

Central Bank of Kenya

Quarterly Economic Review

January – March 2021



CONTENTS

Highlights.....	3
Chapter 1: Inflation.....	4
Chapter 2: Developments in Money, Credit and Interest Rates.....	7
Chapter 3: Leading Economic Indicators.....	12
Chapter 4: Global Economy.....	16
Chapter 5: Balance of Payments and Exchange Rates.....	18
Chapter 6: Banking Sector.....	24
Chapter 7: Government Budgetary Performance.....	30
Chapter 8: Developments in Public Debt.....	34
Chapter 9: Capital Markets.....	39
Chapter 10: Statement of Financial Position of the Central Bank of Kenya.....	41

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

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

THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

Overall inflation increased to 5.8 percent in the first quarter of 2021, from 5.3 percent in the fourth quarter of 2020, mainly driven by rising fuel and food prices. Fuel inflation increased, on account of increased pump prices and continued COVID-19 containment measures in the transport sector. Food inflation increased marginally as a result of increase in prices of a few key food items while Non-Food-Non-Fuel (NFFNF) inflation remained low, reflecting muted demand pressures in the economy.

Growth in broad money supply (M3) moderated to 1.0 percent in the first quarter of 2021 from 3.8 percent in the last quarter of 2020, mainly reflecting a slowdown in the growth of corporate deposits.

Economic indicators for the first quarter of 2021 show that the economy continues to recover from the adverse impact of the COVID-19 pandemic.

According to the most recent IMF World Economic Outlook, global output growth will rebound strongly to 6 percent in 2021, before slowing to 4.4 percent in 2022. The projections for 2021 and 2022 are 0.8 and 0.2 percentage points higher, respectively, than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. However, the global output growth path is expected to moderate to 3.3 percent in the medium term, reflecting projected damage to supply potential and pre-pandemic forces such as prolonged weakness in labor markets in advanced economies and some emerging market economies.

The current account is estimated to have widened to USD 1,524 million in the first quarter of 2021 from USD 1,093 million in the first quarter of 2020 reflecting an increase in imports and lower service receipts. Secondary income inflows were boosted by remittances, which increased to USD 846 million in the first quarter of 2021 from USD 698 million in a similar quarter of 2020.

The banking sector remained stable and resilient in the first quarter of 2021, in face of the coronavirus (COVID-19) pandemic. Total net assets increased by 2.0 percent from KSh 5,420.1 billion in December 2020 to KSh 5,528.4 billion in March 2021. The deposit base also increased by 2.8 percent from KSh 4,021.9 billion in the fourth quarter of 2020 to KSh 4,133.1 billion in the first quarter of 2021. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in the first quarter of 2021 with quarterly profit before tax of KSh 45.9 billion. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio increasing to 14.6 percent in the first quarter of 2021 from 14.1 percent in the fourth quarter of 2020.

The Government's budgetary operations at the end of the third quarter of FY 2020/2021 resulted in a deficit (including grants) of 4.5 percent of GDP. Revenue collection remained below target, as was the case with expenditure.

Kenya's public and publicly guaranteed debt increased by 0.8 percent during the third quarter of the FY 2020/21. Domestic increased by 2.3 percent while external debt decreased by 0.6 percent.

The equity market performance improved in the first quarter of 2021 compared to the fourth quarter of 2020. The NSE 20 and NASI share price indices rose by 4.91 percent and 4.28 percent, respectively.

Chapter 1

Inflation

Overview

Overall inflation increased to 5.8 percent in the first quarter of 2021, from 5.3 percent in the fourth quarter of 2020, mainly driven by rising fuel and food prices. Fuel inflation increased to 13.9 percent in the quarter under review, from 11.5 percent in the previous quarter, on account of increased pump prices and continued COVID-19 containment measures in the transport sector. At the same time,

food inflation increased marginally to 7.0 percent from 6.3 percent in the previous quarter as a result of increase in prices of a few key food items. Meanwhile, Non-Food-Non-Fuel (NFNF) inflation remained low at 2.3 percent, compared with 2.5 percent in the fourth quarter of 2020, reflecting muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

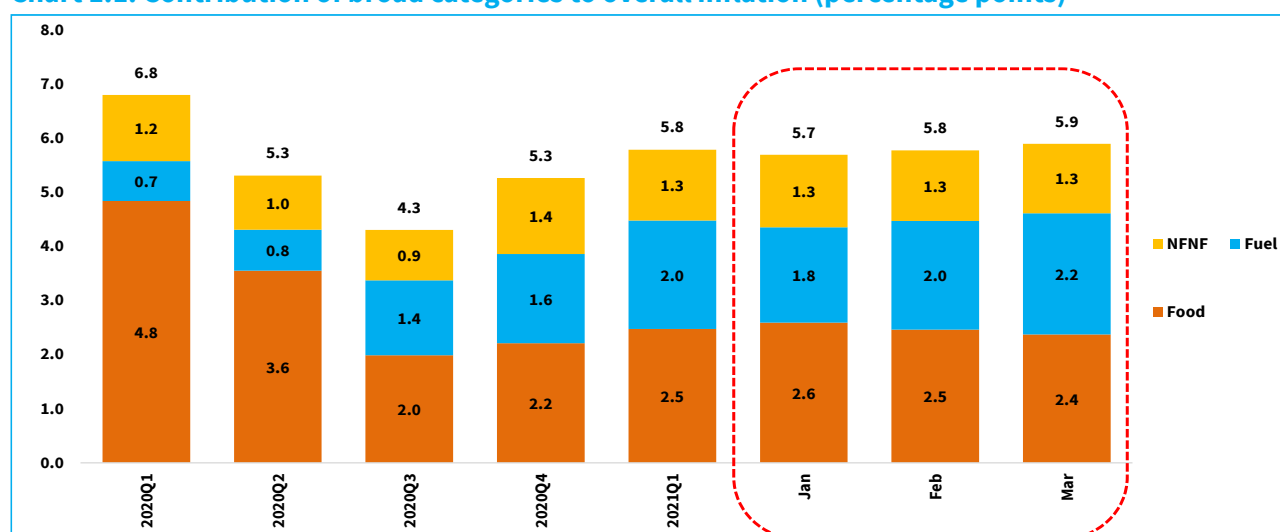
	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar
Overall inflation	6.8	5.3	4.3	5.3	5.8	5.7	5.8	5.9
Food Inflation	14.7	10.3	5.7	6.3	7.0	7.4	6.9	6.7
Fuel Inflation	4.9	5.0	10.0	11.5	13.9	12.1	13.8	15.8
Non-Food-Non-Fuel (NFNF) Inflation	2.2	1.8	1.7	2.5	2.3	2.4	2.2	2.3
Annual Average Inflation*	5.6	6.1	5.9	5.5	5.0	5.7	4.7	4.7
Three Months Annualised Inflation	7.2	5.4	0.2	8.6	9.4	11.3	9.7	7.2

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

Food inflation continued to be the main driver of overall inflation, with a contribution of 2.5 percentage points, from 2.2 percentage points in the previous quarter. The contribution of fuel inflation increased to 2.0 percentage points from

1.6 percentage points in the fourth quarter of 2020. Meanwhile, the contribution of NFNF stabilized at 1.3 percentage points in the quarter under review, compared to 1.4 percentage points in the previous quarter (**Chart 1.1**).

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



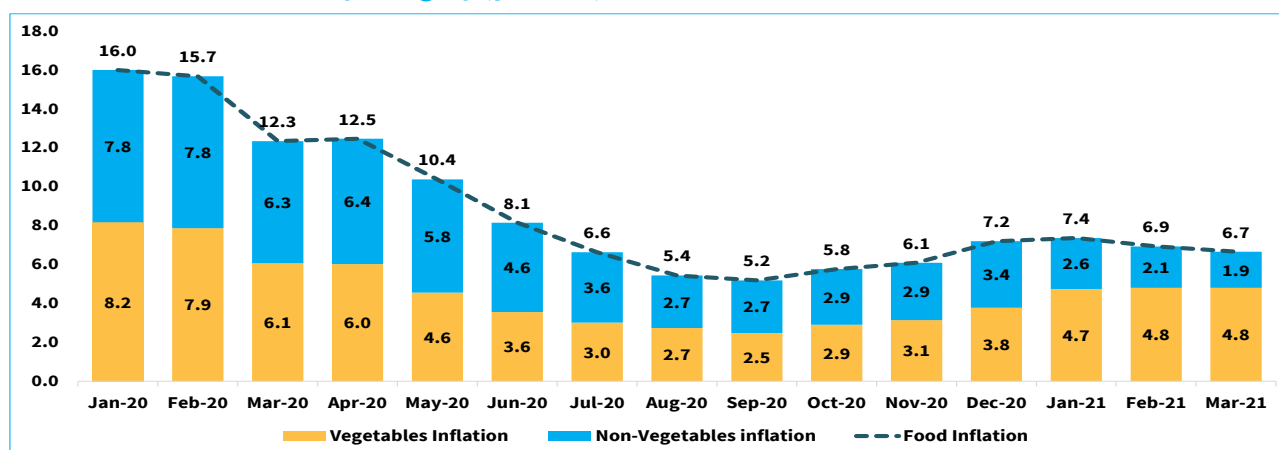
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation increased to 7.0 percent in the first quarter of 2021, from 6.3 percent in the previous quarter. This increase is attributed to rising prices of a few key food items such as beef with bones, cooking oil, bread and rice. However, it was moderated by lower prices of maize and maize

products, and of fast-growing food items including tomatoes, kales, onions, potatoes and cabbages, whose supply in the market increased following favorable weather conditions in the country (**Chart 1.2**).

Chart 1.2: Food inflation by category (percent)



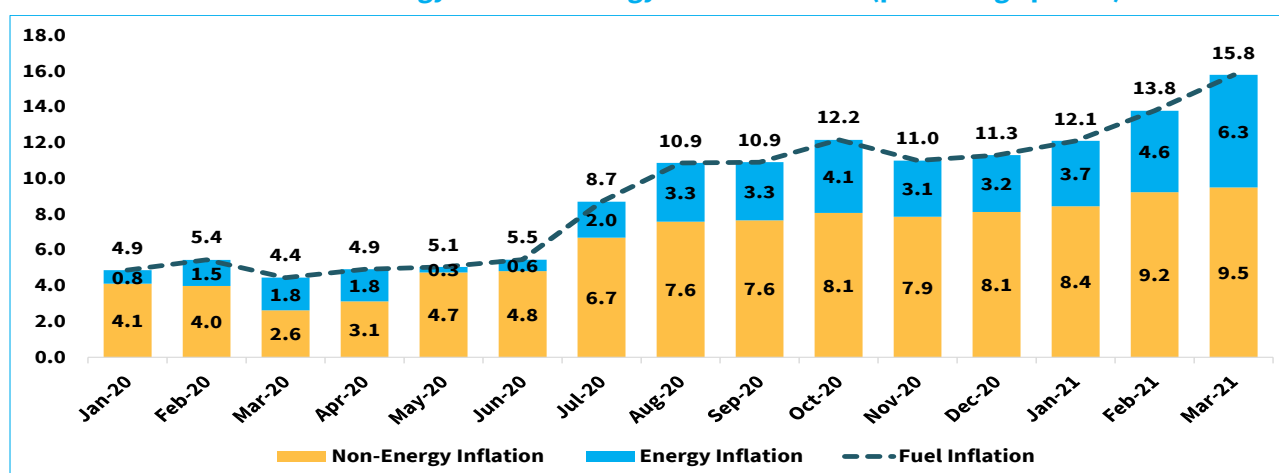
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation increased to 13.9 percent in the quarter under review, from 11.5 percent in the previous quarter, following increase in pump prices and continued social distancing measures in public transport, imposed to contain spread of COVID-19.

In addition, rising prices of country bus and city bus fares, electricity and international flights, contributed to the increase in fuel inflation (**Chart 1.3**).

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



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

Non-Food Non-Fuel Inflation (NFNF)

Non-Food-Non-Fuel (NFNF) inflation remained low during the quarter under review, consistent with muted demand pressures in the economy. It declined to 2.3 percent, from 2.5 percent in the previous quarter. The decline was reflected across all the baskets in the NFNF category, except the 'Furnishings, Household Equipment and Routine

Household Maintenance', health, and Insurance and Financial Services, whose inflation during the quarter increased. At the same time, inflation in the 'Information and Communication,' and 'Personal Care, Social Protection and Miscellaneous Goods & Services' largely remained stable (**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
2020	Q1	8.9	2.6	1.6	2.2	1.4	0.9	1.8	1.2	2.3	0.7	2.9	2.2
	Q2	7.7	2.4	1.3	1.7	1.2	0.4	1.9	1.1	2.1	0.6	2.0	1.8
	Q3	5.1	2.0	1.1	1.2	2.0	0.4	2.9	1.7	2.4	0.4	2.1	1.7
	Q4	3.8	2.7	1.6	2.5	3.9	0.8	3.0	2.2	5.0	1.3	2.2	2.5
2021	Q1	2.7	2.3	0.8	3.4	4.3	0.9	2.8	2.0	4.5	1.6	2.3	2.3
	Jan	2.7	2.3	0.7	3.2	4.5	0.8	2.9	1.9	5.4	1.4	2.0	2.4
	Feb	2.7	2.3	0.8	3.4	4.3	0.8	2.8	2.1	4.0	1.6	2.4	2.2
	Mar	2.7	2.4	0.8	3.6	4.1	1.0	2.7	2.1	4.0	1.7	2.3	2.3

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

Chapter 2

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Growth in broad money supply (M3) moderated to 1.0 percent in the first quarter of 2021 from 3.8 percent in the last quarter of 2020, mainly reflecting a slowdown in the growth of deposits. The slow down in deposit growth was a result of increased subscription of government securities, reversal of tax-cuts, increased imputation and loan repayments (Tables 2.1 and 2.2).

The 12-month growth in broad money supply, M3 moderated from 13.3 percent in December 2020 to 10.1 percent in March 2021, reflecting a relatively lower net foreign assets (NFA) and the net lending to Government component of the net domestic assets (NDA).

Table 2.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					MQuarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1595.1	1666.6	1665.8	1720.1	1716.7	4.6	4.5	0.0	3.3	-0.2	69.9	71.4	-0.8	54.4	-3.4
1.1 Currency outside banks	198.3	210.9	217.6	233.7	225.8	-0.2	6.4	3.2	7.4	-3.4	-0.4	12.6	6.8	16.0	-7.9
1.2 Demand deposits	1306.3	1350.0	1371.0	1385.9	1405.6	4.2	3.3	1.6	1.1	1.4	52.9	43.7	21.1	14.8	19.8
1.3 Other deposits at CBK 1/	90.7	105.8	77.2	100.7	85.4	23.6	16.7	-27.1	30.5	-15.1	17.3	15.2	-28.6	23.5	-15.2
2. Money supply, M2 (1+2.1)	3018.9	3201.3	3180.5	3250.2	3250.3	3.9	6.0	-0.6	2.2	0.0	114.5	182.4	-20.7	69.7	0.1
2.1 Time and saving deposits	1423.7	1534.7	1514.7	1530.1	1533.5	3.2	7.8	-1.3	1.0	0.2	44.6	111.0	-20.0	15.3	3.5
3. Money supply, M3 (2+3.1)	3661.0	3863.6	3843.5	3990.9	4030.0	3.9	5.5	-0.5	3.8	1.0	137.0	202.6	-20.1	147.4	39.1
3.1 Foreign Currency Deposits	642.2	662.4	663.0	740.7	779.7	3.6	3.1	0.1	11.7	5.3	22.5	20.2	0.6	77.7	39.0
Sources of M3															
1. Net foreign assets 2/	767.7	885.4	749.1	746.4	690.5	-4.6	15.3	-15.4	-0.4	-7.5	-36.8	117.7	-136.3	-2.7	-55.9
Central Bank	800.6	918.1	804.9	738.5	690.7	-3.9	14.7	-12.3	-8.3	-6.5	-32.7	117.5	-113.2	-66.4	-47.8
Banking Institutions	-32.9	-32.7	-55.8	7.9	-0.2	14.0	-0.6	70.7	-114.2	-103.0	-4.0	0.2	-23.1	63.7	-8.1
2. Net domestic assets (2.1+2.2)	2893.3	2978.2	3094.4	3244.5	3339.5	6.4	2.9	3.9	4.9	2.9	173.7	84.9	116.2	150.1	95.0
2.1 Domestic credit	3789.0	3905.7	4053.3	4247.6	4363.0	4.4	3.1	3.8	4.8	2.7	160.9	116.8	147.5	194.3	115.4
2.1.1 Government (net)	1036.8	1122.3	1196.0	1343.3	1406.6	10.2	8.2	6.6	12.3	4.7	95.6	85.5	73.7	147.3	63.4
2.1.2 Private sector	2661.2	2695.0	2768.6	2813.1	2867.1	2.6	1.3	2.7	1.6	1.9	66.6	33.8	73.5	44.5	54.0
2.1.3 Other public sector	90.9	88.4	88.7	91.2	89.3	-1.5	-2.8	0.3	2.9	-2.1	-1.4	-2.5	0.3	2.5	-1.9
2.2 Other assets net	-895.6	-927.5	-958.9	-1003.1	-1023.5	-1.4	3.6	3.4	4.6	2.0	12.9	-31.9	-31.4	-44.2	-20.4
Memorandum items															
4. Overall liquidity, L (3+4.1)	5180.2	5416.1	5519.8	5742.7	5841.1	5.1	4.6	1.9	4.0	1.7	253.0	235.9	103.7	222.9	98.4
4.1 Non-bank holdings of government securities	1519.2	1552.4	1676.3	1751.8	1811.1	8.3	2.2	8.0	4.5	3.4	116.1	33.3	123.8	75.5	59.3

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Table 2.2: Deposit holdings of corporates and household sectors

	End Month Level (KSh Billion)					MQuarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
1. Household Sector 1/	1693.3	1759.2	1778.8	1765.0	1764.1	3.2	3.9	1.5	-0.8	-0.1	51.8	65.9	25.6	-13.9	-0.9
1.1 Demand Deposits	618.0	648.5	652.7	627.2	606.1	4.4	4.9	1.1	-3.9	-3.4	26.3	30.5	7.2	-25.5	-21.1
1.2 Time and Saving Deposits	811.5	859.6	863.3	862.9	877.7	2.3	5.9	0.4	0.0	1.7	18.2	48.1	3.7	-0.4	14.8
1.3 Foreign Currency Deposits	263.7	251.1	262.9	274.9	280.3	2.9	-4.8	5.9	4.6	2.0	7.3	-12.6	14.7	12.0	5.4
2. Corporate Sector	1662.1	1777.4	1726.5	1844.1	1902.3	4.2	6.9	-1.3	6.8	3.2	66.6	115.3	-22.3	117.7	58.1
2.1 Demand deposits	674.1	690.3	700.9	738.1	774.3	4.0	2.4	1.9	5.3	4.9	26.0	16.2	13.1	37.2	36.2
2.2 Time and Saving Deposits	609.0	672.0	626.6	641.3	629.9	4.4	10.3	-3.3	2.3	-1.8	25.7	63.0	-21.3	14.7	-11.4
2.3 Foreign Currency Deposits	379.0	415.1	399.0	464.7	498.1	4.1	9.5	-3.4	16.5	7.2	14.9	36.1	-14.0	65.8	33.4

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

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the deceleration in M3 in the first quarter of 2021 was the decrease in NFA and NDA of the banking system. The decline in NFA mainly reflected scheduled debt service and central bank operations, while the reduction in NDA mainly reflects reduced growth in net lending to government (**Table 2.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system moderated in the first quarter of 2021 to 2.7 percent from 4.8 percent in the previous quarter. This moderation mainly reflected a slowdown in net lending to government resulting from a reduced utilization of Government deposits at CBK in the first quarter of 2021, compared to the fourth quarter of 2020 (**Table 2.3**).

Credit extended by monetary banking system to the private sector increased in the first quarter of 2021, with loans to households being the key driver of growth. Lending to the household sector increased by KSh 39.0 billion compared to KSh 9.7 billion in the

previous quarter partly reflecting focus by banks on secured individual lending (check off systems) as well as on the use of digital platforms. Lending to corporate sector slowed down in the quarter under review partly due to increased repayment of loans.

In terms of economic sectors, all sectors registered positive credit flows reflecting improved demand as economic activities picked up in the first two months of the quarter. Notable growth in credit was registered in manufacturing and trade, mainly for working capital requirements. Other sectors with strong growth were consumer durables, finance and insurance and building and construction (**Table 2.3 and Table 2.4**).

On an annual basis, growth in lending to the private sector remained resilient at 7.7 percent in March 2021 compared to 8.4 percent in December 2020, supported by the accommodative monetary policy, improved economic activity and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy (**Chart 2.2**).

Table 2.3: Banking sector net domestic credit

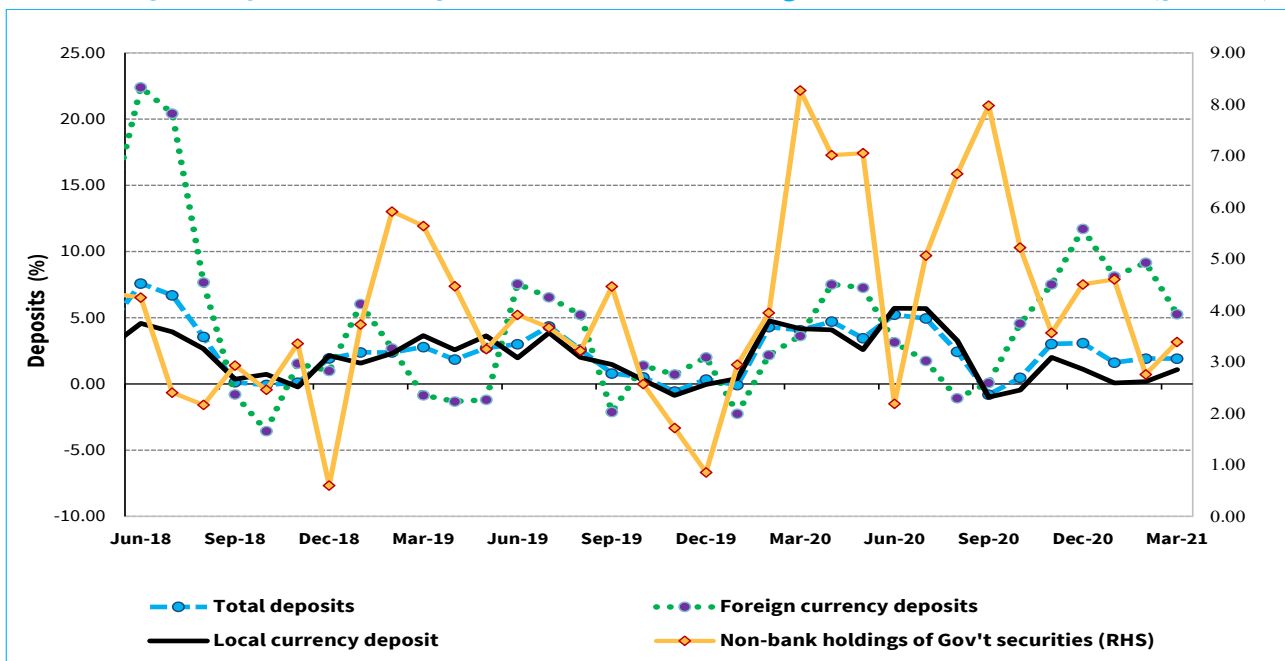
	End Month Level (KSh Billion)					MQuarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
1. Credit to Government	1,036.8	1,122.3	1,196.0	1,343.3	1,406.6	10.2	8.2	6.6	12.3	4.7	95.6	85.5	73.7	147.3	63.4
Central Bank	-118.7	-89.2	-176.8	-31.5	-19.9	-34.9	-24.9	98.3	-82.2	-36.8	63.7	29.6	-87.6	145.3	11.6
Commercial Banks & NBFIs	1,155.5	1,211.5	1,372.8	1,374.8	1,426.6	2.8	4.8	13.3	0.1	3.8	31.9	55.9	161.3	2.0	51.8
2. Credit to other public sector	90.9	88.4	88.7	91.2	89.3	-1.5	-2.8	0.3	2.9	-2.1	-1.4	-2.5	0.3	2.5	-1.9
Local government	4.3	4.4	4.6	5.7	5.7	-0.1	2.2	5.4	22.2	1.5	0.0	0.1	0.2	1.0	0.1
Parastatals	86.6	84.0	84.0	85.5	83.6	-1.5	-3.0	0.0	1.8	-2.3	-1.4	-2.6	0.0	1.5	-2.0
3. Credit to private sector	2,661.2	2,695.0	2,768.6	2,813.1	2,867.1	2.6	1.3	2.7	1.6	1.9	66.6	33.8	73.5	44.5	54.0
Agriculture	84.2	88.1	91.2	93.4	94.5	3.9	4.6	3.6	2.4	1.2	3.2	3.9	3.1	2.2	1.1
Manufacturing	387.6	397.2	405.4	409.3	428.9	6.1	2.5	2.1	1.0	4.8	22.3	9.6	8.2	3.9	19.6
Trade	481.8	489.2	486.5	485.0	491.9	3.1	1.5	-0.6	-0.3	1.4	14.3	7.5	-2.7	-1.4	6.9
Building and construction	118.5	114.2	119.2	119.7	122.0	2.3	-3.6	4.3	0.4	1.9	2.7	-4.2	5.0	0.5	2.3
Transport & communications	184.9	200.7	214.7	212.1	213.0	-0.9	8.5	7.0	-1.2	0.4	-1.8	15.8	14.0	-2.6	0.9
Finance & insurance	101.8	95.8	99.0	103.7	109.4	5.1	-5.9	3.4	4.7	5.5	4.9	-6.0	3.3	4.7	5.7
Real estate	378.6	395.8	402.0	406.8	407.9	1.2	4.5	1.6	1.2	0.3	4.5	17.1	6.2	4.8	1.2
Mining and quarrying	13.9	14.6	14.4	12.1	13.4	0.2	5.3	-1.5	-16.2	10.9	0.0	0.7	-0.2	-2.3	1.3
Private households	439.5	445.1	456.0	457.3	458.7	0.3	1.3	2.4	0.3	0.3	1.3	5.6	10.8	1.3	1.4
Consumer durables	255.2	253.5	273.6	291.3	300.1	3.5	-0.7	7.9	6.5	3.0	8.6	-1.7	20.1	17.7	8.8
Business services	154.3	154.4	156.8	160.2	163.1	0.2	0.1	1.5	2.2	1.8	0.3	0.1	2.4	3.4	2.9
Other activities	60.9	46.4	49.9	62.2	64.1	11.6	-23.8	7.5	24.7	3.0	6.3	-14.5	3.5	12.3	1.8
4. TOTAL (1+2+3)	3,789.0	3,905.7	4,053.3	4,247.6	4,363.0	4.4	3.1	3.8	4.8	2.7	160.9	116.8	147.5	194.3	115.4

Source: Central Bank of Kenya

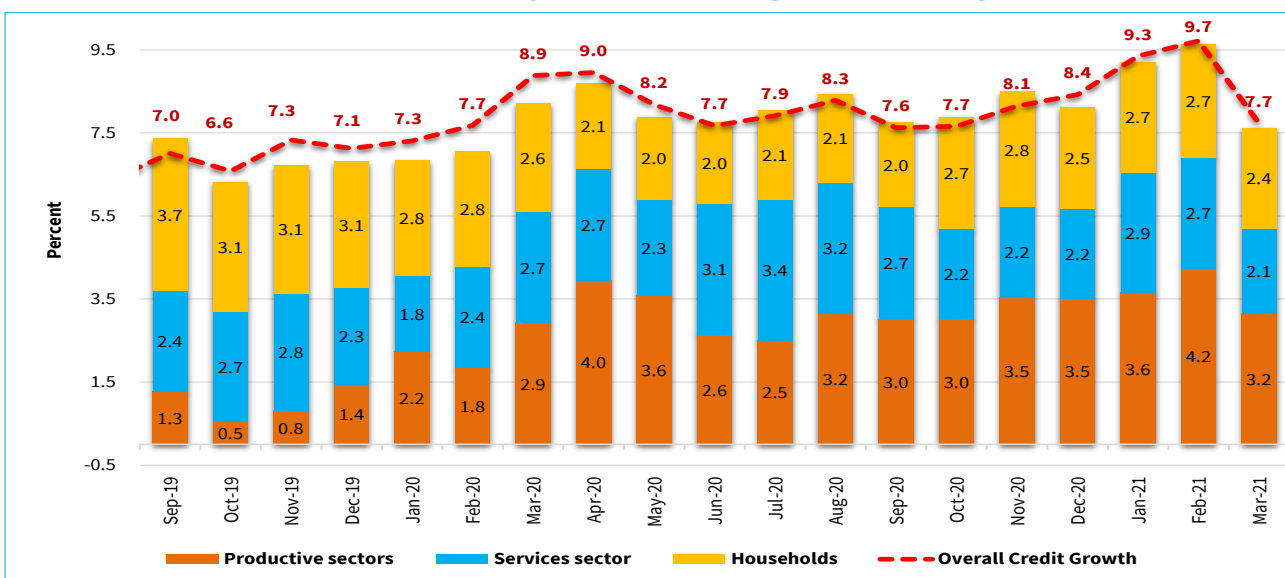
Table 2.4: Gross bank loans to the private sector

	End Month Level (KSh Billion)					MQuarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
1. Household	821.3	828.6	871.5	881.3	920.3	0.6	0.9	5.2	1.1	4.4	4.7	7.3	42.9	9.7	39.0
2. Corporate	1,903.0	1,938.7	1,972.1	2,001.6	2,017.4	3.6	1.9	1.7	1.5	0.8	65.5	35.8	33.4	29.5	15.8
Gross Loans	2,724.3	2,767.4	2,843.6	2,882.9	2,937.7	2.6	1.6	2.8	1.4	1.9	70.2	43.1	76.3	39.2	54.8

Source: Central Bank of Kenya

Chart 2.1: Quarterly Growth in Deposit and Non-Bank Holdings of Government Securities (percent)

Source: Central Bank of Kenya

Chart 2.2: Contribution to overall credit growth by activity group (percentage points)

Source: Central Bank of Kenya

Reserve Money

Reserve money, which comprises currency held by the non-bank public and commercial bank reserves, contracted in the first quarter of 2021 by 4.0 percent. This contraction resulted from reduced cash outside banks largely reflecting reduced bank reserves which can be partly explained by increased subscription of government securities by banks (Table 2.5).

On the asset side, the decline in growth of reserve money was mainly due to reduction in NFA of Central Bank, which partly offset the increase in NDA. The decline in NFA of the Central Bank was largely due to scheduled debt service and other central bank operations.

Table 2.5: Reserve money (RM) and its sources

	End Month Level (KSh Billion)					MQuarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
1. Net Foreign Assets	800.6	918.1	804.9	738.5	690.7	-3.9	14.7	-12.3	-8.3	-6.5	-32.7	117.5	-113.2	-66.4	-47.8
2. Net Domestic Assets	-355.1	-491.2	-352.7	-268.6	-239.8	-4.6	38.3	-28.2	-23.8	-10.7	17.1	-136.1	138.5	84.1	28.9
2.1 Government Borrowing (net)	-118.7	-89.2	-176.8	-31.5	-19.9	-34.9	-24.9	98.3	-82.2	-36.8	63.7	29.6	-87.6	145.3	11.6
2.2 Commercial banks (net)	-1.3	-131.0	87.9	60.8	60.5	-112.4	9740.3	-167.1	-30.8	-0.5	-12.1	-129.7	218.9	-27.0	-0.3
2.3 Other Domestic Assets (net)	-238.5	-274.4	-267.1	-301.2	-283.7	16.9	15.1	-2.6	12.8	-5.8	-34.5	-35.9	7.2	-34.1	17.6
3. Reserve Money	445.5	426.9	452.2	469.9	451.0	-3.4	-4.2	5.9	3.9	-4.0	-15.6	-18.6	25.3	17.7	-18.9
3.1 Currency outside banks	198.3	210.9	217.6	233.7	225.8	-0.2	6.4	3.2	7.4	-3.4	-0.4	12.6	6.8	16.0	-7.9
3.2 Bank reserves	247.3	216.0	234.6	236.2	225.1	-5.8	-12.6	8.6	0.7	-4.7	-15.2	-31.2	18.6	1.6	-11.0

Source: Central Bank of Kenya

Interest Rates**a. Central Bank Rate**

The Monetary Policy Committee (MPC) maintained the Central Bank Rate at 7.00 percent at its January and March meetings. The MPC assessed that the prevailing monetary policy stance remained appropriate and inflation outlook remained within the target range over the medium term.

b. Interbank rate

The weighted average interbank rate increased to a 4.94 percent in first quarter of 2021 from an average of 3.75 percent in the previous quarter partly reflecting relatively constrained liquidity conditions particularly in the second half of the quarter under review. The rate fluctuated between 3.55 percent and 6.37 percent in the first quarter of 2021.

c. Treasury bill rates

Treasury Bill rates increased in the first quarter of 2021, partly reflecting relatively constrained liquidity conditions. The average 91-day Treasury bill rate increased to 7.03 percent in March 2021 from 6.90 percent in December 2020, while the average 182-day Treasury bill increased to 7.82 percent from 7.38 percent in the period (**Table 2.6**).

d. Lending and Deposit Rates

Commercial banks' lending rates remained relatively stable in the first quarter of 2021 supported by accommodative monetary policy stance. The weighted average lending rate was 12.05 percent in March 2021 compared to 12.02 percent in December 2020, while the weighted average deposit rate rose slightly to 6.46 percent from 6.30 percent in the period. Consequently, the average spread between the lending and deposit rates remained relatively stable in the period.

Table 2.6: Interest rates (percent)

	2019				2020												2021		
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	7.13	6.94	6.35	7.17	7.23	7.31	7.29	7.21	7.27	7.14	6.24	6.20	6.29	6.49	6.69	6.90	6.92	6.90	7.03
182-day Treasury bill rate	8.32	7.71	7.10	8.16	8.17	8.25	8.14	8.14	8.18	7.93	6.69	6.56	6.70	6.89	7.11	7.38	7.48	7.64	7.82
Interbank rate	3.72	2.98	6.59	6.03	4.39	4.84	4.40	5.13	3.91	3.27	2.12	2.56	2.95	2.69	3.27	5.29	5.12	4.49	5.23
Repo rate	3.49	4.23	8.69	7.45	5.38	4.44	6.13	6.36	4.25	3.50	3.84	3.59	3.18	3.97	6.64	6.88	5.82	6.04	6.12
Reverse Repo rate	-	-	-	-	-	-	-	-	7.31	-	-	7.38	7.65	-	-	7.70	7.67	-	7.78
Central Bank Rate (CBR)	9.00	9.00	9.00	8.50	8.25	8.25	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Average lending rate (1)	12.51	12.47	12.47	12.24	12.29	12.19	12.09	11.92	11.95	11.89	11.94	11.94	11.75	11.98	11.99	12.02	12.00	12.02	12.05
Overdraft rate	12.13	12.12	11.99	11.67	11.97	11.82	11.79	11.55	11.61	11.24	11.18	11.18	11.15	11.44	11.39	11.51	11.43	11.52	11.61
1-5years	12.70	12.64	12.67	12.50	12.44	12.35	12.20	12.06	12.09	12.07	12.11	12.08	11.62	12.07	12.11	12.13	12.10	12.10	12.15
Over 5years	12.49	12.46	12.46	12.29	12.28	12.16	12.11	11.96	11.95	11.98	12.10	12.12	12.12	12.12	12.11	12.12	12.11	12.12	12.11
Average deposit rate (2)	7.22	7.19	6.98	7.11	7.07	7.06	7.07	7.01	6.96	6.86	6.78	6.63	6.41	6.26	6.31	6.30	6.31	6.47	6.46
0-3months	7.62	7.55	7.42	7.60	7.39	7.40	7.42	7.33	7.20	7.11	7.01	6.77	6.47	6.44	6.42	6.66	6.64	6.67	6.68
Over 3 months deposit	7.43	7.53	7.23	7.50	7.52	7.53	7.56	7.53	7.57	7.40	7.31	7.20	7.07	6.79	6.93	6.97	7.01	6.97	6.89
Savings deposits	5.05	4.77	4.58	4.02	4.25	4.20	4.15	4.21	4.18	4.15	4.11	4.10	3.78	3.38	3.42	2.70	2.73	3.37	3.48
Spread (1-2)	5.29	5.28	5.48	5.14	5.22	5.13	5.02	4.92	4.99	5.02	5.16	5.30	5.34	5.72	5.68	5.73	5.69	5.55	5.76

Source: Central Bank of Kenya

Chapter 3

Leading Economic Indicators

Performance by Sector

Economic indicators by sector for the first quarter of 2021 point to continued recovery from the adverse impact of the COVID-19 pandemic, as normalization of the domestic and global economy continues. However, the Services sector continues to bear the brunt of the pandemic, as COVID-19 containment measures disrupted travel and hospitality services during the quarter under review.

Agriculture

Growth of the agriculture sector is expected to remain strong, supported by increased production of key crops following favorable weather conditions experienced during the quarter.

Horticulture: Total exports of horticultural crops increased by 10.6 percent compared to the previous quarter, boosted by continued normalization of international demand. Significant growth in exports realised in February outweighed the declines in January and March (**Table 3.1**). Compared to the same quarter of 2019, horticultural exports increased by 35.8 percent, supported by favourable weather conditions that led to increased production of horticultural crops.

Coffee sales: Coffee sales rose by 22.7 percent in the period January-February 2021 compared to the same period in 2020, attributed to increased international demand. This was reflected in significant increase in monthly sales in both months (**Table 3.1**). The average auction price per kilogram increased by 57.2 percent.

Sugarcane: Cane deliveries increased by 27.5 percent in the period January-February 2021 compared to the same period in 2020, owing to increased production of sugarcane following favorable weather conditions (**Table 3.1**).

Tea production: Tea production declined by 10.3 percent in the period January-February 2021 compared to the same period in 2020, owing to dry weather conditions in tea growing areas (**Table 3.1**). The average auction price per kilogram increased slightly by 1.6 percent.

Milk intake: Milk intake declined slightly by -0.8 percent in the period January-February 2021 compared to the same period in 2020 (**Table 3.1**).

Table 3.1: Quarterly performance of key agricultural output indicators

	2020				2021*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-21	Feb-21	Mar-21
Tea								
Output (Metric tonnes)	158,570	143,038	118,492	150,366	92,295**	48,896	43,399	N/A
Growth (%)	11.6	-9.80	-17.16	26.90	-10.25	-10.1	-11.2	
Horticulture								
Exports (Metric tonnes)	131,515	113,752	136,713	161,552	178,653	45,001	71,685	61,967
Growth (%)	26.1	-13.5	20.2	18.2	10.6	-14.8	59.3	-13.6
Coffee								
Sales (Metric tonnes)	12,304	3,368	4,432	4,314	9,150**	3,824	5,325	N/A
Growth (%)	177.8	-72.6	31.6	-2.7	22.7	129.5	39.3	
Milk								
Output (million litres)	173.4	151.2	171.7	188.2	116**	59.2	57.2	N/A
Growth %	-3.4	-12.8	13.5	9.6	-0.8	-12.8	-3.3	
Sugar Cane								
Output ('000 Metric tonnes)	1,636	1,651	1,900	1,707	1,342	682	660	N/A
Growth (%)	43.6	0.9	15.1	-10.2	27.5	45.4	-3.1	

* Provisional

** Comparison based on Jan-Feb 2020 and Jan-Feb 2021

N/A Data not available

Source: Kenya National Bureau of Statistics

Industry

Industrial activity is expected to rebound during the quarter, reflected in the economic indicators in the Construction, Manufacturing, and Electricity and Water sectors.

Manufacturing

Cement production: Cement production remained strong, reflective of increased cement consumption. It increased by 17.3 percent in the period January-

February 2021 compared to the same period in 2020 (**Table 3.2**).

Sugar: Reflective of increased sugarcane production, processed sugar output increased by 14.7 percent in the period January-February 2021 compared to the same period in 2020 (**Table 3.2**).

Production of Galvanized sheets and assembled motor vehicles declined by 24.0 percent and 24.1 percent in January-February 2021 compared to the same period in 2020 (**Table 3.2**).

Table 3.2: Quarterly production statistics of selected manufactured goods

	2020				2021*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-21	Feb-21	Mar-21
Cement production								
Output (MT)	1,638,646	1,615,579	2,086,075	2,066,615	126,5863**	652,883	612,980	N/A
Growth %	10.70	-1.41	29.12	-0.93	17.29	-2.1	-6.1	
Assembled vehicles								
Output (No.)	2,305	1,743	1,921	1,756	1,120**	559	561	N/A
Growth %	7.5	-24.4	10.2	-8.6	-24.1	2.2	0.4	
Galvanized sheets								
Output (MT)	63,913	48,031	68,520	66,990	17,788***	17,788	N/A	N/A
Growth %	-4.7	-24.8	42.7	-2.2	-24.0	-14.7		
Processed sugar								
Output (MT)	156,937	141,498	161,462	143,891	119,552**	58,044	61,508	N/A
Growth %	49.7	-9.8	14.1	-10.9	14.7	49.5	6.0	

MT = Metric tonnes

* Provisional

*** Comparison based on Jan 2020 and Jan 2021

N/A - Not Available

Source: Kenya National Bureau of Statistics

Electricity and Water Supply

Energy: Electricity generation increased by 1.1 percent in the period January-February 2021 compared to the same period in 2020, supported by increased generation of thermal and wind

electricity by 66.3 percent and 30.4 percent, respectively. Consumption of electricity increased by 1.7 percent, as the continued normalization of economic activity led to increased demand for electricity. On the other hand, international oil prices decreased by 5.1 percent (**Table 3.3**).

Table 3.3: Quarterly performance of indicators in the energy sector

	2020				2021*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-21	Feb-21	Mar-21
Electricity Supply (Generation)								
Output (million KWH)	2,888.5	2,634.9	2,918.8	3,032.0	1940.8**	1014.9	925.9	N/A
Growth (%)	0.2	-8.8	10.8	3.9	1.1	0.3	-8.8	
Of which:								
Hydro-power Generation (million KWH)	1058.7	951.3	1071.3	1158.5	611.7**	330.3	281.4	N/A
Growth (%)	14.0	-10.2	12.6	8.1	-12.6	-17.5	-14.8	
Geo-Thermal Generation (million KWH)	1,367.6	1,225.0	1,237.8	1,229.5	886.9**	464.8	422.2	N/A
Growth (%)	-5.0	-10.4	1.0	-0.7	-2.2	18.4	-9.2	
Thermal Generation (million KWH)	164.0	153.9	220.6	216.5	180.2**	74.7	105.5	N/A
Growth (%)	-15.5	-6.1	43.3	-1.8	66.3	-3.5	41.3	
Wind Generation (million KWH)	275.7	282.1	368.9	404.7	247.5**	137.7	109.8	N/A
Growth (%)	-7.2	2.3	30.8	9.7	30.4	2.0	-20.2	
Solar Generation (million KWH)	22.3	22.6	20.3	22.9	14.4**	7.4	7.0	N/A
Growth (%)	-4.9	1.2	-10.4	12.8	-0.8	4.8	-6.3	
Co-Generation (million KWH)	0.1	0.1	0.0	0.1	0.1**	0.0	0.0	N/A
Growth (%)	-54.5	20.0	-66.7	150.0	133.3	0.0	33.3	
Consumption of electricity (million KWH)	2,279.4	2,025.4	2,216.6	2,296.4	2,334.7	792.1	742.9	799.7
Growth (%)	2.5	-11.1	9.4	3.6	1.7	5.8	-6.2	
Murban crude oil average price (US \$ per barrel)	51.8	26.6	43.4	44.0	57.7**	54.4	61.1	N/A
Growth (%)	-18.6	-48.6	62.9	1.3	-5.1	10.6	12.3	

* Provisional

** Comparison based on Jan-Feb 2020 and Jan-Feb 2021

N/A - Not Available

Source: Kenya National Bureau of Statistics

Construction

Cement consumption: Cement consumption increased by 16.5 percent in the period January-February 2021 compared to the same period in 2020, following increased activity in the sector supported by increased Government spending on infrastructure.

Building Plans: The value of building plans approved by the Nairobi City County Planning, Compliance and Enforcement Department declined significantly by 64.0 percent in the period January-February 2021 compared to the same period in 2020, reflected in both residential and non-residential building plans (**Table 3.4**).

Services

Leading indicators in the Services sector point to continued recovery during the quarter. However, growth is expected to remain low due to poor performance of key sectors.

Accommodation and Restaurants

Tourist arrivals: Overall tourist arrivals declined by 57.6 percent in the first quarter of 2021 compared to a similar quarter of 2020. This was an improvement compared to the last three quarters of 2020, as the tourism sector continues to recover from the adverse effects of the COVID-19 pandemic. The increase was reflected in both Jomo Kenyatta International Airport in Nairobi, and Moi International Airport in Mombasa (**Table 3.5**).

However, when compared to the same quarter of 2020, tourist arrivals remained low, and declined by 57.6 percent.

Transport and Storage

Total passenger flows through JKIA decreased by 60.5 percent in the period January-February 2021 compared to the same period in 2020, following significant decrease in passenger flows in February. Meanwhile, the volume of oil that passed through the Kenya Pipeline decreased by 9.5 percent in January 2021 compared to the previous month, and by 8.6 percent compared to January 2020 (**Table 3.6**).

Table 3.4: Quarterly output of selected construction indicators

	2020				2021*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-21	Feb-21	Mar-21
Cement Consumption								
Output (Tonnes)	1,628,362	1,608,297	2,028,767	2,047,237	125,4038**	647,491	606,547	N/A
Growth (%)	11.0	-1.2	26.1	0.9	16.5	-2.1	-6.3	
Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department								
Residential (KSh, millions)	59,991.20	15,715.63	8,339.37	25,111.93	13,828**	2,702.02	2,130.36	N/A
Growth (%)	153.6	-73.8	-46.9	201.1	-62.8	-83.9	-21.2	
Non-residential (KSh, millions)	22,446.59	11,331.71	2,955.88	7,683.11	4,832**	2,702.02	2,130.36	N/A
Growth (%)	44.7	-49.5	-73.9	159.9	-67.1	7.1	-21.2	
Total (KSh, millions)	82,437.79	27,047.34	11,295.25	32,795.04	18,660**	9,031.80	9,628.08	N/A
Growth (%)	110.5	-67.2	-58.2	190.3	-64.0	-53.2	6.6	

* Provisional

** Comparison based on Jan-Feb 2020 and Jan-Feb 2021

N/A - Not Available

Source: Kenya National Bureau of Statistics

Table 3.5: Quarterly tourist arrivals by point of entry

	2020				2021*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-21	Feb-21	Mar-21
Total Tourist Arrivals	290,010	543	31,624	103,981	123,104	46,279	35,637	41,188
Growth (%)	-19.8	-99.8	-93.0	-74.2	-57.6	-63.1	-69.7	-12.9
o.w. JKIA - Nairobi	262,769	541	30,453	98,649	113,846	43,234	32,629	37,983
Growth (%)	-16.0	-99.8	-92.8	-73.1	-56.7	-61.8	-69.3	-12.4
MIAM - Mombasa	27,241	2	1,171	5,332	9,258	3,045	3,008	3,205
Growth (%)	-44.0	-100.0	-95.9	-85.1	-66.0	-75.1	-72.9	-18.9

* Provisional

Source: Kenya Tourism Research Institute

Table 3.6: Quarterly throughput of selected transport companies

	2020				2021*			
	Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Jan-21	Feb-21	Mar-21
Number of Passengers thro' JKIA								
Total passenger flows	1,002,054	14,977	139,409	423,850	313045**	178,027	135,018	N/A
Growth (%)	-12.5	-98.8	-90.5	-68.0	-68.8	-57.9	-63.5	
o.w. Incoming	631,942	3,619	69,207	221,888	151554**	85,066	66,488	N/A
Growth (%)	-13.3	-99.5	-92.3	-73.2	-76.0	-68.0	-72.2	
Outgoing	370,112	11,358	70,202	201,962	161491**	92,961	68,530	N/A
Growth (%)	-11.0	-97.4	-87.5	-59.2	-56.4	-40.7	-47.6	
Kenya Pipeline Oil Throughput								
Output ('000 litres)	1,900,764	1,281,349	1,701,972	1,922,751	624236***	624,236	N/A	N/A
Growth (%)	2.2	-28.5	-3.5	5.9	-67.2	-8.6		

N/A - Not Available

* Provisional

** Comparison based on Jan-Feb 2020 and Jan-Feb 2021

*** Comparison based on Jan 2020 and Jan 2021

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

Chapter 4

Global Economy

Global output growth is estimated to have contracted by 0.8 percent in the fourth quarter of 2020 compared to a growth of 2.5 percent in 2019 according to the April 2021 IMF World Economic Outlook (WEO). It is projected to grow by 4.5 percent in the fourth quarter of 2021 and moderate to 4.0 percent in the fourth quarter of 2022. On an annual basis global output will rebound strongly to 6 percent in 2021, before slowing to 4.4 percent in 2022. The projections for 2021 and 2022 are 0.8 and 0.2 percentage points higher, respectively, than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. However, the global output growth path is expected to moderate to 3.3 percent in the medium term, reflecting projected damage to supply potential and pre-pandemic forces such as prolonged weakness in labor markets in advanced economies and some emerging market economies (**Chart 4.1 and Table 4.1**).

Growth in the advanced economies is estimated to have contracted by 3.1 percent in the fourth quarter of 2020 compared to a growth of 1.5 percent in the same quarter in 2019. It is expected to grow by 4.9 percent in the fourth quarter of 2021 and by 2.3 percent in the fourth quarter of 2022. Annual growth in these economies is expected to reach 5.1 percent in 2021 before slowing to 3.6 percent in 2022, owing to pent-up demand fueled by accumulated savings in 2020, as well as improved contact-intensive activities. However, there is a significant divergence in the direction of this region's growth recovery, with the US and Japan's growth expected to return to pre-pandemic levels in the second half of 2021. Most countries are expected to recover in quarter four of 2021 as follows: United States (6.3 percent), the United Kingdom (6.5 percent), Japan (2.0 percent), Spain (7.2 percent), France (4.5 percent), Italy (4.1 percent), and Germany (3.4 percent).

Official preliminary GDP estimates released in the first quarter of 2021 show that growth in the United States is estimated to have increased at an annual rate of 6.4 percent, reflecting continued economic recovery, reopening of establishments, and continued government response to the COVID-19 pandemic. Germany and Italy, on the other hand, contracted by 1.7 percent and 2.4

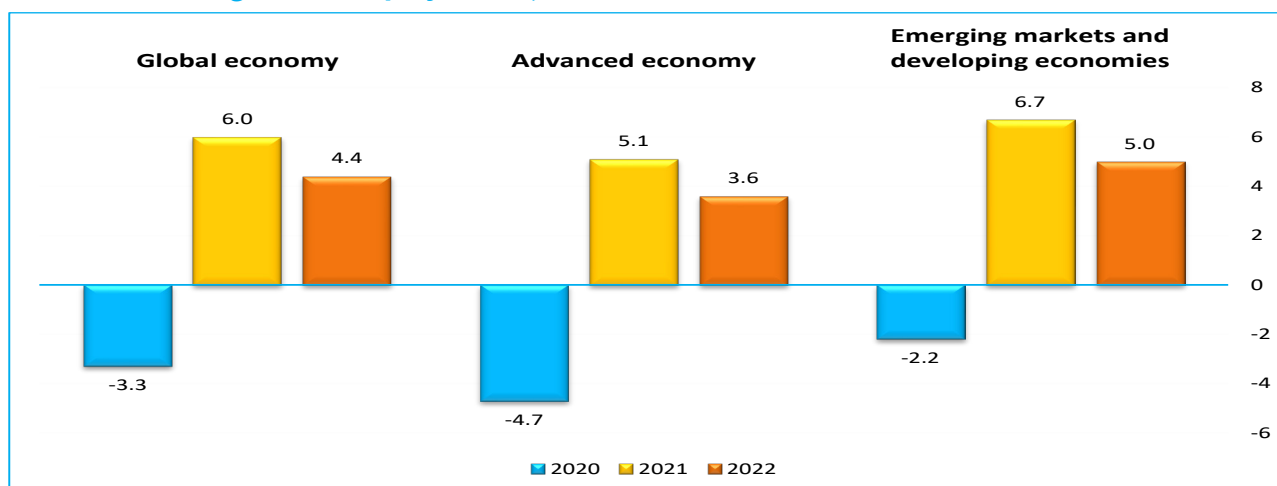
percent, respectively, as a result of the government imposing strict Covid-19 lockdowns to stem the spread of the pandemic, private consumption was particularly hard hit.

Growth in emerging market and developed economies is estimated to have reached 1.2 percent in the fourth quarter of 2020, with a 4.0 percent increase expected in the fourth quarter of 2021. On an annual basis, growth in these economies is projected to accelerate to 6.7 percent up 0.4 percent from the January WEO forecast. Due to successful containment measures, aggressive public spending, and central bank liquidity support, China is projected to expand at an annual rate of 8.4 percent. Latin America's growth is projected to pick up to 6.4 percent, with growth for Brazil and Mexico forecasted at 3.7 percent and 5.0 percent, respectively. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.4 percent in 2021, which is significantly lower than the pre-pandemic trend, with tourism-dependent economies suffering the most. Nigeria and South Africa are expected to grow at rates of 2.5 and 3.1 percent, respectively. Both are expected to grow by 2.3 percent (Nigeria) and 2.0 percent (South Africa) in 2022.

Global trade volumes are expected to increase by 8.5 percent in 2021 before slowing to 6.5 percent in 2022, driven by a strong rebound in merchandise volumes, while cross-border services trade (tourism, transportation) is expected to remain subdued in the short term. Oil prices are expected to rise by 30 percent in 2021 from their low point in 2020, owing in part to supply curbs imposed by OPEC+ (Organization of the Petroleum Exporting Countries, which includes Russia and other non-OPEC oil exporters). Metal prices are expected to rise sharply in 2021, owing largely to the recovery in China, while food prices are expected to rise.

The risks of a pandemic resurgence, vaccine-resistant strains, and operational threats such as vaccine development and delivery delays remain significant. Tighter financial conditions, which imply a re-evaluation of market dynamics, a rise in core sovereign yields, and a re-evaluation of inflation risks, could all result in a rapid repricing of financial assets.

Chart 4.1: Global growth and projections, 2020 - 2022



Source: World Economic Outlook April 2021

Table 4.1: Growth Performance and Outlook for the Global Economy (percent)

	Year over Year					Q4 Over Q4		
	Estimate	Projections		Difference from October 2020 WEO Projections		Estimate	Projections	
	2020	2021	2022	2021	2022	2020	2021	2022
World Output	-3.3	6.0	4.4	0.5	0.2	-0.8	4.5	4.0
Advanced Economies	-4.7	5.1	3.6	0.8	0.5	-3.1	4.9	2.3
United States	-3.5	6.4	3.5	1.3	1.0	-2.5	6.3	2.3
Euro Area	-6.6	4.4	3.8	0.2	0.2	-4.9	4.4	2.4
Germany	-4.9	3.6	3.4	0.1	0.3	-3.6	3.4	2.8
France	-8.2	5.8	4.2	0.3	0.1	-4.9	4.5	2.6
Italy	-8.9	4.2	3.6	1.2	0.0	-6.6	4.1	2.1
Spain	-11.0	6.4	4.7	0.5	0.0	-9.1	7.2	1.5
Japan	-4.8	3.3	2.5	0.2	0.1	-1.3	2.0	1.8
United Kingdom	-9.9	5.3	5.1	0.8	0.1	-7.8	6.5	2.0
Canada	-5.4	5.0	4.7	1.4	0.6	-3.2	4.1	3.8
Emerging Market and Developing Economies	-2.2	6.7	5.0	0.4	0.0	1.2	4.0	5.5
China	2.3	8.4	5.6	0.3	0.0	3.1	4.6	6.9
India	-8.0	12.5	6.9	1.0	0.1	6.3	4.4	6.2
Russia	-3.1	3.8	3.8	0.8	-0.1	-3.0	4.2	9.6
Brazil	-4.1	3.7	2.6	0.1	0.0	-1.2	5.6	5.8
Mexico	-8.2	5.0	3.0	0.7	0.5	-4.5	0.9	2.6
Saudi Arabia	-4.1	2.9	4.0	0.3	0.0	-4.1	4.8	4.0
Sub-Saharan Africa	-1.9	3.4	4.0	0.2	0.1			
Nigeria	-1.8	2.5	2.3	1.0	-0.2	-0.7	3.2	1.6
South Africa	-7.0	3.1	2.0	0.3	0.6	-4.2	1.1	2.0
World Trade Volume (goods and services)	-9.6	8.4	6.5	0.3	0.2	...		
Commodity Oil Prices (US dollars)	-32.7	41.7	-6.3	20.5	-3.9	-27.6	30.9	-6.0
Consumer Prices								
Advanced Economies	0.7	1.6	1.7	0.4	0.4	0.4	1.9	1.7
Emerging Market and Developing Economies	5.1	4.9	4.4	-0.5	-0.1	3.2	4.4	3.8

Source: IMF, World Economic Outlook April 2021

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account is estimated to have widened to USD 1,524 million in the first quarter of 2021 from USD 1,093 million in the first quarter of 2020 reflecting an increase in imports and lower service

receipts. Secondary income inflows were boosted by remittances, which increased to USD 846 million in the first quarter of 2021 from USD 698 million in a similar quarter of 2020 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)¹

ITEM	2020				2021				Q1 2021-Q1 2020	
	Jan-Mar	Apr-June	Jul-Sep	Oct-Dec	Jan	Feb	March	Jan-Mar		%
	Q1	Q2	Q3	Q4				Q1	Change	Change
1. Overall Balance	466	-1,118	1,023	414	282	197	61	540	75	16
2. Current account	-1,093	-782	-1,333	-1,356	-462	-384	-678	-1,524	-431	39
Exports (fob)	1,764	1,307	1,516	1,474	497	617	625	1,739	-25	-1
Imports (fob)	3,916	3,066	3,638	3,790	1,371	1,350	1,587	4,308	392	10
Services: credit	1,204	843	848	940	315	294	286	895	-309	-26
Services: debit	1,004	788	873	931	309	316	350	975	-28	-3
Balance on goods and services	-1,952	-1,705	-2,147	-2,307	-868	-755	-1,027	-2,650	-698	36
Primary income: credit	53	23	40	31	11	11	11	34	-20	-37
Primary income: debit	413	348	445	370	54	109	135	298	-115	-28
Balance on goods, services, and primary income	-2,311	-2,030	-2,552	-2,647	-911	-852	-1,151	-2,914	-603	26
Secondary income : credit	1,232	1,259	1,235	1,300	452	472	476	1,400	168	14
o.w Remittances	698	764	812	825	282	267	297	846	148	21
Secondary income: debit	14	11	17	10	3	3	3	10	-4	-28
3. Capital Account	24	42	36	28	24	26	34	84	60	246
4. Financial Account	-419	-1,690	-295	-379	-113	-230	-306	-649	-231	55

¹Provisional estimates

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The trade balance in goods and services is estimated to have deteriorated by 36 percent from a deficit of USD 1,952 million in the first quarter of 2020 to a deficit of USD 2,650 million in the first quarter of 2021, owing primarily to a decline in earnings from service exports and a higher import bill (**Table 5.1**). In the first quarter of 2021, the value of merchandise exports declined to USD 1,739 million from USD 1,764 million in a similar period in 2020, largely reflecting lower re-exports despite improvements in earnings from horticulture, manufactured goods and raw materials (**Table 5.2**).

Horticulture receipts increased by 23 percent supported by a recovery in international demand

following the easing of lockdown restrictions. Exports of manufactured goods and raw materials also increased by 12 percent and 14 percent, respectively in the period under review. Tea export receipts fell by 3 percent to USD 327 million in the first quarter of 2020, from USD 335 million in the same quarter in 2020, due to lower international prices caused by relatively higher tea production in Kenya in 2021.

The value of merchandise imports increased by 10 percent to USD 4,308 million in the first quarter of 2021, from USD 3,916 million in a similar quarter in 2020, largely due to increased importation of manufactured and chemical goods which make

up intermediate inputs. Oil imports declined by 8 percent attributed to relatively lower global oil prices.

Net receipts on the services account fell by USD 280 million to a deficit of USD 80 million in the first quarter of 2021, compared to a surplus of USD 200 million in the same period in 2020. Earnings from

transport and travel services exports remained subdued as the weaknesses in international travel and transport continued due to repeated waves of elevated COVID-19 cases, which led to a re-imposition of travel restrictions in some regions. Transport and travel service receipts fell by USD 253 and USD 97 million respectively, in the first quarter of 2021 (**Table 5.2**).

Table 5.2: Balance on current account (USD Million)¹

ITEM					2021				Q1 2021-Q1 2020	
	Jan-Mar	Apr-June	Jul-Sep	Oct-Dec	Jan	Feb	March	Jan-Mar		%
	Q1	Q2	Q3	Q4				Q1	Change	Change
CURRENT ACCOUNT	-1,093	-782	-1,333	-1,356	-462	-384	-678	-1,524	-431	39
Goods	-2,152	-1,760	-2,122	-2,316	-874	-733	-963	-2,569	-418	19
Exports (fob)	1,764	1,307	1,516	1,474	497	617	625	1,739	-25	-1
o.w Coffee	52	74	47	43	13	20	42	75	23	45
Tea	335	327	282	282	104	107	115	326	-9	-3
Horticulture	273	210	233	265	92	128	115	334	62	23
Oil products	14	8	18	15	1	5	5	11	-3	-22
Manufactured Goods	94	69	111	107	27	40	38	106	12	12
Raw Materials	101	89	76	80	40	42	33	115	14	14
Chemicals and Related Products (n.e.s)	122	100	119	124	33	39	42	113	-9	-8
Miscellaneous Man. Articles	145	103	163	154	41	52	51	144	-1	-1
Re-exports	331	108	174	114	43	80	73	197	-135	-41
Other	285	212	283	291	101	103	107	311	26	9
Imports (fob)	3,916	3,066	3,638	3,790	1,371	1,350	1,587	4,308	392	10
o.w Oil	778	359	526	554	228	232	256	717	-62	-8
Chemicals	653	609	682	631	230	214	329	774	121	19
Manufactured Goods	649	621	720	784	266	295	349	910	261	40
Machinery & Transport Equipment	1,061	780	1,082	1,050	353	323	400	1,076	15	1
Machinery	746	535	698	689	249	211	239	698	-48	-6
Transport equipment	315	245	384	362	105	112	161	377	62	20
Other	950	783	705	937	345	364	315	1,023	73	8
o.w Food	435	397	324	394	135	173	166	474	39	9
Services	200	55	-25	9	6	-22	-65	-80	-280	-140
Transport Services (net)	163	14	-65	-35	-15	-31	-44	-91	-253	-156
Credit	493	283	231	298	102	93	97	292	-201	-41
Debit	331	269	296	333	117	124	141	383	52	16
Travel Services (net)	179	21	107	66	32	31	20	83	-97	-54
Credit	225	28	134	85	39	37	26	102	-123	-55
Debit	46	7	27	19	7	7	6	19	-26	-57
Other Services (net)	-142	19	-67	-22	-11	-22	-40	-73	69	-49
Primary Income	-359	-325	-405	-340	-43	-97	-123	-264	95	-27
Credit	53	23	40	31	11	11	11	34	-20	-37
Debit	413	348	445	370	54	109	135	298	-115	-28
Secondary Income	1,218	1,248	1,218	1,291	449	468	472	1,390	172	14
Credit	1,232	1,259	1,235	1,300	452	472	476	1,400	168	14
Debit	14	11	17	10	3	3	3	10	-4	-28

¹Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance narrowed by USD 95 million to a deficit of USD 264 million in the first quarter of 2021, down from a deficit of USD 359 million in the same period last year, reflecting lower reinvestment related outflows. The secondary income balance, on the other hand, increased to USD

1,390 million in the first quarter of 2021 from USD 1,218 million, owing to an increase in remittances in the first quarter of 2021. Remittances increased by 21 percent to USD 846 million in the first quarter of 2021 from USD 698 million in the same period in the previous year (**Table 5.1 and 5.2**).

Table 5.3: Kenya's direction of trade: Imports¹

IMPORTS (USD M)	2020				2021				Share of Imports (%)	
	Jan-Mar	Apr-June	Jul-Sep	Oct-Dec	Jan-Mar				Q1 2020	Q1 2021
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1		
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2020	Q1 2021
Africa	461	355	412	485	151	149	185	484	11	12
Of which		0							0	0
South Africa	141	96	108	87	35	21	42	99	2	4
Egypt	106	89	107	120	37	30	45	111	3	3
Others	214	170	197	278	79	98	98	274	6	5
EAC	119	100	141	149	54	59	64	177	4	3
COMESA	258	203	214	295	88	90	108	286	7	7
<i>Rest of the World</i>	3,455	2,712	3,226	3,304	1,219	1,201	1,408	3,828	89	88
Of which									0	0
India	568	350	426	434	121	159	177	457	11	15
United Arab Emirates	271	136	181	283	137	76	135	347	8	7
China	797	723	970	903	363	275	337	975	23	20
Japan	223	178	205	218	61	59	85	205	5	6
USA	128	154	129	118	50	50	85	184	4	3
United Kingdom	72	62	69	72	21	29	32	82	2	2
Singapore	32	11	14	26	3	2	4	9	0	1
Germany	93	98	117	70	29	27	51	108	2	2
Saudi Arabia	237	96	213	128	92	71	77	239	6	6
Indonesia	199	159	93	141	72	33	33	138	3	5
<i>Netherlands</i>	73	51	127	140	8	39	50	97	2	2
France	57	53	53	56	17	18	22	57	1	1
Bahrain	1	2	2	33	2	2	3	6	0	0
<i>Italy</i>	57	45	50	70	11	23	22	55	1	1
Others	649	594	575	611	233	339	297	869	20	17
Total	3,916	3,066	3,638	3,790	1,370	1,349	1,592	4,312	100	100
EU	535	446	597	590	154	220	228	603	14	14
China	797	723	970	903	363	275	337	975	23	20

¹Provisional

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, reflecting a 22 percent increase

when compared to the same quarter in 2020. Imports from the European Union rose by USD 67 million, while those from Africa rose by USD 23 million to USD 484 million in the first quarter of 2021, reflecting higher imports from the EAC region.

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)	2020				2021				Share of Exports (%)	
	Jan-Mar	Apr-Jun	Jul-Sep		Jan-Mar					
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Jan-Mar	Q1 2020	Q1 2021
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Jan-Mar	Q1 2020	Q1 2021
Africa	640	448	614	588	172	228	241	640	36.3	36.8
<i>Of which</i>										
Uganda	185	118	200	173	48	81	72	201	10.5	11.5
Tanzania	78	59	75	82	22	26	28	76	4.4	4.4
Egypt	53	43	34	49	15	22	23	59	3.0	3.4
Sudan	29	16	14	19	6	5	6	18	1.6	1.0
South Sudan	84	38	56	40	25	12	13	50	4.8	2.9
Somalia	25	23	34	24	6	7	12	25	1.4	1.4
DRC	33	31	35	35	9	12	14	35	1.9	2.0
Rwanda	60	42	69	65	14	16	20	51	3.4	2.9
Others	93	78	97	101	26	47	52	125	5.3	7.2
EAC	420	269	417	373	113	141	140	394	23.8	22.6
COMESA	421	311	417	400	109	159	171	439	23.8	25.2
Rest of the World	1,124	859	902	886	325	390	386	1,101	63.7	63.2
<i>Of which</i>										
United Kingdom	131	114	112	114	42	46	49	137	7.4	7.9
Netherlands	129	83	116	130	50	58	51	159	7.3	9.1
USA	119	104	122	119	46	36	43	125	6.8	7.2
Pakistan	132	141	123	118	42	42	43	127	7.5	7.3
United Arab Emirates	127	66	73	61	25	46	26	96	7.2	5.5
Germany	34	37	37	29	11	18	21	50	1.9	2.9
India	12	8	17	34	7	19	10	37	0.7	2.1
Afghanistan	14	5	2	1	0	0	0	1	0.8	0.0
Others	425	303	301	279	102	126	141	369	24.1	21.2
Total	1,764	1,307	1,516	1,474	497	618	627	1,741	100	100
EU	391	315	350	344	129	149	161	439	22	25
China	41	36	30	32	13	30	16	59	2	3

Source: Kenya Revenue Authority

Capital and Financial Account

Net capital account inflows increased by USD 60 million to USD 84 million in the first quarter of 2021. Net financial account inflows were higher at USD 649 million in the first quarter of 2021, compared

to net inflows of USD 419 in the first quarter of 2020. This largely reflected an improvement in other investment and portfolio inflows despite the reduction in foreign direct investment (FDI).

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

	2020				2021				Q1 2021-Q1 2020	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar			Jan-Mar	Absolute	%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
Capital account credit	24	42	36	28	24	26	34	84	60	246
Capital account credit	24	42	36	28	24	26	34	84	60	246
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-419	-1,690	-295	-379	-113	-230	-306	-649	-231	55
Direct investment: assets	71	8	39	36	11	11	12	34	-36	-51
Direct investment: liabilities	104	93	93	109	21	18	23	63	-41	-40
Portfolio investment: assets	309	303	252	337	53	79	95	227	-82	-27
Portfolio investment: liabilities	-101	-91	-6	11	56	16	3	75	176	-174
Financial derivatives: net	3	-5	11	-19	2	4	8	14	11	322
Other investment: assets	-8	128	-103	995	177	155	67	398	406	-5,262
Other investment: liabilities	791	2,123	409	1,608	278	445	462	1,185	394	50

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 12,850 million at the end of the first quarter of 2021 from USD 12,447 million in a similar period in 2020. The Official reserves held by the Central Bank constituted the bulk of the

gross reserves and decreased to USD 7,741 million, equivalent to 4.7 months of import cover, while Commercial Bank reserves increased by USD 1,297 million to end at USD 5,109 million at the end of first quarter of 2021 (**Table 5.6**).

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

	2020				2021			
	Jan-Mar	Apr-Jun	July-Sep	Q4				Q1
	Q1	Q2	Q3	Oct-Dec	Jan	Feb	Mar	Jan-Mar
1. Gross Reserves	12,447	13,681	12,585	12,992	12,886	12,839	12,850	12,850
of which:								
Official	8,635	9,740	8,765	8,297	8,009	7,802	7,741	7,741
import cover*	5.2	5.9	5.4	5.1	4.9	4.8	4.7	4.7
Commercial Banks	3,812	3,941	3,820	4,695	4,878	5,037	5,109	5,109
2. Residents' foreign currency deposits	6,445	6,557	6,448	7,076	7,124	7,373	7,362	7,362

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

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling exchange rate weakened against major international currencies as a result of the COVID-19 impact on global financial conditions. The Kenya Shilling weakened by 7 percent against the US Dollar to exchange at an average of 109.75 in

the first quarter of 2021 compared with 101.88 in a similar quarter in 2020. It also weakened against the Sterling, the Euro and the Japanese Yen. In the EAC region, it weakened against most currencies during the review period **(Table 5.7 and Chart 5.1)**.

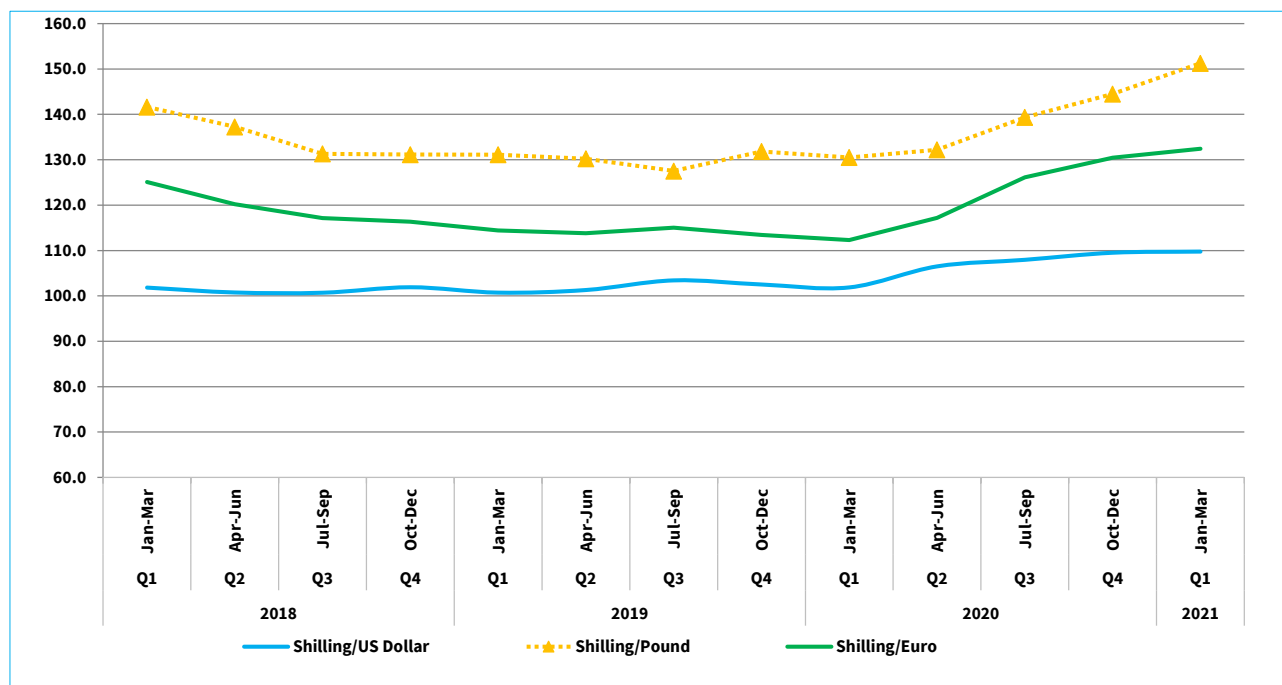
Table 5.7: Kenya Shilling exchange rate

	2019			2020				2021				Q1 2021 - Q1 2020 % change
	Apr-Jun Q2	Jul-Sep Q3	Oct-Dec Q4	Jan-Mar Q1	Apr-Jun Q2	Jul-Sep Q3	Oct-Dec Q4	Jan	Feb	Mar	Jan-Mar	
US Dollar	101.30	103.42	102.52	101.88	106.50	107.94	109.49	109.83	109.68	109.73	109.75	7.73
Pound Sterling	130.22	127.51	131.83	130.51	132.19	139.35	144.50	149.75	151.80	152.21	151.25	15.90
Euro	113.82	115.05	113.44	112.30	117.19	126.12	130.44	133.80	132.62	130.86	132.43	17.92
100 Japanese Yen	92.21	93.05	94.50	93.47	99.08	101.70	104.79	105.90	104.12	101.11	103.71	10.96
Uganda Shilling*	36.97	35.67	35.99	36.40	35.41	34.20	33.78	33.61	33.43	33.38	33.48	-8.03
Tanzania Shilling*	22.74	22.23	22.44	22.64	21.73	21.50	21.18	21.11	21.14	21.13	21.13	-6.67
Rwanda Franc*	8.94	8.87	9.07	9.32	8.93	8.92	8.98	9.03	9.05	9.05	9.04	-2.98
Burundi Franc*	18.10	17.83	18.12	18.51	17.82	17.87	17.69	17.68	17.72	17.74	17.71	-4.31

* 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

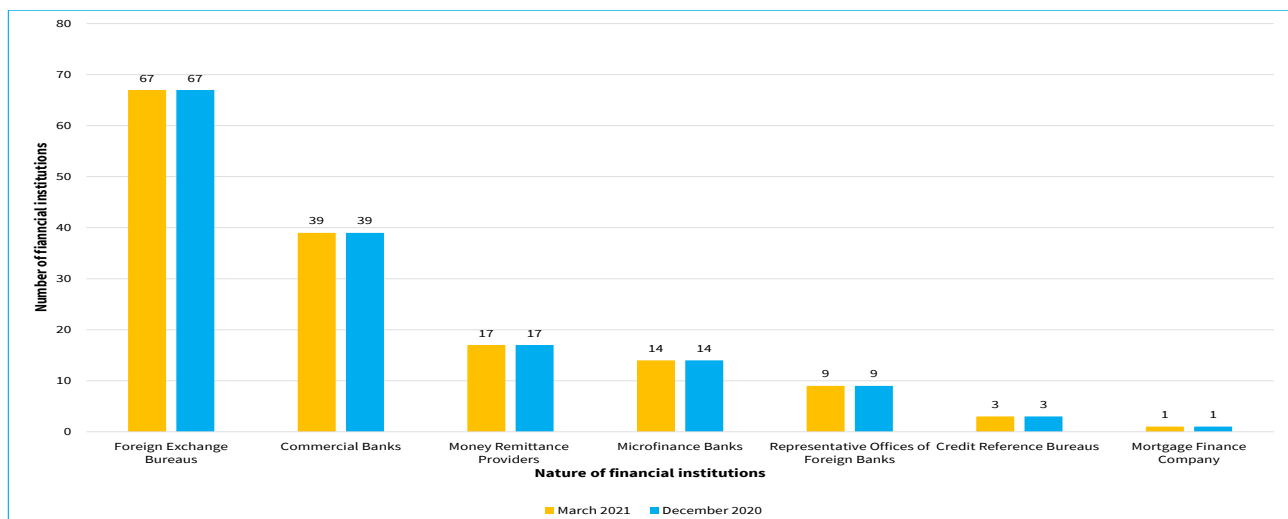
The banking sector remained stable and resilient in the first quarter of 2021, in face of the coronavirus (COVID-19) pandemic. Total net assets increased by 2.0 percent from KSh 5,420.1 billion in December 2020 to KSh 5,528.4 billion in March 2021. The deposit base also increased by 2.8 percent from KSh 4,021.9 billion in the fourth quarter of 2020 to KSh 4,133.1 billion in the first quarter of 2021. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in the first quarter of 2021 with quarterly profit before tax of KSh 45.9 billion. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio increasing to 14.6 percent

in the first quarter of 2021 from 14.1 percent in the fourth quarter of 2020.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks¹, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 67 Foreign Exchange Bureaus, 17 Money Remittance Providers and 3 Credit Reference Bureaus as at March 31, 2021. **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 net assets increased by 2.0 percent from KSh 5,420.1 billion in December 2020 to KSh 5,528.4 billion in March 2021. The increase in total net assets was mainly recorded in placements (8.1 percent). However, loans and advances, which increased

by 5.2 percent, remained the main component of assets, accounting for 49.8 percent in the first quarter of 2021, a slight increase from 49.3 percent recorded in the fourth quarter of 2020.

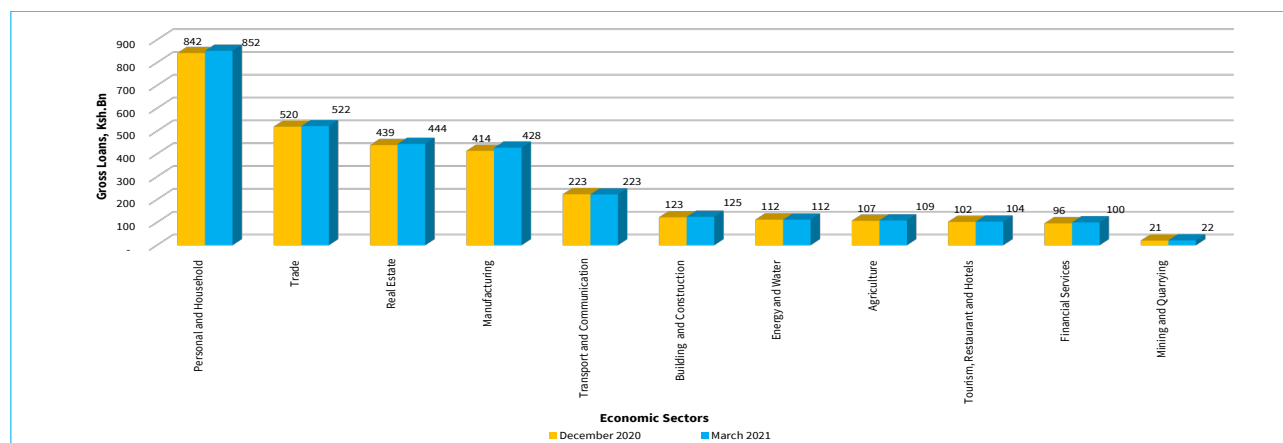
¹ Includes Charterhouse Bank Limited, which is under Statutory Management, Chase Bank (K) Limited and Imperial Bank Limited, which are in Receivership. However, the data for the three banks have been excluded in this report.

ii) Loans and Advances

Total banking sector lending increased by 0.7 percent, from KSh 2,999.5 billion in the fourth quarter of 2020 to KSh 3,040.6 billion in the first quarter of 2021. The increase in gross loans and advances was largely witnessed in the Manufacturing, Personal and Household, and

Financial Services sectors. The general increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the fourth quarter of 2020 and first quarter of 2021 is highlighted in **Chart 6.2**.

Chart 6.2: Loans by sector



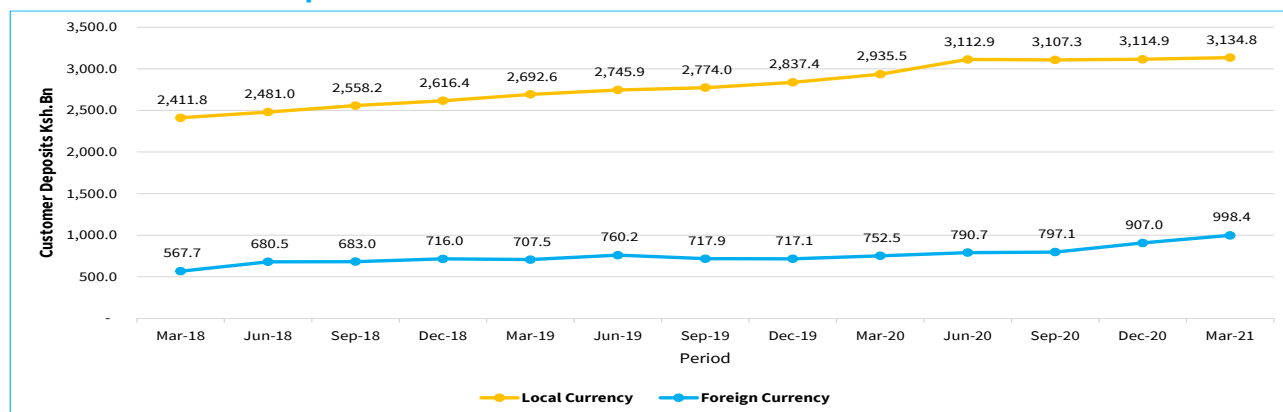
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remain the main source of funding to the banks accounting for 74.8 percent of the banking sector total liabilities and shareholders' funds as at the end of the first quarter of 2021. This was a marginal increase from 74.1 percent recorded as at end of the fourth quarter of 2020. The customer deposit base increased by 2.8 percent from KSh 4,021.9 billion in the fourth quarter of 2020 to KSh 4,133.2 billion in the first quarter of 2021. Local

currency deposits increased slightly by KSh 19.8 billion (0.64 percent) from KSh 3,114.9 billion in the fourth quarter of 2020 to KSh 3,134.8 billion in the first quarter of 2021. Foreign currency deposits increased by KSh 91.4 billion (10.1 percent) from KSh 907.0 billion in the fourth quarter of 2020 to KSh 998.4 billion in the first quarter of 2021. **Chart 6.3** below shows the trends of deposit liabilities.

Chart 6.3: Customer deposits



Source: Central Bank of Kenya

⁴ Other accounts receivable in foreign currency.

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 1.03 percent from KSh 692.5 billion in the fourth quarter of 2020 to KSh 699.6 billion in the first quarter of 2021. Total capital also increased by 1.0 percent from KSh 793.2 billion in the fourth quarter of 2020 to KSh 801.1 billion in the first quarter of 2021. The increases in capital levels are mainly attributable to increased profits made in the first quarter of 2021.

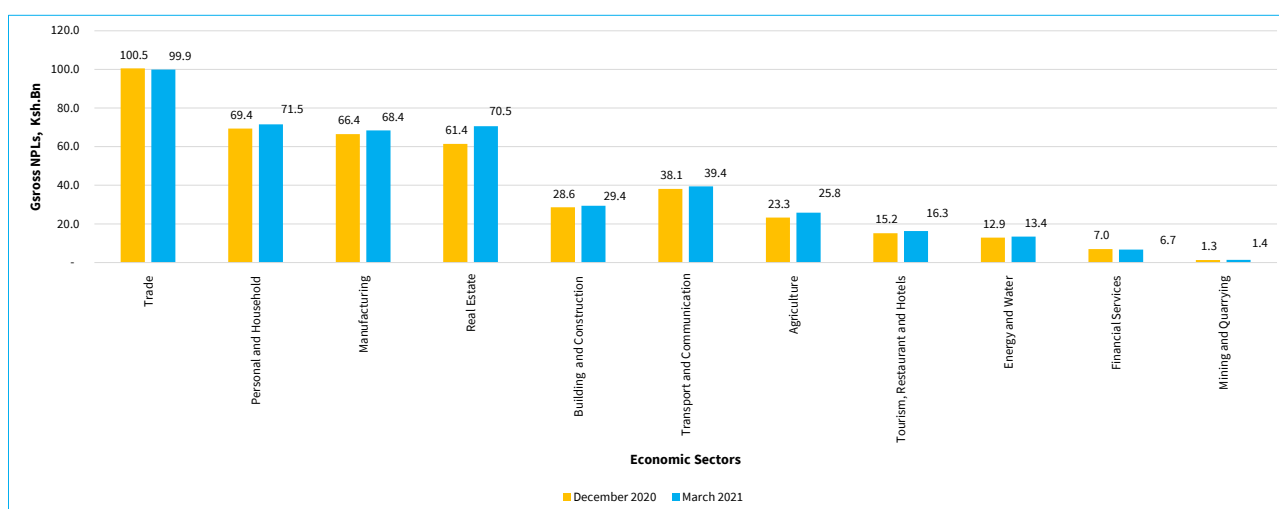
Core capital to total risk-weighted assets ratio decreased slightly from 16.7 percent in the fourth quarter of 2020 to 16.5 percent in the first quarter of 2021. Similarly, total capital to total risk-weighted assets ratio decreased from 19.2 percent in the fourth quarter of 2020 to 18.8 percent in the first quarter of 2021.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 16.9 percent in the first quarter of 2021, a decrease from 17.2 percent recorded in the fourth quarter of 2020. This is because of a higher increase in deposits (2.8 percent) as compared to the increase in core capital (1.0 percent).

Asset Quality

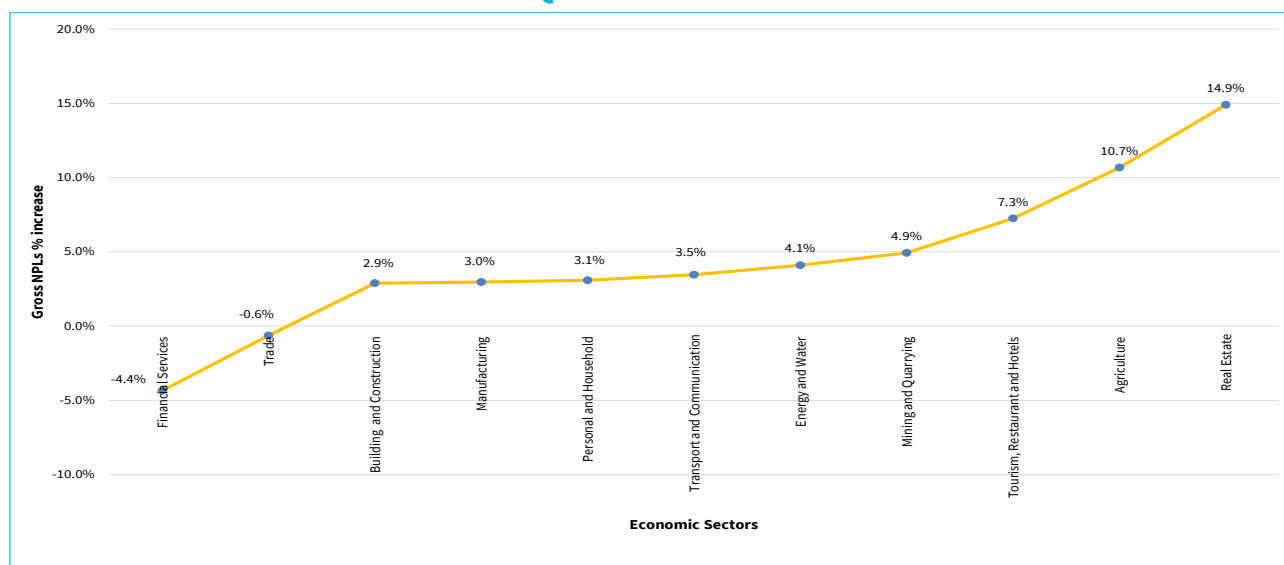
The gross non-performing loans (NPLs) increased by 4.4 percent to KSh 442.6 billion as at the end of the first quarter of 2021 from KSh 424.1 billion at the end of the fourth quarter of 2020. As a result, the gross NPLs to gross loans ratio increased from 14.1 percent in the fourth quarter of 2020 to 14.6 percent in the first quarter of 2021. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

Chart 6.4: Kenyan banking sector gross non-performing loans (KSh Billion)



Source: Central Bank of Kenya

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

Chart 6.5: Movement in Gross NPLs-First Quarter of 2021

Source: Central Bank of Kenya

The Real Estate sector registered the highest increase in NPLs by 14.9 percent (KSh 9.2 billion) as a result of disruptions by COVID-19 pandemic. The other two sectors which registered major NPL increases are Agriculture and Tourism sectors, which increased by 10.7 percent and 7.3 percent respectively.

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

gross loans, remained at 5.7 percent in the first quarter of 2021 as was in the fourth quarter of 2020. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased to 53.1 percent in the first quarter of 2021 from 51.9 percent in fourth quarter of 2020 due to an increase in specific provisions (7.09 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		December 2020	March 2021
1.	Gross Loans and Advances (Ksh.Bn)	2,999.5	3,040.5
2.	Interest in Suspense (Ksh.Bn)	67.8	69.9
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	2,931.7	2,970.5
4.	Gross Non-Performing loans (Ksh.Bn)	424.1	442.6
5.	Specific Provisions (Ksh.Bn)	184.8	197.9
6.	General Provisions (Ksh.Bn)	50.1	48.5
7.	Total Provisions (5+6) (Ksh.Bn)	234.9	246.4
8.	Net Advances (3-7) (Ksh.Bn)	2,696.8	2,724.1
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	356.3	372.7
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	171.4	174.8
11.	Total NPLs as % of Total Advances (9/3)	12.2%	12.5%
12.	Net NPLs as % of Gross Advances (10/1)	5.7%	5.7%
13.	Specific Provisions as % of Total NPLs (5/9)	51.9%	53.1%
14.	Gross NPLs to Gross Loans Ratio	14.1%	14.6%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in pre-tax profits by KSh 22.3 billion (94.7 percent) from KSh 23.6 billion in the fourth quarter of 2020 to KSh 45.9 billion in the first quarter of 2021. The increase in profitability was mainly attributable to a decrease in expenses by KSh 29.3 billion (22.8 percent) to KSh 99.1 billion, as compared to a lower decrease in income by KSh 7.0 billion (4.6 percent) in the first quarter of 2020.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both fourth quarter of 2020 and first quarter of 2021. On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 32.3 percent, 24.1 percent and 23.8 percent of total expenses respectively compared to 31.5 percent, 26.2 percent and 25.4 percent in the fourth quarter of 2020.

Total expenses decreased by 29.3 billion (22.8 percent) from KSh 128.4 in the fourth quarter of 2020 to KSh 99.1 billion in the first quarter of 2021. The decrease was driven by a bad debt charge and loan loss expenses, which decreased by 35.7 percent.

Return On Assets (ROA) stood at 2.6 percent in the first quarter of 2021, an increase from 1.6 percent registered in the fourth quarter of 2020. Similarly,

Return on Equity (ROE) increased to 22.0 percent in the first quarter of 2021 from 13.8 percent in the fourth quarter of 2020. This is as a result of increased earnings before tax in the first quarter of 2021.

Liquidity

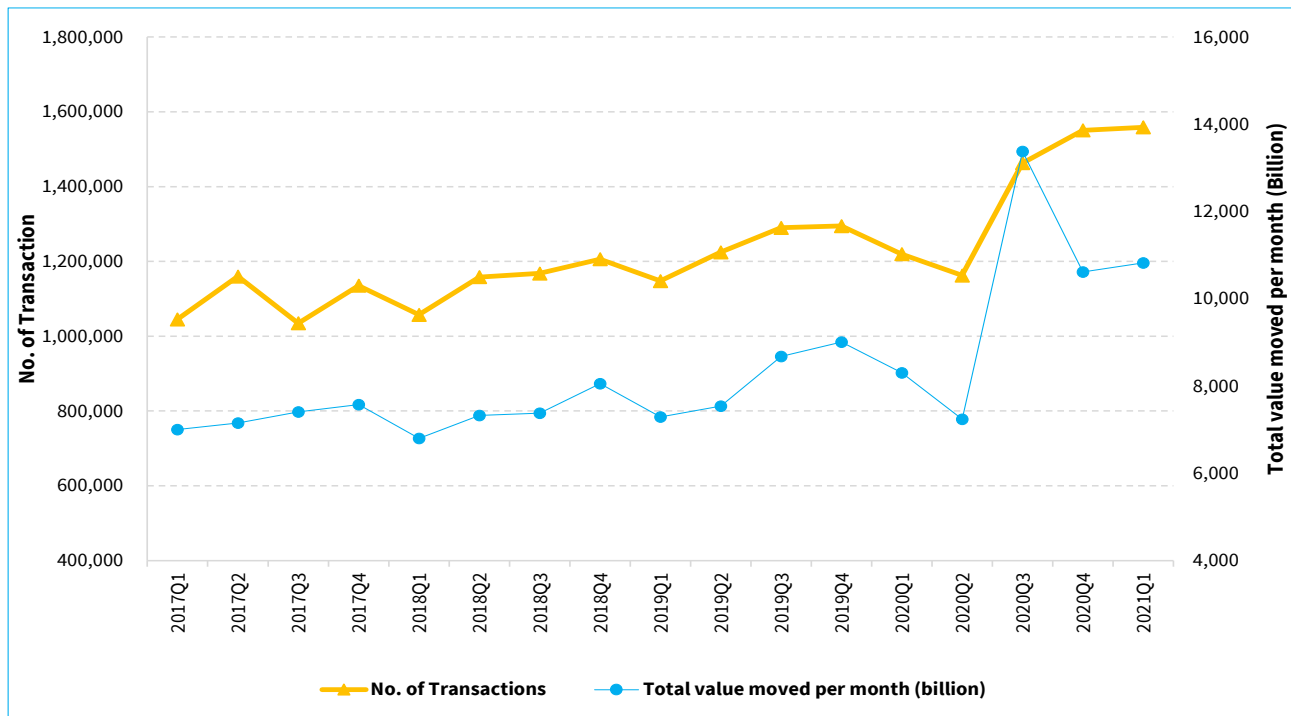
The banking sector's overall liquidity ratio increased from 54.6 percent in the fourth quarter of 2020 to 56.3 percent in the first quarter of 2021. The increase was driven by a higher increase in total liquid asset (5.7 percent) as compared to a 2.0 percent increase in total short-term liabilities between the two quarters under review. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

The components of liquidity that recorded the highest increase include; Foreign bills and bonds (116.5 percent), balances with foreign banks (29.3 percent) and treasury bonds (8.2 percent).

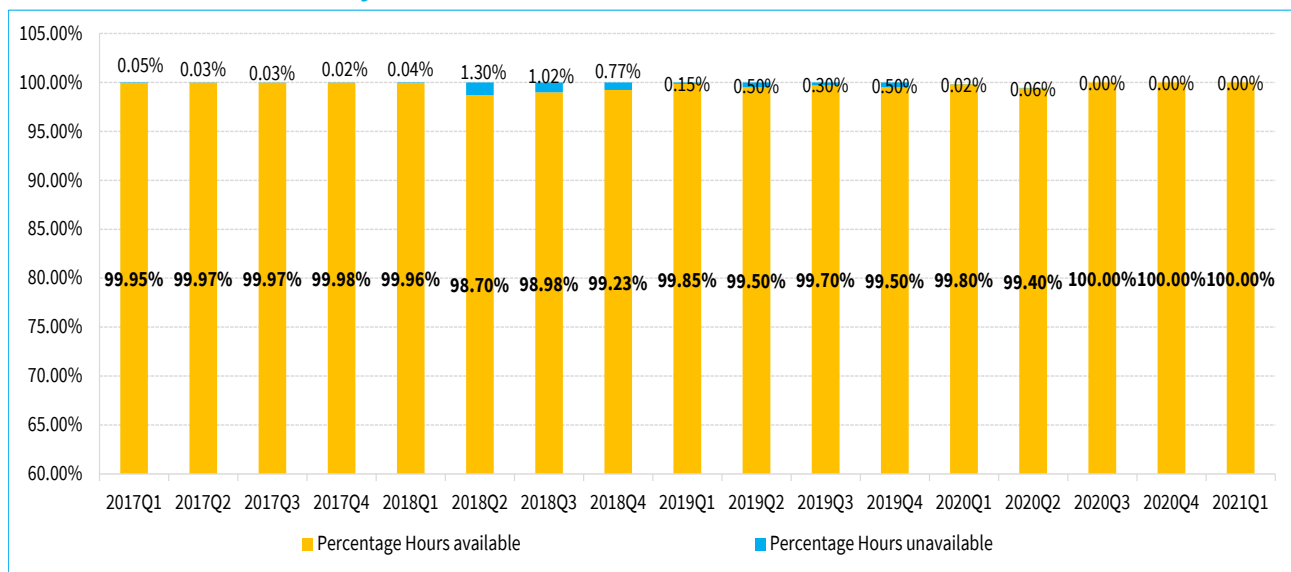
Outlook of the Sector

The banking sector is projected to remain stable:

- Operational risk is expected to remain elevated with the continued COVID-19 infections.
- Credit risk is expected to remain elevated in the short to medium term.
- Liquidity risk is expected to be stable in the short-term as evidenced by increasing liquidity ratios.

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 third quarter of FY 2020/2021 resulted in a deficit of 4.5 percent of GDP against a target of 5.7 percent of GDP. Both revenues and expenditures

were below target with the shortfall in total revenues and grants at 3.3 percent and total expenses and net lending at 6.5 percent (**Table 7.1**).

Table 7.1: Statement of government operations in the third quarter of FY 2020/2021 (KSh Billion)

	FY 2019/20	FY 2020/21						Over (+) /	%	%		
	Q3	Jan	Feb	March	Q3	Cumulative to Mar-2021	Target	Below (-) Target	Variance	Q3-Q3	%Cumulative share to GDP	Target to GDP %
1. TOTAL REVENUE & GRANTS	405.2	129.1	145.4	170.1	444.6	1,263.6	1,306.3	(42.7)	(3.3)	9.7	11.3	11.7
Ordinary Revenue	357.9	113.4	131.5	135.3	380.2	1,106.6	1,113.9	(7.3)		6.2		
Tax Revenue	339.6	110.6	121.1	130.1	361.8	1,030.5	1,050.8	(20.3)		6.5		
Non Tax Revenue	18.3	2.9	10.5	5.1	18.4	76.2	63.2	13.0		0.5		
Appropriations-in-Aid	43.9	13.1	11.0	30.5	54.5	138.6	163.0	(24.3)		24.2		
External Grants	3.4	2.6	2.9	4.4	9.9	18.4	29.4	(11.1)		187.2		
2. TOTAL EXPENSES & NET LENDING	650.1	132.3	180.0	293.6	605.8	1,820.7	1,948.2	(127.5)	(6.5)	(6.8)	16.3	17.4
Recurrent Expenses	353.8	112.5	128.8	176.1	417.5	1,240.9	1,263.9	(23.0)		18.0		
Development Expenses	203.8	(16.0)	28.7	94.4	107.2	369.9	419.2	(49.3)		(47.4)		
County Transfers	92.6	35.7	22.5	23.0	81.2	209.9	262.6	(52.8)		(12.3)		
Others	-	-	-	-	-	-	2.5	-				
3. DEFICIT (INCL. GRANTS) (1-2)	(244.9)	(3.2)	(34.6)	(123.5)	(161.3)	(557.0)	(641.9)	84.9	(13.2)	(34.2)	(5.0)	(5.7)
As percent of GDP	(2.4)	(0.0)	(0.3)	(1.1)	(1.4)	(5.0)	(5.7)	0.8		(38.8)		
4. ADJUSTMENT TO CASH BASIS	11.5	-	56.0	-	56.0	56.0	-	56.0		386.2		
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(233.4)	(3.2)	21.4	(123.5)	(105.3)	(501.0)	(641.9)	140.9	(21.9)	(54.9)	(4.5)	(5.7)
As percent of GDP	(2.2)	(0.0)	0.2	(1.1)	(0.9)	(4.5)	(5.7)	1.3		(58.1)		
6. DISCREPANCY: Expenditure (+) / Revenue (-)	(18.6)	28.0	77.8	(82.9)	22.9	(13.3)	(0.0)	(13.3)		(223.3)		
7. FINANCING	214.8	31.2	56.4	40.6	128.2	487.7	641.9	(154.2)	(24.0)	(40.3)	4.4	5.7
Domestic (Net)	196.5	26.7	58.1	36.8	121.5	466.5	573.5	(106.9)		(38.2)		
Capital Receipts (domestic loan receipts)	0.6	0.0	0.0	0.1	0.1	0.2	-	0.2		(75.5)		
External (Net)	17.7	4.5	(1.7)	3.8	6.6	21.2	68.4	(47.3)		(62.5)		
Others	-	-	-	-	-	-	-					

GDP figures Revised Mar 2021 BOT

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants increased by 9.7 percent to KSh 444.6 billion in the third quarter of FY 2020/2021, compared to KSh 405.2 billion in the third quarter of FY 2019/20. The increase was reflected in tax and non-tax revenues as well as external grants which improved by 6.5 percent, 0.5 percent and 187.2 percent respectively. Appropriation in Aid (A-in-A) also increased over the same period by 24.2 percent.

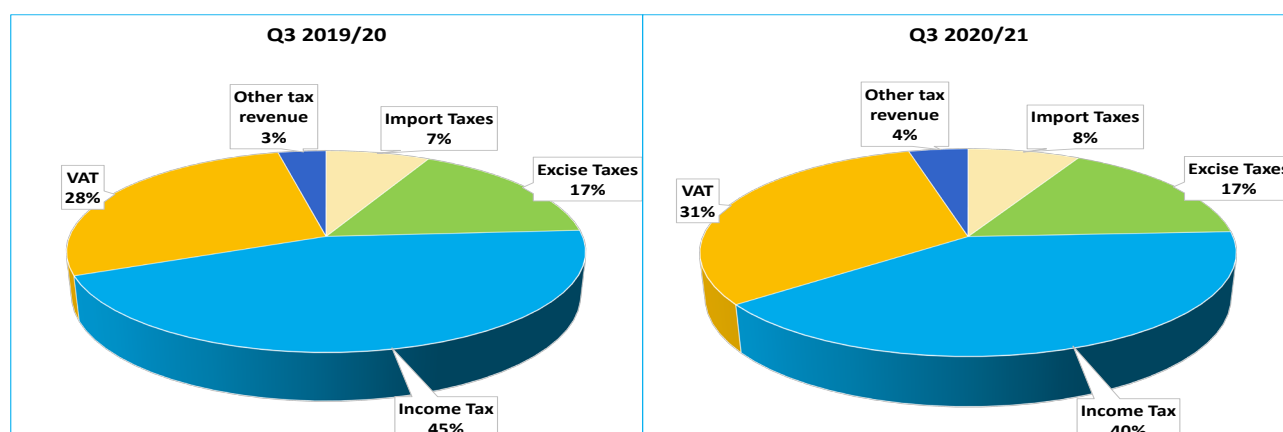
There was a minor shift in the composition of tax revenues in the third quarter of FY 2020/2021 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Income Tax declined by 4.5 percentage points while the share of Value Added Tax (VAT), Import Duty and

Other Tax Revenues rose by 3.6 percentage points, 0.4 percentage points and 0.7 percentage points, respectively.

Cumulatively to March 2021, Government total revenue and grants stood at KSh 1,263.6 billion (11.3 percent of GDP) against a target of KSh 1,306.3 billion (11.7 percent of GDP). Tax revenue fell below the set target with the shortfall largely reflecting tax relief measures put in place to cushion Kenyans against the effects of COVID-19, which adversely affected revenue collection from March 2020.

External grants cumulatively to March 2021 stood at KSh 18.4 billion, which was KSh 11.1 billion lower than target, occasioned by slow absorption of donor funds.

Chart 7.1: Composition of tax revenue (KSh Billion)



Source: The Budget Outturn (BOT) from National Treasury

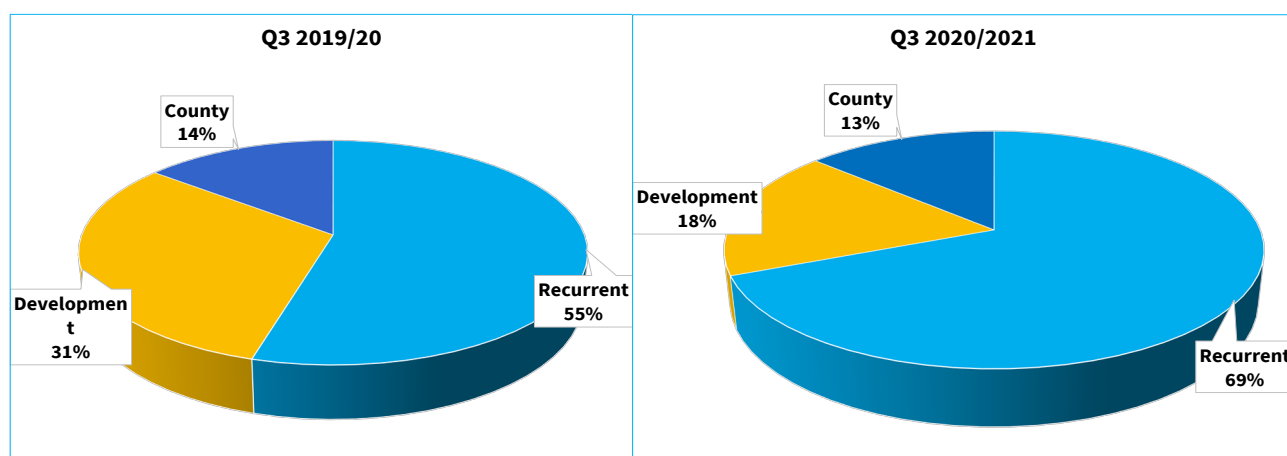
Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to March 2021 amounted to KSh 138.6 billion, which was KSh 24.3 billion lower than target due to under reporting by Semi-Autonomous Government Agencies.

Expenditure and Net Lending

Government expenditure and net lending decreased by 6.8 percent to KSh 605.8 billion in the third quarter of the FY 2020/2021 compared to KSh 650.1 billion in the third quarter of the FY 2019/20. The decrease in expenditures reflected a drop in national government development transfers and county transfers by 47.4 percent and 12.3 percent respectively which more than offset the 18 percent rise in recurrent expenditure.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 68.9 percent in the third quarter of the FY 2020/2021, which was 14.5 percentage points higher than the level recorded in a similar quarter during the previous fiscal year. The share of development expenditure and the county allocation decreased by 13.7 percentage points and 0.8 percentage points respectively during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to March 2021 amounted to KSh 1,820.7 billion (16.3 percent of GDP), against a target of KSh 1,948.2 billion (17.4 percent of GDP). The shortfall of KSh 127.5 billion was mainly attributed to lower absorption recorded in recurrent and development expenditures by the National Government and below target transfers to County Governments.

Chart 7.2: Composition of government expenditure in the third quarter of FY 2020/2021

Source: BOT from National Treasury

Financing

The budget deficit including grants amounted to KSh 501 billion or 4.5 percent of GDP at the end of the third quarter of FY 2020/2021 (**Table 7.1**). Domestic borrowing comprised KSh 38.7 draw down in Government deposits held at the Central Bank, KSh 171 billion from commercial banks, KSh 255.7

billion from non-banks and KSh 0.9 billion from non-residents (**Table 7.2**). Net domestic borrowing and net external borrowing by the end of the third quarter of FY 2020/2021 were both below target by KSh 106.9 billion and KSh 47.3 billion respectively.

Table 7.2 Domestic financing to March 2021 (KSh Billion)

	FY 2020/21								
			Q1				Q2		
	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
1. From CBK	(93.2)	(86.1)	(116.7)	(26.0)	14.8	21.6	5.4	60.5	38.7
2. From commercial banks	88.2	123.3	152.1	129.1	137.2	126.9	150.4	152.1	171.0
4. From Non-banks	46.8	99.1	117.8	135.1	165.1	197.9	217.9	211.6	255.7
5. From Non-Residents	0.7	0.9	1.0	1.0	0.8	0.9	1.0	1.4	0.9
Change in Credit from banks (From 30th June 2020)	(5.0)	37.2	35.4	103.2	151.9	148.5	155.8	212.6	209.7
Change in Credit from non-banks (From 30th June 2020)	46.8	99.1	117.8	135.1	165.1	197.9	217.9	211.6	255.7
Change in Credit from non-residents (From 30th June 2020)	0.7	0.9	1.0	1.0	0.8	0.9	1.0	1.4	0.9
6. Total Change in Dom. Credit (From 30th June 2020)	42.5	137.1	154.2	239.3	317.9	347.2	374.6	425.7	466.3

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

Outlook for FY 2020/21

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

369.2 billion for transfers to county governments. The overall budget deficit including grants is, therefore, projected at KSh 841.1 billion (7.5 percent of GDP) in 2020/21, to be financed through net external borrowing of KSh 346.8 billion and net domestic borrowing of KSh 494.3 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2020/21 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	1,949.5	17.3
Ordinary Revenue	1,633.8	14.5
Appropriations-in-Aid	258.9	2.3
External Grants	56.8	0.5
2. TOTAL EXPENSES & NET LENDING	2,790.6	24.7
Recurrent Expenses	1,826.7	16.2
Development Expenses	589.7	5.2
County Transfer	369.2	3.3
Contingency Fund	5.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	-841.1	-7.5
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	841.1	7.5
Domestic (Net)	494.3	4.4
External (Net)	346.8	3.1

Source: National Treasury: Revised Budget Estimates, 2021 Budget Policy Statement

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 0.8 percent during the third quarter of the FY 2020/21. Domestic debt increased by 2.3 percent while external debt decreased by 0.6 percent. The ratio of public debt to GDP was

estimated to increase by 1.3 percentage points to 69.1 percent during the quarter. The ratios of domestic and external debt to GDP increased by 1.1 percentage points and 0.3 percentage points, respectively (**Table 8.1**).

Table 8.1 Kenya's public and publicly guaranteed debt

	2019/20		2020/21					
	Q3	Q4	Q1	Q2	Jan-21	Feb-21	Q3	Change Q on Q
EXTERNAL								
Bilateral	1,075.9	1,074.3	1,102.9	1,157.0	1,163.8	1,159.5	1,142.7	-14.3
Multilateral	1,060.6	1,321.6	1,421.8	1,498.8	1,511.6	1,516.7	1,495.6	-3.2
Commercial Banks	1,058.8	1,102.3	1,120.8	1,119.4	1,126.0	1,120.0	1,113.4	-6.0
Supplier Credits	17.3	17.6	18.0	18.1	18.2	18.2	18.1	0.1
Sub-Total	3,212.6	3,515.8	3,663.5	3,793.3	3,819.7	3,814.3	3,769.9	-23.4
(As a % of GDP)	32.2	34.6	35.2	35.3	35.8	35.9	35.5	
(As a % of total debt)	51.1	52.5	51.4	52.1	52.0	51.9	51.4	
DOMESTIC								
Banks	1,677.0	1,752.1	1,915.4	1,867.9	1,892.6	1,896.8	1,876.6	8.7
Central Bank	106.4	98.9	107.4	98.7	106.4	106.0	99.9	1.1
Commercial Banks	1,570.6	1,653.2	1,808.0	1,769.2	1,786.2	1,790.8	1,776.7	7.5
Non-banks	1,363.3	1,392.3	1,507.6	1,586.8	1,606.1	1,599.9	1,661.6	74.8
Pension Funds	891.4	923.1	986.2	1,057.7	1,071.7	1,055.1	1,087.5	29.8
Insurance Companies	193.6	192.2	212.8	224.6	226.0	228.9	234.5	9.9
Other Non-bank Sources	278.3	277.0	308.6	304.5	308.3	315.9	339.6	35.1
Non-residents	31.6	33.2	34.1	33.8	33.9	34.4	31.7	-2.2
Sub-Total	3,070.2	3,177.0	3,457.1	3,488.5	3,532.6	3,531.2	3,569.8	81.3
(As a % of GDP)	30.8	31.3	33.3	32.5	33.1	33.2	33.6	
(As a % of total debt)	48.9	47.5	48.6	47.9	48.0	48.1	48.6	
GRAND TOTAL	6,282.8	6,692.8	7,120.6	7,281.8	7,352.3	7,345.5	7,339.7	57.9
(As a % of GDP)	63.0	65.9	68.5	67.8	68.8	69.1	69.1	

Source: The National Treasury and CBK

Domestic Debt

The 2.3 percent increase in domestic debt was on account of increased uptake of treasury bonds. The share of domestic debt to total debt increased by 0.7 percentage points to 48.6 percent by the end of

the third quarter of the FY 2020/21. The proportion of debt securities to total domestic debt decreased by 0.1 percentage points as the proportion of other domestic debt increased (**Table 8.2**).

Table 8.2: Government gross domestic debt (KSh Billion)

	KShs (Billions)							Change Q on Q		Proportions						
	2019/20		2020/21							2019/20		2020/21				
	Q3	Q4	Q1	Q2	Jan-21	Feb-21	Q3	KShs(Bn)	%	Q3	Q4	Q1	Q2	Jan-21	Feb-21	Q3
Total Stock of Domestic Debt (A+B)	3,070.2	3,177.0	3,457.1	3,488.5	3,532.6	3,531.2	3,569.8	81.3	2.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	2,992.6	3,106.6	3,377.0	3,417.0	3,452.5	3,451.6	3,496.4	79.3	2.3	97.5	97.8	97.7	98.0	97.7	97.7	97.9
1. Treasury Bills (excluding Repo Bills)	902.3	887.1	894.7	855.7	785.5	748.0	761.9	-93.8	-11.0	29.4	27.9	25.9	24.5	22.2	21.2	21.3
Banking institutions	597.0	587.7	601.2	552.2	485.6	480.6	478.6	-73.6	-13.3	19.4	18.5	17.4	15.8	13.7	13.6	13.4
The Central Bank	20.6	20.6	20.6	20.6	20.6	20.6	20.6	0.0	0.0	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Commercial Banks	576.4	567.1	580.6	531.6	465.0	460.0	458.0	-73.6	-13.8	18.8	17.9	16.8	15.2	13.2	13.0	12.8
Pension Funds	153.2	161.0	156.2	158.7	151.5	128.8	139.6	-19.1	-12.0	5.0	5.1	4.5	4.5	4.3	3.6	3.9
Insurance Companies	10.1	7.6	6.0	5.1	5.5	5.2	6.6	1.5	28.9	0.3	0.2	0.2	0.1	0.2	0.1	0.2
Others	142.0	130.8	131.4	139.6	142.9	133.4	137.1	-2.6	-1.9	4.6	4.1	3.8	4.0	4.0	3.8	3.8
2. Treasury Bonds	2,090.3	2,219.4	2,482.2	2,561.3	2,667.0	2,703.6	2,734.5	173.1	6.8	68.1	69.9	71.8	73.4	75.5	76.6	76.6
Banking institutions	1,000.8	1,093.5	1,234.1	1,244.3	1,326.9	1,336.7	1,324.6	80.3	6.5	32.6	34.4	35.7	35.7	37.6	37.9	37.1
The Central Bank	9.4	9.4	9.4	9.4	9.4	9.4	9.4	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Commercial Banks	991.4	1,084.1	1,224.7	1,234.8	1,317.5	1,327.2	1,315.1	80.3	6.5	32.3	34.1	35.4	35.4	37.3	37.6	36.8
Insurance Companies	183.5	184.6	206.8	219.5	220.5	223.7	227.9	8.4	3.8	6.0	5.8	6.0	6.3	6.2	6.3	6.4
Pension Funds	738.3	762.1	830.0	899.0	920.3	926.3	947.9	48.9	5.4	24.0	24.0	24.0	25.8	26.1	26.2	26.6
Others	167.8	179.3	211.3	198.6	199.3	216.8	234.1	35.5	17.9	5.5	5.6	6.1	5.7	5.6	6.1	6.6
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	22.2	21.7	21.7	21.1	21.1	20.6	20.6	-0.6	-2.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Of which: Repo T/Bills	21.1	20.5	20.5	20.0	20.0	19.4	19.4	-0.6	-2.8	0.7	0.6	0.6	0.6	0.6	0.5	0.5
B. Others:	55.4	48.7	58.5	50.4	59.0	59.1	52.9	2.5	5.0	1.8	1.5	1.7	1.4	1.7	1.7	1.5
Of which CBK overdraft to Government	54.2	47.1	56.2	47.6	55.3	55.4	49.3	1.7	3.5	1.8	1.5	1.6	1.4	1.6	1.6	1.4

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 11.1 percent decrease during the third quarter of the FY 2020/21. Correspondingly, the proportion of Treasury bills to total domestic debt decreased by 3.2 percentage points during the period under review. Commercial banks continued to dominate the Treasury bills market though their holdings decreased to 60.1 percent from 62.1 percent in the previous quarter. Other significant holders of Treasury bills included; Pension funds (18.3 percent) and parastatals included in other holders (14.3 percent) (**Table 8.2**).

Treasury Bonds

Treasury bond holdings increased by 6.8 percent during the third quarter of the FY 2020/21, which was higher than the 3.2 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 16-year Infrastructure Treasury bond issued during the quarter (**Table 8.3**). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KShs (Billions)							Change Q on Q		Proportions						
		2019/20		2020/21							2019/20		2020/21				
		Q3	Q4	Q1	Q2	Jan-21	Feb-21	Q3	KShs(Bn)	%	Q3	Q4	Q1	Q2	Jan-21	Feb-21	Q3
	91-Day	32.8	51.4	119.3	66.1	50.0	37.5	39.7	-26.3	-39.9	1.1	1.6	3.4	1.9	1.4	1.1	1.1
Treasury	182-Day	95.9	120.5	120.5	134.3	117.4	117.5	129.3	-5.0	-3.7	3.1	3.8	3.5	3.8	3.3	3.3	3.6
bills	364-Day	771.9	715.2	655.0	655.4	618.1	593.0	592.9	-62.5	-9.5	25.1	22.5	18.9	18.8	17.5	16.8	16.6
	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	37.4	37.4	37.4	37.4	62.1	62.1	62.1	24.7	66.1	1.2	1.2	1.1	1.1	1.8	1.8	1.7
	3-Year	1.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	4.8	4.8	4.8	4.8	4.8	4.8	4.8	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.1
	5-Year	342.8	357.9	366.7	327.4	327.4	327.4	327.4	0.0	0.0	11.2	11.3	10.6	9.4	9.3	9.3	9.2
	6-Year	8.5	28.7	28.7	28.7	28.7	28.7	28.7	0.0	0.0	0.3	0.9	0.8	0.8	0.8	0.8	0.8
Treasury	7-Year	50.1	50.1	50.1	50.1	50.1	50.1	50.1	0.0	0.0	1.6	1.6	1.5	1.4	1.4	1.4	1.4
Bonds	8-Year	19.3	19.3	19.3	19.3	19.3	19.3	19.3	0.0	0.0	0.6	0.6	0.6	0.6	0.5	0.5	0.5
	9-Year	55.3	134.3	134.3	134.3	134.3	134.3	134.3	0.0	0.0	1.8	4.2	3.9	3.8	3.8	3.8	3.8
	10-Year	460.5	474.0	574.4	541.0	541.0	541.0	556.5	15.5	2.9	15.0	14.9	16.6	15.5	15.3	15.3	15.6
	11-Year	8.8	8.8	8.8	8.8	8.8	8.8	8.8	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.2
	12-Year	115.4	116.8	116.8	116.8	116.8	132.5	114.8	-2.0	-1.7	3.8	3.7	3.4	3.3	3.3	3.8	3.2
	15-Year	602.5	602.5	708.3	762.3	762.3	779.1	779.1	16.8	2.2	19.6	19.0	20.5	21.9	21.6	22.1	21.8
	16- Year	71.7	71.7	71.7	71.7	152.6	152.6	152.6	81.0	113.0	2.3	2.3	2.1	2.1	4.3	4.3	4.3
	20-Year	203.8	203.8	252.4	299.1	299.1	303.2	336.3	37.2	12.4	6.6	6.4	7.3	8.6	8.5	8.6	9.4
	25-Year	80.2	80.2	80.2	131.3	131.3	131.3	131.3	0.0	0.0	2.6	2.5	2.3	3.8	3.7	3.7	3.7
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8
	Repo T bills	21.1	20.5	20.5	20.0	20.0	19.4	19.4	-0.6	-2.8	0.7	0.6	0.6	0.6	0.6	0.5	0.5
	Overdraft	54.2	47.1	56.2	47.6	55.3	55.4	49.3	1.7	3.5	1.8	1.5	1.6	1.4	1.6	1.6	1.4
	Other Domestic debt	4.0	2.7	3.4	3.9	4.9	4.8	4.8	0.8	21.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Debt		3,070.2	3,177.0	3,457.1	3,488.5	3,532.6	3,531.2	3,569.8	81.3	2.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

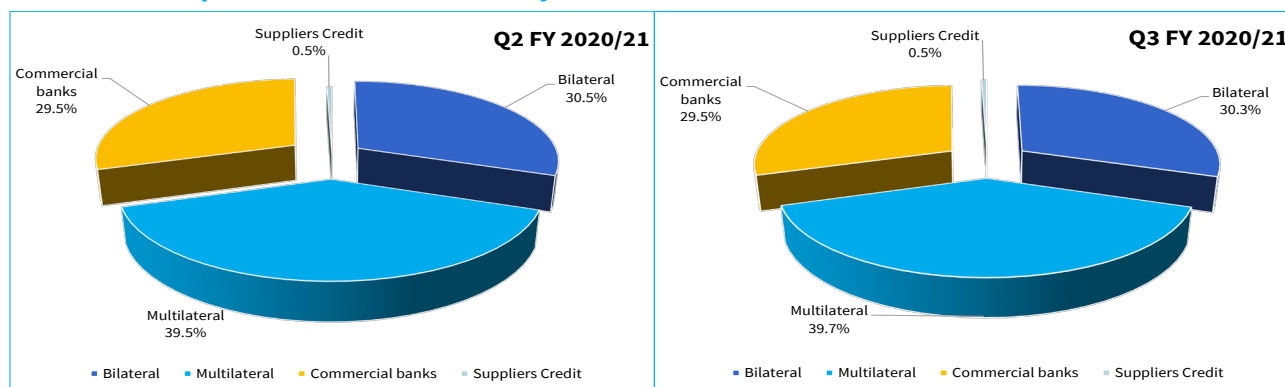
The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at ratio of 78:22 Treasury bonds to Treasury bills, surpassing the Public Debt Management Office medium term target of 70:30 Treasury bonds: bills ratio. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 75.4 percent of the total outstanding Treasury Bonds, representing a 1.4 percentage points decrease from the previous quarter. Nevertheless, the refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 21.3 percent from 24.5 percent in December 2020.

External Debt

Public and publicly guaranteed external debt decreased by 0.6 percent during the third quarter of the FY 2020/21. This decrease was majorly driven by the USD 166.0 million principal repayment to Trade Development Bank and movements in the exchange rate. Foreign exchange risk on external debt remained relatively low (0.8 percent appreciation) during the quarter under review.

Composition of External Debt by Creditor

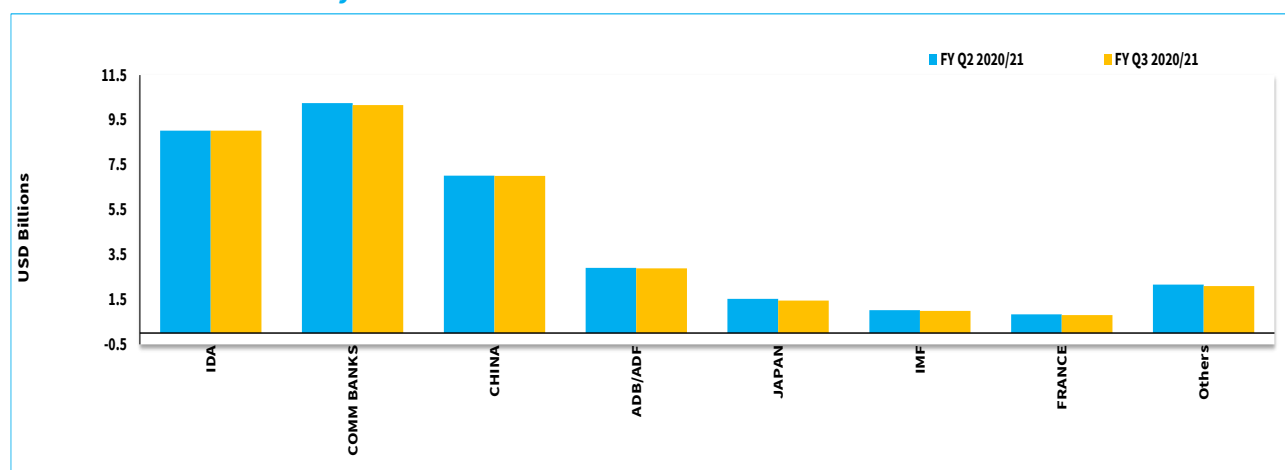
The composition of external debt improved with increased flow of International development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 0.2 percentage points during the quarter under review. The proportion of debt owed to bilateral lenders decreased by 0.2 percentage points during the third quarter of FY 2020/21.

Chart 8.1: Composition of external debt by lender classification

Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 9.0 billion (or 26.2 percent of

external debt). Debt owed to China, Kenya's largest bilateral lender, amounted to USD 7.0 billion, or 20.4 percent of the total external debt by the third quarter of the FY 2020/21 (**Chart 8.2**).

Chart 8.2: External debt by creditor

Source: The National Treasury

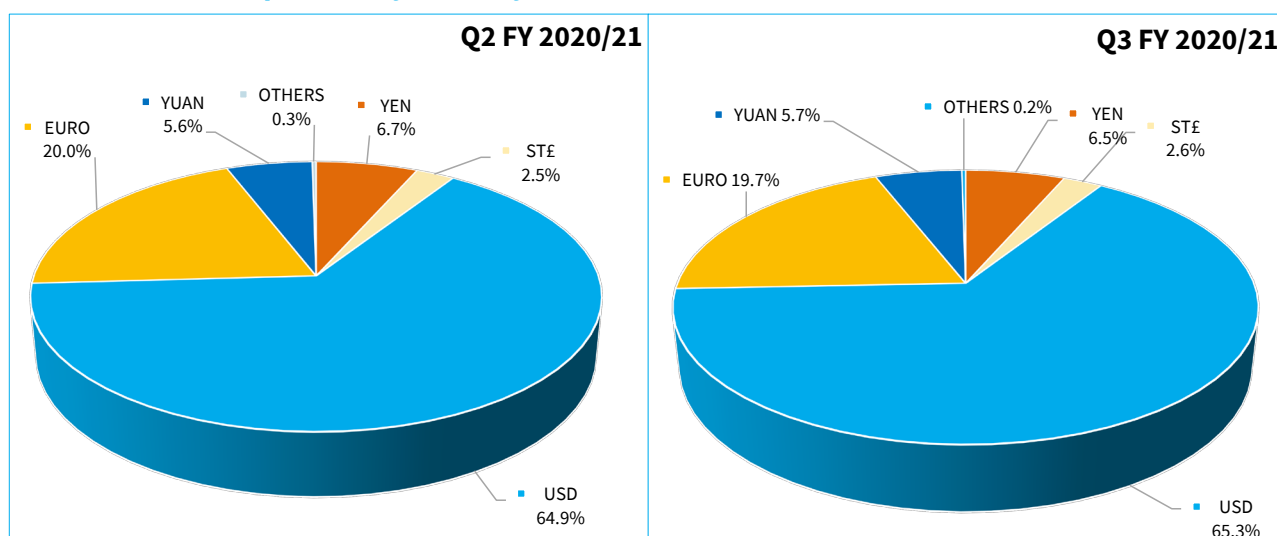
Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the USD and the Euro which accounted for 85.0 percent of the total currency composition at the end of the third quarter of the FY 2020/21. The proportion held in USD increased by 0.4 percentage points while that held Euro decreased by 0.3 percentage points (**Chart 8.3**).

Public Debt Service

The ratio of domestic interest payments to revenues was 23.3 percent during the third quarter of the FY 2020/21. 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 third quarter of FY 2020/21 amounted to KSh 44.4 billion (From KSh 60.2 billion in quarter one)². Liquidity indicators of external indebtedness improved due to improved performance of the resource base (**Table 8.4**).

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

Chart 8.3: Debt composition by currency

Source: The National Treasury

Debt Sustainability Analysis

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

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

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	Q3 FY 2019/20	Q4 FY 2019/20	Q1 FY 2020/21	Q2 FY 2020/21	Q3 FY 2020/21
Debt service to Revenues (23%)	15.9	13.6	12.3	14.1	10.4
Debt service to Exports (21%)	21.5	20.8	19.0	23.0	15.3

Source: Central Bank of Kenya and The National Treasury

Chapter 9

Capital Markets

Overall, equity market performance improved in the first quarter of 2021 compared to the fourth quarter of 2020. The NSE 20 and NASI share price indices rose by 4.91 percent and 4.28 percent,

respectively. Similarly, market capitalization total equities turnover and number of shares traded increased by 4.29 percent, 15.35 percent and 2.91 percent, respectively (**Table 9.1 and Chart 9.1**).

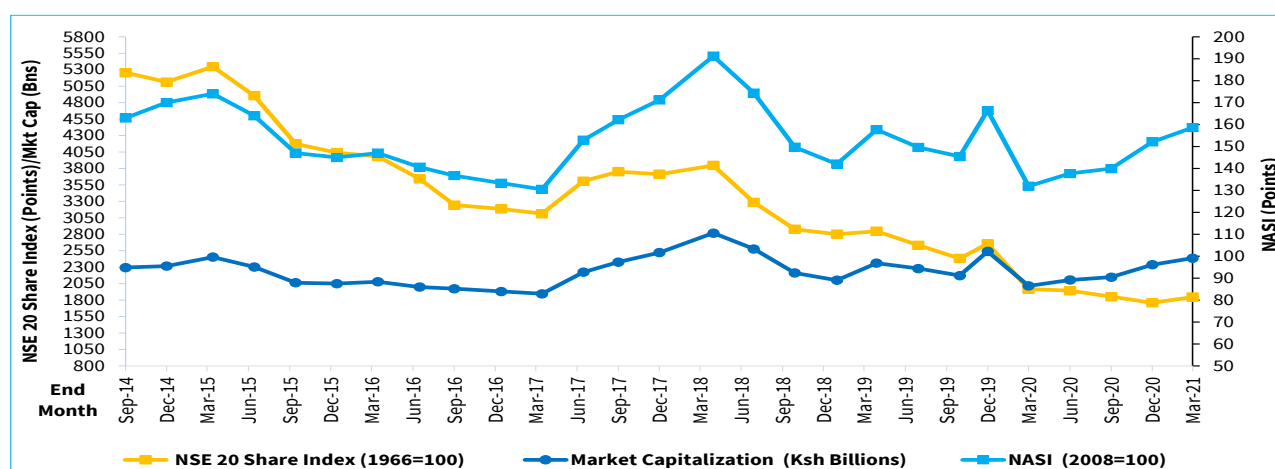
Table 9.1: Selected stock market indicators

INDICATOR	2019			2020				2021	% CHANGE (2021Q1- 2020Q3)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	2633.3	2432.0	2654.4	1966.1	1942.1	1852.3	1759.9	1846.4	4.91
NASI (2008=100)	149.61	145.46	166.41	131.92	137.68	139.89	152.11	158.62	4.28
Number of Shares Traded (Millions)	1,081.6	1,063.8	1,290.1	1,360.5	1,421.8	1,512.2	969.5	997.8	2.91
Equities Turnover (Ksh Millions)	32,897.2	30,663.2	45,006.1	43,693.3	39,534.4	37,936.6	27,510.8	31,735.0	15.35
Market Capitalization (Ksh Billions)	2,279	2,172	2,540	2,016	2,105	2,148	2,337	2,437	4.29
Foreign Purchase (Ksh Millions)	23,896	20,115	27,615	21,046	20,429	23,290	16,744	18,575	10.94
Foreign Sales (Ksh Millions)	22,538	19,853	28,459	32,229	30,679	27,817	19,412	19,551	0.71
Ave. Foreign Investor Participation to Equity Turnover (%)	71.10	65.65	73.84	60.96	64.64	67.36	65.98	60.38	-8.49
Bond Turnover (Ksh Millions)	201,715	185,440	106,458	157,985	136,651	227,862	169,259	199,378	17.79
FTSE NSE Kenya Govt. Bond Index (Points)	97.30	98.56	97.50	96.00	96.65	97.69	98.24	97.04	-1.22
7-Year Eurobond Yield (%)	6.41	6.41	7.27	8.78	7.30	7.44	4.86	5.60	0.741*
10-Year Eurobond Yield (%) -2024	5.48	5.57	6.43	8.26	6.48	6.37	3.92	3.56	-0.364*
10-Year Eurobond Yield (%) -2028	6.78	6.68	7.75	8.57	7.51	7.49	5.22	6.28	1.060*
12-Year Eurobond Yield (%)	6.78	7.40	8.28	9.08	8.21	8.19	5.85	7.12	1.268*
30-Year Eurobond Yield (%) -2048	7.89	8.07	8.84	9.03	8.41	8.67	7.04	7.98	0.933*

* Percentage points

Source: Nairobi Security Exchange

Chart 9.1: NSE 20, NASI and market capitalization



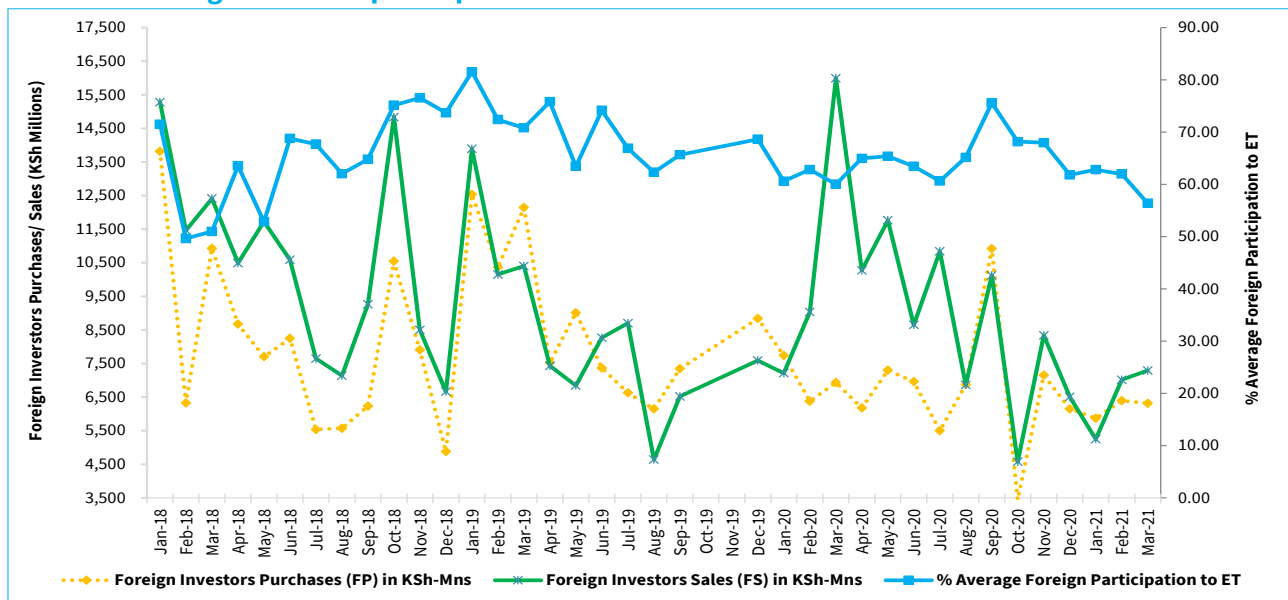
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of foreign investors' equity purchases at the NSE increased by 10.94 percent, offsetting the marginal increase of 0.71 percent in the value of shares sold by foreign investors in the first quarter of 2021. Average foreign investors' participation as

a share of total equity turnover, declined by 8.49 percent to 60.38 percent under the period in review. However, there was a net foreign investor inflow as purchases exceeded sales in the quarter under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

Bond turnover on the secondary market rose by 17.79 percent, while the FTSE NSE Kenyan Government Bond Index declined by 1.22 percent in the first quarter of 2021 compared to fourth

quarter of 2020. In the international market, yields on Kenya's Eurobonds increased by an average of 72.8 basis points during the quarter under review (**Table 9.1**).

Chapter 10

Statement of Financial Position of the Central Bank of Kenya

(Kenya Shilling Million)

	2020			2021	Absolute Quarterly Changes (KSh Million)					Quarterly Growth Rates (%)				
1.0 ASSETS	Jun	Sept	Dec	Mar	Q1,2021	Q4,2020	Q3,2020	Q2,2020	Q1,2020	Q1,2021	Q4,2020	Q3,2020	Q2,2020	Q1,2020
1.1 Reserves and Gold Holdings	1,094,504	977,457	924,537	881,550	(42,987)	(52,920)	(117,047)	197,404	(35,858)	(4.6)	(5.4)	(10.7)	22.0	(3.8)
1.2 Funds Held with IMF	3,256	8,588	2,868	1,139	(1,729)	(5,720)	5,332	(1,286)	(1,433)	(60.3)	(66.6)	163.8	(28.3)	(24.0)
1.2.1 Investment in Equity (Swift Shares)	10	10	11	10	(0)	1	1	0	0	(4.0)	5.5	5.6	4.1	1.8
1.3 Items in the Course of Collection	21	17	11	9	(2)	(7)	(4)	12	4	(19.4)	(38.2)	(18.8)	140.6	74.9
1.4 Advances to Commercial Banks	55,561	84,011	71,073	65,324	(5,748)	(12,938)	28,450	508	(212)	(8.1)	(15.4)	51.2	0.9	(0.4)
1.5 Loans and Other Advances	82,976	86,105	88,540	87,373	(1,167)	2,434	3,130	79,607	(66)	(1.3)	2.8	3.8	2,363.3	(1.9)
1.6 Other Assets	5,265	4,842	5,092	5,162	70	250	(423)	(8,748)	9,472	1.4	5.2	(8.0)	(62.4)	208.5
1.7 Retirement Benefit Asset	6,538	6,538	6,538	6,538	-	-	-	2,209	-	-	-	-	51.0	-
1.8 Property and Equipment	31,840	31,212	32,289	31,104	(1,185)	1,077	(628)	1,921	297	(3.7)	3.5	(2.0)	6.4	1
1.8.1 Intangible Assets	1,224	1,226	1,255	1,346	92	29	2	180	158	7.3	2.4	0.1	17.3	17.9
1.9 Due Debt from Government of Kenya	68,933	77,433	68,982	69,946	964	(8,451)	8,501	(7,755)	(9,477)	1.4	(10.9)	12.3	(10.1)	(11.0)
TOTAL ASSETS	1,350,126	1,277,438	1,201,193	1,149,501	(51,692)	(76,245)	(72,688)	264,053	(37,116)	(4.3)	(6.0)	(5.4)	24.3	(3.3)
2.0 LIABILITIES														
2.1 Currency in Circulation	257,792	268,121	290,544	281,586	(8,957)	22,423	10,329	11,013	(12,166)	(3.1)	8.4	4.0	4.5	(4.7)
2.2 Investments by Banks - Repos														
2.3 Deposits	732,187	630,200	520,369	484,787	(35,582)	(109,831)	(101,987)	161,988	(52,288)	(6.8)	(17.4)	(13.9)	28.4	(8.4)
2.4 International Monetary Fund	151,841	155,967	154,570	150,890	(3,680)	(1,398)	4,126	76,021	187	(2.4)	(0.9)	2.7	100.3	0.2
2.5 Other Liabilities	5,274	5,635	6,031	6,274	243	395	362	(1,901)	1,837	4.0	7.0	6.9	(26.5)	34.4
TOTAL LIABILITIES	1,154,091	1,059,924	971,513	923,537	(47,976)	(88,411)	(94,167)	254,117	(62,430)	(4.9)	(8.3)	(8.2)	28.2	(6.5)
3.0 EQUITY AND RESERVES	196,035	217,514	229,680	225,964	(3,716)	12,165	21,479	9,935	25,314	(1.6)	5.6	11.0	5.3	15.7
Share Capital	35,000	35,000	35,000	35,000		-		-	-	-	-	-	-	-
General reserve fund	94,627	128,219	128,219	128,219		-	33,592	4,329	41,523	-	-	35.5	4.8	85.1
Period surplus/(Deficit)	33,592	23,979	36,145	32,429	(3,716)	12,165	(9,613)	9,374	17,927	(10.3)	50.7	(28.6)	38.7	284.9
Asset Revaluation	17,801	17,801	17,801	17,801		-		-	-	-	-	-	-	-
Fair Value Reserves - OCI	12,515	12,515	12,515	12,515		-	(0)	5,449	-	-	-	(0.0)	77.1	-
Retirement Benefit Asset Reserves						-		(4,329)	-				(100.0)	-
Consolidated Fund	2,500					-	(2,500)	(4,888)	7,388			(100.0)	(66.2)	
4 TOTAL LIABILITIES AND EQUITY	1,350,126	1,277,438	1,201,193	1,149,501	(51,692)	(76,245)	(72,687)	264,053	(37,116)	(4.3)	(6.0)	(5.4)	24.3	(3.3)

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet declined by 4.3 percent in the first quarter of 2021, largely reflecting a reduction in Reserve and gold holdings. The decrease in Reserve and gold holdings which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank, largely reflects government external debt service and central bank operations. Advances to commercial banks and funds held with IMF also declined during the quarter. The reduction in advances to commercial banks reflects reduced open market operations. Debt due from government which comprises Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long term debt with effect from

1 November 1997, increased marginally in the first quarter of 2021, partly reflecting increased utilization of the overdraft facility at the Central Bank.

Liabilities

On the liability side, the decline in the Central Bank's balance sheet was largely reflected in deposits and currency in circulation. Deposits decreased by KSh 35.6 billion in the first quarter of 2021, mainly reflecting a reduction in government deposits with increased spending. Currency in circulation decreased by KSh 9.0 billion in the first quarter of 2021, largely reflecting reduced demand for cash following the end year festivities.

Equity and reserves declined by 1.6 percent in the first quarter of 2021 compared to an increase of 5.6 percent in the fourth quarter of 2020.



Central Bank of Kenya

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