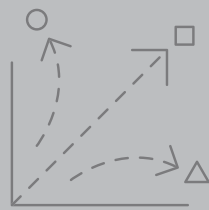
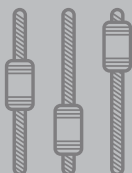
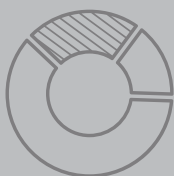




Central Bank of Kenya

QUARTERLY ECONOMIC REVIEW (QER)

*Volume 3 No 1
January - March 2019*



OBJECTIVES OF THE CENTRAL BANK OF KENYA

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

- 1) To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
- 2) To foster the liquidity, solvency and proper functioning of a stable, market-based financial system;
- 3) Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.
- 4) Without prejudice to the generality of the above, the Bank shall:
 - Formulate and implement foreign exchange policy;
 - Hold and manage Government foreign exchange reserves;
 - License and supervise authorised foreign exchange dealers;
 - Formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
 - Act as banker and adviser to, and fiscal agent of, the Government; and
 - Issuing currency notes and coins.

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QUARTERLY ECONOMIC REVIEW

JANUARY - MARCH 2019

Starting with the January - March 2016 edition, the Quarterly Economic Review is available on the Internet at:

<http://www.centralbank.go.ke>

TABLE OF CONTENT

HIGHLIGHTS	4
1. INFLATION	5
2. MONEY, CREDIT AND INTEREST RATES	10
3. REAL SECTOR	15
4. GLOBAL ECONOMY	21
5. BALANCE OF PAYMENTS AND EXCHANGE RATES	23
6. THE BANKING SECTOR	28
7. GOVERNMENT BUDGETARY PERFORMANCE	35
8. PUBLIC DEBT	38
9. THE CAPITAL MARKETS	43
10. STATEMENT OF FINANCIAL POSITION OF THE CENTRAL BANK OF KENYA	45
11. NOTES TO THE FINANCIAL POSITION	46

HIGHLIGHTS

Overall inflation declined significantly to 4.4 percent in the first quarter of 2019 from 5.6 percent in the previous quarter; driven by low food prices, declining fuel prices and subdued demand pressures.

Broad money supply (M3) grew by 2.3 percent in the first quarter of 2019, a similar level to 2.4 percent in the previous quarter. The expansion in money supply was mainly reflected in time and savings deposits of the corporate sector.

Economic growth was strong in the first quarter at 5.6 percent, despite the delayed onset of the long rains. It was supported by strong performance of services sectors.

The global economy was expected to slow down to 3.2 percent in 2019 before a gradual recovery to 3.5 percent in 2020.

Kenya's current account deficit narrowed to USD 782 million in the first quarter of 2019 from USD 1,202 million in the first quarter of 2018, mainly driven by an improvement in the secondary income account

Official reserves held by the Central Bank stood at USD 8,468 million, equivalent to 5.4 months of import cover at end of March 2019.

Kenya's foreign exchange market remained relatively stable during the first quarter of 2019, largely supported by resilient inflows from diaspora remittances and receipts from tourism, horticulture exports and lower food imports.

The banking sector was stable in the first quarter of 2019. Total net assets increased by 2.8 percent to KSh 4,571.6 billion in March 2019 from KSh 4,446.1 billion in December 2018. The deposit base also increased by 2.0 percent to KSh 3,400.1 billion from KSh 3,332.4 billion between the fourth quarter of 2018 and first quarter of 2019. The sector was well capitalised and met the minimum capital requirements. Quarterly profitability increased by 18.4 percent due to an increase in total income. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 12.78 percent in the first quarter of 2019.

The Government's budgetary operations at the end of the third quarter of FY 2018/19 resulted in a deficit (including grants) of 5.5 per cent of GDP and was above the target of 4.9 percent of GDP. Revenue collection remained below target, as was the case with the expenditure.

Kenya's public and publicly guaranteed debt recorded a moderate increase of 2.8 percent during the third quarter of the FY 2018/19. Domestic debt increased by 5.9 percent while external debt decreased by 0.1 percent during the quarter.

Overall, capital markets' performance improved in the first quarter of 2019 compared to fourth quarter of 2018. The yields on all the Kenya's Eurobonds declined during the period under review.

CHAPTER 1

Inflation

Overview

Overall inflation declined significantly to 4.4 percent in the first quarter of 2019 from 5.6 percent in the previous quarter, driven by low food prices, declining fuel prices and subdued demand pressures (**Table 1.1**). Fuel inflation declined to 10.8 percent from 14.9 percent in the fourth quarter due to a decline in domestic¹ and international energy prices. Similarly,

Non-Food Non-Fuel (NFNF) inflation declined to 3.2 percent from 4.5 percent in the previous quarter reflective of subdued demand pressures in the economy, supported by prudent monetary policy. Meanwhile, food inflation remained low and stable at 2.0 percent compared to 1.8 percent in the previous quarter (**Chart 1.1**).

Table 1.1: Recent Trends in Inflation (Percent)

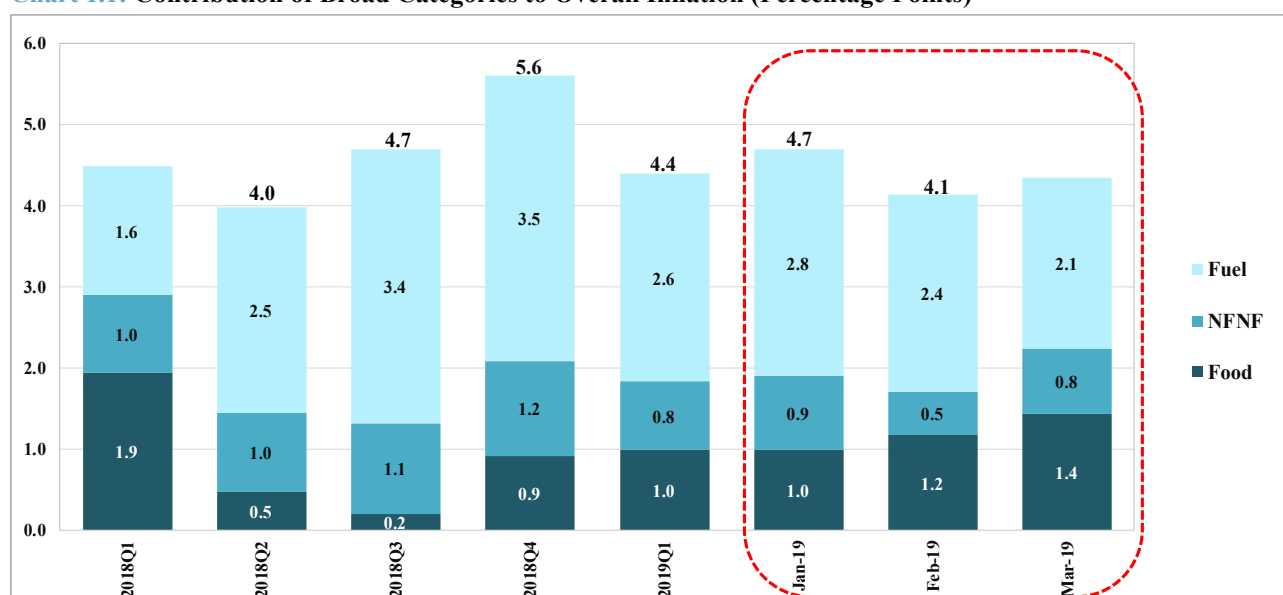
	2018				2019			
	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar
Overall inflation	4.5	4.0	4.7	5.6	4.4	4.7	4.1	4.3
Food Inflation	3.8	0.9	0.4	1.8	2.0	1.8	1.3	2.9
Fuel Inflation	6.8	11.2	14.7	14.9	10.8	12.1	11.4	8.8
Non-Food-Non-Fuel (NFNF) Inflation	3.6	3.8	4.3	4.5	3.2	3.5	3.1	3.1
Annual Average Inflation	7.4	5.7	4.7	4.6	4.7	4.7	4.7	4.7
Three Months Annualised Inflation	12.6	13.1	-2.4	0.3	7.5	3.3	7.5	11.6

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

Fuel inflation, though declining, continued to be the main driver of inflation in the quarter under review, contributing 2.6 percentage points to overall inflation, compared to a contribution of 3.5 percentage points in the fourth quarter of 2018. The decline in fuel inflation was largely due to dissipating impact of charcoal on inflation, lower electricity costs and 'matatu' fares.

The contribution of NFNF inflation to overall inflation declined to 0.8 percentage points from 1.2 percentage points in the fourth quarter of 2018 reflecting muted inflationary pressures in the economy. Meanwhile, the contribution of food inflation to overall inflation remained low and stable on account of lower food prices (**Chart 1.1**).

Chart 1.1: Contribution of Broad Categories to Overall Inflation (Percentage Points)



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

¹Domestic energy items comprise of petrol, diesel, kerosene, Liquefied Petroleum Gas (LPG), electricity, charcoal and firewood.

Food inflation

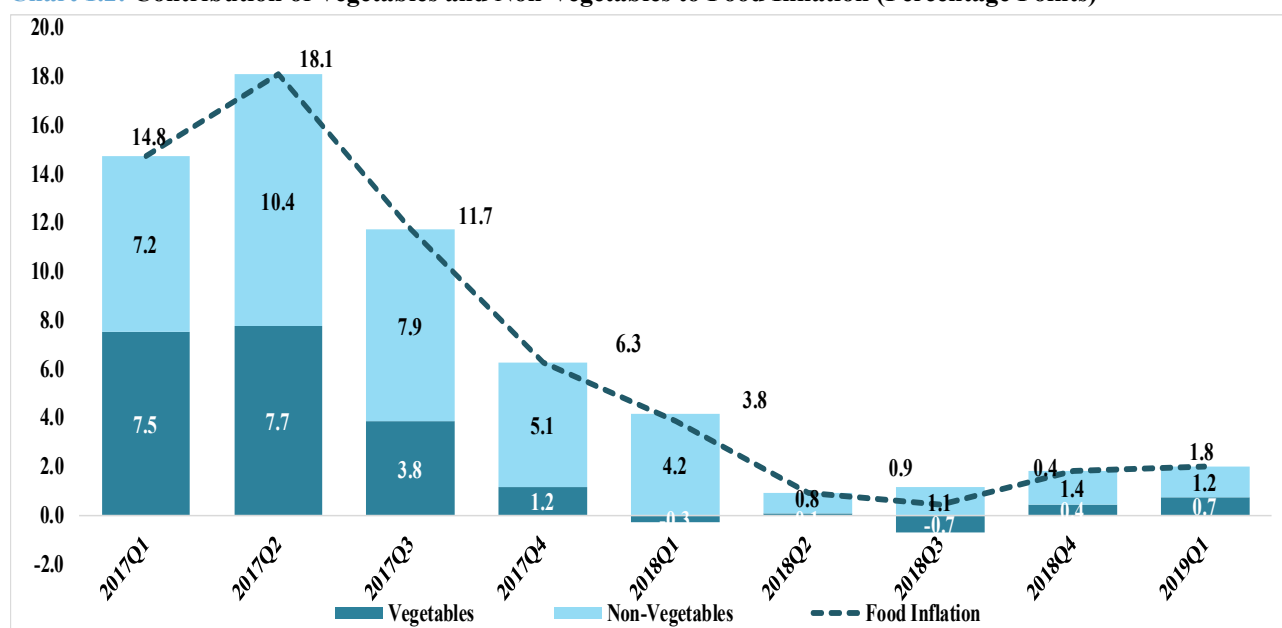
Food inflation remained low and stable supported by low food prices arising from abundant supply following favorable weather conditions experienced across the country in 2018. It rose marginally to 2.0 percent in the quarter under review from 1.8 percent in the fourth quarter of 2019, mainly on account of increases in the vegetable prices following delayed onset of rainfall in the March-May long rains season. Consequently, the contribution of vegetables to food inflation increased to 0.7 percentage points from 0.4 percentage points in the previous period, mainly due to increases in the prices of Irish potatoes, carrots and cabbages. However, the impact of these increases

were partially offset by decreasing prices of onions and tomatoes. On the other hand, the contribution of Non-Vegetables to food inflation declined to 1.2 percentage points from 1.4 percentage points, largely attributed to declining prices of maize and milk products, whose prices were lower compared to a similar period last year (Chart 1.2).

Fuel Inflation

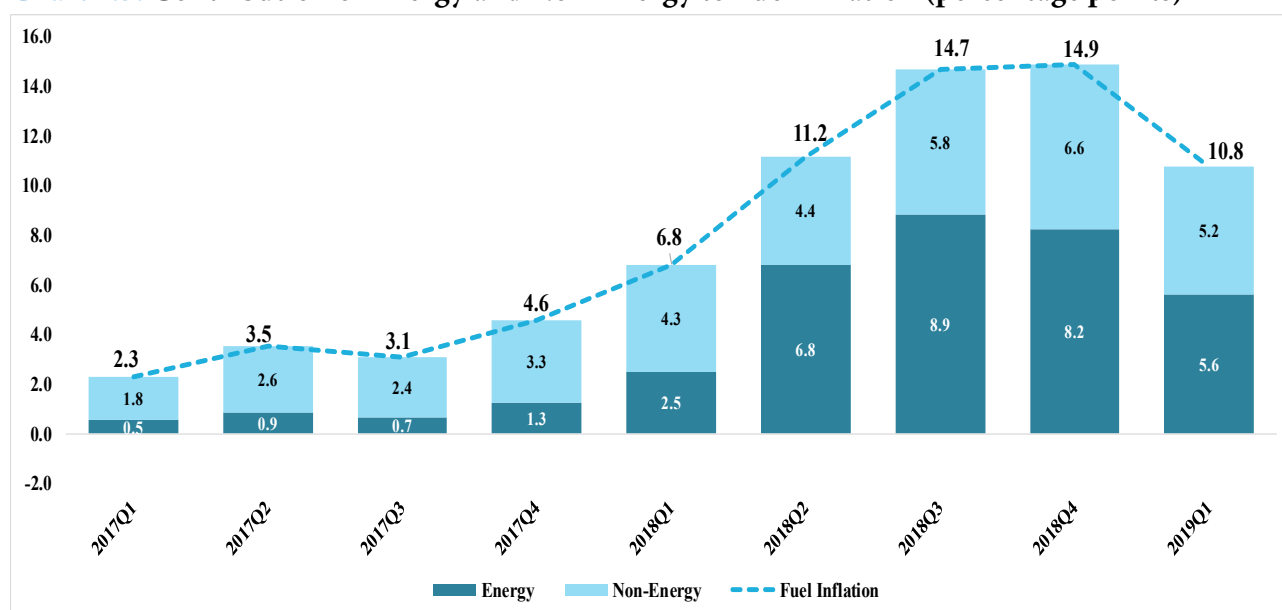
Fuel inflation declined significantly in the first quarter of 2019 due to low domestic and international energy prices compared to a similar period in 2018. It declined to 10.8 percent from 14.9 percent in the previous quarter. The contribution of the energy

Chart 1.2: Contribution of Vegetables and Non-Vegetables to Food Inflation (Percentage Points)



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

Chart 1.3: Contribution of Energy and Non-Energy to Fuel Inflation (percentage points)



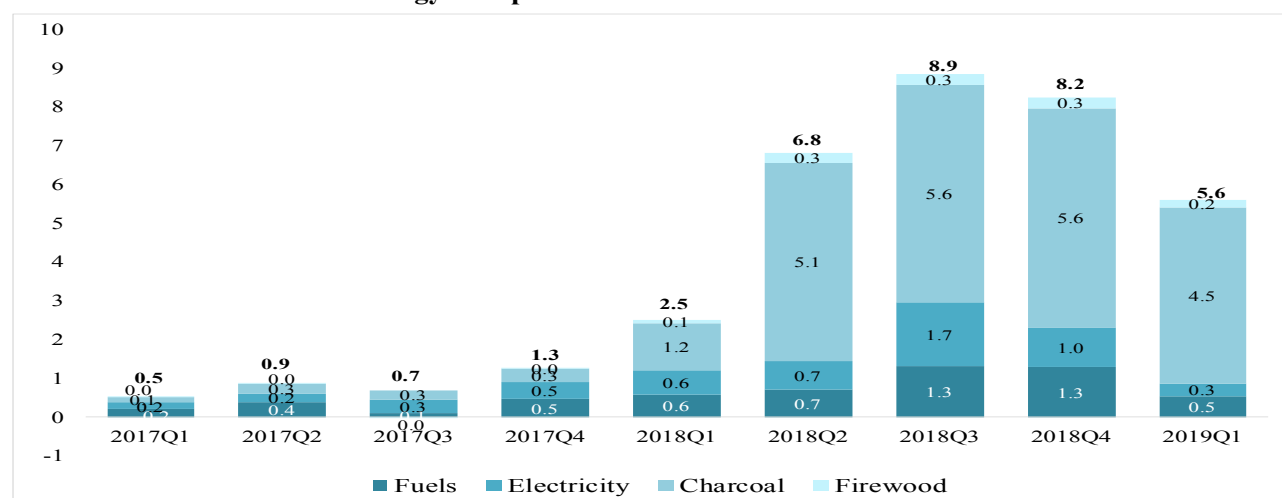
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

and non-energy components to fuel inflation was relatively balanced at 5.6 percentage points and 5.2 percentage points, respectively (**Chart 1.3**). The main non-energy driver of fuel inflation during the period under review was high transport costs which resulted from upward price adjustments following imposition of Value Added Tax (VAT) on pump prices in September 2018.

The contribution of energy components to fuel inflation declined substantially during the quarter under review. This was on account of declining contributions of charcoal, fuels, and electricity. The contribution of charcoal to fuel inflation declined to 4.5 percentage points from 5.6 percentage points,

reflecting its dissipating impact on inflation. The contribution of fuels also declined, in line with the trends in international oil prices that have been declining since the third quarter of 2018. Consequently, the contribution of petrol declined to 0.3 percentage points from 0.8 percentage points in the previous quarter. Similarly, the contribution of electricity declined to 0.3 percentage points in the period under review, from 1.0 percentage points in the fourth quarter of 2018. This was a result of the downward review of the fixed non-fuel tariff component by the Energy and Petroleum Regulatory Authority (EPRA), which took effect in November 2018. The review is expected to moderate fuel inflation, and hence overall inflation, until November 2019 (**Chart 1.4**).

Chart 1.4: Contribution of Energy Components to Fuel Inflation



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

Non-Food Non-Fuel inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation remained low and stable reflective of muted demand pressures in the economy. It declined significantly to 3.2 percent in the first quarter of 2019 from 4.5 percent in the previous quarter. The decline was reflected in all the categories

of NFNF, except the 'Alcoholic Beverages, Tobacco and Narcotics' and 'Communication' categories. Inflation trends in the 'Alcoholic Beverages, Tobacco and Narcotics' category were mainly driven by excise tax measures on beer, spirits, and cigarettes while trends in the 'Communication' category was driven by excise tax on voice calls and internet services (**Table 1.2**).

Table 1.2: Non-Food-Non-Fuel Inflation by CPI Categories (Percent)

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Furnishings, Household Equipment and Routine Household Maintenance	Health	Communication	Recreation & Culture	Education	Miscellaneous Goods & Services	NFNF inflation
2017	Q1	3.2	4.2	3.0	3.1	0.6	2.1	2.9	3.5	4.2
	Q2	3.4	4.0	3.3	3.0	0.1	1.8	2.8	3.9	4.3
	Q3	3.0	3.8	3.2	3.1	0.3	1.2	2.9	3.6	3.8
	Q4	3.0	2.9	3.2	4.1	0.5	1.2	3.2	3.5	2.9
2018	Q1	2.9	3.8	4.1	3.6	0.7	1.6	5.2	4.4	3.6
	Q2	2.6	4.2	4.6	3.9	0.8	1.5	5.1	4.4	3.8
	Q3	5.0	4.3	4.7	5.9	0.7	1.5	5.0	4.2	4.3
	Q4	7.0	4.1	4.3	5.1	4.6	1.4	4.9	4.2	4.5
2019	Q1	7.2	2.5	3.2	4.5	4.6	0.8	1.3	3.3	3.2
	Jan	6.5	2.8	3.6	4.5	4.7	0.9	1.5	3.5	3.5
	Feb	7.3	2.4	3.0	4.5	4.5	0.8	1.2	3.2	3.1
	Mar	7.7	2.4	2.9	4.5	4.5	0.6	1.2	3.1	3.1

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

Overall Inflation across Regions

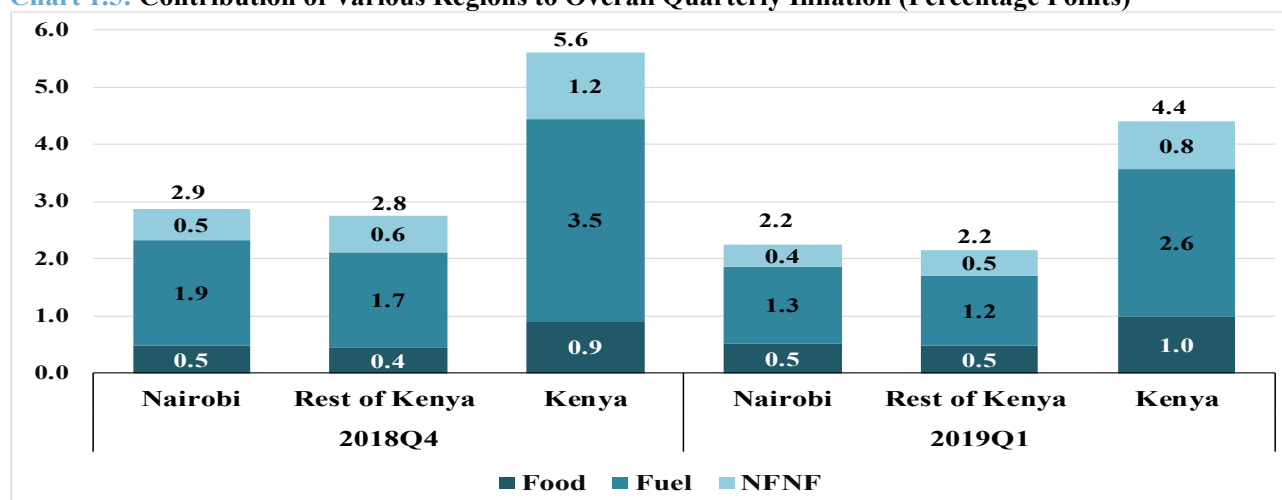
The contribution of the Nairobi region and the Rest of Kenya to overall inflation in the country declined due to lower food and energy prices. The contribution of Nairobi region to overall inflation declined to 2.2 percentage points, from 2.9 percentage points in the previous quarter. In addition, the contribution of the Rest of Kenya to overall inflation also declined to 2.2 percentage points from 2.8 percentage points in the fourth quarter of 2018. Developments in both regions indicated declining contribution of Fuel inflation and Non-Food Non-Fuel inflation to overall inflation during the quarter under review, compared to the previous quarter. The contribution of Food inflation stabilized in both regions (**Chart 1.5**).

Overall Inflation across Income Groups in Nairobi

The Lower Income group contributed 1.2 percentage points to inflation in Nairobi in the period under review, compared to a contribution of 1.6 percentage points in the previous period, driven by lower food prices compared to a similar period of 2018 and declining energy prices. This was reflected in the contribution of fuel which declined to 0.8 percentage points, from 1.1 percentage points in the previous quarter and the contribution of food which stabilized 0.1 percentage points. The contribution of NFNF stabilized 0.3 percentage points.

The contribution of the Middle Income group to inflation in Nairobi remained relatively stable at 1.2

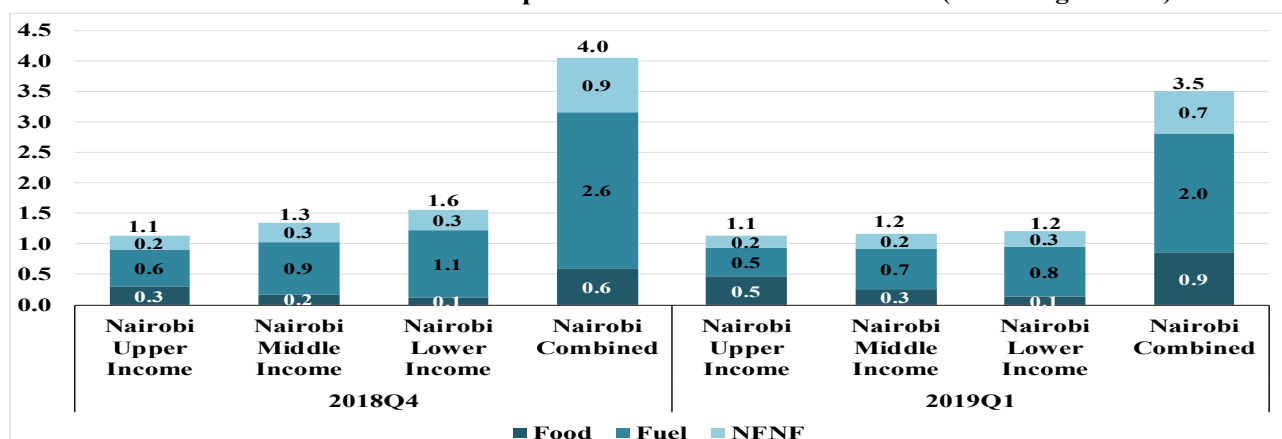
Chart 1.5: Contribution of Various Regions to Overall Quarterly Inflation (Percentage Points)



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

percentage points, compared to a contribution of 1.3 percentage points in the previous quarter. The contribution of fuel inflation and NFNF inflation declined marginally, while that of food increased slightly. On the other hand, the contribution of Upper Income group to inflation in Nairobi stabilized at 1.1 percentage points during the period under review (**Chart 1.6**).

Chart 1.6: Contributions of Income Groups to Overall Inflation in Nairobi (Percentage Points)



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

Chapter 2

Money, Credit and Interest Rates

Monetary aggregates and its components

Money supply (M3) grew by 2.3 percent in the first quarter of 2019, a similar level to 2.4 percent in the previous quarter. The expansion in money supply was mainly reflected in time and savings deposits of the corporate sector (KSh 33.1 billion), demand deposits of the household sector (KSh 21.4 billion), and the county deposits at the Central Bank (KSh 14.5 billion). The currency outside banks declined

in the first quarter of 2019, largely reflecting reduced demand for cash following the end of year festivities and the payments for schools fees at the beginning of the year (Tables 2.1 & 2.2 and Charts 2.1).

Broad money supply, M3, grew by 12.5 percent in the 12 months to March 2019 from 10.1 percent in December 2018, largely reflecting a recovery in credit to the private sector and growth in net credit to the government.

Table 2.1: Monetary Aggregates

Quarterly Growth Rates (%)=B4:BP35	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Components of M3																		
1. Money supply, M1 (1.1+1.2+1.3)	1385.9	1361.6	1425.6	1379.5	1477.5	1520.3	1.1	-1.8	4.7	-3.2	7.1	2.9	14.6	-24.3	64.0	-46.0	98.0	42.7
1.1 Currency outside banks	225.4	214.4	218.3	214.4	230.3	225.2	7.8	-4.9	1.8	-1.8	7.4	-2.2	16.2	-11.0	3.9	-3.9	16.0	-5.1
1.2 Demand deposits	1119.8	1083.4	1126.8	1094.6	1175.6	1209.0	1.5	-3.3	4.0	-2.9	7.4	2.8	16.7	-36.5	43.5	-32.2	80.9	33.4
1.3 Other deposits at CBK ^{1/}	41.4	64.5	81.2	70.8	71.7	86.2	-30.7	55.9	25.8	-12.9	1.3	20.2	-18.3	23.2	16.7	-10.4	0.9	14.5
2. Money supply, M2 (1+2.1)	2551.8	2560.9	2681.9	2684.9	2756.0	2838.4	0.9	0.4	4.7	0.1	2.6	3.0	23.0	9.1	120.9	3.0	71.1	82.4
2.1 Time and saving deposits	1165.9	1199.3	1256.3	1305.4	1278.4	1318.1	0.7	2.9	4.8	3.9	-2.1	3.1	8.4	33.5	57.0	49.1	-26.9	39.7
3. Money supply, M3 (2+3.1)	3030.6	3035.4	3262.6	3261.1	3337.8	3415.3	0.8	0.2	7.5	0.0	2.4	2.3	24.5	4.7	227.2	-1.6	76.8	77.5
3.1 Foreign Currency Deposits	478.8	474.5	580.8	576.2	581.9	576.9	0.3	-0.9	22.4	-0.8	1.0	-0.8	1.5	-4.4	106.3	-4.6	5.7	-4.9
Sources of M3																		
1. Net foreign assets ^{2/}	516.3	697.6	756.9	742.1	714.1	720.0	-15.4	35.1	8.5	-2.0	-3.8	0.8	-93.7	181.3	59.3	-14.8	-28.0	5.9
Central Bank	627.1	803.3	783.6	768.3	739.5	747.5	-9.7	28.1	-2.5	-2.0	-3.8	1.1	-67.5	176.2	-19.7	-15.3	-28.8	8.0
Banking Institutions	-110.8	-105.7	-26.7	-26.2	-25.4	-27.5	31.0	-4.6	-74.7	-1.8	-3.2	8.3	-26.2	5.1	79.0	0.5	0.8	-2.1
2. Net domestic assets (2.1+2.2)	2514.3	2337.7	2505.7	2519.0	2623.7	2695.3	4.9	-7.0	7.2	0.5	4.2	2.7	118.2	-176.6	168.0	13.3	104.7	71.6
2.1 Domestic credit	3232.6	3080.6	3237.3	3282.5	3381.1	3508.1	4.2	-4.7	5.1	1.4	3.0	3.8	128.9	-151.9	156.7	45.2	98.5	127.0
2.1.1 Government (net)	755.7	624.9	745.1	770.2	858.2	964.2	12.1	-17.3	19.2	3.4	11.4	12.4	81.4	-130.8	120.1	25.2	87.9	106.1
2.1.2 Private sector	2364.5	2343.0	2380.4	2404.0	2422.0	2444.2	2.1	-0.9	1.6	1.0	0.7	0.9	48.9	-21.5	37.4	23.6	18.0	22.2
2.1.3 Other public sector	112.4	112.7	111.9	108.3	100.9	99.7	-1.2	0.3	-0.8	-3.2	-6.8	-1.2	-1.3	0.3	-0.9	-3.5	-7.4	-1.2
2.2 Other assets net	-718.2	-742.9	-731.6	-763.5	-757.3	-812.8	1.5	3.4	-1.5	4.4	-0.8	7.3	-10.7	-24.6	11.3	-32.0	6.2	-55.4
Memorandum items																		
4. Overall liquidity, L (3+4.1)	4104.8	4159.2	4434.2	4467.0	4551.0	4696.9	1.8	1.3	6.6	0.7	1.9	3.2	72.7	54.4	275.0	32.8	84.0	145.9
4.1 Non-bank holdings of government securities	1074.2	1123.8	1171.6	1205.9	1213.1	1281.6	4.7	4.6	4.3	2.9	0.6	5.6	48.2	49.6	47.8	34.3	7.3	68.4

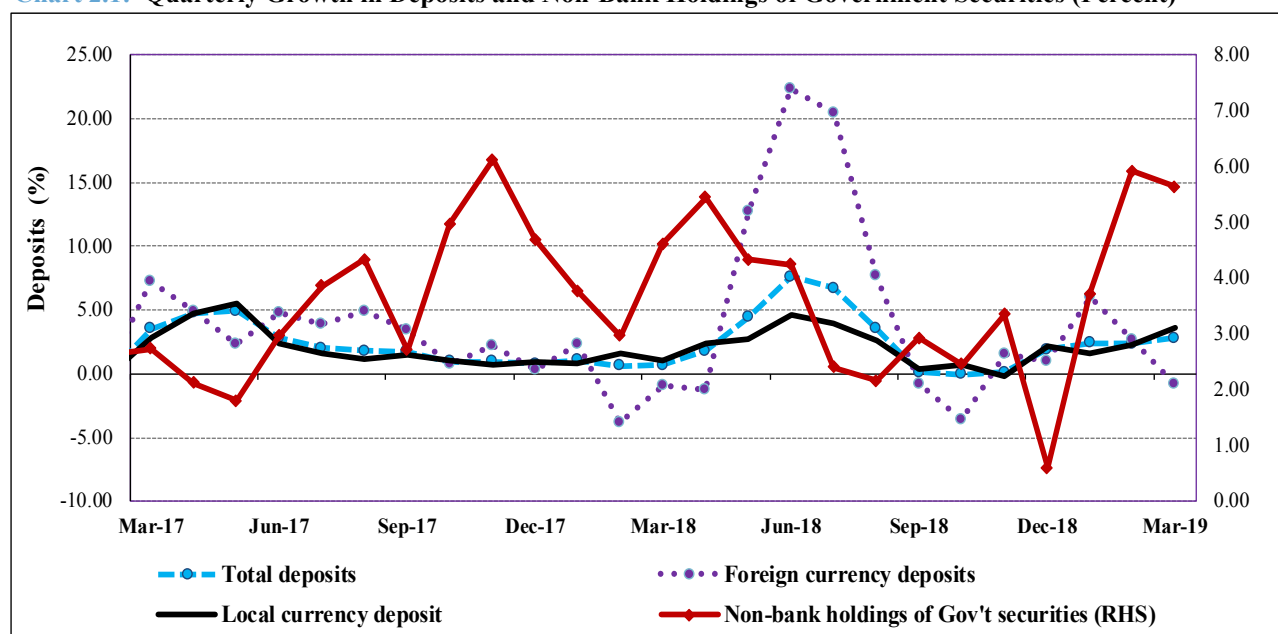
Absolute and percentage changes may not necessarily add up due to rounding

^{1/} Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Table 2.2: Deposits Holdings of Corporates and Household Sectors

	End Month Levels (KSh Billions)						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
1. Household Sector 1/	1323.2	1344.4	1485.7	1478.7	1493.4	1518.8	0.6	1.6	10.5	-0.5	1.0	1.7	8.4	21.2	141.3	-7.0	14.7	25.4
1.1 Demand Deposits	560.4	562.0	574.1	560.4	562.1	583.5	-1.1	0.3	2.2	-2.4	0.3	3.8	-6.5	1.6	12.1	-13.7	1.7	21.4
1.2 Time and Saving Deposits	618.1	633.0	663.2	689.7	701.3	707.8	1.8	2.4	4.8	4.0	1.7	0.9	10.9	14.9	30.2	26.5	11.6	6.6
1.3 Foreign Currency Deposits	144.7	149.4	248.4	228.6	230.0	227.5	2.8	3.2	66.3	-8.0	0.6	-1.1	4.0	4.7	99.0	-19.8	1.4	-2.6
2. Corporate Sector	1432.9	1403.9	1460.4	1481.0	1518.0	1559.5	1.4	-2.0	4.0	1.4	2.5	2.7	19.5	-29.0	56.5	20.5	37.0	41.5
2.1 Demand deposits	554.3	515.6	538.4	520.2	593.6	604.0	4.5	-7.0	4.4	-3.4	14.1	1.8	24.1	-38.7	22.8	-18.2	73.4	10.4
2.2 Time and Saving Deposits	545.0	563.8	590.0	613.6	574.7	607.9	-0.4	3.4	4.7	4.0	-6.3	5.8	-2.1	18.7	26.3	23.6	-38.9	33.1
2.3 Foreign Currency Deposits	333.5	324.5	332.0	347.1	349.7	347.6	-0.7	-2.7	2.3	4.6	0.7	-0.6	-2.5	-9.0	7.5	15.2	2.5	-2.1

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 growth in M3 in the first quarter of 2019 was the increase in net domestic assets (NDA) of the banking system. This reflected increased net credit to government and recovery in credit to the private sector. Net Foreign Assets of the banking system also increased during the quarter, largely due to an increase in net foreign assets of the central bank (Table 2.1).

Developments in Domestic Credit

Domestic credit grew by 3.8 percent in the first quarter of 2019 compared to 3.0 per cent in the previous quarter, supported by net lending to government and a recovery in private sector credit. The net credit to government increased by 12.4 percent in the first quarter of 2019, in part reflecting increased commercial banks' subscription of government securities.

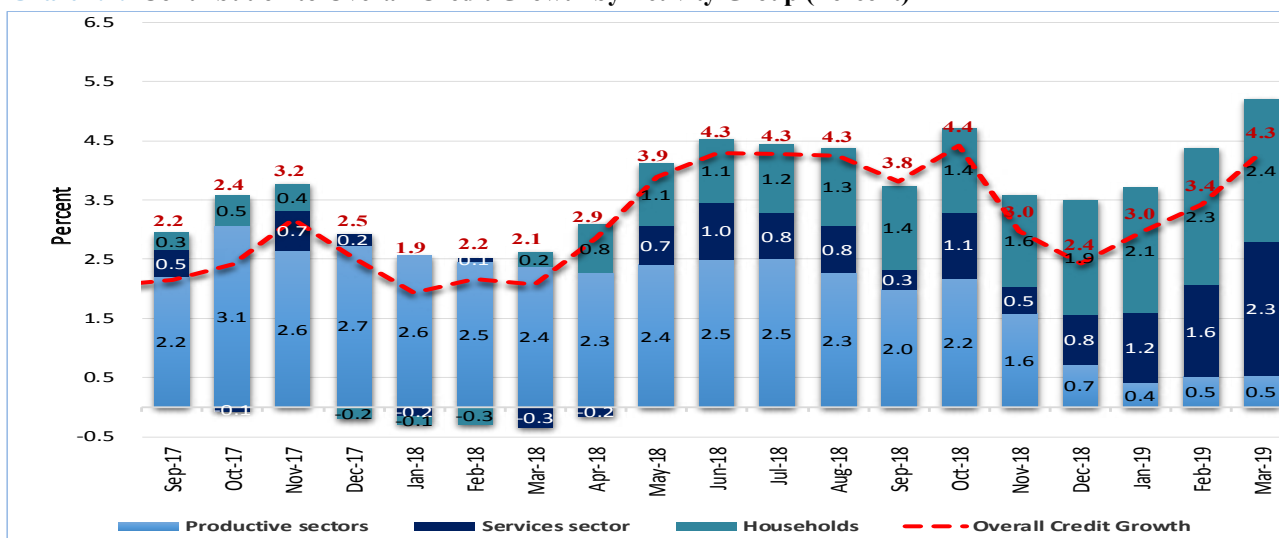
Banks' lending to the private sector grew by 0.9 percent in the first quarter of 2019 compared to 0.7 percent in the previous quarter (Table 2.3). There was notable increase in bank lending to the household sector, partly attributed to increased marketing efforts by banks including using new innovative products such as mobile lending. Lending to the corporate sector moderated in the first quarter of 2019, in part due to loan repayments (Table 2.4).

In terms of sectors, strong lending was recorded in the trade, manufacturing and real estate sectors in the first quarter of 2019. However, credit to building and construction, mining and quarrying, finance and insurance and business service sectors declined. Private sector credit grew by 4.3 percent in the 12 months to March 2019 from 2.4 percent in December 2018. The growth private sector credit was supported by the service and household sectors. (Table 2.3 and Chart 3).

Table 2.3: Banking Sector Net Domestic Credit

	End Month Level								Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
1. Credit to Government	646.2	674.3	755.7	624.9	745.1	770.2	858.2	964.2	12.1	-17.3	19.2	3.4	11.4	12.4	81.4	-130.8	120.1	25.2	87.9	106.1
Central Bank	-178.9	-167.6	-67.0	-256.9	-204.4	-214.6	-95.1	-98.6	-60.0	283.6	-20.4	5.0	-55.7	3.6	100.6	-189.9	52.4	-10.2	119.5	-3.4
Commercial Banks & NBFIs	825.1	841.9	822.7	881.8	949.5	984.9	953.3	1,062.8	-2.3	7.2	7.7	3.7	-3.2	11.5	-19.2	59.2	67.7	35.4	-31.6	109.5
2. Credit to other public sector	106.9	113.7	112.4	112.7	111.9	108.3	100.9	99.7	-1.2	0.3	-0.8	-3.2	-6.8	-1.2	-1.3	0.3	-0.9	-3.5	-7.4	-1.2
Local government	3.9	4.2	4.0	4.2	4.4	4.4	4.3	4.3	-5.5	6.4	3.1	0.1	-0.4	-0.6	-0.2	0.3	0.1	0.0	0.0	0.0
Parastatals	103.0	109.5	108.4	108.5	107.5	104.0	96.6	95.4	-1.0	0.1	-0.9	-3.3	-7.1	-1.2	-1.1	0.1	-1.0	-3.5	-7.4	-1.2
3. Credit to private sector	2,282.3	2,315.6	2,364.5	2,343.0	2,380.4	2,404.0	2,422.0	2,444.2	2.1	-0.9	1.6	1.0	0.7	0.9	48.9	-21.5	37.4	23.6	18.0	22.2
Agriculture	87.1	90.5	84.7	82.9	83.0	85.0	83.0	83.0	-6.4	-2.2	0.2	2.5	-2.4	0.0	-5.8	-1.8	0.1	2.1	-2.0	0.0
Manufacturing	286.2	299.1	314.2	313.6	321.1	334.8	334.6	336.1	5.0	-0.2	2.4	4.3	-0.1	0.4	15.1	-0.6	7.5	13.7	-0.2	1.5
Trade	390.6	411.1	417.4	405.1	423.9	424.5	429.3	440.3	1.5	-2.9	4.7	0.1	1.1	2.6	6.2	-12.3	18.9	0.5	4.8	11.0
Building and construction	102.8	108.8	112.0	116.3	116.5	120.9	114.0	108.2	2.9	3.9	0.2	3.7	-5.7	-5.1	3.2	4.3	0.2	4.4	-6.9	-5.8
Transport & communications	189.1	186.4	190.5	163.3	165.1	169.4	172.7	172.7	2.2	-14.3	1.1	2.6	1.9	0.0	4.1	-27.2	1.8	4.4	3.2	0.0
Finance & insurance	85.4	84.0	82.1	86.7	88.6	89.5	96.5	95.6	-2.2	5.7	2.2	1.0	7.8	-1.0	-1.9	4.6	1.9	0.9	7.0	-0.9
Real estate	359.9	363.0	370.7	370.8	373.7	369.1	368.7	370.5	2.1	0.0	0.8	-1.2	-0.1	0.5	7.7	0.1	2.8	-4.5	-0.4	1.8
Mining and quarrying	15.3	16.6	16.5	15.1	13.9	14.0	14.7	13.4	-0.8	-8.5	-8.0	1.1	4.8	-9.2	-0.1	-1.4	-1.2	0.2	0.7	-1.3
Private households	388.2	385.4	388.5	393.4	399.4	404.9	415.1	424.9	0.8	1.3	1.5	1.4	2.5	2.4	3.1	4.9	6.0	5.5	10.2	9.8
Consumer durables	168.3	171.0	176.5	180.6	181.4	184.4	195.8	205.7	3.2	2.4	0.4	1.6	6.2	5.1	5.5	4.2	0.7	3.0	11.5	9.9
Business services	141.9	140.0	139.2	149.9	151.4	146.0	150.4	149.3	-0.5	7.6	1.1	-3.6	3.0	-0.7	-0.7	10.6	1.6	-5.4	4.4	-1.1
Other activities	67.6	59.7	72.2	65.2	62.3	61.3	47.1	44.5	20.9	-9.6	-4.5	-1.6	-23.3	-5.4	12.5	-6.9	-2.9	-1.0	-14.3	-2.5
4. TOTAL (1+2+3)	3,035.4	3,103.6	3,232.6	3,080.6	3,237.3	3,282.5	3,381.1	3,508.1	4.2	-4.7	5.1	1.4	3.0	3.8	128.9	-151.9	156.7	45.2	98.5	127.0

Source: Central Bank of Kenya

Chart 2.2: Contribution to Overall Credit Growth by Activity Group (Percent)

Source: Central Bank of Kenya

Reserve Money

Growth in reserve money (RM), which comprises currency held by the non-bank public and commercial bank reserves, decreased by 7.2 percent in the first quarter of 2019 compared to an increase of 9.4 percent in the previous quarter. The decrease was largely reflected in lower bank reserves following mop ups of excess liquidity through open market operations (Table 2.5).

On the sources side, the decline in reserve money was due to a decrease in NDA of Central Bank, reflecting increased open market operations by the Central Bank. The NFA of the Central Bank improved in the first quarter of 2019.

Table 2.4: Gross Loans to the Private Sector

	End Month Level								Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
1. Household	682.4	691.7	706.3	713.4	729.8	749.4	743.7	756.9	2.1	1.0	2.3	2.7	-0.8	1.8	14.6	7.0	16.5	19.6	-5.8	13.2
2. Corporate	1,639.5	1,667.9	1,699.9	1,674.2	1,697.6	1,706.2	1,735.7	1,745.5	1.9	-1.5	1.4	0.5	1.7	0.6	32.0	-25.7	23.4	8.6	29.5	9.8
Gross Loans	2,321.9	2,359.6	2,406.3	2,387.6	2,427.4	2,455.6	2,479.4	2,502.4	2.0	-0.8	1.7	1.2	1.0	0.9	46.7	-18.7	39.8	28.2	23.8	23.0

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Central Bank Rate (CBR) was at 9.0 percent during the Monetary Policy Committee (MPC) meetings in January and March 2019. The MPC noted that the policy stance was appropriate as inflation expectations remained well anchored within the target range and that the economy was operating close to potential.

b. Interbank rate

The average interbank rate declined to 3.2 percent in the first quarter of 2019 from 5.2 percent in previous quarter, reflecting improved liquidity conditions in the money market (Table 2.6).

c. Treasury bill rates

The average 91-day Treasury bill rate declined to 7.1 percent from 7.4 percent in the previous quarter, partly reflecting increased competitive bidding by investors and ample liquidity. However, the average 182-day Treasury bill rate increased slightly to 8.59 percent from 8.40 percent in the previous quarter (Table 2.6).

d. Lending and Deposit Rates

Commercial banks' lending rates remained within the interest rate caps in the first quarter of 2019, and were largely unchanged. However, the average deposit rate declined to 7.22 in March 2019 from 7.41 percent in December 2018, in part reflecting improved liquidity conditions. The spread increased marginally to an average of 5.21 percent compared to 5.07 percent in the previous quarter.

Table 2.5: Reserve Money and its Sources

	End Month Level								Quarterly Growth Rates (%)								Absolute Quarterly Changes (KSh Billions)					
	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
1. Net Foreign Assets	738.3	694.6	627.1	803.3	783.6	768.3	739.5	747.5	5.8	-43.7	-9.7	28.1	-2.5	-2.0	-3.8	1.1	-67.5	176.2	-19.7	-15.3	-28.8	8.0
2. Net Domestic Assets	-338.7	-270.1	-188.4	-385.1	-354.4	-318.4	-247.5	-291.0	19.7	68.6	-30.3	104.5	-8.0	-10.2	-22.3	17.6	81.8	-196.8	30.7	36.0	70.9	-43.5
2.1 Government Borrowing (net)	-178.9	-167.6	-67.0	-256.9	-204.4	-214.6	-95.1	-98.6	52.6	11.3	-60.0	283.6	-20.4	5.0	-55.7	3.6	100.6	-189.9	52.4	-10.2	119.5	-3.4
2.2 Commercial banks (net)	23.6	64.5	28.3	33.1	28.7	57.9	23.2	-0.7	-228.5	40.9	-56.1	16.9	-13.2	101.7	-59.9	-102.9	-36.2	4.8	-4.4	29.2	-34.7	-23.9
2.3 Other Domestic Assets (net)	-186.8	-170.5	-153.1	-164.7	-182.1	-165.1	-178.9	-195.1	24.0	16.3	-10.2	7.5	10.6	-9.3	8.4	9.1	17.4	-11.5	-17.4	17.0	-13.8	-16.2
3. Reserve Money	399.6	424.5	438.8	418.2	429.2	449.9	492.0	456.5	-3.7	24.9	3.4	-4.7	2.6	4.8	9.4	-7.2	14.3	-20.5	11.0	20.7	42.1	-35.5
3.1 Currency outside banks	207.1	209.2	225.4	214.4	218.3	214.4	230.3	225.2	3.0	2.1	7.8	-4.9	1.8	-1.8	7.4	-2.2	16.2	-11.0	3.9	-3.9	16.0	-5.1
3.2 Bank reserves	192.5	215.3	213.3	203.8	210.9	235.5	261.7	231.3	-10.0	22.8	-0.9	-4.5	3.5	11.7	11.1	-11.6	-2.0	-9.5	7.1	24.6	26.1	-30.4

Source: Central Bank of Kenya

Table 2.6: Interest Rates (%)

	2016				2017				2018												2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	8.72	7.25	8.06	8.44	8.69	8.42	8.13	8.01	8.04	8.03	8.02	8.00	7.96	7.87	7.69	7.64	7.64	7.56	7.36	7.34	7.19	7.02	7.08
182-day Treasury bill rate	10.83	9.56	10.85	10.55	10.53	10.38	10.32	10.53	10.64	10.42	10.39	10.30	10.26	9.99	9.35	9.00	8.82	8.51	8.30	8.40	8.92	8.55	8.28
Interbank rate	4.10	4.56	4.47	5.55	4.46	3.99	5.52	7.27	6.21	5.12	4.90	5.38	4.70	5.03	4.82	6.52	4.28	3.48	4.09	8.15	3.32	2.51	3.72
Repo rate	4.31	10.04	0.00	0.00	7.23	4.13	7.24	7.75	8.75	7.63	0.00	6.75	7.44	6.16	6.56	8.01	4.77	4.70	7.10	7.72	3.70	3.15	3.49
Reverse Repo rate	11.63	10.59	10.36	10.04	10.04	10.05	10.12	10.10	10.02	10.05	9.95	9.64	9.60	9.56	9.46	9.02	9.03	9.06	-	11.34	-	9.03	-
Central Bank Rate (CBR)	11.50	10.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Average lending rate (1)	17.79	18.15	13.84	13.69	13.61	13.66	13.69	13.64	13.65	13.68	13.49	13.24	13.25	13.22	13.10	12.78	12.66	12.61	12.55	12.51	12.50	12.47	12.51
Overdraft rate	18.06	18.04	13.60	13.49	13.29	13.38	13.65	13.54	13.61	13.75	13.40	13.29	13.30	13.23	13.16	12.90	12.52	12.42	12.11	12.17	12.15	12.13	12.13
1-5years	18.00	18.63	13.95	13.86	13.81	13.80	13.87	13.83	13.84	13.83	13.67	13.41	13.40	13.39	13.26	12.94	12.85	12.82	12.79	12.70	12.68	12.62	12.70
Over 5years	17.31	17.64	13.83	13.59	13.55	13.64	13.51	13.46	13.45	13.45	13.31	13.03	13.03	13.00	12.88	12.53	12.51	12.46	12.50	12.47	12.47	12.48	12.49
Average deposit rate (2)	7.17	6.78	6.94	7.33	7.12	7.15	7.66	8.22	8.26	8.25	8.16	8.17	8.08	8.04	8.01	7.78	7.76	7.63	7.41	7.41	7.34	7.28	7.22
0-3months	9.78	8.80	8.21	7.16	7.28	7.76	7.71	8.43	8.52	8.50	8.48	8.46	8.53	8.41	8.41	8.28	8.22	8.03	7.85	7.83	7.73	7.69	7.62
Over 3 months deposit	10.41	9.94	8.82	8.45	8.18	8.04	8.02	8.39	8.35	8.39	8.26	8.11	8.01	8.14	8.04	7.53	7.64	7.76	7.56	7.67	7.58	7.49	7.43
Savings deposits	1.32	1.60	3.78	6.37	5.89	5.63	6.43	6.91	6.97	7.01	6.85	6.72	6.64	6.60	6.53	6.52	6.33	5.70	5.38	5.13	5.14	5.16	5.05
Spread (1-2)	10.62	11.40	6.93	6.36	6.49	6.52	6.04	5.41	5.39	5.42	5.33	5.07	5.17	5.18	5.09	5.00	4.91	4.98	5.14	5.09	5.16	5.19	5.29

Source: Central Bank of Kenya

Chapter 3

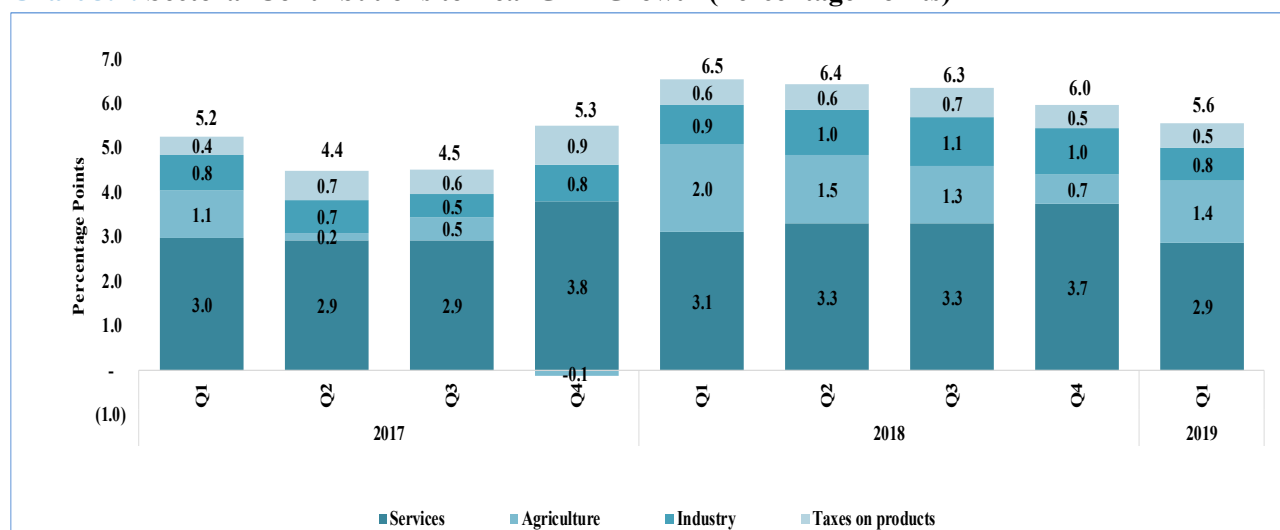
The Real Sector

Overview

Economic growth was strong in the first quarter of 2019 at 5.6 percent, despite delayed onset and below average long rains. This was lower than 5.9 percent growth in the previous quarter and 6.6 percent in the same quarter of 2018. Growth in the quarter under review was supported by strong performance of service-oriented sectors such as Wholesale and Retail Trade, Accommodation and Restaurant, Information and Communication, and Finance and Insurance (Chart 3.1, Table 3.1).

Services sectors were the main drivers of growth in the first quarter of 2019, contributing 2.9 percentage points to overall GDP growth. Agriculture sector contributed 1.4 percentage points to overall GDP growth, while industry sectors contributed 0.8 percentage points. These contributions were however, lower compared to the same quarter of 2018 (Chart 3.1, Table 3.3).

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



Source: Kenya National Bureau of Statistics

Table 3.1: Real Gross Domestic Product (GDP) Growth by Activity(Percent)

	Annual		2017				2018				2019
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Agriculture	1.9	6.4	4.1	0.7	2.7	-0.7	7.5	6.5	6.9	3.9	5.2
2.1 Industry	3.8	5.3	4.4	3.9	2.6	4.4	4.9	5.4	5.7	5.5	4.2
Mining & Quarrying	4.5	2.8	5.8	4.3	4.5	3.4	2.4	2.9	3.3	2.7	2.2
Manufacturing	0.5	4.2	1.6	0.1	0.10	0.1	3.8	4.7	4.6	3.7	3.2
Construction	7.0	7.9	8.2	8.3	5.8	5.4	6.5	8.4	7.8	8.7	6.1
Electricity & water supply	8.5	6.6	7.9	9.1	5.5	11.3	6.6	5.4	7.0	7.3	5.6
2.2 Services	6.5	6.9	6.5	6.3	5.9	7.4	6.9	7.1	6.6	7.1	6.3
Wholesale & Retail Trade	5.7	6.3	3.4	5.0	6.6	7.5	5.9	6.2	6.5	6.6	5.5
Accommodation & restaurant	14.3	16.6	24.2	12.3	12.0	8.9	13.1	15.4	15.7	21.3	10.1
Transport & Storage	7.2	8.8	7.3	6.5	5.1	9.7	8.5	8.4	9.0	9.3	6.7
Information & Communication	11.0	11.4	13.4	11.5	10.8	9.2	12.5	11.0	9.8	11.8	10.5
Financial & Insurance	2.8	5.6	3.8	3.3	2.3	2.0	5.2	4.6	5.4	7.0	5.0
Public administration	6.5	6.1	3.8	4.8	6.5	11.0	6.2	5.9	6.1	6.4	6.5
Professional, Administration & Support Services	3.7	5.9	3.9	5.5	2.1	3.3	4.0	15.9	3.2	0.9	4.8
Real estate	6.1	4.1	6.4	6.3	6.1	5.7	5.3	4.6	3.8	2.8	4.2
Education	5.1	5.8	4.9	4.6	4.5	6.2	5.3	5.8	5.9	6.4	5.4
Health	4.3	4.5	3.3	5.0	4.6	4.2	4.6	4.1	5.5	4.0	4.0
Other services	5.1	4.9	6.0	4.7	4.6	4.9	4.2	5.1	4.9	5.3	3.2
FISIM	-3.3	1.1	-1.2	-4.9	-1.2	-5.7	0.2	0.1	1.7	2.2	-3.5
2.3 Taxes on products	5.4	5.2	4.0	6.0	4.6	6.9	5.7	5.5	5.6	4.4	5.8
Real GDP Growth	4.9	6.3	5.2	4.4	4.5	5.3	6.6	6.4	6.4	5.9	5.6

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral Shares as a Percentage of GDP

	Annual		2017				2018				2019
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Agriculture	21.3	21.3	26.1	23.4	18.5	17.0	26.3	23.4	18.6	16.6	26.2
2.1 Industry	19.1	18.9	18.5	19.2	19.4	19.1	18.2	19.0	19.3	19.0	18.0
Mining & Quarrying	1.1	1.0	1.1	1.0	1.1	1.1	1.1	0.9	1.1	1.1	1.0
Manufacturing	9.8	9.6	9.9	10.0	10.01	9.4	9.7	9.8	9.8	9.2	9.5
Construction	2.6	2.6	2.5	2.7	2.6	2.4	2.5	2.8	2.7	2.5	2.5
Electricity & water supply	5.6	5.6	5.0	5.4	5.7	6.2	5.0	5.4	5.8	6.3	5.0
2.2 Services	48.2	48.5	45.1	46.5	50.0	51.4	45.3	46.7	50.1	52.0	45.6
Wholesale & Retail Trade	7.6	7.6	6.8	7.1	8.7	7.7	6.7	7.1	8.7	7.8	6.7
Accommodation & restaurant	1.2	1.4	1.4	0.9	1.2	1.5	1.5	1.0	1.3	1.7	1.5
Transport & Storage	7.0	7.1	6.1	6.7	7.3	7.8	6.2	6.8	7.5	8.0	6.2
Information & Communication	4.1	4.3	4.0	3.3	3.7	5.2	4.2	3.5	3.8	5.5	4.4
Financial & Insurance	6.1	6.1	5.9	6.0	6.4	6.2	5.9	5.9	6.4	6.2	5.8
Public administration	3.9	3.9	3.6	4.3	3.8	4.0	3.6	4.3	3.8	4.0	3.6
Professional, Administration & Support Services	2.2	2.2	2.1	2.2	2.3	2.4	2.0	2.4	2.2	2.3	2.0
Real estate	8.5	8.4	8.2	8.4	8.8	8.7	8.1	8.3	8.6	8.5	8.0
Education	6.9	6.9	6.8	6.8	7.1	7.0	6.7	6.8	7.0	7.0	6.7
Health	1.8	1.7	1.5	1.8	1.9	1.9	1.5	1.8	1.8	1.8	1.5
Other services	1.3	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.3	1.3	1.2
FISIM	-2.4	-2.2	-2.4	-2.3	-2.5	-2.3	-2.3	-2.2	-2.4	-2.2	-2.1
2.3 Taxes on products	11.4	11.3	10.3	11.0	12.1	12.5	10.2	10.9	12.0	12.3	10.2
Total	100.0	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 and CBK Staff Computations

Table 3.3: Sectoral Contributions to Real GDP Growth Rate

	Annual		2017				2018				2019
	2016	2017	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Agriculture	0.4	1.4	1.1	0.2	0.5	-0.1	2.0	1.5	1.3	0.7	1.4
2. Non-Agriculture (o/w)	4.5	5.0	4.2	4.3	4.0	5.5	4.6	4.9	5.1	5.3	4.2
2.1 Industry	0.7	1.0	0.8	0.7	0.5	0.8	0.9	1.0	1.1	1.0	0.8
Mining & Quarrying	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.0	0.4	0.2	0.0	0.01	0.0	0.4	0.5	0.5	0.3	0.3
Construction	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Electricity & water supply	0.5	0.4	0.4	0.5	0.3	0.7	0.3	0.3	0.4	0.5	0.3
2.2 Services	3.2	3.4	3.0	2.9	2.9	3.8	3.1	3.3	3.3	3.7	2.9
Wholesale & Retail Trade	0.4	0.5	0.2	0.4	0.6	0.6	0.4	0.4	0.6	0.5	0.4
Accommodation & restaurant	0.2	0.2	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.4	0.2
Transport & Storage	0.5	0.6	0.4	0.4	0.4	0.8	0.5	0.6	0.7	0.8	0.4
Information & Communication	0.4	0.5	0.5	0.4	0.4	0.5	0.5	0.4	0.4	0.7	0.5
Financial & Insurance	0.2	0.3	0.2	0.2	0.1	0.1	0.3	0.3	0.3	0.4	0.3
Public administration	0.3	0.2	0.1	0.2	0.2	0.4	0.2	0.3	0.2	0.3	0.2
Professional, Administration & Support Services	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.4	0.1	0.0	0.1
Real estate	0.5	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.3
Education	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
FISIM	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1
2.3 Taxes on products	0.6	0.6	0.4	0.7	0.6	0.9	0.6	0.6	0.7	0.5	0.6
Real GDP Growth	4.9	6.3	5.2	4.4	4.5	5.3	6.6	6.4	6.4	5.9	5.6

Source: Kenya National Bureau of Statistics and CBK Staff Computations

Performance by Sector

Sectoral performance was mixed in the first quarter of 2019, but overall the services sectors continued to drive the positive performance of the economy.

Agriculture

Agriculture sector recorded strong growth in the first quarter of 2019, despite delayed onset and below average long rains. It grew by 5.2 percent, an improvement from 3.9 percent the previous quarter, but lower than 7.5 percent recorded in the same quarter of 2018 (Table 3.1). Production of tea, sugarcane and milk declined owing to dry conditions experienced during the quarter. However, production of coffee and horticultural products for export was positive. The sector contributed 1.4 percentage points to overall GDP growth during the quarter under review, higher than 0.7 percentage points the previous quarter, but lower than 2.0 percentage points in the same quarter of 2018 (Table 3.3).

Tea

Tea production declined by 27.6 percent in the first quarter of 2019 compared to the previous quarter, which was reflected in monthly production (Table 3.4). The average auction price per kilogram decreased by 7.9 percent compared to the previous quarter.

Coffee

Coffee sales increased significantly in the first quarter of 2019 compared to the previous quarter, on account of increased quantity available for auction following the November-December 2018 harvest period. Monthly data shows increased sales in January and February, which more than offset the decline recorded in March (Table 3.4). The average auction prices increased by 9.1 percent compared to the previous quarter.

Table 3.4: Quarterly Performance of Key Agricultural Output Indicators

	2017				2018				2019*			
	Quarterly				Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-19	Feb-19	Mar-19
Tea												
Output (Metric tonnes)	90,094	110,818	102,645	136,300	99,760	131,235	115,241	146,762	106,293	48,386	31,445	26,462
Growth (%)	-28.69	23.00	-7.38	32.79	-26.81	31.35	-12.19	27.35	-27.57	-6.6	-35.0	-15.8
Horticulture												
Exports (Metric tonnes)	85,792	85,186	82,791	82,105	100,526	96,592	108,203	76,078	103,204	31,537	34,804	36,863
Growth (%)	9.4	-0.7	-2.8	-0.8	22.4	-3.9	12.0	-29.7	35.7	30.0	10.4	5.9
Coffee												
Sales (Metric tonnes)	16,731	6,202	5,546	5,250	15,857	8,814	5,755	6,405	13,948	4,167	5,724	4,057
Growth (%)	198.1	-62.9	-10.6	-5.3	202.1	-44.4	-34.7	11.3	117.8	164.2	37.4	-29.1
Milk												
Output (million litres)	130.0	143.2	153.3	164.9	148.7	152.0	162.1	180.4	145.5	54.9	46.6	44.0
Growth %	-19.6	10.1	7.1	7.5	-9.8	2.2	6.7	11.3	-19.4	-19.5	-15.2	-5.4
Sugar Cane												
Output ('000 Metric tonnes)	1,572	786	709	1,546	1,689	927	1,252	1,392	1,443	534	456	453
Growth (%)	-3.6	-50.0	-9.8	118.1	9.2	-45.1	35.2	11.2	3.7	27.5	-14.7	-0.6

Source: Kenya National Bureau of Statistics

Horticulture

Total exports of horticultural crops improved by 35.7 percent compared to the previous quarter, supported by increased production of fruits, nuts, and cut flowers. The improved production was reflected in all months of the quarter (Table 3.4).

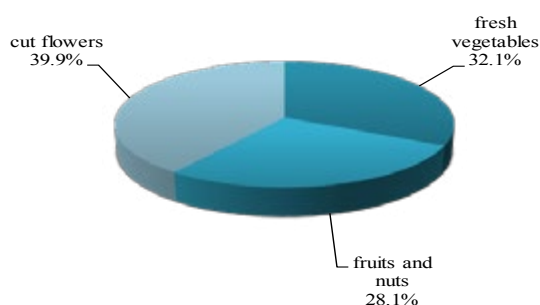
Formal Sector

Milk intake decreased by 19.4 percent compared to the previous quarter. All months of the quarter recorded lower production (Table 3.4).

Sugarcane output was higher by 3.7 percent in the first quarter compared to the previous quarter. Production increased by 27.5 percent in January, which more than offset the decline in February and March of 14.7 percent and 0.6 percent, respectively (Table 3.4).

Chart 3.2: Horticultural Exports

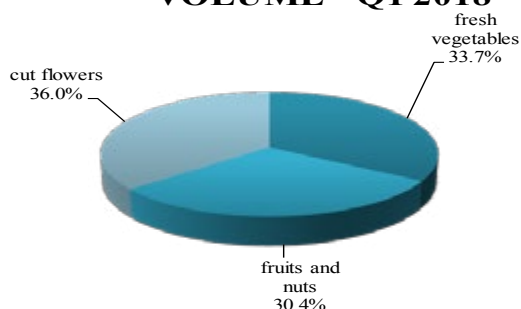
SHARE IN TOTAL EXPORT VOLUME - Q1 2019



SHARE IN TOTAL EXPORT VALUE - Q1 2019



SHARE IN TOTAL EXPORT VOLUME - Q1 2018



SHARE IN TOTAL EXPORT VALUE - Q1 2018



Source: Kenya National Bureau of Statistics

Cement production declined by 1.8 percent in the first quarter of 2019 compared to the previous quarter. Monthly data for the quarter under review shows declined production in January and February of 0.4 percent and 3.1 percent, respectively. This was partially offset by improved production of 7.8 percent in March (**Table 3.5**).

Production of **assembled vehicles** improved by 0.1 percent in the first quarter of 2019, after contracting by 15.7 percent in the previous quarter. Monthly data for the quarter under review shows positive production in January and February of 2.8 percent and 56.0 percent, respectively. This was followed by a slight decline in March of 1.9 percent (**Table 3.5**).

Production of **galvanized sheets** remained positive. It increased by 10.7 percent in the first quarter compared to the previous quarter. Growth in production was highest in January at 19.4 percent, then slowed to 0.4 percent in February and declined by 4.0 percent in March (**Table 3.5**).

Soft drinks production increased by 2.3 percent in the first quarter compared to the previous quarter. Monthly data shows declined production in January and February of 3.6 percent and 2.4 percent,

respectively. This was followed by a slight increase of 1.2 percent in March (**Table 3.5**).

Electricity and Water Supply

Electricity and Water Supply sector recorded growth of 6.1 percent in the first quarter of 2019 compared to 8.7 percent in the previous quarter (**Table 3.1**). Growth in the sector was supported by increased generation of renewable sources of electricity. The sector's contribution to overall GDP growth remained stable at 0.2 percentage points during the quarter (**Table 3.3**).

Growth in electricity generation decreased by 1.3 percent in the first quarter of 2019 compared to the previous quarter, owing to lower generation of hydroelectricity and geothermal electricity. Thermal electricity generation increased due to the dry conditions experienced in the country during the quarter. Meanwhile, generation of renewable sources of electricity such as wind and solar increased significantly during the quarter (**Table 3.6**).

In addition, consumption of electricity increased by 0.8 percent while that of fuels increased by 8.7 percent in the first quarter of 2019 compared to the previous quarter. International oil prices declined by 6.5 percent during the same period (**Table 3.6**).

Table 3.5: Quarterly Production of Selected Manufactured Goods

	2017				2018				2019*			
	Quarterly				Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-19	Feb-19	Mar-19
Cement production												
Output (MT)	1,627,269	1,531,136	1,536,349	1,535,537	1,542,947	1,438,002	1,560,368	1,488,617	1,462,361	485,178	470,146	507,037
Growth %	-4.5	-5.9	0.3	-0.1	0.48	-6.80	8.51	-4.60	-1.76	-0.4	-3.1	7.8
Assembled vehicles												
Output (No.)	1,499	870	1,136	1,056	1,472	1,182	1,627	1,372	1,374	336	524	514
Growth %	25.5	-42.0	30.6	-7.0	39.4	-19.7	37.6	-15.7	0.1	2.8	56.0	-1.9
Galvanized sheets												
Output (MT)	71,888	61,730	62,124	67,107	67,857	65,139	66,782	68,049	75,321	25,390	25,480	24,451
Growth %	26.3	-14.1	0.6	8.0	1.1	-4.0	2.5	1.9	10.7	19.4	0.4	-4.0
Processed sugar												
Output (MT)	144,403	57,589	50,423	124,711	165,800.0	93,935.0	103,403.0	122,360.0	144,617.0	53,060.0	46,139.0	45,418.0
Growth %	-2.5	-60.1	-12.4	147.3	32.9	-43.3	10.1	18.3	18.2	38.7	-13.0	-1.6
Soft drinks												
Output ('000 litres)	144,385	133,016	123,418	170,114	154,327	131,999	138,476	150,768	154,287	52,062	50,806	51,419
Growth %	3.0	-7.9	-7.2	37.8	-9.3	-14.5	4.9	8.9	2.3	-3.6	-2.4	1.2

MT = Metric tonnes

* Provisional

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

Construction and Real Estate

Growth in the Construction sector remained strong at 5.6 percent in first quarter of 2019, supported by ongoing infrastructure projects such as the second phase of the Standard Gauge Railway (SGR) and road expansion. However, this was lower than 7.3 percent growth recorded in the previous quarter, (**Table 3.1**). The sector contributed 0.3 percentage points to real GDP growth a slight decline compared to 0.5 percent in the previous quarter (**Table 3.3**).

Cement consumption increased by 1.4 percent compared to the previous quarter. However, the value of building plans approved by Nairobi City County's Planning, Compliance and Enforcement Department declined by 3.9 percent, as the decline in value of residential building plans outweighed the increased value of non-residential building plans (**Table 3.7**).

Growth in the Real Estate sector improved to 4.2 percent in the first quarter of 2019 compared to 2.8 percent in the previous quarter (**Table 3.1**). Its contribution to real GDP growth stood at 0.3 percentage points compared to 0.2 percentage points in the previous quarter (**Table 3.2, Table 3.3**).

Table 3.6: Quarterly Performance in the Energy Sector

	2017				2018				2019*			
	Quarterly				Quarterly				Quarterly		Monthly	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-19	Feb-19	Mar-19
Electricity Supply (Generation)												
Output (million KWH)	2,452.7	2,515.6	2,555.5	2,618.7	2,642.6	2,718.7	2,835.4	2,861.6	2,825.1	965.9	880.1	979.0
Growth %	-3.7	2.6	1.6	2.5	0.9	2.9	4.3	0.9	-1.3	2.9	-8.9	11.2
<i>Of which:</i>												
Hydro-power Generation (million KWH)	700.6	620.3	683.3	772.6	664.8	1103.6	1229.8	988.3	815.7	278.9	253.9	282.8
Growth (%)	-27.8	-11.5	10.2	13.1	-14.0	66.0	11.4	-19.6	-17.5	-1.4	-9.0	11.4
Geo-Thermal Generation (million KWH)	1,122.2	1,151.2	1,219.3	1,263.7	1,265.6	1,304.8	1,304.5	1,252.9	1,236.9	417.4	374.4	445.1
Growth (%)	1.6	2.6	5.9	3.6	0.2	3.1	0.0	-4.0	-1.3	-1.4	-10.3	18.9
Thermal Generation (million KWH)	609.1	730.8	644.1	562.2	695.8	304.0	289.4	258.9	311.6	114.1	98.6	99.0
Growth (%)	35.1	20.0	-11.9	-12.7	23.8	-56.3	-4.8	-10.5	20.4	24.6	-13.6	0.4
Wind Generation (million KWH)	20.8	13.2	8.7	18.7	14.2	6.2	11.7	347.9	437.8	147.6	146.2	144.0
Growth (%)	4.0	-36.6	-34.3	116.1	-23.9	-56.4	88.5	2876.0	25.8	10.7	-0.9	-1.5
Solar Generation (million KWH)					0.0	0.0	0.0	13.6	23.1	8.0	7.0	8.1
Growth (%)								67750.0	70.1	2.6	-12.1	15.0
Consumption of electricity (million KWH)	2,064.3	2,165.8	2,413.7	2,079.2	2,161.3	2,127.1	2,164.9	2,203.5	2,221.7	778.1	691.3	752.3
Growth %	0.4	4.9	11.4	-13.9	3.9	-1.6	1.8	1.8	0.8	8.8	-11.2	8.8
Consumption of Fuels ('000 tonnes)	1,300.8	1,314.1	1,240.8	1,146.0	1,380.1	1,324.0	1,292.3	1,192.9	1,296.6	444.6	425	427
Growth %	-7.0	1.0	-5.6	-7.6	20.4	-4.1	-2.4	-7.7	8.7	18.6	-4.4	0.4
Murban crude oil average price (US \$ per barrel)	54.7	50.7	51.1	63.2	66.2	73.6	76.6	69.6	65.0	60.8	65.6	68.6
Growth %	8.2	-7.3	0.7	23.8	4.8	11.2	4.0	-9.1	-6.5	2.5	7.9	4.5

Source: Kenya National Bureau of Statistics

Accommodation and Restaurants

Growth in the Accommodation and Restaurant sector was strong at 10.1 percent in the first quarter of 2019 compared to 21.3 percent the previous quarter, with the slower performance attributable to the start of the low tourist season (Table 3.1).

Tourist Arrivals

Overall tourist arrivals declined by 8.7 percent compared to the previous quarter, mainly on account of declined arrivals through Jomo Kenyatta International Airport (JKIA) in Nairobi. However, tourist arrivals through Moi International Airport Mombasa (MIAM) increased further by 9.6 percent compared to the previous quarter (Table 3.8).

Transport and Storage

Transport and Storage sector recorded slower growth of 6.7 percent compared to 9.3 percent growth in the previous quarter (Table 3.1). Growth in the sector was mainly supported by increased volume of port throughput during the quarter. Its contribution to overall GDP growth was lower at 0.4 percentage points compared to 0.8 percentage points in the previous quarter (Table 3.3).

Total passenger flows through (JKIA) declined by 10.1 percent compared to the previous quarter, reflected in both incoming and outgoing passenger flows (Table 3.9). Meanwhile, the volume of oil that passed through the Kenya Pipeline increased by 3.4 percent compared to the previous quarter (Table 3.9).

Table 3.7: Quarterly Output of Selected Construction Indicators

	2017				2018				2019*			
	Quarterly				Quarterly				Quarterly		Monthly	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-19	Feb-19	Mar-19
Cement production												
Output (MT)	1,627,269	1,531,136	1,536,349	1,535,537	1,542,947	1,438,002	1,560,368	1,488,617	1,462,361	485,178	470,146	507,037
Growth %	-4.5	-5.9	0.3	-0.1	0.48	-6.80	8.51	-4.60	-1.76	-0.4	-3.1	7.8
Assembled vehicles												
Output (No.)	1,499	870	1,136	1,056	1,472	1,182	1,627	1,372	1,374	336	524	514
Growth %	25.5	-42.0	30.6	-7.0	39.4	-19.7	37.6	-15.7	0.1	2.8	56.0	-1.9
Galvanized sheets												
Output (MT)	71,888	61,730	62,124	67,107	67,857	65,139	66,782	68,049	75,321	25,390	25,480	24,451
Growth %	26.3	-14.1	0.6	8.0	1.1	-4.0	7.5	1.9	10.7	19.4	0.4	-4.0
Processed sugar												
Output (MT)	144,403	57,589	50,423	124,711	165,800.0	93,935.0	103,403.0	122,360.0	144,617.0	53,060.0	46,139.0	45,418.0
Growth %	-2.5	-60.1	-12.4	147.3	32.9	-43.3	10.1	18.3	18.2	38.7	-13.0	-1.6
Soft drinks												
Output ('000 litres)	144,385	133,016	123,418	170,114	154,327	131,999	138,476	150,768	154,287	52,062	50,806	51,419
Growth %	3.0	-7.9	-7.2	37.8	-9.3	-14.5	4.9	8.9	2.3	-3.6	-2.4	1.2

MT = Metric tonnes

* Provisional

Source: Kenya National Bureau of Statistics

Table 3.8: Quarterly Tourist Arrival by Point of Entry

	2017				2018				2019*			
	Quarterly				Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-19	Feb-19	Mar-19
Total Tourist Arrivals	306,162	301,831	368,911	319,177	353,790	332,406	467,720	387,380	353,583	122,718	107,496	123,369
Growth (%)	39.6	-1.4	22.2	-13.5	10.8	-6.0	40.7	-17.2	-8.7	-9.9	-12.4	14.8
o.w. JKIA - Nairobi	271,613	287,779	341,906	178,505	213,622	300,657	434,703	342,774	304,673	107,060	94,632	102,981
Growth (%)	41.4	6.0	18.8	-47.8	19.7	40.7	44.6	-21.1	-11.1	-9.2	-11.6	8.8
MIAM - Mombasa	34,549	14,052	27,005	34,056	43,649	16,774	33,017	44,606	48,910	15,658	12,864	20,388
Growth %	26.7	-59.3	92.2	26.1	28.2	-61.6	96.8	35.1	9.6	-14.3	-17.8	58.5

Source: Kenya Tourism Board

Total passenger flows through (JKIA) declined by 10.1 percent compared to the previous quarter, reflected in both incoming and outgoing passenger flows (Table 3.9). Meanwhile, the volume of oil that passed through the Kenya Pipeline increased by 3.4 percent compared to the previous quarter.

Table 3.9: Quarterly Performance of Selected Transport Indicators

	2017				2018				2019*			
	Quarterly				Quarterly				Quarterly	Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan-19	Feb-19	Mar-19
Number of Passengers thro' JKIA												
Total passenger flows	994,137	1,083,803	1,309,436	1,155,878	1,117,194	1,192,031	1,438,266	1,273,305	1,145,119	406,407	350,833	387,879
Growth (%)	9.50	9.02	20.82	11.73	3.35	6.70	20.66	11.47	10.07	10.32	13.67	10.56
o.w. Incoming	638,803	680,989	814,088	734,375	707,536	745,416	884,126	810,444	729,627	255,571	229,737	244,319
Growth (%)	7.42	6.60	19.54	9.79	3.65	5.35	18.61	8.33	9.97	13.3	10.1	6.35
Outgoing	355,334	402,814	495,348	421,503	409,658	446,615	554,140	462,861	415,492	150,836	121,096	143,560
Growth %	13.03	13.36	22.97	14.91	2.81	9.02	24.08	16.47	10.23	4.7	19.72	18.55
Kenya Pipeline Oil Throughput												
Output ('000 litres)	1,551,237	1,532,312	1,545,030	1,527,002	1,572,646	1,508,627	1,580,877	1,659,339	1,715,884	591,048	561,967	562,869
Growth %	5.7	1.2	0.8	1.2	3.0	4.1	4.8	5.0	3.4	4.0	4.9	0.2

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

Chapter 4

Global Economy

4.1 Global Economy

Global economic growth declined slightly to 3.6 percent in 2018 from 3.8 percent in 2017 after a slowdown in the second half of 2018. The global economy is expected to slow down further to 3.2 percent in 2019 before a slow recovery to 3.5 percent in 2020. Except for the US, economic activity declined more than expected in other large advanced economies from their strong performance in 2017, while the emerging market and developing economies witnessed mixed performance in 2018 (Table 4.1). Growth in the advanced economies declined to 2.2 percent in 2018 from 2.4 percent in 2017 and is expected to slow further to 1.9 percent in 2019 reflecting a confluence of factors affecting major economies. The US economy maintained robust growth as a result of sizeable fiscal stimulus and a boost from the private sector. The slowdown in Germany followed the introduction of new automobile fuel emission standards while in Italy, concerns about sovereign and financial risks weighed on the domestic demand.

There was a significant decline in growth in the Euro area from 2.4 percent in 2017 to 1.9 in 2018 and is projected to slow down further to 1.3 percent in 2019. This was attributed to slower export growth after a strong surge in the final quarter of 2017. Other factors included political uncertainty, industrial action and higher energy prices which reduced demand for energy imports. UK reported a slower growth of 1.4 percent in 2018 from 1.8 percent in 2017 and is expected to decline further to 1.3 percent in 2019 attributed to weather disruption in the first quarter and the escalating Brexit uncertainties.

The emerging market and developing economy group grew at 4.5 percent in 2018 but it is expected to slow down to 4.1 percent in 2019 before improving to 4.7 percent in 2020. This reflects a lower growth in China and the recession in Turkey, with an important carryover from weaker activity in late 2018, as well as a deepening contraction in Iran. China's economy slowed down to 6.6 in 2018 from 6.8 percent in 2017 due to regulatory tightening of the property sector and non-bank financial intermediation. It is expected to slow down even further in 2019 due to combined influence of tightened financial regulations and the

escalating tariff and technological tensions with the US. India's growth declined slightly to 6.8 percent in 2018 percent reflecting a weaker-than-expected domestic demand.

Growth in sub-Saharan Africa picked up from 2.9 percent in 2017 to 3.1 percent in 2018. Improved growth was mostly notable in fuel-exporting economies due to higher oil prices. It is expected to improve further to 3.4 percent and 3.6 percent in 2019 and 2020, respectively. The declining trend in oil prices may, however, affect growth prospects for oil exporting countries especially Angola and Nigeria.

Risk to the global economic outlook

Risk and uncertainties to the global economic outlook have continued to intensify. The main risk to global growth remains the ongoing tariff and technological tension between China and US that may cause deterioration of the global risk appetite lead to higher costs of imported intermediate and capital goods, and higher prices for final consumer goods. In addition, trade policy uncertainty and concerns over escalation and retaliation would lower business investment, disrupt supply chains, and slow productivity growth. In the UK, the possibility of a no-Brexit deal continues to increase uncertainty and may severely disrupt supply chains and raise trade costs, potentially with large and long-lasting negative impacts on the United Kingdom and the rest of the world.

The rising geopolitical tension especially in the Middle-East remain a key risk to the global oil supply. In addition, civil strife in many countries raise the risk of high humanitarian costs, migration strains in neighboring countries, which together with geopolitical tensions may result in higher volatility of the commodity markets.

The slower growth and drop in core inflation across advanced and emerging market economies have entrenched lower inflation expectations that may increase debt service difficulties for borrowers. In addition, it may weigh on the corporate investment spending as well as constrain the monetary policy stance of central banks to counter downturns that can result in persistently lower growth for any given adverse shock.

Table 4.1: Global Economic Outlook

REAL GDP GROWTH IMF				
	REAL GDP GROWTH (%) IMF			
	YEAR OVER YEAR			Projections
Country/Region	2016	2017	2018	2019
World Output	3.4	3.8	3.7	3.2
Advanced economies	1.7	2.4	2.3	1.9
United States	1.6	2.2	2.9	2.6
Euro Area	2	2.4	1.8	1.3
Germany	2.2	2.5	1.5	0.7
France	1.2	2.3	1.5	1.3
Italy	1.1	1.6	1	0.1
Spain	3.2	3	2.5	2.3
Japan	1	1.9	0.9	0.9
United Kingdom	1.8	1.8	1.4	1.3
Emerging market and Developing economies	3.3	4.7	4.6	4.1
Russia	-0.2	1.5	1.7	1.2
China	6.7	6.9	6.6	6.2
India	7.1	6.7	7.3	7.0
Brazil	-3.5	1.1	1.3	0.8
Middle East, North Africa, Afghanistan and Pakista	5.2	2.2	2.4	1.0
Sub-Saharan Africa	1.4	2.9	2.9	3.4

Source: IMF, World Economic Outlook (WEO), July 2019

Chapter 5

Balance of Payments and Exchange Rates

Balance of Payments and Exchange Rates

Provisional estimates of the current account deficit show that it narrowed to USD 782 million in the first quarter of 2019 from USD 1,202 million in the first

quarter of 2018, mainly driven by an improvement in the secondary income account (**Table 5.1**).

Table 5.1: Balance of Payments (USD Million)

ITEM	2018				2019**				Q1 2019-Q1 2018	
	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Q1			Total	Change	%
	Q1	Q2	Q3	Q4	Jan	Feb	March	Q1		
1. Overall Balance	-2,018	333	390	251	-17	-341	106	-253	1,765	-87
2. Current account	-1,202	-1,251	-1,152	-913	-317	-286	-179	-782	420	-35
Exports (fob)	1,600	1,584	1,510	1,411	529	512	529	1,570	-29	-2
Imports (fob)	4,036	4,338	4,035	3,930	1,439	1,327	1,176	3,943	-93	-2
Services: credit	1,267	1,331	1,350	1,461	502	513	469	1,485	218	17
Services: debit	963	983	950	965	310	289	282	881	-82	-9
Balance on goods and services	-2,133	-2,406	-2,124	-2,023	-910	-815	-647	-2,372	-240	11
Primary income: credit	122	164	129	182	65	63	65	193	71	58
Primary income: debit	292	417	383	342	112	133	237	482	190	65
Balance on goods, services, and primary income	-2,302	-2,659	-2,378	-2,183	-957	-885	-819	-2,661	-359	16
Secondary income: credit	1,111	1,422	1,238	1,282	452	378	456	1,286	174	16
o.w Remittances	642	732	633	565	244	199	222	665	23	4
Secondary income: debit	10	14	12	11	4	3	3	10	0	-3
3. Capital Account	83	93	36	51	7	28	7	42	-40	-49
4. Financial Account	-3,149	-252	-843	-2,373	-523	-150	-283	-957	2,192	-70

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya

The Current Account

The trade balance improved marginally by 5.3 percent from a deficit of USD 2,133 million in the first quarter of 2018 to a deficit of USD 2,019 million in the first quarter of 2019, attributed to increased receipts from services (Table 5.2). The value of merchandise exports decreased by 2.6 percent to USD 1,558 million in the first quarter of 2019 largely due to lower receipts from tea, raw materials and re-exports. The value of tea exports declined by 21 percent to USD 311 million, due to lower tea prices that prevailed in 2019 compared to 2018 following increased volume by other tea producing countries. Receipts from horticulture exports improved by 10 percent to USD 284 million primarily due to increased earnings from cut flowers.

The value of merchandise imports increased by 3.6 percent to USD 4,181 million in the first quarter of 2019 from USD 4,036 million, in the first quarter of 2018, primarily on account of transport equipment and other imports. However, imports of oil, manufactured goods and food imports declined by 3.5 percent, 8.8

percent and 18.8 percent respectively during the first quarter of 2019. The decline in food imports was largely due to improved domestic food production arising from the normal weather conditions that prevailed in 2018 in the key food basket regions. The decline in the value of oil imports is attributed to the lower international crude oil prices in the first quarter of 2019 compared to the same period in 2018.

The services account recorded a 98.9 percent improvement to USD 604 million in the first quarter of 2019, from USD 304 million in the first quarter of 2018 mainly on account of higher receipts from transport services as well as payments of other business services. However, earnings from tourism declined slightly by 2.3 percent in the first quarter of 2019. The balance on the primary account widened by 70.4 percent from a deficit of USD 170 million in the first quarter of 2018 to deficit of USD 289 million in the first quarter of 2019, reflecting higher interest payments on foreign public debts. The balance on secondary income improved by 15.9 percent to USD 1,276 million largely on account of the resilient remittance inflows.

Table 5.2: Balance on Current Account (USD Million)

ITEM	2018				2019**				Q1 2019-Q1 2018	
	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Q1			Total	Change	%
	Q1	Q2	Q3	Q4	Jan	Feb	march	Q1		
CURRENT ACCOUNT	-1,202	-1,251	-1,152	-913	-317	-286	-179	-782	420	-35
Goods	-2,436	-2,755	-2,525	-2,519	-910	-815	-647	-2,372	64	-3
Exports (fob)	1,600	1,584	1,510	1,411	525	508	525	1,558	-42	-3
o.w Coffee	51	88	52	41	15	19	23	57	6	12
Tea	393	337	324	315	116	96	99	311	-82	-21
Horticulture	258	255	249	225	86	96	102	284	26	10
Oil products	12	12	11	9	3	2	3	8	-4	-31
Manufactured Goods	90	98	91	98	29	33	34	96	5	6
Raw Materials	154	136	125	88	34	17	25	77	-78	-50
Chemicals and Related Products (n.e.s)	107	107	121	113	37	38	38	113	6	6
Miscellaneous Man. Articles	129	159	160	140	41	44	49	134	4	3
Re-exports	194	185	183	144	68	64	60	192	-2	-1
Other	211	205	194	237	96	99	92	286	75	35
Imports (fob)	4,036	4,338	4,035	3,980	1,527	1,409	1,244	4,181	144	4
o.w Oil	769	920	879	818	270	247	224	742	-27	-4
Chemicals	657	615	633	607	217	198	243	658	1	0
Manufactured Goods	749	827	747	688	276	222	186	683	-66	-9
Machinery & Transport Equipment	1,044	1,256	1,126	1,119	384	477	279	1,140	97	9
Machinery	646	793	715	781	253	211	181	646	0	0
Transport equipment	398	463	411	336	131	265	98	494	97	24
Other	684	526	513	698	380	266	312	957	274	40
o.w Food	536	407	379	358	162	123	151	435	-101	-19
Services	304	348	400	497	192	224	187	604	300	99
Transport Services (net)	102	146	148	189	70	82	61	214	112	109
Credit	457	472	496	554	188	203	161	552	95	21
Debit	355	326	348	365	118	120	100	338	-16	-5
Travel Services (net)	194	223	210	218	64	63	62	189	-5	-2
Credit	257	281	261	273	81	77	77	235	-22	-9
Debit	63	58	52	55	16	14	15	46	-18	-28
Other Services (net)	8	-20	43	90	58	79	64	201	193	2,534
Primary Income	-170	-253	-254	-160	-47	-70	-172	-289	-119	70
Credit	122	164	129	182	65	63	65	193	71	58
Debit	292	417	383	342	112	133	237	482	190	65
Secondary Income	1,101	1,408	1,226	1,271	448	375	453	1,276	175	16
Credit	1,111	1,422	1,238	1,282	452	378	456	1,286	174	16
Debit	10	14	12	11	4	3	3	10	0	-3

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya and KNBS

Direction of Trade

Imports from China accounted for 18.3 percent of total imports to Kenya in the first quarter of 2019, making it the largest single source of imports. In value terms, Kenya's imports from China amounted to USD 767 million, a decrease from 867 million in the first quarter of 2018. Imports from the European Union accounted for 15.7 percent of total imports, and increased by 34.0 percent to USD 654 million in the first quarter of 2019 from the same period in 2018. The share of imports from Africa decreased to 12.5 percent in the first quarter of 2019 from 14.1 percent in the first quarter of 2018, reflecting a decrease in imports from the EAC and COMESA. The share of imports from India decreased to 8.8 percent from 911.7 percent, over the same period (Table 5.3).

Table 5.3: Kenya's Direction of Trade: Imports

IMPORTS (USD M)									Share of Imports (%)	
	2018*				2019**					
	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Q1					
Country	Q1	Q2	Q3	Q4	Jan	Feb	March	Q1	Q1 2018	Q1 2019
Africa	570	504	479	481	193	151	179	522	14.1	12.5
<i>Of which</i>										
South Africa	170	171	138	160	67	50	56	172	4.2	4.1
Egypt	89	93	88	89	41	29	34	105	2.2	2.5
Others	311	240	253	231	85	72	88	245	7.7	5.9
EAC	213	173	156	134	43	37	42	122	5.3	2.9
COMESA	340	271	269	259	104	79	101	284	8.4	6.8
Rest of the World	3,467	3,835	3,860	3,354	1,334	1,258	1,065	3,658	85.9	87.5
<i>Of which</i>										
India	473	435	535	386	128	132	109	369	11.7	8.8
United Arab Emirates	334	469	287	367	149	98	65	312	8.3	7.5
China	867	1,136	889	772	295	291	181	767	21.5	18.3
Japan	220	203	262	300	77	65	55	197	5.4	4.7
USA	205	104	108	108	46	51	41	137	5.1	3.3
United Kingdom	76	76	81	79	26	26	31	83	1.9	2.0
Singapore	9	8	8	6	2	2	25	29	0.2	0.7
Germany	96	137	111	117	32	45	28	105	2.4	2.5
Saudi Arabia	359	424	460	462	129	66	171	366	8.9	8.8
Indonesia	106	102	112	135	60	35	49	144	2.6	3.4
Netherlands	60	45	47	38	22	148	13	184	1.5	4.4
France	53	51	62	70	20	15	30	66	1.3	1.6
Bahrain	2	8	1	42	1	1	1	2	0.0	0.0
Italy	61	75	56	62	16	26	12	53	1.5	1.3
Others	547	560	842	610	333	257	254	844	13.6	20.2
Total	4,036	4,338	4,338	4,035	1,527	1,409	1,244	4,181	100.0	100.0
EU	488	576	545	542	165	316	173	654	13.3	15.7
China	867	1,136	889	772	295	291	181	767	26.2	18.3

Source: Kenya Revenue Authority

The share of export to the rest of the world increased from 63.1 percent in the fourth quarter of 2018 to 65.9 percent in the first quarter of 2019 largely attributed to increased exports to United Arab Emirates, Netherlands and United Kingdom that more than offset the decline in exports to other countries.

The share of exports to Africa however, declined to 34.1 percent in the first quarter of 2019 from 36.9 percent in the fourth quarter of 2018. This reflected lower exports to the COMESA region, whose share declined from 25.5 percent to 23.7 percent during the period under review (**Table 5.4**).

Table 5.4: Kenya's Direction of Trade: Exports

EXPORTS (USD M)											Share of Exports (%)	
	2017			2018				2019				
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Q1				
Country	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan	Feb	March	Q1	Q1 2018
Africa	516	543	543	530	553	537	515	176	180	174	531	36.9
<i>Of which</i>												34.1
Uganda	140	151	144	159	147	150	155	54	52	55	161	11.1
Tanzania	53	73	75	72	74	73	74	23	27	24	74	5.3
Egypt	35	47	60	53	53	45	48	20	15	17	52	3.4
Sudan	17	14	23	18	12	15	16	7	5	4	16	1.1
South Sudan	47	35	35	38	45	19	27	10	9	9	28	1.9
Somalia	46	44	42	39	41	36	33	7	14	10	31	2.4
DRC	45	44	46	35	42	38	35	10	13	10	33	2.5
Rwanda	41	48	39	38	50	45	43	12	14	16	42	3.1
Others	93	88	78	78	89	117	84	33	30	30	93	6.0
EAC	257	290	271	282	286	291	287	101	98	99	298	20.6
COMESA	349	368	367	359	366	371	356	129	118	122	370	25.5
Rest of the World	937	870	914	1,069	1,031	959	881	348	328	351	1,027	63.1
<i>Of which</i>												
United Kingdom	88	93	95	109	101	92	95	44	37	37	118	6.8
Netherlands	111	89	104	139	114	105	99	46	49	48	144	7.1
USA	121	127	105	91	124	141	112	42	36	43	121	8.0
Pakistan	146	152	170	183	139	137	126	44	43	43	130	9.0
United Arab Emirates	78	56	69	93	89	85	78	40	30	33	103	5.6
Germany	34	21	25	28	35	23	24	9	12	10	31	1.7
India	13	14	14	34	14	25	17	5	7	5	17	1.2
Afghanistan	11	9	4	8	9	14	7	2	3	3	7	0.5
Others	334	310	327	384	406	336	323	117	110	129	356	23.1
Total	1,453	1,413	1,457	1,600	1,584	1,496	1,396	525	508	525	1,558	100.0
EU	307	281	289	364	337	302	291	134	125	146	406	20.8
China	39	15	18	16	26	26	42	14	6	13	34	3.0

Source: Kenya Revenue Authority

(Table 5.4).

Capital and Financial Account

The capital account recorded a decrease of USD 40 million to USD 42 million in the first quarter of 2019. The financial account recorded higher net inflows of USD 2,177 million in the first quarter of 2019, mainly reflecting an increase in Direct Investment as well as Other Investment flows (Table 5.5).

Table 5.5: Balance on Capital and Financial Account (USD Million)

ITEM	2018				2019 *				Q1 2019-Q1 2018	
	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Q1			Total		%
	Q1	Q2	Q3	Q4	Jan	Feb	March	Q1	Change	Change
Capital account credit	83	93	36	51	7	28	7	42	-40	-49
Capital account credit	83	93	36	51	7	28	7	42	-40	-49
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-3,133	-252	-843	-2,373	-523	-150	-283	-956	2,177	-69
Direct investment: assets	12	23	19	111	18	17		34	22	184
Direct investment: liabilities	130	270	383	836	89	96	98	284	154	118
Portfolio investment: assets	218	317	265	232	65	111	83	259	41	19
Portfolio investment: liabilities	1,920	-81	-66	-65	-13	2	18	7	-1,913	-100
Financial derivatives: net	0	0	0	0	-4	0	-2	-6	-6	0
Other investment: assets	195	662	182	53	-197	14	167	-16	-211	-108
Other investment: liabilities	1,508	1,065	993	900	329	193	430	951	-557	-37

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 2.2 percent during the first quarter of 2019. Official reserves held by the Central Bank

constituted 72 percent of gross reserves and stood at USD 8,468 million, equivalent to 5.4 months of import cover (Table 5.6).

Table 5.6: Foreign Exchange Reserves and Residents' Foreign Currency Deposits (End of Period, USD Million)

	2018				2019			
	Jan-Mar	Apr-June	July-Sep	Oct-Dec				
	Q1	Q2	Q3	Q4	Jan	Feb	March	Q1
1. Gross Reserves	11,859	12,102	11,863	11,516	11,387	11,738	11,772	11,772
of which:								
Official	9,362	8,954	8,545	8,230	8,242	8,574	8,468	8,468
import cover*	6.3	5.9	5.6	5.3	5.3	5.5	5.4	
Commercial Banks	2,497	3,148	3,318	3,286	3,146	3,164	3,304	3,304
2. Residents' foreign currency deposits	4,988	5,986	5,952	6,078	6,161	6,197	6,068	6,068

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

Source: Central Bank of Kenya

Exchange Rates

Kenya's foreign exchange market remained relatively stable during the first quarter of 2019, largely supported by resilient inflows from diaspora remittances and receipts from tourism, horticulture exports and lower food imports. The Kenya Shilling strengthened by 1.2 percent against the US Dollar to exchange at an average of 100.73 during the first

quarter compared with 101.91 in the fourth quarter of 2018. The Kenya Shilling also strengthened against other major international currencies. In the EAC region, it strengthened against the Rwanda Franc, Tanzania shilling and Burundi Franc but weakened slightly against Uganda Shilling during the period under review (Table 5.7 and Chart 5.1).

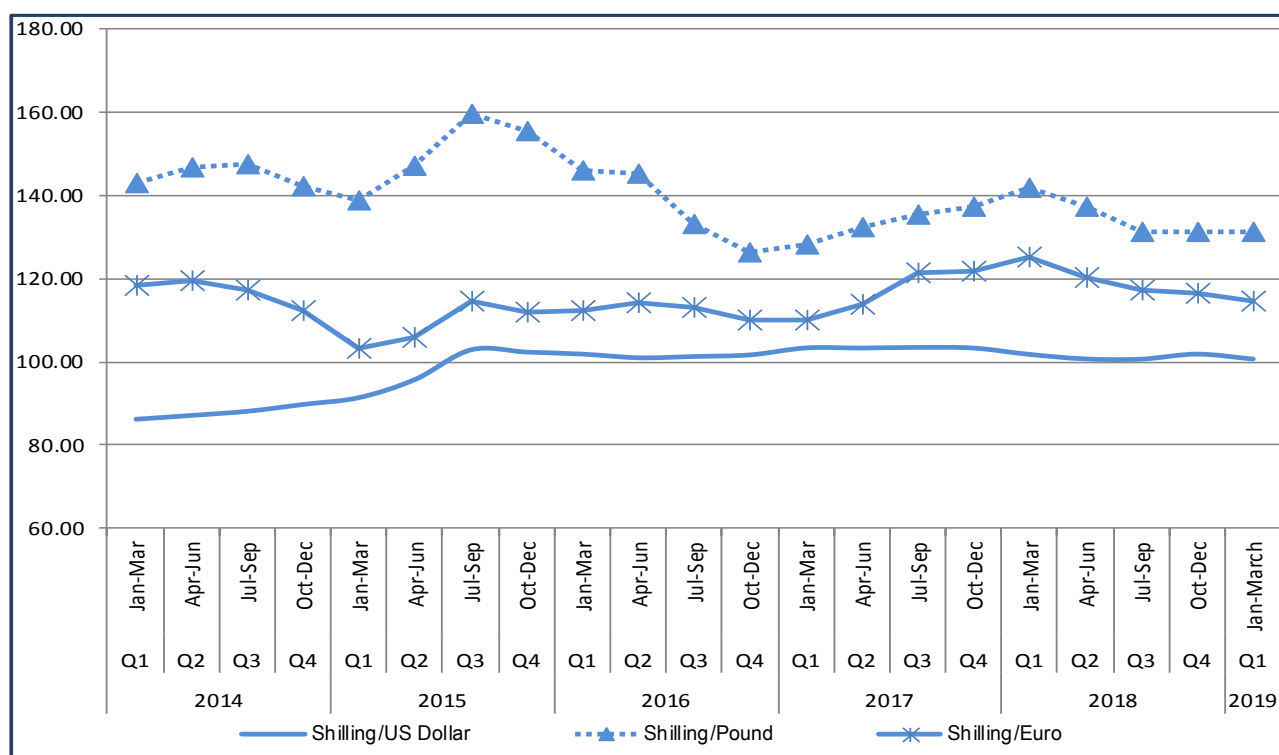
Table 5.7: Kenya Shilling Exchange Rate

	2018				2019				% change Q1 2019 - Q4 2018
	Q1	Q2	Q3	Q4	Jan	Feb	March	Q1	
US Dollar	101.86	100.75	100.71	101.91	101.58	100.23	100.36	100.73	-1.16
Pound Sterling	141.64	137.26	131.30	131.14	130.76	130.29	132.29	131.11	-0.02
Euro	125.11	120.19	117.17	116.33	115.95	113.81	113.51	114.42	-1.64
100 Japanese Yen	93.96	92.38	90.40	90.31	93.18	90.89	90.26	91.44	1.25
Uganda Shilling*	35.79	37.24	37.39	36.75	36.45	36.64	36.92	36.67	-0.22
Tanzania Shilling*	22.10	22.60	22.67	22.54	22.72	23.23	23.36	23.11	2.51
Rwanda Franc*	8.39	8.62	8.71	8.71	8.80	8.94	8.97	8.90	2.22
Burundi Franc*	17.32	17.50	17.57	17.50	17.68	17.96	18.01	17.88	2.19

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling Exchange Rate



Source: Central Bank of Kenya

Chapter 6

The Banking Sector

Overview

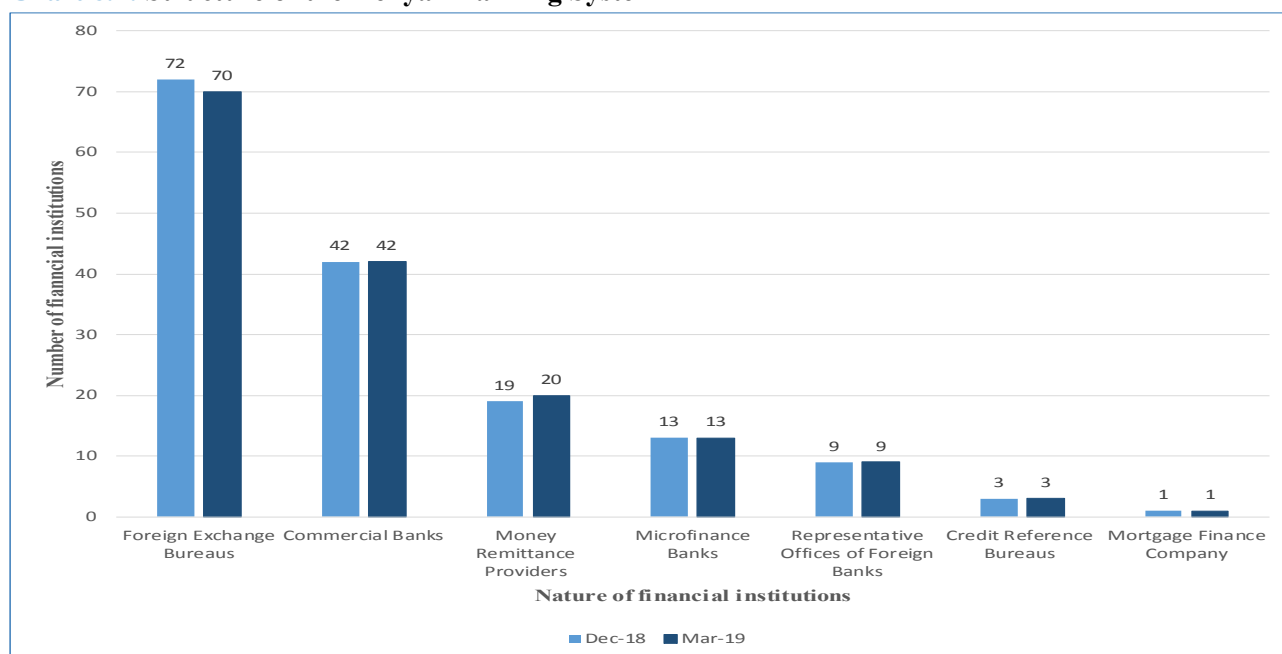
The banking sector was stable in the first quarter of 2019. Total net assets increased by 2.8 percent to KSh 4,571.6 billion in March 2019 from KSh 4,446.1 billion in December 2018. The deposit base also increased by 2.0 percent to KSh 3,400.1 billion from KSh 3,332.4 billion between fourth quarter of 2018 and first quarter of 2019. The sector was well capitalised and met the minimum capital requirements. Quarterly profitability increased by 18.4 percent due to an increase in total income. Credit risk remained elevated with gross non-performing loans (NPLs) to

gross loans ratio standing at 12.78 percent in the first quarter of 2019.

Size and structure

The Kenyan banking sector comprised 42 Commercial Banks^{1/}, 1 Mortgage Finance Company, 13 Microfinance Banks, 9 Representative Offices of Foreign Banks, 70 Foreign Exchange Bureaus, 20 Money Remittance Providers and 3 Credit Reference Bureaus as at March 31, 2019. **Chart 1.1** shows the structure of the Kenyan banking sector as at the end

Chart 6.1: Structure of the Kenyan Banking System



Source: Central Bank of Kenya

of the last two quarters.

Structure of the Balance Sheet

i) Growth in banking sector assets

Total net assets increased by 2.8 percent to KSh 4,571.6 billion in the first quarter of 2019 from KSh 4,446.1 billion in the fourth quarter of 2018. The increase in total net assets was mainly recorded in foreign assets (39.6 percent) and government securities (10.1 percent). However, loans and advances, which increased by 0.6 percent, remained the main component of assets, accounting for 52.1 percent in the first quarter of 2019, a slight decrease from 53.2 percent recorded in the fourth quarter of

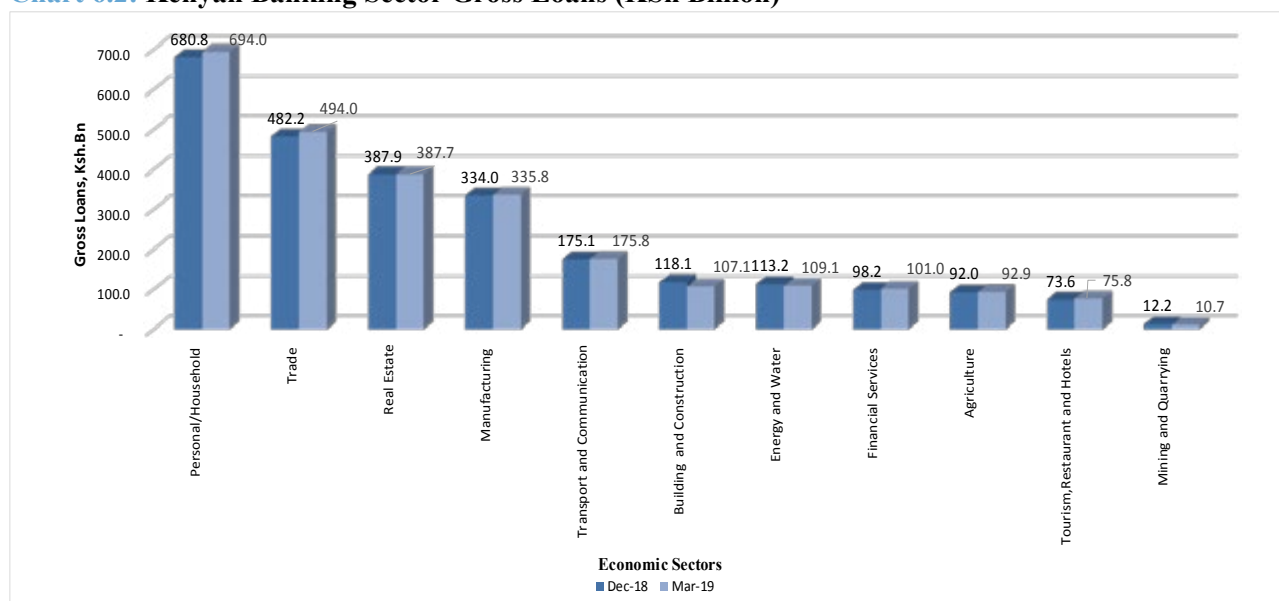
2018.

ii) Loans and Advances

Total banking sector lending increased by 0.6 percent, to KSh 2,583.9 billion in the first quarter of 2019 from KSh 2,567.3 billion in the fourth quarter of 2018. The increase in gross loans and advances was largely witnessed in the Tourism, Restaurant and Hotels, Financial Services and Trade sectors. The general increase in gross loans was mainly due to increased loans granted to individual borrowers, invoice discounting and credit granted for working capital purposes. The sectoral distribution of gross loans as at March 31, 2019 is highlighted in Chart 1.2.

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

Chart 6.2: Kenyan Banking Sector Gross Loans (KSh Billion)

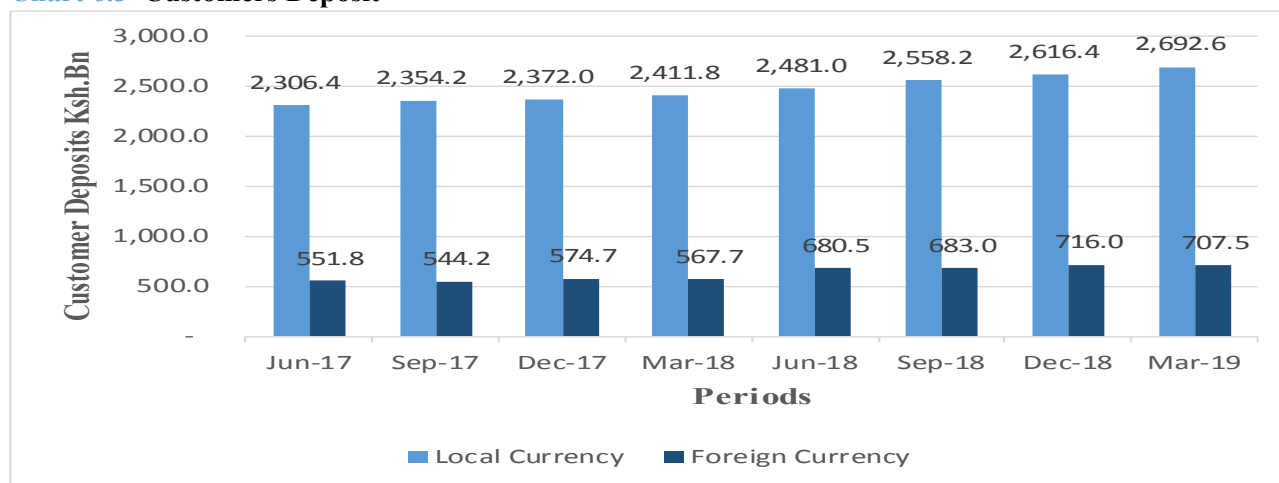


Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 74.4 percent of the banking sector total liabilities and shareholders' funds as at the end of the first quarter of 2019. This was a slight decrease from 74.9 percent recorded as at end of the fourth quarter of 2018. The customer deposit base increased by 2.0 percent to KSh 3,400.1 billion in the first quarter of 2019 from KSh 3,332.4 billion in the fourth quarter of 2018. Local currency deposits increased by KSh 76.2 billion (2.9 percent) to KSh 2,692.6 billion in the first quarter of 2019 from KSh 2,616.4 billion in the fourth quarter of 2018. Foreign currency deposits decreased by KSh 8.5 billion (1.2 percent) to KSh 707.5 billion in the first quarter of 2019 from KSh 716.0 billion in the fourth quarter of 2018. Chart 1.3 shows the trend of deposit liabilities.

Chart 6.3 Customers Deposit



Source: Central Bank of Kenya

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 4 percent to KSh 596.6 billion in first quarter of 2019 from KSh 575.9 billion in the fourth quarter of 2018. Total capital also increased by 5 percent to KSh 657.5 billion in the first quarter of 2019 from KSh 624.6 billion in the fourth quarter of 2018. The increases in capital levels are mainly attributable to increased profitability thus increasing retained earnings.

Core capital to total risk-weighted assets ratio slightly increased to 16.7 percent in the first quarter of 2019 from 16.5 percent in the fourth quarter of 2018. Similarly, total capital to total risk-weighted assets ratio slightly increased to 18.4 percent from 17.8 percent.

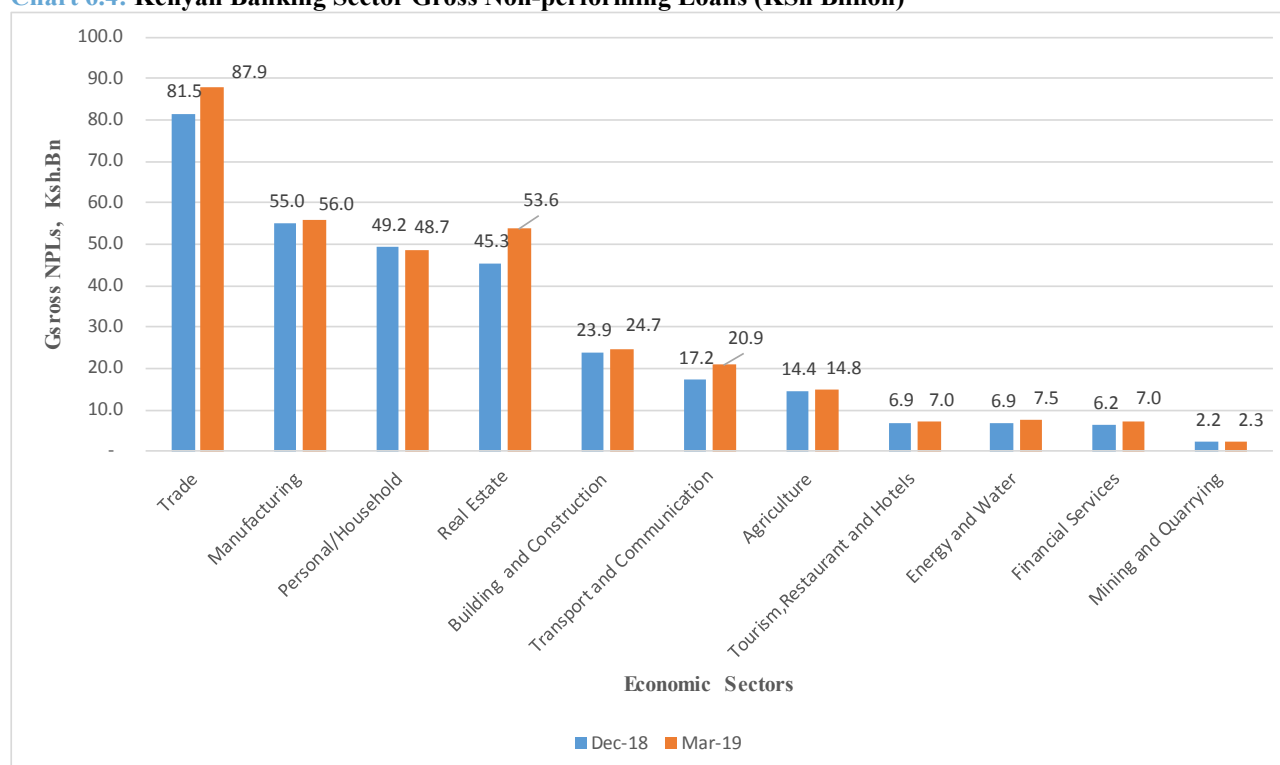
The minimum core capital to total deposits ratio is

set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.8 percent in the first quarter of 2019, a slight increase from 17.5 percent recorded in the fourth quarter of 2018. The increase was attributable to a 4.0 percent increase in Core capital as compared to a 2.0 percent increase in total deposits between fourth quarter of 2018 and first quarter of 2019.

Asset Quality

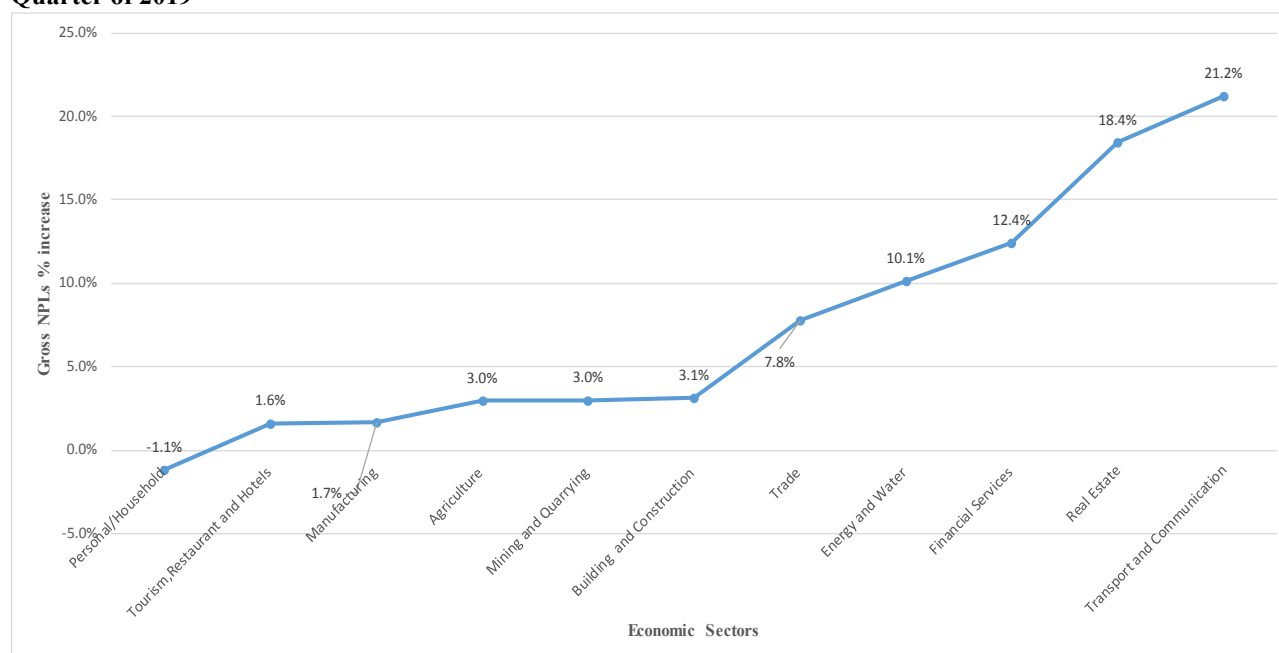
The gross non-performing loans (NPLs) increased by 7.0 percent to KSh 330.3 billion as at the end of the first quarter of 2019 from KSh 308.8 billion at the end of the fourth quarter of 2018. As a result, the gross NPLs to gross loans ratio increased to 12.78 percent in the first quarter of 2019 from 12.03 percent in the fourth quarter of 2018. 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

Chart 6.5: Movement of Gross Non-performing Loans by sector between Fourth Quarter of 2018 and First Quarter of 2019



Source: Central Bank of Kenya

The Transport and Communication sector registered the highest increase in NPLs by 21.2 percent (KSh 3.7 billion) mainly due to delayed payments. Energy and Water, Financial Services, Real Estate, and Transport and Communication sectors increased by 10.1 percent, 12.4 percent, 18.4 percent and 21.2 percent respectively (**Chart 6.5**).

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

loans, deteriorated slightly to 6.1 percent in the first quarter of 2019 from 5.4 percent in the fourth quarter of 2018. The coverage ratio, which is measured as a percentage of specific provisions to total NPLs, decreased from 42.0 percent in first quarter of 2019 from 44.7 percent in fourth quarter of 2018 due to a lower increase in specific provisions (1.7 percent) as compared to the increase in total NPLS (8.3 percent). A summary of asset quality for the banking sector over the period (**Table 1.1**).

Table 6.1: Summary of Asset Quality

		December 2018	March 2019
1	Gross Loans and Advances (Ksh.Bn)	2,567.3	2,583.9
2	Interest in Suspense (Ksh.Bn)	57.7	58.3
3	Loans and Advances (net of interest suspended) (Ksh.Bn)	2,509.6	2,525.5
4	Gross Non-Performing loans (Ksh.Bn)	308.8	330.3
5	Specific Provisions (Ksh.Bn)	112.3	114.3
6	General Provisions (Ksh.Bn)	36.1	31.8
7	Total Provisions (5+6) (Ksh.Bn)	148.4	146.0
8	Net Advances (3-7) (Ksh.Bn)	2,361.2	2,379.5
9	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	251.1	271.9
10	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	138.8	157.7
11	Total NPLs as % of Total Advances (9/3)	10.0%	10.8%
12	Net NPLs as % of Gross Advances (10/1)	5.4%	6.1%
13	Specific Provisions as % of Total NPLs (5/9)	44.7%	42.0%
14	Gross NPLs to Gross Loans Ratio	12.0%	12.8%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in pre-tax profits by KSh 6.8 billion (18.4 percent) to KSh 44.0 billion in the first quarter of 2019 from KSh 37.2 billion in the fourth quarter of 2018. The increase in profitability was mainly attributable to a decrease in total expenses by KSh 5.3 billion (5.8 percent) to KSh 86.5 billion in the first quarter of 2019 from KSh 91.8 billion in the fourth quarter of 2018.

The decrease in expenses was largely attributable to director's emoluments which decreased by KSh 68.6 million (13.4 percent) between fourth quarter of 2018 and first quarter of 2019 and other expenses which decreased by KSh 2.7 billion (11.4 percent) over the same period.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income accounting for 51.3 percent, 24.2 percent and 18.2 percent of total income, respectively. On the other hand, interest on deposits, salaries and wages, and other expenses were the key components of expenses, accounting for 32.9 percent, 27.0 percent and 24.0 percent of total expenses respectively.

Total income increased by KSh 1.6 billion (1.2 percent) to KSh 130.5 in the first quarter of 2019 from KSh 128.9 billion in the fourth quarter of 2018. The increase was driven by a 13.3 percent (KSh 3.0 billion) increase in other income.

Return on assets (ROA) stood at 3.0 percent in the first quarter of 2019 an increase from 2.7 percent registered in the fourth quarter of 2018. Similarly, return on equity (ROE) increased to 24.6 percent in the first quarter of 2019 from 22.5 percent in the fourth quarter of 2018. The increases in ROA and ROE were mainly attributable to increased profit before tax in the first quarter of 2019.

Liquidity

The banking sector's overall liquidity ratio increased to 51.2 percent in the first quarter of 2019 from 48.6 percent in the fourth quarter of 2018. The increase was driven by an increase in total foreign assets of KSh 16.3 billion (10.2 percent) to KSh 176.9 billion from KSh 160.5 billion between the two quarters under review. The increase was mainly attributed to increased foreign notes and coins. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

The banking sector is projected to remain stable. Credit risk is expected to remain elevated in the short to medium term as shown by increasing trend levels of Non-Performing Loans. Liquidity risk is expected to continue easing as distribution of liquidity improves.

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 1.16 million transaction messages worth KSh 7.29 trillion in the first quarter of 2019, compared to the fourth quarter of 2018, which recorded 1.21 million transactions worth KSh 8.06 trillion. Volume and value decreased by 3.74 percent and 9.48 percent, respectively. **Chart 6.6** below highlights recent trends in KEPSS transactions.

Bank Customer Payments Processed Through KEPSS

In transmitting payments through the RTGS for customers, commercial banks submit the payment instructions vide multiple third party Message Type (MT 102) used for several credit transfers and single third party Message Type (MT 103) used for single credit transfers.

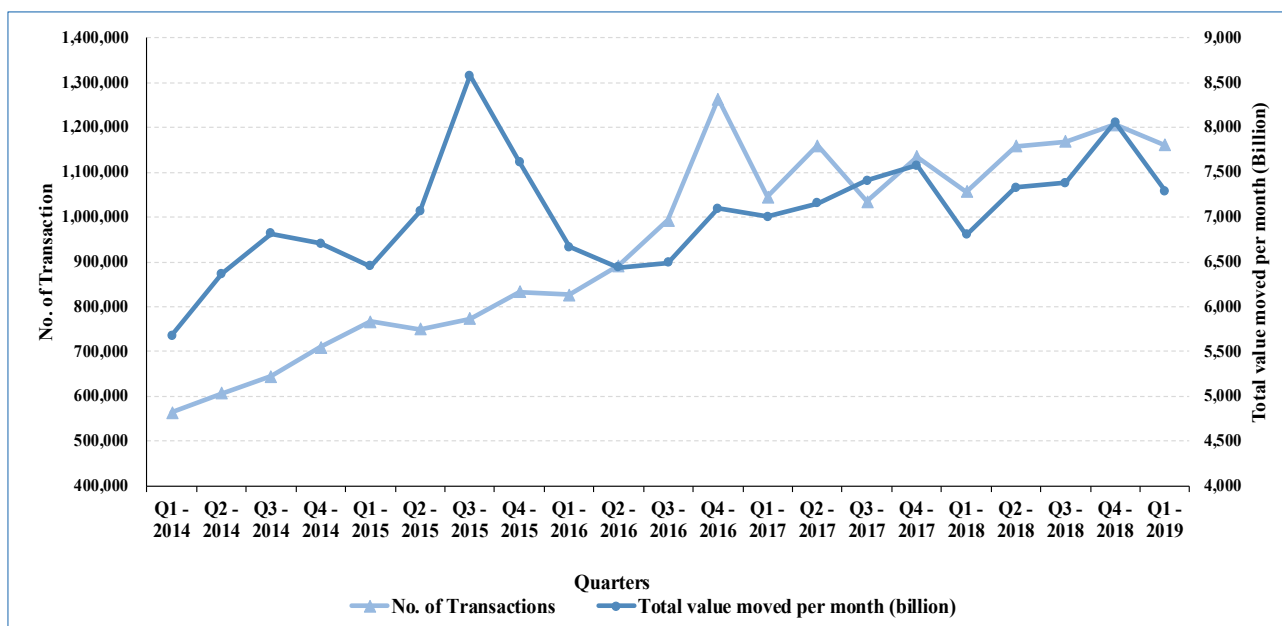
During the period under review, MT 102 usage decreased by 3.25 per cent, to 39,226 messages recorded in the first quarter of 2019 from 40,545 messages processed in the fourth quarter of 2018. The MT 103 payments decreased by 3.79 per cent, to 1,163,060 messages in the first quarter of 2019 from 1,208,818 messages in the fourth quarter of 2018 (**Chart 6.7**).

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.

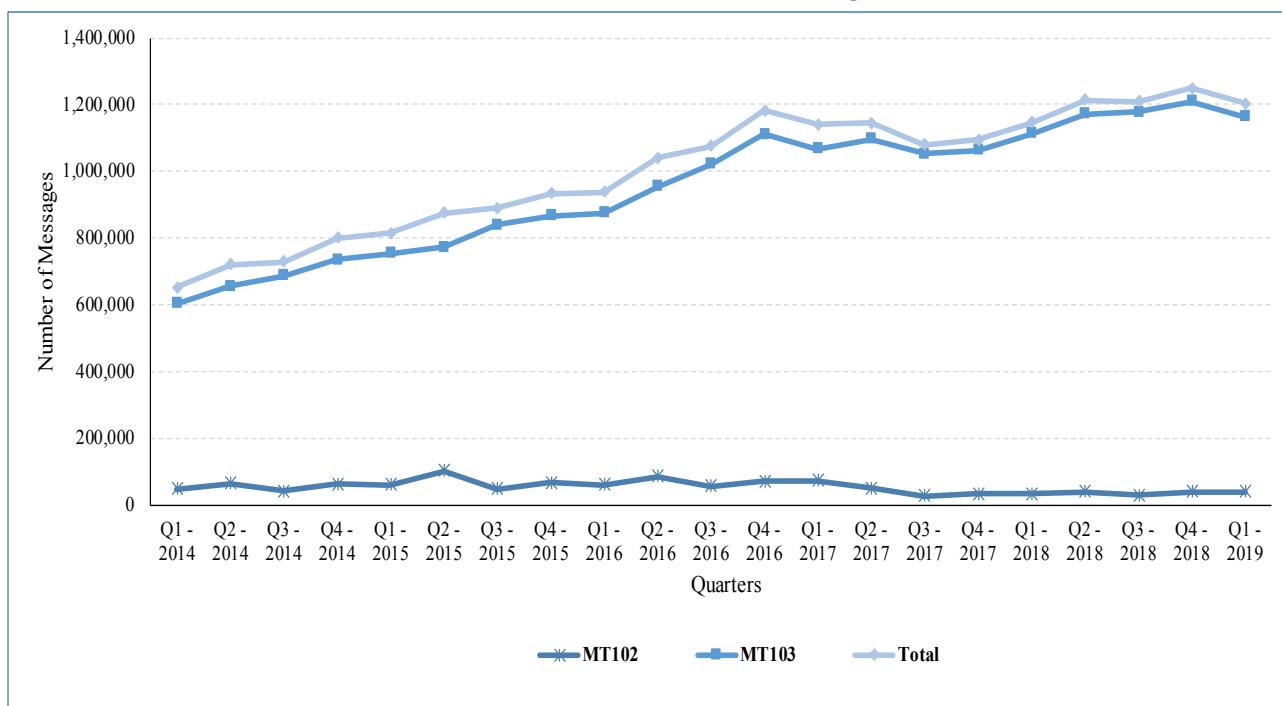
During the quarter under review, KEPSS availability maintained an average 99.85 percent during the period under review.

Chart 6.6: Trends in Monthly Flows Through KEPSS



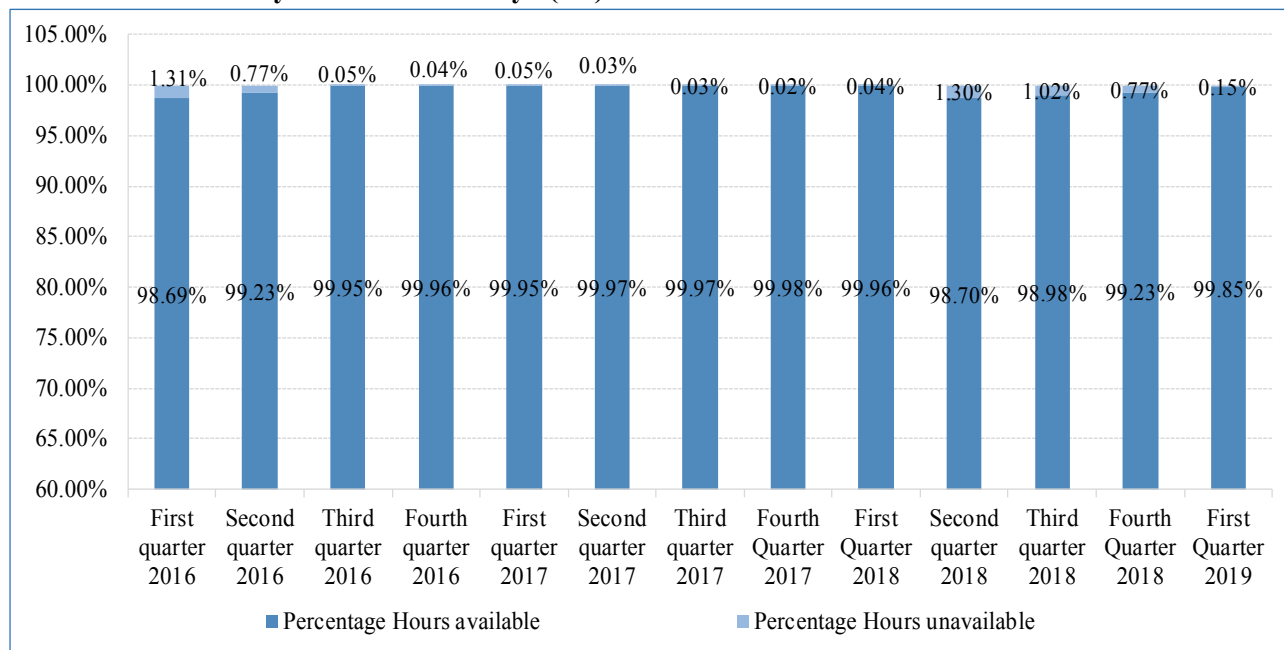
Source: Central Bank of Kenya

Chart 6.7: Trends in MT102 and MT103 Volumes Processed Through KEPSS



Source: Central Bank of Kenya

Chart 6.8: Availability of KEPSS in Kenya (%)



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the first three quarters of FY 2018/19 resulted in a deficit of 5.5 per cent of GDP which was above the target of 4.9 per cent of GDP. Both revenues and

expenditures were below their respective targets with the shortfall in total revenues and grants at 9.8 per cent and total expenses and net lending at 3.7 per cent.

Table 7.1: Statement of Government Operations in FY 2018/19 (KSh Billion)

	FY 2018/19					Over (+) /	%
	Q1	Q2	Q3	Cumulative to March-2019	Target	Below (-) Target	Variance
1. TOTAL REVENUE & GRANTS	369.6	428.7	370.5	1,197.0	1,327.0	(130.0)	(9.8)
Ordinary Revenue	332.2	423.6	362.5	1,180.2	1,289.8	62.3	
Tax Revenue	329.3	351.4	337.8	1,018.5	1,117.9	(99.4)	
Non Tax Revenue	2.9	38.6	8.9	45.8	42.4	3.4	
Appropriations-in-Aid	33.8	33.5	15.8	115.9	129.5	(13.6)	
External Grants	3.6	5.1	8.0	16.8	37.2	(20.3)	
2. TOTAL EXPENSES & NET LENDING	452.5	616.0	568.9	1,745.7	1,813.3	(67.6)	(3.7)
Recurrent Expenses	345.4	317.8	409.9	1,090.3	1,139.1	(48.8)	
Development Expenses	83.6	206.6	73.0	440.1	423.7	16.4	
County Transfers	23.5	91.6	86.0	212.4	244.2	(31.8)	
Others	-	-	-	2.9	6.4	(3.4)	
3. DEFICIT (INCL. GRANTS) (1-2)	(82.9)	(187.4)	(198.4)	(548.7)	(486.3)	(62.4)	12.8
As percent of GDP	(0.8)	(1.9)	(2.0)	(5.5)	(4.9)		
4. ADJUSTMENT TO CASH BASIS	-	-	-	-	-	-	
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(82.9)	(187.4)	(198.4)	(548.7)	(486.3)	(62.4)	
As percent of GDP	(0.8)	(1.9)	(2.0)	(5.5)	(4.9)		
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-	-	-	-	-	-	
7. FINANCING	86.0	213.4	232.3	501.5	499.5	2.0	0.4
Domestic (Net)	69.2	85.6	196.9	320.7	207.4	113.3	
External (Net)	16.8	126.9	34.5	178.9	289.1	(110.2)	
Capital Receipts (domestic loan receipts)	-	1.0	0.9	1.9	2.9	(1.1)	
Others	-	-	-	-	-	-	

Source: The National Treasury-Provisional BOT- March 2019, published in QEBR March 2019 (third Quarter)

Revenue

The Government receipts, comprising of revenue and grants declined by 13.6 percent to KSh 370.5 billion in the third quarter of FY 2018/19, compared to KSh 428.7 billion in the second quarter. The decline was reflected across both tax and non- tax revenues categories, as well as appropriation in Aid (A-in-A).

There was a minor shift in the composition of tax revenues in the third quarter of FY 2018/19 compared with a similar period in the previous financial year (Chart 7.1). The composition of Value Added Tax and Excise Duty rose by 1 percentage points each, while Income tax decreased by 3 percentage points.

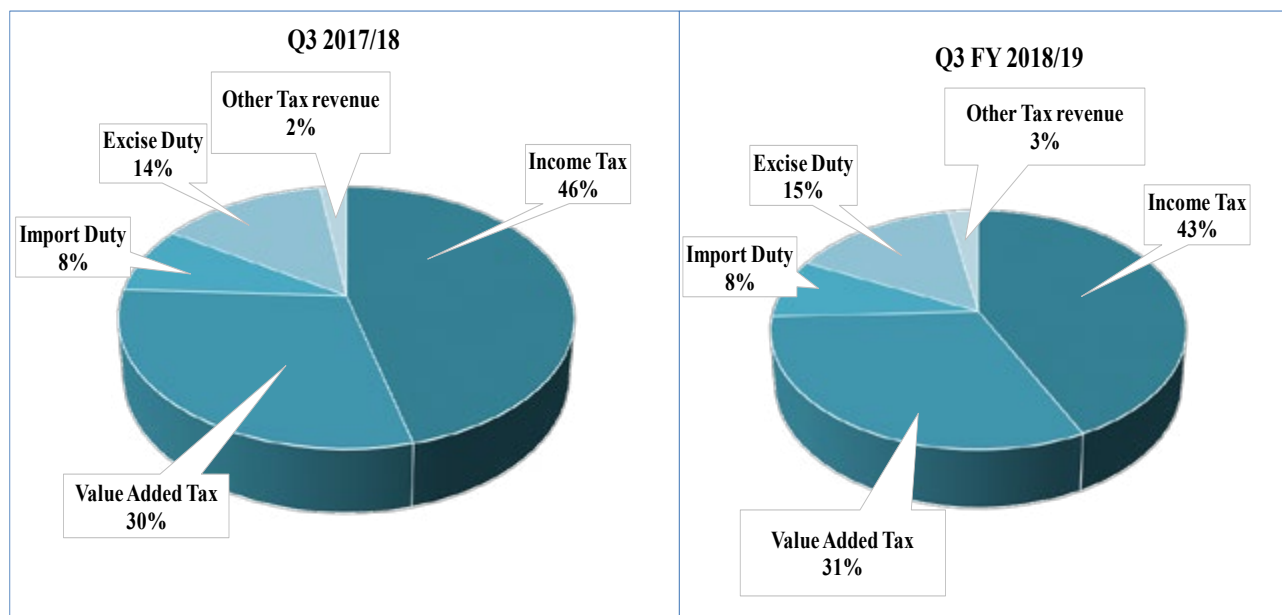
Cumulatively, the Government total revenue and grants stood at KSh 1,197.0 billion (12.0 percent of GDP) in the first three quarters of the FY 2018/19

against a target of KSh 1,327.0 billion (13.3 percent of GDP). All taxes fell below set targets with the shortfalls partly reflecting a subdued performance of the economy which adversely affected revenue collection.

External grants for the first three quarters of the FY 2018/19 stood at KSh 16.8 billion, which was KSh 20.3 billion lower than expected, due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected during the first three quarters of FY 2018/19 amounted to KSh 115.9 billion, which was KSh 13.6 billion lower than target due to under reporting in ministerial expenditure returns. Ministerial A-in-A collections were also low in the first two quarters of FY 2018/19 for similar reasons.

Chart 7.1: Composition of Government Revenue FY 2018/19 (Ksh Billion)



Source: Provisional Budget Out-turn from The National Treasury

Expenditure and Net Lending

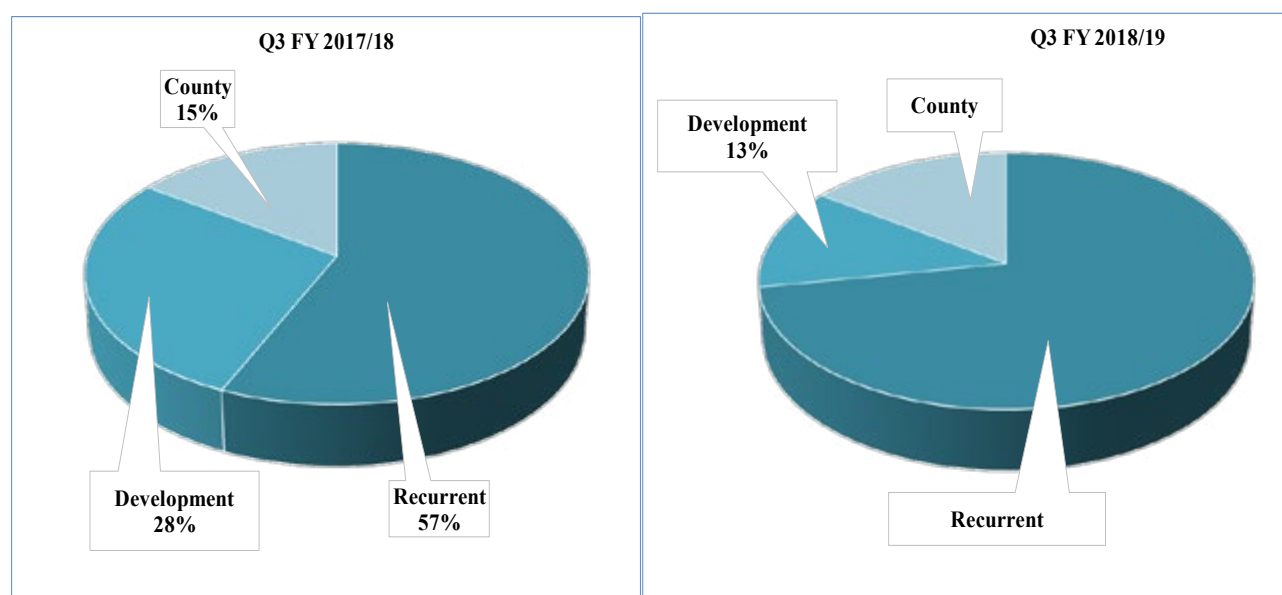
Government expenditure and net lending declined by 7.6 percent to KSh 568.9 billion in the third quarter of the FY 2018/19 compared with KSh 616.0 billion in the second quarter of the FY 2018/19. The decline in expenditures was mainly reflected in development expenditures and county transfers. National government recurrent expenditures rose by 29.0 percent in the third quarter of FY 2018/19 compared to the second quarter.

In terms of composition, recurrent expenditure remained the largest share in total government expenditure accounting for 72 percent in the third

quarter of FY 2018/19, which was 15 percentage points higher than the level recorded in a similar quarter the previous fiscal year. The share of development expenditure also declined by 15 percentage points, in the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in the first three quarters FY 2018/19 amounted to KSh 1745.7 billion (17.5 percent of GDP), against a target of KSh 1813.3 billion (18.2 percent of GDP). The shortfall of KSh 67.6 billion was attributed to lower absorption of both recurrent and development expenditures by the National Government and County Governments (**Table 7.1**).

Chart 7.2: Composition of Recurrent Expenses



Sources: Provisional Budget Outturn from The National Treasury

Financing

The budget deficit including grants amounted to KSh 548.7 billion or 5.5 percent of GDP at the end of the first three quarters of FY 2018/19. The deficit financing mix was 64.3 percent and 35.7 percent domestic and external resources, respectively. The domestic borrowing comprised KSh 99.7 billion in Government deposits held at the Central Bank, KSh

109.2 billion from commercial banks. KSh 111.6 billion from non-banks and KSh 0.2 billion from non-residents (**Table 7.2**). Net domestic borrowing at the end of the first three quarters of FY 2018/19 was above target by KSh 113.3 billion, while external financing was KSh 110.2 billion below the expected target.

Table 7.2 Domestic Financing up to March 2019

	FY 2017/18		FY 2018/19								
	Q3	Q4	Q1			Q2			Q3		
	Mar-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
1. From CBK	(80.2)	(26.3)	(30.8)	11.4	(10.4)	47.5	46.8	93.7	85.6	(1.0)	99.7
2. From commercial banks	77.5	124.3	52.0	44.7	45.7	50.7	44.2	(5.0)	49.2	110.6	109.2
4. From Non-banks	125.1	172.8	5.1	7.2	33.7	33.3	47.6	41.2	80.5	120.8	111.6
5. From Non-Residents	3.2	3.0	0.6	0.6	0.2	0.9	1.0	1.0	(0.3)	(0.0)	0.2
Change in Credit from banks (From 30th June 2018)	(2.7)	97.9	21.1	56.2	35.4	98.3	91.0	88.7	134.8	109.6	208.9
Change in Credit from non-banks (From 30th June 2018)	125.1	172.8	5.1	7.2	33.7	33.3	47.6	41.2	80.5	120.8	111.6
Change in Credit from non-residents (From 30th June 2018)	3.2	3.0	0.6	0.6	0.2	0.9	1.0	1.0	(0.3)	(0.0)	0.2
6. Total Change in Dom. Credit (From 30th June 2018)	125.6	273.7	26.8	64.0	69.2	132.4	139.6	130.8	215.0	230.4	320.7

NB: Treasury Bills are reflected at cost

Source: Central Bank of Kenya

Outlook for FY 2018/19

In the revised Budget estimates from the National Treasury for the FY 2018/19, total revenue is projected at KSh 1,901 billion (19.0 per cent of GDP) while external grants are projected at KSh 48 billion. Government expenditure is projected at KSh 2,509 billion (25.1 per cent of GDP), of which KSh 1,541 billion will be for recurrent expenses, KSh 367 billion for transfers to county governments, and KSh 596 billion for development expenses.

The overall budget deficit including grants on commitment basis is, therefore, projected at KSh 608 billion (6.1 per cent of GDP) in 2018/19, to be financed through net external borrowing of KSh 287 billion and net domestic borrowing of KSh 317 billion.

Table 7.3: Budget Estimates for the Fiscal Year 2018/19 (KSh Billion)

	Ksh (Billion)	%age of GDP
1. TOTAL REVENUE (Including Grants)	1,901	19.0
Total Revenue	1,853	18.5
Appropriations-in-Aid	180	1.8
External Grants	48	0.5
2. TOTAL EXPENSES & NET LENDING	2,509	25.1
Recurrent Expenses	1,541	15.4
Development Expenses	596	6.0
County Transfer	367	3.7
Contingency Fund	5	0.1
3. DEFICIT INCL. GRANTS (1-2)	-608	-6.1
4. FINANCING	608	6.1
Domestic (Net)	317	3.2
External (Net)	287	2.9
Domestic loan repayments(receipts)	4	0.0

Source: National Treasury: BPS -February 2019

Chapter 8

Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt recorded moderate increase of 2.8 percent during the third quarter of the FY 2018/19. Domestic increased by 5.9 percent while external debt decreased by 0.1 percent during the quarter. . The buildup in public debt was slower relative to the projected rate of economic expansion, hence the decline in the ratio

of publicly and publicly guaranteed debt to GDP by 0.5 percentage points to 58.7 percent compared with the previous quarter. Similarly, External debt and ratio to GDP decreased by 1.1 percentage points. However, the ratio of domestic debt to GDP edged up by 0.6 percentage points in the third quarter of the FY 2018/19 (Table 7.1)¹.

Table 8.1: Kenya's Public and Publicly Guaranteed Debt (KSh Billion)

	2017/18		2018/19					
	Q3	Q4	Q1	Q2	Jan-19	Feb-19	Q3	Change Q on Q
EXTERNAL								
Bilateral	800.9	815.4	812.5	894.0	939.9	931.0	916.6	22.5
Multilateral	836.8	829.8	877.7	874.7	853.8	846.8	846.6	-28.1
Commercial Banks	858.1	906.4	898.3	938.2	919.1	912.9	941.8	3.6
Supplier Credits	16.7	16.7	16.7	16.9	16.7	16.6	16.7	-0.2
Sub-Total	2,512.4	2,568.4	2,605.3	2,723.7	2,729.5	2,707.3	2,721.6	-2.1
(As a % of GDP)	30.1	31.5	30.0	30.6	29.6	29.3	29.5	
(As a % of total debt)	51.4	50.9	50.6	51.7	51.2	50.1	50.2	
DOMESTIC								
Banks	1,320.4	1,377.2	1,405.5	1,407.8	1,424.5	1,471.0	1,487.5	79.7
Central Bank	93.6	110.8	90.2	118.2	90.3	73.0	89.7	-28.5
Commercial Banks	1,226.9	1,266.5	1,315.3	1,289.6	1,334.3	1,398.0	1,397.8	108.2
Non-banks	1,025.7	1,076.3	1,109.8	1,114.8	1,154.8	1,195.5	1,185.7	70.9
Pension Funds	641.8	671.5	689.1	694.3	723.7	747.5	743.4	49.1
Insurance Companies	150.9	154.5	154.1	154.3	156.4	166.9	166.5	12.3
Other Non-bank Sources	232.9	250.2	266.5	266.3	274.7	281.0	275.8	9.5
Non-residents	25.5	25.3	25.4	26.2	24.9	25.1	25.4	-0.8
Sub-Total	2,371.7	2,478.8	2,540.7	2,548.8	2,604.2	2,691.6	2,698.5	149.8
(As a % of GDP)	28.5	30.4	29.2	28.6	28.2	29.2	29.2	
(As a % of total debt)	48.6	49.1	49.4	48.3	48.8	49.9	49.8	
GRAND TOTAL	4,884.1	5,047.2	5,146.0	5,272.5	5,333.7	5,398.9	5,420.1	147.6
(As a % of GDP)	58.6	59.2	59.2	59.2	57.8	58.5	58.7	

Source: The National Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt build up during the quarter under review registered a faster growth relative to the 2.5 percent build up in the previous quarter. This increased uptake of government securities was associated with the impact of a pickup in budget execution synonyms with third quarter of the financial year. The share of domestic debt to total debt increased by 1.5 percentage points to 49.8 percent by the end of the third quarter of the FY 2018/19. The proportion of debt securities to total domestic debt increased by 1.5 percentage points during the quarter under review. Following the increased uptake of domestic debt securities, the government overdraft at the Central Bank decreased

from KSh 64.8 billion in December 2018 to KSh 36.9 billion in March 2019. Consequently, investor's preferences shifted to shorter dated securities hence the 7.5 percent increase in the uptake of Treasury bills (Table 8.2).

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 5.3 percent increase during the third quarter of the FY 2018/19, a slower pace than the uptake of Treasury bonds. Accordingly, the proportion of Treasury bills to total domestic debt decreased by 0.1 percentage points during the period under review. The dominance of Commercial banks in Treasury bills market

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

Table 8.2: Government Gross Domestic Debt (KSh Billion)

	Ksh (Billion)							Change: Q on Q		Propotions						
	2017/18		2018/19							2017/18		2018/19				
	Q3	Q4	Q1	Q2	Jan-19	Feb-19	Q3	Ksh (Bn)	%	Q3	Q4	Q1	Q2	Jan-19	Feb-19	Q3
Total Stock of Domestic Debt (A+B)	2,371.7	2,478.8	2,540.7	2,548.8	2,604.2	2,691.6	2,698.5	149.8	5.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	2,300.5	2,390.5	2,472.9	2,452.3	2,535.9	2,640.2	2,635.3	183.0	7.4	97.0	96.4	97.3	96.2	97.4	98.1	97.7
1. Treasury Bills (excluding Repo Bills)	772.7	878.6	944.1	899.4	944.5	971.5	949.7	50.2	5.3	32.6	35.4	37.2	35.3	36.3	36.1	35.2
Banking institutions	436.2	502.6	558.1	547.8	572.7	591.6	591.2	43.4	7.8	18.4	20.3	22.0	21.5	22.0	22.0	21.9
The Central Bank	20.6	20.6	20.6	20.6	20.6	20.6	20.6	0.0	0.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Commercial Banks	415.6	482.0	537.5	527.2	552.1	571.1	570.6	43.4	8.1	17.5	19.4	21.2	20.7	21.2	21.2	21.1
Pension Funds	159.2	180.1	187.4	161.1	180.7	183.3	169.5	8.4	4.5	6.7	7.3	7.4	6.3	6.9	6.8	6.3
Insurance Companies	20.5	21.2	20.0	16.4	14.2	19.1	18.5	2.1	10.6	0.9	0.9	0.8	0.6	0.5	0.7	0.7
Others	156.8	174.7	178.6	174.1	176.9	177.5	170.4	-3.7	-2.1	6.6	7.0	7.0	6.8	6.8	6.6	6.3
2. Treasury Bonds	1,527.8	1,511.9	1,528.8	1,552.9	1,591.3	1,668.6	1,685.7	132.7	8.7	64.4	61.0	60.2	60.9	61.1	62.0	62.5
Banking institutions	813.2	786.4	779.6	763.6	783.6	828.0	833.2	69.6	8.9	34.3	31.7	30.7	30.0	30.1	30.8	30.9
The Central Bank	9.4	9.4	9.4	9.4	9.4	9.4	9.4	0.0	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Commercial Banks	803.8	776.9	770.2	754.2	774.1	818.6	823.7	69.6	9.0	33.9	31.3	30.3	29.6	29.7	30.4	30.5
Insurance Companies	130.4	133.3	134.2	137.9	142.2	147.8	148.0	10.2	7.6	5.5	5.4	5.3	5.4	5.5	5.5	5.5
Pension Funds	482.6	491.4	510.1	533.1	543.0	564.3	573.8	40.7	8.0	20.3	19.8	20.1	20.9	20.9	21.0	21.3
Others	101.6	100.8	104.9	118.3	122.6	128.6	130.6	12.3	11.7	4.3	4.1	4.1	4.6	4.7	4.8	4.8
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	23.9	23.9	23.9	23.3	23.3	23.3	22.8	-0.6	-2.3	1.0	1.0	0.9	0.9	0.9	0.9	0.8
Of which: Repo T/Bills	23.3	23.3	23.3	22.7	22.7	22.7	21.6	-1.1	-4.8	1.0	0.9	0.9	0.9	0.9	0.8	0.8
B. Others:	47.2	64.4	44.0	73.1	45.0	28.1	40.4	-32.7	-74.3	2.0	2.6	1.7	2.9	1.7	1.0	1.5
Of which CBK overdraft to Government	39.7	56.8	36.3	64.8	36.9	19.7	36.9	-27.9	-77.0	1.7	2.3	1.4	2.5	1.4	0.7	1.4

Source: Central Bank of Kenya

persisted with their holdings standing at 60.1 percent of the total amount of outstanding Treasury Bills by the end of the third quarter of the FY 2018/19. Other significant holders of Treasury bills included Pension funds (17.8 percent) and parastatals-included in other holders (13.9 percent). The persistent dominance of commercial banks in the government securities' market characterizes moderate underdevelopment of other institutional investors' sectors (Pension funds, foreign investors and insurance companies).

Treasury Bonds

Treasury bond holdings increased by 8.7 percent during the third quarter of the FY 2018/19, a faster build up compared to the 1.1 percent increase observed in the previous quarter. This was in line with government plan of mitigating against the refinancing risk by issuing investor-attractive longer securities. The largest component of this buildup was the proceeds from a 10- year Fixed rate Treasury

bond in line with the government objective to reduce the refinancing risk by lengthening the average time to maturity of government securities. The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for about half of the total Treasury Bonds outstanding.

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 underscoring the Public Debt Management Office goal of reducing the refinancing risk. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 76.7 percent of the total of outstanding Treasury Bonds , a 0.6 percentage points increase from the position in the previous quarter.

Table 8.3: Outstanding Domestic Debt by Tenor (KSh Billion)

		Kshs (Billions)					Change Q on Q		Proportions				
		2017/18		2018/19			Q3 2018/19		2017/18		2018/19		
		Q3	Q4	Q1	Q2	Q3	Kshs(Bn)	%	Q3	Q4	Q1	Q2	Q3
Treasury bills	91-Day	48.5	46.9	49.8	54.9	44.9	-10.0	-20.1	2.0	1.9	2.0	2.2	1.7
	182-Day	202.1	258.3	216.9	135.2	147.3	12.2	5.6	8.5	10.4	8.5	5.3	5.5
	364-Day	522.1	573.5	677.4	709.3	757.4	48.1	7.1	22.0	23.1	26.7	27.8	28.1
	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
Treasury Bond	2-Year	93.8	63.6	63.6	38.1	69.2	31.1	49.0	4.0	2.6	2.5	1.5	2.6
	3-Year	0.4	0.4	0.4	0.4	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	4.8	4.8	4.8	4.8	4.8	0.0	0.0	0.2	0.2	0.2	0.2	0.2
	5-Year	346.1	307.2	307.2	272.6	293.2	20.6	6.7	14.6	12.4	12.1	10.7	10.9
	6-Year	8.5	8.5	8.5	8.5	8.5	0.0	0.0	0.4	0.3	0.3	0.3	0.3
	7-Year	50.1	50.1	50.1	50.1	50.1	0.0	0.0	2.1	2.0	2.0	2.0	1.9
	8-Year	33.7	33.7	33.7	33.7	33.7	0.0	0.0	1.4	1.4	1.3	1.3	1.2
	9-Year	76.5	76.5	76.5	71.2	71.2	0.0	0.0	3.2	3.1	3.0	2.8	2.6
	10-Year	265.5	265.5	270.4	303.2	336.0	32.8	12.1	11.2	10.7	10.6	11.9	12.5
	11-Year	0.0	0.0	0.0	8.8	8.8	0.0	0.0	0.0	0.0	0.0	0.3	0.3
	12-Year	133.2	133.2	129.3	120.3	120.3	0.0	0.0	5.6	5.4	5.1	4.7	4.5
	15-Year	353.6	386.8	386.8	415.9	446.4	30.6	7.9	14.9	15.6	15.2	16.3	16.5
	20-Year	113.4	128.1	144.0	171.9	171.9	0.0	0.0	4.8	5.2	5.7	6.7	6.4
	25-Year	20.2	25.3	25.3	25.3	42.2	16.8	66.4	0.9	1.0	1.0	1.0	1.6
	30-Year	28.1	28.1	28.1	28.1	28.1	0.0	0.0	1.2	1.1	1.1	1.1	1.0
		Repo T bills	23.3	23.3	23.3	22.7	21.6	-1.1	-4.8	1.0	0.9	0.9	0.9
Overdraft		39.7	56.8	36.3	64.8	36.9	-27.9	100.0	1.7	2.3	1.4	2.5	1.4
Other Domestic debt		8.2	8.2	8.3	8.9	5.3	-3.5	-42.7	0.3	0.3	0.3	0.3	0.2
Total Debt		2,371.7	2,478.8	2,540.7	2,548.8	2,698.5	149.8	5.9	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates.

The average time to maturity of existing domestic debt improved from 4 years and 6 months in the previous quarter to 4 years and 7 months in the third quarter of the FY 2018/19. The refinancing risk lessened as the Treasury bills component in the domestic debt profile decreased (35.2 percent from 35.3 percent in December 2018).

External Debt

Public and publicly guaranteed external debt decreased by 0.1 percentage points during the third quarter of the FY 2018/19. The decline in external debt during the quarter under review was mainly driven by repayment of US dollar 750 million procured in 2017 and US dollar 200 million owed to the Chinese government. Foreign exchange risk on external debt was low due to relatively stable exchange rate during the quarter under review.

Composition of External Debt by Creditor

With increased access to international financial markets, Kenya continues to record dwindling levels of concessional debt and build-up of commercial and semi-concessional borrowing. During the quarter under review, the share of outstanding debt from official multilateral and bilateral lenders (who provide both concessional and semi-concessional loans) declined by 0.1 percentage points to the proportion from the 64.9 percent held in the previous quarter.

Similarly, concessionality of external debt declined as the proportion of debt held by multilateral lenders who lend on concessional terms declined and that held by bilateral lenders who lend on semi concessional terms increased by 1.0 percentage points by the end of the third quarter of the FY 2018/19.

Debt owed to the International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 5.2 billion or 19.4 percent of total external debt while that owed to China, Kenya's largest bilateral lender, amounted to USD 6.0 billion, or 22.2 percent of the total external debt in the second quarter of the FY 2018/19.

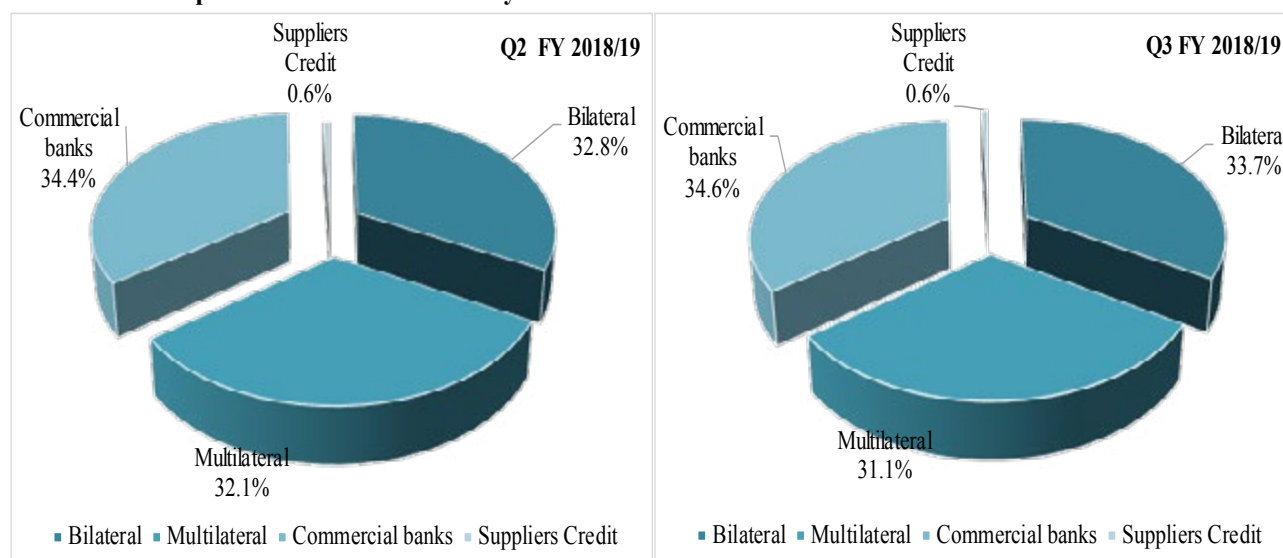
Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against the currency risk. The dominant currencies included the US dollar and the Euro which accounted for 84.8 percent of the total currency composition at the end of the third quarter of the FY 2018/19. This was partly consistent with the currency composition of the Central Bank's forex reserve holdings. The proportion held in the US dollar decreased by 3.1 percentage points mainly on account of repayment of US dollar 195 million of dollar-denominated loan advanced by the Chinese government and raiment of US dollar 175 million owed to the IMF.

Public Debt Service

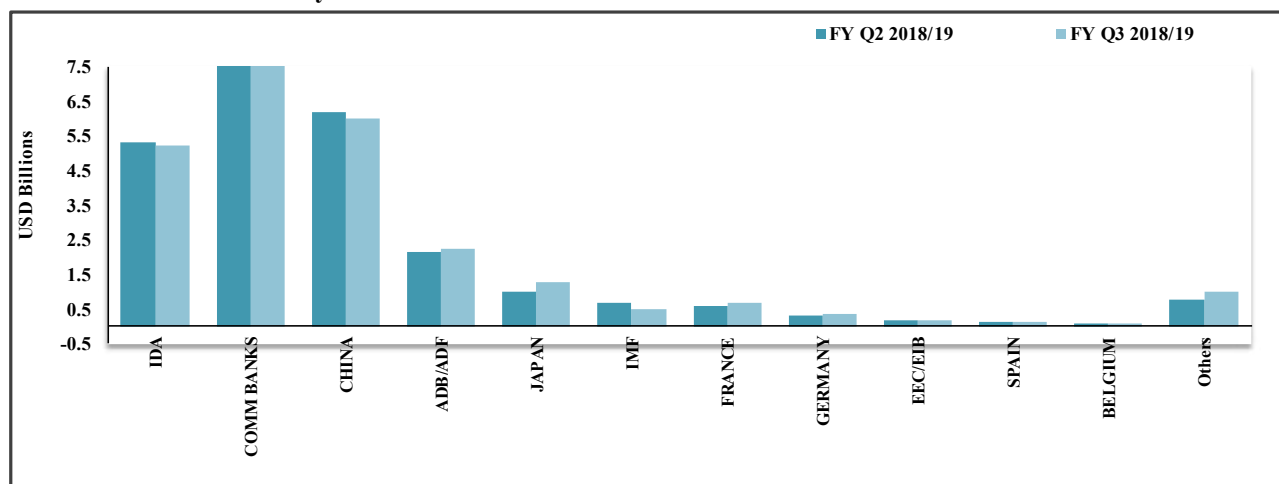
The ratio of domestic interest payments to revenues stood at 15.7 percent in the third quarter of the FY

Chart 8.1: Composition of External Debt by Lender



Source: The National Treasury

Chart 8.2: External Debt By Creditor



Source: The National Treasury

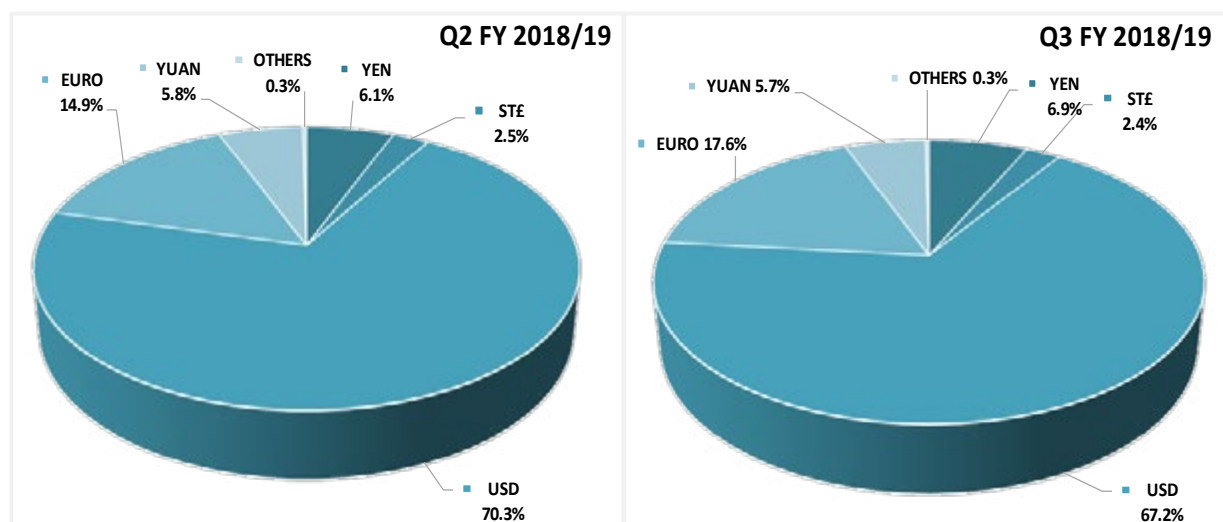
2018/19. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the third quarter of the FY 2018/19 amounted to Ksh 159.0 billion and was within sustainable levels. Debt service ratios to flow resource bases such as revenues and exports are liquidity indicators of the level of indebtedness. Liquidity indicators of external indebtedness worsened and were above the composite indicator determined liquidity indicative thresholds

(21 percent of exports and 23 percent of revenues) driven one off repayment of US dollar 750 million procured in 2017.

Debt Sustainability Analysis (DSA)

The October 2018 Debt Sustainability update showed deteriorating debt dynamics with a downgrade from low risk of external debt distress to moderate risk of external debt distress. All the liquidity and solvency debt burden indicators were below the CPIA based

Chart 8.3: Debt Composition by Currency



Source: The National Treasury

thresholds in the baseline scenarios but there were prolonged breaches in the alternative scenarios. Public DSA Sensitivity Analysis show that if primary deficit were to remain at the current levels, public debt would take an upward trajectory and way above the debt sustainability benchmark for strong policy performers. This points to the need for immediate fiscal consolidation.

Outlook for Fiscal Year 2018/19

Total public and publicly guaranteed external debt is estimated at 2,881.7 billion (28.7 percent of GDP), while gross and net domestic debt are expected to close the financial year 2018/19 at KSh 2,788.9 billion (27.8 percent of GDP) and KSh 2,279.9 billion (22.7 percent of GDP), respectively (BPS 2019).

Table 8.4: Liquidity Indicators of External Debt Sustainability

	Q3 FY 2017/18	Q4 FY 2017/18	Q1 FY 2018/19	Q2 FY 2018/19	Q3 FY 2018/19
Debt service to Revenues (23%)	8.5	14.7	10.1	7.9	40.4
Debt service to Exports (21%)	10.5	20.4	12.5	10.9	51.7

Source: Central Bank of Kenya

Chapter 9

The Capital Markets

Equities Market

The equities market share prices increased in the first quarter of 2019 compared to the fourth quarter of 2018, recording 1.6 percent and 11.03 percent gain in the NSE 20 and NASI share indices respectively.

Similarly, total equities turnover and market capitalization increased by 27.70 percent and 12.30 percent respectively. The number of shares traded however declined by 11.1 percent (**Table 9.1 and Chart 9.1**).

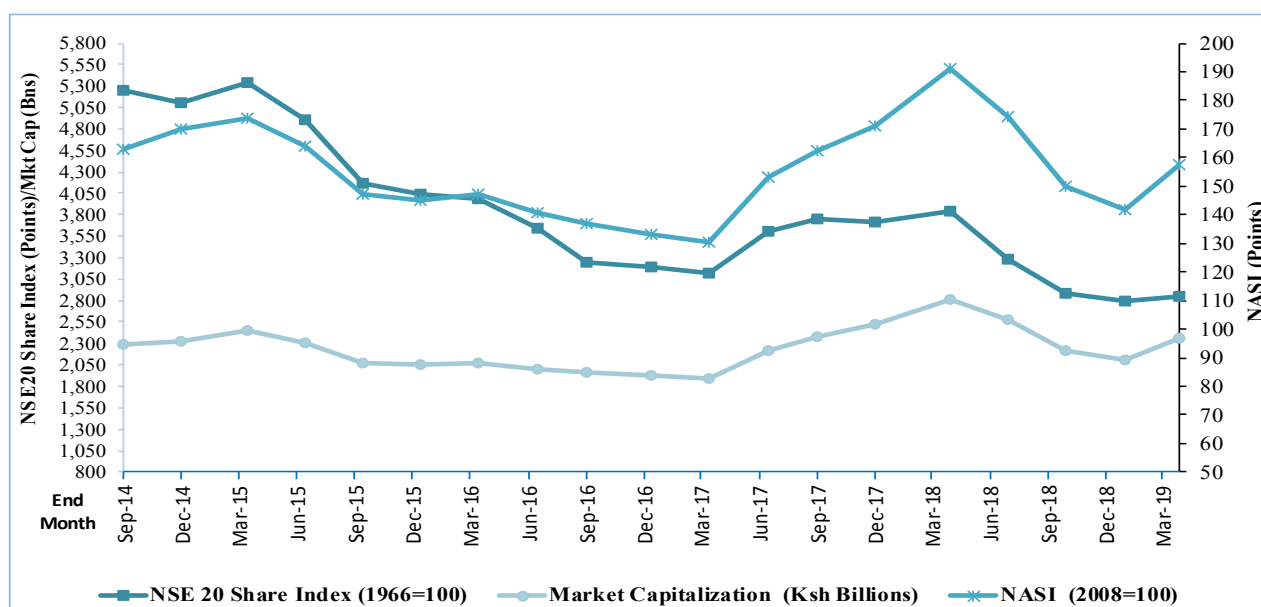
Table 9.1: Selected Stock Market Indicators

INDICATOR	2017			2018				2019	% CHANGE (2019Q1-2018Q4)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	3607.2	3751.5	3711.9	3845.3	3285.7	2875.5	2801.0	2846.4	1.62
NASI (2008=100)	152.92	162.21	171.20	191.23	174.36	149.67	142.00	157.66	11.03
Number of Shares Traded (Millions)	1892.06	2019.715	1291.155	2138.96	1580.04	983.14	1570.53	1396.672	-11.07
Equities Turnover (Ksh Millions)	44,902	53,577	36,019	61,150	47,142	31,930	35,435	45,249	27.70
Market Capitalization (Ksh Billions)	2,224	2,377	2,522	2,817	2,576	2,211	2,102	2,361	12.30
Foreign Purchase (Ksh Millions)	27,424	23,099	22,760	31,065	24,618	17,336	23,323	35,039	50.23
Foreign Sales (Ksh Millions)	29,692	34,219	22,941	39,149	32,794	24,041	29,994	34,438	14.82
Ave. Foreign Investor Participation to Equity Turnover (%)	63.60	53.49	63.44	57.41	60.89	64.84	75.12	74.90	-0.29
Bond Turnover (Ksh Millions)	134,633	108,168	89,120	152,338	158,523	133,683	118,171	158,069	33.76
FTSE NSE Kenya Govt. Bond Index (Points)	91.54	91.67	92.83	93.58	95.00	94.85	95.40	96.48	1.13
5-Year Eurobond Yield (%)	4.47	4.28	3.76	3.83	5.74	4.52	5.87	5.26	-0.61*
10-Year Eurobond Yield (%) - 2024	6.64	6.46	5.67	6.24	7.18	6.86	8.35	6.28	-2.07*
10-Year Eurobond Yield (%) - 2028				6.86	7.89	7.65	9.00	7.11	-1.88*
30-Year Eurobond Yield (%) - 2048				7.81	8.90	8.59	9.75	8.15	-1.60*

* Percentage points

Source: Nairobi Securities Exchange

Chart 9.1: NSE 20, NASI and Market Capitalization



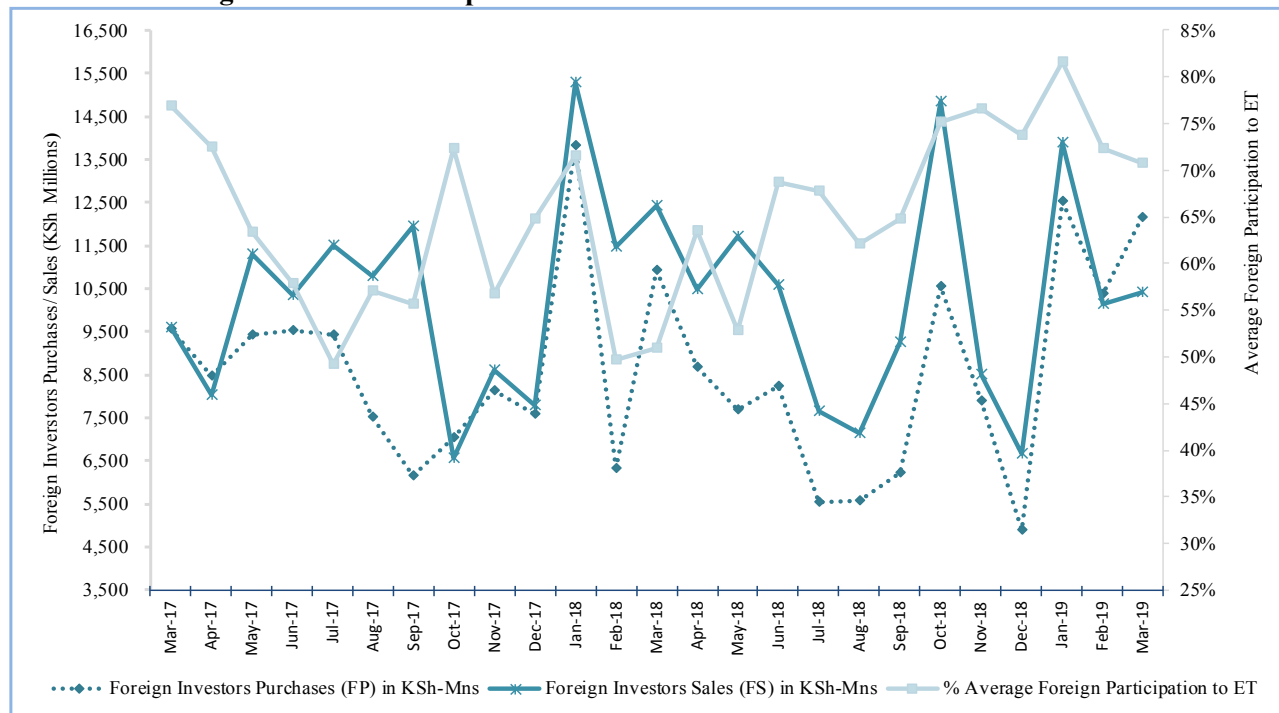
Source: Nairobi Securities Exchange

Foreign Investors' Participation

The value shares purchased by foreign investors at the NSE increased by 50.2 percent against 14.8 percent increase in shares sold by foreign investors in the first quarter of 2019 compared with fourth quarter of 2018. The average net foreign investors' participation

at the NSE as a share of total equity turnover was 74.9 percent in the first quarter of 2019 compared to 75.1 percent in the fourth quarter of 2018. Foreign investors' purchases exceeded sales in the first quarter of 2019 (**Chart 9.2 and Table 9.1**).

Chart 9.2: Foreign Investors Participation at the NSE



Source: Nairobi Securities Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market increased by 33.76 percent in the first quarter of 2019. The FTSE NSE Kenyan Government Bond Index rose by 1.08 points, reflecting a decline in the secondary market yields. The yields on the 5-year, 10-year (2024), 10-year (2028) and 30-year (2048) Kenya Eurobonds, declined by 0.61, 2.07, 1.88 and 1.60 percentage points, respectively on the last trading day of the first quarter of 2019 (**Table 9.1**).

Chapter 10

Statement of Financial Position of the Central Bank of Kenya (Kenya Shillings Million)

1.0 ASSETS	2018					2019					Absolute Quarterly Changes (KSh Million)					Quarterly Growth Rates (%)				
	MAR	JUN	SEPT	DEC	MAR	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018
1.1 Reserves and Gold Holdings	929,848	923,391	879,688	847,323	848,796	1,474	(32,365)	(43,704)	(6,457)	176,498	0.2	(3.7)	(4.7)	(0.7)	23.4					
1.2 Funds Held with IMF	2,678	2,012	5,393	2,577	8,343	5,767	(2,816)	3,380	(665)	1,191	223.8	(52.2)	168.0	(24.8)	80.1					
1.21 Investment in Equity (Swift Shares)	10	9	9	9	9	(0)	(0)	0	(1)	0	(2.9)	(1.2)	0.9	(6.3)	1.2					
1.3 Items in the Course of Collection	21	25	11	19	16	(3)	8	(14)	4	2	(16.8)	70.5	(55.6)	18.8	12.6					
1.4 Advances to Commercial Banks	43,604	38,503	67,812	77,477	67,772	(9,705)	9,665	29,308	(5,101)	3,960	(12.5)	14.3	76.1	(11.7)	10.0					
1.5 Loans and Other Advances	2,551	2,585	2,597	2,603	2,599	(5)	6	12	35	(94)	(0.2)	0.2		1.4	(3.6)					
1.6 Other Assets	2,284	2,298	2,412	2,589	2,341	(248)	177	114	14	(69)	(9.6)	7.3	5.0	0.6	(2.9)					
1.7 Retirement Benefit Asset	8,197	6,585	6,585	6,585	6,585	-	-	-	(1,613)	-	-	-	-	(19.7)	-					
1.8 Property and Equipment	22,324	27,153	25,472	26,500	28,332	1,832	1,028	(1,681)	4,829	321	6.9	4.0	(6.2)	21.6	1.5					
1.81 Intangible Assets	117	165	507	641	756	116	134	342	47	71	18.0	26.4	207.8	40.2	150.9					
1.9 Due from Government of Kenya	63,609	80,188	59,746	88,399	60,087	(28,312)	28,653	(20,442)	16,579	(3,278)	(32.0)	48.0	(25.5)	26.1	(4.9)					
TOTAL ASSETS	1,075,244	1,082,915	1,050,231	1,054,720	1,025,635	(29,086)	4,490	(32,684)	7,671	178,600	(2.8)	0.4	(3.0)	0.7	19.9					
2.0 LIABILITIES																				
2.1 Currency in Circulation	262,622	262,439	257,695	288,299	271,923	(16,376)	30,604	(4,744)	(183)	(16,537)	(5.7)	11.9	(1.8)	(0.1)	(6)					
2.2 Investments by Banks - Repos					9,992	9,992	-	-												
2.3 Deposits	571,657	584,287	565,910	531,808	508,365	(23,443)	(34,103)	(18,377)	12,630	207,331	(4.4)	(6.0)	(3.1)	2.2	57					
2.4 International Monetary Fund	109,129	100,284	98,453	92,244	89,598	(2,646)	(6,210)	(1,830)	(8,845)	(1,287)	(2.9)	(6.3)	(1.8)	(8.1)	(1)					
2.5 Other Liabilities	1,661	6,123	(4,582)	4,173	3,737	(436)	8,755	(10,705)	4,462	165	(10.5)	(191.1)	(174.8)	268.6	11					
TOTAL LIABILITIES	945,068	953,132	917,476	916,523	883,615	(32,908)	(953)	(35,656)	8,064	189,671	(3.6)	(0.1)	(3.7)	0.9	25					
3.0 EQUITY AND RESERVES	130,175	129,782	132,755	138,197	142,020	3,823	5,442	2,972	(393)	(11,071)	2.8	4.1	2.3	(0.3)	(7.8)					
Share Capital	5,000	5,000	5,000	5,000	5,000	-	-	-	-	-	-	-	-	-	-					
General reserve fund -Unrealized	65,195	44,432	44,432	44,432	44,432	-	-	-	(20,763)	-	-	(0.0)	-	(31.8)	-					
-Realized	23,690	30,692	30,692	30,692	30,692	-	-	-	7,002	-	-	(0.0)	-	29.6	-					
-Capital Projects	17,189	24,473	24,473	24,473	24,473	-	-	-	7,284	-	-	0.0	-	42.4	-					
Period surplus/(Deficit)	(3,886)	-	2,972	9,215	13,037	3,823	10,065	2,972	3,886	-	41	210	-	-	-					
Asset Revaluation	14,790	17,801	17,801	17,801	17,801	-	-	-	3,011	-	-	(0.0)	-	20.4	-					
Retirement Benefit Asset Reserves	8,197	6,584	6,584	6,584	6,584	-	-	-	(1,613)	-	-	(0)	-	(19.7)	-					
Consolidated Fund		800	800			-	(800)	-				(100)								
4 TOTAL LIABILITIES AND EQUITY	1,075,244	1,082,915	1,050,231	1,054,720	1,025,635	(29,086)	(24,596)	(32,684)	7,671	178,600	(2.8)	0.4	(3.0)	0.7	20					

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

The Central Bank of Kenya (CBK) balance sheet declined by 2.8 percent in the first quarter of 2019, largely reflecting KSh 28.3 billion decrease in debt due from government, partly reflecting a reduction in the utilization of overdraft facility at the central bank by government. Debt due from government comprise of Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long term debt with effect from 1 November 1997.

Reserve and gold holdings which comprise of foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Programme (RAMP) securities invested with the World Bank. Reserve and gold holdings increased marginally by KSh 1.5 billion in the first quarter of 2019.

Advances to commercial banks, largely for liquidity management, decreased by KSh 9.7 billion in the first quarter of 2019. Funds held with the IMF increased by KSh 5.8 billion, while the retirement benefit asset remained unchanged at KSh 6.6 billion.

Items in the course of collection, which represent the value of clearing instruments held by the CBK while awaiting clearing by respective commercial

banks, decreased by KSh 3.0 million compared to an increase of KSh 8.0 million in the fourth quarter of 2018.

Loans and other advances include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF), and IMF funds on lent to Government, declined by 0.2 percent in the first quarter of 2019 compared to an increase of 0.2 percent in the previous quarter.

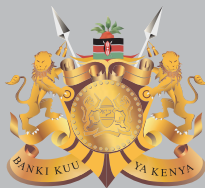
Other assets, which largely consist of prepayments and sundry debtors, and deferred currency expense declined by KSh 248 million in the first quarter of 2019 compared to an increase of KSh 177 million in the previous quarter.

Liabilities

Currency in circulation decreased by 5.7 percent in the first quarter of 2019 compared to an increase of 11.9 percent in the previous quarter.

Deposits at the CBK by Government of Kenya, local commercial banks, other public entities and project accounts and local banks' forex settlement accounts declined by 4.4 percent compared to a decrease of 6.0 percent in the previous quarter.

Equity and reserves increased by 2.8 percent in the first quarter of 2019 compared to an increase of 4.1 percent in the previous quarter.



Central Bank of Kenya

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