,901.1	2,979.3	3,053.2	1.6	1.9	1.3	2.7	2.5	44.5	54.0	35.9	78.2	73.9
Agriculture	93.4	94.5	91.3	94.2	93.9	2.4	1.2	-3.4	3.2	-0.4	2.2	1.1	-3.2	2.9	-0.3
Manufacturing	409.3	429.2	429.4	445.0	463.0	1.0	4.9	0.1	3.6	4.0	3.9	19.9	0.3	15.6	18.0
Trade	485.0	491.9	498.8	509.1	526.5	-0.3	1.4	1.4	2.1	3.4	-1.4	6.9	6.8	10.4	17.4
Building and construction	119.7	122.0	116.5	119.8	121.9	0.4	1.9	-4.4	2.8	1.8	0.5	2.3	-5.4	3.3	2.1
Transport & communications	212.1	217.1	224.4	238.2	242.3	-1.2	2.4	3.3	6.1	1.7	-2.6	5.1	7.2	13.8	4.2
Finance & insurance	103.7	109.4	106.8	110.6	109.7	4.7	5.5	-2.4	3.6	-0.8	4.7	5.7	-2.7	3.8	-0.9
Real estate	406.8	407.9	411.8	413.4	409.4	1.2	0.3	0.9	0.4	-1.0	4.8	1.2	3.8	1.7	-4.1
Mining and quarrying	12.1	13.4	12.7	13.2	17.2	-16.2	10.9	-5.0	3.8	30.7	-2.3	1.3	-0.7	0.5	4.0
Private households	455.5	452.4	457.7	465.9	472.5	0.3	-0.7	1.2	1.8	1.4	1.3	-3.0	5.2	8.2	6.7
Consumer durables	291.3	300.1	312.7	321.6	335.0	6.5	3.0	4.2	2.9	4.1	17.7	8.8	12.5	8.9	13.3
Business services	160.2	163.1	162.4	168.7	175.4	2.2	1.8	-0.4	3.9	4.0	3.4	2.9	-0.6	6.3	6.7
Other activities	62.2	64.1	76.7	79.6	86.5	24.7	3.0	19.7	3.8	8.6	12.3	1.8	12.6	2.9	6.8
4. TOTAL (1+2+3)	4,245.8	4,361.2	4,392.5	4,590.2	4,823.0	4.8	2.7	0.7	4.5	5.1	194.3	115.4	31.3	197.7	232.8

Source: Central Bank of Kenya

Chart 2.1: Quarterly Growth in Deposit and Non-Bank Holdings of Government Securities (percent)

Source: Central Bank of Kenya

Chart 2.2: Contribution to overall credit growth by activity group (percentage points)

Source: Central Bank of Kenya

Reserve Money

Growth in reserve money, increased to 8.9 percent in the fourth quarter of 2021 compared to 6.5 percent in the third quarter, due to increased currency outside banks and bank reserves, reflective of increased demand for liquidity during the end of year festivities. The primary source of the increase in reserve money was the increase in net domestic assets, which more than offset the reduction in

net foreign assets. The increase in net domestic assets (NDA) was mainly attributable to increased net lending to government, partly resulting from drawdown of the government deposits at the central bank, and the increased net lending to commercial banks, resulting from central bank operations aimed at supporting market liquidity during the festive season (**Table 2.4**).

Table 2.4: Reserve money (RM) and its sources

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
1. Net Foreign Assets	738.5	690.7	835.8	760.8	700.6	-8.3	-6.5	21.0	-9.0	-7.9	-66.4	-47.8	145.1	-75.0	-60.2
2. Net Domestic Assets	-268.6	-239.8	-386.0	-282.0	-179.0	-23.8	-10.7	61.0	-27.0	-36.5	84.1	28.9	-146.3	104.1	103.0
2.1 Government Borrowing (net)	-31.5	-19.9	-50.3	-17.7	67.4	-82.2	-36.8	152.3	-64.7	-480.0	145.3	11.6	-30.3	32.5	85.2
2.2 Commercial banks (net)	60.8	60.5	-6.1	48.5	76.4	-30.8	-0.5	-110.1	-893.3	57.6	-27.0	-0.3	-66.6	54.6	27.9
2.3 Other Domestic Assets (net)	-301.2	-283.7	-332.8	-315.9	-326.1	12.8	-5.8	17.3	-5.1	3.2	-34.1	17.6	-49.2	16.9	-10.2
3. Reserve Money	469.9	451.0	449.8	478.8	521.6	3.9	-4.0	-0.3	6.5	8.9	17.7	-18.9	-1.2	29.0	42.8
3.1 Currency outside banks	233.7	225.8	225.9	234.4	253.5	7.4	-3.4	0.0	3.8	8.1	16.0	-7.9	0.1	8.5	19.1
3.2 Bank reserves	236.2	225.1	223.9	244.4	268.1	0.7	-4.7	-0.6	9.2	9.7	1.6	-11.0	-1.2	20.5	23.7

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) maintained the Central Bank Rate at 7.00 percent in the November 2021 meeting. The Committee noted that the current accommodative monetary policy stance remained appropriate as inflation expectations remained anchored within the target range, and leading economic indicators showed continued robust performance.

b. Short Term Rates

Short-term interest rates remained relatively low in the fourth quarter, supported by accommodative monetary policy stance and improved market liquidity. The weighted average interbank interest rates, increased slightly to 5.01 percent in December 2021 compared to 4.73 percent in September, partly reflecting seasonal increased demand for liquidity during the festive season. Similarly, interest rates on Government securities increased, with the

average 91-day Treasury bill rate increasing to 7.26 percent in December compared to 6.83 percent in September, while the average 182-day Treasury bill rate increased to 7.95 percent from 7.25 percent in September.

c. Lending and Deposit Rates

Commercial banks' average lending rate remained relatively stable, at 12.2 percent during the review

period supported by accommodative monetary policy stance. The average commercial banks' deposit rate increased slightly to 6.5 percent in December from 6.34 percent in September, partly reflecting increased competition by banks to attract deposits. Consequently, the spread decreased to 5.66 percent in December from 5.76 percent in September (**Table 2.5**).

Table 2.5: Interest rates (percent)

	2020				2021									
	Mar	Jun	Sep	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day Treasury bill rate	7.29	7.14	6.29	6.90	7.03	7.10	7.15	7.03	6.64	6.57	6.83	6.95	7.10	7.26
182-day Treasury bill rate	8.14	7.93	6.70	7.38	7.82	7.92	7.98	7.60	7.07	7.07	7.25	7.36	7.66	7.95
Interbank rate	4.40	3.27	2.95	5.29	5.23	5.12	4.62	4.63	4.17	3.10	4.73	5.30	4.97	5.10
Repo rate	6.13	3.50	3.18	6.88	6.12	6.61	6.05	5.37	5.31	5.41	5.54	6.40	5.03	5.31
Reverse Repo rate	-	-	7.65	7.70	7.78	7.51	-	-	-	-	7.62	7.45	-	8.37
Central Bank Rate (CBR)	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Average lending rate (1)	12.09	11.89	11.75	12.02	12.05	12.08	12.06	12.02	12.09	12.12	12.10	12.12	12.15	12.16
Overdraft rate	11.79	11.24	11.15	11.51	11.61	11.66	11.57	11.18	11.44	11.38	11.34	11.33	11.41	11.48
1-5years	12.20	12.07	11.62	12.13	12.15	12.19	12.20	12.24	12.28	12.29	12.29	12.29	12.34	12.33
Over 5years	12.11	11.98	12.12	12.12	12.11	12.15	12.11	12.12	12.17	12.24	12.21	12.25	12.23	12.24
Average deposit rate (2)	7.07	6.86	6.41	6.30	6.46	6.30	6.30	6.37	6.34	6.30	6.34	6.39	6.43	6.50
0-3months	7.42	7.11	6.47	6.66	6.68	6.74	6.63	6.76	6.63	6.59	6.61	6.64	6.76	6.91
Over 3 months deposit	7.56	7.40	7.07	6.97	6.89	6.88	7.03	7.08	7.10	7.03	7.04	7.15	7.16	7.19
Savings deposits	4.15	4.15	3.78	2.70	3.48	2.66	2.55	2.55	2.51	2.64	2.57	2.58	2.60	2.55
Spread (1-2)	5.02	5.02	5.34	5.73	5.58	5.78	5.76	5.64	5.76	5.82	5.76	5.72	5.72	5.66

Source: Central Bank of Kenya

Chapter 3

Economic Performance

Overview

The economy rebounded strongly in the first three quarters of 2021, supported by easing of COVID-19 restrictions and prompt Government interventions. Recent Kenya National Bureau of Statistics (KNBS) data provided clear evidence that the economy has been on a strong recovery path since 2020Q4. The growth momentum remained strong in the third quarter of 2021, with the economy growing by 9.9 percent compared to a contraction of 2.1 percent in the third quarter of 2020. The strong performance was supported by continued recovery in manufacturing, construction, transport and storage, education, accommodation and food services, and wholesale and retail trade. The agricultural sector remained subdued following unfavorable weather conditions in most parts of the country, which affected crop production.

At the same time, KNBS revised real GDP growth rates for the first and second quarters of 2021 to 2.0 percent and 11.9 percent, respectively. Taken together, the economy expanded in the first three quarters of 2021 by 7.8 percent compared to a contraction of 0.8 percent in a similar period of 2020 (**Table 3.1**).

Non-Agriculture

Non-agriculture sector output rebounded strongly in the first three quarters of 2021, supported by continued normalization of economic activity in industry and services sectors. It grew by 10.1 percent compared to a contraction of 2.1 percent in a similar period of 2020, and contributed 8.2 percentage points to real GDP growth (**Table 3.1**).

a) Services sector recovered strongly following easing of domestic and international COVID-19 restrictions. It grew by 10.6 percent in the first three quarters of 2021 compared to a contraction of 2.6 percent in a similar period of 2020, and contributed 5.8 percentage points to real GDP growth. In the third quarter, the sector grew by 13.0 percent, driven by significant growth in transport and storage, wholesale and retail trade, education, health, and accommodation and food services.

- **Transport and Storage sector** grew by 6.3 percent in the first three quarters of 2021 compared to a contraction of 8.4 percent in a similar period of 2020. Strong rebound was

witnessed in 2021Q2 and 2021Q3 at 17.4 percent and 13.0 percent, respectively, following lifting of domestic and international travel restrictions. The increased activity in the sector was reflected in higher diesel consumption (25.3 percent) and freight movement through standard gauge railway, SGR (0.1 percent).

- **Education sector** was a major beneficiary of the re-opening of the economy. The sector rebounded strongly by 44.3 percent in the first three quarters of 2021 compared to a contraction of 12.6 percent in a similar period of 2020. The strongest recovery was witnessed in 2021Q2 and 2021Q3, where the sector grew by 67.6 percent and 64.7 percent, respectively, following normalization of education related activity.
- **Wholesale and Retail Trade sector** rebounded by 7.9 percent in the first three quarters of 2021 compared to a contraction of 1.4 percent in a similar period of 2020.
- **Information and Communication sector** expanded by 15.2 percent in the first three quarters of 2021 compared to a modest growth of 3.8 percent in a similar period of 2020. The sector was supported by continued digitization of the economy geared towards surmounting the challenges imposed by COVID-19 shock.
- **Accommodation and Food services sector:** despite gradual opening of the economy, the sector contracted by 19.5 percent in the first three quarters of 2021. The subdued outcome is attributed to poor performance in 2021Q1 at -48.6 percent, which more than offset the gains reported in 2021Q2 and 2021Q3. The sector continues to gradually recover from the adverse effects of the COVID-19 pandemic, following easing of domestic and international restrictions.

b) Industry rebounded strongly in the first three quarters of 2021, following normalization of industrial activity. It expanded by 7.1 percent compared to 2.7 percent for a similar period in 2020, supported by continued strong activity of the manufacturing and construction sectors. It contributed 1.3 percentage points to real GDP growth (**Table 3.1**).

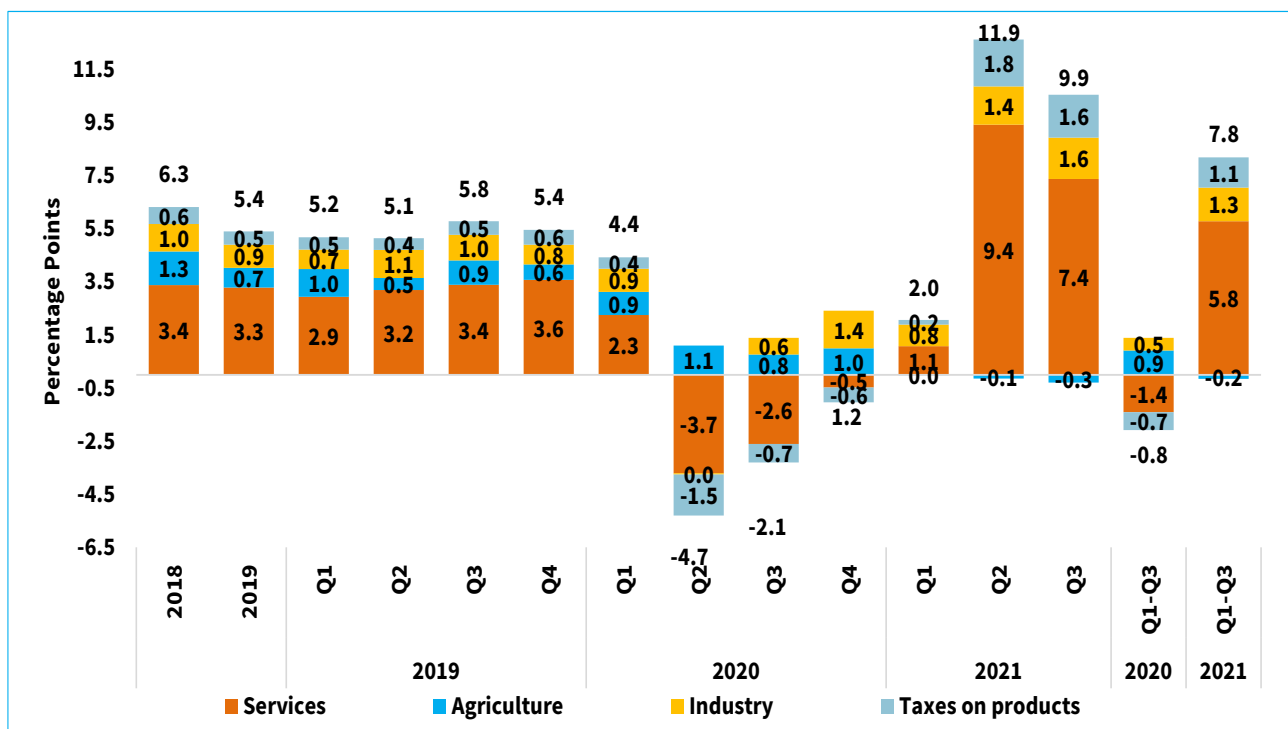
- **Manufacturing sector** recorded robust growth of 6.7 percent in the first three quarters of 2021 compared to a contraction of 1.4 percent in a similar period of 2020, supported by continued normalization of activity. In particular, it grew by 9.5 percent in 2021Q3, reflecting higher production of food products which increased by 8.6 percent.
- **Construction sector** by 6.9 percent in the first three quarters of 2021 compared to 10.4 percent in a similar period of 2020. Growth in the sector remained strong, supported by continued Government investment in infrastructure projects. This was reflected in increased cement consumption by 27.5 percent.

Agriculture

Agriculture sector performance was subdued following unfavorable weather conditions in most parts of the country, which affected crop production. It contracted by 0.8 percent in the first three quarters of 2021 compared to a growth of 4.5 percent in a similar period in 2020, and contributed -0.2 percentage points to real GDP growth (Tables 3.1 and 3.2).

The sector contracted by 1.8 percent in 2021Q3, reflected in declined tea production (5.9 percent), coffee production (24.1 percent), fruit exports (19.9 percent), and cane deliveries (5.6 percent). However, the following indicators showed improved performance in 2021Q3: milk intake (21.9 percent), vegetable exports (14.5 percent), and cut flowers (44.8 percent).

Chart 3.1: Sectoral Contributions to Real GDP Growth (Percentage Points)



Source: Central Bank of Kenya

Table 3.1: Gross Domestic Product (GDP) Growth by Sector (Percent)

	2020				2021			2020 (Q1-Q3)	2021 (Q1-Q3)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
1. Agriculture	4.3	4.9	4.2	5.8	-0.1	-0.7	-1.8	4.5	-0.8
2.1 Industry	4.8	-0.3	3.5	7.8	4.5	8.4	8.5	2.7	7.1
Mining & Quarrying	6.4	4.4	7.0	9.2	16.4	17.7	25.1	5.9	19.6
Manufacturing	2.2	-4.7	-1.7	3.8	1.6	9.4	9.5	-1.4	6.7
Electricity & water supply	1.5	-4.7	0.2	3.5	2.0	5.2	4.5	-1.0	3.9
Construction	10.4	8.2	12.5	16.2	7.9	6.5	6.4	10.4	6.9
2.2 Services	4.2	-7.1	-4.7	-0.9	2.0	17.3	13.0	-2.6	10.6
Wholesale & Retail Trade	4.9	-4.2	-5.0	2.6	7.4	9.5	6.9	-1.4	7.9
Accommodation & restaurant	-8.1	-56.8	-63.4	-62.2	-48.6	9.4	24.8	-42.0	-19.5
Transport & Storage	2.2	-16.8	-10.1	-6.1	-9.1	17.4	13.0	-8.4	6.3
Information & Communication	5.6	2.6	3.2	7.6	16.1	25.3	5.8	3.8	15.2
Financial & Insurance	7.5	4.4	3.0	7.4	8.3	12.3	6.7	4.9	9.1
Public administration	4.0	2.7	6.3	8.4	9.1	13.0	6.9	4.3	9.7
Professional, Administration & Support Services	0.3	-27.5	-19.7	-12.1	-14.4	17.7	13.5	-16.0	4.1
Real estate	5.4	4.6	3.7	2.7	4.5	4.9	5.2	4.6	4.9
Education	1.8	-22.4	-17.4	-5.3	10.0	67.6	64.7	-12.6	44.3
Health	7.4	9.8	5.2	4.7	9.1	10.0	8.4	7.5	9.2
Other services	-1.5	-22.1	-12.9	-20.4	-16.1	20.2	13.3	-12.1	4.4
FISIM	-2.9	0.5	-2.3	-2.9	0.3	-3.8	-2.0	-1.6	-1.8
2.3 Taxes on products	5.1	-20.8	-8.5	-6.4	2.0	21.9	18.2	-8.5	13.4
Real GDP Growth	4.4	-4.7	-2.1	1.2	2.0	11.9	9.9	-0.8	7.8

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral Contributions to Real GDP Growth Rate (Percentage Points)

	2020				2021			2020 (Q1-Q3)	2021 (Q1-Q3)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
1. Agriculture	0.9	1.1	0.8	1.0	0.0	-0.1	-0.3	0.9	-0.2
2. Non-Agriculture (o/w)	3.5	-5.6	-2.8	0.3	2.1	12.5	10.5	-1.7	8.2
2.1 Industry	0.8	0.0	0.6	1.5	0.8	1.4	1.6	0.5	1.3
Mining & Quarrying	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.1	0.2
Manufacturing	0.2	-0.4	-0.1	0.3	0.1	0.8	0.8	-0.1	0.6
Electricity & water supply	0.0	-0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.1
Construction	0.6	0.5	0.8	1.0	0.5	0.4	0.4	0.6	0.4
2.2 Services	2.3	-3.7	-2.6	-0.5	1.1	9.4	7.4	-1.4	5.8
Wholesale & Retail Trade	0.4	-0.3	-0.4	0.2	0.6	0.7	0.6	-0.1	0.6
Accommodation & restaurant	-0.1	-0.3	-0.3	-0.3	-0.3	0.0	0.1	-0.3	-0.1
Transport & Storage	0.2	-1.5	-1.0	-0.6	-0.8	1.6	1.3	-0.8	0.6
Information & Communication	0.2	0.1	0.1	0.3	0.5	0.8	0.2	0.1	0.5
Financial & Insurance	0.6	0.3	0.3	0.7	0.7	1.0	0.5	0.4	0.7
Public administration	0.2	0.2	0.4	0.5	0.5	0.8	0.4	0.3	0.6
Professional, Administration & Support Services	0.0	-0.6	-0.5	-0.3	-0.3	0.4	0.4	-0.4	0.1
Real estate	0.5	0.5	0.4	0.3	0.5	0.5	0.5	0.5	0.5
Education	0.1	-0.8	-0.7	-0.2	0.5	3.7	3.9	-0.5	2.4
Health	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Other services	0.0	-0.4	-0.3	-0.4	-0.3	0.4	0.3	-0.3	0.1
FISIM	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1
2.3 Taxes on products	0.4	-1.5	-0.7	-0.6	0.2	1.8	1.6	-0.7	1.1
Real GDP Growth	4.4	-4.7	-2.1	1.2	2.0	11.9	9.9	-0.8	7.8

Source: Kenya National Bureau of Statistics and Staff computations

Chapter 4

Global Economy

According to the IMF's World Economic Outlook January 2022 update, growth of the global economy is estimated to have increased by 5.9 percent in 2021 and is expected to moderate to 4.4 percent in 2022, largely driven by lower economic activity in the world's two largest economies (the United States and China).

Growth in advanced economies is estimated to have increased by 5.0 percent in 2021 and is expected to moderate to 3.9 percent in 2022, reflecting persistent supply chain challenges and weak policy responses. Growth in emerging market and developed economies (EMDEs) is expected at 6.5 percent in 2021 and is anticipated to be lower at 4.8 percent in 2022, largely impacted by newly introduced COVID-19 restriction measures and uneven vaccine distribution (**Table 4.1**). Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 4.0 percent in 2021 and 3.7 percent in 2022. Nigeria and South Africa are expected to grow at rates of 3.0 percent and 4.6 percent in 2021, respectively, and 2.7 percent and 1.9 percent in 2022.

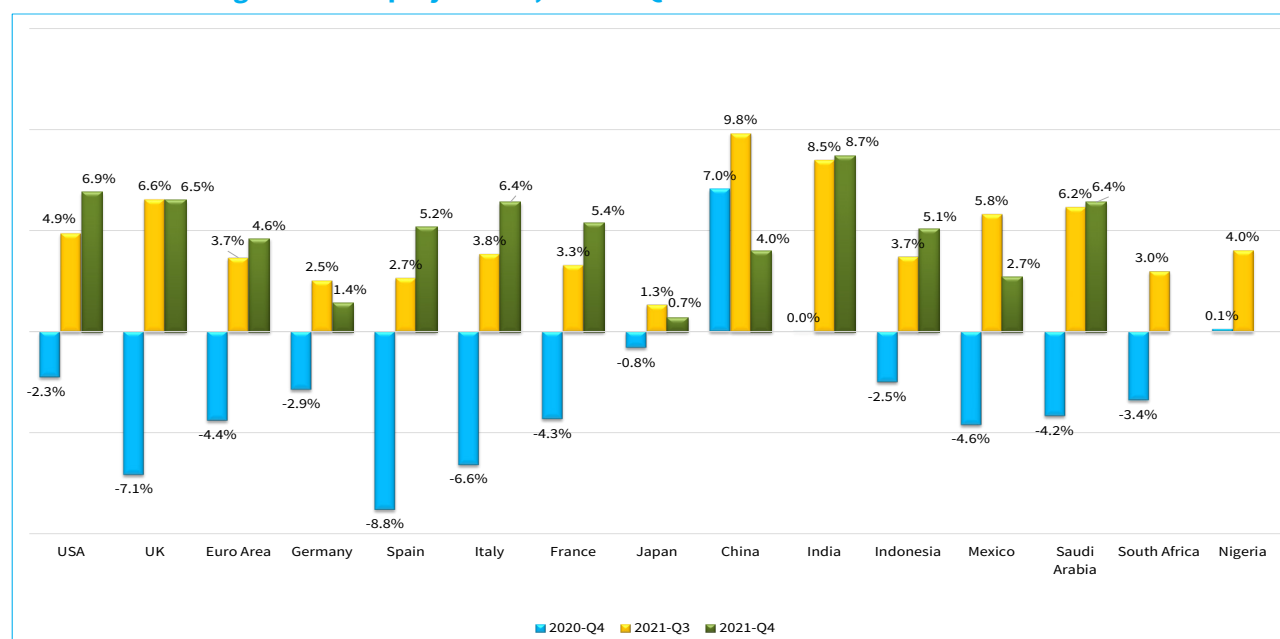
Official preliminary GDP estimates released for the fourth quarter of 2021 show growth in the United

States of 6.9 percent, United Kingdom (6.5 percent), Euro Area (4.6 percent), Italy (6.4 percent), Spain (5.2 percent), France (5.4 percent), Germany (1.4 percent) and China (4.0 percent) (**Chart 4.1**).

Growth in global trade volumes is estimated to have increased by 9.3 percent in 2021 and is forecast to moderate to 6.0 percent in 2022 as supply chain challenges abate. Global oil prices are projected to have increased by 67.3 percent in 2021 and are expected to rise by 11.9 percent in 2022 reflecting a balanced oil market and a build-up of inventories. Global financial conditions volatilities rose reflecting increased inflation concerns in the advanced economies and some EMDEs. In the near-term, inflation is expected to remain elevated to average 3.9 percent in advanced economies and 5.9 percent in EMDEs in 2022, before subsiding in 2023 (**Table 4.1**).

Uncertainties in the global economic outlook have also increased, reflecting elevated risks from COVID-19 variants, supply chain disruptions, oil price volatility, and inflation developments. The risk of increased volatility in the global financial markets remains high as a result of uncertainties regarding policy actions in the advanced economies.

Chart 4.1: Global growth and projections, Fourth Quarter-2021



Source: National statistics offices, Bloomberg surveys

Table 4.1: Growth Performance and Outlook for the Global Economy (percent)

	Annual Year over Year				Quarterly Q4 Over Q4		
	Actual	Estimate	Projections		Estimate	Projections	
	2020	2021	2022	2023	2021	2022	2023
World Output	-3.1	5.9	4.4	3.8	4.2	3.9	3.4
Advanced Economies	-4.5	5.0	3.9	2.6	4.4	3.5	1.8
United States	-3.4	5.6	4.0	2.6	5.3	3.5	2.0
Euro Area	-6.4	5.2	3.9	2.5	4.8	3.2	1.8
Germany	-4.6	2.7	3.8	2.5	1.9	4.2	1.6
France	-8.0	6.7	3.5	1.8	5.0	1.9	1.7
Italy	-8.9	6.2	3.8	2.2	6.2	2.5	1.7
Spain	-10.8	4.9	5.8	3.8	4.9	5.0	2.5
Japan	-4.5	1.6	3.3	1.8	0.4	3.6	1.1
United Kingdom	-9.4	7.2	4.7	2.3	6.3	3.8	0.5
Canada	-5.2	4.7	4.1	2.8	3.5	3.9	1.9
Emerging Market and Developing Economies	-2.0	6.5	4.8	4.7	4.0	4.3	4.8
China	2.3	8.1	4.8	5.2	3.5	5.1	5.0
India	-7.3	9.0	9.0	7.1	4.3	5.8	7.5
Russia	-2.7	4.5	2.8	2.1	4.2	2.1	1.8
Brazil	-3.9	4.7	0.3	1.6	0.6	1.5	1.4
Mexico	-8.2	5.3	2.8	2.7	2.9	3.4	1.9
Saudi Arabia	-4.1	2.9	4.8	2.8	5.2	5.3	2.8
Sub-Saharan Africa	-1.7	4.0	3.7	4.0
Nigeria	-1.8	3.0	2.7	2.7	2.4	2.1	2.3
South Africa	-6.4	4.6	1.9	1.4	1.3	2.6	0.9
World Trade Volume (goods and services)	-8.2	9.3	6.0	4.9
Commodity Oil Prices (US dollars)	-32.7	67.3	11.9	-7.8	79.2	-4.7	-6.8
Consumer Prices							
Advanced Economies	0.7	3.1	3.9	2.1	4.8	2.8	2.0
Emerging Market and Developing Economies	5.1	5.7	5.9	4.7	5.9	5.1	4.3

Source: IMF, World Economic Outlook, January 2022 updates

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account deficit is estimated to have widened to USD 1,490 million in the fourth quarter of 2021 from USD 1,269 million in the fourth quarter of 2020, on account of increased imports that offset gains in agriculture exports, services receipts and

diaspora remittances. Secondary income inflows increased to USD 1,701 million in the fourth quarter of 2021 from USD 1,303 million in a similar quarter of 2020 boosted by remittances. **(Table 5.1).**

Table 5.1: Balance of payments (USD Million)¹

ITEM	2020		2021*							Q4 2021-Q4 2020	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Q4					%
	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Oct-Dec	Change	Change
1. Overall Balance	959	414	229	-1,666	271	182	145	74	402	-12	-3
2. Current account	-1,343	-1,269	-1,294	-1,462	-1,691	-333	-509	-648	-1,490	-221	17
Exports (fob)	1,513	1,480	1,739	1,668	1,614	537	580	593	1,710	230	16
Imports (fob)	3,649	3,807	4,357	4,187	4,561	1,551	1,581	1,942	5,074	1,267	33
Services: credit	832	1,007	1,012	988	1,152	580	485	643	1,707	700	70
Services: debit	802	908	932	958	1,042	384	385	414	1,183	276	30
Balance on goods and services	-2,105	-2,227	-2,537	-2,489	-2,837	-819	-901	-1,120	-2,840	-613	28
Primary income: credit	40	27	30	39	54	39	47	55	141	114	427
Primary income: debit	487	334	200	521	463	95	188	192	475	141	42
Balance on goods, services, and primary income	-2,552	-2,534	-2,707	-2,971	-3,245	-875	-1,041	-1,257	-3,174	-640	25
Secondary income : credit	1,234	1,303	1,425	1,544	1,602	548	538	615	1,701	397	30
o.w Remittances	812	828	848	941	979	344	320	351	1,015	187	23
Secondary income: debit	25	38	12	34	47	6	6	6	17	-22	-56
3. Capital Account	36	29	72	68	35	3	4	12	19	-10	-34
4. Financial Account	-366	-355	-983	-3,115	-1,657	226	139	87	451	806	-227

Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The balance on trade in goods and services is estimated to have deteriorated by 28 percent from a deficit of USD 2,227 million in the fourth quarter of 2020 to a deficit of USD 2,840 million in the fourth quarter of 2021, largely on account increased imports **(Table 5.1)**. In the fourth quarter of 2021, the value of merchandise exports increased to USD 1,710 million from USD 1,480 million in a similar period in 2020, supported by increases in tea, manufactured goods, raw materials and chemicals. Exports of manufactured goods and raw materials increased by 29 percent and 48 percent, respectively in the period under review. Tea export receipts increased by 12 percent to USD

315 million in the fourth quarter of 2021, from USD 282 million in the same quarter of 2020, supported by improved demand from traditional markets. However, horticulture receipts declined by 6 percent attributed to decreases in earnings from fruits and vegetables. The value of merchandise imports increased by 33 percent to USD 5,074 million in the fourth quarter of 2021, from USD 3,807 million in a similar quarter in 2020, largely due to higher imports of petroleum products. Oil imports rose by USD 513 million reflecting rising oil prices in the international market **(Table 5.2)**.

Net receipts on the services account rose by USD 424 million to a surplus of USD 524 million in the fourth quarter of 2021, compared to a surplus of USD 99 million in the same period in 2020.

Transport and travel service receipts rose by USD 250 million and USD 96 million respectively, in the fourth quarter of 2021, mainly supported by the resumption in international travel. The primary account balance widened by USD 27 million to a deficit of USD 334 million in the fourth quarter of 2021 from a deficit of USD 307 million in the same period last year, attributed to increased payments

on portfolio investments. The secondary income balance, on the other hand, increased to USD 1,684 million in the fourth quarter of 2021 from USD 1,265 million, mainly supported by robust growth of remittances. Remittances increased by 23 percent to USD 1,015 million in the fourth quarter of 2021 from USD 828 million in the same period in the previous year.

Table 5.2: Balance on current account (USD Million)

ITEM	2020		2021*							Q4 2021-Q4 2020	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				Absolute Change	% Change
	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4		
CURRENT ACCOUNT	-1,343	-1,269	-1,493	-1,398	-1,691	-333	-509	-648	-1,490	-221	17
Goods	-2,136	-2,327	-2,592	-2,543	-2,946	-1,015	-1,000	-1,348	-3,363	-1,037	45
Exports (fob)	1,513	1,480	1,739	1,670	1,614	537	580	593	1,710	230	16
o.w Coffee	47	43	75	73	50	16	17	18	50	8	18
Tea	282	282	326	299	253	93	109	113	315	33	12
Horticulture	233	265	334	289	255	84	89	77	250	-15	-6
Oil products	18	15	11	13	17	2	6	5	13	-1	-8
Manufactured Goods	108	107	106	131	131	49	43	46	139	32	29
Raw Materials	76	80	115	96	103	51	28	40	119	39	48
Chemicals and Related Products (n.e.s)	118	124	113	126	147	50	42	40	132	8	6
Miscellaneous Man. Articles	163	154	144	181	179	61	54	54	168	14	9
Re-exports	174	114	196	150	145	60	79	76	215	102	89
Other	286	290	311	302	322	119	106	119	344	54	19
Imports (fob)	3,649	3,807	4,331	4,213	4,561	1,551	1,581	1,942	5,074	1,267	33
o.w Oil	526	554	715	782	920	328	364	375	1,067	513	92
Chemicals	682	631	774	750	740	262	281	299	842	211	33
Manufactured Goods	719	784	910	879	967	299	289	301	889	106	13
Machinery & Transport Equipment	1,081	1,049	1,076	1,008	1,141	377	366	696	1,439	389	37
Machinery	697	689	698	646	737	257	245	264	766	77	11
Transport equipment	384	361	377	362	404	120	121	432	673	312	87
Other	714	938	1,023	901	1,012	318	361	327	1,005	67	7
o.w Food	334	395	474	434	462	182	161	140	483	89	22
Services	30	99	-7	38	110	196	99	228	524	424	427
Transport Services (net)	-57	-38	-88	-77	-83	34	-22	10	22	60	-159
Credit	222	298	298	306	336	197	150	201	548	250	84
Debit	279	336	386	383	418	163	172	191	526	190	56
Travel Services (net)	107	130	139	174	181	84	63	69	216	86	66
Credit	134	158	168	206	215	94	75	85	254	96	61
Debit	27	28	28	32	34	11	12	16	39	10	36
Other Services (net)	-19	8	-58	-59	11	78	58	149	286	278	3,538
Primary Income	-447	-307	-276	-472	-409	-57	-140	-137	-334	-27	9
Credit	40	27	38	46	54	39	47	55	141	114	427
Debit	487	334	315	517	463	95	188	192	475	141	42
Secondary Income	1,209	1,265	1,383	1,579	1,554	542	532	610	1,684	419	33
Credit	1,234	1,303	1,400	1,597	1,602	548	538	615	1,701	397	30
Debit	25	38	17	18	47	6	6	6	17	-22	-56

*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

Direction of Trade

Imports from China accounted for 22 percent of total imports to Kenya making it the largest single source of imports, reflecting a 21 percent increase when compared to the same quarter in 2020. Imports from the European Union declined by USD 74 million, while those from Africa rose by USD 89 million to USD 574 million in the fourth quarter

of 2021, reflecting higher imports from the East African Community (EAC) region. Total imports from Common Market for Eastern and Southern Africa (COMESA) region increased to 296 million, while that of EAC region increased to USD 229 million in the fourth quarter of 2021 (**Table 5.3**).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)										Share of Imports (%)	
	2020		2021								
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec					
Country	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q4 2020	Q4 2021
Africa	412	485	482	478	528	189	230	154	574	13	11
Of which											
South Africa	108	87	99	107	100	38	33	26	97	2	2
Egypt	107	120	111	111	108	29	42	44	115	3	2
Others	197	278	272	261	319	122	155	84	361	7	7
EAC	141	149	175	167	238	82	93	53	229	4	5
COMESA	214	295	284	259	244	85	121	89	296	8	6
Rest of the World	3,236	3,321	3,826	3,711	4,084	1,362	1,350	1,788	4,500	87	89
Of which											
India	426	434	457	555	707	173	184	203	561	11	11
United Arab Emirates	181	283	347	359	238	179	114	211	504	7	10
Japan	205	218	205	219	284	88	70	87	245	6	5
USA	129	118	184	148	240	70	63	63	196	3	4
United Kingdom	69	71	82	75	72	20	28	32	80	2	2
Singapore	14	26	9	14	13	4	28	24	57	1	1
Germany	117	70	108	86	129	19	25	26	70	2	1
Saudi Arabia	213	128	239	169	229	134	120	62	316	3	6
Indonesia	93	141	138	103	87	28	30	17	75	4	1
Netherlands	127	140	97	143	91	14	27	56	97	4	2
France	53	56	57	48	57	12	16	16	44	1	1
Bahrain	2	33	6	5	6	0	2	6	8	1	0
Italy	50	70	55	57	70	13	15	16	43	2	1
Others	1,555	1,532	1,842	1,730	1,861	607	628	969	2,204	40	43
Total	3,649	3,807	4,308	4,189	4,611	1,551	1,581	1,942	5,074	100	100
EU	597	589	603	566	679	118	162	235	515	15	10
China	969	903	975	946	694	385	325	385	1,095	24	22

Source: Kenya Revenue Authority

In the fourth quarter of 2021, the value of merchandise exports to Africa was USD 736 million, accounting for 43 percent of total exports. Exports to EAC region rose mainly due to increase in exports to Uganda and Tanzania. The proportion of exports to

the EU was 21.7 percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 8.1 percent, 6.3 percent, 7.9 percent, and 8.5 percent, respectively (**Table 5.4**).

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)										Share of Exports (%)	
	2020		2021*								
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Aug	Oct-Dec					
Country	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q4 2020	Q4 2021
Africa	614	588	639	732	669	249	239	249	736	40	43
Of which											
Uganda	199	173	201	218	175	83	86	65	233	12	14
Tanzania	76	82	76	83	117	56	36	37	129	6	8
Egypt	34	49	59	44	40	14	17	20	50	3	3
Sudan	14	19	18	22	18	2	0	6	8	1	0
South Sudan	56	40	50	35	34	9	13	14	36	3	2
Somalia	34	24	25	31	36	10	10	11	30	2	2
DRC	35	35	35	117	39	11	11	12	34	2	2
Rwanda	70	65	51	61	66	27	24	44	95	4	6
Others	96	101	124	122	143	38	43	40	121	7	7
EAC	418	373	394	411	415	182	164	164	509	25	30
COMESA	417	400	439	554	449	161	166	172	499	27	29
Rest of the World	899	893	1,100	938	944	288	342	345	974	60	57
Of which											
United Kingdom	112	114	137	108	97	37	37	33	108	8	6
Netherlands	116	130	159	141	125	43	53	43	138	9	8
USA	122	119	125	126	158	43	48	44	135	8	8
Pakistan	123	118	127	110	102	40	54	51	145	8	8
United Arab Emirates	73	61	96	63	73	24	29	30	83	4	5
Germany	37	29	50	24	28	8	10	9	28	2	2
India	17	34	37	15	23	8	8	5	20	2	1
Afghanistan	2	1	1	1	1	1	1	1	2	0	0
Others	297	286	368	351	336	84	102	129	315	19	18
Total	1,513	1,480	1,739	1,670	1,614	537	580	593	1,710	100	100
EU	350	344	439	370	347	117	127	115	359	23	21
China	30	32	59	44	37	26	9	25	60	2	4

Source: Kenya Revenue Authority

Capital and Financial Account

Net capital account inflows decreased by USD 10 million to USD 19 million in the fourth quarter of 2021. The financial account recorded a net outflow of USD 451 million in the fourth quarter of 2021,

compared to net inflows of USD 355 in the fourth quarter of 2020, reflecting debt repayments (**Table 5.5**).

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

	2020		2021*							Q4 2021-Q4 2020	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				Absolute	%
	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Change	Change
Capital account credit	36	29	84	68	35	3	4	12	19	-10	-34
Capital account credit	36	29	84	68	35	3	4	12	19	-10	-34
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0
Financial Account	-366	-355	-1,077	-3,115	-1,657	226	139	87	451	806	-227
Direct investment: assets	5	-1	-1	475	1	-2	-2	-3	-7	-6	598
Direct investment: liabilities	117	132	86	88	161	73	67	54	195	63	47
Portfolio investment: assets	252	242	213	282	269	110	75	77	262	21	8
Portfolio investment: liabilities	-3	15	78	1,107	40	-8	-37	-24	-68	-83	-571
Financial derivatives: net	-4	-35	-1	-13	-10	-7	-1	-6	-14	22	-61
Other investment: assets	-103	993	402	-332	-286	150	-362	528	316	-677	-68
Other investment: liabilities	403	1,407	1,526	2,332	1,431	-42	-458	480	-20	-1,427	-101

* Provision

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 14,219 million at the end of the fourth quarter of 2021 from USD 12,992 million in a similar period in 2020. The Official reserves held by the Central Bank constituted the

bulk of the gross reserves and increased to USD 9,491 million, equivalent to 5.6 months of import cover, while Commercial Bank reserves increased by USD 34 million to end at USD 4,728 million at the end of fourth quarter of 2020 (**Table 5.6**).

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

	2020		2021						
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec			
	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4
1. Gross Reserves	12,585	12,992	12,850	14,741	14,089	14,029	13,503	14,219	14,219
of which:									
Official	8,765	8,297	7,741	9,957	9,632	9,450	9,306	9,491	9,491
import cover*	5.4	5.1	4.7	6.1	5.9	5.7	5.6	5.6	5.6
Commercial Banks	3,820	4,695	5,109	4,784	4,457	4,579	4,197	4,728	4,728
2. Residents' foreign currency deposits	6,448	7,076	7,362	7,223	7,144	7,137	7,269	7,277	7,277

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

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling exchange rate remained relatively stable despite the impact of COVID-19 on global financial conditions supported by resilient receipts from tea and horticulture exports, and strong diaspora remittances as well as improved service receipts due to a recovery in international travel. Against the US Dollar, the Kenya Shilling

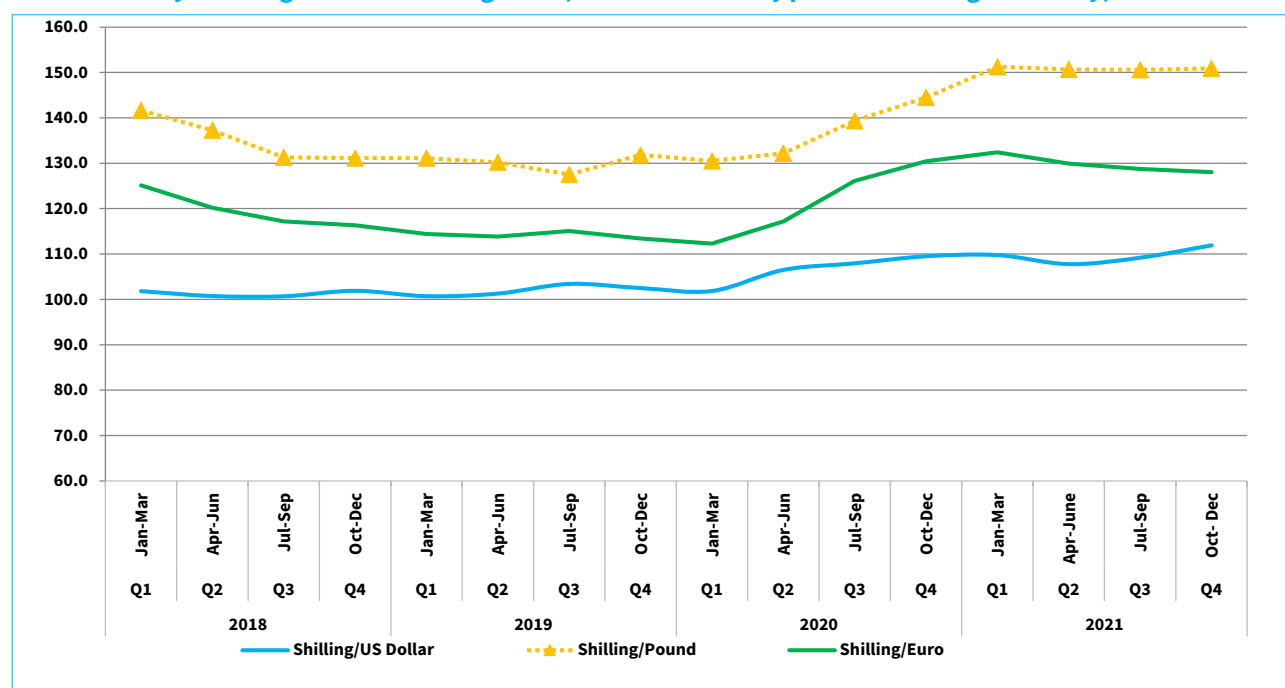
exchanged at an average of 111.90 in the fourth quarter of 2021 compared with 109.49 in a similar quarter in 2020. In the EAC region, it strengthened against the Uganda and Tanzania shilling and weakened against Rwanda and Burundi Franc (**Table 5.7 and Chart 5.1**).

Table 5.7: Kenya Shilling exchange rate

		2021								Q4 2021- Q4 2020 % change
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Jul-Sep				
	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	
US Dollar	107.94	109.49	109.75	107.76	109.18	110.86	111.92	112.91	111.90	2.20
Pound Sterling	139.35	144.50	151.25	150.67	150.58	151.58	150.97	150.15	150.90	4.43
Euro	126.12	130.44	132.43	129.91	128.75	128.60	127.94	127.64	128.06	-1.83
100 Japanese Yen	101.70	104.79	103.71	98.52	99.18	98.03	98.19	99.20	98.47	-6.03
South Africa Rand	6.38	7.00	7.33	7.62	7.47	7.44	7.23	7.10	7.26	3.63
Uganda Shilling*	34.20	33.78	33.48	33.17	32.43	32.28	31.74	31.49	31.84	-5.76
Tanzania Shilling*	21.50	21.18	21.22	21.52	21.24	20.78	20.57	20.20	20.52	-3.15
Rwanda Franc*	8.92	8.98	9.04	9.29	9.24	9.17	9.15	9.18	9.17	2.04
Burundi Franc*	17.87	17.69	17.71	18.26	18.17	17.94	17.99	17.65	17.86	0.97

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling nominal exchange rate (domestic currency per unit of foreign currency)

Source: Central Bank of Kenya

Chapter 6

Banking Sector

Overview

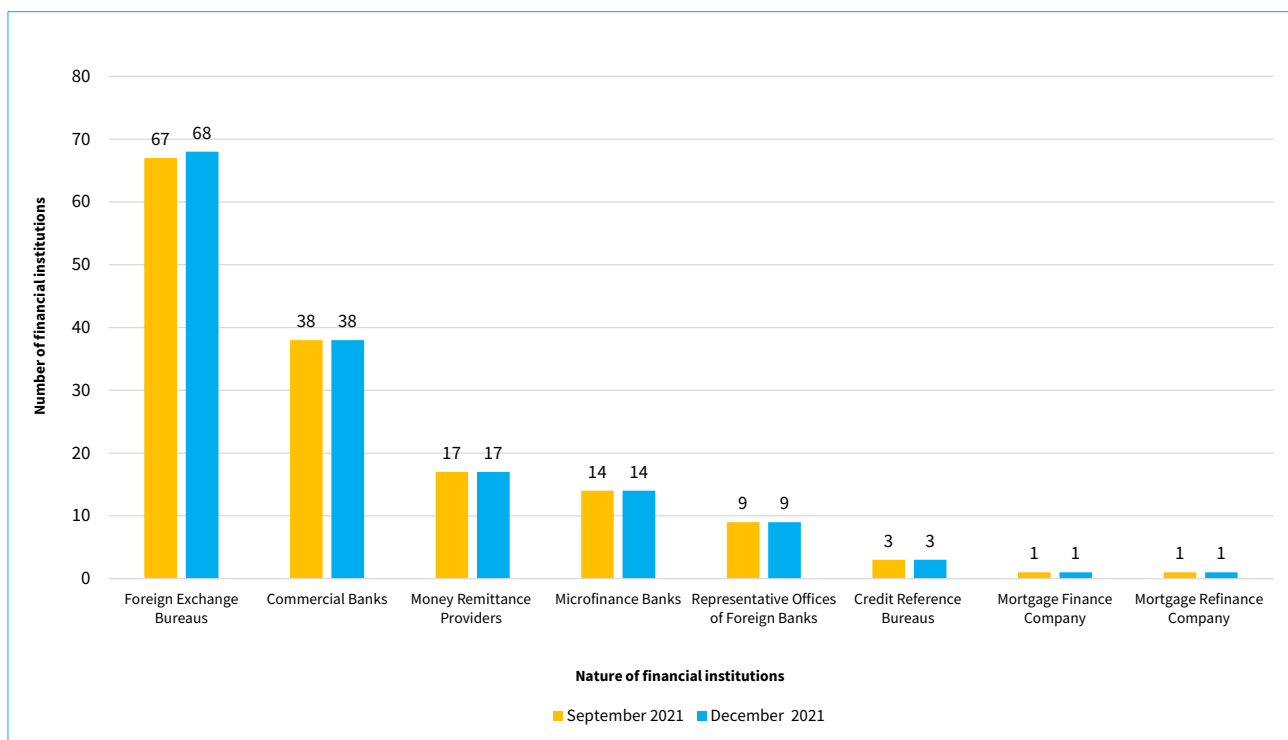
The banking sector remained stable and resilient in the fourth quarter of 2021. Total net assets increased by 3.2 percent to Ksh 6,008.0 billion in December 2021, from Ksh 5,822.1 billion in September 2021. The deposit base also increased by 2.2 percent to Ksh 4,441.9 billion in the fourth quarter of 2021, from Ksh 4,345.7 billion in the third quarter of 2021. The sector was well capitalized with capital adequacy of 19.6 percent, which was above the minimum capital requirement (14.5 percent). Similarly, the sector remained profitable in the fourth quarter of 2021, with quarterly profit before tax of Ksh 49.3 billion, a marginal increase from Ksh 49.1 billion reported in the third quarter of 2021. Credit risk remained elevated but easing with gross non-performing

loans (NPLs) to gross loans ratio standing at 13.1 percent in the fourth quarter of 2021, as compared to 13.6 percent in third quarter of 2021

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks¹, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 68 Foreign Exchange Bureaus, 17 Money Remittance Providers and 3 Credit Reference Bureaus as at December 31, 2021. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

¹ Excludes Charterhouse Bank Limited, Chase Bank (K) Limited and Imperial Bank Limited, which are in Liquidation.

Structure of the Balance Sheet

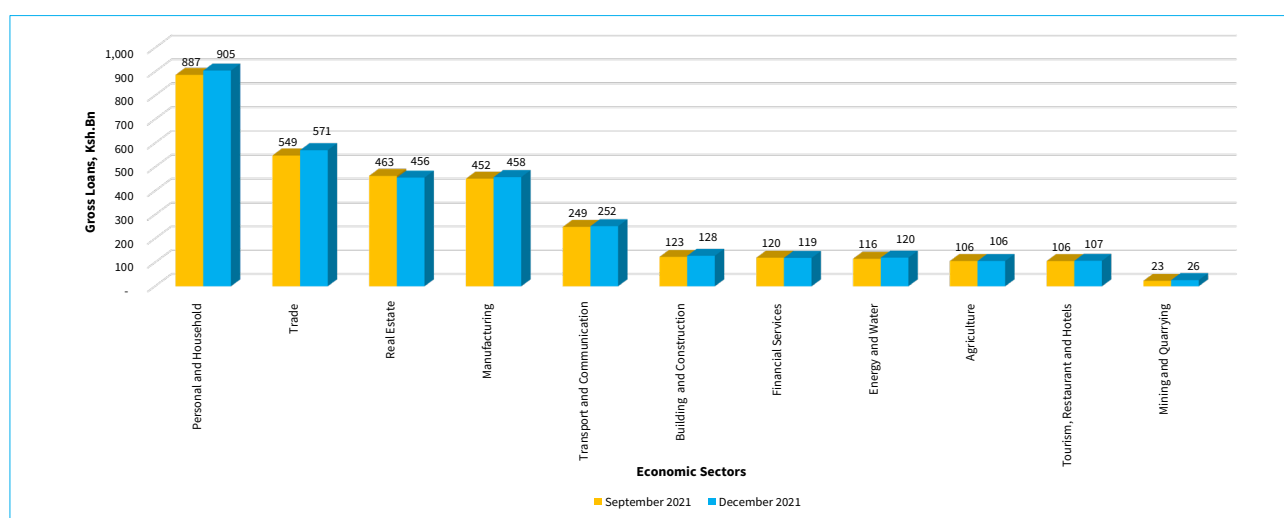
i) Growth in banking sector assets

Total net assets increased by 3.2 percent to Ksh 6,008.0 billion in December 2021, from Ksh 5,822.1 billion in September 2021. The increase in total net assets was mainly recorded in loans and advances by Ksh 54.0 billion (5.7 percent), placements by Ksh 42.8 billion (12.7 percent) and government securities by Ksh 36.2 billion (1.9 percent). Net loans and advances remained the main component of total net assets, accounting for 48.8 percent in the fourth quarter of 2021, a decrease from 49.4 percent recorded in the third quarter of 2021.

ii) Loans and Advances

Total banking sector lending increased by 1.7 percent, to Ksh 3,248.7 billion in the fourth quarter of 2021, from Ksh 3,193.3 billion in the third quarter of 2021. The increase in gross loans and advances was largely witnessed in the Trade, Personal and Household, and Manufacturing sectors. The general increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the third and fourth quarters of 2021, is highlighted in **Chart 6.2**.

Chart 6.2: Kenyan Banking Sector Gross Loans (KSh.Bn)

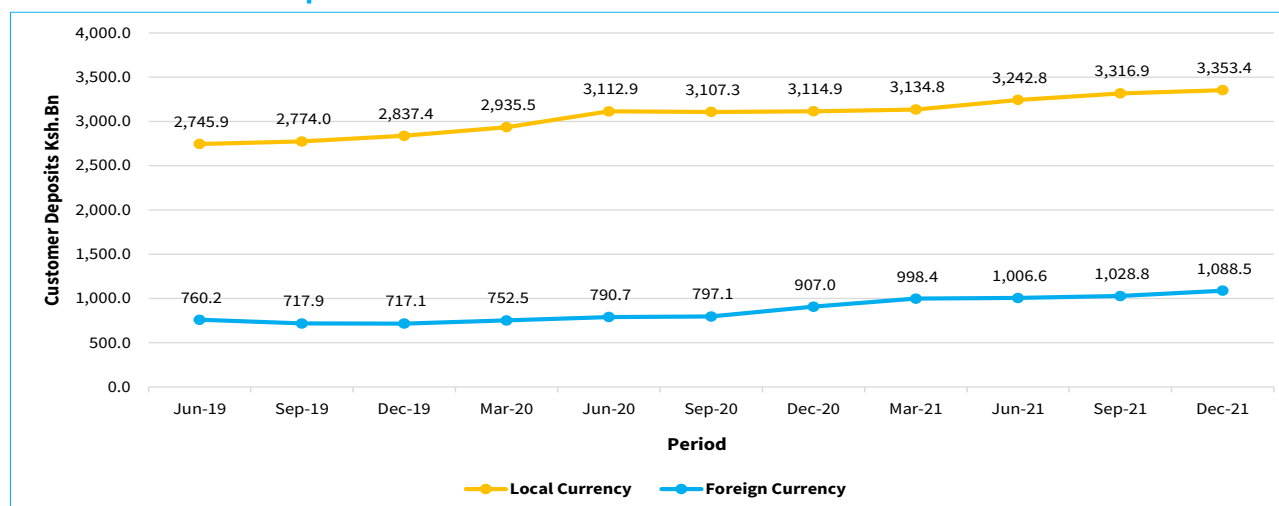


Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 73.9 percent of the banking sector total liabilities and shareholders' funds as at the end of the fourth quarter of 2021. The customer deposit base increased by 2.2 percent to Ksh 4,441.9 billion in the fourth quarter of 2021, from Ksh 4,345.7 billion in the third quarter of 2021. Local currency deposits increased by Ksh 36.5 billion (1.1

percent) to Ksh 3,353.4 billion in the fourth quarter of 2021, from Ksh 3,316.9 billion in the third quarter of 2021. Foreign currency deposits increased by Ksh 59.7 billion (5.8 percent) to Ksh 1,088.5 billion in the fourth quarter of 2021, from Ksh 1,028.8 billion in the third quarter of 2021. **Chart 6.3** shows the trend of deposit liabilities.

Chart 6.3: Customer deposits

Source: Central Bank of Kenya

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 5.1 percent to Ksh 757.3 billion in the fourth quarter of 2021, from Ksh 720.4 billion in the third quarter of 2021. Total capital also increased by 6.7 percent to Ksh 884.9 billion in the fourth quarter of 2021, from Ksh 829.5 billion in the third quarter of 2021. The increases in capital levels are mainly attributable to increased retained profits in the fourth quarter of 2021. Retained earnings increased by Ksh 34.03 billion (32.7 percent) from Ksh 14.2 billion in the third quarter of 2021, to Ksh 138.2 in the fourth quarter of 2021.

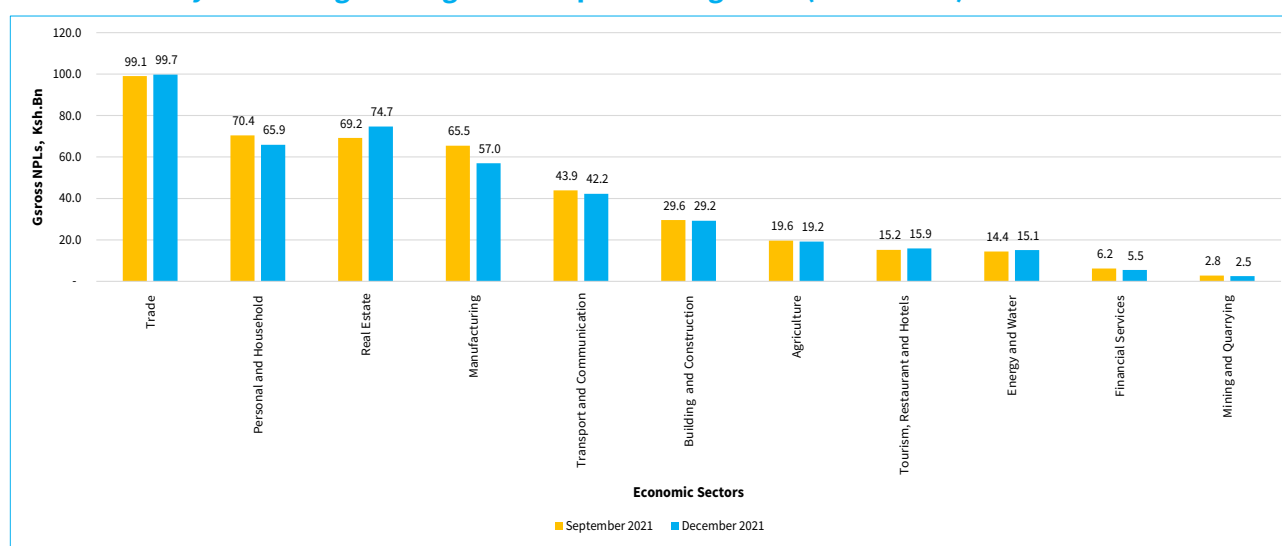
Core capital to total risk-weighted assets ratio increased marginally from 16.3 percent in the third quarter of 2021, to 16.7 percent in the fourth quarter of 2021. Total capital to total risk-weighted assets ratio also increased to 19.6 percent in the fourth quarter of 2021, from 18.8 percent in the third quarter of 2021. The increased capital ratios were mainly due to higher increase in Core capital and Total capital of 5.1 percent and 6.7 percent

respectively as compared to 2.3 percent increase in Total Risk Weighted Assets.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.1 percent in the fourth quarter of 2021, an increase from 16.6 percent in the third quarter of 2021.

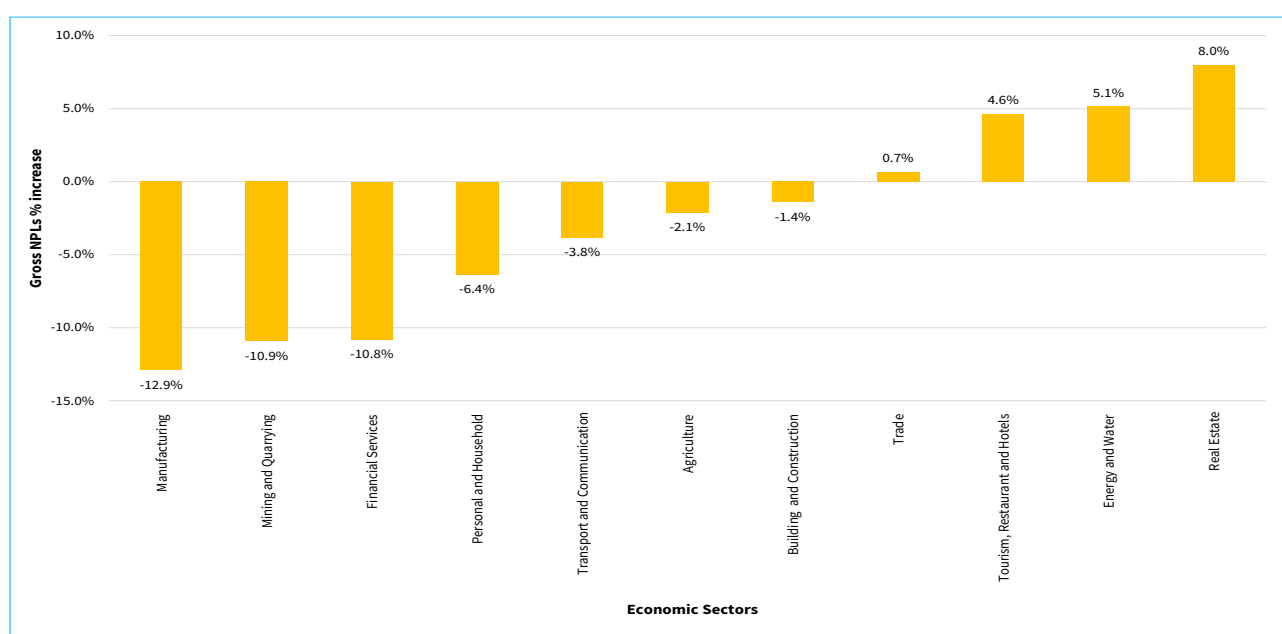
Asset Quality

The gross non-performing loans (NPLs) decreased by 2.0 percent from Ksh 435.7 billion as at the end of the third quarter of 2021, to Ksh 426.8 billion at the end of the fourth quarter of 2021. The gross NPLs to gross loans ratio decreased to 13.1 percent in the fourth quarter of 2021, from 13.6 percent in the third quarter of 2021. This was due to a 2.0 percent decrease in gross NPLs as compared to a 1.7 percent increase in gross loans. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

Chart 6.4: Kenyan banking sector gross non-performing loans (KSh Billion)

Source: Central Bank of Kenya

The decrease in gross NPLs was spread across seven economic sectors as highlighted in **Chart 6.5**.

Chart 6.5: Movement in Gross NPLs-Fourth Quarter of 2021

Source: Central Bank of Kenya

Manufacturing sector registered the highest decrease in NPLs by 12.9 percent (Ksh 8.5 billion) as a result of increased recoveries. The other two sectors, which registered major NPL decreases were Mining and Quarrying, and Financial Services, which decreased by 10.9 percent and 10.8 percent respectively. Real Estate, and Energy and Water sectors recorded the highest increases in NPLs mainly due to low uptake of completed contracts.

The banking sector's asset quality, as measured by the proportion of net non-performing loans to

gross loans, improved with the ratio decreasing to 5.0 percent in the fourth quarter of 2021, from 5.3 percent in the third quarter of 2021. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased slightly from 53.5 percent in the third quarter of 2021, to 54.1 percent in fourth quarter of 2021 due to a higher decrease in total NPLs (3.5 percent) compared to the decrease in specific provisions (2.4 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		September 2021	December 2021
1.	Gross Loans and Advances (Ksh.Bn)	3,193.3	3,248.7
2.	Interest in Suspense (Ksh.Bn)	69.4	73.2
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,123.9	3,175.5
4.	Gross Non-Performing loans (Ksh.Bn)	435.7	426.8
5.	Specific Provisions (Ksh.Bn)	195.9	191.2
6.	General Provisions (Ksh.Bn)	49.3	51.7
7.	Total Provisions (5+6) (Ksh.Bn)	245.2	242.9
8.	Net Advances (3-7) (Ksh.Bn)	2,878.6	2,932.6
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	366.3	353.6
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	170.4	162.4
11.	Total NPLs as % of Total Advances (9/3)	11.7%	11.1%
12.	Net NPLs as % of Gross Advances (10/1)	5.3%	5.0%
13.	Specific Provisions as % of Total NPLs (5/9)	53.5%	54.1%
14.	Gross NPLs to Gross Loans Ratio	13.6%	13.1%

Source: Central Bank of Kenya

Profitability

The banking sector recorded a slight increase in pre-tax profits by Ksh 0.2 billion (0.4 percent) to Ksh 49.3 billion in the fourth quarter of 2021 from Ksh 49.1 billion in the third quarter of 2021. The increase in profitability was mainly attributable to a higher increase in quarterly income by Ksh 9.3 billion (5.9 percent) as compared to the increase in quarterly expenses by Ksh 9.1 billion (8.4 percent) between the third and fourth quarters of 2021.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both the fourth and third quarters of 2021. They accounted for 47.4 percent, 28.4 percent and 16.9 percent in the fourth quarter of 2021 as compared to 47.4 percent, 28.2 percent and 17.1 in the third quarter of 2021.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 31.8 percent, 24.8 percent and 23.8 percent of total expenses respectively in the fourth quarter compared to 32.2 percent, 24.4 percent and 23.9 percent in the third quarter of 2021.

Return on Assets (ROA) stood at 2.6 percent in both third and fourth quarters of 2021. However, Return on Equity (ROE) decreased marginally from 22.0 percent in the third quarter of 2021 to 21.6 percent in the fourth quarter of 2021. This is as a result of a

higher increase in equity (2.3 percent) compared to the increase in profit before tax (0.4 percent).

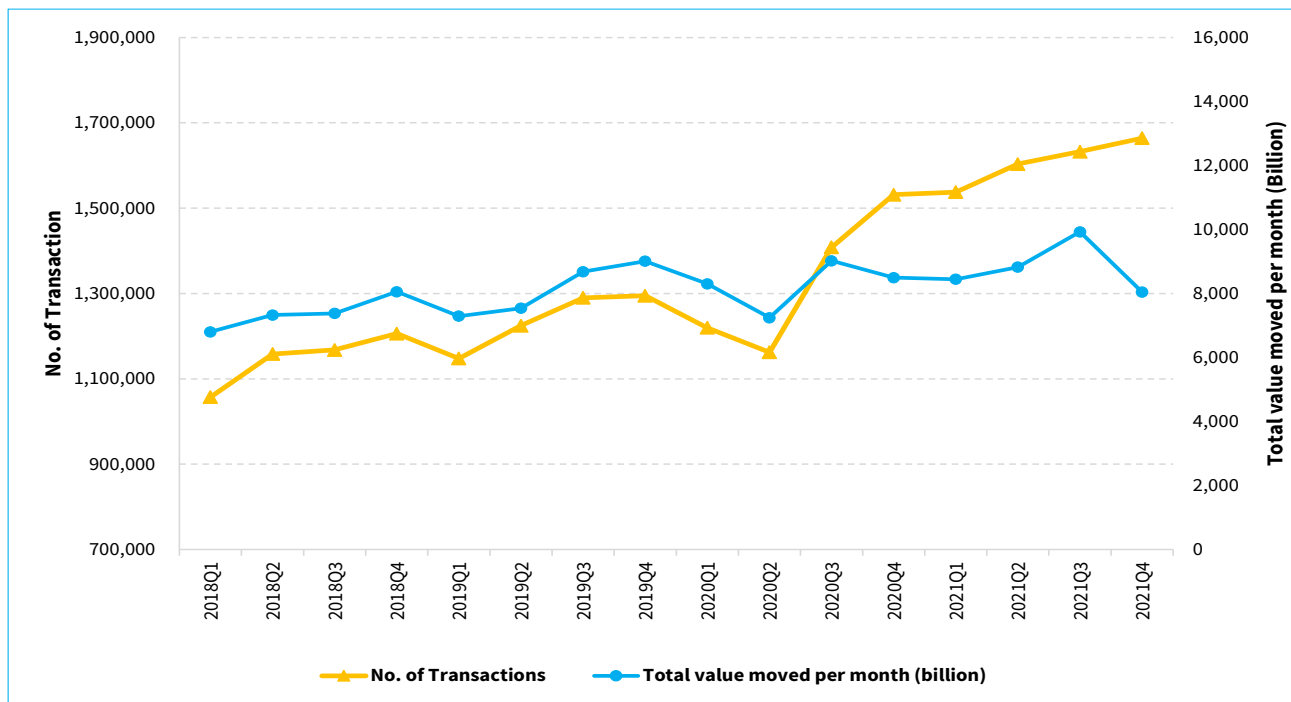
Liquidity

The banking sector's overall liquidity ratio decreased to 56.2 percent in the fourth quarter of 2021 from 56.7 percent in the third quarter of 2021. The decrease was driven by a higher increase in total short-term liabilities (1.0 percent) as compared to a 0.1 percent increase total liquid assets between the two quarters under review. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent. Treasury bonds and Cash are the only components of liquidity that recorded increases of 1.3 percent and 0.1 percent respectively. The liquidity components that recorded decreases are Balances with CBK (0.7 percent), Treasury bills (0.6 percent), and Foreign assets (0.5 percent).

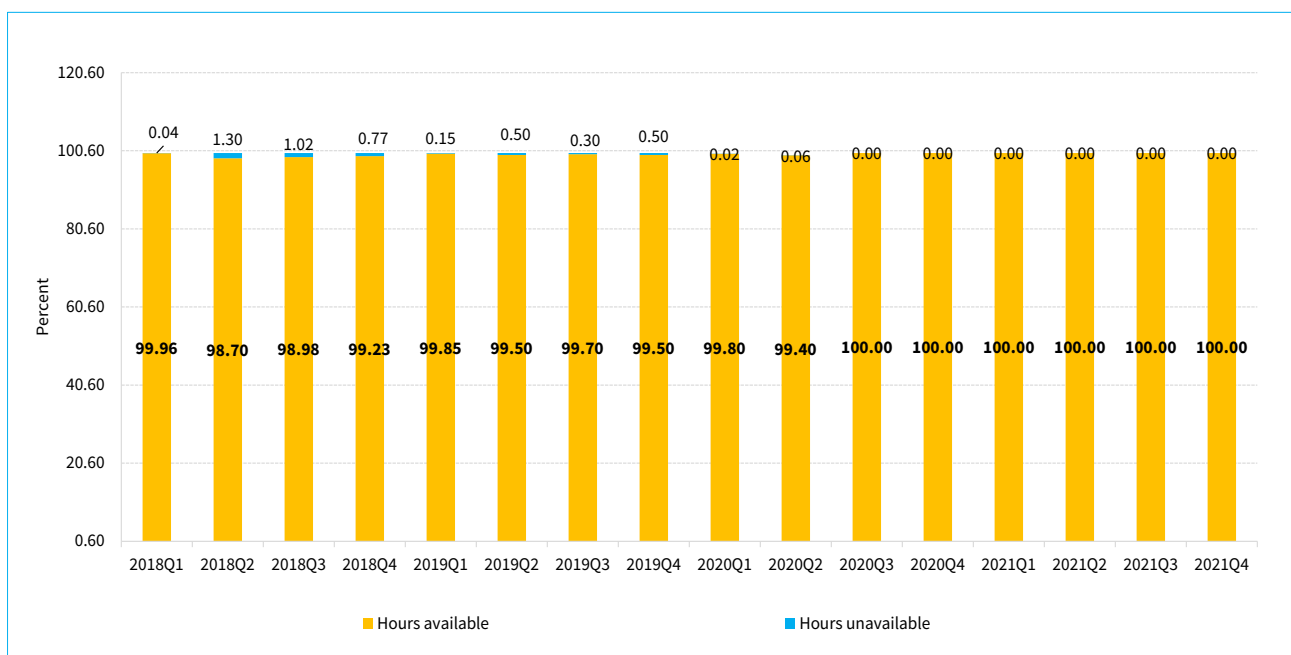
Outlook of the Sector

The banking sector is projected to remain stable;

- Credit risk is expected to continue easing
- Liquidity risk is expected to remain stable.
- Operational risk is expected to remain elevated due to continued uncertainty of the COVID-19 trajectory and increasing cyber security risks.

Chart 6.6: Trends in monthly flows through KEPSS

Source: Central Bank of Kenya

Chart 6.7: KEPSS availability

Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the second quarter of FY 2021/2022 resulted in a deficit of 2.3 percent of GDP against a target of 3.5 percent of GDP. Total revenues and grants

were slightly above target but total expenses and net lending fell short of the target by 10.7 percent (**Table 7.1**).

Table 7.1: Statement of government operations in the third quarter of FY 2020/2021 (KSh Billion)

	FY 2020/2021	FY 2021/2022					Target	Over (+) / Below (-)	% Variance	% Q2-Q2	% cumulative share to GDP	Target to GDP (%)
	Q2	Oct	Nov	Dec	Q2	Cumulative 'to Dec-2021						
1. TOTAL REVENUE & GRANTS	436.5	147.6	155.1	199.5	502.1	1,015.1	1,014.5	0.6	0.1	15.0	8.0	8.0
Ordinary Revenue	383.8	134.8	141.5	184.4	460.7	902.5	865.3	(37.2)		20.0		
Tax Revenue	351.9	131.4	139.5	180.6	451.5	867.9	826.3	41.6		28.3		
Non Tax Revenue	31.9	3.4	2.0	3.8	9.2	34.6	39.0	(4.4)		(71.3)		
Appropriations-in-Aid	48.0	12.5	13.2	13.7	39.4	103.9	123.5	(19.6)		(18.1)		
External Grants	4.6	0.3	0.4	1.4	2.1	8.8	25.8	(17.0)		(53.8)		
2. TOTAL EXPENSES & NET LENDING	704.5	222.6	224.9	226.2	673.7	1,305.4	1,461.5	(156.1)	(10.7)	(4.4)	10.3	11.6
Recurrent Expenses	463.9	159.2	164.9	154.8	478.9	932.5	972.1	(39.5)		3.2		
Development Expenses	140.7	32.0	44.1	34.9	110.9	227.8	291.7	(63.9)		(21.2)		
County Transfers	99.9	31.5	16.0	36.5	83.9	145.0	195.2	(50.2)		(15.9)		
Others	-	-	-	-	-	-	2.5	2.5				
3. DEFICIT (INCL. GRANTS) (1-2)	(268.0)	(75.0)	(69.9)	(26.7)	-171.6	(290.3)	-447.0	156.8	(35.1)	(36.0)	(2.3)	(3.5)
As percent of GDP	(2.4)	(0.6)	(0.6)	(0.2)	-1.4	(2.3)	-3.5	(1.2)				
4. ADJUSTMENT TO CASH BASIS	30.1	(13.4)	-	-	(13.4)	-	-	-				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(237.9)	(88.4)	(69.9)	(26.7)	-185.0	(290.3)	-447.0	156.8	(35.1)	(22.2)	(2.3)	(3.5)
As percent of GDP	(2.1)	(0.7)	(0.6)	(0.2)	-1.5	(2.3)	-3.5	1.2				
6. DISCREPANCY: Expenditure (+) / Revenue (-)	(8.1)	(18.9)	3.3	18.6	3.1	9.7	-	9.7				
7. FINANCING	229.8	69.5	73.2	45.3	188.0	299.9	447.0	(147.1)	(32.9)	(18.2)	2.4	3.5
Domestic (Net)	192.6	74.8	70.9	13.0	158.7	298.7	454.2	(155.5)		(17.6)		
Capital Receipts (domestic loan receipts)	-	0.7	0.0	1.8	2.5							
External (Net)	37.2	(5.3)	2.3	32.3	29.4	1.2	-7.2			(21.0)		
Others	-	-	-	-	-	-	-	-	-			

Source: The National Treasury-December 2021 Budget Outturn (BOT)

Revenue

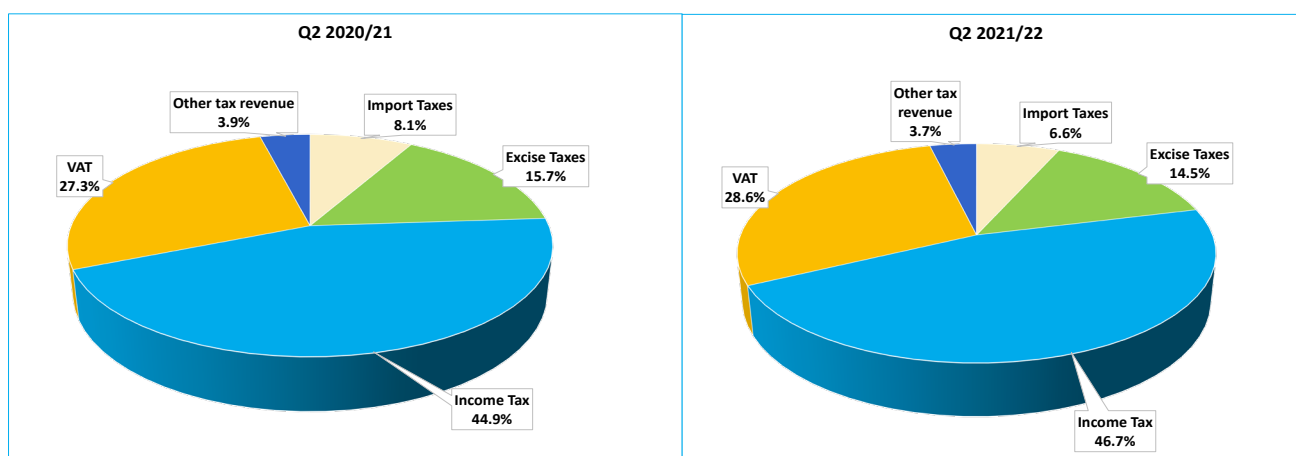
Government receipts, comprising revenue and grants increased by 15.0 percent to KSh 502.1 billion in the second quarter of FY 2021/2022, compared to KSh 436.5 billion in the second quarter of FY 2020/21. The increase was reflected in tax revenues on account of improved performance in all major tax categories: VAT (34.4 percent), Income Tax (33.5 percent), Import Taxes (3.8 percent) and Excise Taxes (17.7 percent). Over the same period, non-tax revenue, Appropriation in Aid (A-in-A) and external grants declined.

There was a minor shift in the composition of tax revenues in the second quarter of FY 2021/2022 compared with a similar period in the previous financial year (**Chart 7.1**). In terms of composition of Tax Revenue, the share of Income Tax and VAT

rose by 1.8 percentage points and 1.3 percentage points, respectively, while that of Import Duty, Excise Tax and Other Tax Revenues declined by 1.6 percentage points, 1.3 percentage points and 0.2 percentage points respectively.

Cumulatively to December 2021, Government total revenue and grants stood at KSh 1,015.1 billion (8.0 percent of GDP) against a target of KSh 1,014.5 billion (8.0 percent of GDP). Tax revenue was above the set target largely reflecting continued economic recovery, impact of tax policy measures and a lower base in 2020. External grants cumulatively to December 2021 stood at KSh 8.8 billion, which was KSh 17.0 billion lower than target, occasioned by slow absorption of donor funds. Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to December 2021 amounted to KSh 103.9 billion, which was KSh 19.6 billion lower than target.

Chart 7.1: Composition of tax revenue (KSh Billion)



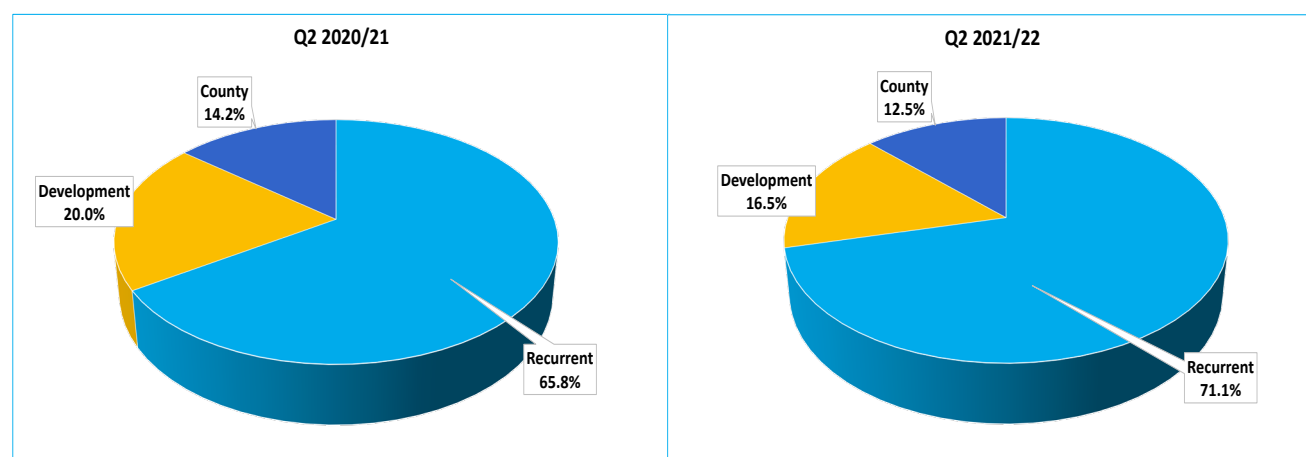
Source: The Budget Outturn (BOT) from National Treasury

Expenditure and Net Lending

Government expenditure and net lending declined by 4.4 percent to KSh 673.7 billion in the second quarter of the FY 2021/22 compared to KSh 704.5 billion in the second quarter of the FY 2020/21. The decrease in expenditures reflected a fall in development expenditure and county transfers by 21.2 percent and 15.9 percent respectively which more than offset the 3.2 percent increase in recurrent expenses.

In terms of composition, recurrent expenditure comprised the largest share in total government expenditure accounting for 71.1 percent in the

second quarter of the FY 2021/22, which was 5.2 percentage point higher than the level recorded in a similar quarter during the previous fiscal year. The share of development expenditure and the county allocation decreased by 3.5 percentage points and 1.7 percentage points, respectively, during the period under review (**Chart 7.2**). Cumulatively, expenditure and net lending in the first half of FY 2021/22 amounted to KSh 1,305.4 billion (10.3 percent of GDP), against a target of KSh 1,461.5 billion (11.6 percent of GDP). The shortfall of KSh 156.1 billion was attributed to lower absorption recorded in recurrent and development expenditures by the National Government and below target transfers to County Governments.

Chart 7.2: Composition of government expenditure in the third quarter of FY 2020/2021

Source: BOT from National Treasury

Financing

The budget deficit including grants amounted to KSh 290.3 billion or 2.3 percent of GDP at the end of the second quarter of FY 2021/22. The fiscal deficit was funded as follows: Net Foreign Financing of KSh 1.2 billion and Net Domestic Financing of KSh 298.7 billion. Domestic borrowing comprised KSh 82.6

billion draw down in Government deposits held at the Central Bank, KSh 137.0 billion from commercial banks, KSh 204.7 billion from non-banks and KSh 0.7 billion from non-residents (**Table 7.1 and Table 7.2**).

Table 7.2 Domestic financing to December 2021 (KSh Billion)

	FY 2021/22					
			Q1			
	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
1. From CBK	39.6	82.2	30.0	84.0	100.5	82.6
2. From commercial banks	31.5	70.7	105.2	96.8	124.2	137.0
4. From Non-banks	49.1	97.9	130.8	161.8	189.6	204.7
5. From Non-Residents	0.8	1.1	3.0	2.0	1.1	0.7
Change in Credit from banks (From 30th June 2021)	71.0	152.8	135.2	180.8	224.7	219.6
Change in Credit from non-banks (From 30th June 2021)	49.1	97.9	130.8	161.8	189.6	204.7
Change in Credit from non-residents (From 30th June 2021)	0.8	1.1	3.0	2.0	1.1	0.7
6. Total Change in Dom. Credit (From 30th June 2021)	121.0	251.8	269.0	344.6	415.5	425.0

Source: The National Treasury (NB: Treasury Bills are reflected at cost)

Outlook for FY 2021/22

In the Annual Budget estimates from the National Treasury for the FY 2021/22, total revenue including grants is projected at KSh 2,100.7 billion (17.0 percent of GDP). Government expenditure is projected at KSh 3,030.3 billion (24.5 percent of GDP), of which KSh 1,991.9 billion will be for recurrent expenses, KSh 623.5 billion for development expenses and KSh 409.9 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 929.7 billion (7.5 percent of GDP) in 2021/22, to be financed through net external borrowing of KSh 271.2 billion and net domestic borrowing of KSh 658.5 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2021/22 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	2,100.7	17.0
Ordinary Revenue	1,775.6	14.3
Appropriations-in-Aid	263.0	2.1
External Grants	62.0	0.5
2. TOTAL EXPENSES & NET LENDING	3,030.3	24.5
Recurrent Expenses	1,991.9	16.1
Development Expenses	623.5	5.0
County Transfer	409.9	3.3
Contingency Fund	5.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	-929.7	-7.5
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	929.7	7.5
Domestic (Net)	658.5	5.3
External (Net)	271.2	2.2

Source: National Treasury

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 2.6 percent during the second quarter of the FY 2021/22. Domestic and external debt increased by 2.4 percent and 2.9 percent, respectively. The ratio of public debt to GDP was estimated to decrease from the 68.2 percent by

the end of the first quarter of the FY 2021/22 to 67.9 percent by the end of second quarter of the FY 2021/22. The ratios of domestic debt to GDP and external debt to GDP decreased by 0.2 percentage points and 0.1 percentage points, respectively (**Table 8.1**).²

Table 8.1 Kenya's public and publicly guaranteed debt

	2019/20			2020/21											Change Q on Q
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jul-21	Aug-21	Q1	Oct-21	Nov-21	Q2		
EXTERNAL															
Bilateral	1,023.8	1,075.9	1,074.3	1,102.9	1,157.0	1,142.7	1,140.5	1,136.4	1,148.7	1,149.2	1,154.3	1,164.1	1,171.7	22.5	
Multilateral	1,037.5	1,060.6	1,321.6	1,421.8	1,498.8	1,495.6	1,659.4	1,678.5	1,697.2	1,699.4	1,713.8	1727.5	1,782.1	82.7	
Commercial Banks	1,028.7	1,058.8	1,102.3	1,120.8	1,119.4	1,113.4	1,187.4	1,193.4	1,196.6	1,196.2	1,202.7	1,205.5	1,208.3	12.0	
Supplier Credits	16.8	17.3	17.6	18.0	18.1	18.1	12.2	12.2	12.3	13.7	12.3	12.1	12.3	-1.4	
Sub-Total	3,106.8	3,212.6	3,515.8	3,663.5	3,793.3	3,769.9	3,999.5	4,020.6	4,054.9	4,058.5	4,083.1	4,109.3	4,174.4	115.9	
(As a % of GDP)	30.3	30.3	33.1	34.5	35.3	34.0	35.4	34.3	34.6	34.6	33.8	34.0	34.5		
(As a % of total debt)	51.4	51.1	52.5	51.4	52.1	51.4	52.0	51.5	51.2	50.8	50.8	50.6	50.9		
DOMESTIC															
Banks	1,607.4	1,677.0	1,752.1	1,915.4	1,867.9	1,876.6	1,901.8	1,946.4	1,970.6	2,008.6	2,000.9	2,022.4	2,031.7	23.1	
Central Bank	116.0	106.4	98.9	107.4	98.7	99.9	87.6	100.7	84.5	90.9	93.2	88.3	88.7	-2.2	
Commercial Banks	1,491.4	1,570.6	1,653.2	1,808.0	1,769.2	1,776.7	1,814.2	1,845.7	1,886.1	1,917.6	1,907.7	1,934.1	1,943.0	25.4	
Non-banks	1,304.1	1,363.3	1,392.3	1,507.6	1,586.8	1,661.6	1,764.2	1,813.8	1,862.1	1,895.1	1,925.5	1,953.5	1,968.9	73.8	
Pension Funds	841.3	891.4	923.1	986.2	1,057.7	1,087.5	1,131.3	1,171.6	1,195.3	1,230.2	1,244.7	1,257.7	1,264.1	33.9	
Insurance Companies	189.0	193.6	192.2	212.8	224.6	234.5	246.4	252.1	258.3	260.0	264.5	268.6	273.7	13.8	
Other Non-bank Sources	273.9	278.3	277.0	308.6	304.5	339.6	386.6	390.1	408.4	404.9	416.3	427.2	431.1	26.1	
Non-residents	30.6	31.6	33.2	34.1	33.8	31.7	31.1	31.9	32.2	34.1	33.1	32.2	31.7	-2.4	
Sub-Total	2,942.1	3,070.2	3,177.0	3,457.1	3,488.5	3,569.8	3,697.1	3,792.1	3,864.9	3,937.8	3,959.5	4,008.1	4,032.4	94.6	
(As a % of GDP)	28.7	28.9	29.9	32.5	32.4	32.2	32.7	32.3	33.0	33.6	32.8	33.2	33.4		
(As a % of total debt)	48.6	48.9	47.5	48.6	47.9	48.6	48.0	48.5	48.8	49.2	49.2	49.4	49.1		
GRAND TOTAL	6,048.9	6,282.8	6,692.8	7,120.6	7,281.8	7,339.7	7,696.6	7,812.8	7,919.7	7,996.3	8,042.6	8,117.3	8,206.7	210.5	
(As a % of GDP)	59.0	59.2	63.0	67.0	67.7	66.2	68.1	66.6	67.5	68.2	66.6	67.2	67.9		

Source: The National Treasury and CBK

Domestic Debt

The 2.4 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt decreased by 0.1 percentage points to 49.1 percent by the end of the second quarter of the FY 2021/22. The

proportion of debt securities to total domestic debt stood at 98.0 percent by the end of the second quarter of the FY 2021/22 which was similar to the previous quarter (**Table 8.2**).

² 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 Billion)

	KShs (Billions)							Change Q on Q		Proportions						
	2020/21				2021/22			Ksh(Bn)	%	2020/21			2021/22			
	Q2	Q3	Q4	Q1	Oct-21	Nov-21	Q2			Q2	Q3	Q4	Q1	Oct-21	Nov-21	Q2
Total Stock of Domestic Debt (A+B)	3,488.5	3,569.8	3,697.1	3,937.8	3,959.5	4,008.1	4,032.4	94.6	2.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	3,417.0	3,496.4	3,615.3	3,860.3	3,874.1	3,923.7	3,951.4	91.1	2.4	98.0	97.9	97.8	98.0	97.8	97.9	98.0
1. Treasury Bills (excluding Repo Bills)	855.7	761.9	765.4	763.5	734.7	719.8	709.1	-54.3	-7.1	24.5	21.3	20.7	19.4	18.6	18.0	17.6
Banking institutions	536.2	458.6	452.9	454.8	421.0	402.4	397.5	-57.3	-12.6	15.4	12.8	12.2	11.6	10.6	10.0	9.9
The Central Bank	4.6	0.5	0.5	8.1	3.1	0.1	2.3	-5.8	-71.7	0.1	0.0	0.0	0.2	0.1	0.0	0.1
Commercial Banks	531.6	458.0	452.4	446.7	417.9	402.2	395.2	-51.5	-11.5	15.2	12.8	12.2	11.3	10.6	10.0	9.8
Pension Funds	158.7	139.6	144.4	159.4	160.0	158.7	154.3	-5.1	-3.2	4.5	3.9	3.9	4.0	4.0	4.0	3.8
Insurance Companies	5.1	6.6	7.2	5.5	5.2	5.1	5.2	-0.3	-5.3	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Others	155.7	157.1	160.9	143.7	148.4	153.6	152.1	8.4	5.8	4.5	4.4	4.4	3.7	3.7	3.8	3.8
2. Treasury Bonds	2,561.3	2,734.5	2,849.9	3,096.8	3,139.4	3,203.9	3,242.2	145.4	4.7	73.4	76.6	77.1	78.6	79.3	79.9	80.4
Banking institutions	1,244.3	1,324.6	1,367.1	1,476.3	1,494.5	1,535.6	1,553.2	76.9	5.2	35.7	37.1	37.0	37.5	37.7	38.3	38.5
The Central Bank	9.4	9.4	7.7	7.7	7.7	7.6	7.6	-0.1	-1.0	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,234.8	1,315.1	1,359.4	1,468.6	1,486.7	1,528.0	1,545.6	77.0	5.2	35.4	36.8	36.8	37.3	37.5	38.1	38.3
Insurance Companies	219.5	227.9	239.2	254.5	259.3	263.4	268.6	14.1	5.5	6.3	6.4	6.5	6.5	6.5	6.6	6.7
Pension Funds	899.0	947.9	986.8	1,070.8	1,084.7	1,099.1	1,109.8	39.0	3.6	25.8	26.6	26.7	27.2	27.4	27.4	27.5
Others	198.6	234.1	256.8	295.3	300.9	305.8	310.7	15.4	5.2	5.7	6.6	6.9	7.5	7.6	7.6	7.7
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	21.1	20.6	20.0	20.0	20.0	20.0	19.5	-0.6	-2.8	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Of which: Repo T/Bills	20.0	19.4	19.4	19.4	19.4	19.4	18.8	-0.6	-2.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5
B. Others:	50.4	52.9	61.8	57.5	65.4	64.4	61.5	4.0	7.0	1.4	1.5	1.7	1.5	1.7	1.6	1.5
Of which CBK overdraft to Government	47.6	49.3	59.3	55.1	62.3	60.5	59.3	4.2	7.6	1.4	1.4	1.6	1.4	1.6	1.5	1.5

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 7.1 percent decrease during the second quarter of the FY 2021/22. As a result, during the quarter under review, the proportion of Treasury bills to total domestic debt declined by 1.8 percentage points. This reflected successful implementation of the Government's Medium-Term objective of reducing the stock of Treasury bills to minimize the refinancing risk. Central Bank, Commercial banks', insurance companies' and Pension funds' holdings of Treasury bills decreased by 71.7 percent, 11.5 percent, 5.3 percent and 3.2 percent, respectively while Other investors' holdings increased by 5.8

percent. Commercial banks were the leading holders of Treasury bills at 55.7 percent (**Table 8.2**).

Treasury Bonds

Treasury bonds holdings increased by 4.7 percent during the second quarter of the FY 2021/22, which was lower than the 8.7 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 5-year Fixed rate Treasury bond issued during the quarter (**Table 8.3**). The leading 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.

Table 8.3: Outstanding domestic debt by tenor (KSh Billion)

		KShs (Billions)							Change Q on Q		Proportions						
		2020/21			2021/22						2020/21				2021/22		
		Q2	Q3	Q4	Q1	Oct-21	Nov-21	Q2	KShs(Bn)	%	Q2	Q3	Q4	Q1	Oct-21	Nov-21	Q2
	91-Day	66.1	39.7	40.2	81.5	66.8	57.8	55.7	-25.8	-31.6	1.9	1.1	1.1	2.1	1.7	1.4	1.4
Treasury	182-Day	134.3	129.3	125.5	176.1	189.7	197.8	183.8	7.6	4.3	3.8	3.6	3.4	4.5	4.8	4.9	4.6
bills	364-Day	655.4	592.9	599.7	505.8	478.2	464.1	469.7	-36.2	-7.1	18.8	16.6	16.2	12.8	12.1	11.6	11.6
	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	37.4	62.1	55.9	55.9	55.9	55.9	55.9	0.0	0.0	1.1	1.7	1.5	1.4	1.4	1.4	1.4
	3-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
	4-Year	4.8	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	5-Year	327.4	327.4	316.5	269.1	269.1	322.7	322.7	53.6	19.9	9.4	9.2	8.6	6.8	6.8	8.1	8.0
	6-Year	28.7	28.7	20.2	20.2	20.2	20.2	20.2	0.0	0.0	0.8	0.8	0.5	0.5	0.5	0.5	0.5
Treasury	7-Year	50.1	50.1	41.5	41.5	41.5	41.5	41.5	0.0	0.0	1.4	1.4	1.1	1.1	1.0	1.0	1.0
Bonds	8-Year	19.3	19.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.5	0.0	0.0	0.0	0.0	0.0
	9-Year	134.3	134.3	123.5	123.5	123.5	123.5	123.5	0.0	0.0	3.8	3.8	3.3	3.1	3.1	3.1	3.1
	10-Year	541.0	556.5	490.5	514.3	514.3	514.3	534.9	20.6	4.0	15.5	15.6	13.3	13.1	13.0	12.8	13.3
	11-Year	8.8	8.8	80.2	80.2	80.2	80.2	80.2	0.0	0.0	0.3	0.2	2.2	2.0	2.0	2.0	2.0
	12-Year	116.8	114.8	119.9	108.0	108.0	102.7	102.7	-5.4	-5.0	3.3	3.2	3.2	2.7	2.7	2.6	2.5
	15-Year	762.3	779.1	800.2	858.0	874.9	874.9	874.9	16.9	2.0	21.9	21.8	21.6	21.8	22.1	21.8	21.7
	16- Year	71.7	152.6	152.0	152.0	152.0	152.0	152.0	0.0	0.0	2.1	4.3	4.1	3.9	3.8	3.8	3.8
	18- Year	0.0	0.0	81.8	81.8	81.8	81.8	81.8	0.0	0.0	0.0	0.0	2.2	2.1	2.1	2.0	2.0
	20-Year	299.1	336.3	388.9	484.7	484.7	500.9	518.6	34.0	7.0	8.6	9.4	10.5	12.3	12.2	12.5	12.9
	21-Year	0.0	0.0	0.0	106.7	106.7	106.7	106.7	0.0	0.0	0.0	0.0	0.0	2.7	2.7	2.7	2.6
	25-Year	131.3	131.3	150.6	172.8	198.5	198.5	198.5	25.7	14.9	3.8	3.7	4.1	4.4	5.0	5.0	4.9
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.8	0.8	0.8	0.7	0.7	0.7	0.7
	Repo T bills	20.0	19.4	19.4	19.4	19.4	19.4	18.8	-0.6	-2.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5
	Overdraft	47.6	49.3	59.3	55.1	62.3	60.5	59.3	4.2	7.6	1.4	1.4	1.6	1.4	1.6	1.5	1.5
	Other Domestic debt	3.9	4.8	4.0	3.0	3.7	4.5	2.8	-0.2	-5.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Debt		3,488.5	3,569.8	3,698.0	3,937.8	3,959.5	4,008.1	4,032.4	94.6	2.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

Maturity Structure of Domestic Debt Issued

The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at the ratio of 82:18 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 71.2 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt decreased as the Treasury bills component in the domestic debt profile decreased to 17.6 percent from 19.4 percent in September 2021.

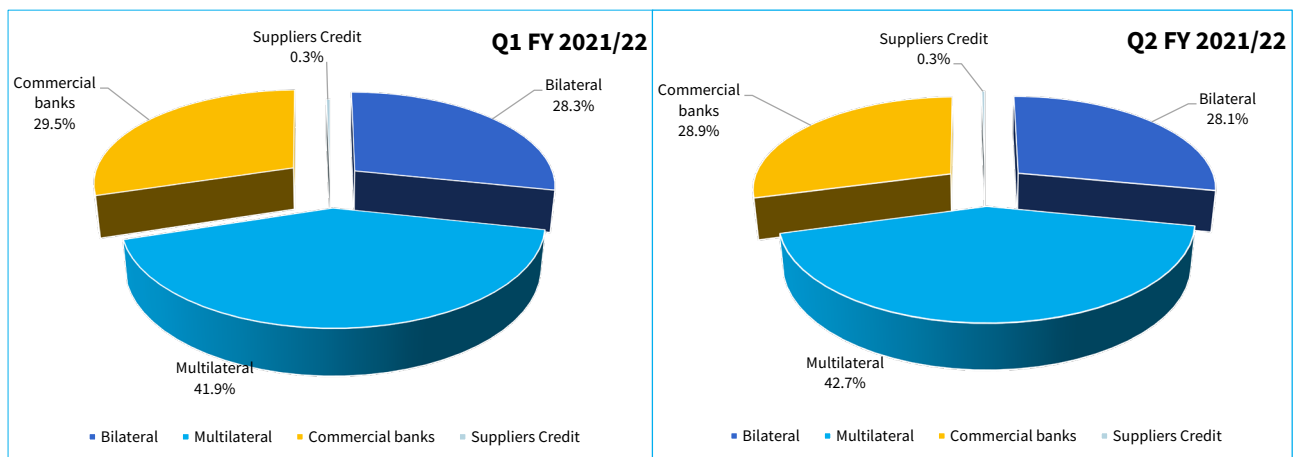
External Debt

Public and publicly guaranteed external debt increased by 2.9 percent during the second quarter

of the FY 2021/22. This increase was majorly driven by disbursements of US dollar 254 million and US dollar 110 million from International Monetary Fund (IMF) and African Development bank (AfDB), respectively. Foreign exchange risk on external debt remained relatively low during the quarter under review.

Composition of External Debt by Creditor

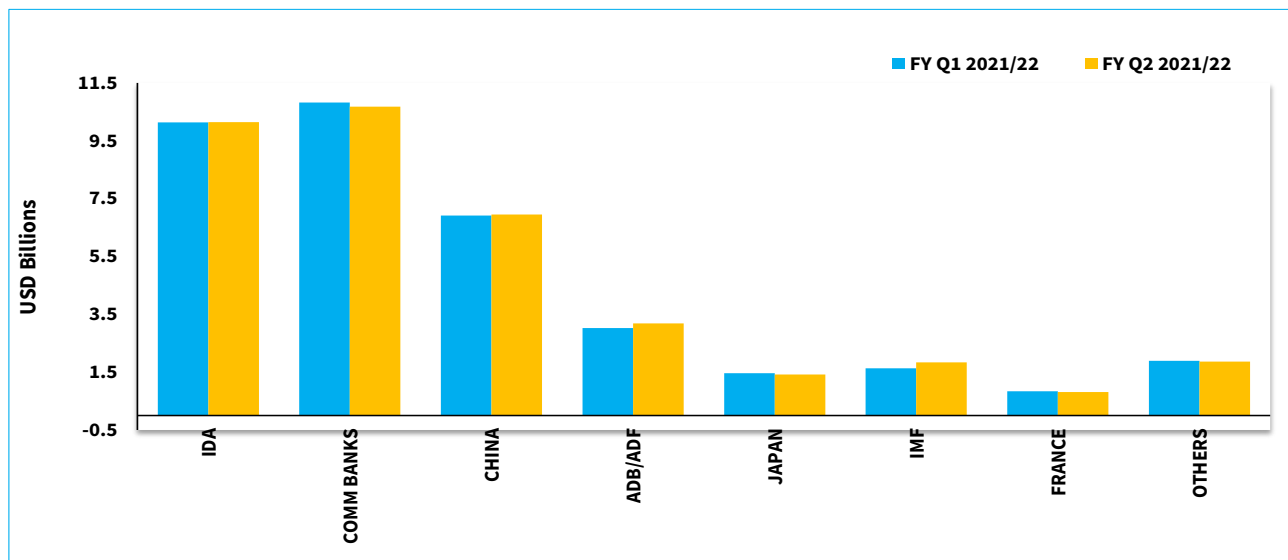
The composition of external debt improved with increased flow of International development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 0.8 percentage points, mainly driven by disbursements from IMF and AfDB during the quarter under review. The proportion of commercial debt decreased 0.6 percentage points during the second quarter of FY 2021/22.

Chart 8.1: Composition of external debt by lender classification

Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 10.1 billion (or 27.5 percent of external debt). Debt owed to China, Kenya's largest bilateral

lender, amounted to USD 7.0 billion, or 18.8 percent of the total external debt by the second quarter of the FY 2021/22 (**Chart 8.2**).

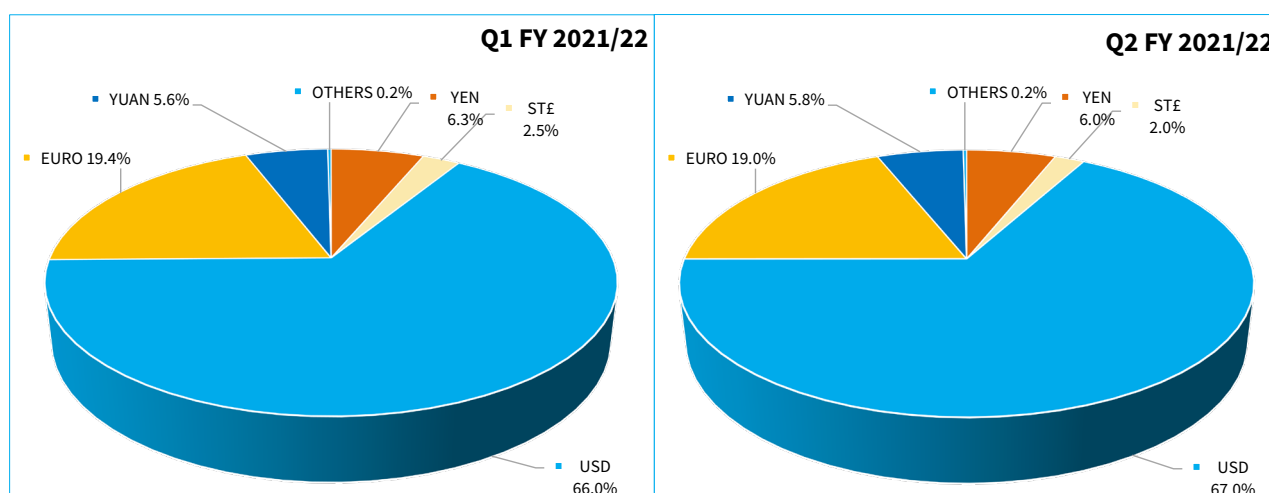
Chart 8.2: External debt by creditor

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 86 percent of the total currency

composition at the end of the second quarter of the FY 2021/22. The proportion held in US dollar increased by 1.0 percentage points on account of the US dollar denominated disbursements from IMF and AfDB (**Chart 8.3**).

Chart 8.3: Debt composition by currency

Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 23.1 percent during the second quarter of the FY 2021/22. 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 second quarter of FY 2021/22 amounted to Ksh 60.0 billion.³ External debt service to revenue and exports ratios improved during the quarter under review mainly due to an improved performance of revenues and exports. However, the debt service to exports ratio marginally surpassed the carrying capacity threshold for Kenya (**Table 8.4**).

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in December 2021 classified Kenya's public debt as sustainable but having a high risk of debt distress. High deficits, reflecting increased infrastructure spending in the past and impact of COVID-19, combined with the sharp slowdown in exports and economic growth in 2020 due to the pandemic resulted in near deterioration of solvent and liquidity indicators that was only partly offset by the ongoing economic recovery. Kenya's debt indicators are expected to improve in the medium term supported by ongoing Government's fiscal consolidation program and continued recovery output and exports growth. The results of the DSA suggest that Kenya is susceptible to export and market financing shocks. In addition, more prolonged and protracted shocks to the economy would present downside risks to the debt outlook.

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	Q2 FY 2020/21	Q3 FY 2020/21	Q4 FY 2020/21	FY 2020/21	Q1 FY 2021/22	Q2 FY 2021/22
Debt service to Revenues (18%)	14.1	10.4	9.7	11.6	15.1	12.0
Debt service to Exports (15%)	23.0	15.3	17.8	18.8	25.7	15.7

Source: Central Bank of Kenya and The National Treasury

³ Debt service ratios to flow resource bases such as revenues and exports are liquidity indicators of the level of indebtedness.

Chapter 9

Capital Markets

Overall performance of equities market declined in the fourth quarter of 2021 compared to the third of 2021. The NSE 20 share index, NASI and market capitalization declined by 6.3 percent, 6.7

percent and 6.7 percent, respectively. However, total equities turnover and number of shares traded increased by 15.8 percent and 6.4 percent, respectively (**Table 9.1 and Chart 9.1**).

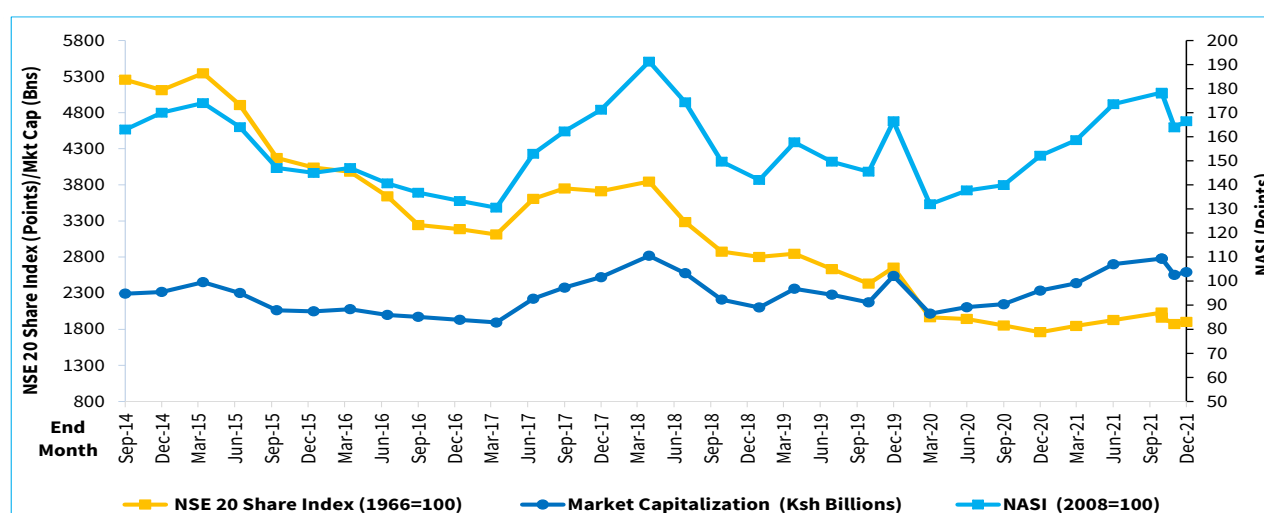
Table 9.1: Selected stock market indicators

INDICATOR	2020				2021				% CHANGE (2021Q4- 2021Q3)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
NSE 20 Share Index (1966=100)	1966.1	1942.1	1852.3	1759.9	1846.4	1927.5	2031.2	1902.6	-6.33
NASI (2008=100)	131.92	137.68	139.89	152.11	158.62	173.53	178.31	166.46	-6.65
Number of Shares Traded (Millions)	1,360.5	1,421.8	1,512.2	969.5	997.8	1,099.6	946.5	1,007.2	6.41
Equities Turnover (Ksh Millions)	43,693.3	39,534.4	37,936.6	27,510.8	31,735.0	37,992	31,360	36,322	15.82
Market Capitalization (Ksh Billions)	2,016	2,105	2,148	2,337	2,437	2,702	2,779	2,593	-6.70
Foreign Purchase (Ksh Millions)	21,046	20,429	23,290	16,744	18,575	21,060	16,535	16,525	-0.06
Foreign Sales (Ksh Millions)	32,229	30,679	27,817	19,412	19,551	23,069	15,601	24,714	58.41
Ave. Foreign Investor Participation to Equity Turnover (%)	60.96	64.64	67.36	65.98	60.38	58.73	51.53	57.73	6.20
Bond Turnover (Ksh Millions)	157,985	106,102	227,862	156,717	199,378	271,239	301,094	185,262	-38.47
FTSE NSE Kenya Govt. Bond Index (Points)	96.00	96.65	97.69	98.24	97.04	96.88	96.78	96.05	-0.75
7-Year Eurobond Yield (%)	8.78	7.30	7.44	4.86	5.60	4.81	5.03	5.57	0.55*
10-Year Eurobond Yield (%) - 2024	8.26	6.48	6.37	3.92	3.56	3.27	3.20	4.45	1.25*
10-Year Eurobond Yield (%) - 2028	8.57	7.51	7.49	5.22	6.28	5.36	5.40	5.76	0.36*
12-Year Eurobond Yield (%)	9.08	8.21	8.19	5.85	7.12	6.22	6.51	6.71	0.20*
13-Year Eurobond Yield (%) - 2034						6.18	6.45	6.58	0.13*
30-Year Eurobond Yield (%) - 2048	9.03	8.41	8.67	7.04	7.98	7.34	7.54	8.13	0.60*

* Percentage points

Source: Nairobi Security Exchange

Chart 9.1: NSE 20, NASI and market capitalization



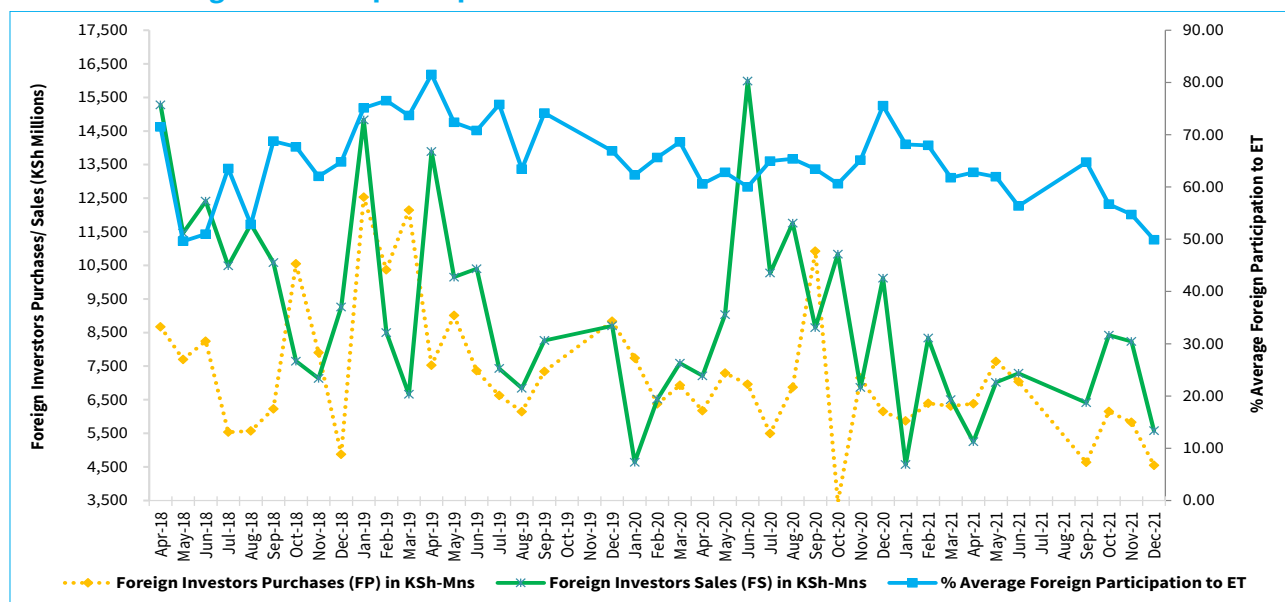
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of foreign investors purchases at the NSE declined by 0.1 percent against the sales, which increased by 58.4 percent in the fourth quarter of 2021. Average foreign investor participation at the NSE as a proportion of total equity turnover,

increased by 6.0 percentage points in the fourth quarter 2021 compared to the third quarter of 2021. However, there was a net foreign investor outflow as sales exceeded purchases (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

Bond turnover on the domestic secondary market decreased by 38.5 percent in the fourth quarter of 2021 compared with the third quarter of 2021. The FTSE NSE Kenyan Government Bond Index declined

by 0.8 percent during the same period. In the international market, yields on Kenya's Eurobonds increased by an average of 51.2 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)

		2021				Absolute Quarterly Changes (KSh Million)				Quarterly Growth Rates (%)			
1.0	ASSETS	Mar	Jun	Sept	Dec	Q4,2021	Q3,2021	Q2,2021	Q1,2021	Q4,2021	Q3,2021	Q2,2021	Q1,2021
1.1	Reserves and Gold Holdings	881,550	1,096,065	1,017,575	993,892	(23,683)	(78,490)	214,515	(42,987)	(2.3)	(7.2)	24.3	(4.6)
1.2	Funds Held with IMF	1,139	2,201	82,740	77,698	(5,042)	80,539	1,063	(1,729)	(6.1)	3,658.8	93.3	(60.3)
1.3	Investment in Equity (Swift Shares)	10	10	10	10	(0)	0	(0)	(0)	(0.8)	0.6	(0.3)	(4.0)
1.4	Items in the Course of Collection	9	39	13	2	(11)	(26)	31	(2)	(85.6)	(67.0)	353.4	(19.4)
1.5	Advances to Commercial Banks	65,324	59,540	65,650	70,180	4,530	6,111	(5,785)	(5,748)	6.9	10.3	(8.9)	(8.1)
1.6	Loans and Other Advances	87,373	163,768	166,192	197,779	31,586	2,424	76,395	(1,167)	19.0	1.5	87.4	(1.3)
1.7	Other Assets	5,162	5,365	5,339	5,878	539	(26)	203	70	10.1	(0.5)	3.9	1.4
1.8	Retirement Benefit Asset	6,538	7,639	7,639	7,639	-		1,101		-	-	16.8	
1.9	Property and Equipment	31,104	33,218	32,228	31,854	(373)	(991)	2,114	(1,185)	(1.2)	(3.0)	6.8	(3.7)
1.10	Intangible Assets	1,346	1,784	1,858	1,891	33	74	437	92	1.8	4.2	32.5	7.3
1.11	Due Debt from Government of Kenya	69,946	79,288	75,219	78,767	3,547	(4,069)	9,342	964	4.7	(5.1)	13.4	1.4
	TOTAL ASSETS	1,149,501	1,448,918	1,454,464	1,465,590	11,126	5,547	299,417	(51,692)	0.8	0.4	26.0	(4.3)
2.0	LIABILITIES												
2.1	Currency in Circulation	281,586	277,129	282,844	310,278	27,434	5,715	(4,457)	(8,957)	9.7	2.1	(1.6)	(3.1)
2.2	Investments by Banks												
2.3	Deposits	484,787	728,001	625,292	560,473	(64,818)	(102,709)	243,213	(35,582)	(10.4)	(14.1)	50.2	(6.8)
2.4	International Monetary Fund	150,890	221,174	304,918	332,328	27,410	83,744	70,284	(3,680)	9.0	37.9	46.6	(2.4)
2.5	Other Liabilities	6,274	6,101	6,164	7,622	1,458	63	(173)	243	23.7	1.0	(2.8)	4.0
	TOTAL LIABILITIES	923,537	1,232,404	1,219,218	1,210,701	(8,516)	(13,187)	308,867	(47,976)	(0.7)	(1.1)	33.4	(4.9)
3.0	EQUITY AND RESERVES	225,964	216,513	229,309	254,889	25,580	12,796	(9,450)	(3,716)	11.2	5.9	(4.2)	(1.6)
	Share Capital	35,000	35,000	35,000	35,000	-		-		-	-	-	-
	General reserve fund	128,219	128,219	155,388	155,388	-	27,168	-		-	21.2	-	-
	Period surplus/(Deficit)	32,429	22,978	4,727	43,876	39,149	(18,252)	(9,450)	(3,716)	828.3	(79.4)	(29.1)	(10.3)
	Asset Revaluation	17,801	17,801	21,680	21,680	-	3,879	-		-	21.8	-	-
	Fair Value Reserves -OCI	12,515	12,515	12,515	(1,054)	(13,569)		-		(108.4)	-	-	-
	Retirement Benefit Asset Reserves					-							
	Consolidated Fund					-							
4	TOTAL LIABILITIES AND EQUITY	1,149,501	1,448,918	1,454,464	1,465,590	11,126	5,546	299,417	(51,692)	0.8	0.4	26.0	(4.3)

Notes on the Financial Position of the CBK

Assets

Growth in the Central Bank of Kenya (CBK) balance sheet increased to 0.8 percent in the fourth quarter of 2021 from 0.4 percent in the previous quarter. The increase was largely reflected in loans and advances, which more than offset the contraction in both reserve and gold holdings and funds held with the IMF. Increased loans and advances, partly reflect increased funds on lent to the Government related to receipts from the IMF under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF). Debt due to government also increased in the fourth quarter of 2021, reflecting the government utilization of the overdraft facility.

The decrease 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 and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank,

largely reflected debt service and central bank operations.

Liabilities

On the liability side, the increase in the growth of the Central Bank's balance sheet was largely reflected in currency in circulation and liabilities to the IMF. The increase in currency in circulation reflected the seasonal increase in cash demand during the end of year festivities. The increase in liabilities to the IMF reflected the disbursements under the ECF and EFF to the Government, which are channeled through the Central Bank. The deposit liabilities declined in the fourth quarter largely reflecting reduced government deposits at the Central Bank.

Meanwhile, equity and reserves increased in the fourth quarter of 2021 on account of surpluses recorded during the period.



Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi | Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000