



**Central Bank of Kenya**

# Quarterly Economic Review

April-June 2022





## CONTENTS

Highlights.....	3
Chapter 1: Inflation.....	4
Chapter 2: Economic Performance.....	7
Chapter 3: Developments in Money, Credit and Interest Rates.....	11
Chapter 4: Global Economy.....	16
Chapter 5: Balance of Payments and Exchange Rates.....	18
Chapter 6: Banking Sector.....	24
Chapter 7: Government Budgetary Performance.....	30
Chapter 8: Developments in Public Debt.....	34
Chapter 9: Capital Markets.....	39
Chapter 10: Statement of Financial Position of the Central Bank of Kenya.....	41

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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 remained elevated during the quarter under review driven by supply side factors that drove food and energy prices upwards. It increased to 7.2 percent in the second quarter of 2022 from 5.3 percent in the previous quarter. Non-food Non-fuel (NFNF) inflation remained low, reflecting muted demand pressures in the economy.

The economy sustained strong growth momentum in the first quarter of 2022. It grew by 6.8 percent compared to 2.7 percent in a similar quarter of 2021. The strong performance was supported by continued recovery in manufacturing, construction, transport and storage, education, accommodation and food services, and wholesale and retail trade. The agriculture sector contracted by 0.7 percent compared to growth of 0.4 percent in a similar quarter of 2021, mainly on account of unfavorable weather conditions.

Growth in broad money supply (M3) increased to 5.2 percent in the second quarter of 2022 compared to a decline of 0.3 percent in the first quarter of 2022, mainly reflecting growth in deposits.

The global economy is projected to slow down to 3.2 percent in 2022 and moderate to 2.9 percent in 2023, down from 6.1 percent in 2021, reflecting the adverse effects of the war in Ukraine, concerns over China's increased cases of COVID-19 infections, supply chain challenges, and reduced fiscal support in the advanced and emerging economies.

The current account balance is estimated to have widened to USD 1,588 million in the second quarter of 2022 from USD 1,462 million in the second quarter of 2021, reflecting increased imports amid robust growth in the receipts from merchandise goods, services, and remittances. Secondary income inflows were boosted by remittances, which increased to USD 1,028 million in the second quarter of 2022 from USD 941 million in a similar quarter of 2021.

The banking sector remained stable and resilient in the second quarter of 2022. Total assets increased by 2.4 percent to KSh 6,249.7 billion in June 2022, from KSh 6,103.0 billion in March 2022. The deposit base also increased by 3.3 percent to KSh 4,616.3 billion in the second quarter of 2022, from KSh 4,466.7 billion in the first quarter of 2022. The sector was well capitalized with capital adequacy ratio of 18.8 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the second quarter of 2022, with quarterly profit before tax of KSh 62.6 billion.

The Government's budgetary operations at the end of the fourth quarter of FY 2021/22 resulted in a deficit (including grants) of 6.1 percent of GDP. Revenue collection remained below target, as was the case with expenditure.

Kenya's public and publicly guaranteed debt increased by 2.2 percent during the fourth quarter of the FY 2021/22. Domestic and external debt increased by 2.3 percent and 2.0 percent, respectively.

The overall equity market activity declined in the second quarter of 2022 compared to the first quarter of 2022. The NSE 20 and NASI share price indices declined by 12.7 percent and 20.1 percent. Moreover, the market capitalization and equity turnover declined by 20.1 percent and 5.8 percent. However, the total number of shares traded increased by 15.6 percent.

## Chapter 1

# Inflation

### Overview

Overall inflation remained elevated during the quarter driven by supply side factors that drove food and energy prices upwards. It increased to 7.2 percent from 5.3 percent in the previous quarter. Food prices increased, on account of unfavorable weather conditions and global supply chain disruptions further exacerbated by the Russia-Ukraine conflict. Despite continued government

interventions to stabilize pump prices, fuel prices increased due to elevated international oil prices arising from higher demand and the Russia-Ukraine conflict. Non-food Non-fuel (NFNF) inflation remained low at 2.7 percent compared to 2.1 percent in the previous quarter, reflective of muted demand pressures in the economy (**Table 1.1 and Chart 1.1**).

**Table 1.1: Recent trends in inflation (percent)**

	2021					2022				
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Overall inflation	5.3	5.8	6.0	6.7	6.0	5.3	7.2	6.5	7.1	7.9
Food Inflation	6.3	7.0	7.3	10.1	9.9	9.2	12.8	12.1	12.4	13.8
Fuel Inflation	11.5	13.9	14.2	10.8	10.1	6.8	9.2	8.5	9.0	10.0
Non-Food-Non-Fuel (NFNF) Inflation	2.5	2.3	2.5	2.7	2.0	2.1	2.7	2.5	2.6	2.9
Annual Average Inflation*	5.5	5.0	5.2	5.7	6.1	6.1	6.2	6.1	6.2	6.3
Three Months Annualised Inflation	8.6	9.4	6.1	2.8	5.8	6.7	13.6	12.4	14.1	14.3

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

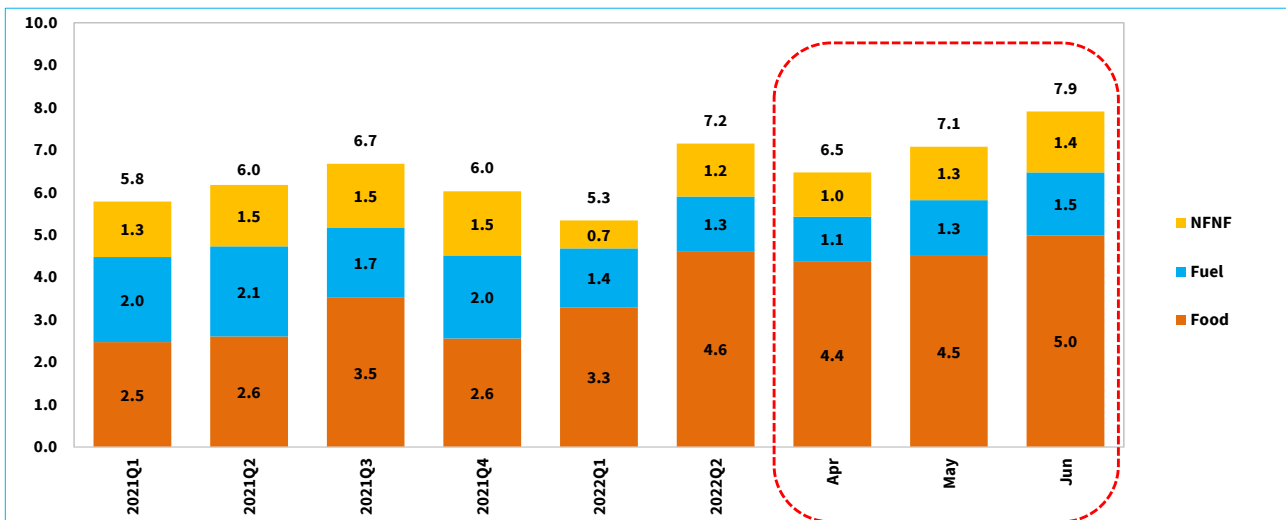
The contributions of all the broad categories to overall inflation increased during the quarter under review. The food component increased to 4.6 percentage points from 3.3 percentage points in the previous quarter, the fuel component increased to 1.3 percentage points from 1.0 percentage points, and Non-food Non-fuel component increased to 1.2 percentage points from 1.0 percentage points (**Chart 1.1**).

### Food Inflation

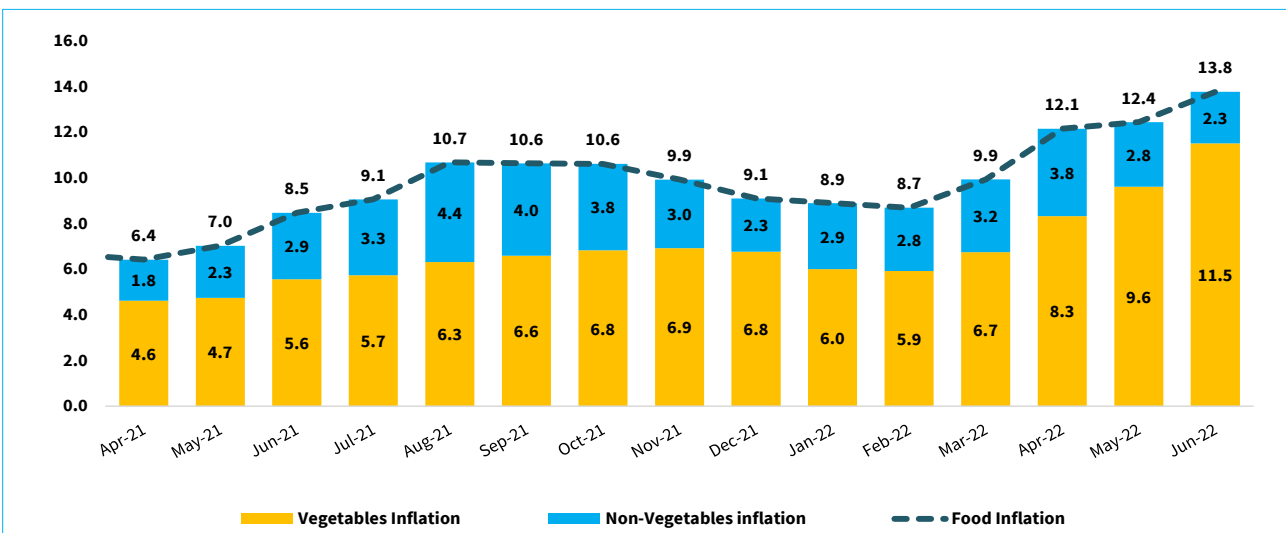
Food inflation increased to 12.8 percent in the second quarter of 2022 from 9.2 percent in the previous quarter, on account of unfavorable

weather conditions which affected agricultural production. Vegetables inflation continued to be the dominant driver of food inflation. Its contribution to food inflation increased, reflected in higher prices of most vegetables. Similarly, the contribution of non-vegetables inflation increased during the quarter, mainly driven by higher prices of selected items. Prices of milk and maize products increased significantly during the quarter, as supply was affected by poor rainfall. In addition, prices of wheat flour and cooking oil/fat increased due to higher international wheat and vegetable oil prices, respectively. This was occasioned by supply constraints that were further exacerbated by the ongoing Russia-Ukraine war (**Chart 1.2**).



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

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

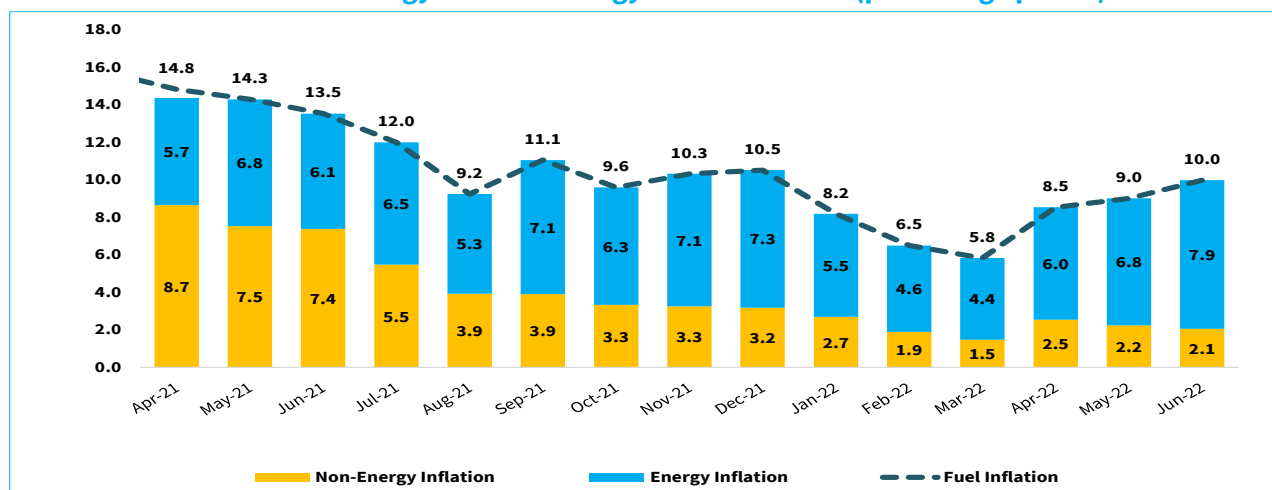
**Chart 1.2: Food inflation by category (percent)**

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

## Fuel Inflation

Fuel inflation increased to 9.2 percent from 6.8 percent in the previous quarter, despite continued government interventions to stabilize energy prices. The increase was mainly due to elevated international oil prices and the uncertainties surrounding the Russia-Ukraine conflict. Energy inflation was the main driver of fuel inflation. Its contribution increased as higher energy prices

led to a significant increase in energy inflation. However, electricity prices remained stable in the quarter under review, in line with the government recommendations to reduce electricity prices by 15 percent. On the other hand, the contribution of non-energy items remained relatively stable during the quarter under review, supported by stable fares (**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

**Non-Food Non-Fuel Inflation (NFNF)**

Non-food Non-fuel (NFNF) inflation remained low, reflecting muted demand pressures in the economy. It increased to 2.7 percent compared to 2.1 percent

in the previous quarter, with all categories recording increases except 'Insurance and Financial Services' and 'Health' (**Table 1.2**).

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

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2021	Q1	2.7	2.3	0.8	3.4	4.3	0.9	2.8	2.0	4.5	1.6	2.3	2.3
	Q2	2.4	2.2	1.2	3.9	4.3	1.4	1.9	2.3	4.1	1.8	3.2	2.5
	Q3	2.9	2.8	1.5	4.8	3.6	2.9	1.2	1.9	3.5	2.1	3.2	2.7
	Q4	3.5	2.1	1.7	4.2	1.5	2.5	1.2	1.5	0.7	0.9	2.9	2.0
	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
2022	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Apr	3.8	2.2	2.4	7.1	1.2	2.5	1.3	1.0	2.2	0.5	2.7	2.5
	May	3.6	2.1	2.3	7.9	1.0	2.4	2.9	1.0	2.2	0.3	3.0	2.6
	Jun	3.6	2.2	2.4	9.2	0.9	2.4	3.1	1.1	3.0	0.5	3.6	2.9

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



## Chapter 2

# Economic Performance

### Overview

The economy sustained strong growth momentum in the first quarter of 2022. It grew by 6.8 percent compared to 2.7 percent in a similar quarter of 2021. The strong performance was supported by continued recovery in manufacturing, construction, transport and storage, education, accommodation and food services, financial and insurance services, and wholesale and retail trade sectors. The agriculture sector contracted by 0.7 percent compared to a growth of 0.4 percent in a similar quarter of 2021, following unfavorable weather conditions during the quarter (**Table 2.1**).

### Non-Agriculture

The Non-Agriculture sector remained the main driver of growth in the first quarter of 2022, growing by 8.7 percent, compared to 3.2 percent in a similar quarter of 2021, and contributed 7.1 percentage points to real GDP growth (**Table 2.1 and Chart 2.1**).

a) **Services sector** growth remained strong during the quarter under review expanding by 9.2 percent compared to 3.1 percent in a similar quarter of 2021 and contributed 5.1 percentage points to real GDP growth. The strong growth was witnessed across all services sectors.

- **Transport and Storage sector** rebounded and grew by 8.1 percent compared to a contraction of 7.9 percent in a similar quarter of 2021, supported by further easing of domestic and international travel restrictions. The improved performance was reflected in increased passenger and freight transport by SGR, which increased by 12.7 percent and 8.6 percent, respectively, during the quarter.
- **Accommodation and Food services sector** rebounded strongly and grew by 56.2 percent compared to a contraction of 33.0 percent in a similar quarter of 2021. Activity in the sector

continues to normalize following further easing of domestic and international restrictions. This was reflected in higher tourist arrivals through JKIA and MIA airports by 85.1 percent compared to the same quarter of 2021.

- **Wholesale and Retail Trade sector** growth was strong at 8.7 percent compared to 7.5 percent in a similar quarter of 2021. Growth was supported by pickup in activity in related sectors.
- **Information and Communication sector** expanded by 6.1 percent compared to 10.1 percent in a similar quarter of 2021. Activity in the sector remained strong, reflecting increased digitalization of the economy.
- **Financial and Insurance sector** recorded strong growth of 14.4 percent compared to 11.8 percent growth in the same quarter of 2021, reflecting increased growth of credit to the private sector.

b) **Industry** activity remained buoyant during the quarter growing by 5.5 percent compared to 4.3 percent in the same quarter of 2021, and contributed 1.0 percentage points to real GDP growth (**Table 2.3**).

- **Manufacturing sector** growth remained strong at 3.7 percent compared to 2.1 percent in the same quarter of 2021, as activity in both food and non-food subsectors increased. The food subsector grew by 6.4 percent, mainly supported by increased processing of coffee. The non-food subsector also increased, supported by production of cement which increased by 30.1 percent.
- **Construction sector** growth was strong at 6.4 percent compared to 6.8 percent in the same quarter of 2021, supported by continued Government investment in infrastructure projects, reflected in a 25.8 percent increase in cement consumption and increased imports of inputs such as iron and steel.

## Agriculture

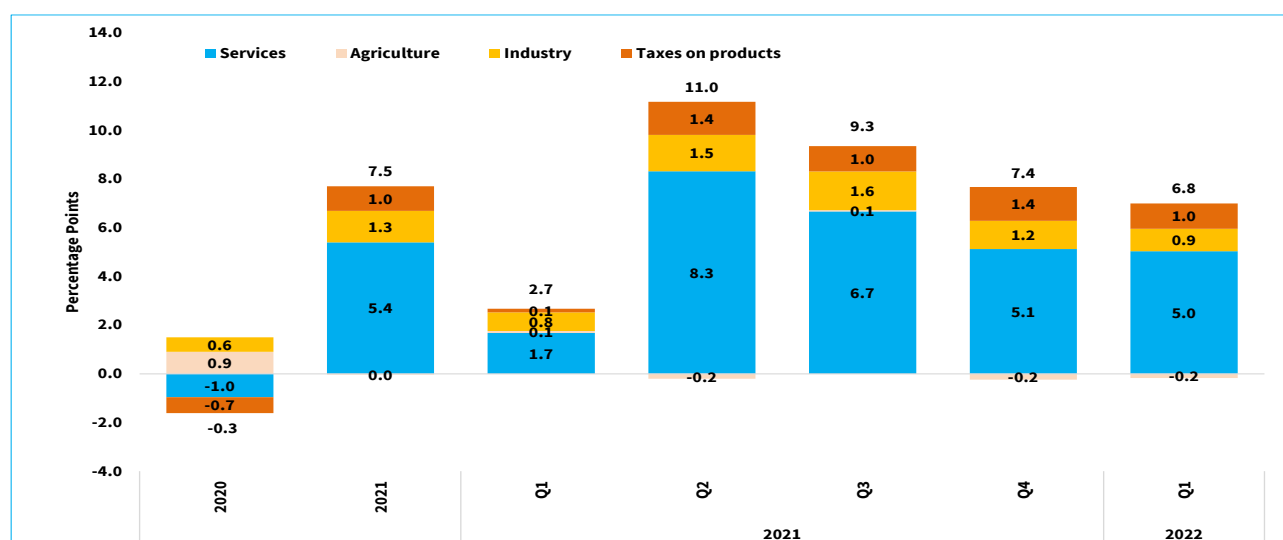
The agriculture sector contracted by 0.7 percent compared to a growth of 0.4 percent in the same quarter of 2021. Activity in the sector remained subdued following inadequate rains last year and

delayed onset of rains during the quarter under review which adversely affected production. Contribution of the sector to overall GDP growth stood at -0.1 percentage points during the quarter under review (**Table 2.1 and Chart 2.1**).

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

	Annual		2021				2022
	2020	2021	Q1	Q2	Q3	Q4	Q1
1. Agriculture	4.6	-0.2	0.4	-0.5	0.6	-1.2	-0.7
2.1 Industry	3.3	7.2	4.3	9.2	8.8	6.6	5.5
Mining & Quarrying	5.5	18.0	10.7	10.9	16.4	34.5	22.1
Manufacturing	-0.4	6.9	2.1	11.3	10.2	4.9	3.7
Electricity & water supply	0.6	5.0	3.6	7.2	6.4	2.8	1.9
Construction	10.1	6.6	6.8	6.8	6.7	6.0	6.4
2.2 Services	-1.8	9.8	3.1	15.6	11.7	9.2	9.2
Wholesale & Retail Trade	-0.5	7.9	7.5	9.2	6.4	8.4	8.7
Accommodation & restaurant	-47.7	52.5	-33.0	90.1	127.5	118.6	56.2
Transport & Storage	-7.8	7.2	-7.9	18.6	14.2	6.5	8.1
Information & Communication	6.3	8.8	10.1	17.1	4.1	5.3	6.1
Financial & Insurance	5.9	12.5	11.8	17.3	11.8	9.9	14.4
Public administration	7.0	5.6	6.8	7.6	4.8	3.3	6.4
Professional, Administration & Support Services	-13.7	5.7	-13.0	18.3	13.4	8.1	14.9
Real estate	4.1	6.7	6.7	7.4	7.1	5.7	6.1
Education	-9.3	21.4	11.5	31.6	28.3	18.0	6.2
Health	5.7	6.0	5.8	6.2	4.1	7.8	5.0
Other services	-14.6	12.6	-8.4	28.8	17.7	16.8	11.1
FISIM	-1.8	5.5	4.9	2.8	5.1	8.7	6.4
2.3 Taxes on products	-8.1	11.9	1.8	18.5	12.5	15.7	12.3
Real GDP Growth	-0.3	7.5	2.7	11.0	9.3	7.4	6.8

Source: Kenya National Bureau of Statistics

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

Source: Kenya National Bureau of Statistics and CBK Staff computations

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

	Annual		2021				2022
	2020	2021	Q1	Q2	Q3	Q4	Q1
1. Agriculture	19.5	18.1	20.0	20.9	15.6	16.0	18.6
2.1 Industry	18.1	18.0	17.9	17.3	18.6	18.4	17.7
Mining & Quarrying	1.0	1.1	1.1	1.1	1.0	1.2	1.3
Manufacturing	8.6	8.6	8.6	8.4	8.7	8.7	8.3
Electricity & water supply	2.5	2.5	2.4	2.3	2.6	2.5	2.3
Construction	5.9	5.9	5.8	5.6	6.2	5.9	5.7
2.2 Services	54.2	55.3	53.7	53.9	57.2	56.5	55.0
Wholesale & Retail Trade	8.3	8.4	8.7	7.7	8.2	8.8	8.9
Accommodation & restaurant	0.6	0.9	0.6	0.8	0.9	1.1	0.9
Transport & Storage	9.5	9.5	8.9	9.4	10.3	9.3	9.1
Information & Communication	3.1	3.2	3.2	3.0	3.2	3.3	3.2
Financial & Insurance	8.3	8.6	8.0	8.3	8.8	9.4	8.6
Public administration	6.1	6.0	5.6	6.2	6.2	6.0	5.6
Professional, Administration & Support Services	2.6	2.6	2.4	2.5	2.7	2.7	2.6
Real estate	10.2	10.1	10.0	10.0	10.5	10.0	10.0
Education	4.3	4.9	5.1	4.4	4.9	5.0	5.1
Health	2.2	2.2	2.1	2.2	2.2	2.3	2.0
Other services	2.0	2.1	2.0	2.1	2.3	2.0	2.0
FISIM	-3.1	-3.1	-2.9	-2.8	-3.1	-3.5	-2.9
2.3 Taxes on products	8.2	8.5	8.3	7.9	8.6	9.1	8.7
Real GDP Growth	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

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

	Annual		2021				2022
	2020	2021	Q1	Q2	Q3	Q4	Q1
1. Agriculture	0.9	0.0	0.1	-0.1	0.1	-0.2	-0.1
2. Non-Agriculture (o/w)	-1.1	7.7	2.6	11.4	9.4	7.8	7.1
2.1 Industry	0.6	1.3	0.8	1.6	1.6	1.2	1.0
Mining & Quarrying	0.1	0.2	0.1	0.1	0.2	0.4	0.3
Manufacturing	0.0	0.6	0.2	0.9	0.9	0.4	0.3
Electricity & water supply	0.0	0.1	0.1	0.2	0.2	0.1	0.0
Construction	0.6	0.4	0.4	0.4	0.4	0.4	0.4
2.2 Services	-1.0	5.4	1.7	8.4	6.7	5.2	5.1
Wholesale & Retail Trade	0.0	0.7	0.7	0.7	0.5	0.7	0.8
Accommodation & restaurant	-0.3	0.5	-0.2	0.7	1.1	1.3	0.5
Transport & Storage	-0.7	0.7	-0.7	1.8	1.5	0.6	0.7
Information & Communication	0.2	0.3	0.3	0.5	0.1	0.2	0.2
Financial & Insurance	0.5	1.1	0.9	1.4	1.0	0.9	1.2
Public administration	0.4	0.3	0.4	0.5	0.3	0.2	0.4
Professional, Administration & Support Services	-0.4	0.1	-0.3	0.5	0.4	0.2	0.4
Real estate	0.4	0.7	0.7	0.7	0.7	0.6	0.6
Education	-0.4	1.0	0.6	1.4	1.4	0.9	0.3
Health	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Other services	-0.3	0.3	-0.2	0.6	0.4	0.3	0.2
FISIM	0.1	-0.2	-0.1	-0.1	-0.2	-0.3	-0.2
2.3 Taxes on products	-0.7	1.0	0.1	1.5	1.1	1.4	1.1
Real GDP Growth	-0.3	7.5	2.7	11.0	9.3	7.4	6.8

Source: Kenya National Bureau of Statistics and CBK Staff computations

## Chapter 3

## Developments in Money, Credit and Interest Rates

## Monetary aggregates and its components

Growth in broad money supply (M3) increased to 5.2 percent in the second quarter of 2022 compared to a decline of 0.3 percent in the previous quarter, mainly reflecting growth in deposits. Growth in deposits was mainly on account of increased corporate deposit holdings and county government deposits. The corporate deposits increased by 6.8 percent compared to a decline of 1.3 percent in the previous quarter, partly reflecting recovery in economic activities. Expansion in corporate deposits was largely recorded in demand and

foreign currency deposits category. The increase in county deposits was supported by transfers from the National government towards the end of fiscal year. Meanwhile, the household deposits increased in the second quarter of 2022, largely reflecting increases in all categories of deposits, while cash outside banks also increased marginally (**Tables 3.1 & 3.2**).

The 12-month growth in broad money supply (M3) increased to 7.3 percent in June 2022 from 4.8 percent in March 2022, largely reflecting increased credit to the private sector and net lending to government.

Table 3.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
<b>Components of M3</b>															
1. Money supply, M1 (1.1+1.2+1.3)	1779.2	1770.8	1848.1	1796.3	1903.2	3.6	-0.5	4.4	-2.8	6.0	62.5	-8.4	77.3	-51.8	106.9
1.1 Currency outside banks	225.9	234.4	253.5	248.1	251.6	0.0	3.8	8.1	-2.1	1.4	0.1	8.5	19.1	-5.4	3.5
1.2 Demand deposits	1409.9	1430.2	1498.4	1477.2	1552.0	0.3	1.4	4.8	-1.4	5.1	4.3	20.2	68.2	-21.2	74.8
1.3 Other deposits at CBK 1/	143.5	106.4	96.3	71.1	99.6	68.0	-25.8	-9.5	-26.2	40.2	58.1	-37.1	-10.1	-25.2	28.5
2. Money supply, M2 (1+2.1)	3377.5	3408.1	3431.6	3410.2	3547.9	3.9	0.9	0.7	-0.6	4.0	127.2	30.7	23.4	-21.4	137.7
2.1 Time and saving deposits	1598.2	1637.3	1583.5	1613.8	1644.7	4.2	2.4	-3.3	1.9	1.9	64.7	39.1	-53.9	30.3	30.9
3. Money supply, M3 (2+3.1)	4137.8	4177.7	4235.2	4221.2	4439.4	2.7	1.0	1.4	-0.3	5.2	107.8	39.8	57.6	-14.0	218.2
3.1 Foreign Currency Deposits	760.3	769.5	803.7	811.1	891.5	-2.5	1.2	4.4	0.9	9.9	-19.4	9.2	34.1	7.4	80.4
<b>Sources of M3</b>															
1. Net foreign assets 2/	783.8	661.9	590.1	428.1	453.2	13.4	-15.6	-10.8	-27.5	5.9	92.8	-121.9	-71.8	-162.0	25.1
Central Bank	835.8	760.8	700.6	600.8	637.9	21.0	-9.0	-7.9	-14.2	6.2	145.1	-75.0	-60.2	-99.8	37.1
Banking Institutions	-52.0	-98.9	-110.5	-172.7	-184.7	-16568.1	90.1	11.7	56.3	6.9	-52.4	-46.9	-11.6	-62.2	-12.0
2. Net domestic assets (2.1+2.2)	3354.0	3515.8	3645.1	3793.1	3986.1	0.5	4.8	3.7	4.1	5.1	15.1	161.8	129.3	148.0	193.0
2.1 Domestic credit	4392.5	4590.2	4823.0	5022.6	5196.7	0.7	4.5	5.1	4.1	3.5	31.3	197.7	232.8	199.6	174.1
2.1.1 Government (net)	1406.9	1530.1	1669.7	1758.3	1855.7	0.0	8.8	9.1	5.3	5.5	0.3	123.1	139.6	88.6	97.4
2.1.2 Private sector	2901.1	2979.3	3053.2	3177.3	3256.9	1.3	2.7	2.5	4.1	2.5	35.9	78.2	73.9	124.1	79.6
2.1.3 Other public sector	84.4	80.8	100.1	87.1	84.1	-5.5	-4.3	23.9	-13.0	-3.4	-4.9	-3.6	19.3	-13.0	-3.0
2.2 Other assets net	-1038.5	-1074.4	-1177.9	-1229.5	-1210.6	1.6	3.5	9.6	4.4	-1.5	-16.2	-35.9	-103.5	-51.6	18.9
<b>Memorandum items</b>															
4. Overall liquidity, L (3+4.1)	5899.5	6073.2	6202.3	6303.4	6626.2	2.3	2.9	2.1	1.6	5.1	183.8	174.8	128.1	101.1	322.8
4.1 Non-bank holdings of government securities	1761.7	1895.5	1967.1	2082.1	2186.8	1.3	7.6	3.8	5.8	5.0	75.9	134.9	70.5	115.0	104.7

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

**Table 3.2: Deposit holdings of corporates and household sectors**

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
1. Household Sector 1/	1738	1765	1733	1815	1896	-1.8	1.6	-1.8	4.7	4.5	-31.4	27.2	-32.7	82.2	81.2
1.1 Demand Deposits	584	581	571	637	702	-3.7	-0.5	-1.6	11.6	10.2	-22.4	-2.7	-9.6	65.6	64.7
1.2 Time and Saving Deposits	881	904	876	887	900	0.4	2.5	-3.0	1.3	1.5	3.8	22.1	-27.5	10.9	13.0
1.3 Foreign Currency Deposits	273	281	285	290	295	-4.4	2.8	1.6	1.6	1.6	-12.7	7.7	4.4	4.7	4.6
2. Corporate Sector	1976	2013	2100	2028	2125	4.1	1.9	4.3	-3.4	4.8	77.5	37.3	86.8	-72.0	97.2
2.1 Demand deposits	800	820	904	810	819	3.3	2.5	10.2	-10.4	1.1	25.6	20.3	84.0	-94.2	9.0
2.2 Time and Saving Deposits	690	706	679	699	714	3.5	2.2	-3.7	2.9	2.2	24.7	15.2	-26.1	20.0	15.3
2.3 Foreign Currency Deposits	486	487	516	519	592	-1.4	0.4	5.9	6.0	14.0	-7.0	1.7	28.9	2.9	72.9

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

Source: Central Bank of Kenya

## Sources of Broad Money

The primary source of the increase in broad money supply, M3, in the second quarter of 2022 was the growth in net domestic assets of the banking system. Increase in net domestic assets of the banking system was supported by growth in private sector credit and net lending to government. The net foreign assets of the banking system also increased marginally (**Table 3.1**).

## Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system increased to 3.5 percent in the second quarter of 2022 from 3.0 percent in the previous quarter, supported by increased net lending to government and lending to the private sector. The growth in net lending to government was partly on account of decreased government deposits at the Central Bank attributable to increased government spending towards the end of

the fiscal year. Meanwhile, lending to other public sector declined, mainly due to repayments by county governments and parastatals (**Table 3.3**).

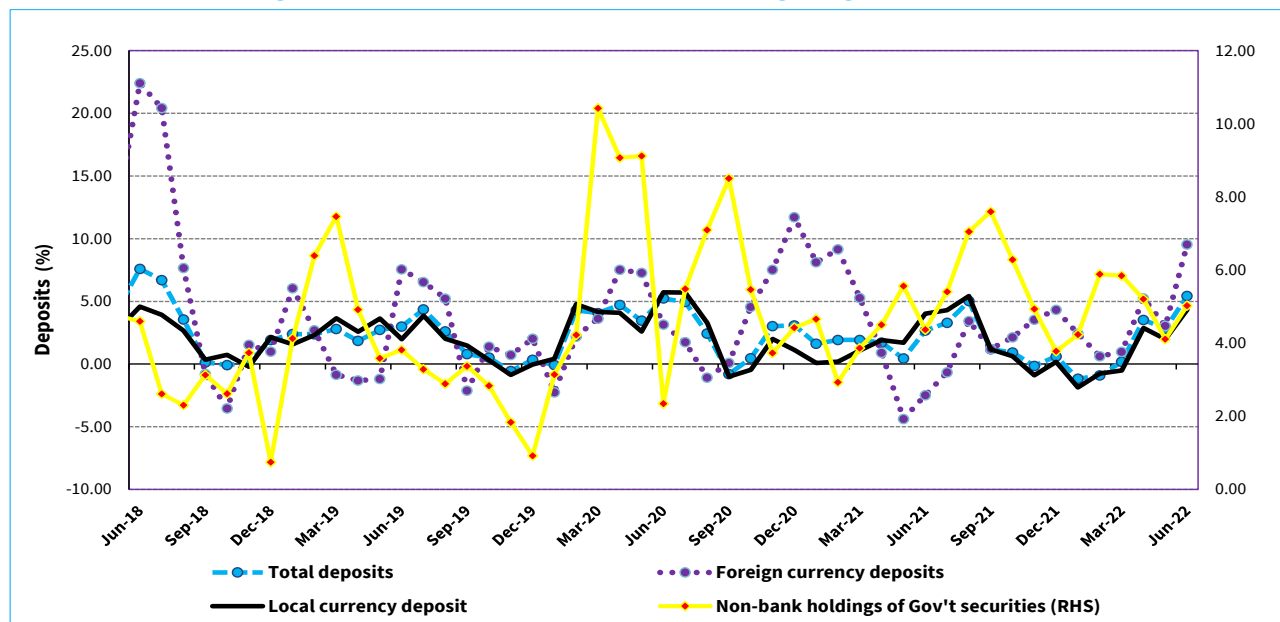
Growth in credit extended to the private sector declined to 2.5 percent in the second quarter of 2022 compared to 4.1 percent in the previous quarter. Credit growth remained positive in most of the economic sectors, with strong growth registered in manufacturing, trade and consumer durables (**Table 3.1 & 3.3**).

The 12-month growth in private sector credit increased to 12.3 percent in June 2022 from 10.9 percent in March 2022, supported by recovery in economic activities, an accommodative monetary policy and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy (**Chart 3.2**).

**Table 3.3: Banking sector net domestic credit**

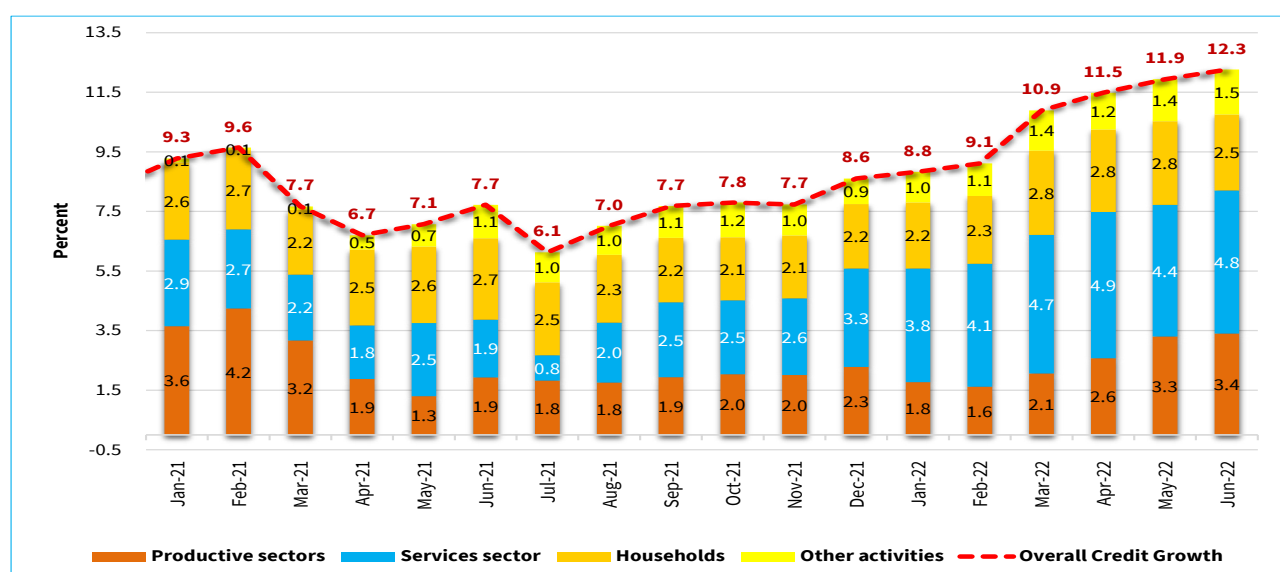
	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
1. Credit to Government	1,460.2	1,584.5	1,723.6	1,758.3	1,855.7	3.8	8.5	8.8	2.0	5.5	53.6	124.3	139.1	34.7	97.4
Central Bank	-50.3	-17.7	67.4	86.8	159.3	152.5	-64.8	-480.8	28.8	83.5	-30.4	32.6	85.1	19.4	72.5
Commercial Banks & NBFIs	1,510.5	1,602.2	1,656.1	1,671.5	1,696.4	5.9	6.1	3.4	0.9	1.5	83.9	91.7	53.9	15.4	24.9
2. Credit to other public sector	84.4	80.8	100.1	87.1	84.1	-5.5	-4.3	23.9	-13.0	-3.4	-4.9	-3.6	19.3	-13.0	-3.0
Local government	6.6	6.6	18.3	6.8	5.8	15.0	0.0	177.3	-62.8	-14.5	0.9	0.0	11.7	-11.5	-1.0
Parastatals	77.8	74.2	81.9	80.3	78.3	-6.9	-4.6	10.4	-2.0	-2.5	-5.8	-3.6	7.7	-1.6	-2.0
3. Credit to private sector	2,901.1	2,979.3	3,053.2	3,177.3	3,256.9	1.3	2.7	2.5	4.1	2.5	35.8	78.2	73.9	124.1	79.6
Agriculture	91.3	94.2	93.9	101.8	102.8	-3.4	3.2	-0.3	8.4	0.9	-3.2	2.9	-0.3	7.9	1.0
Manufacturing	429.4	445.0	463.0	471.8	494.6	0.0	3.6	4.0	1.9	4.8	0.2	15.6	18.0	8.8	22.8
Trade	498.8	509.1	526.5	542.9	556.8	1.4	2.1	3.4	3.1	2.6	6.9	10.3	17.4	16.4	13.9
Building and construction	116.5	119.8	121.9	129.8	132.8	-4.5	2.8	1.8	6.5	2.3	-5.5	3.3	2.1	7.9	3.0
Transport & communications	224.4	238.2	242.3	271.5	274.1	3.3	6.1	1.7	12.1	1.0	7.3	13.8	4.1	29.2	2.6
Finance & insurance	106.8	110.6	109.7	113.4	113.7	-2.4	3.6	-0.8	3.4	0.3	-2.6	3.8	-0.9	3.7	0.3
Real estate	411.8	413.4	409.4	410.0	414.0	0.9	0.4	-1.0	0.1	1.0	3.9	1.6	-4.0	0.6	4.0
Mining and quarrying	12.7	13.2	17.2	12.7	16.3	-5.1	3.9	30.3	-26.2	28.6	-0.7	0.5	4.0	-4.5	3.6
Private households	457.7	465.9	472.5	486.6	485.6	1.2	1.8	1.4	3.0	-0.2	5.3	8.2	6.6	14.1	-1.0
Consumer durables	312.7	321.6	335.0	346.8	358.5	4.2	2.8	4.2	3.5	3.4	12.6	8.9	13.4	11.8	11.7
Business services	162.4	168.7	175.4	187.1	187.1	-0.4	3.9	4.0	6.7	0.0	-0.7	6.3	6.7	11.7	0.0
Other activities	76.7	79.6	86.5	102.9	120.6	19.7	3.8	8.7	19.0	17.2	12.6	2.9	6.9	16.4	17.7
4. TOTAL (1+2+3)	4,445.8	4,644.6	4,876.9	5,022.6	5,196.7	1.9	4.5	5.0	3.0	3.5	84.6	198.8	232.3	145.7	174.1

Source: Central Bank of Kenya

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

Source: Central Bank of Kenya



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

Source: Central Bank of Kenya

## Reserve Money

Growth in reserve money increased to 8.9 percent in the second quarter of 2021 from a decline of 8.1 percent in the previous quarter, mainly due to increase in net domestic assets and net foreign assets of the Central Bank. The increase in net domestic assets was mainly attributable to increased net

lending to government. The increase in net foreign assets was largely due to increase in reserves supported by government receipts. The increase in reserve money was reflected in increased currency outside banks and bank reserves (**Table 3.4**).

**Table 3.4: Reserve money**

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
<b>Sources of Reserve Money</b>															
1. Net Foreign Assets	835.8	760.8	700.6	600.8	637.9	21.0	-9.0	-7.9	-14.2	6.2	145.1	-75.0	-60.2	-99.8	37.1
2. Net Domestic Assets	-386.0	-282.0	-179.0	-121.5	-116.1	61.0	-27.0	-36.5	-32.1	-4.4	-146.3	104.1	103.0	57.5	5.3
2.1 Government Borrowing (net)	-50.3	-17.7	67.4	86.8	159.3	152.3	-64.7	-480.0	28.7	83.5	-30.3	32.5	85.2	19.4	72.5
2.2 Commercial banks (net)	-6.1	48.5	76.4	89.1	61.5	-110.1	-893.3	57.6	16.6	-30.9	-66.6	54.6	27.9	12.7	-27.5
2.3 Other Domestic Assets (net)	-332.8	-315.9	-326.1	-301.0	-340.7	17.3	-5.1	3.2	-7.7	13.2	-49.2	16.9	-10.2	25.1	-39.8
<b>Components of Reserve Money</b>															
3. Reserve Money	449.8	478.8	521.6	479.3	521.8	-0.3	6.5	8.9	-8.1	8.9	-1.2	29.0	42.8	-42.3	42.4
3.1 Currency outside banks	225.9	234.4	253.5	248.1	251.6	0.0	3.8	8.1	-2.1	1.4	0.1	8.5	19.1	-5.4	3.5
3.2 Bank reserves	223.9	244.4	268.1	231.2	270.2	-0.6	9.2	9.7	-13.8	16.8	-1.2	20.5	23.7	-36.9	38.9

Source: Central Bank of Kenya

## Interest Rates

### a. Central Bank Rate

The Monetary Policy Committee (MPC) increased the Central Bank policy rate (CBR) from 7.00 percent to 7.50 percent in May 2022. The MPC noted the elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions, and concluded that there was scope for tightening of the monetary policy in order to further anchor inflation expectations.

### b. Short Term Rates

Short term interest rates remained generally stable, with only marginal increases, during the second quarter, reflecting liquidity conditions in the market. The average interbank interest rate increased marginally to 5.04 percent in June 2022

from 4.72 percent in March 2022. The average 91-day Treasury bill rate increased to 7.90 percent from 7.25 percent in March, while the average 182-day Treasury bill rate increased to 9.07 percent from 8.08 percent (**Table 3.5**).

### c. Lending and Deposit Rates

Commercial banks average lending rate remained relatively stable in the second quarter of 2022, reflecting accommodative monetary policy stance. The weighted average lending rate increased to 12.27 percent in June 2022 from 12.15 percent in March 2022 while the weighted average deposit rate increased to 6.62 percent from 6.50 percent in March 2022. Consequently, the spread remained largely unchanged at an average of 5.62 in the second quarter (**Table 3.5**).

**Table 3.5: Interest rates (percent)**

	2021								2022					
	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day Treasury bill rate	7.03	7.03	6.64	6.57	6.83	6.95	7.10	7.26	7.32	7.28	7.25	7.39	7.65	7.90
182-day Treasury bill rate	7.82	7.60	7.07	7.07	7.25	7.36	7.66	7.95	8.08	8.09	8.08	8.27	8.69	9.07
Interbank rate	5.23	4.63	4.17	3.10	4.73	5.30	4.97	5.10	4.36	4.73	4.72	4.67	4.60	5.04
Repo rate	6.12	5.37	5.31	5.41	5.54	6.40	5.03	5.31	5.09			5.00	6.38	6.80
Reverse Repo rate	7.78	-	-	-	7.62	7.45	-	8.37	8.51	8.46	8.54	8.78	8.16	8.44
Central Bank Rate (CBR)	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	7.50
Average lending rate (1)	12.05	12.02	12.09	12.12	12.10	12.12	12.15	12.16	12.12	12.17	12.15	12.20	12.22	12.27
Overdraft rate	11.61	11.18	11.44	11.38	11.34	11.33	11.41	11.48	11.57	11.63	11.50	11.69	11.76	11.86
1-5years	12.15	12.24	12.28	12.29	12.29	12.29	12.34	12.33	12.34	12.32	12.39	12.41	12.43	12.48
Over 5years	12.11	12.12	12.17	12.24	12.21	12.25	12.23	12.24	12.12	12.24	12.17	12.20	12.18	12.23
Average deposit rate (2)	6.46	6.37	6.34	6.30	6.34	6.39	6.43	6.50	6.53	6.61	6.50	6.58	6.59	6.62
0-3months	6.68	6.76	6.63	6.59	6.61	6.64	6.76	6.91	6.95	7.10	6.89	6.95	6.92	6.96
Over 3 months deposit	6.89	7.08	7.10	7.03	7.04	7.15	7.16	7.19	7.19	7.23	7.25	7.30	7.36	7.39
Savings deposits	3.48	2.55	2.51	2.64	2.57	2.58	2.60	2.55	2.55	2.56	2.48	2.56	2.52	2.50
Spread (1-2)	5.58	5.64	5.76	5.82	5.76	5.72	5.72	5.66	5.59	5.55	5.65	5.62	5.62	5.66

Source: Central Bank of Kenya

## Chapter 4

# Global Economy

According to the IMF World Economic Outlook (WEO) July 2022 update, growth of the global economy is expected at 1.7 percent in the fourth quarter of 2022 and is expected to improve to 3.2 percent in the fourth quarter of 2023. Annual global output growth is expected to slow down to 3.2 percent in 2022 and moderate at 2.9 percent in 2023, down from 6.1 percent in 2021. This represents 0.4 percentage-point downward revision for 2022 compared to the April 2022 WEO, reflecting the adverse effects of the war in Ukraine, concerns over China's increased cases of COVID-19 infections, supply chain challenges, and reduced fiscal support in the advanced and emerging economies.

Advanced economies are expected to grow by 1.3 percent and 1.5 percent in the fourth quarters of 2022 and 2023, respectively. Growth in the advanced economies is projected at 2.5 percent in 2022 and is expected to moderate to 1.4 percent in 2023, reflecting weaker economic activity in the first two quarters combined with slow growth in private consumption on account of monetary policy tightening arising from elevated inflation. However, supply-side factors of this inflation present a challenge for monetary policy.

Growth in Emerging Market and Developing Economies (EMDEs) is estimated at 2.1 percent in the fourth quarter of 2022 and to be 4.7 percent in the fourth quarter of 2023. On an annual basis, EMDEs is expected at 3.6 percent in 2022, largely affected by limited fiscal space and dependence on energy and food imports for basic consumption. The growth is anticipated to improve in 2023 to 3.9 percent. Growth in China is expected at 3.3 percent in 2022, a downgrade of 1.1 percent from the April 2022 WEO, reflecting weaker demand due to increased COVID-19 outbreaks and lockdowns. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.8 percent in 2022 and 4.0 percent in 2023. Nigeria and South Africa are expected to be the key drivers of growth in sub-Saharan Africa (**Table 4.1**).

Financial market volatility is expected to remain elevated as inflationary pressures continue to build up across major economies amid increased monetary policy tightening. Several advanced economies have experienced high inflation levels, with inflation in advanced economies and EMDEs estimated at 6.6 percent, and 9.5 percent in 2022, respectively. Global trade volumes are expected to increase by 4.1 percent in 2022 and slow to 3.2 percent in 2023, owing to lower demand for goods attributed to the war in Ukraine and the withdrawal of fiscal and monetary policy support, while cross-border trade in services (particularly tourism) are expected to remain subdued in the short term (**Table 4.1**).

Oil prices are expected to average USD 103.88 in 2022 and USD 91.07 per barrel in 2023, on account of increased supply disruptions caused by significant declines in Russia's oil exports. Metal prices are expected to rise in 2022 due to continued disruptions in metals trade with Russia and persistently high energy costs.

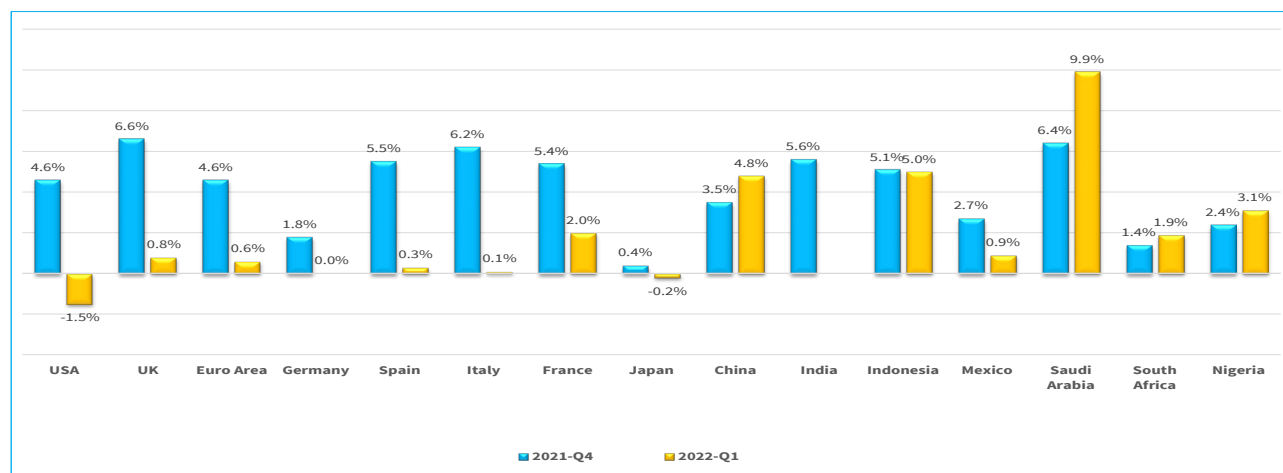
Official preliminary GDP estimates released for the second quarter of 2022 show estimated growth in the United States to have contracted by 0.9 percent, with that of United Kingdom (0.1 percent), and China (0.4 percent) slowing down due to increased geopolitical tension and restrictions associated with the COVID-19 pandemic. However, GDP estimates show accelerated growth for Euro Area (0.7 percent), Italy (1.0 percent), Spain (1.1 percent), France (0.5 percent), Germany (1.4 percent) (**Chart 4.1**).

Overall, downside risks to the global outlook remain substantial. There are risks arising from prolonged war, geopolitical tensions, the COVID-19 pandemic, and China's slowdown. Higher inflation will also necessitate more stringent monetary tightening by central banks. These tighter financial conditions will contribute to financial market volatility, and a rise in core sovereign yields.

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

	Annual Year over Year				Quarterly Q4 Over Q4		
	Actual	Estimate	Projections		Estimate	Projections	
	2020	2021	2022	2023	2021	2022	2023
World Output	-3.1	6.1	3.2	2.9	4.4	1.7	3.2
Advanced Economies	-4.5	5.2	2.5	1.4	4.7	1.3	1.5
United States	-3.4	5.7	2.3	1.0	5.5	1.0	0.6
Euro Area	-6.3	5.4	2.6	1.2	4.7	0.7	2.1
Germany	-4.6	2.9	1.2	0.8	1.8	0.5	1.5
France	-7.9	6.8	2.3	1.0	4.9	0.4	1.1
Italy	-9.0	6.6	3.0	0.7	6.4	0.6	1.6
Spain	-10.8	5.1	4.0	2.0	5.5	1.3	2.3
Japan	-4.5	1.7	1.7	1.7	0.4	2.4	0.6
United Kingdom	-9.3	7.4	3.2	0.5	6.6	0.1	1.3
Canada	-5.2	4.5	3.4	1.8	3.2	2.5	1.7
Emerging Market and Developing Economies	-2.0	6.8	3.6	3.9	4.2	2.1	4.7
China	2.2	8.1	3.3	4.6	3.5	4.1	3.2
India	-6.6	8.7	7.4	6.1	3.9	4.1	7.2
Russia	-2.7	4.7	-6.0	-3.5	4.8	-13.9	4.8
Latin America and the Caribbean	-6.9	6.9	3.0	2.0	3.9	1.8	2.1
Brazil	-3.9	4.6	1.7	1.1	1.6	1.5	1.5
Mexico	-8.1	4.8	2.4	1.2	1.2	2.9	1.0
Middle East and Central Asia	-2.9	5.8	4.8	3.5	...	...	...
Saudi Arabia	-4.1	3.2	7.6	3.7	6.7	6.9	3.7
Sub-Saharan Africa	-1.6	4.6	3.8	4.0	...	...	...
Nigeria	-1.8	3.6	3.4	3.2	2.4	2.1	2.3
South Africa	-6.3	4.9	2.3	1.4	1.8	2.2	1.7
World Trade Volume (goods and services)	-7.9	10.1	4.1	3.2	...	...	...
Commodity Oil Prices (US dollars)	-32.7	67.3	50.4	-12.3	79.2	28.6	-13.4
Consumer Prices	3.2	4.7	8.3	5.7	5.6	8.3	4.1
Advanced Economies	0.7	3.1	6.6	3.3	4.9	6.3	2.3
Emerging Market and Developing Economies	5.2	5.9	9.5	7.3	6.1	10.0	5.7

Source: IMF, World Economic Outlook, April 2022 updates

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

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

## Chapter 5

## Balance of Payments and Exchange Rates

## Overview

The current account balance is estimated to have widened to USD 1,588 million in the second quarter of 2022 from USD 1,462 million in the second quarter of 2021, reflecting increased imports amid robust growth in the receipts from merchandise

goods, services, and remittances. Secondary income inflows were boosted by remittances, which increased to USD 1,028 million in the second quarter of 2022 from USD 941 million in a similar quarter of 2021 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2021				2022*					Q2 2022-Q22021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr	May	Jun	Apr-Jun	%	%
	Q1	Q2	Q3	Q4	Q1	Q2				Change	Change
1. Overall Balance	235	-1,666	271	372	1,059	-630	245	283	-101	1,565	-94
2. Current account	-1,294	-1,462	-1,714	-1,557	-1,179	-274	-742	-572	-1,588	-125	9
Exports (fob)	1,739	1,668	1,614	1,708	1,828	603	670	697	1,970	302	18
Imports (fob)	4,357	4,187	4,561	5,065	4,724	1,561	1,814	1,753	5,128	941	22
Services: credit	1,012	988	1,152	1,707	1,859	628	544	536	1,708	720	73
Services: debit	932	958	1,042	1,187	1,269	400	461	433	1,295	337	35
Balance on goods and services	-2,537	-2,489	-2,837	-2,837	-2,307	-730	-1,062	-953	-2,744	-255	10
Primary income: credit	30	38	31	29	21	5	11	6	21	-17	-45
Primary income: debit	200	521	463	433	498	92	190	149	430	-91	-17
Balance on goods, services, and primary income	-2,707	-2,971	-3,268	-3,241	-2,784	-816	-1,241	-1,096	-3,153	-182	6
Secondary income : credit	1,425	1,544	1,602	1,701	1,622	550	506	531	1,586	42	3
o.w Remittances	848	941	979	1,015	1,024	355	340	333	1,028	88	9
Secondary income: debit	12	34	47	17	17	7	6	7	20	-14	-42
3. Capital Account	72	68	35	19	72	7	10	33	51	-18	-26
4. Financial Account	-983	-3,113	-1,654	-1,177	-1,005	-949	-456	-921	-2,326	787	-25

\* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

## Current Account Balance

The trade balance is estimated to have widened by 25 percent from a deficit of USD 2,519 million in the second quarter of 2021 to a deficit of USD 3,157 million in the second quarter of 2022, owing primarily to increased imports especially of petroleum products (**Table 5.1**). In the second quarter of 2022, the value of merchandise exports increased to USD 1,970 million from USD 1,668 million in a similar period in 2021, largely due to increased earnings from tea, chemicals, and manufactured goods despite a decline in receipts from horticulture. Tea exports increased by 16 percent in the second quarter of 2022 compared to a similar period in 2021 owing to improved tea prices

reflecting increased demand from our traditional markets. Exports of manufactured goods also increased by 28 percent in the period under review. However, earnings from horticulture declined by 11 percent. The value of merchandise imports increased by 22 percent to USD 5,128 million in the second quarter of 2022, from USD 4,187 million in a similar quarter in 2021, largely due to increased imports of petroleum products owing to high international crude oil prices. Net receipts on the services account increased by USD 383 million to USD 413 million from USD 30 million in the second quarter of 2021. Receipts from transport and travel services improved by USD 315 million and USD 71 million, respectively, as international travel continued (**Table 5.2**).

**Table 5.2: Balance on current account (USD Million)**

ITEM	2021				2022*								Q2 2022-Q2 2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar				Apr-Jun				%	%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Change	Change
CURRENT ACCOUNT	-1,294	-1,462	-1,714	-1,557	-583	-325	-271	-1,179	-274	-742	-572	-1,588	-125	9
Goods	-2,618	-2,519	-2,946	-3,357	-1,043	-861	-992	-2,897	-958	-1,144	-1,056	-3,157	-639	25
Exports (fob)	1,739	1,668	1,614	1,708	534	621	672	1,828	603	670	697	1,970	302	18
o.w Coffee	75	73	50	50	24	32	31	88	39	42	33	113	40	55
Tea	326	299	253	314	111	117	119	347	111	118	117	346	48	16
Horticulture	334	289	255	250	83	88	93	264	86	93	78	257	-32	-11
Oil products	11	13	17	14	5	6	6	17	5	7	6	19	6	46
Manufactured Goods	111	131	130	140	30	47	48	124	42	64	61	167	36	28
Raw Materials	115	96	103	120	44	36	36	116	40	45	59	144	49	51
Chemicals and Related Products (n.e.s)	116	126	147	132	34	38	56	127	55	52	51	157	32	25
Miscellaneous Man. Articles	146	181	179	169	38	60	64	163	55	59	67	181	0	0
Re-exports	193	149	145	213	56	80	84	220	56	58	96	210	60	40
Other	316	301	321	345	107	115	137	359	109	127	121	358	56	19
Imports (fob)	4,357	4,187	4,561	5,065	1,577	1,482	1,665	4,724	1,561	1,814	1,753	5,128	941	22
o.w Oil	715	778	920	1,061	320	374	443	1,137	518	598	452	1,568	790	102
Chemicals	772	750	740	842	329	234	344	906	249	264	303	815	65	9
Manufactured Goods	910	879	967	889	344	267	343	954	283	319	335	937	58	7
Machinery & Transport Equipment	1,074	1,004	1,138	1,437	318	360	332	1,010	270	328	374	972	-32	-3
Machinery	698	644	735	765	266	224	182	671	214	238	0	452	-192	-30
Transport equipment	376	360	403	672	94	108	88	290	115	136	0	250	-110	-30
Other	1,027	901	1,012	1,004	312	321	303	936	333	460	428	1,221	320	36
o.w Food	478	434	463	484	132	159	158	450	203	200	0	403	-32	-7
Services	80	30	110	520	132	238	221	590	228	82	103	413	383	1,281
Transport Services (net)	-10	-84	-83	19	3	16	0	20	59	-65	-44	-51	33	-39
Credit	338	259	336	548	168	204	267	639	243	162	169	574	315	121
Debit	349	344	418	529	164	188	267	619	185	227	213	625	282	82
Travel Services (net)	139	174	181	216	55	70	72	197	70	87	85	242	67	39
Credit	168	206	215	254	66	80	85	232	80	99	99	277	71	34
Debit	28	32	34	39	12	10	13	35	9	12	14	36	3	11
Other Services (net)	-49	-60	11	286	74	151	148	373	99	61	62	223	283	-471
Primary Income	-169	-483	-432	-404	-194	-197	-87	-478	-87	-179	-143	-409	74	-15
Credit	30	38	31	29	7	7	7	21	5	11	6	21	-17	-45
Debit	200	521	463	433	200	204	94	498	92	190	149	430	-91	-17
Secondary Income	1,413	1,509	1,554	1,684	523	495	588	1,605	543	499	524	1,566	57	4
Credit	1,425	1,544	1,602	1,701	528	500	594	1,622	550	506	531	1,586	42	3
Debit	12	34	47	17	6	6	6	17	7	6	7	20	-14	-42

\*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance narrowed by USD 74 million to a deficit of USD 409 million in the second quarter of 2022, down from a deficit of USD 483 million in the same period last year, reflecting lower interest related payments on other investments. The secondary income balance, on the other hand, increased to USD 1,566 million in the second quarter of 2022 from USD 1,509 million, owing to an increase in remittances in the second quarter of 2022. Remittances increased by 9 percent to USD 1,028 million in the second quarter of 2022 from USD 941 million in the same period in the previous year (Table 5.1 and 5.2).

## Direction of Trade

Imports from China accounted for 19 percent of total imports to Kenya making it the largest single source of imports, reflecting a 5.1 percent increase when compared to the same quarter in 2021. Imports from the UAE rose by USD 550 million, while those from Africa rose by USD 79 million to USD 553 million in the second quarter of 2022, reflecting increased imports from South Africa (Table 5.3).

**Table 5.3: Kenya's direction of trade: Imports**

IMPORTS (USD M)										Share of Imports (%)	
	2021*				2022*						
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Oct-Dec	Apr-Jun					
Country	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2021	Q2 2022
Africa	480	474	528	569	577	196	187	171	553	11	11
Of which					0						
South Africa	99	106	100	97	156	31	55	26	112	3	2
Egypt	111	111	108	115	99	32	29	36	97	3	2
Others	270	257	319	357	322	133	102	109	344	6	7
					0						
EAC	174	163	238	226	180	71	72	76	219	4	4
COMESA	283	256	244	292	252	88	84	94	266	6	5
Rest of the World	3,876	3,712	4,033	4,495	4,147	1,365	1,628	1,582	4,574	89	89
Of which									0	0	
India	457	555	707	561	546	267	204	287	758	13	15
United Arab Emirates	347	359	238	502	634	301	287	320	908	9	18
Japan	204	218	284	245	223	72	80	71	223	5	4
USA	184	148	240	195	214	66	75	49	190	4	4
United Kingdom	80	75	72	79	80	22	20	28	71	2	1
Singapore	9	14	13	56	16	4	5	3	12	0	0
Germany	107	85	129	70	67	19	25	31	74	2	1
Saudi Arabia	239	169	229	316	325	136	124	88	348	4	7
Indonesia	138	103	87	75	50	9	10	13	31	2	1
Netherlands	96	143	91	97	49	13	11	20	44	3	1
France	57	48	57	44	40	10	20	17	47	1	1
Bahrain	6	5	6	8	42	1	0	0	2	0	0
Italy	55	57	70	43	46	10	16	51	77	1	1
Others	1,895	1,734	1,811	2,203	1,814	435	750	605	1,790	41	35
Total	4,357	4,187	4,561	5,065	4,724	1,561	1,814	1,753	5,128	100	100
EU	601	565	678	514	446	111	141	196	447	13	9
China	975	945	694	1,095	987	270	342	381	993	23	19

\*Provisional

Source: Kenya Revenue Authority

In the second quarter of 2022, the value of merchandise exports to Africa was USD 767 million, accounting for 39 percent of total exports. Exports to EAC region rose mainly due to increased exports to South Sudan and Tanzania. The proportion of exports

to the EU was 20 percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 8 percent, 5 percent, 11 percent, and 6 percent, respectively (**Table 5.4**).



**Table 5.4: Kenya's direction of trade: Exports**

EXPORTS (USD M)										Share of Exports (%)	
	2021				2022*						
	Jan-Mar	Apr-Jun	Jul/Sep	Oct/Dec							
Country	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2021	Q2 2022
Africa	651	731	667	738	721	228	261	278	767	44	39
Of which											
Uganda	207	217	172	234	181	47	79	81	207	13	11
Tanzania	80	82	118	130	123	36	37	40	113	5	6
Egypt	59	44	40	50	65	18	20	22	61	3	3
Sudan	18	22	18	8	18	3	6	6	15	1	1
South Sudan	50	35	34	36	58	22	12	22	56	2	3
Somalia	25	31	36	30	30	8	9	8	26	2	1
DRC	35	117	39	34	34	10	13	14	37	7	2
Rwanda	54	61	66	97	67	28	34	31	93	4	5
Others	123	122	143	120	144	55	50	52	158	7	8
					0					0	0
EAC	407	410	412	512	442	139	168	181	488	25	25
COMESA	448	554	446	502	460	147	188	191	526	33	27
Rest of the World	1,088	937	948	970	1,107	375	409	419	1,203	56	61
Of which					0						0
United Kingdom	137	108	97	108	114	29	35	29	93	6	5
Netherlands	159	141	125	138	162	50	50	50	150	8	8
USA	125	126	158	135	135	67	58	90	215	8	11
Pakistan	127	110	102	145	148	44	40	40	124	7	6
United Arab Emirates	96	63	73	83	91	32	42	41	115	4	6
Germany	50	24	28	28	37	14	11	10	35	1	2
India	37	15	23	20	16	5	6	6	17	1	1
Afghanistan	1	1	1	2	6	3	2	4	9	0	0
Others	357	350	340	311	397	132	165	148	445	21	23
Total	1,739	1,668	1,614	1,708	1,828	603	670	697	1,970	100	100
EU	439	370	347	359	414	130	139	126	395	22	20
China	59	44	37	60	53	12	31	26	68	3	3

\*Provisional

Source: Kenya Revenue Authority

## Capital and Financial Account

Net capital account inflows were USD 51 million in the second quarter of 2022. Net financial account inflows were lower at USD 2,326 million in the second quarter of 2022, compared to net inflows of USD

3,113 million in the second quarter of 2021 (**Table 5.5**). This largely reflected reduction in portfolio investments despite a marginal improvement in other investment inflows.

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

	2021				2022*					Q1 2022-Q1 2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Apr-Jun					Absolute	%
	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Change	Change
Capital account credit	72	68	35	19	72	7	10	33	51	-18	-26
Capital account credit	72	68	35	19	72	7	10	33	51	-18	-26
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0
Financial Account	-983	-3,113	-1,654	-1,177	-1,005	-949	-456	-921	-2,326	787	-25
Direct investment: assets	-1	475	1	-7	95	-2	-2	-2	-6	-481	-101
Direct investment: liabilities	20	88	161	195	169	50	51	52	153	65	74
Portfolio investment: assets	213	282	269	262	206	67	56	26	150	-132	-47
Portfolio investment: liabilities	82	1,107	40	-68	25	-13	-35	-41	-89	-1,196	-108
Financial derivatives: net	2	-13	-10	-14	-10	7	-9	-3	-5	8	-61
Other investment: assets	407	-332	-286	316	-528	12	-229	161	-56	275	-83
Other investment: liabilities	1,501	2,329	1,428	1,608	574	996	254	1,093	2,344	14	1

\* Provisional

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 12,581 million at the end of the second quarter of 2022 from USD 14,741 million in a similar period in 2021. The official reserves held by the Central Bank constituted the bulk of the

gross reserves and increased to USD 8,495 million, equivalent to 4.9 months of import cover, while Commercial Bank reserves decreased by USD 698 million to end at USD 4,086 million at the end of second quarter of 2022 (**Table 5.6**).

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

	2021*				2022*				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun			
	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2
1. Gross Reserves	12,850	14,741	14,089	14,199	12,590	13,198	12,716	12,581	12,581
of which:									
Official	7,741	9,957	9,632	9,491	8,432	9,033	8,788	8,495	8,495
import cover*	4.7	6.1	5.9	5.6	4.9	5.2	5.1	4.9	4.9
Commercial Banks	5,109	4,784	4,457	4,708	4,158	4,164.8	3,928.1	4,085.6	4,086
2. Residents' foreign currency deposits	7,362	7,223	7,144	7,277	7,311	7,462	7,419	7,798	7,798

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

Source: Central Bank of Kenya

## Exchange Rates

The Kenya Shilling exchange rate was stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 7.9 percent against the US Dollar to exchange at an average of 116.3 in the second quarter of 2022 compared with 107.8 in a

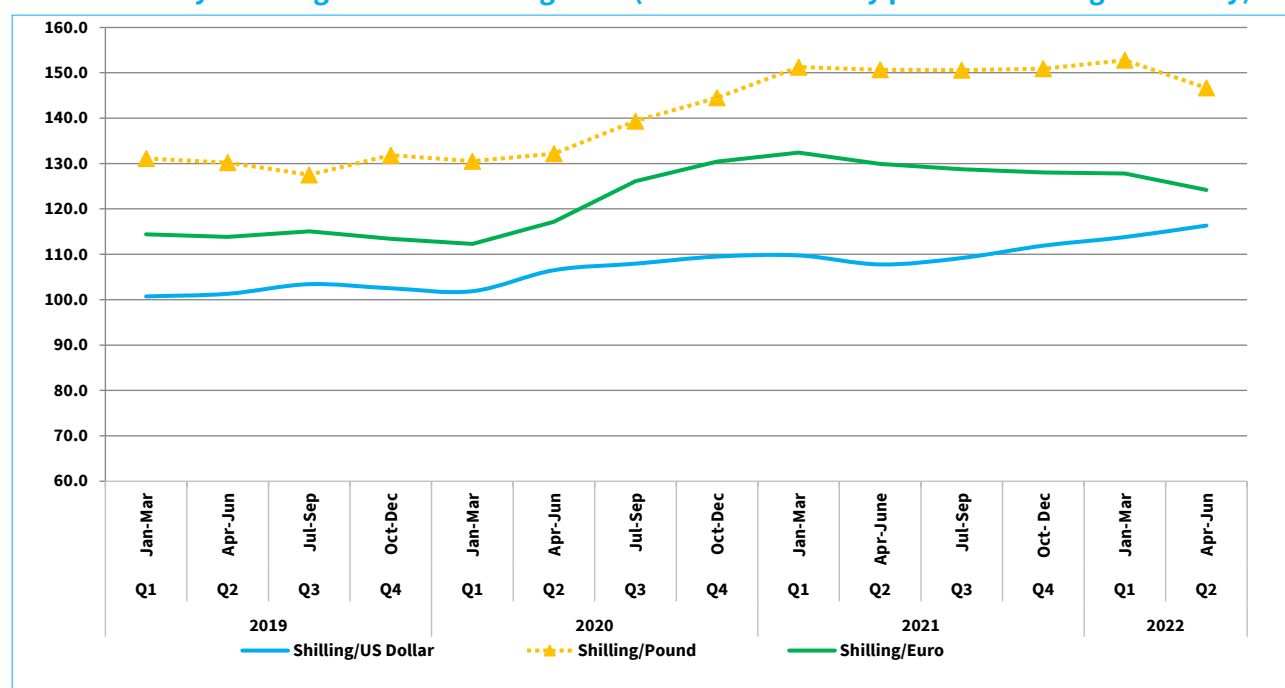
similar quarter in 2021. It however, strengthened against the Sterling Pound, the Euro, and the Japanese Yen. In the EAC region, it strengthened against most currencies during the review period (**Table 5.7 and Chart 5.1**).

**Table 5.7: Kenya Shilling exchange rate**

	2021				Apr	2022				Q2 2022- Q2 2021 % change
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar		May	Jun	Apr-Jun	Jan-Mar	
US Dollar	107.76	109.18	111.90	113.79	115.40	116.28	117.29	116.32	7.94	7.94
Pound Sterling	150.67	150.58	150.90	152.77	150.09	145.08	144.83	146.67	-2.65	-2.65
Euro	129.91	128.75	128.06	127.81	125.52	122.96	124.14	124.21	-4.39	-4.39
100 Japanese Yen	98.52	99.18	98.47	97.99	91.83	90.30	87.58	89.90	-8.75	-8.75
South Africa Rand	7.62	7.47	7.26	7.46	7.73	7.34	7.44	7.50	-1.55	-1.55
Uganda Shilling*	33.17	32.43	31.84	31.15	30.68	31.24	31.91	31.28	-5.70	-5.70
Tanzania Shilling*	21.52	21.24	20.52	20.32	20.13	20.00	19.87	20.00	-7.06	-7.06
Rwanda Franc*	9.29	9.24	9.17	9.06	8.83	8.78	8.72	8.78	-5.49	-5.49
Burundi Franc*	18.26	18.17	17.86	17.66	17.78	17.66	17.54	17.66	-3.30	-3.30

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

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

Source: Central Bank of Kenya

## Chapter 6

# Banking Sector

### Overview

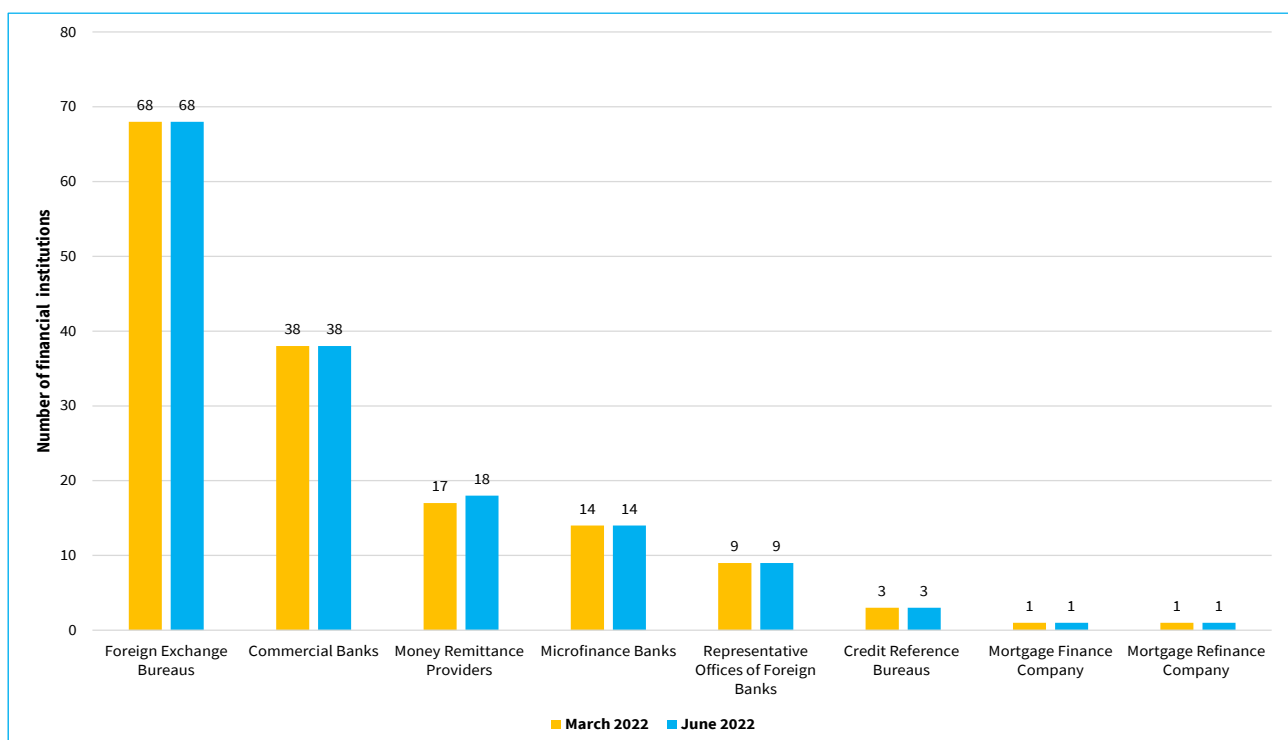
The banking sector remained stable and resilient in the second quarter of 2022. Total assets increased by 2.4 percent to KSh 6,249.7 billion in June 2022, from KSh 6,103.0 billion in March 2022. The deposit base also increased by 3.3 percent to KSh 4,616.3 billion in the second quarter of 2022, from KSh 4,466.7 billion in the first quarter of 2022. The sector was well capitalized with capital adequacy ratio of 18.8 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the second quarter of 2022, with quarterly profit before tax of KSh 62.6 billion, an increase from KSh 57.3 billion reported in the first quarter of 2022. Credit risk remained elevated with Gross Non-performing Loans (NPLs)

to Gross Loans Ratio standing at 14.7 percent at the end of the second quarter of 2022, compared to 14.0 percent at the end of first quarter of 2022.

### Structure of the Banking Sector

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

**Chart 6.1: Structure of the banking sector**



Source: Central Bank of Kenya

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

## Structure of the Balance Sheet

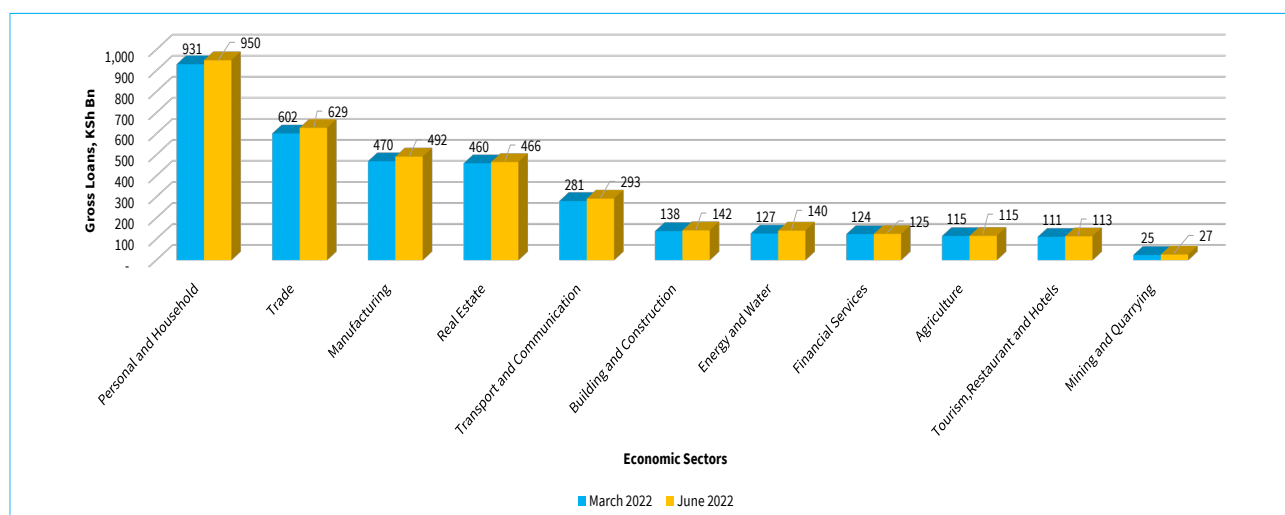
### i) Growth in banking sector assets

Total assets increased by 2.4 percent to KSh 6,249.7 billion in June 2022, from KSh 6,103.0 billion in March 2022. The increase in total assets was mainly recorded in loans and advances by KSh 114.1 billion (9.4 percent), balances at CBK by KSh 33.1 billion (15.9 percent) and other assets by KSh 25.5 billion (9.1 percent). Net loans and advances remained the main component of total assets, accounting for 50.8 percent in the second quarter of 2022, an increase from 50.2 percent recorded in the first quarter of 2022.

### ii) Loans and Advances

The banking sector loan book increased by 3.3 percent, to KSh 3,492.8 billion in the second quarter of 2022, from KSh 3,382.4 billion in the first quarter of 2022. The increase in gross loans and advances was largely witnessed in the Trade, Manufacturing, Personal and Household, Energy and Water, and Transport and Communication sectors. The increase in gross loans was mainly due to increased credit granted for working capital purposes, and loans granted to individual borrowers. The sectoral distribution of gross loans for the first and second quarters of 2022, is highlighted in **Chart 6.2**.

**Chart 6.2: Kenyan banking sector gross loans)**

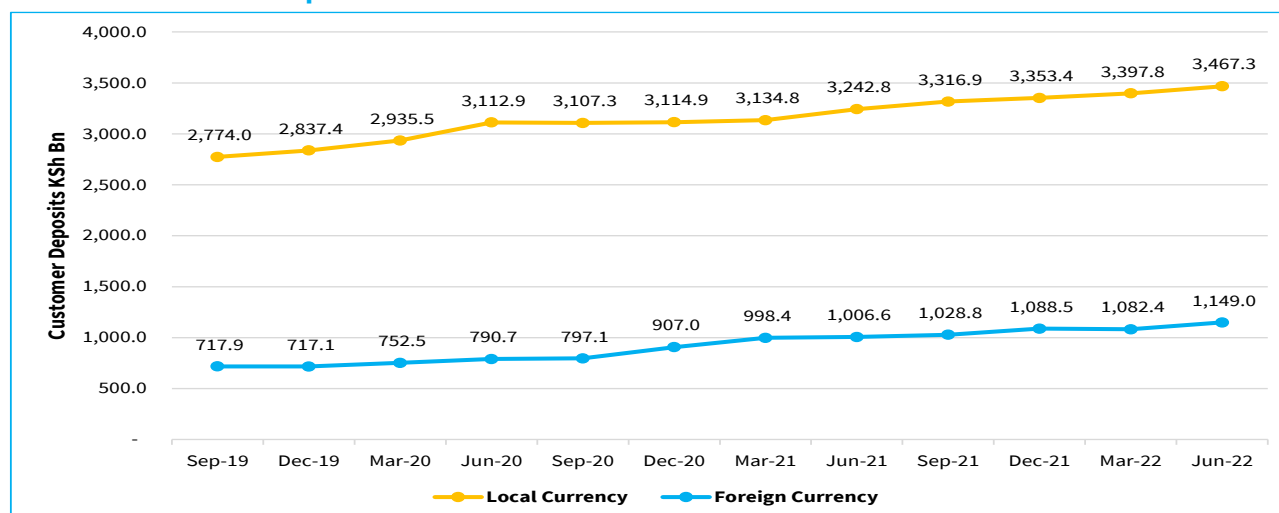


Source: Central Bank of Kenya

### iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 73.9 percent of the banking sector total liabilities and shareholders' funds as at the end of the second quarter of 2022. The customer deposit base increased by 3.3 percent to KSh 4,616.3 billion in the second quarter of 2022, from KSh 4,466.7 billion in the first quarter

of 2022. Local currency deposits increased by KSh 86.3 billion (2.6 percent) to KSh 3,467.3 billion in the second quarter of 2022, from KSh 3,381.0 billion in the first quarter of 2022. Foreign currency deposits decreased by KSh 63.3 billion (5.8 percent) to KSh 1,149.0 billion in the second quarter of 2022, from KSh 1,085.7 billion in the first quarter of 2022. **Chart 6.3** shows the trend of deposit liabilities.

**Chart 6.3: Customer deposits**

Source: Central Bank of Kenya

## Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 0.9 percent to KSh 770.4 billion in the second quarter of 2022, from KSh 763.9 billion in the first quarter of 2022. Total capital also increased by 1.3 percent to KSh 906.7 billion in the second quarter of 2022, from KSh 894.7 billion in the first quarter of 2022. The increase in capital levels are mainly attributable to increased retained profit in the second quarter of 2022. Retained profits increased by KSh 49.6 billion (54.3 percent) to KSh 91.3 billion in the second quarter of 2022.

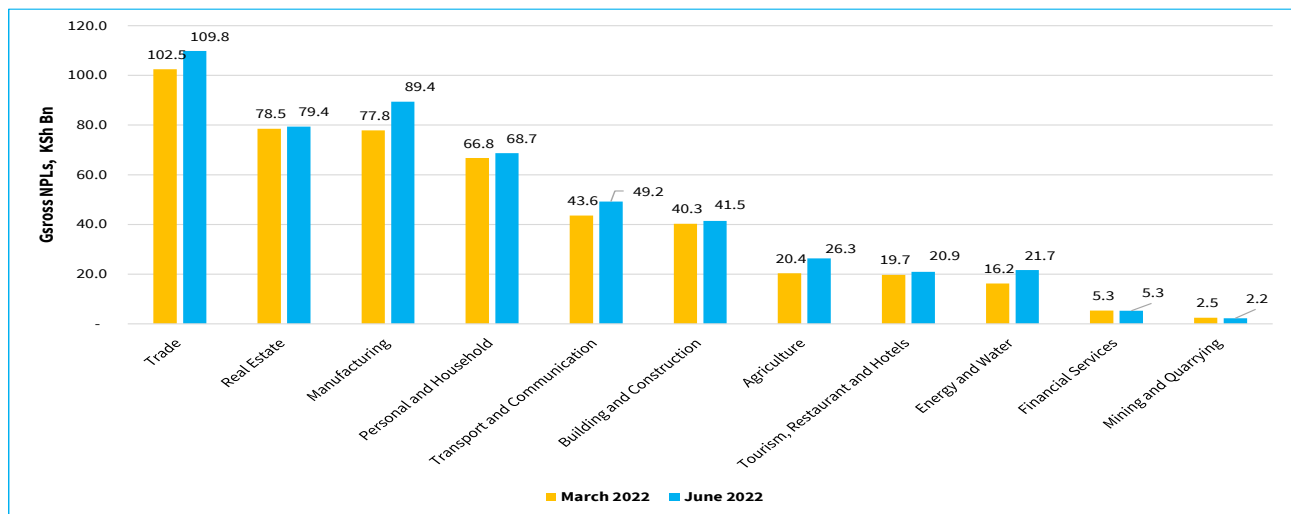
Core capital to total risk-weighted assets ratio decreased marginally from 16.2 percent in the first quarter of 2022, to 16.1 percent in the second quarter of 2022. Total capital to total risk-weighted assets ratio also decreased to 18.8 percent in the second quarter of 2022, from 18.9 percent in the first quarter of 2022. The decreased capital ratios was mainly due to lower increase in Core capital

and Total capital of 0.9 percent and 1.3 percent respectively as compared to 1.9 percent increase in Total Risk Weighted Assets.

Commercial banks maintained an adequate buffer of core capital to total deposits ratio of 16.7 percent in the second quarter of 2022, above the minimum ratio of 8 percent.

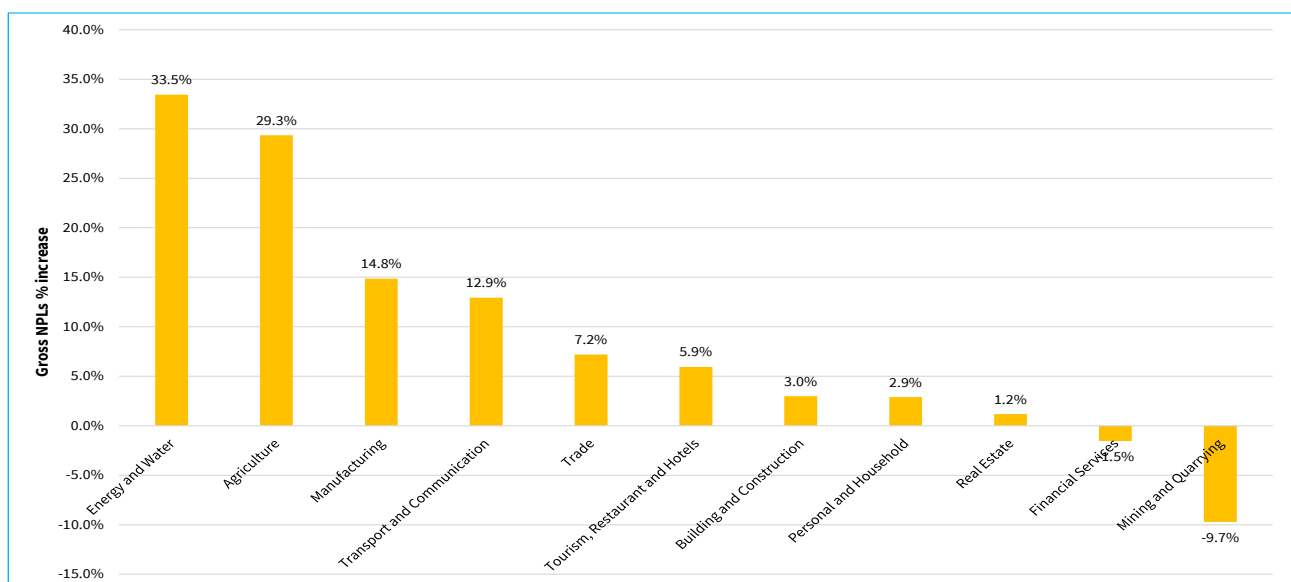
## Asset Quality

The gross non-performing loans (NPLs) increased by 8.6 percent from KSh 473.7 billion at the first quarter of 2022, to KSh 514.4 billion at the end of the second quarter of 2022. The gross NPLs to gross loans ratio increased to 14.7 percent in the second quarter of 2022, from 14.0 percent in the first quarter of 2022. This was due to a 8.6 percent increase in gross NPLs as compared to a 3.3 percent increase in gross loans. **Chart 6.4** highlights the sectoral distribution of gross NPLs.

**Chart 6.4: Kenyan banking sector gross non-performing loans**

Source: Central Bank of Kenya

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

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

Source: Central Bank of Kenya

### Building and Construction

Energy and Water sector registered the highest increase in NPLs by 33.5 percent (KSh 5.4 billion) as a result of a challenging operating environment. The other three sectors, which registered major NPLs increases are Agriculture, Manufacturing, and Transport and Communication, which increased by 29.3 percent, 14.8 percent and 12.9 percent respectively. Financial Services, and Mining and Quarrying sectors recorded decreases in NPLs, mainly due to increased recoveries.

The banking sector's asset quality, as measured

by the proportion of net non-performing loans to gross loans, deteriorated with the ratio increasing to 7.1 percent in the second quarter of 2022, from 5.9 percent in the first quarter of 2022. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased from 49.6 percent in the first quarter of 2022, to 43.3 percent in second quarter of 2022, due to an increase in total NPLs (10.1 percent) compared to a lower decrease in specific provisions (3.7 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.



**Table 6.1: Summary of asset quality**

		Mar-22	Jun-22
1.	Gross Loans and Advances (Ksh.Bn)	3,382.4	3,492.8
2.	Interest in Suspense (Ksh.Bn)	77.5	78.0
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,304.9	3,414.8
4.	Gross Non-Performing loans (Ksh.Bn)	473.7	514.4
5.	Specific Provisions (Ksh.Bn)	196.4	189.0
6.	General Provisions (Ksh.Bn)	51.0	51.5
7.	Total Provisions (5+6) (Ksh.Bn)	247.3	240.5
8.	Net Advances (3-7) (Ksh.Bn)	3,057.6	3,174.3
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	396.2	436.4
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	199.8	247.3
11.	Total NPLs to Total Advances (9/3) (%)	12.0	12.8
12.	Net NPLs to Gross Advances (10/1) (%)	5.9	7.1
13.	Specific Provisions to Total NPLs (5/9) (%)	49.6	43.3
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	14.0	14.7

Source: Central Bank of Kenya

## Profitability

The banking sector recorded an increase in quarterly pre-tax profits of KSh 5.3 billion (9.3 percent) to KSh 62.6 billion in the second quarter of 2022, from KSh 57.3 billion in the first quarter of 2022. The increase in profitability was mainly attributable to a higher increase in quarterly income by KSh 15.8 billion and a lower increase in quarterly expenses by KSh 10.6 billion.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 46.3 percent, 27.8 percent and 15.3 percent in the second quarter of 2022 as compared to 46.1 percent, 29.7 percent and 16.0 in the first quarter of 2022.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 32.1 percent, 25.6 percent and 24.0 percent of total expenses, respectively, in the second quarter of 2022, compared to 33.1 percent, 24.7 percent and 24.4 percent in the first quarter of 2022.

Return on Assets (ROA) remained at 3.0 percent in both the first and second quarters of 2022. Return on Equity (ROE) increased marginally from 25.1 percent in the first quarter of 2022, to 26.8 percent in the second quarter of 2022. The increase in ROE

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

## Liquidity

The banking sector's overall liquidity ratio decreased to 52.5 percent in the second quarter of 2022, from 55.0 percent in the first quarter of 2022. The decrease was driven by an increase in total short-term liabilities (3.7 percent) as compared to a 1.1 percent decrease in total liquid assets between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent. Balances at the CBK and Treasury bonds are the only components of liquidity that recorded increases of 29.0 percent and 2.6 percent respectively. The liquidity components that recorded major decreases are Balances with foreign banks (37.9 percent), Foreign bills and bonds (18.6 percent), and foreign coins and notes (12.9 percent).

## Outlook of the Sector

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

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

### Kenya Shilling Flows in KEPSS

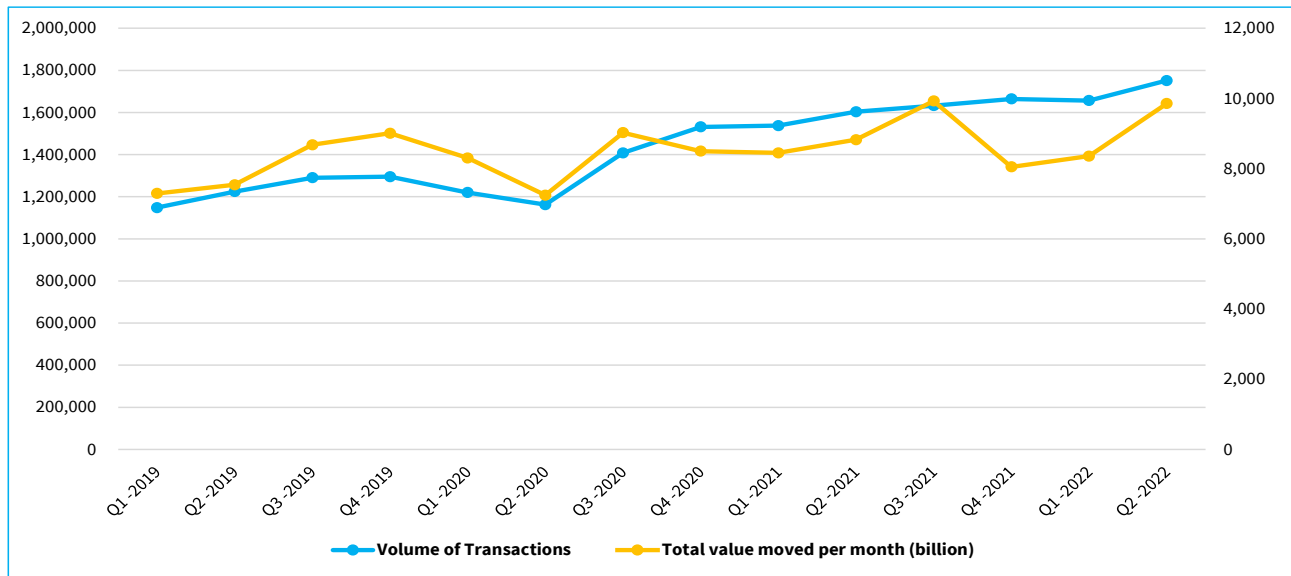
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.75 million transaction messages worth KSh 9.9 trillion in the second quarter of 2022, compared to the first quarter of 2022, which recorded 1.66 million transactions worth KSh 8.4 trillion. Volume and value 5.73% and 17.51% respectively.

Chart 6.6 below highlights recent trends in KEPSS transactions.

### System Availability

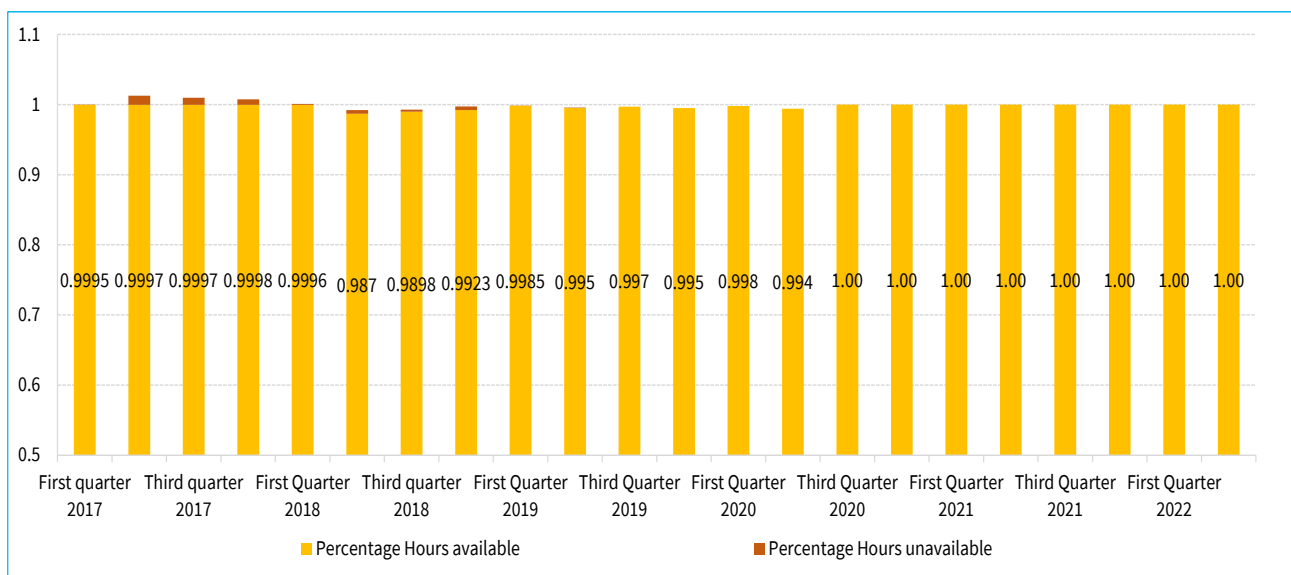
The KEPSS system is available to commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review.

**Chart 6.6: Trends in monthly flows through KEPSS**



Source: Central Bank of Kenya

**Chart 6.7: KEPSS availability**



Source: Central Bank of Kenya

## Chapter 7

# Government Budgetary Performance

The Government's budgetary operations at the end of the fourth quarter of FY 2021/22 resulted in a deficit of 6.1 of GDP against a target of 8.2 percent of GDP. Both revenues and expenditures were below

target with the shortfall in total revenues and grants at 3.4 percent and total expenses and net lending at 10.1 percent (**Table 7.1**).

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

	FY 2020/21	FY 2021/22									
	Q4	May	June	Q4	Cumulative to June-2022	Target					
1. TOTAL REVENUE & GRANTS	551.4	197.9	240.2	636.9	2,177.9	2,254.9	(77.0)	(3.4)	15.5	17.2	17.8
Ordinary Revenue	455.4	185.2	220.5	590.4	1,917.9	1,851.5	66.4		29.6		
Tax Revenue	454.3	181.53	201.33	555.6	1,837.2	1,781.4	55.8		22.3		
Non Tax Revenue	1.1	3.63	19.19	34.8	80.7	70.1	10.6		3,079.4		
Appropriations-in-Aid	83.1	11.60	15.78	40.6	234.0	340.4	(106.4)		(51.1)		
External Grants	13.0	1.15	3.92	5.9	26.0	62.9	(37.0)		(54.3)		
2. TOTAL EXPENSES & NET LENDING	891.6	242.6	394.8	885.9	2,955.0	3,286.1	(331.0)	(10.1)	(0.6)	23.4	26.0
Recurrent Expenses	512.7	187.08	254.89	598.1	2,088.1	2,227.3	(139.2)		16.7		
Development Expenses	199.9	30.00	73.90	151.6	514.4	657.5	(143.1)		(24.2)		
County Transfers	179.0	25.50	66.00	136.2	352.5	401.2	(48.7)		(23.9)		
Others	-	-	-	-	-	-	-				
3. DEFICIT (INCL. GRANTS) (1-2)	(340.2)	(44.7)	(154.6)	(249.0)	(777.2)	(1,031.2)	254.0	(24.6)	(26.8)	(6.1)	(8.2)
As percent of GDP	(3.0)	(0.4)	(1.2)	(2.0)	(6.1)	(8.2)					
4. ADJUSTMENT TO CASH BASIS	7.1	-	-	(36.7)	-	-	-				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(333.1)	(44.7)	(154.6)	(285.7)	(777.2)	(1,031.2)	254.0	(24.6)	(14.2)	(6.1)	(8.2)
As percent of GDP	(3.0)	(0.4)	(1.2)	(2.3)	(6.1)	(8.2)					
6. DISCREPANCY: Expenditure (+) / Revenue (-)	15.7	27.1	(20.2)	11.6	(26.7)	(0.0)	(26.7)				
7. FINANCING	348.8	71.8	134.4	297.3	750.5	1,031.2	(280.7)	(27.2)	(14.7)	5.9	8.2
Domestic (Net)	31.1	71.9	54.9	135.5	608.0	688.1	(80.1)		336.0		
Capital Receipts (domestic loan receipts)	-	-	-				-				
External (Net)	317.7	(0.1)	79.5	161.9	142.5	343.1	(200.6)		(49.0)		
Others	-			-	-	-					

Source: The National Treasury, Preliminary BOT, June 2022

### Revenue

Government receipts, comprising revenue and grants increased by 15.5 percent to KSh 636.9 billion in the fourth quarter of FY 2021/22, compared to KSh 551.4 billion in the fourth quarter of FY 2020/21. The increase was reflected in tax revenues and non-tax revenues that more than offset the decline in Appropriation in Aid (A-in-A) as well as in external grants (**Table 7.1**).

There was a minor shift in the composition of tax revenues in the fourth quarter of FY 2021/22 compared with a similar period in the previous financial year (**Chart 7.1**). The share of income tax increased by 4.5 percentage points while the share of excise taxes remained stable. However, the shares of Value Added Tax (VAT), import taxes, and other tax revenues declined by 3.0 percentage points, 1.1 percentage points, and 0.3 percentage points, respectively.

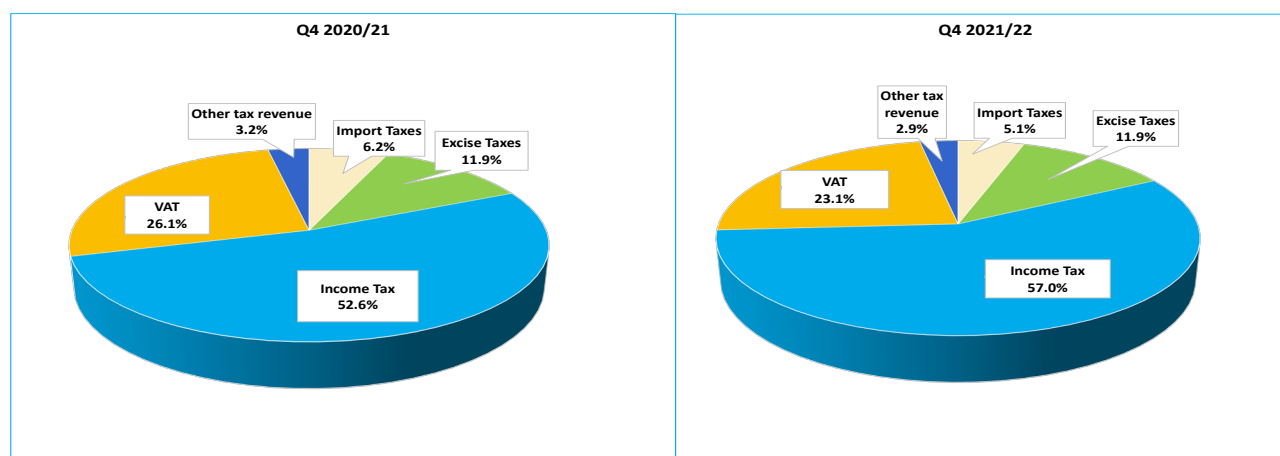
Cumulatively to June 2022, Government total revenue and grants stood at KSh 2,177.9 billion (17.2 percent of GDP) against a target of KSh 2,254.9 billion (17.8 percent of GDP). Tax revenue rose above the set target with the increase largely reflecting continued recovery of the economy from the effects of COVID-19 pandemic.

External grants cumulatively to June 2022 stood at KSh 26.0 billion, which was KSh 37.0 billion lower

than the target, occasioned by slow absorption of donor funds.

Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to June 2022 amounted to KSh 234.0 billion, which was KSh 106.4 billion lower than target due to under reporting by Semi-Autonomous Government Agencies.

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



Source: National Treasury

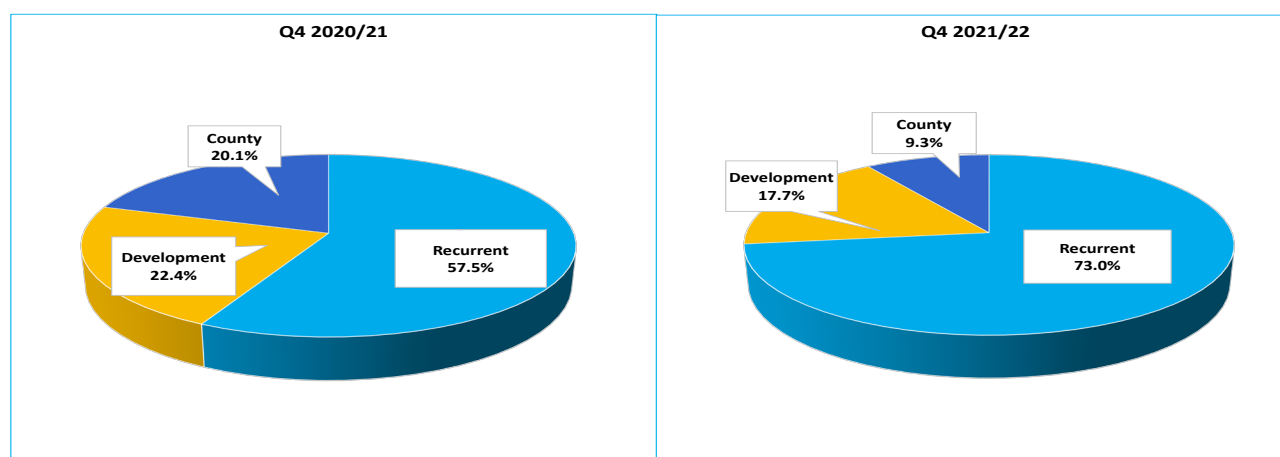
## Expenditure and Net Lending

Government expenditure and net lending decreased by 0.6 percent to KSh 885.9 billion in the fourth quarter of the FY 2021/22 compared to KSh 891.6 billion in the fourth quarter of the FY 2020/21. The decrease in expenditures reflected a decrease in national government development expenditure, and county transfers by 24.2 percent, and 23.9 percent, respectively, that more than offset the 16.7 percent increase in national government recurrent expenditure.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 73.0 percent in the fourth quarter of the FY 2021/22, which was 15.5 percentage

points higher than the level recorded in a similar quarter during the previous fiscal year. The share of development expenditure and the county allocations decreased by 4.8 percentage points, and 10.7 percentage points, respectively, during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to June 2022 amounted to KSh 2,955.0 billion (23.4 percent of GDP), against a target of KSh 3,286.1 billion (26.0 percent of GDP). The shortfall of KSh 331.0 billion was recorded in development expenditures of the National Government and transfers to County Governments.

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

Source: National Treasury

## Financing

The budget deficit including grants amounted to KSh 777.2 billion or 6.1 percent of GDP at the end of the fourth quarter of FY 2021/22. The budget deficit was funded as follows; KSh 608 billion and KSh 142.5 billion net domestic and foreign financing, respectively. Domestic borrowing comprised KSh 179.0 billion from commercial banks, KSh 425.8

billion from non-banks, KSh 125 billion drawdown of government deposits at the Central Bank, and KSh 0.7 billion repayment to non-residents (**Table 7.2**). By the end of the fourth quarter, net domestic borrowing and net external borrowing were below target by KSh 80.1 billion and KSh 200.6 billion, respectively. (**Table 7.1 and Table 7.2**).

**Table 7.2 Domestic financing to June 2022 (KSh Billion)**

	FY 2020/21	FY 2021/22					
		Q1	Q2	Q3			Q4
	Jun-21	Sep-21	Dec-21	Mar-22	Apr-22	May-22	Jun-22
1. From CBK	(67.9)	30.0	83.8	102.3	61.2	96.8	125.5
2. From commercial banks	230.8	105.2	137.0	176.9	196.2	190.1	179.0
4. From Non-banks	327.0	130.8	204.7	320.4	349.9	390.7	425.8
5. From Non-Residents	1.2	3.0	0.7	(0.0)	(0.0)	(0.1)	(0.7)
6. Total Net Domestic Credit	491.2	269.0	426.1	599.6	607.3	677.5	729.6
6. Other Domestic financing /1	135.7						(121.6)
7. Net Domestic Financing	626.9	269.0	426.1	599.6	607.3	677.5	608.0

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

## Outlook for FY 2021/22

In the approved budget from the National Treasury for the FY 2022/23, total revenue including grants is projected at KSh 2,474.9 billion (17.7 percent of GDP). Government expenditure is projected at KSh 3,337.8 billion (23.8 percent of GDP), of which KSh 2,271.0 billion will be for recurrent expenses, KSh 655.8 billion for development expenses and KSh 407.0 billion for transfers to county governments.

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

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

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE ( Including Grants)	2,474.9	17.7
Ordinary Revenue	2,141.6	15.3
Appropriations-in-Aid	320.8	2.3
External Grants	12.5	0.1
2. TOTAL EXPENSES & NET LENDING	3,337.8	23.8
Recurrent Expenses	2,271.0	16.2
Development Expenses	655.8	4.7
County Transfer	407.0	2.9
Contingency Fund	4.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	(862.9)	(6.2)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	862.9	6.2
Domestic (Net)	582.2	4.2
External (Net)	280.7	2.0

Source: National Treasury

## Chapter 8

# Developments in Public Debt

### Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 2.2 percent during the fourth quarter of the FY 2021/22. Domestic and external debt increased by 2.3 percent and 2.0 percent, respectively. The ratio of public debt to GDP was

estimated to increase marginally from the 67.8 percent by the end of the third quarter of the FY 2021/22 to 67.9 percent by the end of fourth quarter of the FY 2021/22 (**Table 8.1**).<sup>1</sup>

**Table 8.1 Kenya's public and publicly guaranteed debt**

	FY2019/20	FY2020/21						FY2021/22						Change Q on Q
	Q4	Q1	Oct-20	Nov-20	Q2	Q3	Q4	Q1	Q2	Q3	Apr-22	May-22	Q4	
EXTERNAL														
Bilateral	1,074.3	1,102.9	1,125.7	1,143.6	1,157.0	1,142.7	1,140.5	1,149.2	1,171.7	1,171.6	1,155.9	1,178.8	1,178.8	7.2
Multilateral	1,321.6	1,421.8	1,443.7	1,484.6	1,498.8	1,495.6	1,659.4	1,699.4	1,782.1	1,817.4	1,877.8	1,906.3	1,906.3	88.9
Commercial Banks	1,102.3	1,120.8	1,118.3	1,125.5	1,119.4	1,113.4	1,187.4	1,196.2	1,208.3	1,208.2	1,197.9	1,197.7	1,197.7	-10.51
Supplier Credits	17.6	18.0	18.0	18.2	18.1	18.1	12.2	13.7	12.3	12.3	12.0	12.2	12.2	-0.1
Sub-Total	3,515.8	3,663.5	3,705.6	3,771.8	3,793.3	3,769.9	3,999.5	4,058.5	4,174.4	4,209.6	4,243.5	4,295.1	4,295.1	85.5
(As a % of GDP)	33.1	34.5	34.5	35.1	35.3	34.0	35.4	34.5	34.5	34.0	33.6	34.0	34.0	
(As a % of total debt)	52.5	51.4	51.7	52.0	52.1	51.4	52.0	50.8	50.9	50.1	50.1	50.2	50.0	
DOMESTIC														
Banks	1,752.1	1,915.4	1,899.0	1,894.7	1,867.9	1,876.6	1,901.8	2,008.6	2,031.7	2,097.8	2,103.9	2,103.8	2,088.5	-9.3
Central Bank	98.9	107.4	114.7	103.9	98.7	99.9	87.6	90.9	88.7	95.6	85.8	90.2	85.1	-10.4
Commercial Banks	1,653.2	1,808.0	1,784.3	1,790.8	1,769.2	1,776.7	1,814.2	1,917.6	1,943.0	2,002.2	2,018.1	2,013.6	2,003.4	1.2
Non-banks	1,392.3	1,507.6	1,524.5	1,554.1	1,586.8	1,661.6	1,764.2	1,869.1	1,968.9	2,061.4	2,090.4	2,132.3	2,167.9	106.6
Pension Funds	923.1	986.2	994.0	1,031.8	1,057.7	1,087.5	1,131.3	1,230.2	1,264.1	1,331.5	1,350.2	1,376.0	1,388.8	57.3
Insurance Companies	192.2	212.8	217.8	219.4	224.6	234.5	246.4	260.0	273.7	286.6	293.4	300.5	307.8	21.2
Other Non-bank Sources	277.0	308.6	312.7	302.9	304.5	339.6	386.6	379.0	431.1	443.2	446.9	455.9	471.2	28.0
Non-residents	33.2	34.1	34.0	33.8	33.8	31.7	31.1	34.1	31.7	32.6	32.6	32.5	31.9	-0.7
Sub-Total	3,177.0	3,457.1	3,457.6	3,482.7	3,488.5	3,569.8	3,697.1	3,937.8	4,032.4	4,191.8	4,226.8	4,268.7	4,288.3	96.6
(As a % of GDP)	29.9	32.5	32.2	32.4	32.4	32.2	32.7	33.4	33.3	33.8	33.4	33.8	33.9	
(As a % of total debt)	47.5	48.6	48.3	48.0	47.9	48.6	48.0	49.2	49.1	49.9	49.9	49.8	50.0	
GRAND TOTAL	6,692.8	7,120.6	7,163.3	7,254.5	7,281.8	7,339.7	7,696.6	7,996.3	8,206.7	8,401.3	8,470.4	8,563.8	8,583.4	182.1
(As a % of GDP)	63.0	67.0	66.6	67.5	67.7	66.2	68.1	67.9	67.8	67.8	67.0	67.7	67.9	

Source: The National Treasury and CBK

### Domestic Debt

The 2.3 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt increased by 0.1 percentage points to 50 percent by the end of the fourth quarter of the FY 2021/22. The proportion

of debt securities to total domestic debt stood at 97.9 percent by the end of the fourth quarter of the FY 2021/22 which was 0.2 percentage points higher than the previous quarter (**Table 8.2**).

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



**Table 8.2: Government gross domestic debt (KSh Billion)**

	KSh (Billion)								Change: Q on Q		Proportions							
	FY2020/21	FY2021/22									FY2020/21	FY2021/22						
	Q4	Q1	Q2	Jan-22	Feb-22	Q3	Apr-22	May-22	Q4	Ksh(Bn)	%	Q4	Q1	Q2	Q3	Apr-22	May-22	Q4
Total Stock of Domestic Debt (A+B)	3,697.1	3,937.8	4,032.4	4,110.1	4,181.4	4,191.8	4,226.8	4,268.7	4,288.3	96.6	2.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Government Securities	3,615.3	3,860.3	3,951.4	4,009.2	4,079.8	4,097.1	4,141.9	4,175.1	4,197.8	100.8	2.6	97.8	98.0	98.0	97.7	98.0	97.8	97.9
1. Treasury Bills (excluding Repo Bills)	765.4	763.5	709.1	704.3	679.5	656.5	640.6	631.2	628.8	-27.7	-3.9	20.7	19.4	17.6	15.7	15.2	14.8	14.7
Banking institutions	452.9	454.8	397.5	386.4	345.1	323.6	323.6	323.6	323.6	0.0	0.0	12.2	11.6	9.9	7.7	7.7	7.6	7.5
The Central Bank	0.5	8.1	2.3	1.0	0.1	0.1	0.1	0.1	0.1	0.0	-0.2	0.0	0.2	0.1	0.0	0.0	0.0	0.0
Commercial Banks	452.4	446.7	395.2	385.5	345.0	323.5	312.3	289.5	287.6	-35.9	-9.1	12.2	11.3	9.8	7.7	7.4	6.8	6.7
Pension Funds	144.4	159.4	154.3	153.7	161.6	158.8	160.9	168.5	167.6	8.8	5.7	3.9	4.0	3.8	3.8	3.8	3.9	3.9
Insurance Companies	7.2	5.5	5.2	6.2	7.2	6.0	6.1	6.1	6.6	0.6	11.6	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Others	160.9	143.7	152.1	158.0	165.5	168.2	161.3	167.0	166.9	-1.2	-0.8	4.4	3.7	3.8	4.0	3.8	3.9	3.9
2. Treasury Bonds	2,849.9	3,096.8	3,242.2	3,304.9	3,400.3	3,440.6	3,501.3	3,543.9	3,569.1	128.5	4.0	77.1	78.6	80.4	82.1	82.8	83.0	83.2
Banking institutions	1,367.1	1,476.3	1,553.2	1,581.3	1,631.7	1,655.2	1,655.2	1,655.2	1,655.2	0.0	0.0	37.0	37.5	38.5	39.5	39.2	38.8	38.6
The Central Bank	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,359.4	1,468.6	1,545.6	1,598.0	1,648.4	1,671.9	1,699.0	1,713.0	1,702.7	30.8	2.0	36.8	37.3	38.3	39.9	40.2	40.1	39.7
Insurance Companies	239.2	254.5	268.6	273.6	276.7	280.6	287.3	294.3	301.3	20.6	7.7	6.5	6.5	6.7	6.7	6.8	6.9	7.0
Pension Funds	986.8	1,070.8	1,109.8	1,132.0	1,162.0	1,172.8	1,189.3	1,207.5	1,221.3	48.5	4.4	26.7	27.2	27.5	28.0	28.1	28.3	28.5
Others	256.8	295.3	310.7	293.6	305.7	307.7	318.1	321.4	336.2	28.5	9.2	6.9	7.5	7.7	7.3	7.5	7.5	7.8
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	20.0	20.0	19.5	19.5	19.5	19.5	19.5	19.5	18.9	-0.6	-2.9	0.5	0.5	0.5	0.5	0.5	0.5	0.4
Of which: Repo T/Bills	19.4	19.4	18.8	18.8	18.8	18.8	18.8	18.8	18.3	-0.6	-2.9	0.5	0.5	0.5	0.4	0.4	0.4	0.4
B. Others:	61.8	57.5	61.5	81.5	82.1	75.3	65.4	74.1	71.6	-3.7	-6.0	1.7	1.5	1.5	1.8	1.5	1.7	1.7
Of which CBK overdraft to Government	59.3	55.1	59.3	75.2	74.7	68.4	58.6	63.0	58.5	-9.9	-16.7	1.6	1.4	1.5	1.6	1.4	1.5	1.4

Source: Central Bank of Kenya

## Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a decline of 3.9 percent during the fourth quarter of the FY 2021/22. As a result, the proportion of Treasury bills to total domestic debt declined by 1.0 percentage points. This reflected successful implementation of the Government's Medium-Term objective of reducing the stock of Treasury bills to minimize the refinancing risk. Commercial banks were the leading holders of Treasury bills at 55.7 percent (**Table 8.2**).

## Treasury Bonds

Treasury bonds holdings increased by 4.0 percent during the fourth quarter of the FY 2021/22, which was lower than the 6.1 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 18-year infrastructure Treasury bond issued during the quarter (**Table 8.3**). The leading holders of Treasury bonds were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

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

		KSh (Billion)						Change Q on Q		Proportions								
		2020/21	2021/22							2021/22		2021/22						
		Q3	Q1	Q2	Q3	Apr-22	May-22	Q4	KShs(Bn)	%	Q3	Q4	Q1	Q2	Q3	Apr-22	May-22	Q4
Treasury	91-Day	39.7	81.5	55.7	43.0	47.7	60.6	59.3	16.3	37.8	1.1	1.1	2.1	1.4	1.0	1.1	1.4	1.4
bills	182-Day	129.3	176.1	183.8	172.2	168.9	172.1	173.9	1.7	1.0	3.6	3.4	4.5	4.6	4.1	4.0	4.0	4.1
	364-Day	592.9	505.8	469.7	441.2	424.0	398.5	395.5	-45.7	-10.4	16.6	16.2	12.8	11.6	10.5	10.0	9.3	9.2
	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bonds	2-Year	62.1	55.9	55.9	55.9	55.9	55.9	55.9	0.0	0.0	1.7	1.5	1.4	1.4	1.3	1.3	1.3	1.3
	3-Year	0.0	0.0	0.0	0.0	33.1	33.1	36.7	36.7	100.0	0.0	0.0	0.0	0.0	0.0	0.8	0.8	0.9
	4-Year	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	327.4	269.1	322.7	362.3	362.3	362.3	362.3	0.0	0.0	9.2	8.6	6.8	8.0	8.6	8.6	8.5	8.4
	6-Year	28.7	20.2	20.2	20.2	20.2	20.2	20.2	0.0	0.0	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	7-Year	50.1	41.5	41.5	41.5	41.5	41.5	41.5	0.0	0.0	1.4	1.1	1.1	1.0	1.0	1.0	1.0	1.0
	8-Year	19.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	9-Year	134.3	123.5	123.5	123.5	123.5	123.5	123.5	0.0	0.0	3.8	3.3	3.1	3.1	2.9	2.9	2.9	2.9
	10-Year	556.5	514.3	534.9	542.2	542.2	576.7	541.4	-0.8	-0.1	15.6	13.3	13.1	13.3	12.9	12.8	13.5	12.6
	11-Year	8.8	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	0.2	2.2	2.0	2.0	1.9	1.9	1.9	1.9
	12-Year	114.8	108.0	102.7	99.7	99.7	99.7	99.7	0.0	0.0	3.2	3.2	2.7	2.5	2.4	2.4	2.3	2.3
	15-Year	779.1	858.0	874.9	893.4	921.0	915.0	898.3	4.9	0.5	21.8	21.6	21.8	21.7	21.3	21.8	21.4	20.9
	16- Year	152.6	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	4.3	4.1	3.9	3.8	3.6	3.6	3.6	3.5
	18- Year	0.0	81.8	81.8	81.8	81.8	81.8	155.4	73.6	90.0	0.0	2.2	2.1	2.0	2.0	1.9	1.9	3.6
	19-Year	0.0	0.0	0.0	98.4	98.4	98.4	98.4	0.0	0.0	0.0	0.0	0.0	0.0	2.3	2.3	2.3	2.3
	20-Year	336.3	484.7	518.6	546.8	546.8	546.8	546.8	0.0	0.0	9.4	10.5	12.3	12.9	13.0	12.9	12.8	12.8
	21-Year	0.0	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	0.0	0.0	2.7	2.6	2.5	2.5	2.5	2.5
	25-Year	131.3	172.8	198.5	207.8	207.8	221.8	221.8	14.0	6.7	3.7	4.1	4.4	4.9	5.0	4.9	5.2	5.2
	30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
	Repo T bills	19.4	19.4	18.8	18.8	18.8	18.8	18.8	0.0	0.0	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
	Overdraft	49.3	55.1	59.3	68.4	68.4	68.4	68.4	0.0	0.0	1.4	1.6	1.4	1.5	1.6	1.6	1.6	1.6
	Other Domestic debt	4.8	3.0	2.8	7.5	-2.3	6.4	3.2	-4.2	-56.5	0.1	0.1	0.1	0.1	0.2	-0.1	0.1	0.1
	Total Debt		3,569.8	3,937.8	4,032.4	4,191.8	4,226.8	4,268.7	4,288.3	96.6	2.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

## Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at the ratio of 85:15 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 67.4 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt decreased as the Treasury bills component in the domestic debt profile decreased to 14.7 percent from 15.7 percent in March 2022.

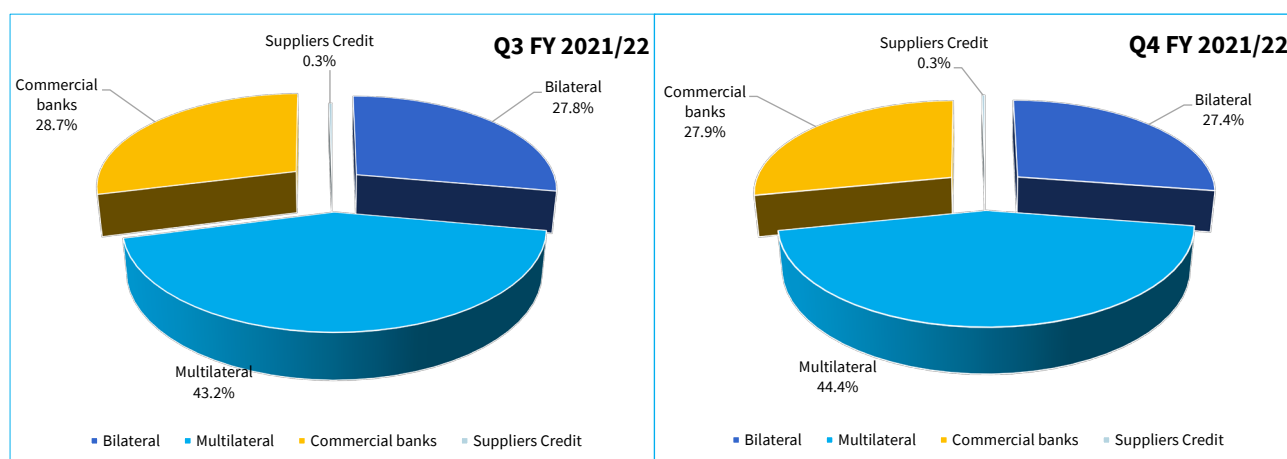
## External Debt

Public and publicly guaranteed external debt increased by 2.0 percent during the fourth quarter

of the FY 2021/22. This increase was majorly driven by disbursements from International Development Association (IDA) and exchange rate movements.

## Composition of External Debt by Creditor

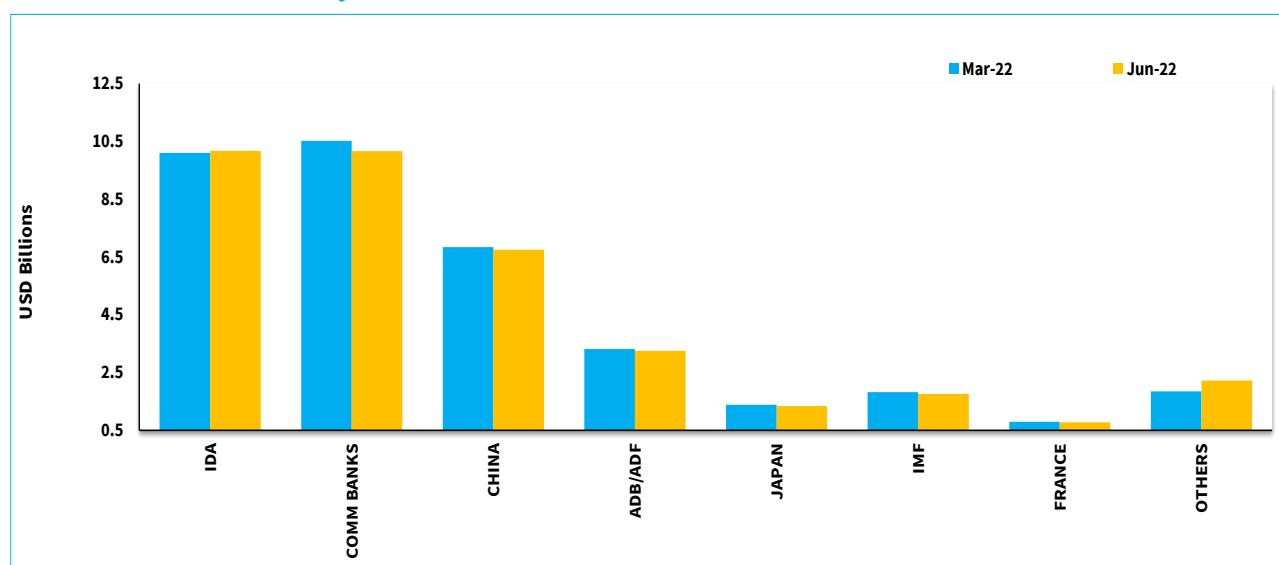
The composition of external debt improved with increased flow of International development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 1.2 percentage points, mainly driven by disbursements from IDA during the quarter under review. The proportion of commercial debt decreased by 0.8 percentage points during the fourth quarter of FY 2021/22 (**Chart 8.2**).

**Chart 8.1: Composition of external debt by lender**

Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya's largest multilateral lender stood at USD 10.2 billion (or 27.9 percent of external debt). Debt owed to China, Kenya's largest

bilateral lender, amounted to USD 7.0 billion, or 18.7 percent of the total external debt by the fourth quarter of the FY 2021/22 (**Chart 8.2**).

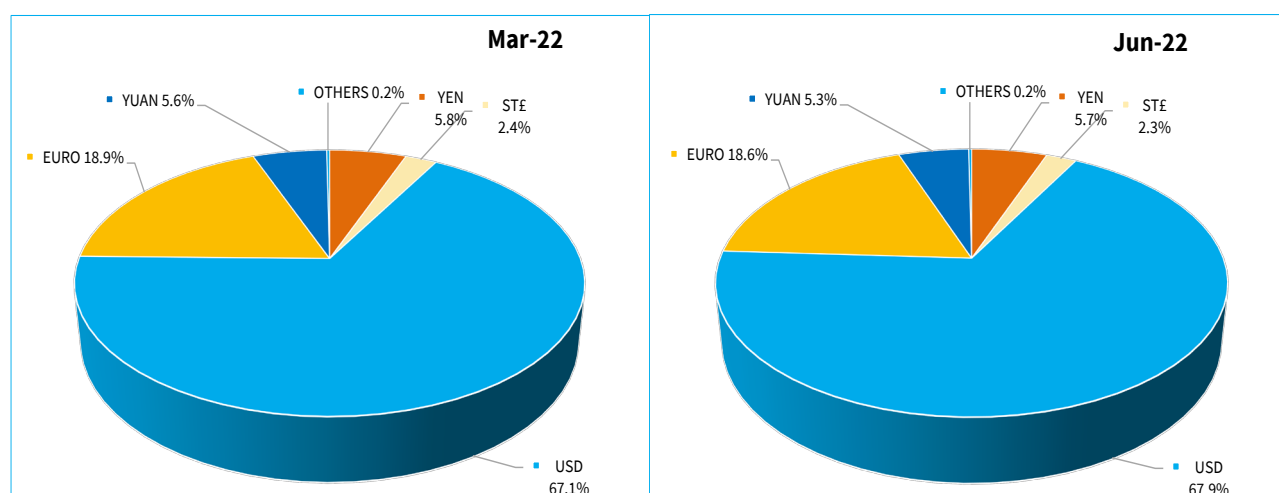
**Chart 8.2: External debt by creditor**

Source: The National Treasury

### Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which accounted for 86.5 percent of the total currency

composition at the end of the fourth quarter of the FY 2021/22. The proportion held in US dollar increased by 0.8 percentage points on account of the US dollar denominated disbursements from 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 revenue was 19.6 percent during the fourth quarter of the FY 2021/22. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the fourth quarter of FY 2021/22 amounted to Ksh 48.7 billion.<sup>2</sup> External debt service to revenue and exports ratios improved during the quarter mainly due to improved performance of revenue and exports (**Table 8.4**).

**Debt Sustainability Analysis**

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

but having a high risk of debt distress. High deficits, reflecting increased infrastructure spending in the past and impact of COVID-19, combined with the sharp slowdown in exports and economic growth in 2020 due to the pandemic resulted in near deterioration of solvency and liquidity indicators. However, this was partly offset by the ongoing economic recovery. Kenya's debt indicators are expected to improve in the medium term supported by ongoing Government's fiscal consolidation program and continued recovery output and exports growth. The results also suggested that Kenya was susceptible to export and market financing shocks.

**Table 8.4: External debt sustainability indicators**

Composite Indicators Threshold	Q4 FY 2020/21	FY 2020/21	Q1 FY 2021/22	Q2 FY 2021/22	Q3 FY 2021/22	Q4 FY 2021/22
Debt service to Revenues (18%)	9.7	11.6	15.1	11.4	20.4	7.6
Debt service to Exports (15%)	17.8	18.8	25.7	15.7	23.8	11.3

Source: Central Bank of Kenya and The National Treasury

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

## Chapter 9

# Capital Markets

The overall equity market activity declined in the second quarter of 2022 compared to the first quarter of 2022. The NSE 20 and NASI share price indices declined by 12.7 percent and 20.1 percent,

respectively. The equity turnover and market capitalization declined by 5.8 percent and 20.1 percent respectively (**Table 9.1 and Chart 9.1**).

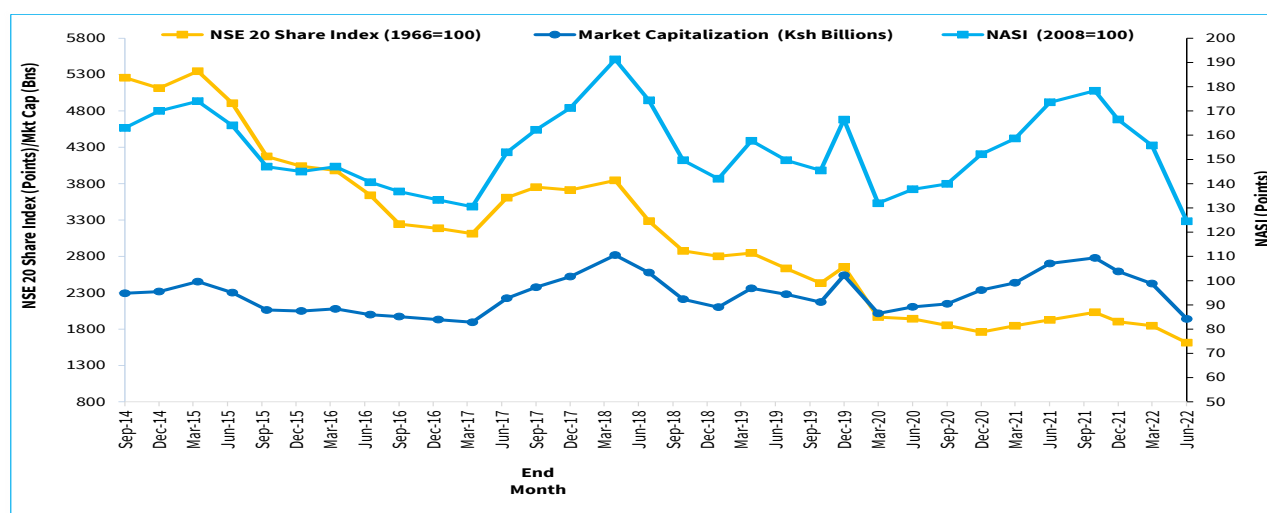
**Table 9.1: Selected stock market indicators**

INDICATOR	Q4	2021				2022		% CHANGE (2022 Q2- 2022 Q1)
		Q1	Q2	Q3	Q4	Q1	Q2	
NSE 20 Share Index (1966=100)	1759.9	1846.4	1927.5	2031.2	1902.6	1846.7	1612.9	-12.66
NASI (2008=100)	152.11	158.62	173.53	178.31	166.46	155.74	124.47	-20.08
Number of Shares Traded (Millions)	969.5	997.8	1,099.6	946.5	1,007.2	753.2	870.3	15.55
Equities Turnover (Ksh Millions)	27,510.8	31,735.0	37,992	31,360	36,322	27,861	26,237	-5.83
Market Capitalization (Ksh Billions)	2,337	2,437	2,702	2,779	2,593	2,426	1,939	-20.05
Foreign Purchase (Ksh Millions)	16,744	18,575	21,060	16,535	16,525	14,386	10,676	-25.79
Foreign Sales (Ksh Millions)	19,412	19,551	23,069	15,601	24,714	16,073	21,571	34.21
Ave. Foreign Investor Participation to Equity Turnover (%)	65.98	60.38	58.73	51.53	57.73	54.66	61.54	6.66
Bond Turnover (Ksh Millions)	156,717	199,378	271,239	301,094	185,262	190,951	195,667	2.47
FTSE NSE Kenya Govt. Bond Index (Points)	98.24	97.04	96.88	96.78	96.05	95.67	95.25	-0.40
7-Year Eurobond Yield (%) - 2027	4.86	5.60	4.81	5.03	5.57	8.15	16.02	7.87*
10-Year Eurobond Yield (%) - 2024	3.92	3.56	3.27	3.20	4.45	6.75	17.00	10.25*
10-Year Eurobond Yield (%) - 2028	5.22	6.28	5.36	5.40	5.76	8.14	14.67	6.53*
12-Year Eurobond Yield (%) - 3032	5.85	7.12	6.22	6.51	6.71	8.62	13.80	5.18*
13-Year Eurobond Yield (%) - 2034			6.18	6.45	6.58	8.34	12.99	4.65*
30-Year Eurobond Yield (%) - 2048	7.04	7.98	7.34	7.54	8.13	9.49	13.73	4.25*

\* Percentage points

Source: Nairobi Security Exchange

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



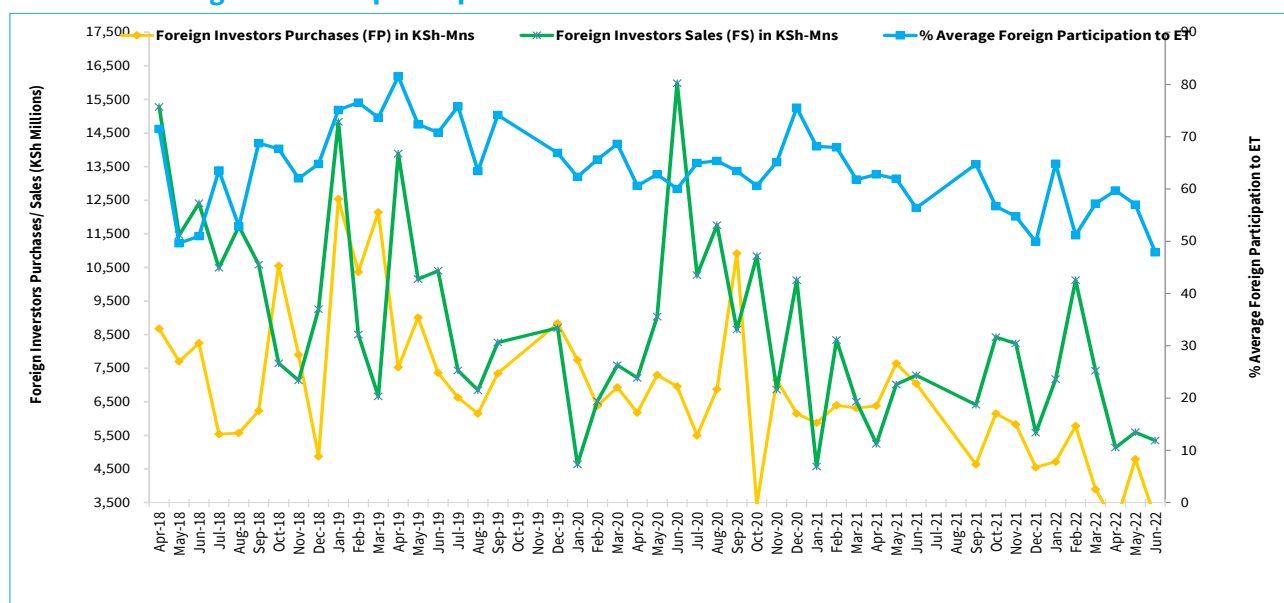
Source: Nairobi Security Exchange

## Foreign Investors' Participation

The value of equities purchased by foreign investors at the Nairobi Securities Exchange declined by 26.8 percent against 34.2 percent increase in the value of equities sold by foreign investors in the second quarter of 2022. Average net foreign investors' participation at the NSE as a proportion of total

equity turnover, rose to 61.5 percent in the second quarter from 54.9 percent in the first quarter of 2022. There was net foreign investor outflow as sales exceeded purchases in the quarter under review (**Table 9.1 and Chart 9.2**).

**Chart 9.2: Foreign investors participation at the NSE**



Source: Nairobi Security Exchange

## Bonds Market

The volume of bonds traded on the domestic secondary market increased by 2.5 percent in the second quarter of 2022 compared to first quarter of 2022. The FTSE NSE Kenyan Government Bond Index declined by 0.4 percent in the second quarter

of 2022, reflecting an increase in market yields. In the international market, yields on Kenya's Eurobonds rose by an average of 646.6 basis points during the quarter under review (**Table 9.1**).

## Chapter 10

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

	2021		2022		Absolute Quarterly Changes (KSh Million)				Quarterly Growth Rates (%)			
1.0 ASSETS	Sept	Dec	Mar	Jun	Q2,2022	Q1,2022	Q4,2021	Q3,2021	Q2,2022	Q1,2022	Q4,2021	Q3,2021
1.1 Reserves and Gold Holdings	1,017,575	993,892	889,387	933,697	44,310	(104,505)	(23,683)	(78,490)	5.0	(10.5)	(2.3)	(7.2)
1.2 Funds Held with IMF	82,740	77,698	77,696	71,644	(6,052)	(2)	(5,042)	80,539	(7.8)	(0.0)	(6.1)	3,658.8
1.3 Investment in Equity (Swift Shares)	10	10	10	10	(0)	(0)	(0)	0	(3.0)	(0.2)	(0.8)	0.6
1.4 Items in the Course of Collection	13	2	14	32	18	12	(11)	(26)	131.7	635.2	(85.6)	(67.0)
1.5 Advances to Commercial Banks	65,650	70,180	76,533	71,829	(4,703)	6,352	4,530	6,111	(6.1)	9.1	6.9	10.3
1.6 Loans and Other Advances	166,192	197,779	198,929	196,650	(2,280)	1,151	31,586	2,424	(1.1)	0.6	19.0	1.5
1.7 Other Assets	5,339	5,878	5,988	7,324	1,335	110	539	(26)	22.3	1.9	10.1	(0.5)
1.8 Retirement Benefit Asset	7,639	7,639	7,639	7,081	(558)	-	-	(7.3)	-	-	-	-
1.9 Property and Equipment	32,228	31,854	31,723	32,000	277	(131)	(373)	(991)	0.9	(0.4)	(1.2)	(3.0)
1.10 Intangible Assets	1,858	1,891	2,165	310	(1,855)	274	33	74	(85.7)	14.5	1.8	4.2
1.11 Due Debt from Government of Kenya	75,219	78,767	87,899	118,263	30,364	9,132	3,547	(4,069)	34.5	11.6	4.7	(5.1)
<b>TOTAL ASSETS</b>	<b>1,454,464</b>	<b>1,465,590</b>	<b>1,377,983</b>	<b>1,438,839</b>	<b>60,856</b>	<b>(87,607)</b>	<b>11,126</b>	<b>5,547</b>	<b>4.4</b>	<b>(6.0)</b>	<b>0.8</b>	<b>0.4</b>
<b>2.0 LIABILITIES</b>												
2.1 Currency in Circulation	282,844	310,278	301,745	305,350	3,605	(8,533)	27,434	5,715	1.2	(2.8)	9.7	2.1
2.2 Deposits	625,292	560,473	484,612	539,635	55,023	(75,861)	(64,818)	(102,709)	11.4	(13.5)	(10.4)	(14.1)
2.3 International Monetary Fund	304,918	332,328	333,685	325,145	(8,540)	1,357	27,410	83,744	(2.6)	0.4	9.0	37.9
2.4 Other Liabilities	6,164	7,622	4,051	4,273	222	(3,570)	1,458	63	5.5	(46.8)	23.7	1.0
<b>TOTAL LIABILITIES</b>	<b>1,219,218</b>	<b>1,210,701</b>	<b>1,124,094</b>	<b>1,174,403</b>	<b>50,309</b>	<b>(86,608)</b>	<b>(8,516)</b>	<b>(13,187)</b>	<b>4.5</b>	<b>(7.2)</b>	<b>(0.7)</b>	<b>(1.1)</b>
<b>3.0 EQUITY AND RESERVES</b>	<b>229,309</b>	<b>254,889</b>	<b>253,890</b>	<b>264,436</b>	<b>10,546</b>	<b>(999)</b>	<b>25,580</b>	<b>12,796</b>	<b>4.2</b>	<b>(0.4)</b>	<b>11.2</b>	<b>5.9</b>
Share Capital	35,000	35,000	35,000	35,000	-	-	-	-	-	-	-	-
General reserve fund	155,388	155,388	155,388	155,388	(0)	0	-	27,168	(0)	-	-	21.2
Period surplus/(Deficit)	4,727	43,876	42,876	53,423	10,547	(999)	39,149	(18,252)	24.6	(2.3)	828.3	(79.4)
Asset Revaluation	21,680	21,680	21,680	21,680	-	-	-	3,879	-	-	-	21.8
Fair Value Reserves - OCI	12,515	(1,054)	(1,054)	(1,054)	-	-	(13,569)	-	-	-	(108.4)	-
<b>4 TOTAL LIABILITIES AND EQUITY</b>	<b>1,454,464</b>	<b>1,465,590</b>	<b>1,377,984</b>	<b>1,438,839</b>	<b>60,856</b>	<b>(87,607)</b>	<b>11,126</b>	<b>5,546</b>	<b>4.4</b>	<b>(6.0)</b>	<b>0.8</b>	<b>0.4</b>

Source: Central Bank of Kenya

# Notes on the Financial Position of the CBK

## Assets

The Central Bank of Kenya balance sheet increased by 4.4 percent in the second quarter of 2022 compared to a decrease of 6.6 percent in the previous quarter. The increase was largely reflected in reserve and gold holdings, and debt due from government. The increase in reserve and gold holdings, which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank was supported by government external financing from international financial institutions, including the World Bank. The increase in debt due to government, largely reflected the government utilization of the overdraft facility and funds on lent to the Government related to receipts from the International Monetary Fund (IMF). Advances to commercial banks partly resulted from open market operations that remained active during the period.

## Liabilities

On the liability side, the increase in the Central Bank's balance sheet was largely reflected in deposits. The increase in deposits was mainly on account of increased commercial banks' deposits. Liabilities to the IMF, largely reflected the disbursements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the Government, which are channeled through the Central Bank.

Meanwhile, equity and reserves increased in the second quarter of 2022 on account of increased surplus recorded during the period.







**Central Bank of Kenya**

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