



April - June 2020



CONTENTS

HIGHLIGHTS.....	3
CHAPTER 1: INFLATION.....	4
CHAPTER 2: DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES.....	7
CHAPTER 3: THE REAL SECTOR.....	11
CHAPTER 4: GLOBAL ECONOMY.....	18
CHAPTER 5: BALANCE OF PAYMENTS AND EXCHANGE RATES.....	20
CHAPTER 6: BANKING SECTOR.....	25
CHAPTER 7: GOVERNMENT BUDGET PERFORMANCE.....	31
CHAPTER 8: DEVELOPMENTS IN PUBLIC DEBT.....	34
CHAPTER 9: THE CAPITAL MARKETS.....	39
CHAPTER 10: STATEMENT OF FINANCIAL POSITION OF THE CENTRAL BANK OF KENYA.....	41
CHAPTER 11: NOTES ON THE FINANCIAL POSITION OF THE CBK.....	42

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

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

THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

Overall inflation declined in the second quarter of 2020 on account of declining food prices despite the COVID-19 pandemic. It decreased to 5.3 percent in the second quarter from 6.8 percent in the first quarter of 2020. Fuel inflation increased as a result of rising public transport costs following strict social distancing measures imposed to contain the spread of COVID-19, whereas Non-Food-Non-Fuel (NFNF) inflation declined due to muted demand pressures in the economy.

Broad money supply (M3) increased by 5.5 percent in the second quarter of 2020 compared to 3.9 percent in the previous quarter, mainly reflecting growth in deposits.

The economy contracted by 5.7 percent in the second quarter of 2020, the lowest in recent memory, due to the devastating impact of the COVID-19 pandemic. However, various government measures and promising results in Covid-19 vaccine development at global level were expected to mitigate further contraction.

The global economic activity remained subdued in the second quarter of 2020. The global GDP was estimated to have contracted by 4.9 percent in the second quarter of 2020.

The current account deficit narrowed by USD 569 million to USD 772 million in the second quarter of 2020 from USD 1,341 million in the second quarter of 2019.

Kenya's official international reserves stood at USD 9,740 million, equivalent to 5.9 months of import cover as at end June 2020.

The banking sector remained stable and resilient in the second quarter of 2020 and was well capitalized, meeting the minimum statutory capital requirements. Total assets increased by 4.1 percent to KSh 5,207.8 billion in June 2020 from KSh 5,001.2 billion in March 2020. The deposit base also increased by 5.8 percent to KSh 3,903.6 billion from KSh 3,688.1 billion between the first and the second quarters of 2020.

The Government's budgetary operations at the end of the fourth quarter of FY 2019/2020 resulted in a deficit (including grants) of 7.8 percent of GDP. Revenue collection remained below target, as was the case with the expenditure.

Kenya's public and publicly guaranteed debt increased by 6.1 percent during the fourth quarter of the FY 2019/20. Domestic and external debt increased by 3.3 percent and 8.6 percent, respectively.

Overall, capital markets performance improved in the second quarter of 2020 compared to the first quarter of the year. Domestic bonds trading in the secondary market recorded reduced activity, while the yields on Kenya's Eurobonds declined.

Chapter 1 Inflation

Overview

Overall inflation declined to 5.3 percent in the second quarter from 6.8 percent in the first quarter, owing to a decline in food prices. Fuel inflation increased to 5.0 percent from 4.9 percent in the previous quarter, driven by rising public transport costs following strict social distancing measures imposed to contain the spread of COVID-19, while Non-Food-Non-Fuel (NFnF) inflation declined to 1.8 percent from 2.2 percent, reflecting muted demand pressures in the economy (**Table 1.1** and **Chart 1.1**).

Though declining, food inflation remained the main driver of overall inflation during the quarter

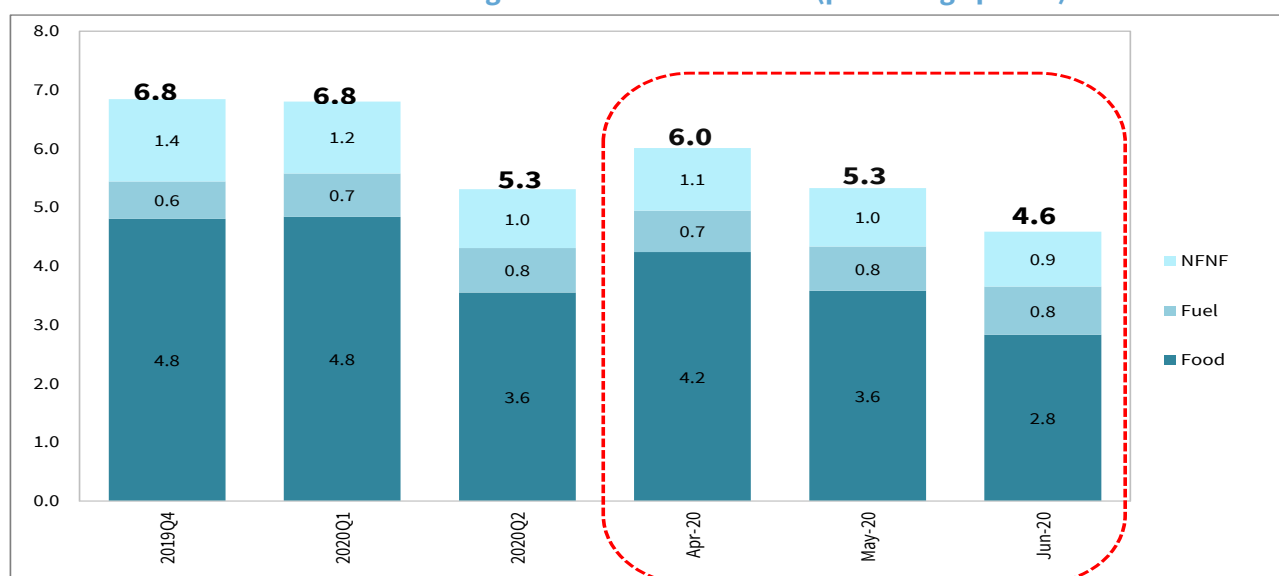
under review. Its contribution to overall inflation declined significantly to 3.6 percentage points compared to 4.8 percentage points in the previous quarter, largely driven by declining food prices. Fuel inflation contributed 0.8 percentage points to overall inflation in the quarter under review, a marginal increase from 0.7 percentage points in the previous quarter. Meanwhile, the contribution of NFnF inflation declined to 1.0 percentage points from 1.2 percentage points in the previous quarter, as demand pressures in the economy remained muted (**Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2019	2020				
	Q4	Q1	Q2	Apr	May	Jun
Overall inflation	6.8	6.8	5.3	6.0	5.3	4.6
Food Inflation	14.8	14.7	10.3	12.5	10.4	8.1
Fuel Inflation	2.9	4.9	5.0	4.9	4.9	5.3
Non-Food-Non-Fuel (NFnF) Inflation	2.2	2.2	1.8	1.9	1.8	1.6
Annual Average Inflation	5.2	5.8	5.7	5.5	5.7	5.8
Three Months Annualised Inflation	4.7	7.2	5.4	7.7	5.4	3.0

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

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



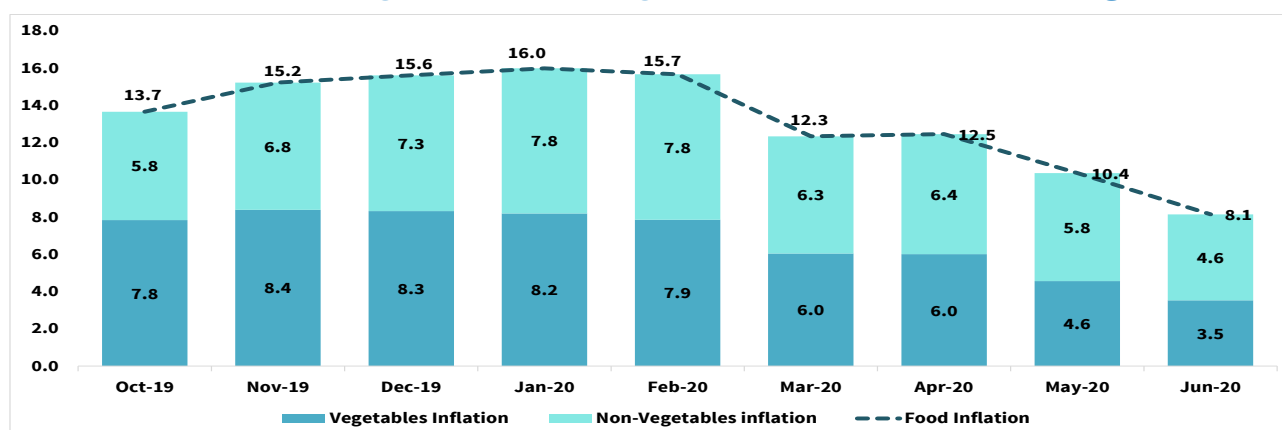
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined significantly to 10.3 percent during the quarter under review from 14.7 percent in the previous quarter mainly on account of lower prices of most food items following favorable weather conditions, which resulted in enhanced food production during the quarter. Prices of fast growing food items such as tomatoes, Irish potatoes, kale (sukuma wiki), cabbages, spinach

and traditional vegetables declined significantly following increased supply. Moreover, prices of other food items such as beans, maize and milk products continued to decline, thus moderating food inflation (**Chart 1.2**). However, the prices of onions continued to increase during the quarter, owing to a decline in their supply, reflecting the impact of excess rains which affected its production.

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



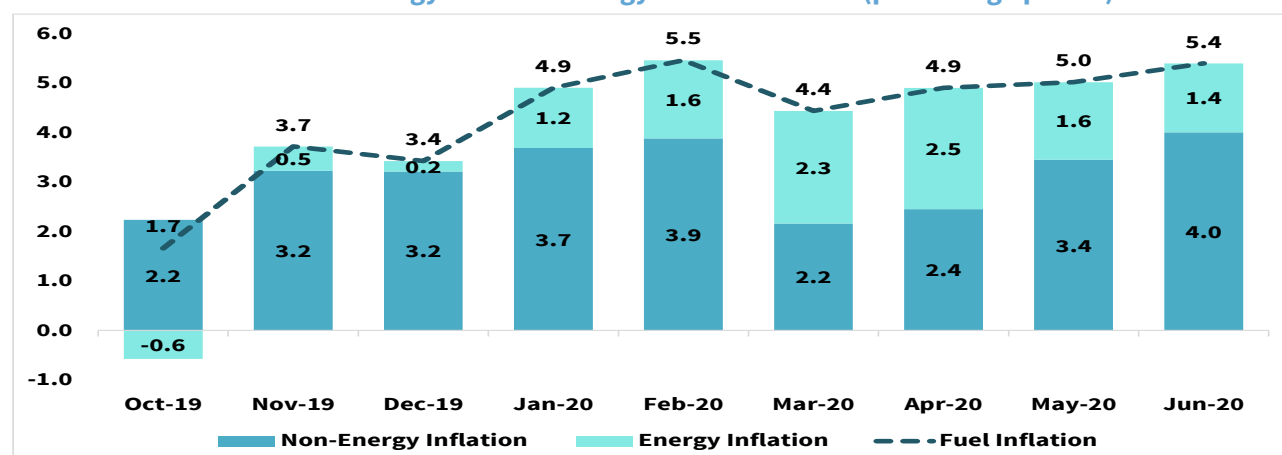
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation increased to 5.0 percent in the quarter under review from 4.9 percent in the previous quarter driven by increasing transport costs following recovery in international oil prices and strict containment measures implemented to mitigate the spread of COVID-19. Transport costs increased significantly during the quarter, as petrol

prices increased following upward revisions by the Energy and Petroleum Regulation Authority. Moreover, country bus and city bus fares increased significantly during the quarter, as travel ban and measures to curb further spread of COVID-19 took effect (**Chart 1.3**). Meanwhile, declining costs of charcoal, electricity, kerosene and diesel moderated fuel inflation.

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

Non-Food Non-Fuel Inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation declined further to 1.8 percent during the quarter under review from 2.2 percent in the previous quarter. This decline was reflected across all the NFNF categories except the 'Recreation, sports and culture' category

whose inflation increased marginally by 0.1 percentage points to 1.9 percent in the quarter under review. The low NFNF inflation is reflective of muted demand pressures in the economy (**Table 1.2**).

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2019	Q4	8.7	2.2	1.2	2.4	1.9	1.2	1.2	1.4	2.4	0.8	3.2	2.2
	Q1	8.9	2.6	1.6	2.2	1.4	0.9	1.8	1.2	2.3	0.7	2.9	2.2
	Q2	7.7	2.4	1.3	1.7	1.2	0.4	1.9	1.1	2.1	0.6	2.0	1.8
2020	Apr	8.5	2.1	1.5	1.8	1.3	0.7	1.3	1.1	2.3	0.7	2.3	2.0
	May	7.7	2.5	1.2	1.9	1.2	0.4	1.4	1.1	2.0	0.6	1.9	1.8
	Jun	6.8	2.6	1.2	1.3	1.1	0.0	3.0	1.1	1.9	0.6	1.8	1.7

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

Chapter 2

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Growth in Broad money (M3) increased by 5.5 percent in the second quarter of 2020 from 3.9 percent in the previous quarter, mainly reflecting growth in deposits. Total deposits increased by KSh 191.2 billion in the second quarter of 2020 compared to an increase of KSh 137.3 billion in the first quarter of 2020, mainly reflected in corporate and household sector deposit holdings. This was partly supported by accelerated government spending towards the end of FY2019/20, including payments for pending bills and Covid -related expenditures. In

terms of deposit maturities, growth was recorded in time and savings, and foreign currency deposits for the corporate sector, while growth in the household sector was noted in demand and time and savings deposits. Meanwhile, currency outside banks increased in the second quarter (**Tables 2.1 and 2.2**). The 12-month growth in broad money supply, M3, increased to 8.4 percent in June 2020 from 7.2 percent in March 2020, mainly supported by increased lending to the private sector and net lending to government.

Table 2.1: Monetary aggregates (Ksh Billions)

	End Month Level (KSh Billions)						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Components of M3																		
1. Money supply, M1 (1.1+1.2+1.3)	1520.3	1575.5	1459.7	1525.2	1595.1	1666.6	2.9	3.6	-7.3	4.5	4.6	4.5	42.7	55.2	-115.8	65.5	69.9	71.4
1.1 Currency outside banks	225.2	196.9	157.7	198.6	198.3	210.9	-2.2	-12.6	-19.9	25.9	-0.2	6.4	-5.1	-28.3	-39.2	40.9	-0.4	12.6
1.2 Demand deposits	1209.0	1212.8	1190.7	1253.4	1306.3	1350.0	2.8	0.3	-1.8	5.3	4.2	3.3	33.4	3.8	-22.1	62.7	52.9	43.7
1.3 Other deposits at CBK 1/	86.2	165.8	111.4	73.4	90.7	105.8	20.2	92.5	-32.8	-34.2	23.6	16.7	14.5	79.7	-54.4	-38.1	17.3	15.2
2. Money supply, M2 (1+2.1)	2838.4	2943.7	2866.0	2904.4	3018.9	3201.3	3.0	3.7	-2.6	1.3	3.9	6.0	82.4	105.3	-77.7	38.4	114.5	182.4
2.1 Time and saving deposits	1318.1	1368.2	1406.3	1379.1	1423.7	1534.7	3.1	3.8	2.8	-1.9	3.2	7.8	39.7	50.1	38.0	-27.1	44.6	111.0
3. Money supply, M3 (2+3.1)	3415.3	3564.2	3473.4	3524.0	3661.0	3863.6	2.3	4.4	-2.5	1.5	3.9	5.5	77.5	148.9	-90.8	50.6	137.0	202.6
3.1 Foreign Currency Deposits	576.9	620.5	607.4	619.7	642.2	662.4	-0.8	7.6	-2.1	2.0	3.6	3.1	-4.9	43.6	-13.1	12.3	22.5	20.2
Sources of M3																		
1. Net foreign assets 2/	720.0	939.9	835.4	804.5	767.7	885.4	0.8	30.5	-11.1	-3.7	-4.6	15.3	5.9	219.9	-104.5	-31.0	-36.8	117.7
Central Bank	747.5	941.0	871.5	833.3	800.6	918.1	1.1	25.9	-7.4	-4.4	-3.9	14.7	8.0	193.5	-69.5	-38.2	-32.7	117.5
Banking Institutions	-27.5	-1.1	-36.1	-28.8	-32.9	-32.7	8.3	-96.0	3217.2	-20.0	14.0	-0.6	-2.1	26.4	-35.0	7.2	-4.0	0.2
2. Net domestic assets (2.1+2.2)	2695.3	2624.3	2637.9	2719.6	2893.3	2978.3	2.7	-2.6	0.5	3.1	6.4	2.9	71.6	-71.0	13.6	81.6	173.7	85.0
2.1 Domestic credit	3508.1	3490.0	3566.6	3628.1	3789.0	3903.9	3.8	-0.5	2.2	1.7	4.4	3.0	127.0	-18.1	76.6	61.5	160.9	114.9
2.1.1 Government (net)	964.2	890.5	894.3	941.2	1036.8	1122.3	12.4	-7.6	0.4	5.2	10.2	8.2	106.1	-73.7	3.8	46.9	95.6	85.5
2.1.2 Private sector	2444.2	2503.0	2572.4	2594.6	2661.2	2693.2	0.9	2.4	2.8	0.9	2.6	1.2	22.2	58.8	69.4	22.2	66.6	31.9
2.1.3 Other public sector	99.7	96.4	99.8	92.3	90.9	88.4	-1.2	-3.3	3.5	-7.6	-1.5	-2.8	-1.2	-3.3	3.4	-7.6	-1.4	-2.5
2.2 Other assets net	-812.8	-865.6	-928.6	-908.5	-895.6	-925.6	7.3	6.5	7.3	-2.2	-1.4	3.3	-55.4	-52.9	-63.0	20.1	12.9	-29.9
Memorandum items																		
4. Overall liquidity, L (3+4.1)	4696.9	4896.0	4864.6	4927.1	5180.2	5416.1	3.2	4.2	-0.6	1.3	5.1	4.6	145.9	199.1	-31.4	62.5	253.0	235.9
4.1 Non-bank holdings of government securities	1281.6	1331.7	1391.2	1403.1	1519.2	1552.4	5.6	3.9	4.5	0.9	8.3	2.2	68.4	50.2	59.5	11.9	116.1	33.3

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Table 2.2: Deposit holdings of corporates and household sectors

	End Month Levels (KSh Billions)						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
1. Household Sector 1/	1518.8	1629.0	1638.1	1641.5	1693.3	1759.2	1.7	7.3	0.6	0.2	3.2	3.9	25.4	110.2	9.1	3.4	51.8	65.9
1.1 Demand Deposits	583.5	604.3	598.1	591.8	618.0	648.5	3.8	3.6	-1.0	-1.1	4.4	4.9	21.4	20.9	-6.3	-6.3	26.3	30.5
1.2 Time and Saving Deposits	707.8	749.6	774.5	793.3	811.5	859.6	0.9	5.9	3.3	2.4	2.3	5.9	6.6	41.7	25.0	18.8	18.2	48.1
1.3 Foreign Currency Deposits	227.5	275.1	265.5	256.4	263.7	251.1	-1.1	20.9	-3.5	-3.4	2.9	-4.8	-2.6	47.6	-9.6	-9.1	7.3	-12.6
2. Corporate Sector	1559.5	1556.5	1549.7	1595.5	1662.1	1777.4	2.7	-0.2	-0.4	3.0	4.2	6.9	41.5	-3.0	-6.8	45.8	66.6	115.3
2.1 Demand deposits	604.0	596.0	578.8	648.1	674.1	690.3	1.8	-1.3	-2.9	12.0	4.0	2.4	10.4	-8.0	-17.2	69.4	26.0	16.2
2.2 Time and Saving Deposits	607.9	616.0	629.1	583.3	609.0	672.0	5.8	1.3	2.1	-7.3	4.4	10.3	33.1	8.1	13.0	-45.8	25.7	63.0
2.3 Foreign Currency Deposits	347.6	344.5	341.9	364.1	379.0	415.1	-0.6	-0.9	-0.8	6.5	4.1	9.5	-2.1	-3.1	-2.6	22.2	14.9	36.1

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

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the increase in M3 in the second quarter of 2020 was the net foreign assets (NFA) of the banking system, which increased by KSh 117.7 billion compared to a decline of KSh 36.8 billion in the previous quarter. This increase in NFA, partly reflected the external financing by international financial institutions to government for the Covid-19 crisis support. However, growth of net domestic assets (NDA) of the banking system decelerated in the quarter under review, partly reflecting reduced lending to the private sector due to the effects of Covid-19 on the economy (**Table 2.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit moderated to 3.0 percent in the second quarter of 2020 from 4.4 percent in the previous quarter, mainly reflecting a slowdown in lending to the private sector. Net lending to government remained strong during the quarter under review, mainly reflecting increased drawdown of Government deposits at CBK due to

accelerated Government payments towards the end of FY 2019/20 (**Table 2.3**).

Growth of loans and advances extended to the private sector moderated to 1.2 percent in the second quarter of 2020 from 2.6 percent in previous quarter. Reduced lending to the private sector was mainly reflected in the corporate sector, partly due to slowed economic activity due to the COVID-19 pandemic. However, lending remained strong in some key sectors, including transport and communication, real estate and manufacturing (**Table 2.3 and 2.4**).

On an annual basis, growth in lending to the private sector moderated slightly to 7.7 percent in June 2020 compared to 8.9 percent in March 2020. The decline was largely reflected in credit growth to the productive sector (**Chart 2.1**). However, monetary policy actions and other policy measures to improve liquidity conditions in the market mitigated the adverse impact of Covid-19 pandemic on lending.

Table 2.3: Banking sector net domestic credit

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
1. Credit to Government	964.2	890.5	894.3	941.2	1,036.8	1,122.3	12.4	-7.6	0.4	5.2	10.2	8.2	106.1	-73.7	3.8	46.9	95.6	85.5
Central Bank	-98.6	-189.6	-182.4	-182.4	-118.7	-89.2	3.6	92.4	-3.8	0.0	-34.9	-24.9	-3.4	-91.1	7.3	-0.1	63.7	29.6
Commercial Banks & NBFIs	1,062.8	1,080.2	1,076.7	1,123.7	1,155.5	1,211.5	11.5	1.6	-0.3	4.4	2.8	4.8	109.5	17.4	-3.5	47.0	31.9	55.9
2. Credit to other public sector	99.7	96.4	99.8	92.3	90.9	88.4	-1.2	-3.3	3.5	-7.6	-1.5	-2.8	-1.2	-3.3	3.4	-7.6	-1.4	-2.5
Local government	4.3	3.8	4.5	4.3	4.3	4.4	-0.6	-12.9	20.0	-4.7	-0.1	2.2	0.0	-0.6	0.8	-0.2	0.0	0.1
Parastatals	95.4	92.7	95.3	88.0	86.6	84.0	-1.2	-2.9	2.9	-7.7	-1.5	-3.0	-1.2	-2.7	2.7	-7.3	-1.4	-2.6
3. Credit to private sector	2,444.2	2,503.0	2,572.4	2,594.6	2,661.2	2,693.2	0.9	2.4	2.8	0.9	2.6	1.2	22.2	58.8	69.4	22.2	66.6	31.9
Agriculture	83.0	86.2	89.7	81.0	84.2	87.3	0.0	3.9	4.1	-9.7	3.9	3.7	0.0	3.2	3.5	-8.7	3.2	3.1
Manufacturing	336.1	357.6	360.0	365.4	387.6	401.7	0.4	6.4	0.6	1.5	6.1	3.6	1.5	21.5	2.3	5.4	22.3	14.1
Trade	440.3	447.1	456.5	467.4	481.8	484.7	2.6	1.5	2.1	2.4	3.1	0.6	11.0	6.8	9.4	10.9	14.3	2.9
Building and construction	108.2	109.2	114.5	115.8	118.5	114.2	-5.1	0.9	4.8	1.2	2.3	-3.6	-5.8	1.0	5.3	1.3	2.7	-4.2
Transport & communications	172.7	174.7	178.0	186.7	184.9	200.7	0.0	1.2	1.9	4.9	-0.9	8.5	0.0	2.1	3.3	8.7	-1.8	15.8
Finance & insurance	95.6	92.8	102.5	96.9	101.8	95.8	-1.0	-2.9	10.4	-5.4	5.1	-5.9	-0.9	-2.8	9.7	-5.6	4.9	-6.0
Real estate	370.5	377.4	377.1	374.1	378.6	395.8	0.5	1.9	-0.1	-0.8	1.2	4.5	1.8	6.9	-0.3	-3.0	4.5	17.1
Mining and quarrying	13.4	13.3	13.3	13.9	13.9	14.6	-9.2	-0.5	0.2	4.1	0.2	5.3	-1.3	-0.1	0.0	0.5	0.0	0.7
Private households	424.9	429.6	440.6	438.3	439.5	443.3	2.4	1.1	2.5	-0.5	0.3	0.9	9.8	4.7	10.9	-2.3	1.3	3.7
Consumer durables	205.7	220.1	236.7	246.7	255.2	253.5	5.1	7.0	7.5	4.2	3.5	-0.7	9.9	14.4	16.6	10.0	8.6	-1.7
Business services	149.3	146.6	150.7	154.1	154.3	155.2	-0.7	-1.8	2.7	2.3	0.2	0.6	-1.1	-2.7	4.0	3.4	0.3	0.9
Other activities	44.5	48.2	53.0	54.6	60.9	46.4	-5.4	8.3	9.9	2.9	11.6	-23.8	-2.5	3.7	4.8	1.6	6.3	-14.5
4. TOTAL (1+2+3)	3,508.1	3,490.0	3,566.6	3,628.1	3,789.0	3,903.9	3.8	-0.5	2.2	1.7	4.4	3.0	127.0	-18.1	76.6	61.5	160.9	114.9

Provisional

Source: Central Bank of Kenya

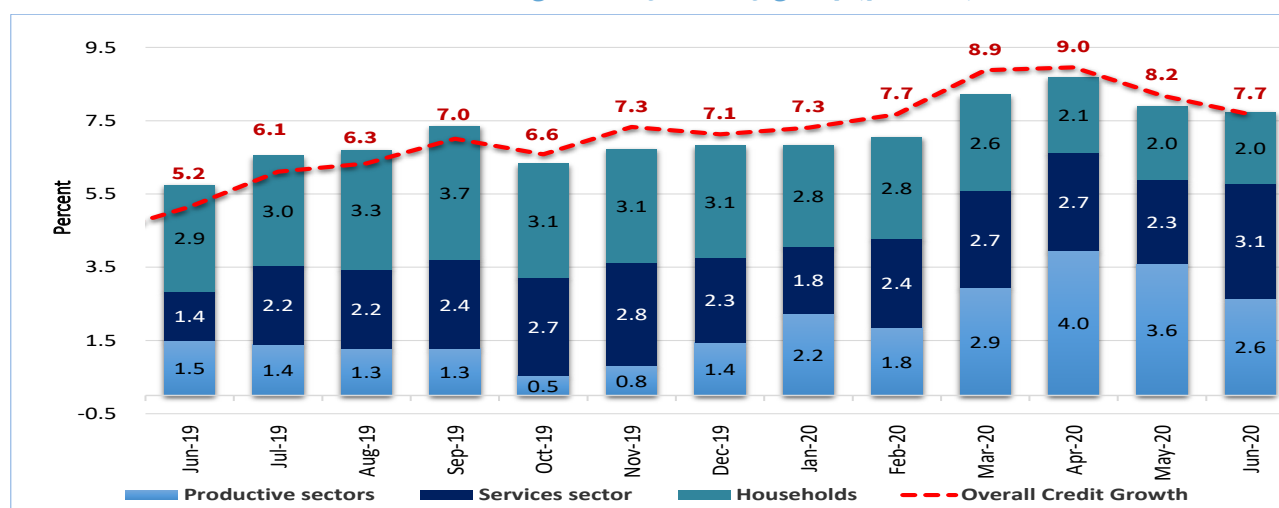
Table 2.4: Gross bank loans to the private sector

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
1. Household	756.9	766.2	787.2	816.6	821.3	828.6	1.8	1.2	2.7	3.7	0.6	0.9	13.2	9.3	21.1	29.3	4.7	7.3
2. Corporate	1,745.5	1,796.3	1,847.5	1,837.5	1,903.0	1,936.9	0.6	2.9	2.8	-0.5	3.6	1.8	9.8	50.8	51.2	-10.0	65.5	33.9
Gross Loans	2,502.4	2,562.5	2,634.7	2,654.1	2,724.3	2,765.5	0.9	2.4	2.8	0.7	2.6	1.5	23.0	60.1	72.2	19.3	70.2	41.2

Provisional

Source: Central Bank of Kenya

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



Provisional

Source: Central Bank of Kenya

Reserve Money

Reserve money, which comprises currency held by the non-bank public and commercial bank reserves declined by 4.2 percent in the second quarter compared to a decline of 3.4 percent in the previous quarter, largely reflecting a reduction in banks reserves. The reduction in banks reserves followed the reduction in the CRR from 5.25 percent to 4.25 percent in March 2020, and the enhanced open market operations to withdraw excess liquidity. The excess liquidity resulted from accelerated Government spending towards the end

of the FY2019/2020, including payments of pending bills and Covid-19 pandemic related expenditures (**Table 2.5**).

On the asset side, the decline in reserve money was due to a decline in net domestic assets (NDA) of Central Bank of Kenya, which more than offset the increase in net foreign assets (NFA). The decline in NDA of the Central Bank of Kenya was mainly reflected in reduced net lending to commercial banks due to increased open market operations.

Table 2.5: Reserve money (rm) and its sources

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
1. Net Foreign Assets	747.5	941.0	871.5	833.3	800.6	918.1	1.1	25.9	-7.4	-4.4	-3.9	14.7	8.0	193.5	-69.5	-38.2	-32.7	117.5
2. Net Domestic Assets	-291.0	-501.2	-463.7	-372.2	-355.1	-491.2	17.6	72.2	-7.5	-19.7	-4.6	38.3	-43.5	-210.2	37.5	91.5	17.1	-136.1
2.1 Government Borrowing (net)	-98.6	-189.6	-182.4	-182.4	-118.7	-89.2	3.6	92.4	-3.8	0.0	-34.9	-24.9	-3.4	-91.1	7.3	-0.1	63.7	29.6
2.2 Commercial banks (net)	-0.7	-21.3	-19.0	10.7	-1.3	-131.0	-102.9	3114.8	-10.7	-156.4	-112.4	9739.9	-23.9	-20.7	2.3	29.8	-12.1	-129.7
2.3 Other Domestic Assets (net)	-195.1	-293.7	-265.8	-204.0	-238.5	-274.3	9.1	50.5	-9.5	-23.2	16.9	15.0	-16.2	-98.5	27.9	61.8	-34.5	-35.9
3. Reserve Money	456.5	439.8	407.8	461.1	445.5	426.9	-7.2	-3.7	-7.3	13.1	-3.4	-4.2	-35.5	-16.7	-32.0	53.3	-15.6	-18.6
3.1 Currency outside banks	225.2	196.9	157.7	198.6	198.3	210.9	-2.2	-12.6	-19.9	25.9	-0.2	6.4	-5.1	-28.3	-39.2	40.9	-0.4	12.6
3.2 Bank reserves	231.3	242.8	250.0	262.5	247.3	216.0	-11.6	5.0	3.0	5.0	-5.8	-12.6	-30.4	11.6	7.2	12.4	-15.2	-31.2

Provisional

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) lowered the Central Bank Policy rate (CBR) by a further 25 basis points in April 2020 to 7.00 percent to augment its accommodative monetary policy stance adopted in March 2020 in light of the continued adverse economic outlook due to COVID-19 pandemic. The policy rate was maintained at 7.00 percent in May and June meetings as the MPC continued to monitor the impact of the previous policy measures.

b. Interbank rate

The weighted average interbank rate continued to decline in the second quarter of 2020 consistent with the easing of the policy stance and improved liquidity conditions. The average interbank rate declined from 4.40 percent in March 2020 to 3.27 percent in June 2020.

c. Treasury bill rates

Treasury Bill rates declined in the second quarter of 2020 supported by improved liquidity conditions. The average 91-day Treasury bill rate declined to 7.14 percent in June 2020 from 7.29 percent in March 2020, while the average 182-day Treasury bill declined to 7.93 percent from 8.14 percent in the period under review (**Table 2.6**).

d. Lending and Deposit Rates

Commercial banks' lending and deposit rates continued to decline in second quarter of 2020 in line with the reduction in the policy rate and improved liquidity conditions. The weighted average lending rate declined from 12.09 percent in March 2020 to 11.89 percent in June 2020, while the weighted average deposit rate declined from 7.07 percent to 6.86 percent. Consequently, the spread remained unchanged at 5.02 percent (**Table 2.6**).

Table 2.6: Interest rates (%)

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

Provisional

Source: Central Bank of Kenya

Chapter 3

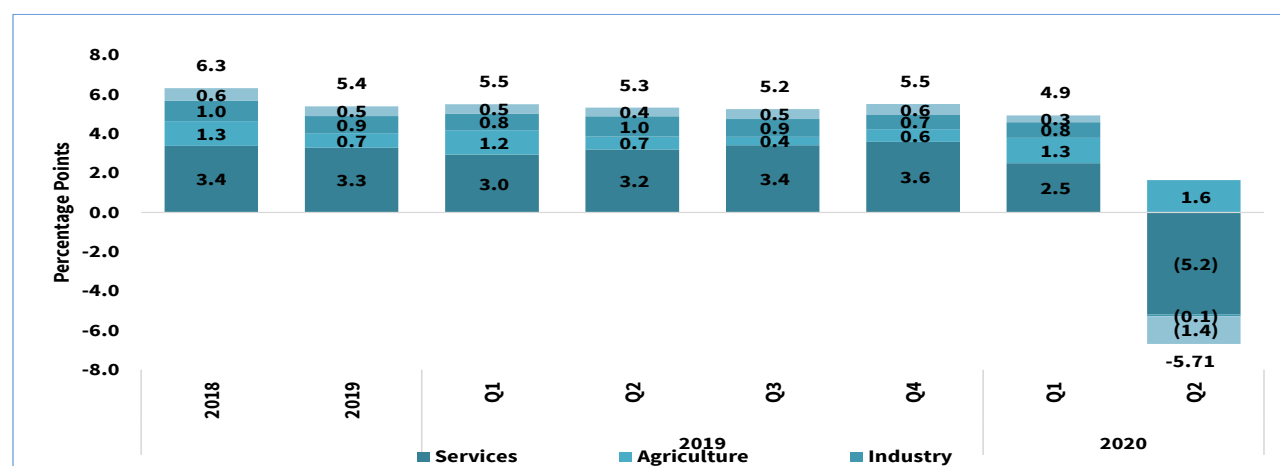
The Real Sector

Overview

The economy contracted in the second quarter of 2020 for the first time in recent memory. It contracted by 5.7 percent due to the devastating impact of the COVID-19 pandemic. The various containment measures implemented domestically and internationally during the quarter to mitigate the spread of the disease had a significant adverse effect on economic activity in general, and activity in service oriented sectors in particular. However, growth in the agriculture sector was strong during the quarter, supported by favourable weather conditions (**Chart 3.1** and **Table 3.1**).

Services and Industry sectors were the main drivers of the contraction recorded during the quarter. Their contributions to overall economic growth stood at -5.2 percentage points and -1.4 percentage points, respectively. However, the positive performance of the Agriculture sector resulted in a positive contribution of 1.6 percentage points to economic growth (**Chart 3.1** and **Table 3.3**).

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



Source: Kenya National Bureau of Statistics

Table 3.1: Gross domestic product (GDP) growth by activity (%)

	Annual		2019				2020	
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	6.0	3.6	4.7	2.9	2.4	4.0	4.9	6.4
2.1 Industry	5.5	4.7	4.7	5.4	4.7	3.8	4.4	-0.5
Mining & Quarrying	2.7	2.5	1.4	5.0	3.4	0.3	9.5	10.0
Manufacturing	4.3	3.3	3.5	4.0	3.2	2.3	2.9	-3.9
Electricity & water supply	8.0	7.0	7.8	7.3	6.4	6.4	6.3	-0.6
Construction	6.9	6.4	6.1	7.2	6.6	5.7	5.3	3.9
2.2 Services	7.0	6.7	6.5	6.8	6.7	6.8	5.5	-11.7
Wholesale & Retail Trade	6.9	6.6	6.3	7.8	6.1	6.4	6.4	-6.9
Accommodation & restaurant	16.6	10.3	11.0	12.1	9.9	9.0	-9.3	-83.3
Transport & Storage	8.5	7.8	6.4	7.6	7.6	9.2	6.1	-11.6
Information & Communication	11.3	9.0	10.2	7.8	8.1	9.4	9.7	4.3
Financial & Insurance	5.3	6.6	6.3	5.2	8.1	6.6	6.2	4.2
Public administration	6.7	8.1	8.9	8.7	8.4	6.2	6.7	5.7
Professional, Administration & Support Servi	5.9	4.9	5.5	4.2	4.8	4.9	4.4	-15.7
Real estate	4.1	5.3	4.8	6.0	5.5	5.1	4.3	2.2
Education	5.8	5.4	4.3	6.0	6.0	5.5	5.3	-56.2
Health	4.4	5.8	5.4	6.2	5.5	6.2	5.8	10.3
Other services	4.9	5.1	5.6	5.6	5.3	3.8	2.2	-8.5
FISIM	0.9	6.1	4.6	7.3	6.8	5.7	5.0	4.0
2.3 Taxes on products	5.6	4.4	4.7	4.0	4.2	4.5	3.4	-14.2
Real GDP Growth	6.3	5.4	5.5	5.3	5.2	5.5	4.9	-5.7

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral shares of real GDP (%)

	Annual		2018				2019				2020	
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	21.2	20.8	26.3	23.4	18.6	16.6	26.0	22.8	18.0	16.2	26.0	25.7
2.1 Industry	18.9	18.8	18.2	19.0	19.3	19.0	18.1	19.1	19.3	18.8	18.0	20.1
Mining & Quarrying	1.0	1.0	1.1	0.9	1.1	1.1	1.0	0.9	1.0	1.0	1.1	1.1
Manufacturing	9.7	9.5	9.7	9.8	9.8	9.2	9.5	9.7	9.7	9.0	9.3	9.9
Electricity & water supply	2.6	2.7	2.5	2.8	2.7	2.5	2.6	2.9	2.7	2.5	2.6	3.0
Construction	5.6	5.7	5.0	5.4	5.8	6.3	5.0	5.5	5.9	6.3	5.0	6.1
2.2 Services	48.5	49.1	45.3	46.7	50.1	52.0	45.7	47.3	50.8	52.7	46.0	44.3
Wholesale & Retail Trade	7.6	7.7	6.7	7.1	8.7	7.8	6.8	7.3	8.8	7.9	6.9	7.3
Accommodation & restaurant	1.4	1.4	1.5	1.0	1.3	1.7	1.6	1.0	1.3	1.7	1.3	0.2
Transport & Storage	7.1	7.3	6.2	6.8	7.5	8.0	6.2	6.9	7.6	8.4	6.2	6.5
Information & Communication	4.3	4.4	4.2	3.5	3.8	5.5	4.4	3.5	3.9	5.7	4.6	3.9
Financial & Insurance	6.1	6.1	5.9	5.9	6.4	6.2	5.9	5.8	6.5	6.3	5.9	6.5
Public administration	3.9	4.0	3.6	4.3	3.8	4.0	3.6	4.4	3.9	4.0	3.7	4.9
Professional, Administration & Support Services	2.2	2.2	2.0	2.4	2.2	2.3	2.0	2.2	2.3	2.3	2.0	2.0
Real estate	8.4	8.4	8.1	8.3	8.6	8.5	8.1	8.3	8.6	8.4	8.0	9.0
Education	6.9	6.9	6.7	6.8	7.0	7.0	6.6	6.8	7.1	7.0	6.6	3.2
Health	1.7	1.7	1.5	1.8	1.8	1.8	1.5	1.8	1.8	1.8	1.5	2.1
Other services	1.2	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.3	1.3	1.2	1.2
FISIM	-2.2	-2.2	-2.3	-2.2	-2.4	-2.2	-2.2	-2.1	-2.4	-2.3	-2.2	-2.4
2.3 Taxes on products	11.4	11.3	10.2	10.9	12.0	12.3	10.2	10.9	12.0	12.2	10.0	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics and CBK Staff Computations

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

	Annual		2018				2019				2020	
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	1.3	0.7	2.0	1.5	1.3	0.7	1.2	0.7	0.4	0.6	1.3	1.6
2. Non-Agriculture (o/w)	5.1	4.6	4.6	4.9	5.1	5.3	4.3	4.7	4.8	4.9	3.6	-6.9
2.1 Industry	1.0	0.9	0.9	1.0	1.1	1.0	0.8	1.0	0.9	0.7	0.8	-0.1
Mining & Quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Manufacturing	0.4	0.3	0.4	0.5	0.5	0.3	0.3	0.4	0.3	0.2	0.3	-0.4
Electricity & water supply	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0
Construction	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.4	0.4	0.4	0.3	0.2
2.2 Services	3.4	3.3	3.1	3.3	3.3	3.7	3.0	3.2	3.4	3.6	2.5	-5.2
Wholesale & Retail Trade	0.5	0.5	0.4	0.4	0.6	0.5	0.4	0.6	0.5	0.5	0.4	-0.5
Accommodation & restaurant	0.2	0.1	0.2	0.2	0.2	0.4	0.2	0.1	0.1	0.2	-0.1	-0.2
Transport & Storage	0.6	0.6	0.5	0.6	0.7	0.8	0.4	0.5	0.6	0.8	0.4	-0.7
Information & Communication	0.5	0.4	0.5	0.4	0.4	0.7	0.5	0.3	0.3	0.5	0.5	0.2
Financial & Insurance	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.3	0.5	0.4	0.4	0.3
Public administration	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.2	0.2	0.3
Professional, Administration & Support Services	0.1	0.1	0.1	0.4	0.1	0.0	0.1	0.1	0.1	0.1	0.1	-0.3
Real estate	0.3	0.4	0.4	0.4	0.3	0.2	0.4	0.5	0.5	0.4	0.3	0.2
Education	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.3	-1.8
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Other services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	-0.1
FISIM	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
2.3 Taxes on products	0.6	0.5	0.6	0.6	0.7	0.5	0.5	0.4	0.5	0.6	0.3	-1.4
Real GDP Growth	6.3	5.4	6.6	6.4	6.4	5.9	5.5	5.3	5.2	5.5	4.9	-5.7

Source: Kenya National Bureau of Statistics

PERFORMANCE BY SECTOR

Sectoral performance was mixed in the second quarter of 2020. There were significant contractions recorded in various sectors of the economy, due to the direct effects of the COVID-19 pandemic, and the impact of domestic and global containment measures. Though the containment measures helped slow down the spread of COVID-19, they also led to a significant reduction in overall economic activity in the country during the quarter in general, and the month of April in particular.

AGRICULTURE

Agriculture sector recorded strong growth in the second quarter of 2020, supported by favourable weather conditions experienced in the country. It grew by 6.4 percent, which was stronger than 4.9 percent in the previous quarter and 2.9 percent in a similar quarter of 2019 (**Table 3.1**). However, there was reduced activity in April, attributed to disruption of domestic and international supply chains due to the containment measures put in place to mitigate the spread of COVID-19. Despite

this, production of tea, sugarcane, milk, and fresh vegetables, fruits and nuts, for export were higher compared to a similar quarter of 2019. The sector contributed 1.6 percentage points to overall GDP growth during the quarter under review, higher than 1.3 percentage points in the previous quarter and 0.7 percentage points in a similar quarter of 2019 (**Table 3.3**).

Tea production increased by 34.5 percent compared to the same quarter of 2019, but was lower by 9.8 percent compared to the previous quarter due to a significant contraction in production in April (**Table 3.4**). The average auction price per kilogram decreased by 3.0 percent compared to the previous quarter.

Sugarcane output was higher by 69.8 percent compared to the same quarter of 2019, and by 0.9 percent compared to the previous quarter. The decline in monthly production in April 2020 was offset by increased production in May and June (**Table 3.4**).

Milk intake increased by 6.4 percent compared to

the same quarter of 2019, though it declined by 12.8 percent compared to the previous quarter due to reduced monthly intake in April. However, monthly intake recovered in May and June 2020 (**Table 3.4**).

Coffee sales reduced significantly by 70.5 percent compared to the same quarter of 2019, and by 72.6 percent compared to the previous quarter. This was attributed to the disruption of supply chains owing to COVID-19 containment measures enforced domestically and globally. In addition, the Nairobi Coffee Exchange went on recess in June 2020, during which time no coffee was sold (**Table 3.4**). The average auction prices decreased by 33.5 percent compared to the previous quarter.

Horticulture

Total exports of horticultural crops improved by 10.6 percent compared to the same quarter of 2019, though it decreased by 13.5 percent compared to the previous quarter due to reduced exports in April following the disruption of international supply chains and lockdowns which mainly affected exports of cut flowers (**Table 3.4** and **Chart 3.2**).

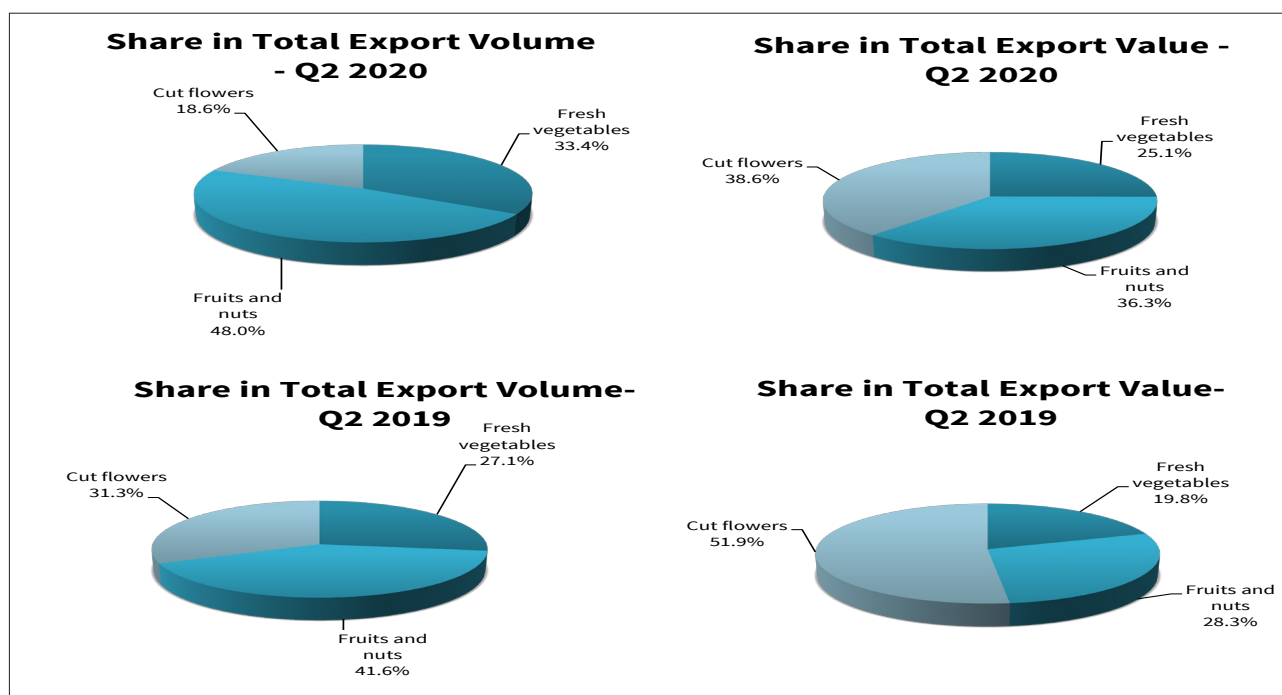
Table 3.4: Quarterly performance of key agricultural output indicators

	2019				2020*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-20	May-20	Jun-20
Tea									
Output (Metric tonnes)	106,293	106,315	104,192	142,053	158,570	143,038	49,656	47,004	46,378
Growth (%)	-27.6	0.0	-2.0	36.3	11.6	-9.80	-10.9	-5.3	-1.3
Horticulture									
Exports (Metric tonnes)	109,593	102,840	102,778	104,267	131,515	113,752	36,866	40,349	36,537
Growth (%)	7.4	-6.2	-0.1	1.4	26.1	-13.5	-20.3	9.4	-9.4
Coffee									
Sales (Metric tonnes)	13,948	11,412	3,840	4,428	12,304	3,369	2,244	1,125	-
Growth (%)	117.8	-18.2	-66.4	15.3	177.8	-72.6	-53.7	-49.9	-100.0
Milk									
Output (million litres)	177.1	142.1	187.2	179.5	173.4	151.2	48.6	49.4	53.2
Growth %	2.4	-19.8	31.8	-4.1	-3.4	-12.8	-13.3	1.5	7.9
Sugar Cane									
Output ('000 Metric tonnes)	1,485	972	990	1,140	1,636	1,651	535	544	572
Growth (%)	6.7	-34.5	1.8	15.1	43.6	0.9	-8.3	1.8	5.1

*Provisional

Source: Kenya National Bureau of Statistics

Chart 3.2: Horticultural exports



Source: Kenya National Bureau of Statistics

INDUSTRY

Industrial activity declined during the second quarter of 2020. The sector contracted by 0.5 percent, compared to growth of 4.4 percent in the previous quarter and 5.4 percent in a similar quarter of 2019. The contraction is attributed to reduced activity in Manufacturing and Electricity and Water Supply sectors by 3.9 percent and 0.6 percent, respectively. Nevertheless, Mining and Quarrying sector recorded strong growth of 10 percent, and the Construction sector recorded a growth of 3.9 percent during the quarter (**Table 3.1**).

Manufacturing

The Manufacturing sector contracted by 3.9 percent during the quarter, compared to growth of 2.9 percent in the previous quarter and 4.0 percent in a similar quarter of 2019 (**Table 3.1**). The sector was adversely affected by the various COVID-19 containment measures, which significantly reduced activity in the sector. This was reflected in the contraction of both food and non-food processing activity by 2.5 percent and 4.9 percent, respectively. The sector's contribution to overall GDP growth decreased to -0.4 percentage points compared to 0.3 percentage points in the previous quarter and 0.4 percentage points in a similar quarter of 2019 (**Table 3.3**).

Cement production decreased by 5.5 percent compared to the previous quarter. Monthly

production declined in April, then recovered in May and June (**Table 3.5**). However, production was higher by 5.7 percent compared to the same quarter of 2019, driven by continued positive activity in the construction sector.

Production of **assembled vehicles** decreased by 18.1 percent compared to the previous quarter. The decline was reflected in lower monthly production during all months of the quarter (**Table 3.5**).

Production of **galvanized sheets** declined by 32.7 percent compared to the previous quarter. Monthly production data showed that the significant decline in production in April more than offset the recovery recorded in May and June (**Table 3.5**).

Production of processed sugar decreased by 10 percent in the second quarter compared to the previous quarter. Monthly production data showed that the significant decline in April more than offset the recovery recorded in May and June (**Table 3.5**). However, when compared to the same quarter of 2019, sugar production increased significantly by 41.3 percent, due to continued high production of sugarcane.

Soft drinks production decreased further by 6.4 percent in the second quarter of 2020 compared to the previous quarter. Monthly production declined in April and May, then recovered in June (**Table 3.5**).

Table 3.5: Quarterly production statistics of selected manufactured goods

	2019				2020*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-20	May-20	Jun-20
Cement production									
Output (MT)	1,462,361	1,465,653	1,558,955	1,480,218	1,638,646	1,548,777	509,197	511,961	527,619
Growth %	-1.76	0.23	6.37	-5.05	10.70	-5.48	-9.0	0.5	3.1
Assembled vehicles									
Output (No.)	1,678	2,027	1,952	2,145	2,305	1,888	669	659	560
Growth %	22.3	20.8	-3.7	9.9	7.5	-18.1	-19.4	-1.5	-15.0
Galvanized sheets									
Output (MT)	69,186	70,382	67,820	67,037	63,912	48,852	12,469	18,076	18,307
Growth %	1.7	1.7	-3.6	-1.2	-4.7	-23.6	-32.7	45.0	1.3
Processed sugar									
Output (MT)	144662.0	100164.0	91288.0	104482.0	157135.0	141489.0	45458.0	46350.0	49681.0
Growth %	18.2	-30.8	-8.9	14.5	50.4	-10.0	-14.1	2.0	7.2
Soft drinks									
Output ('000 litres)	170,216	157,390	149,632	153,698	151,554	141,844	47,354	46,364	48,126
Growth %	12.9	-7.5	-4.9	2.7	-1.4	-6.4	-4.3	-2.1	3.8

Source: Kenya National Bureau of Statistics

Electricity and Water Supply

Electricity and Water Supply sector contracted by 0.6 percent in the second quarter of 2020, compared to 6.3 percent in the previous quarter and 7.3 percent in a similar quarter of 2019 (**Table 3.1**). Its contribution to overall economic growth was flat during the quarter under review (**Table 3.3**). The contraction was driven by reduced generation and consumption of electricity.

Electricity generation contracted by 8.8 percent in the second quarter of 2020 compared to the

previous quarter, driven by reduced generation of hydroelectricity, geothermal electricity, and thermal electricity. However, generation of renewable sources of electricity such as wind and solar energy increased. Meanwhile, consumption of electricity and international oil prices declined by 11.1 percent and 48.6 percent, respectively, reflective of the COVID-19 induced reduction in overall economic activity both domestically and globally (**Table 3.6**).

Table 3.6: Quarterly performance of indicators in the energy sector

	2019				2020*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-20	May-20	Jun-20
Electricity Supply (Generation)									
Output (million KWH)	2,825.1	2,805.2	2,895.6	2,882.8	2,888.4	2,635.0	841.0	881.1	912.9
Growth %	-1.1	-0.7	3.2	-0.4	0.2	-8.8	-13.2	4.8	3.6
Of which:									
Hydro-power Generation (million KWH)	815.7	707.0	754.2	928.5	1058.7	951.3	297.6	319.5	334.2
Growth (%)	-17.5	-13.3	6.7	23.1	14.0	-10.2	-17.1	7.3	4.6
Geo-Thermal Generation (million KWH)	1,236.9	1,238.5	1,319.7	1,439.6	1,367.6	1,225.0	411.8	391.8	421.4
Growth (%)	-1.3	0.1	6.6	9.1	-5.0	-10.4	-10.5	-4.8	7.6
Thermal Generation (million KWH)	311.6	437.7	369.9	194.1	164.0	153.9	35.8	56.3	61.9
Growth (%)	20.4	40.5	-15.5	-47.5	-15.5	-6.1	-35.8	57.5	9.9
Wind Generation (million KWH)	437.8	398.7	429.2	297.0	275.7	282.1	88.0	105.6	88.5
Growth (%)	27.4	-8.9	7.7	-30.8	-7.2	2.3	2.5	20.0	-16.3
Solar Generation (million KWH)	23.1	23.2	22.4	23.5	22.3	22.6	7.7	7.9	7.0
Growth (%)	70.1	0.4	-3.2	4.6	-4.8	1.2	-0.7	1.9	-11.8
Co-Generation (million KWH)	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Growth (%)	-37.5	27.7	27.0	35.7	-60.5	44.5	120.9	-69.6	-18.0
Consumption of electricity (million KWH)									
Output (million KWH)	2,221.7	2,191.9	2,235.6	2,223.6	2,274.7	2,021.5	645.3	660.1	716.1
Growth %	0.8	-1.3	2.0	-0.5	2.3	-11.1	-15.3	2.3	8.5
Murban crude oil average price (US \$ per barrel)									
Output (million KWH)	65.0	67.5	62.5	63.7	51.8	26.6	17.7	25.2	37.1
Growth %	-6.5	3.8	-7.4	1.9	-18.6	-48.6	-47.9	42.5	47.2

Source: Kenya National Bureau of Statistics

Construction

Growth in the Construction sector was positive at 3.9 percent in the second quarter of 2020, though lower than 5.3 percent recorded in the previous quarter, and 7.2 percent in a similar quarter of 2019 (**Table 3.1**). The sector contributed 0.2 percentage points to real GDP growth, a slight decline compared to 0.3 percentage points in the previous quarter (**Table 3.3**).

Activity during the quarter under review was mainly driven by ongoing Government infrastructure projects, and was reflected in increased credit advanced to the sector. Cement consumption,

however, decreased by 5.3 percent in the second quarter of 2020 compared to the previous quarter. The significant contraction in monthly consumption in April more than offset the recovery recorded in May and June. In addition, the value of building plans approved by the Nairobi City County Planning, Compliance and Enforcement Department declined by 78.8 percent in the second quarter of 2020 compared to the previous quarter, which was reflected in both residential and non-residential building plans. No approvals were granted in June 2020 (**Table 3.7**).

Table 3.7: Quarterly output stability of selected construction indicators

	2019				2020*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-20	May-20	Jun-20
Cement Consumption									
Output (Tonnes)	1,459,021	1,453,917	1,553,790	1,466,605	1,628,362	1,541,495	506,800	509,698	524,998
Growth %	-1.3	-0.3	6.9	-5.6	11.0	-5.3	-8.2	0.6	3.0
Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department									
Residential (KSh, millions)	33,048.82	42,830.80	38,669.71	23,657.32	N/A		14,155.64	49,022.50	N/A
Growth (%)	-8.6	29.6	-9.7	-38.8			41.2	246.3	
Non-residential (KSh, millions)	23,491.41	21,884.37	16,530.44	15,512.02	N/A		27,831.56	5,851.17	N/A
Growth (%)	3.7	-6.8	-24.5	-6.2			369.1	-79.0	
Total (KSh, millions)	56,540.23	64,715.17	55,200.15	39,169.34	N/A		41,987.20	54,873.67	N/A
Growth (%)	-3.9	14.5	-14.7	-29.0			163.1	30.7	

*Provisional

Source: Kenya Tourism Board (KTB)

SERVICES

The Services sector contracted significantly in the second quarter of 2020. It contracted by -11.7 percent compared to a growth of 5.5 percent in the previous quarter and 6.8 percent in a similar quarter of 2019. The sector was severely affected by the containment measures implemented domestically and globally to contain the spread of COVID-19, which led to a significant reduction in activity in Accommodation and Restaurant, Education, Wholesale and Retail, Trade, Transport and Storage, and Professional, Administrative and Support Services sectors (**Table 3.1**)

Accommodation and Restaurants

Accommodation and Restaurant sector recorded

the most significant contraction in the second quarter of 2020. It contracted by 83.3 percent due to the adverse impact of domestic and international containment measures on travel, hotels, and restaurants. Many businesses within the sector either shut down completely, or recorded minimum activity. The sector was also adversely affected by the closure of learning institutions in the country (**Table 3.1**).

Overall, tourist arrivals declined by 99.4 percent in the second quarter of 2020 compared to the previous quarter, owing to domestic travel restrictions and international border closures (**Table 3.8**).

Table 3.8: Quarterly tourist arrivals by point of entry

	2019				2020*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-20	May-20	Jun-20
Total Tourist Arrivals	361,479	339,250	449,185	402,279	290,010	745	27	137	581
Growth (%)	-2.5	-6.1	32.4	-10.4	-27.9	-99.7	-99.9	407.4	324.1
o.w. JKIA - Nairobi	312,819	324,240	420,478	366,434	262,769	745	27	137	581
Growth (%)	-6.5	3.7	29.7	-12.9	-28.3	-99.7	-99.9	407.4	324.1
MIAM - Mombasa	48,660	15,010	28,707	35,845	27,241	-	-	-	-
Growth %	34.7	-69.2	91.3	24.9	-24.0				

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

Education

The Education sector was severely affected by the COVID-19 pandemic. It contracted by 56.2 percent due to the closure of all learning institutions during the second quarter of 2020 to prevent the spread of the disease through physical contact (**Table 3.1**).

Health

The sector recorded strong growth of 10.3 percent during the quarter, mainly due to increased activity aimed at controlling the spread of COVID-19 by the Government as well as other domestic and international stakeholders (**Table 3.1**).

Transport and Storage

Transport and Storage sector growth contracted by 11.6 percent in the second quarter of 2020 compared to growth of 6.1 percent in the previous quarter and 7.6 percent in a similar quarter of 2019 (**Table 3.1**). The contraction was mainly occasioned by the COVID-19 containment measures which adversely affected travel, freight and warehousing

activities. The contribution of the sector to overall GDP growth stood at -0.7 percentage points in the second quarter of 2020 compared to a positive contribution of 0.4 percentage points in the previous quarter (**Table 3.3**).

Total passenger flows through JKIA declined by 98.9 percent in the second quarter of 2020 compared to the previous quarter, owing to the domestic and international travel restrictions enforced during the quarter. Consumption of fuels decreased by 23.3 percent in the second quarter of 2020 compared to the previous quarter, mainly driven by reduced transportation of both passengers and cargo. In addition, the volume of oil that passed through the Kenya Pipeline Company Limited decreased by 35.1 percent in the period April-May 2020 compared to the same period in 2019, mainly driven by reduced volume of oil transported in April (**Table 3.9**).

Table 3.9: Quarterly throughput of selected transport companies

	2019				2020*				
	Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Apr-20	May-20	Jun-20
Number of Passengers thro' JKIA									
Total passenger flows	1,145,280	1,212,177	1,468,305	1,330,983	1,023,393	N/A	2,518	N/A	N/A
Growth (%)	-9.0	5.8	21.1	-9.4	-23.1		-98.8		
o.w. Incoming	729,230	773,597	902,957	831,193	640,852	N/A	147	N/A	N/A
Growth (%)	-9.1	6.1	16.7	-7.9	-22.9		-99.9		
Outgoing	416,050	438,580	565,348	499,790	382,541	N/A	2,371	N/A	N/A
Growth %	-8.9	5.4	28.9	-11.6	-23.5		-97.2		
Kenya Pipeline Oil Throughput									
Output ('000 litres)	1,859,793	1,791,759	1,763,400	1,816,132	1,900,764	N/A	396,979	414,190	N/A
Growth %	12.1	-3.7	-1.6	3.0	4.7		-35.6	4.3	
Output ('000 litres)	1,296.6	1,302.3	1,467.8	1,255.6	1,226.4	940.5	289.8	314.8	335.9
Growth (%)	5.7	0.4	12.7	-14.5	-2.3	-23.3	-27.8	8.6	6.7

Source: Kenya National Bureau of Statistics, Kenya Pipeline Company

Chapter 4

Global Economy

Global Developments

The COVID-19 pandemic adversely affected the global economy with the International Monetary Fund (IMF) projecting a contraction of 4.9 percent in 2020 from a growth of 2.9 percent in 2019. The

movement restrictions disrupted trade, travel and economic activity. This plunged the global economy into a severe recession akin to the great depression of 1930s.

Table 4.1. Overview of the World Economic Outlook Projections

Country/Region	Real GDP Growth (%)					
	Actuals		Projections		Difference from April 2020 WEO Projections	
	2018	2019	2020	2021	2020	2021
World Output	3.6	2.9	-4.9	5.4	-1.9	-0.4
Advanced Economies	2.2	1.7	-8.0	4.8	-1.9	0.3
United States	2.9	2.3	-8.0	4.5	-2.1	-0.2
Euro Area	1.9	1.3	-10.2	6.0	-2.7	1.3
Germany	1.5	0.6	-7.8	5.4	-0.8	0.2
France	1.8	1.5	-12.5	7.3	-5.3	2.8
Italy	0.8	0.3	-12.8	6.3	-3.7	1.5
Spain	2.4	2.0	-12.8	6.3	-4.8	2.0
Japan	0.3	0.7	-5.8	2.4	-0.6	-0.6
United Kingdom	1.3	1.4	-10.2	6.3	-3.7	2.3
Canada	2.0	1.7	-8.4	4.9	-2.2	0.7
EMDEs	4.5	3.7	-3.0	5.9	-2.0	-0.7
China	6.7	6.1	1.0	8.2	-0.2	-1.0
India	6.1	4.2	-4.5	6.0	-6.4	-1.4
Russia	2.5	1.3	-6.6	4.1	-1.1	0.6
Brazil	1.3	1.1	-9.1	3.6	-3.8	0.7
Mexico	2.2	-0.3	-10.5	3.3	-3.9	0.3
Saudi Arabia	2.4	0.3	-6.8	3.1	-4.5	0.2
Sub-Saharan Africa	3.2	3.1	-3.2	3.4	-1.6	-0.7
Nigeria	1.9	2.2	-5.4	2.6	-2.0	0.2
South Africa	0.8	0.2	-8.0	3.5	-2.2	-0.5

Source : IMF, World Economic Outlook, June 2020 Update

Advanced economies are expected to contract by 8.0 percent in 2020 from a growth of 1.7 percent in 2019 before recovering by 4.8 percent in 2021. Significant contraction is expected in the US (-8.0 percent), Euro area (10.2 percent), the United Kingdom (-10.2), and Japan (-5.8 percent) respectively.

Emerging market and developing economies (EMDEs), which grew by 3.7 percent in 2019, are projected to contract by 3.0 percent in 2020. China is projected to grow by 1.0 percent in 2020 compared to 6.1 percent in 2019, while India is expected to contract by 4.5 percent in 2020 after growing by 4.2 percent in 2019. Sub-Saharan African region is projected to contract by 3.2 percent in 2020 compared to growth of 3.1 percent in the previous year. Nigeria and South Africa, the main drivers of African growth, are projected to contract by 8.0 percent and 5.4 percent in 2020, respectively (**Table 4.1**).

The global commodity (oil) prices are expected to stabilize at \$40 per barrel in 2020 compared with a

fall of \$36 per barrel at the onset of pandemic but consumption remains below pre-pandemic levels. Also, global financial conditions are expected to ease in 2020 following collapse of risk assets prices and market volatility which had spiked, with expectations of widespread defaults. Also, tighter external financing conditions triggered sudden capital outflows with sharp currency depreciations across numerous emerging markets and developing economies.

Global trade is expected to decline by 11.9 percent in 2020, reflecting weak global demand, collapse of cross-border tourism, supply disruptions occasioned by lockdowns and travel restrictions but limited reduction in global current account deficits and surpluses.

The outlook remains highly uncertain due to renewed outbreak and unpredictability of the severity and length of the pandemic. The downside risks include new waves of contagion, stronger and longer lasting effects of the health crisis on

economic activity and financial markets, and re-imposition of containment measures, which could trigger more capital flow reversals, currency pressures, and further rise in the risk of external crisis for economies with preexisting vulnerabilities, such as large current account deficits, a high share of foreign currency debt, and limited international reserves, alongside escalation of the US-China tensions and disagreements among the OPEC+ countries.

The combination of unprecedented fiscal and

monetary policy responses, especially in advanced economies, have been successful in forestalling further disruptions in economic activity. However, appropriate policy measures and reforms are necessary to mitigate the above downside risks, strengthen growth, securing adequate resources for the Health Care System, shared economic policy objectives across countries to limit the propagation of the health crisis to economic activities. Authorities, while continuing to support the real economy, need to closely monitor financial vulnerabilities and safeguard financial stability.

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account deficit narrowed to USD 772 million in the second quarter of 2020 from USD 1,341 million in the second quarter of 2019 due to a decline in imports. The financial account inflows

on a net basis declined to USD 1,690 million in the second quarter of 2020 compared to net inflow of USD 2,813 million in the second quarter of 2019 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2019*			2020					Q2 2020-Q2 2019	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2			Apr-June	Change	%
	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2		
1. Overall Balance	-932	-126	252	466	249	-637	-24	-412	520	-55.8
2. Current account	-1,341	-1,527	-1,675	-1,093	-334	-141	-297	-772	569	-42.4
Exports (fob)	1,453	1,424	1,429	1,764	408	445	454	1,307	-146	-10.1
Imports (fob)	4,196	4,066	4,336	3,916	1,051	960	1,055	3,066	-1,129	-26.9
Services: credit	1,392	1,343	1,395	1,204	270	308	264	843	-550	-39.5
Services: debit	1,013	944	1,019	1,004	264	241	283	788	-225	-22.2
Balance on goods and services	-2,363	-2,243	-2,532	-1,952	-636	-448	-621	-1,705	658.2	-27.8
Primary income: credit	61	57	55	53	11	10	11	33	-28	-46.2
Primary income: debit	507	584	501	413	86	141	120	348	-159	-31.4
Balance on goods, services, and primary income	-2,809	-2,771	-2,978	-2,311	-711	-579	-730	-2,020	789	-28.1
Secondary income: credit	1,481	1,257	1,317	1,232	381	441	437	1,259	-223	-15.0
o.w Remittances	797	658	711	698	210	262	291	764	-33	-4.1
Secondary income: debit	14	13	13	14	4	3	4	11	-3	-19.6
3. Capital Account	86	27	52	24	0	41	1	42	-44	-50.8
4. Financial Account	-2,813	-1,167	-1,322	-419	-24	-470	-1,196	-1,690	1,123	-39.9

* Revised

Fob - free on board

Source: Central Bank of Kenya

Current Account Balance

The trade balance narrowed by 39.5 percent from a deficit of USD 2,363 million in the second quarter of 2019 to a deficit of USD 1,705 million in the second quarter of 2020, mainly attributed to the decline in imports despite reduced earnings from exports of goods and services (Table 5.1). The value of merchandise exports decreased by 9.8 percent to USD 1,307 million in the second quarter of 2020 largely due to reduced earnings from horticulture, re-exports and chemicals. Receipts from horticulture exports declined by 19.2 percent to USD 210 million primarily due to COVID-19 related disruptions to the global market demand and reduced air cargo capacity following the suspension of all international flight services on March 25, 2020.

The value of tea exports increased by 32 percent to USD 327 million, due to increased production coupled with limited disruptions to the global supply chain. Tea production in the first half of 2020 was 42 percent higher compared with 2019.

The value of merchandise imports declined by 27

percent to USD 3,066 million in the second quarter of 2020 from USD 4,196 million in the second quarter of 2019, largely due to reduced imports of oil products as a result of relatively lower international oil prices. Oil prices were significantly lower in the second quarter of 2020 following the global demand shock due to COVID-19. Imports of machinery and transport equipment and manufactured goods also declined by 28.7 percent and 18.1 percent respectively.

Net receipts in the services account declined by 16 percent to USD 55 million in the second quarter of 2020 compared with USD 379 million in the second quarter of 2019 mainly on account of lower receipts from transport and travel services. Transport services declined by USD 140 million due to lower receipts from air transport of both passenger and cargo. Receipts from travel services also declined by USD 180 million in the second quarter of 2020. The balance on the primary account narrowed by USD 131 million to deficit of USD 315 million in the second quarter of 2020, from a deficit of USD 445 million in the second quarter of 2019, reflecting

lower reinvestment earnings related outflows. The balance on secondary income on the other hand declined by USD 223 million to USD 1,259 million, largely on account of reduced current transfers

(other). Remittance inflows remained resilient and increased by 0.9 percent to USD 1,462 million in the first half of 2020.

Table 5.2: Balance on current account (USD Million)

ITEM	2019*			2020*					Q2 2020-Q2 2019	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2			Total	Change	%
	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2		
CURRENT ACCOUNT	-1,341	-1,527	-1,675	-1,093	-334	-141	-297	-772	569	-42.4
Goods	-2,743	-2,642	-2,907	-2,152	-643	-515	-602	-1,760	983	-35.8
Exports (fob)	1,453	1,424	1,429	1,764	408	445	454	1,307	-146	-10.1
o.w Coffee	72	43	33	52	25	22	28	74	3	3.6
Tea	248	249	305	335	124	106	97	327	79	32.0
Horticulture	259	221	228	273	68	75	66	210	-50	-19.2
Oil products	8	26	15	14	3	3	2	8	1	8.4
Manufactured Goods	100	109	98	94	15	23	31	69	-31	-31.3
Raw Materials	93	79	78	101	23	27	39	89	-4	-4.3
Chemicals and Related Products (n.e.s)	112	116	106	122	30	34	37	100	-12	-10.7
Miscellaneous Man. Articles	156	145	137	145	31	33	39	103	-52	-33.6
Re-exports	174	204	173	331	24	51	33	108	-67	-38.3
Other	224	224	247	285	64	70	79	212	-12	-5.2
Imports (fob)	4,196	4,066	4,336	3,916	1,051	960	1,055	3,066	-1,129	-26.9
o.w Oil	1,020	772	781	778	173	55	131	359	-661	-64.8
Chemicals	632	576	618	653	187	222	200	609	-22	-3.5
Manufactured Goods	758	802	721	649	182	207	232	621	-137	-18.1
Machinery & Transport Equipment	1,095	1,151	1,469	1,061	246	248	287	780	-314	-28.7
Machinery	709	791	944	746	162	158	216	535	-174	-24.5
Transport equipment	386	360	525	315	84	90	71	245	-140	-36.4
Other	915	924	910	950	311	218	253	783	-132	-14.4
o.w Food	440	453	429	435	141	107	150	397	-42	-9.6
Services	379	398	375	200	7	67	-19	55	-325	-85.6
Transport Services (net)	159	185	190	163	-6	32	-12	14	-144	-91.0
Credit	551	532	559	493	89	111	83	283	-268	-48.7
Debit	393	347	370	331	95	79	95	269	-124	-31.6
Travel Services (net)	202	194	227	179	9	5	7	21	-180	-89.4
Credit	249	244	280	225	14	6	8	28	-221	-88.7
Debit	47	50	53	46	5	1	1	7	-41	-85.6
Other Services (net)	19	20	-41	-142	4	30	-14	19	0	1.0
Primary Income	-445	-527	-446	-359	-75	-131	-109	-315	131	-29.3
Credit	61	57	55	53	11	10	11	33	-28	-46.2
Debit	507	584	501	413	86	141	120	348	-159	-31.4
Secondary Income	1,468	1,244	1,303	1,218	377	438	433	1,248	-220	-15.0
Credit	1,481	1,257	1,317	1,232	381	441	437	1,259	-223	-15.0
Debit	14	13	13	14	4	3	4	11	-3	-19.6

* Revised; **Provisional; Fob - free on board

Source: Central Bank of Kenya and KNBS

Direction of Trade

Imports from China accounted for 23.6 percent of total imports to Kenya and declined to USD 723 million in the second quarter of 2020 from USD 802 million the first quarter of 2020. Imports from European Union also decreased by USD 14.6 million, while those from Africa decreased by 11.6 percent to USD 355 million in the second quarter of 2020, reflecting lower imports from South Africa. Over the same period, total imports from COMESA region decreased to USD 203 million, while that of EAC region decreased to USD 100 million in the second quarter of 2020.

The value of merchandise exports decreased following modest exports to Africa of USD 448 million in the second quarter of 2020 compared with USD 534 million in 2019. In the EAC region, Uganda, Rwanda and Tanzania recorded the highest decreases with exports of USD 118 million, USD 59 million and USD 42 million, respectively. Exports to EU remained stable while the share of exports to Asia increased to 24.1 percent from 20.2 percent following increased exports to Pakistan. The share of exports to the Americas declined to 7.9 percent in the second quarter of 2020 from 9.4 percent.

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)									Share of Imports (%)	
	2019*			2020*						
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun					
Country	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2019	Q2 2020
Africa	507	597	512	461	127	106	122	355	12.1	11.6
<i>Of which</i>										
South Africa	176	177	133	141	29	33	34	96	4.2	3.1
Egypt	95	111	113	106	29	26	33	89	2.3	2.9
Others	236	309	265	214	68	48	54	170	5.6	5.5
EAC	129	197	149	119	35	30	34	100	3.1	3.3
COMESA	274	319	309	258	76	57	70	203	6.5	6.6
Rest of the World	3,689	3,398	3,824	3,455	924	854	934	2,712	87.9	88.4
<i>Of which</i>										
India	364	424	424	568	110	107	134	350	8.7	11.4
United Arab Emirates	358	324	438	271	61	32	43	136	8.5	4.4
China	802	785	1,126	797	198	230	296	723	19.1	23.6
Japan	291	216	277	223	71	50	56	178	6.9	5.8
USA	114	146	127	128	60	51	43	154	2.7	5.0
United Kingdom	80	67	93	72	18	25	19	62	1.9	2.0
Singapore	6	8	18	32	5	3	3	11	0.2	0.4
Germany	100	116	100	93	31	32	36	98	2.4	3.2
Saudi Arabia	419	303	279	237	58	21	16	96	10.0	3.1
Indonesia	139	106	116	199	68	65	27	159	3.3	5.2
Netherlands	49	55	33	73	19	16	16	51	1.2	1.7
France	68	49	70	57	14	15	24	53	1.6	1.7
Bahrain	42	2	1	1	2	0	1	2	1.0	0.1
Italy	57	48	53	57	14	14	18	45	1.4	1.5
Others	799	749	669	649	196	193	204	594	19.1	19.4
Total	4,196	3,995	4,336	3,916	1,051	960	1,055	3,066	100.0	100.0
EU	524	490	594	535	140	145	161	446	12.5	14.5
China	802	785	1,126	797	198	230	296	723	19.1	23.6

Source: Kenya Revenue Authority

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)									Share of Exports (%)	
	2019			2020						
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2					
Country	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2019	Q2 2020
Africa	534	551	574	640	127	151	170	448	36.0	34.3
<i>Of which</i>										
Uganda	143	158	162	185	25	44	49	118	10.0	9.1
Tanzania	83	84	89	78	19	19	21	59	4.9	4.5
Egypt	47	41	45	53	13	13	16	43	3.0	3.3
Sudan	14	12	14	29	5	5	6	16	1.0	1.2
South Sudan	41	21	33	84	16	10	12	38	1.3	2.9
Somalia	33	24	28	25	6	10	7	23	2.4	1.8
DRC	35	30	34	33	10	9	12	31	2.5	2.4
Rwanda	55	68	61	60	8	13	20	42	3.0	3.2
Others	83	112	108	93	23	27	28	78	7.8	6.0
EAC	297	345	361	420	72	91	105	269	19.4	20.6
COMESA	358	374	375	421	80	106	124	311	24.8	23.8
Rest of the World	950	873	855	1,124	281	294	284	859	64.1	65.7
<i>Of which</i>										
United Kingdom	84	91	98	131	42	36	36	114	6.1	8.7
Netherlands	119	98	110	129	26	32	25	83	7.0	6.3
USA	137	137	114	119	28	27	49	104	9.4	7.9
Pakistan	96	95	123	132	52	48	40	141	9.2	10.8
United Arab Emirates	101	102	74	127	19	33	14	66	5.7	5.0
Germany	33	24	22	34	13	13	10	37	1.5	2.8
India	13	13	10	12	1	3	4	8	1.7	0.6
Afghanistan	9	9	10	14	2	1	2	5	0.9	0.3
Others	356	306	293	425	98	101	104	303	22.5	23.2
Total	1,484	1,424	1,429	1,764	408	445	454	1,307	100.0	100.0
EU	315	289	301	391	112	106	97	315	20.2	24.1
China	40	33	42	41	7	10	19	36	1.8	2.7

Source: Kenya Revenue Authority

Capital and Financial Account

The capital account inflows on a net basis recorded a decline of 44 percent to USD 42 million in the second quarter of 2020. The financial account recorded lower net inflows of USD 3,142 million in the second quarter of 2020 compared to net inflow of USD 2,813 million in the second quarter

of 2019. This was mainly due to USD 51 million reduction in Direct Investment in Kenya and USD 122 million, which more than off-set the USD 312 million increase in the Portfolio Investment assets. 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	2019 *								Q2 2020-Q2 2019	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2			Apr-Jun	Absolute	%
	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Change	Change
Capital account credit	86	27	52	24	0	41	1	42	-44	-51
Capital account credit	86	27	52	24	0	41	1	42	-44	-51
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-2,813	-1,167	-1,322	-419	-24	-470	-1,196	-1,690	1,123	-40
Direct investment: assets	74	33	48	71	2	3	3	8	-66	-89
Direct investment: liabilities	410	284	359	104	31	22	39	93	-318	-77
Portfolio investment: assets	198	227	272	309	106	117	80	303	105	53
Portfolio investment: liabilities	2,136	42	89	-101	-38	-42	-11	-91	-2,227	-104
Financial derivatives: net	-4	4	1	3	-6	-3	5	-5	0	8
Other investment: assets	230	125	184	-8	128	137	-137	128	-102	-44
Other investment: liabilities	765	1,230	1,380	791	262	743	1,119	2,123	1,359	178

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 13,681 million at the end of second quarter of 2020 from USD 13,187 million at the end of second quarter of 2019. The Official reserves held by the Central Bank constituted the

bulk of the gross reserves and increased to USD 9,740 million, equivalent to 5.9 months of import cover, while Commercial Bank reserves increased by USD 410 million to end at USD 3,941 million at the end of second quarter of 2020.

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

	2019									
	Apr-Jun	Jul-Sep	Q4			Oct-Dec	Jan-Mar	Q2		
	Q2	Q3	Oct	Nov	Dec	Q4	Q1	Apr	May	Jun
1. Gross Reserves	13,187	13,089	13,356	12,825	12,919	12,919	12,447	12,286	13,806	13,681
of which:										
Official	9,656	9,442	9,349	9,153	9,116	9,116	8,635	8,357	9,738	9,740
import cover*	6.0	5.8	5.7	5.6	5.5	5.5	5.2	5.0	5.9	5.9
Commercial Banks	3,531	3,642	4,007.2	3,672.0	3,803.4	3,803	3,812	3,929	4,067	3,941
2. Residents' foreign currency deposits	6,415	6,196	6,341	6,229	6,393	6,393	6,445	6,439	6,620	6,557

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

Source: Central Bank of Kenya

Exchange Rates

Kenya's currency weakened against major international currencies on account of global financial conditions resulting from impact of Covid-19 pandemic. The Kenya Shilling weakened by 5 percent against the US Dollar to exchange at

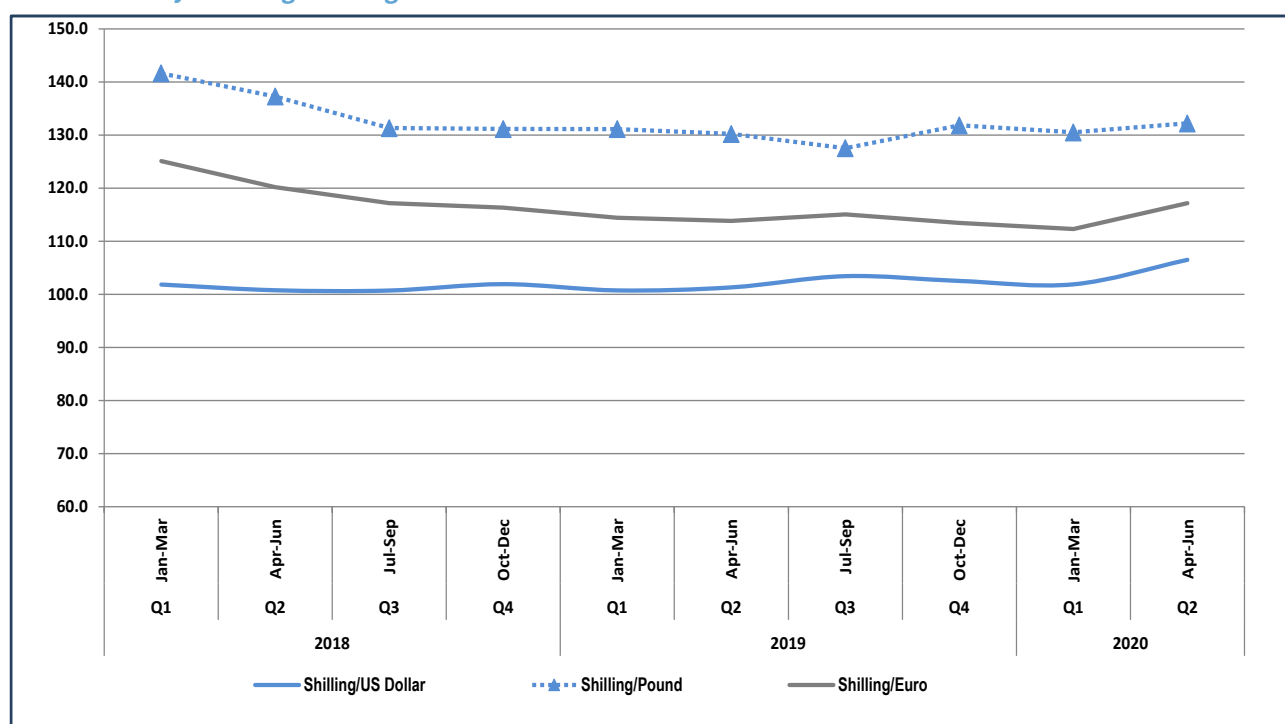
an average of 106.5 during the second quarter compared with 101.9 in the first quarter of 2020. In the EAC region, it strengthened relative to Uganda, Tanzania shilling and Burundi and Rwanda Franc during the review period (**Table 5.7** and **Chart 5.1**).

Table 5.7: Kenya Shilling exchange rate

	2019			2020	2020				% change Q2 2020 - Q1 2020
	Apr-Jun Q2	Jul-Sep Q3	Oct-Dec Q4	Jan-Mar Q1	Apr	May	Jun	Q2	
US Dollar	101.30	103.42	102.52	101.88	106.41	106.68	106.40	106.50	4.54
Pound Sterling	130.22	127.51	131.83	130.51	131.92	131.29	133.38	132.19	1.29
Euro	113.82	115.05	113.44	112.30	115.61	116.12	119.83	117.19	4.35
100 Japanese Yen	92.21	93.05	94.50	93.47	98.78	99.55	98.92	99.08	6.00
Uganda Shilling*	36.97	35.67	35.99	36.40	35.56	35.54	35.13	35.41	-2.72
Tanzania Shilling*	22.74	22.23	22.44	22.64	21.75	21.70	21.76	21.73	-4.01
Rwanda Franc*	8.94	8.87	9.07	9.32	8.95	8.88	8.96	8.93	-4.24
Burundi Franc*	18.10	17.83	18.12	18.51	17.77	17.80	17.90	17.82	-3.72

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling exchange Rate



Source: Central Bank of Kenya

Chapter 6

Banking Sector

Overview

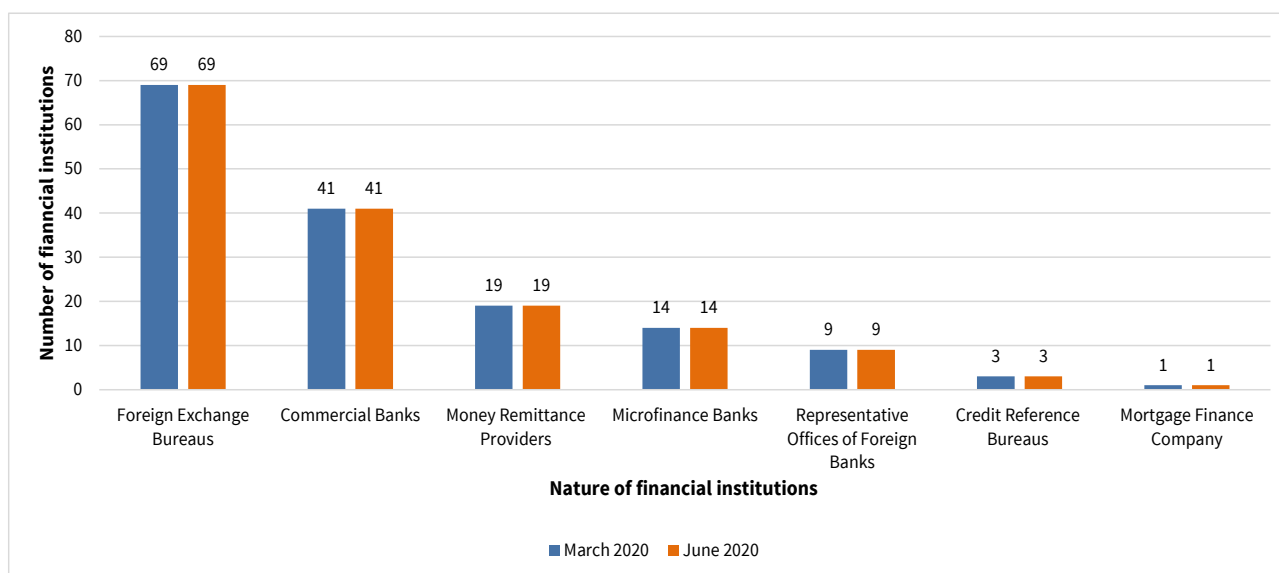
The banking sector remained stable and resilient in the second quarter of 2020. However, the COVID-19 pandemic negatively impacted the asset quality and overall performance. The sector was well capitalized and continued to meet the minimum statutory capital requirements. The quarterly pre-tax profits decreased by 43.4 percent due to a decrease in total income (2.4 percent) and an increase in total expenses (14.4 percent). Credit risk remained elevated reflected by increased gross non-performing loans (NPLs) to gross loans ratio of

13.13 percent in the second quarter of 2020 from 12.54 percent in the first quarter of 2020.

Structure of the Banking Sector

The banking sector comprised 41 Commercial Banks, 1 Mortgage Finance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 69 Foreign Exchange Bureaus, 19 Money Remittance Providers and 3 Credit Reference Bureaus as at June 30, 2020 (**Chart 6.1**).

Chart 6.1: Structure of the Banking Sector



Source: Central Bank of Kenya

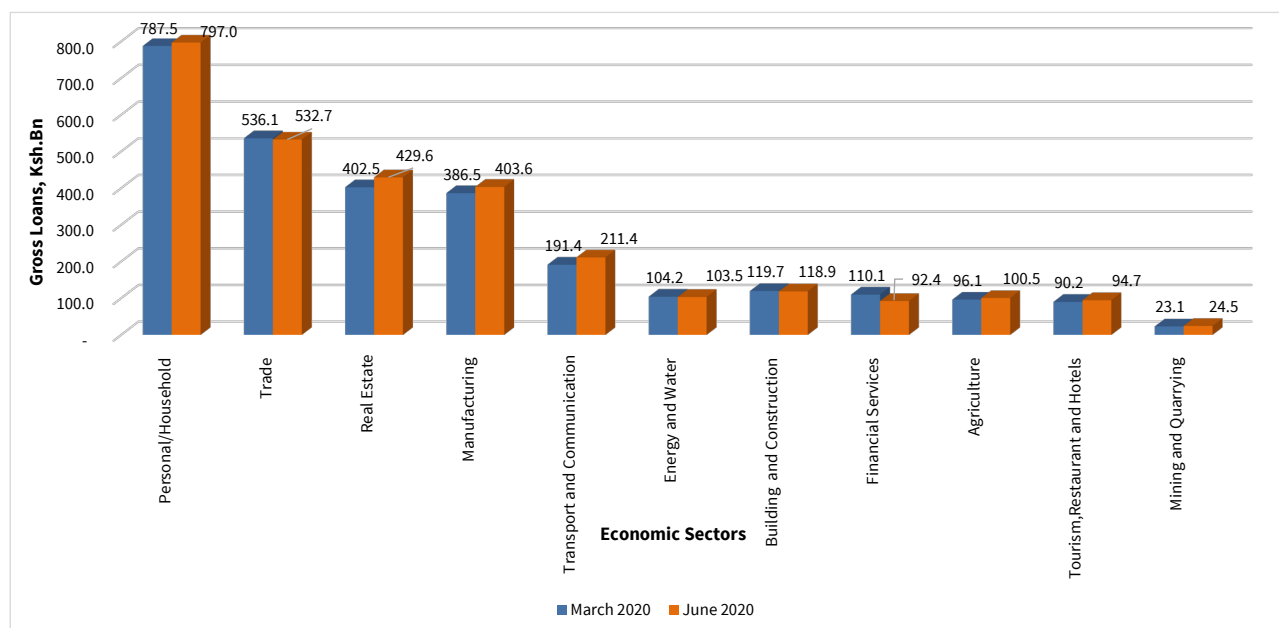
i) Growth in banking sector assets

The sector's total net assets increased by 4.1 percent to KSh 5,207.8 billion in June 2020 from KSh 5,001.2 billion in March 2020. The increase in total net assets was mainly recorded in balances with CBK (34.9 percent) and other foreign assets (19.6 percent). However, loans and advances, which increased by 2.2 percent, remained the main component of assets. It accounted for 50.9 percent in the second quarter of 2020, but below 52.2 percent recorded in the first quarter of 2020.

ii) Loans and Advances

Total lending by banks increased by 2.2 percent from KSh 2,847.4 billion in the first quarter of 2020 to KSh 2,908.7 billion in the second quarter of 2020. The increase in gross loans and advances was largely witnessed in the Real Estate, Transport and Communication, Manufacturing and Personal/Household sectors. The overall increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the first quarter and the second quarters of 2020 is indicated in **Chart 6.2**.

Chart 6.2: Loans by Sector



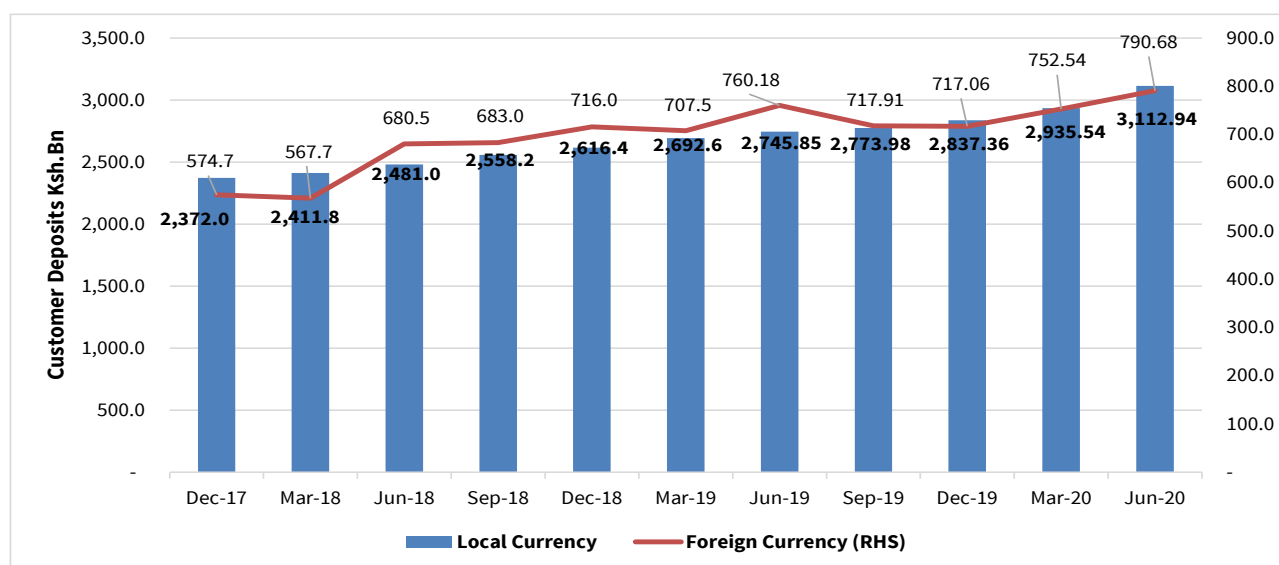
Source: Central Bank of Kenya

iii) Customer Deposit Liabilities

Customer deposits remained the main source of funding to banks, accounting for 75.0 percent of the banking sector total liabilities and shareholders' funds as at the end of the second quarter of 2020. This was an increase from 73.7 percent recorded as at end of the first quarter of 2020. The customer deposit base increased by 5.8 percent to KSh 3,903.6 billion in the second quarter of 2020 from

KSh 3,688.1 billion in the first quarter of 2020. Local currency deposits increased by KSh 177.4 billion (6.0 percent) to KSh 3,112.9 billion in the second quarter of 2020 from KSh 2,935.5 billion in the first quarter of 2020. Foreign currency deposits increased by KSh 38.1 billion (5.1 percent) to KSh 790.7 billion in the second quarter of 2020 from KSh 752.5 billion in the first quarter of 2020 (**Chart 6.3**).

Chart 6.3: Customer Deposits



Source: Central Bank of Kenya

Capital Adequacy

The banking sector is well capitalized and the capital adequacy levels met the minimum statutory requirements. Core capital increased by 1.8 percent to KSh 651.6 billion in the second quarter of 2020 from KSh 640.3 billion in the first quarter of 2020. Total capital also increased by 1.9 percent to KSh 737.3 billion in the second quarter of 2020 from KSh 723.8 billion in the first quarter of 2020. The increases in capital levels are mainly attributable to increased retained earnings from the profits made in 2019.

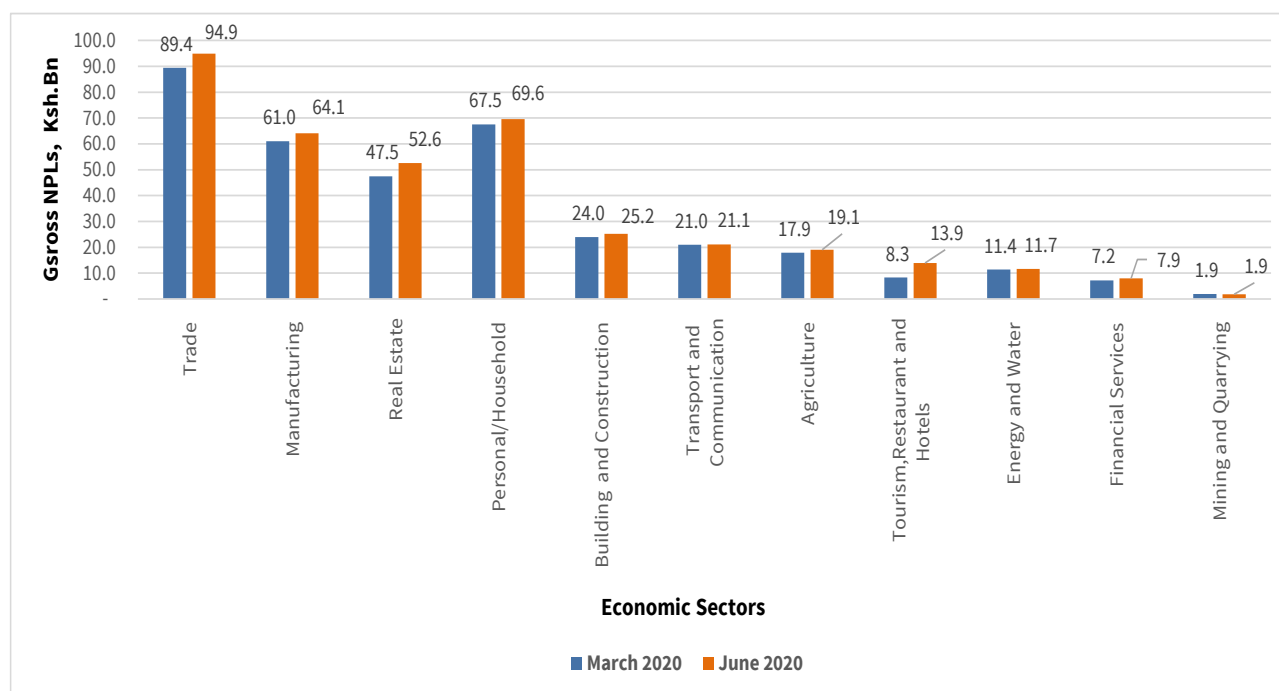
Core capital to total risk-weighted assets ratio remained constant at 16.4 percent in the second and first quarter of 2020, while the total capital to total risk-weighted assets ratio increased slightly to 18.52 percent from 18.50 percent over the same period.

The minimum core capital to total deposits ratio is set at 8 percent. The sector maintained adequate buffers, with the ratio standing at 16.7 percent in the second quarter of 2020 compared to 17.4 percent recorded in the first quarter of 2020. The decrease was attributable to a 5.8 percent increase in total deposits as compared to a 1.8 percent increase in core capital between the first quarter and second quarter of 2020.

Asset Quality

The gross non-performing loans (NPLs) increased by 7.0 percent from KSh 357.0 billion as at the end of the first quarter of 2020 to KSh 382.0 billion at the end of the second quarter of 2020. As a result, gross NPLs to gross loans ratio increased to 13.13 percent in the second quarter of 2020 from 12.54 percent in the first quarter of 2020. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

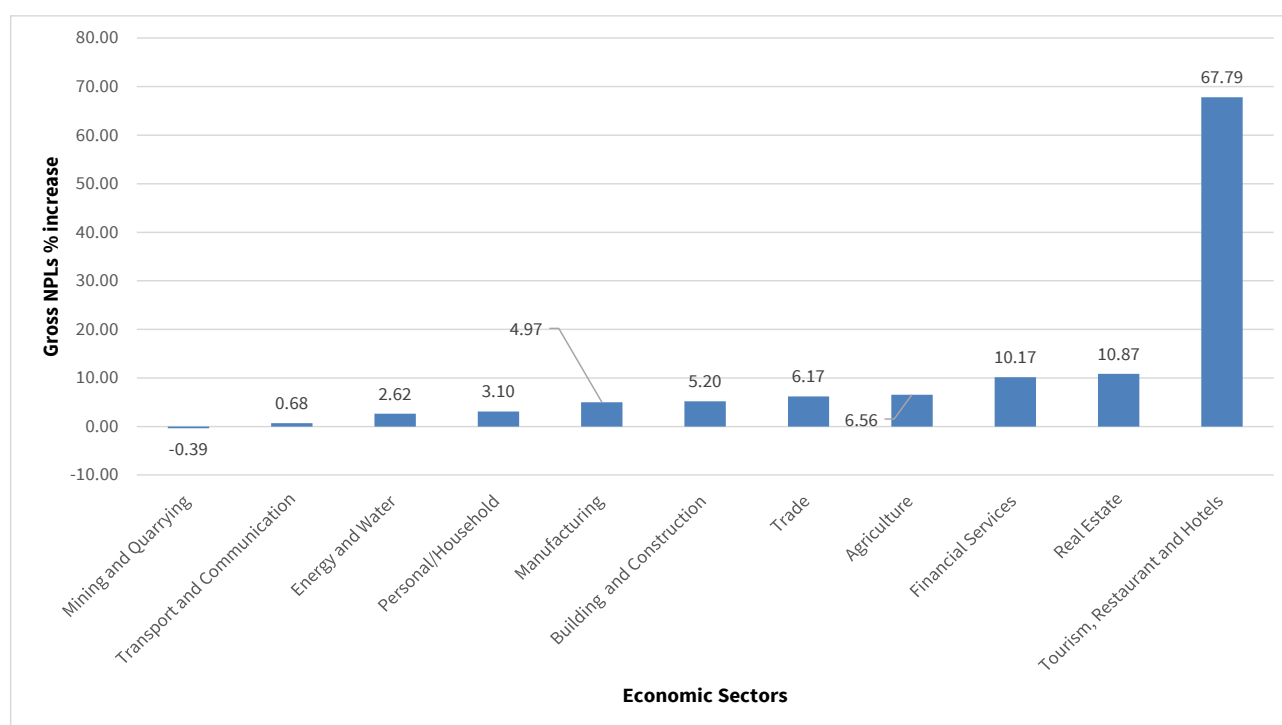
Chart 6.4: Kenyan Banking Sector Gross non-performing Loans (KSh Bn)



Source: Central Bank of Kenya

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

Chart 6.5: Sectoral Distribution of Gross NPLs in Q1 and Q2 of 2020



Source: Central Bank of Kenya

The Tourism, Restaurants and Hotels sector registered the highest increase in NPLs by 67.8 percent (KSh 5.6 billion) attributed mainly to the impacts of COVID-19 pandemic. The other two sectors which registered major increases are Real Estate and Financial Services sectors, which increased by 10.9 percent and 10.2 percent, respectively.

The banking sector's asset quality, as measured

by the proportion of net non-performing loans to gross loans, deteriorated slightly to 5.9 percent in the second quarter of 2020 from 5.6 percent in the first quarter of 2020. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased from 44.9 percent in first quarter of 2020 to 44.4 percent in second quarter of 2020 due to a lower increase in specific provisions (5.8 percent) as compared to the increase in total NPLS (7.0 percent) (**Table 6.1**).

Table 6.1: Summary of Asset Quality

		March 2020	June 2020
1	Gross Loans and Advances (KSh Bn)	2,847.4	2,908.7
2	Interest in Suspense (KSh Bn)	66.4	70.9
3	Loans and Advances (net of interest suspended) (KSh Bn)	2,781.0	2,837.8
4	Gross Non-Performing loans (KSh Bn)	357.0	382.0
5	Specific Provisions (KSh Bn)	130.5	138.1
6	General Provisions (KSh Bn)	39.1	48.3
7	Total Provisions (5+6) (KSh Bn)	169.6	186.3
8	Net Advances (3-7) (KSh Bn)	2,611.9	2,651.5
9	Total Non-Performing Loans and Advances (4-2) (KSh Bn)	290.6	311.1
10	Net Non-Performing Loans and Advances (9-5) (KSh Bn)	160.1	173.0
11	Total NPLs as % of Total Advances (9/3) (%)	10.4	11.0
12	Net NPLs as % of Gross Advances (10/1) (%)	5.6	5.9
13	Specific Provisions as % of Total NPLs (5/9) (%)	44.9	44.4
14	Gross NPLs to Gross Loans Ratio (%)	12.5	13.1

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in pre-tax profits by KSh 16.7 billion (43.4 percent) to KSh 21.7 billion in the second quarter of 2020 from KSh 38.3 billion in the first quarter of 2020. The decrease in profitability was mainly attributable to a decrease in total income by KSh 2.4 billion (1.7 percent) to KSh 135.4 billion in the second quarter of 2020 from KSh 137.8 billion in the first quarter of 2020. The decrease in total income was largely attributable to other incomes, which decreased by KSh 5.1 billion (19.5 percent) between first quarter of 2020 and second quarter of 2020.

Interest income on loans and advances, government securities and other incomes were the major sources of income in the second quarter of 2020 accounting for 49.0 percent, 25.8 percent and 17.4 percent of total income in the second quarter of 2020 compared to 48.4 percent, 24.5 percent and 19.1 percent in the first quarter of 2020, respectively. On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 29.6 percent, 22.6 percent and 22.1 percent of total expenses in the second quarter of 2020 compared to 31.5 percent, 24.1 percent and 24.1 in the first quarter of 2020, respectively. Total expenses increased by KSh 14.3 billion (14.4 percent) to KSh 113.8 in the second quarter of 2020 from KSh 99.5 billion in the first quarter of 2020. The increase was driven by a 116.8 percent (KSh 14.4 billion) increase in bad debt charge.

Return on Assets (ROA) stood at 0.5 percent in the second quarter of 2020, a decrease from 2.3 percent registered in the first quarter of 2020. Similarly, Return on Equity (ROE) decreased to 11.3 percent in the second quarter of 2020 from 20.4 percent in the first quarter of 2020. The decreases in ROA and ROE were mainly attributable to decreased profit before tax in the second quarter of 2020.

Liquidity

The banking sector's overall liquidity ratio increased to 52.8 percent in the second quarter of 2020 from

51.4 percent in the first quarter of 2020. The increase was driven by a higher increase in total liquid asset (7.9 percent) compared to a 5.2 percent increase in total short-term liabilities between the two quarters under review. The banking sector liquidity ratio remained well above the minimum statutory level of 20 percent.

Outlook of the Sector

The banking industry is projected to remain stable and resilient despite the impact of the COVID-19 pandemic on the sector's asset quality and overall performance. The overall impact will depend on the intensity and duration of the pandemic going forward. CBK will continue to closely monitor developments in the sector and work with banks to enhance the resilience of the sector.

Kenya Shillings Flows In KEPSS

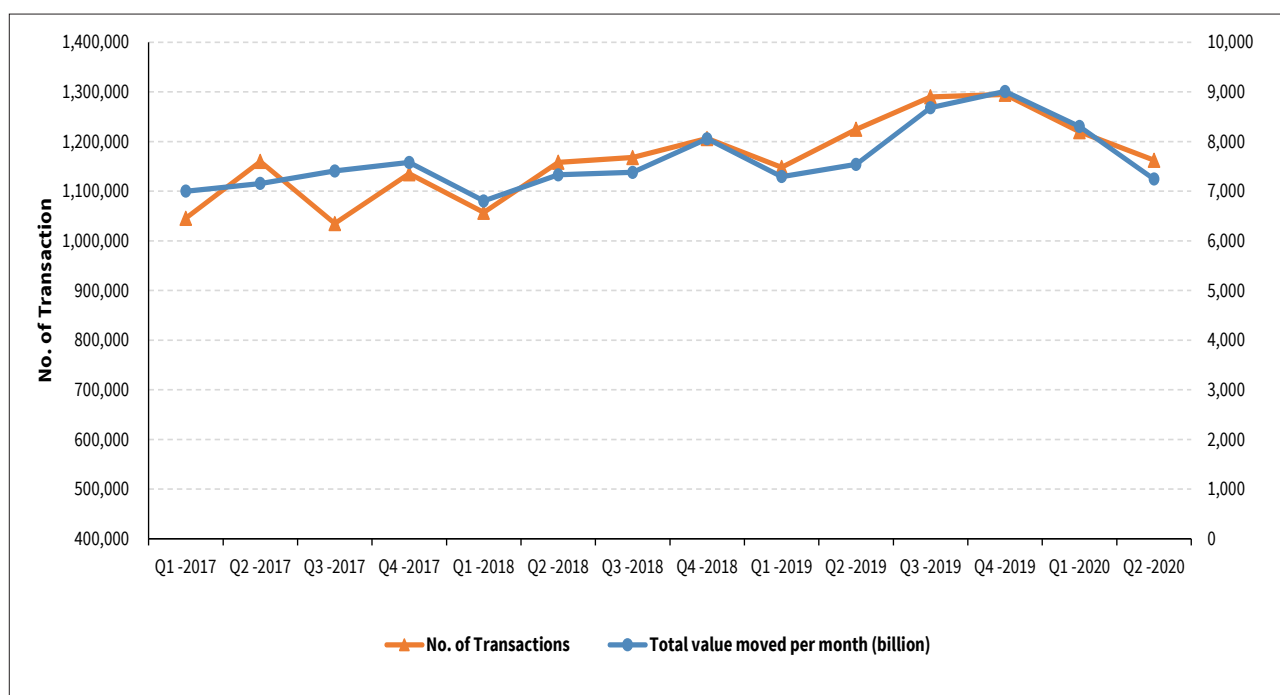
Kenya Electronic Payments and Settlement System (KEPSS), normally referred to as the Real Time Gross Settlement (RTGS) is used for large value transactions. The Real Time Gross Settlement (RTGS) payments moved a volume of 1.16 million transaction messages worth KSh 7.2 trillion in the second quarter of 2020, compared to the first quarter of 2020, which recorded 1.22 million transactions worth KSh 8.3 trillion. Volume and value decreased by 12.77 percent and 4.69 percent, respectively (**Chart 6.6**).

System Availability

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

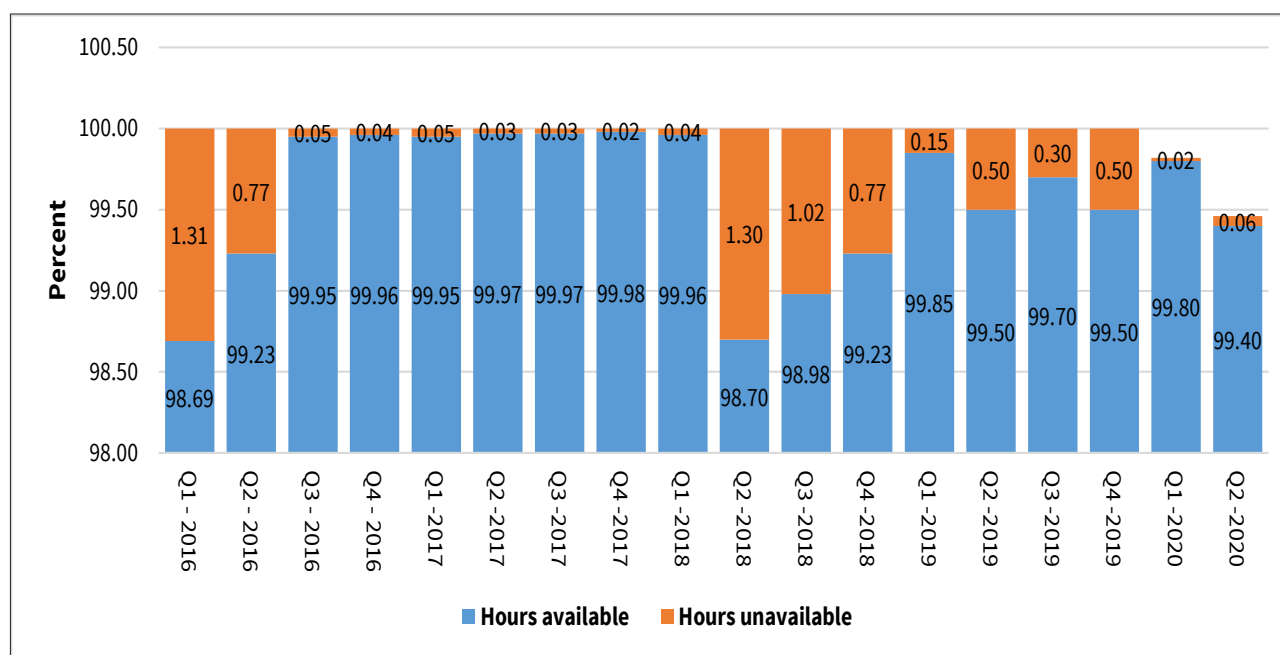
The KEPSS system is available to commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 99.60 percent during the period under review (**Chart 6.7**).

Chart 6.6: Trends in Monthly Flows Through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS Availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the fourth quarter of FY 2019/2020 resulted in a deficit of 7.8 percent of GDP, which was below the target of 9.0 percent of GDP. Both revenues and expenditures were below their respective targets with the shortfall in total revenues and grants at 7.7 percent, and total expenses and net lending at 9.0 percent.

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

	FY 2018/19		FY 2019/20					Over (+) /	%
	Q4	Apr	May	June	Q4	Cumulative to June-2020	Target	Below (-) Target	Variance
1. TOTAL REVENUE & GRANTS	501.0	134.6	117.9	149.9	402.5	1,753.5	1,899.8	(146.4)	(7.7)
Ordinary Revenue	487.5	134.8	113.2	148.2	396.2	1,733.6	1,864.8	(131.2)	
Tax Revenue	421.7	118.3	89.7	123.2	331.3	1,427.5	1,466.2	(38.7)	
Non Tax Revenue	17.0	12.0	9.1	5.2	26.4	169.2	149.2	20.0	
Appropriations-in-Aid	48.8	4.5	14.4	19.8	38.6	137.0	249.4	(112.5)	
External Grants	13.5	(0.2)	4.8	1.7	6.2	19.8	35.0	(15.2)	
2. TOTAL EXPENSES & NET LENDING	745.1	102.5	208.2	386.5	697.2	2,565.4	2,817.8	(252.4)	(9.0)
Recurrent Expenses	446.2	115.8	148.1	199.8	463.7	1,645.2	1,777.0	(131.7)	
Development Expenses	144.3	(45.4)	43.8	124.6	123.0	594.9	678.5	(83.5)	
County Transfers	154.7	32.1	16.2	62.2	110.5	325.3	362.4	(37.1)	
Others	-	-	-	-	-	-	-	-	
3. DEFICIT (INCL. GRANTS) (1-2)	(244.1)	32.2	(90.2)	(236.6)	(294.7)	(812.0)	(918.0)	106.0	(11.5)
As percent of GDP	(2.6)				(2.9)	(8.0)	(9.0)	1.0	
4. ADJUSTMENT TO CASH BASIS		-	-	11.8	11.8	11.8	-	11.8	
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(244.1)	32.2	(90.2)	(224.8)	(282.9)	(800.2)	(918.0)	117.8	(12.8)
As percent of GDP	(2.6)				(2.8)	(7.8)	(9.0)	1.2	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-	(53.3)	(11.7)	(6.4)	(6.4)	(6.4)	-	(6.4)	
7. FINANCING	198.2	(32.3)	130.0	228.2	325.8	793.8	918.0	(124.2)	(13.5)
Domestic (Net)	(28.9)	(3.4)	153.5	92.4	242.5	450.4	594.0	(143.6)	
External (Net)	226.1	(29.0)	(23.8)	135.7	82.9	340.8	324.0	16.8	
Capital Receipts (domestic loan receipts)	1.0	0.1	0.2	0.1	0.4	2.6	4.3	(1.7)	
Others	-	-	-	-	-	-	-	-	

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants decreased by 19.7 percent to KSh 402.5 billion in the fourth quarter of FY 2019/2020, compared to KSh 501.0 billion in the fourth quarter of FY 2018/19. The decrease was reflected in tax revenues, Appropriation in Aid (A-in-A) and external grants, which declined by 21.4 percent, 20.9 percent and 54.1 percent, respectively. However, non-tax revenues increased by 55.3 percent over the same period.

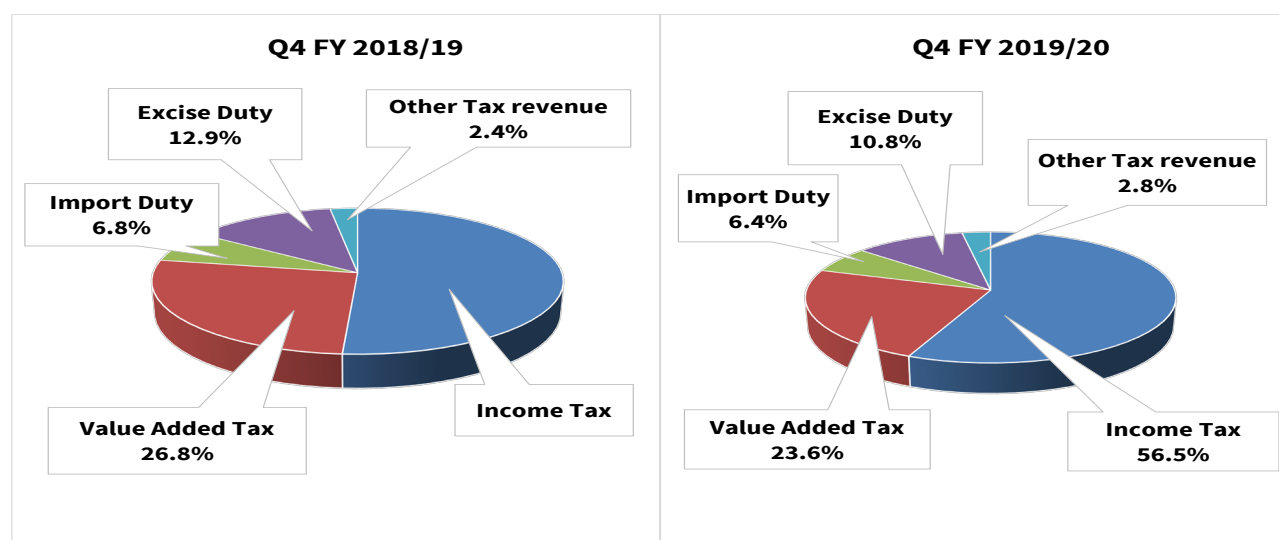
There was a minor shift in the composition of tax revenues in the fourth quarter of FY 2019/2020 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT), Import Duty and Excise Duty declined while the share of Other Tax Revenues and Income Tax rose by 5.4 percentage points and 0.4 percentage points, respectively.

Cumulatively, the Government total revenue and grants stood at KSh 1,753.5 billion (17.2 percent of GDP) during the FY 2019/2020 against a target of KSh 1,899.8 billion (18.6 percent of GDP). All taxes fell below set targets with the shortfalls largely reflecting tax relief measures put in place to cushion Kenyans against the effects of COVID-19, which adversely affected revenue collection.

External grants in the financial year to June 2020 stood at KSh 19.8 billion, which was KSh 15.2 billion lower than target, due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected during the financial year to June 2020 amounted to KSh 137 billion, which was KSh 112.5 billion lower than target due to under reporting in ministerial expenditure returns.

Chart 7.1: Composition of tax revenue (Ksh Billions)



Source: The National Treasury

Expenditure and Net Lending

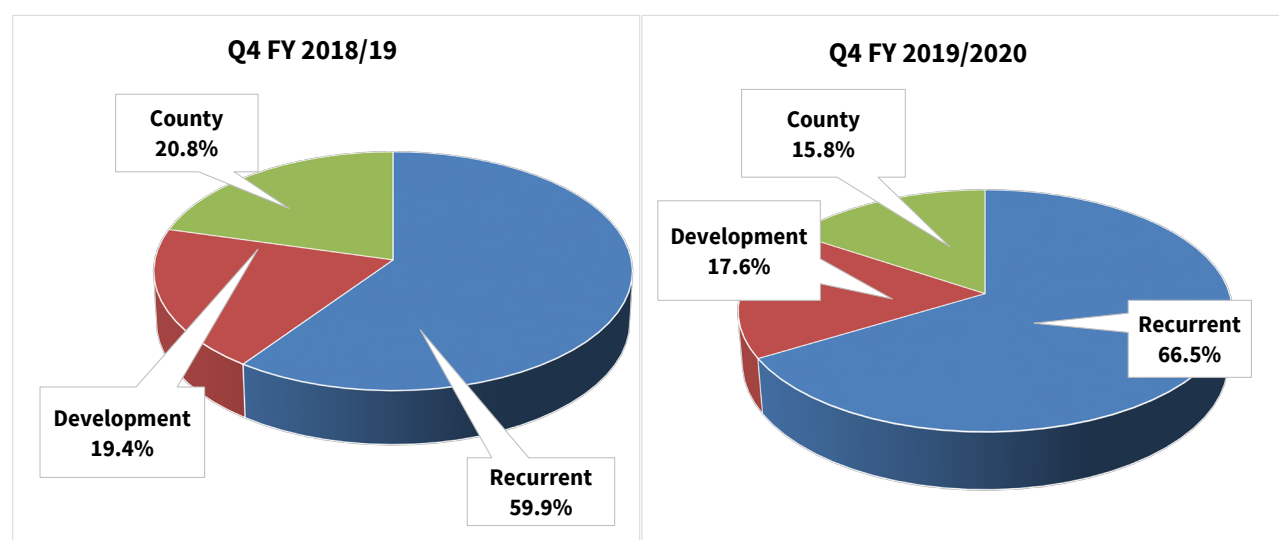
Government expenditure and net lending decreased by 6.4 percent to KSh 697.2 billion in the fourth quarter of the FY 2019/2020 compared to KSh 745.1 billion in the fourth quarter of the FY 2018/19. The decrease in expenditures reflected the drop in national government development and county transfers by 14.8 percent and 28.6 percent, respectively, which more than offset the increase in recurrent expenditure of 3.9 percent.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 66.5 percent in the fourth quarter of

the FY 2019/2020, which was 6.6 percentage points higher than the level recorded in a similar quarter the previous fiscal year. The share of development expenditure decreased by 1.7 percentage points while the county allocation decreased by 4.9 percent during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in FY 2019/2020 amounted to KSh 2,565.4 billion (25.2 percent of GDP), against a target of KSh 2,817.8 billion (27.6 percent of GDP). The shortfall of KSh 252.4 billion was mainly attributed to lower absorption of development expenditures by the National and County Governments.

Chart 7.2: Composition of government expenditure in the fourth quarter of FY 2019/2020



Source: BOT from National Treasury

Financing

The budget deficit including grants amounted to KSh 800.2 billion or 7.8 percent of GDP at the end of the fourth quarter of FY 2019/2020. The deficit financing mix was 43.3 percent and 64.7 percent external and domestic resources, respectively. The domestic borrowing comprised KSh 50.3 billion

in Government deposits held at the Central Bank, KSh 235.4 billion from commercial banks, KSh 165.8 billion from non-banks and KSh 5.2 billion from Non-residents (Table 7.2). The net domestic borrowing by the end of the fourth quarter of FY 2019/2020 was below target by KSh 143.6 billion while net external borrowing was also below target by KSh 16.8 billion.

Table 7.2 Domestic financing to June 2020

	FY 2019/20						
	FY 2018/19	FY 2019/20					
	Q4	Q1	Q2	Q3			Q4
	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20
1. From CBK	13.6	8.3	10.0	73.7	72.0	(36.5)	50.3
2. From commercial banks	126.9	13.2	80.2	155.2	190.5	201.4	235.4
4. From Non-banks	160.3	57.8	78.1	134.9	145.4	167.7	165.8
5. From Non-Residents	2.8	1.5	2.6	3.6	5.3	4.7	5.2
Change in Credit from banks (From 30th June 2019)	140.5	21.5	90.2	228.9	262.5	164.9	285.7
Change in Credit from non-banks (From 30th June 2019)	160.3	57.8	78.1	134.9	145.4	167.7	165.8
Change in Credit from non-residents (From 30th June 2019)	2.8	1.5	2.6	3.6	5.3	4.7	5.2
6. Total Change in Dom. Credit (From 30th June 2019)	303.7	80.8	170.9	367.4	413.2	337.3	456.1

Source: The National Treasury

Outlook for FY 2020/21

In the revised Budget estimates from the National Treasury for the FY 2020/21, total revenue is projected at KSh 1,949.5 billion (17.3 percent of GDP) while external grants are projected at KSh 56.8 billion. Government expenditure is projected at KSh 2,790.6 billion (24.7 percent of GDP), of which KSh 1,826.7 billion will be for recurrent expenses, KSh 589.7 billion for development expenses and KSh

369.2 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 841.1 billion (7.5 percent of GDP) in FY 2020/21, to be financed through net external borrowing of KSh 346.8 billion and net domestic borrowing of KSh 494.4 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2020/2021 (Ksh Billions)

	Ksh (Billions)	% of GDP
1. TOTAL REVENUE (Including Grants)	1,949.5	17.3
Total Revenue	1633.8	14.49
Appropriations-in-Aid	258.9	2.30
External Grants	56.8	0.50
2. TOTAL EXPENSES & NET LENDING	2,790.6	24.7
Recurrent Expenses	1826.7	16.20
Development Expenses	589.7	5.23
County Transfer	369.2	3.27
Contingency Fund	5.0	0.04
3. DEFICIT INCL. GRANTS (1-2)	-841.1	-7.5
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	841.1	7.5
Domestic (Net)	494.4	4.38
External (Net)	346.8	3.08

Source: The National Treasury, 2020/21 Revised Budget Estimates

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 6.1 percent during the fourth quarter of the FY 2019/20. Domestic and external debt increased by 3.3 percent and 8.6 percent, respectively. Consequently, the ratio of public debt to GDP increased by 2.6 percentage points to 65.6 percent during the quarter. The ratios of domestic and external debt to GDP increased by 0.3 percentage points and 2.3 percentage points, respectively (**Table 8.1**)³.

Table 8.1 Kenya's public and publicly guaranteed debt

	2018/19	2019/20								
	Q4	Q1	Oct-19	Nov-19	Q2	Q3	Apr-20	May-20	Q4	Change Q on Q
EXTERNAL										
Bilateral	996.1	1,001.8	1,020.6	1,018.2	1,023.8	1,075.9	1,070.1	1,090.2	1,074.3	-1.6
Multilateral	914.4	1,024.1	1,033.8	1,036.3	1,037.5	1,060.6	1,114.4	1,272.4	1,321.6	261.0
Commercial Banks	1,095.8	1,068.7	1,056.2	1,043.4	1,028.7	1,058.8	1,115.1	1,116.1	1,102.3	43.5
Supplier Credits	16.9	17.2	17.1	17.0	16.8	17.3	17.8	17.7	17.6	0.3
Sub-Total	3,023.1	3,111.8	3,127.6	3,115.0	3,106.8	3,212.6	3,317.3	3,496.4	3,515.8	303.2
(As a % of GDP)	32.5	32.8	32.1	32.0	31.9	32.2	32.5	34.3	34.5	
(As a % of total debt)	52.0	52.1	51.9	51.6	51.4	51.1	51.5	52.6	52.5	
DOMESTIC										
Banks	1,524.0	1,535.5	1,582.4	1,595.4	1,607.4	1,677.0	1,713.9	1,726.0	1,752.1	75.0
Central Bank	109.6	120.5	117.8	109.5	116.0	106.4	106.8	101.8	98.9	-7.6
Commercial Banks	1,414.4	1,415.0	1,464.6	1,485.9	1,491.4	1,570.6	1,607.1	1,624.1	1,653.2	82.6
Non-banks	1,233.9	1,291.5	1,288.7	1,291.6	1,304.1	1,363.3	1,372.1	1,394.5	1,392.3	29.0
Pension Funds	786.5	819.8	818.6	823.3	841.3	891.4	905.9	929.6	923.1	31.7
Insurance Companies	170.8	183.1	185.1	187.5	189.0	193.6	194.0	192.7	192.2	-1.3
Other Non-bank Sources	276.5	288.6	285.0	280.7	273.9	278.3	272.2	272.2	277.0	-1.3
Non-residents	28.0	29.6	30.2	30.4	30.6	31.6	33.4	32.7	33.2	1.6
Sub-Total	2,785.9	2,856.6	2,901.3	2,917.4	2,942.1	3,071.9	3,119.4	3,153.1	3,177.5	105.7
(As a % of GDP)	29.9	30.1	29.8	30.0	30.2	30.8	30.6	30.9	31.2	
(As a % of total debt)	48.0	47.9	48.1	48.4	48.6	48.9	48.5	47.4	47.5	
GRAND TOTAL	5,809.1	5,968.4	6,028.9	6,032.3	6,048.9	6,284.5	6,436.7	6,649.6	6,693.3	408.8
(As a % of GDP)	62.4	63.0	61.9	61.9	62.1	63.0	63.1	65.2	65.6	

Source: The National Treasury and CBK

Domestic Debt

Domestic debt build-up was faster by 3.3 percent in the fourth quarter of the FY 2019/2020 relative to the 3.0 percent build-up in the previous quarter. The increase in the accumulation of domestic debt is attributed to decline in Government revenues amid increase in public spending to mitigate the effects of COVID-19 pandemic in the third and fourth quarters of the financial year. The share

of domestic debt to total debt decreased by 1.4 percentage points to 47.5 percent by the end of the fourth quarter of the FY 2019/20. The proportion of debt securities to total domestic debt increased by 0.4 percentage points during the quarter under review. As the uptake of domestic debt securities increased, the government repaid Ksh 7.0 billion of the overdraft facility advanced by the Central Bank (**Table 8.2**).

³The quarterly analysis is based on the Fiscal year quarters;
Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Table 8.2: Government gross domestic debt (Ksh Billions)

	Ksh (Billions)							Change:Q on Q		Propotions (%)						
	2018/19	2019/20								2018/19	2019/20					
	Q4	Q1	Q2	Q3	Apr-20	May-20	Q4	Ksh(Bn)	%	Q4	Q1	Q2	Q3	Apr-20	May-20	Q4
Total Stock of Domestic Debt (A+B)	2,785.9	2,856.6	2,942.1	3,071.9	3,119.4	3,153.1	3,177.5	105.7	3.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	2,702.4	2,757.7	2,853.6	2,992.6	3,038.5	3,077.7	3,106.6	114.0	3.8	97.0	96.5	97.0	97.4	97.4	97.6	97.8
1. Treasury Bills (excluding Repo Bills)	954.3	928.9	878.9	902.3	888.8	898.3	887.1	-15.1	-1.7	34.3	32.5	29.9	29.4	28.5	28.5	27.9
Banking institutions	598.1	576.8	570.3	597.0	590.0	592.7	587.7	-9.3	-1.6	21.5	20.2	19.4	19.4	18.9	18.8	18.5
The Central Bank	20.6	20.6	20.6	20.6	20.6	20.6	20.6	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7	0.6
Commercial Banks	577.5	556.2	549.7	576.4	569.4	572.1	567.1	-9.3	-1.6	20.7	19.5	18.7	18.8	18.3	18.1	17.8
Pension Funds	170.3	165.2	143.3	153.2	155.4	167.0	161.0	7.9	5.1	6.1	5.8	4.9	5.0	5.0	5.3	5.1
Insurance Companies	18.2	18.9	17.7	10.1	9.9	7.9	7.6	-2.5	-24.4	0.7	0.7	0.6	0.3	0.3	0.3	0.2
Others	167.7	168.0	147.6	142.0	133.4	130.7	130.8	-11.2	-7.9	6.0	5.9	5.0	4.6	4.3	4.1	4.1
2. Treasury Bonds	1,748.1	1,828.8	1,974.7	2,090.3	2,149.7	2,179.5	2,219.4	129.2	6.2	62.7	64.0	67.1	68.0	68.9	69.1	69.8
Banking institutions	843.0	864.8	948.7	1,000.8	1,043.0	1,058.0	1,093.5	92.7	9.3	30.3	30.3	32.2	32.6	33.4	33.6	34.4
The Central Bank	9.4	9.4	9.4	9.4	9.4	9.4	9.4	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Commercial Banks	833.5	855.4	939.3	991.4	1,033.6	1,048.5	1,084.1	92.7	9.4	29.9	29.9	31.9	32.3	33.1	33.3	34.1
Insurance Companies	152.6	164.2	171.2	183.5	184.1	184.8	184.6	1.1	0.6	5.5	5.7	5.8	6.0	5.9	5.9	5.8
Pension Funds	616.2	654.7	698.0	738.3	750.5	762.6	762.1	23.8	3.2	22.1	22.9	23.7	24.0	24.1	24.2	24.0
Others	136.3	145.1	156.8	167.8	172.2	174.1	179.3	11.5	6.9	4.9	5.1	5.3	5.5	5.5	5.5	5.6
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	22.2	22.2	22.2	22.2	22.2	21.7	21.7	-0.6	-2.5	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Of which: Repo T/Bills	21.1	21.1	21.1	21.1	21.1	20.5	20.5	-0.6	-2.6	0.8	0.7	0.7	0.7	0.7	0.7	0.6
B. Others:	61.3	76.7	66.2	57.0	58.7	53.7	49.3	-7.8	-13.6	2.2	2.7	2.3	1.9	1.9	1.7	1.6
Of which CBK overdraft to Government	57.3	68.2	63.7	54.2	54.6	50.1	47.1	-7.0	-13.0	2.1	2.4	2.2	1.8	1.8	1.6	1.5

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 1.7 percent decline during the fourth quarter of the FY 2019/20. Similarly, the proportion of Treasury bills to total domestic debt decreased by 1.5 percentage points during the period under review. The dominance of Commercial banks in Treasury bills market persisted with their holdings standing at 66.2 percent (Up from 63.9 percent in the previous quarter) of the total amount of outstanding Treasury Bills by the end of the fourth quarter of the FY 2019/20. Other significant holders of Treasury bills included Pension funds (18.1 percent) and parastatals-included in other holders (11.3 percent) (**Table 8.2**).

Treasury Bonds

Treasury bond holdings increased by 5.8 percent during the fourth quarter of the FY 2019/20, slightly lower build up than the 5.9 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from a 9-year infrastructure Treasury bond issued during the quarter (**Table 8.3**). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		Kshs (Billions)							Change Q on Q		Proportions						
		2018/19	2019/20								2018/19	2019/20					
		Q4	Q1	Q2	Q3	Apr-20	May-20	Q4	Kshs(Bn)	%	Q4	Q1	Q2	Q3	Apr-20	May-20	Q4
Treasury bills	91-Day	40.0	58.7	35.3	32.8	34.0	43.1	51.4	18.6	56.8	1.4	2.1	1.2	1.1	1.1	1.4	1.6
	182-Day	164.7	108.8	78.1	95.9	101.8	106.0	120.5	24.6	25.7	5.9	3.8	2.7	3.1	3.3	3.4	3.8
	364-Day	749.6	761.4	765.6	771.9	753.0	749.2	715.2	-56.7	-7.3	26.9	26.7	26.0	25.1	24.1	23.8	22.5
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	69.2	37.4	37.4	37.4	37.4	37.4	37.4	0.0	0.0	2.5	1.3	1.3	1.2	1.2	1.2	1.2
	3-Year	0.8	1.0	1.0	1.0	0.9	0.9	0.9	-0.2	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	269.5	269.5	298.0	342.8	342.8	372.5	357.9	15.1	4.4	9.7	9.4	10.1	11.2	11.0	11.8	11.3
	6-Year	8.5	8.5	8.5	8.5	8.5	8.5	28.7	20.2	238.5	0.3	0.3	0.3	0.3	0.3	0.3	0.9
	7-Year	50.1	50.1	50.1	50.1	50.1	50.1	50.1	0.0	0.0	1.8	1.8	1.7	1.6	1.6	1.6	1.6
	8-Year	33.7	19.3	19.3	19.3	19.3	19.3	19.3	0.0	0.0	1.2	0.7	0.7	0.6	0.6	0.6	0.6
	9-Year	71.2	55.3	55.3	55.3	134.3	134.3	134.3	79.0	142.8	2.6	1.9	1.9	1.8	4.3	4.3	4.2
	10-Year	359.8	404.8	441.2	460.5	441.1	441.1	474.0	13.5	2.9	12.9	14.2	15.0	15.0	14.1	14.0	14.9
	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	115.4	115.4	115.4	115.4	115.4	115.4	116.8	1.5	1.3	4.1	4.0	3.9	3.8	3.7	3.7	3.7
	15-Year	505.1	588.0	597.3	602.5	602.5	602.5	602.5	0.0	0.0	18.1	20.6	20.3	19.6	19.3	19.1	19.0
	16-Year	0.0	0.0	71.7	71.7	71.7	71.7	71.7	0.0	0.0	0.0	0.0	2.4	2.3	2.3	2.3	2.3
	20-Year	180.9	195.5	195.5	203.8	203.8	203.8	203.8	0.0	0.0	6.5	6.8	6.6	6.6	6.5	6.5	6.4
25-Year	42.2	42.2	42.2	80.2	80.2	80.2	80.2	0.0	0.0	1.5	1.5	1.4	2.6	2.6	2.5	2.5	
30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	
	Repo T bills	21.1	21.1	21.1	21.1	21.1	20.5	20.5	-0.6	-2.6	0.8	0.7	0.7	0.7	0.7	0.7	0.6
	Overdraft	57.3	68.2	63.7	54.2	54.6	50.1	47.1	-7.0	100.0	2.1	2.4	2.2	1.8	1.8	1.6	1.5
	Other Domestic debt	5.1	9.7	3.7	5.7	5.3	4.8	3.3	-2.4	-42.4	0.2	0.3	0.1	0.2	0.2	0.2	0.1
Total Debt		2,785.9	2,856.6	2,942.1	3,071.9	3,119.4	3,153.1	3,177.5	105.7	3.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at ratio of 71.4: 28.6 Treasury bonds to Treasury bills, surpassing the Public Debt Management Office medium term target of 70:30 Treasury bonds: bills ratio. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 75.5 percent of the total outstanding Treasury Bonds, representing a 3.3 percentage points decrease from the previous quarter. Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates.

The refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased (27.9 percent from 29.4 percent in March 2020).

External Debt

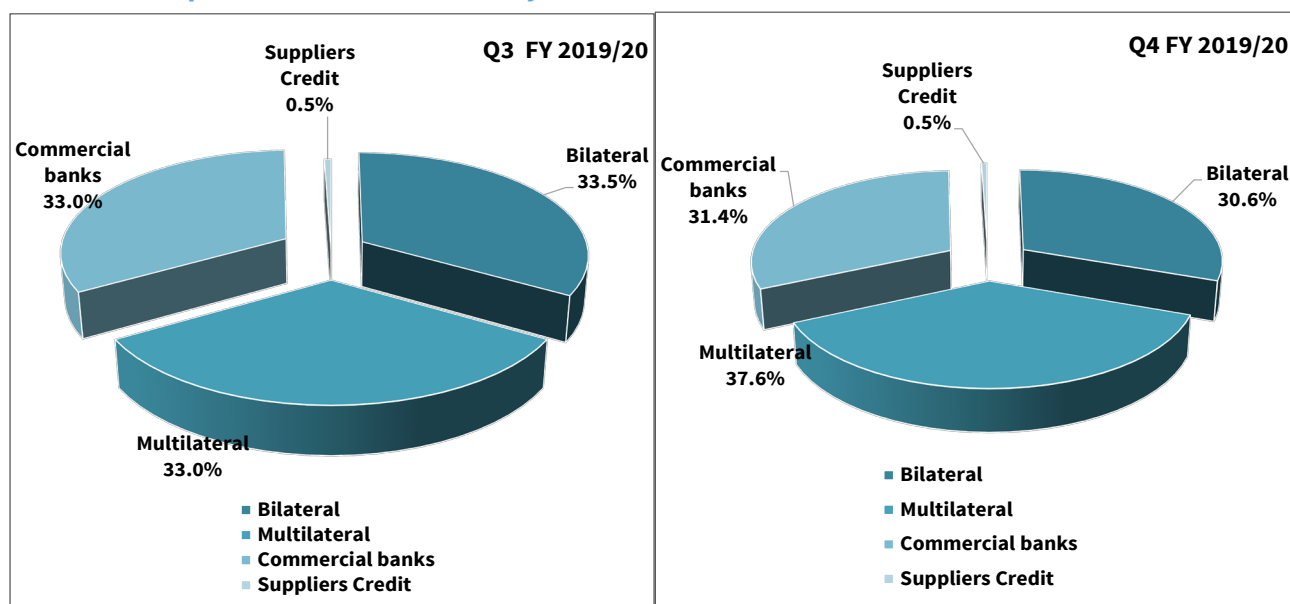
Public and publicly guaranteed external debt increased by 8.6 percent during the fourth quarter of the FY 2019/20. This increase was majorly driven by the US dollar 1.0 billion Development Policy Operations (DPO) from the World Bank, US dollar

739 million from International Monetary Fund under the Rapid Credit facility, US dollar 208 million from African Development Bank and US dollar 62.5 million Contingency Emergency response from World Bank. These resources from Kenya's International development partners were loans advanced to cushion the economy against the impact of the COVID-19 pandemic. Retirement of US dollar 346.3 million owed to Trade Development Bank had an offsetting effect on the increase in external debt. Foreign exchange risk on external debt remained relatively low (1.3 percent depreciation) despite the ongoing COVID-19 pandemic.

Composition of External Debt by Creditor

The composition of external debt experienced a significant shift with increased flow of international development assistance in May and June 2020. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 4.6 percentage points to 37.6 percent from 33.0 percent held in the previous quarter. The proportion of bilateral and commercial debt decreased by 2.9 percentage points and 1.6 percentage points by the end of the fourth quarter of FY 2019/20.

Chart 8a: composition of external debt by lender classification

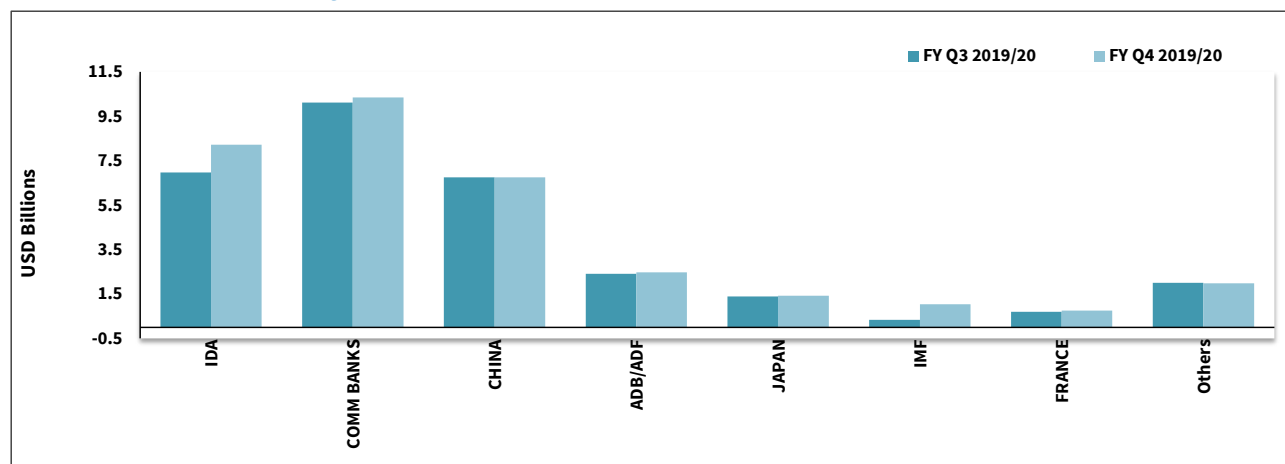


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender rose to USD 8.2 billion (or 24.9 percent of external debt) from US dollar 7.0 billion in the previous quarter. Kenya's debt to International Monetary Fund rose by US dollar 697 million to US

dollar 1.0 billion on account of budget support for balance of payments purposes through the Rapid Credit facility. Debt owed to China, Kenya's largest bilateral lender, amounted to USD 6.8 billion, or 20.5 percent of the total external debt in the fourth quarter of the FY 2019/20 (**Chart 8b**).

Chart 8b: external debt by creditor



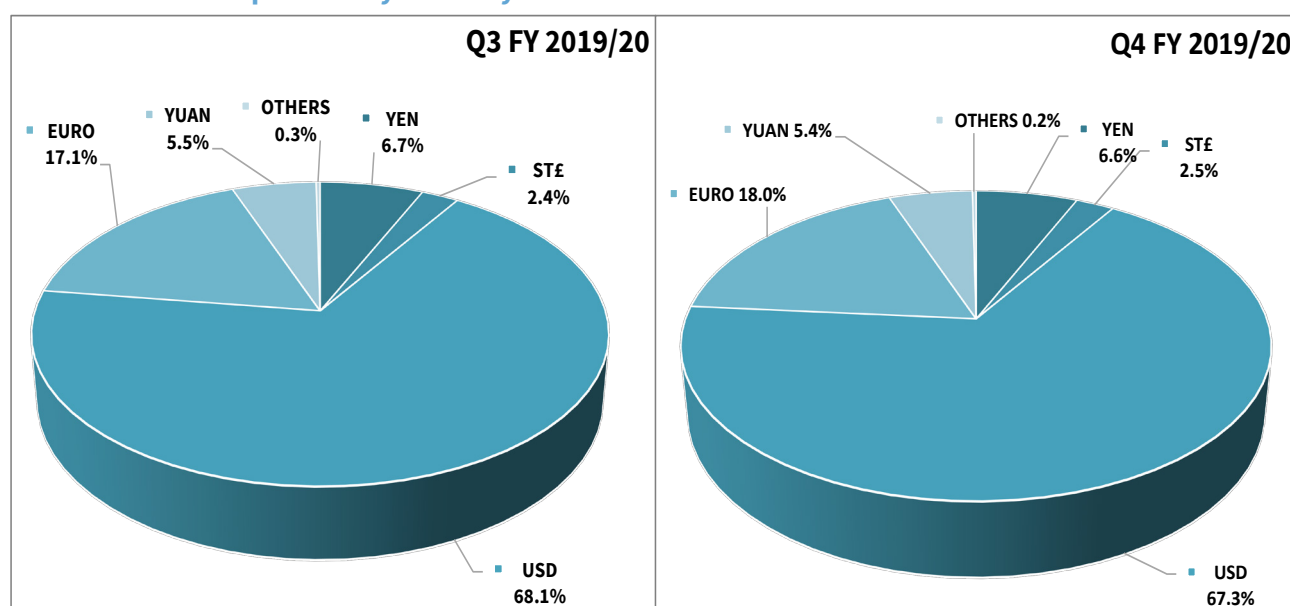
Source: The National Treasury

Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 85.3 percent of the total currency

composition at the end of the fourth quarter of the FY 2019/20. The proportion held in Euro increased by 0.9 percentage points on account of Euro denominated Development Policy Operations from the World Bank (**Chart 8C**).

Chart 8c: debt composition by currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 23.4 percent during the fourth 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 fourth quarter of FY 2019/20 amounted to Ksh 53.5

billion. Liquidity indicators of external indebtedness improved 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 external debt sustainability indicators

	Q4 FY 2018/19	Q1 FY 2019/20	Q2 FY 2019/20	Q3 FY 2019/20	Q4 FY 2019/20
Debt service to Revenues (23%)	28.3	12.6	10.1	15.9	13.6
Debt service to Exports (21%)	47.4	19.2	18.7	21.5	20.8

Source: Central Bank of Kenya and National Treasury

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in April 2020 classified Kenya's public debt as sustainable but having a high risk of debt distress. This was a downgrade from the classification of moderate risk of debt distress in February 2020 majorly on account of the ongoing economic slowdown associated with the COVID-19 pandemic. There were breaches on PV of debt-to-exports ratio and debt service-to-exports ratio indicators in both the baseline and under

standard stress test scenarios and an additional one-off breach of the debt service to revenue ratio under the stress scenario. The results of the DSA suggested that Kenya is susceptible to export and market financing shocks. In addition, more prolonged and protracted shocks to the economy would present downside risks to the debt outlook.

⁴Debt service ratios to flow resource bases such as revenues and exports are liquidity indicators of the level of indebtedness.

Chapter 9

Capital Markets

Overall, the equity market activity recovered in the second quarter of 2020 compared to performance in the first quarter of 2020. The NASI, the total number of shares traded and market capitalization

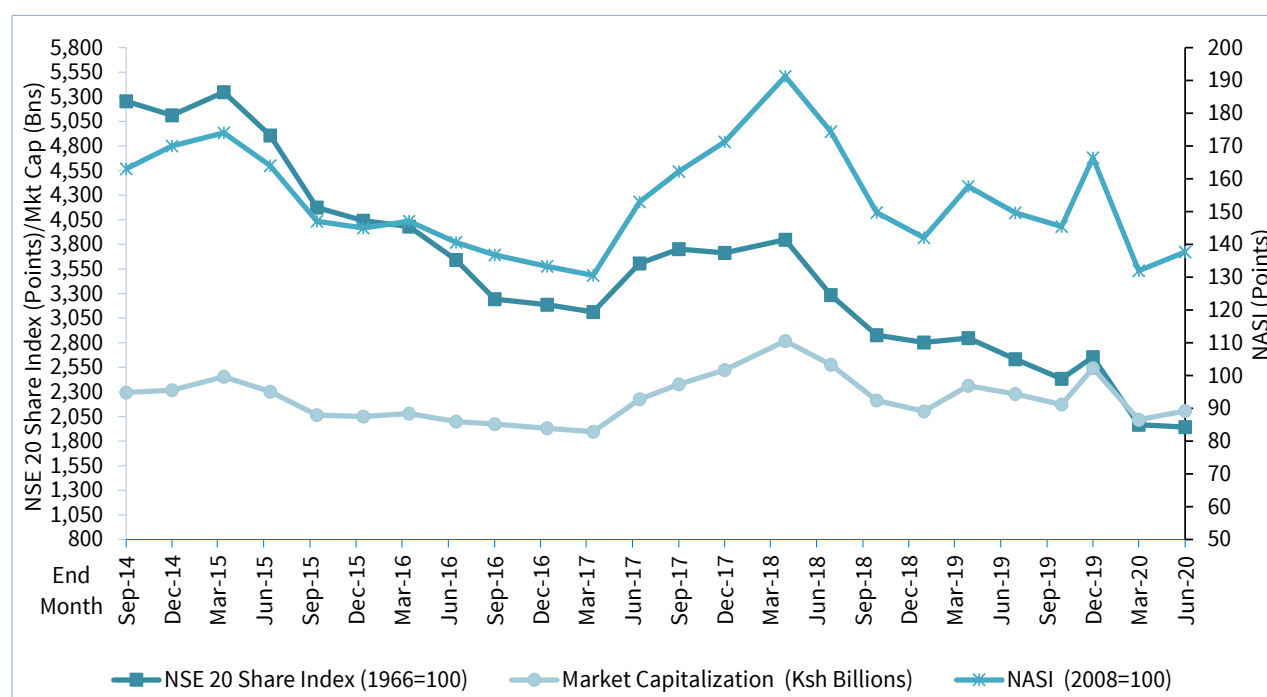
increased by 4.37 percent, 4.51 percent and 4.43 percent, respectively. However, the NSE 20 share price index and equity turnover declined by 1.22 percent and 9.52 percent, respectively (**Table 9.1** and **Chart 9.1**).

Table 9.1: Selected stock market indicators

INDICATOR	2018				2019				Q4	2020		% CHANGE (2020Q1-2019Q4)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3			Q1	Q2	
NSE 20 Share Index (1966=100)	3845.3	3285.7	2875.5	2801.0	2846.4	2633.3	2432.0	2654.4	1,966.1	1,942.1		-1.22
NASI (2008=100)	191.23	174.36	149.67	142.00	157.66	149.61	145.46	166.41	131.9	137.7		4.37
Number of Shares Traded (Millions)	2138.96	1580.04	983.14	1570.53	1396.672	1081.6	1063.82	1290.12	1,360.5	1,421.8		4.51
Equities Turnover (Ksh Millions)	61,150	47,142	31,930	35,435	45,249	32,897	30,663.2	45,006	43,693.3	39,534.4		-9.52
Market Capitalization (Ksh Billions)	2,817	2,576	2,211	2,102	2,361	2,279	2,172	2,540	2,016.0	2,105.4		4.43
Foreign Purchase (Ksh Millions)	31,065	24,618	17,336	23,323	35,039	23,896	20,115	27,615	21,045.5	20,429.0		-2.93
Foreign Sales (Ksh Millions)	39,149	32,794	24,041	29,994	34,438	22,538	19,853	28,459	32,229.2	30,679.0		-4.81
Ave. Foreign Investor Participation to Equity Turnover (%)	57.41	60.89	64.84	75.12	74.90	71.10	65.65	73.84	61.0	63.4		4.04
Bond Turnover (Ksh Millions)	152,338	158,523	133,683	118,171	158,069	201,715	185,440	106,458	157,985.2	136,651.3		-13.50
FTSE NSE Kenya Govt. Bond Index (Points)	93.58	95.00	94.85	95.40	96.48	97.30	98.56	97.50	96.00	96.65		0.68
5-Year Eurobond Yield (%)	3.83	5.74	4.52	5.87	5.26	5.02						
7-Year Eurobond Yield (%)						6.41	6.41	7.27	8.777	7.300		-1.48*
10-Year Eurobond Yield (%) -2024	6.24	7.18	6.86	8.35	6.28	5.48	5.57	6.43	8.260	6.480		-1.78*
10-Year Eurobond Yield (%) -2028	6.86	7.89	7.65	9.00	7.11	6.78	6.68	7.75	8.574	7.510		-1.06*
12-Year Eurobond Yield (%)						6.78	7.40	8.28	9.084	8.210		-0.87*
30-Year Eurobond Yield (%) -2048	7.81	8.90	8.59	9.75	8.15	7.89	8.07	8.84	9.026	8.410		-0.62*

Source: Nairobi Security Exchange

Chart 9.1: NSE 20, NASI and market capitalization



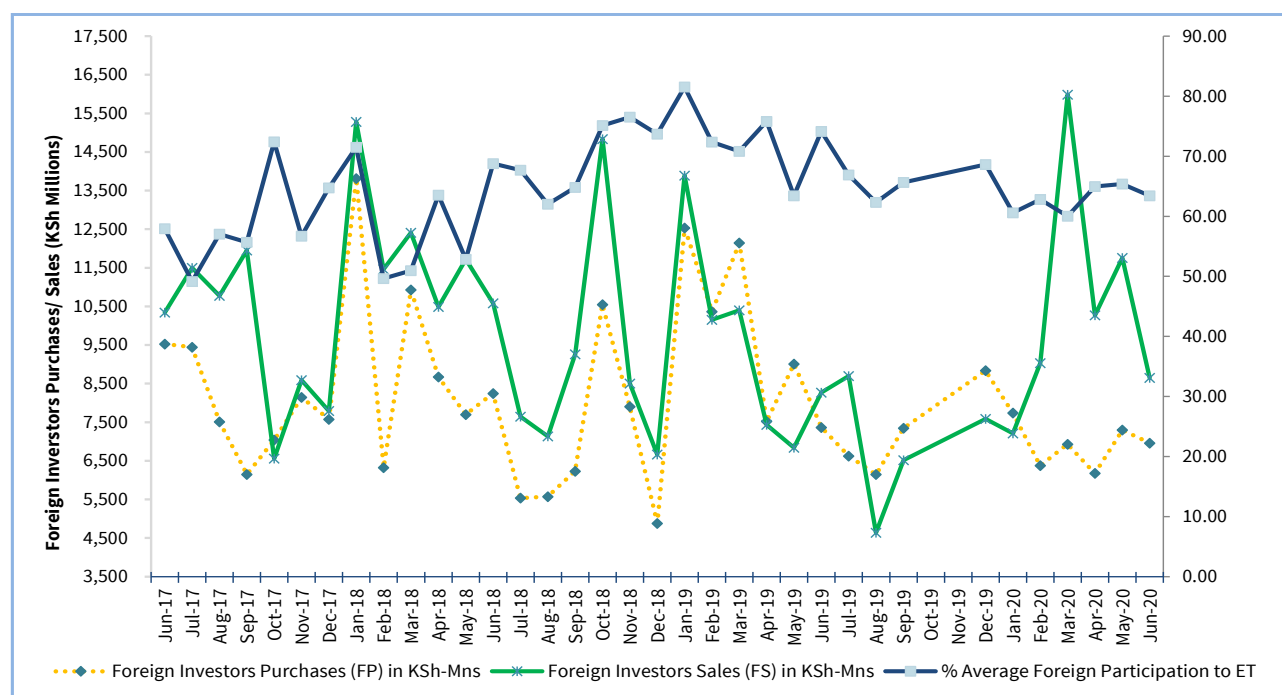
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of foreign investors' equity purchases at the NSE declined by 2.93 percent against the 4.81 percent decline in the value of equity sold by foreign investors in the second quarter of 2020. Average net foreign investors' participation at

the NSE as a proportion of total equity turnover, improved to 63.4 percent in the second quarter of 2020 from 61.0 percent in the first quarter of 2020. There was, however, net foreign investor outflows as sales exceeded purchases in the quarter under review (**Table 9.1** and **Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market declined by 13.5 percent in the second quarter of 2020 compared to first quarter of 2020. The FTSE NSE Kenyan Government Bond Index increased by 0.7 percent in the second quarter

of 2020, reflecting a decrease in market yields. In the international market, yields on Kenya's Eurobonds dropped by an average of 116.2 basis points during the quarter under review (**Table 9.1**).

Chapter 10

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

1.0 ASSETS	2019			2020		Absolute Quarterly Changes (KSh Million)					Quarterly Growth Rates (%)				
	Jun	Sept	Dec	Mar	Jun	Q2,2020	Q1,2020	Q4, 2019	Q3, 2019	Q2, 2019	Q2,2020	Q1,2020	Q4, 2019	Q3, 2019	Q2, 2019
1.1 Reserves and Gold Holdings	1,047,463	966,089	932,957.8	897,100	1,094,504	197,404	(35,858)	(33,131)	(81,374)	198,667	22.0	(3.8)	(3.4)	(7.8)	23.4
1.2 Funds Held with IMF	1,008	11,478	5,974.5	4,541	3,256	(1,286)	(1,433)	(5,504)	10,470	(7,335)	(28.3)	(24.0)	(48.0)	1,038.7	(87.9)
1.21 Investment in Equity (Swift Shares)	9	9	9.1	9	10	0	0	(0)	(0)	0	4.1	1.8	(0.2)	(2.4)	2.9
1.3 Items in the Course of Collection	36	20	5.1	9	21	12	4	(15)	(16)	21	140.6	74.9	(74.5)	(45.2)	131.5
1.4 Advances to Commercial Banks	66,909	63,657	55,265.7	55,053	55,561	508	(212)	(8,391)	(3,252)	(862)	0.9	(0.4)	(13.2)	(4.9)	(1.3)
1.5 Loans and Other Advances	3,362	3,380	3,434.8	3,368	82,976	79,607	(66)	55	18	763	2,363.3	(1.9)	1.6	0.5	29.4
1.6 Other Assets	5,309	4,733	4,541.8	14,014	5,265	(8,748)	9,472	(192)	(576)	2,968	(62.4)	208.5	(4.0)	(10.8)	126.8
1.7 Retirement Benefit Asset	4,329	4,329	4,329.0	4,329	6,538	2,209	-	-	-	(2,256)	51.0	-	-	-	(34.3)
1.8 Property and Equipment	30,001	29,468	29,621.0	29,918	31,840	1,921	297	153	(533)	1,669	6.4	1	0.5	(1.8)	5.9
1.81 Intangible Assets	837	790	885.5	1,044	1,224	180	158	95	(47)	81	17.3	17.9	12.1	(5.6)	10.7
1.9 Due from Government of Kenya	79,556	90,574	86,164.5	76,688	68,933	(7,755)	(9,477)	(4,409)	11,017	19,470	(10.1)	(11.0)	(4.9)	13.8	32.4
TOTAL ASSETS	1,238,821	1,174,527	1,123,188.8	1,086,073	1,350,126	264,053	(37,116)	(51,338)	(64,295)	213,187	24.3	(3.3)	(4.4)	(5.2)	20.8
2.0 LIABILITIES															
2.1 Currency in Circulation	249,509	207,066	258,945.2	246,779	257,792	11,013	(12,166)	51,880	(42,444)	(22,414)	4.5	(4.7)	25.1	(17.0)	(8.2)
2.2 Investments by Banks -Repos						-	-	-	-	(9,992)					(100.0)
2.3 Deposits	741,000	696,019	622,486.7	570,199	732,187	161,988	(52,288)	(73,532)	(44,981)	232,635	28.4	(8.4)	(10.6)	(6.1)	45.8
2.4 International Monetary Fund	83,653	81,845	75,633.7	75,821	151,841	76,021	187	(6,212)	(1,807)	(5,945)	100.3	0.2	(7.6)	(2.2)	(6.6)
2.5 Other Liabilities	6,165	13,683	5,337.9	7,175	5,274	(1,901)	1,837	(8,345)	7,518	2,429	(26.5)	34.4	(61.0)	121.9	65.0
TOTAL LIABILITIES	1,080,327	998,613	962,403.5	899,974	1,154,091	254,117	(62,430)	(36,210)	(81,714)	196,712	28.2	(6.5)	(3.6)	(7.6)	22.3
3.0 EQUITY AND RESERVES	158,494	175,914	160,785.3	186,100	196,035	9,935	25,314	(15,129)	17,420	16,474	5.3	15.7	(8.6)	11.0	11.6
Share Capital	20,000	35,000	35,000.0	35,000	35,000				15,000	15,000	-	-	-	75.0	300.0
General reserve fund -Unrealized	44,432	48,776	48,775.9	48,776	94,627	45,851	-	0	4,344	-	94.0	-	0.0	9.8	-
-Realized	10,927	15,000	15,000.0	15,000		(15,000)	-	0	4,073	(19,764)	(100.0)	-	0.0	37.3	(64.4)
-Capital Projects	24,473	26,523	26,522.8	26,523		(26,523)	-	-	2,050	-	(100.0)	-	-	8.4	-
Period surplus/(Deficit)	25,465	21,420	6,291.1	24,218	33,592	9,374	17,927	(15,129)	(4,045)	12,428	38.7	284.9	(70.6)	(15.9)	95.3
Asset Revaluation	17,801	17,801	17,801.0	17,801	17,801	-	-	-	-	-	-	-	-	-	-
Fair Value Reserves -OCI	7,066	7,066	7,065.8	7,066	12,515	5,449	-	-	(0)	7,066	77.1	-	-	(0.0)	
Retirement Benefit Asset Reserves	4,329	4,329	4,328.7	4,329		(4,329)	-	-	(1)	(2,255)	(100.0)	-	-	(0.0)	(34.2)
Consolidated Fund	4,000			7,388	2,500	(4,888)	7,388	-	(4,000)	4,000	(66.2)			(100.0)	
4 TOTAL LIABILITIES AND EQUITY	1,238,821	1,174,527	1,123,188.8	1,086,073	1,350,126	264,053	(37,116)	(51,338)	(64,295)	213,187	24.3	(3.3)	(4.4)	(5.2)	20.8

Chapter 11

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet increased by 24 percent in the second quarter of 2020, largely reflecting an increase in Reserve and gold holdings as well as loans and other advances. The increase in Reserve and gold holdings which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank, largely reflects government external financing from multilateral lenders including the International Monetary Fund (IMF), World Bank and African Development Bank for the Covid-19 crisis support. The increase in Loans and other advances that include advances to commercial banks under the Overnight Loan Facility (OLF), and IMF funds on-lent to Government, largely reflects IMF funds on lent to government.

Debt due from government which comprises Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long-term debt with effect from

1 November 1997 declined in the second quarter of 2020, partly reflecting reduced utilization of the overdraft facility at the Central Bank. Other asset and funds held with the IMF declined in the second quarter of 2020.

Liabilities

On the liability side, the increase in the Central Bank's balance sheet was largely reflected in deposits, and liabilities to IMF, which increased by KSh 162 billion and KSh 76 billion respectively in the second quarter of 2020. The increase in deposits largely reflects the increase in government deposits. Other liabilities items that increased in the second quarter include currency in circulation which increased by KSh 11 billion in the second quarter of 2020 compared to a decline of Ksh 22 billion in the previous quarter.

Growth in equity and reserves moderated to 5.3 percent in the second quarter of 2020 compared to an increase of 15.7 percent in the first quarter of 2020.



Central Bank of Kenya

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