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STATE DEPARTMENT FOR PLANNING

# STATE OF THE ECONOMY

THE NATIONAL ASSEMBLY PAPER LAID	
DATE:	08 DEC 2022
TABLED BY:	DEPUTY LEADER OF MAJORITY PARTY HON. DWEN BAYA, MP
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## TABLE OF CONTENTS

PREAMBLE .....	3
1.0 ECONOMIC PERFORMANCE .....	4
2.0 ANALYSIS OF ECONOMIC PERFORMANCE BY SECTOR .....	4
2.1 Agriculture .....	5
2.2 Manufacturing .....	5
2.3 Electricity Supply .....	6
2.4 Accommodation and Food Service Activities .....	6
2.5 Construction .....	6
2.6 Transportation and Storage .....	7
2.7 Information and Communication .....	8
3.0 FISCAL DEVELOPMENTS .....	8
3.1 Revenue .....	10
3.2 Expenditure .....	10
3.3 Fiscal Balance and Financing .....	11
3.4 Fiscal Outlook for FY 2022/23 .....	11
3.5 Fiscal Consolidation Programme .....	12
3.6 Public Debt .....	15
4.0 EXTERNAL TRADE AND BALANCE OF PAYMENTS .....	15
4.1 Balance of Payments .....	16
4.3 Remittances from the Diaspora .....	16
4.3 Exchange Rate .....	18
5.0 BANKING AND FINANCIAL SECTOR .....	18
5.1 Money Supply and Domestic Credit .....	18
5.2 Capital Market .....	20
6.0 PERFORMANCE OF OTHER MACRO –ECONOMIC INDICATORS .....	20
6.1 Inflation .....	20
6.2 Interest rates .....	22
7.0 OUTLOOK FOR 2022 .....	22
7.1 Global Economy .....	22
7.2 Regional Economies and Sub-Saharan Africa .....	23
7.3. Medium-Term Prospects for Kenya .....	25
8.0 RISKS TO THE ECONOMIC OUTLOOK .....	25
9.0 RECOMMENDED ACTIONS .....	25

## PREAMBLE


The Status of Kenya Economy Report is a publication by Macroeconomic Planning and International Economic Partnerships Directorate 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), 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.

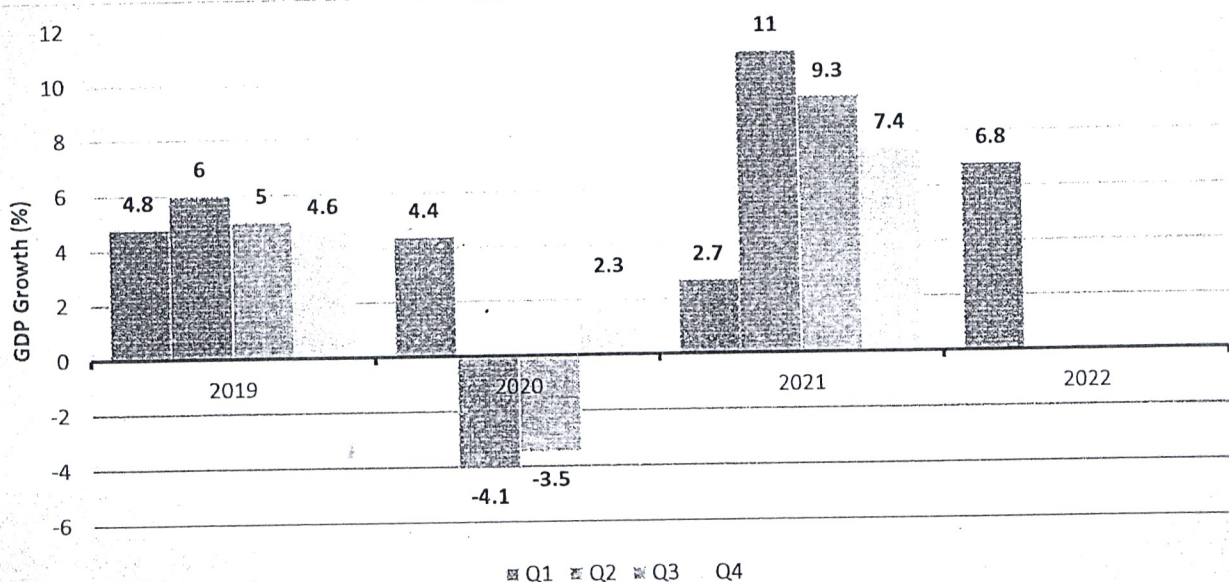
The Report acts as a briefing note to the Cabinet Secretaries, Principal Secretaries and other Senior Government Officers to inform policy. It also acts as reference document during Economic Review Missions and meetings with development partners.

 THE NATIONAL ASSEMBLY PARLIAMENT BUILDING	
DATE:	08 DEC 2022 <span style="float: right;">DAY: Thursday</span>
TABLED BY:	Deputy Leader of Majority Party Hon. Owen Bayo MP
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## 1.0 ECONOMIC PERFORMANCE

The Economy recovered strongly in 2021 and remained resilient in the first quarter of 2022 amidst effects of Covid-19 pandemic. The economy grew by 6.8 per cent in the first quarter of 2022 compared to 2.7 per cent in the corresponding quarter of 2021 as shown in Figure 1. The growth was supported by rebound in Transportation and Storage (8.1%), Accommodation and Food Services activities (56.2%), Professional, Administrative and Support Services (14.9%) and Other Service activities (11.1%). In addition, there was accelerated growth in Manufacturing (3.7%), Wholesale and Retail Activities (8.7%) and Financial and Insurance activities (14.4%) coupled with sustained growth in Construction (6.4%), Real Estate (6.1%) and Information and Communication activities (6.1%) which had been subdued in the first quarter in 2021 due to measures instituted to curb the spread of COVID-19. However, the growth was constrained by contraction in Agricultural activities (-0.7%) mainly owing to insufficient rain during the preceding quarter as well as delayed long rains during the period under review.

Figure 1: Quarterly GDP Growth Rates, 2019-2022



Source: KNBS Quarterly GDP Reports

## 2.0 ANALYSIS OF ECONOMIC PERFORMANCE BY SECTOR

### 2.1 Agriculture

The agricultural sector contracted by 0.7 per cent in the first quarter of 2022 compared to a growth of 0.4 per cent in a similar period of 2021 owing to depressed rainfall received during the quarter under review as well as delayed onset of rains. The dismal performance in the sector was partly attributed to contraction of horticulture exports and tea production. Volume of tea produced contracted by 3.7 per cent from 141.0 thousand metric tonnes (MT) in the first quarter of 2021 to 135.8 thousand MT in a similar quarter of 2022. The value of horticultural exports decreased by 43.6 per cent to Kshs.26.0 billion in the first quarter of 2022.

The sector's growth was shielded from steeper contraction by increased production of cane, milk and coffee. The quantity of cane delivered to millers increased from 2,682.9 thousand MT in the first four months of 2021 to 2,899.8 thousand MT in the same period of 2022. The volume of milk intake increased by 6.1 per cent to stand at 259.3 million litres in the first four months of 2022 while coffee sales increased by 40.4 per cent from 13.5 thousand MT in the first quarter of 2021 to 18.9 thousand MT in the similar quarter of 2022.

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

Crop	Period	2021	2022	Growth rate (%)
Tea production	January-March	141.0	135.8	-3.7
Coffee sales	January-March	13.5	18.9	40.4
Sugarcane Deliveries	January-April	2,682.9	2,899.8	8.1
Milk Intake (Million Litres)	January-April	244.5	259.3	6.1

Source: KNBS Leading Economic Indicators

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

Crop	2021-Jan-May	2022-Jan-May	Growth rate (%)
Tea	58.4	66.0	13.0
Coffee	13.4	18.9	41.6
Horticulture (Jan-Mar)	46.0	26.0	-43.6

Source: KNBS Leading Economic Indicators

## 2.2 Manufacturing

The manufacturing sector expanded by 3.7 per cent in the first quarter of 2022 compared to 2.1 per cent growth in the corresponding quarter of 2021. The growth in the sector was mainly supported by manufacture of food products, which expanded by 6.4 per cent in the quarter under review compared to a contraction of 1.5 per cent reported in a similar quarter in 2021. In the manufacture of food products, growth was supported by improved performance in the processing of coffee and sugar, and manufacture of soft drinks. The volume of sugar processed increased by 13.4 per cent from 244,150 MT in the first four months of 2021 to 276,786 MT in the same quarter of 2022. Similarly, the quantity of soft drinks production increased by 11.7 per cent to stand at 163,104 thousand litres in the first quarter of 2022.

In the manufacture of nonfood products category, growth was supported by manufacture of galvanized sheet, production of cement and assembly of motor vehicles. The quantity of galvanized sheet expanded by 6.6 per cent to 65,206 MT in the first quarter of 2022 from 61,174 MT in a similar quarter of 2021. The number of assembled motor vehicles increased from 1,830 units in the first quarter of 2021 to 3,045 units in the corresponding quarter of 2022. The volume of cement production increased by 22.3 per cent from 3,417.6 thousand MT in the first five months of 2021 to 4,180.6 thousand MT in a similar period of 2022.

## 2.3 Electricity Supply

Electricity supply slowed down to 1.3 per cent in the first quarter of 2022 from 2.5 per cent growth during similar period in 2021. This was attributed to a decline in generation of electricity from hydro and geothermal sources coupled with increased generation of electricity from thermal sources.

Total generation of electricity for the period between January and May 2022 increased by 2.8 per cent to 5,090.6 million Kilowatt-hour (KWh). The performance of the sector was supported by increased generation of electricity from wind and solar. As shown in Table 2, generation of electricity from wind increased from 742.3 million KWh in 2021 to 813.3 million KWh in 2022. Similarly, generation of electricity from solar increased from 37.2 million KWh in 2021 to 161.9 million KWh in 2022.

Generation of electricity from hydro decreased by 17.1 per cent to 1320.6 million KWh in 2022 mainly due to insufficient rainfall while generation of electricity from geothermal decreased from 2,157.5 million KWh in 2021 to 1,988.7 million KWh in 2022. Electricity generated from thermal increased by 92.3 per cent from 419.0 million KWh in 2021 to 805.9 million KWh in 2022. The significant increase in generation of electricity from thermal sources had a detrimental effect on gross value added due to high input costs in the process of generation. Total electricity consumption increased by 4.5 per cent from 3,894.1 million KWh in 2021 to 4,069.3 million KWh in 2022.

**Table 2: Electricity generation by source (KWh Million)**

Source	Period	2021	2022	Growth rate (%)
Hydro	January-May	1,593.8	1,320.6	-17.1
Geothermal	January-May	2,157.5	1,988.7	-7.8
Thermal	January-May	419.0	805.9	92.3
Wind	January-May	742.3	813.3	9.6
Solar	January-May	37.2	161.9	335.5

Source: KNBS Leading Economic Indicators

## 2.4 Accommodation and Food Service Activities

Accommodation and food service activities continued to post robust performance after relaxation of COVID-19 restriction measures in Kenya's tourist source markets coupled with increased uptake of domestic tourism. As a result, the sector is estimated to have expanded by 56.2 per cent in the first quarter of 2022 compared to a contraction of 33.0 per cent in a similar quarter of 2021. The rebound was reflected in visitor arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) which increased considerably from 186,514 visitors between January and May 2021 to 397,136 visitors over similar period in 2022.

## 2.5 Construction

The sector expanded by 6.4 per cent in the first quarter of 2022 compared to 6.8 per cent growth over a similar period in 2021. The sustained growth in the sector was partly supported by infrastructure projects being undertaken by the government and private sector construction. Cement consumption, a key input in construction increased by 20.1 per cent to stand at 4,058.4 thousand tonnes between January and May 2022. The volume of bitumen imported increased from 20,668.3 tonnes in the first quarter of 2021 to 44,060.9 tonnes over a similar period in 2022. The total value of buildings approved in Nairobi City County increased by 67.6 per cent between January and May from Kshs. 42.5 billion in 2021 to Kshs.71.2 billion in 2022.

## 2.6 Transportation and Storage

Transportation and Storage sector grew by 8.1 per cent in the first quarter of 2022 compared to a contraction of 7.9 per cent over a similar period in 2021. The recovery was mirrored in consumption of light diesel and

operations of Standard Gauge Railway (SGR). Consumption of light diesel increased from 575.3 MT in the first quarter of 2021 to 578.4 MT in same quarter of 2022. Passenger transportation through SGR increased by 12.7 per cent from 460,497 passengers in the first quarter of 2021 to 518,780 passengers in the corresponding quarter of 2022. Similarly, freight movement through SGR increased by 8.6 per cent to stand at 1,536.0 thousand MT in the first quarter of 2022. However, growth of the sector was curtailed by decline in port throughput by 12.4 per cent to 8,637.9 thousand MT in the first quarter of 2022.

## **2.7 Information and Communication**

Information and communication sector expanded by 6.1 per cent in the first quarter of 2022 compared to 10.1 per cent growth recorded in the corresponding quarter of 2021. The growth was buoyed by increased usage of internet and Short Messaging Services (SMS). Bandwidth utilization increased by 22.3 per cent from 4,299.3 Giga bits per second (Gbps) in the first quarter of 2021 to 5,262.0 Gbps in a similar period of 2022 mainly due to harnessing of technology to conduct operations remotely. Similarly, SMS increased from 10.6 billion messages in the first quarter of 2021 to 10.9 billion messages over similar period in 2022. The sector's growth was held back by decline in voice traffic from 19.5 billion minutes in the first three months of 2021 to 19.2 billion minutes over the same period in 2022.

### 3.0 FISCAL DEVELOPMENTS

#### 3.1 Revenue

Total revenue collection, including ministerial appropriation in aid (A-i-A) for the period July 2022 was Kshs.146.3 billion (1.0 per cent of GDP) compared to a target of Kshs.161.1 billion (1.2 per cent of GDP) as shown in Table 3. The revenue collection was below the target by Kshs.14.8 billion on account of shortfalls recorded in both ordinary revenue and ministerial A-i-A. Total revenue for the period grew by 8.3 per cent compared to a growth of 29.8 per cent recorded in similar period in the FY 2021/22 when total revenue was Kshs.135.0 billion (1.1 per cent of GDP).

Table 3: Government Revenue and External Grants Performance for FY2022/23 (Kshs. billions)

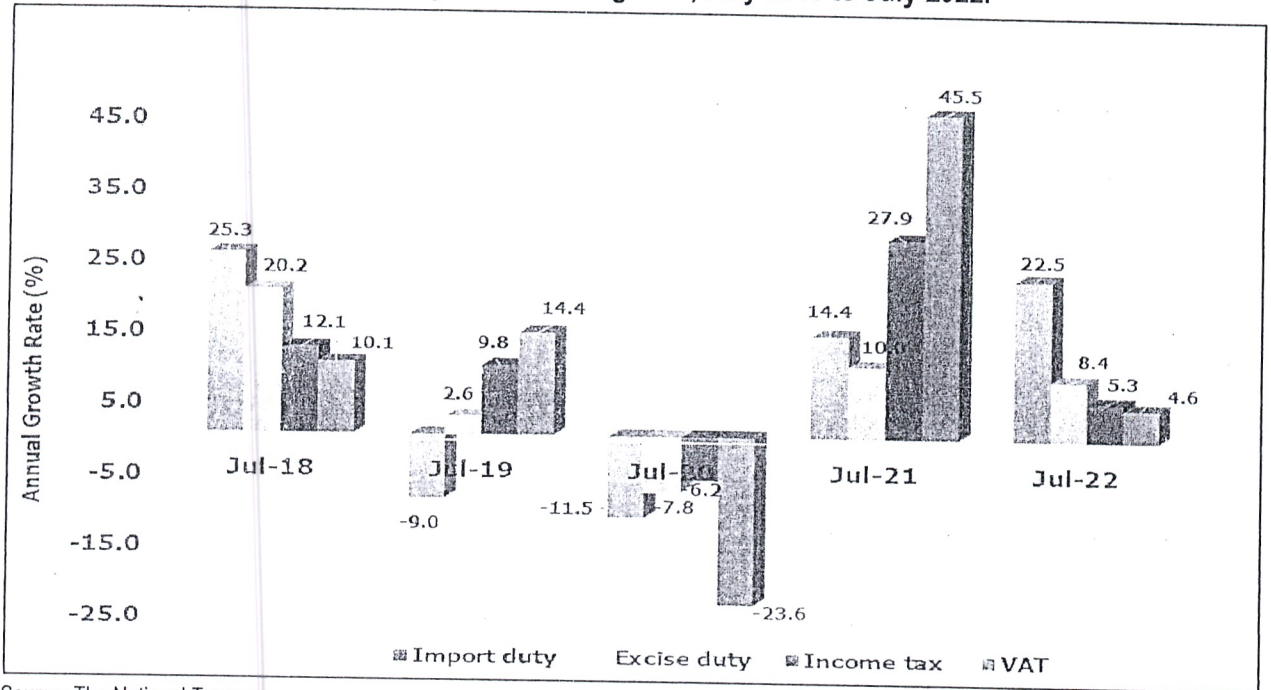
Revenue (Ksh billions)	Jul-21		Jul-22					
	Prel. Issues	% of GDP	Printed Target	Prel. Issues	Deviation	% of GDP	Performance Rate (%)	Growth (%)
<b>TOTAL REVENUE</b>	135.0	1.1	161.1	146.3	(14.8)	1.0	90.8	8.3
<b>Ordinary revenue</b>	122.2	1.0	143.6	132.6	(11.1)	0.9	92.3	8.5
Import Duty	7.6	0.1	10.1	9.4	(0.7)	0.1	93.2	22.5
Excise Taxes	16.6	0.1	22.4	18.0	(4.4)	0.1	80.3	8.4
<b>Income Tax</b>	55.0	0.4	63.8	57.9	(5.8)	0.4	90.8	5.3
o/w PAYE	32.4	0.3	34.0	32.7	(1.3)	0.2	96.2	0.8
o/w Other Income Tax	22.6	0.2	29.8	25.3	(4.5)	0.2	84.8	11.8
<b>Value Added Tax (VAT)</b>	38.1	0.3	43.3	39.8	(3.5)	0.3	92.0	4.6
o/wVAT (Domestic)	19.8	0.2	23.8	19.3	(4.6)	0.1	80.9	(2.8)
o/wVAT (Imports)	18.3	0.1	19.5	20.5	1.1	0.1	105.6	12.5
<b>Other Revenue</b>	4.9	0.0	4.1	7.5	3.3	0.1	180.7	53.4
<b>Ministerial A-i-A</b>	12.8	0.1	17.5	13.7	(3.8)	0.1	78.5	6.9
Recurrent	6.6	0.1	10.7	8.1	(2.5)	0.1	76.3	23.6
Development	6.3	0.0	6.8	5.6	(1.2)	0.0	81.9	(10.7)
<b>GDP</b>	12,646.2	100.0	14,002.5	14,002.5	-	100.0	100.0	10.7

Source: National Treasury

Ordinary revenue collection in July 2022 amounted to Kshs.132.6 billion (0.9 percent of GDP) against a target of Kshs.143.6 billion (1.0 percent of GDP) recording a shortfall of Kshs.11.1 billion. This shortfall was on account of below target collection registered in income tax of Kshs.5.8 billion, excise taxes of 4.4 billion and VAT of Kshs.3.5 billion. Other revenue' category' was above the target by Kshs.3.3 billion. The shortfall in VAT revenue is largely explained by high inflationary pressure and the depreciation of the shilling against the dollar leading to high costs of inputs. The short fall in income taxes is partly attributed to decline in PAYE remittance from the public sector. Excise taxes were affected by the decline in volumes of Petrol, Diesel and Illuminating Kerosene by 12.2 per cent, 17.6 per cent and 18.1 per cent respectively, and decline in volumes of Spirits, Tobacco and Soft drinks deliveries.

For the period ending July 2022, ordinary revenue registered an annual growth of 8.5 per cent compared to a growth of 28.9 per cent over a similar period in 2021/22. Over the same period, growth rates of the major tax heads were as follows: import duty (22.5%), excise taxes (8.4%), income tax (5.3%) and VAT (4.6%) as shown in Figure 2.

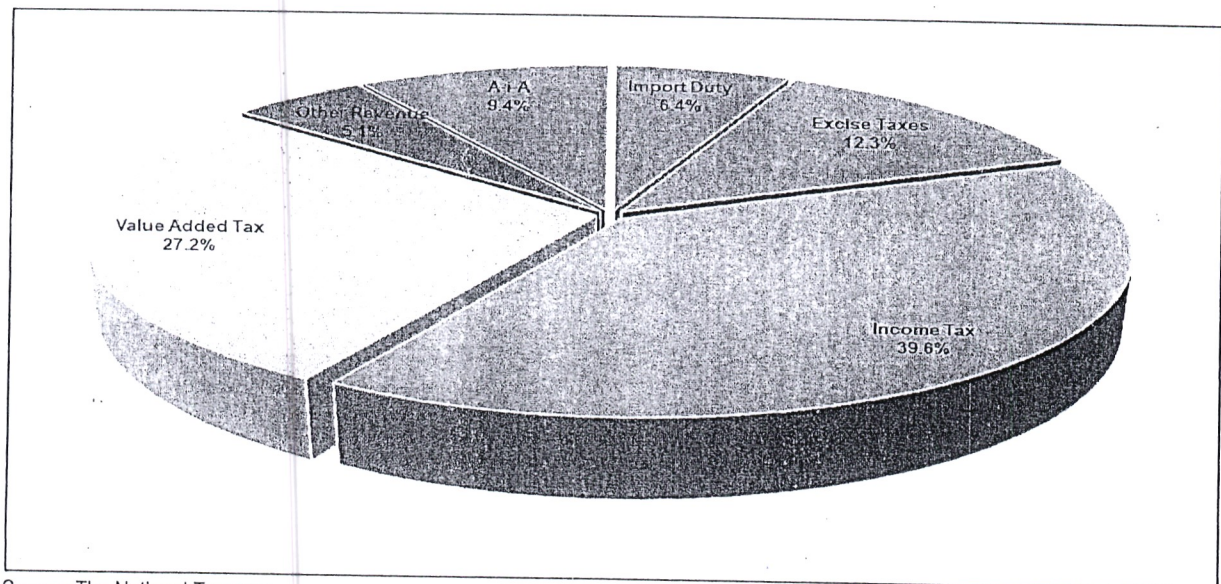
Figure 2: Growth rates of ordinary revenue categories, July 2018 to July 2022.



Source: The National Treasury

On the composition of total revenue, income tax takes the largest share at 39.6 per cent followed by VAT at 27.2 per cent, and excise taxes at 12.3 per cent as shown in Figure 3.

Figure 3: Composition of Total Revenue in July 2022 (Percentage)



Source: The National Treasury

### 3.2 Expenditure

Total expenditure and net lending for the period ending July 2022 amounted to Kshs.158.0 billion (1.1 per cent of GDP), which was below the target of Kshs.227.7 billion (1.6 percent of GDP), by Kshs.69.8 billion. This was largely on account of below target disbursement of recurrent expenditure by Kshs.60.1 billion and development expenditure by Kshs.1.2 billion. Total expenditure and net lending for the period ending July 2022 grew by 9.2 per cent from Kshs.144.7 billion in the period ending July 2021 as shown in Table 4.

Table 4: Expenditures Performance in FY 2022/23 (Kshs. billions)

EXPENDITURE (Ksh billions)	Jul-21	Jul-22				
	Actual	Target	Actual	Deviation	% Growth	% of GDP
<b>TOTAL EXPENDITURE AND NET LENDING</b>	<b>144.7</b>	<b>227.7</b>	<b>158.0</b>	<b>(69.8)</b>	<b>9.2</b>	<b>1.1</b>
<b>1. Recurrent Expenditure</b>	<b>137.5</b>	<b>189.5</b>	<b>129.4</b>	<b>(60.1)</b>	<b>(5.9)</b>	<b>0.9</b>
Domestic Interest	39.0	44.8	33.5	(11.3)	(14.1)	0.2
Foreign Interest due	11.8	15.6	16.2	0.6	37.6	0.1
Pensions & Other CFS	4.6	12.5	5.6	(7.0)	21.9	0.0
Contribution to Civil Ser Pension	5.3	2.2	-	(2.2)	(100.0)	0.0
Wages & Salaries	41.0	44.8	41.1	(3.6)	0.4	0.3
Operations & Maintenance	35.9	69.7	33.0	(36.7)	(8.0)	0.2
o/w Ministerial Recurrent AIA	5.6	9.9	7.3	(2.5)	30.6	0.1
<b>2. Development</b>	<b>6.3</b>	<b>6.8</b>	<b>5.6</b>	<b>(1.2)</b>	<b>(10.7)</b>	<b>0.0</b>
Domestically Financed (Gross)	6.3	6.8	5.6	(1.2)	(10.7)	0.0
Foreign Financed	-	-	-	0.0	0.0	0.0
Net Lending	-	-	-	0.0	0.0	0.0
Equalization Fund	-	-	-	0.0	0.0	0.0
<b>3. County Transfer</b>	<b>1.0</b>	<b>31.5</b>	<b>23.0</b>	<b>(8.5)</b>	<b>0.0</b>	<b>0.2</b>
o/w Equitable Share	-	31.5	23.0	(8.5)	0.0	0.2
<b>4. Contingency Fund</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

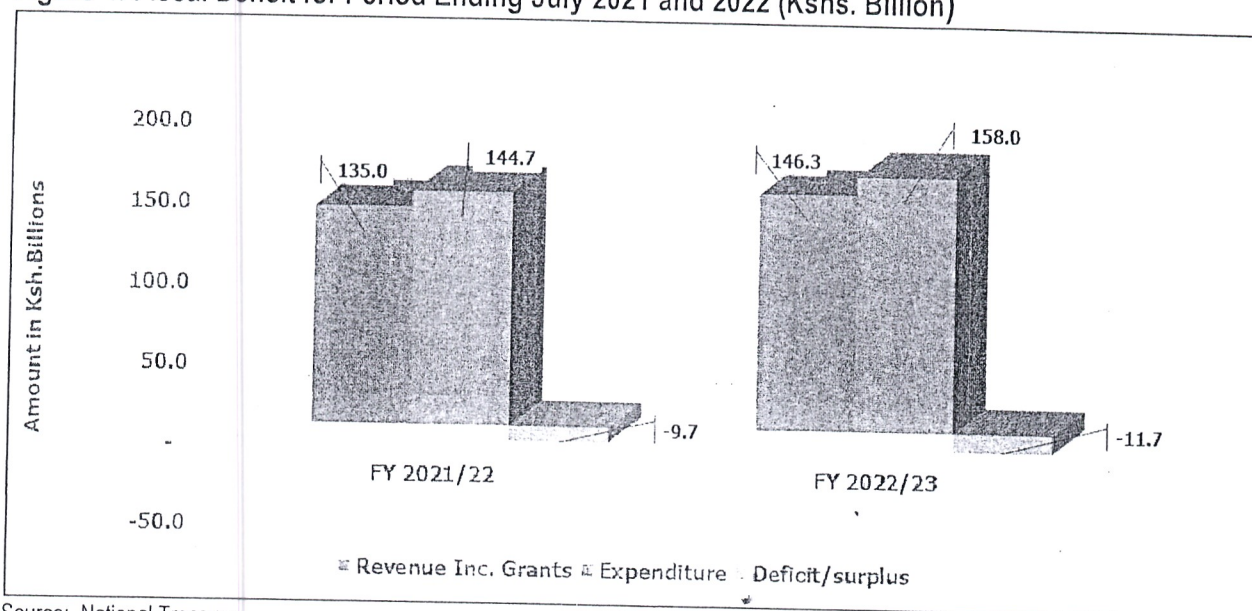
Source: National Treasury

Recurrent expenditure for the period was Kshs.129.4 billion against a target of Kshs.189.5 billion thus recording a below target expenditure of Kshs.60.1 billion. The below target in recurrent expenditure was mainly attributed to operations & maintenance, domestic interest, and pensions & other CFS, which were below target by Kshs.36.7 billion, Kshs.11.3 billion, and Kshs.7.0 billion, respectively. Development Expenditure for the period ending July 2022 was Kshs.5.6 billion, against a target of Kshs.6.8 billion, recording a shortfall of Kshs.1.2 billion.

### 3.3 Fiscal Balance and Financing

Overall, fiscal deficit including grants (on cash basis) for the period ending July 2022 was Kshs.11.7 billion (0.1 percent of GDP) against a target of Kshs.66.6 billion (0.5 percent of GDP) as shown in Figure 4. This deficit was financed by net foreign repayment of Kshs.10.8 billion (0.1 percent of GDP) and net domestic financing of Kshs.51.6 billion (0.4 percent of GDP). The net foreign financing consisted of disbursements (inflows) of Kshs.27.9 billion and external repayments (outflows) of principal debt of Kshs.38.6 billion.

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



Source: National Treasury

### 3.4 Fiscal Outlook for FY 2022/23

Going forward, revenue performance will be driven by economic recovery, and continued reforms in tax policy and revenue administration. As such, the total revenue including A-i-A is projected to grow by 11.9 per cent from Kshs.2,199.8 billion in FY2021/22 to Kshs.2,462.4 billion in FY2022/23. The Ordinary revenue for FY 2022/23 is expected to grow by 11.7 per cent to Kshs.2,141.6 billion from a collection of Kshs.1,917.9 billion in FY 2021/22.

The following factors are expected to support revenue outlook:

- i. Continued economic recovery across various sectors mainly due to implementation of Economic Recovery Strategy.
- ii. Realization of full impact from the implementation of the Finance Act, 2022.
- iii. Implementation of different initiatives by KRA to enhance revenue collection including roll-out of Tax Invoice Management System (TIMS) and implementation of compliance improvement plan.

Total expenditure and net lending is projected at Kshs.3,358.6 billion for FY2022/23 compared to Kshs.3,027.5 billion in FY2021/22. Of this, recurrent expenditure is expected to amount to Kshs.2,271.0 billion and development expenditure at Kshs.676.6 billion. Fiscal deficit inclusive of grants is projected at Kshs.862.9 billion (6.2 per cent of GDP) in the FY 2022/23.

### 3.5 Fiscal Consolidation Programme

In the 2022/23 budget, the Government aims to continue with its revenue mobilization and expenditure prioritization policy geared towards economic recovery. This will support sustained, rapid and inclusive economic growth, safeguard livelihoods and continue the fiscal consolidation programme, thus creating a fiscal space for the implementation of Government priority programmes in the medium term.

The medium-term consolidation policy aims at reducing fiscal deficit progressively from 6.2 per cent of GDP in 2022/23 to 4.4 per cent of GDP in 2023/24 and further to 3.2 per cent of GDP in 2025/26. In this respect, the Government shall closely monitor the impact of the current operating environment to the economy and accordingly adjust the fiscal plan to ensure that the development agenda remains sustainably funded. At the same time, the government is in the process of finalizing a National Tax Policy, and developing Medium Term Revenue Strategy(MTRS). This will enhance certainty in the budget process and improve implementation of Government programmes and projects while adhering to the fiscal consolidation plan.

### 3.6 Public Debt

The stock of public and publicly guaranteed debt increased by Kshs.882.4 billion to stand at Kshs. 8,579.1 billion as at June 2022 from Kshs. 7,696.1 billion as at June 2021. The increase is attributed to disbursements and exchange rate fluctuations on external debt; and the uptake of domestic debt during the period under review. Public debt net of government deposits was Kshs. 8,160.1 billion for the period under review as shown in Table 5.

**Table 5: Overall debt position from June 2020 to June 2022 (Kshs. Billion)**

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22*
<b>Bilateral</b>	1,074.3	1,102.9	1,157.0	1,142.7	1,140.5	1,150.0	1,171.7	1,171.6	1,173.2
<b>Multilateral</b>	1,321.6	1,421.8	1,498.8	1,495.6	1,659.4	1,702.7	1,782.1	1,817.4	1,924.0
<b>Commercial Banks</b>	1,102.3	1,120.8	1,119.4	1,113.4	1,187.4	1,197.5	1,208.3	1,208.2	1,181.3
<b>Suppliers Credits</b>	17.6	18.0	18.1	18.1	12.2	12.3	12.3	12.3	12.2
<b>Sub-Total External</b>	<b>3,515.8</b>	<b>3,663.5</b>	<b>3,793.3</b>	<b>3,769.9</b>	<b>3,999.5</b>	<b>4,062.5</b>	<b>4,174.4</b>	<b>4,209.6</b>	<b>4,290.7</b>
<b>Central Bank</b>	98.9	107.4	98.7	99.9	87.6	90.9	88.7	95.6	85.1
<b>Commercial Banks</b>	1,653.2	1,808.0	1,769.5	1,776.7	1,814.2	1,917.6	1,943.0	1,978.5	2,003.4
<b>Total Banks</b>	<b>1,752.1</b>	<b>1,915.4</b>	<b>1,868.2</b>	<b>1,876.6</b>	<b>1,901.8</b>	<b>2,008.6</b>	<b>2,031.7</b>	<b>2,074.1</b>	<b>2,088.5</b>
<b>Non-bank &amp; Non Residents</b>	1,425.5	1,541.7	1,620.6	1,693.3	1,795.3	1,929.2	2,000.7	2,118.3	2,199.8
<b>Sub-Total Domestic</b>	<b>3,177.5</b>	<b>3,457.1</b>	<b>3,488.8</b>	<b>3,569.8</b>	<b>3,697.1</b>	<b>3,937.8</b>	<b>4,032.4</b>	<b>4,192.4</b>	<b>4,288.3</b>
<b>Grand Total Gross</b>	<b>6,693.3</b>	<b>7,120.6</b>	<b>7,282.1</b>	<b>7,339.7</b>	<b>7,696.6</b>	<b>8,000.3</b>	<b>8,206.7</b>	<b>8,401.9</b>	<b>8,579.1</b>
<b>Less On-lending</b>	-5.7	-5.7	-5.7	-5.7	-	-	-	-	-
<b>Less Government Deposits</b>	-497.6	-614.4	-449.6	-416.8	-556.4	-544.2	-461.3	-449.1	-418.2
<b>Grand Total Net</b>	<b>6,190.0</b>	<b>6,500.5</b>	<b>6,826.8</b>	<b>6,917.2</b>	<b>7,140.2</b>	<b>7,456.1</b>	<b>7,745.5</b>	<b>7,967.9</b>	<b>8,160.9</b>

\* Provisional

Source: The National Treasury and Central Bank of Kenya

In dollar terms, the external public debt stock decreased by USD 670.41 million to USD. 36,413.89 million as at end of June, 2022 from USD. 37,084.30 million at end of June 2021 as shown in Table 6. This comprised

of 44.8, 27.3, 27.5, and 0.3 per cent debt owed to multilateral, bilateral, commercial banks and Suppliers Credit lenders, respectively.

**Table 6: Kenya's Public and Publicly Guaranteed External Debt, June 2022 (USD millions)**

CREDITOR	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22*
<b>BILATERAL</b>									
AUSTRIA	13.14	13.52	14.18	13.57	13.33	12.98	12.28	11.94	11.04
BELGIUM	112.42	113.07	123.31	121.7	117.61	119.13	114.42	116.88	109.81
CANADA	0	0	0	0	0	0	0	0	0
DENMARK	5.67	5.41	5.03	4.33	4.39	4.3	4.18	4.12	3.88
FINLAND	13.4	12.51	13.11	11.16	11.31	9.71	9.42	7.93	7.5
FRANCE	748.38	762.54	835.65	800.13	851.83	836	812	800.51	764.63
GERMANY	333.07	345.47	342.54	323.67	338.31	331.43	336.11	351.21	332.55
ITALY	349.64	365.49	383.17	366.88	371.85	364.79	353.78	347.71	328.79
JAPAN	1,423.97	1,489.84	1,525.90	1,447.97	1,474.72	1,463.17	1,416.58	1,382.43	1,245.99
NETHERLANDS	0.51	0.53	-	-	-	-	-	-	-
USA	14.83	12.32	11.98	11.77	13.14	12.44	12.26	10.78	10.69
CHINA	6,753.13	6,731.17	7,016.85	7,013.42	7,056.92	6,917.51	6,951.45	6,835.26	6,830.10
OTHERS	316.66	313.28	326.17	320.06	321.73	337.44	333.61	323.09	311.8
<b>TOTAL</b>	<b>10,084.80</b>	<b>10,165.16</b>	<b>10,597.89</b>	<b>10,434.65</b>	<b>10,575.15</b>	<b>10,408.90</b>	<b>10,356.09</b>	<b>10,191.86</b>	<b>9,956.78</b>
<b>MULTILATERAL</b>									
ADB/ADF	2,475.99	2,726.74	2,910.65	2,886.38	2,988.35	3,068.91	3,187.81	3,317.25	3,269.84
BADEA	36.66	36.34	38.36	37.51	39.53	38.94	38.72	39.2	41.1
EEC/EIB	157.67	186.99	195.65	185.05	215.38	203.88	197.09	188.94	176.12
IBRD	250	250	296.11	294.15	294.98	298.58	297.56	296.74	569.35
IDA/IFAD	8,399.27	8,808.04	9,219.83	9,220.59	10,146.65	10,118.26	10,150.48	10,099.33	10,474.77
IMF	1,038.33	1,047.10	1,016.70	985.04	1,652.44	1,635.00	1,834.49	1,824.62	1,751.87
OTHERS	49.13	49.66	51.86	48.32	48.97	47.26	44.83	43.87	45.43
<b>TOTAL</b>	<b>12,407.05</b>	<b>13,104.87</b>	<b>13,729.16</b>	<b>13,657.03</b>	<b>15,386.29</b>	<b>15,410.83</b>	<b>15,750.98</b>	<b>15,809.95</b>	<b>16,328.48</b>
<b>COMMERCIAL<sup>1</sup></b>									
O/W	10,348.00	10,330.26	10,253.45	10,167.10	11,010.10	10,838.54	10,679.43	10,510.99	10,025.49
International									
Sovereign Bond									
EXPORT	165.51	165.51	165.51	165.51	7,106.58	7,100.00	7,106.28	7,100.00	7,100.00
CREDIT					112.77	111.17	108.74	107.58	103.14
<b>GRAND TOTAL</b>	<b>33,005.37</b>	<b>33,765.80</b>	<b>34,746.02</b>	<b>34,424.30</b>	<b>37,084.30</b>	<b>36,769.44</b>	<b>36,895.24</b>	<b>36,620.38</b>	<b>36,413.89</b>
<b>In percentage of total</b>									
BILATERAL	30.56	30.1	30.5	30.31	28.52	28.31	28.07	27.83	27.34
MULTILATERAL	37.59	38.81	39.51	39.67	41.49	41.91	42.69	43.17	44.84
COMMERCIAL	31.35	30.59	29.51	29.53	29.69	29.48	28.95	28.7	27.53
BANKS <sup>1</sup>									
EXPORT	0.5	0.49	0.48	0.48	0.3	0.3	0.29	0.29	0.28
CREDIT									
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Provisional

Source: The National Treasury and Central Bank of Kenya

### Provisional External Debt Service as at end of July 2022

As at end July 2022, the external debt service payments amounted to Kshs.54.8 billion. This comprised Kshs.38.6 billion principal repayments and Kshs.16.2 billion interest payments as shown in Table 7. Commercial, Bilateral and Multilateral creditors constituted 11.3, 83.4, and 5.3 per cent of the total external debt service respectively.

Table 7: External Debt Service by end July, 2022 (Kshs. Billions)

CATEGORY	PRINCIPAL	INTEREST	TOTAL
BILATERAL		10.52	42.46
CHINA	31.94		2.34
FRANCE	2.10	0.24	0.49
GERMANY	0.46	0.03	0.00
ITALY	-	0.00	0.13
JAPAN	-	0.13	0.01
SAUDI ARABIA	0.01	0.00	
SPAIN	0.27	0.03	0.30
TOTAL BILATERAL	34.78	10.96	45.73
MULTILATERAL		0.05	0.05
IBRD	0.00	0.20	1.45
IDA	1.26	0.04	0.19
IFAD	0.15	0.35	0.94
ADB/ADF	0.58	0.02	0.23
EIB/EEC	0.21	0.00	0.02
OPEC	0.02	0.01	0.01
BADEA	0.00	0.67	2.90
TOTAL MULTILATERAL	2.23	0.67	6.21
COMMERCIAL	1.63	4.58	54.84
GRAND TOTAL	38.64	16.21	

\* Provisional

Source: The National Treasury and Central Bank of Kenya

Kenya's public debt remains sustainable in line with the PFM Act, 2012 which requires that public debt and obligations remain at sustainable levels. As shown in Table 8, the Present Value (PV) of external debt-to-export and Public and Publicly Guaranteed (PPG) of debt-service-to-exports indicators remained above the thresholds throughout the medium-term projection period. This is attributed to high deficits combined with the sharp slowdown in exports and economic growth in 2020 caused by the pandemic. However, the debt indicators will improve as fiscal consolidation progresses and exports and output recover from the global shock. In addition, the Government has put in place various measures to increase tax revenue and control expenditures in order to reduce the fiscal deficit over the medium term.

Table 8: External Debt Sustainability Analysis

Indicators	Thresholds	2020	2021	2022*	2023*	2024*	2025*
PV of debt-to-GDP ratio	40	27.1	28.2	27.2	26.9	25.9	25.6
PV of debt-to-exports ratio	180	280.1	278.5	241.7	225.6	207.5	198.8
PPG Debt service-to-exports ratio	15	24.7	21.6	23.7	19.5	28.8	17.4
PPG Debt service-to-revenue ratio	18	14.6	13.6	16.0	13.3	20.0	12.2

\* Projection

Source: IMF Country Report No. 21/275, December 2021

## 4.0 EXTERNAL TRADE AND BALANCE OF PAYMENTS

### 4.1 Balance of Payments

The current account deficit relative to GDP is estimated at 5.1 percent (USD 5,868 million) in the year to July 2022 compared with 5.2 percent (USD 5,495 million) in the year to July 2021, reflecting increased imports amid steady growth in exports of tea and horticulture, strong growth of remittances and recovery of cross-border services.

The deficit in the goods account widened to USD 12,403 million in the year to July 2022, largely reflecting an increase in imports of petroleum products due to high international oil prices. Imports of goods increased by 20.3 percent to stand at USD 19,604 million in July 2022 from USD 16,298 million in July 2021, reflecting increased imports of oil and other intermediate goods. Imports of intermediate goods also increased, attributed to increases in economic activities after the country lifted the COVID-19 restrictions. The performance of exports improved by 11.3 percent to USD 7,200 million in the year to July 2022. Earnings from tea remained relatively stable reflecting demand from traditional markets (UK, Asia and Africa). Exports of manufactured goods also increased by 23.3 percent in the period under review. However, horticulture receipts fell by 10.7 percent due to a drop in earnings in the third quarter.

Total receipts from services almost doubled to USD 6,711 million in the year to July 2022 compared to a similar period in 2021, driven by international travel and transport, and ICT. Financial flows to Kenya were USD 5,746 million in the year to July 2022 compared to USD 5,160 million in a similar period in 2021. Financial inflows into Kenya have mainly been driven by other investment flows to the government, banks and nonfinancial corporations as shown in Table 9

The usable foreign exchange reserves remained adequate at USD 7,375 million (4.20 months of import cover) as of September 1, 2022. This meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover.

Table 9: Balance of payment development

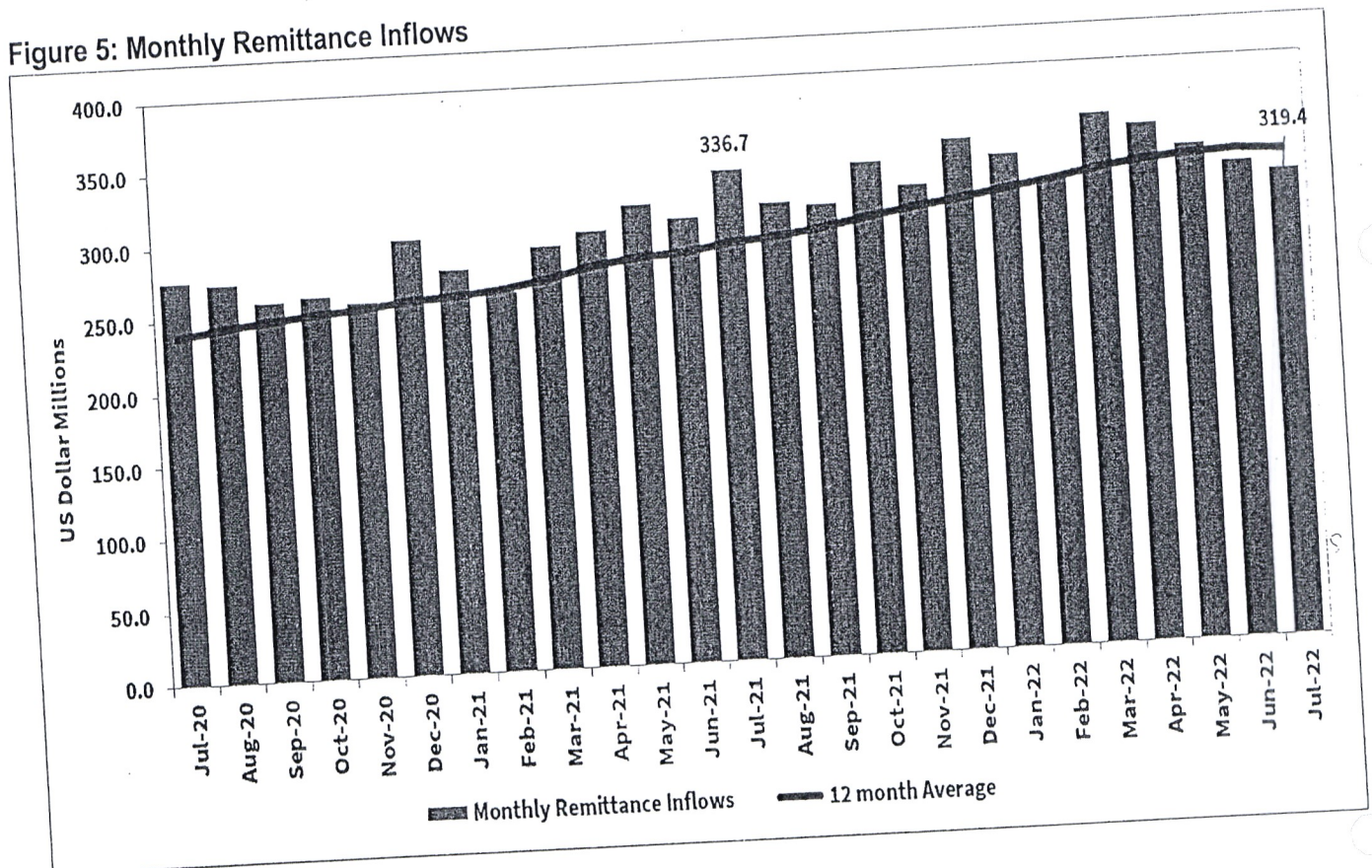
	Jul-20 Actuals	Jul-21 Provisional	Jul-22 Provisional	Percentage Change
<b>Current account</b>				
Trade balance	-4,854	-5,495	-5,868	6.8
Goods: exports, f.o.b.	-9,233	-9,831	-12,403	26.2
Tea	5,918	6,467	7,200	11.3
Horticulture	1,234	1,181	1,289	9.2
Manufactured Goods	901	1,136	1,014	-10.7
Other	366	463	571	23.3
Goods: imports, f.o.b.	3,417	3,687	4,326	17.3
Oil products	15,151	16,298	19,604	20.3
Other	2,549	2,710	4,955	82.8
Machinery & Transport equipment	8,195	9,333	10,173	9.0
Services balance	4,407	4,255	4,476	5.2
Services, Credit	861	212	1,840	768.7
Transportation	4,436	3,882	6,711	72.9
Travel	1,584	1,149	2,237	94.6
Services, Debit	741	683	1,000	46.5
Transportation	3,576	3,670	4,872	32.8
Primary income, balance	1,242	1,341	2,258	68.4
Secondary income, balance	-1,511	-1,382	-1,702	23.2
Remittances	5,030	5,506	6,389	16.0
Capital account	2,884	3,494	4,027	15.3
Financial Account	146	206	246	19.9
Foreign Direct Investment	-4,223	-5,095	-5,710	12.1
Portfolio Investment	-636	102	-593	-680.8
Other Investment	1,220	-306	965	-415.4
	-4,807	-4,891	-6,082	24.4

Source: Central Bank of Kenya

### 4.3 Remittances from the Diaspora

Diaspora remittances inflows in July 2022 totaled USD 319.4 million compared to USD 336.7 million in July 2021, a decline of 5.1 per cent Figure 5. The cumulative inflows for the 12 months to July 2022 totaled USD 3,995 million compared to USD 3,442 million in the same period in 2021, an increase of 16.1 per cent. The strong remittances inflows continue to support the current account and the stability of the exchange rate. The US remains the largest source of remittances into Kenya, accounting for 58 per cent in July 2022.

Figure 5: Monthly Remittance Inflows



Source: Central Bank of Kenya

### 4.3 Exchange Rate

The Kenya Shilling exchange rate was stable against major international currencies amid high demand for the US dollar in the international markets. It weakened by 9.4 percent against the US Dollar to exchange at an average of 119.45 in August 2022 compared with 109.24 in 2021. It however, strengthened against the Sterling Pound, the Euro, and the Japanese Yen. It also outperformed all East African Regional currencies with Ugandan and Tanzanian Shillings depreciating against Kenya Shilling strongly as shown in Table 10.

Table 10: Foreign Exchange Rate

	2021							2022							Annual	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	% change
US Dollar	107.81	108.14	109.24	110.15	110.86	111.92	112.91	113.38	113.66	114.32	115.40	116.28	117.29	118.32	119.45	9.35
Pound Sterling	151.45	149.37	150.87	151.51	151.58	150.97	150.15	153.59	153.71	151.00	150.09	145.08	144.83	141.85	143.46	-4.91
Euro	130.07	127.89	128.59	129.78	128.60	127.94	127.64	128.42	128.79	126.21	125.52	122.96	124.14	120.72	121.03	-5.88
100 Japanese Yen	97.99	98.00	99.47	100.06	98.03	98.19	99.20	98.63	98.69	96.64	91.83	90.30	87.58	86.57	88.51	-11.02
South Africa Rand	7.76	7.45	7.39	7.56	7.44	7.23	7.10	7.31	7.45	7.61	7.73	7.34	7.44	7.03	7.16	-3.12
Uganda Shilling*	32.84	32.84	32.39	32.06	32.28	31.74	31.49	31.13	30.92	31.39	30.68	31.24	31.91	32.04	32.08	-0.95
Tanzania Shilling*	21.51	21.44	21.23	21.04	20.78	20.57	20.20	20.33	20.35	20.27	20.13	20.00	19.87	19.71	19.52	-8.05
Rwanda Franc*	9.30	9.31	9.23	9.20	9.17	9.15	9.18	9.15	9.11	8.91	8.83	8.78	8.72	8.68	8.64	-6.38
Burundi Franc*	18.39	18.32	18.16	18.03	17.94	17.99	17.65	17.61	17.59	17.79	17.78	17.66	17.54	17.40	17.26	-4.93

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

## 5.0 BANKING AND FINANCIAL SECTOR

### 5.1 Money Supply and Domestic Credit

Annual growth in broad money, M3, increased to 7.6 per cent in July 2022 compared to 6.9 per cent in July 2021, mainly supported by an increase in lending to the private sector. Credit to the private sector grew by 14.2 per cent in the 12 months to July 2022 supported by improved demand with recovery in economic activities. Strong lending was registered in transport and communication, manufacturing, trade, business services, consumer durables, and building and construction as shown in Table 11.

**Table 11: 12-Month Growth in Private Sector Credit by activity (%)**

Sectors	Shares in credit		12-month growth in Private Sector Credit (%)													
	July-22	Mar-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	
Agriculture	3.1	12.3	4.3	3.7	2.8	1.4	3.3	0.5	1.3	3.0	7.7	6.4	11.6	12.5	10.8	
Manufacturing	15.1	10.7	1.5	8.1	9.4	9.3	9.8	13.1	9.7	7.6	9.9	12.0	15.5	15.2	16.1	
Trade	17.4	2.1	3.8	1.9	1.3	2.7	4.7	8.5	9.6	8.9	10.4	10.7	9.1	11.6	15.2	
<i>o/w domestic trade</i>	15.8	4.2	3.2	1.5	1.5	3.4	4.4	8.4	8.8	8.2	9.6	9.8	10.2	12.8	16.6	
Building & construction	4.1	2.9	4.5	2.0	0.4	1.7	0.5	1.9	2.9	7.9	6.4	8.2	9.0	13.9	14.1	
Transport & communication	8.2	17.4	16.3	11.8	0.2	11.8	10.9	14.3	20.7	24.1	25.0	28.9	26.5	22.2	27.0	
Finance and insurance	3.4	7.5	6.7	11.5	8.9	7.7	11.7	5.8	3.5	3.6	3.6	5.8	5.3	6.5	2.8	
Real estate	12.6	7.7	5.7	4.0	3.2	2.8	2.9	0.6	0.5	0.7	0.5	0.8	0.8	0.5	1.7	
Mining & quarrying	0.6	(3.6)	(18.1)	(13.0)	(22.1)	(23.1)	(8.4)	42.9	24.9	(10.7)	(4.9)	28.3	47.9	28.5	78.6	
Private households	14.9	2.9	3.1	3.2	2.4	2.0	2.6	3.7	4.3	5.0	7.5	6.7	7.5	6.1	7.6	
Consumer durables	10.9	17.6	22.0	23.4	21.7	20.1	17.6	15.0	14.6	14.0	15.6	16.1	15.1	14.7	14.8	
Business services	5.7	5.7	6.9	5.2	4.9	5.8	7.6	9.5	8.4	11.6	14.7	12.2	11.3	15.2	16.9	
Other activities	3.9	5.2	39.8	65.2	58.0	56.0	59.5	38.9	46.8	49.7	60.5	53.6	57.5	57.2	69.8	
<b>Total Private Sector Credit</b>	<b>100.0</b>	<b>7.7</b>	<b>7.1</b>	<b>7.7</b>	<b>6.1</b>	<b>7.0</b>	<b>7.7</b>	<b>8.6</b>	<b>8.8</b>	<b>9.1</b>	<b>10.9</b>	<b>11.5</b>	<b>11.9</b>	<b>12.3</b>	<b>14.2</b>	

Source: Central Bank of Kenya

### 5.2 Capital Market

Trading of equities at the Nairobi Securities Exchange (NSE) declined in July 2022 compared to July 2021. The Nairobi Securities Exchange All Share Index (NASI), NSE 25 and NSE 20 Share price indices declined by 20.5 per cent, 15.8 per cent, and 13.8 per cent, in July 2022 compared to July 2021, respectively. Market capitalization, equities turnover and total number of shares traded declined by 20.5 per cent, 13.8 per cent, and 7.4 per cent, respectively. The share of foreign investors trading in equities also declined to 50.6 per cent in July 2022 from 56.2 per cent in July 2021.

In the domestic secondary bond market, bonds turnover declined by 33.3 per cent to Kshs.61.9 billion in July 2022 from Kshs.92.8 billion in July 2021. In the international market, yields on Kenya's Eurobonds increased by an average of 912.8 basis points as shown in Table 12.

Table 12: 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 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)
Jan-20	162.09	4,023.35	2,600.41	336.00	12,336.19	2,473.87	38,971.81	712.00	60.60	96.48	5.65	4.74	6.01	6.89		7.59
Feb-20	148.60	3,662.74	2,337.03	385.15	12,265.15	2,267.61	50,349.99	948.00	62.81	97.05	6.01	5.10	6.23	6.94		7.65
Mar-20	131.92	3,109.00	1,966.12	639.33	19,092.00	2,016.06	68,734.89	1,222.00	60.01	97.13	8.78	8.26	8.57	9.08		9.03
Apr-20	139.69	3,292.64	1,958.07	439.03	12,659.61	2,135.01	30,549.27	647.00	64.96	97.31	9.27	9.67	9.23	9.66		9.52
May-20	137.13	3,203.94	1,948.08	430.26	14,573.20	2,095.92	47,152.10	1,004.00	65.38	98.27	8.12	8.05	8.18	8.76		8.88
Jun-20	137.68	3,217.11	1,942.12	552.55	12,301.61	2,105.36	58,949.92	1,376.00	63.43	98.34	7.30	6.48	7.51	8.21		8.41
Jul-20	133.23	3,059.56	1,880.84	517.07	13,469.60	2,036.04	69,993.89	1,073.00	60.62	98.30	7.32	6.43	7.40	8.14		8.43
Aug-20	139.68	3,223.79	1,804.10	470.56	10,543.37	2,144.43	70,462.01	1,203.00	65.14	98.24	6.95	6.02	7.08	7.63		8.20
Sep-20	139.89	3,258.78	1,794.85	524.53	13,923.59	2,147.74	87,406.25	1,882.00	75.55	98.00	7.44	6.37	7.49	8.19		8.67
Oct-20	140.04	3,170.87	1,852.29	219.42	5,880.91	2,150.06	62,672.73	1,356.00	68.16	97.77	6.19	5.12	6.62	7.34		8.16
Nov-20	145.20	3,264.15	1,783.68	381.00	11,393.00	2,229.00	48,524.72	1,222.00	67.97	97.50	5.21	4.42	5.61	6.16		7.24
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	156.6	3,434.5	1,868.4	281.7	8,176.3	2,405.3	54,414.5	2,070.0	29.7	97.2	4.8	3.7	5.3	6.1		7.2
Feb-21	165.4	3,625.0	1,915.7	330.7	10,819.7	2,541.2	77,395.0	2,124.0	62.0	97.0	4.6	3.2	5.3	6.3		7.3
Mar-21	158.6	3,531.6	1,846.4	372.9	12,064.0	2,437.0	67,569.0	1,658.0	56.4	96.4	5.6	3.6	6.3	7.1		8.0
Apr-21	169.2	3,674.8	1,866.6	293.0	9,877.6	2,599.1	67,590.6	2,046.0	64.8	96.7	5.0	3.2	5.7	6.7		7.7
May-21	170.0	3,669.6	1,871.6	385.9	14,161.7	2,646.7	107,044.6	4,286.0	56.7	96.8	4.6	3.1	5.3	6.2		7.3
Jun-21	173.5	3,772.2	1,927.5	420.7	13,952.6	2,702.2	96,603.9	1,668.0	54.7	96.8	4.8	3.3	5.4	6.3	6.3	7.4
Jul-21	177.5	3,890.1	1,974.3	285.0	9,275.3	2,766.3	92,753.2	1,720.0	56.2	96.9	4.8	3.3	5.4	6.2	6.2	7.3
Aug-21	182.3	4,018.8	2,020.8	344.6	11,854.1	2,841.4	87,139.6	2,010.0	48.5	96.6	4.6	3.1	5.0	6.0	5.9	7.1
Sep-21	178.3	3,914.5	2,031.2	317.0	10,232.0	2,778.6	118,188.8	2,589.0	49.9	96.7	5.0	3.2	5.4	6.5	6.5	7.5
Oct-21	178.0	3,851.7	1,961.3	264.3	10,274.2	2,777.1	66,243.6	1,924.0	64.8	96.8	5.5	3.7	5.7	6.7	6.6	7.9
Nov-21	163.9	3,633.5	1,871.3	457.2	15,584.0	2,552.9	65,793.7	2,003.0	51.2	96.6	6.0	4.4	6.2	7.1	7.0	8.4
Dec-21	166.5	3,743.9	1,902.6	285.6	10,463.8	2,592.9	53,224.3	3,022.0	57.2	96.1	5.6	4.4	5.8	6.7	6.6	8.1
Jan-22	163.3	3,680.2	1,889.3	220.5	8,247.7	2,543.4	48,426.3	2,972.0	59.7	96.5	6.3	4.2	6.6	7.2	7.1	8.7
Feb-22	160.3	3,621.2	1,886.8	281.3	9,971.5	2,495.9	54,884.6	2,060.0	57.0	96.4	8.1	5.4	8.1	8.8	8.6	9.6
Mar-22	155.7	3,565.1	1,846.7	251.3	9,641.0	2,425.5	87,640.4	3,066.0	47.9	95.7	8.1	6.9	8.2	8.7	8.3	9.5
Apr-22	150.2	3,382.8	1,800.6	192.9	5,851.4	2,340.8	71,363.7	1,895.0	62.9	94.8	10.5	8.7	10.0	10.4	10.0	11.0
May-22	128.8	3,055.9	1,681.8	320.0	10,778.0	2,006.0	58,877.8	2,066.0	64.0	94.8	10.4	10.3	10.0	10.2	9.6	10.8
Jun-22	124.5	2,953.6	1,612.9	357.5	9,607.7	1,939.2	65,425.9	2,647.0	57.8	95.0	16.1	17.0	14.7	13.8	12.7	13.7
Jul-22	141.1	3,274.8	1,701.3	264.0	7,998.5	2,198.3	61,862.7	2,092.0	50.6	94.7	16.3	16.2	14.9	14.0	13.2	13.3

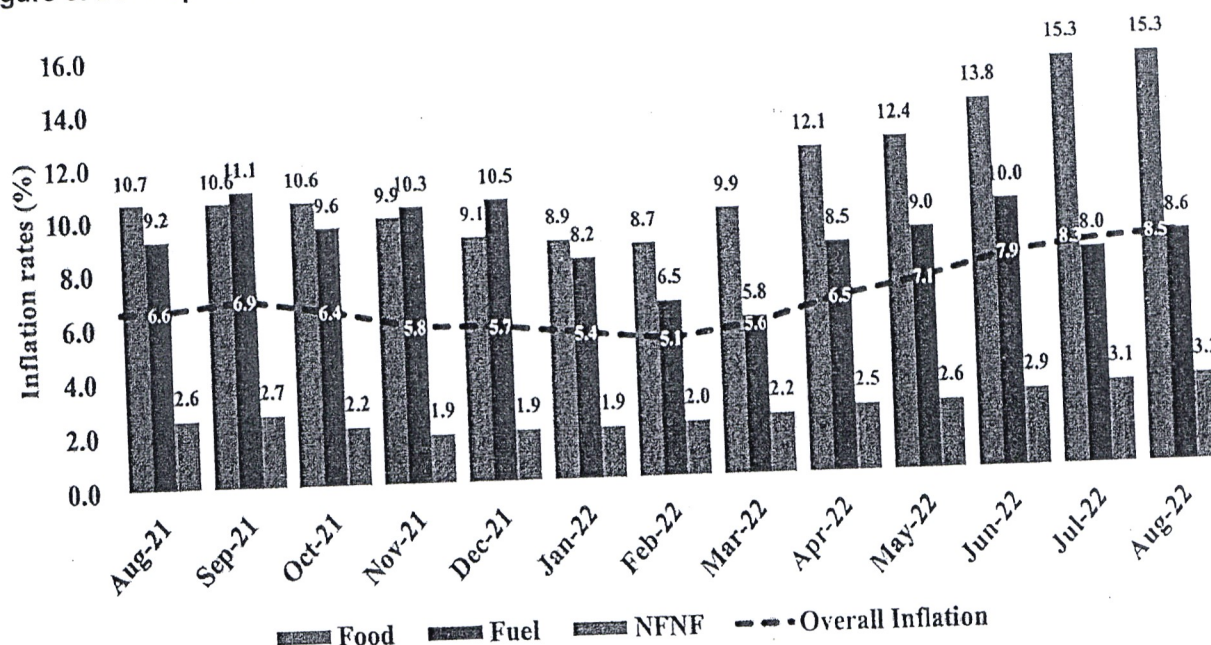
Source: NSE and Reuters

## 6.0 PERFORMANCE OF OTHER MACRO –ECONOMIC INDICATORS

### 6.1 Inflation

Inflation remained above the upper bound of the medium-term inflation target band of  $5\pm 2.5$  per cent for the third consecutive month, mainly driven by supply side factors. It increased further to 8.5 per cent in August from 8.3 per cent in July, on account of elevated food prices. Food inflation remained elevated and unchanged at 15.3 per cent in August, reflecting poor harvest following unfavourable weather conditions as well as supply constraints. Fuel inflation increased in line with elevated international energy prices despite pump prices remaining unchanged in the August 14 review by Energy and Petroleum Regulatory Authority (EPRA). It increased to 8.6 per cent from 8.0 per cent in July, and contributed 1.9 percentage points to overall inflation. Non-Food Non-Fuel inflation remained stable, reflecting muted demand pressures in the economy. It increased to 3.2 per cent from 3.1 per cent in July, and contributed 1.1 percentage points to overall inflation as shown in Figure 6. Inflation is projected to revert to the target band in the near term supported by improving food situation with the expected harvest of maize in September and favorable weather conditions leading to decline in prices of vegetables.

Figure 6: Developments in inflation rates



Source: KNBS and Central Bank of Kenya

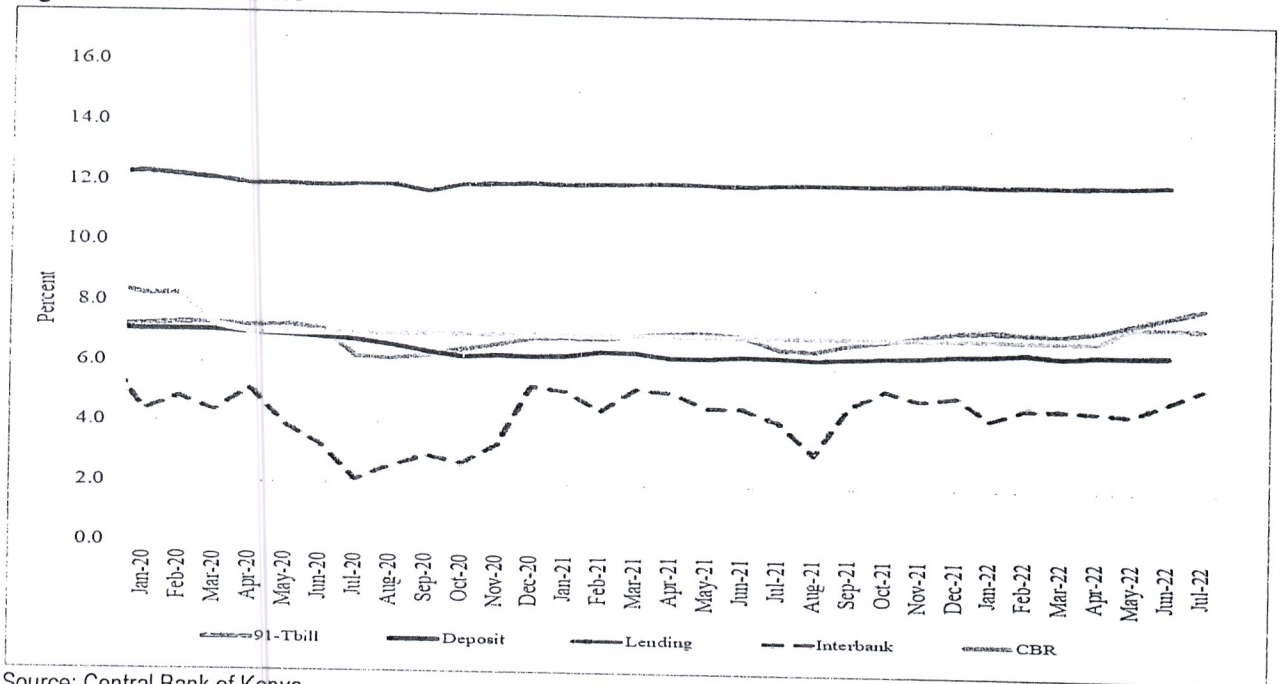
### 6.2 Interest rates

The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 7.50 per cent in July 2022. The MPC noted that its action of tightening monetary policy in May 2022 was timely in anticipating inflationary pressures, and its impact was still transmitting through the economy. This action was complemented by an additional package of fiscal measures by the Government to moderate the prices of specific items. These developments are expected to ease domestic inflationary pressures in the near term.

Short term interest rates increased slightly in July 2022, partly reflecting liquidity conditions in the market. The weighted average inter-bank rate increased to 5.50 per cent in July 2022 from 4.17 per cent in July 2021. The average 91-day Treasury bill rate increased to 8.21 per cent in July 2022 compared to 6.64 per cent July 2021.

Commercial banks' lending and deposit rates remained relatively stable in June 2022. The weighted average lending rate increased marginally to 12.27 per cent in June 2022 from 12.02 per cent in June 2021, while the weighted average deposit increased to 6.62 per cent from 6.37 per cent over the same period as shown in Figure 7.

Figure 7: Interest Rates



Source: Central Bank of Kenya

## 7.0 OUTLOOK FOR 2022

### 7.1 Global Economy

According to IMF World Economic Outlook (July 2022), the Global economy is projected to decline from the estimated 6.1 per cent in 2021 to 3.2 per cent in 2022 and moderated to 2.9 per cent in 2023 as shown in Table 13. The projected decline in global growth is mainly attributed to several shocks that affected the global economy that resulted in slower growth. These include: higher than expected world-wide inflation in the USA and major European economies; this resulted in contractionary monetary policy in the United States that triggered tighter financial conditions that led to reduction in household purchasing power since wages growth has not kept pace with the rising inflation; a worse than anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and downturns in China and Russia due to negative cross-border effects from the war in Ukraine. China's growth is expected to decline from 8.1 per cent in 2021 to 3.3 per cent in 2022 due to the pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and the deepening real estate crisis. In the Euro Area, growth slows down due to spillovers from the conflict in Ukraine and tighter monetary policy. As a result, Euro Area GDP growth in 2022 is expected to decline to 2.6 per cent, with growth in Germany and France projected at 1.2 and 2.3 per cent respectively.

In 2023, tightening of monetary policy and spillovers from the Russia-Ukraine conflict is expected to adversely affect global output. Global growth is expected to decline to 2.9 per cent with the US and Euro area growth slowing down to 1.0 per cent and 1.2 per cent respectively.

**Table 13: Global Economic Outlook and Growth in the Leading Economies**

	2020	2021	2022*	2023*
<b>World Economy</b>	-3.1	6.1	3.2	2.9
<b>Advanced Economies</b>	-4.5	5.2	2.5	1.4
United States	-3.4	5.7	2.3	1.0
Japan	-4.5	1.7	1.7	1.7
United Kingdom	-9.3	7.4	3.2	0.5
Euro Area	-6.3	5.4	2.6	1.2
Germany	-4.6	2.9	1.2	0.8
<b>Emerging Markets &amp; Developing Economies</b>	-2.0	6.8	3.6	3.9
China	2.2	8.1	3.3	4.6
India	-6.6	8.7	7.4	6.1
Russia	-2.7	4.7	-6.0	-3.5
<b>Latin America &amp; Caribbean</b>	-6.9	6.9	3.0	2.0
<b>Middle East &amp; Central Asia</b>	-2.9	5.8	4.8	3.5
<b>Sub-Sahara Africa</b>	-1.6	4.6	3.8	4.0

Source: IMF World Economic Outlook (July 2022)

\* Projections

### 7.2 Regional Economies and Sub-Saharan Africa

Table 14 indicates that Economic growth in Sub-Saharan Africa rebounded to 4.6 per cent in 2021 from a contraction of 1.6 per cent in 2020 mainly due to easing of Covid-19 restrictions that led to recovery of economic activities. Sub-Saharan Africa (SSA) growth is expected to decline to 3.8 per cent in 2022 as domestic price pressures, partly induced by supply disruptions owing to the war in Ukraine reducing food

affordability, and real incomes as well as surging fuel prices across the region. In addition, growth might be hampered by rapid increase in living costs in some countries and acceleration in the pace of monetary tightening in advanced economies which may lead to higher borrowing cost and weaker external demand. Finally, persistent domestic inflation could hasten monetary policy tightening, increasing the risk of stagflation across the region.

**Table 14: Economic Outlook for SSA and Regional Economies**

	2020	2021	2022*	2023*
SSA <sup>+</sup>	-1.6	4.6	3.8	4.0
South Africa <sup>+</sup>	-6.3	4.9	2.3	1.4
Nigeria <sup>+</sup>	-1.8	3.6	3.4	3.2
Burundi	0.3	1.8	2.5	3.3
Kenya	-0.3	7.5	5.5	5.0
Rwanda	-3.4	10.9	6.8	7.2
Tanzania	2.0	4.3	5.3	5.7
Uganda	3.0	3.4	3.7	5.1

Source: World bank Global Economic Prospects: Sub-Saharan Africa (June, 2022)

<sup>+</sup>IMF World Economic Outlook (July 2022)

\* Projections

### 7.3. Medium-Term Prospects for Kenya

The country's economic performance remained robust in the first quarter of 2022 registering a growth of 6.8 per cent as compared to 2.7 per cent achieved over a similar period in 2021. The strong performance was supported by recovery of most economic activities that had contracted during the first quarter of 2021 as a result of Covid-19 pandemic and subsequent containment measures.

Kenya's economy is estimated to grow by 5.6 per cent in 2022 with an average projected growth of 5.9 per cent in the medium term. The expected slowdown in economic performance in 2022 is premised on the diverse risks associated with global geo-politics such as Ukraine-Russia conflict affecting commodity prices; and the expected low agricultural production due to adverse weather conditions. In the medium term, the economy is expected to stabilize with the hope that there will be a recovery of economic activities both at the global and Sub-Sahara African economies. Further, inflation rate is expected to remain within the Government's policy target range of 5±2.5 per cent in the medium term, with a projected rate of 6.6 per cent in 2022 from the 6.1 per cent in 2021. The elevated inflation is attributed to the rising commodity prices especially food and fuel. Inflationary pressure is expected to ease in the medium term to an average of 5.8 per cent in 2023 and 5.1 per cent in 2024 as the Government puts in place measures such as fuel subsidy program, lower electricity tariffs and subsidies on fertilizer prices to cushion citizens from the increasing prices.

The easing of containment measures and recovery of economic activities boosted households' income in 2021. This is reflected in the private consumption that grew by 6.4 per cent in 2021 compared to a contraction of 2.6 per cent experienced in 2020. The private consumption is expected to continue with a recovery trajectory in the near term averaging 6.0 per cent reflecting recovery of economic activity from the 2020

slump. The conducive environment created by investment in infrastructure, security and other enablers such as ICT (digitization), energy among others would be expected to support sustained private consumption and investment in 2022 and beyond. In addition, the resumption of full capacity physical meetings, sports and public transportation pronounced on 11<sup>th</sup> March 2022 is key towards full recovery of the various sectors.

The low performance of exports and inflationary pressures weakened the Kenya Shilling to exchange at an average of Kshs.109.6 in 2021. The Kenya Shilling against the dollar is projected to depreciate in 2022 to Kshs.118.4 in the event that the ongoing Russia-Ukraine conflict persists. Nevertheless, with the continued policy support by the Central Bank of Kenya, the Shilling is envisaged to appreciate to Kshs.112.6 by 2024. The current account balance is envisaged to remain fairly stable in the medium term supported by improvement in exports and diaspora remittances inflow. In 2022, the current account balance is expected to widen slightly to 5.6 per cent as compared to 5.5 per cent attained in 2021 as the imports outpaced the exports due to the rising global commodity prices, especially the oil and food prices. In addition, the depreciation of the Kenya shilling and the effects of Russia-Ukraine conflict could contribute to the widening of the current account balance. However, improved economic activities are envisaged to narrow down the current account balance in the medium-term.

**Table 15: Economic outlook for 2021-2024**

	2019	2020	2021	2022*	2023*	2024*
<b>Rates (%)</b>						
GDP Growth	5.1	-0.3	7.5	5.6	5.9	6.2
Inflation	5.2	5.4	6.1	6.6	5.8	5.1
Interest Rate	6.9	6.9	7.0	7.5	7.5	7.2
<b>Volume Growth</b>						
Private Consumption	5	-2.6	6.4	5.6	6.1	6.3
Government Consumption	5.6	3	5.7	5.9	6.5	6.4
Private Investments	8.5	6.5	3.9	3.	5.6	4.0
Government Investments	18.1	8.7	4.2	4.5	6.3	5.4
Export Goods and Service	-3.2	-8.8	12.9	4.4	5.7	6.2
Import Goods and Service	1.8	-9.2	18.9	3.9	4.5	4.4
<b>% of GDP</b>						
Current Account Balance	-5.2	-4.8	-5.5	-5.6	-5.4	-5.1
<b>Index</b>						
Kshs. per Dollar	102.1	106.5	109.6	118.4	115.2	112.6

Source: KIPPRA (2022), KIPPRA Treasury Macroeconomic Model (KTMM) where \* is forecast

## 8.0 RISKS TO THE ECONOMIC OUTLOOK

- i. Inflationary pressures may adversely affect household livelihood, and cost of production;
- ii. The volatility of the Kenya Shilling against major international currencies may further exacerbate high inflation, increase borrowing costs and debt servicing;
- iii. Russia-Ukraine geopolitical tensions continues to hamper global trade due to disruption of supply chains and cooperation;
- iv. Continued drought within the country as well as globally will dampen prospects of economic recovery in the domestic and global economy. Drought will have severe impacts on the energy sector, water use and summer crop yields;
- v. Increased public expenditure pressures particularly wage and other recurrent expenditure would put a strain to the fiscal space;
- vi. The uncertainty of persisting COVID-19 pandemic in China, increased monetary tightening in major economies as well as the recession fears in US and Europe might further suppress growth which may have spillover effect to the global economy.

## 9.0 RECOMMENDED ACTIONS

- i. Facilitate alternative source markets for imports to cushion the economy from the external shocks such as geo political tensions
- ii. Reduce over-reliance on rain-fed agriculture by investing more in drought resistant crops, increase the productivity of existing irrigation schemes and invest in smart agriculture.
- iii. All Ministries Departments Agencies and Counties (MDACs) should continue prioritizing payment of the pending bills by settling them as a first charge in line with the Treasury Circular No. 7/2019.
- iv. The Central Bank to continue monitoring inflation and exchange rates to ensure their stability.
- v. Continuous cooperation with bilateral and multilateral stakeholders to spearhead climate mitigation action to limit emissions and raise investments to hasten the green transition.
- vi. Continue the campaigns on uptake of COVID-19 vaccines and boosters jabs to curb spread of emerging variants and other health associated infections.
- vii. Enhance revenue collection and administration through:
  - a. Recruitment of additional active taxpayers into the tax bracket;
  - b. Implementation of Tax Invoice Management System (TIMS)
  - c. Improving compliance through implementation of comprehensive domestic taxes compliance improvement plan.