



Central Bank of Kenya

Quarterly Economic Review

January-March 2022



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the 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, supported by recovery in economic activity following easing of COVID-19 restrictions. The 2022 Economic Survey released by the Kenya National Bureau of Statistics (KNBS) shows that the economy grew by 7.5 percent compared to a contraction of 0.3 percent in 2020. The strong performance was supported by recovery in services and industry sectors, particularly manufacturing, wholesale and retail trade, real estate, transport and storage, and financial and insurance sectors. However, the agricultural sector was subdued following unfavorable weather conditions in most parts of the country, which affected crop production.

Overall inflation declined to 5.3 percent in the first quarter of 2022, from 6.0 percent in the fourth quarter of 2021, driven by easing prices of selected fuel items following government interventions, and declining food prices due to seasonal factors. Non-food Non-fuel (NFNF) inflation remained stable, reflecting muted demand pressures in the economy.

Growth in broad money supply (M3) declined marginally in the first quarter of 2022 by 0.3 percent compared to an increase of 1.4 percent in the previous quarter, largely due to a decline in corporate deposits. Short-term interest rates remained relatively low in the first quarter, supported by accommodative monetary policy stance and ample money market liquidity.

The current account is estimated to have narrowed to USD 1,179 million in the first quarter of 2022 from USD 1,294 million in the first quarter of 2021 reflecting an improvement in receipts from merchandise goods, services and remittances. Secondary income inflows were boosted by remittances, which increased to USD 1,024 in the first quarter of 2022 from USD 848 million in a similar quarter of 2021.

The banking sector remained stable and resilient in the first quarter of 2022. Total net assets increased by 1.6 percent to Ksh.6,103.0 billion in March 2022, from Ksh.6,008.0 billion in December 2021. The deposit base also increased by 0.6 percent to Ksh.4,466.7 billion in the first quarter of 2022, from Ksh.4,441.9 billion in the fourth quarter of 2021. The sector was well capitalized with capital adequacy ratio of 18.9 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the first quarter of 2022, with quarterly profit before tax of Ksh.57.3 billion, an increase from Ksh.49.3 billion reported in the fourth quarter of 2021. Credit risk remained elevated with Gross Non-performing Loans (NPLs) to Gross Loans Ratio standing at 14.0 percent in the first quarter of 2022, compared to 13.1 percent in fourth quarter of 2021.

The Government's budgetary operations at the end of the third quarter of FY 2021/22 resulted in a deficit (including grants) of 3.9 percent of GDP. Revenue collection was above target while expenditure remained below the target.

Kenya's public and publicly guaranteed debt increased by 2.4 percent during the third quarter of the FY 2021/22. Domestic and external debt increased by 4.0 percent and 0.8 percent, respectively.

The overall equity market activity declined the first quarter of 2022 compared to the fourth quarter of 2021. The NSE 20 and NASI share price indices declined by 2.9 percent and 6.4 percent, respectively, while the equity turnover, market capitalization and the total number of shares traded declined by 23.3 percent, 6.5 percent and 25.2 percent respectively.

Chapter 1

Inflation

Overview

Overall inflation declined to 5.3 percent in the first quarter of 2022, from 6.0 percent in the fourth quarter of 2021, driven by easing prices of fuel items following government interventions, and declining prices key food items due to seasonal factors, respectively. Food inflation declined to 9.2 percent, from 9.9 percent in the previous quarter, as prices of key food items eased following improved weather conditions during the quarter. Likewise, fuel

inflation declined to 6.8 percent from 10.1 percent in the previous quarter, on account of continued Government interventions to stabilize pump prices. Meanwhile, Non-food Non-fuel (NFNF) inflation remained relatively stable at 2.1 percent, compared to 2.0 percent in the previous quarter, reflective of muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar
Overall inflation	5.8	6.0	6.7	6.0	5.3	5.4	5.1	5.6
Food Inflation	7.0	7.3	10.1	9.9	9.2	8.9	8.7	9.9
Fuel Inflation	13.9	14.2	10.8	10.1	6.8	8.2	6.5	5.8
Non-Food-Non-Fuel (NFNF) Inflation	2.3	2.5	2.7	2.0	2.1	1.9	2.0	2.2
Annual Average Inflation*	5.0	5.2	5.7	6.1	6.1	6.1	6.0	6.3
Three Months Annualised Inflation	9.4	6.1	2.8	5.8	6.7	6.9	6.7	6.5

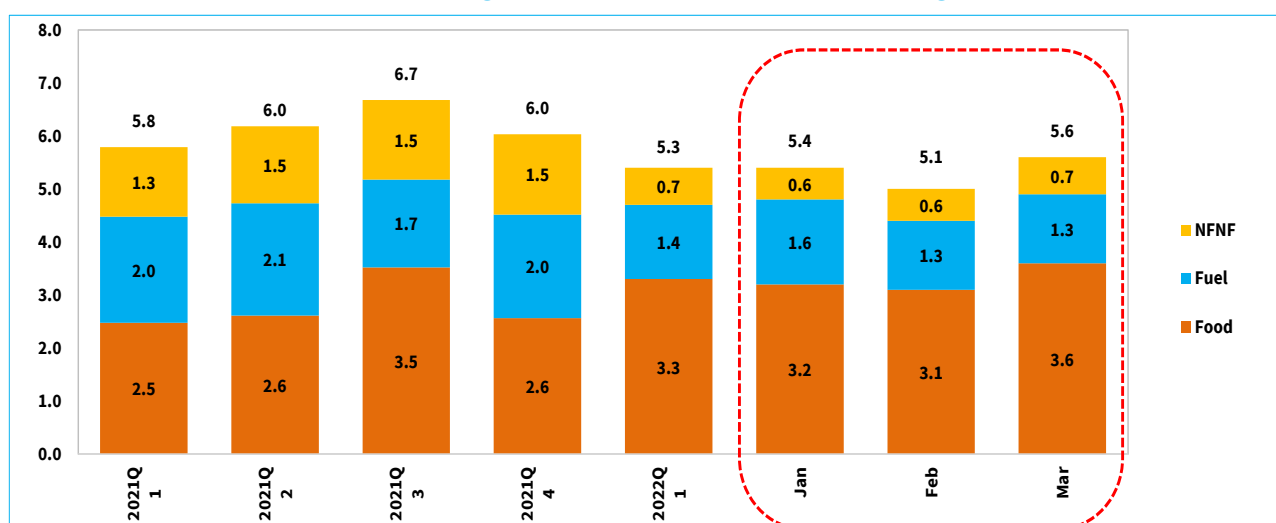
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Despite the decline in food inflation during the quarter under review, its contribution to overall inflation increased to 3.3 percentage points, from 2.6 percentage points in the previous quarter. On the other hand, the contribution of the fuel component declined to 1.4 percentage points, from 2.0 percentage points in the previous quarter. Similarly, the contribution of Non-food Non-fuel inflation declined to 0.7 percentage points from 1.5 percentage points in the previous quarter (**Chart 1.1**).

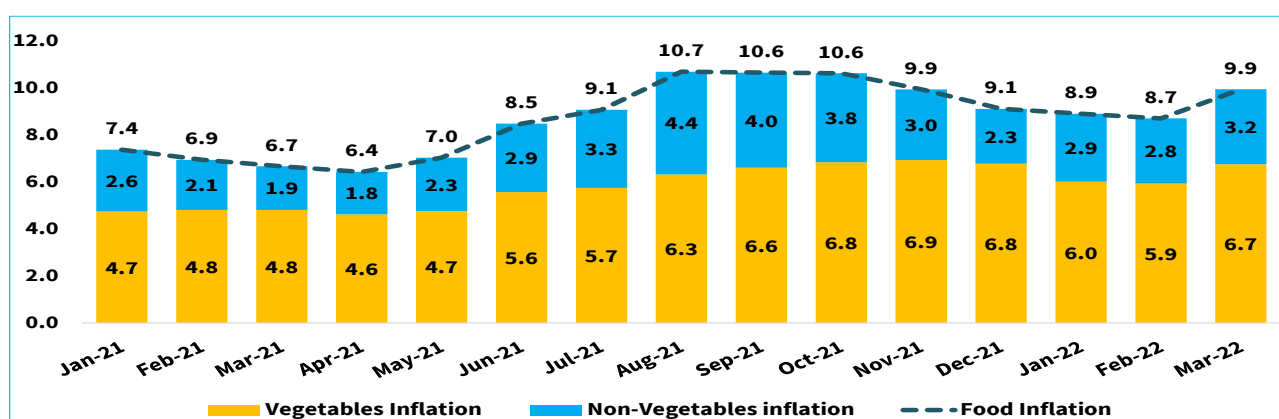
Food Inflation

Food inflation declined to 9.2 percent in the first quarter of 2022, from 9.9 percent in the fourth

quarter of 2021, as prices of key food items eased due to seasonal factors. Vegetables inflation continued to be the dominant driver of food inflation. However, its contribution declined during the quarter under review, following a decline in the prices of tomatoes, cabbages, traditional vegetables, and peas, on account of enhanced supply due to favorable weather conditions. Similarly, the contribution of non-vegetables inflation declined during the quarter, on account of reduced prices of selected items such as beef, beans, green grams, ripe bananas, avocados, mangoes, apples and melon (**Chart 1.2**).

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

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

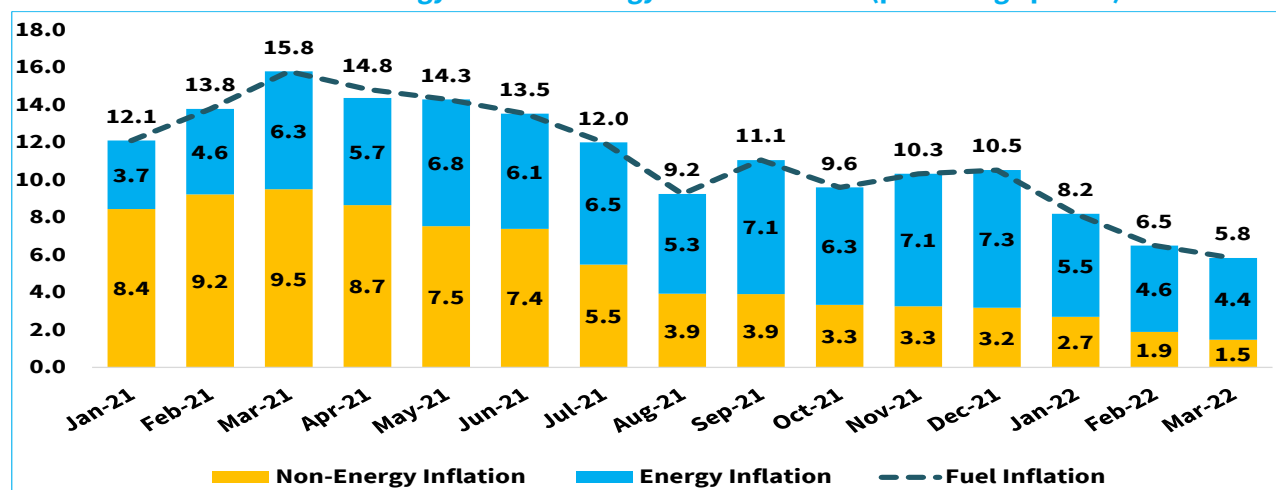
Chart 1.2: Food inflation by category (percent)

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

Fuel Inflation

Fuel inflation declined to 6.8 percent from 10.1 percent in the previous quarter, reflecting continued Government interventions that stabilized pump prices and reduced electricity cost. The energy inflation remained the main driver of fuel inflation, but its contribution declined in the quarter under review, as pump prices remained stable following Government support. Similarly, electricity prices declined in the quarter under review, in line with the Presidential directive to reduce electricity prices by

15 percent in the first quarter of 2022, in line with the recommendations of the Presidential task force on Power Purchase Agreements (PPAs). Likewise, the contribution of non-energy items declined during the quarter under review, following easing of COVID-19 restrictions in the transport sector, which led to reduced fares, and Government intervention on pump prices (**Chart 1.3**).

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

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

Non-Food Non-Fuel Inflation (NFnF)

Non-food Non-fuel (NFnF) inflation remained relatively stable at 2.1 percent, compared to 2.0 percent in the previous quarter, reflective of muted demand pressures in the economy. The marginal increase reflected increases recorded in the

‘Housing and water’ and ‘Furnishings, Household Equipment and Routine Household Maintenance categories (Table 1.2).

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFnF
2021	Q1	2.7	2.3	0.8	3.4	4.3	0.9	2.8	2.0	4.5	1.6	2.3	2.3
	Q2	2.4	2.2	1.2	3.9	4.3	1.4	1.9	2.3	4.1	1.8	3.2	2.5
	Q3	2.9	2.8	1.5	4.8	3.6	2.9	1.2	1.9	3.5	2.1	3.2	2.7
	Q4	3.5	2.1	1.7	4.2	1.5	2.5	1.2	1.5	0.7	0.9	2.9	2.0
2022	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
	Jan	3.5	2.1	2.2	5.0	0.9	2.5	0.7	1.0	0.2	0.6	2.8	1.9
	Feb	3.3	2.0	2.0	5.4	0.9	2.5	0.8	0.9	1.3	0.4	2.6	2.0
	Mar	3.6	1.9	2.2	6.4	1.1	2.4	1.1	0.9	1.5	0.4	2.8	2.2

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

Chapter 2

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Growth in broad money supply (M3) declined marginally in the first quarter of 2022 by 0.3 percent compared to an increase of 1.4 percent in the previous quarter, largely due decreases in deposits. The decline in deposits was mainly reflected in the corporate deposit holdings, which declined by 3.5 percent compared to an increase of 4.3 percent in the previous quarter. The decline in corporate deposit holdings, was largely on account of reduced demand deposits. Growth of household deposit holdings

improved in the first quarter. Cash outside banks declined in the first quarter due to reduced demand for cash following the end of the festive season (**Tables 2.1 & 2.2**).

The 12-month growth in broad money supply, M3 moderated to 4.8 percent in March 2022 compared to 6.1 percent in December 2021, partly reflecting reduced net lending to government and net foreign assets of the banking system.

Table 2.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1716.7	1779.2	1770.8	1848.1	1796.3	-0.2	3.6	-0.5	4.4	-2.8	-3.4	62.5	-8.4	77.3	-51.8
1.1 Currency outside banks	225.8	225.9	234.4	253.5	248.1	-3.4	0.0	3.8	8.1	-2.1	-7.9	0.1	8.5	19.1	-5.4
1.2 Demand deposits	1405.6	1409.9	1430.2	1498.4	1477.2	1.4	0.3	1.4	4.8	-1.4	19.8	4.3	20.2	68.2	-21.2
1.3 Other deposits at CBK 1/	85.4	143.5	106.4	96.3	71.1	-15.1	68.0	-25.8	-9.5	-26.2	-15.2	58.1	-37.1	-10.1	-25.2
2. Money supply, M2 (1+2.1)	3250.3	3377.5	3408.1	3431.6	3410.2	0.0	3.9	0.9	0.7	-0.6	0.1	127.2	30.7	23.4	-21.4
2.1 Time and saving deposits	1533.5	1598.2	1637.3	1583.5	1613.8	0.2	4.2	2.4	-3.3	1.9	3.5	64.7	39.1	-53.9	30.3
3. Money supply, M3 (2+3.1)	4030.0	4137.8	4177.7	4235.2	4221.2	1.0	2.7	1.0	1.4	-0.3	39.1	107.8	39.8	57.6	-14.0
3.1 Foreign Currency Deposits	779.7	760.3	769.5	803.7	811.1	5.3	-2.5	1.2	4.4	0.9	39.0	-19.4	9.2	34.1	7.4
Sources of M3															
1. Net foreign assets 2/	691.0	783.8	661.9	590.1	428.1	-7.5	13.4	-15.6	-10.8	-27.5	-55.9	92.8	-121.9	-71.8	-162.0
Central Bank	690.7	835.8	760.8	700.6	600.8	-6.5	21.0	-9.0	-7.9	-14.2	-47.8	145.1	-75.0	-60.2	-99.8
Banking Institutions	0.3	-52.0	-98.9	-110.5	-172.7	-96.3		90.1	11.7	56.3	-8.1	-52.4	-46.9	-11.6	-62.2
2. Net domestic assets (2.1+2.2)	3339.0	3354.0	3515.8	3645.1	3793.1	2.9	0.5	4.8	3.7	4.1	95.0	15.1	161.8	129.3	148.0
2.1 Domestic credit	4361.2	4392.5	4590.2	4823.0	5022.6	2.7	0.7	4.5	5.1	4.1	115.4	31.3	197.7	232.8	199.6
2.1.1 Government (net)	1406.6	1406.9	1530.1	1669.7	1758.3	4.7	0.0	8.8	9.1	5.3	63.4	0.3	123.1	139.6	88.6
2.1.2 Private sector	2865.3	2901.1	2979.3	3053.2	3177.3	1.9	1.3	2.7	2.5	4.1	54.0	35.9	78.2	73.9	124.1
2.1.3 Other public sector	89.3	84.4	80.8	100.1	87.1	-2.1	-5.5	-4.3	23.9	-13.0	-1.9	-4.9	-3.6	19.3	-13.0
2.2 Other assets net	-1022.2	-1038.5	-1074.4	-1177.9	-1229.5	2.0	1.6	3.5	9.6	4.4	-20.4	-16.2	-35.9	-103.5	-51.6
Memorandum items															
4. Overall liquidity, L (3+4.1)	5769.1	5899.5	6073.2	6202.3	6303.4	1.8	2.3	2.9	2.1	1.6	103.8	183.8	174.8	128.1	101.1
4.1 Non-bank holdings of government securities	1739.1	1761.7	1895.5	1967.1	2082.1	3.9	1.3	7.6	3.8	5.8	64.7	75.9	134.9	70.5	115.0

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Table 2.2: Deposit holdings of corporates and household sectors

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
1. Household Sector 1/	1769.6	1738.3	1765.5	1729.8	1811.6	0.3	-1.8	1.6	-2.0	4.7	4.6	-31.4	27.2	-35.7	81.8
1.1 Demand Deposits	606.1	583.7	581.0	568.4	634.5	-3.4	-3.7	-0.5	-2.2	11.6	-21.1	-22.4	-2.7	-12.6	66.1
1.2 Time and Saving Deposits	877.7	881.4	903.6	876.1	887.3	1.7	0.4	2.5	-3.0	1.3	14.8	3.8	22.1	-27.5	11.2
1.3 Foreign Currency Deposits	285.8	273.2	280.9	285.3	289.8	4.0	-4.4	2.8	1.6	1.6	11.0	-12.7	7.7	4.4	4.5
2. Corporate Sector	1896.7	1975.2	2012.7	2099.1	2026.1	2.8	4.1	1.9	4.3	-3.5	52.6	78.5	37.5	86.4	-73.1
2.1 Demand deposits	774.3	799.9	820.2	904.2	810.4	4.9	3.3	2.5	10.2	-10.4	36.2	25.6	20.3	84.0	-93.8
2.2 Time and Saving Deposits	629.9	689.8	705.3	678.8	696.2	-1.8	9.5	2.2	-3.8	2.6	-11.4	59.9	15.5	-26.5	17.4
2.3 Foreign Currency Deposits	492.5	485.5	487.2	516.1	519.4	6.0	-1.4	0.4	5.9	0.6	27.8	-7.0	1.7	28.9	3.3

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 decline in M3 in the first quarter of 2022 was the decrease in net foreign assets (NFA) of the banking system, which more than offset the increase in net domestic assets (NDA). The increase in net domestic assets was largely supported by increased lending to the private sector as business activities improved. The decline in net foreign assets of the banking system, partly reflected the central bank payments of government external obligations, and increased banks' borrowings from foreign sources and reduction in foreign deposit assets to support lending to customers (**Table 2.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system moderated to 3.0 percent from 5.0 percent in the previous quarter, reflecting a slowdown in net lending to government and a net repayment by the other public sector. Net lending to government declined in the quarter under

review, partly attributed to reduced drawdown of the Government deposits at CBK. The reduction in other public sector lending was mainly on account of repayments by county governments and parastatals (**Table 2.3**).

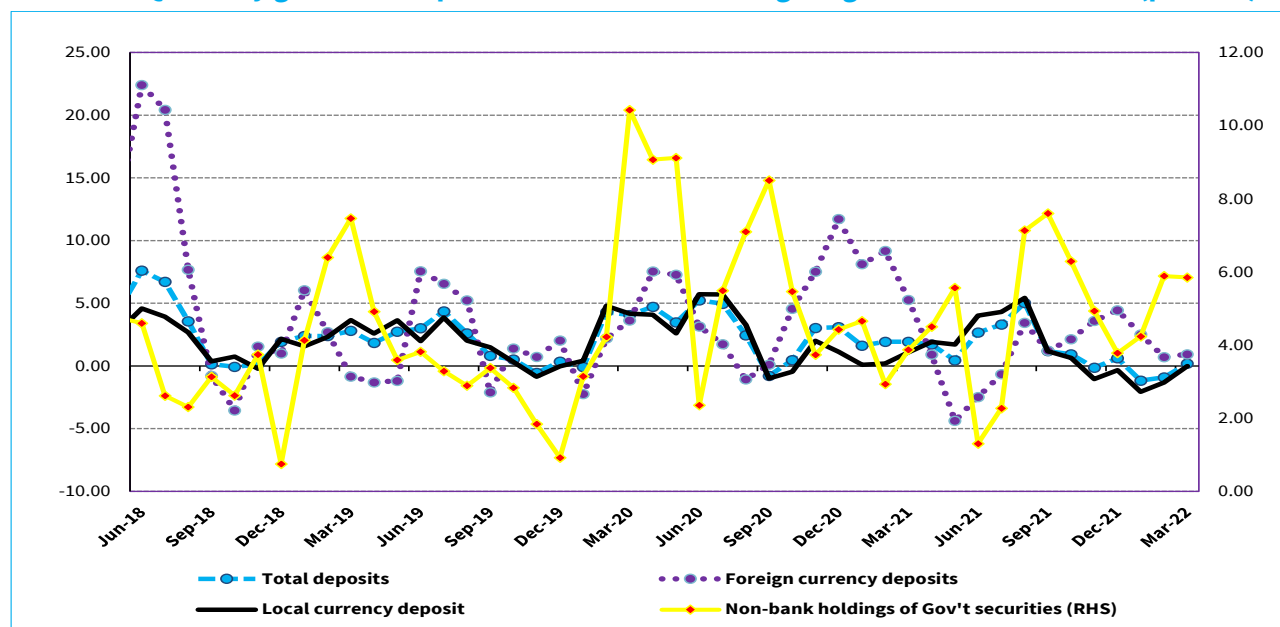
Quarterly growth in credit extended to the private sector improved to 4.1 percent in the first quarter compared to 2.5 percent in the previous quarter, supported by increased credit demand following improved economic activities. Strong credit growth was recorded in transport, building and construction, agriculture, and business services (**Table 2.3 and Chart 2.2**).

On annual basis, growth in lending to private sector increased to 10.9 percent in March 2022 from 8.6 percent in December, supported by recovery in economic activities, the accommodative monetary policy and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy (**Chart 2.1**).

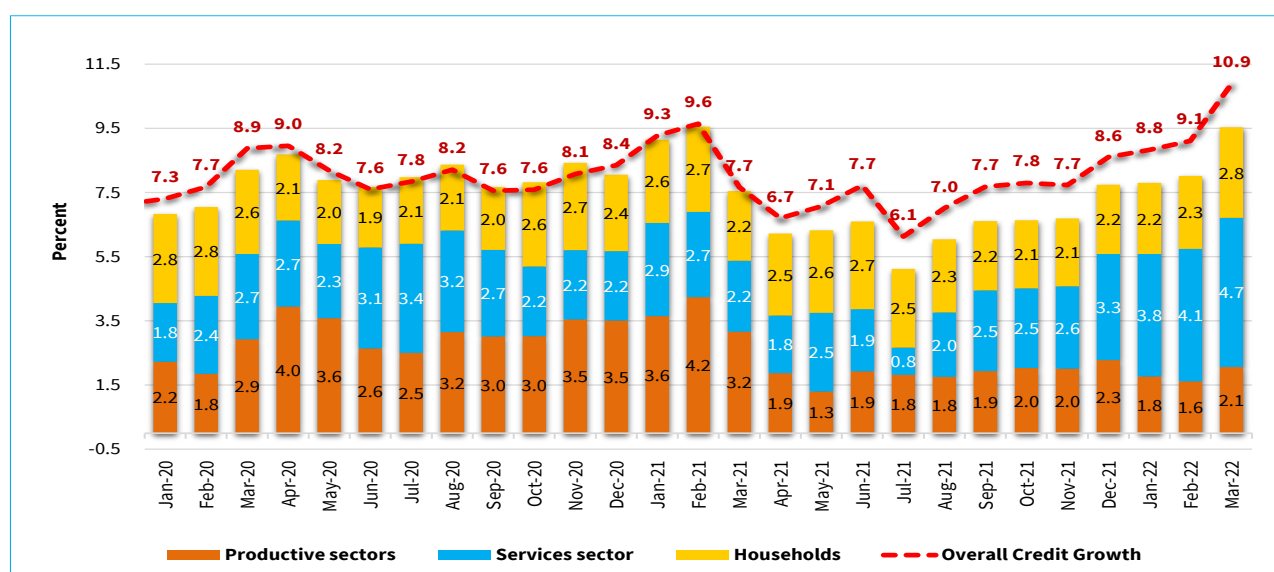
Table 2.3: Banking sector net domestic credit

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
1. Credit to Government	1,406.6	1,460.2	1,584.5	1,723.6	1,758.3	4.7	3.8	8.5	8.8	2.0	63.4	53.6	124.3	139.1	34.7
Central Bank	-19.9	-50.3	-17.7	67.4	86.8	-36.8	152.5	-64.8	-480.8	28.8	11.6	-30.4	32.6	85.1	19.4
Commercial Banks & NBFIs	1,426.6	1,510.5	1,602.2	1,656.1	1,671.5	3.8	5.9	6.1	3.4	0.9	51.8	83.9	91.7	53.9	15.4
2. Credit to other public sector	89.3	84.4	80.8	100.1	87.1	-2.1	-5.5	-4.3	23.9	-13.0	-1.9	-4.9	-3.6	19.3	-13.0
Local government	5.7	6.6	6.6	18.3	6.8	1.5	15.0	0.0	177.3	-62.8	0.1	0.9	0.0	11.7	-11.5
Parastatals	83.6	77.8	74.2	81.9	80.3	-2.3	-6.9	-4.6	10.4	-2.0	-2.0	-5.8	-3.6	7.7	-1.6
3. Credit to private sector	2,865.3	2,901.1	2,979.3	3,053.2	3,177.3	1.9	1.3	2.7	2.5	4.1	54.0	35.8	78.2	73.9	124.1
Agriculture	94.5	91.3	94.2	93.9	101.8	1.2	-3.4	3.2	-0.3	8.4	1.1	-3.2	2.9	-0.3	7.9
Manufacturing	429.2	429.4	445.0	463.0	471.8	4.9	0.0	3.6	4.0	1.9	19.9	0.2	15.6	18.0	8.8
Trade	491.9	498.8	509.1	526.5	542.9	1.4	1.4	2.1	3.4	3.1	6.9	6.9	10.3	17.4	16.4
Building and construction	122.0	116.5	119.8	121.9	129.8	1.9	-4.5	2.8	1.8	6.5	2.3	-5.5	3.3	2.1	7.9
Transport & communications	217.1	224.4	238.2	242.3	271.5	2.4	3.3	6.1	1.7	12.1	5.1	7.3	13.8	4.1	29.2
Finance & insurance	109.4	106.8	110.6	109.7	113.4	5.5	-2.4	3.6	-0.8	3.4	5.7	-2.6	3.8	-0.9	3.7
Real estate	407.9	411.8	413.4	409.4	410.0	0.3	0.9	0.4	-1.0	0.1	1.2	3.9	1.6	-4.0	0.6
Mining and quarrying	13.4	12.7	13.2	17.2	12.7	10.9	-5.1	3.9	30.3	-26.2	1.3	-0.7	0.5	4.0	-4.5
Private households	452.4	457.7	465.9	472.5	486.6	-0.7	1.2	1.8	1.4	3.0	-3.0	5.3	8.2	6.6	14.1
Consumer durables	300.1	312.7	321.6	335.0	346.8	3.0	4.2	2.8	4.2	3.5	8.8	12.6	8.9	13.4	11.8
Business services	163.1	162.4	168.7	175.4	187.1	1.8	-0.4	3.9	4.0	6.7	2.9	-0.7	6.3	6.7	11.7
Other activities	64.1	76.7	79.6	86.5	102.9	3.0	19.7	3.8	8.7	19.0	1.8	12.6	2.9	6.9	16.4
4. TOTAL (1+2+3)	4,361.2	4,445.8	4,644.6	4,876.9	5,022.6	2.7	1.9	4.5	5.0	3.0	115.4	84.6	198.8	232.3	145.7

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 declined by 8.1 percent in the first quarter of 2022 compared to an increase of 8.9 percent in the fourth quarter of 2021, reflecting a reduction in net foreign assets, which more than offset the increase in net domestic assets. The decrease in net foreign assets was mainly

attributable to government debt service. The contraction in reserve money was also reflected in decreased currency outside banks and bank reserves on account of reduced demand for liquidity after the end of year festivities (**Table 2.4**).

Table 2.4: Reserve money (RM) and its sources

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
1. Net Foreign Assets	690.7	835.8	760.8	700.6	600.8	-6.5	21.0	-9.0	-7.9	-14.2	-47.8	145.1	-75.0	-60.2	-99.8
2. Net Domestic Assets	-239.8	-386.0	-282.0	-179.0	-121.5	-10.7	61.0	-27.0	-36.5	-32.1	28.9	-146.3	104.1	103.0	57.5
2.1 Government Borrowing (net)	-19.9	-50.3	-17.7	67.4	86.8	-36.8	152.3	-64.7	-480.0	28.7	11.6	-30.3	32.5	85.2	19.4
2.2 Commercial banks (net)	60.5	-6.1	48.5	76.4	89.1	-0.5	-110.1	-893.3	57.6	16.6	-0.3	-66.6	54.6	27.9	12.7
2.3 Other Domestic Assets (net)	-283.7	-332.8	-315.9	-326.1	-301.0	-5.8	17.3	-5.1	3.2	-7.7	17.6	-49.2	16.9	-10.2	25.1
3. Reserve Money	451.0	449.8	478.8	521.6	479.3	-4.0	-0.3	6.5	8.9	-8.1	-18.9	-1.2	29.0	42.8	-42.3
3.1 Currency outside banks	225.8	225.9	234.4	253.5	248.1	-3.4	0.0	3.8	8.1	-2.1	-7.9	0.1	8.5	19.1	-5.4
3.2 Bank reserves	225.1	223.9	244.4	268.1	231.2	-4.7	-0.6	9.2	9.7	-13.8	-11.0	-1.2	20.5	23.7	-36.9

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) maintained the Central Bank Rate at 7.00 percent in January and March 2022 meetings. The Committee noted that the current accommodative monetary policy stance remained appropriate as inflation expectations remained anchored within the target range, and leading economic indicators showed continued robust performance.

b. Short Term Rates

Short-term interest rates remained relatively low in the first quarter, supported by accommodative monetary policy stance and ample money market liquidity. The weighted average interbank interest rates, decreased slightly to 4.72 percent in March 2022 compared to 5.10 percent in December 2021, partly reflecting reduced demand for liquidity after the festive season. Similarly, interest rates on Government securities remained relatively stable,

with the average 91-day Treasury bill rate at 7.25 percent in March 2022 compared to 7.26 percent in December 2021, while the average 182-day Treasury bill rate increased slightly to 8.08 percent from 7.95 percent in December 2021 (**Table 2.5**).

c. Lending and Deposit Rates

Commercial banks' average lending rate remained relatively stable, at 12.2 percent during the review period supported by accommodative monetary policy stance. Similarly, the average commercial banks' deposit rate was stable at 6.5 percent, partly reflecting ample liquidity. Consequently, the spread was stable at 5.65 percent in March compared to 5.66 percent in December 2021 (**Table 2.5**).

Table 2.5: Interest rates (percent)

	2021										2022		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	7.03	7.10	7.15	7.03	6.64	6.57	6.83	6.95	7.10	7.26	7.32	7.28	7.25
182-day Treasury bill rate	7.82	7.92	7.98	7.60	7.07	7.07	7.25	7.36	7.66	7.95	8.08	8.09	8.08
Interbank rate	5.23	5.12	4.62	4.63	4.17	3.10	4.73	5.30	4.97	5.10	4.36	4.73	4.72
Repo rate	6.12	6.61	6.05	5.37	5.31	5.41	5.54	6.40	5.03	5.31	5.09	-	-
Reverse Repo rate	7.78	7.51	-	-	-	-	7.62	7.45	-	8.37	8.51	8.46	8.54
Central Bank Rate (CBR)	7.00	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)	12.05	12.08	12.06	12.02	12.09	12.12	12.10	12.12	12.15	12.16	12.12	12.17	12.15
Overdraft rate	11.61	11.66	11.57	11.18	11.44	11.38	11.34	11.33	11.41	11.45	11.57	11.63	11.50
1-5years	12.15	12.19	12.20	12.24	12.28	12.29	12.29	12.29	12.34	12.33	12.34	12.32	12.39
Over 5years	12.11	12.15	12.11	12.12	12.17	12.24	12.21	12.25	12.23	12.24	12.12	12.24	12.17
Average deposit rate (2)	6.46	6.30	6.30	6.37	6.34	6.30	6.34	6.39	6.43	6.50	6.53	6.61	6.50
0-3months	6.68	6.74	6.63	6.76	6.63	6.59	6.61	6.64	6.76	6.91	6.95	7.10	6.89
Over 3 months deposit	6.89	6.88	7.03	7.08	7.10	7.03	7.04	7.15	7.16	7.19	7.19	7.23	7.25
Savings deposits	3.48	2.66	2.55	2.55	2.51	2.64	2.57	2.58	2.60	2.55	2.55	2.56	2.48
Spread (1-2)	5.58	5.78	5.76	5.64	5.76	5.82	5.76	5.72	5.72	5.66	5.59	5.55	5.65

Source: Central Bank of Kenya

Chapter 3

Economic Performance

Overview

The economy rebounded strongly in 2021, supported by recovery in economic activity following easing of COVID-19 restrictions. The 2022 Economic Survey released by the Kenya National Bureau of Statistics (KNBS) shows that the economy grew by 7.5 percent compared to a contraction of 0.3 percent in 2020. The strong performance was supported by recovery in services and industry sectors, particularly manufacturing, wholesale and retail trade, real estate, transport and storage, and financial and insurance sectors. However, the agricultural sector was subdued following unfavorable weather conditions in most parts of the country, which affected crop production (**Table 3.1**).

Non-Agriculture

Recovery in non-agriculture sector output in 2021 was strong and broad based. The sector grew by 9.4 percent, compared to a contraction of 1.4 percent in 2020, supported by normalization of economic activity in industry and services sectors. It contributed 7.7 percentage points to real GDP growth (**Table 3.1 and Chart 3.1**).

a) Services sector recovered strongly following easing of domestic and international COVID-19 restrictions. It grew by 9.8 percent in 2021 compared to a contraction of 1.8 percent in 2020 and contributed 5.4 percentage points to real GDP growth, driven by significant growth in wholesale and retail trade, accommodation and food services, transport and storage, information and communication, education, and health sectors.

- **Education sector** rebounded strongly by 21.4 percent in 2021 compared to a contraction of 9.3 percent in 2020, following normalization of education related activity as all learning institutions were reopened. The strong performance was reflected in increased enrollments across all learning institutions (pre-primary to university).
- **Transport and Storage sector** rebounded by 7.2 percent in 2021 compared to a contraction of 7.8 percent in 2020, following lifting of domestic and international travel restrictions. The strong performance was reflected in significant increases in the road transport sub-sector (16.1 percent), freight movement

through SGR (24.0 percent), total cargo throughput through the port of Mombasa (12.5 percent), oil throughput through KPC (10.1 percent), and passenger traffic through all airports (46.7 percent).

- **Information and Communication sector** expanded by 8.8 percent in 2021 compared to 6.3 percent in 2020, reflecting increased digitalization of the economy to mitigate the challenges imposed by COVID-19 shock. The positive performance reflects increased mobile subscriptions, mobile money transactions, increased fixed and wireless internet subscriptions, digital TV subscriptions, and online newspaper readership.
- **Accommodation and Food services sector:** the sector rebounded strongly by 52.5 percent in 2021 compared to a contraction of 47.7 percent in 2020, as the sector recovered following lifting of domestic and international restrictions and gradual reopening of the economy.
- **Wholesale and Retail Trade: the sector** rebounded by 7.9 percent in 2021 compared to a contraction of 0.5 percent in 2020, following pickup in activity in related sectors.

b) Industry rebounded strongly in 2021, reflecting continued normalization of industrial activity. It expanded by 7.2 percent compared to 3.3 percent in 2020, supported by strong activity in all industry sectors. It contributed 1.3 percentage points to real GDP growth (**Table 3.3**).

- **Manufacturing sector** recorded robust growth of 6.9 percent in 2021 compared to a contraction of 0.4 percent in 2020, supported by increased normalization of activity. The food subsector grew by 5.5 percent, reflected in increased processing of sugar (16.0 percent), meat and meat products (13.1 percent), dairy products (10.8 percent), and bakery products (9.3 percent). The non-food subsector also grew by 8.8 percent, reflected in increased production of non-metallic mineral products (23.2 percent), leather products (15.6 percent), motor vehicle trailers and semi-trailers (18.9 percent).

- **Construction sector** growth remained strong and stood at 6.6 percent in 2021 compared to 10.1 percent in 2020. The strong performance was supported by continued Government investment in infrastructure projects, reflected in increased cement consumption by 23.4 percent.

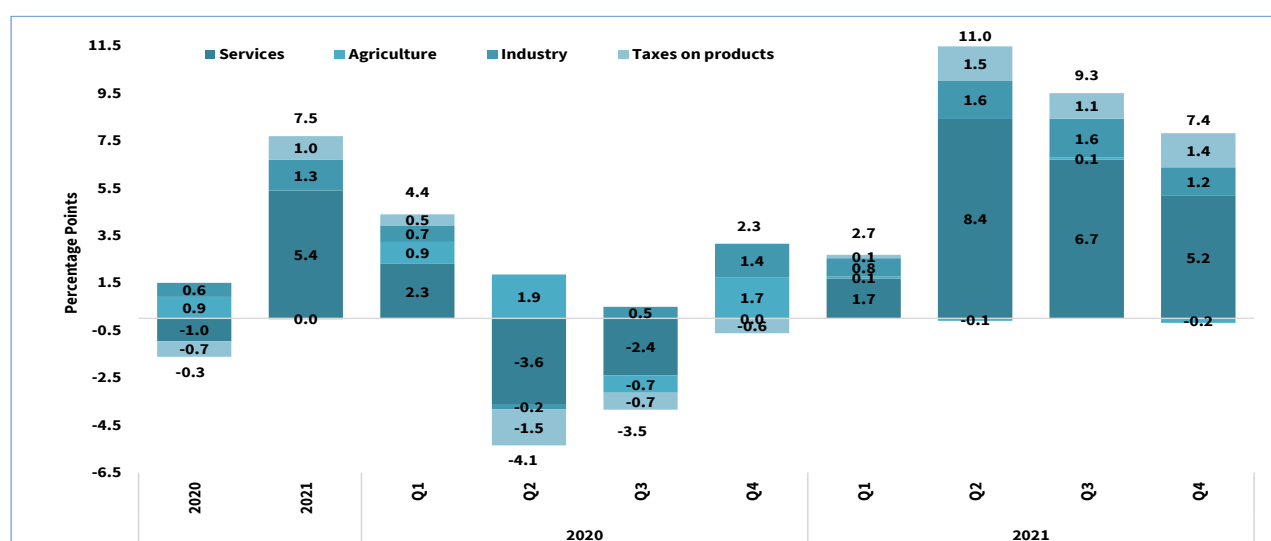
Agriculture

Agriculture sector performance was subdued following unfavorable weather conditions in most parts of the country which affected crop production. It contracted by 0.2 percent in 2021 compared to a growth of 4.6 percent in 2020 and contributed -0.03 percentage points to real GDP growth.

Table 3.1: Gross domestic product (GDP) growth by sector (percent)

	Annual		2020				2021			
	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Agriculture	4.6	-0.2	4.5	8.0	-4.3	9.8	0.4	-0.5	0.6	-1.2
2.1 Industry	3.3	7.2	3.9	-1.2	2.6	7.7	4.3	9.2	8.8	6.6
Mining & Quarrying	5.5	18.0	6.5	3.9	5.6	6.0	10.7	10.9	16.4	34.5
Manufacturing	-0.4	6.9	1.4	-5.4	-2.2	4.3	2.1	11.3	10.2	4.9
Electricity & water supply	0.6	5.0	1.5	-4.5	0.8	4.6	3.6	7.2	6.4	2.8
Construction	10.1	6.6	8.9	6.0	10.2	15.2	6.8	6.8	6.7	6.0
2.2 Services	-1.8	9.8	4.3	-7.0	-4.3	0.0	3.1	15.6	11.7	9.2
Wholesale & Retail Trade	-0.5	7.9	5.5	-3.8	-5.1	1.4	7.5	9.2	6.4	8.4
Accommodation & restaurant	-47.7	52.5	-14.1	-57.2	-62.0	-57.7	-33.0	90.1	127.5	118.6
Transport & Storage	-7.8	7.2	2.1	-16.8	-10.2	-6.2	-7.9	18.6	14.2	6.5
Information & Communication	6.3	8.8	7.8	4.9	4.9	7.5	10.1	17.1	4.1	5.3
Financial & Insurance	5.9	12.5	6.2	3.2	3.3	10.6	11.8	17.3	11.8	9.9
Public administration	7.0	5.6	4.7	4.5	8.3	10.2	6.8	7.6	4.8	3.3
Professional, Administration & Support Services	-13.7	5.7	2.7	-25.5	-18.4	-12.5	-13.0	18.3	13.4	8.1
Real estate	4.1	6.7	4.1	3.6	3.8	4.8	6.7	7.4	7.1	5.7
Education	-9.3	21.4	4.8	-21.1	-16.1	-4.8	11.5	31.6	28.3	18.0
Health	5.7	6.0	7.1	9.0	4.4	2.9	5.8	6.2	4.1	7.8
Other services	-14.6	12.6	-3.6	-23.9	-13.9	-17.2	-8.4	28.8	17.7	16.8
FISIM	-1.8	5.5	-3.8	-0.2	-2.2	-1.1	4.9	2.8	5.1	8.7
2.3 Taxes on products	-8.1	11.9	5.5	-20.5	-8.5	-7.4	1.8	18.5	12.5	15.7
Real GDP Growth	-0.3	7.5	4.4	-4.1	-3.5	2.3	2.7	11.0	9.3	7.4

Source: Kenya National Bureau of Statistics

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

Source: Kenya National Bureau of Statistics and CBK Staff computations

Table 3.2: Gross domestic product (GDP) shares by sector (percent)

	Annual		2020				2021			
	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Agriculture	19.5	18.1	20.5	23.3	17.0	17.4	20.0	20.9	15.6	16.0
2.1 Industry	18.1	18.0	17.6	17.6	18.7	18.5	17.9	17.3	18.6	18.4
Mining & Quarrying	1.0	1.1	1.0	1.1	1.0	1.0	1.1	1.1	1.0	1.2
Manufacturing	8.6	8.6	8.6	8.3	8.6	8.9	8.6	8.4	8.7	8.7
Electricity & water supply	2.5	2.5	2.4	2.4	2.7	2.6	2.4	2.3	2.6	2.5
Construction	5.9	5.9	5.5	5.8	6.4	6.0	5.8	5.6	6.2	5.9
2.2 Services	54.2	55.3	53.5	51.8	56.0	55.6	53.7	53.9	57.2	56.5
Wholesale & Retail Trade	8.3	8.4	8.3	7.8	8.4	8.7	8.7	7.7	8.2	8.8
Accommodation & restaurant	0.6	0.9	1.0	0.5	0.4	0.5	0.6	0.8	0.9	1.1
Transport & Storage	9.5	9.5	10.0	8.8	9.9	9.4	8.9	9.4	10.3	9.3
Information & Communication	3.1	3.2	3.0	2.9	3.4	3.3	3.2	3.0	3.2	3.3
Financial & Insurance	8.3	8.6	7.4	7.9	8.6	9.2	8.0	8.3	8.8	9.4
Public administration	6.1	6.0	5.4	6.4	6.5	6.2	5.6	6.2	6.2	6.0
Professional, Administration & Support Services	2.6	2.6	2.8	2.3	2.6	2.7	2.4	2.5	2.7	2.7
Real estate	10.2	10.1	9.7	10.3	10.7	10.1	10.0	10.0	10.5	10.0
Education	4.3	4.9	4.7	3.7	4.2	4.5	5.1	4.4	4.9	5.0
Health	2.2	2.2	2.0	2.3	2.4	2.3	2.1	2.2	2.2	2.3
Other services	2.0	2.1	2.2	1.8	2.2	1.9	2.0	2.1	2.3	2.0
FISIM	-3.1	-3.1	-2.8	-3.0	-3.2	-3.5	-2.9	-2.8	-3.1	-3.5
2.3 Taxes on products	8.2	8.5	8.4	7.4	8.4	8.5	8.3	7.9	8.6	9.1
Real GDP Growth	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

Table 3.3: Sectoral shares (percentage of GDP)

	Annual		2020				2021			
	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Agriculture	0.9	0.0	0.9	1.9	-0.7	1.7	0.1	-0.1	0.1	-0.2
2. Non-Agriculture (o/w)	-1.1	7.7	3.5	-5.6	-2.7	0.7	2.6	11.4	9.4	7.8
2.1 Industry	0.6	1.3	0.7	-0.2	0.5	1.4	0.8	1.6	1.6	1.2
Mining & Quarrying	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.4
Manufacturing	0.0	0.6	0.1	-0.5	-0.2	0.4	0.2	0.9	0.9	0.4
Electricity & water supply	0.0	0.1	0.0	-0.1	0.0	0.1	0.1	0.2	0.2	0.1
Construction	0.6	0.4	0.5	0.3	0.7	0.9	0.4	0.4	0.4	0.4
2.2 Services	-1.0	5.4	2.3	-3.6	-2.4	0.0	1.7	8.4	6.7	5.2
Wholesale & Retail Trade	0.0	0.7	0.5	-0.3	-0.4	0.1	0.7	0.7	0.5	0.7
Accommodation & restaurant	-0.3	0.5	-0.1	-0.3	-0.3	-0.3	-0.2	0.7	1.1	1.3
Transport & Storage	-0.7	0.7	0.2	-1.5	-1.0	-0.6	-0.7	1.8	1.5	0.6
Information & Communication	0.2	0.3	0.2	0.1	0.2	0.2	0.3	0.5	0.1	0.2
Financial & Insurance	0.5	1.1	0.5	0.3	0.3	1.0	0.9	1.4	1.0	0.9
Public administration	0.4	0.3	0.3	0.3	0.5	0.6	0.4	0.5	0.3	0.2
Professional, Administration & Support Services	-0.4	0.1	0.1	-0.6	-0.5	-0.3	-0.3	0.5	0.4	0.2
Real estate	0.4	0.7	0.4	0.4	0.4	0.5	0.7	0.7	0.7	0.6
Education	-0.4	1.0	0.2	-0.8	-0.7	-0.2	0.6	1.4	1.4	0.9
Health	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Other services	-0.3	0.3	-0.1	-0.4	-0.3	-0.3	-0.2	0.6	0.4	0.3
FISIM	0.1	-0.2	0.1	0.0	0.1	0.0	-0.1	-0.1	-0.2	-0.3
2.3 Taxes on products	-0.7	1.0	0.5	-1.5	-0.7	-0.6	0.1	1.5	1.1	1.4
Real GDP Growth	-0.3	7.5	4.4	-4.1	-3.5	2.3	2.7	11.0	9.3	7.4

Source: Kenya National Bureau of Statistics and CBK Staff computations

Chapter 4

Global Economy

According to the IMF's World Economic Outlook April 2022 report, growth of the global economy is expected at 2.5 percent in the fourth quarter of 2022 and improve to 3.5 percent in the fourth quarter of 2023. Annual global growth is expected to slow down from an estimate of 6.1 percent in 2021 to 3.6 percent in 2022 and 2023, respectively, largely driven by ongoing Russian-Ukraine war and increased Covid-19 pandemic cases that have resulted to increased supply chain disruptions (**Table 4.1**).

Growth in advanced economies is expected to slow down by 2.5 percent and 2.0 percent in the fourth quarters of 2022 and 2023, respectively. The annual growth for these economies is expected to weaken from an estimate of 5.1 percent in 2021 to 3.3 percent in 2022 and to 2.4 percent in 2023, reflecting persistent supply chain challenges, negative terms-of-trade shock, weak policy responses and tighter financial conditions.

Growth in emerging market and developing economies is estimated at 2.5 percent in the fourth quarter of 2022 and to grow strongly by 4.9 percent

in the fourth quarter of 2023. On annual basis, growth in emerging and developing economies is expected to grow from an estimate of 6.8 percent in 2021 to 3.8 percent and 4.4 percent in 2022 and 2023 respectively, due to zero-COVID-19 policy strategy in China and the spillover effects of the Russia-Ukraine war.

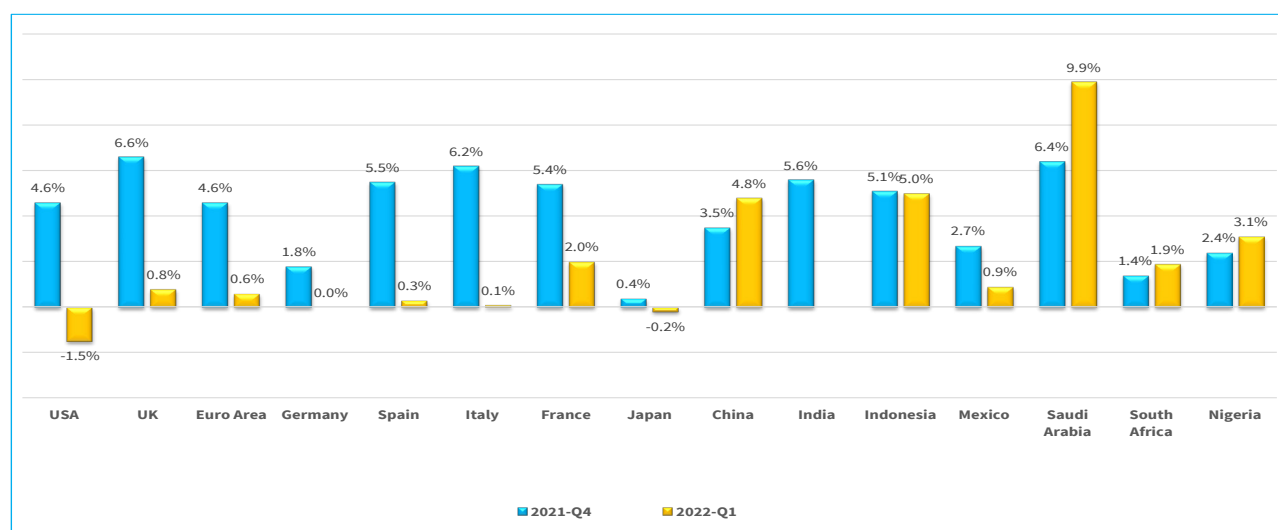
Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.8 percent in 2022 and to improve further by 4.0 percent in 2023, attributed to recovery in commodity prices. Nigeria and South Africa are expected to grow at rates of 3.4 percent and 1.9 percent in 2022, respectively (**Table 4.1**).

Official preliminary GDP estimates released for the first quarter of 2022 show estimated growth in the United States and Japan to have contracted by 1.5 percent and 0.2 percent respectively, with that of United Kingdom (0.8 percent), Euro Area (0.6 percent), Italy (0.1 percent), Spain (0.3 percent), France (2.0 percent), Germany (0.0 percent) and China (4.8 percent) slowing down due to increased geopolitical tension and Covid-19 pandemic associated restrictions (**Chart 4.1**).

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

	Annual Year over Year				Quarterly Q4 Over Q4		
	Actual	Estimate	Projections		Estimate	Projections	
	2020	2021	2022	2023	2021	2022	2023
World Output	-3.1	6.1	3.6	3.6	4.6	2.5	3.5
Advanced Economies	-4.5	5.2	3.3	2.4	4.7	2.5	2.0
United States	-3.4	5.7	3.7	2.3	5.6	2.8	1.7
Euro Area	-6.4	5.3	2.8	2.3	4.6	1.8	2.3
Germany	-4.6	2.8	2.1	2.7	1.8	2.4	2.5
France	-8.0	7.0	2.9	1.4	5.4	0.9	1.5
Italy	-8.9	6.6	2.3	1.7	6.2	0.5	2.2
Spain	-10.8	5.1	4.8	3.3	5.5	2.3	4.0
Japan	-4.5	1.6	2.4	2.3	0.4	3.5	0.8
United Kingdom	-9.3	7.4	3.7	1.2	6.6	1.1	1.5
Canada	-5.2	4.6	3.9	2.8	3.3	3.5	2.2
Emerging Market and Developing Economies	-2.0	6.8	3.8	4.4	4.4	2.5	4.9
China	2.2	8.1	4.4	5.1	3.5	4.8	4.7
India	-6.6	8.9	8.2	6.9	5.6	2.7	9.0
Russia	-2.7	4.7	-8.5	-2.3	5.0	-14.1	3.3
Brazil	-3.9	4.6	0.8	1.4	1.6	0.8	1.9
Mexico	-8.2	4.8	2.0	2.5	1.1	3.3	1.9
Saudi Arabia	-4.1	3.2	7.6	3.6	6.7	6.9	3.6
Sub-Saharan Africa	-1.7	4.5	3.8	4.0
Nigeria	-1.8	3.6	3.4	3.1	2.4	2.1	2.3
South Africa	-6.4	4.9	1.9	1.4	1.8	2.3	1.1
World Trade Volume (goods and services)	7.9	10.1	5.0	4.4
Commodity Oil Prices (US dollars)	-32.7	67.3	54.7	-13.3	79.2	28.6	-11.6
Consumer Prices							
Advanced Economies	0.7	3.1	5.7	2.5	4.9	4.8	2.2
Emerging Market and Developing Economies	5.2	5.9	8.7	6.5	6.0	8.8	5.3

Source: IMF, World Economic Outlook, April 2022 updates

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

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

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account is estimated to have narrowed to USD 1,179 million in the first quarter of 2022 from USD 1,294 million in the first quarter of 2021 reflecting an improvement in receipts from merchandise goods, services and remittances.

Secondary income inflows were boosted by remittances, which increased to USD 1,024 in the first quarter of 2022 from USD 848 million in a similar quarter of 2021 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2020		2021				2022*				Q1 2022-Q1 2021	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan	Feb	Mar	Jan-Mar		%
	Q3	Q4	Q1	Q2	Q3	Q4				Q1	Change	Change
1. Overall Balance	959	414	235	-1,666	271	372	578	244	236	1,059	823	350
2. Current account	-1,343	-1,269	-1,294	-1,462	-1,714	-1,557	-583	-325	-271	-1,179	115	-9
Exports (fob)	1,513	1,480	1,739	1,668	1,614	1,708	534	621	672	1,828	88	5
Imports (fob)	3,649	3,807	4,357	4,187	4,561	5,065	1,577	1,482	1,665	4,724	367	8
Services: credit	832	1,007	1,012	988	1,152	1,707	501	637	722	1,859	847	84
Services: debit	802	908	932	958	1,042	1,187	369	399	501	1,269	337	36
Balance on goods and services	-2,105	-2,227	-2,537	-2,489	-2,837	-2,837	-912	-623	-772	-2,307	231	-9
Primary income: credit	40	27	30	38	31	29	7	7	7	21	-10	-32
Primary income: debit	487	334	200	521	463	433	200	204	94	498	299	150
Balance on goods, services, and primary income	-2,552	-2,534	-2,707	-2,971	-3,268	-3,241	-1,106	-820	-859	-2,784	-77	3
Secondary income : credit	1,234	1,303	1,425	1,544	1,602	1,701	528	500	594	1,622	197	14
o.w Remittances	812	828	848	941	979	1,015	339	322	364	1,024	176	21
Secondary income: debit	25	38	12	34	47	17	6	6	6	17	5	41
3. Capital Account	36	29	72	68	35	19	7	12	53	72	-1	-1
4. Financial Account	-366	-355	-983	-3,113	-1,654	-1,177	-409	5	-600	-1,005	-22	2

* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The trade balance is estimated to have improved by 9 percent from a deficit of USD 2,537 million in the first quarter of 2021 to a deficit of USD 2,307 million in the first quarter of 2022, owing primarily to higher receipts from services (**Table 5.1**). In the first quarter of 2022, the value of merchandise exports increased to USD 1,828 from USD 1,739 million in a similar period in 2021, due to improved receipts from manufactured goods, tea and re-exports despite a decline in receipts from horticulture. Tea exports increased by 6 percent in quarter one of 2022 compared to a similar period in 2021 owing to improved tea prices reflecting increased demand from our traditional markets. Exports of

manufactured goods also increased by 12 percent in the period under review. However, earnings from horticulture declined by 21 percent. The value of merchandise imports increased by 8 percent to USD 4,724 million in the first quarter of 2022, from USD 4,357 million in a similar quarter in 2021, largely due to increased imports of petroleum products owing to high international crude oil prices. Net receipts on the services account increased by USD 510 million to USD 590 million from USD 80 million in the first quarter of 2021. Earnings from transport and travel services exports improved by 89 and 38 percent respectively as economies re-opened following the relaxation of COVID-19 containment measures (**Table 5.2**).

Table 5.2: Balance on current account (USD Million)

ITEM	2020		2021				2022*				Q1 2022-Q1 2021	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar					%
	Q3	Q4	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
CURRENT ACCOUNT	-1,343	-1,269	-1,294	-1,462	-1,714	-1,557	-583	-325	-271	-1,179	115	-9
Goods	-2,136	-2,327	-2,618	-2,519	-2,946	-3,357	-1,043	-861	-992	-2,897	-279	11
Exports (fob)	1,513	1,480	1,739	1,668	1,614	1,708	534	621	672	1,828	88	5
o.w Coffee	47	43	75	73	50	50	24	32	31	88	12	16
Tea	282	282	326	299	253	314	111	117	119	347	21	6
Horticulture	233	265	334	289	255	250	83	88	93	264	-70	-21
Oil products	18	15	11	13	17	14	5	6	6	17	6	53
Manufactured Goods	108	107	111	131	130	140	30	47	48	124	14	12
Raw Materials	76	80	115	96	103	120	44	36	36	116	1	1
Chemicals and Related Products (n.e.s)	118	124	116	126	147	132	34	38	56	127	11	9
Miscellaneous Man. Articles	163	154	146	181	179	169	38	60	64	163	16	11
Re-exports	174	114	193	149	145	213	56	80	84	220	27	14
Other	286	290	316	301	321	345	107	115	137	359	43	14
Imports (fob)	3,649	3,807	4,357	4,187	4,561	5,065	1,577	1,482	1,665	4,724	367	8
o.w Oil	526	554	715	778	920	1,061	320	374	443	1,137	422	59
Chemicals	682	631	772	750	740	842	329	234	344	906	134	17
Manufactured Goods	719	784	910	879	967	889	344	267	343	954	44	5
Machinery & Transport Equipment	1,081	1,049	1,074	1,004	1,138	1,437	318	360	332	1,010	-65	-6
Machinery	697	689	698	644	735	765	266	224	182	671	-27	-4
Transport equipment	384	361	376	360	403	672	94	108	88	290	-86	-23
Other	714	938	1,027	901	1,012	1,004	312	321	303	936	-91	-9
o.w Food	334	395	478	434	463	484	132	159	158	450	-28	-6
Services	30	99	80	30	110	520	132	238	221	590	510	636
Transport Services (net)	-57	-38	-10	-84	-83	19	3	16	0	20	30	-292
Credit	222	298	338	259	336	548	168	204	267	639	300	89
Debit	279	336	349	344	418	529	164	188	267	619	270	77
Travel Services (net)	107	130	139	174	181	216	55	70	72	197	58	42
Credit	134	158	168	206	215	254	66	80	85	232	64	38
Debit	27	28	28	32	34	39	12	10	13	35	6	22
Other Services (net)	-19	8	-49	-60	11	286	74	151	148	373	422	-866
Primary Income	-447	-307	-169	-483	-432	-404	-194	-197	-87	-478	-308	182
Credit	40	27	30	38	31	29	7	7	7	21	-10	-32
Debit	487	334	200	521	463	433	200	204	94	498	299	150
Secondary Income	1,209	1,265	1,413	1,509	1,554	1,684	523	495	588	1,605	192	14
Credit	1,234	1,303	1,425	1,544	1,602	1,701	528	500	594	1,622	197	14
Debit	25	38	12	34	47	17	6	6	6	17	5	41

*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance widened by USD 308 million to a deficit of USD 478 million in the first quarter of 2022, down from a deficit of USD 169 million in the same period last year, reflecting higher outflows of direct, portfolio and other investment. The secondary income balance, on the other hand, increased to USD 1,605 million in the first quarter of 2022 from USD 1,413 million, owing to an increase in remittances in the first quarter of 2022. Remittances increased by 21 percent to USD 1,024 million in the first quarter of 2022 from USD 848 million in the same period in the previous year (**Table 5.1 and 5.2**).

Direction of Trade

Imports from China accounted for 21 percent of total imports to Kenya making it the largest single source of imports, reflecting a 1.2 percent increase when compared to the same quarter in 2021. Imports from the UAE rose by USD 287 million, while those from Africa rose by USD 97 million to USD 577 million in the first quarter of 2022, reflecting higher imports from South Africa (**Table 5.3**).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)									Share of Imports (%)	
	2021				2022*					
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar					
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2021	Q1 2022
Africa	480	474	528	569	147	209	221	577	11	12
Of which								0.0	0.0	0.0
South Africa	99	106	100	97	38	89	30	156	2	3
Egypt	111	111	108	115	34	28	37	99	3	2
Others	270	257	319	357	76	92	155	322	6	7
								0	0	0
EAC	174	163	238	226	48	59	73	180	4	4
COMESA	283	256	244	292	78	71	103	252	6	5
Rest of the World	3,876	3,712	4,033	4,495	1,430	1,274	1,443	4,147	89	88
Of which										
India	457	555	707	561	225	133	188	546	10	12
United Arab Emirates	347	359	238	502	110	206	317	634	8	13
Japan	204	218	284	245	60	82	82	223	5	5
USA	184	148	240	195	59	53	102	214	4	5
United Kingdom	80	75	72	79	18	30	32	80	2	2
Singapore	9	14	13	56	6	4	6	16	0	0
Germany	107	85	129	70	27	20	19	67	2	1
Saudi Arabia	239	169	229	316	115	116	94	325	5	7
Indonesia	138	103	87	75	21	19	9	50	3	1
Netherlands	96	143	91	97	18	17	14	49	2	1
France	57	48	57	44	15	11	14	40	1	1
Bahrain	6	5	6	8	38	1	3	42	0	1
Italy	55	57	70	43	15	17	14	46	1	1
Others	1,895	1,734	1,811	2,203	702	564	549	1,814	44	38
Total	4,357	4,187	4,561	5,065	1,577	1,482	1,665	4,724	100	100
EU	601	565	678	514	175	136	135	446	14	9
China	975	945	694	1,095	317	359	312	987	22	21

*Provisional

Source: Kenya Revenue Authority

In the first quarter of 2022, the value of merchandise exports to Africa was USD 721 million, accounting for 39 percent of total exports. Exports to EAC region rose mainly due to increased exports to Rwanda and Tanzania. The proportion of exports to the EU was 23

percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 9 percent, 6 percent, 7 percent, and 8 percent, respectively (**Table 5.4**).

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)									Share of Exports (%)	
	2021				2022*					
	Jan-Mar	Apr-Jun	Jul/Sep	Oct/Dec						
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2021	Q1 2022
Africa	651	731	667	738	180	253	288	721	37	39
Of which										
Uganda	207	217	172	234	46	68	67	181	12	10
Tanzania	80	82	118	130	27	49	47	123	5	7
Egypt	59	44	40	50	18	22	25	65	3	4
Sudan	18	22	18	8	9	3	6	18	1	1
South Sudan	50	35	34	36	15	19	24	58	3	3
Somalia	25	31	36	30	8	10	12	30	1	2
DRC	35	117	39	34	7	13	13	34	2	2
Rwanda	54	61	66	97	16	22	29	67	3	4
Others	123	122	143	120	34	46	64	144	7	8
								0	0	0
EAC	407	410	412	512	106	161	174	442	23	24
COMESA	448	554	446	502	120	160	180	460	26	25
Rest of the World	1,088	937	948	970	354	369	384	1,107	63	61
Of which								0	0	0
United Kingdom	137	108	97	108	37	39	38	114	8	6
Netherlands	159	141	125	138	53	54	56	162	9	9
USA	125	126	158	135	41	44	50	135	7	7
Pakistan	127	110	102	145	49	52	48	148	7	8
United Arab Emirates	96	63	73	83	30	23	38	91	6	5
Germany	50	24	28	28	13	11	13	37	3	2
India	37	15	23	20	8	3	5	16	2	1
Afghanistan	1	1	1	2	2	1	3	6	0	0
Others	357	350	340	311	123	141	133	397	21	22
Total	1,739	1,668	1,614	1,708	534	621	672	1,828	100	100
EU	439	370	347	359	135	136	143	414	25	23
China	59	44	37	60	15	27	12	53	3	3

*Provisional

Source: Kenya Revenue Authority

Capital and Financial Account

Net capital account inflows were USD 72 million in the first quarter of 2022. Net financial account inflows were higher at USD1,005 million in the first quarter of 2022, compared to net inflows of USD 983 in the first

quarter of 2021 (**Table 5.5**). This largely reflected an improvement in foreign direct investment (FDI) and other investment inflows.

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

	2021				2022*				Q1 2022-Q1 2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar				Absolute	%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
Capital account credit	72	68	35	19	7	12	53	72	-1	-1
Capital account credit	72	68	35	19	7	12	53	72	-1	-1
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-983	-3,113	-1,654	-1,177	-409	5	-600	-1,005	-22	2
Direct investment: assets	-1	475	1	-7	-1	98	-2	95	97	-7,732
Direct investment: liabilities	20	88	161	195	59	56	54	169	149	750
Portfolio investment: assets	213	282	269	262	114	55	37	206	-7	-3
Portfolio investment: liabilities	82	1,107	40	-68	33	3	-11	25	-57	-69
Financial derivatives: net	2	-13	-10	-14	-1	-4	-4	-10	-12	-700
Other investment: assets	407	-332	-286	316	-526	245	-247	-528	-934	-230
Other investment: liabilities	1,501	2,329	1,428	1,608	-98	330	341	574	-927	-62

* Provisional

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings decreased to USD 12,590 million at the end of the first quarter of 2022 from USD 12,850 million in a similar period in 2021. The Official reserves held by the Central Bank constituted the bulk of the

gross reserves and increased to USD 8,432 million, equivalent to 4.9 months of import cover, while Commercial Bank reserves decreased by USD 951 million to end at USD 4,158 million at the end of first quarter of 2022 (**Table 5.6**).

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

	2021				2022			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1
1. Gross Reserves	12,850	14,741	14,089	14,199	13,093	13,079	12,590	12,590
of which:								
Official	7,741	9,957	9,632	9,491	8,913	8,669	8,432	8,432
import cover*	4.7	6.1	5.9	5.6	5.3	5.1	4.9	4.9
Commercial Banks	5,109	4,784	4,457	4,708	4,180	4,411	4,158	4,158
2. Residents' foreign currency deposits	7,362	7,223	7,144	7,277	7,171	7,275	7,311	7,311

*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 showed mixed performance, weakening against the US dollar in the context of the Russia-Ukraine conflict and high demand for the US dollar in the international markets. The Kenya Shilling weakened by 3.7 percent against the US Dollar to exchange at an average of 113.7 in

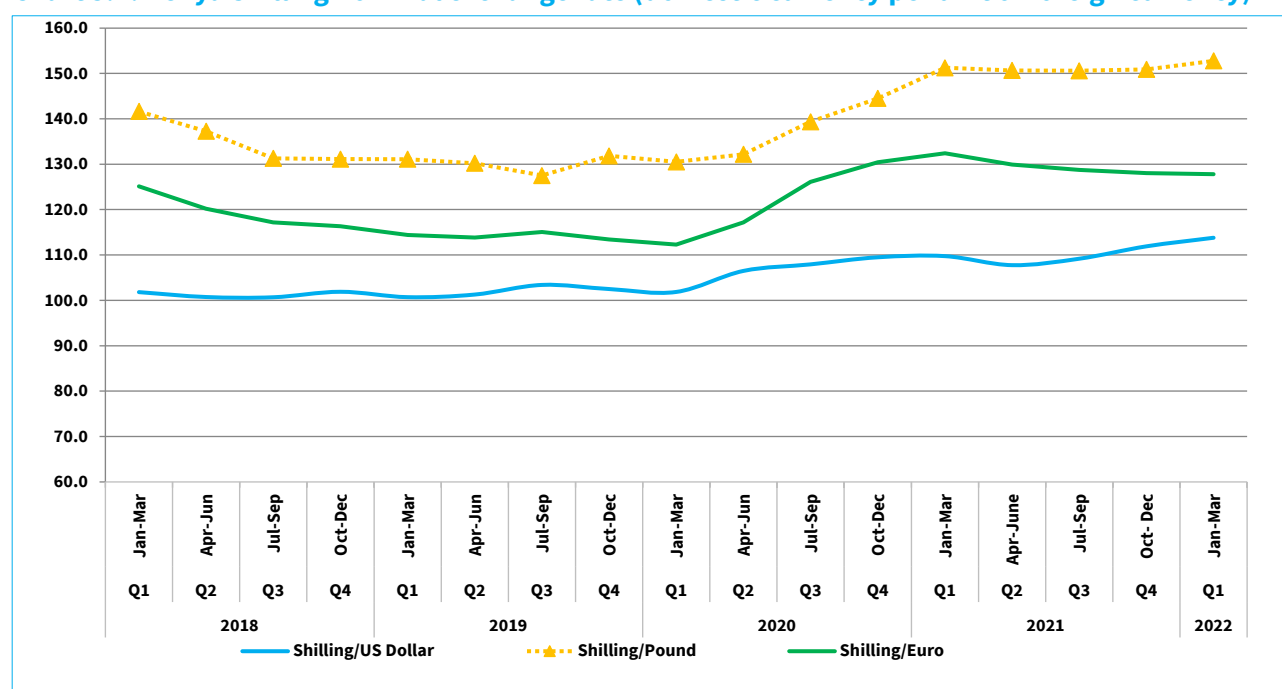
the first quarter of 2022 compared with 109.7 in a similar quarter in 2021. It also weakened against the Sterling Pound but strengthened against the Euro and the Japanese Yen. In the EAC region, it weakened against the Uganda and Tanzania Shilling during the review period (**Table 5.7 and Chart 5.1**).

Table 5.7: Kenya Shilling exchange rate

	2021				2022				Q1 2022- Q1 2021 % change
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan	Feb	Mar	Jan-Mar	
US Dollar	109.75	107.76	109.18	111.90	113.38	113.66	114.32	113.79	3.68
Pound Sterling	151.25	150.67	150.58	150.90	153.59	153.71	151.00	152.77	1.00
Euro	132.43	129.91	128.75	128.06	128.42	128.79	126.21	127.81	-3.49
100 Japanese Yen	103.71	98.52	99.18	98.47	98.63	98.69	96.64	97.99	-5.52
South Africa Rand	7.33	7.62	7.47	7.26	7.31	7.45	7.61	7.46	1.70
Uganda Shilling*	33.48	33.17	32.43	31.84	31.13	30.92	31.39	31.15	-6.96
Tanzania Shilling*	21.22	21.52	21.24	20.52	20.33	20.35	20.27	20.32	-4.26
Rwanda Franc*	9.04	9.29	9.24	9.17	9.15	9.11	8.91	9.06	0.13

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

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

Source: Central Bank of Kenya

Chapter 6

Banking Sector

Overview

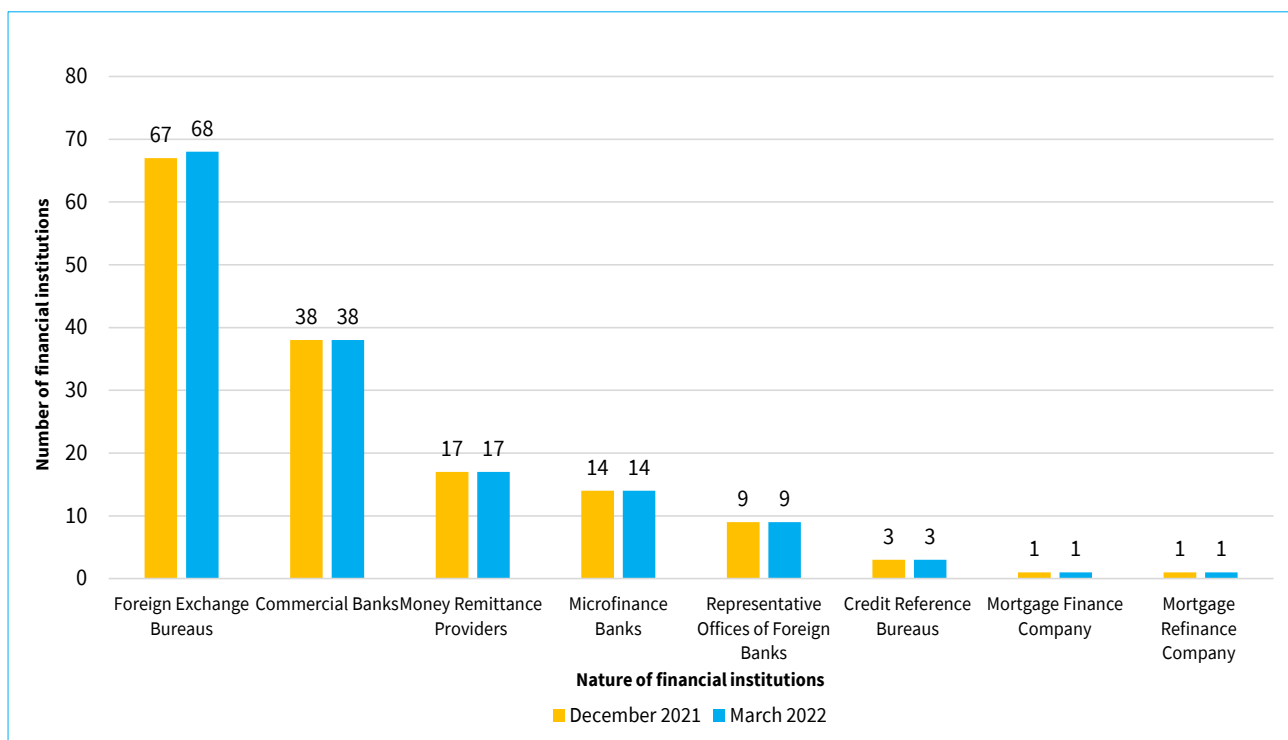
The banking sector remained stable and resilient in the first quarter of 2022. Total net assets increased by 1.6 percent to Ksh 6,103.0 billion in March 2022, from Ksh 6,008.0 billion in December 2021. The deposit base also increased by 0.6 percent to Ksh 4,466.7 billion in the first quarter of 2022, from Ksh 4,441.9 billion in the fourth quarter of 2021. The sector was well capitalized with capital adequacy ratio of 18.9 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the first quarter of 2022, with quarterly profit before tax of Ksh 57.3 billion, an increase from Ksh 49.3 billion reported in the fourth quarter of 2021. Credit risk remained elevated with Gross Non-performing Loans (NPLs)

to Gross Loans Ratio standing at 14.0 percent in the first quarter of 2022, compared to 13.1 percent in fourth quarter of 2021.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks¹, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 68 Foreign Exchange Bureaus, 17 Money Remittance Providers and 3 Credit Reference Bureaus as of March 31, 2022. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

¹ Excludes Charterhouse Bank Limited, Chase Bank (K) Limited, and Imperial Bank Limited, which are under liquidation.

Structure of the Balance Sheet

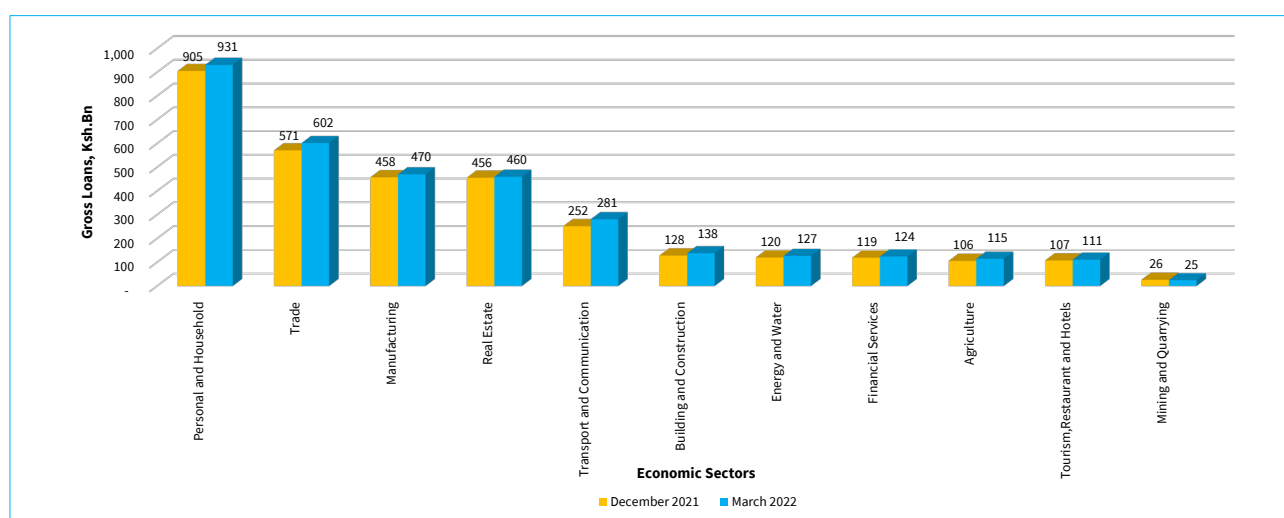
i) Growth in banking sector assets

Total net assets increased by 1.6 percent to Ksh 6,103.0 billion in March 2022, from Ksh 6,008.0 billion in December 2021. The increase in total net assets was mainly recorded in loans and advances by Ksh 133.8 billion (4.1 percent), government securities by Ksh 49.7 billion (2.6 percent) and fixed assets by Ksh 1.8 billion (1.8 percent). Net loans and advances remained the main component of total net assets, accounting for 50.2 percent in the first quarter of 2022, an increase from 48.8 percent recorded in the fourth quarter of 2021.

ii) Loans and Advances

Total banking sector lending increased by 4.1 percent, to Ksh 3,382.4 billion in the first quarter of 2022, from Ksh 3,248.7 billion in the fourth quarter of 2021. The increase in gross loans and advances was largely witnessed in the Trade, Transport and Communication, and Personal and Household sectors. The increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the fourth quarter of 2021 and first quarter of 2022, is highlighted in **Chart 6.2**.

Chart 6.2: Kenyan banking sector gross loans (KSh)

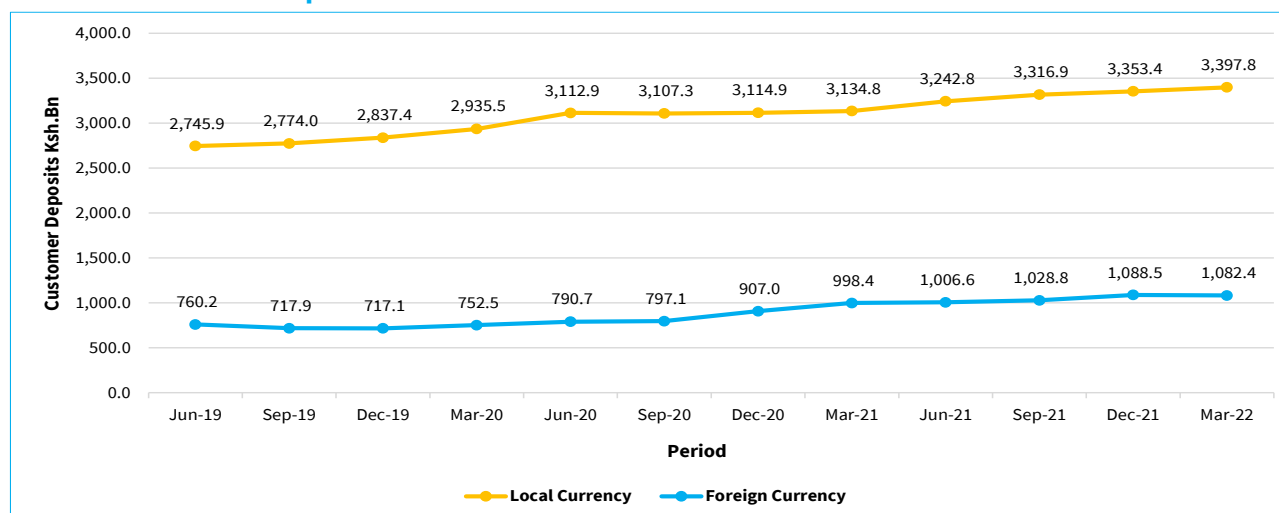


Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 73.2 percent of the banking sector total liabilities and shareholders' funds as at the end of the first quarter of 2022. The customer deposit base increased by 0.6 percent to Ksh 4,466.7 billion in the first quarter of 2022, from Ksh 4,441.9 billion in the fourth quarter of 2021. Local currency deposits increased by Ksh

27.6 billion (0.8 percent) to Ksh 3,381.0 billion in the first quarter of 2022, from Ksh 3,353.4 billion in the fourth quarter of 2021. Foreign currency deposits decreased by Ksh 2.8 billion (0.3 percent) to Ksh 1,085.7 billion in the first quarter of 2022, from Ksh 1,088.5 billion in the fourth 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 0.9 percent to Ksh 763.9 billion in the first quarter of 2022, from Ksh 757.3 billion in the fourth quarter of 2021. Total capital also increased by 1.1 percent to Ksh 894.7 billion in the first quarter of 2022, from Ksh 884.9 billion in the fourth quarter of 2021. The increases in capital levels are mainly attributable to increased reserves in the first quarter of 2022. Reserves increased by Ksh 104.6 billion (19.2 percent) from Ksh 544.9 billion in the fourth quarter of 2021, to Ksh 649.5 billion in the first quarter of 2022.

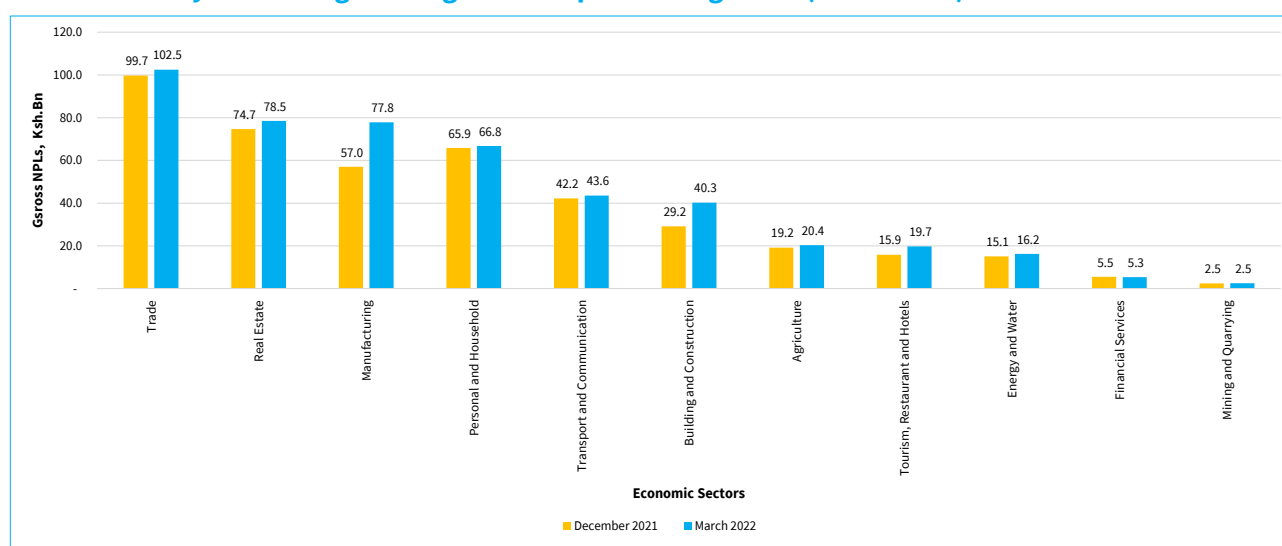
Core capital to total risk-weighted assets ratio decreased marginally from 16.7 percent in the fourth quarter of 2021, to 16.2 percent in the first quarter of 2022. Total capital to total risk-weighted assets ratio also decreased to 18.9 percent in the first quarter of 2022, from 19.6 percent in the fourth quarter of 2021. The decreased capital ratios was mainly due to lower increase in Core capital

and Total capital of 0.9 percent and 1.1 percent respectively as compared to 4.4 percent increase in Total Risk Weighted Assets.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.1 percent in the two quarters

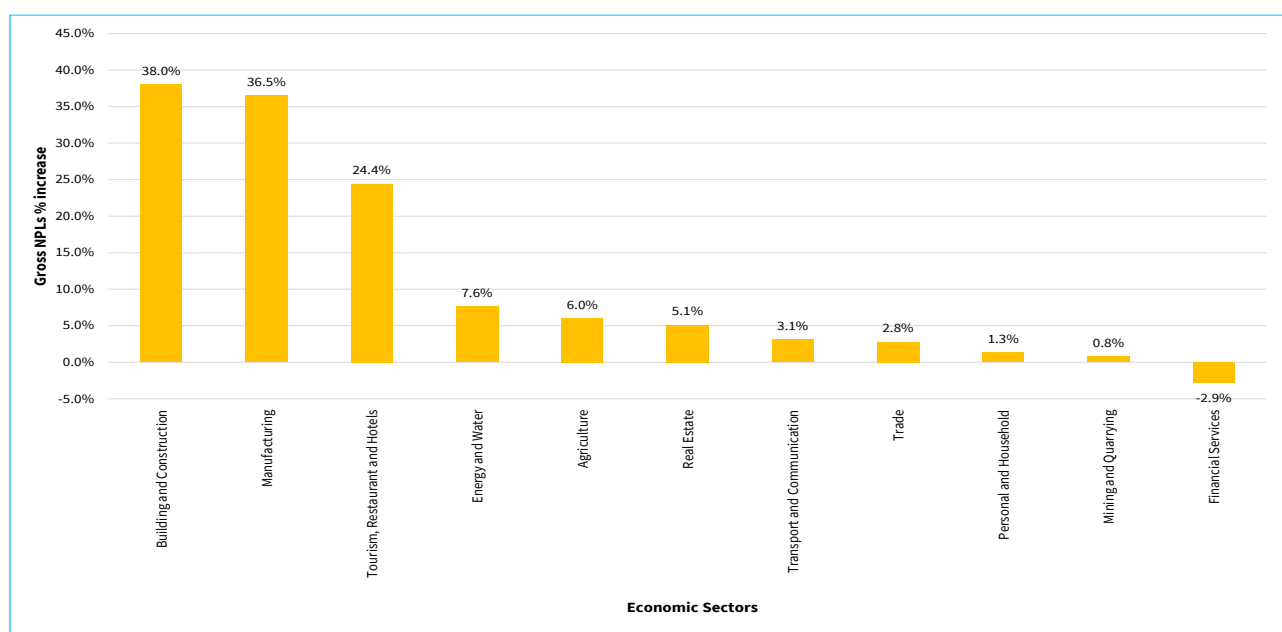
Asset Quality

The gross non-performing loans (NPLs) increased by 11.0 percent from Ksh 426.8 billion as at the fourth quarter of 2021, to Ksh 473.7 billion at the end of the first quarter of 2022. The gross NPLs to gross loans ratio increased to 14.0 percent in the first quarter of 2022, from 13.1 percent in the fourth quarter of 2021. This was due to a 11.0 percent increase in gross NPLs as compared to a 4.1 percent increase in gross loans. Chart 1.4 highlights the sectoral distribution of gross NPLs.

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

Source: Central Bank of Kenya

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

Chart 6.5: Movement in gross NPLs - first quarter of 2022

Source: Central Bank of Kenya

Building and Construction sector registered the highest increase in NPLs by 38.0 percent (Ksh 11.1 billion) as a result of delayed payments. The other two sectors, which registered major NPLs increases are Manufacturing, and Tourism, Restaurant and Hotels, which increased by 36.5 percent and 24.4 percent respectively. Financial Services sector recorded a decrease in NPLs, mainly due to increased recoveries.

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

loans, deteriorated with the ratio increasing to 5.9 percent in the first quarter of 2022, from 5.0 percent in the fourth quarter of 2021. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased from 54.1 percent in the fourth quarter of 2021, to 49.6 percent in first quarter of 2022, due to a higher increase in total NPLs (12.0 percent) compared to the increase in specific provisions (2.7 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		December 2021	March 2022
1.	Gross Loans and Advances (Ksh.Bn)	3,248.7	3,382.4
2.	Interest in Suspense (Ksh.Bn)	73.2	77.5
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,175.5	3,304.9
4.	Gross Non-Performing loans (Ksh.Bn)	426.8	473.7
5.	Specific Provisions (Ksh.Bn)	191.2	196.4
6.	General Provisions (Ksh.Bn)	51.7	51.0
7.	Total Provisions (5+6) (Ksh.Bn)	242.9	247.3
8.	Net Advances (3-7) (Ksh.Bn)	2,932.6	3,057.6
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	353.6	396.2
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	162.4	199.8
11.	Total NPLs as % of Total Advances (9/3)	11.1%	12.0%
12.	Net NPLs as % of Gross Advances (10/1)	5.0%	5.9%
13.	Specific Provisions as % of Total NPLs (5/9)	54.1%	49.6%
14.	Gross NPLs to Gross Loans Ratio	13.1%	14.0%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in pre-tax profits by Ksh 8.0 billion (16.2 percent) to Ksh 57.3 billion in the first quarter of 2022, from Ksh 49.3 billion in the fourth quarter of 2021. The increase in profitability was mainly attributable to a higher decrease in quarterly expenses by Ksh 3.0 billion (9.8 percent) as compared to the decrease in quarterly income by Ksh 2.3 billion (1.4 percent) between the fourth quarter of 2021, and first quarter of 2022.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 46.1 percent, 29.7 percent and 16.0 percent in the first quarter of 2022 as compared to 47.4 percent, 28.4 percent and 16.9 in the fourth quarter of 2021.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 33.1 percent, 24.7 percent and 24.4 percent of total expenses respectively in the first quarter of 2022, compared to 31.8 percent, 24.8 percent and 23.8 percent in the fourth quarter of 2021.

Return on Assets (ROA) increased to 3.0 percent in the first quarter of 2022, compared to 2.6 percent in the fourth quarter of 2021. Return on Equity (ROE) also increased marginally from 21.6 percent in the fourth quarter of 2021, to 25.1 percent in the first

quarter of 2022. The increase in ROA and ROE was due to increased profit before tax between the two quarters under review.

Liquidity

The banking sector's overall liquidity ratio decreased to 55.0 percent in the first quarter of 2022, from 56.2 percent in the fourth quarter of 2021. The decrease was driven by an increase in total short-term liabilities (1.1 percent) as compared to a 1.1 percent decrease in total liquid assets between the two quarters under review. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent. Treasury bonds, and Foreign notes and coins are the only components of liquidity that recorded increases of 6.1 percent and 2.9 percent respectively. The liquidity components that recorded major decreases are Balances with CBK (11.8 percent), Treasury bills (18.4 percent), and foreign assets (5.5 percent).

Outlook of the Sector

The banking sector is projected to remain stable in the rest of 2022.

- Operational risk is expected to remain elevated due to continued uncertainty of the COVID-19 trajectory and increasing cyber security risks.
- Credit risk is expected to ease in the short to medium term.
- Liquidity risk is expected to remain stable.

Kenya Shilling Flows in KEPSS

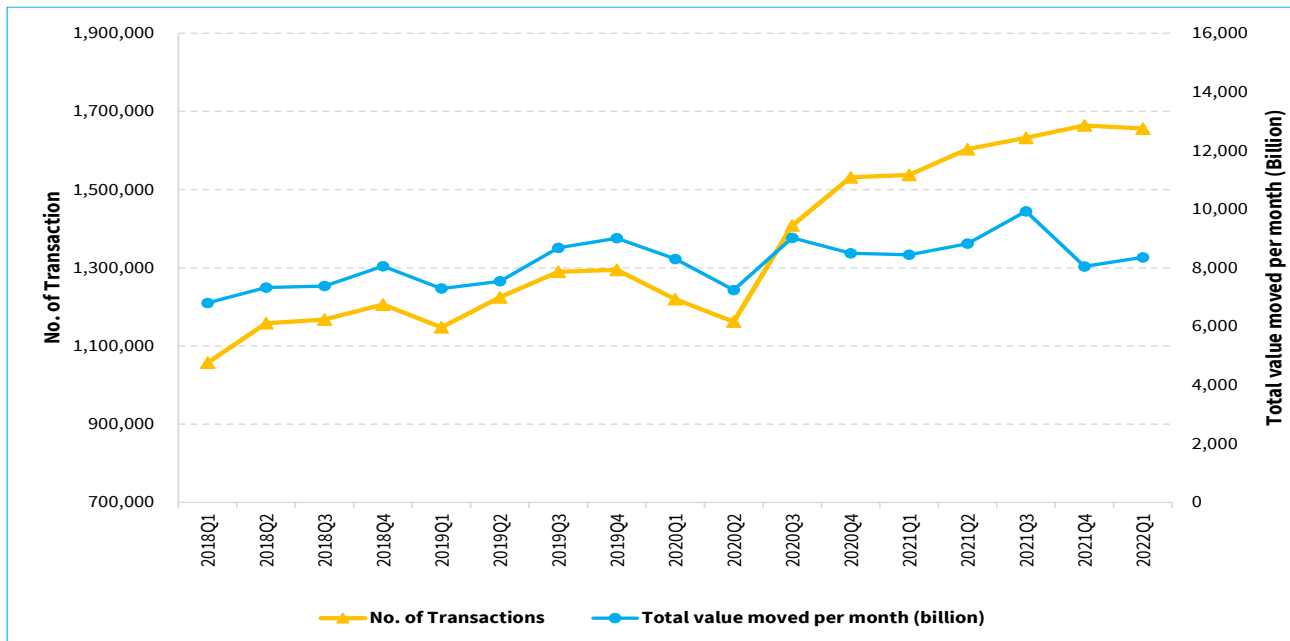
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.66 million transaction messages worth KSh 8.4 trillion in the first quarter of 2022, compared to the fourth quarter of 2021, which recorded 1.66 million transactions worth KSh 8.0 trillion. Volume decreased insignificantly by 0.46 percent and

value increased by 3.83 percent. **Chart 6.6** below highlights recent trends in KEPSS transactions.

System Availability

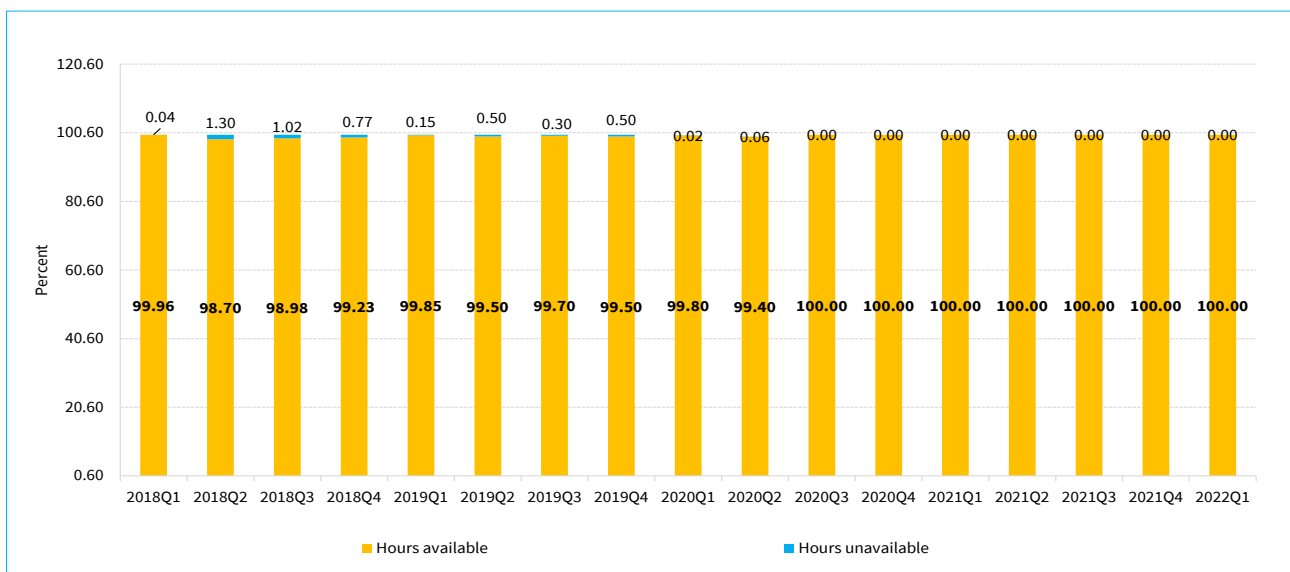
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review.

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the third quarter of FY 2021/22 resulted in a deficit of 3.9 percent of GDP against a target of 4.4 percent of GDP. Total revenues and grants were

slightly above target, but total expenses and net lending fell short of target by 1.0 percent of GDP (**Table 7.1**).¹

Table 7.1: Statement of government operations in the third quarter of FY 2021/22 (KSh Billion)

	FY 2020/2021	FY 2021/2022										
	Q3	Jan	Feb	March	Q3	Cumulative to Mar-2022	Target					
1. TOTAL REVENUE & GRANTS	444.6	191.0	129.7	205.1	525.9	1,541.0	1,531.3	9.6	0.6	18.3	12.2	12.1
Ordinary Revenue	380.2	148.9	117.0	159.2	425.1	1,327.5	1,305.9	21.7		11.8		
Tax Revenue	361.8	142.6	114.6	156.5	413.8	1,281.6	1,251.4	30.3		14.4		
Non Tax Revenue	18.4	6.3	2.4	2.6	11.3	45.9	54.5	(8.6)		(38.6)		
Appropriations-in-Aid	54.5	38.2	11.3	40.0	89.5	193.4	200.8	(7.4)		64.3		
External Grants	9.9	3.9	1.4	6.0	11.3	20.0	24.7	(4.6)		14.3		
2. TOTAL EXPENSES & NET LENDING	605.8	239.2	224.9	299.7	763.7	2,069.1	2,089.8	(20.7)	(1.0)	26.1	16.4	16.5
Recurrent Expenses	417.5	183.4	158.9	215.2	557.5	1,490.0	1,477.6	12.4		33.5		
Development Expenses	107.2	28.9	44.1	61.9	134.9	362.7	371.7	(8.9)		25.9		
County Transfers	81.2	26.9	21.8	22.7	71.3	216.3	240.4	(24.1)		(12.1)		
Others	-	-	-	-	-	-	-	-				
3. DEFICIT (INCL. GRANTS) (1-2)	(161.3)	(48.2)	(95.2)	(94.6)	-237.9	(528.2)	(558.4)	30.3	(5.4)	47.5	(4.2)	(4.4)
As percent of GDP	(1.4)	(0.4)	(0.8)	(0.7)	-1.9	(4.2)	(4.4)	0.2				
4. ADJUSTMENT TO CASH BASIS	56.0	-	-	36.7	36.7	36.7	-	36.7				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(105.3)	(48.2)	(95.2)	(57.9)	-201.2	(491.4)	(558.4)	67.0	(12.0)	91.1	(3.9)	(4.4)
As percent of GDP	(0.9)	(0.4)	(0.8)	(0.5)	-1.6	(3.9)	(4.4)	0.5				
6. DISCREPANCY: Expenditure (+) / Revenue (-)	22.9	(24.9)	16.3	(39.3)	-48.0	(38.3)	-	(38.3)				
7. FINANCING	128.2	23.3	111.4	18.5	153.2	453.1	447.0	6.1	1.4	19.5	3.6	3.5
Domestic (Net)	121.5	38.3	116.5	19.0	173.8	472.5	560.3	(87.8)		43.0		
Capital Receipts (domestic loan receipts)	0.1	0.0	0.6	-	0.6		-			353.3		
External (Net)	6.6	(15.0)	(5.1)	(0.5)	-20.6	(19.4)	(1.9)	(17.5)		(409.6)		
Others	-	1.0	2.0	3.0	6.0	-	-					

Source: The National Treasury

¹ The quarterly analysis is based on the Fiscal year; Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Revenue

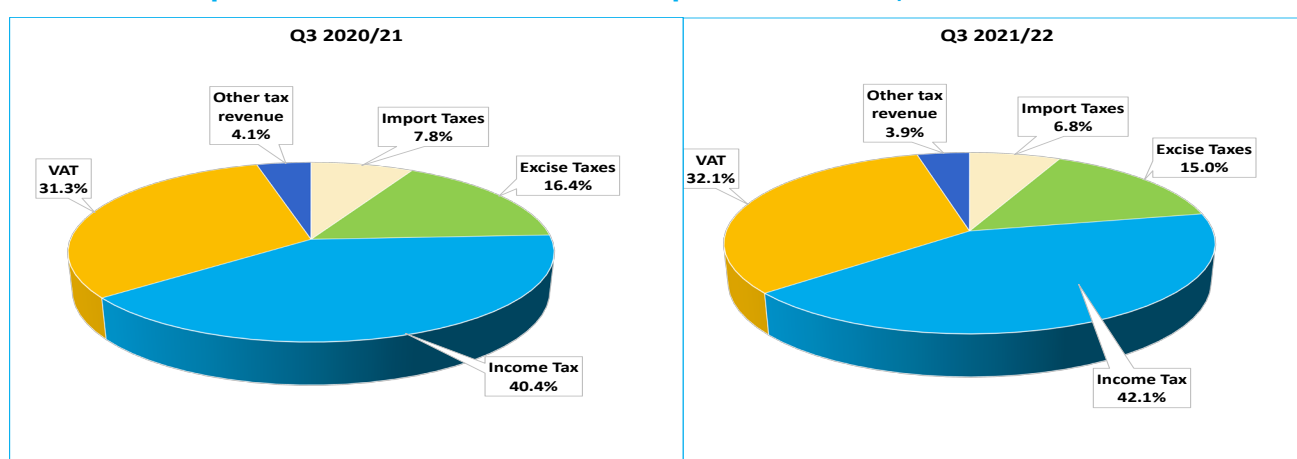
Government receipts, comprising revenue and grants, increased by 18.3 percent to KSh 525.9 billion in the third quarter of FY 2021/22, compared to KSh 444.6 billion in the third quarter of FY 2020/21. The increase was reflected in tax revenues on account of improved performance in all major tax categories: VAT (17.5 percent), Income Tax (19.4 percent), other tax revenue (8.2 percent), Excise Taxes (4.8 percent), Appropriation in Aid (A-in-A) (64.3 percent) and external grants (14.3 percent). Over the same period, Import Taxes, and non-tax revenues declined.

There was a minor shift in the composition of tax revenues in the third quarter of FY 2021/22 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Income Tax and VAT rose by 1.8 percentage points and 0.8 percentage points,

respectively, while that of Import Duty, Excise Tax and Other Tax Revenues declined by 1.0, 1.4 and 0.2 percentage points, respectively.

Cumulatively to March 2022, Government total revenue and grants stood at KSh 1,541.0 billion (12.2 percent of GDP) against a target of KSh 1,531.3 billion (12.1 percent of GDP). Tax revenue was above the set target largely reflecting continued economic recovery, impact of tax policy measures and a lower base in 2020. External grants cumulatively to March 2022 stood at KSh 20.0 billion, which was KSh 4.6 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 March 2022 amounted to KSh 193.4 billion, which was KSh 7.4 billion lower than target.

Chart 7.1: Composition of tax revenue in the third quarter of FY 2021/2022



Source: National Treasury

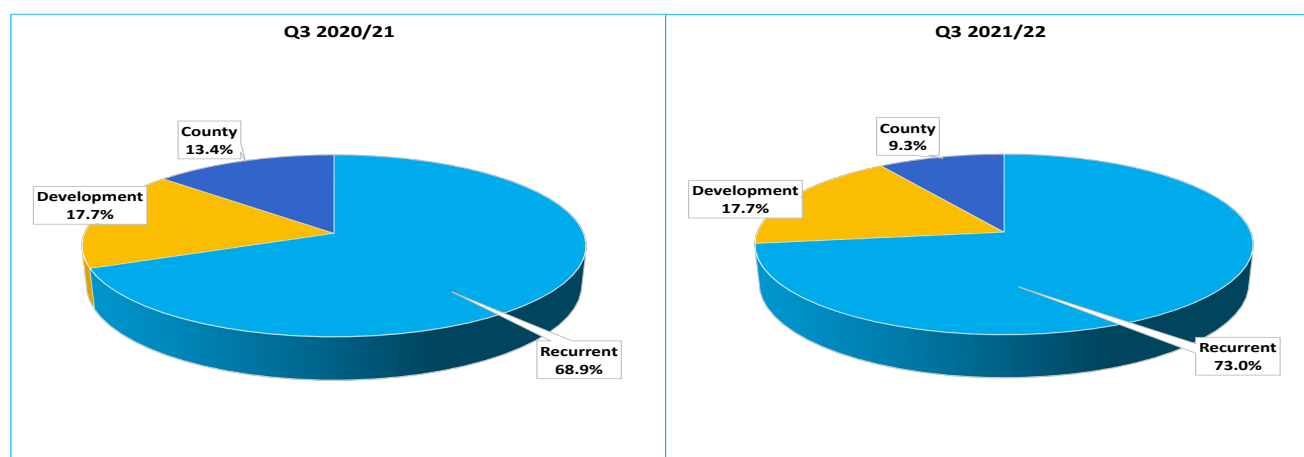
Expenditure and Net Lending

Government expenditure and net lending increased by 26.1 percent to KSh 763.7 billion in the third quarter of the FY 2021/22 compared to KSh 605.8 billion in the third quarter of the FY 2020/21. The increase in expenditures reflected a rise in recurrent and development expenditures by 33.5 percent and 25.9 percent, respectively, which more than offset the 12.1 percent decline in county transfers.

In terms of composition, recurrent expenditure comprised the largest share in total government expenditure accounting for 73.0 percent in the third quarter of the FY 2021/22, which was 4.1 percentage point higher than the level recorded in a similar

quarter during the previous fiscal year. The share of development expenditure remained stable at 17.7 percentage points while that of county allocation decreased by 4.1 percentage points during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in the first three quarters of FY 2021/22 amounted to KSh 2,069.1 billion (16.4 percent of GDP), against a target of KSh 2,089.8 billion (16.5 percent of GDP). The shortfall of KSh 20.7 billion was attributed to lower absorption recorded in development expenditure by the National Government and below target transfers to County Governments that more than offset the higher recurrent expenditure.

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

Source: National Treasury

Financing

The budget deficit including grants amounted to KSh 491.4 billion or 3.9 percent of GDP at the end of the third quarter of FY 2021/22. The fiscal deficit was funded as follows: net repayment on Foreign Financing of KSh 19.4 billion and Net Domestic Financing of KSh 472.5 billion. Domestic borrowing

comprised of KSh 102.3 billion draw down in Government deposits held at the Central Bank, KSh 176.9 billion from commercial banks, and KSh 320.4 billion from non-banks (**Table 7.1 and Table 7.2**).

Table 7.2 Domestic financing to March 2022 (KSh Billion)

	FY 2020/21	FY 2021/22				
	Q4	Q1	Q2			Q3
	Jun-21	Sep-21	Dec-21	Jan-22	Feb-22	Mar-22
1. From CBK	(67.9)	30.0	83.8	106.6	102.1	102.3
2. From commercial banks	230.8	105.2	137.0	160.0	173.3	176.9
4. From Non-banks	327.0	130.8	204.7	245.2	305.3	320.4
5. From Non-Residents	1.2	3.0	0.7	0.2	0.3	(0.0)
Change in Credit from banks (From 30th June 2021)	162.9	135.2	220.7	266.6	275.4	279.2
Change in Credit from non-banks (From 30th June 2021)	327.0	130.8	204.7	245.2	305.3	320.4
Change in Credit from non-residents (From 30th June 2021)	1.2	3.0	0.7	0.2	0.3	(0.0)
6. Total Change in Dom. Credit (From 30th June 2021)	491.2	269.0	426.1	512.0	581.1	599.6

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

Outlook for FY 2021/22

In the Annual Budget estimates from the National Treasury for the FY 2021/22, total revenue including grants is projected at KSh 2,181.2 billion (17.2 percent of GDP). Government expenditure is projected at KSh 3,205.5 billion (25.3 percent of GDP), of which KSh 2,152.6 billion will be for recurrent expenses, KSh 643.0 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 1,024.3 billion (8.1 percent of GDP) in 2021/22, to be financed through net external borrowing of KSh 360.0 billion and net domestic borrowing of KSh 664.4 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)	2,181.16	17.2
Ordinary Revenue	1,808.25	14.3
Appropriations-in-Aid	306.56	2.4
External Grants	66.35	0.5
2. TOTAL EXPENSES & NET LENDING	3,205.50	25.3
Recurrent Expenses	2,152.61	17.0
Development Expenses	643.01	5.1
County Transfer	409.88	3.2
Contingency Fund	0.00	0.0
3. DEFICIT INCL. GRANTS (1-2)	(1,024.34)	(8.1)
Adjustment to Cash Basis	0.00	0.0
4. FINANCING	1,024.34	8.1
Domestic (Net)	664.36	5.3
External (Net)	359.98	2.8

Source: National Treasury

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 2.4 percent during the third quarter of the FY 2021/22. Domestic and external debt increased by 4.0 percent and 0.8 percent, respectively. The ratio of public debt to GDP remained stable and was

estimated at 67.8 percent. The ratio of domestic debt to GDP increased by 0.5 percentage points while that of external debt to GDP decreased by 0.5 percentage points (**Table 8.1**).²

Table 8.1 Kenya's public and publicly guaranteed debt

	2019/20			2020/21				2021/22			Change Q on Q
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
EXTERNAL											
Bilateral	1,023.8	1,075.9	1,074.3	1,102.9	1,157.0	1,142.7	1,140.5	1,149.2	1,171.7	1,171.6	-0.1
Multilateral	1,037.5	1,060.6	1,321.6	1,421.8	1,498.8	1,495.6	1,659.4	1,699.4	1,782.1	1,817.4	35.3
Commercial Banks	1,028.7	1,058.8	1,102.3	1,120.8	1,119.4	1,113.4	1,187.4	1,196.2	1,208.3	1,208.2	-0.04
Supplier Credits	16.8	17.3	17.6	18.0	18.1	18.1	12.2	13.7	12.3	12.3	0.0
Sub-Total	3,106.8	3,212.6	3,515.8	3,663.5	3,793.3	3,769.9	3,999.5	4,058.5	4,174.4	4,209.6	35.2
(As a % of GDP)	30.3	30.3	33.1	34.5	35.3	34.0	35.4	34.5	34.5	34.0	-0.5
(As a % of total debt)	51.4	51.1	52.5	51.4	52.1	51.4	52.0	50.8	50.9	50.1	-0.8
DOMESTIC											
Banks	1,607.4	1,677.0	1,752.1	1,915.4	1,867.9	1,876.6	1,901.8	2,008.6	2,031.7	2,073.5	41.8
Central Bank	116.0	106.4	98.9	107.4	98.7	99.9	87.6	90.9	88.7	95.6	6.9
Commercial Banks	1,491.4	1,570.6	1,653.2	1,808.0	1,769.2	1,776.7	1,814.2	1,917.6	1,943.0	1,977.9	34.9
Non-banks	1,304.1	1,363.3	1,392.3	1,507.6	1,586.8	1,661.6	1,764.2	1,869.1	1,968.9	2,087.3	118.4
Pension Funds	841.3	891.4	923.1	986.2	1,057.7	1,087.5	1,131.3	1,230.2	1,264.1	1,330.7	66.6
Insurance Companies	189.0	193.6	192.2	212.8	224.6	234.5	246.4	260.0	273.7	287.6	13.8
Other Non-bank Sources	273.9	278.3	277.0	308.6	304.5	339.6	386.6	379.0	431.1	469.0	37.9
Non-residents	30.6	31.6	33.2	34.1	33.8	31.7	31.1	34.1	31.7	31.0	-0.8
Sub-Total	2,942.1	3,070.2	3,177.0	3,457.1	3,488.5	3,569.8	3,697.1	3,937.8	4,032.4	4,191.8	159.4
(As a % of GDP)	28.7	28.9	29.9	32.5	32.4	32.2	32.7	33.4	33.3	33.8	0.5
(As a % of total debt)	48.6	48.9	47.5	48.6	47.9	48.6	48.0	49.2	49.1	49.9	0.8
GRAND TOTAL	6,048.9	6,282.8	6,692.8	7,120.6	7,281.8	7,339.7	7,696.6	7,996.3	8,206.7	8,401.3	194.6
(As a % of GDP)	59.0	59.2	63.0	67.0	67.7	66.2	68.1	67.9	67.8	67.8	0.0

Source: The National Treasury and CBK

Domestic Debt

The 4.0 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt increased by 0.8 percentage points to 49.9 percent by the end of the third quarter of the FY 2021/22. The proportion

of debt securities to total domestic debt stood at 97.7 percent by the end of the third quarter of the FY 2021/22 a marginal decrease from the previous quarter (**Table 8.2**).

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

Table 8.2: Government gross domestic debt (KSh Billion)

	KShs (Billions)								Change Q on Q		Proportions							
	2020/21			2021/22							2020/21			2021/22				
	Q2	Q3	Q4	Q1	Q2	Jan-22	Feb-22	Q3	Ksh(Bn)	%	Q2	Q3	Q4	Q1	Q2	Jan-22	Feb-22	Q3
Total Stock of Domestic Debt (A+B)	3,488.5	3,569.8	3,697.1	3,937.8	4,032.4	4,110.1	4,181.4	4,191.8	159.4	4.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	3,417.0	3,496.4	3,615.3	3,860.3	3,951.4	4,009.2	4,079.8	4,097.1	145.7	3.7	98.0	97.9	97.8	98.0	98.0	97.5	97.6	97.7
1. Treasury Bills (excluding Repo Bills)	855.7	761.9	765.4	763.5	709.1	704.3	679.5	656.5	-52.7	-7.4	24.5	21.3	20.7	19.4	17.6	17.1	16.2	15.7
Banking institutions	536.2	458.6	452.9	454.8	397.5	386.4	345.1	323.6	-74.0	-18.6	15.4	12.8	12.2	11.6	9.9	9.4	8.3	7.7
The Central Bank	4.6	0.5	0.5	8.1	2.3	1.0	0.1	0.1	-2.2	-96.7	0.1	0.0	0.0	0.2	0.1	0.0	0.0	0.0
Commercial Banks	531.6	458.0	452.4	446.7	395.2	385.5	345.0	323.5	-71.8	-18.2	15.2	12.8	12.2	11.3	9.8	9.4	8.3	7.7
Pension Funds	158.7	139.6	144.4	159.4	154.3	153.7	161.6	158.8	4.5	2.9	4.5	3.9	3.9	4.0	3.8	3.7	3.9	3.8
Insurance Companies	5.1	6.6	7.2	5.5	5.2	6.2	7.2	6.0	0.8	15.2	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.1
Others	155.7	157.1	160.9	143.7	152.1	158.0	165.5	168.2	16.0	10.5	4.5	4.4	4.4	3.7	3.8	3.8	4.0	4.0
2. Treasury Bonds	2,561.3	2,734.5	2,849.9	3,096.8	3,242.2	3,304.9	3,400.3	3,440.6	198.4	6.1	73.4	76.6	77.1	78.6	80.4	80.4	81.3	82.1
Banking institutions	1,244.3	1,324.6	1,367.1	1,476.3	1,553.2	1,581.3	1,631.7	1,655.2	102.0	6.6	35.7	37.1	37.0	37.5	38.5	38.5	39.0	39.5
The Central Bank	9.4	9.4	7.7	7.7	7.6	7.6	7.6	7.6	0.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,234.8	1,315.1	1,359.4	1,468.6	1,545.6	1,573.7	1,624.1	1,647.6	102.0	6.6	35.4	36.8	36.8	37.3	38.3	38.3	38.8	39.3
Insurance Companies	219.5	227.9	239.2	254.5	268.6	274.6	277.6	281.6	13.1	4.9	6.3	6.4	6.5	6.5	6.7	6.7	6.6	6.7
Pension Funds	899.0	947.9	986.8	1,070.8	1,109.8	1,131.1	1,161.1	1,172.0	62.1	5.6	25.8	26.6	26.7	27.2	27.5	27.5	27.8	28.0
Others	198.6	234.1	256.8	295.3	310.7	317.9	329.9	331.8	21.2	6.8	5.7	6.6	6.9	7.5	7.7	7.7	7.9	7.9
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	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	0.0	0.0
4. Frozen account	21.1	20.6	20.0	20.0	19.5	19.5	19.5	19.5	0.0	0.0	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Of which: Repo T/Bills	20.0	19.4	19.4	19.4	18.8	18.8	18.8	18.8	0.0	0.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4
B. Others:	50.4	52.9	61.8	57.5	61.5	81.5	82.1	75.3	13.7	22.3	1.4	1.5	1.7	1.5	1.5	2.0	2.0	1.8
Of which CBK overdraft to Government	47.6	49.3	59.3	55.1	59.3	75.2	74.7	68.4	9.1	15.3	1.4	1.4	1.6	1.4	1.5	1.8	1.8	1.6

Source: Central Bank of Kenya

Treasury Bills

Treasury Bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 7.4 percent decrease during the third quarter of the FY 2021/22. As a result, the proportion of Treasury Bills to total domestic debt declined by 1.9 percentage points. This reflected successful implementation of the Government's Medium-Term objective of reducing the stock of Treasury Bills to minimize the refinancing risk. Central Bank and Commercial banks' holdings of Treasury Bills decreased by 96.7 percent and 18.2 percent, respectively, while insurance companies, Pension funds' and Other investors' holdings increased by 15.2 percent, 2.9 percent and 10.5 percent, respectively. Commercial banks were the leading holders of Treasury Bills at 49.3 percent (**Table 8.2**).

Treasury Bonds

Treasury Bonds holdings increased by 6.1 percent during the third quarter of the FY 2021/22, which was lower than the 4.7 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 5-year Fixed rate 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 banks holding 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							2021/22						
		Q4	Q1	Q2	Jan-22	Feb-22		Q3	KShs(Bn)	%	Q4	Q1	Q2	Jan-22	Feb-22	Q3
Treasury bills	91-Day	40.2	81.5	55.7	51.2	40.7	43.0	-12.7	-22.8	1.1	2.1	1.4	1.2	1.0	1.0	
	182-Day	125.5	176.1	183.8	176.9	170.9	172.2	-11.6	-6.3	3.4	4.5	4.6	4.3	4.1	4.1	
	364-Day	599.7	505.8	469.7	476.2	467.8	441.2	-28.4	-6.1	16.2	12.8	11.6	11.6	11.2	10.5	
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
	2-Year	55.9	55.9	55.9	55.9	55.9	55.9	0.0	0.0	1.5	1.4	1.4	1.4	1.3	1.3	
	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	
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
	5-Year	316.5	269.1	322.7	349.8	349.8	362.3	39.5	12.3	8.6	6.8	8.0	8.5	8.4	8.6	
	6-Year	20.2	20.2	20.2	20.2	20.2	20.2	0.0	0.0	0.5	0.5	0.5	0.5	0.5	0.5	
	7-Year	41.5	41.5	41.5	41.5	41.5	41.5	0.0	0.0	1.1	1.1	1.0	1.0	1.0	1.0	
	8-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
	9-Year	123.5	123.5	123.5	123.5	123.5	123.5	0.0	0.0	3.3	3.1	3.1	3.0	3.0	2.9	
	10-Year	490.5	514.3	534.9	542.2	542.2	542.2	7.3	1.4	13.3	13.1	13.3	13.2	13.0	12.9	
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	2.2	2.0	2.0	2.0	1.9	1.9	
	12-Year	119.9	108.0	102.7	102.7	99.7	99.7	-2.9	-2.9	3.2	2.7	2.5	2.5	2.4	2.4	
	15-Year	800.2	858.0	874.9	874.9	874.9	893.4	18.5	2.1	21.6	21.8	21.7	21.3	20.9	21.3	
	16- Year	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	4.1	3.9	3.8	3.7	3.6	3.6	
	18- Year	81.8	81.8	81.8	81.8	81.8	81.8	0.0	0.0	2.2	2.1	2.0	2.0	2.0	2.0	
	19-Year	0.0	0.0	0.0	0.0	98.4	98.4	98.4		0.0	0.0	0.0	0.0	2.4	2.3	
	20-Year	388.9	484.7	518.6	546.8	546.8	546.8	28.2	5.4	10.5	12.3	12.9	13.3	13.1	13.0	
	21-Year	0.0	106.7	106.7	106.7	106.7	106.7	0.0	0.0	0.0	2.7	2.6	2.6	2.6	2.5	
	25-Year	150.6	172.8	198.5	198.5	198.5	207.8	9.3	4.7	4.1	4.4	4.9	4.8	4.7	5.0	
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.8	0.7	0.7	0.7	0.7	0.7	
	Repo T bills	19.4	19.4	18.8	18.8	18.8	18.8	18.8	0.0	0.0	0.5	0.5	0.5	0.5	0.5	0.4
	Overdraft	59.3	55.1	59.3	75.2	74.7	68.4	9.1	15.3	1.6	1.4	1.5	1.8	1.8	1.6	
	Other Domestic debt	4.0	3.0	2.8	6.9	8.1	7.5	4.7	165.0	0.1	0.1	0.1	0.2	0.2	0.2	
Total Debt		3,698.0	3,937.8	4,032.4	4,110.1	4,181.4	4,191.8	159.4	4.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

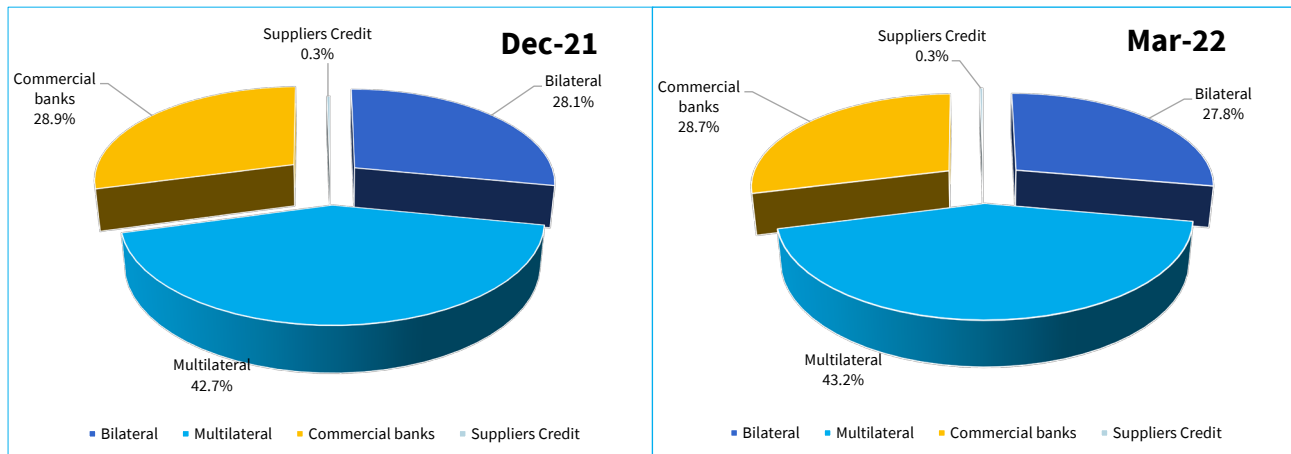
The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at the ratio of 84:16 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 69.8 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt decreased as the Treasury bills component in the domestic debt profile decreased to 15.7 percent from 17.6 percent in December 2021.

External Debt

Public and publicly guaranteed external debt increased by 0.8 percent during the third quarter of the FY 2021/22. This increase was majorly driven by loan disbursements from multilateral lenders. Foreign exchange risk on external debt remained relatively low during the quarter under review.

Composition of External Debt by Creditor

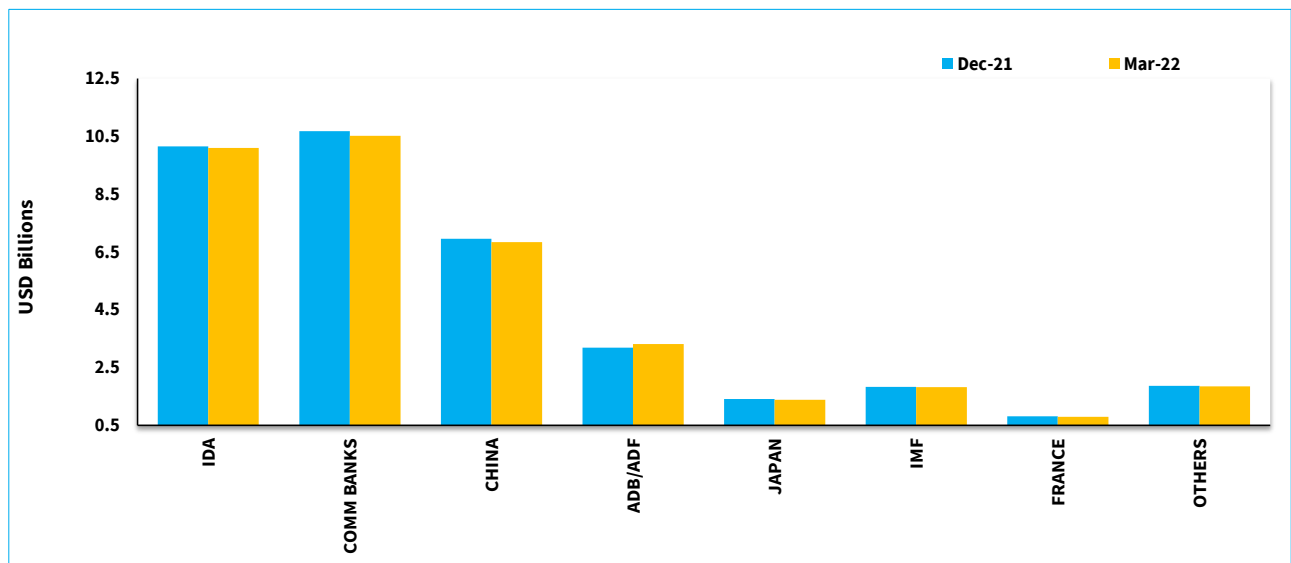
The composition of external debt continued to improve with increased flow of Multilateral lenders. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 0.5 percentage points, mainly driven by disbursements from the African Development Bank. During the third quarter of FY 2021/22, the proportion of commercial debt decreased by 0.2 percentage points (**Chart 8.1**).

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 27.6 percent of external debt). Debt owed to China, Kenya's largest

bilateral lender, amounted to USD 6.8 billion, or 18.7 percent of the total external debt by the third quarter of the FY 2021/22 (**Chart 8.2**).

Chart 8.2: External debt by creditor

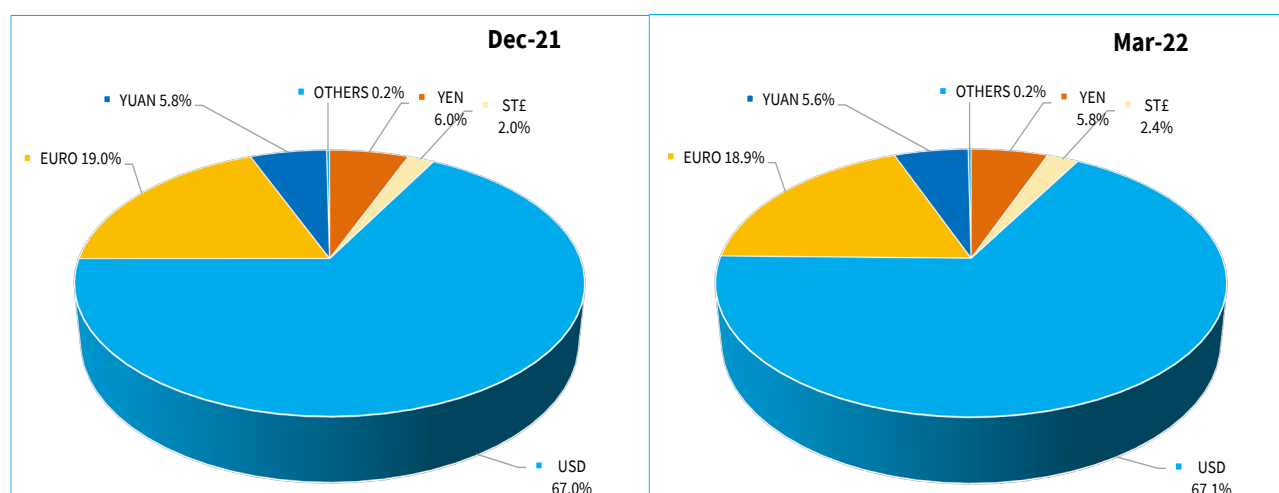
Source: The National Treasury

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 third quarter of the FY 2021/22 (**Chart 8.3**).

Public Debt Service

Chart 8.3: Debt composition by currency

Source: The National Treasury

The ratio of domestic interest payments to revenues was 21.8 percent during the third 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 third quarter of FY 2021/22 amounted to Ksh 99.9 billion. External debt service to revenue ratio was below the debt carrying capacity threshold for Kenya, while the debt services to exports ratio surpassed the threshold (**Table 8.4**).³

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in December 2021 classified Kenya's public debt as sustainable

but having a high risk of debt distress. High deficits, reflecting increased infrastructure spending in the past and impact of COVID-19, combined with the slowdown in exports and economic growth in 2020 due to the pandemic resulted in near deterioration of solvency and liquidity indicators that was only partly offset by the ongoing economic recovery. Kenya's debt indicators are expected to improve in the medium term supported by the ongoing fiscal consolidation program and continued recovery of output and exports growth. 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	Q4 FY 2020/21	FY 2020/21	Q1 FY 2021/22	Q2 FY 2021/22	Q3 FY 2021/22	Q1 FY 2021/22
Debt service to Revenues (18%)	9.7	11.6	15.1	11.4	20.4	12.0
Debt service to Exports (15%)	17.8	18.8	25.7	15.7	23.8	15.7

Source: Central Bank of Kenya and The National Treasury

³ Debt service ratios to flow resource bases such as revenues and exports are liquidity indicators of the level of indebtedness.

Chapter 9

Capital Markets

The overall equity market activity declined in the first quarter of 2022 compared to the fourth quarter of 2021. The NSE 20 share price index and NASI declined by 2.9 percent and 6.4 percent, respectively.

The equity turnover, market capitalization and total number of shares traded, declined by 23.3 percent, 6.5 percent and 25.2 percent, respectively (**Table 9.1 and Chart 9.1**).

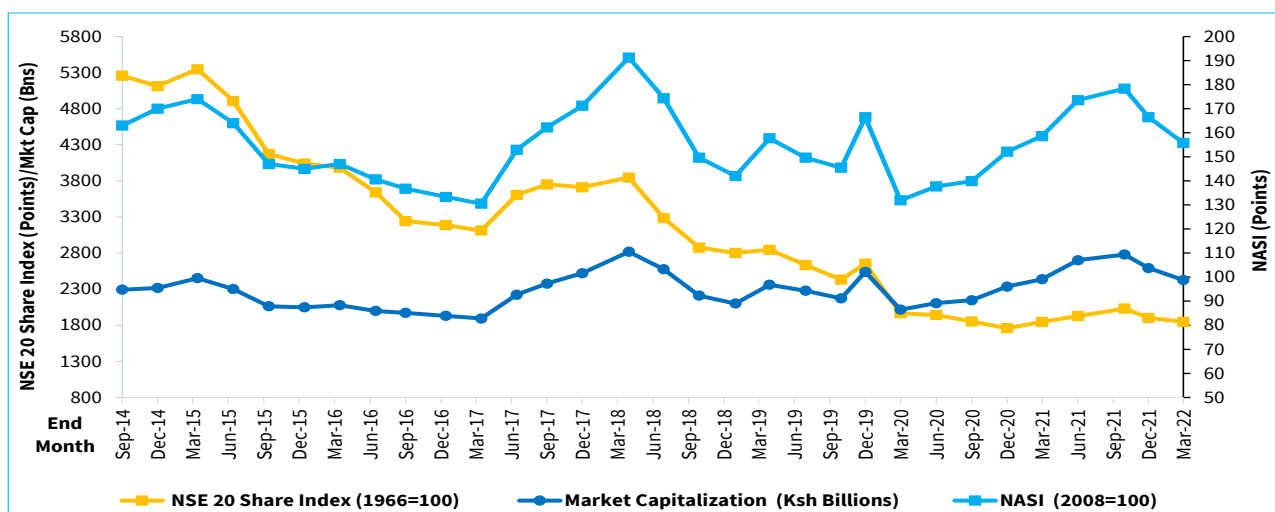
Table 9.1: Selected stock market indicators

INDICATOR	2020			2021				2022	% CHANGE (2022 Q1- 2021 Q4)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	1942.1	1852.3	1759.9	1846.4	1927.5	2031.2	1902.6	1846.7	-2.93
NASI (2008=100)	137.68	139.89	152.11	158.62	173.53	178.31	166.46	155.74	-6.44
Number of Shares Traded (Millions)	1,421.8	1,512.2	969.5	997.8	1,099.6	946.5	1,007.2	753.2	-25.22
Equities Turnover (Ksh Millions)	39,534.4	37,936.6	27,510.8	31,735.0	37,992	31,360	36,322	27,861	-23.30
Market Capitalization (Ksh Billions)	2,105	2,148	2,337	2,437	2,702	2,779	2,593	2,426	-6.46
Foreign Purchase (Ksh Millions)	20,429	23,290	16,744	18,575	21,060	16,535	16,525	14,386	-12.94
Foreign Sales (Ksh Millions)	30,679	27,817	19,412	19,551	23,069	15,601	24,714	16,073	-34.96
Ave. Foreign Investor Participation to Equity Turnover (%)	64.64	67.36	65.98	60.38	58.73	51.53	57.73	54.66	-3.07
Bond Turnover (Ksh Millions)	106,102	227,862	156,717	199,378	271,239	301,094	185,262	190,951	3.07
FTSE NSE Kenya Govt. Bond Index (Points)	96.65	97.69	98.24	97.04	96.88	96.78	96.05	95.67	-0.40
7-Year Eurobond Yield (%)	7.30	7.44	4.86	5.60	4.81	5.03	5.57	8.15	2.58*
10-Year Eurobond Yield (%) -2024	6.48	6.37	3.92	3.56	3.27	3.20	4.45	6.75	2.30*
10-Year Eurobond Yield (%) -2028	7.51	7.49	5.22	6.28	5.36	5.40	5.76	8.14	2.38*
12-Year Eurobond Yield (%)	8.21	8.19	5.85	7.12	6.22	6.51	6.71	8.62	1.91*
13-Year Eurobond Yield (%) 2034					6.18	6.45	6.58	8.34	1.76*
30-Year Eurobond Yield (%) -2048	8.41	8.67	7.04	7.98	7.34	7.54	8.13	9.49	1.36*

* Percentage points

Source: Nairobi Security Exchange

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



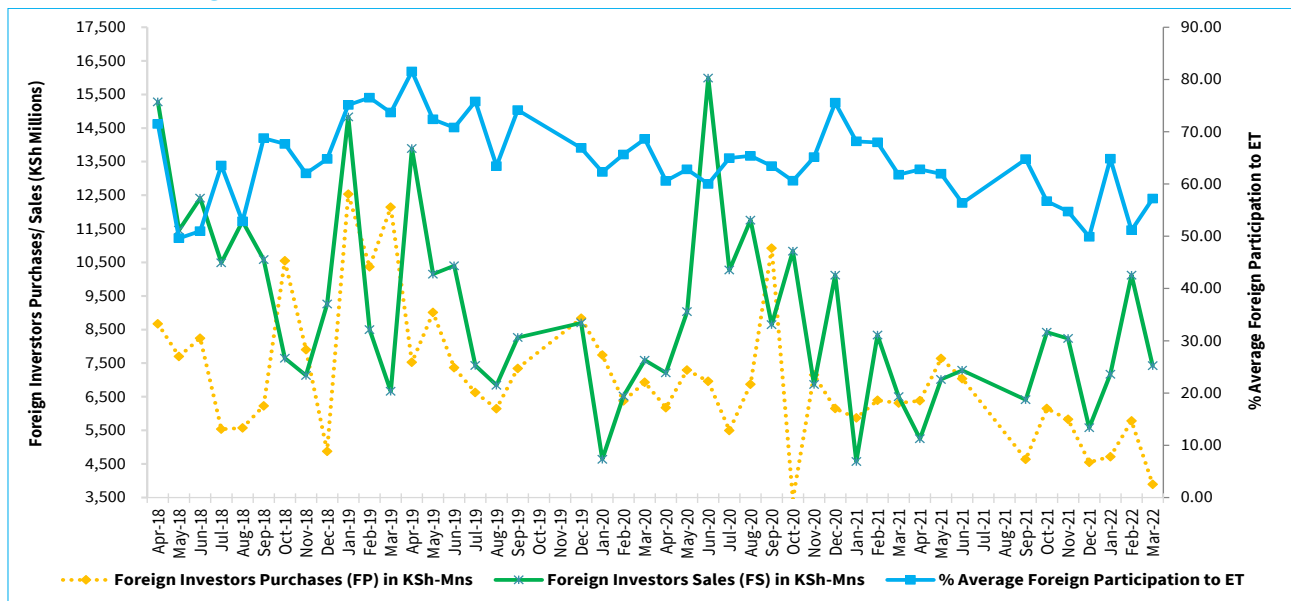
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of equities purchased by foreign investors at the NSE declined by 12.9 percent against the 35.0 percent decline in the value of equity sold by foreign investors in the first quarter of 2022. Average net foreign investors' participation at the NSE as a proportion to total equity turnover, declined to

54.7 percent in the first quarter of 2022 from 57.7 percent in the fourth quarter of 2021. There was a net foreign investor outflow as sales exceeded purchases in the quarter under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market increased by 3.1 percent in the first quarter of 2022 compared to fourth quarter of 2021. The FTSE NSE Kenyan Government Bond Index declined by 0.4 percent in the first quarter of

2022, reflecting an increase in market yields. In the international market, yields on Kenya's Eurobonds rose by an average of 204.8 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)

ASSETS	2021				2022				Absolute Quarterly Changes (KSh Million)				Quarterly Growth Rates (%)			
	Jun	Sept	Dec	Mar	Q1,2022	Q4,2021	Q3,2021	Q2,2021	Q1,2022	Q4,2021	Q3,2021	Q2,2021	Q1,2022	Q4,2021	Q3,2021	Q2,2021
Reserves and Gold Holdings	1,096,065	1,017,575	993,892	889,387	(104,505)	(23,683)	(78,490)	214,515	(10.5)	(2.3)	(7.2)	24.3				
Funds Held with IMF	2,201	82,740	77,698	77,696	(2)	(5,042)	80,539	1,063	(0.0)	(6.1)	3,658.8	93.3				
Investment in Equity (Swift Shares)	10	10	10	10	(0)	(0)	0	(0)	(0.2)	(0.8)	0.6	(0.3)				
Items in the Course of Collection	39	13	2	14	12	(11)	(26)	31	635.2	(85.6)	(67.0)	353.4				
Advances to Commercial Banks	59,540	65,650	70,180	76,533	6,352	4,530	6,111	(5,785)	9.1	6.9	10.3	(8.9)				
Loans and Other Advances	163,768	166,192	197,779	198,929	1,151	31,586	2,424	76,395	0.6	19.0	1.5	87.4				
Other Assets	5,365	5,339	5,878	5,988	110	539	(26)	203	1.9	10.1	(0.5)	3.9				
Retirement Benefit Asset	7,639	7,639	7,639	7,639	-	-	-	1,101	-	-	-	16.8				
Property and Equipment	33,218	32,228	31,854	31,723	(131)	(373)	(991)	2,114	(0.4)	(1.2)	(3.0)	6.8				
Intangible Assets	1,784	1,858	1,891	2,165	274	33	74	437	14.5	1.8	4.2	32.5				
Due Debt from Government of Kenya	79,288	75,219	78,767	87,899	9,132	3,547	(4,069)	9,342	11.6	4.7	(5.1)	13.4				
TOTAL ASSETS	1,448,918	1,454,464	1,465,590	1,377,983	(87,607)	11,126	5,547	299,417	(6.0)	0.8	0.4	26.0				
LIABILITIES																
Currency in Circulation	277,129	282,844	310,278	301,745	(8,533)	27,434	5,715	(4,457)	(2.8)	9.7	2.1	(1.6)				
Investments by Banks						-										
Deposits	728,001	625,292	560,473	484,612	(75,861)	(64,818)	(102,709)	243,213	(13.5)	(10.4)	(14.1)	50.2				
International Monetary Fund	221,174	304,918	332,328	333,685	1,357	27,410	83,744	70,284	0.4	9.0	37.9	46.6				
Other Liabilities	6,101	6,164	7,622	4,051	(3,570)	1,458	63	(173)	(46.8)	23.7	1.0	(2.8)				
TOTAL LIABILITIES	1,232,404	1,219,218	1,210,701	1,124,094	(86,608)	(8,516)	(13,187)	308,867	(7.2)	(0.7)	(1.1)	33.4				
EQUITY AND RESERVES	216,513	229,309	254,889	253,890	(999)	25,580	12,796	(9,450)	(0.4)	11.2	5.9	(4.2)				
Share Capital	35,000	35,000	35,000	35,000	-	-	-	-		-	-	-				
General reserve fund	128,219	155,388	155,388	155,388	0	-	27,168	-		-	21.2	-				
Period surplus/(Deficit)	22,978	4,727	43,876	42,876	(999)	39,149	(18,252)	(9,450)	(2.3)	828.3	(79.4)	(29.1)				
Asset Revaluation	17,801	21,680	21,680	21,680	-	-	3,879	-		-	21.8	-				
Fair Value Reserves - OCI	12,515	12,515	(1,054)	(1,054)	-	(13,569)	-	-		(108.4)	-	-				
Retirement Benefit Asset Reserves						-	-	-								
Consolidated Fund						-	-	-								
TOTAL LIABILITIES AND EQUITY	1,448,918	1,454,464	1,465,590	1,377,984	(87,607)	11,126	5,546	299,417	(6.0)	0.8	0.4	26.0				

Notes on the Financial Position of the CBK

Assets

Growth in the Central Bank of Kenya (CBK) balance sheet decreased by 6.0 percent in the first quarter of 2022 compared to an increase of 0.8 percent in the previous quarter. The decrease was largely reflected in the contraction in reserve and gold holdings, which more than offset the increased loans and advances and debt due from government. 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 and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank, largely reflected debt service.

Loans and advances, partly reflect funds on lent to the Government related to receipts from the IMF under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF). Debt due to government increased in the first quarter of 2022, reflecting the government utilization of the overdraft facility. Advances to commercial banks

also increased mainly on account of the open market operations that remained active during the period.

Liabilities

On the liability side, the decrease in the growth of the Central Bank's balance sheet was largely reflected in deposits and currency in circulation. The deposit liabilities declined in the first quarter largely reflecting reduced government deposits at the Central Bank, while the decrease in currency in circulation reflected the reduced cash demand after the end of year festivities. Liabilities to the IMF, largely reflected the disbursements under the ECF and EFF to the Government, which are channeled through the Central Bank.

Meanwhile, equity and reserves decreased slightly in the first quarter of 2022 on account of reduced surpluses recorded during the period.



Central Bank of Kenya

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