Central Bank of Kenya

Quarterly Economic Review

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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the payment, clearing and settlement systems, 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 to 4.9 percent in the second quarter of 2024 from 6.3 percent in the previous quarter, largely driven by easing food and fuel prices. Food inflation declined, driven by increased production following favourable weather conditions, and general easing of international food prices. Fuel inflation eased during the quarter, supported by lower pump prices following the downward adjustments by the Energy and Petroleum Regulatory Authority (EPRA) during the quarter. Meanwhile, Non-food Non-fuel (NFNF) inflation also decreased.

Economic growth decelerated to 4.6 percent in second quarter of 2024 from 5.6 percent in a similar quarter of 2023. The slowdown was reflected across all sectors of the economy except manufacturing, wholesale and retail trade, health and professional services. The agriculture sector remained resilient supported by favourable weather conditions, while growth of industry remained subdued in the second quarter of 2024.

Growth in broad money supply (M3) increased by 3.4 percent in the second quarter of 2024 compared to a contraction of 5.3 percent in the previous quarter, mainly reflecting increased corporate sector deposits.

The overall balance of payment recorded a lower deficit of USD 653 million in the second quarter of 2024 compared to a deficit of USD 1,094 million in second quarter of 2023.

The banking sector remained stable and resilient in the second quarter of 2024. Total assets increased by 0.5 percent to Ksh.7,552.0 billion in June 2024, from Ksh.7,513.1 billion in March 2024. The deposit base also increased by 1.2 percent to Ksh.5,589.1 billion in the second quarter of 2024, from Ksh.5,525.3 billion in the first quarter of 2024. The sector was well capitalized with capital adequacy ratio of 19.1 percent, which was above the minimum capital requirement of 14.5 percent. The sector remained profitable in the second quarter of 2024, with quarterly profit before tax of Ksh.66.1 billion, a decrease from Ksh.73.5 billion reported in the first quarter of 2024. Credit risk remained elevated with Gross Non-Performing Loans (NPLs) to Gross Loans Ratio standing at 16.3 percent at the end of the second quarter of 2024, an increase from 15.7 percent recorded at the end of first quarter of 2024.

The Government's budgetary operations at the end of the fourth quarter of FY 2023/24 resulted in a deficit (including grants) of 5.0 percent of GDP. Revenue collection remained below target, as was the case with expenditure. Kenya's public and publicly guaranteed debt increased by 1.6 percent during the fourth quarter of the FY 2023/24. Domestic debt increased by 3.3 percent while external debt declined by 0.2 percent.

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index, increased by 22.8 percent and 16.7 percent respectively in the first quarter of 2024 compared to the fourth quarter of 2023. Market capitalisation, equity turnover and total shares traded also increased by 22.8 percent, 61.6 percent and 35.1 percent, respectively.

Chapter 1
Inflation

Overview

Overall inflation declined significantly in the second quarter of 2024 to slightly below the midpoint of the medium-term target range for the first time since the third quarter of 2020. It declined to 4.9 percent from 6.3 percent in the first quarter of 2024, mainly driven by lower food and fuel prices. Food inflation declined to 5.8 percent from 6.8 percent in the previous quarter, supported by increased domestic food production following favorable weather conditions. Fuel inflation declined to 7.2 percent from 13.3 percent in the previous quarter, reflecting the downward adjustment of pump prices by the Energy and Petroleum Regulatory Authority (EPRA) during the quarter and easing electricity prices. Non-food Non-fuel (NFNF) inflation declined to 3.4 percent from 3.6 percent in the previous quarter, largely reflecting muted demand pressures and impact of monetary policy tightening **(Table 1.1 and Chart 1.1)**.

Table 1.1: Recent trends in inflation (percent)

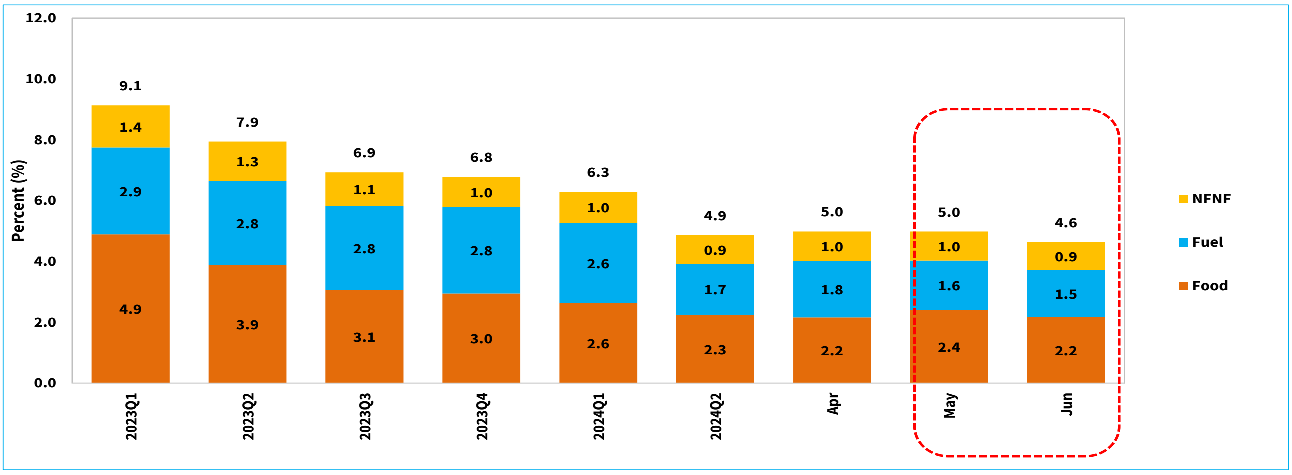
	2023			2024				
	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Overall inflation	7.9	6.9	6.8	6.3	4.9	5.0	5.0	4.6
Food Inflation	10.2	8.0	7.7	6.8	5.8	5.6	6.2	5.6
Fuel Inflation	13.2	13.9	14.6	13.3	7.2	8.3	6.8	6.4
Non-Food-Non-Fuel (NFNF) Inflation	4.2	3.7	3.4	3.6	3.4	3.6	3.4	3.4
Annual Average Inflation*	8.8	8.5	7.9	7.2	6.5	6.7	6.5	6.2
Three Months Annualised Inflation	8.7	4.8	8.0	3.8	3.0	0.7	3.8	4.6

*Average annual inflation refers to the average inflation for 12 consecutive months. For instance, average annual inflation for June 2023 is computed as the percentage change in the average CPI for the period July 2022 to June 2023, relative to the average CPI for the period July 2021-June 2022.

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

During the quarter under review, the contributions of all the broad categories to overall inflation declined. The contribution of food inflation declined to 2.3 percentage points from 2.6 percentage points, contribution of fuel inflation declined to 1.7 percentage points from 2.6 percentage points, while that of NFNF inflation decreased to 0.9 percentage points from 1.0 percentage points ion **(Chart 1.1)**.

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

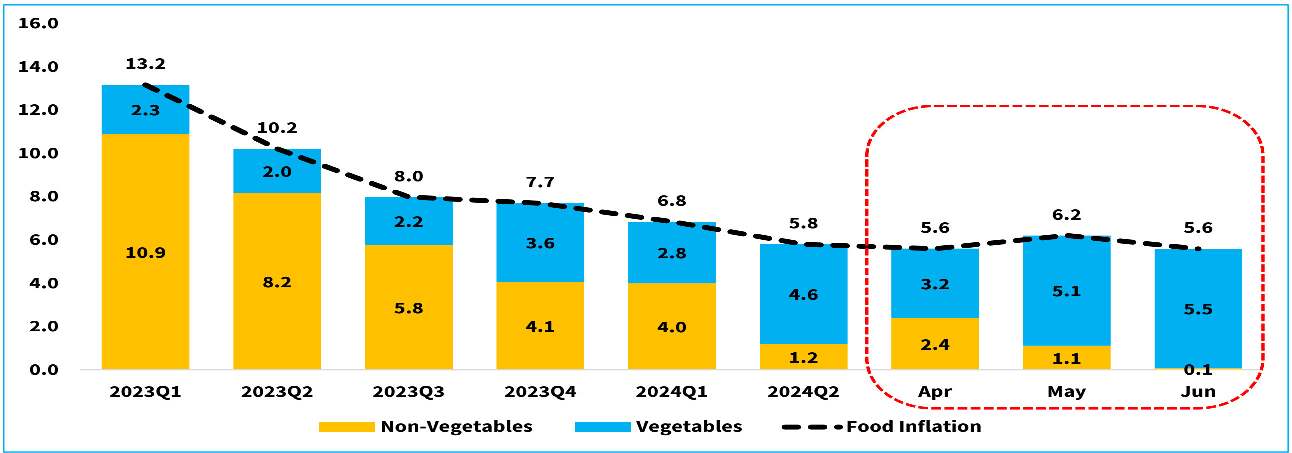


Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined further in the second quarter of 2024, supported by increased production of key non-vegetables items following favourable weather conditions. It declined to 5.8 percent from 6.8 percent in the previous quarter, reflecting continued easing of prices of key food items such as maize and wheat products, sugar, edible oils and milk. However, the prices of vegetable items increased during the quarter, reflecting the impact of heavy rainfall on some vegetables particularly potatoes, carrots and cabbages **(Chart 1.2).**

Chart 1.2: Contributions of Vegetables and Non-Vegetables Food Items to Food Inflation (percentage points)

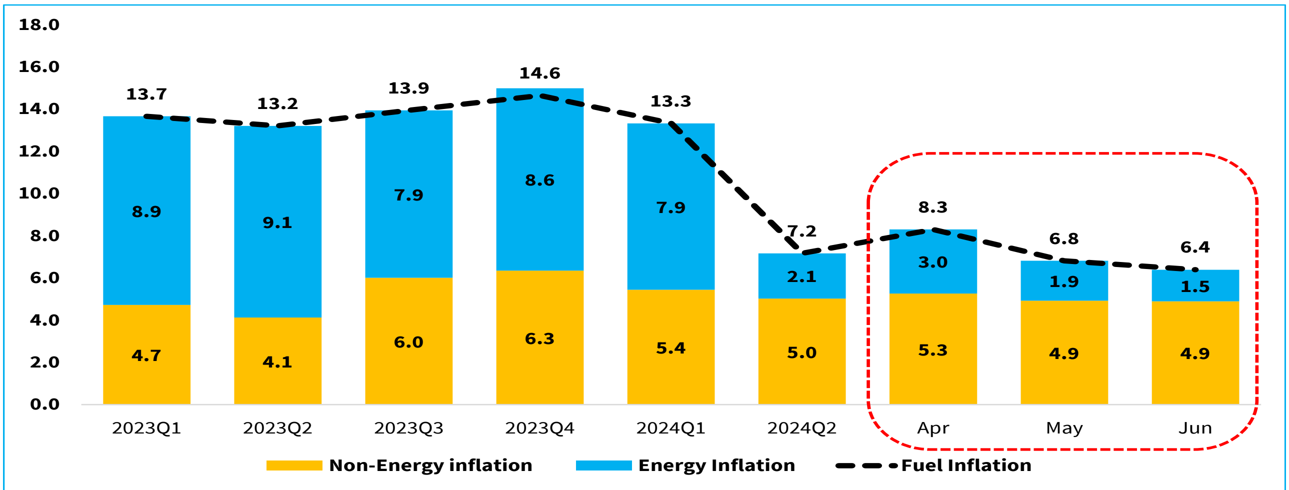


Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation declined significantly to 7.2 percent from 13.3 percent in the previous quarter, mainly driven by easing energy prices. Pump prices declined following further downward price adjustment by the EPRA during the quarter. Meanwhile, prices of electricity eased modestly, while Liquified Petroleum Gas (LPG) prices remained elevated during the quarter. The non-energy component of fuel inflation declined in the quarter due to easing transport costs compared to the previous quarter **(Chart 1.3)**.

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



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

Non-Food Non-Fuel Inflation (NFNF)

Non-food Non-fuel (NFNF) inflation declined to 3.4 percent from 3.6 percent in the previous quarter, reflecting the continued impact of muted demand pressures and monetary policy tightening. All categories recorded a decline in inflation rates except clothing and footwear; furnishings, household equipment and routine household maintenance; and health **(Table 1.2)**.

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2022	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Q3	4.5	2.4	2.9	10.3	1.4	0.9	3.2	1.0	4.4	0.5	4.8	3.3
	Q4	7.0	2.8	3.2	10.4	1.7	1.1	4.1	1.2	6.0	1.0	6.7	4.0
2023	Q1	8.4	3.1	3.1	8.6	2.2	1.1	6.0	2.4	6.6	1.3	7.6	4.4
	Q2	9.7	2.9	2.9	6.0	2.3	1.3	5.3	2.3	5.9	1.3	7.9	4.2
	Q3	10.2	3.0	2.3	4.0	2.4	1.1	5.6	2.1	4.8	1.3	7.4	3.7
	Q4	8.5	3.1	2.7	3.6	2.6	1.0	5.1	2.0	4.1	1.0	6.5	3.4
2024	Q1	8.5	3.6	2.7	4.1	2.5	1.3	5.0	2.5	4.4	1.0	6.1	3.6
	Q2	8.0	3.7	2.5	4.2	2.6	1.3	4.8	2.3	4.3	0.9	5.3	3.4
	Apr	8.3	3.7	2.6	4.4	2.7	1.3	4.8	2.3	4.3	0.9	6.0	3.6
	May	8.0	3.8	2.5	4.2	2.6	1.3	4.8	2.3	4.2	0.9	5.2	3.4
	Jun	7.7	3.8	2.5	4.1	2.4	1.3	4.9	2.2	4.4	0.9	4.8	3.4

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

Chapter 2
Economic Performance

Overview

Economic growth decelerated in the second quarter of 2024. Real GDP is estimated to have grown by 4.6 percent compared to 5.6 percent in a similar quarter of 2023, with the slowdown reflected across all sectors of the economy except manufacturing, wholesale and retail trade, health and professional services.
The agriculture sector growth remained resilient, supported by favourable weather conditions. Growth of service sectors was supported by robust performance of finance and insurance, wholesale and retail trade, real estate, information and communication, and accommodation and food services. On the other hand, growth in the industrial sector slowed down during the quarter, owing to contraction of construction, and mining and quarrying sectors, despite pickup of activity in manufacturing **(Table 2.1).**

Agriculture

Agriculture sector performance remained resilient in the second quarter of 2024, attributable to favourable weather conditions and government interventions including fertilizer subsidy. It grew by 4.8 percent compared to 7.8 percent in a similar quarter of 2023. Growth of the sector was supported by a significant increase in cane deliveries (81.5 percent), milk deliveries (11.9 percent), export of horticultural crops (27.0 percent), and coffee sales (157.1 percent). However, tea production declined by -0.6 percent. The sector contributed 0.9 percentage points to real GDP growth **(Tables 2.1 and 2.3).**

Non-Agriculture

Broadly, growth of the non-agriculture sector decelerated in the second quarter of 2024, owing to subdued activity in both industry and service sectors. It grew by 4.5 percent compared to 5.1 percent in a similar quarter of 2023 and contributed 3.6 percentage points to real GDP growth **(Tables 2.1 and 2.3).**

a) Growth of the service sector remained resilient in the second quarter of 2024. It grew by 5.5 percent compared to 6.8 percent in a similar quarter of 2023 and contributed 3.1 percentage points to real GDP growth.

- Information and Communication sector maintained the strong growth momentum and grew by 7.2 percent compared to 7.6 percent in a similar quarter of 2023. The growth was largely supported by increased e-commerce activities and demand for data-intensive services.
- Financial and Insurance sector expanded by 5.1 percent in the second quarter of 2024, a significant slowdown from 13.2 percent in a similar period in 2023. The deceleration reflects lower growth of domestic credit due to elevated interest rates.
- Wholesale and Retail Trade sector grew by 4.4 percent, which was higher than 2.1 percent growth recorded in a similar quarter of 2023. The improved performance reflects the impact of strengthening of exchange rate and low inflation during the quarter which supported purchasing power of consumers.
- Transport and Storage sector growth decelerated to 3.6 percent from 4.6 percent in a similar quarter of 2023. The deceleration was on account of lower consumption of light diesel and number of passengers ferried through Standard Gauge Railway (SGR), which decreased by 5.1 percent and 8.5 percent, respectively. Moreover, domestic passenger traffic by air contracted by -1.0 percent. On the other hand, revenue from passenger railway transport increased by 36.8 percent while the volume of cargo transported through SGR increased by 8.7 percent during the quarter. In addition, the number of international passengers traveling by air increased by 7.1 percent during the quarter.
- Accommodation and Food Services sector expanded by 26.6 percent from 42.8 percent in a similar quarter of 2023. Growth of the sector was supported by tourist arrivals which increased by 6.4 percent through the two major airports, Jomo Kenyatta International Airport (JKIA) in Nairobi and Moi International Airport (MIA), Mombasa. The sector also benefited from several high-profile international conferences held during the quarter.

b) Industrial sector activity remained subdued. Growth of the sector decelerated to 0.6 percent from 1.4 percent in a similar quarter of 2023, consequently its contribution to real GDP growth stood at 0.1 percentage points **(Tables 2.1 and Figure 2.1).**

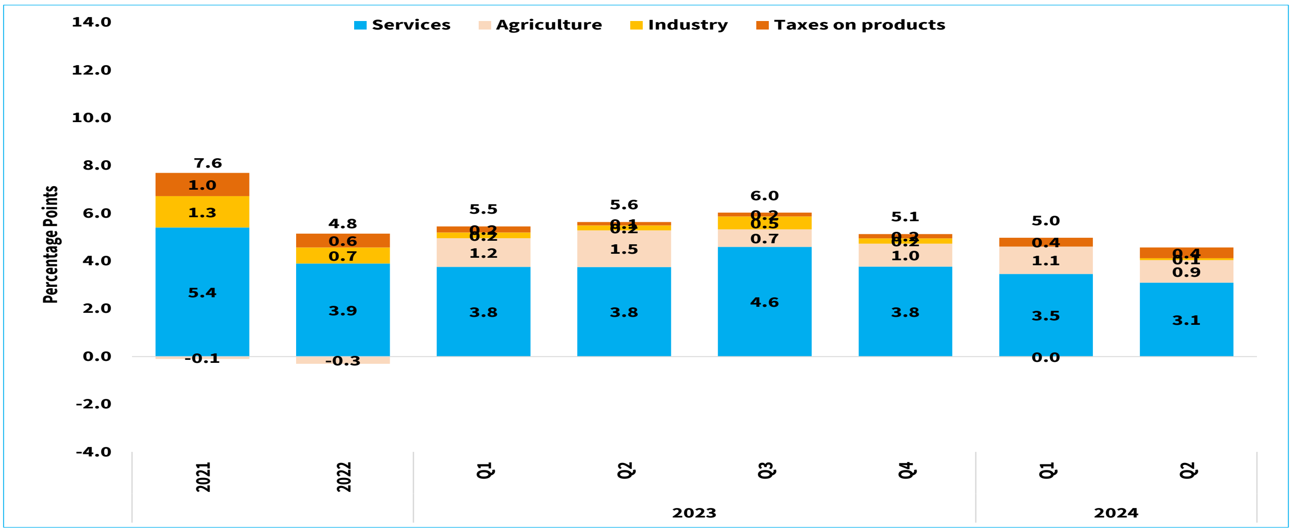
- Construction sector growth contracted significantly by -2.9 percent compared to a growth 2.7 percent in a similar quarter of 2023. The slowdown was reflected in declines of key inputs, including cement consumption (-7.8 percent), import of bitumen (-8.1 percent), and iron and steel (-9.1 percent). Credit extended to enterprises in the sector also declined. However, the value of buildings approved by the Nairobi City County increased significantly by 142.6 percent, driven by increased approvals of residential buildings.
- Electricity and Water Supply sector growth decelerated to 1.0 percent from 2.8 percent in a similar quarter of 2023. The slowdown was due to a decline in generation of geothermal electricity (-14.2 percent), wind electricity (-33.9 percent), and solar electricity (-5.0 percent). However, growth of the sector was supported by generation of hydroelectricity, which increased by 50.9 percent.
- Growth of the manufacturing sector improved to 3.2 percent from 1.5 percent in a similar quarter of 2023. The improved performance of the sector was largely supported by increased agro-processing, particularly production of soft drinks, sugar, and milk which increased by 30.6 percent, 95.9 percent and 7.9 percent, respectively. Additionally, the non-food sub sector was supported by production of galvanized sheets which increased by 5.0 percent. On the other hand, assembly of motor vehicle and cement production contracted by -17.3 percent and -8.1 percent, respectively.

Table 2.1: Gross domestic product (GDP) growth by activity (percent)

	Annual	2023				2024	
	2023	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	6.5	6.4	7.8	5.1	6.2	6.1	4.8
2. Non-Agriculture (o/w)	5.4	5.2	5.1	6.2	4.9	4.7	4.5
2.1 Industry	1.9	1.5	1.4	3.1	1.4	0.1	0.6
Mining & Quarrying	-6.5	-11.0	-8.3	0.8	-6.9	-14.8	-2.7
Manufacturing	2.0	1.7	1.5	2.8	2.0	1.2	3.2
Electricity & water supply	2.8	3.8	2.8	3.3	1.3	2.4	1.0
Construction	3.0	3.0	2.7	4.0	2.2	0.1	-2.9
2.2 Services	7.0	6.8	6.8	7.8	6.5	6.2	5.5
Wholesale & Retail Trade	2.7	2.9	2.1	3.1	2.8	4.9	4.4
Accommodation & restaurant	33.6	47.1	42.7	34.5	18.1	28.0	26.6
Transport & Storage	6.2	6.6	4.6	5.1	8.5	3.9	3.6
Information & Communication	9.3	9.5	7.6	8.8	11.0	7.8	7.2
Financial & Insurance	10.1	5.9	13.2	15.5	6.3	7.0	5.1
Public administration	4.6	7.6	3.2	4.6	3.4	5.8	5.1
Professional, Administration & Support Services	9.5	8.6	6.6	9.7	12.8	9.9	6.8
Real estate	7.3	7.3	8.1	7.7	6.2	6.6	6.0
Education	3.1	2.0	3.1	3.5	3.9	4.0	3.1
Health	4.9	5.1	4.7	5.0	4.8	5.5	5.5
Other services	4.1	4.6	2.4	6.4	2.9	2.3	2.0
FISIM	2.7	0.6	4.9	2.9	2.5	5.8	0.9
2.3 Taxes on products	2.2	3.0	1.8	1.9	2.0	4.4	5.7
Real GDP Growth	5.6	5.5	5.6	6.0	5.1	5.0	4.6

Source: Kenya National Bureau of Statistics

Chart 2.1: Sectoral contributions to real GDP growth (percentage points)



Source: Kenya National Bureau of Statistics and CBK Staff computations

Table 2.2: Sectoral shares (percentage of Real GDP)

	Annual	2023				2024	
	2023	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	17.1	18.8	19.7	14.4	15.6	19.0	19.7
2. Non-Agriculture (o/w)	82.9	81.2	80.3	85.6	84.4	81.0	80.3
2.1 Industry	17.3	17.2	16.8	18.0	17.2	16.4	16.2
Mining & Quarrying	1.0	1.0	1.0	1.1	0.9	0.8	0.9
Manufacturing	8.2	8.1	8.0	8.3	8.3	7.8	7.9
Electricity & water supply	2.4	2.4	2.3	2.6	2.4	2.3	2.2
Construction	5.7	5.7	5.5	6.1	5.6	5.4	5.1
2.2 Services	57.2	55.7	55.8	59.1	58.3	56.3	56.3
Wholesale & Retail Trade	8.0	8.5	7.4	7.9	8.3	8.5	7.4
Accommodation & restaurant	1.3	1.2	1.2	1.3	1.5	1.5	1.5
Transport & Storage	9.6	9.1	9.5	10.3	9.7	9.0	9.4
Information & Communication	3.3	3.2	3.1	3.4	3.5	3.3	3.2
Financial & Insurance	9.5	8.7	9.5	9.9	10.0	8.9	9.6
Public administration	6.0	5.7	6.0	6.1	6.0	5.8	6.1
Professional, Administration & Support Services	2.8	2.6	2.7	2.9	3.0	2.8	2.7
Real estate	10.3	10.1	10.2	10.6	10.1	10.2	10.3
Education	4.8	5.0	4.4	4.9	5.0	4.9	4.3
Health	2.2	2.1	2.3	2.2	2.4	2.1	2.3
Other services	2.1	2.0	2.1	2.4	2.0	2.0	2.0
FISIM	-2.9	-2.6	-2.7	-2.9	-3.2	-2.7	-2.6
2.3 Taxes on products	8.4	8.4	7.7	8.5	8.9	8.3	7.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

Table 2.3: Sectoral contributions to real GDP growth rate (percentage points)

	Annual	2023				2024	
	2023	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	1.1	1.2	1.5	0.7	1.0	1.1	0.9
2. Non-Agriculture (o/w)	4.4	4.3	4.1	5.3	4.2	3.8	3.6
2.1 Industry	0.3	0.3	0.2	0.6	0.2	0.0	0.1
Mining & Quarrying	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	0.0
Manufacturing	0.2	0.1	0.1	0.2	0.2	0.1	0.3
Electricity & water supply	0.1	0.1	0.1	0.1	0.0	0.1	0.0
Construction	0.2	0.2	0.1	0.2	0.1	0.0	-0.1
2.2 Services	4.0	3.8	3.8	4.6	3.8	3.5	3.1
Wholesale & Retail Trade	0.2	0.2	0.2	0.2	0.2	0.4	0.3
Accommodation & restaurant	0.4	0.6	0.5	0.4	0.3	0.4	0.4
Transport & Storage	0.6	0.6	0.4	0.5	0.8	0.4	0.3
Information & Communication	0.3	0.3	0.2	0.3	0.4	0.3	0.2
Financial & Insurance	1.0	0.5	1.3	1.5	0.6	0.6	0.5
Public administration	0.3	0.4	0.2	0.3	0.2	0.3	0.3
Professional, Administration & Support Services	0.3	0.2	0.2	0.3	0.4	0.3	0.2
Real estate	0.7	0.7	0.8	0.8	0.6	0.7	0.6
Education	0.2	0.1	0.1	0.2	0.2	0.2	0.1
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.1	0.1	0.0	0.2	0.1	0.0	0.0
FISIM	-0.1	0.0	-0.1	-0.1	-0.1	-0.2	0.0
2.3 Taxes on products	0.2	0.2	0.1	0.2	0.2	0.4	0.4
Real GDP Growth	5.6	5.5	5.6	6.0	5.1	5.0	4.6

Source: Kenya National Bureau of Statistics and CBK Staff computations

Chapter 3

Developments in Money, Credit and Interest Rates

Overview

Growth in broad money supply (M3) increased by 3.4 percent in the second quarter of 2024 compared to a contraction of 5.3 percent in the previous quarter, mainly reflecting increased corporate sector deposits.

Monetary aggregates and its components

Broad money supply (M3) increased by 3.4 percent in the second quarter of 2024 compared to a contraction of 5.3 percent in the previous quarter, partly reflecting increased deposits. The increase in deposits was mainly reflected in the time and savings deposits of both the corporate and household sector deposits, partly on account of higher interest rates on deposits offered by banks. The other deposits at the Central Bank also increased mainly due to increased county deposits, partly reflecting transfers from the Central Government **(Tables 3.1 & 3.2).**

On the counterpart side, the primary source of the increase in broad money supply (M3) in the second quarter of 2024 was the increased net foreign assets and net domestic assets of the banking system. The increase in net foreign assets of the banking system partly reflected official inflows which boosted the Central Bank reserves as well as increased commercial banks deposits abroad. The increase in net domestic assets of banking system mainly reflected increased net lending to the government **(Table 3.1).**

Table 3.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)				Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)					
	Jun-23	Sep-23	Dec-23	Mar-24	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	2,098.2	2,017.3	2,044.1	1,992.8	-4.1	11.3	-3.9	1.3	-2.5	-81.3	212.4	-81.0	26.8	-51.2	70.8
1.1 Currency outside banks	257.9	267.5	282.1	273.9	-2.3	2.0	3.7	5.5	-2.9	-6.0	5.1	9.6	14.6	-8.2	0.2
1.2 Demand deposits	1,680.9	1,645.5	1,664.2	1,635.4	-4.2	8.2	-2.1	1.1	-1.7	-67.9	127.2	-35.4	18.7	-28.8	-4.6
1.3 Other deposits at CBK 1/	159.6	104.6	98.0	83.9	-8.4	100.8	-34.5	-6.3	-14.4	-7.3	80.1	-55.0	-6.5	-14.1	75.0
2. Money supply, M2 (1+2.1)	3,852.2	3,898.2	3,952.3	3,890.4	-0.1	6.7	1.2	1.4	-1.6	-2.9	241.6	46.1	54.1	-62.0	151.3
2.1 Time and saving deposits	1,754.0	1,881.0	1,908.3	1,897.5	4.8	1.7	7.2	1.5	-0.6	78.3	29.3	127.0	27.3	-10.7	80.4
3. Money supply, M3 (2+3.1)	5,037.4	5,295.9	5,498.6	5,204.4	3.0	7.9	5.1	3.8	-5.3	134.2	368.7	258.5	202.7	-294.1	176.9
3.1 Foreign Currency Deposits	1,185.2	1,397.6	1,546.3	1,314.1	14.9	12.0	17.9	10.6	-15.0	137.2	127.0	212.4	148.6	-232.2	25.6
Sources of M3													0.0	0.0	
1. Net foreign assets 2/	591.5	708.5	793.6	749.5	9.1	91.6	19.8	12.0	-5.6	25.7	282.8	117.0	85.1	-44.1	156.4
Central Bank	616.9	516.2	486.9	387.4	-19.2	42.3	-16.3	-5.7	-20.4	-103.3	183.3	-100.6	-29.3	-99.4	91.7
Banking Institutions	-25.4	192.3	306.7	362.0	50.8	79.7	857.1	59.5	18.0	129.0	99.5	217.7	114.4	55.3	64.7
2. Net domestic assets (2.1+2.2)	4,445.9	4,587.4	4,705.0	4,455.0	2.6	2.0	3.2	2.6	-5.3	108.5	85.9	141.4	117.6	-250.0	20.5
2.1 Domestic credit	5,820.2	6,077.7	6,252.0	6,157.3	4.8	2.1	4.4	2.9	-1.5	262.7	122.3	257.4	174.4	-94.8	12.8
2.1.1 Government (net)	2,083.9	2,203.4	2,239.5	2,235.4	7.2	1.2	5.7	1.6	-0.2	139.1	25.1	119.4	36.2	-4.2	52.3
2.1.2 Private sector	3,652.6	3,773.6	3,911.2	3,829.0	3.3	3.0	3.3	3.6	-2.1	113.5	105.6	121.1	137.5	-82.2	-31.4
2.1.3 Other public sector	83.7	100.6	101.3	93.0	12.4	-9.1	20.2	0.7	-8.3	10.1	-8.4	16.9	0.7	-8.4	-8.0
2.2 Other assets net	-1,374.3	-1,490.3	-1,547.0	-1,702.3	-13.0	-2.7	-8.4	3.8	10.0	-154.1	-36.4	-116.0	-56.8	-155.3	7.6
Memorandum items															
4. Overall liquidity, L (3+4.1)	7,562.6	7,915.1	8,197.8	8,025.0	2.9	6.6	4.7	3.6	-2.1	201.2	468.5	352.5	282.7	-172.8	288.4
4.1 Non-bank holdings of government securities	2,525.2	2,619.2	2,699.2	2,820.6	2.8	4.1	3.7	3.1	4.5	67.0	99.9	94.0	80.0	121.4	111.5

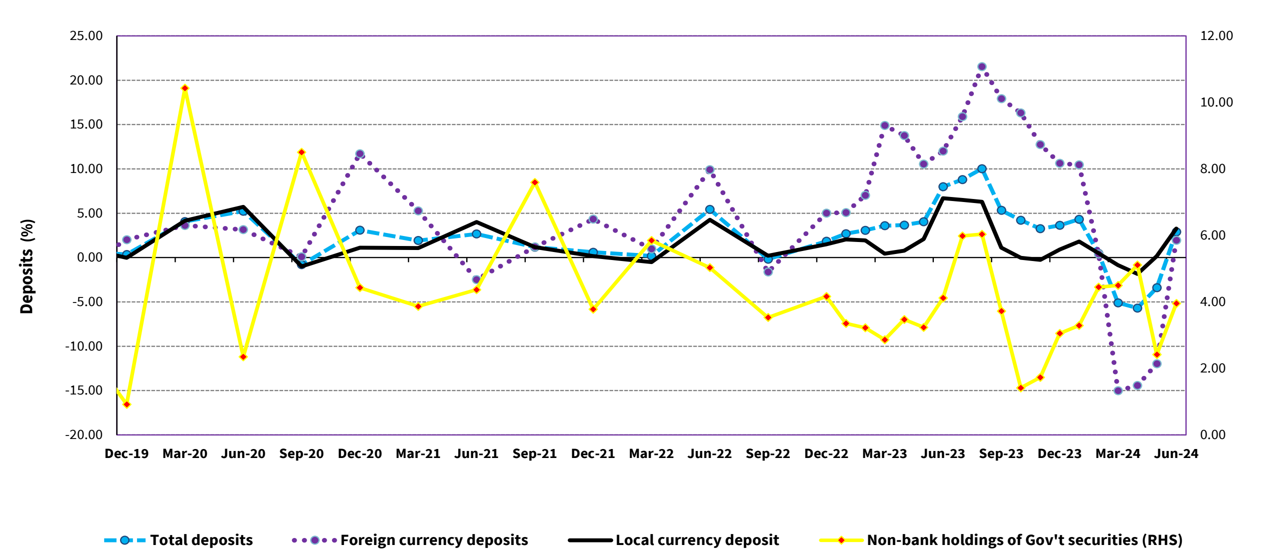
Absolute and percentage changes may not necessarily add up due to rounding off

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Chart 3.1: Quarterly growth in deposit and non-bank holdings of government securities (percent)



Source: Central Bank of Kenya

Table 3.2: Deposit holdings of corporates and household sectors

	End Month Level (KSh Billion)				Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)					
	Jun-23	Sep-23	Dec-23	Mar-24	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
1. Household Sector 1/	2057	2102	2092	2049	7.0	2.5	2.2	-0.5	-2.0	130.7	49.9	45.8	-10.6	-42.7	5.3
1.1 Demand Deposits	734	710	630	656	9.1	0.5	-3.2	-11.2	4.0	61.0	3.9	-23.7	-79.4	25.1	-30.6
1.2 Time and Saving Deposits	950	974	983	993	4.5	2.4	2.6	0.9	1.0	40.3	22.2	24.8	8.9	9.5	36.6
1.3 Foreign Currency Deposits	373	418	478	401	9.2	6.8	12.0	14.3	-16.2	29.4	23.8	44.8	59.9	-77.3	-0.6
2. Corporate Sector	2499	2748	2947	2719	0.6	10.3	10.1	7.4	-7.7	14.2	232.7	251.9	204.1	-228.3	93.2
2.1 Demand deposits	924	911	1010	956	-13.9	15.8	-1.4	11.2	-5.4	-129.0	126.5	-13.1	101.7	-54.2	22.9
2.2 Time and Saving Deposits	767	863	876	855	5.0	0.4	13.1	1.7	-2.4	36.7	2.8	99.9	14.6	-21.0	43.4
2.3 Foreign Currency Deposits	808	973	1061	908	17.8	14.7	20.4	9.0	-14.4	106.6	103.4	165.0	87.8	-153.0	27.0

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

Source: Central Bank of Kenya

Developments in Domestic Credit

Domestic credit extended by the banking system increased by 0.2 percent in the second quarter of 2024 compared with a contraction of 1.5 percent in the previous quarter reflecting increased net lending to Government. The increased net lending to government was due to higher uptake of government securities by commercial banks during the quarter. Meanwhile, net lending to the government by the central bank moderated partly due to increased government deposits at the Central bank, and credit to other public sector also moderated on account of net repayments by parastatals **(Tables 3.3).**

Credit to the private sector contracted by 0.8 percent in the second quarter of 2024 compared to a contraction of 2.1 percent in the previous quarter, partly reflecting exchange rate valuation effects on foreign currency denominated loans as well as the tightening of monetary stance. The foreign currency loans are largely concentrated in manufacturing, trade, transport and communication; and these sectors recorded significant declines during the review period **(Chart 3.2).**

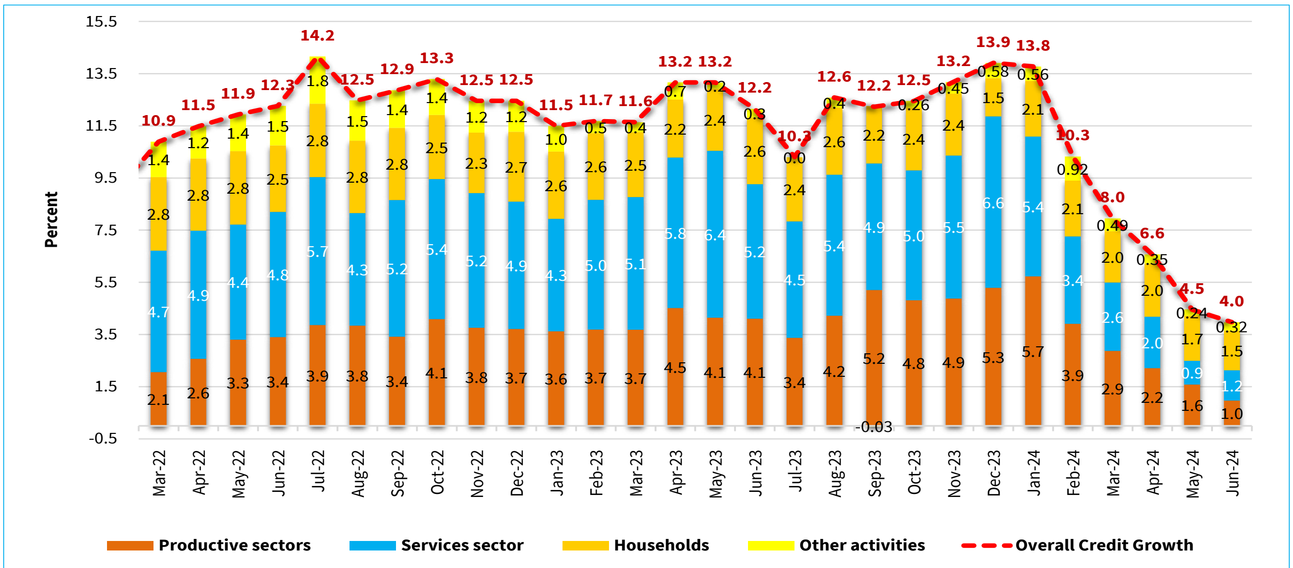
The 12-month growth in commercial bank lending to the private sector stood at 4.0 percent in June 2024 compared to 7.9 percent in March 2024. Growth in local currency denominated loans stood at 10.2 percent in June while foreign currency denominated loans, which account for about 26 percent of total loans, contracted by 13.3 percent.

Table 3.3: Banking sector net domestic credit

	End Month Level (KSh Billion)				Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)					
	Jun-23	Sep-23	Dec-23	Mar-24	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
1. Credit to Government	2,083.9	2,203.4	2,239.5	2,235.4	7.2	1.2	5.7	1.6	-0.2	139.1	25.1	119.4	36.2	-4.2	52.3
Central Bank	323.4	459.3	487.5	431.2	74.7	-10.5	42.0	6.1	-11.6	154.6	-38.1	135.9	28.2	-56.3	-50.4
Commercial Banks & NBFIs	1,760.5	1,744.1	1,752.0	1,804.2	-0.9	3.7	-0.9	0.5	3.0	-15.5	63.2	-16.5	7.9	52.2	102.6
2. Credit to other public sector	83.7	100.6	101.3	93.0	12.4	-9.1	20.2	0.7	-8.3	10.1	-8.4	16.9	0.7	-8.4	-8.0
Local government	6.7	5.0	5.1	5.3	7.8	1.0	-26.4	2.8	3.5	0.5	0.1	-1.8	0.1	0.2	1.1
Parastatals	77.0	95.7	96.3	87.7	12.7	-9.9	24.3	0.6	-8.9	9.6	-8.4	18.7	0.6	-8.6	-9.1
3. Credit to private sector	3,652.6	3,773.6	3,911.2	3,829.0	3.3	3.0	3.3	3.6	-2.1	113.5	105.6	121.1	137.5	-82.2	-31.4
Agriculture	121.9	127.1	141.8	137.4	1.9	4.2	4.3	11.5	-3.0	2.1	4.9	5.2	14.6	-4.3	-3.3
Manufacturing	583.6	620.0	636.7	597.9	3.7	6.8	6.2	2.7	-6.1	19.5	37.3	36.4	16.7	-38.8	-17.6
Trade	613.7	634.6	663.4	645.6	3.6	1.0	3.4	4.5	-2.7	21.3	6.0	20.9	28.8	-17.8	-12.9
Building and construction	139.2	145.5	143.3	137.3	4.0	1.4	4.5	-1.5	-4.1	5.3	2.0	6.3	-2.2	-5.9	-9.7
Transport & communications	328.4	343.2	361.4	340.8	6.5	3.1	4.5	5.3	-5.7	19.5	9.8	14.7	18.2	-20.7	2.2
Finance & insurance	147.6	156.1	189.1	164.5	23.4	1.3	5.8	21.2	-13.0	27.6	1.9	8.5	33.1	-24.6	-12.2
Real estate	429.2	444.9	452.5	440.9	-0.8	2.4	3.7	1.7	-2.6	-3.2	10.0	15.7	7.6	-11.6	3.8
Mining and quarrying	20.3	25.1	26.0	31.3	3.0	-13.1	23.8	3.9	20.3	0.7	-3.1	4.8	1.0	5.3	11.5
Private households	526.3	537.2	524.1	566.1	2.0	0.9	2.1	-2.4	8.0	10.2	4.8	10.9	-13.1	42.0	-0.1
Consumer durables	401.5	406.7	415.5	416.1	3.4	2.7	1.3	2.2	0.1	12.9	10.5	5.2	8.8	0.6	1.2
Business services	209.8	212.0	214.8	218.5	2.6	2.6	1.0	1.3	1.7	5.1	5.3	2.2	2.8	3.7	-4.6
Other activities	131.2	121.4	142.7	132.6	-6.1	14.0	-7.4	17.5	-7.1	-7.5	16.1	-9.7	21.2	-10.1	10.2
4. TOTAL (1+2+3)	5,820.2	6,077.7	6,252.0	6,157.3	4.8	2.1	4.4	2.9	-1.5	262.7	122.3	257.4	174.4	-94.8	12.8

Source: Central Bank of Kenya

Chart 3.2: Contribution to overall credit growth by activity group (percentage points)



Source: Central Bank of Kenya

Reserve Money

Reserve money grew by 0.3 percent in the second quarter of 2024 compared to a contraction of 2.9 percent in the previous quarter, largely reflecting increased net foreign assets which offset a decrease in net domestic assets. The increase in net foreign assets, partly reflected official government inflows. The increase in reserve money was also mainly reflected in increased bank reserves **(Table 3.4)**.

Table 3.4: Reserve money and its sources

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Sources of Reserve Money															
1. Net Foreign Assets	616.9	516.2	486.9	387.4	479.2	42.3	-16.3	-5.7	-20.4	-16.3	183.3	-100.6	-29.3	-99.4	91.7
2. Net Domestic Assets	-128.6	71.0	108.6	190.6	100.5	-271.3	155.2	52.9	75.6	82.2	-203.7	199.6	37.6	82.1	-90.1
2.1 Government Borrowing (net)	323.4	459.3	487.5	431.2	380.8	-10.5	42.0	6.1	-11.6	-30.7	-38.1	135.9	28.2	-56.3	-50.4
2.2 Commercial banks (net)	96.7	163.9	242.7	228.5	260.5	-26.3	69.4	48.1	-5.9	40.1	-34.6	67.2	78.8	-14.2	32.0
2.3 Other Domestic Assets (net)	-552.5	-555.9	-625.4	-472.8	-544.5	-31.0	-0.6	12.5	-24.4	-25.1	-130.9	-3.4	-69.5	152.6	-71.7
Components of Reserve Money															
3. Reserve Money	488.3	587.2	595.5	578.1	555.0	-4.0	20.3	1.4	-2.9	-1.7	-20.4	99.0	8.2	-17.4	1.6
3.1 Currency outside banks	257.9	267.5	282.1	273.9	270.6	2.0	3.7	5.5	-2.9	0.7	5.1	9.6	14.6	-8.2	0.2
3.2 Bank reserves	230.4	319.8	313.4	304.2	284.4	-10.0	38.8	-2.0	-2.9	-3.8	-25.5	89.4	-6.4	-9.2	1.4

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) meetings of April and June 2024 decided to maintain the Central Bank Policy (CBR) rate at 13.0 percent, noting that its previous measures had lowered overall inflation to the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. The MPC concluded that the monetary policy stance would ensure that overall inflation remains stable around the mid-point of the target range in the near term, while ensuring continued stability in the exchange rate.

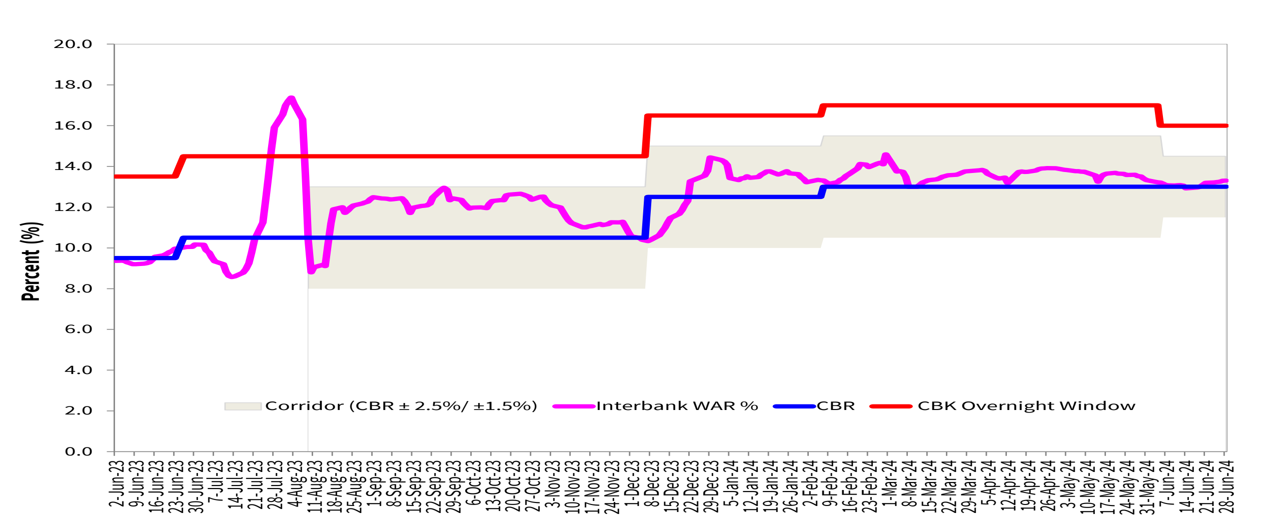
b. Short Term Rates

Short-term interest rates generally moderated during the second quarter of 2024, partly reflecting improved liquidity conditions in the money market on account of the seasonal increased government spending towards the end of the fiscal year. The weighted overnight interbank rate decreased to 13.14 percent in June 2024 from 13.42 percent in March 2024 and it remained within the interest rate corridor band around the CBR, partly supported by open market operations. The average 91-day Treasury bill rate decreased to 15.97 percent in June 2024 from 16.68 percent in March 2024, while the average 182-day Treasury bill rate decreased to 16.67 percent from 16.86 percent.

c. Lending and Deposit Rates

Commercial banks' average lending and deposit rates increased in the second quarter of 2024 in line with the tightening of the monetary policy stance. The weighted average lending rate increased to 16.85 percent in June 2024 from 16.45 percent in March2024 while the weighted average deposit rate increased to 11.48 percent from 10.52 percent in March 2024.

Chart 3.3: Interest Rate Corridor (%)



Source: Central Bank of Kenya

Table 3.5: Interest rates (percent)

	2023									2024			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Jun
91-day Treasury bill rate	10.04	10.47	11.49	12.12	13.25	14.38	14.96	15.32	15.70	16.14	16.51	16.68	15.97
182-day Treasury bill rate	10.42	10.83	11.54	12.23	13.19	14.42	15.03	15.39	15.80	16.18	16.65	16.86	16.67
Interbank rate	8.55	9.36	9.48	10.34	12.57	12.36	12.70	11.32	11.65	13.65	13.59	13.42	13.14
Repo rate	0.00	0.00	0.00	9.07	9.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reverse Repo rate	10.57	9.73	9.90	12.09	14.67	13.76	12.54	11.63	14.03	13.76	14.69	14.71	13.75
Central Bank Rate (CBR)	9.50	9.50	10.50	10.50	10.50	10.50	10.50	10.50	12.50	12.50	13.00	13.00	13.00
Average lending rate (1)	13.10	13.21	13.31	13.50	13.83	13.98	14.16	14.43	14.64	15.20	15.88	16.28	16.85
Overdraft rate	12.71	12.64	12.83	12.84	13.24	13.62	14.09	14.29	14.65	15.11	15.55	15.97	16.78
1-5years	13.44	13.62	13.79	14.01	14.29	14.48	14.63	14.97	15.16	15.87	16.36	16.82	17.52
Over 5years	12.95	13.05	13.06	13.31	13.64	13.67	13.76	14.00	14.14	14.62	15.58	15.90	16.25
Average deposit rate (2)	7.69	7.61	7.80	8.10	8.39	8.64	9.11	9.48	10.10	10.18	10.32	10.52	11.48
0-3months	8.34	8.06	8.32	8.75	9.28	9.76	10.49	11.08	11.42	11.65	11.89	12.09	12.56
Over 3 months deposit	8.21	8.41	8.54	8.75	8.88	8.96	9.27	9.50	10.19	10.57	10.81	11.27	11.92
Savings deposits	3.59	3.92	3.92	3.97	4.05	4.00	3.98	4.01	4.24	3.69	3.33	3.90	5.11
Spread (1-2)	5.41	5.59	5.51	5.40	5.44	5.33	5.05	4.95	4.54	5.02	5.56	5.76	5.37

Source: Central Bank of Kenya

Chapter 4
Global Economy

Global economic growth is projected to remain steady in 2024 and pick-up slightly in 2025. The IMF's World Economic Outlook (WEO) July 2024 update, projects the global economy to grow by 3.2 percent in 2024 and 3.3 percent in 2025, driven by growth in the advanced economies, which is projected at 1.7 percent in 2024 and 1.8 percent in 2025. The United States growth is projected at 2.6 percent in 2024 driven by household consumption and supply and demand factors in the labour market. Growth in the euro area is expected at 0.9 percent in 2024 from 0.5 percent in 2023 driven by a strong momentum in services sector and higher net exports, while growth in the United Kingdom is projected at 0.7 percent in 2024 and 1.5 percent in 2025, from 0.1 percent in 2023, reflecting the waning drag from past monetary policy tightening (Table 4.1).

Growth in emerging markets and developing economies is projected to remain stable at 4.3 percent in 2024 and 2025, with divergence across major economies. Growth is expected to be buoyant in India, supported by strong public investments and improving business confidence. In China, the stronger fiscal policy stimulus is expected to support domestic demand, despite the ongoing weakness in the property sector. GDP growth in Brazil is projected to expand by 2.1 percent in 2024 and 2.4 percent in 2025, driven by household spending and incomes provided by employment growth. Growth in Sub-Saharan Africa (SSA) is projected to rise from an estimated 3.4 percent in 2023 to 3.7 percent in 2024, and further to 4.1 percent in 2025, as the negative effects of earlier weather shocks subside, and supply issues improve gradually.

GDP growth rose at a faster pace in the second quarter of 2024. (Chart 4.1). Growth was robust in the United States, rising by 3.1 percent in the second quarter of 2024 compared to 2.4 percent in the first quarter of 2023, supported by strong labour market conditions and household consumption. Over a similar period, growth accelerated in the United Kingdom to 0.9 percent from 0.2 percent supported by growth in the services, Information and communication sectors but declined in the euro area to 0.2 percent from 0.5 percent. The decline in the Euro area was because of contraction of the Germany economy by 0.1 percent in the second quarter of 2024 following a decline in gross fixed capital formation in machinery and equipment and in construction. The second quarter GDP growth in China improved modestly by 0.2 percentage points to 4.7 percent from 4.5 and was supported by macroeconomic policies, including a sizeable fiscal stimulus and infrastructure investment.

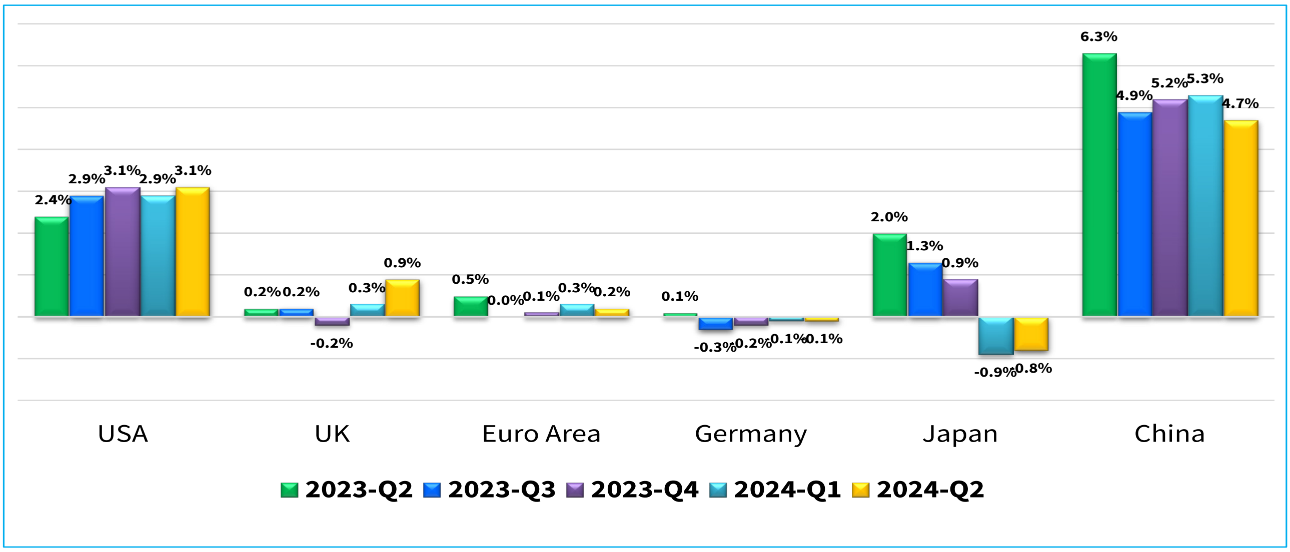
Global inflation concerns have eased, with notable declines observed in key economies. The annual consumer price inflation for advanced economies is projected to ease gradually, to 2.7 percent in 2024 and converge to the central bank target by 2025 **(Table 4.1)**. In emerging market economies, declines in commodity prices will help to curb intermediate input cost increases and lower goods price inflation.

Table 4.1: Growth performance and outlook for the global economy (percent)

	Annual Year over Year				Quarterly Q4 Over Q4		
	Estimate		Projections		Estimate	Projections	
	2023	2023	2024	2025	2023	2024	2025
World Output	3.5	3.3	3.2	3.3	3.3	3.2	3.2
Advanced Economies	2.6	1.7	1.7	1.8	1.7	1.8	1.8
United States	1.9	2.5	2.6	1.9	3.1	2.0	1.8
Euro Area	3.4	0.5	0.9	1.5	0.2	1.5	1.5
Germany	1.8	–0.2	0.2	1.3	–0.2	0.8	1.7
France	2.5	1.1	0.9	1.3	1.2	0.8	1.5
Italy	3.7	0.9	0.7	0.9	0.7	0.5	1.3
Spain	5.8	2.5	2.4	2.1	2.1	2.3	2.1
Japan	1.0	1.9	0.7	1.0	1.2	1.6	0.5
United Kingdom	4.3	0.1	0.7	1.5	–0.2	1.5	1.6
Emerging Market and Developing Economies	4.1	4.4	4.3	4.3	4.7	4.3	4.4
Emerging and Developing Asia	4.5	5.4	5.4	5.1	5.9	5.3	5.0
China	3.0	5.2	5.0	4.5	5.4	4.6	4.9
India	7.0	8.2	7.0	6.5	7.8	6.5	6.5
Emerging and Developing Europe	1.2	3.2	3.2	2.6	4.1	2.3	3.7
Russia	–1.2	3.6	3.2	1.5	4.8	1.8	1.7
Latin America and the Caribbean	4.2	2.3	1.9	2.7	1.5	2.5	2.5
Brazil	3.0	2.9	2.1	2.4	2.2	2.9	2.0
Mexico	3.7	3.2	2.2	1.6	2.3	3.0	1.1
Middle East and Central Asia	5.4	2.0	2.4	4.0	...	...	...
Saudi Arabia	7.5	–0.8	1.7	4.7	–4.3	2.6	4.3
Sub-Saharan Africa	4.0	3.4	3.7	4.1	...	...	...
Nigeria	3.3	2.9	3.1	3.0	2.8	3.3	2.7
South Africa	1.9	0.7	0.9	1.2	1.3	1.3	0.9
Kenya	4.9	5.6	5.4	5.5	...	...	...
World Trade Volume (goods and services)	5.6	0.8	3.1	3.4	...	...	...
Advanced Economies	6.2	0.1	2.5	2.8	...	...	...
Emerging Market and Developing Economies	4.5	2.0	4.2	4.5	...	...	...
Commodity Prices							
Oil	39.2	–16.4	0.8	–6.0	–4.4	–2.4	–5.7
Nonfuel	7.9	–5.7	5.0	1.6	–2.0	7.7	0.5
World Consumer Prices	8.7	6.7	5.9	4.4	5.8	5.5	3.6
Advanced Economies	7.3	4.6	2.7	2.1	3.1	2.5	1.9
Emerging Market and Developing Economies	9.8	8.3	8.2	6.0	8.0	8.0	4.9

Source: IMF, World Economic Outlook, July 2024 updates

Chart 4.1: Global growth, first quarter-2023 (percent)



Source: National Bureau of Statistics offices, The Organisation for Economic Co-operation and Development (OECD)

Chapter 5

Balance of Payments and Exchange Rates

Overview

The overall balance of payment recorded a lower surplus of USD 653 million in the second quarter of 2024 compared to a deficit of USD 1,094 million in the second quarter of 2023.

Current Account Balance

The current account deficit narrowed by USD 367 million to USD 795 million in the second quarter of 2024 compared to a deficit of USD 1,162 million in the second quarter of 2023 **(Table 5.1).** The narrowing of current account deficit was on account of improvement in services account, primary income and secondary income which more than offset the deficit in the goods balance. The deficit in the goods balance widened by USD 20 million to USD 2,607 million in the second quarter of 2024 compared to a deficit of USD 2,587 million in the second quarter of 2023, reflecting an increase in goods imports.

The improvement in the services account by USD 132 million was due to lower services payments. Similarly, the balance on primary income account improved by USD 159 million to a deficit of USD 348 million in the second quarter of 2024 from deficit of USD 507 million in the second quarter of 2023, reflecting lower interest-related payments on other investments. Transfers in the secondary income account improved by USD 96 million and was mainly attributed to higher remittances receipts during the review period.

Table 5.1: Balance of payments (USD Million)

ITEM	2023				2024*					2024 Q2- 2023Q2	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apri	May	Jun	Apr-Jun	Absolute	Percent
	Q1	Q2	Q3	Q4	Q1				Q2	Change	Change
A. Current Account	-877	-1162	-970	-1285	-857	-333	-196	-266	-795	367	-31.6
Goods: exports f.o.b.	1844	1815	1862	1707	2004	719	730	661	2110	295	16.2
Goods: imports f.o.b.	4291	4402	4133	4413	4277	1693	1515	1509	4717	315	7.1
Services: credit	1598	1507	1238	1113	1318	513	501	516	1530	23	1.5
Services: debit	1277	1306	1113	1127	1137	385	390	422	1197	-108	-8.3
Balance on goods and services	-2126	-2386	-2147	-2720	-2091	-846	-675	-754	-2274	112	-4.7
Primary income: credit	43	47	57	57	60	24	29	14	66	19	39.4
Primary income: debit	536	555	628	388	660	109	186	119	414	-140	-25.3
Balance on goods, services, and primary income	-2619	-2893	-2717	-3050	-2692	-931	-833	-859	-2623	271	-9.4
Secondary income: credit	1802	1737	1758	1782	1851	608	647	604	1859	121	7.0
O/w Remittances	1020	1024	1083	1092	1210	406	415	382	1203	179	17.4
Secondary income: debit	60	6	11	17	16	11	10	10	31	25	449.5
B. Capital Account.	55	36	24	13	57	5	11	28	45	9	25.2
Capital account: credit	55	36	24	13	57	11	17	34	62	26	72.9
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0.0
C. Financial Account.	656	-2400	25	-911	-834	12	-359	-1179	-1526	874	-36.4
D. Net Errors and Omissions	470	-180	60	177	-247	354	-328	-167	-140	40	-22.0
E. Overall Balance "-" indicates a surplus	1008	-1094	911	184	213	-20	148	-781	-653	442	-40.4
F. Reserves and Related Items	-1008	1094	-911	-184	-213	20	-148	781	653	-442	-40.4

* Provisional
Fob-free on board
Source: Central Bank of Kenya and KNBS

Goods Account

Goods exports improved by USD 295 million to USD 2,110 million, occasioned by improved exports of tea, horticulture (vegetables, fruits and cut flowers) and re-exports which grew by 6.9 percent, 10.1 percent, and 136 percent, respectively **(Table 5.2a).** The increase in exports of tea was mainly on account of higher prices at the Mombasa tea auction while the improvement in horticulture exports was due to higher exports quantities of both vegetables, fruits and nuts during the period under review. The re-exports increased by USD 227 million to USD 395 million during the second quarter of 2024, mainly reflecting higher uptake of jet-fuel by non-resident airline.

Table 5.2a: Trade Exports

ITEM	2023*			2024*					2024 Q2-2023Q2	
TRADE EXPORTS-CIF (USD MILLIONS)	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apri	May	Jun	Apr-Jun	Absolute	Percent
COMMODITY DESCRIPTION	Q2	Q3	Q4	Q1				Q2	Change	Change
FOOD AND LIVE ANIMALS	727	743	652	768	270	252	226	748	20.9	2.9
Vegetables and Fruits (Fresh)	131	141	96	129	45	49	46	140	9.4	7.2
Coffee	103	70	29	56	31	28	33	92	-10.7	-10.4
Tea	319	349	337	388	132	119	91	341	22.1	6.9
BEVERAGES AND TOBACCO	37	32	36	33	11	11	11	33	-4.1	-11.0
CRUDE MATERIALS	286	253	273	352	97	103	103	304	18.4	6.5
Cut flowers	115	107	109	150	39	43	37	119	3.3	2.9
MINERAL FUELS	25	25	41	24	9	10	9	28	3.6	14.4
ANIMAL & VEGETABLE OILS	43	46	42	32	14	22	28	64	21.0	48.8
CHEMICALS AND RELATED PRODUCTS	146	155	149	149	50	52	54	155	9.0	6.2
MANUFACTURED GOODS	177	181	146	157	53	54	50	156	-21.0	-11.8
Non - Metallic Minerals	56	60	39	52	19	16	16	51	-4.9	-8.7
Iron and Steel	58	58	52	49	17	18	16	52	-6.7	-11.6
MACHINERY AND TRANSPORT EQUIPMENT	32	22	26	29	5	7	8	21	-11.5	-35.7
MISCELLENEOUS MANUFACTURED ARTIC.	158	149	149	155	56	59	67	182	24.1	15.3
Clothing accessories	85	80	78	85	28	30	39	97	11.2	13.1
COMMODITIES & TRANSACTIONS	4	8	15	5	2	2	2	6	1.5	34.1
RE-EXPORTS	168	236	167	290	138	145	112	395	227.3	135.5
TOTAL CUSTOMS EXPORTS (CIF)	1,803	1,849	1,695	1,995	706	717	648	2,072	269.3	14.9

* Provisional
Fob-free on board

Source: Central Bank of Kenya and Kenya Revenue Authority

Goods imports widened by USD 315 million to USD 4,717 million in the second quarter of 2024. The increase was mainly on imports of machinery and transport equipment and chemicals, which more than off-set the decline in imports of food and manufactured goods **(Table 5.2b).** Imports of machinery equipment was mainly for industrial use, while transport imports were mainly locomotives for railway transport. The decline in manufactured goods was due to lower imports of iron and steel following the increase in its import duty to promote domestic production. Food imports declined by USD 119 million to USD 541 million mainly on account of lower imports of cereals, specifically rice and maize. Oil imports, however, remained unchanged as global prices remained relatively stable during the review period.

Table 5.2b: Trade Imports

ITEM	2023*			2024*					2024 Q2-2023Q2	
TRADE IMPORTS-CIF (USD MILLIONS)	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apri	May	Jun	Apr-Jun	Absolute	Percent
COMMODITY DESCRIPTION	Q2	Q3	Q4	Q1				Q2	Change	Change
FOOD AND LIVE ANIMALS	659	619	515	498	209	156	176	541	-119	-18.0
Cereals	453	343	200	281	137	91	114	343	-111	-24.4
Sugar	55	105	146	99	26	18	21	65	10	17.7
BEVERAGES AND TOBACCO	32	24	27	21	8	10	7	24	-7	-22.9
CRUDE MATERIALS	119	121	138	140	45	48	44	138	19	15.6
MINERAL FUELS	1,207	1,110	1,314	1,147	399	365	438	1,202	-5	-0.4
Motor spirit	337	374	385	326	134	137	125	396	59	17.5
Jet fuel	175	157	221	218	62	0	115	178	3	1.7
Diesel oil	499	440	513	377	145	150	144	440	-59	-11.9
ANIMAL & VEGETABLE OILS	233	299	253	230	93	57	89	239	6	2.6
CHEMICALS AND RELATED PRODUCTS	742	630	683	731	311	263	261	836	94	12.7
Organic and Inorganic Chemicals	91	84	92	85	31	37	27	94	3	3.3
Medicinal & Pharmaceuticals	203	163	162	171	74	52	67	192	-12	-5.8
Manufactured Fertilizers	94	39	56	65	68	27	43	138	44	47.3
Plastics	178	163	194	199	74	69	62	204	26	14.5
Chemical Materials and Products	102	101	86	128	38	49	40	127	24	23.8
MANUFACTURED GOODS	741	593	625	638	219	234	225	677	-63	-8.6
Textile Yarn	138	117	148	155	55	61	48	164	26	18.8
Iron and Steel	286	174	165	187	48	52	73	172	-114	-39.8
MACHINERY AND TRANSPORT EQUIPMENT	753	859	888	872	402	357	288	1,048	295	39.1
Machinery	515	599	618	541	284	236	194	714	199	38.5
Transport	238	260	269	331	118	122	94	334	96	40.4
MISCELLENEOUS MANUFACTURED ARTIC.	239	224	331	261	100	114	86	300	61	25.5
COMMODITIES & TRANSACTIONS	66	75	81	93	33	34	35	102	36	54.9
TOTAL CUSTOMS EXPORTS (CIF)	4,732	4,479	4,734	4,538	1,786	1,605	1,613	5,004	273	5.8

*Provisional
CIF- Cost Insurance and Freight

Source: Central Bank of Kenya and Kenya Revenue Authority

Exports of goods to the EAC region accounted for 28.2 percent of total exports and increased by 11.5 percent to USD 592 million in second quarter of 2024, reflecting increased exports to Uganda, South Sudan and Democratic Republic of Congo (DRC). However, exports to COMESA region declined by 1.9 percent following lower exports to Egypt, Somalia, and Ethiopia during the period under review. Exports to the rest of the world increased by 28.4 percent to USD 1,349 million and was mainly to United Arab Emirates (UAE), USA, the United Kingdom, Saudi Arabia and **(Table 5.2c).**

Imports of goods were mainly from China, UAE, India and Malaysia, which accounted for 20.1 percent, 13.9 percent, 8.8 percent and 4.2 percent of total imports, respectively. The imports from China were mainly railway transport equipment, imports from India were mainly pharmaceuticals while oil imports from UAE were mainly oil products. During the period under review, imports from Africa declined by 3.3 percent, equivalent of USD 15.4 million following lower imports from South Africa and Egypt **(Table 5.2c).**

Table 5.2c: Kenya's Direction of Trade (USD Millions)

Exports	2023				2024	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Region/Country	Q1	Q2	Q3	Q4	Q1	Q2
Africa	**780**	**752**	**810**	**732**	**760**	**749**
o/w Uganda	244	226	237	192	222	249
Tanzania	111	112	133	135	111	115
Rwanda	74	77	81	69	69	76
South Sudan	58	54	56	61	62	57
Egypt	57	50	59	62	70	36
DRC	44	41	53	44	58	50
Somalia	40	47	37	34	33	29
Ethiopia	33	30	23	27	33	24
Zambia	18	17	18	16	17	20
EAC	**545**	**531**	**582**	**516**	**547**	**592**
COMESA	**529**	**499**	**535**	**462**	**513**	**505**
Rest of the World	**1050**	**1051**	**1038**	**963**	**1235**	**1349**
o/w UAE	85	88	116	103	146	286
Pakistan	111	140	164	135	143	138
Netherlands	144	155	128	120	188	120
USA	120	124	116	101	149	158
United Kingdom	107	97	91	100	127	103
Saudi Arabia	25	28	35	42	75	69
China	63	57	34	34	40	65
Germany	35	34	28	18	37	37
France	24	29	32	27	24	25
India	18	16	22	23	23	19
Spain	10	22	23	8	13	28
Total Exports (CIF)	**1,830**	**1,803**	**1,849**	**1,695**	**1,995**	**2,097**
European Union	**280**	**308**	**273**	**222**	**329**	**282**
China	**63**	**57**	**34**	**34**	**40**	**65**

Imports	2023				2024	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Region/Country	Q1	Q2	Q3	Q4	Q1	Q2
Africa	**468**	**470**	**496**	**455**	**445**	**454**
o/w South Africa	129	165	131	125	144	115
Tanzania	63	78	93	73	103	112
Egypt	91	89	83	92	61	72
Uganda	65	72	68	59	50	71
EAC	**138**	**167**	**182**	**140**	**169**	**192**
COMESA	**217**	**219**	**226**	**239**	**185**	**203**
Rest of the World	**4167**	**4262**	**3983**	**4279**	**4092**	**4550**
o/w China	719	834	831	883	841	1006
UAE	658	737	854	690	449	694
India	517	553	386	479	478	441
Malaysia	156	189	192	310	276	208
USA	146	253	225	180	273	282
Japan	162	179	176	178	184	205
Saudi Arabia	338	288	244	178	49	98
Russia	226	107	112	153	91	196
Netherlands	66	46	37	155	137	90
Oman	116	100	13	10	188	181
United Kingdom	69	67	61	94	61	108
Germany	76	89	61	61	67	77
Pakistan	56	57	48	27	113	67
France	63	49	80	71	42	61
Indonesia	107	61	84	48	48	40
Belgium	30	39	25	29	109	50
Total Imports (CIF)	**4635**	**4732**	**4479**	**4734**	**4538**	**5004**
European Union	**381**	**385**	**363**	**458**	**494**	**433**
China	**719**	**834**	**831**	**883**	**841**	**1006**

*Provisional

CIF- Cost Insurance and Freight

Source: Central Bank of Kenya and Kenya Revenue Authority

Financial Account

The financial account of the Balance of Payments recorded lower net inflows of USD 1526 million, mainly on account of lower financial liabilities in the second quarter of 2024 compared to a similar period in 2023 **(Table 5.3).** Other investment liabilities declined by USD 271 million from USD 3,039 million in Q2 2023 to USD 2,768 million in Q2 2024. The decline was due to lower inflows of loans to both the government sector and other sectors (nonfinancial corporations, households, and NPISHs). Inflows of direct investment liabilities remained relatively stable at USD 197 million in Q2 2024 compared to USD 186 million in Q2 2023. Portfolio investment liabilities declined during the review period following the repayment of the Eurobond amounting USD 500 million which matured in June 2024. Inflows of direct investment liabilities remained relatively stable at USD 123 million in Q2 2024 compared to USD 186 million in Q2 2023.

Table 5.3: Financial Account (USD Million)

	2023			2024*					2024 Q2-2023Q2	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apri	May	Jun	Apr-Jun	Absolute	Percent
	Q2	Q3	Q4	Q1				Q2		
Financial Account	-2400	25	-911	-834	12	-359	-1179	-1526	874	-36.4
Direct investment: assets	128	121	115	67	36	36	37	109	-19	-15.0
Direct investment: liabilities	186	177	168	189	41	41	42	123	-63	-33.7
Portfolio investment: assets	-1	96	93	113	74	-40	-9	25	27	-2080.3
Equity and investment fund shares	146	83	101	107	16	-5	1	13	-133	-91.3
Debt securities	-147	13	-8	7	58	-35	-11	13	160	-108.5
Portfolio investment: liabilities	-18	-17	-19	69	6	9	-561	-546	-528	2912.1
Equity and investment fund shares	-11	-25	-15	-15	8	11	3	23	34	-309.0
Debt securities	-7	8	-3	85	-2	-2	-564	-569	-561	7720.1
Financial derivatives: net	13	31	31	16	2	5	7	14	1.3	9.9
Financial derivatives: assets	14	32	31	27	13	2	-5	9	-4.8	-34.2
Financial derivatives: liabilities	1	1	0	12	10	-3	-12	-5	-6.1	-528.6
Other investment: assets	667	1183	711	622	376	-11	306	671	4.0	0.6
Other investment: liabilities	3039	1247	1712	1394	430	299	2040	2768	-271	-8.9
Deposit-taking corporations	-241	-277	-313	-148	-49	-132	12	-169	72	-29.8
General government	1657	-190	170	79	24	16	1369	1410	-248	-15.0
Other sectors	1622	1715	1855	1462	455	414	658	1527	-95	-5.9

*Provisional

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

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 16,465 million at the end of the second quarter of 2024 from USD 13,166 million in a similar period in 2023. The official reserves held by the Central Bank constituted the bulk of the gross reserves and rose to USD 8,490 million, equivalent to 4.4 months of import cover. Similarly, Commercial Bank reserves rose to USD 7,975 million at the end of the second quarter of 2024 **(Table 5.4)**.

Table 5.4: Foreign exchange reserves and residents' foreign currency deposits (end of period, USD Million)

	2023			2024				2024 Q2-2023Q2	
	Jun	Sep	Dec	Mar	Apr	May	Jun	Absolute	Percent
1. Gross Reserves	13,166	13852	14156	15,328	15,718	15,445	16,465	3299	25.1
O/w: Official	8,037	7535	7342	7,813	7,851	7,683	8,490	453	5.6
Import Cover*	4.3	4	3.9	4.1	4.1	4.0	4.4	0	2.2
Commercial Banks	5,129	6,316	6,814	7,515	7,515	7,762	7,975	2846	55.5
2. Residents' Foreign Currency Deposits	8,673	9,778	10,173	10,344	10,568	10,408	10,609	1936	22.3

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

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling exchange rate strengthened against major international and regional currencies during the second quarter of 2024 compared to the first quarter. The Kenya Shilling strengthened by 12.5 percent against the US Dollar to exchange at an average of 130.87 compared with 149.63 in quarter one 2024, supported by increased foreign exchange inflows and impact of monetary policy measures. The Shilling also strengthened against selected EAC currencies during the review period **(Table 5.5 and Chart 5.1).**

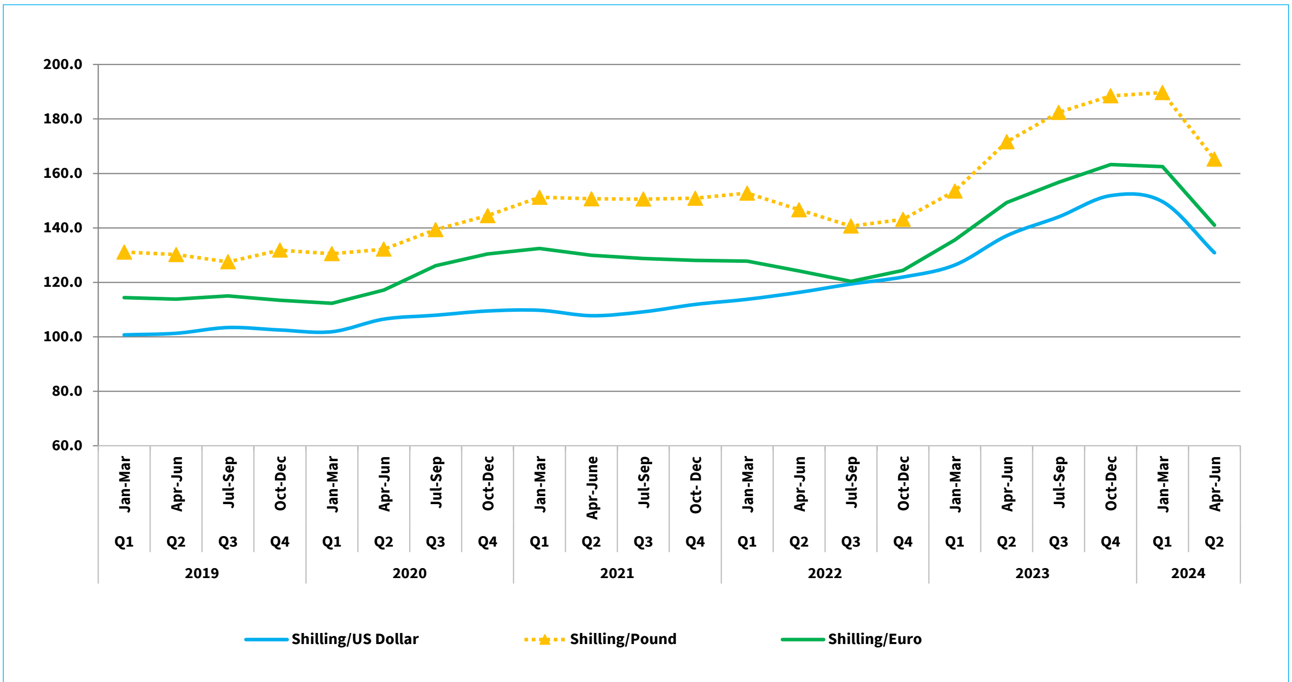
Table 5.5: Kenya Shilling exchange rate

	2023 Q1				2024 Q2				2024 Q2-2024Q1
	Jan	Feb	Mar	Jan-Mar	Apr	May	Jun	Apr-Jun	Percent
US Dollar	159.69	151.84	137.35	149.63	131.57	131.69	129.36	130.87	-12.5
Pound Sterling	202.88	191.67	174.58	189.71	164.69	166.47	164.54	165.24	-12.9
Euro	174.31	163.78	149.31	162.47	141.13	142.40	139.36	140.96	-13.2
100 Japanese Yen	109.40	101.58	91.77	100.92	85.57	84.50	82.02	84.03	-16.7
South Africa Rand	8.50	7.99	7.27	7.92	6.96	7.15	7.02	7.04	-11.1
Uganda Shilling*	23.84	25.58	28.40	25.94	29.07	28.79	29.03	28.96	11.7
Tanzania Shilling*	15.79	16.80	18.60	17.07	19.63	19.70	20.23	19.86	16.4
Rwanda Franc*	7.94	8.42	9.35	8.57	9.79	9.84	10.08	9.90	15.6
Burundi Franc*	17.85	18.86	20.84	19.19	21.77	21.79	22.23	21.93	14.3

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Exchange Rate Developments



Source: Central Bank of Kenya and KNBS

Chapter 6
Banking Sector

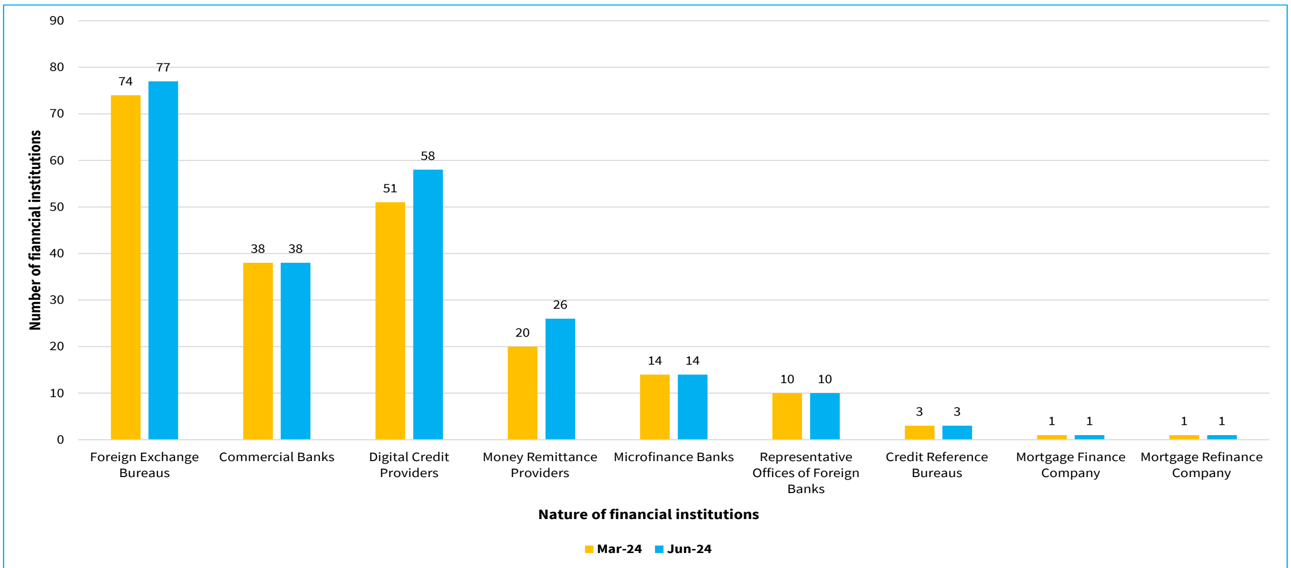
Overview

The banking sector remained stable and resilient in the second quarter of 2024. Total assets increased by 0.5 percent to Ksh.7,552.0 billion in June 2024, from Ksh.7,513.1 billion in March 2024. The deposit base also increased by 1.2 percent to Ksh.5,589.1 billion in the second quarter of 2024, from Ksh.5,525.3 billion in the first quarter of 2024. The sector was well capitalized with capital adequacy ratio of 19.1 percent, which was above the minimum capital requirement of 14.5 percent. The sector remained profitable in the second quarter of 2024, with quarterly profit before tax of Ksh.66.1 billion, a decrease from Ksh.73.5 billion reported in the first quarter of 2024. Credit risk remained elevated with Gross Non-Performing Loans (NPLs) to Gross Loans Ratio standing at 16.3 percent at the end of the second quarter of 2024, an increase from 15.7 percent recorded at the end of first quarter of 2024.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 10 Representative Offices of Foreign Banks, 77 Foreign Exchange Bureaus, 26 Money Remittance Providers, 3 Credit Reference Bureaus, and 58 Digital Credit Providers as of June 2024. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

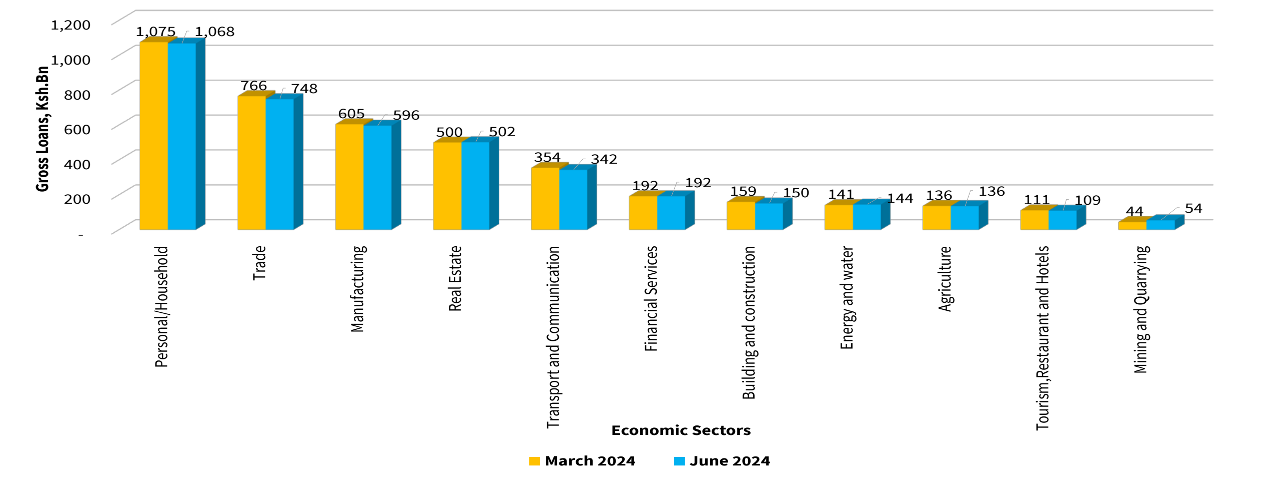
i) Increase in Banking sector assets

Total assets increased by 0.5 percent to Ksh.7,552.0 billion in June 2024, from Ksh.7,513.1 billion in March 2024. The increase in total assets was mainly recorded in placements by Ksh.63.1 billion (7.8 percent), government securities by Ksh.59.2 billion (3.0 percent) and foreign gross loans by Ksh.21.3 billion (2.2 percent). Loans and advances remained the main component of total assets, accounting for 48.4 percent in the second quarter of 2024, a decrease from 49.4 percent recorded in the first quarter of 2024.

ii) Loans and Advances

The banking sector loan book decreased by 1.0 percent, to Ksh.4,041.3 billion in the second quarter of 2024, from Ksh.4,083.6 billion in the first quarter of 2024. The decrease in gross loans and advances was largely witnessed in the Trade, Transport and Communication, Manufacturing, Building and construction, and Personal and Household, Tourism, Restaurant and Hotels, Agriculture and Financial Services sectors. The decrease in gross loans was mainly due to loan repayments. The sectoral distribution of gross loans for the first quarter of 2024 and the second quarter of 2024, is highlighted in **Chart 6.2**.

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

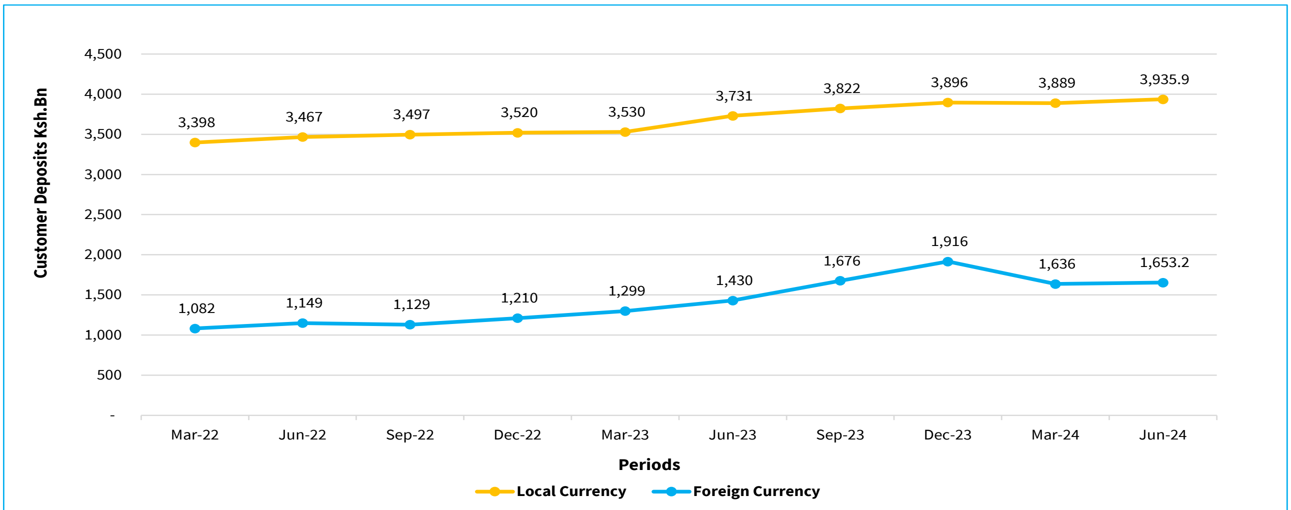


Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remain the main source of funding to the banks accounting for 74.0 percent of the banking sector total liabilities and shareholders' funds as at the end of the second quarter of 2024. The customer deposit base increased by Ksh.63.7 billion (1.2 percent) to Ksh.5,589.1 billion in the second quarter of 2024, from Ksh.5,525.3 billion in the first quarter of 2024. Local currency deposits increased by Ksh.46.8 billion (1.2 percent) to Ksh.3,935.9 billion in the second quarter of 2024, from Ksh.3,889.1 billion in the first quarter of 2024. Foreign currency deposits increased by Ksh.16.9 billion (1.0 percent) to Ksh.1,653.2 billion in the second quarter of 2024, from Ksh.1,636.3 billion in the first quarter of 2024. Chart 6.3 shows the trend of deposit liabilities.

Chart 6.3: Customer deposits



Source: Central Bank of Kenya

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 3.5 percent to Ksh.950.4 billion in the second quarter of 2024, from Ksh.918.2 billion in the first quarter of 2024. Total capital increased by 2.6 percent to Ksh.1,094.7 billion in the second quarter of 2024, from Ksh.1,067.1 billion in the first quarter of 2024.

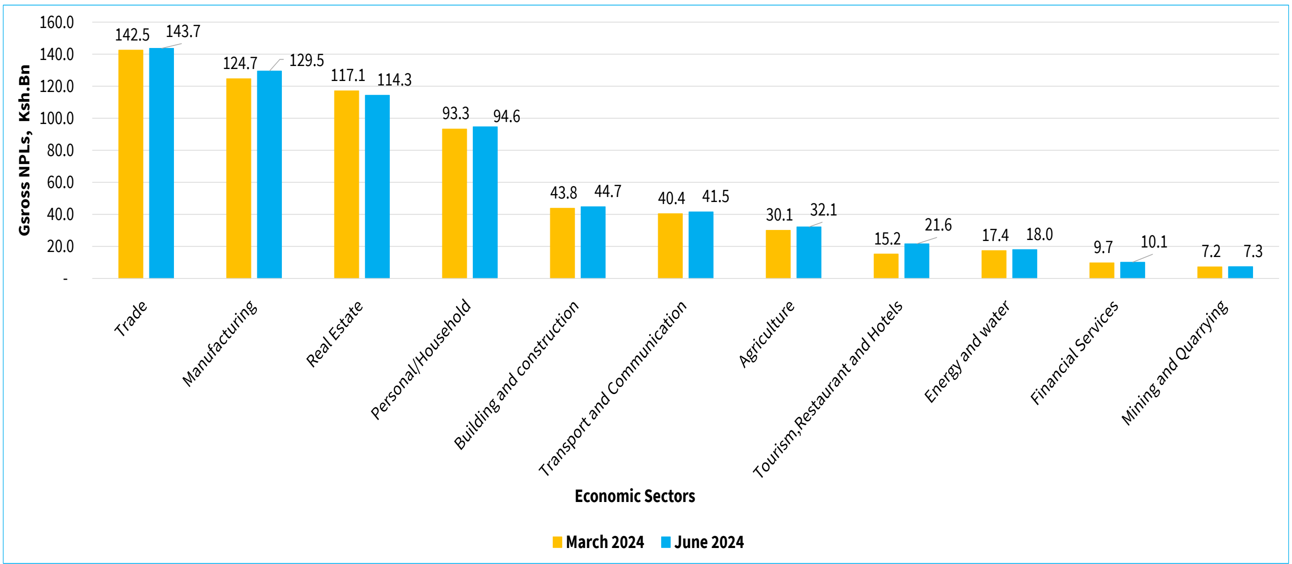
Core capital and total capital to total risk-weighted assets ratios increased slightly to 16.6 percent and 19.1 percent in the second quarter of 2024 from 16.0 percent and 18.6 percent in the first quarter of 2024, respectively. The increases in core and total capital ratios were mainly due to increase in the core capital (3.5 percent) and total capital (2.6 percent) and a decrease in total risk weighted assets (0.3 percent).

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.0 percent in the second quarter of 2024.

Asset Quality

The Gross Non-Performing Loans (NPLs) increased by 2.5 percent from Ksh.641.3 billion in the first quarter of 2024, to Ksh.657.7 billion at the end of the second quarter of 2024. The gross NPLs to gross loans ratio increased to 16.3 percent in the second quarter of 2024, from 15.7 percent in the first quarter of 2024. This was due to a decrease in gross loans (1.0 percent) and increase of gross NPLs (2.5 percent). **Chart 6.4** highlights the sectoral distribution of gross NPLs.

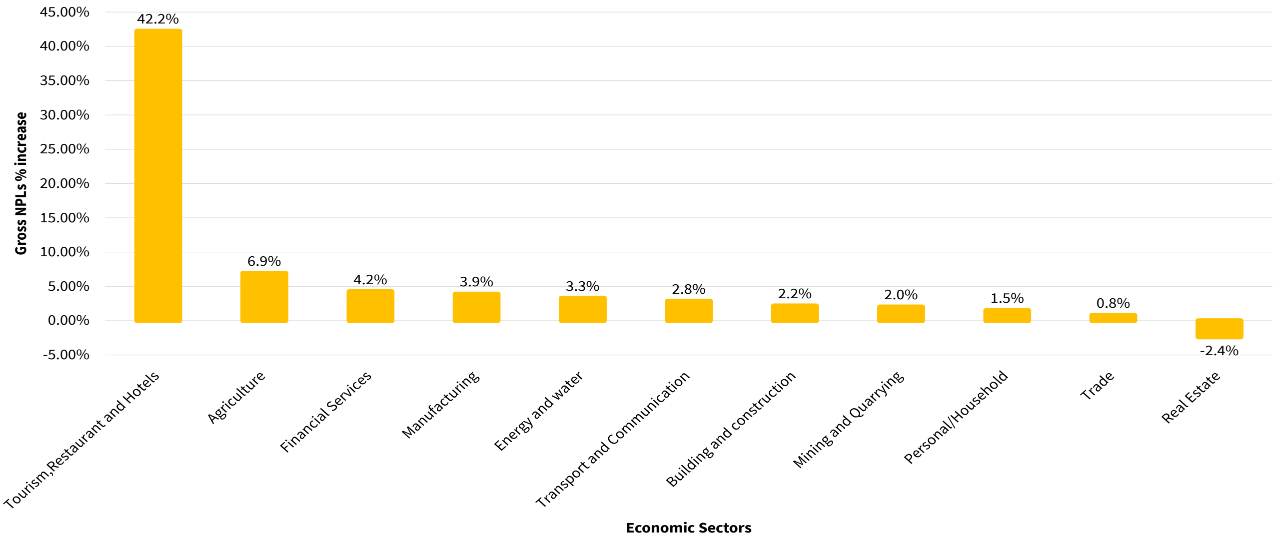
Chart 6.4: Kenyan Banking Sector Gross Non-Performing Loans



Source: Central Bank of Kenya

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

Chart 6.5: Movement in Gross NPLs-First Quarter and Second Quarter of 2024



Source: Central Bank of Kenya

Tourism, Restaurant and Hotels, Manufacturing, Agriculture, Personal and Household, Transport and Communication, Trade, Building and construction, Energy and Water, Financial Services and Mining and Quarrying sectors registered increases in NPLs by Ksh.19.1 billion as a result of a challenging operating environment. Real Estate sector registered decreased NPLs of Ksh.2.8 billion mainly due to repayments.

The The banking sector's asset quality, as measured by the proportion of net non-performing loans to gross loan increased from 8.0 percent in first quarter of 2024, to 8.2 percent in the second quarter of 2024. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased slightly from 40.2 percent in the first quarter of 2024, to 40.4 percent in the second quarter of 2024, due to a higher increase in specific provisions (5.1 percent) as compared to the increase in total NPLs (1.8 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1.**

Table 6.1: Summary of asset quality

		Mar-24	Jun-24
1.	Gross Loans and Advances (Ksh.Bn)	4083.6	4041.3
2.	Interest in Suspense (Ksh.Bn)	97.7	104
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3985.9	3937.3
4.	Gross Non-Performing loans (Ksh.Bn)	641.3	657.6
5.	Specific Provisions (Ksh.Bn)	218.6	223.7
6.	General Provisions (Ksh.Bn)	59.5	57.6
7.	Total Provisions (5+6) (Ksh.Bn)	278.1	281.3
8.	Net Advances (3-7) (Ksh.Bn)	3707.7	3656
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	543.6	553.5
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	325	329.9
11.	Total NPLs as % of Total Advances (9/3) (%)	13.6	14.1
12.	Net NPLs as % of Gross Advances (10/1) (%)	8	8.2
13.	Specific Provisions as % of Total NPLs (5/9) (%)	40.2	40.4
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	15.7	16.3

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in quarterly pre-tax profits of Ksh.7.4 billion to Ksh.66.1 billion in the second quarter of 2024, from Ksh.73.5 billion in the first quarter of 2024. The decrease in profitability was mainly attributable to a higher increase in quarterly expense of Ksh.7.7 billion as compared to an increase in quarterly income of Ksh.0.3 billion. The higher increase in expense was mainly attributed to increased interest on deposits (Ksh.10.4 billion).

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 50.6 percent, 24.3 percent and 13.7 percent in the second quarter of 2024 as compared to 50.3 percent, 24.4 percent and 12.6 percent in the first quarter of 2024.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 43.0 percent, 22.4 percent and 16.5 percent of total expenses respectively in the first quarter of 2024, compared to 41.1 percent, 19.9 percent and 18.5 percent in the first quarter of 2024.

Return on Assets (ROA) decreased slightly to 2.9 in the second quarter of 2024, from 3.1 percent recorded in the first quarter of 2024. Return on Equity (ROE) decreased to 26.0 percent in the second quarter of 2024, from 27.8 percent in the first quarter of 2024. The decrease in ROE and ROA was due to decreased profitability between the two quarters.

Liquidity

The banking sector's overall liquidity ratio decreased to 53.5 percent in the second quarter of 2024, from 53.6 percent in the first quarter of 2024. The decrease was driven by a higher decrease in total liquid assets of 1.0 percent and a 0.9 percent decrease in total short-term liabilities between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

- The banking sector is projected to remain stable in the third quarter of 2024.
- Operational risk is expected to remain elevated due to increasing cyber security risks.
- Credit risk is expected to be elevated in the short to medium term. The gross NPLs to Gross Loans ratio increased from 15.7 percent in the first quarter of 2024, to 16.3 percent in the second quarter of 2024.
- Interest rate risk is easing on the backdrop of stabilizing interest rates.
- Liquidity risk is stable. The liquidity ratio decreased to 53.5 percent in the second quarter of 2024, from 53.6 percent in the first quarter of 2024. These were above the statutory minimum of 20 percent.

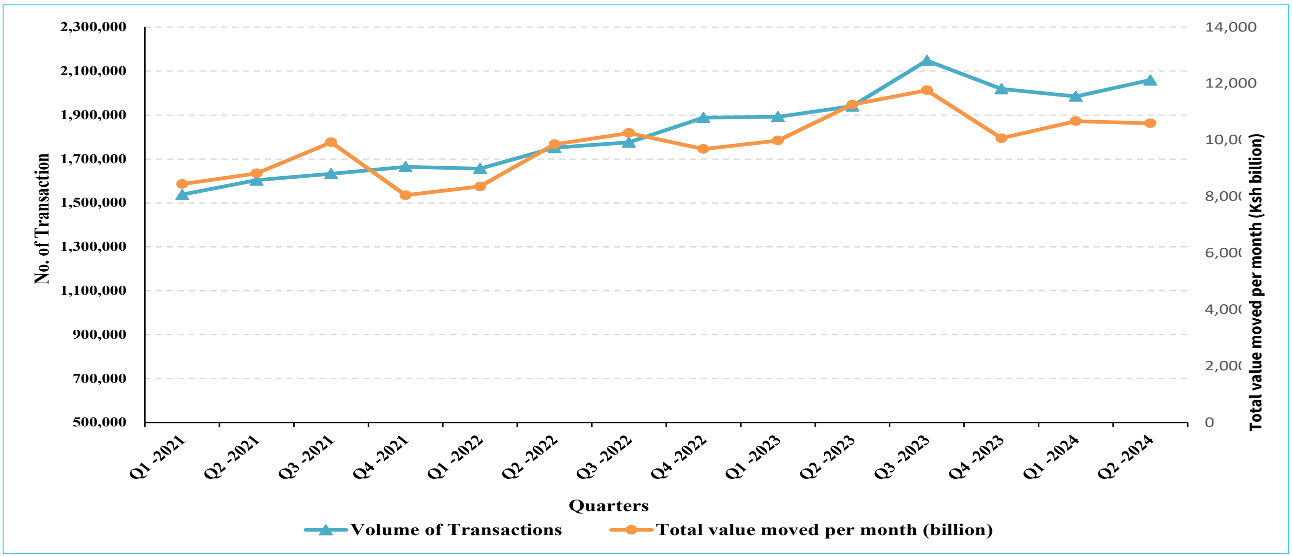
Kenya Shilling Flows in KEPSS

Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 2.1 million transaction messages worth KSh 10.6 trillion in the second quarter of 2024, compared to the previous quarter which recorded 1.98 million transactions worth KSh 10.7 trillion. The volumes increased by 3.74 percent and value decreased by 0.74 percent. **Chart 6.7** below highlights recent trends in KEPSS transactions.

System Availability

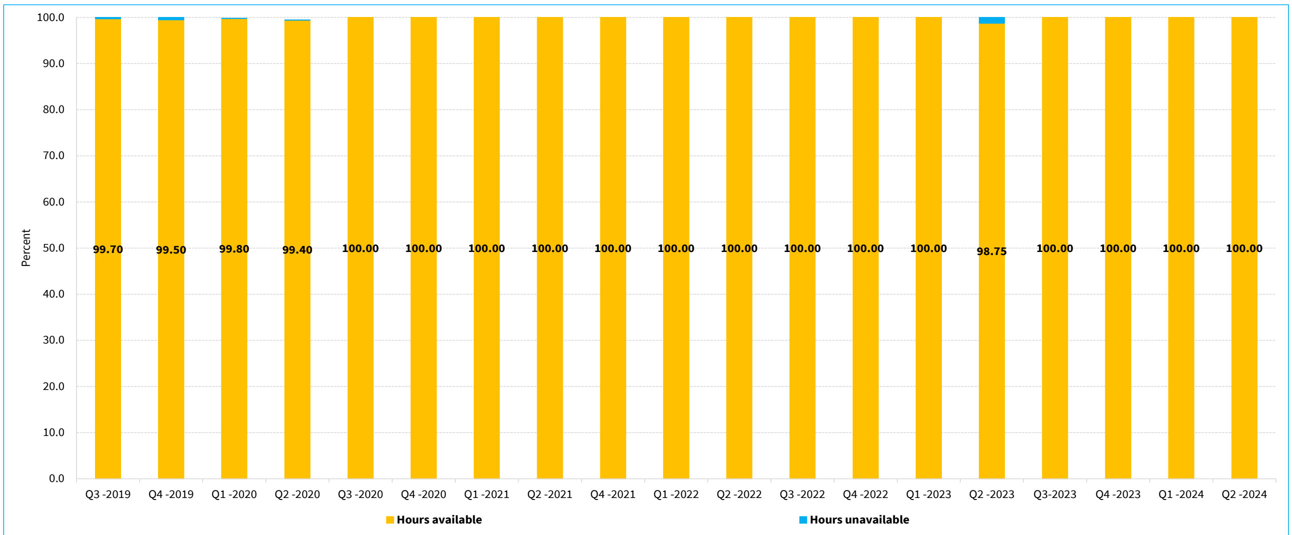
The KEPSS system is continues to be available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the second quarter of 2024 **(Chart 6.8)**.

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

Overview

The Government's budgetary operations at the end of the fourth quarter of FY 2023/24 resulted in a deficit of 5.2 of GDP against a target of 5.7 percent of GDP. Both revenues and expenditures were below target with the shortfall in total revenues and grants at 7.5 percent and total expenditure and net lending at 6.9 percent.

Table 7.1: Statement of Government Operations (KSh Billion)

	FY2023/24								
	June	Q4	Cumulative	Target	Over (+) / Below (-)	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
1. TOTAL REVENUE & GRANTS	679.4	855.1	2,724.7	2,946.0	(221.3)	(7.5)	25.9	16.9	18.3
Ordinary Revenue	674.5	711.0	2,288.9	2,461.0	(172.1)		5.4		
Tax Revenue	568.3	625.9	2,167.0	2,247.7	(80.7)		10.1		
Non Tax Revenue	41.9	85.1	121.9	213.3	(91.4)		103.1		
Appropriations-in-Aid	64.3	136.0	413.7	446.5	(32.8)		111.4		
External Grants	4.9	8.1	22.0	38.5	(16.5)		66.2		
2. TOTAL EXPENSES & NET LENDING	1,008.9	1,209.8	3,605.2	3,871.0	(265.8)	(6.9)	19.9	22.3	24.0
Recurrent Expenses	633.3	882.2	2,678.4	2,776.6	(98.2)		39.3		
Development Expenses	172.6	186.3	546.4	669.3	(122.9)		7.9		
County Transfers	203.0	141.3	380.4	423.9	(43.5)		(30.4)		
Others	-	-	-	1.2	(1.2)				
3. DEFICIT (INCL. GRANTS) (1-2)	(329.6)	(354.7)	(880.5)	(925.0)	44.5	(4.8)	7.6	(5.5)	(5.7)
As percent of GDP	(1.7)	(2.2)	(5.5)	(5.7)	0.3				
4. ADJUSTMENT TO CASH BASIS	37.0	45.4	45.4	-	45.4				
5. DEFICIT INCL . GRANTS ON A CASH BASIS	(366.6)	(309.3)	(835.1)	(925.0)	89.9	(9.7)	(15.6)	(5.2)	(5.7)
As percent of GDP	(1.5)	(1.9)	(5.2)	(5.7)	0.6				
6. DISCREPANCY: Expenditure (+) / Revenue (-)	35.8	(8.9)	(16.8)	-					
7. FINANCING	402.4	318.2	818.3	925.0	(106.7)	(11.5)	(20.9)	5.1	5.7
Domestic (Net)	171.8	208.5	595.6	665.7	(70.1)		21.4	3.7	
Capital Receipts (domestic loan receipts)	-	-		-	-				
External (Net)	230.6	109.7	222.7	259.3	(36.6)			1.4	
Others	-	-	-	-	-				

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants increased by 25.9 percent to KSh 855.1 billion in the fourth quarter of FY 2023/24, compared to KSh 679.4 billion in the fourth quarter of FY 2022/23. The increase was reflected in all the sources including tax revenues, non-tax revenues, Appropriation in Aid (A-in-A) and external grants **(Table 7.1).**

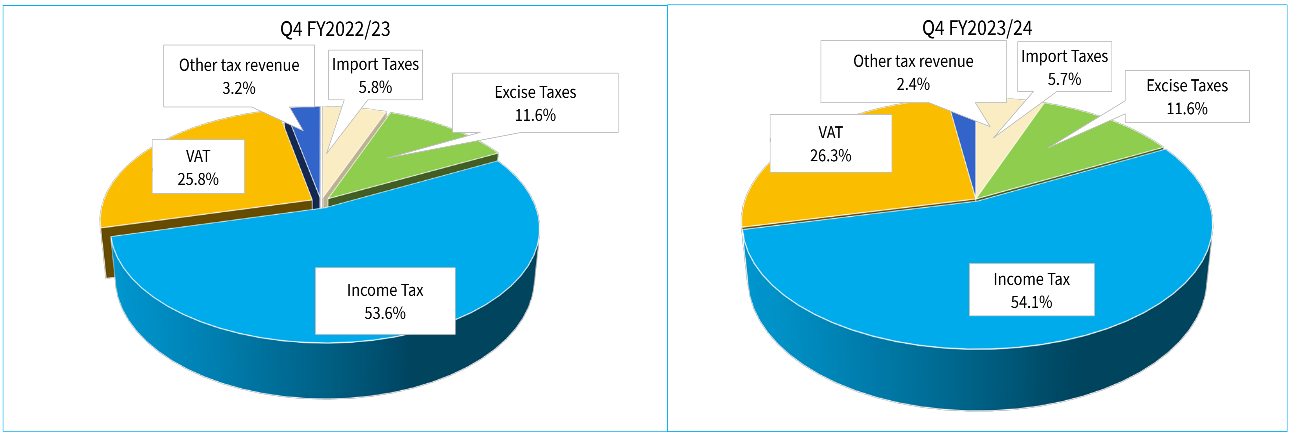
There was a minor shift in the composition of tax revenues in the fourth quarter of FY 2023/24 compared with a similar period in the previous financial year (Chart 7.1). The share of income tax, and VAT increased by 0.5 percentage points each while the share of excise taxes remained stable. However, the shares of import taxes and other tax revenues declined by declined by 0.1 percentage points and 0.9 percentage points, respectively.

Cumulatively to June 2024, Government total revenue and grants stood at KSh 2,724.7 billion (16.9 percent of GDP) against a target of KSh 2,946.0 billion (18.3 percent of GDP) **(Table 7.1).** Tax revenue was below the set target reflecting underperformance in major revenue categories.

External grants cumulatively to June 2024 stood at KSh 22.0 billion, which was KSh 16.5 billion lower than the target, occasioned by slow absorption of donor funds.

Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to June 2024 amounted to KSh 413.7 billion, which was KSh 32.8 billion lower than target due to under reporting by Semi-Autonomous Government Agencies.

Chart 7.1: Composition of Tax Revenue



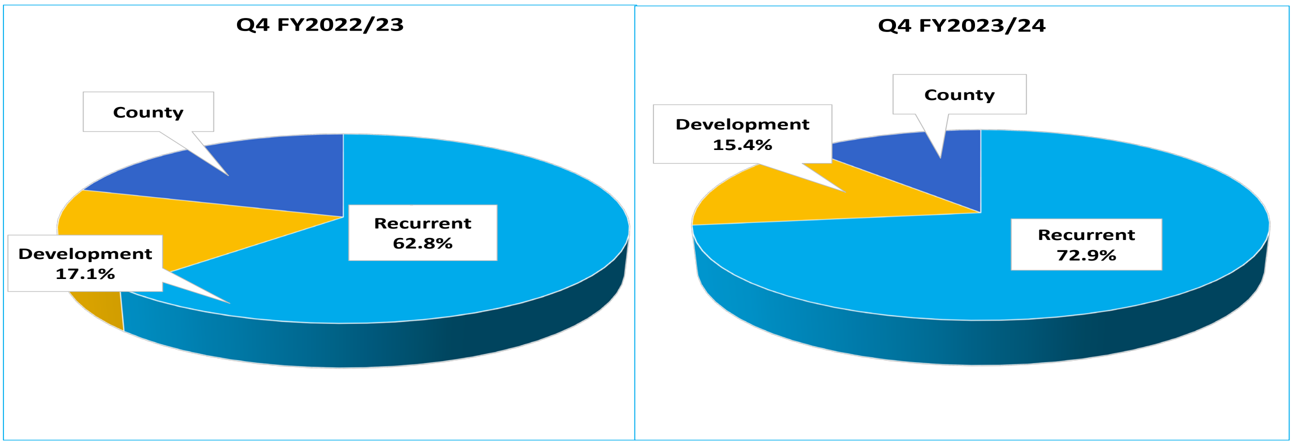
Source: September 2023 BOT, National Treasury

Expenditure and Net Lending

Government expenditure and net lending increased by 19.9 percent to KSh 1,209.8 billion in the fourth quarter of the FY 2023/24 compared to KSh 1,008.9 billion in the fourth quarter of the FY 2022/23. The increase in expenditures reflected a 39.3 percent and 7.9 increase in national government recurrent expenditure and development expenditure, respectively, that more than offset the decline in county transfers.

In terms of composition, recurrent and development expenditure accounted for 72.9 percent and 15.4 percent of total government expenditure, respectively, in the fourth quarter of the FY 2023/24 compared to 62.8 percent and 17.1 percent in a similarly period in FY 2022/23. The share of the county allocations declined by 10.3 percentage points to 11.7 percent during the period under review **(Chart 7.2).**

Chart 7.2: Composition of Government Expenditure



Source: September 2023 BOT, National Treasury

Cumulatively, expenditure and net lending to June 2024 amounted to KSh 3,605.2 billion (22.3 percent of GDP), against a target of KSh 3.871.0 billion (24.0 percent of GDP). The shortfall of KSh 265.8 billion was recorded in all the expenditure components.

Financing

The budget deficit including grants on cash basis amounted to KSh 835.1 billion (5.2 percent of GDP) at the end of the fourth quarter of FY 2023/24 against a target of Ksh 925.0 billion (5.7 percent of GDP. The deficit was financed by net foreign financing of Ksh 222.7 billion (1.4 percent of GDP) and net domestic financing of Ksh 595.6 billion (3.4 percent of GDP). Domestic borrowing comprised KSh 190.3 billion from commercial banks, KSh 404.3 billion from non-banks, KSh 2.1 billion from non-residents and KSh 22.1 billion drawdown of government deposits at the Central Bank **(Table 7.2).**

Table 7.2 Domestic financing (KSh Billion)

	FY 2023/24						
	Q2	Q3			Q4		
	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
1. From CBK	85.5	52.0	37.8	18.0	(25.3)	50.4	(22.1)
2.From commercial banks	4.7	17.9	96.2	105.0	160.7	152.1	190.3
4.From Non-banks	172.4	186.5	260.7	293.0	324.3	328.5	404.3
5. From Non-Residents	1.6	1.6	2.6	2.4	2.5	2.1	2.1
6.Total Net Domestic Credit	264.2	258.1	397.2	418.3	462.1	533.1	574.5
7. Other Domestic financing /1	(52.3)	(55.0)	(40.9)	(31.3)	20.4	(55.1)	21.1
8. Net Domestic Financing	211.9	203.1	356.3	387.0	482.5	478.0	595.6

/1 Include accounts payables and domestic loan repayment receipts

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

Outlook for FY 2023/24

In the supplementary budget for the FY 2024/25, total revenue including grants is projected at KSh 3,111.8 billion (17.2 percent of GDP). Government expenditure is projected at KSh 3,881.4 billion (21.5 percent of GDP), of which KSh 2,826.2 billion will be for recurrent expenses, KSh 596.9 billion for development expenses and KSh 454.3 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 769.6 billion (4.3 percent of GDP) in FY 2024/25, to be financed through net external borrowing of KSh 356.4 billion (2.0 percent of GDP) and net domestic financing of KSh 413.2 billion (2.3 percent of GDP) **(Table 7.3)**.

Table 7.3: Budget Estimates for the Fiscal Year 2024/25

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	3,112.3	17.2
Ordinary Revenue	2631.4	14.6
Appropriations-in-Aid	428.6	2.4
External Grants	52.3	0.3
2. TOTAL EXPENSES & NET LENDING	3880.8	21.5
Recurrent Expenses	2826.2	15.7
Development Expenses	599.5	3.3
County Transfer	451.1	2.5
Contigency Fund	4.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	(768.6)	(4.3)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	768.6	4.3
Domestic (Net)	413.1	2.3
External (Net)	355.5	2.0

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 1.6 percent during the fourth quarter of the FY 2023/24. Domestic debt increased by 3.3 percent while external debt declined by 0.2 percent. The ratio of public debt to GDP is estimated to have increased marginally from the 66.7 percent by the end of the third quarter of the FY 2023/24 to 67.7 percent by the end of fourth quarter of the FY 2023/24. **(Table 8.1)**.[1]

Domestic Debt

The 3.3 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt increased by 0.9 percentage points to 51.2 percent by the end of the fourth quarter of the FY 2023/24. The proportion of debt securities to total domestic debt stood at 96.9 percent by the end of the fourth quarter of the FY 2023/24 **(Table 8.2)**.

Table 8.1 Kenya's public and publicly guaranteed debt

	FY2022/23	FY2023/24						
	Q4	Q1	Q2	Q3	Apr-24	May-24	Q4	Q on Q Change
EXTERNAL								
Bilateral	1,339.5	1,341.8	1,422.2	1,135.5	1,184.5	1,170.1	1,154.7	19.2
Multilateral	2,654.9	2,827.1	3,061.1	2,654.3	2,677.7	2,640.6	2,774.4	120.1
Commercial Banks	1,437.3	1,483.6	1,588.7	1,359.1	1,322.1	1,293.2	1,207.5	-151.6
Supplier Credits	14.8	15.3	17.6	14.6	14.6	14.4	14.2	-0.4
Sub-Total	5,446.6	5,667.8	6,089.6	5,163.4	5,198.8	5,118.3	5,150.8	-12.6
(As a % of GDP)	37.9	38.9	40.3	33.1	33.3	32.8	33.0	-0.1
(As a % of total debt)	53.0	53.6	54.7	49.7	49.4	49.0	48.8	-0.9
DOMESTIC								
Banks	2,293.2	2,280.2	2,323.2	2,392.6	2,446.2	2,435.0	2,448.9	56.3
Central Bank	198.1	198.5	222.1	202.4	200.0	194.0	170.1	-32.3
Commercial Banks	2,095.1	2,081.7	2,101.1	2,190.1	2,246.2	2,240.9	2,278.8	88.7
Non-banks	2,507.2	2,600.8	2,682.4	2,808.6	2,698.3	2,775.1	2,808.6	0.0
Pension Funds	1,581.0	1,550.1	1,511.3	1,542.6	1,565.9	1,564.6	1,601.5	58.9
Insurance Companies	345.6	354.7	365.3	374.7	382.0	382.5	391.0	16.3
Other Non-bank Sources	580.6	696.1	805.8	891.3	750.4	828.0	816.1	-75.2
Non-residents	32.0	33.6	33.5	34.1	33.5	34.5	34.1	0.0
Sub-Total	4,832.3	4,914.6	5,039.1	5,235.2	5,323.7	5,319.9	5,410.3	175.1
(As a % of GDP)	33.6	33.7	33.3	33.6	34.1	34.1	34.7	1.1
(As a % of total debt)	47.0	46.4	45.3	50.3	50.6	51.0	51.2	0.9
GRAND TOTAL	10,278.9	10,582.4	11,128.7	10,398.6	10,522.5	10,438.2	10,561.1	162.5
(As a % of GDP)	71.5	72.6	73.6	66.7	67.5	66.9	67.7	1.0

Source: The National Treasury and CBK

Treasury Bills

Treasury bills holdings recorded a 10.5 percent increase during the fourth quarter of the FY 2023/24. As a result, the proportion of Treasury bills to total domestic debt increased by 0.7 percentage points. This reflected increased uptake of treasury bills by the investors following a rise in interest rates. Commercial banks were the leading holders of Treasury bills at 33.8 percent **(Table 8.2)**.

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

Table 8.2: Government gross domestic debt (KSh Billion)

	Ksh (Billions)				Change: Q on Q		Proportions %				
	FY2023/24						FY2022/23	FY2023/24			
	Q3	Apr-24	May-24	Q4	Ksh(Bn)	%	Q4	Q3	Apr-24	May-24	Q4
Total Stock of Domestic Debt (A+B)	5,235.2	5,323.7	5,319.9	5,410.3	175.1	3.3	100.0	100.0	100.0	100.0	100.0
A. Government Securities	5,035.5	5,127.7	5,128.7	5,242.5	206.9	4.1	95.8	96.2	96.3	96.4	96.9
1. Treasury Bills (excluding Repo Bills)	557.0	566.7	588.9	615.3	58.3	10.5	12.7	10.6	10.6	11.1	11.4
Banking institutions	177.1	185.4	200.3	208.1	31.0	17.5	5.4	3.4	3.5	3.8	3.8
The Central Bank	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Banks	176.8	185.2	200.0	207.9	31.0	17.5	5.4	3.4	3.5	3.8	3.8
Pension Funds	48.5	49.8	52.7	55.1	6.6	13.6	3.4	0.9	0.9	1.0	1.0
Insurance Companies	7.3	7.6	7.0	6.6	-0.7	-9.9	0.1	0.1	0.1	0.1	0.1
Others	324.2	323.9	329.0	345.6	21.4	6.6	3.7	6.2	6.1	6.2	6.4
2. Treasury Bonds	4,478.5	4,561.0	4,539.8	4,627.1	148.6	3.3	83.1	85.5	85.7	85.3	85.5
Banking institutions	2,016.0	2,064.8	2,043.5	2,073.6	57.6	2.9	37.8	38.5	38.8	38.4	38.3
The Central Bank	8.1	8.1	8.1	8.1	0.0	0.0	0.2	0.2	0.2	0.2	0.1
Commercial Banks	2,007.9	2,056.7	2,035.4	2,065.5	57.6	2.9	37.6	38.4	38.6	38.3	38.2
Insurance Companies	367.5	374.4	375.5	384.5	17.0	4.6	7.0	7.0	7.0	7.1	7.1
Pension Funds	1,542.6	1,516.2	1,512.0	1,546.4	52.3	3.5	29.3	28.5	28.5	28.4	28.6
Others	552.5	605.7	608.8	622.7	21.7	3.6	9.0	11.5	11.4	11.4	11.5
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
Banking institutions	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
4. Frozen account	17.2	17.2	17.2	17.2	0.0	0.0	0.4	0.3	0.3	0.3	0.3
Of which: Repo T/Bills	16.6	16.6	16.6	16.6	0.0	0.0	0.4	0.3	0.3	0.3	0.3
B. Others:	182.4	178.8	174.0	150.6	-31.8	-17.4	3.8	3.5	3.4	3.3	2.8
Of which CBK overdraft to Government	92.2	89.3	85.0	61.0	-31.2	-33.8	1.6	1.8	1.7	1.6	1.1

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds holdings increased by 3.3 percent during the fourth quarter of the FY 2023/24 **(Table 8.2).** The largest component of this buildup was attributable to proceeds from the 2-year and 10-year Treasury bonds issued during the quarter **(Tables 8.3)**. The leading holders of Treasury bonds were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KSh (Billions)						Change Q on Q		Proportions				
		FY2023/24								2022/23	2023/24			
		Q1	Q2	Q3	Apr-24	May-24	Q4	KShs(Bn)	%	Q4	Q1	Q2	Q3	Q3
Treasury bills	182-Day	75.2	97.5	138.1	158.3	182.9	199.8	61.7	63.3	3.2	1.5	1.9	2.6	3.7
	364-Day	192.1	156.9	166.4	224.1	259.8	270.2	103.8	66.1	4.4	3.9	3.1	3.2	5.0
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	43.6	50.6	50.6	85.3	85.3	94.2	43.6	86.1	0.0	0.9	1.0	1.0	1.7
	3-Year	137.1	137.1	202.1	202.1	202.1	228.7	26.6	13.2	2.8	2.8	2.7	3.9	4.2
	4-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
	5-Year	368.6	370.1	329.0	364.5	325.3	360.0	31.0	9.4	6.6	7.5	7.3	6.3	6.7
	6-Year	69.7	69.7	69.7	69.7	69.7	69.7	0.0	0.0	1.4	1.4	1.4	1.3	1.3
	6.5-Year		112.7	112.7	112.7	112.7	112.7	0.0	0.0	0.0	0.0	2.2	2.2	2.1
	7-Year	234.5	234.5	234.5	234.5	234.5	234.5	0.0	0.0	4.9	4.8	4.7	4.5	4.3
	8-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
	8.5-Year		0.0	240.3	240.3	240.3	240.3	0.0	0.0	0.0	0.0	0.0	4.6	4.4
	9-Year	107.4	107.4	107.4	107.4	107.4	107.4	0.0	0.0	2.2	2.2	2.1	2.1	2.0
	10-Year	640.5	641.3	610.3	622.5	640.4	657.7	47.4	7.8	12.1	13.0	12.7	11.7	12.2
	11-Year	80.2	80.3	80.3	80.2	80.2	80.2	0.0	0.0	1.7	1.6	1.6	1.5	1.5
	12-Year	77.6	77.6	51.1	51.1	51.1	51.1	0.0	0.0	1.8	1.6	1.5	1.0	0.9
	14-Year	94.3	94.3	94.3	94.3	94.3	94.3	0.0	0.0	2.0	1.9	1.9	1.8	1.7
	15-Year	866.2	866.2	866.2	866.2	866.2	866.2	0.0	0.0	17.9	17.6	17.2	16.5	16.0
	16- Year	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	3.1	3.1	3.0	2.9	2.8
	17- Year	68.2	68.2	68.2	68.2	68.2	68.2	0.0	0.0	1.4	1.4	1.4	1.3	1.3
	18- Year	161.6	161.6	161.6	161.6	161.6	161.6	0.0	0.0	3.3	3.3	3.2	3.1	3.0
	19- Year	98.4	98.4	98.4	98.4	98.4	98.4	0.0	0.0	2.0	2.0	2.0	1.9	1.8
	20-Year	572.3	572.3	572.3	572.3	572.3	572.3	0.0	0.0	11.8	11.6	11.4	10.9	10.6
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	2.2	2.2	2.1	2.0	2.0
	25-Year	242.6	242.6	242.6	242.6	242.6	242.6	0.0	0.0	5.0	4.9	4.8	4.6	4.5
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.6	0.6	0.6	0.5	0.5
	Repo T bills	17.2	17.2	16.6	16.6	16.6	16.6	0.0	0.0	0.4	0.3	0.3	0.3	0.3
	Overdraft	75.7	94.1	92.2	89.3	85.0	61.0	-31.2	-33.8	1.6	1.5	1.9	1.8	1.1
	Other Domestic debt	113.7	109.1	90.8	90.1	89.6	89.6	-1.2	-1.3	2.3	2.3	2.2	1.7	1.7
Total Debt		4,914.6	5,039.1	5,235.2	5,323.7	5,319.9	5,410.3	175.1	3.3	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 the ratio of 88:12 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 55.1 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt decreased as the Treasury bills component in the domestic debt profile decreased to 11.4 percent from 12.7 percent in June 2023.

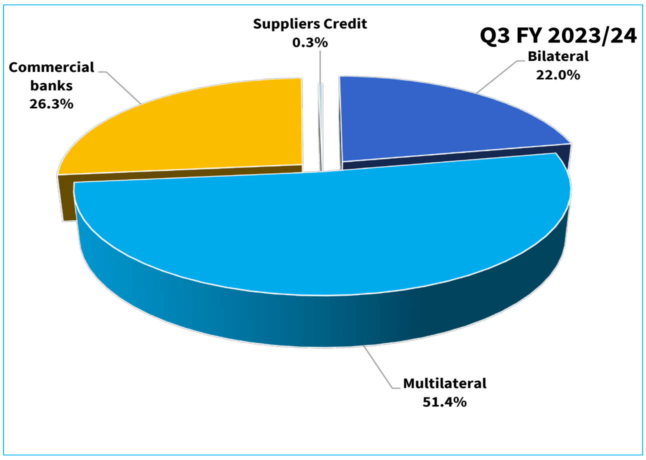
External Debt

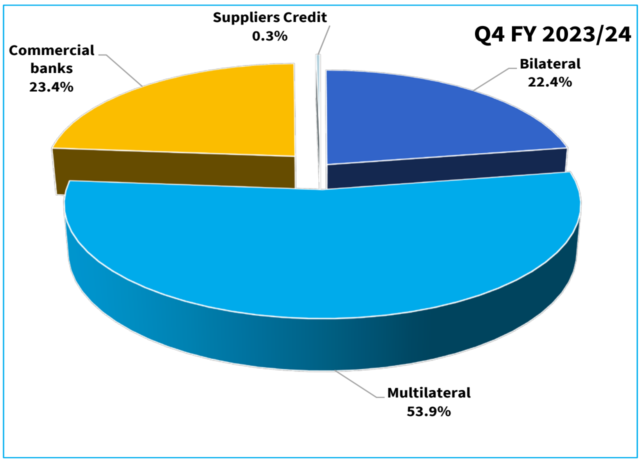
Public and publicly guaranteed external debt declined by 0.2 percent during the fourth quarter of the FY 2023/24. This decrease was majorly driven by repayments of commercial loans that more than offset the increase in disbursement from bilateral and multilateral lenders during the quarter.

Composition of External Debt by Creditor

The composition of external debt in the third quarter of FY 2023/24 was dominated by debt from official multilateral lenders (who provide concessional loans), particularly the International Development Association (IDA) and Africa Development Bank/Fund (ADB/ADF). During the period under review, the proportion of multilateral debt in total external debt increased by 1.1 percentage points **(Chart 8.1).**

Chart 8.1: Composition of external debt by lender

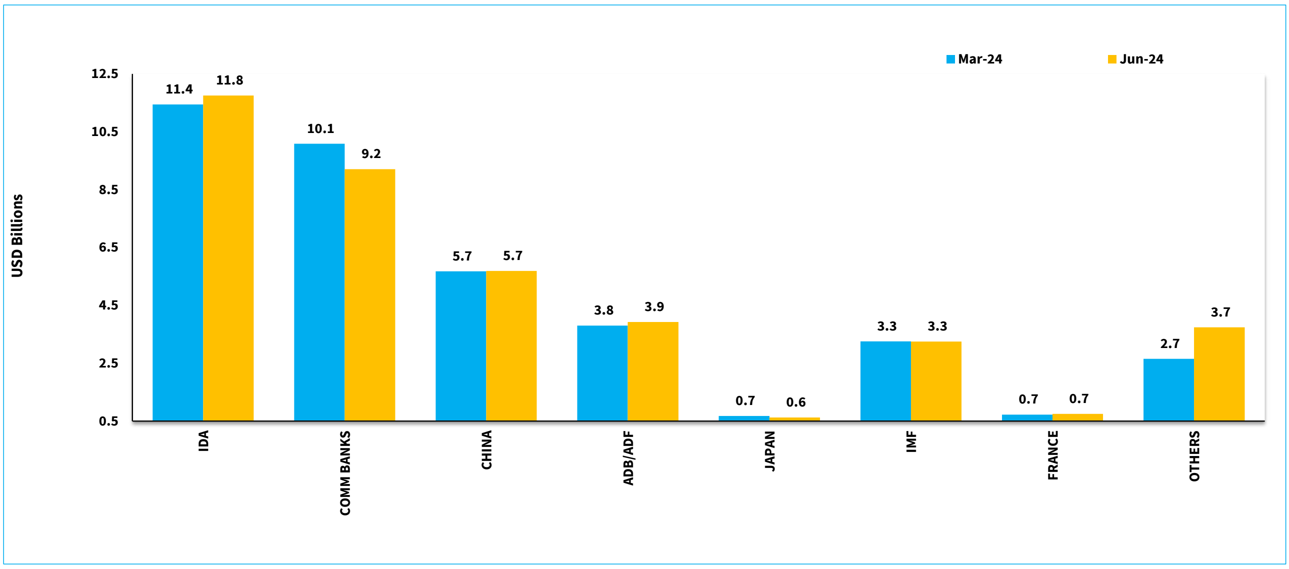




Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 11.8 billion (or 30.2 percent of external debt). Debt owed to China, Kenya's largest bilateral lender, amounted to USD 5.7 billion, or 14.6 percent of the total external debt by the fourth quarter of the FY 2023/24 **(Chart 8.2).**

Chart 8.2: External debt by creditor

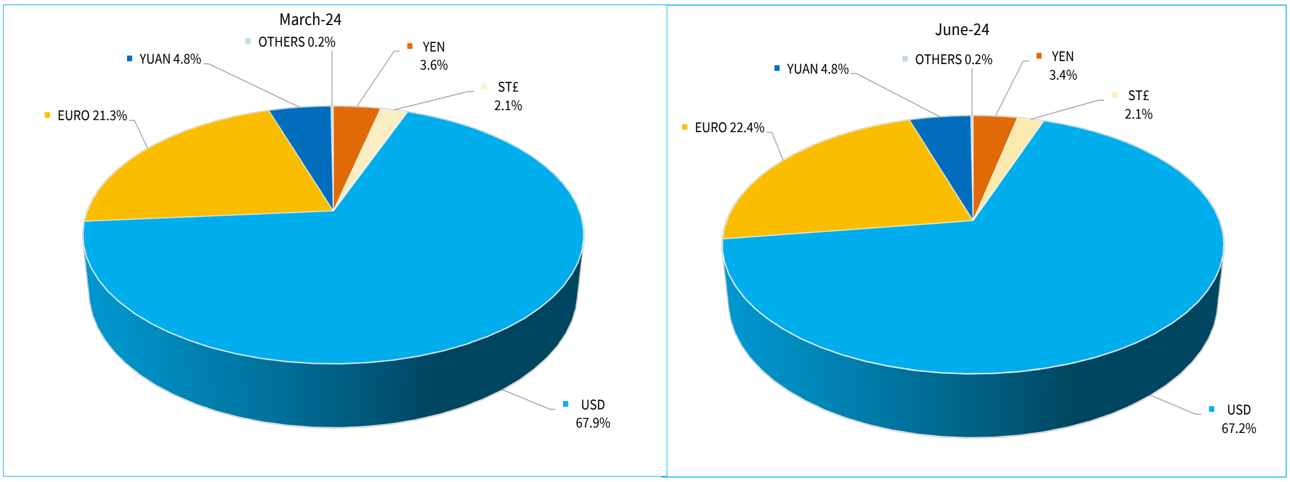


Source: The National Treasury

Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 89.2 percent of the total currency composition at the end of the third quarter of FY 2023/24. The proportion held in US dollars increased by 0.6 percentage points **(Chart 8.3)**.

Chart 8.3: Debt composition by currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenue was 21.6 percent during the fourth quarter of the FY 2023/24. 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 2023/24 amounted to KSh 147.6 billion.[2] External debt service to revenue and exports ratios improved during the quarter under review mainly due to a reduction in the external repayments relative to the previous quarter **(Table 8.4).**

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	Q3 FY 2022/23	Q4 FY 2022/23	Q1 FY 2023/24	Q2 FY 2023/24	Q3 FY 2023/24	Q4 FY 2023/24
Debt service to Revenues (18%)	23.0	13.2	28.3	15.9	68.0	17.4
Debt service to Exports (15%)	28.0	19.8	33.3	21.2	74.5	32.5

Source: Central Bank of Kenya and The National Treasury

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in December 2023 classified Kenya's public debt as sustainable but having a high risk of debt distress. High deficits in the past, combined with export and output losses in 2020 caused by the pandemic, have resulted in near-term deterioration of solvency and liquidity debt indicators. Market pressure since the war in Ukraine and the monetary tightening in advanced countries limited access to commercial borrowing. However, this was partly offset by the ongoing economic recovery supported by faster recovery of tourism and the boost to exports. Kenya's debt indicators are expected to improve in the medium term supported by ongoing Government's fiscal consolidation program and continued recovery output and exports growth. The results also suggested that Kenya was susceptible to export exchange rate, and primary balance shock.

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

Chapter 9

Capital Markets

At the Nairobi Securities Exchange, the NASI, NSE 20 and NSE 20 share price indices, decreased by 3.2 percent, 3.8 percent and 5.5 percent, respectively, in the second quarter of 2024 compared to the first quarter of 2024. Equity turnover increased by 48.91 percent, while Market capitalization, and total shares traded also decreased by 3.2 percent, and 0.7 percent, respectively **(Table 9.1 and Chart 9.1)**.

Table 9.1: Selected stock market indicators

INDICATOR	2022	2023				2024		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Change 2024Q2-2024Q1 (%)
NSE 20 Share Index (1966=100)	1,676.10	1,622.05	1,574.92	1,508.80	1,501.20	1,752.43	1,656.50	-5.47
NASI (2008=100)	127.47	112.76	107.00	95.22	92.11	113.09	109.49	-3.18
Number of Shares Traded (Millions)	634.17	1,086.50	764.87	1,081.70	812.10	1,097.33	1,090.22	-0.65
Equities Turnover (Ksh Millions)	17,457.41	44,815.56	14,395.17	17,219.00	11,801.05	19,065.97	28,390.94	48.91
Market Capitalization (Ksh Billions)	1,986.08	1,756.00	1,666.29	1,488.00	1,439.00	1,766.95	1,710.64	-3.19
Foreign Purchase (Ksh Millions)	7,115.27	8,757.28	5,777.00	6,324.00	5,755.75	10,179.37	19,690.52	93.44
Foreign Sales (Ksh Millions)	11,985.61	22,687.19	7,258.54	9,864.00	8,092.00	12,407.40	16,712.83	34.70
Ave. Foreign Investor Participation to Equity Turnover (%)	54.71	41.24	44.95	47.01	58.67	59.23	64.11	4.88
Bond Turnover (Ksh Millions)	158,270.00	162,514.88	147,405.62	196,301.00	137,777.84	458,198.67	323,608.66	-29.37
7-Year Eurobond Yield (%)- 2027	10.913	13.380	11.251	14.299	10.037	8.443	10.567	2.12*
10-Year Eurobond Yield (%)-2024	10.479	12.316	11.035	13.270	9.820	8.708	10.694	1.46*
10-Year Eurobond Yield (%)-2028						9.238	11.080	1.84*
12-Year Eurobond Yield (%)-3032	10.765	11.745	11.050	12.700	9.890	9.265	11.011	1.75*
13-Year Eurobond Yield (%) 2034	9.856	11.250	10.291	12.300	9.560	9.316	10.924	1.61*
30-Year Eurobond Yield (%)-2048	10.860	11.615	11.058	12.450	10.210	9.316	11.092	1.78*

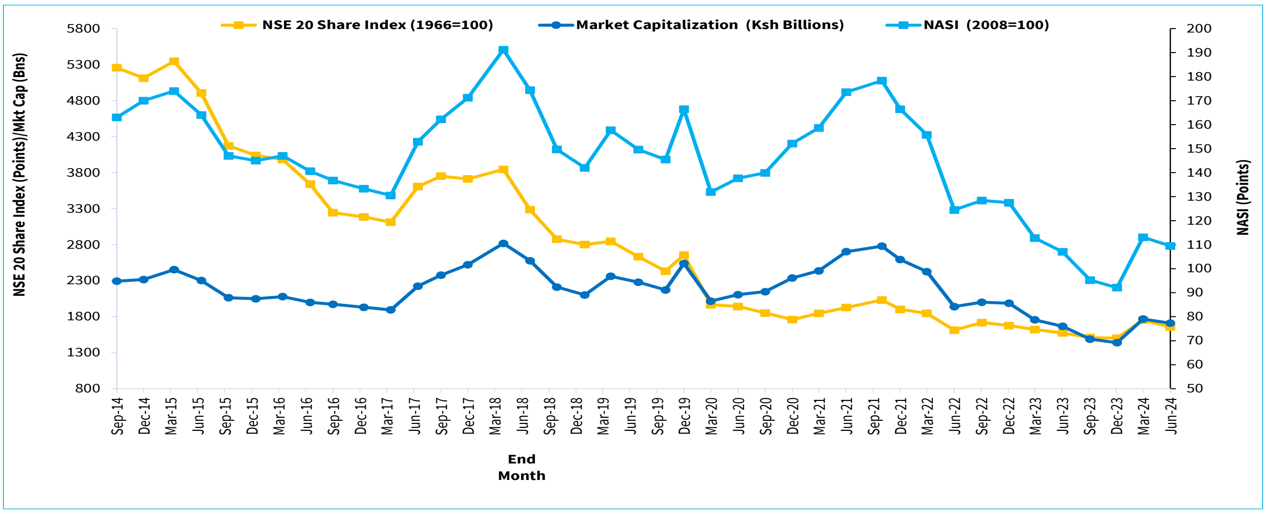
* Percentage points

Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of equities purchased by foreign investors decreased by 93.4 percent in the second quarter of 2024 compared to first quarter of 2024. The value of equities sold by foreign investors increased by 34.7 percent in the second quarter of 2024, compared to first quarter of 2024. Overall, the average foreign investor participation at the NSE increased by 4.9 percentage points in the period under review **(Table 9.1 and Chart 9.2)**.

Chart 9.1: NSE 20 share price index, NASI and market capitalization

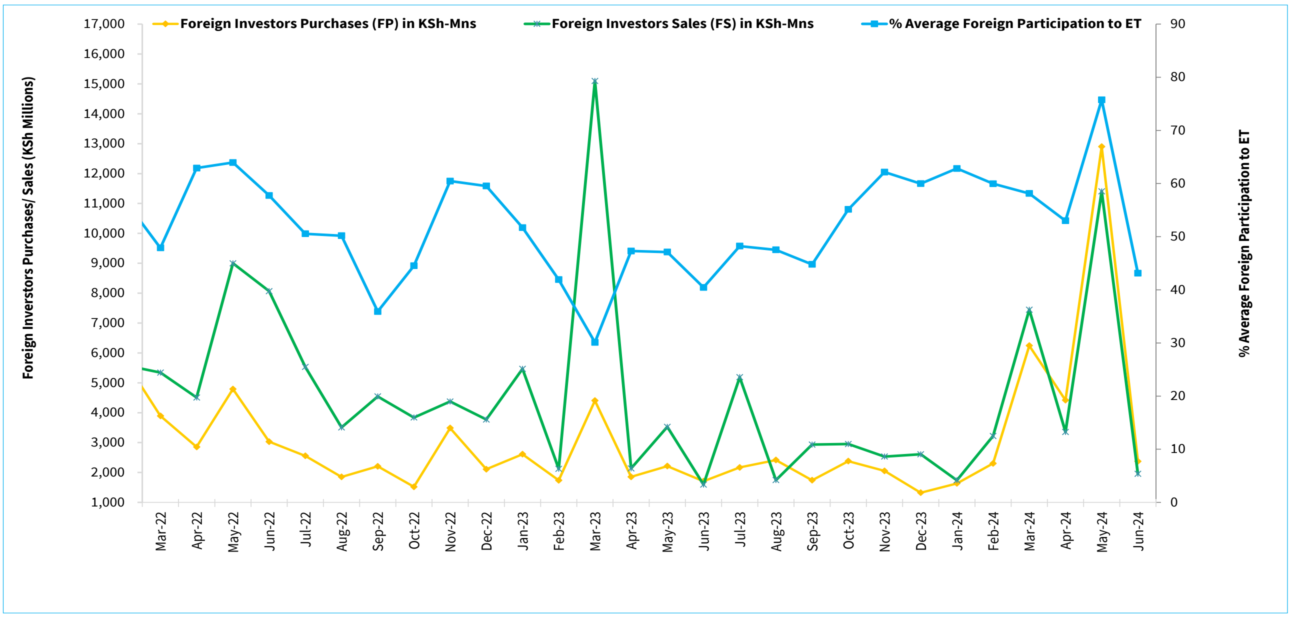


Source: Nairobi Security Exchange

Bonds Market

The bond turnover in the domestic secondary market decreased by 29.4 percent in the second quarter of 2024 compared to the first quarter of 2024. In the international market, yields on Kenya's Eurobonds increased by an average of 174 basis points during the period under review **(Table 9.1).**

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Chapter 10

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

		2023				2024		Absolute Quarterly Changes (KSh Million)						Quaterly Growth Rates (%)			
1.0	ASSETS	Mar	June	Sept	Dec	Mar	June	Q2,2024	Q1,2024	Q4,2023	Q3,2023	Q2,2023	Q2,2024	Q1,2024	Q4,2023	Q3,2023	Q2,2023
1.1	Reserves and Gold Holdings	847,431	1,063,081	1,045,504	1,068,257	964,679	1,049,305	84,626	(103,578)	22,753	(17,577)	215,650	8.8	(9.7)	2.2	(1.7)	25.4
1.2	Funds Held with IMF	74,310	73,275	73,154	76,528	58,226	52,550	(5,676)	(18,302)	3,374	(121)	(1,035)	(9.7)	(23.9)	4.6	(0.2)	(1.4)
1.3	Investment in Equity (Swift Shares)	12	12	13	14	11	11	(0)	(3)	1	1	-	(2.7)	(18.2)	11.9	8.1	-
1.4	Items in the Course of Collection	43	42					-	-	-	(42)	(1)				(100.0)	(3.4)
1.5	Advances to Commercial Banks	116,958	82,469	167,761	229,230	207,561	239,847	32,287	(21,669)	61,469	85,292	(34,489)	15.6	(9.5)	36.6	103.4	(29.5)
1.6	Loans and Other Advances	314,286	330,559	386,099	416,153	423,467	413,002	(10,464)	7,314	30,054	55,540	16,273	(2.5)	1.8	7.8	16.8	5.2
1.7	Other Assets	7,365	6,884	6,371	5,125	4,041	7,117	3,076	(1,084)	(1,246)	(513)	(481)	76.1	(21.1)	(19.6)	(7.5)	(6.5)
1.8	Retirement Benefit Asset	7,081	4,994	4,994	4,995	4,994	5,861	867	(1)	1	(0)	(2,087)	17.4	(0.0)	0.0	(0.0)	(29.5)
1.9	Property and Equipment	30,920	29,789	29,471	29,422	29,082	29,647	565	(340)	(49)	(318)	(1,131)	1.9	(1.2)	(0.2)	(1.1)	(3.7)
1.10	Intangible Assets	1,375	1,998	2,075	2,401	2,421	2,666	246	20	326	77	623	10.2	0.8	15.7	3.9	45.3
1.11	Due Debt from Government of Kenya	187,307	189,967	190,238	216,250	194,161	160,311	(33,850)	(22,089)	26,012	271	2,660	(17.4)	(10.2)	13.7	0.1	1.4
	TOTAL ASSETS	**1,587,088**	**1,783,070**	**1,905,681**	**2,048,375**	**1,888,642**	**1,960,317**	**71,675**	**(159,733)**	**142,694**	**122,611**	**195,982**	**3.8**	**(7.8)**	**7.5**	**6.9**	**12.3**
2.0	**LIABILITIES**																
2.1	Currency in Circulation	308,384	315,967	321,984	351,275	337,668	333,795	(3,873)	(13,607)	29,291	6,017	7,583	(1.1)	(3.9)	9.1	1.9	2.5
2.2	Deposits	454,390	572,975	554,775	555,005	563,692	647,035	83,343	8,687	230	(18,200)	118,585	14.8	1.6	0.0	(3.2)	26.1
2.3	International Monetary Fund	456,212	477,899	554,703	596,286	587,952	573,412	(14,540)	(8,334)	41,583	76,804	21,687	(2.5)	(1.4)	7.5	16.1	4.8
2.4	Other Liabilities	5,408	6,152	6,284	3,922	3,637	6,117	2,480	(285)	(2,362)	132	744	68.2	(7.3)	(37.6)	2.1	13.8
	TOTAL LIABILITIES	1,224,394	1,372,993	1,437,745	1,506,488	1,492,949	1,560,359	67,409	(13,539)	68,743	64,752	148,599	4.5	(0.9)	4.8	4.7	12.1
3.0	EQUITY AND RESERVES	362,694	410,077	467,935	541,887	395,694	399,958	4,264	(146,193)	73,952	57,857	47,383	1.1	(27.0)	15.8	14.1	13.1
	Share Capital	38,000	38,000	50,000	50,000	50,000	50,000	-	-	-	12,000	-	-	-	-	32	-
	General reserve fund	326,299	366,730	417,588	491,540	345,347	300,725	(44,622)	(146,193)	73,952	50,858	40,431	(13)	(30)	18	14	12
	Asset Revaluation	21,680	21,680	21,680	21,680	21,680	21,680	-	-	-	-	-	-	-	-	-	-
	Fair Value Reserves -OCI	(23,286)	(21,333)	(21,333)	(21,333)	(21,333)	(2,447)	18,887	-	-	(0)	1,953	(89)	-	-	0	(8)
	Consolidated Fund		5,000				30,000	30,000	-	-	(5,000)	5,000					
4	**TOTAL LIABILITIES AND EQUITY**	**1,587,088**	**1,783,070**	**1,905,681**	**2,048,375**	**1,888,643**	**1,960,317**	**71,674**	**(159,732)**	**142,694**	**122,611**	**195,982**	**3.8**	**(7.8)**	**7.5**	**6.9**	**12.3**

Source: Central Bank of Kenya

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet increased by 3.8 percent in the second quarter of 2024 compared to a decline of 7.8 percent in the previous quarter, largely reflecting increase reserves and gold holdings as well as advances to commercial banks. The increase in reserve and gold holdings, which comprise of foreign reserves held in external current accounts, deposits and special/ projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank was partly due to official government inflows which boosted Central Bank reserves. The increase in advances to commercial banks reflected Central Bank's open market operations to support liquidity in the money market and align the overnight interbank rate to the Central Bank Rate. Meanwhile, the debt due from government decreased partly reflecting reduced utilization of overdraft facility at the central bank by government, and funds held with IMF moderated during the quarter under review, partly reflecting the impact of the appreciation of the exchange rate.

Liabilities

On the liability side, the increase in the Central Bank's balance sheet was largely reflected in increase deposits. The increase in deposits mainly reflected in the government deposits with the Central Bank, partly supported by the official inflows. In contrast, liabilities to the IMF declined in the second quarter of 2024 partly reflecting the impact of the exchange rate on the IMF related liabilities of government under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the Government, which are channeled through the Central Bank.

Central Bank of Kenya

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