

KENYA BANKERS ECONOMIC BULLETIN

VOLUME 39 | JUNE 2023

A report prepared by:

**The Centre for Research on
Financial Markets and Policy®**



KENYA BANKERS
ASSOCIATION



CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY®

About this Report

This *Bulletin* reviews Kenya's economic performance in the first quarter of 2023, drawing on the recent performance and developments to provide perspectives on the year's outlook. The *Bulletin* covers trends in selected activities in the real economy, government fiscal operations, public debt, inflation and interest rates, the balance of payments and exchange rate, activity at the Nairobi Securities Exchange and banking sector performance.

About the Centre for Research on Financial Markets and Policy®

The Centre for Research on Financial Markets and Policy® was established by the Kenya Bankers Association in 2012 to offer an array of research, commentary, and dialogue regarding critical policy matters that impact on financial markets in Kenya. The Centre sponsors original research, provides thoughtful commentary, and hosts dialogues and conferences involving scholars and practitioners on key financial market issues. Through these activities, the Centre acts as a platform for intellectual engagement and dialogue between financial market experts, the banking sector and the policy makers in Kenya. It therefore contributes to an informed discussion that influences critical financial market debates and policies.



CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY®

Publisher	KBA Centre for Research on Financial Markets and Policy®
KBA CEO	Dr. Habil Olaka
Chief Editor	Dr. Samuel Tiriongo
Contributor	Hillary Mulindi
Design & Layout	Conrad Karume
Contacts	KBA Headquarters, International Life House, 13th Floor Mama Ngina Street, Nairobi
Mailing Address	P.O. Box 73100 00200 - Nairobi
Phone	+254-20-2221704, +254-20-2217757, +254-20-2224014
E-mail	research@kba.co.ke
Web	www.kba.co.ke.
Distributed by	Kenya Bankers Association

Disclaimer

Views expressed in this publication do not necessarily express the views of the members of Kenya Bankers Association. The entire content of this publication is protected by copyright laws. Reproduction in part or whole requires express written consent from the publisher.

Pictures used herein have been sourced from the internet and other sources.



FROM THE CEO'S DESK 3

COMMENTARY 4

PRICE PRESSURES CONTINUE TO MODERATE,
MAINLY ON ACCOUNT OF FOOD AND FUEL

STATE OF THE ECONOMY 10

SECTOR PERFORMANCE 16

- AGRICULTURE 14
- MANUFACTURING 16
- PRODUCER PRICE INDEX 16
- ENERGY 17
- BUILDING AND CONSTRUCTION 18
- TRANSPORT AND STORAGE 18
- TOURISM 19

FINANCING OF GOVERNMENT 22

- PUBLIC DEBT 22

MONEY SUPPLY 24

- INFLATION 24
- INTEREST RATES 25
- EXCHANGE RATES 25
- BALANCE OF PAYMENTS 27

CAPITAL MARKETS 27

BANKING INDUSTRY PERFORMANCE 28



This bulletin can also be downloaded from: www.kba.co.ke



FOREWORD

From the CEO's Desk

It is my pleasure to present the 39th issue of the *Kenya Bankers Economic Bulletin*, highlighting the developments shaping Kenya's economy in 2023. This edition provides a detailed analysis of key developments in the macroeconomic environment, including inflation, sectoral performance, credit growth, and the external sector.

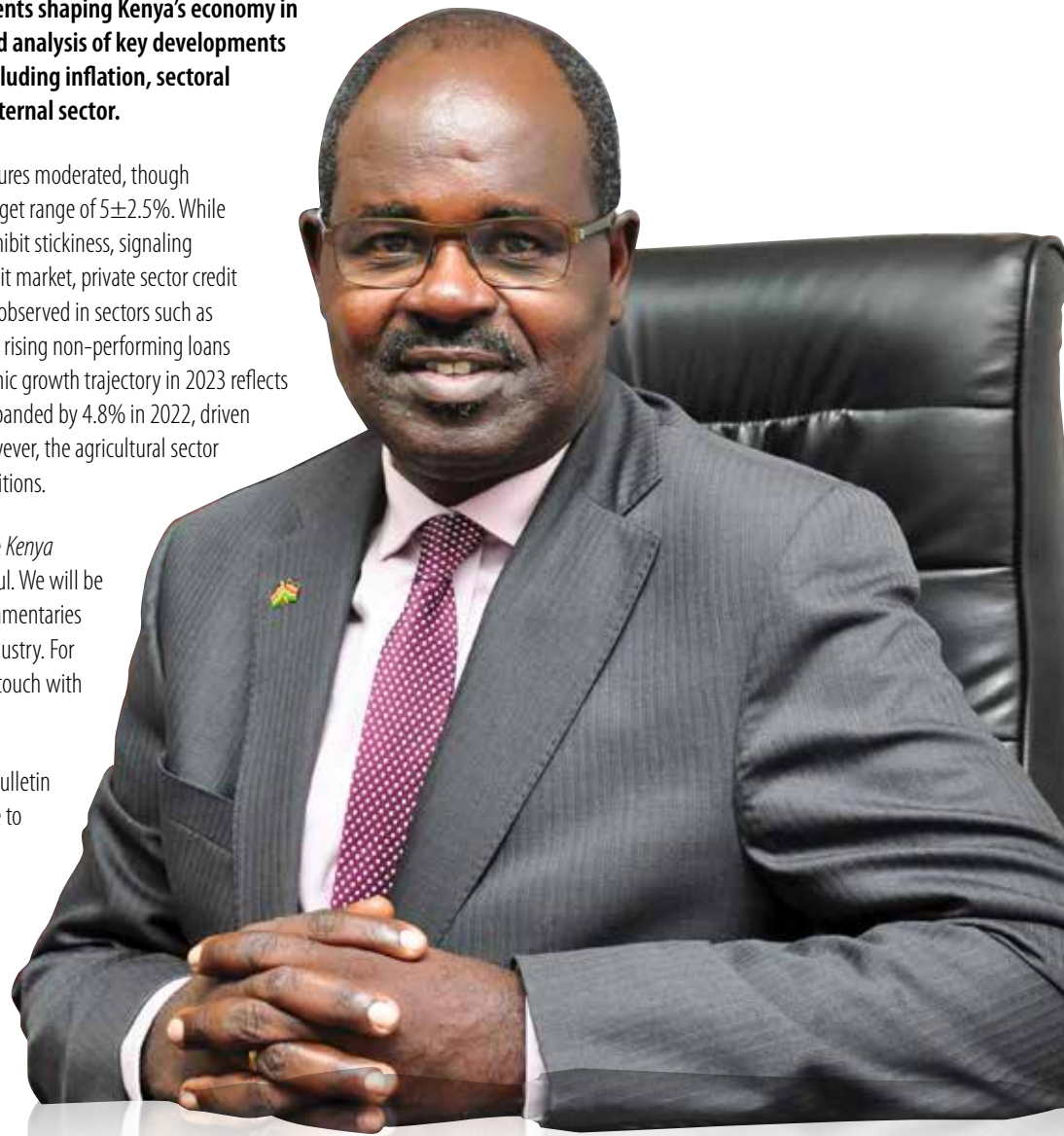
During the first half of 2023, inflationary pressures moderated, though inflation remained above the government's target range of $5\pm 2.5\%$. While core inflation eased slightly, it continued to exhibit stickiness, signaling persistent domestic price pressures. In the credit market, private sector credit growth decelerated, with robust performance observed in sectors such as manufacturing, trade, and transport. However, rising non-performing loans emerged as a key concern. Overall, the economic growth trajectory in 2023 reflects resilience despite challenges. The economy expanded by 4.8% in 2022, driven primarily by growth in the services sector. However, the agricultural sector contracted, hindered by adverse weather conditions.

It is my hope that you will find this issue of the *Kenya Bankers Economic Bulletin* interesting and useful. We will be happy to consider for publications incisive commentaries on a topical issue of interest to the banking industry. For guidelines on such submissions, please get in touch with the Bulletin's Editor at research@kba.co.ke.

We welcome feedback on the content of this Bulletin as we continually seek to improve its relevance to you.

Dr. Habil Olaka

Chief Executive Officer,
Kenya Bankers Association



COMMENTARY



Price pressures continue to moderate, mainly on account of food and fuel

By Samuel Tiriongo, PhD

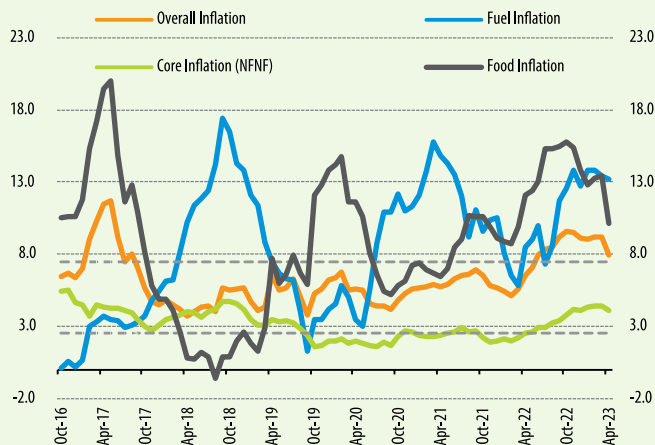
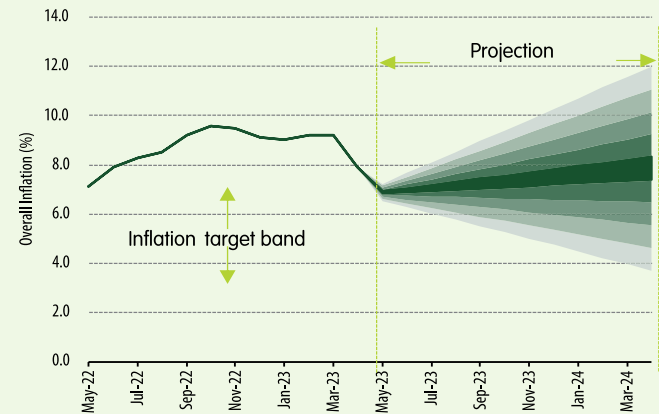


Overall inflation was down 1.3 percent to stand at 7.9 percent in April 2023 from the previous month 9.2 percent, taking the inflation rate closer to the upper bound (7.5 percent) of the inflation target. Despite the slowdown, headline inflation remains well above the government’s target of 5 ± 2.5 percent.

Core inflation, that is the non-food-non-fuel (NFnF) inflation declined slightly to 4.1 percent in April 2023 from 4.4 percent in March 2023 (**Figure 1a**). Core inflation remains largely sticky but declined to 4.1 percent in April 2023 from 4.4 percent the previous month. The stickiness of the core inflation suggests that domestic inflationary pressures are yet to soften. Food price inflation finally starts to come down, declining to 10.1 percent in April 2023 from a high of 15.8 percent in October 2022. Fuel inflation remains sticky and stood

at 13.2 percent in April 2023. Going forward, the balance of risks for the trajectory of inflation in the short term remains biased to the upside owing to the coming into effect of the new tax proposals contained in the Finance Bill 2023; the elevated commodity prices, geopolitical tensions and softening global growth. Thus, as price pressures moderate, and headline inflation inch closer to the central bank’s target¹ as depicted in **Figure 1b**, it would be prudent for a pause on the current monetary policy stance.

1. The fan chart is shaped like a fan, with the central bank’s best estimate or target for inflation in the center. The chart then shows a range of possible outcomes for inflation, with the probability of each outcome represented by a shaded area. The wider the fan, the greater the uncertainty about future inflation. The fan chart is a useful tool for communicating the uncertainty surrounding inflation forecasts and helps policymakers and the public understand the possible range of outcomes.

Figure 1: Inflation Dynamics**(a) Food and fuel remains the key drivers of Inflationary pressure.....****(b) Overall inflation to remain elevated in the near-term, despite the recent moderation.....**

On its part, economic activity in 2022 was characterized by synchronized moderation compared to 2021. Even so, the economy remained resilient expanding by 4.8 percent compared to 7.6 percent in 2021 (Figure 2a) albeit the multiple shocks it experienced. The growth was supported by the services sector whose growth was the highest at 7.0 percent, albeit lower than the 9.8 percent growth it registered in 2021. The contribution of agriculture, the backbone of the Kenyan economy was negative through all the quarters in 2023 (Figure 2b) with the sector's growth contracting by 1.6 percent from contraction of 0.4 percent in 2021, due to adverse weather conditions experienced in the country. Growth of the industrial sector slowed to 3.9 percent from 7.5 percent in 2021, mainly on account of a deceleration in manufacturing sector growth to 2.7 percent from 7.3 percent in 2021 (Figure 2c). Going forward, the economy is likely to continue growing mildly in the near term, and

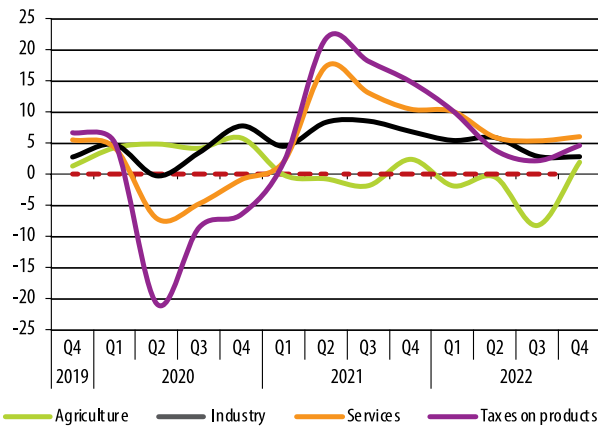
the Central Bank of Kenya forecasts a 6.2 percent economic growth in 2023 while the World Bank projects a 5 percent growth.

Moreover, the leading indicators suggests that economic activity is already softening. In April, the Stanbic Bank Kenya Purchasing Managers' Index™ (PMI) fell to 47.2 from 49.2 in March 2023 (Figure 2d), the third consecutive month-on-month contraction registered so far since the start of the year suggesting a sustained deterioration in the health of the private sector. Most sub-indicators show that this might not be a short-term aberration. For example, input purchases and activity levels also decreased, output charges increased steeply, but employment numbers continued to rise and input cost pressures dropped to their lowest recorded in 2023. Furthermore, sectoral data indicates that the downturn was led by manufacturing and services, while agriculture, construction, and wholesale & retail saw expansions.

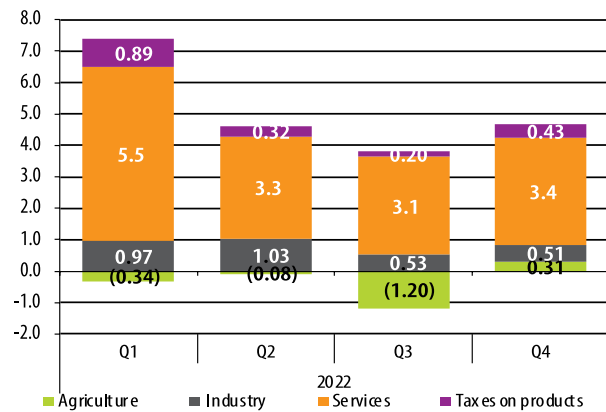
“
The balance of risks for the trajectory of inflation in the short term remains biased to the upside owing to the coming into effect of the new tax proposals contained in the Finance Bill 2023

Figure 2: Economic growth rates and Purchasing Manager's Index

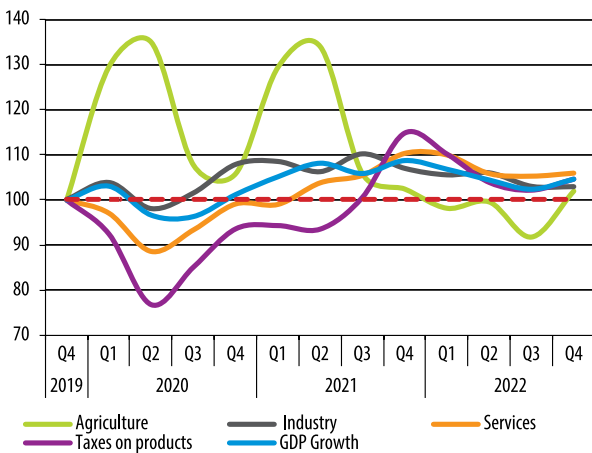
(a) Growth was supported by the strong performance of the services sector, which grew by 7.0 percent compared to 9.8 percent in 2021.



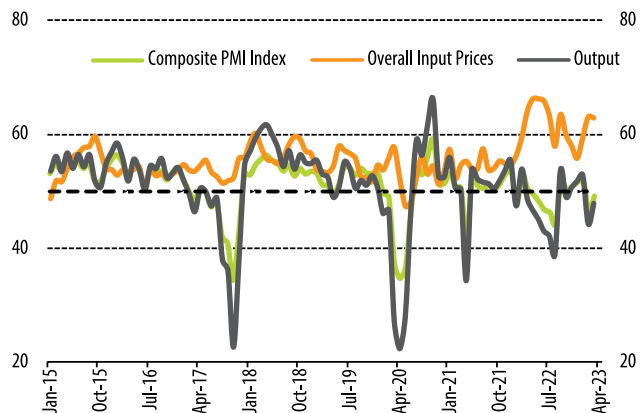
(b) Agriculture's contribution to GDP was negative in all the quarters of 2022.



(c) Sectoral output as measured by GDP; Fourth Quarter 2019 GDP=100



(d) The PMI further contracted, staying below the 50-neutral level for third month in a row

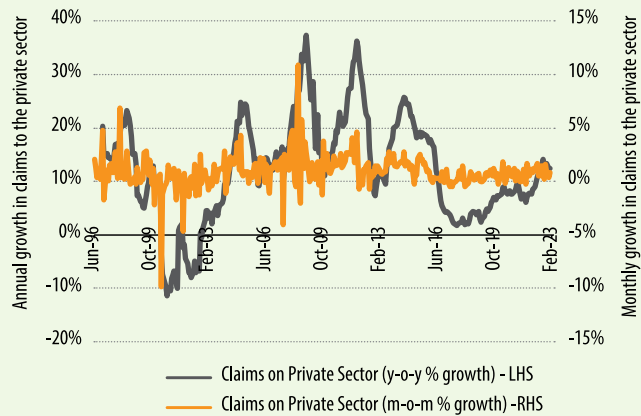


Private sector credit maintained double-digit growth in early 2023, though the pace has slowed as the effects of tighter monetary policy begin to materialize. The private sector credit growth slowed down in February to 11.7 percent from 12.7 percent in December 2022. In spite of the slight moderation, strong growth was observed in manufacturing (whose credit grew by 15.2 percent), transport and communication (16.5 percent), trade (11.8 percent), and consumer durables (12.4 percent). In addition, the number of loan applications and approvals declined, an indicator of the softening demand in February. Similarly, the industry's asset quality is also on a decline with the non-performing loan (NPL) ratio rising to 14.0 percent in February 2023 from 13.3 percent in December 2022 (Figure

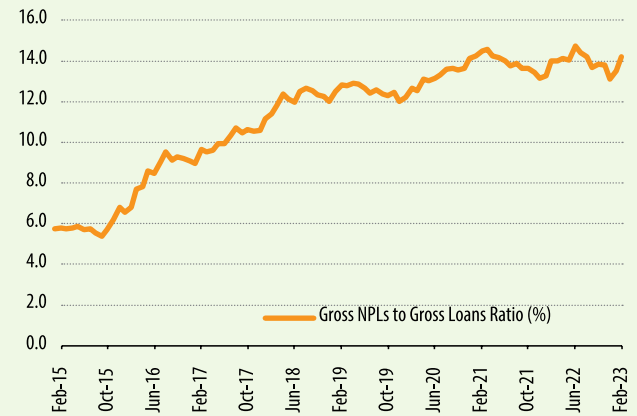
3c), owing mainly to a deterioration in the industry's portfolios in trade, personal and household, manufacturing and building and construction sectors. This deterioration in bank assets quality raised concerns on the health of banks (a reduction in bank capital), which in turn can reduce their ability to lend to the real economy. Expectations of slowdown in economic growth, elevated inflationary pressures in 2023 are likely to further exacerbate credit risks and asset-quality deterioration. Moreover, owing to these risks, portfolio rebalancing, especially increase exposure to lower risk weighted, particularly less-risky government securities is likely to become more pronounced reversing private-sector credit loan growth improvements that were made in 2022.

Figure 3: Trends in credit to the private sector

(a) Double-digit growth in credit to the private Sector is sustained....



(b) Asset quality deteriorates.....

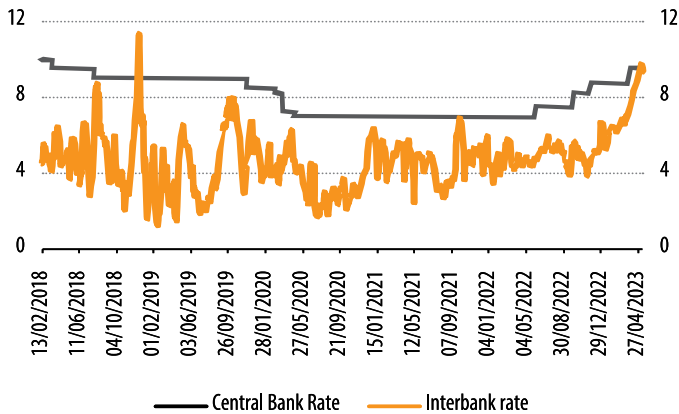


The interbank and lending rates have risen in the recent past, suggesting that the effects of the tight monetary policy are being felt in the credit market (Figure 4). The recent tightening of the monetary policy stance by the Central Bank of Kenya has had the implication of increasing money market yields and high interbank money market rates. The interbank (overnight) rates have been stable but elevated with the rate increasing gradually to 9.3 percent as of May 11, 2023, from an average of 5.4 percent in December 2022, 6.4 percent in February 2023 and 8.6 percent in April 2023. Similarly, the weighted average lending rate equally remained tilted upward, increasing to 13.1 percent in February 2023 from 12.7 percent in December, thereby reflecting the prevailing monetary policy stance. Yields on government securities have remained stable, albeit with the 91-day, 182-day and 364-day rates increasing marginally. Even so, given the lags in monetary policy transmission, the impact of the rising CBR is expected to continue having an increasing impact on the economy in the coming quarters.

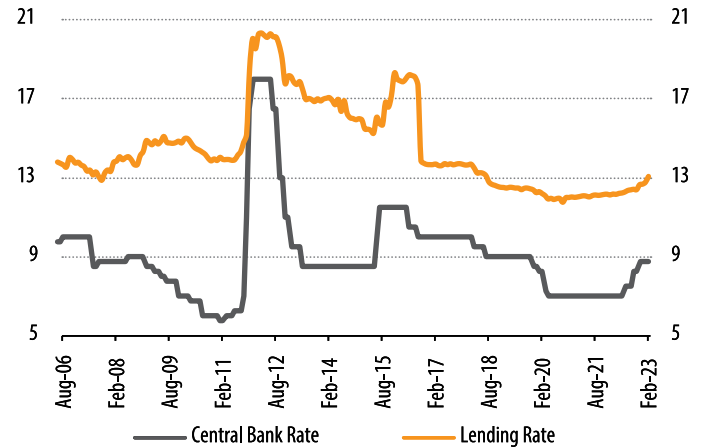


Figure 4: Trends in policy rate, interbank rates, and lending rates

(a) Interbank rates mirrors the trends in CBR.....



(b) As the CBR rises..... so do the lending rates



“
Kenya’s agreement with three international oil companies to purchase petroleum products on credit will reduce dollar demand.”

External balance indicators reveals that the external sector remains fragile with the terms of trade deteriorating and capital outflows surging owing to monetary policy tightening in developed and emerging market economies. The shilling-dollar exchange rate has remained relatively stable, despite persistent uncertainties in the global financial markets and the impact of a stronger US Dollar (Figure 5a). This stability has been anchored on the strong performance in remittances (Figure 5b). The move by the Kenyan government move to sign an agreement with three international oil companies to purchase petroleum products on credit will ease the dollar demand. In effect, it deflated the pressure on dollar demand arising from the need to import crude oil, amidst elevated crude oil prices at the international market (Figure 5c). The CBK usable foreign exchange reserves, which stood at USD 6,297 million (3.50 months of import cover) as of May 18, 2023, below the CBK’s statutory requirement 4 months of import cover (Figure 5d). This while considered adequate, is precarious as the buffer against short-term shocks in the foreign exchange market is getting thin.

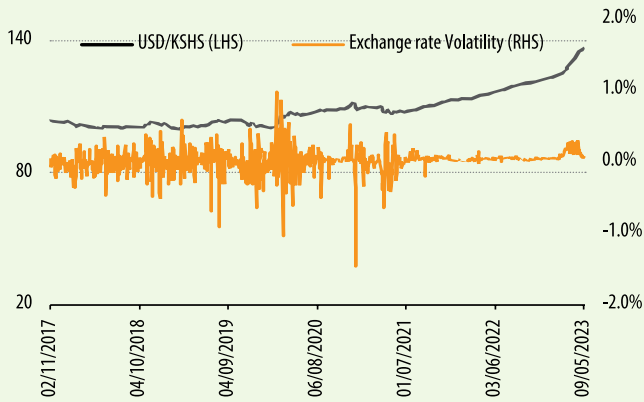
The overall balance of payments position recorded a surplus of USD 2,137. million in February 2023, from USD 2,138.2 million in December 2022 on account of improvement in the capital account. The current account deficit stood at USD 5,249.4 million in February 2023, from USD 5,477.7 million in December 2022 on account of 5.77 percent growth in the net primary income balance and merchandise account from December 2022. The financial account stood at a deficit of USD 3,884.5 million in February 2023, relative to USD 4,234.1 million in December 2022 (Figure 5e and 5f).

The Moody’s global ratings agency downgrade of Kenya’s long-term foreign-currency and local-currency issuer ratings from B2 to B3, has significant implications both on the access to international capital markets and this will worsen the credit conditions of the country amidst a vulnerable external position. Overall, this the downgrade constraints the country’s ability to raise funds externally and yields on government securities would come under pressure and ultimately private sector credit is likely to shrink as government competes for financing with the former.

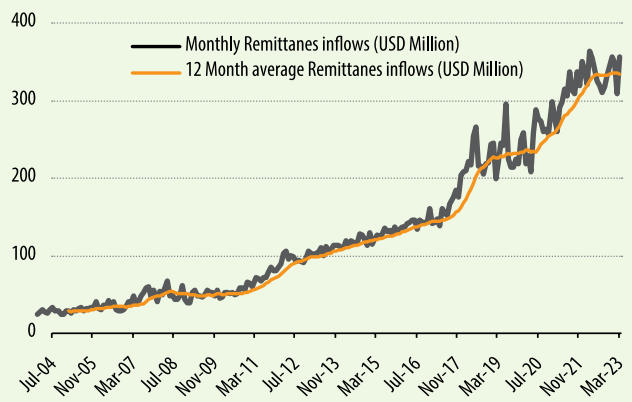


Figure 5: The Dynamics of the exchange rate market and external sector developments

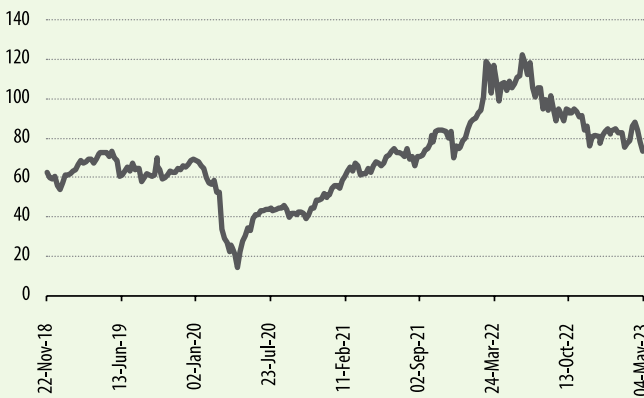
(a) The USD/KSHS exchange rate remains stable.....



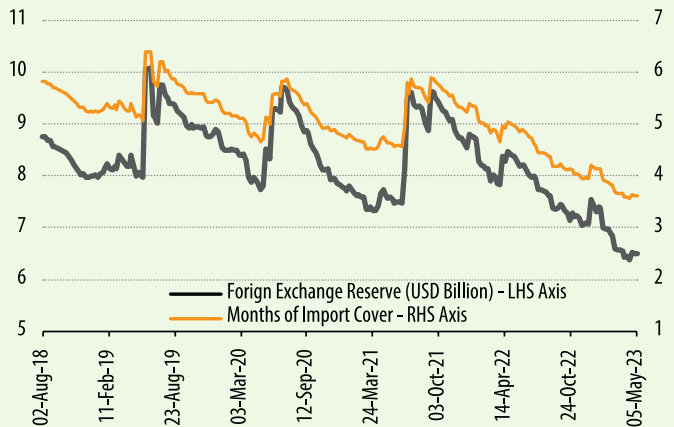
(b)as monthly remittances inflow remains robust.....



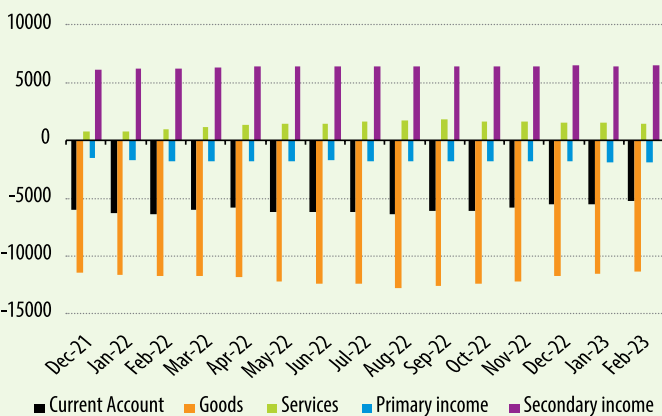
(c) The Crude oil price, Murban Adnoc (Abu Dhabi FOB), US\$ per barrel remains elevated, but it's less of a threat in the foreign exchange market....



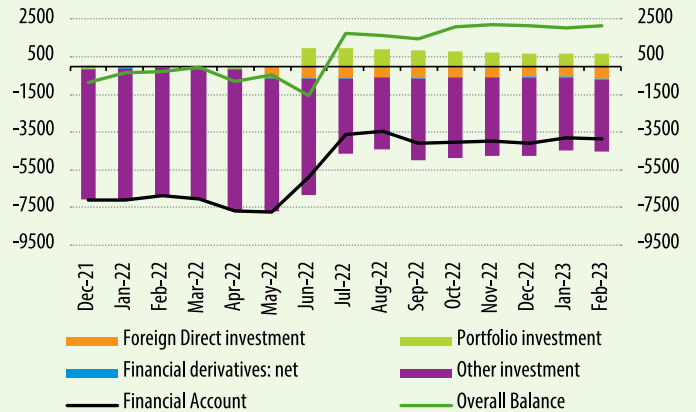
(d) While the reserves remains below the 4 months of import cover.....



(e) Trends in the current account....



(f) Trends in the financial account and the overall balance



OUTLOOK

State of the Economy

The global economy is on a recovery path following the Covid-19 pandemic and recent geopolitical tensions. Indicators of progress include easing supply chain disruptions and China’s full economic reopening.

“
Advanced economies are projected to grow by 1.3% in 2023 and 1.4% in 2024, while emerging markets expect growth of 3.9% and 4.2%, respectively.

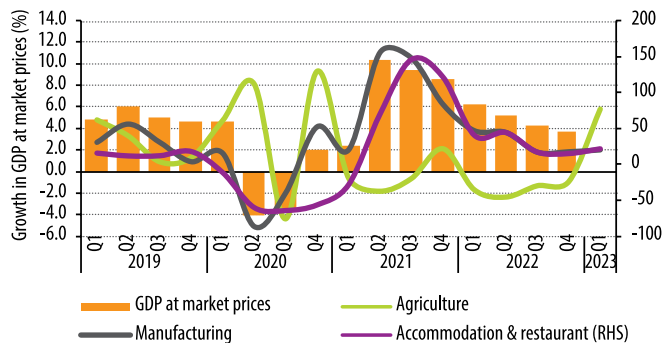
Additionally, falling global commodity prices and easing inflation pressures, resulting from synchronized monetary policy adjustments, are contributing positively to this progress. However, the monetary tightening has revealed vulnerabilities in the banking sector, as evidenced by the closure of US regional banks in March 2023 and a loss of confidence in Credit Suisse.

According to the IMF’s April 2023 projection, global output growth is estimated at 2.8 percent in 2023, rising to 3.0 percent in 2024—still below historical trends. Advanced economies are expected to grow by 1.3 percent in 2023 and 1.4 percent in 2024, while emerging markets anticipate growth rates of 3.9 percent and 4.2 percent in the respective years. Tighter financial conditions have led to a 0.1 percent downward revision for emerging markets, and sub-Saharan Africa faces a 0.2 percent growth slowdown compared to January 2023 forecasts.

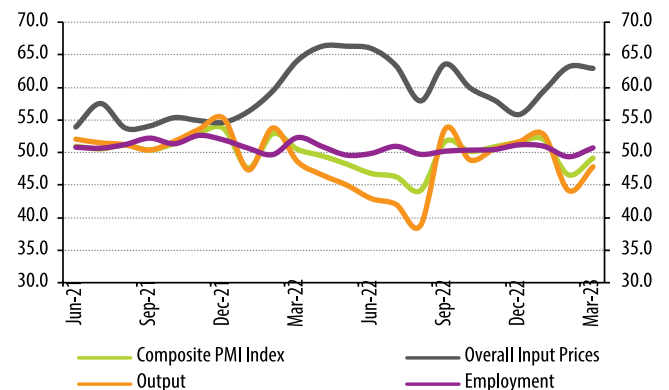


Figure 6: GDP Performance and Economic Outlook

(a) Domestic Economic performance



(b) Trends in PMI



Source: KNBS and IHS Markit®

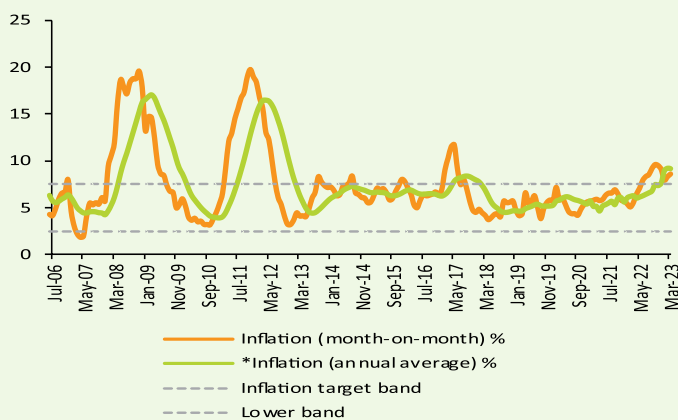


On the domestic front, the economy expanded by 5.3 percent in the first quarter of 2023, mainly supported by a rebound of the agriculture sector and continued resilience of service sectors. The agriculture sector grew by 5.8 percent in the first quarter of 2023 compared to a contraction of 1.7 percent in a similar quarter in 2022. The services sector expanded by 6.3 percent as the industrial sector expanded by 2.5 percent (**Figure 6a**). The Kenya Purchasing Managers' Index™ (PMI) fell below the 50-mark in February and March 2023, pointing to declining optimism in the market. The input prices picked up in the quarter, while the output levels declined (**Figure 6b**).

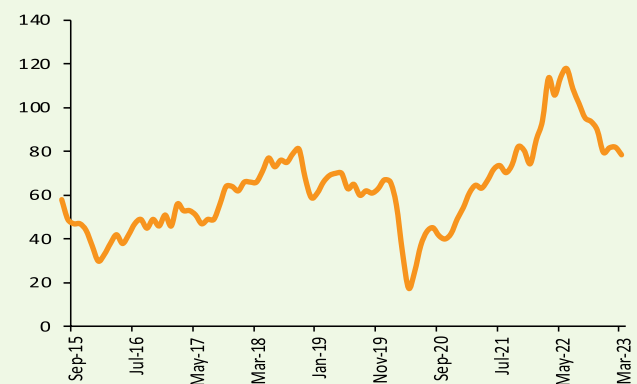
Elevated inflation expectations were heightened, mainly on the back of rising global commodity prices (mainly oil) triggered by the Russia invasion of Ukraine and the materialisation of sanctions imposed on Russia. Consequently, the month-on-month headline inflation rose from 7.95 percent in January to close the quarter in March at 8.59 percent, as the annual average inflation rate rose to 9.19 percent in March up from 8.98 percent in January 2023 (**Figure 7a**). The Murban oil prices dropped from USD 81.62 per barrel in January 2023 to USD 78.45 per barrel by March 2023 (**Figure 7b**).

Figure 7: Trends in Inflation and Murban Crude oil prices

(a) Inflation trends



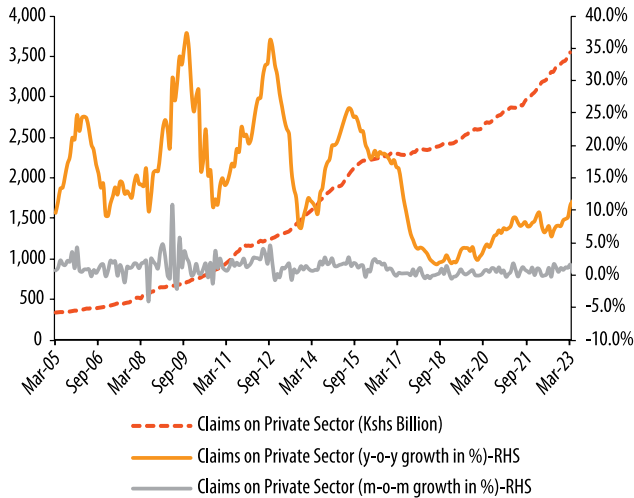
(b) Trends in Murban oil price



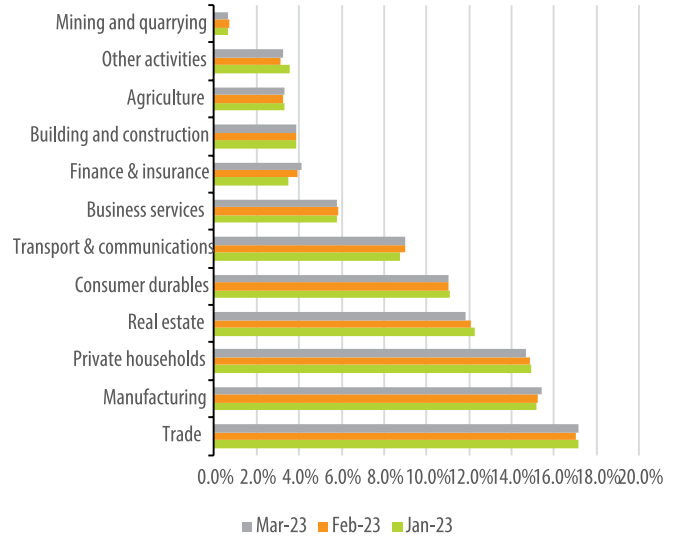
Source: Central bank of Kenya and Oil price.com

Figure 8: Private Sector Credit and Growth Dynamics

(a) Private Sector Credit and Growth Dynamics



(b) Sectoral distribution of private sector credit in Q1 2022



Source: CBK



Credit growth remained on a double-digit growth through the quarter 2023, albeit at a decelerating pace, reflecting the impact of the transmission of the strong monetary policy tightening effected since May 2022 and the deteriorated industry asset quality. The overall private sector credit grew on a year-on-year basis by 11.5 percent in January, and then 11.7 percent in February and 11.6 percent in March 2023 (**Figure 8a**), as driven by double-digit credit to transport and communication sector (17.35%), manufacturing sector (15.79%), consumer durables (12.75%) and trade (11.92%) by the end of the quarter. (**Figure 8b**).

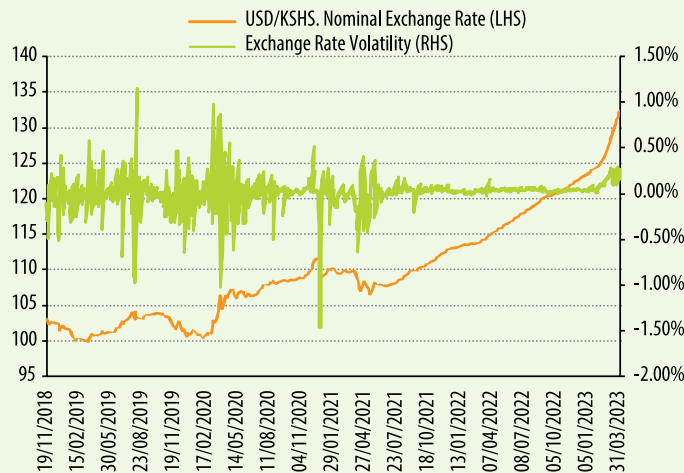
The Kenya Shilling has continued to depreciate against the US dollar (**Figure 9a**), despite the strong and resilient inflows of diaspora remittances. In the first quarter of 2023, total remittances stood at USD 1,015.5 million, slightly down from USD 1,023.8 million in the first quarter of 2022. Region-wise, North America contributed the largest share of remittances, with USD 613.1 million in Q1 2023 compared to USD 620.5 million in Q1 2022.

Europe followed with USD 183.2 million in Q1 2023, down from USD 188.6 million in the same period of the previous year. The rest of the world contributed USD 219.2 million in Q1 2023, a slight decrease from USD 214.8 million in Q1 2022 (**Figure 9b**). Despite these robust remittance inflows, the Kenya Shilling has not stabilized, indicating other underlying factors influencing its depreciation.

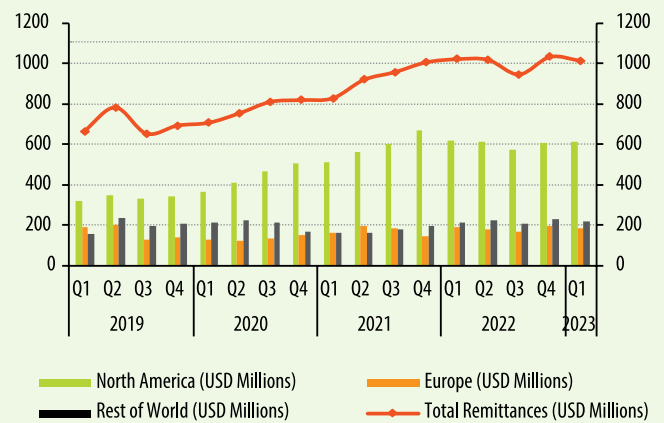


Figure 9: Kenya Shilling -US Dollar Exchange Rate dynamics and Remittances inflow

(a) Kenya Shilling -US Dollar Exchange Rate Dynamics



(b) Trends in remittances flow by regions

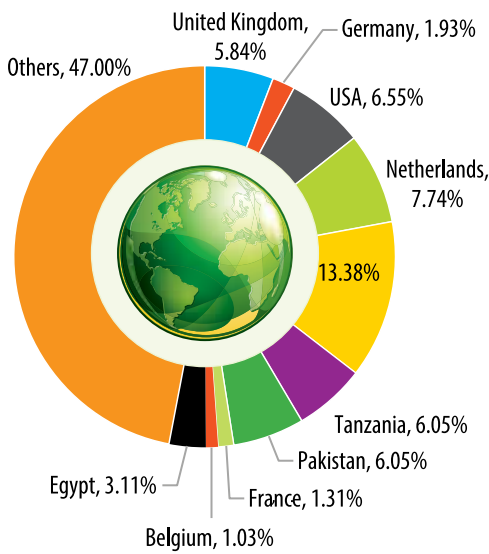


Source: CBK

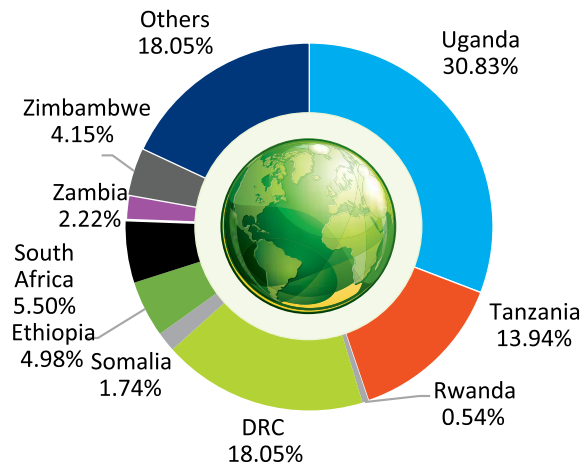
Trends in trade flows between Kenya and its partners remains largely unchanged in terms of share rankings. However, the fluctuations in the exchange rates during the quarter has contributed to mild movements in the total trade transactions by Kenya's trade partners. In terms of Kenya's export flows, Uganda (13.38 Percent) and Tanzania (6.05 percent) were the top destinations in Africa, while Netherland (7.75 percent), USA (6.55 percent) and Pakistan (6.05 percent) was the main non-African export destination. Key import sources were China (15.25%) and the UAE (14.04%), with significant African imports from Zimbabwe (26.76%) (Figure 10).

Figure 10: Kenya's Intra-African and Global Trade Developments

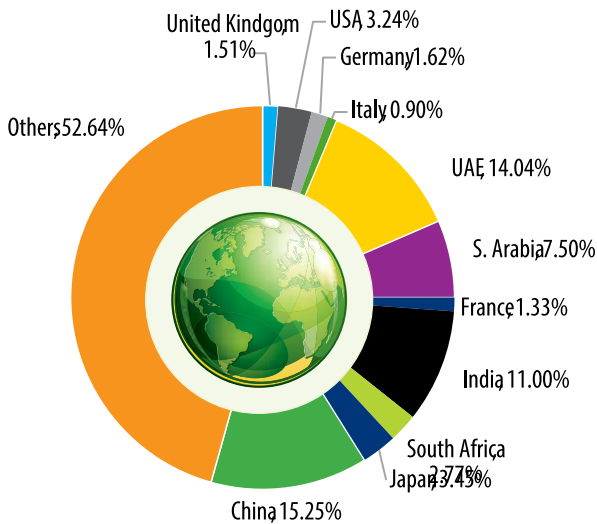
(a) Share of exports of goods by trading partners



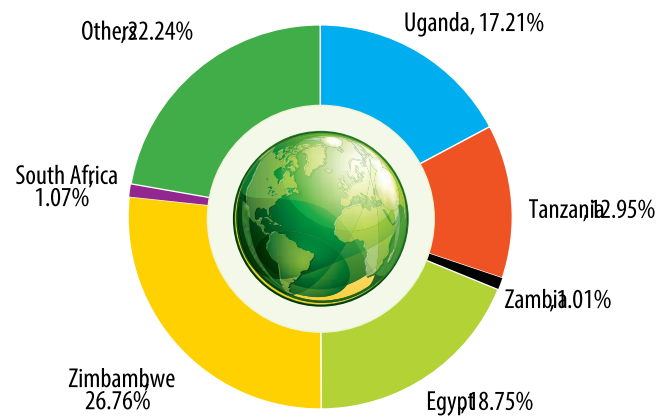
(b) Intra-African Trade - Kenya's Major Trading Partners



(c) Share of imports of goods by trading partners



(d) Intra-African Share of Imports of goods by trading partners



Source: CBK

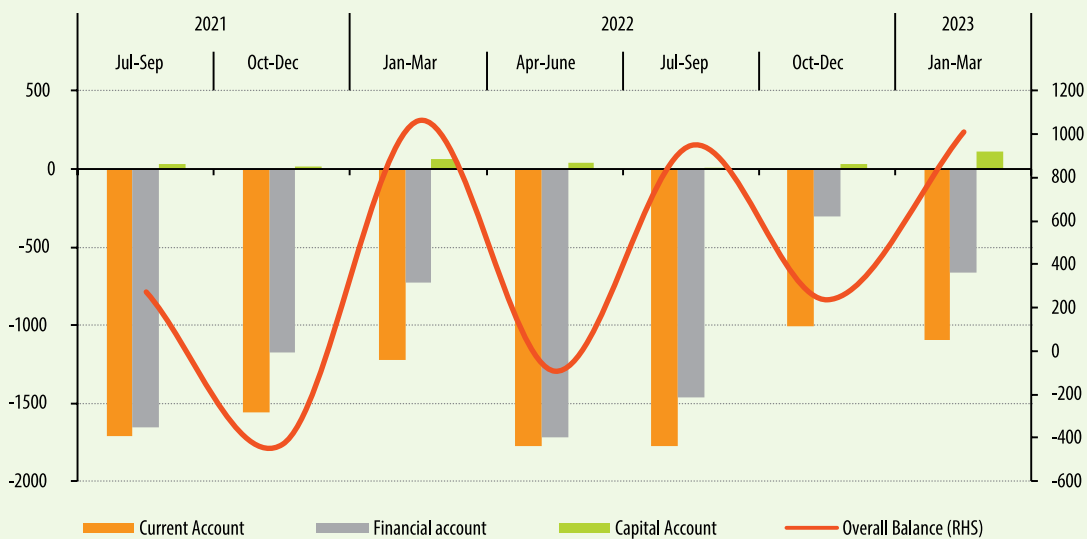


The balance of payment accounts continued to strengthen, mainly driven by heightened cross-border activities. The current account balance narrowed to USD 1,092 million in the first quarter of 2023 from USD 1,225 million in a similar period in 2022, driven by reduced imports and strong exports.

Consequently, with the reduced imports of manufactured goods and machinery, the import bill fell. The trade deficit improved by 17 percent to

USD 2,399 million, with merchandise exports increasing to USD 1,844 million. Exports of manufactured goods grew by 42 percent, while tea and horticulture earnings declined. Merchandise imports decreased by 10 percent to USD 4,243 million, with significant drops in imports of manufactured goods and machinery. Net service receipts fell by USD 339 million. The net capital account recorded USD 110 million in inflows, while net financial account inflows dropped to USD 660 million (Figure 11).

Figure 11: Balance of the Payments Performance



Source: CBK Quarterly Economic Review

Sectoral Performance

Agriculture

The agricultural sector output grew by 5.8 percent in the first quarter of 2023, compared to 1.7 percent contraction in a similar period in 2022. However, a mixed growth pattern was evident among its subsectors.

For instance, as depicted in **Figure 12**, the tea production declined from 135,830 metric tonnes in the first quarter of 2022 to 118,138 metric tonnes in the first quarter of 2023, while the average monthly auction price was 1.74 percent lower in the current period compared to the first quarter in 2022, mainly on account of the effects of the global economic shocks experienced in most countries due to the Russian-Ukraine crisis. The crisis has continued to cause increases in commodity prices thus affecting consumer purchasing power, shortage of forex reserves required for importation and weakening of local currencies against the US dollar within the markets.

In terms of export trends, tea export volume increased by 2.94 percent compared to the first quarter of 2022. However, the value of tea exports grew even more significantly, registering a 9.45 percent increase in the first quarter of 2023. On the coffee side, the export volume in the first quarter of 2023 was down by 5.35 percent in comparison to a similar period in 2022. Consequently, this resulted in 20.40 percent decline in the value of exports (**Figure 13**).

Figure 12: Tea production and Price Movements

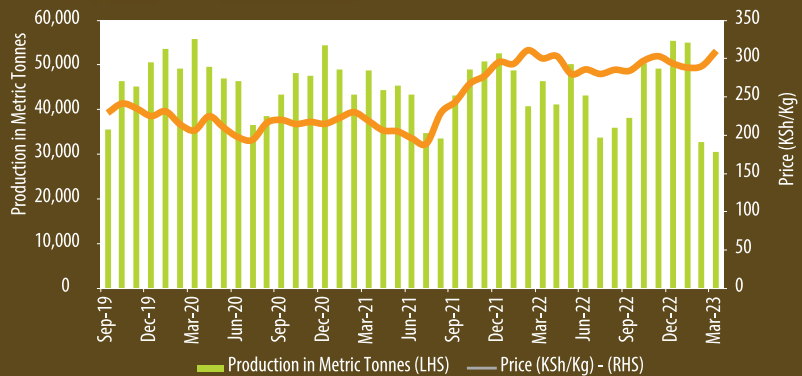
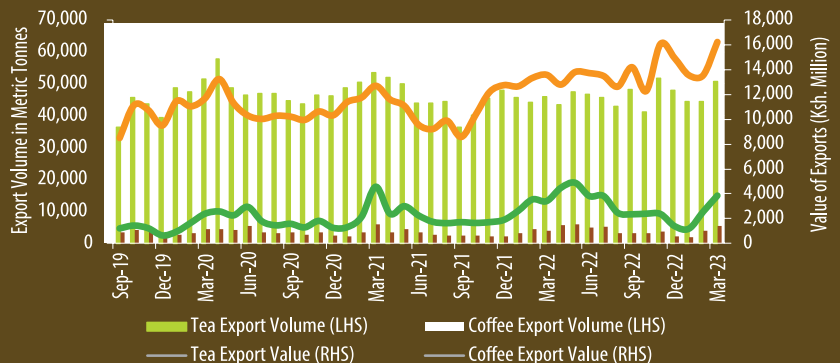


Figure 13: Value of Tea and Coffee Exports



Source: KNBS



On its part, horticultural exports volume and value declined by 5.15 percent and 11.01 percent, respectively, in the first quarter of 2023. Mirroring this trend, the quantity of cut flowers exports declined by 3.15 percent. In contrast, the quantity of fruits and vegetables exported were significantly higher compared to a similar period in 2022. In quantum terms, the quantity of fruits exports increased by 76.69 percent, from 15,210.81 metric tonnes in the first quarter of 2022 to 24,395.03 metric tonnes in 2023 (Figure 14).

Manufacturing

The manufacturing sector output declined slightly from 3.8 percent growth in 2022 to 2.0 percent in 2023. Even so, a mixed trend is evident from the sub-sectoral analysis. First, Sugar production declined from 208,478 MT in the first quarter 2022 to 198,895 MT in 2023, while soft drink production increased from 152,842 to 156,964 thousand litres in 2023. However, galvanized sheet production fell from 65,206 to 54,894 MT. Cement production and consumption dropped from 2,585,629 MT to 2,422,216 MT and from 2,520,968 MT to 2,325,717 MT, respectively. Milk consumption declined from 197 million liters to 166 million litres in the first quarter 2023 (Figure 16).

Figure 14: Horticultural Exports

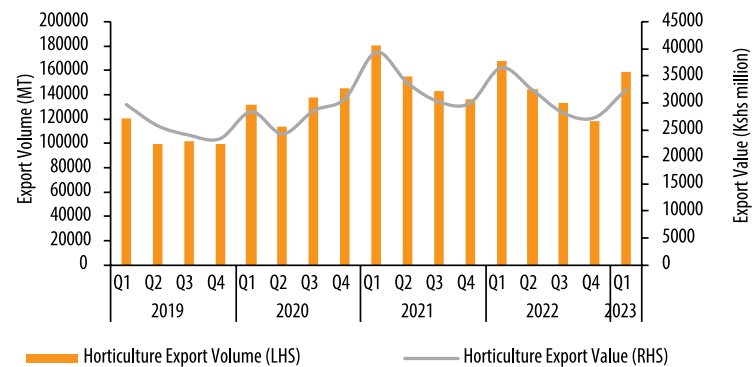
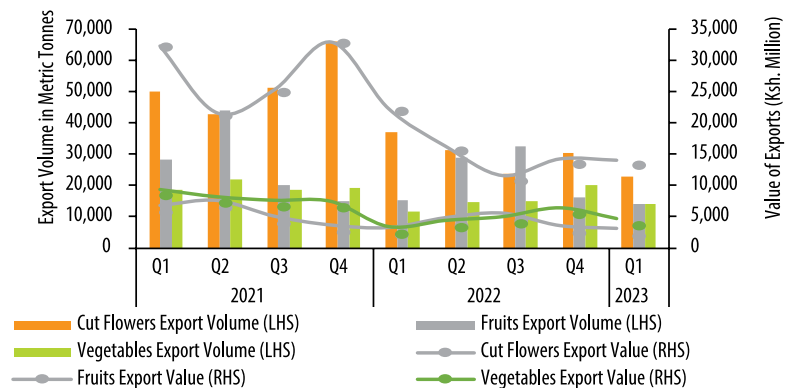
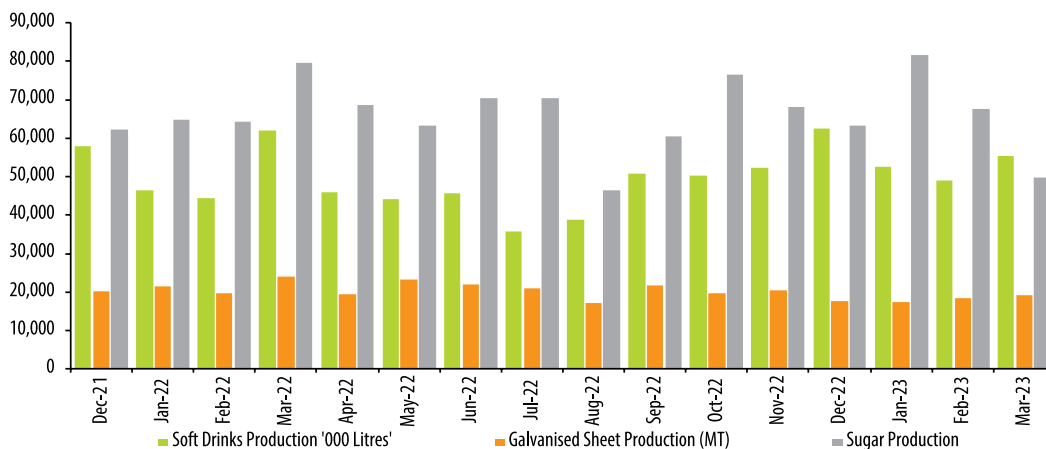


Figure 15: Cut Flowers, Vegetables and Fruits



Source: KNBS

Figure 16: Production in manufacturing sub-sectors



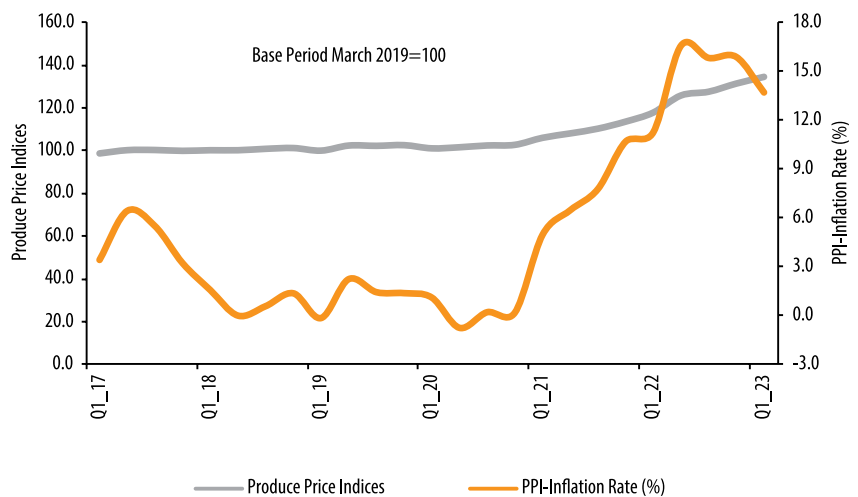
Source: KNBS



Producer Price Index

In the first quarter of 2023, the producer prices index increased by 14.27 percent in comparison to a similar period in 2022 to settle at 134.8 (Figure 17), thereby reflecting the effects of fundamental drivers of prices. Prices of various production inputs, particularly commodities, have remained elevated, on account of demand and supply chain bottlenecks. Additionally, the effects of fiscal stimulus packages in advanced economies continued to heighten demand for goods, thereby putting further pressure on supply chains and increasing demand for commodities and other inputs.

Figure 17: Producer Price Index



Source: KNBS

Energy

The quarter saw a significant shift in electricity generation compared to a similar period in 2022, with a notable move towards more sustainable energy sources. Hydroelectric power declined by 47.5% to settle at 424.09 million KWH. Conversely, geothermal and solar energy surged by 46.8% and 33.3% respectively, indicating strong growth in renewable energy sources. Wind power also increased by 13.5%. However, thermal power experienced a sharp decline of 30.6%. These trends suggest a notable move towards more sustainable energy sources, despite the decline in hydroelectric and thermal power (**Figure 18**).

In comparison to 2022, energy prices exhibited varied trends in first quarter of 2023. Murban crude oil prices (US\$/Barrel) dropped from US\$ 81.6 in January 2023 to US\$78.5 in March 2023. Super petrol prices remained relatively stable after a rise in September 2022, while diesel and kerosene prices showed a similar pattern, with a notable increase in September 2022 and then stabilization, mainly reflecting stability by EPRA in setting the domestic retail fuel prices. LPG prices saw a steady increase, peaking in March 2023 at Kes 3,137.7 for LPG (13 Kgs).

Figure 18: Monthly Electricity Generation by Source

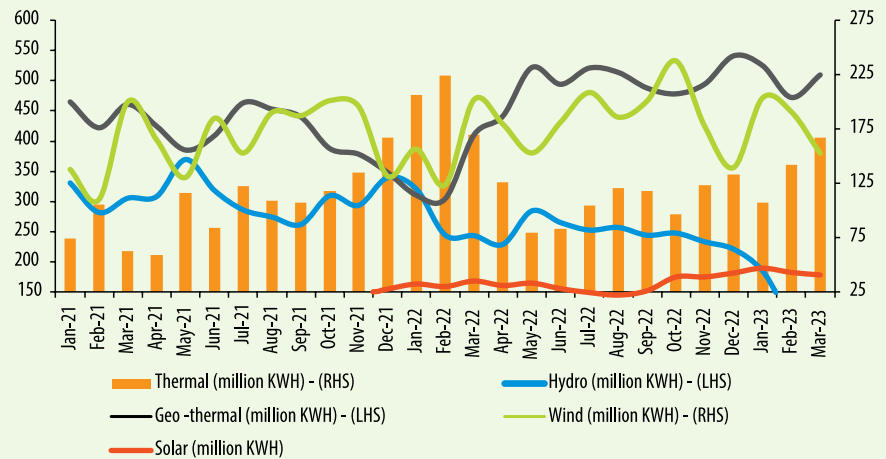


Table 2: Average Monthly Crude Oil and Retail Fuel Prices

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Murban crude oil (US\$/Barrel)	105.6	113.9	117.7	108.6	101.9	95.3	93.6	89.7	79.6	81.6	81.9	78.5
Super petrol (KSh/Litre)	145.4	150.9	159.9	159.9	159.9	180.1	179.1	178.1	178.1	178.1	178.1	180.1
Diesel (KSh/Litre)	126.4	131.9	140.9	140.9	140.9	165.9	163.9	162.9	162.9	162.9	162.9	162.9
Kerosene (KES/Litre)	114.4	119.9	128.9	128.9	128.9	148.9	147.9	146.9	146.9	146.9	146.9	146.9
LPG (13Kgs)	2924.6	3176.9	3218.2	3100.7	3103.2	3106.7	3084.0	3004.8	2980.8	2961.9	3101.9	3137.7

Source: ADNOC oil prices and KNBS



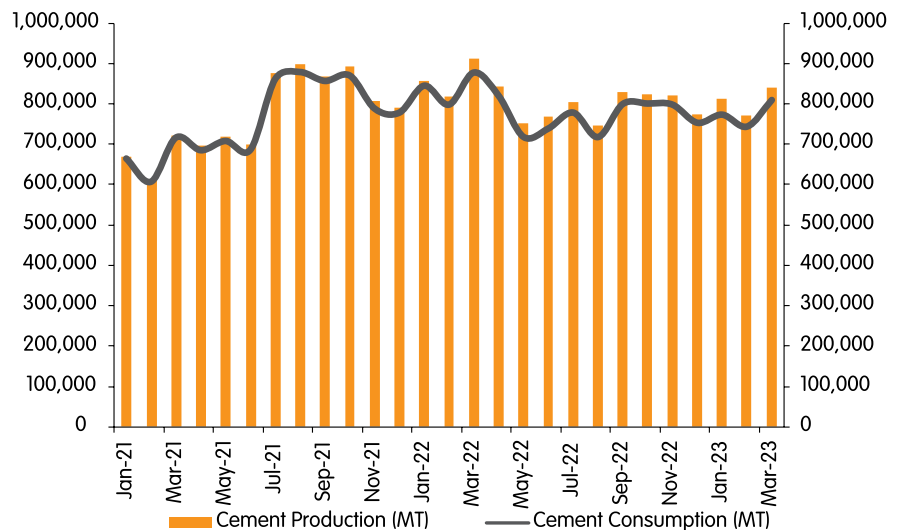
Building and Construction

Activities in the building and construction sector softened during the quarter. Cement production declined by 6.32% compared to the same period in 2022. Similarly, cement consumption dropped by 7.75%, decreasing from 2,520,968 MT in the first quarter of 2022 to 2,325,717 MT in 2023 (Figure 19).

Tourism

Tourist arrivals sustained the growth momentum seen in the previous quarter. Total inbound tourist arrivals for the quarter reached 337,937, representing a 49.98% increase compared to the same period in 2022. Of these, 293,051 arrived through the JKIA terminal, while 44,886 arrived through the Mombasa International Airport (MIA) terminal (Figure 20).

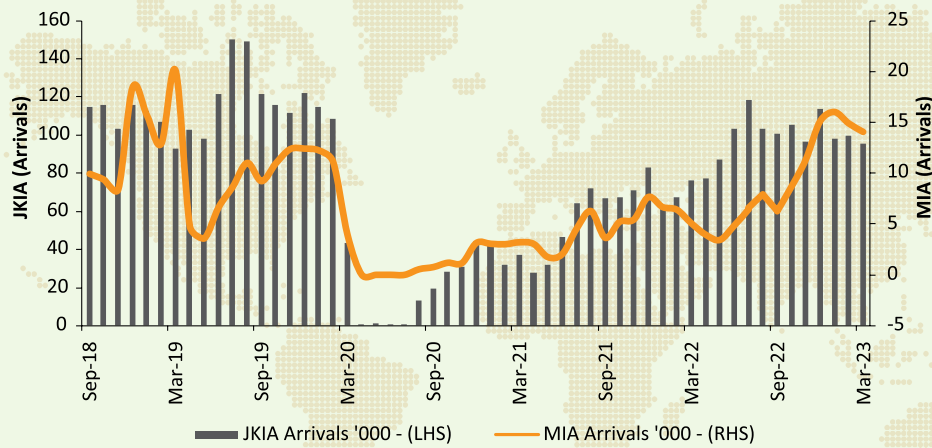
Figure 19: Cement Production and Consumption



Source: KNBS



Figure 20: Monthly Inbound Tourist Arrivals



Source: KNBS

Government Revenue & Expenditure

Analyses of the Government’s budgetary operations for the third quarter of FY 2022/2023 show that total revenue & grants grew by 11.29 percent to Ksh. 522.9 billion from Ksh 496.8 billion over a similar period in FY 2021/22. Total expenditures over the period also grew, but by a lower margin of 5.10 percent, to Ksh 740.2 billion in FY 2022/2023.

Figure 21: Quarterly Revenue-Expenditure Gap

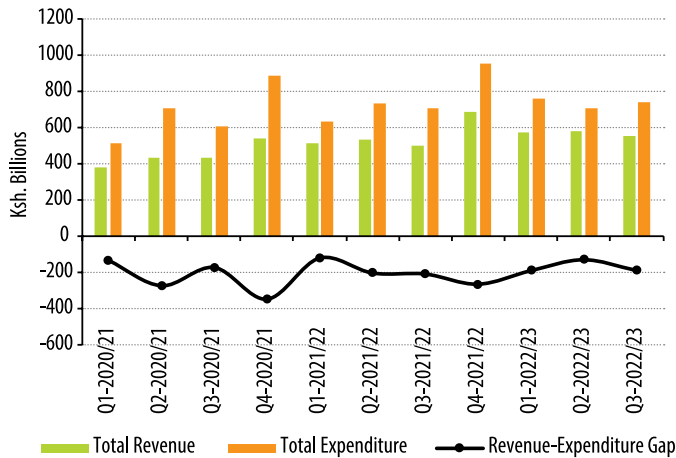


Figure 22: Quarterly Revenue Structure

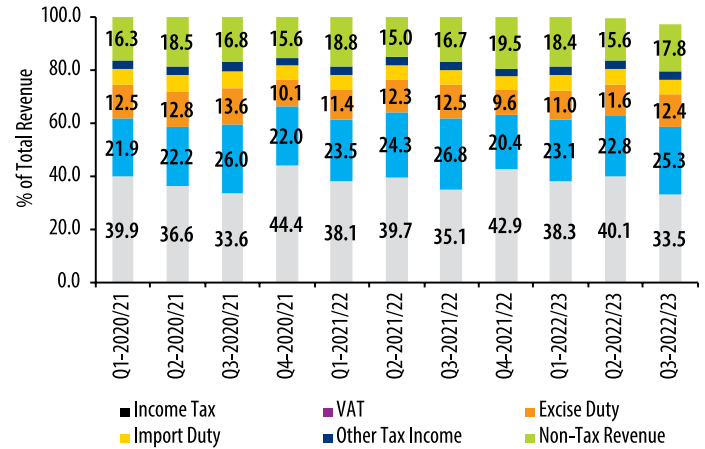
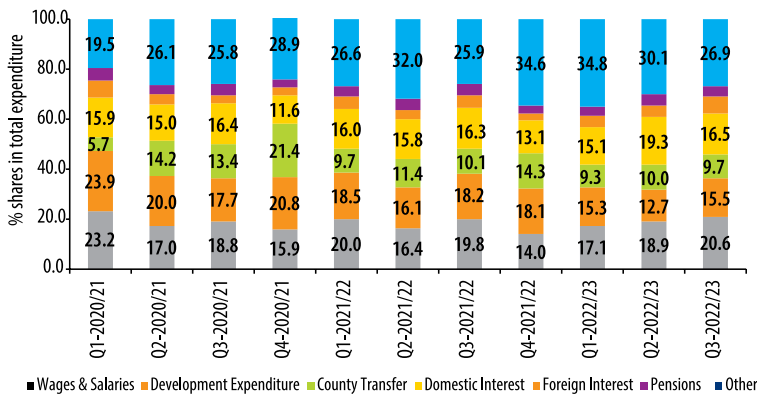


Figure 23: Quarterly Expenditure Structure



Consequently, the revenue – expenditure gap stood at Ksh. 187.3 billion (Figure 21). Revenue performance during the quarter was equally good, albeit with shifts in the composition of the total revenue. The share of total tax revenue decreased to 79.7 percent. Equally, the share of import duty, income tax, VAT, and Other Tax Income also declined. Non-tax revenue increased slightly to 17.8 percent in the third quarter of FY 2022/23 (Figure 22).

The government recurrent expenditure in FY 2022/23 comprised Domestic Interest at 22.0 percent, Foreign Interest at 8.8 percent, Wages & Salaries at 27.5 percent, Pensions at 5.8 percent, and Other expenses at 36.7 percent. County Transfers accounted for 11.9 percent, while Development Expenditure was 20.7 percent of the total expenditure (Figure 23).

Source: CBK

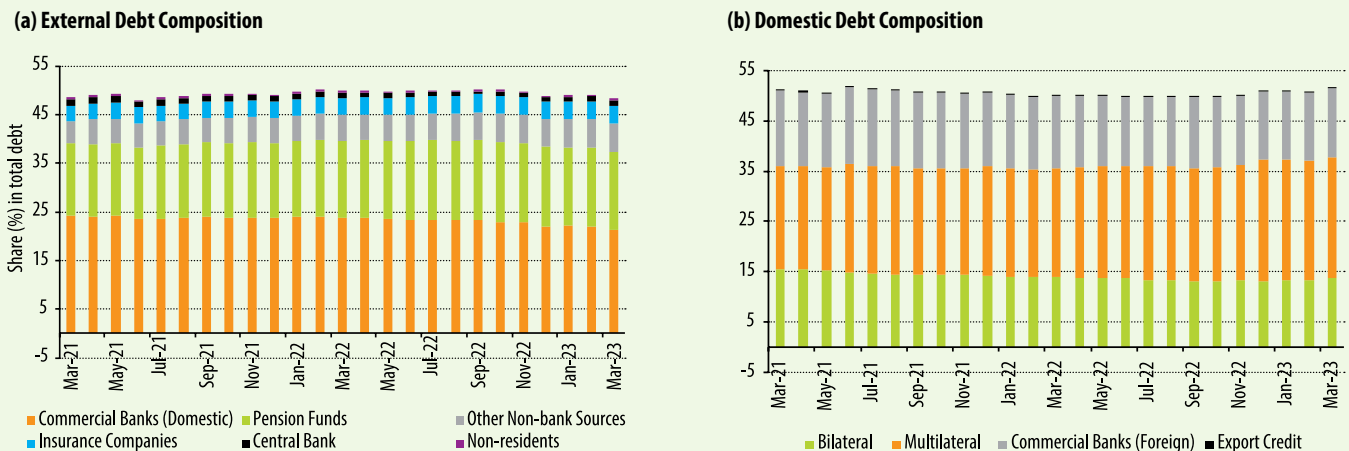


Government Deficit Financing and Public Debt

The third quarter FY 2022/23 saw Kenya’s public and publicly guaranteed debt rise by 2.7 percent, on account of growth in both the domestic and external debt. The domestic and external debt grew by 1.5 percent and 3.8 percent, respectively, on account of increased uptake of Treasury bond domestically, and

a surge in multilateral and bilateral disbursements and effect of exchange rate movement on external debt. Similarly, the debt-to-GDP ratio slightly increased to 69.1 percent (**Figure 24**).

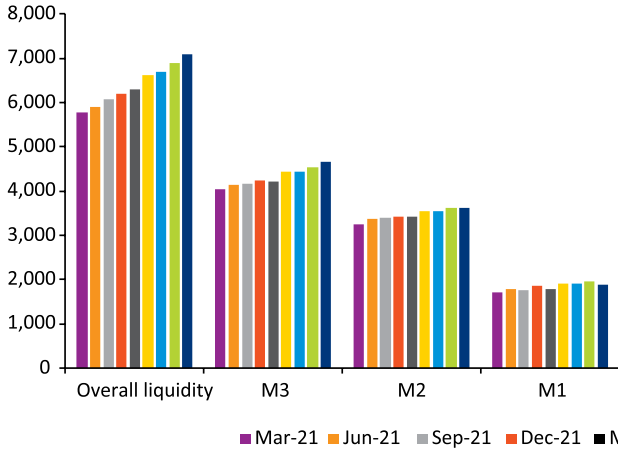
Figure 24: External and Domestic Debt and its Composition



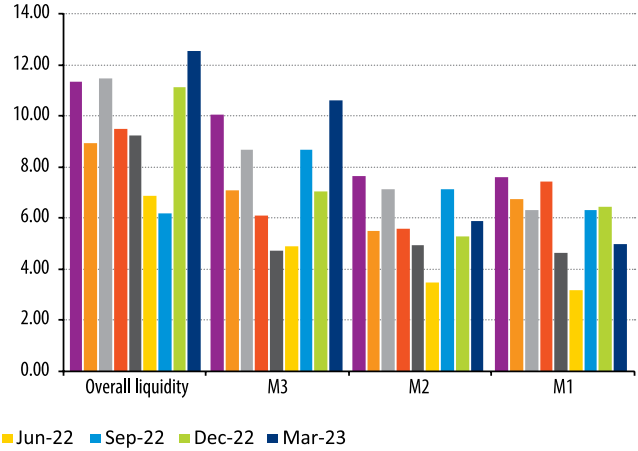
Source: CBK

Figure 25: Trends in Monetary Aggregates

(a) Quarterly Revenue-Expenditure Gap



(b) Quarterly Revenue Structure



Source: CBK



Money Supply

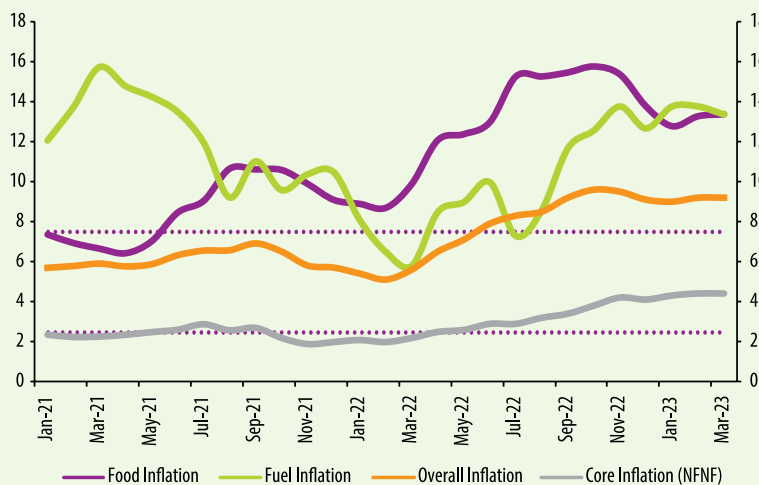
A notable increase in liquidity and broad money supply was evident during the quarter. Overall liquidity, on the one hand, increased by 2.92 percent quarter-on-quarter, reaching Ksh. 7,094.1 billion by the end of March 2023. On the other hand, broad money supply (M3) grew by 2.96% in the first quarter of 2023, compared to a 2.35% increase in the previous quarter (Figure 25).

Inflation

Inflationary pressures softened during the quarter, mainly driven by easing food price increases. Overall inflation declined to 9.1 percent in the first quarter of 2023 from a peak of 9.4 percent in the fourth quarter of 2022, driven by easing food prices. Food inflation declined to 13.2 percent from 15.0 percent in the previous quarter. Fuel inflation increased to 13.7 percent from 13.0 percent in the previous quarter, reflective of the elevated international oil prices and the gradual unwinding of the Government fuel subsidy programme. Non-food Non-fuel (NFNF) inflation increased modestly to 4.4 percent from 4.0 percent in the previous quarter reflecting second order effects of high energy prices (Figure 26).



Figure 26: Inflation Dynamics



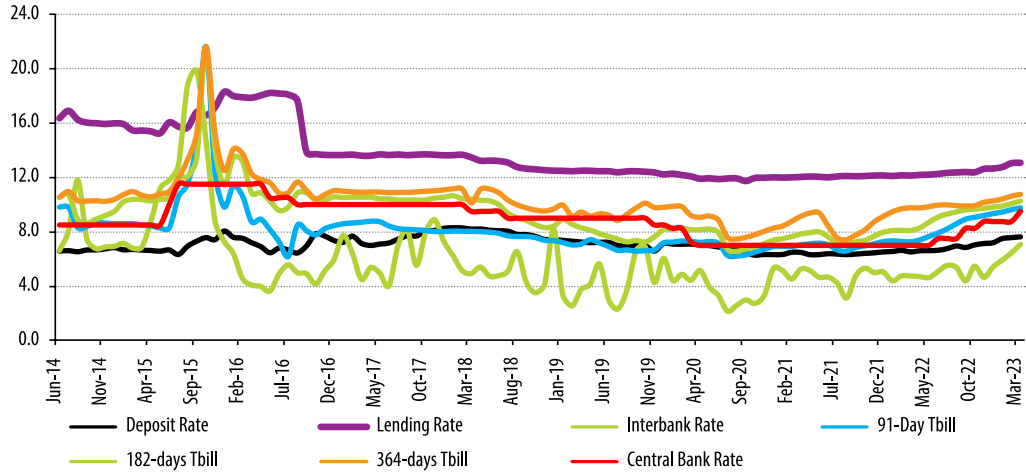
Source: Central Bank of Kenya

Interest Rates

The Central Bank Rate (CBR) rose from 8.75 percent to 9.5 percent during the first quarter of 2023, which consequently resulted in rising market interest rates. The average banking industry lending interest rate in March 2023 stood at 13.09 percent, and this reflected adjustments in response to the changing base lending rates. The banking sector average cost of funds were also tilted upwards - with the average deposit rate in March 2023 rising to 7.6 percent from 6.5 percent in March 2022. The upward adjustments in lending rates has the implication of constraining demand for loans during the period. The short-term interest rates however depicted some volatility overtime in response to temporary market liquidity changes. In March 2023, the average overnight interbank rate stood at 7.05 percent compared to 4.72 percent registered in a similar period in 2022. Yields on government securities in March also edged up, to 9.76 percent, 10.25 percent and 10.75 percent for the 91-day, 182-day and 364-day treasury bills, respectively (Figure 27).



Figure 27: Interest Rates Dynamics



Source: Central Bank of Kenya

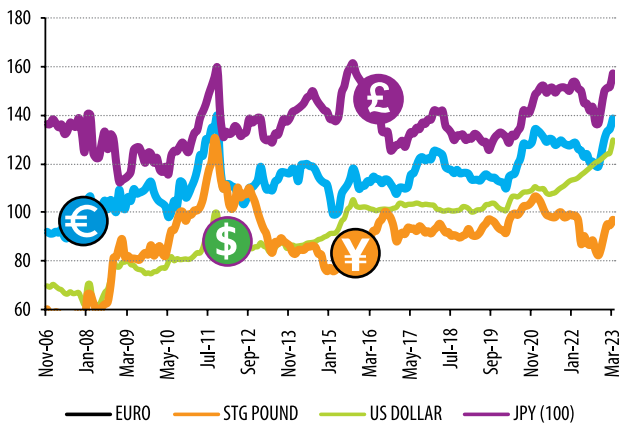
Exchange Rates

The Kenya Shilling exchange rate remained relatively stable against the Euro, Sterling pound and Japanese Yen. However, it weakened by 11.0 percent against the US Dollar to exchange at an average of 126.4 in the first quarter of 2023

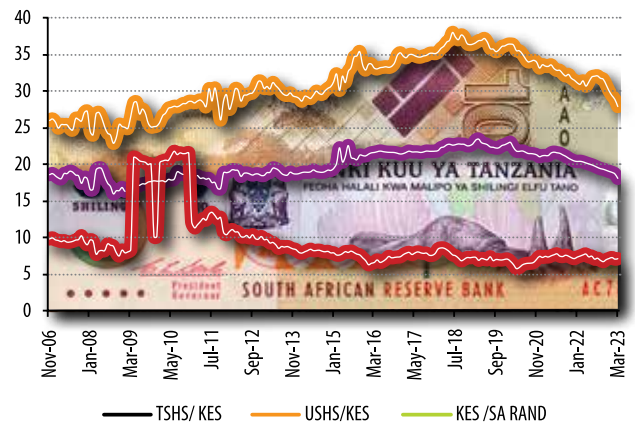
compared with 113.79 in a similar quarter in 2022. Moreover, the Kenya shilling also depreciated against all EAC regional currencies during the first quarter 2023 (Figure 28).

Figure 28: Exchange Rate Developments

(a) Major currencies



(b) EAC region currencies



Source: Central Bank of Kenya



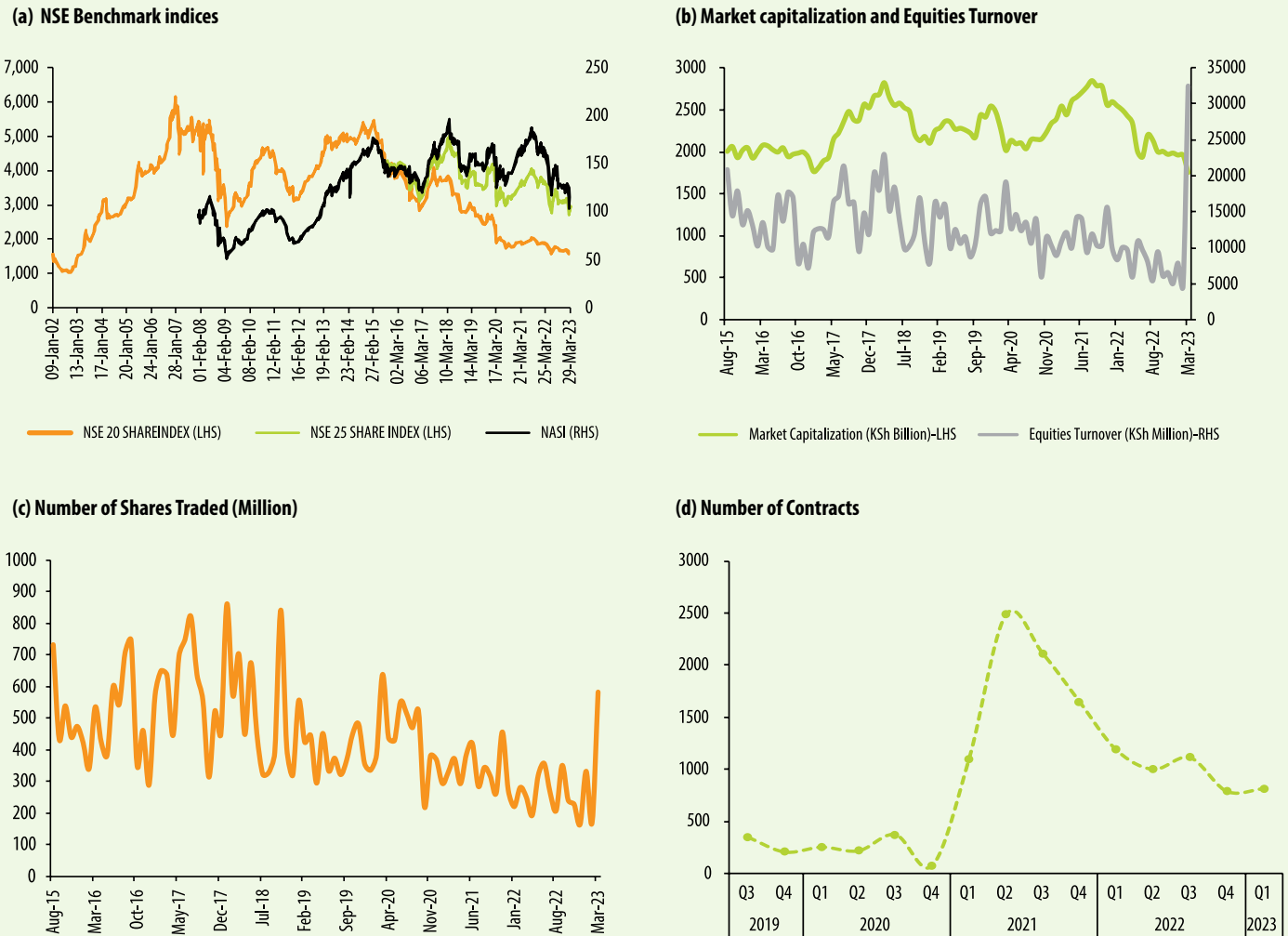
Capital Markets

The Nairobi Securities Exchange (NSE) experienced mixed trends during the first quarter of 2023. The benchmark indices showed divergent movements, with the NASI dropping by 11.54 percent to 112.76 points, while the NSE 20 and NSE 25 indices decreasing to 1622.05 and 2965.91 points respectively. Equities market turnover at the NSE increased significantly, reaching Ksh. 32,396 million

in March 2023. However, market capitalization declined to Ksh. 1,756 billion.

The number of shares traded also fluctuated, peaking at 583.60 million in March 2023. The volume of derivatives contracts traded in the derivative markets stood at 815 (Figure 29).

Figure 29: Trends in Nairobi Securities Exchange Leading Indicators



Source: Nairobi Securities Exchange

Banking Sector Performance



Robust growth was evident from various performance metrics in the banking sector. First, the total assets increased by 2.7 percent quarter-on-quarter growth to KSh 6,771.7 billion in March 2023, on account of growth in banking sector loans and advances (Figure 25a).

On the other hand, total shareholders' funds fluctuated during the quarter - starting with a 2.63 percent increase in January, followed by a 2.22 percent decline in February, and a 0.76 percent rise in March 2023 (Figure 25b).

The banking sector's loan book grew by 4.8 percent, from KSh 3,677.3 billion in the fourth quarter of 2022 to KSh 3,852.3 billion in the first quarter of 2023 (Figure 25c), driven by new advances for working capital in various sectors including Financial Services, Mining and Quarrying, and Transport and

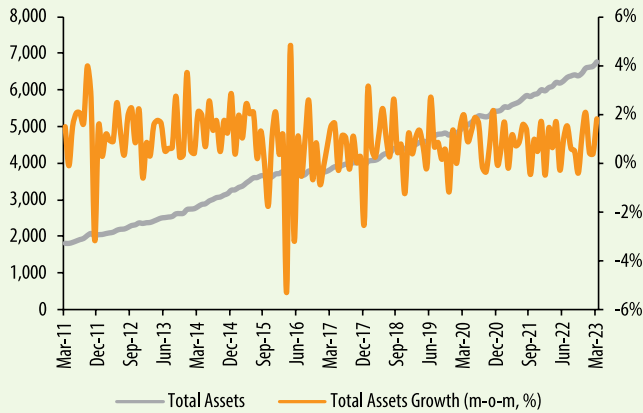
Communication. However, gross non-performing loans (NPLs) increased KSh 540.8 billion in the first quarter of 2023, up from KSh 487.7 billion at the end of the fourth quarter of 2022 (Figure 25d). The gross NPLs to gross loans ratio rose to 14.0 percent.

Even so, the banking sector remained well-capitalized (Figure 25e) and with adequate liquidity levels, above the regulatory limits (Figure 25f).

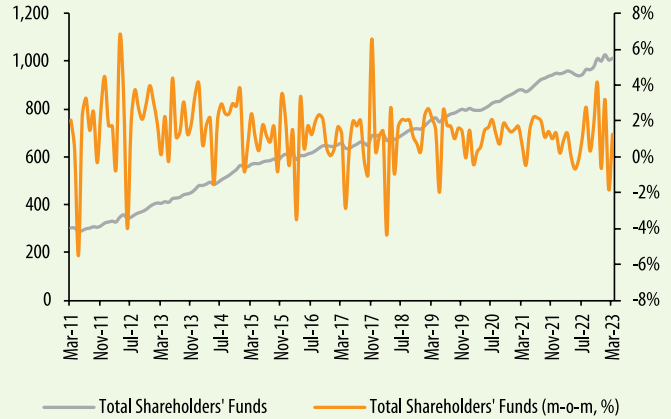


Figure 30. The performance of the banking sector

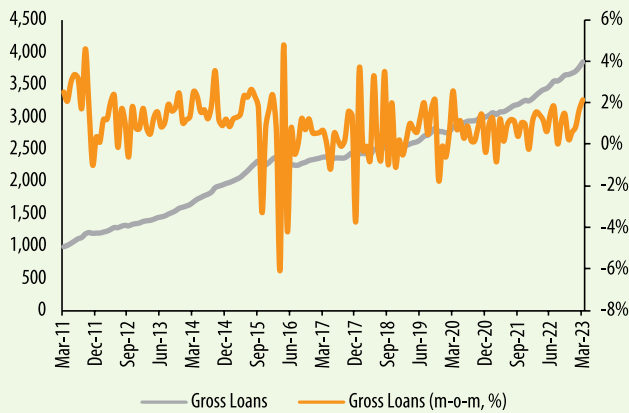
(a) Total Assets



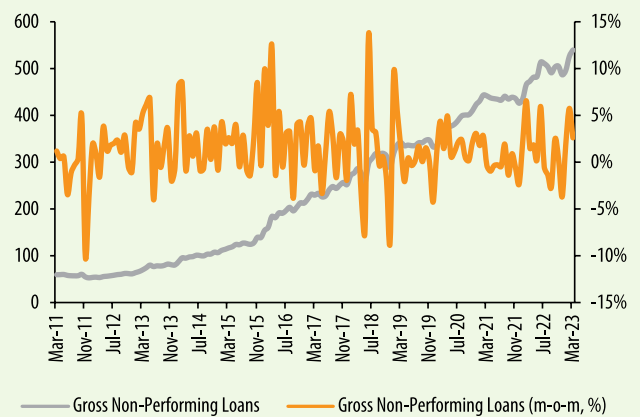
(b) Total Shareholders Funds



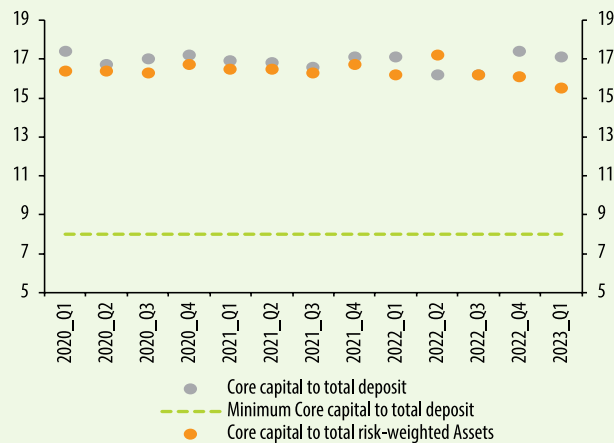
(c) Gross Loans



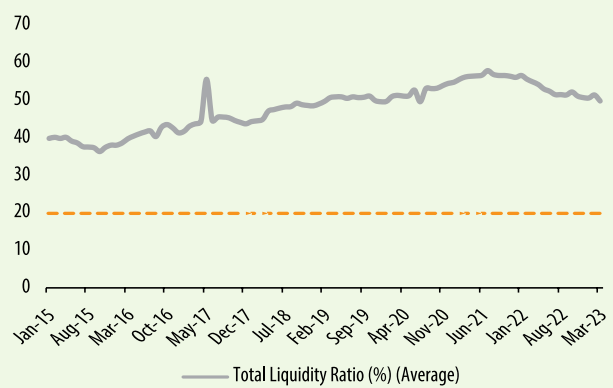
(d) Gross Non-performing Loans



(e) Capital Position



(f) Total Liquidity Ratio





Kenya Bankers Association

13th Floor, International House, Mama Ngina Street

P.O. Box 73100– 00200 NAIROBI

Telephone: 254 20 2221704/2217757/2224014/5

Cell: 0733 812770/0711 562910

Fax: 254 20 2221792

Email: research@kba.co.ke

Website: www.kba.co.ke



KENYA BANKERS
ASSOCIATION