



**Central Bank of Kenya**

# Quarterly Economic Review

October-December 2022





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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 increased to 9.4 percent in the fourth quarter of 2022 from 8.7 percent in the previous quarter, largely driven by supply side factors. Fuel inflation increased in line with the elevated international oil prices and the gradual unwinding of the Government Subsidy Programme. Food inflation declined mainly due to seasonal factors and easing of international food prices, while Non-food Non-fuel (NFNF) inflation increased modestly, reflecting international developments and second order effects.

The economy recorded robust growth in the third quarter of 2022, supported by non-agricultural sectors. It grew by 4.7 percent compared to 9.3 percent in a similar quarter of 2021, driven by strong performance of services sectors, mainly wholesale and retail trade, accommodation and food services, finance and insurance, professional, administrative and support services, and education. However, the agriculture sector contracted further due to unfavorable weather conditions.

Growth in broad money supply (M3) increased by 2.3 percent in the fourth quarter of 2022 compared to a contraction of 0.3 percent in the previous quarter, largely reflecting increased deposits.

The global economy is expected to slow down to 3.2 percent in 2022 and moderate to 2.7 percent in 2023, down from 6.0 percent in 2021. This reflects significant weakness in the economic activities in the US, Euro Area, and China, due to ongoing war in Ukraine, lingering inflation pressures, subdued external demand and prolonged COVID-19 infections.

The current account balance is estimated to have narrowed to USD 966 million in the fourth quarter of 2022 from USD 1,557 million in the fourth quarter of 2021, reflecting lower imports, strong performance of export of goods and services as well as increased remittances. Secondary income inflows remained strong by USD 68 million to USD 1,769 million in the fourth quarter of 2022 from USD 1,701 million in a similar quarter in 2021

The banking sector remained profitable, stable and resilient in the fourth quarter of 2022, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans declined to 13.3 percent in December compared to 13.7 percent in September. Tourism, Restaurant and Hotels, Building and Construction, Transport and Communication and Trade sectors registered decreases as a result of repayments.

The Government's budgetary operations at the end of the second quarter of FY 2022/23 resulted in a deficit (including grants) of 1.6 percent of GDP. However, revenue collection and expenditure were below the target by 4.6 percent of GDP and 7.5 percent of GDP, respectively.

Kenya's public and publicly guaranteed debt increased by 5.1 percent during the second quarter of 2022/23. Domestic and external debt increased by 2.4 percent and 7.8 percent, respectively.

The overall equity market activity declined in the fourth third of 2022 compared to the third quarter of 2022. The NSE 20 and NASI share price indices as well as market capitalization, equity turnover and total number of shares traded declined in the fourth quarter compared to the third quarter.

## Chapter 1

# Inflation

### Overview

Overall inflation increased to 9.4 percent in the fourth quarter of 2022 from 8.7 percent in the previous quarter, mainly driven by supply side factors. Food inflation declined to 15.0 percent in the fourth quarter of 2022 from 15.4 percent in the previous quarter, mainly due to seasonal factors and easing of international food prices. Fuel inflation increased to 13.0 percent from 9.4 percent

in the previous quarter, reflective of the elevated international oil prices and the gradual unwinding of the Government Subsidy Programme. Non-food Non-fuel (NFNF) inflation remained stable. It increased modestly to 4.0 percent from 3.3 percent, reflecting international developments and second order effects (**Table 1.1 and Chart 1.1**).

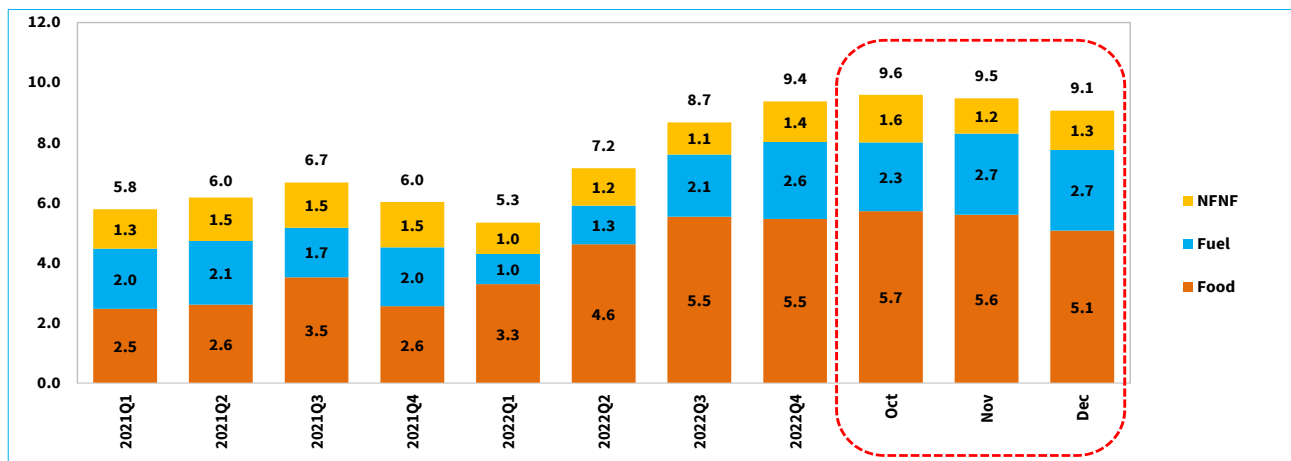
**Table 1.1: Recent trends in inflation (percent)**

	2021			2022						
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct	Nov	Dec
Overall inflation	6.0	6.7	6.0	5.3	7.2	8.7	9.4	9.6	9.5	9.1
Food Inflation	7.3	10.1	9.9	9.2	12.8	15.4	15.0	15.8	15.4	13.8
Fuel Inflation	14.2	10.8	10.1	6.8	9.2	9.4	13.0	12.6	13.8	12.7
Non-Food-Non-Fuel (NFNF) Inflation	2.5	2.7	2.0	2.1	2.7	3.3	4.0	3.8	4.2	4.1
Annual Average Inflation*	5.2	5.7	6.1	6.1	6.2	6.6	7.4	7.1	7.4	7.7
Three Months Annualised Inflation	6.1	2.8	5.8	6.7	13.6	8.8	8.5	9.3	9.0	7.3

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

The food component remained the major driver of inflation during the quarter under review. Its contribution remained stable at 5.5 percentage points, while that of fuel increased to 2.6 percentage points from 2.1 percentage points in

the previous quarter. The contribution of Non-food Non-fuel inflation component to overall inflation also increased to 1.4 percentage points from 1.1 percentage points in the previous quarter (**Chart 1.1**).

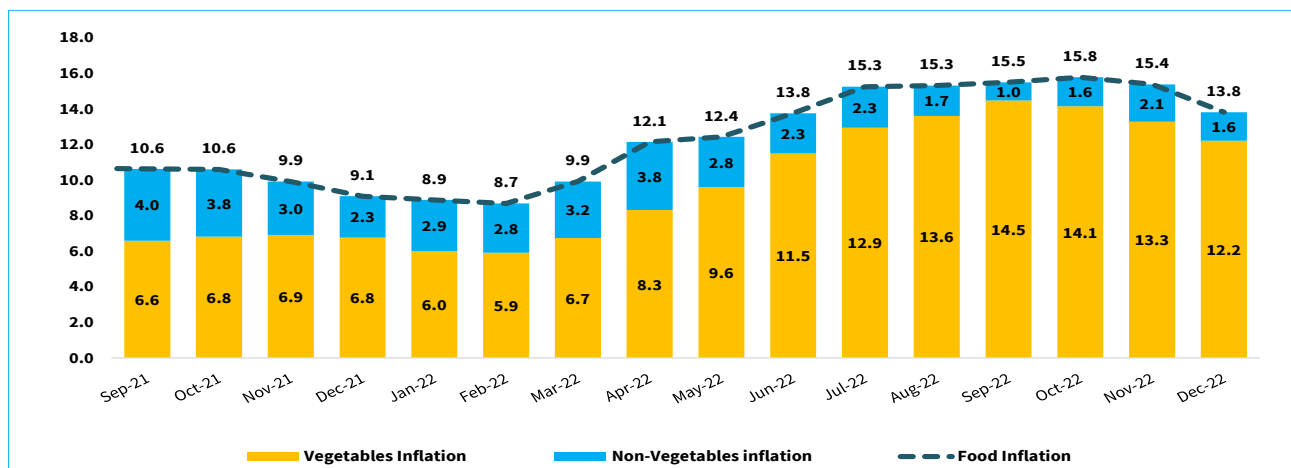
**Chart 1.1: Contribution of broad categories to overall inflation (percentage points)**

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

## Food Inflation

Food inflation declined to 15.0 percent from 15.4 percent in the previous quarter, following the easing of international food prices and improved weather conditions in most parts of the country. Although the non-vegetables component remained the main driver of food inflation, its contribution declined in

the quarter under review. The decline was largely on account of reduced prices of wheat and wheat products, milk and edible oils, which were the main drivers in the previous quarters during the year. The contribution of vegetables inflation also declined, as the weather conditions remained favorable during the quarter (**Chart 1.2**).

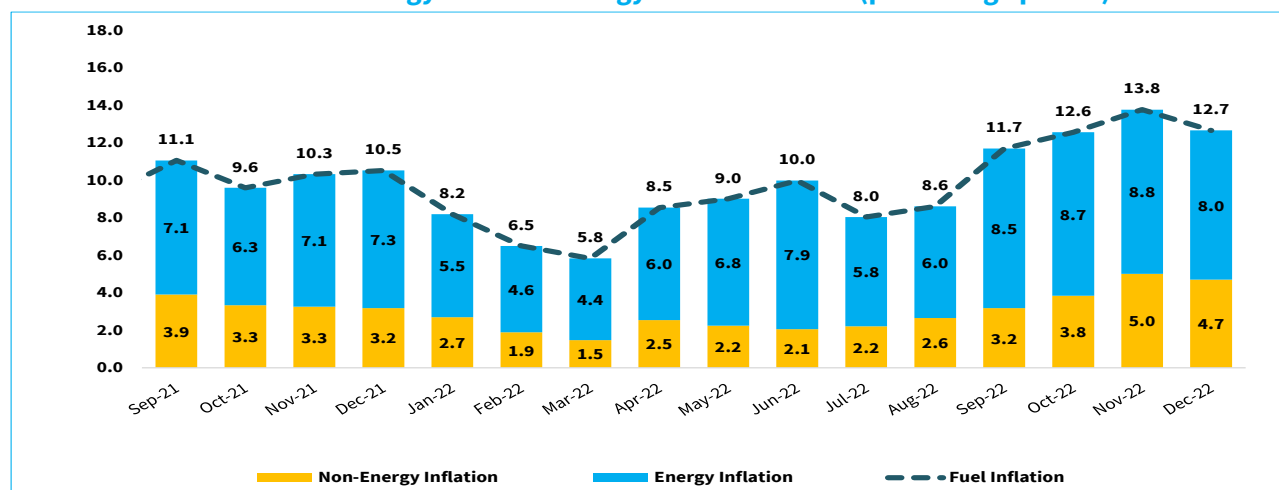
**Chart 1.2: Food inflation by category (percent)**

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

## Fuel Inflation

Fuel inflation increased to 13.0 percent from 9.4 percent in the previous quarter, reflecting the elevated international oil prices and the gradual unwinding of Government Subsidy Programme on energy items. As a result, electricity cost and pump prices remained elevated. However, this was moderated by lower prices of Liquified Petroleum

Gas (LPG) following the reduction of its VAT by half to 8 percent from 16 percent, beginning July 2022. The energy component continued to be the main driver of fuel inflation. Non-energy component rose modestly owing to high transport inflation arising from increased fare prices (**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 remained low and stable. However, there was a gradual increase, which is reflective of the international developments and second order effects of rising

energy and transport costs. It increased to 4.0 percent in the quarter under review from 3.3 percent in the previous quarter. The increase was reflected in increased prices across all categories in the NFNF basket (**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
2021	Q1	2.7	2.3	0.8	3.4	4.3	0.9	2.8	2.0	4.5	1.6	2.3	2.3
	Q2	2.4	2.2	1.2	3.9	4.3	1.4	1.9	2.3	4.1	1.8	3.2	2.5
	Q3	2.9	2.8	1.5	4.8	3.6	2.9	1.2	1.9	3.5	2.1	3.2	2.7
	Q4	3.5	2.1	1.7	4.2	1.5	2.5	1.2	1.5	0.7	0.9	2.9	2.0
2022	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Q3	4.5	2.4	2.9	10.3	1.4	0.9	3.2	1.0	4.4	0.5	4.8	3.3
	Q4	7.0	2.8	3.2	10.4	1.7	1.1	4.1	1.2	6.0	1.0	6.7	4.0
	Oct	6.7	2.6	3.0	10.9	1.6	1.0	3.9	1.0	5.3	0.5	6.1	3.8
	Nov	7.2	2.8	3.6	10.6	1.7	1.1	4.0	1.3	6.2	1.3	7.0	4.2
	Dec	7.0	3.0	3.0	9.9	1.7	1.1	4.5	1.3	6.4	1.3	7.1	4.1

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

## Chapter 2

# Economic Performance

### Overview

The economy recorded robust growth in the third quarter of 2022, supported by non-agricultural sectors. It grew by 4.7 percent compared to 9.3 percent in a similar quarter of 2021, driven by strong performance of services sectors, mainly wholesale and retail trade, accommodation and food services, finance and insurance, professional, administrative and support services, and education. However, the agriculture sector contracted further due to unfavorable weather conditions.

### Non-Agriculture

Broadly, the non-agriculture sector was the main driver of growth in the third quarter of 2022. It grew by 5.6 percent compared to 11.1 percent in a similar quarter of 2021, and contributed 4.8 percentage points to real GDP growth (**Table 2.1 and Chart 2.1**).

- a) Growth of the **services** sector remained strong. The sector grew by 6.2 percent compared to 11.7 percent in a similar quarter of 2021, and contributed 3.6 percentage points to real GDP growth. Positive growth was witnessed across all the services sectors.
  - Wholesale and Retail Trade sector growth continued to recover strongly to 9.1 percent compared to 6.4 percent in a similar quarter of 2021.
  - Accommodation and Food services sector grew by 22.9 percent compared to 127.5 percent in a similar quarter of 2021. The continued recovery from the adverse COVID-19 shock was reflected in the increased tourist arrivals through JKIA and MIA, which grew by 48.6 percent in the third quarter 2022.
  - Transport and Storage sector grew by 4.8 percent compared to 14.2 percent in a similar quarter of 2021, supported by increased activity in railway, road, and air transport. This was reflected in increased passenger and freight movement by Standard Gauge Railway (SGR) (2.6 percent and 30.4 percent, respectively), cargo throughput at Mombasa port (1.5 percent), and consumption of light diesel (0.2 percent).
  - Information and Communication sector expanded by 4.6 percent compared to 4.1

percent in a similar quarter of 2021, supported by increased usage of internet and mobile money services. Internet bandwidth and domestic short messaging services (SMSs) increased by 28.2 percent and 46.4 percent, respectively, over the same period.

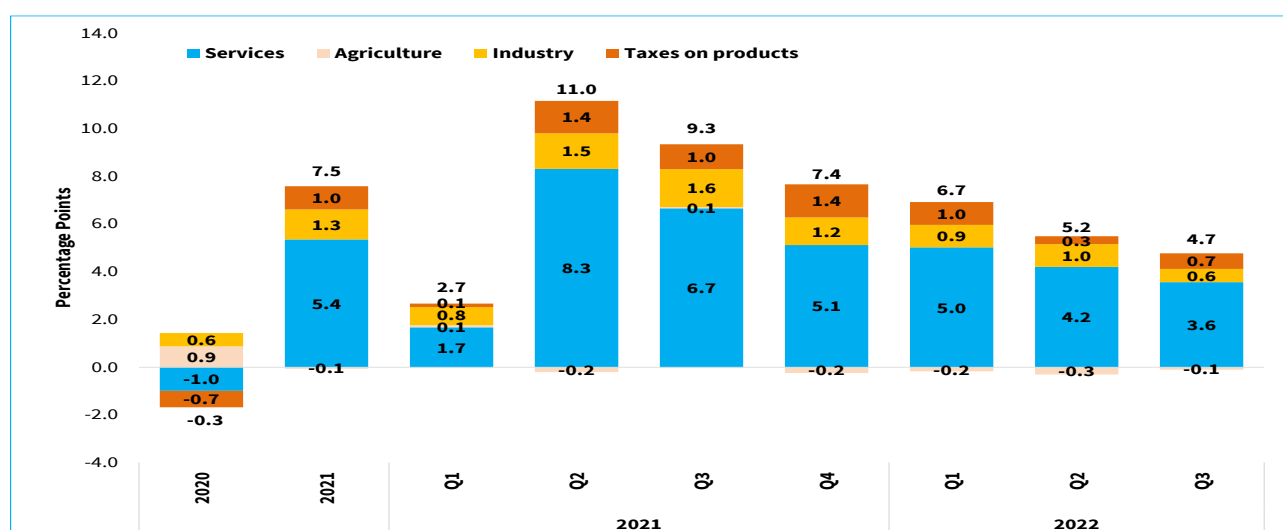
- Financial and Insurance sector recorded growth of 5.3 percent compared to 11.8 percent in the third quarter of 2021, driven by increased cost of credit and improved returns on Government securities.

- b) **Industrial** activity increased moderately during the quarter under review, growing by 3.1 percent compared to 8.8 percent in the same quarter of 2021, and contributed 0.6 percentage points to real GDP growth (**Table 2.1 and Table 2.3**).

- Manufacturing sector growth was 2.4 percent compared to 10.2 percent in a similar quarter of 2021. This was reflected in increased sugar production (6.1 percent) and assembly of motor vehicles (12.6 percent). However, the sector's growth was constrained by declined cement production (-12.8 percent).
- The Construction sector grew by 4.3 percent compared to 6.7 percent in the third quarter of 2021. The deceleration in growth of the sector was due to the decline in cement consumption (-14.6 percent), imports of iron and steel (-27.5 percent) and bitumen import (-32.2 percent).

### Agriculture

Growth of the agriculture sector contracted for the fourth consecutive quarter following unfavorable weather conditions, which constrained activity in the sector. It contracted by 0.6 percent compared to growth of 0.6 percent in a similar quarter of 2021. The subdued performance was reflected in declined production of tea (-3.2 percent), milk intake (-10.7 percent), and exports of vegetables and cut flowers (-30.4 percent and -13.3 percent, respectively). However, the sector was cushioned from further contraction by increased production of coffee (113.1 percent), exports of fruits and nuts (40.6 percent), and cane deliveries (6.0 percent). The contribution of the sector to overall GDP growth stood at -0.1 percentage points during the quarter under review (**Chart 2.1 and Tables 2.1 and 2.3**).

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

Source: Kenya National Bureau of Statistics and CBK Staff computations

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

	Annual		2021				2022		
	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	4.6	-0.2	0.4	-0.5	0.6	-1.2	-0.7	-1.4	-0.6
2. Non-Agriculture (o/w)	-1.4	9.4	3.2	14.4	11.1	9.2	8.6	6.9	5.6
2.1 Industry	3.3	7.2	4.3	9.2	8.8	6.6	5.5	5.6	3.1
Mining & Quarrying	5.5	18.0	10.7	10.9	16.4	34.5	23.8	22.6	-2.2
Manufacturing	-0.4	6.9	2.1	11.3	10.2	4.9	3.7	3.6	2.4
Electricity & water supply	0.6	5.0	3.6	7.2	6.4	2.8	1.9	5.0	4.7
Construction	10.1	6.6	6.8	6.8	6.7	6.0	6.4	5.8	4.3
2.2 Services	-1.8	9.8	3.1	15.6	11.7	9.2	9.2	7.7	6.2
Wholesale & Retail Trade	-0.5	7.9	7.5	9.2	6.4	8.4	8.7	8.2	9.1
Accommodation & restaurant	-47.7	52.5	-33.0	90.1	127.5	118.6	56.2	22.0	22.9
Transport & Storage	-7.8	7.2	-7.9	18.6	14.2	6.5	7.8	7.1	4.8
Information & Communication	6.3	8.8	10.1	17.1	4.1	5.3	6.1	6.6	4.6
Financial & Insurance	5.9	12.5	11.8	17.3	11.8	9.9	14.7	11.6	5.3
Public administration	7.0	5.6	6.8	7.6	4.8	3.3	6.4	4.2	3.9
Professional, Administration & Support Services	-13.7	5.7	-13.0	18.3	13.4	8.1	14.9	11.2	8.7
Real estate	4.1	6.7	6.7	7.4	7.1	5.7	6.1	5.5	5.1
Education	-9.3	21.4	11.5	31.6	28.3	18.0	6.2	6.7	7.1
Health	5.7	6.0	5.8	6.2	4.1	7.8	5.0	4.8	4.5
Other services	-14.6	12.6	-8.4	28.8	17.7	16.8	10.8	6.7	6.9
FISIM	-1.8	5.5	4.9	2.8	5.1	8.7	6.5	4.9	5.2
2.3 Taxes on products	-8.1	11.9	1.8	18.5	12.5	15.7	11.4	4.6	7.6
Real GDP Growth	-0.3	7.5	2.7	11.0	9.3	7.4	6.7	5.2	4.7

Source: Kenya National Bureau of Statistics

**Table 2.2: Sectoral shares (percentage of GDP)**

	Annual		2021				2022		
	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	19.5	18.1	20.0	20.9	15.6	16.0	18.6	19.5	14.8
2. Non-Agriculture (o/w)	80.5	81.9	80.0	79.1	84.4	84.0	81.4	80.5	85.2
2.1 Industry	18.1	18.0	17.9	17.3	18.6	18.4	17.7	17.4	18.3
Mining & Quarrying	1.0	1.1	1.1	1.1	1.0	1.2	1.3	1.2	1.0
Manufacturing	8.6	8.6	8.6	8.4	8.7	8.7	8.3	8.2	8.5
Electricity & water supply	2.5	2.5	2.4	2.3	2.6	2.5	2.3	2.3	2.6
Construction	5.9	5.9	5.8	5.6	6.2	5.9	5.7	5.6	6.2
2.2 Services	54.2	55.3	53.7	53.9	57.2	56.5	55.0	55.2	58.0
Wholesale & Retail Trade	8.3	8.4	8.7	7.7	8.2	8.8	8.9	7.9	8.5
Accommodation & restaurant	0.6	0.9	0.6	0.8	0.9	1.1	0.9	0.9	1.0
Transport & Storage	9.5	9.5	8.9	9.4	10.3	9.3	9.0	9.6	10.3
Information & Communication	3.1	3.2	3.2	3.0	3.2	3.3	3.2	3.1	3.2
Financial & Insurance	8.3	8.6	8.0	8.3	8.8	9.4	8.6	8.8	8.9
Public administration	6.1	6.0	5.6	6.2	6.2	6.0	5.6	6.1	6.2
Professional, Administration & Support Services	2.6	2.6	2.4	2.5	2.7	2.7	2.6	2.6	2.8
Real estate	10.2	10.1	10.0	10.0	10.5	10.0	10.0	10.0	10.5
Education	4.3	4.9	5.1	4.4	4.9	5.0	5.1	4.5	5.0
Health	2.2	2.2	2.1	2.2	2.2	2.3	2.0	2.2	2.2
Other services	2.0	2.1	2.0	2.1	2.3	2.0	2.0	2.2	2.4
FISIM	-3.1	-3.1	-2.9	-2.8	-3.1	-3.5	-2.9	-2.8	-3.1
2.3 Taxes on products	8.2	8.5	8.3	7.9	8.6	9.1	8.7	7.9	8.9
Real GDP Growth	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		2021				2022		
	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	0.9	0.0	0.1	-0.1	0.1	-0.2	-0.1	-0.3	-0.1
2. Non-Agriculture (o/w)	-1.1	7.7	2.6	11.4	9.4	7.8	7.0	5.6	4.8
2.1 Industry	0.6	1.3	0.8	1.6	1.6	1.2	1.0	1.0	0.6
Mining & Quarrying	0.1	0.2	0.1	0.1	0.2	0.4	0.3	0.3	0.0
Manufacturing	0.0	0.6	0.2	0.9	0.9	0.4	0.3	0.3	0.2
Electricity & water supply	0.0	0.1	0.1	0.2	0.2	0.1	0.0	0.1	0.1
Construction	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
2.2 Services	-1.0	5.4	1.7	8.4	6.7	5.2	5.1	4.2	3.6
Wholesale & Retail Trade	0.0	0.7	0.7	0.7	0.5	0.7	0.8	0.7	0.8
Accommodation & restaurant	-0.3	0.5	-0.2	0.7	1.1	1.3	0.5	0.2	0.2
Transport & Storage	-0.7	0.7	-0.7	1.8	1.5	0.6	0.7	0.7	0.5
Information & Communication	0.2	0.3	0.3	0.5	0.1	0.2	0.2	0.2	0.1
Financial & Insurance	0.5	1.1	0.9	1.4	1.0	0.9	1.3	1.0	0.5
Public administration	0.4	0.3	0.4	0.5	0.3	0.2	0.4	0.3	0.2
Professional, Administration & Support Services	-0.4	0.1	-0.3	0.5	0.4	0.2	0.4	0.3	0.2
Real estate	0.4	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.5
Education	-0.4	1.0	0.6	1.4	1.4	0.9	0.3	0.3	0.4
Health	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Other services	-0.3	0.3	-0.2	0.6	0.4	0.3	0.2	0.1	0.2
FISIM	0.1	-0.2	-0.1	-0.1	-0.2	-0.3	-0.2	-0.1	-0.2
2.3 Taxes on products	-0.7	1.0	0.1	1.5	1.1	1.4	1.0	0.4	0.7
Real GDP Growth	-0.3	7.5	2.7	11.0	9.3	7.4	6.7	5.2	4.7

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 2.3 percent in the fourth quarter of 2022 compared to a contraction of 0.3 percent in the previous quarter, largely reflecting increased deposits. The increase in deposits was mainly on account of corporate sector deposits, partly on account of resilient economic activities. The increase in corporate

deposits was reflected across all deposits categories. The household deposits increased slightly, largely reflected in demand deposit holdings, partly due to increased demand for liquidity during the end of year festivities. The other deposits at the Central Bank also increased on account of increased county government deposits (**Tables 3.1 & 3.2**).

Table 3.1: Monetary aggregates (KSh Billion)

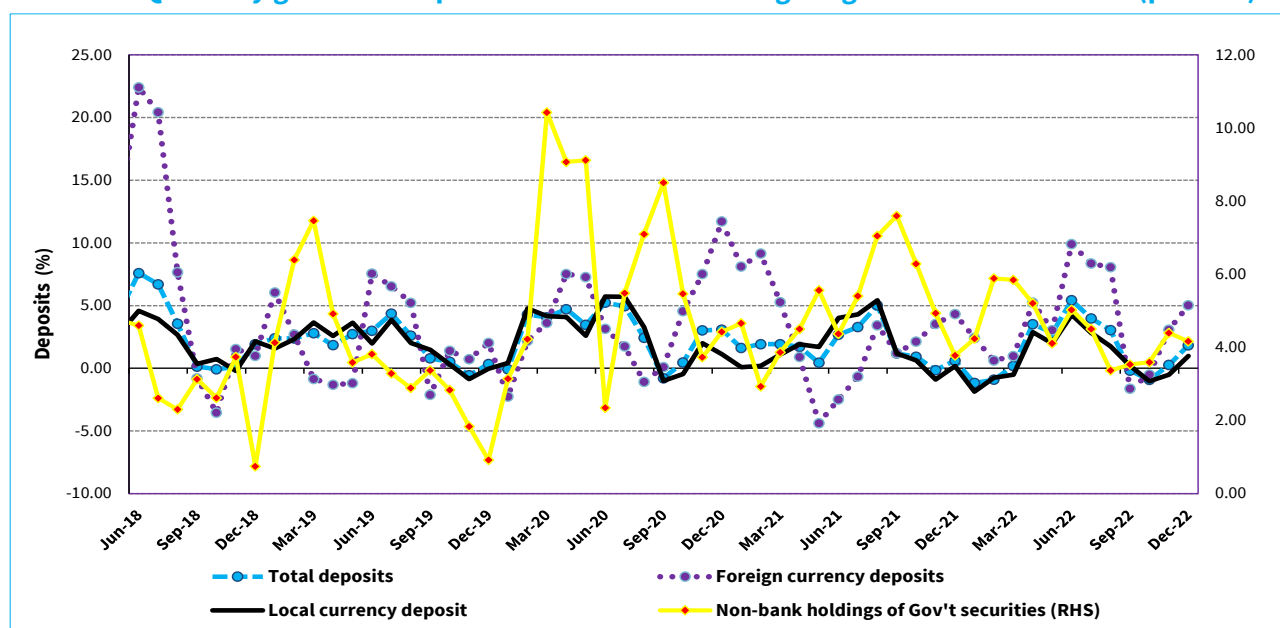
	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Components of M3</b>															
1. Money supply, M1 (1.1+1.2+1.3)	1,848.1	1,796.3	1,906.8	1,916.1	1,967.1	4.4	-2.8	6.2	0.5	2.7	77.3	-51.8	110.5	9.2	51.0
1.1 Currency outside banks	253.5	248.1	251.4	251.7	258.8	8.1	-2.1	1.3	0.1	2.8	19.1	-5.4	3.3	0.3	7.1
1.2 Demand deposits	1,498.4	1,477.4	1,552.2	1,582.5	1,621.5	4.8	-1.4	5.1	2.0	2.5	68.2	-21.0	74.8	30.3	39.0
1.3 Other deposits at CBK 1/	96.3	71.1	103.5	82.1	86.8	-9.5	-26.2	45.5	-20.7	5.8	-10.1	-25.3	32.4	-21.4	4.7
2. Money supply, M2 (1+2.1)	3,431.6	3,410.2	3,551.5	3,553.4	3,613.4	0.7	-0.6	4.1	0.1	1.7	23.4	-21.4	141.4	1.9	60.0
2.1 Time and saving deposits	1,583.5	1,613.8	1,644.7	1,637.4	1,646.4	-3.3	1.9	1.9	-0.4	0.5	-53.9	30.4	30.8	-7.3	9.0
3. Money supply, M3 (2+3.1)	4,235.2	4,221.2	4,443.0	4,430.4	4,534.5	1.4	-0.3	5.3	-0.3	2.3	57.6	-14.0	221.8	-12.6	104.1
3.1 Foreign Currency Deposits	803.7	811.1	891.5	877.0	921.1	4.4	0.9	9.9	-1.6	5.0	34.1	7.4	80.4	-14.5	44.1
<b>Sources of M3</b>															
1. Net foreign assets 2/	590.1	428.1	456.8	294.6	283.0	-10.8	-27.5	6.7	-35.5	-3.9	-71.8	-162.0	28.7	-162.3	-11.5
Central Bank	700.6	600.8	641.5	568.8	536.9	-7.9	-14.2	6.8	-11.3	-5.6	-60.2	-99.8	40.7	-72.7	-31.9
Banking Institutions	-110.5	-172.7	-184.7	-274.3	-253.9	11.7	56.3	6.9	48.5	-7.4	-11.6	-62.2	-12.0	-89.6	20.4
2. Net domestic assets (2.1+2.2)	3,645.1	3,793.1	3,986.2	4,135.9	4,251.5	3.7	4.1	5.1	3.8	2.8	129.3	148.0	193.0	149.7	115.6
2.1 Domestic credit	4,823.0	5,022.6	5,185.8	5,340.6	5,435.2	5.1	3.0	3.2	3.0	1.8	232.8	145.7	163.1	154.8	94.7
2.1.1 Government (net)	1,669.7	1,758.3	1,844.8	1,898.8	1,919.8	9.1	2.0	4.9	2.9	1.1	139.6	34.7	86.5	54.0	21.0
2.1.2 Private sector	3,053.2	3,177.3	3,256.9	3,362.5	3,433.5	2.5	4.1	2.5	3.2	2.1	73.9	124.1	79.6	105.6	71.1
2.1.3 Other public sector	100.1	87.1	84.1	79.3	81.9	23.9	-13.0	-3.4	-5.7	3.3	19.3	-13.1	-3.0	-4.8	2.6
2.2 Other assets net	-1,177.9	-1,229.5	-1,199.6	-1,204.7	-1,183.8	-9.6	-4.4	2.4	-0.4	1.7	-103.5	2.3	29.9	-5.1	20.9
<b>Memorandum items</b>															
4. Overall liquidity, L (3+4.1)	6,202.3	6,303.4	6,629.8	6,694.5	6,892.9	2.1	1.6	5.2	1.0	3.0	128.1	101.0	326.5	64.7	198.4
4.1 Non-bank holdings of government securities	1,967.1	2,082.1	2,186.8	2,264.1	2,358.4	3.8	5.8	5.0	3.5	4.2	70.5	115.0	104.7	77.2	94.3

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

**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)				
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
1. Household Sector 1/	1733	1812	1896	1869	1877	-1.8	4.5	4.7	-1.4	0.4	-32.7	78.8	84.7	-27.0	7.3
1.1 Demand Deposits	571	634	702	651	669	-1.6	11.0	10.6	-7.3	2.7	-9.6	63.1	67.2	-50.9	17.9
1.2 Time and Saving Deposits	876	887	900	919	888	-3.0	1.3	1.4	2.1	-3.4	-27.5	11.2	12.7	18.9	-31.2
1.3 Foreign Currency Deposits	285	290	295	300	320	1.6	1.6	1.6	1.7	6.9	4.4	4.5	4.8	5.0	20.7
2. Corporate Sector	2100	2026	2125	2157	2251	4.3	-3.5	4.9	1.5	4.3	87.0	-73.9	99.1	31.9	93.6
2.1 Demand deposits	904	810	819	896	927	10.2	-10.4	1.1	9.4	3.5	84.0	-93.8	8.6	76.9	31.0
2.2 Time and Saving Deposits	679	696	714	686	726	-3.8	2.5	2.6	-4.0	5.8	-27.0	17.2	18.1	-28.3	39.7
2.3 Foreign Currency Deposits	516	519	592	575	598	5.9	0.6	13.9	-2.8	4.0	28.9	3.3	72.5	-16.8	22.9

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

Source: Central Bank of Kenya

The 12-month growth in broad money supply (M3) increased to 7.1 percent in December 2022 from 6.1 percent in September 2022, partly reflecting increased net domestic assets of the banking system.

### Sources of Broad Money

The primary source of the increase in broad money supply, M3, in the fourth quarter of 2022 was the increase in net domestic assets of the banking system which more than offset the contraction in net foreign assets. Growth in net domestic assets of the banking system was partly supported by resilient private sector credit. The decline in net foreign assets, partly reflected a reduction in reserves at the Central Bank

due to scheduled debt service, and the increase in commercial bank's borrowing from foreign sources (**Table 3.1**).

### Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system moderated slightly to 1.8 percent in the fourth quarter of 2022 from 3.0 percent in the previous quarter, largely reflecting reduced net lending to government. Lending to other public sector increased slightly, mainly due to advances to county governments and parastatals (**Table 3.3**).

Growth in credit extended to the private sector moderated slightly to 2.1 percent in the fourth quarter of 2022 compared to 3.2 percent in the previous quarter, partly due to reduction in inputs costs arising from easing oil prices. Credit growth remained positive in most of the economic sectors, with strong growth registered in manufacturing,

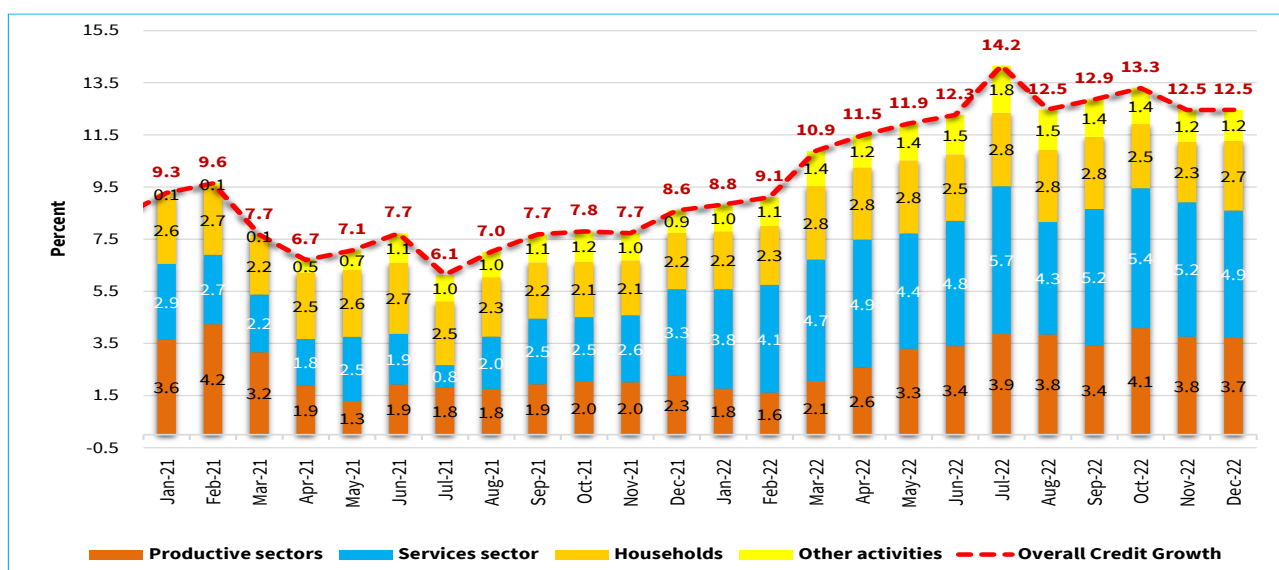
business services, finance and insurance and consumer durables (**Table 3.3**).

The 12-month growth in private sector credit remained resilient, at 12.5 percent in December 2022, compared to 12.9 percent in September, 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)				
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
1. Credit to Government	1,723.6	1,758.3	1,844.8	1,898.8	1,919.8	8.8	2.0	4.9	2.9	1.1	139.1	34.7	86.5	54.0	21.0
Central Bank	67.4	86.8	148.3	189.9	206.9	480.8	28.7	70.9	28.0	8.9	85.1	19.4	61.6	41.6	17.0
Commercial Banks & NBFIs	1,656.1	1,671.5	1,696.4	1,708.9	1,712.9	3.4	0.9	1.5	0.7	0.2	53.9	15.4	24.9	12.4	4.0
2. Credit to other public sector	100.1	87.1	84.1	79.3	81.9	23.9	-13.0	-3.4	-5.7	3.3	19.3	-13.1	-3.0	-4.8	2.6
Local government	18.3	6.8	5.8	5.3	6.2	177.3	-62.9	-14.2	-9.7	17.7	11.7	-11.5	-1.0	-0.6	0.9
Parastatals	81.9	80.3	78.3	74.1	75.8	10.4	-1.9	-2.5	-5.4	2.3	7.7	-1.6	-2.0	-4.2	1.7
3. Credit to private sector	3,053.2	3,177.3	3,256.9	3,362.5	3,433.5	2.5	4.1	2.5	3.2	2.1	73.9	124.1	79.6	105.6	71.1
Agriculture	93.9	101.8	102.8	110.3	114.9	-0.3	8.5	0.9	7.3	4.2	-0.3	8.0	0.9	7.5	4.6
Manufacturing	463.0	471.8	494.6	508.0	526.8	4.0	1.9	4.8	2.7	3.7	18.0	8.8	22.8	13.5	18.8
Trade	526.5	542.9	556.8	592.4	586.4	3.4	3.1	2.6	6.4	-1.0	17.4	16.4	13.9	35.6	-6.0
Building and construction	121.9	129.8	132.8	134.8	131.9	1.8	6.5	2.3	1.5	-2.1	2.1	7.9	3.0	2.0	-2.9
Transport & communications	242.3	271.5	274.1	289.5	299.2	1.7	12.0	1.0	5.6	3.3	4.1	29.2	2.6	15.4	9.7
Finance & insurance	109.7	113.4	113.7	110.9	118.0	-0.8	3.4	0.3	-2.5	6.5	-0.9	3.7	0.3	-2.9	7.2
Real estate	409.4	410.0	414.0	413.7	422.5	-1.0	0.2	1.0	-0.1	2.1	-4.0	0.6	4.0	-0.3	8.8
Mining and quarrying	17.2	12.7	16.3	20.8	22.6	30.3	-26.2	28.3	27.1	9.0	4.0	-4.5	3.6	4.4	1.9
Private households	472.5	486.6	485.6	502.0	511.2	1.4	3.0	-0.2	3.4	1.8	6.6	14.1	-1.0	16.4	9.2
Consumer durables	335.0	346.8	358.5	367.9	378.1	4.2	3.5	3.4	2.6	2.8	13.4	11.9	11.7	9.4	10.1
Business services	175.4	187.1	187.1	189.8	199.4	4.0	6.7	0.0	1.4	5.0	6.7	11.7	0.0	2.7	9.6
Other activities	86.5	102.9	120.6	122.4	122.6	8.7	19.0	17.3	1.5	0.1	6.9	16.4	17.8	1.8	0.1
4. TOTAL (1+2+3)	4,876.9	5,022.6	5,185.8	5,340.6	5,435.2	5.0	3.0	3.2	3.0	1.8	232.3	145.7	163.1	154.8	94.7

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 7.3 percent in the fourth quarter of 2022 from a growth of 6.9 percent

in the previous quarter, partly reflecting decrease in the net foreign assets of the Central Bank. Decrease in net foreign assets, largely reflect scheduled debt service (Table 3.4).

**Table 3.4: Reserve money**

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Sources of Reserve Money</b>															
1. Net Foreign Assets	700.6	600.8	641.5	568.8	536.9	-7.9	-14.2	6.8	-11.3	-5.6	-60.2	-99.8	40.7	-72.7	-31.9
2. Net Domestic Assets	-179.0	-121.5	-122.6	-14.0	-22.7	-36.5	-32.1	0.9	-88.5	62.0	103.0	57.5	-1.1	108.5	-8.7
2.1 Government Borrowing (net)	67.4	86.8	148.3	189.9	206.9	-480.0	28.7	70.9	28.0	8.9	85.2	19.4	61.6	41.6	17.0
2.2 Commercial banks (net)	76.4	89.1	69.8	121.2	126.6	57.6	16.6	-21.7	73.7	4.5	27.9	12.7	-19.3	51.4	5.4
2.3 Other Domestic Assets (net)	-326.1	-301.0	-344.5	-329.0	-360.0	3.2	-7.7	14.4	-4.5	9.4	-10.2	25.1	-43.5	15.5	-31.0
<b>Components of Reserve Money</b>															
3. Reserve Money	521.6	479.3	518.9	554.8	514.2	8.9	-8.1	8.3	6.9	-7.3	42.8	-42.3	39.6	35.9	-40.6
3.1 Currency outside banks	253.5	248.1	251.4	251.7	258.8	8.1	-2.1	1.3	0.1	2.8	19.1	-5.4	3.3	0.3	7.1
3.2 Bank reserves	268.1	231.2	267.5	303.0	255.4	9.7	-13.8	15.7	13.3	-15.7	23.7	-36.9	36.3	35.5	-47.7

Source: Central Bank of Kenya

## Interest Rates

### a. Central Bank Rate

The Monetary Policy Committee (MPC) in November 2022 raised the Central Bank Rate (CBR) from 8.25 percent to 8.75 percent in order to further anchor inflation expectations. The MPC noted the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy. In the September MPC meeting, the Committee had raised the CBR from 7.50 percent to 8.25 percent.

### b. Short Term Rates

Short-term interest rates generally increased during the fourth quarter of 2022, partly reflecting the tight monetary policy stance and liquidity conditions in the market. The average interbank interest

rate increased to 5.39 percent in December 2022 compared to 4.36 percent in September. Similarly, the average 91-day Treasury bill rate increased to 9.33 percent in December 2022 from 8.92 percent in September, while the average 182-day Treasury bill rate increased to 9.80 percent from 9.60 percent (Table 3.5).

### c. Lending and Deposit Rates

Commercial banks average lending rate increased slightly in the fourth quarter of 2022, partly reflecting the tight monetary policy stance. The weighted average lending rate increased to 12.70 percent in December 2022 from 12.41 percent in September 2022 while the weighted average deposit rate increased to 7.16 percent from 6.82 percent in September 2022. Consequently, the spread declined to 5.53 percent

**Table 3.5: Interest rates (percent)**

	2021				2022							
	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec (Prov.)
91-day Treasury bill rate	7.03	7.03	6.83	7.26	7.25	7.90	8.21	8.58	8.92	9.06	9.19	9.33
182-day Treasury bill rate	7.82	7.60	7.25	7.95	8.08	9.07	9.29	9.45	9.60	9.65	9.71	9.80
Interbank rate	5.23	4.63	4.73	5.10	4.72	5.06	5.50	5.35	4.36	5.44	4.61	5.39
Repo rate	6.12	5.37	5.54	5.31	-	6.80	7.24	-	-	-	7.65	-
Reverse Repo rate	7.78	-	7.62	8.37	8.54	8.44	8.59	9.21	9.63	9.78	9.70	9.84
Central Bank Rate (CBR)	7.00	7.00	7.00	7.00	7.00	7.50	7.50	7.50	8.25	8.25	8.75	8.75
Average lending rate (1)	12.05	12.02	12.10	12.16	12.15	12.27	12.35	12.43	12.41	12.39	12.64	12.70
Overdraft rate	11.61	11.18	11.34	11.48	11.50	11.86	12.02	12.10	11.99	11.96	12.16	12.21
1-5years	12.15	12.24	12.29	12.33	12.39	12.48	12.56	12.67	12.66	12.61	12.94	13.03
Over 5years	12.11	12.12	12.21	12.24	12.17	12.23	12.27	12.35	12.33	12.36	12.54	12.58
Average deposit rate (2)	6.46	6.37	6.34	6.50	6.50	6.62	6.74	6.93	6.82	7.01	7.11	7.16
0-3months	6.68	6.76	6.61	6.91	6.89	6.96	7.13	7.30	7.18	7.42	7.57	7.38
Over 3 months deposit	6.89	7.08	7.04	7.19	7.25	7.39	7.45	7.52	7.40	7.60	7.68	7.93
Savings deposits	3.48	2.55	2.57	2.55	2.48	2.50	2.94	3.46	3.44	3.46	3.50	3.55
Spread (1-2)	5.58	5.64	5.76	5.66	5.65	5.66	5.61	5.50	5.59	5.39	5.53	5.53

Source: Central Bank of Kenya

## Chapter 4

# Global Economy

The global economy is expected to slow down through quarter four of 2023, due to the ongoing shocks alongside elevated inflation pressures. According to the IMF World Economic Outlook (WEO) October 2022 update, the global economy is expected to grow by 3.2 percent in the fourth quarter of 2023 and 3.0 percent in the fourth quarter of 2024. Annual global growth is projected at 2.9 percent in 2023, higher than the 2.7 percent growth projected in the October 2022 WEO. However, this is lower than the estimated 3.4 percent growth in 2022 and the historical average of 3.8 percent. Global growth is expected to improve to 3.1 percent in 2024. The slowdown in global output growth in 2023 is largely driven by depressed economic activity in the advanced economies. The recovery in 2024 is underpinned by fading global shocks in the second half of 2023 through 2024, reflecting in part the expected slowdown of monetary policy tightening cycle mostly in advanced economies, and a pickup in growth due to gradual recovery from the effects of the war in Ukraine, including full relaxation of the Zero COVID-19 pandemic strategy by China.

Growth in the advanced economy group, where several economies are experiencing reduced economic activity 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 projected at 1.2 percent in 2023 and is expected to moderate to 1.4 percent in 2024. Growth in most economies in this group is forecast to slowdown in 2023, including the US (1.4 percent), Euro Area (0.7 percent), UK (-0.6 percent), and Japan (1.8 percent).

In the emerging market and developing economies (EMDEs), growth is estimated at 5.0 percent in the fourth quarter of 2023 and 4.1 percent in the fourth quarter of 2024. On an annual basis, growth is projected to rise modestly, from 3.9 percent in 2022

to 4.0 percent in 2023 and 4.2 percent in 2024, an increase of 0.3 percentage points compared to the October 2023 projections, reflecting strong growth expectations in China after removal of COVID-19 restrictions. In Sub-Saharan Africa (SSA), economic activity is projected at 3.8 percent in 2023 and to improve to 4.1 percent in 2024. Nigeria and South Africa are expected to grow by 3.2 percent and 2.1 percent in 2023, respectively. In 2024, they are expected to grow by 2.9 percent (Nigeria) and 1.3 percent (South Africa).

Global financial conditions though moderating are expected to remain volatile, reflecting rising interest rates in major economies as major central banks continue with monetary policy tightening. In response to ongoing monetary tightening, global inflation is projected to decelerate from 8.8 percent in 2022 to 6.6 percent and 4.3 percent in 2023 and 2024, respectively. However, this will still be above the pre-pandemic of 3.5 percent.

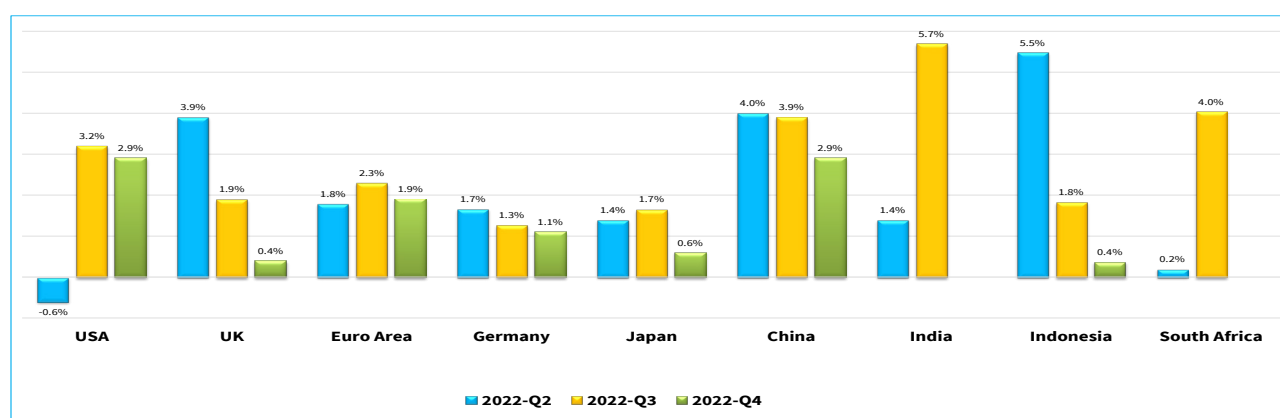
Global commodity market pressures are expected to ease as nonfuel and fuel commodity prices fall. Oil prices are expected to fall by about 16 percent to average \$81.13 per barrel in 2023 and \$75.36 per barrel in 2024, respectively, while nonfuel commodity prices are expected to fall by 6.3 percent in 2023. Global demand is expected to pick up, reflecting increased consumer spending. The world trade growth is expected to decline in 2023 to 2.4 percent, despite an easing of supply bottlenecks, before rising to 3.4 percent in 2024.

The balance of risks to global growth remains on the downside even after moderate global output upgrade. There is a lot of uncertainty around the global growth forecast, reflecting the pathway to the pandemic, extent of supply disruptions, behavioral changes and spending patterns, confidence effects, and volatile commodity prices.

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

	Annual Year over Year			Quarterly Q4 Over Q4	
	Actual	Projections		Projections	
		2023	2024	2023	2024
World Output	6.2	2.9	3.1	3.2	3.0
Advanced Economies	5.4	1.2	1.4	1.1	1.6
United States	5.9	1.4	1.0	1.0	1.3
Euro Area	5.3	0.7	1.6	0.5	2.1
Germany	2.6	0.1	1.4	0.0	2.3
France	6.8	0.7	1.6	0.9	1.8
Italy	6.7	0.6	0.9	0.1	1.0
Spain	5.5	1.1	2.4	1.3	2.8
Japan	2.1	1.8	0.9	1.0	1.0
United Kingdom	7.6	-0.6	0.9	-0.5	1.8
Canada	5.0	1.5	1.5	1.2	1.9
Emerging Market and Developing Economies	6.7	4.0	4.2	5.0	4.1
China	8.4	5.2	4.5	5.9	4.1
India	8.7	6.1	6.8	7.0	7.1
Russia	4.7	0.3	2.1	1.0	2.0
Latin America and the Caribbean	7.0	1.8	2.1	1.9	1.9
Brazil	5.0	1.2	1.5	0.8	2.2
Mexico	4.7	1.7	1.6	1.1	1.9
Middle East and Central Asia	4.5	3.2	3.7	...	...
Saudi Arabia	3.2	2.6	3.4	2.7	3.5
Sub-Saharan Africa	4.7	3.8	4.1	...	...
Nigeria	3.6	3.2	2.9	3.1	2.9
South Africa	4.9	1.2	1.3	0.5	1.8
World Trade Volume (goods and services)	10.4	2.4	3.4	...	...
Commodity Prices					
Oil	65.8	-16.2	-7.1	-9.8	-5.9
Nonfuel	26.4	-6.3	-0.4	1.4	-0.2
Consumer Prices	4.7	6.6	4.3	5.0	3.5
Advanced Economies	3.1	4.6	2.6	3.1	2.3
Emerging Market and Developing Economies	5.9	8.1	5.5	6.6	4.5

Source: IMF, World Economic Outlook, January 2023 Update

**Chart 4.1: Global growth, fourth quarter-2022 (percent)**

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

## Chapter 5

## Balance of Payments and Exchange Rates

## Overview

The current account balance is estimated to have narrowed to USD 966 million in the fourth quarter of 2022 from USD 1,557 million in the fourth quarter of 2021, reflecting strong performance of export of goods and services as well as increased remittances.

Secondary income inflows remained strong by USD 68 million to USD 1,769 million in the fourth quarter of 2022 from USD 1,701 million in a similar quarter in 2021 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2021		2022*						Q4 2022-Q4 2021	
	Jul-Sep	Oct-Dec	Apr-Jun	Jul-Sep	Oct-Dec					%
	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Change	Change
1. Overall Balance	-431	1,059	-92	948	38	197	40	274	705	-164
2. Current account	-1,557	-1,270	-1,662	-1,579	-380	-294	-288	-963	594	-38
Exports (fob)	1,708	1,828	1,962	1,912	565	633	564	1,762	54	3
Imports (fob)	5,065	4,724	5,128	5,038	1,414	1,441	1,478	4,334	-731	-14
Services: credit	1,707	1,768	1,639	1,745	436	546	561	1,543	-164	-10
Services: debit	1,187	1,269	1,295	1,280	383	445	436	1,264	77	6
Balance on goods and services	-2,837	-2,398	-2,821	-2,662	-797	-706	-789	-2,292	544	-19
Primary income: credit	29	21	23	24	7	12	8	27	-2	-6
Primary income: debit	433	498	430	496	95	192	158	445	11	3
Balance on goods, services and primary income	-3,241	-2,876	-3,228	-3,133	-884	-886	-939	-2,709	532	-16
Secondary income : credit	1,701	1,622	1,586	1,570	509	603	657	1,769	68	4
o.w Remittances	1,015	1,024	1,028	959	336	349	362	1,047	32	3
Secondary income: debit	17	17	20	16	5	11	5	22	6	34
3. Capital Account	19	72	69	6	12	10	8	29	10	56
4. Financial Account	-919	-1,004	-2,319	-43	-152	-322	-394	-868	51	-6

\* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

## Current Account Balance

The trade balance is estimated to have narrowed by 23 percent from a deficit of USD 3,357 million in the fourth quarter of 2021 to a deficit of USD 2,572 million in the fourth quarter of 2022, attributed to improved export performance (**Table 5.1**). Despite a fall in horticulture receipts, the value of merchandise exports increased to USD 1,762 million in the fourth quarter of 2022 from USD 1,708 million in the same period in 2021, owing mostly to increased earnings from tea, chemicals, and manufactured products. Tea exports increased by 13 percent in the fourth quarter of 2022 compared to a similar period in 2021, supported by increased demand from Kenya's

traditional markets. Exports of manufactured goods increased by 16 percent in the period under review. However, earnings from horticulture declined by 17 percent. The value of merchandise imports decreased by 14 percent to USD 4,334 million in the fourth quarter of 2022, from USD 5,065 million in a similar quarter in 2021, largely on account of reduced imports of machinery and transport equipment. However, imports of petroleum products remained high due elevated international crude oil prices. Net receipts on the services account declined by USD 240 million to USD 280 million from USD 520 million in the third quarter of 2021. Receipts from travel services improved by USD 42 million, as international travel continued (**Table 5.2**).

**Table 5.2: Balance on current account (USD Million)**

ITEM	2021		2022*							Q4 2022-Q4 2021	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Q3	Oct-Dec				Change	%
	Q3	Q4	Q1	Q2	Jul-Sep	Oct	Nov	Dec	Oct-Dec		
CURRENT ACCOUNT	-1,714	-1,557	-1,270	-1,662	-1,579	-380	-294	-288	-963	594	-38
Goods	-2,946	-3,357	-2,897	-3,165	-3,126	-850	-808	-914	-2,572	785	-23
Exports (fob)	1,614	1,708	1,828	1,962	1,912	565	633	564	1,762	54	3
o.w Coffee	50	50	88	113	77	20	21	12	53	3	5
Tea	253	314	347	346	337	101	132	121	354	40	13
Horticulture	255	250	264	257	216	73	67	68	207	-43	-17
Oil products	17	14	17	19	34	6	6	7	20	6	45
Manufactured Goods	130	140	124	167	172	55	55	52	162	22	16
Raw Materials	103	120	116	144	118	29	61	30	120	1	1
Chemicals and Related Products (n.e.s)	147	132	127	157	174	49	48	56	152	20	15
Miscellaneous Man. Articles	179	169	163	174	195	48	53	50	151	-18	-10
Re-exports	145	213	220	210	229	60	62	41	163	-50	-24
Other	321	345	359	357	347	118	121	123	361	16	5
Imports (fob)	4,561	5,065	4,724	5,128	5,038	1,414	1,441	1,478	4,334	-731	-14
o.w Oil	920	1,061	1,137	1,568	1,655	440	361	408	1,209	148	14
Chemicals	740	842	906	815	865	221	252	251	723	-119	-14
Manufactured Goods	967	889	954	937	856	232	255	237	724	-166	-19
Machinery & Transport Equipment	1,138	1,437	1,010	972	889	305	299	297	900	-537	-37
Machinery	735	765	671	671	598	210	172	0	383	-382	-50
Transport equipment	403	672	290	335	292	88	124	0	213	-459	-68
Other	1,012	1,004	936	1,221	1,091	329	412	401	1,142	138	14
o.w Food	463	484	450	533	553	181	213	0	394	-90	-19
Services	110	520	499	345	465	53	102	125	280	-240	-46
Transport Services (net)	-83	19	-16	-120	-72	-47	-63	-49	-159	-178	-941
Credit	336	548	603	506	522	123	146	151	420	-128	-23
Debit	418	529	619	625	594	170	209	200	579	50	9
Travel Services (net)	181	216	197	242	261	80	87	86	253	38	17
Credit	215	254	232	277	302	94	101	101	296	42	17
Debit	34	39	35	36	41	14	14	15	43	4	11
Other Services (net)	11	286	317	223	275	20	77	88	185	-100	-35
Primary Income	-432	-404	-478	-407	-472	-87	-180	-150	-417	-13	3
Credit	31	29	21	23	24	7	12	8	27	-2	-6
Debit	463	433	498	430	496	95	192	158	445	11	3
Secondary Income	1,554	1,684	1,605	1,566	1,554	504	592	651	1,747	62	4
Credit	1,602	1,701	1,622	1,586	1,570	509	603	657	1,769	68	4
Debit	47	17	17	20	16	5	11	5	22	6	34

\*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance widened by USD 16 million to a deficit of USD 420 million in the fourth quarter of 2022 from a deficit of USD 404 million in the same period last year, reflecting dividend payments on portfolio investment. The secondary income balance rose by USD 62 billion to 1,747 in the for quarter of 2022 compared with USD 1,684 in the fourth quarter of 2021. Remittances rose by 3 percent to USD 1,047 million in the fourth quarter of 2022 from USD 1,015 million in the same period in the previous year (**Table 5.1 and 5.2**).

## Direction of Trade

Imports from China accounted for 21 percent of total imports to Kenya making it the largest single source of imports, despite decreasing by 17 percent in the fourth quarter of 2022 when compared to the same quarter in 2021. Imports from the UAE rose by USD 470 million, while those from Africa declined by USD 61 million to USD 508 million in the fourth quarter of 2022, reflecting reduced imports from Egypt (**Table 5.3**).

**Table 5.3: Kenya's direction of trade: Imports**

IMPORTS (USD M)									Share of Imports (%)	
	2021*	2022*								
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Jul-Sep					
Country	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q4 2021	Q4 2022
Africa	569	577	553	629	156	177	176	508	11	12
Of which				0						
South Africa	97	156	112	139	31	48	35	114	2	3
Egypt	115	99	97	93	25	34	26	85	2	2
Others	357	322	344	398	100	95	114	310	7	7
								0	0	0
EAC	226	180	219	219	69	55	48	171	4	4
COMESA	292	252	266	265	85	98	74	256	6	6
Rest of the World	4,495	4,147	4,574	4,409	1,259	1,264	1,303	3,825	89	88
Of which										
India	561	546	758	441	118	138	133	389	11	9
United Arab Emirates	502	634	908	932	315	260	398	972	10	22
Japan	245	223	223	203	48	62	73	183	5	4
USA	195	214	190	192	75	59	63	197	4	5
United Kingdom	79	80	71	90	18	24	27	69	2	2
Singapore	56	16	12	30	17	16	10	43	1	1
Germany	70	67	74	90	20	20	21	60	1	1
Saudi Arabia	316	325	348	191	65	98	15	178	6	4
Indonesia	75	50	31	78	14	18	38	70	1	2
Netherlands	97	49	44	141	14	9	16	40	2	1
France	44	40	47	47	9	17	20	46	1	1
Bahrain	8	42	2	4	0	0	0	1	0	0
Italy	43	46	77	43	16	13	15	44	1	1
Others	2,203	1,814	1,790	1,929	531	530	473	1,534	43	35
Total	5,065	4,724	5,128	5,038	1,414	1,441	1,478	4,334	100	100
EU	514	446	447	588	170	141	159	469	10	11
China	1,095	987	993	957	292	303	317	912	22	21

\*Provisional

Source: Kenya Revenue Authority

The value of goods exported to Africa in the fourth quarter of 2022 was USD 729 million, accounting for 41 percent of total exports. Exports to EAC region fell mainly due to reduced exports to Rwanda, Uganda, and Tanzania. The share of exports to the EU was 20

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

**Table 5.4: Kenya's direction of trade: Exports**

EXPORTS (USD M)										Share of Exports (%)	
	2021			2022*							
	Jul-Sep	Oct-Dec	Jan-Mar	Apri-Jun	Jul-Sep	Oct-Dec					
Country	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q4 2021	Q4 2022
Africa	667	738	721	759	805	239	242	248	729	43	41
Of which											
Uganda	172	234	181	207	235	74	64	65	203	14	12
Tanzania	118	130	123	113	124	45	40	41	126	8	7
Egypt	40	50	65	61	55	8	19	19	46	3	3
Sudan	18	8	18	15	17	6	7	4	18	0	1
South Sudan	34	36	58	50	41	13	15	15	44	2	3
Somalia	36	30	30	26	38	9	11	15	35	2	2
DRC	39	34	34	37	35	14	15	15	44	2	2
Rwanda	66	97	67	93	108	26	23	29	78	6	4
Others	143	120	144	157	151	43	48	43	134	7	8
									0	0	
EAC	412	512	442	481	531	163	148	157	468	30	27
COMESA	446	502	460	525	549	159	158	164	481	29	27
Rest of the World	948	970	1,107	1,203	1,107	326	391	317	1,033	57	59
Of which											
United Kingdom	97	108	114	93	87	27	30	29	86	6	5
Netherlands	125	138	162	150	130	51	52	48	151	8	9
USA	158	135	135	215	201	38	62	37	138	8	8
Pakistan	102	145	148	124	128	45	51	47	144	8	8
United Arab Emirates	73	83	91	115	93	22	26	27	76	5	4
Germany	28	28	37	35	36	9	9	11	29	2	2
India	23	20	16	17	19	5	7	5	16	1	1
Afghanistan	1	2	6	9	4	2	2	3	7	0	0
Others	340	311	397	445	409	127	151	109	386	18	22
Total	1,614	1,708	1,828	1,962	1,912	565	633	564	1,762	100	100
EU	347	359	414	395	361	119	119	113	352	21	20
China	37	60	53	68	56	16	32	8	56	4	3

\*Provisional

Source: Kenya Revenue Authority

## Capital and Financial Account

Net capital account inflows were USD 29 million in the fourth quarter of 2022. Net financial account inflows were higher at USD 868 million in the fourth quarter

of 2022, compared to net inflows of USD 1,649 million in the fourth quarter of 2021 (**Table 5.5**). This largely reflects an increase in other investments inflows.

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

	2021		2022*							Q4 2022-Q4 2021	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				Absolute	%
	Q3	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Change	Change
Capital account credit	35	19	72	69	6	12	10	8	29	10	56
Capital account credit	35	19	72	69	6	12	10	8	29	10	56
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0
Financial Account	-1,649	-919	-1,004	-2,319	-43	-152	-322	-394	-868	51	-6
Direct investment: assets	1	-7	95	-6	-3	-2	-2	4	0	7	-101
Direct investment: liabilities	161	195	169	153	162	56	57	51	164	-31	-16
Portfolio investment: assets	269	262	206	150	56	54	52	34	140	-122	-47
Portfolio investment: liabilities	40	-68	25	-89	-54	-18	-6	-12	-35	33	-48
Financial derivatives: net	-10	-14	-10	-5	-9	-8	-15	-10	-33	-19	139
Other investment: assets	-286	316	-528	-56	-515	94	222	256	572	256	81
Other investment: liabilities	1,423	1,350	573	2,337	-536	252	528	638	1,419	69	5

\* Provisional

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The banking system's total foreign exchange holdings decreased to USD 11,343 million at the end of the fourth quarter of 2022 from USD 14,199 million in a similar period in 2021. The official reserves held by the Central Bank constituted the bulk of the

gross reserves and increased to USD 7,791 million, equivalent to 4.3 months of import cover, while Commercial Bank reserves decreased by USD 1,155 million to end at USD 3,553 million at the end of fourth quarter of 2022 (**Table 5.6**).

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

	2022							
	Jan-Mar	Apr-Jun	Jul-Sep		Oct-Dec			
	Q1	Q2	Sep	Q3	Oct	Nov	Dec	Q4
1. Gross Reserves	12,590	12,581	11,337	11,337	11,339	11,341	11,343	11,343
of which:								
Official	8,432	8,495	7,788	7,788	7,789	7,790	7,791	7,791
import cover*	4.9	4.9	4.4	4.4	4.4	4.4	4.3	4.3
Commercial Banks	4,158	4,086	3,550	3,550	3,551	3,552	3,553	3,553
2. Residents' foreign currency deposits	7,311	7,798	7,630	7,630	8,989	7,854	7,775	7,775

\*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 was stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 9.0 percent against the US Dollar to exchange at an average of 122.0 in the fourth quarter of 2022 compared with 111.9 in

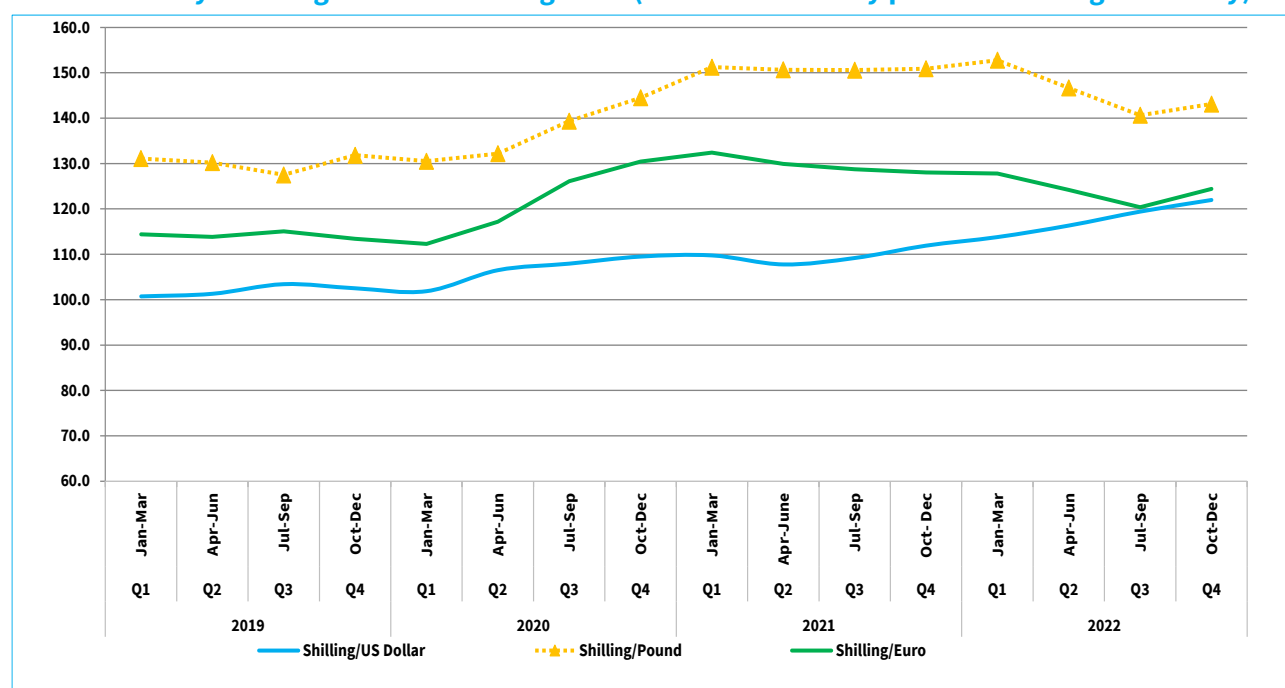
a similar quarter in 2021. It however, strengthened against the Sterling Pound, the Euro, and the Japanese Yen. It also outperformed all EAC regional currencies with Tanzanian Shillings and Burundian Franc depreciating against Kenya Shilling strongly (**Table 5.7 and Chart 5.1**).

**Table 5.7: Kenya Shilling exchange rate**

	2021	2022							Q4 2022- Q4 2021
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct	Nov	Dec	Oct-Dec	% change
US Dollar	111.90	113.79	116.32	119.40	121.03	121.90	122.93	121.95	8.99
Pound Sterling	150.90	152.77	146.67	140.66	136.60	142.97	149.80	143.12	-5.15
Euro	128.06	127.81	124.21	120.35	119.03	124.17	130.00	124.40	-2.86
100 Japanese Yen	98.47	97.99	89.90	86.45	82.32	85.60	90.91	86.28	-12.38
South Africa Rand	7.26	7.46	7.50	7.02	6.69	6.96	7.12	6.92	-4.60
Uganda Shilling*	31.84	31.15	31.28	31.96	31.61	30.85	30.01	30.82	-3.19
Tanzania Shilling*	20.52	20.32	20.00	19.53	19.27	19.13	18.98	19.13	-6.77
Rwanda Franc*	9.17	9.06	8.78	8.67	8.80	8.79	8.73	8.77	-4.30
Burundi Franc*	17.86	17.66	17.66	17.27	17.08	16.97	16.85	16.97	-5.00

\* 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

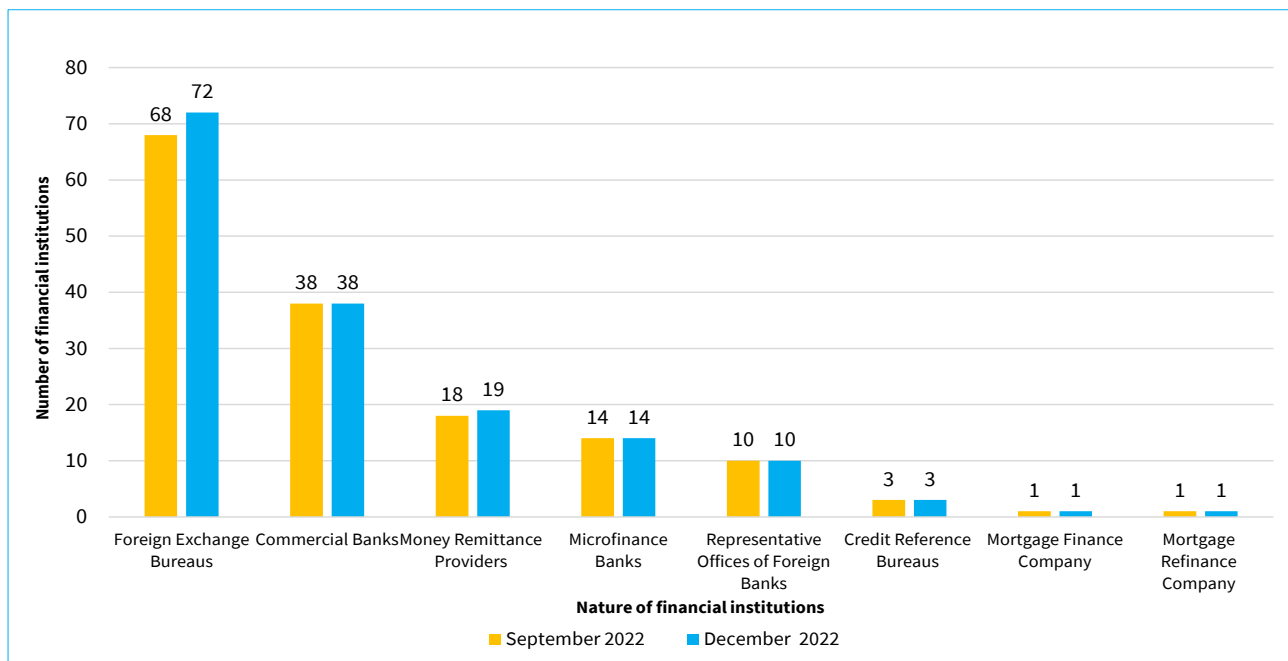
The banking sector remained stable and resilient in the fourth quarter of 2022. Total assets increased by 2.8 percent to Ksh.6,596.9 billion in December 2022, from Ksh.6,415.2 billion in September 2022. The deposit base also increased by 2.2 percent to Ksh.4,730.1 billion in the fourth quarter of 2022, from Ksh.4,626.1 billion in the third quarter of 2022. The sector was well capitalized with capital adequacy ratio of 19.0 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the fourth quarter of 2022, with quarterly profit before tax of Ksh.57.2 billion, a decrease from Ksh.67.1 billion reported in the third quarter of 2022. Credit risk remained elevated but easing with Gross Non-

performing Loans (NPLs) to Gross Loans Ratio standing at 13.3 percent at the end of the fourth quarter of 2022, compared to 13.7 percent at the end of third quarter of 2022.

### 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 and 3 Credit Reference Bureaus as of December 31, 2022. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

**Chart 6.1: Structure of the banking sector**



Source: Central Bank of Kenya

## Structure of the Balance Sheet

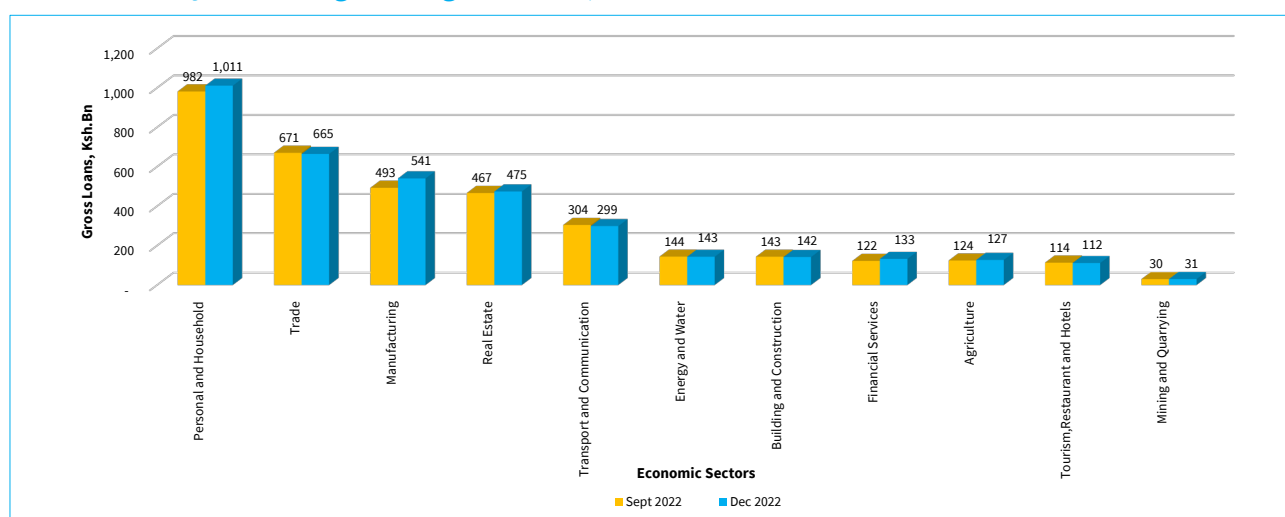
### i) Growth in banking sector assets

Total assets increased by 2.8 percent to Ksh.6,596.6 billion in December 2022, from Ksh.6,415.2 billion in September 2022. The increase in total assets was mainly recorded in loans and advances by Ksh.82.6 billion (2.3 percent), placements by Ksh.81.3 billion (29.5 percent) and other assets by Ksh.24.9 billion (7.1 percent). Net loans and advances remained the main component of total assets, accounting for 51.0 percent in the fourth quarter of 2022, a decrease from 51.2 percent recorded in the third quarter of 2022.

### ii) Loans and Advances

The banking sector loan book increased by 2.3 percent, to Ksh.3,677.3 billion in the fourth quarter of 2022, from Ksh.3,594.7 billion in the third quarter of 2022. The increase in gross loans and advances was largely witnessed in the Manufacturing, Personal and Household, Financial Services, and Real Estate sectors. The increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the third and fourth quarters of 2022, is highlighted in **Chart 6.2**.

**Chart 6.2: Kenyan banking sector gross loans)**

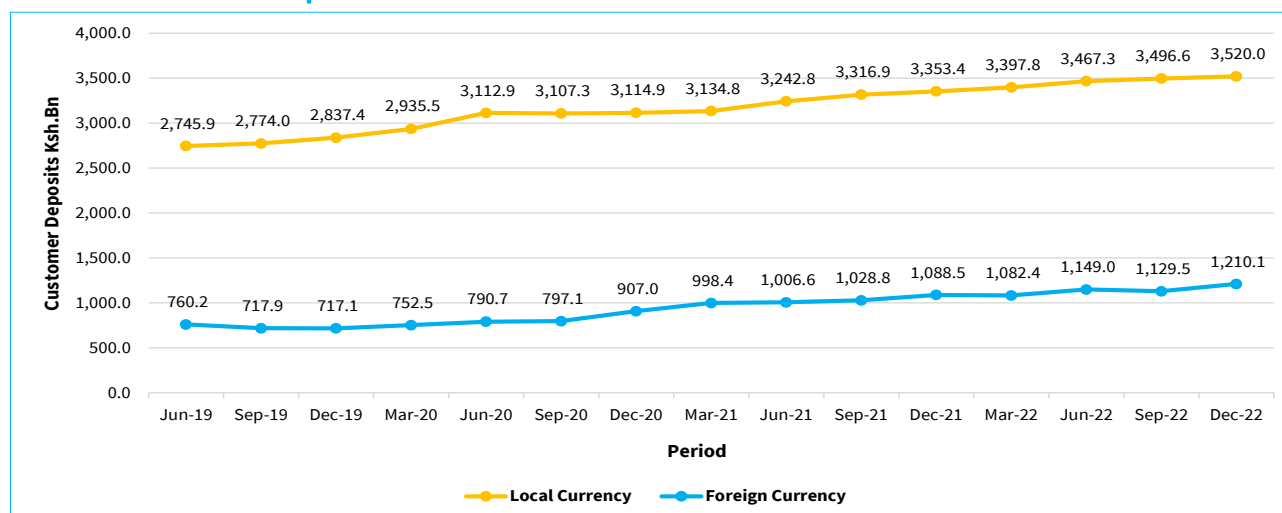


Source: Central Bank of Kenya

### iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 71.7 percent of the banking sector total liabilities and shareholders' funds as at the end of the fourth quarter of 2022. The customer deposit base increased by Ksh.104.0 billion to Ksh.4,730.1 billion in the fourth quarter of 2022, from Ksh.4,626.1 billion in the third quarter

of 2022. Local currency deposits increased by Ksh.23.4 billion (0.7 percent) to Ksh.3,520.0 billion in the fourth quarter of 2022, from Ksh.3,496.6 billion in the third quarter of 2022. Foreign currency deposits increased by Ksh.80.6 billion (7.1 percent) to Ksh.1,210.1 billion in the fourth quarter of 2022, from Ksh.1,129.5 billion in the third quarter of 2022. **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.822.3 billion in the fourth quarter of 2022, from Ksh.797.7 billion in the third quarter of 2022. Total capital also increased by 3.3 percent to Ksh.968.2 billion in the fourth quarter of 2022, from Ksh.936.9 billion in the third quarter of 2022. The increases in capital levels are mainly attributable to increased retained profit in the fourth quarter of 2022. Retained profits increased by Ksh.41.9 billion (30.2 percent) to Ksh.180.7 billion in the fourth quarter of 2022.

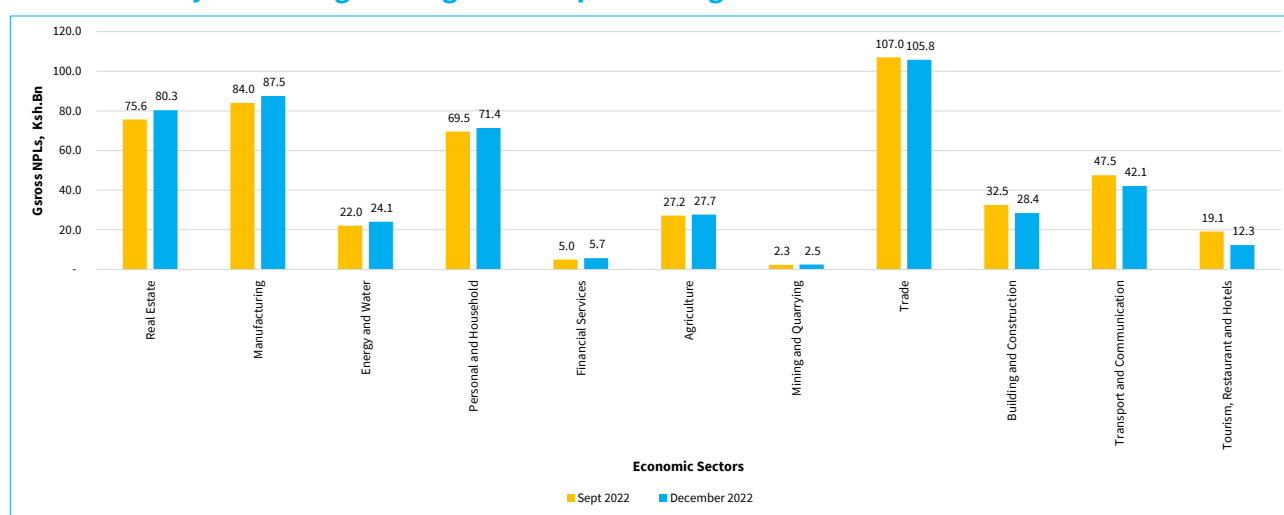
Core capital to total risk-weighted assets ratio decreased marginally to 16.1 percent in the fourth quarter of 2022 as compared to 16.2 percent in the third of 2022. The decrease was mainly due to a higher increase in Total Risk Weighted Asset of 3.3 percent as compared to 3.1 percent increase in core capital. Total capital to total risk-weighted assets ratio remained the same at 19.0 percent in both the

third and fourth quarters of 2022.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.4 percent in the fourth of 2022.

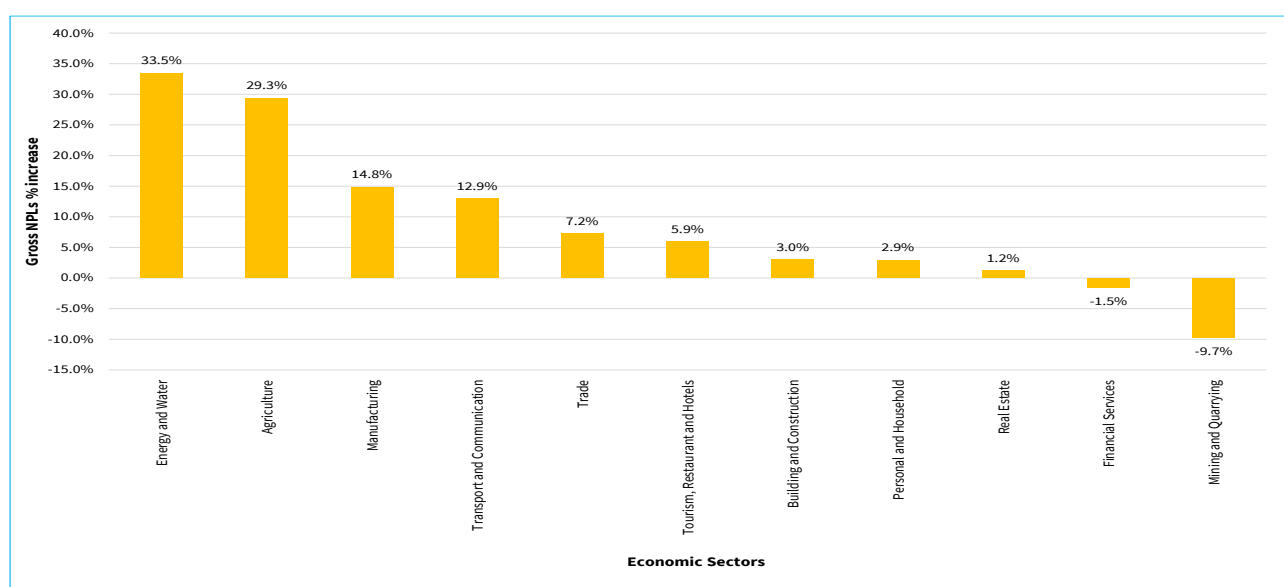
## Asset Quality

The gross non-performing loans (NPLs) decreased by 0.8 percent from Ksh.491.8 billion at the third quarter of 2022, to Ksh.487.7 billion at the end of the fourth quarter of 2022. The gross NPLs to gross loans ratio decreased to 13.3 percent in the fourth quarter of 2022, from 13.7 percent in the third quarter of 2022. This was due to a 0.8 percent decrease in gross NPLs and a 2.3 percent increase in gross loans. **Chart 1.4** highlights the sectoral distribution of gross NPLs.

**Chart 6.4: Kenyan banking sector gross non-performing loans**

Source: Central Bank of Kenya

The decrease in gross NPLs was spread across four economic sectors as highlighted in **Chart 6.5**.

**Chart 6.5: Movement in Gross NPLs-Second Third Quarter of 2022 and Fourth Quarter 2022**

Source: Central Bank of Kenya

Tourism, Restaurant and Hotels, Building and Construction, Transport and Communication and Trade sectors registered decreases in NPLs by 60.9 percent (Ksh.17.6 billion) as a result of repayments. Real Estate, Manufacturing, Energy and Water and Personal and Household sectors recorded major increases in NPLs, mainly due to delayed payments.

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

to 6.3 percent in the fourth quarter of 2022, from 6.4 percent in the third quarter of 2022. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased from 44.1 percent in the third quarter of 2022, to 43.1 percent in fourth quarter of 2022, due to an decrease in total NPLs (0.8 percent) compared to a higher decrease in specific provisions (2.5 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

**Table 6.1: Summary of asset quality**

		Sept- 2022	Dec- 2022
1.	Gross Loans and Advances (Ksh.Bn)	3,594.7	3,677.3
2.	Interest in Suspense (Ksh.Bn)	80.4	79.2
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,514.3	3,598.1
4.	Gross Non-Performing loans (Ksh.Bn)	491.8	487.7
5.	Specific Provisions (Ksh.Bn)	181.6	177.0
6.	General Provisions (Ksh.Bn)	51.3	53.4
7.	Total Provisions (5+6) (Ksh.Bn)	232.9	230.4
8.	Net Advances (3-7) (Ksh.Bn)	3,281.4	3,367.7
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	411.5	408.5
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	229.9	231.5
11.	Total NPLs as % of Total Advances (9/3) (%)	11.7	11.4
12.	Net NPLs as % of Gross Advances (10/1) (%)	6.4	6.3
13.	Specific Provisions as % of Total NPLs (5/9) (%)	44.1	43.3
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	13.7	13.3

Source: Central Bank of Kenya

## Profitability

The banking sector recorded a decrease in quarterly pre-tax profits of Ksh.9.9 billion (14.8 percent) to Ksh.57.2 billion in the fourth quarter of 2022, from Ksh.67.1 billion in the third quarter of 2022. The decrease in profitability was mainly attributable to a higher increase in quarterly expenses by Ksh.19.4 billion and a lower increase in quarterly income by Ksh.9.5 billion.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 44.9 percent, 28.4 percent and 15.0 percent in the fourth quarter of 2022 as compared to 45.6 percent, 27.7 percent and 15.0 in the third quarter of 2022.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 31.0 percent, 25.1 percent and 23.2 percent of total expenses respectively in the third quarter of 2022, compared to 31.8 percent, 25.2 percent and 23.6 percent in the third quarter of 2022.

Return on Assets (ROA) decreased slightly to 3.0 in the fourth quarter of 2022, as compared to 3.1 percent recorded in the third quarter of 2022. Return on Equity (ROE) decreased marginally from 27.2 percent in the third quarter of 2022, to 25.2 percent in the fourth quarter of 2022. The decrease

in ROE and RAO was due to decreased profit before tax between the two quarters.

## Liquidity

The banking sector's overall liquidity ratio decreased to 50.8 percent in the fourth quarter of 2022, from 51.5 percent in the third quarter of 2022. The decrease was driven by a higher increase in total short-term liabilities (1.4 percent) as compared to a 0.1 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 and Treasury bonds are the only components of liquidity that recorded increases of 37.3 percent and 2.3 percent respectively. The liquidity components that recorded major decreases are balances with CBK (22.8 percent) and foreign bills and bonds (8.2 percent).

## Outlook of the Sector

- The banking sector is projected to remain stable in the first quarter of 2023.
- Operational risk is expected to remain elevated due to continued uncertainty of the COVID-19 trajectory and increasing cyber security risks.
- Credit risk is expected to remain elevated in the short to medium term.
- Liquidity risk is expected to remain stable.

## Kenya Shilling Flows in KEPSS

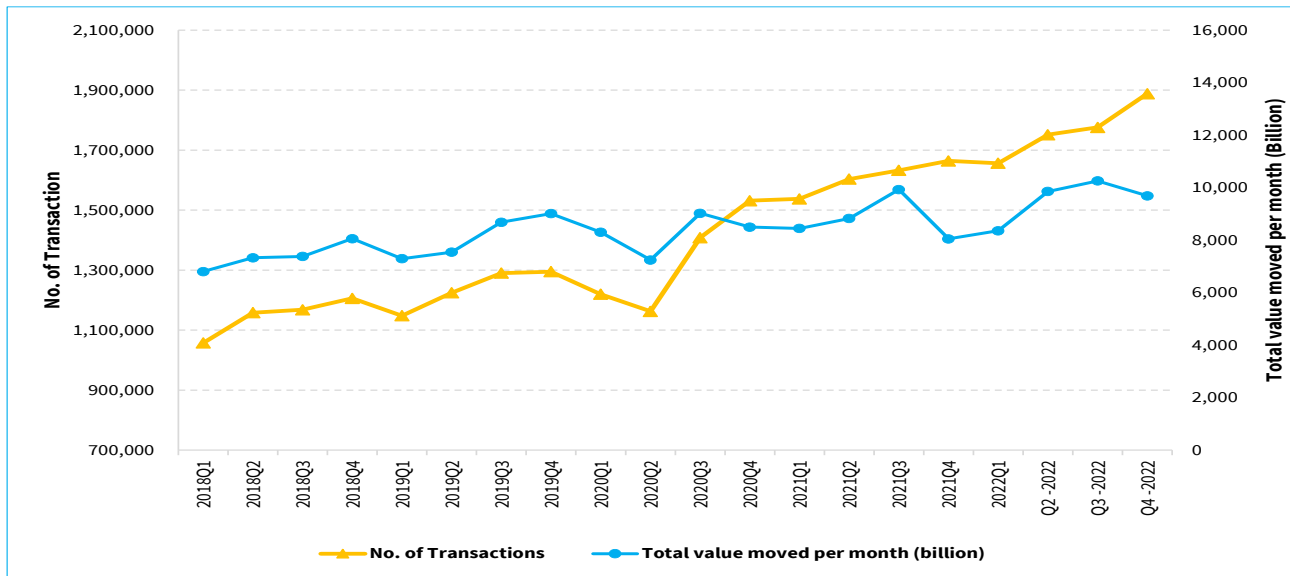
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.78 million transaction messages worth KSh 10.3 trillion in the third quarter of 2022, compared to the second quarter of 2022, which recorded 1.75 million transactions worth KSh 9.9 trillion. Volume and value 1.40% and 4.06% respectively.

Chart 6.6 below highlights recent trends in KEPSS transactions.

## System Availability

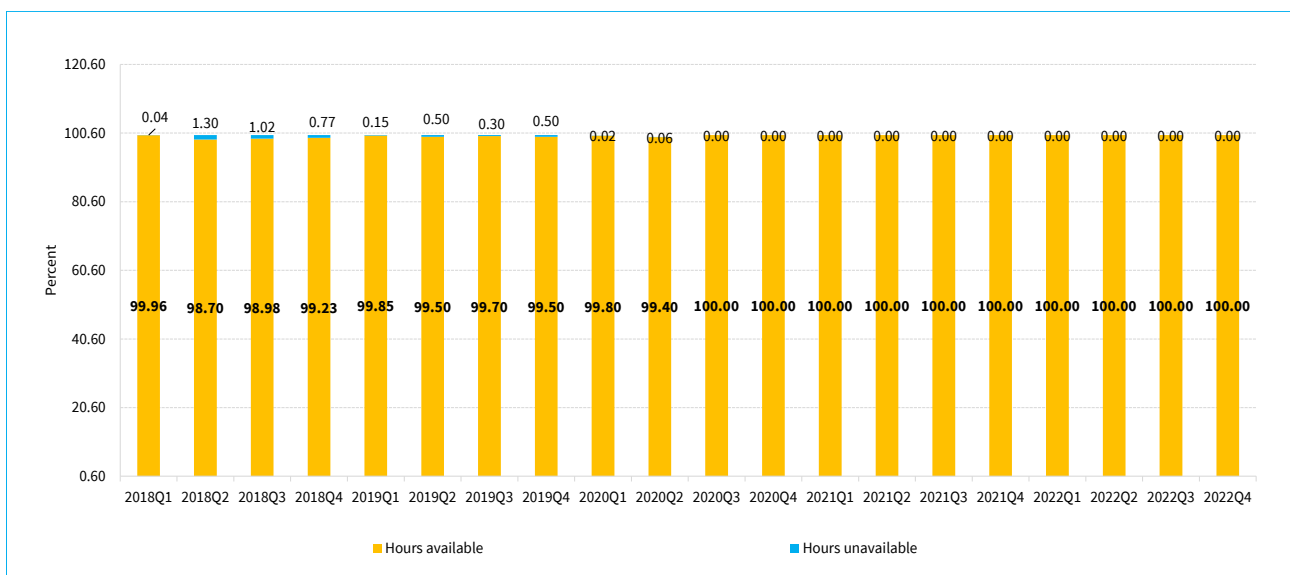
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review (Chart 6.7).

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 second quarter of FY 2022/23 resulted in a deficit (including grants) of 1.6 percent of GDP.

Revenue collection and expenditure were below target by 4.6 percent and 7.5 percent, respectively (**Table 7.1**).

**Table 7.1: Statement of government operations (KSh Billion)**

	FY 2021/22	FY 2022/23					Over (+) / Below (-)	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
	Q2	Oct	Nov	Dec	Q2	Target					
1. TOTAL REVENUE & GRANTS	531.2	163.2	163.7	213.6	540.5	1,163.9	(53.2)	(4.6)	1.7	7.9	8.3
Ordinary Revenue	469.5	150.0	151.0	198.5	499.6	1,028.1	(43.2)		6.4		
Tax Revenue	451.5	142.6	150.5	193.9	487.1	988.3	(36.5)		7.9		
Non Tax Revenue	18.0	7.5	0.5	4.6	12.5	39.8	(6.6)		(30.5)		
Appropriations-in-Aid	56.4	11.6	11.5	14.1	37.2	130.1	(8.6)		(33.9)		
External Grants	5.3	1.5	1.2	1.0	3.7	5.6	(1.3)		(31.1)		
2. TOTAL EXPENSES & NET LENDING	733.2	109.3	227.8	243.7	580.8	1,448.9	(108.6)	(7.5)	(20.8)	9.5	10.3
Recurrent Expenses	531.5	81.8	170.5	178.9	431.1	1,014.6	(10.2)		(18.9)		
Development Expenses	117.7	12.5	20.6	45.8	78.9	234.7	(39.9)		(33.0)		
County Transfers	83.9	15.0	36.7	19.0	70.8	197.7	(56.6)		(15.7)		
Others	-				-	2.0	(2.0)				
3. DEFICIT (INCL. GRANTS) (1-2)	-202.0	53.9	(64.1)	(30.1)	(40.3)	(285.1)	55.5	(19.5)	(80.0)	(1.6)	(2.0)
As percent of GDP	-1.6	0.4	(0.4)	(0.2)	(0.3)	(2.0)					
4. ADJUSTMENT TO CASH BASIS	13.7				-	-	-				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	-188.3	53.9	(64.1)	(30.1)	(40.3)	(285.1)	55.5	(19.5)	(78.6)	(1.6)	(2.0)
As percent of GDP	-1.5	0.4	(0.4)	(0.2)	(0.3)	(2.0)					
6. DISCREPANCY: Expenditure (+) / Revenue (-)	12.0	(39.2)	127.8	29.7		-					
7. FINANCING	200.3	14.7	63.7	(0.4)	78.0	285.1	(65.8)	(23.1)	(61.1)	1.6	2.0
Domestic (Net)	159.3	10.9	68.3	(56.6)	22.6	233.0	(108.8)		(85.8)		
Capital Receipts (domestic loan receipts)	2.1	-	-	-	-	-	-				
External (Net)	41.0	3.8	(4.6)	56.1	55.4	52.1	43.1		35.0		
Others	-				-	-	-				

Source: The National Treasury-September 2022 Budget Outturn (BOT)

## Revenue

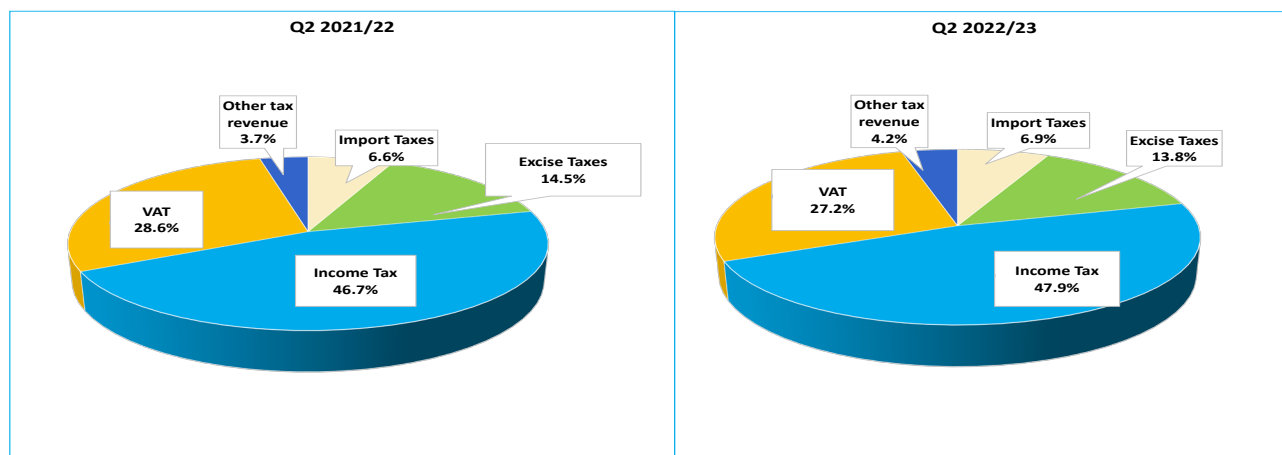
Government receipts, comprising revenue and grants increased by 1.7 percent to KSh 540.5 billion in the second quarter of FY 2022/23, compared to KSh 531.3 billion in the second quarter of FY 2021/22. The increase was reflected in tax revenues which improved by 7.9 percent while non-tax revenue, Appropriation in Aid (A-in-A) as well as external grants declined by 30.5 percent, 33.9 percent and 31.1 percent, respectively.

There was a minor shift in the composition of tax revenues in the second quarter of FY 2022/2023 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT) and Excise Taxes declined by 1.4 percentage points and 0.6 percentage points respectively, while the share of income tax, import tax and other taxes improved by 1.2 percentage points, 0.3 percentage points, and 0.5 percentage points, respectively.

Cumulatively to December 2022, Government total revenue and grants stood at KSh 1,110.7 billion (7.9 percent of GDP) against a target of KSh 1,163.9 billion (8.3 percent of GDP). Tax revenue and non-tax revenues were below their respective targets.

External grants cumulatively to December 2022 stood at KSh 4.3 billion, which was KSh 1.3 billion lower than target, occasioned by slow absorption of donor funds. Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to December 2022 amounted to KSh 121.4 billion, which was KSh 8.6 billion lower than the target.

**Chart 7.1: Composition of tax revenue**



Source: December 2022 BOT, National Treasury

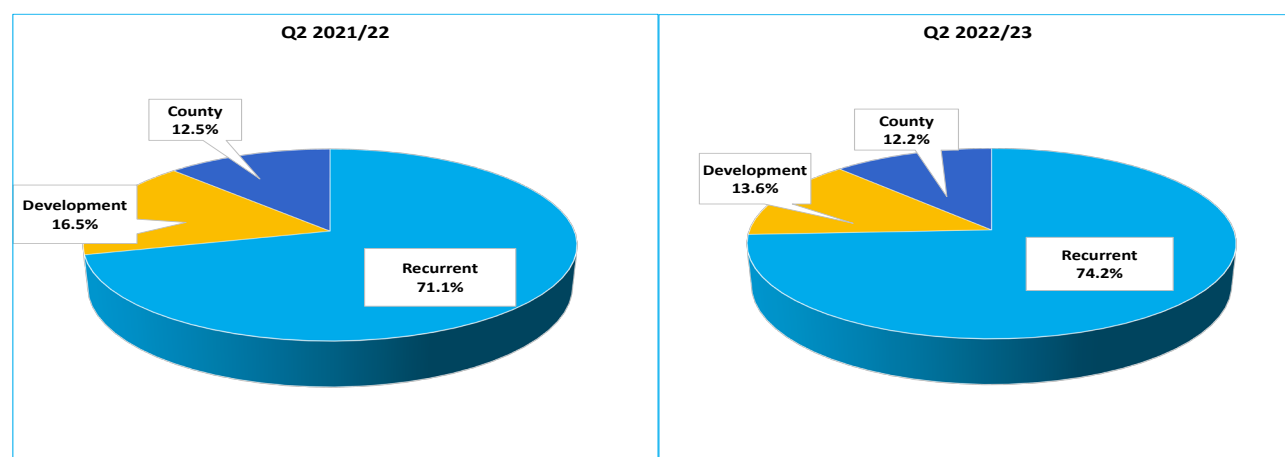
## Expenditure and Net Lending

Government expenditure and net lending decreased by 20.8 percent to KSh 580.8 billion in the second quarter of the FY 2022/23 compared to KSh 733.2 billion in the second quarter of the FY 2021/22. The decrease in expenditures reflected a decline in national government recurrent and development expenditures, and county transfers by 18.9 percent, 33.0 percent, and 15.7 percent, respectively.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 74.2 percent in the second quarter of the FY 2022/23, which was 3.2 percentage points higher than the level recorded in a similar

quarter during the previous fiscal year. The share of development expenditure and county allocations decreased by 2.9 percentage points and 0.3 percentage points respectively, during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to December 2022 amounted to KSh 1,340.3 billion (9.5 percent of GDP), against a target of KSh 1,448.9 billion (10.3 percent of GDP). The shortfall of KSh 108.6 billion was mainly attributed to lower absorption recorded in recurrent and development expenditures by the National Government and below target transfers to County Governments.

**Chart 7.2: Composition of government expenditure**

Source: December 2022 BOT, National Treasury

## Financing

The budget deficit including grants amounted to KSh 229.6 billion or 1.6 percent of GDP at the end of the second quarter of FY 2022/23. Domestic borrowing comprised KSh 8.7 billion from commercial banks, KSh 171.1 billion from non-banks, KSh 2.3 billion from domestic loan repayment receipts and a KSh

57.9 billion drawdown on government deposit at the Central Bank (**Table 7.2**). Net domestic borrowing by the end of the second quarter of FY 2022/23 was below target by KSh 108.8 billion while net external borrowing was above target by KSh 43.1 billion (**Table 7.1 and Table 7.2**).

**Table 7.2 Domestic financing to September 2022 (KSh Billion)**

	FY 2022/23			FY 2022/23		
	Q1			Q2		
	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
1. From CBK	19.4	47.7	(1.6)	20.0	19.8	(57.9)
2. From commercial banks	12.6	18.9	25.9	(3.0)	21.0	8.7
4. From Non-banks	19.7	37.9	77.2	99.3	136.0	171.1
5. From Non-Residents	0.0	0.1	0.1	(0.2)	(0.1)	(0.1)
6. Total Net Domestic Credit	51.7	104.6	101.6	116.0	176.6	121.8
7. Other Domestic financing /1	-	-	-	-	-	2.3
8. Net Domestic Financing	51.7	104.6	101.6	116.0	176.6	124.1

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

## Outlook for FY 2022/23

In the revised budget from the National Treasury for the FY 2022/23, total revenue including grants is projected at KSh 2,560.2 billion (17.6 percent of GDP). Government expenditure is projected at KSh 3,394.1 billion (23.4 percent of GDP), of which KSh 2,349.9 billion will be for recurrent expenses, KSh 605.8 billion for development expenses and KSh 436.3 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 833.9 billion (5.7 percent of GDP) in FY 2022/23, to be financed through net external borrowing of KSh 395.8 billion and net domestic borrowing of KSh 438.1 billion (**Table 7.3**).

**Table 7.3: Budget estimates for the fiscal year 2022/23 (Ksh Billion)**

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE ( Including Grants)	2,560.2	17.6
Ordinary Revenue	2,192.0	15.1
Appropriations-in-Aid	336.8	2.3
External Grants	31.4	0.2
2. TOTAL EXPENSES & NET LENDING	3,394.1	23.4
Recurrent Expenses	2,349.9	16.2
Development Expenses	605.8	4.2
County Transfer	436.3	3.0
Contingency Fund	2.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	(833.9)	(5.7)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	833.9	5.7
Domestic (Net)	438.1	3.0
External (Net)	395.8	2.7

Source: National Treasury

## Chapter 8

# Developments in Public Debt

### Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 5.1 percent during the second quarter of 2022/23. Domestic and external debt increased by 2.4 percent and 7.8 percent, respectively. The ratio of

public debt to GDP was estimated at 69.1 percent by the end of second quarter of 2022/23 compared to 66.9 percent by the end of the first quarter of 2022/23 (**Table 8.1**).<sup>1</sup>

**Table 8.1 Kenya's public and publicly guaranteed debt**

	2019/20	2020/21	2021/22				2022/23				Change Q on Q
	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Oct-22	Nov-22	Q2	
EXTERNAL											
Bilateral	1,074.3	1,140.5	1,149.2	1,171.7	1,171.6	1,173.2	1,144.5	1,150.5	1,182.7	1,206.9	62.4
Multilateral	1,321.6	1,659.4	1,699.4	1,782.1	1,817.4	1,924.0	1,957.9	1,978.6	2,033.1	2,213.8	255.9
Commercial Banks	1,102.3	1,187.4	1,196.2	1,208.3	1,208.2	1,181.3	1,220.7	1,218.4	1,234.6	1,239.7	19.00
Supplier Credits	17.6	12.2	13.7	12.3	12.3	12.2	11.8	12.1	12.5	12.8	1.1
Sub-Total	3,515.8	3,999.5	4,058.5	4,174.4	4,209.6	4,290.7	4,334.8	4,359.6	4,462.9	4,673.1	338.4
(As a % of GDP)	33.1	35.4	34.5	34.5	34.0	33.7	33.3	33.3	33.9	35.3	
(As a % of total debt)	52.5	52.0	50.8	50.9	50.1	50.0	49.8	49.8	50.2	51.1	
DOMESTIC											
Banks	1,752.1	1,901.8	2,008.6	2,031.7	2,097.8	2,088.5	2,086.3	2,083.4	2,095.7	2,083.3	-3.0
Central Bank	98.9	87.6	90.9	88.7	95.6	85.1	53.9	86.5	68.3	65.9	12.0
Commercial Banks	1,653.2	1,814.2	1,917.6	1,943.0	2,002.2	2,003.4	2,032.4	1,996.9	2,027.4	2,017.4	-15.0
Non-banks	1,392.3	1,764.2	1,869.1	1,968.9	2,061.4	2,167.9	2,248.0	2,271.0	2,308.5	2,357.8	109.8
Pension Funds	923.1	1,131.3	1,230.2	1,264.1	1,331.5	1,388.8	1,429.6	1,439.6	1,462.0	1,489.9	60.3
Insurance Companies	192.2	246.4	260.0	273.7	286.6	307.8	319.7	322.3	324.7	329.7	10.0
Other Non-bank Sources	277.0	386.6	379.0	431.1	443.2	471.2	498.8	509.2	521.9	538.2	39.4
Non-residents	33.2	31.1	34.1	31.7	32.6	31.9	31.9	31.7	31.7	31.8	-0.2
Sub-Total	3,177.0	3,697.1	3,937.8	4,032.4	4,191.8	4,288.3	4,366.3	4,386.1	4,435.9	4,472.8	106.6
(As a % of GDP)	29.9	32.7	33.4	33.3	33.8	33.7	33.6	33.5	33.7	33.8	
(As a % of total debt)	47.5	48.0	49.2	49.1	49.9	50.0	50.2	50.2	49.8	48.9	
GRAND TOTAL	6,692.8	7,696.6	7,996.3	8,206.7	8,401.3	8,579.1	8,701.1	8,745.7	8,898.8	9,146.0	444.9
(As a % of GDP)	63.0	68.1	67.9	67.8	67.8	67.3	66.9	66.9	67.7	69.1	

Source: The National Treasury and CBK

### Domestic Debt

The 2.4 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt decreased by 0.2 percentage points to 48.9 percent by the end of the second quarter of 2022/23 from 49.1 percent

in a similar quarter of 2021/22. The proportion of debt securities to total domestic debt stood at 98.4 percent by the end of the second quarter of 2022/23 which was 0.4 percentage points higher than in a similar quarter in 2021/22 (**Table 8.2**).

<sup>1</sup> 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 %				
	2021/22	2022/23						2021/22	2022/23			
	Q2	Q1	Oct-22	Nov-22	Q2	Ksh(Bn)	%	Q2	Q1	Oct-22	Nov-22	Q2
Total Stock of Domestic Debt (A+B)	4,032.4	4,366.3	4,386.1	4,435.9	4,472.8	106.6	2.4	100.0	100.0	100.0	100.0	100.0
A. Government Securities	3,951.4	4,325.4	4,312.2	4,379.8	4,399.9	74.4	1.7	98.0	99.1	98.3	98.7	98.4
1. Treasury Bills (excluding Repo Bills)	709.1	690.6	679.5	706.0	689.2	-1.3	-0.2	17.6	15.8	15.5	15.9	15.4
Banking institutions	397.5	315.7	287.1	312.4	293.5	-22.2	-7.0	9.9	7.2	6.5	7.0	6.6
The Central Bank	2.3	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Commercial Banks	395.2	315.6	287.0	312.3	293.5	-22.2	-7.0	9.8	7.2	6.5	7.0	6.6
Pension Funds	154.3	174.1	182.8	184.7	195.3	21.1	12.1	3.8	4.0	4.2	4.2	4.4
Insurance Companies	5.2	8.0	8.3	8.4	8.6	0.5	6.8	0.1	0.2	0.2	0.2	0.2
Others	152.1	192.7	201.2	200.5	191.9	-0.8	-0.4	3.8	4.4	4.6	4.5	4.3
2. Treasury Bonds	3,242.2	3,634.9	3,632.7	3,673.8	3,710.6	75.8	2.1	80.4	83.2	82.8	82.8	83.0
Banking institutions	1,553.2	1,711.6	1,704.2	1,709.1	1,717.9	6.3	0.4	38.5	39.2	38.9	38.5	38.4
The Central Bank	7.6	7.6	7.6	7.6	7.6	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,545.6	1,703.9	1,696.5	1,701.4	1,710.2	6.3	0.4	38.3	39.0	38.7	38.4	38.2
Insurance Companies	268.6	311.6	313.9	316.3	321.1	9.5	3.0	6.7	7.1	7.2	7.1	7.2
Pension Funds	1,109.8	1,255.4	1,256.8	1,277.3	1,294.6	39.2	3.1	27.5	28.8	28.7	28.8	28.9
Others	310.7	356.2	357.8	371.2	377.0	20.8	5.8	7.7	8.2	8.2	8.4	8.4
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
4. Frozen account	19.5	18.9	18.9	18.9	18.3	-0.6	-2.9	0.5	0.4	0.4	0.4	0.4
Of which: Repo T/Bills	18.8	18.3	18.3	18.3	17.7	-0.6	-3.0	0.5	0.4	0.4	0.4	0.4
B. Others:	61.5	21.9	55.0	37.3	54.6	32.7	148.9	1.5	0.5	1.3	0.8	1.2
Of which CBK overdraft to Government	59.3	27.2	59.8	41.7	58.5	31.3	114.7	1.5	0.6	1.4	0.9	1.3

Source: Central Bank of Kenya

## Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 0.2 percent decrease during the second quarter of 2022/23. As a result, the proportion of Treasury bills to total domestic debt decreased by 0.4 percentage points. Commercial banks were the leading holders of Treasury bills at 42.6 percent (**Table 8.2**).

## Treasury Bonds

Treasury bonds holdings increased by 2.1 percent during the second quarter of 2022/23, which was slightly higher than the 1.8 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 14-year and 6-year infrastructure Treasury bonds issued during the quarter (**Table 8.3**). The leading holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KSh (Billion)								Change Q on Q		Proportions							
		2021/22				2022/23						2021/22				2022/23			
		Q1	Q2	Q3	Q4	Q1	Oct-22	Nov-22	Q2	KShs(Bn)	%	Q1	Q2	Q3	Q4	Q1	Oct-22	Nov-22	Q2
Treasury bills	91-Day	81.5	55.7	43.0	59.3	134.2	127.5	146.9	156.3	22.1	16.4	2.1	1.4	1.0	1.4	3.1	2.9	3.3	3.5
	182-Day	176.1	183.8	172.2	173.9	151.7	154.2	167.1	163.4	11.7	7.7	4.5	4.6	4.1	4.1	3.5	3.5	3.8	3.7
	364-Day	505.8	469.7	441.2	395.5	386.3	379.5	373.7	351.8	-34.5	-8.9	12.8	11.6	10.5	9.2	8.8	8.7	8.4	7.9
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
	2-Year	55.9	55.9	55.9	55.9	55.9	55.9	55.9	16.8	-39.1	-69.9	1.4	1.4	1.3	1.3	1.3	1.3	1.3	0.4
	3-Year	0.0	0.0	0.0	36.7	58.8	58.8	58.8	58.8	0.0	0.0	0.0	0.0	0.0	0.9	1.3	1.3	1.3	1.3
	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
	5-Year	269.1	322.7	362.3	362.3	332.7	311.9	311.9	311.9	-20.7	-6.2	6.8	8.0	8.6	8.4	7.6	7.1	7.0	7.0
	6-Year	20.2	20.2	20.2	20.2	20.2	20.2	20.2	79.7	59.4	293.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1.8
	7-Year	41.5	41.5	41.5	41.5	41.5	41.5	21.3	21.3	-20.2	-48.7	1.1	1.0	1.0	1.0	0.9	0.9	0.5	0.5
	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
	9-Year	123.5	123.5	123.5	123.5	123.5	123.5	123.5	115.5	-8.0	-6.5	3.1	3.1	2.9	2.9	2.8	2.8	2.8	2.6
	10-Year	514.3	534.9	542.2	541.4	577.1	591.3	591.3	591.3	14.3	2.5	13.1	13.3	12.9	12.6	13.2	13.5	13.3	13.2
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	2.0	2.0	1.9	1.9	1.8	1.8	1.8	1.8
	12-Year	108.0	102.7	99.7	99.7	99.7	89.3	89.3	89.3	-10.4	-10.4	2.7	2.5	2.4	2.3	2.3	2.0	2.0	2.0
	14-Year			0.0	0.0	0.0	0.0	94.3	94.3	94.3		0.0	0.0	0.0	0.0	0.0	0.0	2.1	2.1
	15-Year	858.0	874.9	893.4	898.3	921.5	922.6	889.7	889.7	-31.9	-3.5	21.8	21.7	21.3	20.9	21.1	21.0	20.1	19.9
	16- Year	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	3.9	3.8	3.6	3.5	3.5	3.5	3.4	3.4
	18- Year	81.8	81.8	81.8	155.4	161.6	161.6	161.6	161.6	0.0	0.0	2.1	2.0	2.0	3.6	3.7	3.7	3.6	3.6
	19-Year	0.0	0.0	98.4	98.4	98.4	98.4	98.4	98.4	0.0	0.0	0.0	0.0	2.3	2.3	2.3	2.2	2.2	2.2
	20-Year	484.7	518.6	546.8	546.8	555.1	555.1	555.1	572.3	17.3	3.1	12.3	12.9	13.0	12.8	12.7	12.7	12.5	12.8
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	2.7	2.6	2.5	2.5	2.4	2.4	2.4	2.4
	25-Year	172.8	198.5	207.8	221.8	221.8	235.5	235.5	242.6	20.8	9.4	4.4	4.9	5.0	5.2	5.1	5.4	5.3	5.4
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
	Repo T bills	19.4	18.8	18.8	18.3	18.3	18.3	18.3	17.7	-0.6	-3.0	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
	Overdraft	55.1	59.3	68.4	58.5	27.2	59.8	41.7	58.5	31.3	114.7	1.4	1.5	1.6	1.4	0.6	1.4	0.9	1.3
	Other Domestic debt	3.0	2.8	7.5	13.7	13.6	14.1	14.5	14.5	0.9	6.4	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3
Total Debt		3,937.8	4,032.4	4,191.8	4,288.3	4,366.3	4,386.1	4,435.9	4,472.8	106.6	2.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

**Domestic Debt by Tenor and the Maturity Structure**

The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at the ratio of 84:16 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year, 20-year, and 25-year Treasury Bonds accounted for 70.7 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt remained low as the Treasury bills component in the domestic debt profile stood at 70.7 percent by the end of December 2022.

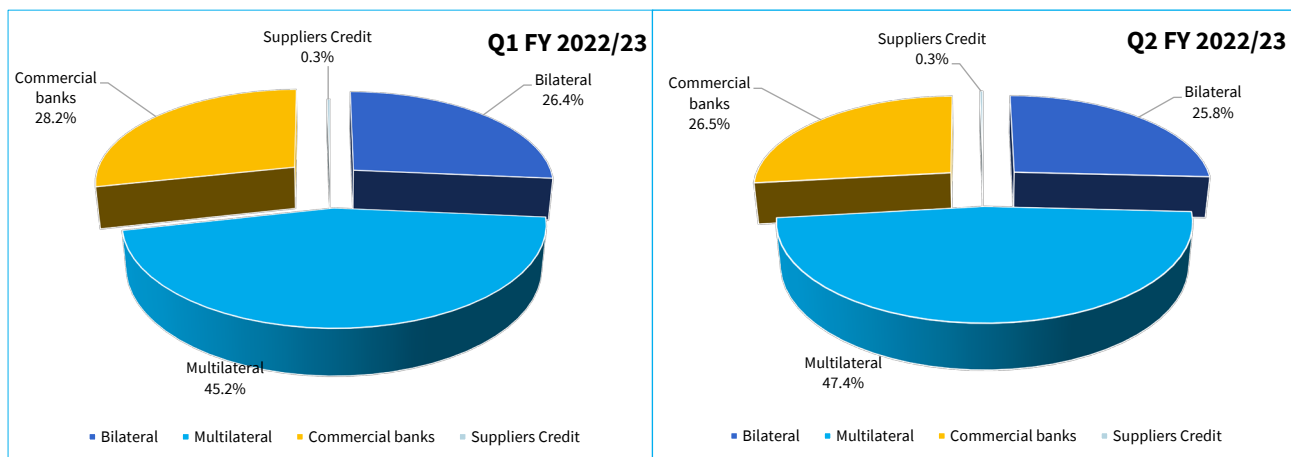
**External Debt**

Public and publicly guaranteed external debt increased by 7.8 percent during the second quarter

of 2022/23. This increase was majorly driven by disbursements from multilateral lenders and exchange rate movements.

**Composition of External Debt by Creditor**

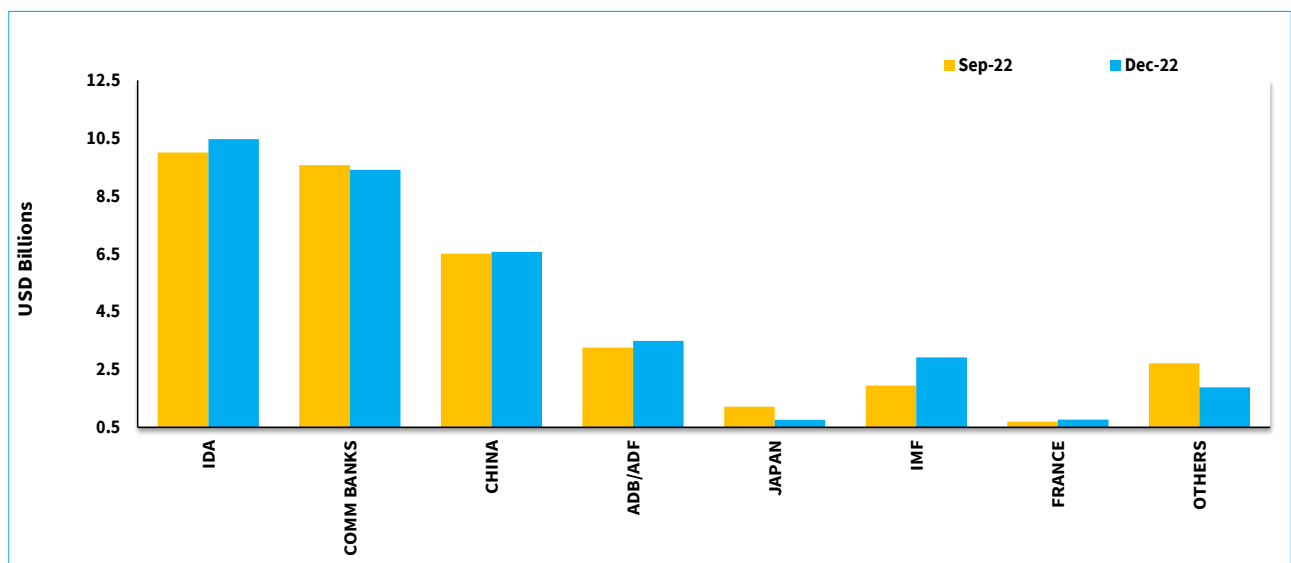
The composition of external debt improved with increased flow of international development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 2.2 percentage points, mainly driven by disbursements from IMF during the quarter under review. The proportion of commercial debt decreased by 1.6 percentage points during the second quarter of 2022/23 (**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 10.5 billion (28.9 percent of external debt). Debt owed to China, Kenya's largest

bilateral lender, amounted to USD 6.6 billion, or 18.1 percent of the total external debt by the second quarter of 2022/23 (**Chart 8.2**).

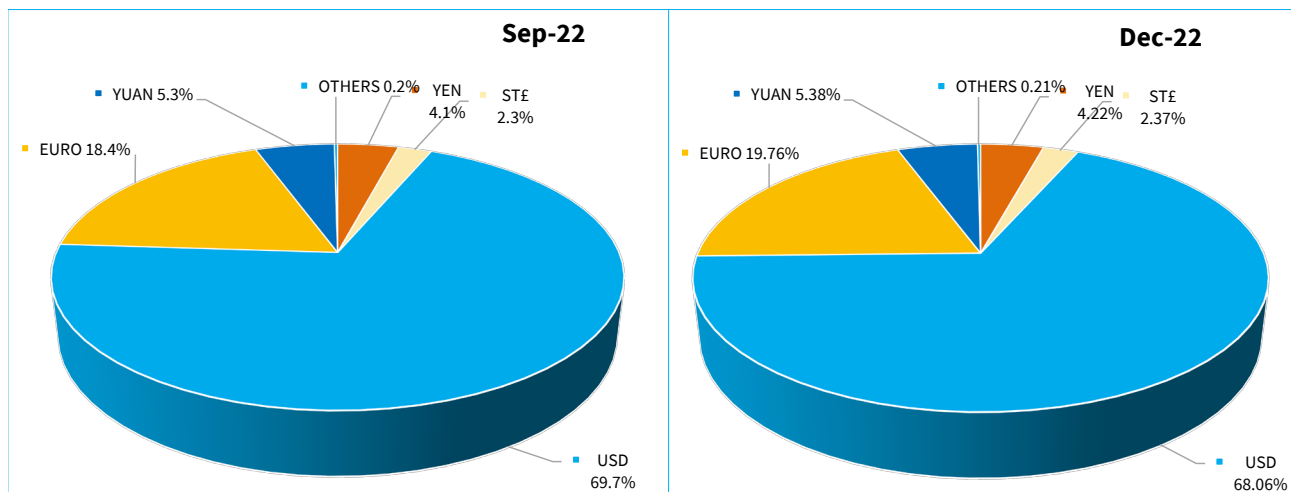
**Chart 8.2: External debt by creditor**

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 87.8 percent of the total currency composition at the end of the second quarter of 2022/23. The proportion held in US dollar decreased by 1.6 percentage points (**Chart 8.3**).

**Chart 8.3: Debt composition by currency**

Source: The National Treasury

**Public Debt Service**

The ratio of domestic interest payments to revenues was 22.7 percent during the second quarter of 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 second quarter of 2022/23 amounted to Ksh 74.5 billion. External debt service to revenue and exports ratios improved during the quarter under review mainly due to a reduction in debt services relative to the previous quarter <sup>2</sup> (Table 8.4).

**Table 8.4: External debt sustainability indicators**

Composite Indicators Threshold	Q1 FY 2021/22	Q2 FY 2021/22	Q3 FY 2021/22	Q4 FY 2021/22	Q1 FY 2022/23	Q2 FY 2022/23
Debt service to Revenues (18%)	15.1	11.3	19.0	7.6	18.1	13.8
Debt service to Exports (15%)	25.7	15.7	24.4	11.6	23.6	18.5

Source: Central Bank of Kenya and The National Treasury

**Debt Sustainability Analysis**

A Debt Sustainability Analysis conducted by the IMF in December 2022 show that Kenya's debt remains sustainable in the medium to long term but facing a high risk of debt distress. The assessment also shows Kenya's debt dynamics were being strengthened by the ongoing fiscal consolidation efforts by the

Government. Additionally, the outlook for debt burden ratios improved due to a faster recovery of tourism and higher export prices in 2022. Kenya's debt sustainability is expected to improve as the ongoing fiscal consolidation progresses, and with the recovery of output and exports from the prevailing external shocks.

<sup>2</sup> 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 0.7 percent and 2.4 percent, respectively in the fourth quarter compared to the third quarter of 2022. Market

capitalization, equity turnover and total number of shares traded declined by 0.7 percent, 23.4 percent and 23.0 percent, respectively (**Table 9.1 and Chart 9.1**).

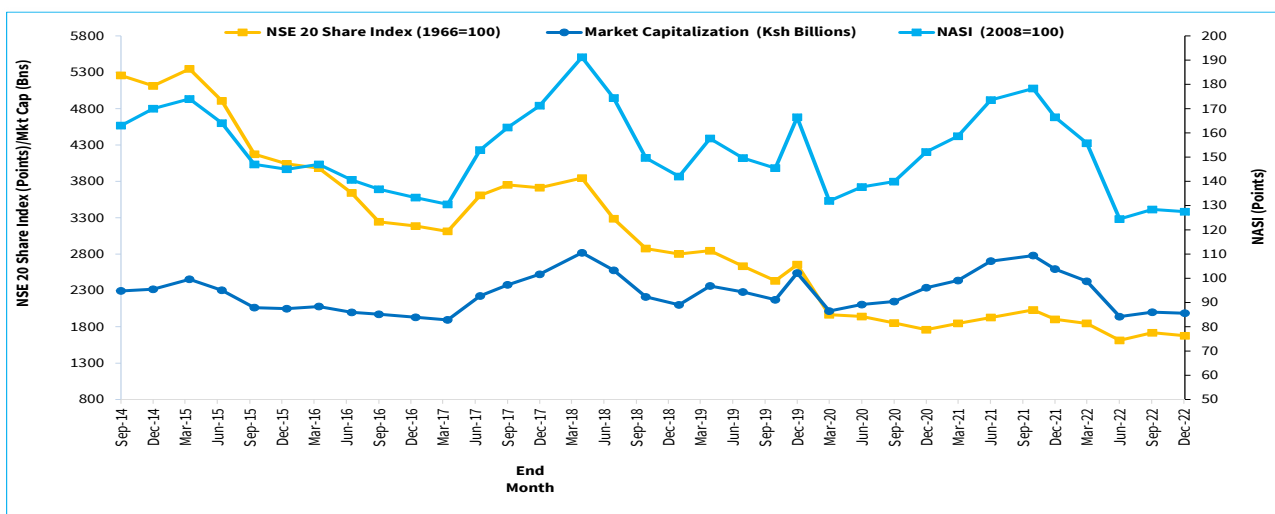
**Table 9.1: Selected stock market indicators**

INDICATOR	2021			2022			Q4	% CHANGE (2022Q3- 2022Q4)
	Q2	Q3	Q4	Q1	Q2	Q3		
NSE 20 Share Index (1966=100)	1927.5	2031.2	1902.6	1846.7	1612.9	1717.7	1676.1	-2.42
NASI (2008=100)	173.53	178.31	166.46	155.74	124.47	128.41	127.47	-0.73
Number of Shares Traded (Millions)	1,099.6	946.5	1,007.2	753.2	870.3	823.3	634.2	-22.98
Equities Turnover (Ksh Millions)	37,992	31,360	36,322	27,861	26,237	22,736	17,457	-23.22
Market Capitalization (Ksh Billions)	2,702	2,779	2,593	2,426	1,939	2,001	1,986	-0.74
Foreign Purchase (Ksh Millions)	21,060	16,535	16,525	14,386	10,676	6,616	7,115	7.55
Foreign Sales (Ksh Millions)	23,069	15,601	24,714	16,073	21,571	13,581	11,986	-11.75
Ave. Foreign Investor Participation to Equity Turnover (%)	58.73	51.53	57.73	54.66	57.75	44.42	54.71	23.17
Bond Turnover (Ksh Millions)	271,239	301,094	185,262	190,951	195,667	196,961	480,003	143.70
FTSE NSE Kenya Govt. Bond Index (Points)	4.81	5.03	5.57	8.15	16.02	15.61	10.913	-4.7*
7-Year Eurobond Yield (%) - 2027	3.27	3.20	4.45	6.75	17.00	17.58	12.92	-4.67*
10-Year Eurobond Yield (%) - 2024	5.36	5.40	5.76	8.14	14.67	14.74	10.48	-4.26*
10-Year Eurobond Yield (%) - 2028	6.22	6.51	6.71	8.62	13.80	14.67	10.77	-3.90*
12-Year Eurobond Yield (%) - 3032	6.18	6.45	6.58	8.34	12.99	13.17	9.86	-3.31*
13-Year Eurobond Yield (%) - 2034	7.34	7.54	8.13	9.49	13.73	14.00	10.86	-3.14*
30-Year Eurobond Yield (%) - 2048	7.98	7.34	7.54	8.13	9.49	13.73	14.00	0.26*

\* Percentage points

Source: Nairobi Security Exchange

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



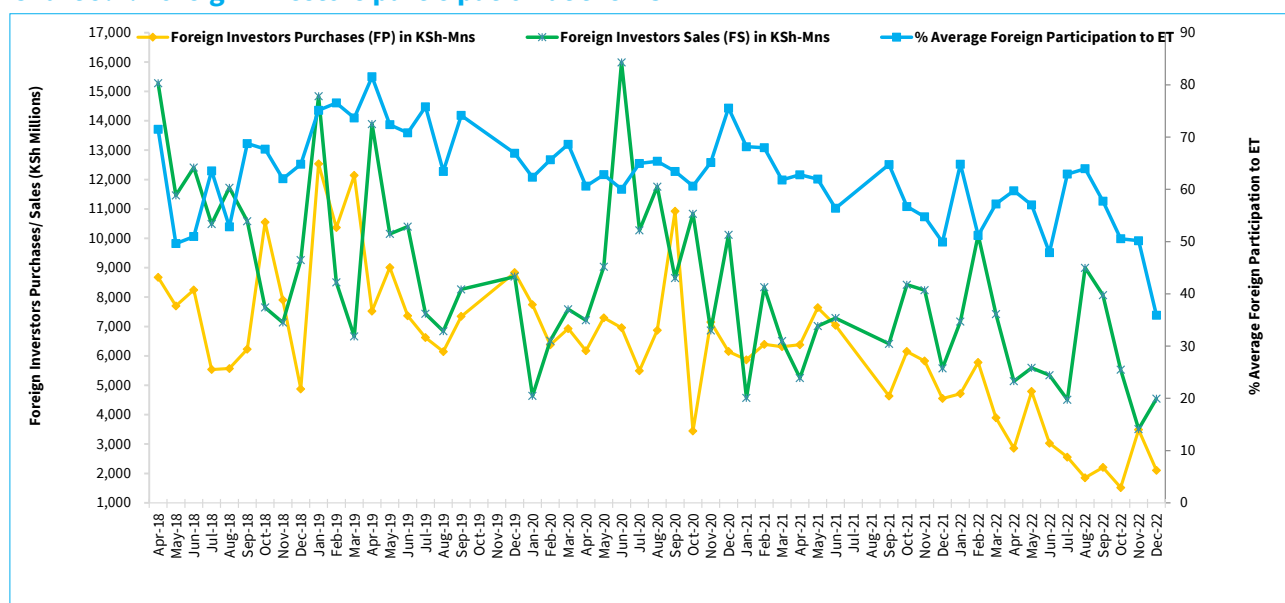
Source: Nairobi Security Exchange

## Foreign Investors' Participation

The value of equities purchased by foreign investors as share of total equity turnover increased from 44.4 percent at the end of third quarter to 54.7 percent at end of the fourth quarter of 2022. The foreign sales to total equity turnover increased

to 34.3 percent from 29.9 percent, while foreign purchases to total equity turnover increased to 20.4 from 14.6 percent. Sales exceeded purchases in the quarter under review implying a net foreign investment outflow (**Table 9.1 and Chart 9.2**).

**Chart 9.2: Foreign investors participation at the NSE**



Source: Nairobi Security Exchange

## Bonds Market

The volume of bonds traded on the domestic secondary market increased by 143.7 percent in the fourth quarter of 2022 compared to third quarter of 2022. In the international market, yields on Kenya's

Eurobonds rose by an average of 399.5 basis points, with the 2024 maturity declining by 425.8 basis point during the quarter under review (**Table 9.1**).

## Chapter 10

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

		2021					2022				Absolute Quarterly Changes (KSh Million)				Quarterly Growth Rates (%)			
1.0	ASSETS	Dec	Mar	Jun	Sept	Dec	Q4,2022	Q3,2022	Q2,2022	Q1,2022	Q4,2022	Q3,2022	Q2,2022	Q1,2022	Q4,2022	Q3,2022	Q2,2022	Q1,2022
1.1	Reserves and Gold Holdings	993,892	889,387	933,638	869,663	916,952	47,289	(63,975)	44,251	(104,505)	5.4	(6.9)	5.0	(10.5)				
1.2	Funds Held with IMF	77,698	77,696	71,639	70,347	70,351	4	(1,292)	(6,057)	(2)	0.0	(1.8)	(7.8)	(0.0)				
1.3	Investment in Equity (Swift Shares)	10	10	10	9	11	1	(1)	(0)	(0)	13.2	(5.5)	(3.0)	(0.2)				
1.4	Items in the Course of Collection	2	14	32	24	40	16	(8)	18	12	67.7	(24.6)	131.7	635.2				
1.5	Advances to Commercial Banks	70,180	76,533	71,829	108,724	111,665	2,941	36,894	(4,703)	6,352	2.7	51.4	(6.1)	9.1				
1.6	Loans and Other Advances	197,779	198,929	196,711	220,563	291,091	70,528	23,853	(2,219)	1,151	32.0	12.1	(1.1)	0.6				
1.7	Other Assets	5,878	5,988	7,322	7,357	6,550	(807)	35	1,333	110	(11.0)	0.5	22.3	1.9				
1.8	Retirement Benefit Asset	7,639	7,639	7,081	7,081	7,081	-	-	(558)	-	-	-	(7.3)	-				
1.9	Property and Equipment	31,854	31,723	32,000	31,096	31,088	(8)	(904)	277	(131)	(0.0)	(2.8)	0.9	(0.4)				
1.10	Intangible Assets	1,891	2,165	310	259	687	429	(51)	(1,855)	274	165.7	(16.5)	(85.7)	14.5				
1.11	Due Debt from Government of Kenya	78,767	87,899	118,263	106,310	141,254	34,944	(11,953)	30,364	9,132	32.9	(10.1)	34.5	11.6				
	<b>TOTAL ASSETS</b>	<b>1,465,590</b>	<b>1,377,983</b>	<b>1,438,835</b>	<b>1,421,433</b>	<b>1,576,770</b>	<b>155,337</b>	<b>(17,402)</b>	<b>60,852</b>	<b>(87,607)</b>	<b>10.9</b>	<b>(1.2)</b>	<b>4.4</b>	<b>(6.0)</b>				
2.0	<b>LIABILITIES</b>																	
2.1	Currency in Circulation	310,278	301,745	305,350	305,580	325,866	20,286	230	3,605	(8,533)	6.6	0.1	1.2	(2.8)				
2.2	Deposits	560,473	484,612	539,610	495,490	528,635	33,146	(44,120)	54,998	(75,861)	6.7	(8.2)	11.3	(13.5)				
2.3	International Monetary Fund	332,328	333,685	325,145	346,535	422,563	76,028	21,391	(8,540)	1,357	21.9	6.6	(2.6)	0.4				
2.4	Other Liabilities	7,622	4,051	4,330	4,118	5,252	1,134	(212)	279	(3,570)	27.5	(4.9)	6.9	(46.8)				
	<b>TOTAL LIABILITIES</b>	<b>1,210,701</b>	<b>1,124,094</b>	<b>1,174,435</b>	<b>1,151,723</b>	<b>1,282,316</b>	<b>130,593</b>	<b>(22,712)</b>	<b>50,341</b>	<b>(86,608)</b>	<b>11.3</b>	<b>(1.9)</b>	<b>4.5</b>	<b>(7.2)</b>				
3.0	<b>EQUITY AND RESERVES</b>	<b>254,889</b>	<b>253,890</b>	<b>264,400</b>	<b>269,710</b>	<b>294,454</b>	<b>24,744</b>	<b>5,310</b>	<b>10,510</b>	<b>(999)</b>	<b>9.2</b>	<b>2.0</b>	<b>4.1</b>	<b>(0.4)</b>				
	Share Capital	35,000	35,000	35,000	38,000	38,000	-	-	-	-	-	9	-	-				
	General reserve fund	155,388	155,388	227,006	224,006	224,006	-	(3,000)	71,618	0	-	(1)	46	0				
	Period surplus/(Deficit)	43,876	42,876	53,386	9,308	34,054	24,745	(44,078)	10,510	(999)	265.8	(82.6)	24.5	(2.3)				
	Asset Revaluation	21,680	21,680	21,680	21,680	21,680	-	-	0	-	-	-	0	-				
	Fair Value Reserves -OCI	(1,054)	(1,054)	(23,286)	(23,285)	(23,286)	(1)	1	(22,232)	-	0	(0)	2,109	-				
4	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,465,590</b>	<b>1,377,984</b>	<b>1,438,835</b>	<b>1,421,433</b>	<b>1,576,770</b>	<b>155,337</b>	<b>(17,402)</b>	<b>60,851</b>	<b>(87,607)</b>	<b>10.9</b>	<b>(1.2)</b>	<b>4.4</b>	<b>(6.0)</b>				

Source: Central Bank of Kenya

# Notes on the Financial Position of the CBK

## Assets

The Central Bank of Kenya balance sheet increased by 10.9 percent in the fourth quarter of 2022 compared to a decrease of 1.2 percent in the previous quarter. The increase was largely reflected in reserve and gold holdings, debt due from government and loans and other advances. The increase in reserve and gold holdings, which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank was supported by government external financing from international financial institutions, including the International Monetary Fund. The increase in debt due to government, and loans and other advances, largely reflected the funds on lent to the Government related to receipts from the International Monetary

Fund (IMF). Advances to commercial banks partly resulted from open market operations that remained active during the period.

## Liabilities

On the liability side, the increase in the Central Bank's balance sheet was largely reflected in deposits and liabilities to the IMF. The increase in deposits was mainly on account of increased commercial banks' deposits. Liabilities to the IMF, largely reflected the disbursements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the Government, which are channeled through the Central Bank.

Meanwhile, equity and reserves increased in the fourth quarter of 2022 on account of increased surplus recorded during the period.





**Central Bank of Kenya**

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