



**Central Bank of Kenya**

# **Quarterly Economic Review**

July-September 2021





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## THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the 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

The economy rebounded strongly in 2021, as activity in industry and services sectors picked up following the easing of COVID-19 restrictions. It grew by an average of 7.8 percent in the first three quarters of 2021 compared to a contraction of -0.8 percent in a similar period of 2020. However, agriculture sector growth contracted by -0.8 percent compared to a growth of 4.5 percent in the same period of 2020. Real GDP grew by 9.9 percent in the third quarter of 2021, compared to a contraction of -2.1 percent in the third quarter of 2020.

According to the October 2021 IMF World Economic Outlook report, global output growth is expected to grow by 4.5 percent in the fourth quarter of 2021 and moderate to 4.0 percent in the fourth quarter of 2022. Annual global output growth is expected to grow to 5.9 percent in 2021, before slowing to 4.9 percent in 2022, largely driven by increased business investments and consumer spending despite the uneven access and distribution of COVID - 19 vaccines, and differences in policy support.

Overall inflation increased to an average of 6.7 percent in the third quarter of 2021, from 6.0 percent in the second quarter of 2021, driven by elevated food and fuel prices. Food inflation increased, owing to lower food supply occasioned by unfavorable weather conditions. Fuel inflation remained elevated in line with trends in international oil prices, while Non-food Non-fuel (NFNF) inflation remained low and stable, reflective of muted demand pressures in the economy.

Growth in broad money supply (M3) was 1.0 percent in the third quarter of 2021 compared to 2.7 percent in the previous quarter, mainly reflecting decreased growth in deposits.

The current account deficit is estimated to have widened to USD 1,726 million in the third quarter of 2021 from USD 1,343 million in the third quarter of 2020, owing to higher imports that outweighed gains in agriculture exports, services receipts and diaspora remittances.

The banking sector remained stable and resilient in the third quarter of 2021. Total net assets increased by 2.5 percent to Ksh.5,822.1 billion in September 2021, from Ksh.5,680.0 billion in June 2021. The deposit base also increased by 2.3 percent to Ksh.4,345.7 billion in the third quarter of 2021, from Ksh.4,249.4 billion in the second quarter of 2021. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in third quarter of 2021, with quarterly profit before tax of Ksh.49.1 billion, a slight decrease from Ksh.50.5 billion reported in the second quarter of 2021. This was however, 68.2 percent increase compared to third quarter of 2020, which recorded profits before tax of Ksh 29.2 billion. Credit risk remained elevated but stabilizing with gross non-performing loans (NPLs) to gross loans ratio standing at 13.6 percent in the third quarter of 2021, as compared to 14.0 percent in second quarter of 2021.

The Government's budgetary operations at the end of the first quarter of FY 2021/2022 resulted in a deficit (including grants) of 0.9 percent of GDP. Revenue collection was above target while expenditure remained below the target.

Kenya's public and publicly guaranteed debt increased by 3.9 percent during the first quarter of the FY 2021/22, consistent with government borrowing plan. Domestic and external debt increased by 6.5 percent and 1.5 percent, respectively.

Overall performance of equities market improved in the third quarter of 2021 compared to the second quarter of 2021. The NSE 20 share index, NASI and market capitalization rose by 5.4 percent, 2.8 percent and 2.8 percent, respectively. However, total equities turnover and number of shares traded declined by 17.5 percent and 13.9 percent, respectively.

## Chapter 1

# Inflation

### Overview

Overall inflation increased to an average of 6.7 percent in the third quarter of 2021, from 6.0 percent in the second quarter of 2021 and 4.3 percent in a similar quarter in 2020, driven by elevated food and fuel prices. Food inflation increased to 10.1 percent from 7.3 percent in the previous quarter, driven by lower supply of food arising from unfavorable weather conditions. Although declining, fuel

inflation remained elevated in line with trends in international oil prices. It declined to 10.8 percent in the third quarter of 2021, from 14.2 percent in the second quarter. Meanwhile, Non-food Non-fuel (NFNF) inflation remained low and stable, reflective of muted demand pressures in the economy. It increased marginally to 2.7 percent from 2.5 percent in the previous quarter (**Table 1.1 and Chart 1.1**).

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

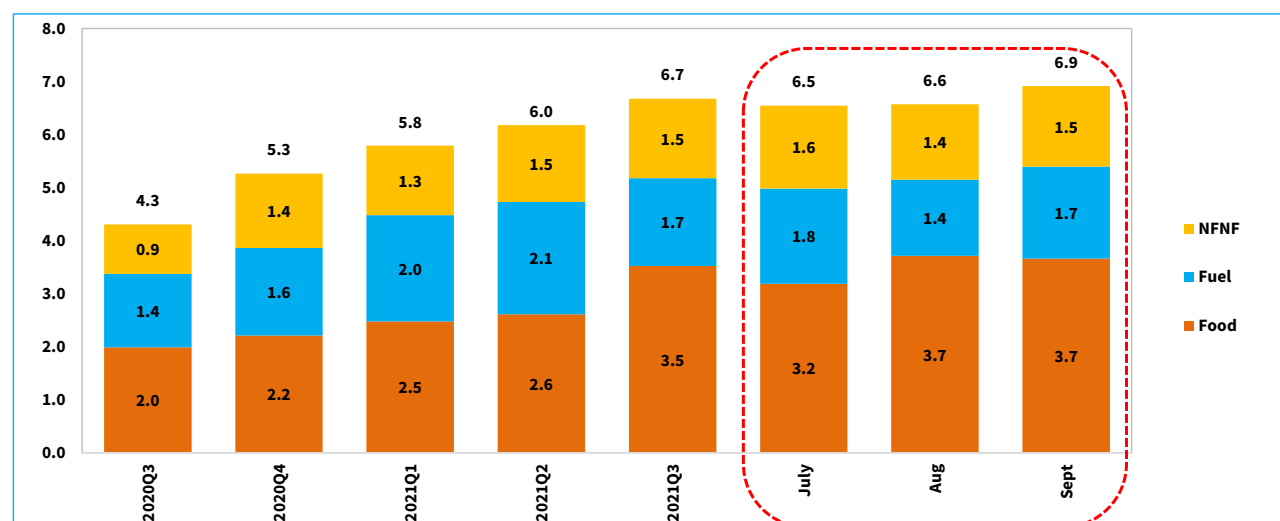
|                                    | 2020 |      | 2021 |      |      |      |      |      |
|------------------------------------|------|------|------|------|------|------|------|------|
|                                    | Q3   | Q4   | Q1   | Q2   | Q3   | July | Aug  | Sept |
| Overall inflation                  | 4.3  | 5.3  | 5.8  | 6.0  | 6.7  | 6.5  | 6.6  | 6.9  |
| Food Inflation                     | 5.7  | 6.3  | 7.0  | 7.3  | 10.1 | 9.1  | 10.7 | 10.6 |
| Fuel Inflation                     | 10.0 | 11.5 | 13.9 | 14.2 | 10.8 | 12.0 | 9.2  | 11.1 |
| Non-Food-Non-Fuel (NFNF) Inflation | 1.7  | 2.5  | 2.3  | 2.5  | 2.7  | 2.9  | 2.6  | 2.7  |
| Annual Average Inflation           | 5.9  | 5.5  | 5.0  | 5.2  | 5.7  | 5.5  | 5.7  | 5.9  |
| Three Months Annualised Inflation  | 0.2  | 8.6  | 9.4  | 6.1  | 2.8  | 2.5  | 2.6  | 3.4  |

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

Food inflation was the main driver of overall inflation during the quarter under review. Its contribution to overall inflation increased to 3.5 percentage points from 2.6 percentage points in the previous quarter. The contribution of fuel inflation declined to 1.7

percentage points from 2.1 percentage points in the previous quarter, while that of NFNF remained relatively stable at 1.5 percentage points in the second and third quarters of 2021 (**Chart 1.1**).

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



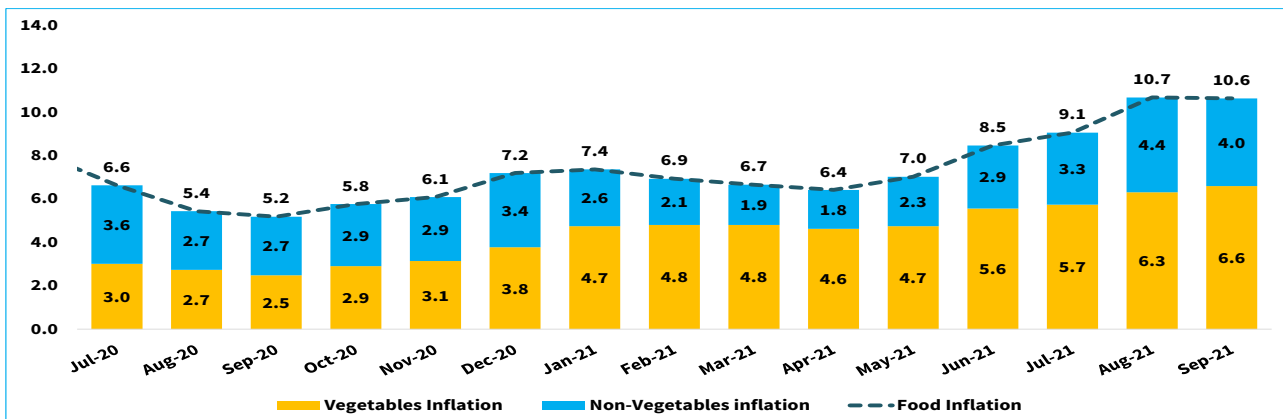
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

## Food Inflation

Food inflation increased to 10.1 percent in the third quarter of 2021, from 7.3 percent in the second quarter as reflected in trends of both vegetable and non-vegetable components. Vegetables inflation was driven by higher prices of items such as kales, cabbages, tomatoes, onions and potatoes, while

the non-vegetables inflation was driven by higher prices of cooking oil, wheat flour, beef with bones and fresh packeted cow milk. However, lower prices of sugar and maize products<sup>1</sup> moderated food inflation during the quarter (**Chart 1.2**).

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



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

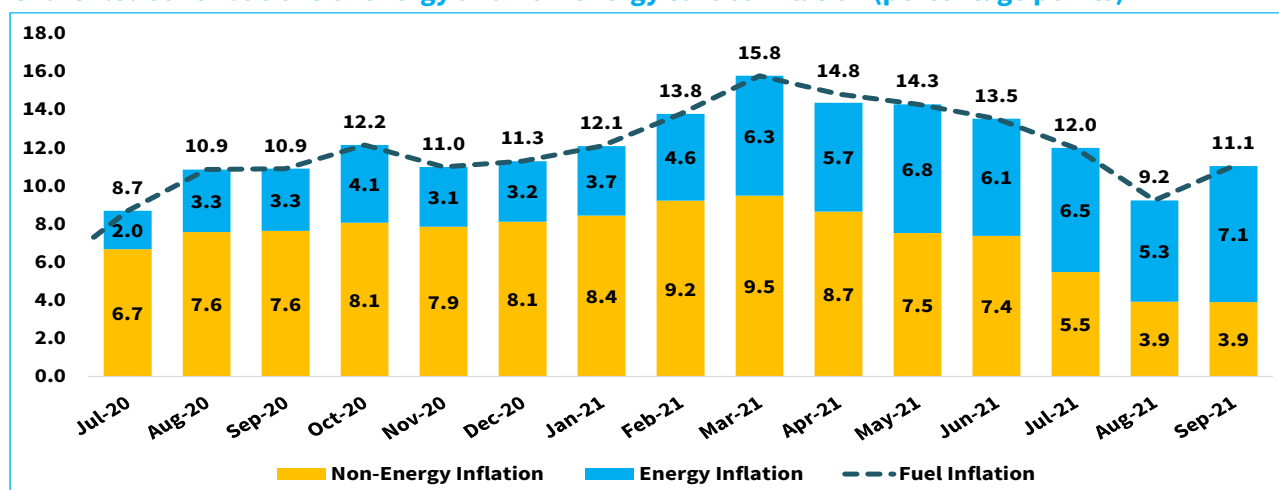
## Fuel Inflation

Fuel inflation, though elevated, averaged 10.8 percent during the quarter under review, from 14.2 percent in the previous quarter in line with developments in international oil prices. International oil prices have been rising since 2021Q1 due to increased demand as the global economic activity continues to pick up from the slowdown brought about by the COVID-19 pandemic, and constrained supply by OPEC+

members. As a result, domestic fuel prices have also been rising, leading to higher costs of related items such as transport and electricity. This translated to higher energy inflation, as prices of petrol, diesel, kerosene, LPG gas and electricity surged in line with international developments. However, the non-energy component of fuel inflation continued to decline reflecting easing of restrictions earlier instituted in the transport sector to curb the spread of COVID-19 (**Chart 1.3**).

<sup>1</sup> Maize products refer to green maize, green maize- Loose, maize grain-loose, maize flour- loose, maize flour- sifted and fortified maize flour



**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 and stable during the quarter under review, reflective of muted demand pressures in the

economy. It increased marginally to 2.7 percent in the period under review from 2.5 percent in previous quarter (**Table 1.2**).

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

|      |      | Alcoholic Beverages, Tobacco & Narcotics | Clothing & Footwear | Housing & Water | Furnishings, Household Equipment and Routine Household Maintenance | Health | Information & Communication | Recreation, Sports & Culture | Education Services | Restaurants & Accommodation Services | Insurance and Financial Services | Personal Care, Social Protection and Miscellaneous Goods & Services | NFnF |
|------|------|--|---------------------|-----------------|--|--------|-----------------------------|------------------------------|--------------------|--------------------------------------|----------------------------------|---|------|
| 2020 | 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  |
|      | Q2   | 2.4                                      | 2.2                 | 1.2             | 3.9  | 4.3    | 1.4                         | 1.9                          | 2.3                | 4.1                                  | 1.8                              | 3.2   | 2.5  |
|      | Q3   | 2.9                                      | 2.8                 | 1.5             | 4.8  | 3.6    | 2.9                         | 1.2                          | 1.9                | 3.5                                  | 2.1                              | 3.2   | 2.7  |
|      | July | 2.8                                      | 2.6                 | 1.4             | 5.0  | 3.9    | 3.5                         | 1.1                          | 1.5                | 4.5                                  | 2.1                              | 3.1   | 2.9  |
|      | Aug  | 2.7                                      | 2.7                 | 1.7             | 4.8  | 3.3    | 2.4                         | 1.2                          | 2.1                | 2.9                                  | 2.1                              | 3.2   | 2.6  |
|      | Sept | 3.0                                      | 3.0                 | 1.4             | 4.6  | 3.8    | 2.9                         | 1.2                          | 2.2                | 3.1                                  | 2.2                              | 3.4   | 2.7  |

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

Quarterly growth in broad money supply (M3) was 1.0 percent in the third quarter of 2021 compared to 2.7 percent in the previous quarter, reflecting decreases in deposits, mainly corporate sector and county government deposits. The decrease in corporate sector deposit holdings, reflected in time and savings deposits was partly attributed to increase investments in government securities. The increased spending by county governments during the quarter contributed to the contraction in other deposits at the Central Bank. Meanwhile, household

sector deposits improved to 1.6 percent in the third quarter compared to a contraction of 1.8 percent in the previous quarter, partly reflect easing of spillover impact of full reopening of schools (**Tables 2.1 and 2.2**).

The 12-month growth in broad money supply (M3) increased to 8.7 percent in September 2021 compared to 6.4 percent in June 2021, supported by increased private sector credit and net lending to government.

**Table 2.1: Monetary aggregates (KSh Billion)**

|  | End Month Level (KSh Billion) |         |         |         |         | Quarterly Growth Rates (%) |        |        |        |        | Absolute Quarterly Changes (KSh Billion) |        |        |        |        |
|--|-------------------------------|---------|---------|---------|---------|----------------------------|--------|--------|--------|--------|--|--------|--------|--------|--------|
|  | Sep-20                        | Dec-20  | Mar-21  | Jun-21  | Sep-21  | Sep-20                     | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                                   | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| <b>Components of M3</b>                        |                               |         |         |         |         |                            |        |        |        |        |  |        |        |        |        |
| 1. Money supply, M1 (1.1+1.2+1.3)              | 1665.8                        | 1720.1  | 1716.7  | 1779.2  | 1770.8  | -1.6                       | 3.3    | -0.2   | 3.6    | -0.5   | -27.1                                    | 54.4   | -3.4   | 62.5   | -8.4   |
| 1.1 Currency outside banks                     | 217.6                         | 233.7   | 225.8   | 225.9   | 234.4   | 3.2                        | 7.4    | -3.4   | 0.0    | 3.8    | 6.8                                      | 16.0   | -7.9   | 0.1    | 8.5    |
| 1.2 Demand deposits                            | 1371.0                        | 1385.9  | 1405.6  | 1409.9  | 1430.2  | 1.6                        | 1.1    | 1.4    | 0.3    | 1.4    | 21.1                                     | 14.9   | 19.8   | 4.3    | 20.2   |
| 1.3 Other deposits at CBK 1/                   | 77.2                          | 100.7   | 85.4    | 143.5   | 106.4   | -41.6                      | 30.5   | -15.1  | 68.0   | -25.8  | -55.0                                    | 23.5   | -15.2  | 58.1   | -37.1  |
| 2. Money supply, M2 (1+2.1)                    | 3180.5                        | 3250.2  | 3250.3  | 3377.5  | 3408.1  | -1.5                       | 2.2    | 0.0    | 3.9    | 0.9    | -47.1                                    | 69.7   | 0.1    | 127.2  | 30.7   |
| 2.1 Time and saving deposits                   | 1514.7                        | 1530.1  | 1533.5  | 1598.2  | 1637.3  | -1.3                       | 1.0    | 0.2    | 4.2    | 2.4    | -20.0                                    | 15.3   | 3.5    | 64.7   | 39.1   |
| 3. Money supply, M3 (2+3.1)                    | 3843.5                        | 3990.9  | 4030.0  | 4137.8  | 4177.7  | -1.2                       | 3.8    | 1.0    | 2.7    | 1.0    | -46.5                                    | 147.4  | 39.1   | 107.8  | 39.8   |
| 3.1 Foreign Currency Deposits                  | 663.0                         | 740.7   | 779.7   | 760.3   | 769.5   | 0.1                        | 11.7   | 5.3    | -2.5   | 1.2    | 0.6                                      | 77.7   | 39.0   | -19.4  | 9.2    |
| <b>Sources of M3</b>                           |                               |         |         |         |         |                            |        |        |        |        |  |        |        |        |        |
| 1. Net foreign assets 2/                       | 1665.8                        | 1720.1  | 1716.7  | 1779.2  | 1770.8  | -1.6                       | 3.3    | -0.2   | 3.6    | -0.5   | -27.1                                    | 54.4   | -3.4   | 62.5   | -8.4   |
| Central Bank                                   | 217.6                         | 233.7   | 225.8   | 225.9   | 234.4   | 3.2                        | 7.4    | -3.4   | 0.0    | 3.8    | 6.8                                      | 16.0   | -7.9   | 0.1    | 8.5    |
| Banking Institutions                           | 1371.0                        | 1385.9  | 1405.6  | 1409.9  | 1430.2  | 1.6                        | 1.1    | 1.4    | 0.3    | 1.4    | 21.1                                     | 14.9   | 19.8   | 4.3    | 20.2   |
| 2. Net domestic assets (2.1+2.2)               | 77.2                          | 100.7   | 85.4    | 143.5   | 106.4   | -41.6                      | 30.5   | -15.1  | 68.0   | -25.8  | -55.0                                    | 23.5   | -15.2  | 58.1   | -37.1  |
| 2.1 Domestic credit                            | 3180.5                        | 3250.2  | 3250.3  | 3377.5  | 3408.1  | -1.5                       | 2.2    | 0.0    | 3.9    | 0.9    | -47.1                                    | 69.7   | 0.1    | 127.2  | 30.7   |
| 2.1.1 Government (net)                         | 1514.7                        | 1530.1  | 1533.5  | 1598.2  | 1637.3  | -1.3                       | 1.0    | 0.2    | 4.2    | 2.4    | -20.0                                    | 15.3   | 3.5    | 64.7   | 39.1   |
| 2.1.2 Private sector                           | 3843.5                        | 3990.9  | 4030.0  | 4137.8  | 4177.7  | -1.2                       | 3.8    | 1.0    | 2.7    | 1.0    | -46.5                                    | 147.4  | 39.1   | 107.8  | 39.8   |
| 2.1.3 Other public sector                      | 663.0                         | 740.7   | 779.7   | 760.3   | 769.5   | 0.1                        | 11.7   | 5.3    | -2.5   | 1.2    | 0.6                                      | 77.7   | 39.0   | -19.4  | 9.2    |
| 2.2 Other assets net                           | -957.6                        | -1001.8 | -1022.2 | -1037.6 | -1072.2 | 3.4                        | 4.6    | 2.0    | 1.5    | 3.3    | -31.4                                    | -44.2  | -20.4  | -15.4  | -34.6  |
| <b>Memorandum items</b>                        |                               |         |         |         |         |                            |        |        |        |        |  |        |        |        |        |
| 4. Overall liquidity, L (3+4.1)                | 5446.9                        | 5665.2  | 5769.1  | 5953.7  | 6129.7  | 1.5                        | 4.0    | 1.8    | 3.2    | 3.0    | 79.1                                     | 218.4  | 103.8  | 184.6  | 176.1  |
| 4.1 Non-bank holdings of government securities | 1603.4                        | 1674.3  | 1739.1  | 1815.9  | 1952.1  | 8.5                        | 4.4    | 3.9    | 4.4    | 7.5    | 125.6                                    | 71.0   | 64.7   | 76.8   | 136.2  |

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) |        |        |        |        | Quarterly Growth Rates (%) |        |        |        |        | Absolute Quarterly Changes (KSh Billion) |        |        |        |        |
|-------------------------------|-------------------------------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--|--------|--------|--------|--------|
|                               | Sep-20                        | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                     | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                                   | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| 1. Household Sector 1/        | 1778.8                        | 1765.0 | 1769.6 | 1738.3 | 1765.5 | 1.5                        | -0.8   | 0.3    | -1.8   | 1.6    | 25.6                                     | -13.9  | 4.6    | -31.4  | 27.2   |
| 1.1 Demand Deposits           | 652.7                         | 627.2  | 606.1  | 583.7  | 581.0  | 1.1                        | -3.9   | -3.4   | -3.7   | -0.5   | 7.2                                      | -25.5  | -21.1  | -22.4  | -2.7   |
| 1.2 Time and Saving Deposits  | 863.3                         | 862.9  | 877.7  | 881.4  | 903.6  | 0.4                        | 0.0    | 1.7    | 0.4    | 2.5    | 3.7                                      | -0.4   | 14.8   | 3.8    | 22.1   |
| 1.3 Foreign Currency Deposits | 262.9                         | 274.9  | 285.8  | 273.2  | 280.9  | 5.9                        | 4.6    | 4.0    | -4.4   | 2.8    | 14.7                                     | 12.0   | 11.0   | -12.7  | 7.7    |
| 2. Corporate Sector           | 1726.5                        | 1844.1 | 1896.7 | 1975.2 | 2012.7 | -1.3                       | 6.8    | 2.8    | 4.1    | 1.9    | -22.3                                    | 117.7  | 52.6   | 78.5   | 37.5   |
| 2.1 Demand deposits           | 700.9                         | 738.1  | 774.3  | 799.9  | 820.2  | 1.9                        | 5.3    | 4.9    | 3.3    | 2.5    | 13.1                                     | 37.2   | 36.2   | 25.6   | 20.3   |
| 2.2 Time and Saving Deposits  | 626.6                         | 641.3  | 629.9  | 689.8  | 705.3  | -3.3                       | 2.3    | -1.8   | 9.5    | 2.2    | -21.3                                    | 14.7   | -11.4  | 59.9   | 15.5   |
| 2.3 Foreign Currency Deposits | 399.0                         | 464.7  | 492.5  | 485.5  | 487.2  | -3.4                       | 16.5   | 6.0    | -1.4   | 0.4    | -14.0                                    | 65.8   | 27.8   | -7.0   | 1.7    |

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 decreased quarterly growth of M3 in the third quarter of 2021 was the decline in net foreign assets of the banking system, mainly on account of reduced deposits abroad by banks as well as the payments of government external obligations by the central bank. However, growth in net domestic assets of the banking system moderated the decline in money supply, supported by increased lending to the private sector and net lending to the government (**Table 2.1**).

## Developments in Domestic Credit

Growth in domestic credit extended by commercial banks improved in the third quarter of 2021 to 4.5 percent from 0.7 percent in the previous sector, supported by increased net lending to government and private sector. Increased net lending to government largely reflected reduced deposits at the Central Bank due to higher payments relative to receipts as well as increased subscriptions of government securities by banks. Meanwhile, lending to other public sector declined, due to repayments by the parastatals (**Table 2.3**). In terms of economic sectors, increased quarterly growth in private sector credit was recorded in nearly all sectors except consumer durables and real estate sectors. Strong lending was registered in

manufacturing, transport & communication, trade, private households and business services (**Table 2.3**).

The 12-month growth in private sector credit remained resilient at 7.7 percent in September 2021, similar level to June 2021, supported by continued recovery in economic activities, an accommodative monetary policy and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy (**Chart 2.2**).

Quarterly growth in credit extended to the private sector improved to 2.7 percent in the third quarter of 2021 from 1.3 percent in the previous quarter, supported by increased credit demand with recovery in business activities and an accommodative monetary policy stance. Gross loans to corporate sector increased by KSh 65.5 billion in the third quarter of 2021 compared to a decline of KSh 10 billion in the previous quarter, largely reflecting borrowings for working capital needs. Gross loans to the household sector increased by KSh 4.7 billion in the third quarter of 2021 compared to KSh 29.5 billion in the preceding quarter (**Table 2.4**).

**Table 2.3: Banking sector net domestic credit**

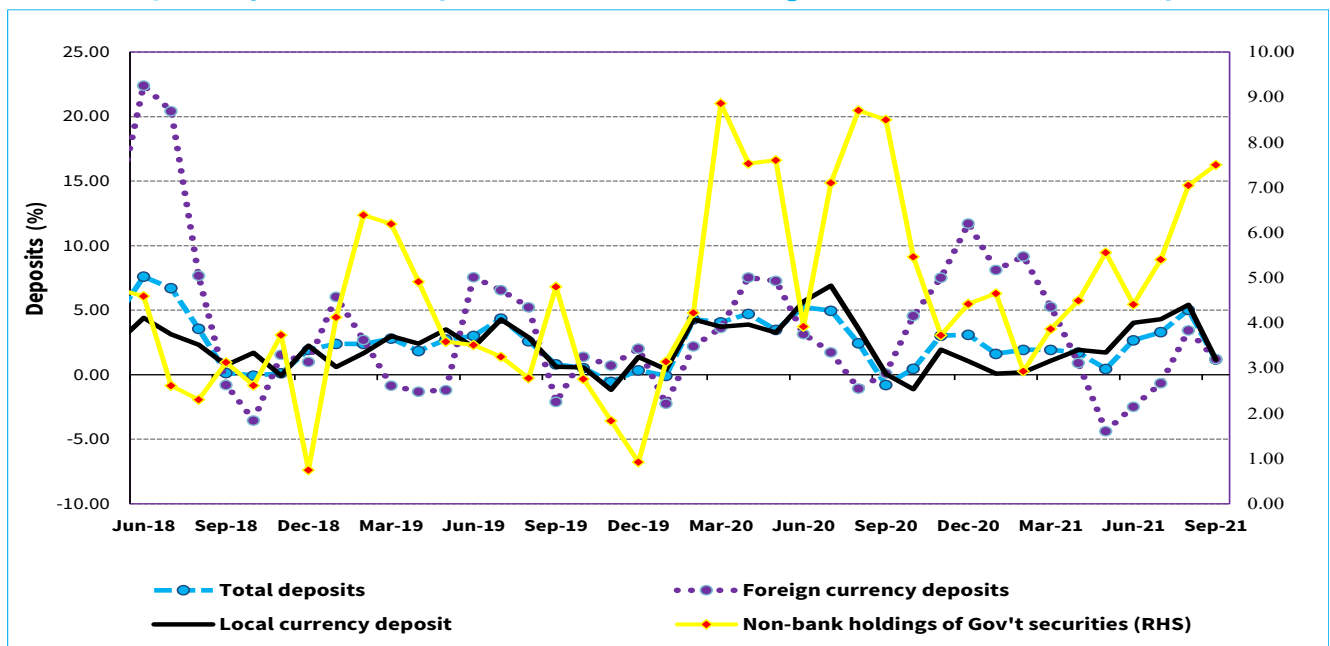
|                                  | End Month Level (KSh Billion) |         |         |         |         | Quarterly Growth Rates (%) |        |        |        |        | Absolute Quarterly Changes (KSh Billion) |        |        |        |        |
|----------------------------------|-------------------------------|---------|---------|---------|---------|----------------------------|--------|--------|--------|--------|--|--------|--------|--------|--------|
|                                  | Sep-20                        | Dec-20  | Mar-21  | Jun-21  | Sep-21  | Sep-20                     | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                                   | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| 1. Credit to Government          | 1,196.0                       | 1,343.3 | 1,406.6 | 1,406.1 | 1,527.9 | 4.1                        | 12.3   | 4.7    | 0.0    | 8.7    | 47.3                                     | 147.3  | 63.4   | -0.6   | 121.8  |
| Central Bank                     | -176.8                        | -31.5   | -19.9   | -50.3   | -17.7   | 181.6                      | -82.2  | -36.8  | 152.3  | -64.7  | -114.0                                   | 145.3  | 11.6   | -30.3  | 32.5   |
| Commercial Banks & NBFIs         | 1,372.8                       | 1,374.8 | 1,426.6 | 1,456.3 | 1,545.6 | 13.3                       | 0.1    | 3.8    | 2.1    | 6.1    | 161.3                                    | 2.0    | 51.8   | 29.8   | 89.3   |
| 2. Credit to other public sector | 88.7                          | 91.2    | 89.3    | 84.4    | 80.8    | 0.3                        | 2.9    | -2.1   | -5.5   | -4.3   | 0.3                                      | 2.5    | -1.9   | -4.9   | -3.6   |
| Local government                 | 4.6                           | 5.7     | 5.7     | 6.6     | 6.6     | 5.4                        | 22.2   | 1.5    | 15.7   | -0.1   | 0.2                                      | 1.0    | 0.1    | 0.9    | 0.0    |
| Parastatals                      | 84.0                          | 85.5    | 83.6    | 77.8    | 74.2    | 0.0                        | 1.8    | -2.3   | -6.9   | -4.6   | 0.0                                      | 1.5    | -2.0   | -5.8   | -3.6   |
| 3. Credit to private sector      | 2,766.7                       | 2,811.3 | 2,865.3 | 2,901.1 | 2,979.3 | 2.7                        | 1.6    | 1.9    | 1.3    | 2.7    | 73.5                                     | 44.5   | 54.0   | 35.9   | 78.2   |
| Agriculture                      | 91.2                          | 93.4    | 94.5    | 91.3    | 94.2    | 3.6                        | 2.4    | 1.2    | -3.4   | 3.2    | 3.1                                      | 2.2    | 1.1    | -3.2   | 2.9    |
| Manufacturing                    | 405.4                         | 409.3   | 429.2   | 429.4   | 445.0   | 2.1                        | 1.0    | 4.9    | 0.1    | 3.6    | 8.2                                      | 3.9    | 19.9   | 0.3    | 15.6   |
| Trade                            | 486.5                         | 485.0   | 491.9   | 498.8   | 509.1   | -0.6                       | -0.3   | 1.4    | 1.4    | 2.1    | -2.7                                     | -1.4   | 6.9    | 6.8    | 10.4   |
| Building and construction        | 119.2                         | 119.7   | 122.0   | 116.5   | 119.8   | 4.3                        | 0.4    | 1.9    | -4.4   | 2.8    | 5.0                                      | 0.5    | 2.3    | -5.4   | 3.3    |
| Transport & communications       | 214.7                         | 212.1   | 217.1   | 224.4   | 238.2   | 7.0                        | -1.2   | 2.4    | 3.3    | 6.1    | 14.0                                     | -2.6   | 5.1    | 7.2    | 13.8   |
| Finance & insurance              | 99.0                          | 103.7   | 109.4   | 106.8   | 110.6   | 3.4                        | 4.7    | 5.5    | -2.4   | 3.6    | 3.3                                      | 4.7    | 5.7    | -2.7   | 3.8    |
| Real estate                      | 402.0                         | 406.8   | 407.9   | 411.8   | 413.4   | 1.6                        | 1.2    | 0.3    | 0.9    | 0.4    | 6.2                                      | 4.8    | 1.2    | 3.8    | 1.7    |
| Mining and quarrying             | 14.4                          | 12.1    | 13.4    | 12.7    | 13.2    | -1.5                       | -16.2  | 10.9   | -5.0   | 3.8    | -0.2                                     | -2.3   | 1.3    | -0.7   | 0.5    |
| Private households               | 454.1                         | 455.5   | 452.4   | 457.7   | 465.9   | 2.4                        | 0.3    | -0.7   | 1.2    | 1.8    | 10.8                                     | 1.3    | -3.0   | 5.2    | 8.2    |
| Consumer durables                | 273.6                         | 291.3   | 300.1   | 312.7   | 321.6   | 7.9                        | 6.5    | 3.0    | 4.2    | 2.9    | 20.1                                     | 17.7   | 8.8    | 12.5   | 8.9    |
| Business services                | 156.8                         | 160.2   | 163.1   | 162.4   | 168.7   | 1.5                        | 2.2    | 1.8    | -0.4   | 3.9    | 2.4                                      | 3.4    | 2.9    | -0.6   | 6.3    |
| Other activities                 | 49.9                          | 62.2    | 64.1    | 76.7    | 79.6    | 7.5                        | 24.7   | 3.0    | 19.7   | 3.8    | 3.5                                      | 12.3   | 1.8    | 12.6   | 2.9    |
| 4. TOTAL (1+2+3)                 | 4,051.4                       | 4,245.8 | 4,361.2 | 4,391.6 | 4,588.0 | 3.1                        | 4.8    | 2.7    | 0.7    | 4.5    | 121.2                                    | 194.3  | 115.4  | 30.4   | 196.4  |

Source: Central Bank of Kenya

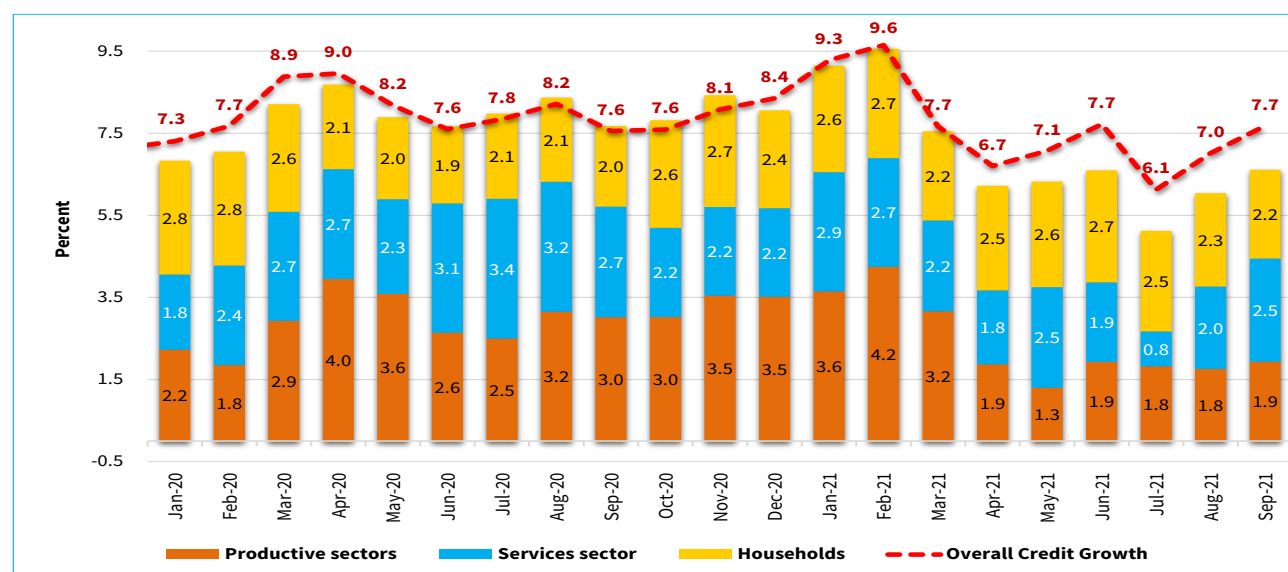
**Table 2.4: Gross bank loans to the private sector**

|              | End Month Level (KSh Billion) |         |         |         |         | Quarterly Growth Rates (%) |        |        |        |        | Absolute Quarterly Changes (KSh Billion) |        |        |        |        |
|--------------|-------------------------------|---------|---------|---------|---------|----------------------------|--------|--------|--------|--------|--|--------|--------|--------|--------|
|              | Sep-20                        | Dec-20  | Mar-21  | Jun-21  | Sep-21  | Sep-20                     | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                                   | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| 1. Household | 756.9                         | 766.2   | 787.2   | 816.6   | 821.3   | 1.8                        | 1.2    | 2.7    | 3.7    | 0.6    | 13.2                                     | 9.3    | 21.1   | 29.3   | 4.7    |
| 2. Corporate | 1,745.5                       | 1,796.3 | 1,847.5 | 1,837.5 | 1,903.0 | 0.6                        | 2.9    | 2.8    | -0.5   | 3.6    | 9.8                                      | 50.8   | 51.2   | -10.0  | 65.5   |
| Gross Loans  | 2,502.4                       | 2,562.5 | 2,634.7 | 2,654.1 | 2,724.3 | 0.9                        | 2.4    | 2.8    | 0.7    | 2.6    | 23.0                                     | 60.1   | 72.2   | 19.3   | 70.2   |

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 increased by 6.5 percent in the third quarter of 2021, compared to marginal contraction of 0.3 percent in the second quarter, supported by increased net domestic assets. The increase in net domestic assets largely reflected increased net lending to government owing to reduced government deposits at the Central Bank resulting

from increased government payments relative to receipts. Additionally, the increase in net lending to commercial banks and bank reserves supported the growth in reserve money. The growth in reserve money was partly moderated by the decrease in net foreign assets, mainly due to government debt servicing and central bank operations (**Table 2.5**).

**Table 2.5: Reserve money (RM) and its sources**

|                                 | End Month Level (KSh Billion) |        |        |        |        | Quarterly Growth Rates (%) |        |        |        |        | Absolute Quarterly Changes (KSh Billion) |        |        |        |        |
|---------------------------------|-------------------------------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--|--------|--------|--------|--------|
|                                 | Sep-20                        | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                     | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Sep-20                                   | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| 1. Net Foreign Assets           | 804.9                         | 738.5  | 690.7  | 835.8  | 760.8  | -12.3                      | -8.3   | -6.5   | 21.0   | -9.0   | -113.2                                   | -66.4  | -47.8  | 145.1  | -75.0  |
| 2. Net Domestic Assets          | -352.7                        | -268.6 | -239.8 | -386.0 | -282.0 | -28.2                      | -23.8  | -10.7  | 61.0   | -27.0  | 138.5                                    | 84.1   | 28.9   | -146.3 | 104.1  |
| 2.1 Government Borrowing (net)  | -176.8                        | -31.5  | -19.9  | -50.3  | -17.7  | 98.3                       | -82.2  | -36.8  | 152.3  | -64.7  | -87.6                                    | 145.3  | 11.6   | -30.3  | 32.5   |
| 2.2 Commercial banks (net)      | 87.9                          | 60.8   | 60.5   | -6.1   | 48.5   | -167.1                     | -30.8  | -0.5   | -110.1 | -893.3 | 218.9                                    | -27.0  | -0.3   | -66.6  | 54.6   |
| 2.3 Other Domestic Assets (net) | -267.1                        | -301.2 | -283.7 | -332.8 | -315.9 | -2.6                       | 12.8   | -5.8   | 17.3   | -5.1   | 7.2                                      | -34.1  | 17.6   | -49.2  | 16.9   |
| 3. Reserve Money                | 452.2                         | 469.9  | 451.0  | 449.8  | 478.8  | 5.9                        | 3.9    | -4.0   | -0.3   | 6.5    | 25.3                                     | 17.7   | -18.9  | -1.2   | 29.0   |
| 3.1 Currency outside banks      | 217.6                         | 233.7  | 225.8  | 225.9  | 234.4  | 3.2                        | 7.4    | -3.4   | 0.0    | 3.8    | 6.8                                      | 16.0   | -7.9   | 0.1    | 8.5    |
| 3.2 Bank reserves               | 234.6                         | 236.2  | 225.1  | 223.9  | 244.4  | 8.6                        | 0.7    | -4.7   | -0.6   | 9.2    | 18.6                                     | 1.6    | -11.0  | -1.2   | 20.5   |

Source: Central Bank of Kenya

## Interest Rates

### a. Central Bank Rate

The Monetary Policy Committee (MPC) retained the Central Bank Rate at 7.00 percent in the September 2021 meeting noting that the current accommodative monetary policy stance remains appropriate. The Committee, however, noted that inflationary pressures were rising domestically and internationally, even as expectations about inflation remained anchored within the target range in the medium term. The Committee decided to closely monitor developments in inflation and stands ready to respond to any second-round effects.

### b. Short Term Rates

The weighted average interbank interest rates generally trended downwards in the early part of the third quarter of 2021, to 3.10 percent in August 2021 compared to 4.63 percent in June 2021, supported by ample liquidity boosted by the seasonal significant governments payments towards the end of the Fiscal Year and an accommodative monetary policy stance. Subsequently, interbank rate trended upwards reflecting temporary tight liquidity conditions due to higher government receipts

relative to payments, and stood at 4.73 percent in September 2021.

Similarly, interest rates on Government securities generally declined during the review period. The average 91-day Treasury bill rate declined slightly to 6.83 percent in September 2021 compared to 7.03 percent in June, while the average 182-day Treasury bill rate declined to 7.25 percent from to 7.60 percent in June.

### c. Lending and Deposit Rates

Commercial banks' lending rates remained relatively stable in the third quarter of 2021 supported by accommodative monetary policy stance. The weighted average lending rate stood at 12.10 percent in September 2021 from 12.02 percent in June 2021 while the weighted average deposit declined to 6.34 percent from 6.38 percent in June 2021. Consequently, the spread increased slightly to an average of 5.76 percent in the third quarter of 2021 from 5.64 percent in the previous quarter.

**Table 2.6: Interest rates (percent)**

|                            | 2020  |       |       |       | 2021  |       |       |       |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                            | Mar   | Jun   | Sep   | Dec   | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   |
| 91-day Treasury bill rate  | 7.29  | 7.14  | 6.29  | 6.90  | 6.92  | 6.90  | 7.03  | 7.10  | 7.15  | 7.03  | 6.64  | 6.57  | 6.83  |
| 182-day Treasury bill rate | 8.14  | 7.93  | 6.70  | 7.38  | 7.48  | 7.64  | 7.82  | 7.92  | 7.98  | 7.60  | 7.07  | 7.07  | 7.25  |
| Interbank rate             | 4.40  | 3.27  | 2.95  | 5.29  | 5.12  | 4.49  | 5.23  | 5.12  | 4.62  | 4.63  | 4.17  | 3.10  | 4.73  |
| Repo rate                  | 6.13  | 3.50  | 3.18  | 6.88  | 5.82  | 6.04  | 6.12  | 6.61  | 6.05  | 5.37  | 5.31  | 5.41  | 5.54  |
| Reverse Repo rate          | -     | -     | 7.65  | 7.70  | 7.67  | -     | 7.78  | 7.51  | -     | -     | -     | -     | 7.62  |
| Central Bank Rate (CBR)    | 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)   | 12.09 | 11.89 | 11.75 | 12.02 | 12.00 | 12.02 | 12.05 | 12.08 | 12.06 | 12.02 | 12.09 | 12.12 | 12.10 |
| Overdraft rate             | 11.79 | 11.24 | 11.15 | 11.51 | 11.43 | 11.52 | 11.61 | 11.66 | 11.57 | 11.18 | 11.44 | 11.38 | 11.34 |
| 1-5years                   | 12.20 | 12.07 | 11.62 | 12.13 | 12.10 | 12.10 | 12.15 | 12.19 | 12.20 | 12.24 | 12.28 | 12.29 | 12.29 |
| Over 5years                | 12.11 | 11.98 | 12.12 | 12.12 | 12.11 | 12.12 | 12.11 | 12.15 | 12.11 | 12.12 | 12.17 | 12.24 | 12.21 |
| Average deposit rate (2)   | 7.07  | 6.86  | 6.41  | 6.30  | 6.31  | 6.47  | 6.46  | 6.30  | 6.30  | 6.37  | 6.34  | 6.30  | 6.34  |
| 0-3months                  | 7.42  | 7.11  | 6.47  | 6.66  | 6.64  | 6.67  | 6.68  | 6.74  | 6.63  | 6.76  | 6.63  | 6.59  | 6.61  |
| Over 3 months deposit      | 7.56  | 7.40  | 7.07  | 6.97  | 7.01  | 6.97  | 6.89  | 6.88  | 7.03  | 7.08  | 7.10  | 7.03  | 7.04  |
| Savings deposits           | 4.15  | 4.15  | 3.78  | 2.70  | 2.73  | 3.37  | 3.48  | 2.66  | 2.55  | 2.55  | 2.51  | 2.64  | 2.57  |
| Spread (1-2)               | 5.02  | 5.02  | 5.34  | 5.73  | 5.69  | 5.55  | 5.58  | 5.78  | 5.76  | 5.64  | 5.76  | 5.82  | 5.78  |

Source: Central Bank of Kenya

## Chapter 3

# Economic Performance

### Overview

The economy rebounded strongly in the first three quarters of 2021, supported by easing of COVID-19 restrictions and prompt Government interventions. Recent Kenya National Bureau of Statistics (KNBS) data provided clear evidence that the economy has been on a strong recovery path since 2020Q4. The growth momentum remained strong in the third quarter of 2021, with the economy growing by 9.9 percent compared to a contraction of -2.1 percent in the third quarter of 2020. The strong performance was supported by continued recovery in manufacturing, construction, transport and storage, education, accommodation and food services, and wholesale and retail trade. The agricultural sector remained subdued following unfavorable weather conditions in most parts of the country, which affected crop production.

At the same time, KNBS revised real GDP growth rates for the first and second quarters of 2021 to 2.0 percent and 11.9 percent, respectively. Taken together, the economy expanded in the first three quarters of 2021 by 7.8 percent compared to a contraction of 0.8 percent in a similar period of 2020 (**Table 3.1**).

### Non-Agriculture

Non-agriculture sector output rebounded strongly in the first three quarters of 2021, supported by continued normalization of economic activity in industry and services sectors. It grew by 10.1 percent compared to a contraction of -2.1 percent in a similar period of 2020, and contributed 8.2 percentage points to real GDP growth (**Table 3.1**).

**a) Services sector** recovered strongly following easing of domestic and international COVID-19 restrictions. It grew by 10.6 percent in the first three quarters of 2021 compared to a contraction of -2.6 percent in a similar period of 2020, and contributed 5.8 percentage points to real GDP growth. In the third quarter, the sector grew by 13.0 percent, driven by significant growth in transport and storage, wholesale and retail trade, education, health, and accommodation and food services.

- **Transport and Storage sector** grew by 6.3 percent in the first three quarters of 2021 compared to a contraction of -8.4 percent in

a similar period of 2020. Strong rebound was witnessed in 2021Q2 and 2021Q3 at 17.4 percent and 13.0 percent, respectively, following lifting of domestic and international travel restrictions. The increased activity in the sector was reflected in higher diesel consumption (25.3 percent) and freight movement through standard gauge railway, SGR (0.1 percent).

- **Education sector** was a major beneficiary of the re-opening of the economy. The sector rebounded strongly by 44.3 percent in the first three quarters of 2021 compared to a contraction of -12.6 percent in a similar period of 2020. The strongest recovery was witnessed in 2021Q2 and 2021Q3, where the sector grew by 67.6 percent and 64.7 percent, respectively, following normalization of education related activity.
- **Wholesale and Retail Trade sector** rebounded by 7.9 percent in the first three quarters of 2021 compared to a contraction of -1.4 percent in a similar period of 2020.
- **Information and Communication sector** expanded by 15.2 percent in the first three quarters of 2021 compared to a modest growth of 3.8 percent in a similar period of 2020. The sector was supported by continued digitization of the economy geared towards surmounting the challenges imposed by COVID-19 shock.
- **Accommodation and Food services sector:** despite gradual opening of the economy, the sector contracted by -19.5 percent in the first three quarters of 2021. The subdued outcome is attributed to poor performance in 2021Q1 at -48.6 percent, which more than offset the gains reported in 2021Q2 and 2021Q3. The sector continues to gradually recover from the adverse effects of the COVID-19 pandemic, following easing of domestic and international restrictions.

**b) Industry rebounded** strongly in the first three quarters of 2021, following normalization of industrial activity. It expanded by 7.1 percent compared to 2.7 percent for a similar period in 2020, supported by continued strong activity of the manufacturing and construction sectors. It contributed 1.3 percentage points to real GDP growth (**Table 3.1**).



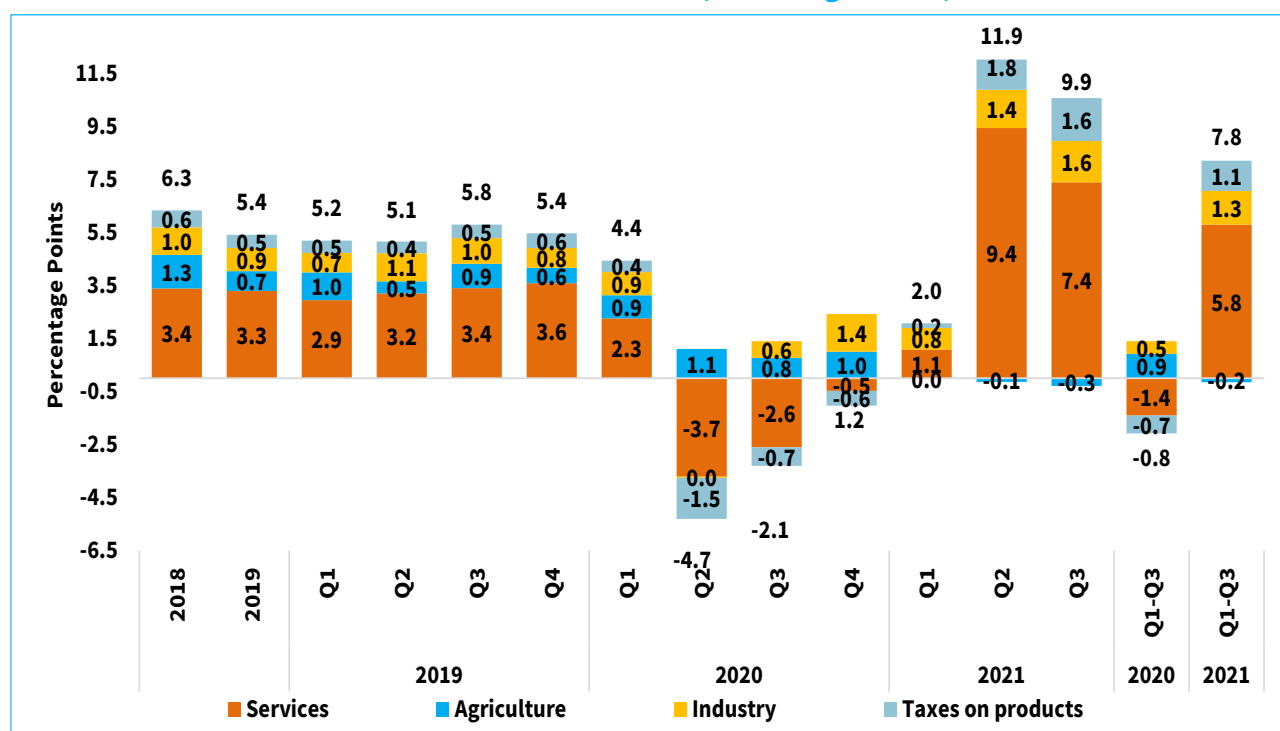
- **Manufacturing sector** recorded robust growth of 6.7 percent in the first three quarters of 2021 compared to a contraction of -1.4 percent in a similar period of 2020, supported by continued normalization of activity. In particular, it grew by 9.5 percent in 2021Q3, reflecting higher production of food products which increased by 8.6 percent.
- **Construction sector** grew by 6.9 percent in the first three quarters of 2021 compared to 10.4 percent in a similar period of 2020. Growth in the sector remained strong, supported by continued Government investment in infrastructure projects. This was reflected in increased cement consumption by 27.5 percent.

## Agriculture

Agriculture sector performance was subdued following unfavorable weather conditions in most parts of the country, which affected crop production. It contracted by -0.8 percent in the first three quarters of 2021 compared to a growth of 4.5 percent in a similar period in 2020, and contributed -0.2 percentage points to real GDP growth (Tables 3.1 and 3.2).

The sector contracted by -1.8 percent in 2021Q3, reflected in declined tea production (5.9 percent), coffee production (24.1 percent), fruit exports (19.9 percent), and cane deliveries (5.6 percent). However, the following indicators showed improved performance in 2021Q3: milk intake (21.9 percent), vegetable exports (14.5 percent), and cut flowers (44.8 percent).

**Chart 3.1: Sectoral Contributions to Real GDP Growth (Percentage Points)**



Source: Central Bank of Kenya

**Table 3.1: Gross Domestic Product (GDP) Growth by Sector (Percent)**

|   | 2020 |       |       |       | 2021  |      |      | 2020<br>(Q1-Q3) | 2021<br>(Q1-Q3) |
|---|------|-------|-------|-------|-------|------|------|-----------------|-----------------|
|   | Q1   | Q2    | Q3    | Q4    | Q1    | Q2   | Q3   |                 |                 |
| 1. Agriculture                                  | 4.3  | 4.9   | 4.2   | 5.8   | -0.1  | -0.7 | -1.8 | 4.5             | -0.8            |
| 2.1 Industry                                    | 4.8  | -0.3  | 3.5   | 7.8   | 4.5   | 8.4  | 8.5  | 2.7             | 7.1             |
| Mining & Quarrying                              | 6.4  | 4.4   | 7.0   | 9.2   | 16.4  | 17.7 | 25.1 | 5.9             | 19.6            |
| Manufacturing                                   | 2.2  | -4.7  | -1.7  | 3.8   | 1.6   | 9.4  | 9.5  | -1.4            | 6.7             |
| Electricity & water supply                      | 1.5  | -4.7  | 0.2   | 3.5   | 2.0   | 5.2  | 4.5  | -1.0            | 3.9             |
| Construction                                    | 10.4 | 8.2   | 12.5  | 16.2  | 7.9   | 6.5  | 6.4  | 10.4            | 6.9             |
| 2.2 Services                                    | 4.2  | -7.1  | -4.7  | -0.9  | 2.0   | 17.3 | 13.0 | -2.6            | 10.6            |
| Wholesale & Retail Trade                        | 4.9  | -4.2  | -5.0  | 2.6   | 7.4   | 9.5  | 6.9  | -1.4            | 7.9             |
| Accommodation & restaurant                      | -8.1 | -56.8 | -63.4 | -62.2 | -48.6 | 9.4  | 24.8 | -42.0           | -19.5           |
| Transport & Storage                             | 2.2  | -16.8 | -10.1 | -6.1  | -9.1  | 17.4 | 13.0 | -8.4            | 6.3             |
| Information & Communication                     | 5.6  | 2.6   | 3.2   | 7.6   | 16.1  | 25.3 | 5.8  | 3.8             | 15.2            |
| Financial & Insurance                           | 7.5  | 4.4   | 3.0   | 7.4   | 8.3   | 12.3 | 6.7  | 4.9             | 9.1             |
| Public administration                           | 4.0  | 2.7   | 6.3   | 8.4   | 9.1   | 13.0 | 6.9  | 4.3             | 9.7             |
| Professional, Administration & Support Services | 0.3  | -27.5 | -19.7 | -12.1 | -14.4 | 17.7 | 13.5 | -16.0           | 4.1             |
| Real estate                                     | 5.4  | 4.6   | 3.7   | 2.7   | 4.5   | 4.9  | 5.2  | 4.6             | 4.9             |
| Education                                       | 1.8  | -22.4 | -17.4 | -5.3  | 10.0  | 67.6 | 64.7 | -12.6           | 44.3            |
| Health  | 7.4  | 9.8   | 5.2   | 4.7   | 9.1   | 10.0 | 8.4  | 7.5             | 9.2             |
| Other services                                  | -1.5 | -22.1 | -12.9 | -20.4 | -16.1 | 20.2 | 13.3 | -12.1           | 4.4             |
| FISIM   | -2.9 | 0.5   | -2.3  | -2.9  | 0.3   | -3.8 | -2.0 | -1.6            | -1.8            |
| 2.3 Taxes on products                           | 5.1  | -20.8 | -8.5  | -6.4  | 2.0   | 21.9 | 18.2 | -8.5            | 13.4            |
| Real GDP Growth                                 | 4.4  | -4.7  | -2.1  | 1.2   | 2.0   | 11.9 | 9.9  | -0.8            | 7.8             |

Source: Kenya National Bureau of Statistics

**Table 3.2: Sectoral Contributions to Real GDP Growth Rate (Percentage Points)**

|   | 2020 |      |      |      | 2021 |      |      | 2020 (Q1-Q3) | 2021 (Q1-Q3) |
|---|------|------|------|------|------|------|------|--------------|--------------|
|   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   |              |              |
| 1. Agriculture                                  | 0.9  | 1.1  | 0.8  | 1.0  | 0.0  | -0.1 | -0.3 | 0.9          | -0.2         |
| 2. Non-Agriculture (o/w)                        | 3.5  | -5.6 | -2.8 | 0.3  | 2.1  | 12.5 | 10.5 | -1.7         | 8.2          |
| 2.1 Industry                                    | 0.8  | 0.0  | 0.6  | 1.5  | 0.8  | 1.4  | 1.6  | 0.5          | 1.3          |
| Mining & Quarrying                              | 0.1  | 0.0  | 0.1  | 0.1  | 0.2  | 0.2  | 0.3  | 0.1          | 0.2          |
| Manufacturing                                   | 0.2  | -0.4 | -0.1 | 0.3  | 0.1  | 0.8  | 0.8  | -0.1         | 0.6          |
| Electricity & water supply                      | 0.0  | -0.1 | 0.0  | 0.1  | 0.0  | 0.1  | 0.1  | 0.0          | 0.1          |
| Construction                                    | 0.6  | 0.5  | 0.8  | 1.0  | 0.5  | 0.4  | 0.4  | 0.6          | 0.4          |
| 2.2 Services                                    | 2.3  | -3.7 | -2.6 | -0.5 | 1.1  | 9.4  | 7.4  | -1.4         | 5.8          |
| Wholesale & Retail Trade                        | 0.4  | -0.3 | -0.4 | 0.2  | 0.6  | 0.7  | 0.6  | -0.1         | 0.6          |
| Accommodation & restaurant                      | -0.1 | -0.3 | -0.3 | -0.3 | -0.3 | 0.0  | 0.1  | -0.3         | -0.1         |
| Transport & Storage                             | 0.2  | -1.5 | -1.0 | -0.6 | -0.8 | 1.6  | 1.3  | -0.8         | 0.6          |
| Information & Communication                     | 0.2  | 0.1  | 0.1  | 0.3  | 0.5  | 0.8  | 0.2  | 0.1          | 0.5          |
| Financial & Insurance                           | 0.6  | 0.3  | 0.3  | 0.7  | 0.7  | 1.0  | 0.5  | 0.4          | 0.7          |
| Public administration                           | 0.2  | 0.2  | 0.4  | 0.5  | 0.5  | 0.8  | 0.4  | 0.3          | 0.6          |
| Professional, Administration & Support Services | 0.0  | -0.6 | -0.5 | -0.3 | -0.3 | 0.4  | 0.4  | -0.4         | 0.1          |
| Real estate                                     | 0.5  | 0.5  | 0.4  | 0.3  | 0.5  | 0.5  | 0.5  | 0.5          | 0.5          |
| Education                                       | 0.1  | -0.8 | -0.7 | -0.2 | 0.5  | 3.7  | 3.9  | -0.5         | 2.4          |
| Health  | 0.1  | 0.2  | 0.1  | 0.1  | 0.2  | 0.2  | 0.2  | 0.2          | 0.2          |
| Other services                                  | 0.0  | -0.4 | -0.3 | -0.4 | -0.3 | 0.4  | 0.3  | -0.3         | 0.1          |
| FISIM   | 0.1  | 0.0  | 0.1  | 0.1  | 0.0  | 0.1  | 0.1  | 0.0          | 0.1          |
| 2.3 Taxes on products                           | 0.4  | -1.5 | -0.7 | -0.6 | 0.2  | 1.8  | 1.6  | -0.7         | 1.1          |
| Real GDP Growth                                 | 4.4  | -4.7 | -2.1 | 1.2  | 2.0  | 11.9 | 9.9  | -0.8         | 7.8          |

Source: Kenya National Bureau of Statistics and Staff computations

## Chapter 4

# Global Economy

According to the October 2021 IMF World Economic Outlook report, global output growth is expected to grow by 4.5 percent in the fourth quarter of 2021 and moderate to 4.0 percent in the fourth quarter of 2022. Annual global output growth is expected to grow to 5.9 percent in 2021, before slowing to 4.9 percent in 2022, largely driven by increased business investments and consumer spending despite uneven pandemic vaccine access and distribution, and differences in policy support (**Table 4.1**).

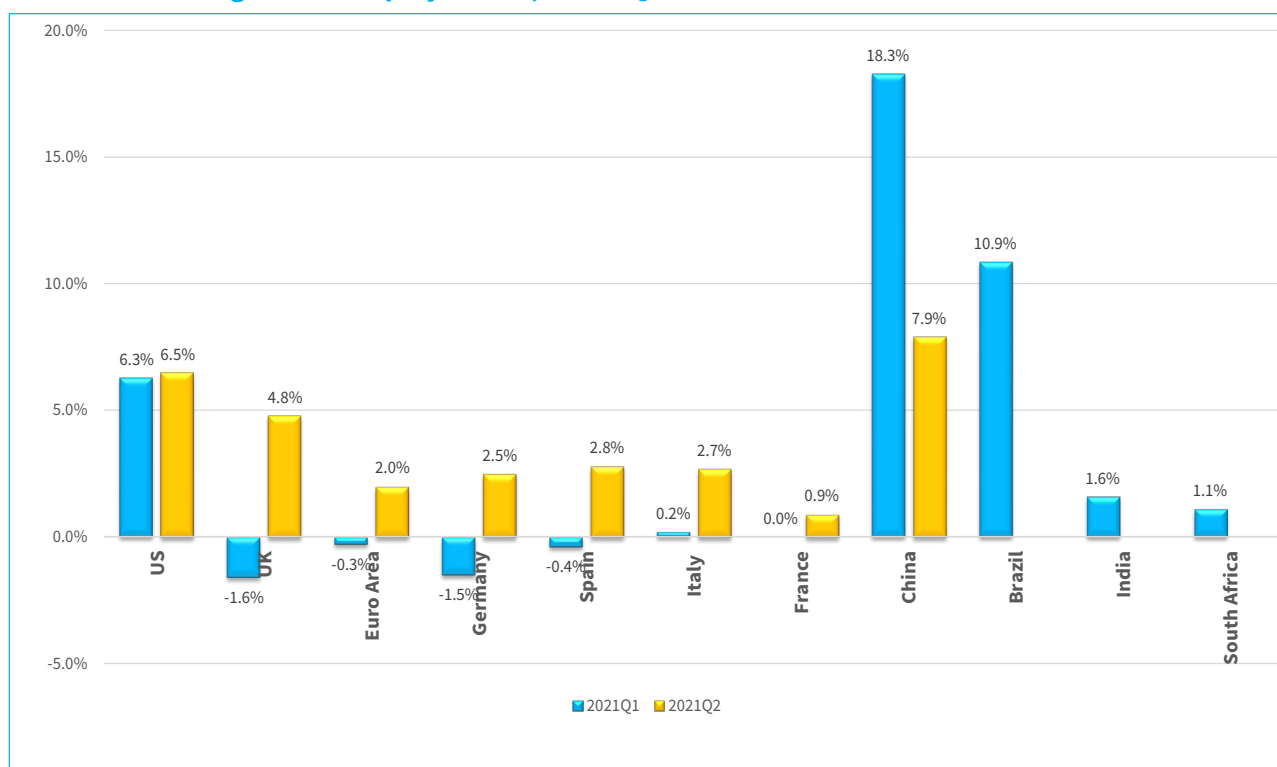
Growth in the advanced economies grew modestly in quarter three of 2021, due in part to normalization of pent-up demand and renewed resurgence of Covid-19 cases in some of the economies. Economies in the region that have published third quarter of 2021 growth, include: United States (4.9 percent), the United Kingdom (6.6 percent), Euro Area (3.7 percent), Spain (2.7 percent), France (3.3 percent), Italy (3.8 percent), Germany (2.5 percent) and Japan (1.3 percent) (Chart 4.1). Growth in the region is expected to grow by 5.0 percent in the fourth quarter of 2021 and by 3.3 percent in the fourth quarter of 2022. Annual growth prospects in these economies is expected to reach 5.2 percent in 2021 before slowing to 4.5 percent in 2022, reflecting increased supply chain disruptions (**Table 4.1**).

Growth in emerging market and developed economies is expected to grow by 3.9 percent in the fourth quarter of 2021, with a 4.9 percent increase expected in the fourth quarter of 2022. On an annual basis, growth in these economies is expected to increase by 6.4 percent in 2021, supported by scaling-up of public spending and increase rollout of covid-19 vaccine. Official preliminary GDP estimates released in the for the third quarter of 2021 show China grew 9.8 percent compared to 5.5 percent in quarter. On annual basis, economies in

this group are expected to grow in 2021 as follows: China (8.0 percent), India (9.5 percent), Russia (4.7 percent), Brazil (5.2 percent), Mexico (6.2 percent) and the Saudi Arabia (2.8 percent). Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.7 percent in 2021. Nigeria and South Africa are expected to grow at rates of 2.6 and 5.0 percent, respectively, and by 2.7 percent (Nigeria) and 2.2 percent (South Africa) in 2022 (**Table 4.1**).

Global trade volumes are expected to increase by 9.7 percent in 2021 before slowing to 6.7 percent in 2022 in line with increased economic activities amid subdued cross-border services (**Table 4.1**). According to International Energy Agency (IEA) report, global commodity prices remained elevated in the third quarter of 2021, supported by sharp rise in energy prices that rose by 16 percent. Crude oil prices averaged \$72/barrel in the third quarter of 2021, an increase of 7 percent on the previous quarter. Oil prices are expected to rise in 2021 before moderating in 2022, reflecting balanced oil market and build-up of inventories (**Table 4.1**). Global financial conditions remained stable with minimal volatilities and are expected to continue supporting global growth prospects in the medium-term despite increased inflationary pressures in the advanced economies and a few of emerging market and developing economies.

Global uncertainties surrounding the global growth prospects remain elevated as Covid-19 pandemic continue to evolve despite increased rollout of vaccine across economies, policies support, and accommodative financial conditions. The unpredictability of Covid-19 infections alongside the uneven distribution and access to vaccines poses a major risk to the economic growth momentum alongside supply chain disruptions.

**Chart 4.1: Global growth and projections, Third Quarter-2021**

Source: National statistics offices, Bloomberg surveys

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

|  | Year over Year |       |             |      |            |             |      |
|--|----------------|-------|-------------|------|------------|-------------|------|
|  | Actual         |       | Projections |      | Q4 Over Q4 |             |      |
|  | 2019           | 2020  | 2021        | 2022 | Actual     | Projections |      |
|  |                |       |             |      | 2020       | 2021        | 2022 |
| World Output                             | 2019           | 2020  | 2021        | 2022 | 2020       | 2021        | 2022 |
| Advanced Economies                       | 2.8            | -3.1  | 5.9         | 4.9  | -0.4       | 4.5         | 4.0  |
| United States                            | 1.6            | -4.5  | 5.2         | 4.5  | -2.8       | 5.0         | 3.3  |
| Euro Area                                | 2.2            | -3.4  | 6.0         | 5.2  | -2.3       | 6.1         | 4.0  |
| Germany                                  | 1.3            | -6.3  | 5.0         | 4.3  | -4.4       | 4.9         | 3.0  |
| France                                   | 0.6            | -4.6  | 3.1         | 4.6  | -2.9       | 4.1         | 1.9  |
| Italy                                    | 1.8            | -8.0  | 6.3         | 3.9  | -4.3       | 4.5         | 2.6  |
| Spain                                    | 0.3            | -8.9  | 5.8         | 4.2  | -6.5       | 5.6         | 2.9  |
| Japan                                    | 2.0            | -10.8 | 5.7         | 6.4  | -8.8       | 7.4         | 3.1  |
| United Kingdom                           | 0.0            | -4.6  | 2.4         | 3.2  | -0.8       | 1.2         | 2.2  |
| Canada                                   | 1.4            | -9.8  | 6.8         | 5.0  | -7.3       | 7.2         | 2.2  |
| Emerging Market and Developing Economies | 1.9            | -5.3  | 5.7         | 4.9  | -3.1       | 4.9         | 4.0  |
| Emerging and Developing Asia             | 3.7            | -2.1  | 6.4         | 5.1  | 1.8        | 3.9         | 4.6  |
| China                                    | 6.0            | 2.3   | 8.0         | 5.6  | 6.6        | 3.3         | 6.3  |
| India                                    | 4.0            | -7.3  | 9.5         | 8.5  | 1.5        | 6.0         | 2.3  |
| Emerging and Developing Europe           | 2.0            | -3.0  | 4.7         | 2.9  | -1.9       | 3.9         | 2.8  |
| Russia                                   | 1.4            | -4.1  | 5.2         | 1.5  | -1.2       | 2.1         | 1.4  |
| Latin America and the Caribbean          | -0.2           | -8.3  | 6.2         | 4.0  | -4.6       | 4.4         | 3.7  |
| Brazil                                   | 0.3            | -4.1  | 2.8         | 4.8  | -3.9       | 8.2         | 2.9  |
| Mexico                                   | 3.2            | -1.7  | 3.7         | 3.8  | ...        | ...         | ...  |
| Middle East and Central Asia             | 2.2            | -1.8  | 2.6         | 2.7  | -0.5       | 2.4         | 1.9  |
| Saudi Arabia                             | 0.2            | -6.4  | 5.0         | 2.2  | -3.4       | 1.5         | 3.2  |
| Sub-Saharan Africa                       | 0.9            | -8.2  | 9.7         | 6.7  | ...        | ...         | ...  |
| Nigeria                                  | -10.2          | -32.7 | 59.1        | -1.8 | -27.6      | 54.1        | -6.2 |
| South Africa                             | 0.2            | -7.0  | 4.0         | 2.2  | -4.2       | 1.2         | 3.1  |
| World Trade Volume (goods and services)  | 0.9            | -8.3  | 9.7         | 7.0  | ...        | ...         | ...  |
| Advanced Economies                       | 1.4            | -9.2  | 8.9         | 7.1  | ...        | ...         | ...  |
| Emerging Market and Developing Economies | -0.2           | -6.7  | 11.1        | 6.9  | ...        | ...         | ...  |
| Commodity Oil Prices (US dollars)        | -10.2          | -32.7 | 56.6        | -2.6 | -27.6      | 50.8        | -6.5 |
| Consumer Prices                          |                |       |             |      |            |             |      |
| Advanced Economies                       | 1.4            | 0.7   | 2.8         | 2.3  | 0.4        | 3.6         | 1.9  |
| Emerging Market and Developing Economies | 5.1            | 5.1   | 5.5         | 4.9  | 3.2        | 5.2         | 4.3  |

Source: IMF, World Economic Outlook, October 2021

## Chapter 5

## Balance of Payments and Exchange Rates

## Overview

The current account deficit is estimated to have widened to USD 1,726 million in the third quarter of 2021 from USD 1,343 million in the third quarter of 2020 owing to higher imports that outweighed gains in agriculture exports, services receipts and

diaspora remittances. Secondary income inflows were boosted by remittances, which increased to USD 1,592 million in the third quarter of 2021 from USD 1,234 million in a similar quarter of 2020 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)<sup>1</sup>

| ITEM   | 2020    |          |         |         | 2021*   |         |        |        |        | Q3 2021-Q3 2020 |        |        |
|--|---------|----------|---------|---------|---------|---------|--------|--------|--------|-----------------|--------|--------|
|  | Jan-Mar | Apr-June | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun |        |        |        | Q3 Absolute     |        | %      |
|  | Q1      | Q2       | Q3      | Q4      | Q1      | Q2      | Jul    | Aug    | Sep    | Jul-Sep         | Change | Change |
| 1. Overall Balance                             | 466     | -412     | 959     | 414     | 228     | -1,665  | 269    | 488    | -490   | 267             | -693   | -72    |
| 2. Current account                             | -1,199  | -807     | -1,343  | -1,269  | -1,493  | -1,398  | -602   | -546   | -578   | -1,726          | -382   | 28     |
| Exports (fob)                                  | 1,763   | 1,306    | 1,513   | 1,480   | 1,739   | 1,670   | 554    | 566    | 494    | 1,614           | 100    | 7      |
| Imports (fob)                                  | 3,988   | 3,049    | 3,649   | 3,807   | 4,331   | 4,213   | 1,527  | 1,482  | 1,602  | 4,611           | 963    | 26     |
| Services: credit                               | 1,128   | 764      | 832     | 1,007   | 964     | 1,041   | 351    | 368    | 424    | 1,142           | 310    | 37     |
| Services: debit                                | 960     | 706      | 802     | 908     | 971     | 1,002   | 360    | 348    | 374    | 1,082           | 280    | 35     |
| Balance on goods and services                  | -2,058  | -1,685   | -2,105  | -2,227  | -2,599  | -2,505  | -982   | -896   | -1,058 | -2,937          | -832   | 40     |
| Primary income: credit                         | 53      | 23       | 40      | 27      | 38      | 46      | 11     | 21     | 32     | 64              | 24     | 60     |
| Primary income: debit                          | 427     | 390      | 487     | 334     | 315     | 517     | 157    | 186    | 77     | 420             | -67    | -14    |
| Balance on goods, services, and primary income | -2,431  | -2,052   | -2,552  | -2,534  | -2,875  | -2,977  | -1,128 | -1,062 | -1,104 | -3,293          | -741   | 29     |
| Secondary income : credit                      | 1,232   | 1,257    | 1,234   | 1,303   | 1,400   | 1,597   | 532    | 522    | 539    | 1,592           | 359    | 29     |
| o.w Remittances                                | 698     | 764      | 812     | 828     | 846     | 977     | 342    | 319    | 310    | 970             | 158    | 19     |
| Secondary income: debit                        | 0       | 12       | 25      | 38      | 17      | 18      | 6      | 6      | 13     | 25              | 0      | -1     |
| 3. Capital Account                             | 24      | 42       | 36      | 29      | 84      | 273     | 0      | 1      | 51     | 52              | 16     | 44     |
| 4. Financial Account                           | -490    | -1,812   | -366    | -355    | -1,077  | -3,687  | -415   | -716   | -110   | -1,241          | -875   | 239    |

\* Revised

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 40 percent from a deficit of USD 2,105 million in the third quarter of 2020 to a deficit of USD 2,937 million in the third quarter of 2021, largely on account increased imports as well as service payments especially transport (**Table 5.1**). In the third quarter of 2021, the value of merchandise exports increased to USD 1,614 million from USD 1,513 million in a similar period in 2020, supported by increase in horticulture, manufactured goods, raw materials and chemicals. Horticulture receipts increased by 9 percent reflecting robust international demand for horticulture (fruits and vegetables) which have remained resilient during

Covid-19 period. Exports of manufactured goods and raw materials also increased by 21 percent and 36 percent, respectively in the period under review. Tea export receipts fell by 10 percent to USD 253 million in the third quarter of 2020, from USD 282 million in the same quarter in 2020, partly due to the impact of accelerated purchases in 2020. The value of merchandise imports increased by 26 percent to USD 4,611 million in the third quarter of 2021, from USD 3,649 million in a similar quarter in 2020, largely due to increased importation of manufactured, and chemical goods which make up intermediate inputs. Oil imports rose by USD 328 million reflecting higher global oil prices (**Table 5.2**).

Net receipts on the services account rose by USD 30 million to a surplus of USD 61 million in the third quarter of 2021, compared to a surplus of USD 30 million in the same period in 2020.



Earnings from transport and travel services exports improved due to resumption of international travel. Transport and travel service receipts rose by USD 107 and USD 81 million respectively, in the third quarter of 2021. The primary account balance narrowed by USD 91 million to a deficit of USD 356 million in the third quarter of 2021, down from a deficit of USD 447 million in the same period last

year, on account of higher reinvestment income related outflows. The secondary income balance, on the other hand, increased to USD 1,568 million in the third quarter of 2021 from USD 1,209 million, mainly supported by strong growth of remittances. Remittances increased by 19 percent to USD 970 million in the third quarter of 2021 from USD 812 million in the same period in the previous year.

**Table 5.2: Balance on current account (USD Million)<sup>1</sup>**

| ITEM                                   | 2020    |         |         |         | 2021*  |        |       |       |        |         | Q3 2021-Q3 2020 |        |
|--|---------|---------|---------|---------|--------|--------|-------|-------|--------|---------|-----------------|--------|
|  | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec |        |        |       |       |        | Jul-Sep | Asolute         | %      |
|  | Q1      | Q2      | Q3      | Q4      | Q1     | Q2     | Jul   | Aug   | Sep    | Q3      | Change          | Change |
| CURRENT ACCOUNT                        | -1,199  | -807    | -1,343  | -1,269  | -1,493 | -1,398 | -602  | -546  | -578   | -1,726  | -382            | 28     |
| Goods                                  | -2,225  | -1,743  | -2,136  | -2,327  | -2,592 | -2,543 | -974  | -916  | -1,108 | -2,998  | -862            | 40     |
| Exports (fob)                          | 1,763   | 1,306   | 1,513   | 1,480   | 1,739  | 1,670  | 554   | 566   | 494    | 1,614   | 100             | 7      |
| o.w Coffee                             | 52      | 74      | 47      | 43      | 75     | 73     | 17    | 16    | 16     | 50      | 3               | 5      |
| Tea                                    | 335     | 327     | 282     | 282     | 326    | 299    | 85    | 90    | 78     | 253     | -29             | -10    |
| Horticulture                           | 254     | 198     | 233     | 265     | 334    | 289    | 89    | 82    | 84     | 255     | 22              | 9      |
| Oil products                           | 14      | 8       | 18      | 15      | 11     | 13     | 6     | 6     | 4      | 17      | -1              | -6     |
| Manufactured Goods                     | 96      | 69      | 108     | 107     | 106    | 131    | 46    | 47    | 38     | 131     | 23              | 21     |
| Raw Materials                          | 101     | 89      | 76      | 80      | 115    | 96     | 34    | 43    | 25     | 103     | 27              | 36     |
| Chemicals and Related Products (n.e.s) | 123     | 100     | 118     | 124     | 113    | 126    | 52    | 51    | 45     | 147     | 29              | 24     |
| Miscellaneous Man. Articles            | 145     | 103     | 163     | 154     | 144    | 181    | 66    | 55    | 57     | 179     | 15              | 9      |
| Re-exports                             | 329     | 108     | 174     | 114     | 196    | 150    | 42    | 56    | 47     | 145     | -30             | -17    |
| Other                                  | 305     | 224     | 286     | 290     | 311    | 302    | 112   | 115   | 95     | 322     | 36              | 13     |
| Imports (fob)                          | 3,988   | 3,049   | 3,649   | 3,807   | 4,331  | 4,213  | 1,527 | 1,482 | 1,602  | 4,611   | 963             | 26     |
| o.w Oil                                | 774     | 331     | 526     | 554     | 715    | 782    | 246   | 300   | 309    | 854     | 328             | 62     |
| Chemicals                              | 653     | 614     | 682     | 631     | 774    | 750    | 237   | 238   | 258    | 732     | 50              | 7      |
| Manufactured Goods                     | 649     | 629     | 719     | 784     | 910    | 879    | 281   | 348   | 306    | 934     | 215             | 30     |
| Machinery & Transport Equipment        | 1,061   | 782     | 1,081   | 1,049   | 1,076  | 1,008  | 349   | 386   | 342    | 1,078   | -3              | 0      |
| Machinery                              | 746     | 537     | 697     | 689     | 698    | 646    | 266   | 241   | 231    | 737     | 40              | 6      |
| Transport equipment                    | 314     | 245     | 384     | 361     | 377    | 362    | 121   | 102   | 181    | 404     | 20              | 5      |
| Other                                  | 954     | 769     | 714     | 938     | 1,023  | 901    | 285   | 322   | 314    | 922     | 207             | 29     |
| o.w Food                               | 440     | 403     | 334     | 395     | 474    | 434    | 142   | 145   | 176    | 462     | 128             | 38     |
| Services                               | 168     | 58      | 30      | 99      | -7     | 38     | -9    | 19    | 50     | 61      | 30              | 100    |
| Transport Services (net)               | 117     | -39     | -57     | -38     | -88    | -77    | -39   | -29   | -44    | -112    | -55             | 96     |
| Credit                                 | 426     | 210     | 222     | 298     | 298    | 306    | 107   | 108   | 114    | 329     | 107             | 48     |
| Debit                                  | 309     | 249     | 279     | 336     | 386    | 383    | 146   | 136   | 159    | 441     | 161             | 58     |
| Travel Services (net)                  | 179     | 21      | 107     | 130     | 139    | 174    | 57    | 56    | 69     | 181     | 75              | 70     |
| Credit                                 | 225     | 28      | 134     | 158     | 168    | 206    | 67    | 67    | 81     | 215     | 81              | 61     |
| Debit                                  | 46      | 7       | 27      | 28      | 28     | 32     | 11    | 11    | 12     | 34      | 7               | 26     |
| Other Services (net)                   | -128    | 75      | -19     | 8       | -58    | -59    | -26   | -8    | 25     | -9      | 11              | -54    |
| Primary Income                         | -373    | -367    | -447    | -307    | -276   | -472   | -145  | -165  | -45    | -356    | 91              | -20    |
| Credit                                 | 53      | 23      | 40      | 27      | 38     | 46     | 11    | 21    | 32     | 64      | 24              | 60     |
| Debit                                  | 427     | 390     | 487     | 334     | 315    | 517    | 157   | 186   | 77     | 420     | -67             | -14    |
| Secondary Income                       | 1,232   | 1,245   | 1,209   | 1,265   | 1,383  | 1,579  | 526   | 516   | 526    | 1,568   | 359             | 30     |
| Credit                                 | 1,232   | 1,257   | 1,234   | 1,303   | 1,400  | 1,597  | 532   | 522   | 539    | 1,592   | 359             | 29     |
| Debit                                  | 0       | 12      | 25      | 38      | 17     | 18     | 6     | 6     | 13     | 25      | 0               | -1     |

<sup>1</sup>Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

## Direction of Trade

Imports from China accounted for 22 percent of total imports to Kenya making it the largest single source of imports, reflecting a 4 percent increase when compared to the same quarter in 2020. Imports from the European Union rose by USD 82 million, while those from Africa rose by USD 115 million to USD 528 million in the third quarter of

2021, reflecting higher imports from the East African Community (EAC) region. Total imports from the Common Market for Eastern and Southern Africa (COMESA) region increased to 244 million, while that of EAC region increased to USD 238 million in the third quarter of 2021 (**Table 5.3**).

**Table 5.3: Kenya's direction of trade: Imports<sup>1</sup>**

| IMPORTS (USD M)      | 2020    |          |         |         | 2021    |       |       |       |       |       | Share of Imports (%) |         |
|----------------------|---------|----------|---------|---------|---------|-------|-------|-------|-------|-------|----------------------|---------|
|                      |         |          |         |         |         |       |       |       |       |       |                      |         |
|                      | Jan-Mar | Apr-June | Jul-Sep | Oct-Dec | Jul-Sep |       |       |       |       |       |                      |         |
| Country              | Q1      | Q2       | Q3      | Q4      | Q1      | Q2    | Jul   | Aug   | Sep   | Q3    | Q3 2020              | Q3 2021 |
| Africa               | 457     | 355      | 412     | 485     | 482     | 478   | 157   | 187   | 184   | 528   | 11.3                 | 11.4    |
| Of which             |         |          |         |         |         |       |       |       |       |       |                      |         |
| South Africa         | 141     | 96       | 108     | 87      | 99      | 107   | 24    | 35    | 41    | 100   | 3.0                  | 2.2     |
| Egypt                | 106     | 89       | 107     | 120     | 111     | 111   | 29    | 39    | 40    | 108   | 2.9                  | 2.4     |
| Others               | 210     | 170      | 197     | 278     | 272     | 261   | 104   | 113   | 102   | 319   | 5.4                  | 6.9     |
| EAC                  | 115     | 100      | 141     | 149     | 175     | 167   | 79    | 82    | 77    | 238   | 3.9                  | 5.2     |
| COMESA               | 253     | 203      | 214     | 295     | 284     | 259   | 70    | 88    | 86    | 244   | 5.9                  | 5.3     |
| Rest of the World    | 3,532   | 2,694    | 3,236   | 3,321   | 3,826   | 3,711 | 1,371 | 1,294 | 1,419 | 4,084 | 88.7                 | 88.6    |
| Of which             |         |          |         |         |         |       |       |       |       |       |                      |         |
| India                | 568     | 349      | 426     | 434     | 457     | 555   | 188   | 315   | 204   | 707   | 11.7                 | 15.3    |
| United Arab Emirates | 271     | 133      | 181     | 283     | 347     | 359   | 107   | 0     | 131   | 238   | 5.0                  | 5.2     |
| China                | 223     | 177      | 205     | 218     | 205     | 219   | 88    | 142   | 54    | 284   | 5.6                  | 6.2     |
| Japan                | 128     | 154      | 129     | 118     | 184     | 148   | 56    | 63    | 120   | 240   | 3.5                  | 5.2     |
| USA                  | 72      | 62       | 69      | 71      | 82      | 75    | 22    | 25    | 25    | 72    | 1.9                  | 1.6     |
| United Kingdom       | 32      | 11       | 14      | 26      | 9       | 14    | 9     | 0     | 5     | 13    | 0.4                  | 0.3     |
| Singapore            | 93      | 98       | 117     | 70      | 108     | 86    | 27    | 31    | 71    | 129   | 3.2                  | 2.8     |
| Germany              | 237     | 72       | 213     | 128     | 239     | 169   | 84    | 7     | 138   | 229   | 5.9                  | 5.0     |
| Saudi Arabia         | 199     | 159      | 93      | 141     | 138     | 103   | 12    | 8     | 67    | 87    | 2.5                  | 1.9     |
| Indonesia            | 73      | 51       | 127     | 140     | 97      | 143   | 47    | 28    | 17    | 91    | 3.5                  | 2.0     |
| Netherlands          | 57      | 53       | 53      | 56      | 57      | 48    | 11    | 23    | 23    | 57    | 1.5                  | 1.2     |
| France               | 1       | 2        | 2       | 33      | 6       | 5     | 1     | 0     | 5     | 6     | 0.0                  | 0.1     |
| Bahrain              | 57      | 45       | 50      | 70      | 55      | 57    | 32    | 18    | 20    | 70    | 1.4                  | 1.5     |
| Italy                | 1,522   | 1,328    | 1,555   | 1,532   | 1,842   | 1,730 | 687   | 634   | 540   | 1,861 | 42.6                 | 40.4    |
| Others               | 3,988   | 3,049    | 3,649   | 3,807   | 4,308   | 4,189 | 1,527 | 1,482 | 1,602 | 4,611 | 100.0                | 100.0   |
| Total                | 3,916   | 3,066    | 3,638   | 3,790   | 1,370   | 1,349 | 1,592 | 4,312 | 100   | 100   | 100                  | 100     |
| EU                   | 535     | 445      | 597     | 589     | 603     | 566   | 246   | 221   | 212   | 679   | 16.4                 | 14.7    |
| China                | 797     | 722      | 969     | 903     | 975     | 946   | 355   | 2     | 338   | 694   | 26.6                 | 15.1    |

<sup>1</sup>Provisional

Source: Kenya Revenue Authority

In the third quarter of 2021, the value of merchandise exports to Africa was USD 669 million, accounting for 41 percent of total exports. Exports to EAC region decreased mainly due to decline in exports to Uganda and South Sudan. The proportion of exports

to the EU was 22.1 percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 7.8 percent, 6.0 percent, 9.8 percent, and 6.3 percent, respectively (**Table 5.4**).

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

| EXPORTS (USD M)      |         |         |          |         |         |         |         |     |     |       | Share of Exports (%) |         |
|----------------------|---------|---------|----------|---------|---------|---------|---------|-----|-----|-------|----------------------|---------|
|                      | 2020    |         |          |         | 2021*   |         |         |     |     |       |                      |         |
|                      | Jan-Mar | Apr-Jun | Jul- Sep | Oct-Dec | Jan-Mar | Apr-Jun | Jul-Aug |     |     |       |                      |         |
| Country              | Q1      | Q2      | Q3       | Q4      | Q1      | Q2      | Jul     | Aug | Sep | Q3    | Q3 2020              | Q3 2021 |
| Africa               | 640     | 447     | 614      | 588     | 639     | 732     | 224     | 247 | 198 | 669   | 41                   | 41      |
| Of which             |         |         |          |         |         |         |         |     |     |       |                      |         |
| Uganda               | 184     | 118     | 199      | 173     | 201     | 218     | 66      | 72  | 37  | 175   | 13                   | 11      |
| Tanzania             | 78      | 59      | 76       | 82      | 76      | 83      | 37      | 34  | 47  | 117   | 5                    | 7       |
| Egypt                | 53      | 43      | 34       | 49      | 59      | 44      | 10      | 17  | 13  | 40    | 2                    | 2       |
| Sudan                | 29      | 16      | 14       | 19      | 18      | 22      | 6       | 6   | 6   | 18    | 1                    | 1       |
| South Sudan          | 84      | 38      | 56       | 40      | 50      | 35      | 15      | 9   | 10  | 34    | 4                    | 2       |
| Somalia              | 25      | 23      | 34       | 24      | 25      | 31      | 10      | 14  | 12  | 36    | 2                    | 2       |
| DRC                  | 33      | 31      | 35       | 35      | 35      | 117     | 12      | 13  | 14  | 39    | 2                    | 2       |
| Rwanda               | 60      | 42      | 70       | 65      | 51      | 61      | 24      | 25  | 16  | 66    | 5                    | 4       |
| Others               | 93      | 78      | 96       | 101     | 124     | 122     | 44      | 57  | 43  | 143   | 6                    | 9       |
|                      |         |         |          |         |         |         |         |     |     |       |                      |         |
| EAC                  | 419     | 268     | 418      | 373     | 394     | 411     | 146     | 150 | 119 | 415   | 28                   | 26      |
| COMESA               | 420     | 310     | 417      | 400     | 439     | 554     | 150     | 181 | 119 | 449   | 28                   | 28      |
| Rest of the World    | 1,123   | 859     | 899      | 893     | 1,100   | 938     | 330     | 319 | 295 | 944   | 59                   | 59      |
| Of which             |         |         |          |         |         |         |         |     |     |       |                      |         |
| United Kingdom       | 131     | 114     | 112      | 114     | 137     | 108     | 36      | 31  | 30  | 97    | 7                    | 6.0     |
| Netherlands          | 129     | 83      | 116      | 130     | 159     | 141     | 44      | 39  | 42  | 125   | 8                    | 7.8     |
| USA                  | 119     | 104     | 122      | 119     | 125     | 126     | 66      | 46  | 46  | 158   | 8                    | 9.8     |
| Pakistan             | 132     | 141     | 123      | 118     | 127     | 110     | 38      | 38  | 27  | 102   | 8                    | 6.3     |
| United Arab Emirates | 127     | 66      | 73       | 61      | 96      | 63      | 21      | 25  | 27  | 73    | 5                    | 4.5     |
| Germany              | 34      | 37      | 37       | 29      | 50      | 24      | 8       | 10  | 9   | 28    | 2                    | 1.7     |
| India                | 12      | 8       | 17       | 34      | 37      | 15      | 7       | 6   | 10  | 23    | 1                    | 1.4     |
| Afghanistan          | 14      | 5       | 2        | 1       | 1       | 1       | 1       | 0   | 0   | 1     | 0                    | 0.1     |
| Others               | 425     | 303     | 297      | 286     | 368     | 351     | 110     | 123 | 103 | 336   | 20                   | 20.8    |
| Total                | 1,763   | 1,306   | 1,513    | 1,480   | 1,739   | 1,670   | 554     | 566 | 494 | 1,614 | 100                  | 100.0   |
|                      |         |         |          |         |         |         |         |     |     |       |                      |         |
| EU                   | 391     | 315     | 350      | 344     | 439     | 370     | 125     | 109 | 112 | 347   | 23                   | 22      |
| China                | 41      | 36      | 30       | 32      | 59      | 44      | 10      | 16  | 11  | 37    | 2                    | 2       |

Source: Kenya Revenue Authority

## Capital and Financial Account

Net capital account inflows increased by USD 44 million to USD 52 million in the third quarter of 2021. Net financial account inflows were higher at USD 1,241 million in the third quarter of 2021, compared

to net inflows of USD 366 in the third quarter of 2020 (**Table 5.5**). 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*   |         |      |      |      |         | Q2 2021-Q2 2020 |        |
|-----------------------------------|---------|---------|---------|---------|---------|---------|------|------|------|---------|-----------------|--------|
|                                   | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun | Q3   |      |      |         | Absolute        | %      |
|                                   | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Jul  | Aug  | Sep  | Jul-Sep | Change          | Change |
| Capital account credit            | 24      | 42      | 36      | 29      | 84      | 273     | 0    | 1    | 51   | 52      | 16              | 41     |
| Capital account credit            | 24      | 42      | 36      | 29      | 84      | 273     | 0    | 1    | 51   | 52      | 16              | 41     |
| Capital account: debit            | 0       | 0       | 0       | 0       | 0       | 0       | 0    | 0    | 0    | 0       | 0               | 0      |
| Financial Account                 | -490    | -1,812  | -366    | -355    | -1,077  | -3,687  | -415 | -716 | -110 | -1,241  | -875            | -70    |
| Direct investment: assets         | 24      | -4      | 5       | -1      | -1      | 476     | 4    | -1   | 3    | 7       | 1               | -38    |
| Direct investment: liabilities    | 131     | 144     | 117     | 132     | 86      | 114     | 34   | 33   | 28   | 94      | -22             | -76    |
| Portfolio investment: assets      | 309     | 303     | 252     | 242     | 213     | 282     | 71   | 93   | 106  | 269     | 17              | -58    |
| Portfolio investment: liabilities | -97     | -87     | -3      | 15      | 78      | 1,101   | 15   | 18   | 8    | 40      | 43              | -354   |
| Financial derivatives: net        | -13     | -20     | -4      | -35     | -1      | -13     | -8   | -4   | 2    | -9      | -5              | -152   |
| Other investment: assets          | -2      | 130     | -103    | 993     | 402     | -328    | -359 | 220  | -146 | -285    | -182            | 42     |
| Other investment: liabilities     | 775     | 2,164   | 403     | 1,407   | 1,526   | 2,889   | 74   | 975  | 40   | 1,089   | 686             | -90    |

\* Provision

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 14,089 million at the end of the third quarter of 2021 from USD 12,585 million in a similar period in 2020. The Official reserves held by the Central Bank constituted the bulk of the

gross reserves and increased to USD 9,632 million, equivalent to 5.8 months of import cover, while Commercial Bank reserves decreased by USD 637 million to end at USD 4,457 million at the end of third quarter of 2020 (**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 | Jul-Sep | Oct-Dec | Jan-Mar | Jul-Sep |        |        |        |        |
|   | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Jul    | Aug    | Sep    | Q3     |
| 1. Gross Reserves                       | 12,447  | 13,681  | 12,585  | 12,992  | 12,850  | 14,741  | 14,196 | 13,762 | 14,089 | 14,089 |
| of which:                               |         |         |         |         |         |         |        |        |        |        |
| Official                                | 5.8     | 9,740   | 8,765   | 8,297   | 7,842   | 7,872   | 9,957  | 9,957  | 9,957  | 9,957  |
| import cover*                           | 5.2     | 5.9     | 5.4     | 5.1     | 4.8     | 4.8     | 6.1    | 6.1    | 6.1    | 6.1    |
| Commercial Banks                        | 3,812   | 3,941   | 3,820   | 4,695   | 5,062   | 4,874   | 4,784  | 4,784  | 4,784  | 4,784  |
| 2. Residents' foreign currency deposits | 6,445   | 6,557   | 6,448   | 7,076   | 7,280   | 7,136   | 7,223  | 7,223  | 7,223  | 7,223  |

\*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 1 percent against the US Dollar to exchange at an average of 109.18 in the third quarter of 2021 compared with 107.94 in

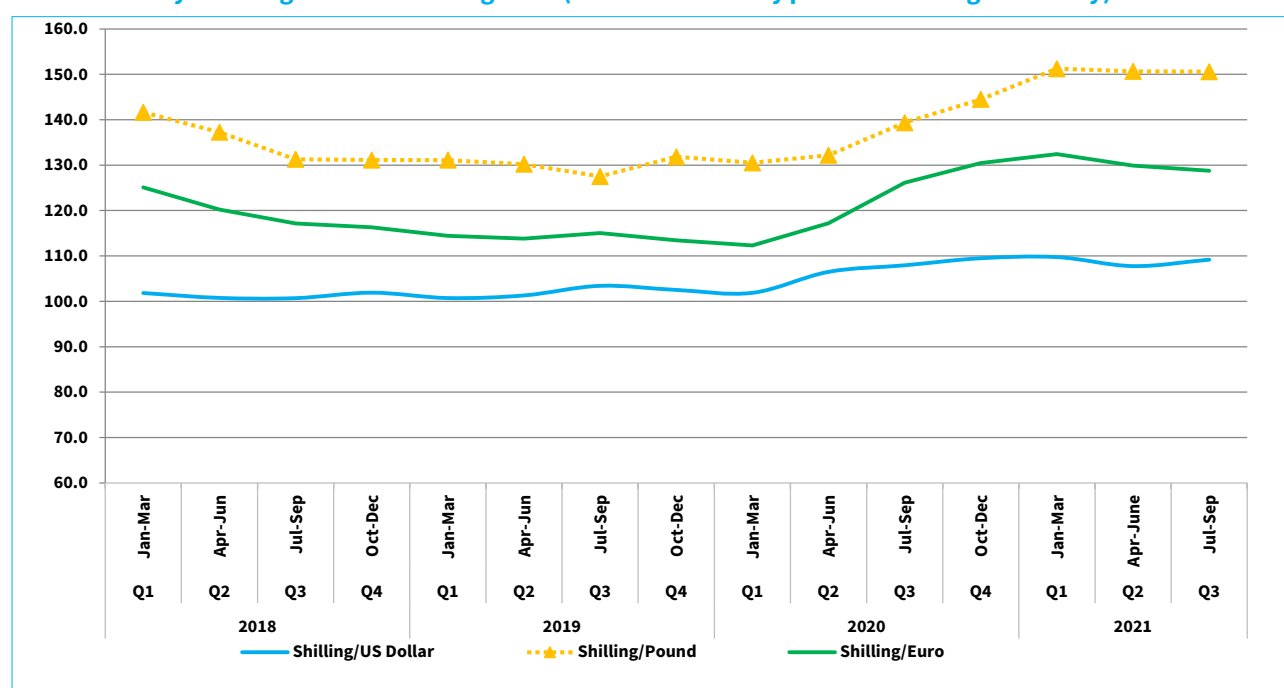
a similar quarter in 2020. It also weakened against the Sterling, the Euro and the Japanese Yen. In the EAC region, it strengthened against the Rwanda and Burundi Franc and weakened against Uganda and Tanzania shilling (**Table 5.7 and Chart 5.1**).

**Table 5.7: Kenya Shilling exchange rate**

|                    |         | 2021    |         |         |        |        |        | Q3 2021- Q3<br>2020<br>% change |
|--------------------|---------|---------|---------|---------|--------|--------|--------|---------------------------------|
|                    | Jan-Mar | Apr-Jun | Jul-Sep | Jul-Sep |        |        |        |                                 |
|                    | Q4      | Q1      | Q2      | Jul     | Aug    | Sep    | Q3     |                                 |
| US Dollar          | 109.49  | 109.75  | 107.76  | 108.14  | 109.24 | 110.15 | 109.18 | 1.15                            |
| Pound Sterling     | 144.50  | 151.25  | 150.67  | 149.37  | 150.87 | 151.51 | 150.58 | 8.06                            |
| Euro               | 130.44  | 132.43  | 129.91  | 127.89  | 128.59 | 129.78 | 128.75 | 2.09                            |
| 100 Japanese Yen   | 104.79  | 103.71  | 98.52   | 98.00   | 99.47  | 100.06 | 99.18  | -2.48                           |
| South Africa Rand  | 7.00    | 7.33    | 7.62    | 7.45    | 7.39   | 7.56   | 7.47   | 17.03                           |
| Uganda Shilling*   | 33.78   | 33.48   | 33.17   | 32.84   | 32.39  | 32.06  | 32.43  | -5.19                           |
| Tanzania Shilling* | 21.18   | 21.22   | 21.52   | 21.44   | 21.23  | 21.04  | 21.24  | -1.23                           |
| Rwanda Franc*      | 8.98    | 9.04    | 9.29    | 9.31    | 9.23   | 9.20   | 9.24   | 3.61                            |
| Burundi Franc*     | 17.69   | 17.71   | 18.26   | 18.32   | 18.16  | 18.03  | 18.17  | 1.70                            |

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

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

Source: Central Bank of Kenya

## Chapter 6

# Banking Sector

### Overview

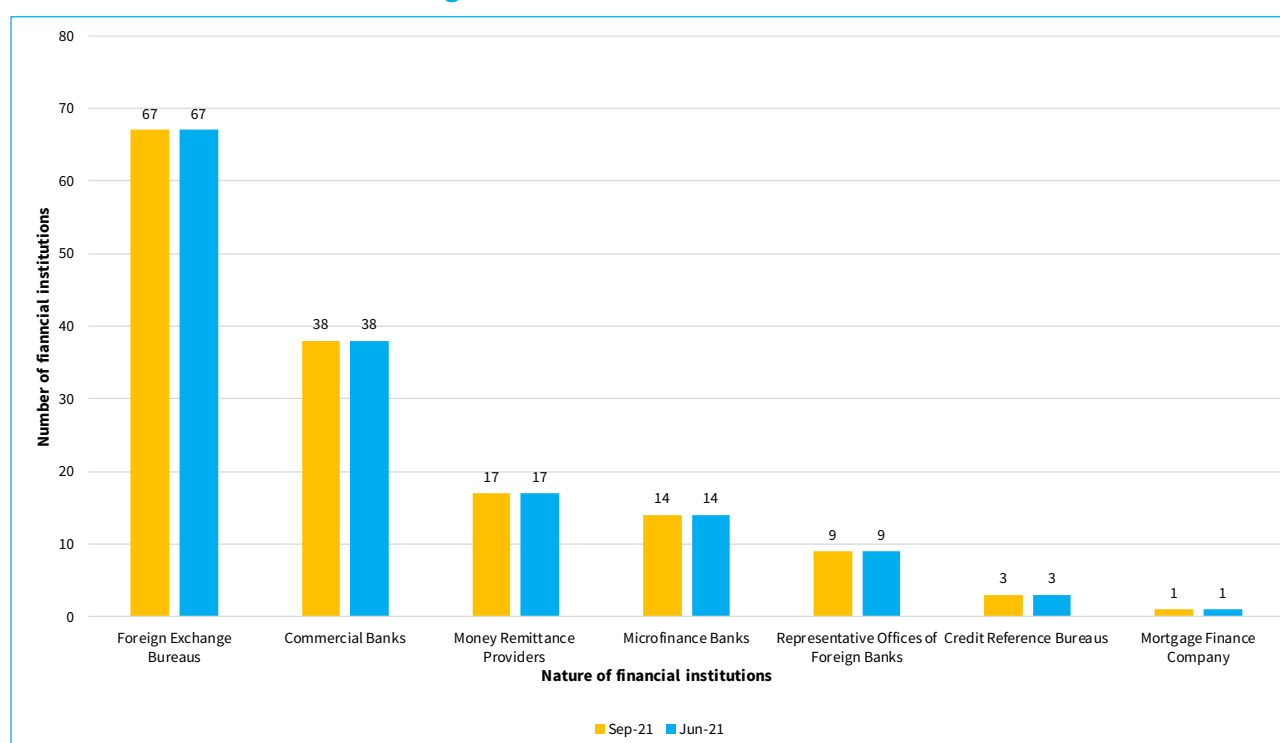
The banking sector remained stable and resilient in the third quarter of 2021. Total net assets increased by 2.5 percent to Ksh.5,822.1 billion in September 2021, from Ksh.5,680.0 billion in June 2021. The deposit base also increased by 2.3 percent to Ksh.4,345.7 billion in the third quarter of 2021, from Ksh.4,249.4 billion in the second quarter of 2021. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in third quarter of 2021, with quarterly profit before tax of Ksh.49.1 billion, a decrease from Ksh.50.5 billion reported in the second quarter of 2021. Credit risk remained elevated but stabilizing with gross non-performing loans (NPLs) to gross loans ratio standing at 13.6

percent in the third quarter of 2021, as compared to 14.0 percent in second quarter of 2021.

### Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks<sup>2</sup>, 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 September 30, 2021. **Chart 6.1** shows the structure of the Kenya's banking sector in the third quarter of 2021.

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



Source: Central Bank of Kenya

<sup>2</sup> Excludes Charterhouse Bank Limited and Chase Bank (K) Limited, which are in Liquidation and Imperial Bank Limited, which is in Receivership.

## Structure of the Balance Sheet

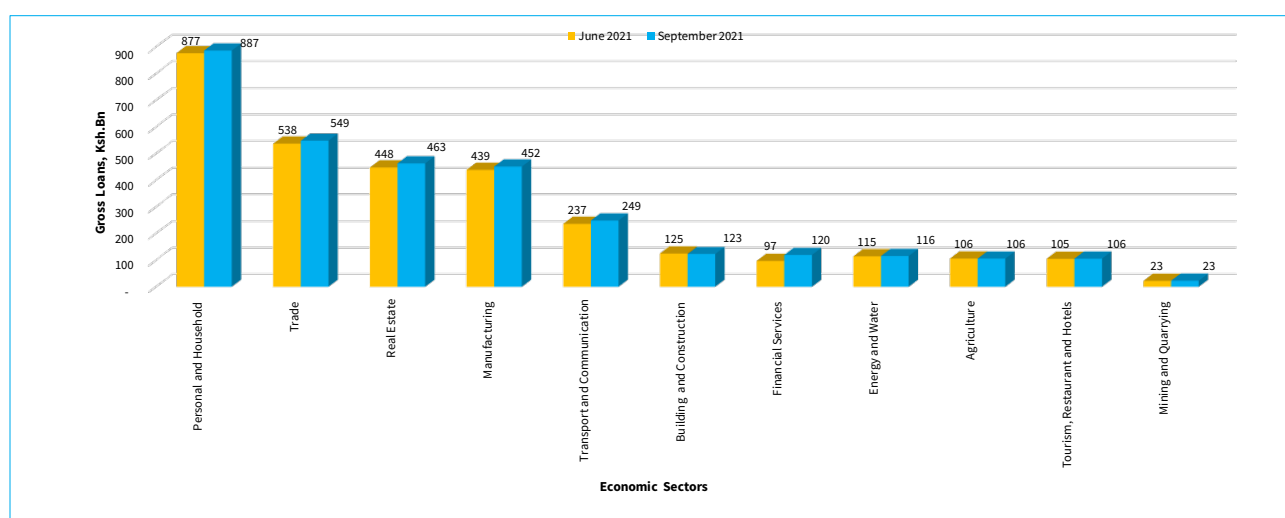
### i) Growth in banking sector assets

Total net assets increased by 2.5 percent to Ksh.5,822.1 billion in September 2021, from Ksh.5,680.0 billion in June 2021. The increase in total net assets was mainly recorded in government securities by Ksh.131.8 billion (7.5 percent). However, gross loans and advances, which increased by 2.7 percent (Ksh.83.2 billion), remained the main component of total net assets, accounting for 49.4 percent in the third quarter of 2021, an increase from 49.3 percent recorded in the second quarter of 2021.

### ii) Loans and Advances

Total banking sector lending increased by 2.7 percent, to Ksh.3,193.3 billion in the third quarter of 2021, from Ksh.3,110.1 billion in the second 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 second and third quarters of 2021, is highlighted in **Chart 6.2**.

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



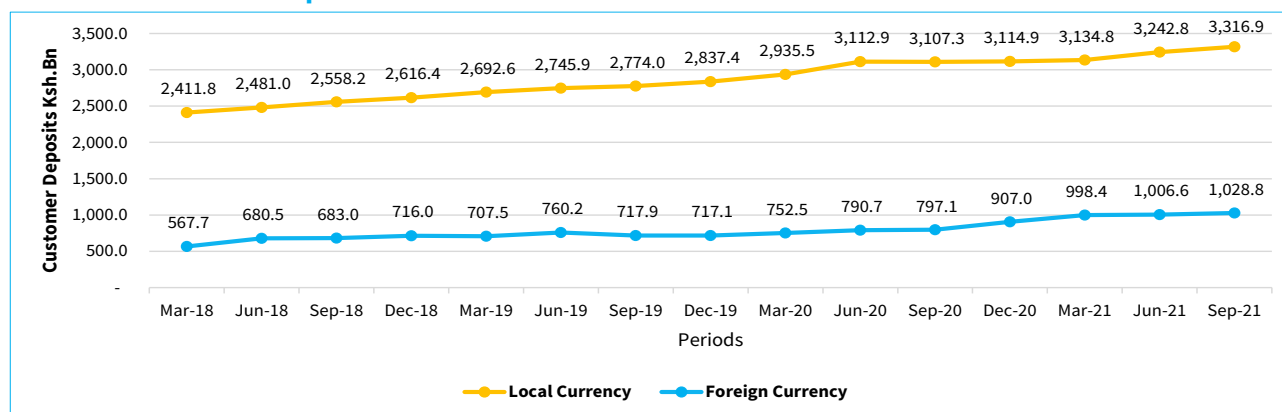
Source: Central Bank of Kenya

### iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 74.6 percent of the banking sector total liabilities and shareholders' funds as at the end of the third quarter of 2021. The customer deposit base increased by 2.3 percent to Ksh.4,345.7 billion in the third quarter of 2021, from Ksh.4,249.4 billion in the second quarter of 2021. Local currency deposits increased by Ksh.74.1

billion (2.3 percent) to Ksh.3,316.9 billion in the third quarter of 2021, from Ksh.3,242.8 billion in the second quarter of 2021. Foreign currency deposits increased by Ksh.22.2 billion (2.2 percent) to Ksh.1,028.8 billion in the third quarter of 2021, from Ksh.1,006.6 billion in the second quarter of 2021. Chart 6.3 shows the trend of deposit liabilities.



**Chart 6.3: Customer deposits**

Source: Central Bank of Kenya

### Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 1.1 percent to Ksh.720.4 billion in the third quarter of 2021, from Ksh.712.9 billion in the second quarter of 2021. Total capital also increased by 1.5 percent to Ksh.829.5 billion in the third quarter of 2021, from Ksh.817.6 billion in the second quarter of 2021. The increases in capital levels are mainly attributable to increased retained profits in the third quarter of 2021. Retained earnings increased by Ksh.35.8 billion or 52.4 percent from Ksh.68.3 billion in the Second quarter of 2021, to Ksh.104.2 in the third quarter of 2021.

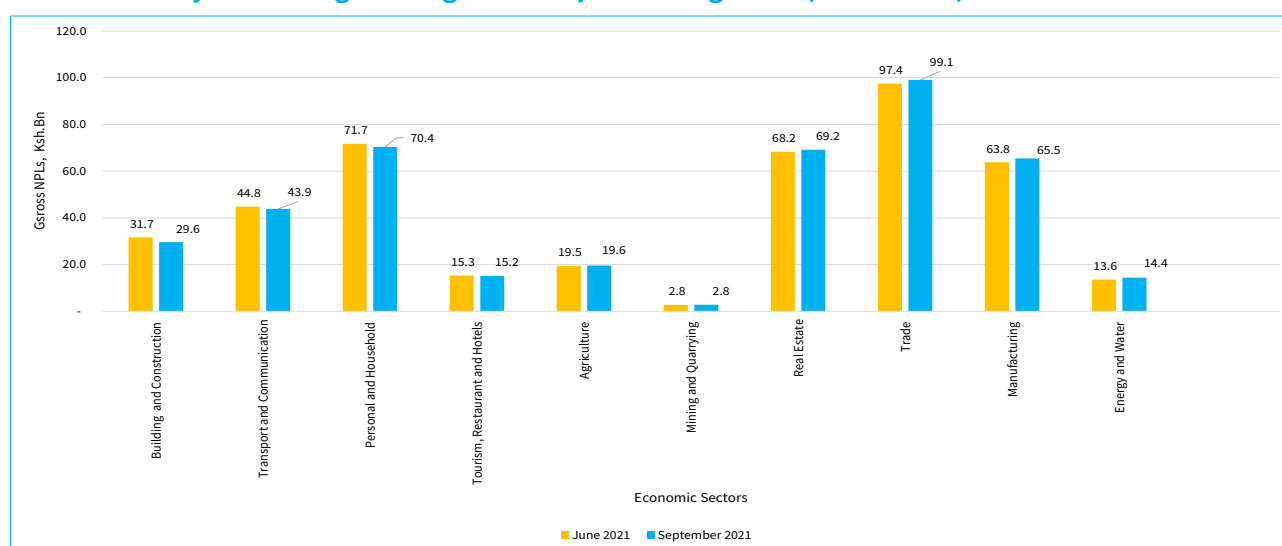
Core capital to total risk-weighted assets ratio decreased marginally from 16.5 percent in the second quarter of 2021, to 16.3 percent in the third quarter of 2021. Total capital to total risk-weighted assets ratio decreased slightly to 18.8 percent in the third quarter of 2021, from 18.9 percent in the second quarter of 2021. The decrease in capital ratios was mainly due to increase in Total Risk

Weighted Assets by 2.2 percent as compared to the increase of 1.1 percent and 1.5 percent in Core capital and Total capital respectively.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 16.6 percent in the third quarter of 2021, a slight decline from 16.8 percent in the second quarter of 2021.

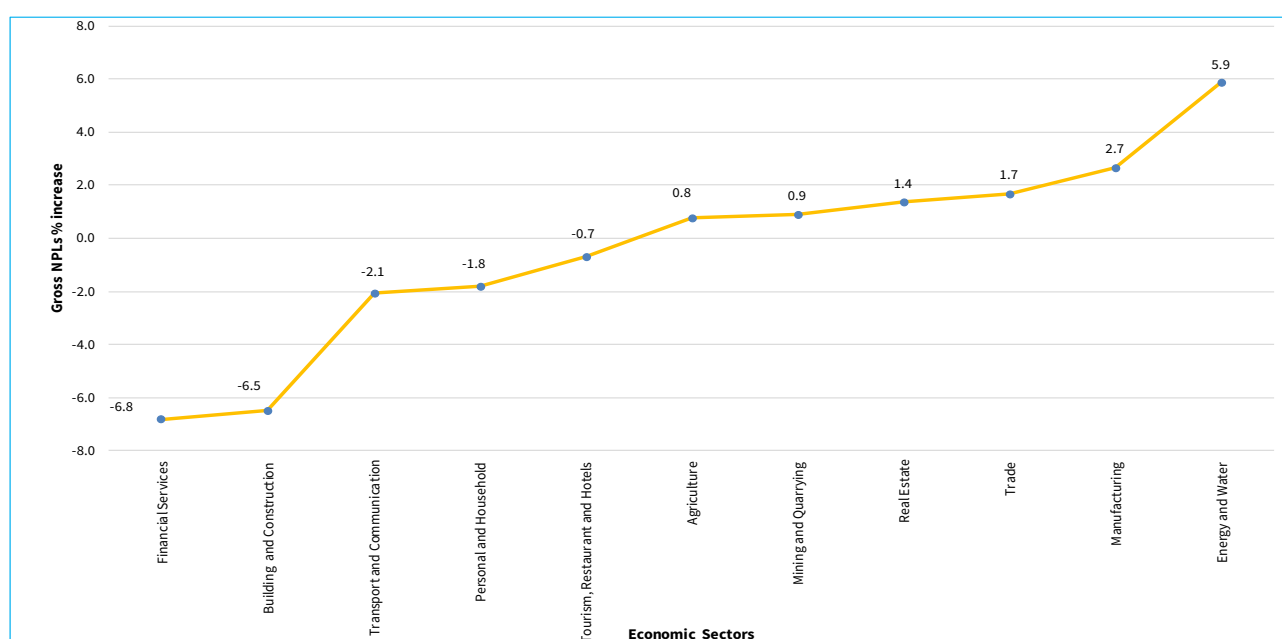
### Asset Quality

The gross non-performing loans (NPLs) increased by 0.1 percent from Ksh.435.3 billion as at the end of the second quarter of 2021, to Ksh.435.7 billion at the end of the third quarter of 2021. The gross NPLs to gross loans ratio decreased to 13.6 percent in the third quarter of 2021, from 14.0 percent in the second quarter of 2021. This was due to a higher increase in gross loans (2.7 percent) as compared to increase in NPLs (0.1 percent). **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 six 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 Energy and Water sector registered the highest increase in NPLs by 5.9 percent (Ksh.0.4 billion) as a result of delayed payments on performed contracts. The other two sectors, which registered major NPL increases are Manufacturing and Trade, which increased by 2.7 percent and 1.7 percent respectively. The Financial Services and Building and Construction sectors recorded the highest decrease in NPLs mainly due to repayments.

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

loans, improved with the ratio decreasing to 5.3 percent in the third quarter of 2021, from 5.5 percent in the second quarter of 2021. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased slightly from 53.0 percent in the second quarter of 2021, to 53.5 percent in third quarter of 2021 due to an increase in specific provisions (1.1 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1.**

**Table 6.1: Summary of asset quality**

|     |   | June 2021 | September 2021 |
|-----|---|-----------|----------------|
| 1.  | Gross Loans and Advances (Ksh.Bn)                       | 3,110.10  | 3,193.30       |
| 2.  | Interest in Suspense (Ksh.Bn)                           | 69.5      | 69.4           |
| 3.  | Loans and Advances (net of interest suspended) (Ksh.Bn) | 3,040.50  | 3,123.90       |
| 4.  | Gross Non-Performing loans (Ksh.Bn)                     | 435.3     | 435.7          |
| 5.  | Specific Provisions (Ksh.Bn)                            | 193.7     | 195.9          |
| 6.  | General Provisions (Ksh.Bn)                             | 48.6      | 49.3           |
| 7.  | Total Provisions (5+6) (Ksh.Bn)                         | 242.3     | 245.2          |
| 8.  | Net Advances (3-7) (Ksh.Bn)                             | 2,798.20  | 2878.6         |
| 9.  | Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)  | 365.8     | 366.3          |
| 10. | Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)    | 172.1     | 170.4          |
| 11. | Total NPLs as % of Total Advances (9/3)                 | 12        | 11.7           |
| 12. | Net NPLs as % of Gross Advances (10/1)                  | 5.5       | 5.3            |
| 13. | Specific Provisions as % of Total NPLs (5/9)            | 53        | 53.5           |
| 14. | Gross NPLs to Gross Loans Ratio                         | 14        | 13.6           |

Source: Central Bank of Kenya

## Profitability

The banking sector recorded a slight decrease in pre-tax profits by Ksh.1.4 billion (2.9 percent) to Ksh.49.1 billion in the third quarter of 2021 from Ksh.50.5 billion in the second quarter of 2021. The decrease in profitability was mainly attributable to a higher increase in expenses by Ksh.4.9 billion (4.7 percent) as compared to a lower increase in income by Ksh.3.4 billion (2.2 percent) in the third quarter of 2021.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both third quarter of 2021 and second quarter of 2021. They accounted for 47.4 percent, 28.2 percent and 17.1 percent in the third quarter of 2021 as compared to 47.4 percent, 27.8 percent and 17.6 in the second quarter of 2021.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 32.2 percent, 24.4 percent and 23.9 percent of total expenses respectively compared to 32.0 percent, 24.5 percent and 23.8 percent in the second quarter of 2021.

Total expenses increased by 4.9 billion (4.7 percent) to Ksh.108.4 in the third quarter of 2021 from Ksh.103.5 billion in the second quarter of 2021. The increase was mainly driven by increase in interest on deposits and salaries and, which increased by 7.1 percent and 5.2 percent respectively.

Return on Assets (ROA) stood at 2.6 percent in the third quarter of 2021, a decrease from 2.7 percent registered in the second quarter of 2021. Similarly, Return on Equity (ROE) decreased from 22.7 percent in the second quarter of 2021 to 22.0 percent in the third quarter of 2021. This is as a result of decreased profit before tax.

## Liquidity

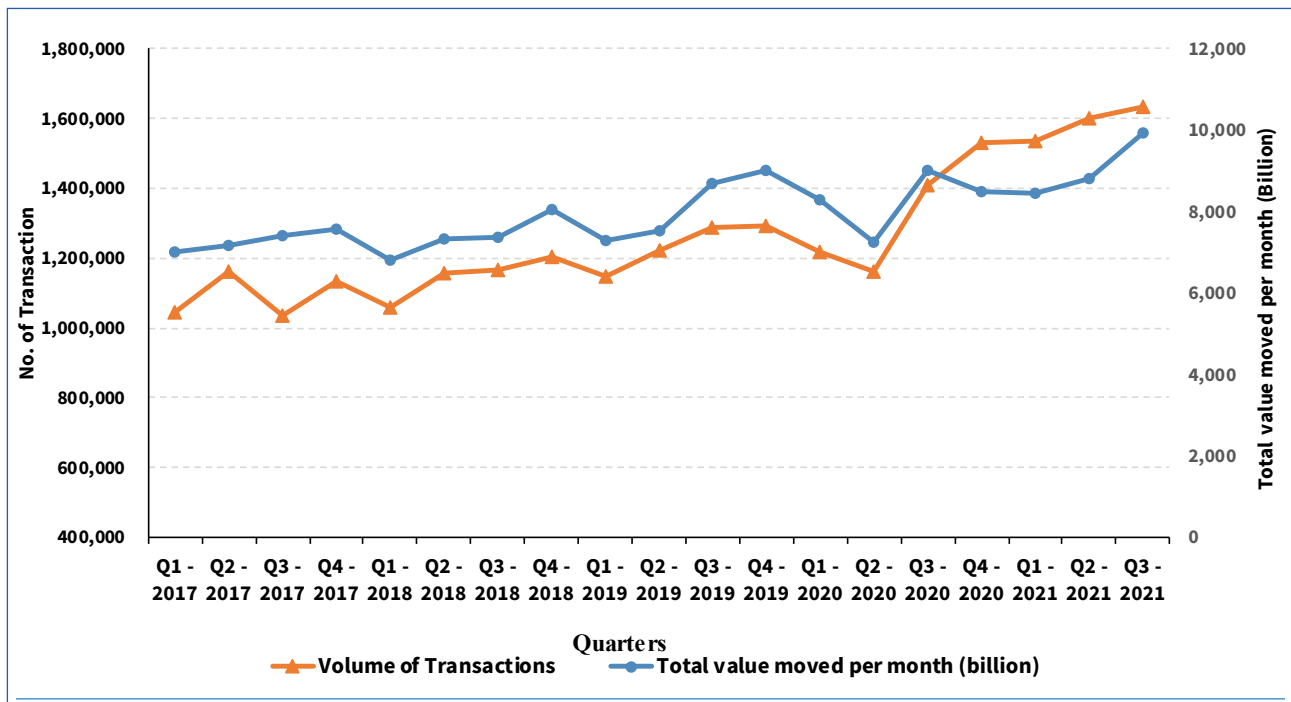
The banking sector's overall liquidity ratio decreased to 56.7 percent in the third quarter of 2021 from 56.8 percent in the second quarter of 2021. The decrease was driven by a higher increase in total short-term liabilities (2.5 percent) as compared to a 2.3 percent increase total liquid asset in between 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 are Treasury bonds (8.7 percent), and Foreign bills and bonds (40.7 percent).

## Outlook of the Sector

The banking sector is projected to remain stable;

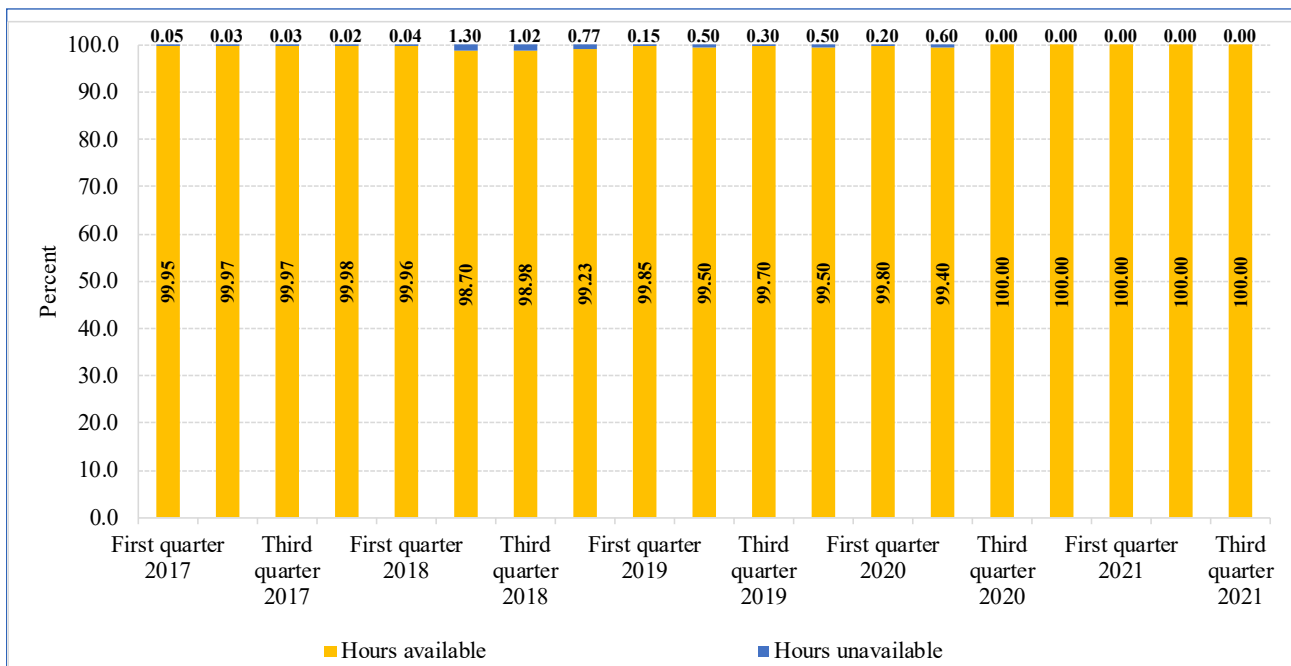
- Operational risk is expected to remain elevated with the continued COVID-19 infections.
- Credit risk is expected to remain elevated in the short to medium term.
- Liquidity risk is expected to remain stable.

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

## Chapter 7

# Government Budgetary Performance

The Government's budgetary operations at the end of the first quarter of FY 2021/2022 resulted in a deficit of 0.9 percent of GDP against a target of 1.4 percent of GDP. Revenues collection were above

the target by 4.4 percent mainly on account of overperformance in ordinary revenues, while total expenses and net lending were below target by 5.1 percent (**Table 7.1**).

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

|   | FY 2020/2021 |         |       |        | FY 2021/2022 |        |        |        | Target  | Over (+) /<br>Below (-)<br>Target | % Variance | % Q1-<br>Q1 | % cumulative<br>share to<br>GDP | Target<br>to GDP<br>(%) |
|---|--------------|---------|-------|--------|--------------|--------|--------|--------|---------|-----------------------------------|------------|-------------|---------------------------------|-------------------------|
|   | Jul          | Aug     | Sep   | Q1     | Jul          | Aug    | Sep    | Q1     |         |                                   |            |             |                                 |                         |
| 1. TOTAL REVENUE & GRANTS                     | 105.3        | 108.0   | 169.4 | 382.6  | 135.0        | 142.0  | 235.9  | 513.0  | 491.52  | 21.4                              | 4.4        | 34.1        | 4.1                             | 3.9                     |
| Ordinary Revenue                              | 94.8         | 95.1    | 152.8 | 342.6  | 122.2        | 128.9  | 190.7  | 441.8  | 480.31  | 38.5                              |            | 29.0        |                                 |                         |
| Tax Revenue                                   | 94.4         | 92.8    | 129.5 | 316.8  | 121.7        | 125.2  | 169.5  | 416.4  | 405.09  | 11.3                              |            | 31.4        |                                 |                         |
| Non Tax Revenue                               | 0.3          | 2.2     | 23.2  | 25.8   | 0.5          | 3.7    | 21.2   | 25.4   | 20.00   | 5.4                               |            | (1.5)       |                                 |                         |
| Appropriations-in-Aid                         | 10.5         | 11.5    | 14.1  | 36.1   | 12.8         | 13.0   | 38.7   | 64.5   | 55.22   | 9.3                               |            | 78.7        |                                 |                         |
| External Grants                               | -            | 1.4     | 2.5   | 3.9    | -            | 0.1    | 6.5    | 6.7    | 11.20   | (4.5)                             |            | 70.0        |                                 |                         |
| 2. TOTAL EXPENSES & NET LENDING               | 94.2         | 239.7   | 176.5 | 510.4  | 144.7        | 234.5  | 252.5  | 631.7  | 665.78  | (34.1)                            | (5.1)      | 23.8        | 5.0                             | 5.3                     |
| Recurrent Expenses                            | 88.7         | 162.9   | 107.9 | 359.5  | 137.5        | 157.8  | 158.4  | 453.7  | 447.99  | 5.7                               |            | 26.2        |                                 |                         |
| Development Expenses                          | 4.6          | 49.6    | 67.8  | 122.1  | 6.3          | 46.2   | 64.5   | 117.0  | 124.75  | (7.8)                             |            | (4.2)       |                                 |                         |
| County Transfers                              | 0.9          | 27.1    | 0.8   | 28.8   | 1.0          | 30.5   | 29.6   | 61.1   | 93.05   | (32.0)                            |            | 111.7       |                                 |                         |
| Others  | -            | -       | -     | 0.0    | -            | -      | -      | 0.0    | -       | -                                 |            |             |                                 |                         |
| 3. DEFICIT (INCL. GRANTS) (1-2)               | 11.0         | (131.7) | (7.2) | -127.8 | (9.7)        | (92.5) | (16.6) | -118.7 | (174.3) | 55.6                              | (31.9)     | (7.1)       | (0.9)                           | (1.4)                   |
| As percent of GDP                             | 0.1          | (1.2)   | (0.1) | -1.1   |              |        |        | -0.9   | (1.4)   | (0.4)                             |            | (16.4)      |                                 |                         |
| 4. ADJUSTMENT TO CASH BASIS                   | -            | -       | -     | 0.0    | -            | -      | 13.4   | 13.4   | 0.00    | (13.4)                            |            |             |                                 |                         |
| 5. DEFICIT INCL. GRANTS ON A CASH BASIS       | 11.0         | (131.7) | (7.2) | -127.8 | (9.7)        | (92.5) | (3.1)  | -105.3 | (174.3) | 69.0                              | (39.6)     | (17.6)      | (0.8)                           | (1.4)                   |
| As percent of GDP                             | 0.1          | (1.2)   | (0.1) | -1.1   |              |        |        | -0.8   | (1.4)   | 0.6                               |            | (25.8)      |                                 |                         |
| 6. DISCREPANCY: Expenditure (+) / Revenue (-) | 31.1         | (51.7)  | 22.6  | 2.0    | 13.3         | (17.7) | 11.0   | 6.6    | 0.00    | 6.6                               |            | 233.8       |                                 |                         |
| 7. FINANCING                                  | 20.0         | 80.0    | 29.7  | 129.8  | 23.0         | 74.7   | 14.2   | 111.9  | 174.3   | (62.4)                            | (35.8)     | (13.8)      | 0.9                             | 1.4                     |
| Domestic (Net)                                | 40.1         | 79.0    | 33.3  | 152.4  | 40.7         | 81.7   | 17.6   | 140.0  | 182.5   | (42.5)                            |            | (8.1)       |                                 |                         |
| Capital Receipts (domestic loan receipts)     | -            | -       | 0.0   | 0.0    |              |        | 0.4    | 0.4    | 0.0     | 0.4                               |            | 891.0       |                                 |                         |
| External (Net)                                | (20.0)       | 1.0     | (3.6) | -22.6  | (17.7)       | (7.0)  | (3.5)  | -28.2  | (8.3)   | (19.9)                            |            | 24.4        |                                 |                         |
| Others  | -            | -       | -     | 0.0    | -            | -      | -      | 0.0    | -       | -                                 | -          | -           |                                 |                         |

Source: The National Treasury-September 2021 Budget Outturn (BOT)

## Revenue

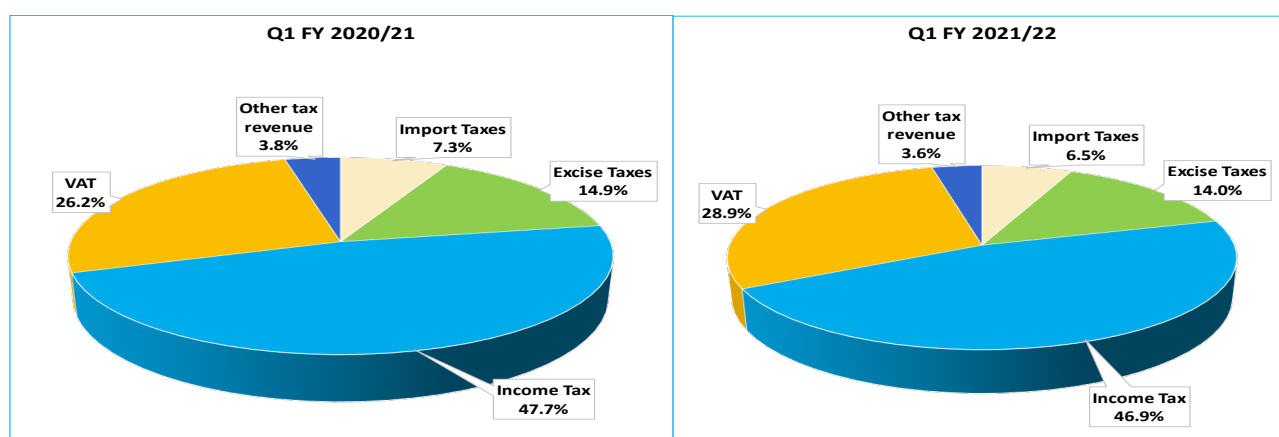
Government receipts, comprising revenue and grants increased by 34.1 percent to KSh 513.0 billion in the first quarter (Jul - Sept) of FY 2021/2022, compared to KSh 382.6 billion in the first quarter of FY 2020/21. The increase was reflected in tax revenues, Appropriation in Aid (A-in-A) as well as external grants which improved by 31.4 percent, 78.7 percent and 70 percent, respectively.

There was a minor shift in the composition of tax revenues in the first quarter of FY 2021/2022 compared with a similar period in the previous financial year (**Chart 7.1**). The share of income tax, excise taxes, import tax and other taxes declined by 0.8 percentage points, 0.9 percentage points, 0.8 percentage points, and 0.2 percentage points, respectively while the share of Value Added Tax (VAT) rose by 2.7 percentage points.

Cumulatively to September 2021, Government total revenue and grants stood at KSh 513.0 billion (4.1 percent of GDP) against a target of KSh 491.5 billion (3.9 percent of GDP). Tax revenue rose above the set target with the increase largely due to improved business environment, progressive economic recovery, impact of tax policy measures in the Finance Act, 2021, enhanced revenue administration measures by the Kenya Revenue Authority, and the impact of reversal of tax relief measures in January 2021 put in place to cushion Kenyans against the effects of COVID-19.

External grants cumulatively to September 2021 stood at KSh 6.7 billion, which was KSh 4.5 billion lower than target, occasioned by slow absorption of donor funds. Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to September 2021 amounted to KSh 64.5 billion, which was KSh 9.3 billion higher than target.

**Chart 7.1: Composition of tax revenue (KSh Billion)**



Source: The Budget Outturn (BOT) from National Treasury

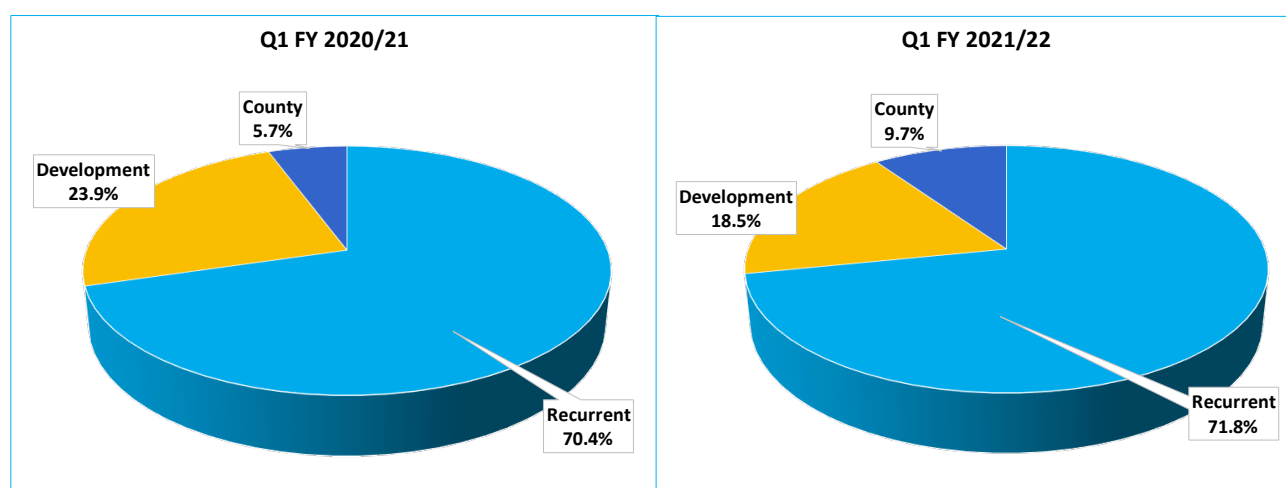
## Expenditure and Net Lending

Government expenditure and net lending increased by 23.8 percent to KSh 631.7 billion in the first quarter of the FY 2021/2022 compared to KSh 510.4 billion in the first quarter of the FY 2020/21. The increase in expenditures reflected a rise in national government recurrent expenditure and county transfers by 24.5 percent, and 111.7 percent respectively. However, the national government development transfers decreased by 4.2 percent during the period.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 71.8 percent in the first quarter of

the FY 2021/2022, which was 1.4 percentage points higher than the level recorded in a similar quarter during the previous fiscal year. The share of county allocations increased by 4.0 percentage points while that of development expenditure decreased by 5.4 percentage points during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to September 2021 amounted to KSh 631.7 billion (5.0 percent of GDP), against a target of KSh 665.8 billion (5.3 percent of GDP). The shortfall of KSh 34.1 billion was mainly attributed to lower absorption recorded in 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 105.3 billion or 0.8 percent of GDP at the end of the first quarter of FY 2021/2022. Domestic borrowing comprised KSh 105.2 billion from commercial banks, KSh 130.8 billion from non-banks, KSh 3.0 billion from non-residents and KSh

30.0 billion from the Central Bank (**Table 7.2**). Net domestic borrowing by the end of the first quarter of FY 2021/2022 was below target by KSh 42.5 billion while net external borrowing was above target by KSh 19.9 billion.

**Table 7.2 Domestic financing to March 2021 (KSh Billion)**

|   | FY 2020/21 |         |        |        |        |        |        |        |
|---|------------|---------|--------|--------|--------|--------|--------|--------|
|   |            | Q1      |        |        | Q4     |        |        | Q1     |
|   | Aug-20     | Sep-20  | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 |
| 1. From CBK   | (93.2)     | (116.7) | 66.7   | 90.6   | (67.9) | 39.6   | 82.2   | 30.0   |
| 2. From commercial banks                                  | 123.3      | 152.1   | 186.0  | 217.3  | 230.8  | 31.5   | 70.7   | 105.2  |
| 4. From Non-banks   | 99.1       | 117.8   | 289.4  | 307.6  | 327.0  | 49.1   | 97.9   | 130.8  |
| 5. From Non-Residents                                     | 0.9        | 1.0     | 0.7    | 1.4    | 1.2    | 0.8    | 1.1    | 3.0    |
| Change in Credit from banks (From 30th June 2020)         | 30.1       | 35.4    | 252.7  | 307.9  | 162.9  | 71.0   | 152.8  | 135.2  |
| Change in Credit from non-banks (From 30th June 2020)     | 99.1       | 117.8   | 289.4  | 307.6  | 327.0  | 49.1   | 97.9   | 130.8  |
| Change in Credit from non-residents (From 30th June 2020) | 0.9        | 1.0     | 0.7    | 1.4    | 1.2    | 0.8    | 1.1    | 3.0    |
| 6. Total Change in Dom. Credit (From 30th June 2020)      | 130.0      | 154.2   | 542.8  | 617.0  | 491.2  | 121.0  | 251.8  | 269.0  |

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

## Outlook for FY 2021/22

In the approved budget from the National Treasury for the FY 2021/22, total revenue including grants is projected at KSh 2,125.0 billion (16.8 percent of GDP). Government expenditure is projected at KSh 3,154.4 billion (25.0 percent of GDP), of which KSh 2,071.8 billion will be for recurrent expenses, KSh 667.7 billion for development expenses and KSh 409.9 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 1,029.3 billion (8.2 percent of GDP) in 2021/22, to be financed through net external borrowing of KSh 412.5 billion and net domestic borrowing of KSh 616.8 billion (**Table 7.3**).



**Table 7.3: Budget estimates for the fiscal year 2021/22 (Ksh Billion)**

|                                      | Ksh (Bn) | % of GDP |
|--------------------------------------|----------|----------|
| 1. TOTAL REVENUE ( Including Grants) | 2,125.0  | 16.8     |
| Ordinary Revenue                     | 1,800.0  | 14.3     |
| Appropriations-in-Aid                | 263.0    | 2.1      |
| External Grants                      | 62.0     | 0.5      |
| 2. TOTAL EXPENSES & NET LENDING      | 3,154.4  | 25.0     |
| Recurrent Expenses                   | 2,071.8  | 16.4     |
| Development Expenses                 | 667.7    | 5.3      |
| County Transfer                      | 409.9    | 3.2      |
| Contingency Fund                     | 5.0      | 0.0      |
| 3. DEFICIT INCL. GRANTS (1-2)        | -1,029.3 | -8.2     |
| Adjustment to Cash Basis             | 0.0      | 0.0      |
| 4. FINANCING                         | 1,029.3  | 8.2      |
| Domestic (Net)                       | 616.8    | 4.9      |
| External (Net)                       | 412.5    | 3.3      |

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 3.9 percent during the first quarter of the FY 2021/22. Domestic and external debt increased by 6.5 percent and 1.5 percent, respectively. The ratio of public debt to GDP was

estimated to increase from the 68.1 percent by the end of the fourth quarter of the FY 2020/21 to 69.0 percent by the end of first quarter of the FY 2021/22. **(Table 8.1).**

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

|                        | 2019/20 |         |         |         | 2020/21 |         |         |         |         |         |         |                  |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
|                        | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Q3      | Q4      | Jul-21  | Aug-21  | Q1      | Change<br>Q on Q |
| EXTERNAL               |         |         |         |         |         |         |         |         |         |         |         |                  |
| Bilateral              | 1,001.8 | 1,023.8 | 1,075.9 | 1,074.3 | 1,102.9 | 1,157.0 | 1,142.7 | 1,140.5 | 1,136.4 | 1,148.7 | 1,149.2 | 8.7              |
| Multilateral           | 1,024.1 | 1,037.5 | 1,060.6 | 1,321.6 | 1,421.8 | 1,498.8 | 1,495.6 | 1,659.4 | 1,678.5 | 1,697.2 | 1,699.4 | 39.9             |
| Commercial Banks       | 1,068.7 | 1,028.7 | 1,058.8 | 1,102.3 | 1,120.8 | 1,119.4 | 1,113.4 | 1,187.4 | 1,193.4 | 1,196.6 | 1,196.2 | 8.8              |
| Supplier Credits       | 17.2    | 16.8    | 17.3    | 17.6    | 18.0    | 18.1    | 18.1    | 12.2    | 12.2    | 12.3    | 13.7    | 1.5              |
| Sub-Total              | 3,111.8 | 3,106.8 | 3,212.6 | 3,515.8 | 3,663.5 | 3,793.3 | 3,769.9 | 3,999.5 | 4,020.6 | 4,054.9 | 4,058.5 | 58.9             |
| (As a % of GDP)        | 31.1    | 30.3    | 30.3    | 33.1    | 34.5    | 35.3    | 34.0    | 35.4    | 34.7    | 35.0    | 35.0    |                  |
| (As a % of total debt) | 52.1    | 51.4    | 51.1    | 52.5    | 51.4    | 52.1    | 51.4    | 52.0    | 51.5    | 51.2    | 50.8    |                  |
| DOMESTIC               |         |         |         |         |         |         |         |         |         |         |         |                  |
| Banks                  | 1,535.5 | 1,607.4 | 1,677.0 | 1,752.1 | 1,915.4 | 1,867.9 | 1,876.6 | 1,901.8 | 1,946.4 | 1,970.6 | 2,008.6 | 106.8            |
| Central Bank           | 120.5   | 116.0   | 106.4   | 98.9    | 107.4   | 98.7    | 99.9    | 87.6    | 100.7   | 84.5    | 90.9    | 3.4              |
| Commercial Banks       | 1,415.0 | 1,491.4 | 1,570.6 | 1,653.2 | 1,808.0 | 1,769.2 | 1,776.7 | 1,814.2 | 1,845.7 | 1,886.1 | 1,917.6 | 103.4            |
| Non-banks              | 1,291.5 | 1,304.1 | 1,363.3 | 1,392.3 | 1,507.6 | 1,586.8 | 1,661.6 | 1,764.2 | 1,813.8 | 1,862.1 | 1,895.1 | 130.9            |
| Pension Funds          | 819.8   | 841.3   | 891.4   | 923.1   | 986.2   | 1,057.7 | 1,087.5 | 1,131.3 | 1,171.6 | 1,195.3 | 1,230.2 | 98.9             |
| Insurance Companies    | 183.1   | 189.0   | 193.6   | 192.2   | 212.8   | 224.6   | 234.5   | 246.4   | 252.1   | 258.3   | 260.0   | 13.6             |
| Other Non-bank Sources | 288.6   | 273.9   | 278.3   | 277.0   | 308.6   | 304.5   | 339.6   | 386.6   | 390.1   | 408.4   | 404.9   | 18.3             |
| Non-residents          | 29.6    | 30.6    | 31.6    | 33.2    | 34.1    | 33.8    | 31.7    | 31.1    | 31.9    | 32.2    | 34.1    | 3.0              |
| Sub-Total              | 2,856.6 | 2,942.1 | 3,070.2 | 3,177.0 | 3,457.1 | 3,488.5 | 3,569.8 | 3,697.1 | 3,792.1 | 3,864.9 | 3,937.8 | 240.7            |
| (As a % of GDP)        | 28.6    | 28.7    | 28.9    | 29.9    | 32.5    | 32.4    | 32.2    | 32.7    | 32.7    | 33.3    | 34.0    |                  |
| (As a % of total debt) | 47.9    | 48.6    | 48.9    | 47.5    | 48.6    | 47.9    | 48.6    | 48.0    | 48.5    | 48.8    | 49.2    |                  |
| GRAND TOTAL            | 5,968.4 | 6,048.9 | 6,282.8 | 6,692.8 | 7,120.6 | 7,281.8 | 7,339.7 | 7,696.6 | 7,812.8 | 7,919.7 | 7,996.3 | 299.6            |
| (As a % of GDP)        | 59.7    | 59.0    | 59.2    | 63.0    | 67.0    | 67.7    | 66.2    | 68.1    | 67.4    | 68.3    | 69.0    |                  |

Source: The National Treasury and CBK

### Domestic Debt

The 6.5 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt decreased by 1.2 percentage points to 49.2 percent by the end of

the first quarter of the FY 2021/22. The proportion of debt securities to total domestic debt increased by 0.2 percentage points **(Table 8.2).**

**Table 8.2: Government gross domestic debt (KSh Billion)**

|  | KShs (Billions) |         |         |         |         |         |         | Change Q on Q |         | Proportions |       |       |       |         |        |       |
|--|-----------------|---------|---------|---------|---------|---------|---------|---------------|---------|-------------|-------|-------|-------|---------|--------|-------|
|  | 2020/21         |         |         |         | 2021/22 |         |         | Ksh(Bn)       | %       | 2020/21     |       |       |       | 2021/22 |        |       |
|  | Q1              | Q2      | Q3      | Q4      | Jul-21  | Aug-21  | Q1      |               |         | Q1          | Q2    | Q3    | Q4    | Jul-21  | Aug-21 | Q1    |
| Total Stock of Domestic Debt (A+B)       | 3,457.1         | 3,488.5 | 3,569.8 | 3,697.1 | 3,792.1 | 3,864.9 | 3,937.8 | 240.7         | 6.5     | 100.0       | 100.0 | 100.0 | 100.0 | 100.0   | 100.0  | 100.0 |
| A. Government Securities                 | 3,377.0         | 3,417.0 | 3,496.4 | 3,615.3 | 3,695.5 | 3,784.2 | 3,860.3 | 245.0         | 6.8     | 97.7        | 98.0  | 97.9  | 97.8  | 97.5    | 97.9   | 98.0  |
| 1. Treasury Bills (excluding Repo Bills) | 894.7           | 855.7   | 761.9   | 765.4   | 751.6   | 759.2   | 763.5   | -1.9          | -0.3    | 25.9        | 24.5  | 21.3  | 20.7  | 19.8    | 19.6   | 19.4  |
| Banking institutions                     | 580.7           | 536.2   | 458.6   | 452.9   | 434.8   | 451.7   | 454.8   | 1.9           | 0.4     | 16.8        | 15.4  | 12.8  | 12.2  | 11.5    | 11.7   | 11.6  |
| The Central Bank                         | 0.1             | 4.6     | 0.5     | 0.5     | 0.0     | 0.0     | 8.1     | 7.6           | 1,407.2 | 0.0         | 0.1   | 0.0   | 0.0   | 0.0     | 0.0    | 0.2   |
| Commercial Banks                         | 580.6           | 531.6   | 458.0   | 452.4   | 434.8   | 451.7   | 446.7   | -5.6          | -1.2    | 16.8        | 15.2  | 12.8  | 12.2  | 11.5    | 11.7   | 11.3  |
| Pension Funds                            | 156.2           | 158.7   | 139.6   | 144.4   | 150.4   | 147.1   | 159.4   | 15.0          | 10.4    | 4.5         | 4.5   | 3.9   | 3.9   | 4.0     | 3.8    | 4.0   |
| Insurance Companies                      | 6.0             | 5.1     | 6.6     | 7.2     | 5.9     | 5.4     | 5.5     | -1.7          | -23.6   | 0.2         | 0.1   | 0.2   | 0.2   | 0.2     | 0.1    | 0.1   |
| Others                                   | 151.8           | 155.7   | 157.1   | 160.9   | 160.5   | 155.0   | 143.7   | -17.1         | -10.6   | 4.4         | 4.5   | 4.4   | 4.4   | 4.2     | 4.0    | 3.7   |
| 2. Treasury Bonds                        | 2,482.2         | 2,561.3 | 2,734.5 | 2,849.9 | 2,944.0 | 3,025.0 | 3,096.8 | 246.9         | 8.7     | 71.8        | 73.4  | 76.6  | 77.1  | 77.6    | 78.3   | 78.6  |
| Banking institutions                     | 1,234.1         | 1,244.3 | 1,324.6 | 1,367.1 | 1,414.9 | 1,438.2 | 1,476.3 | 109.2         | 8.0     | 35.7        | 35.7  | 37.1  | 37.0  | 37.3    | 37.2   | 37.5  |
| The Central Bank                         | 9.4             | 9.4     | 9.4     | 7.7     | 7.7     | 7.7     | 7.7     | 0.0           | 0.0     | 0.3         | 0.3   | 0.3   | 0.2   | 0.2     | 0.2    | 0.2   |
| Commercial Banks                         | 1,224.7         | 1,234.8 | 1,315.1 | 1,359.4 | 1,407.2 | 1,430.5 | 1,468.6 | 109.2         | 8.0     | 35.4        | 35.4  | 36.8  | 36.8  | 37.1    | 37.0   | 37.3  |
| Insurance Companies                      | 206.8           | 219.5   | 227.9   | 239.2   | 246.2   | 253.0   | 254.5   | 15.3          | 6.4     | 6.0         | 6.3   | 6.4   | 6.5   | 6.5     | 6.5    | 6.5   |
| Pension Funds                            | 830.0           | 899.0   | 947.9   | 986.8   | 1,021.3 | 1,048.2 | 1,070.8 | 83.9          | 8.5     | 24.0        | 25.8  | 26.6  | 26.7  | 26.9    | 27.1   | 27.2  |
| Others                                   | 211.3           | 198.6   | 234.1   | 256.8   | 261.6   | 285.6   | 295.3   | 38.5          | 15.0    | 6.1         | 5.7   | 6.6   | 6.9   | 6.9     | 7.4    | 7.5   |
| 3. Long Term Stocks                      | 0.0             | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0           | 0.0     | 0.0         | 0.0   | 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                        | 21.7            | 21.1    | 20.6    | 20.0    | 20.0    | 20.0    | 20.0    | 0.0           | 0.0     | 0.6         | 0.6   | 0.6   | 0.5   | 0.5     | 0.5    | 0.5   |
| Of which: Repo T/Bills                   | 20.5            | 20.0    | 19.4    | 19.4    | 19.4    | 19.4    | 19.4    | 0.0           | 0.0     | 0.6         | 0.6   | 0.5   | 0.5   | 0.5     | 0.5    | 0.5   |
| B. Others:                               | 58.5            | 50.4    | 52.9    | 61.8    | 76.6    | 60.7    | 57.5    | -4.3          | -7.0    | 1.7         | 1.4   | 1.5   | 1.7   | 2.0     | 1.6    | 1.5   |
| Of which CBK overdraft to Government     | 56.2            | 47.6    | 49.3    | 59.3    | 72.9    | 56.8    | 55.1    | -4.2          | -7.0    | 1.6         | 1.4   | 1.4   | 1.6   | 1.9     | 1.5    | 1.4   |

Source: Central Bank of Kenya

## Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) decreased by 0.3 percent during the first quarter of the FY 2021/22 in line with the Government's Medium-Term objective of reducing the stock of Treasury bills to minimize the refinancing risk. Commercial banks' and insurance companies' holdings of Treasury bills decreased by 2.1 percent and 23.6 percent, respectively while pension funds holdings increased by 10.4 percent. Commercial banks were the leading holders of Treasury bills at 58.5 percent (**Table 8.2**).

## Treasury Bonds

Treasury bond holdings increased by 8.7 percent during the first quarter of the FY 2021/22, which was higher than the 4.2 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 21-year Infrastructure Treasury bond issued during the quarter (**Table 8.3**). The leading holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

|            |                     | KShs (Billions) |         |         |         |         |         |         | Change Q on Q |       | Proportions |       |       |       |         |        |       |
|------------|---------------------|-----------------|---------|---------|---------|---------|---------|---------|---------------|-------|-------------|-------|-------|-------|---------|--------|-------|
|            |                     | 2020/21         |         |         |         | 2021/22 |         |         |               |       | 2020/21     |       |       |       | 2021/22 |        |       |
|            |                     | Q1              | Q2      | Q3      | Q4      | Jul-21  | Aug-21  | Q1      | KShs(Bn)      | %     | Q1          | Q2    | Q3    | Q4    | Jul-21  | Aug-21 | Q1    |
|            | 91-Day              | 119.3           | 66.1    | 39.7    | 40.2    | 57.5    | 77.1    | 81.5    | 41.3          | 102.8 | 3.4         | 1.9   | 1.1   | 1.1   | 1.5     | 2.0    | 2.1   |
| Treasury   | 182-Day             | 120.5           | 134.3   | 129.3   | 125.5   | 153.9   | 169.0   | 176.1   | 50.6          | 40.3  | 3.5         | 3.8   | 3.6   | 3.4   | 4.1     | 4.4    | 4.5   |
| bills      | 364-Day             | 655.0           | 655.4   | 592.9   | 599.7   | 540.1   | 513.2   | 505.8   | -93.8         | -15.6 | 18.9        | 18.8  | 16.6  | 16.2  | 14.2    | 13.3   | 12.8  |
|            | 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    | 62.1    | 55.9    | 55.9    | 55.9    | 55.9    | 0.0           | 0.0   | 1.1         | 1.1   | 1.7   | 1.5   | 1.5     | 1.4    | 1.4   |
|            | 3-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   |
|            | 4-Year              | 4.8             | 4.8     | 4.8     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0           | 0.0   | 0.1         | 0.1   | 0.1   | 0.0   | 0.0     | 0.0    | 0.0   |
|            | 5-Year              | 366.7           | 327.4   | 327.4   | 316.5   | 292.1   | 292.1   | 269.1   | -47.4         | -15.0 | 10.6        | 9.4   | 9.2   | 8.6   | 7.7     | 7.6    | 6.8   |
|            | 6-Year              | 28.7            | 28.7    | 28.7    | 20.2    | 20.2    | 20.2    | 20.2    | 0.0           | 0.0   | 0.8         | 0.8   | 0.8   | 0.5   | 0.5     | 0.5    | 0.5   |
| Treasury   | 7-Year              | 50.1            | 50.1    | 50.1    | 41.5    | 41.5    | 41.5    | 41.5    | 0.0           | 0.0   | 1.5         | 1.4   | 1.4   | 1.1   | 1.1     | 1.1    | 1.1   |
| Bonds      | 8-Year              | 19.3            | 19.3    | 19.3    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0           | 0.0   | 0.6         | 0.6   | 0.5   | 0.0   | 0.0     | 0.0    | 0.0   |
|            | 9-Year              | 134.3           | 134.3   | 134.3   | 123.5   | 123.5   | 123.5   | 123.5   | 0.0           | 0.0   | 3.9         | 3.8   | 3.8   | 3.3   | 3.3     | 3.2    | 3.1   |
|            | 10-Year             | 574.4           | 541.0   | 556.5   | 490.5   | 490.5   | 514.3   | 514.3   | 23.7          | 4.8   | 16.6        | 15.5  | 15.6  | 13.3  | 12.9    | 13.3   | 13.1  |
|            | 11-Year             | 8.8             | 8.8     | 8.8     | 80.2    | 80.2    | 80.2    | 80.2    | 0.0           | 0.0   | 0.3         | 0.3   | 0.2   | 2.2   | 2.1     | 2.1    | 2.0   |
|            | 12-Year             | 116.8           | 116.8   | 114.8   | 119.9   | 119.9   | 119.9   | 108.0   | -11.9         | -9.9  | 3.4         | 3.3   | 3.2   | 3.2   | 3.2     | 3.1    | 2.7   |
|            | 15-Year             | 708.3           | 762.3   | 779.1   | 800.2   | 858.0   | 858.0   | 858.0   | 57.8          | 7.2   | 20.5        | 21.9  | 21.8  | 21.6  | 22.6    | 22.2   | 21.8  |
|            | 16- Year            | 71.7            | 71.7    | 152.6   | 152.0   | 152.0   | 152.0   | 152.0   | 0.0           | 0.0   | 2.1         | 2.1   | 4.3   | 4.1   | 4.0     | 3.9    | 3.9   |
|            | 18- Year            | 0.0             | 0.0     | 0.0     | 81.8    | 81.8    | 81.8    | 81.8    | 0.0           | 0.0   | 0.0         | 0.0   | 0.0   | 2.2   | 2.2     | 2.1    | 2.1   |
|            | 20-Year             | 252.4           | 299.1   | 336.3   | 388.9   | 427.4   | 484.7   | 484.7   | 95.7          | 24.6  | 7.3         | 8.6   | 9.4   | 10.5  | 11.3    | 12.5   | 12.3  |
|            | 21-Year             | 0.0             | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 106.7   | 106.7         | 100.0 | 0.0         | 0.0   | 0.0   | 0.0   | 0.0     | 0.0    | 2.7   |
|            | 25-Year             | 80.2            | 131.3   | 131.3   | 150.6   | 172.8   | 172.8   | 172.8   | 22.2          | 14.7  | 2.3         | 3.8   | 3.7   | 4.1   | 4.6     | 4.5    | 4.4   |
|            | 30-Year             | 28.1            | 28.1    | 28.1    | 28.1    | 28.1    | 28.1    | 28.1    | 0.0           | 0.0   | 0.8         | 0.8   | 0.8   | 0.8   | 0.7     | 0.7    | 0.7   |
|            | Repo T bills        | 20.5            | 20.0    | 19.4    | 19.4    | 19.4    | 19.4    | 19.4    | 0.0           | 0.0   | 0.6         | 0.6   | 0.5   | 0.5   | 0.5     | 0.5    | 0.5   |
|            | Overdraft           | 56.2            | 47.6    | 49.3    | 59.3    | 72.9    | 56.8    | 55.1    | -4.2          | -7.0  | 1.6         | 1.4   | 1.4   | 1.6   | 1.9     | 1.5    | 1.4   |
|            | Other Domestic debt | 3.4             | 3.9     | 4.8     | 4.0     | 4.3     | 4.5     | 3.0     | -1.1          | -26.6 | 0.1         | 0.1   | 0.1   | 0.1   | 0.1     | 0.1    | 0.1   |
| Total Debt |                     | 3,457.1         | 3,488.5 | 3,569.8 | 3,698.0 | 3,792.1 | 3,864.9 | 3,937.8 | 239.7         | 6.5   | 100.0       | 100.0 | 100.0 | 100.0 | 100.0   | 100.0  | 100.0 |

Source: Central Bank of Kenya

## Maturity Structure of Domestic Debt Issued

The government issued 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 80:20 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 75.0 percent of the total outstanding Treasury Bonds, representing a 0.4 percentage points decrease from the previous quarter. Nevertheless, the refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 19.4 percent in September 2021 from 20.7 percent in June 2021.

## External Debt

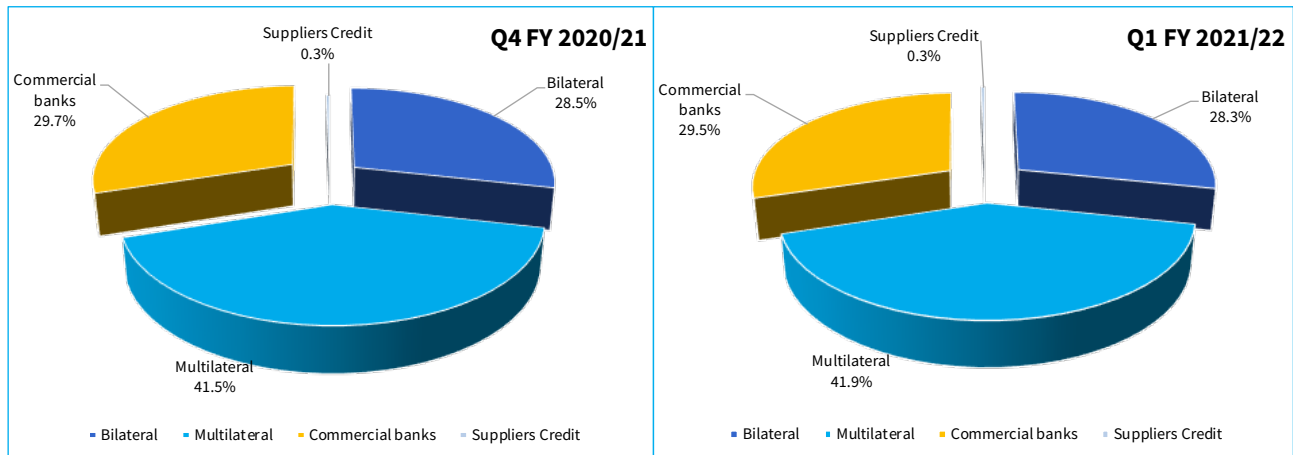
Public and publicly guaranteed external debt increased by 1.5 percent during the first quarter of the FY 2021/22. This increase was majorly driven by disbursements of US dollar 41.1 million from African Development bank (AfDB). Foreign exchange risk on external debt remained relatively low during the 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 0.4 percentage points, mainly driven by disbursements

from AfDB during the quarter under review. The proportion of commercial debt decreased by 0.2 percentage points during the fourth quarter of FY 2020/21.

**Chart 8.1: Composition of external debt by lender classification**

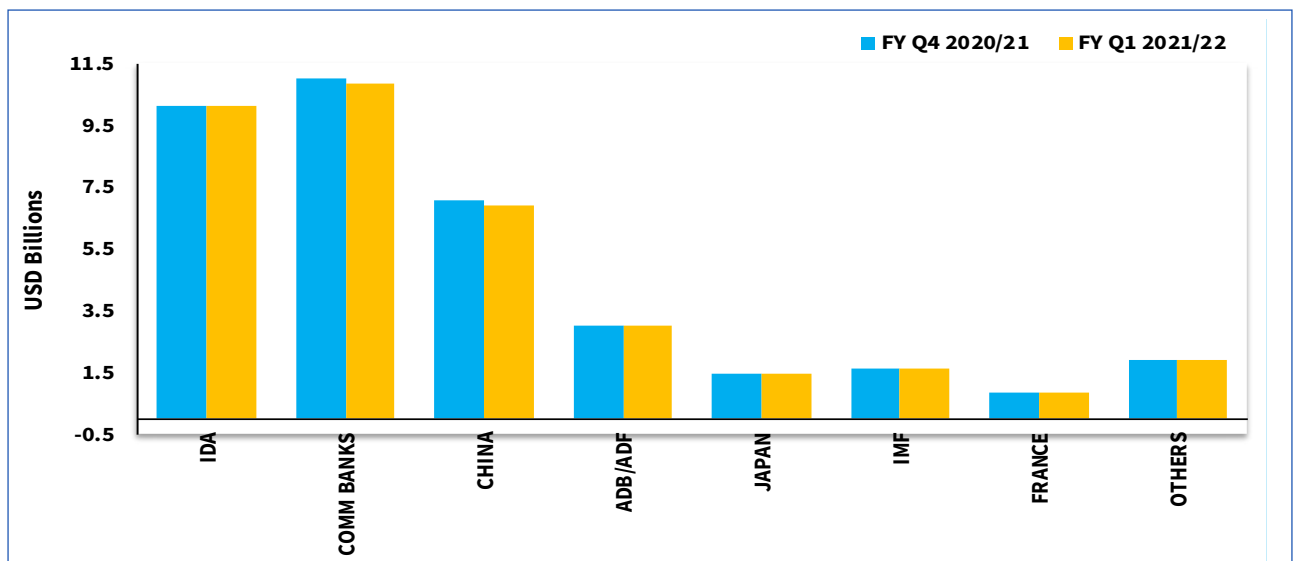


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 10.1 billion (or 29.5 percent of

external debt) Debt owed to China, Kenya's largest bilateral lender, amounted to USD 76.9 billion, or 18.8 percent of the total external debt by the first quarter of the FY 2021/22 (**Chart 8.2**).

**Chart 8.2: External debt by creditor**



Source: The National Treasury

### Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 86 percent of the total currency composition at the end of the first quarter of the FY 2021/22. The proportion held in US dollar increased by 1.0 percentage points on account of the US dollar denominated disbursements from AfDB. (Chart 8.3).

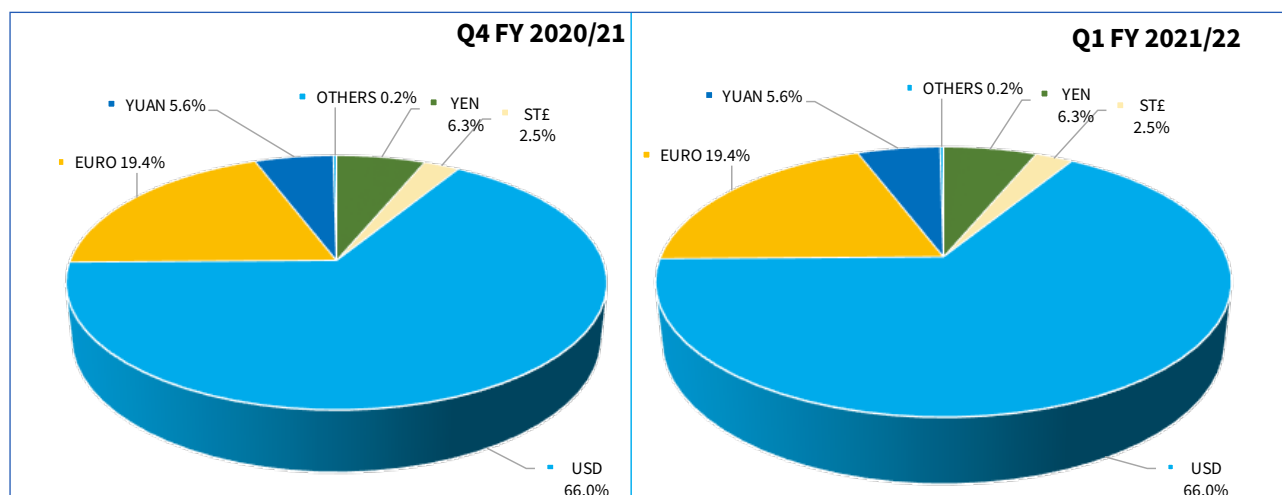
### Public Debt Service

The ratio of domestic interest payments to revenues was 19.7 percent during the first quarter of the FY 2021/22. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the first quarter of FY 2021/22 amounted to

Ksh 77.3 billion. External debt service to revenue and exports ratios increased during the quarter under review with the debt service to exports ratio

surpassing the carrying capacity threshold for Kenya. **(Table 8.4).**

**Chart 8.3: Debt composition by currency**



Source: The National Treasury

### Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in March 2021 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 was 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 scenarios. There was 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 | Q1 FY 2020/21 | Q2 FY 2020/21 | Q3 FY 2020/21 | Q4 FY 2020/21 | FY 2020/21 | Q1 FY 2021/22 |
|--------------------------------|---------------|---------------|---------------|---------------|------------|---------------|
| Debt service to Revenues (18%) | 12.3          | 14.1          | 10.4          | 9.7           | 11.6       | 15.1          |
| Debt service to Exports (15%)  | 19.0          | 23.0          | 15.3          | 17.8          | 18.8       | 25.7          |

Source: Central Bank of Kenya and The National Treasury

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

## Chapter 9

# Capital Markets

Overall performance of equities market improved in the third quarter of 2021 compared to the second quarter of 2021. The NSE 20 share index, NASI and market capitalization rose by 5.4 percent, 2.8

percent and 2.8 percent, respectively. However, total equities turnover and number of shares traded declined by 17.5 percent and 13.9 percent, respectively (**Table 9.1 and Chart 9.1**).

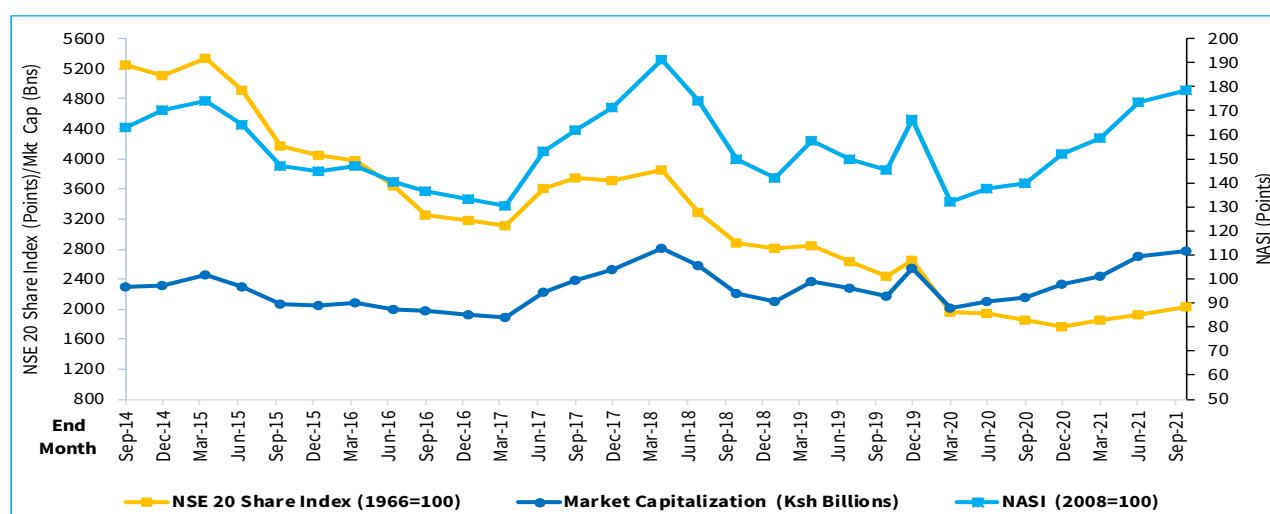
**Table 9.1: Selected stock market indicators**

| INDICATOR  | 2020     |          |          |          | 2021     | 2021    | 2021    | 2021   | % CHANGE<br>(2021Q3-<br>2021Q2) |
|--|----------|----------|----------|----------|----------|---------|---------|--------|---------------------------------|
|  | Q1       | Q2       | Q3       | Q4       | Q1       | Q2      | Q3      | Q1     |                                 |
| NSE 20 Share Index (1966=100)                              | 1966.1   | 1942.1   | 1852.3   | 1759.9   | 1846.4   | 1927.5  | 2031.2  | 5.38   | 4.91                            |
| NASI (2008=100)  | 131.92   | 137.68   | 139.89   | 152.11   | 158.62   | 173.53  | 178.31  | 2.75   | 4.28                            |
| Number of Shares Traded (Millions)                         | 1,360.5  | 1,421.8  | 1,512.2  | 969.5    | 997.8    | 1,099.6 | 946.5   | -13.93 | 2.91                            |
| Equities Turnover (Ksh Millions)                           | 43,693.3 | 39,534.4 | 37,936.6 | 27,510.8 | 31,735.0 | 37,992  | 31,360  | -17.45 | 15.35                           |
| Market Capitalization (Ksh Billions)                       | 2,016    | 2,105    | 2,148    | 2,337    | 2,437    | 2,702   | 2,779   | 2.84   | 4.29                            |
| Foreign Purchase (Ksh Millions)                            | 21,046   | 20,429   | 23,290   | 16,744   | 18,575   | 21,060  | 16,535  | -21.49 | 10.94                           |
| Foreign Sales (Ksh Millions)                               | 32,229   | 30,679   | 27,817   | 19,412   | 19,551   | 23,069  | 15,601  | -32.37 | 0.71                            |
| Ave. Foreign Investor Participation to Equity Turnover (%) | 60.96    | 64.64    | 67.36    | 65.98    | 60.38    | 58.73   | 51.53   | -12.26 | -8.49                           |
| Bond Turnover (Ksh Millions)                               | 157,985  | 136,651  | 227,862  | 169,259  | 199,378  | 96,604  | 118,189 | 22.34  | 17.79                           |
| FTSE NSE Kenya Govt. Bond Index (Points)                   | 96.00    | 96.65    | 97.69    | 98.24    | 97.04    | 96.88   | 96.78   | -0.10  | -1.22                           |
| 7-Year Eurobond Yield (%)                                  | 8.78     | 7.30     | 7.44     | 4.86     | 5.60     | 4.81    | 5.03    | 0.22*  | 0.741*                          |
| 10-Year Eurobond Yield (%) -2024                           | 8.26     | 6.48     | 6.37     | 3.92     | 3.56     | 3.27    | 3.20    | -0.07* | -0.364*                         |
| 10-Year Eurobond Yield (%) -2028                           | 8.57     | 7.51     | 7.49     | 5.22     | 6.28     | 5.36    | 5.40    | 0.05*  | 1.060*                          |
| 12-Year Eurobond Yield (%)                                 | 9.08     | 8.21     | 8.19     | 5.85     | 7.12     | 6.22    | 6.51    | 0.29*  | 1.268*                          |
| 13-Year Eurobond Yield (%) 2034                            |          |          |          |          |          | 6.18    | 6.45    | 0.27*  | 0.933*                          |
| 30-Year Eurobond Yield (%) -2048                           | 9.08     | 8.21     | 8.19     | 5.85     | 7.12     | 6.22    | 6.51    | 0.29*  | 1.268*                          |

\* Percentage points

Source: Nairobi Security Exchange

**Chart 9.1: NSE 20, NASI and market capitalization**



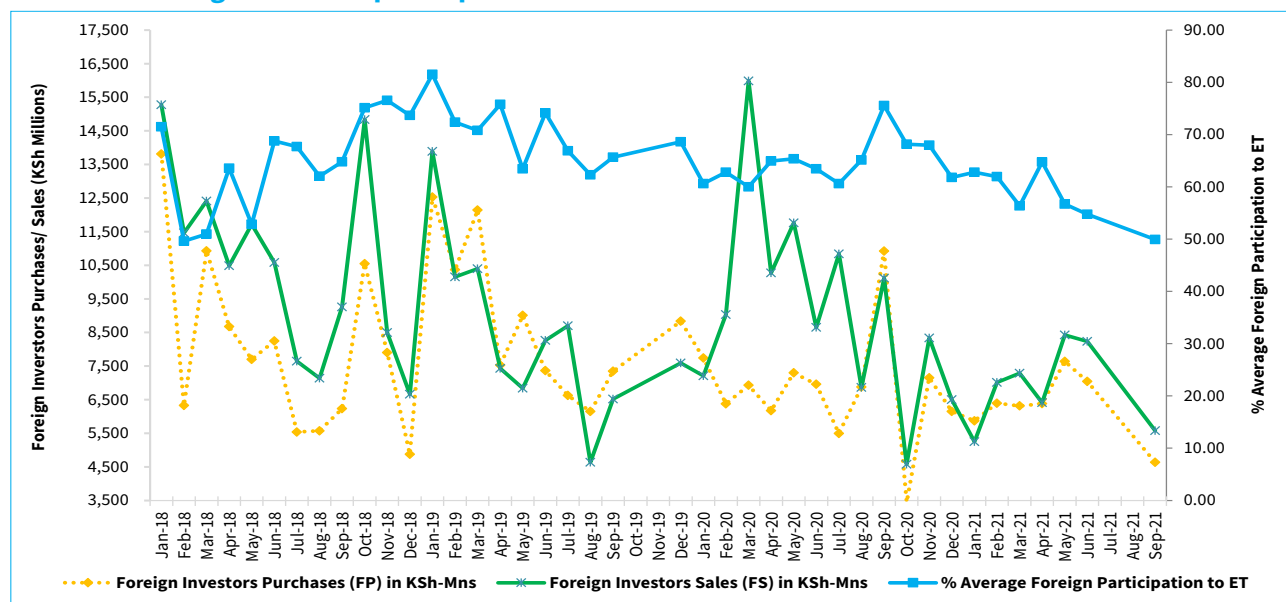
Source: Nairobi Security Exchange

## Foreign Investors' Participation

Both the value of equity purchases and sales by foreign investors at the NSE declined by 21.5 percent, and 32.4 percent, respectively in the third quarter of 2021. Average foreign investors' participation at the NSE as a proportion of total equity turnover,

declined to 51.5 percent in the third quarter of 2021 from 58.7 percent in the second quarter of 2021. However, there was a net foreign investor inflow as purchases exceeded sales (**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 increased by 22.3 percent, while the FTSE NSE Kenyan Government Bond Index declined by 0.1 percent in the third quarter of 2021 compared to the second

quarter of 2021. In the international market, yields on Kenya's Eurobonds rose by an average of 7.8 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                              | Sept             | Dec              | Mar              | Jun              | Sept             | Q3,2021                                  | Q2,2021        | Q1,2021         | Q4,2020         | Q3,2020         | Q3,2021                    | Q2,2021      | Q1,2021      | Q4,2020      | Q3,2020      |
| 1.1 Reserves and Gold Holdings          | 977,457          | 924,537          | 881,550          | 1,096,065        | 1,017,575        | (78,490)                                 | 214,515        | (42,987)        | (52,920)        | (117,047)       | (7.2)                      | 24.3         | (4.6)        | (5.4)        | (10.7)       |
| 1.2 Funds Held with IMF                 | 8,588            | 2,868            | 1,139            | 2,201            | 82,740           | 80,539                                   | 1,063          | (1,729)         | (5,720)         | 5,332           | 3,658.8                    | 93.3         | (60.3)       | (66.6)       | 163.8        |
| 1.3 Investment in Equity (Swift Shares) | 10               | 11               | 10               | 10               | 10               | 0  | (0)            | (0)             | 1               | 1               | 0.6                        | (0.3)        | (4.0)        | 5.5          | 5.6          |
| 1.4 Items in the Course of Collection   | 17               | 11               | 9                | 39               | 13               | (26)                                     | 31             | (2)             | (7)             | (4)             | (67.0)                     | 353.4        | (19.4)       | (38.2)       | (18.8)       |
| 1.5 Advances to Commercial Banks        | 84,011           | 71,073           | 65,324           | 59,540           | 65,650           | 6,111                                    | (5,785)        | (5,748)         | (12,938)        | 28,450          | 10.3                       | (8.9)        | (8.1)        | (15.4)       | 51.2         |
| 1.6 Loans and Other Advances            | 86,105           | 88,540           | 87,373           | 163,768          | 166,192          | 2,424                                    | 76,395         | (1,167)         | 2,434           | 3,130           | 1.5                        | 87.4         | (1.3)        | 2.8          | 3.8          |
| 1.7 Other Assets                        | 4,842            | 5,092            | 5,162            | 5,365            | 5,339            | (26)                                     | 203            | 70              | 250             | (423)           | (0.5)                      | 3.9          | 1.4          | 5.2          | (8.0)        |
| 1.8 Retirement Benefit Asset            | 6,538            | 6,538            | 6,538            | 7,639            | 7,639            | -  | 1,101          | -               | -               | -               | -                          | 16.8         | -            | -            | -            |
| 1.9 Property and Equipment              | 31,212           | 32,289           | 31,104           | 33,218           | 32,228           | (991)                                    | 2,114          | (1,185)         | 1,077           | (628)           | (3.0)                      | 6.8          | (3.7)        | 3.5          | (2.0)        |
| 1.10 Intangible Assets                  | 1,226            | 1,255            | 1,346            | 1,784            | 1,858            | 74                                       | 437            | 92              | 29              | 2               | 4.2                        | 32.5         | 7.3          | 2.4          | 0.1          |
| 1.11 Due Debt from Government of Kenya  | 77,433           | 68,982           | 69,946           | 79,288           | 75,219           | (4,069)                                  | 9,342          | 964             | (8,451)         | 8,501           | (5.1)                      | 13.4         | 1.4          | (10.9)       | 12.3         |
| <b>TOTAL ASSETS</b>                     | <b>1,277,438</b> | <b>1,201,193</b> | <b>1,149,501</b> | <b>1,448,918</b> | <b>1,454,464</b> | <b>5,547</b>                             | <b>299,417</b> | <b>(51,692)</b> | <b>(76,245)</b> | <b>(72,688)</b> | <b>0.4</b>                 | <b>26.0</b>  | <b>(4.3)</b> | <b>(6.0)</b> | <b>(5.4)</b> |
| <b>2.0 LIABILITIES</b>                  |                  |                  |                  |                  |                  |  |                |                 |                 |                 |                            |              |              |              |              |
| 2.1 Currency in Circulation             | 268,121          | 290,544          | 281,586          | 277,129          | 282,844          | 5,715                                    | (4,457)        | (8,957)         | 22,423          | 10,329          | 2.1                        | (1.6)        | (3.1)        | 8.4          | 4.0          |
| 2.2 Investments by Banks                |                  |                  |                  |                  |                  |  |                |                 |                 |                 |                            |              |              |              |              |
| 2.3 Deposits                            | 630,200          | 520,369          | 484,787          | 728,001          | 625,292          | (102,709)                                | 243,213        | (35,582)        | (109,831)       | (101,987)       | (14.1)                     | 50.2         | (6.8)        | (17.4)       | (13.9)       |
| 2.4 International Monetary Fund         | 155,967          | 154,570          | 150,890          | 221,174          | 304,918          | 83,744                                   | 70,284         | (3,680)         | (1,398)         | 4,126           | 37.9                       | 46.6         | (2.4)        | (0.9)        | 2.7          |
| 2.5 Other Liabilities                   | 5,635            | 6,031            | 6,274            | 6,101            | 6,164            | 63                                       | (173)          | 243             | 395             | 362             | 1.0                        | (2.8)        | 4.0          | 7.0          | 6.9          |
| <b>TOTAL LIABILITIES</b>                | <b>1,059,924</b> | <b>971,513</b>   | <b>923,537</b>   | <b>1,232,404</b> | <b>1,219,218</b> | <b>(13,187)</b>                          | <b>308,867</b> | <b>(47,976)</b> | <b>(88,411)</b> | <b>(94,167)</b> | <b>(1.1)</b>               | <b>33.4</b>  | <b>(4.9)</b> | <b>(8.3)</b> | <b>(8.2)</b> |
| <b>3.0 EQUITY AND RESERVES</b>          | <b>217,514</b>   | <b>229,680</b>   | <b>225,964</b>   | <b>216,513</b>   | <b>229,309</b>   | <b>12,796</b>                            | <b>(9,450)</b> | <b>(3,716)</b>  | <b>12,165</b>   | <b>21,479</b>   | <b>5.9</b>                 | <b>(4.2)</b> | <b>(1.6)</b> | <b>5.6</b>   | <b>11.0</b>  |
| Share Capital                           | 35,000           | 35,000           | 35,000           | 35,000           | 35,000           | -  | -              | -               | -               | -               | -                          | -            | -            | -            | -            |
| General reserve fund                    | 128,219          | 128,219          | 128,219          | 128,219          | 155,388          | 27,168                                   | -              | -               | -               | 33,592          | 21.2                       | -            | -            | -            | 35.5         |
| Period surplus/(Deficit)                | 23,979           | 36,145           | 32,429           | 22,978           | 4,727            | (18,252)                                 | (9,450)        | (3,716)         | 12,165          | (9,613)         | (79.4)                     | (29.1)       | (10.3)       | 50.7         | (28.6)       |
| Asset Revaluation                       | 17,801           | 17,801           | 17,801           | 17,801           | 21,680           | 3,879                                    | -              | -               | -               | 21.8            | -                          | -            | -            | -            | -            |
| Fair Value Reserves -OCI                | 12,515           | 12,515           | 12,515           | 12,515           | 12,515           | -  | -              | -               | -               | (0)             | -                          | -            | -            | -            | (0.0)        |
| Retirement Benefit Asset Reserves       |                  |                  |                  |                  |                  |  |                |                 |                 |                 |                            |              |              |              |              |
| Consolidated Fund                       |                  |                  |                  |                  |                  |  |                |                 |                 | (2,500)         |                            |              |              |              | (100.0)      |
| <b>4 TOTAL LIABILITIES AND EQUITY</b>   | <b>1,277,438</b> | <b>1,201,193</b> | <b>1,149,501</b> | <b>1,448,918</b> | <b>1,454,464</b> | <b>5,546</b>                             | <b>299,417</b> | <b>(51,692)</b> | <b>(76,245)</b> | <b>(72,687)</b> | <b>0.4</b>                 | <b>26.0</b>  | <b>(4.3)</b> | <b>(6.0)</b> | <b>(5.4)</b> |

# Notes on the Financial Position of the CBK

## Assets

Growth in the Central Bank of Kenya (CBK) balance sheet moderated to 0.4 percent in the third quarter from 26 percent in the previous quarter. This deceleration reflected a decline in Reserve and gold holdings and debt due from government. This decline partly offset the expansion of the balance sheet resulting from an increase in funds with the IMF and advances to commercial banks.

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 reflected debt service and central bank 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 declined partly reflecting reduced utilization of the overdraft facility at the Central Bank during the quarter.

## Liabilities

On the liability side, the moderation in the growth of the Central Bank's balance sheet was largely reflected in deposits which decreased by KSh 102.7 billion in the third quarter of 2021. However, other liabilities items increased in the third quarter, including currency in circulation which increased by KSh 5.7 billion compared to a decline of KSh 4.5 billion in the previous quarter.

Growth in equity and reserves increased by 5.9 percent in the third quarter of 2021 compared to a decline of 4.2 percent in the second quarter of 2021.





**Central Bank of Kenya**

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