



**Central Bank of Kenya**

# Quarterly Economic Review

January-March 2023





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## THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

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

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

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

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

## HIGHLIGHTS

Overall inflation declined to 9.1 percent in the first quarter of 2023 from a peak of 9.4 percent in the fourth quarter of 2022, largely driven by easing food prices. Food inflation declined mainly due to domestic seasonal factors and easing international food prices. Fuel inflation remained elevated, reflective of developments in international oil prices coupled with the gradual unwinding of the fuel subsidy programme. Non-food non-fuel inflation increased modestly, partly reflecting second order effects of high energy prices.

The economy remained resilient in 2022 despite multiple shocks and weak performance of the agricultural sector. It grew by 4.8 percent compared to 7.6 percent in 2021, mainly supported by strong performance of service sectors, particularly transport and storage, financial and insurance, information and communication, and accommodation and food services. However, growth in industrial activity slowed down due to deceleration of the manufacturing sector, while the agriculture sector contracted further due to adverse weather conditions. In the fourth quarter of 2022, the economy grew by 3.8 percent, supported by continued robust growth in services sector.

Growth in broad money supply (M3) was 3.0 percent in the first quarter of 2023 compared to 2.3 percent in the previous quarter, largely reflecting increased deposits.

The global economy is expected to slow down from 3.4 percent in 2022 to 2.8 percent in 2023, and improve slightly to 3.0 percent in 2024. The decline in global output growth in 2023 is largely driven by reduced economic activity in the advanced economies, attributable to increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector in advanced economies.

The current account balance is estimated to have narrowed to USD 1,092 million in the first quarter of 2023 from USD 1,225 million in the first quarter of 2022, reflecting a decline in imports bill and good performance in merchandise exports.

The banking sector remained profitable, stable and resilient in the first quarter of 2023, with strong liquidity and capital adequacy ratios. However, credit risk remained elevated with Gross Non-performing Loans to Gross Loans Ratio at 14.0 percent at the end of the first quarter of 2023, an increase from 13.3 percent recorded at the end of fourth quarter of 2022.

The Government's budgetary operations at the end of the third quarter of FY 2022/23 resulted in a deficit (including grants) of 2.5 percent of GDP. Revenue collection and expenditure were below target by 7.1 percent and 14.1 percent, respectively.

Kenya's public and publicly guaranteed debt increased by 2.7 percent during the third quarter of FY 2022/23. Domestic and external debt increased by 1.5 percent and 3.8 percent, respectively.

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index, declined by 3.22 percent and 11.54 percent respectively in the first quarter of 2023 compared to the fourth quarter of 2022. Market capitalisation declined by 11.6 percent, while equity turnover and total shares traded increased by 156.7 percent and 71.3 percent respectively.

## Chapter 1 Inflation

### Overview

Overall inflation declined to 9.1 percent in the first quarter of 2023 from a peak of 9.4 percent in the fourth quarter of 2022, driven by easing food prices. Food inflation declined to 13.2 percent from 15.0 percent in the previous quarter, supported by domestic seasonal factors and easing international food prices. Fuel inflation increased to 13.7 percent from 13.0 percent in the previous quarter, reflective

of the elevated international oil prices and the gradual unwinding of the Government fuel subsidy programme. Non-food Non-fuel (NFNF) inflation increased modestly to 4.4 percent from 4.0 percent in the previous quarter reflecting second order effects of high energy prices (**Table 1.1 and Chart 1.1**).

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

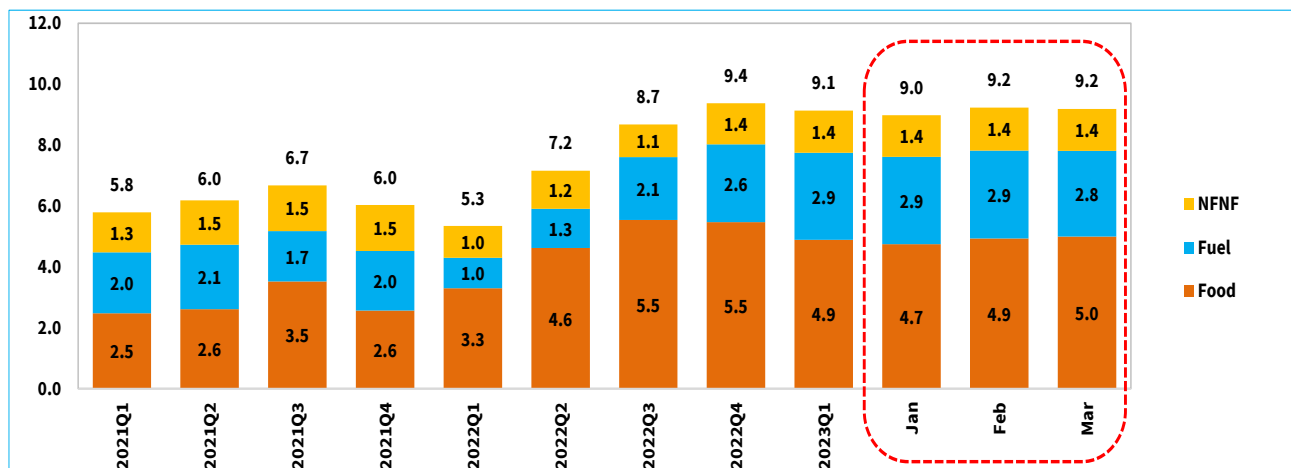
	2022				2023			
	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar
Overall inflation	5.3	7.2	8.7	9.4	9.1	9.0	9.2	9.2
Food Inflation	9.2	12.8	15.4	15.0	13.2	12.8	13.3	13.4
Fuel Inflation	6.8	9.2	9.4	13.0	13.7	13.8	13.8	13.4
Non-Food-Non-Fuel (NFNF) Inflation	2.1	2.7	3.3	4.0	4.4	4.3	4.4	4.4
Annual Average Inflation*	6.1	6.2	6.6	7.4	8.3	8.0	8.3	8.6
Three Months Annualised Inflation	6.7	13.6	8.8	8.5	5.8	4.5	5.8	7.0

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

Food inflation remained the dominant driver of overall inflation during the quarter under review. Its contribution to overall inflation declined but remained elevated at 4.9 percentage points in the first quarter of 2023, compared to 5.5 percentage points in the previous quarter. The contribution

of fuel inflation to overall inflation increased to 2.9 percentage points from 2.6 percentage points while that of NFNF inflation remained stable at 1.4 percentage points in the quarter under review (**Chart 1.1**).

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



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

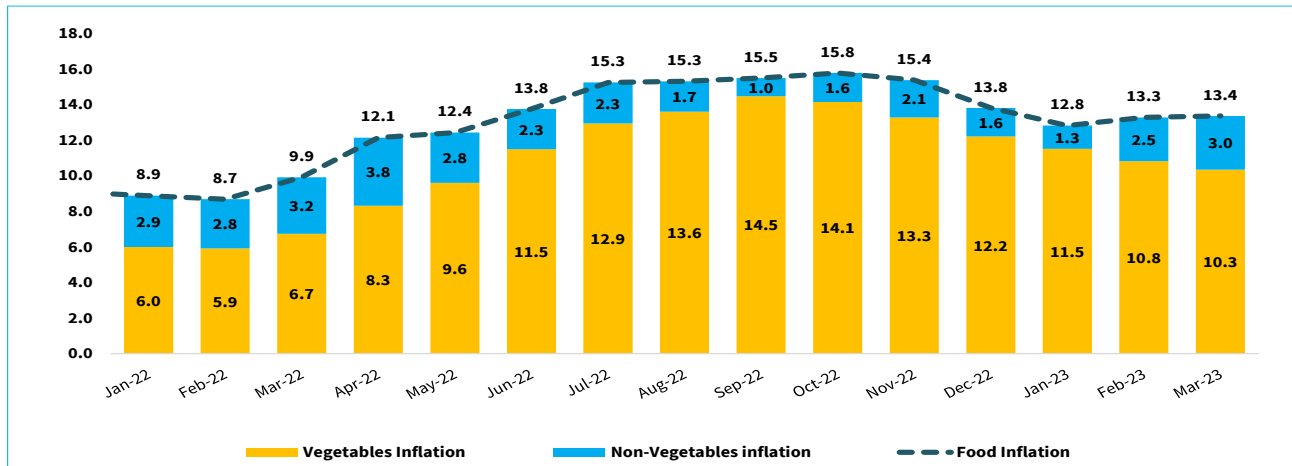


## Food Inflation

Food inflation declined in the quarter under review, supported by domestic seasonal factors and easing international food prices. It declined to 13.2 percent from 15.0 percent in the previous quarter. This decline was on account of easing prices of key food items including edible oils, wheat and maize products

which more than counterbalanced increased prices of fresh vegetables. Vegetable's inflation continued to increase, following exceptionally hot and dry weather conditions experienced in February and early March, which affected supply of vegetables during the quarter. In particular, prices of tomatoes, cabbages, kales, spinach, traditional vegetables, and carrots remained high (**Chart 1.2**).

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



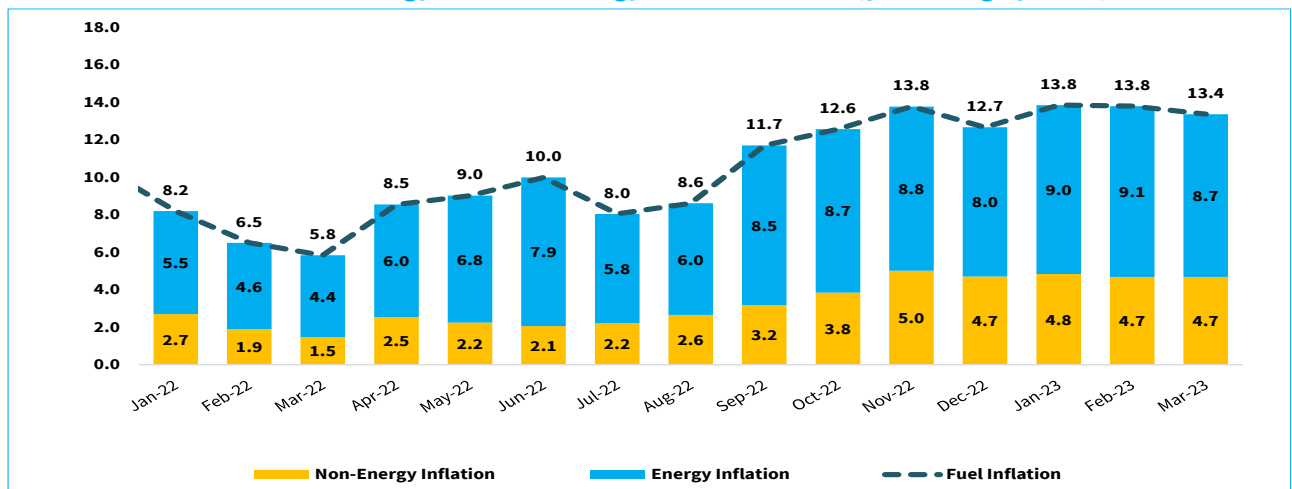
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

## Fuel Inflation

Fuel inflation increased to 13.7 percent from 13.0 percent in the previous quarter, reflecting the elevated international oil prices and the gradual unwinding of the fuel subsidy programme. Energy inflation remained elevated due to high prices of petrol, diesel, electricity and kerosene. However, this was moderated by lower prices of Liquefied

Petroleum Gas (LPG) following the reduction of VAT on the commodity by half from July 2022. The Non-energy component of fuel inflation increased in the quarter under review, mainly due to the spillover effects of energy inflation to transport costs reflected in higher 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 increased modestly, reflecting spillover effects of high energy and transport costs. It increased to 4.4 percent in

the quarter under review from 4.0 percent in the previous quarter. The increase reflected increased prices across most categories in the NFNF basket (**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
2022	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Q3	4.5	2.4	2.9	10.3	1.4	0.9	3.2	1.0	4.4	0.5	4.8	3.3
	Q4	7.0	2.8	3.2	10.4	1.7	1.1	4.1	1.2	6.0	1.0	6.7	4.0
2023	Q1	8.4	3.1	3.1	8.6	2.2	1.1	6.0	2.4	6.6	1.3	7.6	4.4
	Jan	8.0	3.2	3.0	9.3	2.1	1.1	5.6	2.1	6.5	1.3	7.5	4.3
	Feb	8.5	3.1	3.1	8.8	2.2	1.2	6.2	2.5	6.7	1.3	7.8	4.4
	Mar	8.7	3.0	3.1	7.5	2.4	1.2	6.2	2.6	6.5	1.4	7.7	4.4

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



## Chapter 2

# Economic Performance

### Overview

The economy remained resilient in 2022 despite the multiple shocks and contraction of the agricultural sector. It grew by 4.8 percent compared to a revised growth of 7.6 percent in 2021, mainly supported by strong performance of service sectors.<sup>1</sup> Growth in the industrial sector slowed down during the year, owing to deceleration of activity in the manufacturing sector. The agriculture sector contracted further by 1.6 percent from a contraction of 0.4 percent in 2021, due to adverse weather conditions experienced in the country.

The economy grew by 3.8 percent in the fourth quarter of 2022 compared to 8.6 percent in a similar quarter of 2021. Growth was supported by robust activity in the services sector. However, the agriculture sector contracted by 0.9 percent compared to a growth of 2.1 percent in a similar quarter of 2021, mainly on account of unfavorable weather conditions (**Table 2.1**).

### Non-Agriculture

The non-agriculture sector was the main driver of growth in 2022. It grew by 6.3 percent compared to 9.5 percent in 2021, mainly on account of continued strong performance of the services sector. It contributed 5.2 percentage points to real GDP growth (**Tables 2.1 and 2.3**).

**a) Services sector** recorded a robust growth of 7.0 percent compared to 9.8 percent in 2021 and contributed 3.9 percentage points to real GDP growth. The strong performance was reflected across all sectors, particularly transport and storage, financial and insurance, information and communication, and accommodation and food services. In the fourth quarter, the sector grew by 5.3 percent compared to 10.1 percent in a similar quarter of 2021.

- Information and Communication sector expanded by 8.0 percent in 2022 compared to 6.9 percent in 2021, largely driven by increased e-commerce activities. In particular, mobile money transfers increased by 15.1 percent while bandwidth increased by 9.9 percent on account of increased demand for high-speed internet. The sector grew by 8.0 percent in the fourth quarter of 2022, compared to 6.9 percent in a similar quarter of 2021.
- Growth of the Finance and Insurance sector declined moderately to 9.4 percent from 11.8 percent in 2021. Growth was supported by increased activity in both financial and insurance services. This was reflected in increased broad money supply (7.5 percent), credit to government and private sector (13.9 percent), and net premiums (11.9 percent). In the fourth quarter of 2022, the sector grew by 9.4 percent compared to 11.8 percent in a similar quarter of 2021.
- Accommodation and Food services sector maintained the strong momentum and grew by 26.2 percent in 2022 compared to 52.6 percent in 2021, as activity in the sector continued to normalize. Growth was mainly supported by increased tourist arrivals (73.0 percent), overall bed occupancy (26.0 percent), and number of conferences (25.6 percent). In the fourth quarter of 2022, the sector grew by 14.9 percent compared to 120.8 percent in a similar quarter of 2021.
- Transport and Storage sector grew by 5.6 percent compared to 7.4 percent in 2021. The robust performance was reflected in the volume of passenger and freight transport by the Standard Gauge Railway, which increased by 20.5 percent and 12.6 percent, respectively. In addition, passenger traffic by air increased by 52.2 percent. However, cargo throughput at Mombasa port and diesel consumption declined by 1.9 percent and 0.8 percent, respectively. Growth of the sector decelerated to 3.2 percent in the fourth quarter of 2022, from 7.0 percent in a similar quarter of 2021 on account of high fuel prices.

<sup>1</sup> Based on the economic survey 2023 released in May, growth in the first quarters of 2022 were also revised.

**b) Industrial activity** decelerated in 2022. The sector recorded a relatively lower growth of 3.9 percent compared to 7.5 percent in 2021 and contributed 0.7 percentage points to real GDP growth. The slowdown was mainly reflected in manufacturing, electricity and water supply, and construction sectors (**Table 2.1 and 2.3**).

- Manufacturing sector growth slowed to 2.7 percent from 7.3 percent in 2021, mainly on account of low agro-processing activity, following subdued performance of the agriculture sector. The food sub-sector grew marginally by 0.6 percent, supported by increased production of beverages (2.6 percent), sugar (13.8 percent), and bakery products (6.3 percent). On the other hand, the non-food sub-sector recorded strong growth of 5.3 percent, reflected in increased production of motor vehicles, trailers and semi-trailers, basic metals, and structural metal products. In the fourth quarter of 2022, sectoral growth decelerated to 1.8 percent compared to 6.2 percent in a similar quarter of 2021.
- Construction sector expanded by 4.1 percent compared to 6.7 percent in 2021, mainly supported by civil works such as construction and maintenance of roads. Growth of the sector was reflected in increased cement consumption (4.4 percent) and value of building plans approved by the Nairobi City County (58.0 percent). However, import of construction materials such as cement clinkers, iron and

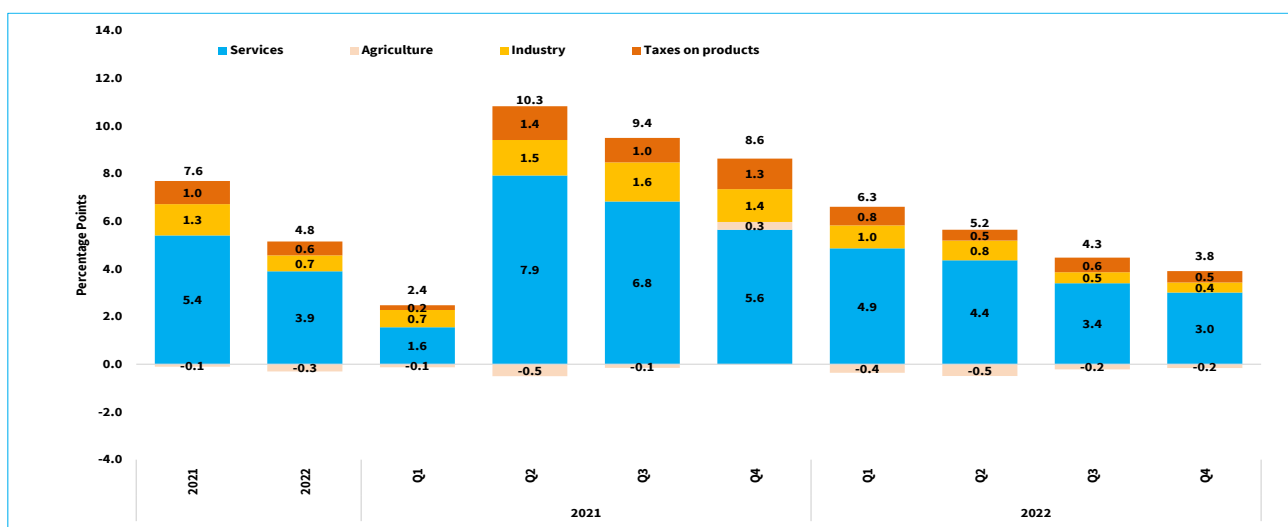
steel, non-ferrous metals, and structural metals declined by 38.4 percent, 17.8 percent, 14.0 percent, and 47.4 percent, respectively. The sector recorded a lower growth of 2.4 percent in the fourth quarter of 2022 compared to 7.0 percent in a similar quarter of 2021, reflecting a slowdown in public infrastructure activity.

- Growth of Electricity and Water Supply sector moderated to 4.9 percent from 5.3 percent in 2021. Growth was largely driven by increased electricity generation from renewable sources. Geothermal and wind electricity generation increased by 9.5 percent and 8.0 percent, respectively. However, hydroelectricity generation declined by 17.3 percent following insufficient rainfall during the year. Thermal electricity generation increased by 25.0 percent.

### Agriculture

The agriculture sector contracted further in 2022 following the dry weather conditions experienced in the country, which undermined agricultural activity. It contracted by 1.6 percent compared to a contraction of 0.4 percent in 2021, owing to low production of select food crops such as maize, fresh produce, tea, milk, exported vegetables and cut flowers. However, production of cash crops such as coffee, sugarcane, and fruits for exports increased. Similarly, the sector contracted by 0.9 percent in the fourth quarter of 2022 compared to a growth of 2.1 percent in a similar quarter of 2021 (**Tables 2.1 and 2.3**).

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



Source: Kenya National Bureau of Statistics and CBK Staff computations

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

	Annual		2021				2022			
	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Agriculture	-0.4	-1.6	-0.6	-1.8	-0.6	2.1	-1.7	-2.4	-1.3	-0.9
2. Non-Agriculture (o/w)	9.5	6.3	3.1	14.0	11.4	10.0	8.2	7.1	5.3	4.7
2.1 Industry	7.5	3.9	4.1	9.2	9.0	7.7	5.6	5.0	2.6	2.4
Mining & Quarrying	18.0	9.3	10.4	10.6	16.0	35.5	23.8	16.6	-4.5	1.6
Manufacturing	7.3	2.7	2.0	11.1	10.5	6.2	3.8	3.6	1.8	1.8
Electricity & water supply	5.6	4.9	3.9	7.7	7.1	3.8	3.2	5.6	6.0	4.9
Construction	6.7	4.1	6.2	6.9	6.7	7.0	6.0	4.5	3.5	2.4
2.2 Services	9.8	7.0	2.9	14.9	12.0	10.1	8.9	8.0	5.9	5.3
Wholesale & Retail Trade	8.0	3.8	8.8	10.3	6.6	6.7	4.9	4.1	3.6	2.7
Accommodation & restaurant	52.6	26.2	-28.3	69.7	145.1	120.8	40.1	44.0	16.9	14.9
Transport & Storage	7.4	5.6	-7.9	18.5	14.6	7.0	7.5	7.0	4.8	3.2
Information & Communication	6.1	9.9	5.1	11.8	1.4	6.9	9.0	11.2	11.8	8.0
Financial & Insurance	11.5	12.8	10.1	13.2	10.6	11.8	17.0	16.1	9.6	9.4
Public administration	6.0	4.5	7.2	8.2	5.3	3.6	6.2	3.8	3.4	4.7
Professional, Administration & Support Services	7.1	9.4	-12.3	20.0	15.3	9.6	13.4	10.9	8.9	5.2
Real estate	6.7	4.5	6.0	6.8	7.1	6.8	6.0	5.0	4.0	2.9
Education	22.8	4.8	12.0	34.4	30.9	18.4	4.7	4.4	3.8	6.0
Health	8.9	4.5	7.9	9.5	7.1	10.8	5.7	4.4	3.7	4.3
Other services	12.5	5.7	-8.5	28.6	17.5	16.9	8.9	4.3	5.7	4.0
FISIM	5.3	1.5	5.9	3.6	5.0	6.5	0.7	1.3	2.3	1.6
2.3 Taxes on products	11.9	7.0	2.4	19.2	12.5	14.6	9.5	6.1	7.1	5.4
Real GDP Growth	7.6	4.8	2.4	10.3	9.4	8.6	6.3	5.2	4.3	3.8

Source: Kenya National Bureau of Statistics

**Table 2.2: Sectoral shares (percentage of GDP)**

	Annual		2021				2022			
	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Agriculture	18.1	17.0	19.9	20.7	15.4	16.4	18.4	19.2	14.6	15.6
2. Non-Agriculture (o/w)	81.9	83.0	80.1	79.3	84.6	83.6	81.6	80.8	85.4	84.4
2.1 Industry	18.1	17.9	18.0	17.5	18.6	18.3	17.8	17.5	18.3	18.0
Mining & Quarrying	1.1	1.2	1.1	1.1	1.0	1.2	1.3	1.2	0.9	1.2
Manufacturing	8.6	8.5	8.6	8.4	8.7	8.8	8.4	8.3	8.5	8.6
Electricity & water supply	2.5	2.5	2.5	2.3	2.6	2.5	2.4	2.4	2.7	2.5
Construction	5.9	5.8	5.8	5.7	6.2	5.8	5.8	5.6	6.2	5.8
2.2 Services	55.3	56.4	53.8	53.8	57.3	56.4	55.1	55.3	58.2	57.2
Wholesale & Retail Trade	8.4	8.3	8.8	7.8	8.2	8.6	8.7	7.7	8.2	8.5
Accommodation & restaurant	0.9	1.0	0.7	0.7	0.9	1.1	0.9	0.9	1.0	1.3
Transport & Storage	9.5	9.6	8.9	9.5	10.3	9.3	9.0	9.6	10.4	9.2
Information & Communication	3.1	3.2	3.1	2.9	3.1	3.2	3.1	3.1	3.4	3.4
Financial & Insurance	8.5	9.2	7.9	8.1	8.7	9.4	8.7	8.9	9.2	9.9
Public administration	6.0	6.0	5.6	6.2	6.2	6.0	5.6	6.1	6.2	6.0
Professional, Administration & Support Services	2.6	2.7	2.4	2.5	2.7	2.8	2.6	2.7	2.8	2.8
Real estate	10.1	10.1	10.0	10.0	10.5	10.0	10.0	10.0	10.5	9.9
Education	4.9	4.9	5.2	4.5	5.0	5.0	5.1	4.5	5.0	5.1
Health	2.3	2.3	2.1	2.3	2.3	2.4	2.1	2.3	2.3	2.4
Other services	2.1	2.1	2.0	2.1	2.3	2.0	2.0	2.1	2.4	2.0
FISIM	-3.1	-3.0	-2.9	-2.8	-3.1	-3.4	-2.8	-2.7	-3.0	-3.3
2.3 Taxes on products	8.5	8.7	8.4	8.0	8.6	9.0	8.7	8.0	8.9	9.1
Real GDP Growth	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

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

	Annual		2021				2022			
	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Agriculture	-0.1	-0.3	-0.1	-0.4	-0.1	0.3	-0.3	-0.5	-0.2	-0.1
2. Non-Agriculture (o/w)	7.8	5.2	2.5	11.1	9.6	8.4	6.7	5.8	4.5	3.9
2.1 Industry	1.4	0.7	0.7	1.6	1.7	1.4	1.0	0.9	0.5	0.4
Mining & Quarrying	0.2	0.1	0.1	0.1	0.2	0.4	0.3	0.2	0.0	0.0
Manufacturing	0.6	0.2	0.2	0.9	0.9	0.5	0.3	0.3	0.2	0.2
Electricity & water supply	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1
Construction	0.4	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.1
2.2 Services	5.4	3.9	1.6	8.0	6.9	5.7	4.9	4.4	3.4	3.0
Wholesale & Retail Trade	0.7	0.3	0.8	0.8	0.5	0.6	0.4	0.3	0.3	0.2
Accommodation & restaurant	0.5	0.3	-0.2	0.5	1.3	1.4	0.4	0.4	0.2	0.2
Transport & Storage	0.7	0.5	-0.7	1.7	1.5	0.7	0.7	0.7	0.5	0.3
Information & Communication	0.2	0.3	0.2	0.3	0.0	0.2	0.3	0.3	0.4	0.3
Financial & Insurance	1.0	1.2	0.8	1.1	0.9	1.1	1.5	1.4	0.9	0.9
Public administration	0.4	0.3	0.4	0.5	0.3	0.2	0.3	0.2	0.2	0.3
Professional, Administration & Support Services	0.2	0.3	-0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.1
Real estate	0.7	0.5	0.6	0.7	0.7	0.7	0.6	0.5	0.4	0.3
Education	1.1	0.2	0.6	1.6	1.5	0.9	0.2	0.2	0.2	0.3
Health	0.2	0.1	0.2	0.2	0.2	0.3	0.1	0.1	0.1	0.1
Other services	0.3	0.1	-0.2	0.6	0.4	0.3	0.2	0.1	0.1	0.1
FISIM	-0.2	0.0	-0.2	-0.1	-0.2	-0.2	0.0	0.0	-0.1	-0.1
2.3 Taxes on products	1.0	0.6	0.2	1.5	1.1	1.3	0.8	0.5	0.6	0.5
Real GDP Growth	7.6	4.8	2.4	10.3	9.4	8.6	6.3	5.2	4.3	3.8

Source: Kenya National Bureau of Statistics and CBK Staff computations

## Chapter 3

# Developments in Money, Credit and Interest Rates

### Monetary aggregates and its components

Broad money supply (M3) increased by 3.0 percent in the first quarter of 2023 compared to 2.3 percent in the previous quarter, largely reflecting increased deposits. The increase in deposits was mainly on account of increased deposit holdings of household sector, reflected across all deposits categories. The corporate sector deposits also increased slightly, largely reflected in foreign currency, and time and savings deposit holdings. Meanwhile, the other

deposits at the Central Bank declined, partly on account of reduced county government deposits (**Tables 3.1 & 3.2**).

The 12-month growth in broad money supply (M3) increased to 10.6 percent in March 2023 from 7.1 percent in December 2022, partly reflecting increased net domestic assets of the banking system.

**Table 3.1: Monetary aggregates (KSh Billion)**

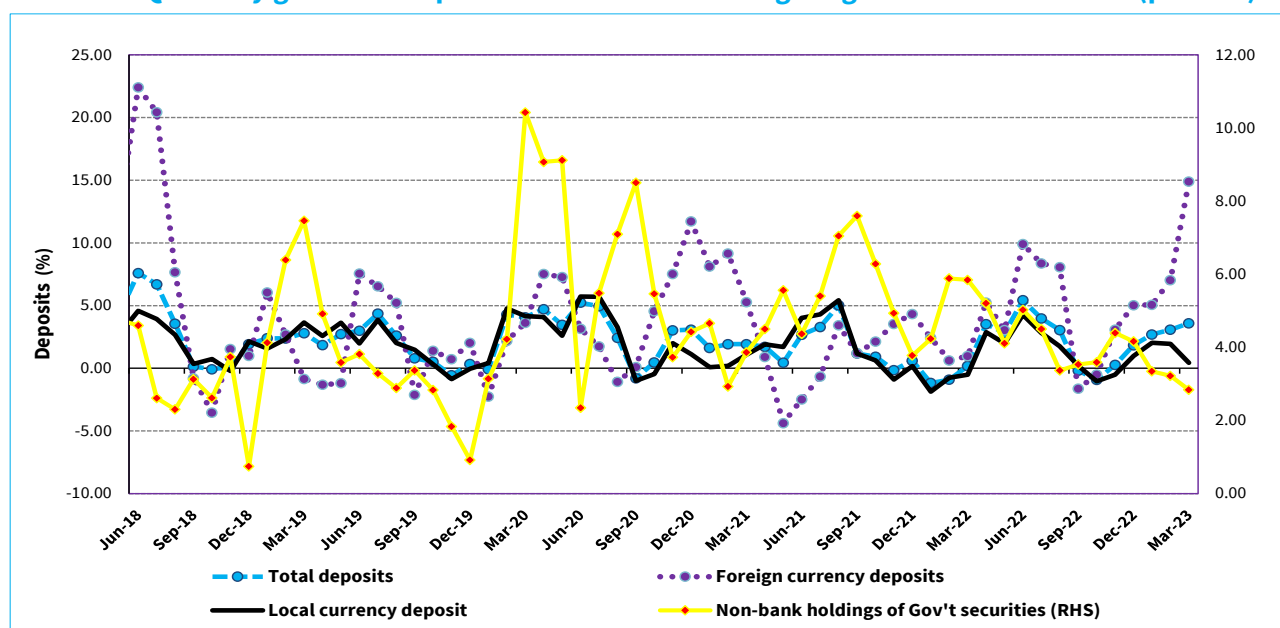
	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
<b>Components of M3</b>															
1. Money supply, M1 (1.1+1.2+1.3)	1,796.3	1,906.8	1,916.1	1,967.1	1,885.8	-2.8	6.2	0.5	2.7	-4.1	-51.8	110.5	9.2	51.0	-81.3
1.1 Currency outside banks	248.1	251.4	251.7	258.8	252.8	-2.1	1.3	0.1	2.8	-2.3	-5.4	3.3	0.3	7.1	-6.0
1.2 Demand deposits	1,477.4	1,552.2	1,582.5	1,621.6	1,553.7	-1.4	5.1	2.0	2.5	-4.2	-21.0	74.8	30.3	39.1	-67.9
1.3 Other deposits at CBK 1/	71.1	103.5	82.1	86.8	79.5	-26.2	45.5	-20.7	5.8	-8.4	-25.3	32.4	-21.4	4.7	-7.3
2. Money supply, M2 (1+2.1)	3,410.2	3,551.5	3,553.4	3,613.4	3,610.5	-0.6	4.1	0.1	1.7	-0.1	-21.4	141.4	1.9	60.0	-2.9
2.1 Time and saving deposits	1,613.8	1,644.7	1,637.4	1,646.4	1,724.7	1.9	1.9	-0.4	0.5	4.8	30.4	30.8	-7.3	9.0	78.3
3. Money supply, M3 (2+3.1)	4,221.2	4,443.0	4,430.4	4,534.5	4,668.7	-0.3	5.3	-0.3	2.3	3.0	-14.0	221.8	-12.6	104.1	134.2
3.1 Foreign Currency Deposits	811.1	891.5	877.0	921.1	1,058.2	0.9	9.9	-1.6	5.0	14.9	7.4	80.4	-14.5	44.1	137.2
<b>Sources of M3</b>															
1. Net foreign assets 2/	428.1	456.8	294.6	283.0	308.7	-27.5	6.7	-35.5	-3.9	9.1	-162.0	28.7	-162.3	-11.5	25.7
Central Bank	600.8	641.5	568.8	536.9	433.6	-14.2	6.8	-11.3	-5.6	-19.2	-99.8	40.7	-72.7	-31.9	-103.3
Banking Institutions	-172.7	-184.7	-274.3	-253.9	-124.9	56.3	6.9	48.5	-7.4	-50.8	-62.2	-12.0	-89.6	20.4	129.0
2. Net domestic assets (2.1+2.2)	3,793.1	3,986.2	4,135.9	4,251.5	4,360.0	4.1	5.1	3.8	2.8	2.6	148.0	193.0	149.7	115.6	108.5
2.1 Domestic credit	5,022.6	5,185.8	5,340.6	5,435.2	5,697.9	3.0	3.2	3.0	1.8	4.8	145.7	163.1	154.8	94.7	262.7
2.1.1 Government (net)	1,758.3	1,844.8	1,898.8	1,919.8	2,058.9	2.0	4.9	2.9	1.1	7.2	34.7	86.5	54.0	21.0	139.1
2.1.2 Private sector	3,177.3	3,256.9	3,362.5	3,433.5	3,547.0	4.1	2.5	3.2	2.1	3.3	124.1	79.6	105.6	71.1	113.5
2.1.3 Other public sector	87.1	84.1	79.3	81.9	92.1	-13.0	-3.4	-5.7	3.3	12.4	-13.1	-3.0	-4.8	2.6	10.1
2.2 Other assets net	-1,229.5	-1,199.6	-1,204.7	-1,183.8	-1,337.9	-0.2	-2.4	0.4	-1.7	13.0	2.3	29.9	-5.1	20.9	-154.1
<b>Memorandum items</b>															
4. Overall liquidity, L (3+4.1)	6,303.4	6,629.8	6,694.5	6,892.9	7,094.1	1.6	5.2	1.0	3.0	2.9	101.0	326.5	64.7	198.4	201.2
4.1 Non-bank holdings of government securities	2,082.1	2,186.8	2,264.1	2,358.4	2,425.3	5.8	5.0	3.5	4.2	2.8	115.0	104.7	77.2	94.3	67.0

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

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

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

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)				
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
1. Household Sector 1/	1811	1895	1867	1876	2006	4.7	4.7	-1.5	0.5	6.9	81.4	84.7	-28.1	8.4	130.3
1.1 Demand Deposits	634	702	650	669	730	11.6	10.6	-7.4	2.9	9.1	66.1	67.2	-51.9	18.9	61.0
1.2 Time and Saving Deposits	886	899	918	887	927	1.2	1.4	2.1	-3.4	4.5	10.9	12.7	18.8	-31.1	39.9
1.3 Foreign Currency Deposits	290	295	300	320	350	1.6	1.6	1.7	6.9	9.2	4.5	4.8	5.0	20.7	29.4
2. Corporate Sector	2027	2127	2157	2250	2263	-3.5	4.9	1.4	4.3	0.6	-73.1	100.1	29.7	93.4	12.5
2.1 Demand deposits	810	819	896	927	798	-10.4	1.1	9.4	3.5	-13.9	-93.8	8.6	76.9	31.0	-129.0
2.2 Time and Saving Deposits	697	716	686	725	760	2.6	2.7	-4.3	5.8	4.8	17.3	19.0	-30.4	39.5	34.9
2.3 Foreign Currency Deposits	519	592	575	598	705	0.6	13.9	-2.8	4.0	17.8	3.3	72.5	-16.8	22.9	106.6

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

Source: Central Bank of Kenya

## Sources of Broad Money

The primary source of the increase in broad money supply, M3, in the first quarter of 2023 was the net domestic assets of the banking system which more than offset contraction in net foreign assets. Growth in net domestic assets of the banking system was largely supported by resilient private sector credit and net lending to government. The slight increase in net foreign assets of the banking system, supported growth in money supply. The increase in net foreign assets, partly reflected increase in commercial banks' foreign assets (**Tables 3.1**).

## Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system improved to 4.8 percent in the first quarter of 2023 from 1.8 percent in the previous quarter, largely reflecting net lending to government and lending to private sector. Lending to other public sector also increased, mainly due to advances to parastatals and county governments (**Table 3.3**).

Growth in credit extended to the private sector improved to 3.3 percent in the first quarter of 2023 from 2.1 percent in the previous quarter,



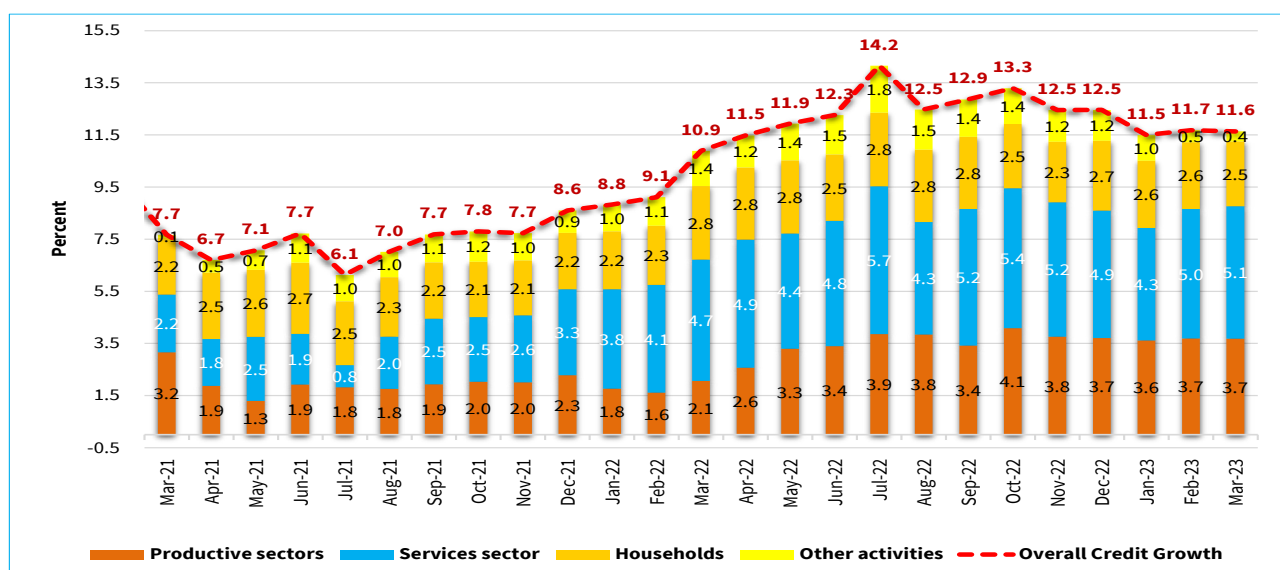
partly reflecting credit demand for working capital requirements and resilience in economic activities. Credit growth remained positive in most of the economic sectors, with strong growth registered in manufacturing, trade, finance and insurance, transport and communication, and consumer durables.

The 12-month growth in private sector credit remained resilient, moderating slightly to 11.6 percent in March 2023 from 12.5 percent in December 2022, partly reflecting resilient economic activities and demand for working capital (**Chart 3.2**).

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

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
1. Credit to Government	1,758.3	1,844.8	1,898.8	1,919.8	2,058.9	2.0	4.9	2.9	1.1	7.2	34.7	86.5	54.0	21.0	139.1
Central Bank	86.8	148.3	189.9	206.9	361.5	28.7	70.9	28.0	8.9	74.7	19.4	61.6	41.6	17.0	154.6
Commercial Banks & NBFIs	1,671.5	1,696.4	1,708.9	1,712.9	1,697.4	0.9	1.5	0.7	0.2	-0.9	15.4	24.9	12.4	4.0	-15.5
2. Credit to other public sector	87.1	84.1	79.3	81.9	92.1	-13.0	-3.4	-5.7	3.3	12.4	-13.1	-3.0	-4.8	2.6	10.1
Local government	6.8	5.8	5.3	6.2	6.7	-62.9	-14.2	-9.7	17.7	7.8	-11.5	-1.0	-0.6	0.9	0.5
Parastatals	80.3	78.3	74.1	75.8	85.4	-1.9	-2.5	-5.4	2.3	12.7	-1.6	-2.0	-4.2	1.7	9.6
3. Credit to private sector	3,177.3	3,256.9	3,362.5	3,433.5	3,547.0	4.1	2.5	3.2	2.1	3.3	124.1	79.6	105.6	71.1	113.5
Agriculture	101.8	102.8	110.3	114.9	117.0	8.5	0.9	7.3	4.2	1.9	8.0	0.9	7.5	4.6	2.1
Manufacturing	471.8	494.6	508.0	526.8	546.3	1.9	4.8	2.7	3.7	3.7	8.8	22.8	13.5	18.8	19.5
Trade	542.9	556.8	592.4	586.4	607.6	3.1	2.6	6.4	-1.0	3.6	16.4	13.9	35.6	-6.0	21.3
Building and construction	129.8	132.8	134.8	131.9	137.3	6.5	2.3	1.5	-2.1	4.0	7.9	3.0	2.0	-2.9	5.3
Transport & communications	271.5	274.1	289.5	299.2	318.6	12.0	1.0	5.6	3.3	6.5	29.2	2.6	15.4	9.7	19.5
Finance & insurance	113.4	113.7	110.9	118.0	145.6	3.4	0.3	-2.5	6.5	23.4	3.7	0.3	-2.9	7.2	27.6
Real estate	410.0	414.0	413.7	422.5	419.3	0.2	1.0	-0.1	2.1	-0.8	0.6	4.0	-0.3	8.8	-3.2
Mining and quarrying	12.7	16.3	20.8	22.6	23.3	-26.2	28.3	27.1	9.0	3.0	-4.5	3.6	4.4	1.9	0.7
Private households	486.6	485.6	502.0	511.2	521.5	3.0	-0.2	3.4	1.8	2.0	14.1	-1.0	16.4	9.2	10.2
Consumer durables	346.8	358.5	367.9	378.1	391.0	3.5	3.4	2.6	2.8	3.4	11.9	11.7	9.4	10.1	12.9
Business services	187.1	187.1	189.8	199.4	204.5	6.7	0.0	1.4	5.0	2.6	11.7	0.0	2.7	9.6	5.1
Other activities	102.9	120.6	122.4	122.6	115.1	19.0	17.3	1.5	0.1	-6.1	16.4	17.8	1.8	0.1	-7.5
4. TOTAL (1+2+3)	5,022.6	5,185.8	5,340.6	5,435.2	5,697.9	3.0	3.2	3.0	1.8	4.8	145.7	163.1	154.8	94.7	262.7

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

Reserve money contracted by 1.1 percent in the first quarter of 2023 compared to 7.3 percent in the previous quarter, partly reflecting decrease

in net foreign assets of Central Bank. Decrease in net foreign assets, largely reflected scheduled debt service (Table 3.4).

**Table 3.4: Reserve money and its sources**

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
<b>Sources of Reserve Money</b>															
1. Net Foreign Assets	600.8	641.5	568.8	536.9	433.6	-14.2	6.8	-11.3	-5.6	-19.2	-99.8	40.7	-72.7	-31.9	-103.3
2. Net Domestic Assets	-121.5	-122.6	-14.0	-22.7	75.1	-32.1	0.9	-88.5	62.0	-430.0	57.5	-1.1	108.5	-8.7	97.8
2.1 Government Borrowing (net)	86.8	148.3	189.9	206.9	361.5	28.7	70.9	28.0	8.9	74.7	19.4	61.6	41.6	17.0	154.6
2.2 Commercial banks (net)	89.1	69.8	121.2	126.6	131.4	16.6	-21.7	73.7	4.5	3.7	12.7	-19.3	51.4	5.4	4.7
2.3 Other Domestic Assets (net)	-301.0	-344.5	-329.0	-360.0	-421.6	-7.7	14.4	-4.5	9.4	17.1	25.1	-43.5	15.5	-31.0	-61.6
<b>Components of Reserve Money</b>															
3. Reserve Money	479.3	518.9	554.8	514.2	508.6	-8.1	8.3	6.9	-7.3	-1.1	-42.3	39.6	35.9	-40.6	-5.5
3.1 Currency outside banks	248.1	251.4	251.7	258.8	252.8	-2.1	1.3	0.1	2.8	-2.3	-5.4	3.3	0.3	7.1	-6.0
3.2 Bank reserves	231.2	267.5	303.0	255.4	255.9	-13.8	15.7	13.3	-15.7	0.2	-36.9	36.3	35.5	-47.7	0.5

Source: Central Bank of Kenya

## Interest Rates

### a. Central Bank Rate

The Monetary Policy Committee (MPC) in March 2023 raised the Central Bank Rate (CBR) from 8.75 percent to 9.50 percent in order to further anchor inflation expectations. The MPC noted the sustained inflationary pressures, the elevated global risk and their potential impact on the domestic economy, and they concluded that there was scope for a further tightening of the monetary policy.

### b. Short Term Rates

Short-term interest rates increased during the first quarter of 2023, partly reflecting a tightening of monetary policy stance and liquidity conditions in the market. The average interbank interest rate increased to 7.05 percent in March 2023 from 5.39

percent in December 2022. Similarly, the average 91-day Treasury bill rate increased to 9.76 percent in March 2023 from 9.33 percent in December 2022, while the average 182-day Treasury bill rate increased to 10.25 percent from 9.80 percent (**Table 3.5**).

### c. Lending and Deposit Rates

Commercial banks average lending and deposit rates increased in the first quarter of 2023 in tandem with the tightening of the monetary policy stance. The weighted average lending rate increased to 13.09 percent in March 2023 from 12.67 percent in December 2022 while the weighted average deposit rate increased to 7.60 percent from 7.17 percent in December 2022. Consequently, the spread remained relatively unchanged at 5.50 percent.

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

	2022								2023		
	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	7.25	7.90	8.21	8.58	8.92	9.06	9.19	9.33	9.44	9.62	9.76
182-day Treasury bill rate	8.08	9.07	9.29	9.45	9.60	9.65	9.71	9.80	9.88	10.06	10.25
Interbank rate	4.72	5.06	5.50	5.35	4.36	5.44	4.61	5.39	5.89	6.42	7.05
Repo rate	0.00	6.80	7.24	0.00	0.00	0.00	7.65	0.00	0.00	0.00	0.00
Reverse Repo rate	8.54	8.44	8.59	9.21	9.63	9.78	9.70	9.84	10.01	10.10	10.37
Central Bank Rate (CBR)	7.00	7.50	7.50	7.50	8.25	8.25	8.75	8.75	8.75	8.75	9.50
Average lending rate (1)	12.15	12.27	12.35	12.43	12.41	12.39	12.64	12.67	12.77	13.06	13.09
Overdraft rate	11.50	11.86	12.02	12.10	11.99	11.96	12.16	12.22	12.34	12.62	12.69
1-5years	12.39	12.48	12.56	12.67	12.66	12.61	12.94	12.98	13.09	13.43	13.47
Over 5years	12.17	12.23	12.27	12.35	12.33	12.36	12.54	12.57	12.64	12.88	12.91
Average deposit rate (2)	6.50	6.62	6.74	6.93	6.82	7.01	7.11	7.17	7.47	7.54	7.60
0-3months	6.89	6.96	7.13	7.30	7.18	7.42	7.57	7.38	8.09	8.28	8.13
Over 3 months deposit	7.25	7.39	7.45	7.52	7.40	7.60	7.68	7.93	7.96	7.96	8.19
Savings deposits	2.48	2.50	2.94	3.46	3.44	3.46	3.50	3.56	3.60	3.58	3.55
Spread (1-2)	5.65	5.66	5.61	5.50	5.59	5.39	5.53	5.51	5.30	5.52	5.50

Source: Central Bank of Kenya

## Chapter 4

# Global Economy

Global economic growth remained subdued in quarter one of 2023, characterized by significant variation across the regions. However, stronger global service sector demand, decline in commodity prices, strong diaspora remittance flows, and ease of inflation and supply chain pressures continued to support recovery of economic activities in most of the economies. According to the IMF World Economic Outlook (WEO) April 2023, annual global growth is projected to decline from 3.4 percent in 2022 to 2.8 percent in 2023, and improve slightly to 3.0 percent in 2024. The decline in global output growth in 2023 is largely driven by reduced economic activity in the advanced economies, attributable to increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector in advanced economies.

Growth in the advanced economy group, is projected at 1.3 percent in 2023 and to moderate to 1.4 percent in 2024, due to increased interest rates and financial markets volatilities. Growth in most economies in this group is forecast to slowdown in 2023, including the US (1.6 percent), Euro Area (0.8 percent), UK (-0.3 percent), and Japan (1.3 percent).

In the emerging market and developing economies (EMDEs), growth is projected to slowdown, from 4.0 percent in 2022 to 3.9 percent in 2023 and 4.2 percent in 2024, a downgrade of 0.1 percentage points compared to the January 2022 updates projections. In Sub-Saharan Africa (SSA), economic activity is projected at 3.6 percent in 2023 and to improve to 4.2 percent in 2024. Nigeria, South Africa, and Kenya are expected to grow by 3.2 percent, 0.1 percent, and 5.3 percent in 2023, respectively. In 2024, they are expected to grow by 3.0 percent (Nigeria), 1.8 percent (South Africa), and 5.4 percent (Kenya).

Global financial conditions worsened in quarter one of 2023, reflecting rising interest rates in major economies as major central banks continue with monetary policy tightening, and rise in credit risks associated with instabilities in the banking sector. In response to ongoing monetary tightening, global inflation is expected to fall from 8.7 percent in 2022 to 7.0 percent and 4.9 percent in 2023 and 2024, respectively. However, this will still be above the respective economies targets.

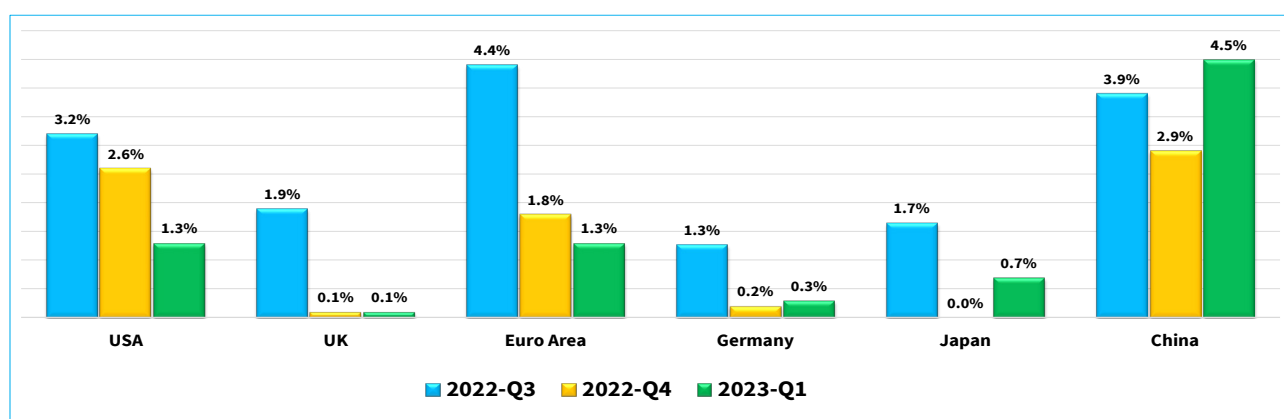
Global commodity market pressures are expected to continue easing as nonfuel and fuel commodity prices decline. Oil prices are expected to fall by about 24.1 percent to average US \$73.13 per barrel in 2023 and US \$68.90 per barrel in 2024, respectively, while nonfuel commodity prices are expected to fall by 2.8 percent in 2023. Global demand is expected to pick up, reflecting increased consumer spending, particularly in the service sector as demand for travel, tourism, and recreational activities rise. The world trade growth is expected to decline in 2023 to 2.4 percent, despite an easing of supply bottlenecks, before rising to 3.5 percent in 2024.

Official preliminary GDP estimates released for the first quarter of 2023 show estimated growth in the United States to have slowed to 1.3 percent, United Kingdom (0.1 percent), Euro Area (1.3 percent), Germany (0.3 percent). However, GDP estimates show accelerated growth for China (4.5 percent) and Japan (0.7 percent). Overall, downside risks to the global outlook remain substantial. There are risks arising from high interest rates related concerns and escalating financial market uncertainty due to a rise in credit risks in major economies. However, continued pick up in global service demand, and inflation pressures abating in major economies will likely boost global economic recovery.

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

	Annual Year over Year			Quarterly Q4 Over Q4		
	Estimate	Projections		Estimate	Projections	
	2022	2023	2024	2022	2023	2024
World Output	3.4	2.8	3.0	2.0	2.9	3.1
Advanced Economies	2.7	1.3	1.4	1.2	1.1	1.6
United States	2.1	1.6	1.1	0.9	1.0	1.3
Euro Area	3.5	0.8	1.4	1.9	0.7	1.8
Germany	1.8	-0.1	1.1	0.9	0.2	1.8
France	2.6	0.7	1.3	0.5	0.8	1.4
Italy	3.7	0.7	0.8	1.4	0.4	1.1
Spain	5.5	1.5	2.0	2.7	1.3	2.1
Japan	1.1	1.3	1.0	0.6	1.3	1.0
United Kingdom	4.0	-0.3	1.0	0.4	-0.4	2.0
Canada	4.0	3.9	4.2	2.8	4.5	4.4
Emerging Market and Developing Economies	3.0	5.2	4.5	3.0	5.8	4.7
China	6.8	5.9	6.3	4.5	6.2	6.4
India	-2.1	0.7	1.3	-4.0	0.9	1.4
Russia	4.0	1.6	2.2	2.5	1.2	2.1
Latin America and the Caribbean	2.9	0.9	1.5	2.3	0.9	2.0
Brazil	3.1	1.8	1.6	3.7	1.2	1.9
Mexico	5.3	2.9	3.5	...	...	...
Middle East and Central Asia	8.7	3.1	3.1	5.5	3.1	3.2
Saudi Arabia	3.9	3.6	4.2	...	...	...
Sub-Saharan Africa	3.3	3.2	3.0	3.1	3.0	3.7
Nigeria	2.0	0.1	1.8	1.3	1.1	1.7
South Africa	5.4	5.3	5.4	...	...	...
World Trade Volume (goods and services)	5.1	2.4	3.5	0.0		0.1
Commodity Prices						
Oil	39.2	-24.1	-5.8	8.8	-17.3	-3.4
Nonfuel	7.4	-2.8	-1.0	-0.7	3.5	-0.5
Consumer Prices						
Advanced Economies	7.3	4.7	2.6	7.7	3.2	2.2
Emerging Market and Developing Economies	9.8	8.6	6.5	10.5	7.6	5.0

Source: IMF, World Economic Outlook, January 2023 Update

**Chart 4.1: Global growth, third quarter 2022 to first quarter 2023 (percent)**

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

## Chapter 5

# Balance of Payments and Exchange Rates

### Overview

The current account balance is estimated to have narrowed to USD 1,092 million in the first quarter of 2023 from USD 1,225 million in the first quarter of 2022, reflecting a decline in imports and good performance in exports of goods. The lower import bill was attributed to a decline in manufactured

goods and machinery and transport equipment. Secondary income inflows remained strong and improved by USD 181 million to USD 1,806 million in the first quarter of 2023 from USD 1,624 million in a similar quarter in 2022 (**Table 5.1**).

**Table 5.1: Balance of payments (USD Million)**

ITEM	2022				2023*				Q1 2023-Q1 2022	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Oct-Dec				Change	%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1		
1. Overall Balance	1,060	-94	946	235	475	318	215	1,008	-52	-5
2. Current account	-1,225	-1,771	-1,774	-1,005	-505	-249	-338	-1,092	133	-11
Exports (fob)	1,828	1,957	1,889	1,747	593	616	635	1,844	15	1
Imports (fob)	4,712	5,101	5,015	4,309	1,435	1,273	1,535	4,243	-469	-10
Services: credit	1,628	1,596	1,643	1,568	474	474	541	1,489	-139	-9
Services: debit	1,195	1,353	1,322	1,401	474	445	476	1,395	200	17
Balance on goods and services	-2,450	-2,901	-2,804	-2,396	-842	-628	-835	-2,305	145	-6
Primary income: credit	5	23	3	8	4	6	3	12	7	120
Primary income: debit	398	466	534	382	238	179	130	547	149	38
Balance on goods, services and primary income	-2,843	-3,344	-3,334	-2,770	-1,077	-801	-963	-2,840	2	0
Secondary income : credit	1,624	1,595	1,572	1,772	618	558	630	1,806	181	11
o.w Remittances	1,024	1,034	957	1,045	351	309	361	1,021	-3	0
Secondary income: debit	6	22	12	7	46	6	5	57	50	777
3. Capital Account	65	42	5	30	28	44	38	110	45	70
4. Financial Account	-727	-1,717	-1,460	-302	-123	-140	-397	-660	68	-9

\* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

### Current Account Balance

The trade balance is estimated to have improved by 17 percent from a deficit of USD 2,884 million in the first quarter of 2022 to a deficit of USD 2,399 million in the first quarter of 2023, attributed to a decline in import products (**Table 5.1**). The value of merchandise exports increased to USD 1,844 million in the first quarter of 2023 from USD 1,828 million in a similar period in 2022, owing mostly to increased earnings from manufactured products and chemicals, despite the decline in tea and horticulture. Export of manufactured goods increased by 42 percent

primarily to the region. However, tea earnings fell by 2 percent in the first quarter of 2022 compared to a similar period in 2023 attributed to low demand in Kenya's traditional markets (Pakistan and Sudan). Earnings from horticulture declined by 13 percent in the review period despite an increase in volumes.

The value of merchandise imports decreased by 10 percent to USD 4,243 million in the first quarter of 2023, from USD 4,712 million in a similar quarter in 2022, largely on account of reduced imports of manufactured goods, machinery and transport equipment which declined by 29 per cent and 26

percent respectively owing to completion of major projects. Imports of petroleum products were largely stable in the period under review due a reduction in international oil prices. Net receipts on the services account declined by USD 339 million to USD 94

million from USD 433 million in the first quarter of 2022. Receipts from transport declined by USD 152 million while travel receipts improved by USD 86 million as international travel continued to improve. **(Table 5.2).**

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

ITEM	2022				2023*				Q1 2023-Q1 2022	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar				Change	%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1		
<b>CURRENT ACCOUNT</b>	<b>-1,225</b>	<b>-1,771</b>	<b>-1,774</b>	<b>-1,005</b>	<b>-505</b>	<b>-249</b>	<b>-338</b>	<b>-1,092</b>	<b>133</b>	<b>-11</b>
<b>Goods</b>	<b>-2,884</b>	<b>-3,144</b>	<b>-3,125</b>	<b>-2,562</b>	<b>-842</b>	<b>-657</b>	<b>-900</b>	<b>-2,399</b>	<b>484</b>	<b>-17</b>
<b>Exports (fob)</b>	<b>1,828</b>	<b>1,957</b>	<b>1,889</b>	<b>1,747</b>	<b>593</b>	<b>616</b>	<b>635</b>	<b>1,844</b>	<b>15</b>	<b>1</b>
o.w Coffee	88	113	77	53	11	21	32	64	-24	-27
Tea	347	346	337	353	109	108	125	342	-6	-2
Horticulture	264	257	216	207	70	82	79	231	-33	-13
Oil products	17	19	34	19	8	9	8	25	8	45
Manufactured Goods	124	167	172	159	58	56	62	176	52	42
Raw Materials	116	144	118	120	57	43	35	135	19	16
Chemicals and Related Products (n.e.s)	125	158	173	150	43	56	59	159	34	27
Miscellaneous Man. Articles	163	181	195	151	45	53	53	151	-12	-8
Re-exports	220	200	212	163	62	41	46	149	-71	-32
Other	354	359	344	358	126	142	131	399	45	13
<b>Imports (fob)</b>	<b>4,712</b>	<b>5,101</b>	<b>5,015</b>	<b>4,309</b>	<b>1,435</b>	<b>1,273</b>	<b>1,535</b>	<b>4,243</b>	<b>-469</b>	<b>-10</b>
o.w Oil	1,137	1,568	1,634	1,210	352	463	376	1,191	54	5
Chemicals	906	814	865	692	301	231	309	841	-65	-7
Manufactured Goods	954	937	856	723	226	218	238	682	-272	-28
Machinery & Transport Equipment	1,006	969	888	896	254	242	259	755	-251	-25
Machinery	725	632	620	579	167	174	163	504	-221	-30
Transport equipment	281	337	268	317	87	68	96	251	-30	-11
Other	935	1,222	1,090	1,134	414	298	457	1,169	234	25
o.w Food	433	561	520	556	186	141	280	607	174	40
<b>Services</b>	<b>433</b>	<b>243</b>	<b>322</b>	<b>167</b>	<b>0</b>	<b>29</b>	<b>65</b>	<b>94</b>	<b>-339</b>	<b>-78</b>
Transport Services (net)	145	2	42	-24	-20	-16	4	-32	-178	-122
Credit	664	588	569	482	170	155	187	511	-152	-23
Debit	518	586	527	505	190	170	184	544	26	5
Travel Services (net)	197	242	261	253	83	91	100	274	76	39
Credit	232	277	302	296	98	104	116	318	86	37
Debit	35	36	41	43	15	13	16	44	10	28
Other Services (net)	91	-1	19	-63	-63	-46	-39	-147	-238	-262
<b>Primary Income</b>	<b>-393</b>	<b>-443</b>	<b>-530</b>	<b>-374</b>	<b>-235</b>	<b>-173</b>	<b>-127</b>	<b>-535</b>	<b>-143</b>	<b>36</b>
Credit	5	23	3	8	4	6	3	12	7	120
Debit	398	466	534	382	238	179	130	547	149	38
<b>Secondary Income</b>	<b>1,618</b>	<b>1,573</b>	<b>1,560</b>	<b>1,765</b>	<b>572</b>	<b>552</b>	<b>625</b>	<b>1,749</b>	<b>131</b>	<b>8</b>
Credit	1,624	1,595	1,572	1,772	618	558	630	1,806	181	11
Debit	6	22	12	7	46	6	5	57	50	777

\*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance widened by USD 143 million to a deficit of USD 535 million in the first quarter of 2023 from a deficit of USD 393 million in the same period last year, reflecting higher interest related payments on other investments. The secondary income balance rose by USD 131 million

to 1,749 in the first quarter of 2023 compared with USD 1,618 in the first quarter of 2022. Remittances declined marginally to USD 1,021 million in the first quarter of 2023 from USD 1,024 million in the same period in the previous year **(Table 5.1 and 5.2).**



## Direction of Trade

Imports from China accounted for 17 percent of total imports to Kenya making it the largest single source of imports, despite decreasing by 27 percent in the first quarter of 2023, compared to the same quarter in 2022. Imports from the UAE rose by USD 34 million,

while those from Africa declined by USD 88 million to USD 489 million in the first quarter of 2023, reflecting reduced imports from South Africa and EAC region primarily imports from Tanzania (**Table 5.3**).

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

IMPORTS (USD M)	2022								2023*		Share of Imports (%)
	2022				2023*						
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan	Feb	Mar	Q1			
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2022	Q1 2023	
Africa	577	553	629	508	173	152	163	489	12	12	
Of which											
South Africa	156	112	138	114	26	47	56	130	3	3	
Egypt	99	97	93	85	28	26	37	91	2	2	
Others	322	344	398	310	118	79	70	267	7	6	
EAC	180	219	219	171	45	60	46	151	4	4	
COMESA	252	266	265	256	72	82	82	236	5	6	
Rest of the World	4,135	4,547	4,386	3,801	1,262	1,120	1,372	3,754	88	88	
Of which											
India	545	757	441	388	195	112	211	517	12	12	
United Arab Emirates	633	908	929	972	267	292	107	667	13	16	
Japan	222	222	202	182	55	45	62	162	5	4	
USA	214	190	191	197	47	53	53	153	5	4	
United Kingdom	80	70	76	69	30	23	19	71	2	2	
Singapore	16	12	30	43	14	19	12	45	0	1	
Germany	66	74	90	60	24	30	22	76	1	2	
Saudi Arabia	325	348	191	178	32	67	249	348	7	8	
Indonesia	50	31	78	70	54	14	39	107	1	3	
Netherlands	49	44	138	40	14	29	22	66	1	2	
France	40	47	47	46	35	12	16	63	1	1	
Bahrain	42	2	4	1	0	0	6	7	1	0	
Italy	46	77	43	44	14	8	21	42	1	1	
Others	1,805	1,765	1,926	1,511	481	417	532	1,429	38	34	
Total	4,712	5,101	5,015	4,309	1,435	1,273	1,535	4,243	100	100	
EU	445	447	571	469	161	146	146	453	9	11	
China	987	991	957	908	246	239	234	719	21	17	

\*Provisional

Source: Kenya Revenue Authority

The value of goods exported to Africa in the first quarter of 2023 was USD 782 million, accounting for 42 percent of total exports. Exports to EAC region rose mainly due to increased exports to Uganda and Rwanda. The share of exports to the EU was 21

percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 8 percent, 6 percent, 7 percent, and 6 percent, respectively (**Table 5.4**).

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

EXPORTS (USD M)									Share of Exports (%)	
	2022				2023*					
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar					
Country	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Q1 2022	Q1 2023
Africa	704	757	799	717	240	269	273	782	39	42
Of which										
Uganda	181	205	234	197	80	80	85	245	10	13
Tanzania	123	109	123	125	36	37	38	111	7	6
Egypt	65	61	55	46	18	18	21	57	4	3
Sudan	16	15	17	18	6	6	7	19	1	1
South Sudan	58	55	41	44	15	21	22	58	3	3
Somalia	30	26	38	35	9	20	11	40	2	2
DRC	34	37	36	44	13	17	14	44	2	2
Rwanda	67	93	106	75	25	23	25	74	4	4
Others	130	155	150	134	39	47	49	135	7	7
				0				0	0	0
EAC	441	480	527	457	160	166	176	502	24	27
COMESA	452	524	545	472	168	178	185	530	25	29
Rest of the World	1,124	1,200	1,090	1,029	353	347	362	1,062	61	58
Of which				0						
United Kingdom	114	93	86	86	34	38	35	107	6	6
Netherlands	162	150	128	151	47	49	46	142	9	8
USA	135	215	191	138	44	35	40	120	7	7
Pakistan	148	124	127	144	36	31	44	111	8	6
United Arab Emirates	91	115	93	76	27	27	32	85	5	5
Germany	37	35	34	29	10	12	13	35	2	2
India	16	17	19	16	4	5	9	18	1	1
Afghanistan	6	9	4	7	3	5	5	13	0	1
Others	414	442	408	382	148	146	137	431	23	23
Total	1,828	1,957	1,889	1,747	593	616	635	1,844	100	100
				0						
EU	414	395	357	352	134	126	125	385	23	21
China	53	68	56	56	25	29	8	63	3	3

\*Provisional

Source: Kenya Revenue Authority

## Capital and Financial Account

Net capital account inflows were USD 110 million in the first quarter of 2023. Net financial account inflows were lower at USD 660 million in the first

quarter of 2023, compared to net inflows of USD 727 million in the first quarter of 2022 (**Table 5.5**). This largely reflects an decrease in portfolio investment inflows.

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

	2022				2023*				Q4 2022-Q4 2021	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar				Absolute	%
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1	Change	Change
Capital account credit	65	42	5	30	28	44	38	110	45	70
Capital account credit	65	42	5	30	28	44	38	110	45	70
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-727	-1,717	-1,460	-302	-123	-140	-397	-660	68	-9
Direct investment: assets	85	2	-19	-14	-7	-7	-5	-18	-103	-122
Direct investment: liabilities	56	117	116	103	51	51	55	157	101	178
Portfolio investment: assets	184	125	28	145	29	27	17	73	-111	-60
Portfolio investment: liabilities	-25	-95	-63	-46	-28	-8	-87	-123	-98	388
Financial derivatives: net	1	7	5	-33	-2	0	0	-2	-3	-238
Other investment: assets	-533	-65	-523	564	-232	197	-148	-183	350	-66
Other investment: liabilities	434	1,764	898	906	-112	314	293	495	62	14

\* Provisional

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The banking system's total foreign exchange holdings decreased to USD 10,901 million at the end of the first quarter of 2023 from USD 12,590 million in a similar period in 2022. The official reserves

held by the Central Bank constituted the bulk of the gross reserves and decreased to USD 6,962 million, equivalent to 3.9 months of import cover, while Commercial bank reserves decreased by USD 218 million to end at USD 3,939 million at the end of first quarter of 2023 (**Table 5.6**).

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

	2022				2023*			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar			
	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Q1
1. Gross Reserves	12,590	12,581	11,408	12,085	11,417	11,286	10,901	10,901
of which:								
Official	8,432	8,495	7,549	7,969	7,495	7,177	6,962	6,962
import cover*	5.0	4.9	4.3	4.5	4.2	4.0	3.9	3.9
Commercial Banks	4,158	4,086	3,859	4,115	3,922	4,110	3,939	3,939
2. Residents' foreign currency deposits	7,311	7,798	7,854	8,989	7,931	8,095	7,760	7,760

\*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 remained relatively stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 11.0

percent against the US Dollar to exchange at an average of 126.4 in the first quarter of 2023 compared with 113.79 in a similar quarter in 2022. It also depreciated against all EAC regional currencies (**Table 5.7 and Chart 5.1**).

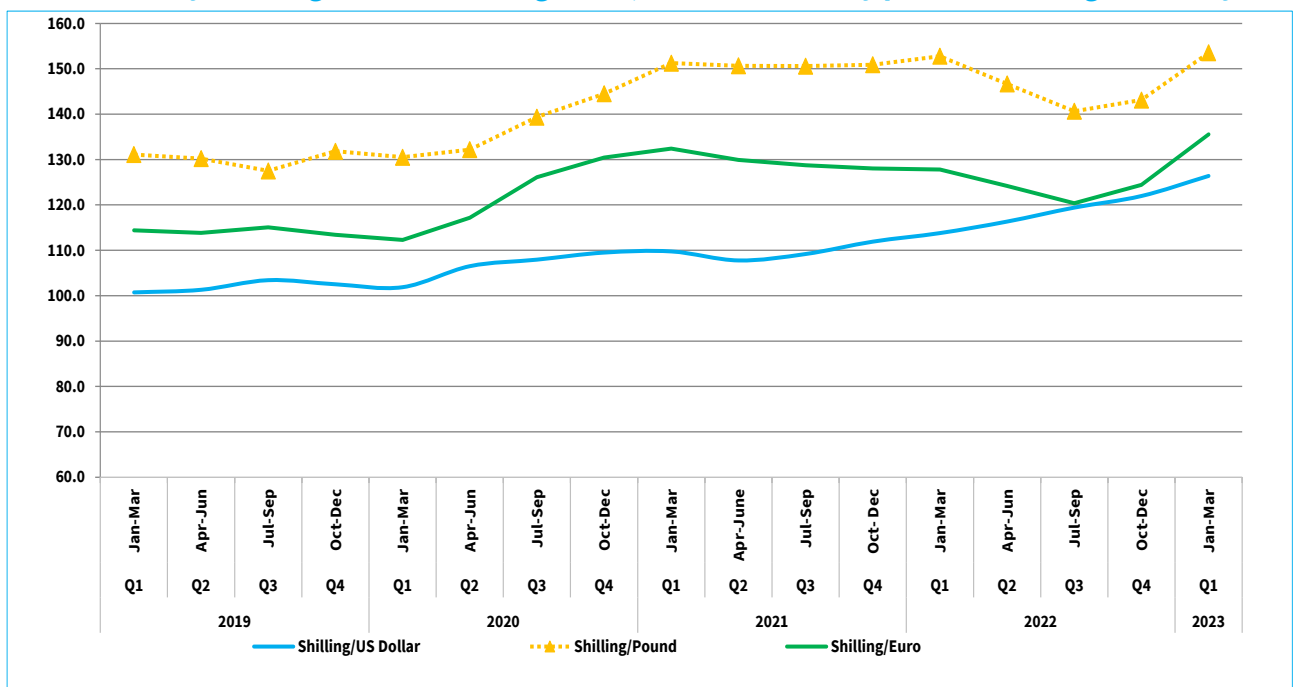
**Table 5.7: Kenya Shilling exchange rate**

	2022				2023				Q1 2023- Q1 2022 % change
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan	Feb	Mar	Jan-Mar	
US Dollar	113.79	116.32	119.40	121.95	123.93	125.45	129.74	126.37	11.06
Pound Sterling	152.77	146.67	140.66	143.12	151.33	151.87	157.35	153.52	0.49
Euro	127.81	124.21	120.35	124.40	133.43	134.53	138.79	135.58	6.09
100 Japanese Yen	97.99	89.90	86.45	86.28	95.05	94.66	96.95	95.55	-2.49
South Africa Rand	7.46	7.50	7.02	6.92	7.25	7.03	7.09	7.12	-4.46
Uganda Shilling*	31.15	31.28	31.96	30.82	29.79	29.36	28.84	29.33	-5.82
Tanzania Shilling*	20.32	20.00	19.53	19.13	18.85	18.64	18.04	18.51	-8.89
Rwanda Franc*	9.06	8.78	8.67	8.77	8.67	8.66	8.43	8.59	-5.19
Burundi Franc*	17.66	17.66	17.27	16.97	16.73	16.55	16.03	16.44	-6.94

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

## Chapter 6 Banking Sector

### Overview

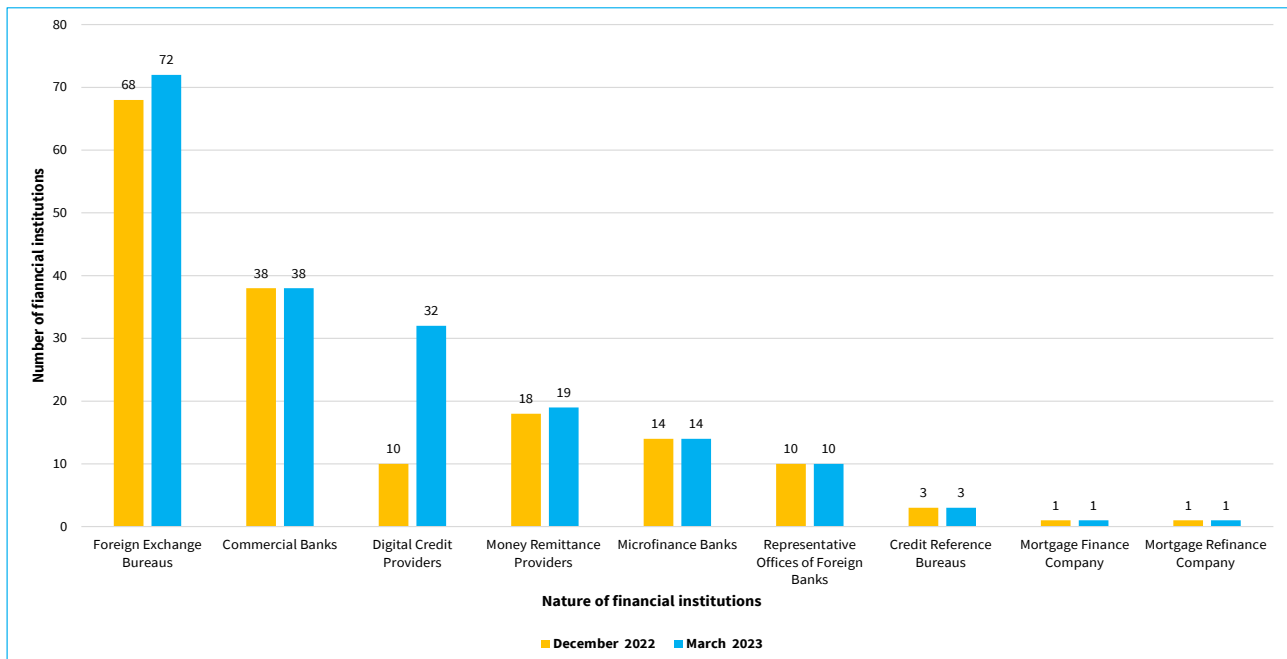
The banking sector remained stable and resilient in the first quarter of 2023. Total assets increased by 2.7 percent from Ksh.6,596.6 billion in December 2022, to Ksh.6,771.7 billion in March 2023. The deposit base also increased by 2.1 percent from Ksh.4,730.1 billion in the fourth quarter of 2022, to Ksh.4,828.3 billion in the first quarter of 2023. The sector was well capitalized with capital adequacy ratio of 18.4 percent, which was above the minimum capital requirement of 14.5 percent. Similarly, the sector remained profitable in the first quarter of 2023, with quarterly profit before tax of Ksh.65.1 billion, an increase from Ksh.57.2 billion reported in the fourth quarter of 2022. Credit risk remained elevated with Gross Non-performing Loans (NPLs)

to Gross Loans Ratio standing at 14.0 percent at the end of the first quarter of 2023, an increase from 13.3 percent recorded at the end of fourth 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, 10 Representative Offices of Foreign Banks, 72 Foreign Exchange Bureaus, 19 Money Remittance Providers, 3 Credit Reference Bureaus and 32 Digital Credit Providers as of March 31, 2023. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

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



Source: Central Bank of Kenya

## Structure of the Balance Sheet

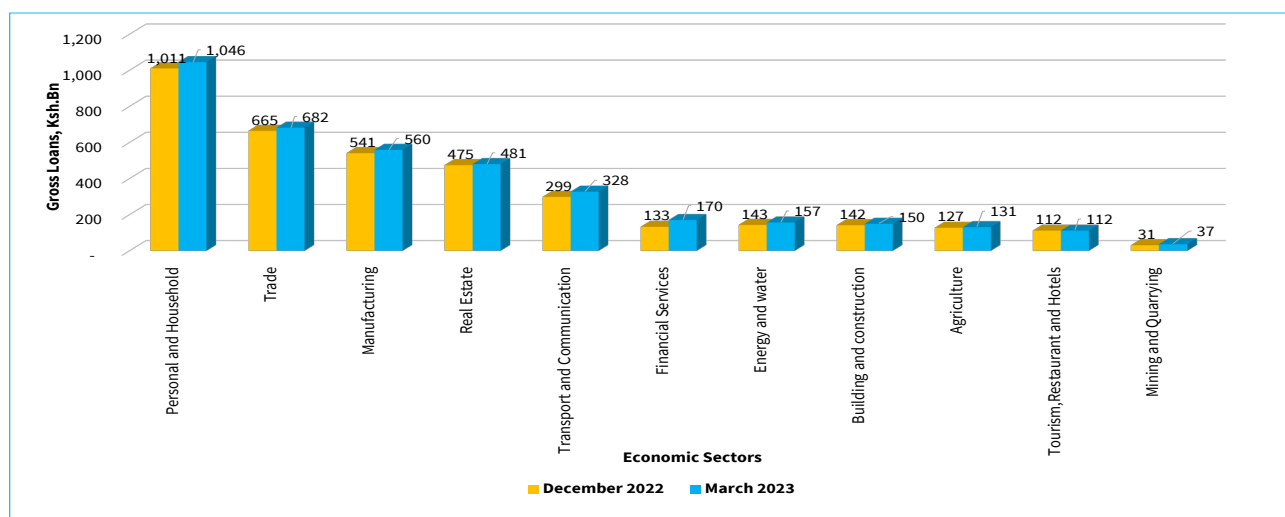
### i) Growth in banking sector assets

Total assets increased by 2.7 percent from KSh 6,596.6 billion in December 2022, to KSh 6,771.7 billion in March 2023. The increase in total assets was mainly recorded in loans and advances by KSh 175 billion (4.8 percent) and placements by KSh 54.0 billion (15.1 percent). Net loans and advances remained the main component of total assets, accounting for 52.1 percent in the first quarter of 2023, an increase from 51.0 percent recorded in the fourth quarter of 2022.

### ii) Loans and Advances

The banking sector loan book increased by 4.8 percent, from KSh 3,677.3 billion in the fourth quarter of 2022, to KSh 3,852.3 billion in the first quarter of 2023. The increase in gross loans and advances was largely witnessed in the Financial Services, Mining and Quarrying, Transport and Communication, and Energy and Water sectors. The increase in gross loans was mainly due to increased new advances granted for working capital purposes. The sectoral distribution of gross loans for the fourth quarter of 2022 and the first quarter of 2023, is highlighted in **Chart 6.2**.

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



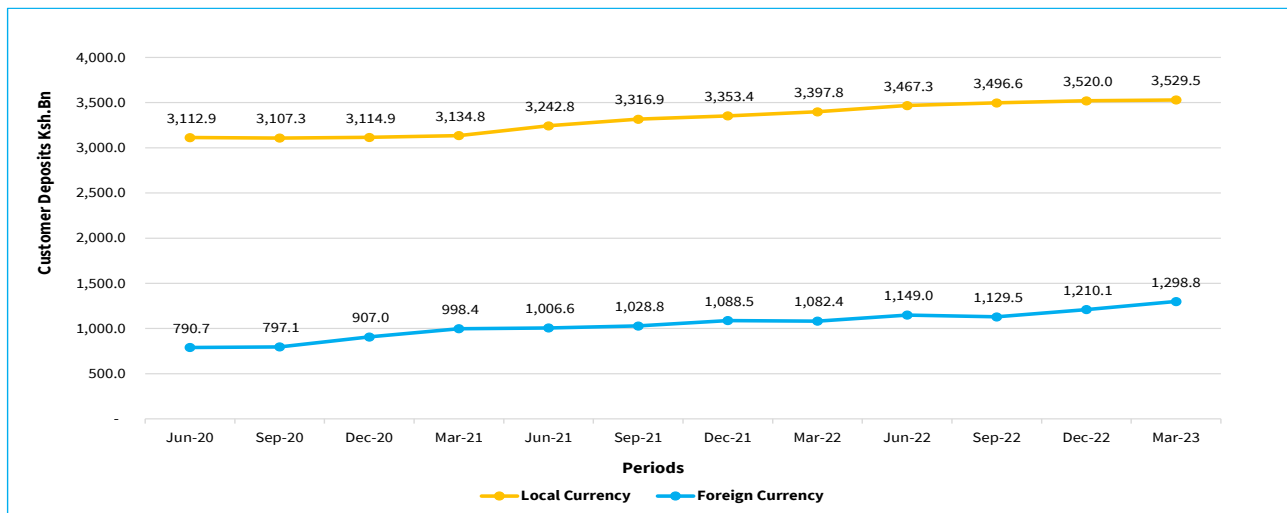
Source: Central Bank of Kenya

### iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 71.3 percent of the banking sector total liabilities and shareholders' funds as at the end of the first quarter of 2023. The customer deposit base increased by KSh 98.2 billion from KSh 4,730.1 billion in the fourth quarter of 2022, to KSh 4,828.3 billion in the first quarter

of 2023. Local currency deposits increased by KSh 9.5 billion (0.3 percent) from KSh 3,520.0 billion in the fourth quarter of 2022, to KSh 3,529.5 billion in the first quarter of 2023. Foreign currency deposits increased by KSh 88.7 billion (7.3 percent) from KSh 1,210.1 billion in the fourth quarter of 2022, to KSh 1,298.8 billion in the first quarter of 2023. **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 1.0 percent from KSh 822.3 billion in the fourth quarter of 2022, to KSh 830.3 billion in the first quarter of 2023. Total capital also increased by 1.6 percent from KSh 968.2 billion in the fourth quarter of 2022, to KSh 983.3 billion in the first quarter of 2023.

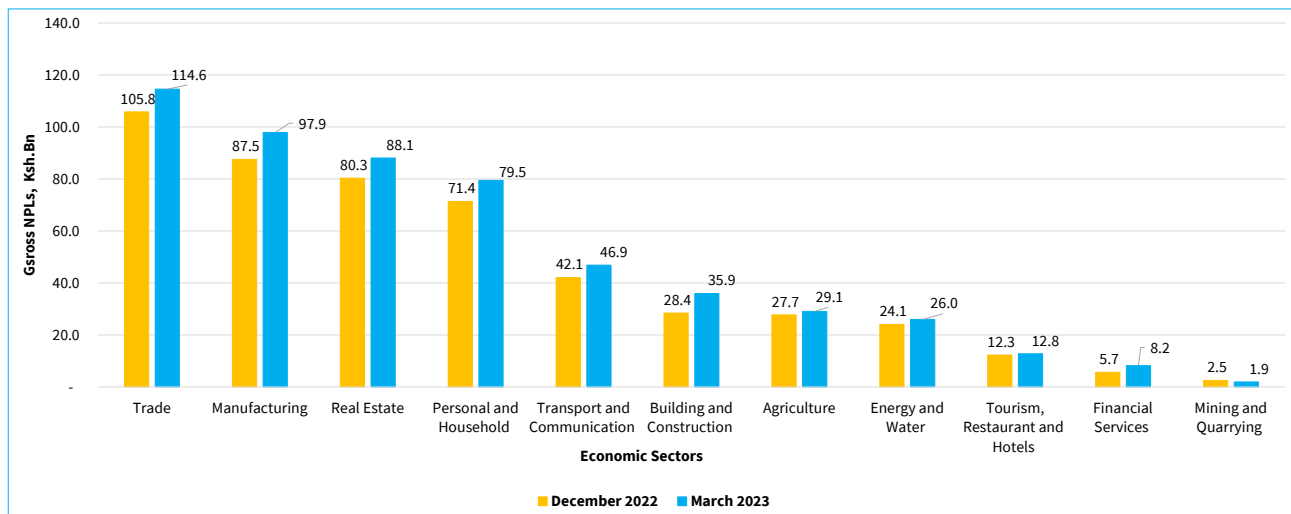
Core capital to total risk-weighted assets ratio decreased from 16.1 percent in the fourth quarter of 2022 to 15.5 percent in the first quarter of 2023. Similarly, total capital to total risk-weighted assets ratio decreased from 19.0 percent in fourth quarter of 2022 to 18.4 percent in the first quarter of 2023. The decreases in the capital ratios were mainly due to a higher increase in Total Risk Weighted Asset (4.9 percent) as compared to the increases in capital.

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.1 percent in the first of 2023.

## Asset Quality

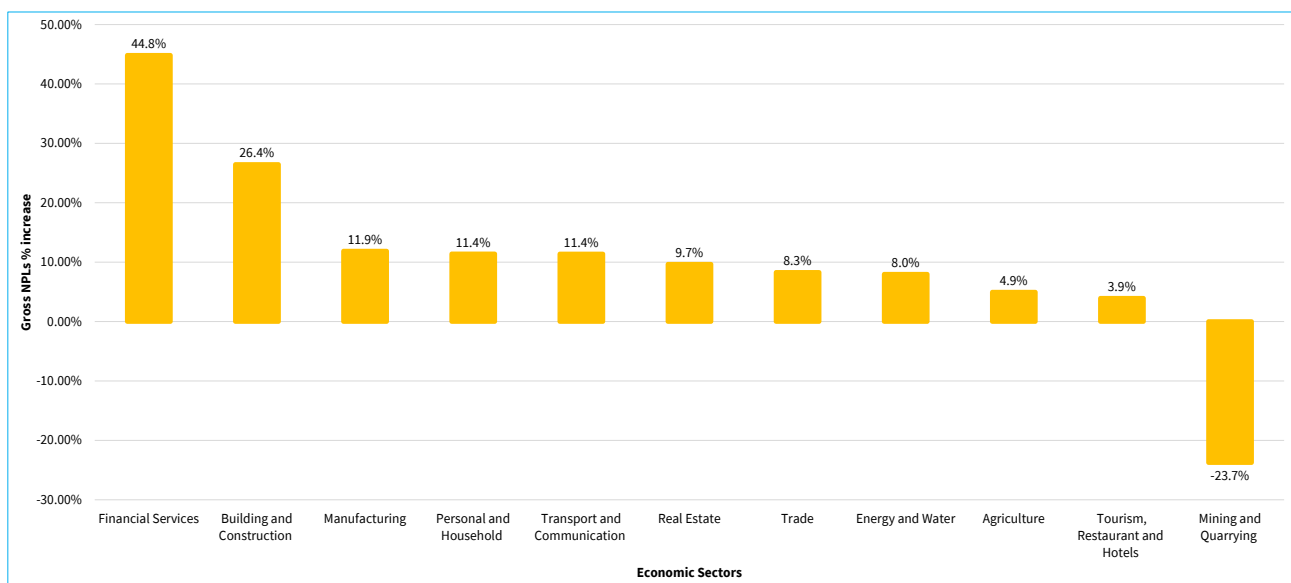
The gross non-performing loans (NPLs) increased by 10.9 percent to KSh 540.8 billion at the first quarter of 2023, from KSh 487.7 billion at the end of the fourth quarter of 2022. The gross NPLs to gross loans ratio increased from 13.3 percent in the fourth quarter of 2022, to 14.0 percent in the first quarter of 2023. This was due to a higher increase in gross NPLs (10.9 percent) as compared to the increase in gross loans (4.8 percent). **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 ten economic sectors as highlighted in **Chart 6.5**.

**Chart 6.5: Movements in Gross NPLs-Fourth Quarter of 2022 and First Quarter 2023**

Source: Central Bank of Kenya

Financial Services, Building and Construction, Manufacturing, Personal and Household, and Transport and Communication sectors registered increases in NPLs by KSh 33.4 billion as a result of delayed repayments attributed to a challenging operating environment. Mining and Quarrying recorded major decrease in NPLs, mainly due to repayments.

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

gross loans deteriorated, with the ratio increasing from 4.8 percent in the fourth quarter of 2022, to 5.6 percent in the first quarter of 2023. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased to 40.4 percent in the first quarter of 2023, from 43.3 percent in fourth quarter of 2022, due to a higher increase in total NPLs (10.9 percent) compared to the increase in specific provisions (3.8 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**

		December-22	March-23
1	Gross Loans and Advances (Ksh.Bn)	3,677.3	3,852.3
2	Interest in Suspense (Ksh.Bn)	79.2	85.9
3	Loans and Advances (net of interest suspended) (Ksh.Bn)	3,598.1	3,766.4
4	Gross Non-Performing loans (Ksh.Bn)	487.7	540.8
5	Specific Provisions (Ksh.Bn)	177.0	183.8
6	General Provisions (Ksh.Bn)	53.4	56.7
7	Total Provisions (5+6) (Ksh.Bn)	230.4	240.5
8	Net Advances (3-7) (Ksh.Bn)	3,367.7	3,526.0
9	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	408.5	454.9
10	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	231.5	271.1
11	Total NPLs as % of Total Advances (9/3)	11.4%	12.1%
12	Net NPLs as % of Gross Advances (10/1)	4.8%	5.6%
13	Specific Provisions as % of Total NPLs (5/9)	43.3%	40.4%
14	Gross NPLs to Gross Loans Ratio	13.3%	14.0%

Source: Central Bank of Kenya

## Profitability

The banking sector recorded an increase in quarterly pre-tax profits of KSh 7.9 billion (13.8 percent) from KSh 57.2 billion in the fourth quarter of 2022, to KSh 65.1 billion in the first quarter of 2023. The increase in profitability was mainly attributable to an increase in quarterly income (1.4 percent) with a decrease in quarterly expenses (3.6 percent).

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 45.0 percent, 26.5 percent and 15.3 percent in the first quarter of 2023 as compared to 44.9 percent, 28.4 percent and 15.0 percent in the fourth quarter of 2022.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 32.2 percent, 24.0 percent and 22.4 percent of total expenses respectively in the first quarter of 2023, compared to 31.0 percent, 25.1 percent and 23.2 percent in the fourth quarter of 2022.

Return on Assets (ROA) increased slightly from 3.0 in the fourth quarter of 2022, to 3.1 percent recorded in the first quarter of 2023. Return on Equity (ROE) increased to 27.0 percent in the first quarter of 2023, from 25.2 percent in the fourth quarter of 2022. The increase in ROE and ROA was due to increased profit before tax between the two quarters.

## Liquidity

The banking sector's overall liquidity ratio decreased from 50.8 percent in the fourth quarter of 2022, to 49.9 percent in the first quarter of 2023. The decrease was driven by a higher increase in total short-term liabilities (2.7 percent) as compared to an 0.8 percent increase in total liquid assets between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent. Balances with foreign banks and balances with domestic commercial banks recorded major increases of 31.4 percent and 30.2 percent respectively. The liquidity components that recorded major decreases were balances with CBK (3.8 percent), local notes and coins (3.8 percent) and Treasury bonds (0.1 percent).

## Outlook of the Sector

- The banking sector is projected to remain stable in the second quarter of 2023.
- Credit risk is expected to remain elevated in short to medium term as the domestic and regional economies recover from recent shocks.
- Operational risk is expected to remain elevated with increasing cyber security risk, and money laundering and financing of terrorism risk, particularly in the back of increased digitization.
- Interest rate risk is expected to be elevated on the back of rising interest rates.
- Liquidity risk is expected to remain stable.

### Kenya Shilling Flows in KEPSS

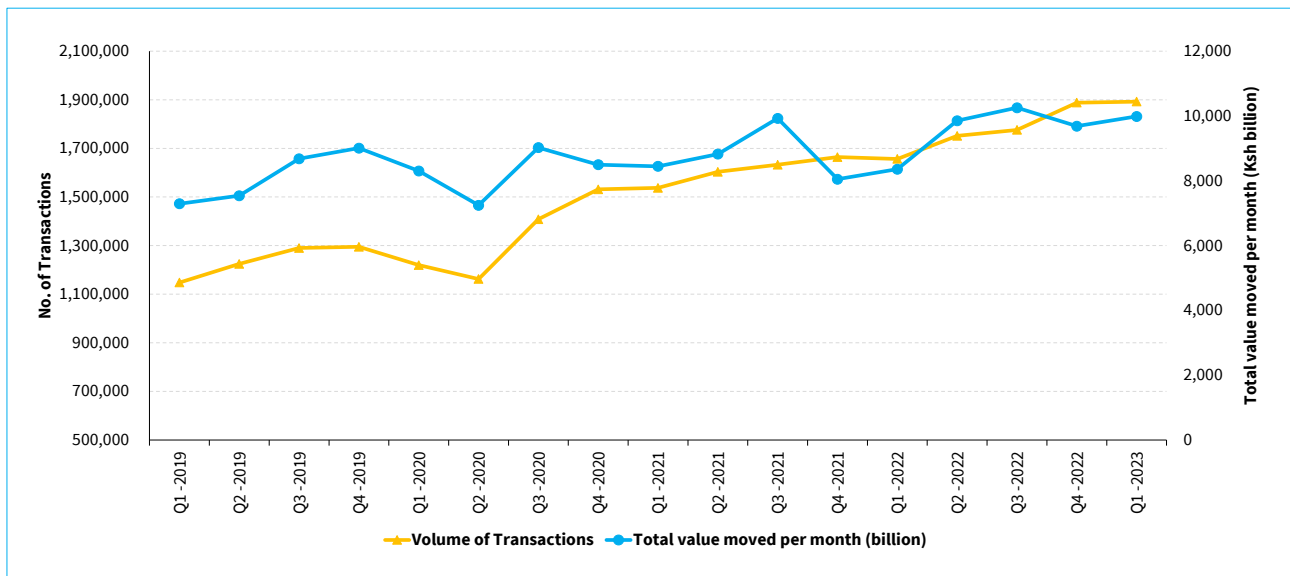
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 1.89 million transaction messages worth KSh 10 trillion in the first quarter of 2023, compared to the previous quarter which recorded 1.89 million transactions worth KSh 9.7 trillion. The volumes and values increased by 0.22 percent and 3.09 percent respectively.

Chart 6.6 below highlights recent trends in KEPSS transactions.

### System Availability

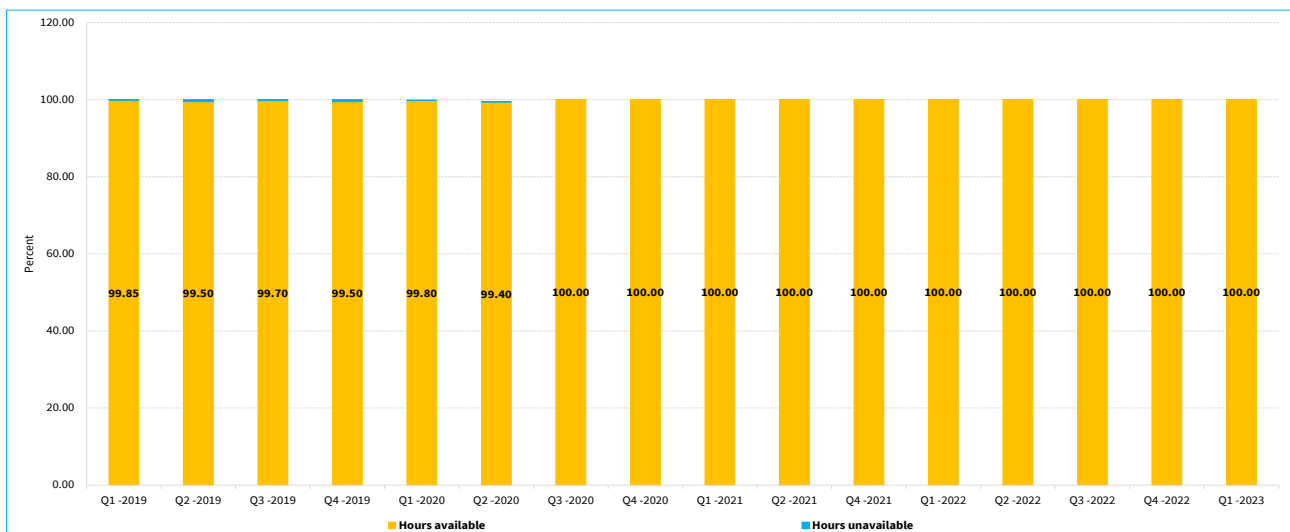
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the period under review (Chart 6.7).

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

## Chapter 7

# Government Budgetary Performance

The Government's budgetary operations at the end of the third quarter of FY 2022/23 resulted in a deficit (including grants) of 2.5 percent of GDP.

Revenue collection and expenditure were below target by 7.1 percent and 14.1 percent, respectively (**Table 7.1**).

**Table 7.1: Statement of government operations (KSh Billion)**

	FY 2022/23						Over (+) / Below (-) Target	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
	Jan	Feb	Mar	Q3	Cumulative to Mar-23	Target					
<b>1. TOTAL REVENUE &amp; GRANTS</b>	167.2	158.8	181.0	507.0	1,658.4	1,784.9	(126.5)	(7.1)	(3.6)	11.4	12.3
Ordinary Revenue	153.7	139.3	163.3	456.3	1,441.2	1,553.3	(112.1)		7.3		
Tax Revenue	152.1	131.3	157.0	440.4	1,392.2	1,498.3	(106.1)		6.4		
Non Tax Revenue	1.6	8.1	6.2	15.9	49.1	55.0	(6.0)		40.3		
Appropriations-in-Aid	10.1	13.9	12.9	36.9	198.9	220.1	(21.2)		(58.8)		
External Grants	3.5	5.5	4.9	13.9	18.2	11.5	6.7		23.5		
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	145.2	203.1	210.4	558.8	2,027.6	2,360.2	(332.6)	(14.1)	(26.8)	14.0	16.3
Recurrent Expenses	96.5	154.4	146.2	397.1	1,518.5	1,650.3	(131.8)		(28.8)		
Development Expenses	28.5	26.9	34.7	90.1	296.4	430.5	(134.1)		(33.2)		
County Transfers	20.2	21.9	29.6	71.7	212.8	279.4	(66.7)		0.5		
Others	-	-	-	-	-	-	-				
<b>3. DEFICIT (INCL. GRANTS) (1-2)</b>	22.0	(44.4)	(29.4)	(51.8)	(369.3)	(575.4)	206.1	(35.8)	(78.2)	(2.5)	(4.0)
As percent of GDP	0.2	(0.3)	(0.2)	(0.4)	(2.5)	(4.0)	1.4				
<b>4. ADJUSTMENT TO CASH BASIS</b>	(84.5)	(0.0)	0.0	(84.5)	-	-	-				
<b>5. DEFICIT INCL. GRANTS ON A CASH BASIS</b>	(62.5)	(44.4)	(29.4)	(136.3)	(369.3)	(575.4)	206.1	(35.8)	(32.3)	(2.5)	(4.0)
As percent of GDP	(0.4)	(0.3)	(0.2)	(0.9)	(2.5)	-	(2.5)				
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	23.5	(5.5)	(5.6)		(10.3)	-	(10.3)				
<b>7. FINANCING</b>	75.6	49.3	23.8	148.6	368.0	575.4	(207.4)	(36.0)	(3.0)	2.5	4.0
Domestic (Net)	99.1	61.5	3.1	163.7	287.8	314.5	(26.6)		(5.8)		
Capital Receipts (domestic loan receipts)	-	-	-	-	-	-	-				
External (Net)	(23.6)	(12.2)	20.7	(15.1)	80.1	260.9	(180.8)		(26.7)		
Others	-	-	-	-	-	-	-				

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

### Revenue

Government receipts, comprising revenue and grants decreased by 3.6 percent to KSh 507.0 billion in the third quarter of FY 2022/23, compared to KSh 525.9 billion in the third quarter of FY 2021/22. The decrease was reflected in Appropriation in Aid (A-in-A) which fell by 58.8 percent, to KSh 36.9 billion from KSh 89.5 billion in a similar quarter in FY 2021/22 largely on account of under reporting by Ministries. Over the same period, tax revenue, non-tax revenue and external grants grew by 6.4 percent, 40.3 percent and 23.5 percent, respectively.

There was a minor shift in the composition of tax revenues in the third quarter of FY 2022/2023 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT), income tax and other tax revenues declined by 0.4 percentage points, 0.1 percentage points and 0.1 percentage points, respectively. The share of Excise Taxes increased by 0.5 percentage points, while the share of import tax remained unchanged at 6.8 percent of the total tax revenues.

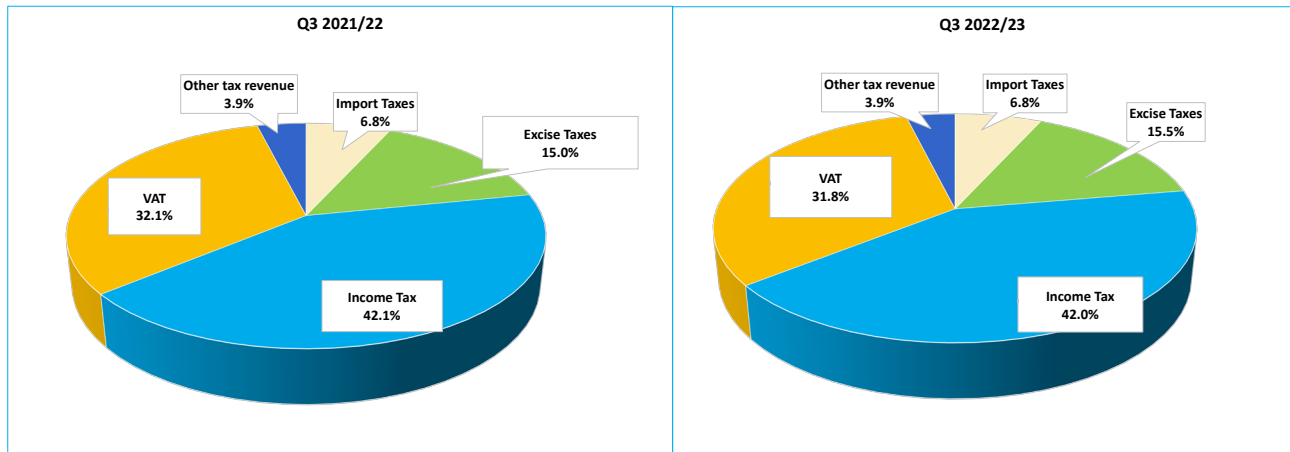
Cumulatively to March 2023, Government total revenue and grants stood at KSh 1,658.4 billion (11.4 percent of GDP) against a target of KSh

1,784.9 billion (12.3 percent of GDP). Tax revenue and nontax revenues were below their respective targets.

External grants cumulatively to March 2023 stood at KSh13.9 billion, which was KSh 6.7 billion higher

than target. Meanwhile, Ministerial Appropriations in Aid (A-in-A) collected during the cumulative period to March 2023 amounted to KSh 198.9 billion, which was KSh 21.2 billion lower than the target.

**Chart 7.1: Composition of tax revenue**



Source: March 2023 BOT, National Treasury

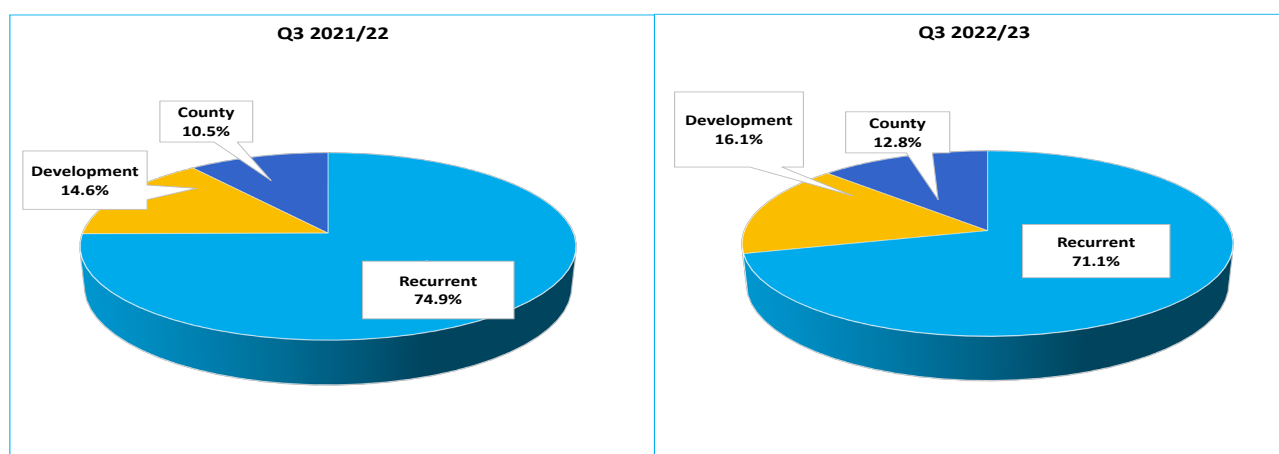
### Expenditure and Net Lending

Government expenditure and net lending decreased by 26.8 percent to KSh 558.8 billion in the third quarter of the FY 2022/23 compared to KSh 763.7 billion in the third quarter of the FY 2021/22. The decrease in expenditures reflected decreases of 28.8 percent and 33.2 percent in national government recurrent and development expenditures, respectively.

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 71.1 percent in the third quarter of the FY 2022/23, which was 3.8 percentage points lower than the level recorded in a similar quarter during

the previous fiscal year. The share of development expenditure and county allocations increased by 1.5 percentage points and 2.3 percentage points respectively, during the period under review (**Chart 7.2**).

Cumulatively, expenditure and net lending to March 2023 amounted to KSh 2,027.6 billion (14.0 percent of GDP), against a target of KSh 2,360.2 billion (16.3 percent of GDP). The shortfall of KSh 332.6 billion was mainly attributed to lower absorption recorded in recurrent and development expenditures by the National Government and below target transfers to County Governments.

**Chart 7.2: Composition of government expenditure**

Source: December 2022 BOT, National Treasury

## Financing

The budget deficit including grants amounted to KSh 369.3 billion or 2.5 percent of GDP at the end of the third quarter of FY 2022/23. Domestic borrowing comprised KSh 2.8 billion net repayment to commercial banks, KSh 237.9 billion from the non-banks, KSh 7.4 billion from other domestic

financing and a drawdown on government deposit at the Central Bank (**Table 7.2**). Net domestic financing and net external financing by the end of the third quarter of FY 2022/23 were below their respective target by KSh 26.6 billion and KSh 180.8 billion, respectively (**Table 7.1 and Table 7.2**).

**Table 7.2 Domestic financing to March 2023 (KSh Billion)**

	FY 2021/22				2022/23		FY 2022/23		
	Jan-22	Feb-22	Q3	Q4	Q1	Q2	Q3		
			Mar-22	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23
1. From CBK	106.6	102.1	102.3	125.5	(1.6)	(58.1)	24.4	35.9	44.7
2. From commercial banks	160.0	173.3	176.9	179.0	25.9	8.7	19.9	36.2	(2.8)
4. From Non-banks	245.2	305.3	320.4	425.8	77.2	171.3	174.9	210.3	237.9
5. From Non-Residents	0.2	0.3	(0.0)	(0.7)	0.1	(0.1)	0.3	0.3	0.6
6. Total Net Domestic Credit	512.0	581.1	599.6	729.6	101.6	121.8	219.4	282.6	280.4
7. Other Domestic financing /1				(121.6)	-	2.3	3.9	2.1	7.4
8. Net Domestic Financing	512.0	581.1	599.6	608.0	101.6	124.1	223.3	284.8	287.8

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

## Outlook for FY 2022/23

In the revised budget from the National Treasury for the FY 2022/23, total revenue including grants is projected at KSh 2,560.2 billion (17.6 percent of GDP). Government expenditure is projected at KSh 3,394.1 billion (23.4 percent of GDP), of which KSh 2,349.9 billion will be for recurrent expenses, KSh

605.8 billion for development expenses and KSh 436.3 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 833.9 billion (5.7 percent of GDP) in FY 2022/23, to be financed through net external borrowing of KSh 395.8 billion and net domestic borrowing of KSh 438.1 billion (**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)	2,560.2	17.6
Ordinary Revenue	2,192.0	15.1
Appropriations-in-Aid	336.8	2.3
External Grants	31.4	0.2
2. TOTAL EXPENSES & NET LENDING	3,394.1	23.4
Recurrent Expenses	2,349.9	16.2
Development Expenses	605.8	4.2
County Transfer	436.3	3.0
Contingency Fund	2.0	0.0
3. DEFICIT INCL. GRANTS (1-2)	(833.9)	(5.7)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	833.9	5.7
Domestic (Net)	438.1	3.0
External (Net)	395.8	2.7

Source: National Treasury

## Chapter 8

# Developments in Public Debt

### Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 2.7 percent during the third quarter of FY 2022/23. Domestic and external debt increased by 1.5 percent and 3.8 percent, respectively. The

ratio of public debt to GDP was estimated at 69.1 percent by the end of third quarter of FY 2022/23 compared to 68.4 percent in the previous quarter (**Table 8.1**).<sup>2</sup>

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

	2020/21	2021/22				2022/23					Change Q on Q
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Jan-23	Feb-23	Q3	
<b>EXTERNAL</b>											
Bilateral	1,140.5	1,149.2	1,171.7	1,171.6	1,173.2	1,144.5	1,206.9	1,223.5	1,229.3	1,291.9	85.0
Multilateral	1,659.4	1,699.4	1,782.1	1,817.4	1,924.0	1,957.9	2,213.8	2,195.1	2,214.1	2,244.1	30.3
Commercial Banks	1,187.4	1,196.2	1,208.3	1,208.2	1,181.3	1,220.7	1,239.7	1,249.4	1,253.2	1,301.2	61.47
Supplier Credits	12.2	13.7	12.3	12.3	12.2	11.8	12.8	13.1	13.1	14.0	1.2
Sub-Total	3,999.5	4,058.5	4,174.4	4,209.6	4,290.7	4,334.8	4,673.1	4,681.1	4,709.7	4,851.1	178.0
(As a % of GDP)	35.4	34.5	34.5	34.0	33.5	33.0	35.0	34.8	34.6	35.7	0.7
(As a % of total debt)	52.0	50.8	50.9	50.1	50.0	49.8	51.1	51.0	50.9	51.7	0.6
<b>DOMESTIC</b>											
Banks	1,901.8	2,008.6	2,031.7	2,097.8	2,088.5	2,086.3	2,101.8	2,121.4	2,136.8	2,096.7	-5.1
Central Bank	87.6	90.9	88.7	95.6	85.1	53.9	84.4	91.9	94.7	103.9	19.5
Commercial Banks	1,814.2	1,917.6	1,943.0	2,002.2	2,003.4	2,032.4	2,017.4	2,029.5	2,042.1	1,992.8	-24.6
Non-banks	1,764.2	1,869.1	1,968.9	2,061.4	2,167.9	2,248.0	2,339.2	2,348.2	2,382.6	2,410.4	71.1
Pension Funds	1,131.3	1,230.2	1,264.1	1,331.5	1,388.8	1,429.6	1,489.9	1,489.7	1,506.8	1,517.8	27.9
Insurance Companies	246.4	260.0	273.7	286.6	307.8	319.7	329.7	332.0	334.5	338.4	8.7
Other Non-bank Sources	386.6	379.0	431.1	443.2	471.2	498.8	519.7	526.5	541.3	554.2	34.5
Non-residents	31.1	34.1	31.7	32.6	31.9	31.9	31.8	32.2	32.2	32.5	0.7
Sub-Total	3,697.1	3,937.8	4,032.4	4,191.8	4,288.3	4,366.3	4,472.8	4,501.7	4,551.6	4,539.6	66.8
(As a % of GDP)	32.7	33.4	33.3	33.8	33.5	33.2	33.5	33.5	33.4	33.4	-0.1
(As a % of total debt)	48.0	49.2	49.1	49.9	50.0	50.2	48.9	49.0	49.1	48.3	-0.6
<b>GRAND TOTAL</b>	<b>7,696.6</b>	<b>7,996.3</b>	<b>8,206.7</b>	<b>8,401.3</b>	<b>8,579.1</b>	<b>8,701.1</b>	<b>9,146.0</b>	<b>9,182.8</b>	<b>9,261.3</b>	<b>9,390.7</b>	<b>244.7</b>
(As a % of GDP)	68.1	67.9	67.8	67.8	66.9	66.2	68.4	68.3	68.0	69.1	0.7

Source: The National Treasury and CBK

### Domestic Debt

The 1.5 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt decreased by 1.6 percentage points to 48.3 percent by the end of the third quarter of FY 2022/23 from 49.9 percent

in a similar quarter in FY 2021/22. The proportion of debt securities to total domestic debt stood at 97.7 percent by the end of the third quarter of FY 2022/23, same level as in a similar quarter in FY 2021/22 (**Table 8.2**).

<sup>2</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 (Billions)					Change: Q on Q		Proportions %				
	2022/23							2021/22	2022/23			
	Q1	Q2	Jan-23	Feb-23	Q3	Ksh(Bn)	%	Q3	Q2	Jan-23	Feb-23	Q3
Total Stock of Domestic Debt (A+B)	4,366.3	4,472.8	4,501.7	4,551.6	4,539.6	66.8	1.5	100.0	100.0	100.0	100.0	100.0
A. Government Securities	4,325.4	4,382.1	4,403.0	4,448.9	4,436.9	54.8	1.2	97.7	98.0	97.8	97.7	97.7
1. Treasury Bills (excluding Repo Bills)	690.6	671.5	658.9	675.4	665.9	-5.7	-0.8	15.7	15.0	14.6	14.8	14.7
Banking institutions	315.7	293.6	289.3	294.4	292.3	-1.3	-0.4	7.7	6.6	6.4	6.5	6.4
The Central Bank	0.1	0.1	0.1	0.1	0.1	0.0	-2.5	0.0	0.0	0.0	0.0	0.0
Commercial Banks	315.6	293.5	289.2	294.3	292.2	-1.3	-0.4	7.7	6.6	6.4	6.5	6.4
Pension Funds	174.1	195.3	186.2	189.6	177.3	-18.0	-9.2	3.8	4.4	4.1	4.2	3.9
Insurance Companies	8.0	8.6	7.7	7.0	6.6	-1.9	-22.7	0.1	0.2	0.2	0.2	0.1
Others	192.7	174.1	175.7	184.5	189.7	15.6	8.9	4.0	3.9	3.9	4.1	4.2
2. Treasury Bonds	3,634.9	3,710.6	3,744.0	3,773.4	3,771.0	60.4	1.6	82.1	83.0	83.2	82.9	83.1
Banking institutions	1,711.6	1,717.7	1,733.4	1,739.8	1,701.9	-15.8	-0.9	40.1	38.4	38.5	38.2	37.5
The Central Bank	7.6	7.4	7.4	7.4	7.4	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,703.9	1,710.2	1,726.0	1,732.4	1,694.4	-15.8	-0.9	39.9	38.2	38.3	38.1	37.3
Insurance Companies	311.6	321.1	324.3	327.5	331.8	10.7	3.3	6.7	7.2	7.2	7.2	7.3
Pension Funds	1,255.4	1,294.6	1,303.5	1,317.2	1,340.5	45.9	3.5	28.0	28.9	29.0	28.9	29.5
Others	356.2	377.2	382.8	388.9	396.8	19.6	5.2	7.3	8.4	8.5	8.5	8.7
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
Banking institutions	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
4. Frozen account	18.9	18.3	18.3	18.3	18.3	0.0	0.0	0.5	0.4	0.4	0.4	0.4
Of which: Repo T/Bills	18.3	17.7	17.7	17.7	17.7	0.0	0.0	0.4	0.4	0.4	0.4	0.4
B. Others:	21.9	72.4	80.4	84.4	84.4	12.0	16.6	1.8	1.6	1.8	1.9	1.9
Of which CBK overdraft to Government	27.2	58.5	66.0	68.7	78.0	19.5	33.3	1.6	1.3	1.5	1.5	1.7

Source: Central Bank of Kenya

### Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 0.8 percent decrease during the third quarter of 2022/23. As a result, the proportion of Treasury bills in total domestic debt decreased by 0.99 percentage points compared a similar quarter in 2021/22. Commercial banks were the leading holders of Treasury bills at 43.9 percent (**Table 8.2**).

### Treasury Bonds

Treasury bonds holdings increased by 1.6 percent during the third quarter of 2022/23, which was slightly lower than the 2.1 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 10-year fixed rate and the 17-year infrastructure Treasury bonds issued during the quarter (**Table 8.3**). The leading holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for 44.9 percent of the outstanding Treasury Bonds.

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

		KSh (Billion)								Change Q on Q		Proportions								
		2021/22				2022/23						2021/22				2022/23				
		Q3	Q4	Q1	Q2	Jan-23	Feb-23	Q3	KShs(Bn)	%	Q1	Q2	Q3	Q4	Q1	Q2	Jan-23	Feb-23	Q3	
Treasury bills	91-Day	43.0	59.3	134.2	156.3	175.1	191.0	189.7	33.4	21.4	2.1	1.4	1.0	1.4	3.1	3.5	3.9	4.2	4.2	
	182-Day	172.2	173.9	151.7	163.4	169.6	193.6	198.3	34.8	21.3	4.5	4.6	4.1	4.1	3.5	3.7	3.8	4.3	4.4	
	364-Day	441.2	395.5	386.3	351.8	314.2	290.7	277.9	-73.9	-21.0	12.8	11.6	10.5	9.2	8.8	7.9	7.0	6.4	6.1	
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	2-Year	55.9	55.9	55.9	16.8	0.0	0.0	0.0	-16.8	-100.0	1.4	1.4	1.3	1.3	1.3	0.4	0.0	0.0	0.0	
	3-Year	0.0	36.7	58.8	58.8	58.8	58.8	58.8	0.0	0.0	0.0	0.0	0.0	0.9	1.3	1.3	1.3	1.3	1.3	
	4-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	
	5-Year	362.3	362.3	332.7	311.9	350.8	350.8	320.0	8.0	2.6	6.8	8.0	8.6	8.4	7.6	7.0	7.8	7.7	7.0	
	6-Year	20.2	20.2	20.2	79.7	79.7	79.7	79.7	0.0	0.0	0.5	0.5	0.5	0.5	0.5	1.8	1.8	1.7	1.8	
	7-Year	41.5	41.5	41.5	21.3	21.3	21.3	21.3	0.0	0.0	1.1	1.0	1.0	1.0	0.9	0.5	0.5	0.5	0.5	
	8-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	
	9-Year	123.5	123.5	123.5	115.5	115.5	115.5	115.5	0.0	0.0	3.1	3.1	2.9	2.9	2.8	2.6	2.6	2.5	2.5	
	10-Year	542.2	541.4	577.1	591.3	591.3	620.7	620.7	29.4	5.0	13.1	13.3	12.9	12.6	13.2	13.2	13.1	13.6	13.7	
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	2.0	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8	
	12-Year	99.7	99.7	99.7	89.3	89.3	89.3	89.3	0.0	0.0	2.7	2.5	2.4	2.3	2.3	2.0	2.0	2.0	2.0	
	14-Year	0.0	0.0	0.0	94.3	94.3	94.3	94.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.1	2.1	2.1	2.1	
	15-Year	893.4	898.3	921.5	889.7	901.0	901.0	866.2	-23.4	-2.6	21.8	21.7	21.3	20.9	21.1	19.9	20.0	19.8	19.1	
	16-Year	152.0	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	3.9	3.8	3.6	3.5	3.5	3.4	3.4	3.3	3.3	
	17-Year							63.2	63.2		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	
	18-Year	81.8	155.4	161.6	161.6	161.6	161.6	161.6	0.0	0.0	2.1	2.0	2.0	3.6	3.7	3.6	3.6	3.6	3.6	
	19-Year	98.4	98.4	98.4	98.4	98.4	98.4	98.4	0.0	0.0	0.0	0.0	2.3	2.3	2.3	2.2	2.2	2.2	2.2	
	20-Year	546.8	546.8	555.1	572.3	572.3	572.3	572.3	0.0	0.0	12.3	12.9	13.0	12.8	12.7	12.8	12.7	12.6	12.6	
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	2.7	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.4	
25-Year	207.8	221.8	221.8	242.6	242.6	242.6	242.6	0.0	0.0	4.4	4.9	5.0	5.2	5.1	5.4	5.4	5.3	5.3		
30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6		
Repo T bills	18.8	18.3	18.3	17.7	17.7	17.7	17.7	0.0	0.0	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
Overdraft	68.4	58.5	27.2	58.5	66.0	68.7	78.0	19.5	33.3	1.4	1.5	1.6	1.4	0.6	1.3	1.5	1.5	1.7		
Other Domestic debt	7.5	13.7	13.6	14.5	15.0	16.2	7.0	-7.5	-51.7	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.4	0.2		
<b>Total Debt</b>	<b>4,191.8</b>	<b>4,288.3</b>	<b>4,366.3</b>	<b>4,472.8</b>	<b>4,501.7</b>	<b>4,551.6</b>	<b>4,539.6</b>	<b>66.8</b>	<b>1.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

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, 20-year and 25-year Treasury Bonds accounted for 69.5 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt remained low as the Treasury bills component in the domestic debt profile stood at 14.7 percent by the end of March 2023.

### External Debt

Public and publicly guaranteed external debt increased by 3.8 percent during the third quarter

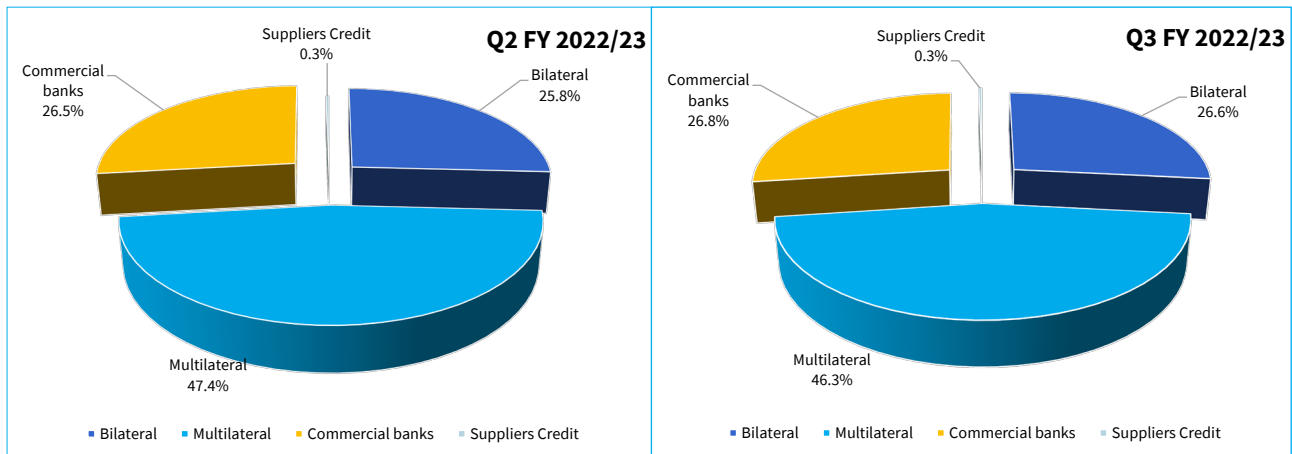
of 2022/23. This increase was majorly driven by disbursements from multilateral and bilateral lenders, and exchange rate movements.

### Composition of External Debt by Creditor

The composition of external debt in the third quarter of 2022/23 and was dominated by debt from official multilateral lenders (who provide concessional loans), particularly the International Development Association (IDA) and Africa Development Bank/Fund (ADB/ADF). During the period under review, the proportion of commercial debt increased by 0.3 percentage points (**Chart 8.1**).

Debt owed to International Development

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

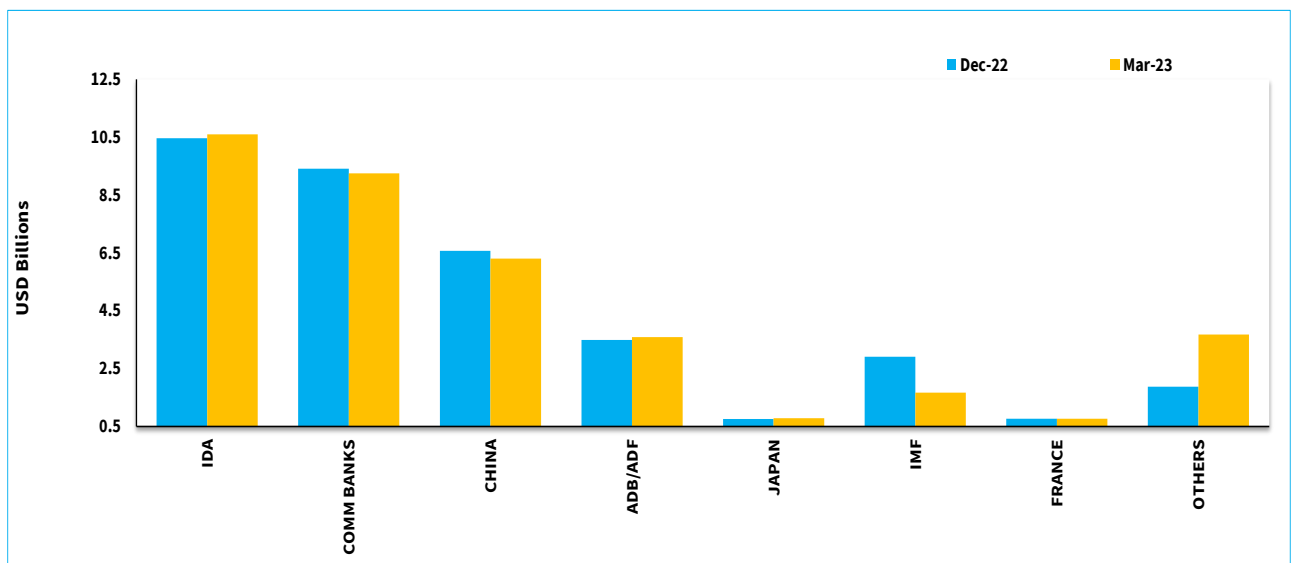


Source: The National Treasury

Association (IDA), Kenya’s largest multilateral lender, stood at USD 10.6 billion (28.9 percent of external debt). Debt owed to China, Kenya’s largest

bilateral lender, amounted to USD 6.3 billion, or 17.2 percent of the total external debt by the third quarter of 2022/23 (**Chart 8.2**).

**Chart 8.2: External debt by creditor**



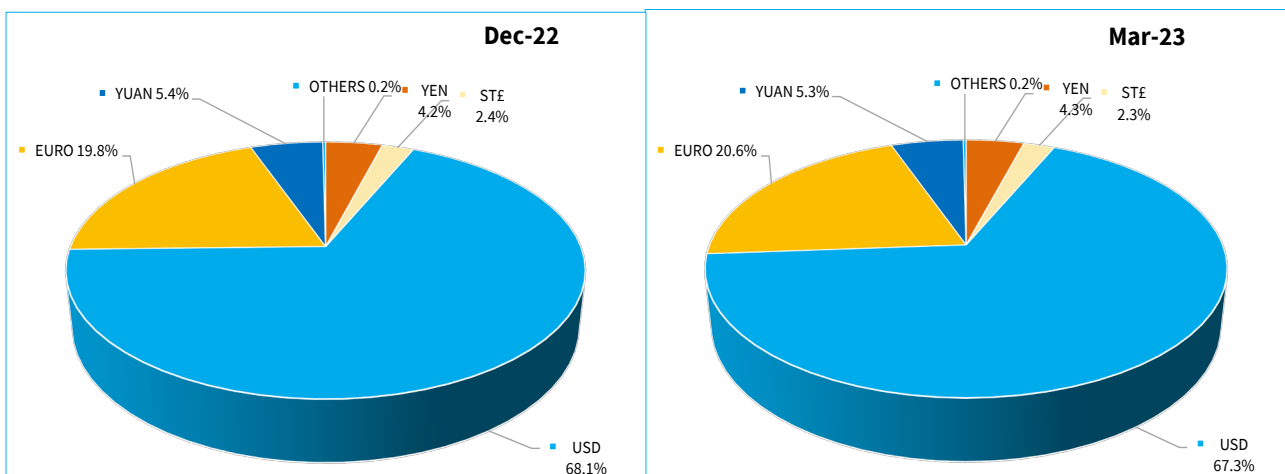
Source: The National Treasury

**Currency Composition of External Debt**

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

accounted for 87.9 percent of the total currency composition at the end of the third quarter of 2022/23. The proportion held in US dollars decreased by 0.8 percentage points (**Chart 8.3**).

**Chart 8.3: Debt composition by currency**



Source: The National Treasury

### Public Debt Service

The ratio of domestic interest payments to revenues was 24.7 percent during the third quarter of 2022/23. The largest component of domestic interest payments was interest on Treasury Bonds which was consistent with the proportion of debt

held in Treasury bonds. External debt service for the third quarter of 2022/23 amounted to KSh 131.3 billion. External debt service to revenue and exports ratios deteriorated during the quarter under review mainly due to an increase in the debt service relative to the previous quarter<sup>3</sup> (Table 8.4).

**Table 8.4: External debt sustainability indicators**

Composite Indicators Threshold	Q2 FY 2021/22	Q3 FY 2021/22	Q4 FY 2021/22	Q1 FY 2022/23	Q2 FY 2022/23	Q3 FY 2022/24
Debt service to Revenues (18%)	11.3	19.0	7.2	18.1	13.6	26.6
Debt service to Exports (15%)	15.7	24.4	11.6	23.6	19.4	29.2

Source: Central Bank of Kenya and The National Treasury

### Debt Sustainability Analysis

A Debt Sustainability Analysis conducted by the IMF in December 2022 showed that Kenya’s debt remains sustainable in the medium to long term but the country faces a high risk of debt distress. The assessment also shows Kenya’s debt dynamics were being strengthened by the ongoing fiscal consolidation efforts by the Government.

Additionally, the outlook for debt burden ratios improved due to a faster recovery of tourism and higher export prices in 2022. Kenya’s debt sustainability is expected to improve as the ongoing fiscal consolidation progresses, and with the recovery of output and exports from the prevailing external shocks.

<sup>3</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

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index, declined by 11.54 percent and 3.22 percent respectively in the first quarter of 2023 compared to the fourth quarter of 2022. Market

capitalisation declined by 11.58 percent, while equity turnover and total shares traded increased by 156.7 percent and 71.3 percent, respectively (**Table 9.1 and Chart 9.1**).

**Table 9.1: Selected stock market indicators**

INDICATOR	2021				2022				2023	% CHANGE (2023Q1- 2022Q4)
	Q4	Q1	Q2	Q4	Q1	Q2	Q3	Q4	Q1	
NSE 20 Share Index (1966=100)	1846.4	1927.5	2031.2	1902.6	1846.7	1612.9	1717.7	1676.1	1622.1	-3.22
NASI (2008=100)	158.62	173.53	178.31	166.46	155.74	124.47	128.41	127.47	112.76	-11.54
Number of Shares Traded (Millions)	997.8	1,099.6	946.5	1,007.2	753.2	870.3	823.3	634.2	1,086.5	71.33
Equities Turnover (Ksh Millions)	31,735.0	37,992	31,360	36,322	27,861	26,237	22,736	17,457	44,816	156.71
Market Capitalization (Ksh Billions)	2,437	2,702	2,779	2,593	2,426	1,939	2,001	1,986	1,756	-11.58
Foreign Purchase (Ksh Millions)	18,575	21,060	16,535	16,525	14,386	10,676	6,616	7,115	8,757	23.08
Foreign Sales (Ksh Millions)	19,551	23,069	15,601	24,714	16,073	21,571	13,581	11,986	22,687	89.29
Ave. Foreign Investor Participation to Equity Turnover (%)	60.38	58.73	51.53	57.73	54.66	57.75	44.42	54.71	41.24	(13.47)*
Bond Turnover (Ksh Millions)	199,378	271,239	301,094	185,262	190,951	195,667	196,961	158,270	162,515	2.68
7-Year Eurobond Yield (%) - 2027	5.60	4.81	5.03	5.57	8.15	16.02	15.61	10.913	13.38	2.467*
10-Year Eurobond Yield (%) - 2024	3.56	3.27	3.20	4.45	6.75	17.00	17.58	12.92	14.21	1.293*
10-Year Eurobond Yield (%) - 2028	6.28	5.36	5.40	5.76	8.14	14.67	14.74	10.48	12.32	1.837*
12-Year Eurobond Yield (%) - 3032	7.12	6.22	6.51	6.71	8.62	13.80	14.67	10.77	11.75	0.980*
13-Year Eurobond Yield (%) 2034		6.18	6.45	6.58	8.34	12.99	13.17	9.86	11.25	1.394*
30-Year Eurobond Yield (%) - 2048	7.98	7.34	7.54	8.13	9.49	13.73	14.00	10.86	11.62	0.755*

\* Percentage points

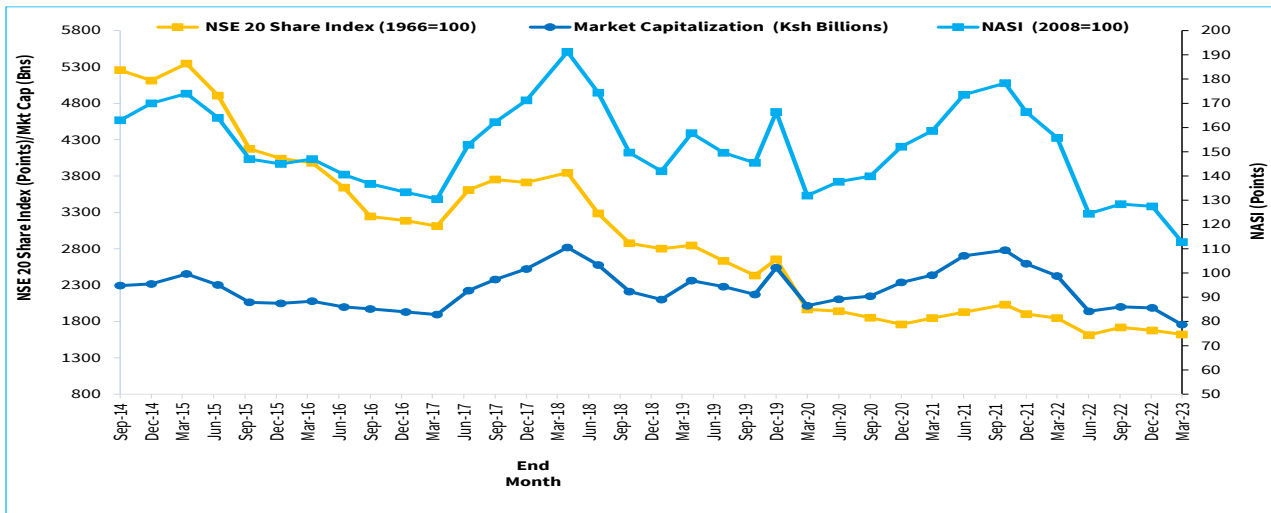
Source: Nairobi Security Exchange

### Foreign Investors' Participation

The value of equities purchased by foreign investors as a share of total equity turnover decreased from 54.7 percent at the end of the fourth quarter of 2022 to 41.24 percent at end of the first quarter of 2023.

The quarterly average foreign sales to total equity turnover declined to 27.1 percent from 34.6 percent, while average quarterly foreign purchases to total equity turnover declined to 14.1 from 20.3 percent. Average sales exceeded purchases in the quarter under review implying a net foreign investment outflow (**Table 9.1 and Chart 9.2**).

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



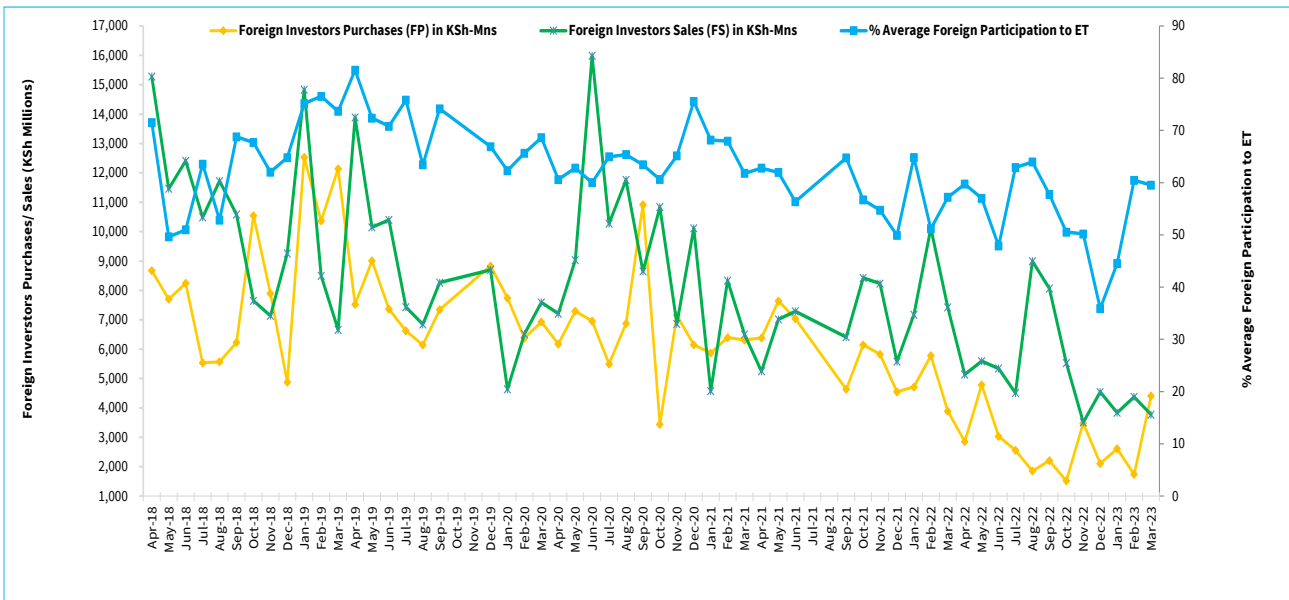
Source: Nairobi Security Exchange

### Bonds Market

The bond turnover in the domestic secondary market increased by 2.7 percent in the first quarter of 2023 compared to the fourth quarter of 2022. In the international market, yields on all outstanding

Kenya's Eurobonds rose by an average of 145.5 basis points, with the 2024 maturity increasing by 129.3 basis point during the quarter under review (**Table 9.1**).

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



Source: Nairobi Security Exchange

## Chapter 10

# Statement of Financial Position of the Central Bank of Kenya

(Kenya Shilling Million)

1.0 ASSETS	2022				2023	Absolute Quarterly ChAPges (KSh Million)					Quarterly Growth Rates (%)			
	Mar	Jun	Sept	Dec	Mar	Q1,2023	Q4,2022	Q3,2022	Q2,2022	Q1,2022	Q1,2023	Q4,2022	Q3,2022	Q2,2022
1.1 Reserves and Gold Holdings	889,387	933,638	869,663	916,952	847,431	(69,520)	47,289	(63,975)	44,251	(104,505)	(7.6)	5.4	(6.9)	5.0
1.2 Funds Held with IMF	77,696	71,639	70,347	70,351	74,310	3,959	4	(1,292)	(6,057)	(2)	5.6	0.0	(1.8)	(7.8)
1.3 Investment in Equity (Swift Shares)	10	10	9	11	12	1	1	(1)	(0)	(0)	8.9	13.2	(5.5)	(3.0)
1.4 Items in the Course of Collection	14	32	24	40	43	3	16	(8)	18	12	7.9	67.7	(24.6)	131.7
1.5 Advances to Commercial Banks	76,533	71,829	108,724	111,665	116,958	5,294	2,941	36,894	(4,703)	6,352	4.7	2.7	51.4	(6.1)
1.6 Loans and Other Advances	198,929	196,711	220,563	291,091	314,286	23,195	70,528	23,853	(2,219)	1,151	8.0	32.0	12.1	(1.1)
1.7 Other Assets	5,988	7,322	7,357	6,550	7,365	815	(807)	35	1,333	110	12.4	(11.0)	0.5	22.3
1.8 Retirement Benefit Asset	7,639	7,081	7,081	7,081	7,081	-	-	-	(558)	-	-	-	-	(7.3)
1.9 Property and Equipment	31,723	32,000	31,096	31,088	30,920	(168)	(8)	(904)	277	(131)	(0.5)	(0.0)	(2.8)	0.9
1.10 Intangible Assets	2,165	310	259	687	1,375	687	429	(51)	(1,855)	274	100.0	165.7	(16.5)	(85.7)
1.11 Due Debt from Government of Kenya	87,899	118,263	106,310	141,254	187,307	46,053	34,944	(11,953)	30,364	9,132	32.6	32.9	(10.1)	34.5
<b>TOTAL ASSETS</b>	<b>1,377,983</b>	<b>1,438,835</b>	<b>1,421,433</b>	<b>1,576,770</b>	<b>1,587,088</b>	<b>10,318</b>	<b>155,337</b>	<b>(17,402)</b>	<b>60,852</b>	<b>(87,607)</b>	<b>0.7</b>	<b>10.9</b>	<b>(1.2)</b>	<b>4.4</b>
<b>2.0 LIABILITIES</b>														
2.1 Currency in Circulation	301,745	305,350	305,580	325,866	308,384	(17,482)	20,286	230	3,605	(8,533)	(5.4)	6.6	0.1	1.2
2.2 Deposits	484,612	539,610	495,490	528,635	454,390	(74,245)	33,146	(44,120)	54,998	(75,861)	(14.0)	6.7	(8.2)	11.3
2.3 International Monetary Fund	333,685	325,145	346,535	422,563	456,212	33,649	76,028	21,391	(8,540)	1,357	8.0	21.9	6.6	(2.6)
2.4 Other Liabilities	4,051	4,330	4,118	5,252	5,408	155	1,134	(212)	279	(3,570)	3.0	27.5	(4.9)	6.9
<b>TOTAL LIABILITIES</b>	<b>1,124,094</b>	<b>1,174,435</b>	<b>1,151,723</b>	<b>1,282,316</b>	<b>1,224,394</b>	<b>(57,922)</b>	<b>130,593</b>	<b>(22,712)</b>	<b>50,341</b>	<b>(86,608)</b>	<b>(4.5)</b>	<b>11.3</b>	<b>(1.9)</b>	<b>4.5</b>
<b>3.0 EQUITY AND RESERVES</b>	<b>253,890</b>	<b>264,400</b>	<b>269,710</b>	<b>294,454</b>	<b>362,694</b>	<b>68,240</b>	<b>24,744</b>	<b>5,310</b>	<b>10,510</b>	<b>(999)</b>	<b>23.2</b>	<b>9.2</b>	<b>2.0</b>	<b>4.1</b>
Share Capital	35,000	35,000	38,000	38,000	38,000	-	-	-	-	-	-	-	9	-
General reserve fund	155,388	227,006	224,006	224,006	224,006	-	-	(3,000)	71,618	0	-	-	(1)	46
Period surplus/(Deficit)	42,876	53,386	9,308	34,054	102,294	68,240	24,745	(44,078)	10,510	(999)	200.4	265.8	(82.6)	24.5
Asset Revaluation	21,680	21,680	21,680	21,680	21,680	-	-	-	0	-	-	-	-	0
Fair Value Reserves - OCI	(1,054)	(23,286)	(23,285)	(23,286)	(23,286)	-	(1)	1	(22,232)	-	-	0	(0)	2,109
<b>4 TOTAL LIABILITIES AND EQUITY</b>	<b>1,377,984</b>	<b>1,438,835</b>	<b>1,421,433</b>	<b>1,576,770</b>	<b>1,587,088</b>	<b>10,318</b>	<b>155,337</b>	<b>(17,402)</b>	<b>60,851</b>	<b>(87,607)</b>	<b>0.7</b>	<b>10.9</b>	<b>(1.2)</b>	<b>4.4</b>

Source: Central Bank of Kenya

# Notes on the Financial Position of the CBK

## Assets

Growth in the Central Bank of Kenya balance declined slightly to 0.7 percent in the first quarter of 2023 compared to 10.9 percent in the previous quarter. The decline was largely reflected in reserve and gold holdings. 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, declined mainly due to scheduled debt service.

The decline in reserve and gold holdings was fully offset by the increase in other assets, including due debt from government, loans and advances as well as advances to commercial banks, and the funds held with IMF. The increase in due debt from government, largely reflected 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 reduced growth in the Central Bank's balance sheet was largely reflected in deposits. The decline in deposits was mainly on account of reduced government deposits. The currency in circulation also declined, partly reflecting reduced demand for cash holdings following the end of year festivities in the previous quarter. Liabilities to the IMF increased during the quarter largely reflecting the disbursements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the Government, which are channeled through the Central Bank.

Meanwhile, equity and reserves increased in the first quarter of 2023 on account of increased surplus recorded during the period.







**Central Bank of Kenya**

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