



Central Bank of Kenya

Quarterly Economic Review

July-September 2023



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

Overall inflation declined to 6.9 percent in the third quarter of 2023 and converged to the target band. The decline was largely driven by easing food prices which more than offset the increase in energy prices. The decline in food inflation was driven by increased supply of key food products arising from ongoing harvests, seasonal factors, and easing prices of most international food commodities. Fuel inflation increased during the quarter, attributed to higher pump prices following implementation of 16 percent VAT in July 2023. Non-food Non-fuel inflation declined further, reflecting muted demand pressures.

The economy recorded strong growth in the second quarter of 2023. It grew by 5.4 percent compared to 5.2 percent in a similar quarter of 2022, largely driven by the continued rebound of the agriculture sector following favourable weather conditions. The services sector remained resilient, supported by strong growth of financial and insurance services, information and communication, real estate, and accommodation and food services sectors.

Growth in broad money supply (M3) remained resilient in the third quarter of 2023, at 5.1 percent compared to 7.9 percent in the previous quarter, largely reflecting deposits. Growth in credit extended to the private sector improved to 3.3 percent in the third quarter of 2023 from 3.0 percent in the previous quarter, partly reflecting credit demand for short-term working capital requirements arising from increased input costs.

The global economy continues to recover albeit at a slower pace. Growth has remained resilient despite the disruption in energy and food markets caused by the war in Ukraine, and the unprecedented tightening of global monetary conditions to combat decades-high inflation.

The current account balance is estimated to have narrowed to USD 1,467 million in the third quarter of 2023 from USD 1,774 million in the third quarter of 2022, reflecting a decline in the import bill and resilient performance in remittances.

The banking sector remained stable and resilient in the third quarter of 2023. Total assets increased by 5.1 percent to Ksh.7,413.1 billion in September 2023, from Ksh.7,052.4 billion in June 2023. The deposit base also increased by 6.5 percent to Ksh.5,498.1 billion in the third quarter of 2023, from Ksh.5,160.4 billion in the second quarter of 2023.

The Government's budgetary operations at the end of the first quarter of FY 2023/24 resulted in a deficit (including grants) of 0.4 percent of GDP. Both revenue collection and expenditure remained below their respective targets.

Kenya's public and publicly guaranteed debt increased by 3.0 percent during the first quarter of 2023/24. Domestic and external debt increased by 1.7 percent and 4.1 percent, respectively.

At the Nairobi Securities Exchange, the NASI, Market capitalization, and the NSE 20 share price index, declined by 11.0 percent, 10.7 percent, and 4.2 percent respectively, at end of the third quarter of 2023 compared to the second quarter of 2023. However, the equity turnover and total shares traded, increased by 19.6 percent and 41.4 percent, respectively.

Chapter 1 Inflation

Overview

Overall inflation declined further in the third quarter of 2023 and converged to the target band for the first time since the first quarter of 2022. It declined to 6.9 percent from 7.9 percent in the second quarter of 2023, mainly driven by easing food prices. Food inflation declined to 8.0 percent from 10.2 percent in the previous quarter, supported by improved domestic food production following favourable

weather conditions and the general easing of international food prices. However, fuel inflation increased to 13.9 percent from 13.2 percent in the previous quarter, reflecting higher pump prices following implementation of 16 percent Value Added Tax (VAT) in July 2023 and higher electricity prices. Non-food Non-fuel (NFNF) inflation declined to 3.7 percent from 4.2 percent in the previous quarter, reflecting muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2022		2023					
	Q3	Q4	Q1	Q2	Q3	July	Aug	Sept
Overall inflation	8.7	9.4	9.1	7.9	6.9	7.3	6.7	6.8
Food Inflation	15.4	15.0	13.2	10.2	8.0	8.6	7.5	7.9
Fuel Inflation	9.4	12.3	13.7	13.2	13.9	14.5	14.2	13.1
Non-Food-Non-Fuel (NFNF) Inflation	3.3	4.0	4.4	4.2	3.7	3.8	3.7	3.7
Annual Average Inflation*	6.6	7.4	8.3	8.8	8.5	8.7	8.5	8.3
Three Months Annualised Inflation	8.8	8.5	5.8	8.7	4.8	7.2	3.1	4.0

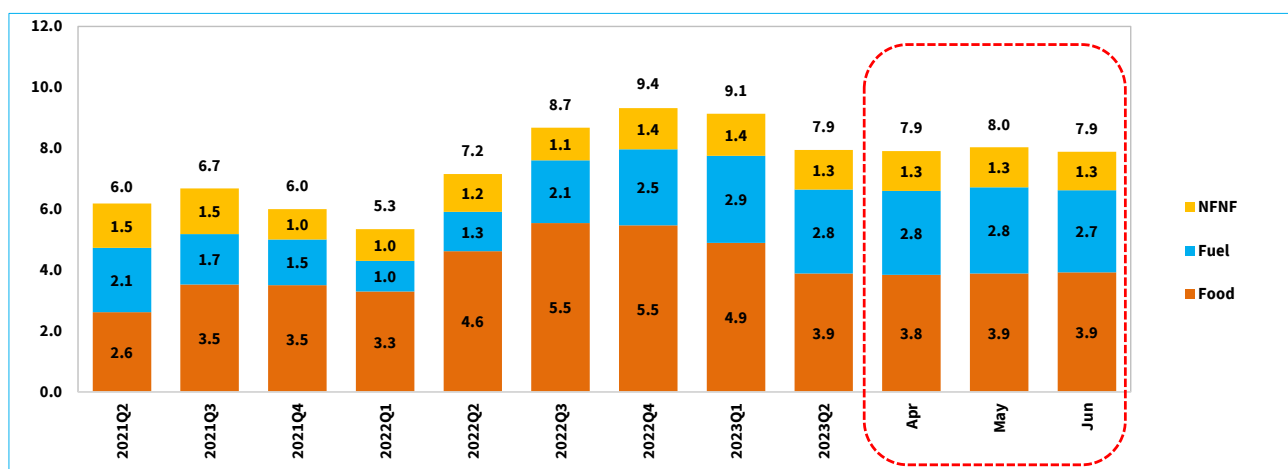
*Average annual inflation refers to the average inflation for 12 consecutive months. For instance, average annual inflation for June 2023 is computed as the percentage change in the average CPI for the period July 2022 to June 2023, relative to the average CPI for the period July 2021-June 2022.

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

Although food inflation remains the main driver of overall inflation, its contribution declined to 3.1 percentage points from 3.9 percentage points in the previous quarter. The contribution of fuel inflation

to overall inflation remained stable at 2.8 percentage points, while that of NFNF inflation declined to 1.1 percentage points from 1.3 percentage points in the previous quarter (**Chart 1.1**).

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



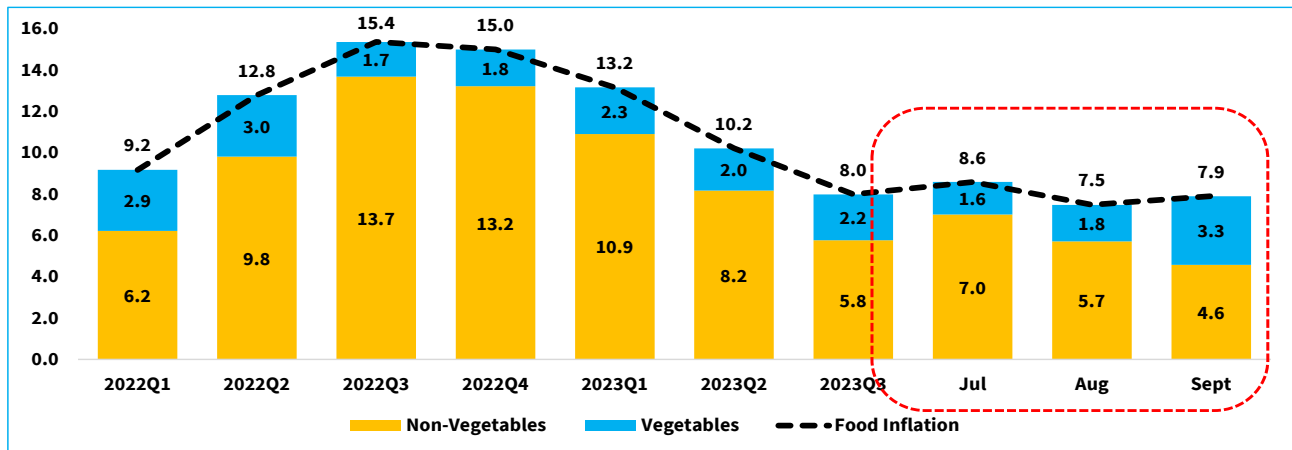
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined further, supported by ongoing harvests of key food products, seasonal factors, and easing international food prices. It declined to 8.0 percent from 10.2 percent in the previous quarter, reflecting continued easing of

prices of key food items such as edible oils, milk, and maize and wheat products. However, sugar prices increased further during the quarter under review, driven by a domestic shortage of mature cane and increased international prices due to low harvests in key producing countries (Chart 1.2).

Chart 1.2: Food inflation by category (percent)



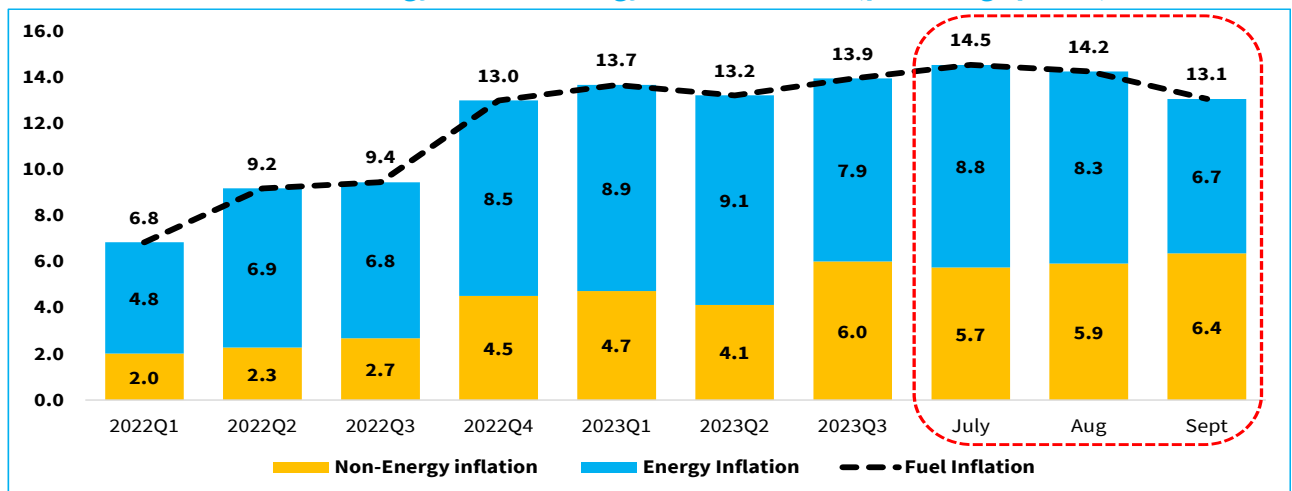
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation increased to 13.9 percent from 13.2 percent in the previous quarter, mainly driven by elevated energy prices. Energy prices remained high on account of elevated electricity prices and a significant increase in pump prices following implementation of 16 percent VAT in July 2023¹. However, Liquefied Petroleum Gas (LPG) prices

declined during the quarter under review, following reduction of VAT on the commodity by half from July 2022. The non-energy component of fuel inflation declined in the quarter due to lower transport costs compared to the same period in the previous year (Chart 1.3).

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



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

Non-Food Non-Fuel Inflation (NFNF)

Non-food Non-fuel (NFNF) inflation declined, reflective of muted demand pressures in the economy. It declined to 3.7 percent from 4.2 percent

in the previous quarter. The decline was reflected in lower inflation of all categories except alcoholic beverages, tobacco and narcotics, and clothing and footwear (**Table 1.2**).

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2022	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Q3	4.5	2.4	2.9	10.3	1.4	0.9	3.2	1.0	4.4	0.5	4.8	3.3
	Q4	7.0	2.8	3.2	10.4	1.7	1.1	4.1	1.2	6.0	1.0	6.7	4.0
2023	Q1	8.4	3.1	3.1	8.6	2.2	1.1	6.0	2.4	6.6	1.3	7.6	4.4
	Q2	9.7	2.9	2.9	6.0	2.3	1.3	5.3	2.3	5.9	1.3	7.9	4.2
	Q3	10.2	3.0	2.3	4.0	2.4	1.1	5.6	2.1	4.8	1.3	7.4	3.7
	July	10.1	3.0	2.2	4.1	2.3	1.1	5.8	2.1	5.0	1.1	7.8	3.8
	Aug	10.1	2.9	2.4	4.0	2.3	1.0	5.6	2.0	4.7	1.4	7.4	3.7
	Sept	10.4	3.1	2.4	4.0	2.5	1.1	5.5	2.1	4.8	1.4	7.2	3.7

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

Chapter 2

Economic Performance

Overview

The economy recorded strong growth in the second quarter of 2023. It grew by 5.4 percent compared to 5.2 percent in a similar quarter of 2022, largely driven by the continued rebound of the agriculture sector following favourable weather conditions. The services sector remained resilient, supported by strong growth of financial and insurance services, information and communication, real estate, and accommodation and food services sectors. Performance of the industry sector remained positive but decelerated due to a slowdown in activity in manufacturing and construction (**Table 2.1**).

Agriculture

The agriculture sector continued its strong recovery in the second quarter of 2023, as favourable weather conditions led to increased agricultural production. It grew by 7.7 percent compared to a contraction of 2.4 percent in a similar quarter of 2022 and contributed 1.5 percentage points to overall GDP growth. Production of tea, horticultural crops for export, and milk deliveries increased by 15.6 percent, 11.5 percent, and 6.9 percent, respectively (**Figure 2.1**).

Non-Agriculture

The non-agriculture sector continued to support economic growth in the second quarter of 2023. Broadly the sector grew by 4.9 percent compared to 7.1 percent in a similar quarter of 2022, and contributed 3.9 percentage points to real GDP growth (**Tables 2.1 and 2.3**).

- a) The services sector maintained a strong growth momentum during the quarter under review. Overall, the sector grew by 5.9 percent compared to 8.0 percent in a similar quarter of 2022, and contributed 3.3 percentage points to real GDP growth.
- Information and Communication sector expanded by 6.4 percent compared to 11.2 percent in a similar quarter of 2022, reflecting

continued vibrant activity in the sector. This was reflected in increased domestic voice traffic, international bandwidth and mobile money transactions by 11.5 percent, 61.3 percent, and 5.4 percent, respectively.

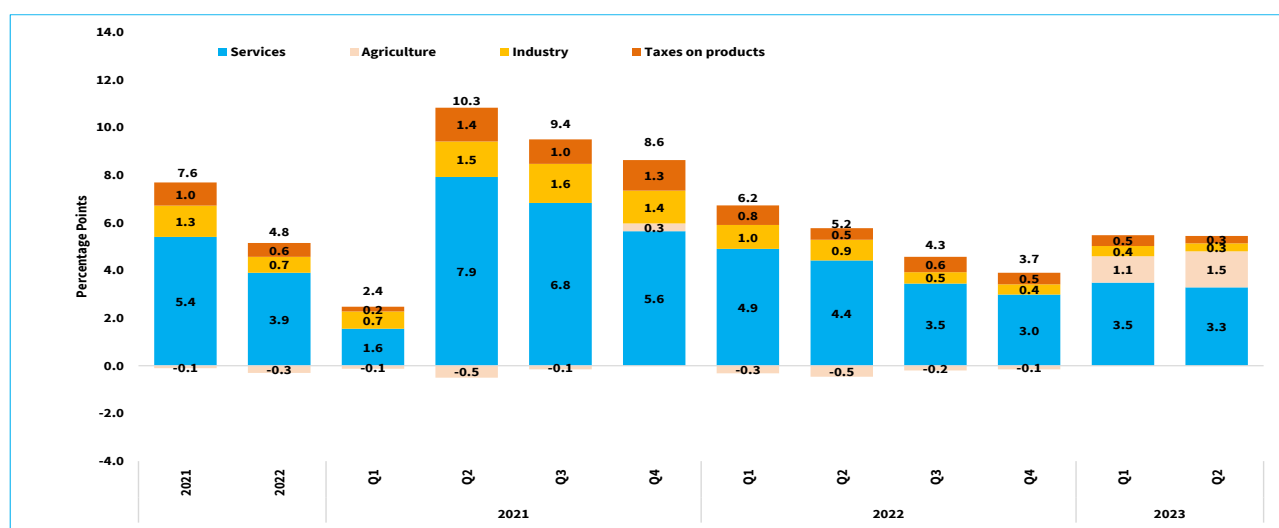
- Financial and Insurance sector recorded strong growth of 13.5 percent in the second quarter of 2023 compared to 16.1 percent in a similar quarter of 2022. The robust growth was supported by increased yield on investments, including the 91 Day Treasury Bills. In addition, interest rates on loans and other advances increased following an upward adjustment of the Central Bank Rate.
- Accommodation and Food services sector grew by 12.2 percent compared to 44.0 percent in a similar quarter of 2022. Growth was mainly driven by tourist arrivals through Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA), which increased by 13.3 percent.
- Transport and Storage sector growth slowed to 3.0 percent from 7.2 percent in a similar quarter of 2022. The deceleration was attributable to reduced activity of road transportation, which was reflected in a decline in consumption of diesel by 4.2 percent. However, transportation of passengers and freight via the Standard Gauge Railway increased by 7.0 percent and 11.3 percent, respectively. In addition, cargo throughput at Mombasa port increased by 1.9 percent during the quarter.
- b) Industrial activity remained positive but slowed to 2.0 percent compared to 5.0 percent in the same quarter of 2022. The sector contributed 0.3 percentage points to real GDP growth (**Tables 2.1 and Figure 2.1**).
- Manufacturing sector growth slowed to 1.5 percent in the second quarter of 2023 from 3.6 percent in a similar period in 2022, reflecting increased input costs. However, growth was mainly supported by agro processing, notably the production of dairy, coffee, and tea. Growth of the non-food subsector was supported by increased production of galvanized sheets (1.7 percent).

- Construction sector growth slowed to 2.6 percent in the second quarter of 2023, compared to 4.5 percent in a similar quarter of 2022. The subdued performance was reflected in a reduction in importation of bitumen by 58.4 percent during the quarter. However, importation of iron and steel increased by 29.6 percent, while uptake of credit in the sector increased by 3.8 percent.
- Electricity and Water Supply sector growth slowed to 0.8 percent compared to 5.6 percent in a similar quarter in 2022, largely on account of decreased electricity generation. All sources of electricity generation declined except geothermal generation, which grew by 2.4 percent. Hydroelectricity, thermal and wind generation declined by 11.7 percent, 1.9 percent, and 1.2 percent, respectively. However, consumption of electricity increased by 2.7 percent during the quarter.

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

	Annual			2022				2023	
	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	4.6	-0.4	-1.6	-1.7	-2.4	-1.3	-0.9	6.0	7.7
2. Non-Agriculture (o/w)	-1.4	9.5	6.3	8.2	7.1	5.3	4.6	5.3	4.9
2.1 Industry	3.3	7.5	3.9	5.6	5.0	2.6	2.4	2.5	2.0
Mining & Quarrying	5.5	18.0	9.3	23.8	16.6	-4.5	1.6	3.3	5.3
Manufacturing	-0.3	7.3	2.7	3.8	3.6	1.8	1.8	2.0	1.5
Electricity & water supply	0.6	5.6	4.9	3.2	5.6	6.0	4.9	2.5	0.8
Construction	10.1	6.7	4.1	6.0	4.5	3.5	2.4	3.1	2.6
2.2 Services	-1.8	9.8	7.0	8.9	8.0	5.9	5.2	6.3	5.9
Wholesale & Retail Trade	-0.4	8.0	3.8	4.9	4.1	3.6	2.7	5.7	4.2
Accommodation & restaurant	-47.7	52.6	26.2	40.1	44.0	16.9	14.9	21.5	12.2
Transport & Storage	-8.0	7.4	5.6	7.7	7.2	5.1	2.7	6.2	3.0
Information & Communication	6.0	6.1	9.9	9.0	11.2	11.8	8.0	9.0	6.4
Financial & Insurance	5.9	11.5	12.8	17.0	16.1	9.6	9.4	5.8	13.5
Public administration	7.0	6.0	4.5	6.2	3.8	3.4	4.7	6.6	3.8
Professional, Administration & Support Services	-13.7	7.1	9.4	13.1	10.9	9.0	5.3	7.3	5.5
Real estate	4.1	6.7	4.5	6.0	5.0	4.0	2.9	5.2	5.8
Education	-9.2	22.8	4.8	4.6	4.4	3.9	6.1	3.6	4.5
Health	5.6	8.9	4.5	5.7	4.4	3.7	4.3	5.4	5.0
Other services	-14.6	12.5	5.7	8.9	4.3	5.7	4.0	3.2	1.6
FISIM	-1.8	5.3	1.5	0.8	1.3	2.3	1.6	0.6	6.1
2.3 Taxes on products	-8.0	11.9	7.0	9.5	6.1	7.3	5.3	5.3	3.8
Real GDP Growth	-0.3	7.6	4.8	6.2	5.2	4.3	3.7	5.5	5.4

Source: Kenya National Bureau of Statistics

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

Source: Kenya National Bureau of Statistics and CBK Staff computations

Table 2.2: Sectoral shares (percentage of GDP)

	Annual			2022				2023	
	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	19.5	18.1	17.0	18.4	19.2	14.6	15.6	18.5	19.6
2. Non-Agriculture (o/w)	80.5	81.9	83.0	81.6	80.8	85.4	84.4	81.5	80.4
2.1 Industry	18.1	18.1	17.9	17.9	17.5	18.3	18.0	17.3	16.9
Mining & Quarrying	1.0	1.1	1.2	1.3	1.2	0.9	1.2	1.2	1.2
Manufacturing	8.7	8.6	8.5	8.4	8.3	8.5	8.6	8.1	8.0
Electricity & water supply	2.5	2.5	2.5	2.4	2.4	2.7	2.5	2.3	2.3
Construction	5.9	5.9	5.8	5.8	5.6	6.2	5.8	5.6	5.5
2.2 Services	54.2	55.3	56.4	55.1	55.3	58.2	57.2	55.5	55.6
Wholesale & Retail Trade	8.3	8.4	8.3	8.7	7.7	8.2	8.5	8.7	7.6
Accommodation & restaurant	0.6	0.9	1.0	0.9	0.9	1.0	1.3	1.1	1.0
Transport & Storage	9.5	9.5	9.6	9.1	9.6	10.4	9.2	9.1	9.4
Information & Communication	3.1	3.1	3.2	3.1	3.1	3.4	3.4	3.2	3.1
Financial & Insurance	8.2	8.5	9.2	8.7	8.9	9.1	9.9	8.8	9.6
Public administration	6.1	6.0	6.0	5.6	6.1	6.2	6.0	5.7	6.1
Professional, Administration & Support Services	2.6	2.6	2.7	2.5	2.7	2.8	2.8	2.6	2.7
Real estate	10.2	10.1	10.1	10.0	10.0	10.5	9.9	9.9	10.0
Education	4.3	4.9	4.9	5.1	4.5	5.0	5.1	5.0	4.4
Health	2.2	2.3	2.3	2.1	2.3	2.3	2.4	2.1	2.3
Other services	2.0	2.1	2.1	2.0	2.1	2.3	2.0	2.0	2.0
FISIM	-3.1	-3.1	-3.0	-2.8	-2.7	-3.0	-3.3	-2.6	-2.7
2.3 Taxes on products	8.2	8.5	8.7	8.6	8.0	8.9	9.1	8.6	7.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

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

	Annual			2022				2023	
	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	0.9	-0.1	-0.3	-0.3	-0.5	-0.2	-0.1	1.1	1.5
2. Non-Agriculture (o/w)	-1.1	7.8	5.2	6.7	5.8	4.6	3.9	4.4	3.9
2.1 Industry	0.6	1.4	0.7	1.0	0.9	0.5	0.4	0.4	0.3
Mining & Quarrying	0.1	0.2	0.1	0.3	0.2	0.0	0.0	0.0	0.1
Manufacturing	0.0	0.6	0.2	0.3	0.3	0.2	0.2	0.2	0.1
Electricity & water supply	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0
Construction	0.6	0.4	0.2	0.3	0.3	0.2	0.1	0.2	0.1
2.2 Services	-1.0	5.4	3.9	4.9	4.4	3.5	3.0	3.5	3.3
Wholesale & Retail Trade	0.0	0.7	0.3	0.4	0.3	0.3	0.2	0.5	0.3
Accommodation & restaurant	-0.3	0.5	0.3	0.4	0.4	0.2	0.2	0.2	0.1
Transport & Storage	-0.8	0.7	0.5	0.7	0.7	0.5	0.2	0.6	0.3
Information & Communication	0.2	0.2	0.3	0.3	0.3	0.4	0.3	0.3	0.2
Financial & Insurance	0.5	1.0	1.2	1.5	1.4	0.9	0.9	0.5	1.3
Public administration	0.4	0.4	0.3	0.3	0.2	0.2	0.3	0.4	0.2
Professional, Administration & Support Services	-0.4	0.2	0.3	0.3	0.3	0.3	0.1	0.2	0.1
Real estate	0.4	0.7	0.5	0.6	0.5	0.4	0.3	0.5	0.6
Education	-0.4	1.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Health	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	-0.3	0.3	0.1	0.2	0.1	0.1	0.1	0.1	0.0
FISIM	0.1	-0.2	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.2
2.3 Taxes on products	-0.7	1.0	0.6	0.8	0.5	0.6	0.5	0.5	0.3
Real GDP Growth	-0.3	7.6	4.8	6.2	5.2	4.3	3.7	5.5	5.4

Source: Kenya National Bureau of Statistics and CBK Staff computations

Chapter 3

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Growth in broad money supply (M3) remained strong at 5.1 percent in the third quarter of 2023 compared to 7.9 percent in the previous quarter, partly reflecting buildup of corporate sector deposits within the energy sector arising from government-to-government oil import scheme as well as exchange rate valuation effects. The increase in corporate sector deposit holdings was mainly on account of increased foreign currency deposits. The household sector deposits holdings moderated marginally, mainly reflected in demand deposits. The other deposits at Central Bank declined

mainly on account of reduced county governments deposits, which moderated the growth money supply (Tables 3.1 & 3.2).

On the counterpart, increased net foreign assets of the banking system was the main source of growth in broad money supply (M3) in the third quarter of 2023. The increase in net foreign assets of the banking system was mainly supported by foreign deposits by banks, partly attributed to preparation for financing under the oil import scheme as well as the exchange rate valuation effects. Growth in net domestic assets of the banking system also supported money supply, reflecting credit to the private sector and net lending to Government (Table 3.1).

Table 3.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1,916.1	1,967.1	1,885.8	2,098.2	2,017.3	0.5	2.7	-4.1	11.3	-3.9	9.2	51.0	-81.3	212.4	-81.0
1.1 Currency outside banks	251.7	258.8	252.8	257.9	267.5	0.1	2.8	-2.3	2.0	3.7	0.3	7.1	-6.0	5.1	9.6
1.2 Demand deposits	1,582.5	1,621.6	1,553.7	1,680.9	1,645.5	2.0	2.5	-4.2	8.2	-2.1	30.3	39.1	-67.9	127.2	-35.4
1.3 Other deposits at CBK 1/	82.1	86.8	79.5	159.6	104.6	-20.7	5.8	-8.4	100.8	-34.5	-21.4	4.7	-7.3	80.1	-55.0
2. Money supply, M2 (1+2.1)	3,553.4	3,613.4	3,610.5	3,852.2	3,898.2	0.1	1.7	-0.1	6.7	1.2	1.9	60.0	-2.9	241.6	46.1
2.1 Time and saving deposits	1,637.4	1,646.4	1,724.7	1,754.0	1,881.0	-0.4	0.5	4.8	1.7	7.2	-7.3	9.0	78.3	29.3	127.0
3. Money supply, M3 (2+3.1)	4,430.4	4,534.5	4,668.7	5,037.4	5,295.9	-0.3	2.3	3.0	7.9	5.1	-12.6	104.1	134.2	368.7	258.5
3.1 Foreign Currency Deposits	877.0	921.1	1,058.2	1,185.2	1,397.6	-1.6	5.0	14.9	12.0	17.9	-14.5	44.1	137.2	127.0	212.4
Sources of M3															
1. Net foreign assets 2/	294.6	283.0	308.7	591.5	708.5	-35.5	-3.9	9.1	91.6	19.8	-162.3	-11.5	25.7	282.8	117.0
Central Bank	568.8	536.9	433.6	616.9	516.2	-11.3	-5.6	-19.2	42.3	-16.3	-72.7	-31.9	-103.3	183.3	-100.6
Banking Institutions	-274.3	-253.9	-124.9	-25.4	192.3	-48.5	7.4	-50.8	-79.7	-857.1	-89.6	20.4	129.0	99.5	217.7
2. Net domestic assets (2.1+2.2)	4,135.9	4,251.5	4,360.0	4,445.9	4,587.4	3.8	2.8	2.6	2.0	3.2	149.7	115.6	108.5	85.9	141.4
2.1 Domestic credit	5,340.6	5,435.2	5,697.9	5,820.2	6,077.7	3.0	1.8	4.8	2.1	4.4	154.8	94.7	262.7	122.3	257.4
2.1.1 Government (net)	1,898.8	1,919.8	2,058.9	2,083.9	2,203.4	2.9	1.1	7.2	1.2	5.7	54.0	21.0	139.1	25.1	119.4
2.1.2 Private sector	3,362.5	3,433.5	3,547.0	3,652.6	3,773.6	3.2	2.1	3.3	3.0	3.3	105.6	71.1	113.5	105.6	121.1
2.1.3 Other public sector	79.3	81.9	92.1	83.7	100.6	-5.7	3.3	12.4	-9.1	20.2	-4.8	2.6	10.1	-8.4	16.9
2.2 Other assets net	-1,204.7	-1,183.8	-1,337.9	-1,374.3	-1,490.3	-0.4	1.7	13.0	2.7	8.4	-5.1	20.9	-154.1	-36.4	-116.0
Memorandum items															
4. Overall liquidity, L (3+4.1)	6,694.5	6,892.9	7,094.1	7,562.6	7,915.1	1.0	3.0	2.9	6.6	4.7	64.7	198.4	201.2	468.5	352.5
4.1 Non-bank holdings of government securities	2,264.1	2,358.4	2,425.3	2,525.2	2,619.2	3.5	4.2	2.8	4.1	3.7	77.2	94.3	67.0	99.9	94.0

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

1/ Includes county deposits and special projects deposit

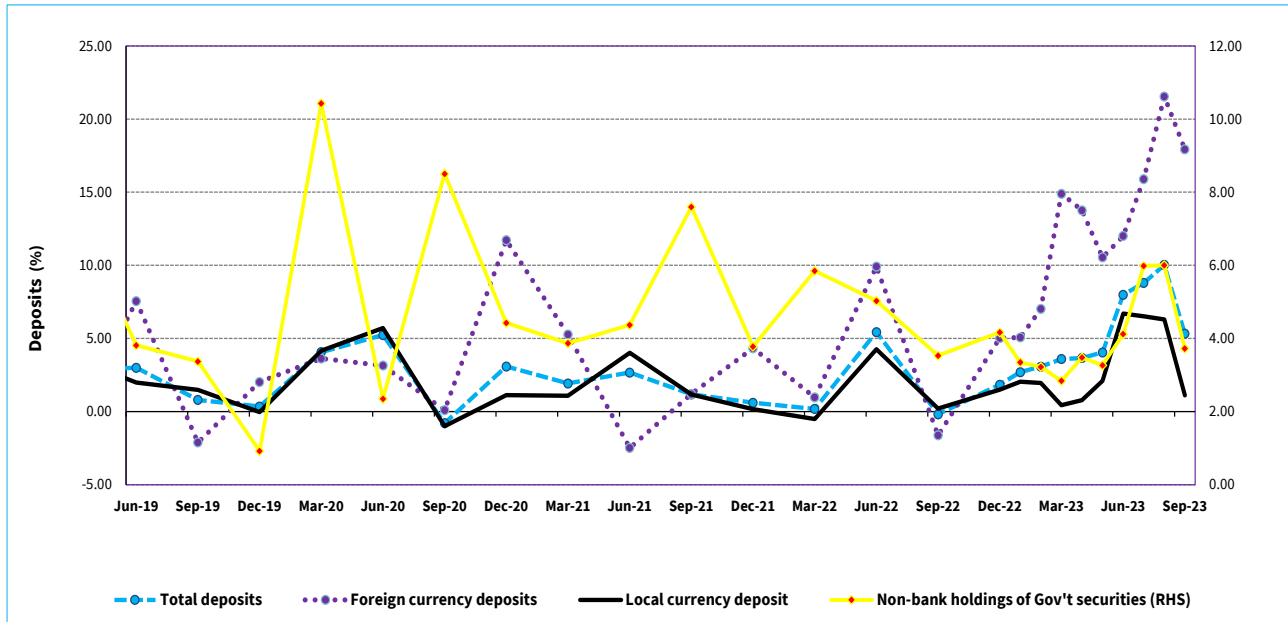
2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

The 12-month growth in broad money supply (M3) increased to 19.5 percent in September 2023 from 13.4 percent in June 2023, which is similarly

attributed to increased deposits and foreign assets of the banking system as explained above on the quarterly drivers of money supply.

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)				
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
1. Household Sector 1/	1867	1876	2007	2057	2103	-1.5	0.5	7.0	2.5	2.2	-28.1	8.4	130.7	49.9	46.1
1.1 Demand Deposits	650	669	730	734	710	-7.4	2.9	9.1	0.5	-3.2	-51.9	18.9	61.0	3.9	-23.7
1.2 Time and Saving Deposits	918	887	928	950	975	2.1	-3.4	4.5	2.4	2.6	18.8	-31.1	40.3	22.2	25.1
1.3 Foreign Currency Deposits	300	320	350	373	418	1.7	6.9	9.2	6.8	12.0	5.0	20.7	29.4	23.8	44.8
2. Corporate Sector	2157	2250	2267	2499	2750	1.4	4.3	0.6	10.3	10.0	29.7	93.4	14.2	232.7	251.1
2.1 Demand deposits	896	927	798	924	911	9.4	3.5	-13.9	15.8	-1.4	76.9	31.0	-129.0	126.5	-13.1
2.2 Time and Saving Deposits	686	725	764	767	866	-4.3	5.8	5.0	0.4	12.9	-30.4	39.5	36.7	2.8	99.1
2.3 Foreign Currency Deposits	575	598	705	808	973	-2.8	4.0	17.8	14.7	20.4	-16.8	22.9	106.6	103.4	165.0

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

Source: Central Bank of Kenya

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system increased by 4.4 percent in the third quarter of 2023 from 2.1 percent in the previous quarter, reflecting increased net lending to government and private sector. Increased net lending to government, partly reflected on-lent of the IMF funds channeled through the Central Bank as

well as reduction in government deposits. Lending to other public sector also increased, mainly due to net borrowings by parastatals (**Tables 3.3**).

Growth in credit extended to the private sector improved to 3.3 percent in the third quarter of 2023 from 3.0 percent in the previous quarter, partly reflecting credit demand for short-term working capital requirements arising from increased input

costs. Credit growth remained positive in most of the economic sectors, with strong growth registered in manufacturing, trade, finance and insurance, transport and communication.

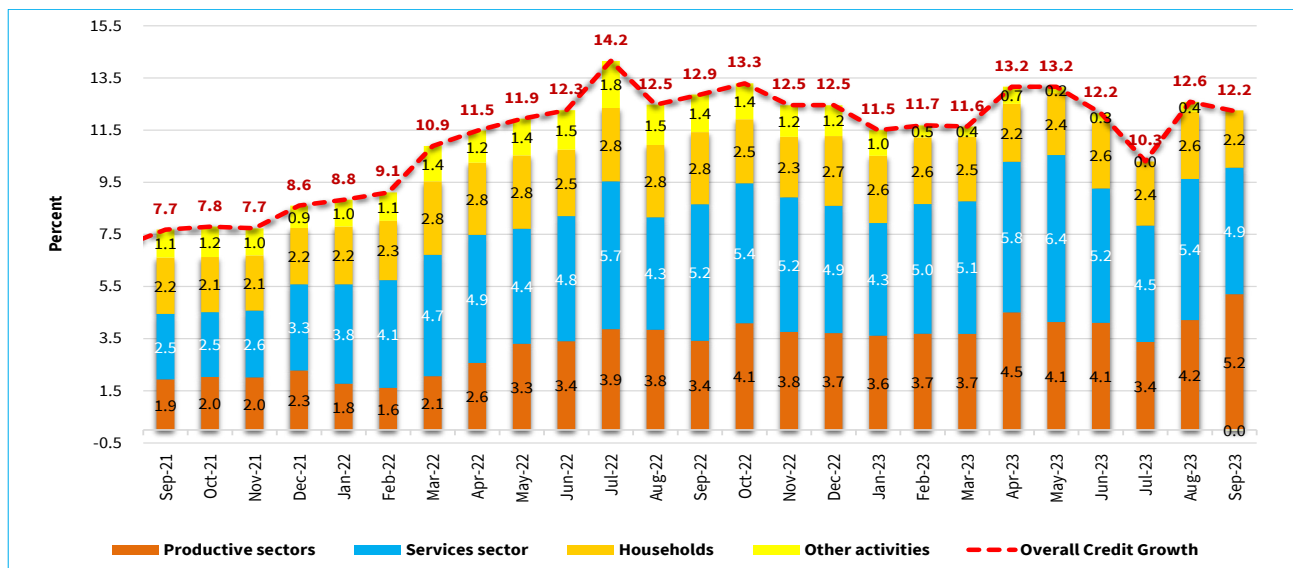
The 12-month growth in private sector credit remained stable at 12.2 percent in September 2023, similar to the level in June 2023, supported by lending to services and productive sectors largely for working purposes (**Chart 3.2**).

Table 3.3: Banking sector net domestic credit

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
1. Credit to Government	1,898.8	1,919.8	2,058.9	2,083.9	2,203.4	2.9	1.1	7.2	1.2	5.7	54.0	21.0	139.1	25.1	119.4
Central Bank	189.9	206.9	361.5	323.4	459.3	28.0	8.9	74.7	-10.5	42.0	41.6	17.0	154.6	-38.1	135.9
Commercial Banks & NBFIs	1,708.9	1,712.9	1,697.4	1,760.5	1,744.1	0.7	0.2	-0.9	3.7	-0.9	12.4	4.0	-15.5	63.2	-16.5
2. Credit to other public sector	79.3	81.9	92.1	83.7	100.6	-5.7	3.3	12.4	-9.1	20.2	-4.8	2.6	10.1	-8.4	16.9
Local government	5.3	6.2	6.7	6.7	5.0	-9.7	17.7	7.8	1.0	-26.4	-0.6	0.9	0.5	0.1	-1.8
Parastatals	74.1	75.8	85.4	77.0	95.7	-5.4	2.3	12.7	-9.9	24.3	-4.2	1.7	9.6	-8.4	18.7
3. Credit to private sector	3,362.5	3,433.5	3,547.0	3,652.6	3,773.6	3.2	2.1	3.3	3.0	3.3	105.6	71.1	113.5	105.6	121.1
Agriculture	110.3	114.9	117.0	121.9	127.1	7.3	4.2	1.9	4.2	4.3	7.5	4.6	2.1	4.9	5.2
Manufacturing	508.0	526.8	546.3	583.6	620.0	2.7	3.7	3.7	6.8	6.2	13.5	18.8	19.5	37.3	36.4
Trade	592.4	586.4	607.6	613.7	634.6	6.4	-1.0	3.6	1.0	3.4	35.6	-6.0	21.3	6.0	20.9
Building and construction	134.8	131.9	137.3	139.2	145.5	1.5	-2.1	4.0	1.4	4.5	2.0	-2.9	5.3	2.0	6.3
Transport & communications	289.5	299.2	318.6	328.4	343.2	5.6	3.3	6.5	3.1	4.5	15.4	9.7	19.5	9.8	14.7
Finance & insurance	110.9	118.0	145.6	147.6	156.1	-2.5	6.5	23.4	1.3	5.8	-2.9	7.2	27.6	1.9	8.5
Real estate	413.7	422.5	419.3	429.2	444.9	-0.1	2.1	-0.8	2.4	3.7	-0.3	8.8	-3.2	10.0	15.7
Mining and quarrying	20.8	22.6	23.3	20.3	25.1	27.1	9.0	3.0	-13.1	23.8	4.4	1.9	0.7	-3.1	4.8
Private households	502.0	511.2	521.5	526.3	537.2	3.4	1.8	2.0	0.9	2.1	16.4	9.2	10.2	4.8	10.9
Consumer durables	367.9	378.1	391.0	401.5	406.7	2.6	2.8	3.4	2.7	1.3	9.4	10.1	12.9	10.5	5.2
Business services	189.8	199.4	204.5	209.8	212.0	1.4	5.0	2.6	2.6	1.0	2.7	9.6	5.1	5.3	2.2
Other activities	122.4	122.6	115.1	131.2	121.4	1.5	0.1	-6.1	14.0	-7.4	1.8	0.1	-7.5	16.1	-9.7
4. TOTAL (1+2+3)	5,340.6	5,435.2	5,697.9	5,820.2	6,077.7	3.0	1.8	4.8	2.1	4.4	154.8	94.7	262.7	122.3	257.4

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 increased by 20.3 percent in the third quarter of 2023 compared to a contraction of 4.0 percent in the previous quarter, partly reflecting increased bank reserves. The increase in bank reserves was partly on account of the pickup in banks customer deposits.

The increase in reserve money was also reflected in the increase in net domestic assets, which more than offset the decline in net foreign assets. The increase in net domestic assets was partly attributed to increase net lending to banks and government (Table 3.4).

Table 3.4: Reserve money and its sources

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Sources of Reserve Money															
1. Net Foreign Assets	568.8	536.9	433.6	616.9	516.2	-11.3	-5.6	-19.2	42.3	-16.3	-72.7	-31.9	-103.3	183.3	-100.6
2. Net Domestic Assets	-14.0	-22.7	75.1	-128.6	71.0	88.5	-62.0	-430.0	-271.3	-155.2	108.5	-8.7	97.8	-203.7	199.6
2.1 Government Borrowing (net)	189.9	206.9	361.5	323.4	459.3	28.0	8.9	74.7	-10.5	42.0	41.6	17.0	154.6	-38.1	135.9
2.2 Commercial banks (net)	121.2	126.6	131.4	96.7	163.9	73.7	4.5	3.7	-26.3	69.4	51.4	5.4	4.7	-34.6	67.2
2.3 Other Domestic Assets (net)	-329.0	-360.0	-421.6	-552.5	-555.9	4.5	-9.4	17.1	31.0	0.6	15.5	-31.0	-61.6	-130.9	-3.4
Components of Reserve Money															
3. Reserve Money	554.8	514.2	508.6	488.3	587.2	6.9	-7.3	-1.1	-4.0	20.3	35.9	-40.6	-5.5	-20.4	99.0
3.1 Currency outside banks	251.7	258.8	252.8	257.9	267.5	0.1	2.8	-2.3	2.0	3.7	0.3	7.1	-6.0	5.1	9.6
3.2 Bank reserves	303.0	255.4	255.9	230.4	319.8	13.3	-15.7	0.2	-10.0	38.8	35.5	-47.7	0.5	-25.5	89.4

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 10.50 percent at its August 2023 meeting. The MPC noted that inflation was within the target band and was expected to decline further as food inflation was expected to come down. The MPC noted that inflationary pressures had eased as NFN inflation declined, and the impact of the tightening of monetary policy in June 2023 to anchor inflationary expectations was still transmitting in the economy. In June 2023, the MPC had increased the CBR from 9.50 percent to 10.50 percent in order to anchor inflation expectations.

Modernization of Monetary Policy Implementation Framework

During the MPC Meeting held on August 9, 2023, and in line with the reforms outlined in the White Paper on Modernisation of the Monetary Policy Framework and Operations, the MPC approved a new monetary policy implementation framework designed to enhance monetary policy transmission.

The new framework is based on inflation targeting and introduces an interest rate corridor around the CBR set at ± 250 basis points. Consequently, monetary policy operations is aimed at ensuring the interbank rate, as an operating target, closely tracks the CBR.

Implementation of an interest rate corridor framework will align the interbank rate to the CBR, and subsequently enhance the transmission of monetary policy to the short-term interest rates. Under the corridor framework, the CBK conducts monetary policy operations with the objective of keeping the interbank interest rate within a prescribed band/corridor around the CBR. To improve access to the Discount Window, which serves as a backup source of liquidity for the banking system, the MPC reduced the applicable interest rate from 600 basis points above CBR to 400 basis points above CBR.

b. Short Term Rates

Short-term interest rates increased during the third quarter of 2023, partly reflecting a tightening of monetary policy stance and liquidity conditions in

the money market. The average interbank interest rate increased to 12.36 percent in September 2023 from 9.48 percent in June 2023, and it was within the interest rate corridor band of ± 2.5 percent around the CBR. Similarly, the average 91-day Treasury bill rate increased to 14.38 percent in September from 11.49 percent while the average 182-day Treasury bill rate increased to 14.42 percent from 11.54 percent.

c. Lending and Deposit Rates

Commercial banks average lending and deposit rates increased in the third quarter of 2023 in line with the tightening of the monetary policy stance. The weighted average lending rate increased to 13.98 percent in September 2023 from 13.31 percent in June 2023 while the weighted average deposit rate increased to 8.64 percent from 7.80 percent in June 2023. Consequently, the spread declined to 5.33 percent.

Table 3.5: Interest rates (percent)

	2022		2023								
	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
91-day Treasury bill rate	8.92	9.33	9.44	9.62	9.76	10.04	10.47	11.49	12.12	13.25	14.38
182-day Treasury bill rate	9.60	9.80	9.88	10.06	10.25	10.42	10.83	11.54	12.23	13.19	14.42
Interbank rate	4.36	5.39	5.89	6.42	7.05	8.55	9.36	9.48	10.34	12.57	12.36
Repo rate	-	-	-	-	-	-	-	-	9.07	9.26	-
Reverse Repo rate	9.63	9.84	10.01	10.10	10.37	10.57	9.73	9.90	12.09	14.48	13.76
Central Bank Rate (CBR)	8.25	8.75	8.75	8.75	9.50	9.50	9.50	10.50	10.50	10.50	10.50
Average lending rate (1)	12.41	12.67	12.77	13.06	13.09	13.10	13.21	13.31	13.50	13.83	13.98
Overdraft rate	11.99	12.22	12.34	12.62	12.69	12.71	12.64	12.74	12.84	13.24	13.62
1-5years	12.66	12.98	13.09	13.43	13.47	13.44	13.62	13.64	14.01	14.29	14.48
Over 5years	12.33	12.57	12.64	12.88	12.91	12.95	13.05	13.03	13.31	13.64	13.67
Average deposit rate (2)	6.82	7.17	7.47	7.54	7.54	7.69	7.61	7.80	8.10	8.39	8.64
0-3months	7.18	7.38	8.09	8.28	8.13	8.34	8.06	8.32	8.75	9.28	9.76
Over 3 months deposit	7.40	7.93	7.96	7.96	8.19	8.21	8.41	8.54	8.75	8.88	8.96
Savings deposits	3.44	3.56	3.60	3.58	3.55	3.59	3.55	3.92	3.97	4.05	4.00
Spread (1-2)	5.59	5.51	5.30	5.52	5.55	5.41	5.59	5.51	5.40	5.44	5.33

Source: Central Bank of Kenya

Chapter 4

Global Economy

The global economy continues to recover albeit at a slower pace. Growth has remained resilient despite the disruption in energy and food markets caused by Russia-Ukraine war, and the unprecedented tightening of global monetary conditions to combat decades-high inflation. According to the IMF World Economic Outlook (WEO) October 2023 updates, the global economy is expected to grow by 2.9 percent in the fourth quarter of 2023 and 3.2 percent in 2024, respectively. Annual global growth is expected to remain subdued at 3.0 percent in 2023 and 2.9 percent in 2024, from a growth of 3.5 percent in 2022. a 0.1 percentage point downgrade for 2024 from July projections, reflecting reduced economic activities in the Euro Area.

Growth in the advanced economies, is projected at by 1.5 percent in the fourth quarters of 2023 and 2024, respectively. Annual growth in the advanced economies is expected at 1.5 percent in 2023 and 1.4 percent in 2024, amid stronger growth momentum in the US but weaker-than-expected growth in the euro area. Growth in most economies in this group is forecast to slowdown in 2023, Euro Area (0.7 percent), UK (0.5 percent), and Japan (2.0 percent). The US is projected to stabilize at 2.1 percent.

In the emerging market and developing economies (EMDEs), growth is estimated at 4.0 percent in the fourth quarter of 2023. On an annual basis, growth is projected to modestly decline from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024, with a downward revision of 0.1 percentage point in 2024, reflecting the property sector crisis in China. In Sub-Saharan Africa (SSA), economic activity is projected to decline to 3.3 percent in 2023 before picking up to 4.0 percent in 2024, with 0.2 percentage point and 0.1 percentage point downward revisions for 2023 and 2024, respectively. The projected decline is attributed to the worsening weather shocks, the

global slowdown and the domestic supply issues mostly in the electricity sector. Nigeria, South Africa, and Kenya are expected to grow by 2.9 percent, 0.9 percent, and 5.0 percent in 2023, respectively. In 2024, they are expected to grow by 3.1 percent (Nigeria), 1.8 percent (South Africa), and 5.3 percent (Kenya).

Global financial conditions eased after Swiss and US authorities took strong action in March to contain turbulence in their banking sectors. Global headline inflation continued to ease and is expected to steadily decline from its peak of 8.7 percent in 2022 (annual average) to 6.9 percent in 2023 and 5.8 percent in 2024 attributed to the monetary tightening in major economies.

Global commodity market pressures are expected to continue to ease as nonfuel and fuel commodity prices decline. Oil prices are expected to fall by about 17 percent, with the decreases reflecting mainly the slowdown in global economic activity to average \$80.5 a barrel in 2023 (from \$96.4 in 2022), while nonfuel commodity prices are expected to fall by 6.3 percent in 2023.

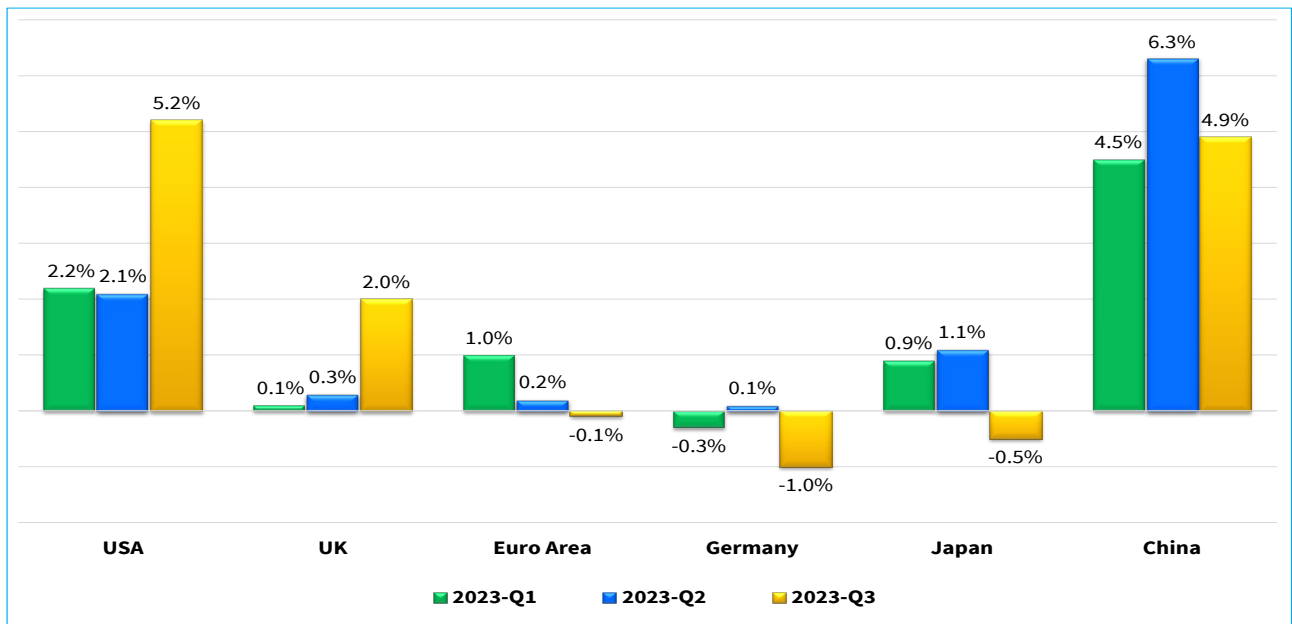
Official preliminary GDP estimates released for the third quarter of 2023 show estimated growth in the United States stood at 5.2 percent, Euro Area (-0.1 percent), Germany (-0.1 percent). However, GDP estimates show accelerated growth for China (4.9 percent). There are risks emanating from climate and geopolitical shocks leading to volatility in commodity prices and concerns from the slowing of the China economic growth. However, continued pick up in global service demand, and inflation pressures abating in major economies will likely boost global economic recovery.

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

	Annual Year over Year			Quarterly Q4 Over Q4		
	Estimate	Projections		Estimate	Projections	
	2022	2023	2024	2022	2023	2024
World Output	3.5	3.0	2.9	2.2	2.9	3.2
Advanced Economies	2.6	1.5	1.4	1.2	1.5	1.5
United States	2.1	2.1	1.5	0.9	1.9	1.4
Euro Area	3.3	0.7	1.2	1.7	0.7	1.4
Germany	1.8	-0.5	0.9	0.8	-0.2	1.7
France	2.5	1.0	1.3	0.7	1.0	1.5
Italy	3.7	0.7	0.7	1.5	0.3	1.2
Spain	5.8	2.5	1.7	3.8	1.6	2.0
Japan	1.0	2.0	1.0	0.5	2.1	1.0
United Kingdom	4.1	0.5	0.6	0.6	0.6	0.8
Emerging Market and Developing Economies	4.1	4.0	4.0	3.2	4.0	4.7
Emerging and Developing Asia	4.5	5.2	4.8	4.2	5.0	5.5
China	3.0	5.0	4.2	3.2	4.9	4.7
India	7.2	6.3	6.3	6.1	5.5	7.7
Emerging and Developing Europe	0.8	2.4	2.2	-1.2	2.8	2.5
Russia	-2.1	2.2	1.1	-3.1	2.2	1.2
Latin America and the Caribbean	4.1	2.3	2.3	2.8	1.5	3.2
Brazil	2.9	3.1	1.5	2.5	2.1	2.8
Mexico	3.9	3.2	2.1	4.3	2.6	1.9
Middle East and Central Asia	5.6	2.0	3.4	...	...	...
Saudi Arabia	8.7	0.8	4.0	5.5	0.9	4.0
Sub-Saharan Africa	4.0	3.3	4.0	...	...	...
Nigeria	3.3	2.9	3.1	...	...	...
South Africa	1.9	0.9	1.8	...	...	...
Kenya	4.8	5.0	5.3	...	...	...
World Trade Volume (goods and services)	5.1	0.9	3.5	...	...	...
Commodity Prices						
Oil	39.2	-16.5	-0.7	8.8	-2.5	-5.7
Nonfuel	7.9	-6.3	-2.7	-0.4	-3.1	0.7
World Consumer Prices	8.7	6.9	5.8	9.2	5.9	4.8
Advanced Economies	7.3	4.6	3.0	7.7	3.3	2.6
Emerging Market and Developing Economies	9.8	8.5	7.8	10.5	8.1	6.6

Source: IMF, World Economic Outlook, October 2023 updates

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



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

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account balance is estimated to have narrowed to USD 1,467 million in the third quarter of 2023 from USD 1,774 million in the third quarter of 2022, reflecting a decline in the import bill and resilient performance in remittances. The lower import bill was attributed to a decline in the imports

of petroleum products, manufactured goods, and chemical products. Secondary income inflows remained strong and improved by USD 188 million to USD 1,760 million in the third quarter of 2023 from USD 1,572 million in a similar quarter in 2022 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2022		2023*					Q3 2023-Q3 2022		
		Oct-Dec	Jan-Mar	Apr-Jun	Jul	Aug	Sep	Q3	%	
	Q3	Q4	Q1	Q2				Change	Change	
1. Overall Balance	946	235	1,017	-1,102	510	267	116	894	-52	-6
2. Current account	-1,774	-1,005	-675	-1,014	-414	-607	-446	-1,467	306	-17
Exports (fob)	1,889	1,747	1,843	1,819	589	660	626	1,874	-15	-1
Imports (fob)	5,015	4,309	4,243	4,325	1,264	1,528	1,356	4,148	-867	-17
Services: credit	1,643	1,568	1,664	1,454	338	400	309	1,047	-596	-36
Services: debit	1,322	1,401	1,222	1,194	382	445	416	1,243	-78	-6
Balance on goods and services	-2,804	-2,396	-1,959	-2,246	-719	-914	-837	-2,470	334	-12
Primary income: credit	3	8	24	36	13	20	14	47	43	1,356
Primary income: debit	534	382	476	512	312	277	181	770	237	44
Balance on goods, services and primary income	-3,334	-2,770	-2,410	-2,722	-1,019	-1,170	-1,004	-3,193	141	-4
Secondary income : credit	1,572	1,772	1,808	1,743	616	574	569	1,760	188	12
o.w Remittances	957	1,045	1,020	1,024	383	357	341	1,081	124	13
Secondary income: debit	12	7	72	34	11	11	11	34	22	185
3. Capital Account	5	30	55	36	0	11	13	23	18	350
4. Financial Account	-1,594	-344	876	-2,332	-98	-250	-988	-1,336	258	-16

* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The trade balance is estimated to have narrowed by 27 percent from a deficit of USD 3,125 million in the third quarter of 2022 to a deficit of USD 2,274 million in the third quarter of 2023, attributed to a decline in imports products (**Table 5.1**). The value of merchandise exports decreased to USD 1,874 million in the third quarter of 2023 from USD 1,889 million in a similar period in 2022, attributable to a decline in earnings from raw materials, petroleum products, miscellaneous manufactured articles, and chemical products. However, earnings from horticulture, manufactured goods and tea improved by 15.7 percent, 3 percent and 7 percent respectively. Tea

and horticulture were boosted by increased volumes in quarter three while manufactured goods were mostly to the region (**Table 5.1**).

The value of merchandise imports decreased by 17 percent to USD 4,148 million in the third quarter of 2023, from USD 5,015 million in a similar quarter in 2022, largely on account of reduced imports of manufactured goods, petroleum products and chemicals which declined by 31 percent, 32 percent and 27 percent, respectively. The decline in imports of petroleum products in the period under review was largely due to a reduction in international oil prices. Service balance declined by USD 518 million

to a deficit of USD 196 million in third quarter of 2023 from USD 322 million in the third quarter of 2022. The decline was largely attributed to a decrease in receipts from transport and travel (**Table 5.2**).

The primary account balance widened by USD 36 million to a deficit of USD 723 million in the third quarter of 2023 from a deficit of USD 530 million in

the same period last year, reflecting lower interest related payments on other investments. The secondary income balance rose by USD 166 million to 1,726 in the third quarter of 2023 compared with USD 1,560 in the third quarter of 2022. Remittances increased to USD 1,081 million in the third quarter of 2023 from USD 957 million in the same period in the previous year (**Table 5.1 and 5.2**).

Table 5.2: Balance on current account (USD Million)

ITEM	2022		2023*		2023			Q3 2023-Q3 2022		
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep			Q3	Change	%
	Q3	Q4	Q1	Q2	July	Aug	Sept			
CURRENT ACCOUNT	-1,774	-1,005	-675	-1,014	-414	-607	-446	-1,467	306	-17
Goods	-3,125	-2,562	-2,400	-2,506	-675	-868	-730	-2,274	852	-27
Exports (fob)	1,889	1,747	1,843	1,819	589	660	626	1,874	-15	-1
o.w Coffee	77	53	64	103	31	24	15	70	-7	-9
Tea	337	353	342	319	91	140	116	347	11	3
Horticulture	216	207	231	246	85	85	77	247	31	15
Oil products	34	19	25	25	8	9	8	25	-9	-26
Manufactured Goods	172	159	176	180	66	59	58	183	11	7
Raw Materials	118	120	135	90	27	25	23	75	-43	-37
Chemicals and Related Products (n.e.s)	173	150	159	146	54	53	48	156	-17	-10
Miscellaneous Man. Articles	195	151	151	158	52	54	39	145	-50	-26
Re-exports	212	163	149	168	56	79	115	250	38	18
Other	344	358	399	371	114	126	122	362	18	5
Imports (fob)	5,015	4,309	4,243	4,325	1,264	1,528	1,356	4,148	-867	-17
o.w Oil	1,634	1,210	1,171	1,207	307	419	388	1,114	-519	-32
Chemicals	865	692	840	742	192	207	231	630	-235	-27
Manufactured Goods	856	723	680	741	174	214	205	593	-263	-31
Machinery & Transport Equipment	888	896	745	753	284	312	264	860	-29	-3
Machinery	620	579	498	515	206	205	189	599	-20	-3
Transport equipment	268	317	248	238	79	107	75	260	-8	-3
Other	1,090	1,134	1,146	1,160	375	482	353	1,209	119	11
o.w Food	520	556	605	656	179	266	171	616	95	18
Services	322	167	441	260	-44	-46	-107	-196	-518	-161
Transport Services (net)	42	-24	81	89	-13	-60	-34	-107	-149	-356
Credit	569	482	549	523	122	110	120	353	-217	-38
Debit	527	505	467	434	135	170	155	460	-67	-13
Travel Services (net)	261	253	274	258	70	62	54	186	-75	-29
Credit	302	296	318	300	78	71	64	213	-89	-29
Debit	41	43	44	41	8	9	9	27	-14	-35
Other Services (net)	19	-63	86	-88	-101	-48	-126	-275	-294	-1,566
Primary Income	-530	-374	-452	-476	-299	-256	-168	-724	-193	36
Credit	3	8	24	36	13	20	14	47	43	1,356
Debit	534	382	476	512	312	277	181	770	237	44
Secondary Income	1,560	1,765	1,736	1,708	605	563	558	1,726	166	11

*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

Table 5.3: Kenya's direction of trade: Imports

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

*Provisional

Source: Kenya Revenue Authority

Direction of Trade

Imports from China accounted for 20 percent of total imports to Kenya making it the largest single source of imports, despite decreasing by 13 percent in the third quarter of 2023 when compared to the same quarter in 2022. Imports from the US and Saudi Arabia rose by USD 34 million and 53 million respectively while those from Africa declined by USD 132 million to USD 496 million in the third quarter of 2023, reflecting reduced imports from COMESA and EAC region (**Table 5.3**).

The value of goods exported to Africa in the third quarter of 2023 was USD 822 million, accounting for 44 percent of total exports. Exports to EAC region

rose mainly due to increased exports to Uganda, Tanzania, and South Sudan. The share of exports to the EU was 19 percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 7 percent, 5 percent, 6 percent, and 9 percent, respectively (**Table 5.4**).

Capital and Financial Account

Net capital account inflows were USD 23.5 million in the third quarter of 2023. Net financial account inflows were lower at USD 1,336 million in the third quarter of 2023, compared to net inflows of USD 1,594 million in the third quarter of 2022 (**Table 5.5**). This largely reflects a decline in other investment inflows.

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)	2022		2023*				Jul-Sep				Share of Exports (%)		
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun							Q3 2022	Q3 2023	
	Q3	Q4	Q1	Apr	May	Jun	Q2	July	Aug	Sept			Q3
Africa	799	717	781	217	283	255	755	262	292	268	822	42	44
Of which													
Uganda	234	197	246	74	78	77	229	83	85	79	247	12	13
Tanzania	123	125	111	27	44	41	112	42	45	48	135	7	7
Egypt	55	46	57	12	15	24	50	17	24	18	59	3	3
Sudan	17	18	19	3	1	2	5	3	7	3	13	1	1
South Sudan	41	44	58	17	20	18	54	21	17	18	56	2	3
Somalia	38	35	40	13	23	12	47	10	11	15	37	2	2
DRC	36	44	44	13	16	13	41	13	21	18	53	2	3
Rwanda	106	75	74	23	31	24	77	27	29	25	81	6	4
Others	150	134	134	37	57	45	139	45	52	44	141	8	8
		0									0	0	0
EAC	527	457	503	146	180	166	492	181	182	177	540	28	29
COMESA	545	472	531	152	179	172	502	175	198	172	545	29	29
Rest of the World	1,090	1,029	1,062	322	380	361	1,064	327	368	358	1,052	58	56
Of which		0									0	0	0
United Kingdom	86	86	107	30	37	30	97	29	32	30	91	5	5
Netherlands	128	151	142	49	61	45	155	43	46	39	128	7	7
USA	191	138	120	33	47	43	124	48	39	29	116	10	6
Pakistan	127	144	111	39	49	52	140	37	69	58	164	7	9
United Arab Emirates	93	76	85	26	36	26	88	22	32	62	116	5	6
Germany	34	29	35	11	9	14	34	10	9	8	28	2	1
India	19	16	18	7	7	3	16	6	6	10	22	1	1
Afghanistan	4	7	13	3	2	3	8	4	4	3	11	0	1
Others	408	382	431	123	133	144	401	127	130	119	377	22	20
Total	1,889	1,747	1,843	539	663	616	1,819	589	660	626	1,874	100	100
		0											
EU	357	352	385	124	150	131	405	119	132	113	363	19	19
China	56	56	63	15	15	27	57	11	11	12	34	3	2

*Provisional

Source: Kenya Revenue Authority

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 13,852 million at the end of the third quarter of 2023 from USD 11,408 million in a similar period in 2022. The official reserves held

by the Central Bank constituted the bulk of the gross reserves and rose to USD 7,535 million, equivalent to 4.0 months of import cover, while Commercial Bank reserves stood at USD 6,316 million at the end of third quarter of 2023 (**Table 5.6**).

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

	2022		2023*						Q3 2023-Q3 2022	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep				Absolute	%
	Q3	Q4	Q1	Q2	July	Aug	Sept	Q3	Change	Change
Capital account credit	5	30	55	36	0	11	13	23	18	350
Capital account credit	5	30	55	36	0	11	13	23	18	350
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-1,594	-344	876	-2,332	-98	-250	-988	-1,336	258	-16
Direct investment: assets	-19	-14	-5	2	1	1	1	3	22	-114
Direct investment: liabilities	116	103	52	83	37	37	37	111	-5	-4
Portfolio investment: assets	28	145	325	4	-13	-4	-15	-32	-59	-215
Portfolio investment: liabilities	-63	-46	-105	-18	-22	4	-4	-21	42	-66
Financial derivatives: net	5	-33	9	13	1	3	0	3	-2	-36
Other investment: assets	-523	564	453	667	617	575	8	1,199	1,722	-329
Other investment: liabilities	1,032	948	-40	2,952	688	783	948	2,420	1,388	134

* Provisional

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling exchange rate weakened against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 20.65 percent against

the US Dollar to exchange at an average of 144.05 in the third quarter of 2023 compared with 119.40 in a similar quarter in 2022. It however, appreciated against EAC regional currencies excluding Burundi Franc (**Table 5.7 and Chart 5.1**).

Table 5.6: Foreign exchange reserves and residents'

	2023*							
	Apr-Jun							
	Apr	May	Jun	Q2	July	August	September	Q3
1. Gross Reserves	11,498	11,754	13,166	13,166	13,642	13,676	13,852	13,852
of which:								
Official	7,080	7,227	8,037	8,037	7,919	7,652	7,535	7,535
import cover*	3.9	3.9	4.4	4.4	4.3	4.1	4.0	4.0
Commercial Banks	4,418	4,527	5,129	5,129	5,723	6,024	6,316	6,316
2. Residents' foreign currency deposits	8,207	8,354	8,673	8,673	9,010	9,397	9,778	9,778

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

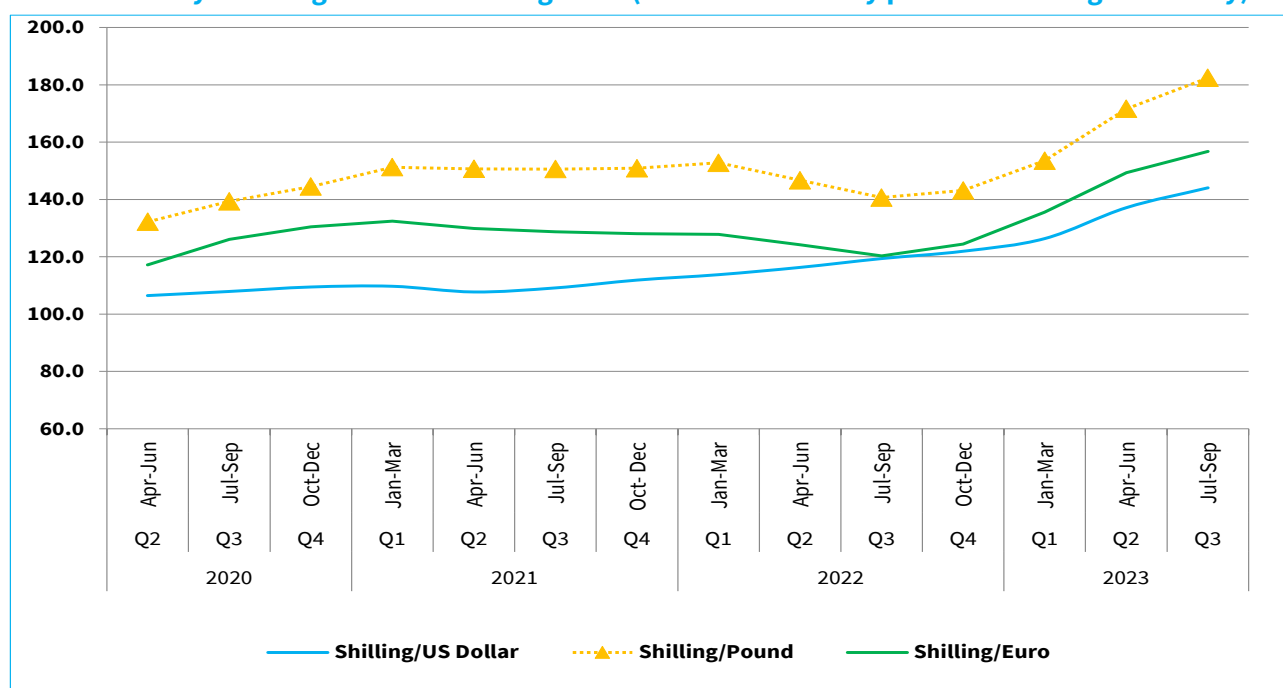
Source: Central Bank of Kenya

Table 5.7: Kenya Shilling exchange rate

	2023								Q2 2023- Q2 2022
	Apr	May	Jun	Apr-Jun	Jul	Aug	Sep	July-Sep	% change
US Dollar	134.40	137.26	139.73	137.13	141.45	143.93	146.77	144.05	20.65
Pound Sterling	167.26	171.35	176.27	171.63	182.06	182.92	182.29	182.42	29.69
Euro	147.39	149.22	151.37	149.33	156.29	157.10	156.89	156.76	30.25
100 Japanese Yen	100.71	100.14	99.12	99.99	100.16	99.45	99.46	99.69	15.32
South Africa Rand	7.40	7.22	7.46	7.36	7.76	7.69	7.74	7.73	10.12
Uganda Shilling*	27.87	27.18	26.54	27.20	25.93	25.61	25.48	25.67	-19.67
Tanzania Shilling*	17.45	17.18	17.08	17.24	17.26	17.31	17.04	17.20	-11.91
Rwanda Franc*	8.24	8.16	8.18	8.19	8.26	8.22	8.16	8.21	-5.27
Burundi Franc*	15.49	18.83	20.22	18.18	20.01	19.68	19.30	19.66	13.86

* 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

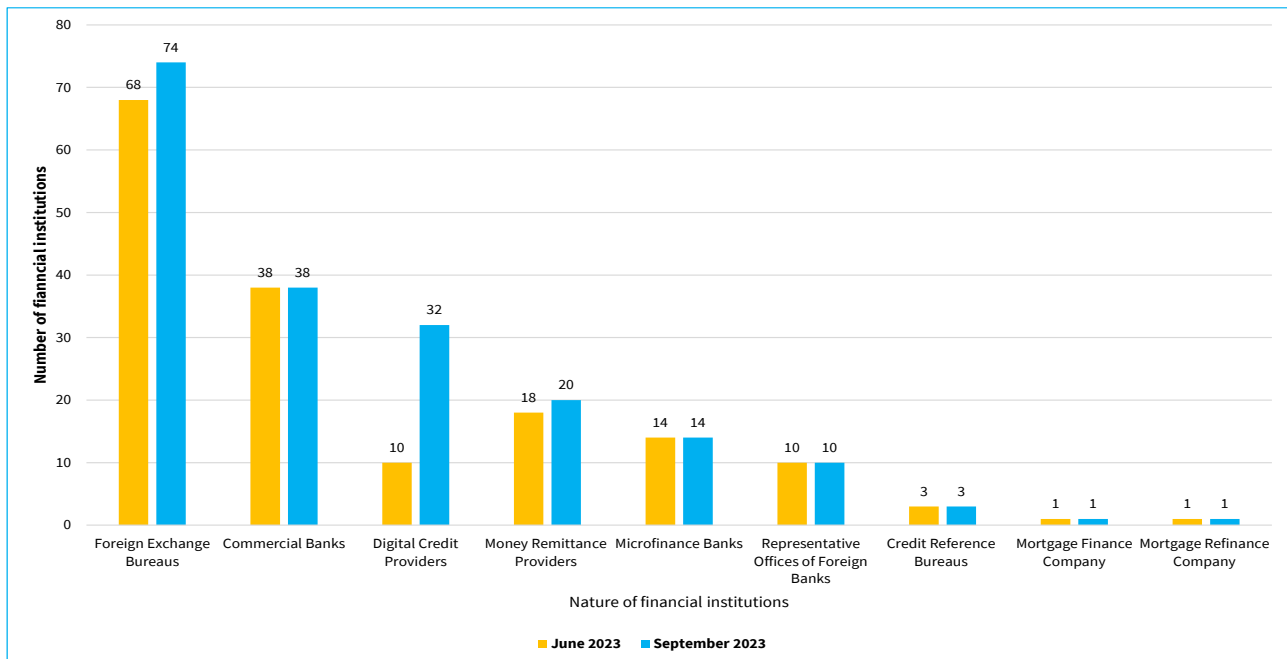
The banking sector remained stable and resilient in the third quarter of 2023. Total assets increased by 5.1 percent to Ksh.7,413.1 billion in September 2023, from Ksh.7,052.4 billion in June 2023. The deposit base also increased by 6.5 percent to Ksh.5,498.1 billion in the third quarter of 2023, from Ksh.5,160.4 billion in the second quarter of 2023. The sector was well capitalized with capital adequacy ratio of 18.6 percent, which was above the minimum capital requirement of 14.5 percent. The sector remained profitable in the third quarter of 2023, quarterly profit before tax increased to Ksh.57.6 billion, from Ksh.55.1 billion reported in the second quarter of 2023. Credit risk remained elevated with Gross Non-Performing Loans (NPLs)

to Gross Loans Ratio standing at 15.0 percent at the end of the third quarter of 2023, an increase from 14.5 percent recorded at the end of second quarter of 2023.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 10 Representative Offices of Foreign Banks, 74 Foreign Exchange Bureaus, 20 Money Remittance Providers, 3 Credit Reference Bureaus, and 32 Digital Credit Providers as of September 30, 2023. **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

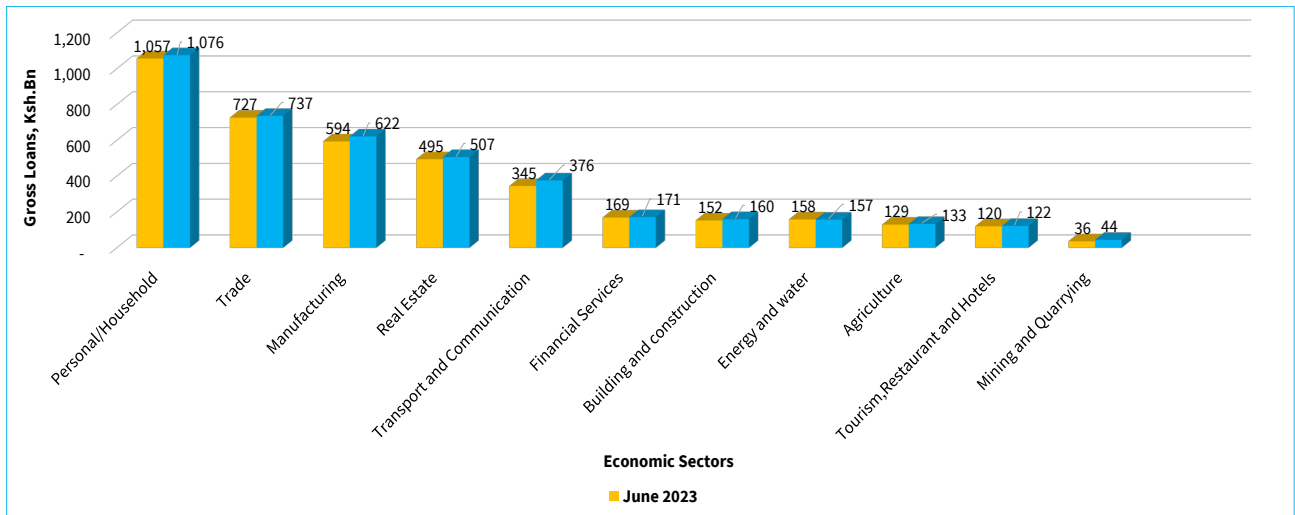
i) Growth in banking sector assets

Total assets increased by 5.1 percent to Ksh.7,413.1 billion in September 2023, from Ksh.7,052.4 billion in June 2023. The increase in total assets was mainly recorded in loans and advances by Ksh.123.1 billion (3.1 percent) and placements by Ksh.188.7 billion (35.4 percent). Net loans and advances remained the main component of total assets, accounting for 50.5 percent in the third quarter of 2023, a decrease from 51.8 percent recorded in the second quarter of 2023.

ii) Loans and Advances

The banking sector loan book increased by 3.1 percent, to Ksh.4,103.6 billion in the third quarter of 2023, from Ksh.3,980.5 billion in the second quarter of 2023. The increase in gross loans and advances was largely witnessed in the Transport and Communication, Manufacturing, Personal and Household and Real Estate sectors. The increase in gross loans was mainly due to increased new advances granted for working capital purposes. The sectoral distribution of gross loans for the second quarter of 2023 and the third quarter of 2023, is highlighted in **Chart 6.2**.

Chart 6.2: Kenyan banking sector gross loans



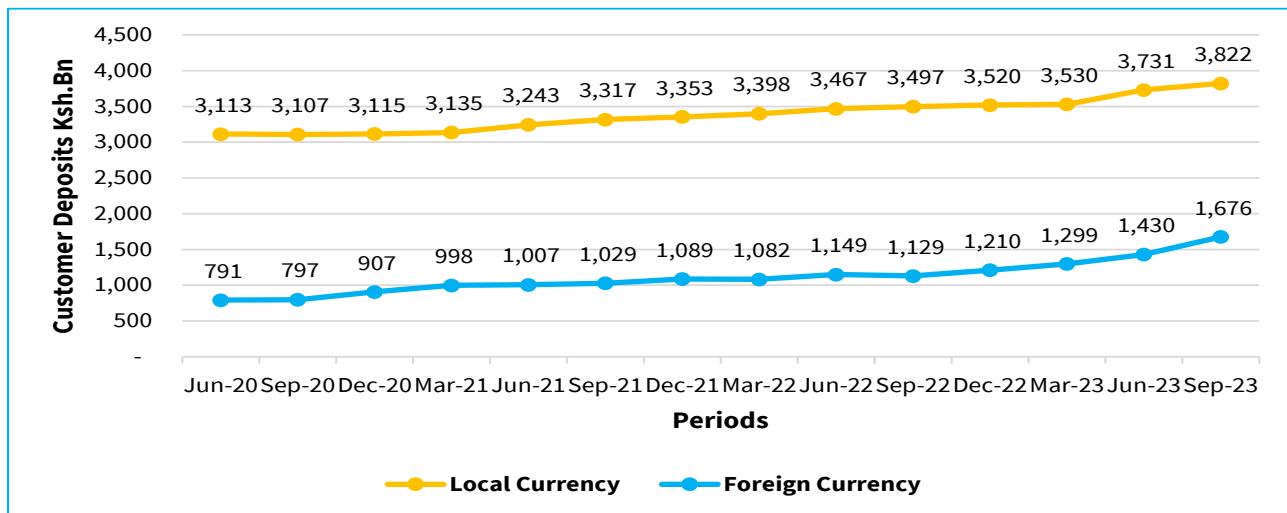
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 74.2 percent of the banking sector total liabilities and shareholders' funds as at the end of the third quarter of 2023. The customer deposit base increased by Ksh.337.7 billion to Ksh.5,498.1 billion in the third quarter of 2023, from Ksh.5,160.5 billion in the second quarter of 2023. Local currency deposits increased by

Ksh.91.4 billion (2.4percent) to Ksh.3,822.0 billion in the third quarter of 2023, from Ksh.3,730.7 billion in the second quarter of 2023. Foreign currency deposits increased by Ksh.246.2 billion (17.2 percent) to Ksh.1,676.1 billion in the third quarter of 2023, from Ksh.1,429.9 billion in the second quarter of 2023. **Chart 6.3** shows the trend of deposit liabilities.

Chart 6.3: Customer deposits



Source: Central Bank of Kenya

Capital Adequacy

Kenya’s banking sector is well capitalized and meets the minimum capital requirements. Core capital decreased by 0.3 percent to Ksh.853.9 billion in the third quarter of 2023, from Ksh.856.1 billion in the second quarter of 2023. Total capital increased by 0.2 percent to Ksh.1,032.9 billion in the third quarter of 2023, from Ksh.1,030.6 billion in the second quarter of 2023.

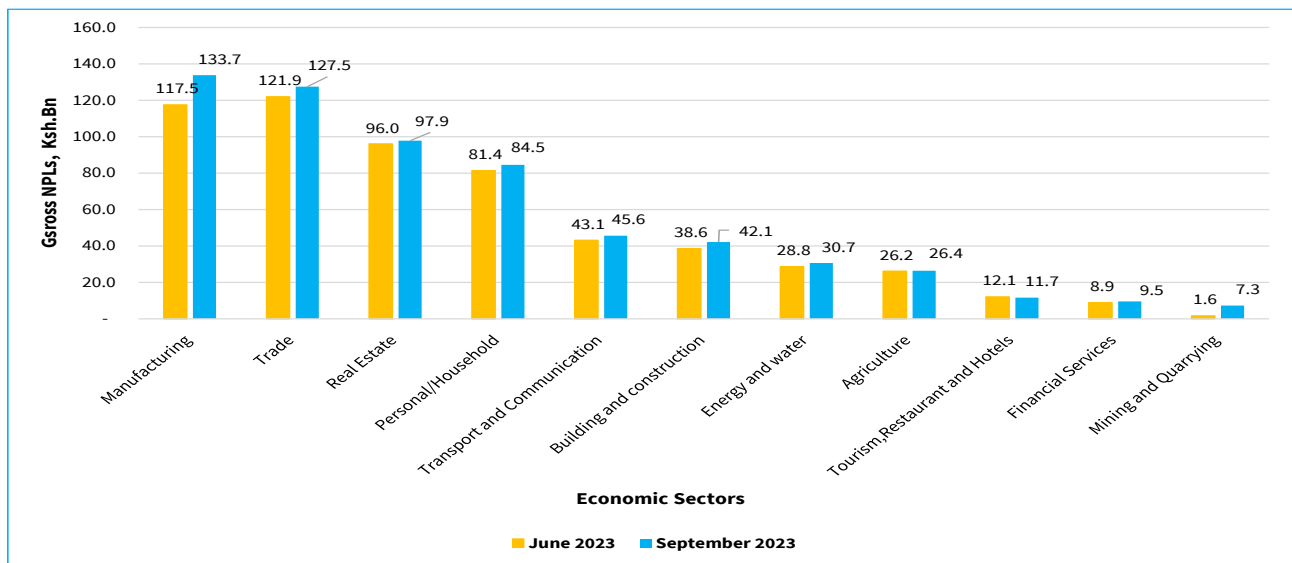
Core capital to total risk-weighted assets ratio decreased slightly to 15.3 percent in the third quarter of 2023 from 15.4 percent in the second quarter of 2023. However, total capital to total risk-weighted assets ratio remained constant at 18.6 percent in third quarter of 2023 and second quarter of 2023. The decreases in core capital ratio was mainly due to a higher increase in total risk weighted asset (0.3 percent) as compared to the decrease in core capital (0.3).

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 15.5 percent in the Third of 2023.

Asset Quality

The Gross Non-Performing Loans (NPLs) increased by 7.1 percent from Ksh.576.1 billion at the second quarter of 2023, to Ksh.617.0 billion at the end of the third quarter of 2023. The gross NPLs to gross loans ratio increased to 15.0 percent in the third quarter of 2023, from 14.5 percent in the second quarter of 2023. This was due to a higher increase in gross NPLs (7.1 percent) as compared to the increase in gross loans (3.1 percent). **Chart 6.4** highlights the sectoral distribution of gross NPLs.

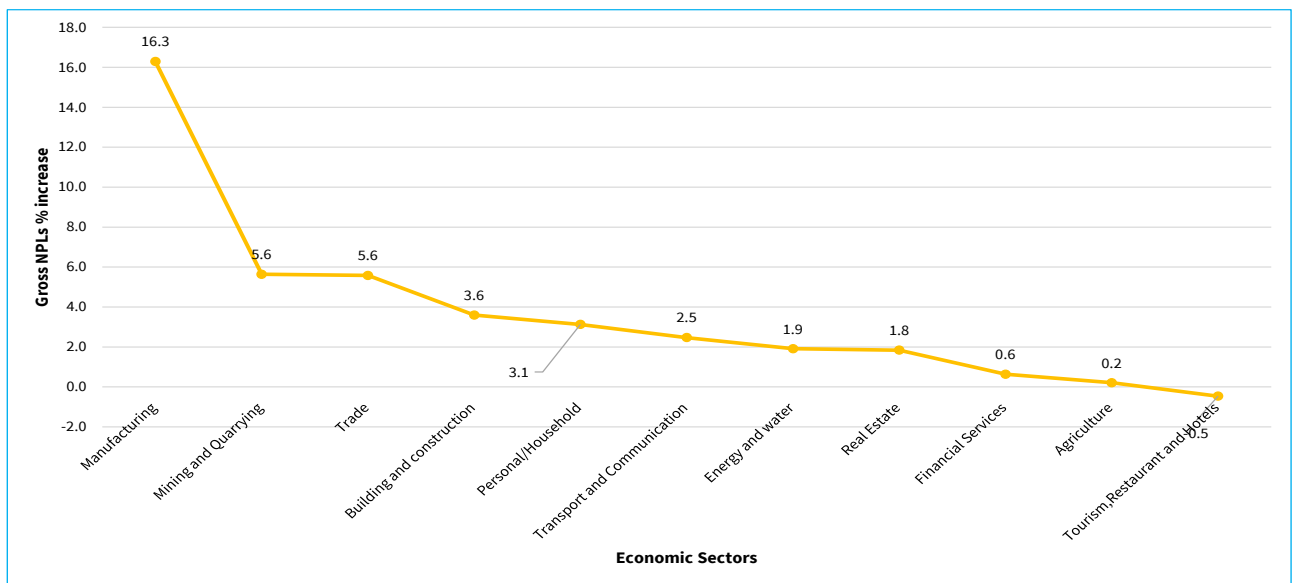
Chart 6.4: Kenyan banking sector gross non-performing loans



Source: Central Bank of Kenya

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

Chart 6.5: Movement in Gross NPLs- Second Quarter of 2023 and Third Quarter 2023



Source: Central Bank of Kenya

Manufacturing, Mining and Quarrying, Trade, Building and Construction and Personal and Household sectors registered increases in NPLs by Ksh.34.2 billion as a result of delayed repayments attributed to a challenging operating environment. Tourism, Restaurant and Hotels recorded decreased NPLs, mainly due to repayments.

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

loans deteriorated, with the ratio increasing to 6.3 percent in the third quarter of 2023, from 6.2 percent in the second quarter of 2023. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased from 38.1 percent in the second quarter of 2023, to 39.2 percent in the third quarter of 2023, due to a higher increase in specific provisions (10.1 percent) compared to the increase in total NPLs (7.1 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		June-23	September-23
1.	Gross Loans and Advances (Ksh.Bn)	3,980.5	4,103.6
2.	Interest in Suspense (Ksh.Bn)	89.9	96.9
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,890.6	4,006.7
4.	Gross Non-Performing loans (Ksh.Bn)	576.1	617.0
5.	Specific Provisions (Ksh.Bn)	185.0	203.8
6.	General Provisions (Ksh.Bn)	55.9	55.9
7.	Total Provisions (5+6) (Ksh.Bn)	241.0	259.6
8.	Net Advances (3-7) (Ksh.Bn)	3,649.7	3,747.1
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	486.2	520.1
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	245.3	260.5
11.	Total NPLs as % of Total Advances (9/3) (%)	12.5%	13.0%
12.	Net NPLs as % of Gross Advances (10/1) (%)	6.2%	6.3%
13.	Specific Provisions as % of Total NPLs (5/9) (%)	38.1%	39.2%
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	14.5%	15.0%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in quarterly pre-tax profits of Ksh.2.5 billion to Ksh.57.6 billion in the third quarter of 2023, from Ksh.55.1 billion in the second quarter of 2023. The increase in profitability was mainly attributable to a higher increase in quarterly income (Ksh.12.7 billion) compared to the increase in quarterly expenses (Ksh.10.2 billion). The higher increase in income was mainly attributed to an increase in interest in advances (Ksh.9.7 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 47.0 percent, 26.7 percent and 14.5 percent in the third quarter of 2023 as compared to 48.1 percent, 26.5 percent and 14.7 percent in the second quarter of 2023.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 32.3 percent, 23.2 percent and 21.2 percent of total expenses respectively in the third quarter of 2023, compared to 31.3 percent, 23.3 percent and 19.7 percent in the second quarter of 2023.

Return on Assets (ROA) decreased slightly to 2.5 in the third quarter of 2023, from 2.7 percent recorded in the second quarter of 2023. Return on Equity (ROE) decreased to 25.0 percent in the third quarter

of 2023, from 25.4 percent in the second quarter of 2023. The decrease in ROE and ROA was due to increased shareholders funds and total assets between the two quarters.

Liquidity

The banking sector's overall liquidity ratio decreased to 49.3 percent in the third quarter of 2023, from 49.7 percent in the second quarter of 2023. The decrease was driven by a higher increase in total short-term liabilities (8.6 percent) as compared to a 7.8 percent increase in total liquid assets between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

- The banking sector is projected to remain stable in the fourth quarter of 2023.
- Operational risk is expected to remain elevated due to increasing cyber security risks.
- Credit risk is expected to be elevated in the short to medium term. The gross NPLs to Gross Loans ratio increased from 14.5 percent in the Second quarter of 2023, to 15.0 percent in the Third quarter 2023.
- Interest rate risk is expected to be elevated on the back of rising interest rates.
- Liquidity risk is stable. The liquidity ratio decreased to 49.3 percent in Third quarter of

2023, from 49.7 percent in the Second quarter of 2023. These were above the statutory minimum of 20 percent.

increased by 2.86 percent while values decreased by 7.33 percent.

Kenya Shilling Flows in KEPSS

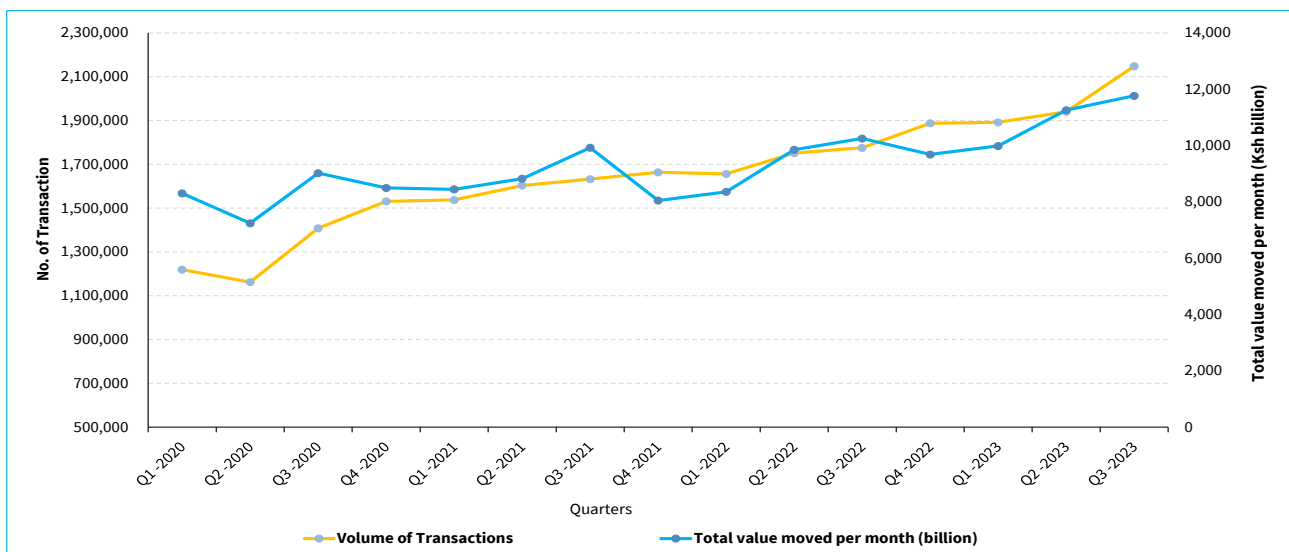
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 2.15 million transaction messages worth KSh 10.4 trillion in the third quarter of 2023, compared to the previous quarter which recorded 1.94 million transactions worth KSh 11.8 trillion. The volumes

Chart 6.6 below highlights recent trends in KEPSS transactions.

System Availability

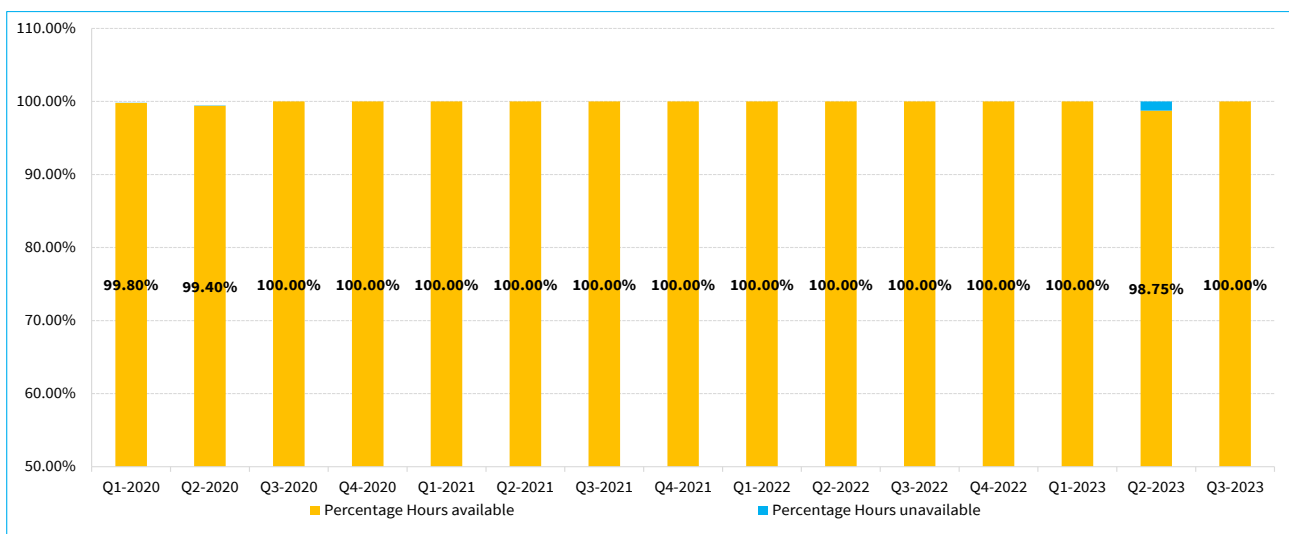
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review (**Chart 6.7**).

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 first quarter of FY 2023/24 resulted in a deficit of 0.4 of GDP against a target of 1.2 percent of GDP. Revenue collections were below the target by 4.6 percent mainly on account of underperformance in

all ordinary revenues categories except investment income and other revenue. Meanwhile, total expenditure and net lending amounted to KSh. 804.2 billion against a target of KSh. 859.2 billion.

Table 7.1: Statement of Government Operations in the First Quarter of FY 2023/24 (KSh Billion)

	FY 2022/23						Over (+) / Below (-)	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
	Q1	Jul	Aug	Sep	Q1	Target					
1. TOTAL REVENUE & GRANTS							Target				
Ordinary Revenue	485.4	159.4	166.2	219.0	544.6	578.7	(34.1)	12.2			
Tax Revenue	464.7	155.0	162.5	196.6	514.1	567.7	(53.6)	10.6			
Non Tax Revenue	20.7	4.4	3.7	22.4	30.5	11.1	19.5	47.6			
Appropriations-in-Aid	84.2	10.2	15.6	59.2	85.0	82.5	2.5	0.9			
External Grants	0.6	-	1.5	1.9	3.4	2.4	1.0	448.3			
2. TOTAL EXPENSES & NET LENDING	759.5	199.8	204.9	399.6	804.2	859.2	(55.0)	(6.4)	5.9	5.0	5.3
Recurrent Expenses	573.3	158.7	174.1	285.7	618.5	600.9	17.6	7.9			
Development Expenses	115.9	8.3	24.2	92.0	124.6	153.5	(29.0)	7.5			
County Transfers	70.3	32.8	6.5	21.8	61.1	104.8	(43.7)	(13.1)			
Others	-	-	-	-	-	-	-				
3. DEFICIT (INCL. GRANTS) (1-2)	(189.3)	(30.2)	(21.6)	(119.4)	(171.2)	(195.6)	24.4	(12.5)	(9.6)	(1.1)	(1.2)
As percent of GDP	(1.3)	(0.2)	(0.1)	(0.7)	(1.1)	(1.2)	0.2				
4. ADJUSTMENT TO CASH BASIS	15.0	-	-	101.9	101.9	-	101.9				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(174.3)	(30.2)	(21.6)	(17.5)	(69.3)	(195.6)	126.3	(64.6)	(60.2)	(0.4)	(1.2)
As percent of GDP	(1.2)	(0.2)	(0.1)	(0.1)	(0.4)	(1.2)	0.8				
6. DISCREPANCY: Expenditure (+) / Revenue (-)	(33.0)	12.0	(12.3)	(3.6)	(3.9)	-	(3.9)				
7. FINANCING	141.4	42.3	9.3	13.9	65.4	195.6	(130.2)	(66.6)	(53.7)	0.4	1.2
Domestic (Net)	101.6	48.5	23.3	21.3	93.1	235.0	(141.9)	(8.3)			
Capital Receipts (domestic loan receipts)	-	-	-	-	-	0.2	(0.2)				
External (Net)	39.8	(6.3)	(14.0)	(7.5)	(27.7)	(39.4)	11.7	(169.7)			
Others	-	-	-	-	-	-	-				

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants increased by 11.0 percent to KSh 633.0 billion in the first quarter of FY 2023/24, compared to KSh 570.2 billion in the first quarter of FY 2022/23. The increase was reflected in ordinary revenues which rose by 12.2 percent to Ksh 544.6 billion. In addition, Appropriation in Aid (A-in-A) and external grants increased by 0.9 percent and 448.3 percent, respectively by end of the quarter. Total revenue and grants were below the target by

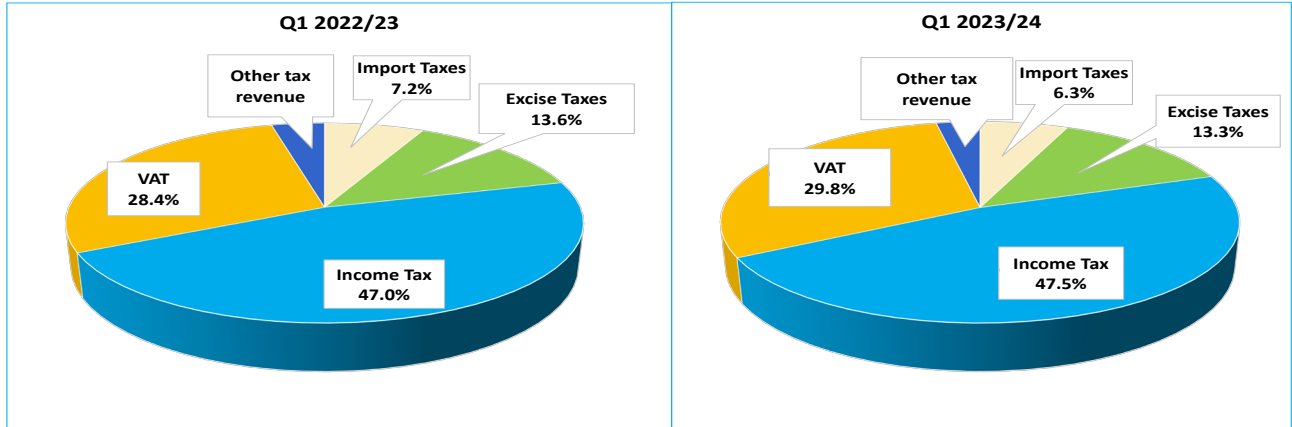
KSh 30.6 billion reflecting underperformance in all ordinary revenues categories except investment income and other revenue. In addition, Ministerial Appropriations in Aid collected during the quarter amounted to KSh 82.5 billion, which was KSh 2.5 billion higher than target mainly due to timely reporting of SAGAs' A.I.A.

There was a minor shift in the composition of tax revenues in the first quarter of FY 2023/24 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT)

and income tax, increased by 1.4 percentage points and 0.4 percentage points, respectively, while the share of excise taxes, import taxes and other taxes

declined by 0.2 percentage points, 0.9 percentage points, and 0.7 percentage points, respectively.

Chart 7.1: Composition of Tax Revenue in the First Quarter of FY 2023/24



Source: September 2023 BOT, National Treasury

Expenditure and Net Lending

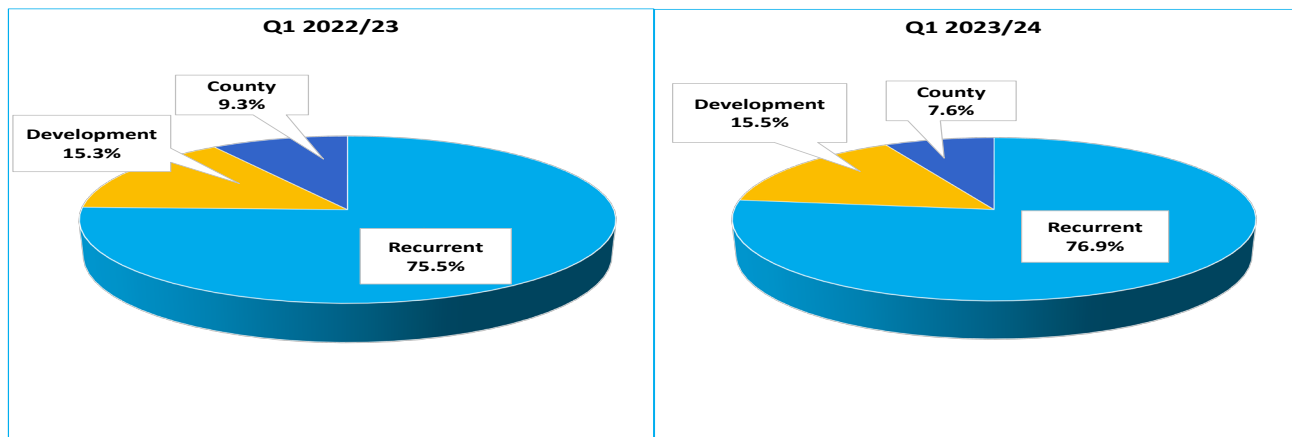
Government expenditure and net lending increased by 5.9 percent to KSh 804.2 billion in the first quarter of the FY 2023/24 compared to KSh 759.5 billion in the first quarter of the FY 2022/23. The increase in expenditures reflected a rise in national government recurrent expenditure, development that more than offset the decline in county transfers (Table 7.1).

The expenditure and net lending to September 2023 was below the target of KSh 859.2 billion by KSh 55.0 billion attributed to shortfall in disbursement towards development expenditures and transfers to County Governments. The over expenditure in

recurrent category was mainly due to higher than targeted expenditures on foreign interest payment and in operations and maintenance.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 76.9 percent in the first quarter of the FY 2023/24, which was 1.4 percentage points higher than the level recorded in a similar quarter during the previous fiscal year. The share of county allocations declined by 1.7 percentage points while that of development expenditure rose by 0.2 percentage points during the period under review (Chart 7.2).

Chart 7.2: Composition of Government Expenditure in the First Quarter of FY 2023/24



Source: September 2023 BOT, National Treasury

Financing

The budget deficit including grants amounted to KSh 69.3 billion or 0.4 percent of GDP at the end of the first quarter of FY 2023/24. The budget deficit was funded by KSh 27.2 billion net foreign repayments and KSh 93.1 billion net domestic borrowing. Domestic borrowing comprised KSh 62.7 billion from the Central Bank, KSh 9.1 billion

repayments to the commercial banks, KSh 92.4 billion from non-banks, KSh 1.6 billion from non-residents (**Table 7.2**). By the end of the first quarter, net domestic borrowing was below target by KSh 141.9 billion while net external borrowing were below target repayments by KSh 11.7 billion (**Table 7.1 and Table 7.2**).

Table 7.2 Domestic financing to September 2023 (KSh Billion)

	FY 2022/23			FY 2023/24		
	Q4			Q1		
	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
1. From CBK	15.3	42.3	(13.8)	49.6	46.8	62.7
2. From commercial banks	(7.1)	(44.4)	77.0	(9.9)	(16.8)	(9.1)
4. From Non-banks	255.8	288.1	338.2	64.8	97.8	92.4
5. From Non-Residents	0.6	0.1	0.1	0.2	1.3	1.6
6. Total Net Domestic Credit	264.7	286.1	401.6	104.7	129.2	147.6
7. Other Domestic financing /1	(0.5)	9.7	58.0	(56.2)	(57.4)	(54.5)
8. Net Domestic Financing	264.2	295.8	459.5	48.5	71.8	93.1

/1 Include accounts payables and domestic loan repayment receipts

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

Outlook for FY 2023/24

In the supplementary budget for the FY 2023/24, total revenue including grants is projected at KSh 3,070.1 billion (19.0 percent of GDP). Government expenditure is projected at KSh 3,931.4 billion (24.4 percent of GDP), of which KSh 2,761.3 billion will be for recurrent expenses, KSh 745.1 billion for

development expenses and KSh 423.9 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 861.3 billion (5.3 percent of GDP) in 2023/24, to be financed through net external borrowing of KSh 412.1 billion and net domestic borrowing of KSh 449.2 billion (**Table 7.3**).

Table 7.3: Budget Estimates for the Fiscal Year 2022/2024

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	3,070.1	19.0
Ordinary Revenue	2,576.8	16.0
Appropriations-in-Aid	446.0	2.8
External Grants	47.4	0.3
2. TOTAL EXPENSES & NET LENDING	3,931.4	24.4
Recurrent Expenses	2,761.3	17.1
Development Expenses	745.1	4.6
County Transfer	423.9	2.6
Contingency Fund	1.2	0.0
3. DEFICIT INCL. GRANTS (1-2)	-861.3	(5.3)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	861.3	5.3
Domestic (Net)	449.2	2.8
External (Net)	412.1	2.6

Source: Supplementary budget, 2023

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 3.0 percent during the first quarter of 2023/24. Domestic and external debt increased by 1.7 percent and 4.1 percent, respectively. The ratio

of public debt to GDP was estimated at 72.6 percent by the end of first quarter of 2023/24 compared to 72.5 percent by the end of the fourth quarter of 2022/23 (**Table 8.1**).²

Table 8.1 Kenya's public and publicly guaranteed debt

	2020/21	2022/23						2023/24			
	Q4	Jul-22	Aug-22	Q1	Q2	Q3	Q4	Jul-23	Aug-23	Q1	Q on Q Change
EXTERNAL											
Bilateral	1,173.2	1,159.0	1,160.0	1,144.5	1,206.9	1,291.9	1,339.5	1,324.0	1,340.3	1,341.8	2.3
Multilateral	1,924.0	1,959.9	1,959.8	1,957.9	2,213.8	2,244.1	2,654.9	2,752.2	2,794.7	2,827.1	172.2
Commercial Banks	1,181.3	1,196.2	1,196.2	1,220.7	1,239.7	1,301.2	1,437.3	1,451.3	1,463.8	1,483.6	46.3
Supplier Credits	12.2	11.9	11.9	11.8	12.8	14.0	14.8	15.2	15.4	15.3	0.4
Sub-Total	4,290.7	4,327.0	4,327.9	4,334.8	4,673.1	4,851.1	5,446.6	5,542.6	5,614.1	5,667.8	221.2
(As a % of GDP)	33.5	33.5	33.2	33.0	35.0	35.7	38.4	38.0	38.5	38.9	0.5
(As a % of total debt)	50.0	50.1	50.0	49.8	51.1	51.7	53.0	53.2	53.3	53.6	0.6
DOMESTIC											
Banks	2,088.5	2,090.1	2,095.4	2,086.3	2,101.8	2,096.7	2,293.2	2,266.0	2,269.8	2,280.2	-13.0
Central Bank	85.1	72.1	75.8	53.9	84.4	103.9	198.1	182.4	194.4	198.5	0.4
Commercial Banks	2,003.4	2,018.0	2,019.6	2,032.4	2,017.4	1,992.8	2,095.1	2,083.6	2,075.3	2,081.7	-13.3
Non-banks	2,167.9	2,188.7	2,207.9	2,248.0	2,339.2	2,410.4	2,507.0	2,572.8	2,606.7	2,600.8	93.9
Pension Funds	1,388.8	1,402.6	1,401.5	1,429.6	1,489.9	1,517.8	1,581.0	1,610.8	1,588.5	1,550.1	-30.9
Insurance Companies	307.8	310.0	311.9	319.7	329.7	338.4	345.6	351.2	353.6	354.7	9.1
Other Non-bank Sources	471.2	476.1	494.5	498.8	519.7	554.2	580.4	610.7	664.6	696.1	115.7
Non-residents	31.9	31.9	32.0	31.9	31.8	32.5	32.0	32.2	33.3	33.6	1.6
Sub-Total	4,288.3	4,310.7	4,335.3	4,366.3	4,472.8	4,539.6	4,832.1	4,871.0	4,909.8	4,914.6	82.5
(As a % of GDP)	33.5	33.4	33.3	33.2	33.5	33.4	34.1	33.4	33.7	33.7	-0.4
(As a % of total debt)	50.0	49.9	50.0	50.2	48.9	48.3	47.0	46.8	46.7	46.4	-0.6
GRAND TOTAL	8,579.1	8,637.7	8,663.2	8,701.1	9,146.0	9,390.7	10,278.7	10,413.6	10,523.9	10,582.4	303.7
(As a % of GDP)	66.9	66.8	66.5	66.2	68.4	69.1	72.5	71.4	72.2	72.6	0.1

Source: The National Treasury and CBK

Domestic Debt

The 1.7 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt decreased by 0.6 percentage points to 46.4 percent by the end of the first quarter of 2023/24 from 47.0 percent in the

previous quarter. The proportion of debt securities to total domestic debt stood at 95.8 percent by the end of the first quarter of 2023/24, same as the previous quarter (**Table 8.2**).

² The quarterly analysis is based on the Fiscal year quarters; Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Table 8.2: Government gross domestic debt (KSh Billion)

	Ksh (Billions)					Change: Q on Q		Proportions %				
	2022/23		2023/24					2022/23		2023/24		
	Q1	Q4	Jul-23	Aug-23	Q1	Ksh(Bn)	%	Q1	Q4	Jul-23	Aug-23	Q1
Total Stock of Domestic Debt (A+B)	4,366.3	4,832.1	4,871.0	4,909.8	4,914.6	292.5	6.1	100.0	100.0	100.0	100.0	100.0
A. Government Securities	4,325.4	4,628.6	4,682.4	4,707.4	4,708.0	79.4	1.7	99.1	95.8	96.1	95.9	95.8
1. Treasury Bills (excluding Repo Bills)	690.6	614.7	585.1	567.7	558.2	-56.5	-9.2	15.8	12.7	12.0	11.6	11.4
Banking institutions	315.7	263.1	240.5	214.6	218.1	-45.0	-17.1	7.2	5.4	4.9	4.4	4.4
The Central Bank	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Banks	315.6	262.9	240.2	214.4	217.8	-45.0	-17.1	7.2	5.4	4.9	4.4	4.4
Pension Funds	174.1	166.4	162.0	128.4	89.6	-76.8	-46.2	4.0	3.4	3.3	2.6	1.8
Insurance Companies	8.0	6.9	8.1	7.6	7.8	0.9	12.5	0.2	0.1	0.2	0.2	0.2
Others	192.7	178.3	174.6	217.1	242.8	64.5	36.2	4.4	3.7	3.6	4.4	4.9
2. Treasury Bonds	3,634.9	4,013.9	4,097.2	4,139.7	4,149.8	135.9	3.4	83.2	83.1	84.1	84.3	84.4
Banking institutions	1,711.6	1,826.7	1,837.1	1,852.9	1,855.7	29.0	1.6	39.2	37.8	37.7	37.7	37.8
The Central Bank	7.6	8.1	8.1	8.1	8.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,703.9	1,818.7	1,829.0	1,844.8	1,847.6	29.0	1.6	39.0	37.6	37.5	37.6	37.6
Insurance Companies	311.6	338.7	343.2	346.0	346.9	8.2	2.4	7.1	7.0	7.0	7.0	7.1
Pension Funds	1,255.4	1,414.6	1,448.8	1,460.2	1,460.5	45.9	3.2	28.8	29.3	29.7	29.7	29.7
Others	356.2	433.9	468.2	480.6	486.7	52.8	12.2	8.2	9.0	9.6	9.8	9.9
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	18.9	17.8	17.8	17.8	17.8	0.0	0.0	0.4	0.4	0.4	0.4	0.4
Of which: Repo T/Bills	18.3	17.2	17.2	17.2	17.2	0.0	0.0	0.4	0.4	0.4	0.3	0.3
B. Others:	21.9	185.7	170.8	184.6	188.8	3.1	1.7	0.5	3.8	3.5	3.8	3.8
Of which CBK overdraft to Government	27.2	76.5	61.1	72.1	75.7	-0.8	-1.0	0.6	1.6	1.3	1.5	1.5

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 9.2 percent decrease during the first quarter of 2023/24. As a result, the proportion of Treasury bills to total domestic debt decreased by 1.4 percentage points. Commercial banks hold 39.0 percent of Treasury bills, a decrease from 42.8 percent in the previous quarter (**Table 8.2**).

Treasury Bonds

Treasury bonds holdings increased by 3.4 percent during the first quarter of 2023/24, which was slightly higher than the 2.1 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 10-year and 5-year 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 and pension funds. Commercial banks holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KSh (Billions)												Change Q on Q		Proportions			
		2021/22			2022/23				2023/24							2021/22	2022/23		2023/24
		Apr-22	May-22	Q4	Jul-22	Aug-22	Q1	Q2	Q3	Q4	Jul-23	Aug-23	Q1	KShs(Bn)	%	Q1	Q1	Q4	Q1
Treasury bills	91-Day	47.7	60.6	59.3	84.5	115.2	134.2	156.3	189.7	249.2	255.4	264.4	291.0	41.7	16.7	2.1	3.1	5.2	5.9
	182-Day	168.9	172.1	173.9	168.8	151.5	151.7	163.4	198.3	154.4	129.8	107.0	75.2	-79.2	-51.3	4.5	3.5	3.2	1.5
	364-Day	424.0	398.5	395.5	393.6	393.3	386.3	351.8	277.9	211.1	199.9	196.3	192.1	-19.0	-9.0	12.8	8.8	4.4	3.9
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	0.0
	2-Year	55.9	55.9	55.9	55.9	55.9	55.9	16.8	0.0	0.0	0.0	28.8	43.6	43.6		1.4	1.3	0.0	0.9
	3-Year	33.1	33.1	36.7	36.7	58.8	58.8	58.8	58.8	137.1	137.1	137.1	137.1	0.0	0.0	0.0	1.3	2.8	2.8
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	362.3	362.3	362.3	362.3	332.7	332.7	311.9	320.0	320.0	355.0	368.6	368.6	48.6	15.2	6.8	7.6	6.6	7.5
	6-Year	20.2	20.2	20.2	20.2	20.2	20.2	79.7	79.7	69.7	69.7	69.7	69.7	0.0	0.0	0.5	0.5	1.4	1.4
	7-Year	41.5	41.5	41.5	41.5	41.5	41.5	21.3	21.3	234.5	234.5	234.5	234.5	0.0	0.0	1.1	0.9	4.9	4.8
	8-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	9-Year	123.5	123.5	123.5	123.5	123.5	123.5	115.5	115.5	107.4	107.4	107.4	107.4	0.0	0.0	3.1	2.8	2.2	2.2
	10-Year	542.2	576.7	541.4	541.4	550.8	577.1	591.3	620.7	585.1	633.5	633.5	640.5	55.4	9.5	13.1	13.2	12.1	13.0
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	2.0	1.8	1.7	1.6
	12-Year	99.7	99.7	99.7	99.7	99.7	99.7	89.3	89.3	89.3	89.3	89.3	77.6	-11.7	-13.1	2.7	2.3	1.8	1.6
	14-Year	0.0	0.0	0.0	0.0	0.0	0.0	94.3	94.3	94.3	94.3	94.3	94.3	0.0	0.0	0.0	0.0	2.0	1.9
	15-Year	921.0	915.0	898.3	908.1	908.1	921.5	889.7	866.2	866.2	866.2	866.2	866.2	0.0	0.0	21.8	21.1	17.9	17.6
	16-Year	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	3.9	3.5	3.1	3.1
	17-Year								63.2	68.2	68.2	68.2	68.2	0.0	0.0	0.0	0.0	1.4	1.4
	18-Year	81.8	81.8	155.4	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	0.0	0.0	2.1	3.7	3.3	3.3
	19-Year	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	98.4	0.0	0.0	0.0	2.3	2.0	2.0
	20-Year	546.8	546.8	546.8	546.8	555.1	555.1	572.3	572.3	572.3	572.3	572.3	572.3	0.0	0.0	12.3	12.7	11.8	11.6
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	2.7	2.4	2.2	2.2
25-Year	207.8	221.8	221.8	221.8	221.8	221.8	242.6	242.6	242.6	242.6	242.6	242.6	0.0	0.0	4.4	5.1	5.0	4.9	
30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.7	0.6	0.6	0.6	
Repo T bills	18.8	18.8	18.3	18.3	18.3	18.3	17.7	17.7	17.2	17.2	17.2	17.2	0.0	0.0	0.5	0.4	0.4	0.3	
Overdraft	58.6	63.0	58.5	45.4	49.1	27.2	58.5	78.0	76.5	61.1	72.1	75.7	-0.8	-1.0	1.4	0.6	1.6	1.5	
Other Domestic debt	7.4	11.7	13.7	14.9	12.6	13.6	14.5	7.0	109.9	127.5	130.3	130.9	21.0	19.1	0.1	0.3	2.3	2.7	
Total Debt		4,226.8	4,268.7	4,288.3	4,310.7	4,335.3	4,366.3	4,472.8	4,539.6	4,832.1	4,871.0	4,909.8	4,914.6	82.5	1.7	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 and 20-year Treasury Bonds accounted for 60.0 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 11.4 percent by the end of September 2023.

External Debt

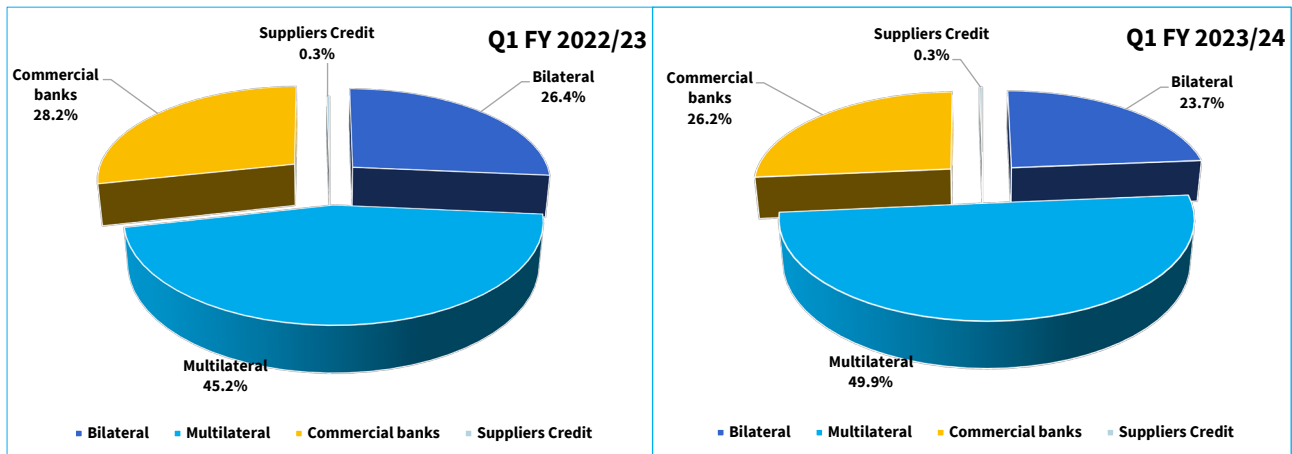
Public and publicly guaranteed external debt increased by 4.1 percent during the first quarter

of 2023/24. 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 4.7 percentage points, mainly driven by disbursements from IMF during the quarter under review. The proportion of bilateral and commercial debt decreased by 2.7 percentage points and 2.0 percentage points, respectively during the first quarter of 2023/24 indicating a shift towards concessional loans (**Chart 8.1**).

Chart 8.1: Composition of external debt by lender

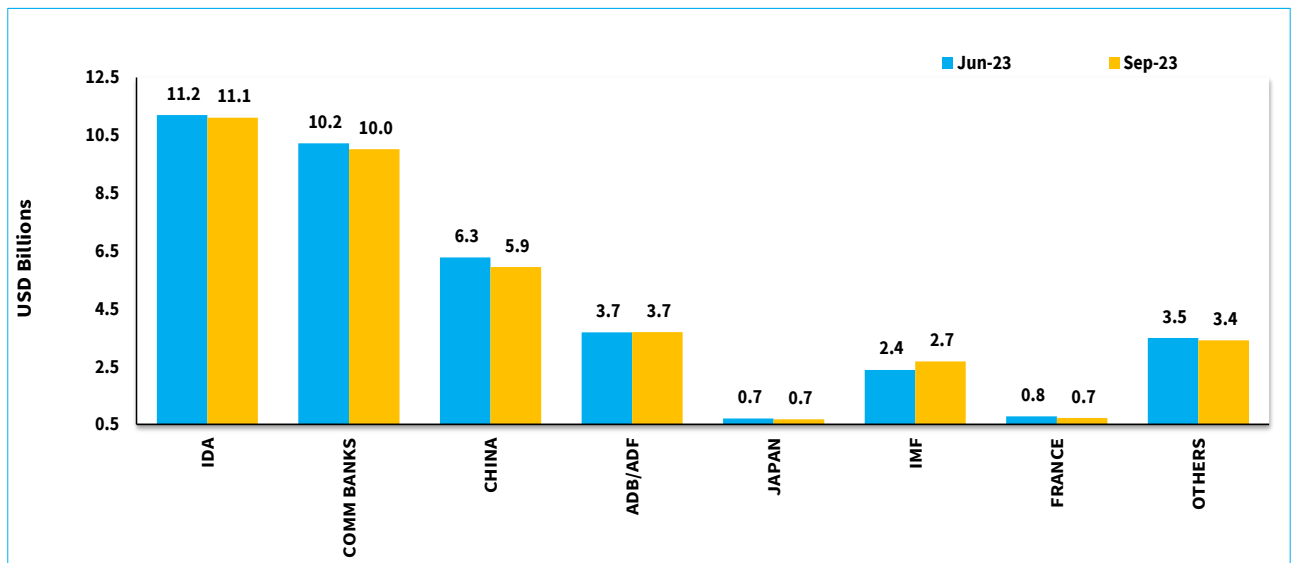


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya’s largest multilateral lender, stood at USD 11.1 billion (29.0 percent of external debt). Debt owed to China, Kenya’s largest

bilateral lender, amounted to USD 5.9 billion, or 15.5 percent of the total external debt by the end of the first quarter of 2023/24 (**Chart 8.2**).

Chart 8.2: External debt by creditor

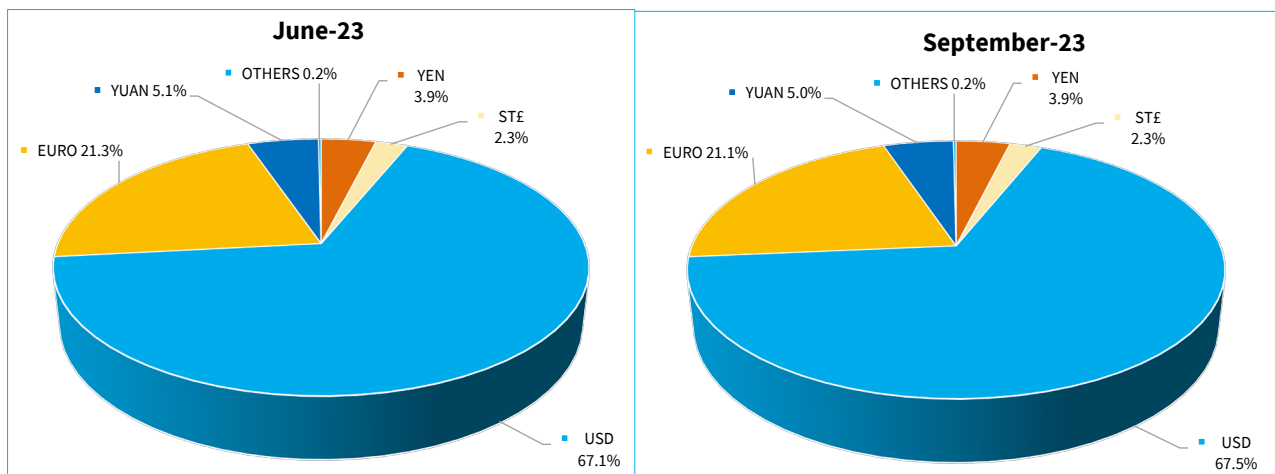


Source: The National Treasury

Currency Composition of External Debt

Kenya’s public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which

accounted for 88.6 percent of the total currency composition at the end of the first quarter of 2023/24. The proportion held in US dollar decreased by 0.2 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 ordinary revenues was 23.3 percent during the first quarter of 2023/24. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service

for the first quarter of 2023/24 amounted to KSh 152.5 billion. This comprised of KSh. 89.4 billion (58.6 percent) principal and KSh 63.1 billion (41.4 percent) interest. External debt service to revenue and exports ratios deteriorated during the quarter under review mainly due to an increase in debt services relative to the previous quarter³ (**Table 8.4**).

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	Q4 FY 2021/22	Q1 FY 2022/23	Q2 FY 2022/23	Q3 FY 2022/23	Q4 FY 2022/23	Q1 FY 2023/24
Debt service to Revenues (18%)	7.2	18.1	13.6	23.0	13.2	24.2
Debt service to Exports (15%)	11.6	23.6	19.4	28.0	19.8	36.2

Source: Central Bank of Kenya and The National Treasury

Debt Sustainability Analysis

A Debt Sustainability Analysis conducted by the IMF in July 2023 shows that Kenya's debt remains sustainable in the medium to long term but with 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. Kenya's debt sustainability is expected to improve supported by ongoing fiscal consolidation progress and recovery of both output and exports from the prevailing external shocks.

³ 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, Market capitalization, and the NSE 20 share price index, declined by 11.0 percent, 10.7 percent, and 4.2 percent respectively, at end of the third quarter

of 2023 compared to the second quarter of 2023. However, the equity turnover and total shares traded, increased by 19.6 percent and 41.4 percent, respectively during the period under review (**Table 9.1 and Chart 9.1**).

Table 9.1: Selected stock market indicators

INDICATOR	2022			Q4	2023			Change Q3-Q2 (%)
	Q1	Q2	Q3		Q1	Q2	Q3	
NSE 20 Share Index (1966=100)	1846.7	1612.9	1717.7	1676.1	1622.1	1574.9	1508.8	-4.20
NASI (2008=100)	155.74	124.47	128.41	127.47	112.76	107.00	95.22	-11.01
Number of Shares Traded (Millions)	753.2	870.3	823.3	634.2	1,086.5	764.9	1,081.7	41.43
Equities Turnover (Ksh Millions)	27,861	26,237	22,736	17,457	44,816	14,395	17,219	19.62
Market Capitalization (Ksh Billions)	2,426	1,939	2,001	1,986	1,756	1,666	1,488	-10.72
Foreign Purchase (Ksh Millions)	14,386	10,676	6,616	7,115	8,757	5,777	6,324	9.47
Foreign Sales (Ksh Millions)	16,073	21,571	13,581	11,986	22,687	7,259	9,864	35.90
Ave. Foreign Investor Participation to Equity Turnover (%)	54.66	57.75	44.42	54.71	41.24	44.95	46.85	1.90*
Bond Turnover (Ksh Millions)	190,951	195,667	196,961	158,270	162,515	147,406	196,301	33.17
7-Year Eurobond Yield (%) - 2027	8.15	16.02	15.61	10.913	13.38	11.251	14.299	3.05*
10-Year Eurobond Yield (%) - 2024	6.75	17.00	17.58	12.92	14.21	12.50	18.33	5.83*
10-Year Eurobond Yield (%) - 2028	8.14	14.67	14.74	10.48	12.32	11.04	13.27	2.24*
12-Year Eurobond Yield (%) - 3032	8.62	13.80	14.67	10.77	11.75	11.05	12.70	1.65*
13-Year Eurobond Yield (%) - 2034	8.34	12.99	13.17	9.86	11.25	10.29	12.30	2.01*
30-Year Eurobond Yield (%) - 2048	9.49	13.73	14.00	10.86	11.62	11.06	12.45	1.40*

* Percentage points

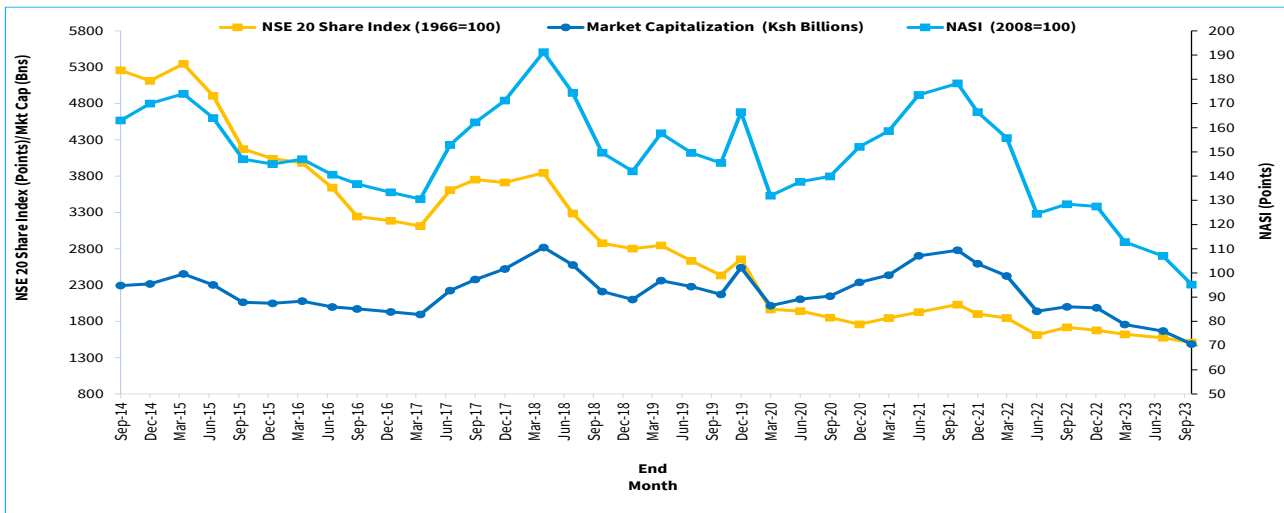
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of equities purchased by foreign investors as a share of total equity turnover increased to 46.9 percent for the third quarter of 2023 from 45.0 percent for the second quarter of 2023.

The quarterly average foreign sales increased by 35.9 percent in the third quarter of 2023, compared with second quarter of 2023. The quarterly average foreign purchases also increased by 9.5 percent for the period under review (**Table 9.1 and Chart 9.2**).

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



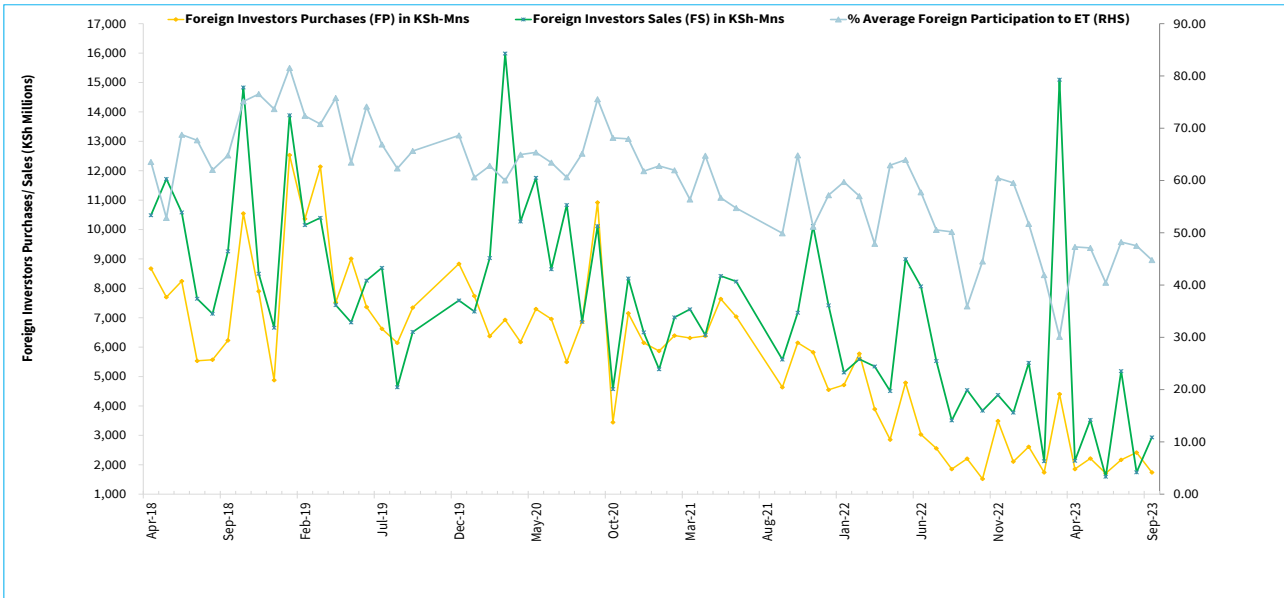
Source: Nairobi Security Exchange

Bonds Market

The bond turnover in the domestic secondary market declined by 33.2 percent in the third quarter of 2023 compared to the second quarter of 2023. In the international market, yields on all outstanding

Kenya’s Eurobonds rose by an average of 269.4 basis points, with the 2024 maturity increasing by 582.8 basis point during the quarter under review (**Table 9.1**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Chapter 10

Statement of Financial Position of the Central Bank of Kenya

(Kenya Shilling Million)

1.0 ASSETS	2022		2023			Absolute Quarterly Changes (KSh Million)					Quarterly Growth Rates (%)				
	Sept	Dec	Mar	June	Sept	Q3,2023	Q2,2023	Q1,2023	Q4,2022	Q3,2022	Q3,2023	Q2,2023	Q1,2023	Q4,2022	Q3,2022
11 Reserves and Gold Holdings	869,663	916,952	847,431	1,063,081	1,045,504	(17,577)	215,650	(69,520)	47,289	(63,975)	(1.7)	25.4	(7.6)	5.4	(6.9)
12 Funds Held with IMF	70,347	70,351	74,310	73,275	73,154	(121)	(1,035)	3,959	4	(1,292)	(0.2)	(1.4)	5.6	0.0	(1.8)
13 Investment in Equity (Swift Shares)	9	11	12	12	13	1	-	1	1	(1)	8.1	-	8.9	13.2	(6.1)
14 Items in the Course of Collection	24	40	43	42		(42)	(1)	3	16	(8)	(100.0)	(3.4)	7.9	67.7	(25.0)
15 Advances to Commercial Banks	108,724	111,665	116,958	82,469	167,761	85,292	(34,489)	5,294	2,941	36,894	103.4	(29.5)	4.7	2.7	51.4
16 Loans and Other Advances	220,563	291,091	314,286	330,559	386,099	55,540	16,273	23,195	70,528	23,853	16.8	5.2	8.0	32.0	12.1
17 Other Assets	7,357	6,550	7,365	6,884	6,371	(513)	(481)	815	(807)	35	(7.5)	(6.5)	12.4	(11.0)	0.5
18 Retirement Benefit Asset	7,081	7,081	7,081	4,994	4,994	(0)	(2,087)	-	-	(0)	(0.0)	(29.5)	-	-	(0.0)
19 Property and Equipment	31,096	31,088	30,920	29,789	29,471	(318)	(1,131)	(168)	(8)	(904)	(1.1)	(3.7)	(0.5)	(0.0)	(2.8)
1.10 Intangible Assets	259	687	1,375	1,998	2,075	77	623	687	429	(51)	3.9	45.3	100.0	165.7	(16.5)
1.11 Due Debt from Government of Kenya	106,310	141,254	187,307	189,967	190,238	271	2,660	46,053	34,944	(11,953)	0.1	1.4	32.6	32.9	(10.1)
TOTAL ASSETS	1,421,433	1,576,770	1,587,088	1,783,070	1,905,681	122,611	195,982	10,318	155,337	(17,402)	6.9	12.3	0.7	10.9	(1.2)
2.0 LIABILITIES															
21 Currency in Circulation	305,580	325,866	308,384	315,967	321,984	6,017	7,583	(17,482)	20,286	230	1.9	2.5	(5.4)	6.6	0.1
22 Deposits	495,490	528,635	454,390	572,975	554,775	(18,200)	118,585	(74,245)	33,146	(44,120)	(3.2)	26.1	(14.0)	6.7	(8.2)
23 International Monetary Fund	346,535	422,563	456,212	477,899	554,703	76,804	21,687	33,649	76,028	21,391	16.1	4.8	8.0	21.9	6.6
24 Other Liabilities	4,118	5,252	5,408	6,152	6,284	132	744	155	1,134	(212)	2.1	13.8	3.0	27.5	(4.9)
TOTAL LIABILITIES	1,151,723	1,282,317	1,224,394	1,372,993	1,437,745	64,752	148,599	(57,923)	130,594	(22,712)	4.7	12.1	(4.5)	11.3	(1.9)
3.0 EQUITY AND RESERVES	269,710	294,454	362,694	410,077	467,935	57,857	47,383	68,240	24,744	5,310	14.1	13.1	23.2	9.2	2.0
Share Capital	38,000	38,000	38,000	38,000	50,000	12,000	-	-	-	32	-	-	-	-	9
General reserve fund	233,314	258,059	326,299	366,730	417,588	50,858	40,431	68,240	24,745	6,308	14	12	26	11	3
Asset Revaluation	21,680	21,680	21,680	21,680	21,680	-	-	-	-	-	-	-	-	-	-
Fair Value Reserves - OCI	(23,285)	(23,286)	(23,286)	(21,333)	(21,333)	(0)	1,953	-	(1)	1	0	(8)	-	0	(0)
Consolidated Fund				5,000		(5,000)	5,000	-	-						
4 TOTAL LIABILITIES AND EQUITY	1,421,433	1,576,771	1,587,088	1,783,070	1,905,681	122,611	195,982	10,317	155,338	(17,402)	6.9	12.3	0.7	10.9	(1.2)

Source: Central Bank of Kenya

Notes on the Financial Position of the CBK

Assets

Central Bank of Kenya balance increased by 6.9 percent in the third quarter of 2023 compared to 12.3 percent in the previous quarter. The moderation in growth partly reflected the decline in reserve and gold holdings. 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, declined mainly due to schedule debt service.

The decline in reserve and gold holdings was fully offset by the increase in loans and advances, including advances to commercial banks. The increase in loan and other advances largely reflected funds on lent to the Government related to receipts from the International Monetary Fund (IMF). Advances to commercial banks was mainly on

account of open market operations that remained active during the period.

Liabilities

On the liability side, the reduced growth in the Central bank balance sheet was largely reflected in deposits. The decline in deposits was mainly on account of reduced government deposits. Liabilities to the IMF increased during the quarter largely reflecting 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 third quarter of 2023, partly on account of increased surplus recorded during the period.



Central Bank of Kenya

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