



Central Bank of Kenya

Quarterly Economic Review

July-September 2022



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

Overall inflation increased to 8.7 percent in the third quarter of 2022 from 7.2 percent in the previous quarter, driven by supply side factors. Non-food Non-fuel (NFNF) increased modestly but remained low and stable, reflective of muted demand pressures in the economy.

The economy recorded strong growth in the second quarter of 2022. It grew by 5.2 percent compared to 11.0 percent in a similar quarter of 2021, supported by strong performance of financial and insurance services, transport and storage, wholesale and retail trade, information and communication, real estate, and construction sectors. The agriculture sector contracted by 2.1 percent compared to a contraction of 0.5 percent in a similar quarter of 2021, due to unfavorable weather conditions.

Broad money supply (M3) slightly contracted by 0.3 percent in the third quarter of 2022 compared to an increase of 5.3 percent in the second quarter of 2022, mainly reflecting reduction in deposits.

The global economy is expected to slow down to 3.2 percent in 2022 and moderate to 2.7 percent in 2023, from 6.0 percent in 2021. This reflects significant weakness in the economic activities in the US, Euro Area and China, due to ongoing war in Ukraine, lingering inflation pressures, subdued external demand and prolonged COVID-19 infections.

The current account balance is estimated to have narrowed to USD 1,531 million in the third quarter of 2022 from USD 1,714 million in the third quarter of 2021, reflecting increased receipts from both services and merchandise goods exports amid sustained growth in imports. Secondary income inflows were resilient despite a decline of USD 20 million to USD 959 million in the third quarter of 2022 from USD 979 million in a similar quarter in 2021.

The banking sector remained stable and resilient in the third quarter of 2022, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.7 percent in September compared to 14.7 percent in June. Repayments and recoveries were noted in the Building and Construction, Tourism, Manufacturing, Real Estate, Financial Services, Transport and Communication and Trade sectors. Commercial banks have continued to make adequate provisions for the NPLs.

The Government's budgetary operations at the end of the first quarter of FY 2022/23 resulted in a deficit (including grants) of 0.9 percent of GDP. Both revenue collection and expenditure remained below their respective targets.

Kenya's public and publicly guaranteed debt increased by 1.4 percent during the first quarter of the FY 2022/23. Domestic and external debt increased by 1.8 percent and 0.9 percent, respectively.

The overall equity market activity increased in the third quarter of 2022 compared to the second quarter. The NSE 20 share and NASI indices as well as market capitalization increased in the third quarter compared to the second quarter. However, the equity turnover and total number of shares traded declined.

Chapter 1

Inflation

Overview

Overall inflation increased to 8.7 percent in the third quarter of 2022 from 7.2 percent in the previous quarter, driven by supply side factors that exerted upward pressure on food and energy prices. Food inflation increased to 15.4 percent in the third quarter of 2022 from 12.8 percent in the previous quarter, largely driven by unfavorable weather conditions and elevated transport costs. Fuel inflation increased to 9.4 percent from 9.2 percent in the previous quarter, reflecting elevated global oil prices. Non-food Non-fuel (NFNF) inflation remained low, increasing modestly, reflecting

muted demand pressures in the economy. It increased to 3.3 percent from 2.7 percent in the previous quarter (**Table 1.1 and Chart 1.1**).

The contributions of food and fuel components to overall inflation increased during the quarter under review. The food component increased to 5.5 percentage points from 4.6 percentage points in the previous quarter, while that of fuel increased to 2.1 percentage points from 1.3 percentage points. However, the contribution of Non-food Non-fuel inflation declined to 1.1 percentage points from 1.2 percentage points (**Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2020					2022				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul	Aug	Sept
Overall inflation	5.8	6.0	6.7	6.0	5.3	7.2	8.7	8.3	8.5	9.2
Food Inflation	7.0	7.3	10.1	9.9	9.2	12.8	15.4	15.3	15.3	15.5
Fuel Inflation	13.9	14.2	10.8	10.1	6.8	9.2	9.4	8.0	8.6	11.7
Non-Food-Non-Fuel (NFNF) Inflation	2.3	2.5	2.7	2.0	2.1	2.7	3.3	3.1	3.2	3.4
Annual Average Inflation*	5.0	5.2	5.7	6.1	6.1	6.2	6.6	6.4	6.6	6.8
Three Months Annualised Inflation	9.4	6.1	2.8	5.8	6.7	13.6	8.8	9.7	8.2	8.3

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

Food Inflation

Although international food prices were easing in the third quarter of 2022, food inflation increased to 15.4 percent in the third quarter of 2022 from 12.8 percent in the previous quarter. The elevated food price was largely driven by edible oils, maize, and wheat products. As a result, the contribution of non-vegetable items to food inflation increased further. The contribution of vegetable items to food inflation declined further during the quarter driven by favorable seasonal factors (**Chart 1.2**).

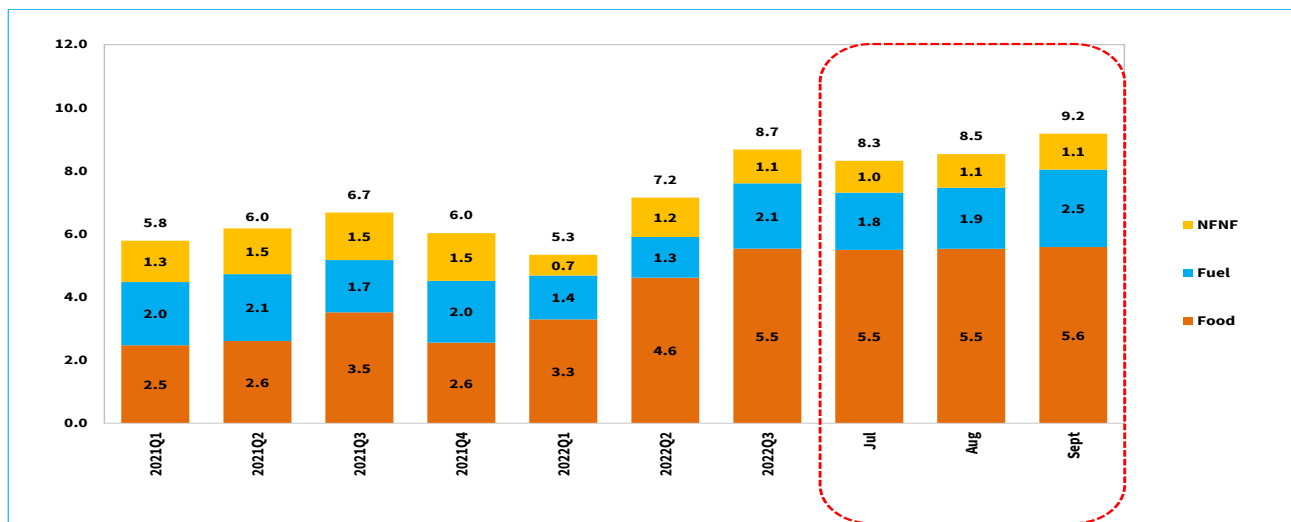
Fuel Inflation

Fuel inflation increased to 9.4 percent from 9.2 percent in the previous quarter, despite government interventions to stabilize energy prices. The increase was largely due to elevated global oil prices whose level and volatility has increased following

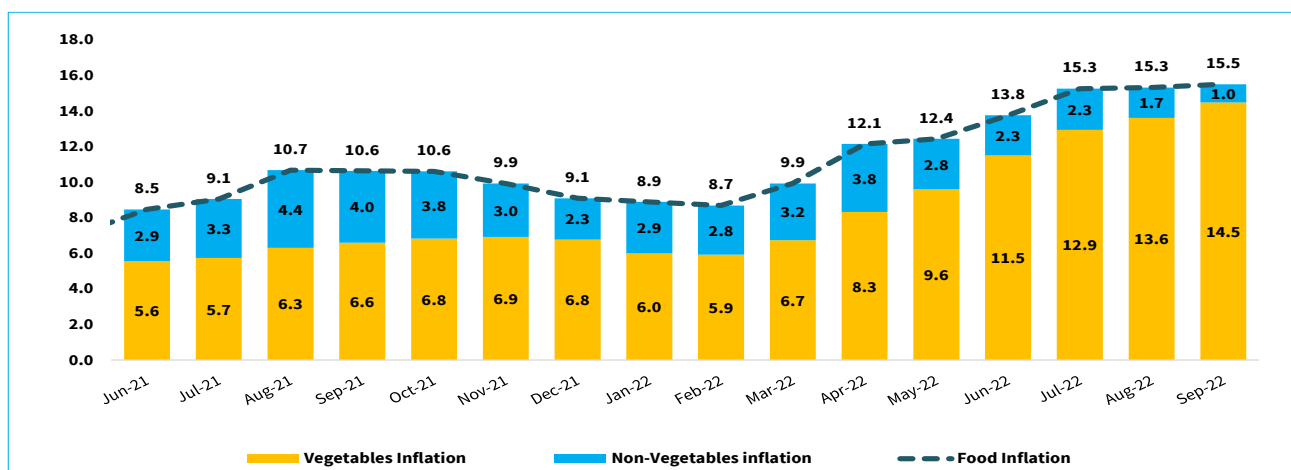
the Russia-Ukraine war. Moreover, the scaling down of government subsidies on pump prices and electricity towards the end of the quarter under review exerted upward pressure on fuel inflation. The energy component remained the major driver of fuel inflation, due to higher costs of energy items such as diesel, petrol, kerosene, gas/LPG, and electricity. On the other hand, the contribution of non-energy items remained relatively stable during the quarter (**Chart 1.3**).

Non-Food Non-Fuel Inflation (NFNF)

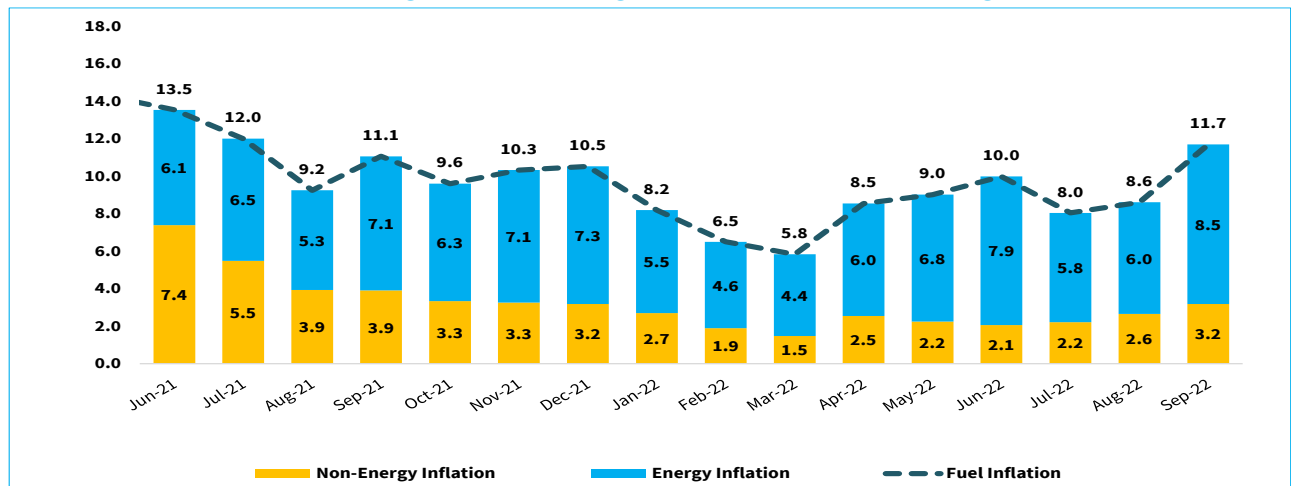
Non-food Non-fuel (NFNF) inflation remained low, increasing modestly, reflecting muted demand pressures in the economy. It increased to 3.3 percent from 2.7 percent in the previous quarter. The increase was reflected in increased prices across most categories in the NFNF basket (**Table 1.2**).

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

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

Chart 1.2: Food inflation by category (percent)

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

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

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2021	Q1	2.7	2.3	0.8	3.4	4.3	0.9	2.8	2.0	4.5	1.6	2.3	2.3
	Q2	2.4	2.2	1.2	3.9	4.3	1.4	1.9	2.3	4.1	1.8	3.2	2.5
	Q3	2.9	2.8	1.5	4.8	3.6	2.9	1.2	1.9	3.5	2.1	3.2	2.7
	Q4	3.5	2.1	1.7	4.2	1.5	2.5	1.2	1.5	0.7	0.9	2.9	2.0
2022	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Q3	4.5	2.4	2.9	10.3	1.4	0.9	3.2	1.0	4.4	0.5	4.8	3.3
	July	4.0	2.3	3.1	9.8	1.2	0.9	3.0	1.1	4.0	0.4	4.2	3.1
	Aug	4.6	2.4	2.8	10.3	1.5	0.9	3.0	0.9	4.6	0.5	4.8	3.2
	Sept	4.8	2.5	2.9	10.7	1.6	0.9	3.5	1.0	4.8	0.5	5.4	3.4

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

Chapter 2

Economic Performance

Overview

The economy recorded strong growth in the second quarter of 2022. It grew by 5.2 percent compared to 11.0 percent in a similar quarter of 2021, supported by strong performance of financial and insurance services, transport and storage, wholesale and retail trade, information and communication, real estate and construction sectors. However, the agriculture sector contracted by 2.1 percent compared to a contraction of 0.5 percent in a similar quarter of 2021 (**Table 2.1**).

Non-Agriculture

The Non-Agriculture sector supported economic growth in the second quarter of 2022. The sector grew by 7.2 percent, compared to 14.4 percent in a similar quarter of 2021, and contributed 5.8 percentage points to real GDP growth (**Table 2.1 and Chart 2.1**).

- a) Growth of the **Services sector** remained strong during the quarter under review. The sector grew by 7.7 percent compared to 15.6 percent in a similar quarter of 2021 and contributed 4.2 percentage points to real GDP growth. All service sectors realized positive growth during the second quarter of 2022.
 - **Transport and Storage sector** grew by 7.1 percent compared to 18.6 percent in a similar quarter of 2021, supported by increased activity in railway, air transport and port operations. This was reflected in increased freight movement by SGR (8.7 percent), freight movement by air (147.8 percent), cargo throughput at Mombasa port (13.6 percent), and consumption of light diesel (3.5 percent) compared to the same quarter of 2021.
 - **Financial and Insurance sector** grew by 11.6 percent compared to 17.3 percent in the same quarter of 2021. This was reflected in increased growth of credit to the private sector and money supply (M3).
 - **Wholesale and Retail Trade sector** growth remained strong at 8.2 percent compared to 9.2 percent in a similar quarter of 2021. The growth was supported by pickup in activity in related sectors.
 - **Information and Communication sector** expanded by 6.6 percent compared to 17.1 percent in a similar quarter of 2021, supported by expansion of mobile money and increased internet services. Person to person mobile money transfers and internet bandwidth increased by 14.0 percent and 31.1 percent, respectively, compared to the same quarter of 2021.
 - **Accommodation and Food Services sector** grew by 22.0 percent compared to 90.1 percent in a similar quarter of 2021, reflecting normalization of activity after Covid-19 shock. The strong growth was reflected in tourist arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) which grew by 147.1 percent compared to the same quarter of 2021.
- b) Industrial activity remained strong during the quarter. The sector grew by 5.6 percent compared to 9.2 percent in a similar quarter of 2021, and contributed 1.0 percentage points to real GDP growth (**Table 2.3**).
 - **Manufacturing sector** growth remained strong at 3.6 percent compared to 11.3 percent in a similar quarter of 2021, as activity in both food and non-food subsectors increased. Growth in the food subsector was mainly supported by increased manufacture of bakery products, and processing and preservation of meat and fish. The non-food subsector was supported by increased production of cement and assembled vehicles.
 - **Construction sector** growth was strong at 5.8 percent compared to 6.8 percent in a similar quarter of 2021, supported by ongoing public infrastructure projects. This was reflected in increased cement consumption (7.8 percent), credit to the sector (10.3 percent), and bitumen import (31.6 percent).

Agriculture

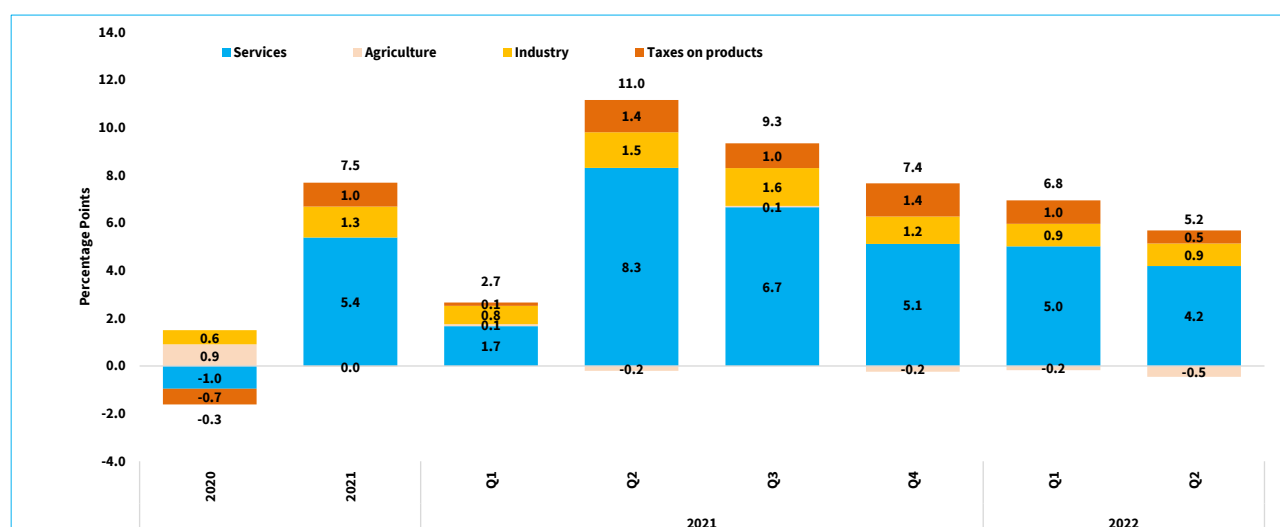
Agriculture sector growth contracted for the third consecutive quarter, as unfavourable weather conditions constrained activity in the sector. It contracted by 2.1 percent compared to a contraction of 0.5 percent in the same quarter of

2021. The subdued performance was reflected in declined production of tea, coffee and milk, and reduced exports of vegetables and cut flowers. The contribution of the sector to overall GDP growth stood at -0.4 percentage points during the quarter under review (**Table 2.1 and Chart 2.1**).

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

	Annual	2021				2022	
	2021	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	-0.2	0.4	-0.5	0.6	-1.2	-0.7	-2.1
2. Non-Agriculture (o/w)	9.4	3.2	14.4	11.1	9.2	8.7	7.2
2.1 Industry	7.2	4.3	9.2	8.8	6.6	5.5	5.6
Mining & Quarrying	18.0	10.7	10.9	16.4	34.5	23.8	22.6
Manufacturing	6.9	2.1	11.3	10.2	4.9	3.7	3.6
Electricity & water supply	5.0	3.6	7.2	6.4	2.8	1.9	5.0
Construction	6.6	6.8	6.8	6.7	6.0	6.4	5.8
2.2 Services	9.8	3.1	15.6	11.7	9.2	9.2	7.7
Wholesale & Retail Trade	7.9	7.5	9.2	6.4	8.4	8.7	8.2
Accommodation & restaurant	52.5	-33.0	90.1	127.5	118.6	56.2	22.0
Transport & Storage	7.2	-7.9	18.6	14.2	6.5	7.8	7.1
Information & Communication	8.8	10.1	17.1	4.1	5.3	6.1	6.6
Financial & Insurance	12.5	11.8	17.3	11.8	9.9	14.7	11.6
Public administration	5.6	6.8	7.6	4.8	3.3	6.4	4.2
Professional, Administration & Support Services	5.7	-13.0	18.3	13.4	8.1	14.9	11.2
Real estate	6.7	6.7	7.4	7.1	5.7	6.1	5.5
Education	21.4	11.5	31.6	28.3	18.0	6.2	6.7
Health	6.0	5.8	6.2	4.1	7.8	5.0	4.8
Other services	12.6	-8.4	28.8	17.7	16.8	10.8	6.7
FISIM	5.5	4.9	2.8	5.1	8.7	6.5	4.9
2.3 Taxes on products	11.9	1.8	18.5	12.5	15.7	11.7	7.3
Real GDP Growth	7.5	2.7	11.0	9.3	7.4	6.8	5.2

Source: Kenya National Bureau of Statistics

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

Source: Kenya National Bureau of Statistics and CBK Staff computations

Table 2.2: Gross domestic product (GDP) shares by sector (percent)

	Annual	2021				2022	
	2021	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	18.1	20.0	20.9	15.6	16.0	18.6	19.4
2. Non-Agriculture (o/w)	81.9	80.0	79.1	84.4	84.0	81.4	80.6
2.1 Industry	18.0	17.9	17.3	18.6	18.4	17.7	17.4
Mining & Quarrying	1.1	1.1	1.1	1.0	1.2	1.3	1.2
Manufacturing	8.6	8.6	8.4	8.7	8.7	8.3	8.2
Electricity & water supply	2.5	2.4	2.3	2.6	2.5	2.3	2.3
Construction	5.9	5.8	5.6	6.2	5.9	5.7	5.6
2.2 Services	55.3	53.7	53.9	57.2	56.5	55.0	55.2
Wholesale & Retail Trade	8.4	8.7	7.7	8.2	8.8	8.9	7.9
Accommodation & restaurant	0.9	0.6	0.8	0.9	1.1	0.9	0.9
Transport & Storage	9.5	8.9	9.4	10.3	9.3	9.0	9.6
Information & Communication	3.2	3.2	3.0	3.2	3.3	3.2	3.1
Financial & Insurance	8.6	8.0	8.3	8.8	9.4	8.6	8.8
Public administration	6.0	5.6	6.2	6.2	6.0	5.6	6.1
Professional, Administration & Support Services	2.6	2.4	2.5	2.7	2.7	2.6	2.6
Real estate	10.1	10.0	10.0	10.5	10.0	10.0	10.0
Education	4.9	5.1	4.4	4.9	5.0	5.1	4.5
Health	2.2	2.1	2.2	2.2	2.3	2.0	2.2
Other services	2.1	2.0	2.1	2.3	2.0	2.0	2.2
FISIM	-3.1	-2.9	-2.8	-3.1	-3.5	-2.9	-2.8
2.3 Taxes on products	8.5	8.3	7.9	8.6	9.1	8.7	8.1
Real GDP Growth	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

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

	Annual	2021				2022	
	2021	Q1	Q2	Q3	Q4	Q1	Q2
1. Agriculture	0.0	0.1	-0.1	0.1	-0.2	-0.1	-0.4
2. Non-Agriculture (o/w)	7.7	2.6	11.4	9.4	7.8	7.0	5.8
2.1 Industry	1.3	0.8	1.6	1.6	1.2	1.0	1.0
Mining & Quarrying	0.2	0.1	0.1	0.2	0.4	0.3	0.3
Manufacturing	0.6	0.2	0.9	0.9	0.4	0.3	0.3
Electricity & water supply	0.1	0.1	0.2	0.2	0.1	0.0	0.1
Construction	0.4	0.4	0.4	0.4	0.4	0.4	0.3
2.2 Services	5.4	1.7	8.4	6.7	5.2	5.1	4.2
Wholesale & Retail Trade	0.7	0.7	0.7	0.5	0.7	0.8	0.7
Accommodation & restaurant	0.5	-0.2	0.7	1.1	1.3	0.5	0.2
Transport & Storage	0.7	-0.7	1.8	1.5	0.6	0.7	0.7
Information & Communication	0.3	0.3	0.5	0.1	0.2	0.2	0.2
Financial & Insurance	1.1	0.9	1.4	1.0	0.9	1.3	1.0
Public administration	0.3	0.4	0.5	0.3	0.2	0.4	0.3
Professional, Administration & Support Services	0.1	-0.3	0.5	0.4	0.2	0.4	0.3
Real estate	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Education	1.0	0.6	1.4	1.4	0.9	0.3	0.3
Health	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Other services	0.3	-0.2	0.6	0.4	0.3	0.2	0.1
FISIM	-0.2	-0.1	-0.1	-0.2	-0.3	-0.2	-0.1
2.3 Taxes on products	1.0	0.1	1.5	1.1	1.4	1.0	0.6
Real GDP Growth	7.5	2.7	11.0	9.3	7.4	6.8	5.2

Source: Kenya National Bureau of Statistics and CBK Staff computations

Chapter 3

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Broad money supply (M3) slightly contracted by 0.3 percent in the third quarter of 2022 compared to an increase of 5.3 percent in the previous quarter, largely reflecting reduction in deposits. The decline in deposits was mainly on account of household deposits and other deposits at the Central Bank. Household deposits declined by 1.4 percent compared to an increase of 4.7 percent in the previous quarter, mainly reflected in demand deposit holdings. The decline in other deposits at the Central

Bank was on account of reduced county government deposits. The growth in corporate deposits also declined, largely recorded in time and savings, and foreign currency deposits category (**Tables 3.1 & 3.2**).

The 12-month growth in broad money supply (M3) decreased to 6.1 percent in September 2022 from 7.4 percent in June 2022, largely reflecting reduced net foreign assets of the banking system.

Table 3.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1770.8	1848.1	1796.3	1906.8	1916.1	-0.5	4.4	-2.8	6.2	0.5	-8.4	77.3	-51.8	110.5	9.2
1.1 Currency outside banks	234.4	253.5	248.1	251.4	251.7	3.8	8.1	-2.1	1.3	0.1	8.5	19.1	-5.4	3.3	0.3
1.2 Demand deposits	1430.2	1498.4	1477.4	1552.2	1582.5	1.4	4.8	-1.4	5.1	2.0	20.2	68.2	-21.0	74.8	30.3
1.3 Other deposits at CBK 1/	106.4	96.3	71.1	103.5	82.1	-25.8	-9.5	-26.2	45.5	-20.7	-37.1	-10.1	-25.3	32.4	-21.4
2. Money supply, M2 (1+2.1)	3408.1	3431.6	3410.2	3551.5	3553.4	0.9	0.7	-0.6	4.1	0.1	30.7	23.4	-21.4	141.4	1.9
2.1 Time and saving deposits	1637.3	1583.5	1613.8	1644.7	1637.4	2.4	-3.3	1.9	1.9	-0.4	39.1	-53.9	30.4	30.8	-7.3
3. Money supply, M3 (2+3.1)	4177.7	4235.2	4221.2	4443.0	4430.4	1.0	1.4	-0.3	5.3	-0.3	39.8	57.6	-14.0	221.8	-12.6
3.1 Foreign Currency Deposits	769.5	803.7	811.1	891.5	877.0	1.2	4.4	0.9	9.9	-1.6	9.2	34.1	7.4	80.4	-14.5
Sources of M3															
1. Net foreign assets 2/	661.9	590.1	428.1	456.8	294.6	-15.6	-10.8	-27.5	6.7	-35.5	-121.9	-71.8	-162.0	28.7	-162.3
Central Bank	760.8	700.6	600.8	641.5	568.8	-9.0	-7.9	-14.2	6.8	-11.3	-75.0	-60.2	-99.8	40.7	-72.7
Banking Institutions	-98.9	-110.5	-172.7	-184.7	-274.3	90.1	11.7	56.3	6.9	48.5	-46.9	-11.6	-62.2	-12.0	-89.6
2. Net domestic assets (2.1+2.2)	3515.8	3645.1	3793.1	3986.2	4135.9	4.8	3.7	4.1	5.1	3.8	161.8	129.3	148.0	193.0	149.7
2.1 Domestic credit	4590.2	4823.0	5022.6	5185.8	5340.6	4.5	5.1	3.0	3.2	3.0	197.7	232.8	145.7	163.1	154.8
2.1.1 Government (net)	1530.1	1669.7	1758.3	1844.8	1898.8	8.8	9.1	2.0	4.9	2.9	123.1	139.6	34.7	86.5	54.0
2.1.2 Private sector	2979.3	3053.2	3177.3	3256.9	3362.5	2.7	2.5	4.1	2.5	3.2	78.2	73.9	124.1	79.6	105.6
2.1.3 Other public sector	80.8	100.1	87.1	84.1	79.3	-4.3	23.9	-13.0	-3.4	-5.7	-3.6	19.3	-13.1	-3.0	-4.8
2.2 Other assets net	-1074.4	-1177.9	-1229.5	-1199.6	-1204.7	3.5	9.6	-0.2	-2.4	0.4	-35.9	-103.5	2.3	29.9	-5.1
Memorandum items															
4. Overall liquidity, L (3+4.1)	6073.2	6202.3	6303.4	6629.8	6694.5	2.9	2.1	1.6	5.2	1.0	174.8	128.1	101.0	326.5	64.7
4.1 Non-bank holdings of government securities	1895.5	1967.1	2082.1	2186.8	2264.1	7.6	3.8	5.8	5.0	3.5	134.9	70.5	115.0	104.7	77.2

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Table 3.2: Deposit holdings of corporates and household sectors

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
1. Household Sector 1/	1765	1733	1812	1896	1869	1.6	-1.8	4.5	4.7	-1.4	27.2	-32.7	78.8	84.7	-27.0
1.1 Demand Deposits	581	571	634	702	651	-0.5	-1.6	11.0	10.6	-7.3	-2.7	-9.6	63.1	67.2	-50.9
1.2 Time and Saving Deposits	904	876	887	900	919	2.5	-3.0	1.3	1.4	2.1	22.1	-27.5	11.2	12.7	18.9
1.3 Foreign Currency Deposits	281	285	290	295	300	2.8	1.6	1.6	1.6	1.7	7.7	4.4	4.5	4.8	5.0
2. Corporate Sector	2013	2100	2026	2125	2157	1.9	4.3	-3.5	4.9	1.5	37.0	87.0	-73.9	99.1	31.9
2.1 Demand deposits	820	904	810	819	896	2.5	10.2	-10.4	1.1	9.4	20.3	84.0	-93.8	8.6	76.9
2.2 Time and Saving Deposits	706	679	696	714	686	2.3	-3.8	2.5	2.6	-4.0	16.0	-27.0	17.2	18.1	-28.3
2.3 Foreign Currency Deposits	487	516	519	592	575	0.4	5.9	0.6	13.9	-2.8	1.7	28.9	3.3	72.5	-16.8

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

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the decline in broad money supply, M3, in the third quarter of 2022 was the contraction in net foreign assets of the banking system which more than offset the increase in the net domestic assets. The decline in net foreign asset, partly reflected a reduction in reserves at the Central Bank due to scheduled debt service, and the increase in commercial bank's borrowing from foreign sources. Growth in net domestic assets of the banking system was partly supported by growth in private sector credit (**Table 3.1**).

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system moderated slightly to 3.0 percent in the third quarter of 2022 from 3.2 percent in the previous quarter, largely reflecting a decline in net

lending to government. Lending to other public sector also declined, mainly due to repayments by county governments and parastatals (**Table 3.3**).

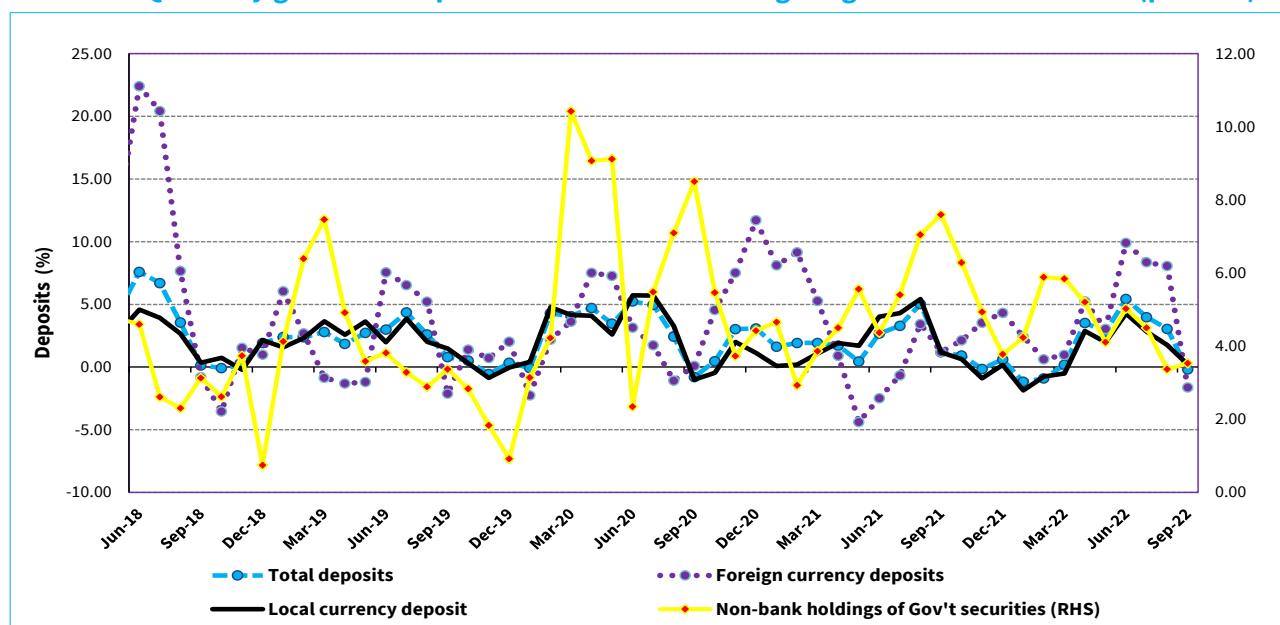
Growth in credit extended to the private sector increased to 3.2 percent in the third quarter of 2022 compared to 2.5 percent in the previous quarter. Credit growth remained positive in most of the economic sectors, with strong growth registered in manufacturing, trade, transport and communication, and consumer durables (**Table 3.3**).

The 12-month growth in private sector credit increased to 12.9 percent in September 2022 from 12.3 percent in June 2022, partly reflecting recovery in economic activities and increased demand for working capital arising from higher input costs (**Chart 3.1**).

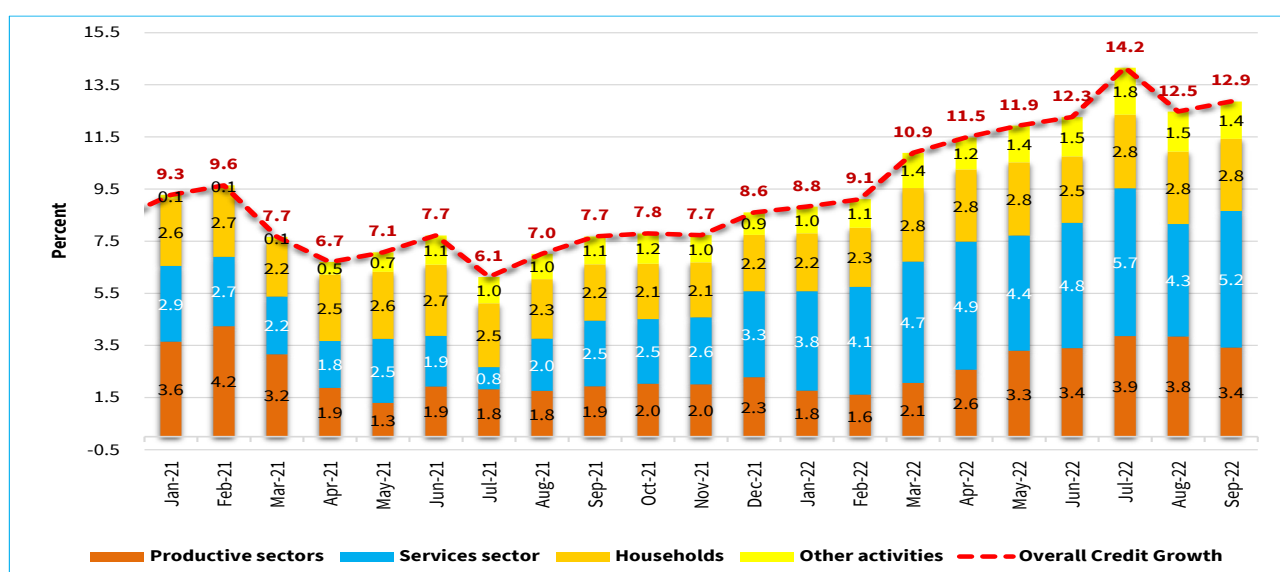
Table 3.3: Banking sector net domestic credit

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
1. Credit to Government	1,584.5	1,723.6	1,758.3	1,844.8	1,898.8	8.5	8.8	2.0	4.9	2.9	124.3	139.1	34.7	86.5	54.0
Central Bank	-17.7	67.4	86.8	148.3	189.9	64.8	480.8	28.7	70.9	28.0	32.6	85.1	19.4	61.6	41.6
Commercial Banks & NBFIs	1,602.2	1,656.1	1,671.5	1,696.4	1,708.9	6.1	3.4	0.9	1.5	0.7	91.7	53.9	15.4	24.9	12.4
2. Credit to other public sector	80.8	100.1	87.1	84.1	79.3	-4.3	23.9	-13.0	-3.4	-5.7	-3.6	19.3	-13.1	-3.0	-4.8
Local government	6.6	18.3	6.8	5.8	5.3	0.0	177.3	-62.9	-14.2	-9.7	0.0	11.7	-11.5	-1.0	-0.6
Parastatals	74.2	81.9	80.3	78.3	74.1	-4.6	10.4	-1.9	-2.5	-5.4	-3.6	7.7	-1.6	-2.0	-4.2
3. Credit to private sector	2,979.3	3,053.2	3,177.3	3,256.9	3,362.5	2.7	2.5	4.1	2.5	3.2	78.2	73.9	124.1	79.6	105.6
Agriculture	94.2	93.9	101.8	102.8	110.3	3.2	-0.3	8.5	0.9	7.3	2.9	-0.3	8.0	0.9	7.5
Manufacturing	445.0	463.0	471.8	494.6	508.0	3.6	4.0	1.9	4.8	2.7	15.6	18.0	8.8	22.8	13.5
Trade	509.1	526.5	542.9	556.8	592.4	2.1	3.4	3.1	2.6	6.4	10.3	17.4	16.4	13.9	35.6
Building and construction	119.8	121.9	129.8	132.8	134.8	2.8	1.8	6.5	2.3	1.5	3.3	2.1	7.9	3.0	2.0
Transport & communications	238.2	242.3	271.5	274.1	289.5	6.1	1.7	12.0	1.0	5.6	13.8	4.1	29.2	2.6	15.4
Finance & insurance	110.6	109.7	113.4	113.7	110.9	3.6	-0.8	3.4	0.3	-2.5	3.8	-0.9	3.7	0.3	-2.9
Real estate	413.4	409.4	410.0	414.0	413.7	0.4	-1.0	0.2	1.0	-0.1	1.6	-4.0	0.6	4.0	-0.3
Mining and quarrying	13.2	17.2	12.7	16.3	20.8	3.9	30.3	-26.2	28.3	27.1	0.5	4.0	-4.5	3.6	4.4
Private households	465.9	472.5	486.6	485.6	502.0	1.8	1.4	3.0	-0.2	3.4	8.2	6.6	14.1	-1.0	16.4
Consumer durables	321.6	335.0	346.8	358.5	367.9	2.8	4.2	3.5	3.4	2.6	8.9	13.4	11.9	11.7	9.4
Business services	168.7	175.4	187.1	187.1	189.8	3.9	4.0	6.7	0.0	1.4	6.3	6.7	11.7	0.0	2.7
Other activities	79.6	86.5	102.9	120.6	122.4	3.8	8.7	19.0	17.3	1.5	2.9	6.9	16.4	17.8	1.8
4. TOTAL (1+2+3)	4,644.6	4,876.9	5,022.6	5,185.8	5,340.6	4.5	5.0	3.0	3.2	3.0	198.8	232.3	145.7	163.1	154.8

Source: Central Bank of Kenya

Chart 3.1: Quarterly growth in deposit and non-bank holdings of government securities (percent)

Source: Central Bank of Kenya

Chart 3.2: Contribution to overall credit growth by activity group (percentage points)

Source: Central Bank of Kenya

Reserve Money

Growth in reserve money moderated to 6.9 percent in the third quarter of 2022 from a growth of 8.3 percent in the previous quarter, mainly due to

decrease in the net foreign assets of the Central Bank which partly offset the increase in net domestic assets. Decrease in net foreign assets, largely reflect scheduled debt service, while the increase in net domestic assets is mainly due to net lending to commercial banks (Table 3.4).

Table 3.4: Reserve money

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Sources of Reserve Money															
1. Net Foreign Assets	760.8	700.6	600.8	641.5	568.8	-9.0	-7.9	-14.2	6.8	-11.3	-75.0	-60.2	-99.8	40.7	-72.7
2. Net Domestic Assets	-282.0	-179.0	-121.5	-122.6	-14.0	-27.0	-36.5	-32.1	0.9	-88.5	104.1	103.0	57.5	-1.1	108.5
2.1 Government Borrowing (net)	-17.7	67.4	86.8	148.3	189.9	-64.7	-480.0	28.7	70.9	28.0	32.5	85.2	19.4	61.6	41.6
2.2 Commercial banks (net)	48.5	76.4	89.1	69.8	121.2	-893.3	57.6	16.6	-21.7	73.7	54.6	27.9	12.7	-19.3	51.4
2.3 Other Domestic Assets (net)	-315.9	-326.1	-301.0	-344.5	-329.0	-5.1	3.2	-7.7	14.4	-4.5	16.9	-10.2	25.1	-43.5	15.5
Components of Reserve Money															
3. Reserve Money	478.8	521.6	479.3	518.9	554.8	6.5	8.9	-8.1	8.3	6.9	29.0	42.8	-42.3	39.6	35.9
3.1 Currency outside banks	234.4	253.5	248.1	251.4	251.7	3.8	8.1	-2.1	1.3	0.1	8.5	19.1	-5.4	3.3	0.3
3.2 Bank reserves	244.4	268.1	231.2	267.5	303.0	9.2	9.7	-13.8	15.7	13.3	20.5	23.7	-36.9	36.3	35.5

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) in September 2022 raised the Central Bank Rate (CBR) from 7.50 percent to 8.25 percent in order to anchor inflation expectations. The MPC noted the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy and concluded that there was scope for a tightening of the monetary policy. In the July MPC meeting, the Committee had retained the CBR rate at 7.50 percent noting that its action of tightening monetary policy in May 2022 was timely in anticipating emerging inflationary pressures, and the impact of the May action was still transmitting through the economy.

b. Short Term Rates

The average interbank interest rates declined to

4.36 percent in September 2022 from 5.06 percent in June 2022, partly reflecting improved liquidity conditions in the money markets following seasonal increased government payments towards the end of the fiscal year. The average 91-day Treasury bill rate increased to 8.92 percent from 7.90 percent in June, while the average 182-day Treasury bill rate increased to 9.60 percent from 9.07 percent (Table 3.5).

c. Lending and Deposit Rates

Commercial banks average lending rate increased slightly in the third quarter of 2022, partly reflecting the monetary policy stance. The weighted average lending rate increased marginally to 12.41 percent in September 2022 from 12.27 percent in June 2022 while the weighted average deposit rate increased to 6.82 percent from 6.62 percent in June 2022. Consequently, the spread declined to 5.59 percent in the third quarter (Table 3.5).

Table 3.5: Interest rates (percent)

	2021					2022								
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
91-day Treasury bill rate	6.57	6.83	6.95	7.10	7.26	7.32	7.28	7.25	7.39	7.65	7.90	8.21	8.58	8.92
182-day Treasury bill rate	7.07	7.25	7.36	7.66	7.95	8.08	8.09	8.08	8.27	8.69	9.07	9.29	9.45	9.60
Interbank rate	3.10	4.73	5.30	4.97	5.10	4.36	4.73	4.72	4.67	4.60	5.06	5.50	5.35	4.36
Repo rate	5.41	5.54	6.40	5.03	5.31	5.09	-	-	5.00	6.38	6.80	7.24	-	-
Reverse Repo rate	-	7.62	7.45	-	8.37	8.51	8.46	8.54	8.78	8.16	8.44	8.59	9.21	9.63
Central Bank Rate (CBR)	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	7.50	7.50	8.25
Average lending rate (1)	12.12	12.10	12.12	12.15	12.16	12.12	12.17	12.15	12.20	12.22	12.27	12.35	12.43	12.41
Overdraft rate	11.38	11.34	11.33	11.41	11.48	11.57	11.63	11.50	11.69	11.76	11.86	12.02	12.10	11.99
1-5years	12.29	12.29	12.29	12.34	12.33	12.34	12.32	12.39	12.41	12.43	12.48	12.56	12.67	12.66
Over 5years	12.24	12.21	12.25	12.23	12.24	12.12	12.24	12.17	12.20	12.18	12.23	12.27	12.35	12.33
Average deposit rate (2)	6.30	6.34	6.39	6.43	6.50	6.53	6.61	6.50	6.58	6.59	6.62	6.74	6.93	6.82
0-3months	6.59	6.61	6.64	6.76	6.91	6.95	7.10	6.89	6.95	6.92	6.96	7.13	7.30	7.18
Over 3 months deposit	7.03	7.04	7.15	7.16	7.19	7.19	7.23	7.25	7.30	7.36	7.39	7.45	7.52	7.40
Savings deposits	2.64	2.57	2.58	2.60	2.55	2.55	2.56	2.48	2.56	2.52	2.50	2.94	3.46	3.44
Spread (1-2)	5.82	5.76	5.72	5.72	5.66	5.59	5.55	5.65	5.62	5.62	5.66	5.61	5.50	5.59

Source: Central Bank of Kenya

Chapter 4

Global Economy

According to the IMF World Economic Outlook (WEO) October 2022 update, the global economy is expected to grow by 1.7 percent in the fourth quarter of 2022 and 2.7 percent in the fourth quarter of 2023. Annual global output growth is expected to slow down to 3.2 percent in 2022 and moderate to 2.7 percent in 2023, down from 6.0 percent in 2021. The growth forecast for 2023 is lower by 0.2 percentage points than in the July WEO update. This reflects significant weakness in the economic activities in the US, Euro Area and China, due to ongoing war in Ukraine, lingering inflation pressures, subdued external demand and prolonged COVID-19 infections.

Advanced economies are expected to grow by 0.9 percent and 1.3 percent in the fourth quarters of 2022 and 2023, respectively. Growth in the advanced economies is projected at 2.4 percent in 2022 and is expected to moderate to 1.1 percent in 2023, reflecting weaker economic activity in the first two quarters of 2022 combined with slow growth in private consumption on account of monetary policy tightening arising from elevated inflation.

Growth in Emerging Market and Developing Economies (EMDEs) is projected at 2.5 percent in the fourth quarter of 2022 and 3.9 percent in the fourth quarter of 2023. On an annual basis, growth of EMDEs is expected at 3.6 percent in 2022, largely affected by limited fiscal space and dependence on energy and food imports for basic consumption. The growth is anticipated to improve in 2023 to 3.9 percent. Growth in China is expected at 4.3 percent in 2022, a downgrade of 0.2 percentage points from the July 2022 WEO update, reflecting weaker demand due to increased COVID-19 outbreaks and lockdowns as well as the worsening property market crisis. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.8 percent in 2022 and 4.0 percent in 2023. Nigeria and South Africa are expected to be the key drivers of growth in sub-Saharan Africa (**Table 4.1**).

As inflationary pressures continue to mount across major economies and monetary policy is tightened more, financial market volatility is anticipated to stay high. Inflation in the US reached one of its highest levels in about 40 years, with September prices up 8.2 percent higher than a year ago. In the Eurozone, inflation reached 10 percent in September, while the United Kingdom registered an annual inflation of 9.9 percent. Emerging market and developing economies are estimated to have seen inflation of 10.1 percent in the second quarter of 2022 and it is expected to peak to 11.0 percent in the third quarter. Global trade volumes are expected to increase by 4.3 percent in 2022 and slow to 2.5 percent in 2023, the slowdown, which is 0.7 percentage point steeper than that projected for 2023 in the July WEO Update, mainly reflects the decline in global output growth and supply chain constraints.

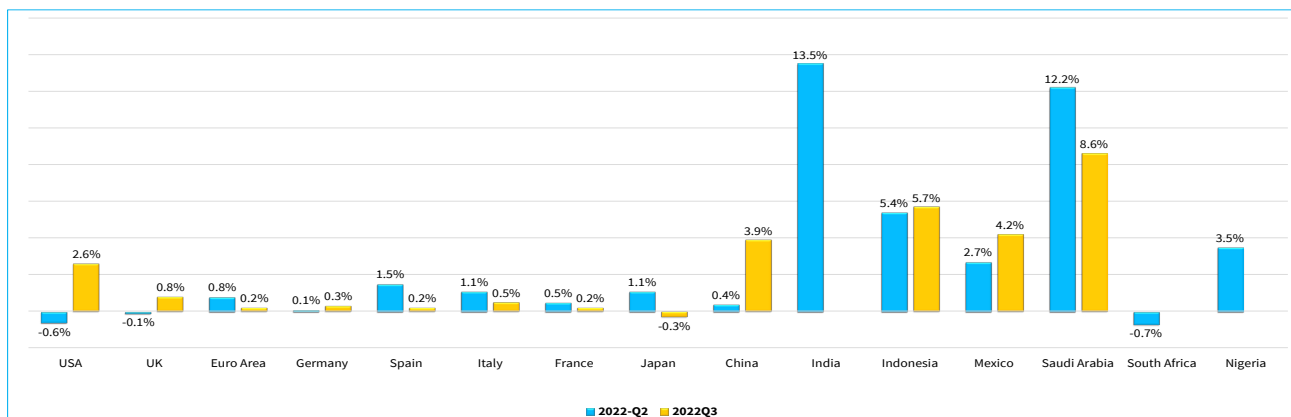
Oil prices are expected to average USD 98.2 in 2022, on account of increased supply disruptions caused by significant declines in Russia's oil exports. Metal prices declined in 2022 attributed to new COVID-19 lockdowns in China, supply chain issues, and monetary policy tightening in the US and elsewhere which have depressed both demand for metals and expectations about future demand.

According to official sources, preliminary GDP figures released for the third quarter of 2022, the US economy grew by an estimated 2.6 percent, while China and Germany economies rose by 3.9 percent and 0.3 percent, respectively. GDP projections, however, reflect a slower rate of growth for the Euro Area (0.2 percent), Italy (0.5percent), Spain (0.2 percent), France (0.2 percent), (**Chart 4.1**). Overall, downside risks to the global outlook remain elevated as the world grapples with the aftermath of Russia's invasion of Ukraine, a slowdown in economic growth as central banks ramp up measures to combat inflation, and the lingering pandemic. Higher inflation would also need more stringent monetary tightening by central banks.

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

	Annual Year over Year			Quarterly Q4 Over Q4	
	Actual	Projections		Projections	
	2021	2022	2023	2022	2023
World Output	6.0	3.2	2.7	-0.8	-0.8
Advanced Economies	5.2	2.4	1.1	-1.6	-0.7
United States	5.7	2.4	1.1	-2.8	-0.7
Euro Area	5.2	3.1	0.5	-0.8	-0.9
Germany	2.6	1.5	-0.3	-1.8	-2.0
France	6.8	2.5	0.7	-0.5	-0.6
Italy	6.7	3.2	-0.2	0.1	-1.7
Spain	5.1	4.3	1.2	-1.0	-2.0
Japan	1.7	1.7	1.6	-1.4	0.1
United Kingdom	7.4	3.6	0.3	-0.1	-1.3
Canada	4.5	3.3	1.5	-1.3	-0.9
Emerging Market and Developing Economies	6.6	3.7	3.7	0.0	-1.0
China	8.1	3.2	4.4	0.6	-2.2
India	8.7	6.8	6.1	-1.3	0.7
Russia	4.7	-3.4	-2.3	6.5	-2.3
Latin America and the Caribbean	6.9	3.5	1.7	0.5	-0.3
Brazil	4.6	2.8	1.0	-0.9	-0.7
Mexico	4.8	2.1	1.2	-0.9	-0.7
Middle East and Central Asia	4.5	5.0	3.6
Saudi Arabia	3.2	7.6	3.7	-2.4	0.1
Sub-Saharan Africa	4.6	3.6	3.7
Nigeria	3.6	3.2	3.0	0.0	0.0
South Africa	4.9	2.1	1.1	-0.2	0.1
World Trade Volume (goods and services)	10.1	4.3	2.5
Commodity Oil Prices (US dollars)	65.9	41.4	-12.9	-12.9	3.3
Consumer Prices	4.7	8.8	6.5	2.4	0.8
Advanced Economies	3.1	7.2	4.4	2.7	0.9
Emerging Market and Developing Economies	5.9	9.9	8.1	2.1	0.8

Source: IMF, World Economic Outlook, July 2022 updates

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

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

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account balance is estimated to have narrowed to USD 1,531 million in the third quarter of 2022 from USD 1,714 million in the third quarter of 2021, reflecting increased receipts from both services as well as merchandise goods amid

sustained growth in imports. Secondary income inflows were resilient despite a decline of USD 32 million to USD 1,570 million in the third quarter of 2022 from USD 1,602 million in a similar quarter in 2021 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2021		2022*						Q3 2022-Q3 2021	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep					%
	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3	Change	Change
1. Overall Balance	271	372	1,059	-60	463	402	83	948	676	249
2. Current account	-1,714	-1,557	-1,270	-1,663	-499	-668	-364	-1,531	183	-11
Exports (fob)	1,614	1,708	1,828	1,962	642	614	656	1,912	297	18
Imports (fob)	4,561	5,065	4,724	5,128	1,645	1,832	1,564	5,041	480	11
Services: credit	1,152	1,707	1,768	1,639	571	596	579	1,746	594	52
Services: debit	1,042	1,187	1,269	1,295	422	441	419	1,283	241	23
Balance on goods and services	-2,837	-2,837	-2,398	-2,821	-854	-1,063	-750	-2,667	170	-6
Primary income: credit	31	29	21	23	7	7	8	22	-9	-30
Primary income: debit	463	433	498	430	149	147	145	440	-23	-5
Balance on goods, services and primary income	-3,268	-3,241	-2,876	-3,228	-996	-1,202	-887	-3,085	184	-6
Secondary income : credit	1,602	1,701	1,622	1,586	502	539	528	1,570	-32	-2
o.w Remittances	979	1,015	1,024	1,028	325	314	320	959	-20	-2
Secondary income: debit	47	17	17	20	5	5	5	16	-31	-66
3. Capital Account	35	19	72	69	0	3	3	6	-29	-82
4. Financial Account	-1,654	-1,177	-1,004	-1,805	-960	-576	-1,316	-2,852	-1,198	72

* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The trade balance is estimated to have widened by 6 percent from a deficit of USD 2,946 million in the third quarter of 2021 to a deficit of USD 3,129 million in the third quarter of 2022, attributed to an increase in imports especially of petroleum products (**Table 5.1**). Despite a fall in horticulture receipts, the value of merchandise exports increased to USD 1,912 million in the third quarter of 2022 from USD 1,614 million in the same period in 2021, owing mostly to increased earnings from tea, chemicals, re-exports, and manufactured products. Tea exports increased by 33 percent in the third quarter of 2022 compared to a similar period in 2021 owing to improved tea prices reflecting increased demand from Kenya's

traditional markets. Exports of manufactured goods also increased by 33 percent in the period under review. However, earnings from horticulture declined by 15 percent. The value of merchandise imports increased by 11 percent to USD 5,041 million in the third quarter of 2022, from USD 4,561 million in a similar quarter in 2021, largely due to increased imports of petroleum products owing to high international crude oil prices. Net receipts on the services account increased by USD 353 million to USD 463 million from USD 110 million in the third quarter of 2021. Receipts from transport and travel services improved by USD 186 million and USD 87 million, respectively, as international travel continued to improve (**Table 5.2**).

Table 5.2: Balance on current account (USD Million)

ITEM	2021				2022*							Q3 2022-Q3 2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep			Q3			
	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Jul-Sep	Change	Change	
CURRENT ACCOUNT	-1,294	-1,462	-1,714	-1,557	-1,270	-1,663	-499	-668	-364	-1,531	183	-11	
Goods	-2,618	-2,519	-2,946	-3,357	-2,897	-3,166	-1,003	-1,218	-909	-3,129	-183	6	
Exports (fob)	1,739	1,668	1,614	1,708	1,828	1,962	642	614	656	1,912	297	18	
o.w Coffee	75	73	50	50	88	113	34	22	21	77	27	54	
Tea	326	299	253	314	347	346	114	106	118	337	84	33	
Horticulture	334	289	255	250	264	257	77	70	69	216	-39	-15	
Oil products	11	13	17	14	17	19	5	8	21	34	17	104	
Manufactured Goods	111	131	130	140	124	167	55	50	67	172	42	33	
Raw Materials	115	96	103	120	116	144	24	51	43	118	15	15	
Chemicals and Related Products (n.e.s)	116	126	147	132	127	157	61	52	62	174	27	18	
Miscellaneous Man. Articles	146	181	179	169	163	174	71	59	65	195	16	9	
Re-exports	193	149	145	213	220	210	62	91	76	229	85	59	
Other	316	301	321	345	359	357	135	102	110	347	27	8	
Imports (fob)	4,357	4,187	4,561	5,065	4,724	5,128	1,645	1,832	1,564	5,041	480	11	
o.w Oil	715	778	920	1,061	1,137	1,568	570	606	479	1,655	735	80	
Chemicals	772	750	740	842	906	815	272	318	275	865	126	17	
Manufactured Goods	910	879	967	889	954	937	294	304	257	856	-111	-12	
Machinery & Transport Equipment	1,074	1,004	1,138	1,437	1,010	972	304	304	280	888	-250	-22	
Machinery	698	644	735	765	671	671	214	186	0	400	-335	-46	
Transport equipment	376	360	403	672	290	335	90	94	0	184	-219	-54	
Other	1,027	901	1,012	1,004	936	1,221	291	425	377	1,093	80	8	
o.w Food	478	434	463	484	450	533	189	201	0	391	-72	-16	
Services	80	30	110	520	499	345	149	155	159	463	353	322	
Transport Services (net)	-10	-84	-83	19	-16	-120	-16	-22	-37	-75	8	-10	
Credit	338	259	336	548	603	506	180	186	156	522	186	55	
Debit	349	344	418	529	619	625	196	208	193	597	178	43	
Travel Services (net)	139	174	181	216	197	242	75	88	98	261	80	44	
Credit	168	206	215	254	232	277	89	101	111	302	87	40	
Debit	28	32	34	39	35	36	14	13	13	41	7	21	
Other Services (net)	-49	-60	11	286	317	223	89	90	97	276	266	2,445	
Primary Income	-169	-483	-432	-404	-478	-407	-142	-139	-137	-418	13	-3	
Credit	30	38	31	29	21	23	7	7	8	22	-9	-30	
Debit	200	521	463	433	498	430	149	147	145	440	-23	-5	
Secondary Income	1,413	1,509	1,554	1,684	1,605	1,566	497	534	522	1,554	0	0	
Credit	1,425	1,544	1,602	1,701	1,622	1,586	502	539	528	1,570	-32	-2	
Debit	12	34	47	17	17	20	5	5	5	16	-31	-66	

*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance narrowed by USD 13 million to a deficit of USD 418 million in the third quarter of 2022, down from a deficit of USD 431 million in the same period last year, reflecting lower interest related payments on other investments. The secondary income balance remained unchanged at 1,554 million in the third quarter of 2022. Remittances declined by 2 percent to USD 959 million in the third quarter of 2022 from USD 979 million in the same period in the previous year (**Table 5.1 and 5.2**).

Direction of Trade

Imports from China accounted for 19 percent of total imports to Kenya making it the largest single source of imports, reflecting a 22 percent increase compared to the same quarter in 2021. Imports from the UAE rose by USD 694 million, while those from Africa rose by USD 101 million to USD 629 million in the third quarter of 2022, reflecting increased imports from South Africa (**Table 5.3**).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)									Share of Imports (%)	
	2021*		2022*							
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep					
Country	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3	Q3 2021	Q3 2022
Africa	528	569	577	553	229	198	202	629	12	12
Of which				0						
South Africa	100	97	156	112	77	25	36	139	2	3
Egypt	108	115	99	97	34	28	31	93	2	2
Others	319	357	322	344	118	144	135	398	7	8
								0	0	0
EAC	238	226	180	219	78	74	67	219	5	4
COMESA	244	292	252	266	88	93	84	265	5	5
Rest of the World	4,033	4,495	4,147	4,574	1,416	1,634	1,362	4,412	88	88
Of which										
India	707	561	546	758	146	157	137	441	16	9
United Arab Emirates	238	502	634	908	277	392	262	932	5	18
Japan	284	245	223	223	60	78	64	203	6	4
USA	240	195	214	190	79	57	56	192	5	4
United Kingdom	72	79	80	71	21	33	36	90	2	2
Singapore	13	56	16	12	6	11	13	30	0	1
Germany	129	70	67	74	20	17	53	90	3	2
Saudi Arabia	229	316	325	348	21	18	152	191	5	4
Indonesia	87	75	50	31	14	39	25	78	2	2
Netherlands	91	97	49	44	78	38	25	141	2	3
France	57	44	40	47	13	19	14	47	1	1
Bahrain	6	8	42	2	1	0	3	4	0	0
Italy	70	43	46	77	17	12	13	43	2	1
Others	1,811	2,203	1,814	1,790	662	761	508	1,931	40	38
Total	4,561	5,065	4,724	5,128	1,645	1,832	1,564	5,041	100	100
EU	678	514	446	447	224	181	184	588	15	12
China	1,008	1,095	987	993	330	358	269	957	22	19

*Provisional

Source: Kenya Revenue Authority

The value of goods exported to Africa in the third quarter of 2022 was USD 807 million, accounting for 42 percent of total exports. Exports to EAC region rose mainly due to increased exports to Rwanda, Uganda South Sudan, and Tanzania. The share of exports to

the EU was 19 percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 7 percent, 5 percent, 11 percent, and 7 percent, respectively (**Table 5.4**).

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)										Share of Exports (%)	
	2021			2022*							
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep					
Country	Q2	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3	Q3 2021	Q3 2022
Africa	731	667	738	721	759	285	243	278	807	41	42
Of which											
Uganda	217	172	234	181	207	82	73	80	235	11	12
Tanzania	82	118	130	123	113	38	43	43	124	7	6
Egypt	44	40	50	65	61	21	15	19	55	2	3
Sudan	22	18	8	18	15	6	3	8	17	1	1
South Sudan	35	34	36	58	50	19	10	12	41	2	2
Somalia	31	36	30	30	26	15	8	16	38	2	2
DRC	117	39	34	34	37	11	11	14	36	2	2
Rwanda	61	66	97	67	93	41	33	33	108	4	6
Others	122	143	120	144	157	53	48	54	154	9	8
EAC	410	412	512	442	481	185	165	181	531	26	28
COMESA	554	446	502	460	525	195	165	191	550	28	29
Rest of the World	937	948	970	1,107	1,203	357	371	377	1,105	59	58
Of which											
United Kingdom	108	97	108	114	93	32	29	27	87	6	5
Netherlands	141	125	138	162	150	44	41	44	130	8	7
USA	126	158	135	135	215	63	64	75	201	10	11
Pakistan	110	102	145	148	124	36	42	50	128	6	7
United Arab Emirates	63	73	83	91	115	32	32	29	93	5	5
Germany	24	28	28	37	35	12	11	13	36	2	2
India	15	23	20	16	17	6	5	8	19	1	1
Afghanistan	1	1	2	6	9	1	1	2	4	0	0
Others	350	340	311	397	445	131	146	130	407	21	21
Total	1,668	1,614	1,708	1,828	1,962	642	614	656	1,912	100	100
EU	370	347	359	414	395	128	116	119	363	22	19
China	44	37	60	53	68	13	32	11	56	2	3

*Provisional

Source: Kenya Revenue Authority

Capital and Financial Account

Net capital account inflows were USD 6 million in the third quarter of 2022. Net financial account inflows were higher at USD 2,852 million in the third quarter

of 2022, compared to net inflows of USD 1,654 million in the third quarter of 2021 (**Table 5.5**). This largely reflects an increase in other investments inflows.

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

	2021			2022*						Q3 2022-Q3 2021	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep				Absolute	%
	Q2	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3	Change	Change
Capital account credit	68	35	19	72	69	0	3	3	6	-29	-82
Capital account credit	68	35	19	72	69	0	3	3	6	-29	-82
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0
Financial Account	-3,113	-1,654	-1,177	-1,004	-1,805	-960	-576	-1,316	-2,852	-1,198	72
Direct investment: assets	475	1	-7	95	-6	0	-2	-2	-3	-4	-705
Direct investment: liabilities	88	161	195	169	153	52	54	56	162	1	1
Portfolio investment: assets	282	269	262	206	150	19	11	63	92	-178	-66
Portfolio investment: liabilities	1,107	40	-68	25	-89	-24	-12	-18	-54	-94	-234
Financial derivatives: net	-13	-10	-14	-10	-5	-5	1	-4	-9	1	-11
Other investment: assets	-332	-286	316	-528	-56	-129	-95	-292	-516	-230	80
Other investment: liabilities	2,330	1,428	1,608	573	1,823	815	450	1,043	2,308	880	62

* Provisional

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings decreased to USD 11,337 million at the end of the third quarter of 2022 from USD 14,089 million in a similar period in 2021. The official reserves held by the Central Bank constituted the bulk of the

gross reserves and decreased to USD 7,788 million, equivalent to 4.4 months of import cover, while Commercial Bank reserves decreased by USD 907 million to end at USD 3,550 million at the end of third quarter of 2022 (**Table 5.6**).

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

	2021			Jan-Mar	2022			
	Apr-Jun	Jul-Sep	Oct-Dec		Jul-Sep			
	Q2	Q3	Q4		Jul	Aug	Sep	Q3
1. Gross Reserves	14,741	14,089	14,199	12,590	12,222	11,725	11,337	11,337
of which:								
Official	9,957	9,632	9,491	8,432	8,268	7,870	7,788	7,788
import cover*	6.1	5.9	5.6	4.9	4.7	4.4	4.4	4.4
Commercial Banks	4,784	4,457	4,708	4,158	3,955	3,855	3,550	3,550
2. Residents' foreign currency deposits	7,223	7,144	7,277	7,311	7,924	7,896	7,630	7,630

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

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling exchange rate was stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 9.4 percent against the US Dollar to exchange at an average of 119.4 in the

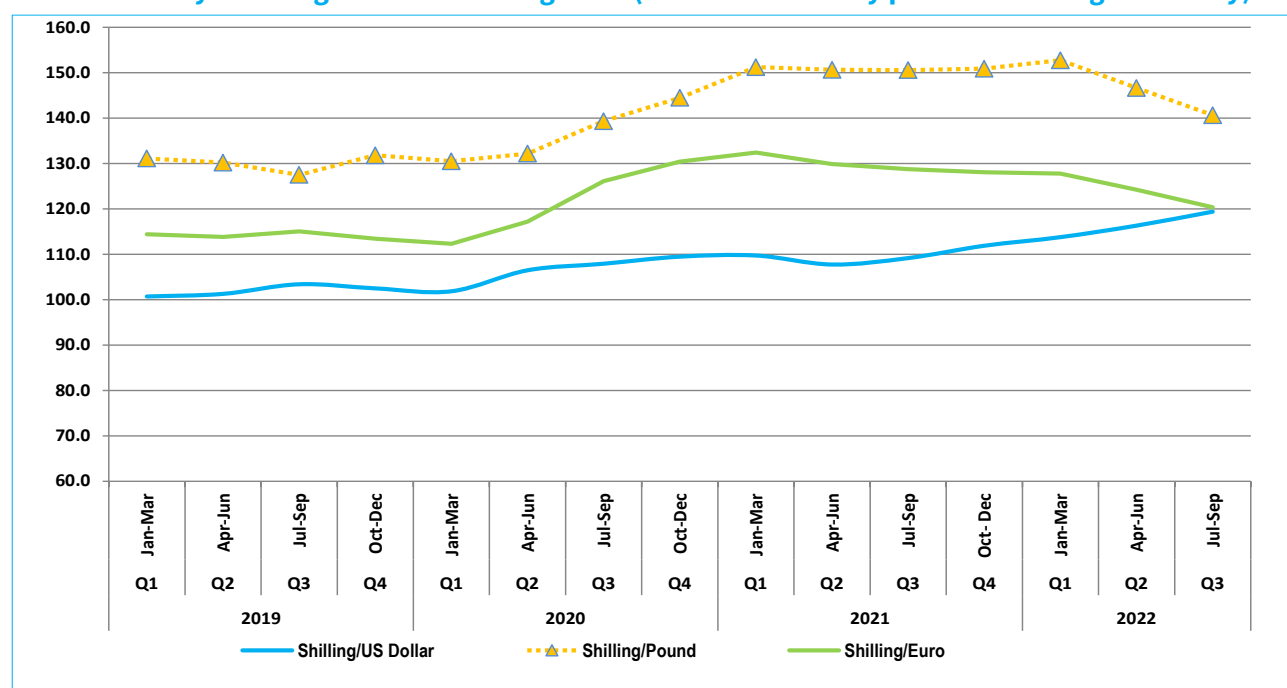
third quarter of 2022 compared with 109.2 in a similar quarter in 2021. It however, strengthened against the Sterling Pound, the Euro, and the Japanese Yen. In the EAC region, it weakened against most currencies during the review period (**Table 5.7 and Chart 5.1**).

Table 5.7: Kenya Shilling exchange rate

	2021		2022						Q3 2022- Q3 2021 % change
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul	Aug	Sep	Jul-Sep	
US Dollar	109.18	111.90	113.79	116.32	118.32	119.45	120.42	119.40	9.36
Pound Sterling	150.58	150.90	152.77	146.67	141.85	143.46	136.66	140.66	-6.59
Euro	128.75	128.06	127.81	124.21	120.72	121.03	119.31	120.35	-6.53
100 Japanese Yen	99.18	98.47	97.99	89.90	86.57	88.51	84.26	86.45	-12.84
South Africa Rand	7.47	7.26	7.46	7.50	7.03	7.16	6.87	7.02	-6.02
Uganda Shilling*	32.43	31.84	31.15	31.28	32.04	32.08	31.76	31.96	-1.45
Tanzania Shilling*	21.24	20.52	20.32	20.00	19.71	19.52	19.36	19.53	-8.04
Rwanda Franc*	9.24	9.17	9.06	8.78	8.68	8.64	8.69	8.67	-6.21
Burundi Franc*	18.17	17.86	17.66	17.66	17.40	17.26	17.15	17.27	-4.94

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

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

Source: Central Bank of Kenya

Chapter 6

Banking Sector

Overview

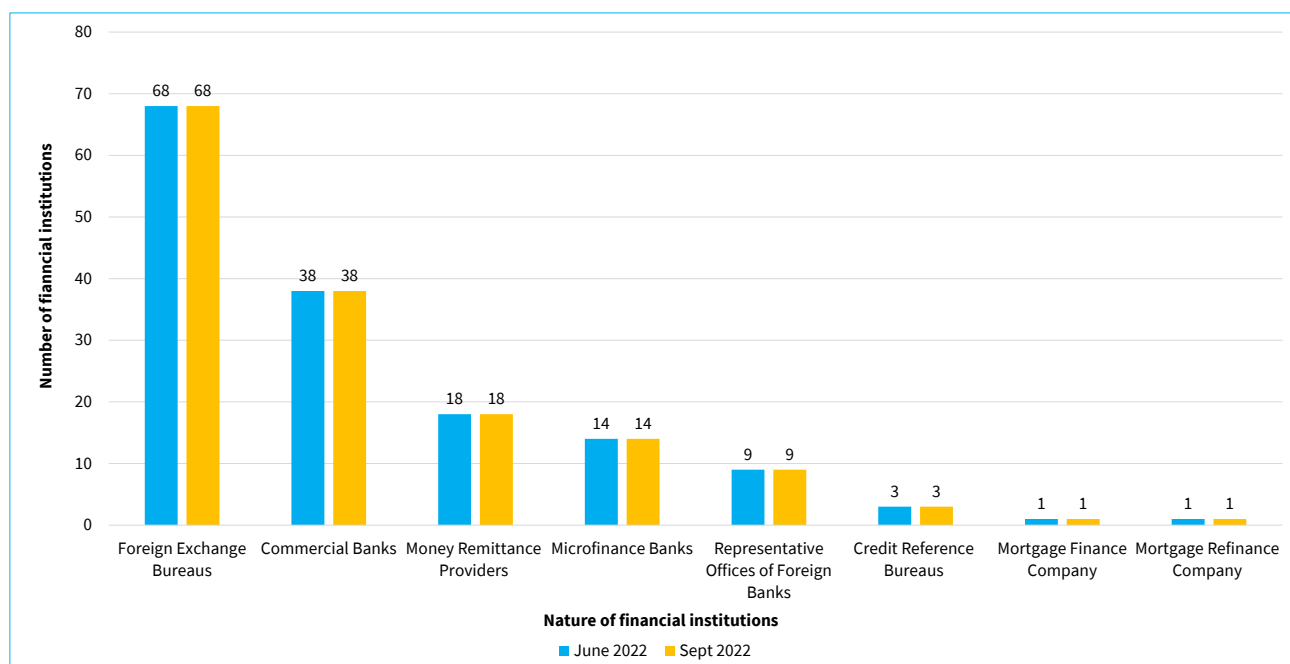
The banking sector remained stable and resilient in the third quarter of 2022. Total assets increased by 2.6 percent to Ksh 6,415.2 billion in September 2022, from Ksh 6,249.7 billion in June 2022. The deposit base also increased by 0.2 percent to Ksh 4,626.1 billion in the third quarter of 2022, from Ksh 4,616.3 billion in the second quarter of 2022. The sector was well capitalized with capital adequacy ratio of 19.0 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the third quarter of 2022, with quarterly profit before tax of Ksh 67.1 billion, an increase from Ksh 62.6 billion reported in the second quarter of 2022. Credit risk remained elevated with Gross Non-performing Loans (NPLs)

to Gross Loans Ratio standing at 13.7 percent at the end of the third quarter of 2022, compared to 14.7 percent at the end of second quarter of 2022.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 68 Foreign Exchange Bureaus, 18 Money Remittance Providers and 3 Credit Reference Bureaus as of September 30, 2022. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

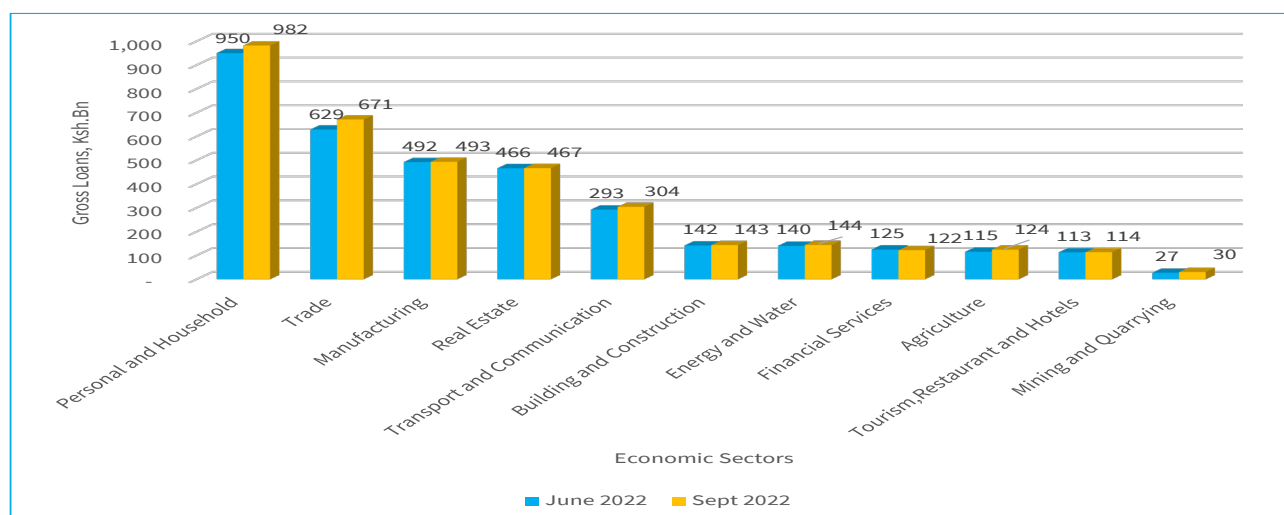
i) Growth in banking sector assets

Total assets increased by 2.6 percent to Ksh 6,415.2 billion in September 2022, from Ksh 6,249.7 billion in June 2022. The increase in total assets was mainly recorded in loans and advances by Ksh 101.9 billion (2.9 percent), balances at CBK by Ksh 32.8 billion (13.6 percent) and other assets by Ksh 44.1 billion (14.5 percent). Net loans and advances remained the main component of total assets, accounting for 51.2 percent in the third quarter of 2022, an increase from 50.8 percent recorded in the second quarter of 2022.

ii) Loans and Advances

The banking sector loan book increased by 2.9 percent, to Ksh 3,594.7 billion in the third quarter of 2022, from Ksh 3,492.8 billion in the second quarter of 2022. The increase in gross loans and advances was largely witnessed in the Trade, Personal and Household, Transport and Communication, and Agricultural sectors. The increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the second and third quarters of 2022, is highlighted in **Chart 6.2**.

Chart 6.2: Kenyan banking sector gross loans)

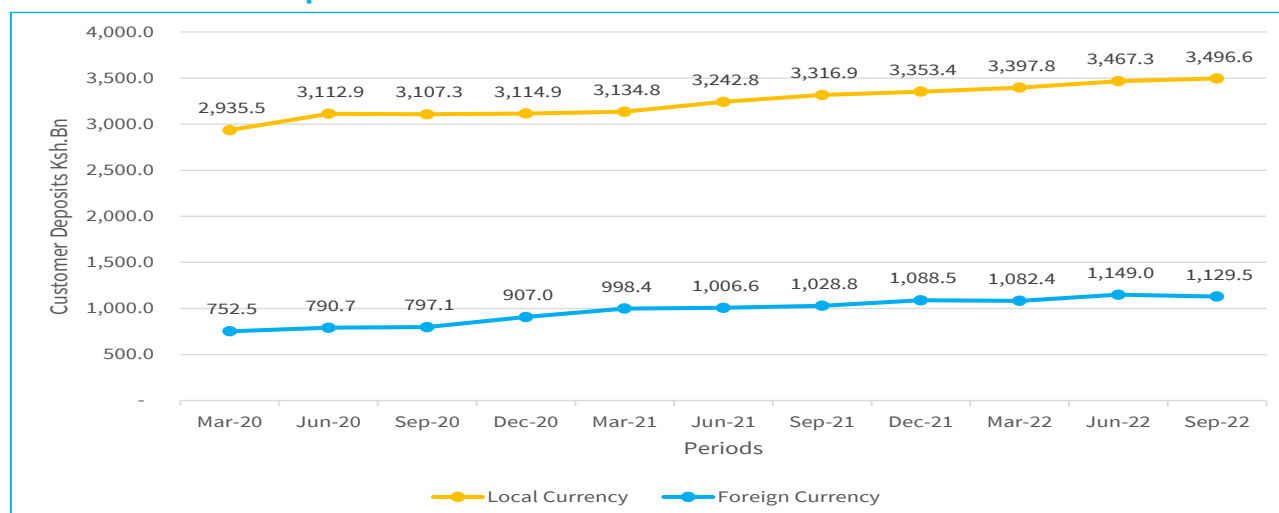


Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 72.1 percent of the banking sector total liabilities and shareholders' funds as at the end of the third quarter of 2022. The customer deposit base increased by Ksh 9.8 billion to Ksh 4,626.0 billion in the third quarter of 2022, from Ksh 4,616.3 billion in the second quarter of

2022. Local currency deposits increased by Ksh 29.3 billion (0.8 percent) to Ksh 3,496.6 billion in the third quarter of 2022, from Ksh 3,467.3 billion in the second quarter of 2022. Foreign currency deposits decreased by Ksh 19.6 billion (1.7 percent) to Ksh 1,129.5 billion in the third quarter of 2022, from Ksh 1,149.0 billion in the second quarter of 2022. **Chart 6.3** shows the trend of deposit liabilities.

Chart 6.3: Customer deposits

Source: Central Bank of Kenya

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 3.5 percent to Ksh 797.7 billion in the third quarter of 2022, from Ksh 770.4 billion in the second quarter of 2022. Total capital also increased by 3.3 percent to Ksh 936.9 billion in the third quarter of 2022, from Ksh 906.7 billion in the second quarter of 2022. The increases in capital levels are mainly attributable to increased retained profit in the third quarter of 2022. Retained profits increased by Ksh 47.5 billion (52.0 percent) to Ksh 138.8 billion in the third quarter of 2022.

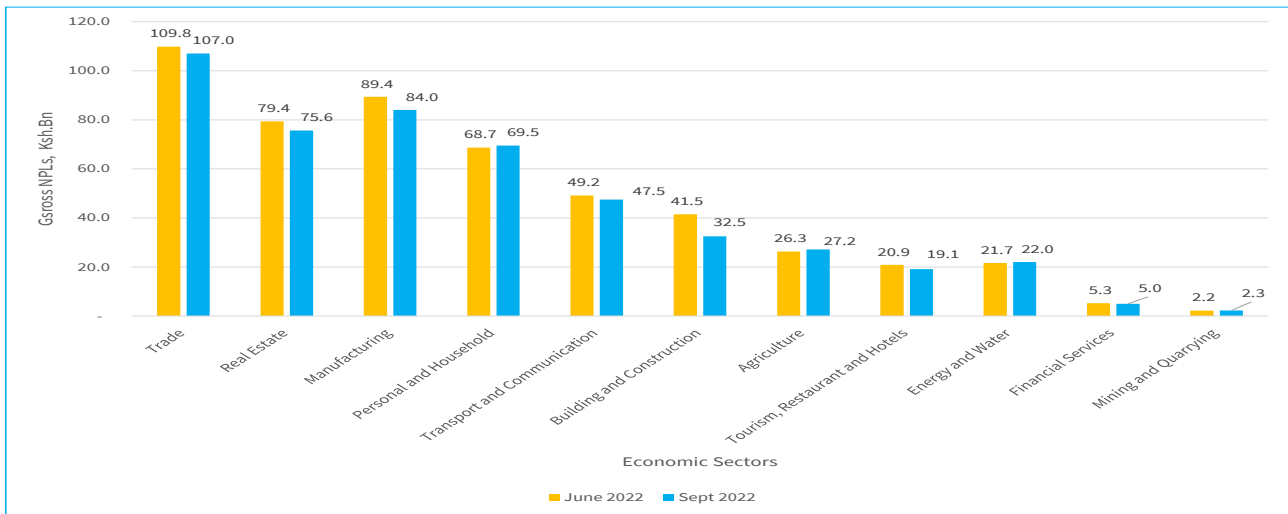
Core capital to total risk-weighted assets ratio remained at 16.2 percent in both the second and the third quarters of 2022. Total capital to total risk-weighted assets ratio also increased slightly to 19.0 percent in the third quarter of 2022, from 18.8 percent in the second quarter of 2022. The increased capital ratios were mainly due to higher increase in core capital and total capital of 3.5 percent and 3.3

percent respectively as compared to 2.5 percent increase in Total Risk Weighted Assets.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.2 percent in the second third of 2022.

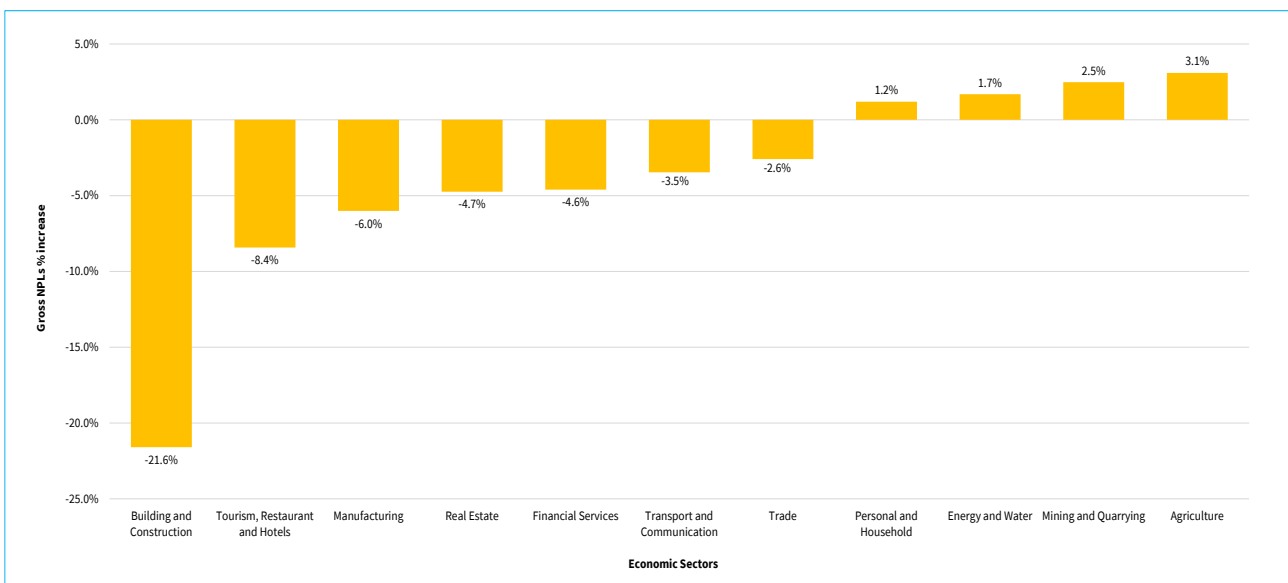
Asset Quality

The gross non-performing loans (NPLs) decreased by 4.4 percent from Ksh 514.4 billion at the second quarter of 2022, to Ksh 491.8 billion at the end of the third quarter of 2022. The gross NPLs to gross loans ratio decreased to 13.7 percent in the third quarter of 2022, from 14.7 percent in the second quarter of 2022. This was due to a 4.4 percent decrease in gross NPLs as compared to a 2.9 percent increase in gross loans. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

Chart 6.4: Kenyan banking sector gross non-performing loans

Source: Central Bank of Kenya

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

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

Source: Central Bank of Kenya

Building and Construction, Tourism, Manufacturing, Real Estate, Financial Services, Transport and Communication and Trade sectors registered decreases in NPLs by 51.4 percent (Ksh 24.6 billion) as a result of a repayments. Agriculture, Mining and Quarrying, Energy and Water and Personal and Household sectors recorded increases in NPLs, mainly due to delayed payments.

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

gross loans strengthened, deteriorated with the ratio decreasing to 6.4 percent in the third quarter of 2022, from 7.1 percent in the second quarter of 2022. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased from 43.3 percent in the second quarter of 2022, to 44.1 percent in second quarter of 2022, due to a decrease in total NPLs (5.7 percent) compared to a higher decrease in specific provisions (4.0 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		Jun-22	Sep-22
1.	Gross Loans and Advances (Ksh.Bn)	3,492.8	3,594.7
2.	Interest in Suspense (Ksh.Bn)	78.0	80.4
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,414.8	3,514.3
4.	Gross Non-Performing loans (Ksh.Bn)	514.4	491.8
5.	Specific Provisions (Ksh.Bn)	189.0	181.6
6.	General Provisions (Ksh.Bn)	51.5	51.3
7.	Total Provisions (5+6) (Ksh.Bn)	240.5	232.9
8.	Net Advances (3-7) (Ksh.Bn)	3,174.3	3,281.4
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	436.4	411.5
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	247.3	229.9
11.	Total NPLs to Total Advances (9/3) (%)	12.8%	11.7%
12.	Net NPLs to Gross Advances (10/1) (%)	7.1%	6.4%
13.	Specific Provisions to Total NPLs (5/9) (%)	43.3%	44.1%
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	14.7%	13.7%

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in quarterly pre-tax profits of Ksh 4.5 billion (7.2 percent) to Ksh 67.1 billion in the third quarter of 2022, from Ksh 62.6 billion in the second quarter of 2022. The increase in profitability was mainly attributable to a higher increase in quarterly income by Ksh 10.4 billion and a lower increase in quarterly expenses by Ksh 5.9 billion.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 45.6 percent, 27.7 percent and 15.0 percent in the third quarter of 2022 as compared to 46.3 percent, 29.8 percent and 15.3 in the second quarter of 2022.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 31.8 percent, 25.2 percent and 23.6 percent of total expenses respectively in the second quarter of 2022, compared to 32.1 percent, 25.6 percent and 24.0 percent in the second quarter of 2022.

Return on Assets (ROA) increased slightly to 3.1 in the third quarter of 2022, as compared to 3.0 percent recorded in the second quarter of 2022. Return on Equity (ROE) increased marginally from 26.8 percent in the second quarter of 2022, to 27.2 percent in the third quarter of 2022. The increase in

ROE was due to increased profit before tax between the two quarters

Liquidity

The banking sector's overall liquidity ratio decreased to 51.5 percent in the third quarter of 2022, from 52.5 percent in the second quarter of 2022. The decrease was driven by an increase in total short-term liabilities (0.3 percent) as compared to a 1.5 percent decrease in total liquid assets between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent. Treasury bills and local notes and coins are the only components of liquidity that recorded increases of 15.5 percent and 2.8 percent respectively. The liquidity components that recorded major decreases are Balances with foreign banks (48.7 percent), Balances from commercial banks (243.6 percent), and balances with CBK (11.7 percent).

Outlook of the Sector

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

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

Kenya Shilling Flows in KEPSS

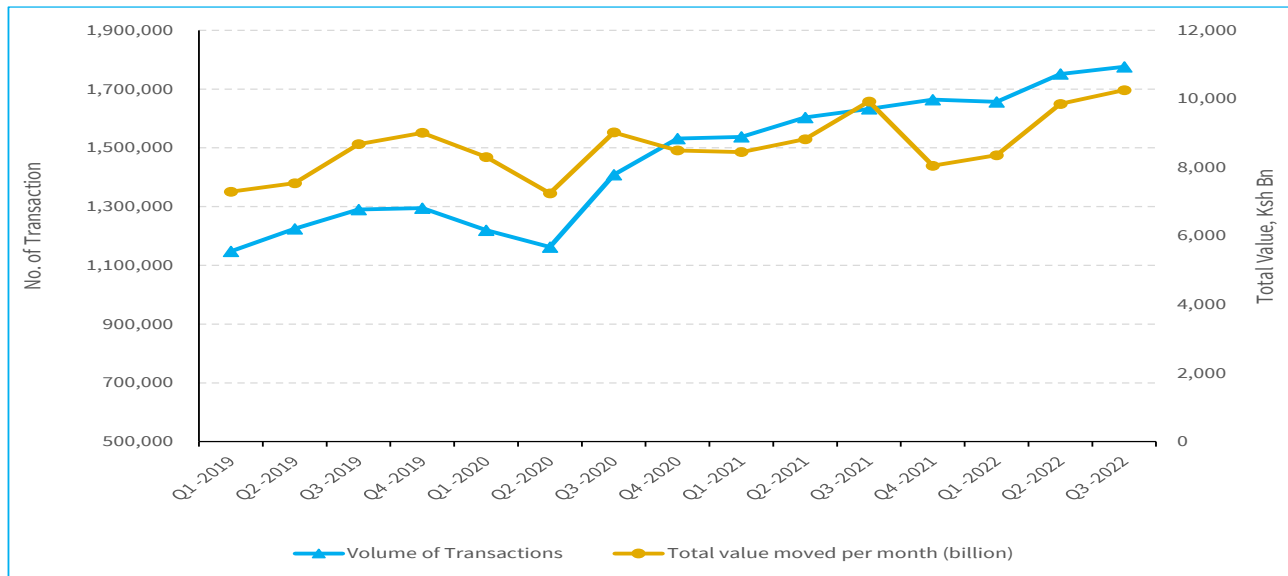
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.78 million transaction messages worth KSh 10.3 trillion in the third quarter of 2022, compared to the second quarter of 2022, which recorded 1.75 million transactions worth KSh 9.9 trillion. Volume and value 1.40 percent and 4.06 percent respectively.

Chart 6.6 below highlights recent trends in KEPSS transactions.

System Availability

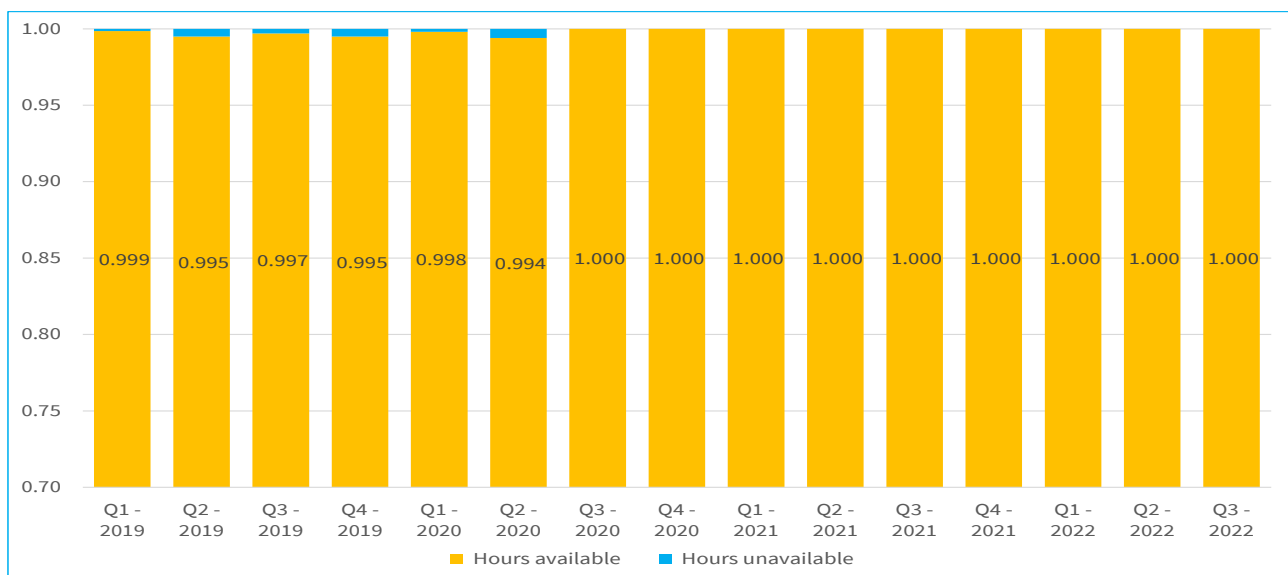
The KEPSS system is available to commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review (**Chart 6.7**).

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the first quarter of FY 2022/23 resulted in a deficit of 0.9 of GDP against a target of 0.9 percent of GDP. Revenue collections were below the target by 3.4

percent mainly on account of underperformance in Appropriation in Aid (A-in-A) and external grants, while total expenses and net lending were below target by 4.2 percent (**Table 7.1**).

Table 7.1: Statement of government operations (KSh Billion)

	FY 2021/22	FY 2022/23					Over (+) / Below (-)	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
	Q1	Jul	Aug	Sep	Q1	Target					
1. TOTAL REVENUE & GRANTS	513.0	146.3	166.5	229.4	542.1	561.2	(19.0)	(3.4)	5.7	3.9	4.0
Ordinary Revenue	441.8	132.6	150.8	215.1	498.4	495.8	2.7		12.8		
Tax Revenue	416.4	130.5	149.5	197.9	477.8	473.2	4.6		14.8		
Non Tax Revenue	25.4	2.1	1.3	17.2	20.6	22.5	(1.9)		(19.1)		
Appropriations-in-Aid	64.5	13.7	15.3	14.0	43.0	63.4	(20.4)		(33.3)		
External Grants	6.7	-	0.4	0.3	0.7	2.1	(1.3)		(89.1)		
2. TOTAL EXPENSES & NET LENDING	631.7	158.0	199.2	307.6	664.8	694.0	(29.2)	(4.2)	5.3	4.7	4.9
Recurrent Expenses	453.7	129.4	156.8	209.9	496.1	516.3	(20.2)		9.3		
Development Expenses	117.0	5.6	35.2	57.7	98.4	63.4	35.0		(15.8)		
County Transfers	61.1	23.0	7.3	40.1	70.3	98.6	(28.3)		15.2		
Others	-	0.0	0.0	0.0	-	-	-				
3. DEFICIT (INCL. GRANTS) (1-2)	(118.7)	(11.7)	(32.8)	(78.1)	(122.7)	(132.8)	10.1	(7.6)	3.3	(0.9)	(0.9)
As percent of GDP	(0.9)	(0.1)	(0.2)	(0.6)	(0.9)	(0.9)			(7.8)		
4. ADJUSTMENT TO CASH BASIS	13.4				-	-	-				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(105.3)	(11.7)	(32.8)	(78.1)	(122.7)	(132.8)	10.1	(7.6)	16.5	(0.9)	(0.9)
As percent of GDP	(0.8)	(0.1)	(0.2)	(0.6)	(0.9)	(0.9)					
6. DISCREPANCY: Expenditure (+) / Revenue (-)	6.6	29.1	37.7	15.6	82.5	-	15.6				
7. FINANCING	111.9	40.8	41.5	56.1	138.3	132.8	5.5	4.2	23.6	1.0	0.9
Domestic (Net)	140.0	51.6	50.0	4.7	106.2	175.5	(69.4)		(24.2)		
Capital Receipts (domestic loan receipts)	0.4				-	-	-				
External (Net)	(28.2)	(10.8)	(8.5)	51.4	32.2	(42.7)	74.9		(214.2)		
Others	-	0.0	0.0	0.0	-	-	-				

Source: The National Treasury-September 2022 Budget Outturn (BOT)

Revenue

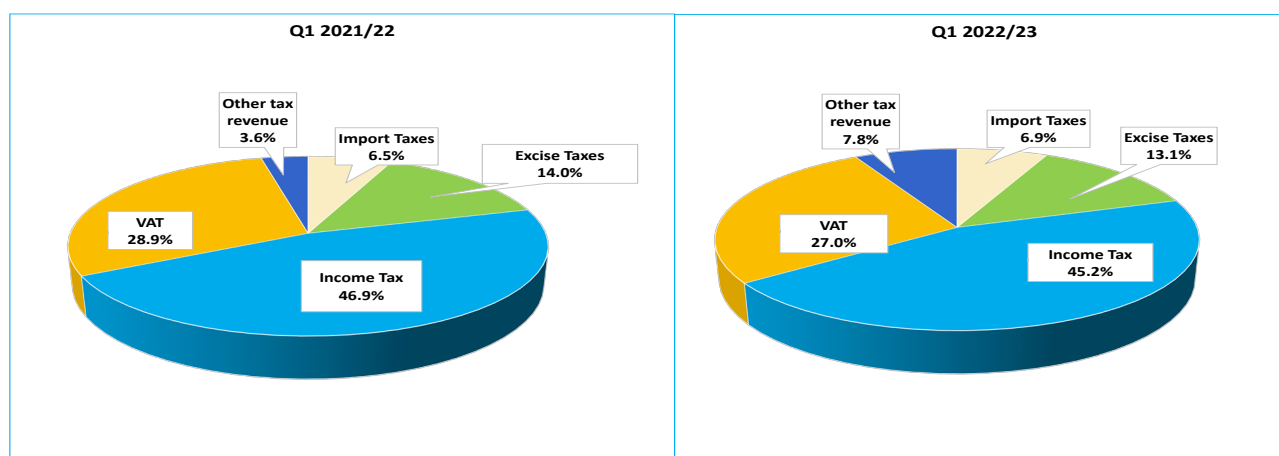
Government receipts, comprising revenue and grants increased by 5.7 percent to KSh 542.1 billion in the first quarter of FY 2022/23, compared to KSh 513.0 billion in the first quarter of FY 2021/22. The increase was reflected in ordinary revenues which rose by 12.8 percent to Ksh 498.4 billion by end of the quarter. However, Appropriation in Aid (A-in-A) and external grants declined.

There was a minor shift in the composition of tax revenues in the first quarter of FY 2022/23 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT), income tax, and excise taxes declined by 1.9 percentage points, 1.7 percentage points, and 1.0 percentage points, respectively, while the share of import taxes and other taxes increased by 0.4 percentage points and 4.2 percentage points, respectively.

Cumulatively to September 2022, Government total revenue and grants stood at KSh 542.1 billion (3.9 percent of GDP) against a target of KSh 561.2 billion (4.0 percent of GDP). Tax revenue rose 14.8 percent and was above target reflecting overperformance in import duty and VAT on imported goods and services. Over the same period, non-tax revenue decreased by 19.1 percent and was below the set target for the quarter.

External grants cumulatively to September 2022 stood at KSh 0.7 billion, which was KSh 1.3 billion lower than target, occasioned by slow absorption of donor funds. Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the quarter amounted to KSh 43.0 billion, which was KSh 20.4 billion lower than target due to underreporting by Semi-Autonomous Government Agencies.

Chart 7.1: Composition of tax revenue



Source: National Treasury

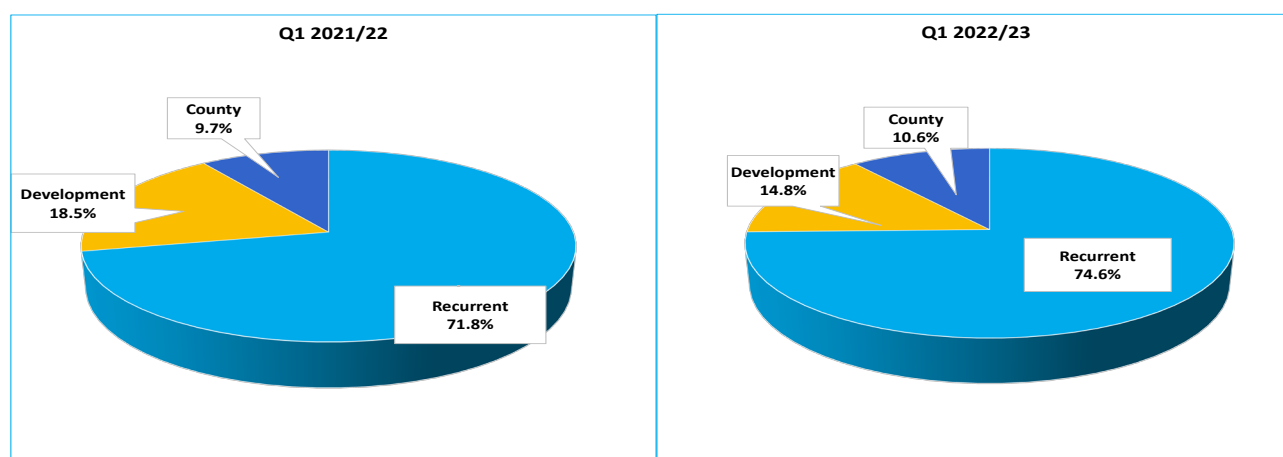
Expenditure and Net Lending

Government expenditure and net lending increased by 5.3 percent to KSh 664.8 billion in the first quarter of the FY 2022/23 compared to KSh 631.7 billion in the first quarter of the FY 2021/22. The increase in expenditures reflected a rise in National Government recurrent expenditure and county transfers by 9.3 percent and 15.2 percent, respectively. However, the National Government development expenses decreased by 15.8 percent during the period.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 74.6 percent in the first quarter of the FY 2022/23, which was 2.8 percentage points higher than the level recorded in a similar quarter

during the previous fiscal year. The share of county allocations increased by 0.9 percentage points while that of development expenditure decreased by 3.7 percentage points during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to September 2022 amounted to KSh 664.8 billion (4.7 percent of GDP), against a target of KSh 694.0 billion (4.9 percent of GDP). The shortfall of KSh 29.2 billion was mainly attributed to lower absorption recorded in recurrent expenditures by the National Government and below target transfers to County Governments that more than offset the above-target development expenditure.

Chart 7.2: Composition of government expenditure

Source: National Treasury

Financing

The budget deficit including grants amounted to KSh 122.7 billion or 0.9 percent of GDP at the end of the first quarter of FY 2022/23. The budget deficit was funded by KSh 106.2 billion and KSh 32.2 billion net domestic and foreign financing, respectively. Domestic borrowing comprised KSh 25.9 billion from commercial banks, KSh 77.2 billion from non-

banks, KSh 0.1 billion from non-residents, and KSh 1.6 billion drawdown of government deposits at the Central Bank, **(Table 7.2)**. By the end of the first quarter, net domestic borrowing was below target by KSh 69.4 billion while net external borrowing were above target by KSh 74.9 billion **(Table 7.1 and Table 7.2)**.

Table 7.2 Domestic financing to September 2022 (KSh Billion)

	FY 2021/22					
	Q1	Q2	Q3			Q4
	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
1. From CBK	61.2	96.8	125.5	19.4	47.7	-1.6
2. From commercial banks	196.2	190.1	179.0	12.6	18.9	25.9
4. From Non-banks	349.9	390.7	425.8	19.7	37.9	77.2
5. From Non-Residents	(0.0)	(0.1)	-0.7	0.0	0.1	0.1
6. Total Net Domestic Credit	607.3	677.5	729.6	51.7	104.6	101.6
7. Other Domestic financing /1			-121.6	(0.0)	(0.0)	4.6
8. Net Domestic Financing	607.3	677.5	608.0	51.7	104.6	106.2

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

Outlook for FY 2022/23

In the approved budget for the FY 2022/23, total revenue including grants is projected at KSh 2,495.7 billion (17.8 percent of GDP). Government expenditure is projected at KSh 3,358.6 billion (24.0 percent of GDP), of which KSh 2,271.0 billion will be for recurrent expenses, KSh 676.6 billion for development expenses and KSh 407.0 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 862.9 billion (6.2 percent of GDP) in FY 2022/23, to be financed through net external borrowing of KSh 280.7 billion (2.0 percent of GDP) and net domestic financing of KSh 582.2 billion (4.2 percent of GDP) **(Table 7.3)**.

Table 7.3: Budget estimates for the fiscal year 2022/23 (Ksh Billion)

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	2,495.7	17.8
Ordinary Revenue	2,462.4	17.6
Appropriations-in-Aid	320.8	2.3
External Grants	33.3	0.2
2. TOTAL EXPENSES & NET LENDING	3,358.6	24.0
Recurrent Expenses	2,271.0	16.2
Development Expenses	676.6	4.8
County Transfer	407.0	2.9
Contingency Fund	4.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	(862.9)	(6.2)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	862.9	6.2
Domestic (Net)	582.2	4.2
External (Net)	280.7	2.0

Source: National Treasury

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 1.4 percent during the first quarter of the FY 2022/23. Domestic and external debt increased by 1.8 percent and 0.9 percent, respectively. The ratio of

public debt to GDP was estimated to decrease from the 67.9 percent by the end of the fourth quarter of the FY 2021/22 to 66.6 percent by the end of first quarter of the FY 2022/23 (**Table 8.1**).¹

Table 8.1 Kenya's public and publicly guaranteed debt

	2020/21						2021/22				2022/23			Change Q on Q
	Q1	Oct-20	Nov-20	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jul-22	Aug-22	Q1	
EXTERNAL														
Bilateral	1,102.9	1,125.7	1,143.6	1,157.0	1,142.7	1,140.5	1,149.2	1,171.7	1,171.6	1,178.8	1,159.0	1,160.0	1,144.5	-34.4
Multilateral	1,421.8	1,443.7	1,484.6	1,498.8	1,495.6	1,659.4	1,699.4	1,782.1	1,817.4	1,906.3	1,959.9	1,959.8	1,957.9	51.6
Commercial Banks	1,120.8	1,118.3	1,125.5	1,119.4	1,113.4	1,187.4	1,196.2	1,208.3	1,208.2	1,197.7	1,196.2	1,196.2	1,220.7	22.94
Supplier Credits	18.0	18.0	18.2	18.1	18.1	12.2	13.7	12.3	12.3	12.2	11.9	11.9	11.8	-0.5
Sub-Total	3,663.5	3,705.6	3,771.8	3,793.3	3,769.9	3,999.5	4,058.5	4,174.4	4,209.6	4,295.1	4,327.0	4,327.9	4,334.8	39.7
(As a % of GDP)	34.5	34.5	35.1	35.3	34.0	35.4	34.5	34.5	34.0	34.0	33.1	33.1	33.2	
(As a % of total debt)	51.4	51.7	52.0	52.1	51.4	52.0	50.8	50.9	50.1	50.0	50.1	50.0	49.8	
DOMESTIC														
Banks	1,915.4	1,899.0	1,894.7	1,867.9	1,876.6	1,901.8	2,008.6	2,031.7	2,097.8	2,088.5	2,090.1	2,095.4	2,086.3	-2.2
Central Bank	107.4	114.7	103.9	98.7	99.9	87.6	90.9	88.7	95.6	85.1	72.1	75.8	53.9	-31.3
Commercial Banks	1,808.0	1,784.3	1,790.8	1,769.2	1,776.7	1,814.2	1,917.6	1,943.0	2,002.2	2,003.4	2,018.0	2,019.6	2,032.4	29.0
Non-banks	1,507.6	1,524.5	1,554.1	1,586.8	1,661.6	1,764.2	1,869.1	1,968.9	2,061.4	2,167.9	2,188.7	2,207.9	2,248.0	80.1
Pension Funds	986.2	994.0	1,031.8	1,057.7	1,087.5	1,131.3	1,230.2	1,264.1	1,331.5	1,388.8	1,402.6	1,401.5	1,429.6	40.7
Insurance Companies	212.8	217.8	219.4	224.6	234.5	246.4	260.0	273.7	286.6	307.8	310.0	311.9	319.7	11.8
Other Non-bank Sources	308.6	312.7	302.9	304.5	339.6	386.6	379.0	431.1	443.2	471.2	476.1	494.5	498.8	27.6
Non-residents	34.1	34.0	33.8	33.8	31.7	31.1	34.1	31.7	32.6	31.9	31.9	32.0	31.9	0.1
Sub-Total	3,457.1	3,457.6	3,482.7	3,488.5	3,569.8	3,697.1	3,937.8	4,032.4	4,191.8	4,288.3	4,310.7	4,335.3	4,366.3	77.9
(As a % of GDP)	32.5	32.2	32.4	32.4	32.2	32.7	33.4	33.3	33.8	33.9	33.0	33.2	33.4	
(As a % of total debt)	48.6	48.3	48.0	47.9	48.6	48.0	49.2	49.1	49.9	50.0	49.9	50.0	50.2	
GRAND TOTAL	7,120.6	7,163.3	7,254.5	7,281.8	7,339.7	7,696.6	7,996.3	8,206.7	8,401.3	8,583.4	8,637.7	8,663.2	8,701.1	117.6
(As a % of GDP)	67.0	66.6	67.5	67.7	66.2	68.1	67.9	67.8	67.8	67.9	66.2	66.3	66.6	

Source: The National Treasury and CBK

Domestic Debt

The 1.8 percent increase in domestic debt was on account of increased uptake of Treasury bonds and bills. The share of domestic debt to total debt increased by 0.2 percentage points to 50.2 percent by the end of the first quarter of the FY 2022/23 from

49.2 percent in a similar quarter of the FY 2021/2022. The proportion of debt securities to total domestic debt stood at 98.6 percent by the end of the first quarter of the FY 2022/23 which was 0.8 percentage points higher than the previous quarter (**Table 8.2**).

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

Table 8.2: Government gross domestic debt (KSh Billion)

	KSh (Billion)							Change: Q on Q		Proportions %						
	2021/22				2022/23					2021/22				2022/23		
	Q1	Q2	Q3	Q4	Jul-22	Aug-22	Q1	Ksh(Bn) %	Q1	Q2	Q3	Q4	Jul-22	Aug-22	Q1	
Total Stock of Domestic Debt (A+B)	3,937.8	4,032.4	4,191.8	4,288.3	4,310.7	4,335.3	4,366.3	77.9	1.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	3,860.3	3,951.4	4,097.1	4,197.8	4,232.1	4,255.2	4,307.1	109.3	2.6	98.0	98.0	97.7	97.9	98.2	98.2	98.6
1. Treasury Bills (excluding Repo Bills)	763.5	709.1	656.5	628.8	647.0	660.0	672.3	43.5	6.9	19.4	17.6	15.7	14.7	15.0	15.2	15.4
Banking institutions	454.8	397.5	323.6	287.7	0.3	0.3	0.3	-287.4	-99.9	11.6	9.9	7.7	6.7	0.0	0.0	0.0
The Central Bank	8.1	2.3	0.1	0.1	0.1	0.1	0.1	0.0	-6.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Commercial Banks	446.7	395.2	323.5	287.6	295.2	306.8	315.6	28.0	9.7	11.3	9.8	7.7	6.7	6.8	7.1	7.2
Pension Funds	159.4	154.3	158.8	167.6	176.7	171.2	174.1	6.6	3.9	4.0	3.8	3.8	3.9	4.1	3.9	4.0
Insurance Companies	5.5	5.2	6.0	6.6	6.6	7.0	8.0	1.5	22.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Others	143.7	152.1	168.2	166.9	168.4	174.9	174.4	7.5	4.5	3.7	3.8	4.0	3.9	3.9	4.0	4.0
2. Treasury Bonds	3,096.8	3,242.2	3,440.6	3,569.1	3,585.1	3,595.3	3,634.9	65.8	1.8	78.6	80.4	82.1	83.2	83.2	82.9	83.2
Banking institutions	1,476.3	1,553.2	1,655.2	1,655.2	1,655.2	1,655.2	1,655.2	0.0	0.0	37.5	38.5	39.5	38.6	38.4	38.2	37.9
The Central Bank	7.7	7.6	7.6	7.6	7.6	7.6	7.6	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,468.6	1,545.6	1,671.9	1,702.7	1,708.6	1,700.8	1,703.8	1.1	0.1	37.3	38.3	39.9	39.7	39.6	39.2	39.0
Insurance Companies	254.5	268.6	280.6	301.3	303.3	304.9	311.6	10.4	3.4	6.5	6.7	6.7	7.0	7.0	7.0	7.1
Pension Funds	1,070.8	1,109.8	1,172.8	1,221.3	1,226.0	1,230.3	1,255.4	34.1	2.8	27.2	27.5	28.0	28.5	28.4	28.4	28.8
Others	295.3	310.7	307.7	336.2	339.6	351.6	356.4	20.2	6.0	7.5	7.7	7.3	7.8	7.9	8.1	8.2
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	20.0	19.5	19.5	18.9	18.9	18.9	18.9	0.0	0.0	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Of which: Repo T/Bills	19.4	18.8	18.8	18.3	18.3	18.3	18.3	0.0	0.0	0.5	0.5	0.4	0.4	0.4	0.4	0.4
B. Others:	57.5	61.5	75.3	71.6	59.7	61.2	40.2	-31.4	-43.8	1.5	1.5	1.8	1.7	1.4	1.4	0.9
Of which CBK overdraft to Government	55.1	59.3	68.4	58.5	45.4	49.1	27.2	-31.3	-53.4	1.4	1.5	1.6	1.4	1.1	1.1	0.6

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 6.9 percent increase during the first quarter of the FY 2022/23. As a result, the proportion of Treasury bills to total domestic debt increased by 0.7 percentage points. Commercial banks were the leading holders of Treasury bills at 46.9 percent (**Table 8.2**).

Treasury Bonds

Treasury bonds holdings increased by 1.8 percent during the first quarter of the FY 2022/23, which was lower than the 4.0 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 10-year fixed rate Treasury bond issued during the quarter (**Table 8.3**). The leading holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KSh (Billion)							Change Q on Q		Proportions									
		2020/21				2020/21					2020/21		2021/22				2022/23			
		Q1	Q2	Q3	Q4	Jul-22	Aug-22	Q1	KShs(Bn)	%			Q3	Q4	Q1	Q2	Q3	Q4	Jul-22	Aug-22
Treasury bills	91-Day	81.5	55.7	43.0	59.3	84.5	115.2	134.2	74.9	126.3	1.1	1.1	2.1	1.4	1.0	1.4	2.0	2.7	3.1	
	182-Day	176.1	183.8	172.2	173.9	168.8	151.5	151.7	-22.2	-12.8	3.6	3.4	4.5	4.6	4.1	4.1	3.9	3.5	3.5	
	364-Day	505.8	469.7	441.2	395.5	393.6	393.3	386.3	-9.2	-2.3	16.6	16.2	12.8	11.6	10.5	9.2	9.1	9.1	8.8	
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	2-Year	55.9	55.9	55.9	55.9	55.9	55.9	55.9	0.0	0.0	1.7	1.5	1.4	1.4	1.3	1.3	1.3	1.3	1.3	
	3-Year	0.0	0.0	0.0	36.7	36.7	58.8	58.8	22.1	60.2	0.0	0.0	0.0	0.0	0.0	0.9	0.9	1.4	1.3	
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	5-Year	269.1	322.7	362.3	362.3	362.3	332.7	332.7	-29.6	-8.2	9.2	8.6	6.8	8.0	8.6	8.4	8.4	7.7	7.6	
	6-Year	20.2	20.2	20.2	20.2	20.2	20.2	20.2	0.0	0.0	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
	7-Year	41.5	41.5	41.5	41.5	41.5	41.5	41.5	0.0	0.0	1.4	1.1	1.1	1.0	1.0	1.0	1.0	1.0	0.9	
	8-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	9-Year	123.5	123.5	123.5	123.5	123.5	123.5	123.5	0.0	0.0	3.8	3.3	3.1	3.1	2.9	2.9	2.9	2.8	2.8	
	10-Year	514.3	534.9	542.2	541.4	541.4	550.8	577.1	35.6	6.6	15.6	13.3	13.1	13.3	12.9	12.6	12.6	12.7	13.2	
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	0.2	2.2	2.0	2.0	1.9	1.9	1.9	1.9	1.8	
	12-Year	108.0	102.7	99.7	99.7	99.7	99.7	99.7	0.0	0.0	3.2	3.2	2.7	2.5	2.4	2.3	2.3	2.3	2.3	
	15-Year	858.0	874.9	893.4	898.3	908.1	908.1	921.5	23.2	2.6	21.8	21.6	21.8	21.7	21.3	20.9	21.1	20.9	21.1	
	16- Year	152.0	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	4.3	4.1	3.9	3.8	3.6	3.5	3.5	3.5	3.5	
	18- Year	81.8	81.8	81.8	155.4	161.6	161.6	161.6	6.2	4.0	0.0	2.2	2.1	2.0	2.0	3.6	3.7	3.7	3.7	
	19-Year	0.0	0.0	98.4	98.4	98.4	98.4	98.4	0.0	0.0	0.0	0.0	0.0	0.0	2.3	2.3	2.3	2.3	2.3	
	20-Year	484.7	518.6	546.8	546.8	546.8	555.1	555.1	8.2	1.5	9.4	10.5	12.3	12.9	13.0	12.8	12.7	12.8	12.7	
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	0.0	0.0	2.7	2.6	2.5	2.5	2.5	2.5	2.4	
	25-Year	172.8	198.5	207.8	221.8	221.8	221.8	221.8	0.0	0.0	3.7	4.1	4.4	4.9	5.0	5.2	5.1	5.1	5.1	
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.6	
		Repo T bills	19.4	18.8	18.8	18.8	18.8	18.8	18.8	0.0	0.0	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
		Overdraft	55.1	59.3	68.4	58.5	45.4	49.1	27.2	-31.3	-53.4	1.4	1.6	1.4	1.5	1.6	1.4	1.1	1.1	0.6
		Other Domestic debt	3.0	2.8	7.5	13.1	14.3	12.1	13.0	-0.1	-0.7	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Total Debt		3,937.8	4,032.4	4,191.8	4,288.3	4,310.7	4,335.3	4,366.3	77.9	1.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at the ratio of 84:16 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 67.2 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt remained low as the Treasury bills component in the domestic debt profile stood at 15.4 percent by the end of September 2022.

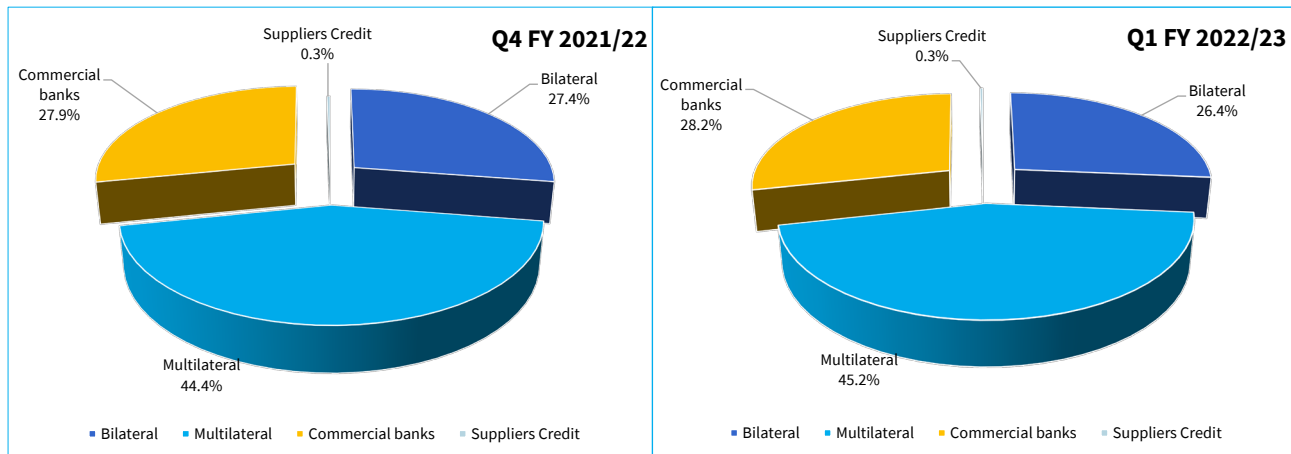
External Debt

Public and publicly guaranteed external debt increased by 0.9 percent during the first quarter of

the FY 2022/23. This increase was majorly driven by disbursements from International Monetary Fund (IMF) and exchange rate movements.

Composition of External Debt by Creditor

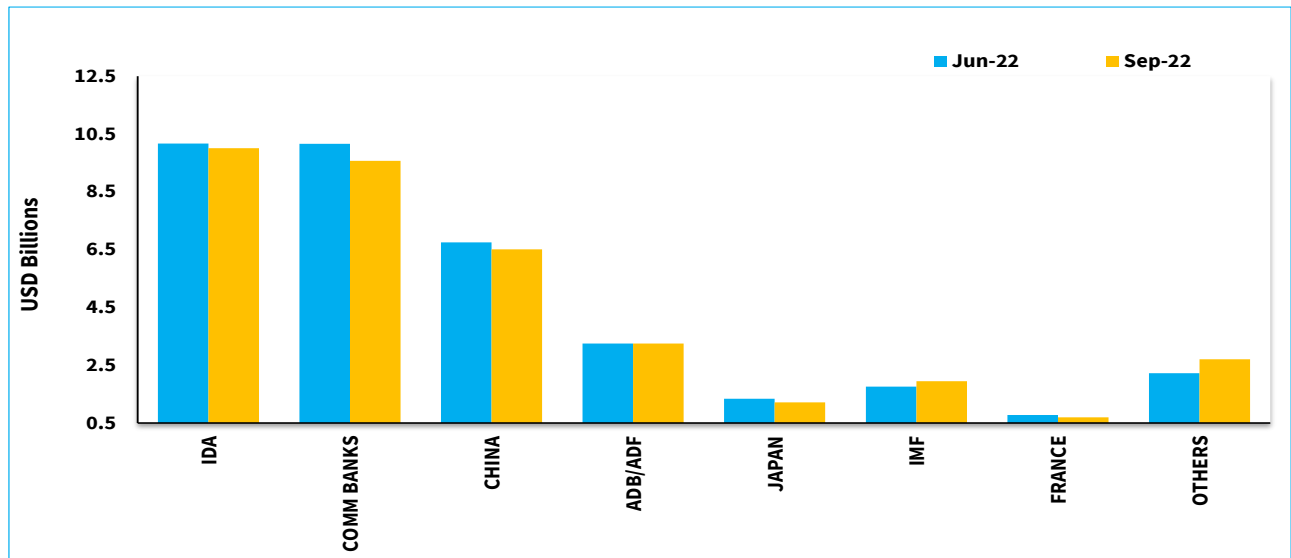
The composition of external debt improved with increased flow of international development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 0.8 percentage points, mainly driven by disbursements from IMF during the quarter under review. The proportion of commercial debt also increased by 0.3 percentage points during the first quarter of FY 2022/23 (**Chart 8.2**).

Chart 8.1: Composition of external debt by lender

Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 10.0 billion (or 27.9 percent of external debt). Debt owed to China, Kenya's largest

bilateral lender, amounted to USD 6.5 billion, or 18.1 percent of the total external debt by the first quarter of the FY 2022/23 (**Chart 8.2**).

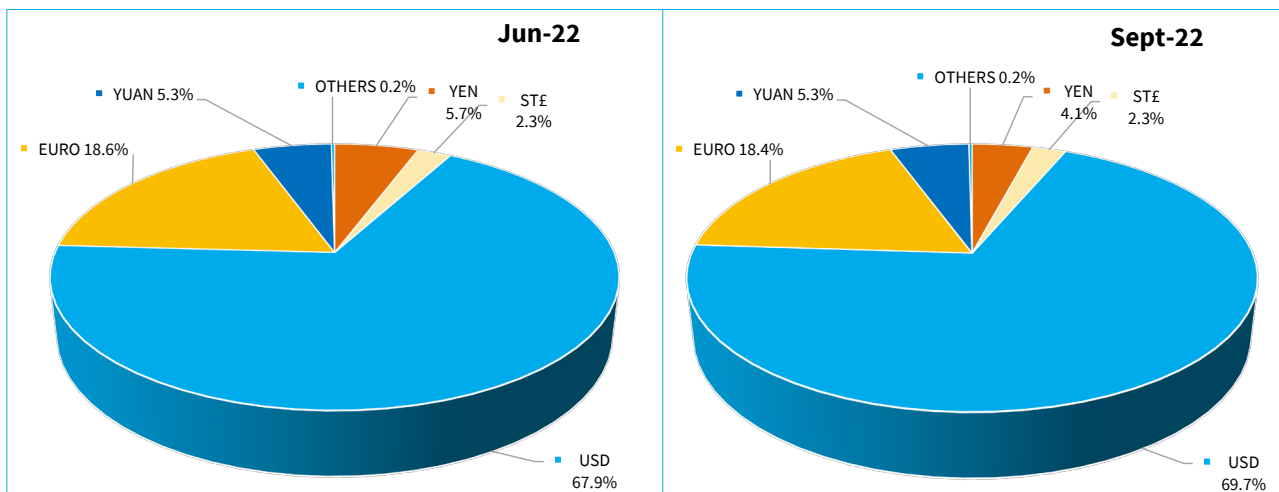
Chart 8.2: External debt by creditor

Source: The National Treasury

Currency Composition of External Debt

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

accounted for 88.1 percent of the total currency composition at the end of the first quarter of the FY 2022/23. The proportion held in US dollar increased by 1.8 percentage points on account of the US dollar denominated disbursements from IMF (**Chart 8.3**).

Chart 8.3: Debt composition by currency

Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 21.2 percent during the first quarter of the FY 2022/23. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the first quarter of FY 2022/23 amounted to Ksh 103.0 billion. External debt service to revenue and exports ratios deteriorated during the quarter under review mainly due to a slower growth of revenues and exports ² (**Table 8.4**).

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis in December 2021 classified Kenya's public debt as sustainable but having a high risk of debt distress. This was due to high deficits emanating from increased infrastructure spending and the impact of COVID-19 pandemic. Kenya's debt sustainability is expected to improve as fiscal consolidation progresses and the economy recovers from the prevailing external shocks.

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	FY 2020/21	Q1 FY 2021/22	Q2 FY 2021/22	Q3 FY 2021/22	Q4 FY 2021/22	Q1 FY 2022/23
Debt service to Revenues (18%)	11.6	15.1	11.4	20.4	7.2	19.4
Debt service to Exports (15%)	18.8	25.7	15.7	23.8	11.6	23.6

Source: Central Bank of Kenya and The National Treasury

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

Chapter 9

Capital Markets

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index increased by 3.2 percent and 6.5 percent, respectively in the third quarter compared to the second quarter of 2022. Market

capitalization increased by 3.2 percent, while equity turnover and total number of shares traded declined by 13.4 percent and 5.4 percent, respectively (**Table 9.1 and Chart 9.1**).

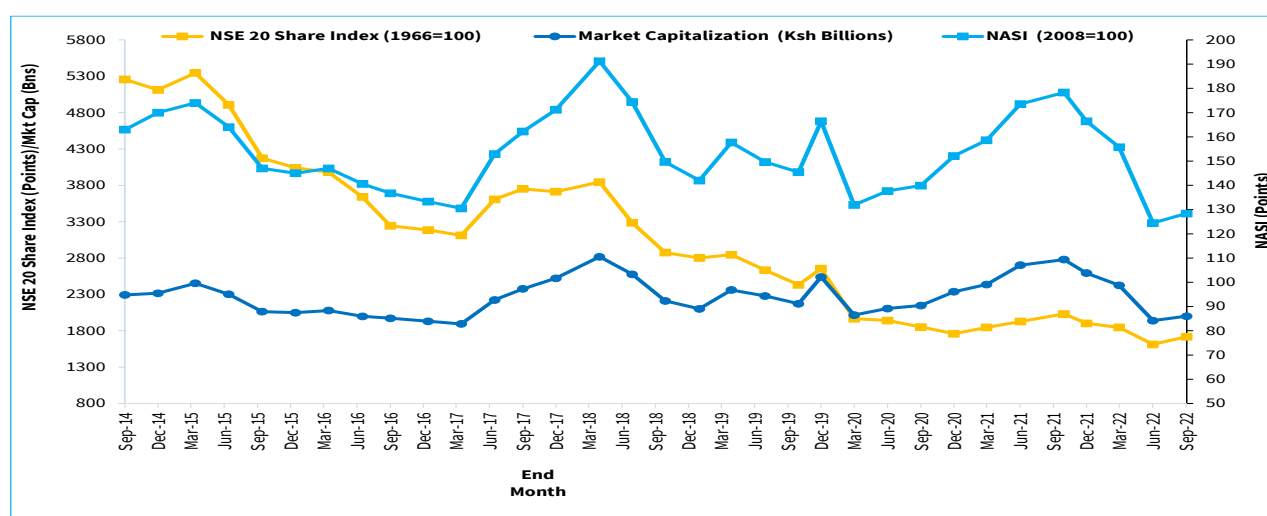
Table 9.1: Selected stock market indicators

INDICATOR	2021				2022		Q3	% CHANGE (2022 Q2- 2022 Q3)
	Q1	Q2	Q3	Q4	Q1	Q2		
NSE 20 Share Index (1966=100)	1846.4	1927.5	2031.2	1902.6	1846.7	1612.9	1717.7	6.50
NASI (2008=100)	158.62	173.53	178.31	166.46	155.74	124.47	128.41	3.17
Number of Shares Traded (Millions)	997.8	1,099.6	946.5	1,007.2	753.2	870.3	823.3	-5.40
Equities Turnover (Ksh Millions)	31,735.0	37,992	31,360	36,322	27,861	26,237	22,736	-13.35
Market Capitalization (Ksh Billions)	2,437	2,702	2,779	2,593	2,426	1,939	2,001	3.18
Foreign Purchase (Ksh Millions)	18,575	21,060	16,535	16,525	14,386	10,676	6,616	-38.03
Foreign Sales (Ksh Millions)	19,551	23,069	15,601	24,714	16,073	21,571	13,581	-37.04
Ave. Foreign Investor Participation to Equity Turnover (%)	60.38	58.73	51.53	57.73	54.66	57.75	44.42	-23.09
Bond Turnover (Ksh Millions)	199,378	271,239	301,094	185,262	190,951	195,667	196,961	0.66
FTSE NSE Kenya Govt. Bond Index (Points)	97.04	96.88	96.78	96.05	95.67	95.25	94.70	-0.58
7-Year Eurobond Yield (%) - 2027	5.60	4.81	5.03	5.57	8.15	16.02	15.61	-0.41*
10-Year Eurobond Yield (%) - 2024	3.56	3.27	3.20	4.45	6.75	17.00	17.58	0.58*
10-Year Eurobond Yield (%) - 2028	6.28	5.36	5.40	5.76	8.14	14.67	14.74	0.06*
12-Year Eurobond Yield (%) - 3032	7.12	6.22	6.51	6.71	8.62	13.80	14.67	0.87*
13-Year Eurobond Yield (%) - 2034		6.18	6.45	6.58	8.34	12.99	13.17	0.17*
30-Year Eurobond Yield (%) - 2048	7.98	7.34	7.54	8.13	9.49	13.73	14.00	0.26*

* Percentage points

Source: Nairobi Security Exchange

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



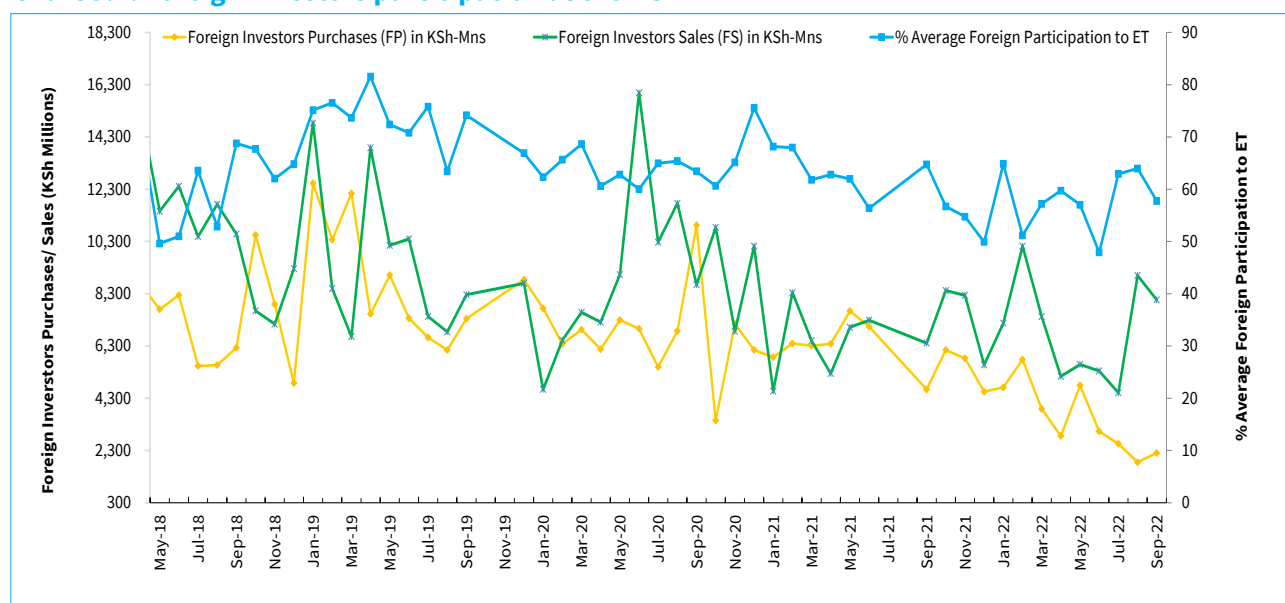
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of equities purchased by foreign investors as share of total equity turnover declined from 57.8 percent at the end of second quarter to 44.4 percent at end of the third quarter of 2022. The foreign sales to total equity turnover was declined

to 24.18 percent from 32.8 percent, while foreign purchases to total equity turnover declined to 11.7 percent from 17.3 percent. This implies a net foreign investor outflow as sales exceeded purchases in the quarter under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market increased by 0.7 percent in the third quarter of 2022 compared to second quarter of 2022. The FTSE NSE Kenyan Government Bond Index declined by 0.6 percent in the third quarter of

2022, reflecting an increase in market yields. In the international market, yields on Kenya's Eurobonds rose by an average of 25.7 basis points during the quarter under review (**Table 9.1**).

Chapter 10

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

		2021		2022		Absolute Quarterly Changes (KSh Million)					Quarterly Growth Rates (%)					
1.0	ASSETS	Sept	Dec	Mar	Jun	Sept	Q3,2022	Q2,2022	Q1,2022	Q4,2021	Q3,2021	Q3,2022	Q2,2022	Q1,2022	Q4,2021	Q3,2021
	11 Reserves and Gold Holdings	1,017,575	993,892	889,387	933,697	869,663	(64,034)	44,310	(104,505)	(23,683)	(78,490)	(6.9)	(2.2)	(10.5)	(2.3)	(7.2)
	12 Funds Held with IMF	82,740	77,698	77,696	71,644	70,347	(1,297)	(6,052)	(2)	(5,042)	80,539	(1.8)	(9.5)	(0.0)	(6.1)	3,658.8
	13 Investment in Equity (Swift Shares)	10	10	10	10	9	(1)	(0)	(0)	(0)	0	(5.5)	(8.3)	(0.2)	(0.8)	0.6
	14 Items in the Course of Collection	13	2	14	32	24	(8)	18	12	(11)	(26)	(24.6)	74.6	635.2	(85.6)	(67.0)
	15 Advances to Commercial Banks	65,650	70,180	76,533	71,829	108,724	36,894	(4,703)	6,352	4,530	6,111	51.4	42.1	9.1	6.9	10.3
	16 Loans and Other Advances	166,192	197,779	198,929	196,650	220,563	23,914	(2,280)	1,151	31,586	2,424	12.2	10.9	0.6	19.0	1.5
	17 Other Assets	5,339	5,878	5,988	7,324	7,357	33	1,335	110	539	(26)	0.5	22.9	1.9	10.1	(0.5)
	18 Retirement Benefit Asset	7,639	7,639	7,639	7,081	7,081	-	(558)	-	-	-	-	(7.3)	-	-	-
	19 Property and Equipment	32,228	31,854	31,723	32,000	31,096	(904)	277	(131)	(373)	(991)	(2.8)	(2.0)	(0.4)	(1.2)	(3.0)
	1.10 Intangible Assets	1,858	1,891	2,165	310	259	(51)	(1,855)	274	33	74	(16.5)	(88.0)	14.5	1.8	4.2
	1.11 Due Debt from Government of Kenya	75,219	78,767	87,899	118,263	106,310	(11,953)	30,364	9,132	3,547	(4,069)	(10.1)	20.9	11.6	4.7	(5.1)
	TOTAL ASSETS	1,454,464	1,465,590	1,377,983	1,438,839	1,421,433	(17,406)	60,856	(87,607)	11,126	5,547	(1.2)	3.2	(6.0)	0.8	0.4
	2.0 LIABILITIES															
	2.1 Currency in Circulation	282,844	310,278	301,745	305,350	305,580	230	3,605	(8,533)	27,434	5,715	0.1	1.3	(2.8)	9.7	2.1
	2.2 Deposits	625,292	560,473	484,612	539,635	495,490	(44,146)	55,023	(75,861)	(64,818)	(102,709)	(8.2)	2.2	(13.5)	(10.4)	(14.1)
	2.3 International Monetary Fund	304,918	332,328	333,685	325,145	346,535	21,391	(8,540)	1,357	27,410	83,744	6.6	3.9	0.4	9.0	37.9
	2.4 Other Liabilities	6,164	7,622	4,051	4,273	4,118	(155)	222	(3,570)	1,458	63	(3.6)	1.7	(46.8)	23.7	1.0
	TOTAL LIABILITIES	1,219,218	1,210,701	1,124,094	1,174,403	1,151,723	(22,680)	50,309	(86,608)	(8,516)	(13,187)	(1.9)	2.5	(7.2)	(0.7)	(1.1)
	3.0 EQUITY AND RESERVES	229,309	254,889	253,890	264,436	269,710	5,273	10,546	(999)	25,580	12,796	2.0	6.2	(0.4)	11.2	5.9
	Share Capital	35,000	35,000	35,000	35,000	38,000			-	-	9	9			-	-
	General reserve fund	155,388	155,388	155,388	155,388	224,006	68,618	(0)	0	-	27,168	44	44			21.2
	Period surplus/(Deficit)	4,727	43,876	42,876	53,423	9,308	(44,115)	10,547	(999)	39,149	(18,252)	(82.6)	(78.3)	(2.3)	828.3	(79.4)
	Asset Revaluation	21,680	21,680	21,680	21,680	21,680	0	-	-	-	3,879	0	0		-	21.8
	Fair Value Reserves -OCI	12,515	(1,054)	(1,054)	(1,054)	(23,285)	(22,230)	-	-	(13,569)		2,109	2,109		(108.4)	-
4	TOTAL LIABILITIES AND EQUITY	1,454,464	1,465,590	1,377,984	1,438,839	1,421,433	(17,406)	60,856	(87,607)	11,126	5,546	(1.2)	3.2	(6.0)	0.8	0.4

Source: Central Bank of Kenya

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet contracted by 1.2 percent in the third quarter of 2022 compared to an increase of 3.2 percent in the previous quarter. On the asset side, the decline was mainly due to a decline in reserve and gold holdings as well as debt due from government. Reserve and gold holdings which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank declined mainly due to scheduled government debt service.

Debt due from government which comprises Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long-term debt with effect from

1 November 1997 declined partly reflecting reduced utilization of the overdraft facility at the Central Bank during the quarter.

Liabilities

On the liability side, the decline in Central Bank's balance sheet was largely reflected in deposits. The decreased in deposits was mainly on account of reduced government deposits at the Central bank. However, other liabilities items increased in the third quarter, including liabilities due to the International Monetary Fund (IMF), largely reflecting the disbursements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the government which are channeled through the Central Bank.

Growth in equity and reserves moderated in the third quarter of 2022, partly due to reduced surplus recorded during the period.



Central Bank of Kenya

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