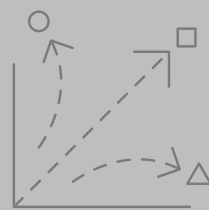
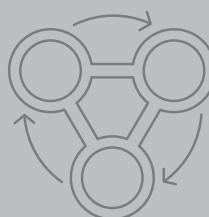
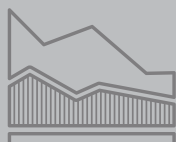
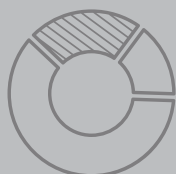




Central Bank of Kenya

QUARTERLY ECONOMIC REVIEW (QER)

Volume 4 No 4
October - December 2019



OBJECTIVES OF THE CENTRAL BANK OF KENYA

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

- 1) To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
- 2) To foster the liquidity, solvency and proper functioning of a stable, market-based financial system;
- 3) Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.
- 4) Without prejudice to the generality of the above, the Bank shall:
 - Formulate and implement foreign exchange policy;
 - Hold and manage Government foreign exchange reserves;
 - License and supervise authorised foreign exchange dealers;
 - Formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
 - Act as banker and adviser to, and fiscal agent of, the Government; and
 - Issuing currency notes and coins.

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QUARTERLY ECONOMIC REVIEW

OCTOBER - DECEMBER 2019

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HIGHLIGHTS

Overall inflation increased in the fourth quarter of 2019 on account of increased food prices, despite the above average rainfall experienced during the period across the country. It increased to 5.4 percent from 5.0 percent in the third quarter of 2019. However, it was lower compared to 5.6 percent in the fourth quarter of 2018. Fuel inflation declined in line with trends in domestic and international energy prices whereas Non-Food-Non-Fuel (NFNF) inflation remained stable supported by appropriate monetary policy stance.

Broad money supply (M3) grew by 1.5 percent in the fourth quarter of 2019 compared to a decline of 2.5 percent in the third quarter, reflecting growth in deposits and currency outside banks.

The economy recorded strong performance in 2019 despite the delayed onset and below average rainfall experienced in March-May which affected the agriculture sector. Real GDP grew by 5.4 percent compared to 6.3 percent in 2018. The resilience of the economy was attributable to strong performance of the Services sector. In the fourth quarter of 2019, the economy grew by 5.5 percent, which was slower compared to 6.5 percent in the same quarter of 2018. Growth during the quarter was supported by strong performance of agriculture, electricity and water supply, and key Services sector.

Global economic activity remained subdued in the fourth quarter of 2019. The GDP estimate for 2019 global growth was 2.9 percent down from 3.6 percent in 2018.

The current account deficit widened by USD 532 million to USD 1,675 million in the fourth quarter of 2019 from USD 1,143 million in the fourth quarter of 2018.

Kenya's official international reserves stood at USD 9,116 million, equivalent to 5.5 months of import cover as at end of fourth quarter of 2019.

The foreign exchange market remained steady supported by resilient inflows from diaspora remittances and travel receipts.

The banking sector was stable in the fourth quarter of 2019. Total assets increased by 0.7 percent to Ksh.4,832.3 billion in December 2019 from Ksh. 4,798.5 billion in September 2019. The deposit base also increased by 1.8 percent to Ksh.3,554.4 billion from Ksh.3,491.9 billion between third and fourth quarter of 2019. The sector was well capitalized and met the minimum capital requirements.

The Government's budgetary operations at the end of the second quarter of FY 2019/2020 resulted in a deficit (including grants) of 3.1 percent of GDP. Revenue collection remained below target, as was the case with the expenditure.

Kenya's public and publicly guaranteed debt increased by 1.4 percent during the second quarter of the FY 2019/20 .Domestic debt increased by 3.0 percent while external decreased by 0.2 percent.

Overall, capital markets' performance improved in the fourth quarter of 2019 compared to the third quarter of the year. However, the Domestic bonds secondary market, recorded on declined and the yield on Kenya's Eurobonds also declined.

Chapter 1

Inflation

Overview

Overall inflation increased in the fourth quarter of 2019 on account of increased food prices, despite the above average rainfall experienced during the period across the country. Food inflation was the dominant driver with the largest contribution to overall inflation as a result of sharp increases in the prices of key food items. Its contribution increased significantly in the fourth quarter of 2019 to 4.2 percentage points from 3.3 percentage points in the previous quarter, and 0.9

percentage points in the fourth quarter of 2018.

However, fuel inflation continued to decline and stood at 2.1 percent compared to 3.8 percent in the previous quarter, supported by low domestic and global oil prices. The contribution of fuel inflation to overall inflation declined to 0.5 percentage points in the fourth quarter of 2019 from 1.0 percentage point in the previous quarter, reflective of low energy prices.

Table 1.1: Recent Trends in Inflation (Percent)

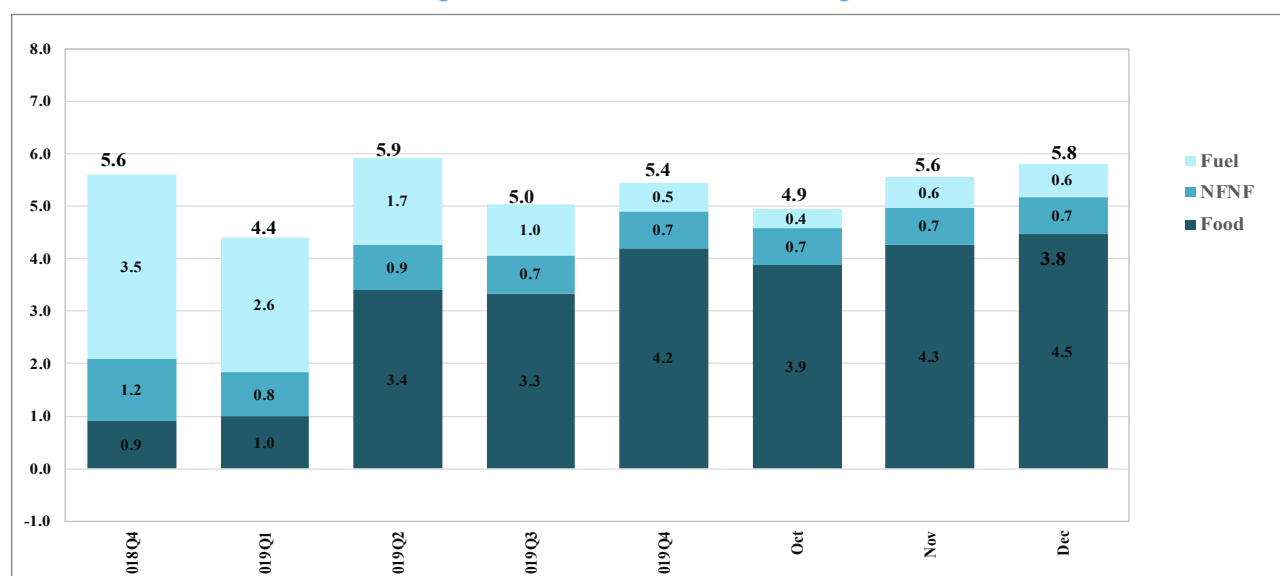
| | 2018 | 2019 | | | | | | |
|------------------------------------|------|------|------|-------|-----|------|-----|-----|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Oct | Nov | Dec |
| Overall inflation | 5.6 | 4.4 | 5.9 | 5.0 | 5.4 | 4.9 | 5.6 | 5.8 |
| Food Inflation | 1.8 | 2.0 | 6.8 | 6.8 | 8.7 | 8.1 | 8.9 | 9.3 |
| Fuel Inflation | 14.9 | 10.8 | 6.8 | 3.8 | 2.1 | 1.4 | 2.3 | 2.5 |
| Non-Food-Non-Fuel (NFNF) Inflation | 4.5 | 3.2 | 3.4 | 2.8 | 2.7 | 2.6 | 2.6 | 2.7 |
| Annual Average Inflation | 4.6 | 4.7 | 5.0 | 5.3 | 5.2 | 5.2 | 5.2 | 5.2 |
| Three Months Annualised Inflation | 0.3 | 7.5 | 19.9 | -32.0 | 2.0 | -2.9 | 2.3 | 6.5 |

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

Non-Food-Non-Fuel (NFNF) inflation remained stable at 2.7 percent, despite the impact of tax measures contained in the Budget for the fiscal year 2019/20. The low and stable NFNF inflation reflected muted demand pressures in the economy, supported

by appropriate monetary policy stance (Table 1.1 and Chart 1.1). The contribution of NFNF inflation to overall inflation remained stable at 0.7 percentage points in the third and fourth quarters of 2019.

Chart 1.1: Contribution of Broad Categories to Overall Inflation (Percentage Points)



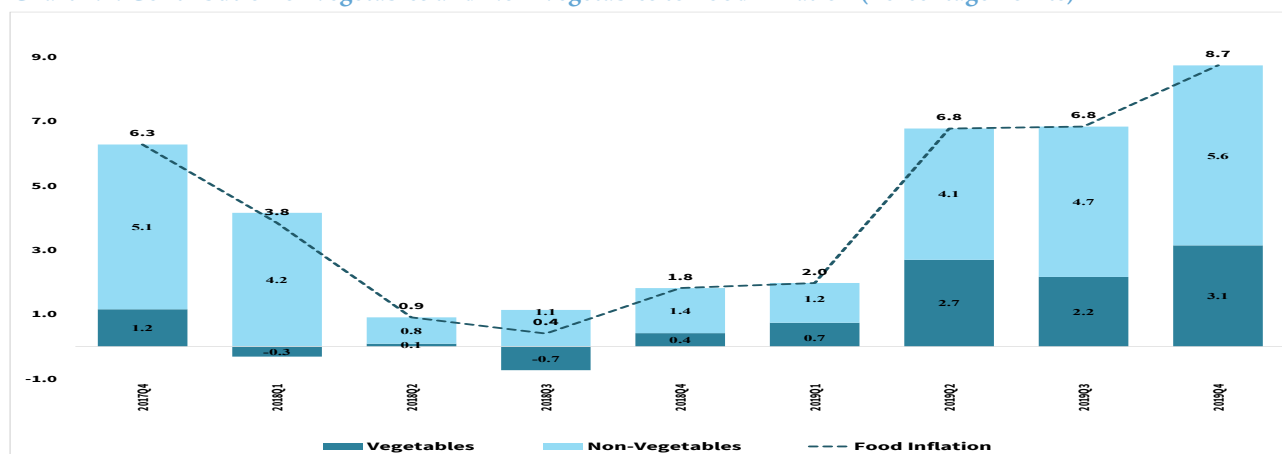
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation increased to 8.7 percent, from 6.8 percent in the previous quarter. This increase was reflected in the contribution of both the vegetables and non-vegetables components of food, which increased to 3.1 percentage points from 2.2 percentage points, and to 5.6 percentage points from 4.7 percentage points, respectively (Chart 1.2). The non-vegetables inflation was largely driven by high prices of maize

products¹, milk products² and beans. The increase was partly moderated by low sugar prices. Vegetables inflation increased on account of rising prices of kales (Sukuma wiki), onions and tomatoes. The above average rainfall affected the supply of onions and tomatoes, pushing their prices up. However, the impact of these price increases was partly offset by the declining prices of potatoes.

Chart 1.2: Contribution of Vegetables and Non-Vegetables to Food Inflation (Percentage Points)



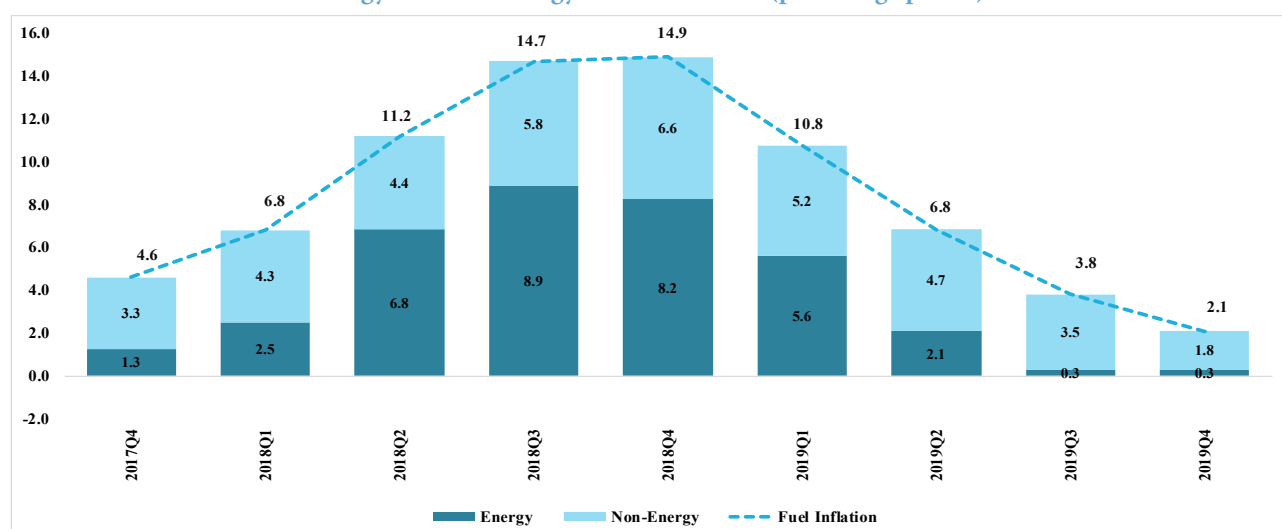
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation declined to 2.1 percent from 3.8 percent in the previous quarter. This decline was largely reflected in the non-energy component, whose contribution to fuel inflation declined to 1.8

percentage points from 3.5 percentage points, driven by falling contribution of the housing³ and transport⁴ components (Chart 1.3).

Chart 1.3: Contribution of Energy and Non-Energy to Fuel Inflation (percentage points)



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

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

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

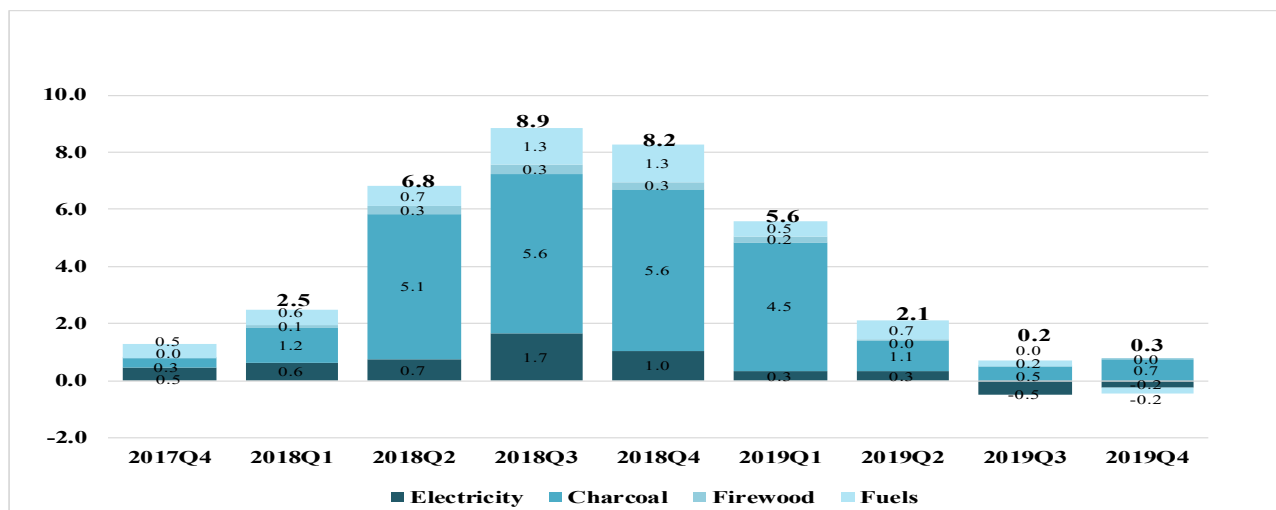
³ Housing components include Bungalow, Flat, Maisonette, Other types of houses, Maintenance and Repair and Water Service.

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

The contribution of energy components to fuel inflation stabilized at 0.3 percentage points, despite the waning impact of fuels⁵, electricity, charcoal and firewood prices. Fuel prices have continued to decline in line with international oils prices. Electricity prices remained on a downward trend, in line with the shift

towards reliance on cheaper green energy sources such as solar and wind power, and hydropower following increased generation on account of the above average rainfall. These resulted in reduced reliance on the expensive thermal energy source (Chart 1.4).

Chart 1.4: Contribution of Energy Components to Fuel Inflation



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

Non-Food Non-Fuel inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation remained low and stable during the quarter, declining marginally to 2.7 percent from 2.8 percent in the previous quarter.

The low NFNF inflation during the quarter reflects muted demand pressures, supported by appropriate monetary policy stance (Table 1.2).

Table 1.2: Non-Food-Non-Fuel Inflation by CPI Categories (Percent)

| | | Alcoholic Beverages, Tobacco & Narcotics | Clothing & Footwear | Furnishings, Household Equipment and Routine Household Maintenance | Health | Communication | Recreation & Culture | Education | Miscellaneous Goods & Services | NFNF inflation |
|------|-----|--|---------------------|--|--------|---------------|----------------------|-----------|--------------------------------|----------------|
| 2018 | Q4 | 7.0 | 4.1 | 4.3 | 5.1 | 4.6 | 1.4 | 4.9 | 4.2 | 4.5 |
| 2019 | Q1 | 7.2 | 2.5 | 3.2 | 4.5 | 4.6 | 0.8 | 1.3 | 3.3 | 3.2 |
| | Q2 | 8.8 | 2.2 | 2.4 | 4.1 | 4.5 | 0.6 | 1.5 | 3.0 | 3.4 |
| | Q3 | 7.5 | 1.8 | 1.8 | 1.6 | 4.4 | 0.5 | 1.6 | 2.6 | 2.8 |
| | Q4 | 7.5 | 1.5 | 1.3 | 1.3 | 0.4 | 0.3 | 1.5 | 1.8 | 2.7 |
| | Oct | 7.7 | 1.5 | 1.3 | 1.4 | 0.7 | 0.3 | 1.6 | 2.0 | 2.6 |
| | Nov | 7.5 | 1.5 | 1.3 | 1.3 | 0.3 | 0.3 | 1.4 | 1.9 | 2.6 |
| | Dec | 7.4 | 1.5 | 1.2 | 1.2 | 0.3 | 0.2 | 1.4 | 1.7 | 2.7 |

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

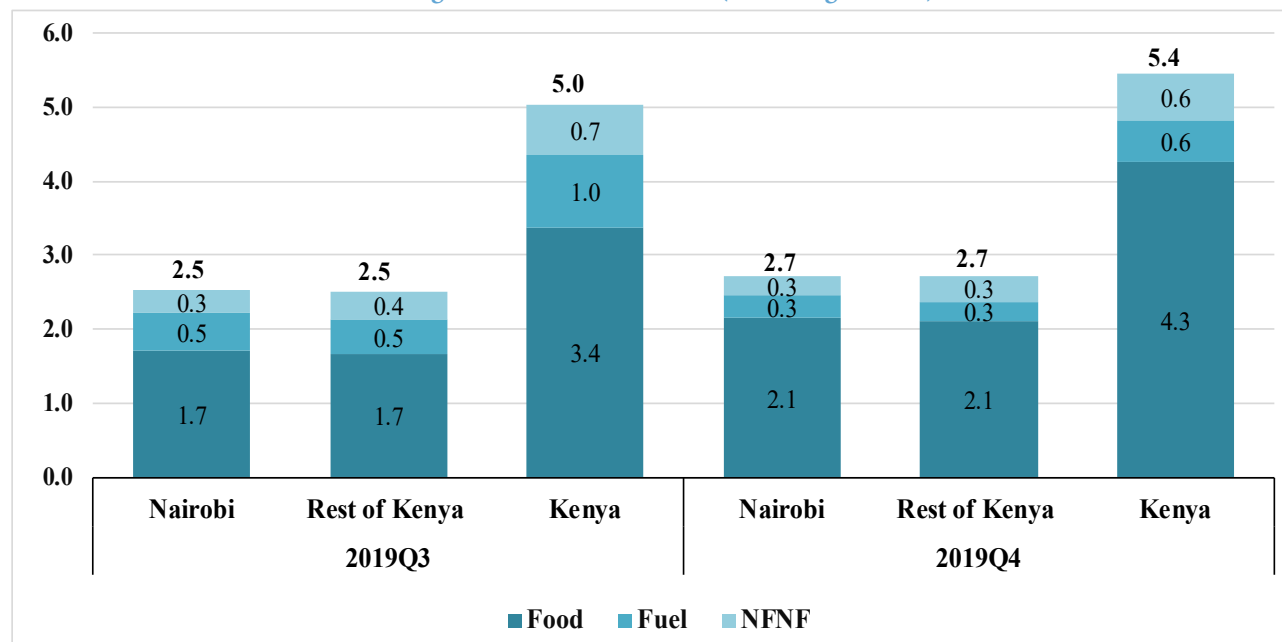
⁵ Fuels refers to Petrol, diesel, kerosene and Liquefied Petroleum Gas (LPG).

Overall Inflation across Regions

The contribution of Nairobi and the Rest of Kenya regions to overall inflation in Kenya remained balanced in the third and fourth quarters of 2019 at 2.5 percentage points and 2.7 percentage points,

respectively. The contribution of food remained dominant during the quarter, while that of fuel and NFNF remained low and balanced (Chart 1.5).

Chart 1.5: Contribution of Various Regions to Overall Inflation (Percentage Points)



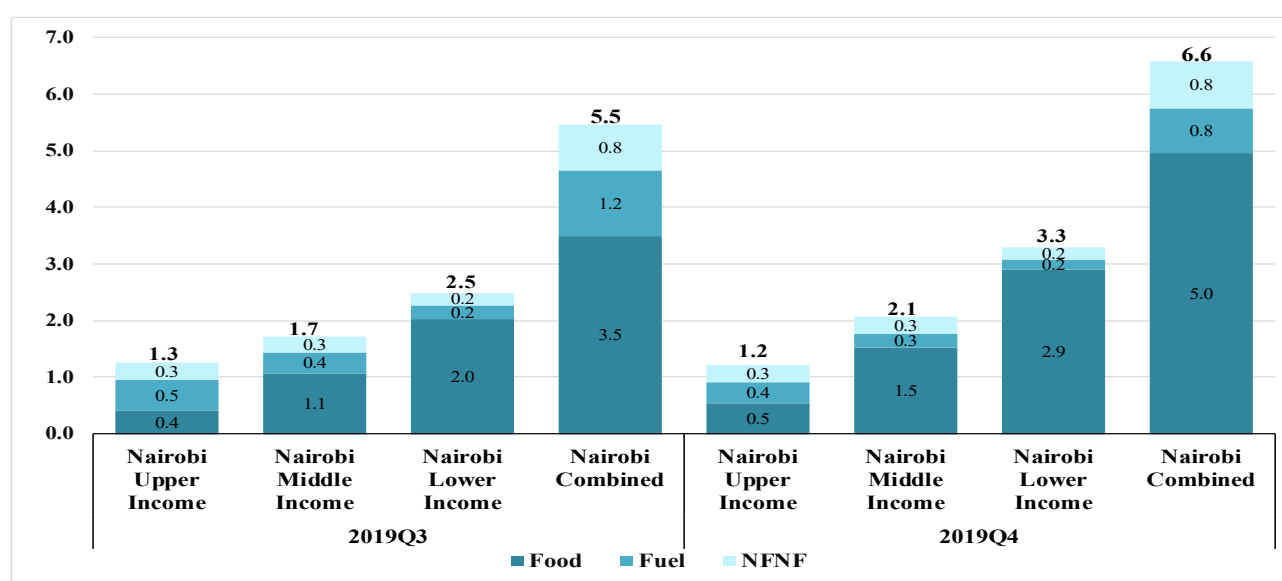
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Overall Inflation across Income Groups in Nairobi

Inflation in Nairobi increased to 6.6 percent in the fourth quarter of 2019, from 5.5 percent in the third quarter, mainly driven by high food prices. The contribution of food inflation increased across income groups while that of fuel and NFNF remained

relatively low and stable. The lower income group was the dominant inflation driver in Nairobi, reflective of the significance of food in the consumption basket of the low income earners (Chart 1.6).

Chart 1.6: Contributions of Income Groups to Overall Inflation in Nairobi (Percentage Points)



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

Chapter 2

Money, Credit and Interest Rates

Monetary aggregates and its components

Broad money supply (M3) grew by 1.5 percent in the fourth quarter of 2019 compared to a decline of 2.5 percent in the third quarter, reflecting growth in deposits and currency outside banks. The increase in currency outside banks (COB) was largely due to seasonal demand for cash during the end of year festivities. Growth in deposits was largely reflected in the corporate sector deposits, which increased by KSh 45.8 billion compared to a decline of KSh

6.8 billion in the previous quarter, partly reflecting receipts by suppliers and contractors from the payments of pending bills by the National and County governments. In terms of deposits by maturity, higher growth was recorded in demand deposits category. Growth in household sector deposits, however, slowed down, partly associated with increased demand for cash during the end of year festive season (Tables 2.1 and 2.2).

Table 2.1: Monetary Aggregates (Ksh Bn)

| | End Month Level | | | | | | Quarterly Growth Rates (%) | | | | | | Absolute Quarterly Changes (KSh Billions) | | | | | |
|--|-----------------|--------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--------|---|--------|--------|--------|--------|--------|
| | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| Components of M3 | | | | | | | | | | | | | | | | | | |
| 1. Money supply, M1 (1.1+1.2+1.3) | 1379.5 | 1477.5 | 1520.3 | 1575.5 | 1459.7 | 1525.2 | -3.2 | 7.1 | 2.9 | 3.6 | -7.3 | 4.5 | -46.0 | 98.0 | 42.7 | 55.2 | -115.8 | 65.5 |
| 1.1 Currency outside banks | 214.4 | 230.3 | 225.2 | 196.9 | 157.7 | 198.6 | -1.8 | 7.4 | -2.2 | -12.6 | -19.9 | 25.9 | -3.9 | 16.0 | -5.1 | -28.3 | -39.2 | 40.9 |
| 1.2 Demand deposits | 1094.6 | 1175.6 | 1209.0 | 1212.8 | 1190.7 | 1253.4 | -2.9 | 7.4 | 2.8 | 0.3 | -1.8 | 5.3 | -32.2 | 80.9 | 33.4 | 3.8 | -22.1 | 62.7 |
| 1.3 Other deposits at CBK 1/ | 70.8 | 71.7 | 86.2 | 165.8 | 111.4 | 73.4 | -12.9 | 1.3 | 20.2 | 92.5 | -32.8 | -34.2 | -10.4 | 0.9 | 14.5 | 79.7 | -54.4 | -38.1 |
| 2. Money supply, M2 (1+2.1) | 2684.9 | 2756.0 | 2838.4 | 2943.7 | 2866.0 | 2904.4 | 0.1 | 2.6 | 3.0 | 3.7 | -2.6 | 1.3 | 3.0 | 71.1 | 82.4 | 105.3 | -77.7 | 38.4 |
| 2.1 Time and saving deposits | 1305.4 | 1278.4 | 1318.1 | 1368.2 | 1406.3 | 1379.1 | 3.9 | -2.1 | 3.1 | 3.8 | 2.8 | -1.9 | 49.1 | -26.9 | 39.7 | 50.1 | 38.0 | -27.1 |
| 3. Money supply, M3 (2+3.1) | 3261.1 | 3337.8 | 3415.3 | 3564.2 | 3473.4 | 3524.0 | 0.0 | 2.4 | 2.3 | 4.4 | -2.5 | 1.5 | -1.6 | 76.8 | 77.5 | 148.9 | -90.8 | 50.6 |
| 3.1 Foreign Currency Deposits | 576.2 | 581.9 | 576.9 | 620.5 | 607.4 | 619.7 | -0.8 | 1.0 | -0.8 | 7.6 | -2.1 | 2.0 | -4.6 | 5.7 | -4.9 | 43.6 | -13.1 | 12.3 |
| Sources of M3 | | | | | | | | | | | | | | | | | | |
| 1. Net foreign assets 2/ | 742.1 | 714.1 | 720.0 | 939.9 | 835.4 | 804.5 | -2.0 | -3.8 | 0.8 | 30.5 | -11.1 | -3.7 | -14.8 | -28.0 | 5.9 | 219.9 | -104.5 | -31.0 |
| Central Bank | 768.3 | 739.5 | 747.5 | 941.0 | 871.5 | 833.3 | -2.0 | -3.8 | 1.1 | 25.9 | -7.4 | -4.4 | -15.3 | -28.8 | 8.0 | 193.5 | -69.5 | -38.2 |
| Banking Institutions | -26.2 | -25.4 | -27.5 | -1.1 | -36.1 | -28.8 | -1.8 | -3.2 | 8.3 | -96.0 | 3217.2 | -20.0 | 0.5 | 0.8 | -2.1 | 26.4 | -35.0 | 7.2 |
| 2. Net domestic assets (2.1+2.2) | 2519.0 | 2623.7 | 2695.3 | 2624.3 | 2637.9 | 2719.6 | 0.5 | 4.2 | 2.7 | -2.6 | 0.5 | 3.1 | 13.3 | 104.7 | 71.6 | -71.0 | 13.6 | 81.6 |
| 2.1 Domestic credit | 3282.5 | 3381.1 | 3508.1 | 3490.0 | 3566.6 | 3628.1 | 1.4 | 3.0 | 3.8 | -0.5 | 2.2 | 1.7 | 45.2 | 98.5 | 127.0 | -18.1 | 76.6 | 61.5 |
| 2.1.1 Government (net) | 770.2 | 858.2 | 964.2 | 890.5 | 894.3 | 941.2 | 3.4 | 11.4 | 12.4 | -7.6 | 0.4 | 5.2 | 25.2 | 87.9 | 106.1 | -73.7 | 3.8 | 46.9 |
| 2.1.2 Private sector | 2404.0 | 2422.0 | 2444.2 | 2503.0 | 2572.4 | 2594.6 | 1.0 | 0.7 | 0.9 | 2.4 | 2.8 | 0.9 | 23.6 | 18.0 | 22.2 | 58.8 | 69.4 | 22.2 |
| 2.1.3 Other public sector | 108.3 | 100.9 | 99.7 | 96.4 | 99.8 | 92.3 | -3.2 | -6.8 | -1.2 | -3.3 | 3.5 | -7.6 | -3.5 | -7.4 | -1.2 | -3.3 | 3.4 | -7.6 |
| 2.2 Other assets net | -763.5 | -757.3 | -812.8 | -865.6 | -928.6 | -908.5 | 4.4 | -0.8 | 7.3 | 6.5 | 7.3 | -2.2 | -32.0 | 6.2 | -55.4 | -52.9 | -63.0 | 20.1 |
| Memorandum items | | | | | | | | | | | | | | | | | | |
| 4. Overall liquidity, L (3+4.1) | 4467.0 | 4551.0 | 4696.9 | 4896.0 | 4864.6 | 4927.1 | 0.7 | 1.9 | 3.2 | 4.2 | -0.6 | 1.3 | 32.8 | 84.0 | 145.9 | 199.1 | -31.4 | 62.5 |
| 4.1 Non-bank holdings of government securities | 1205.9 | 1213.1 | 1281.6 | 1331.7 | 1391.2 | 1403.1 | 2.9 | 0.6 | 5.6 | 3.9 | 4.5 | 0.9 | 34.3 | 7.3 | 68.4 | 50.2 | 59.5 | 11.9 |

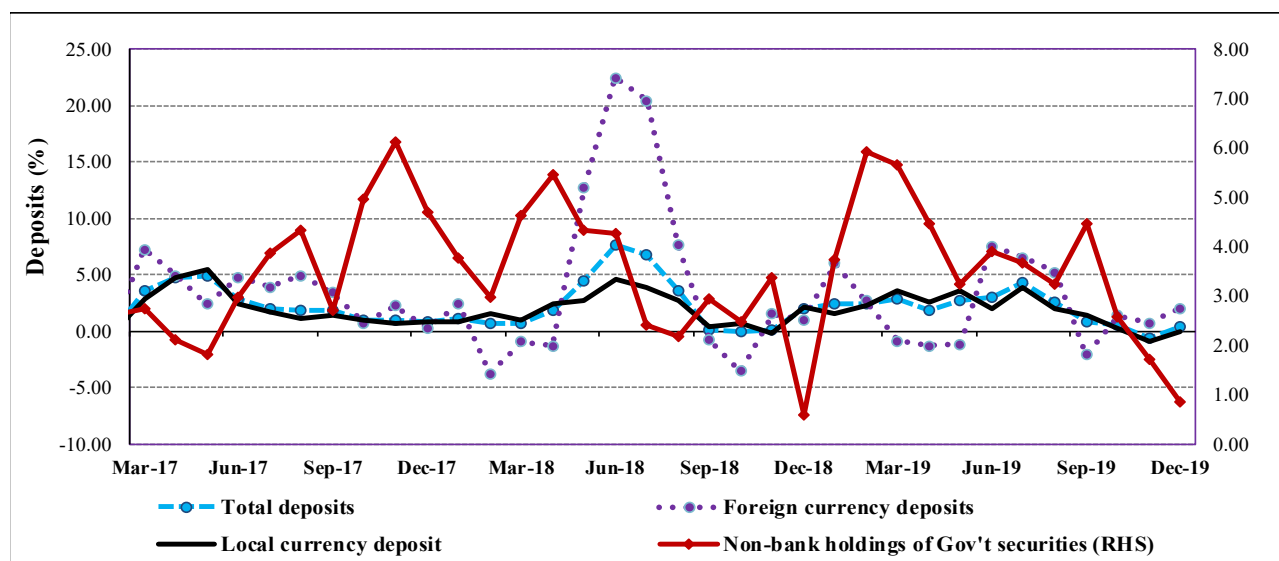
Absolute and percentage changes may not necessarily add up due to rounding

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

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



Source: Central Bank of Kenya

Table 2.2: Deposits Holdings of Corporates and Household Sectors

| | End Month Levels (KSh Billions) | | | | | | Quarterly Growth Rates (%) | | | | | | Absolute Quarterly Changes (KSh Billions) | | | | | |
|-------------------------------|---------------------------------|---------------|---------------|---------------|---------------|---------------|----------------------------|------------|------------|-------------|-------------|------------|---|-------------|-------------|--------------|-------------|-------------|
| | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| 1. Household Sector 1/ | 1478.7 | 1493.4 | 1518.8 | 1629.0 | 1638.1 | 1641.5 | -0.5 | 1.0 | 1.7 | 7.3 | 0.6 | 0.2 | -7.0 | 14.7 | 25.4 | 110.2 | 9.1 | 3.4 |
| 1.1 Demand Deposits | 560.4 | 562.1 | 583.5 | 604.3 | 598.1 | 591.8 | -2.4 | 0.3 | 3.8 | 3.6 | -1.0 | -1.1 | -13.7 | 1.7 | 21.4 | 20.9 | -6.3 | -6.3 |
| 1.2 Time and Saving Deposits | 689.7 | 701.3 | 707.8 | 749.6 | 774.5 | 793.3 | 4.0 | 1.7 | 0.9 | 5.9 | 3.3 | 2.4 | 26.5 | 11.6 | 6.6 | 41.7 | 25.0 | 18.8 |
| 1.3 Foreign Currency Deposits | 228.6 | 230.0 | 227.5 | 275.1 | 265.5 | 256.4 | -8.0 | 0.6 | -1.1 | 20.9 | -3.5 | -3.4 | -19.8 | 1.4 | -2.6 | 47.6 | -9.6 | -9.1 |
| 2. Corporate Sector | 1481.0 | 1518.0 | 1559.5 | 1556.5 | 1549.7 | 1595.5 | 1.4 | 2.5 | 2.7 | -0.2 | -0.4 | 3.0 | 20.5 | 37.0 | 41.5 | -3.0 | -6.8 | 45.8 |
| 2.1 Demand deposits | 520.2 | 593.6 | 604.0 | 596.0 | 578.8 | 648.1 | -3.4 | 14.1 | 1.8 | -1.3 | -2.9 | 12.0 | -18.2 | 73.4 | 10.4 | -8.0 | -17.2 | 69.4 |
| 2.2 Time and Saving Deposits | 613.6 | 574.7 | 607.9 | 616.0 | 629.1 | 583.3 | 4.0 | -6.3 | 5.8 | 1.3 | 2.1 | -7.3 | 23.6 | -38.9 | 33.1 | 8.1 | 13.0 | -45.8 |
| 2.3 Foreign Currency Deposits | 347.1 | 349.7 | 347.6 | 344.5 | 341.9 | 364.1 | 4.6 | 0.7 | -0.6 | -0.9 | -0.8 | 6.5 | 15.2 | 2.5 | -2.1 | -3.1 | -2.6 | 22.2 |

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

Source: Central Bank of Kenya

Annual growth in money supply, M3, declined to 5.6 percent in December 2019 compared to 6.5 percent in September 2019, largely reflected in net lending to government by the banking system. The decline in net lending to government, partly reflected increased government deposits at the Central Bank (Tables 2.1 & 2.2 and Chart 1).

Sources of Broad Money

The primary source of the increase in M3 in the fourth quarter of 2019 was Net Domestic Assets (NDA), which increased by KSh 81.6 billion compared to a modest increase of KSh 13.6 billion in the previous quarter. The increase in NDA was largely supported by increase in domestic credit, reflected in net lending

to the government and private sector credit. Net foreign Asset (NFA) of the banking system decreased in fourth quarter of 2019, partly reflecting scheduled government external payments and Central Bank operations (Table 2.1).

Developments in Domestic Credit

Growth in domestic credit extended by banks moderated slightly to 1.7 percent in the fourth quarter of 2019 compared to 2.2 percent in the third quarter of 2019, partly reflected in lending to the private sector. Net lending to government increased by KSh 46.9 billion in the fourth quarter of 2019 compared to KSh 3.8 billion in the previous quarter (Table 2.3).

Table 2.3: Banking Sector Net Domestic Credit (Ksh Bn): September 2018 to December 2019

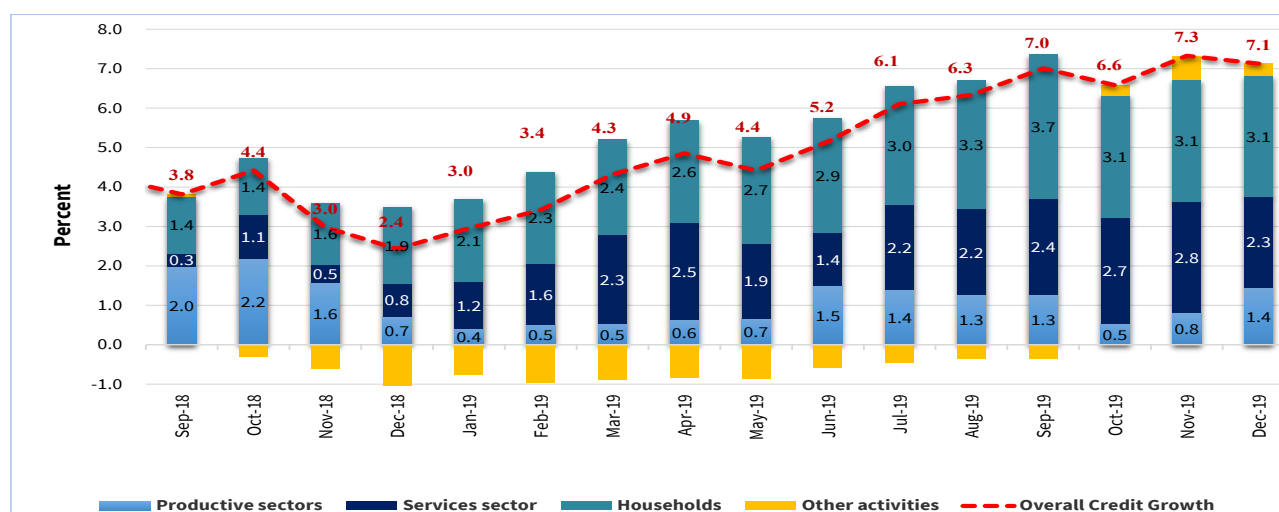
| | End Month Level | | | | | | Quarterly Growth Rates (%) | | | | | | Absolute Quarterly Changes (KSh Billions) | | | | | |
|---|-----------------|----------------|----------------|----------------|----------------|----------------|----------------------------|-------------|-------------|-------------|------------|-------------|---|-------------|--------------|--------------|-------------|-------------|
| | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| 1. Credit to Government | 770.2 | 858.2 | 964.2 | 890.5 | 894.3 | 941.2 | 3.4 | 11.4 | 12.4 | -7.6 | 0.4 | 5.2 | 25.2 | 87.9 | 106.1 | -73.7 | 3.8 | 46.9 |
| Central Bank | -214.6 | -95.1 | -98.6 | -189.6 | -182.4 | -182.4 | 5.0 | -55.7 | 3.6 | 92.4 | -3.8 | 0.0 | -10.2 | 119.5 | -3.4 | -91.1 | 7.3 | -0.1 |
| Commercial Banks & NBFIs | 984.9 | 953.3 | 1,062.8 | 1,080.2 | 1,076.7 | 1,123.7 | 3.7 | -3.2 | 11.5 | 1.6 | -0.3 | 4.4 | 35.4 | -31.6 | 109.5 | 17.4 | -3.5 | 47.0 |
| 2. Credit to other public sector | 108.3 | 100.9 | 99.7 | 96.4 | 99.8 | 92.3 | -3.2 | -6.8 | -1.2 | -3.3 | 3.5 | -7.6 | -3.5 | -7.4 | -1.2 | -3.3 | 3.4 | -7.6 |
| Local government | 4.4 | 4.3 | 4.3 | 3.8 | 4.5 | 4.3 | 0.1 | -0.4 | -0.6 | -12.9 | 20.0 | -4.7 | 0.0 | 0.0 | 0.0 | -0.6 | 0.8 | -0.2 |
| Parastatals | 104.0 | 96.6 | 95.4 | 92.7 | 95.3 | 88.0 | -3.3 | -7.1 | -1.2 | -2.9 | 2.9 | -7.7 | -3.5 | -7.4 | -1.2 | -2.7 | 2.7 | -7.3 |
| 3. Credit to private sector | 2,404.0 | 2,422.0 | 2,444.2 | 2,503.0 | 2,572.4 | 2,594.6 | 1.0 | 0.7 | 0.9 | 2.4 | 2.8 | 0.9 | 23.6 | 18.0 | 22.2 | 58.8 | 69.4 | 22.2 |
| Agriculture | 85.0 | 83.0 | 83.0 | 86.2 | 89.7 | 81.0 | 2.5 | -2.4 | 0.0 | 3.9 | 4.1 | -9.7 | 2.1 | -2.0 | 0.0 | 3.2 | 3.5 | -8.7 |
| Manufacturing | 334.8 | 334.6 | 336.1 | 357.6 | 360.0 | 365.4 | 4.3 | -0.1 | 0.4 | 6.4 | 0.6 | 1.5 | 13.7 | -0.2 | 1.5 | 21.5 | 2.3 | 5.4 |
| Trade | 424.5 | 429.3 | 440.3 | 447.1 | 456.5 | 467.4 | 0.1 | 1.1 | 2.6 | 1.5 | 2.1 | 2.4 | 0.5 | 4.8 | 11.0 | 6.8 | 9.4 | 10.9 |
| Building and construction | 120.9 | 114.0 | 108.2 | 109.2 | 114.5 | 115.8 | 3.7 | -5.7 | -5.1 | 0.9 | 4.8 | 1.2 | 4.4 | -6.9 | -5.8 | 1.0 | 5.3 | 1.3 |
| Transport & communications | 169.4 | 172.7 | 172.7 | 174.7 | 178.0 | 186.7 | 2.6 | 1.9 | 0.0 | 1.2 | 1.9 | 4.9 | 4.4 | 3.2 | 0.0 | 2.1 | 3.3 | 8.7 |
| Finance & insurance | 89.5 | 96.5 | 95.6 | 92.8 | 102.5 | 96.9 | 1.0 | 7.8 | -1.0 | -2.9 | 10.4 | -5.4 | 0.9 | 7.0 | -0.9 | -2.8 | 9.7 | -5.6 |
| Real estate | 369.1 | 368.7 | 370.5 | 377.4 | 377.1 | 374.1 | -1.2 | -0.1 | 0.5 | 1.9 | -0.1 | -0.8 | -4.5 | -0.4 | 1.8 | 6.9 | -0.3 | -3.0 |
| Mining and quarrying | 14.0 | 14.7 | 13.4 | 13.3 | 13.3 | 13.9 | 1.1 | 4.8 | -9.2 | -0.5 | 0.2 | 4.1 | 0.2 | 0.7 | -1.3 | -0.1 | 0.0 | 0.5 |
| Private households | 404.9 | 415.1 | 424.9 | 429.6 | 440.6 | 438.3 | 1.4 | 2.5 | 2.4 | 1.1 | 2.5 | -0.5 | 5.5 | 10.2 | 9.8 | 4.7 | 10.9 | -2.3 |
| Consumer durables | 184.4 | 195.8 | 205.7 | 220.1 | 236.7 | 246.7 | 1.6 | 6.2 | 5.1 | 7.0 | 7.5 | 4.2 | 3.0 | 11.5 | 9.9 | 14.4 | 16.6 | 10.0 |
| Business services | 146.0 | 150.4 | 149.3 | 146.6 | 150.7 | 154.1 | -3.6 | 3.0 | -0.7 | -1.8 | 2.7 | 2.3 | -5.4 | 4.4 | -1.1 | -2.7 | 4.0 | 3.4 |
| Other activities | 61.3 | 47.1 | 44.5 | 48.2 | 53.0 | 54.6 | -1.6 | -23.3 | -5.4 | 8.3 | 9.9 | 2.9 | -1.0 | -14.3 | -2.5 | 3.7 | 4.8 | 1.6 |
| 4. TOTAL (1+2+3) | 3,282.5 | 3,381.1 | 3,508.1 | 3,490.0 | 3,566.6 | 3,628.1 | 1.4 | 3.0 | 3.8 | -0.5 | 2.2 | 1.7 | 45.2 | 98.5 | 127.0 | -18.1 | 76.6 | 61.5 |

Source: Central Bank of Kenya

Growth of bank lending to the private sector moderated in the fourth quarter of 2019 to 0.9 percent (KSh 22. 2 billion) compared to 2.8 percent (KSh 69.4 billion) in the previous quarter, mainly reflected in net repayments by the corporate sector.

Lending to the household sector increased marginally in the quarter under review on account of increased marketing efforts by banks as well as introduction of innovative digital lending products (Table 2.4).

Chart 2.2: Contribution to Overall Credit Growth by Activity Group (Percent)



Source: Central Bank of Kenya

Table 2.4: Gross Loans to the Private Sector (Ksh Bn): September 2018 to December 2019

| | End Month Level | | | | | | Quarterly Growth Rates (%) | | | | | | Absolute Quarterly Changes (KSh Billions) | | | | | |
|--------------|-----------------|---------|---------|---------|---------|---------|----------------------------|--------|--------|--------|--------|--------|---|--------|--------|--------|--------|--------|
| | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| 1. Household | 749.4 | 743.7 | 756.9 | 766.2 | 787.2 | 816.6 | 2.7 | -0.8 | 1.8 | 1.2 | 2.7 | 3.7 | 19.6 | -5.8 | 13.2 | 9.3 | 21.1 | 29.3 |
| 2. Corporate | 1,706.2 | 1,735.7 | 1,745.5 | 1,796.3 | 1,847.5 | 1,837.5 | 0.5 | 1.7 | 0.6 | 2.9 | 2.8 | -0.5 | 8.6 | 29.5 | 9.8 | 50.8 | 51.2 | -10.0 |
| Gross Loans | 2,455.6 | 2,479.4 | 2,502.4 | 2,562.5 | 2,634.7 | 2,654.1 | 1.2 | 1.0 | 0.9 | 2.4 | 2.8 | 0.7 | 28.2 | 23.8 | 23.0 | 60.1 | 72.2 | 19.3 |

Source: Central Bank of Kenya

In terms of sectoral distribution of credit, the decline in credit growth in the fourth quarter of 2019 was largely from the following sectors; agriculture, building and construction, finance and insurance, private households and consumer durables, mainly on account of net loan repayments and recoveries. Meanwhile, improved credit growth was recorded in manufacturing, trade, transport and communication, and mining and quarrying sectors (Table 2.3).

On a 12-month basis, private sector credit growth remained stable at 7.1 percent in December 2019 compared with 7.0 percent in September 2019, arising from growth in credit to productive and services sectors.

Reserve Money

Reserve money (RM), which comprises currency held by the non-bank public and commercial banks'

reserves, increased by 13.1 percent in the fourth quarter of 2019 compared to a decline of 7.3 percent in the previous quarter. The increase was mainly reflected in currency outside banks (COB), partially attributed to the seasonal increase in demand for cash during the end of year festivities (Table 2.5).

On the asset side, the increase in reserve money (RM) was due to an increase in net domestic assets (NDA) of the Central Bank, which more than offset the decline in net foreign assets (NFA). The increase in NDA of the Central Bank was mainly on account of net lending to commercial banks and changes in other assets, partly reflecting reduced deposits of county government attributed to increased spending. The decline in NFA was mainly due to payments of government scheduled external debt service.

Table 2.5: Reserve Money (RM) and its Sources

| | End Month Level | | | | | | Quarterly Growth Rates (%) | | | | | | Absolute Quarterly Changes (KSh Billions) | | | | | |
|---------------------------------|-----------------|--------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--------|---|--------|--------|--------|--------|--------|
| | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| 1. Net Foreign Assets | 768.3 | 739.5 | 747.5 | 941.0 | 871.5 | 833.3 | -2.0 | -3.8 | 1.1 | 25.9 | -7.4 | -4.4 | -15.3 | -28.8 | 8.0 | 193.5 | -69.5 | -38.2 |
| 2. Net Domestic Assets | -318.4 | -247.5 | -291.0 | -501.2 | -463.7 | -372.2 | -10.2 | -22.3 | 17.6 | 72.2 | -7.5 | -19.7 | 36.0 | 70.9 | -43.5 | -210.2 | 37.5 | 91.5 |
| 2.1 Government Borrowing (net) | -214.6 | -95.1 | -98.6 | -189.6 | -182.4 | -182.4 | 5.0 | -55.7 | 3.6 | 92.4 | -3.8 | 0.0 | -10.2 | 119.5 | -3.4 | -91.1 | 7.3 | -0.1 |
| 2.2 Commercial banks (net) | 57.9 | 23.2 | -0.7 | -21.3 | -19.0 | 10.7 | 101.7 | -59.9 | -102.9 | 3114.8 | -10.7 | -156.4 | 29.2 | -34.7 | -23.9 | -20.7 | 2.3 | 29.8 |
| 2.3 Other Domestic Assets (net) | -165.1 | -178.9 | -195.1 | -293.7 | -265.8 | -204.0 | -9.3 | 8.4 | 9.1 | 50.5 | -9.5 | -23.2 | 17.0 | -13.8 | -16.2 | -98.5 | 27.9 | 61.8 |
| 3. Reserve Money | 449.9 | 492.0 | 456.5 | 439.8 | 407.8 | 461.1 | 4.8 | 9.4 | -7.2 | -3.7 | -7.3 | 13.1 | 20.7 | 42.1 | -35.5 | -16.7 | -32.0 | 53.3 |
| 3.1 Currency outside banks | 214.4 | 230.3 | 225.2 | 196.9 | 157.7 | 198.6 | -1.8 | 7.4 | -2.2 | -12.6 | -19.9 | 25.9 | -3.9 | 16.0 | -5.1 | -28.3 | -39.2 | 40.9 |
| 3.2 Bank reserves | 235.5 | 261.7 | 231.3 | 242.8 | 250.0 | 262.5 | 11.7 | 11.1 | -11.6 | 5.0 | 3.0 | 5.0 | 24.6 | 26.1 | -30.4 | 11.6 | 7.2 | 12.4 |

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) held one meeting during the fourth quarter of 2019 in November, and reduced the Central Bank Rate to 8.50 percent from 9.00 percent. The MPC noted that the policy stance was appropriate as inflation expectations remained well anchored within the target range and the government policy of fiscal consolidation provided scope for an accommodative monetary policy.

b. Interbank rate

The weighted average interbank rate generally declined at the beginning of the fourth quarter, from 6.59 percent in September to 4.24 percent in November, partly reflecting improved liquidity supported by significant government payments, including payments of the pending bills at the National and County level. The average interbank rate, however, increased to 6.03 percent in December, partly reflecting the seasonal increase in demand for cash during the end year festivities (Table 2.6).

c. Treasury bill rates

Interest rates on government securities increased slightly in the fourth quarter of 2019, partly reflecting competitive bidding by banks. The average 91-day Treasury bill rate increased from 6.35 percent in October to 7.17 percent in December 2019 while the average 182-day Treasury bill rate increased from 7.10 percent to 8.16 percent (Table 2.6).

d. Lending and Deposit Rates

Commercial banks' weighted average lending rate declined in the fourth quarter of 2019, consistent with the reduction in the CBR and improved liquidity conditions. The lending interest rate capping law was repealed in November 2019. The weighted average lending rate declined to 12.24 percent in December 2019 from 12.47 percent in September 2019. The weighted average deposit rate increased slightly from 6.98 percent in September 2019 to 7.11 percent in December 2019, partly reflecting increased competition for deposits by banks. Consequently, the spread declined to an average of 5.14 percent from 5.48 percent in the previous quarter.

Table 2.6: Interest Rates (%)

| | 2018 | | | | | | | | | | | | 2019 | | | | | | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 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 | 8.04 | 8.03 | 8.02 | 8.00 | 7.96 | 7.87 | 7.69 | 7.64 | 7.64 | 7.56 | 7.36 | 7.34 | 7.23 | 7.06 | 7.13 | 7.41 | 7.23 | 6.94 | 6.81 | 6.44 | 6.35 | 6.38 | 6.65 | 7.17 |
| 182-day Treasury bill rate | 10.64 | 10.42 | 10.39 | 10.30 | 10.26 | 9.99 | 9.35 | 9.00 | 8.82 | 8.51 | 8.30 | 8.40 | 8.95 | 8.62 | 8.32 | 8.16 | 7.90 | 7.71 | 7.57 | 7.12 | 7.10 | 7.23 | 7.61 | 8.16 |
| Interbank rate | 6.21 | 5.12 | 4.90 | 5.38 | 4.70 | 5.03 | 4.82 | 6.52 | 4.28 | 3.48 | 4.09 | 8.15 | 3.32 | 2.51 | 3.72 | 4.12 | 5.61 | 2.98 | 2.28 | 3.70 | 6.59 | 6.86 | 4.24 | 6.03 |
| Repo rate | 8.75 | 7.63 | 0.00 | 6.75 | 7.44 | 6.16 | 6.56 | 8.01 | 4.77 | 4.70 | 7.10 | 7.72 | 3.70 | 3.15 | 3.49 | 3.03 | 0.00 | 4.23 | 4.55 | 7.37 | 8.69 | 7.83 | 6.52 | 7.45 |
| Reverse Repo rate | 10.02 | 10.05 | 9.95 | 9.64 | 9.60 | 9.56 | 9.46 | 9.02 | 9.03 | 9.06 | - | 11.34 | - | 9.03 | - | 9.13 | 9.18 | | | | | | | - |
| Central Bank Rate (CBR) | 10.00 | 10.00 | 9.50 | 9.50 | 9.50 | 9.50 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 8.50 | 8.50 |
| Average lending rate (1) | 13.65 | 13.68 | 13.49 | 13.24 | 13.25 | 13.22 | 13.10 | 12.78 | 12.66 | 12.61 | 12.55 | 12.51 | 12.50 | 12.47 | 12.51 | 12.50 | 12.47 | 12.47 | 12.39 | 12.46 | 12.47 | 12.43 | 12.38 | 12.24 |
| Overdraft rate | 13.61 | 13.75 | 13.40 | 13.29 | 13.30 | 13.23 | 13.16 | 12.90 | 12.52 | 12.42 | 12.11 | 12.17 | 12.15 | 12.13 | 12.13 | 12.15 | 12.13 | 12.12 | 11.89 | 11.97 | 11.99 | 11.88 | 11.63 | 11.67 |
| 1-5years | 13.84 | 13.83 | 13.67 | 13.41 | 13.40 | 13.39 | 13.26 | 12.94 | 12.85 | 12.82 | 12.79 | 12.70 | 12.68 | 12.62 | 12.70 | 12.68 | 12.62 | 12.64 | 12.58 | 12.67 | 12.67 | 12.62 | 12.68 | 12.50 |
| Over 5years | 13.45 | 13.45 | 13.31 | 13.03 | 13.03 | 13.00 | 12.88 | 12.53 | 12.51 | 12.46 | 12.50 | 12.47 | 12.47 | 12.48 | 12.49 | 12.48 | 12.47 | 12.46 | 12.42 | 12.48 | 12.46 | 12.47 | 12.43 | 12.29 |
| Average deposit rate (2) | 8.26 | 8.25 | 8.16 | 8.17 | 8.08 | 8.04 | 8.01 | 7.78 | 7.76 | 7.63 | 7.41 | 7.41 | 7.34 | 7.28 | 7.22 | 7.17 | 7.20 | 7.19 | 6.97 | 6.91 | 6.98 | 6.96 | 6.56 | 7.11 |
| 0-3months | 8.52 | 8.50 | 8.48 | 8.46 | 8.53 | 8.41 | 8.41 | 8.28 | 8.22 | 8.03 | 7.85 | 7.83 | 7.73 | 7.69 | 7.62 | 7.56 | 7.58 | 7.55 | 7.26 | 7.28 | 7.42 | 7.40 | 7.37 | 7.60 |
| Over 3 months deposit | 8.35 | 8.39 | 8.26 | 8.11 | 8.01 | 8.14 | 8.04 | 7.53 | 7.64 | 7.76 | 7.56 | 7.67 | 7.58 | 7.49 | 7.43 | 7.48 | 7.50 | 7.53 | 7.34 | 7.21 | 7.23 | 7.21 | 6.27 | 7.50 |
| Savings deposits | 6.97 | 7.01 | 6.85 | 6.72 | 6.64 | 6.60 | 6.53 | 6.52 | 6.33 | 5.70 | 5.38 | 5.13 | 5.14 | 5.16 | 5.05 | 4.75 | 4.71 | 4.77 | 4.77 | 4.54 | 4.58 | 4.44 | 4.47 | 4.02 |
| Spread (1-2) | 5.39 | 5.42 | 5.33 | 5.07 | 5.17 | 5.18 | 5.09 | 5.00 | 4.91 | 4.98 | 5.14 | 5.09 | 5.16 | 5.19 | 5.29 | 5.34 | 5.27 | 5.28 | 5.42 | 5.56 | 5.48 | 5.47 | 5.82 | 5.14 |

Source: Central Bank of Kenya

Chapter 3

The Real Sector

Overview

The economy recorded strong performance in 2019 despite the delayed onset and below average rainfall experienced in March-May which affected the agriculture sector. Real GDP grew by 5.4 percent compared to 6.3 percent in 2018. The resilience of the economy was attributable to strong performance of the Services sector (Table 3.1). The slowdown in the economy's growth was reflected in the decline in growth of Agriculture, industry and services. Consequently, contribution to growth from agriculture declined to 0.7 percentage points from 1.3 percentage points, while contributions by industry and services

declined by 10 basis points to 0.9 and 3.3 percentage points, respectively (Table 3.2 and Chart 3.1).

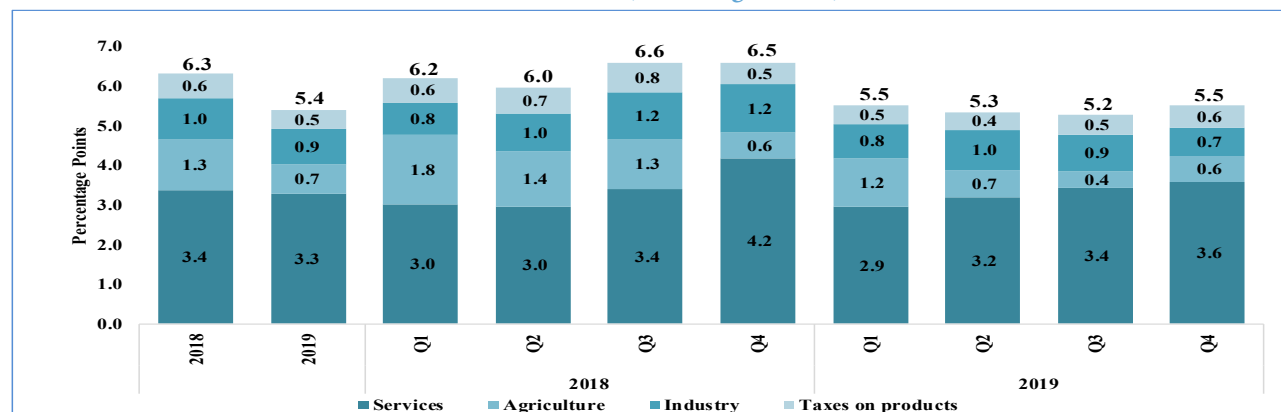
In the fourth quarter of 2019, the economy grew by 5.5 percent, an improvement from 5.2 percent in the previous quarter, but lower than 6.5 percent recorded in the fourth quarter of 2018. Growth in the fourth quarter of 2019 was largely supported by strong performance of key sectors such as agriculture, electricity and water supply, wholesale and retail trade, accommodation and restaurant, transport and storage, and information and communication (Table 3.1).

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

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

Source: Kenya National Bureau of Statistics

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



Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral Contributions to Real GDP Growth Rate

| | Annual | | 2018 | | | | 2019 | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2018 | 2019 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| 1. Agriculture | 1.3 | 0.7 | 1.8 | 1.4 | 1.3 | 0.6 | 1.2 | 0.7 | 0.4 | 0.6 |
| 2. Non-Agriculture (o/w) | 5.1 | 4.6 | 4.4 | 4.6 | 5.3 | 5.9 | 4.3 | 4.7 | 4.8 | 4.8 |
| 2.1 Industry | 1.0 | 0.9 | 0.8 | 1.0 | 1.2 | 1.2 | 0.8 | 1.0 | 0.9 | 0.7 |
| Mining & Quarrying | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Manufacturing | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.3 | 0.4 | 0.3 | 0.2 |
| Electricity & water supply | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Construction | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.3 | 0.4 | 0.4 | 0.4 |
| 2.2 Services | 3.4 | 3.3 | 3.0 | 3.0 | 3.4 | 4.2 | 2.9 | 3.2 | 3.4 | 3.6 |
| Wholesale & Retail Trade | 0.5 | 0.5 | 0.4 | 0.5 | 0.6 | 0.6 | 0.4 | 0.6 | 0.5 | 0.5 |
| Accommodation & restaurant | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.4 | 0.2 | 0.1 | 0.1 | 0.2 |
| Transport & Storage | 0.6 | 0.6 | 0.4 | 0.4 | 0.6 | 1.0 | 0.4 | 0.5 | 0.6 | 0.8 |
| Information & Communication | 0.5 | 0.4 | 0.6 | 0.4 | 0.4 | 0.6 | 0.5 | 0.3 | 0.3 | 0.5 |
| Financial & Insurance | 0.3 | 0.4 | 0.2 | 0.2 | 0.3 | 0.5 | 0.4 | 0.3 | 0.5 | 0.4 |
| Public administration | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.2 |
| Professional, Administration & Support Serv | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Real estate | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.4 |
| Education | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.5 | 0.3 | 0.4 | 0.4 | 0.4 |
| Health | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other services | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| FISIM | 0.0 | -0.1 | 0.1 | 0.0 | 0.0 | -0.2 | -0.1 | -0.2 | -0.2 | -0.1 |
| 2.3 Taxes on products | 0.6 | 0.5 | 0.6 | 0.7 | 0.8 | 0.5 | 0.5 | 0.4 | 0.5 | 0.6 |
| Real GDP Growth | 6.3 | 5.4 | 6.2 | 6.0 | 6.6 | 6.5 | 5.5 | 5.3 | 5.2 | 5.5 |

Source: Kenya National Bureau of Statistics and CBK Staff Computations

Performance by Sector

There was a general slowdown in growth across many sectors in the fourth quarter of 2019. However, the Services sector continued to be the main driver of economic activity.

Agriculture

Agriculture sector grew by 4.0 percent in the fourth quarter of 2019, a significant improvement compared to 2.4 percent recorded in the previous quarter and marginally higher than 3.9 percent recorded in the same quarter of 2018 (Table 3.1). During the quarter the sector contributed 0.6 percentage points to overall GDP growth, which was higher than 0.4 percentage points recorded in the previous quarter (Table 3.2). Growth was driven by favourable weather conditions experienced during the quarter, which led to increased production of crops such as tea, coffee, horticulture, and sugarcane.

Tea

Tea production increased by 36.3 percent in the fourth quarter of 2019 compared to the previous quarter, but declined by 3.2 percent compared to the same quarter of 2018. Monthly production increased in October and December 2019, which more than offset the decline in November 2019 (Table 3.3). Average auction price of tea per kilogram increased by 7.6 percent in the fourth quarter of 2019 compared to the previous quarter, but was lower by 2.7 percent compared to the same quarter of 2018.

Coffee

Coffee sales increased by 15.3 percent in the fourth quarter of 2019 compared to the previous quarter, but declined by 30.9 percent compared to the same quarter of 2018. Monthly production was high in October 2019, which offset the declines recorded in November and December as the Nairobi Coffee Exchange went on recess during the end year festive season (Table 3.3). The average auction prices increased significantly by 59.0 percent compared to the previous quarter, but was lower by 6.0 percent compared to the same quarter of 2018.

Horticulture

Total exports of horticultural crops increased by 5.6 percent compared to the previous quarter, and by 4.6 percent compared to the same quarter of 2018. The increase was largely due to higher exports of fresh vegetables and cut flowers. Monthly data shows that exports increased in October and November 2019 before declining in December (Table 3.3). The share of volumes and values of fruits and nuts to total exports increased in the fourth quarter of 2019 compared to the same quarter of 2018, while those of cut flowers and fresh vegetables, declined in the same period (Chart 3.2).

Milk intake decreased by 4.1 percent in the fourth quarter of 2019 compared to the previous quarter, but was higher by 3.8 percent compared to the same quarter of 2018. Monthly production decreased in October and November 2019, but the declines were partially offset by a significant increase in production in December (Table 3.3).

Sugarcane output was higher by 15.1 percent compared to the previous quarter. Monthly production increased in October and December 2019, which more than offset the decline recorded in November (Table 3.3). However, the output declined by 18.1 percent compared to the same quarter of 2018.

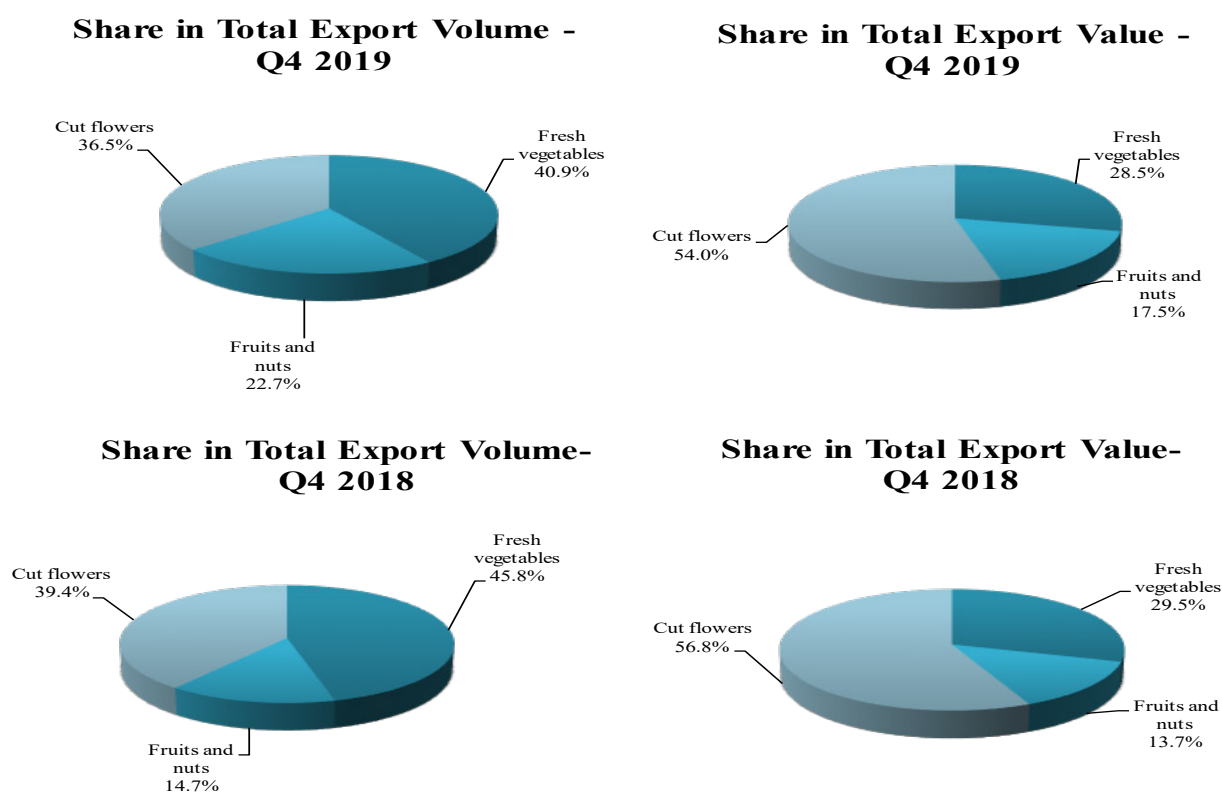
Table 3.3: Quarterly Performance of Key Agricultural Output Indicators

| | 2018 | | | | 2019* | | | | | | |
|-----------------------------|-----------|---------|---------|---------|-----------|---------|---------|---------|---------|--------|--------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-19 | Nov-19 | Dec-19 |
| Tea | | | | | | | | | | | |
| Output (Metric tonnes) | 99,760 | 131,235 | 115,242 | 146,762 | 106,293 | 106,315 | 104,192 | 142,053 | 46,305 | 45,087 | 50,660 |
| Growth (%) | -26.81 | 31.55 | -12.19 | 27.35 | -27.57 | 0.02 | -2.00 | 36.34 | 30.3 | -2.6 | 12.4 |
| Horticulture | | | | | | | | | | | |
| Exports (Metric tonnes) | 100,526 | 96,592 | 108,043 | 76,078 | 103,204 | 84,183 | 75,387 | 79,581 | 27,258 | 30,278 | 22,046 |
| Growth (%) | 22.4 | -3.9 | 11.9 | -29.6 | 35.7 | -18.4 | -10.4 | 5.6 | 13.2 | 11.1 | -27.2 |
| Coffee | | | | | | | | | | | |
| Sales (Metric tonnes) | 15,857 | 8,814 | 5,755 | 6,405 | 13,948 | 11,412 | 3,840 | 4,428 | 2,541 | 1,117 | 771 |
| Growth (%) | 202.1 | -44.4 | -34.7 | 11.3 | 117.8 | -18.2 | -66.4 | 15.3 | 67.0 | -56.0 | -31.0 |
| Milk | | | | | | | | | | | |
| Output (million litres) | 148.7 | 152.0 | 162.1 | 172.9 | 177.1 | 142.1 | 187.2 | 179.5 | 59.3 | 51.3 | 68.9 |
| Growth % | -9.8 | 2.2 | 6.7 | 6.6 | 2.4 | -19.8 | 31.8 | -4.1 | -6.1 | -13.5 | 34.3 |
| Sugar Cane | | | | | | | | | | | |
| Output ('000 Metric tonnes) | 1,689 | 927 | 1,252 | 1,392 | 1,485 | 972 | 990 | 1,140 | 396 | 355 | 388 |
| Growth (%) | 9.2 | -45.1 | 35.2 | 11.2 | 6.7 | -34.5 | 1.8 | 15.1 | 5.9 | -10.3 | 9.4 |

* Provisional

Source: KNBS

Chart 3.2: Horticultural Exports



Source: Kenya National Bureau of Statistics

Manufacturing

The Manufacturing sector was sluggish in the fourth quarter of 2019. It grew by 2.3 percent, which was lower than 3.2 percent in the previous quarter and 5.2 percent in the same quarter of 2018 (Table 3.1). The slowdown was largely due to reduced activity in both food and non-food sub sectors. The sector contributed 0.2 percentage points to overall GDP growth, which was lower than 0.3 percentage points recorded in the previous quarter and 0.5 percentage points recorded in the same quarter of 2018 (Table 3.2).

Production of processed sugar increased by 14.5 percent in the fourth quarter of 2019 compared to the previous quarter, mainly driven by increased sugarcane output. Monthly production increased in October and December 2019, which more than offset declined production in November (Table 3.4). However, production was lower by 14.6 percent compared to the same quarter of 2018.

Production of soft drinks increased by 2.0 percent in the fourth quarter of 2019 compared to the previous quarter, following increased demand due to the festive season. The increased production was seen in November and December (Table 3.4). However, when compared to the fourth quarter of 2018, production was lower by 4.8 percent during the quarter under review.

Cement production declined slightly by 0.3 percent in the fourth quarter of 2019 compared to the previous quarter. Monthly data for the quarter under review shows increased production in October and December 2019, which offset the decline recorded in November (Table 3.4). When compared to the same quarter of 2018, production declined by 1.0 percent.

Production of **galvanized sheets** declined by 1.2 percent in the fourth quarter of 2019 compared to the previous quarter, reflected in lower monthly production in October and November 2019 (Table 3.4). When compared to the same quarter of 2018, production was lower by 1.5 percent.

Production of **assembled vehicles** increased by 9.9 percent in the fourth quarter of 2019 compared to the previous quarter, and by 56.3 percent compared to the same quarter of 2018. Monthly production increased in October and November 2019, then declined in December owing to slowdown in activity due to the festive season (Table 3.4). Assembly of vehicles has been on an upward trend following the re-entry of Volkswagen Group and PSA Group into the Kenyan market and enhanced Government incentives.

Table 3.4: Quarterly Production of Selected Manufactured Goods

| | 2018 | | | | 2019* | | | | | | |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-19 | Nov-19 | Dec-19 |
| Cement production | | | | | | | | | | | |
| Output (MT) | 1,542,947 | 1,438,002 | 1,560,368 | 1,488,617 | 1,462,361 | 1,475,008 | 1,477,637 | 1,473,532 | 497,930 | 479,085 | 496,517 |
| Growth % | 0.48 | -6.80 | 8.51 | -4.60 | -1.76 | 0.86 | 0.18 | -0.28 | 3.2 | -3.8 | 3.6 |
| Assembled vehicles | | | | | | | | | | | |
| Output (No.) | 1,472 | 1,182 | 1,627 | 1,372 | 1,678 | 2,027 | 1,952 | 2,145 | 728 | 872 | 545 |
| Growth % | 39.4 | -19.7 | 37.6 | -15.7 | 22.3 | 20.8 | -3.7 | 9.9 | 22.4 | 19.8 | -37.5 |
| Galvanized sheets | | | | | | | | | | | |
| Output (MT) | 67,857 | 65,139 | 69,391 | 68,049 | 69,186 | 70,382 | 67,819 | 67,037 | 22,619 | 21,871 | 22,547 |
| Growth % | 1.1 | -4.0 | 6.5 | -1.9 | 1.7 | 1.7 | -3.6 | -1.2 | -0.1 | -3.3 | 3.1 |
| Processed sugar | | | | | | | | | | | |
| Output (MT) | 165800.0 | 93935.0 | 103403.0 | 122360.0 | 144662.0 | 100164.0 | 91288.0 | 104482.0 | 35259.0 | 30898.0 | 38325.0 |
| Growth % | 32.9 | -43.3 | 10.1 | 18.3 | 18.2 | -30.8 | -8.9 | 14.5 | 5.7 | -12.4 | 24.0 |
| Soft drinks | | | | | | | | | | | |
| Output ('000 litres) | 154,327 | 131,999 | 138,476 | 150,768 | 157,091 | 144,520 | 140,803 | 143,595 | 45,438 | 46,846 | 51,311 |
| Growth % | -9.3 | -14.5 | 4.9 | 8.9 | 4.2 | -8.0 | -2.6 | 2.0 | -9.4 | 3.1 | 9.5 |

MT = Metric tonnes

* Provisional

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

Electricity and Water Supply

Electricity and Water Supply sector recorded strong growth of 6.4 percent in the third and fourth quarter of 2019. However, this was slower growth compared to 9.5 percent realised in the same quarter of 2018. The strong performance of the sector was largely on account of increased generation of hydroelectricity following favourable weather conditions during the quarter (Table 3.1). The sector's contribution to overall GDP growth stabilized at 0.2 percentage points in all quarters of 2019 (Table 3.2).

Growth in electricity generation decreased marginally by 0.4 percent in the fourth quarter of 2019 compared to the previous quarter, as the increased generation of hydroelectricity, geothermal, and solar electricity was offset by a contraction in the generation of thermal and wind electricity (Table 3.5).

Consumption of electricity also declined marginally by 0.6 percent in the fourth quarter of 2019. Meanwhile, consumption of fuels and international oil prices increased by 0.5 percent and 1.9 percent, respectively, in the fourth quarter of 2019 compared to the previous quarter (Table 3.5).

Construction and Real Estate

Growth in the Construction sector slowed to 5.7 percent compared to 6.6 percent in the previous quarter and 7.7 percent in the same quarter of 2018. Growth was driven by ongoing public infrastructure projects such as roads and housing projects under the affordable housing programme under the Big Four agenda (Table 3.1). The sector contributed 0.4 percentage points to real GDP growth in the third and fourth quarters of 2019, a slight decline from 0.5 percentage points contribution in the same quarter of 2018 (Table 3.2).

Indicators in the construction sector reflect the slowdown in activity during the fourth quarter of 2019. For instance, cement consumption decreased by 2.3 percent compared to the previous quarter, and by 2.7 percent compared to the same quarter of 2018. The value of building plans approved by Nairobi City County's Planning, Compliance & Enforcement Department declined by 38.8 percent compared to the previous quarter, with the decline being recorded in both residential and non-residential building plans. There were no building plans approved in November 2019 (Table 3.6). When compared to the same quarter of 2018, the value of approved building plans declined by 34.6 percent.

Table 3.5: Performance of the Energy Sector

| | 2018 | | | | 2019* | | | | | | |
|---|-----------|---------|---------|---------|-----------|---------|---------|---------|---------|--------|--------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-19 | Nov-19 | Dec-19 |
| Electricity Supply (Generation) | | | | | | | | | | | |
| Output (million KWH) | 2,640.4 | 2,718.7 | 2,835.4 | 2,857.3 | 2,825.1 | 2,805.2 | 2,895.6 | 2,882.8 | 977.0 | 965.4 | 940.4 |
| Growth % | 0.8 | 3.0 | 4.3 | 0.8 | -1.1 | -0.7 | 3.2 | -0.4 | 2.5 | -1.2 | -2.6 |
| Of which: | | | | | | | | | | | |
| Hydro-power Generation (million KWH) | 664.8 | 1103.6 | 1229.8 | 988.3 | 815.7 | 707.0 | 754.2 | 928.5 | 268.4 | 299.2 | 360.9 |
| Growth (%) | -14.0 | 66.0 | 11.4 | -19.6 | -17.5 | -13.3 | 6.7 | 23.1 | 14.8 | 11.5 | 20.6 |
| Geo-Thermal Generation (million KWH) | 1,265.6 | 1,304.8 | 1,304.5 | 1,252.9 | 1,236.9 | 1,238.5 | 1,319.7 | 1,439.6 | 493.6 | 481.9 | 464.1 |
| Growth (%) | 0.2 | 3.1 | 0.0 | -4.0 | -1.3 | 0.1 | 6.6 | 9.1 | 8.7 | -2.4 | -3.7 |
| Thermal Generation (million KWH) | 693.7 | 304.0 | 289.4 | 258.9 | 311.6 | 437.7 | 370.0 | 194.1 | 69.5 | 62.4 | 62.2 |
| Growth (%) | 23.4 | -56.2 | -4.8 | -10.5 | 20.4 | 40.5 | -15.5 | -47.5 | -33.7 | -10.2 | -0.4 |
| Wind Generation (million KWH) | 14.2 | 6.2 | 11.7 | 343.5 | 437.8 | 398.7 | 429.2 | 297.0 | 137.4 | 114.0 | 45.6 |
| Growth (%) | -23.9 | -56.6 | 89.1 | 2843.6 | 27.4 | -8.9 | 7.7 | -30.8 | -10.1 | -17.0 | -60.0 |
| Solar Generation (million KWH) | 0.0 | 0.0 | 0.0 | 13.6 | 23.1 | 23.2 | 22.4 | 23.5 | 8.1 | 7.8 | 7.6 |
| Growth (%) | | | -33.3 | 67750.0 | 70.1 | 0.4 | -3.2 | 4.6 | 1.8 | -2.6 | -3.3 |
| Co-Generation (million KWH) | 2.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 |
| Growth (%) | 35.4 | -92.5 | -62.5 | 33.3 | -37.5 | 20.0 | 33.3 | 37.5 | 33.3 | -50.0 | 150.0 |
| Consumption of electricity (million KWH) | 2,161.3 | 2,127.1 | 2,164.9 | 2,203.5 | 2,221.7 | 2,191.9 | 2,235.6 | 2,222.5 | 751.4 | 761.9 | 709.2 |
| Growth % | 3.9 | -1.6 | 1.8 | 1.8 | 0.8 | -1.3 | 2.0 | -0.6 | 1.7 | 1.4 | -6.9 |
| Consumption of Fuels ('000 tonnes) | 1,380.1 | 1,324.0 | 1,303.3 | 1,227.2 | 1,296.6 | 1,302.4 | 1,249.9 | 1,255.6 | 422.2 | 415 | 419 |
| Growth % | 20.4 | -4.1 | -1.6 | -5.8 | 5.7 | 0.4 | -4.0 | 0.5 | 6.4 | -1.8 | 1.1 |
| Murban crude oil average price (US \$ per barrel) | 66.2 | 73.6 | 76.6 | 69.6 | 65.0 | 67.5 | 62.5 | 63.7 | 60.9 | 63.5 | 66.7 |
| Growth % | 4.8 | 11.2 | 4.0 | -9.1 | -6.5 | 3.8 | -7.4 | 1.9 | -2.4 | 4.3 | 5.0 |

N/A - Not Available

Source: Kenya National Bureau of Statistics

Table 3.6: Quarterly Output of Selected Construction Indicators

| | 2017 | | | | 2018 | | | | 2019* | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|-----------|
| | Quarterly | | | | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-19 | Nov-19 | Dec-19 |
| Cement Consumption | | | | | | | | | | | | | | | |
| Output (Tonnes) | 1,533,010 | 1,435,103 | 1,462,062 | 1,427,712 | 1,492,179 | 1,394,637 | 1,541,927 | 1,478,637 | 1,455,257 | 1,460,873 | 1,472,473 | 1,438,623 | 492,670 | 448,081 | 497,872 |
| Growth % | -5.0 | -6.4 | 1.9 | -2.3 | 4.5 | -6.5 | 10.6 | -4.1 | -1.6 | 0.4 | 0.8 | -2.3 | 2.8 | -9.1 | 11.1 |
| Value of Building Plans Approved by Nairobi City County | | | | | | | | | | | | | | | |
| Residential (KSh, millions) | 33,863.46 | 36,503.04 | 18,146.46 | 23,550.46 | 36,850.30 | 26,326.87 | 32,493.04 | 36,168.58 | 33,048.82 | 42,830.80 | 38,669.71 | 23,657.32 | 13,630.56 | N/A | 10,026.76 |
| Growth (%) | -25.7 | 7.8 | -50.3 | 29.8 | 56.5 | -28.6 | 23.4 | 11.3 | -8.6 | 29.6 | -9.7 | -38.8 | -42.4 | | |
| Non-residential (KSh, millions) | 27,846.32 | 30,457.72 | 2,691.63 | 11,661.46 | 23,255.01 | 14,329.83 | 18,230.01 | 22,643.08 | 23,491.91 | 21,884.37 | 16,530.44 | 15,512.02 | 9,579.64 | N/A | 5,932.38 |
| Growth (%) | -4.6 | 9.4 | -91.2 | 333.2 | 99.4 | -38.4 | 27.2 | 24.2 | 3.7 | -6.8 | -24.5 | -6.2 | -38.2 | | |
| Total (KSh, millions) | 61,709.78 | 66,960.76 | 20,838.09 | 35,211.92 | 60,105.31 | 40,656.70 | 50,723.05 | 58,811.66 | 56,540.73 | 64,715.17 | 55,200.15 | 39,169.34 | 23,210.20 | N/A | 15,959.14 |
| Growth (%) | -17.5 | 8.5 | -68.9 | 69.0 | 70.7 | -32.4 | 24.8 | 15.9 | -3.9 | 14.5 | -14.7 | -29.0 | -40.7 | | |

Source: Kenya National Bureau of Statistics

Accommodation and Restaurants

Growth in the Accommodation and Restaurants sector remained strong at 9.0 percent in the fourth quarter of 2019, though this was slower than 9.9 percent attained in the previous quarter and 21.5 percent in the same quarter of 2018 (Table 3.1). Its contribution to real GDP growth increased slightly to 0.2 percentage points from 0.1 percentage points in the previous quarter, but was lower than 0.4 percentage points in the same quarter of 2018 (Table 3.2).

Tourist Arrivals

Overall tourist arrivals declined by 10.4 percent in the fourth quarter of 2019 compared to the previous quarter, owing to lower arrivals through Jomo Kenyatta International Airport (JKIA) in Nairobi. However, tourist arrivals through Moi International Airport Mombasa (MIAM) increased significantly by 24.9 percent compared to the previous quarter (Table 3.7). When compared to the same quarter of 2018, total tourist arrivals increased by 8.5 percent.

Table 3.7: Tourist Arrival by Point of Entry: Quarterly and Selected Months

| | 2018 | | | | 2019* | | | | | | |
|------------------------|-----------|---------|---------|---------|-----------|---------|---------|---------|---------|---------|---------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-19 | Nov-19 | Dec-19 |
| Total Tourist Arrivals | 342,584 | 317,160 | 430,063 | 370,819 | 361,479 | 339,250 | 449,185 | 402,279 | 149,190 | 121,070 | 132,019 |
| Growth (%) | 7.3 | -7.4 | 35.6 | -13.8 | -2.5 | -6.1 | 32.4 | -10.4 | 14.0 | -18.8 | 9.0 |
| o.w. JKIA - Nairobi | 211,878 | 293,209 | 401,533 | 334,682 | 312,819 | 324,240 | 420,478 | 366,434 | 138,033 | 108,755 | 119,646 |
| Growth (%) | 18.7 | 38.4 | 36.9 | -16.6 | -6.5 | 3.7 | 29.7 | -12.9 | 13.5 | -21.2 | 10.0 |
| MIAM - Mombasa | 38,349 | 15,097 | 28,530 | 36,137 | 48,660 | 15,010 | 28,707 | 35,845 | 11,157 | 12,315 | 12,373 |
| Growth % | 12.6 | -60.6 | 89.0 | 26.7 | 34.7 | -69.2 | 91.3 | 24.9 | 21.3 | 10.4 | 0.5 |

Source: Kenya Tourism Board (KTB)

Transport and Storage

Transport and Storage Sector recorded strong performance during the fourth quarter of 2019. The sector grew by 9.2 percent compared to 7.6 percent in the previous quarter, though lower than 11.8 percent recorded in the same quarter of 2018 (Table 3.1). Its contribution to overall GDP growth increased to 0.8 percentage points compared to 0.6 percentage points in the previous quarter, but was lower compared to 1.0 percentage point in the same quarter of 2018 (Table 3.2).

Total passenger flows through (JKIA) declined by 9.4 percent in the fourth quarter of 2019 compared

to the previous quarter, which was reflected in both incoming and outgoing passenger flows (Table 3.8). However, when compared to the fourth quarter of 2018, total passenger flows increased by 5.7 percent during the quarter under review.

The volume of oil that passed through the Kenya Pipeline increased by 3.0 percent in the fourth quarter of 2019 compared to the previous quarter, and by 9.4 percent compared to the same quarter of 2018. The increase in volume reflects increased activity in the sector (Table 3.8).

Table 3.8: Performance of Selected Transport Indicators: Quarterly and Selected Monthly

| | 2018 | | | | 2019* | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|
| | Quarterly | | | | Quarterly | | | | Monthly | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Oct-19 | Nov-19 | Dec-19 |
| Number of Passengers thro' JKIA | | | | | | | | | | | |
| Total passenger flows | 1,117,194 | 1,192,031 | 1,440,943 | 1,259,127 | 1,145,280 | 1,226,593 | 1,468,305 | 1,330,983 | 426,442 | 426,360 | 478,181 |
| Growth (%) | -3.3 | 6.7 | 20.9 | -12.6 | -9.0 | 7.1 | 19.7 | -9.4 | -7.2 | 0.0 | 12.2 |
| o.w. Incoming | 707,536 | 745,416 | 886,311 | 802,619 | 729,230 | 780,881 | 902,957 | 831,193 | 263,464 | 258,426 | 309,303 |
| Growth (%) | -3.7 | 5.4 | 18.9 | -9.4 | -9.1 | 7.1 | 15.6 | -7.9 | -4.1 | -1.9 | 19.7 |
| Outgoing | 409,658 | 446,615 | 554,632 | 456,508 | 416,050 | 445,712 | 565,348 | 499,790 | 162,978 | 167,934 | 168,878 |
| Growth % | -2.8 | 9.0 | 24.2 | -17.7 | -8.9 | 7.1 | 26.8 | -11.6 | -11.8 | 3.0 | 0.6 |
| Kenya Pipeline Oil Throughput | | | | | | | | | | | |
| Output ('000 litres) | 1,572,646 | 1,508,627 | 1,580,877 | 1,659,339 | 1,859,793 | 1,791,759 | 1,763,400 | 1,816,132 | 618,144 | 584,983 | 613,005 |
| Growth % | 3.0 | -4.1 | 4.8 | 5.0 | 12.1 | -3.7 | -1.6 | 3.0 | 10.6 | -5.4 | 4.8 |

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

Chapter 4

Global Economy

Global Development

Global economic activity remained subdued in the fourth quarter of 2019. The estimate for 2019 global GDP growth was 2.9 percent down from 3.6 percent in 2018. The weak growth in 2019 was attributed to performance of both the advanced economies and emerging developing economies. This was mainly driven by China - US trade policy tension, which affected business confidence and investment. In addition, policy uncertainties weighed down on risk

sentiment in financial markets. At the beginning of the year, global growth was projected at 3.3 percent in 2020 and 3.4 percent in 2021, a 0.1 percentage point downward revision from the October 2019 WEO projections. The recovery, albeit low, was projected to be accompanied by a pickup in trade growth and investment, as well as the fading of some temporary drags in the automotive and techno sectors.

Table 4.1: Global Economic Outlook

| | | Estimates | Projections | | Difference from Oct | |
|---|------------|------------|-------------|------------|---------------------|-------------|
| | 2018 | 2019 | 2020 | 2021 | 2019 | 2020 |
| World Output | 3.6 | 2.9 | 3.3 | 3.4 | -0.1 | -0.2 |
| Advanced Economies | 2.2 | 1.7 | 1.6 | 1.6 | -0.1 | 0.0 |
| United states | 2.9 | 2.3 | 2.0 | 1.7 | -0.1 | -0.1 |
| Euro Area | 1.9 | 1.2 | 1.3 | 1.4 | -0.1 | 0.0 |
| Germany | 1.5 | 0.5 | 1.1 | 1.4 | -0.1 | 0.0 |
| France | 1.7 | 1.3 | 1.3 | 1.3 | 0.0 | 0.0 |
| Italy | 0.8 | 0.2 | 0.5 | 0.7 | 0.0 | -0.1 |
| Spain | 2.4 | 2.0 | 1.6 | 1.6 | -0.2 | -0.1 |
| Japan | 0.3 | 1.0 | 0.7 | 0.5 | 0.2 | 0.0 |
| United Kingdom | 1.3 | 1.3 | 1.4 | 1.5 | 0.0 | 0.0 |
| Emerging Market and developing Economies | 4.5 | 3.7 | 4.4 | 4.6 | -0.2 | -0.2 |
| Russia | 2.3 | 1.1 | 1.9 | 2.0 | 0.0 | 0.0 |
| China | 6.6 | 6.1 | 6.0 | 5.8 | 0.2 | -0.1 |
| India | 6.8 | 4.8 | 5.8 | 6.5 | -1.2 | -0.9 |
| Brazil | 1.3 | 1.2 | 2.2 | 2.3 | 0.2 | -0.1 |
| Sub-saharan Africa | 3.2 | 3.3 | 3.5 | 3.5 | -0.1 | -0.2 |
| Nigeria | 1.9 | 2.3 | 2.5 | 2.5 | 0.0 | 0.0 |
| South Africa | 0.8 | 0.4 | 0.8 | 1.0 | -0.3 | -0.4 |
| Source :IMF WORLD ECONOMIC OUTLOOK(WEO) January 2020 | | | | | | |

Growth in emerging market and developing economies was estimated at 3.7 percent in 2019 and 4.4 percent in 2020, down from 4.5 percent in 2018. The lower growth for 2019 reflects downward revision of India's growth, where domestic demand slowed more sharply than expected amid stress in the nonbank financial sector and a decline in credit

growth. Growth in China was projected to inch down from an estimated 6.1 percent in 2019 to 6.0 percent in 2020 and 5.8 percent in 2021. Growth in sub-Saharan Africa (SSA) was expected to strengthen to 3.5 percent in 2020–21 from 3.3 percent in 2019, reflecting improved growth in commodity exporting countries.

Chapter 5

Balance of Payments and Exchange Rates

Balance of Payments and Exchange Rates

The current account deficit widened by USD 532 million to USD 1,675 million in the fourth quarter of 2019 from USD 1,143 million in the fourth quarter of 2018, reflecting an increase in the value of goods

imports and lower receipts from service exports. The financial account recorded lower net inflows of USD 1,322 million in the fourth quarter of 2019 compared to net inflow of USD 1,797 million in the fourth quarter of 2018 (Table 5.1).

Table 5.1: Balance of Payments (USD Million)

| ITEM | 2018* | 2019** | | | | | | | Q4 2019-Q4 2018 | |
|--|---------|---------|---------|---------|-------|-------|--------|--------|-----------------|--------|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Q4 | | | Total | | % |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | Change | Change |
| 1. Overall Balance | 286 | -299 | -847 | -213 | 74 | 202 | 40 | 316 | 30 | 10 |
| 2. Current account | -1,143 | -998 | -1,341 | -1,527 | -484 | -567 | -624 | -1,675 | -532 | 47 |
| Exports (fob) | 1,406 | 1,566 | 1,453 | 1,424 | 497 | 509 | 423 | 1,429 | 22 | 2 |
| Imports (fob) | 3,921 | 3,955 | 4,196 | 4,066 | 1,435 | 1,460 | 1,441 | 4,336 | 414 | 11 |
| Services: credit | 1,448 | 1,492 | 1,392 | 1,343 | 494 | 469 | 431 | 1,395 | -53 | -4 |
| Services: debit | 971 | 877 | 1,013 | 944 | 338 | 319 | 362 | 1,019 | 49 | 5 |
| Balance on goods and services | -2,037 | -1,774 | -2,363 | -2,243 | -782 | -801 | -948 | -2,532 | -494 | 24 |
| Primary income: credit | 52 | 56 | 61 | 57 | 19 | 18 | 18 | 55 | 3 | 5 |
| Primary income: debit | 422 | 552 | 507 | 584 | 142 | 193 | 166 | 501 | 79 | 19 |
| Balance on goods, services, and primary income | -2,408 | -2,269 | -2,809 | -2,771 | -905 | -977 | -1,096 | -2,978 | -570 | 24 |
| Secondary income : credit | 1,276 | 1,285 | 1,481 | 1,257 | 426 | 414 | 476 | 1,317 | 40 | 3 |
| o.w Remittances | 689 | 673 | 797 | 658 | 225 | 256 | 264 | 744 | 56 | 8 |
| Secondary income: debit | 11 | 14 | 14 | 13 | 5 | 4 | 4 | 13 | 2 | 18 |
| 3. Capital Account | 51 | 42 | 86 | 27 | 36 | 11 | 5 | 52 | 1 | 2 |
| 4. Financial Account | -1,797 | -937 | -2,813 | -1,167 | -151 | -813 | -357 | -1,322 | 475 | -26 |

Source: Central Bank of Kenya

The Current Account

The trade deficit widened by USD 405 million to USD 2,909 million in the fourth quarter of 2019 from USD 2,515 million in the fourth quarter of 2018. This was mainly on account of an increase in the value of goods imports which more than offset the increase in the value of goods exports. The value of goods imports increased to USD 4,336 million in the fourth quarter of 2019 from USD 3,921 million in the fourth quarter of 2018, following an increase in the importation of machinery and transport equipment by USD 350 million to USD 1,469 million, partly reflecting higher imports of power generating equipment of USD 161 million; increased importation of aircrafts and associated equipment (USD 96 million) and shipping equipment (USD 39 million). During the same period, food imports increased by USD 72 million, mainly on account of higher wheat imports, while imports of manufacture goods increased by USD 33 million, following higher importation of iron and steel. Oil imports on the other hand declined by USD 37 million, attributed to lower international crude oil prices during the fourth quarter of 2019 compared to the same period in 2018.

The value of goods exports increased by USD 22 million to USD 1,429 million in the fourth quarter of 2019 attributed to higher re-exports of machinery and transport equipment. The value of horticulture exports increased by USD 4 million to USD 228 million in the fourth quarter of 2019 from USD 225 million in the fourth quarter of 2018, mainly attributed to an increase in exports of fruits and nuts. However, the value of tea exports declined by USD 10 million to USD 305 million while that of coffee declined by USD 8 million to USD 33 million during the review period, due to lower international prices that prevailed in 2019 compared to 2018. During the same period, the value of raw materials and chemicals also declined by USD 10 million and USD 7 million, respectively.

Net receipts in the services account declined by Net receipts in the services account declined by USD 102 million to USD 375 million in the fourth quarter of 2019, compared with USD 477 million in the fourth quarter of 2018 mainly on account of lower receipts from other services receipts. Other services export declined by USD 115 million, and was mainly due to

lower receipts from financial and insurance services, which declined by USD 68 million and USD 21 million, respectively. However, transport services increased by USD 4 million, mainly reflected higher receipts from air transport of both passenger and cargo. Receipts from travel services remained resilient at USD 280 million in the fourth quarter of 2019. The balance on the primary account widened

by USD 76 million to deficit of USD 446 million in the fourth quarter of 2019, from a deficit of USD 370 million in the fourth quarter of 2018 reflecting higher interest payments on external public debt. The balance on secondary income on the other hand improved by USD 38 million to USD 1,303 million largely on account of the higher remittance inflows (Table 5.2).

Table 5.2: Balance on Current Account (USD Million)

| ITEM | 2018* | 2019** | | | | | | | Q4 2019-Q4 2018 | |
|--|---------------|---------------|---------------|---------------|--------------|---------------|--------------|---------------|-----------------|-------------|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Q4 | | | Total | Change | % |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | | |
| CURRENT ACCOUNT | -1,143 | -998 | -1,341 | -1,527 | -484 | -624 | -702 | -1,810 | 440 | -39 |
| Goods | -2,515 | -2,389 | -2,743 | -2,642 | -938 | -1,017 | -912 | -2,868 | 1,603 | -64 |
| Exports (fob) | 1,406 | 1,566 | 1,453 | 1,424 | 497 | 423 | 530 | 1,450 | -876 | -62 |
| o.w Coffee | 41 | 57 | 72 | 43 | 14 | 7 | 10 | 31 | -31 | -75 |
| Tea | 315 | 311 | 248 | 249 | 107 | 93 | 113 | 314 | -202 | -64 |
| Horticulture | 225 | 303 | 259 | 221 | 77 | 67 | 86 | 230 | -139 | -62 |
| Oil products | 9 | 8 | 8 | 26 | 7 | 3 | 5 | 15 | -4 | -47 |
| Manufactured Goods | 98 | 96 | 100 | 109 | 32 | 33 | 32 | 98 | -66 | -67 |
| Raw Materials | 88 | 77 | 93 | 79 | 33 | 22 | 24 | 78 | -65 | -73 |
| Chemicals and Related Products (n.e.s) | 113 | 113 | 112 | 116 | 41 | 32 | 33 | 106 | -80 | -71 |
| Miscellaneous Man. Articles | 140 | 133 | 156 | 145 | 45 | 49 | 44 | 137 | -96 | -69 |
| Re-exports | 144 | 192 | 174 | 204 | 54 | 78 | 41 | 173 | -104 | -72 |
| Other | 223 | 267 | 224 | 224 | 82 | 87 | 78 | 247 | -145 | -65 |
| Imports (fob) | 3,921 | 3,955 | 4,196 | 4,066 | 1,435 | 1,460 | 1,441 | 4,336 | -2,481 | -63 |
| o.w Oil | 818 | 742 | 1,020 | 772 | 243 | 244 | 294 | 781 | -525 | -64 |
| Chemicals | 607 | 660 | 632 | 576 | 213 | 204 | 202 | 618 | -405 | -67 |
| Manufactured Goods | 688 | 684 | 758 | 802 | 252 | 239 | 230 | 721 | -457 | -66 |
| Machinery & Transport Equipment | 1,119 | 1,157 | 1,095 | 1,151 | 477 | 518 | 474 | 1,469 | -645 | -58 |
| Machinery | 781 | 663 | 684 | 791 | 344 | 292 | 308 | 944 | -474 | -61 |
| Transport equipment | 336 | 494 | 386 | 360 | 133 | 226 | 166 | 525 | -170 | -51 |
| Other | 844 | 869 | 915 | 924 | 303 | 321 | 286 | 910 | -558 | -66 |
| o.w Food | 358 | 433 | 440 | 453 | 146 | 142 | 141 | 429 | -216 | -60 |
| Services | 477 | 615 | 379 | 398 | 156 | 150 | 70 | 375 | -408 | -85 |
| Transport Services (net) | 185 | 218 | 159 | 185 | 78 | 67 | 44 | 190 | -141 | -76 |
| Credit | 554 | 557 | 551 | 532 | 205 | 191 | 164 | 559 | -390 | -70 |
| Debit | 368 | 339 | 393 | 347 | 127 | 123 | 119 | 370 | -249 | -68 |
| Travel Services (net) | 218 | 189 | 202 | 194 | 67 | 88 | 71 | 227 | -146 | -67 |
| Credit | 273 | 235 | 249 | 244 | 85 | 105 | 90 | 280 | -183 | -67 |
| Debit | 55 | 46 | 47 | 50 | 17 | 17 | 19 | 53 | -37 | -66 |
| Other Services (net) | 74 | 207 | 19 | 20 | 11 | -6 | -46 | -41 | -120 | -162 |
| Primary Income | -370 | -495 | -445 | -527 | -123 | -175 | -148 | -446 | 222 | -60 |
| Credit | 52 | 56 | 61 | 57 | 19 | 18 | 18 | 55 | -34 | -66 |
| Debit | 422 | 552 | 507 | 584 | 142 | 193 | 166 | 501 | -256 | -61 |
| Secondary Income | 1,265 | 1,271 | 1,468 | 1,244 | 422 | 410 | 472 | 1,303 | -793 | -63 |
| Credit | 1,276 | 1,285 | 1,481 | 1,257 | 426 | 414 | 476 | 1,317 | -800 | -63 |
| Debit | 11 | 14 | 14 | 13 | 5 | 4 | 4 | 13 | -7 | -61 |

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya and KNBS

Direction of Trade

The value of merchandise imports from China increased by USD 354 million to USD 1,126 million in the fourth quarter of 2019 from USD 772 million in the fourth quarter of 2018, with its share to total imports increasing to 24.4 percent from 18.3 percent, placing China as the largest single source country for Kenya's imports (Table 5.5). Imports from European Union (EU) also increased by USD 54 million, following an increase in imports from Ireland, however, its share to total imports remained at 12.9 percent. Imports from Africa increased by USD 31 million to USD 512 million in the fourth quarter of

2019, following increased imports from Egypt (USD 23 million), Eswatini (USD 10 million), Malawi (USD 9 million), Uganda (USD 8 million) and Tanzania (USD 8 million). Following this increase the share of imports from COMESA region increased to 6.7 percent with its total imports increasing by USD 49 million, while that of EAC region increased by USD 14 million to USD 149 million in the fourth quarter of 2019. However, over the same period, imports from South Africa declined by USD 26 million to USD 133 million in the fourth quarter of 2019.

Table 5.3: Kenya's Direction of Trade: Imports

| IMPORTS (USD M) | | | | | | | | | Share of Imports (%) | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|------------|
| | 2018* | 2019** | | | | | | | | |
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Q4 | | | | | |
| Country | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | Q4 2018 | Q4 2019 |
| Africa | 481 | 522 | 507 | 597 | 199 | 166 | 147 | 512 | 12 | 12 |
| <i>Of which</i> | | | | | | | | | | |
| South Africa | 160 | 172 | 176 | 177 | 47 | 54 | 33 | 133 | 4 | 3 |
| Egypt | 89 | 105 | 95 | 111 | 56 | 30 | 28 | 113 | 2 | 3 |
| Others | 231 | 245 | 236 | 309 | 97 | 82 | 86 | 265 | 6 | 6 |
| EAC | 134 | 122 | 129 | 197 | 59 | 54 | 36 | 149 | 3 | 3 |
| COMESA | 259 | 284 | 274 | 319 | 126 | 88 | 94 | 309 | 6 | 7 |
| Rest of the World | 3,354 | 3,658 | 3,689 | 3,398 | 1,236 | 1,294 | 1,293 | 3,824 | 83 | 88 |
| <i>Of which</i> | | | | | | | | | | |
| India | 386 | 369 | 364 | 424 | 137 | 175 | 112 | 424 | 10 | 10 |
| United Arab Emirates | 367 | 312 | 358 | 324 | 109 | 184 | 145 | 438 | 9 | 10 |
| China | 772 | 767 | 802 | 785 | 356 | 364 | 406 | 1,126 | 19 | 26 |
| Japan | 300 | 197 | 291 | 216 | 92 | 89 | 97 | 277 | 7 | 6 |
| USA | 108 | 137 | 114 | 146 | 53 | 29 | 45 | 127 | 3 | 3 |
| United Kingdom | 79 | 83 | 80 | 67 | 32 | 34 | 26 | 93 | 2 | 2 |
| Singapore | 6 | 29 | 6 | 8 | 4 | 4 | 10 | 18 | 0 | 0 |
| Germany | 117 | 105 | 100 | 116 | 36 | 32 | 32 | 100 | 3 | 2 |
| Saudi Arabia | 462 | 366 | 419 | 303 | 108 | 21 | 150 | 279 | 11 | 6 |
| Indonesia | 135 | 144 | 139 | 106 | 40 | 30 | 45 | 116 | 3 | 3 |
| Netherlands | 38 | 184 | 49 | 55 | 9 | 8 | 16 | 33 | 1 | 1 |
| France | 70 | 66 | 68 | 49 | 22 | 23 | 25 | 70 | 2 | 2 |
| Bahrain | 42 | 2 | 42 | 2 | 0 | 0 | 0 | 1 | 1 | 0 |
| Italy | 62 | 53 | 57 | 48 | 15 | 19 | 19 | 53 | 2 | 1 |
| Others | 610 | 844 | 799 | 749 | 222 | 282 | 164 | 669 | 15 | 15 |
| Total | 4,035 | 4,181 | 4,196 | 3,995 | 1,435 | 1,460 | 1,441 | 4,336 | 100 | 100 |
| EU | 542 | 654 | 524 | 490 | 167 | 234 | 193 | 594 | 13 | 14 |
| China | 772 | 767 | 802 | 785 | 356 | 364 | 406 | 1,126 | 19 | 26 |

Source: Kenya Revenue Authority

The value of merchandise exports increased marginally following higher exports to Africa (USD 59 million) and Europe (USD 10 million), but was offset by lower exports to Asia (USD 26 million) and Americas (USD 14 million) (Table 5.4). The share of exports to Africa increased to 40 percent in the fourth quarter of 2019 from 37 percent in the fourth quarter of 2018. The increase was mainly in the EAC region, having increased by USD 47 million to USD 361 million from USD 313 million over the same period. In the EAC region Rwanda and Tanzania recorded

the highest increases of USD 19 million and USD 15 million respectively, followed by Uganda USD 7 million and South Sudan USD 6 million. The increase in the value of merchandise exports to EU was mainly to the Netherlands and the United Kingdom. However, the share of exports to Asia declined to 28 percent from 31 percent following reduced exports to Indonesia, India and UAE, while that of the Americas declined to 8.5 percent from 9.7 percent, following reduced exports to Canada and Venezuela.

Table 5.4: Kenya's Direction of Trade: Exports

| EXPORTS (USD M) | 2018 | 2019 | | | | | | | Share of Exports (%) | |
|--------------------------|--------------|--------------|--------------|--------------|------------|------------|------------|--------------|----------------------|------------|
| | Oct-Dec | Jan-March | Apr-Jun | Jul-Sep | Q4 | | | | | |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | Q4 2018 | Q4 2019 |
| Africa | 515 | 531 | 534 | 551 | 204 | 202 | 168 | 574 | 37 | 40 |
| <i>Of which</i> | | | | | | | | | | |
| Uganda | 155 | 161 | 143 | 157 | 58 | 54 | 50 | 162 | 11 | 11 |
| Tanzania | 74 | 74 | 83 | 84 | 37 | 30 | 23 | 89 | 5 | 6 |
| Egypt | 48 | 52 | 47 | 41 | 17 | 17 | 10 | 45 | 3 | 3 |
| Sudan | 16 | 16 | 14 | 12 | 5 | 5 | 4 | 14 | 1 | 1 |
| South Sudan | 27 | 28 | 41 | 21 | 10 | 14 | 8 | 33 | 2 | 2 |
| Somalia | 33 | 31 | 33 | 24 | 10 | 9 | 9 | 28 | 2 | 2 |
| DRC | 35 | 33 | 35 | 30 | 11 | 11 | 12 | 34 | 3 | 2 |
| Rwanda | 43 | 42 | 55 | 68 | 20 | 21 | 20 | 61 | 3 | 4 |
| Others | 84 | 93 | 83 | 112 | 35 | 41 | 32 | 108 | 6 | 8 |
| EAC | 287 | 298 | 297 | 345 | 131 | 124 | 106 | 361 | 21 | 25 |
| COMESA | 356 | 370 | 358 | 373 | 132 | 127 | 116 | 375 | 25 | 26 |
| Rest of the World | 881 | 1,027 | 950 | 885 | 293 | 307 | 255 | 855 | 63 | 60 |
| <i>Of which</i> | | | | | | | | | | |
| United Kingdom | 95 | 118 | 84 | 91 | 34 | 35 | 30 | 98 | 7 | 7 |
| Netherlands | 99 | 144 | 119 | 97 | 45 | 35 | 30 | 110 | 7 | 8 |
| USA | 112 | 121 | 137 | 136 | 36 | 45 | 33 | 114 | 8 | 8 |
| Pakistan | 126 | 130 | 96 | 94 | 44 | 41 | 38 | 123 | 9 | 9 |
| United Arab Emirates | 78 | 103 | 101 | 102 | 15 | 41 | 17 | 74 | 6 | 5 |
| Germany | 24 | 31 | 33 | 24 | 8 | 7 | 7 | 22 | 2 | 2 |
| India | 17 | 17 | 13 | 13 | 3 | 3 | 4 | 10 | 1 | 1 |
| Afghanistan | 7 | 7 | 9 | 9 | 3 | 3 | 4 | 10 | 1 | 1 |
| Others | 323 | 356 | 356 | 320 | 105 | 95 | 93 | 293 | 23 | 21 |
| Total | 1,396 | 1,558 | 1,484 | 1,436 | 497 | 509 | 423 | 1,429 | 100 | 100 |
| EU | 291 | 406 | 315 | 288 | 114 | 104 | 82 | 301 | 21 | 21 |
| China | 42 | 34 | 40 | 33 | 17 | 7 | 18 | 42 | 3 | 3 |

Source: Kenya Revenue Authority

Capital and Financial Account

The capital account recorded a marginal increase of USD 2.4 million to USD 54 million in the fourth quarter of 2019. The financial account recorded lower net inflows of USD 1,240 million in the fourth quarter of 2019 compared to net inflow of USD 2,373 million in the fourth quarter of 2018. This was mainly due to USD 513 million reduction in Direct Investment in

Kenya and USD 652 million reduction in the Other Investment loan liability by the government sector, which more than off-set the USD 94 million increase in the Portfolio Investment liability. In addition, there was an increase in net acquisition of financial assets under Other Investment assets attributed to deposit taking corporations.

Table 5.5: Balance on Capital and Financial Account (USD Million)

| ITEM | 2018 | | | | | | | 2019 * | | | | Q2 2019-Q2 2018 | |
|-----------------------------------|-----------|-----------|-----------|---------------|-------------|---------------|---------------|-------------|-------------|-------------|---------------|-----------------|------------|
| | Jan-Mar | Apr-Jun | July-Sep | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Q4 | | | Total | | % |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Q4 | Change | Change |
| | | | | | | | | | | | | | |
| Capital account credit | 83 | 93 | 36 | 51 | 42 | 86 | 27 | 36 | 11 | 5 | 52 | 1 | 2 |
| Capital account credit | 0 | 0 | 0 | 51 | 42 | 86 | 27 | 36 | 11 | 5 | 52 | 1 | 2 |
| Capital account: debit | -3,144 | -195 | -836 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Account | 11 | 23 | 18 | -1,797 | -937 | -2,813 | -1,167 | -151 | -813 | -357 | -1,322 | 475 | -26 |
| Direct investment: assets | 131 | 275 | 383 | 41 | 49 | 75 | 33 | 16 | 20 | 12 | 48 | 7 | 18 |
| Direct investment: liabilities | 218 | 317 | 265 | 377 | 284 | 412 | 284 | 131 | 102 | 126 | 359 | -19 | -5 |
| Portfolio investment: assets | 212 | 296 | 259 | 282 | 259 | 198 | 227 | 108 | 93 | 71 | 272 | -10 | -3 |
| Portfolio investment: liabilities | -80 | -81 | -67 | -65 | 1 | 2,135 | 42 | 44 | 16 | 28 | 89 | 153 | -237 |
| Financial derivatives: net | 0 | 0 | 0 | -3 | -6 | -4 | 4 | -1 | 16 | -13 | 1 | 4 | -141 |
| Other investment: assets | 0 | 0 | 0 | -6 | 34 | 282 | 125 | 376 | -342 | 150 | 184 | 190 | -3,072 |
| Other investment: liabilities | 1 | 1 | 1 | 1,798 | 988 | 816 | 1,230 | 474 | 482 | 423 | 1,380 | -419 | -23 |

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by USD 1,403 million to USD 12,919 million at the end of fourth quarter of 2019 from USD 11,516 million at the end of fourth quarter of 2018. The Official reserves held by the Central Bank constituted the bulk of the gross reserves and

increased by USD 886 million to end at USD 9,116 million, equivalent to 5.5 months of import cover, while Commercial Bank reserves increased by USD 485 million to end at USD 3,803 million at the end of fourth quarter of 2019.

Table 5.6: Foreign Exchange Reserves and Residents' Foreign Currency Deposits (End of Period, USD Million)

| | 2018 | 2019 | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | | |
| | Q4 | Q1 | Q2 | Q3 | Oct | Nov | Dec |
| 1. Gross Reserves | 11,516 | 11,772 | 13,187 | 13,089 | 13,356 | 12,825 | 12,919 |
| of which: | | | | | | | |
| Official | 8,230 | 8,468 | 9,656 | 9,442 | 9,349 | 9,153 | 9,116 |
| import cover* | 5.3 | 5.4 | 6.0 | 5.8 | 5.7 | 5.6 | 5.5 |
| Commercial Banks | 3,286 | 3,304 | 3,531 | 3,642 | 4,007 | 3,672 | 3,803 |
| 2. Residents' foreign currency deposits | 6,078 | 6,068 | 6,415 | 6,196 | 6,341 | 6,229 | 6,393 |

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

Source: Central Bank of Kenya

Exchange Rates

Kenya's foreign exchange market remained relatively stable during the fourth quarter of 2019, supported by resilient inflows from diaspora remittances and travel receipts. The Kenya Shilling weakened against the US Dollar, the Sterling Pound and the Japanese Yen and strengthened against the Euro. Against the US Dollar, the Kenya Shilling exchanged at an average

of 102.52 during the fourth quarter of 2019 compared with 101.91 in the fourth quarter of 2018 (Table 5.7, Chart 5.1). In the EAC region, it strengthened against the Rwanda franc and Burundi franc but weakened against Uganda shilling and Tanzania shilling during the review period.

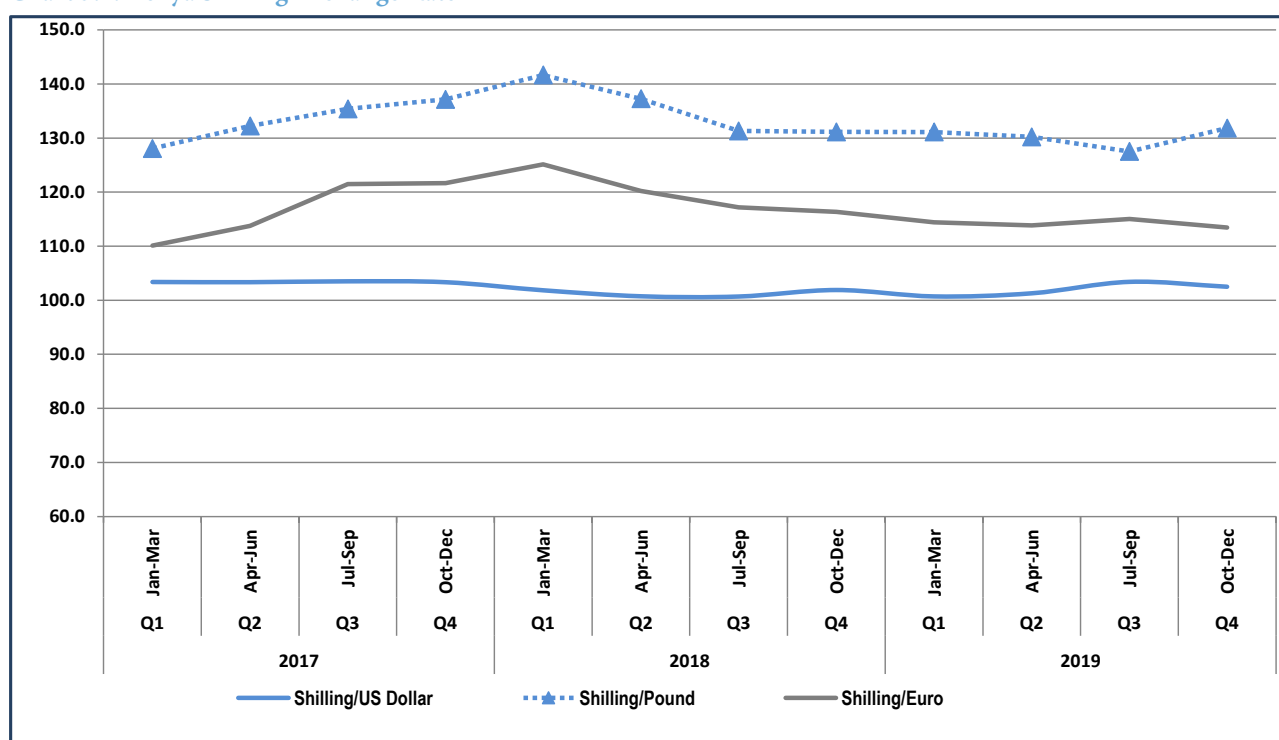
Table 5.7: Kenya Shilling Exchange Rate

| | 2018 | | | | 2019 | | | | % change Q4 2019 - Q4 2018 |
|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------------------|
| | Jan-Mar Q1 | Apr-Jun Q2 | Jul-Sep Q3 | Oct-Dec Q4 | Jan-Mar Q1 | Apr-Jun Q2 | Jul-Sep Q3 | Oct-Dec Q4 | |
| US Dollar | 101.86 | 100.75 | 100.71 | 101.91 | 100.73 | 101.30 | 103.42 | 102.52 | 0.59 |
| Pound Sterling | 141.64 | 137.26 | 131.30 | 131.14 | 131.11 | 130.22 | 127.51 | 131.83 | 0.53 |
| Euro | 125.11 | 120.19 | 117.17 | 116.33 | 114.42 | 113.82 | 115.05 | 113.44 | -2.49 |
| 100 Japanese Yen | 93.96 | 92.38 | 90.40 | 90.31 | 91.44 | 92.21 | 93.05 | 94.50 | 4.64 |
| Uganda Shilling* | 35.79 | 37.24 | 37.39 | 36.75 | 36.67 | 36.97 | 35.67 | 35.99 | -2.06 |
| Tanzania Shilling* | 22.10 | 22.60 | 22.67 | 22.54 | 23.11 | 22.74 | 22.23 | 22.44 | -0.43 |
| Rwanda Franc* | 8.39 | 8.62 | 8.71 | 8.71 | 8.90 | 8.94 | 8.87 | 9.07 | 4.16 |
| Burundi Franc* | 17.32 | 17.50 | 17.57 | 17.50 | 17.88 | 18.10 | 17.83 | 18.12 | 3.55 |

* 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

The Banking Sector

Overview

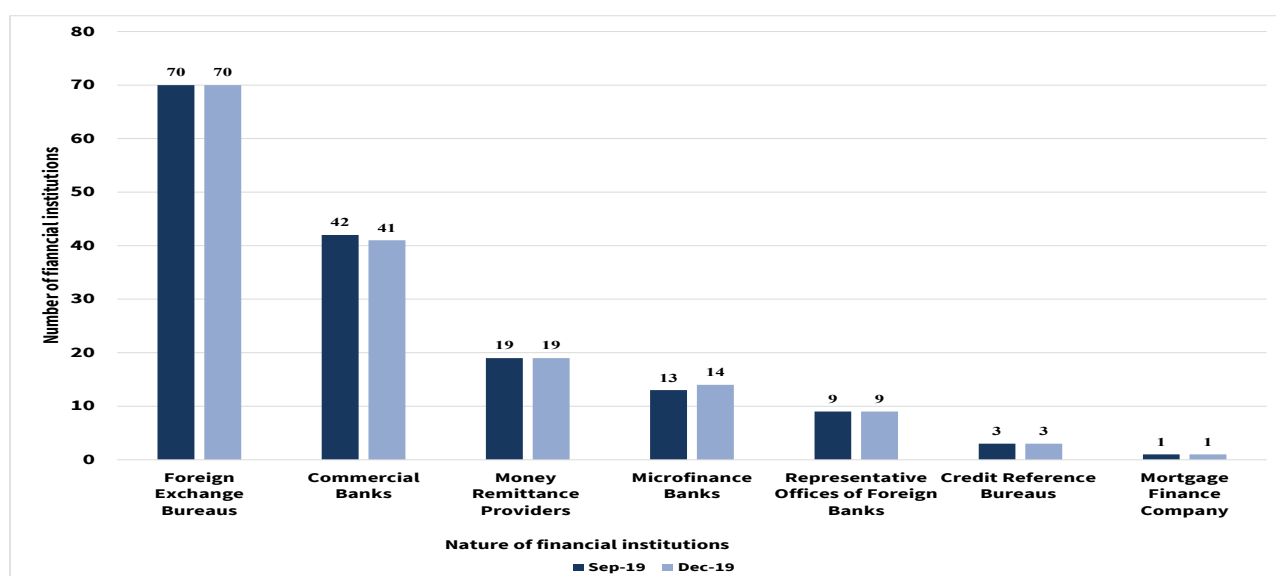
The banking sector was stable in the fourth quarter of 2019. Total assets increased by 0.7 percent to KSh 4,832.3 billion in December 2019 from KSh 4,798.5 billion in September 2019. The deposit base also increased by 1.8 percent to KSh 3,554.4 billion from KSh 3,491.9 billion between third and fourth quarter of 2019. The sector was well capitalized and met the minimum capital requirements. Quarterly profitability decreased by 12.4 percent due to increase in total expenses. Credit risk started to ease with gross non-performing loans (NPLs) to gross loans ratio improving from 12.4 percent in third quarter of

2019 to 12.01 percent in the fourth quarter of 2019.

Structure of the Banking Sector

The Kenyan banking sector comprised 42 banking institutions (41¹ commercial banks and 1 mortgage finance company), 9 representative offices of foreign banks, 14 microfinance banks (MFBs), 3 credit reference bureaus (CRBs), 19 money remittance providers (MRPs), 9 non-operating bank holding companies and 70 foreign exchange bureaus (Chart 6.1).

Chart 6.1: Structure of the Kenyan Banking System



Source: Central Bank of Kenya

Structure of the Balance Sheet

Growth in banking sector assets

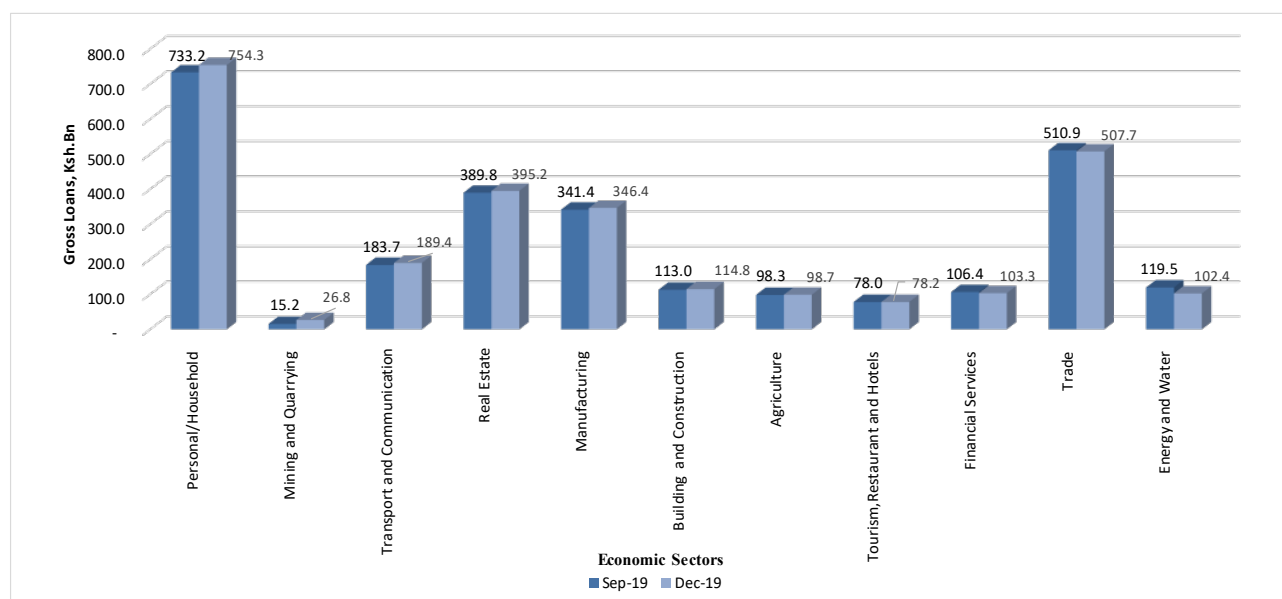
Total assets increased by 0.7 percent to KSh 4,832.3 billion in the fourth quarter of 2019 from KSh 4,798.5 billion in the third quarter of 2019. The increase in total assets was mainly as a result of a 4.2 percent increase in government securities. However, loans and advances, which increased by 0.3 percent, remained the main component of assets, accounting for 52.9 percent of total assets in the fourth quarter of 2019, a slight decrease from 53.0 percent recorded in the third quarter of 2019.

Loans and Advances

Total banking sector lending increased by 0.3 percent to KSh 2,774.6 billion in the fourth quarter of 2019 from KSh 2,766.7 billion in the third quarter of 2019. The increase in gross loans and advances was largely witnessed in the Personal/ Household, Mining and Quarrying, and Transport and Communications sectors. The general increase in gross loans was mainly due to increased loans granted to individual borrowers and credit granted for working capital purposes. The sectoral distribution of gross loans as at December 31, 2019 is shown in (Chart 6.2).

¹/Charterhouse Bank Limited is under Statutory Management, while, Chase Bank (K) Limited and Imperial Bank Limited are in receivership.

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



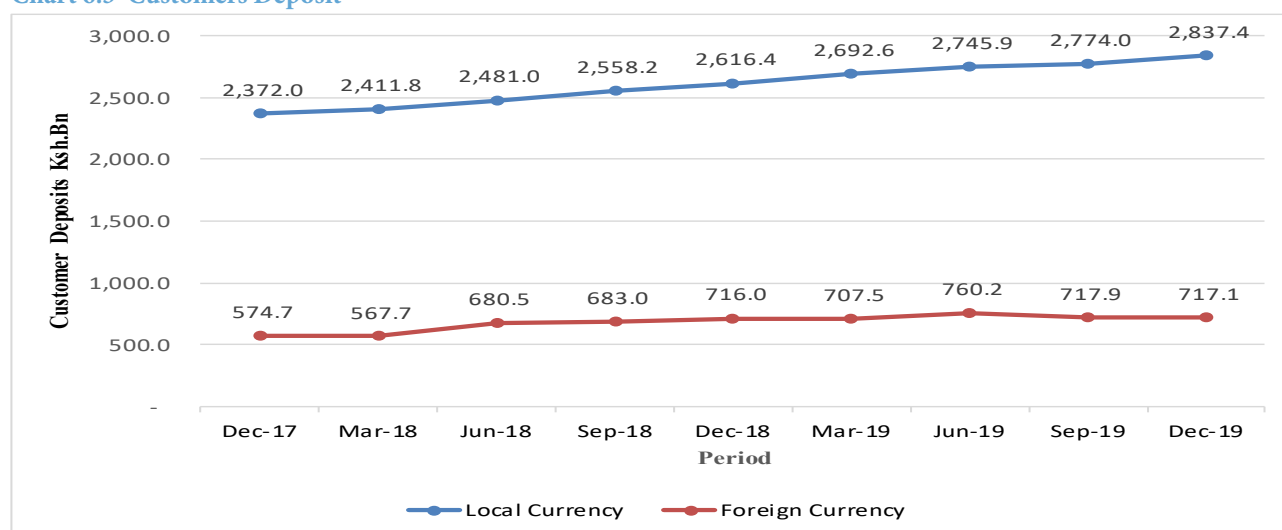
Source: Central Bank of Kenya

Deposit Liabilities

Customer deposits remain the largest source of funding for banks, accounting for 73.6 percent of the banking sector total liabilities and shareholders' funds, as at the end of the fourth quarter of 2019. This was a slight increase from 72.8 percent recorded as at the end of the third quarter of 2019. The customer deposit base increased by 1.8 percent to KSh 3,554.4 billion in the fourth quarter of 2019 from KSh 3,491.9

billion in the third quarter of 2019. Local currency deposits increased by KSh 63.4 billion (2.3 percent) to KSh 2,837.4 billion in the fourth quarter of 2019 from KSh 2,774.0 billion in the third quarter of 2019. Foreign currency deposits decreased by KSh 851 million (0.1 percent) to KSh 717.1 billion in the fourth quarter from KSh 717.9 billion in the third quarter of 2019 (Chart 6.3).

Chart 6.3 Customers Deposit



Source: Central Bank of Kenya

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 5.5 percent to KSh 639.1 billion in the fourth quarter of 2019 compared to KSh 605.7 billion in the third quarter of 2019. Total capital also increased by 5.3 percent to KSh 715.6 billion in the fourth quarter of 2019 from KSh 679.5 billion in the third quarter of 2019.

Core capital to total risk-weighted assets ratio increased slightly to 16.8 percent in the fourth quarter of 2019 from 16.3 percent in the third quarter of 2019. Similarly, total capital to total risk-weighted assets ratio increased slightly to 18.8 percent from 18.3 percent.

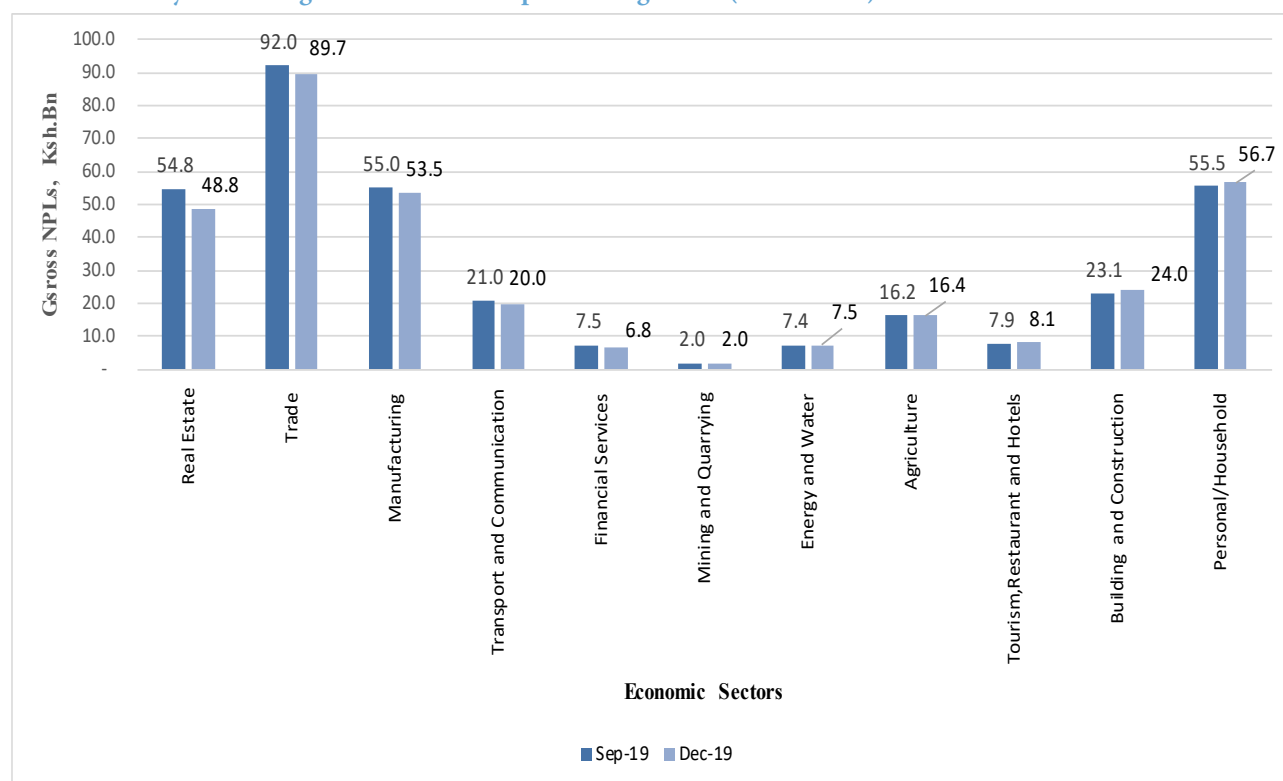
The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.98

percent in the fourth quarter of 2019, a slight increase from 17.4 percent recorded in the third quarter of 2019. The increase was attributable to a 1.8 percent increase in total deposits, which was lower than the 5.5 percent increase in core capital between third and fourth quarter of 2019.

Asset Quality

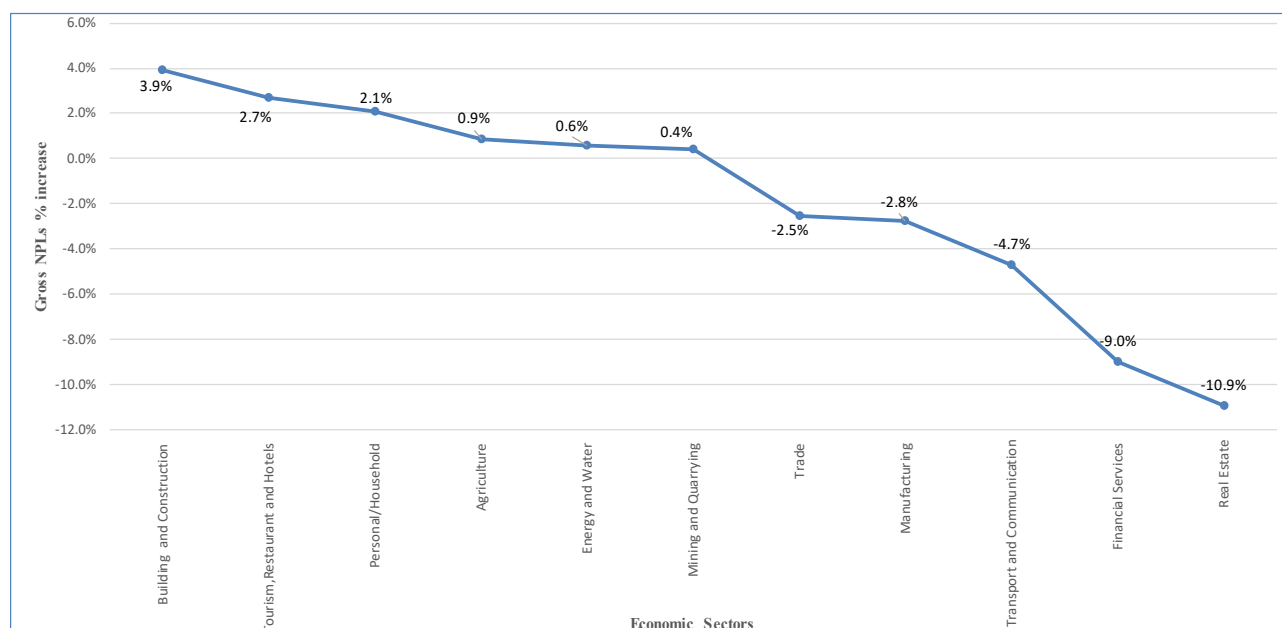
Gross non-performing loans (NPLs) decreased by 2.7 percent to KSh 333 billion as at the end of the fourth quarter of 2019 from KSh 342.4 billion as at the end of the third quarter of 2019. The gross NPLs to gross loans ratio improved to 12.0 percent in the fourth quarter of 2019 from 12.4 percent in the third quarter of 2019. The decrease in NPLs was attributable to a 0.3 percent increase in gross loans as compared to a 2.7 percent decrease in gross NPLs between third and fourth quarters of 2019 (Chart 6.4).

Chart 6.4: Kenyan Banking Sector Gross Non-performing Loans (KSh Billion)



Source: Central Bank of Kenya

Chart 6.5: Movement in Gross NPLs-Third Quarter of 2019 and Fourth Quarter of 2019



Source: Central Bank of Kenya

Real Estate sector registered the highest decrease in NPLs by 10.9 percent. Financial Services, Transport and Communication, Manufacturing, and Trade sectors gross NPLs decreased by 9.0 percent, 4.7 percent, 2.8 percent and 2.5 percent respectively. There was considerable loan repayments and write-offs hence the decrease in NPLs.

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

loans, stood at 5.5 percent in the fourth quarter of 2019 compared to 5.6 percent in the third quarter of 2019. The coverage ratio, which is measured as a percentage of specific provisions to total NPLs, decreased from 44.3 percent in the third quarter of 2019 to 43.7 percent in fourth quarter of 2019 due to a higher decrease in specific provisions (3.6 percent) as compared to the decrease in total NPLs (2.1 percent). A summary of asset quality for the banking sector over the period is shown in (Table 6.1).

Table 6.1: Summary of Asset Quality

| | | Sept 2019, KSh Billion | Dec 2019, KSh Billion |
|----|--|------------------------|-----------------------|
| 1 | Gross Loans and Advances (KSh' Bn) | 2,766.7 | 2,774.6 |
| 2 | Interest in Suspense (KSh' Bn) | 66.0 | 62.8 |
| 3 | Loans and Advances (net of interest suspended) (KSh' Bn) | 2,700.0 | 2,711.8 |
| 4 | Gross Non-Performing loans (KSh' Bn) | 342.4 | 333.0 |
| 5 | Specific Provisions (KSh' Bn) | 122.5 | 118.0 |
| 6 | General Provisions (KSh' Bn) | 36.8 | 37.0 |
| 7 | Total Provisions (5+6) (KSh' Bn) | 159.3 | 155.0 |
| 8 | Net Advances (3-7) (KSh' Bn) | 2,540.7 | 2,557.0 |
| 9 | Total Non-Performing Loans and Advances (4-2) (KSh' Bn) | 276.4 | 271.0 |
| 10 | Net Non-Performing Loans and Advances (9-5) (KSh' Bn) | 153.9 | 152.0 |
| 11 | Total NPLs as % of Total Advances (9/3) | 10.2 | 10.0 |
| 12 | Net NPLs as % of Gross Advances (10/1) | 5.6 | 5.5 |
| 13 | Specific Provisions as % of Total NPLs (5/9) | 44.3 | 43.7 |
| 14 | Gross NPLs to Gross Loans Ratio | 12.4 | 12.0 |

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in quarterly pre-tax profits by KSh 4.9 billion (12.4 percent) to KSh 34.6 billion in the fourth quarter of 2019 from KSh 39.5 billion in the third quarter of 2019. The decrease in profitability was mainly attributable to increase in total expenses by KSh 92.3 billion (33.4 percent) to KSh 369 billion in the third quarter of 2019 from KSh 276.7 billion in the third quarter of 2019.

The increase in expenses was largely attributable to other expenses which increased by KSh 28.2 billion (41.2 percent) between third and fourth quarters of 2019 and interest on deposits which increased by KSh 26.9 billion (30.1 percent) over the same period.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income accounting for 49.3 percent, 23.4 percent and 19.7 percent of total income, respectively. On the other hand, interest on deposits, other expenses, and salaries and wages were the key components of expenses, accounting for 31.5 percent, 26.2 percent and 25.4 percent of total expenses, respectively.

Total income increased by KSh 126.9 billion (31.6 percent) to KSh 528.9 billion in the fourth quarter of 2019 from KSh 402 billion in the third quarter of 2019. The increase was driven by a 32.2 percent (KSh 63.5 billion) increase in interest income on loans and advances from KSh 89.5 billion in the third quarter of 2019 to KSh 116.4 billion in the fourth quarter of 2019.

Return on assets (ROA) stood at 2.5 percent in the fourth quarter of 2019, a slight decrease from 2.7 percent registered in the third quarter of 2019. Similarly, the return on equity (ROE) decreased to 21.2 percent in the fourth quarter of 2019 from 22.5 percent in the third quarter of 2019. The decreases in ROA and ROE were mainly attributable to decreased profit before tax in the fourth quarter of 2019.

Liquidity

The banking sector's overall liquidity ratio decreased to 49.7 percent in the fourth quarter of 2019 from 50.9 percent in the third quarter of 2019. This is explained by Commercial Bank's balances with CBK which decreased by KSh 58 billion (22.4 percent) from KSh 258.8 billion in the third quarter of 2019 to KSh 200.9 billion in the fourth quarter of 2019. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

The banking sector is projected to remain stable. Credit risk is expected to ease in the next quarter as gross non-performing loans (NPLs) to gross loans ratio has improved from 12.4 percent in third quarter to 12.0 percent in the fourth quarter of 2019. Liquidity risk is expected to continue easing as distribution of liquidity improves.

KENYA SHILLING FLOWS IN KEPSS

Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.29 million transaction messages worth KSh 9 trillion in the fourth quarter of 2019, compared to the third quarter of 2019, which recorded 1.29 million transactions worth KSh 8.68 trillion. Volume and value increased by 3.79 percent and 0.38 percent, respectively. The recent trends in KEPSS transactions highlighted (Chart 6.6).

Bank Customer Payments Processed Through KEPSS

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

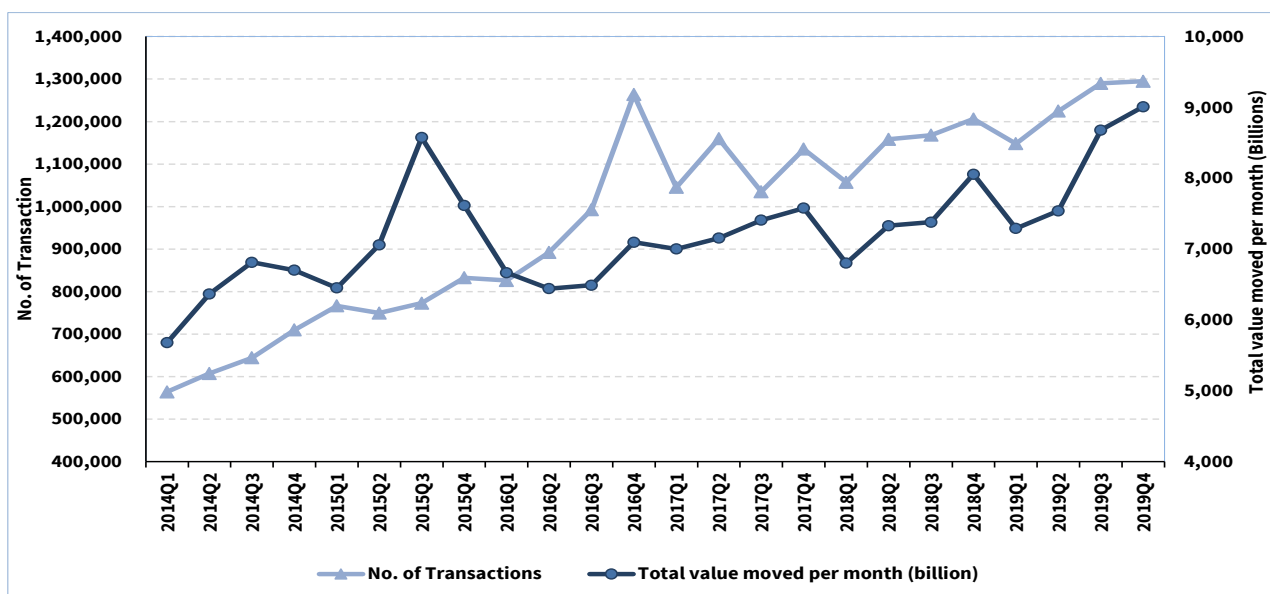
During the period under review, MT 102 usage increased by 25.38 per cent, to 42,434 messages recorded in the fourth quarter of 2019 from 33,843 messages processed in the third quarter of 2019. The MT 103 payments decreased by 2.91 per cent, to 1,285,139 messages in the fourth quarter of 2019 from 1,323,593 messages in the third quarter of 2019 (Chart 6.7).

System Availability

The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM.

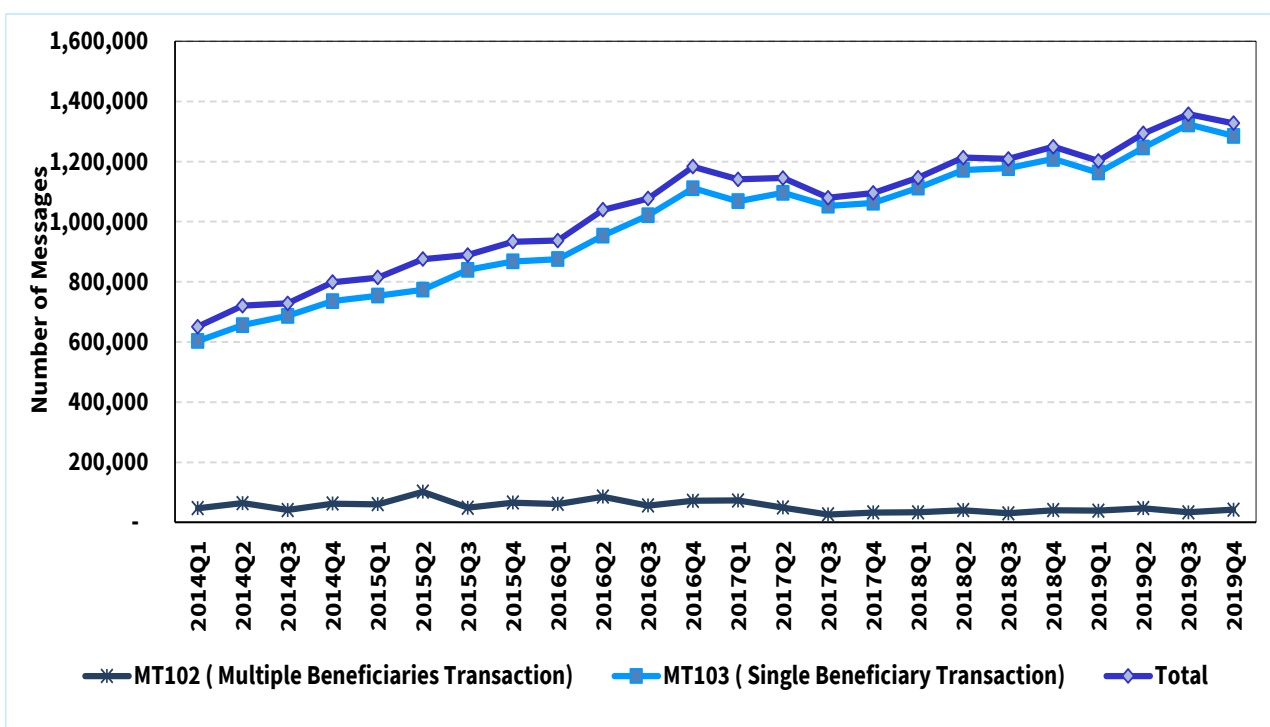
During the quarter under review, KEPSS availability maintained an average 99.9 percent during the period under review (Chart 6.8).

Chart 6.6: Trends in Monthly Flows Through Keps



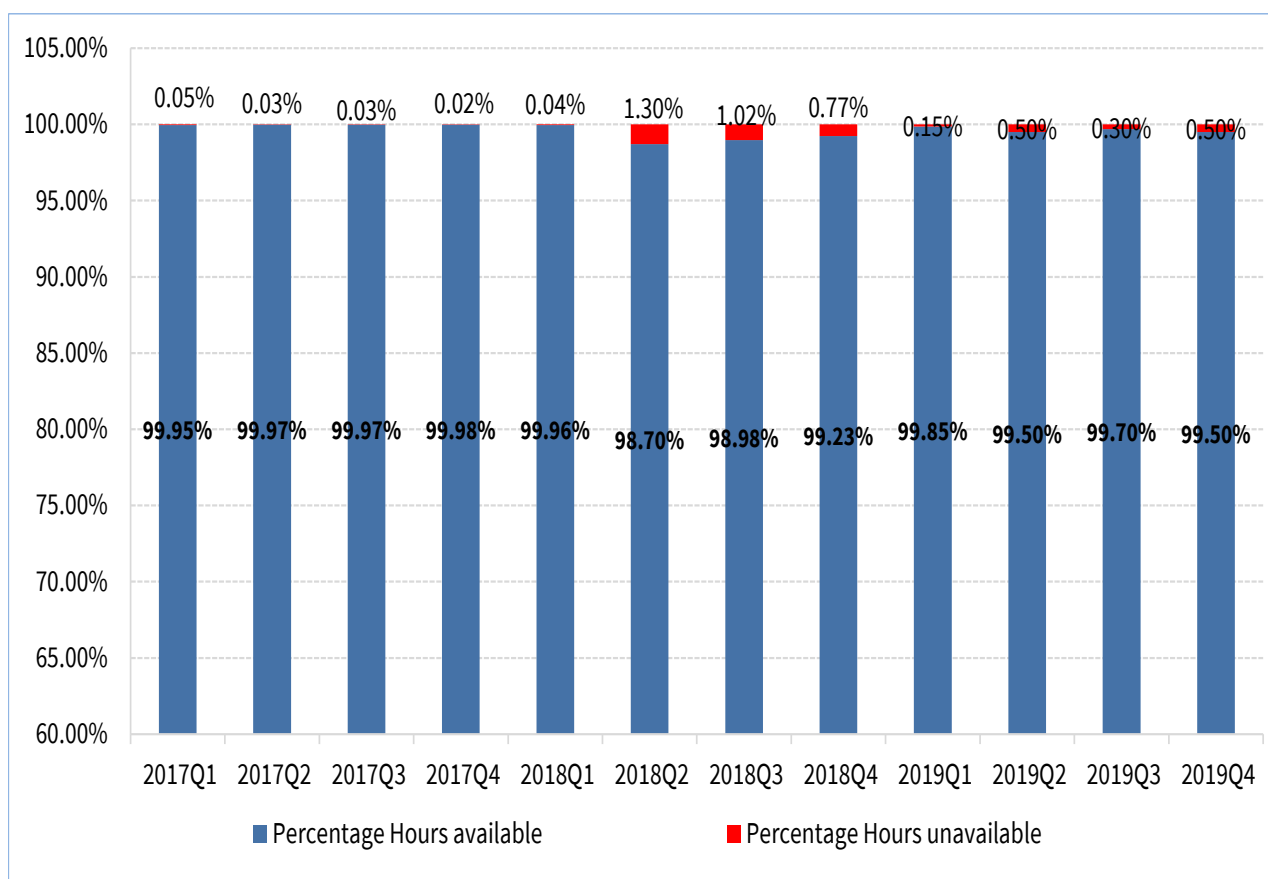
Source: Central Bank of Kenya

Chart 6.7: Trends in Mt102 and Mt103 Volumes Processed Through Keps



Source: Central Bank of Kenya

Chart 6.8: Availability of KEPSS in Kenya (%)



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the second quarter of FY 2019/20 resulted in a deficit of 3.1 percent of GDP, which was above the target of 3.0 percent of GDP. Both revenues and expenditures

were below their respective targets with the shortfall in total revenues and grants at 10.7 percent, and total expenses and net lending at 7.0 percent (Table 7.1).

Table 7.1: Statement of Government Operations in The Second Quarter of FY 2019/20 (KSh Billion)

| | FY 2018/19 | | | FY 2019/20 | | | | Cumulative to Dec-2020 | Target | Over (+) / Below (-) Target | | % |
|--|---------------|----------------|----------------|---------------|---------------|----------------|----------------|------------------------|----------------|-----------------------------|---------------|---|
| | Q1 | Q2 | Q1 | Oct | Nov | Dec | Q2 | | | | | |
| 1. TOTAL REVENUE & GRANTS | 369.6 | 428.7 | 424.0 | 143.7 | 175.1 | 149.6 | 468.4 | 892.4 | 999.0 | (106.6) | (10.7) | |
| Ordinary Revenue | 332.2 | 423.6 | 421.2 | 138.1 | 174.0 | 149.0 | 461.1 | 882.2 | 982.5 | (100.2) | | |
| Tax Revenue | 329.3 | 351.4 | 371.5 | 125.8 | 113.3 | 146.1 | 385.2 | 756.6 | 831.7 | (75.1) | | |
| Non Tax Revenue | 2.9 | 38.6 | 18.4 | 5.7 | 53.0 | (12.4) | 46.3 | 64.7 | 51.7 | 13.0 | | |
| Appropriations-in-Aid | 33.8 | 33.5 | 31.3 | 6.6 | 7.6 | 15.4 | 29.6 | 60.9 | 99.1 | (38.2) | | |
| External Grants | 3.6 | 5.1 | 2.8 | 5.7 | 1.1 | 0.5 | 7.3 | 10.1 | 16.5 | (6.4) | | |
| 2. TOTAL EXPENSES & NET LENDING | 452.5 | 616.0 | 544.6 | 158.0 | 204.4 | 311.1 | 673.5 | 1,218.1 | 1,309.5 | (91.4) | (7.0) | |
| Recurrent Expenses | 345.4 | 317.8 | 391.2 | 112.1 | 132.4 | 192.1 | 436.6 | 827.7 | 798.2 | 29.5 | | |
| Development Expenses | 83.6 | 206.6 | 95.9 | 34.0 | 53.7 | 84.5 | 172.2 | 268.1 | 348.8 | (80.6) | | |
| County Transfers | 23.5 | 91.6 | 57.5 | 11.9 | 18.3 | 34.5 | 64.7 | 122.2 | 162.5 | (40.3) | | |
| Others | - | - | - | - | - | - | - | - | - | - | | |
| 3. DEFICIT (INCL. GRANTS) (1-2) | (82.9) | (187.4) | (120.7) | (14.2) | (29.3) | (161.5) | (205.0) | (325.7) | (310.5) | (15.2) | 4.9 | |
| As percent of GDP | (0.8) | (1.9) | (1.2) | (0.1) | (0.3) | (1.6) | (2.0) | (3.1) | (3.0) | (0.1) | | |
| 4. ADJUSTMENT TO CASH BASIS | - | - | 4.1 | (4.1) | - | 18.1 | 14.0 | 18.1 | - | 18.1 | | |
| 5. DEFICIT INCL. GRANTS ON A CASH BASIS | (82.9) | (187.4) | (116.5) | (14.2) | (29.3) | (161.5) | (205.0) | (321.6) | (310.5) | (11.0) | 3.6 | |
| As percent of GDP | (0.8) | (1.9) | (1.1) | (0.1) | (0.3) | (1.6) | (2.0) | (3.1) | (3.0) | (0.1) | | |
| 6. DISCREPANCY: Expenditure (+) / Revenue (-) | - | - | (22.6) | 25.0 | (23.1) | (33.8) | (31.9) | (54.5) | - | (54.5) | | |
| 7. FINANCING | 86.0 | 213.4 | 93.9 | 43.4 | 6.2 | 109.7 | 159.2 | 253.2 | 233.7 | 19.5 | 8.3 | |
| Domestic (Net) | 69.2 | 85.6 | 80.8 | 41.8 | (17.8) | 66.2 | 90.1 | 170.9 | 159.3 | 11.6 | | |
| External (Net) | 16.8 | 126.9 | 13.1 | 0.1 | 24.0 | 43.4 | 67.5 | 80.7 | 72.9 | 7.8 | | |
| Capital Receipts (domestic loan receipts) | - | 1.0 | - | 1.5 | 0.0 | 0.1 | 1.6 | 1.6 | 1.4 | 0.1 | | |
| Others | - | - | - | - | - | - | - | - | - | - | | |

Source: The National Treasury, Provisional BOT, December 2019 (Fourth Quarter)

Revenue

The Government receipts, comprising revenue and grants increased by 15.4 percent to KSh 468.4 billion in the second quarter of FY 2019/20, compared to KSh 428.7 billion in the second quarter of FY 2018/19. The increase was reflected in both tax and non-tax revenue, external grants and Appropriation in Aid (A-in-A).

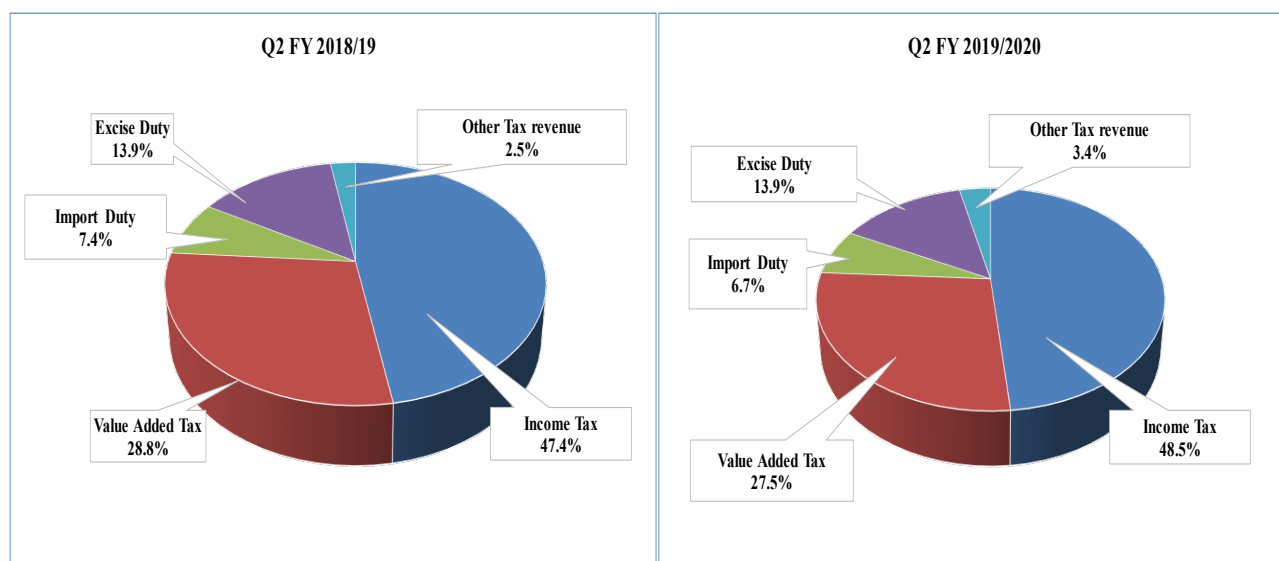
There was a minor shift in the composition of tax revenues in the second quarter of FY 2019/2020 compared with a similar period in the previous financial year (Chart 7.1). The share of Other Tax Revenues and Income Tax rose marginally while the share of Excise Duty remained stable during the second quarter of FY 2019/2020. However, the share of Value Added Tax (VAT) and Import Duty declined by 1.3 percentage points and 0.7 percentage points, respectively.

Cumulatively, the Government total revenue and grants stood at KSh 892.4 billion (8.6 percent of GDP) in the first half of FY 2019/20 against a target of KSh 999.0 billion (11.8 percent of GDP). All taxes fell below set targets with the shortfalls partly reflecting subdued performance of the economy, which adversely affected revenue collection.

External grants in the first half of the FY 2019/20 stood at KSh 10.1 billion, which was KSh 6.4 billion lower than target, due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected during the first half of the FY 2019/20 amounted to KSh 60.9 billion, which was KSh 38.2 billion lower than target due to under reporting in ministerial expenditure returns.

Chart 7.1: Composition of Tax Revenue (percent)



Source: The National Treasury, December 2019 Provisional Budget Out-turn

Expenditure and Net Lending

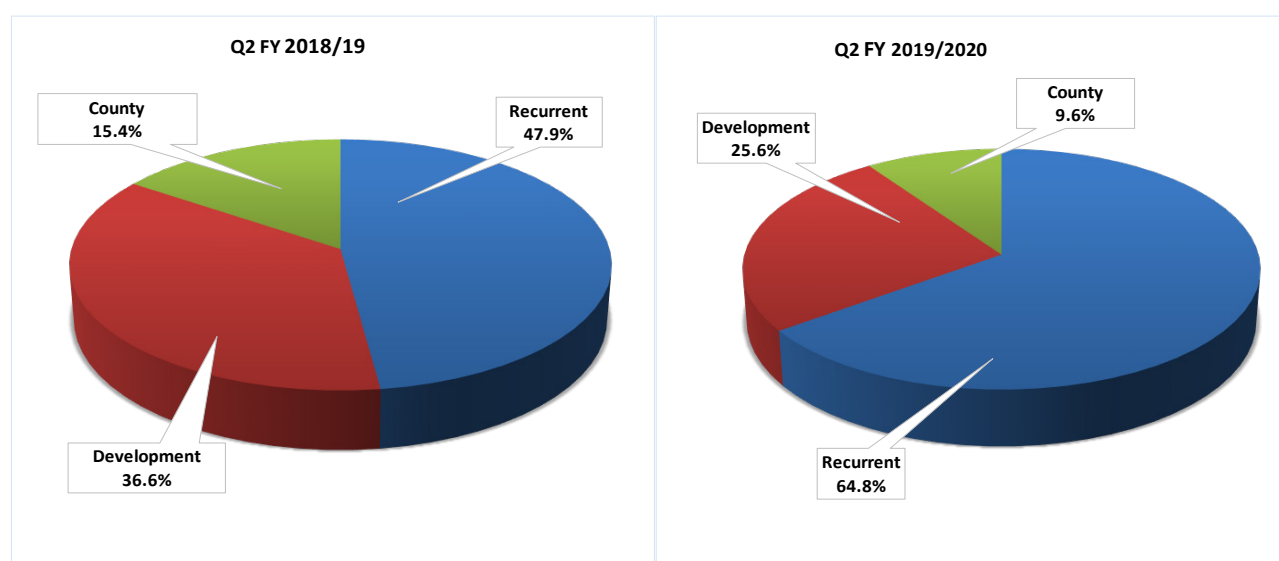
Government expenditure and net lending increased by 8.1 percent to KSh 673.5 billion in the second quarter of the FY 2019/20 compared to KSh 616.0 billion in the second quarter of the FY 2018/19. The increase in expenditures is reflected in the rise in national government recurrent expenditure by 46.2 percent that more than offset the development expenditure and county transfers which declined by 24.6 percent and 32.7 percent, respectively.

In terms of composition, recurrent expenditure remained the largest share in total government expenditure accounting 64.8 percent in the second quarter of the FY 2019/20, which was 16.9

percentage points higher than the level recorded in a similar quarter the previous fiscal year. The share of development expenditure and county allocation declined by 11.1 percentage points and 5.8 percentage points, respectively, during the period under review (Chart 7.2).

Cumulatively, expenditure and net lending in FY 2019/20 amounted to KSh 1,218.1 billion (11.8 percent of GDP), against a target of KSh 1,309.5 billion (12.7 percent of GDP). The shortfall of KSh 91.4 billion was attributed to lower absorption of development expenditures by the National Government and County Governments.

Chart 7.2: Composition of Government Expenditure



Sources: The National Treasury, December 2019 Provisional Budget Outturn

Financing

The government operations resulted in financing requirements amounting to KSh 253.2 billion or 2.4 percent of GDP at the end of the second quarter of FY 2019/20. The deficit financing mix was 31.9 percent and 68.1 percent external and domestic resources, respectively. The domestic borrowing comprised KSh 10.0 billion in drawdown Government deposits held at

the Central Bank, KSh 80.2 billion from commercial banks, KSh 78.1 billion from non-banks and KSh 2.6 billion from Non-residents (Table 7.2). The net domestic and net external borrowing at the end of the second quarter of FY 2019/20 were above target by KSh 11.6 billion and KSh 7.8 billion, respectively.

Table 7.2 Domestic Financing up to December 2019

| | FY 2017/18 | | | | | | FY 2018/19 | | | | FY 2019/20 | | | |
|---|------------|--------|--------|--------|--------|--------|------------|---------|---------|---------|------------|--------|--------|--------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-19 | Jun-19 |
| 1. From CBK | (80.2) | (26.3) | (10.4) | 93.7 | 99.7 | 13.6 | 8.3 | (5.0) | (35.3) | 10.0 | | | | |
| 2. From commercial banks | 77.5 | 124.3 | 45.7 | (5.0) | 109.2 | 126.9 | 13.2 | 60.9 | 73.3 | 80.2 | | | | |
| 4. From Non-banks | 125.1 | 172.8 | 33.7 | 41.2 | 111.6 | 160.3 | 57.8 | 55.7 | 65.9 | 78.1 | | | | |
| 5. From Non-Residents | 3.2 | 3.0 | 0.2 | 1.0 | 0.2 | 2.8 | 1.5 | 2.3 | 2.4 | 2.6 | | | | |
| Change in Credit from banks (From 30th June 2018) | (2.7) | 97.9 | 35.4 | 88.7 | 208.9 | 140.5 | (119.1) | (84.7) | (102.5) | (50.4) | | | | |
| Change in Credit from non-banks (From 30th June 2018) | 125.1 | 172.8 | 33.7 | 41.2 | 111.6 | 160.3 | (102.5) | (104.6) | (94.3) | (82.2) | | | | |
| Change in Credit from non-residents (From 30th June 2018) | 3.2 | 3.0 | 0.2 | 1.0 | 0.2 | 2.8 | (1.3) | (0.6) | (0.4) | (0.2) | | | | |
| 6. Total Change in Dom. Credit (From 30th June 2018) | 125.6 | 273.7 | 69.2 | 130.8 | 320.7 | 303.7 | (222.9) | (189.8) | (197.2) | (132.8) | | | | |

NB: Treasury Bills are reflected at cost

Source: Central Bank of Kenya

Outlook for FY 2019/20

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

KSh 738.1 billion for development expenses.

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

Table 7.3: Budget Estimates for the Fiscal Year 2019/20 (KSh Billion)

| | Ksh (Billion) | %age of GDP |
|---|----------------|-------------|
| 1. TOTAL REVENUE (Including Grants) | 2,126.0 | 20.5 |
| Total Revenue | 1,843.8 | 17.8 |
| Appropriations-in-Aid | 240.4 | 2.3 |
| External Grants | 41.8 | 0.4 |
| 2. TOTAL EXPENSES & NET LENDING | 2,876.1 | 27.8 |
| Recurrent Expenses | 1,754.7 | 16.9 |
| Development Expenses | 738.1 | 7.1 |
| County Transfer | 378.3 | 3.7 |
| Contingency Fund | 5.0 | 0.0 |
| 3. DEFICIT INCL. GRANTS (1-2) | -750.1 | -7.2 |
| Adjustment to Cash Basis | 92.7 | 0.9 |
| 4. FINANCING | 657.4 | 6.3 |
| Domestic (Net) | 300.7 | 2.9 |
| External (Net) | 353.5 | 3.4 |
| Domestic loan repayments(receipts) | 3.2 | 0.0 |

Source: National Treasury, Supplementary Estimates, November 2019

Chapter 8

Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 1.4 percent during the second quarter of the FY 2019/20. Domestic debt increased by 3.0 percent while external debt decreased by 0.2 percent. Conversely, the ratio of public debt to GDP decreased

by 0.7 percentage points to 61.5 percent during the quarter. External debt to GDP ratio decreased by 0.8 percentage points while the ratio of domestic debt to GDP increased by 0.1 percentage points (Table 8.1).

Table 8.1: Kenya's Public and Publicly Guaranteed Debt (KSh Billion)

| | 2018/19 | | | | 2019/20 | | | | Change Q on Q |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Oct-19 | Nov-19 | Q2 | |
| EXTERNAL | | | | | | | | | |
| Bilateral | 812.5 | 894.0 | 916.6 | 996.1 | 1,001.8 | 1,020.6 | 1,018.2 | 1,023.8 | 22.0 |
| Multilateral | 877.7 | 874.7 | 846.6 | 914.4 | 1,024.1 | 1,033.8 | 1,036.3 | 1,037.5 | 13.4 |
| Commercial Banks | 898.3 | 938.2 | 941.8 | 1,095.8 | 1,068.7 | 1,056.2 | 1,043.4 | 1,028.7 | -40.0 |
| Supplier Credits | 16.7 | 16.9 | 16.7 | 16.9 | 17.2 | 17.1 | 17.0 | 16.8 | -0.4 |
| Sub-Total | 2,605.3 | 2,723.7 | 2,721.6 | 3,023.1 | 3,111.8 | 3,127.6 | 3,115.0 | 3,106.8 | -4.9 |
| (As a % of GDP) | 30.0 | 30.6 | 29.7 | 32.3 | 32.4 | 31.8 | 31.7 | 31.6 | |
| (As a % of total debt) | 50.6 | 51.7 | 50.2 | 52.0 | 52.1 | 51.9 | 51.6 | 51.4 | |
| DOMESTIC | | | | | | | | | |
| Banks | 1,405.5 | 1,407.8 | 1,487.5 | 1,524.0 | 1,535.5 | 1,582.4 | 1,595.4 | 1,607.4 | 71.9 |
| Central Bank | 90.2 | 118.2 | 89.7 | 109.6 | 120.5 | 117.8 | 109.5 | 116.0 | -4.5 |
| Commercial Banks | 1,315.3 | 1,289.6 | 1,397.8 | 1,414.4 | 1,415.0 | 1,464.6 | 1,485.9 | 1,491.4 | 76.4 |
| Non-banks | 1,109.8 | 1,114.8 | 1,185.7 | 1,233.9 | 1,291.5 | 1,288.7 | 1,291.6 | 1,304.1 | 12.6 |
| Pension Funds | 689.1 | 694.3 | 743.4 | 786.5 | 819.8 | 818.6 | 823.3 | 841.3 | 21.4 |
| Insurance Companies | 154.1 | 154.3 | 166.5 | 170.8 | 183.1 | 185.1 | 187.5 | 189.0 | 5.9 |
| Other Non-bank Sources | 266.5 | 266.3 | 275.8 | 276.5 | 288.6 | 285.0 | 280.7 | 273.9 | -14.7 |
| Non-residents | 25.4 | 26.2 | 25.4 | 28.0 | 29.6 | 30.2 | 30.4 | 30.6 | 1.0 |
| Sub-Total | 2,540.7 | 2,548.8 | 2,698.5 | 2,785.9 | 2,856.6 | 2,901.3 | 2,917.4 | 2,942.1 | 85.5 |
| (As a % of GDP) | 29.2 | 28.6 | 29.5 | 29.8 | 29.8 | 29.5 | 29.6 | 29.9 | |
| (As a % of total debt) | 49.4 | 48.3 | 49.8 | 48.0 | 47.9 | 48.1 | 48.4 | 48.6 | |
| GRAND TOTAL | 5,146.0 | 5,272.5 | 5,420.1 | 5,809.1 | 5,968.4 | 6,028.9 | 6,032.3 | 6,048.9 | 80.5 |
| (As a % of GDP) | 59.2 | 59.2 | 59.2 | 62.1 | 62.2 | 61.3 | 61.3 | 61.5 | |

Source: The National Treasury and Central Bank of Kenya

Domestic Debt

Domestic debt build up was faster relative to the 2.5 percent build up in the previous quarter. The pick-up in the uptake of government securities was associated with improved budget execution synonymous with second quarter of the financial year. The share of domestic debt to total debt increased by 0.7 percentage points to 48.6 percent by the end of the second quarter of the FY 2019/20. The proportion of debt securities to total domestic debt increased by 0.5 percentage points during the quarter under review. As the uptake of domestic debt securities increased, the government repaid Ksh 4.5 billion of the overdraft facility advanced by the Central Bank (Table 8.2).

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 5.7 percent decrease during the second quarter of the FY 2019/20, while the uptake of Treasury bonds increased. Accordingly, the proportion of Treasury bills to total domestic debt decreased by 2.6 percentage points during the period under review. The dominance of Commercial banks in Treasury bills market persisted with their holdings standing at 62.5 percent of the total amount of outstanding Treasury Bills by the end of the second quarter of the FY 2019/20. Other significant holders of Treasury bills included Pension funds (16.3 percent) and parastatals-included in other holders (13.0 percent) (Table 8.2).

¹The quarterly analysis is based on the Fiscal year quarters; Q1: July- September, Q2: October- December, Q3: January-March and Q4: April- June

Table 8.2: Government Gross Domestic Debt (KSh Billion)

| | Ksh (Billion) | | | | | | | Change:Q on Q | | Proportions | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2018/19 | | | 2019/20 | | | | | | 2018/19 | | | 2019/20 | | | |
| | Q2 | Q3 | Q4 | Q1 | Oct-19 | Nov-19 | Q2 | Ksh(Bn) | % | Q2 | Q3 | Q4 | Q1 | Oct-19 | Nov-19 | Q2 |
| Total Stock of Domestic Debt (A+B) | 2,548.8 | 2,698.5 | 2,785.9 | 2,856.6 | 2,901.3 | 2,917.4 | 2,942.1 | 85.5 | 2.9 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| A. Government Securities | 2,452.3 | 2,635.3 | 2,702.4 | 2,757.7 | 2,806.6 | 2,834.3 | 2,853.6 | 95.9 | 3.4 | 96.2 | 97.7 | 97.0 | 96.5 | 96.7 | 97.2 | 97.0 |
| 1. Treasury Bills (excluding Repo Bills) | 899.4 | 949.7 | 954.3 | 928.9 | 896.8 | 896.1 | 878.9 | -50.0 | -5.7 | 35.3 | 35.2 | 34.3 | 32.5 | 30.9 | 30.7 | 29.9 |
| Banking institutions | 547.8 | 591.2 | 598.1 | 576.8 | 575.2 | 581.5 | 570.3 | -6.5 | -1.1 | 21.5 | 21.9 | 21.5 | 20.2 | 19.8 | 19.9 | 19.4 |
| The Central Bank | 20.6 | 20.6 | 20.6 | 20.6 | 20.6 | 20.6 | 20.6 | 0.0 | 0.0 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Commercial Banks | 527.2 | 570.6 | 577.5 | 556.2 | 554.6 | 560.9 | 549.7 | -6.5 | -1.2 | 20.7 | 21.1 | 20.7 | 19.5 | 19.1 | 19.2 | 18.7 |
| Pension Funds | 161.1 | 169.5 | 170.3 | 165.2 | 144.0 | 140.5 | 143.3 | -21.9 | -15.3 | 6.3 | 6.3 | 6.1 | 5.8 | 5.0 | 4.8 | 4.9 |
| Insurance Companies | 16.4 | 18.5 | 18.2 | 18.9 | 18.8 | 18.5 | 17.7 | -1.2 | -6.8 | 0.6 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Others | 174.1 | 170.4 | 167.7 | 168.0 | 158.8 | 155.7 | 147.6 | -20.4 | -13.8 | 6.8 | 6.3 | 6.0 | 5.9 | 5.5 | 5.3 | 5.0 |
| 2. Treasury Bonds | 1,552.9 | 1,685.7 | 1,748.1 | 1,828.8 | 1,909.8 | 1,938.1 | 1,974.7 | 145.9 | 7.4 | 60.9 | 62.5 | 62.7 | 64.0 | 65.8 | 66.4 | 67.1 |
| Banking institutions | 763.6 | 833.2 | 843.0 | 864.8 | 920.0 | 930.9 | 948.7 | 83.9 | 8.8 | 30.0 | 30.9 | 30.3 | 30.3 | 31.7 | 31.9 | 32.2 |
| The Central Bank | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 0.0 | 0.0 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Commercial Banks | 754.2 | 823.7 | 833.5 | 855.4 | 910.5 | 921.4 | 939.3 | 83.9 | 8.9 | 29.6 | 30.5 | 29.9 | 29.9 | 31.4 | 31.6 | 31.9 |
| Insurance Companies | 137.9 | 148.0 | 152.6 | 164.2 | 166.3 | 169.0 | 171.2 | 7.1 | 4.1 | 5.4 | 5.5 | 5.5 | 5.7 | 5.7 | 5.8 | 5.8 |
| Pension Funds | 533.1 | 573.8 | 616.2 | 654.7 | 674.6 | 682.8 | 698.0 | 43.3 | 6.2 | 20.9 | 21.3 | 22.1 | 22.9 | 23.3 | 23.4 | 23.7 |
| Others | 118.3 | 130.6 | 136.3 | 145.1 | 148.9 | 155.4 | 156.8 | 11.6 | 7.4 | 4.6 | 4.8 | 4.9 | 5.1 | 5.1 | 5.3 | 5.3 |
| 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 | 23.3 | 22.8 | 22.2 | 22.2 | 22.2 | 22.2 | 22.2 | 0.0 | 0.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Of which: Repo T/Bills | 22.7 | 21.6 | 21.1 | 21.1 | 21.1 | 21.1 | 21.1 | 0.0 | 0.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| B. Others: | 73.1 | 40.4 | 61.3 | 76.7 | 72.4 | 60.9 | 66.2 | -10.5 | -15.8 | 2.9 | 1.5 | 2.2 | 2.7 | 2.5 | 2.1 | 2.3 |
| Of which CBK overdraft to Government | 64.8 | 36.9 | 57.3 | 68.2 | 65.5 | 57.2 | 63.7 | -4.5 | -7.1 | 2.5 | 1.4 | 2.1 | 2.4 | 2.3 | 2.0 | 2.2 |

Source: Central Bank of Kenya

Treasury Bonds

Treasury bond holdings increased by 7.4 percent during the second quarter of the FY 2019/20, faster build up than that of Treasury bills and in line with government objective of mitigating against the refinancing risk by issuing longer dated securities (Table 8.2). The largest component of this buildup was attributable to proceeds from 16-year infrastructure Treasury bond and a 10-year fixed rate Treasury bonds issued during the quarter (Table 8.3). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated

securities during the period under review. The current debt securities portfolio as at end December 2019 was dominated by medium and long term debt securities underscoring the goal of reducing the refinancing risk. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 79.5 percent of the total outstanding Treasury Bonds, representing a 2.3 percentage points decrease from the previous quarter. Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates.

The average time to maturity of existing domestic debt remained unchanged at 5 years and 7 months in the second quarter of the FY 2019/20 as compared to the previous quarter. The refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 29.9 percent in December 2019 from 32.5 percent in September 2019.

Table 8.3: Outstanding Domestic Debt by Tenor (KSh Billion)

| | | Kshs (Billions) | | | | | | | Change Q on Q | | Proportions | | | | | | |
|---------------------|---------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 2018/19 | | | 2019/20 | | | | Q2 2019/20 | | 2018/19 | | | 2019/20 | | | |
| | | Q2 | Q3 | Q4 | Q1 | Oct-19 | Nov-19 | Q2 | Kshs(Bn) | % | Q2 | Jan-19 | Q4 | Q1 | Oct-19 | Nov-19 | Q2 |
| Treasury bills | 91-Day | 54.9 | 44.9 | 40.0 | 58.7 | 53.3 | 46.4 | 35.3 | -23.4 | -39.9 | 2.2 | 2.2 | 1.4 | 2.1 | 1.8 | 1.6 | 1.2 |
| | 182-Day | 135.2 | 147.3 | 164.7 | 108.8 | 79.1 | 80.3 | 78.1 | -30.7 | -28.2 | 5.3 | 5.6 | 5.9 | 3.8 | 2.7 | 2.8 | 2.7 |
| | 364-Day | 709.3 | 757.4 | 749.6 | 761.4 | 764.5 | 769.4 | 765.6 | 4.1 | 0.5 | 27.8 | 28.5 | 26.9 | 26.7 | 26.4 | 26.4 | 26.0 |
| Treasury Bonds | 1-Year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 2-Year | 38.1 | 69.2 | 69.2 | 37.4 | 37.4 | 37.4 | 37.4 | 0.0 | 0.0 | 1.5 | 2.4 | 2.5 | 1.3 | 1.3 | 1.3 | 1.3 |
| | 3-Year | 0.4 | 0.6 | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | 4-Year | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| | 5-Year | 272.6 | 293.2 | 269.5 | 269.5 | 269.5 | 269.5 | 298.0 | 28.5 | 10.6 | 10.7 | 10.5 | 9.7 | 9.4 | 9.3 | 9.2 | 10.1 |
| | 6-Year | 8.5 | 8.5 | 8.5 | 8.5 | 8.5 | 8.5 | 8.5 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| | 7-Year | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 50.1 | 0.0 | 0.0 | 2.0 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 |
| | 8-Year | 33.7 | 33.7 | 33.7 | 19.3 | 19.3 | 19.3 | 19.3 | 0.0 | 0.0 | 1.3 | 1.3 | 1.2 | 0.7 | 0.7 | 0.7 | 0.7 |
| | 9-Year | 71.2 | 71.2 | 71.2 | 55.3 | 55.3 | 55.3 | 55.3 | 0.0 | 0.0 | 2.8 | 2.7 | 2.6 | 1.9 | 1.9 | 1.9 | 1.9 |
| | 10-Year | 303.2 | 336.0 | 359.8 | 404.8 | 404.8 | 433.1 | 441.2 | 36.4 | 9.0 | 11.9 | 11.6 | 12.9 | 14.2 | 14.0 | 14.8 | 15.0 |
| | 11-Year | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| | 12-Year | 120.3 | 120.3 | 115.4 | 115.4 | 115.4 | 115.4 | 115.4 | 0.0 | 0.0 | 4.7 | 4.6 | 4.1 | 4.0 | 4.0 | 4.0 | 3.9 |
| | 15-Year | 415.9 | 446.4 | 505.1 | 588.0 | 597.3 | 597.3 | 597.3 | 9.3 | 1.6 | 16.3 | 16.5 | 18.1 | 20.6 | 20.6 | 20.5 | 20.3 |
| | 16-Year | 0.0 | 0.0 | 0.0 | 0.0 | 71.7 | 71.7 | 71.7 | 71.7 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.5 | 2.5 | 2.4 |
| | 20-Year | 171.9 | 171.9 | 180.9 | 195.5 | 195.5 | 195.5 | 195.5 | 0.0 | 0.0 | 6.7 | 6.6 | 6.5 | 6.8 | 6.7 | 6.7 | 6.6 |
| | 25-Year | 25.3 | 42.2 | 42.2 | 42.2 | 42.2 | 42.2 | 42.2 | 0.0 | 0.0 | 1.0 | 1.0 | 1.5 | 1.5 | 1.5 | 1.4 | 1.4 |
| | 30-Year | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 0.0 | 0.0 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Other Domestic debt | Repo T bills | 22.7 | 21.6 | 21.1 | 21.1 | 21.1 | 21.1 | 21.1 | 0.0 | 0.0 | 0.9 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| | Overdraft | 64.8 | 36.9 | 57.3 | 68.2 | 65.5 | 57.2 | 63.7 | -4.5 | 100.0 | 2.5 | 1.4 | 2.1 | 2.4 | 2.3 | 2.0 | 2.2 |
| | Other Domestic debt | 8.9 | 5.3 | 5.1 | 9.7 | 8.1 | 4.8 | 3.7 | -6.0 | -61.8 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.1 |
| Total Debt | | 2,548.8 | 2,698.5 | 2,785.9 | 2,856.6 | 2,901.3 | 2,917.4 | 2,942.1 | 85.5 | 3.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Kenya

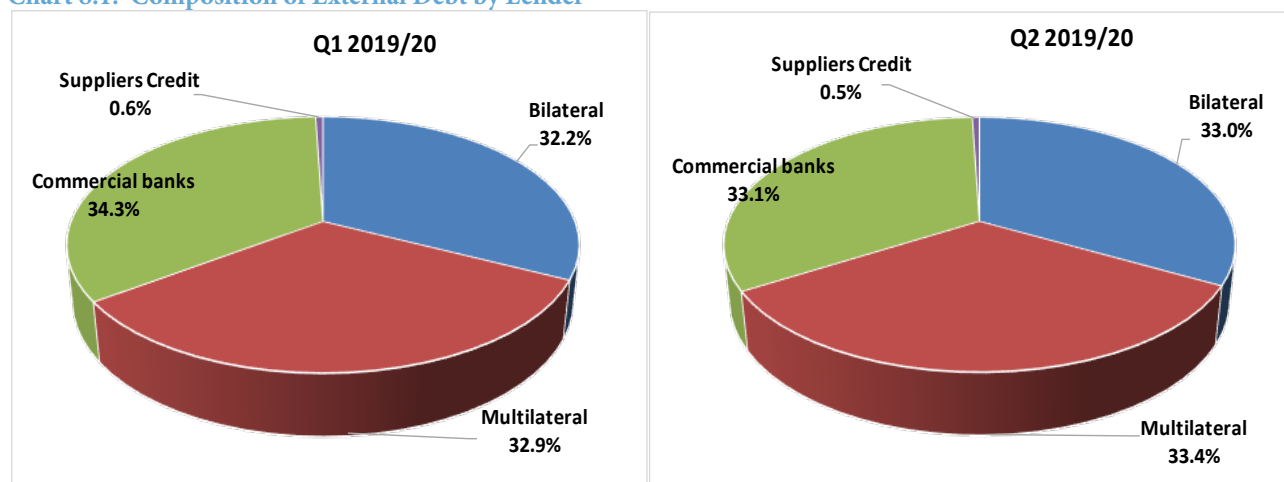
External Debt

Public and publicly guaranteed external debt decreased by 0.2 percent during the second quarter of the FY 2019/20. The decrease in external debt during the quarter was mainly driven by the 2.5 percent appreciation of the Kenya shilling against the US dollar as well as repayment of commercial debt of about US dollar 150 million owed to Trade Development Bank (TDB) and China Development Bank. This decline was partially offset by disbursements of US dollars 342 million from International Development Association. Foreign exchange risk on external debt was minimal during the quarter.

Composition of External Debt by Creditor

With increased access to international financial markets, Kenya continues to record dwindling levels of concessional debt and build-up of commercial and semi-concessional borrowing. However, during the quarter under review, the share of outstanding debt from official multilateral and bilateral lenders (who provide both concessional and semi-concessional loans) increased by 1.3 percentage points to 66.4 percent from 65.1 percent held in the previous quarter. The proportion of commercial debt decreased by 1.2 percentage points by the end of the second quarter of FY 2019/20 (Chart 8.1).

Chart 8.1: Composition of External Debt by Lender

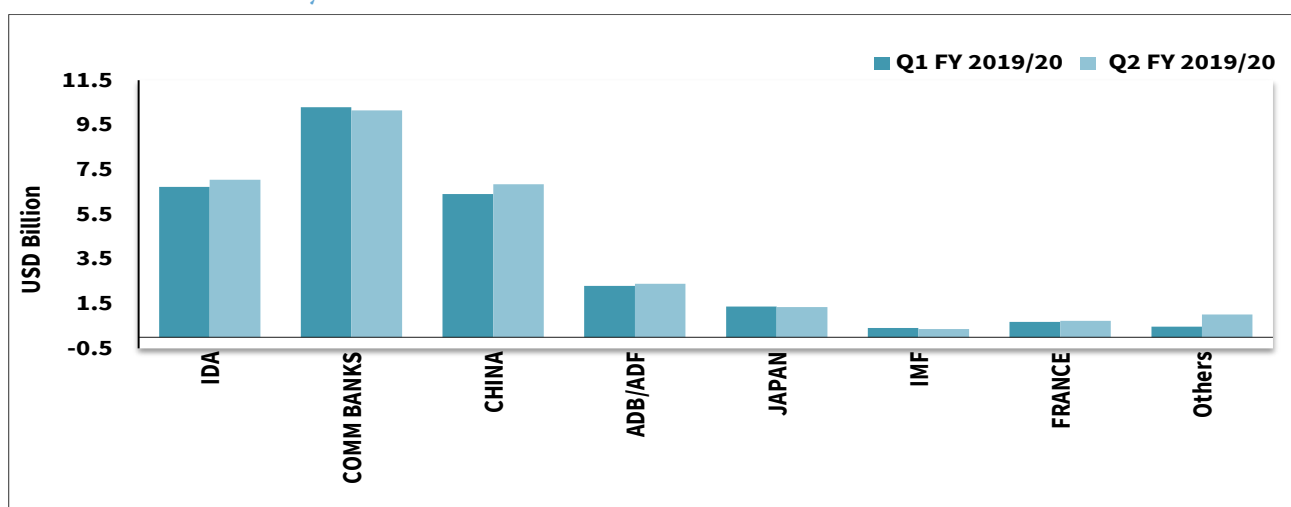


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 7.1 billion or 23.0 percent of total external debt while that owed to China, Kenya's largest

bilateral lender, amounted to USD 6.8 billion, or 22.3 percent of the total external debt in the second quarter of the FY 2019/20 (Chart 8.2).

Chart 8.2: External Debt By Creditor



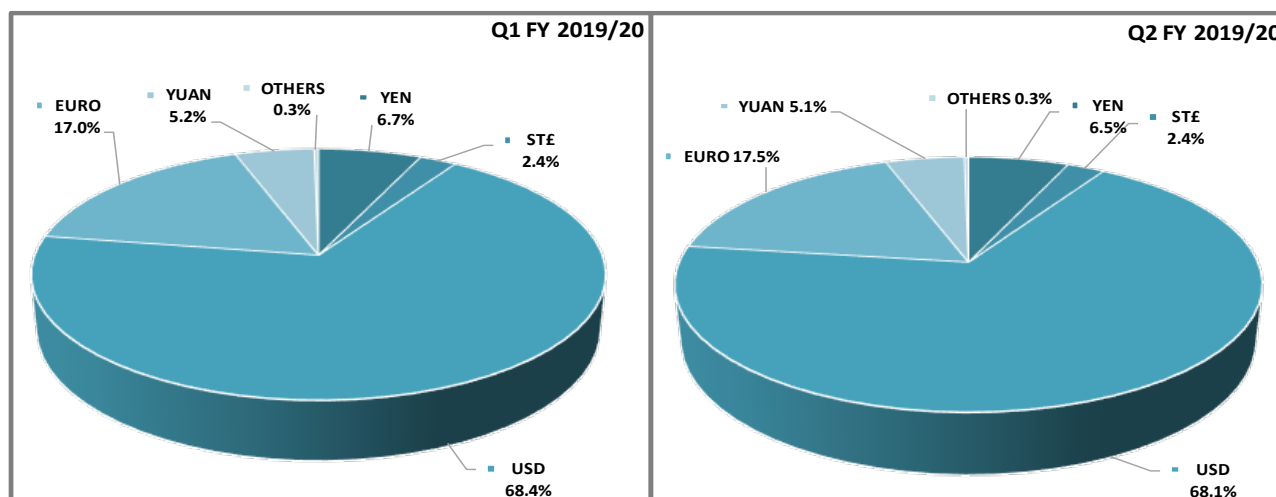
Source: The National Treasury

Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 85.6 percent of the total currency composition at the end of the second quarter of the FY 2019/20. This

was partly consistent with the currency composition of the Central Bank's forex reserve holdings. The proportion held in US dollar decreased by 0.3 percentage points (Chart 8.3). This was mainly on account of retirement of US dollar 150 million owed to Trade Development Bank and China Development Bank.

Chart 8.3: Debt Composition by Currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 15.7 percent during the second quarter of the FY 2019/20. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the second quarter of FY 2019/20 amounted to Ksh 52.2

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

Table 8.4: Liquidity Indicators of External Debt Sustainability

| | Q2 FY 2018/19 | Q3 FY 2018/19 | Q4 FY 2018/19 | Q1 FY 2019/20 | Q2 FY 2019/20 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Debt service to Revenues (23%) | 7.9 | 40.4 | 28.3 | 12.6 | 10.1 |
| Debt service to Exports (21%) | 10.9 | 51.7 | 47.4 | 19.2 | 18.7 |

Source: Central Bank of Kenya

Debt Sustainability Analysis

The IMF October 2018 Debt sustainability analysis update showed deteriorating debt situation resulting in a downgrade from low risk of external debt distress to moderate risk of external debt distress. All the liquidity and solvency debt burden indicators were below the CPIA thresholds in the baseline scenarios but there were prolonged breaches in the

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

Chapter 9

The Capital Markets

Equities Market

Trading activity on the Nairobi Securities Exchange improved in the fourth quarter of 2019. The NASI and NSE 20 share price index increased by 14.4 percent and 9.15 percent, respectively. Similarly,

the number of shares traded, the equities turnover and market capitalization increased by 21.3 percent, 46.8 percent and 16.9 percent, respectively (Table 9.1 and Chart 9.1).

Table 9.1: Selected Stock Market Indicators

| INDICATOR | 2018 | | | | 2019 | | | | % Change (2019Q4-2019Q3) |
|--|----------|---------|---------|---------|----------|---------|----------|---------|-----------------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| NSE 20 Share Index (1966=100) | 3845.3 | 3285.7 | 2875.5 | 2801.0 | 2846.4 | 2633.3 | 2432.0 | 2654.4 | 9.15 |
| NASI (2008=100) | 191.23 | 174.36 | 149.67 | 142.00 | 157.66 | 149.61 | 145.46 | 166.41 | 14.40 |
| Number of Shares Traded (Millions) | 2138.956 | 1580.04 | 983.14 | 1570.53 | 1396.672 | 1081.6 | 1063.82 | 1290.12 | 21.27 |
| Equities Turnover (Ksh Millions) | 61,150 | 47,142 | 31,930 | 35,435 | 45,249 | 32,897 | 30,663.2 | 45,006 | 46.78 |
| Market Capitalization (Ksh Billions) | 2,817 | 2,576 | 2,211 | 2,102 | 2,361 | 2,279 | 2,172 | 2,540 | 16.94 |
| Foreign Purchase (Ksh Millions) | 31,065 | 24,618 | 17,336 | 23,323 | 35,039 | 23,896 | 20,115 | 27,615 | 37.29 |
| Foreign Sales (Ksh Millions) | 39,149 | 32,794 | 24,041 | 29,994 | 34,438 | 22,538 | 19,853 | 28,459 | 43.35 |
| Ave. Foreign Investor Participation to Equity Turnover (%) | 57.41 | 60.89 | 64.84 | 75.12 | 74.90 | 71.10 | 65.65 | 73.84 | 12.47 |
| Bond Turnover (Ksh Millions) | 152,338 | 158,523 | 133,683 | 118,171 | 158,069 | 201,715 | 185,440 | 106,458 | -42.59 |
| FTSE NSE Kenya Govt. Bond Index (Points) | 93.58 | 95.00 | 94.85 | 95.40 | 96.48 | 97.30 | 98.56 | 97.50 | -1.08 |
| 5-Year Eurobond Yield (%) | 3.83 | 5.74 | 4.52 | 5.87 | 5.26 | 5.02 | | | |
| 7-Year Eurobond Yield (%) | | | | | | 6.41 | 6.41 | 5.60 | -0.81* |
| 10-Year Eurobond Yield (%) - 2024 | 6.24 | 7.18 | 6.86 | 8.35 | 6.28 | 5.48 | 5.57 | 4.84 | -0.73* |
| 10-Year Eurobond Yield (%) - 2028 | 6.86 | 7.89 | 7.65 | 9.00 | 7.11 | 6.78 | 6.68 | 5.90 | -0.78* |
| 12-Year Eurobond Yield (%) | | | | | | 6.78 | 7.40 | 6.88 | -0.52* |
| 30-Year Eurobond Yield (%) - 2048 | 7.81 | 8.90 | 8.59 | 9.75 | 8.15 | 7.89 | 8.07 | 7.65 | -0.42* |

* Percentage points

Source: Nairobi Securities Exchange

Chart 9.1: NSE 20, NASI and Market Capitalization

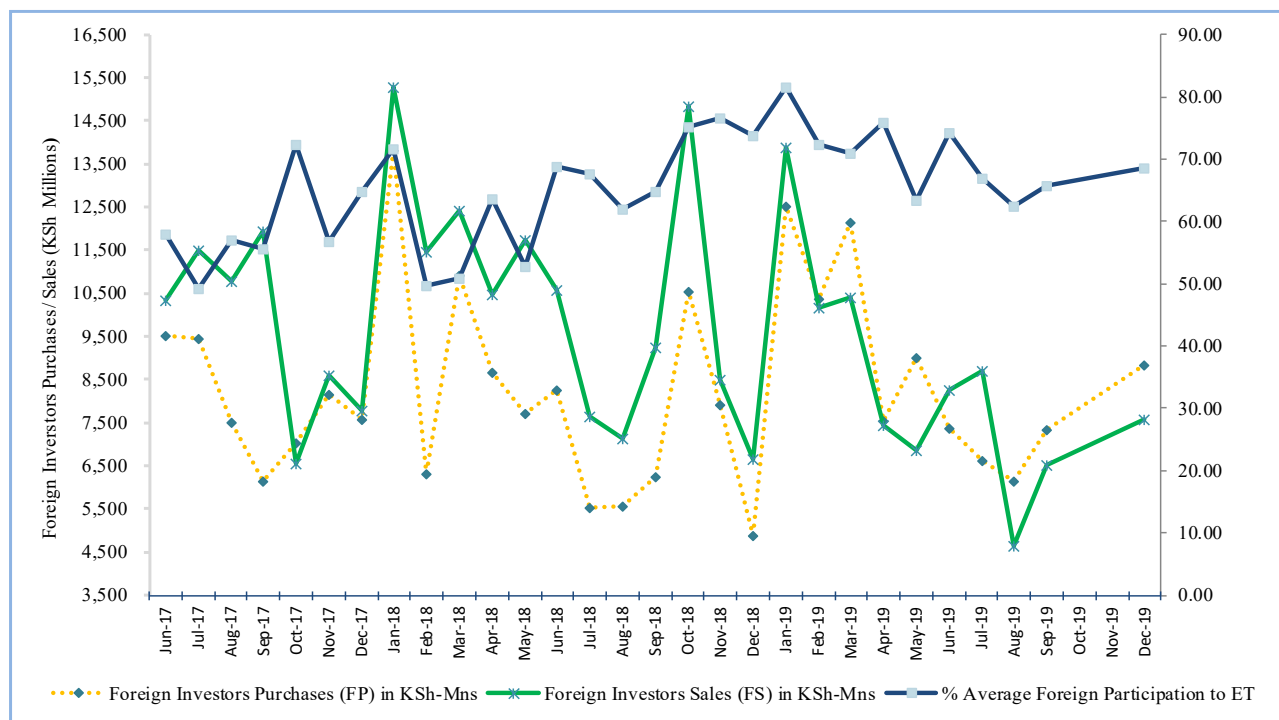
Source: Nairobi Securities Exchange

Foreign Investors' Participation

The value of shares purchased by foreign investors at the NSE increased by 37.4 percent, while the value of shares sold by the foreign investors increased by 43.4 percent in the fourth quarter compared to

the third quarter of 2019. The average net foreign investors' participation at the NSE as a share of the total equity turnover was 65.65 percent in the third quarter of 2019 compared to 73.8 percent in the fourth quarter of 2019 (Chart 9.2 and Table 9.1).

Chart 9.2: Foreign Investors Participation at the NSE



Source: Nairobi Securities Exchange

Bonds Market

The bonds turnover in the domestic secondary market declined by 42.6 percent in the fourth quarter of 2019 compared to the third quarter of 2019. The FTSE NSE Kenyan Government Bond Index declined by 1.1 points, reflecting slight increase in bond yields.

The yields on the 7-year, 10-year (2024), 12-year and 30-year Kenya Eurobonds, increased by 80.9, 73.0, 78.0, 51.8 and 41.8 basis points, respectively on the last trading day of the fourth quarter of 2019.

Chapter 10

Statement of Financial Position of the Central Bank of Kenya

(Kenya Shilling Million)

| 1.0 ASSETS | 2019 | | | | Absolute Quarterly Changes (KSh Million) | | | | Quarterly Growth Rates (%) | | | |
|--|------------------|------------------|------------------|------------------|--|-----------------|----------------|-----------------|----------------------------|--------------|-------------|--------------|
| | MAR | Jun | Sept | Dec | Q4, 2019 | Q3, 2019 | Q2, 2019 | Q1, 2019 | Q4, 2019 | Q3, 2019 | Q2, 2019 | Q1, 2019 |
| 1.1 Reserves and Gold Holdings | 848,796 | 1,047,463 | 966,089 | 932,958 | (33,131) | (81,374) | 198,667 | 1,474 | (3.4) | (7.8) | 23.4 | 0.2 |
| 1.2 Funds Held with IMF | 8,343 | 1,008 | 11,478 | 5,974 | (5,504) | 10,470 | (7,335) | 5,767 | (48.0) | 1,038.7 | (87.9) | 223.8 |
| 1.21 Investment in Equity (Swift Shares) | 9 | 9 | 9 | 9 | (0) | (0) | 0 | (0) | (0.2) | (2.4) | 2.9 | (2.9) |
| 1.3 Items in the Course of Collection | 16 | 36 | 20 | 5 | (15) | (16) | 21 | (3) | (74.5) | (45.2) | 131.5 | (16.8) |
| 1.4 Advances to Commercial Banks | 67,772 | 66,909 | 63,657 | 55,266 | (8,391) | (3,252) | (862) | (9,705) | (13.2) | (4.9) | (1.3) | (12.5) |
| 1.5 Loans and Other Advances | 2,599 | 3,362 | 3,380 | 3,435 | 55 | 18 | 763 | (5) | 1.6 | 0.5 | 29.4 | (0.2) |
| 1.6 Other Assets | 2,341 | 5,309 | 4,733 | 4,542 | (192) | (576) | 2,968 | (248) | (4.0) | (10.8) | 126.8 | (9.6) |
| 1.7 Retirement Benefit Asset | 6,585 | 4,329 | 4,329 | 4,329 | - | - | (2,256) | - | - | - | (34.3) | - |
| 1.8 Property and Equipment | 28,332 | 30,001 | 29,468 | 29,621 | 153 | (533) | 1,669 | 1,832 | 0.5 | (1.8) | 5.9 | 6.9 |
| 1.81 Intangible Assets | 756 | 837 | 790 | 886 | 95 | (47) | 81 | 116 | 12.1 | (5.6) | 10.7 | 18.0 |
| 1.9 Due from Government of Kenya | 60,087 | 79,556 | 90,574 | 86,164 | (4,409) | 11,017 | 19,470 | (28,312) | (4.9) | 13.8 | 32.4 | (32.0) |
| TOTAL ASSETS | 1,025,635 | 1,238,821 | 1,174,527 | 1,123,189 | (51,338) | (64,295) | 213,187 | (29,086) | (4.4) | (5.2) | 20.8 | (2.8) |
| 2.0 LIABILITIES | | | | | - | - | - | - | | | | |
| 2.1 Currency in Circulation | 271,923 | 249,509 | 207,066 | 258,945 | 51,880 | (42,444) | (22,414) | (16,376) | 25.1 | (17.0) | (8.2) | (5.7) |
| 2.2 Investments by Banks -Repos | 9,992 | | | | - | - | (9,992) | 9,992 | | | (100.0) | |
| 2.3 Deposits | 508,365 | 741,000 | 696,019 | 622,487 | (73,532) | (44,981) | 232,635 | (23,443) | (10.6) | (6.1) | 45.8 | (4.4) |
| 2.4 International Monetary Fund | 89,598 | 83,653 | 81,845 | 75,634 | (6,212) | (1,807) | (5,945) | (2,646) | (7.6) | (2.2) | (6.6) | (2.9) |
| 2.5 Other Liabilities | 3,737 | 6,165 | 13,683 | 5,338 | (8,345) | 7,518 | 2,429 | (436) | (61.0) | 121.9 | 65.0 | (10.5) |
| TOTAL LIABILITIES | 883,615 | 1,080,327 | 998,613 | 962,404 | (36,210) | (81,714) | 196,712 | (32,908) | (3.6) | (7.6) | 22.3 | (3.6) |
| 3.0 EQUITY AND RESERVES | 142,020 | 158,494 | 175,914 | 160,785 | (15,129) | 17,420 | 16,474 | 3,823 | (8.6) | 11.0 | 11.6 | 2.8 |
| Share Capital | 5,000 | 20,000 | 35,000 | 35,000 | - | 15,000 | 15,000 | - | - | 75.0 | 300.0 | |
| General reserve fund -Unrealized | 44,432 | 44,432 | 48,776 | 48,776 | 0 | 4,344 | - | - | 0.0 | 9.8 | - | |
| -Realized | 30,692 | 10,927 | 15,000 | 15,000 | 0 | 4,073 | (19,764) | - | 0.0 | 37.3 | (64.4) | |
| -Capital Projects | 24,473 | 24,473 | 26,523 | 26,523 | - | 2,050 | - | - | - | 8.4 | - | |
| Period surplus/(Deficit) | 13,037 | 25,465 | 21,420 | 6,291 | (15,129) | (4,045) | 12,428 | 3,823 | (70.6) | (15.9) | 95.3 | 41.5 |
| Asset Revaluation | 17,801 | 17,801 | 17,801 | 17,801 | - | - | - | - | - | - | - | - |
| Fair Value Reserves -OCI | | 7,066 | 7,066 | 7,066 | - | (0) | 7,066 | - | - | (0.0) | | |
| Retirement Benefit Asset Reserves | 6,584 | 4,329 | 4,329 | 4,329 | - | (1) | (2,255) | - | - | (0.0) | (34.2) | - |
| Consolidated Fund | | 4,000 | | | - | (4,000) | 4,000 | - | | (100.0) | | |
| 4 TOTAL LIABILITIES AND EQUITY | 1,025,635 | 1,238,821 | 1,174,527 | 1,123,189 | (51,338) | (64,295) | 213,187 | (29,086) | (4.4) | (5.2) | 20.8 | (2.8) |

Source: Central Bank of Kenya

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet declined by 4.4 percent in the fourth quarter compared to a decline of 5.2 percent in the third quarter of 2019. On the asset side of the Central Bank's balance sheet, the key drivers of the decline in the fourth quarter were Reserves and gold holdings, Funds held with the IMF, Advances to Commercial Banks and loans due from the Government.

Reserves 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 (SDR) and Reserve Advisory Management Program (RAMP) securities invested with the World Bank declined by KSh 33.1 billion largely on account of government external debt service and central bank operations.

Advances to commercial banks, largely for liquidity management, declined by KSh 8.4 billion in the fourth quarter of 2019 due to improved liquidity conditions resulting from increased government spending, including payments for pending bills. Debt due from government, which comprises of Government utilization of the overdraft facility at the Central Bank and overdrawn accounts which were converted to long term debt with effect from 1 November 1997, declined by KSh 4.4 billion partly reflecting a

reduction in the utilization of overdraft facility at the Central Bank by the Government. Funds held with the IMF decreased by KSh 5.5 billion, while other assets, which largely consist of prepayments and sundry debtors, and deferred currency expense decreased by KSh 192 million compared to a decrease of KSh 576 million in the previous quarter.

Liabilities

On the liability side, the decline in the Central Bank balance sheet was largely reflected in deposits. Deposits by Government of Kenya, local commercial banks, other public entities and project accounts and local banks' forex settlement accounts declined by KSh 73.5 billion compared to a decline of KSh 45.0 billion in the previous quarter partly reflecting the utilization of government deposits.

Currency in Circulation (CIC) increased by KSh 51.9 billion in the fourth quarter of 2019 compared to a decline of KSh 42.4 billion in the previous quarter, partly reflecting seasonal pickup in demand for cash during the end of year festivities.

Equity and reserves fell by 8.6 percent in the fourth quarter of 2019 compared to an increase of 11.0 percent in the previous quarter, largely reflected in reduced period surplus.



Central Bank of Kenya

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