

REPUBLIC OF KENYA



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9th December, 2021

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Dear *CS/Minister,*

RE: REPORT ON THE STATUS OF THE KENYAN ECONOMY (DECEMBER, 2021)

Please find attached for your information and reference, a Report on the Status of the Kenyan Economy. The Report incorporates the most recent GDP estimates from Kenya National Bureau of Statistics (KNBS) as well as other recent data on the performance of the economy. The Report is produced by the National Treasury and Planning through consultative meetings with Central Bank of Kenya, Kenya Revenue Authority, Kenya National Bureau of Statistics and Kenya Institute of Public Policy Research and Analysis. The production of the Report also involved consultations with relevant Ministries, Department and Agencies with regard to sourcing of data and necessary information and analysis.

The Report provides a review of the Country's Economic Performance based on the most recently data (annual and quarterly GDP) sectoral performance, fiscal and monetary policies, banking and financial sector, balance of payments and economic outlook (global, regional and Kenya's). It provide risks to the Country's economic outlook as well as recommendations for implementation.

Yours

Sincerely,



Hon. (Amb.) Ukur Yatani, EGH
CABINET SECRETARY, NATIONAL TREASURY AND PLANNING

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REPUBLIC KENYA



THE NATIONAL TREASURY AND PLANNING

STATE DEPARTMENT FOR PLANNING

STATE OF THE ECONOMY


	
THE NATIONAL ASSEMBLY PAPERS LAID	
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PREAMBLE

The Status of Kenya Economy Report is a publication by Macroeconomic Planning and International Cooperation 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:

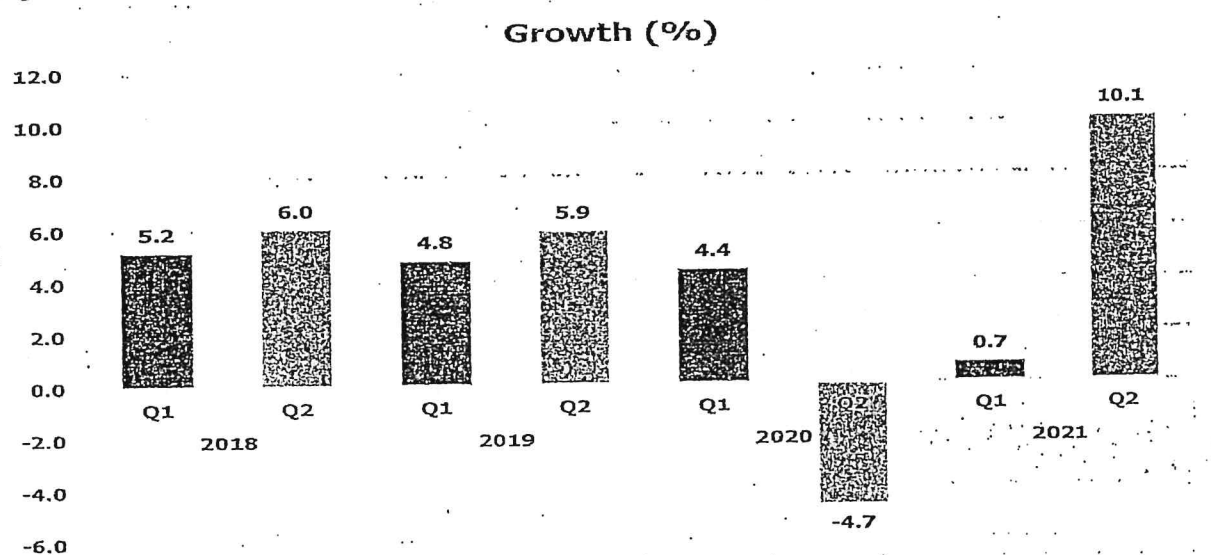
- i. The National Treasury and KRA – Fiscal data
- ii. Central Bank of Kenya (CBK) – Balance of Payments and Financial and Banking Sector
- iii. Kenya National Bureau of Statistics (KNBS) – Annual and quarterly GDP and Sectoral data
- iv. Kenya Institute for Public Policy Research and Analysis (KIPPRA)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

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

1.0 ECONOMIC PERFORMANCE

Real Gross Domestic Product (GDP) is estimated to have contracted by 0.3 per cent in-2020 compared to a growth of 5.0 per cent in 2019. The economy recorded a growth of 0.7 per cent in the first quarter of 2021 compared to 4.4 per cent recorded in the first quarter of 2020. The low growth in first quarter of 2021 was as a result of severe effect of COVID-19 on economic activities as compared to first quarter of 2020. During the second quarter of 2021, the economy grew by 10.1 per cent compared to a contraction of 4.7 per cent recorded in a similar period of 2020. The significant recovery in the second quarter was mainly on account of lifting and easing of some of the containment measures that consequently enabled gradual resumption of economic activity. Figure 1 shows the quarterly GDP for the first and second quarters for the period 2018-2021.

Figure 1: GDP Growth Rates for First and Second Quarters, 2018-2021



Source: KNBS Quarterly GDP Reports

Some of the sectors that supported overall growth in the second quarter included Manufacturing (9.6%), Education (67.6%), Transportation and Storage (16.9%), Information and Communication (25.2%) and Other Services Activities (20.2%). Performance of the agricultural sector, which is the mainstay of the Kenyan economy was dismal (-0.5%) in the first half of 2021 as a result of dry weather conditions that greatly affected agricultural output and somewhat curtailed overall growth during the period.

The economy benefitted from the gradual reopening of the global economy that saw a surge in the demand of goods and services especially in the hospitality sector. In addition, the improved performance was driven by resumption of schooling activities, which were largely subdued for the better part of 2020. During the period, vaccination of significant proportion of the population in developed economies coupled with improved availability of vaccines in the developing world supported economic growth in the second quarter of 2021.

2.0 ANALYSIS OF ECONOMIC PERFORMANCE BY SECTOR

2.1 Agriculture

The agricultural sector contracted by 0.9 per cent in the second quarter of 2021 compared to a growth of 4.9 per cent in a similar period of 2020 mainly attributed to unfavourable weather conditions. The sector's performance was cushioned from a steeper slump by a notable increase in milk production, horticultural exports and production of sugarcane. Noteworthy, the significant growth in volumes and values of horticultural exports in 2021 was as a result of a recovery from the dismal performance in 2020 mainly attributed to increased demand from key destination markets which fully reopened following 2020 Covid-19 lockdowns.

Table 1a shows production of selected agricultural output for 2020 and 2021 for the period January to October except for tea where the data available is for the period January to August 2021. The volume of cut flower, fruit and vegetable exports grew by 40.4, 14.3 and 35.3 per cent, respectively during the 10 months of 2021 due to increased demand from Kenya's export markets. Similarly, milk intake increased by 20.9 per cent from 555.9 million litres in 2020 to 672.1 million litres in 2021. However, tea production dropped by 9.1 per cent from 376.7 thousand Metric Tonnes (MT) in 2020 to 342.4 thousand MT in 2021.

As shown in Table 1b, the value of tea exports declined by 3.1 per cent, while that of coffee and horticultural produce increased by 17.6 and 2.7 per cent, respectively. The price of coffee at the auction increased from \$ 3.94 per kg in the first 10 months of 2020 to \$ 5.72 per kg in the same period of 2021. The surge in prices was attributed to low production in Brazil which is the world largest producer of coffee occasioned by unfavorable weather condition resulting to higher prices. On the other hand, the price of tea decreased to \$ 1.95 per kg for the period between January and August 2021 from \$ 2.20 per kg in a similar period in 2020.

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

Crop	Period	2020	2021	Growth rate (%)
Tea production	January-August	376.7	342.4	-9.1
Coffee sales	January-October	21.4	21.8	1.8
Cut flowers Exports	January-October	120.0	168.5	40.4
Fruit Exports	January-October	93.9	107.3	14.3
Vegetable Exports	January-October	49.8	67.4	35.3
Sugarcane Deliveries	January-October	5,831.6	6,304.4	8.1
Milk Intake (Million Litres)	January-October	555.9	672.1	20.9

Source: KNBS Leading Economic Indicators

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

Crop	2020-Jan-Oct	2021-Jan-Oct	Growth rate (%)
Tea	109.3	105.9	-3.1
Coffee	19.1	22.5	17.6
Horticulture	128.8	132.3	2.7

Source: KNBS Leading Economic Indicators

2.2 Manufacturing

The sector expanded by 9.6 per cent in the second quarter of 2021 compared to a contraction of 4.7 per cent in the corresponding quarter of 2020. The recovery of the sector was mainly driven by vibrant activities in the manufacture of food products which recorded impressive performance. Manufacture of sugar increased by 21.0 per cent in the first half of the year to 361,214 Metric Tonnes (MT) from 298,435 MT in a similar period in 2020. Manufacture of soft drinks grew by 16.8 per cent from 216,916 thousand litres in 2020 to 253,406 thousand litres for the period between January and May of 2021. The sector's growth was also buoyed by improved performance in dairy processing as reflected by a substantial increase in milk intake by processors. In the non-food products category, growth was supported by manufacture of cement and galvanized sheets. The volume of cement produced during the 9 months of 2021 expanded by 26.7 per cent compared to a growth of 19.0 per cent in a similar period of 2020. The quantity of galvanized sheets produced increased by 9.7 per cent in the first half of 2021 compared to a contraction of 19.8 per cent during the same period in 2020.

2.3 Electricity Supply

The electricity supply grew by 6.8 per cent in the second quarter of 2021 compared to a contraction of 7.3 per cent in the second quarter of 2020. The rebound was mainly attributed to increased electricity consumption after the easing of COVID-19 restrictions. Total electricity generation for the period between January and October 2021 increased by 6.6 per cent to 10,087.0 million Kilowatt-hour (KWh). The share of electricity generated from wind, thermal and solar increased to 16.4, 9.5 and 1.2 per cent, respectively, in 2021 compared to 11.1, 6.5 and 0.8 per cent, respectively in 2020. On the other hand, the share of electricity generated from geothermal and hydro declined to 42.7 and 30.2 per cent, in 2021 compared to 45.1 and 36.5 per cent, respectively, in 2020. Electricity generation from geothermal increased by a paltry 0.9 per cent from 4,270.5 million KWh in 2020 to 4,310.7 million KWh in 2021. Generation of electricity from wind expanded by 58.1 per cent to 1,657.7 million KWh in 2021 from 1,048.5 million KWh. Electricity generation from thermal sources increased from 618.0 million KWh to 960.0 million KWh in 2021. However, generation of electricity from hydro declined by 11.9 per cent to 3,042.5 million KWh mainly due to insufficient rainfall received in 2021. Electricity sales increased by 9.2 per cent to 7,959.4 million KWh between January and October 2021 from 7,288.3 million KWh in the same period of 2020.

2.4 Accommodation and Food Service Activities

Accommodation and food service activities grew by 9.1 per cent in the second quarter of 2021 compared to a contraction of 56.8 per cent in a similar quarter of 2020, which represented a significant recovery from the effects of COVID-19. The recovery of the sector has been gaining momentum though the number of visitor arrivals is below the pre-pandemic level. The performance is attributed to the relaxation of the Covid-19 travel restriction as well as an increase in the proportion of the vaccinated population in tourist source markets. Total visitor arrival through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased by 47.5 per cent from 356,508 visitors to 525,728 visitors in the first ten months of 2021.

2.5 Construction

The sector grew by 6.5 per cent in the second quarter of 2021 compared to a growth of 8.2 per cent in a similar quarter of 2020. The level of activity in the sector has remained resilient despite the Covid-19 disruptions mainly supported by public investment in roads and other civil works. Cement consumption, a key input in the sector expanded by 26.8 per cent during the first nine months of 2021 to stand at 6,676.5 thousand tonnes. Accelerated growth in construction activity was reflected in increase in the volume of import of petroleum bitumen, and iron and steel products by 0.4 and 13.5 per cent, respectively, for the first nine months of 2021.

2.6 Transportation and Storage

Transportation and Storage activities have shown a rebound in 2021 mainly due to easing and the eventual lifting of the covid-19 restriction measures to allow public service vehicles to operate at full capacity. In addition, easing of containment measures coupled with the reopening of economies abroad also supported growth in passenger air transportation which had been affected adversely in 2020. As a result, the sector is estimated to have expanded by 16.9 per cent in the second quarter of 2021 compared to a contraction of 16.8 per cent in the second quarter of 2020. In the land transportation subsector, light diesel which is widely used as an input in the sector increased by 9.0 per cent in the first nine months of 2021 to 1,700.0 thousand MT from 1,559.2 thousand MT in the same period of 2020. In the railway subsector, revenue from passengers ferried through Standard Gauge Railway (SGR) increased to Ksh 1,495.2 million for the first 10 months of 2021 from Ksh 473.5 million in the same period in 2020. Similarly, revenue from cargo transported through SGR increased from Ksh 8,990.9 million in 2020 to Ksh 9,983.4 million in 2021. Port throughput for the first ten months of 2021 increased by 4.9 per cent from 28,106.2 thousand MT in 2020 to 29,493.5 thousand MT, an indicator of increased transportation activities.

2.7 Information and Communication

The sector benefitted immensely from the pandemic as organizations harnessed technology such as online platforms to conduct their operations remotely. Online platforms have revolutionized workplaces resulting in some people working from the comfort of their homes. Consequently, the sector recorded a robust growth of 25.2 per cent in the second quarter of 2021 compared to a growth of 2.6 per cent in a similar quarter of 2020. The impressive performance was attributed to rebound in publishing and broadcasting activities as well as increased usage of data. Bandwidth utilization increased from 6,290.1 Gigabits per second (Gbps) in first half of 2020 to 8,877.1 Gbps in the first half of 2021. Similarly, usage of mobile data for the same period expanded by 46.7 per cent to stand at 356.6 million gigabits (GB). Domestic voice traffic increased by 27.8 per cent to 39.0 billion minutes in the first six months of 2021 from 30.5 billion minutes in the same period of 2020. However, the Short Messaging Services (SMS) declined by 36.8 per cent to 23.3 billion messages in the first half of 2021.

3.0 FISCAL DEVELOPMENTS

Budget execution in the first four months (July to October) of the FY 2021/22 progressed well, an indication that the end year targets are still on course. In the first four months of the FY 2021/22, revenue grew by 29.3 per cent compared to a contraction of 9.6 per cent in a similar period in the FY 2020/21. This was as a result of improved business environment, reversal of tax relief measures and easing of COVID-19 containment measures implemented within the year. Overall expenditures were within target underpinned by good revenue performance and adequate liquidity in the government securities market.

3.1 Revenue

Total revenue including A-in-A amounted to KSh. 653.6 billion (5.2 per cent of GDP) in the first four months of FY 2021/22 against a target of KSh. 635.0 billion (5.1 per cent of GDP) (Table 2). The surplus of KSh. 18.6 billion was on account of above target performance of KSh. 16.6 billion in ordinary revenue collections and KSh. 2.0 billion in ministerial A-in-A. Total revenue grew by 29.3 per cent in the four months of FY 2021/22 compared to a contraction of 9.6 per cent recorded in similar period in FY 2020/21 where total revenue was KSh. 505.3 billion (4.5 per cent of GDP).

Table 2: Government Revenue & External Grants- July 2021 to October 2021 (KSh. billion)

	Jul-Oct 2020		Jul-Oct 2021				
	Prel. Issues	% of GDP	Printed Target	Prel. Issues	Deviation	% of GDP	% Growth
Total Revenue (a+b)	505.3	4.5%	635.0	653.6	18.6	5.2%	29.3%
a. Ordinary Revenue	458.2	4.1%	560.0	576.6	16.6	4.6%	25.8%
Import Duty	32.1	0.3%	36.5	35.9	(0.6)	0.3%	11.9%
Excise Taxes	64.5	0.6%	75.6	78.8	3.2	0.6%	22.2%
Income Tax	198.2	1.8%	257.2	253.2	(3.9)	2.0%	27.8%
PAYE	98.0	0.9%	136.2	144.1	7.9	1.2%	47.0%
Other Income Tax	100.2	0.9%	121.0	109.2	(11.8)	0.9%	9.0%
Value Added Tax (VAT)	114.1	1.0%	150.6	159.7	9.1	1.3%	39.9%
VAT (Domestic)	55.7	0.5%	79.0	78.5	(0.6)	0.6%	40.9%
VAT (Imports)	58.5	0.5%	71.6	81.2	9.6	0.6%	38.9%
Other Revenue ¹	49.4	0.4%	40.1	49.0	8.9	0.4%	-0.8%
b. Ministerial A-in-A²	47.1	0.4%	75.0	77.0	2.0	0.6%	63.6%
Recurrent A-in-A	26.1	0.2%	47.5	51.0	3.5	0.4%	95.8%
Development A-in-A	21.0	0.2%	27.5	26.0	(1.5)	0.2%	23.6%
c. External Grants	4.4	0.0%	15.5	7.0	(8.6)	0.1%	58.6%
Total Revenue and External Grants	509.7	4.5%	650.5	660.5	10.0	5.3%	29.6%
GDP	11,304.1	100%	12,514.5	12,514.5	-	100.0%	10.7%

1/ other revenue includes rent on land/buildings, capital gains tax, import declaration fee, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue.

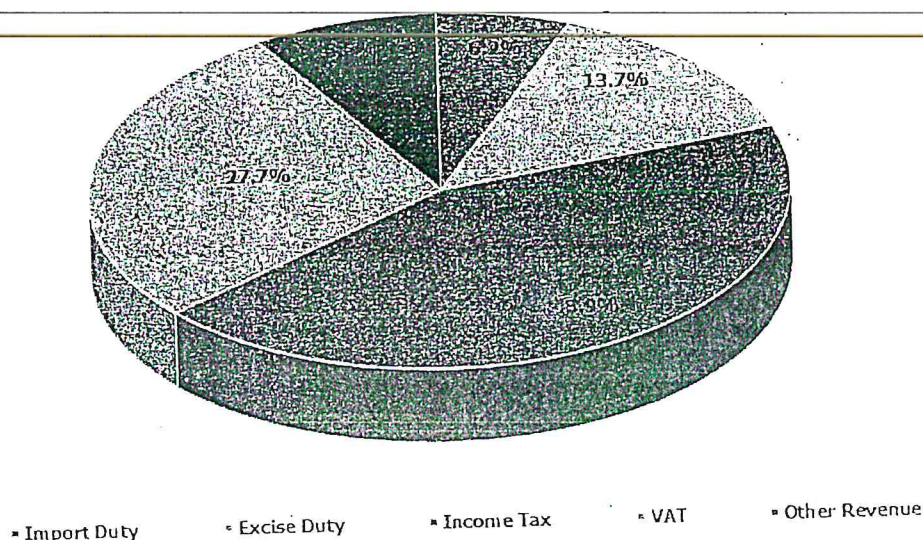
2/ ministerial A-in-A includes receipts from Road Maintenance Levy Fund, Railway Development Levy, and A-in-A from Universities

Source: National Treasury

In the period under review, ordinary revenue collection was KSh. 576.6 billion (4.6 per cent of GDP) against a target of KSh. 560.0 billion (4.5 per cent of GDP) recording a surplus collection of KSh. 16.6 billion from

target. The above target performance in ordinary revenue was mainly attributed to surpluses in Value Added Tax (VAT) of KSh. 9.1 billion, excise taxes of KSh. 3.2 billion and 'Other Revenue' category of KSh. 8.9 billion. On the other hand, Income tax and import duty performed marginally below target by KSh. 3.9 billion and KSh. 0.6 billion, respectively. Income tax remains the largest share of ordinary revenue, at 43.9 per cent followed by VAT at 27.7 per cent and excise taxes at 13.7 per cent (Figure 2).

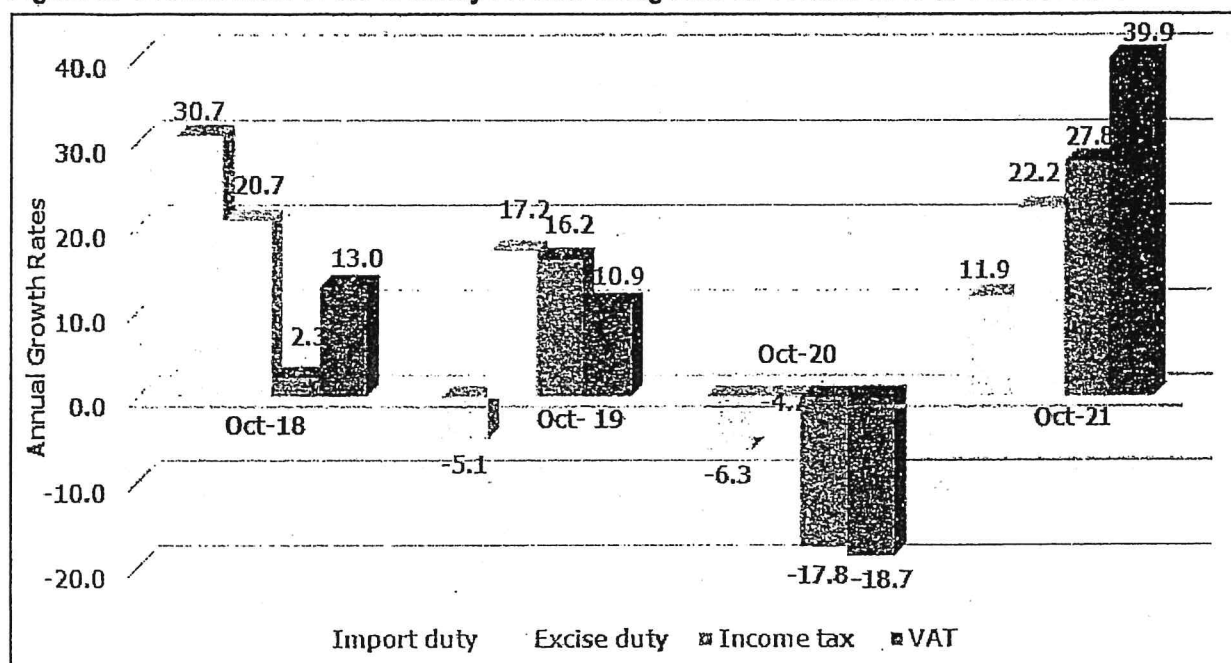
Figure 2: Composition of Ordinary Revenue in FY 2021/22 (Percentage)



Source: The National Treasury

Ordinary revenue for the period ending 31st October 2021 grew by 25.8 per cent compared to a contraction of 10.8 per cent recorded in similar period in FY 2020/21. Income tax grew by 27.8 per cent, import duty by 11.9 per cent, excise taxes by 22.2 per cent, and VAT by 39.9 per cent, however, 'other revenue' contracted by 0.8 per cent (Figure 3). The growth in taxes was attributed to the improving business conditions as the economy was on a recovery path from the impact of the COVID-19 pandemic as well as the reversal of COVID-19 tax measures. In addition, the depreciation of exchange rate increased the taxable base for imports.

Figure 3: Growth rates of the ordinary revenue categories in October 2018 to October 2021



Source: The National Treasury

3.2 Expenditure

Total expenditure and net lending for the four months of the FY2021/22 amounted to KSh. 854.2 billion (6.8 per cent of GDP) against a target of KSh. 904.2 billion (7.2 per cent of GDP) (Table 3). The below target expenditure of KSh. 50.0 billion was largely attributed to below target absorption of recurrent expenditure by KSh. 7.6 billion and development expenditure by KSh. 17.3 billion.

Table 3: Expenditures Performance for the period Jul-Oct 2020 – Jul-Oct 2021 (KSh. billion)

	Jul-Oct 2020	Jul-Oct 2021				
	Actual	Target	Actual	Deviation	% of GDP	% Growth
TOTAL EXPENDITURE AND NET LENDING	721.7	904.2	854.2	(50.0)	6.8%	18.4%
1. Recurrent Expenditure	502.5	620.4	612.8	(7.6)	4.9%	21.9%
Domestic Interest	115.7	133.3	141.8	8.5	1.1%	22.6%
Foreign Interest due	38.1	34.0	33.8	(0.2)	0.3%	-11.5%
Pensions & Other CFS	30.4	41.5	32.0	(9.5)	0.3%	5.3%
Contribution to Civil Ser. Pension	-	5.7	14.7	9.0	0.1%	0.0%
Operations & Maintenance	130.3	186.0	167.8	(18.2)	1.3%	28.8%
Wages & Salaries	165.4	175.4	175.4	0.0	1.4%	6.0%
Ministerial Recurrent A-in-A	22.6	44.6	47.4	2.8	0.4%	109.6%
2. Development	137.3	166.2	148.9	(17.3)	1.2%	8.4%
Domestically Financed (Gross)	99.9	104.7	118.4	13.7	0.9%	18.5%
Foreign Financed	37.4	60.8	30.5	(30.2)	0.2%	0.0%
Net Lending	-	-	-	-	-	-
Equalization Fund	-	0.7	-	(0.7)	0.0%	0.0%
3. County Transfer	81.9	117.7	92.5	(25.2)	0.7%	12.9%
o/w Equitable Share	78.4	114.4	92.5	(21.9)	0.7%	17.9%
4. Contingency Fund	-	-	-	-	-	-

Source: National Treasury.

Recurrent expenditure for the period was KSh. 612.8 billion against a target of KSh. 620.4 billion. The shortfall of KSh. 7.6 billion was mainly due to below target expenditure on pension & other Consolidated Fund Services (CFS) by KSh. 9.5 billion, foreign interest payment by KSh. 0.2 billion, and operations & maintenance by KSh. 18.2 billion. However, domestic interest payments for the period was above target by KSh. 8.5 billion.

Development Expenditure by end October 2021 amounted to KSh. 148.9 billion against a target of KSh. 166.2 billion. The shortfall in disbursement of KSh. 17.3 billion was on account of below target absorption of KSh. 30.2 billion for foreign financed programmes. Equitable share transfer to County governments was KSh. 92.5 billion.

3.3 Fiscal Balance and Financing

Fiscal deficit incl. grants (on commitment basis) by end October 2021 stood at Ksh 193.7 billion (1.5 per cent of GDP) against a target of Ksh 253.7 billion (2.0 per cent of GDP). The overall deficit in a corresponding period in 2020 was KSh. 212.0 billion (1.9 percent of GDP).

This deficit was financed by net domestic financing of Ksh 214.9 billion against a target of Ksh 267.0 billion, and net external repayment amounting to KSh. 33.5 billion against a target of KSh. 13.3 billion. Net Foreign Financing for the period comprised of disbursements (inflows) including A-in-A of Ksh 26.3 billion and repayments (outflows) of principal debt of Ksh 59.8 billion. The disbursements included KSh. 18.2 billion Project Loans A-in-A and KSh. 8.2 billion Projects Loans Revenue. Comparatively, during similar period in the FY 2020/21, the net domestic financing amounted to KSh. 237.5 billion and the net external repayment was KSh. 27.5 billion

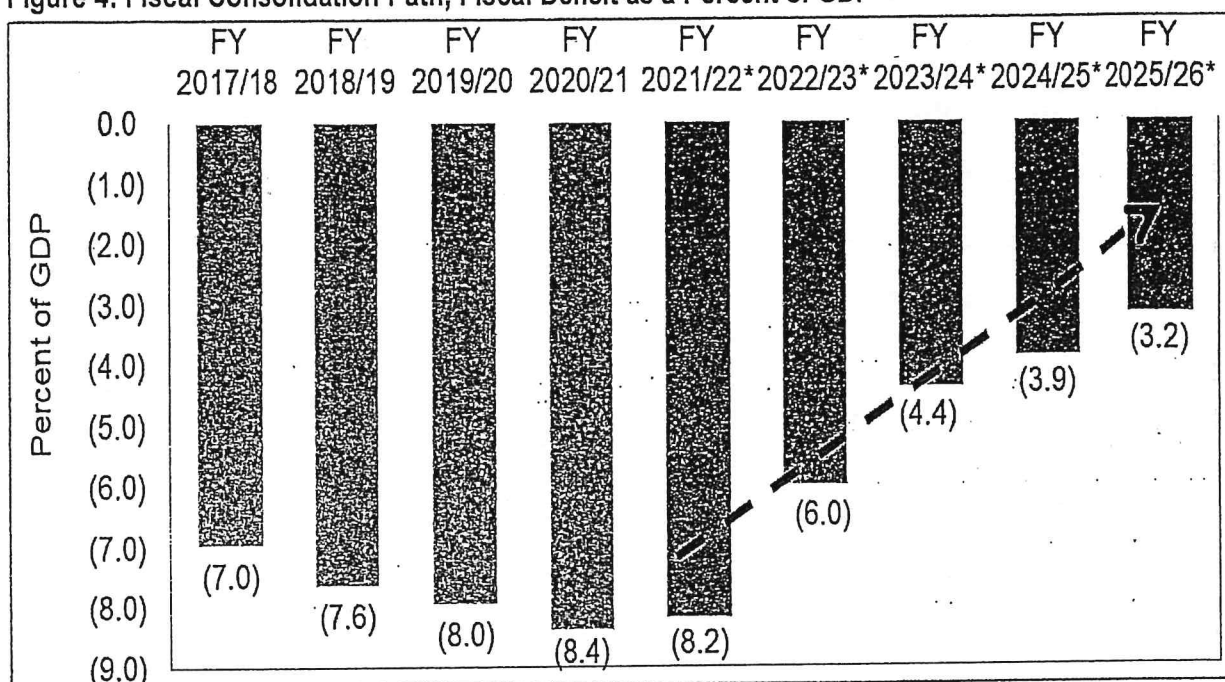
3.4 Fiscal outlook for FY 2021/22

Fiscal performance for FY 2021/22 is anchored on enhanced revenue mobilization and expenditure prioritization through restricted growth in recurrent spending. This will support economic recovery and create fiscal space for the implementation of the "Big Four" Agenda and other priority programmes.

Revenue performance will be driven by economic recovery, continued reforms in tax policy and revenue administration. The National Tax Policy that the government is developing will enhance administrative efficiency of the tax system and provide consistency and certainty in tax legislation. In light of this, revenues for the FY 2021/22 are projected at Ksh 2,063.1 billion (16.3 per cent of GDP) with ordinary revenues at Ksh 1,800.0 billion (14.3 per cent of GDP). On the other hand, overall expenditures are projected at Ksh 3,054.3 billion (25.0 per cent of GDP) with recurrent expenditures projected at Ksh 2,071.8 billion (16.4 per cent of GDP) and development expenditures are projected at Ksh 672.7 billion (5.3 per cent of GDP). Transfer to County Governments is projected at Ksh 409.9 billion (3.3 per cent of GDP).

Taking into account the projected revenues and expenditures, the fiscal deficit incl. grants is projected at Ksh 1,029.3 billion (8.2 per cent of GDP) in the FY 2021/22. This will be financed by a net external financing of Ksh 412.5 billion (3.3 per cent of GDP) and a net domestic borrowing of Ksh 616.8 billion (4.4 per cent of GDP). The fiscal deficit is expected to decline further to 6.0 per cent of GDP in FY 2022/2023 and to 3.9 per cent of GDP over the medium term to maintain the economy on a fiscal consolidation path so as to reduce the growth in public debt (Figure 4).

Figure 4: Fiscal Consolidation Path, Fiscal Deficit as a Percent of GDP



Source of Data: National Treasury

3.6 Public Debt

During the financial year, the stock of public and publicly guaranteed debt as at end of September 2021 was Kshs. 8001.82 billion (70.79 per cent of GDP). Domestic debt stock was Kshs. 3939.32 billion (34.85 per cent of GDP) equivalent to USD 35.65 billion while the External debt stock was Kshs. 4062.50 billion (35.94 per cent of GDP) equivalent to USD 36.77 billion. Domestic and external debt stock accounted for 49.2 and 50.8 per cent of total debt stock respectively.

The actual cumulative external debt service as at end September 2021 was Kshs. 101.14 billion. External debt service during the month of September 2021 was Kshs. 77.28 billion comprising principal and interest payments of Kshs. 47.27 billion and Kshs. 30.01 billion respectively. Cumulatively, debt service to bilateral creditors accounted for 53.26 per cent of the total debt service while commercial and multilateral creditors accounted for 31.22 per cent and 15.52 per cent respectively.

Table 4: Kenya's External Debt Sustainability Analysis

Indicators	Thresholds	2020	2021	2022	2023	2024
PV of debt-to-GDP ratio	40	28.7	28.7	28.3	27.3	26.3
PV of debt-to-exports ratio	180	288.3	255.8	239.2	219.8	204.2
PPG Debt service-to-exports ratio	15	26.5	19.1	22.7	20.1	29.7
PPG Debt service-to-revenue ratio	18	15.5	13.0	15.8	14.0	21.0

Source: IMF Country Report No.21/72 April 2021 DSA Report

PV of debt-to-exports ratio and PPG Debt service-to-exports ratio breaches debt thresholds under the baseline driven by the slowdown in exports and increasing external debt. The PV of PPG external debt as a share of GDP remains firmly below 40 percent debt threshold at 28.7 per cent in 2020 and projected to remain at the same level in 2021.

4.0 EXTERNAL TRADE AND BALANCE OF PAYMENTS

4.1 Balance of Payments

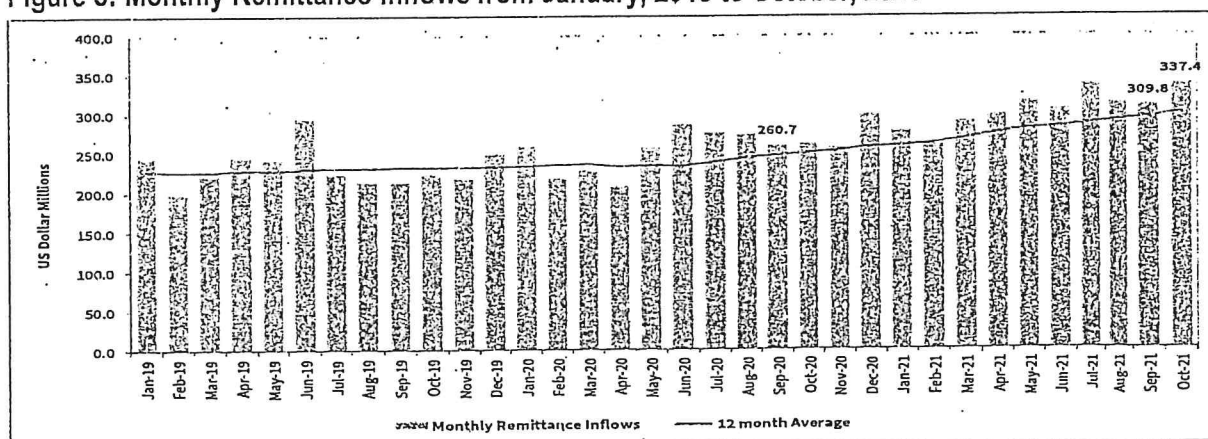
The current account balance recorded a deficit of USD 5,796 million during the year to October 2021 from a deficit of USD 4,884 million in a similar period in 2020 driven by increase in imports of oil and intermediate goods. Provisional data on balance of payments shows that the current account deficit was 5.4 per cent of GDP in the 12 months to October 2021 compared to 4.8 per cent of GDP in the 12 months to October 2020. Exports of goods remained strong, growing by 10.8 per cent in the year to October 2021 compared to a similar period in 2020. Receipts from exports of horticulture and manufactured goods rose by 19.1 per cent and 35.3 per cent, respectively, in the year to October 2021 compared to a similar period in 2020. However, receipts from tea exports declined by 6.2 per cent, partly due to the impact of accelerated purchases in 2020. Imports of goods increased by 23.6 per cent in the year to October 2021 compared to a similar period in 2020, mainly reflecting a pickup in imports of oil and intermediate inputs. Travel and transport receipts continued to recover in 2021 following the resumption of international travel. The current account deficit is projected at 5.2 per cent of GDP in 2021, largely supported by improving external demand for goods and services. The foreign exchange market remained stable supported by increased receipts from exports and diaspora remittances.

The usable foreign exchange reserves remained adequate at USD 8,773 million (5.36 months of import cover) as at 25th November 2021. This continues to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

4.2 Remittances from the Diaspora

Remittances remained robust at USD 337 million in October 2021, and were 20.1 per cent higher in the period January to October 2021 compared to a similar period in 2020. Inflows increased by 8.9 per cent to 337.4 million in October compared to 309.8 million in September 2021 (figure 5). The cumulative inflows for the 12 months to October 2021 totaled USD 3,605 million compared to USD 3,006 million in the same period in 2020, a 19.9 per cent increase. The United States remains the largest source of remittances into Kenya, accounting for 65.9 per cent in October 2021.

Figure 5: Monthly Remittance Inflows from January, 2019 to October, 2021

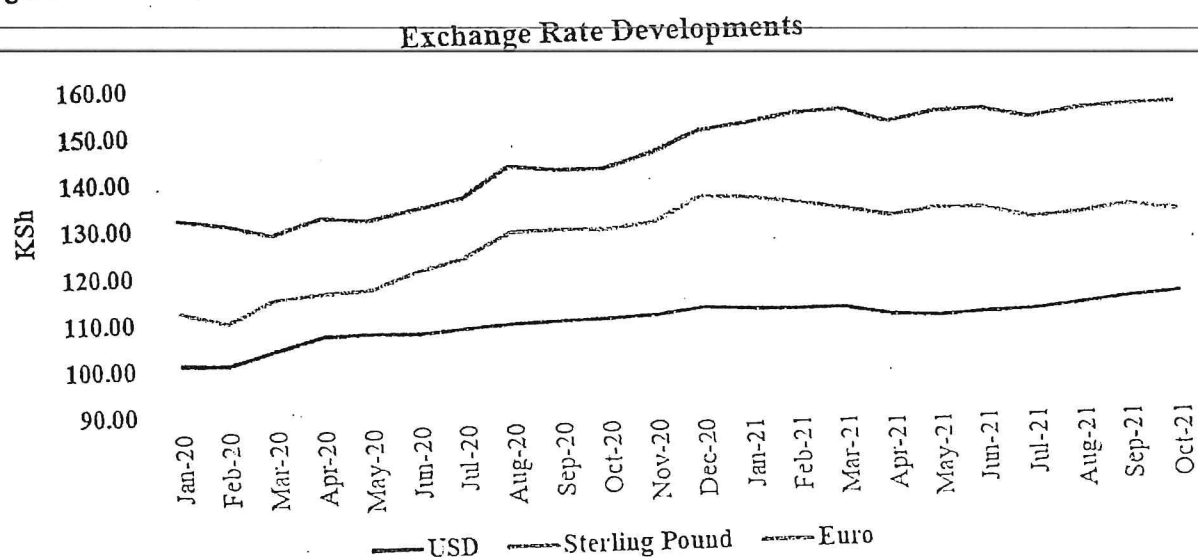


Source: Central Bank of Kenya

4.3 Exchange Rate

The Kenya Shilling weakened against major international currencies in October 2021 relative to October 2020. It weakened by 1.4 per cent and 5.1 per cent against the US Dollar and the Sterling Pound while it strengthened by 0.4 per cent against the Euro (figure 6).

Figure 6: Exchange Rate Developments (January 2020 – October 2021)



Source: Central Bank of Kenya

5.0 BANKING AND FINANCIAL SECTOR

5.1 Money Supply and Domestic Credit

Annual growth in broad money, M3, moderated to 7.3 per cent in October 2021 compared to 11.5 per cent in October 2020, largely reflecting a decline in growth of net domestic assets of the banking system, due to reduced net lending to government. Growth in net lending to government moderated to 12.6 per cent in October 2021 compared to 23.2 per cent in October 2020. Credit to the private sector grew by 7.8 per cent in the 12 months to October 2021. This was supported by improved demand with recovery in economic activities, accommodative monetary policy stance and other policy measures by government to mitigate the adverse impact of COVID-19 on the economy. In particular, the implementation of the Credit Guarantee Scheme for Micro, Small and Medium sized Enterprises (MSMEs) continued to boost lending to the sector. Strong lending was registered in manufacturing (10.9%), transport and communication (9.6%), finance and insurance (8.9%), business services (8.2%) and consumer durables (16.5%) (Table 5).

Table 5: 12-Month Growth in Private Sector Credit by activity (percent)

	Shares in credit			12-month growth in Private Sector Credit (%)											
Sectors	Oct-21	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	
Agriculture	3.2	17.0	19.3	15.3	15.6	13.4	12.3	10.0	4.3	3.7	2.8	1.4	3.3	2.7	
Manufacturing	14.9	7.8	10.0	12.0	12.6	15.8	10.7	4.0	1.5	8.1	9.4	9.3	9.8	10.9	
Trade	17.0	2.5	4.0	3.8	5.5	3.9	2.1	0.9	3.8	1.9	1.3	2.7	4.7	5.5	
<i>n/w domestic trade</i>	15.4	3.5	4.2	5.6	7.7	6.1	4.2	3.0	3.2	1.5	1.5	3.4	4.4	5.4	
Building & construction	4.1	8.2	7.4	3.4	2.5	5.2	2.9	3.4	4.5	2.0	0.4	1.7	0.5	(0.5)	
Transport & communication	7.9	21.1	17.5	13.6	14.4	19.0	17.4	13.3	16.3	11.8	0.2	11.8	10.9	9.6	
Finance and insurance	3.6	(2.2)	0.2	7.1	14.0	9.0	7.5	7.6	6.7	11.5	8.9	7.7	11.7	8.9	
Real estate	13.7	7.6	9.1	8.7	8.8	8.8	7.7	5.8	5.7	4.0	3.2	2.8	2.9	2.4	
Mining & quarrying	0.5	(14.2)	(15.4)	(12.9)	(6.1)	21.6	(3.6)	(8.8)	(18.1)	(13.0)	(22.1)	(23.1)	(8.4)	6.2	
Private households	15.7	6.9	5.8	3.9	4.7	4.2	2.9	4.5	3.1	3.2	2.4	2.0	2.6	2.7	
Consumer durables	10.9	15.7	18.8	18.1	18.7	20.3	17.6	19.3	22.0	23.4	21.7	20.1	17.6	16.5	
Business services	5.7	5.9	2.7	4.0	6.5	5.0	5.7	7.2	6.9	5.2	4.9	5.8	7.6	8.2	
Other activities	2.8	(10.4)	(14.5)	14.0	5.8	3.8	5.2	24.3	39.8	65.2	58.0	56.0	59.5	64.1	
Total Private Sector Credit	100.0	7.6	8.1	8.4	9.3	9.6	7.7	6.7	7.1	7.7	6.1	7.0	7.7	7.8	

Source: Central Bank of Kenya

5.2 Capital Market (NSE)

Trading of equities at the Nairobi Securities Exchange (NSE) increased in October 2021 compared to October 2020, reflecting improving investor confidence. The Nairobi Securities Exchange All Share Index (NASI), NSE 20 Share Index, market capitalization total number of shares traded and equities turnover, increased by 27.08 per cent, 5.89 per cent, 29.16 per cent and 20.47 per cent at the end of October 2021 compared to the end of October 2020, respectively. The share of foreign investors trading in total equity turnover declined to 64.83 per cent in October 2021 from 68.16 per cent in October 2020 (Table 6). In the domestic secondary bond market, bonds turnover increased by 5.70 per cent to KSh 66.2 billion in October 2021 from KSh 62.67 billion in October 2020.

Table 6: Developments in Capital Markets (October 2020 – October 2021)

	NASI (2020=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 Deals	Foreign Participation to Equity Turnover (%)	FTSE NSE Kenya Govt. Bond Index	7-Year Eurobond Yield (%) (2021)	10-Year Eurobond Yield (%) (2021)	10-Year Eurobond Yield (%) (2021)	12-Year Eurobond Yield (%) (2021)	13-Year Eurobond Yield (%) (2021)	30-Year Eurobond Yield (%) (2021)
Oct-20	140.04	3,170.87	1,352.29	219.42	5,880.91	2,150.06	62,672.73	1,556.00	68.16	97.77	6.19	5.12	6.62	7.34		5.16
Nov-20	145.20	3,264.16	1,783.68	331.00	11,393.00	2,229.00	48,524.72	1,222.00	67.97	97.50	5.21	4.42	5.41	6.16		7.21
Dec-20	152.11	3,415.24	1,759.95	369.13	10,236.93	2,336.70	58,061.98	1,459.00	61.79	98.21	4.86	3.92	5.22	5.85		7.04
Jan-21	156.56	3,434.52	1,863.39	281.70	8,176.23	2,405.34	54,414.45	2,070.00	29.71	97.21	4.35	3.68	5.34	6.10		7.19
Feb-21	163.39	3,624.96	1,915.68	350.63	10,819.73	2,541.16	77,393.00	2,114.00	61.96	97.00	4.63	3.21	5.32	6.27		7.27
Mar-21	158.62	3,531.38	1,846.41	372.53	12,064.04	2,137.94	67,599.02	1,658.00	56.37	96.40	5.60	3.56	6.25	7.12		7.99
Apr-21	169.15	3,674.77	1,566.58	293.00	9,577.38	2,599.05	67,590.81	2,046.00	64.35	96.69	5.01	3.24	5.73	6.68		7.66
May-21	169.97	3,669.37	1,571.35	385.94	14,181.67	2,826.71	107,044.58	4,236.00	56.71	96.80	4.63	3.38	5.31	6.24		7.33
Jun-21	173.33	3,772.19	1,927.53	420.71	13,932.38	2,702.22	96,165.95	1,668.00	56.15	96.85	4.31	3.27	5.36	6.22	6.13	7.11
Jul-21	177.52	3,850.09	1,974.29	384.95	9,275.32	2,766.28	92,753.15	1,720.00	48.55	96.57	4.63	3.09	5.99	6.94	6.46	7.11
Aug-21	182.33	4,013.77	2,029.77	344.56	11,554.12	2,841.49	87,139.86	2,010.00	49.91	96.74	5.03	3.26	5.40	6.51	6.13	7.41
Sep-21	173.31	3,914.52	2,031.17	316.97	10,221.97	2,773.65	115,188.78	2,559.00	64.83	96.83	5.40	3.72	5.78	6.71	6.81	7.66
Oct-21	177.96	3,851.67	1,961.33	264.32	10,274.23	2,777.07	66,243.60	1,924.91								

Source: Nairobi Securities Exchange

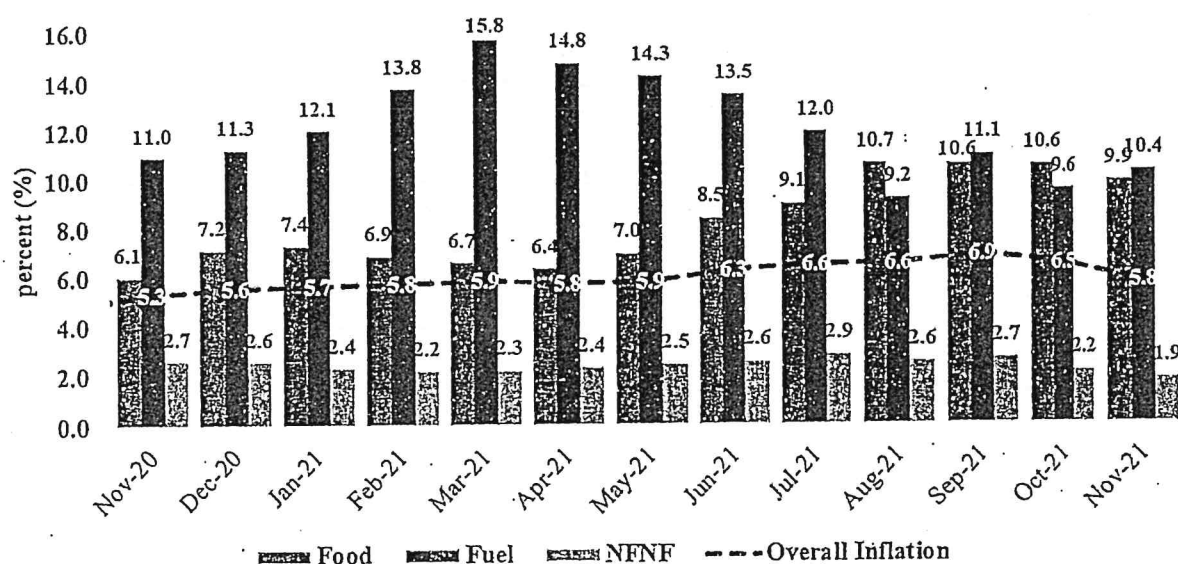
6.0 PERFORMANCE OF OTHER MACRO –ECONOMIC INDICATORS

6.1 Inflation

Overall inflation remained stable within the medium-term target band in the year to November 2021. It increased to 5.8 per cent in November 2021, from 5.3 per cent in a similar period of 2020, driven by elevated food and fuel prices. Fuel inflation remained elevated and stood at 10.4 per cent from 11.0 per cent in November 2020, mainly driven by rising international oil prices. Food inflation increased to 9.9 per cent from 6.1 per cent in November 2020, driven by seasonal factors and supply constraints. Non-Food Non-Fuel (NFnF) inflation remained low, reflective of muted demand pressures in the economy. It declined to 1.9 per cent in November 2021 from 2.7 per cent in November 2020 (Figure 7).

In the near term, fuel inflation is expected to gradually decline supported by Government interventions to moderate fuel pump prices. However, food inflation is expected to remain elevated due to seasonal factors, drought conditions, and supply chain disruptions. In the medium term, inflation is expected at the mid-point of its target range, supported by prudent monetary policy and muted demand pressures.

Figure 7: Developments in inflation rates (November 2020 to November 2021)



Source: KNBS and Central Bank of Kenya

6.2 Interest rates

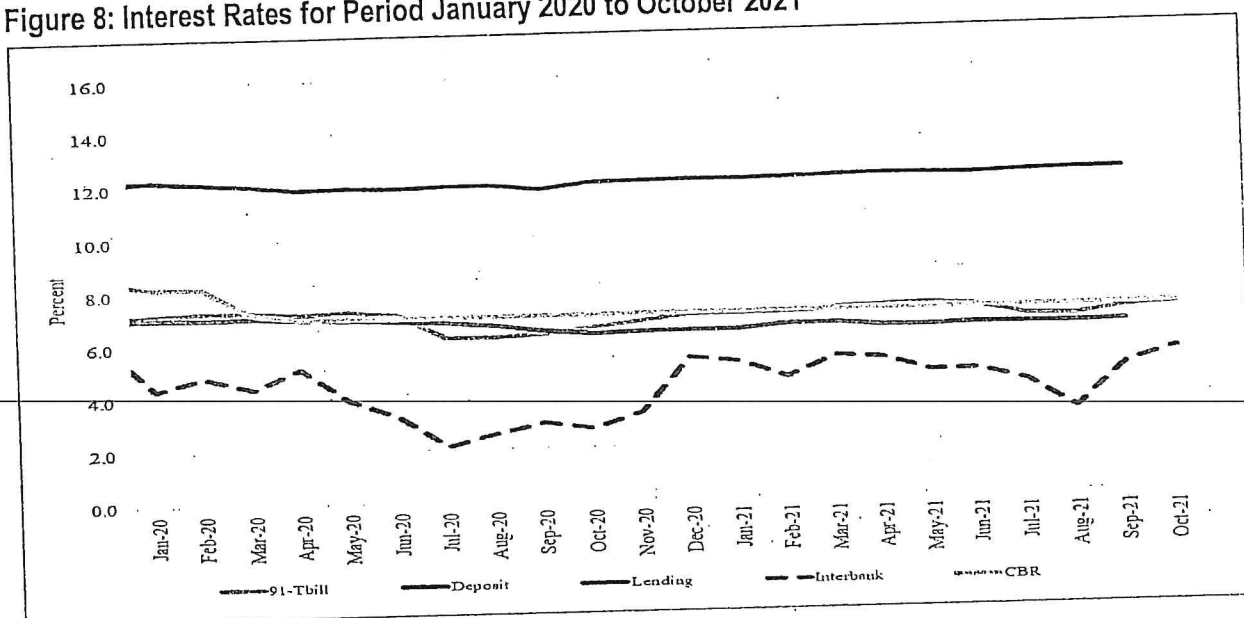
The Monetary Policy Committee (MPC) retained the Central Bank Rate at 7.00 per cent in November 2021, noting that the current accommodative monetary policy stance remains appropriate. The Committee noted that inflation expectations remained anchored within the target range, and leading economic indicators showed continued robust performance.

Short term interest rates remained relatively stable during the first ten months of 2021 supported by accommodative monetary policy stance and ample liquidity conditions in the market. The weighted average

interbank rate was on a downward trend from 5.12 per cent in January to 3.10 per cent in August. However, it increased marginally to 4.73 per cent and 5.26 per cent in September and October 2021, respectively, partly reflecting reduced liquidity due to higher government receipts relative to payments. Similarly, the average 91-day Treasury bill rate declined to 6.57 per cent in August compared to 6.92 per cent in January, and thereafter rose slightly to 6.95 per cent in October.

Commercial banks' lending and deposit rates remained relatively stable during the first nine months of 2021. The weighted-average lending rate increased marginally to 12.10 per cent in September 2021 from 12.00 per cent in January 2021 while the weighted average deposit increased to 6.34 per cent from 6.31 per cent (Figure 8).

Figure 8: Interest Rates for Period January 2020 to October 2021



Source: Central Bank of Kenya

7.0 OUTLOOK FOR 2021

7.1 Global Economy

Global growth contracted by 3.1 per cent in 2020 compared to growth of 2.8 per cent registered in 2019 as a result of adverse effects of COVID-19 pandemic. As shown in Table 7, all advanced economies with exception of China registered a contraction in economic growth in 2020 with UK and France registering higher contraction of 9.8 per cent and 8.0 per cent respectively. After a sharp decline in 2020, global GDP is projected to rise by 5.9 per cent in 2021 supported by the roll-out of vaccines, policy support and continued supportive financial conditions. The Euro Area is projected to grow by 4.2 per cent in 2021 supported by projected growth of 6.3 per cent and 6.8 per cent in France and UK respectively.

China was the only economy to record a positive performance of 2.3 per cent in 2020 reflecting the vitality and resilience of its economy supported by aggressive efforts to fight the COVID-19 pandemic. Growth estimates for 2021 indicate that China will register a higher growth of 8.0 per cent.

Table 7: Global Economic Outlook and Growth in the Leading Economies

	2019	2020	2021*	2022*
World Economy	2.8	-3.1	5.9	4.9
United States	2.3	-3.4	6.0	5.2
Japan	0.0	-4.6	2.4	3.2
China	6.0	2.3	8.0	5.6
India	4.0	-7.3	9.5	8.5
Euro Area	1.5	-6.3	4.2	3.6
Germany	1.1	-4.6	3.1	4.6
Netherlands	2.0	-3.8	3.8	3.2
France	1.8	-8.0	6.3	3.9
United Kingdom	1.4	-9.8	6.8	5.0

Source: IMF World economic Outlook (October, 2021)

* Projections

7.2 Regional Economies and Sub-Sahara Africa

Table 8 indicates that Economic growth in Sub-Saharan Africa contracted by 1.7 per cent in 2020 compared to a growth of 3.1 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 to 3.7 per cent in 2021. Among East Africa Community countries, only Tanzania registered a positive growth in 2020. It is projected that growth in the East African countries will average 5.6 per cent in 2021.

Table 8: Economic Outlook for SSA and Regional Economies

	2019	2020	2021*	2022*
SSA	3.1	-1.7	3.7	3.8
South Africa	0.1	-6.4	5.0	2.2
Nigeria	2.2	-1.8	2.6	2.7
Burundi	1.8	-1.0	1.6	4.2
Kenya	5.0	-0.3	5.6	6.0
Rwanda	9.5	-3.4	5.1	7.0
Tanzania	7.0	4.8	4.0	5.1
Uganda	7.7	-0.8	4.7	5.1

Source: IMF Regional Economic Outlook Sub-Saharan Africa (October, 2021)

* Projections

7.3 The Medium-Term Prospects for Kenya

The impact of COVID-19 on the country's economy is expected to be lighter supported by ongoing vaccination drive. The economy contracted by 0.3 per cent in 2020 due to COVID-19 pandemic and other economic shocks like the desert locusts. However, the easing of containment measures towards the end of 2020 and the access to COVID-19 vaccine as from March 2021 is instrumental towards economic recovery in 2021. A gradual recovery therefore is expected with growth in 2021 and 2022, projected at 5.4 and 6.0 per cent respectively as shown in Table 9.

The medium-term prospect is expected to be stable mainly due to the countrywide rollout of COVID-19 vaccination, recovery of economic activities in all sectors as well as the Governments policy support. The Country's recovery will also be supported by the expected rebound of global economic activities.

Table 9: The medium-term prospects in Kenya

	2018	2019	2020	2021	2022	2023	2024
Rates (%)							
GDP Growth	5.6	5.0	-0.3	5.4	6.0	9.1	9.7
Inflation	4.7	5.3	5.2	6.2	5.6	5.1	3.9
Interest Rate	7.8	6.9	6.9	6.9	7	7.1	6.9
Volumes (%)							
Private Consumption	6.5	5.2	-3.1	5	5.6	7.3	8.7
Government Consumption	7	7	4.3	6.6	10.1	10.4	9.1
Private Investments	-0.8	-8.5	-6.5	4.7	5.4	2.8	4.1
Government Investments	-10.6	-18.3	-21	65.2	-1.4	30.8	4.5
Exports Goods & Services	6.8	-3.2	-8.2	11.9	7.6	18.4	18.1
Imports Goods & Services	1.4	1.8	-8.5	3.8	-6.6	5.5	5.1
% of GDP							
Current Account Balance	-5.5	-5.3	-4.6	-5.1	-5.3	-5.0	-4.5
Index							
Kshs per Dollar	101.3	102.1	106.5	109.1	107.3	107.3	107.1

Source: KIPPRA Treasury Macro Model (KTMM)

8.0 RISKS TO THE ECONOMIC OUTLOOK

- i. Rising oil prices will increase cost of living and cost of production;
- ii. The ongoing drought will lead to low performance of crop and livestock sub- sectors; and loss of lives and incomes in the affected regions;
- iii. Covid-19 pandemic particularly the emergence of new variants such as 'Omicron' will continue posing risk to growth;
- iv. Exchange rate depreciation could lead to an increase in debt service which may in turn affect the country's debt sustainability;
- v. Slow payment of pending bills at the county level will affect businesses especially the Micro Small and Medium Enterprises that delivered goods and services to government;
- vi. The 2022 general election early campaigns may slow down implementation of government programmes and project.

9.0 RECOMMENDED ACTIONS

- i. Continue scaling-up COVID-19 vaccination to ensure majority of the population are reached. This will involve mobilization of health personnel to offer vaccination at strategic centres across the country;
- ii. Review the status of implementation of Credit Guarantee Scheme since inception in April, 2021 to inform policy on how to strengthen it further;
- iii. Support pastoralist in drought affected regions through scaling up livestock purchase off-take programme. To put in place requisite mechanisms to bridge the gaps in crop production to ensure food security
- iv. Broadening the tax base by enhancing recruitment of new taxpayers especially in real estate, businesses in the Turnover Tax (ToT) regime, registered companies, agriculture sector, distributive trade, personal service activities, professionals, High Net worth Individuals and digital economy.
- v. Simplify tax processes, forms and technology links to make it easy for taxpayers to meet their tax obligations and enhance compliance.
- vi. Fast-track the development of a National Tax Policy (NTP) and the Medium-Term Revenue Strategy (MTRS) to support mobilization of domestic revenue and enhance efficiency and fairness in tax administration.

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