

Central Bank of Kenya

Quarterly Economic Review

July - September 2019



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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

HIGHLIGHTS

Overall inflation declined to 5.0 percent in the third quarter of 2019 from 5.9 percent in the second quarter due to declining fuel prices and muted demand pressures in the economy. Meanwhile, food inflation though stable, remained elevated.

Broad money supply (M3) declined by 2.5 percent in the third quarter of 2019 compared to an increase of 4.4 percent in the previous quarter, partly reflecting slower growth in deposits and reduction in currency outside banks.

Economic growth was slower than expected in the third quarter of 2019 and stood at 5.1 percent compared to 5.6 percent in the previous quarter and 6.4 percent in the third quarter of 2018. The deceleration was mainly due to subdued activity in agriculture and manufacturing sectors.

Global growth is projected to slow down to 3.0 percent in 2019 from 3.6 percent in 2018.

Kenya's current account deficit widened by 23 percent to USD 1,517 million in the third quarter of 2019 from USD 1,245 million in the third quarter of 2018, mainly driven by a increase in the trade and primary income balances.

Kenya's official international reserves stood at USD 9,442 million, equivalent to 5.8 months of import cover as at end Sept 2019.

The foreign exchange market remained steady supported by resilient inflows of diaspora remittances.

The banking sector was stable in the third quarter of 2019. Total assets increased by 1.7 percent to Ksh.4,798.5 billion in September 2019 from Ksh. 4,719.7 billion in June 2019. The deposit base also decreased by 0.4 percent to Ksh.3,491.9 billion from Ksh. 3,506.0 billion between the second and third quarter of 2019. The sector was well capitalized and met the minimum capital requirements. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 12.38 percent in the third quarter of 2019.

The Government's budgetary operations at the end of the first quarter of FY 2019/2020 resulted in a deficit (including grants) of 1.2 percent of GDP. Revenue collection remained below target, as was the case with the expenditure.

Kenya's public and publicly guaranteed debt increased by 2.7 percent during the first quarter of the FY 2019/20 .Domestic and external debt increased by 2.5 percent and 2.9 percent, respectively.

Overall, capital markets' performance declined in the third quarter of 2019 compared to the second quarter of the year. Domestic bonds secondary market, also declines however, the yield on Kenya's Eurobonds improved.

Chapter 1

Inflation

Overview

Overall inflation declined to 5.0 percent in the third quarter of 2019 from 5.9 percent in the second quarter due to declining fuel prices and muted demand pressures in the economy. Fuel inflation declined to 3.8 percent from 6.8 percent in the previous quarter, reflective of the declining domestic and international energy prices during

the quarter. Despite the tax measures in the 2019/20 Fiscal Year (FY) budget, Non-Food-Non-Fuel (NFNF) inflation declined to 2.8 percent from 3.4 percent in the previous quarter, reflecting muted demand pressures in the economy. Meanwhile, Food inflation stabilized at 6.8 percent in the second and third quarters of 2019 (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

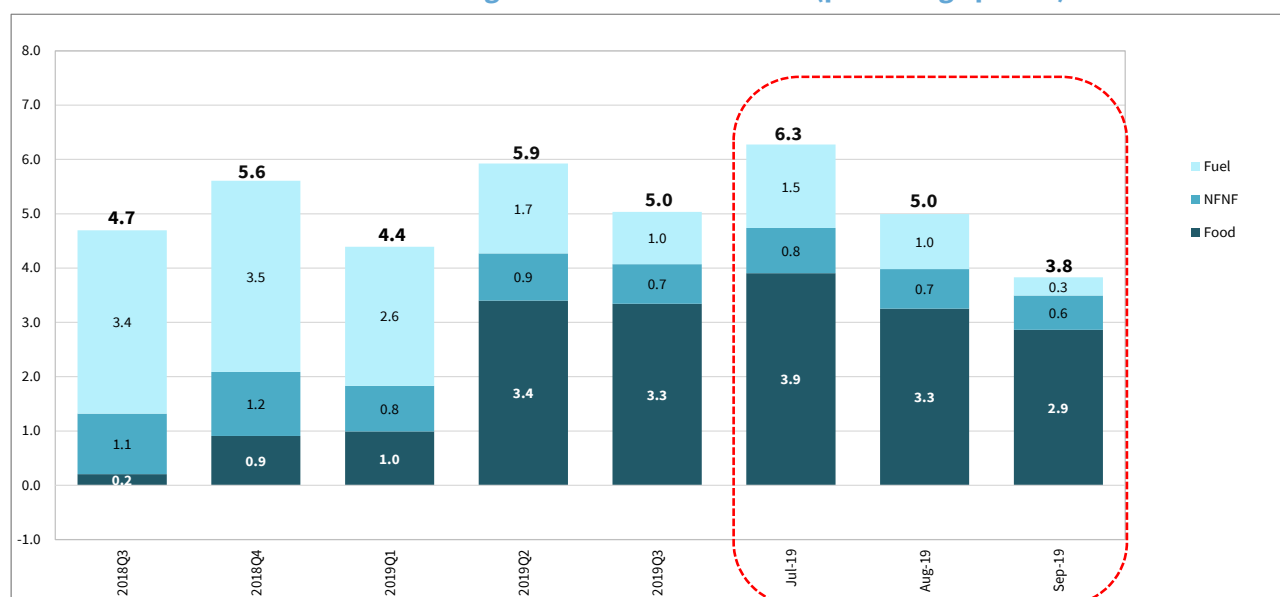
	2018				2019					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul	Aug	Sep
Overall inflation	4.5	4.0	4.7	5.6	4.4	5.9	5.0	6.3	5.0	3.8
Food Inflation	3.8	0.9	0.4	1.8	2.0	6.8	6.8	7.9	6.7	5.9
Fuel Inflation	6.8	11.2	14.7	14.9	10.8	6.8	3.8	6.2	4.0	1.3
Non-Food-Non-Fuel (NFNF) Inflation	3.6	3.8	4.3	4.5	3.2	3.4	2.8	3.2	2.8	2.4
Annual Average Inflation	7.4	5.7	4.7	4.6	4.7	5.0	5.3	5.3	5.4	5.2
Three Months Annualised Inflation	12.6	13.1	-2.4	0.3	7.5	19.9	-32.0	-20.8	-39.8	-35.5

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

Food remained the dominant driver of inflation and contributed 3.3 percentage points to overall inflation during the quarter under review compared to 3.4 percentage points in the previous quarter. The contribution of fuel to overall inflation declined

to 1.0 percentage points from 1.7 percentage points in the previous quarter. Similarly, the contribution of the NFNF inflation to overall inflation declined to 0.7 percentage points from 0.9 percentage points in the previous quarter (**Chart 1.1**).

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



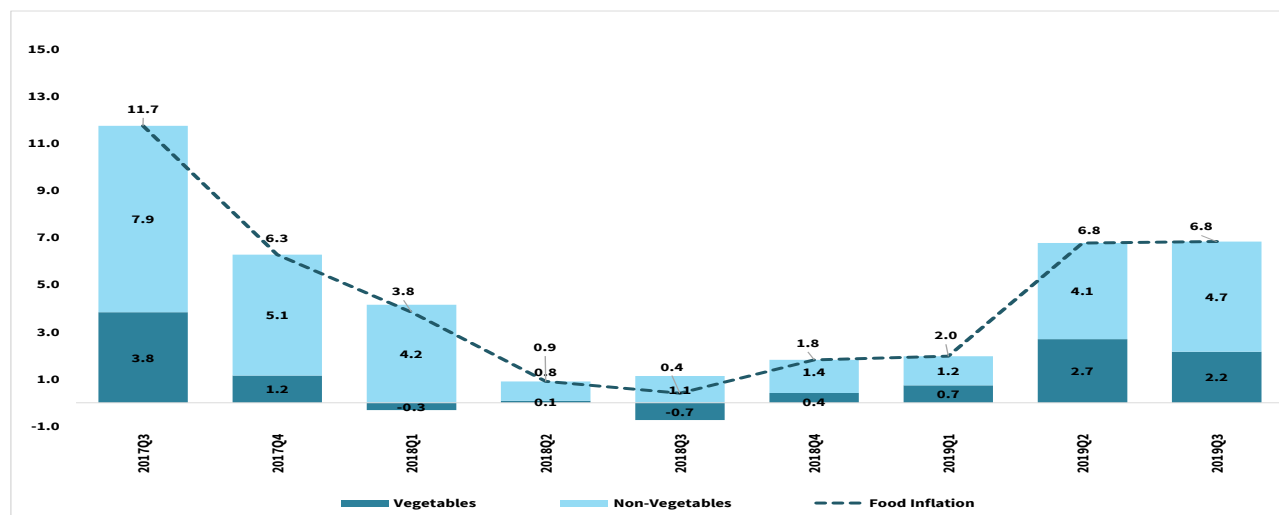
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Food Inflation

Food inflation stabilized at 6.8 percent in the second and third quarters of 2019, mainly driven by higher prices of non-vegetables, whose contribution to food inflation increased to 4.7 percentage points from 4.1 percentage points in the previous quarter. The non-vegetables inflation was mainly due to increases in maize¹ and milk prices². However,

lower prices of sugar and beef with bones continued to moderate the non-vegetables inflation. The contribution of vegetables remained low and declined to 2.2 percent from 2.7 percentage points in the previous quarter. The impact of vegetables on food inflation declined driven by lower prices of kales and potatoes, which offset the upward pressure from other vegetables such as tomatoes, onions, cabbages and carrots (**Chart 1.2**).

Chart 1.2: Contribution of vegetables and non-vegetables to food inflation (percentage points)



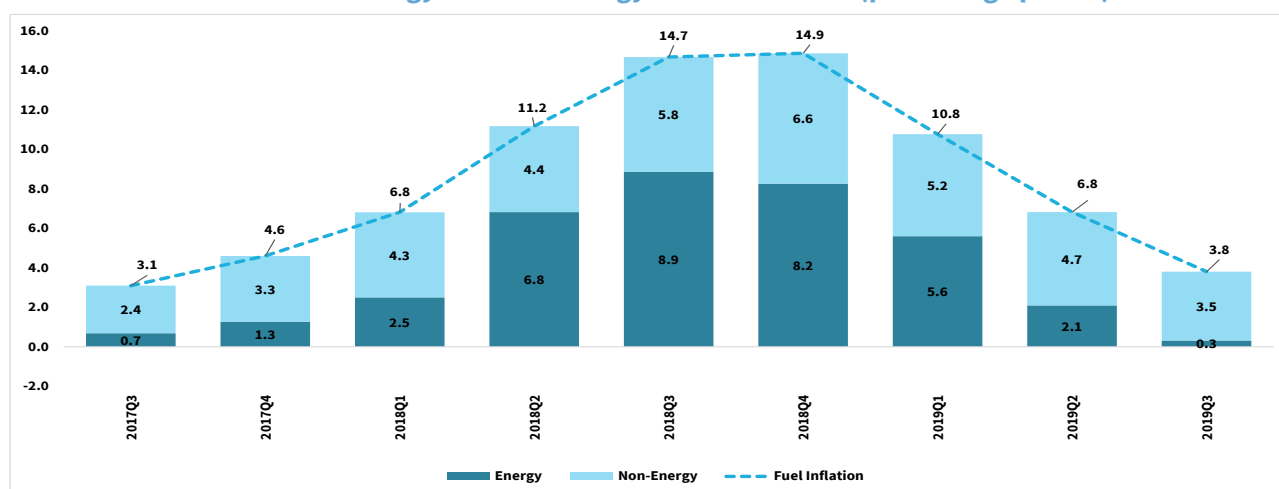
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Fuel Inflation

Fuel inflation declined to 3.8 percent from 6.8 percent in the second quarter of 2019. This was reflected in lower contribution of both energy and

non-energy components which declined to 3.5 percentage points from 4.7 percentage points, and to 0.3 percentage points from 2.1 percentage points, respectively (**Chart 1.3**).

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.

¹Maize components includes green maize, maize grain-loose, maize flour-loose and maize flour-sifted.

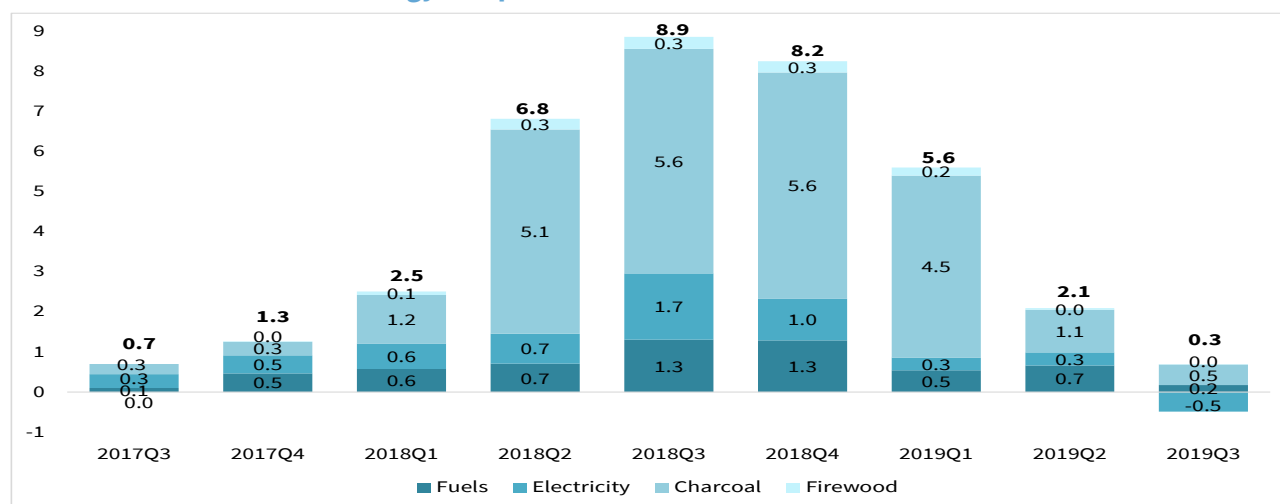
²Milk components include fresh packeted milk and fresh unpacked milk.

The subdued impact of energy prices on fuel inflation were reflected in lower prices of electricity, fuels (petrol, diesel and Liquefied Petroleum Gas (LPG)) and charcoal (**Chart 1.4**). The contribution of non-energy components to fuel inflation also declined, driven by lower housing³ and transport⁴ costs. However, fares continued to exert an upward pressure on inflation reflecting the impact of taxes on pump prices.

Non-Food Non-Fuel inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation remained low and declined to 2.8 percent from 3.4 percent in the previous quarter. This decline was reflected across all categories of NFNF inflation. The low NFNF inflation point to muted demand pressures in the economy (**Table 1.2**).

Chart 1.4: Contribution of energy components to fuel inflation



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

Overall Inflation across Regions

The Nairobi region and the Rest of Kenya region equally contributed 2.5 percentage points each to overall inflation in the country, a decline from a contribution of 3.0 percentage points and 2.9

percentage points, respectively, in the previous quarter. The contribution of food inflation to overall inflation in both regions remained balanced and stabilized at 1.7 percentage points compared to the previous quarter (**Chart 1.5**).

Table 1.2: Non-food-non-fuel inflation by cpi categories (percent)

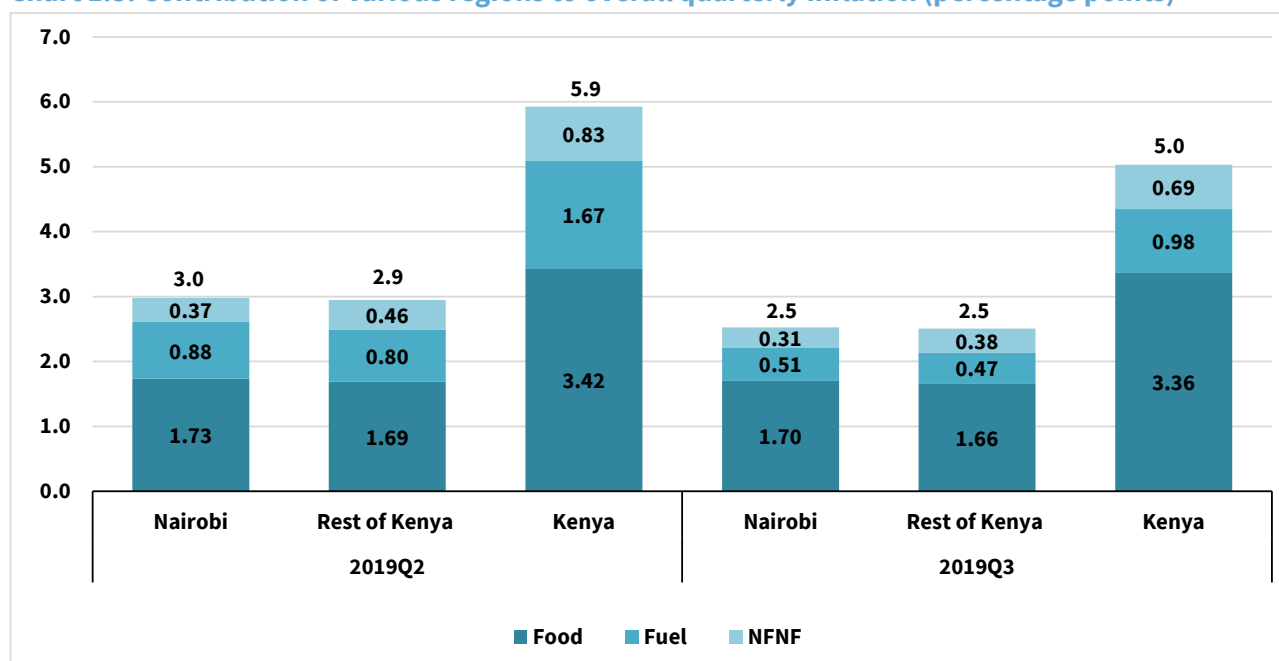
		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Foot-wear	Furnishings, Household Equipment and Routine Household Maintenance	Health	Communication	Recreation & Culture	Education	Miscellaneous Goods & Services	NFNF inflation
2018	Q1	2.9	3.8	4.1	3.6	0.7	1.6	5.2	4.4	3.6
	Q2	2.6	4.2	4.6	3.9	0.8	1.5	5.1	4.4	3.8
2019	Q3	5.0	4.3	4.7	5.9	0.7	1.5	5.0	4.2	4.3
	Q4	7.0	4.1	4.3	5.1	4.6	1.4	4.9	4.2	4.5
	Q1	7.2	2.5	3.2	4.5	4.6	0.8	1.3	3.3	3.2
	Q2	8.8	2.2	2.4	4.1	4.5	0.6	1.5	3.0	3.4
	Q3	7.5	1.8	1.8	1.6	4.4	0.5	1.6	2.6	2.8
	Jul	9.6	1.9	1.9	1.8	4.5	0.5	1.6	2.8	3.2
	Aug	6.7	1.8	1.8	1.6	4.4	0.5	1.5	2.5	2.8
	Sep	6.2	1.6	1.5	1.3	4.5	0.4	1.6	2.3	2.4

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

³Housing components include Bungalow, Flat, Maisonette, Single Room Houses, Maintenance and Repair and Water Service.

⁴Transport refers to Cars, Motorcycles, Bicycles, Driving Lessons, Parking Charges, all types of fares, primary and secondary transport, local and international flights.

Chart 1.5: Contribution of various regions to overall quarterly inflation (percentage points)



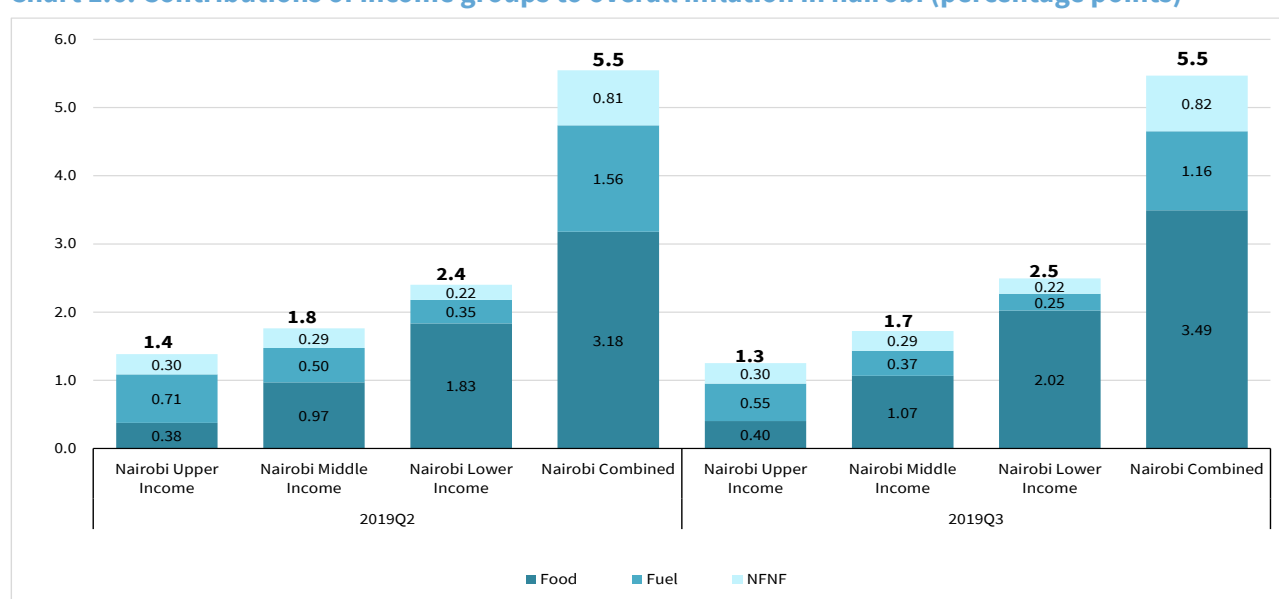
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Overall Inflation across Income Groups in Nairobi

Inflation in Nairobi stabilized at 5.5 percent in the second and third quarters of 2019, and was mainly driven by food prices. The contribution of the three income groups to inflation in Nairobi remained largely unchanged during the period under review. The lower income group continues to be the largest

contributor to inflation, with the upper income group contributing the least towards inflation in Nairobi. Inflation in the lower and middle income groups remains a food phenomenon, while fuel is the dominant driver of inflation in the upper income group. NFNF inflation remained low and stable across income groups in the third quarter of 2019 (**Chart 1.6**).

Chart 1.6: Contributions of income groups to overall inflation in nairobi (percentage points)



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

Chapter 2

Money, Credit and Interest Rates

Monetary aggregates and its components

Broad money supply (M3) declined by 2.5 percent in the third quarter of 2019 compared to an increase of 4.4 percent in the previous quarter, partly reflecting slower growth in deposits and reduction in currency outside banks. Growth in deposits declined to 0.8 percent from 3.0 percent in the previous quarter, partly due to reduction in other deposits at the Central Bank, mainly associated to county deposits following the delayed release of funds to counties occasioned by the delayed passage of the Division of Revenue Bill 2019. The corporate sector deposits also moderated in the third quarter, partly attributed to corporate tax and dividend payments. Growth in household sector deposits also slowed down, partly on account of decelerated growth in diaspora remittances in the quarter under review. In terms of maturity, time and savings deposits recorded positive growth, partly indicating that banks were offering competitive interest rates to attract these type of deposits (**Table 2.1 and 2.2**).

Currency outside banks declined in third quarter of 2019, partly reflecting the reduced demand for cash as demonetization process of the older 1000 series was being implemented. The impact of the demonetization of the older KSh 1,000 notes on the monetary aggregates was negligible, with KSh7.386 billion worth of the notes rendered worthless at the end of the exercise – equivalent to 0.2 percent of M3 and 3.4 percent of total currency in circulation at the end of the exercise.

On 12-month basis, money supply, M3 growth, declined to 6.5 percent in September 2019 from 9.2 percent in June 2019, partly attributed to reduced net foreign assets of the banking system. The decline in net foreign assets, largely reflected government external debt service and reduced commercial banks deposits in non-resident banks. The decline also reflected slower growth in deposits, and a decline in currency outside banks (**Tables 2.1 & 2.2 and Charts 1**).

Table 2.1: Monetary aggregates

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Components of M3																		
1. Money supply, M1 (1.1+1.2+1.3)	1425.6	1379.5	1477.5	1520.3	1575.5	1459.7	4.7	-3.2	7.1	2.9	3.6	-7.3	64.0	-46.0	98.0	42.7	55.2	-115.8
1.1 Currency outside banks	218.3	214.4	230.3	225.2	196.9	157.7	1.8	-1.8	7.4	-2.2	-12.6	-19.9	3.9	-3.9	16.0	-5.1	-28.3	-39.2
1.2 Demand deposits	1126.8	1094.6	1175.6	1209.0	1212.8	1190.7	4.0	-2.9	7.4	2.8	0.3	-1.8	43.5	-32.2	80.9	33.4	3.8	-22.1
1.3 Other deposits at CBK 1/	81.2	70.8	71.7	86.2	165.8	111.4	25.8	-12.9	1.3	20.2	92.5	-32.8	16.7	-10.4	0.9	14.5	79.7	-54.4
2. Money supply, M2 (1+2.1)	2681.9	2684.9	2756.0	2838.4	2943.7	2866.0	4.7	0.1	2.6	3.0	3.7	-2.6	120.9	3.0	71.1	82.4	105.3	-77.7
2.1 Time and saving deposits	1256.3	1305.4	1278.4	1318.1	1368.2	1406.3	4.8	3.9	-2.1	3.1	3.8	2.8	57.0	49.1	-26.9	39.7	50.1	38.0
3. Money supply, M3 (2+3.1)	3262.6	3261.1	3337.8	3415.3	3564.2	3473.4	7.5	0.0	2.4	2.3	4.4	-2.5	227.2	-1.6	76.8	77.5	148.9	-90.8
3.1 Foreign Currency Deposits	580.8	576.2	581.9	576.9	620.5	607.4	22.4	-0.8	1.0	-0.8	7.6	-2.1	106.3	-4.6	5.7	-4.9	43.6	-13.1
Sources of M3																		
1. Net foreign assets 2/	756.9	742.1	714.1	720.0	939.9	835.4	8.5	-2.0	-3.8	0.8	30.5	-11.1	59.3	-14.8	-28.0	5.9	219.9	-104.5
Central Bank	783.6	768.3	739.5	747.5	941.0	871.5	-2.5	-2.0	-3.8	1.1	25.9	-7.4	-19.7	-15.3	-28.8	8.0	193.5	-69.5
Banking Institutions	-26.7	-26.2	-25.4	-27.5	-1.1	-36.1	-74.7	-1.8	-3.2	8.3	-96.0	3217.2	79.0	0.5	0.8	-2.1	26.4	-35.0
2. Net domestic assets (2.1+2.2)	2505.7	2519.0	2623.7	2695.3	2624.3	2637.9	7.2	0.5	4.2	2.7	-2.6	0.5	168.0	13.3	104.7	71.6	-71.0	13.6
2.1 Domestic credit	3237.3	3282.5	3381.1	3508.1	3490.0	3566.6	5.1	1.4	3.0	3.8	-0.5	2.2	156.7	45.2	98.5	127.0	-18.1	76.6
2.1.1 Government (net)	745.1	770.2	858.2	964.2	890.5	894.3	19.2	3.4	11.4	12.4	-7.6	0.4	120.1	25.2	87.9	106.1	-73.7	3.8
2.1.2 Private sector	2380.4	2404.0	2422.0	2444.2	2503.0	2572.4	1.6	1.0	0.7	0.9	2.4	2.8	37.4	23.6	18.0	22.2	58.8	69.4
2.1.3 Other public sector	111.9	108.3	100.9	99.7	96.4	99.8	-0.8	-3.2	-6.8	-1.2	-3.3	3.5	-0.9	-3.5	-7.4	-1.2	-3.3	3.4
2.2 Other assets net	-731.6	-763.5	-757.3	-812.8	-865.6	-928.6	-1.5	4.4	-0.8	7.3	6.5	7.3	11.3	-32.0	6.2	-55.4	-52.9	-63.0
Memorandum items																		
4. Overall liquidity, L (3+4.1)	4434.2	4467.0	4551.0	4696.9	4896.0	4864.6	6.6	0.7	1.9	3.2	4.2	-0.6	275.0	32.8	84.0	145.9	199.1	-31.4
4.1 Non-bank holdings of government securities	1171.6	1205.9	1213.1	1281.6	1331.7	1391.2	4.3	2.9	0.6	5.6	3.9	4.5	47.8	34.3	7.3	68.4	50.2	59.5

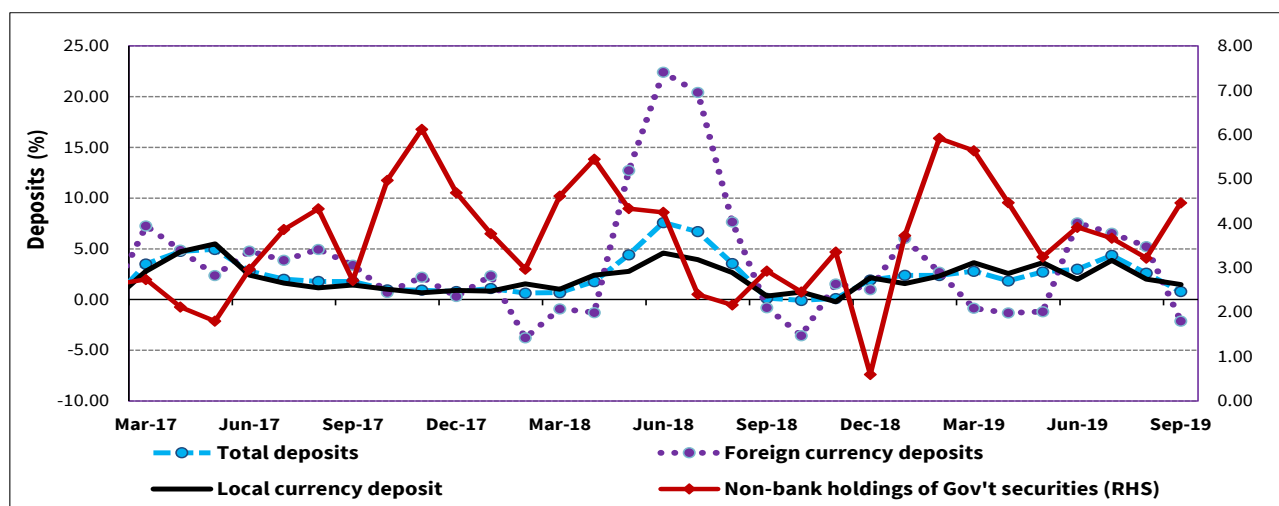
Absolute and percentage changes may not necessarily add up due to rounding

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

Chart 2.1: Quarterly growth in deposits and non-bank holdings of government securities (percent)



Source: Central Bank of Kenya

Table 2.2: Deposits holdings of corporates and household sectors

	End Month Levels (KSh Billions)						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
1. Household Sector 1/	1485.7	1478.7	1493.4	1518.8	1629.0	1638.1	10.5	-0.5	1.0	1.7	7.3	0.6	141.3	-7.0	14.7	25.4	110.2	9.1
1.1 Demand Deposits	574.1	560.4	562.1	583.5	604.3	598.1	2.2	-2.4	0.3	3.8	3.6	-1.0	12.1	-13.7	1.7	21.4	20.9	-6.3
1.2 Time and Saving Deposits	663.2	689.7	701.3	707.8	749.6	774.5	4.8	4.0	1.7	0.9	5.9	3.3	30.2	26.5	11.6	6.6	41.7	25.0
1.3 Foreign Currency Deposits	248.4	228.6	230.0	227.5	275.1	265.5	66.3	-8.0	0.6	-1.1	20.9	-3.5	99.0	-19.8	1.4	-2.6	47.6	-9.6
2. Corporate Sector	1460.4	1481.0	1518.0	1559.5	1556.5	1549.7	4.0	1.4	2.5	2.7	-0.2	-0.4	56.5	20.5	37.0	41.5	-3.0	-6.8
2.1 Demand deposits	538.4	520.2	593.6	604.0	596.0	578.8	4.4	-3.4	14.1	1.8	-1.3	-2.9	22.8	-18.2	73.4	10.4	-8.0	-17.2
2.2 Time and Saving Deposits	590.0	613.6	574.7	607.9	616.0	629.1	4.7	4.0	-6.3	5.8	1.3	2.1	26.3	23.6	-38.9	33.1	8.1	13.0
2.3 Foreign Currency Deposits	332.0	347.1	349.7	347.6	344.5	341.9	2.3	4.6	0.7	-0.6	-0.9	-0.8	7.5	15.2	2.5	-2.1	-3.1	-2.6

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

Source: Central Bank of Kenya

Sources of Broad Money

The primary source of the decline in M3 in the third quarter of 2019 was net foreign assets (NFA) of the banking system, which declined by KSh 104.5 billion compared to an increase of KSh 219.9 billion in the previous quarter. The decline in NFA of Central Bank was largely due to payments of scheduled government external debt service, while the decline in NFA of commercial banks was largely due to increased commercial banks' loan borrowings from non-residents. Net Domestic Asset (NDA) of the banking system increased in third quarter of 2019, partly reflecting a continued recovery in credit to the private sector (**Table 2.1**).

Developments in Domestic Credit

Domestic credit extended by banks increased by 2.2 percent in the third quarter of 2019 compared to a decline of 0.5 percent in the previous quarter, supported by improved growth in credit to the private sector. Lending to government and other public sector also improved over the same period (**Table 2.3**).

Growth in Bank lending to the private sector improved in the third quarter of 2019 by 2.8 percent (KSh 69.4 billion) compared to 2.4 percent (KSh

58.8 billion) in the previous quarter. The improved private sector lending was mainly absorbed by the corporate sector, which was largely in form of short term loans and overdraft facilities for working capital needs. Lending to the household sector also increased, partly attributed to increased marketing efforts by banks as well as the introduction of innovative digital lending products (**Table 2.4**).

In terms of sectors, improvement in credit uptake was mainly registered in the service sector, which was also the major source of growth of Kenya's economy in the third quarter of 2019. Strong lending was mainly recorded in trade, transport and communication, finance and insurance and business services. The productive sectors, which comprises agriculture, real estate, manufacturing, mining and quarrying, building and construction sub-sectors, registered moderate growth in credit due to significant net loans repayments and recoveries, largely in the manufacturing sector (**Table 2.3**).

On a 12-month basis, private sector credit growth improved to 7.0 percent in September 2019 from 5.2 percent in June 2019 and 2.4 percent in December 2018, reflecting pickup in demand (**Table 2.3 and Chart 2**).

Table 2.3: Banking sector net domestic credit

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
1. Credit to Government	745.1	770.2	858.2	964.2	890.5	894.3	19.2	3.4	11.4	12.4	-7.6	0.4	120.1	25.2	87.9	106.1	-73.7	3.8
Central Bank	-204.4	-214.6	-95.1	-98.6	-189.6	-182.4	-20.4	5.0	-55.7	3.6	92.4	-3.8	52.4	-10.2	119.5	-3.4	-91.1	7.3
Commercial Banks & NBFI	949.5	984.9	953.3	1,062.8	1,080.2	1,076.7	7.7	3.7	-3.2	11.5	1.6	-0.3	67.7	35.4	-31.6	109.5	17.4	-3.5
2. Credit to other public sector	111.9	108.3	100.9	99.7	96.4	99.8	-0.8	-3.2	-6.8	-1.2	-3.3	3.5	-0.9	-3.5	-7.4	-1.2	-3.3	3.4
Local government	4.4	4.4	4.3	4.3	3.8	4.5	3.1	0.1	-0.4	-0.6	-12.9	20.0	0.1	0.0	0.0	0.0	-0.6	0.8
Parastatals	107.5	104.0	96.6	95.4	92.7	95.3	-0.9	-3.3	-7.1	-1.2	-2.9	2.9	-1.0	-3.5	-7.4	-1.2	-2.7	2.7
3. Credit to private sector	2,380.4	2,404.0	2,422.0	2,444.2	2,503.0	2,572.4	1.6	1.0	0.7	0.9	2.4	2.8	37.4	23.6	18.0	22.2	58.8	69.4
Agriculture	83.0	85.0	83.0	83.0	86.2	89.7	0.2	2.5	-2.4	0.0	3.9	4.1	0.1	2.1	-2.0	0.0	3.2	3.5
Manufacturing	321.1	334.8	334.6	336.1	357.6	360.0	2.4	4.3	-0.1	0.4	6.4	0.6	7.5	13.7	-0.2	1.5	21.5	2.3
Trade	423.9	424.5	429.3	440.3	447.1	456.5	4.7	0.1	1.1	2.6	1.5	2.1	18.9	0.5	4.8	11.0	6.8	9.4
Building and construction	116.5	120.9	114.0	108.2	109.2	114.5	0.2	3.7	-5.7	-5.1	0.9	4.8	0.2	4.4	-6.9	-5.8	1.0	5.3
Transport & communications	165.1	169.4	172.7	172.7	174.7	178.0	1.1	2.6	1.9	0.0	1.2	1.9	1.8	4.4	3.2	0.0	2.1	3.3
Finance & insurance	88.6	89.5	96.5	95.6	92.8	102.5	2.2	1.0	7.8	-1.0	-2.9	10.4	1.9	0.9	7.0	-0.9	-2.8	9.7
Real estate	373.7	369.1	368.7	370.5	377.4	377.1	0.8	-1.2	-0.1	0.5	1.9	-0.1	2.8	-4.5	-0.4	1.8	6.9	-0.3
Mining and quarrying	13.9	14.0	14.7	13.4	13.3	13.3	-8.0	1.1	4.8	-9.2	-0.5	0.2	-1.2	0.2	0.7	-1.3	-0.1	0.0
Private households	399.4	404.9	415.1	424.9	429.6	440.6	1.5	1.4	2.5	2.4	1.1	2.5	6.0	5.5	10.2	9.8	4.7	10.9
Consumer durables	181.4	184.4	195.8	205.7	220.1	236.7	0.4	1.6	6.2	5.1	7.0	7.5	0.7	3.0	11.5	9.9	14.4	16.6
Business services	151.4	146.0	150.4	149.3	146.6	150.7	1.1	-3.6	3.0	-0.7	-1.8	2.7	1.6	-5.4	4.4	-1.1	-2.7	4.0
Other activities	62.3	61.3	47.1	44.5	48.2	53.0	-4.5	-1.6	-23.3	-5.4	8.3	9.9	-2.9	-1.0	-14.3	-2.5	3.7	4.8
4. TOTAL (1+2+3)	3,237.3	3,282.5	3,381.1	3,508.1	3,490.0	3,566.6	5.1	1.4	3.0	3.8	-0.5	2.2	156.7	45.2	98.5	127.0	-18.1	76.6

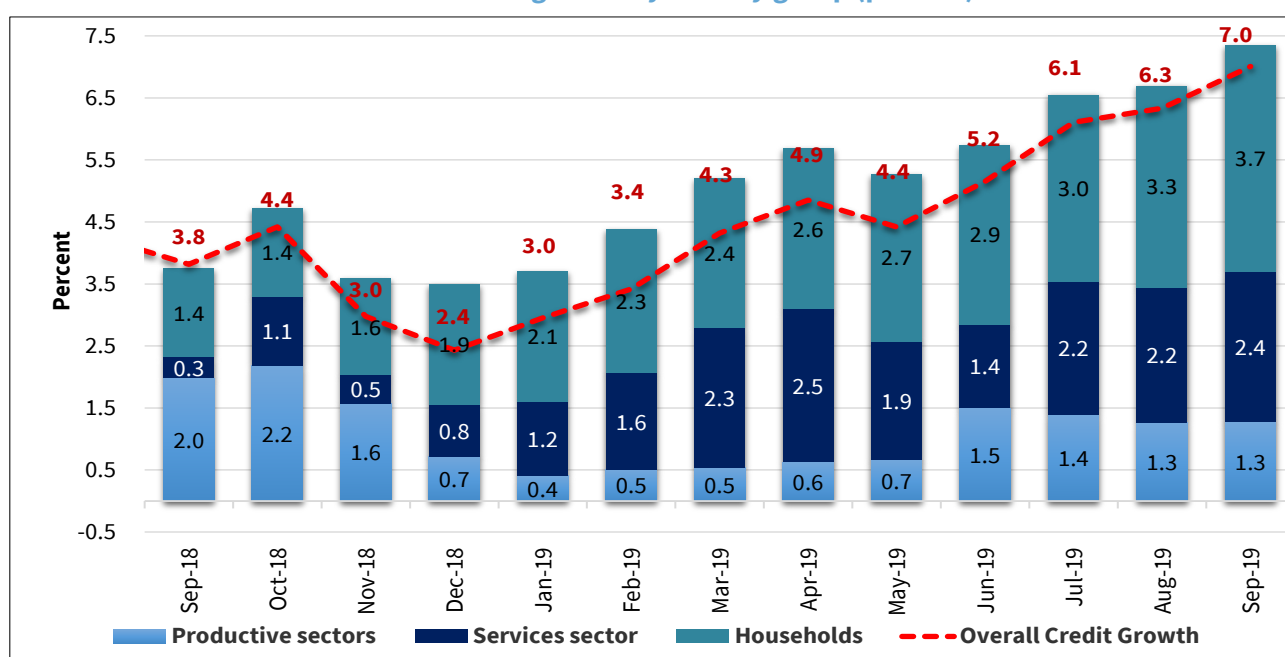
Source: Central Bank of Kenya

Table 2.4: Gross loans to the private sector

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
1. Household	729.8	749.4	743.7	756.9	766.2	787.2	2.3	2.7	-0.8	1.8	1.2	2.7	16.5	19.6	-5.8	13.2	9.3	21.1
2. Corporate	1,706.2	1,735.7	1,745.5	1,796.3	1,847.5	1,796.3	1.4	0.5	1.7	0.6	2.9	2.8	23.4	8.6	29.5	9.8	50.8	51.2
Gross Loans	2,455.6	2,479.4	2,502.4	2,562.5	2,634.7	2,562.5	1.7	1.2	1.0	0.9	2.4	2.8	39.8	28.2	23.8	23.0	60.1	72.2

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Reserve Money

Reserve money, which comprises currency held by the non-bank public and commercial bank reserves, declined by 10.7 percent in the third quarter of 2019 compared to a decline of 3.7 percent in the previous quarter. The decrease was largely reflected in currency outside banks, partially attributed to the demonetization process that was concluded in September 2019. The bank reserves at the central

bank increased, partly offsetting the impact of reduced currency outside banks on reserve money (**Table 2.5**).

On the asset side, the decline in reserve money was due to a decrease in net foreign assets (NFA) of Central Bank, which more than offset the increase in net domestic assets. The decline in NFA was mainly due to payments of government scheduled debt service.

Table 2.5: Reserve money and its sources

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
1. Net Foreign Assets	783.6	768.3	739.5	747.5	941.0	871.5	-2.5	-2.0	-3.8	1.1	25.9	16.6	-19.7	-15.3	-28.8	8.0	193.5	-69.5
2. Net Domestic Assets	-354.4	-318.4	-247.5	-291.0	-501.2	-463.7	-8.0	-10.2	-22.3	17.6	72.2	59.4	30.7	36.0	70.9	-43.5	-210.2	37.5
2.1 Government Borrowing (net)	-204.4	-214.6	-95.1	-98.6	-189.6	-182.4	-20.4	5.0	-55.7	3.6	92.4	85.0	52.4	-10.2	119.5	-3.4	-91.1	7.3
2.2 Commercial banks (net)	28.7	57.9	23.2	-0.7	-21.3	-19.0	-13.2	101.7	-59.9	-102.9	3114.8	2770.6	-4.4	29.2	-34.7	-23.9	-20.7	2.3
2.3 Other Domestic Assets (net)	-182.1	-165.1	-178.9	-195.1	-293.7	-265.8	10.6	-9.3	8.4	9.1	50.5	36.2	-17.4	17.0	-13.8	-16.2	-98.5	27.9
3. Reserve Money	429.2	449.9	492.0	456.5	439.8	407.8	2.6	4.8	9.4	-7.2	-3.7	-10.7	11.0	20.7	42.1	-35.5	-16.7	-32.0
3.1 Currency outside banks	218.3	214.4	230.3	225.2	196.9	157.7	1.8	-1.8	7.4	-2.2	-12.6	-30.0	3.9	-3.9	16.0	-5.1	-28.3	-39.2
3.2 Bank reserves	210.9	235.5	261.7	231.3	242.8	250.0	3.5	11.7	11.1	-11.6	5.0	8.1	7.1	24.6	26.1	-30.4	11.6	7.2

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) held two meetings during the third quarter of 2019 on July and September, and they retained the Central Bank Rate at 9.0 percent. The MPC noted that the policy stance was appropriate as inflation expectations remained well anchored within the target range. In the September meeting, the MPC noted that the prospective tightening of fiscal policy would provide scope for accommodative monetary policy in near term.

b. Interbank rate

The weighted average interbank rate was relatively low at the beginning of the third quarter in July 2019, partly reflecting improved liquidity supported by significant government payments towards the end of the FY 2018/2019. The average interbank rate, thereafter rose from 2.28 percent in July to 6.59 percent in September, partly attributed to seasonal slowdown in government spending at the beginning of the Fiscal Year, including delayed

release of funds to the County governments occasioned by the delayed passage of the Division of Revenue Bill 2019 (**Table 2.6**).

c. Treasury bill rates

Interest rates on government securities generally declined in the third quarter of 2019, partly reflecting relatively improved liquidity conditions amidst competitive bidding. The average 91-day Treasury bill rate declined from 6.94 percent in June to 6.53 percent in September 2019 while the average 182-day Treasury bill rate declined from 7.71 percent to 7.26 percent (**Table 2.6**).

d. Lending and Deposit Rates

Commercial banks' weighted average lending rate remained relatively stable within the interest rate caps in the third quarter of 2019. The weighted average deposit rate declined from 7.19 percent in June 2019 to 6.98 in September 2019, reflected across all tenures of deposits, partly due to improved liquidity conditions. As a result, the spread increased to an average of 5.48 percent from 5.28 percent in the previous quarter.

Table 2.6: Interest rates (%)

	2018												2019								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
91-day Treasury bill rate	8.04	8.03	8.02	8.00	7.96	7.87	7.69	7.64	7.64	7.56	7.36	7.34	7.23	7.06	7.13	7.41	7.23	6.94	6.81	6.44	6.35
182-day Treasury bill rate	10.64	10.42	10.39	10.30	10.26	9.99	9.35	9.00	8.82	8.51	8.30	8.40	8.95	8.62	8.32	8.16	7.90	7.71	7.57	7.12	7.10
Interbank rate	6.21	5.12	4.90	5.38	4.70	5.03	4.82	6.52	4.28	3.48	4.09	8.15	3.32	2.51	3.72	4.12	5.61	2.98	2.28	3.70	6.59
Repo rate	8.75	7.63	0.00	6.75	7.44	6.16	6.56	8.01	4.77	4.70	7.10	7.72	3.70	3.15	3.49	3.03	0.00	4.23	4.55	7.37	8.69
Reverse Repo rate	10.02	10.05	9.95	9.64	9.60	9.56	9.46	9.02	9.03	9.06	-	11.34	-	9.03	-	9.13	9.18				-
Central Bank Rate (CBR)	10.00	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Average lending rate (1)	13.65	13.68	13.49	13.24	13.25	13.22	13.10	12.78	12.66	12.61	12.55	12.51	12.50	12.47	12.51	12.50	12.47	12.47	12.39	12.46	12.47
Overdraft rate	13.61	13.75	13.40	13.29	13.30	13.23	13.16	12.90	12.52	12.42	12.11	12.17	12.15	12.13	12.13	12.15	12.13	12.12	11.89	11.97	11.99
1-5years	13.84	13.83	13.67	13.41	13.40	13.39	13.26	12.94	12.85	12.82	12.79	12.70	12.68	12.62	12.70	12.68	12.62	12.64	12.58	12.67	12.67
Over 5years	13.45	13.45	13.31	13.03	13.03	13.00	12.88	12.53	12.51	12.46	12.50	12.47	12.47	12.48	12.49	12.48	12.47	12.46	12.42	12.48	12.46
Average deposit rate (2)	8.26	8.25	8.16	8.17	8.08	8.04	8.01	7.78	7.76	7.63	7.41	7.41	7.34	7.28	7.22	7.17	7.20	7.19	6.97	6.91	6.98
0-3months	8.52	8.50	8.48	8.46	8.53	8.41	8.41	8.28	8.22	8.03	7.85	7.83	7.73	7.69	7.62	7.56	7.58	7.55	7.26	7.28	7.42
Over 3 months deposit	8.35	8.39	8.26	8.11	8.01	8.14	8.04	7.53	7.64	7.76	7.56	7.67	7.58	7.49	7.43	7.48	7.50	7.53	7.34	7.21	7.23
Savings deposits	6.97	7.01	6.85	6.72	6.64	6.60	6.53	6.52	6.33	5.70	5.38	5.13	5.14	5.16	5.05	4.75	4.71	4.77	4.77	4.54	4.58
Spread (1-2)	5.39	5.42	5.33	5.07	5.17	5.18	5.09	5.00	4.91	4.98	5.14	5.09	5.16	5.19	5.29	5.34	5.27	5.28	5.42	5.56	5.48

Source: Central Bank of Kenya

Chapter 3

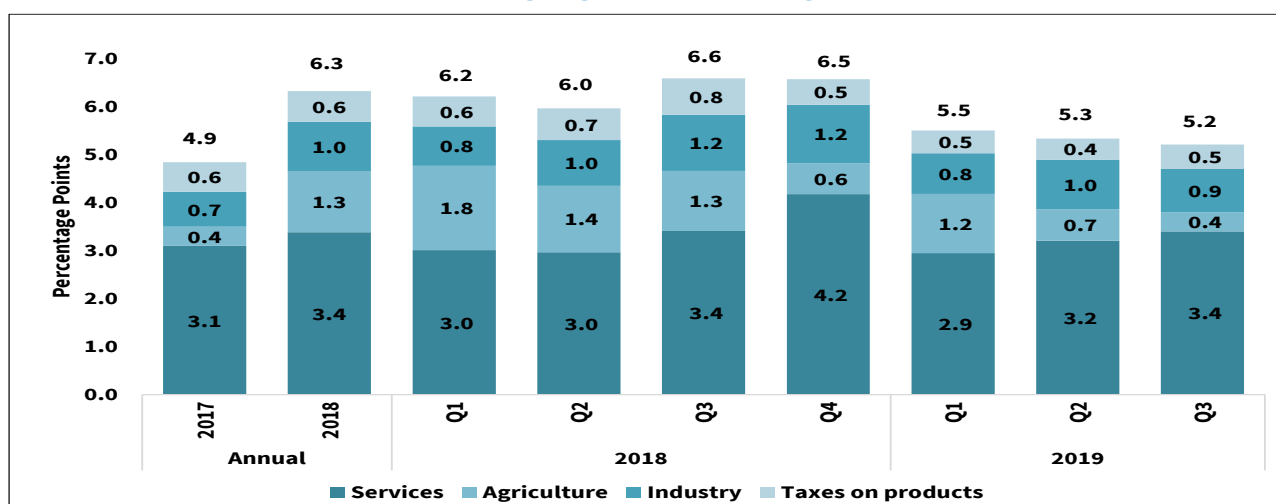
The Real Sector

Overview

Economic growth was subdued in the third quarter of 2019. The economy grew by 5.2 percent compared to 5.3 percent in the previous quarter and 6.6 percent in the same quarter of 2018, with the slowdown being attributed to slower activity in agriculture and manufacturing sectors. The services sector remained resilient, reflected in positive performance of key sectors such as Finance and Insurance, and Real Estate. The services sector

contributed 3.4 percentage points to overall GDP growth during the quarter compared to 3.2 percentage points in the previous quarter. The contribution of agriculture and industry sectors to overall GDP growth declined to 0.4 percentage points and 0.9 percentage points, respectively, from 1.0 percentage point each contributed in the previous quarter (**Chart 3.1, Tables 3.1 and 3.3**).

Chart 3.1: Sectoral contributions to real gdp growth (percentage points)



Source: Kenya National Bureau of Statistics

Table 3.1: Real gross domestic product (GDP) growth by activity(percent)

	Annual		2018				2019		
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	1.6	6.0	6.7	5.9	6.8	3.9	4.7	2.9	2.4
2.1 Industry	3.9	5.5	4.5	5.0	6.0	6.4	4.7	5.4	4.7
Mining & Quarrying	4.5	2.7	3.1	3.5	3.2	1.2	1.4	5.0	3.4
Manufacturing	0.7	4.3	3.2	3.9	5.1	5.2	3.5	4.0	3.2
Electricity & water supply	7.0	8.0	6.1	8.3	8.1	9.5	7.8	7.3	6.4
Construction	8.4	6.9	6.7	5.6	7.3	7.7	6.1	7.2	6.6
2.2 Services	6.5	7.0	6.6	6.4	6.8	8.0	6.4	6.8	6.7
Wholesale & Retail Trade	5.8	6.9	5.6	6.5	7.3	7.9	6.3	7.8	6.1
Accommodation & restaurant	14.3	16.6	13.3	15.1	15.5	21.5	11.0	12.1	9.9
Transport & Storage	7.2	8.5	6.5	6.6	8.5	11.8	6.4	7.6	7.6
Information & Communication	11.0	11.3	13.2	11.7	9.8	10.6	10.2	7.8	8.1
Financial & Insurance	2.6	5.3	4.0	3.5	5.1	8.5	6.3	5.2	8.1
Public administration	4.7	6.7	5.5	6.1	7.1	8.1	8.9	8.7	8.4
Professional, Administration & Support Services	3.7	5.9	6.2	7.5	6.6	3.5	5.5	4.2	4.8
Real estate	6.1	4.1	5.1	4.5	3.8	3.1	4.8	6.0	5.5
Education	5.2	5.8	5.1	5.1	5.5	7.3	4.2	6.0	6.1
Health	4.3	4.4	4.1	3.4	5.3	4.5	5.4	6.2	5.5
Other services	5.1	4.9	3.6	4.6	5.0	6.5	5.6	5.6	5.3
FISIM	-4.3	0.9	-3.1	-2.4	1.9	7.4	4.6	7.3	6.8
2.3 Taxes on products	5.7	5.6	6.1	6.0	6.2	4.3	4.7	4.0	4.2
Real GDP Growth	4.8	6.3	6.2	6.0	6.6	6.5	5.5	5.3	5.2

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral shares as a percentage of GDP

	Annual		2018				2019		
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	21.2	21.2	26.2	23.4	18.5	16.5	26.0	22.8	18.0
2.1 Industry	19.1	18.9	18.2	19.0	19.4	19.1	18.1	19.1	19.3
Mining & Quarrying	1.1	1.0	1.1	1.0	1.0	1.0	1.0	0.9	1.0
Manufacturing	9.9	9.7	9.7	9.9	9.9	9.3	9.5	9.7	9.7
Electricity & water supply	2.6	2.6	2.5	2.8	2.7	2.5	2.6	2.9	2.7
Construction	5.6	5.6	5.0	5.4	5.8	6.3	5.0	5.5	5.9
2.2 Services	48.2	48.5	45.3	46.6	50.1	52.1	45.7	47.3	50.8
Wholesale & Retail Trade	7.6	7.6	6.8	7.2	8.8	7.9	6.8	7.3	8.8
Accommodation & restaurant	1.2	1.4	1.5	1.0	1.3	1.7	1.6	1.1	1.3
Transport & Storage	7.0	7.1	6.1	6.7	7.5	8.1	6.2	6.9	7.6
Information & Communication	4.1	4.3	4.2	3.4	3.8	5.5	4.4	3.5	3.9
Financial & Insurance	6.1	6.1	5.8	5.8	6.3	6.3	5.9	5.8	6.5
Public administration	3.9	3.9	3.5	4.3	3.7	4.0	3.6	4.4	3.9
Professional, Administration & Support Services	2.2	2.2	2.0	2.2	2.3	2.3	2.0	2.2	2.3
Real estate	8.5	8.4	8.1	8.3	8.6	8.5	8.1	8.3	8.6
Education	6.9	6.9	6.7	6.8	7.0	7.0	6.6	6.8	7.1
Health	1.8	1.7	1.5	1.8	1.8	1.8	1.5	1.8	1.8
Other services	1.3	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.3
FISIM	-2.3	-2.2	-2.2	-2.1	-2.3	-2.3	-2.2	-2.1	-2.4
2.3 Taxes on products	11.5	11.4	10.3	11.0	12.1	12.3	10.2	10.9	12.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics and CBK Staff Computations

Table 3.3: Sectoral contributions to real GDP growth rate

	Annual		2018				2019		
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	0.3	1.3	1.8	1.4	1.3	0.6	1.2	0.7	0.4
2. Non-Agriculture (o/w)	4.5	5.1	4.4	4.6	5.3	5.9	4.3	4.7	4.8
2.1 Industry	0.7	1.0	0.8	1.0	1.2	1.2	0.8	1.0	0.9
Mining & Quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.1	0.4	0.3	0.4	0.5	0.5	0.3	0.4	0.3
Electricity & water supply	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Construction	0.5	0.4	0.3	0.3	0.4	0.5	0.3	0.4	0.4
2.2 Services	3.1	3.4	3.0	3.0	3.4	4.2	2.9	3.2	3.4
Wholesale & Retail Trade	0.4	0.5	0.4	0.5	0.6	0.6	0.4	0.6	0.5
Accommodation & restaurant	0.2	0.2	0.2	0.1	0.2	0.4	0.2	0.1	0.1
Transport & Storage	0.5	0.6	0.4	0.4	0.6	1.0	0.4	0.5	0.6
Information & Communication	0.4	0.5	0.6	0.4	0.4	0.6	0.5	0.3	0.3
Financial & Insurance	0.2	0.3	0.2	0.2	0.3	0.5	0.4	0.3	0.5
Public administration	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.3
Professional, Administration & Support Services	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Real estate	0.5	0.3	0.4	0.4	0.3	0.3	0.4	0.5	0.5
Education	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.4	0.4
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
FISIM	0.1	0.0	0.1	0.0	0.0	-0.2	-0.1	-0.2	-0.2
2.3 Taxes on products	0.6	0.6	0.6	0.7	0.8	0.5	0.5	0.4	0.5
Real GDP Growth	4.8	6.3	6.2	6.0	6.6	6.5	5.5	5.3	5.2

Source: Kenya National Bureau of Statistics and CBK Staff Computations

Performance by Sector

Sectoral performance was generally subdued in the third quarter of 2019 compared to the previous quarter.

I. Agriculture

The Agriculture sector decelerated in the third quarter of 2019, despite improved weather conditions experienced during the quarter. The sector grew by 3.2 percent compared to 4.2 percent in the previous quarter and 6.9 percent in the same quarter of 2018 (**Table 3.1**). Growth in the sector was constrained by lower production of key crops such as tea, coffee, and horticultural crops for export, due to delayed and below average rainfall experienced in the second quarter of 2019. However, production of milk and sugarcane increased during the quarter.

Tea

Tea production decreased by 2.0 percent in the third quarter of 2019 compared to the previous quarter. Monthly production declined in July and September, which more than offset the improvement recorded in August (**Table 3.4**). The average auction price per kilogram declined by 5.2 percent compared to the previous quarter.

Coffee

Coffee sales decreased by 66.4 percent compared to the previous quarter, as the Nairobi Coffee

Exchange went on recess for most of July. The auction resumed in August, leading to a significant increase of 145.2 percent in coffee sales, which was followed by a 7.6 percent decline in September (**Table 3.4**). The average auction price increased by 8.4 percent compared to the previous quarter.

Horticulture

Total exports of horticultural crops declined by 10.4 percent compared to the previous quarter, reflecting declined production of fruits, nuts, and cut flowers. However, exports of fresh vegetables increased. Monthly data shows increased exports of 18.3 percent in August, which was more than offset by declines of 33.1 percent and 13.4 percent in July and September, respectively (**Table 3.4**).

Milk intake increased by 31.8 percent compared to the previous quarter, supported by the favourable weather conditions. The increase was reflected in monthly production, where milk production increased in July and September by 21.4 percent and 4.6 percent, respectively, which more than offset the 4.9 percent decline in August (**Table 3.4**).

Sugarcane output also increased by 1.9 percent compared to the previous quarter. Monthly production declined slightly by 1.3 percent in July, then recovered in the subsequent months and increased by 42.5 percent and 3.2 percent in August and September, respectively (**Table 3.4**).

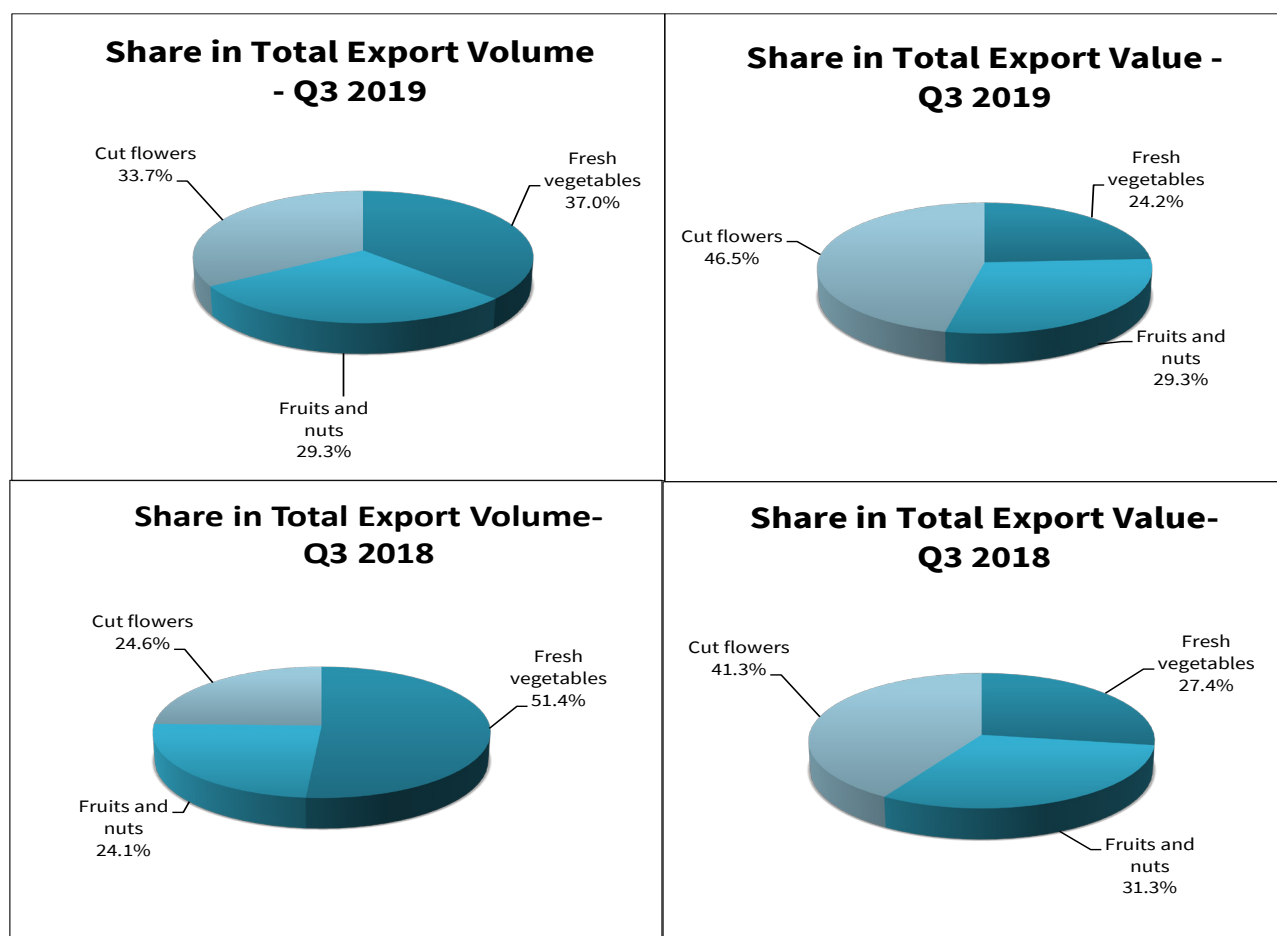
Table 3.4: Quarterly performance of key agricultural output indicators

	2018				2019*					
	Quarterly				Quarterly		Q3	Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2		Jul-19	Aug-19	Sep-19
Tea										
Output (Metric tonnes)	99,760	131,235	115,242	146,762	106,293	106,315	104,192	31,458	37,200	35,533
Growth (%)	-26.81	31.55	-12.19	27.35	-27.57	0.02	-2.00	-25.8	18.3	-4.5
Horticulture										
Exports (Metric tonnes)	100,526	96,592	108,043	76,078	103,204	84,183	75,387	23,500	27,800	24,087
Growth (%)	22.4	-3.9	11.9	-29.6	35.7	-18.4	-10.4	-33.1	18.3	-13.4
Coffee										
Sales (Metric tonnes)	15,857	8,814	5,755	6,405	13,948	11,412	3,840	672	1,647	1,522
Growth (%)	202.1	-44.4	-34.7	11.3	117.8	-18.2	-66.4	-66.8	145.2	-7.6
Milk										
Output (million litres)	148.7	152.0	162.1	172.9	177.1	142.1	187.2	63.5	60.5	63.2
Growth %	-9.8	2.2	6.7	6.6	2.4	-19.8	31.8	21.4	-4.9	4.6
Sugar Cane										
Output ('000 Metric tonnes)	1,689	927	1,252	1,392	1,485	972	990	254	362	374
Growth (%)	9.2	-45.1	35.2	11.2	6.7	-34.5	1.8	-1.3	42.5	3.2

* Provisional

Source: Kenya National Bureau of Statistics

Chart 3.2: Horticultural exports



Source: Kenya National Bureau of Statistics

II. Industry

The industry sector grew by 4.5 percent in the third quarter of 2019, which was slower than 5.3 percent in the previous quarter and 5.7 percent in the same quarter of 2018. Growth was supported by the strong performance of the Construction and Mining and Quarrying sectors. However, the slowdown in activity in Manufacturing and Electricity and Water supply sectors constrained growth in the industry sector (Table 3.1).

Manufacturing

The manufacturing sector recorded slower growth of 3.1 percent compared to 4.2 percent in the previous quarter and 4.6 percent in the same quarter of 2018. Growth in the sector was undermined by reduced activity in both food and non-food sub sectors (Table 3.1). The sector's contribution to overall GDP growth decreased slightly to 0.3 percentage points from 0.4 percentage points in the previous quarter (Table 3.3).

Production of processed sugar declined by 9.0 percent compared to the previous quarter, despite increased supply of sugarcane during the quarter under review. Monthly production was higher in August and September by 30.3 percent and 2.0 percent, respectively, but this did not offset the decline of 12.1 percent recorded in July (Table 3.5).

Cement production improved slightly by 0.2 percent compared to the previous quarter. Monthly production increased in July by 3.7 percent, then declined in August and September by 1.0 and 2.5 percent, respectively (Table 3.5).

Production of **assembled vehicles** declined by 2.8 percent compared to the previous quarter. Monthly production increased in July and August by 17.6 percent and 9.3 percent, respectively, and then declined by 15.9 percent in September (Table 3.5).

Production of **galvanized sheets** declined by 3.7 percent compared to the previous quarter. This was due to the decline in monthly production in July and August of 5.7 percent and 5.8 percent, respectively, which offset the improved production of 3.2 percent in September (**Table 3.5**).

Soft drinks production decreased by 8.5 percent compared to the previous quarter. Monthly production increased by 9.2 percent in August. However, this did not offset the decreased production in July and September of 4.2 percent and 0.1 percent, respectively (**Table 3.5**).

Table 3.5: Quarterly production of selected manufactured goods

	2018				2019*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-19	Aug-19	Sep-19
Cement production										
Output (MT)	1,542,947	1,438,002	1,560,368	1,488,617	1,462,361	1,475,008	1,477,637	499,945	495,099	482,593
Growth %	0.48	-6.80	8.51	-4.60	-1.76	0.86	0.18	3.7	-1.0	-2.5
Assembled vehicles										
Output (No.)	1,472	1,182	1,627	1,372	1,684	2,033	1,976	656	717	603
Growth %	39.4	-19.7	37.6	-15.7	22.7	20.7	-2.8	17.6	9.3	-15.9
Galvanized sheets										
Output (MT)	67,857	65,139	69,391	68,049	69,134	70,341	67,746	23,248	21,900	22,598
Growth %	1.1	-4.0	6.5	-1.9	1.6	1.7	-3.7	-5.7	-5.8	3.2
Processed sugar										
Output (MT)	165800.0	93935.0	103403.0	122360.0	144617.0	100163.0	91167.0	25097.0	32705.0	33365.0
Growth %	32.9	-43.3	10.1	18.3	18.2	-30.7	-9.0	-12.1	30.3	2.0
Soft drinks										
Output ('000 litres)	154,327	131,999	138,476	150,768	153,958	150,240	137,425	43,170	47,161	47,094
Growth %	-9.3	-14.5	4.9	8.9	2.1	-2.4	-8.5	-4.2	9.2	-0.1

MT = Metric tonnes

* Provisional

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

Electricity and Water Supply

Electricity and Water Supply sector grew by 4.9 percent in the third quarter of 2019, which was lower than 5.6 percent in the previous quarter and 7.8 percent in the same quarter of 2018. The slowdown was mainly attributed to reduced generation of hydroelectricity during the quarter compared to the same quarter of 2018. The below average rainfall experienced in the country during the second quarter undermined the generation of hydroelectricity in the third quarter of 2019. This resulted in increased reliance on the more expensive thermal electricity, leading to reduced value addition in the sector. The sector contributed 0.1 percentage points to overall GDP growth, slightly lower than 0.2 percentage points in the previous quarter (**Tables 3.1 and 3.3**).

Despite the slowdown in generation of hydroelectricity during the third quarter, growth in total electricity generation increased by 3.2 percent compared to the previous quarter, owing to increased generation of hydroelectricity, geothermal electricity and wind electricity by 6.7 percent, 6.6 percent, and 7.7 percent, respectively. Generation of thermal and solar electricity declined by 15.5 percent and 3.2 percent, respectively (**Table 3.6**).

Consumption of electricity increased by 2.0 percent in the third quarter of 2019 compared to the previous quarter. However, consumption of fuels declined by 4.0 percent, while international oil prices declined by 8.8 percent compared to the previous quarter (**Table 3.6**).

Table 3.6: Quarterly performance in the energy sector

	2018				2019*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-19	Aug-19	Sep-19
Electricity Supply (Generation)										
Output (million KWH)	2,640.4	2,718.7	2,835.4	2,857.3	2,825.1	2,805.2	2,895.6	974.6	967.6	953.4
Growth %	0.8	3.0	4.3	0.8	-1.1	-0.7	3.2	4.6	-0.7	-1.5
Of which:										
Hydro-power Generation (million KWH)	664.8	1103.6	1229.8	988.3	815.7	707.0	754.2	268.9	251.5	233.8
Growth (%)	-14.0	66.0	11.4	-19.6	-17.5	-13.3	6.7	-1.3	-6.5	-7.0
Geo-Thermal Generation (million KWH)	1,265.6	1,304.8	1,304.5	1,252.9	1,236.9	1,238.5	1,319.7	440.3	425.5	453.9
Growth (%)	0.2	3.1	0.0	-4.0	-1.3	0.1	6.6	6.5	-3.4	6.7
Thermal Generation (million KWH)	693.7	304.0	289.4	258.9	311.6	437.7	370.0	133.4	131.8	104.8
Growth (%)	23.4	-56.2	-4.8	-10.5	20.4	40.5	-15.5	-8.8	-1.2	-20.5
Wind Generation (million KWH)	14.2	6.2	11.7	343.5	437.8	398.7	429.2	124.9	151.4	152.9
Growth (%)	-23.9	-56.6	89.1	2843.6	27.4	-8.9	7.7	35.2	21.3	1.0
Solar Generation (million KWH)	0.0	0.0	0.0	13.6	23.1	23.2	22.4	7.1	7.4	7.9
Growth (%)			-33.3	67750.0	70.1	0.4	-3.2	0.3	4.9	6.3
Co-Generation (million KWH)	2.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Growth (%)	35.4	-92.5	-62.5	33.3	-37.5	20.0	33.3	-60.0	50.0	0.0
Consumption of electricity (million KWH)	2,161.3	2,127.1	2,164.9	2,203.5	2,221.7	2,191.9	2,235.6	747.6	749.3	738.7
Growth %	3.9	-1.6	1.8	1.8	0.8	-1.3	2.0	3.5	0.2	-1.4
Consumption of Fuels ('000 tonnes)	1,380.1	1,324.0	1,303.3	1,227.2	1,296.6	1,302.4	1,250.2	430.4	423	397
Growth %	20.4	-4.1	-1.6	-5.8	5.7	0.4	-4.0	7.3	-1.7	-6.2
Murban crude oil average price (US \$ per barrel)	66.2	73.6	76.6	69.6	65.0	68.5	62.5	64.9	60.2	62.4
Growth %	4.8	11.2	4.0	-9.1	-6.5	5.4	-8.8	3.4	-7.2	3.7

N/A - Not Available

Source: Kenya National Bureau of Statistics

Construction

The Construction sector remained resilient and grew by 6.6 percent in the third quarter of 2019 compared to 7.2 percent in the previous quarter, and 7.0 percent in the same quarter of 2018. Growth was supported by ongoing infrastructure projects such as construction and expansion of roads, ports and affordable housing. The sector's contribution

to real GDP growth stabilised at 0.4 percentage points (**Tables 3.1 and 3.3**).

Cement consumption, a key indicator of activity in the sector, increased slightly by 0.6 percent compared to the previous quarter. Data on the value of building plans approved during the quarter by Nairobi County are not available (**Table 3.7**).

Table 3.7: Quarterly output of selected construction indicators

	2018				2019*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Apr-19	May-19	Jun-19
Cement Consumption										
Output (Tonnes)	1,492,179	1,394,637	1,541,927	1,478,637	1,455,257	1,463,271	1,472,473	500,601	492,695	479,177
Growth %	4.5	-6.5	10.6	-4.1	-1.6	0.6	0.6	6.2	-1.6	-2.7
Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department										
Residential (KSh, millions)	36,850.30	26,326.87	32,493.04	36,168.58	33,048.82	42,830.80	N/A	N/A	N/A	N/A
Growth (%)	56.5	-28.6	23.4	11.3	-8.6	29.6				
Non-residential (KSh, millions)	23,255.01	14,329.83	18,230.01	22,643.08	23,491.91	21,884.37	N/A	N/A	N/A	N/A
Growth (%)	99.4	-38.4	27.2	24.2	3.7	-6.8				
Total (KSh, millions)	60,105.31	40,656.70	50,723.05	58,811.66	56,540.73	64,715.17	N/A	N/A	N/A	N/A
Growth (%)	70.7	-32.4	24.8	15.9	-3.9	14.5				

Source: Kenya National Bureau of Statistics

III. Services

The services sector remained resilient, and grew by 6.2 percent compared to 6.6 percent in the previous quarter and 6.8 percent in the same quarter of 2018. The strong performance was reflected in Accommodation and Restaurant, Transport and Storage, Finance and Insurance, and Real Estate sectors.

Real Estate

Growth in the Real Estate sector remained positive at 4.9 percent, an improvement compared to 3.8 percent in the same quarter of 2018, but lower than 5.4 percent in the previous quarter. Contribution of the sector to real GDP growth stabilized at 0.4 percentage points in the second and third quarters of 2019 (**Tables 3.1 and 3.3**).

Accommodation and Restaurants

The Accommodation and Restaurant sector recorded strong growth of 9.0 percent, reflected in increased tourist arrivals. However, this was slower compared to 10.6 percent in the previous quarter and 15.7 percent in the same quarter of 2018. The contribution of the sector to real GDP growth stabilized at 0.1 percentage points in the second and third quarters of 2019 (**Tables 3.1 and 3.3**).

Overall tourist arrivals increased by 32.4 percent, which was reflected in higher arrivals through both Jomo Kenyatta International Airport (JKIA) in Nairobi and Moi International Airport in Mombasa (MIAM) (**Table 3.8**).

Table 3.8: Quarterly tourist arrival by point of entry

	2018				2019*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-19	Aug-19	Sep-19
Total Tourist Arrivals	342,584	317,160	430,063	370,819	361,479	339,250	449,185	158,514	159,804	130,867
Growth (%)	7.3	-7.4	35.6	-13.8	-2.5	-6.1	32.4	23.1	0.8	-18.1
o.w. JKIA - Nairobi	211,878	293,209	401,533	334,682	312,819	324,240	420,478	149,994	148,816	121,668
Growth (%)	18.7	38.4	36.9	-16.6	-6.5	3.7	29.7	22.8	-0.8	-18.2
MIAM - Mombasa	38,349	15,097	28,530	36,137	48,660	15,010	28,707	8,520	10,988	9,199
Growth %	12.6	-60.6	89.0	26.7	34.7	-69.2	91.3	28.1	29.0	-16.3

Source: Kenya Tourism Board

Transport and Storage

Transport and Storage sector recorded strong growth of 7.2 percent compared to 6.7 percent recorded the previous quarter (**Table 3.1**). The positive performance was mainly supported by increased freight, transport by road and air. Its contribution to overall GDP growth was slightly higher at 0.5 percentage points compared to 0.4

percentage points in the previous quarter (**Table 3.3**).

Total passenger flows through JKIA increased by 6.5 percent compared to the previous quarter, and this was reflected in both incoming and outgoing passenger flows. Meanwhile, the volume of oil that passed through the Kenya Pipeline increased slightly by 0.9 percent compared to the previous quarter (**Table 3.9**).

Table 3.9: Quarterly performance of selected transport indicators

	2018				2019*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Apr-19	May-19	Jun-19
Number of Passengers thro' JKIA										
Total passenger flows	1,117,194	1,192,031	1,440,943	1,259,127	1,145,280	1,226,593	1,468,305	479,301	530,649	458,551
Growth (%)	-3.3	6.7	20.9	-12.6	-9.0	7.1	19.7	11.2	10.7	-13.6
o.w. Incoming	707,536	745,416	886,311	802,619	729,230	780,881	902,957	306,363	321,924	274,670
Growth (%)	-3.7	5.4	18.9	-9.4	-9.1	7.1	15.6	11.1	5.1	-14.7
Outgoing	409,658	446,615	554,632	456,508	416,050	445,712	565,348	172,938	208,725	183,881
Growth %	-2.8	9.0	24.2	-17.7	-8.9	7.1	26.8	11.4	20.7	-11.9
Kenya Pipeline Oil Throughput										
Output ('000 litres)	1,572,646	1,508,627	1,580,877	1,659,339	1,859,793	1,791,759	1,763,400	600,401	603,861	559,138
Growth %	3.0	-4.1	4.8	5.0	12.1	-3.7	-1.6	11.0	0.6	-7.4

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

Chapter 4

Global Economy

4.1 Global Economy

Global growth is projected to slow down to 3.0 percent in 2019 from 3.6 percent in 2018. The subdued growth is as a result rising trade tension, geopolitics, macroeconomic strain and structural factors, which has been affecting both advanced and emerging and developing economies. Growth is however, expected to pick up to 3.4 percent in 2020 attributed to improvements in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe (**Table 4.1**).

Growth in the advanced economies declined to 1.7 percent in 2019 from 2.3 percent in 2018 and is expected remain at 1.7 percent in 2020. In the Euro area, growth is projected to slow down to 1.2 percent in 2019 from 1.9 percent due to weaker than expected external demand in the first half of the year in Germany and France and softening private consumption, small fiscal impulse and weaker external environment in Italy. In the United States, growth is expected to be at 2.4 percent in 2019 and to moderate to 2.1 percent in 2020. In the emerging and developing economies, growth is expected at 3.9 percent in 2019 from 4.5 percent in 2018 and rise to 4.6 percent in 2020. Among other factors, the

effects of escalating tariffs and weakening external demand have seen China growth projections revised downwards to 6.1 percent in 2019 and 5.8 percent in 2020 from an actual of 6.6 in 2018. In India the economy is set to grow at 6.1 percent in 2019 and later pick up to 7.0 percent in 2020.

In the sub-Saharan Africa, growth is expected to stabilize at 3.2 percent in 2019 and rise to 3.6 percent in 2020. Improved growth is mostly notable in fuel-exporting economies due to higher oil prices.

Risk to the global economic outlook

The risk to the outlook remain intensified. The main downside risk to global growth remains to be further disruption to trade and supply chains, continued built up of financial vulnerabilities, threats of cyber-attacks which disrupt cross-border payments, geopolitical tensions, domestic and political uncertainty.

However, the recent monetary policy easing in many countries could lift demand more than projected more so if the trade tension between the United States and China ease and a no deal Brexit is averted.

Table 4.1: Global economic outlook

Country/Region	REAL GDP GROWTH IMF			
	REAL GDP GROWTH (%) IMF			
	YEAR OVER YEAR			
	Projections			
	2017	2018	2019	2020
World Output	3.8	3.6	3.0	3.4
Advanced economies	2.5	2.3	1.7	1.7
United States	2.4	2.9	2.4	2.1
Euro Area	2.5	1.9	1.2	1.4
Germany	2.5	1.5	0.5	1.2
France	2.3	1.7	1.2	1.3
Italy	1.7	0.9	0.0	0.5
Spain	3.0	2.6	2.2	1.8
Japan	1.9	0.8	0.9	0.5
United Kingdom	1.8	1.4	1.2	1.4
Emerging market and Developing economies	4.8	4.5	3.9	4.6
Russia	1.6	2.3	1.1	1.9
China	6.8	6.6	6.1	5.8
India	7.2	6.8	6.1	7.0
Brazil	1.1	1.1	0.9	2.0
Middle East, North Africa, Afghanistan and Pakistan	2.3	1.9	0.9	2.9
Sub-Saharan Africa	3.0	3.2	3.2	3.6

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

Kenya Quarterly Economic Review, July - September 2019

Chapter 5

Balance of Payments and Exchange Rates

Balance of Payments and Exchange Rates

Provisional estimates of the current account deficit show that it widened to USD 1,527 million in the third quarter of 2019 from USD 1,245 million in the third quarter of 2018, reflecting a decline in exports and an increase in imports, as well as increase

in payments to foreign residents. The financial account recorded lower net inflows of USD 1,167 million in the third quarter of 2019 compared to net inflow of USD 1,088 million in the third quarter of 2018 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2018*	2019**						Q3 2019-Q3 2018	
	Jul-Sep	Jan-Mar	Apr-Jun	Q3			Total		%
	Q3	Q1	Q2	Jul	Aug	Sep	Q3	Change	Change
1. Overall Balance	394	-253	-932	-339	57	157	-126	-520	-132
2. Current account	-1,245	-998	-1,341	-686	-381	-460	-1,527	-282	23
Exports (fob)	1,506	1,566	1,453	490	483	450	1,424	-82	-5
Imports (fob)	4,025	3,955	4,196	1,506	1,311	1,248	4,066	41	1
Services: credit	1,369	1,492	1,392	497	441	405	1,343	-26	-2
Services: debit	954	877	1,013	328	309	307	944	-9	-1
Balance on goods and services	-2,104	-1,774	-2,363	-847	-696	-700	-2,243	-140	7
Primary income: credit	53	56	61	19	20	17	57	3	6
Primary income: debit	421	552	507	268	151	166	584	163	39
Balance on goods, services, and primary income	-2,472	-2,269	-2,809	-1,096	-827	-848	-2,771	-299	12
Secondary income: credit	1,239	1,285	1,481	414	450	392	1,257	18	1
o.w Remittances	642	673	797	226	216	216	658	15	2
Secondary income: debit	12	14	14	4	5	4	13	1	8
3. Capital Account	36	42	86	0	24	4	27	-8	-24
4. Financial Account	-1,088	-937	-2,813	-479	-274	-414	-1,167	-79	7

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya

The Current Account

The trade balance worsened by 7 percent, from a deficit of USD 2,104 million in the third quarter of 2018 to a deficit of USD 2,243 million in the third quarter of 2019 (**Table 5.2**). The value of merchandise exports decreased by 5 percent to USD 1,424 million in the third quarter of 2019 largely due to lower receipts from tea, horticulture and coffee. The value of tea exports declined by 23 percent to USD 249 million, due to lower tea prices that prevailed in 2019 compared to 2018 following strong global production. Receipts from horticulture exports also declined by 18 percent to stand at USD 221 million, primarily due to lower earnings.

The value of merchandise imports increased by 1 percent to USD 4,066 million in the third quarter of

2019 from USD 4,025 million, in the third quarter of 2018. This was largely on account of increased importation of food, machinery and manufactured goods.

Net receipts in the services account declined by USD 17 million to USD 398 million in the third quarter of 2019, compared with USD 415 million in the third quarter of 2018. This was mainly on account of lower receipts from other services and travel. The balance on the primary income account widened by about 43%, rising to a deficit of USD 527 million from a deficit of USD 368 million in the third quarter of 2018. This was largely due to increase in payments on foreign direct investments (mainly reinvested earnings). The balance on secondary income improved marginally by 1 percent to stand at USD 1,244 million, reflecting the resilience of remittance inflows.

Table 5.2: Balance on current account (USD Million)

ITEM	2018*			2019*				Q3 2019-Q3 2018	
	Jul-Sep	Jan-Mar	Apr-Jun	Q3			Jul-Sep	Change	%
	Q3	Q1	Q2	Jul	Aug	Sep	Q3		
CURRENT ACCOUNT	-1,245	-998	-1,341	-686	-381	-460	-1,527	-282	23
Goods	-2,519	-2,389	-2,743	-1,016	-828	-798	-2,642	-123	5
Exports (fob)	1,506	1,566	1,453	490	483	450	1,424	-82	-5
o.w Coffee	52	57	72	17	14	12	43	-9	-17
Tea	324	311	248	76	92	82	249	-75	-23
Horticulture	269	303	259	75	81	66	221	-48	-18
Oil products	11	8	8	2	17	7	26	15	127
Manufactured Goods	91	96	100	39	36	33	109	18	20
Raw Materials	86	77	93	19	29	31	79	-7	-8
Chemicals and Related Products (n.e.s)	121	113	112	43	38	35	116	-5	-4
Miscellaneous Man. Articles	160	133	156	49	50	46	145	-15	-9
Re-exports	182	192	174	94	49	62	204	22	12
Other	199	267	224	74	75	75	224	24	12
Imports (fob)	4,025	3,955	4,196	1,506	1,311	1,248	4,066	41	1
o.w Oil	879	742	1,020	275	213	284	772	-107	-12
Chemicals	633	660	632	168	210	198	576	-58	-9
Manufactured Goods	746	684	758	307	258	237	802	56	8
Machinery & Transport Equipment	1,121	1,157	1,095	401	350	400	1,151	30	3
Machinery	715	663	709	273	227	290	791	76	11
Transport equipment	411	494	386	128	123	110	360	-50	-12
Other	805	869	915	273	352	299	924	120	15
o.w Food	379	433	440	141	171	141	453	74	20
Services	415	615	379	168	132	98	398	-17	-4
Transport Services (net)	144	218	159	83	50	53	185	41	29
Credit	491	557	551	212	168	152	532	41	8
Debit	347	339	393	129	118	100	347	0	0
Travel Services (net)	210	189	202	68	59	66	194	-16	-8
Credit	261	235	249	85	76	83	244	-18	-7
Debit	52	46	47	16	17	17	50	-2	-4
Other Services (net)	62	207	19	17	23	-20	20	-42	-68
Primary Income	-368	-495	-445	-249	-130	-148	-527	-160	43
Credit	53	56	61	19	20	17	57	3	6
Debit	421	552	507	268	151	166	584	163	39
Secondary Income	1,226	1,271	1,468	410	446	388	1,244	17	1
Credit	1,239	1,285	1,481	414	450	392	1,257	18	1
Debit	12	14	14	4	5	4	13	1	8

* Revised

**Provisional

Fob - free on board

Source: Central Bank of Kenya and KNBS

Direction of Trade

Imports from China accounted for 19.3 percent of total imports to Kenya in the third quarter of 2019, making it the largest single source of imports. In value terms, Kenya's imports from China amounted to USD 785 million, a decline of about 12 percent from level in the third quarter of 2018. Imports from the European Union accounted for about 12 percent

of total imports. Their value declined by 10.0 percent during the period under review, to stand at USD 490 million compared to the third quarter in 2018. The share of imports from Africa increased to 14.7 percent in the third quarter of 2019 from 11.9 percent in the third quarter of 2018, while that of imports from India decreased to 10.4 percent from 13.2 percent, over the same period (**Table 5.3**).

Table 5.3: Kenya's direction of trade: imports

IMPORTS (USD M)	2018*	2019*						Share of Imports (%)	
	Jul-Sep	Jan-Mar	Apr-Jun	Jul-Sept			Jul-Sep		
Country	Q3	Q1	Q2	Jul	Aug	Sep	Q3	Q3 2018	Q3 2019
Africa	479	524	562	221	197	179	597	11.9	14.7
<i>Of which</i>								0.0	0.0
South Africa	138	172	176	84	56	38	177	3.4	4.4
Egypt	88	105	95	41	40	30	111	2.2	2.7
Others	253	245	291	96	101	111	309	6.3	7.6
								0.0	0.0
EAC	156	122	129	66	59	72	197	3.9	4.8
COMESA	269	284	274	98	103	118	319	6.7	7.8
Rest of the World	3,860	3,658	3,634	1,285	1,114	1,069	3,469	95.9	85.3
<i>Of which</i>								0.0	0.0
India	535	369	364	113	187	123	424	13.3	10.4
United Arab Emirates	287	312	358	133	81	110	324	7.1	8.0
China	889	767	802	315	235	235	785	22.1	19.3
Japan	262	197	291	86	79	50	216	6.5	5.3
USA	108	137	114	59	45	43	146	2.7	3.6
United Kingdom	81	83	80	23	21	23	67	2.0	1.6
Singapore	8	29	6	3	2	3	8	0.2	0.2
Germany	111	105	100	71	24	21	116	2.8	2.9
Saudi Arabia	460	366	419	151	55	97	303	11.4	7.5
Indonesia	112	144	139	37	59	10	106	2.8	2.6
Netherlands	47	184	49	29	9	17	55	1.2	1.4
France	62	66	68	15	22	12	49	1.5	1.2
Bahrain	1	2	42	0	1	0	2	0.0	0.0
Italy	56	53	57	16	11	21	48	1.4	1.2
Others	842	844	744	232	283	304	820	20.9	20.2
Total	4,025	3,955	4,196	1,506	1,311	1,248	4,066	100.0	100.0
EU	545	654	524	205	155	130	490	13.5	12.0
China	889	767	802	315	235	235	785	22.1	19.3

Source: Kenya Revenue Authority

The share of exports to the rest of the world decreased from 64.3 percent in the third quarter of 2018 to 61.3 percent in the third quarter of 2019 largely attributed to decrease in exports to Pakistan and India.

The share of exports to Africa, however, increased to 38.7 percent in the third quarter of 2019 from 35.7 percent in the third quarter of 2018. This reflected higher exports to the EAC and the COMESA region, (Table 5.4).

Table 5.4: Kenya's direction of trade: exports

EXPORTS (USD M)	2018*	2019						Share of Exports (%)	
	July-Sep	Jan-March	Apr-Jun	Q3			Jul-Sep		
Country	Q3	Q1	Q2	Jul	Aug	Sep	Q3	Q3 2018	Q3 2019
Africa	537	531	534	196	175	180	551	35.7	38.7
<i>Of which</i>									
Uganda	150	161	143	55	44	59	158	10.0	11.1
Tanzania	73	74	83	26	30	28	84	4.9	5.9
Egypt	45	52	47	8	19	14	41	3.0	2.9
Sudan	15	16	14	3	6	4	12	1.0	0.9
South Sudan	19	28	41	7	6	8	21	1.2	1.5
Somalia	36	31	33	11	7	6	24	2.4	1.7
DRC	38	33	35	10	12	8	30	2.5	2.1
Rwanda	45	42	55	25	23	20	68	3.0	4.8
Others	117	93	83	52	28	32	112	7.8	7.9
EAC	309	326	338	115	109	121	345	21	24.2
COMESA	371	370	358	124	125	125	374	25	26.3
Rest of the World	968	1,027	950	294	308	271	873	64.3	61.3
<i>Of which</i>									
United Kingdom	92	118	84	34	32	25	91	6.1	6.4
Netherlands	105	144	119	32	36	30	98	7.0	6.9
USA	141	121	137	42	44	51	137	9.4	9.6
Pakistan	137	130	96	31	31	32	95	9.1	6.6
United Arab Emirates	85	103	101	37	28	36	102	5.7	7.1
Germany	23	31	33	8	8	7	24	1.5	1.7
India	25	17	13	5	4	4	13	1.6	0.9
Afghanistan	14	7	9	3	3	2	9	0.9	0.6
Others	345	356	356	101	122	83	306	23	21.5
Total	1,505	1,566	1,453	490	483	450	1,424	100	100.0
EU	302	406	315	102	103	83	289	20	20.3
China	26	34	40	7	20	6	33	2	2.3

Source: Kenya Revenue Authority

Capital and Financial Account

The capital account declined by 24 percent to stand at USD 27 million in the third quarter of 2019. The financial account recorded slightly higher net

inflows of USD 1,167 million over the same period compared to a similar period in 2018. This was mainly due to other investment liabilities of deposit taking corporations (**Table 5.5**).

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

ITEM	2018*			2019 *					Q3 2019-Q3 2020	
	Apr-Jun	July-Sep	Jan-Mar	Apr-Jun	Q3			Jul-Sep	Absolute	%
	Q2	Q3	Q1	Q2	Jul	Aug	Sep	Q3	Change	Change
Capital account credit	93	36	42	86	0	24	4	27	-8	-24
Capital account credit	93	36	42	86	0	24	4	27	-8	-24
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-115	-1,088	-937	-2,813	-479	-274	-414	-1,167	-79	7
Direct investment: assets	44	43	49	74	12.14	9.61	10.89	33	-10	-32
Direct investment: liabilities	426	539	284	410	99.99	89.05	94.68	284	-255	-90
Portfolio investment: assets	317	265	259	198	91.35	40.44	94.90	227	-39	-17
Portfolio investment: liabilities	-81	-66	1	2,136	-6.92	25.52	23.48	42	108	257
Financial derivatives: net	9	0	-6	-4	16.21	0.24	-12.20	4	4	96
Other investment: assets	669	168	34	230	-103.4	142.4	86.25	125	-43	-34
Other investment: liabilities	809	1,091	988	765	402	353	475	1,230	139	11

* Revised

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 10.3 percent during the third

quarter of 2019. Official reserves held by the Central Bank constituted 72 percent of gross reserves and stood at USD 9,442 million, equivalent to 5.8 months of import cover (**Table 5.6**).

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

	2018	2019					
	July-Sep	Jan-Mar	Apr-Jun				
	Q3	Q1	Q2	Jul	Aug	Sep	Q3
1. Gross Reserves	11,861	11,772	13,187	13,089	13,170	13,083	13,083
of which:							
Official	8,545	8,468	9,656	9,662	9,596	9,442	9,442
import cover*	5.6						
Commercial Banks	3,316	3,304	3,531	3,427	3,574	3,642	3,642
2. Residents' foreign currency deposits	5,952	6,068	6,415	6,290	6,236	6,196	6,196

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

Source: Central Bank of Kenya

Exchange Rates

Kenya's foreign exchange market remained relatively stable during the third quarter of 2019, largely supported by diaspora remittances flows. The Kenya Shilling had a mixed performance with against major international currencies. It weakened against the US Dollar and the Japanese Yen by 2.7

percent and 2.9 percent, respectively, compared to the third quarter of 2018. However, it strengthened against the Sterling Pound and the Euro by 2.9 percent and 1.8 percent, respectively. In the EAC region, it strengthened against the Uganda and the Tanzania shillings, but weakened against the Rwanda and Burundi Francs during the period under review (**Table 5.7 and Chart 5.1**).

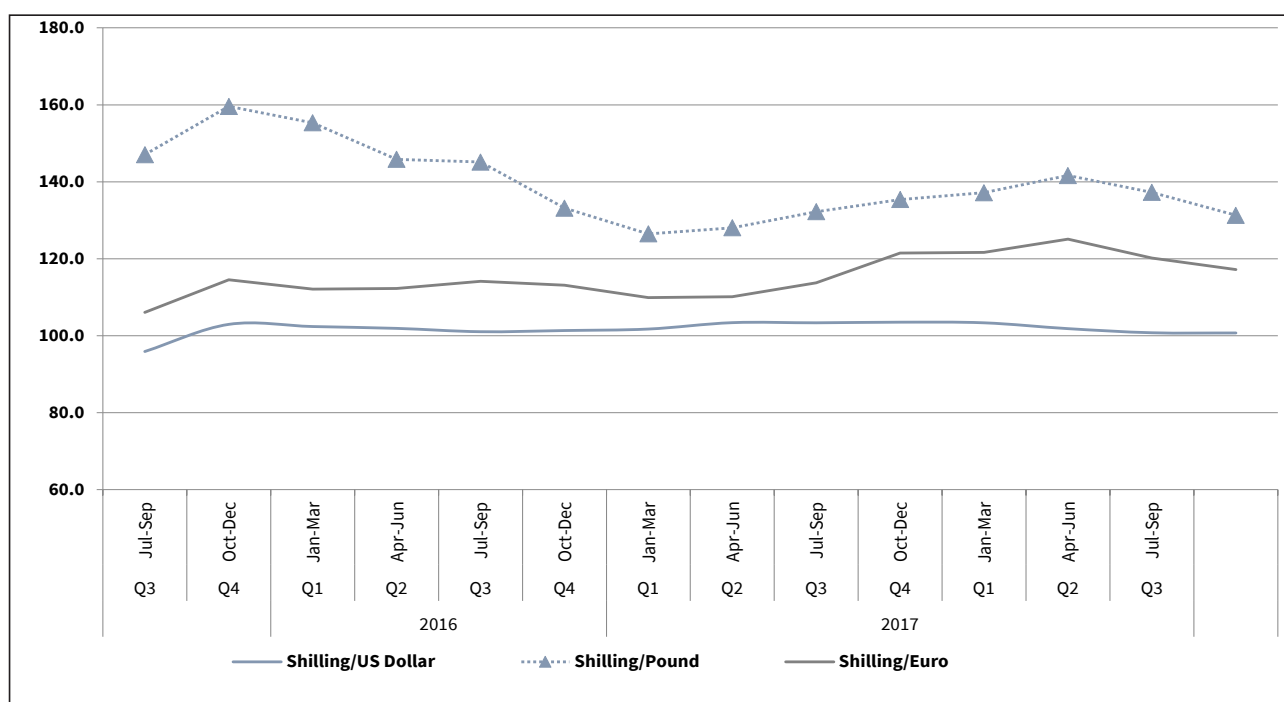
Table 5.7: Kenya Shilling exchange rate

	2018				2019					2019	% change Q3 2019 - Q3 2018
	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3	
US Dollar	101.86	100.75	100.71	101.91	100.73	101.30	103.16	103.30	103.80	103.42	2.69
Pound Sterling	141.64	137.26	131.30	131.14	131.11	130.22	128.79	125.59	128.16	127.51	-2.89
Euro	125.11	120.19	117.17	116.33	114.42	113.82	115.83	114.96	114.35	115.05	-1.81
100 Japanese Yen	93.96	92.38	90.40	90.31	91.44	92.21	85.35	97.12	96.68	93.05	2.93
Uganda Shilling*	35.79	37.24	37.39	36.75	36.67	36.97	35.84	35.76	35.41	35.67	-4.60
Tanzania Shilling*	22.10	22.60	22.67	22.54	23.11	22.74	22.30	22.26	22.15	22.23	-1.90
Rwanda Franc*	8.39	8.62	8.71	8.71	8.90	8.94	8.86	8.88	8.87	8.87	1.84
Burundi Franc*	17.32	17.50	17.57	17.50	17.88	18.10	17.83	17.86	17.79	17.83	1.50

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling exchange rate



Source: Central Bank of Kenya

Chapter 6

The Banking Sector

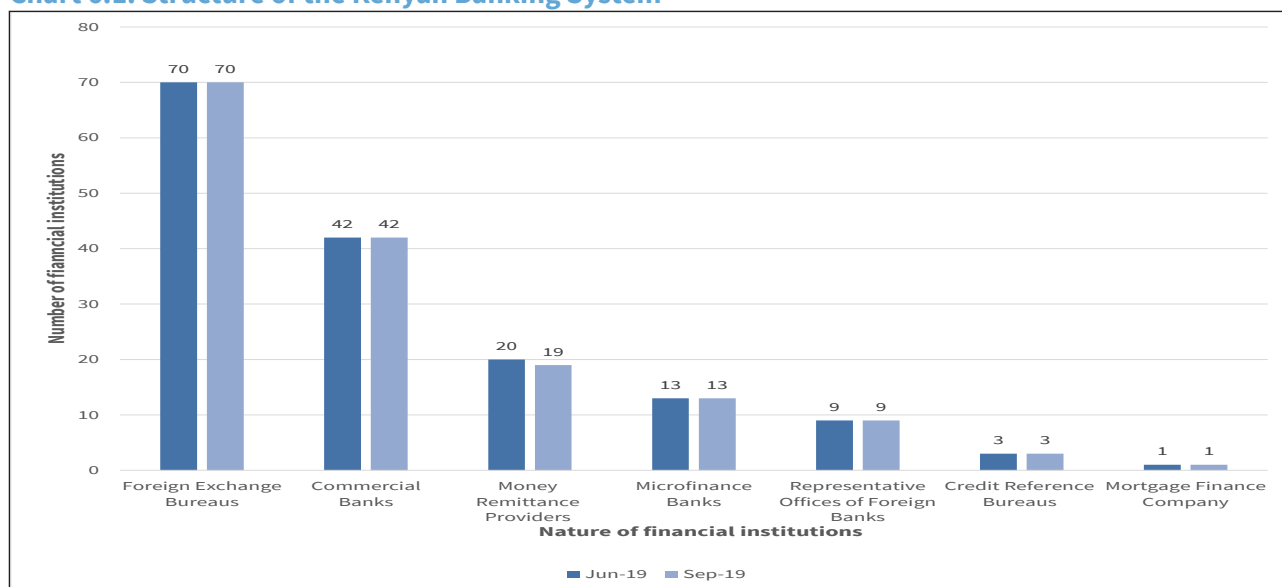
Overview

The banking sector was stable in the third quarter of 2019. Total assets increased by 1.7 percent to Ksh.4,798.5 billion in September 2019 from Ksh. 4,719.7 billion in June 2019. The deposit base also decreased by 0.4 percent to Ksh.3,491.9 billion from Ksh. 3,506.0 billion between the second and third quarter of 2019. The sector was well capitalized and met the minimum capital requirements. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 12.38 percent in the third quarter of 2019.

Structure of the Banking Sector

The Kenyan banking sector comprised 42 Commercial Banks, 1 Mortgage Finance company, 13 Microfinance Banks, 9 Representative Offices of Foreign Banks, 69 Foreign Exchange Bureaus, 19 Money Remittance Providers and 3 Credit Reference Bureaus as at September 30, 2019. **Chart 6.1** below shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the Kenyan Banking System



Source: Central Bank of Kenya

Structure of the Balance Sheet

i) Growth in banking sector assets

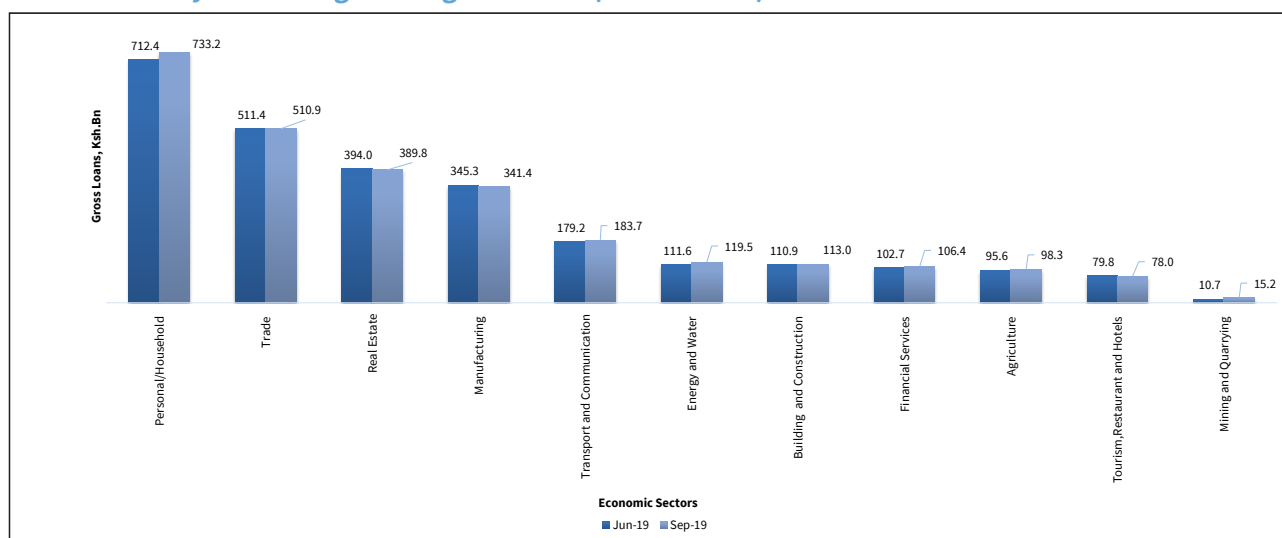
Total assets increased by 1.7 percent to Ksh.4,798.5 billion in the third quarter of 2019 from Ksh. 4,719.7 billion in the second quarter of 2019. The increase in total assets was mainly recorded in other foreign assets with an 11.8 percent increase. However, loans and advances, which increased by 4.3 percent, remained the main component of bank assets, accounting for 52.9 percent in the third quarter of 2019, a slight increase from 51.8 percent recorded in the second quarter of 2019.

ii) Loans and Advances

Total banking sector gross lending increased by 4.3 percent to Ksh.2,766.7 billion in the third quarter of 2019 from Ksh.2,653.8 billion in the second quarter of 2019. The increase in gross loans and advances was largely witnessed in the Personal/ Household, Energy and Water, and Mining and Quarrying sectors. The general increase in gross loans was partly due to increase in business in the respective sectors. The sectoral distribution of gross loans as at September 30, 2019 is highlighted in **Chart 6.2**.

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

Chart 6.2: Kenyan banking sector gross loans (KSh Billions)



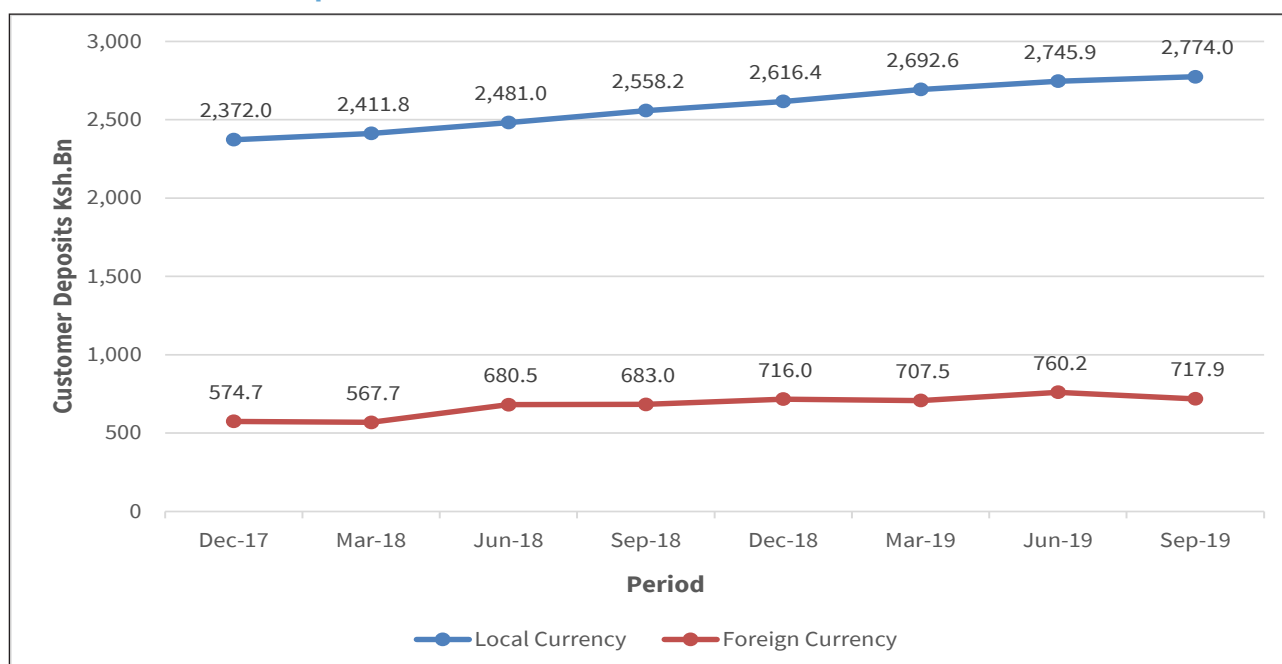
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remain the main source of funding to the banks, accounting for 72.8 percent of the banking sector total liabilities and shareholders' funds, as at the end of the third quarter of 2019. This was a slight decrease from 74.3 percent recorded as at the end of the second quarter of 2019. The

customer deposit base decreased by 0.4 percent to Ksh.3,491.9 billion in the third quarter of 2019 from Ksh.3,506.0 billion in the second quarter of 2019 as a result of the decrease in foreign currency deposits by Ksh.42.3 billion (5.9 percent). Local currency deposits increased by Ksh.28.1 billion (1.0 percent) in the third quarter of 2019. **Chart 6.3** shows the trend of deposit liabilities.

Chart 6.3 Customers deposit



Source: Central Bank of Kenya

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased marginally by Ksh. 0.6 billion (0.1 percent) to Ksh.605.7 billion in the third quarter of 2019 compared to Ksh.605.1 billion in the second quarter of 2019. Total capital also increased by 2 percent to Ksh.679.5 billion in the third quarter of 2019 from Ksh.666.4 billion in the second quarter of 2019.

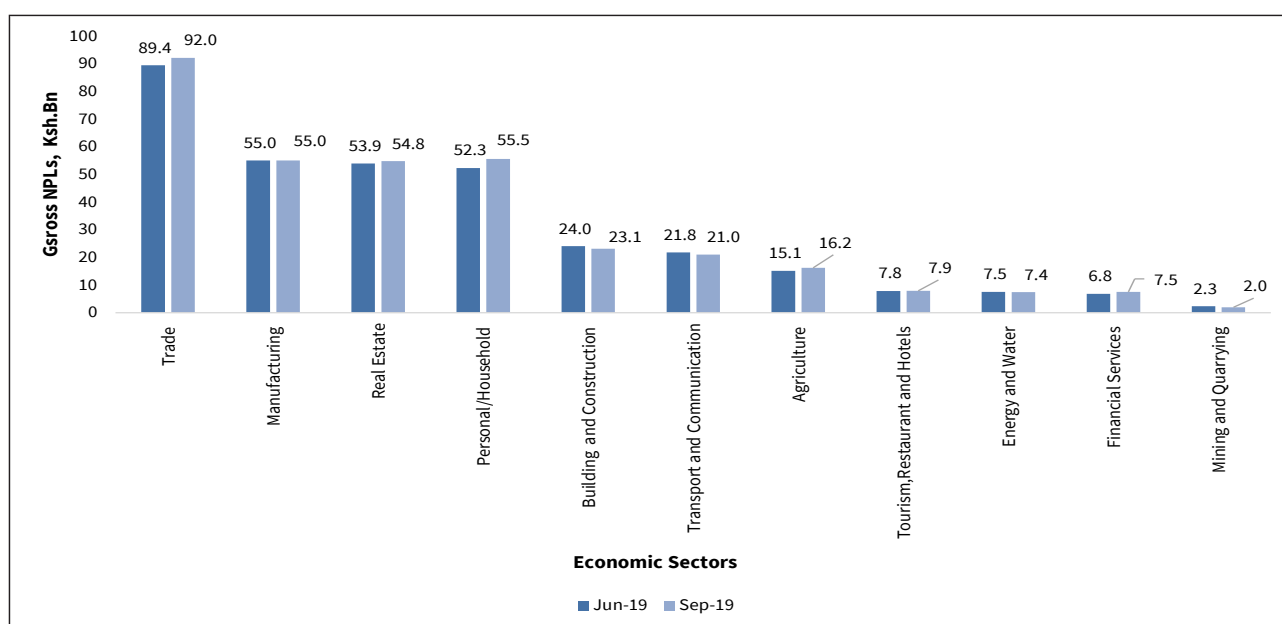
Core capital to total risk-weighted assets ratio slightly decreased to 16.3 percent in the third quarter of 2019 from 16.5 percent in the second quarter of 2019. However, total capital to total risk-weighted assets ratio slightly increased to 18.3 percent from 18.2 percent. The increase in the total capital adequacy ratio was as a result of a higher increase in total capital (2.0 percent) as compared to the increase in total risk weighted assets (1.2 percent). The decrease in Core Capital ratio was as a result of a lower increase in core capital (0.1 percent) compared to the increase in total risk weighted assets (1.2 percent).

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.4 percent in the third quarter of 2019, a slight increase from 17.3 percent recorded in the second quarter of 2019. The increase was attributable to a 0.4 percent decrease in total deposits and 0.1 percent increase in core capital between second and third quarter of 2019.

Asset Quality

The gross non-performing loans (NPLs) increased by 1.9 percent to Ksh.342.4 billion as at the end of the third quarter of 2019 from Ksh.335.9 billion at the end of the second quarter of 2019. The gross NPLs to gross loans ratio decreased to 12.4 percent in the third quarter of 2019 from 12.7 percent in the second quarter of 2019. The decrease was attributable to a 4.3 percent increase in gross loans as compared to a 1.9 percent increase in gross NPLs between second and third quarters of 2019. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

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



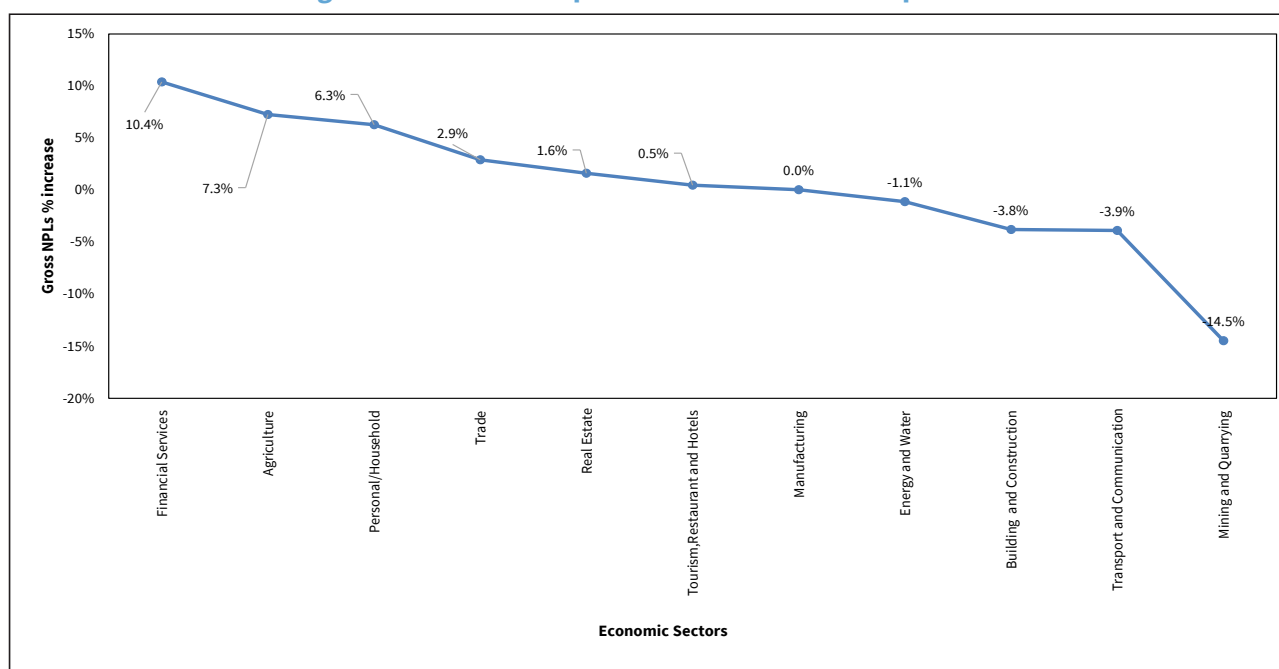
Source: Central Bank of Kenya

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

The Financial Services sector registered the highest increase in NPLs by 10.4 percent. Agriculture,

Personal/Household, and Trade sectors gross NPLs increased by 7.3 percent, 6.3 percent, and 2.9 percent respectively. The increase in NPLs under these sectors is due to subdued business conditions resulting in cash flow constraints.

Chart 6.5: Movement in gross NPLs-second quarter of 2019 and third quarter of 2019



Source: Central Bank of Kenya

The banking sector's asset quality, as measured by the proportion of net non-performing loans to gross loans, improved to 5.6 percent in the third quarter of 2019 from 5.9 percent in the second quarter of 2019. The coverage ratio, which is measured as a percentage of specific provisions to total NPLs, increased from 42.6 percent in the second quarter

of 2019 to 44.3 percent in third quarter of 2019 due to a higher increase in specific provisions (4.7 percent) as compared to the increase in total NPLs (1.9 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1** below.

Table 6.1: Summary of asset quality

		19-Jun	19-Sep
1	Gross Loans and Advances (KSh.bn)	2,653.80	2,766.70
2	Interest in Suspense (KSh.bn)	61.3	66
3	Loans and Advances (net of interest suspended) (KSh.bn)	2,592.50	2,700
4	Gross Non-Performing loans (KSh.bn)	335.9	342.4
5	Specific Provisions (KSh.bn)	117	122.5
6	General Provisions (KSh.bn)	31.6	36.8
7	Total Provisions (5+6) (KSh.bn)	148.6	159.3
8	Net Advances (3-7) (KSh.bn)	2,443.90	2,540.70
9	Total Non-Performing Loans and Advances (4-2) (KSh.bn)	274.6	276.4
10	Net Non-Performing Loans and Advances (9-5) (KSh.bn)	157.6	153.9
11	Total NPLs as % of Total Advances (9/3)	10.6	10.2
12	Net NPLs as % of Gross Advances (10/1)	5.9	5.6
13	Specific Provisions as % of Total NPLs (5/9)	42.6	44.3
14	Gross NPLs to Gross Loans Ratio	12.7	12.4

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in quarterly pre-tax profits by Ksh.2.2 billion (5.3 percent) to Ksh.39.5 billion in the third quarter of 2019 from Ksh.41.7 billion in the second quarter of 2019. The decrease in profitability was mainly attributable to an increase in total expenses by Ksh.5.3 billion (5.7 percent) to Ksh.98.5 billion in the third quarter of 2019 from Ksh.93.2 billion in the second quarter of 2019.

The increase in expenses was largely attributable to bad debts charge, which increased by Ksh.2.7 billion (39.4 percent) between second and third quarters of 2019, and salaries and wages, which increased by Ksh.1.7 billion (7.1 percent) over the same period.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income accounting for 49.1 percent, 23.7 percent and 19.7 percent of total income, respectively. On the other hand, interest on deposits, salaries and wages, and other expenses were the key components of expenses, accounting for 32.3 percent, 25.6 percent and 24.7 percent of total expenses, respectively.

Total income increased by Ksh.3.1 billion (2.3 percent) to Ksh.138 billion in the third quarter of 2019 from Ksh.134.9 billion in the second quarter of 2019. The increase was driven by a 12.5 percent

(Ksh.3.1 billion) increase in other income from Ksh.25.4 billion in the second quarter of 2019 to Ksh.28.5 in the third quarter of 2019.

Return On Assets (ROA) stood at 2.7 percent in the third quarter of 2019, a slight decrease from 2.8 percent registered in the second quarter of 2019. Similarly, the Return On Equity (ROE) decreased to 22.5 percent in the third quarter of 2019 from 23.8 percent in the second quarter of 2019. The decreases in ROA and ROE were mainly attributable to 5.5 percent decrease in profit before tax in the third quarter of 2019.

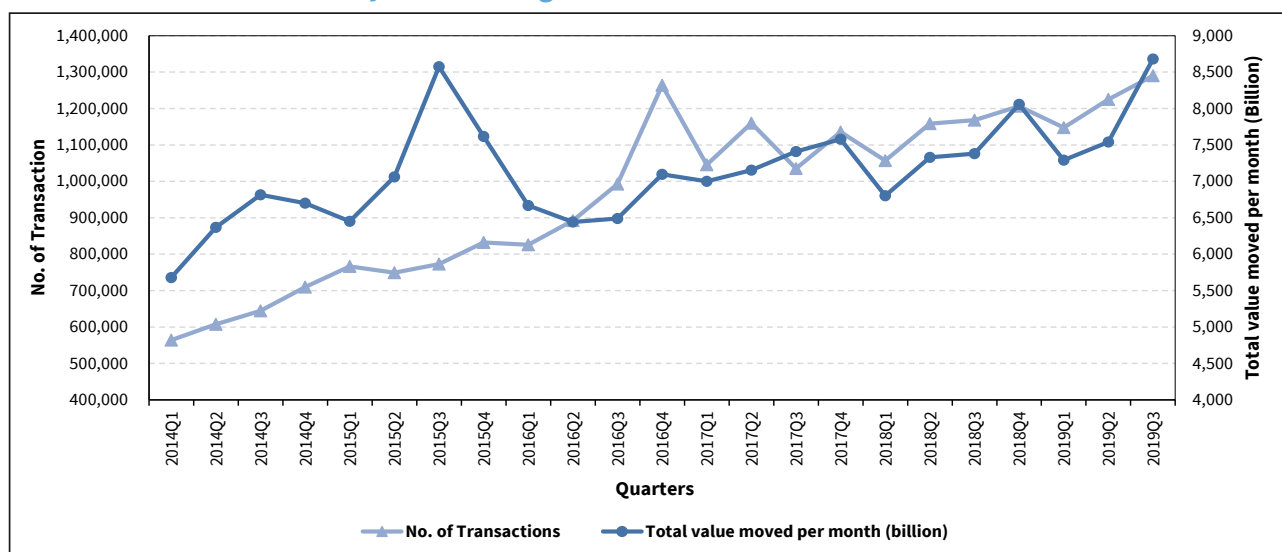
Liquidity

The banking sector's overall liquidity ratio increased to 50.9 percent in the third quarter of 2019 from 50.6 percent in the second quarter of 2019. The increase was driven by an increase of Ksh. 53.6 billion (7.6 percent) of government bonds. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

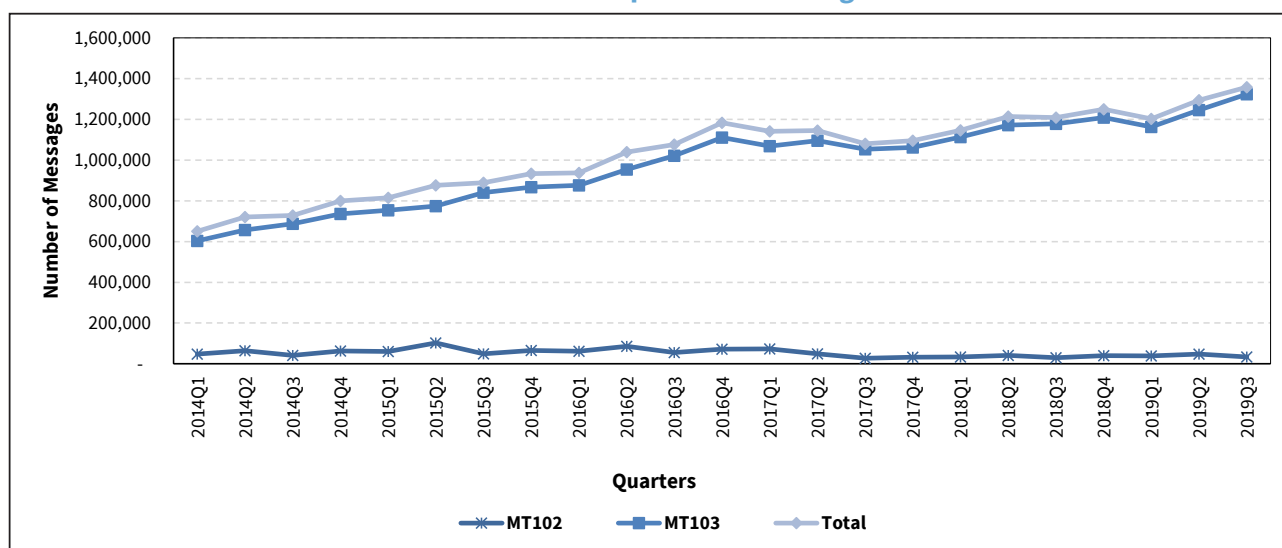
The banking sector is projected to remain stable. Credit risk is expected to ease in the short to medium term as shown by improving asset quality. Liquidity risk is expected to continue easing as distribution of liquidity improves.

Chart 6.7: Trends in monthly flows through KEPSS



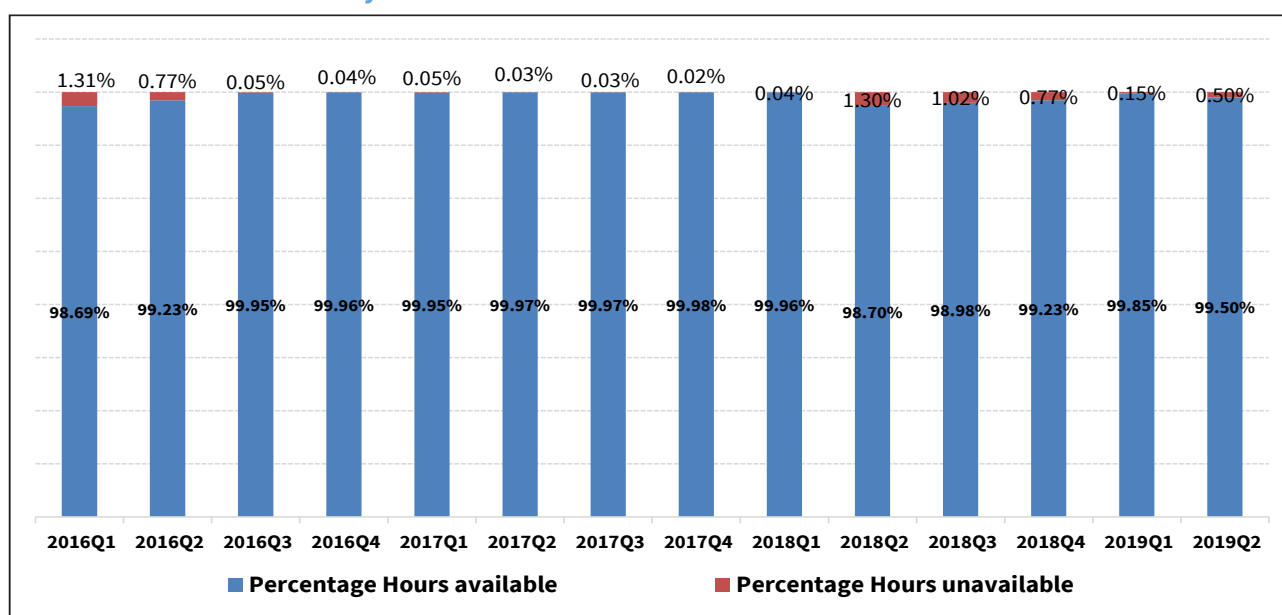
Source: Central Bank of Kenya

Chart 6.8: Trends IN MT102 and MT103 volumes processed through KEPSS



Source: Central Bank of Kenya

Chart 6.9: 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 2019/2020 resulted in a deficit of 1.2 percent of GDP, which was above the target of 0.6 percent of GDP. Both revenues and

expenditures were below their respective targets with the shortfall in total revenues and grants at 15.7 percent, and total expenses and net lending at 3.7 percent.

Table 7.1: Statement of government operations in FY 2018/19 (KSh Billions)

	FY 2018/19		FY 2019/2020						Over (+) /	%
	Q1	Cumulative to June-2019	Jul	Aug	Sep	Q1	Cumulative to Sept-2019	Target	Below (-) Target	Variance
1. TOTAL REVENUE & GRANTS	369.6	1,690.8	117.1	123.1	183.7	424.0	424.0	502.8	(78.8)	(15.7)
Ordinary Revenue	332.2	1,671.1	117.1	120.2	183.8	421.2	421.2	495.0	(73.8)	
Tax Revenue	329.3	1400.6	107.1	111.8	152.6	371.5	371.5	301.4	70.1	
Non Tax Revenue	2.9	96.4	2.6	2.3	13.5	18.4	18.4	143.1	(124.7)	
Appropriations-in-Aid	33.8	174.1	7.4	6.1	17.7	31.3	31.3	50.5	(19.2)	
External Grants	3.6	19.7	-	2.9	(0.1)	2.8	2.8	7.8	(5.0)	
2. TOTAL EXPENSES & NET LENDING	452.5	2405.9	113.0	141.9	289.7	544.6	544.6	565.6	(21.0)	(3.7)
Recurrent Expenses	345.4	1496.2	108.2	129.6	153.3	391.2	391.2	387.5	3.7	
Development Expenses	83.6	542.0	4.7	12.3	78.9	95.9	95.9	123.2	(27.3)	
County Transfers	23.5	360.7	-	-	57.5	57.5	57.5	53.4	4.1	
Others	-	7.0	-	-	-	-	0.0	1.5	(1.5)	
3. DEFICIT (INCL. GRANTS) (1-2)	(82.9)	(715.2)	4.2	(18.8)	(106.1)	(120.7)	(120.7)	(62.8)	(57.8)	92.0
As percent of GDP	(0.8)	(7.5)	0.0	(0.2)	(1.0)	(1.2)	(1.2)	(0.6)		
4. ADJUSTMENT TO CASH BASIS	-	-5.9	-	-	4.1	4.1	25.5	-		
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(82.9)	(721.1)	4.2	(18.8)	(106.1)	(116.5)	(95.2)	(62.8)	(32.3)	51.4
As percent of GDP	(0.8)	(7.6)	0.0	(0.2)	(1.0)	(1.1)	(0.9)	(0.6)	(12.5)	
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-	-	-	-	-	(22.6)	-	-	-	
7. FINANCING	86.0	721.1	(1.0)	44.0	51.0	93.9	95.2	62.8	32.4	51.5
Domestic (Net)	69.2	303.7	1.7	41.3	37.8	80.8	80.8	54.7	26.0	
External (Net)	16.8	414.5	(2.7)	2.7	13.1	13.1	13.1	8.1	5.1	
Capital Receipts (domestic loan receipts)	-	2.9	-	-	-	-	0.0	0.0	-	
Others	-	-	-	-	-	-	1.2	-	1.2	

GDP figures from published QEBR September 2019

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

Revenue

The Government receipts, comprising of revenue and grants increased by 20.4 percent to KSh 424.0 billion in the first quarter of FY 2019/2020, compared to KSh 369.6 billion in the first quarter of FY 2018/19. The increase was reflected in both tax and non- tax revenues categories while external grants and Appropriation in Aid (A-in-A) decreased.

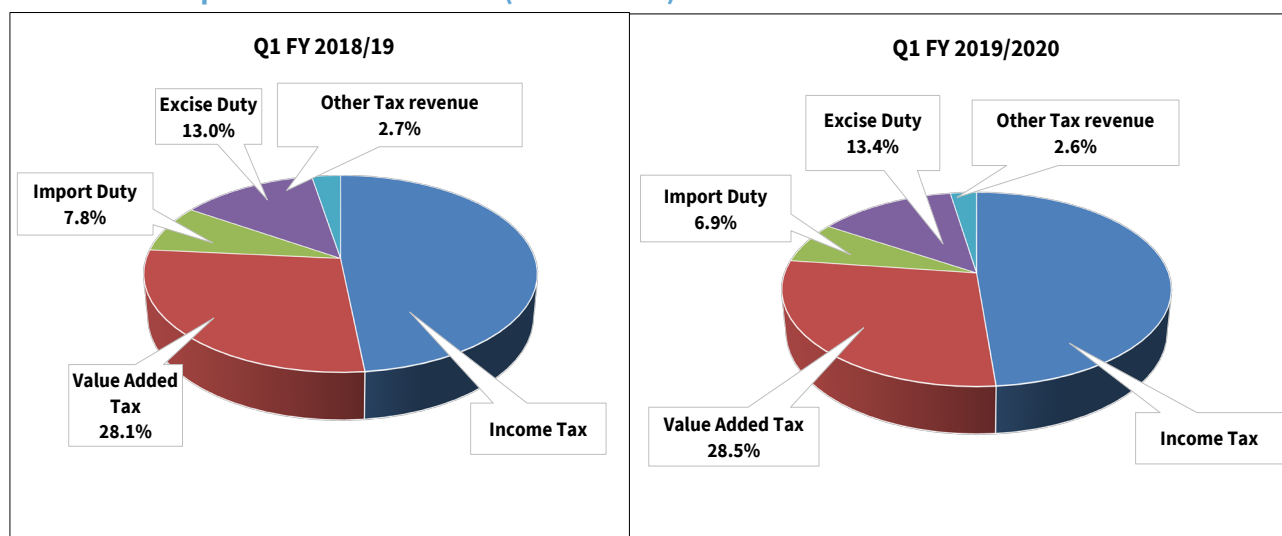
There was a minor shift in the composition of tax revenues in the first quarter of FY 2019/2020 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT), Income Tax and Excise Duty rose marginally during the first quarter of FY 2019/2020. However, the share of Other Tax Revenues and Import Duty declined by 0.1 percentage points and 0.9 percentage points.

Cumulatively, the Government total revenue and grants stood at KSh 424.0 billion (4.1 percent of GDP) during the FY 2019/2020 against a target of KSh 502.8 billion (4.9 percent of GDP). All taxes fell below set targets with the shortfalls partly reflecting a subdued performance of the economy, which adversely affected revenue collection.

External grants in the first quarter of the FY 2019/2020 stood at KSh 2.8 billion, which was KSh 5.0 billion lower than target, due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected during the first quarter of the FY 2019/2020 amounted to KSh 31.3 billion, which was KSh 19.2 billion lower than target due to under reporting in ministerial expenditure returns.

Chart 7.1: Composition of tax revenue (KSh Billions)



Source: June 2019 Provisional Budget Out-turn from The National Treasury

Expenditure and Net Lending

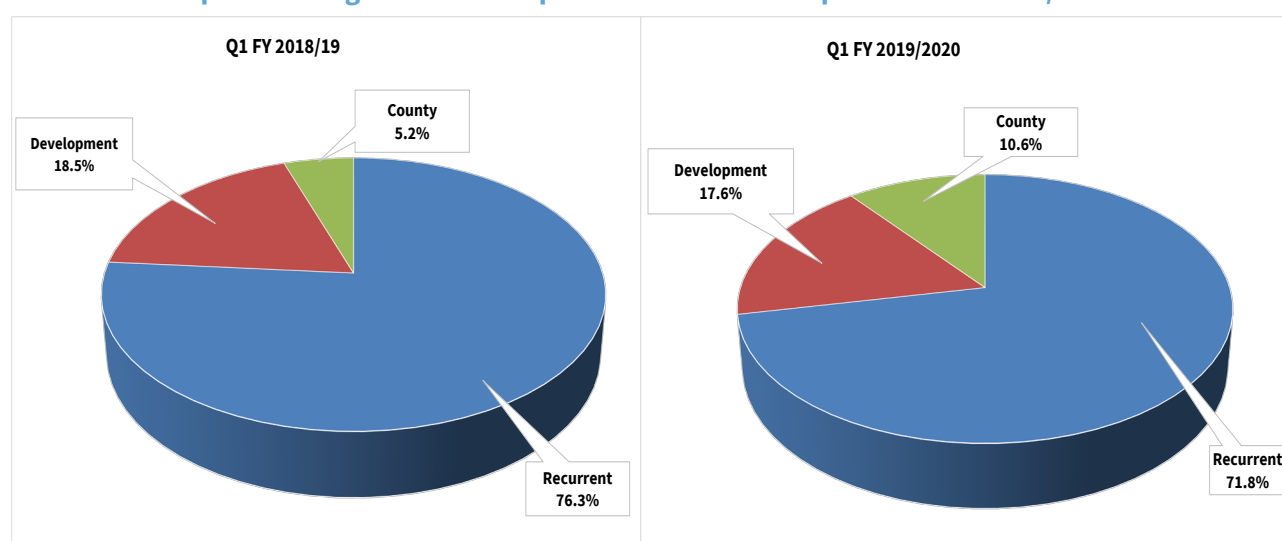
Government expenditure and net lending increased by 20.4 percent to KSh 544.6 billion in the first quarter of the FY 2019/2020 compared to KSh 452.5 billion in the first quarter of the FY 2018/19. The increase in expenditures reflected in national government recurrent, development and county transfers' that rose by 13.3, 14.8 and 144.5 percent respectively.

In terms of composition, recurrent expenditure remained the largest share in total government expenditure accounting for 71.8 percent in the first quarter of the FY 2019/2020, which was 4.5

percentage points lower than the level recorded in a similar quarter the previous fiscal year. The share of development expenditure declined by 0.9 percentage points, while that of county allocation rose by 5.4 percentage points, in the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in FY 2019/2020 amounted to KSh 544.6 billion (5.3 percent of GDP), against a target of KSh 565.6 billion (5.5 percent of GDP). The shortfall of KSh 21.0 billion was attributed to lower absorption of both recurrent and development expenditures by the National Government and County Governments.

Chart 7.2: Composition of government expenditure in the first quarter of FY 2019/2020



Source: QEBR 4th Quarter 2019 and BROP 2019

Financing

The budget deficit including grants amounted to KSh 95.2 billion or 0.9 percent of GDP at the end of the first quarter of FY 2019/2020. The deficit financing mix was 13.8 percent and 84.9 percent external and domestic resources, respectively. The domestic borrowing comprised KSh 8.3 billion in

Government deposits held at the Central Bank, KSh 13.2 billion from commercial banks. KSh 57.8 billion from non-banks and KSh 1.5 billion from Non-residents (**Table 7.2**). The net domestic and net external borrowing at the end of the first quarter of FY 2019/2020 were above target by KSh 26.0 billion and KSh 5.1 billion, respectively.

Table 7.2 Domestic financing to September 2019

	FY 2018/19				FY 2019/2020		
	Q1	Q2	Q3	Q4			Q1
	Sep-18	Dec-18	Mar-19	Jun-19	Jul-19	Aug-19	Sep-19
1. From CBK	(10.4)	93.7	99.7	13.6	(50.8)	(54.5)	8.3
2. From commercial banks	45.7	(5.0)	109.2	126.9	29.2	56.5	13.2
4. From Non-banks	33.7	41.2	111.6	160.3	22.4	43.6	57.8
5. From Non-Residents	0.2	1.0	0.2	2.8	0.8	1.2	1.5
Change in Credit from banks (From 30th June 2018)	35.4	88.7	208.9	140.5	(162.1)	(138.6)	(119.1)
Change in Credit from non-banks (From 30th June 2018)	33.7	41.2	111.6	160.3	(137.8)	(116.6)	(102.5)
Change in Credit from non-residents (From 30th June 2018)	0.2	1.0	0.2	2.8	(2.1)	(1.6)	(1.3)
6. Total Change in Dom. Credit (From 30th June 2018)	69.2	130.8	320.7	303.7	(302.0)	(256.8)	(222.9)

NB: Treasury Bills are reflected at cost

Source: Central Bank of Kenya

Outlook for FY 2019/20

In the revised Budget estimates from the National Treasury for the FY 2019/20, total revenue is projected at KSh 2,126.0 billion (20.5 percent of GDP) while external grants are projected at KSh 41.8 billion. Government expenditure is projected at KSh 2,876.1 billion (27.8 percent of GDP), of which KSh 1,754.7 billion will be for recurrent expenses, KSh

378.3 billion for transfers to county governments and KSh 738.1 billion for development expenses.

The overall budget deficit including grants is, therefore, projected at KSh 657.4 billion (6.3 percent of GDP) in 2019/20, to be financed through net external borrowing of KSh 353.5 billion and net domestic borrowing of KSh 300.7 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2019/20 (KSh Billions)

	Ksh (Billion)	%age of GDP
1. TOTAL REVENUE (Including Grants)	2,126.0	20.5
Total Revenue	1,843.8	17.8
Appropriations-in-Aid	240.4	2.3
External Grants	41.8	0.4
2. TOTAL EXPENSES & NET LENDING	2,876.1	27.8
Recurrent Expenses	1,754.7	16.9
Development Expenses	738.1	7.1
County Transfer	378.3	3.7
Contingency Fund	5.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	-750.1	-7.2
Adjustment to Cash Basis	92.7	0.9
4. FINANCING	657.4	6.3
Domestic (Net)	300.7	2.9
External (Net)	353.5	3.4
Domestic loan repayments(receipts)	3.2	0.0

Source: National Treasury: Supplementary Estimates, November 2019

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 2.7 percent during the first quarter of the FY 2019/20. Domestic and external debt increased by 2.5 percent and 2.9 percent, respectively. The ratio of public debt to GDP

increased by 0.1 percentage points to 62.2 percent during the quarter. Similarly, External debt ratio to GDP increased by 0.1 percentage points while the ratio of domestic debt to GDP remained unchanged (**Table 8.1**)¹.

Table 8.1 Kenya's public and publicly guaranteed debt

2018/19								
	Q1	Q2	Q3	Q4	Jul-19	Aug-19	Q1	Change Q on Q
EXTERNAL								
Bilateral	812.5	894.0	916.6	996.1	1,042.1	1,033.4	1,001.8	5.8
Multilateral	877.7	874.7	846.6	914.4	1,022.4	1,011.3	1,024.1	109.7
Commercial Banks	898.3	938.2	941.8	1,095.8	1,078.3	1,071.7	1,068.7	-27.1
Supplier Credits	16.7	16.9	16.7	16.9	17.2	17.1	17.2	0.3
Sub-Total	2,605.3	2,723.7	2,721.6	3,023.1	3,160.1	3,133.5	3,111.8	88.6
(As a % of GDP)	30.0	30.6	29.7	32.3	32.9	32.7	32.4	
(As a % of total debt)	50.6	51.7	50.2	52.0	52.6	52.1	52.1	
DOMESTIC								
Banks	1,405.5	1,407.8	1,487.5	1,524.0	1,560.9	1,573.1	1,535.5	11.5
Central Bank	90.2	118.2	89.7	109.6	118.2	111.8	120.5	10.9
Commercial Banks	1,315.3	1,289.6	1,397.8	1,414.4	1,442.7	1,461.3	1,415.0	0.6
Non-banks	1,109.8	1,114.8	1,185.7	1,233.9	1,254.4	1,273.6	1,291.5	57.6
Pension Funds	689.1	694.3	743.4	786.5	799.6	812.4	819.8	33.3
Insurance Companies	154.1	154.3	166.5	170.8	175.8	178.3	183.1	12.2
Other Non-bank Sources	266.5	266.3	275.8	276.5	279.0	282.9	288.6	12.1
Non-residents	25.4	26.2	25.4	28.0	28.8	29.2	29.6	1.6
Sub-Total	2,540.7	2,548.8	2,698.5	2,785.9	2,844.1	2,876.0	2,856.6	70.7
(As a % of GDP)	29.2	28.6	29.5	29.8	29.6	30.0	29.8	
(As a % of total debt)	49.4	48.3	49.8	48.0	47.4	47.9	47.9	
GRAND TOTAL	5,146.0	5,272.5	5,420.1	5,809.1	6,004.2	6,009.5	5,968.4	159.3
(As a % of GDP)	59.2	59.2	59.2	62.1	62.6	62.6	62.2	

Source: The National Treasury and Central Bank of Kenya

Domestic Debt

Domestic debt build up was slower relative to the 3.2 percent build up in the previous quarter. This slump in the uptake of government securities was associated with slowdown in budget execution synonyms with first quarter of the financial year. The share of domestic debt to total debt decreased

by 0.1 percentage points to 47.9 percent by the end of the first quarter of the FY 2019/20. The proportion of debt securities to total domestic debt decreased by 0.3percentage points during the quarter under review. The decrease in the uptake of domestic debt securities was offset by the 16.0 percent increase in government overdraft at the Central Bank during the first quarter of 2019/20 (**Table 8.2**).

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

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 2.7 percent decrease during the first quarter of the FY 2019/20, a slower pace than the uptake of Treasury bonds. Accordingly, the proportion of Treasury bills to total domestic debt decreased by 1.8 percentage points during the period under review. The dominance of Commercial banks in Treasury bills market persisted with their holdings standing at 59.9 percent of the total amount of outstanding Treasury Bills by the end of the first quarter of the FY 2019/20. Other significant holders of Treasury bills included Pension funds (17.8 percent) and parastatals-included in other holders (14.4 percent) (Table 8.2).

Treasury Bonds

Treasury bond holdings increased by 4.7 percent during the first quarter of the FY 2019/20, faster build up than that of Treasury bills and in line with government objective of mitigating against the refinancing risk by issuing longer dated securities (Table 8.2). The largest component of this buildup was attributable to proceeds from 10- year and 15-year Fixed rate Treasury bonds issued and reopened during the quarter (Table 8.3). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for about half of the outstanding Treasury Bonds.

Table 8.2: Government gross domestic debt (Ksh Billions)

	Ksh (Billion)							Change:Q on Q		Propotions						
	2018/19				2019/20					2018/19				2019/20		
	Q1	Q2	Q3	Q4	Jul-19	Aug-19	Q1	Ksh(Bn)	%	Q1	Q2	Q3	Q4	Jul-19	Aug-19	Q1
Total Stock of Domestic Debt (A+B)	2,540.7	2,548.8	2,698.5	2,785.9	2,844.1	2,876.0	2,856.6	70.7	2.5	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	2,472.9	2,452.3	2,635.3	2,702.4	2,752.7	2,790.8	2,757.7	55.3	2.0	97.3	96.2	97.7	97.0	96.8	97.0	96.5
1. Treasury Bills (excluding Repo Bills)	944.1	899.4	949.7	954.3	953.5	947.9	928.9	-25.3	-2.7	37.2	35.3	35.2	34.3	33.5	33.0	32.5
Banking institutions	558.1	547.8	591.2	598.1	607.4	603.0	576.8	-21.3	-3.7	22.0	21.5	21.9	21.5	21.4	21.0	20.2
The Central Bank	20.6	20.6	20.6	20.6	20.6	20.6	20.6	0.0	0.0	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Commercial Banks	537.5	527.2	570.6	577.5	586.8	582.4	556.2	-21.3	-3.8	21.2	20.7	21.1	20.7	20.6	20.3	19.5
Pension Funds	187.4	161.1	169.5	170.3	159.1	158.5	165.2	-5.1	-3.1	7.4	6.3	6.3	6.1	5.6	5.5	5.8
Insurance Companies	20.0	16.4	18.5	18.2	18.1	18.0	18.9	0.7	3.6	0.8	0.6	0.7	0.7	0.6	0.6	0.7
Others	178.6	174.1	170.4	167.7	169.0	168.4	168.0	0.4	0.2	7.0	6.8	6.3	6.0	5.9	5.9	5.9
2. Treasury Bonds	1,528.8	1,552.9	1,685.7	1,748.1	1,799.2	1,842.9	1,828.8	80.6	4.4	60.2	60.9	62.5	62.7	63.3	64.1	64.0
Banking institutions	779.6	763.6	833.2	843.0	862.2	885.0	864.8	21.9	2.5	30.7	30.0	30.9	30.3	30.3	30.8	30.3
The Central Bank	9.4	9.4	9.4	9.4	9.4	9.4	9.4	0.0	0.0	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Commercial Banks	770.2	754.2	823.7	833.5	852.8	875.6	855.4	21.9	2.6	30.3	29.6	30.5	29.9	30.0	30.4	29.9
Insurance Companies	134.2	137.9	148.0	152.6	157.7	160.3	164.2	11.5	7.0	5.3	5.4	5.5	5.5	5.5	5.6	5.7
Pension Funds	510.1	533.1	573.8	616.2	640.5	653.9	654.7	38.4	5.9	20.1	20.9	21.3	22.1	22.5	22.7	22.9
Others	104.9	118.3	130.6	136.3	138.7	143.7	145.1	8.8	6.1	4.1	4.6	4.8	4.9	4.9	5.0	5.1
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	23.9	23.3	22.8	22.2	22.2	22.2	22.2	0.0	0.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Of which: Repo T/Bills	23.3	22.7	21.6	21.1	21.1	21.1	21.1	0.0	0.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7
B. Others:	44.0	73.1	40.4	61.3	69.2	63.0	76.7	15.4	20.1	1.7	2.9	1.5	2.2	2.4	2.2	2.7
Of which CBK overdraft to Government	36.3	64.8	36.9	57.3	66.0	59.6	68.2	10.9	16.0	1.4	2.5	1.4	2.1	2.3	2.1	2.4

Source: Central Bank of Kenya

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

		Kshs (Billions)							Change Q on Q		Proportions						
		2018/19				2019/20			Q1 2019/20		2018/19				2019/20		
		Q1	Q2	Q3	Q4	Jul-19	Aug-19	Q1	Kshs(Bn)	%	Q1	Q2	Jan-19	Q4	Jul-19	Aug-19	Q1
Treasury bills	91-Day	49.8	54.9	44.9	40.0	41.9	48.8	58.7	18.7	31.8	2.0	2.2	2.2	1.4	1.5	1.7	2.1
	182-Day	216.9	135.2	147.3	164.7	151.9	127.5	108.8	-55.9	-51.4	8.5	5.3	5.6	5.9	5.3	4.4	3.8
	364-Day	677.4	709.3	757.4	749.6	759.8	771.6	761.4	11.9	1.6	26.7	27.8	28.5	26.9	26.7	26.8	26.7
Treasury Bond	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	63.6	38.1	69.2	69.2	69.2	69.2	37.4	-31.8	-85.1	2.5	1.5	2.4	2.5	2.4	2.4	1.3
	3-Year	0.4	0.4	0.6	0.8	0.8	0.8	1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	4.8	4.8	4.8	4.8	4.8	4.8	4.8	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	5-Year	307.2	272.6	293.2	269.5	269.5	269.5	269.5	0.0	0.0	12.1	10.7	10.5	9.7	9.5	9.4	9.4
	6-Year	8.5	8.5	8.5	8.5	8.5	8.5	8.5	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	7-Year	50.1	50.1	50.1	50.1	50.1	50.1	50.1	0.0	0.0	2.0	2.0	1.9	1.8	1.8	1.7	1.8
	8-Year	33.7	33.7	33.7	33.7	33.7	33.7	19.3	-14.4	-74.6	1.3	1.3	1.3	1.2	1.2	1.2	0.7
	9-Year	76.5	71.2	71.2	71.2	71.2	55.3	55.3	-15.9	-28.7	3.0	2.8	2.7	2.6	2.5	1.9	1.9
	10-Year	270.4	303.2	336.0	359.8	359.8	404.8	404.8	45.0	11.1	10.6	11.9	11.6	12.9	12.7	14.1	14.2
	11-Year	0.0	8.8	8.8	8.8	8.8	8.8	8.8	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3
	12-Year	129.3	120.3	120.3	115.4	115.4	115.4	115.4	0.0	0.0	5.1	4.7	4.6	4.1	4.1	4.0	4.0
	15-Year	386.8	415.9	446.4	505.1	555.6	555.6	588.0	82.9	14.1	15.2	16.3	16.5	18.1	19.5	19.3	20.6
	20-Year	144.0	171.9	171.9	180.9	180.9	195.5	195.5	14.5	7.4	5.7	6.7	6.6	6.5	6.4	6.8	6.8
	25-Year	25.3	25.3	42.2	42.2	42.2	42.2	42.2	0.0	0.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	1.1	1.1	1.1	1.0	1.0	1.0	1.0
Repo T bills		23.3	22.7	21.6	21.1	21.1	21.1	21.1	0.0	0.0	0.9	0.9	0.9	0.8	0.7	0.7	0.7
Overdraft		36.3	64.8	36.9	57.3	66.0	59.6	68.2	10.9	100.0	1.4	2.5	1.4	2.1	2.3	2.1	2.4
Other Domestic debt		8.3	8.9	5.3	5.1	4.8	5.1	9.7	4.5	46.7	0.3	0.3	0.3	0.2	0.2	0.2	0.3
Total Debt		2,540.7	2,548.8	2,698.5	2,785.9	2,844.1	2,876.0	2,856.6	70.7	2.5	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 underscoring the Public Debt Management Office goal of reducing the refinancing risk. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 81.8 percent of the total outstanding Treasury Bonds, representing a 2.6 percentage points increase from the previous quarter. Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates.

The average time to maturity of existing domestic debt improved from 4 years and 11 months in the previous quarter to 5 years and 7 months in the first quarter of the FY 2019/20. The refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased (32.5 percent from 34.3 percent in June 2019).

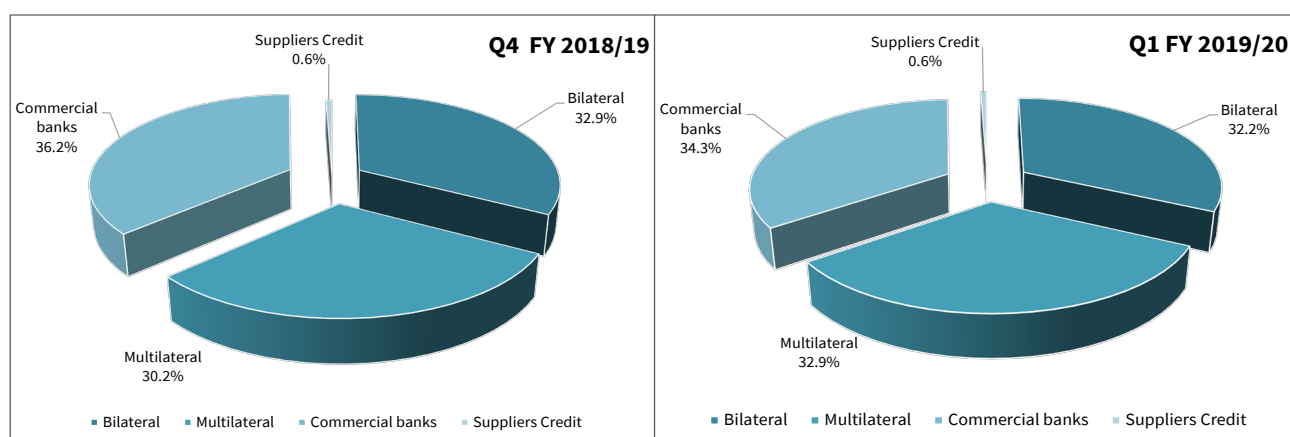
External Debt

Public and publicly guaranteed external debt increased by 2.9 percentage points during the first quarter of the FY 2019/20. The increase in external debt during this quarter was due to US dollar 953 million proceeds from International Development Association. This increase was partially offset by the repayment of US dollar 424 million owed to Trade development bank. Foreign exchange risk on external debt increased as exchange rate depreciated by 1.6 percent.

Composition of External Debt by Creditor

With increased access to international financial markets, Kenya continues to record dwindling levels of concessional debt and build-up of commercial and semi-concessional borrowing. However, during the quarter under review, the share of outstanding debt from official multilateral and bilateral lenders (who provide both concessional and semi-concessional loans) increased by 2.0 percentage points to 65.1 percent from 63.1 percent held in the previous quarter. The proportion of commercial debt decreased by 1.9 percentage points by the end of the first quarter of FY 2019/20.

Chart 8.a: Composition of external debt by lender

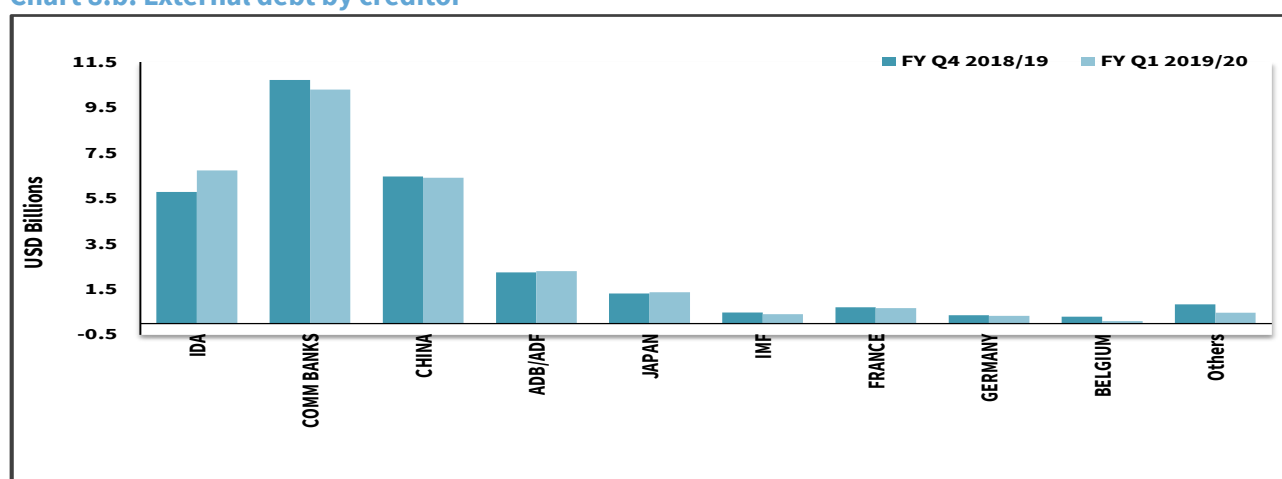


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 6.7 billion or 22.5 percent of total external debt while that owed to China,

Kenya's largest bilateral lender, amounted to USD 6.4 billion, or 21.4 percent of the total external debt in the first quarter of the FY 2019/20 (**Chart 8b**).

Chart 8.b: External debt by creditor



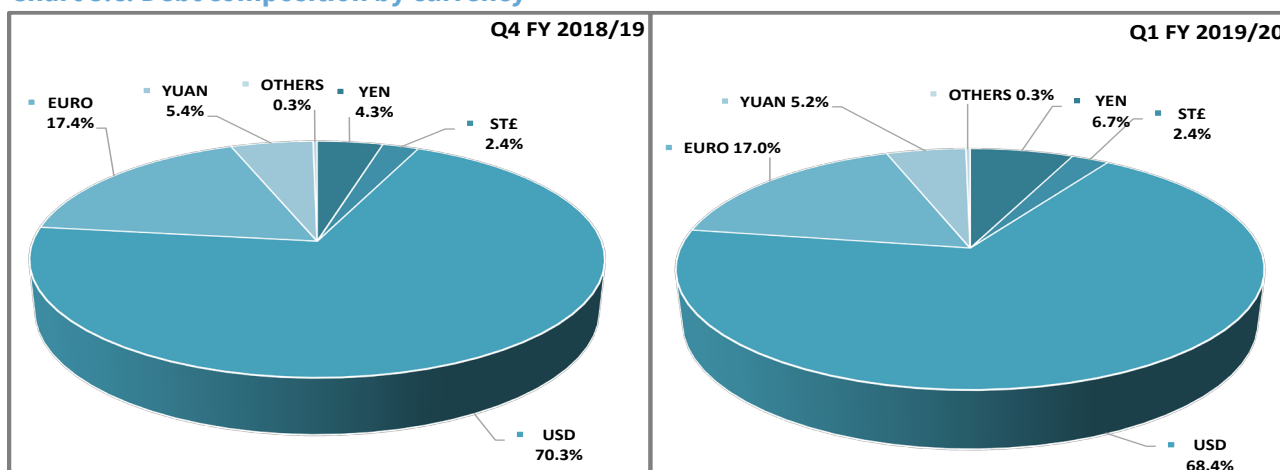
Source: The National Treasury

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 85.4 percent of the total currency

composition at the end of the first quarter of the FY 2019/20. This was partly consistent with the currency composition of the Central Bank's forex reserve holdings. The proportion held in US dollar decreased by 1.9 percentage points mainly on account of retirement of US dollar 424 million owed to Trade Development Bank (**Chart 8.c**).

Chart 8.c: Debt composition by currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 4.7 percent during the fourth quarter of the FY 2018/19. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt

service for the fourth quarter of the FY 2018/19 amounted to KSh 139.5 billion. Liquidity indicators of external indebtedness worsened and were above the composite indicator thresholds (21 percent of exports and 23 percent of revenues) driven by one-off repayment of US dollar 750 million Eurobond procured in 2014 (**Table 8.4**).

Table 8.4: Liquidity external debt sustainability indicators

	Q1 FY 2018/19	Q2 FY 2018/19	Q3 FY 2018/19	Q4 FY 2018/19	Q1 FY 2019/20
Debt service to Revenues (23%)	10.1	7.9	40.4	28.3	12.6
Debt service to Exports (21%)	12.5	10.9	51.7	47.4	19.2

Source: Central Bank of Kenya

Debt Sustainability Analysis

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

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

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

Chapter 9

The Capital Markets

Equities Market

The equities market share prices declined in the third quarter of 2019 compared to the second quarter of 2019. The NSE 20 and NASI share price indices declined by 7.65 percent and 2.77 percent, respectively. Similarly, total equities turnover,

market capitalization and to total number of shares traded, declined by 6.79 percent, 4.69 percent and 1.58 percent, respectively. **(Table 9.1 and Chart 9.1)**

Table 9.1: Selected stock market indicators

INDICATOR	2017			2018				2019			%age CHANGE (2019Q3 - 2019Q2)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
NSE 20 Share Index (1966=100)	3,607.18	3,751.46	3,711.94	3,845.34	3,285.73	2,875.51	2,801.00	2,846.35	2,633.32	2,431.97	-7.65
NASI (2008=100)	152.92	162.21	171.20	191.23	174.36	149.67	142.00	157.66	149.61	145.46	-2.77
Number of Shares Traded (Millions)	1,892.06	2,019.72	1,291.16	2,138.96	1,580.04	983.14	1,570.53	1,396.67	1,081.60	367.61	-66.01
Equities Turnover (Ksh Millions)	44,902	53,577	36,019	61,150	47,142	31,930	35,435	45,249	32,897	30,663	-6.79
Market Capitalization (Ksh Billions)	2,224	2,377	2,522	2,817	2,576	2,211	2,102	2,361	2,279	1,065	-53.29
Foreign Purchase (Ksh Millions)	27,424.17	23,099.00	22,760.00	31,065.00	24,617.77	17,335.66	23,323.00	35,039.27	23,896.34	20,114.83	-15.82
Foreign Sales (Ksh Millions)	29,691.72	34,219.00	22,941.00	39,148.80	32,794.02	24,040.91	29,994.00	34,438.00	22,537.87	19,852.71	-11.91
Ave. Foreign Investor Participation to Equity Turnover (%)	63.60	53.49	63.44	57.41	60.89	64.84	75.12	74.90	71.10	65.65	-7.66
Bond Turnover (Ksh Millions)	134,633	108,168	89,120	152,338	158,523	133,683	118,171	158,069	201,715	185,440	-8.07
FTSE NSE Kenya Govt. Bond Index (Points)	91.54	91.67	92.83	93.58	95.00	94.85	95.40	96.48	97.30	98.56	1.29
5-Year Eurobond Yield (%)	4.47	4.28	3.76	3.83	5.74	4.52	5.87	5.26	5.02	-	(5.02)*
7-Year Eurobond Yield (%)									6.41	6.41	0.00
10-Year Eurobond Yield (%) -2024	6.64	6.46	5.67	6.24	7.18	6.86	8.35	6.28	5.48	5.57	0.08*
ETF Turnover(KSh Million)				6.86							0.00
ETF -Total Deals				7.81							0.00
10-Year Eurobond Yield (%) -2028				6.86	7.89	7.65	9.00	7.11	6.78	6.68	(0.10)*
12-Year Eurobond Yield (%)									6.78	7.40	0.61*
30-Year Eurobond Yield (%) -2048				7.81	8.90	8.59	9.75	8.15	7.89	8.07	0.18*

* Percentage points

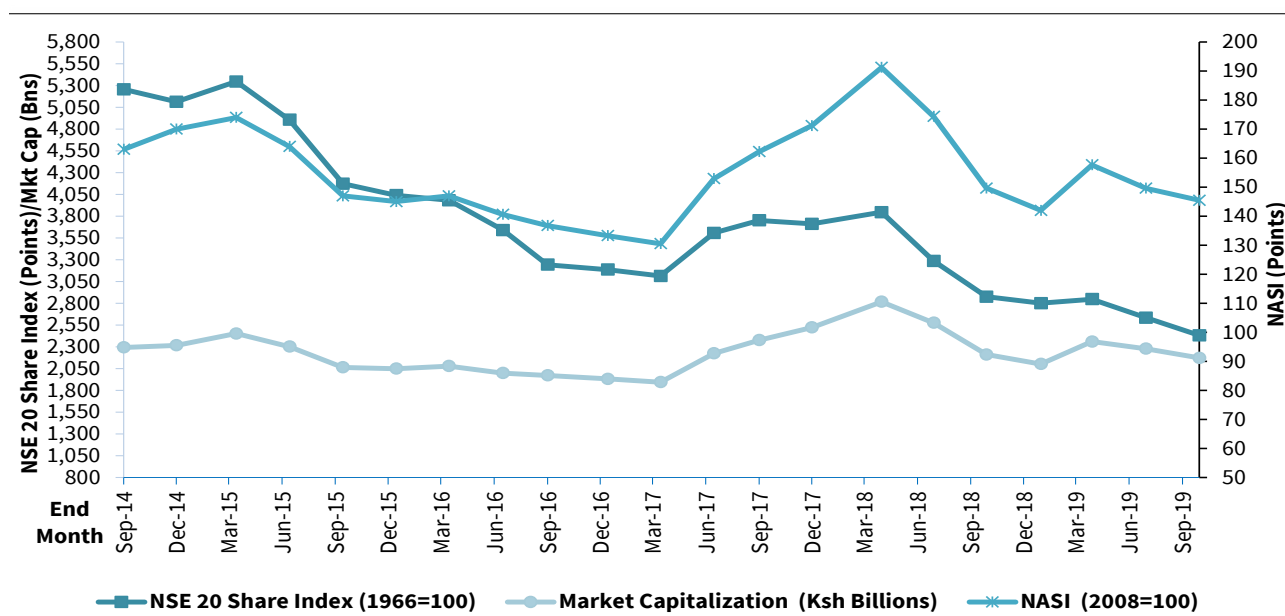
Source: Nairobi Securities Exchange

Foreign Investors' Participation

The value shares purchased by foreign investors at the NSE declined by 15.82 percent, more than 11.91 percent decline in shares sold by the foreign investors in the third quarter of 2019 compared with

second quarter of 2019. The average net foreign investors' participation at the NSE as a share of the total equity turnover was 65.65 percent in the third quarter of 2019 compared to 71.10 percent in the second quarter of 2019 **(Chart 9.2 and Table 9.1).**

Chart 9.1: NSE 20, NASI and market capitalization



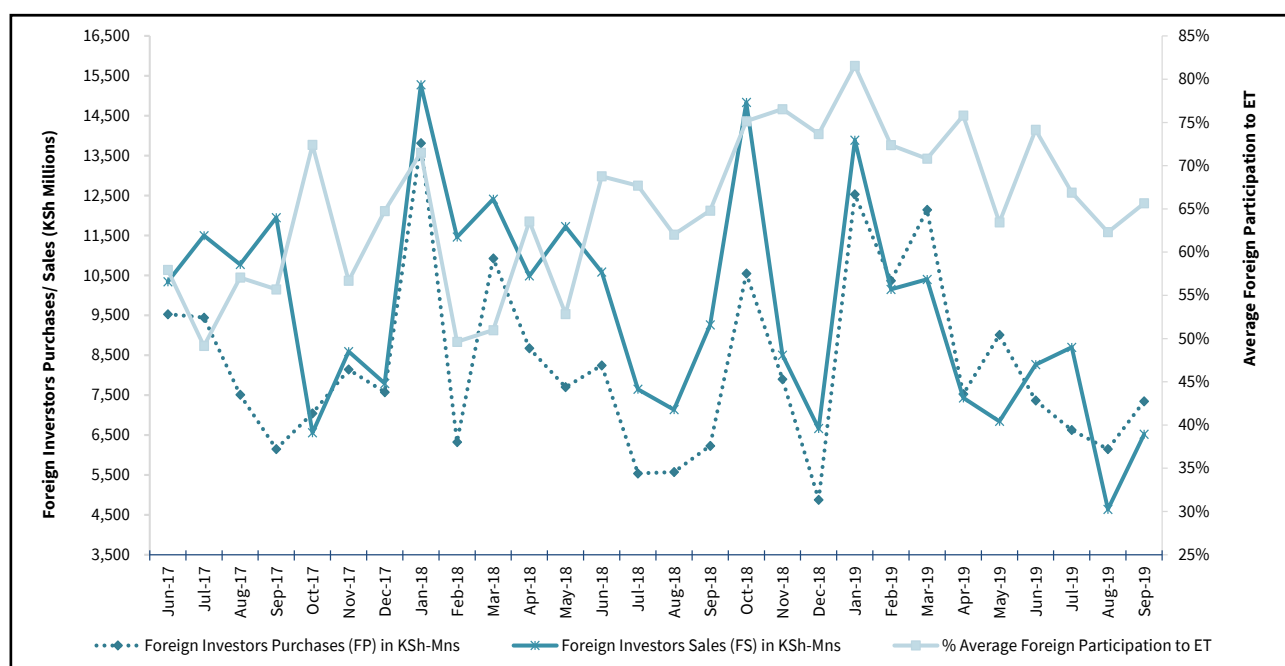
Source: Nairobi Securities Exchange

Bonds Market

The turnover of bonds traded on the domestic secondary market declined by 8.07 percent in the third quarter of 2019. The FTSE NSE Kenyan Government Bond Index rose by 1.29 points. The

yields on the 10-year (2024), 12-year and 30-year Kenya Eurobonds, increased by 0.08, 0.61 and 0.18 percentage points, respectively on the last trading day of the third quarter of 2019. However, the 10-year (2028) yield declined by 0.10 percentage points and the 7-year remained unchanged.

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Securities Exchange

Chapter 10

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

	2019				Absolute Quarterly Changes (KSh Million)				Quarterly Growth Rates (%)			
1.0 ASSETS	Mar	Jun	Sept	Dec	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019
1.1 Reserves and Gold Holdings	848,796	1,047,463	966,089	932,958	(33,131)	(81,374)	198,667	1,474	(3.4)	(7.8)	23.4	0.2
1.2 Funds Held with IMF	8,343	1,008	11,478	5,974	(5,504)	10,470	(7,335)	5,767	(48.0)	1,038.7	(87.9)	223.8
1.21 Investment in Equity (Swift Shares)	9	9	9	9	(0)	(0)	0	(0)	(0.2)	(2.4)	2.9	(2.9)
1.3 Items in the Course of Collection	16	36	20	5	(15)	(16)	21	(3)	(74.5)	(45.2)	131.5	(16.8)
1.4 Advances to Commercial Banks	67,772	66,909	63,657	55,266	(8,391)	(3,252)	(862)	(9,705)	(13.2)	(4.9)	(1.3)	(12.5)
1.5 Loans and Other Advances	2,599	3,362	3,380	3,435	55	18	763	(5)	1.6	0.5	29.4	(0.2)
1.6 Other Assets	2,341	5,309	4,733	4,542	(192)	(576)	2,968	(248)	(4.0)	(10.8)	126.8	(9.6)
1.7 Retirement Benefit Asset	6,585	4,329	4,329	4,329	-	-	(2,256)	-	-	-	(34.3)	-
1.8 Property and Equipment	28,332	30,001	29,468	29,621	153	(533)	1,669	1,832	0.5	(1.8)	5.9	6.9
1.81 Intangible Assets	756	837	790	886	95	(47)	81	116	12.1	(5.6)	10.7	18.0
1.9 Due from Government of Kenya	60,087	79,556	90,574	86,164	(4,409)	11,017	19,470	(28,312)	(4.9)	13.8	32.4	(32.0)
TOTAL ASSETS	1,025,635	1,238,821	1,174,527	1,123,189	(51,338)	(64,295)	213,187	(29,086)	(4.4)	(5.2)	20.8	(2.8)
2.0 LIABILITIES					-	-	-	-				
2.1 Currency in Circulation	271,923	249,509	207,066	258,945	51,880	(42,444)	(22,414)	(16,376)	25.1	(17.0)	(8.2)	(5.7)
2.2 Investments by Banks -Repos	9,992				-	-	(9,992)	9,992			(100.0)	
2.3 Deposits	508,365	741,000	696,019	622,487	(73,532)	(44,981)	232,635	(23,443)	(10.6)	(6.1)	45.8	(4.4)
2.4 International Monetary Fund	89,598	83,653	81,845	75,634	(6,212)	(1,807)	(5,945)	(2,646)	(7.6)	(2.2)	(6.6)	(2.9)
2.5 Other Liabilities	3,737	6,165	13,683	5,338	(8,345)	7,518	2,429	(436)	(61.0)	121.9	65.0	(10.5)
TOTAL LIABILITIES	883,615	1,080,327	998,613	962,404	(36,210)	(81,714)	196,712	(32,908)	(3.6)	(7.6)	22.3	(3.6)
3.0 EQUITY AND RESERVES	142,020	158,494	175,914	160,785	(15,129)	17,420	16,474	3,823	(8.6)	11.0	11.6	2.8
Share Capital	5,000	20,000	35,000	35,000	-	15,000	15,000	-	-	75.0	300.0	
General reserve fund -Unrealized	44,432	44,432	48,776	48,776	0	4,344	-	-	0.0	9.8	-	
-Realized	30,692	10,927	15,000	15,000	0	4,073	(19,764)	-	0.0	37.3	(64.4)	
-Capital Projects	24,473	24,473	26,523	26,523	-	2,050	-	-	-	8.4	-	
Period surplus/(Deficit)	13,037	25,465	21,420	6,291	(15,129)	(4,045)	12,428	3,823	(70.6)	(15.9)	95.3	41.5
Asset Revaluation	17,801	17,801	17,801	17,801	-	-	-	-	-	-	-	-
Fair Value Reserves -OCI		7,066	7,066	7,066	-	(0)	7,066	-	-	(0.0)		
Retirement Benefit Asset Reserves	6,584	4,329	4,329	4,329	-	(1)	(2,255)	-	-	(0.0)	(34.2)	-
Consolidated Fund		4,000			-	(4,000)	4,000	-		(100.0)		
4 TOTAL LIABILITIES AND EQUITY	1,025,635	1,238,821	1,174,527	1,123,189	(51,338)	(64,295)	213,187	(29,086)	(4.4)	(5.2)	20.8	(2.8)

Source: Central Bank of Kenya

Notes on the Financial Position

Assets

The Central Bank of Kenya (CBK) balance sheet declined by 5.2 percent in the third quarter of 2019, largely reflecting a decline of KSh 81.4 billion in reserve and gold holdings. Reserve and gold holdings comprise of foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank. Reserve and gold holdings.

Other balance sheet items that declined in the third quarter include advances to commercial banks, items in the course of collection, other assets and intangible assets. Advances to commercial banks, largely for liquidity management, declined by KSh 3.3 billion in the third quarter of 2019 partly reflecting improved liquidity conditions resulting from increased government spending, including payments of pending bills. Items in the course of collection, which represent the value of clearing instruments held by the CBK while awaiting clearing by respective commercial banks, decreased by KSh 16.0 million compared to an increase of KSh 21.0 million in the second quarter of 2019. Other assets, which largely consist of prepayments and sundry debtors, and deferred currency expense decreased by KSh 576 million compared to an increase of KSh 3.0 billion in the previous quarter.

Meanwhile, debt due from government increased in the third quarter of 2019 by KSh 11.0 billion compared to an increase of KSh 19.5 billion in the previous quarter. This partly reflects an increase in the utilization of overdraft facility at the central bank by government. Debt due from government comprises of Government utilization of the overdraft facility at the Central bank and overdrawn accounts which were converted to a long term debt with effect from 1 November 1997. The Funds held with the IMF also increased in the quarter under review by KSh 10.5 billion.

Liabilities

Currency in circulation declined by 17.0 percent in the third quarter of 2019 compared to a decline of 8.2 percent in the previous quarter.

Deposits at the CBK by Government of Kenya, local commercial banks, other public entities and project accounts and local banks' forex settlement accounts decreased by 6.1 percent compared to an increase of 45.8 percent in the previous quarter.

Equity and reserves increased by 11.0 percent in the third quarter of 2019 compared to an increase of 11.6 percent in the previous quarter.



Central Bank of Kenya

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