



Central Bank of Kenya

Quarterly Economic Review

October-December 2023



CONTENTS

Highlights.....	3
Chapter 1: Inflation.....	4
Chapter 2: Economic Performance.....	7
Chapter 3: Developments in Money, Credit and Interest Rates.....	11
Chapter 4: Global Economy.....	16
Chapter 5: Balance of Payments and Exchange Rates.....	19
Chapter 6: Banking Sector.....	25
Chapter 7: Government Budgetary Performance.....	31
Chapter 8: Developments in Public Debt.....	34
Chapter 9: Capital Markets.....	39
Chapter 10: Statement of Financial Position of the Central Bank of Kenya.....	41

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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability, and issuing currency.

The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the payment, clearing and settlement systems, and fosters liquidity, solvency and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy, and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

The CBK's monetary policy is designed to support the Government's objectives with respect to growth. The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the target prescribed by the National Treasury at the beginning of the financial year. Currently, this target is a range between 2.5 percent and 7.5 percent.

The achievement and maintenance of a low and stable inflation rate, coupled with adequate liquidity in the market, facilitates higher levels of domestic savings and private investment. This leads to improved economic growth, higher real incomes and increased employment opportunities.

HIGHLIGHTS

Overall inflation declined marginally to 6.8 percent in the fourth quarter of 2023. The decline was largely driven by easing food prices due to increased domestic supply following food harvests and easing international food commodity prices. However, fuel inflation remained elevated during the quarter, attributed to higher pump prices reflecting developments in international oil prices. Non-food Non-fuel inflation remained low and stable, reflecting muted demand pressures.

The economy recorded robust growth in the third quarter of 2023, largely driven by strong growth of the agriculture sector. It grew by 5.9 percent, compared to 4.3 percent in a similar quarter of 2022. Growth was also supported by services sectors, particularly accommodation and food services, financial and insurance, information and communication, real estate and wholesale and retail trade.

Growth in broad money supply (M3) moderated to 3.8 percent in the fourth quarter of 2023 from an increase of 5.1 percent in the previous quarter, largely reflecting slowdown in deposits growth. Growth in credit extended to the private sector improved to 3.6 percent in the fourth quarter of 2023 from 3.3 percent in the previous quarter, partly reflecting demand for short-term working capital requirements arising from increased input costs.

Global growth was estimated at 3.1 percent in 2023 and is projected at 3.1 percent and 3.2 percent in 2024 and 2025 respectively. The growth outlook for 2024 has been revised upwards, reflecting stronger-than-expected growth in the United States, continued strengthening of the Chinese economy, and strong growth in several large emerging market and developing economies. The main risks to the global growth outlook relate to the continuing effects of tight monetary policy, the withdrawal of fiscal support in advanced economies, and increased uncertainties arising from the escalation of geopolitical tensions particularly the Israel-Palestinian conflict. Headline inflation has continued to decline across most economies due to tight monetary policy, and lower commodity prices particularly of oil and food.

The current account balance is estimated to have widened to USD 1,721 million in the fourth quarter of 2023 from USD 1,005 million in a similar quarter of 2022, reflecting an increase in the import bill amid resilient performance in remittances. Secondary income inflows remained strong and improved by USD 28 million to USD 1,789 million in the fourth quarter of 2023 from USD 1,772 million in a similar quarter in 2022.

The banking sector remained stable and resilient in the the fourth quarter of 2023, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 14.8 percent in at the end of the fourth quarter of 2023, a decrease from 15.0 percent recorded at the end of third quarter of 2023. Decreases in NPLs were noted in the energy and water, manufacturing, agriculture, building and construction and transport and communication sectors. Banks have continued to make adequate provisions for the NPLs.

The Government's budgetary operations at the end of the second quarter of FY 2023/24 resulted in a deficit (including grants) of 1.2 percent of GDP. Both revenue collection and expenditure remained below their respective targets.

Kenya's public and publicly guaranteed debt increased by 5.3 percent during the second quarter of FY2023/24. Domestic and external debt increased by 1.9 percent and 7.4 percent, respectively.

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index, declined by 3.3 percent and 0.5 percent respectively in the fourth quarter of 2023 compared to the third quarter of 2023. Market capitalisation, equity turnover and total shares traded also declined by 3.3 percent, 31.5 percent and 24.9 percent, respectively.

Chapter 1 Inflation

Overview

Overall inflation declined further in the fourth quarter of 2023. It declined marginally to 6.8 percent from 6.9 percent in the third quarter of 2023, mainly driven by easing food prices. Food inflation declined to 7.7 percent from 8.0 percent in the previous quarter, supported by improved food harvest as a result of favourable weather conditions and the general easing of international food prices.

However, fuel inflation remained elevated. It increased to 14.6 percent from 13.9 percent in the previous quarter, attributed to higher pump prices reflecting developments in international oil prices. Non-food Non-fuel (NFNF) inflation declined to 3.4 percent from 3.7 percent in the previous quarter, reflecting muted demand pressures in the economy and continued impact of monetary policy decisions (**Table 1.1 and Chart 1.1**).

Table 1.1: Recent trends in inflation (percent)

	2022				2023			
	Q4	Q1	Q2	Q3	Q4	Oct	Nov	Dec
Overall inflation	9.4	9.1	7.9	6.9	6.8	6.9	6.8	6.6
Food Inflation	15.0	13.2	10.2	8.0	7.7	7.8	7.6	7.7
Fuel Inflation	13.0	13.7	13.2	13.9	14.6	14.8	15.5	13.7
Non-Food-Non-Fuel (NFNF) Inflation	4.0	4.4	4.2	3.7	3.4	3.6	3.3	3.4
Annual Average Inflation*	7.4	8.3	8.8	8.5	7.9	8.1	7.9	7.7
Three Months Annualised Inflation	8.5	5.8	8.7	4.8	8.0	7.8	9.3	6.7

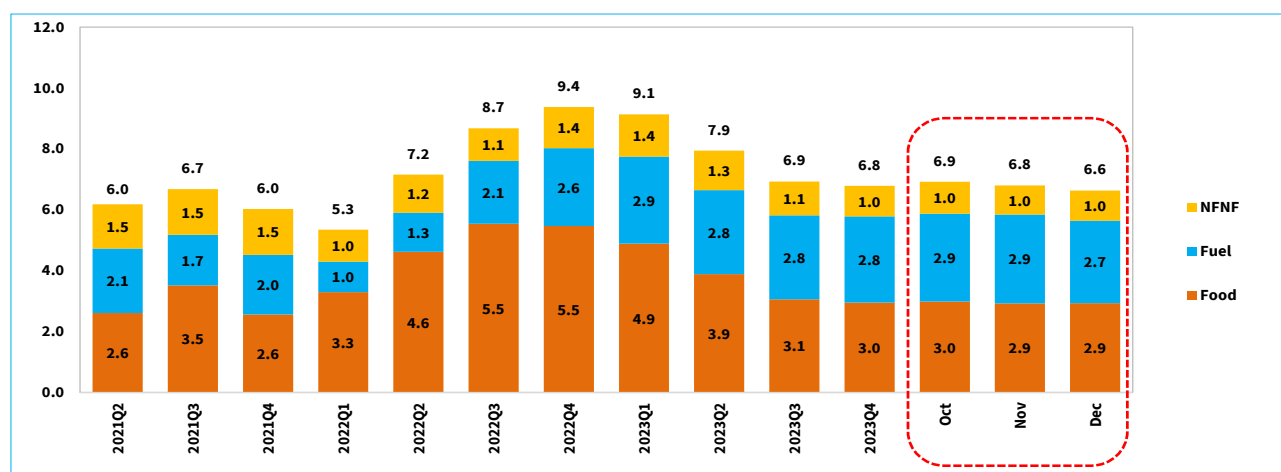
*Average annual inflation refers to the average inflation for 12 consecutive months. For instance, average annual inflation for June 2023 is computed as the percentage change in the average CPI for the period July 2022 to June 2023, relative to the average CPI for the period July 2021-June 2022.

Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Although food inflation remains the main driver of overall inflation, its contribution declined marginally to 3.0 percentage points from 3.1 percentage points in the previous quarter. The contribution of fuel inflation to overall inflation

remained stable at 2.8 percentage points, while that of NFNF inflation declined marginally to 1.0 percentage points from 1.1 percentage points in the previous quarter (**Chart 1.1**).

Chart 1.1: Contribution of broad categories to overall inflation (percentage points)



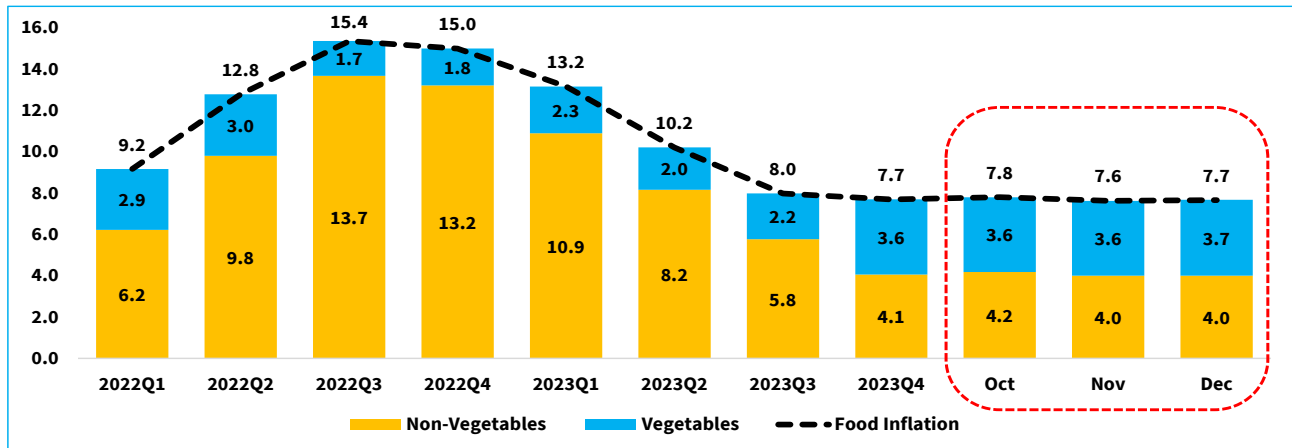
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Food Inflation

Food inflation declined further, supported by favourable weather conditions, ongoing harvests of key food products, seasonal factors, and easing

international food prices. It declined to 7.7 percent from 8.0 percent in the previous quarter, reflecting continued easing of prices of key food items such as edible oils, milk, and maize and wheat products (Chart 1.2).

Chart 1.2: Food inflation by category (percent)



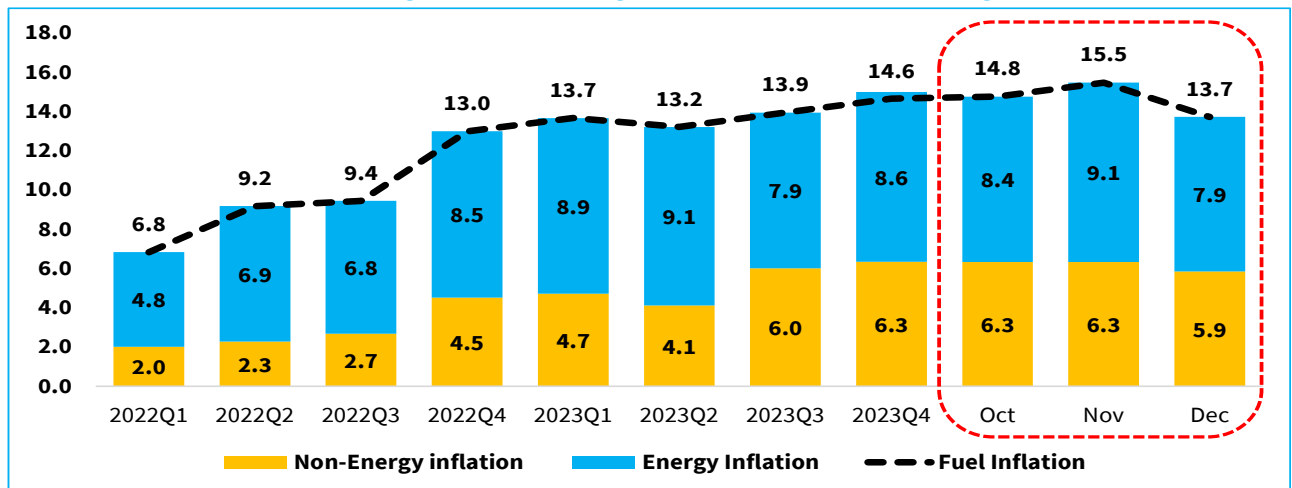
Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Fuel Inflation

Fuel inflation increased to 14.6 percent from 13.9 percent in the previous quarter, mainly driven by elevated energy prices. Energy prices remained high on account of elevated pump prices and electricity costs, reflecting developments in international oil

prices and upward review in electricity tariffs in April 2023. Non-energy inflation also increased in the quarter due to high transport costs compared to the same period in the previous year (Chart 1.3).

Chart 1.3: Contribution of energy and non-energy to fuel inflation (percentage points)



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Non-Food Non-Fuel Inflation (NFNF)

Non-food Non-fuel (NFNF) inflation declined, reflective of muted demand pressures in the

economy and the continued impact of monetary policy. It declined further to 3.4 percent from 3.7 percent in the previous quarter (**Table 1.2**).

Table 1.2: Non-food-non-fuel inflation by CPI category (percent)

		Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing & Water	Furnishings, Household Equipment and Routine Household Maintenance	Health	Information & Communication	Recreation, Sports & Culture	Education Services	Restaurants & Accommodation Services	Insurance and Financial Services	Personal Care, Social Protection and Miscellaneous Goods & Services	NFNF
2022	Q1	3.4	2.0	2.1	5.6	1.0	2.5	0.9	0.9	1.0	0.5	2.7	2.1
	Q2	3.7	2.2	2.4	8.1	1.0	2.4	2.4	1.0	2.5	0.4	3.1	2.7
	Q3	4.5	2.4	2.9	10.3	1.4	0.9	3.2	1.0	4.4	0.5	4.8	3.3
	Q4	7.0	2.8	3.2	10.4	1.7	1.1	4.1	1.2	6.0	1.0	6.7	4.0
2023	Q1	8.4	3.1	3.1	8.6	2.2	1.1	6.0	2.4	6.6	1.3	7.6	4.4
	Q2	9.7	2.9	2.9	6.0	2.3	1.3	5.3	2.3	5.9	1.3	7.9	4.2
	Q3	10.2	3.0	2.3	4.0	2.4	1.1	5.6	2.1	4.8	1.3	7.4	3.7
	Q4	8.5	3.1	2.7	3.6	2.6	1.0	5.1	2.0	4.1	1.0	6.5	3.4
	Oct	9.0	3.2	2.7	3.6	2.5	1.0	5.2	2.1	4.5	1.4	6.9	3.6
	Nov	8.1	3.2	2.4	3.6	2.5	0.9	5.0	1.9	3.8	0.7	6.3	3.3
	Dec	8.5	3.0	2.9	3.5	2.8	1.2	5.1	1.9	3.8	0.8	6.3	3.4

Source: Kenya National Bureau of Statistics and Central Bank of Kenya.

Chapter 2

Economic Performance

Overview

The economy recorded robust growth in the third quarter of 2023, largely driven by strong growth of the agriculture sector. It grew by 5.9 percent, compared to 4.3 percent in a similar quarter of 2022. Growth was also supported by services sectors, particularly accommodation and food services, financial and insurance, information and communication, real estate and wholesale and retail trade (**Table 2.1**).

Agriculture

Agriculture sector performance continued to remain robust. It grew by 6.7 percent in the third quarter of 2023, compared to a contraction of 1.3 percent in a similar quarter of 2022 and contributed 1.0 percentage points to overall GDP growth. The strong performance was supported by favourable weather conditions which continued to boost agricultural activity. In particular, export of fruits and vegetables and tea production increased during the quarter (**Figure 2.1**).

Non-Agriculture

The non-agriculture sector continued to support growth. It grew by 5.7 percent in the third quarter of 2023 compared to 5.3 percent in a similar quarter of 2022, mainly driven by continued strong performance of the services sector (**Tables 2.1 and 2.3**).

- a) The services sector maintained the strong growth momentum in the third quarter of 2023. It grew by 7.1 percent compared to 5.9 percent in a similar quarter of 2022 and contributed 4.2 percentage points to overall GDP growth.
 - Transport and Storage sector growth slowed to 2.8 percent from 5.1 percent in a similar quarter of 2022. The deceleration was witnessed in road transport, reflected in reduced consumption of diesel by 2.3 percent due to elevated pump prices. However, growth in the sector was supported by transportation of passengers and freight via the Standard Gauge Railway, which increased by 13.9 percent and 10.2 percent, respectively. In addition, cargo throughput increased by 4.7 percent during the quarter.

On average, growth in the sector decelerated to 3.9 percent in the first three quarters of 2023 compared to 6.6 percent in the first three quarters of 2022.

- Information and Communication sector expanded by 7.3 percent compared to 11.8 percent in the same quarter in 2022, reflecting continued strong activity in the sector. Domestic voice traffic, international bandwidth and mobile money transactions increased by 17.3 percent, 78.8 percent, and 7.7 percent, respectively. However, domestic short messaging services declined by 14.2 percent. On average, the sector grew by 7.5 percent in the first three quarters of 2023 compared to 10.7 percent in a similar period in 2022.
 - Financial and Insurance sector growth remained strong at 14.7 percent compared to 9.6 percent in a similar quarter of 2022. The robust growth was supported by increased yield on investments, including the 91 Day Treasury Bills. In addition, interest rates on loans and other advances increased following an upward adjustment of the Central Bank Rate. In the first three quarters of 2023, the growth of the sector averaged 11.4 percent compared to 14.1 percent in the first three quarters of 2022.
 - Accommodation and Food Services sector grew by 26.0 percent compared to 16.9 percent in a similar quarter of 2022. Growth was mainly driven by tourist arrivals through Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA) which grew by 27.5 per cent and 95.6 percent, respectively. In particular, the increase in arrivals was supported by the Africa Climate Summit Conference which was held in September 2023 and the continued political stability in comparison to the same period in 2022. On average, the sector expanded by 20.0 percent in the first three quarters of 2023 compared to 32.2 percent in the first three quarters of 2022.
- b) Industrial sector grew by 2.8 percent in the third quarter of 2023 compared to 2.6 percent in the same quarter in 2022. The sector contributed 0.5 percentage points to overall GDP growth (**Tables 2.1, Table 2.3 and Figure 2.1**).
 - Manufacturing sector grew by 2.6 percent compared to 1.8 percent in a similar period in 2022. Growth was mainly supported by agro-processing, mainly the processing of tea and dairy products. Additionally, milk deliveries

increased by 12.5 percent following favourable weather conditions which led to increased milk supply. However, sugar production declined by 56.1 percent during the quarter. Growth of the non-food sub sector was supported by increased production of cement which grew by 6.8 percent. On average, the sector grew by 2.0 percent in the first three quarters of 2023 compared to 3.1 percent in the first three quarters of 2022.

- Construction sector expanded by 3.8 percent compared to 3.5 percent in a similar quarter of 2022. This performance was mainly attributed to increased activity in the sector, reflected in increased cement consumption and import of bitumen by 5.9 percent and 24.6 percent, respectively. In addition, credit advanced to the sector increased by 8.6 percent. However, importation of iron and steel, and the value of

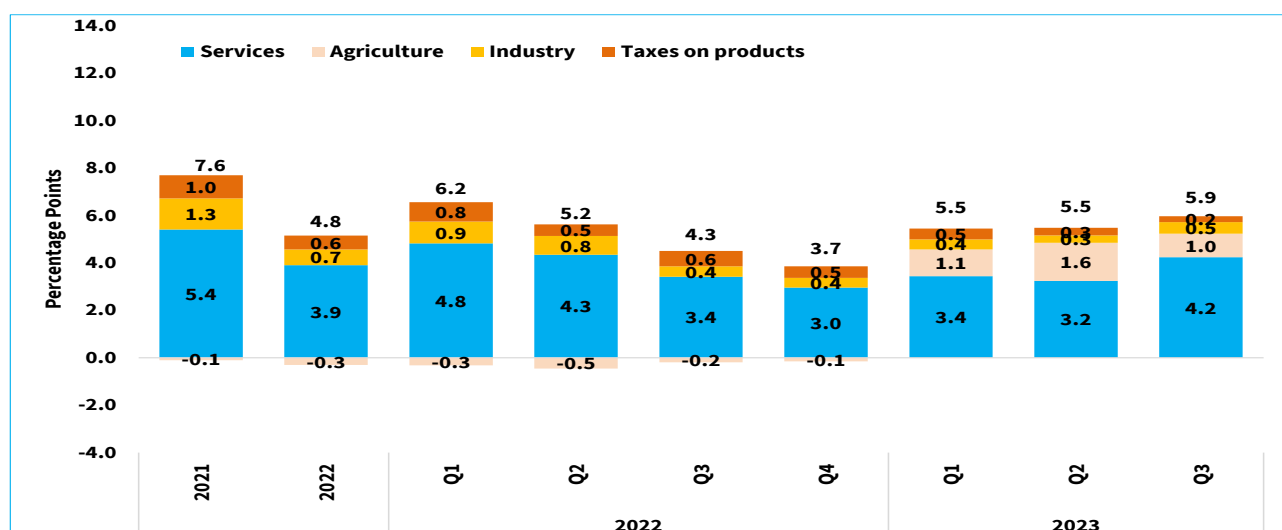
building plans approved in Nairobi City County declined. In the first three quarters of 2023, the sector grew by 3.1 percent, slightly slower than 4.6 percent growth recorded in the first three quarters of 2022.

- Electricity and Water supply sector growth decelerated to 1.9 percent compared to 6.0 percent in a similar quarter in 2022. The quantity of electricity generated during the quarter was similar to the amount generated in the same quarter of 2022. Hydroelectricity and geothermal electricity generation increased by 4.3 percent and 0.5 percent, respectively, while thermal and wind generation declined by 4.4 percent and 11.5 percent, respectively. The sector grew by 1.7 percent on average in the first three quarters of 2023 compared to 4.9 percent in the first three quarters of 2022.

Table 2.1: Gross domestic product (GDP) growth by activity (percent)

	Annual		2022				2023		
	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	-0.4	-1.6	-1.7	-2.4	-1.3	-0.9	6.1	8.2	6.7
2. Non-Agriculture (o/w)	9.5	6.3	8.2	7.1	5.3	4.6	5.3	4.8	5.7
2.1 Industry	7.5	3.9	5.6	5.0	2.6	2.4	2.5	2.0	2.8
Mining & Quarrying	18.0	9.3	23.8	16.6	-4.5	1.6	3.3	5.2	1.1
Manufacturing	7.3	2.7	3.8	3.6	1.8	1.8	2.0	1.4	2.6
Electricity & water supply	5.6	4.9	3.2	5.6	6.0	4.9	2.5	0.8	1.9
Construction	6.7	4.1	6.0	4.5	3.5	2.4	3.1	2.6	3.8
2.2 Services	9.8	7.0	8.9	8.0	5.9	5.2	6.2	5.9	7.1
Wholesale & Retail Trade	8.0	3.8	4.9	4.1	3.6	2.7	5.7	4.2	4.8
Accommodation & restaurant	52.6	26.2	40.1	44.0	16.9	14.9	21.5	12.2	26.0
Transport & Storage	7.4	5.6	7.7	7.2	5.1	2.7	6.2	3.0	2.8
Information & Communication	6.1	9.9	9.0	11.2	11.8	8.0	9.0	6.4	7.3
Financial & Insurance	11.5	12.8	17.0	16.1	9.6	9.4	5.8	13.5	14.7
Public administration	6.0	4.5	6.2	3.8	3.4	4.7	6.6	3.8	4.2
Professional, Administration & Support Services	7.1	9.4	13.1	10.9	9.0	5.3	7.3	5.5	9.5
Real estate	6.7	4.5	6.0	5.0	4.0	2.9	5.2	5.8	6.2
Education	22.8	4.8	4.6	4.4	3.9	6.1	3.0	4.0	4.7
Health	8.9	4.5	5.7	4.4	3.7	4.3	5.4	5.0	5.1
Other services	12.5	5.7	8.9	4.3	5.7	4.0	3.2	1.6	7.4
FISIM	5.3	1.5	0.8	1.3	2.3	1.6	0.6	6.1	3.8
2.3 Taxes on products	11.9	7.0	9.5	6.1	7.3	5.3	5.3	4.0	2.8
Real GDP Growth	7.6	4.8	6.2	5.2	4.3	3.7	5.5	5.5	5.9

Source: Kenya National Bureau of Statistics

Chart 2.1: Sectoral contributions to real GDP growth (percentage points)

Source: Kenya National Bureau of Statistics and CBK Staff computations

Table 2.2: Sectoral shares (percentage of GDP)

	Annual		2022				2023		
	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	18.1	17.0	18.4	19.2	14.6	15.6	18.5	19.7	14.7
2. Non-Agriculture (o/w)	81.9	83.0	81.6	80.8	85.4	84.4	81.5	80.3	85.3
2.1 Industry	18.1	17.9	17.9	17.5	18.3	18.0	17.4	16.9	17.8
Mining & Quarrying	1.1	1.2	1.3	1.2	0.9	1.2	1.2	1.2	0.9
Manufacturing	8.6	8.5	8.4	8.3	8.5	8.6	8.1	8.0	8.3
Electricity & water supply	2.5	2.5	2.4	2.4	2.7	2.5	2.3	2.3	2.6
Construction	5.9	5.8	5.8	5.6	6.2	5.8	5.6	5.5	6.1
2.2 Services	55.3	56.4	55.1	55.3	58.2	57.2	55.5	55.5	58.9
Wholesale & Retail Trade	8.4	8.3	8.7	7.7	8.2	8.5	8.7	7.6	8.1
Accommodation & restaurant	0.9	1.0	0.9	0.9	1.0	1.3	1.1	1.0	1.2
Transport & Storage	9.5	9.6	9.1	9.6	10.4	9.2	9.1	9.4	10.1
Information & Communication	3.1	3.2	3.1	3.1	3.4	3.4	3.2	3.1	3.4
Financial & Insurance	8.5	9.2	8.7	8.9	9.1	9.9	8.8	9.6	9.9
Public administration	6.0	6.0	5.6	6.1	6.2	6.0	5.7	6.1	6.1
Professional, Administration & Support Services	2.6	2.7	2.5	2.7	2.8	2.8	2.6	2.7	2.9
Real estate	10.1	10.1	10.0	10.0	10.5	9.9	10.0	10.0	10.5
Education	4.9	4.9	5.1	4.5	5.0	5.1	5.0	4.4	4.9
Health	2.3	2.3	2.1	2.3	2.3	2.4	2.1	2.3	2.3
Other services	2.1	2.1	2.0	2.1	2.3	2.0	2.0	2.0	2.4
FISIM	-3.1	-3.0	-2.8	-2.7	-3.0	-3.3	-2.6	-2.7	-3.0
2.3 Taxes on products	8.5	8.7	8.6	8.0	8.9	9.1	8.6	7.9	8.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Kenya National Bureau of Statistics

Table 2.3: Sectoral contributions to real GDP growth rate (percentage points)

	Annual		2022				2023		
	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Agriculture	-0.1	-0.3	-0.3	-0.5	-0.2	-0.1	1.1	1.6	1.0
2. Non-Agriculture (o/w)	7.8	5.2	6.7	5.8	4.6	3.9	4.3	3.9	4.9
2.1 Industry	1.4	0.7	1.0	0.9	0.5	0.4	0.4	0.3	0.5
Mining & Quarrying	0.2	0.1	0.3	0.2	0.0	0.0	0.0	0.1	0.0
Manufacturing	0.6	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.2
Electricity & water supply	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.0
Construction	0.4	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.2
2.2 Services	5.4	3.9	4.9	4.4	3.5	3.0	3.5	3.3	4.2
Wholesale & Retail Trade	0.7	0.3	0.4	0.3	0.3	0.2	0.5	0.3	0.4
Accommodation & restaurant	0.5	0.3	0.4	0.4	0.2	0.2	0.2	0.1	0.3
Transport & Storage	0.7	0.5	0.7	0.7	0.5	0.2	0.6	0.3	0.3
Information & Communication	0.2	0.3	0.3	0.3	0.4	0.3	0.3	0.2	0.2
Financial & Insurance	1.0	1.2	1.5	1.4	0.9	0.9	0.5	1.3	1.5
Public administration	0.4	0.3	0.3	0.2	0.2	0.3	0.4	0.2	0.3
Professional, Administration & Support Services	0.2	0.3	0.3	0.3	0.3	0.1	0.2	0.1	0.3
Real estate	0.7	0.5	0.6	0.5	0.4	0.3	0.5	0.6	0.6
Education	1.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Health	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other services	0.3	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.2
FISIM	-0.2	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.2	-0.1
2.3 Taxes on products	1.0	0.6	0.8	0.5	0.6	0.5	0.5	0.3	0.2
Real GDP Growth	7.6	4.8	6.2	5.2	4.3	3.7	5.5	5.5	5.9

Source: Kenya National Bureau of Statistics and CBK Staff computations

Chapter 3

Developments in Money, Credit and Interest Rates

Monetary aggregates and its components

Growth in broad money supply (M3) moderated to 3.8 percent in the fourth quarter of 2023 from a growth of 5.1 percent in the previous quarter, largely reflecting a slowdown in the growth of deposits. This deceleration in growth was mainly due to contraction in household deposits and slower growth in corporate deposits. The decline in household deposits was mainly reflected in demand deposits, partly due to increased demand for liquidity for end of year festivities and school related expenditures for the new year. The moderate growth in corporate deposits was reflected mainly

in time and savings deposits, and foreign currency deposits. Meanwhile, other deposits at the Central Bank contracted owing to reduced county government deposits (**Tables 3.1 & 3.2**).

On the counterpart, reduced growth in net foreign assets of the banking system together with net lending to government were the main sources of deceleration in the growth of broad money supply (M3) in the fourth quarter of 2023. The growth in net foreign assets of the banking system moderated, partly due to a decline in growth of foreign deposits by banks. Resilient growth in credit to the private sector supported growth in M3 in the fourth quarter of 2023 (**Table 3.1**).

Table 3.1: Monetary aggregates (KSh Billion)

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Components of M3															
1. Money supply, M1 (1.1+1.2+1.3)	1,967.1	1,885.8	2,098.2	2,017.3	2,044.1	2.7	-4.1	11.3	-3.9	1.3	51.0	-81.3	212.4	-81.0	26.8
1.1 Currency outside banks	258.8	252.8	257.9	267.5	282.1	2.8	-2.3	2.0	3.7	5.5	7.1	-6.0	5.1	9.6	14.6
1.2 Demand deposits	1,621.6	1,553.7	1,680.9	1,645.5	1,664.2	2.5	-4.2	8.2	-2.1	1.1	39.1	-67.9	127.2	-35.4	18.7
1.3 Other deposits at CBK 1/	86.8	79.5	159.6	104.6	98.0	5.8	-8.4	100.8	-34.5	-6.3	4.7	-7.3	80.1	-55.0	-6.5
2. Money supply, M2 (1+2.1)	3,613.4	3,610.5	3,852.2	3,898.2	3,952.3	1.7	-0.1	6.7	1.2	1.4	60.0	-2.9	241.6	46.1	54.1
2.1 Time and saving deposits	1,646.4	1,724.7	1,754.0	1,881.0	1,908.3	0.5	4.8	1.7	7.2	1.5	9.0	78.3	29.3	127.0	27.3
3. Money supply, M3 (2+3.1)	4,534.5	4,668.7	5,037.4	5,295.9	5,498.6	2.3	3.0	7.9	5.1	3.8	104.1	134.2	368.7	258.5	202.7
3.1 Foreign Currency Deposits	921.1	1,058.2	1,185.2	1,397.6	1,546.3	5.0	14.9	12.0	17.9	10.6	44.1	137.2	127.0	212.4	148.6
Sources of M3															
1. Net foreign assets 2/	283.0	308.7	591.5	708.5	793.6	-3.9	9.1	91.6	19.8	12.0	-11.5	25.7	282.8	117.0	85.1
Central Bank	536.9	433.6	616.9	516.2	486.9	-5.6	-19.2	42.3	-16.3	-5.7	-31.9	-103.3	183.3	-100.6	-29.3
Banking Institutions	-253.9	-124.9	-25.4	192.3	306.7	7.4	50.8	79.7	857.1	59.5	20.4	129.0	99.5	217.7	114.4
2. Net domestic assets (2.1+2.2)	4,251.5	4,360.0	4,445.9	4,587.4	4,705.0	2.8	2.6	2.0	3.2	2.6	115.6	108.5	85.9	141.4	117.6
2.1 Domestic credit	5,435.2	5,697.9	5,820.2	6,077.7	6,252.0	1.8	4.8	2.1	4.4	2.9	94.7	262.7	122.3	257.4	174.4
2.1.1 Government (net)	1,919.8	2,058.9	2,083.9	2,203.4	2,239.5	1.1	7.2	1.2	5.7	1.6	21.0	139.1	25.1	119.4	36.2
2.1.2 Private sector	3,433.5	3,547.0	3,652.6	3,773.6	3,911.2	2.1	3.3	3.0	3.3	3.6	71.1	113.5	105.6	121.1	137.5
2.1.3 Other public sector	81.9	92.1	83.7	100.6	101.3	3.3	12.4	-9.1	20.2	0.7	2.6	10.1	-8.4	16.9	0.7
2.2 Other assets net	-1,183.8	-1,337.9	-1,374.3	-1,490.3	-1,547.0	1.7	-13.0	-2.7	-8.4	-3.8	20.9	-154.1	-36.4	-116.0	-56.8
Memorandum items															
4. Overall liquidity, L (3+4.1)	6,892.9	7,094.1	7,562.6	7,915.1	8,197.8	3.0	2.9	6.6	4.7	3.6	198.4	201.2	468.5	352.5	282.7
4.1 Non-bank holdings of government securities	2,358.4	2,425.3	2,525.2	2,619.2	2,699.2	4.2	2.8	4.1	3.7	3.1	94.3	67.0	99.9	94.0	80.0

Absolute and percentage changes may not necessarily add up due to rounding off

1/ Includes county deposits and special projects deposit

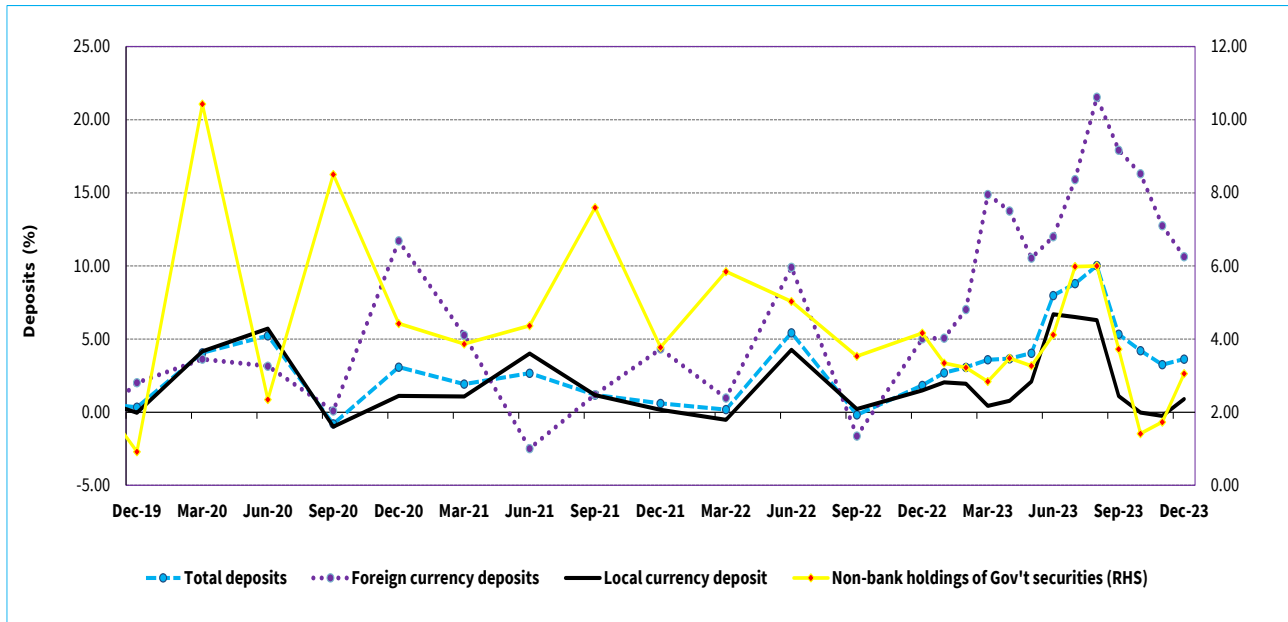
2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

The 12-month growth in broad money supply (M3) increased to 21.2 percent in December 2023 from 19.5 percent in September 2023. This was supported by a buildup of corporate sector deposits

from the energy sector arising from government-to-government oil import scheme as well as exchange rate valuation effects.

Chart 3.1: Quarterly growth in deposit and non-bank holdings of government securities (percent)



Source: Central Bank of Kenya

Table 3.2: Deposit holdings of corporates and household sectors

	End Month Level (KSh Billion)				Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)					
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
1. Household Sector 1/	1876	2007	2057	2102	2092	0.5	7.0	2.5	2.2	-0.5	8.4	130.7	49.9	45.8	-10.6
1.1 Demand Deposits	669	730	734	710	630	2.9	9.1	0.5	-3.2	-11.2	18.9	61.0	3.9	-23.7	-79.4
1.2 Time and Saving Deposits	887	928	950	974	983	-3.4	4.5	2.4	2.6	0.9	-31.1	40.3	22.2	24.8	8.9
1.3 Foreign Currency Deposits	320	350	373	418	478	6.9	9.2	6.8	12.0	14.3	20.7	29.4	23.8	44.8	59.9
2. Corporate Sector	2250	2267	2499	2748	2951	4.3	0.6	10.3	10.1	7.4	93.4	14.2	232.7	251.9	203.7
2.1 Demand deposits	927	798	924	911	1013	3.5	-13.9	15.8	-1.4	11.1	31.0	-129.0	126.5	-13.1	101.2
2.2 Time and Saving Deposits	725	764	767	863	878	5.8	5.0	0.4	13.1	1.7	39.5	36.7	2.8	99.9	14.7
2.3 Foreign Currency Deposits	598	705	808	973	1061	4.0	17.8	14.7	20.4	9.0	22.9	106.6	103.4	165.0	87.8

1/ Household Sector includes individuals, unincorporated businesses serving households and non-profit institutions

Source: Central Bank of Kenya

Developments in Domestic Credit

Quarterly growth in domestic credit extended by the banking system slowed to 2.9 percent in the fourth quarter of 2023 from 4.4 percent in the previous quarter, mainly reflecting reduced net lending to government owing to buildup in government deposits. There was marginal growth in net lending to other public sector attributed to slowdown in borrowing by parastatals (Tables 3.3).

Growth in credit extended to the private sector improved to 3.6 percent in the fourth quarter of 2023 from 3.3 percent in the previous quarter, partly reflecting demand for short-term working capital requirements arising from increased input costs. Credit growth remained positive in most of the economic sectors, with strong growth registered in manufacturing, trade, finance and insurance, transport and communication, and agriculture.

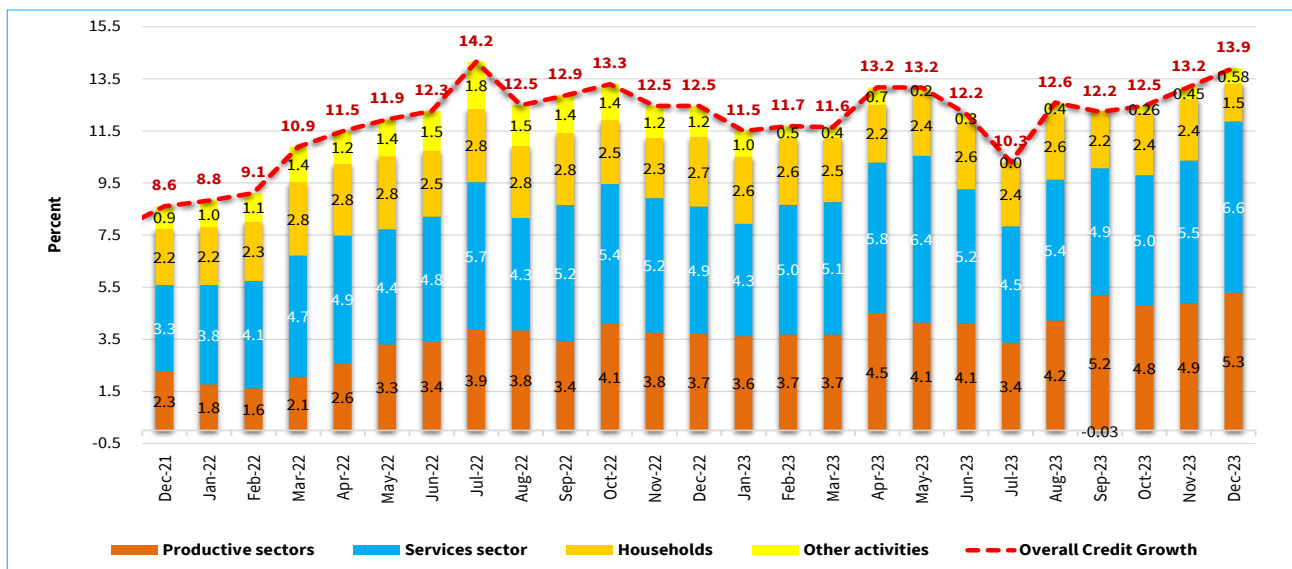
The 12-month growth in private sector credit increased to 13.9 percent in December 2023 from 12.2 in September, supported by lending to services and productive sectors largely for working capital purposes (Chart 3.2).

Table 3.3: Banking sector net domestic credit

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
1. Credit to Government	1,919.8	2,058.9	2,083.9	2,203.4	2,239.5	1.1	7.2	1.2	5.7	1.6	21.0	139.1	25.1	119.4	36.2
Central Bank	206.9	361.5	323.4	459.3	487.5	8.9	74.7	-10.5	42.0	6.1	17.0	154.6	-38.1	135.9	28.2
Commercial Banks & NBFIs	1,712.9	1,697.4	1,760.5	1,744.1	1,752.0	0.2	-0.9	3.7	-0.9	0.5	4.0	-15.5	63.2	-16.5	7.9
2. Credit to other public sector	81.9	92.1	83.7	100.6	101.3	3.3	12.4	-9.1	20.2	0.7	2.6	10.1	-8.4	16.9	0.7
Local government	6.2	6.7	6.7	5.0	5.1	17.7	7.8	1.0	-26.4	2.8	0.9	0.5	0.1	-1.8	0.1
Parastatals	75.8	85.4	77.0	95.7	96.3	2.3	12.7	-9.9	24.3	0.6	1.7	9.6	-8.4	18.7	0.6
3. Credit to private sector	3,433.5	3,547.0	3,652.6	3,773.6	3,911.2	2.1	3.3	3.0	3.3	3.6	71.1	113.5	105.6	121.1	137.5
Agriculture	114.9	117.0	121.9	127.1	141.8	4.2	1.9	4.2	4.3	11.5	4.6	2.1	4.9	5.2	14.6
Manufacturing	526.8	546.3	583.6	620.0	636.7	3.7	3.7	6.8	6.2	2.7	18.8	19.5	37.3	36.4	16.7
Trade	586.4	607.6	613.7	634.6	663.4	-1.0	3.6	1.0	3.4	4.5	-6.0	21.3	6.0	20.9	28.8
Building and construction	131.9	137.3	139.2	145.5	143.3	-2.1	4.0	1.4	4.5	-1.5	-2.9	5.3	2.0	6.3	-2.2
Transport & communications	299.2	318.6	328.4	343.2	361.4	3.3	6.5	3.1	4.5	5.3	9.7	19.5	9.8	14.7	18.2
Finance & insurance	118.0	145.6	147.6	156.1	189.1	6.5	23.4	1.3	5.8	21.2	7.2	27.6	1.9	8.5	33.1
Real estate	422.5	419.3	429.2	444.9	452.5	2.1	-0.8	2.4	3.7	1.7	8.8	-3.2	10.0	15.7	7.6
Mining and quarrying	22.6	23.3	20.3	25.1	26.0	9.0	3.0	-13.1	23.8	3.9	1.9	0.7	-3.1	4.8	1.0
Private households	511.2	521.5	526.3	537.2	524.1	1.8	2.0	0.9	2.1	-2.4	9.2	10.2	4.8	10.9	-13.1
Consumer durables	378.1	391.0	401.5	406.7	415.5	2.8	3.4	2.7	1.3	2.2	10.1	12.9	10.5	5.2	8.8
Business services	199.4	204.5	209.8	212.0	214.8	5.0	2.6	2.6	1.0	1.3	9.6	5.1	5.3	2.2	2.8
Other activities	122.6	115.1	131.2	121.4	142.7	0.1	-6.1	14.0	-7.4	17.5	0.1	-7.5	16.1	-9.7	21.2
4. TOTAL (1+2+3)	5,435.2	5,697.9	5,820.2	6,077.7	6,252.0	1.8	4.8	2.1	4.4	2.9	94.7	262.7	122.3	257.4	174.4

Source: Central Bank of Kenya

Chart 3.2: Contribution to overall credit growth by activity group (percentage points)



Source: Central Bank of Kenya

Reserve Money

Reserve money growth moderated to 1.4 percent in the fourth quarter of 2023 compared to an increase of 20.3 percent in the previous quarter, partly reflecting reduced growth in bank reserves. The decline in growth of bank reserves was partly on account of slower growth in banks customer

deposits. Meanwhile, the currency outside banks increased reflecting increased demand for liquidity during end of year festivities. The reduced growth in reserve money also reflected slower growth in net foreign assets (**Table 3.4**).

Table 3.4: Reserve money and its sources

	End Month Level (KSh Billion)					Quarterly Growth Rates (%)					Absolute Quarterly Changes (KSh Billion)				
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Sources of Reserve Money															
1. Net Foreign Assets	537.8	433.6	616.9	516.2	486.9	-5.4	-19.2	42.3	-16.3	-5.7	-31.0	-103.3	183.3	-100.6	-29.3
2. Net Domestic Assets	-21.4	75.1	-128.6	71.0	108.6	-52.2	430.0	-271.3	155.2	52.9	-7.3	97.8	-203.7	199.6	37.6
2.1 Government Borrowing (net)	211.4	361.5	323.4	459.3	487.5	11.3	74.7	-10.5	42.0	6.1	21.4	154.6	-38.1	135.9	28.2
2.2 Commercial banks (net)	126.6	131.4	96.7	163.9	242.7	4.5	3.7	-26.3	69.4	48.1	5.4	4.7	-34.6	67.2	78.8
2.3 Other Domestic Assets (net)	-363.2	-421.6	-552.5	-555.9	-625.4	-10.4	-17.1	-31.0	-0.6	-12.5	-34.2	-61.6	-130.9	-3.4	-69.5
Components of Reserve Money															
3. Reserve Money	516.5	508.6	488.3	587.2	595.5	-6.9	-1.1	-4.0	20.3	1.4	-38.3	-5.5	-20.4	99.0	8.2
3.1 Currency outside banks	260.8	252.8	257.9	267.5	282.1	3.6	-2.3	2.0	3.7	5.5	9.0	-6.0	5.1	9.6	14.6
3.2 Bank reserves	255.7	255.9	230.4	319.8	313.4	-15.6	0.2	-10.0	38.8	-2.0	-47.4	0.5	-25.5	89.4	-6.4

Source: Central Bank of Kenya

Interest Rates

a. Central Bank Rate

The Monetary Policy Committee (MPC) meeting held in December 2023 raised the Central Bank Rate (CBR) from 10.5 percent to 12.5 percent. The MPC noted that the exchange rate depreciation continues to exert upward pressure on domestic prices, thereby increasing the cost of living and reducing purchasing power. Public sector external debt service has risen, thereby offsetting some of the gains made towards the Government's strong fiscal consolidation. The continued weakening of the exchange rate was contributing to a significant increase in the Kenya shilling value of foreign currency denominated debt. There was need to adjust the monetary policy stance to address the pressures on the exchange rate and mitigate second round effects including from global prices. This would ensure that inflationary expectations remain anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the target range.

Modernization of Monetary Policy Implementation Framework

In line with the reforms outlined in the White Paper on Modernisation of the Monetary Policy Framework and Operations, the Monetary Policy Committee (MPC) Meeting held in August 2023, approved a new monetary policy implementation framework designed to enhance monetary policy transmission. The new framework is based on inflation targeting and introduces an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points. Consequently, monetary policy operations are aimed at ensuring the interbank rate, as an operating target, closely tracks the CBR. Additionally, to improve access to the Discount Window, which serves as a backup source of liquidity for the banking system, the MPC reduced the applicable interest rate from 600 basis points above the CBR to 400 basis points above the CBR (**Chart 3.3**).

b. Short Term Rates

Short-term interest rates generally increased during the fourth quarter of 2023, partly reflecting the tight monetary policy stance and liquidity conditions in the money market. The average 91-day Treasury bill rate increased to 15.70 percent in December 2024 from 14.38 percent in September 2023, while the average 182-day Treasury bill rate increased to 15.80 percent from 14.42 percent. The average interbank interest rate was 11.65 percent in December 2023 compared to 12.36 percent in September 2023, and it was within the interest rate corridor band of ± 2.5

percent around the CBR, partly supported by open market operations.

c. Lending and Deposit Rates

Commercial banks average lending and deposit rates increased in the fourth quarter of 2023 in line with the tight monetary policy stance. The weighted average lending rate increased to 14.63 percent in December 2023 from 13.98 percent in September 2023 while the weighted average deposit rate increased to 10.10 percent from 8.64 percent in September 2023.

Table 3.5: Interest rates (percent)

	2022	2023											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
91-day Treasury bill rate	9.33	9.44	9.62	9.76	10.04	10.47	11.49	12.12	13.25	14.38	14.96	15.32	15.70
182-day Treasury bill rate	9.80	9.88	10.06	10.25	10.42	10.83	11.54	12.23	13.19	14.42	15.03	15.39	15.80
Interbank rate	5.39	5.89	6.42	7.05	8.55	9.36	9.48	10.34	12.57	12.36	12.70	11.32	11.65
Repo rate	-	-	-	-	-	-	-	9.07	9.26	-	-	-	-
Reverse Repo rate	9.84	10.01	10.10	10.37	10.57	9.73	9.90	12.09	14.67	13.76	12.54	11.63	14.03
Central Bank Rate (CBR)	8.75	8.75	8.75	9.50	9.50	9.50	10.50	10.50	10.50	10.50	10.50	10.50	12.50
Average lending rate (1)	12.67	12.77	13.06	13.09	13.10	13.21	13.31	13.50	13.83	13.98	14.16	14.43	14.63
Overdraft rate	12.22	12.34	12.62	12.69	12.71	12.64	12.83	12.84	13.24	13.62	14.09	14.29	14.65
1-5years	12.98	13.09	13.43	13.47	13.44	13.62	13.79	14.01	14.29	14.48	14.63	14.97	15.16
Over 5years	12.57	12.64	12.88	12.91	12.95	13.05	13.06	13.31	13.64	13.67	13.76	14.00	14.14
Average deposit rate (2)	7.17	7.47	7.54	7.60	7.69	7.70	7.80	8.10	8.39	8.64	9.11	9.48	10.10
0-3months	7.38	8.09	8.28	8.13	8.34	8.06	8.32	8.75	9.28	9.76	10.49	11.08	11.42
Over 3 months deposit	7.93	7.96	7.96	8.19	8.21	8.41	8.54	8.75	8.88	8.96	9.27	9.50	10.19
Savings deposits	3.56	3.60	3.58	3.55	3.59	3.55	3.92	3.97	4.05	4.00	3.98	4.01	4.24
Spread (1-2)	5.51	5.30	5.52	5.50	5.41	5.51	5.51	5.40	5.44	5.33	5.05	4.95	4.53

Source: Central Bank of Kenya

Chapter 4

Global Economy

The global economy continues to recover albeit at a slow pace. The IMF's World Economic Outlook (WEO) update for January 2024, projects global output to grow by 3.1 percent in 2024 the same level as in 2023, and to increase to 3.2 percent in 2025, reflecting economic recovery from the overlapping shocks. The outlook for 2024 is 0.2 percentage points higher compared with the October 2023 WEO, reflecting greater than expected resilience in the U.S and growth in several large emerging market and developing economies. However, the forecast for 2024–25 remains below the historical (2000–19) annual average of 3.8 percent.

Growth in the advanced economies, is projected at 1.6 percent and 1.7 percent in the fourth quarters of 2024 and 2025, respectively. Annual growth in the advanced economies is expected at 1.5 percent in 2024 and 1.8 percent in 2025, supported by stronger growth momentum in the US. Growth in most economies in this group is forecast to remain weak in 2024, Euro Area (0.9 percent), UK (0.6 percent), and Japan (0.9 percent). Growth in the US is projected to stabilize at 2.1 percent.

In the emerging market and developing economies (EMDEs), growth is estimated at 4.3 percent in the fourth quarter of 2024. On an annual basis, growth is projected to stabilize at 4.1 percent in both 2023 and 2024 and improve marginally to 4.2 percent in 2024, reflecting the better-than-expected prospects in China, India, and Sub-Saharan Africa. In Sub-Saharan Africa (SSA), economic activity is projected to remain resilient and is expected to grow by 3.8 percent in 2024 before picking up to 4.1 percent in 2025. The projected decline is attributed to the global slowdown and the domestic supply issues mostly in the electricity sector. Nigeria, South Africa, and Kenya are expected to grow by 3.0 percent, 1.0 percent, and 5.3 percent in 2024, respectively.

In 2025, they are expected to grow by 3.1 percent (Nigeria), 1.3 percent (South Africa), and 5.4 percent (Kenya).

Global financial conditions have eased significantly, driven by higher equity valuations, and lower volatility. Global headline inflation continued to ease and is expected to decline to 5.8 percent in 2024 and 4.4 percent in 2025, while core inflation remains persistent and above historical averages.

Global commodity market pressures are expected to continue to ease as nonfuel and fuel commodity prices decline. Oil prices are expected to fall by about 2.3 percent, to average \$79.10 a barrel in 2024 and \$75.31 a barrel in 2025 while nonfuel commodity prices are expected to fall by 0.9 percent in 2024. Global demand is expected to pick up, reflecting increased consumer spending, particularly in the service sector as demand for travel, tourism, and recreational activities rises. The world trade growth is expected at 3.3 percent in 2024, reflecting reduced supply chain bottlenecks amid elevated geopolitical tension in the Middle East.

Official preliminary GDP estimates released for the fourth quarter of 2023 show estimated growth in the United States stood at (3.1 percent), Euro Area (0.1 percent), while Germany (-0.2 percent) and UK (-0.2 percent) contracted, reflecting modest recession. However, GDP estimates show accelerated growth for China (5.2 percent).

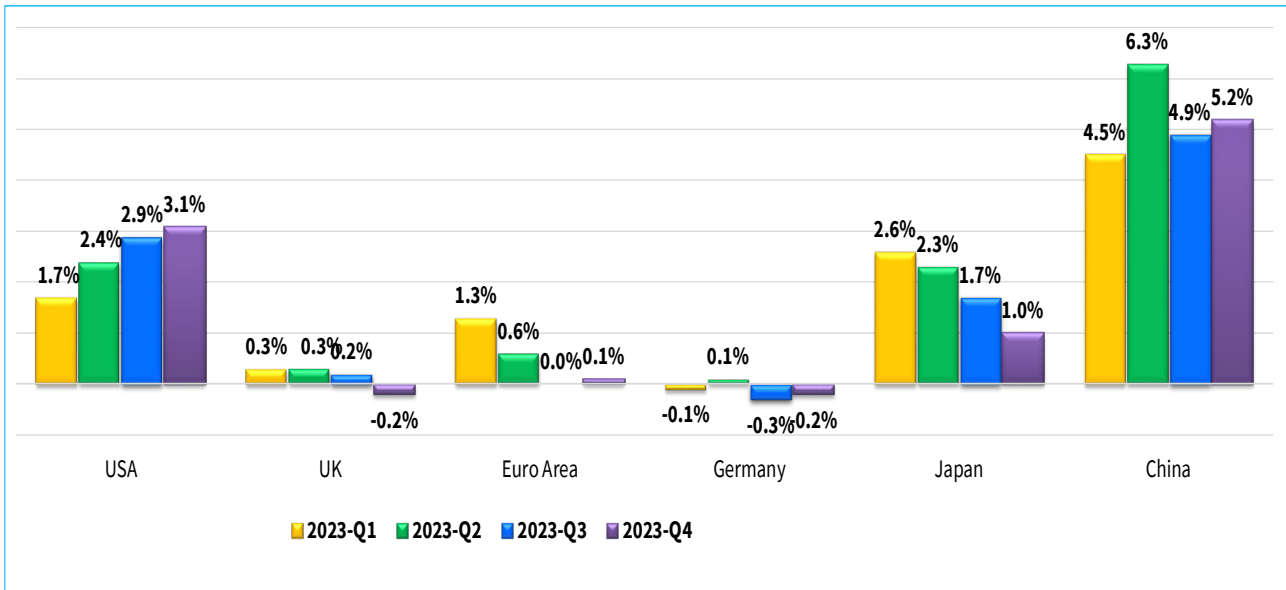
Risks to the global outlook are expected to be more balanced despite elevated geopolitical risks, particularly in the Middle East that could result in increased likelihood of commodity or other supply disruptions.

Table 4.1: Growth performance and outlook for the global economy (percent)

	Annual Year over Year				Quarterly Q4 Over Q4		
	Estimate		Projections		Estimate	Projections	
	2023	2023	2024	2025	2023	2024	2025
World Output	3.5	3.1	3.1	3.2	3.1	3.1	3.1
Advanced Economies	2.6	1.6	1.5	1.8	1.6	1.6	1.7
United States	1.9	2.5	2.1	1.7	2.9	1.5	1.9
Euro Area	3.4	0.5	0.9	1.7	0.2	1.5	1.6
Germany	1.8	-0.3	0.5	1.6	-0.1	1.1	1.9
France	2.5	0.8	1.0	1.7	0.6	1.4	1.8
Italy	3.7	0.7	0.7	1.1	0.2	1.3	1.0
Spain	5.8	2.4	1.5	2.1	1.5	1.8	2.1
Japan	1.0	1.9	0.9	0.8	1.4	1.6	0.5
United Kingdom	4.3	0.5	0.6	1.6	0.9	0.6	1.8
Emerging Market and Developing Economies	4.1	4.1	4.1	4.2	4.3	4.3	4.1
Emerging and Developing Asia	4.5	5.4	5.2	4.8	5.2	5.5	4.7
China	3.0	5.2	4.6	4.1	5.4	4.4	4.0
India	7.2	6.7	6.5	6.5	5.0	7.8	6.7
Emerging and Developing Europe	1.2	2.7	2.8	2.5	4.1	2.0	2.9
Russia	-1.2	3.0	2.6	1.1	4.4	1.4	1.0
Latin America and the Caribbean	4.2	2.5	1.9	2.5	2.2	1.7	2.6
Brazil	3.0	3.1	1.7	1.9	2.3	2.6	1.4
Mexico	3.9	3.4	2.7	1.5	3.4	1.9	1.4
Middle East and Central Asia	5.5	2.0	2.9	4.2	...	...	...
Saudi Arabia	8.7	-1.1	2.7	5.5	-4.5	2.8	5.4
Sub-Saharan Africa	4.0	3.3	3.8	4.1	...	...	...
Nigeria	3.3	2.8	3.0	3.1	2.7	3.3	2.9
South Africa	1.9	0.6	1.0	1.3	1.0	1.2	1.3
Kenya		5.4	5.3	5.4	...	...	...
World Trade Volume (goods and services)	5.2	0.4	3.3	3.6	...	...	...
Advanced Economies	6.1	0.3	2.6	3.2	...	...	...
Emerging Market and Developing Economies	3.7	0.6	4.5	4.4	...	...	...
Commodity Prices							
Oil	39.2	-16.0	-2.3	-4.8	-2.8	-6.1	-4.9
Nonfuel	7.9	-6.1	-0.9	-0.4	-2.0	1.5	0.2
World Consumer Prices	8.7	6.8	5.8	4.4	6.0	5.3	3.8
Advanced Economies	7.3	4.6	2.6	2.0	3.1	2.3	2.0
Emerging Market and Developing Economies	9.8	8.4	8.1	6.0	8.4	7.7	5.2

Source: IMF, World Economic Outlook, October 2023 updates

Chart 4.1: Global growth, fourth quarter-2023 (percent)



Source: National Bureau of Statistics offices, The Organisation for Economic Co-operation and Development (OECD)

Chapter 5

Balance of Payments and Exchange Rates

Overview

The current account balance is estimated to have widened to USD 1,721 million in the fourth quarter of 2023 from USD 1,005 million in a similar quarter of 2022, reflecting an increase in the import bill amid resilient performance in remittances. The higher import bill was attributed to a rise in the imports

of petroleum products and machinery. Secondary income inflows remained strong and improved by USD 28 million to USD 1,799 million in the fourth quarter of 2023 from USD 1,772 million in a similar quarter in 2022 (**Table 5.1**).

Table 5.1: Balance of payments (USD Million)

ITEM	2022	2023*							Q4 2023-Q4 2022	
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				%	
	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Change	Change
1. Overall Balance	235	1,017	-1,102	913	40	76	37	153	-82	-35
2. Current account	-1,005	-674	-1,014	-850	-685	-663	-374	-1,721	-716	71
Exports (fob)	1,747	1,843	1,819	1,874	569	595	559	1,723	-24	-1
Imports (fob)	4,309	4,243	4,325	4,137	1,491	1,583	1,327	4,401	92	2
Services: credit	1,568	1,664	1,454	1,293	318	342	338	999	-570	-36
Services: debit	1,401	1,222	1,194	1,041	528	409	384	1,321	-81	-6
Balance on goods and services	-2,396	-1,958	-2,246	-2,011	-1,131	-1,055	-815	-3,001	-605	25
Primary income: credit	8	24	36	25	4	12	9	25	17	209
Primary income: debit	382	476	512	614	133	220	182	535	153	40
Balance on goods, services and primary income	-2,770	-2,410	-2,722	-2,600	-1,260	-1,262	-988	-3,511	-741	27
Secondary income : credit	1,772	1,808	1,743	1,761	579	603	617	1,799	28	2
o.w Remittances	1,045	1,020	1,024	1,081	357	360	360	1,077	32	3
Secondary income: debit	7	72	34	11	3	3	3	10	3	45
3. Capital Account	30	55	36	23	6	3	4	13	-17	-55
4. Financial Account	-344	876	-2,332	160	-777	-740	-669	-2,186	-1,842	535

* Provisional

Fob-free on board

Source: Central Bank of Kenya and KNBS

Current Account Balance

The trade balance is estimated to have widened by 5 percent from a deficit of USD 2,562 million in the fourth quarter of 2022 to a deficit of USD 2,678 million in the fourth quarter of 2023, attributed to an increase in imports products (Table 5.1). The value of merchandise exports decreased to USD 1,723 million in the fourth quarter of 2023 from USD 1,747 million in a similar period in 2022, attributable to a decline in earnings from manufactured goods, tea, coffee, and horticulture exports. However, earnings from oil products improved by 120 percent. Exports of tea was subdued due to lower demand from UAE, Yemen and Russia, while that of horticulture was on account of supply related constraints.

The value of merchandise imports increased by 2 percent to USD 4,401 million in the fourth quarter of 2023, from USD 4,309 million in a similar quarter in 2022, largely on account of increased imports of petroleum products which rose by 8 percent. The increase in imports of petroleum products in the period under review was largely due to elevated geopolitical risks in the Middle East. Net receipts on the services account declined by USD 489 million to a deficit of USD 322 million in fourth quarter of 2023 from a surplus of USD 167 million in the fourth quarter of 2022. The decline was largely attributed to a decrease in receipts from transport and travel (**Table 5.2**).

Table 5.2: Balance on current account (USD Million)

ITEM	2022	2023*						Q4 2023-Q4 2022		
	Oct-Dec	Jan-Mar	Apr-Jun	July-Sep	Oct	Nov	Dec	Oct-Dec	Change	%
	Q4	Q1	Q2	Q3				Q4	Change	Change
CURRENT ACCOUNT	-1,005	-674	-1,014	-850	-685	-663	-374	-1,721	-716	71
Goods	-2,562	-2,400	-2,506	-2,264	-922	-988	-768	-2,678	-116	5
Exports (fob)	1,747	1,843	1,819	1,874	569	595	559	1,723	-24	-1
o.w Coffee	53	64	103	70	9	11	10	29	-23	-44
Tea	353	342	319	347	108	117	112	337	-17	-5
Horticulture	207	231	246	247	77	66	63	205	-2	-1
Oil products	19	25	25	25	7	7	26	41	22	120
Manufactured Goods	159	176	180	183	48	52	46	146	-13	-8
Raw Materials	120	135	90	75	19	40	21	80	-40	-33
Chemicals and Related Products (n.e.s)	150	159	146	156	54	52	42	149	-2	-1
Miscellaneous Man. Articles	151	151	158	145	49	45	55	149	-2	-1
Re-exports	163	149	168	250	63	61	44	167	4	3
Other	358	399	371	362	129	135	128	392	33	9
Imports (fob)	4,309	4,243	4,325	4,137	1,491	1,583	1,327	4,401	92	2
o.w Oil	1,210	1,171	1,207	1,114	489	449	372	1,310	100	8
Chemicals	692	840	742	630	242	210	233	685	-7	-1
Manufactured Goods	723	680	741	593	198	223	219	640	-83	-11
Machinery & Transport Equipment	896	745	753	860	265	359	270	894	-2	0
Machinery	579	498	515	599	197	232	183	612	34	6
Transport equipment	317	248	238	260	68	126	87	282	-36	-11
Other	1,134	1,146	1,160	1,209	398	364	297	1,058	-76	-7
o.w Food	556	605	656	616	188	153	141	482	-75	-13
Services	167	442	260	253	-209	-67	-46	-322	-489	-293
Transport Services (net)	-24	81	89	75	-27	-34	-16	-76	-53	222
Credit	482	549	523	472	134	128	126	389	-93	-19
Debit	505	467	434	397	161	162	142	465	-40	-8
Travel Services (net)	253	274	258	186	54	56	55	165	-89	-35
Credit	296	318	300	213	62	66	65	192	-104	-35
Debit	43	44	41	27	8	10	10	28	-15	-35
Other Services (net)	-63	87	-88	-9	-236	-88	-86	-411	-348	554
Primary Income	-374	-452	-476	-589	-129	-208	-173	-510	-136	36
Credit	8	24	36	25	4	12	9	25	17	209
Debit	382	476	512	614	133	220	182	535	153	40
Secondary Income	1,765	1,736	1,708	1,750	576	600	614	1,789	25	1
Credit	1,772	1,808	1,743	1,761	579	603	617	1,799	28	2
Debit	7	72	34	11	3	3	3	10	3	45

*Provisional;

Fob - free on board

Source: Central Bank of Kenya and KNBS

The primary account balance widened by USD 136 million to a deficit of USD 510 million in the fourth quarter of 2023 from a deficit of USD 374 million in the same period last year, reflecting lower interest related payments on other investments. The secondary income balance rose by USD 25 million to 1,789 in the fourth quarter of 2023 compared with USD 1,765 in the fourth quarter of 2022. Remittances increased to USD 1,077 million in the fourth quarter of 2023 from USD 1,045 million in the same period in the previous year (**Table 5.1 and 5.2**).

Direction of Trade

Imports from China increased by 57 percent and accounted for 20 percent of total imports to Kenya making it the largest single source of imports in the fourth quarter of 2023 when compared to the same quarter in 2022. Imports from the US and Saudi Arabia rose by USD 153 million, USD 212 million, respectively while those from Africa rose by USD 324 million to USD 832 million in the fourth quarter of 2023, reflecting increased imports from COMESA and EAC region (**Table 5.3**).

Table 5.3: Kenya's direction of trade: Imports

IMPORTS (USD M)	2023*								Share of Imports (%)	
	2022	2023*								
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec					
Country	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q4 2022	Q4 2023
Africa	508	490	470	496	177	159	127	832	12	12
Of which										
South Africa	114	129	165	131	53	39	33	223	3	3
Egypt	85	91	89	83	37	27	28	146	2	2
Others	310	269	215	282	87	93	66	462	7	6
EAC	171	139	160	177	44	54	39	275	4	4
COMESA	256	238	219	226	96	82	69	403	6	6
Rest of the World	3,801	3,753	3,855	3,641	1,314	1,424	1,200	6,380	88	88
Of which										
India	388	517	553	386	225	128	125	739	9	10
United Arab Emirates	972	658	737	859	281	208	201	1,347	23	19
Japan	182	162	179	177	50	70	58	297	4	4
USA	197	146	253	225	61	64	55	350	5	5
United Kingdom	69	69	67	61	22	56	16	140	2	2
Singapore	43	45	17	9	2	41	42	52	1	1
Germany	60	76	89	61	19	19	22	100	1	1
Saudi Arabia	178	338	288	244	69	77	32	390	4	5
Indonesia	70	107	61	84	15	16	17	115	2	2
Netherlands	40	66	46	37	27	75	53	139	1	2
France	46	63	49	80	32	23	16	135	1	2
Bahrain	1	7	1	2	1	2	1	4	0	0
Italy	44	42	43	41	10	10	11	61	1	1
Others	1,511	1,458	1,473	1,376	499	635	550	2,510	35	35
Total	4,309	4,243	4,325	4,137	1,491	1,583	1,327	7,212	100	100
EU	469	448	435	421	162	230	158	813	11	11
China	908	719	834	831	292	301	290	1,424	21	20

*Provisional

Source: Kenya Revenue Authority

The value of goods exported to Africa in the fourth quarter of 2023 was USD 1,333 million, accounting for 44 percent of total exports, driven largely by exports to EAC region. The share of exports to the EU was 19

percent, while the proportions to the Netherlands, the United Kingdom, the United States, and Pakistan were 7 percent, 5 percent, 6 percent, and 9 percent, respectively (**Table 5.4**).

Table 5.4: Kenya's direction of trade: Exports

EXPORTS (USD M)									Share of Exports (%)	
	2022	2023*								
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec			Q4		
Country	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Q4 2022	Q4 2023
Africa	717	781	755	822	263	249	221	1,333	41	44
Of which										
Uganda	197	246	229	247	67	64	62	377	11	12
Tanzania	125	111	112	135	50	44	36	229	7	8
Egypt	46	57	50	59	23	18	16	100	3	3
Sudan	18	19	5	13	4	4	3	21	1	1
South Sudan	44	58	54	56	21	18	19	96	3	3
Somalia	35	40	47	37	13	10	9	60	2	2
DRC	44	44	41	53	15	20	15	88	3	3
Rwanda	75	74	77	81	24	25	21	130	4	4
Others	134	134	139	141	45	45	39	232	8	8
	0									
EAC	457	503	492	540	167	155	143	862	26	28
COMESA	472	531	502	545	163	160	145	868	27	29
Rest of the World	1,029	1,062	1,064	1,052	306	346	338	1,704	59	56
Of which	0									
United Kingdom	86	107	97	91	34	30	33	155	5	5
Netherlands	151	142	155	128	38	39	44	205	9	7
USA	138	120	124	116	27	37	37	180	8	6
Pakistan	144	111	140	164	44	53	47	261	8	9
United Arab Emirates	76	85	88	116	31	32	43	180	4	6
Germany	29	35	34	28	6	6	6	40	2	1
India	16	18	16	22	9	5	6	35	1	1
Afghanistan	7	13	8	11	1	0	1	13	0	0
Others	382	431	401	376	116	143	121	635	22	21
Total	1,747	1,843	1,819	1,874	569	595	559	3,038	100	100
EU	352	385	405	363	105	100	113	569	20	19
China	56	63	57	34	10	31	13	75	3	2

*Provisional

Source: Kenya Revenue Authority

Capital and Financial Account

Net capital account inflows were USD 13.4 million in the fourth quarter of 2023. Net financial account inflows were lower at USD 2,186 million in the fourth

quarter of 2023, compared to net inflows of USD 344 million in the fourth quarter of 2022 (**Table 5.5**). This largely reflects an increase in other investment inflows.

Table 5.5: Balance on capital and financial account (USD Million)

	2022	2023*							Q4 2023-Q4 2022	
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				Absolute	%
	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4	Change	Change
Capital account credit	30	55	36	23	6	3	4	13	-17	-55
Capital account credit	30	55	36	23	6	3	4	13	-17	-55
Capital account: debit	0	0	0	0	0	0	0	0	0	0
Financial Account	-344	876	-2,332	160	-777	-740	-669	-2,186	-1,842	535
Direct investment: assets	-14	-5	2	-23	-7	-8	-8	-24	-10	69
Direct investment: liabilities	103	52	83	121	49	52	52	152	49	47
Portfolio investment: assets	145	325	4	96	17	30	30	77	-68	-47
Portfolio investment: liabilities	-46	-105	-18	-17	-3	-2	-8	-13	33	-72
Financial derivatives: net	-33	9	13	31	-1	0	2	1	34	-102
Other investment: assets	564	453	667	1,184	169	356	47	572	8	1
Other investment: liabilities	948	-40	2,952	1,024	909	1,068	695	2,672	1,724	182

* Provisional

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased to USD 14,155 million at the end of the fourth quarter of 2023 from USD 12,085 million in a similar period in 2022. The official reserves held

by the Central Bank constituted the bulk of the gross reserves and rose to USD 7,341 million, equivalent to 3.9 months of import cover, while Commercial Bank reserves stood at USD 6,814 million at the end of fourth quarter of 2023 (**Table 5.6**).

Table 5.6: Foreign exchange reserves and residents' foreign currency deposits (end of period, USD Million)

	2022	2023*						
	Oct-Dec	Jan-Mar	Apr-Jun					
	Q4	Q1	Q2	Q3	Oct	Nov	Dec	Q4
1. Gross Reserves	12,085	10,901	13,166	13,852	13,965	14,211	14,155	14,155
of which:	-							-
Official	7,969	6,962	8,037	7,535	7,496	7,398	7,341	7,341
import cover*	4.5	3.9	4.4	4.0	4.0	3.9	3.9	3.9
Commercial Banks	4,115	3,939	5,129	6,316	6,469	6,813	6,814	6,814
2. Residents' foreign currency deposits	8,989	7,760	8,673	9,778	9,995	10,058	10,173	10,173

*Based on 36-month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling exchange rate remained relatively stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 24.51

percent against the US Dollar to exchange at an average of 151.84 in the fourth quarter of 2023 compared with 121.95 in a similar quarter in 2022. It however, appreciated against EAC regional currencies excluding Burundi Franc (**Table 5.7 and Chart 5.1**).

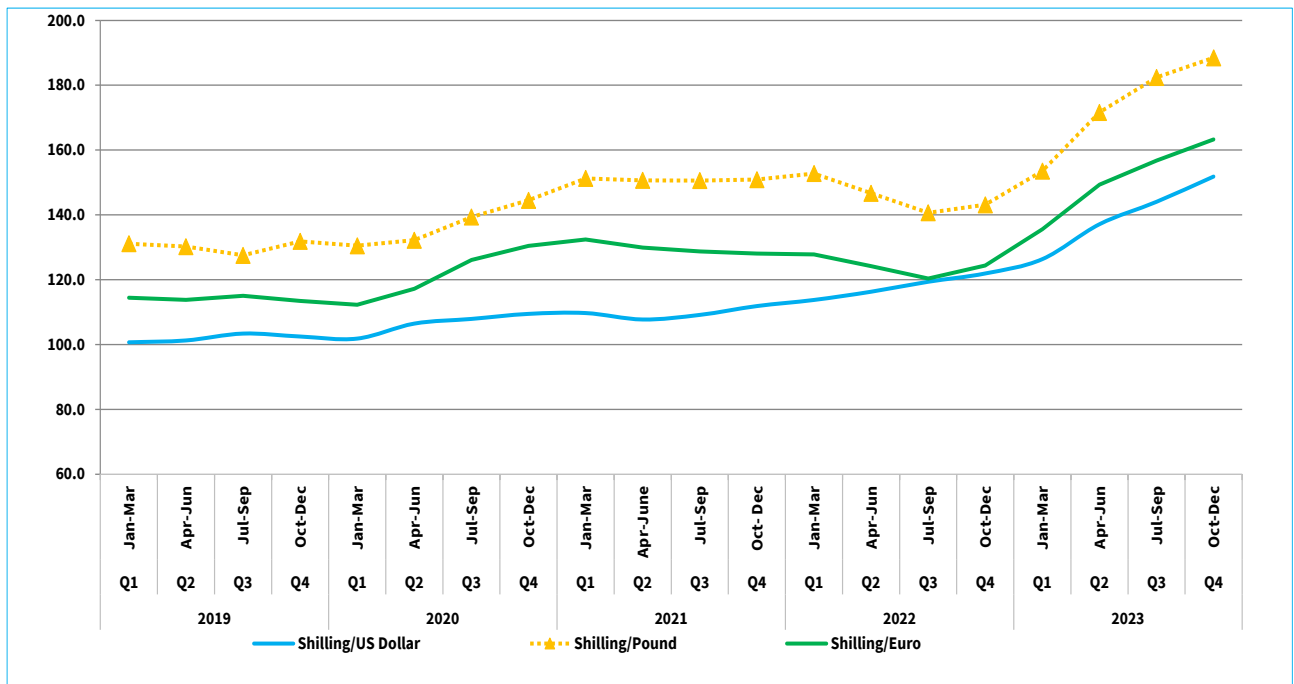
Table 5.7: Kenya Shilling exchange rate

	2022	2023							Q4 2023- Q4 2022 (% change)
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct	Nov	Dec	Oct-Dec	
US Dollar	121.95	126.37	137.13	144.05	149.40	152.03	154.09	151.84	24.51
Pound Sterling	143.12	153.52	171.63	182.42	181.86	188.57	194.98	188.47	31.68
Euro	124.40	135.58	149.33	156.76	157.70	164.21	167.97	163.29	31.26
100 Japanese Yen	86.28	95.55	99.99	99.69	99.86	101.48	106.77	102.70	19.04
South Africa Rand	6.92	7.12	7.36	7.73	7.83	8.20	8.26	8.10	16.95
Uganda Shilling*	30.82	29.33	27.20	25.67	25.13	24.89	24.54	24.85	-19.37
Tanzania Shilling*	19.13	18.51	17.24	17.20	16.76	16.46	16.28	16.50	-13.73
Rwanda Franc*	8.77	8.59	8.19	8.21	8.17	8.11	8.12	8.13	-7.29
Burundi Franc*	16.97	16.44	18.18	19.66	19.00	18.57	18.47	18.68	10.10

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 5.1: Kenya Shilling nominal exchange rate (domestic currency per unit of foreign currency)



Source: Central Bank of Kenya

Chapter 6 Banking Sector

Overview

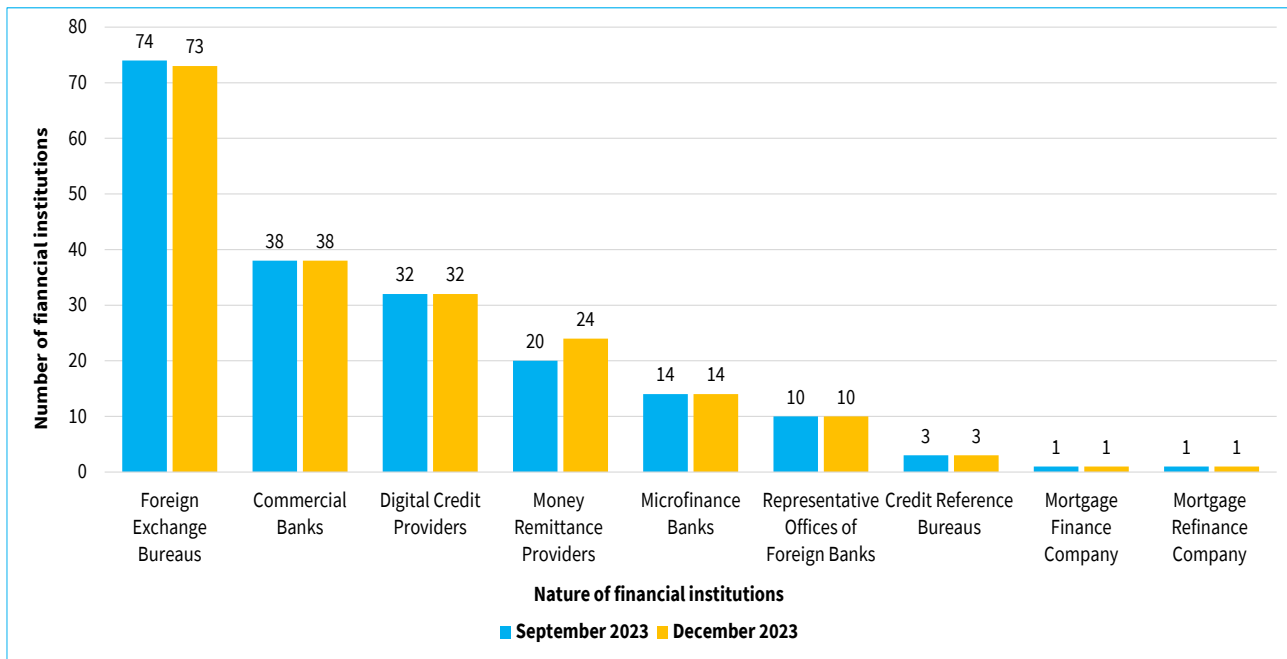
The banking sector remained stable and resilient in the fourth quarter of 2023. Total assets increased by 4.2 percent to Ksh.7,424.9 billion in December 2023, from Ksh.7,413.1 billion in September 2023. The deposit base also increased by 5.7 percent to Ksh.5,812.1 billion in the fourth quarter of 2023, from Ksh.5,498.1 billion in the third quarter of 2023. The sector was well capitalized with capital adequacy ratio of 18.3 percent, which was above the minimum capital requirement of 14.5 percent. The sector remained profitable in the fourth quarter of 2023, with quarterly profit before tax that decreased to Ksh.48.5 billion, from Ksh.57.6 billion reported in the third quarter of 2023. Credit risk remained elevated with Gross Non-Performing

Loans (NPLs) to Gross Loans Ratio standing at 14.8 percent at the end of the fourth quarter of 2023, a decrease from 15.0 percent recorded at the end of third quarter of 2023.

Structure of the Banking Sector

The Kenyan banking sector comprised 38 Commercial Banks, 1 Mortgage Finance Company, 1 Mortgage Refinance Company, 14 Microfinance Banks, 10 Representative Offices of Foreign Banks, 73 Foreign Exchange Bureaus, 24 Money Remittance Providers, 3 Credit Reference Bureaus, and 32 Digital Credit Providers as of December 31, 2023. **Chart 6.1** shows the structure of the Kenyan banking sector as at the end of the last two quarters.

Chart 6.1: Structure of the banking sector



Source: Central Bank of Kenya

Structure of the Balance Sheet

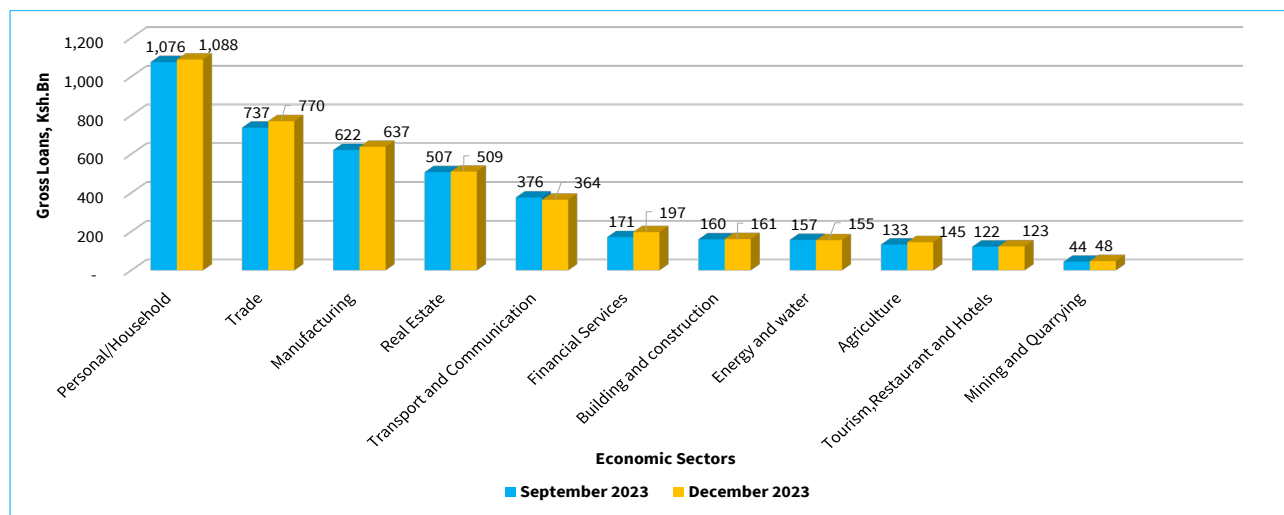
i) Growth in banking sector assets

Total assets increased by 4.2 percent to Ksh.7,424.9 billion in December 2023, from Ksh.7,413.1 billion in September 2023. The increase in total assets was mainly recorded in loans and advances by Ksh.95.9 billion (2.3 percent) and placements by Ksh.111.7 billion (15.5 percent). Net loans and advances remained the main component of total assets, accounting for 49.7 percent in the fourth quarter of 2023, a decrease from 50.5 percent recorded in the third quarter of 2023.

ii) Loans and Advances

The banking sector loan book increased by 2.3 percent, to Ksh.4,199.5 billion in the fourth quarter of 2023, from Ksh.4,103.6 billion in the third quarter of 2023. The increase in gross loans and advances was largely witnessed in the Trade, Financial Services, Manufacturing, Personal and Household and Agriculture sectors. The increase in gross loans was mainly due to increased new advances granted for working capital purposes. The sectoral distribution of gross loans for the third quarter of 2023 and the fourth quarter of 2023, is highlighted in **Chart 6.2**.

Chart 6.2: Kenyan banking sector gross loans



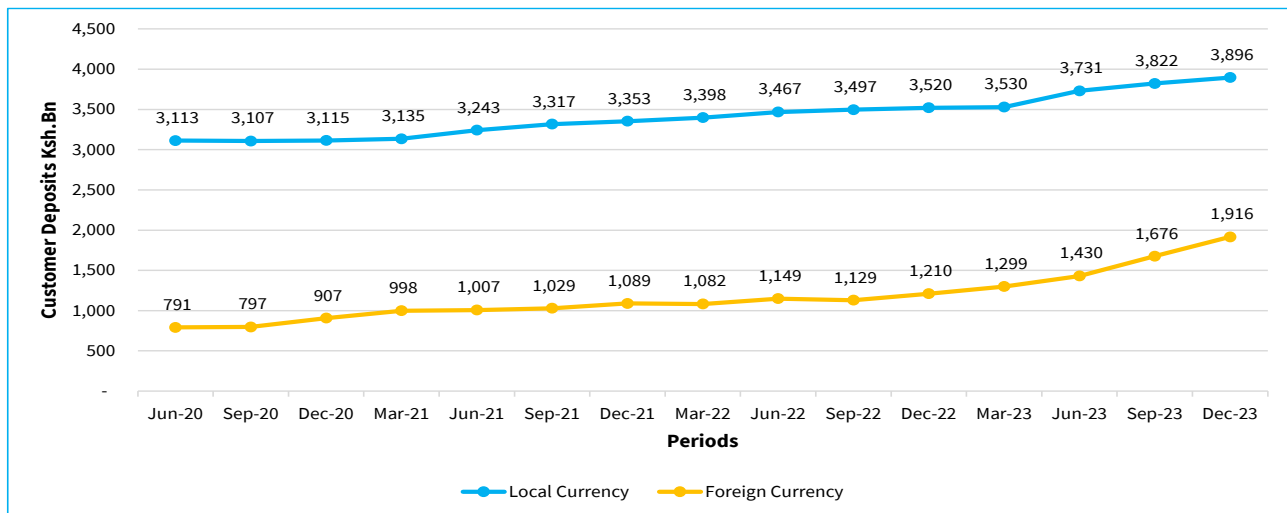
Source: Central Bank of Kenya

iii) Deposit Liabilities

Customer deposits remains the main source of funding to the banks accounting for 75.2 percent of the banking sector total liabilities and shareholders' funds as at the end of the fourth quarter of 2023. The customer deposit base increased by Ksh.314.0 billion to Ksh.5,812.1 billion in the fourth quarter of 2023, from Ksh.5,498.1 billion in the third quarter of 2023. Local currency deposits increased by Ksh.73.9

billion (1.9 percent) to Ksh.3,895.9 billion in the fourth quarter of 2023, from Ksh.3,822.0 billion in the third quarter of 2023. Foreign currency deposits increased by Ksh.240.1 billion (14.3 percent) to Ksh.1,916.2 billion in the fourth quarter of 2023, from Ksh.1,676.1 billion in the third quarter of 2023. **Chart 6.3** shows the trend of deposit liabilities.

Chart 6.3: Customer deposits



Source: Central Bank of Kenya

Capital Adequacy

Kenya's banking sector is well capitalized and meets the minimum capital requirements. Core capital increased by 2.4 percent to Ksh.874.8 billion in the fourth quarter of 2023, from Ksh.853.9 billion in the third quarter of 2023. Total capital increased by 2.4 percent to Ksh.1,057.7 billion in the fourth quarter of 2023, from Ksh.1,032.9 billion in the third quarter of 2023.

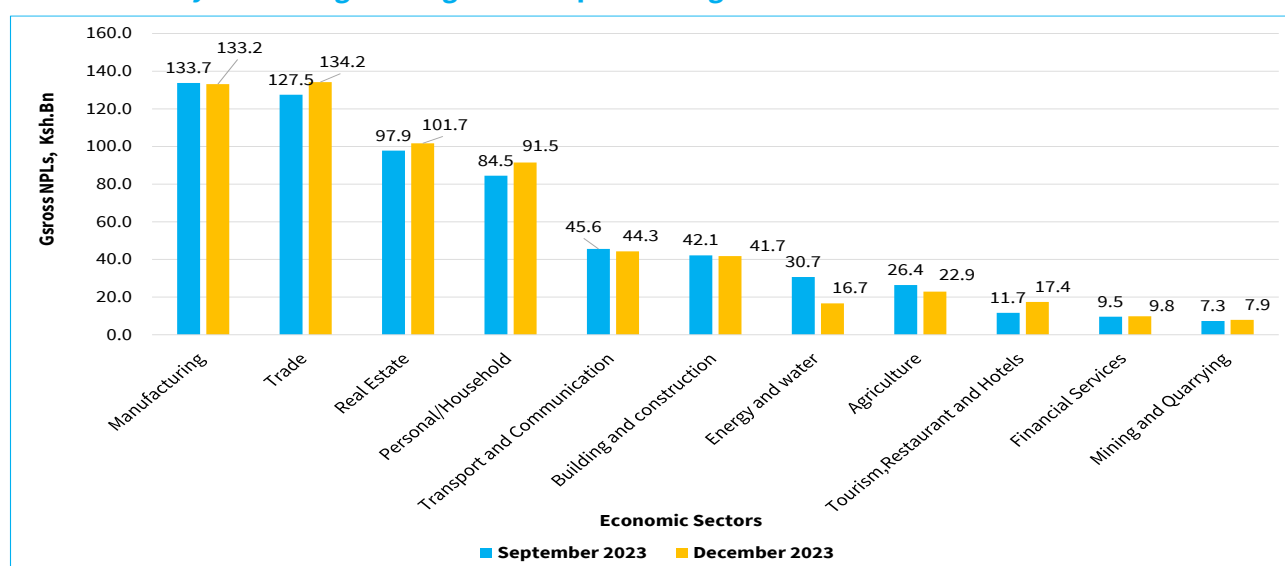
Core capital and total capital to total risk-weighted assets ratios decreased slightly to 15.1 percent and 18.3 percent in the fourth quarter of 2023 from 15.3 percent and 18.6 percent in the third quarter of 2023, respectively. The decreases in core and total capital ratios was mainly due to a higher increase in total risk weighted assets (4.1 percent) as compared to the increase in core and total capital (2.4 percent).

The minimum core capital to total deposits ratio is set at 8 percent. Commercial banks maintained an adequate buffer, with the ratio standing at 15.1 percent in the fourth of 2023.

Asset Quality

The Gross Non-Performing Loans (NPLs) increased by 0.7 percent from Ksh.617.0 billion at the end of the third quarter of 2023, to Ksh.621.3 billion at the end of the fourth quarter of 2023. The gross NPLs to gross loans ratio decreased to 14.8 percent in the fourth quarter of 2023, from 15.0 percent in the third quarter of 2023. This was due to a higher increase in gross loans (2.3 percent) as compared to the increase in gross NPLs (0.7 percent). **Chart 6.4** highlights the sectoral distribution of gross NPLs.

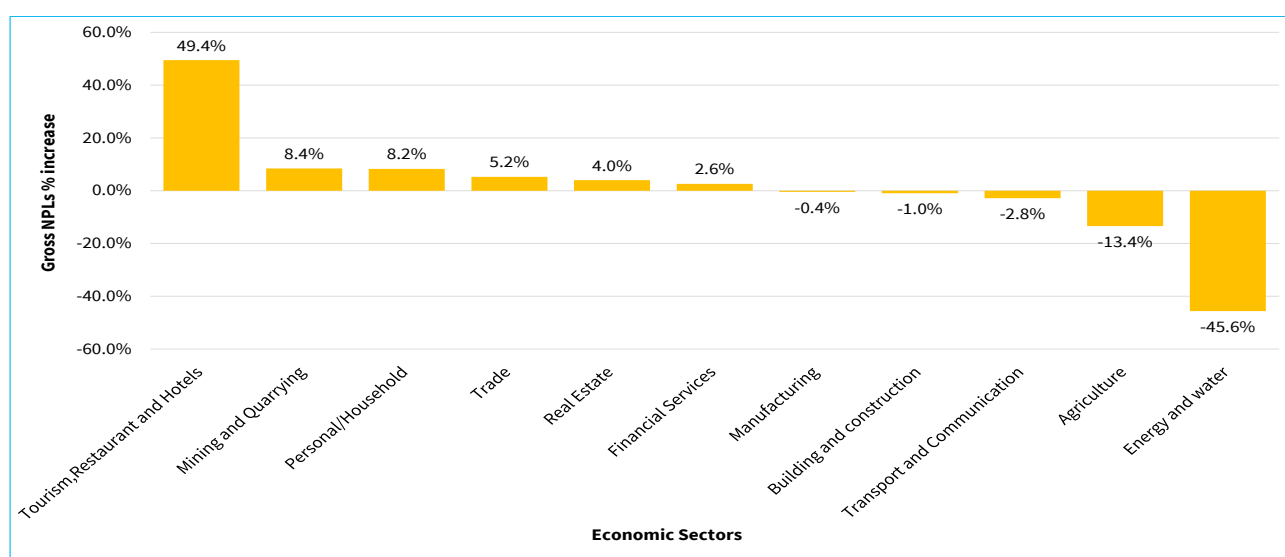
Chart 6.4: Kenyan banking sector gross non-performing loans



Source: Central Bank of Kenya

The increase in gross NPLs was spread across six economic sectors as highlighted in **Chart 6.5**.

Chart 6.5: Movement in Gross NPLs- Second Quarter of 2023 and Third Quarter 2023



Source: Central Bank of Kenya

Tourism, Mining and Quarrying, Personal and Household, Trade, Real Estate and Financial Services sectors registered increases in NPLs by Ksh.24.1 billion as a result of delayed repayments attributed to a challenging operating environment. Energy and Water, Agriculture, Transport and Communication, Building and Construction and Manufacturing sectors recorded decreased NPLs, mainly due to write offs and repayments.

The banking sector’s asset quality, as measured by the proportion of net non-performing loans to

gross loan remained constant at 6.3 percent in both quarters of 2023. The coverage ratio, measured as a percentage of specific provisions to total NPLs, decreased slightly from 39.2 percent in the third quarter of 2023, to 39.1 percent in the fourth quarter of 2023, due to a higher increase in total NPLs (3.7 percent) as compared to the increase in specific provisions (2.2 percent). A summary of asset quality for the banking sector over the period is shown in **Table 6.1**.

Table 6.1: Summary of asset quality

		Sep-23	Dec-23
1.	Gross Loans and Advances (Ksh.Bn)	4,103.6	4,199.5
2.	Interest in Suspense (Ksh.Bn)	96.9	88.3
3.	Loans and Advances (net of interest suspended) (Ksh.Bn)	4,006.7	4,111.2
4.	Gross Non-Performing loans (Ksh.Bn)	617.0	621.3
5.	Specific Provisions (Ksh.Bn)	203.8	208.2
6.	General Provisions (Ksh.Bn)	55.9	61.0
7.	Total Provisions (5+6) (Ksh.Bn)	259.6	269.2
8.	Net Advances (3-7) (Ksh.Bn)	3,747.1	3,842.0
9.	Total Non-Performing Loans and Advances (4-2) (Ksh.Bn)	520.1	533.0
10.	Net Non-Performing Loans and Advances (9-5) (Ksh.Bn)	260.5	263.9
11.	Total NPLs as % of Total Advances (9/3) (%)	13.0	13.0
12.	Net NPLs as % of Gross Advances (10/1) (%)	6.3	6.3
13.	Specific Provisions as % of Total NPLs (5/9) (%)	39.2	39.1
14.	Gross NPLs to Gross Loans Ratio (4/1) (%)	15.0	14.8

Source: Central Bank of Kenya

Profitability

The banking sector recorded a decrease in quarterly pre-tax profits of Ksh.9.1 billion to Ksh.48.5 billion in the fourth quarter of 2023, from Ksh.57.6 billion in the third quarter of 2023. The decrease in profitability was mainly attributable to a higher increase in quarterly expenses (Ksh.32.3 billion) as compared to the increase in quarterly income (Ksh.23.2 billion). The higher increase in expenses was mainly attributed to an increase in bad debt charge (Ksh.12.3 billion)

Interest income on loans and advances, interest on government securities and other incomes were the major sources of income in both quarters. They accounted for 48.3 percent, 26.3 percent and 14.2 percent in the fourth quarter of 2023 as compared to 47.0 percent, 26.7 percent and 14.5 percent in the third quarter of 2023.

On the other hand, interest on deposits, other expenses and salaries and wages, were the key components of expenses, accounting for 33.3 percent, 22.0 percent and 19.8 percent of total expenses respectively in the third quarter of 2023, compared to 32.3 percent, 23.2 percent and 21.2 percent in the third quarter of 2023.

Return on Assets (ROA) decreased slightly to 2.3 in the fourth quarter of 2023, from 2.5 percent recorded in the third quarter of 2023. Return on Equity (ROE) decreased to 22.9 percent in the fourth quarter of 2023, from 25.0 percent in the third quarter of 2023.

The decrease in ROE and ROA was due to decreased quarterly profits.

Liquidity

The banking sector's overall liquidity ratio increased to 51.0 percent in the fourth quarter of 2023, from 49.3 percent in the third quarter of 2023. The increase was driven by a higher increase in total liquid assets (7.9 percent) as compared to a 4.3 percent increase in total short-term liabilities between the two quarters. The banking sector liquidity ratio remained above the minimum statutory level of 20 percent.

Outlook of the Sector

The banking sector is projected to remain stable in the first quarter of 2024.

- Operational risk is expected to remain elevated due to increasing cyber security risks.
- Credit risk is expected to be elevated in the short to medium term. The gross NPLs to Gross Loans ratio decreased slightly from 15.0 percent in the third quarter of 2023, to 14.8 percent in the fourth quarter 2023.
- Interest rate risk is expected to be elevated on the back of rising interest rates.
- Liquidity risk is stable. The liquidity ratio increased to 51.0 percent in the fourth quarter of 2023, from 49.3 percent in the third quarter of 2023. These were above the statutory minimum of 20 percent.

Kenya Shilling Flows in KEPSS

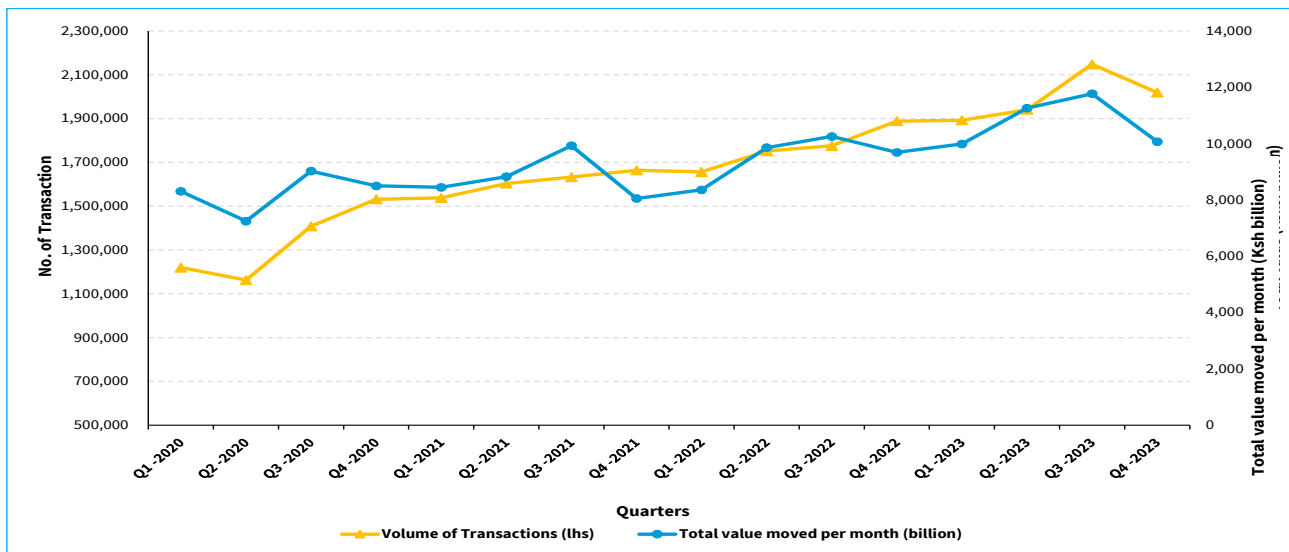
Kenya Electronic Payments and Settlement System (KEPSS) used for large value Real Time Gross Settlement (RTGS) payments moved a volume of 2.01 million transaction messages worth KSh 10.1 trillion in the fourth quarter of 2023, compared to the previous quarter which recorded 2.15 million transactions worth KSh 11.8 trillion. The volumes and values decreased by 6.0 percent and 14.45

percent, respectively. **Chart 6.6** below highlights recent trends in KEPSS transactions.

System Availability

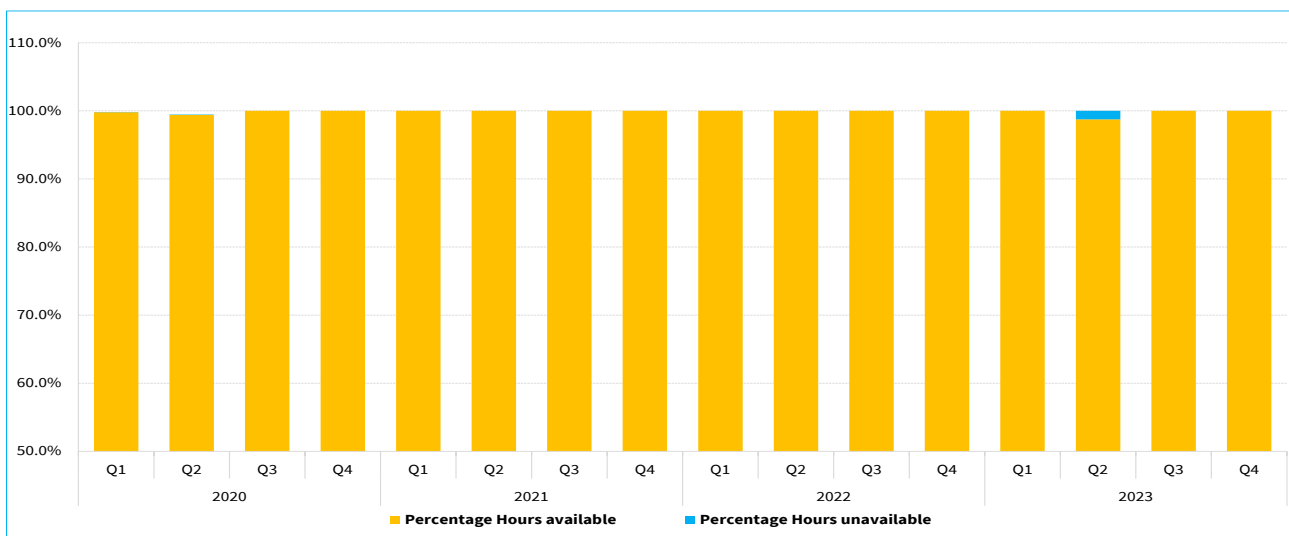
The KEPSS system is available to the commercial banks and other participants for 8 hours per day from 8.30 AM to 4.30 PM. The system availability maintained an average 100 percent during the fourth quarter (**Chart 6.7**).

Chart 6.6: Trends in monthly flows through KEPSS



Source: Central Bank of Kenya

Chart 6.7: KEPSS availability



Source: Central Bank of Kenya

Chapter 7

Government Budgetary Performance

The Government's budgetary operations at the end of the second quarter of FY 2023/24 resulted in a deficit of 1.2 of GDP against a target of 2.3 percent of GDP. Revenue collection and expenditure were below target by 12.7 percent and 19.8 percent, respectively.

Table 7.1: Statement of Government Operations (KSh Billion)

	FY2022/23	FY2023/24			Over (+) / Below (-) Target	% Variance	% change Q on Q	% cumulative share to GDP	Target to GDP (%)
	Q2	Q2	Cumulative 'to Dec-2023	Target					
1. TOTAL REVENUE & GRANTS	581.1	686.2	1,275.6	1,461.4	(185.8)	(12.7)	18.1	7.9	9.1
Ordinary Revenue	499.6	551.9	1,088.7	1,274.8	(186.2)		10.5		
Tax Revenue	487.1	536.3	1,050.4	1,227.4	(177.0)		10.1		
Non Tax Revenue	12.5	15.6	38.3	47.4	(9.1)		25.0		
Appropriations-in-Aid	77.9	132.2	181.5	177.7	3.8		69.8		
External Grants	3.7	2.0	5.5	8.9	(3.4)		(44.4)		
2. TOTAL EXPENSES & NET LENDING	709.3	820.3	1,464.3	1,825.2	(360.9)	(19.8)	15.6	9.1	11.3
Recurrent Expenses	548.1	613.2	1,130.2	1,305.2	(175.0)		11.9		
Development Expenses	90.4	125.7	191.6	314.9	(123.3)		39.0		
County Transfers	70.8	81.4	142.5	204.4	(62.0)		15.0		
Others	-	-	-	0.6	(0.6)				
3. DEFICIT (INCL. GRANTS) (1-2)	(128.2)	(134.1)	(188.6)	(363.7)	175.1	(48.1)	4.6	(1.2)	(2.3)
As percent of GDP	(1.0)	(0.8)	(1.2)	(2.3)	1.1				
4. ADJUSTMENT TO CASH BASIS	69.5	-	-	-	-				
5. DEFICIT INCL. GRANTS ON A CASH BASIS	(58.7)	(134.1)	(188.6)	(363.7)	175.1	(48.1)	128.6	(1.2)	(2.3)
As percent of GDP	(0.4)	(0.8)	(1.2)	(2.3)	1.1				
6. DISCREPANCY: Expenditure (+) / Revenue (-)	19.3	(17.3)	(6.3)	-	(6.3)				
7. FINANCING	78.0	116.8	182.4	363.7	(181.3)	(49.9)	49.8	1.1	2.3
Domestic (Net)	22.6	118.6	211.9	356.2	(144.2)		425.5		
Capital Receipts (domestic loan receipts)	-	-	-	-	-				
External (Net)	55.4	(1.9)	(29.6)	7.5	(37.1)		(103.3)		
Others	-	-	-	-	-				

Source: The National Treasury

Revenue

Government receipts, comprising revenue and grants increased by 18.1 percent to KSh 686.2 billion in the second quarter of FY 2023/24, compared to KSh 581.1 billion in the second quarter of FY 2022/23. The increase was reflected in ordinary revenue and Appropriation in Aid (A-in-A) which grew by 10.5 percent and 69.8 percent, respectively. The increase in ordinary revenue was reflected in all broad tax categories as well as non-tax revenue. During the period under review, external grants declined to Ksh 3.7 billion to Ksh 2.0 billion and were below target (**Table 7.1**).

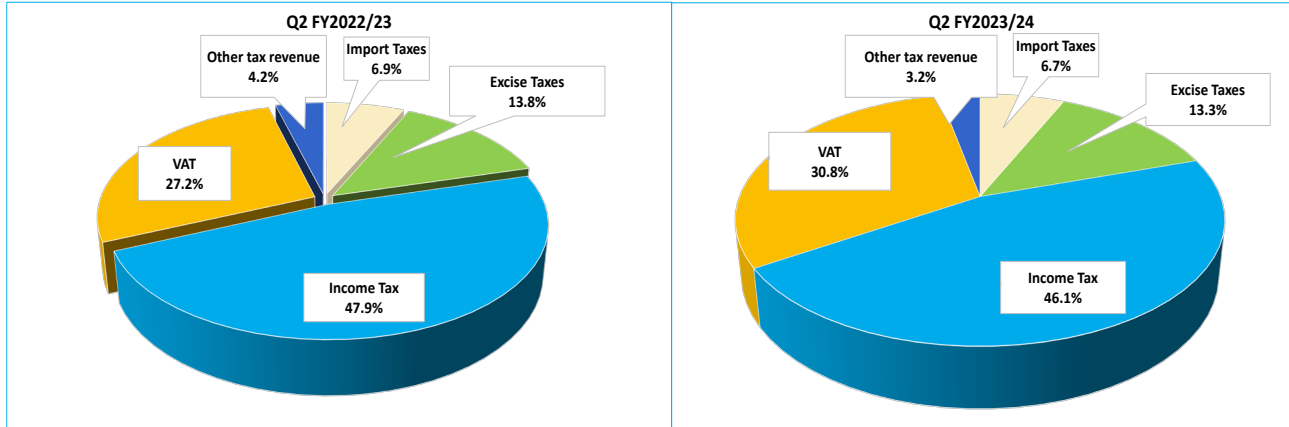
There was a minor shift in the composition of tax revenues in the second quarter of FY 2023/2024 compared with a similar period in the previous financial year (**Chart 7.1**). The share of Value Added Tax (VAT) increased by 3.6 percentage points while the share of income tax, excise tax, import tax and other taxes declined by 1.7 percentage points, 0.5 percentage points, 0.2 percentage points and 1.1 percentage points, respectively.

Cumulatively to December 2023, Government total revenue and grants stood at KSh 1,275.6 billion (7.9 percent of GDP) against a target of KSh 1,461.4 billion (9.1 percent of GDP). Tax revenue and non-tax revenues were below their respective targets.

Ministerial Appropriations in Aid (A-in-A) collected during the period amounted to KSh 181.5 billion against a target of KSh 177.7 billion. Meanwhile,

external grants stood at KSh 5.5 billion, which was KSh 3.4 billion lower than target, occasioned by slow absorption of donor funds.

Chart 7.1: Composition of Tax Revenue



Source: September 2023 BOT, National Treasury

Expenditure and Net Lending

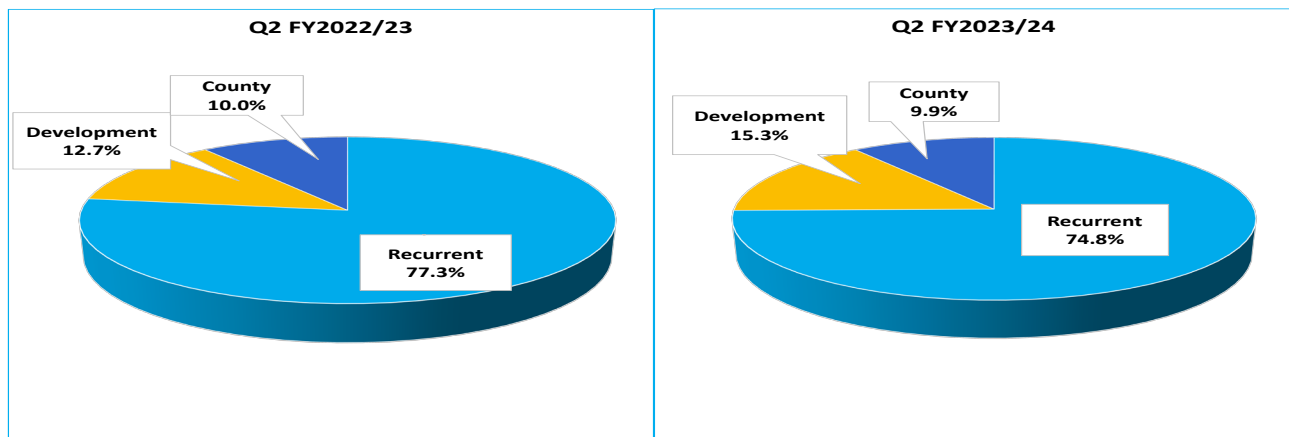
Government expenditure and net lending increased by 15.6 percent to KSh 820.3 billion in the second quarter of the FY 2023/24 compared to KSh 709.3 billion in the second quarter of the FY 2022/23. This reflected increases in national government recurrent and development expenditures and county transfers by 11.9 percent, 39.0 percent, and 15.0 percent, respectively (**Table 7.1**).

In terms of composition, recurrent expenditure held the largest share in total government expenditure accounting for 74.8 percent in the second quarter of the FY 2023/24, which was 2.5 percentage points lower than the level recorded

in a similar quarter during the previous fiscal year. The share of development expenditure increased by 2.6 percentage points while county allocations remained relatively stable at 9.9 percent of the total government expenditure (**Chart 7.2**).

Cumulatively, expenditure and net lending to December 2023 amounted to KSh 1,464.3 billion (9.1 percent of GDP), against a target of KSh 1,825.2 billion (11.3 percent of GDP). The shortfall of KSh 360.9 billion was mainly attributed to lower absorption recorded in recurrent and development expenditures by the National Government and below target transfers to County Governments.

Chart 7.2: Composition of Government Expenditure



Source: September 2023 BOT, National Treasury

Financing

The budget deficit including grants amounted to KSh 188.6 billion (1.2 percent of GDP) at the end of the second quarter of FY 2023/24 compared to a target of KSh 363.7 billion (2.3 percent of GDP). The deficit was financed through net domestic financing of Ksh 211.9 billion and net foreign repayment of

Ksh 29.6 billion (**Table 7.1**). Domestic borrowing comprised KSh 4.7 billion from commercial banks, KSh 172.4 billion from non-banks, KSh 1.6 billion non-residents and a KSh 85.5 billion drawdown on government deposits at the Central Bank as well as through other domestic financing (**Table 7.2**).

Table 7.2 Domestic financing (KSh Billion)

	FY 2023/24					
	Q1			Q2		
	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
1. From CBK	49.6	36.9	46.0	22.4	48.4	85.5
2. From commercial banks	(9.9)	(6.9)	7.6	(0.2)	20.8	4.7
4. From Non-banks	64.8	97.8	92.4	100.0	142.9	172.4
5. From Non-Residents	0.2	1.3	1.6	1.6	1.6	1.6
6. Total Net Domestic Credit	104.7	129.2	147.6	123.9	213.8	264.2
7. Other Domestic financing /1	(56.2)	(57.4)	(54.3)	(56.2)	(57.7)	(52.3)
8. Net Domestic Financing	48.5	71.8	93.3	67.8	156.2	211.9

/1 Include accounts payables and domestic loan repayment receipts

Source: The National Treasury (NB: Treasury Bills are reflected at cost)

Outlook for FY 2023/24

In the revised budget from the National Treasury for the FY 2023/24, total revenue including grants is projected at KSh 3,094.9 billion (19.2 percent of GDP). Government expenditure is projected at KSh 3,981.5 billion (24.7 percent of GDP), of which KSh 2,793.9 billion will be for recurrent expenses, KSh

762.6 billion for development expenses and KSh 423.9 billion for transfers to county governments.

The overall budget deficit including grants is, therefore, projected at KSh 886.6 billion (5.5 percent of GDP) in FY 2023/24, to be financed through net external borrowing of KSh 412.1 billion and net domestic borrowing of KSh 474.5 billion (**Table 7.3**).

Table 7.3: Budget Estimates for the Fiscal Year 2023/2024

	Ksh (Bn)	% of GDP
1. TOTAL REVENUE (Including Grants)	3,094.9	19.2
Ordinary Revenue	2,576.8	16.0
Appropriations-in-Aid	470.8	2.9
External Grants	47.4	0.3
2. TOTAL EXPENSES & NET LENDING	3,981.5	24.7
Recurrent Expenses	2,793.9	17.3
Development Expenses	762.6	4.7
County Transfer	423.9	2.6
Contingency Fund	1.2	0.0
3. DEFICIT INCL. GRANTS (1-2)	-886.6	(5.5)
Adjustment to Cash Basis	0.0	0.0
4. FINANCING	886.6	5.5
Domestic (Net)	474.5	2.9
External (Net)	412.1	2.6

Source: National Treasury, Supplementary Budget, November 2023

Chapter 8

Developments in Public Debt

Overall Public Debt

Kenya's public and publicly guaranteed debt increased by 5.3 percent during the second quarter of FY2023/24. Domestic and external debt increased by 1.9 percent and 7.4 percent, respectively. The

ratio of public debt to GDP was estimated at 73.4 percent by the end of second quarter of FY2023/24 compared to 72.6 percent by the end of the first quarter of FY2022/23 (**Table 8.1**).¹

Table 8.1 Kenya's public and publicly guaranteed debt

	FY2022/23			Q1	FY2023/24			
	Q2	Q3	Q4		Oct-23	Nov-23	Q2	Q on Q Change
EXTERNAL								
Bilateral	1,206.9	1,291.9	1,339.5	1,341.8	1,350.1	1,387.3	1,422.2	80.4
Multilateral	2,213.8	2,244.1	2,654.9	2,827.1	2,881.9	2,962.9	3,061.1	234.0
Commercial Banks	1,239.7	1,301.2	1,437.3	1,483.6	1,498.0	1,529.1	1,588.7	105.0
Supplier Credits	12.8	14.0	14.8	15.3	16.4	17.1	17.6	2.4
Sub-Total	4,673.1	4,851.1	5,446.6	5,667.8	5,746.3	5,896.5	6,089.6	421.8
(As a % of GDP)	35.0	35.7	38.4	38.9	37.9	38.8	40.1	1.2
(As a % of total debt)	51.1	51.7	53.0	53.6	53.9	54.2	54.7	1.1
DOMESTIC								
Banks	2,101.8	2,096.7	2,293.2	2,280.2	2,270.0	2,304.7	2,323.2	43.0
Central Bank	84.4	103.9	198.1	198.5	198.3	211.9	222.1	23.6
Commercial Banks	2,017.4	1,992.8	2,095.1	2,081.7	2,071.7	2,092.8	2,101.1	19.4
Non-banks	2,600.8	2,410.4	2,507.2	2,600.8	2,609.4	2,652.5	2,693.3	92.5
Pension Funds	1,489.9	1,517.8	1,581.0	1,550.1	1,496.2	1,503.5	1,511.3	-38.8
Insurance Companies	329.7	338.4	345.6	354.7	354.6	360.3	365.3	10.6
Other Non-bank Sources	519.7	554.2	580.6	696.1	758.7	788.7	816.8	120.7
Non-residents	31.8	32.5	32.0	33.6	33.5	33.6	33.5	0.0
Sub-Total	4,472.8	4,539.6	4,832.3	4,914.6	4,913.0	4,990.8	5,050.1	135.5
(As a % of GDP)	33.5	33.4	34.1	33.7	32.4	32.9	33.3	-0.4
(As a % of total debt)	48.9	48.3	47.0	46.4	46.1	45.8	45.3	-1.1
GRAND TOTAL	9,146.0	9,390.7	10,278.9	10,582.4	10,659.3	10,887.3	11,139.7	557.3
(As a % of GDP)	68.4	69.1	72.5	72.6	70.2	71.7	73.4	0.8

Source: The National Treasury and CBK

Domestic Debt

The 1.7 percent increase in domestic debt was on account of increased uptake of Treasury bonds. The share of domestic debt to total debt decreased by 0.6 percentage points to 46.4 percent by the end of the second quarter of 2023/24 from 47.0 percent in the

previous quarter. The proportion of debt securities to total domestic debt stood at 95.8 percent by the end of the second quarter of 2023/24, same as the previous quarter (**Table 8.2**).

¹ The quarterly analysis is based on the Fiscal year quarters; Q1: July- September, Q2: October- December, Q3: January-March Q4: April- June

Table 8.2: Government gross domestic debt (KSh Billion)

	Ksh (Billions)					Change: Q on Q		Proportions %				
	FY2022/23	FY2023/24				FY2022/23	FY2023/24					
	Q4	Q1	Oct-23	Nov-23	Q2	Ksh(Bn)	%	Q4	Q1	Oct-23	Nov-23	Q2
Total Stock of Domestic Debt (A+B)	4,832.3	4,914.6	4,913.0	4,990.8	5,050.1	135.5	2.8	100.0	100.0	100.0	100.0	100.0
A. Government Securities	4,628.6	4,708.0	4,716.3	4,780.5	4,818.7	110.7	2.4	95.8	95.8	96.0	95.8	95.4
1. Treasury Bills (excluding Repo Bills)	614.7	558.2	557.2	555.6	546.9	-11.3	-2.0	12.7	11.4	11.3	11.1	10.8
Banking institutions	263.1	218.1	213.5	217.0	205.0	-13.1	-6.0	5.4	4.4	4.3	4.3	4.1
The Central Bank	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Banks	262.9	217.8	213.2	216.7	204.7	-13.1	-6.0	5.4	4.4	4.3	4.3	4.1
Pension Funds	166.4	89.6	34.8	33.4	34.7	-54.9	-61.3	3.4	1.8	0.7	0.7	0.7
Insurance Companies	6.9	7.8	6.5	5.4	6.2	-1.6	-21.0	0.1	0.2	0.1	0.1	0.1
Others	178.3	242.8	302.4	299.9	301.1	58.4	24.0	3.7	4.9	6.2	6.0	6.0
2. Treasury Bonds	4,013.9	4,149.8	4,159.1	4,224.9	4,271.8	122.0	2.9	83.1	84.4	84.7	84.7	84.6
Banking institutions	1,826.7	1,855.7	1,859.9	1,877.5	1,897.8	42.1	2.3	37.8	37.8	37.9	37.6	37.6
The Central Bank	8.1	8.1	8.1	8.1	8.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Commercial Banks	1,818.7	1,847.6	1,851.8	1,869.4	1,889.8	42.1	2.3	37.6	37.6	37.7	37.5	37.4
Insurance Companies	338.7	346.9	348.0	354.9	359.1	12.2	3.5	7.0	7.1	7.1	7.1	7.1
Pension Funds	1,414.6	1,460.5	1,461.3	1,470.2	1,476.6	16.1	1.1	29.3	29.7	29.7	29.5	29.2
Others	433.9	486.7	489.9	522.4	538.3	51.5	10.6	9.0	9.9	10.0	10.5	10.7
3. Long Term Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Frozen account	17.8	17.8	17.8	17.8	17.8	0.0	0.0	0.4	0.4	0.4	0.4	0.4
Of which: Repo T/Bills	17.2	17.2	17.2	17.2	17.2	0.0	0.0	0.4	0.3	0.3	0.3	0.3
B. Others:	185.9	188.8	178.9	192.4	213.6	24.8	13.1	3.8	3.8	3.6	3.9	4.2
Of which CBK overdraft to Government	76.5	75.7	73.9	83.9	94.1	18.4	24.3	1.6	1.5	1.5	1.7	1.9

Source: Central Bank of Kenya

Treasury Bills

Treasury bill holdings, excluding those held by the CBK for open market operations (Repos) recorded a 2.0 percent decrease during the second quarter of FY2023/24. As a result, the proportion of Treasury bills to total domestic debt decreased by 0.5 percentage points. Commercial banks hold 37.5 percent of Treasury bills, a decrease from 39.0 percent in the previous quarter (**Table 8.2**).

Treasury Bonds

Treasury bonds holdings increased by 2.9 percent during the second quarter of FY2023/24, which was slightly lower than the 3.4 percent increase in the previous quarter (**Table 8.2**). The largest component of this buildup was attributable to proceeds from the 6.5- year Treasury bond issued during the quarter (**Table 8.3**). The leading holders of Treasury bonds by the end of the period under review were commercial banks and pension funds. Commercial bank holdings accounted for almost half of the outstanding Treasury Bonds.

Table 8.3: Outstanding domestic debt by tenor (KSh Billion)

		KSh (Billions)							Change Q on Q		Proportions		
		FY2022/23			FY2023/24						FY2022/23	FY2023/24	
		Q2	Q3	Q4	Q1	Oct-23	Nov-23	Q2	KShs(Bn)	%	Q4	Q1	Q2
Treasury bills	91-Day	156.3	189.7	249.2	291.0	289.3	304.4	292.5	1.5	0.5	5.2	5.9	5.8
	182-Day	163.4	198.3	154.4	75.2	80.0	89.8	97.5	22.3	29.7	3.2	1.5	1.9
	364-Day	351.8	277.9	211.1	192.1	188.0	161.5	156.9	-35.1	-18.3	4.4	3.9	3.1
Treasury Bonds	1-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2-Year	16.8	0.0	0.0	43.6	50.6	50.6	50.6	7.0	16.0	0.0	0.9	1.0
	3-Year	58.8	58.8	137.1	137.1	137.1	137.1	137.1	0.0	0.0	2.8	2.8	2.7
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4
	5-Year	311.9	320.0	320.0	368.6	370.1	370.1	370.1	1.5	0.4	6.6	7.5	6.9
	6-Year	79.7	79.7	69.7	69.7	69.7	69.7	69.7	0.0	0.0	1.4	1.4	0.0
	7-Year	21.3	21.3	234.5	234.5	234.5	300.3	347.2	112.7	48.1	4.9	4.8	2.1
	8-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.7
	9-Year	115.5	115.5	107.4	107.4	107.4	107.4	107.4	0.0	0.0	2.2	2.2	2.1
	10-Year	591.3	620.7	585.1	640.5	641.3	641.3	641.3	0.8	0.1	12.1	13.0	12.7
	11-Year	80.2	80.2	80.2	80.2	80.2	80.2	80.2	0.0	0.0	1.7	1.6	1.6
	12-Year	89.3	89.3	89.3	77.6	77.6	77.6	77.6	0.0	0.0	1.8	1.6	1.5
	14-Year	94.3	94.3	94.3	94.3	94.3	94.3	94.3	0.0	0.0	2.0	1.9	1.9
	15-Year	889.7	866.2	866.2	866.2	866.2	866.2	866.2	0.0	0.0	17.9	17.6	17.2
	16- Year	152.0	152.0	152.0	152.0	152.0	152.0	152.0	0.0	0.0	3.1	3.1	3.0
	17- Year		63.2	68.2	68.2	68.2	68.2	68.2	0.0	0.0	1.4	1.4	1.4
	18- Year	161.6	161.6	161.6	161.6	161.6	161.6	161.6	0.0	0.0	3.3	3.3	3.2
	19- Year	98.4	98.4	98.4	98.4	98.4	98.4	98.4	0.0	0.0	2.0	2.0	1.9
	20-Year	572.3	572.3	572.3	572.3	572.3	572.3	572.3	0.0	0.0	11.8	11.6	11.3
	21-Year	106.7	106.7	106.7	106.7	106.7	106.7	106.7	0.0	0.0	2.2	2.2	2.1
25-Year	242.6	242.6	242.6	242.6	242.6	242.6	242.6	0.0	0.0	5.0	4.9	4.8	
30-Year	28.1	28.1	28.1	28.1	28.1	28.1	28.1	0.0	0.0	0.6	0.6	0.6	
Repo T bills	17.7	17.7	17.2	17.2	17.2	17.2	17.2	0.0	0.0	0.4	0.3	0.3	
Overdraft	58.5	78.0	76.5	75.7	73.9	83.9	94.1	18.4	24.3	1.6	1.5	1.9	
Other Domestic debt	14.5	7.0	110.1	130.9	122.8	126.3	137.3	6.4	4.9	2.3	2.7	2.7	
Total Debt		4,472.8	4,539.6	4,832.3	4,914.6	4,913.0	4,990.8	5,050.1	135.5	2.8	100.0	100.0	100.0

Source: Central Bank of Kenya

Domestic Debt by Tenor and the Maturity Structure

The government floated both short and long dated securities during the period under review. The current debt securities portfolio is dominated by medium- and long-term debt securities at the ratio of 89:11 Treasury bonds to Treasury bills. The benchmark 2-year, 5-year, 10-year, 15-year and 20-year Treasury Bonds accounted for 58.5 percent of the total outstanding Treasury Bonds. The refinancing risk on total domestic debt remained low as the Treasury bills component in the domestic debt profile stood at 10.8 percent by the end of December 2023.

External Debt

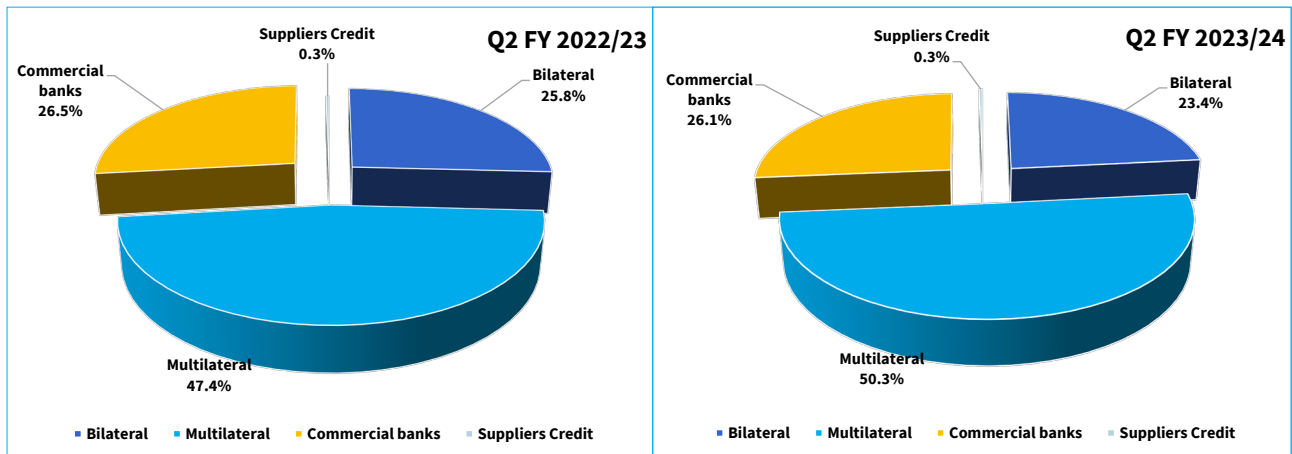
Public and publicly guaranteed external debt increased by 7.4 percent during the second quarter

of FY2023/24. This increase was majorly driven by disbursements from multilateral lenders and exchange rate movements.

Composition of External Debt by Creditor

The composition of external debt improved with increased flow of international development assistance in form of concessional loans. The share of outstanding debt from official multilateral lenders (who provide concessional loans) increased by 2.9 percentage points, mainly driven by disbursements from IMF during the quarter under review. The proportion of bilateral and commercial debt decreased by 2.5 percentage points and 0.4 percentage points, respectively, during the second quarter of FY2023/24 indicating a shift towards concessional loans (**Chart 8.1**).

Chart 8.1: Composition of external debt by lender

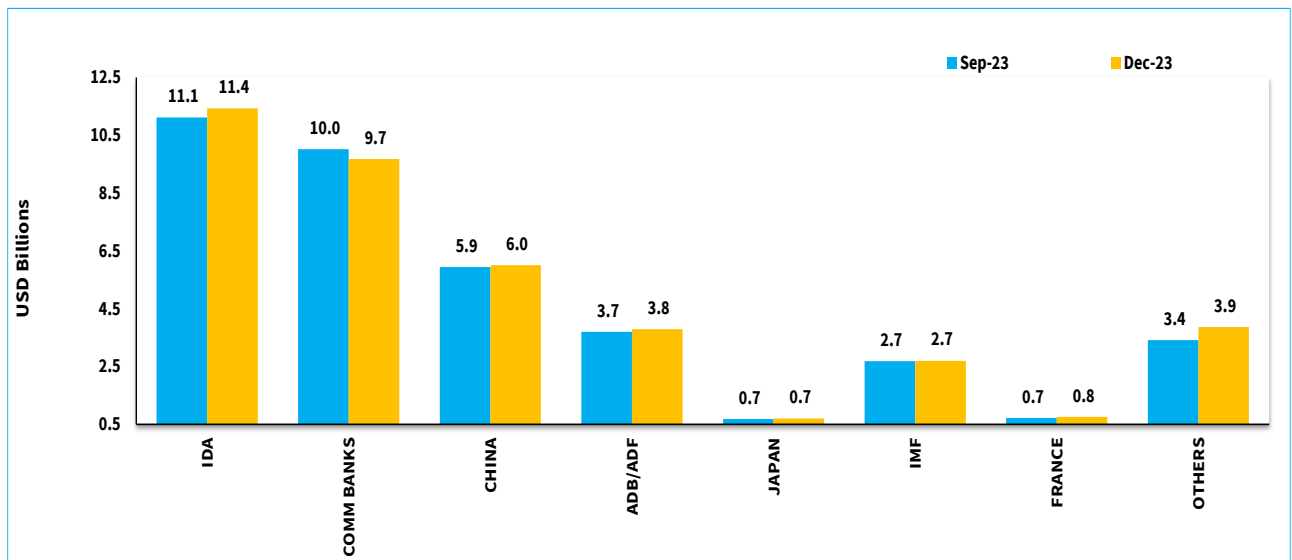


Source: The National Treasury

Debt owed to International Development Association (IDA), Kenya’s largest multilateral lender, stood at USD 11.4 billion (29.4 percent of external debt). Debt owed to China, Kenya’s largest

bilateral lender, amounted to USD 6.0 billion, or 15.4 percent of the total external debt by the end of the second quarter of FY2023/24 (**Chart 8.2**).

Chart 8.2: External debt by creditor

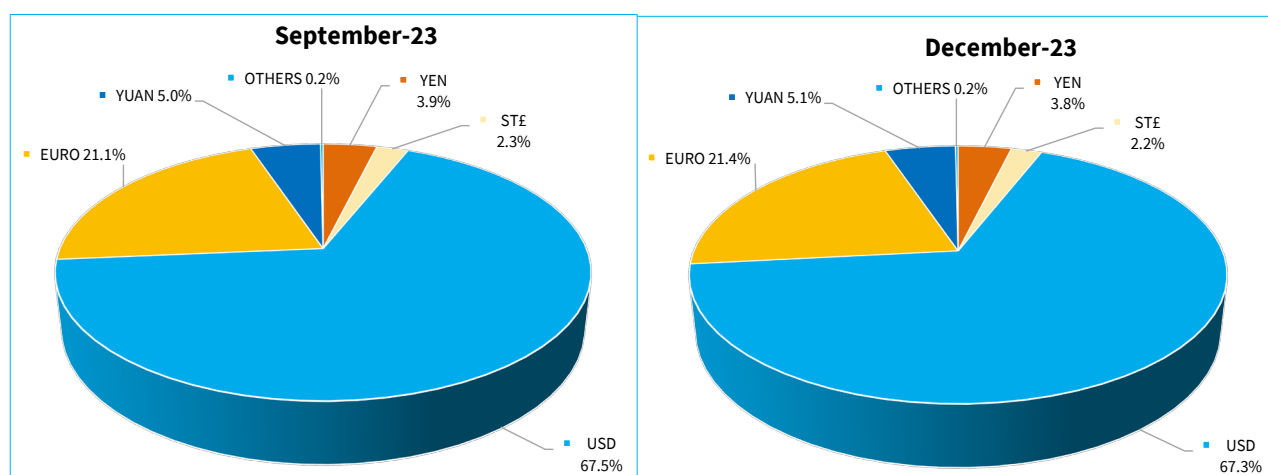


Source: The National Treasury

Currency Composition of External Debt

Kenya’s public and publicly guaranteed external debt is denominated in various currencies to mitigate against currency risk. The dominant currencies include the US dollar and the Euro which

accounted for 88.7 percent of the total currency composition at the end of the second quarter of FY2023/24. The proportion held in US dollar decreased by 0.2 percentage points (**Chart 8.3**).

Chart 8.3: Debt composition by currency

Source: The National Treasury

Public Debt Service

The ratio of domestic interest payments to ordinary revenues was 31.7 percent during the second quarter of FY2023/24. The largest component of domestic interest payments was coupon interest on Treasury Bonds which was consistent with the proportion of debt held in Treasury bonds. External

debt service for the second quarter of FY2023/24 amounted to KSh 87.5 billion. This comprised of KSh. 45.2 billion (51.7 percent) principal and KSh 42.2 billion (48.3 percent) interest. External debt service to revenue and exports ratios improved during the quarter under review mainly due to a decrease interest and principal repayments relative to the previous quarter² (**Table 8.4**).

Table 8.4: External debt sustainability indicators

Composite Indicators Threshold	Q1 FY 2022/23	Q2 FY 2022/23	Q3 FY 2022/23	Q4 FY 2022/23	Q1 FY 2023/24	Q2 FY 2023/24
Debt service to Revenues (18%)	18.1	13.6	23.0	13.2	28.3	15.9
Debt service to Exports (15%)	23.6	19.4	28.0	19.8	33.3	21.2

Source: Central Bank of Kenya and The National Treasury

Debt Sustainability Analysis

A Debt Sustainability Analysis conducted by the IMF in November 2023 shows that Kenya's debt remains sustainable in the medium to long term but facing a high risk of debt distress. The assessment also shows Kenya's debt dynamics were being strengthened

by the ongoing fiscal consolidation efforts by the Government. However, export underperformance, if not reversed, could undermine external debt sustainability. In view of this, efforts aimed at boosting exports and revenues would strengthen external debt sustainability.

² Debt service ratios to flow resource bases such as revenues and exports are liquidity indicators of the level of indebtedness.

Chapter 9

Capital Markets

At the Nairobi Securities Exchange, the NASI and NSE 20 share price index, declined by 3.3 percent and 0.5 percent respectively in the fourth quarter of 2023 compared to the third quarter of 2023. Market

capitalisation, equity turnover and total shares traded also declined by 3.3 percent, 31.5 percent, and 24.9 percent, respectively (**Table 9.1 and Chart 9.1**).

Table 9.1: Selected stock market indicators

INDICATOR	2022			2023					Change Q4-Q3 (%)
	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
NSE 20 Share Index (1966=100)	1612.9	1717.7	1676.1	1622.1	1574.9	1508.8	1501.2	-0.50	
NASI (2008=100)	124.47	128.41	127.47	112.76	107.00	95.22	92.11	-3.27	
Number of Shares Traded (Millions)	870.3	823.3	634.2	1,086.5	764.9	1,081.7	812.1	-24.93	
Equities Turnover (Ksh Millions)	26,237	22,736	17,457	44,816	14,395	17,219	11,801	-31.47	
Market Capitalization (Ksh Billions)	1,939	2,001	1,986	1,756	1,666	1,488	1,439	-3.27	
Foreign Purchase (Ksh Millions)	10,676	6,616	7,115	8,757	5,777	6,324	9,864	55.98	
Foreign Sales (Ksh Millions)	21,571	13,581	11,986	22,687	7,259	9,864	8,092	-17.97	
Ave. Foreign Investor Participation to Equity Turnover (%)	57.75	44.42	54.71	41.24	44.95	46.85	58.67	11.82*	
Bond Turnover (Ksh Millions)	195,667	196,961	158,270	162,515	147,406	196,301	137,778	33.17	
7-Year Eurobond Yield (%) - 2027	16.02	15.61	10.913	13.38	11.251	14.299	10.037	-4.26*	
10-Year Eurobond Yield (%) - 2024	17.00	17.58	12.92	14.21	12.50	18.33	13.54	-4.79*	
10-Year Eurobond Yield (%) - 2028	14.67	14.74	10.48	12.32	11.04	13.27	9.82	-3.45*	
12-Year Eurobond Yield (%) - 3032	13.80	14.67	10.77	11.75	11.05	12.70	9.89	-2.80*	
13-Year Eurobond Yield (%) 2034	12.99	13.17	9.86	11.25	10.29	12.30	9.56	-2.74*	
30-Year Eurobond Yield (%) - 2048	13.73	14.00	10.86	11.62	11.06	12.45	10.21	-2.24*	

* Percentage points

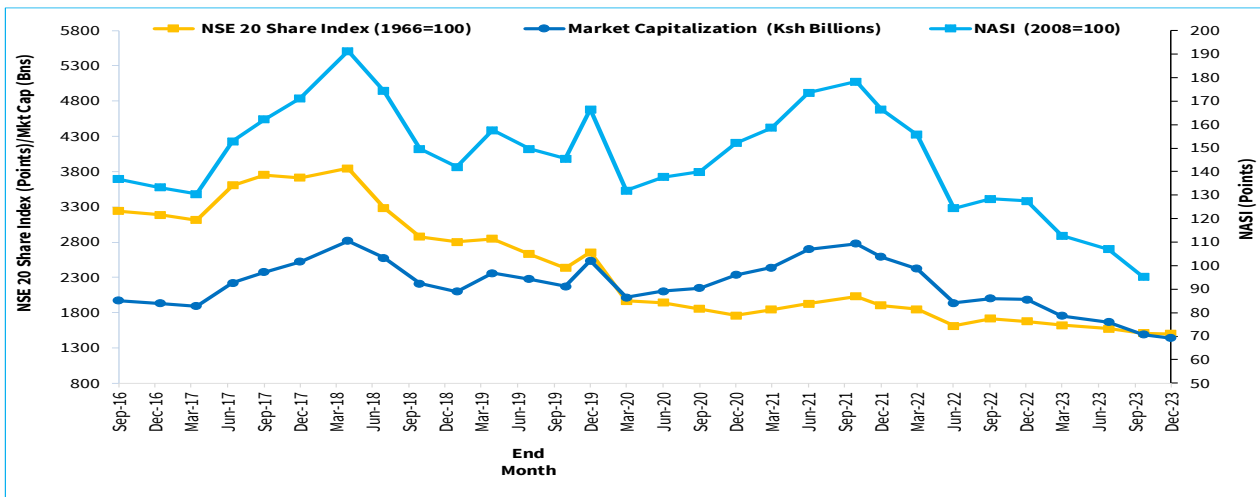
Source: Nairobi Security Exchange

Foreign Investors' Participation

The value of equities purchased by foreign investors as a share of total equity turnover increased to 58.7 percent at the end of the fourth quarter of 2023 from 46.9 percent at end of the third quarter of 2023.

The quarterly average foreign sales declined by 18.0 percent in the fourth quarter of 2023, compared with third quarter of 2023. The quarterly average foreign purchases by increased by 56.0 percent in the period under review (**Table 9.1 and Chart 9.2**).

Chart 9.1: NSE 20 share price index, NASI and market capitalization



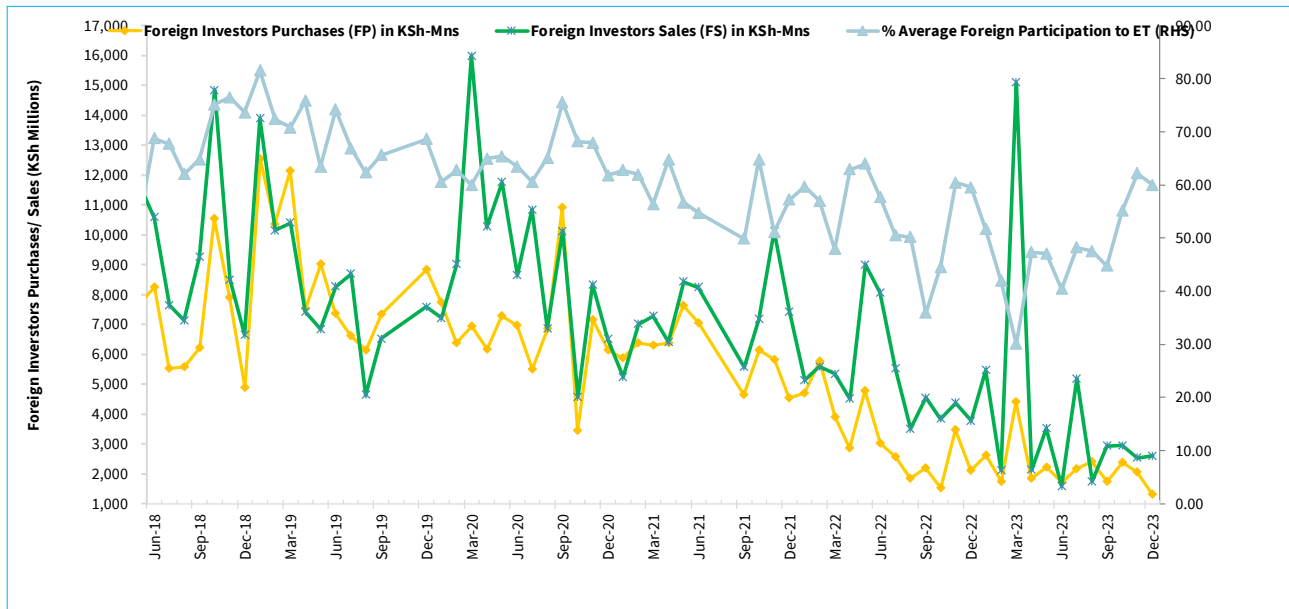
Source: Nairobi Security Exchange

Bonds Market

The bond turnover in the domestic secondary market increased by 33.1 percent in the fourth quarter of 2023 compared to the third quarter of 2023. In the international market, yields on all

outstanding Kenya’s Eurobonds declined by an average of 338.1 basis points, with the 2024 maturity increasing by 479.0 basis point during the quarter under review (Table 9.1).

Chart 9.2: Foreign investors participation at the NSE



Source: Nairobi Security Exchange

Chapter 10

Statement of Financial Position of the Central Bank of Kenya (Kenya Shilling Million)

1.0 ASSETS	2022		2023				Absolute QuAsterly Changes (KSh Million)					Quarterly Growth Rates (%)				
	Sept	Dec	Mar	June	Sept	Dec	Q4,2023	Q3,2023	Q2,2023	Q1,2023	Q4,2022	Q4,2023	Q3,2023	Q2,2023	Q1,2023	Q4,2022
1.1 Reserves and Gold Holdings	869,663	916,952	847,431	1,063,081	1,045,504	1,068,257	22,753	(17,577)	215,650	(69,520)	47,289	2.2	(1.7)	25.4	(7.6)	5.4
1.2 Funds Held with IMF	70,347	70,351	74,310	73,275	73,154	76,528	3,374	(121)	(1,035)	3,959	4	4.6	(0.2)	(1.4)	5.6	0.0
1.3 Investment in Equity (Swift Shares)	9	11	12	12	13	14	1	1	-	1	1	11.9	8.1	-	8.9	13.2
1.4 Items in the Course of Collection	24	40	43	42			-	(42)	(1)	3	16		(100.0)	(3.4)	7.9	67.7
1.5 Advances to Commercial Banks	108,724	111,665	116,958	82,469	167,761	229,230	61,469	85,292	(34,489)	5,294	2,941	36.6	103.4	(29.5)	4.7	2.7
1.6 Loans and Other Advances	220,563	291,091	314,286	330,559	386,099	416,153	30,054	55,540	16,273	23,195	70,528	7.8	16.8	5.2	8.0	32.0
1.7 Other Assets	7,357	6,550	7,365	6,884	6,371	5,125	(1,246)	(513)	(481)	815	(807)	(19.6)	(7.5)	(6.5)	12.4	(11.0)
1.8 Retirement Benefit Asset	7,081	7,081	7,081	4,994	4,994	4,995	1	(0)	(2,087)	-	-	0.0	(0.0)	(29.5)	-	-
1.9 Property and Equipment	31,096	31,088	30,920	29,789	29,471	29,422	(49)	(318)	(1,131)	(168)	(8)	(0.2)	(1.1)	(3.7)	(0.5)	(0.0)
1.10 Intangible Assets	259	687	1,375	1,998	2,075	2,401	326	77	623	687	429	15.7	3.9	45.3	100.0	165.7
1.11 Due Debt from Government of Kenya	106,310	141,254	187,307	189,967	190,238	216,250	26,012	271	2,660	46,053	34,944	13.7	0.1	1.4	32.6	32.9
TOTAL ASSETS	1,421,433	1,576,770	1,587,088	1,783,070	1,905,681	2,048,375	142,694	122,611	195,982	10,318	155,337	7.5	6.9	12.3	0.7	10.9
2.0 LIABILITIES																
2.1 Currency in Circulation	305,580	325,866	308,384	315,967	321,984	351,275	29,291	6,017	7,583	(17,482)	20,286	9.1	1.9	2.5	(5.4)	6.6
2.2 Deposits	495,490	528,635	454,390	572,975	554,775	555,005	230	(18,200)	118,585	(74,245)	33,146	0.0	(3.2)	26.1	(14.0)	6.7
2.3 International Monetary Fund	346,535	422,563	456,212	477,899	554,703	596,286	41,583	76,804	21,687	33,649	76,028	7.5	16.1	4.8	8.0	21.9
2.4 Other Liabilities	4,118	5,252	5,408	6,152	6,284	3,922	(2,362)	132	744	155	1,134	(37.6)	2.1	13.8	3.0	27.5
TOTAL LIABILITIES	1,151,723	1,282,317	1,224,394	1,372,993	1,437,745	1,506,488	68,743	64,752	148,599	(57,923)	130,594	4.8	4.7	12.1	(4.5)	11.3
3.0 EQUITY AND RESERVES	269,710	294,454	362,694	410,077	467,935	541,887	73,952	57,857	47,383	68,240	24,744	15.8	14.1	13.1	23.2	9.2
Share Capital	38,000	38,000	38,000	38,000	50,000	50,000	-	12,000	-	-	-	-	32	-	-	-
General reserve fund	233,314	258,059	326,299	366,730	417,588	491,540	73,952	50,858	40,431	68,240	24,745	18	14	12	26	11
Asset Revaluation	21,680	21,680	21,680	21,680	21,680	21,680	-	-	-	-	-	-	-	-	-	-
Fair Value Reserves-OCI	(23,285)	(23,286)	(23,286)	(21,333)	(21,333)	(21,333)	-	(0)	1,953	-	(1)	-	0	(8)	-	0
Consolidated Fund				5,000				(5,000)	5,000							
4 TOTAL LIABILITIES AND EQUITY	1,421,433	1,576,771	1,587,088	1,783,070	1,905,681	2,048,375	142,694	122,611	195,982	10,317	155,338	7.5	6.9	12.3	0.7	10.9

Source: Central Bank of Kenya

Notes on the Financial Position of the CBK

Assets

Central Bank of Kenya balance increased by 6.9 percent in the third quarter of 2023 compared to 12.3 percent in the previous quarter. The moderation in growth partly reflected the decline in reserve and gold holdings. Reserve and gold holdings, which comprise foreign reserves held in external current accounts, deposits and special/projects accounts, domestic foreign currency clearing accounts, gold and Reserves Advisory and Management Program (RAMP) securities invested with the World Bank, declined mainly due to schedule debt service.

The decline in reserve and gold holdings was fully offset by the increase in loans and advances, including advances to commercial banks. The increase in loan and other advances largely reflected funds on lent to the Government related to receipts from the International Monetary Fund (IMF). Advances to commercial banks was mainly on

account of open market operations that remained active during the period.

Liabilities

On the liability side, the reduced growth in the Central bank balance sheet was largely reflected in deposits. The decline in deposits was mainly on account of reduced government deposits. Liabilities to the IMF increased during the quarter largely reflecting the disbursements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) to the Government, which are channeled through the Central Bank.

Meanwhile, equity and reserves increased in the third quarter of 2023, partly on account of increased surplus recorded during the period.



Central Bank of Kenya

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