REPUBLIC KENYA

THE NATIONAL TREASURY AND PLANNING

STATE DEPARTMENT FOR PLANNING

STATUS OF THE ECONOMY

April, 2021

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PREAMBLE

The Status of Kenya Economy Report is a publication by Macroeconomic Planning and International Cooperation Department of 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), and Kenya Institute for Public Policy Research and Analysis (KIPPRA). 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 Sector
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. International Monetary Fund (IMF) – Global Economic Trends and Forecasts - World Economic Outlook (WEO) and Regional Economic Outlook (REO) which reports on recent data on Global and Regional economic performance and outlook.

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.

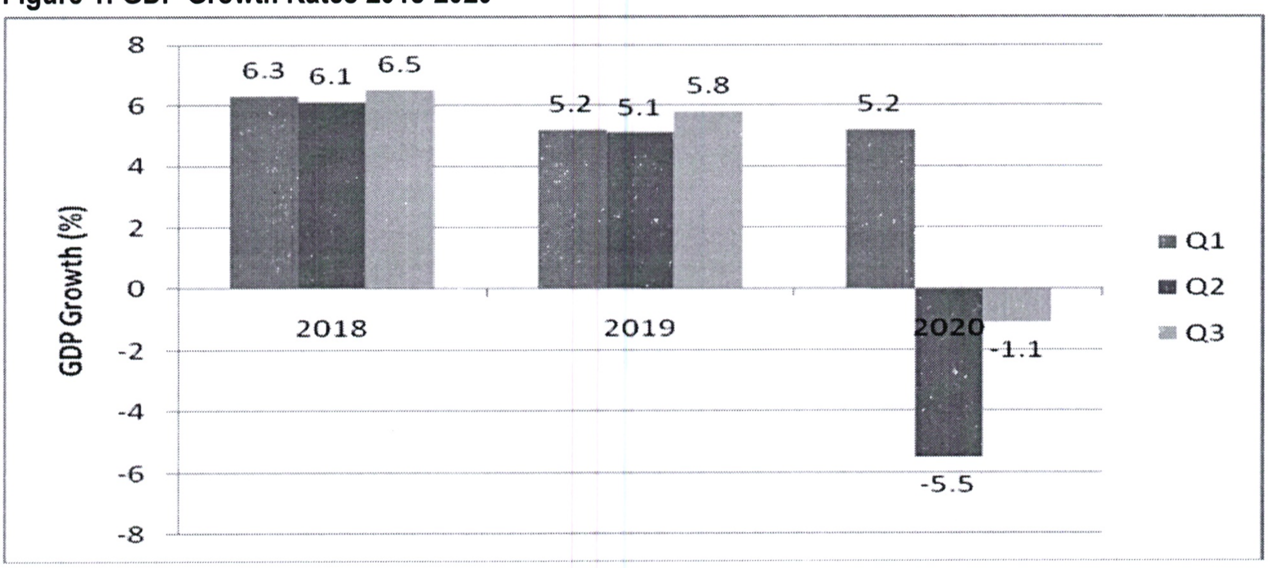
1.0 ECONOMIC PERFORMANCE

The COVID-19 pandemic and measures put in place to mitigate its spread has continued to adversely impact on the global economy. The containment efforts involving quarantines, lockdowns and widespread restrictions on labour mobility and travel, helped to contain the virus and save lives, but have resulted in declines in consumption, sharp cut-backs in most service sector activities, increased risk aversion and elevated capital outflows especially from Emerging Markets and Developing Economies. These negative effects led to sharp and sudden declines in output, spending and employment in the second half of the financial year (FY) 2019/20.

Kenya's economy has been negatively affected by the Covid-19 pandemic since the first case was reported in March, 2020. The containment measures put in place by the Government, including closure of airspace and borders, social distancing, cessation of movement and curfews have adversely impacted economic activities in almost all sectors of the economy. The containment measures resulted in reduced demand and investment, high levels of unemployment and low or negative economic growth.

The effects of Covid-19 led to 5.5 per cent contraction in real GDP in the second quarter and 1.1 per cent contraction in third quarter of 2020 compared to an expansion of 5.3 per cent in the Second Quarter and 5.8 per cent in Third Quarter of 2019 as shown in Figure 1. The sectors that contributed to improved growth in Third Quarter and registered an improvement from Second Quarter included Construction (16.2%), Mining and Quarry (18.2%), ICT (7.3%), Real Estate (5.3%) and Financial and insurance Services (5.3%). However, the performance was curtailed by contraction though an improvement from Second Quarter in Accommodation and Restaurant (-57), Manufacturing (3.2%), and Wholesale and Retail (-2.5%).

Figure 1: GDP Growth Rates 2018-2020



Source: KNBS Quarterly GDP Reports

2.0 SECTOR AND LEADING ECONOMIC INDICATORS PERFORMANCE

2.1 Agriculture

Agriculture sector grew by 6.3 per cent in the third quarter of 2020 compared to 5.0 per cent during a similar period of 2019. The improved performance was attributed to a notable increase in tea production, cane deliveries and fruit exports. Tables 1 (a) and 1 (b) shows the production and values of key agricultural products in the period January to December 2020 compared to a similar period in 2019.

Table 1a: Quantity of Main Agricultural Production: (000 MT)

Crop	2019 Jan-December	2020 Jan-December	Growth rate (%)
Tea production (Jan – Oct)	314.7	468.4	48.8
Coffee sales	33.6	24.4	-37.7
Cut flowers	172.4	146.1	-15.3
Fruits	81.9	105.1	28.3
Vegetables	72.8	62.6	-14
Sugarcane Deliveries	4,587	6,898	50.4
Milk Intake (Million Litres)	686	682	-1.0

Source: KNBS Leading Economic Indicators

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

Crop	2019 Jan-December	2020 Jan-December	Growth rate (%)
Tea	113.5	130.2	14.7
Coffee	20.3	22.2	9.4
Horticulture	145.2	141.8	-2.3

Source: KNBS Leading Economic Indicators

As noted from Table 1a above, between January and October 2020, tea production increased by 48.8 per cent to 468.4 thousand MT compared to 314.7 thousand MT over a similar period in 2019 due to favourable rainfall patterns experienced throughout 2020. Fruit production grew by 28.3 per cent from 81.9 thousand MT in 2019 to 105.1 thousand MT in 2020. Similarly, sugar cane deliveries grew by 50.4 percent from 4,587 thousand MT in 2019 to 6,898 thousand MT in 2020.

Coffee sales declined by 37.7 per in 2020 from 33.6 thousand MT in 2019 to 24.4 thousand MT. Cut flowers production declined by 15.3 per cent from 172.4 thousand MT in 2019 to 146.1 thousand MT in 2020 while vegetable production declined by 14 per cent from 72.8 thousand MT in 2019 to 62.6 thousand MT in 2020. In the dairy subsector, volume of milk delivered to processors declined marginally by 1.0 per cent from 686 million litres in 2019 to 682 million litres in 2020.

In terms of export of major agricultural produce (Table 1b.), the value of tea exported grew by 14.7 per cent from Kshs.113.5 billion in 2019 to Kshs.130.2 billion in 2020. The value of tea exported was largely supported by increased production over the period as the average price per kilogram declined from USD.2.21 in 2019 to USD.2.02 in 2020.

The value of coffee exports grew by 9.4 per cent from Kshs.20.3 billion in 2019 to Kshs.22.2 billion in 2020 supported by improved average price per kilogram from USD 2.84 in 2019 to USD 4.24 in 2020. Export of horticultural produce declined by 2.3 per cent from Kshs.145.2 billion in 2019 to Kshs.141.8 billion in 2020 due to closure of airports in the destination market as a measure to curb on spread of Covid-19 pandemic.

2.2 Manufacturing

The manufacturing sector contracted by 3.2 per cent in third quarter compared to a growth of 3.9 per cent during a similar period in 2019. During the first 9 months of 2020 sugar production increased by 62.6 per cent from 283,054 MT in 2019 to 460,160 MT. Motor vehicle assembly increased by 14.5 per cent to 6,478 units between January and September 2020 compared to 5,657 units during similar period in 2019. On the other hand, production of soft drinks decreased by 14.1 per cent between January and September of 2020 to 410,204 thousand litres from 477,237 thousand litres in similar period in 2019. Similarly, galvanized sheets production decreased by 6.2 per cent from 230,007MT between January and October 2019 to 215,736MT over the same period in 2020.

2.3 Electricity Generation

Total electricity generation in 2020 increased marginally to 11,475 million Kwh from 11,409 million Kwh in 2019. The share of hydro power generation increased to 37 per cent in 2020 compared to 28 per cent in 2019. The share of geo-thermal, thermal and wind power generation declined to 44.1 per cent, 6.6 per cent and 11.6 per cent, respectively in 2020 compared to 45.9 per cent, 11.5 per cent and 13.7 per cent in 2019. Power generation from solar declined marginally from 9.22 million kilowatts in 2019 to 8.03 million kilowatts in 2020 and constituted 0.8 per cent of total electricity generation.

2.4 Tourism

Tourism was among the hard-hit sectors by the Covid-19 containment measures globally. In Kenya, since the closure of airports as part of Government's measures to contain spread of Covid-19 pandemic in March 2020, total visitor arrival through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) declined by 71.6 per cent from 1,544,850 visitors in 2019 to 439,447 visitors in 2020. The decline in visitor arrival was as a result of cessation of movement by source destination as well as in the country, implementation of curfew hours and introduction of protocols on operation of hotels and restaurant.

2.5 Cement Production and Consumption

Cement production increased by 20.6 per cent to 6.6 million metric tonnes between January and November 2020 from 5.5 million metric tonnes in 2019. Similarly, cement consumption increased by 19.7 per cent to 6.5 million metric tonnes between January and November 2020 compared to 5.4 million metric tonnes during similar period in 2019.

3.0 FISCAL DEVELOPMENTS

Budget execution in the first half for the FY 2020/21 was hampered by revenue shortfalls and rising expenditure pressures. The shortfalls in revenues reflect the weak business environment and the impact of the tax reliefs implemented in April 2020 to support people and businesses from the adverse effect of Covid-19 Pandemic. Revenues are expected to progressively improve in the second half of the fiscal year following the gradual reopening of the economy and the increased demand for imports as well as improved domestic sales. Revenue performance is also expected to get a boost from reversal of tax reliefs, introduced in April 2020, effective January 2021.

3.1 Revenue

Cumulatively (July 2020 - February 2021), total revenue collection amounted to Kshs.1,079.6 billion (10.7 percent of GDP) against a target of Kshs.1,192.8 billion (9.7 percent of GDP) (Table 2). The shortfall of Kshs.113.2 billion was on account of below target performance in both ordinary revenue and ministerial appropriation in aid of Kshs.89.3 billion and Kshs.24.0 billion respectively. Total Revenue collection declined by 8.2 percent in February 2021 compared to a growth of 13.8 percent recorded in February 2020.

Table 2: Government Revenue and External Grants, Period Ending 31st February, 2021 (Kshs. Millions)

	Feb-20	Feb-21			%
	Actual	Prog.	Prel.	Deviation	Growth
A. Total Revenue (1+2)	**1,175,836**	**1,192,805**	**1,079,562**	**(113,243)**	**-8.2**
1. Ordinary Revenue	**1,085,068**	**1,060,659**	**971,394**	**(89,275)**	**-10.5**
Import Duty	69,754	73,998	69,449	(4,549)	-0.4
Excise Duty	140,036	160,223	144,352	(15,871)	3.1
Income Tax	456,390	433,759	398,371	(35,388)	-12.7
PAYE	269,218	247,585	214,385	(33,200)	-20.4
Other Income Tax	187,172	186,174	183,986	(2,188)	-1.7
VAT	275,439	318,617	253,257	(65,360)	-8.1
VAT Local	154,767	170,939	122,479	(48,460)	-20.9
VAT Imports	120,671	147,678	130,778	(16,900)	8.4
Other Revenue	143,449	74,072	105,964	31,893	-26.1
2. Appropriation In Aid	**90,768**	**132,136**	**108,168**	**(23,968)**	**19.2**
O/w Railway Development Levy	16,070	18,542	18,219	(323)	13.4
B. External Grants	**14,050**	**39,600**	**13,965**	**(25,636)**	**0.0**
Total Revenue and External Grants (A+B)	**1,189,886**	**1,232,405**	**1,093,527**	**(138,879)**	**-8.1**
Total Revenue and External Grants(% of GDP)	**11.5**	**11.0**	**9.8**		

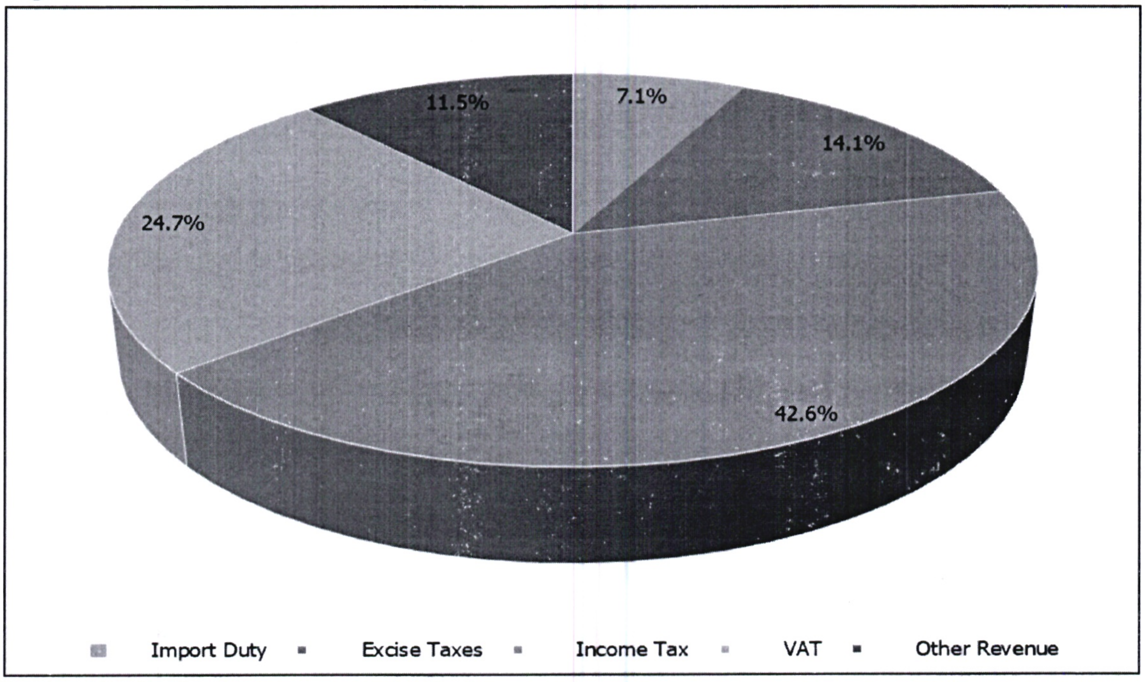
1/ other revenue includes rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue.

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 end February 2021, ordinary revenue collection amounted to Kshs.971.4 billion (8.7 percent of GDP) against a target of Kshs.1,060.7 billion, recording a shortfall of Kshs.89.3 billion from target. This short fall was on account of deficits recorded in income taxes (Kshs.35.4 billion), value added tax (Kshs.65.4 billion), excise tax (Kshs.15.9 billion) and import duty by (Kshs.4.5 billion). Other revenue category performed above target by Kshs.31.9 billion. Income tax remains the largest share of ordinary revenue, at 42.6 percent followed by VAT at 24.7 percent and excise taxes at 14.1 percent (Figure 2).

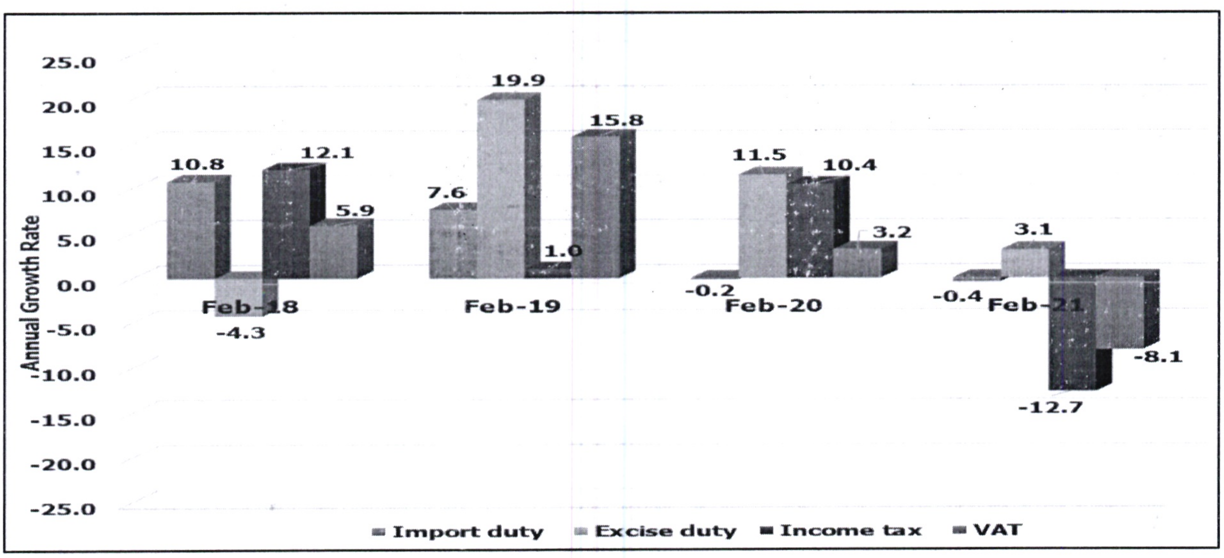
Figure 2: Composition of Ordinary Revenue as at end February, 2021 (Percentage)



Source: The National Treasury

Ordinary revenue by end February 2021 contracted by 10.5 percent compared to a growth of 14.7 percent recorded in February 2020. All major tax categories except excise taxes recorded a negative growth for the period ending February 2021; income tax contracted by 12.7 percent, VAT contracted by 8.1 percent and import duty contracted by 0.4 percent. Excise taxes grew by 3.1 percent in the period under review (Figure 3).

Figure 3: Growth rates of the ordinary revenue categories by end February, 2018-2021



Source: The National Treasury

3.2 Expenditure

Total expenditure and net lending by end February, 2021 amounted to Kshs.1,527.1 billion against a target of Kshs.1,759.2 billion (Table 3). The below target performance of Kshs.232.1 billion was largely attributed to below target absorption of recurrent expenditures by Kshs.91.5 billion and development expenditure by Kshs.106.8 billion. Disbursement to county governments amounted to Kshs.186.9 billion of which Kshs.163.0 billion was equitable share.

Table 3: Expenditures Performance by end February, 2021 (Kshs. Billions)

	Feb-20	Feb-21				Printed Estimates
	Actual	Target	Actual	Deviation	% Growth	Jun-21
TOTAL EXPENDITURE AND NET LENDING	**1,614.4**	**1,759.2**	**1,527.1**	**(232.1)**	**-5.4%**	**2,790.6**
1. Recurrent Expenditure	**1,064.9**	**1,156.3**	**1,064.7**	**(91.5)**	**0.0%**	**1,826.7**
Domestic Interest	196.0	206.9	255.9	48.9	30.6%	308.4
Foreign Interest due	86.8	112.0	70.3	(41.8)	-19.0%	154.7
Pensions & Other CFS	59.8	82.5	55.4	(27.0)	-7.3%	123.4
Operations & Maintenance	360.1	343.4	301.7	(41.7)	-16.2%	556.4
Wages & Salaries	306.7	330.9	330.9	0.0	7.9%	496.3
Ministerial Recurrent AIA	55.6	80.6	50.6	(30.0)	-9.0%	177.2
2. Development	**360.6**	**382.4**	**275.5**	**(106.8)**	**-23.6%**	**589.7**
Domestically Financed (Gross)	218.6	199.7	166.2	(33.5)	-24.0%	329.9
Foreign Financed	141.6	179.9	109.3	(70.6)	0.0%	253.0
Net Lending	0.3	-	-	0.0	0.0%	-
Equalization Fund	-	2.8	-	(2.8)	0.0%	6.8
3. County Transfer	**188.9**	**218.1**	**186.9**	**(31.2)**	**-1.1%**	**369.2**
o/w Equitable Share	171.3	181.7	163.0	(18.7)	-4.8%	316.5
4. Contingency Fund	-	2.5	-	(2.5)	0.0%	-

Source: National Treasury

Recurrent expenditure for the period was Kshs.1,064.7 billion against a target of Kshs.1,156.3 billion. The shortfall of Kshs.91.5 billion was mainly due to below target expenditure on foreign interest by Kshs.41.8 billion, and pension & other CFS by Kshs.27.0 billion, operation & maintenance by Kshs.41.7 billion and Ministerial AiA by Kshs.30.0 billion. However, domestic interest payments for the period was above target by Kshs.48.9 billion.

Development Expenditure by end February 2021 amounted to Kshs.275.5 billion against a target of Kshs.382.4 billion. The shortfall in disbursement of Kshs.106.8 billion was on account of below target absorption for foreign and domestically financed programmes by Kshs.70.6 billion and Kshs.33.5 billion respectively.

3.3 Fiscal Balance and Financing

As at end of February 2021, overall fiscal balance including grants amounted to a deficit of Kshs.433.6 billion (3.9 percent of GDP) against a targeted deficit of Kshs.526.8 billion (4.7 percent of GDP). The overall deficit in a corresponding period in 2020 was Kshs.454.9 billion (4.4 percent of GDP)

Net external financing at the end of February 2021 amounted to Kshs.15.2 billion against a targeted financing of Kshs.128.2 billion. In a similar period in 2020 the net external financing was Kshs.86.98 billion. Total disbursements (inflows) including Appropriations-in-Aid amounted to Kshs.114.0 billion for the period ending February 2021 against a target of Kshs.254.5 billion. This amount included Kshs.6.4 billion commercial financing, Kshs.51.2 billion Project Loans A-i-A, Kshs.41.3 billion Projects Loans Revenue, Kshs.3.6 billion programme loans and Kshs.11.5 billion programme loans SGR. External repayments (outflows) of principal debt amounted to Kshs.98.8 billion.

Net domestic financing amounted to Kshs.429.8 billion against a target of Kshs.398.6 billion. Comparatively, for the same period in 2020, the net domestic financing amounted to Kshs.320.7 billion.

3.4 Fiscal outlook for FY 2020/21

The revenue projections for FY 2020/21 have been revised taking into account the revenue shortfalls recorded in the FY 2019/20, the prolonged effects of the containment measures against Covid-19 pandemic on economic activities and the tax relief measures implemented to cushion Kenyans against the adverse impact of the pandemic. Expenditure projections for FY 2020/21 have also been revised to accommodate the weak revenue performance through trade-offs and reallocations of the existing budgetary provisions and additional expenditure on productive areas of spending across the Government.

Revenues for the FY 2020/21 are therefore, projected at Kshs.1,848.0 billion (16.5 percent of GDP) with ordinary revenues at Kshs.1,594.0 billion (14.3 percent of GDP). On the other hand, expenditures are projected at Kshs.2,891.5 billion (25.9 percent of GDP) with recurrent expenditures projected at Kshs.1,835.1 billion (16.4 percent of GDP) while development expenditures are projected at Kshs.652.5 billion (5.8 percent of GDP). Transfer to County Governments is projected at Kshs.398.0 billion (3.6 percent of GDP).

The resulting fiscal deficit incl. grants is projected at Kshs.970.4 billion (8.7 percent of GDP) up from Kshs.790.8 billion (7.8 percent of GDP) in the FY 2019/20. This deficit will be financed by a net external financing of Kshs.425.9 billion and a net domestic borrowing of Kshs.544.5 billion.

3.5 Fiscal Consolidation Programme

Fiscal Consolidation, through revenue mobilization and expenditure rationalization, remains a priority in order to stabilize growth in public debt. The Government had set a fiscal consolidation path aimed at gradually reducing the fiscal deficit from 7.8 percent of GDP in FY 2019/20 to 3.0 percent over the medium term. However, the impact of COVID-19 has negatively impacted on revenue performance as well as absorption of expenditure. In light of these developments, revenue projections for the FY 2020/21 will be lower than initially budgeted. Given the additional expenditure pressures, the fiscal deficit (including grants) is projected at 8.7 percent of GDP in the FY 2020/21 which is higher than the 7.5 percent of GDP in the budget and 7.8 percent of the GDP in FY 2019/20. The fiscal outcome for the FY 2021/22 is projected to improve supported by enhanced revenue mobilization and rationalization of expenditures to eliminate non-core expenditures from the budget.

3.6 Public Debt

The gross public debt as at 31st December, 2020 increased by KShs.1,233.2 billion to KShs.7,282.1 billion compared to KShs.6,048.9 billion as at end of December 2019. The gross public debt comprised of 52.1 percent external debt and 47.9 percent domestic debt. 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.6,826.8 billion by end of the period under review (Table 4).

Table 4: Overall debt position from December 2018 to December 2020

DEBT SOURCE	Dec-18	Mar-19	Jun-19	Sep-19*	Dec-19*	Mar-20*	Jun-20*	Sept-20*	Dec-2020*
EXTERNAL									
BILATERAL	894,046	916,572	996,059	1,024,092	1,037,538	1,060,609	1,074,257	1,102,890	1,156,991
MULTILATERAL	874,680	846,587	914,394	1,001,817	1,023,821	1,075,901	1,321,629	1,421,840	1,498,837
COMMERCIAL BANKS	938,151	941,763	1,095,753	1,068,664	1,028,691	1,058,796	1,102,294	1,120,803	1,119,388
SUPPLIERS CREDIT	16,857	16,676	16,932	17,194	16,773	17,328	17,630	17,958	18,069
SUB – TOTAL EXTERNAL	**2,723,734**	**2,721,598**	**3,023,138**	**3,111,767**	**3,106,823**	**3,212,634**	**3,515,810**	**3,663,491**	**3,793,285**
DOMESTIC:									
CENTRAL BANK	118,196	89,709	109,607	120,494	115,972	106,433	98,878	107,356	98,741
COMMERCIAL BANKS	1,289,558	1,397,771	1,414,275	1,417,997	1,491,438	1,570,594	1,653,194	1,808,043	1,769,450
TOTAL BANKS	**1,407,755**	**1,487,480**	**1,523,882**	**1,538,492**	**1,607,410**	**1,677,028**	**1,752,072**	**1,915,400**	**1,868,191**
NON BANKS & NON RESIDENTS	1,141,015	1,211,052	1,261,601	1,313,148	1,334,694	1,393,162	1,425,454	1,541,707	1,620,615
SUB-TOTAL DOMESTIC	**2,548,770**	**2,698,532**	**2,785,483**	**2,851,639**	**2,942,104**	**3,070,189**	**3,177,526**	**3,457,107**	**3,488,807**
GRAND TOTAL GROSS	**5,272,504**	**5,420,130**	**5,808,621**	**5,963,406**	**6,048,927**	**6,282,823**	**6,693,336**	**7,120,598**	**7,282,092**
LESS ON-LENDING	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
LESS GOVERNMENT DEPOSITS	(432,049)	(398,223)	(501,728)	(516,182)	(524,752)	(457,623)	(497,609)	(614,353)	(449,585)
GRAND TOTAL NET	**4,834,754**	**5,016,206**	**5,301,192**	**5,441,523**	**5,518,474**	**5,819,499**	**6,190,026**	**6,500,544**	**6,826,806**

* Provisional
Source: The National Treasury and Central Bank of Kenya

In dollar terms, external public debt stock increased by US$. 4,087.54 million from US$. 30,658.48 million by end of December 2019 to US$. 34,746.02 million by the end of December, 2020 (Table 5). External debt comprised debt owed to multilateral (39.51%), bilateral (30.50%), commercial banks (29.51), and Suppliers Credit (0.48%). The increase in debt is attributed to a rise in external disbursements made during the period coupled with fluctuations in exchange rate.

Table 5: Kenya's Public and Publicly Guaranteed External Debt, December 2020

CREDITOR	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19*	Dec-19*	Mar-20*	Jun-20*	Sept-20*	Dec-20*
BILATERAL										
AUSTRIA	6.64	0.83	9.34	17.63	17.65	18.62	12.84	13.14	13.52	14.18
BELGIUM	103.58	78.56	75.20	113.31	108.49	109.80	113.08	112.42	113.07	123.31
CANADA	2.83	1.52	1.52	1.08	1.08	0.58	0.58	0.00	0.00	0.00
DENMARK	10	9.37	8.39	8.55	7.45	6.41	5.87	5.67	5.41	5.03
FINLAND	16.69	19.02	16.00	17.56	15.58	15.95	13.09	13.40	12.51	13.11
FRANCE	599.02	612.22	668.45	709.38	679.88	728.89	698.14	748.38	762.54	835.65
GERMANY	274.11	341.96	360.65	364.39	338.66	332.14	371.11	333.07	345.47	342.54
ITALY	1.25	152.35	345.75	354.78	344.1	351.90	342.57	349.64	365.49	383.17
JAPAN	483.85	1,023.98	1,272.62	1,321.91	1,372.56	1,353.47	1,385.84	1,423.97	1,489.84	1,525.90
NETHERLANDS	9.07	4.33	3.31	3.35	2.19	1.79	1.00	0.51	0.53	-
UK	4.56	2.43	0.84	0.58	0.56	0.32	0.30	-	-	-
USA	26.45	25.06	20.75	20.42	18.12	17.45	15.16	14.83	12.32	11.98
CHINA	5,496.62	6,201.61	6,006.17	6,462.07	6,410.61	6,840.23	6,746.26	6,753.13	6,731.17	7,016.85
OTHERS	457.02	305.16	308.51	341.8	326.53	325.62	570.92	316.66	313.28	326.17
TOTAL BILATERAL	**7,491.69**	**8,778.40**	**9,097.49**	**9,736.81**	**9,643.46**	**10,103.18**	**10,276.76**	**10,084.80**	**10,165.16**	**10,597.89**
MULTILATERAL										
ADB/ADF	2,043.51	2,151.35	2,233.19	2,244.79	2,301.03	2,398.60	2,404.62	2,475.99	2,726.74	2,910.65
BADEA	34.63	32.17	34.53	36.08	36.21	36.28	36.06	36.66	36.34	38.36
EEC/EIB	194.86	184.16	173.89	168.53	160.53	162.18	152.65	157.67	186.99	195.65
IBRD	-	-	-	-	-	-	-	250.00	250.00	296.11
IDA/IFAD	5,612.97	5,481.55	5,403.95	5,953.08	6,900.25	7,234.42	7,146.77	8,399.27	8,808.04	9,219.83
IMF**	699.4	676.41	501.48	481.02	407.37	360.66	341.14	1,038.33	1,047.10	1,016.70
OTHERS	63.86	62.61	55.80	55.01	52.49	51.40	49.46	49.13	49.66	51.86
TOTAL MULTILATERAL	**8,619.23**	**8,588.25**	**8,402.85**	**8,938.51**	**9,857.88**	**10,238.54**	**10,130.70**	**12,407.08**	**13,104.87**	**13,729.16**
COMMERCIAL[1]	**8,148.46**	**9,211.46**	**9,347.52**	**10,711.36**	**10,286.93**	**10,151.24**	**10,113.38**	**10,348.00**	**10,330.26**	**10,253.45**
EXPORT CREDIT	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**
GRAND TOTAL	**24,454.89**	**26,743.62**	**27,013.37**	**29,552.19**	**29,953.79**	**30,658.45**	**30,686.36**	**33,005.37**	**33,765.80**	**34,746.02**
In percentage of total										
BILATERAL	30.63	32.82	33.68	32.95	32.19	32.95	33.49	30.56	30.10	30.50
MULTILATERAL	35.37	32.11	31.11	30.25	32.91	33.40	33.01	37.59	38.81	39.51
COMMERCIAL BANKS[1]	33.32	34.44	34.60	36.25	34.34	33.11	32.96	31.35	30.59	29.51
EXPORT CREDIT	0.68	0.62	0.61	0.56	0.55	0.54	0.54	0.50	0.49	0.48
TOTAL	100.00	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 2020

By end of December 2020, the total cumulative debt service payments to external creditors amounted to KSh.141.8 billion. This comprised of KShs.80.7 billion (56.9 percent) principal and KShs.61.1 billion (43.1 percent) interest (Table 6).

Table 6: External Debt Service for the Quarter Ending December, 2020*

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
ABU DHABI	110.79	15.50	126.29
AUSTRIA	407.22	70.38	477.60
BELGIUM	983.31	168.33	1,151.64
CANADA	-	-	-
CHINA	16,842.47	14,113.88	30,956.36
DENMARK	97.23	-	97.23
FINLAND	155.01	-	155.01
FRANCE	3,167.18	810.15	3,977.33
GERMANY	1,370.95	357.67	1,728.62
INDIA	321.93	76.27	398.20
ISRAEL	323.31	67.55	390.85
ITALY	814.66	326.78	1,141.44
JAPAN	2,752.73	282.08	3,034.81
KOREA	85.65	14.38	100.03
KUWAIT	107.74	19.00	126.74
NETHERLANDS	63.97	0.78	64.75
POLAND	-	7.91	7.91
SAUDI ARABIA	51.16	12.74	63.90
SPAIN	1,247.64	132.77	1,380.41
UK	-	-	-
USA	276.09	28.42	304.51
TOTAL BILATERAL	**29,179.06**	**16,504.60**	**45,683.66**
MULTILATERAL			
ADB/ADF	1,793.37	1,718.34	3,511.72
BADEA	128.90	22.54	151.44
EIB/EEC	857.18	244.22	1,101.40
IDA	8,397.81	5,002.97	13,400.77
OPEC	295.50	23.41	318.91
NDF	33.73	11.26	44.99
IFAD	198.20	92.67	290.87
IBRD	-	233.60	233.60
TOTAL MULTILATERAL	**11,704.68**	**7,349.01**	**19,053.69**
COMMERCIAL	**39,826.84**	**37,209.92**	**77,036.76**
GRAND TOTAL	**80,710.58**	**61,063.53**	**141,774.11**

* Provisional
Source: The National Treasury and Central Bank of Kenya

4.0 EXTERNAL TRADE AND BALANCE OF PAYMENTS

4.1 Balance of Payments

The current account balance recorded a narrower deficit of USD 2,689.3 million for the period July to September 2020 from a deficit of USD 3,201.9 over the same period in 2019. The current account deficit narrowed to 4.7 per cent relative to GDP in the year to December 2020 from 5.8 per cent relative to GDP in the year to December 2019.The narrowing of current account reflected savings from lower oil import bill as global demand waned; strong rebound of export earnings, particularly from tea and coffee, which was largely supported by normalization of global market and increase in cargo space; and secondary income transfers which also remained resilient mainly supported by remittances inflows. However, service exports remained subdued as global economies gradually re-opens.

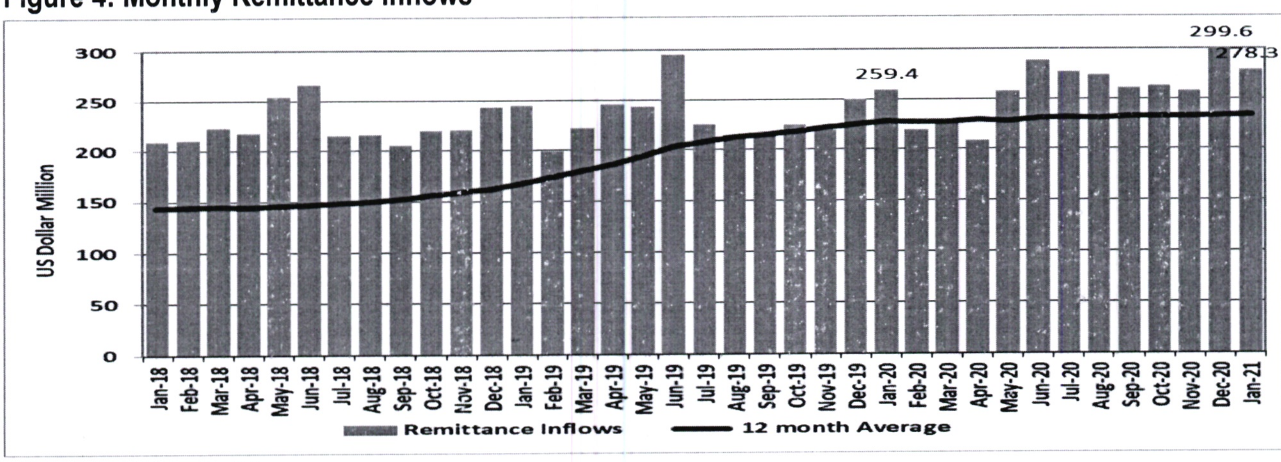
The foreign exchange market remained stable supported by the narrowing of the current account deficit, following increased receipts from diaspora remittances, and savings from imports due to lower international oil prices.

The usable foreign exchange reserves remained adequate at USD 7,750 million (4.76 months of import cover) as at December 31, 2020 compared to USD 8,795 million (5.41 months of import cover) in December 2019.

4.2 Remittances from the Diaspora

Remittance inflows remained resilient in January 2021 amounting to USD 278.3 million (though declined from 299.6 million in December 2020) compared to USD 259.4 million in January 2020, an increase of 19.7 per cent (Figure 4). The cumulative inflows for the period July 2020 to January 2021 improved to USD 1,910.3 million compared to USD 1,605.4 million in between July 2019 to January 2020, an increase of 19 per cent.

Figure 4: Monthly Remittance Inflows



Source: Central Bank of Kenya

4.3 Exchange Rate

The Kenya Shilling weakened against all major international currencies in the period July to September 2020 relative to a similar period 2019. It weakened by 5.5 percent, 12.28 percent and 9.4 percent against the U.S Dollar, the Euro, and the Sterling Pound, respectively.

5.0 BANKING AND FINANCIAL SECTOR

5.1 Money Supply and Domestic Credit

Annual growth in broad money supply, M3, improved to 13.2 per cent in January 2021 compared to 5.5 per cent in January 2020, supported by recovery in credit to the private sector and increased net lending to government. Growth in broad money supply was also reflected in higher growth of deposits and currency outside banks.

Commercial banks' domestic credit grew by 11.9 percent in the 12 months to January 2021 compared to 9.9 percent in January 2020, reflecting recovery in private sector credit and net lending to government. Net lending to government increased by 18.4 percent in January 2021 compared to 18.1 percent in January 2020. Private sector credit growth remained resilient at 9.4 percent January 2021 compared to 7.3 percent in January 2020, supported by continued recovery in demand from the COVID-19 related disruptions and the accommodative monetary policy. Strong growth in credit to the private sector was observed in manufacturing, transport and communication, agriculture, finance and insurance, real estate and consumer durables (Table 7). Private sector credit is expected to strengthen, supported by, among other factors, the implementation of the stimulus package measures designed to stimulate the recovery of the Kenyan economy and, in particular, the operationalization of the Credit Guarantee Scheme for the vulnerable Micro Small and Medium sized Enterprises (MSMEs) that will de-risk lending by commercial banks.

Table 7: 12-Month Growth in Private Sector Credit by activity (percent)

	12-month growth in Private Sector Credit (%)													
Sectors	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**	**Oct-20**	**Nov-20**	**Dec-20**	**Jan-21**
Agriculture	(2.4)	(4.8)	0.2	1.4	2.8	2.6	2.2	1.1	0.9	1.7	17.0	19.3	15.3	15.6
Manufacturing	9.2	12.7	10.4	15.3	20.1	18.2	11.1	10.0	13.1	12.6	7.8	10.0	12.0	12.6
Trade	8.9	6.0	9.5	9.4	10.3	8.0	9.4	9.1	8.1	6.6	2.5	4.0	3.8	5.5
o/w domestic trade	*10.5*	*5.9*	*9.4*	*9.2*	*10.2*	*8.8*	*10.0*	*8.8*	*7.5*	*7.6*	*3.5*	*4.2*	*5.6*	*7.7*
Building & construction	1.6	4.0	(0.5)	9.5	7.7	5.7	4.6	5.5	5.2	4.1	8.2	7.4	3.4	2.5
Transport & communication	8.1	9.9	7.4	7.1	9.1	5.7	14.9	20.7	19.0	20.6	21.1	17.5	13.6	14.4
Finance and insurance	0.4	(1.1)	1.9	6.6	3.1	8.4	3.2	3.5	4.6	(3.3)	(2.2)	0.2	7.1	14.0
Real estate	1.5	3.5	3.4	2.2	4.8	4.4	4.9	5.0	6.8	6.6	7.6	9.1	8.7	8.8
Mining & quarrying	(5.8)	(9.4)	(14.6)	3.9	11.0	5.8	10.0	11.3	12.0	8.2	(14.2)	(15.4)	(12.9)	9.4
Private households	5.6	5.6	5.9	3.4	2.2	3.2	3.6	5.4	5.1	3.5	7.3	6.2	4.3	5.2
Consumer durables	26.0	21.4	20.6	24.1	19.6	16.7	15.2	13.8	13.7	15.6	15.7	18.8	18.1	18.7
Business services	2.4	1.5	2.4	3.3	1.2	2.7	5.3	3.2	3.4	4.1	5.9	2.7	4.0	6.5
Other activities	16.0	24.4	33.4	36.8	14.3	16.9	(3.7)	(6.7)	(7.6)	(5.8)	(10.4)	(14.5)	14.0	2.5
Total Private Sector Credit	**7.1**	**7.3**	**7.7**	**8.9**	**9.0**	**8.2**	**7.7**	**7.9**	**8.3**	**7.6**	**7.7**	**8.1**	**8.4**	**9.3**

Source: Central Bank of Kenya

5.2 Capital Market (NSE)

Trading of equities at the Nairobi Securities Exchange (NSE) rebounded in February 2021 compared to October 2020, reflecting growing investor confidence on reopening of the economy and gradual inflow of foreign investors. Overall, all the equities market indicators recorded significant gains in February 2021, but still fall below the February 2020 level, before Covid-19 pandemic Outbreak. The share of foreign investors trading to total equity turnover declined to an average of 61.96 percent compared to an average of 68.16 percent in October 2020 and 62.81 percent in February 2020. The NSE 20 Share Index, the Nairobi Securities Exchange All Share Index (NASI), and market capitalization improved by 7.40 percent, 18.10 percent and 18.19 percent at the end of February 2021 compared to the end of October 2020, respectively.

In the domestic secondary bond market, bonds turnover increased by 13.84 percent in 12 months to February 2021 to KShs.734.32 billion up from KShs.645.06 billion for similar period in 2019. In the international market, yields on Kenya's Eurobonds rose by an average of 31 basis points.

Table 8: Developments in the Capital Market

End Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Market Capitalization (Ksh Bns)	% Overall FP to ET	Bonds Traded (Ksh Mns)	7-Year Eurobond 2027 Yield (%)	10-Year Eurobond (2024) Yield (%)	10-Year Eurobond (2028) Yield (%)	12-Year Eurobond 2032 Yield (%)	30-Year Eurobond Yield 2048 (%)
Jan-20	2,600.41	162.09	2,473.873	60.60%	38,900.33	5.65	4.74	6.01	6.89	7.59
Feb-20	2,337.03	148.60	2,267.614	62.81%	50,349.99	6.01	5.10	6.23	6.94	7.65
Mar-20	1,966.12	131.92	2,016.064	60.01%	68,734.89	8.78	8.26	8.57	9.08	9.03
Apr-20	1,958.07	139.69	2,135.009	64.96%	30,549.27	9.27	9.67	9.23	9.66	9.52
May-20	1,937.96	137.56	2,095.918	65.38%	47,152.10	8.12	8.05	8.18	8.76	8.88
Jun-20	1,942.12	137.68	2,104.327	63.43%	58,949.92	7.30	6.48	7.51	8.21	8.41
Jul-20	1,804.10	133.23	2,036.041	60.62%	69,993.89	7.37	6.39	7.49	8.19	8.45
Aug-20	1,794.85	139.68	2,144.427	65.14%	70,462.01	6.95	6.02	7.08	7.63	8.20
Sep-20	1,852.29	139.89	2,147.736	75.55%	87,406.25	7.44	6.37	7.49	8.19	8.67
Oct-20	1,783.68	140.04	2,150.058	68.16%	62,672.73	6.19	5.12	6.62	7.34	8.16
Nov-20	1,759.93	145.20	2,229.494	67.97%	48,524.72	5.21	4.42	5.61	6.16	7.24
Dec-20	1,868.39	152.11	2,336.697	61.79%	58,061.98	4.86	3.92	5.22	5.85	7.04
Jan-21	1,881.91	155.59	2,390.286	62.79%	54,414.45	4.78	3.60	5.26	6.04	7.16
Feb-21	1,915.68	165.39	2,541.161	61.96%	77,395.00	4.75	3.34	5.43	6.36	7.36

Source: NSE and Reuters

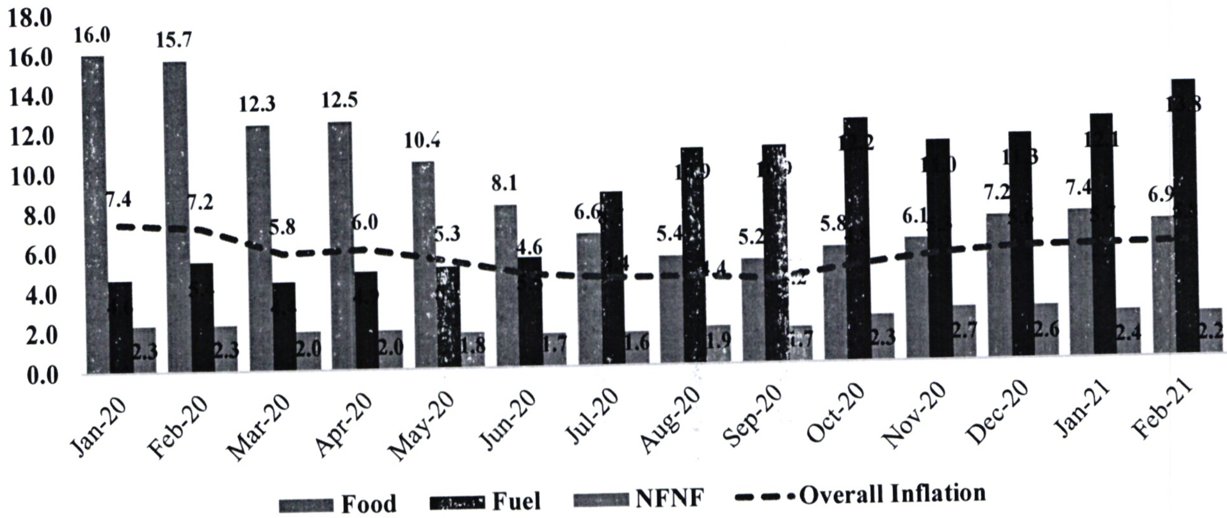
6.0 PERFORMANCE OF OTHER MACRO-ECONOMIC INDICATORS

6.1 Inflation

Overall inflation was stable in 2020 averaging 5.7 percent, supported by low food prices and muted demand pressures despite elevated fuel inflation. Food inflation remained low in the second half of 2020 on account of favorable weather conditions experienced across the country. Additionally, Non-Food-Non-Fuel (NFNF) inflation remained low during the year consistent with low economic activity following the disruptions occasioned by COVID-19. However, fuel inflation remained elevated due to high energy prices and transport costs following the imposition of stringent COVID-19 containment measures in the transport sector.

Overall inflation is projected to stabilize around the mid-point of the target band (5 ± 2.5 percent) in the medium term, largely supported by subdued demand and stable food prices on account of the expected favorable weather conditions. However, rising international oil prices pose a risk to this outlook (Figure 5).

Figure 5: Developments in inflation rates



Source: Central Bank of Kenya

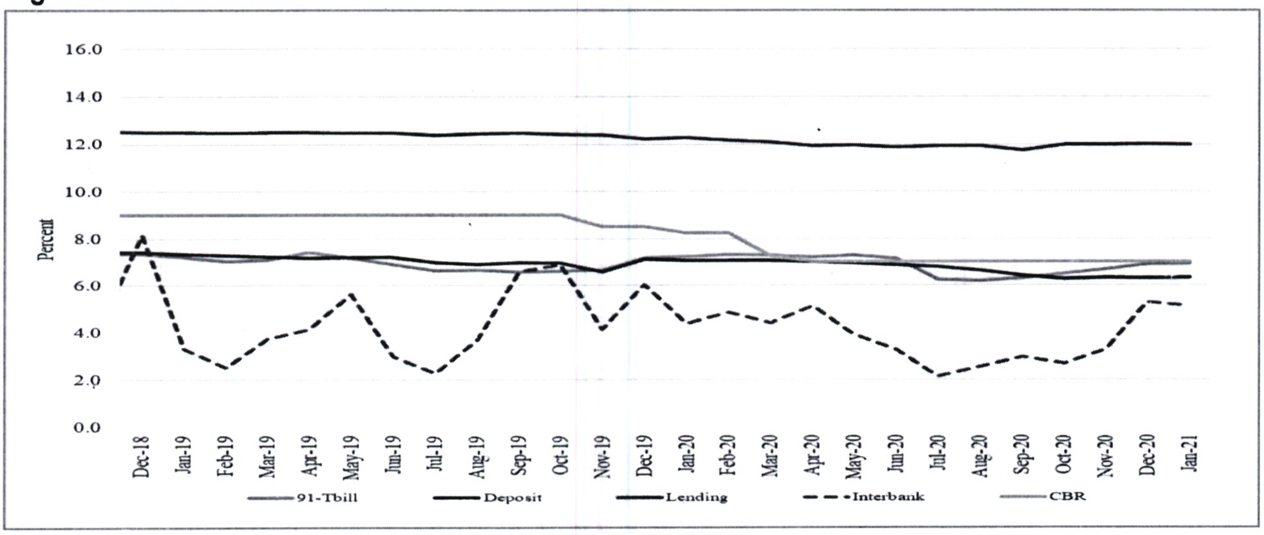
6.2 Interest rates

The Monetary Policy Committee (MPC) lowered the Central Bank Policy rate (CBR) in January 2020 by 25 basis points to 8.25 percent to provide accommodative monetary policy to support economic activity. As a result of the COVID-19 shock in March, MPC decisions focused on mitigating the adverse effects of the pandemic on the economy. In March 2020, the MPC decided to: (i) lower the CBR to 7.25 percent from 8.25 percent; (ii) reduce the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent, releasing KES.35.2 billion as additional liquidity to banks to directly support borrowers in distress as a result of COVID-19, and (iii) extending the maximum tenor of Repurchase Agreements (REPOs) from 28 to 91 days to enable banks secure longer-term liquidity. These policy measures were adopted in order to prevent the COVID-19 health crisis from becoming a severe economic and financial crisis. In its April meeting, the MPC further lowered the CBR to 7.00 percent to augment its accommodative monetary policy stance. The MPC retained the CBR at 7.00 percent in their subsequent meetings held between May 2020 and January 2021. In the January 2021 MPC meeting, the Committee noted that the package of policy measures implemented since March 2020 achieved the intended effect on the economy, and were augmented by implementation of the announced fiscal measures in the FY2020/21 Budget.

Interest rates generally declined since January 2020 in line with the accommodative monetary policy stance adopted by the MPC, and improved liquidity conditions. The average inter-bank interest rate decreased to 2.69 per cent in October 2020 compared to 4.39 per-cent in January 2020, but increased to 5.12 per cent in January 2021, partly reflecting seasonal increased demand for liquidity towards the end of year festivities. The average 91-day Treasury bill rate declined to 6.92 per cent in January 2021 from 7.23 percent in

January 2020, while the average 182-day Treasury bill rate decreased to 7.48 per cent from 8.17 percent, respectively. The average commercial bank lending rate declined to 12.0 per cent in January 2021 from 12.29 per cent in January 2020, while the average deposit rate declined to 6.31 per cent from 7.07 percent (Figure 6).

Figure 6: Interest Rates



Source: Central Bank of Kenya

7.0 OUTLOOK FOR 2021

7.1 Global Economy

Table 9: Global Economic Outlook and Growth in the Leading Economies

	2019	2020	2021*	2022*
World Economy	2.8	-3.5	5.5	4.2
United States	2.2	-3.4	5.1	2.5
Japan	0.3	-5.1	3.1	2.4
China	6.0	2.3	8.1	5.6
Euro Area	1.3	-7.2	4.2	3.6
Germany	0.6	-5.4	3.5	3.1
France	1.5	-9.0	5.5	4.1
United Kingdom	1.4	-10.0	4.5	5.0

Source: IMF World economic Outlook (January 2021)
* Projections

Global growth is projected to contract by 3.5 percent in 2020 compared to growth of 2.8 per cent registered in 2019 as a result of adverse negative effects of Covid-19 pandemic. After a sharp decline in 2020, global GDP is projected to rise by 5.5 per cent in 2021. As shown in Table 9, all advanced economies will register a contraction in economic growth in 2020 with UK and France expected to register higher contraction of 10 per cent and 9.0 per cent respectively. China will be the only major economy to record positive performance in 2020 with a projected positive growth of 2.3 per cent reflecting the vitality and resilience of its economy supported by aggressive efforts to fight Covid-19 pandemic. Growth estimates for 2021 indicate that China will register a higher growth of 8.1 per cent.

7.2 Regional Economies and Sub-Sahara Africa

Table 10: Economic Outlook for SSA and Regional Economies

	2018	2019	2020*	2021
SSA	3.3	3.2	-3.0	3.1
Burundi	1.6	1.8	-3.2	3.1
Kenya	6.3	5.4	1	4.7
Rwanda	8.6	9.4	2.0	6.3
Tanzania	7.0	7.0	1.9	3.6
Uganda	6.1	6.7	-0.3	4.9

Source: IMF Regional Economic Outlook Sub-Saharan Africa (October 2020)
* Projections

Table 10 indicates that Economic growth in sub-Saharan Africa is projected to contract by 3.0 per cent in 2020 compared to a growth of 3.2 per cent in 2019. It is projected that with various policy interventions countries are putting in place to mitigate adverse effect of Covid-19 pandemic and to aid economic recovery, growth will rebound back to 3.1 per cent in 2021. Among East Africa Community countries, Rwanda, Tanzania and Kenya is projected to register positive growth of 2.0, 1.9 and 1 per cent respectively while Burundi and Uganda will register a negative growth of 3.2 and 0.3 per cent respectively. The East African countries will grow on average by 4.5 per cent compared to 3.1 per cent in SSA region in 2021.

7.3 The Medium-Term Prospects for Kenya

With the supply of vaccines in the country, the impact of COVID-19 is expected to be lighter in the medium term for Kenya. The year 2020 was heavily affected with a subdued growth expected to be at negative 0.5 per cent attributable to the pandemic and other economic shocks like the desert locusts among others. A gradual recovery, however, is expected in the medium term with growth in 2021, 2022, 2023 and 2024 projected at 4.1, 4.6, 5.0 and 5.2 per cent respectively as shown in Table 11.

The medium-term prospect is expected to be stable mainly due to the current stable macroeconomic conditions in the country. As the country continue to enhance Covid-19 vaccination, open up and implement the economic recovery strategy, a gradual economic recovery will be realized in the near future.

Table 11: The medium-term prospects in Kenya

	2018	2019	2020	2021	2022	2023	2024
Rates (%)							
GDP Growth	6.3	5.4	-0.5	4.1	4.6	5.0	5.2
Inflation	4.7	5.2	5.2	5.4	5.2	5.3	5.3
Interest Rate	7.8	6.9	6.9	6.9	6.9	6.9	6.9
Volumes (%)							
Private Consumption	7.0	4.6	0.4	4.4	5.1	4.4	4.8
Government Consumption	5.6	4.9	-8.4	4.5	4.8	6.2	5.2
Private Investments	2.4	3.1	-7.1	2.0	2.0	1.2	2.4
Government Investments	-8.4	-1.0	1.4	4.6	4.8	4.1	3.9
Exports Goods & Services	3.9	-0.2	-8.3	2.6	1.8	7.5	7.3
Imports Goods & Services	2.5	-2.0	-11.5	3.2	3.2	2.8	3.3
% of GDP							
Current Account Balance	-5.8	-5.8	-3.6	-2.1	-2.0	-2.7	-2.2
Index							
Kshs per Dollar	101.3	102.1	106.5	106.0	105.2	105.2	105.2

Source: Staff estimates using KTMM

8.0 RISKS TO THE ECONOMIC OUTLOOK

i. The third wave of Covid-19 pandemic. The third wave has led to increased infections and loss of lives which has necessitated the Government to re-introduce targeted containment measures. These measures will curtail economic activities in various sectors of the economy, negatively affect livelihoods as well as revenue collection;

ii. Increasing debt levels will lead to high cost of servicing debts which in turn may affect the country's debt sustainability;

iii. High expenditures to meet cost of education and health services occasioned by the need to curb spread of pandemic will strain fiscal position amidst the low revenue collections

iv. Rising oil prices will increase the cost of living;

9.0 RECOMMENDED ACTIONS

i. Continue pursuing fiscal consolidation through revenue mobilization and expenditure rationalization which is necessary to stabilize growth in public debt;

ii. Increase absorption of resources allocated for development expenditure to fast-track completion of ongoing projects especially the "Big Four" projects. This will involve directing Ministries, Departments and Agencies to fast-track completion of capital projects earmarked for implementation in 2020/2021 period;

iii. Scale-up Covid-19 vaccination so as to ensure majority of the population outside the already identified priority groups are reached. This will involve provision of financial resources to Ministry of Health to timely procure adequate Covid-19 vaccines, and other related medical drugs and equipment;

iv. Undertake audits to ascertain any pending bills owed to suppliers both at national and county Governments and ensure that they are settled on time to support private businesses;

v. Fast-track implementation of Credit Guarantee Scheme to cushion and support growth of Micro Small and Medium Enterprises (MSMEs);