



Central Bank of Kenya

Quarterly Economic Review

April-June 2023



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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 further to 7.9 percent in the second quarter from 9.1 percent in the first quarter of 2023, largely driven by easing food prices. Food inflation declined driven by seasonal factors and easing international food prices. Fuel inflation remained elevated mainly due to the unwinding of the fuel subsidy programme while Non-food non-fuel(NFNF) inflation declined marginally reflecting muted demand pressures.

The economy remained resilient and grew by 5.3 percent in the first quarter of 2023 compared to 6.2 percent in a similar quarter of 2022. Growth was mainly supported by a rebound in the agriculture sector and continued strong performance of services sectors, particularly information and communication, transport and storage, financial and insurance, wholesale and retail trade, and accommodation and food services.

Growth in broad money supply (M3) increased by 7.9 percent in the second quarter of 2023 from 3.0 percent in the previous quarter, largely reflecting increased deposits.

Global economic growth continued to improve albeit at a slower pace characterized by significant variation across the regions. According to the IMF World Economic Outlook (WEO) July 2023 update, the global economy is expected to grow by 2.9 percent in the fourth quarter of 2023 and 2024, respectively.

The current account deficit narrowed to USD 1,176 million in second quarter of 2023 from USD 1,771 million in a similar period of 2022 reflecting a decline in the import bills despite a decline in services receipt and remittances.

The banking sector remained profitable, stable and resilient in the second quarter of 2023. Credit risk remained elevated with Gross Non-Performing Loans (NPLs) to Gross Loans Ratio standing at 14.5 percent at the end of the second quarter of 2023, an increase from 14.0 percent recorded at the end of first quarter of 2023.

The Government's budgetary operations at the end of the fourth quarter of FY 2022/23 resulted in a deficit (including grants) of 5.7 percent of GDP. Revenue collection remained below target, as was the case with expenditure.

Kenya's public and publicly guaranteed debt increased by 8.5 percent during the fourth quarter of the FY 2022/23. Domestic and external debt increased by 4.3 percent and 12.4 percent, respectively.

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index, declined by 5.1 percent and 2.9 percent respectively in the second quarter of 2023 compared to the first quarter of 2022. Market capitalisation declined by 5.1 percent, while equity turnover and total shares traded declined by 67.9 percent and 29.6 percent respectively.

Chapter 1 Inflation

Overview

Overall inflation declined further to 7.9 percent in the second quarter from 9.1 percent in the first quarter of 2023, mainly driven by easing food prices. Food inflation declined to 10.2 percent from 13.2 percent in the previous quarter, supported by domestic seasonal factors and easing international food prices. Although fuel inflation declined, it

remained elevated at 13.2 percent compared to 13.7 percent in the previous quarter, largely due to the unwinding of the fuel subsidy programme. Non-food Non-fuel (NFNF) inflation declined to 4.2 percent from 4.4 percent in the previous quarter reflecting muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2022			2023				
	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Overall inflation	7.2	8.7	9.4	9.1	7.9	7.9	8.0	7.9
Food Inflation	12.8	15.4	15.0	13.2	10.2	10.1	10.2	10.3
Fuel Inflation	9.2	9.4	13.0	13.7	13.2	13.2	13.6	12.9
Non-Food-Non-Fuel (NFNF) Inflation	2.7	3.3	4.0	4.4	4.2	4.1	4.3	4.1
Annual Average Inflation*	6.2	6.6	7.4	8.3	8.8	8.7	8.8	8.8
Three Months Annualised Inflation	13.6	8.8	8.5	5.8	8.7	8.1	9.2	8.9

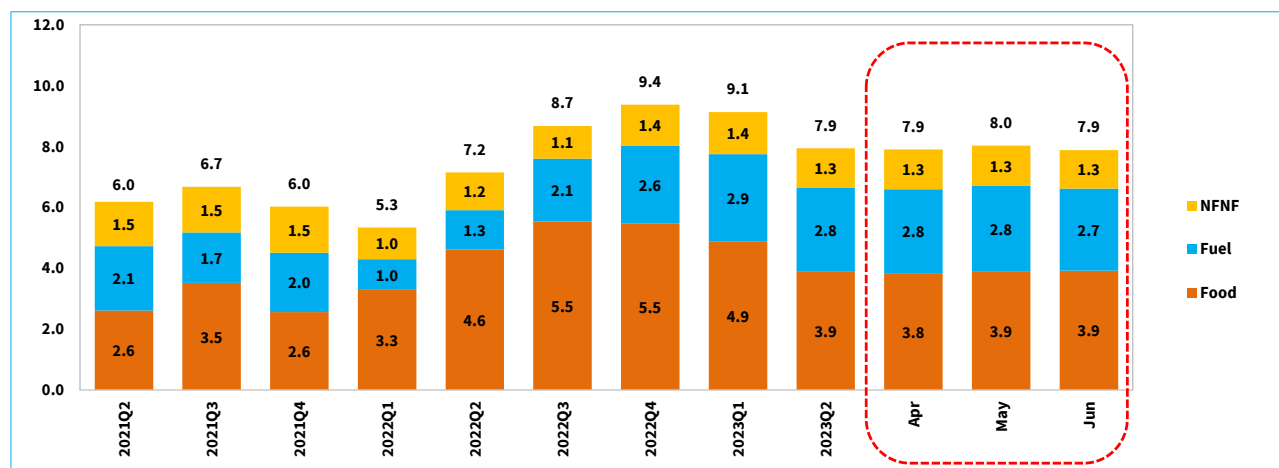
*Average annual inflation refers to the average inflation for 12 consecutive months. For instance, average annual inflation for June 2023 is computed as the percentage change in the average CPI for the period July 2022 to June 2023, relative to the average CPI for the period July 2021-June 2022.

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

The impact of elevated food prices continued to wane in the second quarter of 2023 following improved weather conditions. Although it remained the dominant driver, its contribution to overall inflation declined further to 3.9 percentage points from 4.9 percentage points in the previous quarter.

The contribution of fuel and NFNF inflation to overall inflation declined marginally to 2.8 percentage points and 1.3 percentage points, respectively, in the quarter under review (**Chart 1.1**).

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



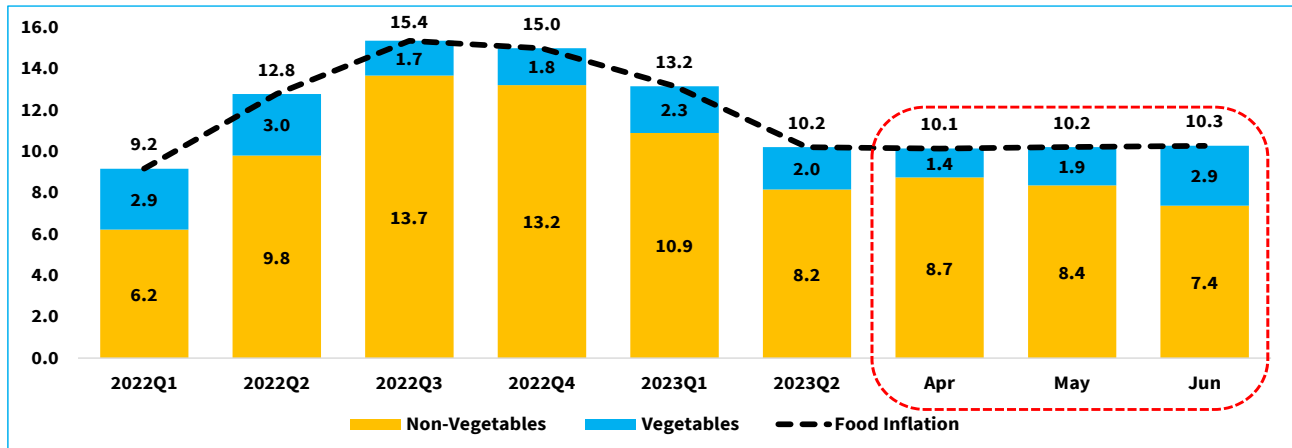
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined further supported by seasonal factors, increased imports of key food items and easing international food prices. It declined to 10.2 percent from 13.2 percent in the previous quarter reflecting continued easing in prices of key food items including edible oils, milk, wheat and maize products, and fresh vegetables. The latter

was supported by improved weather conditions which led to increased supply. However, sugar prices increased in the quarter under review driven by domestic shortage of mature cane and increased international prices. The latter was mainly driven by low harvests in key producing countries including Brazil, India, China and Thailand following excess rainfall linked to the El-Nino phenomena (**Chart 1.2**).

Chart 1.2: Food inflation by category (percent)



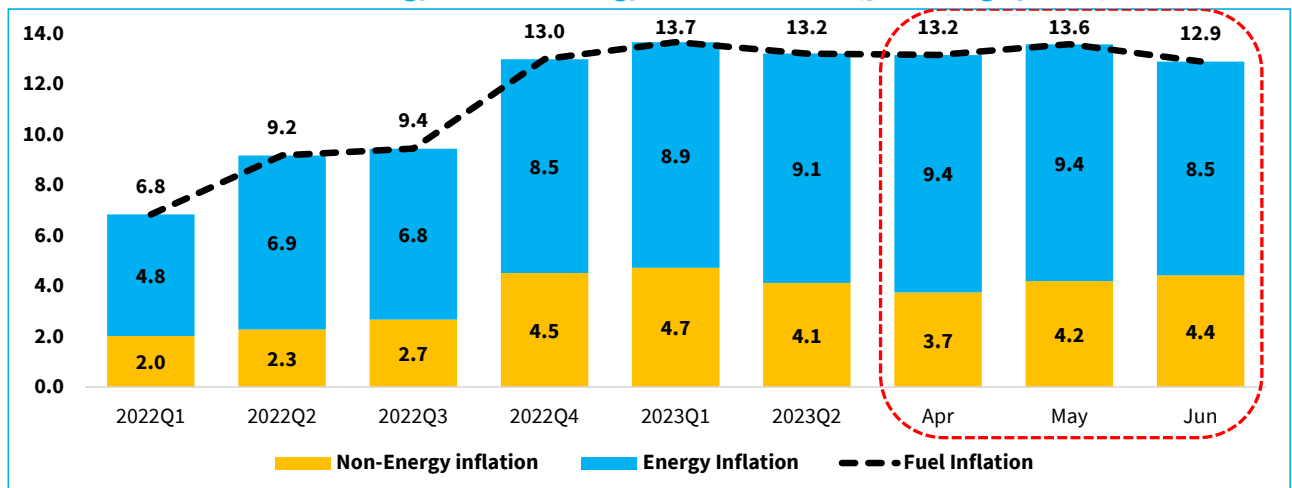
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation declined to 13.2 percent from 13.7 percent in the previous quarter, partly due to lower Liquified Petroleum Gas (LPG) prices following the reduction of VAT on the commodity by half starting July 2022. Energy prices remained elevated, reflecting high prices of petrol, diesel, electricity and kerosene arising from unwinding of subsidies

on pump prices. In addition, electricity prices increased from April 2023, after the Energy and Petroleum Regulatory Authority (EPRA) approved an upward adjustment of electricity tariffs. The non-energy component of fuel inflation declined in the quarter due to lower transport costs compared to the same period in the previous year (**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, reflecting muted demand pressures in the economy. It declined to 4.2 percent from 4.4 percent in the previous quarter (**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	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
	Apr	9.0	2.9	2.9	6.7	2.2	1.2	5.4	2.5	5.8	1.4	7.5	4.1
	May	9.9	2.9	3.1	6.1	2.3	1.2	5.3	2.2	6.1	1.4	8.1	4.3
	Jun	10.3	3.0	2.8	5.1	2.6	1.4	5.3	2.2	5.7	1.2	8.1	4.1

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

Chapter 2

Economic Performance

Overview

Economic activity was strong in the first quarter of 2023, mainly supported by a rebound in the agriculture sector and continued resilience of the services sector. The economy grew by 5.3 percent compared to 6.2 percent in a similar quarter of 2022. Growth was supported by the strong recovery of the agriculture sector and robust performance of the services sectors, particularly information and communication, transport and storage, financial and insurance, wholesale and retail trade, and accommodation and food services. All sectors of the economy recorded positive growth during the quarter (**Table 2.1**).

Agriculture

The agriculture sector rebounded in the first quarter of 2023 and grew by 5.8 percent compared to a contraction of 1.7 percent in a similar quarter of 2022. The strong performance was driven by favorable weather conditions that led to increased production of fresh vegetables, fruits and nuts, after a prolonged spell of drought conditions experienced in the country. However, production of tea, coffee, sugarcane and milk declined during the quarter under review. The sector contributed 1.1 percentage points to real GDP growth compared to -0.3 percentage points during a similar quarter of 2022 (**Figure 2.1**).

Non-Agriculture

Broadly, non-agriculture sector remained the main driver of growth in the first quarter of 2023. It grew by 5.2 percent compared to 8.2 percent in a similar quarter of 2022 on account of continued strong performance of the services sector. Its contribution to real GDP growth stood at 4.3 percentage points (**Tables 2.1 and 2.3**).

a) Services sector recorded a robust growth of 6.3 percent compared to 8.9 percent in a similar quarter of 2022 and contributed 3.5 percentage points to real GDP growth. Growth was supported by strong performance of the following sectors:

- Information and Communication sector expanded by 8.7 percent compared to 9.0 percent in a similar quarter of 2022. The strong growth was supported by increased domestic voice traffic, domestic short messaging services, and utilization of international bandwidth which grew by 12.3 percent, 25.7 percent, and 54.2 percent, respectively. Moreover, the volume of mobile money transactions increased by 7.1 percent over the same period.
 - Transport and Storage sector recorded a strong growth of 6.2 percent compared to 7.7 percent in the corresponding quarter of 2022, supported by transportation of passengers and freight via the Standard Gauge Railway (SGR) which increased by 15.2 percent and 2.7 percent, respectively. Moreover, cargo throughput at Mombasa port increased by 3.6 percent during the period under review.
 - Finance and Insurance sector grew by 5.8 percent in the first quarter of 2023 compared to a high growth of 17.0 percent in a similar quarter last year. The performance reflects the increased cost of credit issued by commercial banks following the increase of the Central Bank Rate (CBR). The rate of return on deposits also increased to 7.6 percent in March 2023 from 6.5 percent in 2022.
 - Activity in the Accommodation and Food services sector continued to normalize. The sector expanded by 21.5 percent compared to 40.1 percent in a similar quarter in 2022. This was reflected in increased visitor arrivals through the major airports (JKIA and MIA) by 50.0 percent compared to a similar quarter of 2022. The sector has been growing steadily as the adverse effects of COVID-19 pandemic continue to dissipate both domestically and globally.
- b) Industry sector grew by 2.5 percent compared to 5.6 percent in a similar quarter in 2022, and contributed 0.4 percentage points to real GDP growth (**Tables 2.1 and Figure 2.1**).
- Manufacturing sector growth slowed to 2.0 percent from 3.8 percent in a similar quarter of 2022. Growth was mainly supported by increased activity in the agro-processing (food) subsector, particularly manufacture of bakery

products and, processing and preservation of fish, which expanded by 15.2 and 7.2 per cent, respectively. Meanwhile, in the non-food subsector, activity was boosted by increased production of basic metals and fabricated metal products.

- Growth in the construction sector slowed to 3.1 percent from 6.0 percent in a corresponding period of 2022. The subdued performance during the quarter under review was mainly reflected in reduced cement consumption by 7.7 percent. However, despite the slowdown in

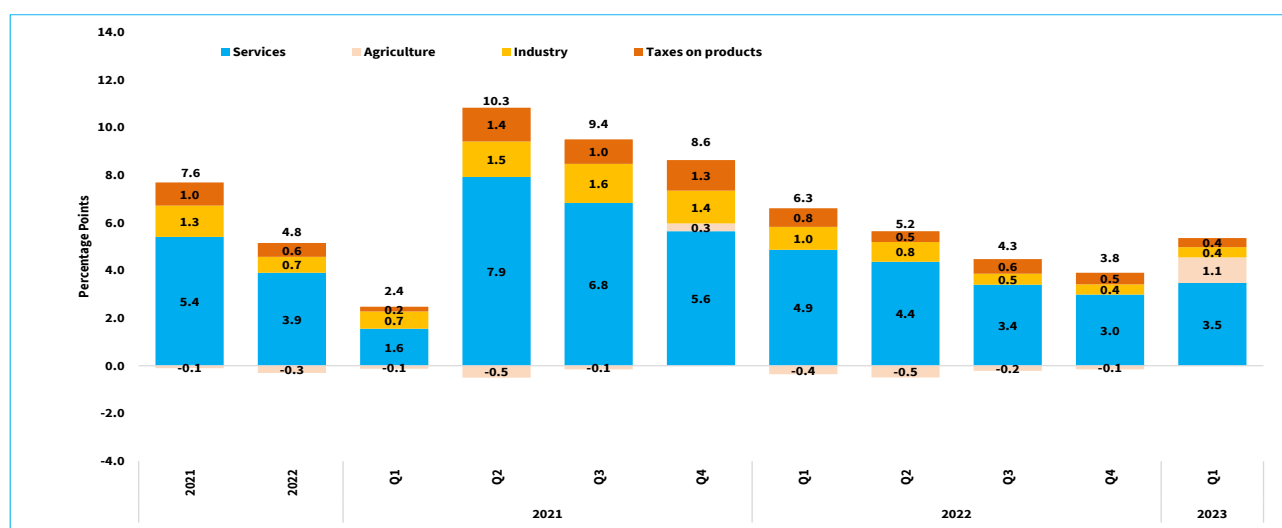
activity in the sector, imports of bitumen, iron, and steel increased during the quarter.

- Electricity and Water Supply sector grew by 2.3 percent compared to 3.2 percent in a similar period of 2022, largely supported by increased electricity generation. In particular, geothermal and wind electricity generation increased by 46.8 percent and 13.5 percent, respectively. However, generation of thermal electricity and hydroelectricity declined by 47.5 percent and 30.6 percent, respectively.

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

	Annual				2022				2023
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1
1. Agriculture	2.7	4.6	-0.4	-1.6	-1.7	-2.4	-1.3	-0.9	5.8
2. Non-Agriculture (o/w)	5.7	-1.4	9.5	6.3	8.2	7.1	5.3	4.6	5.2
2.1 Industry	4.0	3.3	7.5	3.9	5.6	5.0	2.6	2.4	2.5
Mining & Quarrying	4.3	5.5	18.0	9.3	23.8	16.6	-4.5	1.6	3.3
Manufacturing	2.6	-0.3	7.3	2.7	3.8	3.6	1.8	1.8	2.0
Electricity & water supply	1.7	0.6	5.6	4.9	3.2	5.6	6.0	4.9	2.3
Construction	7.2	10.1	6.7	4.1	6.0	4.5	3.5	2.4	3.1
2.2 Services	6.5	-1.8	9.8	7.0	8.9	8.0	5.9	5.2	6.3
Wholesale & Retail Trade	5.3	-0.4	8.0	3.8	4.9	4.1	3.6	2.7	5.7
Accommodation & restaurant	14.3	-47.7	52.6	26.2	40.1	44.0	16.9	14.9	21.5
Transport & Storage	6.3	-8.0	7.4	5.6	7.7	7.2	5.1	2.7	6.2
Information & Communication	7.0	6.0	6.1	9.9	9.0	11.2	11.8	8.0	8.7
Financial & Insurance	8.1	5.9	11.5	12.8	17.0	16.1	9.6	9.4	5.8
Public administration	8.4	7.0	6.0	4.5	6.2	3.8	3.4	4.7	6.6
Professional, Administration & Support Services	6.8	-13.7	7.1	9.4	13.1	10.9	9.0	5.3	7.3
Real estate	6.7	4.1	6.7	4.5	6.0	5.0	4.0	2.9	5.2
Education	5.7	-9.2	22.8	4.8	4.6	4.4	3.9	6.1	3.6
Health	5.5	5.6	8.9	4.5	5.7	4.4	3.7	4.3	5.4
Other services	4.3	-14.6	12.5	5.7	8.9	4.3	5.7	4.0	3.0
FISIM	9.5	-1.8	5.3	1.5	0.8	1.3	2.3	1.6	0.6
2.3 Taxes on products	3.9	-8.0	11.9	7.0	9.5	6.1	7.3	5.3	4.4
Real GDP Growth	5.1	-0.3	7.6	4.8	6.2	5.2	4.3	3.7	5.3

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 GDP)

	Annual				2022				2023
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1
1. Agriculture	18.6	19.5	18.1	17.0	18.4	19.2	14.6	15.6	18.5
2. Non-Agriculture (o/w)	81.4	80.5	81.9	83.0	81.6	80.8	85.4	84.4	81.5
2.1 Industry	17.5	18.1	18.1	17.9	17.9	17.5	18.3	18.0	17.4
Mining & Quarrying	1.0	1.0	1.1	1.2	1.3	1.2	0.9	1.2	1.3
Manufacturing	8.7	8.7	8.6	8.5	8.4	8.3	8.5	8.6	8.1
Electricity & water supply	2.5	2.5	2.5	2.5	2.4	2.4	2.7	2.5	2.3
Construction	5.4	5.9	5.9	5.8	5.8	5.6	6.2	5.8	5.7
2.2 Services	55.0	54.2	55.3	56.4	55.1	55.3	58.2	57.2	55.6
Wholesale & Retail Trade	8.3	8.3	8.4	8.3	8.7	7.7	8.2	8.5	8.7
Accommodation & restaurant	1.2	0.6	0.9	1.0	0.9	0.9	1.0	1.3	1.1
Transport & Storage	10.3	9.5	9.5	9.6	9.1	9.6	10.4	9.2	9.1
Information & Communication	2.9	3.1	3.1	3.2	3.1	3.1	3.4	3.4	3.2
Financial & Insurance	7.8	8.2	8.5	9.2	8.7	8.9	9.1	9.9	8.8
Public administration	5.7	6.1	6.0	6.0	5.6	6.1	6.2	6.0	5.7
Professional, Administration & Support Services	3.0	2.6	2.6	2.7	2.5	2.7	2.8	2.8	2.6
Real estate	9.8	10.2	10.1	10.1	10.0	10.0	10.5	9.9	10.0
Education	4.7	4.3	4.9	4.9	5.1	4.5	5.0	5.1	5.0
Health	2.1	2.2	2.3	2.3	2.1	2.3	2.3	2.4	2.1
Other services	2.4	2.0	2.1	2.1	2.0	2.1	2.3	2.0	2.0
FISIM	-3.2	-3.1	-3.1	-3.0	-2.8	-2.7	-3.0	-3.3	-2.6
2.3 Taxes on products	8.9	8.2	8.5	8.7	8.6	8.0	8.9	9.1	8.6
Total	100.0	100.0	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				2022				2023
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1
1. Agriculture	0.5	0.9	-0.1	-0.3	-0.3	-0.5	-0.2	-0.1	1.1
2. Non-Agriculture (o/w)	4.6	-1.1	7.8	5.2	6.7	5.8	4.6	3.9	4.3
2.1 Industry	0.7	0.6	1.4	0.7	1.0	0.9	0.5	0.4	0.4
Mining & Quarrying	0.0	0.1	0.2	0.1	0.3	0.2	0.0	0.0	0.0
Manufacturing	0.2	0.0	0.6	0.2	0.3	0.3	0.2	0.2	0.2
Electricity & water supply	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Construction	0.4	0.6	0.4	0.2	0.3	0.3	0.2	0.1	0.2
2.2 Services	3.6	-1.0	5.4	3.9	4.9	4.4	3.5	3.0	3.5
Wholesale & Retail Trade	0.4	0.0	0.7	0.3	0.4	0.3	0.3	0.2	0.5
Accommodation & restaurant	0.2	-0.3	0.5	0.3	0.4	0.4	0.2	0.2	0.2
Transport & Storage	0.7	-0.8	0.7	0.5	0.7	0.7	0.5	0.2	0.6
Information & Communication	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.3	0.3
Financial & Insurance	0.6	0.5	1.0	1.2	1.5	1.4	0.9	0.9	0.5
Public administration	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.3	0.4
Professional, Administration & Support Services	0.2	-0.4	0.2	0.3	0.3	0.3	0.3	0.1	0.2
Real estate	0.7	0.4	0.7	0.5	0.6	0.5	0.4	0.3	0.5
Education	0.3	-0.4	1.1	0.2	0.2	0.2	0.2	0.3	0.2
Health	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.1	-0.3	0.3	0.1	0.2	0.1	0.1	0.1	0.1
FISIM	-0.3	0.1	-0.2	0.0	0.0	0.0	-0.1	-0.1	0.0
2.3 Taxes on products	0.3	-0.7	1.0	0.6	0.8	0.5	0.6	0.5	0.4
Real GDP Growth	5.1	-0.3	7.6	4.8	6.2	5.2	4.3	3.7	5.3

Source: Kenya National Bureau of Statistics and CBK Staff computations

Chapter 3

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Broad money supply (M3) increased by 7.9 in the second quarter of 2023 from 3.0 percent in first quarter of 2023, mainly reflecting increased deposits. The increase in deposits was mainly reflected in the corporate sector deposits, partly supported by significant government payments towards the end of fiscal year, resilient business activities and the build up of deposits within the energy sector. The increase in corporate sector deposit was mainly on account of increased demand and foreign currency deposits. The other deposits at Central Bank

increased mainly on account of increased County Governments deposits. Growth in household sector deposits moderated, mainly reflected in demand deposits (Tables 3.1 & 3.2).

The 12-month growth in broad money supply (M3) increased to 13.4 percent in June 2023 from 10.6 percent in March 2023, partly reflecting increased net foreign assets of the banking system and resilient private sector credit.

Table 3.1: Monetary aggregates (KSh Billion)

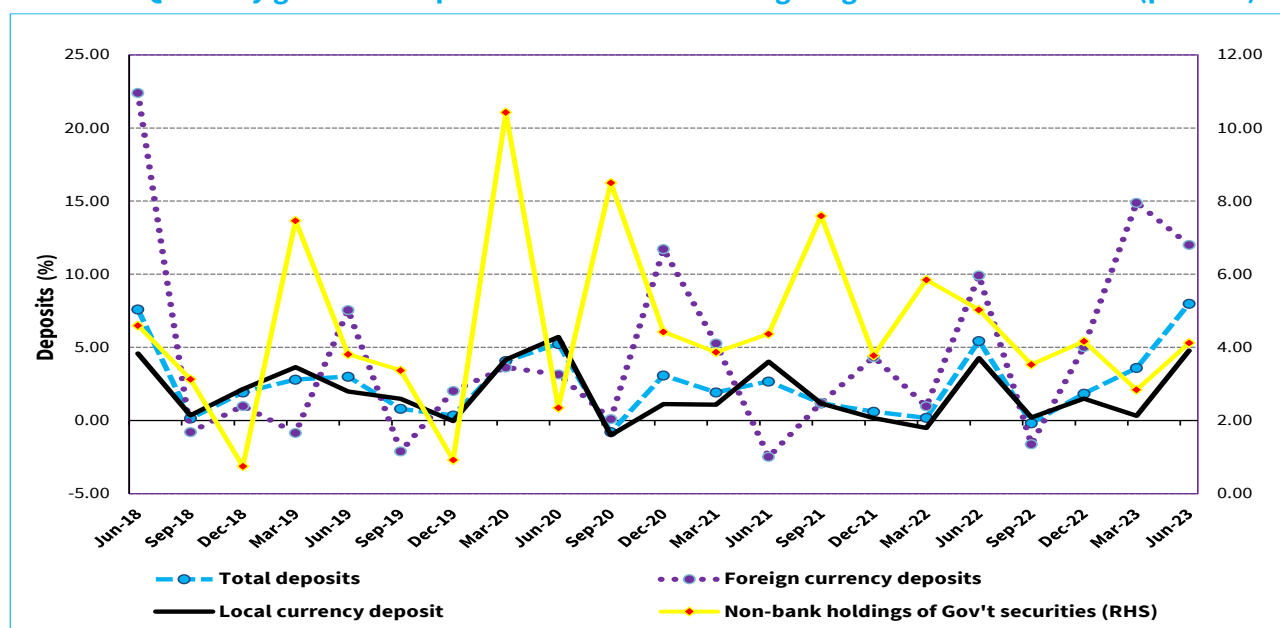
	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1,906.8	1,916.1	1,967.1	1,885.8	2,098.2	6.2	0.5	2.7	-4.1	11.3	110.5	9.2	51.0	-81.3	212.4
1.1 Currency outside banks	251.4	251.7	258.8	252.8	257.9	1.3	0.1	2.8	-2.3	2.0	3.3	0.3	7.1	-6.0	5.1
1.2 Demand deposits	1,552.2	1,582.5	1,621.6	1,553.7	1,680.9	5.1	2.0	2.5	-4.2	8.2	74.8	30.3	39.1	-67.9	127.2
1.3 Other deposits at CBK 1/	103.5	82.1	86.8	79.5	159.6	45.5	-20.7	5.8	-8.4	100.8	32.4	-21.4	4.7	-7.3	80.1
2. Money supply, M2 (1+2.1)	3,551.5	3,553.4	3,613.4	3,610.5	3,852.2	4.1	0.1	1.7	-0.1	6.7	141.4	1.9	60.0	-2.9	241.6
2.1 Time and saving deposits	1,644.7	1,637.4	1,646.4	1,724.7	1,754.0	1.9	-0.4	0.5	4.8	1.7	30.8	-7.3	9.0	78.3	29.3
3. Money supply, M3 (2+3.1)	4,443.0	4,430.4	4,534.5	4,668.7	5,037.4	5.3	-0.3	2.3	3.0	7.9	221.8	-12.6	104.1	134.2	368.7
3.1 Foreign Currency Deposits	891.5	877.0	921.1	1,058.2	1,185.2	9.9	-1.6	5.0	14.9	12.0	80.4	-14.5	44.1	137.2	127.0
Sources of M3															
1. Net foreign assets 2/	456.8	294.6	283.0	308.7	591.5	6.7	-35.5	-3.9	9.1	91.6	28.7	-162.3	-11.5	25.7	282.8
Central Bank	641.5	568.8	536.9	433.6	616.9	6.8	-11.3	-5.6	-19.2	42.3	40.7	-72.7	-31.9	-103.3	183.3
Banking Institutions	-184.7	-274.3	-253.9	-124.9	-25.4	-6.9	-48.5	7.4	50.8	79.7	-12.0	-89.6	20.4	129.0	99.5
2. Net domestic assets (2.1+2.2)	3,986.2	4,135.9	4,251.5	4,360.0	4,445.9	5.1	3.8	2.8	2.6	2.0	193.0	149.7	115.6	108.5	85.9
2.1 Domestic credit	5,185.8	5,340.6	5,435.2	5,697.9	5,820.2	3.2	3.0	1.8	4.8	2.1	163.1	154.8	94.7	262.7	122.3
2.1.1 Government (net)	1,844.8	1,898.8	1,919.8	2,058.9	2,083.9	4.9	2.9	1.1	7.2	1.2	86.5	54.0	21.0	139.1	25.1
2.1.2 Private sector	3,256.9	3,362.5	3,433.5	3,547.0	3,652.6	2.5	3.2	2.1	3.3	3.0	79.6	105.6	71.1	113.5	105.6
2.1.3 Other public sector	84.1	79.3	81.9	92.1	83.7	-3.4	-5.7	3.3	12.4	-9.1	-3.0	-4.8	2.6	10.1	-8.4
2.2 Other assets net	-1,199.6	-1,204.7	-1,183.8	-1,337.9	-1,374.3	2.4	-0.4	1.7	-13.0	-2.7	29.9	-5.1	20.9	-154.1	-36.4
Memorandum items															
4. Overall liquidity, L (3+4.1)	6,629.8	6,694.5	6,892.9	7,094.1	7,562.6	5.2	1.0	3.0	2.9	6.6	326.5	64.7	198.4	201.2	468.5
4.1 Non-bank holdings of government securities	2,186.8	2,264.1	2,358.4	2,425.3	2,525.2	5.0	3.5	4.2	2.8	4.1	104.7	77.2	94.3	67.0	99.9

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Chart 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-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
1. Household Sector 1/	1895	1867	1876	2006	2056	4.7	-1.5	0.5	6.9	2.5	84.7	-28.1	8.4	130.3	50.5
1.1 Demand Deposits	702	650	669	730	734	10.6	-7.4	2.9	9.1	0.5	67.2	-51.9	18.9	61.0	3.9
1.2 Time and Saving Deposits	899	918	887	927	950	1.4	2.1	-3.4	4.5	2.5	12.7	18.8	-31.1	39.9	22.8
1.3 Foreign Currency Deposits	295	300	320	350	373	1.6	1.7	6.9	9.2	6.8	4.8	5.0	20.7	29.4	23.8
2. Corporate Sector	2127	2157	2250	2263	2496	4.9	1.4	4.3	0.6	10.3	100.1	29.7	93.4	12.5	233.1
2.1 Demand deposits	819	896	927	798	924	1.1	9.4	3.5	-13.9	15.8	8.6	76.9	31.0	-129.0	126.5
2.2 Time and Saving Deposits	716	686	725	760	763	2.7	-4.3	5.8	4.8	0.4	19.0	-30.4	39.5	34.9	3.2
2.3 Foreign Currency Deposits	592	575	598	705	808	13.9	-2.8	4.0	17.8	14.7	72.5	-16.8	22.9	106.6	103.4

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

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the increase in broad money supply, M3, in the second quarter of 2023 was the increase in net foreign assets of the banking system. Increased in net foreign assets was supported by the increased reserves at the Central Bank boosted by the official inflows and increased foreign deposit holdings by commercial banks. Growth in net domestic assets of the banking system moderated slightly in the second quarter, partly reflected in net domestic credit (**Tables 3.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system moderated to 2.1 percent in the second quarter of 2023 from 4.8 percent in the previous quarter, largely reflecting reduced net lending to government. Lending to other public sector decreased slightly, mainly due to net repayments by parastatals (**Tables 3.3**).

Growth in credit extended to the private sector moderated slightly to 3.0 percent in the second quarter of 2023 from 3.3 percent in the previous quarter, partly due to net repayments and write-offs in trade, transport and communication and mining and quarrying sectors. Lending to the private

sector remained largely for working purposes. Credit growth remained positive in most economic sectors with strong credit growth registered in manufacturing, transport and communication, and consumer durables (Table 3.3).

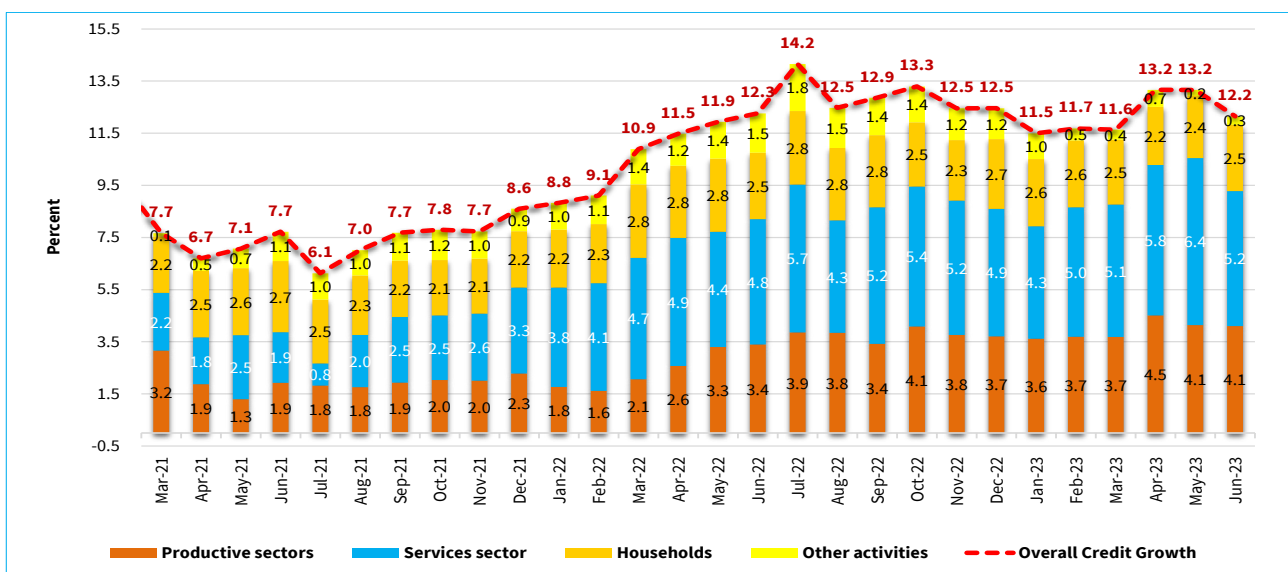
The 12-month growth in private sector credit remained resilient, at 12.2 percent in June 2023 from 11.6 percent in March 2023, partly reflecting resilient economic activities and demand for working capital (Chart 3.2).

Table 3.3: Banking sector net domestic credit

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
1. Credit to Government	1,844.8	1,898.8	1,919.8	2,058.9	2,083.9	4.9	2.9	1.1	7.2	1.2	86.5	54.0	21.0	139.1	25.1
Central Bank	148.3	189.9	206.9	361.5	323.4	70.9	28.0	8.9	74.7	-10.5	61.6	41.6	17.0	154.6	-38.1
Commercial Banks & NBFIs	1,696.4	1,708.9	1,712.9	1,697.4	1,760.5	1.5	0.7	0.2	-0.9	3.7	24.9	12.4	4.0	-15.5	63.2
2. Credit to other public sector	84.1	79.3	81.9	92.1	83.7	-3.4	-5.7	3.3	12.4	-9.1	-3.0	-4.8	2.6	10.1	-8.4
Local government	5.8	5.3	6.2	6.7	6.7	-14.2	-9.7	17.7	7.8	1.0	-1.0	-0.6	0.9	0.5	0.1
Parastatals	78.3	74.1	75.8	85.4	77.0	-2.5	-5.4	2.3	12.7	-9.9	-2.0	-4.2	1.7	9.6	-8.4
3. Credit to private sector	3,256.9	3,362.5	3,433.5	3,547.0	3,652.6	2.5	3.2	2.1	3.3	3.0	79.6	105.6	71.1	113.5	105.6
Agriculture	102.8	110.3	114.9	117.0	121.9	0.9	7.3	4.2	1.9	4.2	0.9	7.5	4.6	2.1	4.9
Manufacturing	494.6	508.0	526.8	546.3	583.6	4.8	2.7	3.7	3.7	6.8	22.8	13.5	18.8	19.5	37.3
Trade	556.8	592.4	586.4	607.6	613.7	2.6	6.4	-1.0	3.6	1.0	13.9	35.6	-6.0	21.3	6.0
Building and construction	132.8	134.8	131.9	137.3	139.2	2.3	1.5	-2.1	4.0	1.4	3.0	2.0	-2.9	5.3	2.0
Transport & communications	274.1	289.5	299.2	318.6	328.4	1.0	5.6	3.3	6.5	3.1	2.6	15.4	9.7	19.5	9.8
Finance & insurance	113.7	110.9	118.0	145.6	147.6	0.3	-2.5	6.5	23.4	1.3	0.3	-2.9	7.2	27.6	1.9
Real estate	414.0	413.7	422.5	419.3	429.2	1.0	-0.1	2.1	-0.8	2.4	4.0	-0.3	8.8	-3.2	10.0
Mining and quarrying	16.3	20.8	22.6	23.3	20.3	28.3	27.1	9.0	3.0	-13.1	3.6	4.4	1.9	0.7	-3.1
Private households	485.6	502.0	511.2	521.5	526.3	-0.2	3.4	1.8	2.0	0.9	-1.0	16.4	9.2	10.2	4.8
Consumer durables	358.5	367.9	378.1	391.0	401.5	3.4	2.6	2.8	3.4	2.7	11.7	9.4	10.1	12.9	10.5
Business services	187.1	189.8	199.4	204.5	209.8	0.0	1.4	5.0	2.6	2.6	0.0	2.7	9.6	5.1	5.3
Other activities	120.6	122.4	122.6	115.1	131.2	17.3	1.5	0.1	-6.1	14.0	17.8	1.8	0.1	-7.5	16.1
4. TOTAL (1+2+3)	5,185.8	5,340.6	5,435.2	5,697.9	5,820.2	3.2	3.0	1.8	4.8	2.1	163.1	154.8	94.7	262.7	122.3

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 contracted by 4.0 percent in the second quarter of 2023 compared to 1.1 percent in the previous quarter, partly reflecting reduction in bank reserves. The decline in bank reserves mainly arose from reduced excess reserves, partly on account of tight liquidity conditions in the money markets. The contraction in reserve money was also reflected in the decline in net domestic

assets, which more than offset the increase in net foreign assets. The decline in net domestic assets was partly attributed to reduction in net lending to government, and the decline in other domestic assets (net) on account of increased special projects and county government deposits (**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-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Sources of Reserve Money															
1. Net Foreign Assets	641.5	568.8	536.9	433.6	616.9	6.8	-11.3	-5.6	-19.2	42.3	40.7	-72.7	-31.9	-103.3	183.3
2. Net Domestic Assets	-122.6	-14.0	-22.7	75.1	-128.6	-0.9	88.5	-62.0	430.0	-271.3	-1.1	108.5	-8.7	97.8	-203.7
2.1 Government Borrowing (net)	148.3	189.9	206.9	361.5	323.4	70.9	28.0	8.9	74.7	-10.5	61.6	41.6	17.0	154.6	-38.1
2.2 Commercial banks (net)	69.8	121.2	126.6	131.4	96.7	-21.7	73.7	4.5	3.7	-26.3	-19.3	51.4	5.4	4.7	-34.6
2.3 Other Domestic Assets (net)	-344.5	-329.0	-360.0	-421.6	-552.5	-14.4	4.5	-9.4	-17.1	-31.0	-43.5	15.5	-31.0	-61.6	-130.9
Components of Reserve Money															
3. Reserve Money	518.9	554.8	514.2	508.6	488.3	8.3	6.9	-7.3	-1.1	-4.0	39.6	35.9	-40.6	-5.5	-20.4
3.1 Currency outside banks	251.4	251.7	258.8	252.8	257.9	1.3	0.1	2.8	-2.3	2.0	3.3	0.3	7.1	-6.0	5.1
3.2 Bank reserves	267.5	303.0	255.4	255.9	230.4	15.7	13.3	-15.7	0.2	-10.0	36.3	35.5	-47.7	0.5	-25.5

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) meeting in June 2023 increased the Central Bank Rate (CBR) from 9.50 percent to 10.50 percent in order to anchor inflation expectations. The MPC noted the sustained inflationary pressures, increased risks to the inflation outlook, the elevated global risks, and their potential impact on the domestic economy. The MPC concluded that there was scope for a further tightening of the monetary policy to anchor inflation expectations.

b. Short Term Rates

Short-term interest rates increased during the second quarter of 2023, partly reflecting a tightening of monetary policy stance and liquidity conditions in the money market. The average interbank interest

rate increased to 9.59 percent in June 2023 from 7.05 percent in March 2023. Similarly, the average 91-day Treasury bill rate increased to 11.49 percent in June 2023 from 9.76 percent in March 2023, while the average 182-day Treasury bill rate increased to 11.54 percent from 10.25 percent.

c. Lending and Deposit Rates

Commercial banks' average lending and deposit rates increased in the second quarter of 2023 in line with the tightening of the monetary policy stance. The weighted average lending rate increased to 13.31 percent in June 2023 from 13.09 percent in March 2023 while the weighted average deposit rate increased to 7.82 percent from 7.60 percent in March 2023.

Table 3.5: Interest rates (percent)

	2022					2023					
	Jun	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day Treasury bill rate	7.90	8.92	9.06	9.19	9.33	9.44	9.62	9.76	10.04	10.47	11.49
182-day Treasury bill rate	9.07	9.60	9.65	9.71	9.80	9.88	10.06	10.25	10.42	10.83	11.54
Interbank rate	5.06	4.36	5.44	4.61	5.39	5.89	6.42	7.05	8.55	9.36	9.48
Repo rate	6.80	-	-	7.65	-	-	-	-	-	-	-
Reverse Repo rate	8.44	9.63	9.78	9.70	9.84	10.01	10.10	10.37	10.57	9.73	9.90
Central Bank Rate (CBR)	7.50	8.25	8.25	8.75	8.75	8.75	8.75	9.50	9.50	9.50	10.50
Average lending rate (1)	12.27	12.41	12.39	12.64	12.67	12.77	13.06	13.09	13.10	13.21	13.31
Overdraft rate	11.86	11.99	11.96	12.16	12.22	12.34	12.62	12.69	12.71	12.64	12.83
1-5years	12.48	12.66	12.61	12.94	12.98	13.09	13.43	13.47	13.44	13.62	13.79
Over 5years	12.23	12.33	12.36	12.54	12.57	12.64	12.88	12.91	12.95	13.05	13.06
Average deposit rate (2)	6.62	6.82	7.01	7.11	7.17	7.47	7.54	7.60	7.69	7.70	7.82
0-3months	6.96	7.18	7.42	7.57	7.38	8.09	8.28	8.13	8.34	8.06	8.33
Over 3 months deposit	7.39	7.40	7.60	7.68	7.93	7.96	7.96	8.19	8.21	8.41	8.54
Savings deposits	2.50	3.44	3.46	3.50	3.56	3.60	3.58	3.55	3.59	3.55	3.48
Spread (1-2)	5.66	5.59	5.39	5.53	5.51	5.30	5.52	5.50	5.41	5.51	5.50

Source: Central Bank of Kenya

Chapter 4

Global Economy

Global economic growth remained subdued in quarter one of 2023, characterized by significant variation across the regions. However, stronger global service sector demand, decline in commodity prices, strong diaspora remittance flows, and easing of inflation and supply chain pressures continued to support recovery of economic activities in most of the economies. According to the IMF World Economic Outlook (WEO) April 2023, the global economy is expected to grow by 2.9 percent in the fourth quarter of 2023 and 3.1 percent in the fourth quarter of 2024. Annual global growth is projected to decline from 3.4 percent in 2022 to 2.8 percent in 2023, and moderate to 3.0 percent in 2024. The decline in global output growth in 2023 is largely driven by reduced economic activity in the advanced economies, attributable to increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector in advanced economies.

Growth in the advanced economy group, is projected to grow by 1.1 percent and 1.6 percent in the fourth quarters of 2023 and 2024, respectively. Annual growth in the advanced economies is expected at 1.3 percent in 2023 and 1.4 percent in 2024. Growth in most economies in this group is projected to slowdown in 2023.

In the emerging market and developing economies (EMDEs), growth is estimated at 4.5 percent in the fourth quarter of 2023 and 4.4 percent in the fourth quarter of 2024. On an annual basis, growth is projected to slowdown, from 4.0 percent in 2022 to 3.9 percent in 2023 and 4.2 percent in 2024, a downgrade of 0.1 percentage points compared to the January 2022 update projections. In Sub-Saharan Africa (SSA), economic activity is projected at 3.6 percent in 2023 and 4.2 percent in 2024. Nigeria, South Africa, and Kenya are expected to grow by 3.2 percent, 0.1 percent, and 5.3 percent in 2023, respectively. In 2024, they are expected to

grow by 3.0 percent (Nigeria), 1.8 percent (South Africa), and 5.4 percent (Kenya).

Global financial conditions worsened in quarter one of 2023, reflecting rising interest rates in major economies as major central banks continue with monetary policy tightening, and rise in credit risks associated with instabilities in the banking sector. In response to ongoing monetary tightening, global inflation is expected to fall from 8.7 percent in 2022 to 7.0 percent and 4.9 percent in 2023 and 2024, respectively. However, this will still be above the respective economies target.

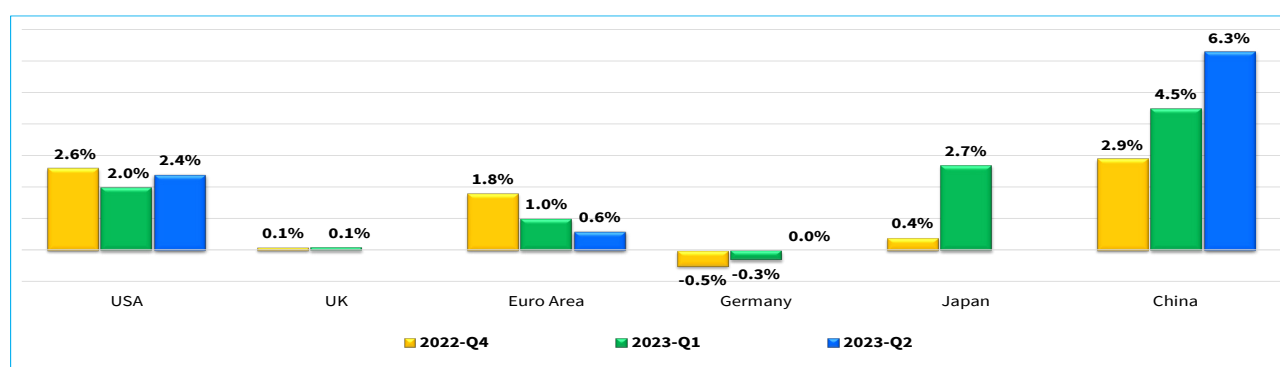
Global commodity market pressures are expected to continue to ease as nonfuel and fuel commodity prices decline. Oil prices are expected to fall by about 24.1 percent to average \$73.13 per barrel in 2023 and \$68.90 per barrel in 2024, while nonfuel commodity prices are expected to fall by 2.8 percent in 2023. Global demand is expected to pick up, reflecting increased consumer spending, particularly in the service sector as demand for travel, tourism, and recreational activities rise. The world trade growth is expected to decline in 2023 to 2.4 percent, despite an easing of supply bottlenecks, before rising to 3.5 percent in 2024.

Official preliminary GDP estimates released for the first quarter of 2023 show estimated growth in the United States to have slowed to 1.3 percent, United Kingdom (0.1 percent), Euro Area (1.3 percent), Germany (0.3 percent). However, GDP estimates show accelerated growth for China (4.5 percent) and Japan (0.7 percent). Overall, downside risks to the global outlook remain substantial. There are risks arising from high interest rates related concerns and escalating financial market uncertainty due to a rise in credit risks in major economies. However, continued pick up in global service demand, and inflation pressures abating in major economies will likely boost global economic recovery.

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

	Annual Year over Year			Quarterly Q4 Over Q4		
	Estimate	Projections		Estimate	Projections	
	2022	2023	2024	2022	2023	2024
World Output	3.5	3.0	3.0	2.2	2.9	2.9
Advanced Economies	2.7	1.5	1.4	1.2	1.4	1.4
United States	2.1	1.8	1.0	0.9	1.4	1.1
Euro Area	3.5	0.9	1.5	1.8	1.2	1.5
Germany	1.8	-0.3	1.3	0.8	0.5	1.5
France	2.5	0.8	1.3	0.6	0.9	1.6
Italy	3.7	1.1	0.9	1.5	0.9	1.1
Spain	5.5	2.5	2.0	3.0	1.8	2.2
Japan	1.0	1.4	1.0	0.4	1.5	1.0
United Kingdom	4.1	0.4	1.0	0.6	0.5	1.3
Other Advanced Economies	2.8	2.0	2.4	1.0	1.9	1.8
Emerging Market and Developing Economies	4.0	4.0	4.1	3.1	4.1	4.1
Emerging and Developing Asia	4.5	5.3	5.0	4.2	5.3	4.9
China	3.0	5.2	4.5	3.1	5.8	4.1
India	7.2	6.1	6.3	6.1	4.3	6.4
Emerging and Developing Europe	0.8	1.8	2.2	-1.3	2.7	2.0
Russia	-2.1	1.5	1.3	-3.1	1.9	0.8
Latin America and the Caribbean	3.9	1.9	2.2	2.6	0.8	2.9
Brazil	2.9	2.1	1.2	2.5	1.3	2.2
Mexico	3.0	2.6	1.5	3.7	1.9	1.7
Middle East and Central Asia	5.4	2.5	3.2	...	...	...
Saudi Arabia	8.7	1.9	2.8	5.5	2.0	2.9
Sub-Saharan Africa	3.9	3.5	4.1	...	...	...
Nigeria	3.3	3.2	3.0	...	...	...
South Africa	1.9	0.3	1.7	...	...	...
Kenya	5.4	5.3	5.4	...	...	...
World Trade Volume (goods and services)	5.2	2.0	3.7	...	...	...
Commodity Prices						
Oil	39.2	-20.7	-6.2	8.8	-13.0	-4.9
Nonfuel	7.9	-4.8	-1.4	-0.4	0.0	0.8
World Consumer Prices	8.7	6.8	5.2	9.2	5.5	3.9
Advanced Economies	7.3	4.7	2.8	7.7	3.3	2.5
Emerging Market and Developing Economies	9.8	8.3	6.8	10.5	7.4	5.1

Source: IMF, World Economic Outlook, January 2023 Update

Chart 4.1: Global growth, Quarter-on-Quarter

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 is estimated to have widened to USD 94 million in the second quarter of 2022 from USD 1,075 million in the second quarter of 2023 from

Table 5.1: Balance of payments (USD Million)

ITEM	2022			2023*				Q2 2023-Q2 2022		
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun			Change	%	
	Q2	Q3	Q4	Q1	Apr	May	Jun			Q2
1. Overall Balance	-94	946	235	1,017	-127	-147	-801	-1,075	-981	1,046
2. Current account	-1,771	-1,774	-1,005	-675	-434	-411	-331	-1,176	595	-34
Exports (fob)	1,957	1,889	1,747	1,843	542	666	619	1,827	-130	-7
Imports (fob)	5,101	5,015	4,309	4,243	1,484	1,547	1,387	4,417	-683	-13
Services: credit	1,596	1,643	1,568	1,664	427	480	399	1,306	-290	-18
Services: debit	1,353	1,322	1,401	1,222	354	427	405	1,186	-166	-12
Balance on goods and services	-2,901	-2,804	-2,396	-1,959	-868	-828	-774	-2,471	430	-15
Primary income: credit	23	3	8	24	7	12	11	30	7	31
Primary income: debit	466	534	382	476	96	195	171	463	-3	-1
Balance on goods, services and primary income	-3,344	-3,334	-2,770	-2,410	-958	-1,011	-935	-2,904	440	-13
Secondary income : credit	1,595	1,572	1,772	1,808	530	605	609	1,743	148	9
o.w Remittances	974	970	970	966	321	324	322	968	-6	-1
Secondary income: debit	22	12	7	72	5	5	5	15	-7	-30
3. Capital Account	42	5	30	55	44	28	28	100	58	139
4. Financial Account	-1,717	-1,594	-344	640	-565	-800	-1,227	-2,592	-875	51

* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The current account deficit narrowed to USD 1,176 million in second quarter of 2023 from USD 1,771 million in a similar period of 2022 reflecting a decline in the import bills despite a decline in services receipt and remittances. The lower import bill was attributed to a decline in the imports of manufactured goods and machinery and transport equipment. Secondary income inflows remained strong and improved by USD 148 million to USD 1,743 million in the second quarter of 2023 from USD 1,595 million in a similar quarter in 2022 (**Table 5.1**).

The trade balance is estimated to have narrowed by 15 percent from a deficit of USD 3,144 million in the second quarter of 2022 to a deficit of USD 2,590 million in the second quarter of 2023, attributed to a decline in imports products (**Table 5.2**). The value of

merchandise exports decreased to USD 1,827 million in the second quarter of 2023 from USD 1,957 million in a similar period in 2022, attributed to a decline in earnings from agricultural commodities. Export of manufactured goods, primarily to the region, increased by 8 percent. However, tea earnings declined by 8 percent in the second quarter of 2023 compared to a similar period in 2022 attributed to low demand in Kenya's traditional markets (Pakistan and Sudan). Earnings from horticulture declined by 4 percent in the review period despite an increase in volumes.

The value of merchandise imports decreased by 13 percent to USD 4,417 million in the second quarter of 2023, from USD 5,101 million in a similar quarter in 2022, largely on account of reduced imports of manufactured goods, machinery and transports

equipment which declined by 21 per cent and 22 percent respectively owing to completion of major projects. Imports of petroleum products were largely stable in the period under review due a reduction in international oil prices. Net receipts on the services account declined by USD 123 million to USD 120

million in second quarter of 2023 from USD 243 million in the second quarter of 2022. Receipts from transport rose by USD 18 million while travel receipts improved by USD 17 million as international travel continued to improve (**Table 5.2**).

Table 5.2: Balance on current account (USD Million)

ITEM	2022		2023*		Q2 2023-Q2 2022	
	Jan-Mar	Apr-Jun	Jan-Mar	Apr-Jun	Change	%
	Q1	Q2	Q1	Q2		
CURRENT ACCOUNT	-1,225	-1,771	-675	-1,176	595	-34
Goods	-2,884	-3,144	-2,400	-2,590	553	-18
Exports (fob)	1,828	1,957	1,843	1,827	-130	-7
o.w Coffee	88	113	64	103	-10	-9
Tea	347	346	342	319	-27	-8
Horticulture	264	257	231	246	-11	-4
Oil products	17	19	25	25	6	34
Manufactured Goods	124	167	176	180	13	8
Raw Materials	116	144	135	90	-54	-38
Chemicals and Related Products (n.e.s)	125	158	159	146	-11	-7
Miscellaneous Man. Articles	163	181	151	158	-24	-13
Re-exports	220	200	149	168	-32	-16
Other	354	359	399	371	12	3
Imports (fob)	4,712	5,101	4,243	4,417	-683	-13
o.w Oil	1,137	1,568	1,171	1,207	-361	-23
Chemicals	906	814	840	742	-72	-9
Manufactured Goods	954	937	680	741	-196	-21
Machinery & Transport Equipment	1,006	969	745	753	-216	-22
Machinery	725	632	498	515	-117	-18
Transport equipment	281	337	248	238	-99	-29
Other	935	1,222	1,146	1,160	-62	-5
o.w Food	433	561	605	656	95	17
Services	433	243	441	120	-123	-51
Transport Services (net)	145	2	81	21	18	847
Credit	664	588	549	481	-107	-18
Debit	518	586	467	460	-125	-21
Travel Services (net)	197	242	274	258	17	7
Credit	232	277	318	300	23	8
Debit	35	36	44	41	6	17
Other Services (net)	91	-1	86	-159	-158	25,077
Primary Income	-393	-443	-452	-433	10	-2
Credit	5	23	24	30	7	31
Debit	398	466	476	463	-3	-1
Secondary Income	1,618	1,573	1,736	1,727	155	10
Credit	1,624	1,595	1,808	1,743	148	9
Debit	6	22	72	15	-7	-30

*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance narrowed by USD 10 million to a deficit of USD 433 million in the second quarter of 2023 from a deficit of USD 443 million in the same period last year, reflecting lower interest related payments on other investments. The secondary income balance rose by USD 155 million

to 1,727 in the second quarter of 2023 compared with USD 1,573 in the second quarter of 2022. Remittances declined to USD 968 million in the second quarter of 2023 from USD 974 million in the same period in the previous year (**Table 5.1 and 5.2**).

Direction of Trade

Imports from China accounted for 19 percent of total imports to Kenya making it the largest single source of imports, despite decreasing by 16 percent in the second quarter of 2023 when compared to the same quarter in 2022. Imports from the UAE decreased by

USD 171 million, while those from Africa declined by USD 84 million to USD 470 million in the second quarter of 2023, reflecting reduced imports from Egypt and EAC region (**Table 5.3**).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)	2022								Share of Imports (%)	
	2022			2023*					Share of Imports (%)	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun			Q2 2022	Q2 2023	
Country	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2022	Q2 2023
Africa	553	629	508	490	151	163	155	470	11	11
Of which										
South Africa	112	138	114	129	64	54	48	165	2	4
Egypt	97	93	85	91	27	31	31	89	2	2
Others	344	398	310	269	61	79	76	215	7	5
EAC	219	219	171	139	42	63	56	160	4	4
COMESA	266	265	256	238	66	77	76	219	5	5
Rest of the World	4,547	4,386	3,801	3,753	1,332	1,384	1,232	3,948	89	89
Of which										
India	757	441	388	517	206	194	153	553	15	13
United Arab Emirates	908	929	972	658	209	297	231	737	18	17
Japan	222	202	182	162	59	57	63	179	4	4
USA	190	191	197	146	84	83	86	253	4	6
United Kingdom	70	76	69	69	17	24	26	67	1	2
Singapore	12	30	43	45	6	7	4	17	0	0
Germany	74	90	60	76	26	26	37	89	1	2
Saudi Arabia	348	191	178	338	143	90	55	288	7	7
Indonesia	31	78	70	107	14	23	25	61	1	1
Netherlands	44	138	40	66	15	8	24	46	1	1
France	47	47	46	63	13	20	17	49	1	1
Bahrain	2	4	1	7	1	0	0	1	0	0
Italy	77	43	44	42	19	12	12	43	2	1
Others	1,765	1,926	1,511	1,458	522	543	500	1,565	35	35
Total	5,101	5,015	4,309	4,243	1,484	1,547	1,387	4,417	100	100
									0	0
EU	447	571	469	448	124	144	167	435	9	10
China	991	957	908	719	262	318	254	834	19	19

*Provisional

Source: Kenya Revenue Authority

The value of goods exported to Africa in the second quarter of 2023 was USD 755 million, accounting for 41 percent of total exports. Exports to EAC region rose mainly due to increased exports to Uganda. The share of exports to the EU was 22 percent, while the

proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 9 percent, 5 percent, 7 percent, and 8 percent, respectively (**Table 5.4**).

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)										Share of Exports (%)	
	2022				2023*						
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun					
Country	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2022	Q2 2023
Africa	704	757	799	717	781	217	283	255	755	39	41
Of which											
Uganda	181	205	234	197	246	74	78	77	229	10	13
Tanzania	123	109	123	125	111	27	44	41	112	6	6
Egypt	65	61	55	46	57	12	15	24	50	3	3
Sudan	16	15	17	18	19	3	1	2	5	1	0
South Sudan	58	55	41	44	58	17	20	18	54	3	3
Somalia	30	26	38	35	40	13	23	12	47	1	3
DRC	34	37	36	44	44	13	16	13	41	2	2
Rwanda	67	93	106	75	74	23	31	24	77	5	4
Others	130	155	150	134	134	37	57	45	139	8	8
				0						0	0
EAC	441	480	527	457	503	146	180	166	492	25	27
COMESA	452	524	545	472	531	152	179	172	502	27	28
Rest of the World	1,124	1,200	1,090	1,029	1,062	325	383	364	1,072	61	59
Of which											
United Kingdom	114	93	86	86	107	30	37	30	97	5	5
Netherlands	162	150	128	151	142	49	61	45	155	8	9
USA	135	215	191	138	120	33	47	43	124	11	7
Pakistan	148	124	127	144	111	39	49	52	140	6	8
United Arab Emirates	91	115	93	76	85	26	36	26	88	6	5
Germany	37	35	34	29	35	11	9	14	34	2	2
India	16	17	19	16	18	7	7	3	16	1	1
Afghanistan	6	9	4	7	13	3	2	3	8	0	0
Others	414	442	408	382	431	126	136	147	409	23	22
Total	1,828	1,957	1,889	1,747	1,843	542	666	619	1,827	100	100
				0							
EU	414	395	357	352	385	124	150	131	405	20	22
China	53	68	56	56	63	15	15	27	57	3	3

*Provisional

Source: Kenya Revenue Authority

Capital and Financial Account

Net capital account inflows were USD 100 million in the second quarter of 2023. Net financial account inflows were higher at USD 2,592 million in the second quarter of 2023, compared to net inflows

of USD 1,717 million in the second quarter of 2022 (**Table 5.5**). This largely reflects an increase in other investment inflows.

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

	2022			2023*					Q2 2023-Q2 2022	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun				Absolute	%
	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Change	Change
Capital account credit	42	5	30	55	44	28	28	100	58	139
Capital account credit	42	5	30	55	44	28	28	100	58	139
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-1,717	-1,594	-344	640	-565	-800	-1,227	-2,592	-875	51
Direct investment: assets	2	-19	-14	-5	-1	-2	-2	-6	-7	-465
Direct investment: liabilities	117	116	103	52	36	32	33	101	-15	-13
Portfolio investment: assets	125	28	145	325	124	103	136	363	238	191
Portfolio investment: liabilities	-95	-63	-46	-105	-1	-8	2	-8	88	-92
Financial derivatives: net	7	5	-33	9	0	-2	-1	-3	-10	-141
Other investment: assets	-65	-523	564	453	92	113	582	788	852	-1,320
Other investment: liabilities	1,764	1,032	948	196	745	989	1,906	3,640	1,876	106

* Provisional

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 13,166 million at the end of the second quarter of 2023 from USD 10,901 million at the end of the first quarter of 2023. The

official reserves held by the Central Bank constituted the bulk of the gross reserves and rose to USD 8,037 million, equivalent to 4.4 months of import cover, while Commercial Bank reserves stood at USD 5,129 million at the end of second quarter of 2023 (**Table 5.6**).

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

	2023*							
	Jan-Mar				Apr-Jun			
	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
1. Gross Reserves	11,417	11,286	10,901	10,901	11,498	11,754	13,166	13,166
of which:								
Official	7,495	7,177	6,962	6,962	7,080	7,227	8,037	8,037
import cover*	4.2	4.0	3.9	3.9	3.9	3.9	4.4	4.4
Commercial Banks	3,922	4,110	3,939	3,939	4,418	4,527	5,129	5,129
2. Residents' foreign currency deposits	7,931	8,095	7,760	7,760	8,207	8,354	8,673	8,673

*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 remained relatively stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 17.9

percent against the US Dollar to exchange at an average of 137.1 in the second quarter of 2023 compared with 116.3 in a similar quarter in 2022. It also appreciated against EAC regional currencies excluding Burundi Franc (**Table 5.7 and Chart 5.1**).

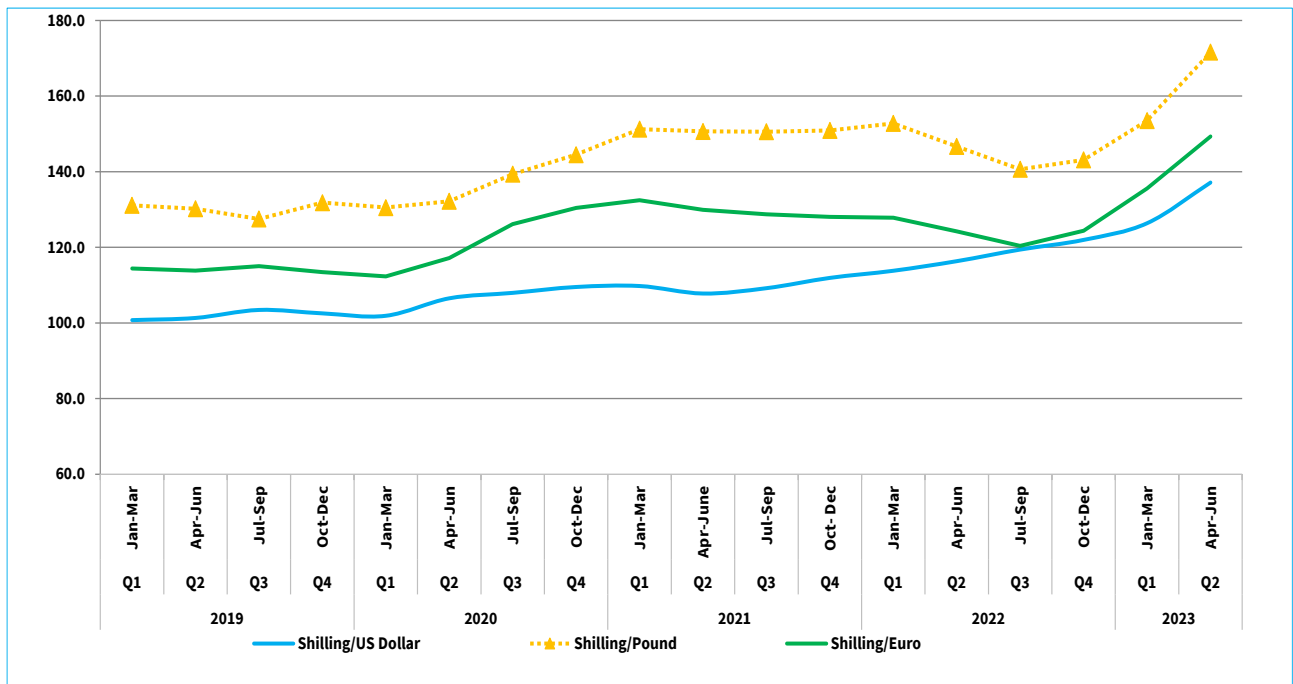
Table 5.7: Kenya Shilling exchange rate

	2022			2023					Q2 2023- Q2 2022 % change
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr	May	Jun	Apr-Jun	
US Dollar	116.32	119.40	121.95	126.37	134.40	137.26	139.73	137.13	17.89
Pound Sterling	146.67	140.66	143.12	153.52	167.26	171.35	176.27	171.63	17.02
Euro	124.21	120.35	124.40	135.58	147.39	149.22	151.37	149.33	20.22
100 Japanese Yen	89.90	86.45	86.28	95.55	100.71	100.14	99.12	99.99	11.22
South Africa Rand	7.50	7.02	6.92	7.12	7.40	7.22	7.46	7.36	-1.91
Uganda Shilling*	31.28	31.96	30.82	29.33	27.87	27.18	26.54	27.20	-13.05
Tanzania Shilling*	20.00	19.53	19.13	18.51	17.45	17.18	17.08	17.24	-13.82
Rwanda Franc*	8.78	8.67	8.77	8.59	8.24	8.16	8.18	8.19	-6.65
Burundi Franc*	17.66	17.27	16.97	16.44	15.49	18.83	20.22	18.18	2.95

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling nominal exchange rate (domestic currency per unit of foreign currency)



Source: Central Bank of Kenya

Chapter 6 Banking Sector

Overview

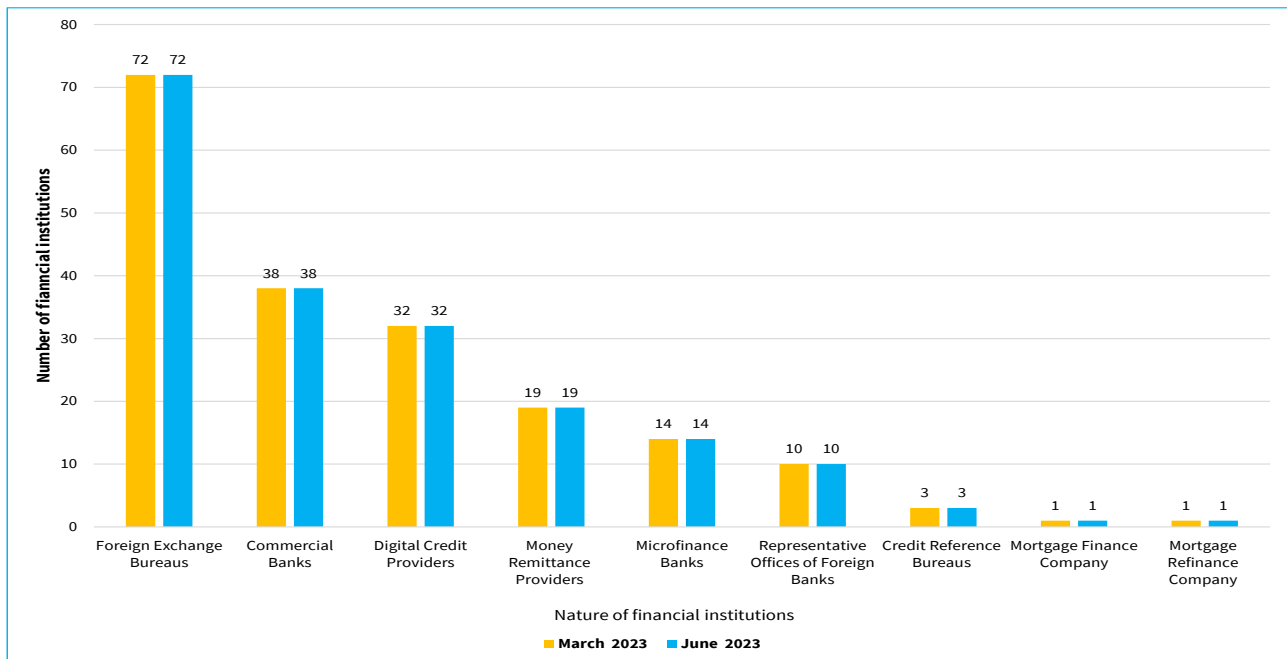
The banking sector remained stable and resilient in the second quarter of 2023. Total assets increased by 4.1 percent to Ksh.7,052.4 billion in June 2023, from Ksh.6,771.7 billion in March 2023. The deposit base also increased by 6.9 percent to Ksh.5,160.5 billion in the second quarter of 2023, from Ksh.4,828.3 billion in the first quarter of 2023. The sector was well capitalized with capital adequacy ratio of 18.6 percent, which was above the minimum capital requirement of 14.5 percent. The sector remained profitable in the second quarter of 2023. However, quarterly profit before tax decreased to Ksh.55.1 billion, from Ksh.65.1 billion reported in the first quarter of 2023. Credit risk remained elevated with Gross Non-Performing Loans (NPLs) to Gross

Loans Ratio standing at 14.5 percent at the end of the second quarter of 2023, an increase from 14.0 percent recorded at the end of first quarter of 2023.

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, 72 Foreign Exchange Bureaus, 19 Money Remittance Providers, 3 Credit Reference Bureaus, and 32 Digital Credit Providers as of June 30, 2023. **Chart 1.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

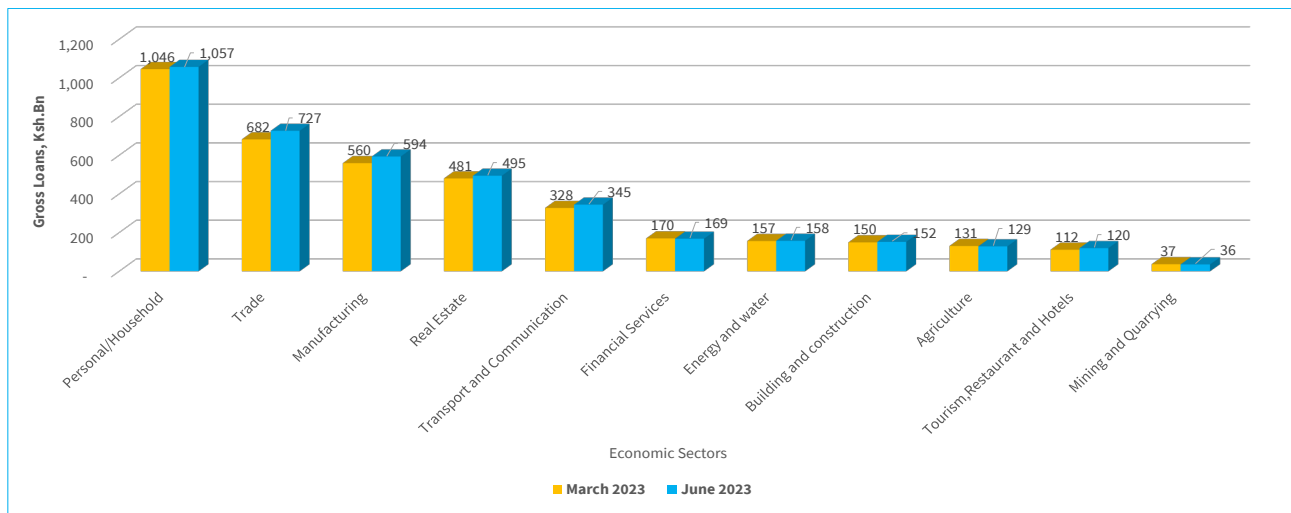
i) Growth in banking sector assets

Total assets increased by 4.1 percent to Ksh.7,052.4 billion in June 2023, from Ksh.6,771.7 billion in March 2023. The increase in total assets was mainly recorded in loans and advances by Ksh.128.2 billion (3.3 percent) and placements by Ksh.121.9 billion (29.7 percent). Net loans and advances remained the main component of total assets, accounting for 51.8 percent in the second quarter of 2023, a decrease from 52.1 percent recorded in the first quarter of 2023.

ii) Loans and Advances

The banking sector loan book increased by 3.3 percent, to Ksh.3,980.5 billion in the Second quarter of 2023, from Ksh.3,852.3 billion in the first quarter of 2023. The increase in gross loans and advances was largely witnessed in the Tourism, Restaurant and Hotels, Trade, Manufacturing, and Transport and Communication sectors. The increase in gross loans was mainly due to increased new advances granted for working capital purposes. The sectoral distribution of gross loans for the first quarter of 2023 and the second quarter of 2023, is highlighted in **Chart 6.2**.

Chart 6.2: Kenyan banking sector gross loans



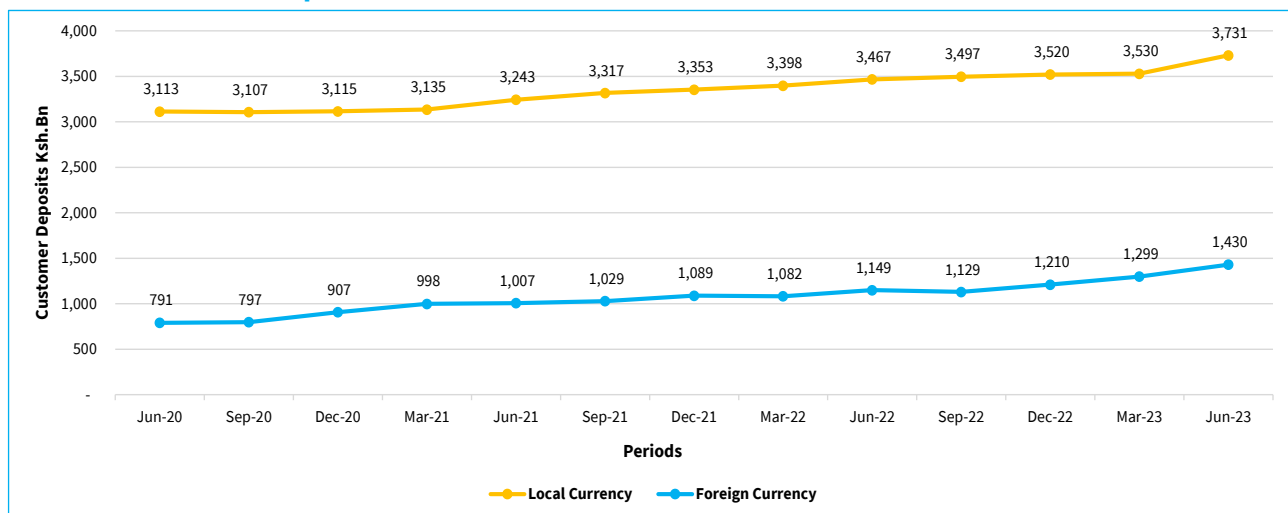
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 73.2 percent of the banking sector total liabilities and shareholders' funds as at the end of the second quarter of 2023. The customer deposit base increased by Ksh.332.3 billion to Ksh.5,160.5 billion in the second quarter of 2023, from Ksh.4,828.3 billion in the first quarter of 2023. Local currency deposits increased by

Ksh.201.2 billion (5.7 percent) to Ksh.3,730.7 billion in the second quarter of 2023, from Ksh.3,529.5 billion in the first quarter of 2023. Foreign currency deposits increased by Ksh.131.1 billion (10.1 percent) to Ksh.1,429.9 billion in the second quarter of 2023, from Ksh.1,298.8 billion in the first quarter of 2023. **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 3.1 percent to Ksh.856.1 billion in the second quarter of 2023, from Ksh.830.3 billion in the first quarter of 2023. Total capital also increased by 4.8 percent to Ksh.1,030.6 billion in the second quarter of 2023, from Ksh.983.3 billion in the first quarter of 2023.

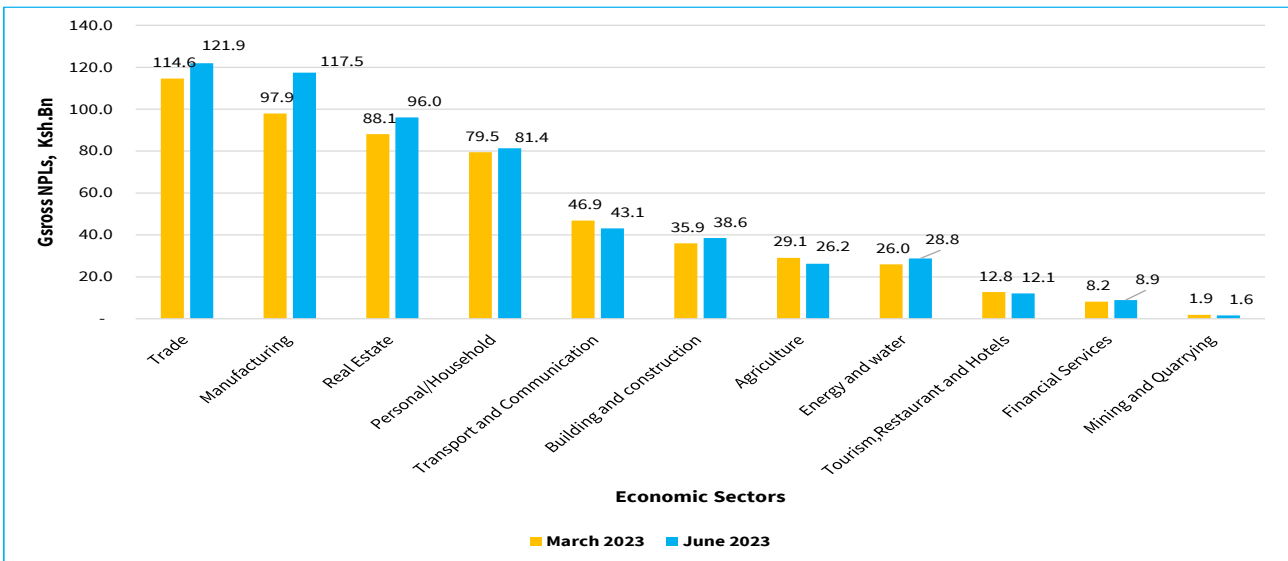
Core capital to total risk-weighted assets ratio decreased slightly to 15.4 percent in the second quarter of 2023 from 15.5 percent in the first quarter of 2023. However, total capital to total risk-weighted assets ratio increased to 18.6 percent in second quarter of 2023 from 18.4 percent in the first quarter of 2023. The decreases in core capital ratio was mainly due to a higher increase in Total Risk Weighted Asset (3.9 percent) as compared to the increase in core capital.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 16.6 percent in the second quarter of 2023.

Asset Quality

The Gross Non-Performing Loans (NPLs) increased by 6.5 percent from Ksh.540.8 billion at the first quarter of 2023, to Ksh.576.1 billion at the end of the second quarter of 2023. The gross NPLs to gross loans ratio increased to 14.5 percent in the second quarter of 2023, from 14.0 percent in the first quarter of 2023. This was due to a higher increase in gross NPLs (6.5 percent) as compared to the increase in gross loans (3.3 percent). **Chart 6.4** highlights the sectoral distribution of gross NPLs.

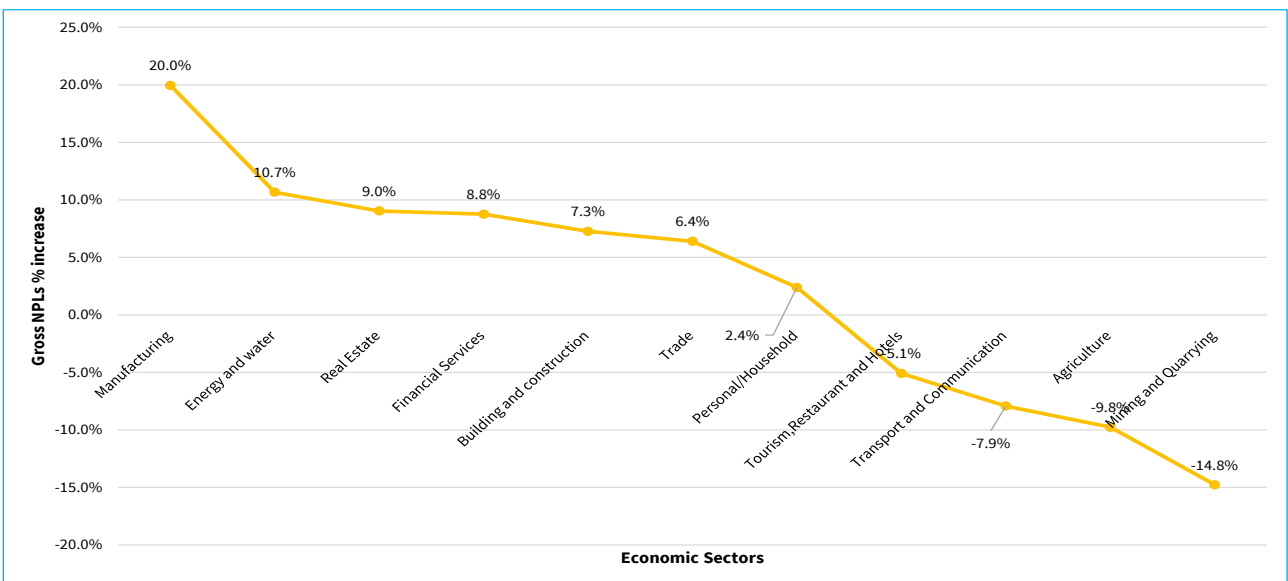
Chart 6.4: Kenyan banking sector gross non-performing loans



Source: Central Bank of Kenya

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

Chart 6.5: Movements in Gross NPLs-Fourth Quarter of 2022 and First Quarter 2023



Source: Central Bank of Kenya

Manufacturing, Energy and Water, Real Estate, Financial Services, and Building and Construction sectors registered increases in NPLs by Ksh.33.6 billion as a result of delayed repayments attributed to a challenging operating environment. Mining and Quarrying recorded decreased NPLs, mainly due to repayments.

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

gross loans deteriorated, with the ratio increasing to 6.2 percent in the second quarter of 2023, from 5.6 percent in the first quarter of 2023. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased from 40.4 percent in the first quarter of 2023, to 38.1 percent in the second quarter of 2023, due to a higher increase in total NPLs (6.5 percent) compared to the increase in specific provisions (0.7 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		December-22	March-23
1.	Gross Loans and Advances (Ksh.Bn)	3,677.3	3,852.3
2.	Interest in Suspense (Ksh.Bn)	79.2	85.9
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,598.1	3,766.4
4.	Gross Non-Performing loans (Ksh.Bn)	487.7	540.8
5.	Specific Provisions (Ksh.Bn)	177.0	183.8
6.	General Provisions (Ksh.Bn)	53.4	56.7
7.	Total Provisions (5+6) (Ksh.Bn)	230.4	240.5
8.	Net Advances (3-7) (Ksh.Bn)	3,367.7	3,526.0
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	408.5	454.9
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	178.1	214.5
11.	Total NPLs as % of Total Advances (9/3) (%)	11.4%	12.1%
12.	Net NPLs as % of Gross Advances (10/1) (%)	4.8%	5.6%
13.	Specific Provisions as % of Total NPLs (5/9) (%)	43.3%	40.4%
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	13.3%	14.0%

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in quarterly pre-tax profits of Ksh.10.0 billion (15.4 percent) to Ksh.55.1 billion in the second quarter of 2023, from Ksh.65.1 billion in the first quarter of 2023. The decrease in profitability was mainly attributable to a higher increase in quarterly expenses (13.0 percent) compared to the increase in quarterly income (3.9 percent). The higher increase in expenses was mainly attributed to a high increase in bad debt charge (63.6 percent)

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 48.1 percent, 26.5 percent and 14.7 percent in the second quarter of 2023 as compared to 45.0 percent, 26.5 percent and 15.3 percent in the first quarter of 2023.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 31.3 percent, 23.3 percent and 19.7 percent of total expenses respectively in the second quarter of 2023, compared to 32.2 percent, 24.0 percent and 22.4 percent in the first quarter of 2023.

Return on Assets (ROA) decreased slightly to 2.7 in the second quarter of 2023, from 3.1 percent recorded in the first quarter of 2023. Return on Equity (ROE) decreased to 25.4 percent in the

second quarter of 2023, from 27.0 percent in the first quarter of 2023. The decrease in ROE and ROA was due to decreased profit before tax between the two quarters.

Liquidity

The banking sector's overall liquidity ratio decreased to 49.7 percent in the second quarter of 2023, from 49.9 percent in the first quarter of 2023. The decrease was driven by a higher increase in total short-term liabilities (5.7 percent) as compared to a 5.2 percent increase in total liquid assets between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent. Balances with foreign banks recorded a major increase (112.1 percent) between the two quarters. The liquidity component that recorded a major decrease was investment in Treasury bills (15.0 percent).

Outlook of the Sector

- The banking sector is projected to remain stable in the third quarter of 2023.
- 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 14.0 percent in the first quarter of 2023, to 14.5 percent in the second quarter 2023.

- Interest rate risk is expected to be elevated on the back of rising interest rates.
- Liquidity risk is stable. The liquidity ratio decreased to 49.7 percent in second quarter of 2023, from 49.9 percent in the first quarter of 2023. These were above the statutory minimum of 20 percent.

the previous quarter which recorded 1.89 million transactions worth KSh 10 trillion. The volumes and values increased by 2.55 percent and 12.73 percent, respectively.

Chart 6.6 below highlights recent trends in KEPSS transactions.

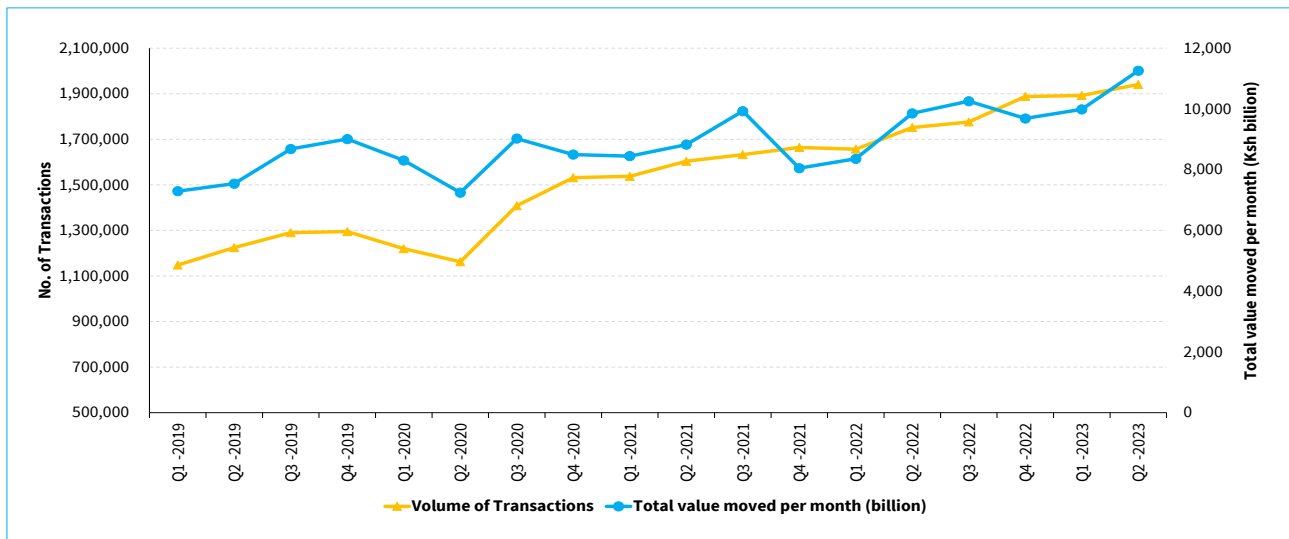
Kenya Shilling Flows in KEPSS

Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.94 million transaction messages worth KSh 11 trillion in the second quarter of 2023, compared to

System Availability

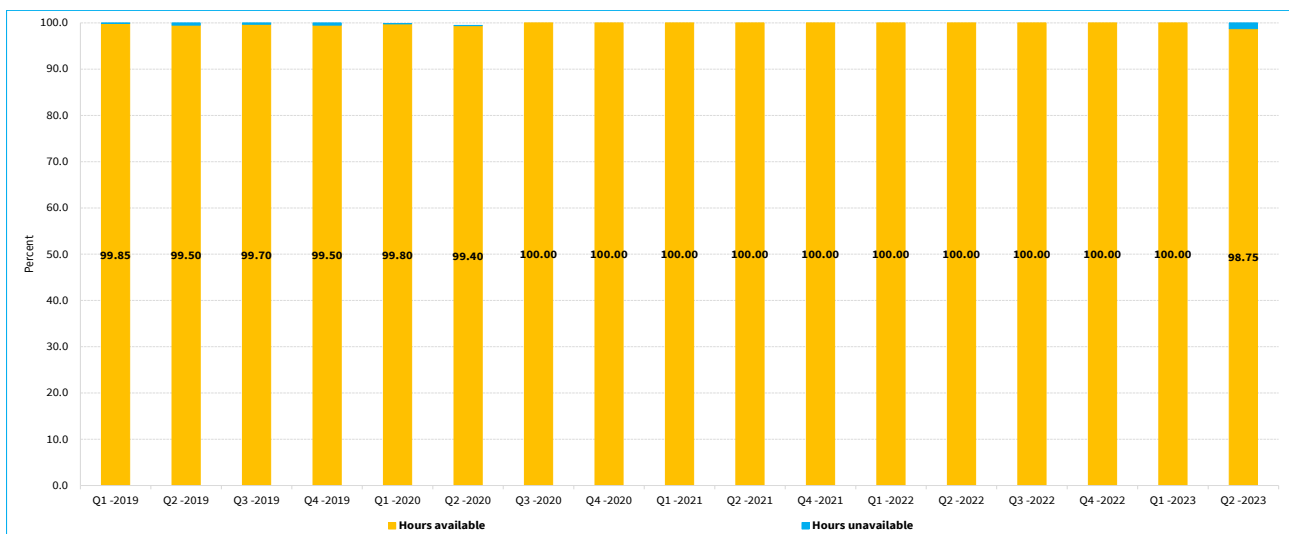
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 98.25 percent during the period under review (**Chart 6.7**).

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the fourth quarter of FY 2022/23 resulted in a deficit of 5.7 of GDP against a target of 5.8 percent of

GDP. Both revenues and expenditures were below target with the shortfall in total revenues and grants at 5.4 percent and total expenses and net lending at 4.4 percent.

Table 7.1: Statement of Government Operations in the Fourth Quarter of FY 2022/23 (KSh Billion)

	FY 2022/23						Over (+) / Below (-)	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
	April	May	June	Q4	Cumulative	Target					
1. TOTAL REVENUE & GRANTS	209.3	188.9	281.2	679.4	2,383.6	2,520.3	(136.7)	(5.4)	6.7	16.4	17.4
Ordinary Revenue	208.6	185.7	280.2	674.5	2,041.1	2,145.4	(104.3)		14.2		
Tax Revenue	179.7	167.1	221.5	568.3	1,960.4	2,074.2	(113.8)		2.3		
Non Tax Revenue	18.6	8.9	14.4	41.9	80.7	71.2	9.5		20.4		
Appropriations-in-Aid	10.2	9.7	44.4	64.3	319.4	333.2	(13.8)		58.4		
External Grants	0.8	3.2	0.9	4.9	23.1	41.7	(18.6)		(17.5)		
2. TOTAL EXPENSES & NET LENDING	93.1	232.6	597.6	923.3	3,218.2	3,366.6	(148.4)	(4.4)	(3.2)	22.2	23.2
Recurrent Expenses	36.9	192.6	354.1	583.6	2,308.7	2,367.7	(58.9)		(2.4)		
Development Expenses	(6.8)	10.4	133.0	136.6	493.7	560.5	(66.9)		(9.9)		
County Transfers	62.9	29.6	110.5	203.0	415.8	436.3	(20.6)		49.1		
Others	-	-	-	-	-	2.0	(2.0)				
3. DEFICIT (INCL. GRANTS) (1-2)	116.3	(43.8)	(316.4)	(243.9)	(834.6)	(846.2)	11.6	(1.4)	(23.1)	(5.7)	(5.8)
As percent of GDP	0.8	(0.3)	(2.2)	(1.7)	(5.7)	(5.8)	0.1				
4. ADJUSTMENT TO CASH BASIS	-	-	37.0	37.0	37.0	-	37.0		(249.1)		
5. DEFICIT INCL. GRANTS ON A CASH BASIS	116.3	(43.8)	(279.4)	(206.9)	(797.6)	(846.2)	48.7	(5.8)	(39.5)	(5.5)	(5.8)
As percent of GDP	0.8	(0.3)	(1.9)	(1.4)	(5.5)	-	(5.5)				
6. DISCREPANCY: Expenditure (+) / Revenue (-)	110.7	17.5	(18.6)	195.5	(27.3)	-	(27.3)		(513.2)		
7. FINANCING	(5.6)	61.3	346.7	402.4	770.3	846.2	(75.9)	(9.0)	36.6	5.3	5.8
Domestic (Net)	(23.5)	31.6	163.8	171.8	310.8	483.6	(172.8)		29.3		
Capital Receipts (domestic loan receipts)	-	-	-	-	2.9	4.3	(1.4)				
External (Net)	18.0	29.7	183.0	230.6	459.5	362.7	-96.9		42.5		
Others	-	-	-	-	-	-	-				

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants increased by 6.7 percent to KSh 679.4 billion in the fourth quarter of FY 2022/23, compared to KSh 636.9 billion in the fourth quarter of FY 2021/22. The increase was reflected in tax revenues, non-tax revenues and Appropriation in Aid (A-in-A) that more than offset the decline in external grants (**Table 7.1**).

There was a minor shift in the composition of tax revenues in the fourth quarter of FY 2022/23 compared with a similar period in the previous

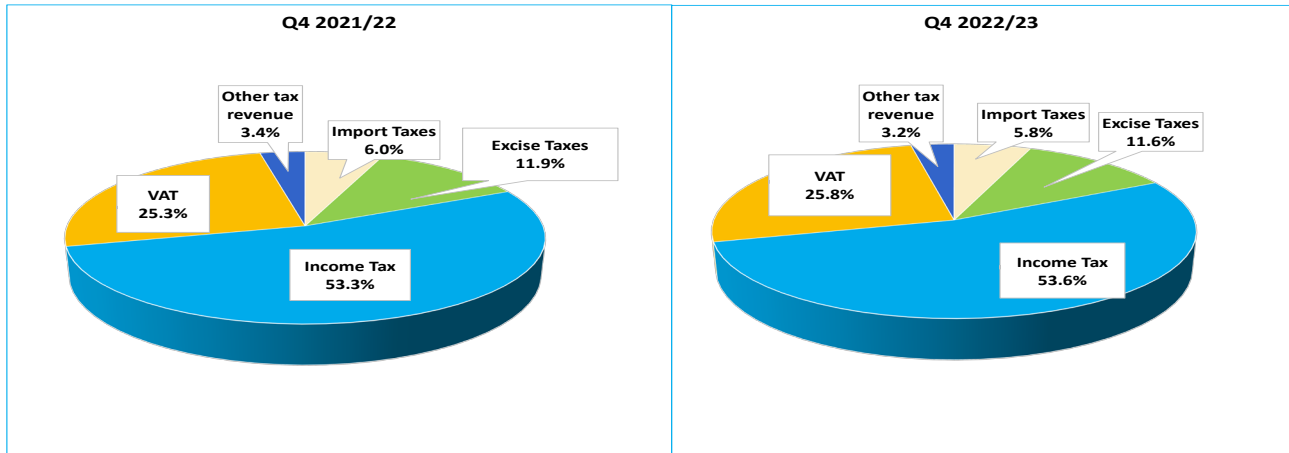
financial year (**Chart 7.1**). The share of income tax, and VAT increased by 0.3 percentage points and 0.4 percentage points, respectively. However, the shares of import taxes, excise taxes and other tax revenues declined by 0.2 percentage points, 0.3 percentage points, and 0.2 percentage points, respectively.

Cumulatively to June 2023, Government total revenue and grants stood at KSh 2,383.6 billion (16.4 percent of GDP) against a target of KSh 2,520.3 billion (17.4 percent of GDP). Tax revenue were below the set target reflecting a slowdown in economic performance.

External grants cumulatively to June 2023 stood at KSh 23.1 billion, which was KSh 18.6 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 2023 amounted to KSh 319.4 billion, which was KSh 13.8 billion lower than target due to under reporting by Semi-Autonomous Government Agencies.

Chart 7.1: Composition of tax revenue



Source: The National Treasury

Expenditure and Net Lending

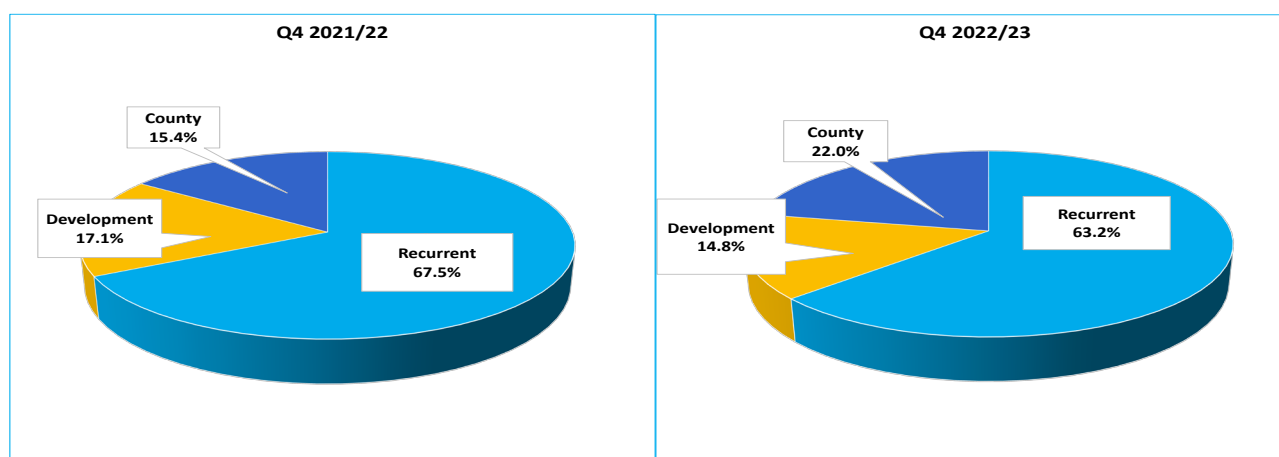
Government expenditure and net lending decreased by 3.2 percent to KSh 923.3 billion in the fourth quarter of the FY 2022/23 compared to KSh 954.1 billion in the fourth quarter of the FY 2021/22. The decrease in expenditures reflected a 49.1 percent increase in county transfers that more than offset the 2.4 percent and 9.9 percent decline in national government recurrent expenditure and development expenditure, respectively.

In terms of composition, recurrent expenditure and development expenditure in total government

expenditure accounted for 63.2 percent and 14.8 percent, respectively in the fourth quarter of the FY 2022/23, which were lower than the level recorded in a similar quarter during the previous fiscal year. The share of the county allocations increased by 6.6 percentage points to 22.0 percent during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to June 2023 amounted to KSh 3,218.2 billion (22.2 percent of GDP), against a target of KSh 3,366.6 billion (23.2 percent of GDP). The shortfall of KSh 148.4 billion was recorded in all the expenditure components.

Composition of Government Expenditure in the Fourth Quarter of FY 2022/23



Source: December 2022 BOT, National Treasury

Financing

The budget deficit including grants on cash basis amounted to KSh 834.6 billion or 5.7 percent of GDP at the end of the fourth quarter of FY 2022/23. Domestic borrowing comprised KSh 77.0 billion from commercial banks, KSh 338.2 billion from non-banks, KSh 0.1 billion from non-residents and

KSh 13.8 billion drawdown of government deposits at the Central Bank. Other domestic financing amounted to KSh. 58.0 billion (**Table 7.2**). By the end of the fourth quarter, net domestic borrowing and net external borrowing were below target by KSh 172.8 billion and KSh 96.9 billion, respectively.

Table 7.2 Domestic financing to September 2022 (KSh Billion)

	FY 2022/23			FY 2022/23		
	Q3			Q4		
	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
1. From CBK	24.4	35.9	44.7	15.3	42.3	(13.8)
2. From commercial banks	19.9	36.2	(2.8)	(7.1)	(44.4)	77.0
4. From Non-banks	174.9	210.3	237.9	255.8	288.1	338.2
5. From Non-Residents	0.3	0.3	0.6	0.6	0.1	0.1
6. Total Net Domestic Credit	219.4	282.6	280.4	264.7	286.1	401.6
7. Other Domestic financing /1	3.9	2.1	7.4	(0.5)	9.7	58.0
8. Net Domestic Financing	223.3	284.8	287.8	264.2	295.8	459.5

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

Outlook for FY 2023/24

In the approved budget from the National Treasury for the FY 2023/24, total revenue including grants is projected at KSh 3,027.7 billion (18.6 percent of GDP). Government expenditure is projected at KSh 3,808.8 billion (23.4 percent of GDP), of which KSh 2,596.8 billion will be for recurrent expenses, KSh

779.4 billion for development expenses and KSh 429.7 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 781.0 billion (4.8 percent of GDP) in FY 2023/24, to be financed through net external borrowing of KSh 464.2 billion (2.8 percent of GDP) and net domestic financing of KSh 316.9 billion (1.9 percent of GDP) (**Table 7.3**).

Table 7.3: Budget Estimates for the Fiscal Year 2023/2024 (KSh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	3,027.7	18.6
Ordinary Revenue	2571.2	15.8
Appropriations-in-Aid	414.4	2.5
External Grants	42.2	0.3
2. TOTAL EXPENSES & NET LENDING	3808.8	23.4
Recurrent Expenses	2596.8	15.9
Development Expenses	779.4	4.8
County Transfer	429.7	2.6
Contingency Fund	2.8	0.0
3. DEFICIT INCL. GRANTS (1-2)	(781.0)	(4.8)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	781.0	4.8
Domestic (Net)	316.9	1.9
External (Net)	464.2	2.8

Source: The National Treasury

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 8.5 percent during the fourth quarter of the FY 2022/23. Domestic and external debt increased by 4.3 percent and 12.4 percent,

respectively. The ratio of public debt to GDP was estimated to increase marginally from the 69.1 percent by the end of the third quarter of the FY 2022/23 to 70.2 percent by the end of fourth quarter of the FY 2022/23 (**Table 8.1**).¹

Table 8.1 Kenya's public and publicly guaranteed debt

	2020/21		2022/23								
	Q3	Q4	Q1	Q2	Jan-23	Feb-23	Q3	Apr-23	May-23	Q4	Change Q on Q
EXTERNAL											
Bilateral	1,171.6	1,173.2	1,144.5	1,206.9	1,223.5	1,229.3	1,291.9	1,323.6	1,334.2	1,333.1	41.3
Multilateral	1,817.4	1,924.0	1,957.9	2,213.8	2,195.1	2,214.1	2,244.1	2,409.4	2,442.0	2,747.8	503.7
Commercial Banks	1,208.2	1,181.3	1,220.7	1,239.7	1,249.4	1,253.2	1,301.2	1,345.1	1,346.6	1,357.2	56.0
Supplier Credits	12.3	12.2	11.8	12.8	13.1	13.1	14.0	14.5	14.5	14.8	0.8
Sub-Total	4,209.6	4,290.7	4,334.8	4,673.1	4,681.1	4,709.7	4,851.1	5,092.5	5,137.2	5,452.9	601.8
(As a % of GDP)	34.0	33.5	33.0	35.0	34.8	34.6	35.7	35.1	35.4	37.6	1.9
(As a % of total debt)	50.1	50.0	49.8	51.1	51.0	50.9	51.7	52.9	53.0	53.5	1.9
DOMESTIC											
Banks	2,097.8	2,088.5	2,086.3	2,101.8	2,121.4	2,136.8	2,096.7	2,081.6	2,058.6	2,197.7	100.9
Central Bank	95.6	85.1	53.9	84.4	91.9	94.7	103.9	96.2	105.7	102.6	-1.3
Commercial Banks	2,002.2	2,003.4	2,032.4	2,017.4	2,029.5	2,042.1	1,992.8	1,985.4	1,952.9	2,095.1	102.2
Non-banks	2,061.4	2,167.9	2,248.0	2,339.2	2,348.2	2,382.6	2,410.4	2,428.2	2,459.1	2,507.0	96.6
Pension Funds	1,331.5	1,388.8	1,429.6	1,489.9	1,489.7	1,506.8	1,517.8	1,527.6	1,558.1	1,581.0	63.2
Insurance Companies	286.6	307.8	319.7	329.7	332.0	334.5	338.4	340.7	344.9	345.6	7.2
Other Non-bank Sources	443.2	471.2	498.8	519.7	526.5	541.3	554.2	559.9	556.1	580.4	26.2
Non-residents	32.6	31.9	31.9	31.8	32.2	32.2	32.5	32.5	32.0	32.0	-0.5
Sub-Total	4,191.8	4,288.3	4,366.3	4,472.8	4,501.7	4,551.6	4,539.6	4,542.4	4,549.6	4,736.6	197.0
(As a % of GDP)	33.8	33.5	33.2	33.5	33.5	33.4	33.4	31.3	31.3	32.6	-0.8
(As a % of total debt)	49.9	50.0	50.2	48.9	49.0	49.1	48.3	47.1	47.0	46.5	-1.9
GRAND TOTAL	8,401.3	8,579.1	8,701.1	9,146.0	9,182.8	9,261.3	9,390.7	9,634.9	9,686.8	10,189.5	798.8
(As a % of GDP)	67.8	66.9	66.2	68.4	68.3	68.0	69.1	66.3	66.7	70.2	1.1

Source: The National Treasury and CBK

Domestic Debt

The 4.3 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The proportion of debt securities to total domestic

debt stood at 97.7 percent by the end of the fourth quarter of the FY 2022/23 (**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 %				
	2022/23							2021/22	2022/23			
	Q4	Q3	Apr-23	May-23	Q4	Ksh(Bn)	%	Q4	Q3	Apr-23	May-23	Q4
Total Stock of Domestic Debt (A+B)	4,288.3	4,539.6	4,542.4	4,549.6	4,736.6	197.0	4.3	100.0	100.0	100.0	100.0	100.0
A. Government Securities	4,216.1	4,436.9	4,447.3	4,445.1	4,628.6	191.7	4.3	98.3	97.7	97.9	97.7	97.7
1. Treasury Bills (excluding Repo Bills)	647.0	665.9	665.9	623.8	614.7	-51.1	-7.7	15.1	14.7	14.7	13.7	13.0
Banking institutions	287.7	292.3	283.0	258.7	263.1	-29.2	-10.0	6.7	6.4	6.2	5.7	5.6
The Central Bank	0.1	0.1	0.1	0.2	0.2	0.1	162.2	0.0	0.0	0.0	0.0	0.0
Commercial Banks	287.6	292.2	283.0	258.5	262.9	-29.3	-10.0	6.7	6.4	6.2	5.7	5.5
Pension Funds	167.6	177.3	182.3	174.0	166.4	-10.9	-6.1	3.9	3.9	4.0	3.8	3.5
Insurance Companies	6.6	6.6	6.4	8.2	6.9	0.3	4.6	0.2	0.1	0.1	0.2	0.1
Others	185.2	189.7	194.2	182.9	178.3	-11.4	-6.0	4.3	4.2	4.3	4.0	3.8
2. Treasury Bonds	3,569.1	3,771.0	3,781.4	3,821.3	4,013.9	242.9	6.4	83.2	83.1	83.2	84.0	84.7
Banking institutions	1,710.5	1,702.6	1,703.7	1,695.5	1,826.7	124.2	7.3	39.9	37.5	37.5	37.3	38.6
The Central Bank	7.6	8.1	8.2	8.2	8.1	-0.1	-0.9	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,702.9	1,694.4	1,695.5	1,687.3	1,818.7	124.2	7.3	39.7	37.3	37.3	37.1	38.4
Insurance Companies	301.3	331.8	334.3	336.7	338.7	6.9	2.1	7.0	7.3	7.4	7.4	7.1
Pension Funds	1,221.3	1,340.5	1,345.4	1,384.1	1,414.6	74.0	5.5	28.5	29.5	29.6	30.4	29.9
Others	336.1	396.1	398.2	405.0	433.9	37.8	9.5	7.8	8.7	8.8	8.9	9.2
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	18.9	18.3	18.3	18.3	17.8	-0.6	-3.0	0.4	0.4	0.4	0.4	0.4
Of which: Repo T/Bills	18.3	17.7	17.7	17.7	17.2	-0.6	-3.1	0.4	0.4	0.4	0.4	0.4
B. Others:	53.3	84.4	76.7	86.2	90.2	5.8	6.9	1.2	1.9	1.7	1.9	1.9
Of which CBK overdraft to Government	58.5	78.0	69.6	79.0	76.5	-1.5	-2.0	1.4	1.7	1.5	1.7	1.6

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 7.7 percent decrease during the fourth quarter of the FY 2022/23. As a result, the proportion of Treasury bills to total domestic debt declined by 1.7 percentage points. This reflected successful implementation of the Government's Medium-Term objective of reducing the stock of Treasury bills to minimize the refinancing risk. Commercial banks were the leading holders of Treasury bills at 42.7 percent (**Table 8.2**).

Treasury Bonds

Treasury bonds holdings increased by 6.4 percent during the fourth quarter of the FY 2022/23 (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 7-year infrastructure Treasury bond 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					
		2022/23														2021/22		2022/23			
		Aug-22	Q1	Oct-22	Nov-22	Q2	Jan-23	Feb-23	Q3	Apr-23	May-23	Q4	KShs(Bn)	%	Q3	Q4	Apr-23	May-23	Q4		
Treasury bills	91-Day	115.2	134.2	127.5	146.9	156.3	175.1	191.0	189.7	221.1	229.0	249.2	59.6	31.4	1.0	1.4	4.9	5.0	5.3		
	182-Day	151.5	151.7	154.2	167.1	163.4	169.6	193.6	198.3	178.2	163.8	154.4	-43.9	-22.1	4.1	4.1	3.9	3.6	3.3		
	364-Day	393.3	386.3	379.5	373.7	351.8	314.2	290.7	277.9	266.5	231.0	211.1	-66.8	-24.0	10.5	9.2	5.9	5.1	4.5		
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
	2-Year	55.9	55.9	55.9	55.9	16.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.3	0.0	0.0	0.0		
	3-Year	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	60.6	118.6	137.1	78.3	133.1	0.0	0.9	1.3	2.6	2.9		
	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	0.0	0.0	0.0	0.0	0.0		
	5-Year	332.7	332.7	311.9	311.9	311.9	350.8	350.8	320.0	320.0	320.0	320.0	0.0	0.0	8.6	8.4	7.0	7.0	6.8		
	6-Year	20.2	20.2	20.2	20.2	79.7	79.7	79.7	79.7	79.7	69.7	69.7	-10.0	-12.5	0.5	0.5	1.8	1.5	1.5		
	7-Year	41.5	41.5	41.5	21.3	21.3	21.3	21.3	21.3	21.3	21.3	234.5	213.3	0.0	1.0	1.0	0.5	0.5	5.0		
	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	0.0	0.0	0.0	0.0	0.0		
	9-Year	123.5	123.5	123.5	123.5	115.5	115.5	115.5	115.5	115.5	107.4	107.4	-8.1	-7.0	2.9	2.9	2.5	2.4	2.3		
	10-Year	550.8	577.1	591.3	591.3	591.3	591.3	620.7	620.7	624.3	624.3	585.1	-35.6	-5.7	12.9	12.6	13.7	13.7	12.4		
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	1.9	1.9	1.8	1.8	1.7		
	12-Year	99.7	99.7	89.3	89.3	89.3	89.3	89.3	89.3	89.3	89.3	89.3	0.0	0.0	2.4	2.3	2.0	2.0	1.9		
	14-Year	0.0	0.0	0.0	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	0.0	0.0	0.0	0.0	2.1	2.1	2.0		
	15-Year	908.1	921.5	922.6	889.7	889.7	901.0	901.0	866.2	866.2	866.2	866.2	0.0	0.0	21.3	20.9	19.1	19.0	18.3		
	16-Year	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	3.6	3.5	3.3	3.3	3.2		
	17-Year								63.2	68.2	68.2	68.2	5.0	8.0	0.0	0.0	1.5	1.5	1.4		
	18-Year	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	0.0	0.0	2.0	3.6	3.6	3.6	3.4		
	19-Year	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	0.0	0.0	2.3	2.3	2.2	2.2	2.1		
	20-Year	555.1	555.1	555.1	555.1	572.3	572.3	572.3	572.3	572.3	572.3	572.3	0.0	0.0	13.0	12.8	12.6	12.6	12.1		
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	2.5	2.5	2.3	2.3	2.3		
25-Year	221.8	221.8	235.5	235.5	242.6	242.6	242.6	242.6	242.6	242.6	242.6	0.0	0.0	5.0	5.2	5.3	5.3	5.1			
30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.7	0.7	0.6	0.6	0.6			
Repo T bills	18.3	18.3	18.3	18.29	17.7	17.7	17.7	17.7	17.7	17.7	17.2	-0.6	-3.1	0.4	0.4	0.4	0.4	0.4			
Overdraft	49.1	27.2	59.8	41.7	58.5	66.0	68.7	78.0	69.6	79.0	76.5	-1.5	-2.0	1.6	1.4	1.5	1.7	1.6			
Other Domestic debt	12.6	13.6	14.1	14.5	14.5	15.0	16.2	7.0	7.7	7.8	14.3	7.4	105.2	0.2	0.3	0.2	0.2	0.3			
Total Debt		4,335.3	4,366.3	4,386.1	4,435.9	4,472.8	4,501.7	4,551.6	4,539.6	4,542.4	4,549.6	4,736.6	197.0	4.3	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 87:13 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 56.3 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 13.0 percent from 14.7 percent in June 2022.

External Debt

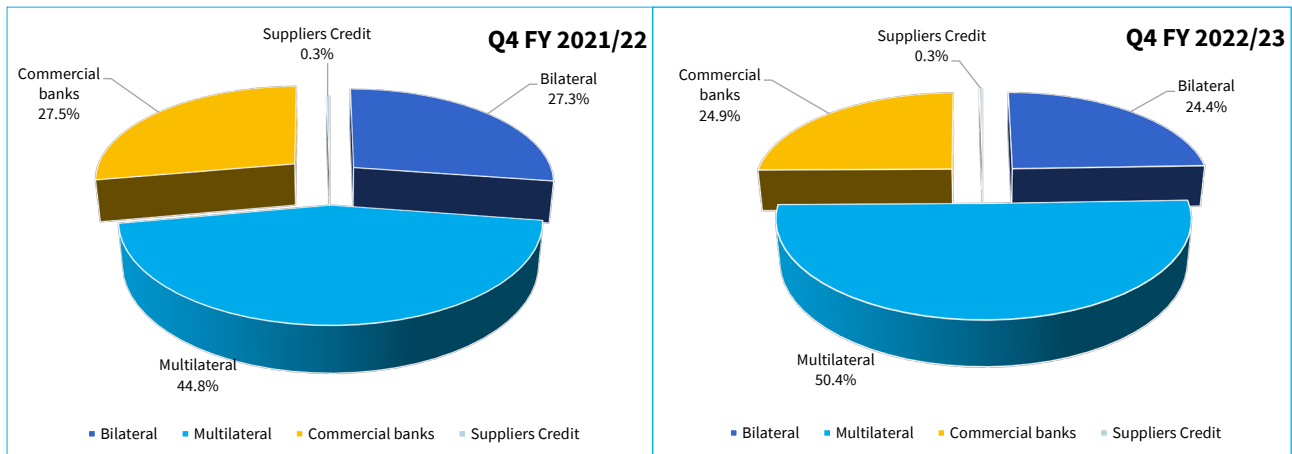
Public and publicly guaranteed external debt increased by 12.4 percent during the fourth quarter

of the FY 2022/23. This increase was majorly driven by disbursements from International Development Association (IDA) and exchange rate movements.

Composition of External Debt by Creditor

The composition of external debt improved with increased flow of International development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 5.5 percentage points, mainly driven by disbursements from IDA during the quarter under review. The proportion of commercial debt decreased by 2.6 percentage points during the fourth quarter of FY 2022/23 indicating a shift towards concessional loans (**Chart 8.1**).

Chart 8.1: Composition of external debt by lender

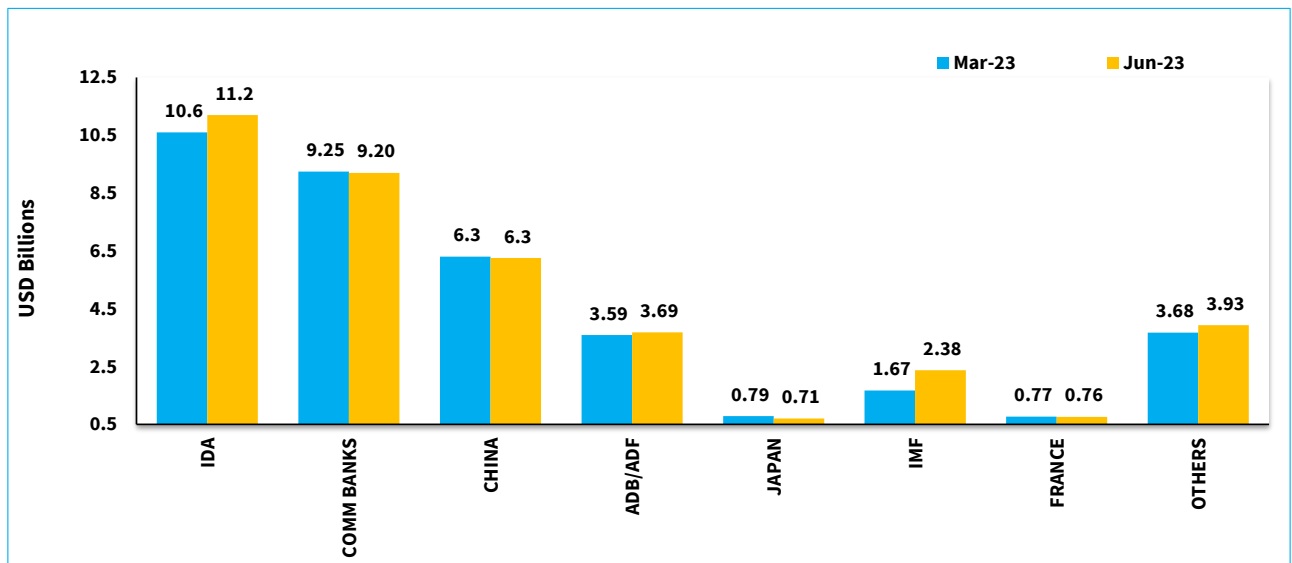


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya’s largest multilateral lender stood at USD 11.2 billion (or 29.4 percent of external debt). Debt owed to China, Kenya’s largest

bilateral lender, amounted to USD 6.3 billion, or 16.4 percent of the total external debt by the fourth quarter of the FY 2022/23 (**Chart 8.2**).

Chart 8.2: External debt by creditor

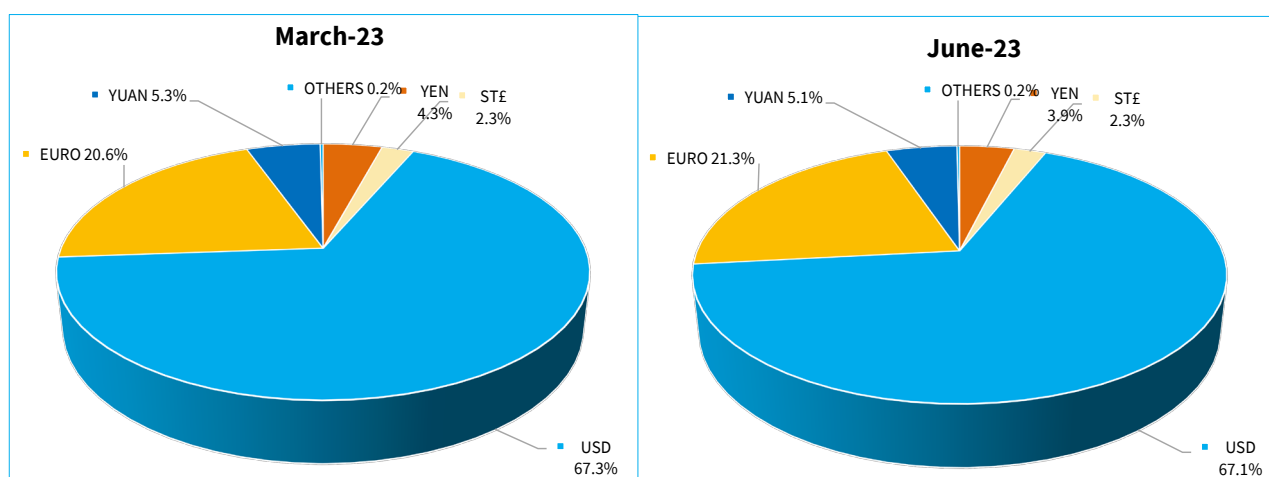


Source: The National Treasury

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 88.4 percent of the total currency composition at the end of the fourth quarter of the FY 2022/23 (**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 23.2 percent during the fourth quarter of the FY 2022/23. 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 2022/23 amounted to KSh 89.1 billion. External debt service to revenue and exports ratios deteriorated during the quarter under review mainly due to an increase in the debt service relative to the previous quarter (**Table 8.4**).

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	Q3 FY 2021/22	Q4 FY 2021/22	Q1 FY 2022/23	Q2 FY 2022/23	Q3 FY 2022/24	Q3 FY 2022/25
Debt service to Revenues (18%)	19.0	7.2	18.1	13.6	23.0	13.2
Debt service to Exports (15%)	24.4	11.6	23.6	19.4	28.0	20.7

Source: Central Bank of Kenya and The National Treasury

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in December 2022 classified Kenya's public debt as sustainable but having a high risk of debt distress. High fiscal 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 in the wake of the war in Ukraine and the monetary tightening in advanced countries limited

access to commercial borrowing in 2022. However, this was partly offset by the ongoing economic recovery supported by faster recovery of tourism and the boost to exports from higher export prices in 2022. 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 and market financing shocks.

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 and NSE 20 share price index, declined by 5.1 percent and 2.9 percent respectively in the second quarter of 2023 compared to the first quarter of 2023. Market

capitalisation declined by 5.1 percent, while equity turnover and total shares traded also declined by 67.9 percent and 29.6 percent, respectively (**Table 9.1 and Chart 9.1**).

Table 9.1: Selected stock market indicators

INDICATOR	2021	2022				2023		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% CHANGE (Q2-Q1)
NSE 20 Share Index (1966=100)	1902.6	1846.7	1612.9	1717.7	1676.1	1622.1	1574.9	-2.91
NASI (2008=100)	166.46	155.74	124.47	128.41	127.47	112.76	107.00	-5.11
Number of Shares Traded (Millions)	1,007.2	753.2	870.3	823.3	634.2	1,086.5	764.9	-29.60
Equities Turnover (Ksh Millions)	36,322	27,861	26,237	22,736	17,457	44,816	14,395	-67.88
Market Capitalization (Ksh Billions)	2,593	2,426	1,939	2,001	1,986	1,756	1,666	-5.11
Foreign Purchase (Ksh Millions)	16,525	14,386	10,676	6,616	7,115	8,757	5,777	-34.03
Foreign Sales (Ksh Millions)	24,714	16,073	21,571	13,581	11,986	22,687	7,259	-68.01
Ave. Foreign Investor Participation to Equity Turnover (%)	57.73	54.66	57.75	44.42	54.71	41.24	44.95	3.71*
Bond Turnover (Ksh Millions)	185,262	190,951	195,667	196,961	158,270	162,515	147,406	-9.30
7-Year Eurobond Yield (%) - 2027	5.57	8.15	16.02	15.61	10.913	13.38	11.251	-2.129*
10-Year Eurobond Yield (%) - 2024	4.45	6.75	17.00	17.58	12.92	14.21	12.50	-1.705*
10-Year Eurobond Yield (%) - 2028	5.76	8.14	14.67	14.74	10.48	12.32	11.04	-1.281*
12-Year Eurobond Yield (%) - 3032	6.71	8.62	13.80	14.67	10.77	11.75	11.05	-0.694*
13-Year Eurobond Yield (%) - 2034	6.58	8.34	12.99	13.17	9.86	11.25	10.29	-0.959*
30-Year Eurobond Yield (%) - 2048	8.13	9.49	13.73	14.00	10.86	11.62	11.06	-0.557*

* Percentage points

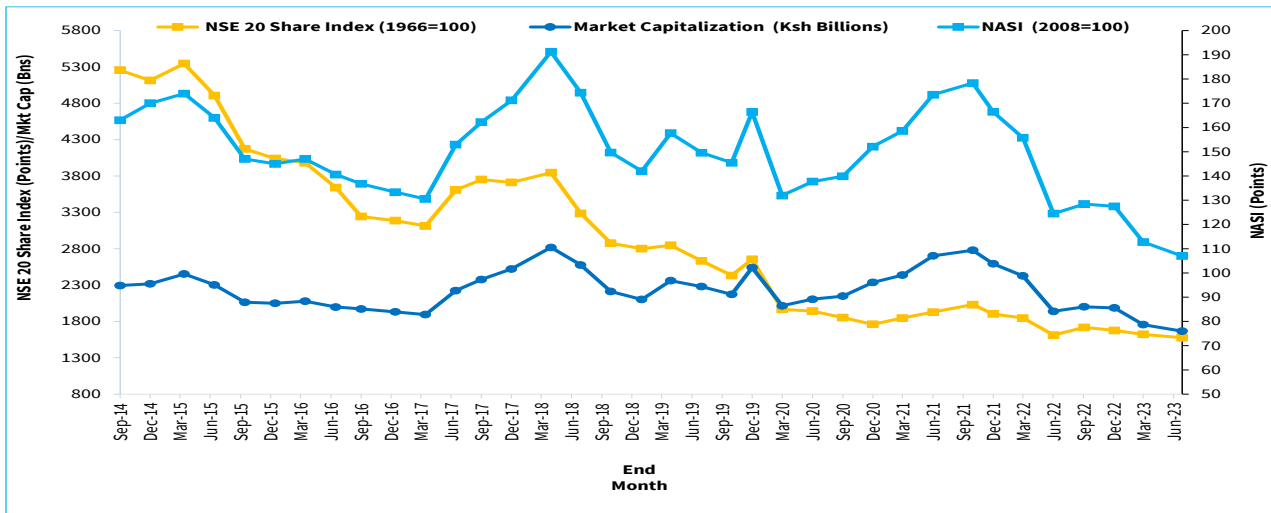
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of equities purchased by foreign investors as a share of total equity turnover increased from 41.2 percent at the end of the first quarter of 2023 to 45.0 percent at end of the second quarter of 2023.

The quarterly average foreign sales declined by 68.0 percent in the second quarter of 2023, compared with first quarter of 2023. The quarterly average foreign purchases declined by 34.0 percent in the period under review (**Table 9.1 and Chart 9.2**).

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



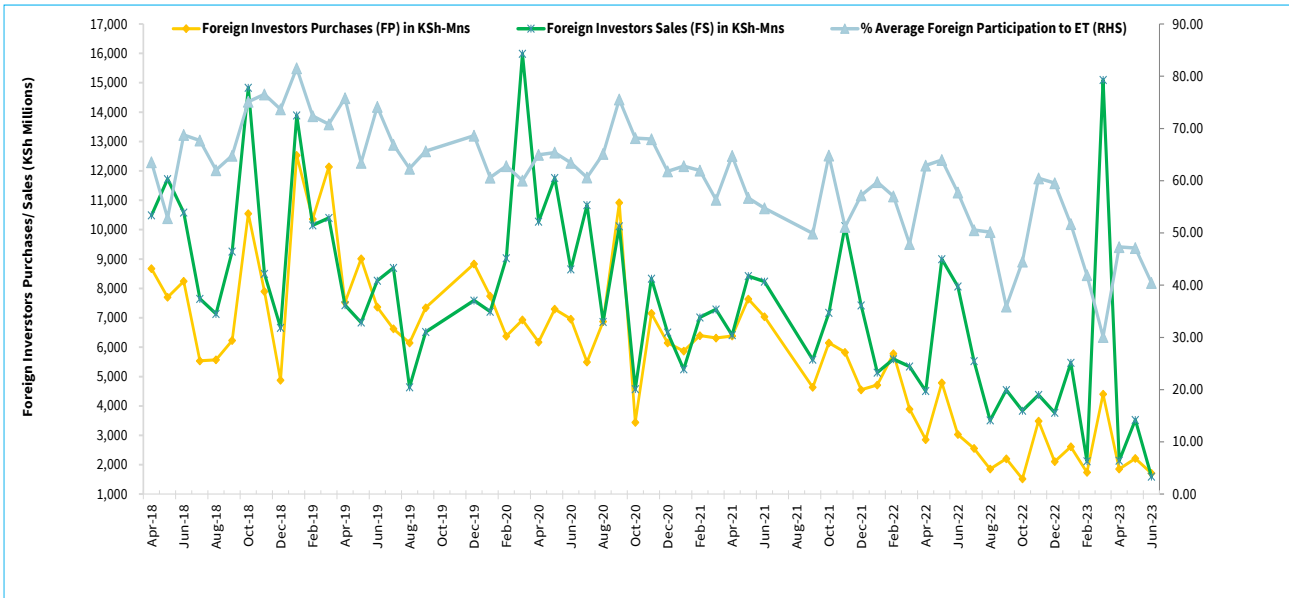
Source: Nairobi Security Exchange

Bonds Market

The bond turnover in the domestic secondary market declined by 9.3 percent in the second quarter of 2023 compared to the first quarter of 2023. In the international market, yields on all

outstanding Kenya’s Eurobonds declined by an average of 122 basis points, with the 2024 maturity increasing by 129 basis point during the quarter 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)

1.0 ASSETS	2022			2023		Absolute Quarterly ChAQges (KSh Million)				Quarterly Growth Rates (%)				
	Jun	Sept	Dec	Mar	June	Q2,2023	Q1,2023	Q4,2022	Q3,2022	Q2,2022	Q2,2023	Q1,2023	Q4,2022	Q3,2022
1.1 Reserves and Gold Holdings	933,638	869,663	916,952	847,431	1,063,081	215,650	(69,520)	47,289	(63,975)	44,251	25.4	(7.6)	5.4	(6.9)
1.2 Funds Held with IMF	71,639	70,347	70,351	74,310	73,275	(1,035)	3,959	4	(1,292)	(6,057)	(1.4)	5.6	0.0	(1.8)
1.3 Investment in Equity (Swift Shares)	10	9	11	12	12	-	1	1	(1)	(0)	-	8.9	13.2	(6.1)
1.4 Items in the Course of Collection	32	24	40	43	42	(1)	3	16	(8)	18	(3.4)	7.9	67.7	(25.0)
1.5 Advances to Commercial Banks	71,829	108,724	111,665	116,958	82,469	(34,489)	5,294	2,941	36,894	(4,703)	(29.5)	4.7	2.7	51.4
1.6 Loans and Other Advances	196,711	220,563	291,091	314,286	330,559	16,273	23,195	70,528	23,853	(2,219)	5.2	8.0	32.0	12.1
1.7 Other Assets	7,322	7,357	6,550	7,365	6,884	(481)	815	(807)	35	1,333	(6.5)	12.4	(11.0)	0.5
1.8 Retirement Benefit Asset	7,081	7,081	7,081	7,081	4,994	(2,087)	-	-	(0)	(558)	(29.5)	-	-	(0.0)
1.9 Property and Equipment	32,000	31,096	31,088	30,920	29,789	(1,131)	(168)	(8)	(904)	277	(3.7)	(0.5)	(0.0)	(2.8)
1.10 Intangible Assets	310	259	687	1,375	1,998	623	687	429	(51)	(1,855)	45.3	100.0	165.7	(16.5)
1.11 Due Debt from Government of Kenya	118,263	106,310	141,254	187,307	189,967	2,660	46,053	34,944	(11,953)	30,364	1.4	32.6	32.9	(10.1)
TOTAL ASSETS	1,438,835	1,421,433	1,576,770	1,587,088	1,783,070	195,981	10,318	155,337	(17,402)	60,851	12.3	0.7	10.9	(1.2)
2.0 LIABILITIES														
2.1 Currency in Circulation	305,350	305,580	325,866	308,384	315,967	7,583	(17,482)	20,286	230	3,605	2.5	(5.4)	6.6	0.1
2.2 Deposits	539,610	495,490	528,635	454,390	572,975	118,585	(74,245)	33,146	(44,120)	54,998	26.1	(14.0)	6.7	(8.2)
2.3 International Monetary Fund	325,145	346,535	422,563	456,212	477,899	21,687	33,649	76,028	21,391	(8,540)	4.8	8.0	21.9	6.6
2.4 Other Liabilities	4,330	4,118	5,252	5,408	6,152	744	155	1,134	(212)	279	13.8	3.0	27.5	(4.9)
TOTAL LIABILITIES	1,174,435	1,151,723	1,282,317	1,224,394	1,372,993	148,599	(57,923)	130,594	(22,712)	50,341	12.1	(4.5)	11.3	(1.9)
3.0 EQUITY AND RESERVES	264,400	269,710	294,454	362,694	410,077	47,383	68,240	24,744	5,310	10,510	13.1	23.2	9.2	2.0
Share Capital	35,000	38,000	38,000	38,000	38,000	-	-	-	-	-	-	-	-	9
General reserve fund	227,006	233,314	258,059	326,299	366,730	40,431	68,240	24,745	6,308	28,741	12	26	11	3
Asset Revaluation	21,680	21,680	21,680	21,680	21,680	-	-	-	-	0	-	-	-	-
Fair Value Reserves - OCI	(23,286)	(23,285)	(23,286)	(23,286)	(21,333)	1,953	-	(1)	1	(22,232)	(8)	-	0	(0)
Consolidated Fund	4,000				5,000	5,000	-	-						
4 TOTAL LIABILITIES AND EQUITY	1,438,835	1,421,433	1,576,771	1,587,088	1,783,070	195,982	10,317	155,338	(17,402)	60,851	12.3	0.7	10.9	(1.2)

Source: Central Bank of Kenya

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya balance sheet increased by 12.3 percent in the second quarter of 2023 from an increase of 0.7 percent in the previous quarter, mainly supported by increased in reserve and gold holdings. The increase in reserve and gold holdings, which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank was largely attributed to official inflows.

Other assets that supported growth of the central bank balance sheet include loans and advances and debt due from government. Meanwhile, advances to commercial banks declined in the second quarter, partly reflecting improvement in liquidity conditions in the money market supported by

increased government payments at the end of the fiscal year 2022/23.

Liabilities

On the liability side, the growth in the Central Bank's balance sheet was largely reflected in increased deposits and liabilities to the International Monetary Fund (IMF). The increase in deposits was mainly on account of official inflows which boosted government deposits, while the increase in liabilities to the IMF reflected the disbursements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the Government, which are channeled through the Central Bank.

Equity and reserves also increased in the second quarter of 2023 on account of increased surplus recorded during the period.



Central Bank of Kenya

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