

Central Bank of Kenya

Quarterly Economic Review

October - December 2020



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

Overall inflation rose to 5.3 percent in the fourth quarter of 2020 from 4.3 percent in the third quarter on account of increasing food inflation and elevated fuel inflation. Food inflation increased, owing to rising prices of a few key food items while fuel inflation remained elevated following a pick-up in international oil prices, coupled with continued social distancing measures imposed in public transport, to contain the spread of COVID-19. Meanwhile, Non-food non-fuel (NFnF) inflation remained low and stable in the quarter under review.

Broad money supply (M3) increased by 3.8 percent in the fourth quarter of 2020 compared to a marginal decline of 0.5 percent in the previous quarter, mainly reflecting growth in deposits.

Economic indicators for the fourth quarter of 2020 show that the economy was on a recovery path from the adverse impact of the COVID-19 pandemic.

The current account deficit is estimated to have narrowed to USD 1,356 million in the fourth quarter of 2020 from USD 1,675 million in the fourth quarter of 2019, reflecting a decline in imports and an improvement in earnings from exports of goods despite lower receipts from exports of services.

The banking sector remained stable and resilient in the fourth quarter of 2020. Total net assets increased by 2.9 percent from KSh 5,266.0 billion in September 2020 to KSh 5,420.1 billion in December 2020. The deposit base also increased by 3.0 percent from KSh3,904.4 billion in the third quarter of 2020 to KSh 4,021.9 billion in the fourth quarter of 2020. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in the fourth quarter of 2020 with quarterly profit before tax of KSh 23.6 billion. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 14.1 percent in the fourth quarter of 2020 from 13.6 percent in the third quarter of 2020.

The Government's budgetary operations at the end of the second quarter of FY 2020/2021 resulted in a deficit (including grants) of 3.2 percent of GDP. Revenue collection remained below target, as was the case with expenditure.

Kenya's public and publicly guaranteed debt increased by 2.3 percent during the second quarter of the FY 2020/21. Domestic and external debt increased by 0.9 percent and 3.5 percent, respectively.

The trading activity in the equity market improved during the fourth quarter of 2020 compared to the third quarter of 2020. The NASI and market capitalization increased by 8.7 percent and 8.8 percent, respectively. However, the NSE 20 share price index and equity turnover declined by 5.0 percent and 27.5 percent, respectively.

Chapter 1

Inflation

Overview

Overall inflation rose to 5.3 percent in the fourth quarter of 2020 from 4.3 percent in the third quarter mainly on account of increasing food inflation and elevated fuel inflation. Food inflation increased to 6.3 percent in the quarter under review from 5.7 percent in the previous quarter owing to increase in prices of a few key food items. Fuel inflation also increased during the fourth quarter to 11.5 percent from 10.0 percent in the previous quarter, following

a pick-up in international oil prices, coupled with continued social distancing measures imposed in public transport, to contain the spread of COVID-19. Meanwhile, Non-Food-Non-Fuel (NFNF) inflation remained low, consistent with muted demand pressures in the economy, rising to 2.5 percent from 1.7 percent in the previous quarter (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

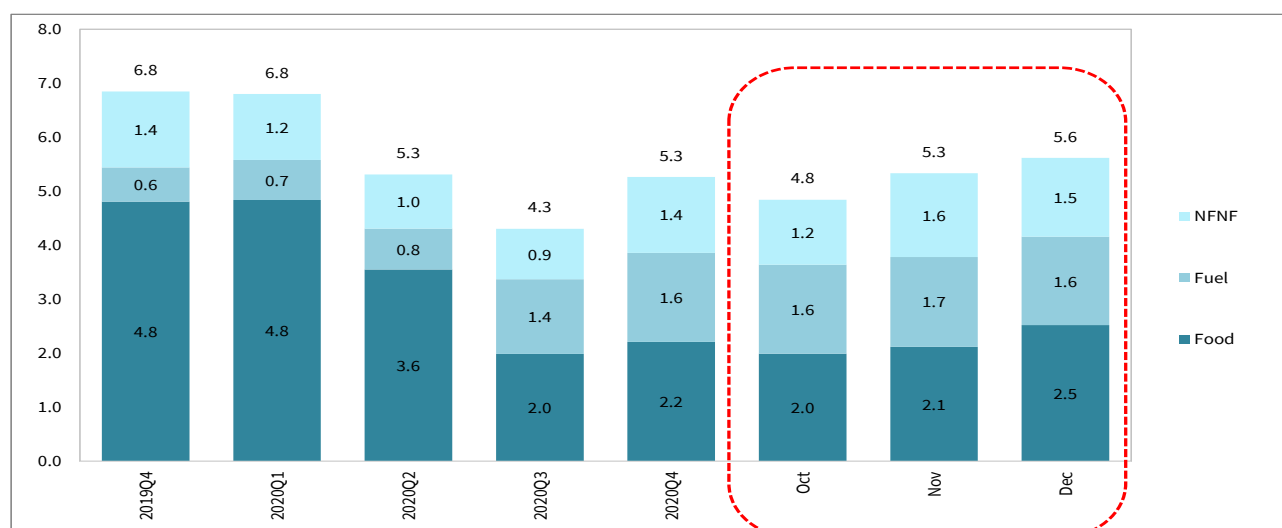
| | 2019 | 2020 | | | | | | |
|------------------------------------|------|------|------|------|------|------|------|------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Oct | Nov | Dec |
| Overall inflation | 6.8 | 6.8 | 5.3 | 4.3 | 5.3 | 4.8 | 5.3 | 5.6 |
| Food Inflation | 14.8 | 14.7 | 10.3 | 5.7 | 6.3 | 5.8 | 6.1 | 7.2 |
| Fuel Inflation | 2.9 | 4.9 | 5.0 | 10.0 | 11.5 | 12.2 | 11.0 | 11.3 |
| Non-Food-Non-Fuel (NFNF) Inflation | 2.2 | 2.2 | 1.8 | 1.7 | 2.5 | 2.3 | 2.7 | 2.6 |
| Annual Average Inflation | 5.2 | 5.8 | 5.7 | 5.5 | 5.1 | 5.3 | 5.1 | 4.9 |
| Three Months Annualised Inflation | 4.7 | 7.2 | 5.4 | 0.2 | 8.6 | 4.7 | 8.4 | 12.7 |

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

During the quarter under review, food inflation remained the main driver of overall inflation, contributing 2.2 percentage points compared to a contribution of 2.0 percentage points in the previous quarter. Fuel inflation contributed 1.6 percentage points to overall inflation in the quarter

under review compared to 1.4 percentage points in the previous quarter. Meanwhile, the contribution of NFNF inflation increased to 1.4 percentage points, from 0.9 percentage points in the previous quarter (**Chart 1.1**).

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



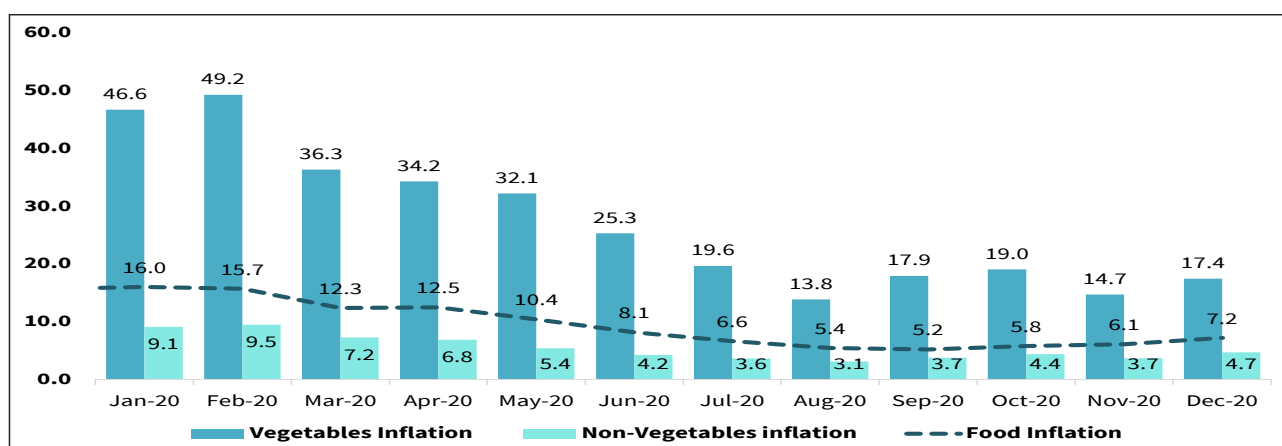
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation increased to 6.3 percent in the quarter under review from 5.7 percent in the previous quarter owing to increase in prices of a few key food items. These items included peas, kales, onions and beef with bones. However, prices of most food

items remained low, as weather conditions across the country remained favorable thus boosting the food supply. Items such as Irish potatoes, tomatoes, maize, carrots, spinach, milk and cabbages exerted downward pressure to food inflation (**Chart 1.2**).

Chart 1.2: Food inflation by category



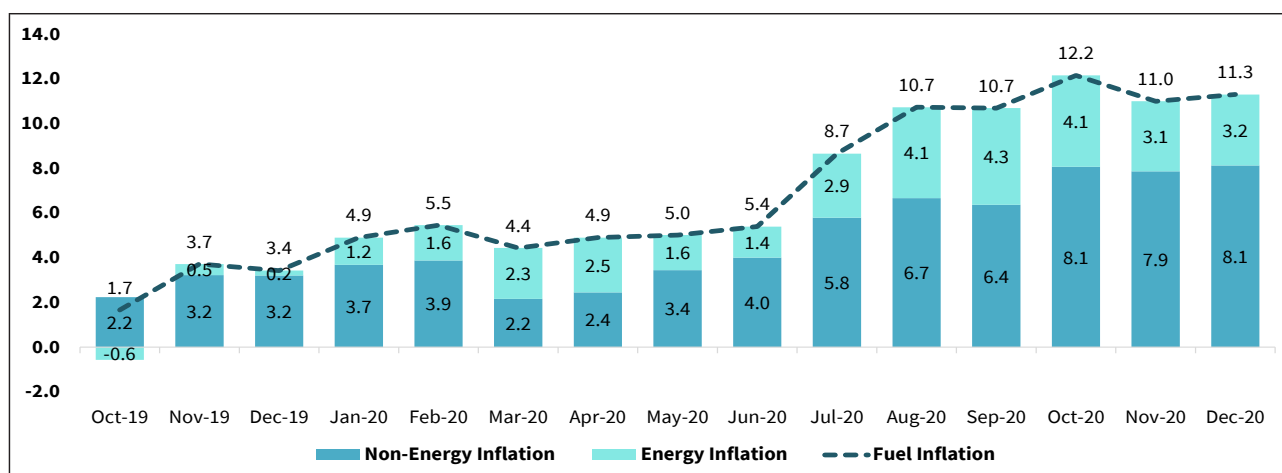
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation increased to 11.5 percent from 10.0 percent in the previous quarter following a pick-up in international oil prices, coupled with continued social distancing measures imposed in public transport, to contain the spread of COVID-19. Fuel

inflation was driven by increased fares, higher electricity costs and higher prices of charcoal, firewood and engine oil. Meanwhile, lower prices of kerosene, LPG gas, petrol and diesel moderated fuel inflation (**Chart 1.3**).

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



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

Non-Food Non-Fuel Inflation (NFNF)

Non-Food-Non-Fuel (NFNF) inflation remained low, consistent with muted demand pressures in the economy. It rose to 2.5 percent from 1.7 percent in the previous quarter. The increase was reflected across all the baskets in the NFNF category,

reflective of a pick-up in economic activity following gradual easing of government restrictions imposed earlier in the year to contain the spread of COVID-19 (**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 |
|------|-----|---|------------------------|--------------------|---|--------|--------------------------------|------------------------------------|-----------------------|--|---|---|------|
| 2019 | Q4 | 8.7 | 2.2 | 1.2 | 2.4 | 1.9 | 1.2 | 1.2 | 1.4 | 2.4 | 0.8 | 3.2 | 2.2 |
| | Q1 | 8.9 | 2.6 | 1.6 | 2.2 | 1.4 | 0.9 | 1.8 | 1.2 | 2.3 | 0.7 | 2.9 | 2.2 |
| | 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 |
| | 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 |
| 2020 | Oct | 4.2 | 2.5 | 1.9 | 2.2 | 3.0 | 0.4 | 2.9 | 1.9 | 4.1 | 1.3 | 2.1 | 2.3 |
| | Nov | 3.6 | 3.3 | 1.6 | 2.5 | 4.2 | 1.0 | 3.0 | 2.2 | 5.2 | 1.4 | 2.3 | 2.7 |
| | Dec | 3.7 | 2.4 | 1.3 | 2.9 | 4.5 | 0.9 | 3.1 | 2.4 | 5.5 | 1.3 | 2.2 | 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

Broad money (M3) increased by 3.8 percent in the fourth quarter of 2020 compared to a marginal decline of 0.5 percent in the previous quarter, mainly reflecting a pickup in the growth of deposits. Total deposits increased by KSh 131.4 billion in the fourth quarter of 2020 compared to a decline of KSh 26.9 billion in the third quarter of 2020, largely reflected in corporate sector deposit holdings, partly due to pick up in business activities following the easing of covid-19 pandemic restrictions. Growth of household deposit holdings moderated in the

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

The 12-month growth in broad money supply, M3 increased from 10.7 percent in September 2020 to 13.2 percent in December 2020, supported by increased lending to the private sector and net lending to government.

Table 2.1: Monetary aggregates (KSh Billions)

| | End Month Level (KSh Billions) | | | | | Quarterly Growth Rates (%) | | | | | Absolute Quarterly Changes (KSh Billions) | | | | |
|--|--------------------------------|---------------|---------------|---------------|----------------|----------------------------|-------------|-------------|--------------|-------------|---|--------------|--------------|---------------|--------------|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| Components of M3 | | | | | | | | | | | | | | | |
| 1. Money supply, M1 (1.1+1.2+1.3) | 1525.2 | 1595.1 | 1666.6 | 1665.8 | 1720.3 | 4.5 | 4.6 | 4.5 | 0.0 | 3.3 | 65.5 | 69.9 | 71.4 | -0.8 | 54.6 |
| 1.1 Currency outside banks | 198.6 | 198.3 | 210.9 | 217.6 | 233.7 | 25.9 | -0.2 | 6.4 | 3.2 | 7.4 | 40.9 | -0.4 | 12.6 | 6.8 | 16.0 |
| 1.2 Demand deposits | 1253.4 | 1306.3 | 1350.0 | 1371.0 | 1386.1 | 5.3 | 4.2 | 3.3 | 1.6 | 1.1 | 62.7 | 52.9 | 43.7 | 21.1 | 15.0 |
| 1.3 Other deposits at CBK 1/ | 73.4 | 90.7 | 105.8 | 77.2 | 100.7 | -34.2 | 23.6 | 16.7 | -27.1 | 30.5 | -38.1 | 17.3 | 15.2 | -28.6 | 23.5 |
| 2. Money supply, M2 (1+2.1) | 2904.4 | 3018.9 | 3201.3 | 3180.5 | 3250.2 | 1.3 | 3.9 | 6.0 | -0.6 | 2.2 | 38.4 | 114.5 | 182.4 | -20.7 | 69.7 |
| 2.1 Time and saving deposits | 1379.1 | 1423.7 | 1534.7 | 1514.7 | 1529.9 | -1.9 | 3.2 | 7.8 | -1.3 | 1.0 | -27.1 | 44.6 | 111.0 | -20.0 | 15.1 |
| 3. Money supply, M3 (2+3.1) | 3524.0 | 3661.0 | 3863.6 | 3843.5 | 3990.9 | 1.5 | 3.9 | 5.5 | -0.5 | 3.8 | 50.6 | 137.0 | 202.6 | -20.1 | 147.4 |
| 3.1 Foreign Currency Deposits | 619.7 | 642.2 | 662.4 | 663.0 | 740.7 | 2.0 | 3.6 | 3.1 | 0.1 | 11.7 | 12.3 | 22.5 | 20.2 | 0.6 | 77.7 |
| Sources of M3 | | | | | | | | | | | | | | | |
| 1. Net foreign assets 2/ | 804.5 | 767.7 | 885.4 | 749.1 | 746.4 | -3.7 | -4.6 | 15.3 | -15.4 | -0.4 | -31.0 | -36.8 | 117.7 | -136.3 | -2.7 |
| Central Bank | 833.3 | 800.6 | 918.1 | 804.9 | 738.5 | -4.4 | -3.9 | 14.7 | -12.3 | -8.3 | -38.2 | -32.7 | 117.5 | -113.2 | -66.4 |
| Banking Institutions | -28.8 | -32.9 | -32.7 | -55.8 | 7.9 | -20.0 | 14.0 | -0.6 | 70.7 | -114.2 | 7.2 | -4.0 | 0.2 | -23.1 | 63.7 |
| 2. Net domestic assets (2.1+2.2) | 2719.6 | 2893.3 | 2978.2 | 3094.4 | 3244.5 | 3.1 | 6.4 | 2.9 | 3.9 | 4.9 | 81.6 | 173.7 | 84.9 | 116.2 | 150.1 |
| 2.1 Domestic credit | 3628.1 | 3789.0 | 3905.7 | 4053.3 | 4245.3 | 1.7 | 4.4 | 3.1 | 3.8 | 4.7 | 61.5 | 160.9 | 116.8 | 147.5 | 192.1 |
| 2.1.1 Government (net) | 941.2 | 1036.8 | 1122.3 | 1196.0 | 1341.0 | 5.2 | 10.2 | 8.2 | 6.6 | 12.1 | 46.9 | 95.6 | 85.5 | 73.7 | 145.0 |
| 2.1.2 Private sector | 2594.6 | 2661.2 | 2695.0 | 2768.6 | 2813.1 | 0.9 | 2.6 | 1.3 | 2.7 | 1.6 | 22.2 | 66.6 | 33.8 | 73.5 | 44.5 |
| 2.1.3 Other public sector | 92.3 | 90.9 | 88.4 | 88.7 | 91.2 | -7.6 | -1.5 | -2.8 | 0.3 | 2.9 | -7.6 | -1.4 | -2.5 | 0.3 | 2.5 |
| 2.2 Other assets net | -908.5 | -895.6 | -927.5 | -958.9 | -1000.8 | -2.2 | -1.4 | 3.6 | 3.4 | 4.4 | 20.1 | 12.9 | -31.9 | -31.4 | -41.9 |
| Memorandum items | | | | | | | | | | | | | | | |
| 4. Overall liquidity, L (3+4.1) | 4927.1 | 5180.2 | 5416.1 | 5519.8 | 5745.0 | 1.3 | 5.1 | 4.6 | 1.9 | 4.1 | 62.5 | 253.0 | 235.9 | 103.7 | 225.2 |
| 4.1 Non-bank holdings of government securities | 1403.1 | 1519.2 | 1552.4 | 1676.3 | 1754.1 | 0.9 | 8.3 | 2.2 | 8.0 | 4.6 | 11.9 | 116.1 | 33.3 | 123.8 | 77.8 |

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 Levels (KSh Billions) | | | | | Quarterly Growth Rates (%) | | | | | Absolute Quarterly Changes (KSh Billions) | | | | |
|-------------------------------|---------------------------------|---------------|---------------|---------------|---------------|----------------------------|------------|------------|-------------|------------|---|-------------|--------------|--------------|-------------|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| 1. Household Sector 1/ | 1641.5 | 1693.3 | 1759.2 | 1778.8 | 1783.1 | 0.2 | 3.2 | 3.9 | 1.5 | 0.2 | 3.4 | 51.8 | 65.9 | 25.6 | 4.2 |
| 1.1 Demand Deposits | 591.8 | 618.0 | 648.5 | 652.7 | 631.7 | -1.1 | 4.4 | 4.9 | 1.1 | -3.2 | -6.3 | 26.3 | 30.5 | 7.2 | -21.0 |
| 1.2 Time and Saving Deposits | 793.3 | 811.5 | 859.6 | 863.3 | 873.6 | 2.4 | 2.3 | 5.9 | 0.4 | 1.2 | 18.8 | 18.2 | 48.1 | 3.7 | 10.3 |
| 1.3 Foreign Currency Deposits | 256.4 | 263.7 | 251.1 | 262.9 | 277.7 | -3.4 | 2.9 | -4.8 | 5.9 | 5.7 | -9.1 | 7.3 | -12.6 | 14.7 | 14.9 |
| 2. Corporate Sector | 1595.5 | 1662.1 | 1777.4 | 1726.5 | 1826.1 | 3.0 | 4.2 | 6.9 | -1.3 | 5.8 | 45.8 | 66.6 | 115.3 | -22.3 | 99.6 |
| 2.1 Demand deposits | 648.1 | 674.1 | 690.3 | 700.9 | 733.8 | 12.0 | 4.0 | 2.4 | 1.9 | 4.7 | 69.4 | 26.0 | 16.2 | 13.1 | 32.9 |
| 2.2 Time and Saving Deposits | 583.3 | 609.0 | 672.0 | 626.6 | 630.4 | -7.3 | 4.4 | 10.3 | -3.3 | 0.6 | -45.8 | 25.7 | 63.0 | -21.3 | 3.8 |
| 2.3 Foreign Currency Deposits | 364.1 | 379.0 | 415.1 | 399.0 | 461.9 | 6.5 | 4.1 | 9.5 | -3.4 | 15.8 | 22.2 | 14.9 | 36.1 | -14.0 | 62.9 |

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

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the increase in M3 in the fourth quarter of 2020 was the net domestic assets (NDA) of the banking system, which increased by KSh 150.1 billion compared to an increase of KSh 116.2 billion in the previous quarter. The increase in NDA was supported by increased lending to the private sector as business activities picked up following the easing of COVID-19 restrictions, and increased net lending to Government on account of Government spending resulting in lower deposit holding at the CBK. The decline in net foreign assets (NFA) moderated in the fourth quarter, reflecting improved net foreign assets of commercial banks supported by increased deposits abroad (**Table 2.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit increased to 4.7 percent in the fourth quarter of 2020 from 3.8 percent in the previous quarter, mainly reflecting increase in net lending to Government. Net lending to Government increased in the quarter under review mainly attributed to increased drawdown of Government deposits at CBK due to Government spending (**Table 2.3**).

Growth of loans and advances extended to the private sector moderated to 1.6 percent in the fourth quarter of 2020 from 2.7 percent in previous quarter. Reduced growth in lending to the private sector was mainly reflected in the household sector. Lending to the corporate sector remained resilient in the quarter under review, partly reflecting demand following the easing of COVID-19 pandemic restrictions. In terms of economic sectors, growth in lending remained resilient in real estate, manufacturing and business services, mainly for working capital requirements. Meanwhile, notable slowdown in lending was observed in transport and communication, and building and construction, partly due to significant loans repayments and recoveries during the period (**Table 2.3 and Table 2.4**).

On an annual basis, growth in lending to the private sector remained resilient at 8.4 percent in December 2020 compared to 7.6 percent in September 2020, supported by the accommodative monetary policy, improved economic activities 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 | | | | | Quarterly Growth Rates (%) | | | | | Absolute Quarterly Changes (KSh Billions) | | | | |
|---|-----------------|----------------|----------------|----------------|----------------|----------------------------|-------------|-------------|------------|-------------|---|--------------|--------------|--------------|--------------|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| 1. Credit to Government | 941.2 | 1,036.8 | 1,122.3 | 1,196.0 | 1,341.0 | 5.2 | 10.2 | 8.2 | 6.6 | 12.1 | 46.9 | 95.6 | 85.5 | 73.7 | 145.0 |
| Central Bank | -182.4 | -118.7 | -89.2 | -176.8 | -31.5 | 0.0 | -34.9 | -24.9 | 98.3 | -82.2 | -0.1 | 63.7 | 29.6 | -87.6 | 145.3 |
| Commercial Banks & NBFIs | 1,123.7 | 1,155.5 | 1,211.5 | 1,372.8 | 1,372.5 | 4.4 | 2.8 | 4.8 | 13.3 | 0.0 | 47.0 | 31.9 | 55.9 | 161.3 | -0.3 |
| 2. Credit to other public sector | 92.3 | 90.9 | 88.4 | 88.7 | 91.2 | -7.6 | -1.5 | -2.8 | 0.3 | 2.9 | -7.6 | -1.4 | -2.5 | 0.3 | 2.5 |
| Local government | 4.3 | 4.3 | 4.4 | 4.6 | 5.7 | -4.7 | -0.1 | 2.2 | 5.4 | 22.2 | -0.2 | 0.0 | 0.1 | 0.2 | 1.0 |
| Parastatals | 88.0 | 86.6 | 84.0 | 84.0 | 85.5 | -7.7 | -1.5 | -3.0 | 0.0 | 1.8 | -7.3 | -1.4 | -2.6 | 0.0 | 1.5 |
| 3. Credit to private sector | 2,594.6 | 2,661.2 | 2,695.0 | 2,768.6 | 2,813.1 | 0.9 | 2.6 | 1.3 | 2.7 | 1.6 | 22.2 | 66.6 | 33.8 | 73.5 | 44.5 |
| Agriculture | 81.0 | 84.2 | 88.1 | 91.2 | 93.4 | -9.7 | 3.9 | 4.6 | 3.6 | 2.4 | -8.7 | 3.2 | 3.9 | 3.1 | 2.2 |
| Manufacturing | 365.4 | 387.6 | 397.2 | 405.4 | 409.3 | 1.5 | 6.1 | 2.5 | 2.1 | 1.0 | 5.4 | 22.3 | 9.6 | 8.2 | 3.9 |
| Trade | 467.4 | 481.8 | 489.2 | 486.5 | 485.0 | 2.4 | 3.1 | 1.5 | -0.6 | -0.3 | 10.9 | 14.3 | 7.5 | -2.7 | -1.4 |
| Building and construction | 115.8 | 118.5 | 114.2 | 119.2 | 119.7 | 1.2 | 2.3 | -3.6 | 4.3 | 0.4 | 1.3 | 2.7 | -4.2 | 5.0 | 0.5 |
| Transport & communications | 186.7 | 184.9 | 200.7 | 214.7 | 212.1 | 4.9 | -0.9 | 8.5 | 7.0 | -1.2 | 8.7 | -1.8 | 15.8 | 14.0 | -2.6 |
| Finance & insurance | 96.9 | 101.8 | 95.8 | 99.0 | 103.7 | -5.4 | 5.1 | -5.9 | 3.4 | 4.7 | -5.6 | 4.9 | -6.0 | 3.3 | 4.7 |
| Real estate | 374.1 | 378.6 | 395.8 | 402.0 | 406.8 | -0.8 | 1.2 | 4.5 | 1.6 | 1.2 | -3.0 | 4.5 | 17.1 | 6.2 | 4.8 |
| Mining and quarrying | 13.9 | 13.9 | 14.6 | 14.4 | 12.1 | 4.1 | 0.2 | 5.3 | -1.5 | -16.2 | 0.5 | 0.0 | 0.7 | -0.2 | -2.3 |
| Private households | 438.3 | 439.5 | 445.1 | 456.0 | 457.3 | -0.5 | 0.3 | 1.3 | 2.4 | 0.3 | -2.3 | 1.3 | 5.6 | 10.8 | 1.3 |
| Consumer durables | 246.7 | 255.2 | 253.5 | 273.6 | 291.3 | 4.2 | 3.5 | -0.7 | 7.9 | 6.5 | 10.0 | 8.6 | -1.7 | 20.1 | 17.7 |
| Business services | 154.1 | 154.3 | 154.4 | 156.8 | 160.2 | 2.3 | 0.2 | 0.1 | 1.5 | 2.2 | 3.4 | 0.3 | 0.1 | 2.4 | 3.4 |
| Other activities | 54.6 | 60.9 | 46.4 | 49.9 | 62.2 | 2.9 | 11.6 | -23.8 | 7.5 | 24.7 | 1.6 | 6.3 | -14.5 | 3.5 | 12.3 |
| 4. TOTAL (1+2+3) | 3,628.1 | 3,789.0 | 3,905.7 | 4,053.3 | 4,245.3 | 1.7 | 4.4 | 3.1 | 3.8 | 4.7 | 61.5 | 160.9 | 116.8 | 147.5 | 192.1 |

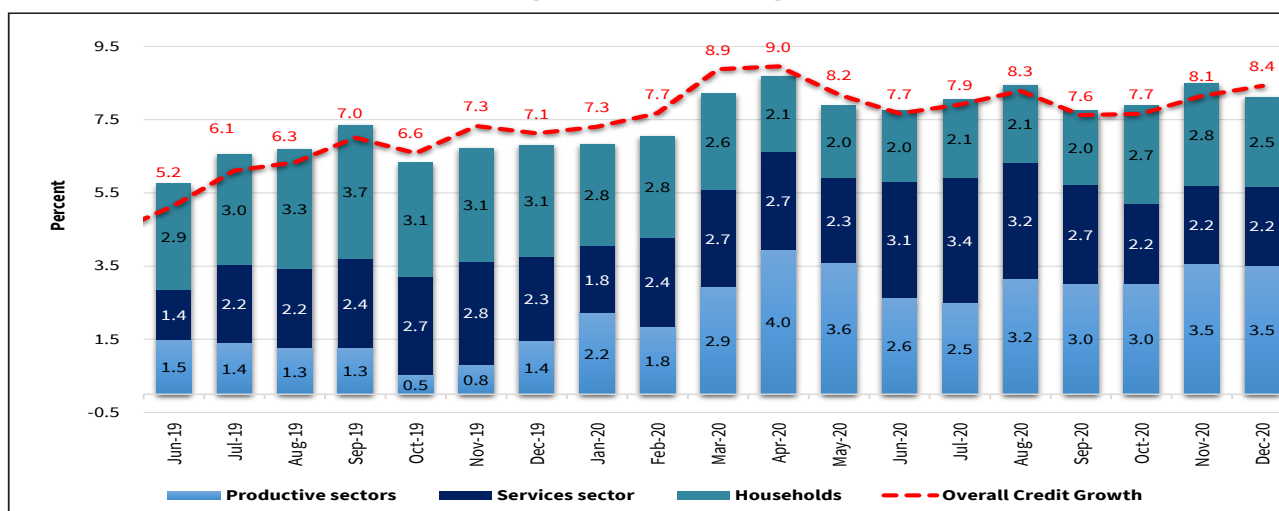
Source: Central Bank of Kenya

Table 2.4: Gross bank loans to the private sector

| | End Month Level | | | | | Quarterly Growth Rates (%) | | | | | Absolute Quarterly Changes (KSh Billions) | | | | |
|--------------|-----------------|---------|---------|---------|---------|----------------------------|--------|--------|--------|--------|---|--------|--------|--------|--------|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| 1. Household | 816.6 | 821.3 | 828.6 | 871.5 | 881.3 | 3.7 | 0.6 | 0.9 | 5.2 | 1.1 | 29.3 | 4.7 | 7.3 | 42.9 | 9.7 |
| 2. Corporate | 1,837.5 | 1,903.0 | 1,938.7 | 1,972.1 | 2,001.6 | -0.5 | 3.6 | 1.9 | 1.7 | 1.5 | -10.0 | 65.5 | 35.8 | 33.4 | 29.5 |
| Gross Loans | 2,654.1 | 2,724.3 | 2,767.4 | 2,843.6 | 2,882.9 | 0.7 | 2.6 | 1.6 | 2.8 | 1.4 | 19.3 | 70.2 | 43.1 | 76.3 | 39.2 |

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Reserve Money

Growth in Reserve money, which comprises currency held by the non-bank public and commercial bank reserves, moderated to 3.9 percent in the fourth quarter from a growth of 5.9 percent in the previous quarter, reflecting slower growth bank reserves. The slower growth in bank reserves, partly reflected open market operations to manage liquidity conditions (Table 2.5).

On the asset side, the decline in growth of reserve money was mainly due to reduction in net foreign assets (NFA) of Central Bank, which partly offset the increase in Net Domestic Assets (NDA). The decline in NFA of the Central Bank was largely due to scheduled debt service and other Central Bank operations.

Table 2.5: Reserve money (rm) and its sources

| | End Month Level | | | | | Quarterly Growth Rates (%) | | | | | Absolute Quarterly Changes (KSh Billions) | | | | |
|---------------------------------|-----------------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|---|--------|--------|--------|--------|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| 1. Net Foreign Assets | 833.3 | 800.6 | 918.1 | 804.9 | 738.5 | -4.4 | -3.9 | 14.7 | -12.3 | -8.3 | -38.2 | -32.7 | 117.5 | -113.2 | -179.6 |
| 2. Net Domestic Assets | -372.2 | -355.1 | -491.2 | -352.7 | -268.6 | -19.7 | -4.6 | 38.3 | -28.2 | -23.8 | 91.5 | 17.1 | -136.1 | 138.5 | 222.6 |
| 2.1 Government Borrowing (net) | -182.4 | -118.7 | -89.2 | -176.8 | -31.5 | 0.0 | -34.9 | -24.9 | 98.3 | -82.2 | -0.1 | 63.7 | 29.6 | -87.6 | 57.6 |
| 2.2 Commercial banks (net) | 10.7 | -1.3 | -131.0 | 87.9 | 60.8 | -156.4 | -112.4 | 9740.3 | -167.1 | -30.8 | 29.8 | -12.1 | -129.7 | 218.9 | 191.8 |
| 2.3 Other Domestic Assets (net) | -204.0 | -238.5 | -274.4 | -267.1 | -301.2 | -23.2 | 16.9 | 15.1 | -2.6 | 12.8 | 61.8 | -34.5 | -35.9 | 7.2 | -26.9 |
| 3. Reserve Money | 461.1 | 445.5 | 426.9 | 452.2 | 469.9 | 13.1 | -3.4 | -4.2 | 5.9 | 3.9 | 53.3 | -15.6 | -18.6 | 25.3 | 43.0 |
| 3.1 Currency outside banks | 198.6 | 198.3 | 210.9 | 217.6 | 233.7 | 25.9 | -0.2 | 6.4 | 3.2 | 7.4 | 40.9 | -0.4 | 12.6 | 6.8 | 22.8 |
| 3.2 Bank reserves | 262.5 | 247.3 | 216.0 | 234.6 | 236.2 | 5.0 | -5.8 | -12.6 | 8.6 | 0.7 | 12.4 | -15.2 | -31.2 | 18.6 | 20.2 |

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) maintained the Central Bank Rate at 7.00 percent in the November 2020 meeting. The Committee noted that the package of policy measures implemented since March were having the intended effect on the economy, and would be augmented by implementation of the fiscal measures in the FY2020/21 Budget.

b. Interbank rate

The weighted average interbank rate generally increased in the fourth quarter 2020, partly reflecting seasonal increased demand for liquidity towards the end of year festivities. The Central Bank open market operations remained active to manage liquidity conditions. The average interbank rate increased from 2.95 percent in September 2020 to 5.29 percent in December 2020.

c. Treasury bill rates

Treasury Bill rates increased in the fourth quarter of 2020, partly reflecting relatively tight liquidity conditions on account of end of year festivities demand. The average 91-day Treasury bill rate increased to 6.90 percent in December 2020 from 6.29 percent in September 2020, while the average 182-day Treasury bill rate increased to 7.38 percent from 6.70 percent (**Table 2.6**).

d. Lending and Deposit Rates

Commercial banks' lending rates which declined for most of 2020 in line with the reduction in the policy rate and improved liquidity conditions, stabilized in the fourth quarter of 2020. The weighted average lending rate was 12.02 percent in December 2020 compared to 11.98 percent in October 2020. The weighted average deposit rate declined from 6.41 percent in September to 6.30 percent in December. Consequently, the spread increased to an average of 5.73 percent from 5.34 percent in the previous quarter.

Table 2.6: Interest rates (percent)

| | 2019 | | | | | | | | | | | | 2020 | | | | | | | | | | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| 91-day Treasury bill rate | 7.23 | 7.06 | 7.13 | 7.41 | 7.23 | 6.94 | 6.81 | 6.44 | 6.35 | 6.38 | 6.65 | 7.17 | 7.23 | 7.31 | 7.29 | 7.21 | 7.27 | 7.14 | 6.24 | 6.20 | 6.29 | 6.49 | 6.69 | 6.90 |
| 182-day Treasury bill rate | 8.95 | 8.62 | 8.32 | 8.16 | 7.90 | 7.71 | 7.57 | 7.12 | 7.10 | 7.23 | 7.61 | 8.16 | 8.17 | 8.25 | 8.14 | 8.14 | 8.18 | 7.93 | 6.69 | 6.56 | 6.70 | 6.89 | 7.11 | 7.38 |
| Interbank rate | 3.32 | 2.51 | 3.72 | 4.12 | 5.61 | 2.98 | 2.28 | 3.70 | 6.59 | 6.86 | 4.24 | 6.03 | 4.39 | 4.84 | 4.40 | 5.13 | 3.91 | 3.27 | 2.12 | 2.56 | 2.95 | 2.69 | 3.27 | 5.29 |
| Repo rate | 3.70 | 3.15 | 3.49 | 3.03 | 0.00 | 4.23 | 4.55 | 7.37 | 8.69 | 7.83 | 6.52 | 7.45 | 5.38 | 4.44 | 6.13 | 6.36 | 4.25 | 3.50 | 3.84 | 3.59 | 3.18 | 3.97 | 6.64 | 6.87 |
| Reverse Repo rate | - | 9.03 | - | 9.13 | 9.18 | - | - | - | - | - | - | - | - | - | - | - | 7.31 | - | - | 7.38 | 7.65 | - | - | 7.70 |
| Central Bank Rate (CBR) | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 8.50 | 8.50 | 8.25 | 8.25 | 7.25 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| Average lending rate (1) | 12.50 | 12.47 | 12.51 | 12.50 | 12.47 | 12.47 | 12.39 | 12.46 | 12.47 | 12.43 | 12.38 | 12.24 | 12.29 | 12.19 | 12.09 | 11.92 | 11.95 | 11.89 | 11.94 | 11.94 | 11.75 | 11.98 | 11.99 | 12.02 |
| Overdraft rate | 12.15 | 12.13 | 12.13 | 12.15 | 12.13 | 12.12 | 11.89 | 11.97 | 11.99 | 11.88 | 11.63 | 11.67 | 11.97 | 11.82 | 11.79 | 11.55 | 11.61 | 11.24 | 11.18 | 11.18 | 11.15 | 11.44 | 11.39 | 11.51 |
| 1-5years | 12.68 | 12.62 | 12.70 | 12.68 | 12.62 | 12.64 | 12.58 | 12.67 | 12.67 | 12.62 | 12.68 | 12.50 | 12.44 | 12.35 | 12.20 | 12.06 | 12.09 | 12.07 | 12.11 | 12.08 | 11.62 | 12.07 | 12.11 | 12.13 |
| Over 5years | 12.47 | 12.48 | 12.49 | 12.48 | 12.47 | 12.46 | 12.42 | 12.48 | 12.46 | 12.47 | 12.43 | 12.29 | 12.28 | 12.16 | 12.11 | 11.96 | 11.95 | 11.98 | 12.10 | 12.12 | 12.12 | 12.12 | 12.11 | 12.12 |
| Average deposit rate (2) | 7.34 | 7.28 | 7.22 | 7.17 | 7.20 | 7.19 | 6.97 | 6.91 | 6.98 | 6.96 | 6.56 | 7.11 | 7.07 | 7.06 | 7.07 | 7.01 | 6.96 | 6.86 | 6.78 | 6.63 | 6.41 | 6.26 | 6.31 | 6.30 |
| 0-3months | 7.73 | 7.69 | 7.62 | 7.56 | 7.58 | 7.55 | 7.26 | 7.28 | 7.42 | 7.40 | 7.37 | 7.60 | 7.39 | 7.40 | 7.42 | 7.33 | 7.20 | 7.11 | 7.01 | 6.77 | 6.47 | 6.44 | 6.42 | 6.66 |
| Over 3 months deposit | 7.58 | 7.49 | 7.43 | 7.48 | 7.50 | 7.53 | 7.34 | 7.21 | 7.23 | 7.21 | 6.27 | 7.50 | 7.52 | 7.53 | 7.56 | 7.53 | 7.57 | 7.40 | 7.31 | 7.20 | 7.07 | 6.79 | 6.93 | 6.97 |
| Savings deposits | 5.14 | 5.16 | 5.05 | 4.75 | 4.71 | 4.77 | 4.77 | 4.54 | 4.58 | 4.44 | 4.47 | 4.02 | 4.25 | 4.20 | 4.15 | 4.21 | 4.18 | 4.15 | 4.11 | 4.10 | 3.78 | 3.38 | 3.42 | 2.70 |
| Spread (1-2) | 5.16 | 5.19 | 5.29 | 5.34 | 5.27 | 5.28 | 5.42 | 5.56 | 5.48 | 5.47 | 5.82 | 5.14 | 5.22 | 5.13 | 5.02 | 4.92 | 4.99 | 5.02 | 5.16 | 5.30 | 5.34 | 5.72 | 5.68 | 5.73 |

Source: Central Bank of Kenya

Chapter 3

Leading Economic Indicators

Performance by Sector

Economic indicators by sector for the fourth quarter of 2020 point to strong recovery from the adverse impact of the COVID-19 pandemic which significantly affected the second and the third quarters of 2020. However, performance of some service sectors were expected to remain subdued due to the COVID-19 containment measures which prevailed during the quarter under review.

Agriculture

Agriculture sector was expected to perform well following favorable weather conditions which prevailed during the quarter, resulting in improved production of key crops.

Horticulture: Despite the disruptions arising from the international and domestic COVID-19 containment measures, total exports of horticultural crops increased by 22.4 percent compared to the previous quarter, boosted by the normalization of international demand. The significant growth in exports was witnessed in October and December (**Table 3.1**). Compared to the same quarter of 2019, horticultural exports increased by 60.5 percent, supported by increased demand and production following favourable weather conditions.

Sugarcane: Furthermore, cane deliveries increased by 49.8 percent compared to a similar quarter of

2019. Compared to the previous quarter, cane deliveries declined by 10.2 percent reflective of the seasonal patterns in cane production (**Table 3.1**).

Milk intake: Despite the various restrictions which affected key consumers including schools, hotels and restaurants, and other entertainment centres, milk intake remained strong and grew by 3.7 percent compared to a similar quarter of last year. Reflecting continued recovery and favorable weather conditions, it increased by 10.1 percent compared to the previous quarter (**Table 3.1**).

Coffee sales: Coffee sales contracted by 2.7 percent and 2.6 percent, respectively in the previous quarter and a similar quarter of 2019 (**Table 3.4**). Although growth of sales was negative during the quarter, there was significant growth of 26.4 percent in December. Consistent with low sales, the average auction prices increased by 26.7 percent compared to the previous quarter.

Tea production: Following the favourable weather conditions during the quarter, tea production increased by 11.2 percent in October compared to a similar period in 2019 (**Table 3.1**). The average auction price per kilogram decreased by 2.5 percent compared to the previous month.

Table 3.1: Quarterly performance of key agricultural output indicators

| | 2019 | | | | 2020* | | | | | | |
|-----------------------------|-----------|---------|---------|---------|-----------|---------|---------|---------|---------|--------|--------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-20 | Nov-20 | Dec-20 |
| Tea | | | | | | | | | | | |
| Output (Metric tonnes) | 106,293 | 106,315 | 104,192 | 142,053 | 158,570 | 143,038 | 118,492 | N/A | 48,275 | N/A | N/A |
| Growth (%) | -27.6 | 0.0 | -2.0 | 36.3 | 11.6 | -9.80 | -17.16 | | 11.2 | | |
| Horticulture | | | | | | | | | | | |
| Exports (Metric tonnes) | 109,593 | 102,840 | 102,778 | 104,267 | 131,515 | 113,752 | 136,713 | 167,304 | 68,173 | 43,730 | 55,400 |
| Growth (%) | 7.4 | -6.2 | -0.1 | 1.4 | 26.1 | -13.5 | 20.2 | 22.4 | 50.7 | -35.9 | 26.7 |
| Coffee | | | | | | | | | | | |
| Sales (Metric tonnes) | 13,948 | 11,412 | 3,840 | 4,428 | 12,304 | 3,368 | 4,432 | 4,314 | 1,329 | 1,318 | 1,667 |
| Growth (%) | 117.8 | -18.2 | -66.4 | 15.3 | 177.8 | -72.6 | 31.6 | -2.7 | -30.5 | -0.8 | 26.4 |
| Milk | | | | | | | | | | | |
| Output (million litres) | 177.1 | 142.1 | 187.2 | 179.5 | 173.4 | 151.2 | 169.0 | 186.1 | 59.7 | 60.6 | 65.8 |
| Growth % | 2.4 | -19.8 | 31.8 | -4.1 | -3.4 | -12.8 | 11.7 | 10.1 | 2.9 | 1.5 | 8.6 |
| Sugar Cane | | | | | | | | | | | |
| Output ('000 Metric tonnes) | 1,485 | 972 | 990 | 1,140 | 1,636 | 1,651 | 1,900 | 1,707 | 644 | 594 | 469 |
| Growth (%) | 6.7 | -34.5 | 1.8 | 15.1 | 43.6 | 0.9 | 15.1 | -10.2 | -0.2 | -7.8 | -21.1 |

* Provisional

N/A: Not Available

Source: Kenya National Bureau of Statistics

Industry

Industrial activity is expected to recover strongly as reflected in the economic indicators in the construction, Manufacturing, Mining and Quarrying, and Electricity and Water sectors.

Manufacturing

Cement production: Despite the adverse impact of COVID-19 on the economy, cement production remained strong during the quarter, pointing to

strong recovery of manufacturing sector. Cement production increased by 10.4 percent in October compared to the previous month (**Table 3.2**).

Galvanized sheets: Production of galvanised sheets increased by 19.5 percent in October compared with a similar period of last year. Compared to the previous month it increased by 6.4 percent, reflecting expected strong performance of the construction sector during the quarter (**Table 3.2**).

Table 3.2: Quarterly production statistics of selected manufactured goods

| | 2019 | | | | 2020* | | | | | |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|--------|
| | Quarterly | | | | Quarterly | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Oct-20 | Nov-20 | Dec-20 |
| Cement production | | | | | | | | | | |
| Output (MT) | 1,462,361 | 1,465,653 | 1,558,955 | 1,480,218 | 1,638,646 | 1,548,777 | 1,864,177 | 768,898 | 716,583 | N/A |
| Growth % | -1.76 | 0.23 | 6.37 | -5.05 | 10.70 | -5.48 | 20.36 | 10.4 | -6.8 | |
| Assembled vehicles | | | | | | | | | | |
| Output (No.) | 1,678 | 2,027 | 1,952 | 2,145 | 2,305 | 1,888 | 2,285 | N/A | N/A | N/A |
| Growth % | 22.3 | 20.8 | -3.7 | 9.9 | 7.5 | -18.1 | 21.0 | | | |
| Galvanized sheets | | | | | | | | | | |
| Output (MT) | 69,186 | 70,382 | 67,820 | 67,037 | 63,912 | 48,852 | 75,934 | 27,038 | N/A | N/A |
| Growth % | 1.7 | 1.7 | -3.6 | -1.2 | -4.7 | -23.6 | 55.4 | 6.4 | | |
| Processed sugar | | | | | | | | | | |
| Output (MT) | 144,662 | 100,164 | 91,288 | 104,821 | 156,937 | 141,499 | 161,536 | N/A | N/A | N/A |
| Growth % | 18.2 | -30.8 | -8.9 | 14.8 | 49.7 | -9.8 | 14.2 | | | |
| Soft drinks | | | | | | | | | | |
| Output ('000 litres) | 170,216 | 157,390 | 149,632 | 153,698 | 151,554 | 141,844 | 133,677 | N/A | N/A | N/A |
| Growth % | 12.9 | -7.5 | -4.9 | 2.7 | -1.4 | -6.4 | -5.8 | | | |

* Provisional

MT = Metric tonnes

N/A - Not Available

Source: Kenya National Bureau of Statistics

Electricity and Water Supply

Electricity generation: Reflective of the increased electricity demand by other sectors of the economy, electricity production increased by 3.9 percent compared to the previous quarter. The growth in

generation was mainly in hydroelectricity, wind electricity and solar which grew by 8.2 percent, 9.7 percent, and 20.7 percent, respectively. Consumption of electricity and international oil prices increased by 3.7 percent and 1.3 percent, respectively (**Table 3.3**).

Table 3.3: Quarterly performance of indicators in the energy sector

| | 2019 | | | | 2020* | | | | | | |
|---|-----------|---------|---------|---------|-----------|---------|---------|---------|---------|--------|--------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-20 | Nov-20 | Dec-20 |
| Electricity Supply (Generation) | | | | | | | | | | | |
| Output (million KWH) | 2,825.1 | 2,805.2 | 2,895.6 | 2,882.8 | 2,888.4 | 2,635.0 | 2,918.7 | 3,032.6 | 1022.7 | 997.6 | 1012.2 |
| Growth % | -1.1 | -0.7 | 3.2 | -0.4 | 0.2 | -8.8 | 10.8 | 3.9 | 5.2 | -2.5 | 1.5 |
| Of which: | | | | | | | | | | | |
| Hydro-power Generation (million KWH) | 815.7 | 707.0 | 754.2 | 928.5 | 1058.7 | 951.3 | 1071.3 | 1159.1 | 373.1 | 385.7 | 400.3 |
| Growth (%) | -17.5 | -13.3 | 6.7 | 23.1 | 14.0 | -10.2 | 12.6 | 8.2 | 4.9 | 3.4 | 3.8 |
| Geo-Thermal Generation (million KWH) | 1,236.9 | 1,238.5 | 1,319.7 | 1,439.6 | 1,367.6 | 1,225.0 | 1,237.7 | 1,229.5 | 440.1 | 396.8 | 392.5 |
| Growth (%) | -1.3 | 0.1 | 6.6 | 9.1 | -5.0 | -10.4 | 1.0 | -0.7 | 15.6 | -9.8 | -1.1 |
| Thermal Generation (million KWH) | 311.6 | 437.7 | 369.9 | 194.1 | 164.0 | 153.9 | 220.6 | 216.4 | 79.5 | 59.6 | 77.3 |
| Growth (%) | 20.4 | 40.5 | -15.5 | -47.5 | -15.5 | -6.1 | 43.3 | -1.9 | -11.1 | -25.0 | 29.6 |
| Wind Generation (million KWH) | 437.8 | 398.7 | 429.2 | 297.0 | 275.7 | 282.1 | 368.9 | 404.7 | 121.8 | 147.8 | 135.0 |
| Growth (%) | 27.4 | -8.9 | 7.7 | -30.8 | -7.2 | 2.3 | 30.7 | 9.7 | -12.9 | 21.3 | -8.7 |
| Solar Generation (million KWH) | 23.1 | 23.2 | 22.4 | 23.5 | 22.3 | 22.6 | 20.2 | 22.9 | 8.2 | 7.6 | 7.1 |
| Growth (%) | 70.1 | 0.4 | -3.2 | 4.6 | -4.8 | 1.2 | -10.4 | 13.2 | 20.7 | -7.0 | -6.4 |
| Co-Generation (million KWH) | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Growth (%) | -37.5 | 27.7 | 27.0 | 35.7 | -60.5 | 44.5 | -62.3 | 118.0 | 75.6 | 7.8 | 107.8 |
| Consumption of electricity (million KWH) | 2,221.7 | 2,191.9 | 2,235.6 | 2,223.6 | 2,274.7 | 2,021.5 | 2,214.0 | 2,296.4 | 789.6 | 758.1 | 748.8 |
| Growth % | 0.8 | -1.3 | 2.0 | -0.5 | 2.3 | -11.1 | 9.5 | 3.7 | 5.1 | -4.0 | -1.2 |
| Murban crude oil average price (US \$ per barrel) | 65.0 | 67.5 | 62.5 | 63.7 | 51.8 | 26.6 | 43.4 | 44.0 | 40.1 | 42.6 | 49.2 |
| Growth % | -6.5 | 3.8 | -7.4 | 1.9 | -18.6 | -48.6 | 62.9 | 1.3 | -3.5 | 6.3 | 15.4 |

*Provisional

Source: Kenya National Bureau of Statistics

Construction

Cement consumption: Reflective of expected strong growth of the construction sector, cement consumption increased by 14.1 percent in October compared to the previous month.

Building Plans: The value of building plans approved by the Nairobi City County Planning, Compliance and Enforcement Department improved significantly by 209.1 percent and 32.5 percent in October and November, respectively. This was reflected in both residential and non-residential building plans (**Table 3.4**).

Table 3.4: Quarterly output of selected construction indicators

| | 2019 | | | | 2020* | | | | | |
|--|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|--------|
| | Quarterly | | | | Quarterly | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Oct-20 | Nov-20 | Dec-20 |
| Cement Consumption | | | | | | | | | | |
| Output (Tonnes) | 1,459,021 | 1,453,917 | 1,553,790 | 1,466,605 | 1,628,362 | 1,541,495 | 1,806,870 | 760,769 | 710,685 | N/A |
| Growth % | -1.3 | -0.3 | 6.9 | -5.6 | 11.0 | -5.3 | 17.2 | 14.1 | -6.6 | |
| Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department | | | | | | | | | | |
| Residential (KSh, millions) | 33,048.82 | 42,830.80 | 38,669.71 | 23,657.32 | 86,005.78 | 15,715.63 | 8,339.37 | 8,989.03 | 12,602.44 | N/A |
| Growth (%) | -8.6 | 29.6 | -9.7 | -38.8 | 263.5 | -81.7 | -46.9 | 172.2 | 40.2 | |
| Non-residential (KSh, millions) | 23,491.41 | 21,884.37 | 16,530.44 | 15,512.02 | 41,427.53 | 11,331.71 | 2,955.88 | 3,779.25 | 4,315.91 | N/A |
| Growth (%) | 3.7 | -6.8 | -24.5 | -6.2 | 167.1 | -72.6 | -73.9 | 356.0 | 14.2 | |
| Total (KSh, millions) | 56,540.23 | 64,715.17 | 55,200.15 | 39,169.34 | 127,433.31 | 27,047.34 | 11,295.25 | 12,768.28 | 16,918.34 | N/A |
| Growth (%) | -3.9 | 14.5 | -14.7 | -29.0 | 225.3 | -78.8 | -58.2 | 209.1 | 32.5 | |

*Provisional

Source: Kenya National Bureau of Statistics

Services

The services sector was expected to be on a recovery path in the fourth quarter. Its growth is expected to remain low due to poor performance of key services sectors.

Accommodation and Restaurants

Tourist arrivals: Overall tourist arrivals increased significantly by 33.42 percent during the quarter under review, following resumption of domestic and international flights. This was reflected in the tourist numbers at the Jomo Kenyatta International Airport in Nairobi, and Moi International Airport in Mombasa (**Table 3.5**).

Table 3.5: Quarterly tourist arrivals by point of entry

| | 2019 | | | | 2020* | | | | | | |
|------------------------|-----------|---------|---------|---------|-----------|--------|----------|---------|---------|--------|--------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-20 | Nov-20 | Dec-20 |
| Total Tourist Arrivals | 361,479 | 339,250 | 449,185 | 402,279 | 290,010 | 1,777 | 81,674 | 108,916 | 29,635 | 31,875 | 47,406 |
| Growth (%) | -2.5 | -6.1 | 32.4 | -10.4 | -27.9 | -99.4 | 4496.2 | 33.4 | 47.0 | 7.6 | 48.7 |
| o.w. JKIA - Nairobi | 312,819 | 324,240 | 420,478 | 366,434 | 262,769 | 1,775 | 33,391 | 103,449 | 28,451 | 30,719 | 44,279 |
| Growth (%) | -6.5 | 3.7 | 29.7 | -12.9 | -28.3 | -99.3 | 1781.2 | 209.8 | 46.6 | 8.0 | 44.1 |
| MIAM - Mombasa | 48,660 | 15,010 | 28,707 | 35,845 | 27,241 | 2 | 2,493 | 5,467 | 1,184 | 1,156 | 3,127 |
| Growth % | 34.7 | -69.2 | 91.3 | 24.9 | -24.0 | -100.0 | 124550.0 | 119.3 | 55.6 | -2.4 | 170.5 |

*Provisional

Source: Kenya Tourism Research Institute

Transport and Storage

Total passenger flows through JKIA increased significantly by about 204 percent compared to the previous quarter, following the resumption of domestic and international flights. However,

passenger flows were still much lower compared to the same quarter of 2019. Consumption of fuels declined by 0.5 percent compared to the previous quarter (**Table 3.6**).

Table 3.6: Quarterly throughput of selected transport companies

| | 2019 | | | | 2020* | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|---------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-20 | Nov-20 | Dec-20 |
| Number of Passengers thro' JKIA | | | | | | | | | | | |
| Total passenger flows | 1,145,280 | 1,212,177 | 1,459,800 | 1,323,550 | 1,024,211 | 14,977 | 139,409 | 423,850 | 112,055 | 131,433 | 180,362 |
| Growth (%) | -9.0 | 5.8 | 20.4 | -9.3 | -22.6 | -98.5 | 830.8 | 204.0 | 62.0 | 17.3 | 37.2 |
| o.w. Incoming | 729,230 | 773,597 | 899,273 | 828,043 | 640,852 | 3,619 | 69,207 | 221,888 | 57,771 | 66,726 | 97,391 |
| Growth (%) | -9.1 | 6.1 | 16.2 | -7.9 | -22.6 | -99.4 | 1812.3 | 220.6 | 67.3 | 15.5 | 46.0 |
| Outgoing | 416,050 | 438,580 | 560,527 | 495,507 | 383,359 | 11,358 | 70,202 | 201,962 | 54,284 | 64,707 | 82,971 |
| Growth % | -8.9 | 5.4 | 27.8 | -11.6 | -22.6 | -97.0 | 518.1 | 187.7 | 56.7 | 19.2 | 28.2 |
| Kenya Pipeline Oil Throughput | | | | | | | | | | | |
| Output ('000 litres) | 1,859,793 | 1,791,759 | 1,763,400 | 1,816,132 | 1,900,764 | 1,281,349 | 1,473,184 | N/A | 629,532 | N/A | N/A |
| Growth % | 12.1 | -3.7 | -1.6 | 3.0 | 4.7 | -32.6 | 15.0 | | 23.4 | | |
| Consumption of Fuels | | | | | | | | | | | |
| Output ('000 litres) | 1,296.6 | 1,302.3 | 1,467.8 | 1,255.6 | 1,226.4 | 940.5 | 1,217.4 | 1,211.9 | 402.1 | 380.4 | 429.5 |
| Growth (%) | 5.7 | 0.4 | 12.7 | -14.5 | -2.3 | -23.3 | 29.4 | -0.5 | 0.1 | -5.4 | 12.9 |

*Provisional

N/A - Not Available

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

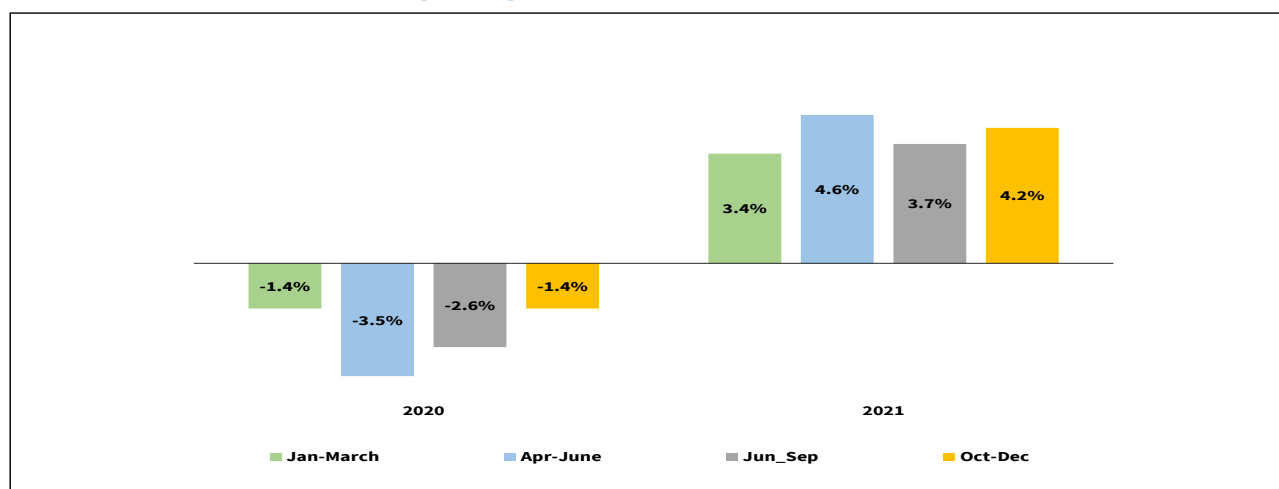
Chapter 4

Global Economy

Global economic output is estimated to have contracted by 1.4 percent in the fourth quarter of 2020 compared to 2.6 percent and 3.5 percent in the second and third quarters, respectively. It is projected to grow by 4.2 percent in the fourth quarter of 2021 and moderate to 3.7 percent in the fourth quarter of 2022. On an annual basis, global

output is projected to grow by 5.5 percent in 2021 and 4.2 percent in 2022, reflecting full relaxation of containment measures, increased development and supply of the COVID-19 vaccine, additional policy support, and increased contact-intensive activities (**Chart 4.1 and Table 4.1**).

Chart 4.1: Quarter over quarter global growth projections



Note: The estimates are based on April, June, Oct, 2020 and Jan 2021 IMF World Economic Outlook releases.

Source: World Economic Outlook, April-Oct 2020 and Jan 2021 Updates

Growth in the advanced economies is estimated to have contracted by 3.9 percent in the fourth quarter of 2020 and is projected to increase by 4.6 percent in the fourth quarter of 2021. However, the recovery paths vary across the countries, reflecting the carryover from additional fiscal support. Overall, annual growth in the advanced economies is projected to contract by 4.9 percent in 2020 before recovering in 2021 (4.3 percent) and 2022 (3.1 percent), respectively. All economies in this group are estimated to expand considerably in the fourth quarter of 2021, including the US (4.0 percent), Japan 2.7 percent), UK (6.0 percent), Germany (5.2 percent), France (7.4 percent), Italy (4.2 percent), and Spain (7.1 percent) (**Table 4.1**).

Emerging market and developing economies are also projected to portray diverging recovery paths with growth estimated to have increased by 0.9 percent in the fourth quarter of 2020 compared with estimated growth of 2.9 percent in the fourth

quarter of 2019. However, a strong rebound is projected in the fourth quarters of 2021 (3.7 percent) and 2022 (5.4 percent), respectively. Annualized growth in the region is estimated to have declined by 2.4 percent in 2020 and to pick up to 6.3 percent in 2021, driven mainly by a stronger-than-expected recovery in China and India. However, the pace of economic growth across the region underscores the vulnerabilities, economic structure, pre-crisis growth trends severity of the Covid-19 pandemic, and the size of the policy response to combat the fallout.

Growth in the Sub-Saharan Africa (SSA) is projected to contract by 2.6 percent in 2020 and increase to 3.2 percent in 2021. Growth in Nigeria and South Africa is expected to contract by 3.2 percent and 7.5 percent, respectively. In 2021, economic activity is expected to grow by 1.5 percent (Nigeria) and 2.8 percent (South Africa) (**Table 4.1**).

Table 4.1: Global Economic Outlook

| | Year over Year | | | | | | Q4 over Q4 | | |
|---|----------------|----------|-------------|------|--|------|------------|-------------|------|
| | Actual | Estimate | Projections | | Difference from October 2020 WEO Projections | | Estimate | Projections | |
| | 2019 | 2020 | 2021 | 2022 | 2021 | 2022 | 2020 | 2021 | 2022 |
| World Output | 2.8 | -3.5 | 5.5 | 4.2 | 0.3 | 0.0 | -1.4 | 4.2 | 3.7 |
| Advanced Economies | 1.6 | -4.9 | 4.3 | 3.1 | 0.4 | 0.2 | -3.9 | 4.6 | 1.9 |
| United States | 2.2 | -3.4 | 5.1 | 2.5 | 2.0 | -0.4 | -2.1 | 4.0 | 2.0 |
| Euro Area | 1.3 | -7.2 | 4.2 | 3.6 | -1.0 | 0.5 | -6.8 | 5.8 | 2.0 |
| Germany | 0.6 | -5.4 | 3.5 | 3.1 | -0.7 | 0.0 | -5.3 | 5.2 | 1.7 |
| France | 1.5 | -9.0 | 5.5 | 4.1 | -0.5 | 1.2 | -8.2 | 7.4 | 2.0 |
| Italy | 0.3 | -9.2 | 3.0 | 3.6 | -2.2 | 1.0 | -8.3 | 4.2 | 2.3 |
| Spain | 2.0 | -11.1 | 5.9 | 4.7 | -1.3 | 0.2 | -9.8 | 7.1 | 2.0 |
| Japan | 0.3 | -5.1 | 3.1 | 2.4 | 0.8 | 0.7 | -2.3 | 2.7 | 1.6 |
| United Kingdom | 1.4 | -10.0 | 4.5 | 5.0 | -1.4 | 1.8 | -8.3 | 6.0 | 1.9 |
| Canada | 1.9 | -5.5 | 3.6 | 4.1 | -1.6 | 0.7 | -4.0 | 3.7 | 2.7 |
| Emerging Market and Developing Economies | 3.6 | -2.4 | 6.3 | 5.0 | 0.3 | -0.1 | 0.9 | 3.7 | 5.4 |
| China | 6.0 | 2.3 | 8.1 | 5.6 | -0.1 | -0.2 | 6.2 | 4.2 | 6.0 |
| India | 4.2 | -8.0 | 11.5 | 6.8 | 2.7 | -1.2 | 0.6 | 1.7 | 7.8 |
| Russia | 1.3 | -3.6 | 3.0 | 3.9 | 0.2 | 1.6 | -4.6 | 5.3 | 2.6 |
| Brazil | 1.4 | -4.5 | 3.6 | 2.6 | 0.8 | 0.3 | -1.9 | 1.6 | 2.6 |
| Mexico | -0.1 | -8.5 | 4.3 | 2.5 | 0.8 | 0.2 | -5.4 | 2.2 | 2.4 |
| Saudi Arabia | 0.3 | -3.9 | 2.6 | 4.0 | -0.5 | 0.6 | -3.1 | 3.5 | 4.0 |
| Sub-Saharan Africa | 3.2 | -2.6 | 3.2 | 3.9 | 0.1 | -0.1 | ... | ... | ... |
| Nigeria | 2.2 | -3.2 | 1.5 | 2.5 | -0.2 | 0.0 | ... | ... | ... |
| South Africa | 0.2 | -7.5 | 2.8 | 1.4 | -0.2 | -0.1 | -6.2 | 2.8 | 0.6 |
| World Trade Volume (goods and services) | 1.0 | -9.6 | 8.1 | 6.3 | -0.2 | 0.9 | ... | ... | ... |
| Commodity Oil Prices (US dollars) | -10.2 | -32.7 | 21.2 | -2.4 | 9.2 | -5.4 | -27.6 | 13.5 | -2.2 |
| Consumer Prices | | | | | | | | | |
| Advanced Economies | 1.4 | 0.7 | 1.3 | 1.5 | -0.3 | -0.1 | 0.5 | 1.5 | 1.6 |
| Emerging Market and Developing Economies | 5.1 | 5.0 | 4.2 | 4.2 | -0.5 | -0.1 | 3.2 | 3.8 | 3.7 |

Source: IMF, World Economic Outlook (WEO), January 2021 Updates

Financial conditions have eased considerably, supported by increased appetite for risk assets and stable capital, credit spreads and debt inflows. However, the ensuing tighter financial conditions could also increase rollover risks for vulnerable borrowers, add to the already large number of economies in debt distress and increase insolvencies among corporates and households.

Global trade volumes are expected to grow by 8 percent in 2021, before moderating to 6 percent in 2022 with services trade expected to recover more slowly than merchandise volumes. Commodity prices are expected to rise reflecting the projected global recovery. Oil prices are expected to rise in 2021 above 20 percent from the low base of 2020, but will still remain below their average for 2019. Non-oil commodity prices are also expected to increase with those of metals, in particular, projected to

accelerate strongly in 2021. Inflation is expected to remain subdued during 2021–22 and is consistent with persistent negative output gaps. In advanced economies it is projected to remain generally below central bank targets at 1.5 percent and below its prehistoric levels among the emerging market and developing economies (**Table 4.1**).

The 2021 growth projections are largely supported by favorable news on vaccine development, distribution and effectiveness of therapies that are expected to boost confidence among firms and households and, additional policy support. However, the pace of economic growth across the regions underscores the vulnerabilities, economic structure, pre-crisis growth trends severity of the Covid-19 pandemic, and the size of the policy response to combat the fallout.

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account is estimated to have narrowed to USD 1,356 million in quarter four of 2020 from USD 1,675 million in the fourth quarter of 2019 due to reduced payments on imports, and improved export earnings despite lower receipts from

services. Secondary income inflows remained resilient supported by remittances which improved to USD 825 million in quarter four of 2020 from USD 711 million in the fourth quarter of 2019 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)¹

| ITEM | 2019* | 2020 | | | | | | | Q4 2020-Q4 2019 | |
|--|---------------|---------------|---------------|---------------|-------------|-------------|-------------|---------------|-----------------|------------|
| | Oct-Dec | Jan-Mar | Apr-June | Jul-Sep | Oct-Dec | | | | Change | % |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | | |
| 1. Overall Balance | 252 | 466 | -1,118 | 1,023 | 372 | 167 | -125 | 414 | 162 | 64 |
| 2. Current account | -1,675 | -1,093 | -894 | -1,333 | -417 | -477 | -462 | -1,356 | 318 | -19 |
| Exports (fob) | 1,461 | 1,644 | 1,387 | 1,516 | 486 | 466 | 521 | 1,474 | 45 | 3 |
| Imports (fob) | 4,336 | 3,916 | 3,066 | 3,638 | 1,245 | 1,186 | 1,358 | 3,790 | -546 | -13 |
| Services: credit | 1,395 | 1,204 | 843 | 848 | 288 | 278 | 374 | 940 | -455 | -33 |
| Services: debit | 1,019 | 1,004 | 788 | 873 | 284 | 296 | 351 | 931 | -88 | -9 |
| Balance on goods and services | -2,532 | -1,952 | -1,705 | -2,147 | -755 | -738 | -815 | -2,307 | 224 | -9 |
| Primary income: credit | 55 | 53 | 23 | 40 | 10 | 9 | 11 | 31 | -24 | -44 |
| Primary income: debit | 501 | 413 | 348 | 445 | 78 | 165 | 126 | 370 | -131 | -26 |
| Balance on goods, services, and primary income | -2,978 | -2,311 | -2,030 | -2,552 | -823 | -894 | -930 | -2,647 | 331 | -11 |
| Secondary income: credit | 1,317 | 1,232 | 1,259 | 1,235 | 409 | 421 | 471 | 1,300 | -16 | -1 |
| o.w Remittances | 711 | 698 | 764 | 812 | 263 | 259 | 303 | 825 | 114 | 16 |
| Secondary income: debit | 13 | 14 | 11 | 17 | 3 | 3 | 3 | 10 | -4 | -26 |
| 3. Capital Account | 52 | 24 | 42 | 36 | 2 | 13 | 13 | 28 | -25 | -47 |
| 4. Financial Account | -1,322 | -419 | -1,690 | -295 | 373 | -491 | -329 | -446 | 876 | -66 |

¹Provisional estimates

* Revised, Fob - free on board

Source: Central Bank of Kenya

Current Account Balance

The balance on trade in goods and services is estimated to have improved by 9 percent from a deficit of USD 2,532 million in the fourth quarter of 2019 to a deficit of USD 2,307 million in the fourth quarter of 2020, mainly attributed to improved earnings from exports and a lower import bill which more than offset lower earnings from services (Table 5.1). The value of merchandise exports increased by 3 percent to USD 1,474 million in the fourth quarter of 2020 reflecting increased earnings from horticulture, chemicals and manufactured goods. Receipts from horticulture improved by 16 percent supported by a recovery in international demand and sufficient cargo space. Receipts from tea declined by 8 percent to USD 282 from USD 305 million in the fourth quarter of 2020 due to lower international prices which were occasioned by relatively higher tea production in Kenya in 2020.

The value of merchandise imports declined by 13 percent to USD 3,790 million in the fourth quarter

of 2020 from USD 4,336 million in a similar quarter of 2019, largely due to reduced imports of oil products as a result of relatively lower international oil prices. Although oil prices increased from a low level in April 2020 due to a COVID-19 demand shock, they remained below the pre-COVID levels. Imports of chemicals and manufactured goods improved by 2 percent and 9 percent respectively reflecting a recovery in imported intermediate inputs.

Net receipts on the services account declined by USD 367 million to a surplus of USD 9 million in the fourth quarter of 2020 compared to a surplus of USD 375 million in a similar period in 2019 mainly on account of lower receipts from transport and travel services. Transport services declined by USD 262 million due to lower air transport receipts due to weaknesses in international travel and transport. Receipts from travel services also declined by USD 194 million in same quarter of 2020.

The balance on the primary account narrowed by USD 107 million to a deficit of USD 340 million in the fourth quarter of 2020 from a deficit of USD 446 million in a similar period in 2019, reflecting lower reinvestment related outflows. The balance on secondary income on the other hand declined to

USD 1,291 million in quarter four of 2020 from USD 1,303 million largely due to a decline in other current transfers (NGO's and other transfers) in quarter four of 2020. Remittances improved by 16.1 percent to USD 825 million in the fourth quarter of 2020 from USD 711 million in a similar period in 2019.

Table 5.2: Balance on current account (USD Million)

| ITEM | 2019* | 2020* | | | | | | | Q4 2020-Q4 2019 | |
|--|---------------|---------------|---------------|---------------|--------------|--------------|--------------|---------------|-----------------|-------------|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | | | | Change | % |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | | |
| CURRENT ACCOUNT | -1,675 | -1,093 | -782 | -1,333 | -417 | -477 | -462 | -1,356 | 318 | -19 |
| Goods | -2,907 | -2,152 | -1,760 | -2,122 | -759 | -720 | -837 | -2,316 | 591 | -20 |
| Exports (fob) | 1,429 | 1,764 | 1,307 | 1,516 | 486 | 466 | 521 | 1,474 | 45 | 3 |
| o.w Coffee | 33 | 52 | 74 | 47 | 13 | 17 | 13 | 43 | 9 | 29 |
| Tea | 305 | 335 | 327 | 282 | 91 | 97 | 93 | 282 | -24 | -8 |
| Horticulture | 228 | 273 | 210 | 233 | 93 | 78 | 94 | 265 | 37 | 16 |
| Oil products | 15 | 14 | 8 | 18 | 8 | 2 | 5 | 15 | 0 | -1 |
| Manufactured Goods | 98 | 94 | 69 | 111 | 35 | 33 | 40 | 107 | 10 | 10 |
| Raw Materials | 78 | 101 | 89 | 76 | 28 | 29 | 24 | 80 | 2 | 3 |
| Chemicals and Related Products (n.e.s) | 106 | 122 | 100 | 119 | 40 | 39 | 44 | 124 | 18 | 17 |
| Miscellaneous Man. Articles | 137 | 145 | 103 | 163 | 50 | 49 | 55 | 154 | 17 | 12 |
| Re-exports | 173 | 331 | 108 | 174 | 35 | 31 | 47 | 114 | -59 | -34 |
| Other | 247 | 285 | 212 | 283 | 97 | 89 | 105 | 291 | 44 | 18 |
| Imports (fob) | 4,336 | 3,916 | 3,066 | 3,638 | 1,245 | 1,186 | 1,358 | 3,790 | -546 | -13 |
| o.w Oil | 781 | 778 | 359 | 526 | 172 | 194 | 188 | 554 | -227 | -29 |
| Chemicals | 618 | 653 | 609 | 682 | 205 | 191 | 235 | 631 | 13 | 2 |
| Manufactured Goods | 721 | 649 | 621 | 720 | 276 | 245 | 263 | 784 | 63 | 9 |
| Machinery & Transport Equipment | 1,469 | 1,061 | 780 | 1,082 | 335 | 307 | 408 | 1,050 | -418 | -28 |
| Machinery | 944 | 746 | 535 | 698 | 223 | 204 | 262 | 689 | -255 | -27 |
| Transport equipment | 525 | 315 | 245 | 384 | 112 | 103 | 146 | 362 | -163 | -31 |
| Other | 910 | 950 | 783 | 705 | 300 | 305 | 333 | 937 | 27 | 3 |
| o.w Food | 429 | 435 | 397 | 324 | 130 | 115 | 149 | 394 | -35 | -8 |
| Services | 375 | 200 | 55 | -25 | 4 | -18 | 23 | 9 | -367 | -98 |
| Transport Services (net) | 190 | 163 | 14 | -65 | -26 | -18 | 8 | -35 | -225 | -119 |
| Credit | 559 | 493 | 283 | 231 | 83 | 87 | 128 | 298 | -262 | -47 |
| Debit | 370 | 331 | 269 | 296 | 108 | 105 | 119 | 333 | -37 | -10 |
| Travel Services (net) | 227 | 179 | 21 | 107 | 14 | 20 | 32 | 66 | -161 | -71 |
| Credit | 280 | 225 | 28 | 134 | 20 | 27 | 38 | 85 | -194 | -69 |
| Debit | 53 | 46 | 7 | 27 | 6 | 6 | 7 | 19 | -33 | -63 |
| Other Services (net) | -41 | -142 | 19 | -67 | 16 | -21 | -17 | -22 | 19 | -46 |
| Primary Income | -446 | -359 | -325 | -405 | -68 | -156 | -115 | -340 | 107 | -24 |
| Credit | 55 | 53 | 23 | 40 | 10 | 9 | 11 | 31 | -24 | -44 |
| Debit | 501 | 413 | 348 | 445 | 78 | 165 | 126 | 370 | -131 | -26 |
| Secondary Income | 1,303 | 1,218 | 1,248 | 1,218 | 406 | 417 | 467 | 1,291 | -13 | -1 |
| Credit | 1,317 | 1,232 | 1,259 | 1,235 | 409 | 421 | 471 | 1,300 | -16 | -1 |
| Debit | 13 | 14 | 11 | 17 | 3 | 3 | 3 | 10 | -4 | -26 |

* Revised;

**Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNB

Direction of Trade

Imports from China accounted for 23.8 percent of total imports to Kenya making it the largest single source of imports, despite a 20 percent decline when compared to a similar quarter in 2019. Imports from European Union also declined by

USD 4 million, while those from Africa decreased by USD 26 to USD 486 million in quarter four of 2020, reflecting lower imports from South Africa. Total imports from COMESA region decreased to USD 297 million, while that of EAC region increased to USD 150 million in quarter four of 2020.

Table 5.3: Kenya's direction of trade: Imports

| IMPORTS (USD M) | | | | | | | | | | | | Share of Imports (%) | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|--------------|
| | 2019 | | | | 2020 | | | | | | | Q4 2019 | Q4 2020 |
| | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct | Nov | Dec | Q4 | | |
| Country | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q4 | Q4 | Q4 | Q4 2019 | Q4 2020 |
| Africa | 522 | 507 | 597 | 512 | 461 | 355 | 412 | 152 | 144 | 191 | 486 | 11.8 | 12.8 |
| <i>Of which</i> | | | | | | 0 | | | | | | | |
| South Africa | 172 | 176 | 177 | 133 | 141 | 96 | 108 | 28 | 32 | 27 | 87 | 3.1 | 2.3 |
| Egypt | 105 | 95 | 111 | 113 | 106 | 89 | 107 | 40 | 37 | 43 | 120 | 2.6 | 3.2 |
| Others | 245 | 236 | 309 | 265 | 214 | 170 | 197 | 83 | 75 | 121 | 279 | 6.1 | 7.4 |
| EAC | 122 | 129 | 197 | 149 | 119 | 100 | 141 | 46 | 43 | 62 | 150 | 3.4 | 4.0 |
| COMESA | 284 | 274 | 319 | 309 | 258 | 203 | 214 | 98 | 82 | 116 | 297 | 7.1 | 7.8 |
| Rest of the World | 3,658 | 3,689 | 3,398 | 3,824 | 3,455 | 2,712 | 3,226 | 1,093 | 1,043 | 1,169 | 3,305 | 88.2 | 87.2 |
| <i>Of which</i> | | | | | | | | | | | | | |
| India | 369 | 364 | 424 | 424 | 568 | 350 | 426 | 144 | 151 | 139 | 434 | 9.8 | 11.5 |
| United Arab Emirates | 312 | 358 | 324 | 438 | 271 | 136 | 181 | 128 | 69 | 87 | 283 | 10.1 | 7.5 |
| China | 767 | 802 | 785 | 1,126 | 797 | 723 | 970 | 281 | 268 | 353 | 903 | 26.0 | 23.8 |
| Japan | 197 | 291 | 216 | 277 | 223 | 178 | 205 | 67 | 63 | 88 | 218 | 6.4 | 5.8 |
| USA | 137 | 114 | 146 | 127 | 128 | 154 | 129 | 40 | 38 | 39 | 118 | 2.9 | 3.1 |
| United Kingdom | 83 | 80 | 67 | 93 | 72 | 62 | 69 | 24 | 20 | 28 | 72 | 2.1 | 1.9 |
| Singapore | 29 | 6 | 8 | 18 | 32 | 11 | 14 | 3 | 20 | 3 | 26 | 0.4 | 0.7 |
| Germany | 105 | 100 | 116 | 100 | 93 | 98 | 117 | 21 | 20 | 29 | 70 | 2.3 | 1.8 |
| Saudi Arabia | 366 | 419 | 303 | 279 | 237 | 96 | 213 | 36 | 56 | 36 | 128 | 6.4 | 3.4 |
| Indonesia | 144 | 139 | 106 | 116 | 199 | 159 | 93 | 51 | 48 | 42 | 141 | 2.7 | 3.7 |
| Netherlands | 184 | 49 | 55 | 33 | 73 | 51 | 127 | 21 | 54 | 65 | 140 | 0.8 | 3.7 |
| France | 66 | 68 | 49 | 70 | 57 | 53 | 53 | 20 | 21 | 16 | 56 | 1.6 | 1.5 |
| Bahrain | 2 | 42 | 2 | 1 | 1 | 2 | 2 | 13 | 3 | 17 | 33 | 0.0 | 0.9 |
| Italy | 53 | 57 | 48 | 53 | 57 | 45 | 50 | 17 | 31 | 21 | 70 | 1.2 | 1.8 |
| Others | 844 | 799 | 749 | 669 | 649 | 594 | 575 | 226 | 179 | 206 | 612 | 15.4 | 16.1 |
| Total | 4,181 | 4,196 | 3,995 | 4,336 | 3,916 | 3,066 | 3,638 | 1,245 | 1,186 | 1,360 | 3,791 | 100.0 | 100.0 |
| | | | | | | 0 | | | | | | | |
| EU | 654 | 524 | 490 | 594 | 535 | 446 | 597 | 167 | 201 | 222 | 590 | 13.7 | 15.6 |
| China | 767 | 802 | 785 | 1,126 | 797 | 723 | 970 | 281 | 268 | 353 | 903 | 26.0 | 23.8 |

*Provisional

Source: Kenya Revenue Authority

The value of merchandise exports to Africa increased to USD 588 million in the fourth quarter of 2020 compared with USD 574 million in a similar period in 2019 accounting for 40.6 percent of the total exports. In the EAC region, exports from Uganda,

South Sudan and Rwanda increased while those to Tanzania decreased. The share of exports to the EU was 23.8 percent while that of Netherlands, USA, Pakistan and UK were 9.0 percent, 8.2 percent, 8.2 percent and 7.8 respectively.

Table 5.4: Kenya's direction of trade: Exports

| EXPORTS (USD M) | | | | | | | | | | | | Share of Exports (%) | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|--------------|----------------------|--------------|
| | 2019 | | | | 2020 | | | | | | | Q4 2019 | Q4 2020 |
| | Jan-March | Apr-Jun | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct | Nov | Dec | Q4 | | |
| Country | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q4 | Q4 | Q4 | Q4 2019 | Q4 2020 |
| Africa | 531 | 534 | 551 | 574 | 640 | 448 | 614 | 188 | 180 | 220 | 588 | 40.2 | 40.6 |
| <i>Of which</i> | | | | | | | | | | | | | |
| Uganda | 161 | 143 | 158 | 162 | 185 | 118 | 200 | 55 | 56 | 62 | 173 | 11.3 | 12.0 |
| Tanzania | 74 | 83 | 84 | 89 | 78 | 59 | 75 | 25 | 27 | 30 | 82 | 6.3 | 5.6 |
| Egypt | 52 | 47 | 41 | 45 | 53 | 43 | 34 | 17 | 14 | 19 | 49 | 3.1 | 3.4 |
| Sudan | 16 | 14 | 12 | 14 | 29 | 16 | 14 | 7 | 7 | 6 | 19 | 1.0 | 1.3 |
| South Sudan | 28 | 41 | 21 | 33 | 84 | 38 | 56 | 9 | 7 | 24 | 40 | 2.3 | 2.8 |
| Somalia | 31 | 33 | 24 | 28 | 25 | 23 | 34 | 9 | 8 | 8 | 24 | 2.0 | 1.7 |
| DRC | 33 | 35 | 30 | 34 | 33 | 31 | 35 | 11 | 12 | 12 | 35 | 2.4 | 2.4 |
| Rwanda | 42 | 55 | 68 | 61 | 60 | 42 | 69 | 22 | 22 | 22 | 65 | 4.3 | 4.5 |
| Others | 93 | 83 | 112 | 108 | 93 | 78 | 97 | 34 | 28 | 39 | 101 | 7.5 | 7.0 |
| EAC | 298 | 297 | 345 | 361 | 420 | 269 | 417 | 116 | 114 | 143 | 373 | 25.2 | 25.8 |
| COMESA | 370 | 358 | 374 | 375 | 421 | 311 | 417 | 131 | 127 | 143 | 400 | 26.3 | 27.6 |
| Rest of the World | 1,027 | 950 | 873 | 855 | 1,124 | 859 | 902 | 299 | 256 | 305 | 860 | 59.8 | 59.4 |
| <i>Of which</i> | | | | | | | | | | | | | |
| United Kingdom | 118 | 84 | 91 | 98 | 131 | 114 | 112 | 37 | 36 | 40 | 114 | 6.9 | 7.8 |
| Netherlands | 144 | 119 | 98 | 110 | 129 | 83 | 116 | 50 | 37 | 44 | 130 | 7.7 | 9.0 |
| USA | 121 | 137 | 137 | 114 | 119 | 104 | 122 | 44 | 42 | 34 | 119 | 8.0 | 8.2 |
| Pakistan | 130 | 96 | 95 | 123 | 132 | 141 | 123 | 37 | 45 | 37 | 118 | 8.6 | 8.2 |
| United Arab Emirates | 103 | 101 | 102 | 74 | 127 | 66 | 73 | 26 | 14 | 21 | 61 | 5.2 | 4.2 |
| Germany | 31 | 33 | 24 | 22 | 34 | 37 | 37 | 10 | 9 | 10 | 29 | 1.6 | 2.0 |
| India | 17 | 13 | 13 | 10 | 12 | 8 | 17 | 14 | 7 | 13 | 34 | 0.7 | 2.3 |
| Afghanistan | 7 | 9 | 9 | 10 | 14 | 5 | 2 | 0 | 0 | 0 | 1 | 0.7 | 0.1 |
| Others | 356 | 356 | 306 | 293 | 425 | 303 | 301 | 82 | 66 | 106 | 253 | 20.5 | 17.5 |
| Total | 1,558 | 1,484 | 1,424 | 1,429 | 1,764 | 1,307 | 1,516 | 487 | 436 | 525 | 1,448 | 100.0 | 100.0 |
| | | | | | | | | | | | | | |
| EU | 406 | 315 | 289 | 301 | 391 | 315 | 350 | 117 | 106 | 121 | 344 | 21.0 | 23.8 |
| China | 34 | 40 | 33 | 42 | 41 | 36 | 30 | 5 | 16 | 11 | 32 | 2.9 | 2.2 |

Source: Kenya Revenue Authority

Capital and Financial Account

The capital account inflows on a net basis recorded a decline of USD 25 million to USD 28 million in the fourth quarter of 2020. Net inflows on the financial account were USD 446 million in the fourth quarter of 2020 compared to net inflows of USD 1,322 in quarter four of 2019. This was mainly due to a

reduction of USD 250 million and USD 77 million in direct investment inflows and portfolio inflows, respectively. The increase in other investment related inflows was more than offset by an increase in other investment outflows.

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

| ITEM | 2020 | | | | | | | | Q4 2020-Q4 2019 | |
|-----------------------------------|---------------|-------------|---------------|-------------|------------|-------------|-------------|-------------|-----------------|------------|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | | | | Absolute | % |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | Change | Change |
| Capital account credit | 52 | 24 | 42 | 36 | 2 | 13 | 13 | 28 | -25 | -47 |
| Capital account credit | 52 | 24 | 42 | 36 | 2 | 13 | 13 | 28 | -25 | -47 |
| Capital account: debit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Account | -1,322 | -419 | -1,690 | -295 | 373 | -491 | -329 | -446 | 876 | -66 |
| Direct investment: assets | 48 | 71 | 8 | 39 | 13 | 11 | 12 | 36 | -12 | -25 |
| Direct investment: liabilities | 359 | 104 | 93 | 93 | 26 | 36 | 47 | 109 | -250 | -70 |
| Portfolio investment: assets | 272 | 309 | 303 | 252 | 115 | 112 | 109 | 337 | 65 | 24 |
| Portfolio investment: liabilities | 89 | -101 | -91 | -6 | -10 | -11 | 32 | 11 | -77 | -88 |
| Financial derivatives: net | 1 | 3 | -5 | 11 | 0 | -59 | 40 | -19 | -20 | -1,760 |
| Other investment: assets | 184 | -8 | 128 | -103 | 474 | 81 | 440 | 995 | 811 | 442 |
| Other investment: liabilities | 1,380 | 791 | 2,123 | 409 | 213 | 612 | 850 | 1,675 | 296 | 21 |

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 12,992 million at the end of the fourth quarter of 2020 from USD 12,919 million in a similar period in 2019. The Official reserves held by the Central Bank constituted the

bulk of the gross reserves and decreased to USD 8,297 million, equivalent to 5.1 months of import cover, while Commercial Bank reserves increased by USD 890 million to end at USD 4,695 million at the end of quarter four of 2020. **(Table 5.6).**

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

| | 2019 | | | | 2020 | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|--------|--------|---------|
| | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | | | Q4 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Oct-Dec |
| 1. Gross Reserves | 11,772 | 13,187 | 13,089 | 12,919 | 12,447 | 13,681 | 12,585 | 12,603 | 12,552 | 12,992 | 12,992 |
| of which: | | | | | | | | | | | |
| Official | 8,468 | 9,656 | 9,442 | 9,116 | 8,635 | 9,740 | 8,765 | 8,363 | 8,196 | 8,297 | 8,297 |
| import cover* | 5.4 | 6.0 | 5.8 | 5.5 | 5.2 | 5.9 | 5.4 | 5.1 | 5.0 | 5.1 | 5.1 |
| Commercial Banks | 3,304 | 3,531 | 3,642 | 3,803 | 3,812 | 3,941 | 3,820 | 4,240 | 4,356 | 4,695 | 4,695 |
| 2. Residents' foreign currency deposits | 6,068 | 6,415 | 6,196 | 6,393 | 6,445 | 6,557 | 6,448 | 6,719 | 6,781 | 7,076 | 7,076 |

*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 eased against major international currencies on account of tight global financial conditions attributed to the Covid-19 pandemic. The Kenya Shilling weakened by 7 percent against the US Dollar to exchange at an average of 109.49 in the fourth quarter of 2020

compared with 102.52 in the fourth quarter of 2019. It also weakened against the Sterling, the Euro and the Japanese Yen. In the EAC region, it weakened against most currencies during the review period (**Table 5.7 and Chart 5.1**).

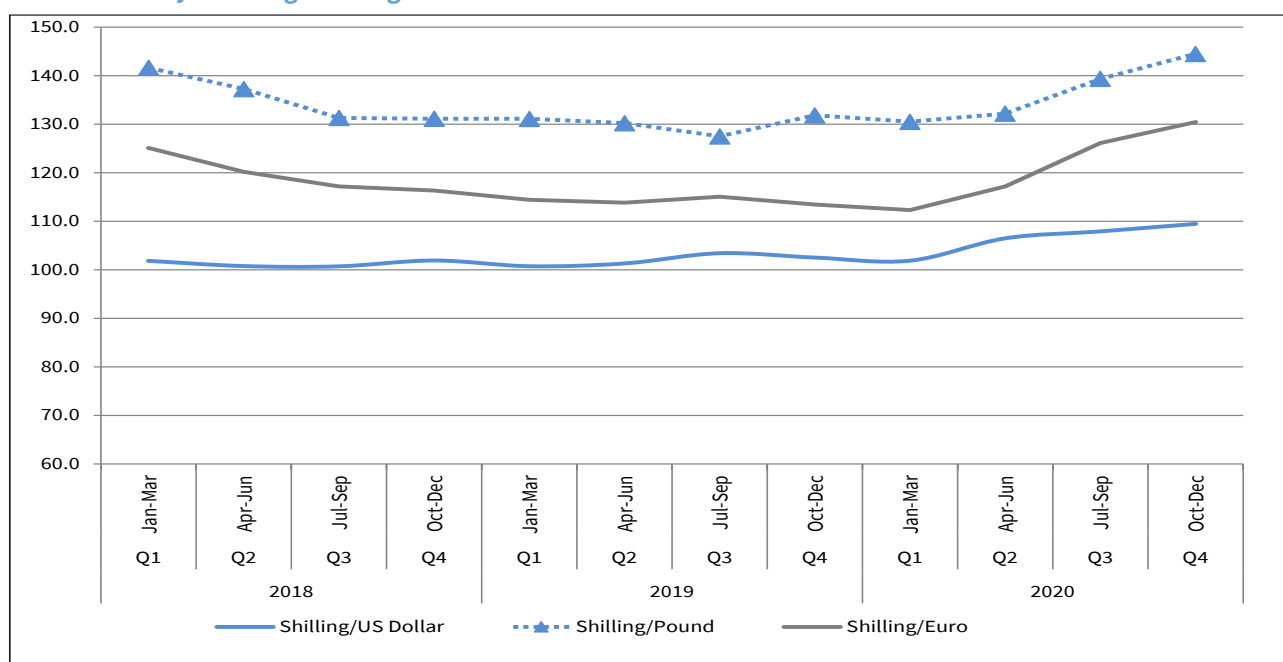
Table 5.7: Kenya Shilling exchange rate

| | 2019 | | | 2020 | | | | | | | Q4 2020 - Q4 2019 % change |
|--------------------|---------------|---------------|---------------|---------------|---------------|-----------------|--------|--------|--------|--------|-------------------------------|
| | Apr-Jun Q2 | Jul-Sep Q3 | Oct-Dec Q4 | Jan-Mar Q1 | Apr-Jun Q2 | July-Sept Q3 | Oct | Nov | Dec | Q4 | |
| US Dollar | 101.30 | 103.42 | 102.52 | 101.88 | 106.50 | 107.94 | 108.64 | 109.25 | 110.59 | 109.49 | 6.81 |
| Pound Sterling | 130.22 | 127.51 | 131.83 | 130.51 | 132.19 | 139.35 | 140.94 | 144.13 | 148.42 | 144.50 | 9.61 |
| Euro | 113.82 | 115.05 | 113.44 | 112.30 | 117.19 | 126.12 | 127.85 | 129.15 | 134.33 | 130.44 | 14.99 |
| 100 Japanese Yen | 92.21 | 93.05 | 94.50 | 93.47 | 99.08 | 101.70 | 103.22 | 104.62 | 106.55 | 104.79 | 10.89 |
| Uganda Shilling* | 36.97 | 35.67 | 35.99 | 36.40 | 35.41 | 34.20 | 34.22 | 33.97 | 33.16 | 33.78 | -6.14 |
| Tanzania Shilling* | 22.74 | 22.23 | 22.44 | 22.64 | 21.73 | 21.50 | 21.35 | 21.23 | 20.97 | 21.18 | -5.62 |
| Rwanda Franc* | 8.94 | 8.87 | 9.07 | 9.32 | 8.93 | 8.92 | 8.99 | 9.01 | 8.95 | 8.98 | -0.97 |
| Burundi Franc* | 18.10 | 17.83 | 18.12 | 18.51 | 17.82 | 17.87 | 17.80 | 17.73 | 17.53 | 17.69 | -2.39 |

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling exchange Rate



Source: Central Bank of Kenya

Chapter 6

Banking Sector

Overview

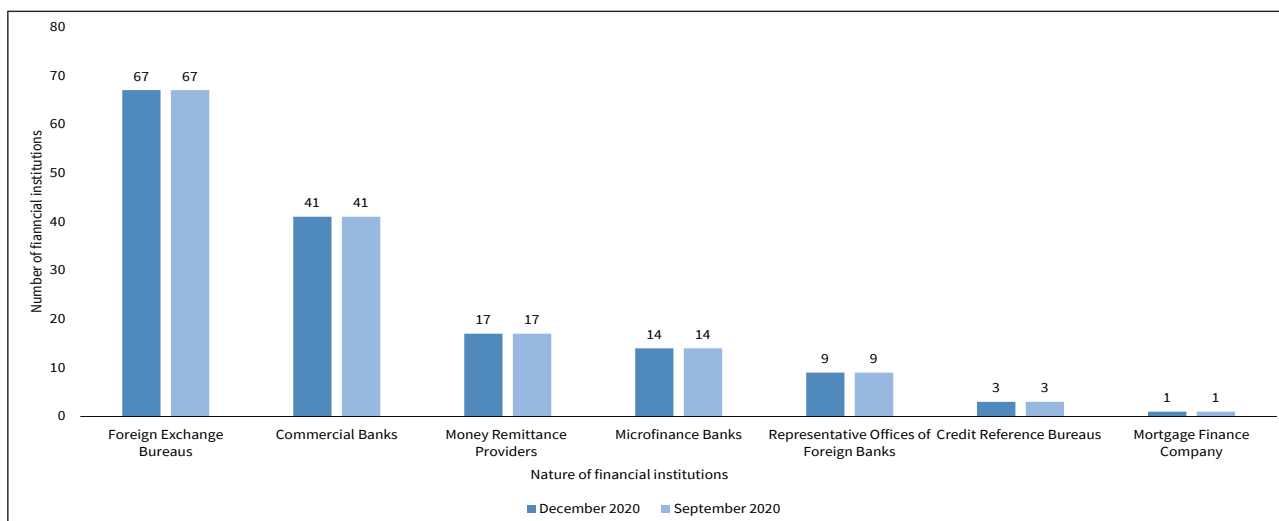
The banking sector remained stable and resilient in the fourth quarter of 2020. However, the coronavirus (COVID-19) pandemic impacted the banking sector asset quality and the overall performance of the sector. Total net assets increased by 2.9 percent from KSh 5,266.0 billion in September 2020 to KSh 5,420.1 billion in December 2020. The deposit base also increased by 3.0 percent from KSh 3,904.4 billion in the third quarter of 2020 to KSh 4,021.9 billion in the fourth quarter of 2020. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in the fourth quarter of 2020 with quarterly profit before tax of KSh 23.6 billion. Credit risk remained elevated with gross non-performing

loans (NPLs) to gross loans ratio standing at 14.1 percent in the fourth quarter of 2020 from 13.6 percent in the third quarter of 2020.

Structure of the Banking Sector

The Kenyan banking sector comprised 41 Commercial Banks¹, 1 Mortgage Finance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 67 Foreign Exchange Bureaus, 17 Money Remittance Providers and 3 Credit Reference Bureaus as at December 31, 2020. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

i) Growth in banking sector assets

Total net assets increased by 2.9 percent from KSh 5,266.0 billion in September 2020 to KSh 5,420.1 billion in December 2020. The increase in total net assets was mainly recorded in placements (45.3 percent). However, loans and advances, which

increased by 1.4 percent, remained the main component of assets, accounting for 49.8 percent in the fourth quarter of 2020, a slight decrease from 50.5 percent recorded in the third quarter of 2020.

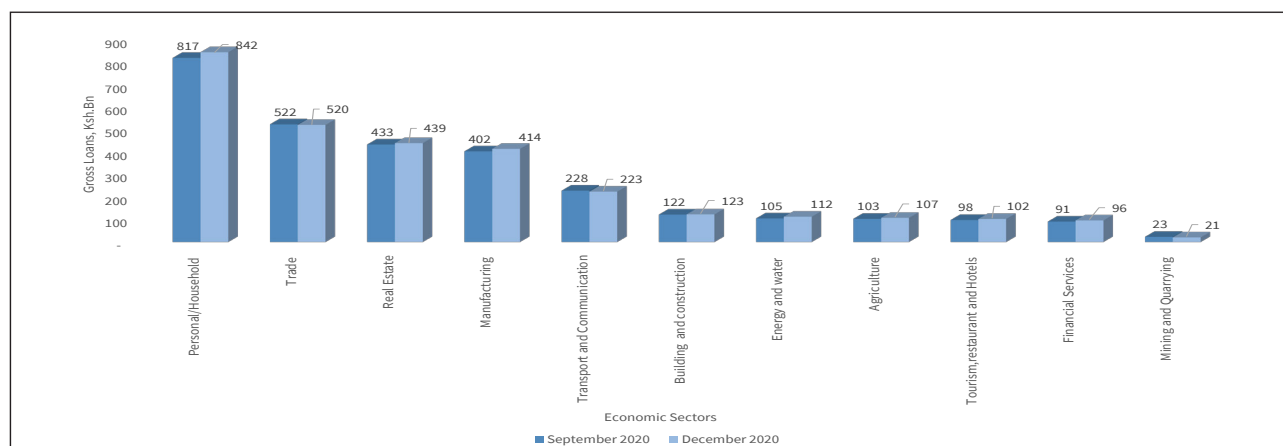
¹ Includes Charterhouse Bank Limited, which is under Statutory Management, Chase Bank (K) Limited and Imperial Bank Limited, which are in Receivership. However, the data for the three banks have been excluded in this report.

ii) Loans and Advances

Total banking sector lending increased by 1.9 percent, to KSh 2,999.5 billion in the fourth quarter of 2020 from KSh 2,943.4 billion in the third quarter of 2020. The increase in gross loans and advances was mainly in the Personal and Household, Manufacturing, and Energy and Water

sectors. The general increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the third and fourth quarters of 2020 is highlighted in **Chart 6.2**.

Chart 6.2: Loans by sector



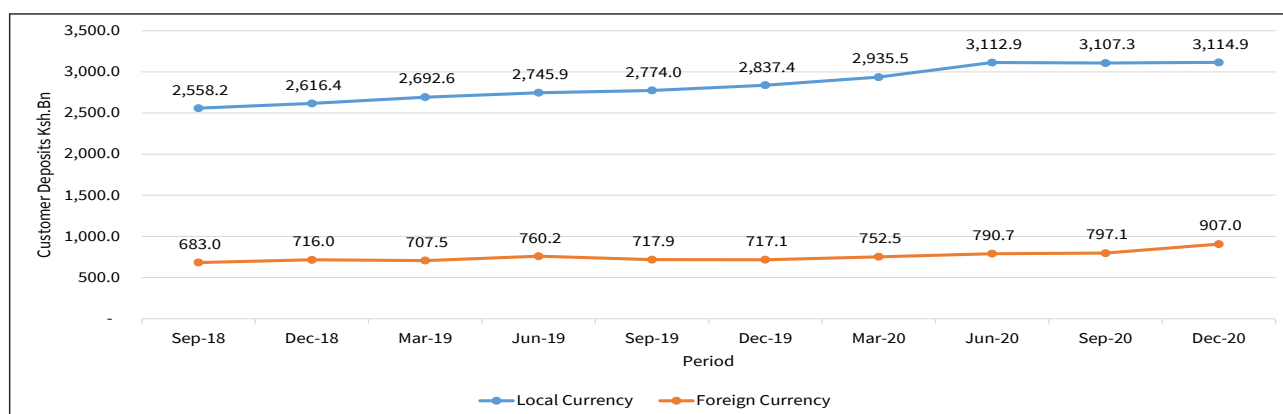
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 74.2 percent of the banking sector total liabilities and shareholders' funds as at the end of the fourth quarter of 2020. This was a marginal increase from 74.1 percent recorded as at end of the third quarter of 2020. The customer deposit base increased by 3.0 percent from KSh 3,904.4 billion in the third quarter of 2020 to KSh4,021.9 billion in the fourth quarter of 2020.

Local currency deposits increased slightly by KSh 7.6 billion (0.25 percent) from KSh 3,107.3 billion in the third quarter of 2020 to KSh 3,114.9 billion in the fourth quarter of 2020. Foreign currency deposits increased by KSh 109.9 billion (13.8 percent) from KSh 797.1 billion in the third quarter of 2020 to KSh907.0 billion in the fourth quarter of 2020. **Chart 6.3** below shows the trend of deposit liabilities.

Chart 6.3: Customer deposits



Source: Central Bank of Kenya

⁴ Other accounts receivable in foreign currency.

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 4.1 percent from KSh 665.1 billion in the third quarter of 2020 to KSh 692.5 billion in the fourth quarter of 2020. Total capital also increased by 6.4 percent from KSh 745.8 billion in the third quarter of 2020 to KSh 793.2 billion in the fourth quarter of 2020. The increases in capital levels are mainly attributable to increased retained earnings from the profits made in 2020.

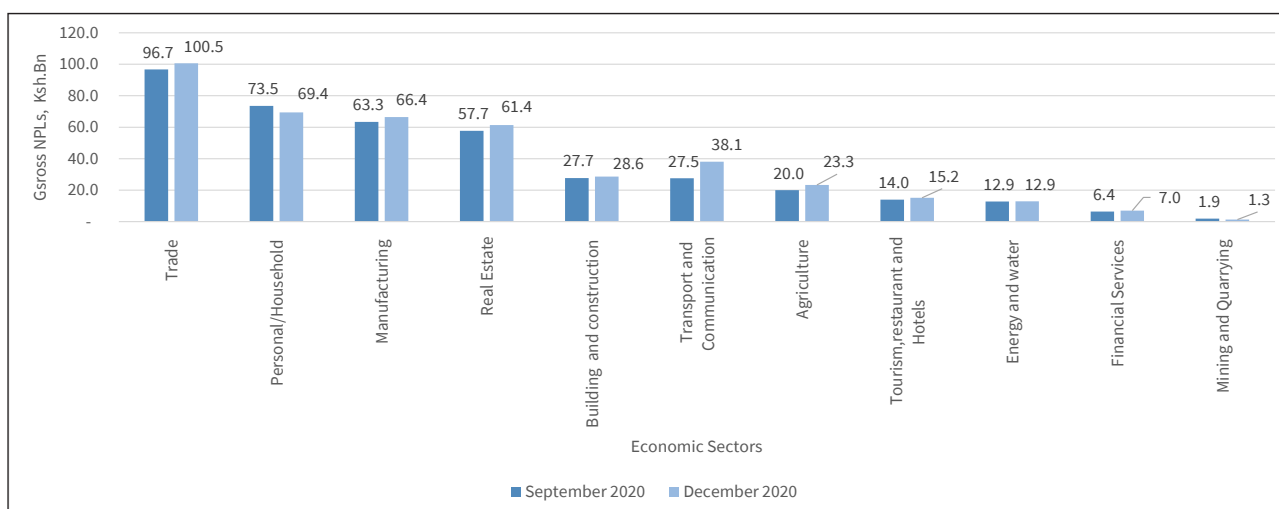
Core capital to total risk-weighted assets ratio increased slightly from 16.3 percent in the third quarter of 2020 to 16.7 percent in the fourth quarter of 2020. Similarly, total capital to total risk-weighted assets ratio increased from 18.2 percent in the third quarter of 2020 to 19.2 percent in the fourth quarter of 2020.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.2 percent in the fourth quarter of 2020, a decrease from 17.0 percent recorded in the third quarter of 2020.

Asset Quality

The gross non-performing loans (NPLs) increased by 5.6 percent to KSh 424.1 billion as at the end of the fourth quarter of 2020 from KSh 401.6 billion at the end of the third quarter of 2020. As a result, the gross NPLs to gross loans ratio increased from 13.64 percent in the third quarter of 2020 to 14.14 percent in the fourth quarter of 2020. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

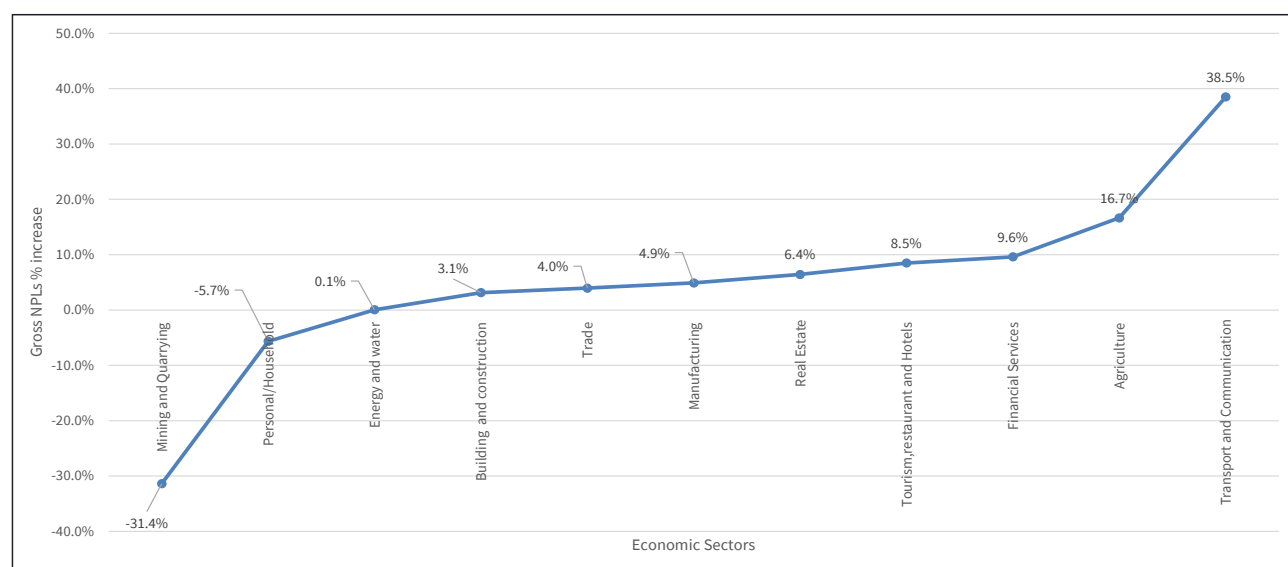
Chart 6.4: Kenyan banking sector gross non-performing loans (KSh Billions)



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-Third and Fourth Quarters of 2020



Source: Central Bank of Kenya

The Transport and Communication sector registered the highest increase in NPLs by 38.5 percent (KSh 10.6 billion) a result of disruptions by COVID-19 pandemic. The other two sectors which registered major NPL increases are Agriculture and Financial Services sectors, which increased by 16.7 percent and 9.6 percent respectively.

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

gross loans, improved slightly to 5.7 percent in the fourth quarter of 2020 from 6.0 percent in the third quarter of 2020. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased to 51.9 percent in the fourth quarter of 2020 from 46.0 percent in third quarter of 2020 due to an increase in specific provisions (22.6 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

| | | September 2020 | December 2020 |
|----|---|-------------------|------------------|
| 1 | Gross Loans and Advances (Ksh.Bn) | 2,943.4 | 2,999.5 |
| 2 | Interest in Suspense (Ksh.Bn) | 73.7 | 67.8 |
| 3 | Loans and Advances (net of interest suspended) (Ksh.Bn) | 2,869.7 | 2,931.7 |
| 4 | Gross Non-Performing loans (Ksh.Bn) | 401.6 | 424.1 |
| 5 | Specific Provisions (Ksh.Bn) | 150.8 | 184.8 |
| 6 | General Provisions (Ksh.Bn) | 58.1 | 50.1 |
| 7 | Total Provisions (5+6) (Ksh.Bn) | 208.9 | 234.9 |
| 8 | Net Advances (3-7) (Ksh.Bn) | 2,660.8 | 2,696.8 |
| 9 | Total Non-Performing Loans and Advances (4-2) (Ksh.Bn) | 327.9 | 356.3 |
| 10 | Net Non-Performing Loans and Advances (9-5) (Ksh.Bn) | 177.1 | 171.4 |
| 11 | Total NPLs as % of Total Advances (9/3) | 11.4% | 12.2% |
| 12 | Net NPLs as % of Gross Advances (10/1) | 6.0% | 5.7% |
| 13 | Specific Provisions as % of Total NPLs (5/9) | 46.0% | 51.9% |
| 14 | Gross NPLs to Gross Loans Ratio | 13.6% | 14.1% |

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in pre-tax profits by KSh 5.6 billion (19.2 percent) from KSh 29.2 billion in the third quarter of 2020 to KSh 23.6 billion in the fourth quarter of 2020. The decrease in profitability was mainly attributable to a lower increase in total income by KSh 6.5 billion (4.4 percent) to KSh 152.0 billion, as compared to a higher increase in expenses by KSh 12.1 billion (39.0 percent) in the fourth quarter of 2020.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both the third and fourth quarters of 2020. On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 31.5 percent, 26.2 percent and 25.4 percent of total expenses respectively compared to 28.9 percent, 22.5 percent and 21.3 percent in the third quarter of 2020.

Total expenses increased by KSh 12.1 billion (10.4 percent) from KSh 116.3 billion in the third quarter of 2020 to KSh 128.4 billion in the fourth quarter of 2020. The increase was driven by a bad debt charge and loan loss expenses which increased by 48.0 percent (KSh 32.1 billion).

Return on assets (ROA) stood at 1.64 percent in the fourth quarter of 2020, a decrease from 1.76 percent registered in the third quarter of 2020. Similarly, return on equity (ROE) decreased to 13.82 percent in the fourth quarter of 2020 from 15.07 percent in the third quarter of 2020. This is as a result of decline in profit before tax.

Liquidity

The banking sector's overall liquidity ratio increased from 53.1 percent in the third quarter of 2020 to 54.6 percent in the fourth quarter of 2020. The increase was driven by a higher increase in total liquid asset (3.5 percent) as compared to a 1.9 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 includes; total foreign assets (50.7 percent), balances with local banks (89.2 percent) and Treasury bonds (3.3 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.
- CBK emergency measures are effectively strengthening resilience of the banking sector.

Kenya Shillings Flows In KEPSS

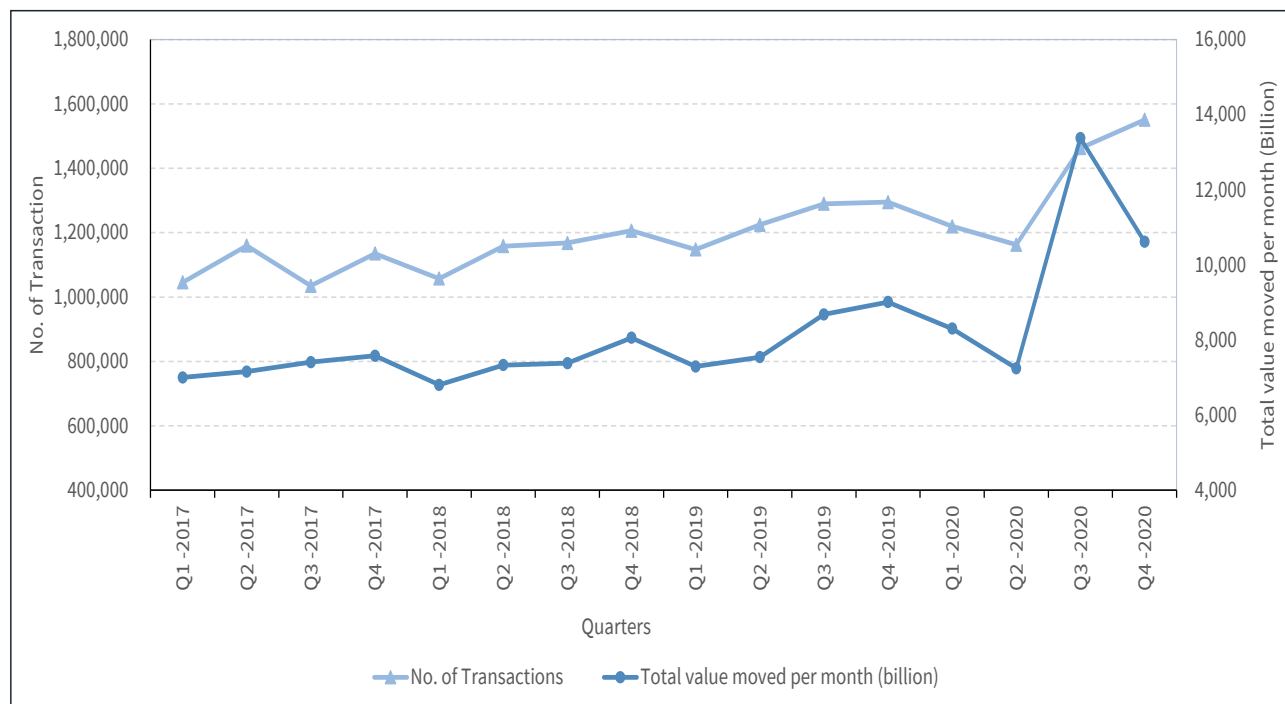
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.55 million transaction messages worth KSh 10.6 trillion in the fourth quarter of 2020, compared to the third quarter of 2020, which recorded 1.46 million transactions worth KSh 13.4 trillion. Volume increased by 6.00 percent and value decreased by 20.64 percent, respectively. **Chart 6.6** below highlights recent trends in KEPSS transactions.

System Availability

On June 5th, 2020, The Central Bank of Kenya successfully upgraded the RTGS system, KEPSS. KEPSS was implemented in 2005 and is used to settle large and low value time critical payments.

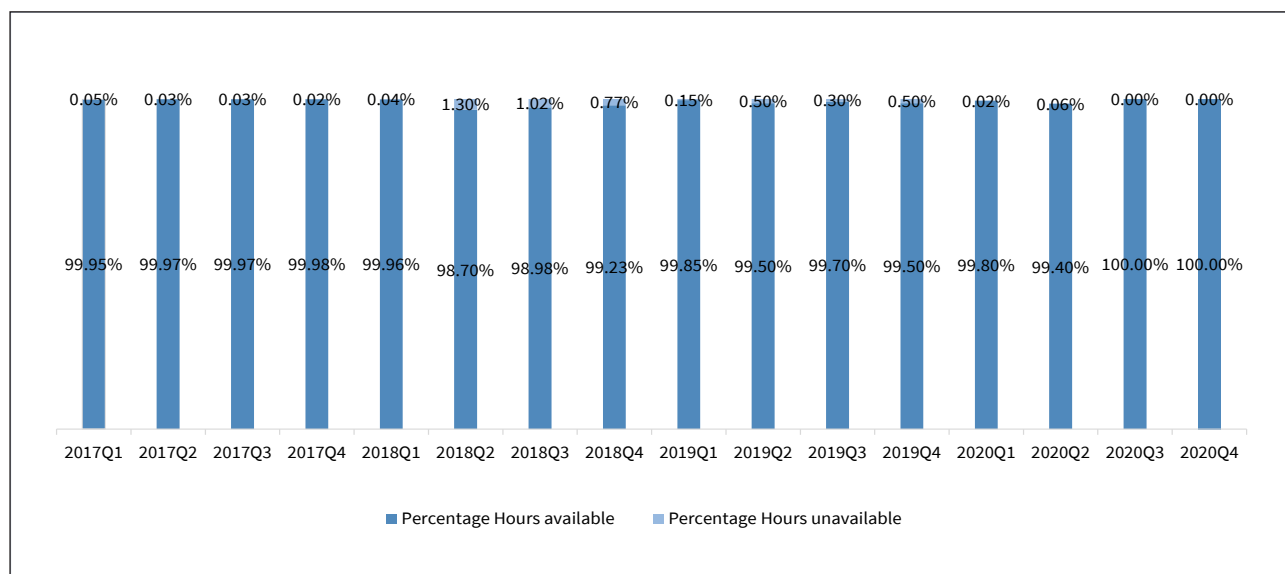
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review.

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the second quarter of FY 2020/2021 resulted in a deficit of 3.2 percent of GDP against a target of 2.9 percent of GDP. Both revenues and expenditures

were below target with the shortfall in total revenues and grants at 12.4 percent and total expenses and net lending at 3.5 percent.

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

| | FY 2019/20 | FY 2020/21 | | | FY 2020/21 | | | Over (+) / | % | Change (%) | FY 2020/2021 (%) | |
|--|----------------|---------------|---------------|---------------|----------------|------------------------|----------------|------------------|---------------|----------------|-------------------------|---------------|
| | Q2 | Oct | Nov | Dec | Q2 | Cumulative to Dec-2020 | Target | Below (-) Target | Variance | Q2-Q2 | Cumulative share to GDP | Target to GDP |
| 1. TOTAL REVENUE & GRANTS | 516.6 | 127.1 | 120.3 | 189.1 | 436.5 | 819.1 | 934.9 | (115.9) | (12.4) | (15.5) | 7.3 | 8.3 |
| Ordinary Revenue | 473.5 | 115.7 | 106.4 | 161.7 | 383.8 | 726.4 | 802.2 | (75.8) | | (18.9) | 6.5 | 7.1 |
| Tax Revenue | 385.2 | 108.5 | 98.2 | 145.2 | 351.9 | 668.7 | 766.5 | (97.8) | | (8.6) | | |
| Non Tax Revenue | 88.3 | 7.1 | 8.2 | 16.6 | 31.9 | 57.7 | 35.7 | 22.0 | | (63.9) | | |
| Appropriations-in-Aid | 35.7 | 11.0 | 12.4 | 24.6 | 48.0 | 84.1 | 105.4 | (21.3) | | 34.5 | | |
| External Grants | 7.3 | 0.5 | 1.4 | 2.7 | 4.6 | 8.5 | 27.3 | (18.8) | | (37.6) | | |
| 2. TOTAL EXPENSES & NET LENDING | 673.5 | 211.4 | 209.7 | 283.4 | 704.5 | 1,214.8 | 1,258.9 | (44.0) | (3.5) | 4.6 | 10.9 | 11.2 |
| Recurrent Expenses | 436.6 | 143.1 | 135.3 | 185.6 | 463.9 | 823.4 | 842.9 | (19.5) | | 6.3 | | |
| Development Expenses | 172.2 | 15.2 | 48.3 | 77.2 | 140.7 | 262.8 | 269.6 | (6.9) | | (18.3) | | |
| County Transfers | 64.7 | 53.1 | 26.1 | 20.7 | 99.9 | 128.7 | 143.9 | (15.2) | | 54.4 | | |
| Others | - | - | - | - | - | - | 2.5 | - | | | | |
| 3. DEFICIT (INCL. GRANTS) (1-2) | (156.9) | (84.2) | (89.4) | (94.3) | (268.0) | (395.8) | (323.9) | (71.8) | 22.2 | 70.8 | (3.5) | (2.9) |
| As percent of GDP | (1.5) | (0.7) | (0.8) | (0.8) | (2.4) | (3.5) | (2.9) | (0.7) | | 58.8 | | |
| 4. ADJUSTMENT TO CASH BASIS | 18.1 | - | - | 36.3 | 36.3 | 36.3 | - | 36.3 | | | | |
| 5. DEFICIT INCL. GRANTS ON A CASH BASIS | (138.8) | (84.2) | (89.4) | (58.1) | (231.7) | (359.5) | (323.9) | (35.6) | 11.0 | 66.9 | (3.2) | (2.9) |
| As percent of GDP | (1.3) | (0.7) | (0.8) | (0.5) | (2.1) | (3.2) | (2.9) | (0.3) | | 55.1 | | |
| 6. DISCREPANCY: Expenditure (+) / Revenue (-) | 20.4 | (5.3) | 17.3 | (13.9) | (2.0) | (0.0) | (5.9) | 5.9 | | (109.7) | | |
| 7. FINANCING | 159.2 | 78.9 | 106.7 | 44.2 | 229.8 | 359.5 | 318.1 | 41.5 | 13.0 | 44.3 | 3.2 | 2.8 |
| Domestic (Net) | 90.1 | 83.7 | 78.7 | 30.1 | 192.6 | 345.0 | 269.0 | 76.0 | | 113.7 | | |
| Capital Receipts (domestic loan rece) | 1.6 | 0.0 | - | - | 0.0 | 0.1 | 1.7 | (1.6) | | (97.0) | | |
| External (Net) | 67.5 | (4.9) | 28.0 | 14.0 | 37.2 | 14.5 | 49.1 | (34.5) | | (45.0) | | |
| Others | - | - | - | - | - | - | - | - | | | | |

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants decreased by 15.5 percent to KSh 436.5 billion in the second quarter of FY 2020/2021, compared to KSh 516.6 billion in the second quarter of FY 2019/20. The decrease was reflected in tax and non-tax revenues as well as external grants which declined by 8.6 percent, 63.9 percent and 37.6 percent respectively. Appropriation in Aid (A-in-A) however, increased over the same period by 34.5 percent.

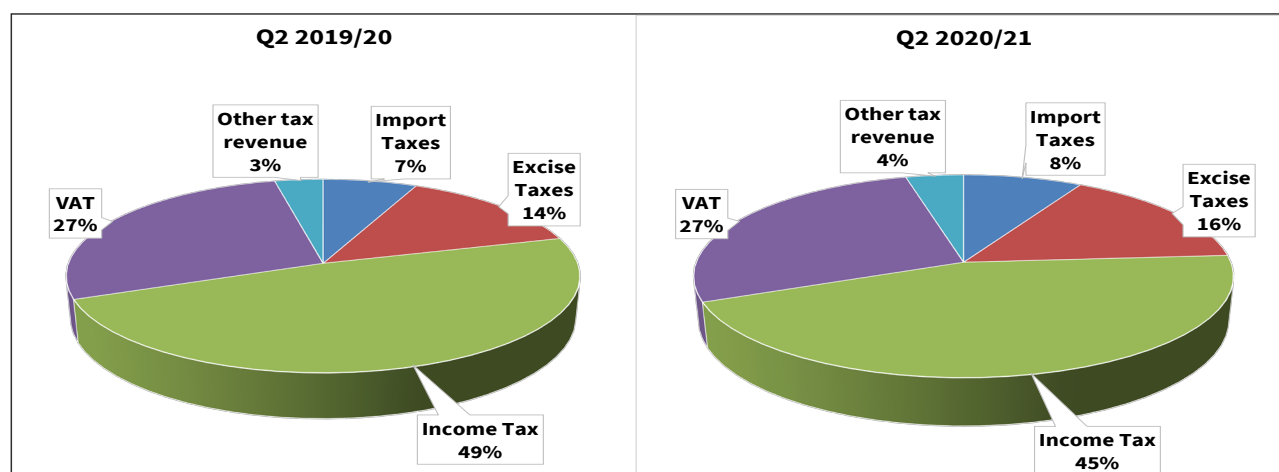
There was a minor shift in the composition of tax revenues in the second quarter of FY 2020/2021 compared with a similar period in the previous financial year (**Chart 7.1**). In terms of composition of Tax Revenue, there was a 3.6 percentage points decline in Income Tax while the share of Import Duty, Excise Duty and Other Tax Revenues rose by 1.4 percentage points, 1.8 percentage points and 0.5 percentage points respectively.

Cumulatively to December 2020, Government total revenue and grants stood at KSh 819.1 billion (7.3 percent of GDP) against a target of KSh 934.9 billion (8.3 percent of GDP). Tax revenue fell below the set target with the shortfall largely reflecting tax relief measures put in place to cushion Kenyans against the effects of COVID-19, which adversely affected revenue collection from March 2020.

External grants cumulatively to December 2020 stood at KSh 8.5 billion, which was KSh 18.8 billion lower than target, occasioned by slow absorption of donor funds.

Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to December 2020 amounted to KSh 84.1 billion, which was KSh 21.3 billion lower than target due to under reporting by Semi-Autonomous Government Agencies.

Chart 7.1: Composition of tax revenue (KSh Billions)



Source: The Budget Outturn (BOT) from National Treasury

Expenditure and Net Lending

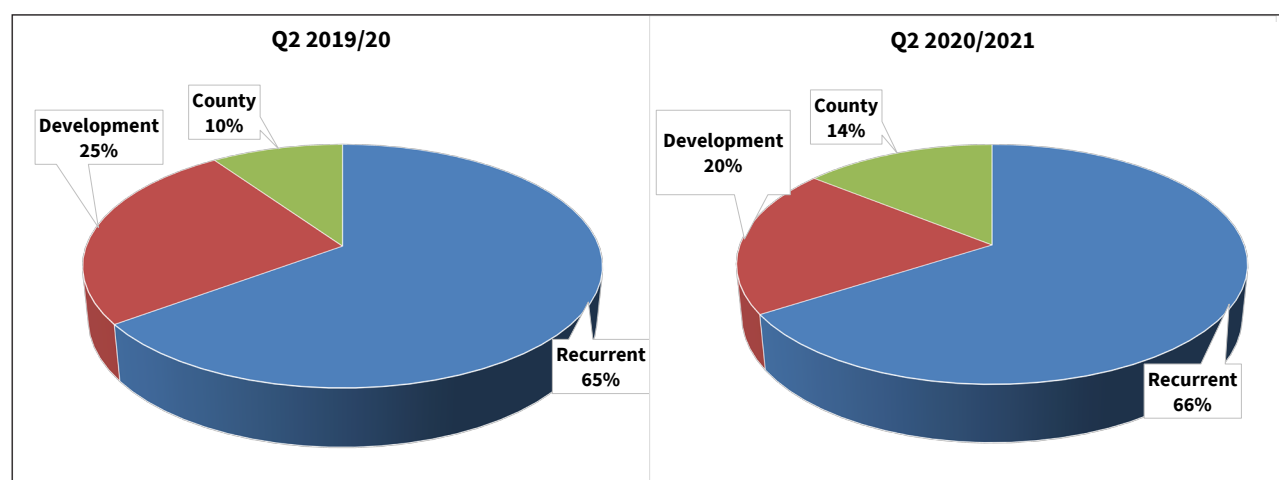
Government expenditure and net lending increased by 4.6 percent to KSh 704.5 billion in the second quarter of the FY 2020/2021 compared to KSh 673.5 billion in the second quarter of the FY 2019/20. The increase in expenditures reflected a rise in recurrent expenditure and county transfers by 6.3 percent and 54.4 percent respectively which more than offset the 18.3 percent decrease in national government development transfers.

In terms of composition, recurrent expenditure comprised the largest share in total government expenditure accounting for 66 percent in the second quarter of the FY 2020/2021, which was 1.0 percentage point higher than the level recorded in a

similar quarter during the previous fiscal year. The share of development expenditure decreased by 5.6 percentage points while the county allocation increased by 4.6 percentage points during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in the first half of FY 2020/2021 amounted to KSh 1,214.8 billion (10.9 percent of GDP), against a target of KSh 1,258.9 billion (11.2 percent of GDP). The shortfall of KSh 44 billion was mainly attributed to lower absorption recorded in recurrent expenditures by the National Government and below target transfers to County Governments.

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



Source: BOT from National Treasury

Financing

The budget deficit including grants amounted to KSh 359.5 billion or 3.2 percent of GDP at the end of the second quarter of FY 2020/2021. Domestic borrowing comprised KSh 21.6 draw down in Government deposits held at the Central Bank, KSh 126.9 billion from commercial banks, KSh 197.9

billion from non-banks and KSh 0.9 billion from non-residents (**Table 7.2**). Net domestic borrowing by the end of the second quarter of FY 2020/2021 was above target by KSh 76 billion while net external borrowing was below target by KSh 34.5 billion.

Table 7.2 Domestic financing to September 2020

| | FY 2020/21 | | | | | |
|---|-------------|--------------|--------------|--------------|--------------|--------------|
| | | | Q1 | | | Q2 |
| | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 |
| 1. From CBK | (93.2) | (86.1) | (116.7) | (26.0) | 14.8 | 21.6 |
| 2. From commercial banks | 88.2 | 123.3 | 152.1 | 129.1 | 137.2 | 126.9 |
| 4. From Non-banks | 46.8 | 99.1 | 117.8 | 135.1 | 165.1 | 197.9 |
| 5. From Non-Residents | 0.7 | 0.9 | 1.0 | 1.0 | 0.8 | 0.9 |
| Change in Credit from banks (From 30th June 2020) | (5.0) | 37.2 | 35.4 | 103.2 | 151.9 | 148.5 |
| Change in Credit from non-banks (From 30th June 2020) | 46.8 | 99.1 | 117.8 | 135.1 | 165.1 | 197.9 |
| Change in Credit from non-residents (From 30th June 2020) | 0.7 | 0.9 | 1.0 | 1.0 | 0.8 | 0.9 |
| 6. Total Change in Dom. Credit (From 30th June 2020) | 42.5 | 137.1 | 154.2 | 239.3 | 317.9 | 347.2 |

NB: Treasury Bills are reflected at cost

Source: The National Treasury

Outlook for FY 2020/21

In the revised Budget estimates from the National Treasury for the FY 2020/21, total revenue including grants is projected at KSh 1,949.5 billion (17.3 percent of GDP). Government expenditure is projected at KSh 2,790.6 billion (24.7 percent of GDP), of which KSh 1,826.7 billion will be for recurrent expenses, KSh 589.7 billion for development expenses and KSh 369.2 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 841.1 billion (7.5 percent of GDP) in 2020/21, to be financed through net external borrowing of KSh 346.8 billion and net domestic borrowing of KSh 494.3 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2020/21 (Ksh Billions)

| | Ksh (Bn) | % of GDP |
|---|----------------|-------------|
| 1. TOTAL REVENUE (Including Grants) | 1,949.5 | 17.3 |
| Ordinary Revenue | 1,633.8 | 14.5 |
| Appropriations-in-Aid | 258.9 | 2.3 |
| External Grants | 56.8 | 0.5 |
| 2. TOTAL EXPENSES & NET LENDING | 2,790.6 | 24.7 |
| Recurrent Expenses | 1,826.7 | 16.2 |
| Development Expenses | 589.7 | 5.2 |
| County Transfer | 369.2 | 3.3 |
| Contingency Fund | 5.0 | 0.0 |
| 3. DEFICIT INCL. GRANTS (1-2) | -841.1 | -7.5 |
| Adjustment to Cash Basis | 0.0 | 0.0 |
| 4. FINANCING | 841.1 | 7.5 |
| Domestic (Net) | 494.3 | 4.4 |
| External (Net) | 346.8 | 3.1 |

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 2.3 percent during the second quarter of the FY 2020/21. Domestic and external debt increased by 0.9 percent and 3.5 percent, respectively. The ratio of public debt to GDP was

estimated to decrease by 0.7 percentage points to 67.8 percent during the quarter. The ratios of domestic debt to GDP decreased by 0.8 percentage points while external debt to GDP increased by 0.1 percentage points (**Table 8.1**).²

Table 8.1 Kenya's public and publicly guaranteed debt

| | 2019/20 | | | 2020/21 | | | | Change Q on Q |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| | Q2 | Q3 | Q4 | Q1 | Oct-20 | Nov-20 | Q2 | |
| EXTERNAL | | | | | | | | |
| Bilateral | 1,023.8 | 1,075.9 | 1,074.3 | 1,102.9 | 1,125.7 | 1,143.6 | 1,157.0 | 54.1 |
| Multilateral | 1,037.5 | 1,060.6 | 1,321.6 | 1,421.8 | 1,443.7 | 1,484.6 | 1,498.8 | 77.0 |
| Commercial Banks | 1,028.7 | 1,058.8 | 1,102.3 | 1,120.8 | 1,118.3 | 1,125.5 | 1,119.4 | -1.4 |
| Supplier Credits | 16.8 | 17.3 | 17.6 | 18.0 | 18.0 | 18.2 | 18.1 | 0.1 |
| Sub-Total | 3,106.8 | 3,212.6 | 3,515.8 | 3,663.5 | 3,705.6 | 3,771.8 | 3,793.3 | 129.8 |
| (As a % of GDP) | 31.9 | 32.2 | 34.6 | 35.2 | 34.5 | 35.1 | 35.3 | |
| (As a % of total debt) | 51.4 | 51.1 | 52.5 | 51.4 | 51.7 | 52.0 | 52.1 | |
| DOMESTIC | | | | | | | | |
| Banks | 1,607.4 | 1,677.0 | 1,752.1 | 1,915.4 | 1,899.0 | 1,894.7 | 1,867.9 | -47.5 |
| Central Bank | 116.0 | 106.4 | 98.9 | 107.4 | 114.7 | 103.9 | 98.7 | -8.6 |
| Commercial Banks | 1,491.4 | 1,570.6 | 1,653.2 | 1,808.0 | 1,784.3 | 1,790.8 | 1,769.2 | -38.9 |
| Non-banks | 1,304.1 | 1,363.3 | 1,392.3 | 1,507.6 | 1,524.5 | 1,554.1 | 1,586.8 | 79.2 |
| Pension Funds | 841.3 | 891.4 | 923.1 | 986.2 | 994.0 | 1,031.8 | 1,057.7 | 71.5 |
| Insurance Companies | 189.0 | 193.6 | 192.2 | 212.8 | 217.8 | 219.4 | 224.6 | 11.8 |
| Other Non-bank Sources | 273.9 | 278.3 | 277.0 | 308.6 | 312.7 | 302.9 | 304.5 | -4.1 |
| Non-residents | 30.6 | 31.6 | 33.2 | 34.1 | 34.0 | 33.8 | 33.8 | -0.3 |
| Sub-Total | 2,942.1 | 3,070.2 | 3,177.0 | 3,457.1 | 3,457.6 | 3,482.7 | 3,488.5 | 31.4 |
| (As a % of GDP) | 30.2 | 30.8 | 31.3 | 33.3 | 32.2 | 32.4 | 32.5 | |
| (As a % of total debt) | 48.6 | 48.9 | 47.5 | 48.6 | 48.3 | 48.0 | 47.9 | |
| GRAND TOTAL | 6,048.9 | 6,282.8 | 6,692.8 | 7,120.6 | 7,163.3 | 7,254.5 | 7,281.8 | 161.2 |
| (As a % of GDP) | 62.1 | 63.0 | 65.9 | 68.5 | 66.7 | 67.6 | 67.8 | |

Source: The National Treasury and CBK

Domestic Debt

The 0.9 percent increase in domestic debt was on account of increased uptake of treasury bonds. The share of domestic debt to total debt decreased by 0.6 percentage points to 47.9 percent by the end of the second quarter of the FY 2020/21. The

proportion of debt securities to total domestic debt increased by 0.3 percentage points as the proportion of government overdraft at the Central Bank decreased during the quarter under review (**Table 8.2**).

² The quarterly analysis is based on the Fiscal year quarters; Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Table 8.2: Government gross domestic debt (KSh Billions)

| | Ksh (Billions) | | | | | | | Change:Q on Q | | Propotions (%) | | | | | | |
|--|----------------|---------|---------|---------|---------|---------|---------|---------------|-------|----------------|-------|-------|---------|--------|--------|-------|
| | 2019/20 | | | 2020/21 | | | | | | 2019/20 | | | 2020/21 | | | |
| | Q2 | Q3 | Q4 | Q1 | Oct-20 | Nov-20 | Q2 | Ksh(Bn) | % | Q2 | Q3 | Q4 | Q1 | Oct-20 | Nov-20 | Q2 |
| Total Stock of Domestic Debt (A+B) | 2,942.1 | 3,070.2 | 3,177.0 | 3,457.1 | 3,457.6 | 3,482.7 | 3,488.5 | 31.4 | 0.9 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| A. Government Securities | 2,853.6 | 2,992.6 | 3,106.6 | 3,377.0 | 3,370.0 | 3,405.8 | 3,417.0 | 40.1 | 1.2 | 97.0 | 97.5 | 97.8 | 97.7 | 97.5 | 97.8 | 98.0 |
| 1. Treasury Bills (excluding Repo Bills) | 878.9 | 902.3 | 887.1 | 894.7 | 858.7 | 864.3 | 855.7 | -39.0 | -4.4 | 29.9 | 29.4 | 27.9 | 25.9 | 24.8 | 24.8 | 24.5 |
| Banking institutions | 570.3 | 597.0 | 587.7 | 601.2 | 573.0 | 571.7 | 552.2 | -49.0 | -8.1 | 19.4 | 19.4 | 18.5 | 17.4 | 16.6 | 16.4 | 15.8 |
| The Central Bank | 20.6 | 20.6 | 20.6 | 20.6 | 20.6 | 20.6 | 20.6 | 0.0 | 0.0 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Commercial Banks | 549.7 | 576.4 | 567.1 | 580.6 | 552.4 | 551.1 | 531.6 | -49.0 | -8.4 | 18.7 | 18.8 | 17.9 | 16.8 | 16.0 | 15.8 | 15.2 |
| Pension Funds | 143.3 | 153.2 | 161.0 | 156.2 | 143.7 | 144.8 | 158.7 | 2.5 | 1.6 | 4.9 | 5.0 | 5.1 | 4.5 | 4.2 | 4.2 | 4.5 |
| Insurance Companies | 17.7 | 10.1 | 7.6 | 6.0 | 5.9 | 5.1 | 5.1 | -0.9 | -14.4 | 0.6 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Others | 147.6 | 142.0 | 130.8 | 131.4 | 136.1 | 142.6 | 139.6 | 8.3 | 6.3 | 5.0 | 4.6 | 4.1 | 3.8 | 3.9 | 4.1 | 4.0 |
| 2. Treasury Bonds | 1,974.7 | 2,090.3 | 2,219.4 | 2,482.2 | 2,511.3 | 2,541.5 | 2,561.3 | 79.1 | 3.2 | 67.1 | 68.1 | 69.9 | 71.8 | 72.6 | 73.0 | 73.4 |
| Banking institutions | 948.7 | 1,000.8 | 1,093.5 | 1,234.1 | 1,238.4 | 1,246.2 | 1,244.3 | 10.1 | 0.8 | 32.2 | 32.6 | 34.4 | 35.7 | 35.8 | 35.8 | 35.7 |
| The Central Bank | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Commercial Banks | 939.3 | 991.4 | 1,084.1 | 1,224.7 | 1,229.0 | 1,236.7 | 1,234.8 | 10.1 | 0.8 | 31.9 | 32.3 | 34.1 | 35.4 | 35.5 | 35.5 | 35.4 |
| Insurance Companies | 171.2 | 183.5 | 184.6 | 206.8 | 211.9 | 214.3 | 219.5 | 12.6 | 6.1 | 5.8 | 6.0 | 5.8 | 6.0 | 6.1 | 6.2 | 6.3 |
| Pension Funds | 698.0 | 738.3 | 762.1 | 830.0 | 850.2 | 887.0 | 899.0 | 69.0 | 8.3 | 23.7 | 24.0 | 24.0 | 24.0 | 24.6 | 25.5 | 25.8 |
| Others | 156.8 | 167.8 | 179.3 | 211.3 | 210.7 | 194.1 | 198.6 | -12.7 | -6.0 | 5.3 | 5.5 | 5.6 | 6.1 | 6.1 | 5.6 | 5.7 |
| 3. Long Term Stocks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Banking institutions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4. Frozen account | 22.2 | 22.2 | 21.7 | 21.7 | 21.1 | 21.1 | 21.1 | -0.6 | -2.6 | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Of which: Repo T/Bills | 21.1 | 21.1 | 20.5 | 20.5 | 20.0 | 20.0 | 20.0 | -0.6 | -2.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| B. Others: | 66.2 | 55.4 | 48.7 | 58.5 | 66.6 | 55.8 | 50.4 | -8.1 | -13.8 | 2.3 | 1.8 | 1.5 | 1.7 | 1.9 | 1.6 | 1.4 |
| Of which CBK overdraft to Government | 63.7 | 54.2 | 47.1 | 56.2 | 63.5 | 52.7 | 47.6 | -8.6 | -15.3 | 2.2 | 1.8 | 1.5 | 1.6 | 1.8 | 1.5 | 1.4 |

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 4.4 percent decrease during the second quarter of the FY 2020/21. Correspondingly, the proportion of Treasury bills to total domestic debt decreased by 1.4 percentage points during the period under review. Commercial banks continued to dominate the Treasury bills market though their holdings decreased to 62.1 percent from 64.9 percent in the previous quarter. Other significant holders of Treasury bills included; Pension funds (18.5 percent) and parastatals included in other holders (13.2 percent) (**Table 8.2**).

Treasury Bonds

Treasury bond holdings increased by 3.2 percent during the second quarter of the FY 2020/21, which was lower than the 11.8 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup during the quarter was attributable to proceeds from the 15-year Fixed rate Treasury bond reopened from 2012, 2013 and 2019 (**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 Billions)

| | | KShs (Billions) | | | | | | | | Change Q on Q | | Proportions | | | | | | | |
|----------------|---------------------|-----------------|---------|---------|---------|---------|---------|---------|---------|---------------|-------|-------------|-------|-------|-------|---------|--------|--------|-------|
| | | 2019/20 | | | | 2020/21 | | | | | | 2019/20 | | | | 2020/21 | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Oct-20 | Nov-20 | Q2 | KShs(Bn) | % | Q1 | Q2 | Q3 | Q4 | Q1 | Oct-20 | Nov-20 | Q2 |
| Treasury bills | 91-Day | 58.7 | 35.3 | 32.8 | 51.4 | 119.3 | 74.5 | 64.5 | 66.1 | -53.2 | -44.6 | 2.1 | 1.2 | 1.1 | 1.6 | 3.4 | 2.2 | 1.9 | 1.9 |
| | 182-Day | 108.8 | 78.1 | 95.9 | 120.5 | 120.5 | 129.0 | 139.9 | 134.3 | 13.8 | 11.4 | 3.8 | 2.7 | 3.1 | 3.8 | 3.5 | 3.7 | 4.0 | 3.8 |
| | 364-Day | 761.4 | 765.6 | 771.9 | 715.2 | 655.0 | 655.1 | 659.9 | 655.4 | 0.4 | 0.1 | 26.7 | 26.0 | 25.1 | 22.5 | 18.9 | 18.9 | 18.9 | 18.8 |
| Treasury Bonds | 1-Year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 2-Year | 37.4 | 37.4 | 37.4 | 37.4 | 37.4 | 37.4 | 37.4 | 37.4 | 0.0 | 0.0 | 1.3 | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 |
| | 3-Year | 1.0 | 1.0 | 1.0 | 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 |
| | 4-Year | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| | 5-Year | 269.5 | 298.0 | 342.8 | 357.9 | 366.7 | 366.7 | 336.1 | 327.4 | -39.3 | -10.7 | 9.4 | 10.1 | 11.2 | 11.3 | 10.6 | 10.6 | 9.6 | 9.4 |
| | 6-Year | 8.5 | 8.5 | 8.5 | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| | 7-Year | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 0.0 | 0.0 | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 | 1.4 |
| | 8-Year | 19.3 | 19.3 | 19.3 | 19.3 | 19.3 | 19.3 | 19.3 | 19.3 | 0.0 | 0.0 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| | 9-Year | 55.3 | 55.3 | 55.3 | 134.3 | 134.3 | 134.3 | 134.3 | 134.3 | 0.0 | 0.0 | 1.9 | 1.9 | 1.8 | 4.2 | 3.9 | 3.9 | 3.9 | 3.8 |
| | 10-Year | 404.8 | 441.2 | 460.5 | 474.0 | 574.4 | 541.0 | 541.0 | 541.0 | -33.4 | -5.8 | 14.2 | 15.0 | 15.0 | 14.9 | 16.6 | 15.6 | 15.5 | 15.5 |
| | 11-Year | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| | 12-Year | 115.4 | 115.4 | 115.4 | 116.8 | 116.8 | 116.8 | 116.8 | 116.8 | 0.0 | 0.0 | 4.0 | 3.9 | 3.8 | 3.7 | 3.4 | 3.4 | 3.4 | 3.3 |
| | 15-Year | 588.0 | 597.3 | 602.5 | 602.5 | 708.3 | 708.3 | 733.9 | 762.3 | 54.0 | 7.6 | 20.6 | 20.3 | 19.6 | 19.0 | 20.5 | 20.5 | 21.1 | 21.9 |
| | 16-Year | 0.0 | 71.7 | 71.7 | 71.7 | 71.7 | 71.7 | 71.7 | 71.7 | 0.0 | 0.0 | 0.0 | 2.4 | 2.3 | 2.3 | 2.1 | 2.1 | 2.1 | 2.1 |
| | 20-Year | 195.5 | 195.5 | 203.8 | 203.8 | 252.4 | 271.7 | 299.1 | 299.1 | 46.7 | 18.5 | 6.8 | 6.6 | 6.6 | 6.4 | 7.3 | 7.9 | 8.6 | 8.6 |
| | 25-Year | 42.2 | 42.2 | 80.2 | 80.2 | 80.2 | 123.4 | 131.3 | 131.3 | 51.1 | 63.7 | 1.5 | 1.4 | 2.6 | 2.5 | 2.3 | 3.6 | 3.8 | 3.8 |
| 30-Year | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 0.0 | 0.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | |
| | Repo T bills | 21.1 | 21.1 | 21.1 | 20.5 | 20.5 | 20.0 | 20.0 | 20.0 | -0.6 | -2.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| | Overdraft | 68.2 | 63.7 | 54.2 | 47.1 | 56.2 | 63.5 | 52.7 | 47.6 | -8.6 | -15.3 | 2.4 | 2.2 | 1.8 | 1.5 | 1.6 | 1.8 | 1.5 | 1.4 |
| | Other Domestic debt | 9.7 | 3.7 | 4.0 | 2.7 | 3.4 | 4.2 | 4.2 | 3.9 | 0.5 | 15.5 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total Debt | | 2,856.6 | 2,942.1 | 3,070.2 | 3,177.0 | 3,457.1 | 3,457.6 | 3,482.7 | 3,488.5 | 31.4 | 0.9 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

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 a ratio of 75: 25 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 76.8 percent of the total outstanding Treasury Bonds, representing a 1.9 percentage points increase from the previous quarter. Consequently, the refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 24.5 percent from 25.9 percent in September 2020.

External Debt

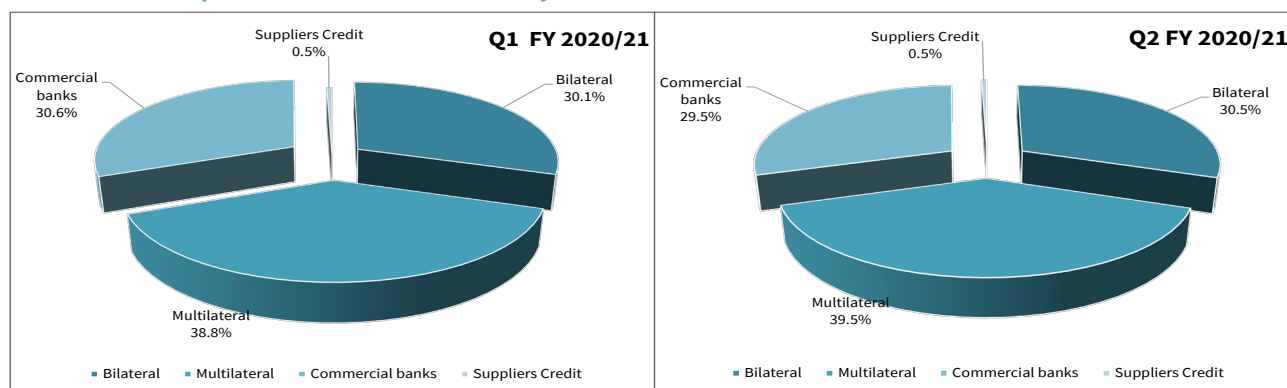
Public and publicly guaranteed external debt increased by 3.5 percent during the second quarter of the FY 2020/21. This increase was majorly driven

by the US dollar 404.4 million, US dollar 285.7 million and US dollar 183.9 million net disbursements from International Development Association (IDA), China and African Development Bank, respectively. Foreign exchange risk on external debt remained relatively low (0.7 percent depreciation) despite the ongoing COVID-19 pandemic.

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) and bilateral lenders increased by 0.7 percentage points and 0.4 percentage points, respectively during the quarter under review. The proportion of commercial debt decreased 1.1 percentage points during the second quarter of FY 2020/21 (**Chart 8.1**).

Chart 8.1: Composition of external debt by lender classification

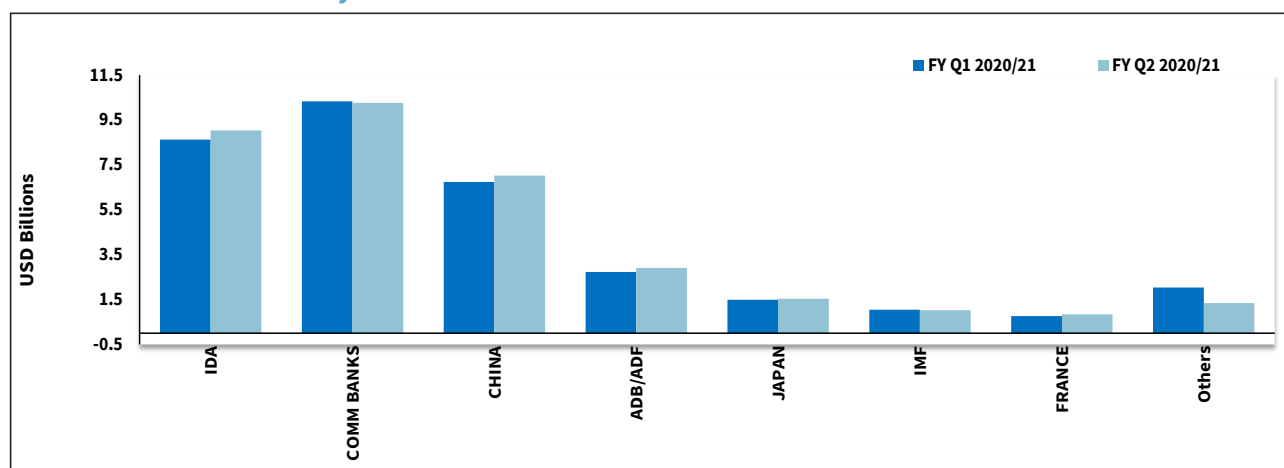


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender rose to USD 9.0 billion (or 26.0 percent of external debt) from US dollar 8.6 billion in the

previous quarter. Debt owed to China, Kenya's largest bilateral lender, amounted to USD 7.0 billion, or 20.2 percent of the total external debt in the second quarter of the FY 2020/21 (**Chart 8.2**).

Chart 8.2: External debt by creditor



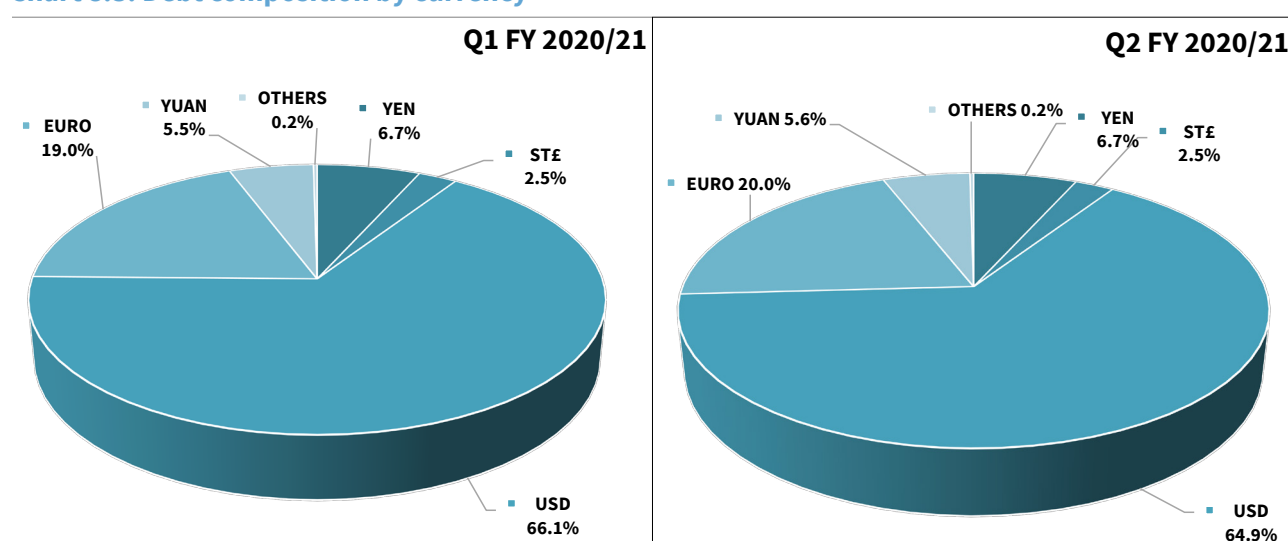
Source: The National Treasury

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 84.9 percent of the total currency composition at the end of the second

quarter of the FY 2020/21. The proportion held in Euro increased by 1.0 percentage points on account of Euro denominated disbursements from African Development Bank and International Development Association (IDA) (**Chart 8.3**).

Chart 8.3: Debt composition by currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 24.8 percent during the second 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 second quarter of FY 2020/21 amounted to KSh 60.2 billion (From KSh 81.5 billion in quarter

one). Liquidity indicators of external indebtedness deteriorated despite debt service being lower than the previous quarter due to poor performance in the resource base. The external debt service to exports ratio surpassed the debt carrying capacity threshold for Kenya while the external debt service to revenue ratio was below the threshold (**Table 8.4**).

Table 8.4: External debt sustainability indicators

| | Q2 FY 2019/20 | Q3 FY 2019/20 | Q4 FY 2019/20 | Q1 FY 2020/21 | Q2 FY 2020/21 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Debt service to Revenues (23%) | 10.1 | 15.9 | 13.6 | 12.3 | 14.1 |
| Debt service to Exports (21%) | 18.7 | 21.5 | 20.8 | 19.0 | 23.0 |

Source: Central Bank of Kenya and The National Treasury

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in April 2020 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 is 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.

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

Chapter 9

Capital Markets

At the Nairobi Securities Exchange, the NASI and market capitalization increased by 8.74 percent and 8.80 percent respectively, in fourth quarter of 2020 compared to the third quarter of 2020. However,

NSE 20 share price index, equity turnover and the total shares traded declined by 4.99 percent, 27.48 percent and 35.88 percent, respectively (**Table 9.1 and Chart 9.1**).

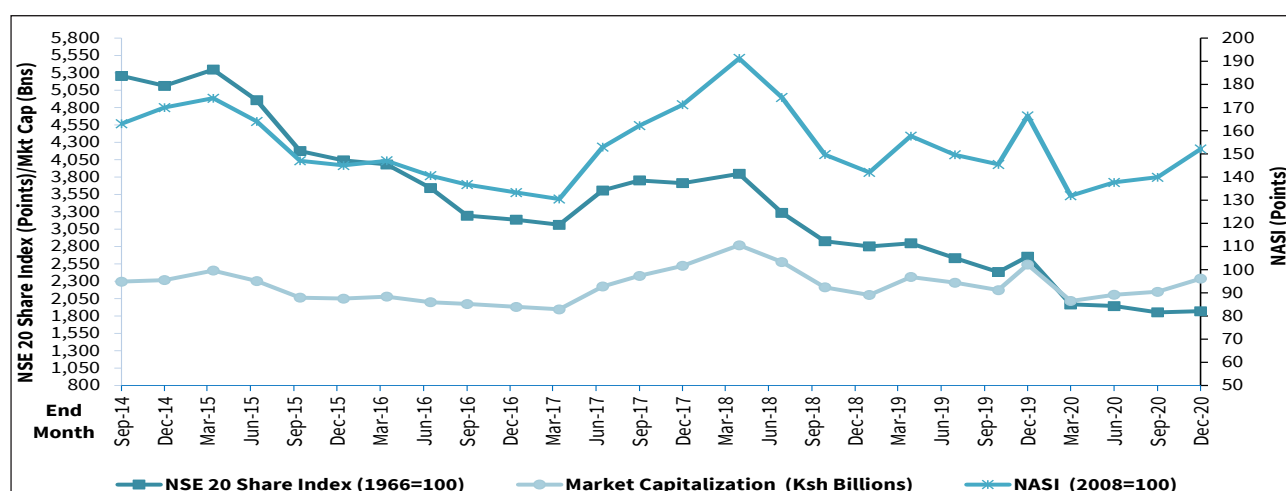
Table 9.1: Selected stock market indicators

| INDICATOR | 2019 | | | | 2020 | | | | % CHANGE (2020Q4-2020Q3) |
|--|----------|----------|----------|----------|----------|----------|----------|----------|--------------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| NSE 20 Share Index (1966=100) | 2846.4 | 2633.3 | 2432.0 | 2654.4 | 1966.1 | 1942.1 | 1852.3 | 1759.9 | -4.99 |
| NASI (2008=100) | 157.66 | 149.61 | 145.46 | 166.41 | 131.92 | 137.68 | 139.89 | 152.11 | 8.74 |
| Number of Shares Traded (Millions) | 1,396.7 | 1,081.6 | 1,063.8 | 1,290.1 | 1,360.5 | 1,421.8 | 1,512.2 | 969.5 | -35.88 |
| Equities Turnover (Ksh Millions) | 45,248.8 | 32,897.2 | 30,663.2 | 45,006.1 | 43,693.3 | 39,534.4 | 37,936.6 | 27,510.8 | -27.48 |
| Market Capitalization (Ksh Billions) | 2,361 | 2,279 | 2,172 | 2,540 | 2,016 | 2,105 | 2,148 | 2,337 | 8.80 |
| Foreign Purchase (Ksh Millions) | 35,039 | 23,896 | 20,115 | 27,615 | 21,046 | 20,429 | 23,290 | 16,744 | -28.11 |
| Foreign Sales (Ksh Millions) | 34,438 | 22,538 | 19,853 | 28,459 | 32,229 | 30,679 | 27,817 | 19,412 | -30.22 |
| Ave. Foreign Investor Participation to Equity Turnover (%) | 74.90 | 71.10 | 65.65 | 73.84 | 60.96 | 64.64 | 67.36 | 65.98 | -2.05 |
| Bond Turnover (Ksh Millions) | 158,069 | 201,715 | 185,440 | 106,458 | 157,985 | 136,651 | 227,862 | 169,259 | -25.72 |
| FTSE NSE Kenya Govt. Bond Index (Points) | 96.48 | 97.30 | 98.56 | 97.50 | 96.00 | 96.65 | 97.69 | 98.24 | 0.56 |
| 7-Year Eurobond Yield (%) | | 6.41 | 6.41 | 7.27 | 8.78 | 7.30 | 7.44 | 4.86 | -2.577* |
| 10-Year Eurobond Yield (%) -2024 | 6.28 | 5.48 | 5.57 | 6.43 | 8.26 | 6.48 | 6.37 | 3.92 | -2.455* |
| 10-Year Eurobond Yield (%) -2028 | 7.11 | 6.78 | 6.68 | 7.75 | 8.57 | 7.51 | 7.49 | 5.22 | -2.277* |
| 12-Year Eurobond Yield (%) | | 6.78 | 7.40 | 8.28 | 9.08 | 8.21 | 8.19 | 5.85 | -2.342* |
| 30-Year Eurobond Yield (%) -2048 | 8.15 | 7.89 | 8.07 | 8.84 | 9.03 | 8.41 | 8.67 | 7.04 | -1.626* |

* Percentage points

Source: Nairobi Security Exchange

Chart 9.1: NSE 20, NASI and market capitalization



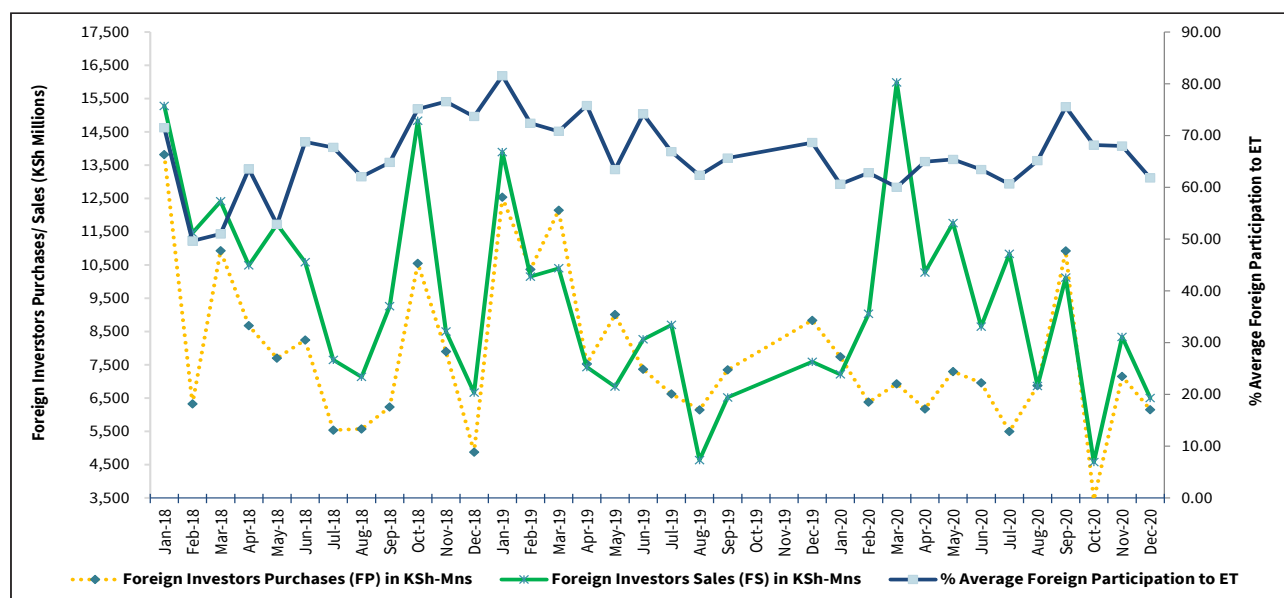
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of foreign investors' equity purchases at the NSE declined by 28.11 percent, while the value of shares sold by foreign investors declined by 30.22 percent in the fourth quarter of 2020. Average foreign investors' participation at the NSE

as a proportion of total equity turnover, declined to 65.98 percent in the fourth quarter of 2020 from 67.36 percent in the third quarter of 2020. There was net foreign investor outflows as sales exceeded purchases in the quarter under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market declined by 25.72 percent in the fourth quarter of 2020 compared to third quarter of 2020. The FTSE NSE Kenyan Government Bond Index increased by 0.56 percent in the fourth quarter of

2020, reflecting a decrease in market yields. In the international market, yields on Kenya's Eurobonds declined by an average of 161.1 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 | | | | Absolute Quarterly Changes (KSh Million) | | | | Quarterly Growth Rates (%) | | | |
|---|------------------|------------------|------------------|------------------|--|-----------------|----------------|-----------------|----------------------------|--------------|-------------|--------------|
| 1.0 ASSETS | Mar | Jun | Sept | Dec | Q4,2020 | Q3,2020 | Q2,2020 | Q1,2020 | Q4,2020 | Q3,2020 | Q2,2020 | Q1,2020 |
| 1.1 Reserves and Gold Holdings | 897,100 | 1,094,504 | 977,457 | 924,537 | (52,920) | (117,047) | 197,404 | (35,858) | (5.4) | (10.7) | 22.0 | (3.8) |
| 1.2 Funds Held with IMF | 4,541 | 3,256 | 8,588 | 2,868 | (5,720) | 5,332 | (1,286) | (1,433) | (66.6) | 163.8 | (28.3) | (24.0) |
| 1.2.1 Investment in Equity (Swift Shares) | 9 | 10 | 10 | 11 | 1 | 1 | 0 | 0 | 5.5 | 5.6 | 4.1 | 1.8 |
| 1.3 Items in the Course of Collection | 9 | 21 | 17 | 11 | (7) | (4) | 12 | 4 | (38.2) | (18.8) | 140.6 | 74.9 |
| 1.4 Advances to Commercial Banks | 55,053 | 55,561 | 84,011 | 71,073 | (12,938) | 28,450 | 508 | (212) | (15.4) | 51.2 | 0.9 | (0.4) |
| 1.5 Loans and Other Advances | 3,368 | 82,976 | 86,105 | 88,540 | 2,434 | 3,130 | 79,607 | (66) | 2.8 | 3.8 | 2,363.3 | (1.9) |
| 1.6 Other Assets | 14,014 | 5,265 | 4,842 | 5,092 | 250 | (423) | (8,748) | 9,472 | 5.2 | (8.0) | (62.4) | 208.5 |
| 1.7 Retirement Benefit Asset | 4,329 | 6,538 | 6,538 | 6,538 | | | 2,209 | - | - | - | 51.0 | - |
| 1.8 Property and Equipment | 29,918 | 31,840 | 31,212 | 32,289 | 1,077 | (628) | 1,921 | 297 | 3.5 | (2.0) | 6.4 | 1 |
| 1.8.1 Intangible Assets | 1,044 | 1,224 | 1,226 | 1,255 | 29 | 2 | 180 | 158 | 2.4 | 0.1 | 17.3 | 17.9 |
| 1.9 Due from Government of Kenya | 76,688 | 68,933 | 77,433 | 68,982 | (8,451) | 8,501 | (7,755) | (9,477) | (10.9) | 12.3 | (10.1) | (11.0) |
| TOTAL ASSETS | 1,086,073 | 1,350,126 | 1,277,438 | 1,201,193 | (76,245) | (72,688) | 264,053 | (37,116) | (6.0) | (5.4) | 24.3 | (3.3) |
| 2.0 LIABILITIES | | | | | | | | | | | | |
| 2.1 Currency in Circulation | 246,779 | 257,792 | 268,121 | 290,544 | 22,423 | 10,329 | 11,013 | (12,166) | 8.4 | 4.0 | 4.5 | (4.7) |
| 2.2 Investments by Banks -Repos | | | | | | | | | | | | |
| 2.3 Deposits | 570,199 | 732,187 | 630,200 | 520,369 | (109,831) | (101,987) | 161,988 | (52,288) | (17.4) | (13.9) | 28.4 | (8.4) |
| 2.4 International Monetary Fund | 75,821 | 151,841 | 155,967 | 154,570 | (1,398) | 4,126 | 76,021 | 187 | (0.9) | 2.7 | 100.3 | 0.2 |
| 2.5 Other Liabilities | 7,175 | 5,274 | 5,635 | 6,031 | 395 | 362 | (1,901) | 1,837 | 7.0 | 6.9 | (26.5) | 34.4 |
| TOTAL LIABILITIES | 899,974 | 1,154,091 | 1,059,924 | 971,513 | (88,411) | (94,167) | 254,117 | (62,430) | (8.3) | (8.2) | 28.2 | (6.5) |
| 3.0 EQUITY AND RESERVES | 186,100 | 196,035 | 217,514 | 229,680 | 12,165 | 21,479 | 9,935 | 25,314 | 5.6 | 11.0 | 5.3 | 15.7 |
| Share Capital | 35,000 | 35,000 | 35,000 | 35,000 | | | - | - | - | - | - | - |
| General reserve fund | 90,299 | 94,627 | 128,219 | 128,219 | | 33,592 | 4,329 | 41,523 | - | 35.5 | 4.8 | 85.1 |
| Period surplus/(Deficit) | 24,218 | 33,592 | 23,979 | 36,145 | 12,165 | (9,613) | 9,374 | 17,927 | 50.7 | (28.6) | 38.7 | 284.9 |
| Asset Revaluation | 17,801 | 17,801 | 17,801 | 17,801 | | | - | - | - | - | - | - |
| Fair Value Reserves -OCI | 7,066 | 12,515 | 12,515 | 12,515 | | (0) | 5,449 | - | - | (0.0) | 77.1 | - |
| Retirement Benefit Asset Reserves | 4,329 | | | | | | (4,329) | - | | | (100.0) | - |
| Consolidated Fund | 7,388 | 2,500 | | | | (2,500) | (4,888) | 7,388 | | (100.0) | (66.2) | |
| 4 TOTAL LIABILITIES AND EQUITY | 1,086,073 | 1,350,126 | 1,277,438 | 1,201,193 | (76,245) | (72,687) | 264,053 | (37,116) | (6.0) | (5.4) | 24.3 | (3.3) |

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet shrank by 6.0 percent in the fourth quarter of 2020, largely reflecting a reduction in Reserve and gold holdings. The decrease in Reserve and gold holdings which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank, largely reflects government external debt service and central bank operations. Advances to commercial banks, funds held with IMF and debt due from the government also declined during the quarter. The reduction in advances to commercial banks reflects reduced open market operations. The reduction in 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, partly reflected

reduced utilization of the overdraft facility at the Central Bank.

Liabilities

On the liability side, the decline in the Central Bank's balance sheet was largely reflected in deposits, which decreased by KSh 109.8 billion in the fourth quarter of 2020, mainly due to reduction in government deposits.

Currency in circulation increased by KSh 22.4 billion in the fourth quarter of 2020, largely reflecting seasonal increase in demand for cash during end year festivities.

Equity and reserves grew by 5.6 percent in the fourth quarter of 2020 compared to 11.0 percent in the third quarter of 2020.



Central Bank of Kenya

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