



Central Bank of Kenya

Quarterly Economic Review

April – June 2021



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

The Kenyan economy rebounded strongly in the second quarter of 2021, as activity in industry and services sectors picked up following the easing of COVID-19 restrictions. Real GDP grew by 10.1 percent compared to a contraction of -4.7 percent in the same period of 2020. However, the agriculture sector contracted by -0.9 percent in the second quarter compared to a growth of 4.9 percent in the same period of 2020, due to dry weather conditions.

According to the July 2021 IMF World Economic Outlook Update, global output growth is expected to grow by 4.8 percent in the fourth quarter of 2021 and moderate to 3.9 percent in the fourth quarter of 2022, reflecting easing of travel restrictions and the anticipated vaccine-powered recovery in the second half of the year. Global output growth will rebound strongly to 6.0 percent in 2021, before slowing to 4.9 percent in 2022. A 0.5 percentage-point revision for 2022 is largely driven by the expected strong growth outturn in advanced economies.

Overall inflation in Kenya increased to 6.0 percent in the second quarter of 2021, from 5.8 percent in the first quarter of 2021, driven by elevated fuel and food prices. Fuel inflation remained elevated following upward adjustments of energy prices, and social distancing measures in the transport sector. Food inflation increased driven by rising prices of a few key food items.

Growth in broad money supply (M3) increased by 2.6 percent in the second quarter of 2021 from 1.0 percent in the first quarter of 2021, mainly reflecting growth in deposits.

The current account deficit is estimated to have increased to USD 1,381 million in the second quarter of 2021 from USD 782 million in the second quarter of 2020 reflecting increased imports of intermediate goods which more than offset improved earnings from strong agricultural exports and resilient diaspora remittances.

The banking sector remained stable and resilient in the second quarter of 2021. Total net assets increased by 2.7 percent to Ksh.5,680.0 billion in June 2021 from Ksh.5,528.4 billion in March 2021. The deposit base also increased by 2.8 percent to Ksh.4,249.4 billion in the second quarter of 2021 from Ksh.4,133.1 billion in the first quarter of 2021. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in second quarter of 2021 with quarterly profit before tax increasing by 10.1 percent from Ksh.45.9 billion reported in the first quarter of 2021. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 14.0 percent in the second quarter of 2021 compared to 14.6 percent in the first quarter of 2021.

The Government's budgetary operations at the end of the fourth quarter of FY 2020/2021 resulted in a deficit (including grants) of 8.4 percent of GDP. Revenue collection remained below target, as was the case with expenditure.

Kenya's public and publicly guaranteed debt increased by 5.1 percent during the fourth quarter of the FY 2020/21 broadly in line with the Government's borrowing plan. Domestic and external debt increased by 3.6 percent and 6.5 percent, respectively.

The trading activity in the equity market improved in the second quarter compared with the first quarter of 2021. The NSE 20 share index, NASI and market capitalization rose by 4.39 percent, 9.40 percent and 10.88 percent, respectively. However, total equities turnover and number of shares traded declined by 56.03 percent and 57.84 percent, respectively.

Chapter 1

Inflation

Overview

Overall inflation increased to 6.0 percent in the second quarter of 2021, from 5.8 percent in the first quarter of 2021, driven by elevated fuel and food prices. Fuel inflation increased to 14.2 percent in the second quarter of 2021, from 13.9 percent in the previous quarter, following upward adjustments of energy prices, and social distancing measures in the transport sector. The upward adjustments in energy prices largely reflected a surge in international

oil prices during the quarter under review. Food inflation increased to 7.3 percent, from 7.0 percent in the first quarter, despite the favorable weather conditions. However, Non-food Non-fuel (NFNF) inflation remained low and stable, reflective of muted demand pressures in the economy. It increased marginally to 2.5 percent in the period under review from 2.3 percent in previous quarter (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

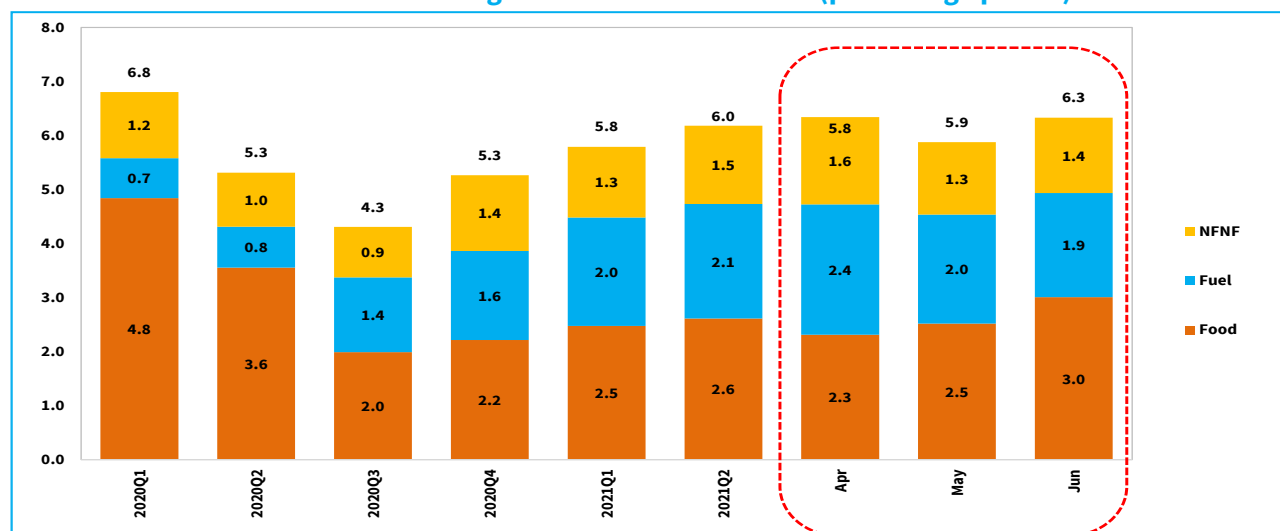
	2020			2021				
	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Overall inflation	5.3	4.3	5.3	5.8	6.0	5.8	5.9	6.3
Food Inflation	10.3	5.7	6.3	7.0	7.3	6.4	7.0	8.5
Fuel Inflation	5.0	10.0	11.5	13.9	14.2	14.8	14.3	13.5
Non-Food-Non-Fuel (NFNF) Inflation	1.8	1.7	2.5	2.3	2.5	2.4	2.5	2.6
Annual Average Inflation*	6.1	5.9	5.5	5.0	5.2	5.2	5.2	5.3
Three Months Annualised Inflation	5.4	0.2	8.6	9.4	6.1	7.9	5.8	4.6

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

Overall inflation in the quarter under review was mainly driven by food inflation, whose contribution increased marginally to 2.6 percentage points, compared to 2.5 percentage points in the previous quarter. Likewise, the contribution of fuel to overall inflation was relatively stable in the quarter under

review at 2.1 percentage points compared to 2.0 percentage points in the first quarter. On the other hand, NFNF contribution to overall inflation increased to 1.5 percentage points from 1.3 percentage points in the previous quarter (**Chart 1.1**).

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



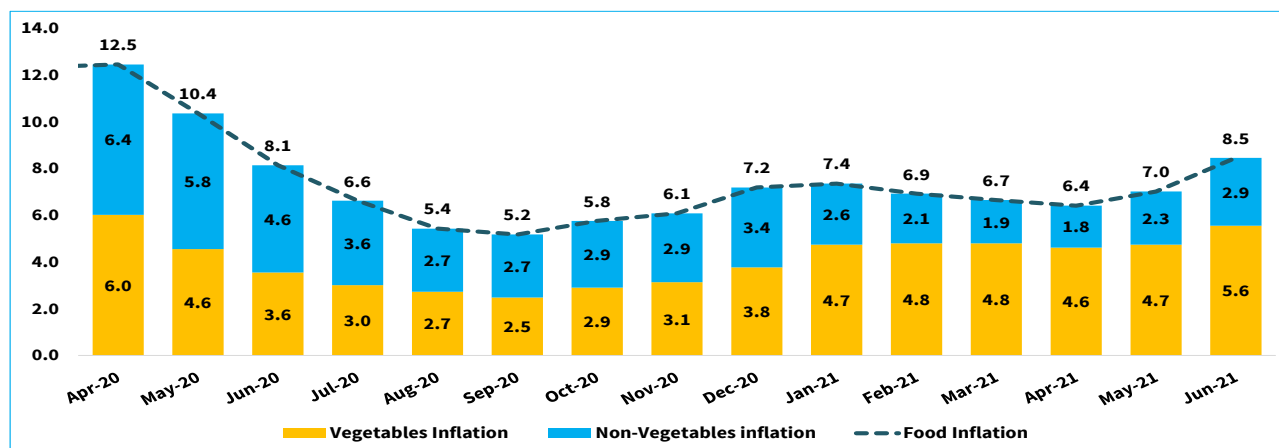
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation increased to 7.3 percent, from 7.0 percent in the first quarter, despite the favorable weather conditions. The increase was reflected in both vegetables and non-vegetables categories of food inflation, and was occasioned by rising prices of key food items. Prices of key items such as bread, cooking oil and fat, and beef with bones increased during the quarter. The increase in the prices of

processed food items, bread and cooking oil, is attributed to increased cost of key inputs such as wheat and palm oil, whose prices increased globally owing to shortage. However, this increase was partially offset by lower prices of maize and maize products¹, beans, and fast maturing items such as kales, onions, potatoes, traditional vegetables and cabbages (**Chart 1.2**).

Chart 1.2: Food inflation by category (percent)



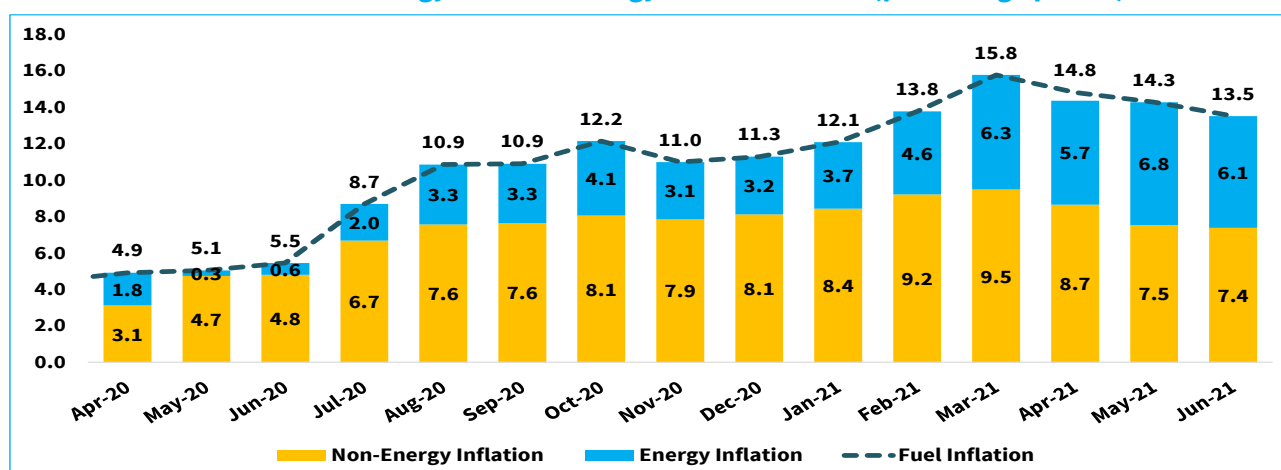
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation remained elevated during the quarter under review, increasing marginally to 14.2 percent from 13.9 percent in the previous quarter. The increase is consistent with the rising international oil prices, which translates to higher domestic pump prices, and the subsequent increase in transport costs. Implementation of social distancing measures in the transport sector

to contain spread of COVID-19 has also contributed to higher transport costs. The non-energy component, though marginally declining, remains the dominant driver of fuel inflation, attributed to higher costs of selected items such as country and city bus fares, and international flights. The energy component was mainly driven by higher cost of electricity, petrol, diesel, kerosene/paraffin, and charcoal (**Chart 1.3**).

¹ Maize and maize products refer to green maize, green maize- Loose, maize grain-loose, maize flour- loose, maize flour- sifted and fortified maize flour.

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 and stable in the quarter under review, reflective of muted demand pressures in the economy. It increased marginally to 2.5 percent in the period under review from 2.3 percent in previous quarter. The increase was reflected in several baskets such

as 'Housing and water', 'Furnishings, household equipment and routine household maintenance', 'Information and Communication', 'Education', 'Insurance and Financial Services' and 'Personal Care, Social Protection and Miscellaneous Goods & Services' (**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	Q2	7.7	2.4	1.3	1.7	1.2	0.4	1.9	1.1	2.1	0.6	2.0	1.8
	Q3	5.1	2.0	1.1	1.2	2.0	0.4	2.9	1.7	2.4	0.4	2.1	1.7
2021	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
	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
	Apr	1.9	2.6	1.0	3.7	4.1	1.0	2.7	2.3	4.0	1.7	3.1	2.4
	May	2.4	2.1	1.2	3.6	4.3	1.4	2.3	2.4	4.1	1.8	3.2	2.5
	Jun	2.8	1.9	1.3	4.3	4.6	1.7	0.7	2.3	4.2	1.9	3.3	2.6

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 to 2.6 percent in the second quarter of 2021 from 1.0 percent in the first quarter of 2021, reflecting increases in deposits, mainly the corporate sector and county government deposits. The increase in corporate sector deposits, reflected in time and savings, and demand deposits, was partly supported by seasonal accelerated government spending towards the end of FY2020/21. Similarly, the enhanced transfers from the National government towards the end of fiscal year resulted

in the increased county government deposits. Meanwhile, the household sector deposits declined, partly reflecting increased investments in government securities and the spillover impact of full reopening of schools (**Tables 2.1 and 2.2**).

The 12-month growth in broad money supply declined from 10.1 percent in March 2021 to 6.3 percent in June 2021, largely reflecting a decline in 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)						
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1692.9	1665.8	1720.1	1716.7	1775.2	6.1	-1.6	3.3	-0.2	3.4	97.8	-27.1	54.4	-3.4	58.5
1.1 Currency outside banks	210.9	217.6	233.7	225.8	225.9	6.4	3.2	7.4	-3.4	0.0	12.6	6.8	16.0	-7.9	0.1
1.2 Demand deposits	1349.9	1371.0	1385.8	1405.5	1409.9	3.3	1.6	1.1	1.4	0.3	43.7	21.1	14.8	19.7	4.4
1.3 Other deposits at CBK 1/	132.2	77.2	100.7	85.4	139.5	45.8	-41.6	30.5	-15.1	63.2	41.5	-55.0	23.5	-15.2	54.0
2. Money supply, M2 (1+2.1)	3227.6	3180.5	3250.2	3250.3	3373.5	6.9	-1.5	2.2	0.0	3.8	208.8	-47.1	69.7	0.1	123.2
2.1 Time and saving deposits	1534.7	1514.7	1530.1	1533.5	1598.2	7.8	-1.3	1.0	0.2	4.2	111.0	-20.0	15.3	3.5	64.7
3. Money supply, M3 (2+3.1)	3890.0	3843.5	3990.9	4030.0	4133.8	6.3	-1.2	3.8	1.0	2.6	229.0	-46.5	147.4	39.1	103.8
3.1 Foreign Currency Deposits	662.4	663.0	740.7	779.7	760.3	3.1	0.1	11.7	5.3	-2.5	20.2	0.6	77.7	39.0	-19.4
Sources of M3															
1. Net foreign assets 2/	886.0	749.7	746.9	691.0	779.7	15.4	-15.4	-0.4	-7.5	12.8	118.3	-136.3	-2.7	-55.9	88.7
Central Bank	918.1	804.9	738.5	690.7	831.7	14.7	-12.3	-8.3	-6.5	20.4	117.5	-113.2	-66.4	-47.8	141.0
Banking Institutions	-32.1	-55.2	8.5	0.3	-52.0	-2.2	71.9	-115.3	-96.3	-16568.1	0.7	-23.1	63.7	-8.1	-52.4
2. Net domestic assets (2.1+2.2)	3004.0	3093.8	3244.0	3339.0	3354.1	3.8	3.0	4.9	2.9	0.5	110.7	89.8	150.1	95.0	15.1
2.1 Domestic credit	3930.3	4051.4	4245.8	4361.2	4391.7	3.7	3.1	4.8	2.7	0.7	141.3	121.2	194.3	115.4	30.5
2.1.1 Government (net)	1148.7	1196.0	1343.3	1406.6	1406.1	10.8	4.1	12.3	4.7	0.0	111.9	47.3	147.3	63.4	-0.5
2.1.2 Private sector	2693.2	2766.7	2811.3	2865.3	2901.1	1.2	2.7	1.6	1.9	1.3	32.0	73.5	44.5	54.0	35.9
2.1.3 Other public sector	88.4	88.7	91.2	89.3	84.4	-2.8	0.3	2.9	-2.1	-5.5	-2.5	0.3	2.5	-1.9	-4.9
2.2 Other assets net	-926.2	-957.6	-1001.8	-1022.2	-1037.6	3.4	3.4	4.6	2.0	1.5	-30.6	-31.4	-44.2	-20.4	-15.4
Memorandum items															
4. Overall liquidity, L (3+4.1)	5367.7	5446.9	5665.2	5769.1	5949.6	5.6	1.5	4.0	1.8	3.1	284.8	79.1	218.4	103.8	180.6
4.1 Non-bank holdings of government securities	1477.7	1603.4	1674.3	1739.1	1815.9	3.9	8.5	4.4	3.9	4.4	55.8	125.6	71.0	64.7	76.8

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)				
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
1. Household Sector 1/	1753.2	1778.8	1765.0	1764.1	1740.3	3.5	1.5	-0.8	-0.1	-1.3	59.9	25.6	-13.9	-0.9	-23.8
1.1 Demand Deposits	645.5	652.7	627.2	606.1	585.7	4.4	1.1	-3.9	-3.4	-3.4	27.5	7.2	-25.5	-21.1	-20.4
1.2 Time and Saving Deposits	859.6	863.3	862.9	877.7	881.4	5.9	0.4	0.0	1.7	0.4	48.1	3.7	-0.4	14.8	3.8
1.3 Foreign Currency Deposits	248.1	262.9	274.9	280.3	273.2	-5.9	5.9	4.6	2.0	-2.5	-15.6	14.7	12.0	5.4	-7.1
2. Corporate Sector	1748.7	1726.5	1844.1	1902.3	1977.0	6.9	-1.3	6.8	3.2	3.9	113.4	-22.3	117.7	58.1	74.7
2.1 Demand deposits	687.8	700.9	738.1	774.3	799.9	2.4	1.9	5.3	4.9	3.3	16.2	13.1	37.2	36.2	25.6
2.2 Time and Saving Deposits	647.9	626.6	641.3	629.9	689.8	10.4	-3.3	2.3	-1.8	9.5	61.1	-21.3	14.7	-11.4	59.9
2.3 Foreign Currency Deposits	413.0	399.0	464.7	498.1	487.3	9.6	-3.4	16.5	7.2	-2.2	36.0	-14.0	65.8	33.4	-10.8

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 broad money supply, M3 in the second quarter of 2021 was the net foreign assets of the banking system. The increase in the net foreign assets was mainly supported by Government receipts from international financial institutions and proceeds from the sovereign bond. However, growth in net domestic assets of the banking system moderated in the quarter under review, reflected in net lending to government and private sector credit (**Table 2.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit extended by banking system moderated to 0.7 percent in the second quarter of 2021 compared to 2.7 percent in the previous quarter. Net lending to government declined, largely reflecting increased government deposits at the Central Bank boosted by receipts from international financial institutions and proceeds from the sovereign bond. In addition, lending to other public sector declined, mainly due to repayments by the parastatals (**Table 2.3**).

Growth in credit extended to the private sector moderated to 1.3 percent in the second quarter of 2021 from 1.9 percent in the previous quarter, partly reflecting slowed down in credit demand with the disruptive impact of the COVID-19

pandemic on economic activity. Additionally, there was significant loan repayments and recoveries. Reduction in credit growth was largely in the household sector, with the increase in gross loans declining to KSh 1.8 billion compared to KSh 37.2 billion in the previous quarter. However, gross loans to corporate sector increased by KSh 31.7 billion compared to KSh 15.8 billion in the previous quarter, which were largely short term for working capital purposes.

In terms of economic sectors, growth in credit to consumer durables, transport and communication, as well as the private household and real estate sectors improved in the quarter under review. Growth of lending to trade, manufacturing and business services was muted partly reflecting negative effects of COVID-19 pandemic on business activities. However, credit growth to agriculture, building and construction and finance and insurance sectors contracted.

The 12-month growth in private sector credit remained resilient at 7.7 percent in June 2021, similar level to March 2021, supported by the accommodative monetary policy and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy (**Chart 2.1**).

Table 2.3: Banking sector net domestic credit

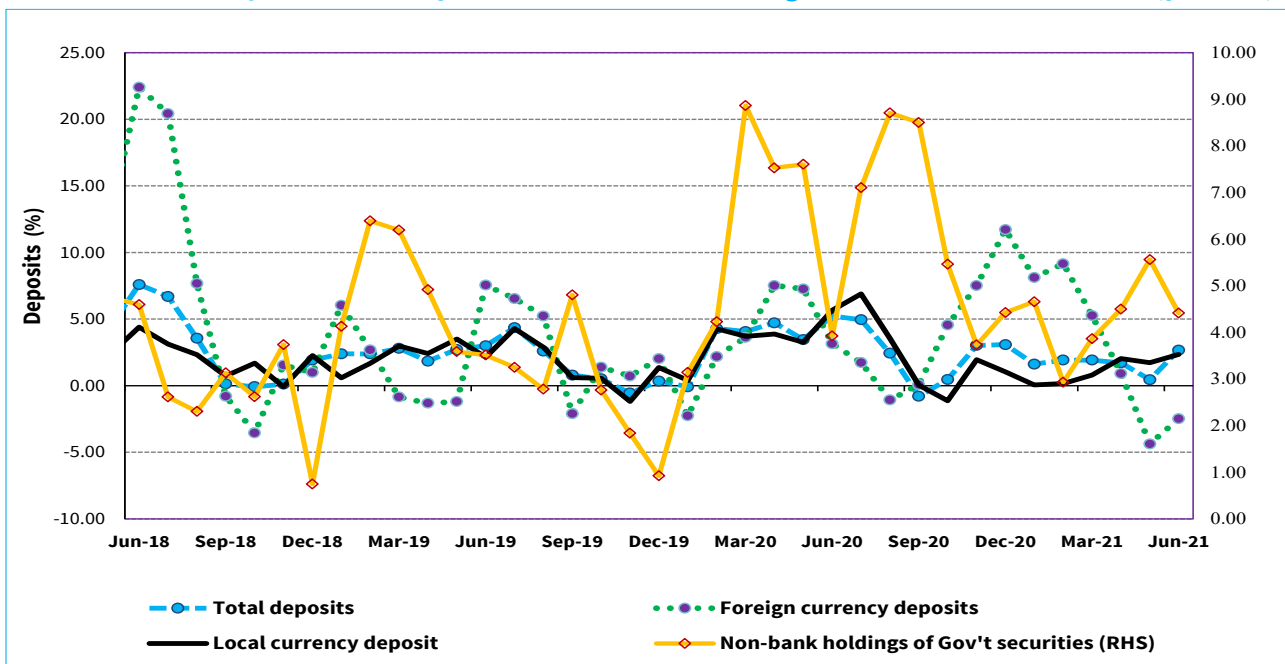
	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
1. Credit to Government	1,148.7	1,196.0	1,343.3	1,406.6	1,406.1	10.8	4.1	12.3	4.7	0.0	111.9	47.3	147.3	63.4	-0.5
Central Bank	-62.8	-176.8	-31.5	-19.9	-50.2	-47.1	181.6	-82.2	-36.8	152.1	55.9	-114.0	145.3	11.6	-30.3
Commercial Banks & NBFIs	1,211.5	1,372.8	1,374.8	1,426.6	1,456.3	4.8	13.3	0.1	3.8	2.1	55.9	161.3	2.0	51.8	29.8
2. Credit to other public sector	88.4	88.7	91.2	89.3	84.4	-2.8	0.3	2.9	-2.1	-5.5	-2.5	0.3	2.5	-1.9	-4.9
Local government	4.4	4.6	5.7	5.7	6.6	2.2	5.4	22.2	1.5	15.7	0.1	0.2	1.0	0.1	0.9
Parastatals	84.0	84.0	85.5	83.6	77.8	-3.0	0.0	1.8	-2.3	-6.9	-2.6	0.0	1.5	-2.0	-5.8
3. Credit to private sector	2,693.2	2,766.7	2,811.3	2,865.3	2,901.1	1.2	2.7	1.6	1.9	1.3	32.0	73.5	44.5	54.0	35.9
Agriculture	88.1	91.2	93.4	94.5	91.3	4.6	3.6	2.4	1.2	-3.4	3.9	3.1	2.2	1.1	-3.2
Manufacturing	397.2	405.4	409.3	429.2	429.4	2.5	2.1	1.0	4.9	0.1	9.6	8.2	3.9	19.9	0.3
Trade	489.2	486.5	485.0	491.9	498.8	1.5	-0.6	-0.3	1.4	1.4	7.5	-2.7	-1.4	6.9	6.8
Building and construction	114.2	119.2	119.7	122.0	116.5	-3.6	4.3	0.4	1.9	-4.4	-4.2	5.0	0.5	2.3	-5.4
Transport & communications	200.7	214.7	212.1	217.1	224.4	8.5	7.0	-1.2	2.4	3.3	15.8	14.0	-2.6	5.1	7.2
Finance & insurance	95.8	99.0	103.7	109.4	106.8	-5.9	3.4	4.7	5.5	-2.4	-6.0	3.3	4.7	5.7	-2.7
Real estate	395.8	402.0	406.8	407.9	411.8	4.5	1.6	1.2	0.3	0.9	17.1	6.2	4.8	1.2	3.8
Mining and quarrying	14.6	14.4	12.1	13.4	12.7	5.3	-1.5	-16.2	10.9	-5.0	0.7	-0.2	-2.3	1.3	-0.7
Private households	443.3	454.1	455.5	452.4	457.7	0.9	2.4	0.3	-0.7	1.2	3.8	10.8	1.3	-3.0	5.2
Consumer durables	253.5	273.6	291.3	300.1	312.7	-0.7	7.9	6.5	3.0	4.2	-1.7	20.1	17.7	8.8	12.5
Business services	154.4	156.8	160.2	163.1	162.4	0.1	1.5	2.2	1.8	-0.4	0.1	2.4	3.4	2.9	-0.6
Other activities	46.4	49.9	62.2	64.1	76.7	-23.8	7.5	24.7	3.0	19.7	-14.5	3.5	12.3	1.8	12.6
4. TOTAL (1+2+3)	3,930.3	4,051.4	4,245.8	4,361.2	4,391.7	3.7	3.1	4.8	2.7	0.7	141.3	121.2	194.3	115.4	30.5

Source: Central Bank of Kenya

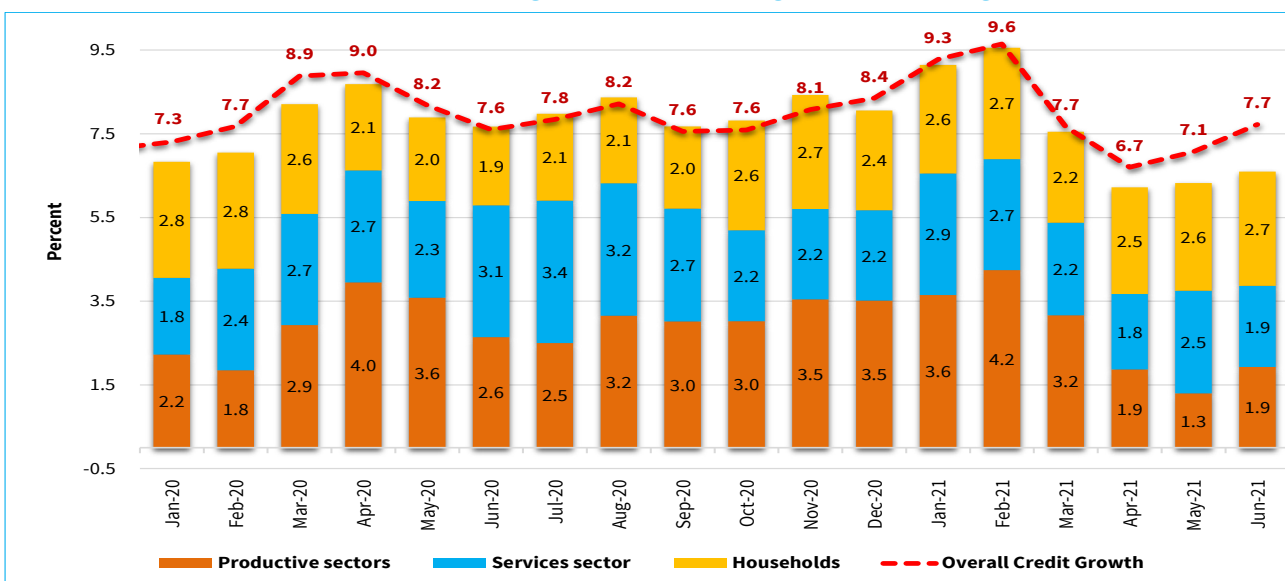
Table 2.4: Gross bank loans to the private sector

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
1. Household	828.6	871.5	881.3	918.4	920.2	0.9	5.2	1.1	4.2	0.2	7.3	42.9	9.7	37.2	1.8
2. Corporate	1,938.7	1,972.1	2,001.6	2,017.4	2,049.1	1.9	1.7	1.5	0.8	1.6	35.8	33.4	29.5	15.8	31.7
Gross Loans	2,767.4	2,843.6	2,882.9	2,935.9	2,969.3	1.6	2.8	1.4	1.8	1.1	43.1	76.3	39.2	53.0	33.5

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

Reserve money declined marginally in the second quarter of 2021, largely reflecting the decrease in net domestic assets, which more than offset the increase in net foreign assets. The decline in net domestic assets, partly reflected increased government deposits leading to lower net lending to government as well as the decrease in net lending

to commercial banks on account of increased open market operations to manage liquidity conditions. The increase in the net foreign assets was supported by Government receipts from international financial institutions and proceeds from the sovereign bond (Table 2.5).

Table 2.5: Reserve money (RM) and its sources

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
1. Net Foreign Assets	918.1	804.9	738.5	690.7	831.7	14.7	-12.3	-8.3	-6.5	20.4	117.5	-113.2	-66.4	-47.8	141.0
2. Net Domestic Assets	-491.2	-352.7	-268.6	-239.8	-382.0	38.3	-28.2	-23.8	-10.7	59.3	-136.1	138.5	84.1	28.9	-142.2
2.1 Government Borrowing (net)	-89.2	-176.8	-31.5	-19.9	-50.2	-24.9	98.3	-82.2	-36.8	152.1	29.6	-87.6	145.3	11.6	-30.3
2.2 Commercial banks (net)	-131.0	87.9	60.8	60.5	-6.1	9740.3	-167.1	-30.8	-0.5	-110.1	-129.7	218.9	-27.0	-0.3	-66.6
2.3 Other Domestic Assets (net)	-274.4	-267.1	-301.2	-283.7	-328.8	15.1	-2.6	12.8	-5.8	15.9	-35.9	7.2	-34.1	17.6	-45.2
3. Reserve Money	426.9	452.2	469.9	451.0	449.8	-4.2	5.9	3.9	-4.0	-0.3	-18.6	25.3	17.7	-18.9	-1.2
3.1 Currency outside banks	210.9	217.6	233.7	225.8	225.9	6.4	3.2	7.4	-3.4	0.0	12.6	6.8	16.0	-7.9	0.1
3.2 Bank reserves	216.0	234.6	236.2	225.1	223.9	-12.6	8.6	0.7	-4.7	-0.6	-31.2	18.6	1.6	-11.0	-1.3

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 May 2021 meeting noting that the accommodative monetary policy stance remained appropriate as inflation expectations was well anchored within target range, and the economy was operating below its potential level.

b. Short Term Rates

Short term interest rates remained relatively stable and low in the second quarter of 2021 supported by accommodative monetary policy stance and ample liquidity conditions in the market. The weighted average interbank rate declined to 4.63 percent in June from 5.23 percent in March. The average

91-day Treasury bill rate remained stable at 7.03 percent in June, same level in March, while the average 182-day Treasury bill rate declined to 7.60 percent from 7.82 percent in March.

c. Lending and Deposit Rates

Commercial banks' lending rates remained relatively stable in the second quarter of 2021 supported by accommodative monetary policy stance. The weighted average lending rate declined to 12.02 percent in June 2021 from 12.05 percent in March 2021 while the weighted average deposit declined to 6.37 percent from 6.46 percent in March 2021. Consequently, the spread increased slightly to an average of 5.64 percent in the second quarter of 2021 from 5.58 percent in the previous quarter.

Table 2.6: Interest rates (percent)

	2020												2021					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day Treasury bill rate	7.23	7.31	7.29	7.21	7.27	7.14	6.24	6.20	6.29	6.49	6.69	6.90	6.92	6.90	7.03	7.10	7.15	7.03
182-day Treasury bill rate	8.17	8.25	8.14	8.14	8.18	7.93	6.69	6.56	6.70	6.89	7.11	7.38	7.48	7.64	7.82	7.92	7.98	7.60
Interbank rate	4.39	4.84	4.40	5.13	3.91	3.27	2.12	2.56	2.95	2.69	3.27	5.29	5.12	4.49	5.23	5.12	4.62	4.63
Repo rate	5.38	4.44	6.13	6.36	4.25	3.50	3.84	3.59	3.18	3.97	6.64	6.88	5.82	6.04	6.12	6.61	6.05	5.37
Reverse Repo rate	-	-	-	-	7.31	-	-	7.38	7.65	-	-	7.70	7.67	-	7.78	7.51	-	-
Central Bank Rate (CBR)	8.25	8.25	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	7.00	7.00
Average lending rate (1)	12.29	12.19	12.09	11.92	11.95	11.89	11.94	11.94	11.75	11.98	11.99	12.02	12.00	12.02	12.05	12.08	12.06	12.02
Overdraft rate	11.97	11.82	11.79	11.55	11.61	11.24	11.18	11.18	11.15	11.44	11.39	11.51	11.43	11.52	11.61	11.66	11.57	11.18
1-5years	12.44	12.35	12.20	12.06	12.09	12.07	12.11	12.08	11.62	12.07	12.11	12.13	12.10	12.10	12.15	12.19	12.20	12.24
Over 5years	12.28	12.16	12.11	11.96	11.95	11.98	12.10	12.12	12.12	12.12	12.11	12.12	12.11	12.12	12.11	12.15	12.11	12.12
Average deposit rate (2)	7.07	7.06	7.07	7.01	6.96	6.86	6.78	6.63	6.41	6.26	6.31	6.30	6.31	6.47	6.46	6.30	6.30	6.37
0-3months	7.39	7.40	7.42	7.33	7.20	7.11	7.01	6.77	6.47	6.44	6.42	6.66	6.64	6.67	6.68	6.74	6.63	6.76
Over 3 months deposit	7.52	7.53	7.56	7.53	7.57	7.40	7.31	7.20	7.07	6.79	6.93	6.97	7.01	6.97	6.89	6.88	7.03	7.08
Savings deposits	4.25	4.20	4.15	4.21	4.18	4.15	4.11	4.10	3.78	3.38	3.42	2.70	2.73	3.37	3.48	2.66	2.55	2.55
Spread (1-2)	5.22	5.13	5.02	4.92	4.99	5.02	5.16	5.30	5.34	5.72	5.68	5.73	5.69	5.55	5.58	5.78	5.76	5.64

Source: Central Bank of Kenya

Chapter 3

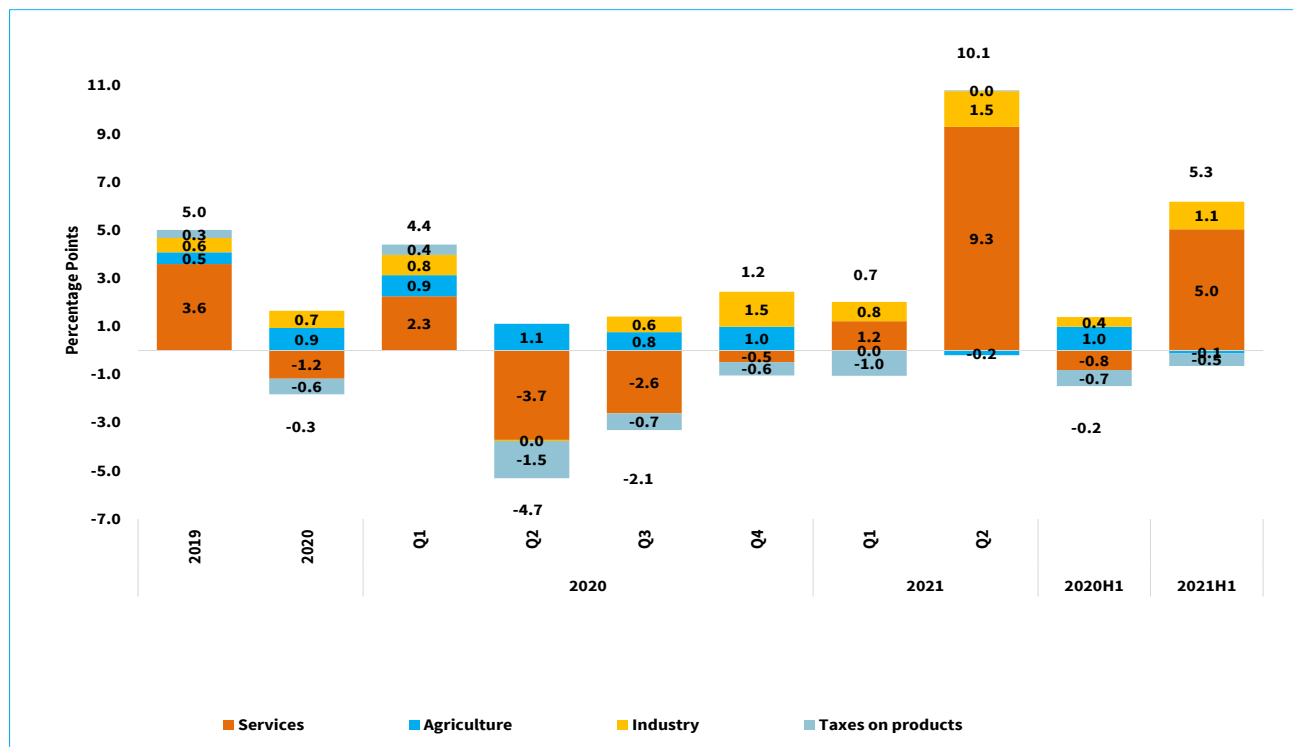
Economic Performance

Overview

The Kenyan economy rebounded strongly in the second quarter of 2021, as economic activity picked up following the easing of COVID-19 restrictions domestically and globally. Real GDP grew by 10.1 percent compared to a contraction of -4.7 percent in the same period of 2020. The strong performance was largely supported by pickup in service-oriented sectors such as wholesale and retail trade, transport and storage, information and communication, and education (**Chart 3.1, Table 3.1**).

The contributions of services and industry sectors to real GDP growth in the first half of 2021 were positive at 5.0 percentage points and 1.1 percentage points, respectively. Meanwhile, the contribution of agriculture sector was negative at -0.1 percentage points (**Chart 3.1, Table 3.3**).

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



Source: Central Bank of Kenya

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

	Annual		2020				2021		2020H1	2021H1
	2019	2020	Q1	Q2	Q3	Q4	Q1	Q2		
1. Agriculture	2.6	4.8	4.3	4.9	4.2	5.8	-0.1	-0.9	4.6	-0.5
2. Non-Agriculture (o/w)	5.5	-1.5	4.4	-7.2	-3.4	0.3	1.0	13.3	-1.5	6.9
2.1 Industry	3.4	4.0	4.8	-0.3	3.5	7.8	4.4	8.5	2.3	6.4
Mining & Quarrying	4.3	6.7	6.4	4.4	7.0	9.2	16.4	17.7	5.4	17.1
Manufacturing	2.5	-0.1	2.2	-4.7	-1.7	3.8	1.5	9.6	-1.2	5.4
Electricity & water supply	1.7	0.1	1.5	-4.7	0.2	3.5	2.0	5.2	-1.6	3.5
Construction	5.6	11.8	10.4	8.2	12.5	16.2	7.9	6.5	9.3	7.2
2.2 Services	6.5	-2.2	4.2	-7.1	-4.7	-0.9	2.2	16.8	-1.5	9.2
Wholesale & Retail Trade	5.3	-0.4	4.9	-4.2	-5.0	2.6	7.4	9.5	0.4	8.3
Accommodation & restaurant	14.3	-47.7	-8.1	-56.8	-63.4	-62.2	-48.8	9.1	-31.6	-31.1
Transport & Storage	6.3	-7.8	2.2	-16.8	-10.1	-6.1	-8.7	16.9	-7.4	2.9
Information & Communication	7.5	4.8	5.6	2.6	3.2	7.6	16.1	25.2	4.1	20.5
Financial & Insurance	6.9	5.6	7.5	4.4	3.0	7.4	9.4	9.9	5.9	9.7
Public administration	9.9	5.3	4.0	2.7	6.3	8.4	9.1	13.0	3.3	11.1
Professional, Administration & Support Services	6.9	-15.0	0.3	-27.5	-19.7	-12.1	-14.4	17.6	-14.1	-0.4
Real estate	6.7	4.1	5.4	4.6	3.7	2.7	4.5	4.9	5.0	4.7
Education	4.7	-10.8	1.8	-22.4	-17.4	-5.3	10.0	67.6	-10.2	34.6
Health	6.2	6.7	7.4	9.8	5.2	4.7	9.1	10.0	8.7	9.6
Other services	4.4	-14.2	-1.5	-22.1	-12.9	-20.4	-16.1	20.2	-11.8	-0.1
FISIM	9.5	-2.0	-2.9	0.5	-2.3	-2.9	0.3	-3.8	-1.2	-1.7
2.3 Taxes on products	3.7	-7.9	5.1	-20.8	-8.5	-6.4	-14.5	0.5	-8.5	-7.7
Real GDP Growth	5.0	-0.3	4.4	-4.7	-2.1	1.2	0.7	10.1	-0.2	5.3

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral Shares (Percentage of GDP)

	Annual		2020				2021		2020H1	2021H1
	2019	2020	Q1	Q2	Q3	Q4	Q1	Q2		
1. Agriculture	18.6	19.6	20.5	22.7	18.2	17.0	20.3	20.5	21.6	20.4
2.1 Industry	17.4	18.2	17.7	17.8	18.5	18.7	18.3	17.5	17.7	17.9
Mining & Quarrying	1.0	1.0	1.0	1.1	1.0	1.0	1.2	1.1	1.0	1.2
Manufacturing	8.7	8.7	8.7	8.4	8.6	9.0	8.7	8.4	8.6	8.6
Electricity & water supply	2.5	2.5	2.4	2.4	2.6	2.6	2.5	2.3	2.4	2.4
Construction	5.3	6.0	5.5	5.9	6.3	6.1	5.9	5.7	5.7	5.8
2.2 Services	55.1	54.1	53.5	52.0	55.0	55.6	54.3	55.2	52.8	54.8
Wholesale & Retail Trade	8.4	8.4	8.3	7.8	8.3	8.9	8.8	7.8	8.1	8.3
Accommodation & restaurant	1.2	0.6	1.0	0.5	0.4	0.5	0.5	0.5	0.8	0.5
Transport & Storage	10.3	9.6	10.0	8.9	9.7	9.6	9.1	9.4	9.5	9.3
Information & Communication	3.0	3.1	2.9	2.9	3.3	3.4	3.4	3.2	2.9	3.3
Financial & Insurance	7.7	8.2	7.4	7.9	8.4	9.0	8.0	7.9	7.6	7.9
Public administration	5.8	6.1	5.4	6.4	6.4	6.3	5.8	6.6	5.9	6.2
Professional, Administration & Support Services	3.0	2.6	2.8	2.3	2.5	2.7	2.3	2.4	2.5	2.4
Real estate	9.8	10.2	9.8	10.5	10.6	10.1	10.1	10.0	10.1	10.1
Education	4.7	4.2	4.6	3.7	4.0	4.4	5.0	5.6	4.1	5.3
Health	2.1	2.3	2.0	2.4	2.4	2.4	2.2	2.4	2.2	2.3
Other services	2.4	2.0	2.2	1.9	2.2	1.8	1.9	2.1	2.1	2.0
FISIM	-3.2	-3.1	-2.9	-3.1	-3.2	-3.4	-2.8	-2.7	-3.0	-2.8
2.3 Taxes on products	8.9	8.2	8.4	7.4	8.3	8.6	7.1	6.8	7.9	6.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics and Staff computations

Table 3.3: Sectoral Contributions to Real GDP Growth (Percentage Points)

	Annual		2020				2021		2020H1	2021H1
	2019	2020	Q1	Q2	Q3	Q4	Q1	Q2		
1. Agriculture	0.5	0.9	0.9	1.1	0.8	1.0	0.0	-0.2	1.0	-0.1
2. Non-Agriculture (o/w)	4.5	-1.2	3.5	-5.6	-2.8	0.3	0.8	10.6	-1.1	5.5
2.1 Industry	0.6	0.7	0.8	0.0	0.6	1.5	0.8	1.5	0.4	1.1
Mining & Quarrying	0.0	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.1	0.2
Manufacturing	0.2	0.0	0.2	-0.4	-0.1	0.3	0.1	0.8	-0.1	0.5
Electricity & water supply	0.0	0.0	0.0	-0.1	0.0	0.1	0.1	0.1	0.0	0.1
Construction	0.3	0.7	0.6	0.5	0.8	1.0	0.5	0.4	0.5	0.4
2.2 Services	3.6	-1.2	2.3	-3.7	-2.6	-0.5	1.2	9.3	-0.8	5.0
Wholesale & Retail Trade	0.4	0.0	0.4	-0.3	-0.4	0.2	0.6	0.7	0.0	0.7
Accommodation & restaurant	0.2	-0.3	-0.1	-0.3	-0.3	-0.3	-0.3	0.0	-0.2	-0.2
Transport & Storage	0.7	-0.7	0.2	-1.5	-1.0	-0.6	-0.8	1.6	-0.7	0.3
Information & Communication	0.2	0.2	0.2	0.1	0.1	0.3	0.5	0.8	0.1	0.7
Financial & Insurance	0.5	0.5	0.6	0.3	0.3	0.7	0.8	0.8	0.5	0.8
Public administration	0.6	0.3	0.2	0.2	0.4	0.5	0.5	0.9	0.2	0.7
Professional, Administration & Support Services	0.2	-0.4	0.0	-0.6	-0.5	-0.3	-0.3	0.4	-0.4	0.0
Real estate	0.7	0.4	0.5	0.5	0.4	0.3	0.5	0.5	0.5	0.5
Education	0.2	-0.5	0.1	-0.8	-0.7	-0.2	0.5	3.8	-0.4	1.8
Health	0.1	0.2	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Other services	0.1	-0.3	0.0	-0.4	-0.3	-0.4	-0.3	0.4	-0.2	0.0
FISIM	-0.3	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.0
2.3 Taxes on products	0.3	-0.6	0.4	-1.5	-0.7	-0.6	-1.0	0.0	-0.7	-0.5
Real GDP Growth	5.0	-0.3	4.4	-4.7	-2.1	1.2	0.7	10.1	-0.2	5.3

Source: Kenya National Bureau of Statistics and Staff computations

Performance By Sector

Economic indicators by sector for the second quarter point to continued recovery from the adverse impact of the COVID-19 pandemic, as normalization of the domestic and global economy continues. However, the services sector continues to bear the brunt of the pandemic, as the tightening of COVID-19 containment measures domestically in April 2021 disrupted travel and hospitality services.

Agriculture

Agriculture sector growth contracted in the second quarter following adverse weather conditions

which affected crops and livestock. It contracted by -0.9 percent compared to -0.1 percent in the previous quarter (**Table 3.1**).

Tea production: tea production declined by 5.6 percent in the second quarter of 2021 compared to the previous quarter, owing to poor rainfall distribution in tea growing areas during the quarter. Monthly data shows lower production in April and June by 9.0 percent and 4.1 percent, respectively, which more than outweighed the 2.3 percent growth recorded in May (**Table 3.4**).

Coffee sales: Coffee sales dropped significantly by 80 percent in the second quarter of 2021 compared to the previous quarter. The decline was mainly attributed to the Nairobi Coffee Exchange going on recess in May 2021, hence no coffee was sold during the month (**Table 3.4**). Compared to the same quarter of 2020, it declined by 19.9 percent owing to poor weather conditions that led to lower production.

Horticulture: total exports of horticultural crops decreased by 13.6 percent compared to the previous quarter. It was higher by 35.7 percent compared to the same quarter of 2020, as international demand for horticultural crops continues to normalize (**Table 3.4**).

Sugarcane: cane deliveries decreased by 7.0 percent compared to the previous quarter, driven by lower sugarcane production due to poor rainfall distribution during the quarter. It was higher by 15.5 percent compared to the same quarter of 2020 (**Table 3.4**).

Milk intake: milk intake increased by 9.1 percent compared to the previous quarter, with the highest monthly intake recorded in May at 29.2 percent. This outweighed the declines in April and June of 6.0 percent and 4.0 percent, respectively (**Table 3.4**).

Table 3.4: Quarterly Performance of Key Agricultural Output Indicators

	2020				2021*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-21	May-21	Jun-21
Tea									
Output (Metric tonnes)	158,570	143,038	118,492	150,366	140,987	133,090	44,299	45,322	43,469
Growth (%)	11.6	-9.80	-17.16	26.90	-6.24	-5.60	-9.0	2.3	-4.1
Horticulture									
Exports (Metric tonnes)	131,516	113,752	136,710	161,552	178,637	154,385	56,066	51,156	47,164
Growth (%)	26.1	-13.5	20.2	18.2	10.6	-13.6	-9.5	-8.8	-7.8
Coffee									
Sales (Metric tonnes)	12,304	3,368	4,432	4,314	13,468	2,698	2,196	-	502
Growth (%)	177.8	-72.6	31.6	-2.7	212.2	-80.0	-49.1	-	-
Milk									
Output (million litres)	173.4	151.2	171.7	188.2	191.2	208.5	59.0	76.3	73.2
Growth %	-3.4	-12.8	13.5	9.6	1.6	9.1	-6.0	29.2	-4.0
Sugar Cane									
Output ('000 Metric tonnes)	1,636	1,651	1,900	1,707	2,051	1,907	631	636	639
Growth (%)	43.6	0.9	15.1	-10.2	20.2	-7.0	-11.0	0.8	0.5

* Provisional

** Comparison based on Jan-Feb 2020 and Jan-Feb 2021

N/A Data not available

Source: Kenya National Bureau of Statistics

Industry

Industrial activity recovered during the first half of 2021, supported by increased activity following easing of COVID-19 restrictions. It grew by 6.4 percent compared to 2.3 percent in a similar period last year. Growth was supported by strong rebound of manufacturing and electricity and water supply sectors, which grew by 5.4 percent and 3.5 percent,

respectively, compared to contractions of -1.2 percent and -1.6 percent, respectively, in the first half of 2020. In addition, the construction sector recorded increased activity, growing by 7.2 percent compared to 9.3 percent in the same period of 2020 (**Table 3.1**).

Manufacturing

The Manufacturing sector rebounded in the second quarter of 2021, and grew by 9.6 percent compared to 1.5 percent in the first quarter. Its contribution to real GDP growth increased to 0.8 percentage points from 0.1 percentage points in the previous quarter (**Tables 3.1 and 3.3**). Growth of the sector was mainly attributed to increased activity following easing of COVID-19 restrictions. Both food and non-food processing sub sectors increased by 6.7 percent and 12.2 percent, respectively, during the quarter under review.

Cement production: cement production remained strong during the second quarter of 2021. It increased by 6.3 percent compared to the previous quarter, and by 30.7 percent compared to the same quarter of 2020 (**Table 3.5**). The increase reflects rising demand for cement on account of Government infrastructure projects.

Sugar: production of processed sugar increased by 23.8 percent compared to the same quarter of

last year, reflective of reduced sugarcane deliveries (**Table 3.5**).

Galvanized sheets: production increased by 9.5 percent compared to the previous quarter, reflected in increased production during all the months of the quarter (**Table 3.5**). Compared to the second quarter of 2020, production increased by 9.5 percent.

Assembled motor vehicles: output increased by 5.0 percent in the second quarter of 2021 compared to the previous quarter, supported by increased demand following reopening of the economy (**Table 3.5**). Compared to the same quarter of 2020, output of assembled vehicles increased by 5.0 percent.

Soft drinks: production increased by 46.9 percent in the period April-May 2021 compared to the same period in 2020. The increase was driven by increased demand following reopening of the economy (**Table 3.5**).

Table 3.5: Quarterly Production of Selected Manufactured Goods

	2020				2021*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-21	May-21	Jun-21
Cement production									
Output (MT)	1,638,646	1,615,579	2,086,075	2,066,615	1,987,307	2,112,046	695,953	717,669	698,424
Growth %	10.7	-1.4	29.1	-0.9	-3.8	6.3	-3.5	3.1	-2.7
Assembled vehicles									
Output (No.)	2,305	1,743	1,921	1,756	1,825	1,917	732	609	576
Growth %	7.5	-24.4	10.2	-8.6	3.9	5.0	3.8	-16.8	-5.4
Galvanized sheets									
Output (MT)	63,913	48,031	68,520	66,990	58,180	63,726	21,056	21,165	21,505
Growth %	-4.7	-24.8	42.7	-2.2	-13.2	9.5	1.8	0.5	1.6
Processed sugar									
Output (MT)	156,937	141,498	161,462	143,891	186,046	175,168	58,404	57,796	58,968
Growth %	49.7	-9.8	14.1	-10.9	29.3	-5.8	-12.2	-1.0	2.0
Soft drinks									
Output ('000 litres)	146,835	117,353	131,559	154,838	150,456	102,950**	51,749	51,201	N/A
Growth %	-4.5	-20.1	12.1	17.7	-2.8	46.9	-3.3	-1.1	-

MT = Metric tonnes

*Provisional

** 2021Q2 data up to May

Source: Kenya National Bureau of Statistics

Electricity and Water Supply

Growth in the sector recovered in the second quarter of 2021, driven by increased generation and consumption of electricity. It grew by 5.2 percent compared to 2.0 percent in the previous quarter, and contributed 0.1 percentage points to overall economic growth (**Tables 3.1 and 3.3**).

Energy: electricity generation declined marginally by 0.1 percent compared to the previous quarter. All sources of electricity recorded increased generation except geothermal electricity, whose generation reduced by 9.6 percent. Meanwhile, electricity consumption and international oil prices increased by 1.0 percent and 12.3 percent, respectively, reflecting increased activity following the continued easing of COVID-19 restrictions (**Table 3.6**).

Table 3.6: Quarterly Performance in the Energy Sector

	2020				2021*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-21	May-21	Jun-21
Electricity Supply (Generation)									
Output (million KWH)	2,888.5	2,634.9	2,918.8	3,032.0	2,977.4	2,975.9	964.3	1008.4	1003.2
Growth (%)	0.2	-8.8	10.8	3.9	-1.8	-0.1	-7.0	4.6	-0.5
Of which:									
Hydro-power Generation (million KWH)	1058.7	951.3	1071.3	1158.5	916.8	994.9	307.9	369.0	318.0
Growth (%)	14.0	-10.2	12.6	8.1	-20.9	8.5	0.9	19.8	-13.8
Geo-Thermal Generation (million KWH)	1,367.6	1,225.0	1,237.8	1,229.5	1,347.6	1,218.9	424.5	385.4	409.0
Growth (%)	-5.0	-10.4	1.0	-0.7	9.6	-9.6	-7.8	-9.2	6.1
Thermal Generation (million KWH)	164.0	153.9	220.6	216.5	243.3	259.9	59.6	116.2	84.2
Growth (%)	-15.5	-6.1	43.3	-1.8	12.4	6.8	-5.5	94.9	-27.5
Wind Generation (million KWH)	275.7	282.1	368.9	404.7	447.4	479.5	164.7	130.2	184.6
Growth (%)	-7.2	2.3	30.8	9.7	10.6	7.2	-17.6	-20.9	41.8
Solar Generation (million KWH)	22.3	22.6	20.3	22.9	22.2	22.4	7.4	7.6	7.4
Growth (%)	-4.9	1.2	-10.4	12.8	-2.9	1.0	-4.6	2.4	-2.4
Co-Generation (million KWH)	0.1	0.1	0.0	0.1	0.1	0.2	0.1	0.0	0.1
Growth (%)	-54.5	20.0	-66.7	150.0	100.0	50.0	100.0	-33.3	25.0
Consumption of electricity (million KWH)	2,274.7	2,021.5	2,214.0	2,284.5	2,333.9	2,356.7	775.0	785.4	796.3
Growth (%)	2.3	-11.1	9.5	3.2	2.2	1.0	-3.1	1.3	1.4
Murban crude oil average price (US \$ per barrel)	51.8	26.6	43.4	44.0	60.0	67.3	63.2	66.9	71.9
Growth (%)	-18.6	-48.6	62.9	1.3	36.5	12.3	-2.0	5.8	7.4

* Provisional

Source: Kenya National Bureau of Statistics

Construction

Growth in the sector was strong at 6.5 percent, though lower compared to 7.9 percent growth in the previous quarter. The strong performance is supported by ongoing Government infrastructure projects. Its contribution to real GDP growth stood at 0.4 percentage points compared to 0.5 percentage points in the previous quarter (**Tables 3.1 and 3.3**).

Cement consumption: cement consumption increased by 5.5 percent compared to the previous quarter. Monthly production decreased by 5.5

percent in April, then picked up in May and June (**Table 3.7**).

Building Plans: The value of building plans approved by the Nairobi City County Planning, Compliance and Enforcement Department declined significantly by 64.3 percent in the period April-May 2021 compared to the same period in 2020, reflected in both residential and non-residential building plans (**Table 3.7**).

Table 3.7: Quarterly Output of Selected Construction Indicators

	2020				2021*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-21	May-21	Jun-21
Cement Consumption									
Output (Tonnes)	1,628,361	1,608,297	2,028,767	2,047,237	1,970,778	2,078,767	677,411	679,042	727,478
Growth (%)	11.0	-1.2	26.1	0.9	-3.7	5.5	-5.5	0.2	7.1
Value of Building Plans Approved by Nairobi City County Planning, Compliance & Enforcement Department									
Residential (KSh, millions)	59,991.20	15,715.63	8,339.37	25,111.93	25,098.46	6,994**	4,284.75	2,708.76	N/A
Growth (%)	153.6	-73.8	-46.9	201.1	-0.1	-55.5	-62.0	-36.8	
Non-residential (KSh, millions)	22,446.59	11,331.71	2,955.88	7,683.11	7,736.07	2,659**	619.74	2,038.99	N/A
Growth (%)	44.7	-49.5	-73.9	159.9	0.7	-76.5	-78.7	229.0	
Total (KSh, millions)	82,437.79	27,047.34	11,295.25	32,795.04	32,834.53	9,652**	4,904.49	4,747.75	N/A
Growth (%)	110.5	-67.2	-58.2	190.3	0.1	-64.3	-65.4	-3.2	

N/A - Not Available

* Provisional

** 2021Q2 data up to May

Source: Kenya National Bureau of Statistics

Services

The Services sector recorded strong recovery in the second quarter of 2021, and grew by 16.8 percent compared to 2.2 percent in the previous quarter. Continued easing of COVID-19 restrictions both domestically and internationally has resulted in increased activity in many service sectors that were hard hit by the pandemic. Contribution of services to real GDP growth increased significantly to 9.3 percentage points compared to 1.2 percentage points in the previous quarter (**Tables 3.1 and 3.3**). However, the tightening of COVID-19 restrictions in the country in April 2021 had an adverse impact on some sectors, including Accommodation and Restaurant, and Transport and Storage.

Accommodation and Restaurants

The sector grew by 9.1 percent in the second quarter of 2020, a significant improvement from a contraction of -48.8 percent in the previous quarter (**Table 3.1**). Activity in the sector picked up during the quarter, supported by continued easing of domestic and international COVID-19 restrictions.

Tourist arrivals: Overall tourist arrivals declined by 6.9 percent in the second quarter of 2021, compared to 17.1 percent growth in the previous quarter. The decline was driven by the sharp drop recorded in April 2021 after tightening of COVID-19 restrictions in the country during the month. However, arrivals picked up in May and June after these restrictions were eased (**Table 8**). Compared to the same quarter of 2020, tourist arrivals picked up significantly, as many of the containment measures that were imposed during the second quarter of 2020 had been significantly eased.

Table 3.8: Quarterly Tourist Arrivals by Point of Entry

	2020				2021*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-21	May-21	Jun-21
Total Tourist Arrivals	290,010	547	31,809	103,982	121,739	113,307	30,887	33,888	48,532
Growth (%)	-27.9	-99.8	5715.2	226.9	17.1	-6.9	-23.6	9.7	43.2
o.w. JKIA - Nairobi	262,769	545	30,562	98,650	112,495	106,497	27,850	32,153	46,494
Growth (%)	-28.3	-99.8	5507.7	222.8	14.0	-5.3	-25.2	15.5	44.6
MIAM - Mombasa	27,241	2	1,247	5,332	9,244	6,810	3,037	1,735	2,038
Growth %	-24.0	-100.0	62250.0	327.6	73.4	-26.3	-4.9	-42.9	17.5

* Provisional

Source: Kenya Tourism Board

Transport and Storage

Growth in the transport and storage sector was strong in the second quarter of 2021, supported by easing of social distancing measures in public transport. The sector grew by 16.9 percent compared to a contraction of -8.7 percent in the previous quarter. Its contribution to real GDP growth stood at 1.6 percentage points compared to a negative contribution of -0.8 percentage points in the previous quarter (**Tables 3.1 and 3.3**). The strong growth was reflected in increased passenger travel, freight movement through SGR, and diesel consumption.

Total passenger flows through JKIA and passenger movement through the Standard Gauge Railway

(SGR) decreased by 3.6 percent and 33.9 percent, respectively, during the quarter. Passenger travel was disrupted in April 2021 following tightening of COVID-19 restrictions. However, it picked up in May and June after the restrictions were eased (**Table 3.9**).

Meanwhile, the volume of oil that passed through the Kenya Pipeline decreased by 3.4 percent compared to 1.1 percent growth in the previous quarter. Consumption of fuels, cargo movement through the SGR, and cargo throughput at the port of Mombasa also declined by 1.9 percent, 6.2 percent, and 10.8 percent, respectively, during the quarter under review (**Table 3.9**).

Table 3.9: Quarterly Throughput of Selected Transport Companies

	2020				2021*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-21	May-21	Jun-21
Number of Passengers thro' JKIA									
Total passenger flows	1,023,393	11,512	139,409	424,925	477,356	459,951	144,726	140,742	174,483
Growth (%)	-22.7	-98.9	1111.0	204.8	12.3	-3.6	-12.3	-2.8	24.0
o.w. Incoming	640,852	3,619	69,207	221,888	229,527	227,503	66,327	70,277	90,899
Growth (%)	-12.1	-99.5	-92.3	-73.2	-76.0	-76.0	-14.9	6.0	29.3
Outgoing	382,541	7,893	70,202	203,037	247,829	232,448	78,399	70,465	83,584
Growth (%)	-22.8	-97.9	789.4	189.2	22.1	-6.2	-9.9	-10.1	18.6
Kenya Pipeline Oil Throughput									
Output ('000 litres)	1,900,764	1,281,349	1,701,972	1,922,751	1,944,618	1,877,873	624,602	632,780	620,491
Growth (%)	4.7	-32.6	32.8	13.0	1.1	-3.4	-11.3	1.3	-1.9
Consumption of Fuels									
Output ('000 litres)	1,226.4	940.5	1,217.4	1,288.2	1,262.5	1,238.2	390.2	415.3	432.7
Growth (%)	-2.3	-23.3	29.4	5.8	-2.0	-1.9	-13.0	6.4	4.2
Passenger and Cargo Movement on the Standard Gauge Railway									
Passengers	320,730	6,363	95,378	389,081	460,497	304,445	320	140,384	163,741
Growth (%)	-22.1	-98.0	1398.9	307.9	18.4	-33.9	-99.8	43770.0	16.6
Cargo (tonnes)	928,054	1,053,199	1,205,766	1,231,424	1,413,791	1,325,975	460,787	434,733	430,455
Growth (%)	-10.0	13.5	14.5	2.1	14.8	-6.2	-9.3	-5.7	-1.0
Cargo Throughput at the port of Mombasa									
Total Output (tonnes)	8,612.48	7,795.44	8,655.38	9,013.70	9,862.48	8,793.43	2,850.82	3,030.93	2,911.68
Growth (%)	4.4	-9.5	11.0	4.1	9.4	-10.8	-18.0	6.3	-3.9

* Provisional

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

Chapter 4

Global Economy

According to the July 2021 IMF World Economic Outlook Update, global output growth is expected to grow by 4.8 percent in the fourth quarter of 2021 and moderate to 3.9 percent in the fourth quarter of 2022, reflecting easing of travel restrictions and the anticipated vaccine-powered recovery in the second half of the year. Global output growth will rebound strongly to 6.0 percent in 2021, before slowing to 4.9 percent in 2022. A 0.5 percentage-point revision for 2022 is largely driven by the expected strong growth outturn in advanced economies (**Table 4.1**).

Growth in the advanced economies is expected to grow by 5.9 percent in the fourth quarter of 2021 and by 2.6 percent in the fourth quarter of 2022. Annual growth prospects in these economies is expected to reach 5.5 percent in 2021 before slowing to 4.4 percent in 2022. However, there is a significant divergence in the direction of this region's growth recovery, with the US and UK growth expected to return to pre-pandemic levels in the second half of 2021, further supported by positive spillovers to trading partners. Japan is partially offsetting the strong growth momentum for the group due to sharp rise in the Covid-19 cases in the first half of 2021 that led to imposition of tighter restrictions. Most countries are expected to recover in quarter four of 2021 as follows: US (8.0 percent), the UK (7.3 percent), Canada (5.4 percent), Spain (7.4 percent), France (4.5 percent), Italy (4.7 percent), Germany (4.9 percent) and Japan (2.2 percent).

Official preliminary GDP estimates released in the for the first quarter of 2021 show that growth in the United States is estimated to have increased at an annual rate of 6.5 percent, reflecting continued economic recovery, and increased government response to the COVID-19 pandemic. Other countries in this group that have published second quarter of 2021 growth, include United Kingdom (4.8 percent), France (0.9 percent), Germany (2.5 percent), Spain (2.8 percent) and the Euro Area (2.0 percent) (**Chart 4.1**).

Growth in emerging market and developed economies is expected to grow by 3.9 percent in the fourth quarter of 2021, with a 4.9 percent increase expected in the fourth quarter of 2022. On an annual basis, growth in these economies is

expected to increase by 6.3 percent in 2021, largely reflecting increased rollout of vaccine, relaxation of containment measures, aggressive public spending, and central bank liquidity support. However, India's growth momentum slowed following the outbreak of the Covid-19 Delta variant in the beginning of the second quarter of 2021. China output is estimated to have increased by 7.8 percent in second quarter of 2021 and is projected to expand to 4.2 percent in 2021 in quarter four of 2021. Latin America's growth is projected to pick up to 5.8 percent in 2021), reflecting better-than-expected first quarter outturns, favorable spillovers, and booming terms of trade. Growth in most the economies in this group is expected to remain subdued by quarter four of 2021. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.4 percent in 2021, which is significantly lower than the pre-pandemic trend, with tourism-dependent economies suffering the most. Nigeria and South Africa are expected to grow at rates of 2.5 and 4.0 percent, respectively, and by 2.6 percent (Nigeria) and 2.2 percent (South Africa) in 2022 (**Table 4.1 and Chart 4.1**).

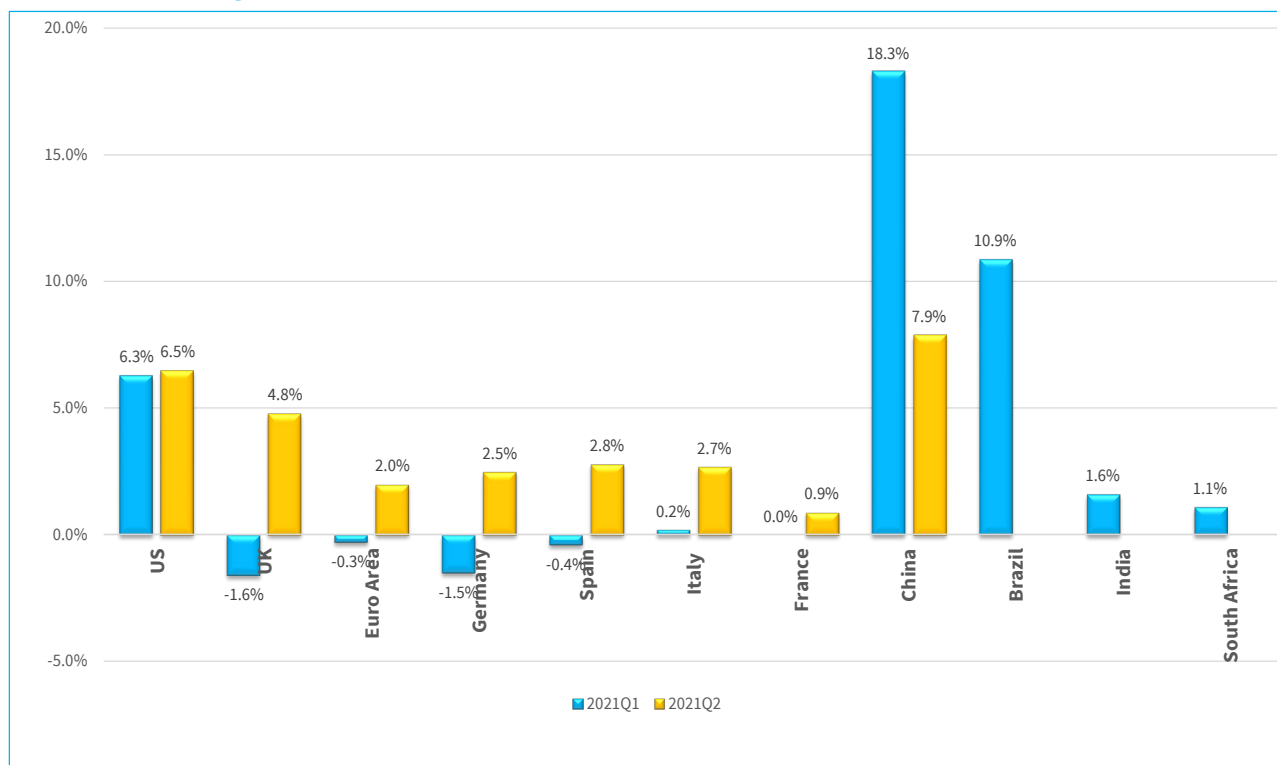
Global trade volumes are expected to increase by 9.7 percent in 2021 before slowing to 7.0 percent in 2022, driven by a strong rebound in merchandise volumes, while cross-border services trade (tourism, transportation) is expected to remain subdued in the short term (**Table 4.1**). Oil prices are expected to rise by 30 percent in 2021 from their low point in 2020, owing in part to supply curbs imposed by OPEC+ (Organization of the Petroleum Exporting Countries, which includes Russia and other non-OPEC oil exporters). Metal prices are expected to rise sharply in 2021, owing largely to China's recovery, while food prices are expected to rise. Global financial conditions have remained stable with minimal volatilities and are expected to continue supporting global growth prospects in the medium-term despite transitory inflationary pressures experienced mostly in the advanced economies and a few of emerging market and developing economies.

Uncertainty surrounding the global growth prospects remains high despite expectation of mass rollout of vaccine across economies, additional policies support, increased social safety nets and

accommodative financial conditions. The risks of a pandemic resurgence, vaccine-resistant strains, and operational threats such as vaccine development and delivery delays remain significant. Tighter

financial conditions, which imply a re-evaluation of market dynamics, a rise in core sovereign yields, and a re-evaluation of inflation risks, could all result in a rapid repricing of financial assets.

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



Source: National statistics offices, Bloomberg surveys

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

	Year over Year						
	Actual	Estimate	Projections		Q4 Over Q4		
					Estimate	Projections	
	2019	2020	2021	2022	2020	2021	2022
World Output	2.8	-3.2	6.0	4.9	-0.5	4.8	3.9
Advanced Economies	1.6	-4.6	5.6	4.4	-3.0	5.9	2.6
United States	2.2	-3.5	7.0	4.9	-2.4	8.0	2.8
Euro Area	1.3	-6.5	4.6	4.3	-4.7	4.8	2.7
Germany	0.6	-4.8	3.6	4.1	-3.3	4.9	1.4
France	1.8	-8.0	5.8	4.2	-4.6	4.5	2.5
Italy	0.3	-8.9	4.9	4.2	-6.5	4.7	2.9
Spain	2.0	-10.8	6.2	5.8	-8.9	7.4	2.8
Japan	0.0	-4.7	2.8	3.0	-1.0	2.2	1.6
United Kingdom	1.4	-9.8	7.0	4.8	-7.3	7.3	2.1
Canada	1.9	-5.3	6.3	4.5	-3.1	5.4	3.6
Emerging Market and Developing Economies	3.7	-2.1	6.3	5.2	1.6	3.9	4.9
Emerging and Developing Asia	5.4	-0.9	7.5	6.4	3.6	4.3	5.9
China	6.0	2.3	8.1	5.7	6.3	4.2	6.2
India	4.0	-7.3	9.5	8.5	1.5	4.2	4.9
Emerging and Developing Europe	2.5	-2.0	4.9	3.6	-0.2	3.4	3.5
Russia	2.0	-3.0	4.4	3.1	-1.9	3.9	2.7
Latin America and the Caribbean	0.1	-7.0	5.8	3.2	-3.4	3.2	2.5
Brazil	1.4	-4.1	5.3	1.9	-1.2	2.2	1.9
Mexico	-0.2	-8.3	6.3	4.2	-4.6	5.0	3.2
Middle East and Central Asia	1.4	-2.6	4.0	3.7	...	...	...
Saudi Arabia	0.3	-4.1	2.4	4.8	-3.9	4.8	3.5
Sub-Saharan Africa	3.2	-1.8	3.4	4.1	...	...	...
Nigeria	2.2	-1.8	2.5	2.6	-0.6	2.6	2.4
South Africa	0.2	-7.0	4.0	2.2	-4.2	1.2	3.1
World Trade Volume (goods and services)	0.9	-8.3	9.7	7.0	...	...	...
Advanced Economies	1.4	-9.2	8.9	7.1	...	...	...
Emerging Market and Developing Economies	-0.2	-6.7	11.1	6.9	...	...	...
Commodity Oil Prices (US dollars)	-10.2	-32.7	56.6	-2.6	-27.6	50.8	-6.5
Consumer Prices							
Advanced Economies	1.4	0.7	2.4	2.1	0.4	3.0	1.9
Emerging Market and Developing Economies	5.1	5.1	5.4	4.7	3.2	5.1	4.1

Source: World Economic Outlook, July 2021 Update

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account deficit is estimated to have widened to USD 1,381 million in the second quarter of 2021 from USD 782 million in the second quarter of 2020 reflecting increased imports of intermediate goods which more than offset improved earnings from strong agricultural exports, and resilient

diaspora remittances (**Table 5.1**). Secondary income inflows were boosted by remittances, which increased to USD 977 million in the second quarter of 2021 from USD 764 million in a similar quarter of 2020.

Table 5.1: Balance of payments (USD Million)¹

ITEM	2020				2021	2021				Q2 2021-Q2 2020	
	Jan-Mar	Apr-June	Jul-Sep	Oct-Dec	Jan-Mar	Apr	May	Jun	Apr-Jun	Absolute	%
	Q1	Q2	Q3	Q4	Q1				Q2	Change	Change
1. Overall Balance	466	-1,118	1,023	414	540	180	-30	-1,699	-1,549	-431	39
2. Current account	-1,093	-782	-1,333	-1,323	-1,481	-412	-408	-561	-1,381	-599	77
Exports (fob)	1,764	1,307	1,516	1,474	1,739	548	593	528	1,670	363	28
Imports (fob)	3,916	3,066	3,638	3,790	4,308	1,394	1,407	1,389	4,189	1,123	37
Services: credit	1,204	843	848	940	895	323	329	327	980	137	16
Services: debit	1,004	788	873	931	975	349	335	322	1,005	217	28
Balance on goods and services	-1,952	-1,705	-2,147	-2,307	-2,650	-871	-819	-855	-2,545	-840	49
Primary income: credit	53	23	40	27	30	11	12	16	38	15	64
Primary income: debit	413	348	445	334	251	72	146	242	460	112	32
Balance on goods, services, and primary income	-2,311	-2,030	-2,552	-2,614	-2,871	-933	-953	-1,082	-2,967	-938	46
Secondary income : credit	1,232	1,259	1,235	1,300	1,400	524	549	524	1,597	339	27
o.w Remittances	698	764	812	825	846	305	358	314	977	213	28
Secondary income: debit	14	11	17	10	10	3	4	3	11	0	-3
3. Capital Account	24	42	36	28	84	78	24	171	273	231	547
4. Financial Account	-419	-1,690	-295	-424	-699	-696	-325	-1,758	-2,779	-1,090	64

* Revised

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The trade balance in goods and services is estimated to have deteriorated by 49 percent from a deficit of USD 1,705 million in the second quarter of 2020 to a deficit of USD 2,545 million in the second quarter of 2021, largely on account of increased imports of intermediate goods (**Table 5.1**). In the second quarter of 2021, the value of merchandise exports increased to USD 1,670 million from USD 1,307 million in a similar period in 2020, supported by increase in exports of horticulture, manufactured goods, raw materials and oil products. Horticulture export receipts increased by 38 percent reflecting robust international demand for horticulture (fruits

and vegetables) which have remained resilient during Covid-19 period (**Table 5.2**). Receipts from exports of manufactured goods and raw materials also increased by 91 percent and 8 percent, respectively in the period under review. Tea export receipts fell by 9 percent to USD 299 million in the second quarter of 2020, from USD 327 million in the same quarter in 2020, on account of lower international prices. The value of merchandise imports increased by 37 percent to USD 4,189 million in the second quarter of 2021, from USD 3,066 million in a similar quarter in 2020, largely due to increased importation of manufactured

and chemical goods, which make up intermediate inputs and mostly industrial machinery. Oil imports rose by USD 423 million reflecting higher global oil prices.

Net receipts on the services account fell by USD 80 million to a deficit of USD 26 million in the second quarter of 2021, compared to a surplus of USD 55

million in the same period in 2020. Earnings from transport and travel services exports remained subdued on account of elevated concerns on the surge of the Covid-19 Delta variant that resulted in travel restrictions in some regions. Transport and travel service receipts fell by USD 84 and USD 96 million respectively, in the second quarter of 2021. The deficit in the primary income account widened

Table 5.2: Balance on current account (USD Million)¹

ITEM	2020			2021					Q2 2021-Q2 2020	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr	May	Jun	Apr-Jun	Absolute	%
	Q2	Q3	Q4	Q1				Q2	Change	Change
CURRENT ACCOUNT	-782	-1,333	-1,323	-1,481	-412	-408	-561	-1,381	-599	77
Goods	-1,760	-2,122	-2,316	-2,569	-846	-813	-860	-2,520	-760	43
Exports (fob)	1,307	1,516	1,474	1,739	548	593	528	1,670	363	28
o.w Coffee	74	47	43	75	22	29	22	73	-1	-2
Tea	327	282	282	326	107	103	89	299	-28	-9
Horticulture	210	233	265	334	100	99	90	289	80	38
Oil products	8	18	15	11	5	2	5	13	4	52
Manufactured Goods	69	111	107	106	41	42	48	131	62	91
Raw Materials	89	76	80	115	20	51	25	96	7	8
Chemicals and Related Products (n.e.s)	100	119	124	113	41	44	41	126	26	25
Miscellaneous Man. Articles	103	163	154	144	56	64	61	181	77	75
Re-exports	108	174	114	197	51	58	41	150	42	39
Other	212	283	291	311	101	94	106	302	90	42
Imports (fob)	3,066	3,638	3,790	4,308	1,394	1,407	1,389	4,189	1,123	37
o.w Oil	359	526	554	717	256	279	246	782	423	118
Chemicals	609	682	631	774	251	263	237	750	141	23
Manufactured Goods	621	720	784	910	284	314	281	879	258	42
Machinery & Transport Equipment	780	1,082	1,050	1,076	339	320	349	1,008	227	29
Machinery	535	698	689	698	220	208	218	646	111	21
Transport equipment	245	384	362	377	119	112	131	362	116	47
Other	783	705	937	1,023	339	277	285	901	118	15
o.w Food	397	324	394	474	163	123	148	434	37	9
Services	55	-25	9	-80	-25	-6	5	-26	-80	-147
Transport Services (net)	14	-65	-35	-91	-27	-24	-18	-70	-84	-585
Credit	283	231	298	292	100	103	105	308	25	9
Debit	269	296	333	383	128	127	123	378	109	41
Travel Services (net)	21	107	66	83	36	44	38	118	96	453
Credit	28	134	85	102	43	52	46	141	113	401
Debit	7	27	19	19	7	8	8	23	16	239
Other Services (net)	19	-67	-22	-73	-33	-26	-15	-74	-93	-488
Primary Income	-325	-405	-307	-221	-62	-134	-226	-422	-97	30
Credit	23	40	27	30	11	12	16	38	15	64
Debit	348	445	334	251	72	146	242	460	112	32
Secondary Income	1,248	1,218	1,291	1,390	521	545	521	1,586	339	27
Credit	1,259	1,235	1,300	1,400	524	549	524	1,597	339	27
Debit	11	17	10	10	3	4	3	11	0	-3

¹Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

by USD 97 million to USD 422 million in the second quarter of 2021 from a deficit of USD 325 million in the same period last year, on account of higher reinvestment income related outflows. The secondary income balance, on the other hand, improved to USD 1,586 million in the second quarter

of 2021 from USD 1,248 million, mainly supported by strong growth of remittances. Remittances increased by 28 percent to USD 977 million in the second quarter of 2021 from USD 764 million in the same period in the previous year.

Table 5.3: Kenya's direction of trade: Imports¹

IMPORTS (USD M)	2020				2021				Share of Imports (%)	
	Jan-Mar	Apr-June	Jul-Sep	Oct-Dec	Jan-Mar					
	Q1	Q2	Q3	Q4	Apr	May	Jun	Q2	Q2 2020	Q2 2021
Country	Q1	Q2	Q3	Q4	Apr	May	Jun	Q2	Q2 2020	Q2 2021
Africa	461	355	412	485	145	161	172	478	11.6	11.4
Of which										
South Africa	141	96	108	87	27	33	46	107	3.1	2.5
Egypt	106	89	107	120	31	39	41	111	2.9	2.6
Others	214	170	197	278	87	89	85	261	5.5	6.2
EAC	119	100	141	149	51	58	59	167	3.3	4.0
COMESA	258	203	214	295	87	92	81	259	6.6	6.2
Rest of the World	3,455	2,712	3,226	3,304	1,249	1,245	1,217	3,711	88.4	88.6
Of which									0	0
India	568	350	426	434	199	157	199	555	11.4	13.2
United Arab Emirates	271	136	181	283	111	165	82	359	4.4	8.6
China	223	178	205	218	82	68	69	219	5.8	5.2
Japan	128	154	129	118	38	54	56	148	5.0	3.5
USA	72	62	69	72	22	27	26	75	2.0	1.8
United Kingdom	32	11	14	26	3	4	7	14	0.4	0.3
Singapore	93	98	117	70	26	27	32	86	3.2	2.0
Germany	237	96	213	128	106	42	21	169	3.1	4.0
Saudi Arabia	199	159	93	141	52	28	22	103	5.2	2.5
Indonesia	73	51	127	140	42	60	41	143	1.7	3.4
Netherlands	57	53	53	56	14	19	15	48	1.7	1.1
France	1	2	2	33	0	2	3	5	0.1	0.1
Bahrain	57	45	50	70	11	26	20	57	1.5	1.4
Italy	1,446	1,316	1,545	1,514	542	565	624	1,730	42.9	41.3
Others	3,916	3,066	3,638	3,790	1,394	1,407	1,389	4,189	100.0	100.0
Total	3,916	3,066	3,638	3,790	1,370	1,349	1,592	4,312	100	100
EU	535	446	597	590	161	213	191	566	14.5	13.5
China	797	723	970	903	308	315	322	946	23.6	22.6

¹Provisional

Source: Kenya Revenue Authority

Direction of Trade

Imports from China accounted for 22.6 percent of total imports to Kenya making it the largest single source of imports, reflecting a 30.8 percent increase when compared to the same quarter in 2020. Imports from the European Union rose by USD 120 million, while those from Africa rose by USD 124 million to USD 478 million in the second

quarter of 2021. Total imports from the Common Market for Eastern and Southern Africa (COMESA) region increased to 259 million, while that of EAC region increased to USD 167 million in the second quarter of 2021. Total imports from COMESA region increased to 286 million, while that of EAC region increased to USD 177 million in the first quarter of 2021.

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)	2020				2021				Share of Exports (%)	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Jun				Q2 2020	Q2 2021
	Q1	Q2	Q3	Q4	Apr	May	Jun	Q2		
Country	Q1	Q2	Q3	Q4	Apr	May	Jun	Q2	Q2 2020	Q2 2021
Africa	640	448	614	588	288	230	215	732	34.3	43.8
Of which										
Uganda	185	118	200	173	69	78	70	218	9.1	13.0
Tanzania	78	59	75	82	28	25	29	83	4.5	5.0
Egypt	53	43	34	49	16	17	11	44	3.3	2.6
Sudan	29	16	14	19	8	6	8	22	1.2	1.3
South Sudan	84	38	56	40	9	14	11	35	2.9	2.1
Somalia	25	23	34	24	3	20	8	31	1.8	1.9
DRC	33	31	35	35	92	11	14	117	2.4	7.0
Rwanda	60	42	69	65	19	21	22	61	3.2	3.7
Others	93	78	97	101	44	37	40	122	6.0	7.3
EAC	420	269	417	373	131	143	137	411	20.6	24.6
COMESA	421	311	417	400	238	161	155	554	23.8	33.2
Rest of the World	1,124	859	902	886	260	363	314	938	65.7	56.2
Of which										
United Kingdom	131	114	112	114	29	39	40	108	8.7	6.5
Netherlands	129	83	116	130	44	54	43	141	6.3	8.4
USA	119	104	122	119	32	45	49	126	7.9	7.5
Pakistan	132	141	123	118	33	41	35	110	10.8	6.6
United Arab Emirates	127	66	73	61	23	20	20	63	5.0	3.8
Germany	34	37	37	29	7	9	8	24	2.8	1.4
India	12	8	17	34	4	5	5	15	0.6	0.9
Afghanistan	14	5	2	1	1	0	0	1	0.3	0.1
Others	425	303	301	279	87	150	113	350	23.2	21.0
Total	1,764	1,307	1,516	1,474	548	593	528	1,670	100	100
EU	391	315	350	344	104	139	127	370	24.1	22.2
China	41	36	30	32	7	22	15	44	2.7	2.6

Source: Kenya Revenue Authority

In the second quarter of 2021, the value of merchandise exports to Africa was USD 732 million, accounting for 43.8 percent of total exports. Exports to EAC region increased overall except a slight decrease registered for South Sudan. The

proportion of exports to the EU was 22.2 percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 8.4 percent, 6.5 percent, 7.5 percent, and 6.6 percent, respectively.

Capital and Financial Account

Net capital account inflows increased by USD 231 million to USD 273 million in the second quarter of 2021. Net financial account inflows were higher at USD 2,779 million in the second quarter of

2021, compared to net inflows of USD 1,690 in the second quarter of 2020. This largely reflected an improvement in other investment and portfolio inflows despite the reduction in foreign direct investment (FDI).

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

	2020				2021*				Q2 2021-Q2 2020	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Apr-Jun				Absolute	%
	Q1	Q2	Q3	Q4	Apr	May	Jun	Q2	Change	Change
Capital account credit	24	42	36	28	78	24	171	273	231	547
Capital account credit	24	42	36	28	78	24	171	273	231	547
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-419	-1,690	-295	-424	-696	-325	-1,758	-2,779	-1,090	64
Direct investment: assets	71	8	39	33	11	487	10	509	500	6,027
Direct investment: liabilities	104	93	93	150	47	51	45	143	50	55
Portfolio investment: assets	309	303	252	337	76	106	74	256	-47	-16
Portfolio investment: liabilities	-101	-91	-6	11	22	31	1,045	1,098	1,188	-1,309
Financial derivatives: net	3	-5	11	-19	-3	0	6	3	8	-161
Other investment: assets	-8	128	-103	995	-47	-186	-99	-332	-461	-358
Other investment: liabilities	791	2,123	409	1,608	665	651	659	1,974	-149	-7

* Provision

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 14,741 million at the end of the second quarter of 2021 from USD 13,681 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 9,957 million, equivalent to 6.1 months of import cover, while Commercial Bank reserves decreased by USD 843 million to end at USD 4,784 million at the end of second quarter of 2021 (Table 5.6).

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

	2020				2021			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Apr-Jun			
	Q1	Q2	Q3	Q4	Apr	May	Jun	Q2
1. Gross Reserves	12,447	13,681	12,585	12,992	12,904	12,745	14,741	14,741
of which:								
Official	8,635	9,740	8,765	8,297	7,842	7,872	9,957	9,957
import cover*	5.2	5.9	5.4	5.1	4.8	4.8	6.1	6.1
Commercial Banks	3,812	3,941	3,820	4,695	5,062	4,874	4,784	4,784
2. Residents' foreign currency deposits	6,445	6,557	6,448	7,076	7,280	7,136	7,223	7,223

*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 weakened against major international currencies as a result of the COVID-19 impact on global financial conditions. The Kenya Shilling weakened by 1 percent against the US Dollar to exchange at an average of 107.76 in the second quarter of 2021 compared with 106.50 in

a similar quarter in 2020. It also weakened against the Sterling, the Euro and the South Africa Rand. In the EAC region, the Shilling depreciated against Uganda and Tanzania currencies, but strengthened against the Rwanda and Burundi Franc during the review period (**Table 5.7 and Chart 5.1**).

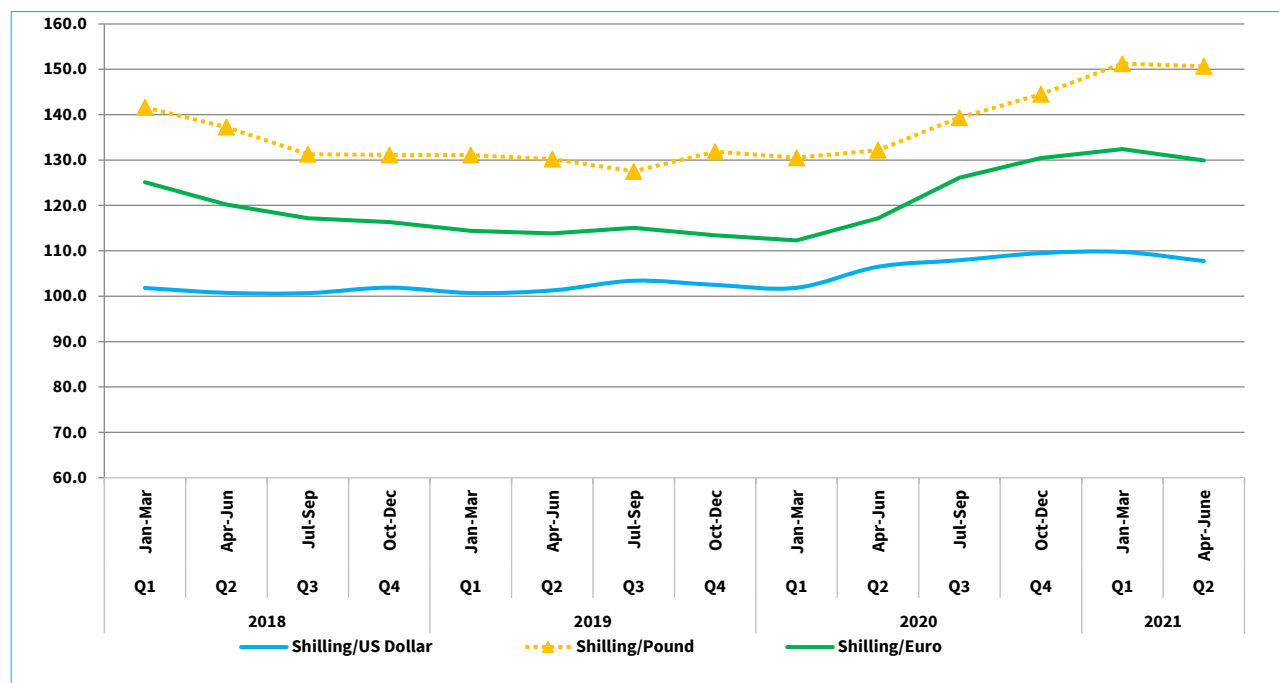
Table 5.7: Kenya Shilling exchange rate

	2020				2021					Q2 2021 - Q2 2020 % change
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun				
	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	
US Dollar	101.88	106.50	107.94	109.49	109.75	108.05	107.43	107.81	107.76	1.19
Pound Sterling	130.51	132.19	139.35	144.50	151.25	149.49	151.06	151.45	150.67	13.97
Euro	112.30	117.19	126.12	130.44	132.43	129.25	130.41	130.07	129.91	10.85
100 Japanese Yen	93.47	99.08	101.70	104.79	103.71	99.15	98.43	97.99	98.52	-0.56
South Africa Rand	6.68	5.94	6.38	7.00	7.33	7.47	7.63	7.76	7.62	28.30
Uganda Shilling*	36.40	35.41	34.20	33.78	33.48	33.58	33.09	32.84	33.17	-6.33
Tanzania Shilling*	22.64	21.73	21.50	21.18	21.22	21.46	21.59	21.51	21.52	-0.98
Rwanda Franc*	9.32	8.93	8.92	8.98	9.04	9.24	9.32	9.30	9.29	4.02
Burundi Franc*	18.51	17.82	17.87	17.69	17.71	18.03	18.37	18.39	18.26	2.47

* 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

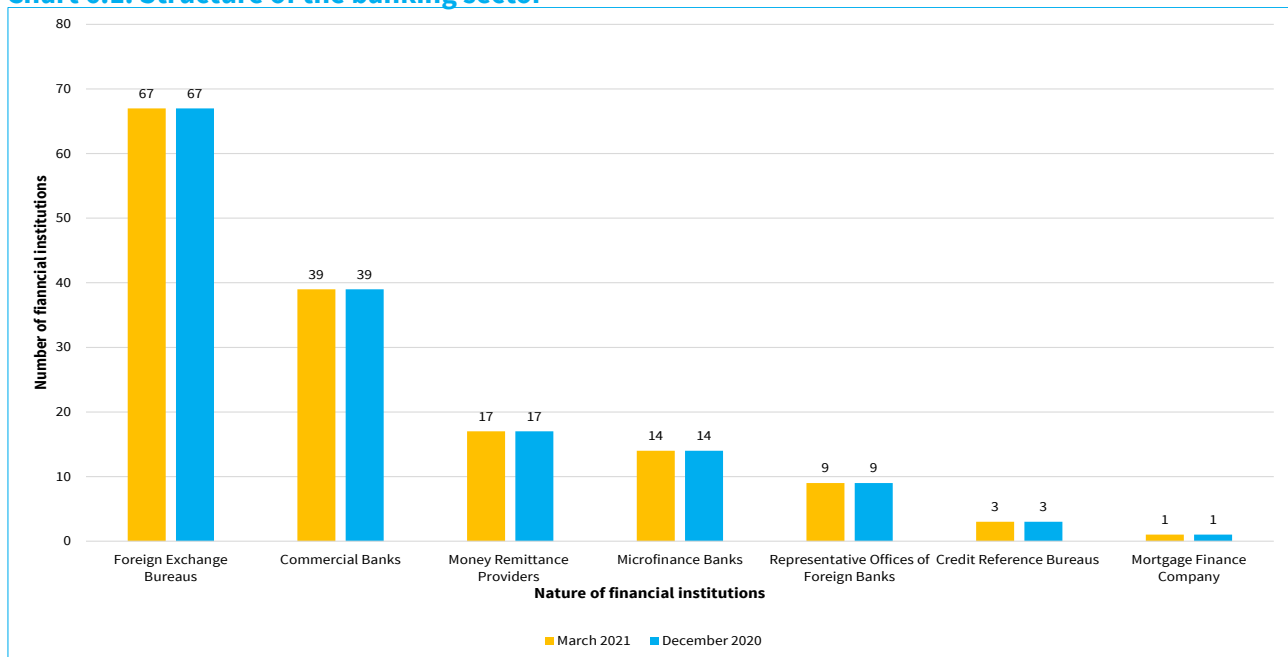
The banking sector remained stable and resilient in the second quarter of 2021. Total net assets increased by 2.7 percent to Ksh.5,680.0 billion in June 2021 from Ksh.5,528.4 billion in March 2021. The deposit base also increased by 2.8 percent to Ksh.4,249.4 billion in the second quarter of 2021 from Ksh.4,133.1 billion in the first quarter of 2021. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in second quarter of 2021 with quarterly profit before tax of Ksh.50.5 billion, an increase from Ksh.45.9 billion reported in the first quarter of 2021. Credit risk remained elevated with gross non-performing loans (NPLs)

to gross loans ratio standing at 14.0 percent in the second quarter of 2021.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 67 Foreign Exchange Bureaus, 17 Money Remittance Providers and 3 Credit Reference Bureaus as at June 30, 2021. Chart 1.1 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

Structure of the Balance Sheet

i) Growth in banking sector assets

Total net assets increased by 2.7 percent to Ksh.5,680.0 billion in June 2021 from Ksh.5,528.4 billion in March 2021. The increase in total net assets was mainly recorded in other foreign assets by Ksh.7.3 billion (52.1 percent). However, net loans

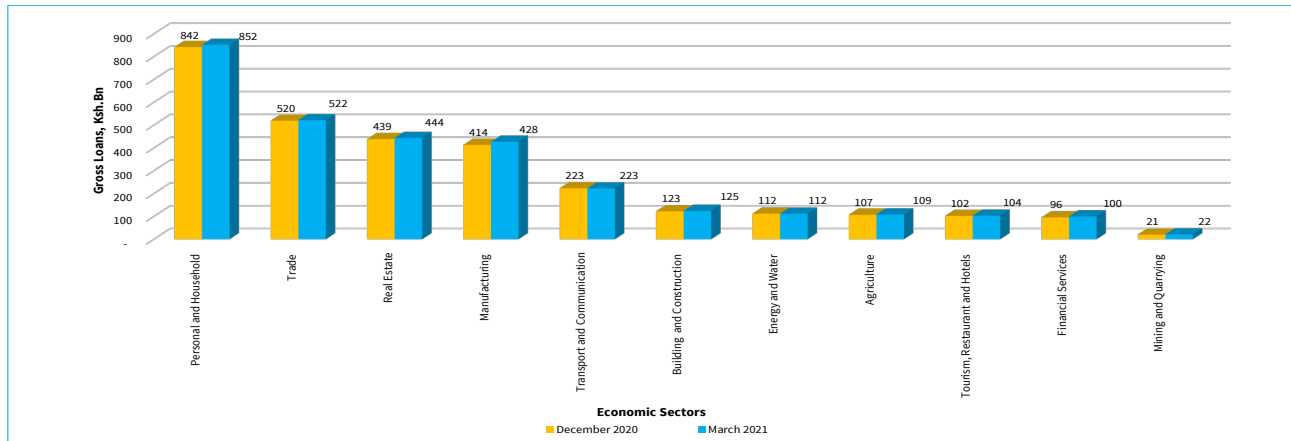
and advances, which increased by 2.7 percent (Ksh.74.1 billion), remained the main component of total net assets, accounting for 49.3 percent in the second quarter of 2021 as was in the first quarter of 2021.

ii) Loans and Advances

Total banking sector lending increased by 2.3 percent, to Ksh.3,110.1 billion in the second quarter of 2021 from Ksh.3,040.6 billion in the first quarter of 2021. The increase in gross loans and advances was largely witnessed in the Manufacturing, Personal and Household, and Financial Services

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 first and second quarters of 2021 is highlighted in **Chart 6.2**.

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



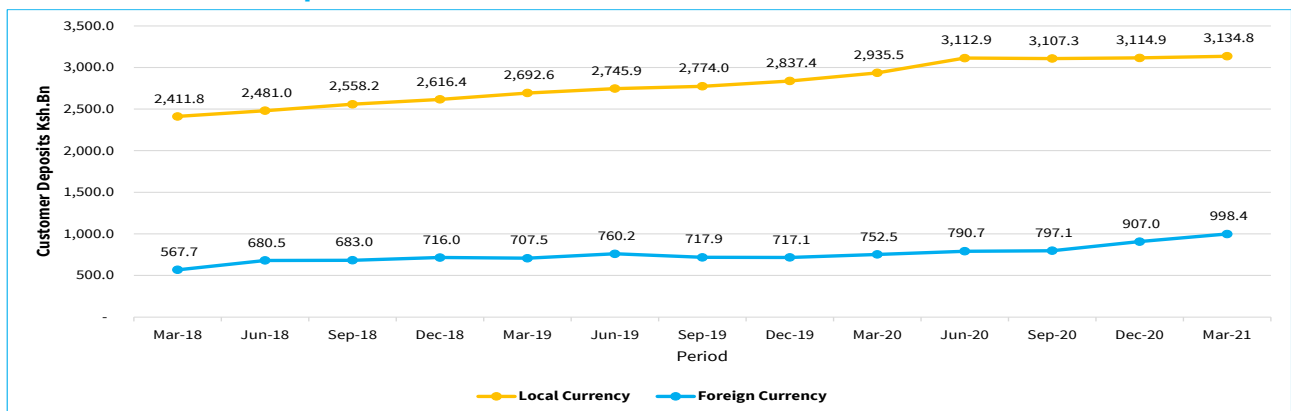
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 74.8 percent of the banking sector total liabilities and shareholders' funds as at the end of the second quarter of 2021. The customer deposit base increased by 2.8 percent to Ksh.4,249.4 billion in the second quarter of 2021 from Ksh.4,133.2 billion in the first quarter of 2021.

Local currency deposits increased by Ksh.108.1 billion (3.4 percent) to Ksh.3,242.8 billion in the second quarter of 2021 from Ksh.3,134.8 billion in the first quarter of 2021. Foreign currency deposits increased by Ksh.8.2 billion (0.8 percent) to Ksh.1,006.6 billion in the second quarter of 2021 to Ksh.998.4 billion in the first 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 1.9 percent to Ksh.712.9 billion in the second quarter of 2021 from Ksh.699.6 billion in the first quarter of 2021. Total capital also increased by 2.1 percent to Ksh.817.6 billion in the second quarter of 2021 from Ksh.801.1 billion in the first quarter of 2021. The increases in capital levels are mainly attributable to increased profitability in the second quarter of 2021.

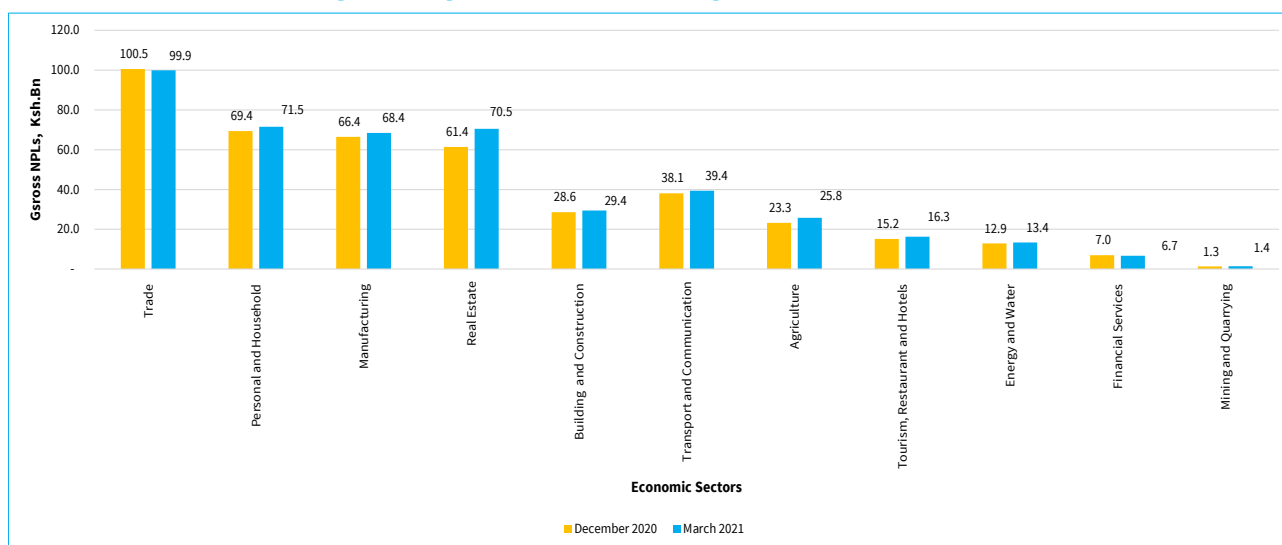
Core capital to total risk-weighted assets ratio remained constant at 16.5 percent in the second quarter of 2021 as was in the first quarter of 2021. Total capital to total risk-weighted assets ratio increased slightly to 18.9 percent in the second quarter of 2021 from 18.8 percent in the first quarter of 2021.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 16.8 percent in the second quarter of 2021, a slight decline from 16.9 percent in the first quarter of 2021.

Asset Quality

The gross non-performing loans (NPLs) decreased by 1.6 percent from Ksh.442.6 billion as at the end of the first quarter of 2021 to Ksh.435.3 billion at the end of the second quarter of 2021. As a result, the gross NPLs to gross loans ratio decreased to 14.0 percent in the second quarter of 2021 from 14.6 percent in the first quarter of 2021. Chart 6.4 highlights the sectoral distribution of gross NPLs.

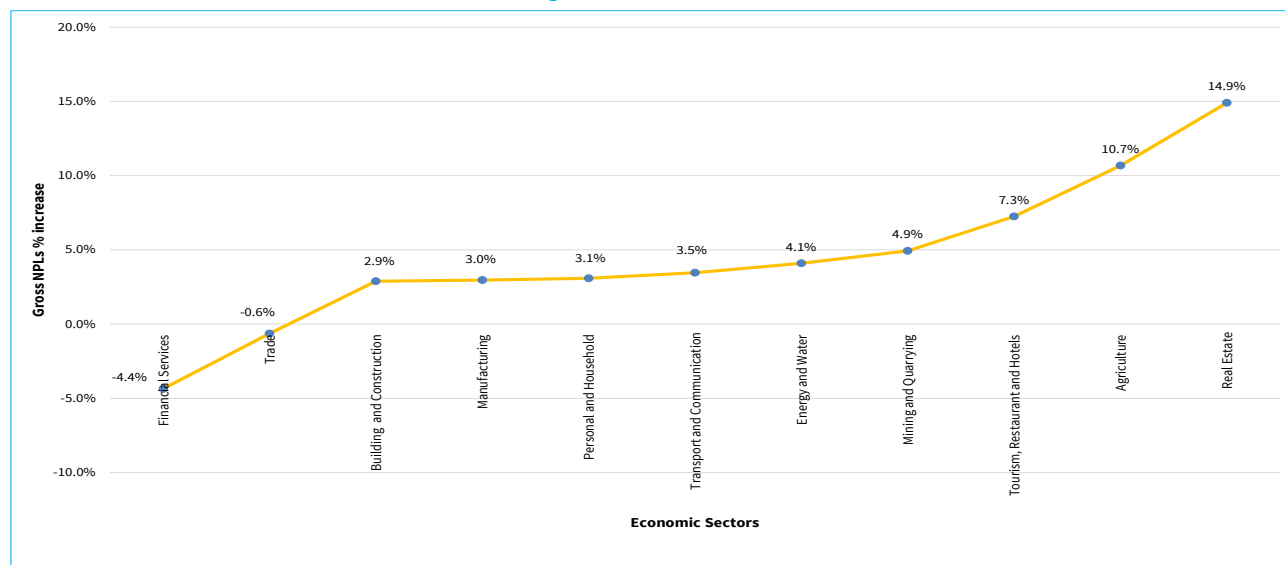
Chart 6.4: Kenyan banking sector gross non-performing loans (KSh Billion)



Source: Central Bank of Kenya

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

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



Source: Central Bank of Kenya

The Transport and Communication sector registered the highest increase in NPLs by 15.3 percent (Ksh.6.2 billion) as a result of disruptions by COVID-19 pandemic. The other two sectors which registered major NPL increases are Mining and Quarrying, and Personal and Household, which increased by 6.6 percent and 3.5 percent respectively. 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 5.5 percent in the second quarter of 2021 from 5.7 percent in the first quarter of 2021. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased slightly from 53.1 percent in the first quarter of 2021 to 53.0 percent in second quarter of 2021 due to a decrease in specific provisions (2.1 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

		December 2020	March 2021
1.	Gross Loans and Advances (Ksh.Bn)	2,999.5	3,040.5
2.	Interest in Suspense (Ksh.Bn)	67.8	69.9
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	2,931.7	2,970.5
4.	Gross Non-Performing loans (Ksh.Bn)	424.1	442.6
5.	Specific Provisions (Ksh.Bn)	184.8	197.9
6.	General Provisions (Ksh.Bn)	50.1	48.5
7.	Total Provisions (5+6) (Ksh.Bn)	234.9	246.4
8.	Net Advances (3-7) (Ksh.Bn)	2,696.8	2,724.1
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	356.3	372.7
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	171.4	174.8
11.	Total NPLs as % of Total Advances (9/3)	12.2%	12.5%
12.	Net NPLs as % of Gross Advances (10/1)	5.7%	5.7%
13.	Specific Provisions as % of Total NPLs (5/9)	51.9%	53.1%
14.	Gross NPLs to Gross Loans Ratio	14.1%	14.6%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in pre-tax profits by Ksh.4.6 billion (10.1 percent) to Ksh.50.5 billion in the second quarter of 2021 from Ksh.45.9 billion in the first quarter of 2021. The increase in profitability was mainly attributable to a higher increase in income by Ksh.9.1 billion (6.3 percent) to Ksh.154.0 billion, as compared to a lower increase in expenses by Ksh.4.4 billion (4.5 percent) in the second quarter of 2021.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both second quarter of 2021 and first quarter of 2021. On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 32.0 percent, 24.5 percent and 23.8 percent of total expenses respectively compared to 32.3 percent, 24.1 percent and 23.8 percent in the first quarter of 2021.

Total expenses increased by 4.5 billion (4.4 percent) to Ksh.103.5 in the second quarter of 2021 from Ksh.99.1 billion in the first quarter of 2021. The increase was mainly driven by increase in bad debt charge and loan loss expenses, which increased by 10.3 percent.

Return on Assets (ROA) stood at 2.7 percent in the second quarter of 2021, an increase from 2.6 percent registered in the first quarter of 2021.

Similarly, Return On Equity (ROE) increased from 22.0 percent in the first quarter of 2021 to 22.7 percent in the second quarter of 2021. This is as a result of increased earnings before tax.

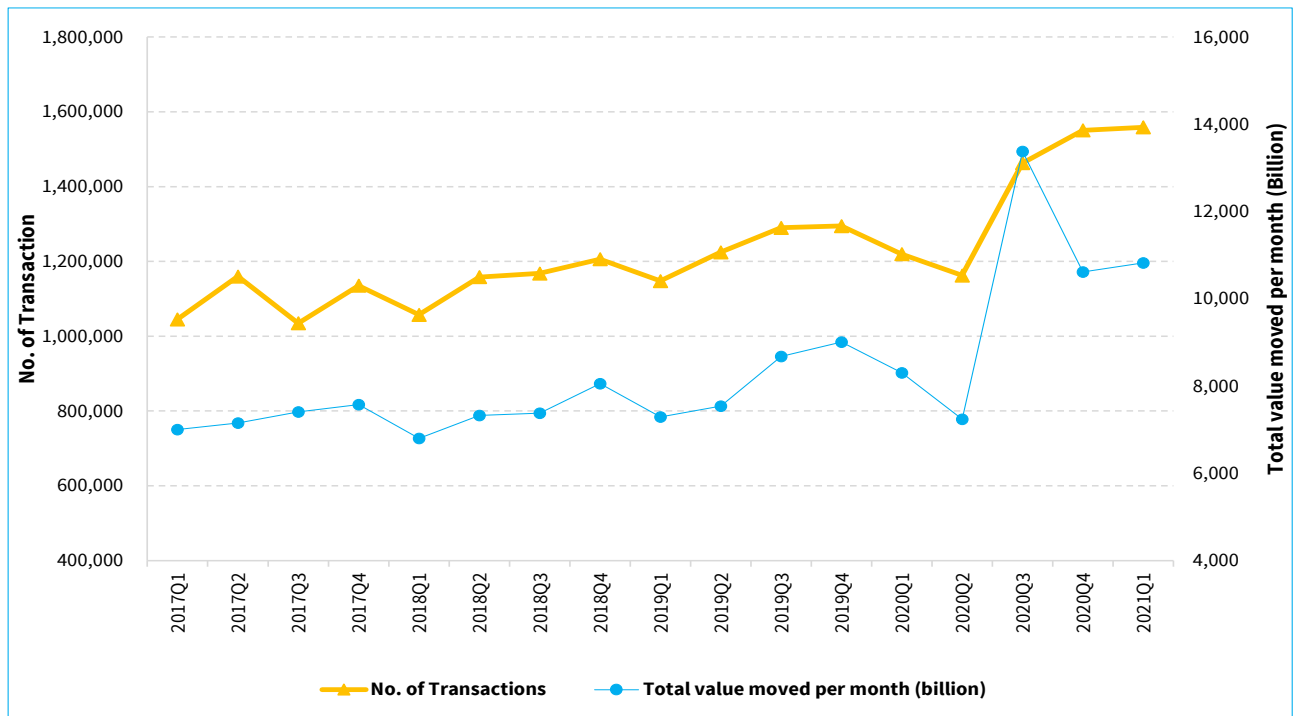
Liquidity

The banking sector's overall liquidity ratio increased to 56.8 percent in the second quarter of 2021 from 56.3 percent in the first quarter of 2021. The increase was driven by a higher increase in total liquid asset (3.3 percent) as compared to a 2.4 percent increase in total short-term liabilities between the two quarters under review. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

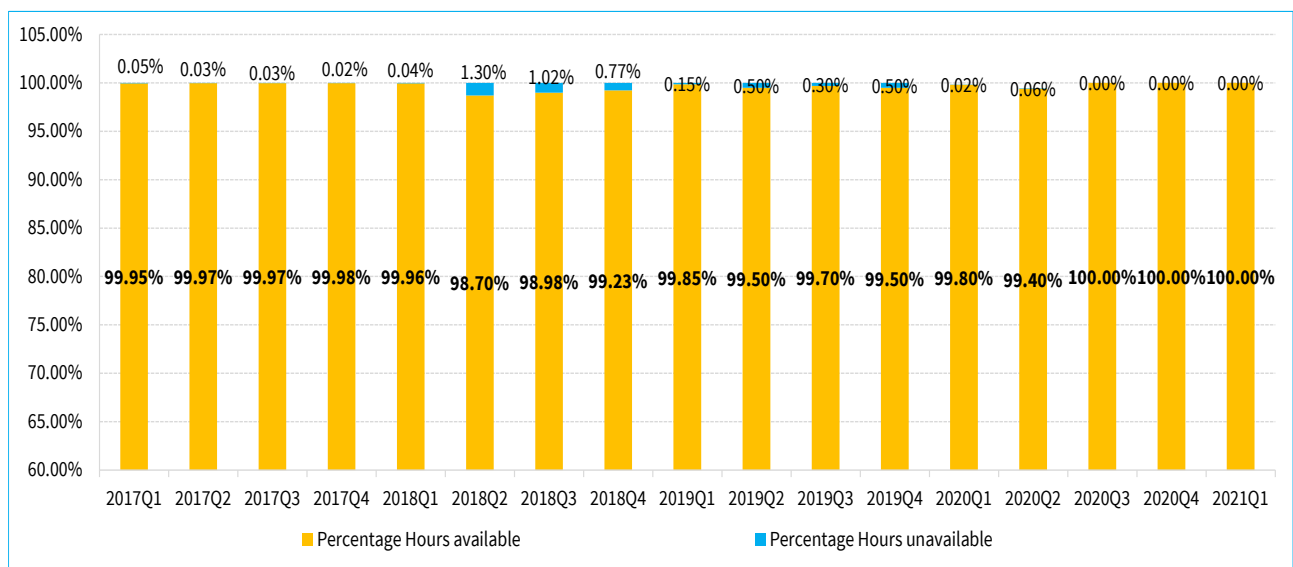
The components of liquidity that recorded the highest increase include; Balances with CBK (24.8 percent) and Foreign bills and bonds (19.4 percent).

Outlook of the Sector

- The banking sector is projected to remain stable;
- Operational risk is expected to remain elevated with the continued COVID-19 infections.
 - Credit risk is expected to remain elevated in the short to medium term.
 - Liquidity risk is expected to be stable in the short-term as evidenced by increasing liquidity ratios.

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 fourth quarter of FY 2020/2021 resulted in a deficit of 8.4 percent of GDP against a target of 8.7 percent of GDP. Both revenues and expenditures

were below target with the shortfall in total revenues and grants at 5.0 percent and total expenses and net lending at 4.5 percent (**Table 7.1**).

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

	FY 2019/20					FY 2020/21		Over (+) /	%
	Q4	Apr-21	May-21	Jun-21	Q4	Cumulative to Jun-2021	Target	Below (-) Target	Variance
1. TOTAL REVENUE & GRANTS	470.0	186.3	136.9	228.1	551.4	1,815.1	1,910.6	(95.6)	5.0
Ordinary Revenue	357.9	163.2	123.9	168.3	455.4	1,562.0	1,578.8	(16.8)	
Tax Revenue	331.3	157.7	122.3	174.3	454.3	1,484.8	1,469.5	15.3	
Non Tax Revenue	26.7	5.5	1.6	(5.9)	1.1	77.3	109.3	(32.1)	
Appropriations-in-Aid	105.9	15.4	10.5	57.2	83.1	221.7	259.0	(37.3)	
External Grants	6.2	7.8	2.6	2.6	13.0	31.3	72.8	(41.5)	
2. TOTAL EXPENSES & NET LENDING	718.0	215.0	206.4	513.7	935.1	2,755.8	2,886.9	(131.0)	4.5
Recurrent Expenses	471.4	146.3	144.6	221.8	512.7	1,753.6	1,771.0	(17.4)	
Development Expenses	136.1	29.5	37.3	133.1	199.9	569.9	668.3	(98.5)	
County Transfers	110.5	39.2	24.5	115.3	179.0	388.9	398.9	(10.1)	
Others	-	-	-	43.5	43.5	43.5	48.6	(5.1)	
3. DEFICIT (INCL. GRANTS) (1-2)	(248.0)	(28.6)	(69.5)	(285.6)	(383.7)	(940.7)	(976.2)	35.5	3.6
As percent of GDP	(2.4)				(3.4)	(8.4)	(8.7)	0.3	
4. ADJUSTMENT TO CASH BASIS	11.8	-	-	7.1	7.1	7.1	-	7.1	
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(236.2)	(28.6)	(69.5)	(278.5)	(376.6)	(933.6)	(976.2)	42.6	4.4
As percent of GDP	(2.3)				(3.4)	(8.4)	(8.7)	0.4	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	95.0	98.1	1.6	(149.5)	(49.8)	(119.1)	0.0	(119.1)	
7. FINANCING	331.2	126.8	71.1	129.0	326.8	814.5	976.2	(161.7)	16.6
Domestic (Net)	88.7	78.0	74.0	(127.3)	24.7	491.2	558.7	(67.5)	
Capital Receipts (domestic loan receipts)	0.4	1.6	0.0	4.5	6.0	6.3	1.8	4.5	
External (Net)	242.1	48.7	(2.9)	256.3	302.1	323.3	417.6	(94.2)	
Others	-	-	-	-	-	-	-	-	

Fiscal GDP figures Revised June 2021 BOT

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants increased by 35.3 percent to KSh 551.4 billion in the fourth quarter of FY 2020/2021, compared to KSh 407.7 billion in the fourth quarter of FY 2019/20. The increase was reflected in tax revenues, Appropriation in Aid (A-in-A) as well as external grants which improved by 37.1 percent, 89.6 percent and 107.7 percent respectively.

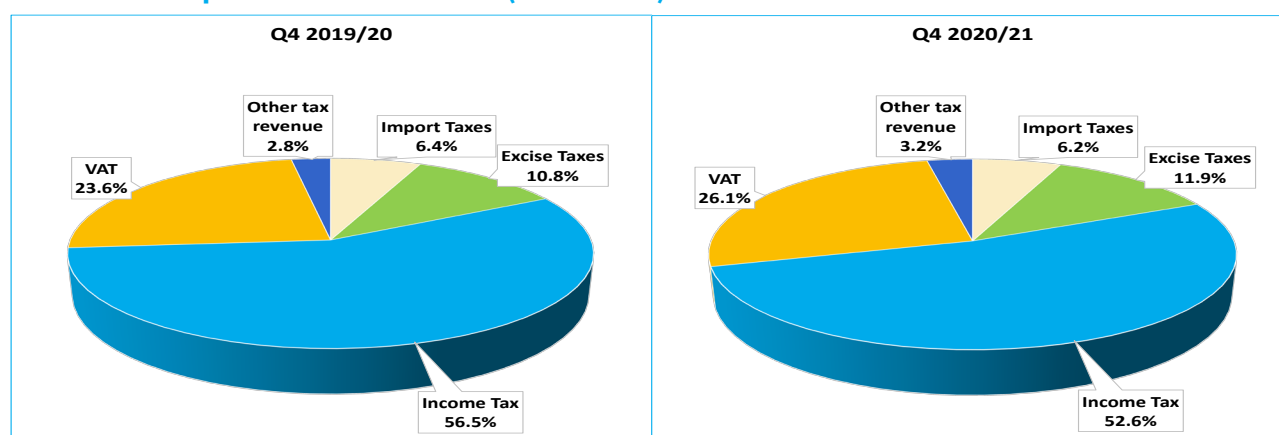
There was a minor shift in the composition of tax revenues in the fourth quarter of FY 2020/2021 compared with a similar period in the previous financial year (**Chart 7.1**). The share of income tax and import tax declined by 4.0 percentage points and 0.2 percentage points while the share of Value Added Tax (VAT), and excise tax rose by 2.5 percentage points and 1.1 percentage points, respectively.

Cumulatively to June 2021, Government total revenue and grants stood at KSh 1,815.1 billion (16.3 percent of GDP) against a target of KSh 1,910.6 billion (17.1 percent of GDP). Tax revenue rose above the set target with the increase largely reflecting reversal of tax relief measures, (in January 2021) , put in place to cushion Kenyans against the effects of COVID-19, which adversely affected revenue collection from March 2020.

External grants cumulatively to June 2021 stood at KSh 31.3 billion, which was KSh 41.5 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 June 2021 amounted to KSh 221.7 billion, which was KSh 37.3 billion lower than target due to under reporting by Semi-Autonomous Government Agencies.

Chart 7.1: Composition of tax revenue (KSh Billion)



Source: The Budget Outturn (BOT) from National Treasury

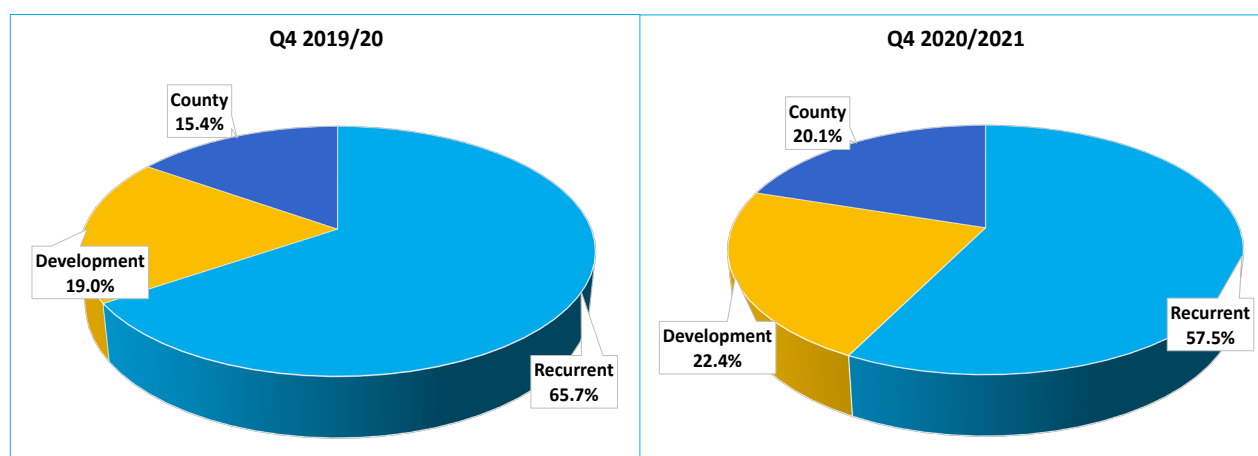
Expenditure and Net Lending

Government expenditure and net lending increased by 34.1 percent to KSh 935.1 billion in the fourth quarter of the FY 2020/2021 compared to KSh 697.2 billion in the fourth quarter of the FY 2019/20. The increase in expenditures reflected a rise in national government recurrent expenditure, national government development transfers and county transfers by 19.9 percent, 62.6 percent and 62.0 percent, respectively.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 59.5 percent in the fourth quarter

of the FY 2020/2021, which was 7.0 percentage points lower than the level recorded in a similar quarter during the previous fiscal year. The share of development expenditure and the county allocations increased by 3.7 percentage points and 3.3 percentage points respectively during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to June 2021 amounted to KSh 2,755.8 billion (24.7 percent of GDP), against a target of KSh 2,886.9 billion (25.8 percent of GDP). The shortfall of KSh 131.1 billion was mainly 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 935.6 billion or 8.4 percent of GDP at the end of the fourth quarter of FY 2020/2021. Domestic borrowing comprised KSh 230.9 billion from commercial banks, KSh 327.0 billion from non-

banks, KSh 1.2 billion from non-residents and repayment of KSh 67.9 billion to the Central Bank (**Table 7.2**). Net domestic borrowing by the end of the fourth quarter of FY 2020/2021 was above target by KSh 68.3 billion while net external borrowing was below target by KSh 94.2 billion.

Table 7.2 Domestic financing to March 2021 (KSh Billion)

	FY 2020/21								
			Q2				Q3		
	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
1. From CBK	(26.0)	14.7	26.0	7.7	60.7	38.8	66.7	90.6	(67.9)
2. From commercial banks	129.1	137.2	126.9	150.4	152.1	171.0	186.0	217.3	230.8
4. From Non-banks	135.1	165.2	193.5	215.5	211.5	255.6	289.4	307.6	327.0
5. From Non-Residents	1.0	0.8	0.9	1.0	1.4	0.9	0.7	1.4	1.2
Change in Credit from banks (From 30th June 2020)	103.1	151.8	152.9	158.2	212.8	209.8	252.7	307.9	162.9
Change in Credit from non-banks (From 30th June 2020)	135.1	165.2	193.5	215.5	211.5	255.6	289.4	307.6	327.0
Change in Credit from non-residents (From 30th June 2020)	1.0	0.8	0.9	1.0	1.4	0.9	0.7	1.4	1.2
6. Total Change in Dom. Credit (From 30th June 2020)	239.3	317.9	347.2	374.6	425.7	466.3	542.8	617.0	491.2

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

Outlook for FY 2020/21

In the approved budget 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 2020/21 (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: Revised Budget Estimates, 2021 Budget Policy Statement

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 5.1 percent during the fourth quarter of the FY 2020/21 broadly in line with the Government's borrowing plan. Domestic and

external debt increased by 3.6 percent and 6.5 percent, respectively. The ratio of public debt to GDP was estimated at 67.5 percent by the end of third quarter of the FY 2020/21 (**Table 8.1**).

Table 8.1 Kenya's public and publicly guaranteed debt

	2019/20				2020/21				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Change Q on Q
EXTERNAL									
Bilateral	1,001.8	1,023.8	1,075.9	1,074.3	1,102.9	1,157.0	1,142.7	1,142.1	-0.6
Multilateral	1,024.1	1,037.5	1,060.6	1,321.6	1,421.8	1,498.8	1,495.6	1,659.7	164.1
Commercial Banks	1,068.7	1,028.7	1,058.8	1,102.3	1,120.8	1,119.4	1,113.4	1,195.6	82.2
Supplier Credits	17.2	16.8	17.3	17.6	18.0	18.1	18.1	17.9	-0.3
Sub-Total	3,111.8	3,106.8	3,212.6	3,515.8	3,663.5	3,793.3	3,769.9	4,015.3	245.4
(As a % of GDP)	31.1	30.3	30.3	33.1	34.5	35.3	34.0	35.1	
(As a % of total debt)	52.1	51.4	51.1	52.5	51.4	52.1	51.4	52.1	
DOMESTIC									
Banks	1,535.5	1,607.4	1,677.0	1,752.1	1,915.4	1,867.9	1,876.6	1,902.7	26.1
Central Bank	120.5	116.0	106.4	98.9	107.4	98.7	99.9	87.6	-12.3
Commercial Banks	1,415.0	1,491.4	1,570.6	1,653.2	1,808.0	1,769.2	1,776.7	1,815.1	38.4
Non-banks	1,291.5	1,304.1	1,363.3	1,392.3	1,507.6	1,586.8	1,661.6	1,764.2	102.7
Pension Funds	819.8	841.3	891.4	923.1	986.2	1,057.7	1,087.5	1,131.3	43.8
Insurance Companies	183.1	189.0	193.6	192.2	212.8	224.6	234.5	246.4	11.8
Other Non-bank Sources	288.6	273.9	278.3	277.0	308.6	304.5	339.6	386.6	47.0
Non-residents	29.6	30.6	31.6	33.2	34.1	33.8	31.7	31.1	-0.6
Sub-Total	2,856.6	2,942.1	3,070.2	3,177.0	3,457.1	3,488.5	3,569.8	3,698.0	128.2
(As a % of GDP)	28.6	28.7	28.9	29.9	32.5	32.4	32.2	32.3	
(As a % of total debt)	47.9	48.6	48.9	47.5	48.6	47.9	48.6	47.9	
GRAND TOTAL	5,968.4	6,048.9	6,282.8	6,692.8	7,120.6	7,281.8	7,339.7	7,713.3	373.6
(As a % of GDP)	59.7	59.0	59.2	63.0	67.0	67.7	66.2	67.5	

Source: The National Treasury and CBK

Domestic Debt

The 3.6 percent increase in domestic debt was on account of increased uptake of treasury bonds. The share of domestic debt to total debt decreased by 0.7 percentage points to 47.9 percent by the end of

the fourth quarter of the FY 2020/21. The proportion of debt securities to total domestic debt decreased by 0.1 percentage points as the proportion of other domestic debt increased (**Table 8.2**).

Table 8.2: Government gross domestic debt (KSh Billion)

	KShs (Billions)							Change Q on Q		Proportions						
	2019/20	2020/21								2019/20	2020/21					
	Q4	Q1	Q2	Q3	Apr-21	May-21	Q4	Ksh(Bn)	%	Q4	Q1	Q2	Q3	Apr-21	May-21	Q4
Total Stock of Domestic Debt (A+B)	3,177.0	3,457.1	3,488.5	3,569.8	3,632.9	3,686.9	3,698.0	128.2	3.6	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	3,106.6	3,377.0	3,417.0	3,496.4	3,543.9	3,587.4	3,615.3	118.9	3.4	97.8	97.7	98.0	97.9	97.5	97.3	97.8
1. Treasury Bills (excluding Repo Bills)	887.1	894.7	855.7	761.9	747.2	757.7	765.4	3.5	0.5	27.9	25.9	24.5	21.3	20.6	20.6	20.7
Banking institutions	587.7	601.2	552.2	478.6	433.4	447.8	452.9	-25.7	-5.4	18.5	17.4	15.8	13.4	11.9	12.1	12.2
The Central Bank	20.6	20.6	20.6	20.6	0.5	0.5	0.5	-20.1	-97.4	0.6	0.6	0.6	0.6	0.0	0.0	0.0
Commercial Banks	567.1	580.6	531.6	458.0	432.9	447.3	452.4	-5.7	-1.2	17.9	16.8	15.2	12.8	11.9	12.1	12.2
Pension Funds	161.0	156.2	158.7	139.6	147.3	140.8	144.4	4.8	3.5	5.1	4.5	4.5	3.9	4.1	3.8	3.9
Insurance Companies	7.6	6.0	5.1	6.6	7.0	7.3	7.2	0.6	8.4	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Others	130.8	131.4	139.6	137.1	159.4	161.7	160.9	23.8	17.4	4.1	3.8	4.0	3.8	4.4	4.4	4.4
2. Treasury Bonds	2,219.4	2,482.2	2,561.3	2,734.5	2,796.7	2,829.7	2,849.9	115.5	4.2	69.9	71.8	73.4	76.6	77.0	76.8	77.1
Banking institutions	1,093.5	1,234.1	1,244.3	1,324.6	1,346.1	1,364.3	1,367.1	42.5	3.2	34.4	35.7	35.7	37.1	37.1	37.0	37.0
The Central Bank	9.4	9.4	9.4	9.4	7.7	7.7	7.7	-1.7	-18.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Commercial Banks	1,084.1	1,224.7	1,234.8	1,315.1	1,338.4	1,356.6	1,359.4	44.3	3.4	34.1	35.4	35.4	36.8	36.8	36.8	36.8
Insurance Companies	184.6	206.8	219.5	227.9	230.5	236.4	239.2	11.3	4.9	5.8	6.0	6.3	6.4	6.3	6.4	6.5
Pension Funds	762.1	830.0	899.0	947.9	963.9	976.2	986.8	39.0	4.1	24.0	24.0	25.8	26.6	26.5	26.5	26.7
Others	179.3	211.3	198.6	234.1	256.2	252.8	256.8	22.7	9.7	5.6	6.1	5.7	6.6	7.1	6.9	6.9
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	21.7	21.7	21.1	20.6	20.6	20.6	20.0	-0.6	-2.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
Of which: Repo T/Bills	20.5	20.5	20.0	19.4	19.4	19.4	19.4	0.0	0.0	0.6	0.6	0.6	0.5	0.5	0.5	0.5
B. Others:	48.7	58.5	50.4	52.9	68.5	78.9	62.7	9.8	18.5	1.5	1.7	1.4	1.5	1.9	2.1	1.7
Of which CBK overdraft to Government	47.1	56.2	47.6	49.3	65.8	75.4	59.3	10.0	20.3	1.5	1.6	1.4	1.4	1.8	2.0	1.6

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a marginal increase of 0.5 percent during the fourth quarter of the FY 2020/21. Conversely, the proportion of Treasury bills to total domestic debt decreased by 0.6 percentage points during the period under review. Commercial banks continued to dominate the Treasury bills market though their holdings decreased to 59.1 percent from 60.1 percent in the previous quarter. Other significant holders of Treasury bills included; Pension funds and parastatals-included in other holders (**Table 8.2**).

Treasury Bonds

Treasury bond holdings increased by 4.2 percent during the fourth quarter of the FY 2020/21, which was higher than the 6.8 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 18-year Infrastructure Treasury bond issued during the quarter (**Table 8.3**). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KShs (Billions)						Change Q on Q		Proportions							
		2019/20		2020/21						2019/20		2020/21					
		Q4	Q1	Q2	Q3	Apr-21	May-21	Q4	KShs(Bn)	%	Q4	Q1	Q2	Q3	Apr-21	May-21	Q4
	91-Day	51.4	119.3	66.1	39.7	44.2	44.7	40.2	0.5	0.7	1.6	3.4	1.9	1.1	1.2	1.2	1.1
Treasury	182-Day	120.5	120.5	134.3	129.3	118.1	110.4	125.5	-3.8	-2.8	3.8	3.5	3.8	3.6	3.2	3.0	3.4
bills	364-Day	715.2	655.0	655.4	592.9	585.0	602.6	599.7	6.8	1.0	22.5	18.9	18.8	16.6	16.1	16.3	16.2
	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	37.4	37.4	62.1	55.9	55.9	55.9	-6.3	-16.8	1.2	1.1	1.1	1.7	1.5	1.5	1.5
	3-Year	0.9	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	4.8	4.8	0.0	0.0	0.0	-4.8	-100.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0
	5-Year	357.9	366.7	327.4	327.4	316.5	316.5	316.5	-10.9	-3.3	11.3	10.6	9.4	9.2	8.7	8.6	8.6
	6-Year	28.7	28.7	28.7	28.7	20.2	20.2	20.2	-8.5	-29.5	0.9	0.8	0.8	0.8	0.6	0.5	0.5
Treasury	7-Year	50.1	50.1	50.1	50.1	41.5	41.5	41.5	-8.7	-17.3	1.6	1.5	1.4	1.4	1.1	1.1	1.1
Bonds	8-Year	19.3	19.3	19.3	19.3	0.0	0.0	0.0	-19.3	-100.0	0.6	0.6	0.6	0.5	0.0	0.0	0.0
	9-Year	134.3	134.3	134.3	134.3	131.8	123.5	123.5	-10.8	-8.0	4.2	3.9	3.8	3.8	3.6	3.3	3.3
	10-Year	474.0	574.4	541.0	556.5	490.5	490.5	490.5	-65.9	-12.2	14.9	16.6	15.5	15.6	13.5	13.3	13.3
	11-Year	8.8	8.8	8.8	8.8	80.2	80.2	80.2	71.4	808.0	0.3	0.3	0.3	0.2	2.2	2.2	2.2
	12-Year	116.8	116.8	116.8	114.8	119.9	119.9	119.9	5.1	4.4	3.7	3.4	3.3	3.2	3.3	3.3	3.2
	15-Year	602.5	708.3	762.3	779.1	778.2	800.2	800.2	21.1	2.8	19.0	20.5	21.9	21.8	21.4	21.7	21.6
	16- Year	71.7	71.7	71.7	152.6	152.0	152.0	152.0	-0.6	-0.9	2.3	2.1	2.1	4.3	4.2	4.1	4.1
	18- Year	0.0	0.0	0.0	0.0	81.8	81.8	81.8	81.8	100.0	0.0	0.0	0.0	0.0	2.3	2.2	2.2
	20-Year	203.8	252.4	299.1	336.3	368.7	368.7	388.9	52.6	17.6	6.4	7.3	8.6	9.4	10.1	10.0	10.5
	25-Year	80.2	80.2	131.3	131.3	131.3	150.6	150.6	19.3	14.7	2.5	2.3	3.8	3.7	3.6	4.1	4.1
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8
	Repo T bills	20.5	20.5	20.0	19.4	19.4	19.4	19.4	0.0	0.0	0.6	0.6	0.6	0.5	0.5	0.5	0.5
	Overdraft	47.1	56.2	47.6	49.3	65.8	75.4	59.3	10.0	21.0	1.5	1.6	1.4	1.4	1.8	2.0	1.6
	Other Domestic debt	2.7	3.4	3.9	4.8	3.8	4.7	4.0	-0.7	-18.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

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 ratio of 79: 21 Treasury bonds to Treasury bills, surpassing the Public Debt Management Office medium term target of 70:30 Treasury bonds: bills ratio. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 75.0 percent of the total outstanding Treasury Bonds, representing a 0.4 percentage points decrease from the previous quarter. Nevertheless, the refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 20.7 percent from 21.3 percent in March 2021.

External Debt

Public and publicly guaranteed external debt decreased by 6.5 percent during the fourth quarter of the FY 2020/21. This increase was majorly driven by the US dollar 1.0 billion June 2021 Eurobond proceeds, inflows of US dollar 937.9 million and US dollar 668.4 million from International Development Association (IDA) and International Monetary Fund (IMF), respectively. Foreign exchange risk on external debt remained relatively low during the quarter under review.

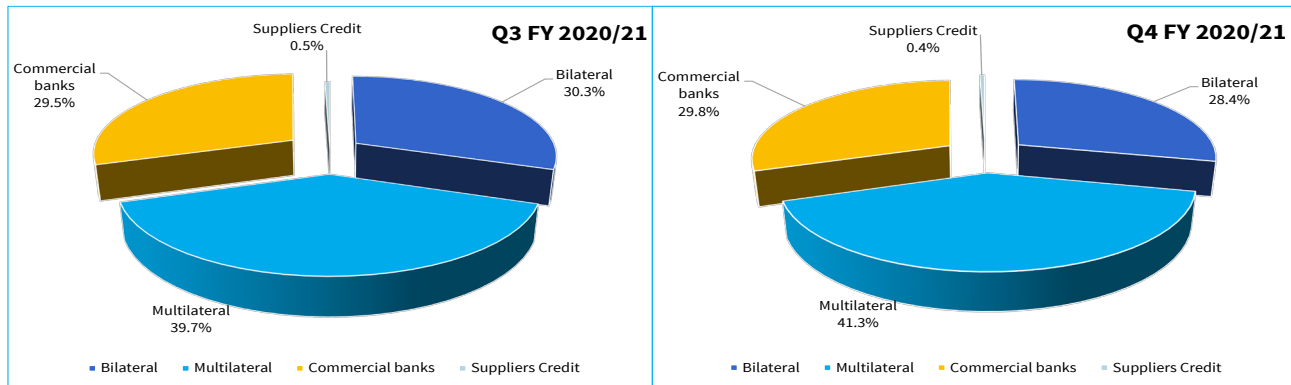
Composition of External Debt by Creditor

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 0.6 percentage points, mainly driven by inflows from IDA and IMF during the quarter under review. The proportion of commercial debt increased

0.3 percentage points on account of June 2021 Eurobond proceeds during the fourth quarter of FY 2020/21.

Chart 8.1: Composition of external debt by lender classification

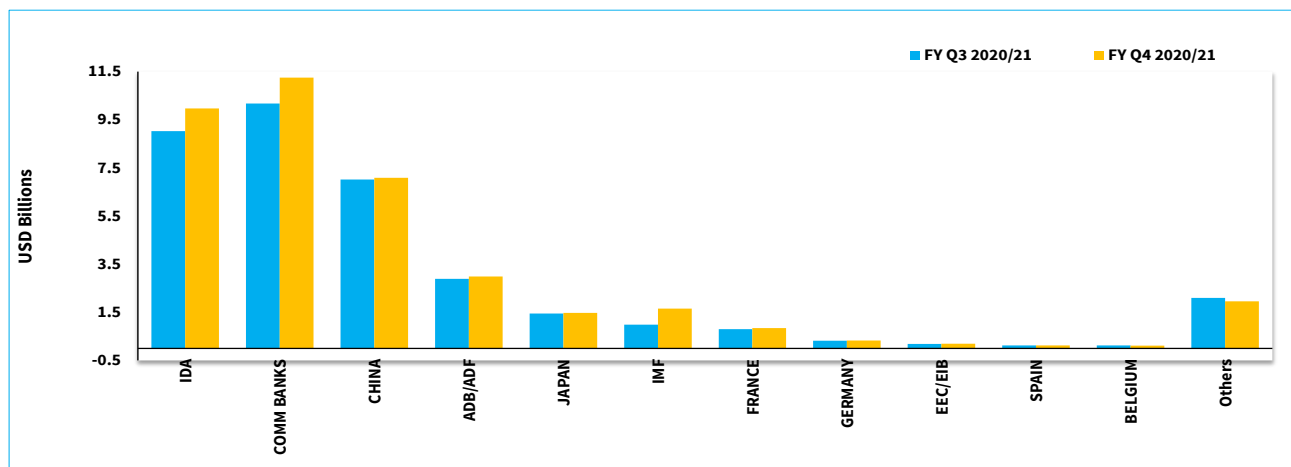


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 10.0 billion (or 26.8 percent of

external debt). Debt owed to China, Kenya's largest bilateral lender, amounted to USD 7.1 billion, or 19.0 percent of the total external debt by the fourth quarter of the FY 2020/21 (**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 85.0 percent of the total currency composition at the end of the third quarter of the FY 2020/21. The proportion held in US dollar increased by 0.4 percentage points while that held in Euro decreased by 0.3 percentage points (**Chart 8.3**).

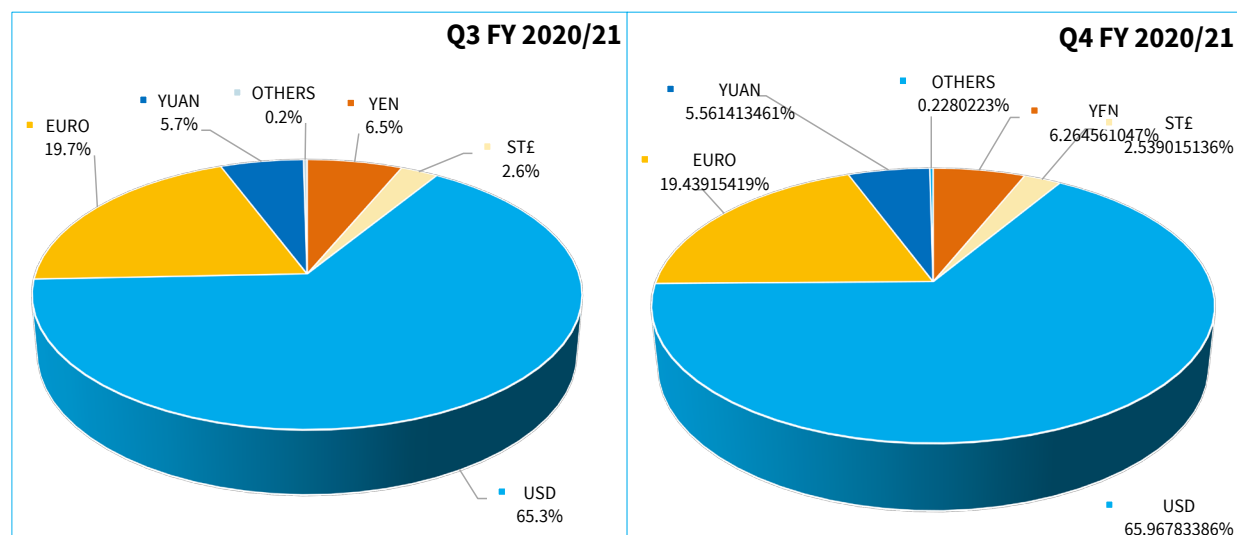
Public Debt Service

The ratio of domestic interest payments to revenues was 19.8 percent during the fourth quarter of the FY 2020/21. 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 fourth quarter of FY 2020/21 amounted to KSh 50.7 billion (From KSh 44.4 billion in the

third quarter).² External debt service to revenue ratio improved and was within the debt carrying capacity threshold while the debt service to export

ratio deteriorated and breached the debt carrying capacity threshold for Kenya (**Table 8.4**).

Chart 8.3: Debt composition by currency



Source: The National Treasury

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in March 2021 classified Kenya's public debt as sustainable but having a high risk of debt distress. This was a downgrade from the classification of moderate risk of debt distress in February 2020. The revision was largely attributed to the economic slowdown associated with the COVID-19 pandemic. There were breaches on PV of debt-to-exports ratio and

debt service-to-exports ratio indicators in both the baseline and under standard stress test scenarios and an additional one-off breach of the debt service to revenue ratio under the stress scenario. 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	Q3 FY 2019/20	Q4 FY 2019/20	Q1 FY 2020/21	Q2 FY 2020/21	Q3 FY 2020/21
Debt service to Revenues (23%)	15.9	13.6	12.3	14.1	10.4
Debt service to Exports (21%)	21.5	20.8	19.0	23.0	15.3

Source: Central Bank of Kenya and The National Treasury

² 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, equities market performance improved in the second quarter compared with the first quarter of 2021. The NSE 20 share index, NASI and market capitalization rose by 4.39 percent, 9.40 percent and

10.88 percent, respectively. However, total equities turnover and number of shares traded declined by 56.03 percent and 57.84 percent, respectively (**Table 9.1 and Chart 9.1**).

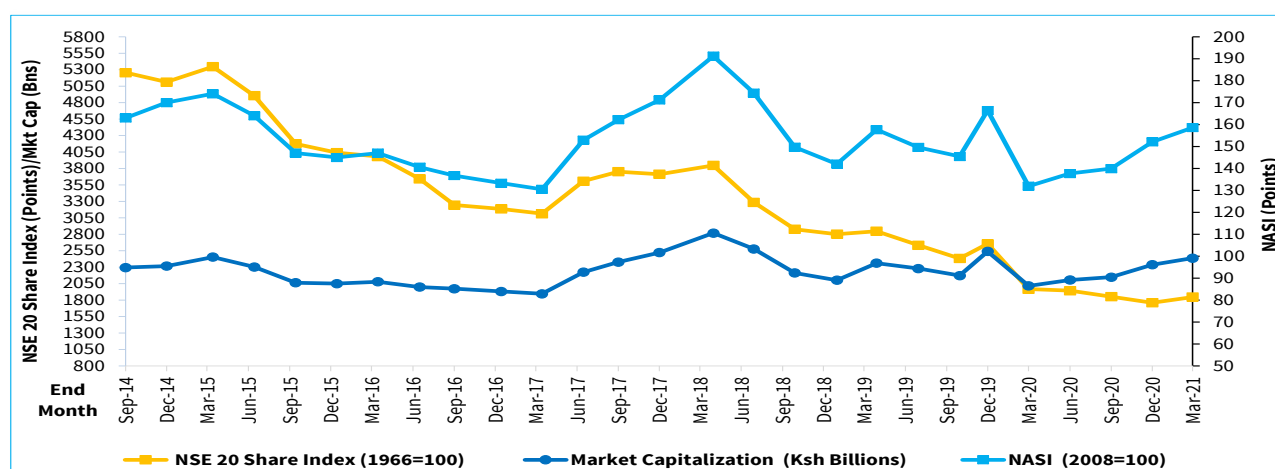
Table 9.1: Selected stock market indicators

INDICATOR	2019			2020				2021	% CHANGE (2021Q1- 2020Q3)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	2633.3	2432.0	2654.4	1966.1	1942.1	1852.3	1759.9	1846.4	4.91
NASI (2008=100)	149.61	145.46	166.41	131.92	137.68	139.89	152.11	158.62	4.28
Number of Shares Traded (Millions)	1,081.6	1,063.8	1,290.1	1,360.5	1,421.8	1,512.2	969.5	997.8	2.91
Equities Turnover (Ksh Millions)	32,897.2	30,663.2	45,006.1	43,693.3	39,534.4	37,936.6	27,510.8	31,735.0	15.35
Market Capitalization (Ksh Billions)	2,279	2,172	2,540	2,016	2,105	2,148	2,337	2,437	4.29
Foreign Purchase (Ksh Millions)	23,896	20,115	27,615	21,046	20,429	23,290	16,744	18,575	10.94
Foreign Sales (Ksh Millions)	22,538	19,853	28,459	32,229	30,679	27,817	19,412	19,551	0.71
Ave. Foreign Investor Participation to Equity Turnover (%)	71.10	65.65	73.84	60.96	64.64	67.36	65.98	60.38	-8.49
Bond Turnover (Ksh Millions)	201,715	185,440	106,458	157,985	136,651	227,862	169,259	199,378	17.79
FTSE NSE Kenya Govt. Bond Index (Points)	97.30	98.56	97.50	96.00	96.65	97.69	98.24	97.04	-1.22
7-Year Eurobond Yield (%)	6.41	6.41	7.27	8.78	7.30	7.44	4.86	5.60	0.741*
10-Year Eurobond Yield (%) -2024	5.48	5.57	6.43	8.26	6.48	6.37	3.92	3.56	-0.364*
10-Year Eurobond Yield (%) -2028	6.78	6.68	7.75	8.57	7.51	7.49	5.22	6.28	1.060*
12-Year Eurobond Yield (%)	6.78	7.40	8.28	9.08	8.21	8.19	5.85	7.12	1.268*
30-Year Eurobond Yield (%) -2048	7.89	8.07	8.84	9.03	8.41	8.67	7.04	7.98	0.933*

* Percentage points

Source: Nairobi Security Exchange

Chart 9.1: NSE 20, NASI and market capitalization



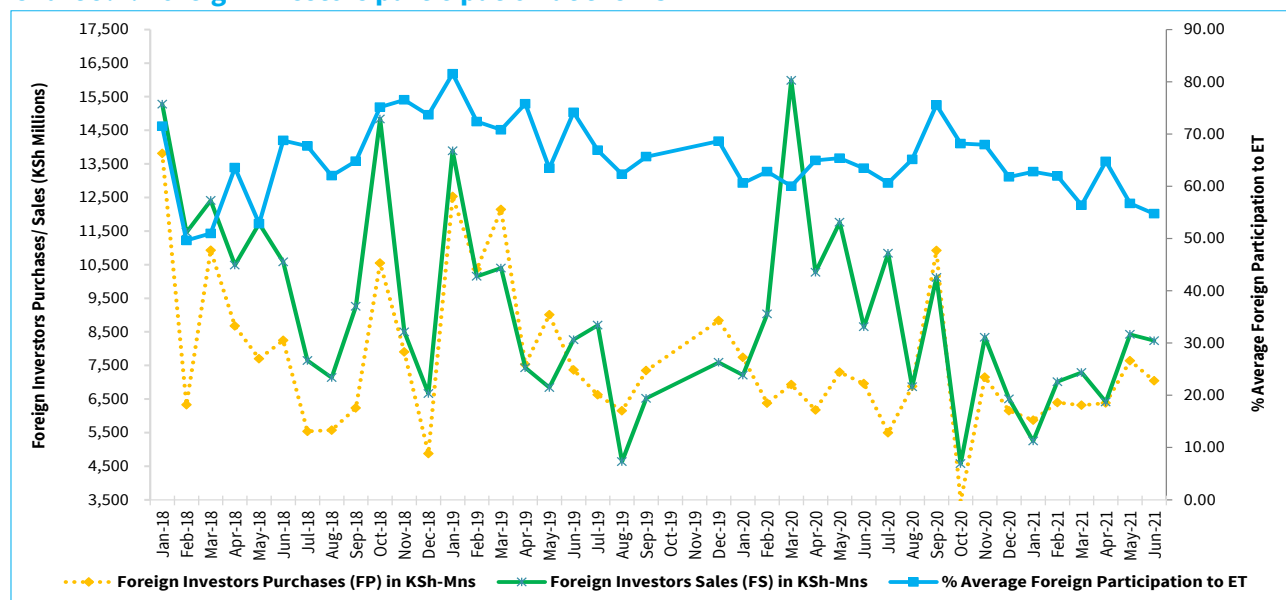
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of shares bought and sold by foreign investors at the NSE increased by 11.51 percent and 12.99 percent, respectively, in the second quarter of 2021. Average foreign investors' sales and purchases of shares at the NSE as a proportion of total equity

turnover, declined to 54.74 percent in the second quarter of 2021 from 56.37 percent in the first quarter of 2021. However, there was a net foreign investor outflow as sales exceeded purchases in the quarter under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

Bond turnover on the domestic secondary market declined by 51.55 percent, with the FTSE NSE Kenyan Government Bond Index declining by 0.16 percent in the second quarter of 2021 compared to

first quarter of 2021. In the international market, yields on Kenya's Eurobonds declined by an average of 28.80 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)

	2020		2021			Absolute Quarterly Changes (KSh Million)					Quarterly Growth Rates (%)				
1.0 ASSETS	Sept	Dec	Mar	Jun	Sept	Q3,2021	Q2,2021	Q1,2021	Q4,2020	Q3,2020	Q3,2021	Q2,2021	Q1,2021	Q4,2020	Q3,2020
1.1 Reserves and Gold Holdings	977,457	924,537	881,550	1,096,065	1,017,575	(78,490)	214,515	(42,987)	(52,920)	(117,047)	(7.2)	24.3	(4.6)	(5.4)	(10.7)
1.2 Funds Held with IMF	8,588	2,868	1,139	2,201	82,740	80,539	1,063	(1,729)	(5,720)	5,332	3,658.8	93.3	(60.3)	(66.6)	163.8
1.3 Investment in Equity (Swift Shares)	10	11	10	10	10	0	(0)	(0)	1	1	0.6	(0.3)	(4.0)	5.5	5.6
1.4 Items in the Course of Collection	17	11	9	39	13	(26)	31	(2)	(7)	(4)	(67.0)	353.4	(19.4)	(38.2)	(18.8)
1.5 Advances to Commercial Banks	84,011	71,073	65,324	59,540	65,650	6,111	(5,785)	(5,748)	(12,938)	28,450	10.3	(8.9)	(8.1)	(15.4)	51.2
1.6 Loans and Other Advances	86,105	88,540	87,373	163,768	166,192	2,424	76,395	(1,167)	2,434	3,130	1.5	87.4	(1.3)	2.8	3.8
1.7 Other Assets	4,842	5,092	5,162	5,365	5,339	(26)	203	70	250	(423)	(0.5)	3.9	1.4	5.2	(8.0)
1.8 Retirement Benefit Asset	6,538	6,538	6,538	7,639	7,639	-	1,101		-		-	16.8			-
1.9 Property and Equipment	31,212	32,289	31,104	33,218	32,228	(991)	2,114	(1,185)	1,077	(628)	(3.0)	6.8	(3.7)	3.5	(2.0)
1.10 Intangible Assets	1,226	1,255	1,346	1,784	1,858	74	437	92	29	2	4.2	32.5	7.3	2.4	0.1
1.11 Due Debt from Government of Kenya	77,433	68,982	69,946	79,288	75,219	(4,069)	9,342	964	(8,451)	8,501	(5.1)	13.4	1.4	(10.9)	12.3
TOTAL ASSETS	1,277,438	1,201,193	1,149,501	1,448,918	1,454,464	5,547	299,417	(51,692)	(76,245)	(72,688)	0.4	26.0	(4.3)	(6.0)	(5.4)
2.0 LIABILITIES															
2.1 Currency in Circulation	268,121	290,544	281,586	277,129	282,844	5,715	(4,457)	(8,957)	22,423	10,329	2.1	(1.6)	(3.1)	8.4	4.0
2.2 Investments by Banks															
2.3 Deposits	630,200	520,369	484,787	728,001	625,292	(102,709)	243,213	(35,582)	(109,831)	(101,987)	(14.1)	50.2	(6.8)	(17.4)	(13.9)
2.4 International Monetary Fund	155,967	154,570	150,890	221,174	304,918	83,744	70,284	(3,680)	(1,398)	4,126	37.9	46.6	(2.4)	(0.9)	2.7
2.5 Other Liabilities	5,635	6,031	6,274	6,101	6,164	63	(173)	243	395	362	1.0	(2.8)	4.0	7.0	6.9
TOTAL LIABILITIES	1,059,924	971,513	923,537	1,232,404	1,219,218	(13,187)	308,867	(47,976)	(88,411)	(94,167)	(1.1)	33.4	(4.9)	(8.3)	(8.2)
3.0 EQUITY AND RESERVES	217,514	229,680	225,964	216,513	229,309	12,796	(9,450)	(3,716)	12,165	21,479	5.9	(4.2)	(1.6)	5.6	11.0
Share Capital	35,000	35,000	35,000	35,000	35,000	-	-		-		-	-	-	-	-
General reserve fund	128,219	128,219	128,219	128,219	155,388	27,168	-		-	33,592	21.2	-	-	-	35.5
Period surplus/(Deficit)	23,979	36,145	32,429	22,978	4,727	(18,252)	(9,450)	(3,716)	12,165	(9,613)	(79.4)	(29.1)	(10.3)	50.7	(28.6)
Asset Revaluation	17,801	17,801	17,801	17,801	21,680	3,879	-		-		21.8	-	-	-	-
Fair Value Reserves -OCI	12,515	12,515	12,515	12,515	12,515	-	-		-	(0)	-	-	-	-	(0.0)
Retirement Benefit Asset Reserves															
Consolidated Fund										(2,500)					(100.0)
4 TOTAL LIABILITIES AND EQUITY	1,277,438	1,201,193	1,149,501	1,448,918	1,454,464	5,546	299,417	(51,692)	(76,245)	(72,687)	0.4	26.0	(4.3)	(6.0)	(5.4)

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet increased by 26 percent in the second quarter of 2021, largely reflecting an increase in Reserve and gold holdings as well as loans and other advances. The increase in Reserve and gold holdings which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank was supported by government external financing from international financial institutions, including the International Monetary Fund (IMF) and World Bank as well as proceeds from the sovereign bond. The increase in Loans and other advances, largely reflects IMF funds on lent to government.

Debt due from government which comprises Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long-term debt with effect from 1 November 1997 also increased in the second quarter of 2021, partly reflecting increased utilization of the overdraft facility at the Central

Bank. Other asset and funds held with the IMF increased in the second quarter. Meanwhile, advances to commercial banks declined in the second quarter, partly reflecting reduced open market operations.

Liabilities

On the liability side, the increase in the Central Bank's balance sheet was largely reflected in deposits, and liabilities to IMF, which increased by KSh 243.2 billion and KSh 70.3 billion respectively in the second quarter of 2021. The increase in deposits largely reflects the increase in government deposits. However, other liabilities items decreased in the second quarter, including currency in circulation which decreased by KSh 4.5 billion compared to a decline of KSh 9 billion in the previous quarter.

Growth in equity and reserves declined by 4.2 percent in the second quarter of 2021 compared to a decline of 1.6 percent in the first quarter of 2021.



Central Bank of Kenya

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