



Central Bank of Kenya

# QUARTERLY ECONOMIC REVIEW (QER)

*Volume 3 No 2  
April - June 2019*



## OBJECTIVES OF THE CENTRAL BANK OF KENYA

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

- 1) To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
- 2) To foster the liquidity, solvency and proper functioning of a stable, market-based financial system;
- 3) Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.
- 4) Without prejudice to the generality of the above, the Bank shall:
  - Formulate and implement foreign exchange policy;
  - Hold and manage Government foreign exchange reserves;
  - License and supervise authorised foreign exchange dealers;
  - Formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
  - Act as banker and adviser to, and fiscal agent of, the Government; and
  - Issuing currency notes and coins.

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## QUARTERLY ECONOMIC REVIEW

APRIL - JUNE 2019

Starting with the January - March 2016 edition, the Quarterly Economic Review is available on the Internet at:

<http://www.centralbank.go.ke>

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## HIGHLIGHTS

*Overall inflation increased to 5.9 percent in the second quarter of 2019 from 4.4 percent in the first quarter of 2019 driven by rising food prices. Fuel inflation declined significantly on account of dissipating impact of charcoal on inflation while Non-Food-Non-Fuel inflation remained low and stable as demand pressures remained subdued.*

*Broad money supply (M3) grew by 4.4 percent in the second quarter of 2019, compared to 2.3 percent in the first quarter of 2019, largely reflected in increased growth in deposits.*

*Real GDP expanded by 5.6 percent in the first half of the year, reflecting the impact of delayed onset of the long rains and below average rainfall which affected agricultural production. However, the strong and resilient performance of the services sector continued to support economic growth.*

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

*Kenya's current account deficit narrowed by 12 percent to USD 1,061 million in the second quarter of 2019 from USD 1,208 million in the second quarter of 2018, mainly driven by an improvement in the trade balance and secondary income account.*

*Kenya's official international reserves stood at USD 9,656 million, equivalent to 6.0 months of import cover as at end June 2019.*

*The foreign exchange market remained steady supported by resilient inflows from service exports, diaspora remittances as well as lower imports.*

*The banking sector was stable in the second quarter of 2019. Total net assets increased by 3.2 percent to KSh 4,719.7 billion in June 2019 from KSh 4,571.6 billion registered in March 2019. The deposit base also increased by 3.1 percent to KSh 3,506.0 billion from KSh 3,400.1 billion between first quarter of 2019 and second quarter of 2019. The sector was well capitalized and met the minimum capital requirements. Quarterly profitability decreased by 5.1 percent due to increase in total expenses. Credit risk remained elevated with gross non-performing loans (NPLs) to gross loans ratio standing at 12.7 percent in the second quarter of 2019.*

*The Government's budgetary operations at the end of the fourth quarter of FY 2018/19 resulted in a deficit (including grants) of 7.6 percent of GDP. Revenue collection remained below target, as was the case with the expenditure.*

*Kenya's public and publicly guaranteed debt increased by 7.2 percent during the fourth quarter of the FY 2018/19. Domestic and external debt increased by 3.2 percent and 11.1 percent, respectively.*

*Overall, capital markets' performance declined in the second quarter of 2019 compared to the first quarter of the year. Domestic bonds secondary market, however, recorded strong gains and the yield on Kenya's Eurobonds declined.*

# CHAPTER 1

## Inflation

### Overview

Overall inflation increased to 5.9 percent in the second quarter of 2019 from 4.4 percent in the first quarter of 2019 driven by rising food prices. Food inflation increased to 6.8 percent during the quarter under review, from 2.0 percent in the previous quarter. This movement was attributed to high food prices, particularly vegetables as a result of reduced

supply following delayed and below average rainfall in March to May 2019. Fuel inflation continued to decline, largely on account of dissipating impact of charcoal. It declined to 6.8 percent in the second quarter from 10.8 percent in the first quarter of 2019. NFNF inflation remained relatively stable, rising marginally to 3.4 percent from 3.2 percent in the period under review (Table 1.1 and Chart 1.1).

**Table 1.1: Recent Trends in Inflation (Percent)**

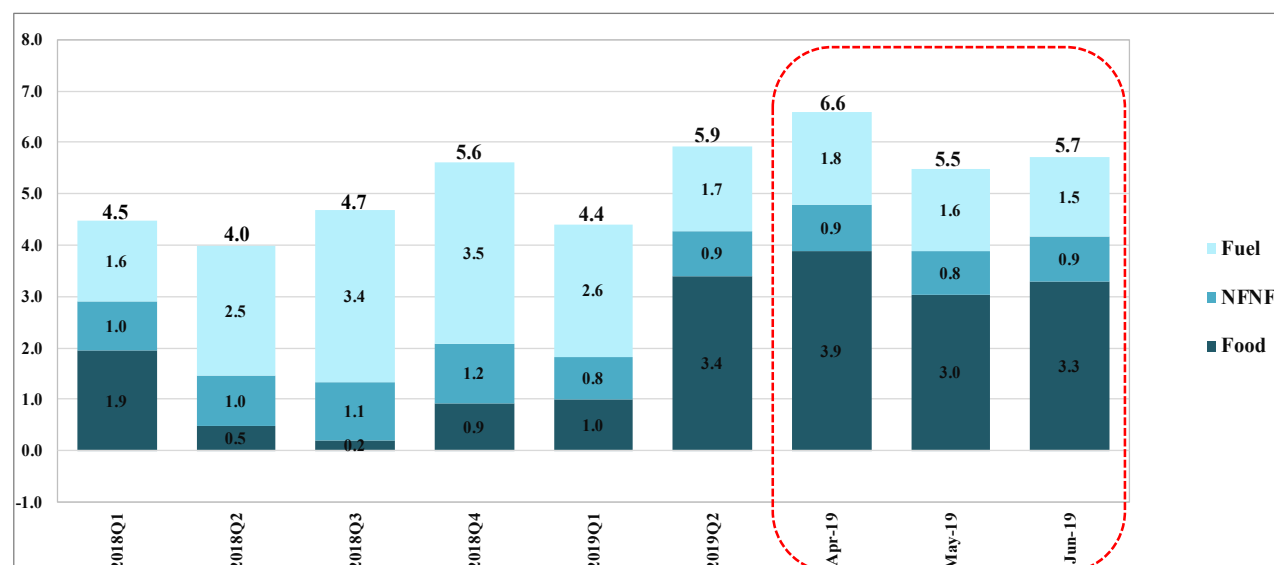
	2018				2019				
	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Overall inflation	4.5	4.0	4.7	5.6	4.4	5.9	6.6	5.5	5.7
Food Inflation	3.8	0.9	0.4	1.8	2.0	6.8	7.7	6.0	6.6
Fuel Inflation	6.8	11.2	14.7	14.9	10.8	6.8	7.5	6.7	6.3
Non-Food-Non-Fuel (NFNF) Inflation	3.6	3.8	4.3	4.5	3.2	3.4	3.5	3.3	3.4
Annual Average Inflation	7.4	5.7	4.7	4.6	4.7	5.0	4.9	5.0	5.2
Three Months Annualised Inflation	12.6	13.1	-2.4	0.3	7.5	19.9	26.4	22.0	11.4

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

The contribution of food inflation to overall inflation increased to 3.4 percentage points in the period under review from 1.0 percentage points in the previous quarter, as food prices picked up. The contribution of fuel inflation continued to decline, and was at 1.7 percentage points in the second quarter of 2019, compared to a contribution of 2.6 percentage points in the first quarter of 2019. This decline was largely

reflected across components of energy particularly fuels, charcoal and electricity; and some non-energy components of fuel inflation. The contribution of NFNF remained relatively stable at 0.9 percentage points during the quarter under review, compared to a contribution of 0.8 percentage points in the previous quarter.

**Chart 1.1: Contribution of Broad Categories to Overall Inflation (Percentage Points)**



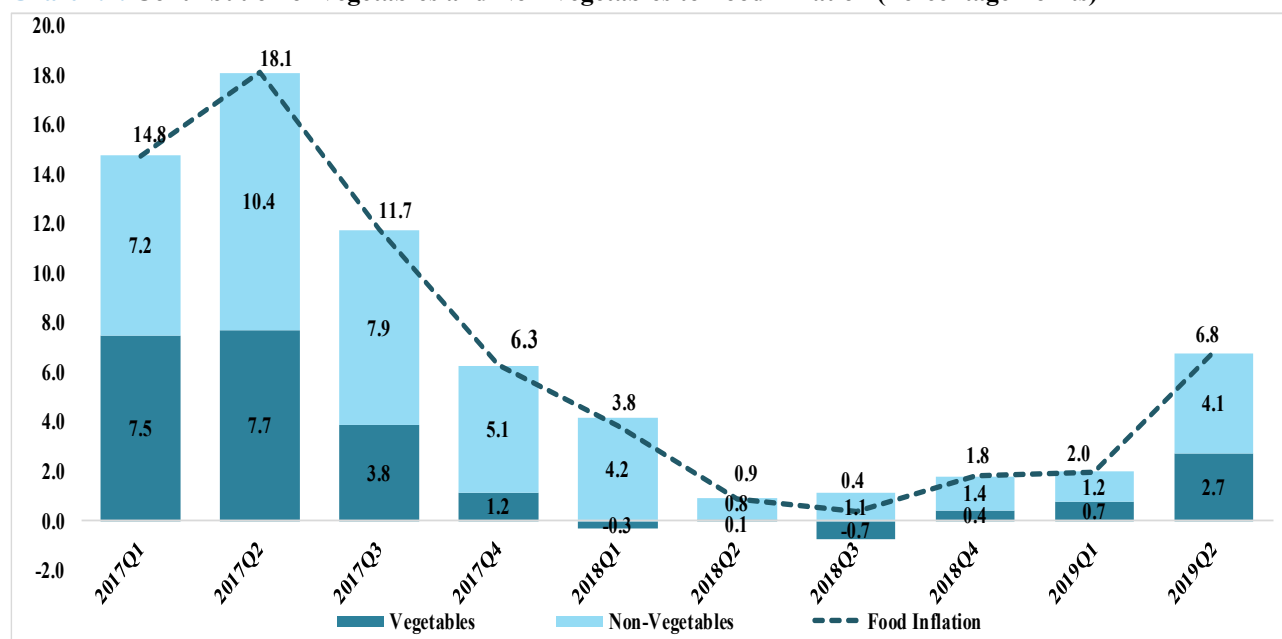
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

## Food inflation

Food inflation increased to 6.8 percent in the quarter under review, from 2.0 percent in the first quarter of 2019, driven by rising vegetable and non-vegetables inflation. The rising food prices was as a result of low food supply, following delayed and below average long rains in the March to May 2019 which affected agricultural production. During the quarter, the contribution of vegetables inflation to food inflation increased to 2.7 percentage points from 0.7

percentage points in the previous quarter. Kales, Irish potatoes, carrots and cabbages were the main drivers of vegetables inflation while onions and tomatoes marginally moderated it. Similarly, non-vegetables inflation increased, contributing 4.1 percentage points in the period under review from 1.2 percentage points in the previous period. This was due to increasing inflation of maize products, milk, and oranges. Beef with bones and sugar continued to support lower non-vegetables inflation (Chart 1.2).

**Chart 1.2: Contribution of Vegetables and Non-Vegetables to Food Inflation (Percentage Points)**



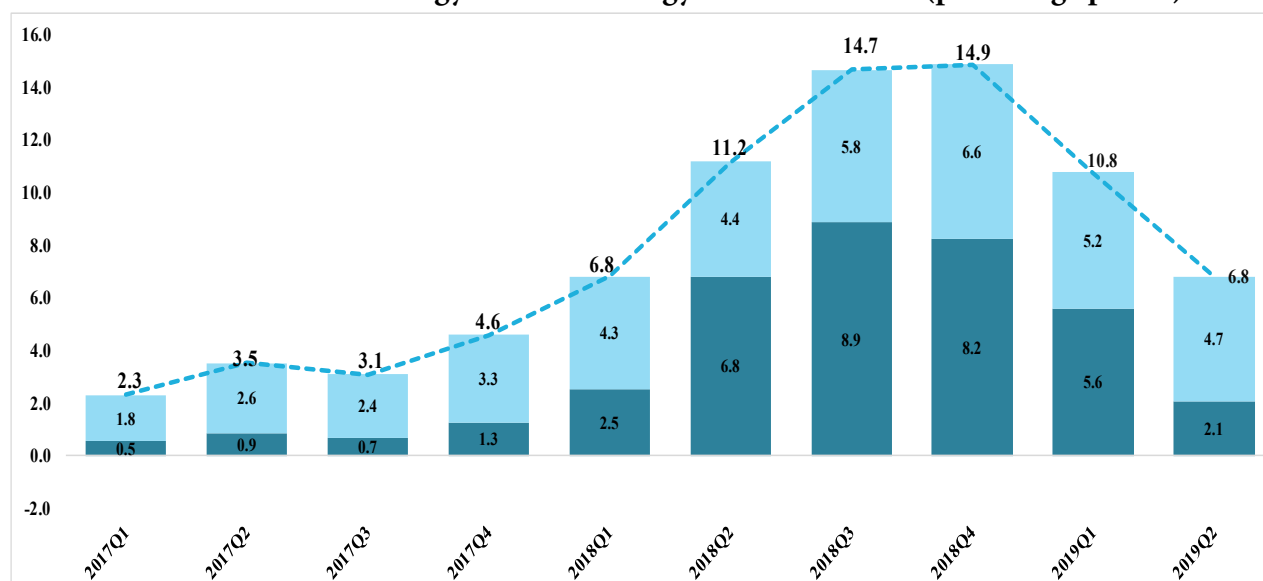
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

## Fuel Inflation

In the second quarter of 2019, fuel inflation declined significantly to 6.8 percent, from 10.8 percent in the previous quarter supported by the waning impact of

charcoal on inflation (Chart 1.3). The contribution of the energy component to fuel inflation declined to 2.1 percentage points from 5.6 percentage points in the previous quarter, largely on account of the

**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.

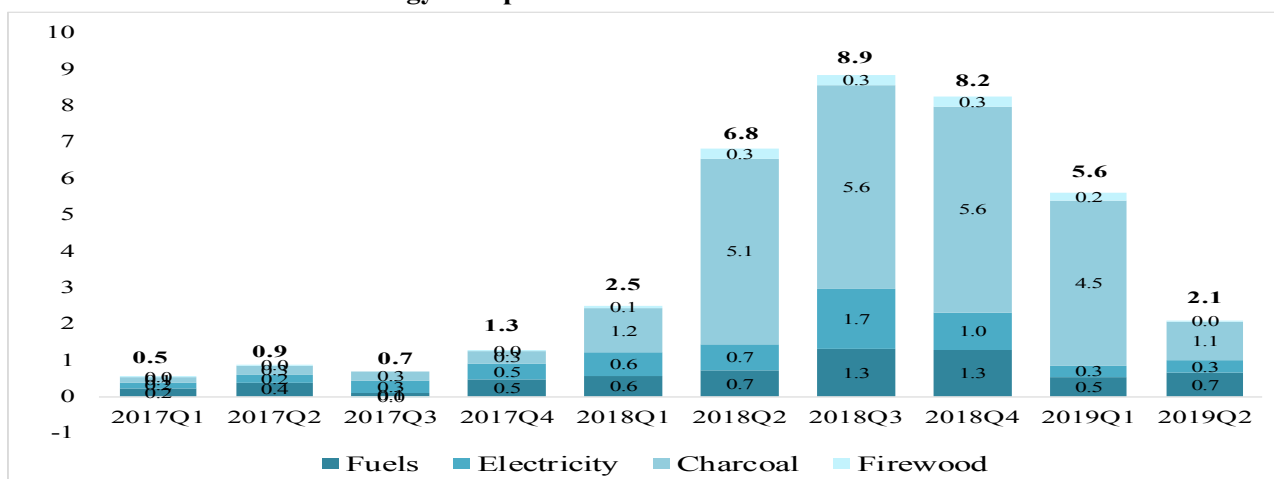
<sup>1</sup>Domestic energy items comprise petrol, diesel, kerosene, Liquefied Petroleum Gas (LPG), electricity, charcoal and firewood.

dissipating impact of charcoal prices (Chart 1.4). The contribution of the non-energy component of inflation, though high, remained relatively stable, declining to 4.7 percentage points from 5.2 percentage points in the previous quarter. The non-energy component was driven by high transport costs resulting from higher petrol prices and housing costs. However, despite being high, transport costs were lower compared to a similar period of 2018.

The impact of charcoal on inflation dissipated significantly in the second quarter of 2019 resulting

in a substantial decline in its contribution to fuel inflation. Its contribution declined to 1.1 percentage points from 4.5 percentage points in the previous quarter. The contribution of fuels (petrol, diesel and kerosene) remained low and stable during the period under review. Electricity prices are expected to remain low supported by the downward review of the fixed non-fuel tariff component by the Energy and Petroleum Regulatory Authority (EPRA), which took effect in November 2018. The review is expected to moderate fuel inflation, and hence overall inflation, until November 2019 (Chart 1.4).

**Chart 1.4: Contribution of Energy Components to Fuel Inflation**



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

### Non-Food Non-Fuel inflation (NFNF)

Non-Food Non-Fuel (NFNF) inflation increased marginally to 3.4 percent in the second quarter of 2019, from 3.2 percent in the first quarter. The marginal increase is attributed to rising inflation of the ‘Alcoholic Beverages, Tobacco and Narcotics’ categories and ‘Communication’ category and mild increase in Education inflation. The increasing inflation of the ‘Alcoholic Beverages, Tobacco and Narcotics’ and ‘Communication’ categories since

2018Q3 is attributed to tax measures introduced in the FY 2018/2019 budget, and which continue to impact on prices in this category (Table 1.2).

### Overall Inflation across Regions

The contribution of the Nairobi region and the Rest of Kenya to overall inflation in the country was relatively balanced in the first and second quarters of 2019. Nairobi region contributed 3.0 percentage points to overall inflation while the Rest of Kenya contributed

**Table 1.2: Non-Food-Non-Fuel Inflation by CPI Categories (Percent)**

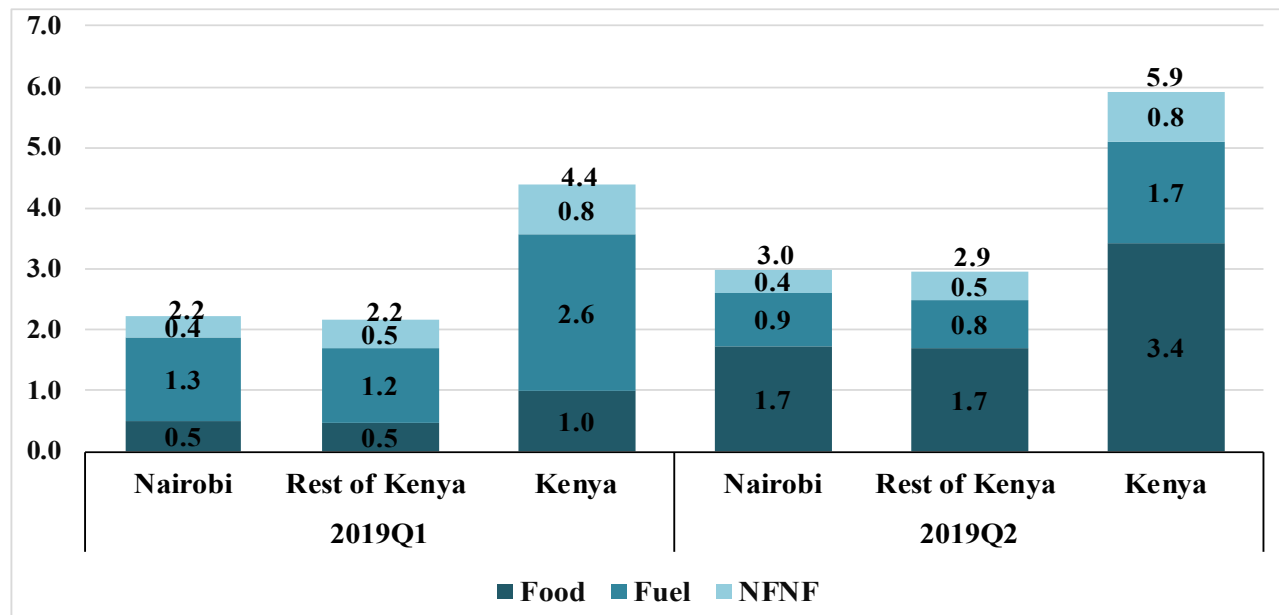
		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Furnishings, Household Equipment and Routine Household Maintenance	Health	Communication	Recreation & Culture	Education	Miscellaneous Goods & Services	NFNF inflation
2018	Q1	2.9	3.8	4.1	3.6	0.7	1.6	5.2	4.4	3.6
	Q2	2.6	4.2	4.6	3.9	0.8	1.5	5.1	4.4	3.8
	Q3	5.0	4.3	4.7	5.9	0.7	1.5	5.0	4.2	4.3
	Q4	7.0	4.1	4.3	5.1	4.6	1.4	4.9	4.2	4.5
2019	Q1	7.2	2.5	3.2	4.5	4.6	0.8	1.3	3.3	3.2
	Q2	8.8	2.2	2.4	4.1	4.5	0.6	1.5	3.0	3.4
	Apr	8.8	2.3	2.5	4.5	4.6	0.7	1.5	3.1	3.5
	May	8.8	2.1	2.5	4.0	4.5	0.5	1.5	2.9	3.3
	Jun	8.9	2.1	2.1	3.7	4.5	0.5	1.5	3.0	3.4

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

2.9 percentage points, an increase from a contribution of 2.2 percentage points by each region in the previous quarter. The contribution of food inflation to overall inflation increased across the regions during the period under review, owing to increasing inflation of the 'Food & Non-Alcoholic Beverages' category,

which outweighed the decrease in the contribution of Fuel inflation, mainly the 'Housing, Water, Electricity, Gas and other Fuels' category inflation. The contribution of NFNF stabilized in 2019Q1 and 2019Q2 (Chart 1.5).

**Chart 1.5: Contribution of Various Regions to Overall Quarterly Inflation (Percentage Points)**



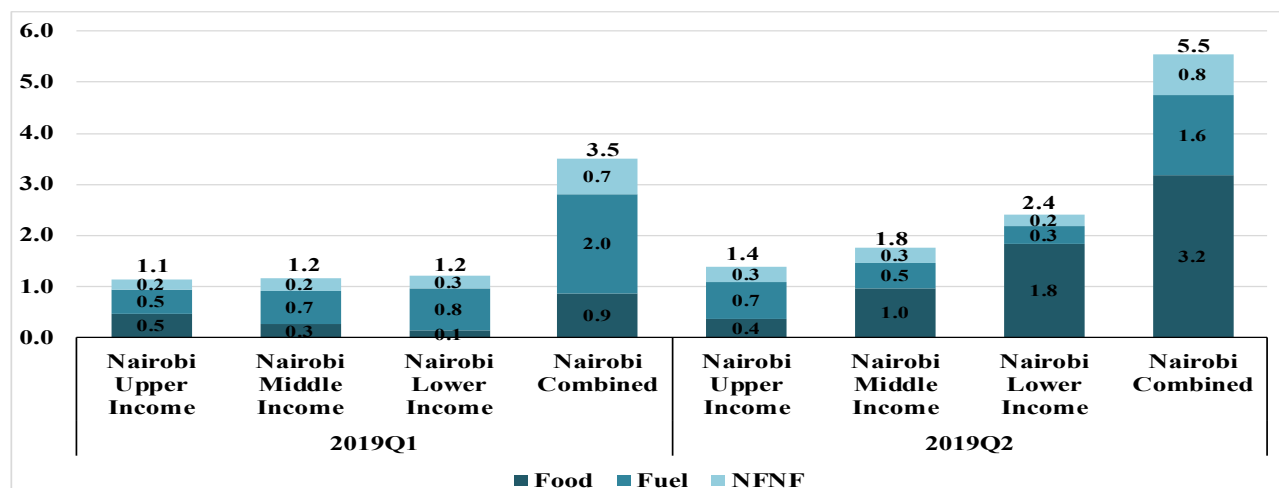
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

### Overall Inflation across Income Groups in Nairobi

The lower income group remained the largest driver of inflation in Nairobi, contributing 2.4 percentage points, compared to a contribution of 1.2 percentage points in the previous quarter. The contributions of the middle income group and the upper income group to inflation in Nairobi increased to 1.8 percentage points and 1.4 percentage points from 1.2 percentage points and 1.1 percentage points, respectively, in the period under review.

Food inflation contributed the most towards inflation in the lower and middle income groups, while its contribution to the upper income group declined. In the upper income group, fuel contributed the most towards inflation whereas its contribution to the lower and middle income groups declined. Meanwhile, the contribution of NFNF remained relatively stable across the income groups during the period under consideration (Chart 1.6).

**Chart 1.6: Contributions of Income Groups to Overall Inflation in Nairobi (Percentage Points)**



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



## Chapter 2

# Money, Credit and Interest Rates

### Monetary aggregates and its components

Broad money supply (M3) grew by 4.4 percent in the second quarter of 2019, compared to 2.3 percent in the first quarter of 2019 (Table 2.1). The improvement in growth of M3 was largely reflected in increased growth in deposits, particularly in the household sector. The household sector deposits rose by 7.3 percent in the second quarter compared to 1.7 percent in the previous quarter, partly reflecting increase in diaspora remittances as well as competitive rates

offered on time deposits by commercial banks (Table 2.2). The expansion in other deposits at the Central Bank, mainly due to special project deposits, also supported the growth in money supply.

The corporate sector deposits moderated slightly in the second quarter, partly reflecting dividend and corporate tax payments in the quarter under review. Currency outside banks also declined in the second quarter, partly reflecting reduced demand for cash. On 12-month basis, money supply, M3 growth

**Table 2.1: Monetary Aggregates**

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

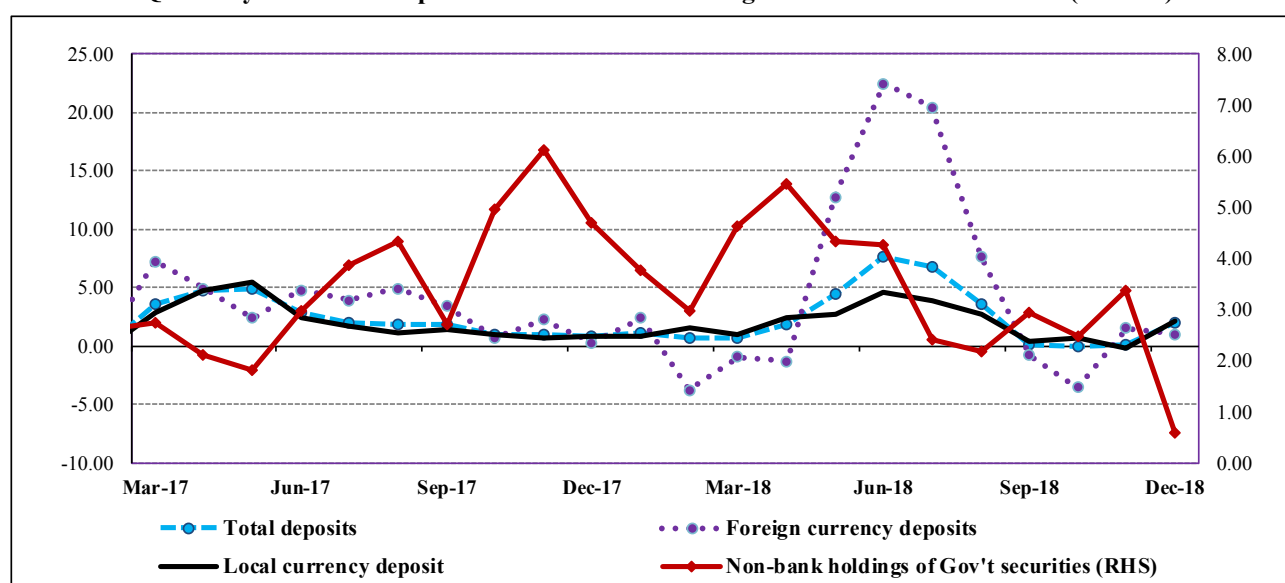
Absolute and percentage changes may not necessarily add up due to rounding

1/ Includes county deposits and special projects deposit

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

Source: Central Bank of Kenya

**Chart 2.1: Quarterly Growth in Deposits and Non-Bank Holdings of Government Securities (Percent)**



Source: Central Bank of Kenya

**Table 2.2: Deposits Holdings of Corporates and Household Sectors**

	End Month Levels (KSh Billions)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billions)				
	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
<b>1. Household Sector 1/</b>	<b>1485.7</b>	<b>1478.7</b>	<b>1493.4</b>	<b>1518.8</b>	<b>1629.0</b>	<b>10.5</b>	<b>-0.5</b>	<b>1.0</b>	<b>1.7</b>	<b>7.3</b>	<b>141.3</b>	<b>-7.0</b>	<b>14.7</b>	<b>25.4</b>	<b>110.2</b>
1.1 Demand Deposits	574.1	560.4	562.1	583.5	604.3	2.2	-2.4	0.3	3.8	3.6	12.1	-13.7	1.7	21.4	20.9
1.2 Time and Saving Deposits	663.2	689.7	701.3	707.8	749.6	4.8	4.0	1.7	0.9	5.9	30.2	26.5	11.6	6.6	41.7
1.3 Foreign Currency Deposits	248.4	228.6	230.0	227.5	275.1	66.3	-8.0	0.6	-1.1	20.9	99.0	-19.8	1.4	-2.6	47.6
<b>2. Corporate Sector</b>	<b>1460.4</b>	<b>1481.0</b>	<b>1518.0</b>	<b>1559.5</b>	<b>1547.4</b>	<b>4.0</b>	<b>1.4</b>	<b>2.5</b>	<b>2.7</b>	<b>-0.8</b>	<b>56.5</b>	<b>20.5</b>	<b>37.0</b>	<b>41.5</b>	<b>-12.1</b>
2.1 Demand deposits	538.4	520.2	593.6	604.0	586.9	4.4	-3.4	14.1	1.8	-2.8	22.8	-18.2	73.4	10.4	-17.2
2.2 Time and Saving Deposits	590.0	613.6	574.7	607.9	616.0	4.7	4.0	-6.3	5.8	1.3	26.3	23.6	-38.9	33.1	8.1
2.3 Foreign Currency Deposits	332.0	347.1	349.7	347.6	344.5	2.3	4.6	0.7	-0.6	-0.9	7.5	15.2	2.5	-2.1	-3.1

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

Source: Central Bank of Kenya

declined to 9.2 percent in June 2019 from 12.5 percent in March 2019, largely reflected in net foreign assets of the banking system and net lending to government. The decline also reflected slower growth in deposits, and a decline in currency outside banks.

### Sources of Broad Money

The primary source of the growth in M3 in the second quarter of 2019 was net foreign assets (NFA) of the banking system, which grew by KSh 219.9 billion compared to KSh 5.9 billion in the previous quarter. The increase in net foreign assets of the banking system largely reflected in net foreign assets of the Central Bank, mainly due to government external commercial borrowing. The net foreign assets of commercial banks also increased in the second quarter as banks increased their foreign assets in the form of deposits in non-resident banks while also reducing their external loan borrowings. Net domestic asset (NDA) of the banking system declined in the second quarter of 2019, largely reflecting a decline in net lending to government which more than offset the

recovery in credit to the private sector. The decline in net lending to government largely reflected a buildup of government deposits at the Central Bank. Credit to the private sector increased by KSh 58.8 billion, up from KSh 22.2 billion in the previous quarter (Table 2.1).

### Developments in Domestic Credit

Domestic credit declined by 0.5 percent in the second quarter of 2019 compared to an increase of 3.8 percent in the first quarter. The decline was largely due to reduced net lending to government, largely reflecting buildup in government deposits at the Central Bank.

Private sector credit increased by 2.4 percent in the second quarter of 2019 compared to 0.9 percent in the previous quarter with relatively strong lending channeled to the corporate sector. The productive sector, comprising agriculture, real estate, manufacturing, building and construction sub-sectors accounted for nearly 55 percent of the credit flows in the second quarter. The contribution of the

**Table 2.3: Banking Sector Net Domestic Credit**

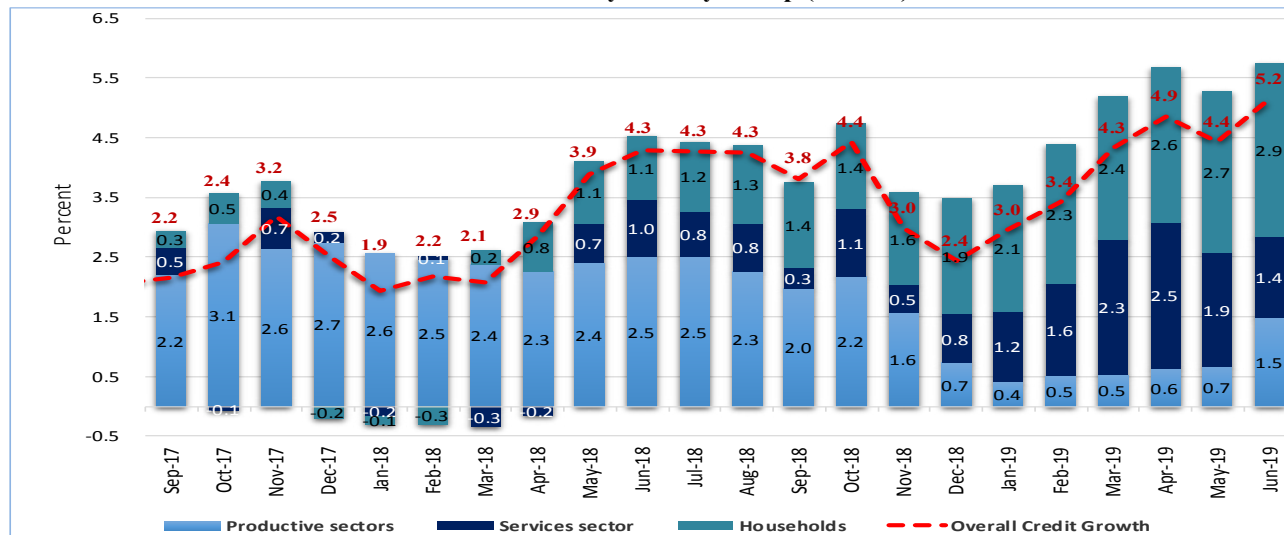
	End Month Level							Quarterly Growth Rates (%)							Absolute Quarterly Changes (KSh Billions)						
	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
<b>1. Credit to Government</b>	<b>755.7</b>	<b>624.9</b>	<b>745.1</b>	<b>770.2</b>	<b>858.2</b>	<b>964.2</b>	<b>890.5</b>	<b>12.1</b>	<b>-17.3</b>	<b>19.2</b>	<b>3.4</b>	<b>11.4</b>	<b>12.4</b>	<b>-7.6</b>	<b>81.4</b>	<b>-130.8</b>	<b>120.1</b>	<b>25.2</b>	<b>87.9</b>	<b>106.1</b>	<b>-73.7</b>
Central Bank	-67.0	-256.9	-204.4	-214.6	-95.1	-98.6	-189.6	-60.0	283.6	-20.4	5.0	-55.7	3.6	92.4	100.6	-189.9	52.4	-10.2	119.5	-3.4	-91.1
Commercial Banks & NBFIs	822.7	881.8	949.5	984.9	953.3	1,062.8	1,080.2	-2.3	7.2	7.7	3.7	-3.2	11.5	1.6	-19.2	59.2	67.7	35.4	-31.6	109.5	17.4
<b>2. Credit to other public sector</b>	<b>112.4</b>	<b>112.7</b>	<b>111.9</b>	<b>108.3</b>	<b>100.9</b>	<b>99.7</b>	<b>96.4</b>	<b>-1.2</b>	<b>0.3</b>	<b>-0.8</b>	<b>-3.2</b>	<b>-6.8</b>	<b>-1.2</b>	<b>-3.3</b>	<b>-1.3</b>	<b>0.3</b>	<b>-0.9</b>	<b>-3.5</b>	<b>-7.4</b>	<b>-1.2</b>	<b>-3.3</b>
Local government	4.0	4.2	4.4	4.4	4.3	4.3	3.8	-5.5	6.4	3.1	0.1	-0.4	-0.6	-12.9	-0.2	0.3	0.1	0.0	0.0	0.0	-0.6
Parastatals	108.4	108.5	107.5	104.0	96.6	95.4	92.7	-1.0	0.1	-0.9	-3.3	-7.1	-1.2	-2.9	-1.1	0.1	-1.0	-3.5	-7.4	-1.2	-2.7
<b>3. Credit to private sector</b>	<b>2,364.5</b>	<b>2,343.0</b>	<b>2,380.4</b>	<b>2,404.0</b>	<b>2,422.0</b>	<b>2,444.2</b>	<b>2,503.0</b>	<b>2.1</b>	<b>-0.9</b>	<b>1.6</b>	<b>1.0</b>	<b>0.7</b>	<b>0.9</b>	<b>2.4</b>	<b>48.9</b>	<b>-21.5</b>	<b>37.4</b>	<b>23.6</b>	<b>18.0</b>	<b>22.2</b>	<b>58.8</b>
Agriculture	84.7	82.9	83.0	85.0	83.0	83.0	86.2	-6.4	-2.2	0.2	2.5	-2.4	0.0	3.9	-5.8	-1.8	0.1	2.1	-2.0	0.0	3.2
Manufacturing	314.2	313.6	321.1	334.8	334.6	336.1	357.6	5.0	-0.2	2.4	4.3	-0.1	0.4	6.4	15.1	-0.6	7.5	13.7	-0.2	1.5	21.5
Trade	417.4	405.1	423.9	424.5	429.3	440.3	447.1	1.5	-2.9	4.7	0.1	1.1	2.6	1.5	6.2	-12.3	18.9	0.5	4.8	11.0	6.8
Building and construction	112.0	116.3	116.5	120.9	114.0	108.2	109.2	2.9	3.9	0.2	3.7	-5.7	-5.1	0.9	3.2	4.3	0.2	4.4	-6.9	-5.8	1.0
Transport & communications	190.5	163.3	165.1	169.4	172.7	172.7	174.7	2.2	-14.3	1.1	2.6	1.9	0.0	1.2	4.1	-27.2	1.8	4.4	3.2	0.0	2.1
Finance & insurance	82.1	86.7	88.6	89.5	96.5	95.6	92.8	-2.2	5.7	2.2	1.0	7.8	-1.0	-2.9	-1.9	4.6	1.9	0.9	7.0	-0.9	-2.8
Real estate	370.7	370.8	373.7	369.1	368.7	370.5	377.4	2.1	0.0	0.8	-1.2	-0.1	0.5	1.9	7.7	0.1	2.8	-4.5	-0.4	1.8	6.9
Mining and quarrying	16.5	15.1	13.9	14.0	14.7	13.4	13.3	-0.8	-8.5	-8.0	1.1	4.8	-9.2	-0.5	-0.1	-1.4	-1.2	0.2	0.7	-1.3	-0.1
Private households	388.5	393.4	399.4	404.9	415.1	424.9	429.6	0.8	1.3	1.5	1.4	2.5	2.4	1.1	3.1	4.9	6.0	5.5	10.2	9.8	4.7
Consumer durables	176.5	180.6	181.4	184.4	195.8	205.7	220.1	3.2	2.4	0.4	1.6	6.2	5.1	7.0	5.5	4.2	0.7	3.0	11.5	9.9	14.4
Business services	139.2	149.9	151.4	146.0	150.4	149.3	146.6	-0.5	7.6	1.1	-3.6	3.0	-0.7	-1.8	-0.7	10.6	1.6	-5.4	4.4	-1.1	-2.7
Other activities	72.2	65.2	62.3	61.3	47.1	44.5	48.2	20.9	-9.6	-4.5	-1.6	-23.3	-5.4	8.3	12.5	-6.9	-2.9	-1.0	-14.3	-2.5	3.7
<b>4. TOTAL (1+2+3)</b>	<b>3,232.6</b>	<b>3,080.6</b>	<b>3,237.3</b>	<b>3,282.5</b>	<b>3,381.1</b>	<b>3,508.1</b>	<b>3,490.0</b>	<b>4.2</b>	<b>-4.7</b>	<b>5.1</b>	<b>1.4</b>	<b>3.0</b>	<b>3.8</b>	<b>-0.5</b>	<b>128.9</b>	<b>-151.9</b>	<b>156.7</b>	<b>45.2</b>	<b>98.5</b>	<b>127.0</b>	<b>-18.1</b>

Source: Central Bank of Kenya

service sector declined as finance and insurance and business services sub-sectors registered repayments in the quarter while that of household sector (private households and consumer durables) marginally improved (Tables 2.3, 2.4 and Chart 2.2).

On a 12- month basis, private sector credit growth improved to 5.2 percent in June 2019 compared to 4.3 percent in March 2019 and 2.4 percent in December 2018, reflecting pickup in demand (Chart 2.2).

**Chart 2.2: Contribution to Overall Credit Growth by Activity Group (Percent)**



Source: Central Bank of Kenya

**Table 2.4: Gross Loans to the Private Sector**

	End Month Level						Quarterly Growth Rates (%)						Absolute Quarterly Changes (KSh Billions)					
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
1. Household	713.4	729.8	749.4	743.7	756.9	766.2	1.0	2.3	2.7	-0.8	1.8	1.2	7.0	16.5	19.6	-5.8	13.2	9.3
2. Corporate	1,674.2	1,697.6	1,706.2	1,735.7	1,745.5	1,796.3	-1.5	1.4	0.5	1.7	0.6	2.9	-25.7	23.4	8.6	29.5	9.8	50.8
Gross Loans	2,387.6	2,427.4	2,455.6	2,479.4	2,502.4	2,562.5	-0.8	1.7	1.2	1.0	0.9	2.4	-18.7	39.8	28.2	23.8	23.0	60.1

Source: Central Bank of Kenya

### Reserve Money

Growth in reserve money, which comprises currency held by the non-bank public and commercial bank reserves, declined by 3.7 percent in the second quarter of 2019 compared to a decline of 7.2 percent in the previous quarter. The decrease was largely due to a decline in currency outside banks which more than offset the pickup in bank reserves at the central bank (Table 2.5).

On the asset side, the decline in reserve money was due to a decrease in NDA of Central Bank which more than offset the increase in net foreign assets of the central bank. The decline was due to a decline in net lending to government, mainly reflecting increase in government deposits at the Central Bank. The decline in NDA was also reflected in other items net, largely attributed to increase in special project deposits at the Central Bank.

### Interest Rates

#### a. Central Bank Rate

The Monetary Policy Committee (MPC) meeting held in May 2019, retained the Central Bank Rate at 9.0 percent. The Committee noted that the policy stance was appropriate as inflation expectations remained well anchored within the target range and that the economy was operating close to potential.

#### b. Interbank rate

The average interbank rate decreased to 2.98 percent in June 2019 from 3.72 percent in March 2019, partly reflecting improved liquidity conditions in the money market, supported by increased government payments, including payments of pending bills, towards the end of FY2018/19 (Table 2.6).

**Table 2.5: Reserve Money and its Sources**

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

Source: Central Bank of Kenya

### c. Treasury bill rates

Interest rates on government securities also declined in the second quarter of 2019, reflecting improved liquidity conditions. The average 91-day Treasury bill rate declined to 6.90 percent in June 2019 compared to 7.08 percent in March 2019, while the average 182-day Treasury bill rate declined to 7.64 percent from 8.28 percent in March 2019 (Table 2.6).

2019. The average lending rates declined to 12.47 percent in June 2019 compared to 12.51 percent in March 2019. The average deposit rate declined to 7.19 percent in June 2019 from 7.22 percent in March 2019, partly reflecting improved liquidity conditions. Consequently, the spread declined marginally to 5.28 percent in June compared to 5.29 percent in March 2019.

### d. Lending and Deposit Rates

Commercial banks' average lending rates remained within the interest rate caps in the second quarter of

**Table 2.6: Interest Rates (%)**

	2017				2018												2019					
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day Treasury bill rate	8.69	8.42	8.13	8.01	8.04	8.03	8.02	8.00	7.96	7.87	7.69	7.64	7.64	7.56	7.36	7.34	7.19	7.02	7.08	7.41	7.17	6.90
182-day Treasury bill rate	10.53	10.38	10.32	10.53	10.64	10.42	10.39	10.30	10.26	9.99	9.35	9.00	8.82	8.51	8.30	8.40	8.92	8.55	8.28	8.11	7.85	7.64
Interbank rate	4.46	3.99	5.52	7.27	6.21	5.12	4.90	5.38	4.70	5.03	4.82	6.52	4.28	3.48	4.09	8.15	3.32	2.51	3.72	4.12	5.61	2.98
Repo rate	7.23	4.13	7.24	7.75	8.75	7.63	0.00	6.75	7.44	6.16	6.56	8.01	4.77	4.70	7.10	7.72	3.70	3.15	3.49	3.03	0.00	4.23
Reverse Repo rate	10.04	10.05	10.12	10.10	10.02	10.05	9.95	9.64	9.60	9.56	9.46	9.02	9.03	9.06	-	11.34	-	9.03	-	9.13	9.18	-
Central Bank Rate (CBR)	10.00	10.00	10.00	10.00	10.00	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Average lending rate (1)	13.61	13.66	13.69	13.64	13.65	13.68	13.49	13.24	13.25	13.22	13.10	12.78	12.66	12.61	12.55	12.51	12.50	12.47	12.51	12.50	12.47	12.47
Overdraft rate	13.29	13.38	13.65	13.54	13.61	13.75	13.40	13.29	13.30	13.23	13.16	12.90	12.52	12.42	12.11	12.17	12.15	12.13	12.13	12.15	12.13	12.12
1-5years	13.81	13.80	13.87	13.83	13.84	13.83	13.67	13.41	13.40	13.39	13.26	12.94	12.85	12.82	12.79	12.70	12.68	12.62	12.70	12.68	12.62	12.64
Over 5years	13.55	13.64	13.51	13.46	13.45	13.45	13.31	13.03	13.03	13.00	12.88	12.53	12.51	12.46	12.50	12.47	12.47	12.48	12.49	12.48	12.47	12.46
Average deposit rate (2)	7.12	7.15	7.66	8.22	8.26	8.25	8.16	8.17	8.08	8.04	8.01	7.78	7.76	7.63	7.41	7.41	7.34	7.28	7.22	7.17	7.20	7.19
0-3months	7.28	7.76	7.71	8.43	8.52	8.50	8.48	8.46	8.53	8.41	8.41	8.28	8.22	8.03	7.85	7.83	7.73	7.69	7.62	7.56	7.58	7.55
Over 3 months deposit	8.18	8.04	8.02	8.39	8.35	8.39	8.26	8.11	8.01	8.14	8.04	7.53	7.64	7.76	7.56	7.67	7.58	7.49	7.43	7.48	7.50	7.53
Savings deposits	5.89	5.63	6.43	6.91	6.97	7.01	6.85	6.72	6.64	6.60	6.53	6.52	6.33	5.70	5.38	5.13	5.14	5.16	5.05	4.75	4.71	4.77
Spread (1-2)	6.49	6.52	6.04	5.41	5.39	5.42	5.33	5.07	5.17	5.18	5.09	5.00	4.91	4.98	5.14	5.09	5.16	5.19	5.29	5.34	5.27	5.28

Source: Central Bank of Kenya

## Chapter 3

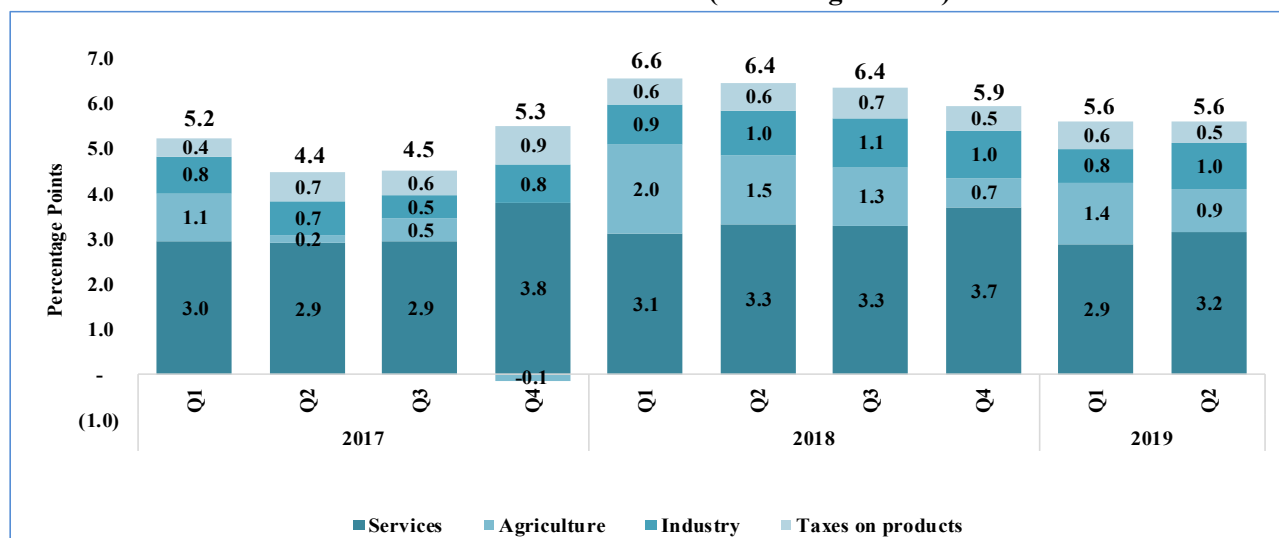
# The Real Sector

### Overview

Real GDP expanded by 5.6 percent in the first half of the year. Although strong, the performance was lower than the 6.4 percent growth realised in a similar period in 2018, mainly due to the effects of the delayed and below average rainfall, which resulted in poor performance of Agriculture, and Electricity and Water Supply sectors. The strong performance was supported by strong and resilient services sectors, mainly Information and Communication, Finance and Insurance, and Health (Chart 3.1, Table 3.1).

Services sector was the main driver of growth in the second quarter of 2019, and its contribution to overall GDP growth increased to 3.2 percentage points from 2.9 percentage points in the previous quarter. The contribution of the Agriculture sector declined to 0.9 percentage points from 1.4 percentage points, while that of industry increased slightly to 1.0 percentage points from 0.8 percentage points (Chart 3.1, Table 3.3).

**Chart 3.1: Sectoral Contributions to Real GDP Growth (Percentage Points)**



Source: Kenya National Bureau of Statistics

**Table 3.1: Real Gross Domestic Product (GDP) Growth by Activity(Percent)**

	Annual		2018				2019	
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2
<b>1. Agriculture</b>	<b>1.9</b>	<b>6.4</b>	<b>7.5</b>	<b>6.5</b>	<b>6.9</b>	<b>3.9</b>	<b>5.2</b>	<b>4.1</b>
<b>2.1 Industry</b>	<b>3.8</b>	<b>5.3</b>	<b>4.9</b>	<b>5.4</b>	<b>5.7</b>	<b>5.5</b>	<b>4.2</b>	<b>5.3</b>
Mining & Quarrying	4.5	2.8	2.4	2.9	3.3	2.7	2.2	5.7
Manufacturing	0.5	4.2	3.8	4.7	4.6	3.7	3.2	4.2
Electricity & water supply	7.0	7.9	6.5	8.4	7.8	8.7	6.1	5.6
Construction	8.5	6.6	6.6	5.4	7.0	7.3	5.6	7.2
<b>2.2 Services</b>	<b>6.5</b>	<b>6.9</b>	<b>6.9</b>	<b>7.1</b>	<b>6.6</b>	<b>7.1</b>	<b>6.3</b>	<b>6.7</b>
Wholesale & Retail Trade	5.7	6.3	5.9	6.2	6.5	6.6	5.5	5.8
Accommodation & restaurant	14.3	16.6	13.1	15.4	15.7	21.3	10.1	10.6
Transport & Storage	7.2	8.8	8.5	8.4	9.0	9.3	6.7	7.2
Information & Communication	11.0	11.4	12.5	11.0	9.8	11.8	10.5	11.6
Financial & Insurance	2.8	5.6	5.2	4.6	5.4	7.0	5.0	6.7
Public administration	6.5	6.1	6.2	5.9	6.1	6.4	6.5	6.0
Professional, Administration & Support Services	3.7	5.9	4.0	15.9	3.2	0.9	4.8	7.6
Real estate	6.1	4.1	5.3	4.6	3.8	2.8	4.2	5.4
Education	5.1	5.8	5.3	5.8	5.9	6.4	5.4	6.0
Health	4.3	4.5	4.6	4.1	5.5	4.0	4.0	5.2
Other services	5.1	4.9	4.2	5.1	4.9	5.3	3.2	2.3
FISIM	-3.3	1.1	0.2	0.1	1.7	2.2	-3.5	4.0
<b>2.3 Taxes on products</b>	<b>5.4</b>	<b>5.2</b>	<b>5.7</b>	<b>5.5</b>	<b>5.6</b>	<b>4.4</b>	<b>5.8</b>	<b>4.5</b>
<b>Real GDP Growth</b>	<b>4.9</b>	<b>6.3</b>	<b>6.6</b>	<b>6.4</b>	<b>6.4</b>	<b>5.9</b>	<b>5.6</b>	<b>5.6</b>

Source: Kenya National Bureau of Statistics

**Table 3.2: Sectoral Shares as a Percentage of GDP**

	Annual		2018				2019	
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2
<b>1. Agriculture</b>	<b>21.3</b>	<b>21.3</b>	<b>26.3</b>	<b>23.4</b>	<b>18.6</b>	<b>16.6</b>	<b>26.2</b>	<b>23.1</b>
<b>2.1 Industry</b>	<b>19.1</b>	<b>18.9</b>	<b>18.2</b>	<b>19.0</b>	<b>19.3</b>	<b>19.0</b>	<b>18.0</b>	<b>18.9</b>
Mining & Quarrying	1.1	1.0	1.1	0.9	1.1	1.1	1.0	0.9
Manufacturing	9.8	9.6	9.7	9.8	9.8	9.2	9.5	9.7
Electricity & water supply	2.6	2.6	2.5	2.8	2.7	2.5	2.5	2.8
Construction	5.6	5.6	5.0	5.4	5.8	6.3	5.0	5.5
<b>2.2 Services</b>	<b>48.2</b>	<b>48.5</b>	<b>45.3</b>	<b>46.7</b>	<b>50.1</b>	<b>52.0</b>	<b>45.6</b>	<b>47.2</b>
Wholesale & Retail Trade	7.6	7.6	6.7	7.1	8.7	7.8	6.7	7.1
Accommodation & restaurant	1.2	1.4	1.5	1.0	1.3	1.7	1.5	1.0
Transport & Storage	7.0	7.1	6.2	6.8	7.5	8.0	6.2	6.9
Information & Communication	4.1	4.3	4.2	3.5	3.8	5.5	4.4	3.6
Financial & Insurance	6.1	6.1	5.9	5.9	6.4	6.2	5.8	5.9
Public administration	3.9	3.9	3.6	4.3	3.8	4.0	3.6	4.3
Professional, Administration & Support Services	2.2	2.2	2.0	2.4	2.2	2.3	2.0	2.4
Real estate	8.5	8.4	8.1	8.3	8.6	8.5	8.0	8.2
Education	6.9	6.9	6.7	6.8	7.0	7.0	6.7	6.8
Health	1.8	1.7	1.5	1.8	1.8	1.8	1.5	1.8
Other services	1.3	1.2	1.2	1.2	1.3	1.3	1.2	1.2
FISIM	-2.4	-2.2	-2.3	-2.2	-2.4	-2.2	-2.1	-2.1
<b>2.3 Taxes on products</b>	<b>11.4</b>	<b>11.3</b>	<b>10.2</b>	<b>10.9</b>	<b>12.0</b>	<b>12.3</b>	<b>10.2</b>	<b>10.8</b>
<b>Total</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: Kenya National Bureau of Statistics and CBK Staff Computations

**Table 3.3: Sectoral Contributions to Real GDP Growth Rate**

	Annual		2018				2019	
	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2
<b>1. Agriculture</b>	<b>0.4</b>	<b>1.4</b>	<b>2.0</b>	<b>1.5</b>	<b>1.3</b>	<b>0.7</b>	<b>1.4</b>	<b>0.9</b>
<b>2. Non-Agriculture (o/w)</b>	<b>4.5</b>	<b>5.0</b>	<b>4.6</b>	<b>4.9</b>	<b>5.1</b>	<b>5.3</b>	<b>4.2</b>	<b>4.7</b>
<b>2.1 Industry</b>	<b>0.7</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.0</b>	<b>0.8</b>	<b>1.0</b>
Mining & Quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Manufacturing	0.0	0.4	0.4	0.5	0.5	0.3	0.3	0.4
Electricity & water supply	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Construction	0.5	0.4	0.3	0.3	0.4	0.5	0.3	0.4
<b>2.2 Services</b>	<b>3.2</b>	<b>3.4</b>	<b>3.1</b>	<b>3.3</b>	<b>3.3</b>	<b>3.7</b>	<b>2.9</b>	<b>3.2</b>
Wholesale & Retail Trade	0.4	0.5	0.4	0.4	0.6	0.5	0.4	0.4
Accommodation & restaurant	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.1
Transport & Storage	0.5	0.6	0.5	0.6	0.7	0.8	0.4	0.5
Information & Communication	0.4	0.5	0.5	0.4	0.4	0.7	0.5	0.4
Financial & Insurance	0.2	0.3	0.3	0.3	0.3	0.4	0.3	0.4
Public administration	0.3	0.2	0.2	0.3	0.2	0.3	0.2	0.3
Professional, Administration & Support Services	0.1	0.1	0.1	0.4	0.1	0.0	0.1	0.2
Real estate	0.5	0.3	0.4	0.4	0.3	0.2	0.3	0.4
Education	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Health	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
FISIM	0.1	0.0	0.0	0.0	0.0	0.0	0.1	-0.1
<b>2.3 Taxes on products</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>
<b>Real GDP Growth</b>	<b>4.9</b>	<b>6.3</b>	<b>6.6</b>	<b>6.4</b>	<b>6.4</b>	<b>5.9</b>	<b>5.6</b>	<b>5.6</b>

Source: Kenya National Bureau of Statistics and CBK Staff Computations

## PERFORMANCE BY SECTOR

Sectoral performance was mixed in the second quarter of 2019, but overall, the services sector continued to drive the positive performance of the economy.

### Agriculture

Growth in Agriculture sector was subdued in the second quarter following the delayed and below average rainfall experienced in March and April 2019 and also during the quarter under review. The sector grew by 4.1 percent, which was lower than 5.2 percent in the previous quarter and 6.5 percent in the same quarter of 2018 (Table 3.1). Production of key products such as milk, sugarcane, and horticultural crops for export declined during the quarter. The sector contributed 0.9 percentage points to overall GDP growth during the quarter under review, lower than 1.4 percentage points in the previous quarter and 1.5 percentage points in the same quarter of 2018 (Table 3.3).

### Tea

Tea production increased marginally by 0.02 percent in the second quarter of 2019 compared to the previous quarter. This was reflected in monthly production, where the increased output in May and June 2019 offset the decline in April (Table 3.4). The average auction price per kilogram increased by 3.7 percent compared to the previous quarter.

### Coffee

Coffee sales decreased by 18.2 percent compared to the previous quarter, which was reflected in the decline in the quantity of coffee available for auction as the main harvest period ended. Monthly data showed decreased sales in May and June, which more than offset the increase recorded in April (Table 3.4). The average auction price declined significantly by 50.4 percent compared to the previous quarter.



**Table 3.4: Quarterly Performance of Key Agricultural Output Indicators**

	2017				2018				2019*				
	Quarterly				Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr-19	May-19	Jun-19
<b>Tea</b>													
Output (Metric tonnes)	90,094	110,818	102,645	136,300	99,760	131,235	115,242	146,762	106,293	106,315	26,131	37,759	42,425
Growth (%)	-28.69	23.00	-7.38	32.79	-26.81	31.55	-12.19	27.35	-27.57	0.02	-1.2	44.5	12.4
<b>Horticulture</b>													
Exports (Metric tonnes)	85,792	85,186	82,791	82,105	100,526	96,592	108,203	76,078	103,204	84,183	28,174	20,893	35,115
Growth (%)	9.4	-0.7	-2.8	-0.8	22.4	-3.9	12.0	-29.7	35.7	-18.4	-23.6	-25.8	68.1
<b>Coffee</b>													
Sales (Metric tonnes)	16,731	6,202	5,546	5,250	15,857	8,814	5,755	6,405	13,948	11,412	5,307	4,084	2,021
Growth (%)	198.1	-62.9	-10.6	-5.3	202.1	-44.4	-34.7	11.3	117.8	-18.2	30.8	-23.1	-50.5
<b>Milk</b>													
Output (million litres)	130.0	143.2	153.3	164.9	148.7	152.0	162.1	180.4	177.1	142.1	41.5	48.3	52.3
Growth (%)	-19.6	10.1	7.1	7.5	-9.8	2.2	6.7	11.3	-1.9	-19.8	-23.7	16.5	8.4
<b>Sugar Cane</b>													
Output ('000 Metric tonnes)	1,572	786	709	1,546	1,689	927	1,252	1,392	1,443	950	359	328	263
Growth (%)	-3.6	-50.0	-9.8	118.1	9.2	-45.1	35.2	11.2	3.7	-34.2	-20.9	-8.5	-20.0

\* Provisional

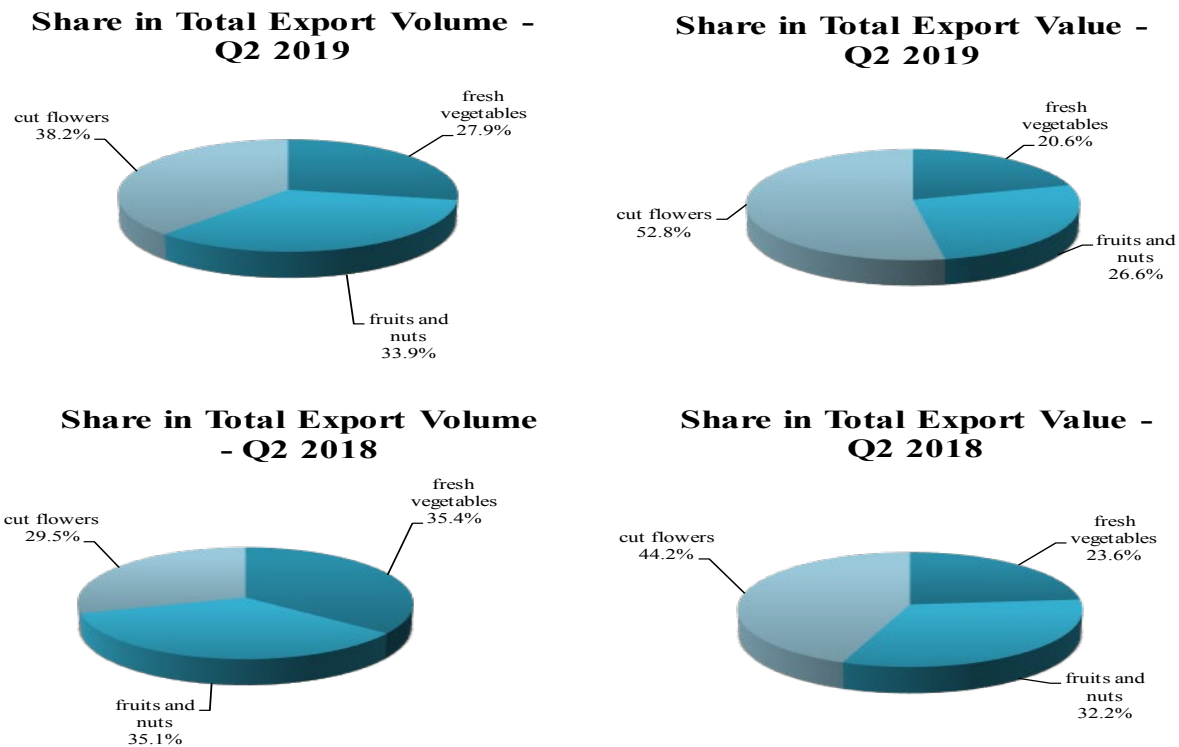
Source: Kenya National Bureau of Statistics

**Horticulture**

Total exports of horticultural crops declined by 18.4 percent compared to the previous quarter, on account of declined production of vegetables and fruits, nuts.

The decline in monthly production was partially offset by a significant improvement in June 2019 (Table 3.4 and Chart 3.2).

**Chart 3.2: Horticultural Exports**



Source: Kenya National Bureau of Statistics

**Milk intake** decreased by 19.8 percent compared to the previous quarter. The decline in monthly production in April more than offset the improved production in May and June (Table 3.4).

**Sugar cane output** declined by 34.2 percent compared to the previous quarter, with the decline in production reflected in all months of the quarter (Table 3.4).

**Manufacturing**

The Manufacturing sector recorded improved performance in the second quarter of 2019 and grew by 4.2 percent compared to 3.2 percent in the previous quarter. This was, however, slightly lower than 4.7 percent growth in the same quarter of 2018 (Table 3.1). Growth in the sector was boosted by increased activity in both food and non-food sub sectors. The sector's contribution to overall GDP growth increased slightly to 0.4 percentage points from 0.3 percentage points in the previous quarter (Table 3.3).

**Production of processed sugar** declined by 32.0 percent compared to the previous quarter due to reduced production of sugarcane during the quarter under review. Production declined in April and June by 24.0 percent and 19.0 percent, respectively, and the slight improvement by 2.1 percent in May did not offset the decline (Table 3.5).

**Cement production** improved slightly by 0.7 percent compared to the previous quarter, despite the slight decline in production across all the months of the quarter (Table 3.5).

Production of **assembled vehicles** increased by 20.7 percent compared to the previous quarter, with improved monthly production of 16.7 percent in April counter balancing the declines recorded in May and June of 0.9 percent and 24.0 percent, respectively (Table 3.5).

Production of **galvanized sheets** declined by 6.6 percent compared to the previous quarter. The decline in monthly production in April and May of 5.1 percent and 3.1 percent, respectively, offset the improved production of 9.7 percent in June (Table 3.5).

**Table 3.5: Quarterly Production of Selected Manufactured Goods**

	2017				2018				2019*					
	Quarterly				Quarterly				Quarterly		Monthly			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr-19	May-19	Jun-19	
<b>Cement production</b>														
Output (MT)	1,627,269	1,531,136	1,536,349	1,535,537	1,552,947	1,453,002	1,575,368	1,488,617	1,462,361	1,472,610	503,722	486,903	481,985	
Growth %	-4.5	-5.9	0.3	-0.1	1.13	-6.44	8.42	-5.51	-1.76	0.70	-0.7	-3.3	-1.0	
<b>Assembled vehicles</b>														
Output (No.)	1,499	870	1,136	1,056	1,472	1,182	1,627	1,372	1,684	2,033	741	734	558	
Growth %	25.5	-42.0	30.6	-7.0	39.4	-19.7	37.6	-15.7	22.7	20.7	16.7	-0.9	-24.0	
<b>Galvanized sheets</b>														
Output (MT)	71,888	61,730	62,124	67,107	67,857	65,139	69,391	68,049	75,321	70,341	23,198	22,480	24,663	
Growth %	26.3	-14.1	0.6	8.0	1.1	-4.0	6.5	-1.9	10.7	-6.6	-5.1	-3.1	9.7	
<b>Processed sugar</b>														
Output (MT)	144,403	57,589	50,423	124,711	165,800.0	93,935.0	103,403.0	122,360.0	144,617.0	98,322.0	34,521.0	35,257.0	28,544.0	
Growth %	-2.5	-60.1	-12.4	147.3	32.9	-43.3	10.1	18.3	18.2	-32.0	-24.0	2.1	-19.0	
<b>Soft drinks</b>														
Output ('000 litres)	144,385	133,016	123,418	170,114	154,327	131,999	138,476	150,768	154,287	154,461	54,515	51,210	48,736	
Growth %	3.0	-7.9	-7.2	37.8	-9.3	-14.5	4.9	8.9	2.3	0.1	6.0	-6.1	-4.8	

MT = Metric tonnes

\* Provisional

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

**Soft drinks** production increased slightly by 0.1 percent compared to the previous quarter. Monthly production increased by 6.0 percent in April, then declined by 6.1 percent and 4.8 percent in May and June, respectively (Table 3.5).

### Electricity and Water Supply

Electricity and Water Supply sector grew by 5.6 percent in the second quarter of 2019, which was lower than 6.1 percent in the previous quarter, as activity in the sector was adversely affected by the delayed and below average rainfall experienced during the quarter (Table 3.1). The sector's contribution to overall GDP growth remained stable at 0.2 percentage points during the quarter (Table 3.3).

Growth in electricity generation decreased by 0.7 percent compared to the previous quarter, owing to lower generation of hydro electricity and wind electricity. However, generation of thermal, geothermal, and solar electricity increased by 40.5 percent, 0.13 percent, and 0.4 percent, respectively (Table 3.6).

Moreover, consumption of electricity decreased by 1.3 percent while that of fuels increased by 0.4 percent in the second quarter of 2019 compared to the previous quarter. International oil prices increased by 5.4 percent compared to the previous quarter (Table 3.6).



**Table 3.6: Quarterly Performance in the Energy Sector**

	Quarterly				Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr-19	May-19	Jun-19
Electricity Supply (Generation)													
Output (million KWH)	2,452.7	2,515.6	2,555.5	2,618.7	2,640.4	2,718.7	2,835.4	2,857.3	2,825.1	2,805.2	921.2	952.4	931.6
Growth %	-3.7	2.6	1.6	2.5	0.8	3.0	4.3	0.8	-1.1	-0.7	-5.9	3.4	-2.2
<b>Of which:</b>													
Hydro-power Generation (million KWH)	700.6	620.3	683.3	772.6	664.8	1103.6	1229.8	988.3	815.7	707.0	192.0	242.6	272.4
Growth (%)	-27.8	-11.5	10.2	13.1	-14.0	66.0	11.4	-19.6	-17.5	-13.3	-32.1	26.4	12.3
Geo-Thermal Generation (million KWH)	1,122.2	1,151.2	1,219.3	1,263.7	1,265.6	1,304.8	1,304.5	1,252.9	1,236.9	1,238.5	397.7	427.4	413.4
Growth (%)	1.6	2.6	5.9	3.6	0.2	3.1	0.0	-4.0	-1.3	0.1	-10.7	7.5	-3.3
Thermal Generation (million KWH)	609.1	730.8	644.1	562.2	693.7	304.0	289.4	258.9	311.6	437.7	181.1	110.3	146.2
Growth (%)	35.1	20.0	-11.9	-12.7	23.4	-56.2	-4.8	-10.5	20.4	40.5	83.0	-39.1	32.5
Wind Generation (million KWH)	20.8	13.2	8.7	18.7	14.2	6.2	11.7	343.5	437.8	398.7	142.2	164.1	92.4
Growth (%)	4.0	-36.6	-34.3	116.1	-23.9	-56.6	89.1	2843.6	27.4	-8.9	-1.2	15.4	-43.7
Solar Generation (million KWH)					0.0	0.0	0.0	13.6	23.1	23.2	8.2	7.9	7.1
Growth (%)								-33.3	67750.0	70.1	0.4	1.5	-10.6
Co-Generation (million KWH)	0.1	0.1	0.1	1.6	2.1	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.1
Growth (%)					35.4	-92.5	-62.5	33.3	-37.5	20.0	-50.0		
Consumption of electricity (million KWH)	2,064.3	2,165.8	2,413.7	2,079.2	2,161.3	2,127.1	2,164.9	2,203.5	2,221.7	2,191.9	736.4	733.1	722.3
Growth %	0.4	4.9	11.4	-13.9	3.9	-1.6	1.8	1.8	0.8	-1.3	-2.1	-0.4	-1.5
Consumption of Fuels ('000 tonnes)	1,300.8	1,314.1	1,240.8	1,146.0	1,380.1	1,324.0	1,292.3	1,192.9	1,296.6	1,302.4	454.8	446	401
Growth %	-7.0	1.0	-5.6	-7.6	20.4	-4.1	-2.4	-7.7	8.7	0.4	6.5	-1.9	-10.1
Murban crude oil average price (US \$ per barrel)	54.7	50.7	51.1	63.2	66.2	73.6	76.6	69.6	65.0	68.5	73.1	69.7	62.8
Growth %	8.2	-7.3	0.7	23.8	4.8	11.2	4.0	-9.1	-6.5	5.4	6.5	-4.6	-10.0

Source: Kenya National Bureau of Statistics

### Construction and Real Estate

Growth in the Construction sector was strong at 7.2 percent in the second quarter of 2019 compared to 5.6 percent in the previous quarter, supported by ongoing infrastructure projects particularly the second phase of the Standard Gauge Railway (SGR) and the continued road and ports expansion (Table 3.1). The sector contributed 0.4 percentage points to real GDP growth, which was slightly higher compared to 0.3 percentage points in the previous quarter (Table 3.3). Cement consumption, a key indicator of activity in the sector, increased slightly by 0.4 percent compared to the previous quarter (Table 3.7).

Growth in the Real Estate sector improved further by 5.4 percent compared to 4.2 percent in the previous quarter (Table 3.1). Contribution of the sector to real GDP growth stood at 0.4 percentage points compared to 0.3 percentage points in the previous quarter (Table 3.2, Table 3.3).

### Accommodation and Restaurants

Growth in the Accommodation and Restaurant sector was strong at 10.6 percent in the second quarter of 2019 compared to 10.1 percent the previous quarter (Table 3.1). The sector contributed 0.1 percentage points to overall GDP growth compared to 0.2 percentage points in the previous quarter (Table 3.3).

**Table 3.7: Quarterly Output of Selected Construction Indicators**

	2017				2018				2019*				
	Quarterly				Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr-19	May-19	Jun-19
<b>Cement Consumption</b>													
Output (Tonnes)	1,533,010	1,435,103	1,462,062	1,427,712	1,502,179	1,409,637	1,556,927	1,479,955	1,455,257	1,460,873	502,158	487,239	471,476
Growth %	-5.0	-6.4	1.9	-2.3	5.2	-6.2	10.4	-4.9	-1.7	0.4	-0.7	-3.0	-3.2
<b>Value of Building Plans Approved by Nairobi City County Planning Compliance &amp; Enforcement Department</b>													
Residential (KSh, millions)	33,863.46	36,503.04	18,146.46	23,550.46	36,850.30	26,326.87	32,493.04	36,168.58	33,048.82	N/A	N/A	N/A	N/A
Growth (%)	-25.7	7.8	-50.3	29.8	56.5	-28.6	23.4	11.3	-8.6				
Non-residential (KSh, millions)	27,846.32	30,457.72	2,691.63	11,661.46	23,255.01	14,329.83	18,230.01	22,643.08	23,491.41	N/A	N/A	N/A	N/A
Growth (%)	-4.6	9.4	-91.2	333.2	99.4	-38.4	27.2	24.2	3.7				
Total (KSh, millions)	61,709.78	66,960.76	20,838.09	35,211.92	60,105.31	40,656.70	50,723.05	58,811.66	56,540.23	N/A	N/A	N/A	N/A
Growth (%)	-17.5	8.5	-68.9	69.0	70.7	-32.4	24.8	15.9	-3.9				

Source: Kenya National Bureau of Statistics

N/A - Not Available

### Tourist Arrivals

Overall tourist arrivals declined by 6.6 percent compared to the previous quarter, mainly on account of a significant decline in arrivals by 69.3 percent through Moi International Airport Mombasa (MIAM) as a result of low season in the industry, which more

than offset the 3.2 percent increase in arrivals through Jomo Kenyatta International Airport (JKIA) (Table 3.8).

**Table 3.8: Quarterly Tourist Arrival by Point of Entry**

	2017				2018				2019*				
	Quarterly				Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr-19	May-19	Jun-19
Total Tourist Arrivals	306,162	301,831	368,911	319,177	342,584	317,160	430,063	370,819	361,178	337,477	107,725	101,653	128,099
Growth (%)	39.6	-1.4	22.2	-13.5	7.3	-7.4	35.6	-13.8	-2.6	-6.6	-4.8	-5.6	26.0
o.w. JKIA - Nairobi	271,613	287,779	341,906	178,505	211,878	293,209	401,533	334,682	312,602	322,546	102,981	98,081	121,484
Growth (%)	41.4	6.0	18.8	-47.8	18.7	38.4	36.9	-16.6	-6.6	3.2	10.6	-4.8	23.9
MIAM - Mombasa	34,549	14,052	27,005	34,056	38,349	15,097	28,530	36,137	48,576	14,931	4,744	3,572	6,615
Growth %	26.7	-59.3	92.2	26.1	12.6	-60.6	89.0	26.7	34.4	-69.3	-76.3	-24.7	85.2

Source: Kenya Tourism Board

### Transport and Storage

Transport and Storage sector recorded strong growth of 7.2 percent compared to 6.7 percent recorded the previous quarter (Table 3.1). The positive performance was mainly supported by increased freight, transport by road and air. Its contribution to overall GDP growth was slightly higher at 0.5 percentage points compared to 0.4 percentage points in the previous quarter (Table 3.3).

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

**Table 3.9: Quarterly Performance of Selected Transport Indicators**

	2017				2018				2019*				
	Quarterly				Quarterly				Quarterly		Monthly		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr-19	May-19	Jun-19
<b>Number of Passengers thro' JKIA</b>													
Total passenger flows	994,137	1,083,803	1,309,436	1,155,878	1,117,194	1,192,031	1,438,266	1,273,305	1,145,119	1,219,421	407,488	382,536	429,397
Growth (%)	- 9.50	9.02	20.82	- 11.73	- 3.35	6.70	20.66	- 11.47	- 10.07	6.49	5.06	- 6.12	12.25
o.w. Incoming	638,803	680,989	814,088	734,375	707,536	745,416	884,126	810,444	729,627	775,076	257,902	244,339	272,835
Growth (%)	- 7.42	6.60	19.54	- 9.79	- 3.65	5.35	18.61	- 8.33	- 9.97	6.23	5.6	- 5.3	11.66
Outgoing	355,334	402,814	495,348	421,503	409,658	446,615	554,140	462,861	415,492	444,345	149,586	138,197	156,562
Growth %	- 13.03	13.36	22.97	- 14.91	- 2.81	9.02	24.08	- 16.47	- 10.23	6.94	4.2	- 7.61	13.29
<b>Kenya Pipeline Oil Throughput</b>													
Output ('000 litres)	1,551,237	1,532,312	1,545,030	1,527,002	1,572,646	1,508,627	1,580,877	1,659,339	1,715,884	1,730,530	583,867	605,685	540,978
Growth %	5.7	- 1.2	0.8	- 1.2	3.0	- 4.1	4.8	5.0	3.4	0.9	3.7	3.7	- 10.7

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

## Chapter 4

# Global Economy

### 4.1 Global Economy

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

Growth in the advanced economies declined to 1.7 percent in 2019 from 2.3 percent in 2018 and is expected remain at 1.7 percent in 2020. In the Euro

area, growth is projected to slow down to 1.2 percent in 2019 from 1.9 percent due to weaker than expected external demand in the first half of the year in Germany and France and softening private consumption, small fiscal impulse and weaker external environment in Italy. In the United States, growth is expected to be at 2.4 percent in 2019 and to moderate to 2.1 percent in 2020. In the emerging and developing economies, growth is expected at 3.9 percent in 2019 from 4.5 percent in 2018 and rise to 4.6 percent in 2020. Among other factors, the effects of escalating tariffs and weakening external demand have seen China growth projections revised downwards to 6.1 percent in 2019 and 5.8 percent in 2020 from an actual of 6.6 in 2018. In India the economy is set to grow at 6.1 percent in 2019 and later pick up to 7.0 percent in 2020.

**Table 4.1: Global Economic Outlook**

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

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

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

#### Risk to the global economic outlook

The risk to the outlook remain intensified. The main downside risk to global growth remains to be further disruption to trade and supply chains, continued built

up of financial vulnerabilities, threats of cyber-attacks which disrupt cross-border payments, geopolitical tensions, domestic and political uncertainty.

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

## Chapter 5

# Balance of Payments and Exchange Rates

### Balance of Payments and Exchange Rates

Provisional estimates of the current account deficit show that it narrowed to USD 1,051 million in the

second quarter of 2019 from USD 1,208 million in the second quarter of 2018, reflecting lower imports and improved secondary transfers (Table 5.1).

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

ITEM	2018*			2019**					Q2 2019-Q2 2018	
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2			Total	Change	%
	Q2	Q3	Q4	Q1	Apr	May	June	Q2		
1. Overall Balance	333	390	251	-253	348	-2,032	752	-932	-1,266	-380
2. Current account	-1,208	-1,081	-913	-782	-385	-406	-270	-1,052	146	-12
Exports (fob)	1,584	1,510	1,411	1,570	487	463	508	1,458	-126	-8
Imports (fob)	4,340	4,036	3,930	3,943	1,400	1,429	1,323	4,152	-188	-4
Services: credit	1,367	1,365	1,461	1,485	446	497	451	1,394	27	2
Services: debit	983	950	965	881	321	354	341	1,016	33	3
Balance on goods and services	-2,372	-2,111	-2,023	-1,769	-788	-823	-705	-2,315	56	-2
Primary income: credit	185	184	182	193	62	52	63	186	-9	-5
Primary income: debit	430	381	342	482	114	96	186	396	-34	-8
Balance on goods, services, and primary income	-2,616	-2,308	-2,183	-2,058	-840	-866	-828	-2,535	81	-3
Secondary income: credit	1,423	1,238	1,282	1,286	458	464	561	1,483	60	4
o.w Remittances	737	633	565	665	245	243	295	784	47	6
Secondary income: debit	14	12	11	10	3	3	3	9	-5	-33
3. Capital Account	93	36	51	42	21	13	52	86	-7	-8
4. Financial Account	-195	-836	-2,373	-957	-110	-2,549	-154	-2,813	-2,618	1,339

\* Revised

\*\*Provisional

Fob - free on board

Source: Central Bank of Kenya

### The Current Account

The trade balance improved marginally by 2 percent from a deficit of USD 2,372 million in the second quarter of 2018 to a deficit of USD 2,315 million in the second quarter of 2019, attributed to reduced imports (Table 5.2). The value of merchandise exports decreased by 8 percent to USD 1,458 million in the second quarter of 2019 largely due to lower receipts from tea, horticulture and re-exports. The value of tea exports declined by 27 percent to USD 248 million, due to lower tea prices that prevailed in 2019 compared to 2018 following strong global production. Receipts from horticulture exports declined by 6 percent to USD 259 million primarily due to lower earnings.

The value of merchandise imports decreased by 4 percent to USD 4,152 million in the second quarter of 2019 from USD 4,340 million, in the second quarter of 2018. This was largely on account of reduced importation of machinery and transport equipment due to the near-completion of Phase 2A of the SGR, which wholly offset increased imports of oil and food. The increase in oil imports is attributed to the higher

international crude oil prices in the second quarter of 2019 compared to the same period in 2018. Food imports increased marginally against a backdrop of improved domestic food production arising from the normal weather conditions that prevailed in 2019 in the key food basket regions.

The services account remained resilient at USD 379 million in the second quarter of 2019, compared with USD 384 million in the second quarter of 2018 mainly on receipts from other services as well as higher receipts from transport services. Earnings from tourism declined by 11 percent in the second quarter of 2019. The balance on the primary account narrowed by 14 percent from a deficit of USD 245 million in the second quarter of 2018 to deficit of USD 209 million in the second quarter of 2019, reflecting interest payments on foreign public debt. The balance on secondary income improved by 5 percent to USD 1,473 million largely on account of the resilient remittance inflows.

**Table 5.2: Balance on Current Account (USD Million)**

ITEM	2018**			2019**				Q2 2019-Q2 2018		
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2			Total	Change	%
	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2		
<b>CURRENT ACCOUNT</b>	<b>-1,208</b>	<b>-1,081</b>	<b>-913</b>	<b>-782</b>	<b>-385</b>	<b>-406</b>	<b>-270</b>	<b>-1,061</b>	<b>146</b>	<b>-12</b>
<b>Goods</b>	<b>-2,756</b>	<b>-2,525</b>	<b>-2,519</b>	<b>-2,372</b>	<b>-913</b>	<b>-966</b>	<b>-815</b>	<b>-2,694</b>	<b>62</b>	<b>-2</b>
<b>Exports (fob)</b>	<b>1,584</b>	<b>1,510</b>	<b>1,411</b>	<b>1,570</b>	<b>487</b>	<b>463</b>	<b>508</b>	<b>1,458</b>	<b>-126</b>	<b>-8</b>
o.w Coffee	88	52	41	57	25	27	20	72	-16	-18
Tea	337	324	315	311	85	92	70	248	-90	-27
Horticulture	276	269	225	284	85	61	113	259	-17	-6
Oil products	12	11	9	8	3	3	1	8	-5	-38
Manufactured Goods	98	91	98	96	32	33	36	100	2	2
Raw Materials	98	86	88	77	36	14	42	93	-5	-5
Chemicals and Related Products (n.e.s)	107	121	113	113	38	36	38	112	5	5
Miscellaneous Man. Articles	159	160	140	134	52	55	48	156	-4	-2
Re-exports	186	182	144	192	54	67	53	174	-11	-6
Other	209	199	223	286	73	70	81	223	14	7
<b>Imports (fob)</b>	<b>4,340</b>	<b>4,036</b>	<b>3,930</b>	<b>3,943</b>	<b>1,400</b>	<b>1,429</b>	<b>1,323</b>	<b>4,152</b>	<b>-188</b>	<b>-4</b>
o.w Oil	920	879	818	742	364	356	300	1,020	100	11
Chemicals	615	633	607	658	213	220	179	612	-3	0
Manufactured Goods	827	746	688	683	243	243	270	756	-71	-9
Machinery & Transport Equipment	1,256	1,121	1,119	1,140	359	357	354	1,070	-187	-15
Machinery	793	715	781	646	242	241	201	684	-110	-14
Transport equipment	463	411	336	494	116	117	153	386	-77	-17
Other	800	805	844	867	291	315	302	907	107	13
o.w Food	407	379	358	433	143	156	141	439	33	8
<b>Services</b>	<b>384</b>	<b>414</b>	<b>496</b>	<b>604</b>	<b>125</b>	<b>143</b>	<b>110</b>	<b>379</b>	<b>-5</b>	<b>-1</b>
<b>Transport Services (net)</b>	<b>143</b>	<b>143</b>	<b>189</b>	<b>214</b>	<b>62</b>	<b>51</b>	<b>42</b>	<b>155</b>	<b>12</b>	<b>9</b>
Credit	469	491	554	552	187	189	169	546	77	16
Debit	327	348	365	338	126	138	127	391	64	20
<b>Travel Services (net)</b>	<b>223</b>	<b>210</b>	<b>218</b>	<b>189</b>	<b>62</b>	<b>67</b>	<b>73</b>	<b>202</b>	<b>-21</b>	<b>-10</b>
Credit	281	261	273	235	74	84	91	249	-32	-11
Debit	58	52	55	46	13	17	18	47	-11	-18
<b>Other Services (net)</b>	<b>19</b>	<b>62</b>	<b>90</b>	<b>201</b>	<b>2</b>	<b>25</b>	<b>-5</b>	<b>22</b>	<b>3</b>	<b>19</b>
<b>Primary Income</b>	<b>-245</b>	<b>-197</b>	<b>-160</b>	<b>-289</b>	<b>-52</b>	<b>-34</b>	<b>-123</b>	<b>-209</b>	<b>35</b>	<b>-14</b>
Credit	185	184	182	193	62	52	63	176	-9	-5
Debit	430	381	342	482	114	96	186	396	-34	-8
<b>Secondary Income</b>	<b>1,408</b>	<b>1,226</b>	<b>1,271</b>	<b>1,276</b>	<b>455</b>	<b>461</b>	<b>558</b>	<b>1,473</b>	<b>65</b>	<b>5</b>
Credit	1,423	1,238	1,282	1,286	458	464	561	1,483	60	4
Debit	14	12	11	10	3	3	3	9	-5	-33

\* Revised

\*\*Provisional

Fob - free on board

Source: Central Bank of Kenya and KNBS

## Direction of Trade

Imports from China accounted for 19.3 percent of total imports to Kenya in the second quarter of 2019, making it the largest single source of imports. In value terms, Kenya's imports from China amounted to USD 802 million, a decrease from 1,136 million in the second quarter of 2018. Imports from the European Union accounted for 12.6 percent of total imports, and decreased by 34.0 percent to USD 524 million in the second quarter of 2019. The share of imports from Africa increased to 12.2 percent in the second quarter of 2019 from 11.6 percent in the second quarter of 2018, reflecting an increase in imports from COMESA. The share of imports from India decreased to 8.8 percent from 10.0 percent, over the same period (Table 5.3).

**Table 5.3: Kenya's Direction of Trade: Imports**

ITEM	2018*			2019**				Q2 2019-Q2 2018		
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Q2			Total	Change	%
	Q2	Q3	Q4	Q1	Apr	May	June	Q2		
1. Overall Balance	333	390	251	-253	348	-2,032	752	-932	-1,266	-380
2. Current account	-1,208	-1,081	-913	-782	-385	-396	-270	-1,051	146	-12
Exports (fob)	1,584	1,510	1,411	1,570	487	463	508	1,458	-126	-8
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Services: credit	1,367	1,365	1,461	1,485	446	497	451	1,394	27	2
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<i>Balance on goods and services</i>	-2,372	-2,111	-2,023	-1,769	-788	-823	-705	-2,315	56	-2
Primary income: credit	185	184	182	193	62	52	63	186	-9	-5
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o.w Remittances	737	633	565	665	245	243	295	784	47	6
Secondary income: debit	14	12	11	10	3	3	3	9	-5	-33
3. Capital Account	93	36	51	42	21	13	52	86	-7	-8
4. Financial Account	-195	-836	-2,373	-957	-110	-2,549	-154	-2,813	-2,618	1,339

\* Revised

\*\*Provisional

Fob - free on board

Source: Kenya Revenue Authority

The share of exports to the rest of the world declined from 65.1 percent in the second quarter of 2018 to 64.1 percent in the second quarter of 2019 largely attributed to decrease in exports to Pakistan and United Kingdom.

The share of exports to Africa however, increased to 35.9 percent in the second quarter of 2019 from 34.9 percent in the second quarter of 2018. This reflected higher exports to the EAC and the COMESA region, (Table 5.4)

**Table 5.4: Kenya's Direction of Trade: Exports**

EXPORTS (USD M)	2018									2019			Share of Exports (%)	
	2018				2019					Q2 2018	Q2 2019			
	Jan-March	Apr-Jun	July-Sep	Oct-Dec	Jan-March	Q2								
Country	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Q2	Q2 2018	Q2 2019			
<b>Africa</b>	<b>530</b>	<b>553</b>	<b>537</b>	<b>515</b>	<b>531</b>	<b>179</b>	<b>177</b>	<b>178</b>	<b>534</b>	<b>34.9</b>	<b>35.9</b>			
<i>Of which</i>														
Uganda	159	147	150	155	161	44	47	52	143	9.3	9.6			
Tanzania	72	74	73	74	74	31	26	26	83	4.7	5.6			
Egypt	53	53	45	48	52	16	17	14	47	3.3	3.2			
Sudan	18	12	15	16	16	4	5	5	14	0.7	1.0			
South Sudan	38	45	19	27	28	16	17	8	41	2.8	2.8			
Somalia	39	41	36	33	31	11	9	13	33	2.6	2.2			
DRC	35	42	38	35	33	12	11	12	35	2.7	2.3			
Rwanda	38	50	45	43	42	16	21	18	55	3.2	3.7			
Others	78	89	117	84	93	30	24	30	83	5.6	5.6			
<b>EAC</b>	<b>282</b>	<b>286</b>	<b>291</b>	<b>287</b>	<b>298</b>	<b>96</b>	<b>98</b>	<b>103</b>	<b>297</b>	<b>18.0</b>	<b>20.0</b>			
<b>COMESA</b>	<b>359</b>	<b>366</b>	<b>371</b>	<b>356</b>	<b>370</b>	<b>115</b>	<b>120</b>	<b>123</b>	<b>358</b>	<b>23.1</b>	<b>24.1</b>			
<b>Rest of the World</b>	<b>1,069</b>	<b>1,031</b>	<b>959</b>	<b>881</b>	<b>1,027</b>	<b>330</b>	<b>314</b>	<b>309</b>	<b>953</b>	<b>65.1</b>	<b>64.1</b>			
<i>Of which</i>														
United Kingdom	109	101	92	95	118	27	20	38	84	6.4	5.7			
Netherlands	139	114	105	99	144	38	26	56	119	7.2	8.0			
USA	91	124	141	112	121	53	41	43	137	7.8	9.2			
Pakistan	183	139	137	126	130	38	34	25	96	8.8	6.5			
United Arab Emirates	93	89	85	78	103	26	41	33	101	5.6	6.8			
Germany	28	35	23	24	31	12	11	10	33	2.2	2.2			
India	34	14	25	17	17	5	4	4	13	0.9	0.9			
Afghanistan	8	9	14	7	7	3	4	2	9	0.5	0.6			
Others	384	406	336	323	356	128	133	98	359	25.6	24.1			
<b>Total</b>	<b>1,600</b>	<b>1,584</b>	<b>1,496</b>	<b>1,396</b>	<b>1,558</b>	<b>508</b>	<b>492</b>	<b>487</b>	<b>1,487</b>	<b>100.0</b>	<b>100.0</b>			
EU	364	337	302	291	406	101	84	130	315	21.3	21.2			
China	16	26	26	42	34	14	9	17	40	1.7	2.7			

Source: Kenya Revenue Authority



## Capital and Financial Account

The capital account recorded a decrease of USD 7 million to USD 86 million in the second quarter of 2019. The financial account recorded higher net

inflows of USD 2,813 million in the second quarter of 2019, mainly reflecting an increase in Portfolio investment following issuance of USD 2.1 billion Euro Bond in May 2019 (Table 5.5).

**Table 5.5: Balance on Capital and Financial Account (USD Million)**

ITEM	2018					2019 *				Q2 2019-Q2 2018	
	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Jan-Mar	Q2			Total	Change	%
	Q1	Q2	Q3	Q4	Q1	Apr	May	June	Q2		
<b>Capital account credit</b>	<b>83</b>	<b>93</b>	<b>36</b>	<b>51</b>	<b>42</b>	<b>21</b>	<b>13</b>	<b>52</b>	<b>86</b>	<b>-7</b>	<b>-9</b>
Capital account credit	83	93	36	51	42	21	13	52	86	-7	-9
Capital account: debit	0	0	0	0	0	0	0	0	0	0	0
<b>Financial Account</b>	<b>-3,144</b>	<b>-195</b>	<b>-836</b>	<b>-2,373</b>	<b>-957</b>	<b>-110</b>	<b>-2,549</b>	<b>-154</b>	<b>-2,813</b>	<b>-2,618</b>	<b>83</b>
Direct investment: assets	11	23	18	111	49	24	31	20	75	52	454
Direct investment: liabilities	131	275	383	836	284	137	125	151	412	137	105
Portfolio investment: assets	218	317	265	282	259	61	59	78	198	-119	-55
Portfolio investment: liabilities	1,920	-81	-66	-65	7	10	2,131	-5	2,135	2,216	115
Financial derivatives: net	0	0	0	2	-6	-1	-2	-1	-4	-4	0
Other investment: assets	193	661	180	-11	-16	273	-290	299	282	-378	-196
Other investment: liabilities	1,516	1,002	983	1,986	951	320	92	405	816	-186	-12

\* Revised

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 12 percent during the second quarter of 2019. Official reserves held by the Central Bank

constituted 73 percent of gross reserves and stood at USD 9,656 million, equivalent to 6.0 months of import cover (Table 5.6).

## Exchange Rates

**Table 5.6: Foreign Exchange Reserves and Residents' Foreign Currency Deposits (End of Period, USD Million)**

	2017	2018				2019				
	Jan-Mar	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr	May	June	Q2
	Q1	Q1	Q2	Q3	Q4	Q1	Apr	May	June	Q2
<b>1. Gross Reserves</b>	<b>10,786</b>	<b>11,859</b>	<b>12,102</b>	<b>11,863</b>	<b>11,516</b>	<b>11,772</b>	<b>11,654</b>	<b>13,369</b>	<b>13,187</b>	<b>13,187</b>
of which:										
Official	8,379	9,362	8,954	8,545	8,230	8,468	8,090	10,122	9,656	9,656
<i>import cover*</i>	5.5	6.3	5.9	5.6	5.3	5.4	5.1	6.4	6.0	6.0
Commercial Banks	2,407	2,497	3,148	3,318	3,286	3,304	3,563	3,246	3,531	3,531
<b>2. Residents' foreign currency deposits</b>	<b>4,503</b>	<b>4,988</b>	<b>5,986</b>	<b>5,952</b>	<b>6,078</b>	<b>6,068</b>	<b>6,045</b>	<b>6,054</b>	<b>6,415</b>	<b>6,415</b>

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

Source: Central Bank of Kenya

Kenya's foreign exchange market remained relatively stable during the second quarter of 2019, largely supported by resilient inflows from diaspora remittances, and lower imports. The Kenya Shilling weakened by 0.1 percent against the US Dollar to exchange at an average of 101.30 during the second quarter compared with 100.73 in the first quarter of 2019. The Kenya Shilling however strengthened

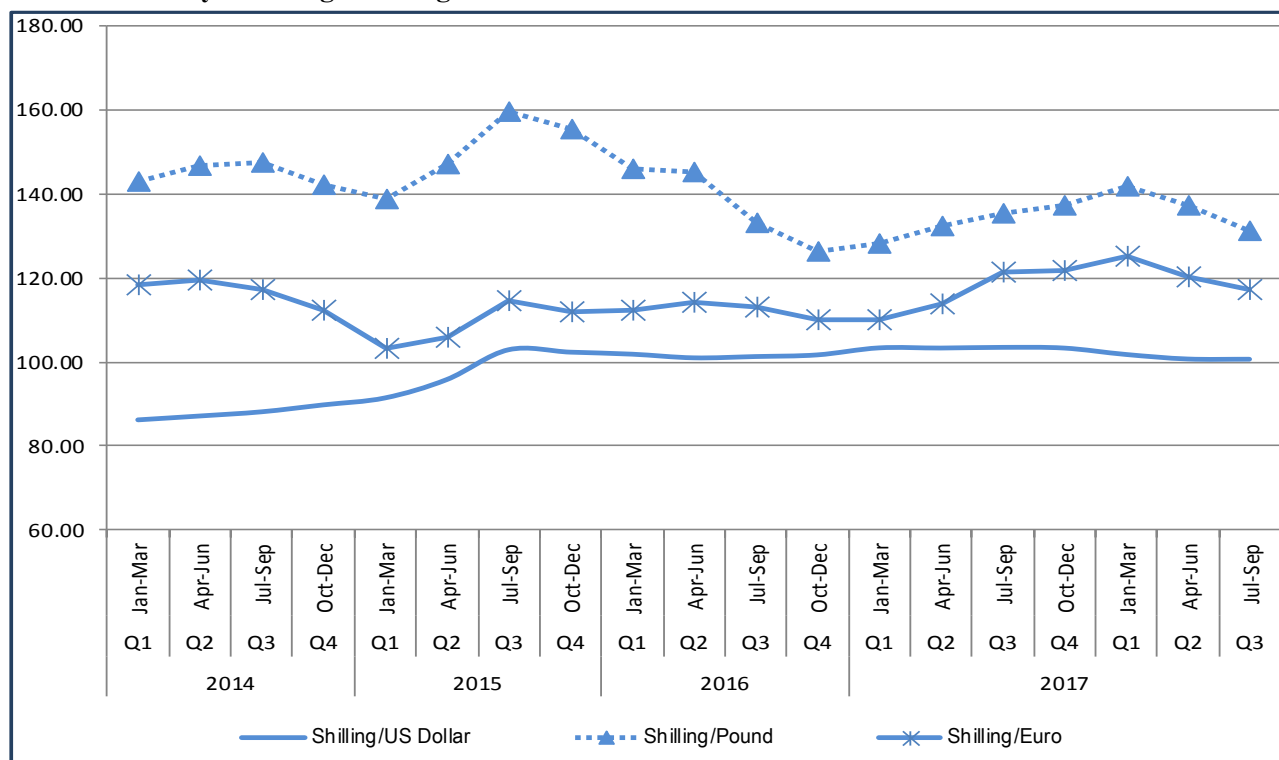
against other major international currencies. In the EAC region, it strengthened against the Rwanda franc, Tanzania shilling and Burundi franc but weakened slightly against Uganda shilling during the period under review (Table 5.7 and Chart 5.1).

**Table 5.7: Kenya Shilling Exchange Rate**

	2017				2017				2017				Q2	% change Q2 2019 - Q1 2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun		
US Dollar	103.39	103.36	103.52	103.35	101.86	100.75	100.71	101.91	100.73	101.07	101.15	101.69	101.30	0.57
Pound Sterling	128.05	132.22	135.40	137.15	141.64	137.26	131.30	131.14	131.11	131.77	130.06	128.82	130.22	-0.68
Euro	110.12	113.75	121.50	121.66	125.11	120.19	117.17	116.33	114.42	113.58	113.17	114.73	113.82	-0.52
100 Japanese Yen	90.95	92.98	93.28	91.60	93.96	92.38	90.40	90.31	91.44	90.59	91.95	94.10	92.21	0.84
Uganda Shilling*	34.79	34.94	34.80	35.15	35.79	37.24	37.39	36.75	36.67	36.97	37.22	36.72	36.97	0.82
Tanzania Shilling*	21.57	21.63	21.64	21.70	22.10	22.60	22.67	22.54	23.11	22.88	22.74	22.61	22.74	-1.56
Rwanda Franc*	7.99	8.04	8.02	8.16	8.39	8.62	8.71	8.71	8.90	8.93	8.95	8.94	8.94	0.46
Burundi Franc*	16.35	16.56	16.79	16.99	17.32	17.50	17.57	17.50	17.88	18.10	18.12	18.07	18.10	1.20

Source: Central Bank of Kenya

**Chart 5.1: Kenya Shilling Exchange Rate**



Source: Central Bank of Kenya



## Chapter 6

# The Banking Sector

### Overview

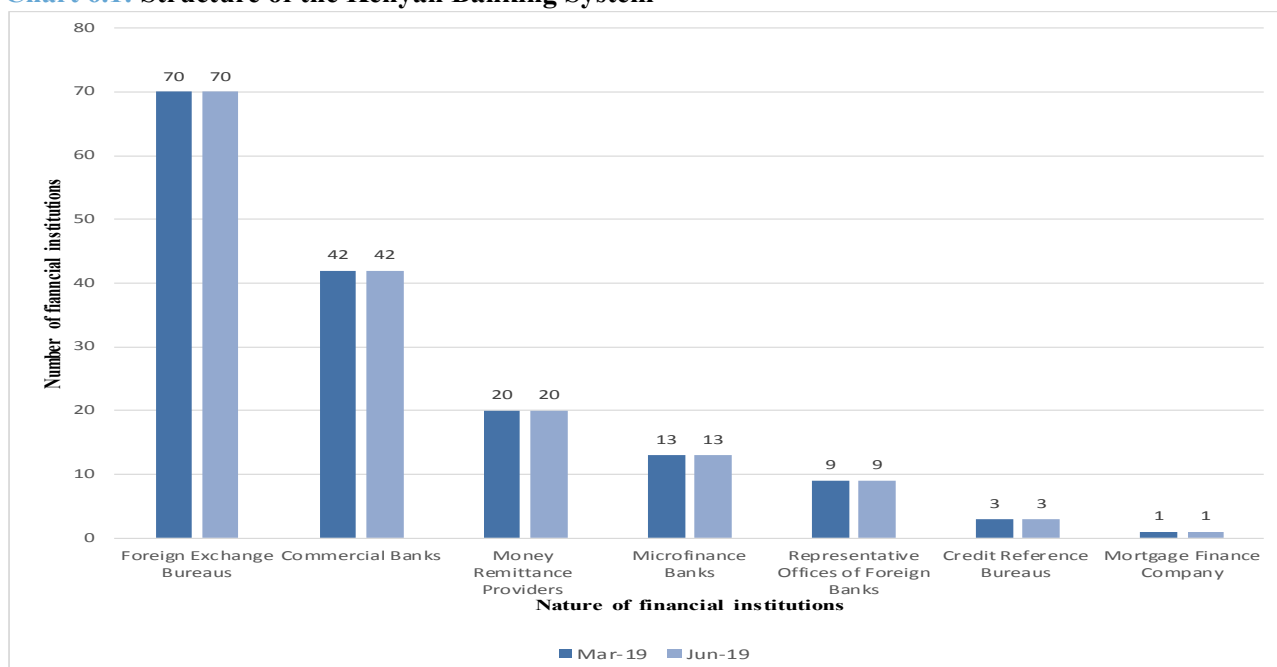
The banking sector was stable in the second quarter of 2019. Total net assets increased by 3.2 percent to KSh 4,719.7 billion in June 2019 from KSh 4,571.6 billion registered in March 2019. The deposit base also increased by 3.1 percent to KSh 3,506.0 billion from KSh 3,400.1 billion between first quarter of 2019 and second quarter of 2019. The sector was well capitalized and met the minimum capital requirements. Quarterly profitability decreased by 5.1 percent due to increase in total expenses. Credit risk remained elevated with gross non-performing loans

(NPLs) to gross loans ratio standing at 12.66 percent in the second quarter of 2019.

### 2. Structure of the Banking Sector

The Kenyan banking sector comprised 42 Commercial Banks, 1 Mortgage Finance company, 13 Microfinance Banks, 9 Representative Offices of Foreign Banks, 70 Foreign Exchange Bureaus, 20 Money Remittance Providers and 3 Credit Reference Bureaus as at June 31, 2019. Chart 6.1 below shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the Kenyan Banking System



Source: Central Bank of Kenya

### 3. Structure of the Balance Sheet

#### i) Growth in banking sector assets

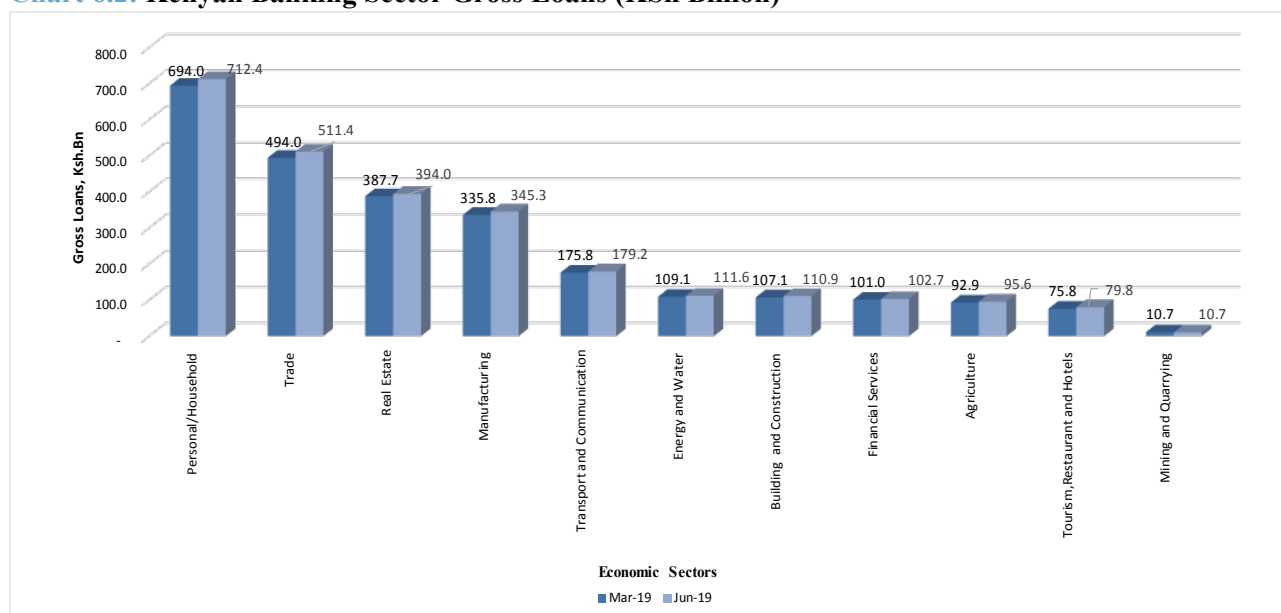
Total net assets increased by 3.2 percent to KSh 4,719.7 billion in the second quarter of 2019 from KSh 4,571.6 billion in the first quarter of 2019. The increase in total net assets was mainly recorded in balances at CBK (12.0 percent) and placements (11.2 percent). However, loans and advances, which increased by 2.7 percent, remained the main component of assets, accounting for 51.8 percent in the second quarter of 2019, a slight decrease from 52.1 percent recorded in the first quarter of 2019.

#### ii) Loans and Advances

Total banking sector lending increased by 2.7 percent to KSh 2,653.8 billion in the second quarter of 2019 from KSh 2,583.9 billion in the first quarter of 2019. The increase in gross loans and advances was largely witnessed in the Personal/Household, Trade, Real Estate and Manufacturing sectors. The general increase in gross loans was mainly due to increased loans granted to individual borrowers and credit granted for working capital purposes. The sectoral distribution of gross loans as at June 31, 2019 (Chart 6.2).

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

**Chart 6.2: Kenyan Banking Sector Gross Loans (KSh Billion)**



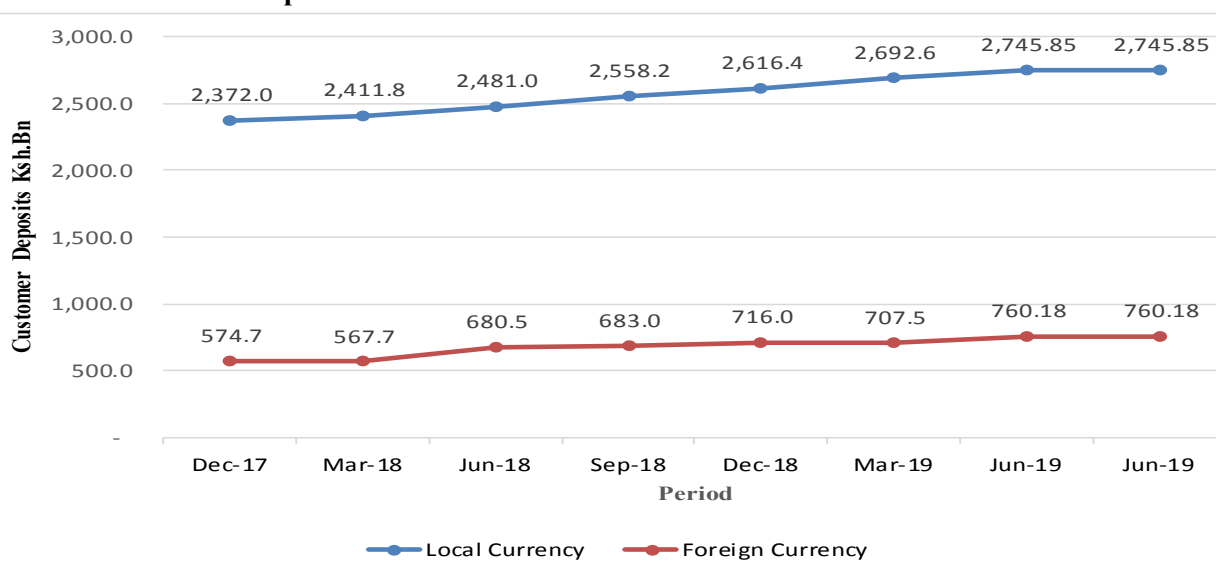
Source: Central Bank of Kenya

### iii) Deposit Liabilities

Customer deposits remain the main source of funding to the banks, accounting for 74.3 percent of the banking sector total liabilities and shareholders' funds, as at the end of the second quarter of 2019. This was a slight decrease from 74.4 percent recorded as at the end of the first quarter of 2019. The customer deposit base increased by 3.1 percent to KSh 3,506.0 billion in the second quarter of 2019 from KSh 3,400.1 billion in the first quarter of 2019. Local

currency deposits increased by KSh 53.3 billion (2.0 percent) to KSh 2,745.9 billion in the second quarter of 2019 from KSh 2,692.6 billion in the first quarter of 2019. Foreign currency deposits increased by KSh 52.6 billion (7.5 percent) to KSh 760.2 billion in the second quarter of 2019 from KSh 707.5 billion in the first quarter of 2019. Chart 6.3 shows the trend of deposit liabilities.

**Chart 6.3 Customers Deposit**



Source: Central Bank of Kenya

#### 4. Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 1.4 percent to KSh 605.1 billion in the second quarter of 2019 compared to KSh 596.6 billion in the first quarter of 2019. Total capital also increased by 1.4 percent to KSh 666.4 billion in the second quarter of 2019 from KSh 657.5 billion in the first quarter of 2019.

Core capital to total risk-weighted assets ratio slightly decreased to 16.5 percent in the second quarter of 2019 from 16.7 percent in the first quarter of 2019. Similarly, total capital to total risk-weighted assets ratio slightly decreased to 18.2 percent from 18.4 percent.

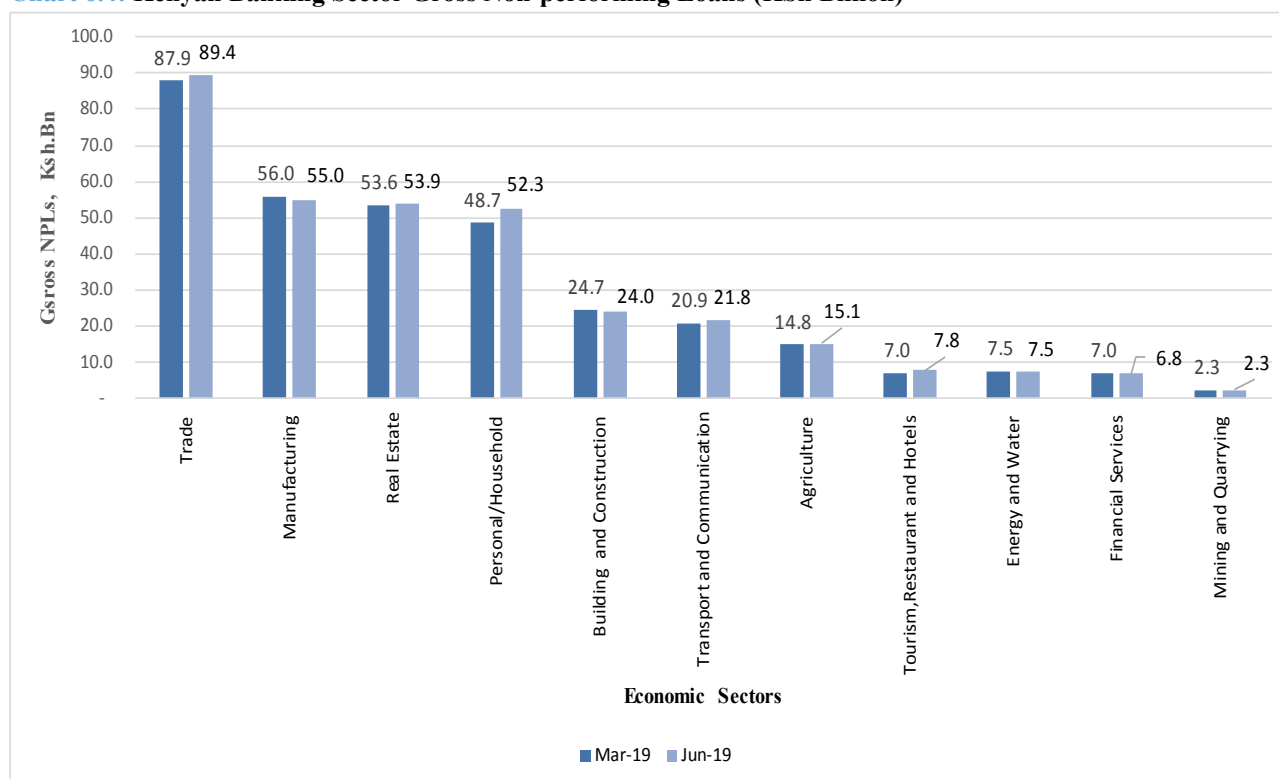
The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 17.3 percent

in the second quarter of 2019, a slight decrease from 17.8 percent recorded in the first quarter of 2019. The decrease was attributable to a 3.1 percent increase in total deposits as compared to a 1.4 percent increase in core capital between first quarter of 2019 and second quarter of 2019.

#### 5. Asset Quality

The gross non-performing loans (NPLs) increased by 1.7 percent to KSh 335.9 billion as at the end of the second quarter of 2019 from KSh 330.3 billion at the end of the first quarter of 2019. The gross NPLs to gross loans ratio decreased to 12.66 percent in the second quarter of 2019 from 12.78 percent in the first quarter of 2019. The decrease was attributable to a 2.7 percent increase in gross loans as compared to a 1.7 percent increase in gross NPLs between first quarter of 2019 and second quarter of 2019. Chart 6.4 highlights the sectoral distribution of gross NPLs.

**Chart 6.4: Kenyan Banking Sector Gross Non-performing Loans (KSh Billion)**

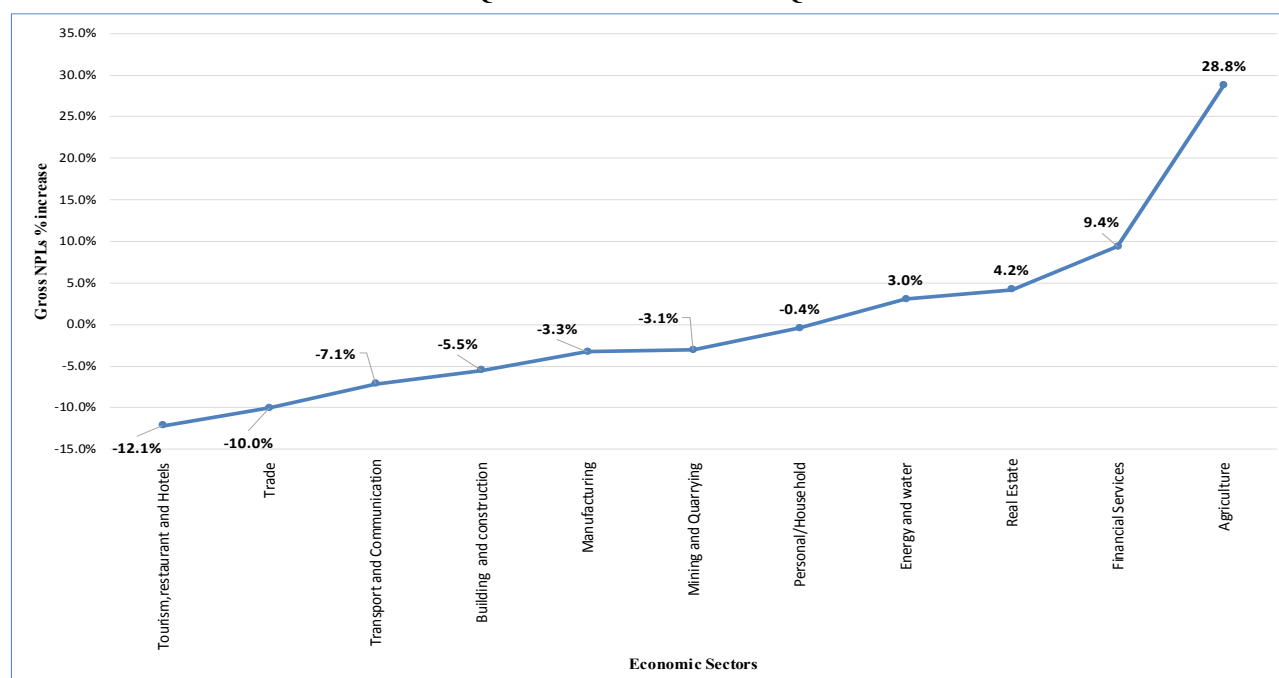


Source: Central Bank of Kenya

The increase in gross NPLs was spread across seven economic sectors as highlighted in Chart 6.5

The Tourism, Restaurant and Hotels sector registered the highest increase in NPLs by 11.2 percent (KSh 0.8 billion) mainly due to low business turnovers.

Personal/Household, Transport and Communication and Agriculture sectors gross NPLs increased by 7.4 percent, 4.5 percent, and 2.1 percent respectively.

**Chart 6.5: Movement in Gross NPLs-First Quarter of 2019 and Second Quarter of 2019**

Source: Central Bank of Kenya

The banking sector's asset quality, as measured by the proportion of net non-performing loans to gross loans, improved slightly to 5.9 percent in the second quarter of 2019 from 6.1 percent in the first quarter of 2019. The coverage ratio, which is measured as a percentage of specific provisions to total NPLs, increased from 42.0 percent in the first quarter of 2019

to 42.6 percent in second quarter of 2019 due to a higher increase in specific provisions (2.4 percent) as compared to the increase in total NPLs (1.0 percent). A summary of asset quality for the banking sector over the period is shown in Table 6.1 below.

**Table 6.1: Summary of Asset Quality**

		March 2019, KSh Billion	June 2019, KSh Billion
1	Gross Loans and Advances (KSh' Bn)	2,538.7	2,567.3
2	Interest in Suspense (KSh' Bn)	54.1	57.7
3	Loans and Advances (net of interest suspended) (KSh' Bn)	2,484.6	2,509.6
4	Gross Non-Performing loans (KSh 'Bn)	317.9	308.8
5	Specific Provisions (KSh' Bn)	119.6	112.3
6	General Provisions (KSh' Bn)	37.4	36.1
7	Total Provisions (5+6) (KSh' Bn)	157.0	148.4
8	Net Advances (3-7) (KSh' Bn)	2,327.6	2,361.2
9	Total Non-Performing Loans and Advances (4-2) (KSh'Bn)	263.8	251.1
10	Net Non-Performing Loans and Advances (9-5) (KSh 'Bn)	144.1	138.8
11	Total NPLs as % of Total Advances (9/3)	10.6%	10.0%
12	Net NPLs as % of Gross Advances (10/1)	5.7%	5.4%
13	Specific Provisions as % of Total NPLs (5/9)	45.4%	44.7%
14	Gross NPLs to Gross Loans Ratio	12.5%	12.0%

Source: Central Bank of Kenya

## 6. Profitability

The banking sector recorded a decrease in pre-tax profits by KSh 2.2 billion (5.0 percent) to KSh 41.8 billion in the second quarter of 2019 from KSh 44.0 billion in the first quarter of 2019. The decrease in profitability was mainly attributable to increase in total expenses by KSh 5.2 billion (6.0 percent) to KSh 91.7 billion in the second quarter of 2019 from KSh 86.5 billion in the first quarter of 2019.

The increase in expenses was largely attributable to bad debt charge, which increased by KSh 2.4 million (52.4 percent) between first quarter of 2019 and second quarter of 2019 and other expenses which increased by KSh 1.5 billion (6.8 percent) over the same period.

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income accounting for 49.6 percent, 23.9 percent and 19.2 percent of total income respectively. On the other hand, interest on deposits, salaries and wages, and other expenses were the key components of expenses, accounting for 32.9 percent, 25.8 percent and 24.8 percent of total expenses respectively.

Total income increased by KSh 3.0 billion (2.3 percent) to KSh 133.5 billion in the second quarter of 2019 from KSh 130.5 billion in the first quarter of 2019. The increase was driven by a 2.2 percent (KSh 1.4 billion) increase in interest income on loans and advances from KSh 64.7 billion in the first quarter of 2019 to KSh 66.1 in the second quarter of 2019.

Return on Assets (ROA) stood at 2.8 percent in the second quarter of 2019, a decrease from 3.0 percent registered in the first quarter of 2019. Similarly, the Return on Equity (ROE) decreased to 23.8 percent in the second quarter of 2019 from 24.6 percent in the first quarter of 2019. The decreases in ROA and ROE were mainly attributable to decreased profit before tax in the second quarter of 2019.

## 7. Liquidity

The banking sector's overall liquidity ratio decreased to 50.6 percent in the second quarter of 2019 from 51.5 percent in the first quarter of 2019. The decrease was driven by increase in total short term liabilities by 3.0 percent as compared to increase in short term assets by 1.3 percent. The increase in short term liabilities was due to increase in net deposits by KSh 95.6 billion (2.9 percent) to KSh 3,347.4 billion in the

second quarter of 2019 from KSh 3,251.8 billion in the first quarter of 2019. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

## 8. Outlook of the Sector

The banking sector is projected to remain stable. Credit risk is expected to remain elevated in the short to medium term as shown by increasing trend levels of Non-Performing Loans. Liquidity risk is expected to continue easing as distribution of liquidity improves.

## 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 1.22 million transaction messages worth KSh 7.54 trillion in the second quarter of 2019, compared to the first quarter of 2019, which recorded 1.15 million transactions worth KSh 7.29 trillion. Volume and value increased by 6.68 percent and 3.39 percent, respectively, (Chart 6.6).

## Bank Customer Payments Processed Through KEPSS

In transmitting payments through the RTGS for customers, commercial banks submit the payment instructions vide multiple third party Message Type (MT 102) used for several credit transfers and single third party Message Type (MT 103) used for single credit transfers.

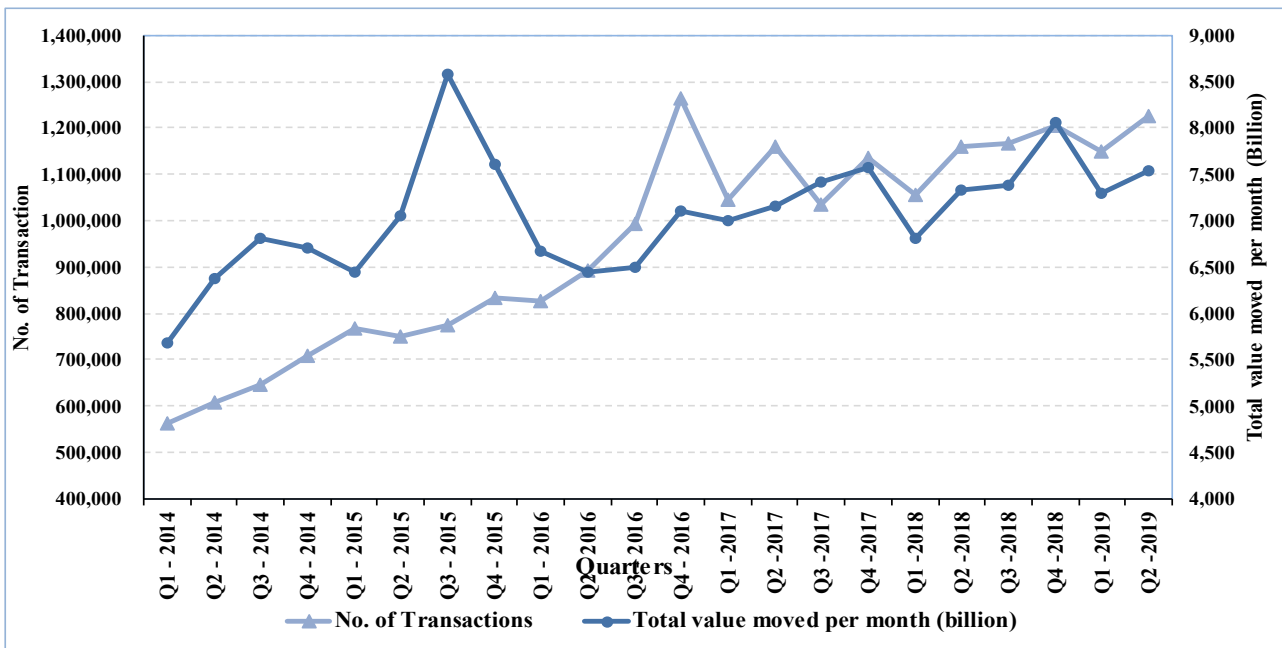
During the period under review, MT 102 usage increased by 22.95 per cent, to 48,227 messages recorded in the second quarter of 2019 from 39,226 messages processed in the first quarter of 2019. The MT 103 payments increased by 7.15 per cent, to 1,246,205 messages in the second quarter of 2019 from 1,163,060 messages in the first quarter of 2019 (Chart 6.7).

## 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.

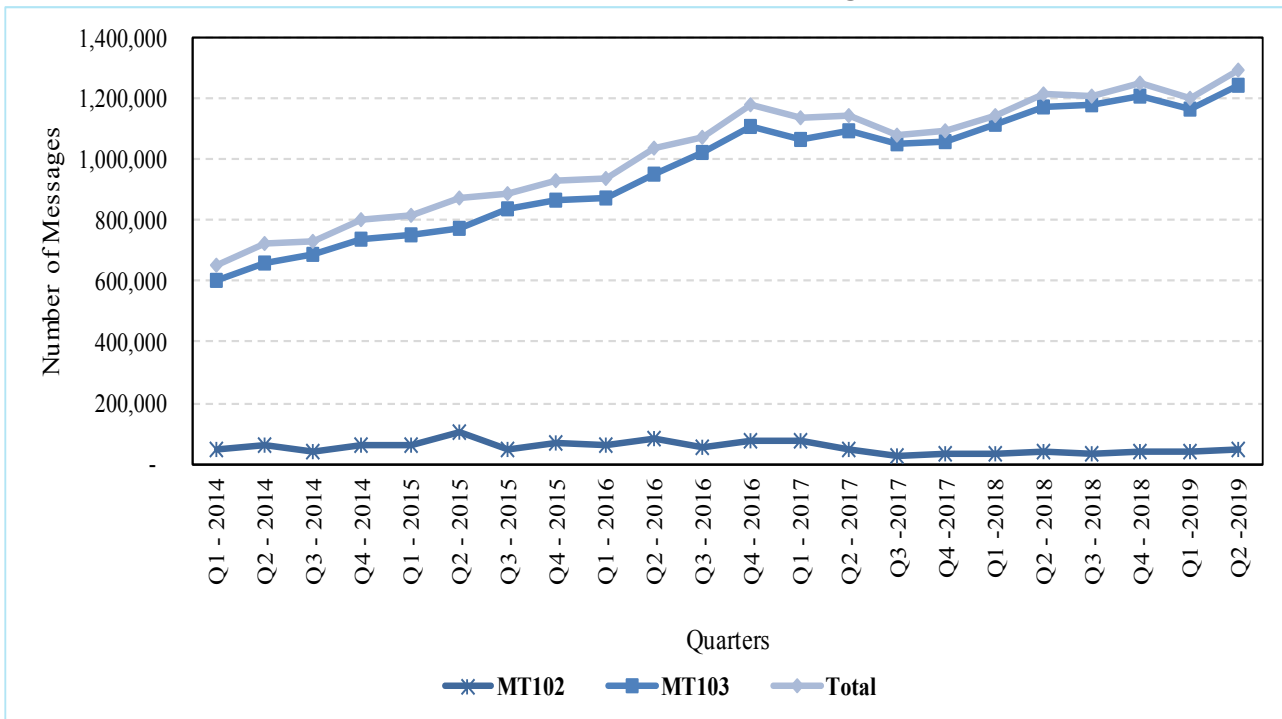
During the quarter under review, KEPSS availability was maintained at an average of 99.9 percent (Chart 6.8).

**Chart 6.6: Trends in Monthly Flows Through KEPSS**



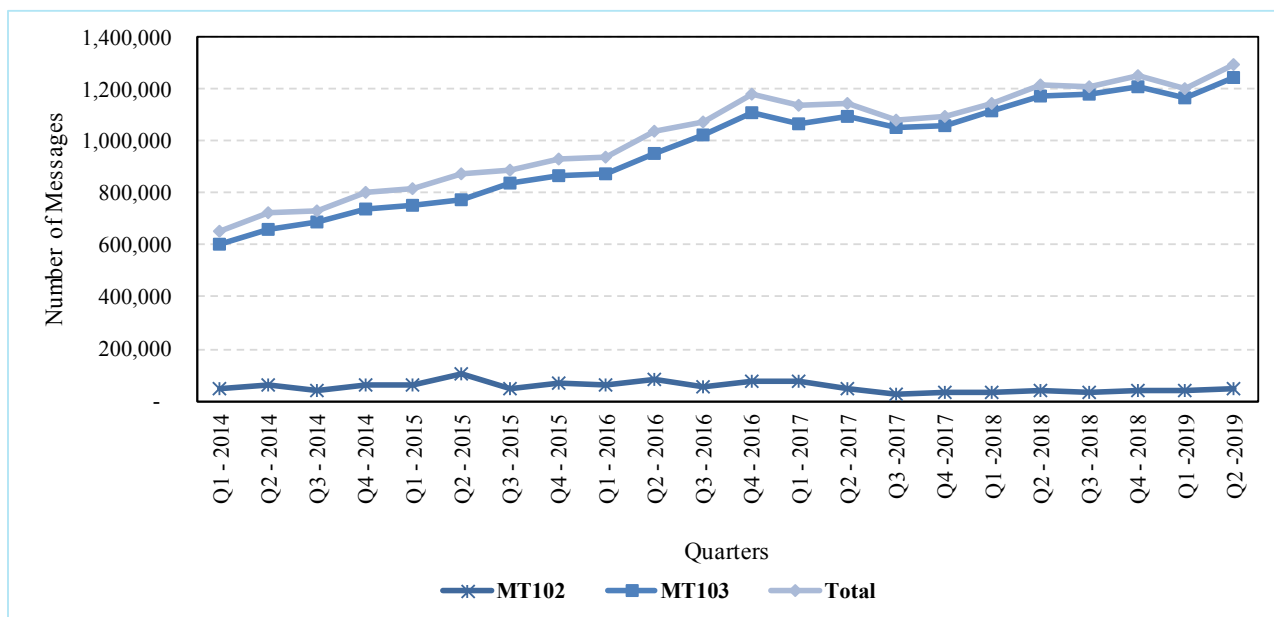
Source: Central Bank of Kenya

**Chart 6.7: Trends in MT102 and MT103 Volumes Processed Through KEPSS**



Source: Central Bank of Kenya

**Chart 6.8: Availability of KEPSS in Kenya (%)**



Source: Central Bank of Kenya

## Chapter 7

# Government Budgetary Performance

The Government's budgetary operations at the end of the fourth quarters of FY 2018/19 resulted in a deficit of 7.6 percent of GDP, which was above the target of 6.8 per cent of GDP. Both revenues and expenditures

were below their respective targets with the shortfall in total revenues and grants at 7.6 per cent, and total expenses and net lending at 5.3 per cent.

**Table 7.1: Statement of Government Operations in FY 2018/19 (KSh Billion)**

	FY 2017/18				FY 2018/19					Cumulative to June-2019	Target	Over (+) / Below (-) / Target		%
	Q4	Q1	Q2	Q3	April	May	June	Q4	Below (-) Target			Variance		
<b>1. TOTAL REVENUE &amp; GRANTS</b>	<b>438.6</b>	<b>369.6</b>	<b>428.7</b>	<b>370.5</b>	<b>178.8</b>	<b>161.3</b>	<b>160.9</b>	501.0	1,690.8	1,829.0	(138.3)	(7.6)		
<b>Ordinary Revenue</b>	<b>389.7</b>	<b>332.2</b>	<b>423.6</b>	<b>362.5</b>	<b>176.7</b>	<b>159.8</b>	<b>151.0</b>	487.5	1,671.1	1,794.3	(123.2)			
Tax Revenue	372.3	329.3	351.4	337.8	136.8	133.9	151.0	421.7	1,400.6	1,474.6	(74.0)			
Non Tax Revenue	17.3	2.9	38.6	8.9	5.4	3.8	7.8	17.0	96.4	113.5	(17.2)			
Appropriations-in-Aid	44.6	33.8	33.5	15.8	34.4	22.1	(7.8)	<b>48.8</b>	<b>174.1</b>	<b>206.2</b>	<b>(32.0)</b>			
External Grants	4.3	3.6	5.1	8.0	2.1	1.4	10.0	13.5	19.7	34.7	(15.0)			
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>759.0</b>	<b>452.5</b>	<b>616.0</b>	<b>568.9</b>	<b>212.2</b>	<b>213.2</b>	<b>319.7</b>	745.1	2,405.9	2,541.9	(136.0)	(5.3)		
Recurrent Expenses	482.2	345.4	317.8	409.9	149.3	125.9	171.0	446.2	1,496.2	1,574.1	(77.9)			
Development Expenses	144.6	83.6	206.6	73.0	34.2	58.3	51.8	<b>144.3</b>	<b>542.0</b>	<b>598.1</b>	<b>(56.1)</b>			
County Transfers	131.7	23.5	91.6	86.0	28.7	29.1	97.0	<b>154.7</b>	<b>360.7</b>	<b>365.0</b>	<b>(4.2)</b>			
Others	0.5	-	-	-	-	-	-	-	7.0	4.7	2.3			
<b>3. DEFICIT (INCL. GRANTS) (1-2)</b>	<b>(320.4)</b>	<b>(82.9)</b>	<b>(187.4)</b>	<b>(198.4)</b>	<b>(33.4)</b>	<b>(51.9)</b>	<b>(158.8)</b>	(244.1)	(715.2)	(712.8)	(2.3)	0.3		
As percent of GDP	(3.6)	(0.8)	(1.9)	(2.0)	(0.4)	(0.5)	(1.7)	(2.6)	(7.5)	(7.5)				
<b>4. ADJUSTMENT TO CASH BASIS</b>	-	-	-	-	-	-	-	-	(5.9)	62.3				
<b>5. DEFICIT INCL. GRANTS ON A CASH BASIS</b>	<b>(320.4)</b>	<b>(82.9)</b>	<b>(187.4)</b>	<b>(198.4)</b>	<b>(33.4)</b>	<b>(51.9)</b>	<b>(158.8)</b>	(244.1)	(721.1)	(650.5)	(70.5)	10.8		
As percent of GDP	(3.6)	(0.8)	(1.9)	(2.0)	(0.4)	(0.5)	(1.7)	(2.6)	(7.6)	(6.8)	(12.5)			
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	-	-	-	-	-	-	-	-	-	-	-	-		
<b>7. FINANCING</b>	<b>180.9</b>	<b>86.0</b>	<b>213.4</b>	<b>232.3</b>	<b>1.3</b>	<b>61.6</b>	<b>135.3</b>	198.2	721.1	650.5	70.5	10.8		
Domestic (Net)	24.0	69.2	85.6	196.9	(11.6)	(148.2)	130.9	(28.9)	303.7	255.4	48.2			
External (Net)	156.1	16.8	126.9	34.5	12.2	209.5	4.5	<b>226.1</b>	<b>414.5</b>	<b>391.2</b>	<b>23.4</b>			
Capital Receipts (domestic loan receipts)	0.8	-	1.0	0.9	0.7	0.3	-	1.0	2.9	3.9	(1.0)			
Others	-	-	-	-	-	-	-	-	-	-	-			

GDP figures from published QEBR June 2019

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

## Revenue

The Government receipts, comprising of revenue and grants increased by 35.2 percent to KSh 501.0 billion in the fourth quarter of FY 2018/19, compared to KSh 370.5 billion in the third quarter. The increase was reflected across both tax and non- tax revenues categories, external grants as well as appropriation in Aid (A-in-A).

There was a minor shift in the composition of tax revenues in the fourth quarter of FY 2018/19 compared with a similar period in the previous fiscal year (Chart 7.1). The share of Value Added Tax (VAT), excise duty and import duty in the total tax revenues remained stable during the fourth quarter. However, the share of other tax revenues declined by 3.7 percentage points while that of the income tax increased by 2.8 percentage points.

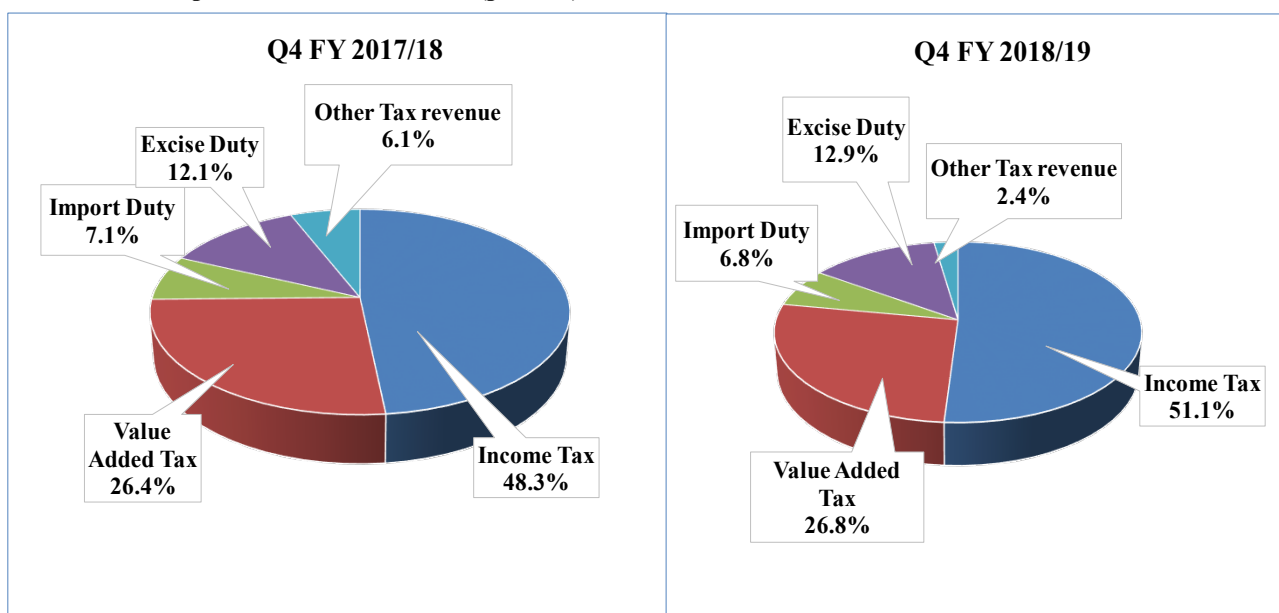
Cumulatively, the Government total revenue and grants stood at KSh 1,690.8 billion (17.8 percent of GDP) during the FY 2018/19 against a target of KSh 1,829.0 billion (19.2 percent of GDP). All taxes fell below set targets with the shortfalls partly reflecting a subdued performance of the economy, which adversely affected revenue collection.

External grants in the four quarters of the FY 2018/19 stood at KSh 19.7 billion, which was KSh 15.0 billion lower than target, due to slow absorption of donor funds.

Meanwhile, ministerial Appropriations in Aid (A-in-A) collected during the four quarters of FY 2018/19 amounted to KSh 174.1 billion, which was KSh 32.0 billion lower than target due to under reporting in ministerial expenditure returns.



**Chart 7.1: Composition of Tax Revenue (percent)**



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

### Expenditure and Net Lending

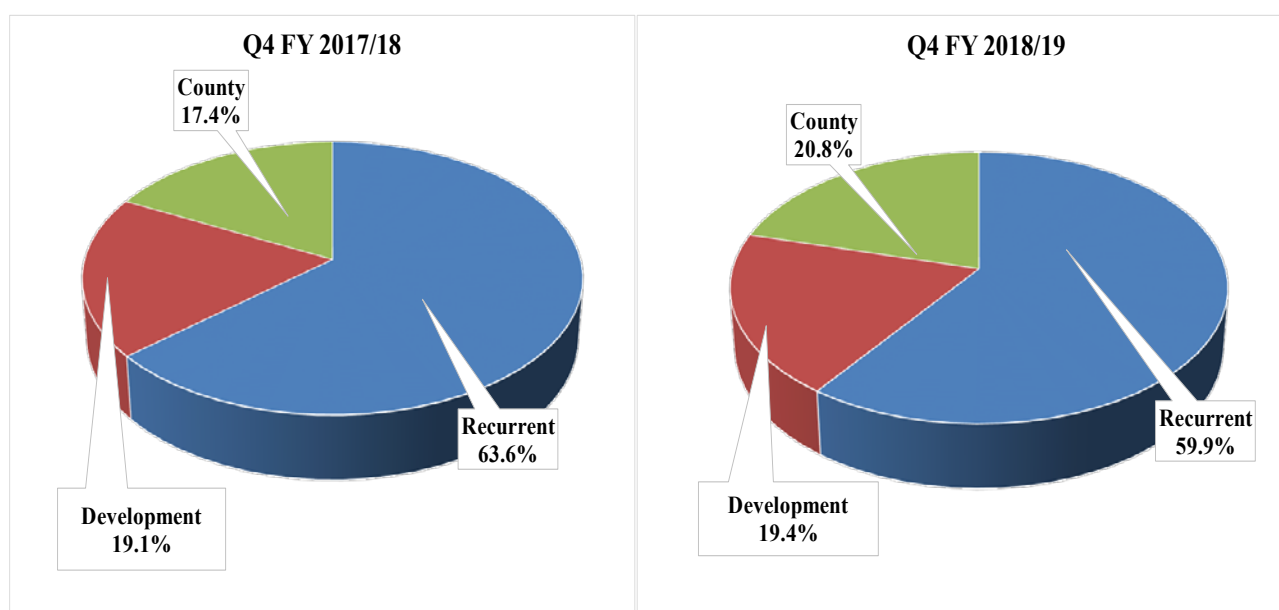
Government expenditure and net lending increased by 31.0 percent to KSh 745.1 billion in the fourth quarter of the FY 2018/19 compared with KSh 568.9 billion in the third quarter. The increase in expenditures was mainly reflected in development expenditures and county transfers that increased by 97.6 and 80.0 percent, respectively. National government recurrent expenditures rose by 8.8 percent in the fourth quarter of FY 2018/19 compared to the third quarter.

In terms of composition, recurrent expenditure remained the largest share in total government expenditure accounting for 59.9 percent in the fourth

quarter of FY 2018/19, which was 3.7 percentage points lower than the level recorded in a similar quarter of the previous fiscal year. The share of development expenditure remained stable while that of county allocation rose by 3.4 percentage points, in the period under review (Chart 7.2).

Cumulatively, expenditure and net lending in FY 2018/19 amounted to KSh 1,745.7 billion (17.5 percent of GDP), against a target of KSh 1,813.3 billion (18.2 percent of GDP). The shortfall of KSh 67.6 billion was attributed to lower absorption of both recurrent and development expenditures by the National Government and County Governments.

**Chart 7.2: Composition of Government Expenditure**



Sources: June 2019 Provisional Budget Outturn from The National Treasury

## Financing

The budget deficit including grants amounted to KSh 721.1 billion (7.6 percent of GDP) at the end of the fourth quarter of FY 2018/19. The deficit financing mix was 57.5 percent and 42.1 percent external and domestic resources, respectively. The domestic borrowing comprised KSh 13.6 billion in

Government deposits held at the Central Bank, KSh 126.9 billion from commercial banks, KSh 160.3 billion from non-banks and KSh 2.8 billion from Non-residents (Table 7.2). The net domestic and net external borrowing at the end of the fourth quarter of FY 2018/19 were above target by KSh 48.2 billion and KSh 23.4 billion, respectively.

**Table 7.2 Domestic Financing up to June 2019**

	FY 2017/18		FY 2018/19					
	Q3	Q4	Q1	Q2	Q3			Q4
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Apr-19	May-19	Jun-19
<b>1. From CBK</b>	(80.2)	(26.3)	(10.4)	93.7	99.7	37.4	(135.7)	13.6
<b>2. From commercial banks</b>	77.5	124.3	45.7	(5.0)	109.2	146.5	128.6	126.9
<b>4. From Non-banks</b>	125.1	172.8	33.7	41.2	111.6	136.9	161.7	160.3
<b>5. From Non-Residents</b>	3.2	3.0	0.2	1.0	0.2	0.3	2.3	2.8
Change in Credit from banks (From 30th June 2018)	(2.7)	97.9	35.4	88.7	208.9	183.9	(7.2)	140.5
Change in Credit from non-banks(From 30th June 2018)	125.1	172.8	33.7	41.2	111.6	136.9	161.7	160.3
Change in Credit from non-residents(From 30th June 2018)	3.2	3.0	0.2	1.0	0.2	0.3	2.3	2.8
<b>6.Total Change in Dom. Credit (From 30th June 2018)</b>	<b>125.6</b>	<b>273.7</b>	<b>69.2</b>	<b>130.8</b>	<b>320.7</b>	<b>321.2</b>	<b>156.8</b>	<b>303.7</b>

NB: Treasury Bills are reflected at cost  
Source: Central Bank of Kenya

## Outlook for FY 2019/20

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

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

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

**Table 7.3: Budget Estimates for the Fiscal Year 2019/20 (KSh Billion)**

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

Source: National Treasury: Supplementary Estimates, November 2019

## Chapter 8

# Public Debt

### Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 7.2 percentage points during the fourth quarter of the FY 2018/19. Domestic and external debt increased by 3.2 percent and 11.1 percent, respectively. The ratio of public debt to GDP increased by 1.9 percentage points to 61.1 percentage points during the quarter. Similarly, external debt to GDP

ratio increased by 2.1 percentage points. However, the ratio of domestic debt to GDP decreased by 0.2 percentage points (Table 8.1)<sup>1</sup>.

### Domestic Debt

Domestic debt build up was faster relative to the 2.5 percent build up in the previous quarter. This increased uptake of government securities was associated with

**Table 8.1: Kenya's Public and Publicly Guaranteed Debt (KSh Billion)**

	2017/18		2018/19		Q3	Apr-19	May-19	Q4	Change Q on Q
	Q3	Q4	Q1	Q2					
<b>EXTERNAL</b>									
Bilateral	800.9	815.4	812.5	894.0	916.6	976.7	974.2	996.1	79.5
Multilateral	836.8	829.8	877.7	874.7	846.6	892.3	888.9	914.4	67.8
Commercial Banks	858.1	906.4	898.3	938.2	941.8	956.7	955.0	1,095.8	154.0
Supplier Credits	16.7	16.7	16.7	16.9	16.7	16.8	16.8	16.9	0.3
<b>Sub-Total</b>	<b>2,512.4</b>	<b>2,568.4</b>	<b>2,605.3</b>	<b>2,723.7</b>	<b>2,721.6</b>	<b>2,842.5</b>	<b>2,834.8</b>	<b>3,023.1</b>	<b>301.5</b>
(As a % of GDP)	30.1	31.5	30.0	30.6	29.7	29.9	29.8	31.8	
(As a % of total debt)	51.4	50.9	50.6	51.7	50.2	50.9	50.6	52.0	
<b>DOMESTIC</b>									
<b>Banks</b>	<b>1,320.4</b>	<b>1,377.2</b>	<b>1,405.5</b>	<b>1,407.8</b>	<b>1,487.5</b>	<b>1,505.1</b>	<b>1,510.6</b>	<b>1,524.0</b>	<b>36.6</b>
Central Bank	93.6	110.8	90.2	118.2	89.7	66.6	88.8	109.6	19.9
Commercial Banks	1,226.9	1,266.5	1,315.3	1,289.6	1,397.8	1,438.5	1,421.8	1,414.4	16.7
<b>Non-banks</b>	<b>1,025.7</b>	<b>1,076.3</b>	<b>1,109.8</b>	<b>1,114.8</b>	<b>1,185.7</b>	<b>1,211.1</b>	<b>1,234.9</b>	<b>1,233.9</b>	<b>48.2</b>
Pension Funds	641.8	671.5	689.1	694.3	743.4	766.9	786.0	786.5	43.2
Insurance Companies	150.9	154.5	154.1	154.3	166.5	169.2	172.3	170.8	4.3
Other Non-bank Sources	232.9	250.2	266.5	266.3	275.8	275.0	276.6	276.5	0.8
<b>Non-residents</b>	<b>25.5</b>	<b>25.3</b>	<b>25.4</b>	<b>26.2</b>	<b>25.4</b>	<b>25.5</b>	<b>27.5</b>	<b>28.0</b>	<b>2.6</b>
<b>Sub-Total</b>	<b>2,371.7</b>	<b>2,478.8</b>	<b>2,540.7</b>	<b>2,548.8</b>	<b>2,698.5</b>	<b>2,741.7</b>	<b>2,773.1</b>	<b>2,785.9</b>	<b>87.4</b>
(As a % of GDP)	28.5	30.4	29.2	28.6	29.5	28.8	29.2	29.3	
(As a % of total debt)	48.6	49.1	49.4	48.3	49.8	49.1	49.4	48.0	
<b>GRAND TOTAL</b>	<b>4,884.1</b>	<b>5,047.2</b>	<b>5,146.0</b>	<b>5,272.5</b>	<b>5,420.1</b>	<b>5,584.2</b>	<b>5,607.9</b>	<b>5,809.1</b>	<b>388.9</b>
(As a % of GDP)	58.6	59.2	59.2	59.2	59.2	58.7	59.0	61.1	

Source: The National Treasury and Central Bank of Kenya

the impact of a pickup in budget execution synonyms with fourth quarter of the financial year. The share of domestic debt to total debt decreased by 1.8 percentage points to 48.0 percent by the end of the fourth quarter of the FY 2018/19. The proportion of debt securities to total domestic debt decreased by 1.5 percentage points during the quarter under review. The decrease in the uptake of domestic debt securities was offset by the 55.4 percent increase in government overdraft at the Central Bank during the fourth quarter of 2018/19 (Table 8.2).

### Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded 0.5 percent increase during the fourth quarter of the FY 2018/19, a slower pace than the uptake of Treasury bonds. Accordingly, the proportion of Treasury bills to total domestic debt decreased by 0.9 percentage points during the period under review. The dominance of Commercial banks in Treasury bills market persisted with their holdings standing at 60.5 percent of the total amount of outstanding Treasury Bills by the end of the fourth quarter of the FY 2018/19. Other significant holders of Treasury bills included Pension funds (17.8 percent) and parastatals-included in other holders (13.9 percent) (Table 8.2).

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

**Table 8.2: Government Gross Domestic Debt (KSh Billion)**

	Ksh (Billion)				Change: on Q		Proportions			
	2018/19				Ksh(Bn)	%	2018/19			
	Q3	Apr-19	May-19	Q4			Q3	Apr-19	May-19	Q4
<b>Total Stock of Domestic Debt (A+B)</b>	<b>2,698.5</b>	<b>2,741.7</b>	<b>2,773.1</b>	<b>2,785.9</b>	<b>87.4</b>	<b>3.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>A. Government Securities</b>	<b>2,635.3</b>	<b>2,695.7</b>	<b>2,711.4</b>	<b>2,702.4</b>	<b>67.1</b>	<b>2.5</b>	<b>97.7</b>	<b>98.3</b>	<b>97.8</b>	<b>97.0</b>
<b>1. Treasury Bills (excluding Repo Bills)</b>	<b>949.7</b>	<b>1,003.6</b>	<b>965.6</b>	<b>954.3</b>	<b>4.6</b>	<b>0.5</b>	<b>35.2</b>	<b>36.6</b>	<b>34.8</b>	<b>34.3</b>
Banking institutions	591.2	630.8	598.7	598.1	6.9	1.2	21.9	23.0	21.6	21.5
The Central Bank	20.6	20.6	20.6	20.6	0.0	0.0	0.8	0.8	0.7	0.7
Commercial Banks	570.6	610.2	578.1	577.5	6.9	1.2	21.1	22.3	20.8	20.7
Pension Funds	169.5	182.7	175.9	170.3	0.8	0.5	6.3	6.7	6.3	6.1
Insurance Companies	18.5	18.7	19.0	18.2	-0.3	-1.6	0.7	0.7	0.7	0.7
Others	170.4	171.4	172.0	167.7	-2.8	-1.6	6.3	6.2	6.2	6.0
<b>2. Treasury Bonds</b>	<b>1,685.7</b>	<b>1,692.1</b>	<b>1,745.8</b>	<b>1,748.1</b>	<b>62.5</b>	<b>3.7</b>	<b>62.5</b>	<b>61.7</b>	<b>63.0</b>	<b>62.7</b>
Banking institutions	833.2	829.1	850.8	843.0	9.8	1.2	30.9	30.2	30.7	30.3
The Central Bank	9.4	9.4	9.4	9.4	0.0	0.0	0.3	0.3	0.3	0.3
Commercial Banks	823.7	819.7	841.4	833.5	9.8	1.2	30.5	29.9	30.3	29.9
Insurance Companies	148.0	150.5	153.3	152.6	4.6	3.1	5.5	5.5	5.5	5.5
Pension Funds	573.8	584.3	610.1	616.2	42.4	7.4	21.3	21.3	22.0	22.1
Others	130.6	128.3	131.6	136.3	5.7	4.4	4.8	4.7	4.7	4.9
<b>3. Long Term Stocks</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Banking institutions	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
<b>4. Frozen account</b>	<b>22.8</b>	<b>22.8</b>	<b>22.8</b>	<b>22.2</b>	<b>-0.6</b>	<b>-2.4</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
Of which: Repo T/Bills	21.6	21.6	21.6	21.1	-0.6	-2.6	0.8	0.8	0.8	0.8
<b>B. Others:</b>	<b>40.4</b>	<b>23.2</b>	<b>38.9</b>	<b>61.3</b>	<b>20.9</b>	<b>51.6</b>	<b>1.5</b>	<b>0.8</b>	<b>1.4</b>	<b>2.2</b>
Of which CBK overdraft to Government	36.9	13.8	36.0	57.3	20.4	55.4	1.4	0.5	1.3	2.1

Source: Central Bank of Kenya

### Treasury Bonds

Treasury bond holdings increased by 3.7 percent during the fourth quarter of the FY 2018/19, faster than that of Treasury bills and in line with government objective of mitigating against the refinancing risk by issuing investor-attractive longer dated securities (Table 8.2). The largest component of this buildup was attributable to proceeds from 15-year Fixed rate Treasury bonds issued and reopened in May and June 2019, respectively (Table 8.3). The dominant holders of Treasury bonds by the end of the period under review were commercial banks, pension funds and Insurance companies. Commercial bank holdings accounted for about half of the total Treasury Bonds outstanding.

### Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated

securities during the period under review. The current debt securities portfolio is dominated by medium and long term debt securities underscoring the Public Debt Management Office goal of reducing the refinancing risk. The benchmark Treasury Bonds; 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 79.2 percent of the total outstanding Treasury Bonds, a 2.5 percentage points increase from the previous quarter. Other domestic debt consists of uncleared effects, advances from commercial banks and Tax Reserve Certificates.

The average time to maturity of existing domestic debt improved from 4 years and 7 months in the previous quarter to 4 years and 11 months in the fourth quarter of the FY 2018/19. The refinancing risk decreased as the Treasury bills component in the domestic debt profile decreased to 34.3 percent in June from 35.2 percent in March 2019.

**Table 8.3: Outstanding Domestic Debt by Tenor (KSh Billion)**

		Kshs (Billions)				Change Q on Q		Proportions			
		2018/19				Q4 2018/19		2018/19			
		Q3	Apr-19	May-19	Q4 Kshs(Bn)	%	Q3	Apr-19	May-19	Q4	
Treasury bills	91-Day	44.9	45.9	42.5	43.2	-1.7	-3.7	1.7	1.7	1.5	1.6
	182-Day	147.3	169.8	168.6	165.6	18.3	12.4	5.5	6.2	6.1	5.9
	364-Day	757.4	787.9	754.5	755.8	-1.6	-0.2	28.1	28.7	27.2	27.1
Treasury Bond	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	69.2	69.2	69.2	69.2	0.0	0.0	2.6	2.5	2.5	2.5
	3-Year	0.6	0.6	0.6	0.8	0.2	0.0	0.0	0.0	0.0	0.0
	4-Year	4.8	4.8	4.8	4.8	0.0	0.0	0.2	0.2	0.2	0.2
	5-Year	293.2	267.4	306.6	269.5	-23.7	-8.1	10.9	9.8	11.1	9.7
	6-Year	8.5	8.5	8.5	8.5	0.0	0.0	0.3	0.3	0.3	0.3
	7-Year	50.1	50.1	50.1	50.1	0.0	0.0	1.9	1.8	1.8	1.8
	8-Year	33.7	33.7	33.7	33.7	0.0	0.0	1.2	1.2	1.2	1.2
	9-Year	71.2	71.2	71.2	71.2	0.0	0.0	2.6	2.6	2.6	2.6
	10-Year	336.0	359.8	359.8	359.8	23.8	7.1	12.5	13.1	13.0	12.9
	11-Year	8.8	8.8	8.8	8.8	0.0	0.0	0.3	0.3	0.3	0.3
	12-Year	120.3	120.3	115.4	115.4	-4.9	-4.0	4.5	4.4	4.2	4.1
15-Year	446.4	446.4	465.8	505.1	58.6	13.1	16.5	16.3	16.8	18.1	
20-Year	171.9	180.9	180.9	180.9	9.0	5.2	6.4	6.6	6.5	6.5	
25-Year	42.2	42.2	42.2	42.2	0.0	0.0	1.6	1.5	1.5	1.5	
30-Year	28.1	28.1	28.1	28.1	0.0	0.0	1.0	1.0	1.0	1.0	
	Repo T bills	21.6	-0.6	-2.6	1.4	-20.2	-93.6	0.8	0.0	-0.1	0.0
	Overdraft	36.9	20.4	55.4	2.4	-34.5	100.0	1.4	0.7	2.0	0.1
	Other Domestic debt	5.3	26.1	8.9	69.3	64.0	1,196.8	0.2	1.0	0.3	2.5
<b>Total Debt</b>		<b>2,698.5</b>	<b>2,741.7</b>	<b>2,773.1</b>	<b>2,785.9</b>	<b>87.4</b>	<b>3.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Kenya

## External Debt

Public and publicly guaranteed external debt increased by 11.1 percent during the fourth quarter of the FY 2018/19. The increase in external debt during the quarter under review was mainly driven by US dollar 2.1 billion proceeds from the 7-year and 12-year Eurobonds issued in June 2019. This increase was partially offset by the repayment of US dollar 750 million on the 5-year Eurobond procured in June 2014. Foreign exchange risk on external debt was low during the quarter due to relatively stable exchange rate.

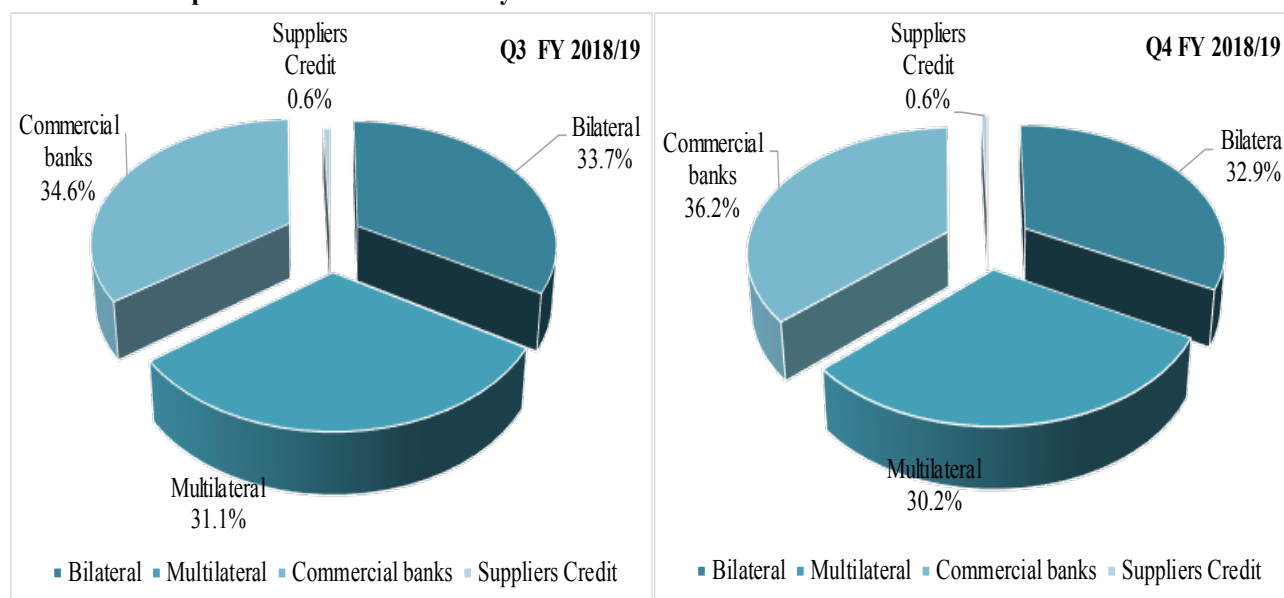
### Composition of External Debt by Creditor

With increased access to international financial markets, Kenya continues to record dwindling levels of concessional debt and build-up of commercial and

semi-concessional borrowing. During the quarter under review, the share of outstanding debt from official multilateral and bilateral lenders (who provide both concessional and semi-concessional loans) declined by 1.7 percentage points to 63.1 percent from 64.8 percent held in the previous quarter. On the other hand, the proportion of commercial debt increased by 1.6 percent by the end of the fourth quarter of the FY 2018/19 (Chart 8.1).

Debt owed to the International Development Association (IDA), Kenya's largest multilateral lender, amounted to USD 5.8 billion (19.6 percent of total external debt) while that owed to China, Kenya's largest bilateral lender, amounted to USD 6.5 billion, (21.9 percent of the total external debt) in the fourth quarter of the FY 2018/19 (Chart 8.2).

**Chart 8.1: Composition of External Debt by Lender**



Source: *The National Treasury*

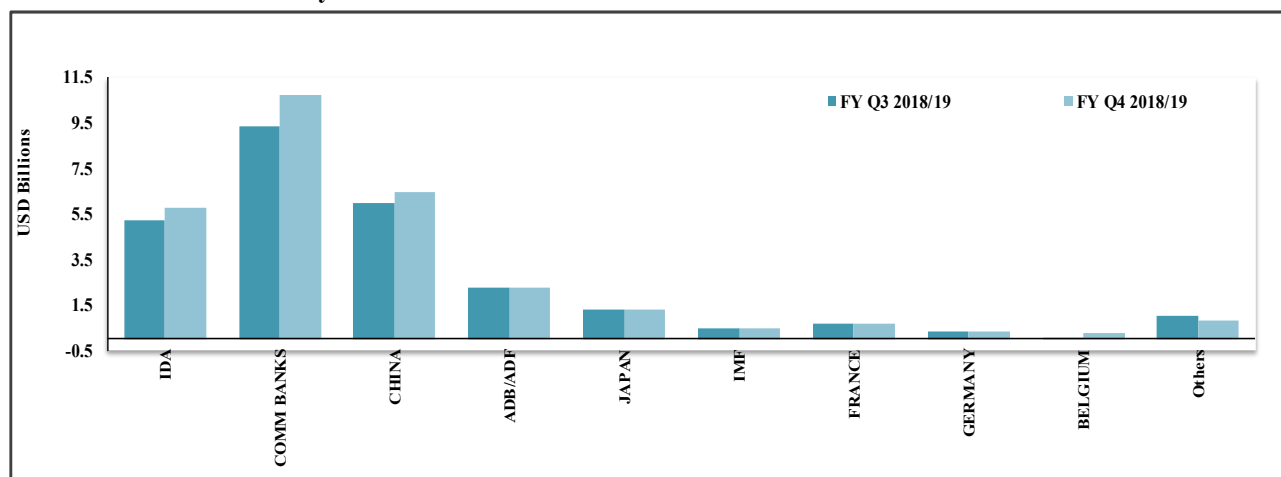
### Currency Composition of External Debt

Kenya's public and publicly guaranteed external debt is denominated in various currencies to mitigate against the currency risk. The dominant currencies included the US dollar and the Euro which accounted for 87.7 percent of the total currency composition at the end of the fourth quarter of the FY 2018/19. This was partly consistent with the currency composition of the Central Bank's forex reserve holdings. The proportion held in the US dollar increased by 3.1 percentage points mainly on account of US dollar 2.1 billion proceeds from the 7-year and 12-year Eurobonds procured in June 2019 (Chart 8.3).

### Public Debt Service

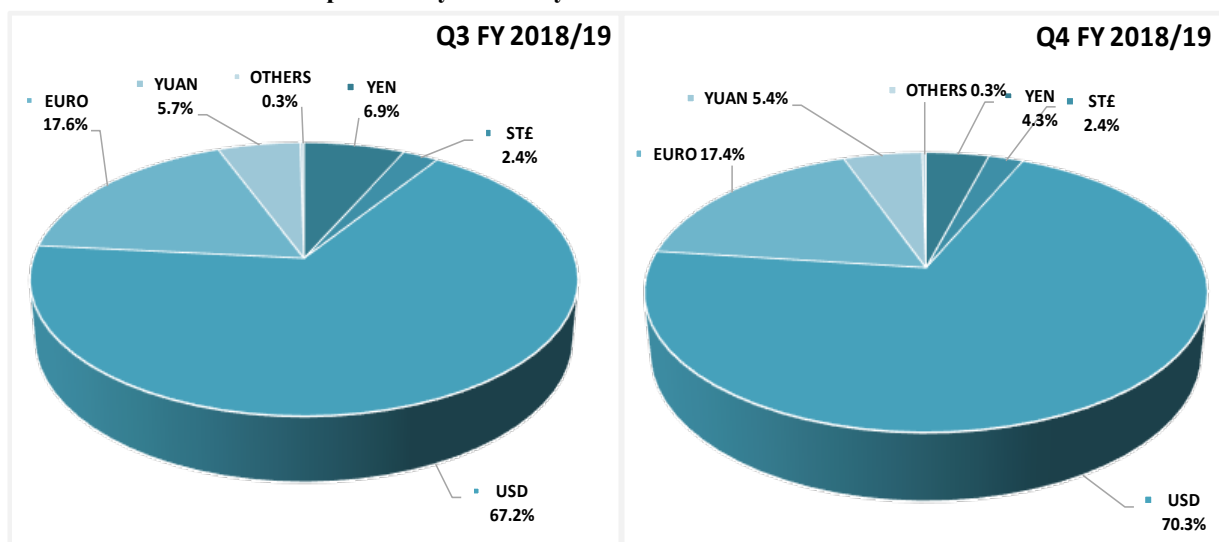
The ratio of domestic interest payments to revenues was 4.7 percent during the fourth quarter of the FY 2018/19. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External debt service for the fourth quarter of the FY 2018/19 amounted to KSh 139.5 billion. Liquidity indicators of external indebtedness worsened and were above the composite indicator thresholds (21 percent of exports and 23 percent of revenues) driven by one-off repayment of US dollar 750 million Eurobond procured in 2014 (Table 8.4).

**Chart 8.2: External Debt By Creditor**



Source: The National Treasury

**Chart 8.3: External Debt Composition by Currency**



Source: The National Treasury

**Table 8.4: Liquidity Indicators of External Debt Sustainability**

	Q2 FY 2017/18	Q3 FY 2017/18	Q4 FY 2017/18	Q1 FY 2018/19	Q2 FY 2018/19	Q3 FY 2018/19	Q4 FY 2018/19
Debt service to Revenues (23%)	11.4	8.5	14.7	10.1	7.9	40.4	28.3
Debt service to Exports (21%)	14.8	10.5	20.4	12.5	10.9	51.7	47.4

Source: Central Bank of Kenya

### Debt Sustainability Analysis

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

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



## Chapter 9

# The Capital Markets

### Equity Market

The equity market activity declined the second quarter of 2019 compared to the first quarter of the year. The NSE 20 and NASI share price indices declined by 7.48 percent and 5.11 percent, respectively, while the

number of shares traded, total equity turnover, and market capitalization, decreased by 22.56 percent, 27.30 percent and 3.46 percent, respectively (Table 9.1 and Chart 9.1).

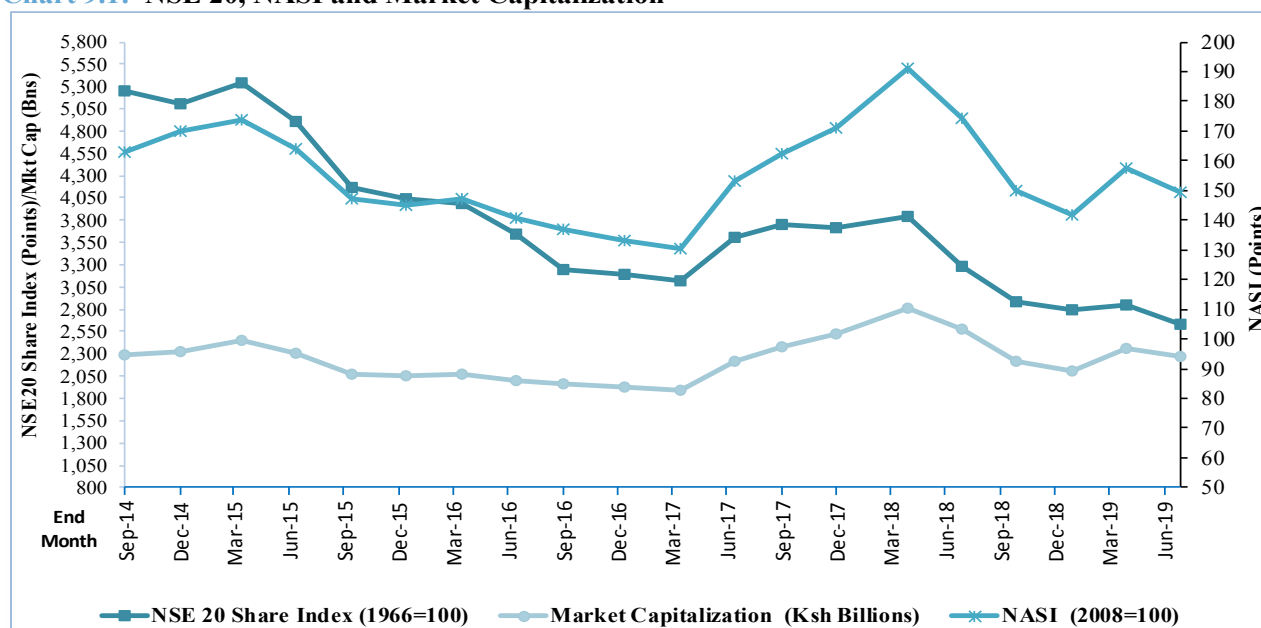
**Table 9.1: Selected Stock Market Indicators**

INDICATOR	2017			2018				2019		% CHANGE (2019Q2-2019Q1)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
NSE 20 Share Index (1966=100)	3607.2	3751.5	3711.9	3845.3	3285.7	2875.5	2801.0	2846.4	2633.3	(7.48)
NASI (2008=100)	152.92	162.21	171.20	191.23	174.36	149.67	142.00	157.66	149.61	(5.11)
Number of Shares Traded (Millions)	1892.06	2019.715	1291.155	2138.96	1580.04	983.14	1570.53	1396.672	1081.6	(22.56)
Equities Turnover (Ksh Millions)	44,902	53,577	36,019	61,150	47,142	31,930	35,435	45,249	32,897	(27.30)
Market Capitalization (Ksh Billions)	2,224	2,377	2,522	2,817	2,576	2,211	2,102	2,361	2,279	(3.46)
Foreign Purchase (Ksh Millions)	27,424	23,099	22,760	31,065	24,618	17,336	23,323	35,039	23,896	(31.80)
Foreign Sales (Ksh Millions)	29,692	34,219	22,941	39,149	32,794	24,041	29,994	34,438	22,538	(34.56)
Ave. Foreign Investor Participation to Equity Turnover (%)	63.60	53.49	63.44	57.41	60.89	64.84	75.12	74.90	71.10	(5.07)
Bond Turnover (Ksh Millions)	134,633	108,168	89,120	152,338	158,523	133,683	118,171	158,069	201,715	27.61
FTSE NSE Kenya Govt. Bond Index (Points)	91.54	91.67	92.83	93.58	95.00	94.85	95.40	96.48	97.30	0.85
5-Year Eurobond Yield (%)	4.47	4.28	3.76	3.83	5.74	4.52	5.87	5.26	5.02	(0.24)*
7-Year Eurobond Yield (%)									6.41	-
10-Year Eurobond Yield (%) - 2024	6.64	6.46	5.67	6.24	7.18	6.86	8.35	6.28	5.48	(0.79)*
10-Year Eurobond Yield (%) - 2028				6.86	7.89	7.65	9.00	7.11	6.78	(0.33)*
12-Year Eurobond Yield (%)									6.78	-
30-Year Eurobond Yield (%) - 2048				7.81	8.90	8.59	9.75	8.15	7.89	(0.26)*

\* Percentage points

Source: Nairobi Securities Exchange

**Chart 9.1: NSE 20, NASI and Market Capitalization**



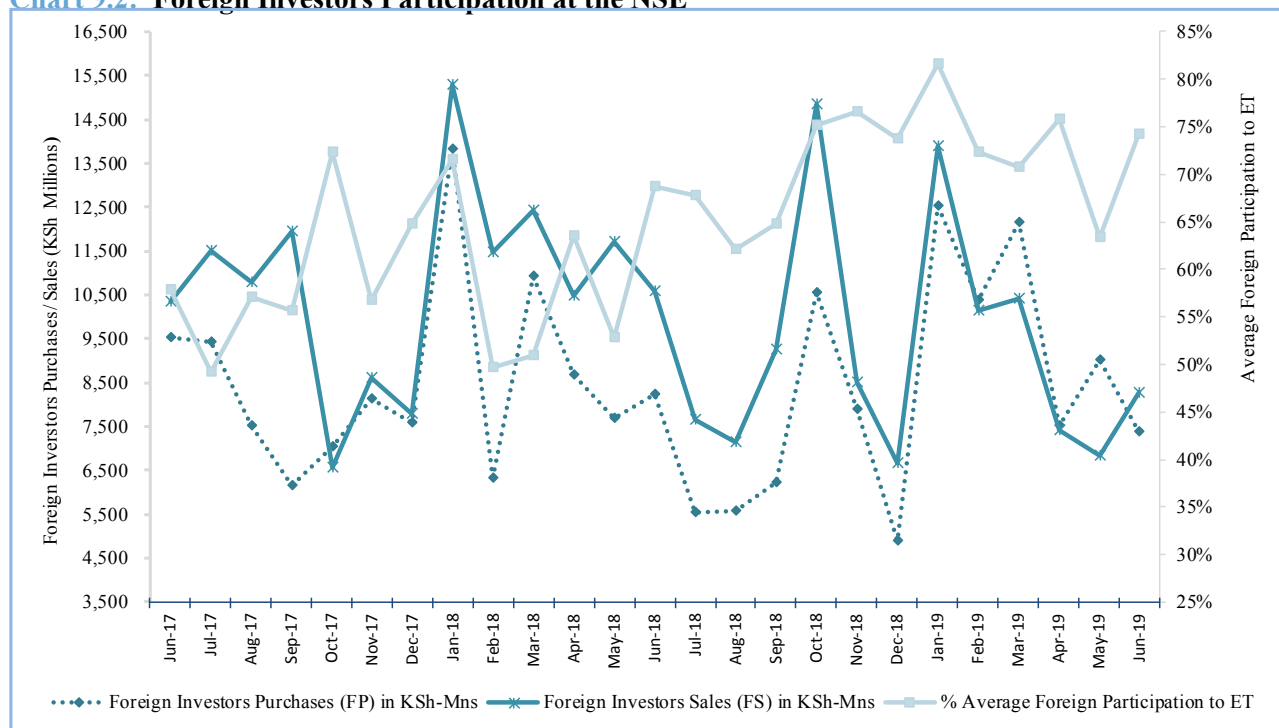
Source: Nairobi Securities Exchange

## Foreign Investors' Participation

The value of foreign investors' equities purchases at the NSE declined by 31.8 percent against the 34.56 percent decline in the value of equity sold by foreign investors in the second quarter of 2019. Average net foreign investors' participation at the NSE as a

proportion to total equity turnover, declined to 71.1 percent in the second quarter of 2019 from 74.9 percent in the first quarter. There was, however, net foreign investor inflow as purchases exceeded sales in the second quarter of 2019 (**Table 9.1 and Chart 9.2**).

**Chart 9.2: Foreign Investors Participation at the NSE**



Source: Nairobi Securities Exchange

## Bonds Market

The volume of bonds traded on the domestic secondary market increased by 27.61 percent in the second quarter of 2019 compared to 33.76 percent increase in the first quarter of 2019. The FTSE NSE Kenyan Government Bond Index rose by 0.85 points in the second quarter, reflecting a decline in market yields. The yields on the 5-year, 10-year (2024), 10-year (2028)-and 30-year (2048) Kenya Eurobonds declined by 24, 79, 33 and 26 basis points, respectively on the last trading day in the second quarter of 2019. The newly issued 7-year and 12-year Eurobonds during the period, closed the last trading day of the quarter at 6.41 percent and 6.78 percent against the coupon rates of 7 percent and 8 percent at issue on May 15, 2019, respectively (**Table 9.1**).



## Chapter 10

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

1.0 ASSETS	2018		2019		Absolute Quarterly Changes (KSh Million)			Quarterly Growth Rates (%)		
	Jun	Dec	Mar	Jun	Q2, 2019	Q1, 2019	Q4, 2018	Q2, 2019	Q1, 2019	Q4, 2018
1.1 Reserves and Gold Holdings	923,391	847,323	848,796	1,047,463	198,667	1,474	(32,365)	23.4	0.2	(3.7)
1.2 Funds Held with IMF	2,012	2,577	8,343	1,008	(7,335)	5,767	(2,816)	(87.9)	223.8	(52.2)
1.21 Investment in Equity (Swift Shares)	9	9	9	9	0	(0)	(0)	2.9	(2.9)	(1.2)
1.3 Items in the Course of Collection	25	19	16	36	21	(3)	8	131.5	(16.8)	70.5
1.4 Advances to Commercial Banks	38,503	77,477	67,772	66,909	(862)	(9,705)	9,665	(1.3)	(12.5)	14.3
1.5 Loans and Other Advances	2,585	2,603	2,599	3,362	763	(5)	6	29.4	(0.2)	0.2
1.6 Other Assets	2,298	2,589	2,341	5,309	2,968	(248)	177	126.8	(9.6)	7.3
1.7 Retirement Benefit Asset	6,585	6,585	6,585	4,329	(2,256)	-	-	(34.3)	-	-
1.8 Property and Equipment	27,153	26,500	28,332	30,001	1,669	1,832	1,028	5.9	6.9	4.0
1.81 Intangible Assets	165	641	756	837	81	116	134	10.7	18.0	26.4
1.9 Due from Government of Kenya	80,188	88,399	60,087	79,556	19,470	(28,312)	28,653	32.4	(32.0)	48.0
<b>TOTAL ASSETS</b>	<b>1,082,915</b>	<b>1,054,720</b>	<b>1,025,635</b>	<b>1,238,821</b>	<b>213,187</b>	<b>(29,086)</b>	<b>4,490</b>	<b>20.8</b>	<b>(2.8)</b>	<b>0.4</b>
<b>2.0 LIABILITIES</b>					-	-	-	-	-	-
2.1 Currency in Circulation	262,439	288,299	271,923	249,509	(22,414)	(16,376)	30,604	(8.2)	(5.7)	11.9
2.2 Investments by Banks -Repos			9,992		(9,992)	9,992	-	(100.0)		
2.3 Deposits	584,287	531,808	508,365	741,000	232,635	(23,443)	(34,103)	45.8	(4.4)	(6.0)
2.4 International Monetary Fund	100,284	92,244	89,598	83,653	(5,945)	(2,646)	(6,210)	(6.6)	(2.9)	(6.3)
2.5 Other Liabilities	6,123	4,173	3,737	6,165	2,429	(436)	8,755	65.0	(10.5)	(191.1)
<b>TOTAL LIABILITIES</b>	<b>953,132</b>	<b>916,523</b>	<b>883,615</b>	<b>1,080,327</b>	<b>196,712</b>	<b>(32,908)</b>	<b>(953)</b>	<b>22.3</b>	<b>(3.6)</b>	<b>(0.1)</b>
<b>3.0 EQUITY AND RESERVES</b>	<b>129,782</b>	<b>138,197</b>	<b>142,020</b>	<b>158,494</b>	<b>16,474</b>	<b>3,823</b>	<b>5,442</b>	<b>11.6</b>	<b>2.8</b>	<b>4.1</b>
Share Capital	5,000	5,000	5,000	20,000	15,000	-	-	300.0		
General reserve fund -Unrealized	44,432	44,432	44,432	44,432	-	-	-	-		
-Realized	30,692	30,692	30,692	10,927	(19,764)	-	-	(64.4)		
-Capital Projects	24,473	24,473	24,473	24,473	-	-	-	-		
Period surplus/(Deficit)	-	9,215	13,037	25,465	12,428	3,823	22,493	95.3	41.5	210
Asset Revaluation	17,801	17,801	17,801	17,801	-	-	-	-		
Fair Value Reserves -OCI				7,066	7,066					
Retirement Benefit Asset Reserves	6,584	6,584	6,584	4,329	(2,255)	-	-	(34.2)	-	
Consolidated Fund	800			4,000	4,000	-	3,200			(100)
<b>4 TOTAL LIABILITIES AND EQUITY</b>	<b>1,082,915</b>	<b>1,054,720</b>	<b>1,025,635</b>	<b>1,238,821</b>	<b>213,187</b>	<b>(29,086)</b>	<b>188,591</b>	<b>20.8</b>	<b>(2.8)</b>	<b>0.4</b>

Source: Central Bank of Kenya

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## Notes on the Financial Position

### Assets

The Central Bank of Kenya (CBK) balance sheet increased by 20.8 percent in the second quarter of 2019, largely reflecting KSh 198.7 billion increase in reserve and gold holdings. Reserve and gold holdings comprise of foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, special drawing rights and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank.

Other items that helped increase the balance sheet of the Central Bank include an increase in debt due from government. This partly reflected an increase in the utilization of overdraft facility at the Central Bank by the Government. Debt due from government comprises of government utilization of the overdraft facility at the Central Bank and overdrawn accounts which were converted to a long term debt with effect from 1 November 1997.

Advances to commercial banks, largely for liquidity management, declined by KSh 0.9 billion in the second quarter of 2019. Funds held with the IMF and the retirement benefit declined in the quarter under review by KSh 7.3 billion and KSh 2.3 billion, respectively.

Items in the course of collection, which represent the value of clearing instruments held by the CBK while awaiting clearing by respective commercial banks, increased by KSh 21.0 million in the second quarter compared to a decrease of KSh 3.0 million in the first quarter of 2019.

Loans and other advances, which include outstanding balances on advances to commercial banks under the Overnight Loan Facility (OLF) and IMF funds on lent to Government, increased by KSh 0.8 billion in the second quarter of 2019 compared to a decline of KSh 5.0 million in the previous quarter.

Other assets, which largely consist of prepayments and sundry debtors, and deferred currency expenses increased by KSh 3.0 billion in the second quarter of 2019 compared to a decline of KSh 248.0 million in the previous quarter.

### Liabilities

Currency in circulation declined by 8.2 percent (KSh 22.4 billion) in the second quarter of 2019 compared to a decline of 5.7 percent (KSh 16.4 billion) in the previous quarter.

Deposits at the CBK by Government of Kenya, local commercial banks, other public entities and project accounts and local banks' forex settlement accounts increased by 45.8 percent (KSh 232.6 billion) compared to a decline of 4.4 percent (KSh 23.4 billion) in the previous quarter.

Equity and reserves increased by 11.6 percent (KSh 16.5 billion) in the second quarter of 2019 compared to an increase of 2.8 percent (KSh 3.8 billion) in the previous quarter.



**Central Bank of Kenya**

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