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REPUBLIC KENYA

THE NATIONAL TREASURY AND PLANNING

STATE DEPARTMENT FOR PLANNING

STATE OF THE ECONOMY

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PREAMBLE

The Status of Kenya Economy Report is a publication by Macroeconomic Planning and International Economic Partnerships Directorateof the State Department of Planning, the National Treasury and Planning. The Report provides a review of the country's economic performance (annual and quarterly GDP), sectoral performance, fiscal and monetary policies, banking and financial sector, and economic outlook (global, regional and Kenya). The analysis of various economic variables guides in making recommendations in the report.

The Report is prepared by the Macro Working Group (MWG) through regular consultative meetings. MWG comprises of representatives from State Department for Planning, the National Treasury, Central Bank of Kenya (CBK), Kenya Revenue Authority (KRA), Kenya National Bureau of Statistics (KNBS), Kenya Institute for Public Policy Research and Analysis (KIPPRA), Commission on Revenue Allocation,and Controller of Budget.Consultations with relevant Ministries, Departments and Agencies (MDAs) with regards to sourcing of data and necessary information are undertaken.

The report is enriched by the most recent data provided by the following institutions:

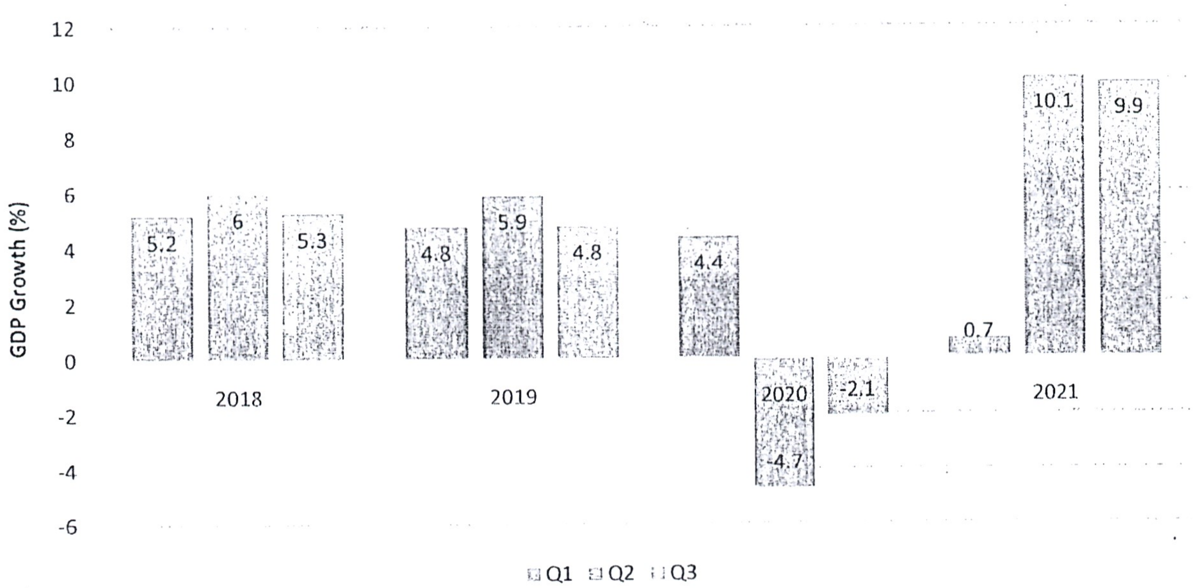
i. The National Treasury and KRA – Fiscal data
ii. Central Bank of Kenya (CBK) – Balance of Payments and Financial and Banking data
iii. Kenya National Bureau of Statistics (KNBS) – Annual and quarterly GDP and Sectoral data
iv. Kenya Institute for Public Policy Research and Analysis (KIPPRA) – Forecasts of macroeconomic indicators based on KIPPRA-Treasury Macroeconomic Model (KTMM)
v. Controller of Budget and CRA- County Expenditures and Own Source Revenue
vi. International Monetary Fund (IMF) – Global and Regional Economic Trends and Projections.

The Report acts as a briefing note to the Cabinet Secretaries, Principal Secretaries and other Senior Government Officers to inform policy. It also acts as reference document during Economic Review Missions and meetings with development partners.

1.0 ECONOMIC PERFORMANCE

The economic recovery from the effects of the COVID-19 pandemic that started in second quarter continued in the third quarter of 2021 with real GDPexpanding by of 9.9 per cent compared to a contraction of 2.1 per cent in the same quarter of 2020. The expansion was largely supported by the gradual easing of containment measures instituted by the government to curb the spread of the disease. The performance was mainly driven by significant rebounds in most economic activities that had contracted in the third quarter of 2020. Impressive growths were notable in Manufacturing (9.5%); Education (64.7%); Transportation and Storage (13.0%); Accommodation and Food Serving Activities (24.8%); and Financial and Insurance Activities (6.7%). However, the drought conditions that characterized the third quarter of 2021 in most parts of the country led to a contraction of 1.8 per cent in the gross value added of Agriculture, Forestry and Fishing sector compared to 4.2 per cent growth in the same quarter of 2020. Figure 1 shows the quarterly GDP for the first, second and third quarters for the period 2018-2021.

Figure 1:Quarterly GDP Growth Rates, 2018-2021



Source: KNBS Quarterly GDP Reports

2.0 ANALYSIS OF ECONOMIC PERFORMANCE BY SECTOR

2.1 Agriculture

The sector's performance declined by 1.8 per cent in the third quarter of 2021 compared to a growth of 4.2 per cent in the corresponding quarter of 2020. The contraction was evident in the significant decline in fruit exports, cane deliveries, tea production and coffee exports. The volume of fruit exports and cane deliveries declined by 19.9 and 5.6 per cent, respectively in the third quarter of 2021 compared to a similar quarter of 2020. Similarly, production of tea and coffee declined by 5.9 and 24.1 per cent, respectively. The poor performance of the sector was largely on account of unfavourable weather conditions experienced in most parts of the country that impacted negatively on production of food crops during the review quarter.

Increased milk production as well as increase in exports of cut flower and vegetable during the quarter under review buttressed the agriculture sector from a deeper slump. The volume of milk intake by processors increased by 21.9 per cent from 171.7 million litres in the third quarter of 2020 to 209.3 million litres in the quarter under review. The volume of cut flower exports grew by 44.8 per cent to stand at 51.1 thousand metric tonnes in the third quarter of 2021. Similarly, vegetable exports increased from 14.5 thousand metric tonnes in the third quarter of 2020 to 18.7 thousand metric tonnes in the corresponding quarter of 2021. The significant growth in volumes and values of horticultural exports in 2021 was as a result of a recovery from the dismal performance in 2020 mainly attributed to increased demand from key destination markets which fully reopened following 2020 COVID-19 restrictions.

Table 1a shows production of selected agricultural output indicators for 2020 and 2021. The volume of cut flower, fruit and vegetable exports grew by 43.9, 11.6 and 24.8 per cent, respectively in 2021 mostly due to increased demand from Kenya's export markets. Similarly, milk intake increased by 17.2 per cent from 684.4 million litres in 2020 to 801.9 million litres in 2021. However, tea production declined by 5.9 per cent from 516.5 thousand Metric Tonnes (MT) between January and November 2020 to 485.3 thousand MT over similar period in 2021.

Table 1a: Key Indicators of Agricultural Activities (000 MT)

Crop	Period	2020	2021	Growth rate (%)
Tea production	January - November	516.1	485.3	-5.9
Coffee sales	January - December	24.4	28.2	15.6
Cut flowers Exports	January - December	146	210.1	43.9
Fruit Exports	January - December	105.1	117.3	11.6
Vegetable Exports	January - December	62.6	78.1	24.8
Sugarcane Deliveries	January - December	6894.4	7657.5	11.1
Milk Intake (Million Litres)	January - December	684.4	801.9	17.2

Source: KNBS Leading Economic Indicators

As shown in Table 1b, the value of tea exports grew by 0.5 per cent, while that of coffee and horticultural produce increased by 17.6 and 5.0 per cent, respectively. The price of coffee at the auction increased from $ 4.24 per kg in 2020 to $ 5.91 per kg in 2021. The surge in prices was attributed to low production in Brazil which is the world largest producer of coffee occasioned by unfavorable weather condition resulting to higher prices. On the other hand, the price of tea recorded a marginal increase to $ 2.07 per kg in 2021 from $ 2.01 per kg in 2020.

Table 1 b: Value of Main Agricultural Exports (Kshs. billion)

Crop	2020	2021	Growth rate (%)
Tea	130.2	130.8	0.5
Coffee	22.2	26.1	17.6
Horticulture	150.2	157.7	5.0

Source: KNBS Leading Economic Indicators

2.2 Manufacturing

Manufacturing sector grew by 9.5 per cent in the third quarter of 2021 compared to a 1.7 per cent contraction in the same period of 2020. Manufacture of food expanded by 8.6 per cent during the third quarter of 2021. Manufacture of beverages; dairy products; bakery products; and grain mill products registered substantial growths during the quarter under review. Manufacture of non-food recorded mixed performance in the third quarter of 2021. There was significant increase in manufacture of transport equipment, textile, leather and paper products. However, there were declines in the manufacture of machinery and equipment, and manufacture of basic metals. Credit advanced to enterprises in manufacturing sector increased from 1,198.7 billion in the third quarter of 2020 to 1,312.5 billion in the quarter under review.

2.3 Electricity and Water Supply

The sector posted an accelerated growth of 4.5 per cent in the third quarter of 2021 compared to a marginal growth of 0.2 per cent in the corresponding quarter of 2020. Total electricity generated rose by 6.0 per cent from 2,918.7 million kilowatt hour in the third quarter of 2020 to 3,094.7 million kilowatt hour in the same period of 2021. The increase in electricity generation was notable in all sources except from hydrowhich declined by 23.3 per cent on account of insufficient rains during the period under review. Electricity generated from thermal and wind expanded by 53.8 and 43.6 per cent, respectively, in the third quarter of 2021. Similarly, electricity generated from geothermal increased by 9.5 per cent to stand at 1,355.8 million kilowatt hour in the third quarter of 2021.

2.4 Accommodation and Food Service Activities

The sector grew by 24.8 per cent in the third quarter of 2021 which represented a significant recovery from the effects of COVID-19 from a contraction of 63.4 per cent in the third quarter of 2020. It is worthwhile to note that the sector is yet to reach a half of its pre-COVID-19 period performance despite the exemplary growth recorded in the second and third quarters of 2021. This sector was among the worst hit by the measures put in place to combat the pandemic such as cessation of movement and closure of eateries. However, the sector's activities picked up in the review period after relaxation of most of the restriction measures in the fourth quarter of 2020. The improved performance was manifest in the significant increase in the number of visitor arrivals from 36,978 in the third quarter of 2020 to 217,873 visitors in the third quarter of 2021.

2.5 Construction

Performance of this sector was relatively slower in the third quarter of 2021 compared to the corresponding quarter of 2020. The sector recorded a growth of 6.4 per cent in the third quarter of 2021 compared to 12.5 per cent growth in the third quarter of 2020. The slowdown in growth was mirrored in the decline in import of quantities of some construction materials such as petroleum bitumen and iron and steel during the review period. On the other hand, growth in volume of cement consumption by 27.5 per cent from 2,028.8 thousand metric tonnes in third quarter of 2020 to 2,586.2 thousand metric tonnes in the corresponding quarter of 2021, pointed to sustenance of activities in the sector. The level of activity in the sector has remained resilient despite the COVID-19 disruptions mainly supported by public investment in roads and other civil works.Credit advanced to the construction sector only increased by 0.9 per cent to KSh 358.4 billion in the third quarter of 2021.

2.6 Transportation and Storage

The Transportation and Storage sector significantly recovered from the impact of the movement restrictions that prevailed in the better part of 2020 to grow by 13.0 per cent in the third quarter of 2021 compared to a contraction of 10.1 per cent in the corresponding quarter of 2020. The sector was a major beneficiary of the relaxation of measures to curb spread of the COVID-19 that resulted to gradual pick up of activities of both domestic and international travel. Passenger transportation through the Standard Gauge Railway (SGR) increased from 95,378 passengers in the third quarter of 2020 to 600,070 passengers in the corresponding quarter of 2021. Freight movement through the SGR increased marginally by 0.1 per cent to stand at 1,207.2 thousand metric tonnes in the third quarter of 2021. The volume of light diesel imported in the third quarter of 2021 increased by 25.3 per cent. However, port throughput declined by 6.9 per cent to 8,059.4 thousand metric tonnes in the third quarter of 2021; mainly attributed to decline in importation of dry bulk.

2.7 Information and Communication

The sector was among the few that posted positive growth in 2020 despite the negative impacts of the COVID-19 pandemic and continued to post significant improvement in 2021. During the review period, the gross value added of the Information and Communication sector expanded by 5.8 per cent compared to a growth 3.2 per cent in the third quarter of 2020. This performance was largely attributable to increased uptake the sector's innovative products in response to the COVID-19 pandemic.

3.0 FISCAL DEVELOPMENTS

Budget execution in the seven months (July to January) of the FY 2021/22 progressed well, an indication that the end year targets are still on course. Revenue performance in the seven months of FY 2021/22 remained strong supported by economic recovery due to the easing of COVID-19 containment measures and implementation of targeted stimulus interventions by the Government. Both domestic and import-related revenue streams recorded impressive revenue performancewhich is expected to continue in the third and fourth quarters of FY2021/22.Overall expenditures have remained within target underpinned by good revenue performance and adequate liquidity in the government securities market.

3.1 Revenue

Total revenue collectionincluding ministerial Appropriation in Aid (A-i-A) for the period July to January 2021/22 was Kshs.1,193.5 billion (9.5% of GDP) compared to the target of Kshs.1,159.5 billion(9.2% of GDP).This performance translated into a growth of 27.4 per cent as compared to a contraction of 11.7 per cent in a similar period in the FY 2020/21 when total revenue was Kshs.937.0 billion (8.3% of GDP). During the period, performance was above the set target by Kshs.34.0 billion on account of a surplus in Ordinary revenue collections of Kshs.37.9 billion. However, ministerial A-i-A was Kshs.142.1 billion against a target of Kshs.146.0 billion thus recording a deficit of Kshs.3.9 billion. The deficit was on account of the below target performance recorded in the development A-i-A with a deficit of Kshs.6.2 billion. Recurrent A-i-A recorded a surplus of Kshs.2.3 billion (Table 2).

Table 2: Government Revenue and External Grants Performance FY2021/22 (Kshs.Billions)

	Jan-21			Jan-22					
	Printed Target	Prel. Issues	% of GDP	Printed Target	Prel. Issues	Deviation	% of GDP	Performance Rate	Growth
TOTAL REVENUE	1,059.3	937.0	8.3%	1,159.5	1,193.5	34.0	9.5%	102.9%	27.4%
Ordinary revenue	941.7	839.8	7.4%	1,013.4	1,051.4	37.9	8.3%	103.7%	25.2%
Import Duty	65.5	59.9	0.5%	68.2	66.5	(1.8)	0.5%	97.4%	10.9%
Excise Taxes	141.5	123.1	1.1%	137.5	146.0	8.5	1.2%	106.2%	18.6%
Income Tax	387.5	350.6	3.1%	468.8	464.9	(3.9)	3.7%	99.2%	32.6%
o/w PAYE	215.4	179.2	1.6%	248.4	259.3	10.9	2.1%	104.4%	44.7%
o/w Other Income Tax	172.1	171.4	1.5%	220.4	205.6	(14.8)	1.6%	93.3%	20.0%
Value Added Tax (VAT)	281.4	215.8	1.9%	272.6	296.3	23.7	2.3%	108.7%	37.3%
o/wVAT (Domestic)	150.4	104.9	0.9%	143.9	143.9	0.0	1.1%	100.0%	37.1%
o/wVAT (Imports)	131.0	110.9	1.0%	128.7	152.4	23.7	1.2%	118.4%	37.5%
Other Revenue	65.9	90.5	0.8%	66.3	77.7	11.4	0.6%	117.2%	-14.1%
Ministerial AIA	117.6	97.2	0.9%	146.0	142.1	(3.9)	1.1%	97.3%	46.2%
Recurrent	77.7	52.5	0.5%	95.9	98.2	2.3	0.8%	102.4%	87.1%
Development	39.9	44.7	0.4%	50.1	43.9	(6.2)	0.3%	87.6%	-1.8%
GDP	11,304.1	11,304.1	100%	12,628.1	12,628.1	-	100.0%	100.0%	11.7%

1/ other revenue includes rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue.

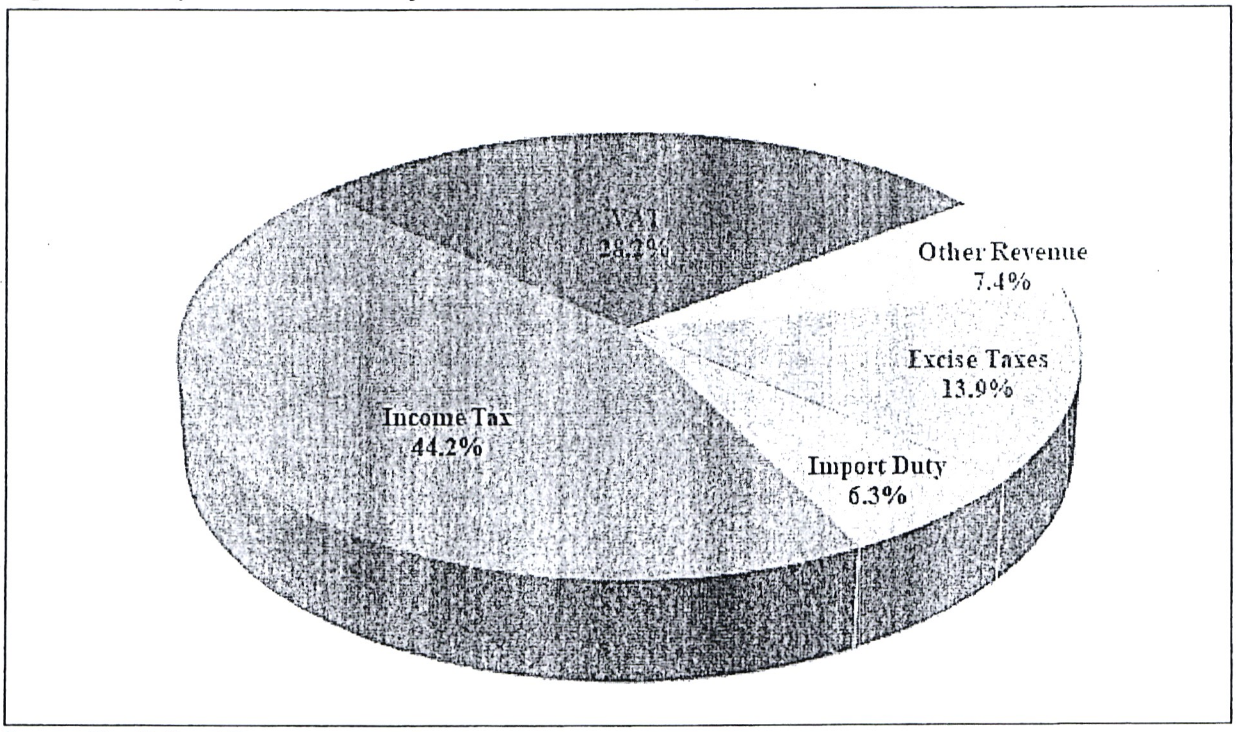
2/ ministerial A-I-A includes receipts from Road Maintenance Levy Fund, Railway Development Levy, and A-I-A from Universities

Source: National Treasury

By the end of January 2022, ordinary revenue collection amounted to Kshs.1,051.4 billion (8.3% of GDP) against a target of Kshs.1,013.4 billion (8.0 % of GDP) recording a surplus of Kshs.37.9 billion. The performance was mainly attributed to surpluses in Value Added Tax (VAT) of Kshs.23.7 billion, 'Other Revenue' category of Kshs.11.4 billion and Excise taxes of Kshs.8.5 billion. Income tax and import duty were below target byKshs.3.9 billion and Kshs.1.8 billion, respectively.Some of the reasons explaining the revenue performance are growth in VAT turnover by an average of 15.3 per cent and import values by 29.6 per cent. However, other income taxescontinue to pose a risk to revenue performance mainly due to a decline in remittance of corporation tax from some sectors such as Construction, ICT and Electricity, Oil & Gas. In addition, performance of individual income tax, withholding tax, advance tax, turnover tax, betting tax, and rental income were below targets.

On the composition of ordinary revenue, Income tax remains the largest share at 44.2 per cent followed by VAT at 28.2 per cent and Excise taxes at 13.9 percent (Figure 2).

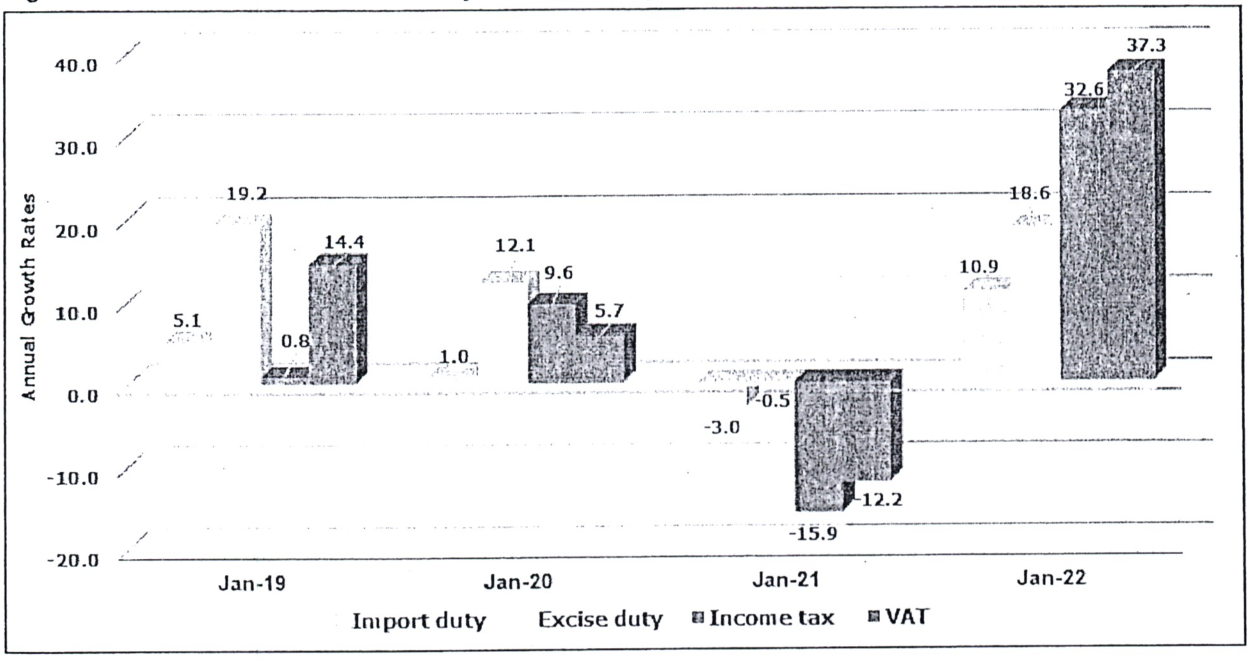
Figure 2: Composition of Ordinary Revenue as at January 2022 (Percentage)



Source: The National Treasury

Ordinary revenue for the period July to January FY 2021/22 grew by 25.2 percent compared to a contraction of 14.2 percent recorded in a similar period in FY 2020/21.All tax heads recorded growth with Import duty growing by 10.9 percent, Excise taxes by 18.6 percent, Income tax by 32.6 percent and VAT by 37.3 percent for the period ending January 2022 compared to the contraction recorded in all tax heads in a similar period in January 2021, an indication of recovery in revenue performance in the FY 2021/22 (Figure 3).

Figure 3: Growth rates of the ordinary revenue categories in January 2019 to January 2022



Source: The National Treasury

3.2 Expenditure

Total expenditure and net lending for the period July to January of 2021/2022 amounted to Kshs.1,544.5 billion, which was below the target of Kshs.1,719.0 billion, by Kshs.174.5 billion. This was largely on account of below target disbursement for recurrent expenditure by Kshs.15.0 billion, development expenditure by Kshs.95.4 billion and county governments transfers by Kshs.61.6 billion. Total expenditure and net lending for the period grew by 14.7 percent compared to the similar period in the last financial year (Table 3).

Table 3: Expenditures Performance in FY 2021/22 (Kshs. Billions)

	Jan-21	Jan-22				Printed Estimates
	Actual	Target	Actual	Deviation	% Growth	Jun-22
TOTAL EXPENDITURE AND NET LENDING	**1,347.1**	**1,719.0**	**1,544.5**	**(174.5)**	**14.7%**	**3,030.3**
1. Recurrent Expenditure	**935.9**	**1,131.0**	**1,115.9**	**(15.0)**	**19.2%**	**1,991.9**
Domestic Interest	218.2	240.3	253.3	13.1	16.1%	421.9
Foreign Interest due	62.8	74.0	73.1	(0.9)	16.2%	138.4
Pensions & Other CFS	49.7	77.4	61.5	(15.9)	23.8%	137.2
Contribution to Civil Ser Pension	-	11.4	18.5	7.1	0.0%	20.8
Operations & Maintenance	269.7	330.8	310.9	(19.9)	15.3%	580.4
Wages & Salaries	289.5	306.9	306.9	0.0	6.0%	526.1
Ministerial Recurrent AIA	45.9	90.2	91.8	1.6	99.8%	167.1
2. Development	**246.8**	**352.1**	**256.8**	**(95.4)**	**4.0%**	**623.5**
Domestically Financed (Gross)	149.2	198.7	190.8	(7.9)	27.9%	335.2
Foreign Financed	97.6	150.6	65.9	(84.7)	0.0%	281.4
Net Lending	-	-	-	0.0	0.0%	-
Equalization Fund	-	2.8	-	(2.8)	0.0%	6.8
3. County Transfer	**164.4**	**233.4**	**171.8**	**(61.6)**	**4.5%**	**409.9**
o/w Equitable Share	144.8	214.3	171.8	(42.5)	**18.6%**	370.0
4. Contingency Fund	-	2.5	-	(2.5)	0.0%	5.0

Source: National Treasury

Recurrent expenditure for the period was Kshs.1,115.9 billion against a target of Kshs.1,131.0 billion thus recording a below target expenditure of Kshs.15.0 billion. The below target in recurrent expenditure was mainly attributed to operations & maintenance, and pensions & other CFS which were below target by Kshs.19.9 billion and Kshs.15.9 billion, respectively. However, Domestic interest payment for the period was above target by Kshs.13.1 billion.

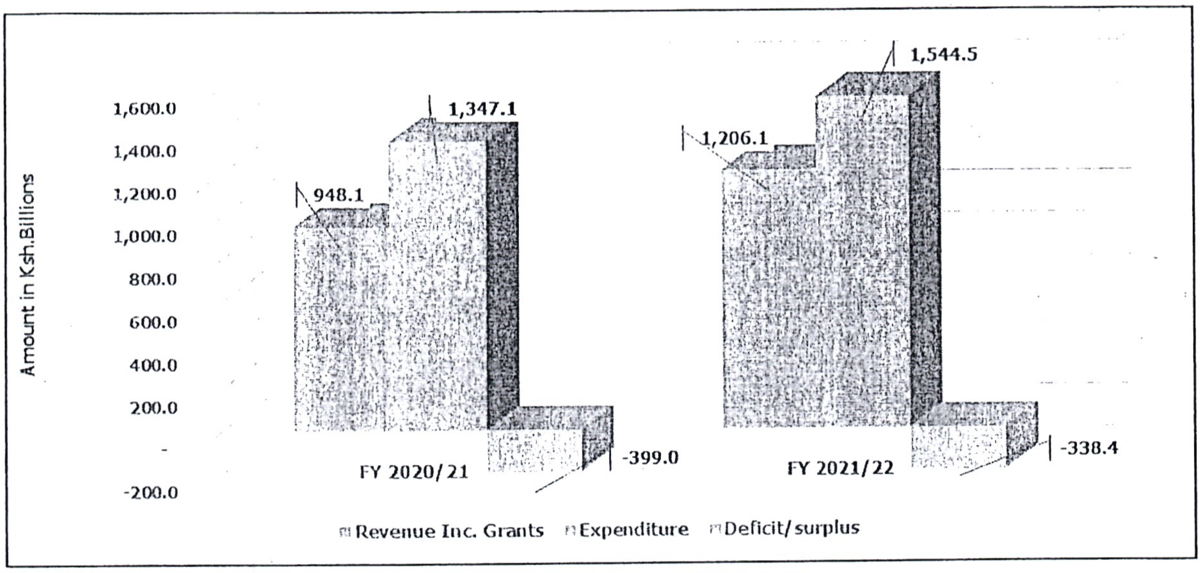
Development Expenditure for the period ending January 2022 was Kshs.256.8 billion, against a target of Kshs.352.1 billion recording a deficit of Kshs.95.4 billion. The shortfall was on account of below target disbursement towards foreign financed programmes. This can be partly attributed to long procurement processes, and delay in securing land and way-leaves acquisitions especially for infrastructural projects.

3.3 Fiscal Balance and Financing

Overall, fiscal deficit including grants (on cash basis) for the period ending January 2022 was Kshs.338.4 billion (2.7% of GDP) compared to Kshs.399.0 billion (3.5% of GDP) in the period ending January 2021 (Figure 4). The Grants as at end ofJanuary 2022were Kshs.12.6 billion against a target of Kshs.30.7 billion. The below target of Kshs.18.0 billion in grants was mainly on account of Grants to NMS by Kshs.7.1 billion, External grants (Revenue) by Kshs.3.3 billion and External grants(A-i-A) by Kshs.8.7 billion.

This deficit was financed by net foreign repayment ofKshs.13.8 billion (0.1% of GDP). This constituted disbursements (inflows) of Kshs.99.9 billion and external repayments (outflows) of principal debt of Kshs.113.8 billion. Net domestic financing amounted to Kshs.337.0 billion (2.7% of GDP) against a target of Kshs.476.0 billion.

Figure 4: Fiscal Deficit for Period Ending January 2021 and 2022 (Kshs. Billion)



Source: National Treasury

3.4 Fiscal Outlook for FY 2021/22

Ordinary revenue for FY 2021/22 is expected to grow by 12.8 per cent to Kshs.1,882.1 billion from a collection of Kshs.1,669.213 billion in FY 2020/21. Revenue in the seven months (July to January FY 2021/22) recorded above target performance with a surplus of Kshs.37.9 billion, an indication that the end-year targets are still on course. This is supported by continued economic recovery driven by the relaxation of COVID-19 related restrictions and implementation of targeted economic stimulus program by the Government. The Government will however continue to monitor this performance given the uncertain economic environment occasioned by the emergence of new variants of the COVID-19 and upcoming general elections.

The following factors are expected to impacton revenue in the rest of the FY 2021/22:

i. Continued economic recovery across various sectors mainly due to the easing of COVID-19 containment measures and implementation of Economic Recovery Strategy. In particular, performance in the Accommodation and Food Services, Manufacturing, and Transport and Storage sectors is expected to continue on a positive trajectory.

ii. Realization of full impacts from the implementation of the Finance Act, 2021.Some of the main amendments include revision of Excise duty rate on telephone and internet data service from 15 per cent to 20 per cent; introduction of Exciseduty of 7.5 per cent on both prize competition and betting.

iii. Implementation of KRA Revenue Enhancement Strategy for FY 2021/22 whose main focus is strengthening compliance and enforcement, expanding the tax base, smart intelligence and investigation as well as integrated border management.

3.5 County Government Fiscal Performance

Budget Utilization

The total expenditure by County governments in the first half of the FY 2021/22 was Kshs.159.52 billion, representing an absorption rate of 30.8 per cent of the total annual County Governments' Budgets. This was an increase from an absorption rate of 27.8 per cent reported in a similar period in FY 2020/21, where total expenditure was Kshs.134.9 billion.

Recurrent expenditure was Kshs.133.59 billion, representing 41.1 per cent of the annual recurrent budget, and an improvement from 36.4 per cent reported in a similar period of FY 2020/21. The County governments' expenditure on personnel emoluments amounted to Kshs.90.73 billion in the first half of the FY 2021/22, which was an increase from Kshs.78.85 billion incurred in a similar period of FY 2020/21. This accounted for 56.9 per cent of the total expenditure. Development expenditure amounted to Kshs.25.93 billion, representing an absorption rate of 13.5 per cent and a slight decline from 13.7 per cent attained in the first half of FY 2020/21 when total development expenditure was Kshs.25.19 billion.

Own Source Revenue

During the reporting period, county governments generated a total of Kshs.14.06 billion from their own source revenue (OSR), which was 24.3 per cent of the annual target of Kshs.57.80 billion. This was an improvement compared to Kshs.12.72 billion generated in a similar period of FY 2020/21.

Pending Bills

During the period under review, the County governments reported payments amounting to Kshs.11.2 billion towards pending bills out of the self-reported stock of pending bills of Kshs.140.14 billion reflected in the payment plans. Outstanding pending bills were therefore valued at Kshs.128.94 billion.

3.6 Fiscal Consolidation Programme

Going forward into FY 2022/23 and the medium term, the Government will continue to implement the fiscal consolidation plan through enhanced revenue mobilization and expenditure prioritization policy geared towards economic recovery. Revenue performance will be driven by economic recovery, and continued reforms in tax policy and revenue administration.

As such, the medium-term consolidation policy aims at reducing fiscal deficit progressively from 8.2 percent of GDP in FY 2021/22 to 6.0 percent of GDP in FY2022/23 and further to 3.9 percent of GDP in FY 2024/25. In this respect, the Government shall closely monitor the impact of COVID-19 to the economy and accordingly adjust the fiscal plan including tax measures to ensure that the development agenda remains sustainably funded. At the same time, the Government shall limit in-year adjustments of the budget for new projects except those of emergency nature. This will enhance certainty in the budget process and improve implementation of Government programmes and projects while adhering to the fiscal consolidation plan.

3.7 Public Debt

The gross public debt as at 31stDecember, 2021 increased by Kshs.924.6 billion to Kshs.8,206.7 billion compared to Kshs.7,282.1 billion as at end of December 2020. It comprised of 50.9 per cent external debt and 49.1 per cent domestic debt. The Debt to GDP increased from 64.5 per cent in December, 2020 to 66.2 per cent in December, 2021. The increase in the public debt is attributed to external loan disbursements; exchange rate fluctuations; and the uptake of domestic debt during the period. The net public debt was Kshs.7,745.5 billion by end of December, 2021(Table 4).

Table 4: Overall debt position from December 2019 to December 2021(Kshs.million)

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21*
External									
Bilateral	1,037,538	1,060,609	1,074,257	1,102,890	1,156,991	1,142,718	1,140,529	1,150,037	1,171,701
Multilateral	1,023,821	1,075,901	1,321,629	1,421,840	1,498,837	1,495,606	1,659,411	1,702,679	1,782,085
Commercial Banks	1,028,691	1,058,796	1,102,294	1,120,803	1,119,388	1,113,417	1,187,440	1,197,506.60	1,208,283
Suppliers Credits	16,773	17,328	17,630	17,958	18,069	18,126	12,162	12,283	12,303
Sub-Total External	**3,106,823**	**3,212,634**	**3,515,810**	**3,663,491**	**3,793,285**	**3,769,867**	**3,999,542**	**4,062,505**	**4,174,372**
Domestic									
Central Bank	115,972	106,433	98,878	107,356	98,741	99,869	87,575	90,938	88692
Commercial Banks	1,491,438	1,570,595	1,653,194	1,808,044	1,769,450	1,776,713	1,814,199	1,917,628	1943018
Total Banks	**1,607,410**	**1,677,028**	**1,752,072**	**1,915,400**	**1,868,191**	**1,876,582**	**1,901,774**	**2,008,566**	**2,031,710.00**
Non-bank & Non Residents	1,334,694	1,393,162	1,425,454	1,541,707	1,620,616	1,693,259	1,795,319	1,929,212	2,000,658
Sub-Total Domestic	**2,942,104**	**3,070,189**	**3,177,526**	**3,457,107**	**3,488,807**	**3,569,841**	**3,697,093**	**3,937,778**	**4,032,368**
Grand Total Gross	**6,048,927**	**6,282,823**	**6,693,336**	**7,120,598**	**7,282,092**	**7,339,708**	**7,696,635**	**8,000,283**	**8,206,740**
Less On-lending	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	-	-	-
Less Government Deposits	(524,752)	(457,623)	(497,609)	(614,353)	(449,585)	(416,765)	(556,430)	(544,187)	(461,273)
Grand Total Net	**5,518,474**	**5,819,499**	**6,190,026**	**6,500,544**	**6,826,806**	**6,917,242**	**7,140,205**	**7,456,096**	**7,745,467**
Debt to GDP	59.3%				64.5%				66.2%

* Provisional

Source: The National Treasury and Central Bank of Kenya

In dollar terms, external public debt stock increased by USD. 2,149.22 million from USD. 34,746.02 million by end of December 2020 to USD. 36,895.24 million by the end of December, 2021(Table 5).External debt comprised debt owed to multilateral (42.69 percent), bilateral (28.07 percent), commercial banks (28.95 percent), and suppliers credit (0.29 percent). The increase in debt is attributed to a rise in external disbursements made during the period coupled with fluctuations in exchange rate.

Table5: Kenya's Public and Publicly Guaranteed External Debt, December 2021(USD million)

CREDITOR	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21*
BILATERAL									
AUSTRIA	18.62	12.84	13.14	13.52	14.18	13.57	13.33	12.98	12.28
BELGIUM	109.80	113.08	112.42	113.07	123.31	121.70	117.61	119.13	114.42
CANADA	0.58	0.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DENMARK	6.41	5.87	5.67	5.41	5.03	4.33	4.39	4.30	4.18
FINLAND	15.95	13.09	13.40	12.51	13.11	11.16	11.31	9.71	9.42
FRANCE	728.89	698.14	748.38	762.54	835.65	800.13	851.83	836.00	812.00
GERMANY	332.14	371.11	333.07	345.47	342.54	323.67	338.31	331.43	336.11
ITALY	351.90	342.57	349.64	365.49	383.17	366.88	371.85	364.79	353.78
JAPAN	1,353.47	1,385.84	1,423.97	1,489.84	1,525.90	1,447.97	1,474.72	1,463.17	1,416.58
NETHERLANDS	1.79	1.00	0.51	0.53	-	-	-	-	-
UK	0.32	0.30	-	-	-	-	-	-	-
USA	17.45	15.16	14.83	12.32	11.98	11.77	13.14	12.44	12.26
CHINA	6,840.23	6,746.26	6,753.13	6,731.17	7,016.85	7,013.42	7,056.92	6,917.51	6,951.45
OTHERS	325.62	570.92	316.66	313.28	326.17	320.06	321.73	337.44	333.61
TOTAL BILATERAL	**10,103.18**	**10,276.76**	**10,084.80**	**10,165.16**	**10,597.89**	**10,434.65**	**10,575.15**	**10,408.90**	**10,356.09**
MULTILATERAL									
ADB/ADF	2,393.60	2,404.62	2,475.99	2,726.74	2,910.65	2,886.38	2,988.35	3,068.91	3,187.81
BADEA	36.28	36.06	36.66	36.34	38.36	37.51	39.53	38.94	38.72
EEC/EIB	162.18	152.65	157.67	186.99	195.65	185.05	215.38	203.88	197.09
IBRD	-	-	250.00	250.00	296.11	294.15	294.98	298.58	297.56
IDA/IFAD	7,234.42	7,146.77	8,399.27	8,808.04	9,219.83	9,220.59	10,146.65	10,118.26	10,150.48
IMF**	360.66	341.14	1,038.33	1,047.10	1,016.70	985.04	1,652.44	1,635.00	1,834.49
OTHERS	51.40	49.46	49.13	49.66	51.86	48.32	48.97	47.26	44.83
TOTAL MULTILATERAL	**10,238.54**	**10,130.70**	**12,407.05**	**13,104.87**	**13,729.16**	**13,657.03**	**15,386.29**	**15,410.83**	**15,750.98**
COMMERCIAL[1]	**10,151.24**	**10,113.38**	**10,348.00**	**10,330.26**	**10,253.45**	**10,167.10**	**11,010.10**	**10,838.54**	**10,679.43**
O/WInternationalSovereign Bond	-	-	-	-	-	-	7,106.58	7,100.00	7,106.28
EXPORT CREDIT	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**112.77**	**111.17**	**108.74**
GRAND TOTAL	**30,658.48**	**30,686.36**	**33,005.37**	**33,765.80**	**34,746.02**	**34,424.30**	**37,084.30**	**36,769.44**	**36,895.24**
In percentage of total									
BILATERAL	32.95	33.49	30.56	30.10	30.50	30.31	28.52	28.31	28.07
MULTILATERAL	33.40	33.01	37.59	38.81	39.51	39.67	41.49	41.91	42.69
COMMERCIAL BANKS[1]	33.11	32.96	31.35	30.59	29.51	29.53	29.69	29.48	28.95
EXPORT CREDIT	0.54	0.54	0.50	0.49	0.48	0.48	0.30	0.30	0.29
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* Provisional

Source: The National Treasury and Central Bank of Kenya

Provisional External Debt Service for the Quarter Ending December 2021

By end of December 2021, the total cumulative debt service payments to external creditors amounted to Kshs.137.3 billion. This comprised of Kshs.80.0 billion (58.28 percent) principal and Kshs.57.3 billion (41.72 percent) interest (Table 6).

Table 6: External Debt Service for the Quarter Ending December, 2021* (Kshs. Millions)

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
ABU DHABI	76.17	14.47	90.64
AUSTRIA	46.21	12.49	58.69
BELGIUM	962.94	118.62	1,081.56
CHINA	18,697.21	11,167.74	29,864.96
FRANCE	404.06	55.9	459.96
GERMANY	926.13	115.41	1,041.53
INDIA	324.02	45.73	369.74
ISRAEL	329.26	44.07	373.33
ITALY	4,387.53	996.34	5,383.87
JAPAN	-	0.93	0.93
KOREA	27.85	5.11	32.96
KUWAIT	110.99	17.65	128.65
POLAND	-	8.37	8.37
SAUDI ARABIA	52.26	12.83	65.09
SPAIN	310.97	74.52	385.49
USA	58.51	7.6	66.12
TOTAL BILATERAL	**26,714.11**	**12,697.77**	**39,411.88**
MULTILATERAL			
ADB/ADF	2,284.73	1,541.97	3,826.71
BADEA	132.44	17.13	149.57
EIB/EEC	945.06	273.72	1,218.78
IDA	11,717.34	6,876.43	18,593.77
OPEC	388.55	24.73	413.28
NDF	190.11	11.18	201.28
IFAD	267.93	90.13	358.06
IBRD	-	341.14	341.14
TOTAL MULTILATERAL	**15,926.16**	**9,176.44**	**25,102.60**
COMMERCIAL	**37,406.02**	**35,421.94**	**72,827.96**
GRAND TOTAL	**80,046.29**	**57,296.14**	**137,342.44**

* Provisional
Source: The National Treasury.

4.0 EXTERNAL TRADE AND BALANCE OF PAYMENTS

4.1 Balance of Payments

The current account balance recorded a deficit of USD 6,031 million (5.4 percent of GDP) in 2021 compared to a deficit of USD 4,619 million (4.6 percent of GDP) in 2020. Exports of goods registered strong growth of 11.1 percent in 2021 compared to 3.2 percent in 2020. In particular, receipts from horticulture and exports of manufactured goods increased by 18.9 percent and 33.4 percent, respectively, in 2021 compared to 2020. Receipts from tea exports declined by 2.7 percent in 2021 due to the impact of accelerated purchases in 2020. However, they grew by 11.7 percent in the fourth quarter of 2021 compared to a decline of 7.8 percent in a similar period in 2020 largely supported by increased demand from traditional markets. Imports of goods increased by 25.4 percent in 2021 compared to the decline of 12.4 percent in 2020, reflecting increased imports of oil and other intermediate goods. Travel and transportation receipts have increased as international travel continues to improve. The current account is expected to narrow to 5.2 percent of GDP in 2022, supported by strong performance in exports, service receipts and secondary income (Table 7).

The usable foreign exchange reserves remained adequate at USD 8,125 million (4.97 months of import cover) as at February 17 2022. This meets the CBK's statutory requirement to maintain at least 4 months of import cover, and the EAC region's convergence criteria of 4.5 months of import cover.

Table 7: Balance of payment development, 2019-2021 (USD million)

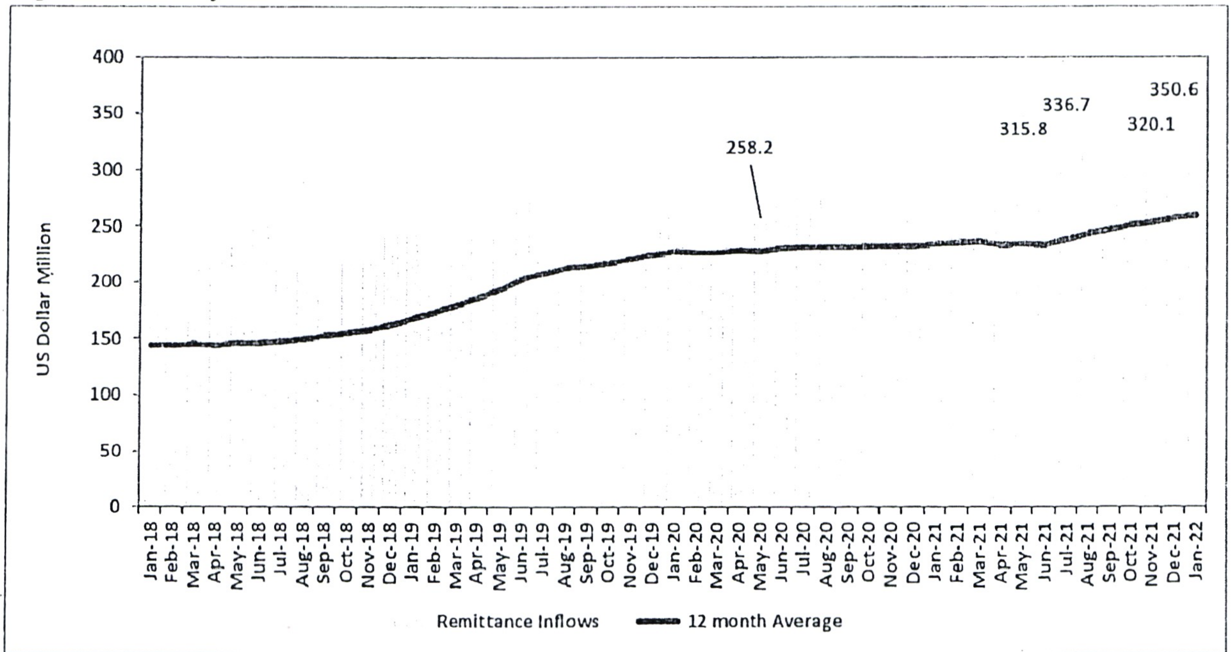
	Dec-20	December 2021 (prov)	Percentage change	2020	2021 (prov)
	US Dollar Million			Percent of GDP	
Current account	-4,619	-6,031	30.6	(4.6)	(5.4)
Trade balance	-8,430	-11,442	35.7	(8.3)	(10.4)
Goods: exports, f.o.b.	6,062	6,729	11.0	6.0	6.1
Tea	*1,226*	*1,193*	-2.7	1.2	1.1
Horticulture	*950*	*1,129*	18.9	0.9	1.0
Manufactured Goods	*380*	*507*	33.4	0.4	0.5
Other	*3,507*	*3,901*	11.2	3.5	3.5
Goods: imports, f.o.b.	14,492	18,172	25.4	14.3	16.5
Oil products	*2,185*	*3,483*	59.4	2.2	3.2
Other	*8,333*	*10,025*	20.3	12.2	13.3
Machinery & Transport equipment	*3,973*	*4,663*	17.4	3.9	4.2
Services balance	355	739	108.1	0.4	0.7
Services, Credit	3,732	4,859	30.2	3.7	4.4
Transportation	1,156	1,482	28.2	1.1	1.3
Travel	545	843	54.8	0.5	0.8
Services, Debit	3,377	4,120	22.0	3.3	3.7
Transportation	1,173	1,641	39.8	1.2	1.5
Primary income, balance	-1,494	-1,488	-0.4	(1.3)	(1.3)
Secondary income, balance	4,950	6,160	24.4	4.9	5.6
Remittances	3,102	3,783	21.9	3.1	3.4
Capital account	131	195	48.6	0.1	0.4
Financial Account	-2,950	-5,296	79.5	(2.9)	(4.8)
Foreign Direct Investment	-499	4	-100.8	(0.5)	0.0
Portfolio Investment	1,279	-135	-110.5	1.3	(0.1)
Other Investment	-3,730	-5,166	38.5	(3.7)	(4.7)
Overall balance	1,427	-788	-155.2	0.7	(0.7)

Source: Central Bank of Kenya

4.2 Remittances from the Diaspora

Remittance inflowsincreased by 21.7 per cent to USD 338.7 million in January 2022 compared to USD 278.3 million in January 2021 (Figure 5). The inflows were lower by 3.4 percent in January 2022 compared to the USD 350.6 million in December 2021, in line with seasonal factors. The cumulative inflows for the 12 months to January 2022 were USD 3,778 million from USD 3,113 million in 2021, a 21.4 percent increase. US remains the largest source of remittances into Kenya, accounting for 63.6 percent in January 2022.

Figure 5: Monthly Remittance Inflows



Source: Central Bank of Kenya

4.3 Exchange Rate

The Kenya Shilling weakened against major international currencies in February 2022 relative to February 2021. It weakened by 3.63 percent and 1.26 percent against the US Dollar and the Pound Sterling, respectively but strengthened by 2.89 percent against the Euro. Against regional currencies, the Kenya Shilling strengthened in February 2022 by 7.51 percent, 4.97 percent and 0.73 percent against Uganda Shilling, Tanzania Shilling and Burundi Franc, respectively. However, it weakened marginally by 0.64 percent against Rwanda Franc, compared to February 2021.

5.0 BANKING AND FINANCIAL SECTOR

5.1 Money Supply and Domestic Credit

Growth in broad money, M3, declined to 6.1 percent in December 2021 compared to 13.2 percent in December 2020, partly reflecting reduced net lending to government. Growth in commercial banks' net lending to government declined to 16.5 percent in December 2021 compared to 22.3 percent in December 2020. Credit to the private sector grew by 8.6 percent in the 12 months to December 2021 compared to 8.4 per cent in a similar period in 2020. The growth was supported by improved demand due to recovery in economic activities, accommodative monetary policy stance and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy. Strong lending was registered in manufacturing, trade, transport and communication, business services and consumer durables (Table 8).

Table 8: 12-Month Growth in Private Sector Credit by activity (percent)

	Shares in credit	12-month growth in Private Sector Credit (%)												
Sectors	Dec-21	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Agriculture	3.1	15.3	15.6	13.4	12.3	10.0	4.3	3.7	2.8	1.4	3.3	2.7	1.3	0.5
Manufacturing	15.2	12.0	12.6	15.8	10.7	4.0	1.5	8.1	9.4	9.3	9.8	10.9	11.5	13.1
Trade	17.2	3.8	5.5	3.9	2.1	0.9	3.8	1.9	1.3	2.7	4.7	5.5	6.1	8.5
o/w domestic trade	15.6	*5.6*	*7.7*	*6.1*	*4.2*	*3.0*	*3.2*	*1.5*	*1.5*	*3.4*	*4.4*	*5.4*	*6.9*	*8.4*
Building & construction	4.0	3.4	2.5	5.2	2.9	3.4	4.5	2.0	0.4	1.7	0.5	(0.5)	2.8	1.9
Transport & communication	7.9	13.6	14.4	19.0	17.4	13.3	16.3	11.8	0.2	11.8	10.9	9.6	8.3	14.3
Finance and insurance	3.6	7.1	14.0	9.0	7.5	7.6	6.7	11.5	8.9	7.7	11.7	8.9	7.1	5.8
Real estate	13.4	8.7	8.8	8.8	7.7	5.8	5.7	4.0	3.2	2.8	2.9	2.4	1.1	0.6
Mining & quarrying	0.6	(12.9)	(6.1)	21.6	(3.6)	(8.8)	(18.1)	(13.0)	(22.1)	(23.1)	(8.4)	6.2	8.3	42.9
Private households	15.5	3.9	4.7	4.2	2.9	4.5	3.1	3.2	2.4	2.0	2.6	2.7	3.3	3.7
Consumer durables	11.0	18.1	18.7	20.3	17.6	19.3	22.0	23.4	21.7	20.1	17.6	16.5	15.3	15.0
Business services	5.7	4.0	6.5	5.0	5.7	7.2	6.9	5.2	4.9	5.8	7.6	8.2	10.8	9.5
Other activities	2.8	14.0	5.8	3.8	5.2	24.3	39.8	65.2	58.0	56.0	59.5	64.1	55.2	38.9
Total Private Sector Credit	100.0	8.4	9.3	9.6	7.7	6.7	7.1	7.7	6.1	7.0	7.7	7.8	7.7	8.6

Source: Central Bank of Kenya

5.2 Capital Market (NSE)

Trading of equities at the Nairobi Securities Exchange (NSE) increased in January 2022 compared to January 2021. The Nairobi Securities Exchange All Share Index (NASI), NSE 25 and NSE 20 Share price indices increased by 4.3, 7.2 and 1.1 percent respectively, in January 2022 compared to January 2021. Moreover,market capitalization and equities turnover increased by 5.7 and 0.8 percent respectively, while total number of shares traded declined by 21.7 percent. The share of foreign investors trading in equities also increased to 59.7 percent in January 2022 from 29.7 percent in January 2021 (Table 9).

In the domestic secondary bond market, turnover declined by 11.0 percent to Kshs.48.5 billion in January 2022 from Kshs.54.4 billion in January 2021. In the international market, yields on Kenya's Eurobonds increased by an average of 215.7 basis points. Eurobond yields of other African countries also increased in January 2022 compared to January 2021(Table 9).

Table 9: Developments in Capital Markets

	NASI (2008=100) Points	NSE 25 Share Index	NSE 20 Share Index (1966=100) Points	Number of Shares Traded (Million)	Equities Turnover (KSh Million)	Market Capitalization (KSh Billion)	Bond Turnover (KSh Million)	Number of Bond Deals	Foreign Participation to Equity Turnover (%)	FTSE NSE Kenya Govt. Bond Index	7-Year Eurobond Yield (%) (2027)	10-Year Eurobond Yield (%) (2024)	10-Year Eurobond Yield (%) (2028)	12-Year Eurobond Yield (%) (2032)	13-Year Eurobond Yield (%) (2034)	30-Year Eurobond Yield (%) (2048)
Dec-20	152.11	3,415.24	1,759.93	369.13	10,236.93	2,336.70	58,061.98	1,459.00	61.79	98.21	4.86	3.92	5.22	5.85		7.04
Jan-21	156.56	3,434.52	1,868.39	281.70	8,176.28	2,405.34	54,414.45	2,070.00	29.71	97.21	4.85	3.68	5.34	6.10		7.19
Feb-21	165.39	3,624.96	1,915.68	330.68	10,819.73	2,541.16	77,395.00	2,124.00	61.96	97.00	4.63	3.21	5.32	6.27		7.27
Mar-21	158.62	3,531.58	1,846.41	372.93	12,064.04	2,437.04	67,569.02	1,658.00	56.37	96.40	5.60	3.56	6.28	7.12		7.98
Apr-21	169.15	3,674.77	1,866.58	293.00	9,877.58	2,599.05	67,590.61	2,046.00	64.75	96.69	5.01	3.24	5.75	6.68		7.66
May-21	169.97	3,669.57	1,871.55	385.94	14,161.67	2,646.71	107,044.58	4,286.00	56.71	96.80	4.63	3.08	5.31	6.24		7.33
Jun-21	173.53	3,772.19	1,927.53	420.71	13,952.58	2,702.22	96,603.95	1,668.00	54.74	96.81	4.77	3.32	5.37	6.28	6.28	7.36
Jul-21	177.52	3,890.09	1,974.29	284.95	9,275.32	2,766.28	92,753.15	1,720.00	56.16	96.88	4.81	3.27	5.36	6.22	6.18	7.34
Aug-21	182.33	4,018.77	2,020.77	344.56	11,854.12	2,841.40	87,139.60	2,010.00	48.53	96.57	4.63	3.09	4.99	6.04	5.94	7.14
Sep-21	178.31	3,914.52	2,031.17	316.97	10,231.97	2,778.65	118,188.78	2,589.00	49.91	96.74	5.03	3.20	5.40	6.51	6.45	7.54
Oct-21	177.96	3,851.67	1,961.33	264.32	10,274.23	2,777.07	66,243.60	1,924.00	64.83	96.83	5.50	3.72	5.75	6.74	6.61	7.86
Nov-21	163.90	3,633.46	1,871.31	457.24	15,584.03	2,552.93	65,793.65	2,003.00	51.16	96.61	6.01	4.42	6.20	7.13	6.96	8.37
Dec-21	166.46	3,743.90	1,902.57	285.62	10,463.77	2,592.92	53,224.30	3,022.00	57.20	96.05	5.57	4.45	5.76	6.71	6.58	8.13
Jan-22	163.29	3,680.19	1,889.33	220.50	8,247.72	2,543.44	48,426.29	2,972.00	59.73	96.54	6.28	4.21	6.57	7.25	7.12	8.66

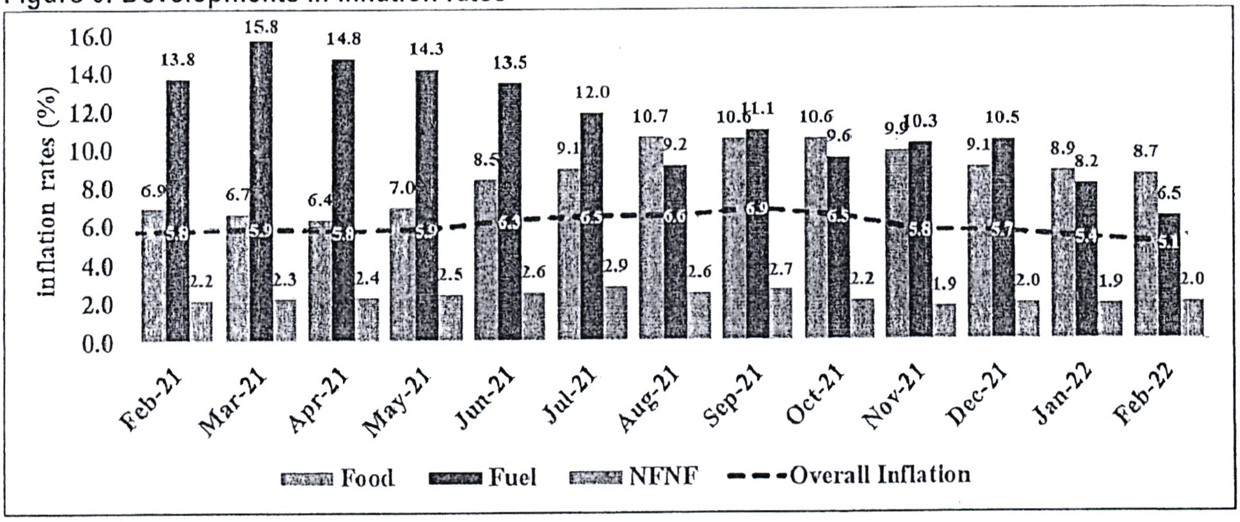
Source: NSE and Reuters

6.0 PERFORMANCE OF OTHER MACRO –ECONOMIC INDICATORS

6.1 Inflation

Overall inflation declined towards the midpoint of the target range (5±2.5). It declined to 5.1 per cent in February 2022 from 5.4 per cent in January, due to easing of electricity and pump prices following government interventions. Fuel inflation declined to 6.5 per cent from 8.2 per cent in January. Food inflation remained elevated due to seasonal factors, declining to 8.7 per cent from 8.9 per cent in January. Meanwhile, core inflation remained low at 2.0 per cent in February and 1.9 per cent in January, reflective of minimal demand pressures in the economy. In the medium term, inflation is projected to remain stable within the target range, on account of muted demand pressures, and continued government interventions to stabilize pump and electricity prices (Figure 6).

Figure 6: Developments in inflation rates



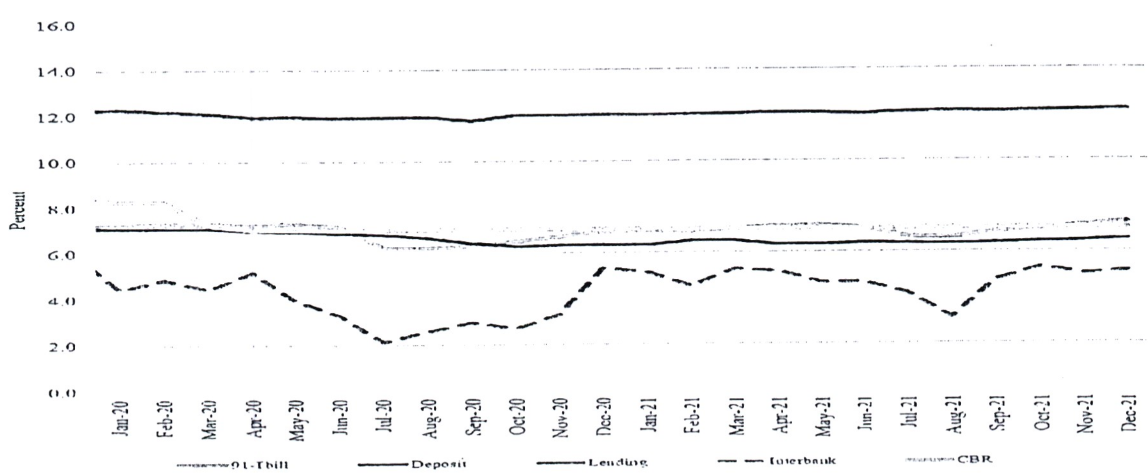
Source: KNBS and Central Bank of Kenya

6.2 Interest rates

The Central Bank Rate was retained at 7.00 percentin January 2022, as the current accommodative monetary policy stance remains appropriate. Short term interest rates remained relatively stable in 2021 supported by accommodative monetary policy stance and ample liquidity conditions in the market. The weighted average interbank rate declined to 5.10 percent in December 2021 from 5.29 percent in December 2020. The average 91-day Treasury bill rate increased slightly to 7.26 percent in December 2021 compared to 6.90 percent in December 2020.

Commercial banks' lending and deposit rates remained relatively stable in 2021 supported by accommodative monetary policy stance. The weighted average lending rate increased marginally to 12.16 percent in December 2021 from 12.02 percent in December 2020, while the weighted average deposit rate increased marginally to 6.50 percent from 6.30 percent over the same period. (Figure 7).

Figure 7: Interest Rates



Source: Central Bank of Kenya

7.0 OUTLOOK FOR 2021

7.1 Global Economy

Global growth rose by 5.9per cent in 2021compared to a contraction of 3.1 per cent registered in 2020as a result of fiscal support in some few large economies, vaccine-powered recovery, and continued adaptation of economic activity to subdued mobility. As shown in Table 10, with exception of Japan and Germany which registered a growth rate of 1.6 and 2.7 per cent respectively, all advanced economies registered an improved growth rate of above 5.5 per cent with China and UK recording improved growth rate of 8.1 and 7.2 per cent respectively in 2021. However, the global growth is expected to moderate to 4.4 per cent in 2022. The moderation is due to removing the "Build Back Better" fiscal policy package, earlier withdrawal of monetary accommodation, and continued supply shortages in the United States. In addition,China's growth is expected to decline from 8.1 per cent in 2021 to 4.8 in 2022 due to the pandemic-induced disruptionsrelated to the zero-tolerance COVID-19 policy and protracted financial stress among property developers.

Global growth is projected to decline further to 3.8 percent in 2023, as demand dwindles and supportive macroeconomic policies continue to be relaxed. The Euro Area is projected to grow by 3.9 per cent in 2022, supported by projected growth of 3.5 per cent and 4.7 per cent in France and the UK, respectively.

Table 10: Global Economic Outlook and Growth in the Leading Economies

	2020	2021	2022*	2023*
World Economy	-3.1	5.9	4.4	3.8
United States	-3.4	5.6	4.0	2.6
Japan	-4.5	1.6	3.3	1.8
China	2.3	8.1	4.8	5.2
Euro Area	-6.4	5.2	3.9	2.5
Germany	-4.6	2.7	3.8	2.5
France	-8.0	6.7	3.5	1.8
United Kingdom	-9.4	7.2	4.7	2.3

Source: IMF World economic Outlook (January 2022)
* Projections

7.2 Regional Economies and Sub-Sahara Africa

Table 11 indicates that Economic growth in Sub-Saharan Africa rebounded to grow by 4.0 per cent in 2021 from a contraction of 1.7 per cent in 2020. The rebound was as a result of recovery of economic activities from adverse effect of Covid-19 pandemic. Growth in 2022 is expected to moderate to 3.7 percent. This is partly attributed to region's slower vaccines rollout, more limited fiscal space, and regional disparities in resilience.

Table 11: Economic Outlook for SSA and Regional Economies

	2019	2020	2021*	2022*
SSA**	3.1	-1.7	4.0	3.7
South Africa	0.1	-6.4	5.0	2.2
Nigeria	2.2	-1.8	2.6	2.7
Burundi	1.8	-1.0	1.6	4.2
Kenya	5.0	-0.3	5.6	6.0
Rwanda	9.5	-3.4	5.1	7.0
Tanzania	7.0	4.8	4.0	5.1
Uganda	7.7	-0.8	4.7	5.1

* Projections
Source: IMF Regional Economic Outlook Sub-Saharan Africa (October, 2021)
**Source: IMF World economic Outlook (January 2022)

7.3 Medium Term Prospects for Kenya

The robust economic momentum gained over the years in Kenya was reversed in 2020 following the outbreak of novel COVID-19 pandemic. There remains significant uncertainty to the economic outlook globally with the unfolding dynamics of the pandemic. With massive vaccination campaigns and lifting of the containment measures, the economy has been on gradual recovery and projects to leverage on the continuous support by the government to revive the economy.

Table 12indicates that the economy is expected to quickly recover to a growth of 7.5 per cent in 2021. The robust growth is attributed to the improvement of economic activities and partly due to the base effect as the Country registered a contraction of 0.3 per cent in 2020. The forecast also shows that in the medium term, economic growth is expected to average 6.6 per cent. The growth is mainly attributable to rebound and sustained growth of private consumption, which on average constitute approximately 75 percent of real GDP. Leveraging policy support and continued supportive financial conditions, the growth in the medium term is expected to remain robust. Notably, the slowed forecasted growth as compared to the average of the three quarters growth of 2021 could be premised on the contraction of the agriculture sector and the resurgence of the pandemic that slightly slowed down activities during the last quarter.

Table 12: Economic outlook for selected macroeconomic indicators

	2019	2020	2021	2022	2023	2024
			Rates (%)			
GDP Growth	5.0	-0.3	7.5	6.5	6.6	6.8
Inflation	5.3	5.2	6.1	5.6	5.1	5.0
Interest Rate (91 Day T-Bill)	6.9	6.9	6.9	7.0	7.0	6.9
			% Change in Volume			
Private Consumption	5.2	-3.1	7.2	7.2	5.1	5.7
Government Consumption	7	4.3	6.6	5.1	4.3	4.3
Private Investments	8.5	6.5	3.9	4.9	5.5	5.9
Government Investments	-18.3	-21	6.8	5.2	8.1	9.2
Export Goods and Service	-3.2	-8.2	15.4	6.2	13.4	13.6
Import Goods and Service	1.8	-8.5	2.3	5.5	5.8	6.1
			% of GDP			
Current Account Balance	-5.3	-4.6	-5.4	-5.2	-5.3	-5.1
Expenditures	15.7	15.3	15.1	15.5	16.8	17.8
			Index			
Exchange Rate (Kshs. /Dollar)	102.1	106.5	109.7	107.9	107.9	107.2

Source: KIPPRA (2022), KIPPRA Treasury Macroeconomic Model (KTMM)

Inflation is envisaged to remain within the Government's policy range of 5±2.5 per cent in the medium term. In 2021, inflation rate averaged 6.1 per cent and is projected to ease to 5.6 per cent in 2022 and 5.1 per cent in 2023. The Kenya shilling against the US Dollar is projected to appreciate marginally in the medium term to transact at Kshs.107.9 per dollar in 2022 from an average of Kshs.109.7 in 2021. The recovery of the Country's economic activities and improved global economic outlook that caused demand for Kenya's exports have resulted to improved net exports. The current account balance is envisaged to remain fairly stable in the medium term supported by improvements in the financial inflows. In 2021, the current account balance is envisaged to have widened slightly at 5.4 percent of GDP as compared to 2020 due to high import bill.

8.0 RISKS TO THE ECONOMIC OUTLOOK

i. The continued rise in oil prices may lead to inflationary pressureand heavy burden to Government in offering fuel subsidies;

ii. Instability between Russia and Ukraine may negatively affect global trade due to supply chain disruptions. Imports from and exports to the two countries may decline which may lead to rise in commodity prices of imports as well as decline in export earnings.Should the war be prolonged, the Agricultural and Transport sectors are likely to bear the burden due to reduced importation of fertilizers and oil. The two countries are also the leading exporters of wheat, furthermore, Kenya imports most of its wheat from these countries. Imports from these countries may be reduced, leading to increased cost of food in Kenya.

iii. The ongoing drought condition was declared a national disaster by the President in September 2021. Drought will have negative implications on performance of agriculture and manufacturing. Already, the agricultural sector recorded contractions in the first three quarters of 2021.

iv. High cost of farm inputs will lead to high cost of agricultural production which in turn lead to decline in production;

v. Political uncertainty emanating from the upcoming general election may create a "wait and see" attitude among the investors.

vi. Uncertainty over emergence of new COVID-19 variants may lead to reintroduction of containment measures and economic disruptions.

9.0 RECOMMENDED ACTIONS

i. Continued investment in the health sector and increased vaccinations are important in containing the COVID-19 pandemic.

ii. Invest more in irrigation as well as increase the productivity of existing irrigation schemes to reduce over-reliance on rain-fed agriculture.

iii. Promote a peaceful political environment during electioneering period for robust economic activities.

iv. Fast-track payment of pending bills both at national and county governments

v. Enhance revenue collection and administration through:

   a. Recruitment of additional active taxpayers into the tax bracket;
   b. Review the High Net-Worth Individual (HNWI) framework to redefine sub-segments of HNWIs to include wealth value;
   c. Turnaround of perpetual non-filers into filers;
   d. Continued implementation of post clearance risk based audits;
   e. Use of block management system to recruit additional landlords;
   f. Partnerships and collaborations for revenue mobilization; and
   g. Roll-out of simplified online self-services.