



Central Bank of Kenya

Quarterly Economic Review

July - September 2020



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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 4.3 percent in the third quarter of 2020 from 5.3 percent in the second quarter on account of declining food prices. Fuel inflation continued to increase, owing to increasing international oil prices and elevated transport costs following strict social distancing measures in public transport, imposed to contain the spread of COVID-19.

Broad money supply (M3) growth declined by 0.5 percent in the third quarter of 2020 compared to an increase of 5.5 percent in the previous quarter, which was mainly reflected in reduced deposits.

The economy improved in the third quarter of 2020, as economic activity began to recover from the extreme COVID-19 shock in the second quarter. It recovered from a contraction of -5.5 percent in the second quarter to a modest contraction of -1.1 percent.

Performance of the global economy is expected to worsen significantly due to the COVID-19 pandemic with output growth projected to contract by 4.4 percent in 2020 compared to a growth of 2.9 percent in 2019 and 0.2 percentage points lower than the June 2020 projection (IMF World Economic Outlook, October 2020)

The current account narrowed to USD 1,493 million in the third quarter of 2020 from USD 1,527 million in the third quarter of 2019 reflecting a decline in imports and an improvement in earnings from exports of goods and despite lower receipts from exports of services.

The banking sector remained stable and resilient in the third quarter of 2020. However, the COVID-19 pandemic impacted the banking sector asset quality and the overall performance of the sector. Total net assets increased by 1.1 percent from KSh 5,207.8 billion in June 2020 to KSh 5,266.0 billion in September 2020. The deposit base also increased marginally by 0.02 percent from KSh 3,903.6 billion in the second quarter of 2020 to KSh 3,904.4 billion in the third quarter of 2020. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in the third quarter of 2020 with quarterly profit before tax increasing by 34.9 percent from KSh 21.7 billion to KSh 29.2 billion. This was due to a higher increase in total income (7.4 percent) compared to the increase in total expenses (2.2 percent). Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 13.6 percent in the third quarter of 2020 from 13.1 percent in the second quarter of 2020.

The Government's budgetary operations at the end of the first quarter of FY 2020/21 resulted in a deficit (including grants) of 1.1 percent of GDP. Revenue collection remained below target, as was the case with expenditure.

Kenya's public and publicly guaranteed debt increased by 6.4 percent during the first quarter of the FY 2020/21. Domestic and external debt increased by 8.8 percent and 4.2 percent, respectively.

The overall equity market activity improved during the third quarter of 2020 compared to the second quarter of 2020. The NASI index, market capitalization and the number of shares traded rose by 1.6 percent, 2.0 percent and 6.4 percent, respectively. However, the NSE 20 share price index and equity turnover declined by 4.6 percent and 4.0 percent, respectively.

Chapter 1 Inflation

Overview

Overall inflation declined to 4.3 percent in the third quarter of 2020 from 5.3 percent in the second quarter on account of declining food prices. Food inflation declined to 5.7 percent in the quarter under review from 10.3 percent in the previous quarter, while Non-Food-Non-Fuel (NFNF) inflation remained low at 1.7 percent, compared to 1.8 percent in the previous quarter. Meanwhile, fuel inflation increased to 10.0 percent from 5.0 percent in the previous quarter, driven by rising international oil prices and public transport costs arising from strict social distancing measures

imposed in the public transport sector to contain the spread of COVID-19 (**Table 1.1 and Chart 1.1**).

Food inflation remained the dominant driver of overall inflation with a contribution of 2.0 percentage points compared to 3.6 percentage points in the previous quarter. The contribution of fuel inflation to overall inflation increased to 1.4 percentage points from 0.8 percentage points in the previous quarter while that of NFNF inflation remained stable at 0.9 percentage points, compared to 1.0 percentage points in the previous quarter (**Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2019	2020					
	Q4	Q1	Q2	Q3	Jul	Aug	Sep
Overall inflation	6.8	6.8	5.3	4.3	4.4	4.4	4.2
Food Inflation	14.8	14.7	10.3	5.7	6.6	5.4	5.2
Fuel Inflation	2.9	4.9	5.0	10.0	8.7	10.7	10.7
Non-Food-Non-Fuel (NFNF) Inflation	2.2	2.2	1.8	1.7	1.6	1.9	1.7
Annual Average Inflation	5.2	5.8	5.7	5.5	5.6	5.5	5.4
Three Months Annualised Inflation	4.7	7.2	5.4	0.2	-0.5	-0.1	1.1

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

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



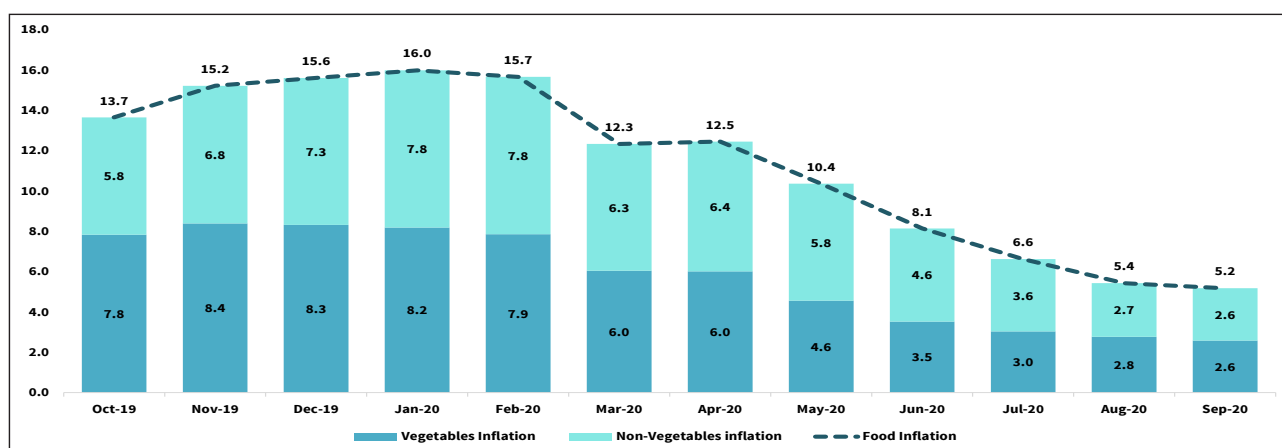
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined significantly to 5.7 percent in the third quarter of 2020 from 10.3 percent in the second quarter as food prices declined following favourable weather conditions in most parts of the country, which resulted in enhanced food supply.

As a result, prices of the following key food items declined: tomatoes, onions, Irish potatoes, beef with bones, fish, maize¹ and milk² products (**Chart 1.2**).

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



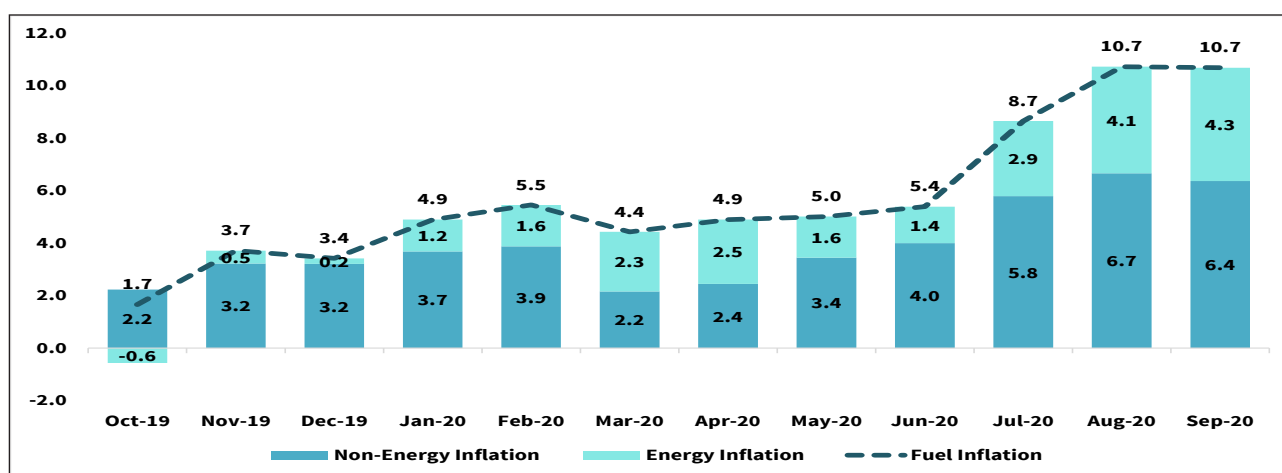
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation increased two-fold to 10.0 percent in the quarter under review, from 5.0 percent in the previous quarter. This increase was as a result of rising international oil prices, which pushed up local pump prices of diesel and petrol. Moreover, transport costs increased following strict social distancing measures put in place in public transport

to curb the spread of COVID-19. This increase was reflected in higher cost of *boda boda*, city and country bus fares, and higher cost of international flights. At the same time, electricity prices increased while lower prices of charcoal, kerosene and firewood moderated fuel inflation (**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

¹ Maize components include green maize, Green Maize- Loose, maize grain-loose, maize flour- loose and maize flour- sifted and Fortified Maize flour.

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

Non-Food Non-Fuel Inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation remained relatively stable, declining marginally to 1.7 percent compared to 1.8 percent in the previous quarter. The low NFNF inflation reflects muted demand

pressures consistent with low economic activity following the impact of the COVID-19 pandemic (**Table 1.2**).

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2019	Q4	8.7	2.2	1.2	2.4	1.9	1.2	1.2	1.4	2.4	0.8	3.2	2.2
2020	Q1	8.9	2.6	1.6	2.2	1.4	0.9	1.8	1.2	2.3	0.7	2.9	2.2
	Q2	7.7	2.4	1.3	1.7	1.2	0.4	1.9	1.1	2.1	0.6	2.0	1.8
	Q3	5.1	2.0	1.1	1.2	2.0	0.4	2.9	1.7	2.4	0.4	2.1	1.7
	Jul	5.9	2.1	1.2	1.1	1.8	0.1	2.8	1.9	1.5	0.6	2.1	1.6
	Aug	5.0	2.0	1.1	1.2	2.3	0.8	2.9	1.6	2.8	0.4	2.1	1.9
	Sep	4.3	1.8	1.1	1.4	1.8	0.3	2.9	1.6	2.8	0.1	2.0	1.7

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

Chapter 2

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Growth in broad money supply (M3) declined in the third quarter of 2020 by 0.5 percent compared to an increase of 5.5 percent in the previous quarter, which was mainly reflected in reduced deposits. The decline in deposits was largely in the corporate sector, which declined by KSh 24.2 billion in the third quarter of 2020 compared to an increase of KSh 115.3 billion in the previous quarter. Growth of household sector deposits moderated in the quarter under review to 1.5 percent from 3.9 percent in the previous quarter (**Table 2.1 and Table 2.2**). Total deposits decreased by KSh 26.9 billion in the third quarter compared to an increase of KSh 190 billion

in the previous quarter, partly reflecting increased investments in Government securities by non-bank holders. Non-bank holdings of Government securities increased by KSh 123.8 billion in the third quarter of 2020 compared to KSh 33.3 billion in the previous quarter (**Chart 2.1 and Table 2.1**).

The 12-month growth in broad money supply, M3, increased to 10.7 percent in September 2020 from 8.4 percent in June 2020, mainly supported by increased lending to the private sector and net lending to Government.

Table 2.1: Monetary aggregates (KSh Billions)

	End Month Level (KSh Billions)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billions)				
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1,459.73	1,525.24	1,595.11	1,666.55	1,665.78	-7.3	4.5	4.6	4.5	0.0	-115.8	65.5	69.9	71.4	-0.8
1.1 Currency outside banks	157.73	198.61	198.26	210.86	217.64	-19.9	25.9	-0.2	6.4	3.2	-39.2	40.9	-0.4	12.6	6.8
1.2 Demand deposits	1,190.70	1,253.38	1,306.32	1,349.97	1,371.05	-1.8	5.3	4.2	3.3	1.6	-22.1	62.7	52.9	43.7	21.1
1.3 Other deposits at CBK 1/	111.44	73.37	90.66	105.81	77.17	-32.8	-34.2	23.6	16.7	-27.1	-54.4	-38.1	17.3	15.2	-28.6
2. Money supply, M2 (1+2.1)	2,865.99	2,904.35	3,018.86	3,201.26	3,180.53	-2.6	1.3	3.9	6.0	-0.6	-77.7	38.4	114.5	182.4	-20.7
2.1 Time and saving deposits	1,406.26	1,379.11	1,423.75	1,534.71	1,514.75	2.8	-1.9	3.2	7.8	-1.3	38.0	-27.1	44.6	111.0	-20.0
3. Money supply, M3 (2+3.1)	3,473.39	3,524.03	3,661.01	3,863.63	3,843.50	-2.5	1.5	3.9	5.5	-0.5	-90.8	50.6	137.0	202.6	-20.1
3.1 Foreign Currency Deposits	607.40	619.67	642.15	662.38	662.97	-2.1	2.0	3.6	3.1	0.1	-13.1	12.3	22.5	20.2	0.6
Sources of M3															
1. Net foreign assets 2/	835.44	804.45	767.70	885.40	749.11	-11.1	-3.7	-4.6	15.3	-15.4	-104.5	-31.0	-36.8	117.7	-136.3
Central Bank	871.51	833.30	800.58	918.09	804.90	-7.4	-4.4	-3.9	14.7	-12.3	-69.5	-38.2	-32.7	117.5	-113.2
Banking Institutions	(36.07)	(28.85)	(32.88)	(32.69)	(55.79)	3217.2	-20.0	14.0	-0.6	70.7	-35.0	7.2	-4.0	0.2	-23.1
2. Net domestic assets (2.1+2.2)	2,637.95	2,719.57	2,893.31	2,978.23	3,094.39	0.5	3.1	6.4	2.9	3.9	13.6	81.6	173.7	84.9	116.2
2.1 Domestic credit	3,566.57	3,628.09	3,788.96	3,905.74	4,053.26	2.2	1.7	4.4	3.1	3.8	76.6	61.5	160.9	116.8	147.5
2.1.1 Government (net)	894.32	941.23	1,036.82	1,122.31	1,196.02	0.4	5.2	10.2	8.2	6.6	3.8	46.9	95.6	85.5	73.7
2.1.2 Private sector	2,572.41	2,594.58	2,661.22	2,695.03	2,768.56	2.8	0.9	2.6	1.3	2.7	69.4	22.2	66.6	33.8	73.5
2.1.3 Other public sector	99.84	92.28	90.92	88.40	88.68	3.5	-7.6	-1.5	-2.8	0.3	3.4	-7.6	-1.4	-2.5	0.3
2.2 Other assets net	(928.62)	(908.52)	(895.65)	(927.50)	(958.86)	7.3	-2.2	-1.4	3.6	3.4	-63.0	20.1	12.9	-31.9	-31.4
Memorandum items															
4. Overall liquidity, L (3+4.1)	4,864.59	4,927.14	5,180.18	5,416.07	5,519.78	-0.6	1.3	5.1	4.6	1.9	-31.4	62.5	253.0	235.9	103.7
4.1 Non-bank holdings of government securities	1,391.20	1,403.11	1,519.17	1,552.44	1,676.28	4.5	0.9	8.3	2.2	8.0	59.5	11.9	116.1	33.3	123.8

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

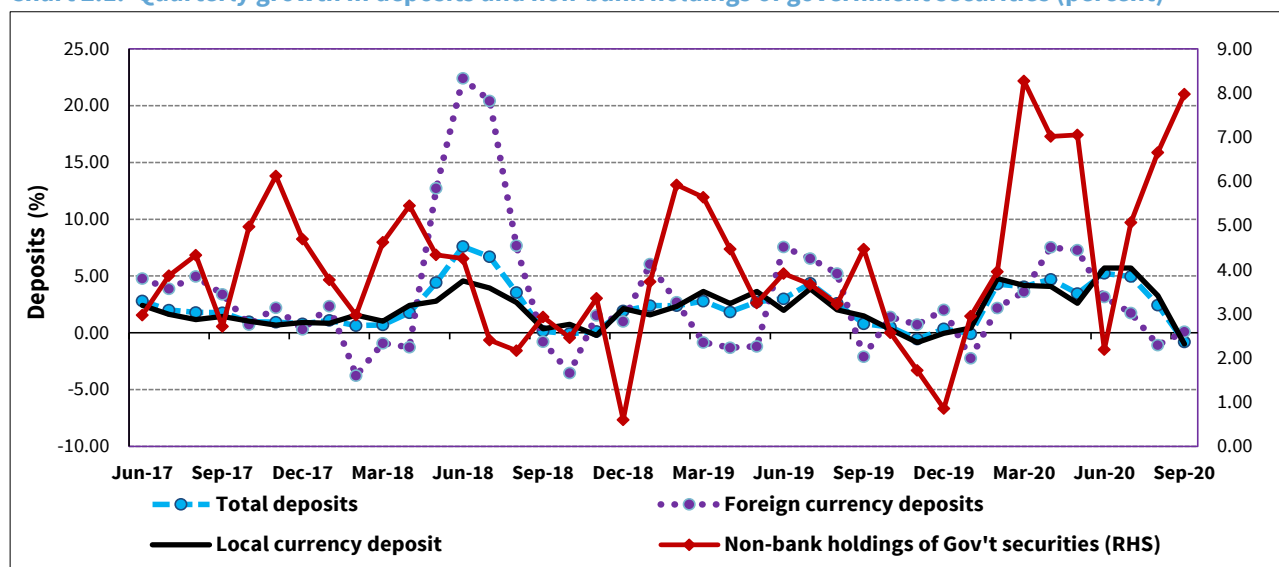
Table 2.2: Deposit holdings of corporates and household sectors

	End Month Levels (KSh Billions)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billions)				
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
1. Household Sector 1/	1,638.10	1,641.50	1,693.30	1,759.24	1,784.84	0.6	0.2	3.2	3.9	1.5	9.1	3.4	51.8	65.9	25.6
1.1 Demand Deposits	598.1	591.8	618.0	648.5	655.7	-1.0	-1.1	4.4	4.9	1.1	-6.3	-6.3	26.3	30.5	7.2
1.2 Time and Saving Deposits	774.5	793.3	811.5	859.6	863.3	3.3	2.4	2.3	5.9	0.4	25.0	18.8	18.2	48.1	3.7
1.3 Foreign Currency Deposits	265.5	256.4	263.7	251.1	265.9	-3.5	-3.4	2.9	-4.8	5.9	-9.6	-9.1	7.3	-12.6	14.7
2. Corporate Sector	1,549.7	1,595.5	1,662.1	1,777.4	1,753.2	-0.4	3.0	4.2	6.9	-1.4	-6.8	45.8	66.6	115.3	-24.2
2.1 Demand deposits	578.8	648.1	674.1	690.3	703.5	-2.9	12.0	4.0	2.4	1.9	-17.2	69.4	26.0	16.2	13.2
2.2 Time and Saving Deposits	629.1	583.3	609.0	672.0	648.7	2.1	-7.3	4.4	10.3	-3.5	13.0	-45.8	25.7	63.0	-23.2
2.3 Foreign Currency Deposits	341.9	364.1	379.0	415.1	401.0	-0.8	6.5	4.1	9.5	-3.4	-2.6	22.2	14.9	36.1	-14.1

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

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

Sources of Broad Money

The primary source of the decline in M3 in the third quarter of 2020 was the reduction in net foreign assets (NFA) of the banking system, which decreased by KSh 136.3 billion compared to an increase of KSh 117.7 billion in the previous quarter. This decline in NFA partly reflected servicing of Government external debt. However, growth of net domestic assets (NDA) of the banking system increased in the quarter under review, moderating the impact of the decline of NFA on growth of broad money. The increase in NDA was mainly supported by increased lending to the private sector as business activities picked up following the easing of COVID-19 restrictions in the quarter (**Table 2.1**).

Developments in Domestic Credit

Growth in domestic credit improved to 3.8 percent in the third quarter of 2020 from 3.1 percent in the previous quarter, largely on account of a recovery in lending to the private sector (**Table 2.3**). Growth in net lending to Government moderated, largely on account of increased Government deposits at CBK resulting from reduced Government payments at the beginning of FY 2020/21 as well as increased issuance of Government securities. Government deposits increased by KSh 99 billion in the quarter under review compared to KSh 42 billion in the previous quarter.

Growth of gross loans and advances extended to

the private sector increased to 2.8 percent in the third quarter of 2020 from 1.6 percent in previous quarter, supported by recovery in demand from the COVID-19-related disruptions and the accommodative monetary policy. A significant growth in household sector lending was observed during the quarter, reflecting increased secured individual lending (check off systems) and use of digital platforms. Lending to the corporate sector, mainly for working capital requirements, remained relatively strong despite the subdued economic activity due to the Covid-19 pandemic. In terms of economic sectors, improved lending was registered in building and construction, finance and insurance, private households, consumer durables and business services. Credit growth remained strong in manufacturing, transport and communication and agriculture sectors, while lending to the trade sector contracted mainly reflecting loan repayments and recoveries within the sector (**Table 2.3 and Table 2.4**).

On an annual basis, growth in lending to the private sector remained resilient at 7.6 percent in September 2020 compared to 7.7 percent in June 2020, supported by accommodative monetary policy and other policy measures by Government to mitigate the adverse impact of COVID-19 on the economy (**Chart 2.2**).

Table 2.3: Banking sector net domestic credit

	End Month Level					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billions)				
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
1. Credit to Government	894.3	941.2	1,036.8	1,122.3	1,196.0	0.4	5.2	10.2	8.2	6.6	3.8	46.9	95.6	85.5	73.7
Central Bank	-182.4	-182.4	-118.7	-89.2	-176.8	-3.8	0.0	-34.9	-24.9	98.3	7.3	-0.1	63.7	29.6	-87.6
Commercial Banks & NBFIs	1,076.7	1,123.7	1,155.5	1,211.5	1,372.8	-0.3	4.4	2.8	4.8	13.3	-3.5	47.0	31.9	55.9	161.3
2. Credit to other public sector	99.8	92.3	90.9	88.4	88.7	3.5	-7.6	-1.5	-2.8	0.3	3.4	-7.6	-1.4	-2.5	0.3
Local government	4.5	4.3	4.3	4.4	0.0	20.0	-4.7	-0.1	2.2	5.4	0.8	-0.2	0.0	0.1	0.2
Parastatals	95.3	88.0	86.6	84.0	0.0	2.9	-7.7	-1.5	-3.0	0.0	2.7	-7.3	-1.4	-2.6	0.0
3. Credit to private sector	2,572.4	2,594.6	2,661.2	2,695.0	2,768.6	2.8	0.9	2.6	1.3	2.7	69.4	22.2	66.6	33.8	73.5
Agriculture	89.7	81.0	84.2	88.1	91.2	4.1	-9.7	3.9	4.6	3.6	3.5	-8.7	3.2	3.9	3.1
Manufacturing	360.0	365.4	387.6	397.2	405.4	0.6	1.5	6.1	2.5	2.1	2.3	5.4	22.3	9.6	8.2
Trade	456.5	467.4	481.8	489.2	486.5	2.1	2.4	3.1	1.5	-0.6	9.4	10.9	14.3	7.5	-2.7
Building and construction	114.5	115.8	118.5	114.2	119.2	4.8	1.2	2.3	-3.6	4.3	5.3	1.3	2.7	-4.2	5.0
Transport & communications	178.0	186.7	184.9	200.7	214.7	1.9	4.9	-0.9	8.5	7.0	3.3	8.7	-1.8	15.8	14.0
Finance & insurance	102.5	96.9	101.8	95.8	99.0	10.4	-5.4	5.1	-5.9	3.4	9.7	-5.6	4.9	-6.0	3.3
Real estate	377.1	374.1	378.6	395.8	402.0	-0.1	-0.8	1.2	4.5	1.6	-0.3	-3.0	4.5	17.1	6.2
Mining and quarrying	13.3	13.9	13.9	14.6	14.4	0.2	4.1	0.2	5.3	-1.5	0.0	0.5	0.0	0.7	-0.2
Private households	440.6	438.3	439.5	445.1	456.0	2.5	-0.5	0.3	1.3	2.4	10.9	-2.3	1.3	5.6	10.8
Consumer durables	236.7	246.7	255.2	253.5	273.6	7.5	4.2	3.5	-0.7	7.9	16.6	10.0	8.6	-1.7	20.1
Business services	150.7	154.1	154.3	154.4	156.8	2.7	2.3	0.2	0.1	1.5	4.0	3.4	0.3	0.1	2.4
Other activities	53.0	54.6	60.9	46.4	49.9	9.9	2.9	11.6	-23.8	7.5	4.8	1.6	6.3	-14.5	3.5
4. TOTAL (1+2+3)	3,566.6	3,628.1	3,789.0	3,905.7	4,053.3	2.2	1.7	4.4	3.1	3.8	76.6	61.5	160.9	116.8	147.5

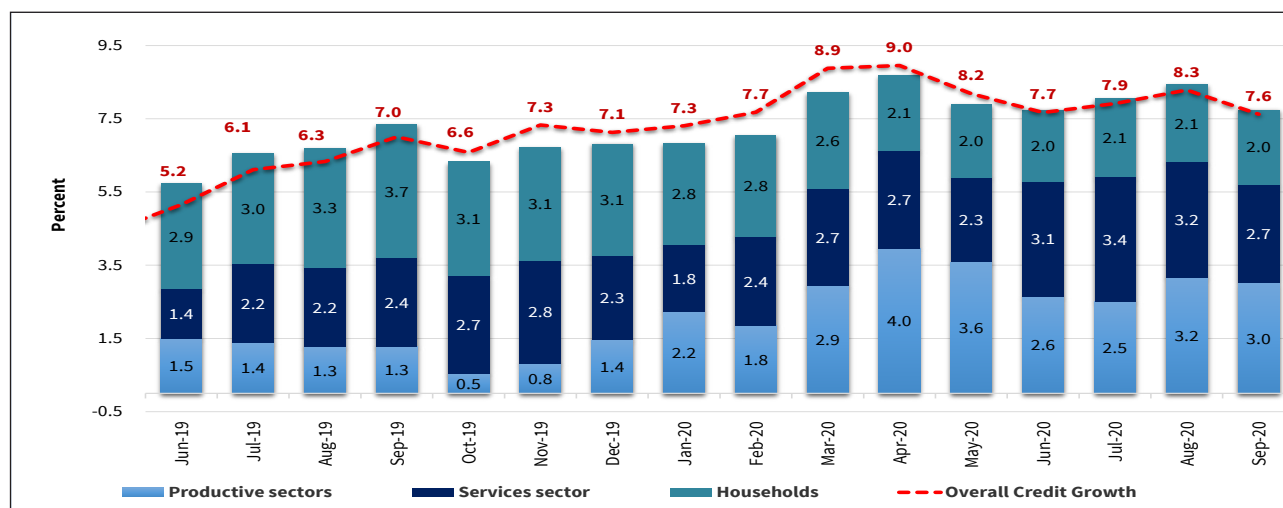
Source: Central Bank of Kenya

Table 2.4: Gross bank loans to the private sector

	End Month Level					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billions)				
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
1. Household	787.2	816.6	821.3	828.6	871.5	2.7	3.7	0.6	0.9	5.2	21.1	29.3	4.7	7.3	42.9
2. Corporate	1,847.5	1,837.5	1,903.0	1,938.7	1,972.1	2.8	-0.5	3.6	1.9	1.7	51.2	-10.0	65.5	35.8	33.4
Gross Loans	2,634.7	2,654.1	2,724.3	2,767.4	2,843.6	2.8	0.7	2.6	1.6	2.8	72.2	19.3	70.2	43.1	76.3

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Reserve Money

Growth in reserve money, which comprises currency held by the non-bank public and commercial bank reserves, increased by 5.9 percent in the third quarter of 2020 compared to a decline of 4.2 percent in the previous quarter, largely reflecting increase in banks reserves (**Table 2.5**).

On the asset side, the increase in reserve money was due to an increase in net domestic asset (NDA) of Central Bank, which more than offset the decrease in net foreign assets (NFA). The increase in NDA was supported by improved net lending to commercial banks due to reduced open market operations.

Table 2.5: Reserve money (rm) and its sources

	End Month Level					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billions)				
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
1. Net Foreign Assets	871.5	833.3	800.6	918.1	804.9	-7.4	-4.4	-3.9	14.7	-12.3	-69.5	-38.2	-32.7	117.5	-113.2
2. Net Domestic Assets	-463.7	-372.2	-355.1	-491.2	-352.7	-7.5	-19.7	-4.6	38.3	-28.2	37.5	91.5	17.1	-136.1	138.5
2.1 Government Borrowing (net)	-182.4	-182.4	-118.7	-89.2	-176.8	-3.8	0.0	-34.9	-24.9	98.3	7.3	-0.1	63.7	29.6	-87.6
2.2 Commercial banks (net)	-19.0	10.7	-1.3	-131.0	87.9	-10.7	-156.4	-112.4	9,740.3	-167.1	2.3	29.8	-12.1	-129.7	218.9
2.3 Other Domestic Assets (net)	-265.8	-204.0	-238.5	-274.4	-267.1	-9.5	-23.2	16.9	15.1	-2.6	27.9	61.8	-34.5	-35.9	7.2
3. Reserve Money	407.8	461.1	445.5	426.9	452.2	-7.3	13.1	-3.4	-4.2	5.9	-32.0	53.3	-15.6	-18.6	25.3
3.1 Currency outside banks	157.7	198.6	198.3	210.9	217.6	-19.9	25.9	-0.2	6.4	3.2	-39.2	40.9	-0.4	12.6	6.8
3.2 Bank reserves	250.0	262.5	247.3	216.0	234.6	3.0	5.0	-5.8	-12.6	8.6	7.2	12.4	-15.2	-31.2	18.6

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) retained the Central Bank Rate at 7.00 percent during its September 2020 meeting. The Committee noted that the package of policy measures implemented since March were having the intended effect on the economy, and will be augmented by the implementation of the fiscal measures specified in the FY2020/21 Budget (**Table 2.6**).

b. Interbank rate

The weighted average interbank interest rate declined in the third quarter of 2020, supported by the accommodative monetary policy stance and improved liquidity conditions. The weighted average interbank interest rate declined from 3.27 percent in June 2020 to 2.95 percent in September 2020.

c. Treasury bill rates

Treasury bill rates continued to decline in the third quarter of 2020 supported by improved liquidity conditions. The average 91-day Treasury bill rate declined to 6.29 percent in September 2020 from 7.14 percent in June 2020, while the average 182-day Treasury bill declined to 6.70 percent from 7.93 percent.

d. Lending and Deposit Rates

Commercial banks' average lending rates continued to decline in the third quarter in line with the reduction in the CBR, and improved liquidity conditions. The average lending rate declined further from 11.89 percent in June 2020 to a historical low of 11.75 percent in September. Similarly, interest rates on deposits declined from 6.86 percent in June to 6.41 percent in September. Consequently, the spread increased slightly in the quarter under review.

Table 2.6: Interest rates (percent)

	2019												2020								
	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	7.23	7.06	7.13	7.41	7.23	6.94	6.81	6.44	6.35	6.38	6.65	7.17	7.23	7.31	7.29	7.21	7.27	7.14	6.24	6.20	6.29
182-day Treasury bill rate	8.95	8.62	8.32	8.16	7.90	7.71	7.57	7.12	7.10	7.23	7.61	8.16	8.17	8.25	8.14	8.14	8.18	7.93	6.69	6.56	6.70
Interbank rate	3.32	2.51	3.72	4.12	5.61	2.98	2.28	3.70	6.59	6.86	4.24	6.03	4.39	4.84	4.40	5.13	3.91	3.27	2.12	2.56	2.95
Repo rate	3.70	3.15	3.49	3.03	0.00	4.23	4.55	7.37	8.69	7.83	6.52	7.45	5.38	4.44	6.13	6.36	4.25	3.50	3.84	3.59	3.18
Reverse Repo rate	-	9.03	-	9.13	9.18	-	-	-	-	-	-	-	-	-	-	-	7.31	-	-	7.38	7.65
Central Bank Rate (CBR)	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	8.50	8.50	8.25	8.25	7.25	7.00	7.00	7.00	7.00	7.00	7.00
Average lending rate (1)	12.50	12.47	12.51	12.50	12.47	12.47	12.39	12.46	12.47	12.43	12.38	12.24	12.29	12.19	12.09	11.92	11.95	11.89	11.94	11.94	11.75
Overdraft rate	12.15	12.13	12.13	12.15	12.13	12.12	11.89	11.97	11.99	11.88	11.63	11.67	11.97	11.82	11.79	11.55	11.61	11.24	11.18	11.18	11.15
1-5years	12.68	12.62	12.70	12.68	12.62	12.64	12.58	12.67	12.67	12.62	12.68	12.50	12.44	12.35	12.20	12.06	12.09	12.07	12.11	12.08	11.62
Over 5years	12.47	12.48	12.49	12.48	12.47	12.46	12.42	12.48	12.46	12.47	12.43	12.29	12.28	12.16	12.11	11.96	11.95	11.98	12.10	12.12	12.12
Average deposit rate (2)	7.34	7.28	7.22	7.17	7.20	7.19	6.97	6.91	6.98	6.96	6.56	7.11	7.07	7.06	7.07	7.01	6.96	6.86	6.78	6.63	6.41
0-3months	7.73	7.69	7.62	7.56	7.58	7.55	7.26	7.28	7.42	7.40	7.37	7.60	7.39	7.40	7.42	7.33	7.20	7.11	7.01	6.77	6.47
Over 3 months deposit	7.58	7.49	7.43	7.48	7.50	7.53	7.34	7.21	7.23	7.21	6.27	7.50	7.52	7.53	7.56	7.53	7.57	7.40	7.31	7.20	7.07
Savings deposits	5.14	5.16	5.05	4.75	4.71	4.77	4.77	4.54	4.58	4.44	4.47	4.02	4.25	4.20	4.15	4.21	4.18	4.15	4.11	4.10	3.78
Spread (1-2)	5.16	5.19	5.29	5.34	5.27	5.28	5.42	5.56	5.48	5.47	5.82	5.14	5.22	5.13	5.02	4.92	4.99	5.02	5.16	5.30	5.34

Source: Central Bank of Kenya

Chapter 3

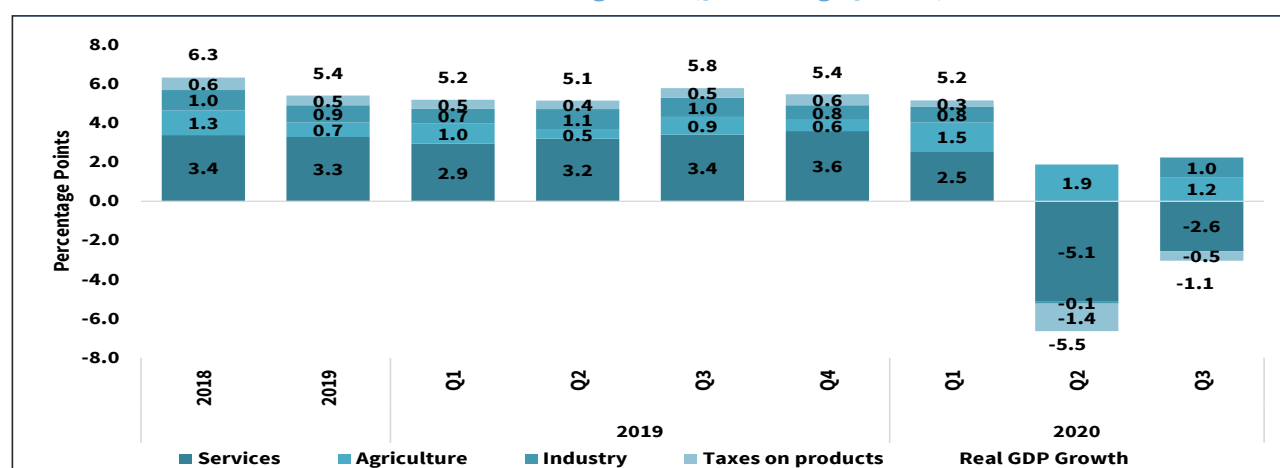
The Real Sector

Overview

Economic activity improved in the third quarter following the waning impact of the COVID-19 pandemic arising from successful containment measures, policy support and easing of restrictions during the quarter. Output contracted by -1.1 percent, an improvement compared to a contraction of -5.5 percent in the previous quarter. Growth was largely supported by strong performance of Agriculture and Construction sectors (**Chart 3.1 and Table 3.1**).

Agriculture sector was the main driver during the quarter, contributing 1.2 percentage points to overall economic growth. The services sector contributed to the contraction of the economy at -2.6 percentage points while the industry sector contributed 1.0 percentage points. However, these contributions were an improvement compared to -5.1 percentage points and -0.1 percentage points, respectively, recorded in the previous quarter (**Chart 3.1 and Table 3.3**).

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



Source: Kenya National Bureau of Statistics and CBK Staff computations

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

	Annual		2019				2020		
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	6.0	3.6	4.0	2.0	5.0	3.6	5.8	7.3	6.3
2.1 Industry	5.5	4.7	4.1	5.5	5.0	4.0	4.4	-0.5	4.9
Mining & Quarrying	2.7	2.5	1.4	5.0	3.4	0.3	9.5	10.0	18.2
Manufacturing	4.3	3.3	2.3	4.1	3.9	2.6	2.9	-3.9	-3.2
Electricity & water supply	8.0	7.0	7.8	7.3	6.4	6.4	6.3	-0.6	4.7
Construction	6.9	6.4	6.1	7.2	6.6	5.7	5.3	3.9	16.2
2.2 Services	7.0	6.7	6.4	6.7	6.7	6.8	5.5	-11.6	-5.3
Wholesale & Retail Trade	6.9	6.6	6.3	7.8	6.1	6.4	6.4	-7.0	-2.5
Accommodation & restaurant	16.6	10.3	11.0	12.1	9.9	9.0	-9.3	-83.2	-57.9
Transport & Storage	8.5	7.8	6.4	7.6	7.6	9.2	6.1	-11.4	2.9
Information & Communication	11.3	9.0	10.0	7.5	8.0	9.1	9.8	4.6	7.3
Financial & Insurance	5.3	6.6	6.3	5.2	8.1	6.6	6.2	4.2	5.3
Public administration	6.7	8.1	8.9	8.7	8.4	6.2	6.7	5.7	9.6
Professional, Administration & Support Services	5.9	4.9	5.5	4.2	4.8	4.9	4.4	-15.3	-12.3
Real estate	4.1	5.3	4.7	6.0	5.5	5.1	4.4	2.3	5.3
Education	5.8	5.4	4.3	6.0	6.0	5.5	5.3	-56.2	-41.9
Health	4.4	5.8	5.4	6.2	5.5	6.2	5.8	10.3	5.6
Other services	4.9	5.1	5.6	5.6	5.3	3.8	2.2	-8.5	-4.5
FISIM	0.9	6.1	4.6	7.3	6.8	5.7	5.0	3.7	7.7
2.3 Taxes on products	5.6	4.4	4.7	4.0	4.2	4.5	3.4	-14.2	-4.2
Real GDP Growth	6.3	5.4	5.2	5.1	5.8	5.4	5.2	-5.5	-1.1

Source: Kenya National Bureau of Statistics

Table 3.2: Sectoral shares of real GDP (percent)

	Annual		2019				2020		
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	21.2	20.8	25.9	22.7	18.3	16.2	26.1	25.7	19.7
2.1 Industry	18.9	18.8	18.1	19.2	19.2	18.8	17.9	20.2	20.4
Mining & Quarrying	1.0	1.0	1.0	0.9	1.0	1.0	1.1	1.1	1.2
Manufacturing	9.7	9.5	9.5	9.8	9.7	8.9	9.3	10.0	9.5
Electricity & water supply	2.6	2.7	2.6	2.9	2.7	2.5	2.6	3.0	2.8
Construction	5.6	5.7	5.0	5.5	5.8	6.3	5.0	6.1	6.9
2.2 Services	48.5	49.1	45.8	47.3	50.5	52.8	46.0	44.2	48.4
Wholesale & Retail Trade	7.6	7.7	6.8	7.4	8.8	7.9	6.9	7.2	8.7
Accommodation & restaurant	1.4	1.4	1.6	1.1	1.3	1.8	1.3	0.2	0.6
Transport & Storage	7.1	7.3	6.2	6.9	7.6	8.4	6.2	6.5	7.9
Information & Communication	4.3	4.4	4.4	3.5	3.9	5.7	4.6	3.9	4.3
Financial & Insurance	6.1	6.1	5.9	5.8	6.5	6.3	5.9	6.4	6.9
Public administration	3.9	4.0	3.6	4.4	3.8	4.0	3.7	4.9	4.3
Professional, Administration & Support Services	2.2	2.2	2.0	2.2	2.2	2.3	2.0	2.0	2.0
Real estate	8.4	8.4	8.1	8.4	8.6	8.5	8.0	9.0	9.1
Education	6.9	6.9	6.6	6.8	7.0	7.0	6.6	3.2	4.1
Health	1.7	1.7	1.5	1.8	1.8	1.8	1.5	2.1	2.0
Other services	1.2	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.2
FISIM	-2.2	-2.2	-2.2	-2.1	-2.4	-2.3	-2.2	-2.4	-2.6
2.3 Taxes on products	11.4	11.3	10.2	10.9	11.9	12.2	10.0	9.9	11.5
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 (percentage points)

	Annual		2019				2020		
	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	1.3	0.7	1.0	0.5	0.9	0.6	1.5	1.9	1.2
2. Non-Agriculture (o/w)	5.1	4.6	4.1	4.7	4.9	4.9	3.6	-6.9	-2.2
2.1 Industry	1.0	0.9	0.7	1.1	1.0	0.8	0.8	-0.1	1.0
Mining & Quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Manufacturing	0.4	0.3	0.2	0.4	0.4	0.2	0.3	-0.4	-0.3
Electricity & water supply	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.1
Construction	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.2	1.1
2.2 Services	3.4	3.3	2.9	3.2	3.4	3.6	2.5	-5.1	-2.6
Wholesale & Retail Trade	0.5	0.5	0.4	0.6	0.5	0.5	0.4	-0.5	-0.2
Accommodation & restaurant	0.2	0.1	0.2	0.1	0.1	0.2	-0.1	-0.2	-0.3
Transport & Storage	0.6	0.6	0.4	0.5	0.6	0.8	0.4	-0.7	0.2
Information & Communication	0.5	0.4	0.4	0.3	0.3	0.5	0.5	0.2	0.3
Financial & Insurance	0.3	0.4	0.4	0.3	0.5	0.4	0.4	0.3	0.4
Public administration	0.3	0.3	0.3	0.4	0.3	0.2	0.2	0.3	0.4
Professional, Administration & Support Services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.3	-0.2
Real estate	0.3	0.4	0.4	0.5	0.5	0.4	0.4	0.2	0.5
Education	0.4	0.4	0.3	0.4	0.4	0.4	0.3	-1.8	-1.7
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Other services	0.1	0.1	0.1	0.1	0.1	0.0	0.0	-0.1	-0.1
FISIM	0.0	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	-0.2
2.3 Taxes on products	0.6	0.5	0.5	0.4	0.5	0.6	0.3	-1.4	-0.5
Real GDP Growth	6.3	5.4	5.2	5.1	5.8	5.4	5.2	-5.5	-1.1

Source: Kenya National Bureau of Statistics and CBK Staff computations

PERFORMANCE BY SECTOR

There was a general improvement in economic activity in the third quarter of 2020 compared to the previous quarter. However, activity in several sectors of the economy remained subdued, due to the effects of the COVID-19 pandemic.

AGRICULTURE

Agriculture sector growth remained strong despite the impact of COVID-19 in the third quarter of 2020.

The strong performance was as a result of favourable weather conditions experienced in the country which supported crop production. It grew by 6.3 percent compared to 7.3 percent in the previous quarter and 5.0 percent in a similar quarter of 2019, and contributed 1.2 percentage points to overall GDP growth (**Table 3.1 and Table 3.3**). The strong performance was driven by increased production of tea, horticultural exports, coffee sales, and cane deliveries compared to the same quarter of 2019.

Tea production was higher by 13.7 percent compared to a similar quarter of 2019. However, production was lower by 17.2 percent compared to the previous quarter due to a significant contraction in production in July, which more than offset the increased production in August and September (**Table 3.4**). The average auction price per kilogram decreased marginally by 0.3 percent compared to the previous quarter.

Sugarcane output increased by 15.1 percent compared to the previous quarter, and 91.9 percent in a similar quarter of last year. The significant growth reflects favourable weather conditions in the sugarcane growing areas (**Table 3.4**).

Milk intake increased by 11.7 percent compared to the previous quarter. Compared to a similar period last year, milk intake declined by 9.7 percent owing to the measures to contain the spread of COVID-19 pandemic such as closure of learning institutions, lockdowns and travel restrictions (**Table 3.4**).

Coffee sales increased by 31.6 percent compared to the previous quarter, boosted by resumption of activity at the Nairobi Coffee Exchange in July 2020. The average auction prices also increased by 59.7 percent compared to the previous quarter. In addition, the resumption of international supply chains and easing of lockdowns supported increased coffee sales (**Table 3.4**). When compared to the similar quarter of 2019, sales increased by 15.4 percent.

Horticulture

Total exports of horticultural crops improved by 20.2 percent compared to the previous quarter, boosted by the normalization of international demand. Monthly exports increased in July which more than offset the declines recorded in August and September (**Table 3.4**). When compared to the similar quarter of 2019, exports increased by 33.0 percent, supported by increased production following favourable weather conditions.

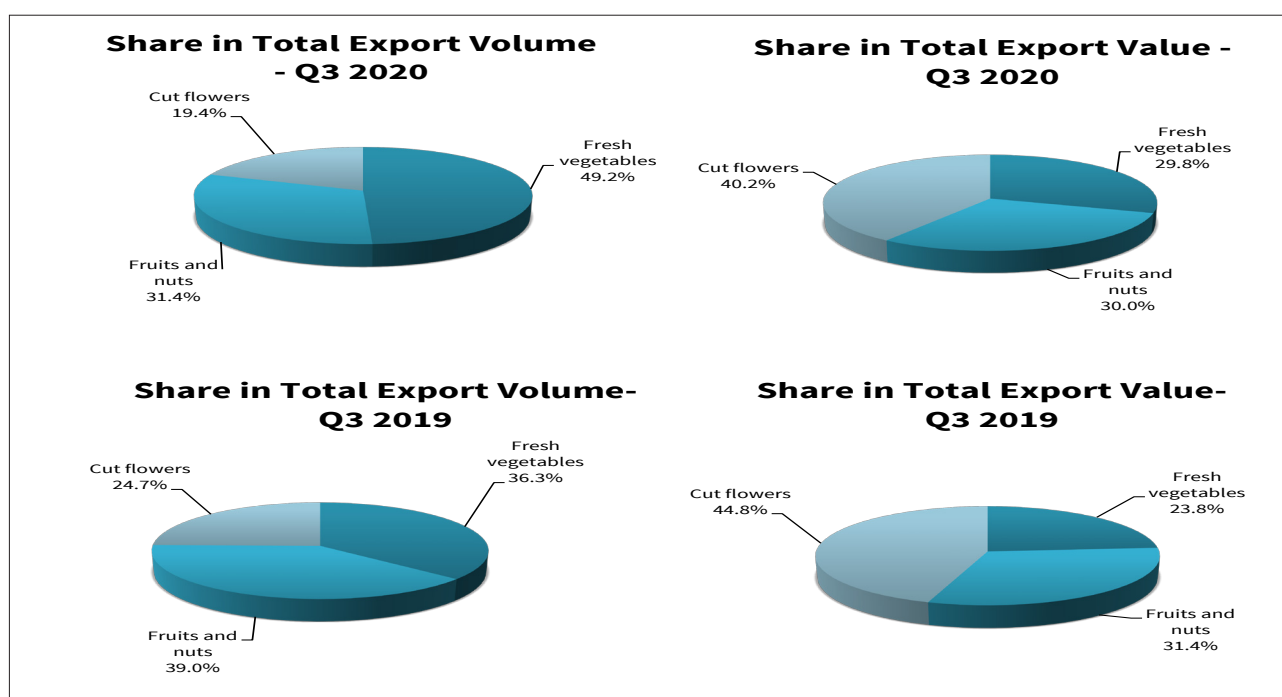
Table 3.4: Quarterly performance of key agricultural output indicators

	2019				2020*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-20	Aug-20	Sep-20
Tea										
Output (Metric tonnes)	106,293	106,315	104,192	142,053	158,570	143,038	118,492	36,554	38,525	43,413
Growth (%)	-27.6	0.0	-2.0	36.3	11.6	-9.80	-17.16	-21.2	5.4	12.7
Horticulture										
Exports (Metric tonnes)	109,593	102,840	102,778	104,267	131,515	113,752	136,713	46,729	45,959	44,025
Growth (%)	7.4	-6.2	-0.1	1.4	26.1	-13.5	20.2	27.9	-1.6	-4.2
Coffee										
Sales (Metric tonnes)	13,948	11,412	3,840	4,428	12,304	3,368	4,432	1,310	1,209	1,913
Growth (%)	117.8	-18.2	-66.4	15.3	177.8	-72.6	31.6	-	-7.8	58.2
Milk										
Output (million litres)	177.1	142.1	187.2	179.5	173.4	151.2	169.0	54.3	59.3	55.3
Growth %	2.4	-19.8	31.8	-4.1	-3.4	-12.8	11.7	2.0	9.2	-6.7
Sugar Cane										
Output ('000 Metric tonnes)	1,485	972	990	1,140	1,636	1,651	1,900	626	629	645
Growth (%)	6.7	-34.5	1.8	15.1	43.6	0.9	15.1	9.3	0.6	2.6

* Provisional

Source: Kenya National Bureau of Statistics

Chart 3.2: Horticultural exports



Source: Central Bank of Kenya

INDUSTRY

Industrial activity recovered during the third quarter of 2020, and grew by 4.9 percent compared to a contraction of -0.5 percent in the previous quarter, and a growth of 5.0 percent in the similar quarter of 2019. The recovery is attributed to strong growth of Mining and Quarrying (18.2 percent), Construction (16.2 percent), and Electricity and Water Supply (4.7 percent) sectors. However, activity in the manufacturing sector remained subdued during the quarter (**Table 3.1**).

Manufacturing

The sector contracted by -3.2 percent in the third quarter, a slight improvement compared to -3.9 percent in the previous quarter, but still low compared to 3.9 percent growth in the similar quarter of 2019 (**Table 3.1**). Activity remained subdued in both food and non-food processing activities. Its contribution to overall GDP growth stood at -0.3 percentage points compared to -0.4

percent in the previous quarter and 0.4 percentage points in a similar quarter of 2019 (**Table 3.3**).

Cement production improved by 20.4 percent compared to the previous quarter, mainly driven by increased activity in the construction sector. Monthly data showed increased production throughout the quarter (**Table 3.5**). Production increased by 19.6 percent compared to a similar quarter of 2019.

Production of **processed sugar** increased by 14.2 percent compared to the previous quarter, supported by high production of sugarcane arising from favourable weather conditions. Monthly data showed increased production throughout the quarter (**Table 3.5**). When compared to a similar quarter of 2019, sugar production increased significantly by 77 percent.

Table 3.5: Quarterly production statistics of selected manufactured goods

	2019				2020*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-20	Aug-20	Sep-20
Cement production										
Output (MT)	1,462,361	1,465,653	1,558,955	1,480,218	1,638,646	1,548,777	1,864,177	600,571	628,496	635,110
Growth %	-1.76	0.23	6.37	-5.05	10.70	-5.48	20.36	13.8	4.6	1.1
Assembled vehicles										
Output (No.)	1,678	2,027	1,952	2,145	2,305	1,888	N/A	N/A	N/A	N/A
Growth %	22.3	20.8	-3.7	9.9	7.5	-18.1				
Galvanized sheets										
Output (MT)	69,186	70,382	67,820	67,037	63,912	48,852	N/A	N/A	N/A	N/A
Growth %	1.7	1.7	-3.6	-1.2	-4.7	-23.6				
Processed sugar										
Output (MT)	144,662	100,164	91,288	104,821	156,937	141,499	161,536	53,131	53,532	54,873
Growth %	18.2	-30.8	-8.9	14.8	49.7	-9.8	14.2	6.9	0.8	2.5
Soft drinks										
Output ('000 litres)	170,216	157,390	149,632	153,698	151,554	141,844	N/A	N/A	N/A	N/A
Growth %	12.9	-7.5	-4.9	2.7	-1.4	-6.4				

* Provisional

MT = Metric tonnes

N/A - Not Available

Source: Kenya National Bureau of Statistics

Electricity and Water Supply

The sector recovered significantly driven by increased generation and consumption of electricity. It grew by 4.7 percent compared to a contraction of -0.6 percent in the previous quarter, though this was lower than 6.4 percent growth in a similar quarter of 2019 (**Table 3.1**). The sector contributed 0.1 percentage points to overall economic growth (**Table 3.3**).

Electricity generation increased by 10.8 percent compared to the previous quarter, driven by higher generation of hydroelectricity, thermal electricity

and wind electricity by 12.6 percent, 43.3 percent, and 30.7 percent, respectively. Geothermal electricity generation increased marginally by 1.0 percent, while generation of solar energy declined by 10.4 percent. Meanwhile, consumption of electricity and international oil prices increased by 9.5 percent and 62.9 percent, respectively, reflective of increased economic activity following easing of domestic and global COVID-19 induced restrictions (**Table 3.6**).

Table 3.6: Quarterly performance of indicators in the energy sector

	2019				2020*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-20	Aug-20	Sep-20
Electricity Supply (Generation)										
Output (million KWH)	2,825.1	2,805.2	2,895.6	2,882.8	2,888.4	2,635.0	2,918.7	969.1	977.1	972.5
Growth %	-1.1	-0.7	3.2	-0.4	0.2	-8.8	10.8	6.2	0.8	-0.5
Of which:										
Hydro-power Generation (million KWH)	815.7	707.0	754.2	928.5	1,058.7	951.3	1,071.3	357.8	357.7	355.7
Growth (%)	-17.5	-13.3	6.7	23.1	14.0	-10.2	12.6	7.1	0.0	-0.5
Geo-Thermal Generation (million KWH)	1,236.9	1,238.5	1,319.7	1,439.6	1,367.6	1,225.0	1,237.7	433.5	423.6	380.7
Growth (%)	-1.3	0.1	6.6	9.1	-5.0	-10.4	1.0	2.9	-2.3	-10.1
Thermal Generation (million KWH)	311.6	437.7	369.9	194.1	164.0	153.9	220.6	60.6	70.5	89.5
Growth (%)	20.4	40.5	-15.5	-47.5	-15.5	-6.1	43.3	-2.0	16.3	26.9
Wind Generation (million KWH)	437.8	398.7	429.2	297.0	275.7	282.1	368.9	110.4	118.6	139.8
Growth (%)	27.4	-8.9	7.7	-30.8	-7.2	2.3	30.7	24.8	7.4	17.9
Solar Generation (million KWH)	23.1	23.2	22.4	23.5	22.3	22.6	20.2	6.8	6.7	6.8
Growth (%)	70.1	0.4	-3.2	4.6	-4.8	1.2	-10.4	-2.6	-1.5	1.6
Co-Generation (million KWH)	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Growth (%)	-37.5	27.7	27.0	35.7	-60.5	44.5	-62.3	-69.1	341.8	-50.5
Consumption of electricity (million KWH)	2,221.7	2,191.9	2,235.6	2,223.6	2,274.7	2,021.5	2,214.0	729.1	733.7	751.2
Growth %	0.8	-1.3	2.0	-0.5	2.3	-11.1	9.5	1.8	0.6	2.4
Murban crude oil average price (US \$ per barrel)	65.0	67.5	62.5	63.7	51.8	26.6	43.4	43.4	45.2	41.5
Growth %	-6.5	3.8	-7.4	1.9	-18.6	-48.6	62.9	17.2	4.1	-8.1

*Provisional

Source: Kenya National Bureau of Statistics

Construction

Despite the impact of COVID-19, the sector grew strongly by 16.2 percent, a significant improvement from 3.9 percent in the previous quarter, and 6.6 percent in a similar quarter of 2019 (**Table 3.1**). The improved performance was supported by the expansion of healthcare infrastructure across the country to handle the COVID-19 cases, as well as ongoing Government infrastructure projects. The contribution of the sector to real GDP growth increased to 1.1 percentage points from 0.2 percentage points in the previous quarter (**Table 3.3**).

The sector was supported by substantial growth of cement consumption which increased by 17.2 percent compared to the previous quarter, reflecting increased construction activity in the sector. However, the value of building plans approved by the Nairobi City County Planning, Compliance and Enforcement Department declined by 58.2 percent compared to the previous quarter, which was reflected in both residential and non-residential building plans. No approvals were granted in July 2020 (**Table 3.7**).

Table 3.7: Quarterly output of selected construction indicators

	2019				2020*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-20	Aug-20	Sep-20
Cement Consumption										
Output (Tonnes)	1,459,021	1,453,917	1,553,790	1,466,605	1,628,362	1,541,495	1,806,870	594,028	607,383	605,459
Growth %	-1.3	-0.3	6.9	-5.6	11.0	-5.3	17.2	13.1	2.2	-0.3
Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department										
Residential (KSh, millions)	33,048.82	42,830.80	38,669.71	23,657.32	86,005.78	15,715.63	8,339.37	-	5,037.15	3,302.22
Growth (%)	-8.6	29.6	-9.7	-38.8	263.5	-81.7	-46.9	-	-	-34.4
Non-residential (KSh, millions)	23,491.41	21,884.37	16,530.44	15,512.02	41,427.53	11,331.71	2,955.88	-	2,127.04	828.84
Growth (%)	3.7	-6.8	-24.5	-6.2	167.1	-72.6	-73.9	-	-	-61.0
Total (KSh, millions)	56,540.23	64,715.17	55,200.15	39,169.34	127,433.31	27,047.34	11,295.25	-	7,164.19	4,131.06
Growth (%)	-3.9	14.5	-14.7	-29.0	225.3	-78.8	-58.2	-	-	-42.3

*Provisional

Source: Kenya National Bureau of Statistics

SERVICES

The Services sector contracted by -5.3 percent in the third quarter of 2020, which was an improvement compared to a contraction of -11.6 percent in the previous quarter. The easing of domestic and international COVID-19 containment measures led to a pickup in activity, though recovery was slow in sectors such as Wholesale and Retail Trade, Accommodation and Restaurant, Education, and Professional, Administrative and Support Services (**Table 3.1**).

Accommodation and Restaurants

The sector contracted by -57.9 percent, an

improvement compared to -83.3 percent contraction in the previous quarter, supported by easing of domestic and international travel restrictions during the quarter (**Table 3.1**).

Overall tourist arrivals increased significantly during the quarter under review, following resumption of domestic and international flights in July and August 2020, respectively. This was reflected in tourist arrivals at the Jomo Kenyatta International Airport (JKIA) in Nairobi, and Moi International Airport in Mombasa during the quarter under review (**Table 3.8**).

Table 3.8: Quarterly tourist arrivals by point of entry

	2019				2020*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-20	Aug-20	Sep-20
Total Tourist Arrivals	361,479	339,250	449,185	402,279	290,010	745	31,951	618	14,013	17,320
Growth (%)	-2.5	-6.1	32.4	-10.4	-27.9	-99.7	4,188.7	6.4	2,167.5	23.6
o.w. JKIA - Nairobi	312,819	324,240	420,478	366,434	262,769	745	30,704	617	13,421	16,666
Growth (%)	-6.5	3.7	29.7	-12.9	-28.3	-99.7	4,021.3	6.2	2,075.2	24.2
MIAM - Mombasa	48,660	15,010	28,707	35,845	27,241	-	1,247	1	592	654
Growth %	34.7	-69.2	91.3	24.9	-24.0	-100.0	-	-	59,100.0	10.5

*Provisional

Source: Kenya Tourism Research Institute

Education

The Education sector contracted by -41.9 percent compared to -56.2 percent in the previous quarter (**Table 3.1**). The slight improvement reflects increased uptake of online learning and limited opening of higher learning institutions during the quarter.

Health

The sector grew by 5.6 percent during the quarter, compared to 10.3 percent in previous quarter. Growth in the sector was supported by the increased activity aimed at controlling the spread of COVID-19 by the Government and other stakeholders (**Table 3.1**).

Transport and Storage

Transport and Storage sector grew by 2.9 percent, an improvement compared to a contraction of -11.4 percent in the previous quarter (**Table 3.1**). The recovery was supported by increased

port throughput and freight movement through the Standard Gauge Railway (SGR). However, passenger travel remained low, despite the lifting of domestic and international travel restrictions. The contribution of the sector to overall GDP growth increased to 0.2 percentage points compared to -0.7 percentage points in the previous quarter (**Table 3.3**).

Total passenger flows through JKIA increased significantly compared to the previous quarter, following the resumption of domestic and international flights. Consumption of fuels increased by 29.4 percent compared to the previous quarter, mainly driven by increased consumption of diesel as transport activity increased following the easing of Covid-19 restrictions during the quarter (**Table 3.9**).

Table 3.9: Quarterly throughput of selected transport companies

	2019				2020*					
	Quarterly				Quarterly			Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jul-20	Aug-20	Sep-20
Number of Passengers thro' JKIA										
Total passenger flows	1,145,280	1,212,177	1,459,800	1,323,550	1,024,211	14,977	139,409	7,164	63,072	69,173
Growth (%)	-9.0	5.8	20.4	-9.3	-22.6	-98.5	830.8	16.6	780.4	9.7
o.w. Incoming	729,230	773,597	899,273	828,043	640,852	3,619	69,207	2,179	32,503	34,525
Growth (%)	-9.1	6.1	16.2	-7.9	-22.6	-99.4	1,812.3	-2.7	1,391.6	6.2
Outgoing	416,050	438,580	560,527	495,507	383,359	11,358	70,202	4,985	30,569	34,648
Growth %	-8.9	5.4	27.8	-11.6	-22.6	-97.0	518.1	27.7	513.2	13.3
Kenya Pipeline Oil Throughput										
Output ('000 litres)	1,859,793	1,791,759	1,763,400	1,816,132	1,900,764	N/A	N/A	N/A	N/A	N/A
Growth %	12.1	-3.7	-1.6	3.0	4.7					
Consumption of Fuels										
Output ('000 litres)	1,296.6	1,302.3	1,467.8	1,255.6	1,226.4	940.5	1,217.4	393.7	421.8	401.9
Growth (%)	5.7	0.4	12.7	-14.5	-2.3	-23.3	29.4	17.2	7.1	-4.7

*Provisional

N/A - Not Available

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

Chapter 4

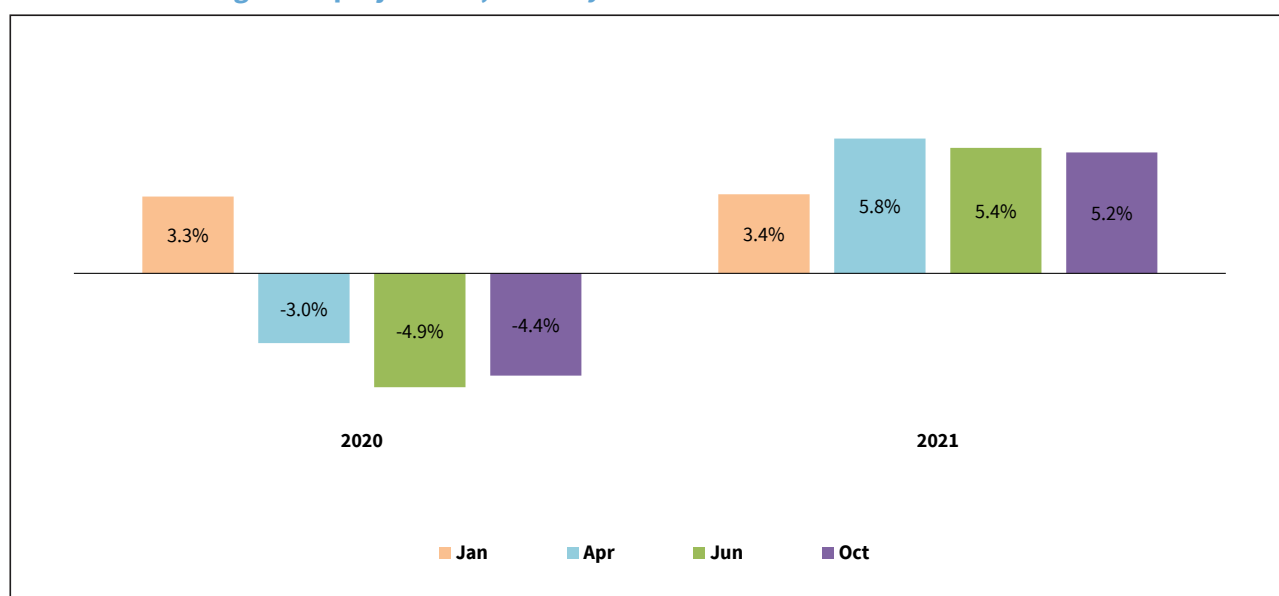
Global Economy

Global Developments

The October 2020 World Economic Outlook (WEO) projects a global output contraction of 4.4 percent in 2020 and a growth of 5.2 percent in 2021, reflecting better-than-anticipated second quarter GDP outturns in advanced economies after easing of COVID-19 pandemic-induced lockdowns in May

and June. These projections are premised on the assumption of a more rapid recovery in the second half of 2020 alongside the assumption on social distancing spilling over into 2021 before fading as the vaccine coverage expands and therapies improve, among other assumptions (**Chart 4.1** and **Table 4.1**).

Chart 4.1. Global growth projections, January 2020–October 2021



Source : IMF, World Economic Outlook, October 2020 Update

Growth in the advanced economies is projected to contract by 5.8 percent in 2020 before recovering to 3.9 percent in 2021, which is an improvement of 2.3 percentage points from the June 2020 WEO Update. This is on account of the better-than-expected US and Euro area GDP outturns in the second quarter. Most economies in this group are forecast to contract in 2020, including the United States (–4.3 percent), Japan (–5.3 percent), United Kingdom (–9.8 percent), Germany (–6.0 percent), France (–9.8 percent), Italy (–10.6 percent), and Spain (–12.8 percent).

In the emerging market and developing economies, growth is projected to contract by 3.3 percent in 2020, a markdown by 0.2 percentage points relative to the June 2020 WEO updates. It is expected to

pick up to 6 percent in 2021 driven mainly by China, which is projected to grow by 1.9 percent in 2020 and 8.2 percent in 2021. China's economic activity normalized faster than expected after it reopened in early April and registered a positive second quarter GDP supported by strong policy support and resilient exports. In contrast, India is expected to contract by 10.3 percent in 2020 before recovering by 8.8 percent in 2021.

Growth in the Sub-Saharan Africa (SSA) is projected to contract by 3.0 percent in 2020 and improve to 3.1 percent in 2021. Nigeria and South Africa are expected to contract by 4.3 percent and 8.0 percent, respectively. In 2021, both are expected to grow by 1.7 percent (Nigeria) and 3.0 percent (South Africa).

Table 4.1. Overview of the world economic outlook projections

Country/Region	Real GDP Growth (%): IMF					
	Actuals		Projections		Difference from June 2020 WEO Update	
	2018	2019	2020	2021	2020	2021
World Output	3.6	2.9	-4.4	5.2	0.8	-0.2
Advanced Economies	2.2	1.7	-5.8	3.9	2.3	-0.9
United States	2.9	2.3	-4.3	3.1	3.7	-1.4
Euro Area	1.9	1.3	-8.3	5.2	1.9	-0.8
Germany	1.5	0.6	-6.0	4.2	1.8	-1.2
France	1.8	1.5	-9.8	6.0	2.7	-1.3
Italy	0.8	0.3	-10.6	5.2	2.2	-1.1
Spain	2.4	2.0	-12.8	7.2	0.0	0.9
Japan	0.3	0.7	-5.3	2.3	0.5	-0.1
United Kingdom	1.3	1.4	-9.8	5.9	0.4	-0.4
Canada	2.0	1.7	-7.1	5.2	1.3	0.3
EMDEs	4.5	3.7	-3.3	6.0	-0.2	0.2
China	6.7	6.1	1.9	8.2	0.9	0.6
India	6.1	4.2	-10.3	8.8	-5.8	0.0
Russia	2.5	1.3	-4.1	2.8	2.5	-1.3
Brazil	1.3	1.1	-5.8	2.8	3.3	-0.8
Mexico	2.2	-0.3	-9.0	3.5	1.5	0.2
Saudi Arabia	2.4	0.3	-5.4	3.1	1.4	0.0
Sub-Saharan Africa	3.2	3.1	-3.0	3.1	0.2	-0.3
Nigeria	1.9	2.2	-4.3	1.7	1.1	-0.9
South Africa	0.8	0.2	-8.0	3.0	0.0	-0.5
Commodity (Oil) Prices(\$US)	29.4	-10.2	-32.1	12.0	9.0	8.2
World Trade Volume	3.6	1.0	-10.4	8.3	1.5	0.3
Consumer Prices	2.0	1.4	0.8	1.6	0.5	0.5

Source : IMF, World Economic Outlook, October 2020 Update

Global financial conditions have eased further supported by continued decline in interest rates, recovery in risk assets, and rebound in equity markets. However, prices in commodity markets continue to be sensitive to signs of weak demand. Global trade growth is projected to weaken by 10.4 percent in 2020 due to lockdowns imposed across countries in first quarter of the year, while global current account deficits and surpluses are projected to shrink in 2020 to the lowest level in the past two decades and to remain broadly stable in 2021 both for creditor and debtor countries (**Table 4.1**).

Unemployment rate growth projections contained in the October 2020 WEO imply wide negative output gaps in 2020 and 2021. Consequently, global unemployment rates, poverty levels and inequality will be elevated across advanced and emerging market and developing economies.

Global consumer prices are expected to remain low in 2020 as upward pressure from pent-up demand after easing of lockdowns will be counterbalanced by increase in consumers' precautionary saving arising from perceived risk of job losses and falling sick (**Table 4.1**).

Fundamental uncertainty regarding the evolution of the pandemic makes it difficult to provide a quantitative assessment of the balance of risks around the projections. The upside risks entail recession turning out to be less severe than projected if global economic activity normalization

proceeds faster than currently expected in areas that have reopened; faster productivity growth; advances in therapies; and production of safe and effective vaccines. On the contrary, downside risks remain significant and include outbreaks recurring if the virus resurges; cross-border spillovers from weaker external demand that could further magnify the impact of country or region specific shocks on global growth; premature withdrawal of policy support, or poor targeting of measures because of design and implementation challenges; financial conditions may again tighten exposing vulnerabilities alongside liquidity shortfalls and insolvencies; and intensification of social unrests, geopolitical tensions and the US-China trade tensions and technology frictions.

Sizable and aggressive economic policy measures are necessary to mitigate the above downside risks, through provision of adequate resources for health care systems and limiting the economic damage; creation of ample room for immediate spending needs by prioritizing crisis countermeasures and reducing wasteful and poorly targeted subsidies; prudent debt management, extending maturities on government borrowing and locking in low interest rates to the extent possible to save debt service expenses and free up resources within the fiscal envelope to redirect toward crisis mitigation efforts; and expansion of the eligibility criteria for unemployment insurance and better coverage of self-employed workers should also be considered among efforts to strengthen the broader safety net.

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account narrowed by 13 percent to USD 1,333 million in the third quarter of 2020 from USD 1,527 million in the third quarter of 2019 reflecting a decline in imports and an improvement in earnings from exports of goods and despite lower receipts

from exports of services. Secondary income inflows remained resilient supported by remittances, which improved from USD 658 million in the third quarter of 2019 to USD 812 million in the third quarter of 2020 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2019*		2020**							Q3 2020-Q3 2019	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-June	Jul	Aug	Sep	Jul-Sep	Q3	Change	%
1. Overall Balance	-126	252	466	-412	94	433	495	1,023	1,149	-913	
2. Current account	-1,527	-1,675	-1,093	-772	-446	-472	-415	-1,333	194	-13	
Exports (fob)	1,424	1,429	1,764	1,307	488	504	524	1,516	92	6	
Imports (fob)	4,066	4,336	3,916	3,066	1,208	1,187	1,244	3,638	-427	-11	
Services: credit	1,343	1,395	1,204	843	319	261	268	848	-495	-37	
Services: debit	944	1,019	1,004	788	294	282	297	873	-72	-8	
Balance on goods and services	-2,243	-2,532	-1,952	-1,705	-695	-703	-749	-2,147	97	-4.3	
Primary income: credit	57	55	53	33	12	12	16	40	-16	-29	
Primary income: debit	584	501	413	348	184	185	77	445	-139	-24	
Balance on goods, services, and primary income	-2,771	-2,978	-2,311	-2,020	-866	-876	-809	-2,552	219	-8	
Secondary income: credit	1,257	1,317	1,232	1,259	430	408	397	1,235	-22	-2	
o.w Remittances	658	711	698	764	279	273	260	812	154	23	
Secondary income: debit	13	13	14	11	10	3	3	17	3	26	
3. Capital Account	40	52	24	42	0	11	25	36	-4	-10	
4. Financial Account	-916	-1,322	-419	-1,690	33	-58	-271	-295	620	-68	

* Revised

** Provisional

Fob - free on board

Source: Central Bank of Kenya

The Current Account

The balance in goods and services narrowed by 4.3 percent from a deficit of USD 2,243 million in the third quarter of 2019 to a deficit of USD 2,147 million in the third quarter of 2020, mainly attributed to a decline in imports and a pick-up in exports, which offset reduced earnings from services (**Table 5.1**). The value of merchandise exports increased by 6 percent to USD 1,516 million in the third quarter of 2020 largely due to increased earnings from exports of tea, horticulture, coffee, chemicals and manufactured goods. Receipts from tea increased by 14 percent to USD 282 million due to robust production and minimal disruptions to global supply chains. Tea production supported the performance of exports and was 32.3 percent higher in the year to September 2020 than in a similar period in 2019. Receipts from horticulture exports

improved by 5 percent supported by a recovery in demand from international markets and availability of sufficient cargo space (**Table 5.2**).

The value of merchandise imports declined by 11 percent to USD 3,638 million in the third quarter of 2020 from USD 4,066 million in the third quarter of 2019, largely due to reduced imports of oil products as a result of relatively lower international oil prices. Oil prices were significantly lower in the third quarter of 2020 due to the COVID-19 related global demand shock. Imports of machinery and transport equipment and manufactured goods also declined by 6 percent and 10 percent, respectively. Food imports also declined by 28 percent in the same period. Imports of chemicals, a component of intermediate goods, picked up in the third quarter of 2020.

Net receipts in the services account declined by USD 423 million to a deficit of USD 25 million in the third quarter of 2020 compared with an increase of USD 398 million in the third quarter of 2019 mainly on account of lower receipts from transport and travel services. Transport services receipts declined by USD 249 million due to weaknesses in international travel and transport. Receipts from travel services also declined by USD 87 million in the third quarter of 2020. The balance on the primary income

account improved by USD 123 million to a deficit of USD 405 million in the third quarter of 2020, from a deficit of USD 527 million in the third quarter of 2019, reflecting lower investment earnings related outflows. The balance on secondary income on the other hand remained resilient at USD 1,218 million in third quarter of 2020 from 1,244 largely supported by remittance inflows, which increased by 23 percent to USD 812 million in the third quarter of 2020 compared to a similar quarter in 2019.

Table 5.2: Balance on current account (USD Million)

ITEM	2019*		2020**							Q3 2020-Q3 2019	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul	Aug	Sep	Jul-Sep		Change	%
	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3		Change	%
CURRENT ACCOUNT	-1,527	-1,675	-1,093	-772	-446	-472	-415	-1,333		194	-13
Goods	-2,642	-2,907	-2,152	-1,760	-719	-682	-720	-2,122		520	-20
Exports (fob)	1,424	1,429	1,764	1,307	488	504	524	1,516		92	6
o.w Coffee	43	33	52	74	17	14	16	47		4	9
Tea	249	305	335	327	93	95	94	282		34	14
Horticulture	221	228	273	210	75	79	79	233		12	5
Oil products	26	15	14	8	7	6	5	18		-8	-31
Manufactured Goods	109	98	94	69	35	39	36	111		2	2
Raw Materials	79	78	101	89	19	28	29	76		-3	-4
Chemicals and Related Products (n.e.s)	116	106	122	100	39	41	40	119		3	3
Miscellaneous Man. Articles	145	137	145	103	48	61	54	163		18	13
Re-exports	204	173	331	108	59	43	73	174		-30	-15
Other	224	247	285	212	92	95	95	283		59	26
Imports (fob)	4,066	4,336	3,916	3,066	1,208	1,187	1,244	3,638		-427	-11
o.w Oil	772	781	778	359	167	191	169	526		-245	-32
Chemicals	576	618	653	609	223	241	218	682		107	19
Manufactured Goods	802	721	649	621	245	206	268	720		-82	-10
Machinery & Transport Equipment	1,151	1,469	1,061	780	345	396	341	1,082		-69	-6
Machinery	791	944	746	535	249	240	208	698		-93	-12
Transport equipment	360	525	315	245	96	155	133	384		24	7
Other	924	910	950	783	262	167	276	705		-220	-24
o.w Food	453	429	435	397	121	88	115	324		-129	-28
Services	398	375	200	55	25	-21	-28	-25		-423	-106
Transport Services (net)	185	190	163	14	-18	-28	-19	-65		-249	-135
Credit	532	559	493	283	82	72	77	231		-301	-57
Debit	347	370	331	269	99	100	96	296		-52	-15
Travel Services (net)	194	227	179	21	40	34	33	107		-87	-45
Credit	244	280	225	28	50	42	41	134		-110	-45
Debit	50	53	46	7	10	9	8	27		-23	-46
Other Services (net)	20	-41	-142	19	3	-27	-43	-67		-87	-438
Primary Income	-527	-446	-359	-315	-172	-173	-60	-405		123	-23
Credit	57	55	53	33	12	12	16	40		-16	-29
Debit	584	501	413	348	184	185	77	445		-139	-24
Secondary Income	1,244	1,303	1,218	1,248	420	405	394	1,218		-25	-2
Credit	1,257	1,317	1,232	1,259	430	408	397	1,235		-22	-2
Debit	13	13	14	11	10	3	3	17		3	26

* Revised

**Provisional

Fob - free on board

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

Direction of Trade

Imports from China accounted for 26.6 percent of total imports to Kenya and improved to USD 970 million in the third quarter of 2020 from USD 785 million in the third quarter of 2019. Imports from the European Union (EU) also increased by USD 107 million, while those from Africa decreased by 31 percent to USD 412 million in the third quarter

of 2020, reflecting lower imports from South Africa and Egypt. Total imports from COMESA region decreased to USD 214 million, while that of the EAC region decreased to USD 141 million in the third quarter of 2020 (**Table 5.3**).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)												Share of Imports (%)	
	2019*			2020*									
	Jul-Sep			Apr-Jun			Jul-Sep						
Country	Q3	Q4	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Q3 2019	Q3 2020
Africa	597	512	461	127	106	122	355	133	134	146	412	14.9	11.3
Of which													
South Africa	177	133	141	29	33	34	96	42	27	39	108	4.4	3.0
Egypt	111	113	106	29	26	33	89	31	39	37	107	2.8	2.9
Others	309	265	214	68	48	54	170	60	68	70	197	7.7	5.4
EAC	197	149	119	35	30	34	100	44	48	49	141	4.9	3.9
COMESA	319	309	258	76	57	70	203	62	75	77	214	8.0	5.9
Rest of the World	3,398	3,824	3,455	924	854	934	2,712	1,075	1,053	1,098	3,226	85.1	88.7
Of which													
India	424	424	568	110	107	134	350	147	145	134	426	10.6	11.7
United Arab Emirates	324	438	271	61	32	43	136	56	33	93	181	8.1	5.0
China	785	1,126	797	198	230	296	723	319	329	322	970	19.6	26.6
Japan	216	277	223	71	50	56	178	69	67	70	205	5.4	5.6
USA	146	127	128	60	51	43	154	46	42	41	129	3.7	3.6
United Kingdom	67	93	72	18	25	19	62	19	27	23	69	1.7	1.9
Singapore	8	18	32	5	3	3	11	2	4	8	14	0.2	0.4
Germany	116	100	93	31	32	36	98	30	67	20	117	2.9	3.2
Saudi Arabia	303	279	237	58	21	16	96	48	58	108	213	7.6	5.9
Indonesia	106	116	199	68	65	27	159	35	17	41	93	2.7	2.6
Netherlands	55	33	73	19	16	16	51	43	75	9	127	1.4	3.5
France	49	70	57	14	15	24	53	21	19	13	53	1.2	1.5
Bahrain	2	1	1	2	0	1	2	1	0	1	2	0.0	0.0
Italy	48	53	57	14	14	18	45	19	18	13	50	1.2	1.4
Others	749	669	649	196	193	204	594	220	153	202	575	18.7	15.8
Total	3,995	4,336	3,916	1,051	960	1,055	3,066	1,208	1,187	1,244	3,638	100.0	100.0
EU	490	594	535	140	145	161	446	208	254	135	597	12.3	16.4
China	785	1,126	797	198	230	296	723	319	329	322	970	19.6	26.6

*Provisional

Source: Kenya Revenue Authority

The value of merchandise exports to Africa increased to USD 614 million in the third quarter of 2020 compared with USD 551 million in a similar period in 2019. It accounted for 40.5 percent of the total exports. In the EAC region, exports from Uganda and Rwanda increased while those to Tanzania

decreased. The share of Exports to the EU was 23.1 percent while that of the United States of America (USA), Pakistan and the United Kingdom were 8.0 percent, 8.1 percent and 7.4 percent, respectively (**Table 5.4**).

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)											Share of Exports (%)	
	2019*				2020*						Q3 2019	Q3 2020
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Aug	Sep	Q3		
Country	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3		
Africa	531	534	551	574	640	448	204	208	203	614	38.7	40.5
<i>Of which</i>												
Uganda	161	143	158	162	185	118	61	74	66	200	11.1	13.4
Tanzania	74	83	84	89	78	59	25	24	26	75	5.9	5.0
Egypt	52	47	41	45	53	43	12	6	16	34	2.9	2.2
Sudan	16	14	12	14	29	16	6	4	4	14	0.9	0.9
South Sudan	28	41	21	33	84	38	15	23	17	56	1.5	3.7
Somalia	31	33	24	28	25	23	15	7	12	34	1.7	2.3
DRC	33	35	30	34	33	31	12	11	12	35	2.1	2.3
Rwanda	42	55	68	61	60	42	25	24	20	69	4.8	4.6
Others	93	83	112	108	93	78	33	34	29	97	7.9	6.4
EAC	298	297	345	361	420	269	132	151	134	417	24.2	27.5
COMESA	370	358	374	375	421	311	137	144	137	417	26.3	27.5
Rest of the World	1,027	950	873	855	1,124	859	284	296	320	901	61.3	59.5
<i>Of which</i>												
United Kingdom	118	84	91	98	131	114	38	36	38	112	6.4	7.4
Netherlands	144	119	98	110	129	83	33	32	50	116	6.9	7.7
USA	121	137	137	114	119	104	35	50	37	122	9.6	8.0
Pakistan	130	96	95	123	132	141	38	48	37	123	6.6	8.1
United Arab Emirates	103	101	102	74	127	66	13	20	41	73	7.1	4.8
Germany	31	33	24	22	34	37	11	13	12	37	1.7	2.5
India	17	13	13	10	12	8	4	6	6	17	0.9	1.1
Afghanistan	7	9	9	10	14	5	1	1	0	2	0.6	0.2
Others	356	356	306	293	425	303	109	91	99	299	21.5	19.7
Total	1,558	1,484	1,424	1,429	1,764	1,307	488	504	523	1,515	100.0	100.0
EU	406	315	289	301	391	315	114	109	127	350	20.3	23.1
China	34	40	33	42	41	36	7	6	17	30	2.3	2.0

*Provisional

Source: Kenya Revenue Authority

Capital and Financial Account

The capital account inflows on a net basis recorded a decline of USD 9 million to USD 36 million in the second quarter of 2020. Net inflows on the financial account were USD 295 million in the third quarter of 2020 compared to net inflows of USD 1,167

million in the third quarter of 2019. The reduction in financial account inflows in the third quarter of 2020 reflected lower FDI related inflows and other investment inflows (**Table 5.5**).

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

ITEM	2019 *				2020**						Q3 2020-Q3 2019	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul	Aug	Sep	Jul-Sep	Absolute	%
	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug	Sep	Q3	Change	Change
Capital account credit	42	86	27	52	24	42	0	11	25	36	9	33
Capital account credit	42	86	27	52	24	42	0	11	25	36	9	33
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0	0
Financial Account	-937	-2,813	-1,167	-1,322	-419	-1,690	33	-58	-271	-295	871	-75
Direct investment: assets	49	74	33	48	71	8	12	12	15	39	7	20
Direct investment: liabilities	284	410	284	359	104	93	28	31	34	93	-191	-67
Portfolio investment: assets	259	198	227	272	309	303	118	51	83	252	26	11
Portfolio investment: liabilities	1	2,136	42	89	-101	-91	-50	36	8	-6	-49	-115
Financial derivatives: net	-6	-4	4	1	3	-5	11	0	0	11	7	166
Other investment: assets	34	230	125	184	-8	128	-52	108	-158	-103	-228	-182
Other investment: liabilities	988	765	1,230	1,380	791	2,123	78	162	169	409	-821	-67

* Revised

** Provisional

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings decreased to USD 12,585 million at the end of the third quarter of 2020 from USD 13,089 million at the end of the third quarter of 2019. The official reserves held by the Central Bank constituted the

bulk of the gross reserves and decreased to USD 8,765 million, equivalent to 5.4 months of import cover, while commercial banks reserves increased by USD 178 million to end at USD 3,820 million at the end of the third quarter of 2020 (**Table 5.6**).

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

	2018	2019							2020							
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Q4			Oct-Dec	Jan-Mar	Q2			Apr-Jun	Q3		
	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep
1. Gross Reserves	11,516	11,772	13,187	13,089	13,356	12,825	12,919	12,919	12,447	12,286	13,806	13,681	13,681	13,524	13,181	12,585
of which:																
Official	8,230	8,468	9,656	9,442	9,349	9,153	9,116	9,116	8,635	8,357	9,738	9,740	9,740	9,639	9,197	8,765
import cover*	5.3	5.4	6.0	5.8	5.7	5.6	5.5	5.5	5.2	5.0	5.9	5.9	5.9	5.9	5.6	5.4
Commercial Banks	3,286	3,304	3,531	3,642	4,007	3,672	3,803	3,803	3,812	3,929	4,067	3,941	3,941	3,884	3,984	3,820
2. Residents' foreign currency deposits	6,078	6,068	6,415	6,196	6,341	6,229	6,393	6,393	6,445	6,439	6,620	6,557	6,557	6,527	6,476	6,448

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

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling weakened against the major international currencies on account of tight global financial conditions resulting from the impact of the COVID-19 pandemic. The Shilling weakened by 4 percent against the US Dollar to exchange at an average of 107.94 during the third quarter compared with 103.42 in the third quarter of 2019.

It also weakened against the Sterling, the Euro and the Japanese Yen. In the EAC region, it strengthened relative to the Rwanda and Burundi Franc but weakened against Uganda and Tanzania shilling during the review period (**Table 5.7 and Chart 5.1**).

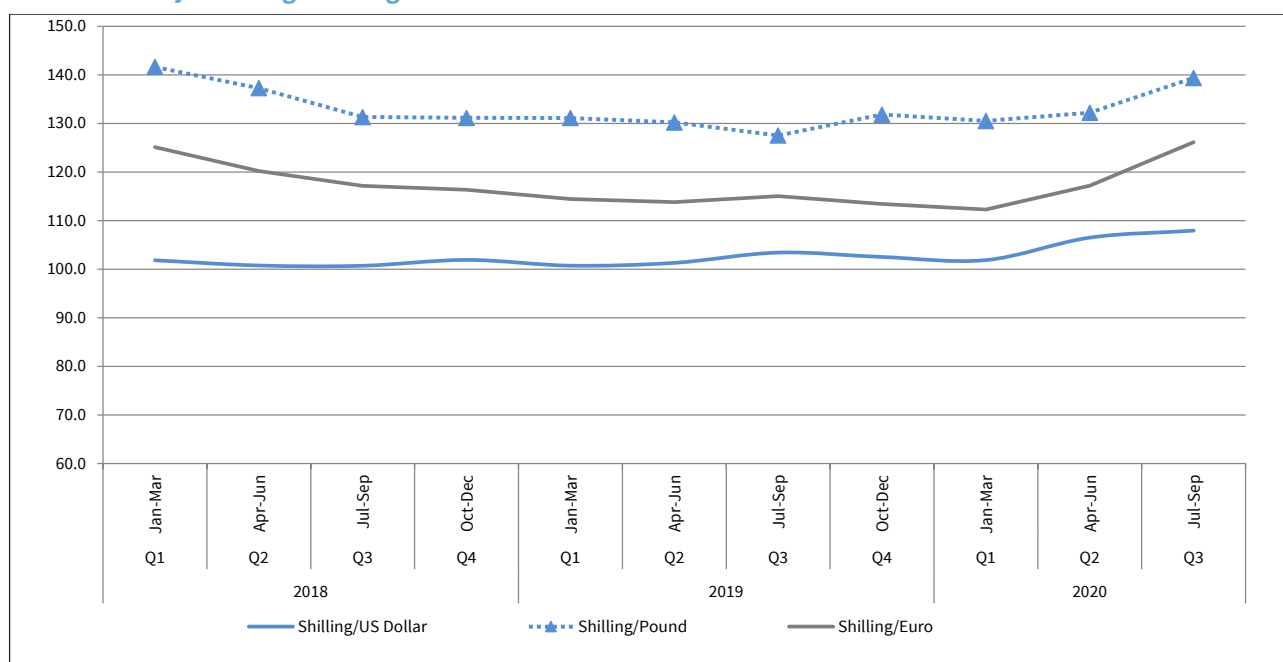
Table 5.7: Kenya Shilling exchange rate

	2019			2020	2020					
	Apr-Jun Q2	Jul-Sep Q3	Oct-Dec Q4	Jan-Mar Q1	May-Jun Q2	Jul	Aug	Sep	Q3	% change Q3 2020 - Q3 2019
US Dollar	101.30	103.42	102.52	101.88	106.50	107.27	108.14	108.41	107.94	4.37
Pound Sterling	130.22	127.51	131.83	130.51	132.19	135.30	141.85	140.89	139.35	9.28
Euro	113.82	115.05	113.44	112.30	117.19	122.51	127.83	128.01	126.12	9.62
100 Japanese Yen	92.21	93.05	94.50	93.47	99.08	100.34	102.07	102.68	101.70	9.30
Uganda Shilling*	36.97	35.67	35.99	36.40	35.41	34.53	34.00	34.08	34.20	-4.10
Tanzania Shilling*	22.74	22.23	22.44	22.64	21.73	21.62	21.48	21.40	21.50	-3.29
Rwanda Franc*	8.94	8.87	9.07	9.32	8.93	8.92	8.91	8.94	8.92	0.57
Burundi Franc*	18.10	17.83	18.12	18.51	17.82	17.95	17.84	17.81	17.87	0.20

* 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

Banking Sector

Overview

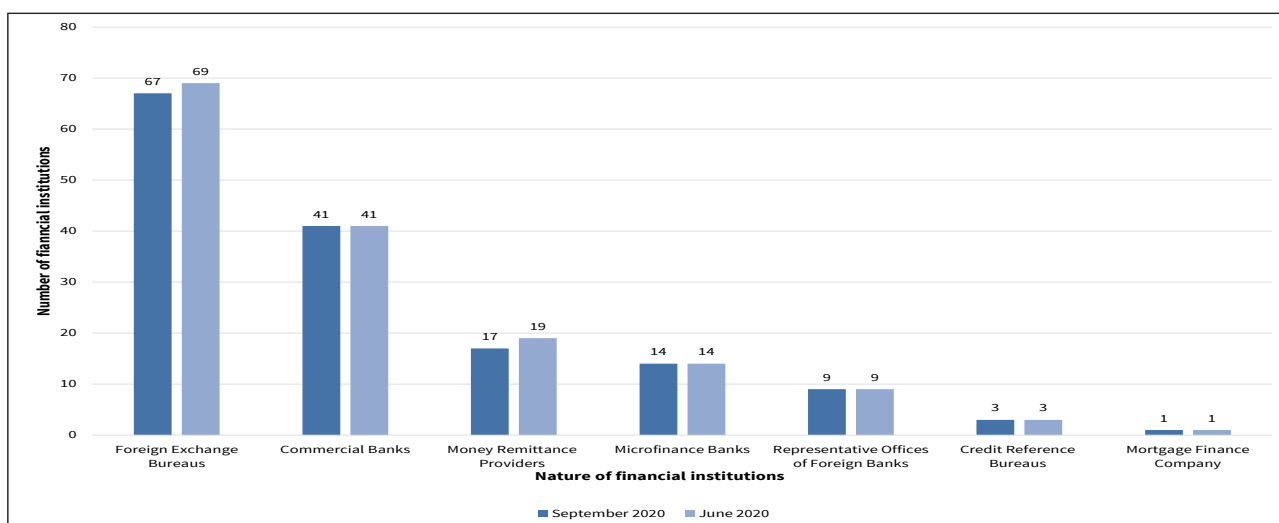
The banking sector remained stable and resilient in the third quarter of 2020. However, the COVID-19 pandemic impacted the banking sector asset quality and the overall performance of the sector. Total net assets increased by 1.1 percent from KSh 5,207.8 billion in June 2020 to KSh 5,266.0 billion in September 2020. The deposit base also increased marginally by 0.02 percent from KSh 3,903.6 billion in the second quarter of 2020 to KSh 3,904.4 billion in the third quarter of 2020. The sector was well capitalized and met the minimum capital requirements. Similarly, the sector remained profitable in the third quarter of 2020 with quarterly profit before tax increasing by 34.9 percent from KSh 21.7 billion to KSh 29.2 billion. This was due to a higher increase in total income (7.4 percent)

compared to the increase in total expenses (2.2 percent). Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 13.6 percent in the third quarter of 2020 from 13.1 percent in the second quarter of 2020.

Structure of the Banking Sector

The Kenyan banking sector comprised 41 Commercial Banks, 1 Mortgage Finance Company, 14 Microfinance Banks, 9 Representative Offices of Foreign Banks, 67 Foreign Exchange Bureaus, 17 Money Remittance Providers and 3 Credit Reference Bureaus as at September 30, 2020. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

i) Growth in banking sector assets

The sector's total net assets increased by 4.1 percent to KSh 5,207.8 billion in June 2020 from KSh 5,001.2 billion in March 2020. The increase in total net assets was mainly recorded in balances with CBK (34.9 percent) and other foreign assets (19.6 percent).

However, loans and advances, which increased by 2.2 percent, remained the main component of assets. It accounted for 50.9 percent in the second quarter of 2020, but below 52.2 percent recorded in the first quarter of 2020.

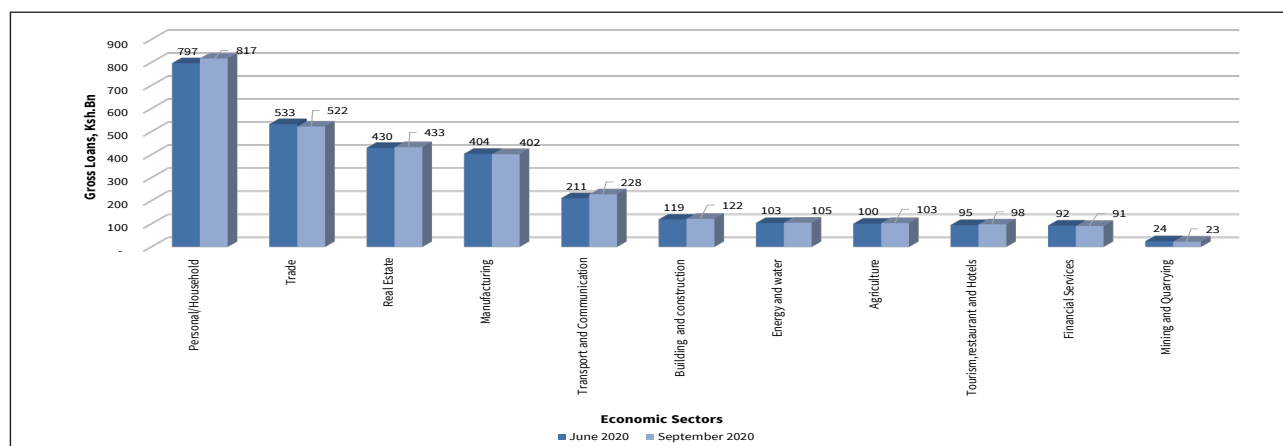
³ Includes Charterhouse Bank Limited, which is under Statutory Management, Chase Bank (K) Limited and Imperial Bank Limited, which are in Receivership. However, the data for the three banks have been excluded in this report.

ii) Loans and Advances

Total banking sector lending increased by 1.2 percent, to KSh 2,943.4 billion in the third quarter of 2020 from KSh 2,908.7 billion in the second quarter of 2020. The increase in gross loans and advances was largely witnessed in the Personal/Household and Transport and Communication sectors. The general

increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the second and third quarters of 2020 is highlighted in **Chart 6.2**.

Chart 6.2: Loans by sector



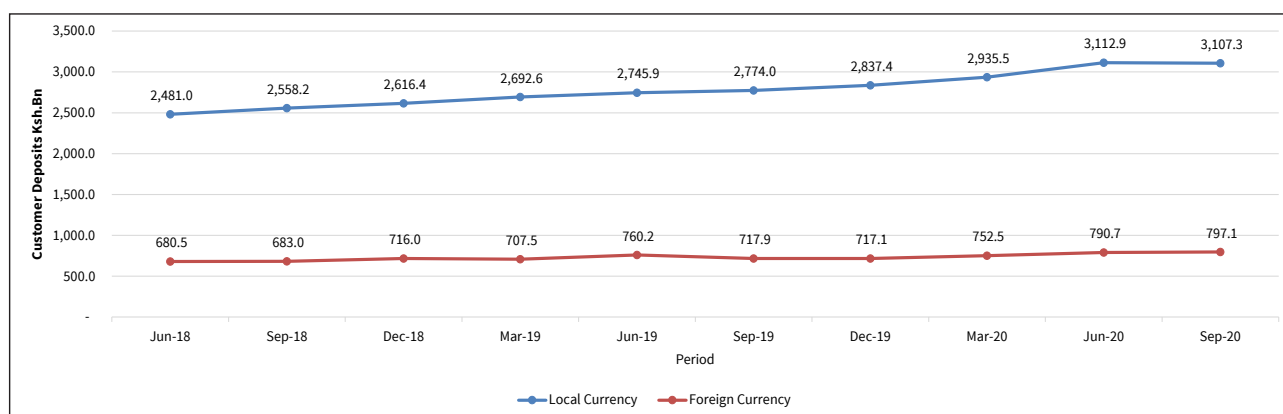
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 74.1 percent of the banking sector total liabilities and shareholders' funds as at the end of the third quarter of 2020. This was a decrease from 75.0 percent recorded as at end of the second quarter of 2020. The customer deposit base increased by 0.02 percent from KSh 3,903.6 billion in the second quarter of 2020 to KSh 3,904.4 billion in the third quarter of 2020. Local currency

deposits decreased by KSh 5.6 billion (-0.2 percent) from KSh 3,112.9 billion in the second quarter of 2020 to KSh 3,107.3 billion in the third quarter of 2020. Foreign currency deposits increased by KSh 6.4 billion (0.8 percent) from KSh 790.7 billion in the second quarter of 2020 to KSh 797.1 billion in the third quarter of 2020. **Chart 6.3** below shows the trend of deposit liabilities.

Chart 6.3: Customer deposits



Source: Central Bank of Kenya

⁴ Other accounts receivable in foreign currency.

Capital Adequacy

Kenya's banking sector was well capitalized and met the minimum capital requirements. Core capital increased by 2.1 percent from KSh 651.6 billion in the second quarter of 2020 to KSh 665.1 billion in the third quarter of 2020. Total capital also increased by 1.2 percent from KSh 737.3 billion in the second quarter of 2020 to KSh 745.8 billion in the third quarter of 2020. The increases in capital levels are mainly attributable to increased retained earnings from the profits made in 2019.

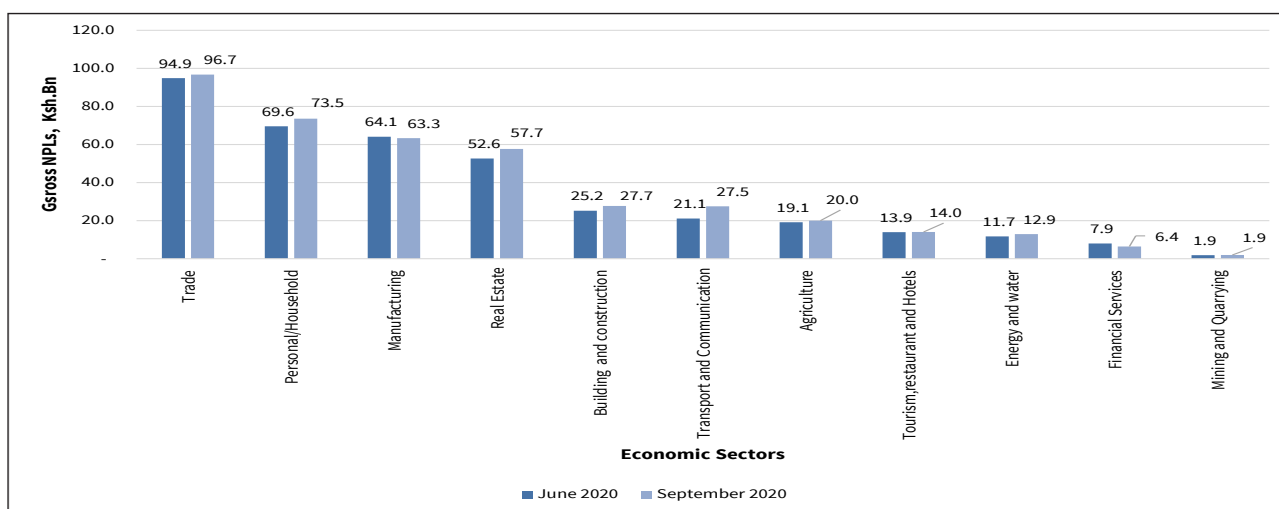
Core capital to total risk-weighted assets ratio decreased slightly from 16.4 percent in the second quarter of 2020 to 16.3 percent in the third quarter of 2020. Similarly, total capital to total risk-weighted assets ratio decreased from 18.52 in the second quarter of 2020 percent to 18.24 percent in the third quarter of 2020.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.0 percent in the third quarter of 2020, an increase from 16.7 percent recorded in the second quarter of 2020.

Asset Quality

The gross non-performing loans (NPLs) increased by 5.1 percent to KSh 401.6 billion as at the end of the third quarter of 2020 from KSh 382.0 billion at the end of the second quarter of 2020. As a result, the gross NPLs to gross loans ratio increased from 13.1 percent in the second quarter of 2020 to 13.6 percent in the third quarter of 2020. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

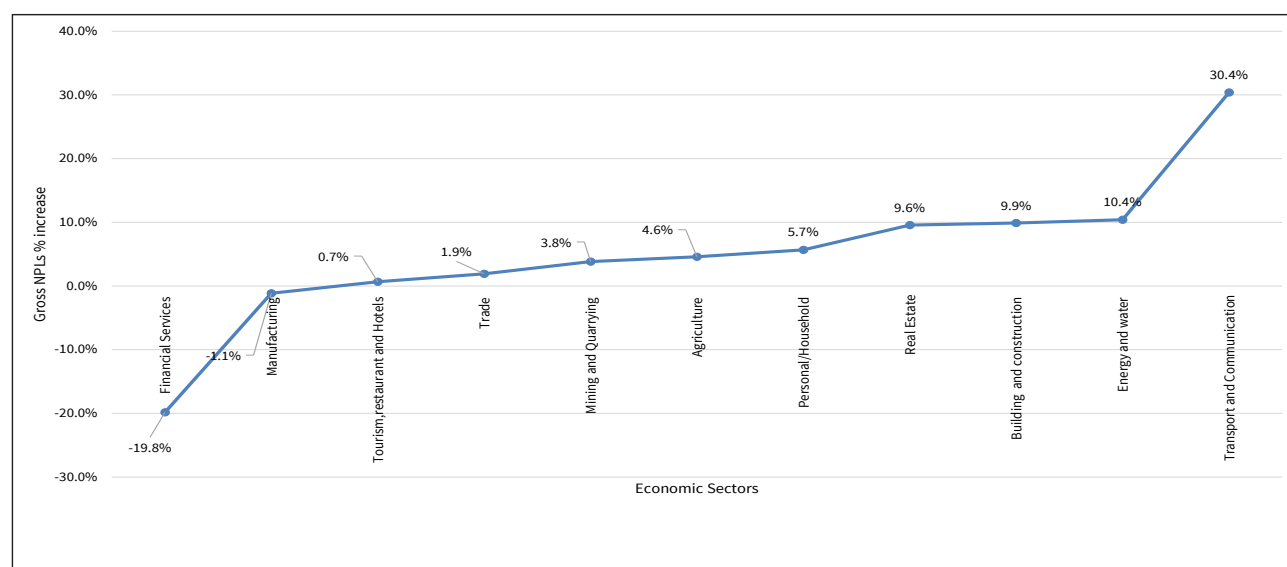
Chart 6.4: Kenyan banking sector gross non-performing loans (KSh Billions)



Source: Central Bank of Kenya

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

Chart 6.5: Sectoral distribution of gross NPLs in Q2 and Q3 of 2020



Source: Central Bank of Kenya

The Transport and Communication sector registered the highest increase in NPLs of 30.4 percent (KSh 6.4 billion) mainly attributed to the restrictions in movements across certain regions as a result of the COVID-19 pandemic. The other two sectors that registered major increases in NPLs are Energy and Water, and Building and Construction, which increased by 10.4 percent and 9.9 percent, respectively.

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

loans, improved to 4.0 percent in the third quarter of 2020 from 5.9 percent in the second quarter of 2020. The coverage ratio, measured as a percentage of specific provisions to total NPLs, increased to 46.0 percent in the third quarter of 2020 from 44.4 percent in second quarter of 2020 due to a higher increase in specific provisions (9.2 percent) as compared to the increase in total NPLs (5.1 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		June 2020	September 2020
1	Gross Loans and Advances (Ksh.Bn)	2,908.7	2,943.4
2	Interest in Suspense (Ksh.Bn)	70.9	73.7
3	Loans and Advances (net of interest suspended) (Ksh.Bn)	2,837.8	2,869.7
4	Gross Non-Performing loans (Ksh.Bn)	382.0	401.6
5	Specific Provisions (Ksh.Bn)	138.1	150.8
6	General Provisions (Ksh.Bn)	48.3	58.1
7	Total Provisions (5+6) (Ksh.Bn)	186.3	208.9
8	Net Advances (3-7) (Ksh.Bn)	2,651.5	2,660.8
9	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	311.1	327.9
10	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	173.0	118.9
11	Total NPLs as % of Total Advances (9/3)	11.0	11.4
12	Net NPLs as % of Gross Advances (10/1)	5.9	4.0
13	Specific Provisions as % of Total NPLs (5/9)	44.4	46.0
14	Gross NPLs to Gross Loans Ratio	13.1	13.6

Source: Central Bank of Kenya

Profitability

The banking sector recorded an increase in pre-tax profits by KSh 7.6 billion (34.9 percent) from KSh 21.7 billion in the second quarter of 2020 to KSh 29.2 billion in the third quarter of 2020. The increase in profitability was mainly attributable to a higher increase in total income by KSh 10.0 billion (7.4 percent) to KSh 145.5 billion in the third quarter of 2020 from KSh 135.4 billion in the second quarter of 2020.

The increase in total income was largely attributable to other income, which increased by KSh 7.5 billion (35.3 percent) between second quarter of 2020 and third quarter of 2020.

Interest income on loans and advances, interest on Government securities and other incomes were the major sources of income in the third quarter of 2020 accounting for 49.3 percent, 23.4 percent and 19.7 percent of total income compared to 49.0 percent, 25.8 percent and 17.4 percent, respectively, in the second quarter of 2020. On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 28.9 percent, 22.5 percent and 21.3 percent of total expenses, respectively, compared to 29.6 percent, 22.6 percent and 22.1 percent in the second quarter of 2020.

Total expenses increased by KSh 2.5 billion (2.2 percent) from KSh 113.8 billion in the second quarter of 2020 to KSh 116.3 billion in the third quarter of 2020. The increase was driven by a 25.6 percent (KSh 0.14 billion) increase in director's emoluments.

Return on assets (ROA) stood at 1.76 percent in the third quarter of 2020, a decrease from 1.79 percent registered in the second quarter of 2020. Similarly, return on equity (ROE) decreased to 15.1 percent in

the third quarter of 2020 from 15.6 percent in the second quarter of 2020.

Liquidity

The banking sector's overall liquidity ratio increased from 52.8 percent in the second quarter of 2020 to 53.1 percent in the third quarter of 2020. The increase was driven by a higher increase in total liquid asset (2.2 percent) as compared to a 1.6 percent increase in total short-term liabilities between the two quarters under review. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

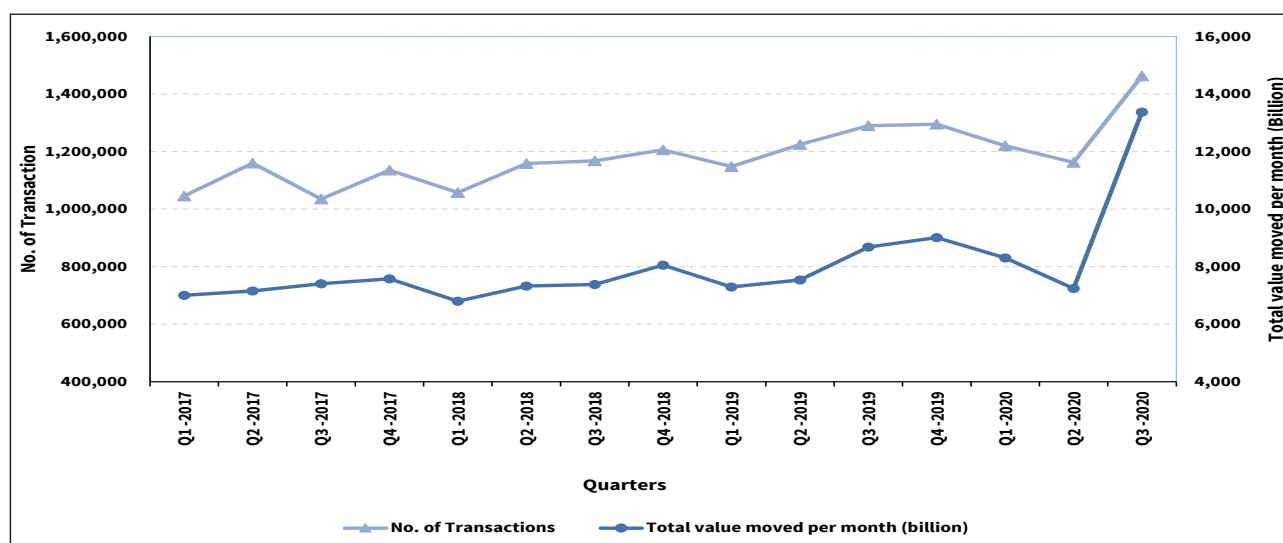
Outlook of the Sector

The banking industry is projected to remain stable and resilient. The COVID-19 pandemic has impacted the banking sector asset quality and overall performance of the sector. CBK will continue working with banks to enhance the resilience of the sector.

Kenya Shillings Flows In KEPSS

The Kenya Electronic Payments and Settlement System (KEPSS), which is used for large value Real Time Gross Settlement (RTGS) payments, moved a volume of 1.46 million transaction messages worth KSh 13.4 trillion in the third quarter of 2020, compared to 1.16 million transactions worth KSh 7.2 trillion recorded in the second quarter of 2020 (**Chart 6.6**). The volume and value of transactions increased by 25.85 percent and 84.79 percent, respectively. On August 24, 2020, the RTGS system processed a record 69,070 transactions. This is the highest volume of transactions since the inception of KEPSS in 2005.

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

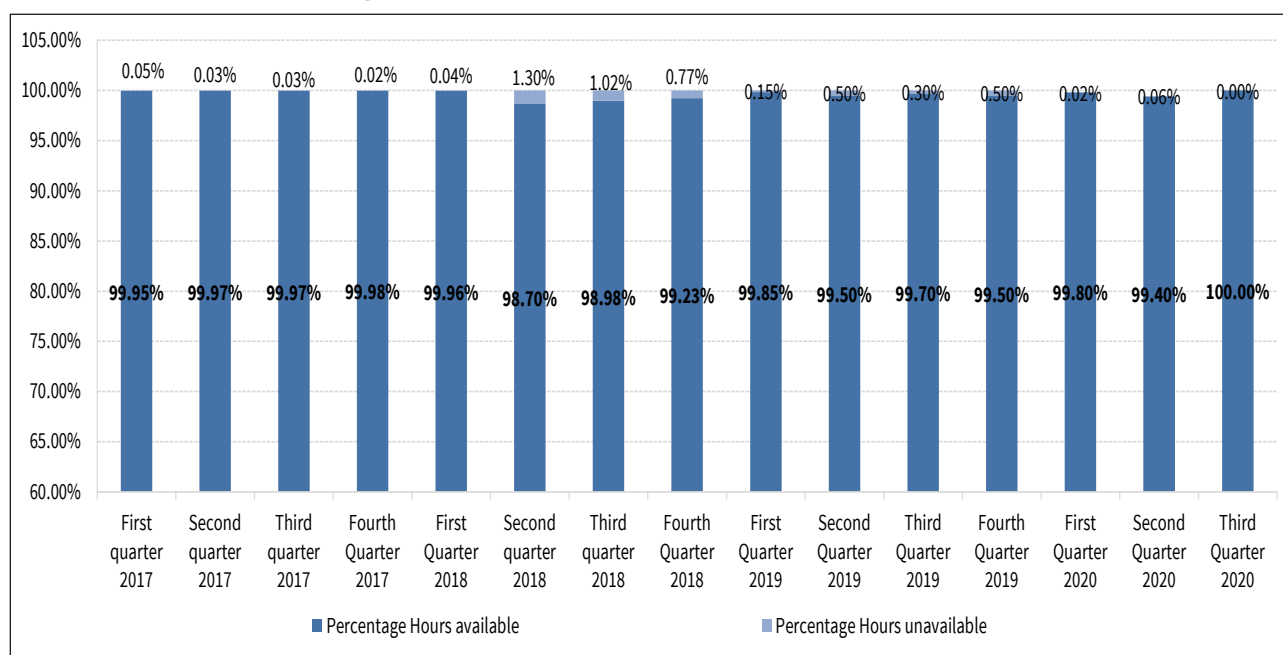
System Availability

On June 5th, 2020, the Central Bank of Kenya successfully upgraded the RTGS system, KEPSS. KEPSS was implemented in 2005 and is used to settle large and low value time-critical payments.

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

The KEPSS system is available to commercial banks

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the first quarter of FY 2020/21 resulted in a deficit of 1.1 percent of GDP against a target of 1.1 percent of GDP. Both revenues and expenditures were below their respective targets with the shortfall in total revenues and grants at 12.5 percent and total expenses and net lending at 9.7 percent (**Table 7.1**).

Table 7.1: Statement of government operations in the first quarter of FY 2020/21 (KSh Billions)

	FY 2019/20			FY 2019/20	FY 2020/21					Over (+) / Below (-) Target	Variance
	Jul	Aug	Sep	Q1	Jul	Aug	Sep	Q1	Cumulative to Sep-2020		
1. TOTAL REVENUE & GRANTS	117.1	123.1	183.7	424.0	105.3	108.0	169.4	382.6	382.6	437.3	(54.7)
Ordinary Revenue	107.8	112.3	164.3	384.4	94.8	95.1	152.8	342.6	342.6	384.3	(41.7)
Tax Revenue	107.1	111.8	152.6	371.5	94.4	92.8	129.5	316.8	316.8	376.0	(59.2)
Non Tax Revenue	0.7	0.5	11.8	12.9	0.3	2.2	23.2	25.8	25.8	8.3	17.5
Appropriations-in-Aid	9.4	7.9	19.5	36.8	10.5	11.5	14.1	36.1	36.1	44.6	(8.5)
External Grants	-	2.9	(0.1)	2.8	-	1.4	2.5	3.9	3.9	8.4	(4.5)
2. TOTAL EXPENSES & NET LENDING	113.0	141.9	289.7	544.6	94.2	239.7	176.5	510.4	510.4	565.3	(54.9)
Recurrent Expenses	108.2	129.6	153.3	391.2	88.7	162.9	107.9	359.5	359.5	410.3	(50.8)
Development Expenses	4.7	12.3	78.9	95.9	4.6	49.6	67.8	122.1	122.1	90.0	32.1
County Transfers	-	-	57.5	57.5	0.9	27.1	0.8	28.8	28.8	65.0	(36.2)
Others	-	-	-	-	-	-	-	-	-	-	-
3. DEFICIT (INCL. GRANTS) (1-2)	4.2	(18.8)	(106.1)	(120.7)	11.0	(131.7)	(7.2)	(127.8)	(127.8)	(128.0)	0.2
As percent of GDP	0.0	(0.2)	(1.0)	(1.2)	0.1	(1.2)	(0.1)	(1.1)	(1.1)	(1.1)	0.0
4. ADJUSTMENT TO CASH BASIS	-	-	4.1	4.1	-	-	-	-	-	-	-
5. DEFICIT INCL. GRANTS ON A CASH BASIS	4.2	(18.8)	(101.9)	(116.5)	11.0	(131.7)	(7.2)	(127.8)	(127.8)	(128.0)	0.2
As percent of GDP	0.0	(0.2)	(1.0)	(1.1)	0.1	(1.2)	(0.1)	(1.1)	(1.1)	(1.1)	0.0
6. DISCREPANCY: Expenditure (+) / Revenue (-)	3.1	25.2	(51.0)	(22.6)	31.1	(51.7)	22.6	2.0	2.0	0.0	2.0
7. FINANCING	(1.0)	44.0	51.0	93.9	20.0	80.0	29.8	129.8	129.8	128.0	1.8
Domestic (Net)	1.7	41.3	37.8	80.8	40.1	79.0	33.3	152.4	152.4	136.2	16.2
External (Net)	(2.7)	2.7	13.1	13.1	(20.0)	1.0	(3.6)	(22.6)	(22.6)	(8.2)	(14.5)
Capital Receipts (domestic loan receipts)	-	-	-	-	-	-	0.0	0.0	0.0	-	0.0
Others	-	-	-	-	-	-	-	-	-	-	-

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants decreased by 9.8 percent to KSh 382.6 billion in the first quarter of FY 2020/2021, compared to KSh 424.0 billion in the first quarter of FY 2019/20. The decrease was reflected in tax revenues and Appropriation in Aid (A-in-A), which declined by 14.7 percent and 1.9 percent, respectively. Non-tax revenues and external grants, however, increased over the same period by 100.1 percent and 39.7 percent, respectively.

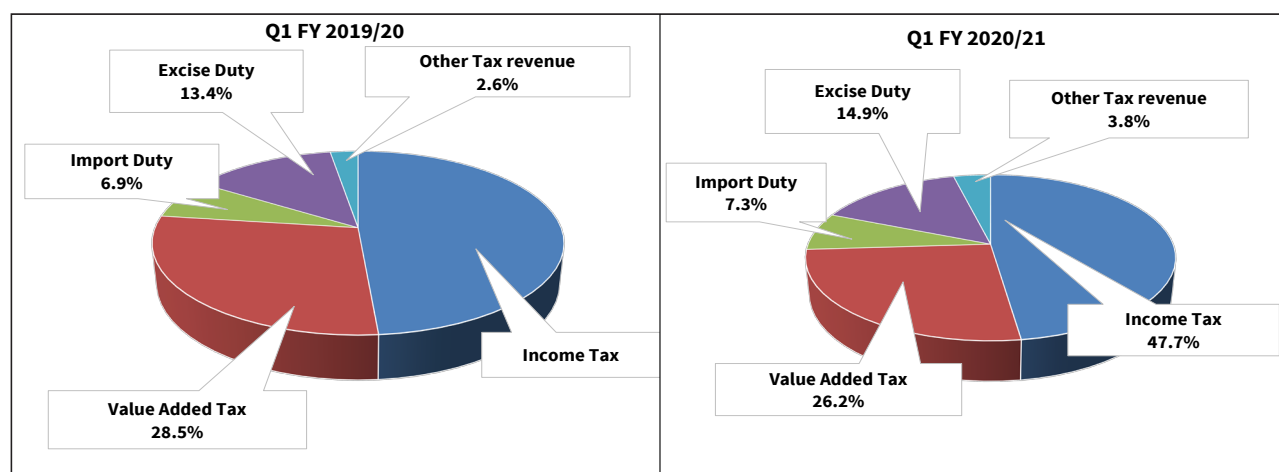
There was a minor shift in the composition of tax revenues in the first quarter of FY 2020/21 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Income Tax and Value Added Tax (VAT) declined while the share of Import Duty, Excise Duty and Other Tax Revenues rose by 0.4 percentage points, 1.6 percentage points and 1.2 percentage points, respectively.

Cumulatively, Government total revenue and grants stood at KSh 382.6 billion (3.4 percent of GDP) during the FY 2020/21 against a target of KSh 437.3 billion (3.9 percent of GDP). Tax revenue fell below the set target with the shortfall largely reflecting tax relief measures put in place to cushion Kenyans against the effects of COVID-19, which adversely affected revenue collection.

External grants cumulatively to September 2020 stood at KSh 3.9 billion, which was KSh 4.5 billion lower than target, due to slow absorption of donor funds.

Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to September 2020 amounted to KSh 36.1 billion, which was KSh 8.5 billion lower than target due to under reporting in ministerial expenditure returns.

Chart 7.1: Composition of tax revenue (KSh Billions)



Source: The Budget Outturn (BOT) from National Treasury

Expenditure and Net Lending

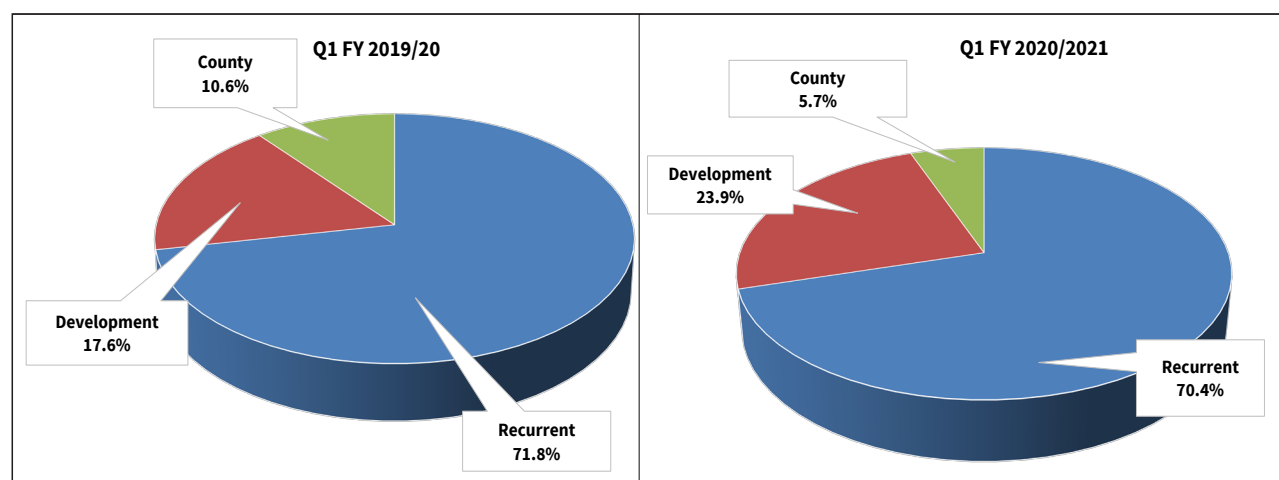
Government expenditure and net lending decreased by 6.3 percent to KSh 510.4 billion in the first quarter of the FY 2020/2021 compared to KSh 544.6 billion in the first quarter of the FY 2019/20. The decrease in expenditures reflected the drop in recurrent expenditure and county transfers by 8.1 percent and 49.9 percent, respectively, which more than offset the 27.3 percent increase in national government development transfers.

In terms of composition, recurrent expenditure held the largest share in total government expenditure, accounting for 70.4 percent in the first quarter of the

FY 2020/21, which was 1.4 percentage points lower than the level recorded in a similar quarter during the previous fiscal year. The share of development expenditure increased by 6.3 percentage points while that of county allocation decreased by 4.9 percent during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending in FY 2020/21 amounted to KSh 510.4 billion (4.5 percent of GDP), against a target of KSh 565.3 billion (5.0 percent of GDP). The shortfall of KSh 54.9 billion was mainly attributed to a decrease in recurrent expenditure.

Chart 7.2: Composition of government expenditure in the first quarter of FY 2020/21



Source: BOT from National Treasury

Financing

The budget deficit including grants amounted to KSh 127.8 billion or 1.1 percent of GDP at the end of the first quarter of FY 2020/21. Domestic borrowing comprised KSh 116.7 draw down of Government deposits held at the Central Bank, KSh 152.1 billion from commercial banks, KSh 154.2 billion from

non-banks and KSh 1.0 billion from non-residents (**Table 7.2**). Net domestic borrowing by the end of the first quarter of FY 2020/21 was above target by KSh 16.2 billion while net external borrowing was below target by KSh 14.5 billion.

Table 7.2 Domestic financing to September 2020

	FY 2018/19	FY 2019/20						FY 2020/21		
	Q4	Q1	Q2	Q3			Q4			Q1
	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
1. From CBK	13.6	8.3	10.0	73.7	72.0	(36.5)	50.3	(93.2)	(86.1)	(116.7)
2. From commercial banks	126.9	13.2	80.2	155.2	190.5	201.4	235.4	88.2	123.3	152.1
4. From Non-banks	160.3	57.8	78.1	134.9	145.4	167.7	165.8	42.5	137.1	154.2
5. From Non-Residents	2.8	1.5	2.6	3.6	5.3	4.7	5.2	0.7	0.9	1.0
Change in Credit from banks (From 30th June 2020)	140.5	21.5	90.2	228.9	262.5	164.9	285.7	(5.0)	37.2	35.4
Change in Credit from non-banks (From 30th June 2020)	160.3	57.8	78.1	134.9	145.4	167.7	165.8	42.5	137.1	154.2
Change in Credit from non-residents (From 30th June 2020)	2.8	1.5	2.6	3.6	5.3	4.7	5.2	0.7	0.9	1.0
6. Total Change in Dom. Credit (From 30th June 2020)	303.7	80.8	170.9	367.4	413.2	337.3	456.1	38.1	175.2	190.6

NB: Treasury Bills are reflected at cost

Source: The National Treasury

Outlook for FY 2020/21

In the revised Budget estimates from the National Treasury for the FY 2020/21, total revenue is projected at KSh 1,949.5 billion (17.3 percent of GDP) while external grants are projected at KSh 56.8 billion. Government expenditure is projected at KSh 2,790.6 billion (24.7 percent of GDP), of which KSh 1,826.7 billion will be for recurrent expenses, KSh 589.7 billion for development expenses and KSh

369.2 billion for transfers to County Governments.

The overall budget deficit including grants is, therefore, projected at KSh 841.1 billion (7.5 percent of GDP) in 2020/21, to be financed through net external borrowing of KSh 346.8 billion and net domestic borrowing of KSh 494.4 billion (**Table 7.3**).

Table 7.3: Budget estimates for the fiscal year 2020/21 (Ksh Billions)

	Ksh (Billions)	% of GDP
1. TOTAL REVENUE (Including Grants)	1,949.5	17.3
Total Revenue	1,633.8	14.49
Appropriations-in-Aid	258.9	2.30
External Grants	56.8	0.50
2. TOTAL EXPENSES & NET LENDING	2,790.6	24.7
Recurrent Expenses	1,826.7	16.20
Development Expenses	589.7	5.23
County Transfer	369.2	3.27
Contingency Fund	5.0	0.04
3. DEFICIT INCL. GRANTS (1-2)	-841.1	-7.5
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	841.1	7.5
Domestic (Net)	494.4	4.38
External (Net)	346.8	3.08

Source: The National Treasury, 2020/21 Revised Budget Estimates

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 6.4 percent during the first quarter of the FY 2020/21. Domestic and external debt increased by 8.8 percent and 4.2 percent, respectively. Consequently, the ratio of public debt to GDP increased by 2.6 percentage points to 68.5 percent during the quarter. The ratios of domestic and external debt to GDP increased by 2.0 percentage points and 0.6 percentage points, respectively (**Table 8.1**)⁵.

Table 8.1 Kenya's public and publicly guaranteed debt

	2019/20							
	Q1	Q2	Q3	Q4	Jul-20	Aug-20	Q1	Change Q on Q
EXTERNAL								
Bilateral	1,001.8	1,023.8	1,075.9	1,074.3	1,086.4	1,101.8	1,102.9	28.6
Multilateral	1,024.1	1,037.5	1,060.6	1,321.6	1,410.7	1,423.2	1,421.8	100.2
Commercial Banks	1,068.7	1,028.7	1,058.8	1,102.3	1,123.6	1,123.4	1,120.8	18.5
Supplier Credits	17.2	16.8	17.3	17.6	17.8	17.9	18.0	0.3
Sub-Total	3,111.8	3,106.8	3,212.6	3,515.8	3,638.5	3,666.3	3,663.5	147.7
(As a % of GDP)	32.8	31.9	32.2	34.6	35.0	35.3	35.2	
(As a % of total debt)	52.1	51.4	51.1	52.5	52.6	51.9	51.4	
DOMESTIC								
Banks	1,535.5	1,607.4	1,677.0	1,752.1	1,801.9	1,878.6	1,915.4	163.3
Central Bank	120.5	116.0	106.4	98.9	51.2	94.5	107.4	8.5
Commercial Banks	1,415.0	1,491.4	1,570.6	1,653.2	1,750.8	1,784.1	1,808.0	154.8
Non-banks	1,291.5	1,304.1	1,363.3	1,392.3	1,437.8	1,489.9	1,507.6	115.3
Pension Funds	819.8	841.3	891.4	923.1	958.4	996.9	986.2	63.1
Insurance Companies	183.1	189.0	193.6	192.2	202.5	207.6	212.8	20.6
Other Non-bank Sources	288.6	273.9	278.3	277.0	276.8	285.4	308.6	31.6
Non-residents	29.6	30.6	31.6	33.2	33.8	34.0	34.1	1.0
Sub-Total	2,856.6	2,942.1	3,070.2	3,177.0	3,273.6	3,402.5	3,457.1	280.1
(As a % of GDP)	30.1	30.2	30.8	31.3	31.5	32.7	33.3	
(As a % of total debt)	47.9	48.6	48.9	47.5	47.4	48.1	48.6	
GRAND TOTAL	5,968.4	6,048.9	6,282.8	6,692.8	6,912.1	7,068.8	7,120.6	427.8
(As a % of GDP)	63.0	62.1	63.0	65.9	66.5	68.0	68.5	

Source: The National Treasury and CBK

Domestic Debt

The 8.8 percent increase in domestic debt was majorly on account of increased uptake of Government securities. The share of domestic debt to total debt increased by 1.1 percentage points to 48.6 percent by the end of the first quarter of the FY 2020/21. The proportion of debt securities to total

domestic debt decreased by 0.1 percentage points as the proportion of Government overdraft at the Central Bank increased during the quarter under review (**Table 8.2**).

⁵ The quarterly analysis is based on the Fiscal year quarters; Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Table 8.2: Government gross domestic debt (KSh Billions)

	Ksh (Billion)							Change:Q on Q		Propotions (%)						
	2019/20				2020/21					2019/20				2020/21		
	Q1	Q2	Q3	Q4	Jul-20	Aug-20	Q1	Ksh(Bn)	%	Q1	Q2	Q3	Q4	Jul-20	Aug-20	Q1
Total Stock of Domestic Debt (A+B)	2,856.6	2,942.1	3,070.2	3,177.0	3,273.6	3,402.5	3,457.1	280.1	8.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	2,757.7	2,853.6	2,992.6	3,106.6	3,248.5	3,334.6	3,377.0	270.4	8.7	96.5	97.0	97.5	97.8	99.2	98.0	97.7
1. Treasury Bills (excluding Repo Bills)	928.9	878.9	902.3	887.1	950.7	916.3	894.7	7.6	0.9	32.5	29.9	29.4	27.9	29.0	26.9	25.9
Banking institutions	576.8	570.3	597.0	587.7	648.3	607.1	601.2	13.5	2.3	20.2	19.4	19.4	18.5	19.8	17.8	17.4
The Central Bank	20.6	20.6	20.6	20.6	20.6	20.6	20.6	0.0	0.0	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Commercial Banks	556.2	549.7	576.4	567.1	627.7	586.6	580.6	13.5	2.4	19.5	18.7	18.8	17.9	19.2	17.2	16.8
Pension Funds	165.2	143.3	153.2	161.0	169.9	174.4	156.2	-4.8	-3.0	5.8	4.9	5.0	5.1	5.2	5.1	4.5
Insurance Companies	18.9	17.7	10.1	7.6	7.6	7.3	6.0	-1.6	-21.4	0.7	0.6	0.3	0.2	0.2	0.2	0.2
Others	168.0	147.6	142.0	130.8	124.8	127.4	131.4	0.5	0.4	5.9	5.0	4.6	4.1	3.8	3.7	3.8
2. Treasury Bonds	1,828.8	1,974.7	2,090.3	2,219.4	2,297.8	2,418.3	2,482.2	262.8	11.8	64.0	67.1	68.1	69.9	70.2	71.1	71.8
Banking institutions	864.8	948.7	1,000.8	1,093.5	1,128.6	1,203.7	1,234.1	140.6	12.9	30.3	32.2	32.6	34.4	34.5	35.4	35.7
The Central Bank	9.4	9.4	9.4	9.4	9.4	9.4	9.4	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Commercial Banks	855.4	939.3	991.4	1,084.1	1,119.2	1,194.2	1,224.7	140.6	13.0	29.9	31.9	32.3	34.1	34.2	35.1	35.4
Insurance Companies	164.2	171.2	183.5	184.6	194.9	200.3	206.8	22.3	12.1	5.7	5.8	6.0	5.8	6.0	5.9	6.0
Pension Funds	654.7	698.0	738.3	762.1	788.6	822.5	830.0	67.9	8.9	22.9	23.7	24.0	24.0	24.1	24.2	24.0
Others	145.1	156.8	167.8	179.3	185.8	191.9	211.3	32.0	17.9	5.1	5.3	5.5	5.6	5.7	5.6	6.1
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	22.2	22.2	22.2	21.7	21.7	21.7	21.7	0.0	0.0	0.8	0.8	0.7	0.7	0.7	0.6	0.6
Of which: Repo T/Bills	21.1	21.1	21.1	20.5	20.5	20.5	20.5	0.0	0.0	0.7	0.7	0.7	0.6	0.6	0.6	0.6
B. Others:	76.7	66.2	55.4	48.7	3.4	46.2	58.5	9.7	20.0	2.7	2.3	1.8	1.5	0.1	1.4	1.7
Of which CBK overdraft to Government	68.2	63.7	54.2	47.1	0.0	43.4	56.2	9.1	19.2	2.4	2.2	1.8	1.5	0.0	1.3	1.6

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos), recorded 0.9 percent increase during the first quarter of the FY 2020/21. Conversely, the proportion of Treasury bills to total domestic debt decreased by 2.0 percentage points during the period under review. Commercial banks continued to dominate the Treasury bills market with their holdings increasing to 64.9 percent from 63.9 percent in the previous quarter. Other significant holders of Treasury bills included; pension funds (17.5 percent) and parastatals-included in other holders (11.6 percent) (Table 8.2).

Treasury Bonds

Treasury bond holdings increased by 11.8 percent during the first quarter of the FY 2020/21, which was higher than the 6.2 percent increase in the previous quarter (Table 8.2). The largest component of this build up was attributable to proceeds from the 15-year fixed rate Treasury bond issued during the quarter and two reopens of the same tenor issued in 2010 and 2019 (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 almost half of the outstanding Treasury Bonds.

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

		KShs (Billions)							Change Q on Q		Proportions						
		2019/20				2020/21					2019/20				2020/21		
		Q1	Q2	Q3	Q4	Jul-20	Aug-20	Q1	Kshs(Bn)	%	Q1	Q2	Q3	Q4	Jul-20	Aug-20	Q1
Treasury bills	91-Day	58.7	35.3	32.8	51.4	108.0	117.8	119.3	67.8	131.8	2.1	1.2	1.1	1.6	3.3	3.5	3.4
	182-Day	108.8	78.1	95.9	120.5	135.1	118.7	120.5	0.0	0.0	3.8	2.7	3.1	3.8	4.1	3.5	3.5
	364-Day	761.4	765.6	771.9	715.2	707.5	679.8	655.0	-60.2	-8.4	26.7	26.0	25.1	22.5	21.6	20.0	18.9
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	37.4	37.4	37.4	37.4	37.4	37.4	37.4	0.0	0.0	1.3	1.3	1.2	1.2	1.1	1.1	1.1
	3-Year	1.0	1.0	1.0	0.9	0.9	0.9	0.0	-0.9	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	0.1	0.1	0.1
	5-Year	269.5	298.0	342.8	357.9	366.7	366.7	366.7	8.8	2.5	9.4	10.1	11.2	11.3	11.2	10.8	10.6
	6-Year	8.5	8.5	8.5	28.7	28.7	28.7	28.7	0.0	0.0	0.3	0.3	0.3	0.9	0.9	0.8	0.8
	7-Year	50.1	50.1	50.1	50.1	50.1	50.1	50.1	0.0	0.0	1.8	1.7	1.6	1.6	1.5	1.5	1.5
	8-Year	19.3	19.3	19.3	19.3	19.3	19.3	19.3	0.0	0.0	0.7	0.7	0.6	0.6	0.6	0.6	0.6
	9-Year	55.3	55.3	55.3	134.3	134.3	134.3	134.3	0.0	0.0	1.9	1.9	1.8	4.2	4.1	3.9	3.9
	10-Year	404.8	441.2	460.5	474.0	494.1	494.1	494.1	20.1	4.2	14.2	15.0	15.0	14.9	15.1	14.5	14.3
	11-Year	8.8	8.8	8.8	8.8	8.8	89.1	89.1	80.2	908.0	0.3	0.3	0.3	0.3	0.3	2.6	2.6
	12-Year	115.4	115.4	115.4	116.8	116.8	116.8	116.8	0.0	0.0	4.0	3.9	3.8	3.7	3.6	3.4	3.4
	15-Year	588.0	597.3	602.5	602.5	651.0	651.9	708.3	105.8	17.6	20.6	20.3	19.6	19.0	19.9	19.2	20.5
	16-Year	0.0	71.7	71.7	71.7	71.7	71.7	71.7	0.0	0.0	0.0	2.4	2.3	2.3	2.2	2.1	2.1
	20-Year	195.5	195.5	203.8	203.8	203.8	244.0	252.4	48.6	23.9	6.8	6.6	6.6	6.4	6.2	7.2	7.3
	25-Year	42.2	42.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	1.5	1.4	2.6	2.5	2.5	2.4	2.3
30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	
	Repo T bills	21.1	21.1	21.1	20.5	20.5	20.5	20.5	0.0	0.0	0.7	0.7	0.7	0.6	0.6	0.6	0.6
	Overdraft	68.2	63.7	54.2	47.1	0.0	43.4	56.2	9.1	19.2	2.4	2.2	1.8	1.5	0.0	1.3	1.6
	Other Domestic debt	9.7	3.7	4.0	2.7	5.4	4.0	3.4	0.7	25.2	0.3	0.1	0.1	0.1	0.2	0.1	0.1
Total Debt		2,856.6	2,942.1	3,070.2	3,177.0	3,273.6	3,402.5	3,457.1	280.1	8.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

The Government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at a ratio of 73.5: 26.5 Treasury bonds to Treasury bills, surpassing the Public Debt Management Office medium term target of 70:30 Treasury bonds: bills ratio. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 74.9 percent of the total outstanding Treasury Bonds, representing a 0.6 percentage points decrease from the previous quarter. Nevertheless, the refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 25.9 percent from 27.9 percent in June 2020.

External Debt

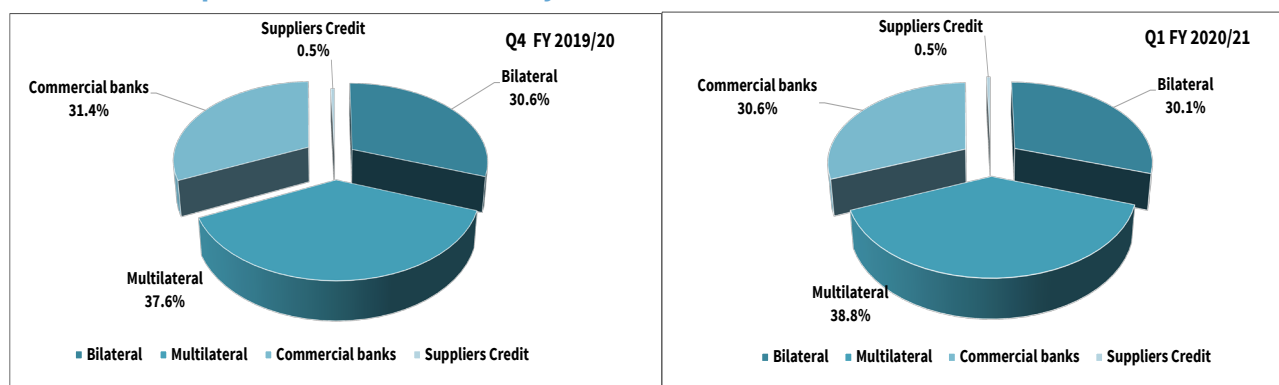
Public and publicly guaranteed external debt increased by 4.2 percent during the first quarter of the FY 2020/21. This increase was driven by the USD 404.5 million and USD 250 million net disbursements

from International Development Association (IDA) and African Development Bank, respectively. These resources from Kenya's international development partners were advanced to cushion the economy against the impact of the COVID-19 pandemic. Foreign exchange risk on external debt remained relatively low (1.9 percent shilling depreciation against the US dollar) despite the ongoing COVID-19 pandemic.

Composition of External Debt by Creditor

The composition of external debt improved with increased flow of international development assistance in the form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 1.2 percentage points to 38.8 percent from 37.6 percent held in the previous quarter. The proportion of bilateral and commercial debt decreased by 0.5 and 0.8 percentage points, respectively, during the first quarter of FY 2020/21 (**Chart 8.1**).

Chart 8.1: Composition of external debt by lender classification

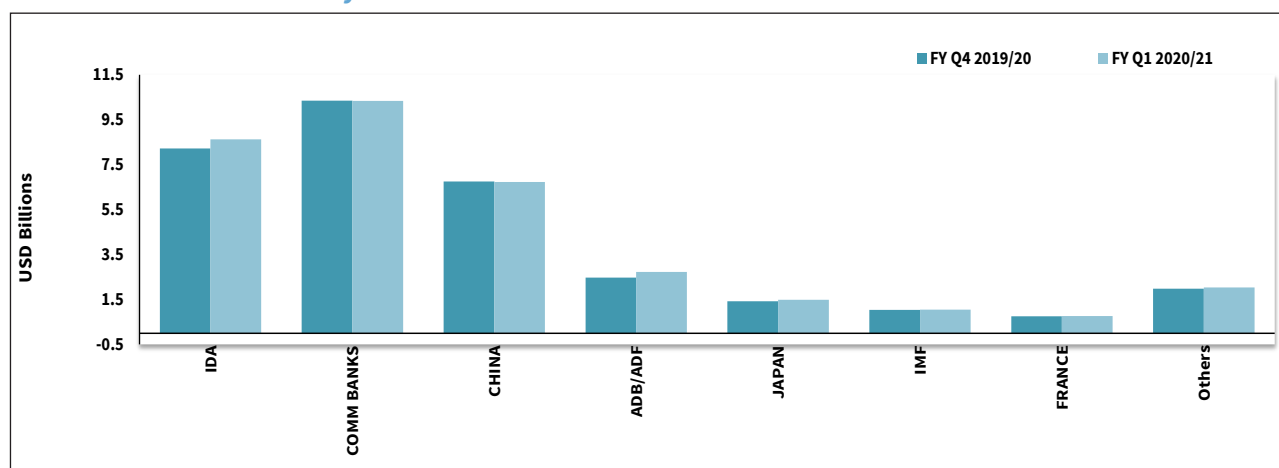


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender rose to USD 8.6 billion (or 25.5 percent of external debt) from USD 8.2 billion in the previous quarter.

Debt owed to China, Kenya's largest bilateral lender, amounted to USD 6.7 billion, or 19.9 percent of the total external debt in the first quarter of the FY 2020/21 (**Chart 8.2**).

Chart 8.2: External debt by creditor



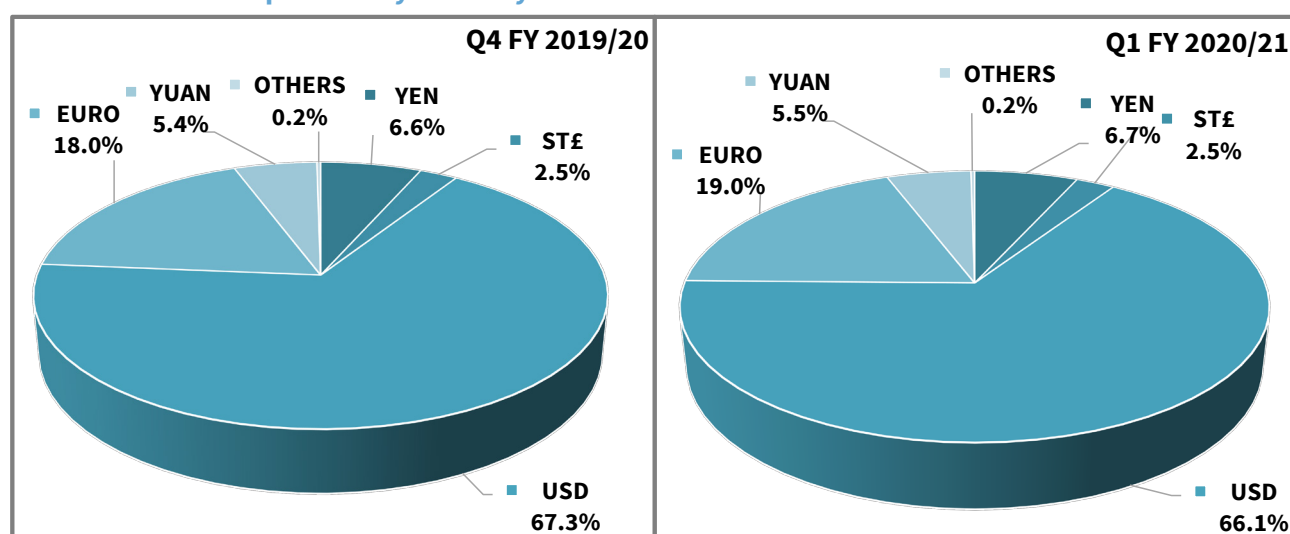
Source: The National Treasury

Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies are the US dollar and the Euro, which accounted for 85.1 percent of the total currency

composition at the end of the first quarter of the FY 2020/21. The proportion held in Euro increased by 1.0 percentage points on account of Euro denominated disbursements from the African Development Bank and IDA (**Chart 8.3**).

Chart 8.3: Debt composition by currency



Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to revenues was 21.4 percent during the first quarter of the FY 2020/21. The largest component of domestic interest payments was coupon interest on Treasury bonds, which was consistent with the proportion of debt held in Treasury bonds. External debt service for the first quarter of FY 2020/21

amounted to KSh 81.5 billion. Liquidity indicators of external indebtedness improved and were below the composite indicator thresholds (21 percent of exports and 23 percent of revenues) indicating an improvement in debt dynamics indicators as compared to the previous quarter (**Table 8.4**).

Table 8.4: External debt sustainability indicators

	Q1 FY 2019/20	Q2 FY 2019/20	Q3 FY 2019/20	Q4 FY 2019/20	Q1 FY 2020/21
Debt service to Revenues (23%)	12.6	10.1	15.9	13.6	12.3
Debt service to Exports (21%)	19.2	18.7	21.5	20.8	19.0

Source: Central Bank of Kenya and The National Treasury

Debt Sustainability Analysis

The IMF Debt Sustainability Analysis (DSA) done in April 2020 classified Kenya's public debt as sustainable but having a high risk of debt distress. This was a downgrade from the classification of moderate risk of debt distress in February 2020. The revision is largely attributed to the economic slowdown associated with the COVID-19 pandemic. There were breaches on present value of debt-to-exports ratio and debt service-to-exports ratio

indicators in both the baseline and under standard stress test scenarios and an additional one-off breach of the debt service to revenue ratio under the stress scenario. The results of the DSA suggest that Kenya is susceptible to export and market financing shocks. In addition, more prolonged and protracted shocks to the economy would present downside risks to the debt outlook.

⁶Debt service ratios to flow resource bases such as revenues and exports are liquidity indicators of the level of indebtedness.

Chapter 9

Capital Markets

The overall equity market activity improved during the third quarter of 2020 compared to the second quarter of 2020. The NASI index, market capitalization and the number of shares traded

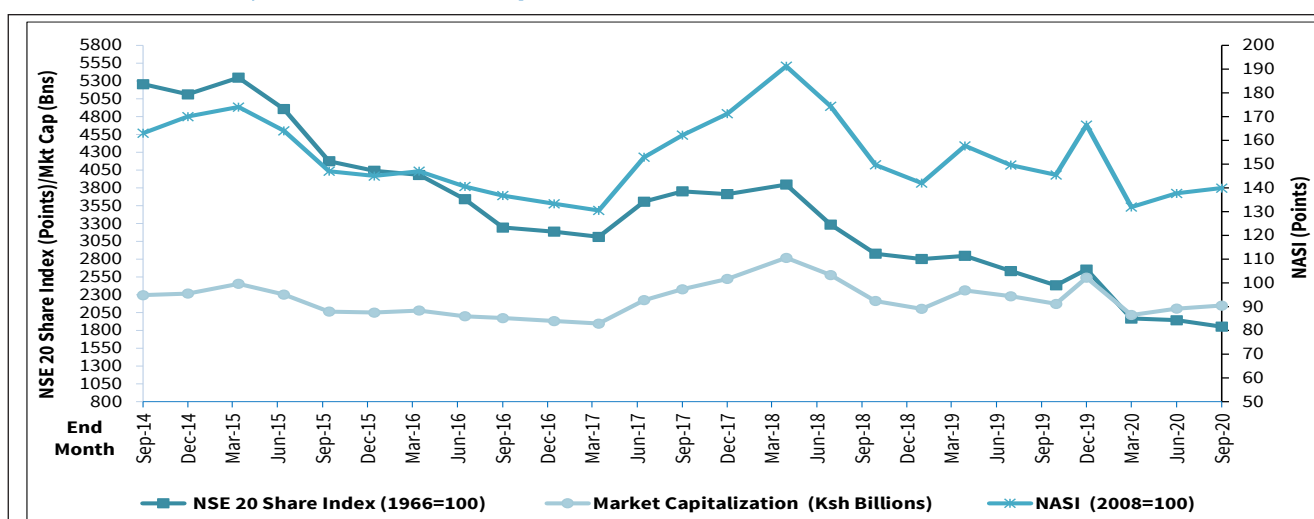
rose by 1.6 percent, 2.0 percent and 6.4 percent, respectively. However, the NSE 20 share price index and equity turnover declined by 4.6 percent and 4.0 percent, respectively (**Table 9.1 and Chart 9.1**).

Table 9.1: Selected stock market indicators

INDICATOR	2019				2020			% CHANGE (2020Q3-2020Q2)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
NSE 20 Share Index (1966=100)	2846.4	2633.3	2432.0	2654.4	1966.1	1942.1	1852.3	-4.63
NASI (2008=100)	157.66	149.61	145.46	166.41	131.92	137.68	139.89	1.61
Number of Shares Traded (Millions)	1,396.7	1,081.6	1,063.8	1,290	1,360	1,422	1,512	6.35
Equities Turnover (KSh Millions)	45,248.8	32,897.2	30,663.2	45,006	43,693	39,534	37,937	-4.04
Market Capitalization (KSh Billions)	2,361	2,279	2,172	2,540	2,016	2,105	2,148	2.01
Foreign Purchase (KSh Millions)	35,039	23,896	20,115	27,615	21,046	20,429	23,290	14.00
Foreign Sales (KSh Millions)	34,438	22,538	19,853	28,459	32,229	30,679	27,817	-9.33
Ave. Foreign Investor Participation to Equity Turnover (%)	74.90	71.10	65.65	73.84	60.96	64.64	67.36	4.21
Bond Turnover (KSh Millions)	158,069	201,715	185,440	106,458	157,985	136,651	227,862	66.75
FTSE NSE Kenya Govt. Bond Index (Points)	96.48	97.30	98.56	97.50	96.00	96.65	97.69	1.08
5-Year Eurobond Yield (%)	5.26	5.02						
7-Year Eurobond Yield (%)		6.41	6.41	7.27	8.78	7.30	7.44	0.14*
10-Year Eurobond Yield (%) -2024	6.28	5.48	5.57	6.43	8.26	6.48	6.37	-0.11*
10-Year Eurobond Yield (%) -2028	7.11	6.78	6.68	7.75	8.57	7.51	7.49	-0.02*
12-Year Eurobond Yield (%)		6.78	7.40	8.28	9.08	8.21	8.19	-0.02*
30-Year Eurobond Yield (%) -2048	8.15	7.89	8.07	8.84	9.03	8.41	8.67	0.26*

Source: Nairobi Security Exchange

Chart 9.1: NSE 20, NASI and market capitalization



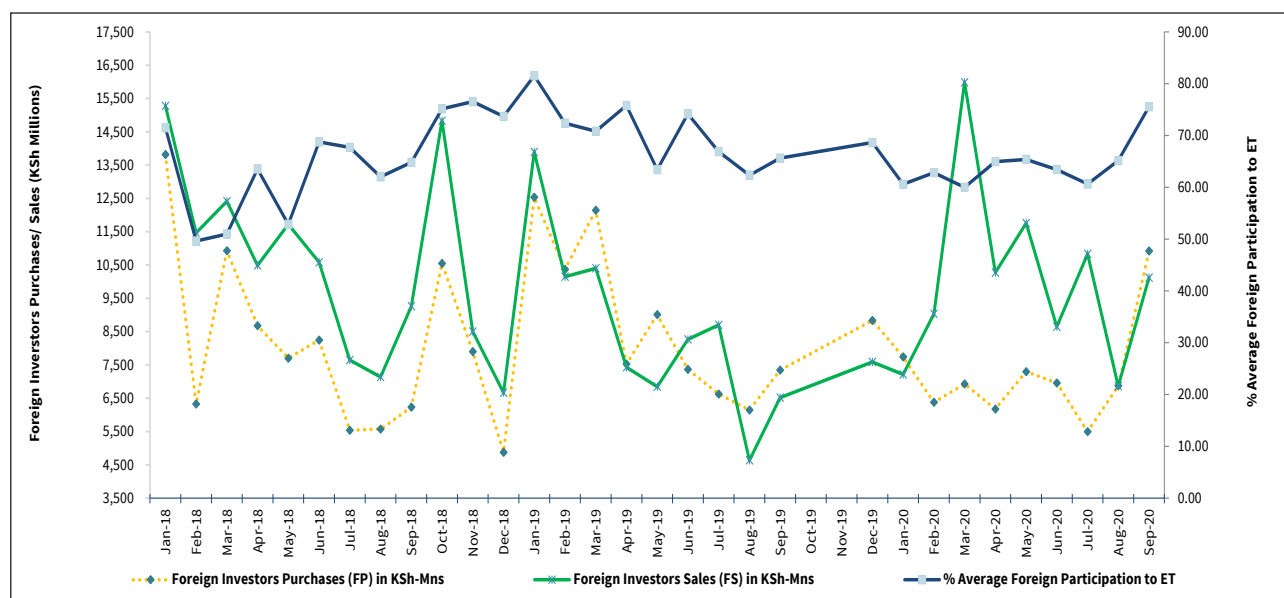
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of foreign investors' equities purchases at the Nairobi Securities Exchange (NSE) rose by 14.0 percent against the 9.3 percent decrease in the value of equity sold by foreign investors in the third quarter of 2020. Average net foreign investors' participation at the NSE as a proportion

to total equity turnover, rose to 67.4 percent in the similar period under review. There was, however, net foreign investor outflows as sales exceeded purchases in the period under review (**Table 9.1 and Chart 9.2**).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Bonds Market

The volume of bonds traded on the domestic secondary market increased by 66.8 percent in the third quarter of 2020 compared to the second quarter of 2020. The FTSE NSE Kenyan Government Bond Index rose by 1.1 percent in the third quarter of

2020, reflecting an increase in market yields. In the international market, yields on Kenya's Eurobonds rose by an average of 5.0 basis points during the quarter under review (**Table 9.1**).

Chapter 10

Statement of Financial Position of the Central Bank of Kenya

(Kenya Shilling Million)

		2020			Absolute Quarterly Changes (KSh Million)			Quarterly Growth Rates (%)		
		Mar	Jun	Sept	Q3,2020	Q2,2020	Q1,2020	Q3,2020	Q2,2020	Q1,2020
1.0	ASSETS									
1.1	Reserves and Gold Holdings	897,100	1,094,504	977,457	(117,047)	197,404	(35,858)	(10.7)	22.0	(3.8)
1.2	Funds Held with IMF	4,541	3,256	8,588	5,332	(1,286)	(1,433)	163.8	(28.3)	(24.0)
1.21	Investment in Equity (Swift Shares)	9	10	10	1	0	0	5.6	4.1	1.8
1.3	Items in the Course of Collection	9	21	17	(4)	12	4	(18.8)	140.6	74.9
1.4	Advances to Commercial Banks	55,053	55,561	84,011	28,450	508	(212)	51.2	0.9	(0.4)
1.5	Loans and Other Advances	3,368	82,976	86,105	3,130	79,607	(66)	3.8	2,363.3	(1.9)
1.6	Other Assets	14,014	5,265	4,842	(423)	(8,748)	9,472	(8.0)	(62.4)	208.5
1.7	Retirement Benefit Asset	4,329	6,538	6,538		2,209	-	-	51.0	-
1.8	Property and Equipment	29,918	31,840	31,212	(628)	1,921	297	(2.0)	6.4	1
1.81	Intangible Assets	1,044	1,224	1,226	2	180	158	0.1	17.3	17.9
1.9	Due from Government of Kenya	76,688	68,933	77,433	8,501	(7,755)	(9,477)	12.3	(10.1)	(11.0)
	TOTAL ASSETS	1,086,073	1,350,126	1,277,438	(72,688)	264,053	(37,116)	(5.4)	24.3	(3.3)
2.0	LIABILITIES									
2.1	Currency in Circulation	246,779	257,792	268,121	10,329	11,013	(12,166)	4.0	4.5	(4.7)
2.2	Investments by Banks -Repos					-	-			
2.3	Deposits	570,199	732,187	630,200	(101,987)	161,988	(52,288)	(13.9)	28.4	(8.4)
2.4	International Monetary Fund	75,821	151,841	155,967	4,126	76,021	187	2.7	100.3	0.2
2.5	Other Liabilities	7,175	5,274	5,635	362	(1,901)	1,837	6.9	(26.5)	34.4
	TOTAL LIABILITIES	899,974	1,154,091	1,059,924	(94,167)	254,117	(62,430)	(8.2)	28.2	(6.5)
3.0	EQUITY AND RESERVES	186,100	196,035	217,514	21,479	9,935	25,314	11.0	5.3	15.7
	Share Capital	35,000	35,000	35,000		-	-	-	-	-
	General reserve fund	90,299	94,627	128,219	33,592	4,329	41,523	35.5	4.8	85.1
	Period surplus/(Deficit)	24,218	33,592	23,979	(9,613)	9,374	17,927	(28.6)	38.7	284.9
	Asset Revaluation	17,801	17,801	17,801		-	-	-	-	-
	Fair Value Reserves - OCI	7,066	12,515	12,515	(0)	5,449	-	(0.0)	77.1	-
	Retirement Benefit Asset Reserves	4,329				(4,329)	-		(100.0)	-
	Consolidated Fund	7,388	2,500		(2,500)	(4,888)	7,388	(100.0)	(66.2)	
4	TOTAL LIABILITIES AND EQUITY	1,086,073	1,350,126	1,277,438	(72,687)	264,053	(37,116)	(5.4)	24.3	(3.3)

Chapter 11

Notes on the Financial Position of the CBK

Assets

The Central Bank of Kenya (CBK) balance sheet decreased by 5.4 percent in the third quarter of 2020, largely reflecting a decline in Reserve and gold holdings. The decline in Reserve and gold holdings, which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank, largely reflects Government external debt service and central bank operations. Loans and other advances include advances to commercial banks, Overnight Loan Facility (OLF), and IMF funds on-lent to Government.

Debt due from Government, which comprises Government utilization of the overdraft facility at the Central Bank and overdrawn accounts that were converted to a long-term debt with effect from 1 November 1997, increased in the third quarter of

2020, partly reflecting increased utilization of the overdraft facility at the Central Bank. Funds held with the IMF increased in the third quarter of 2020 while other assets declined slightly.

Liabilities

On the liability side, the decline in the Central Bank's balance sheet was largely reflected in deposits, which decreased by KSh 102 billion in the third quarter of 2020, mainly due to reduction of Government deposits. Other liabilities items increased in the third quarter, including currency in circulation, but at lower rate compared to the second quarter.

Growth in equity and reserves increased to 11.0 percent in the third quarter of 2020 compared to an increase of 5.3 percent in the second quarter of 2020.



Central Bank of Kenya

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