



The KENYA INSTITUTE for PUBLIC  
POLICY RESEARCH and ANALYSIS

*Thinking Policy Together*

# QUARTERLY MARKET ANALYSIS REPORT

APRIL– JUNE 2023

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## **1. PERFORMANCE IN THE REAL SECTOR**

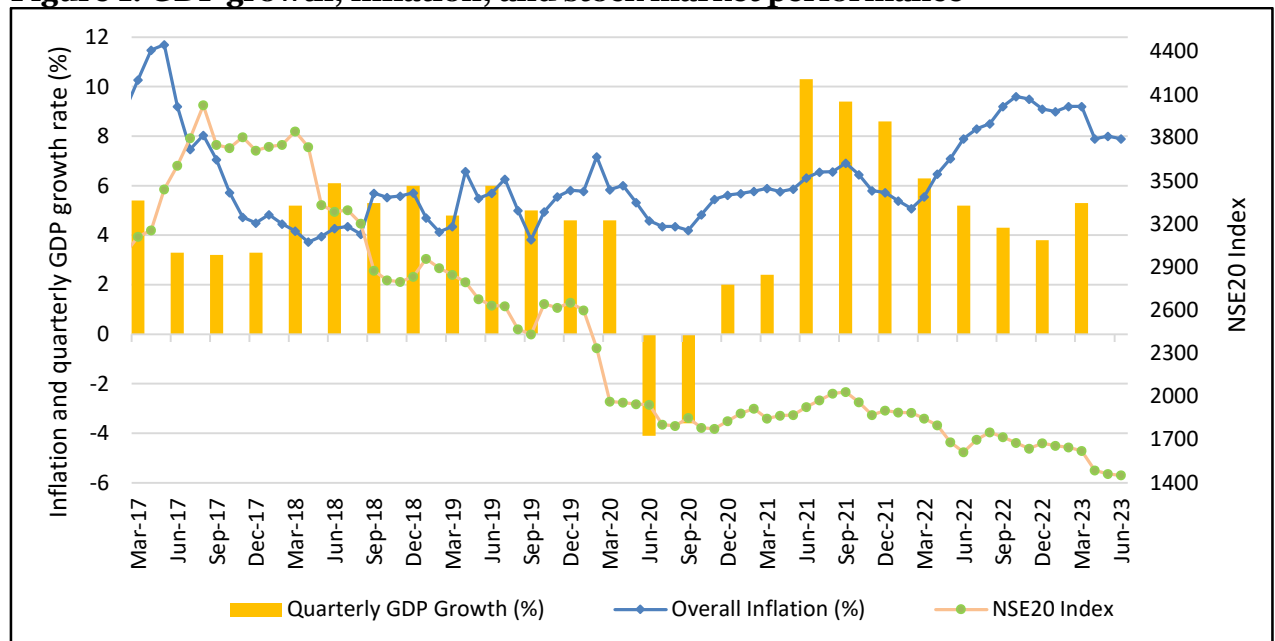
The world economy is projected to slow down to 3.0 per cent in 2023 and 2024 from 3.5 per cent in 2022 (IMF, July 2023). The projected growth for advanced economies is 1.5 per cent compared to 2.7 per cent in 2022. The emerging and developing economies are expected to drive global growth with a projected growth of 4.0 per cent in 2023. For Sub-Saharan Africa, the growth rate will slow down to 3.5 per cent from 3.9 per cent in 2022. On a positive note, the global headline inflation is expected to fall from 8.7 per cent in 2022 to 7.0 per cent in 2023 due to declining commodity prices.

At domestic level, economic recovery is expected to continue, with GDP growth rate projected at 5.1 per cent in 2023 compared to 4.8 per cent in 2022 and is projected to grow at 5.1 per cent in 2023. The inflation rate remained above the government target range of 5+-2.5 per cent in the second quarter of 2023, averaging 7.93 per cent. The inflation rate for April, May and June 2023 was at 7.9, 8.0, and 7.9 per cent, respectively. For Tanzania, Rwanda, Burundi, and Ethiopia, inflation rate was 3.9, 23.7, 30.8, and 31.2 per cent, respectively.

The NSE20 index declined from 1,486.80 in April to 1,452.07 by the end of June 2023. Thus, the 2<sup>nd</sup> quarter of 2023 witnessed a weaker performance of the stock market compared to the same period in 2022.

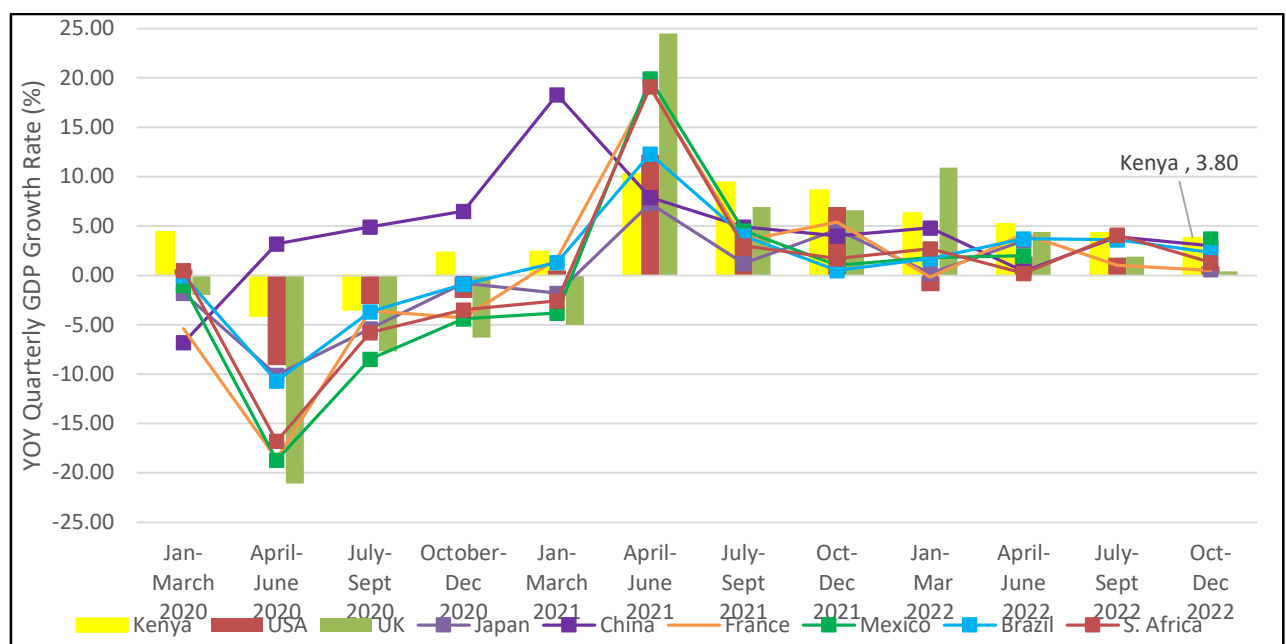
## a) GDP Performance

**Figure 1: GDP growth, inflation, and stock market performance**



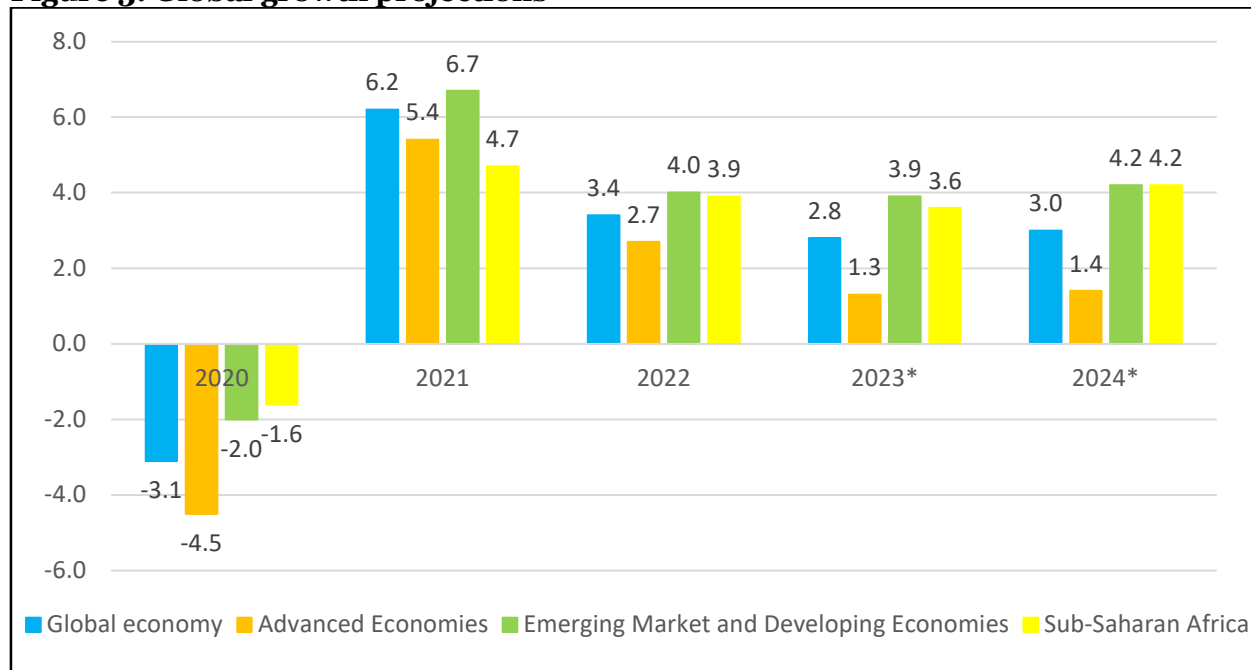
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics; The National Treasury; Nairobi Securities Exchange

**Figure 2: Economic performance of selected advanced and emerging markets**



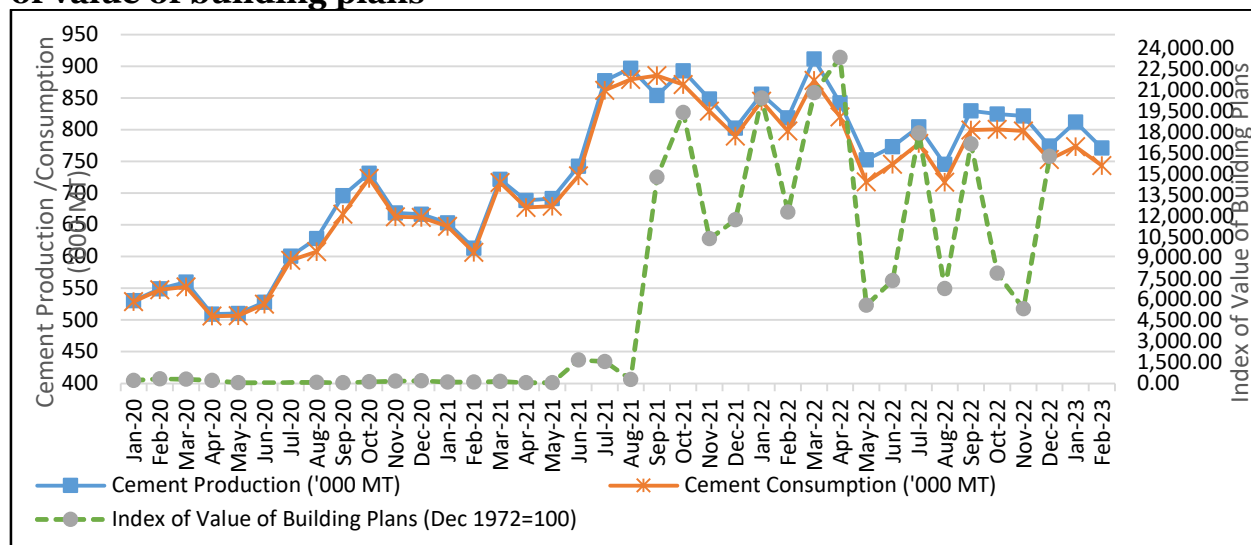
Data source: Country statistical offices; <https://tradingeconomics.com/>; <https://www.ceicdata.com/en>, IMF World Economic Outlook April 2023

**Figure 3: Global growth projections**



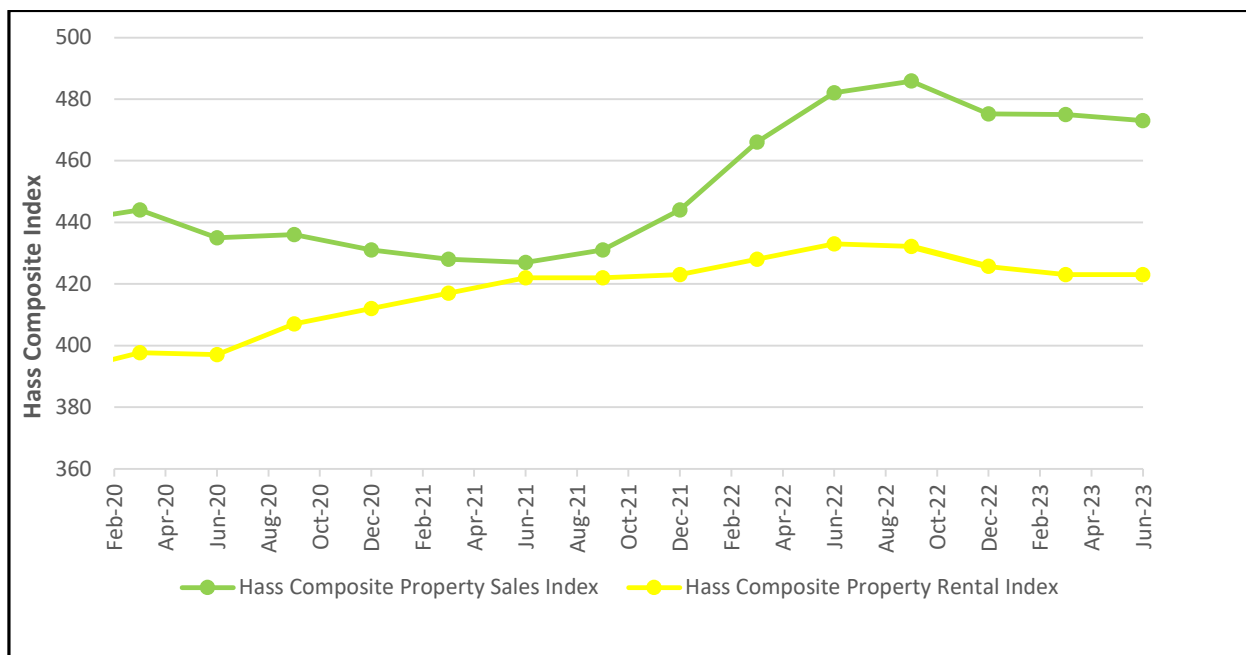
Data Source: International Monetary Fund (2023), World Economic Outlook April 2023

**Figure 4: Cement production and consumption ('000 MT) and index of value of building plans**



Data source: Kenya National Bureau of Statistics

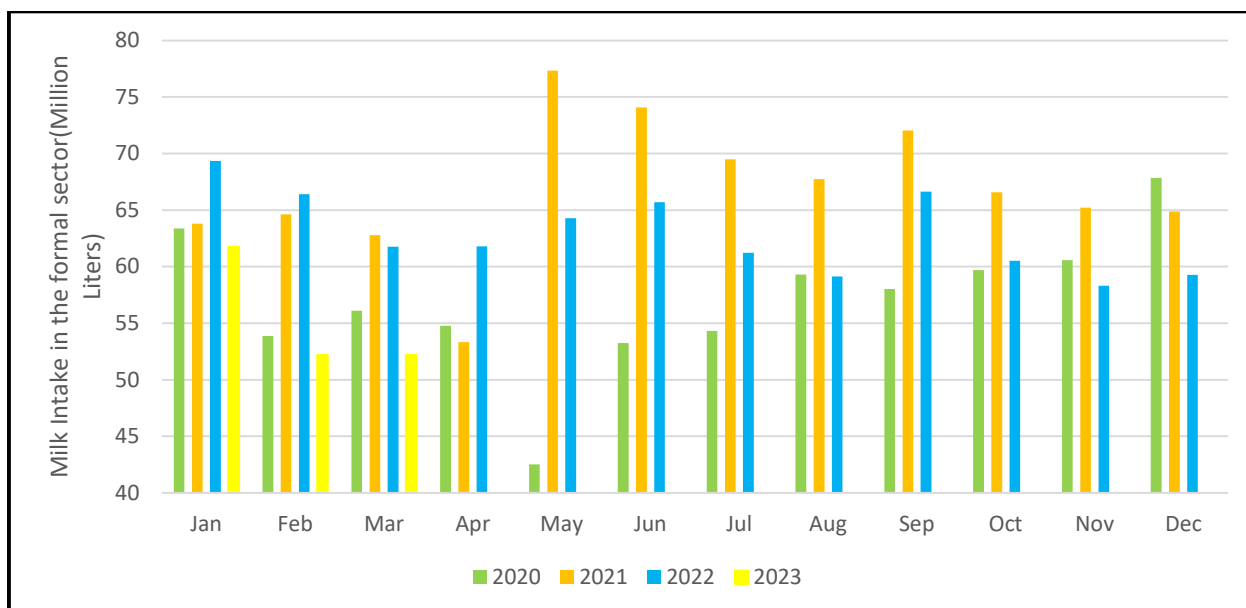
**Figure 5: Kenya Housing and Property Indices**



Hass Composite Property Sales Index: Year 2000 = 100

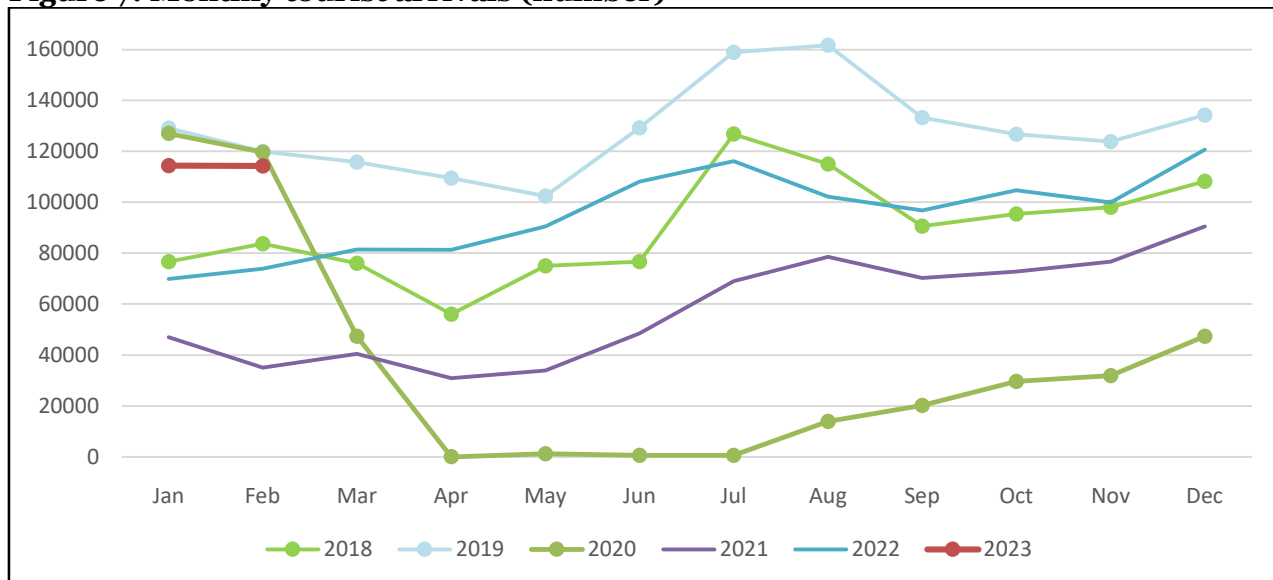
Data Source: Hass Property Index (<http://hassconsult.co.ke/real-estate/hass-index/>)

**Figure 6: Intake of processed milk in the formal sector (million litres)**



Data source: Kenya National Bureau of Statistics.

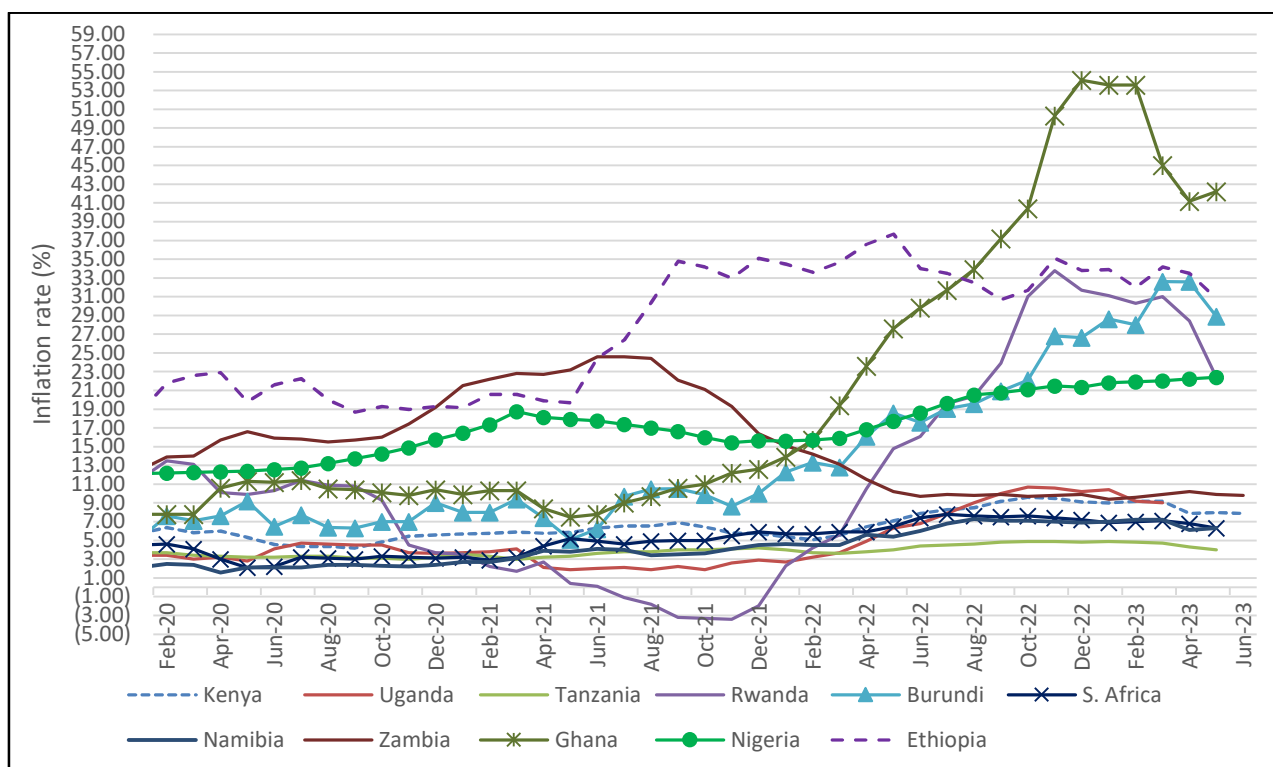
**Figure 7: Monthly tourist arrivals (number)**



Data source: Kenya National Bureau of Statistics

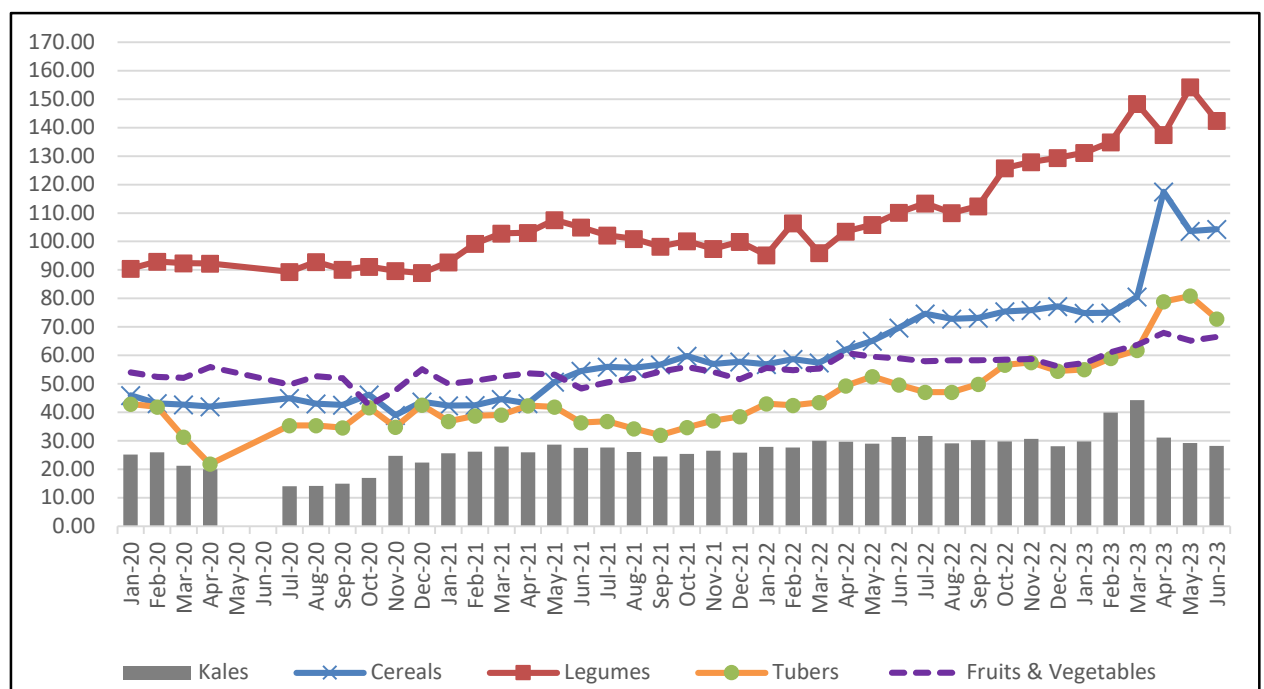
## b) Price movement

**Figure 8: Comparative inflation for selected countries in Africa**



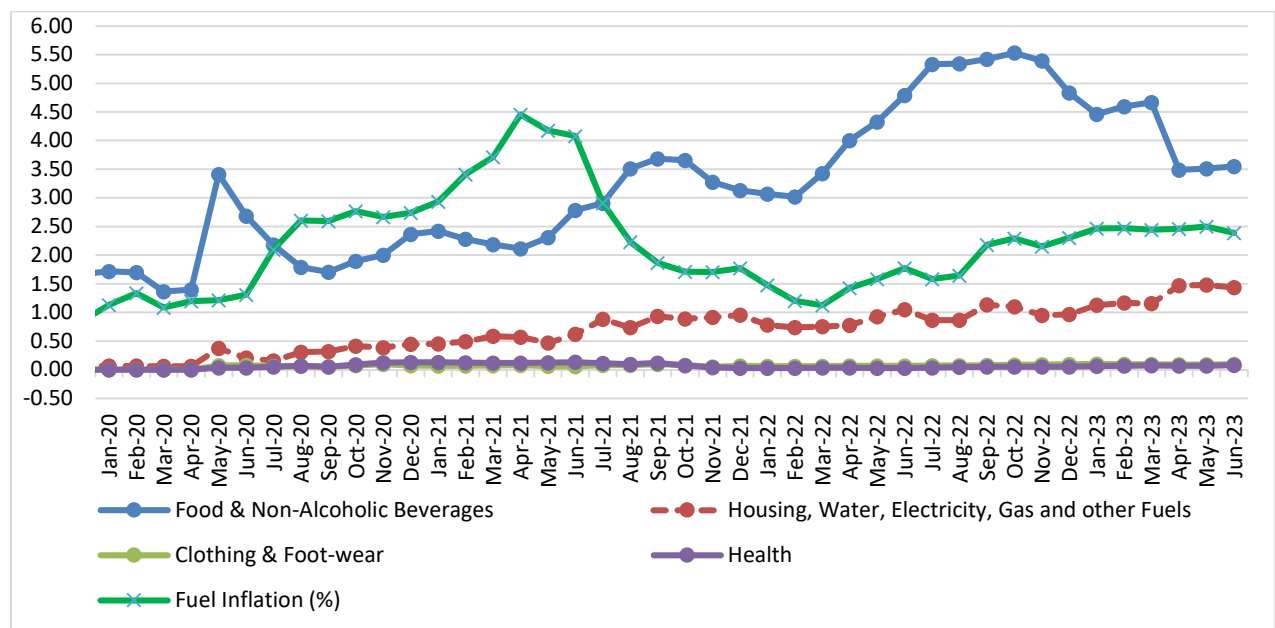
Data Source: Country statistical offices; <https://tradingeconomics.com>

**Figure 9: Domestic wholesale agriculture commodity prices (Ksh/Kg)**



*Data source: Calculated by KIPPRA using data from Ministry of Agriculture*

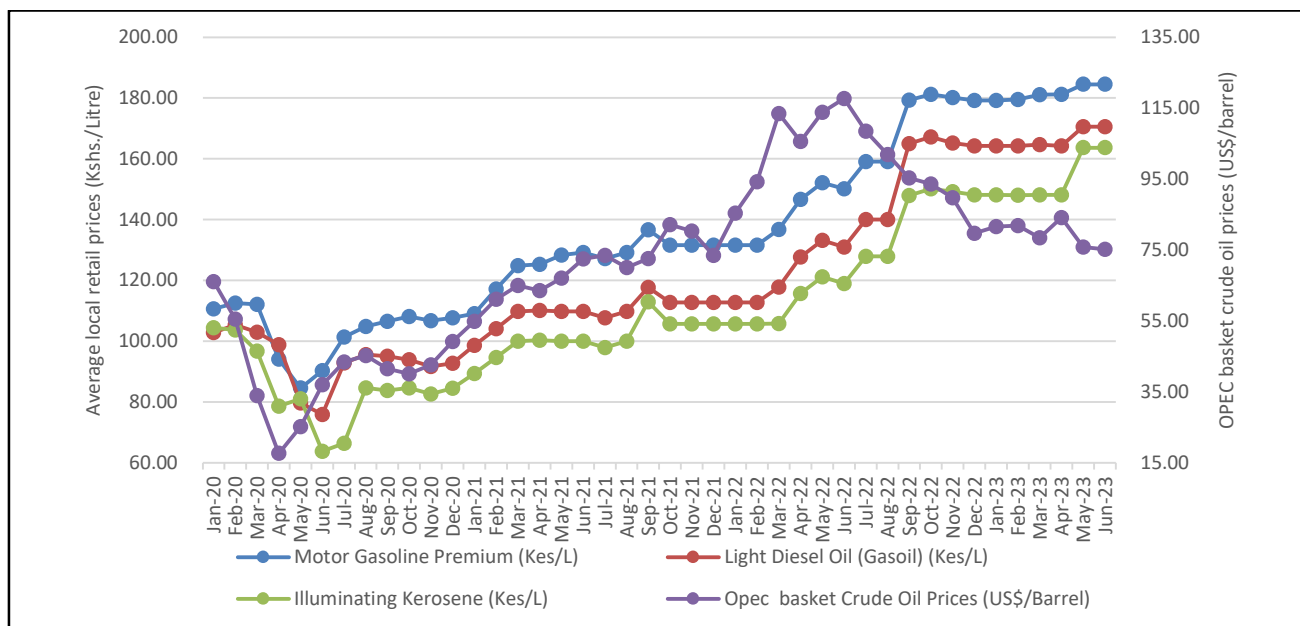
**Figure 10: Contribution of selected CPI baskets to overall Inflation (%)**



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

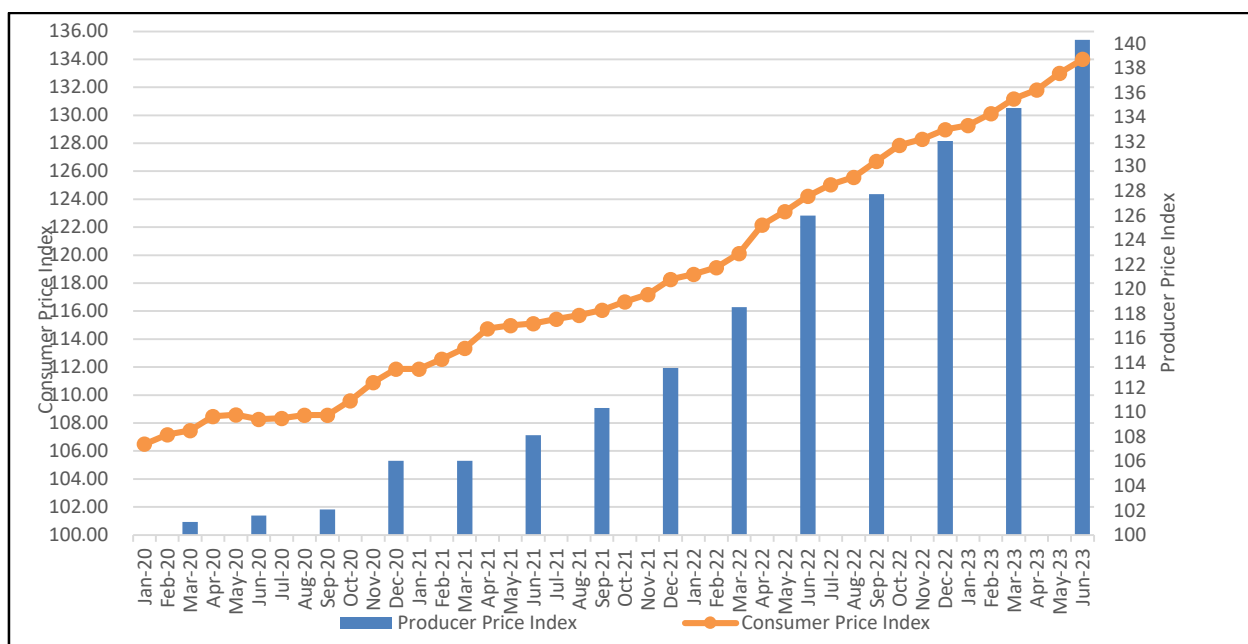


**Figure 11: Average domestic pump prices and global crude oil prices**



Data Source: Kenya National Bureau of Statistics; Energy and Petroleum Regulatory Authority; [https://www.opec.org/opec\\_web/en/data\\_graphs/40.htm](https://www.opec.org/opec_web/en/data_graphs/40.htm)

**Figure 12: Consumer Price Index and Producer Price Index**



Data source: Kenya National Bureau of Statistics. CPI base year: February 2019 = 100; PPI base year: March 2019 = 100 \*Producer Price Index data for Jan-Mar not available

## **2. INTERNATIONAL MARKETS**

The monthly coffee exports increased significantly to Ksh 5,186.01 million in June 2023 from Ksh 3,835.70 million in June 2022 (Figure 13b). The monthly tea exports also saw an increase from Ksh 13,729.67 million in June 2022 to Ksh 15,446.15 million in June 2023 (Figure 13f). The expanding market for coffee and tea is welcome news for foreign exchange earnings to ease pressure on the exchange rate.

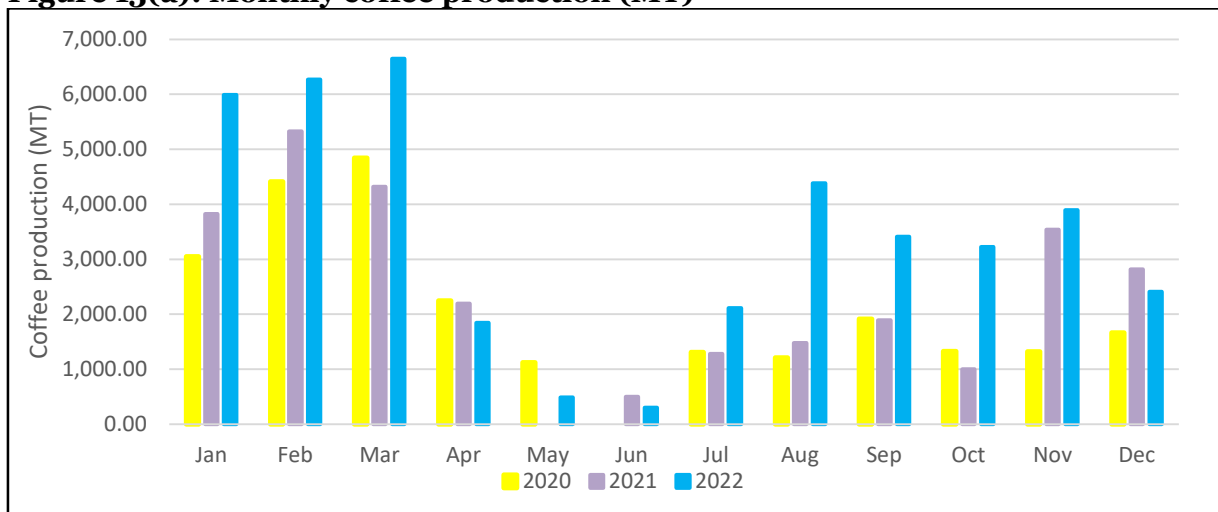
The Kenya Shilling depreciated against the US Dollar by 19.44 per cent between June 2022 and June 2023. Similarly, the Burundian Franc, South Africa Rand depreciated by 15.16 and 1.78 per cent, respectively, while the Tanzanian Shilling, Rwandan Franc and Ugandan shilling appreciated by 13.16 per cent, 4.91 per cent, 18.27 per cent, respectively. The USD index remained above the 100-mark throughout the quarter to close at 102.26, implying that appreciation of the US Dollar was maintained during the period.

Kenya experienced an increase of 6.1% in foreign remittances from US\$ 326.1 million in June 2022 to US\$ 345.9 million in June 2023. Cumulatively, remittances inflows for the past year to June 2023 remained steady at US\$ 4,017 million compared to US\$ 4,012 million over a similar period in 2022, an increase of 0.1%.

The average months-of-import cover declined in the second quarter of 2023 to 3.19 compared with the same period in 2022, which had 5.06. Foreign remittances have become an important source of Kenya's foreign exchange, thus helping to stabilize the country's exchange rate, improve the balance of payments, and enhance the ability to make international transactions.

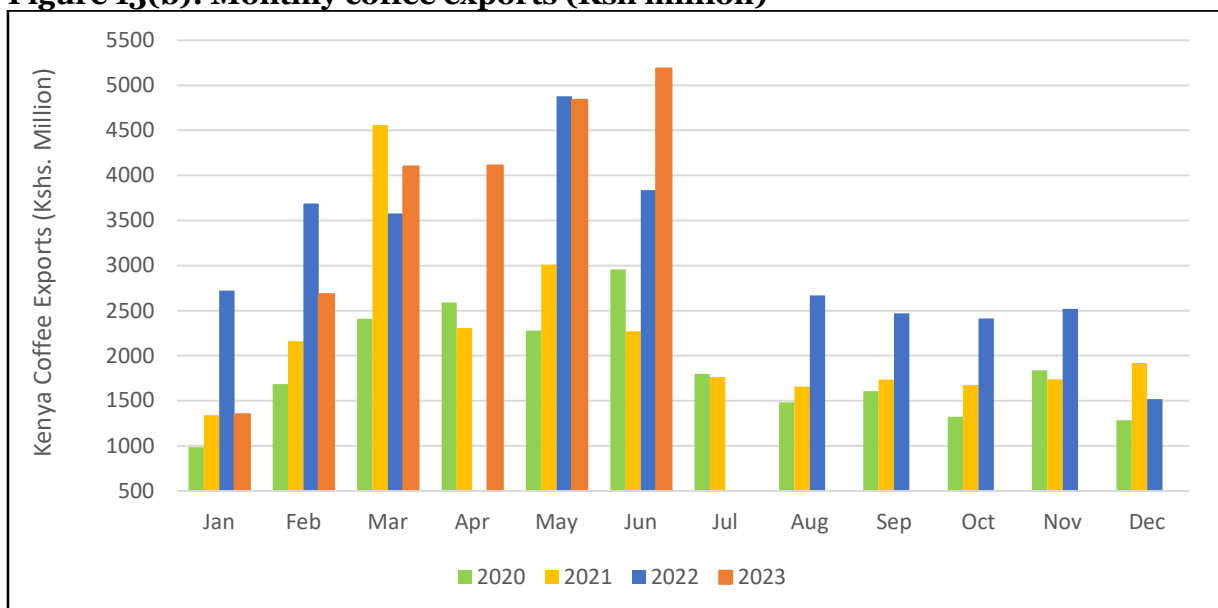
**Figure 13: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)**

**Figure 13(a): Monthly coffee production (MT)**



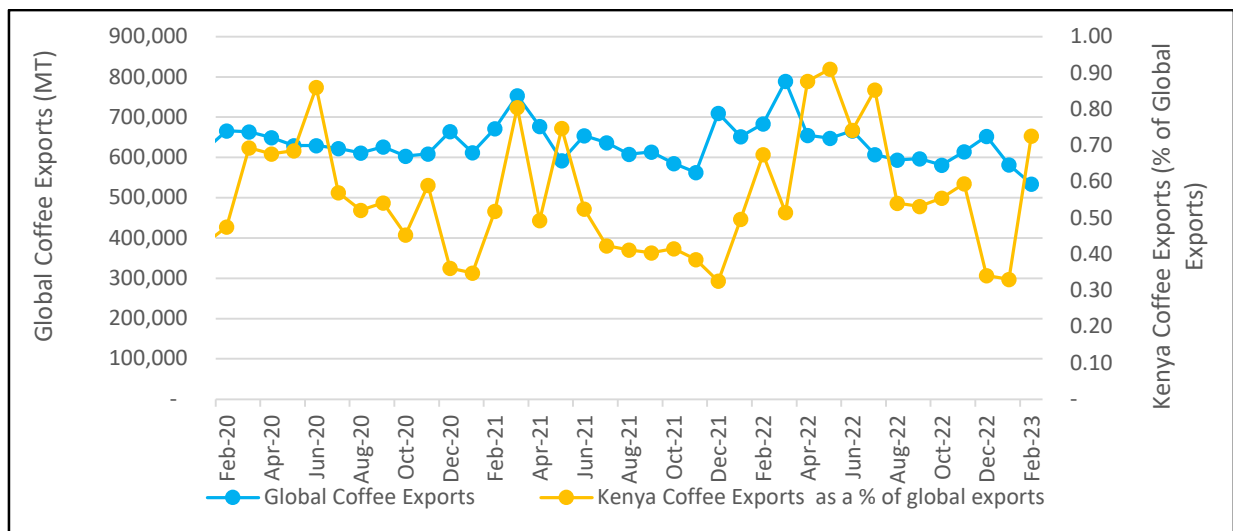
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>)

**Figure 13(b): Monthly coffee exports (Ksh million)**



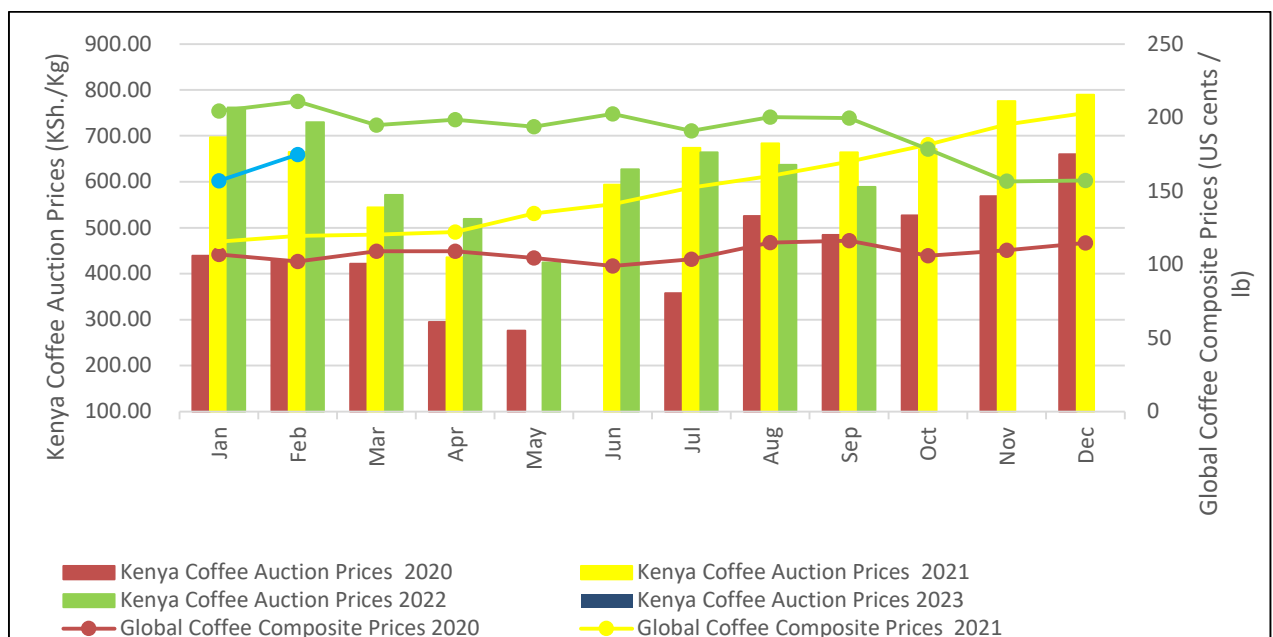
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>)

**Figure 13(c): Comparison between global coffee exports (MT) and Kenya coffee exports (% of global total exports)**



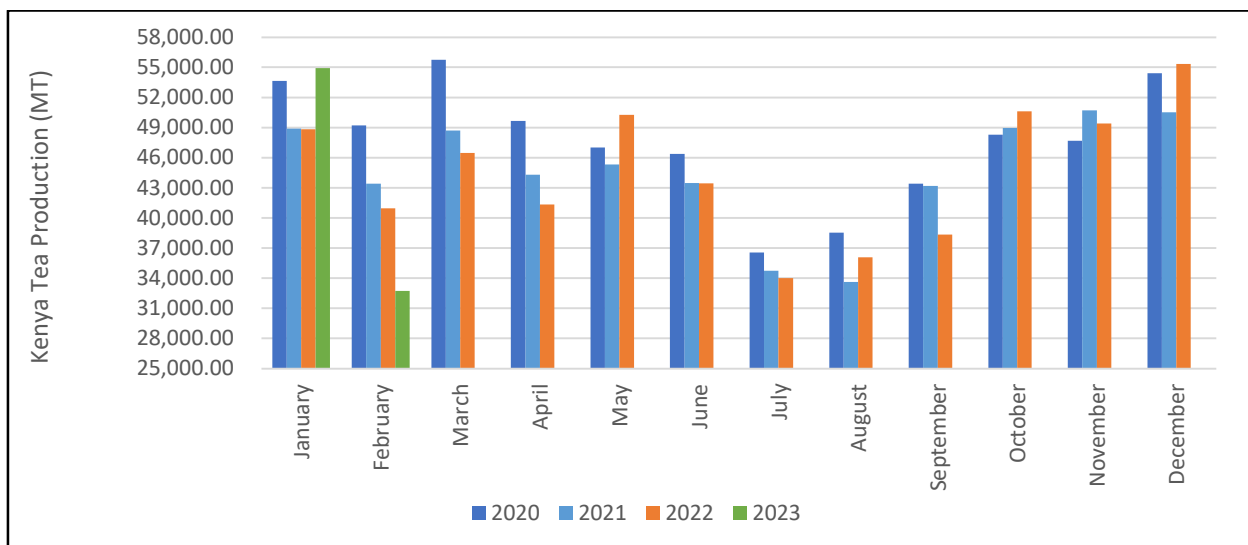
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization ([http://www.ico.org/coffee\\_prices.asp](http://www.ico.org/coffee_prices.asp))

**Figure 13(d): Monthly Kenya coffee auction prices (Ksh/Kg) and global composite prices (US cents/lb)**



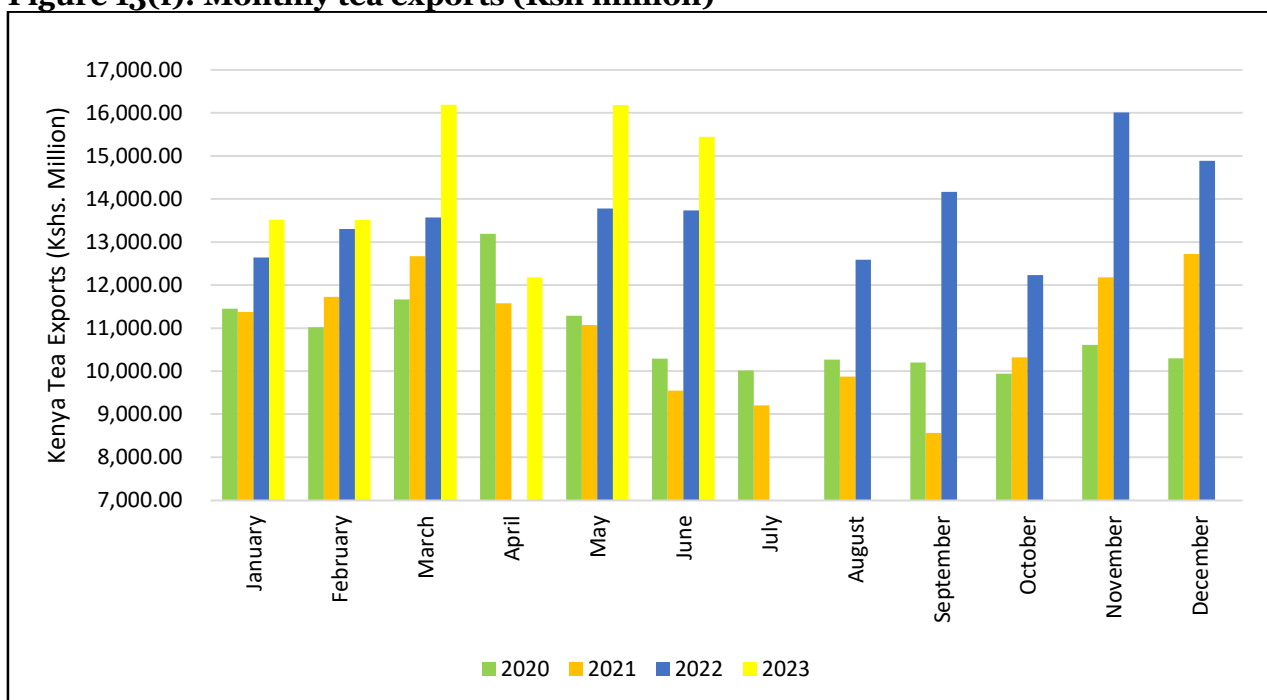
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization ([http://www.ico.org/coffee\\_prices.asp](http://www.ico.org/coffee_prices.asp))

**Figure 13(e): Monthly tea production (MT)**



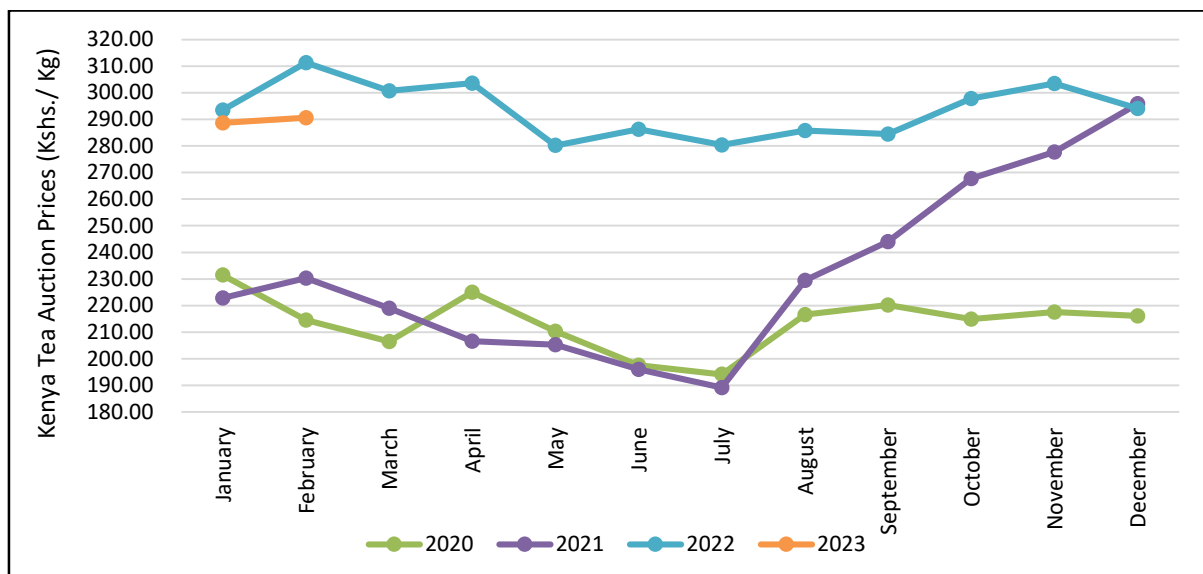
*Data source: Kenya National Bureau of Statistics; East African Tea Trade Association*

**Figure 13(f): Monthly tea exports (Ksh million)**



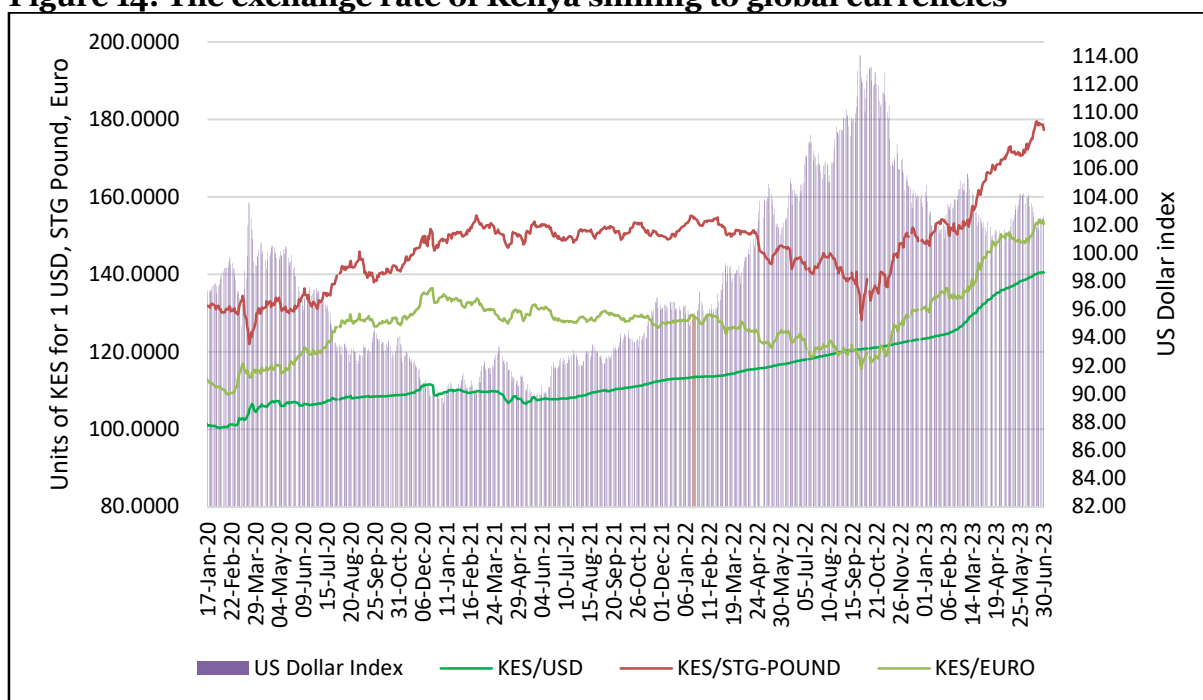
*Data source: Kenya National Bureau of Statistics; East African Tea Trade Association*

**Figure 13(g): Monthly Kenya tea auction prices (Ksh/Kg)**



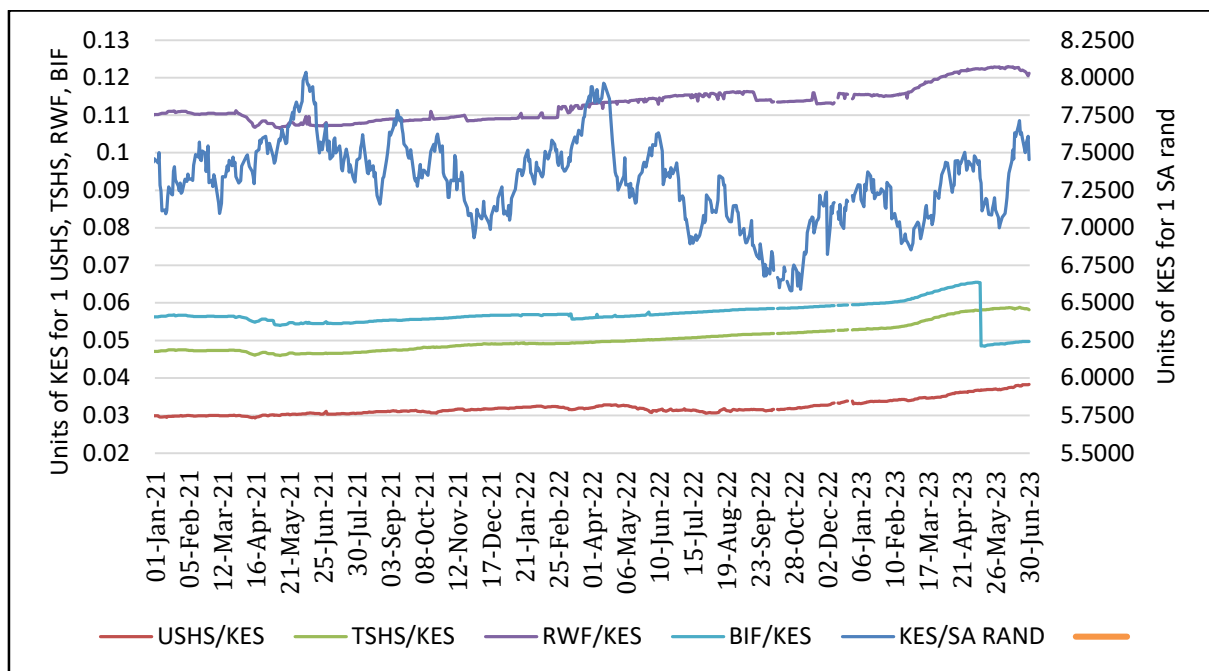
Data Source: KNBS; East Africa Tea Trade Association; Mombasa Tea Auction

**Figure 14: The exchange rate of Kenya shilling to global currencies**



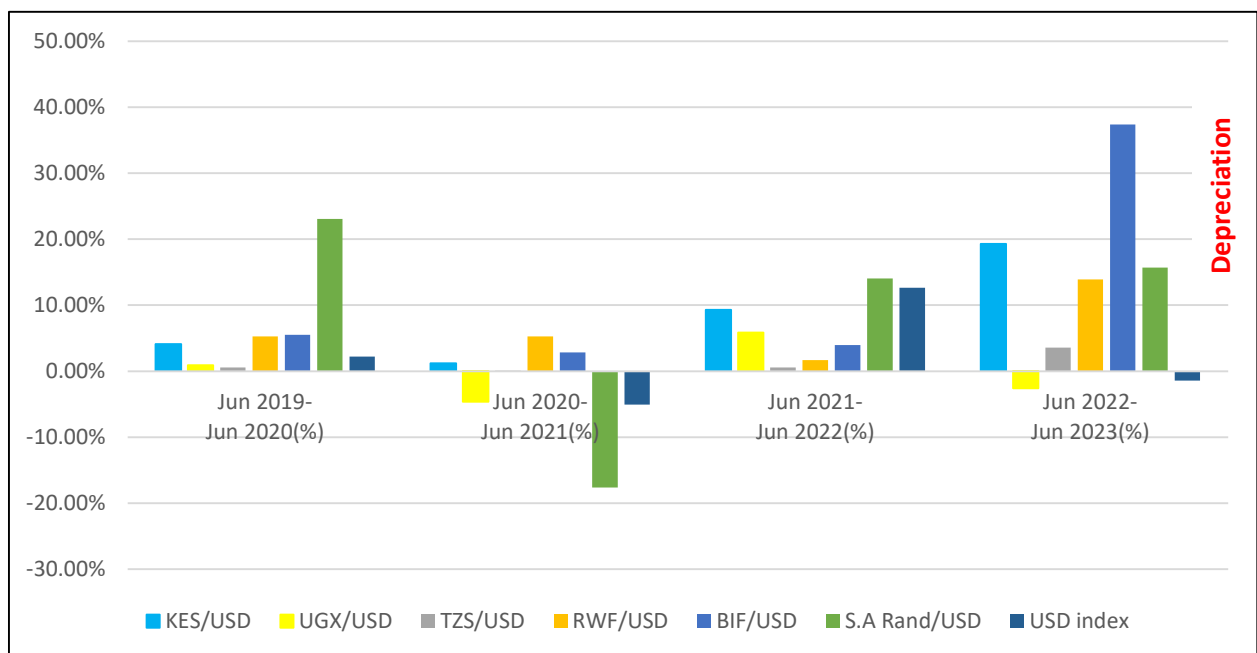
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics;  
<https://www.investing.com/quotes/us-dollar-index-historical-data>

**Figure 15: The exchange rate of Kenya shilling to regional currencies**



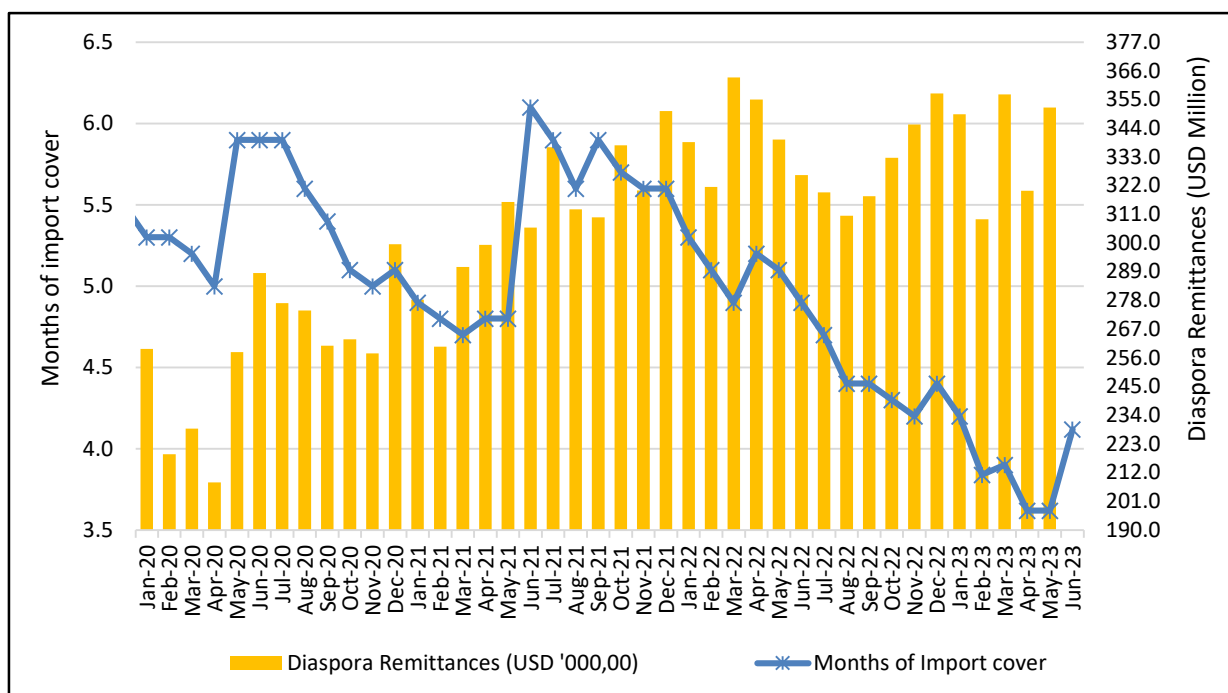
Data source: Central Bank of Kenya

**Figure 16: Performance of select currencies against the US Dollar**



Data source: Country Statistics Offices; <https://www.investing.com>. Percentage change in currencies against the US Dollar measured as end of period changes

**Figure 17: Months of import cover and diaspora remittances**



*Data Source: Central Bank of Kenya*



### **3. MONETARY AND FINANCIAL SECTOR**

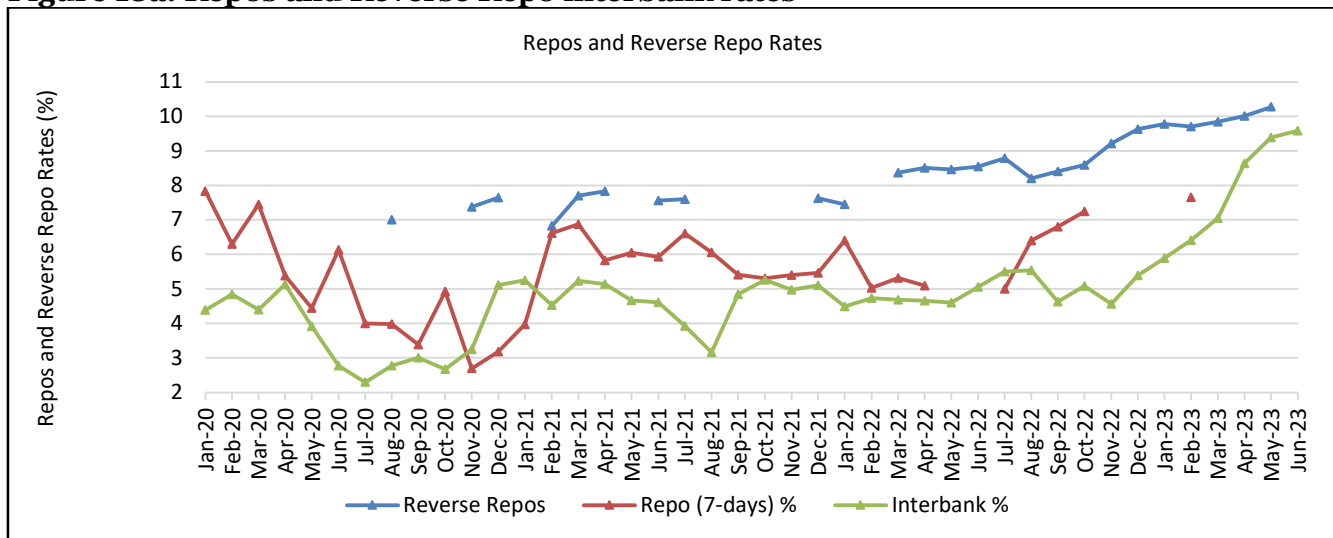
The Central Bank of Kenya (CBK) experienced a change of guard during the period under review. The outgoing governor, Dr Patrick Njoroge, whose 2<sup>nd</sup> and final term came to an end was replaced by Dr Kamau Thugge in June 2023. The MPC increased the Central Bank Rate (CBR) in June 2023 from 9.5 to 10.50 per cent. The monetary policy tightening was aimed at anchoring inflation expectations given the heightened global risks and their possible effects on the domestic economy. The regional central banks maintained their central bank rates for April-June 2023, with Rwanda, Uganda and Tanzania maintaining their rate at 7, 10 and 5 per cent, respectively.

The average interbank rate in June 2023 was 10.02 per cent compared to 9.85 per cent in June 2022. The weighted average Treasury bills rate for the 91-day, 182-day, and 364-day averaged 10.44, 10.76, and 11.17 per cent, respectively, in the quarter under review, compared to 7.58, 8.56, and 9.84 per cent, respectively for the same period in 2022. The deposit and lending rates have continued to rise in response to the rising Central Bank rate. The deposit rate rose from 6.58 per cent in April 2022 to 9.5 per cent in April 2023. Further, the lending rate rose from 12.20 per cent in April 2022 to 13.10 per cent in April 2023.

Private sector credit growth rate was 11.50 per cent in April 2022 compared to a high of 13.20 per cent in April 2023 (Figure 21). The proportion of total credit allocated to the manufacturing sector marginally increased from 9.43 per cent in April 2022 to 10.02 per cent in April 2023 (Figure 21). Further, the proportion of total credit to the public sector grew marginally from 36.17 per cent in April 2022 to 36.94 per cent in April 2023.

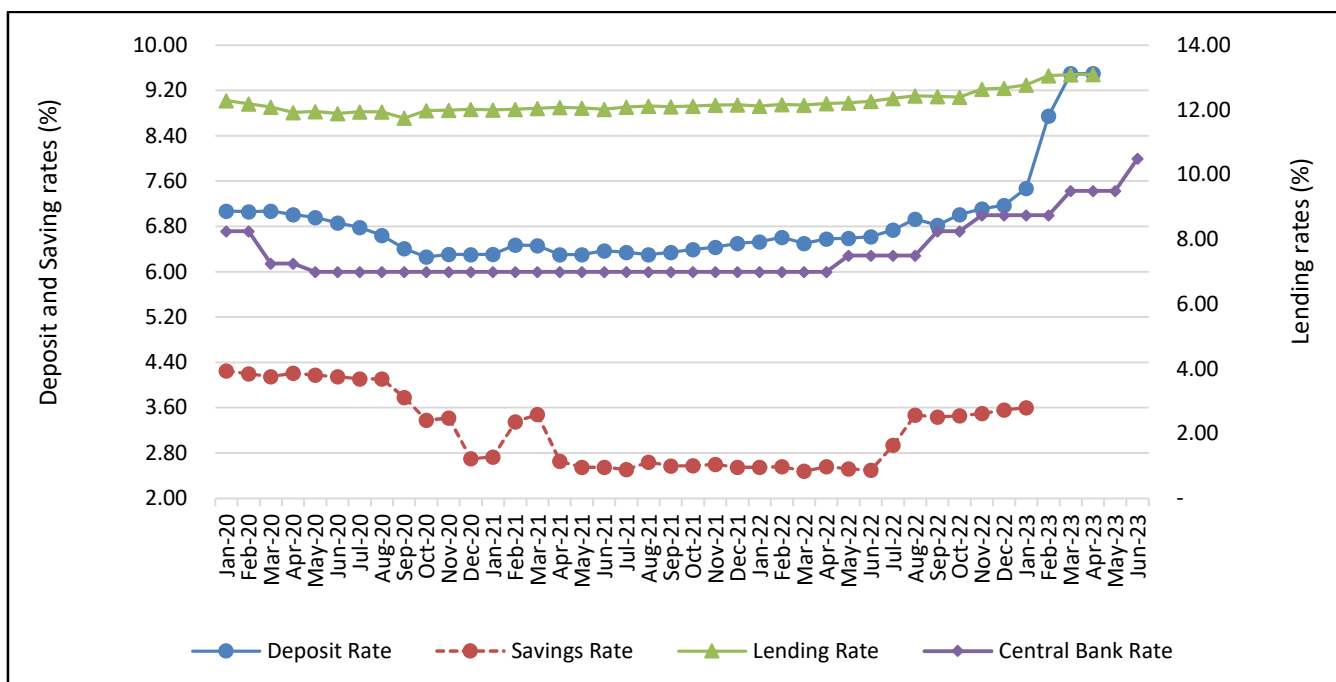
The banking sector's return on assets has remained at 1.23 per cent in April 2023 and April 2022. Thus, given that the banking sector return on assets (ROA) in January 2021 was 0.83 per cent, the ROA has been rising steadily in the last three years (Figure 23a). However, as shown in Figure 23b, the sector's liquidity declined pointedly from 53.1 per cent in May 2022 to 48.6 per cent in May 2023. The ratio of non-performing loans to gross loans rose slightly from 14.06 per cent in May 2022 to 14.95 per cent May 2023 (Figure 21). The liquidity of the banking sector is crucial as it maintains stability in the financial system and supports economic growth.

**Figure 18a: Repos and Reverse Repo interbank rates**



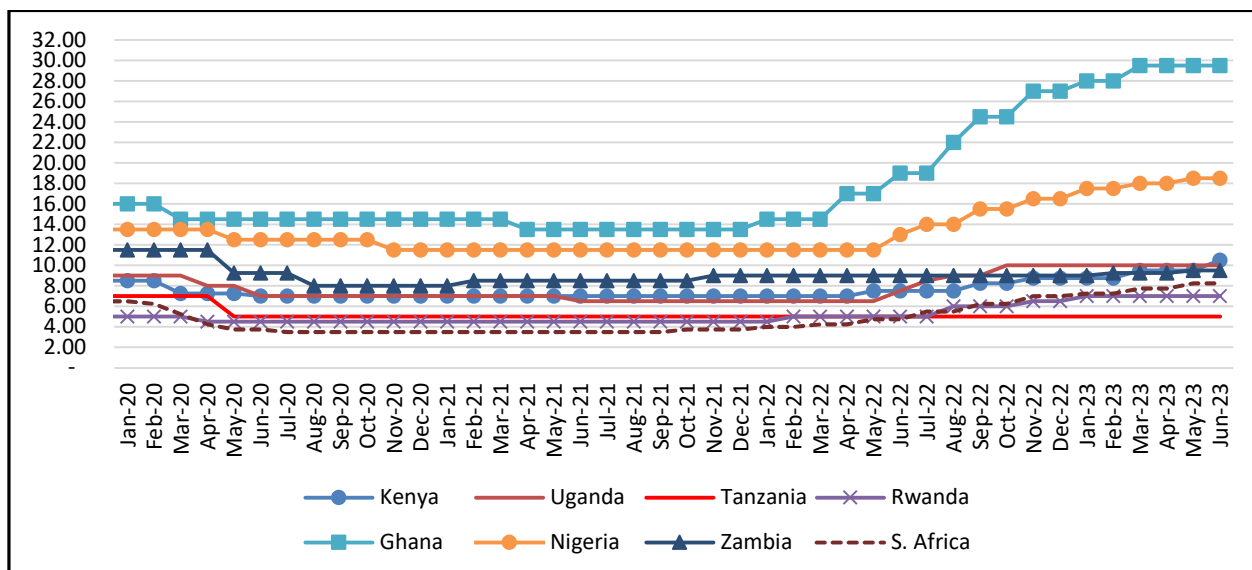
Data source: Central Bank of Kenya

**Figure 18b Commercial Bank Rates and Central Bank Rate**



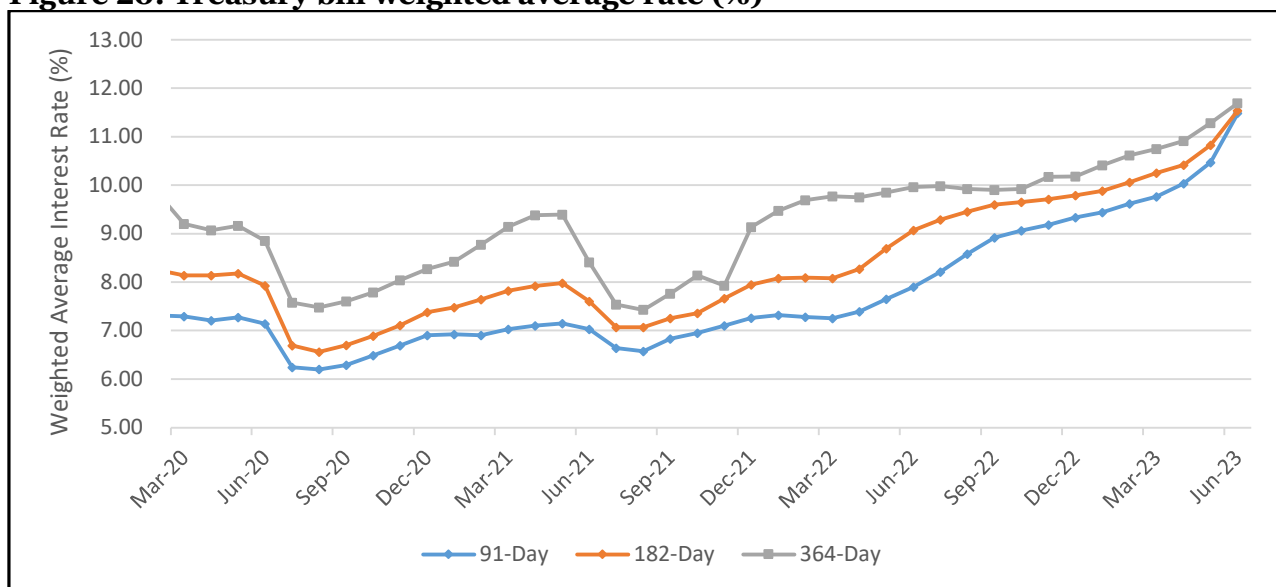
Data source: Central Bank of Kenya

**Figure 19: Monetary policy stance for selected countries in Africa**



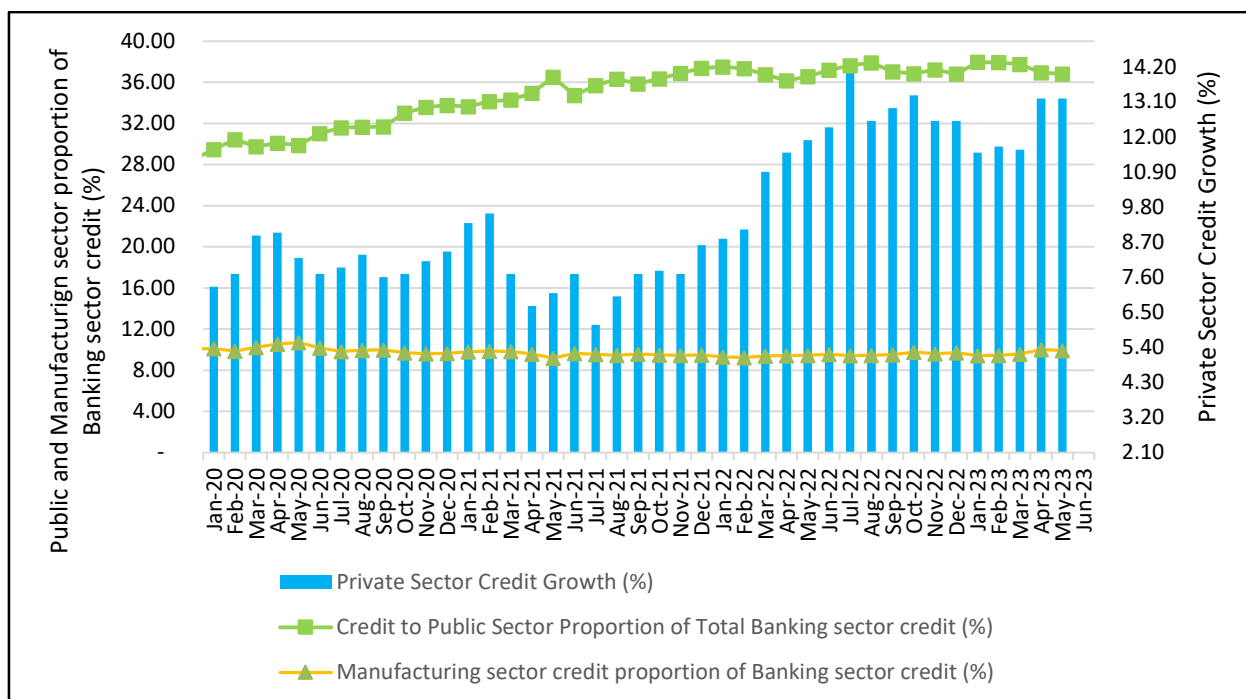
Data Source: Country Central Banks

**Figure 20: Treasury bill weighted average rate (%)**



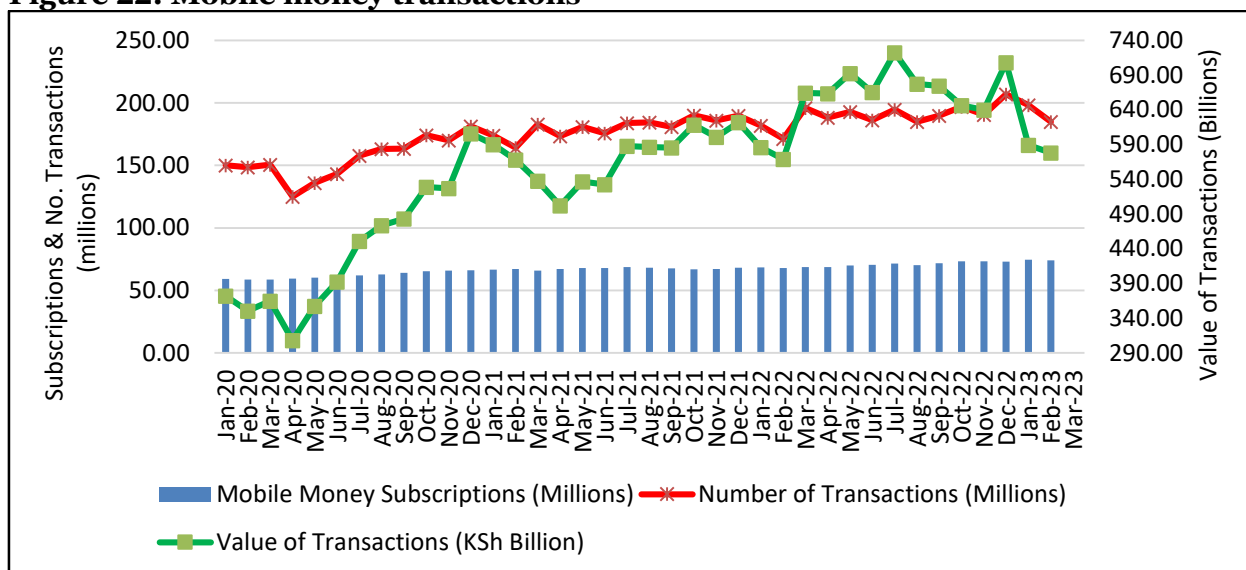
Data source: Central Bank of Kenya

**Figure 21: Banking sector credit**



Data Source: Central Bank of Kenya

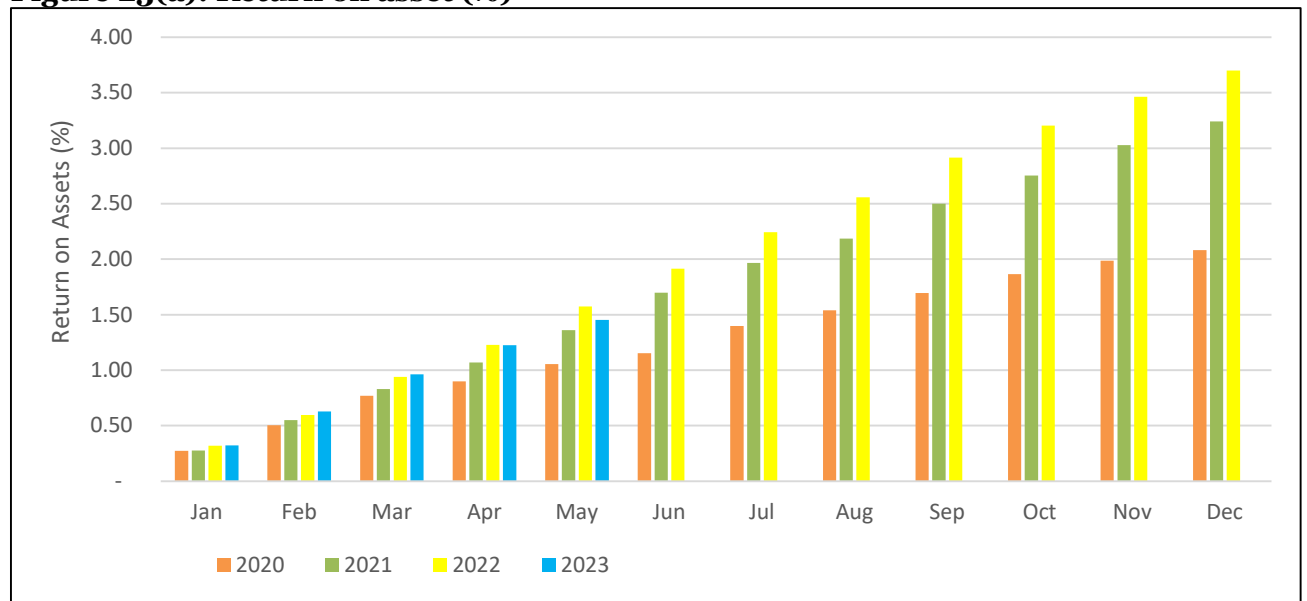
**Figure 22: Mobile money transactions**



Data source: Kenya National Bureau of Statistics

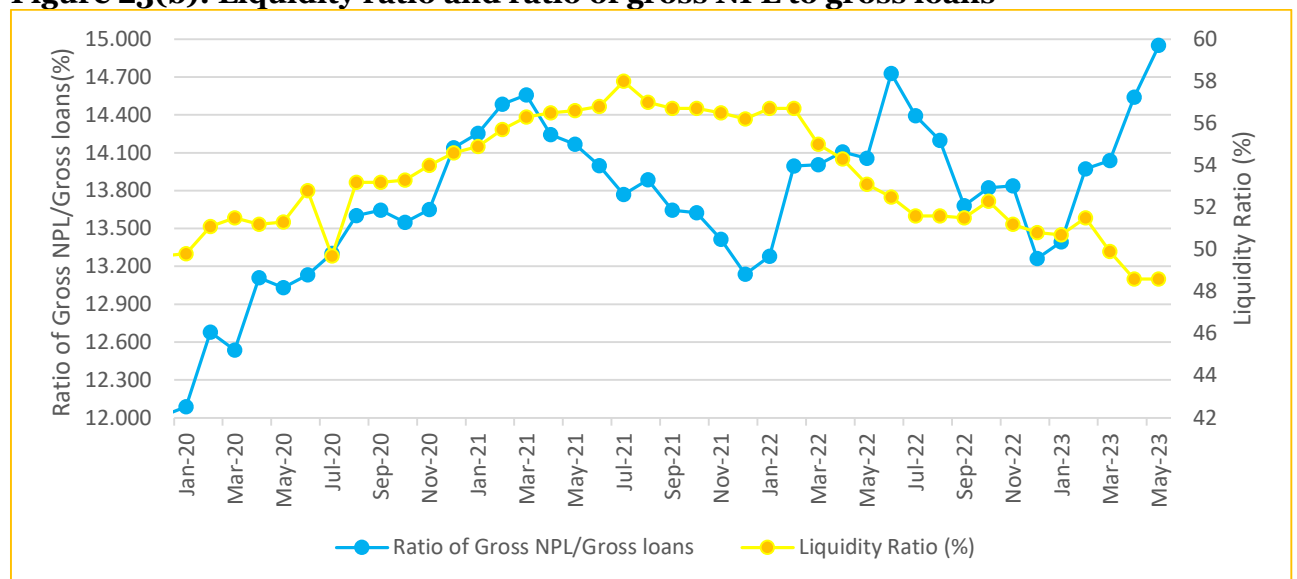
**Figure 23: Kenya banking sector performance**

**Figure 23(a): Return on asset (%)**



*Data Source: Calculated using data from Central Bank of Kenya*

**Figure 23(b): Liquidity ratio and ratio of gross NPL to gross loans**



*Data Source: Calculated using data from Central Bank of Kenya*

#### **4. FISCAL PERFORMANCE**

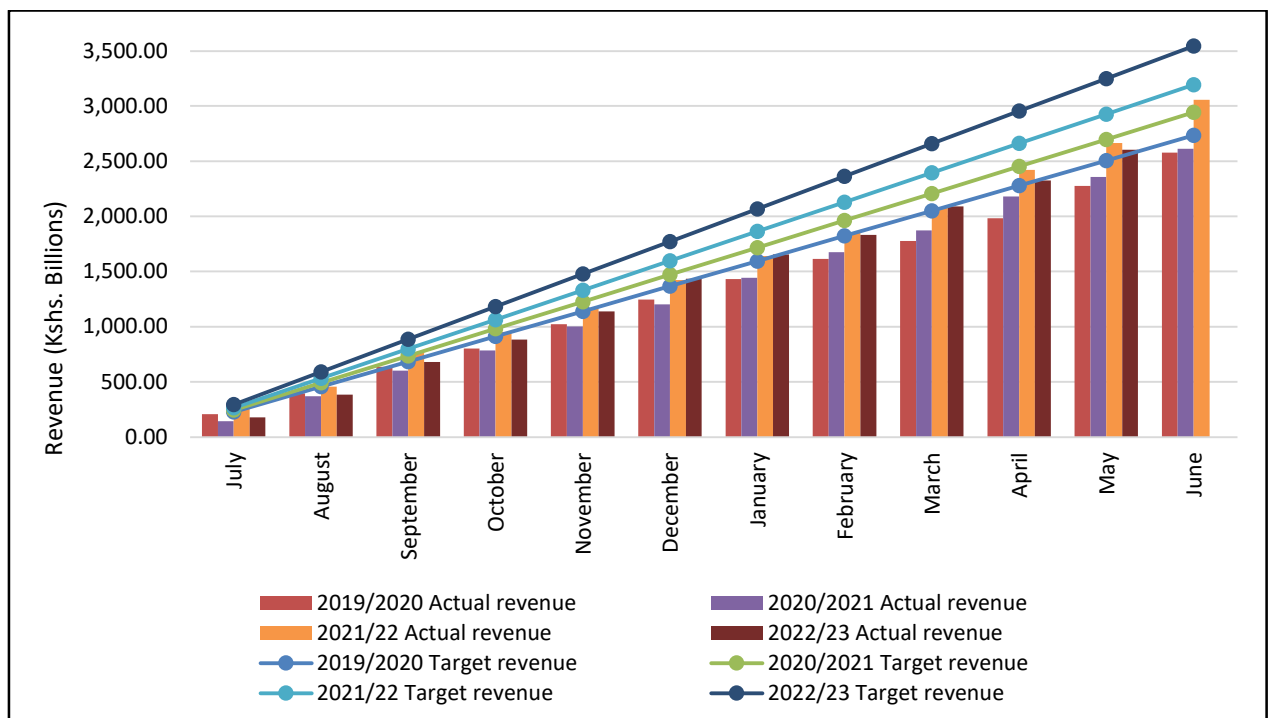
The initial estimates for the 2023/2024 budget stood at Ksh. 3.68 trillion. To reduce the fiscal deficit and slow down the rate of public debt accumulation, the new administration that took office in September 2022 aimed to reduce the budget by Ksh 300 billion.

Cumulatively, the total revenues were Ksh 3.24 trillion in June 2023 compared to Ksh 3.06 trillion in June 2022. However, they remained below the targeted levels of Ksh 3.544 trillion. Cumulatively, the exchequer issues to the National government were Ksh 3,242.79 billion in June 2023 against the target of Ksh 3,620.15 billion. The total transfer to County Governments was Ksh 399.60 billion as of June 2023, representing 100 per cent of the total equitable share.

The stock of public and public guaranteed debt as of April 2023 was Ksh 9,634.85 billion, with domestic debt accounting for 47.14 per cent. The share of Treasury bonds in domestic debt declined from 82.92 per cent in April-June 2022 to 78.30 per cent in April-June 2023. Banking institutions continue to hold the highest share of domestic debt at 45.67 per cent despite the declining trend in their share over time. The share of pensions fund has been increasing from 30.53, 32.03 to 33.75s per cent for the same periods in 2021, 2022 and 2023, respectively.

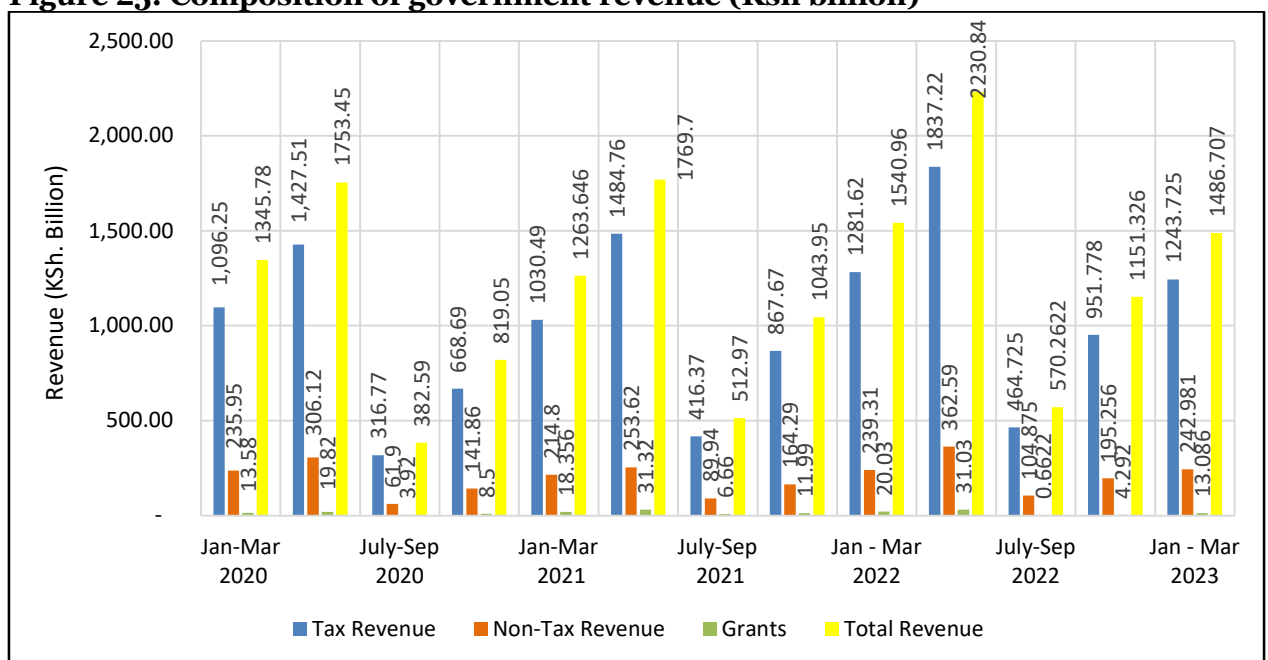
The external debt is composed of bilateral, multilateral, commercial banks, and export credit in proportions of 25.99, 47.31, 26.41 and 0.28 per cent, respectively, for April 2023. Kenya is pursuing more concessional loans due to their favourable below-market interest rates and long grace periods in a bid to reduce exposure to expensive commercial loans. As a result, the share of commercial loans has been reducing over time. For instance, commercial loan reduced from a share of 29.46 per cent in January-March 2021 to 28.70 per cent in January-March 2022, and further to 26.71 per cent in January-March 2023, while the share of multilateral debt increased from 39.67 per cent, to 43.16 per cent and further to 46.72 per cent over the same periods.

**Figure 24: National revenue (Ksh billion)**



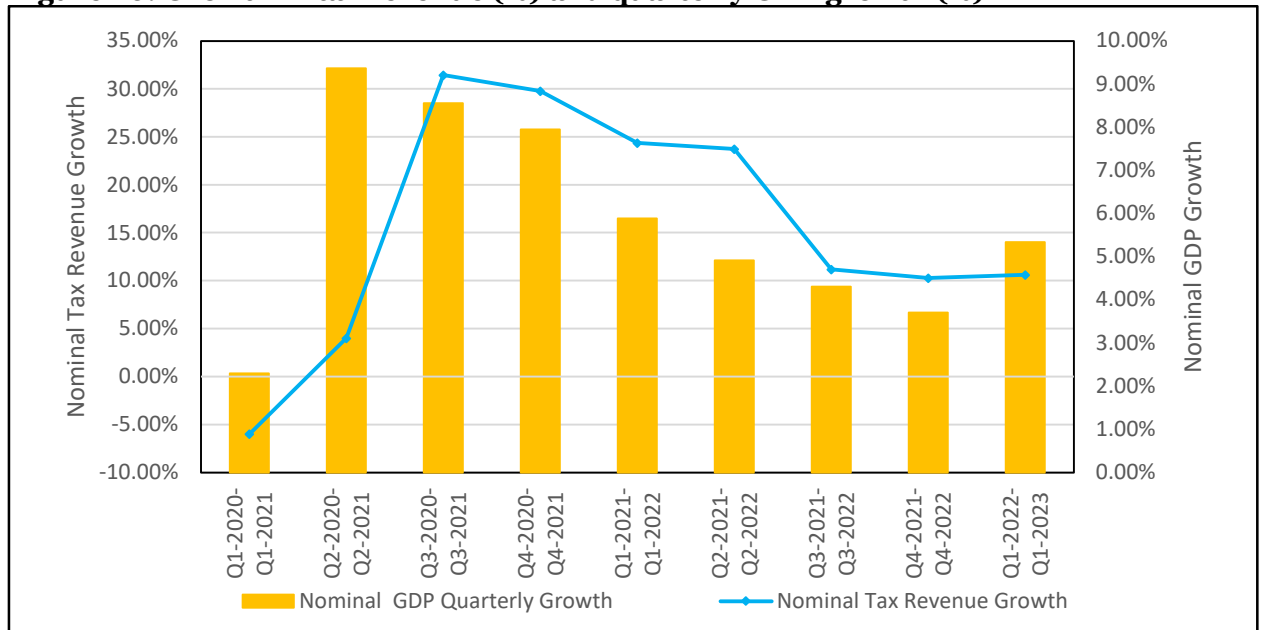
Data Source: Monthly Gazette Notices, The National Treasury and Planning

**Figure 25: Composition of government revenue (Ksh billion)**



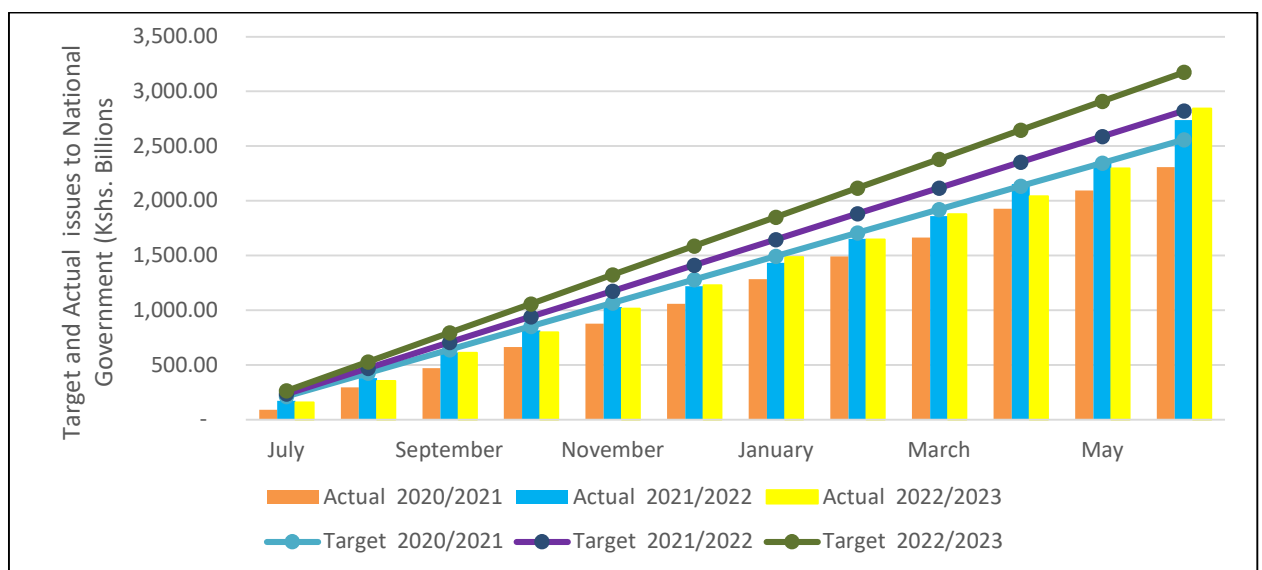
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices.

**Figure 26: Growth in tax revenue (%) and quarterly GDP growth (%)**



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

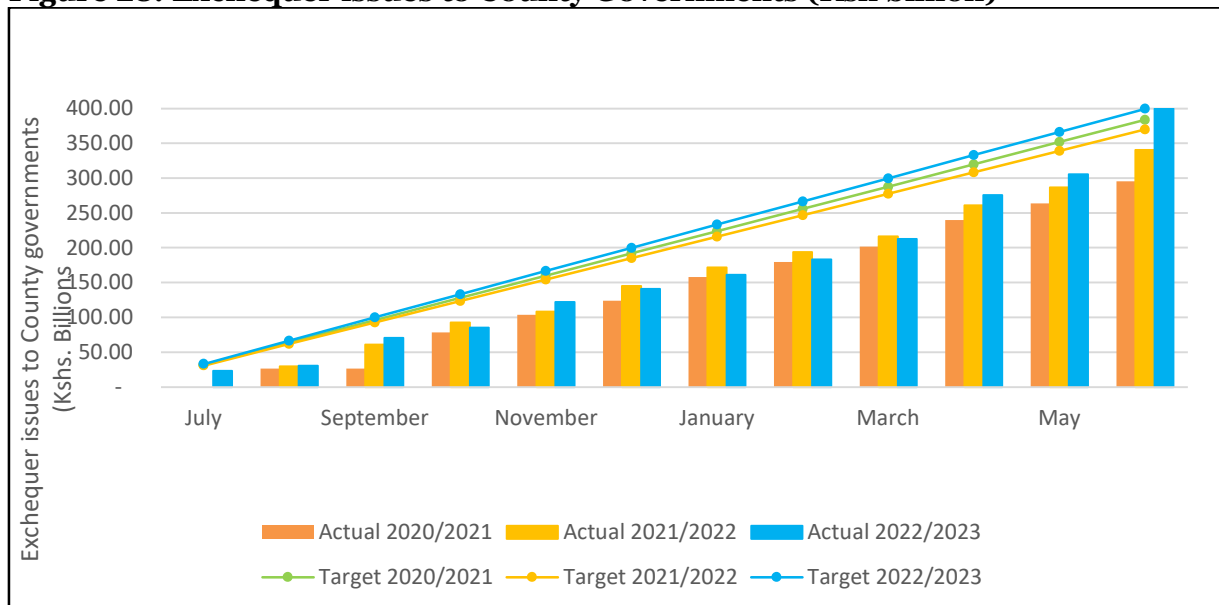
**Figure 27: Exchequer issues to National Government (Ksh billion)**



Data Source: Monthly Gazette Notices, The National Treasury and Planning

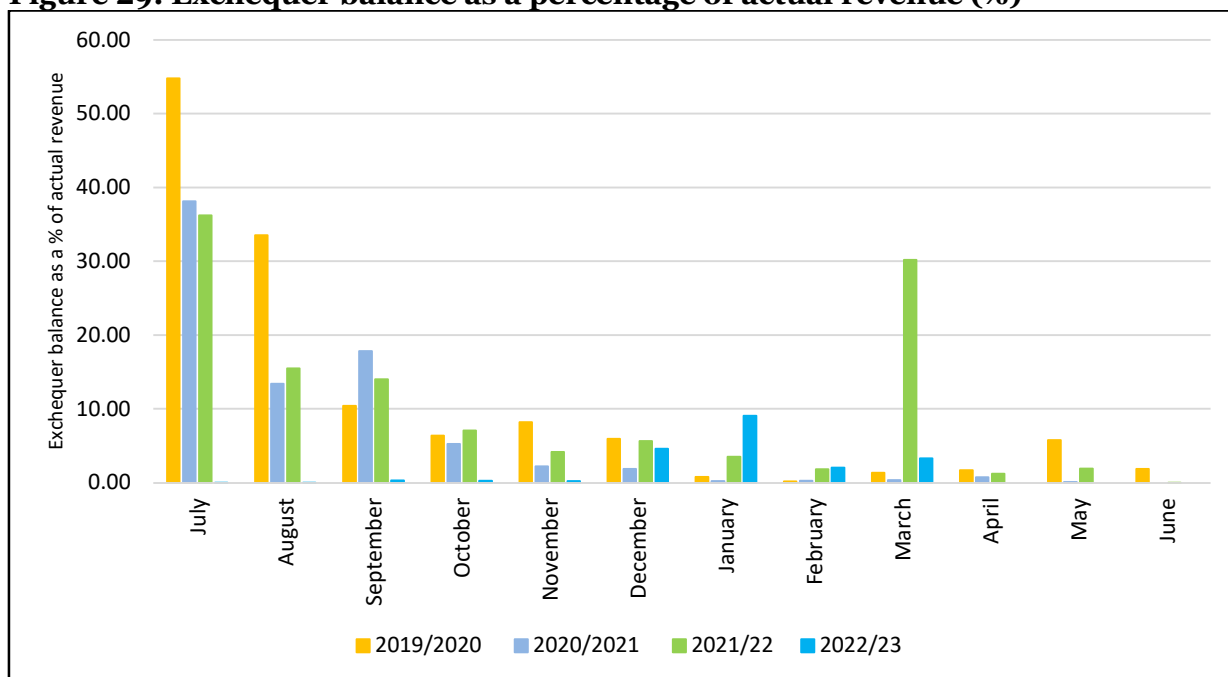


**Figure 28: Exchequer issues to County Governments (Ksh billion)**



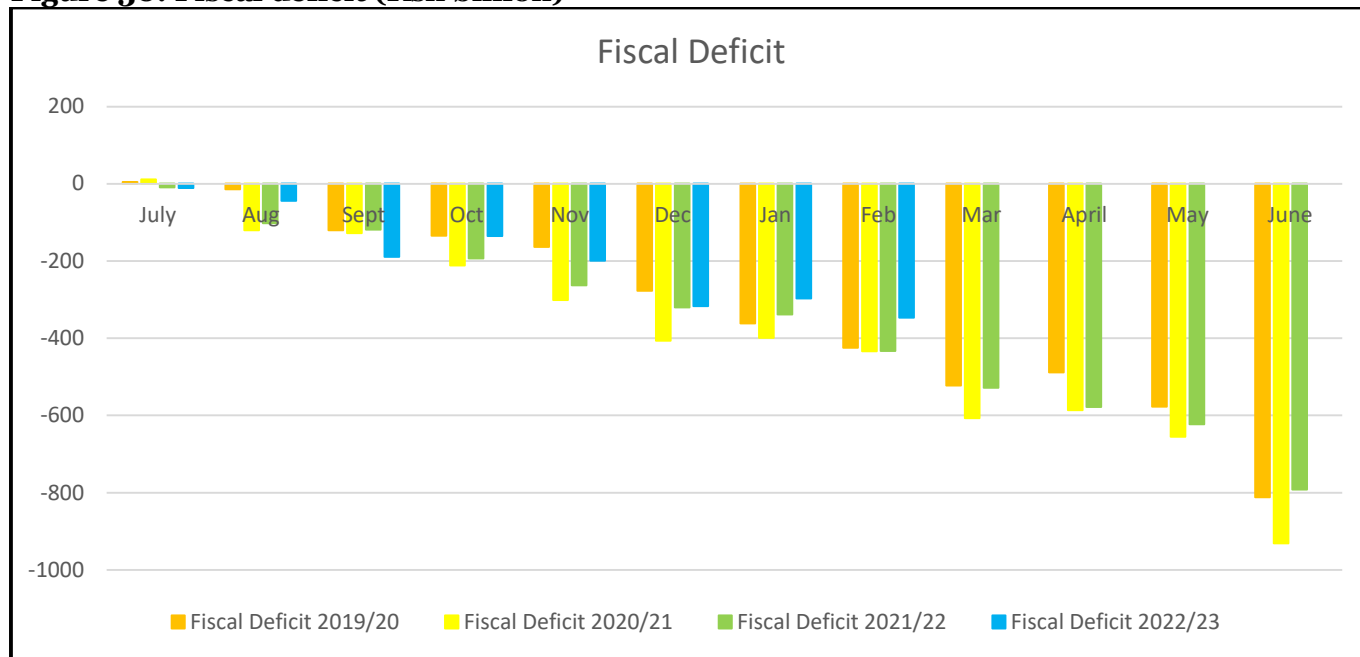
*Data Source: Monthly Gazette Notices, The National Treasury and Planning*

**Figure 29: Exchequer balance as a percentage of actual revenue (%)**



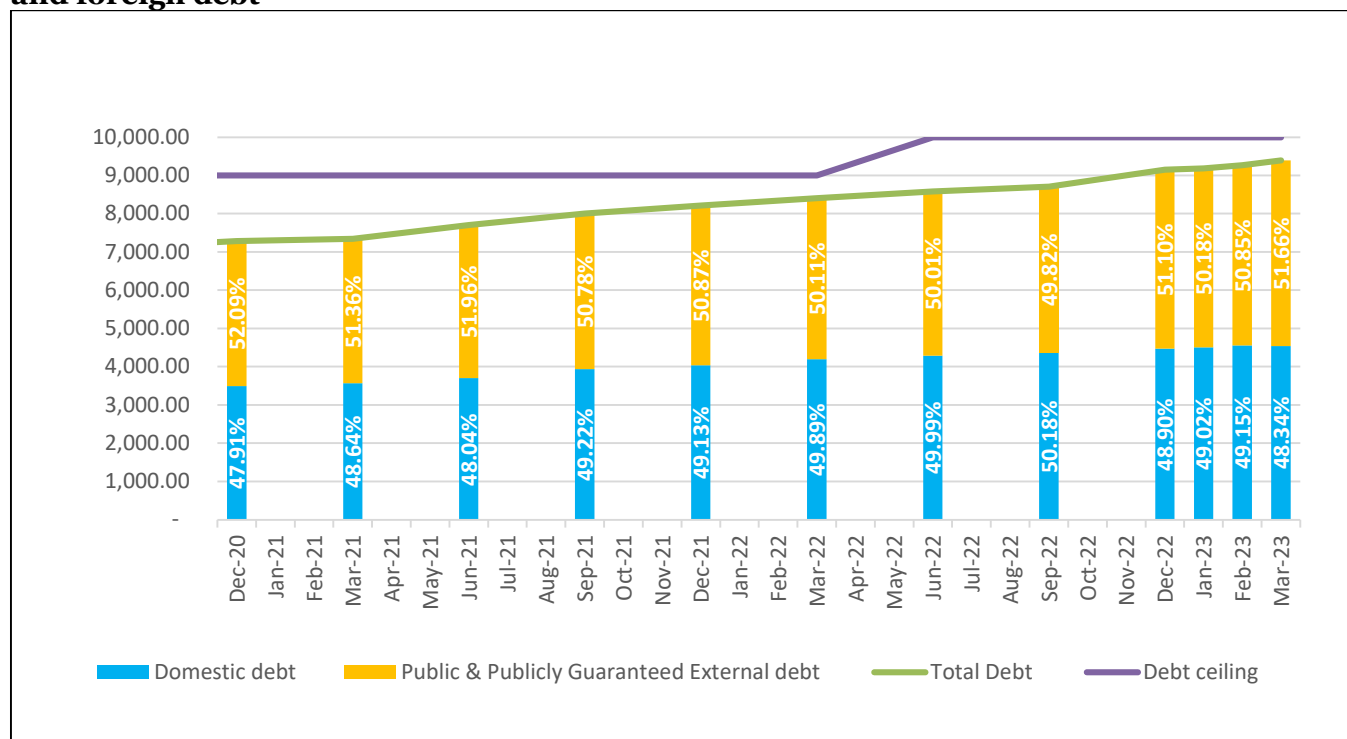
*Data Source: Monthly Gazette Notices, The National Treasury and Planning*

**Figure 30: Fiscal deficit (Ksh billion)**



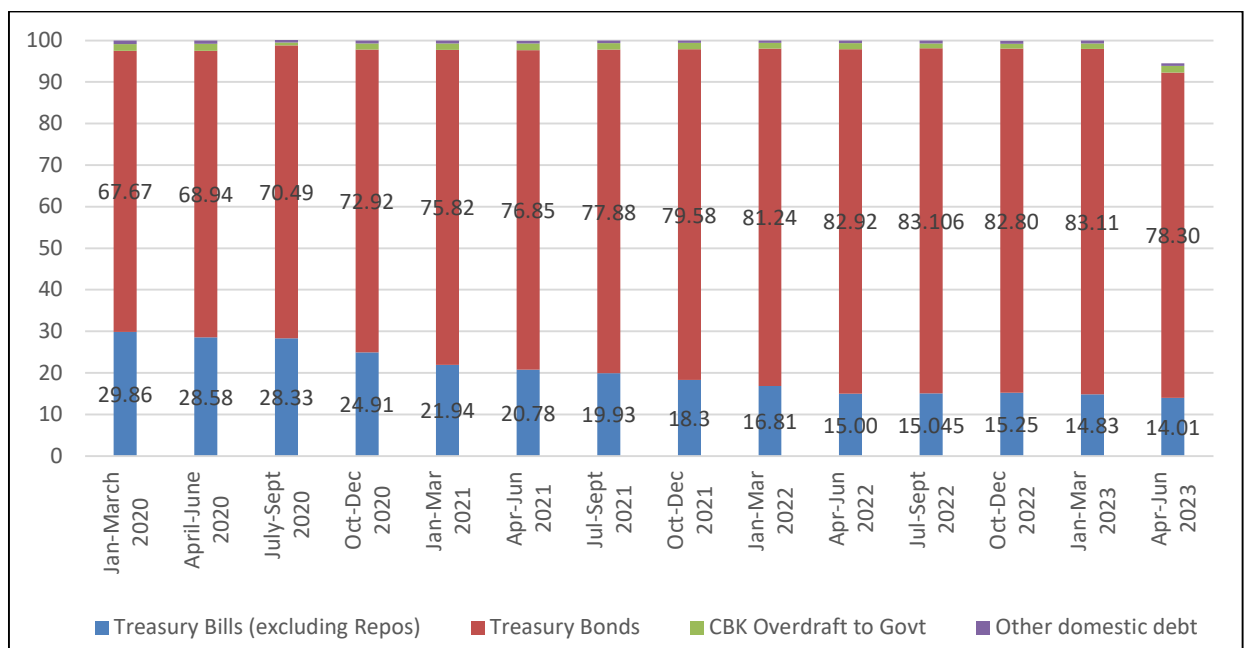
*Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notice*

**Figure 31: Total debt (Ksh billion) and proportionate shares of domestic and foreign debt**



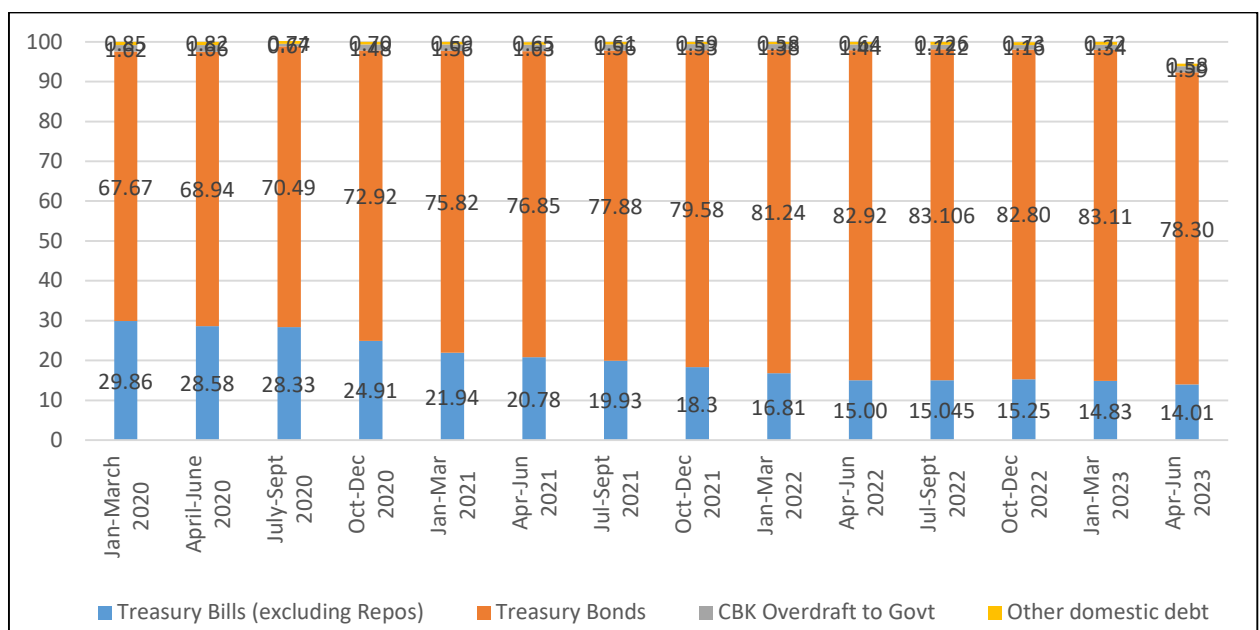
*Data Source: Calculated using data from Central Bank of Kenya*

**Figure 32: Composition of government domestic debt by instrument (%)**



*Data Source: Calculated using data from Central Bank of Kenya*

**Figure 33: Composition of government domestic debt by holder (%)**



*Data Source: Calculated using data from Central Bank of Kenya*

**Figure 34: Composition of external debt: Proportionate shares of bilateral, multilateral, commercial bank, and export credit (%)**



*Data Source: Calculated using data from Central Bank of Kenya*

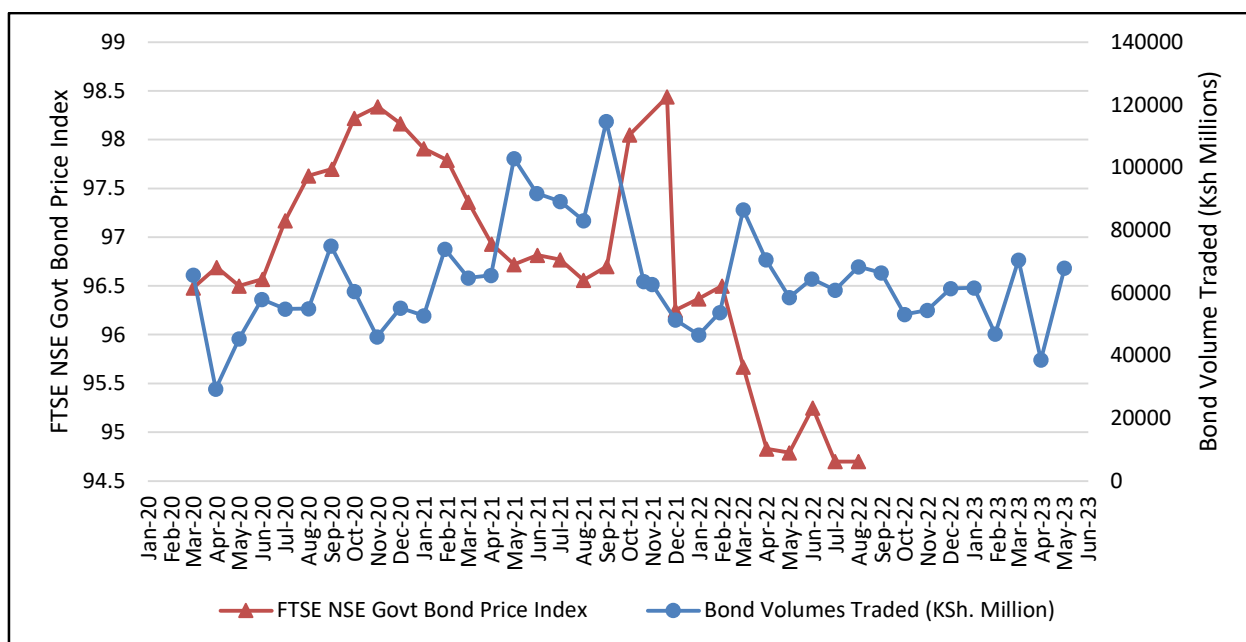
## **5. CAPITAL MARKETS**

The NSE20 share index decreased from 1,622.05 points at the end of Q1 2023 to 1,558.20 points at the end of Q2 2023. In the year 2022, the NSE20 share index declined from Q1 1846.70 to 1612.90 in Q2, representing a 12.66 per cent drop. The volume of bonds traded on the NSE increased from Ksh 38,690 million in April 2023 to Ksh 68,010 million in May 2023 before decreasing to Ksh 31,320 million in June 2023.

The market capitalization declined from Ksh 1,756.256 billion at the end of Q1 to Ksh 1,666.290 at the end of Q2 of 2023. The drop in market capitalization represents a significant erosion of shareholders' wealth at the Nairobi Securities Exchange (NSE). The NSE witnessed a sharp decline in foreign investor participation, which declined to a record low of 40.90 per cent in June 2023, trading shares worth Ksh 1.708 billion, compared to 57.76 per cent, trading shares worth Ksh 3.031 billion in June 2022. Nonetheless, the selloffs by foreign investors dropped to Ksh 0.113 billion in net sales in June 2023 compared to Ksh 5.035 billion in June 2022.

The capital market performance in the regional and international markets recorded mixed results over the quarter. The Asian capital markets recorded an improvement over the quarter. The US capital markets performance declined from April to May, then rebounded in June as reflected by the Dow Jones Industrial Average (DIJA) and NYSE Composite index. However, Nasdaq 100 exhibited a different trend, increasing from 12,226.53 points from April to 13,787.92 points in June 2023.

**Figure 35: Bond volumes traded (Ksh million) and FTSE NSE Kenya government bond price Index**



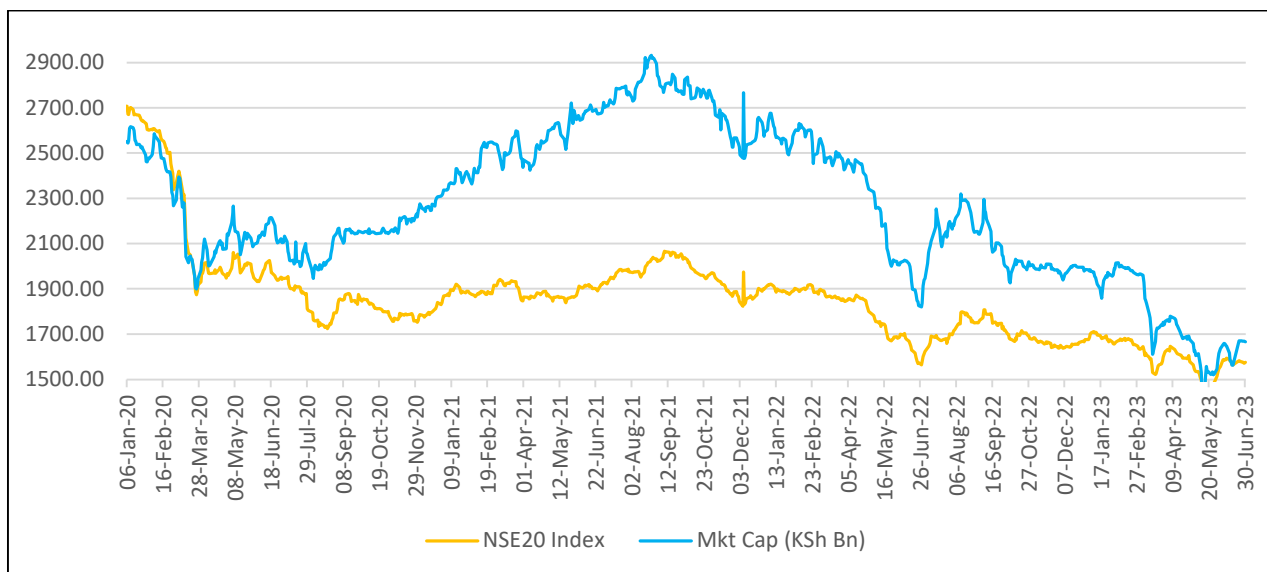
Data Source: Nairobi Securities Exchange; Central Bank of Kenya

**Figure 36: The 10-year Kenya Eurobond (2024) yield (%)**



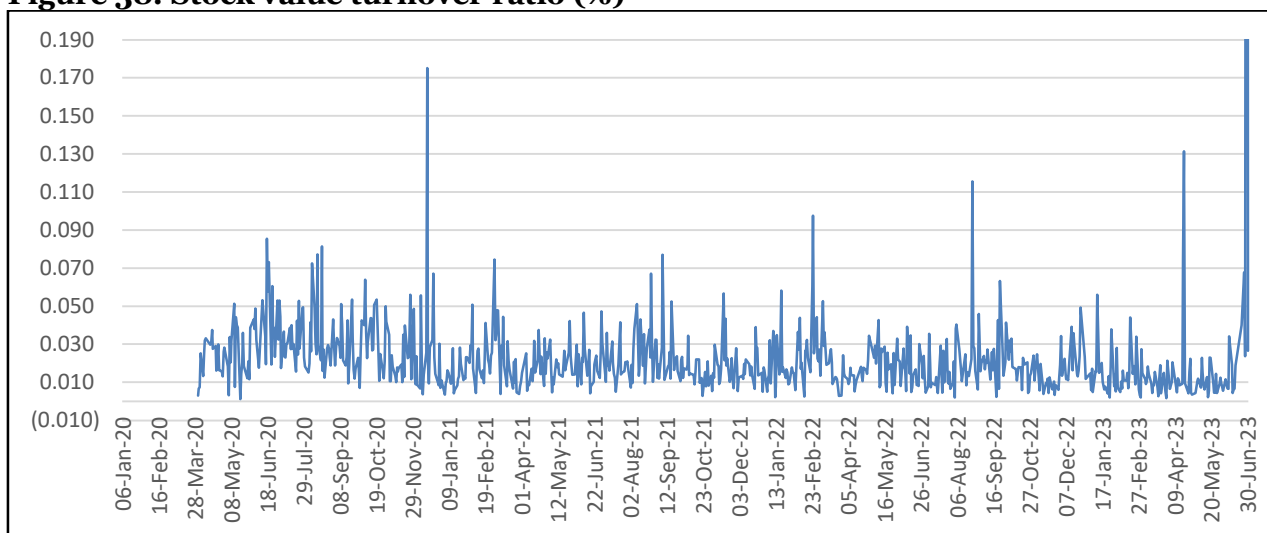
Data Source: Central Bank of Kenya

**Figure 37: Stock market performance**



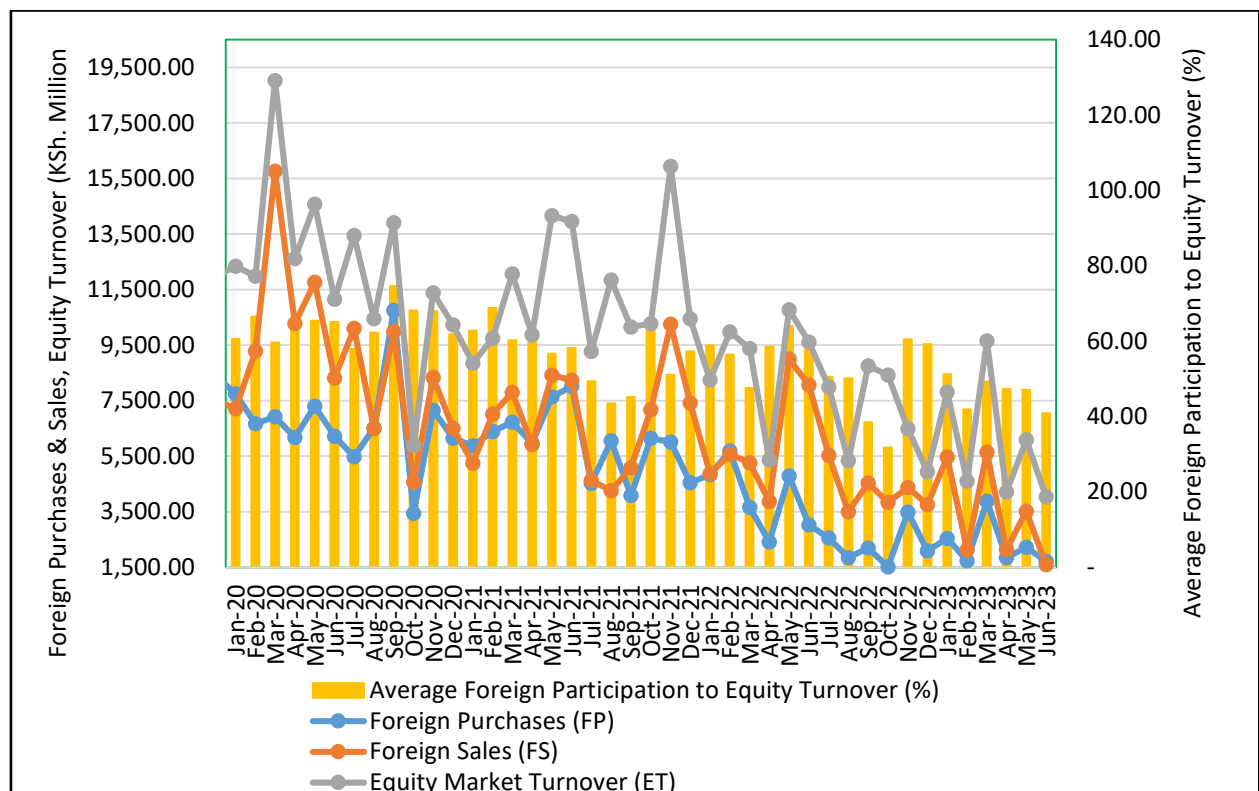
*Data Source: Nairobi Securities Exchange*

**Figure 38: Stock value turnover ratio (%)**



*Data Source: Nairobi Securities Exchange; Calculated as equity turnover value (Ksh million)/ Market capitalization (Ksh million)*

**Figure 39: Foreign trading in the stock market**

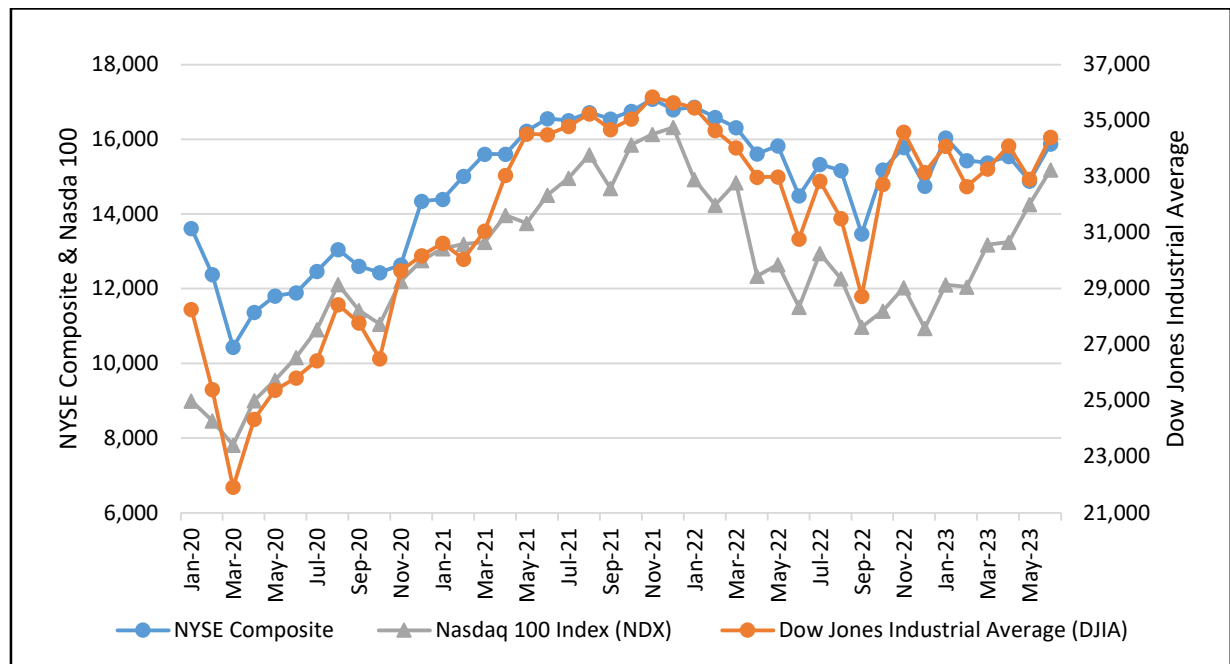


Data Source: Central Bank of Kenya; Sterling Capital Ltd  
(<https://www.sterlingib.com>)



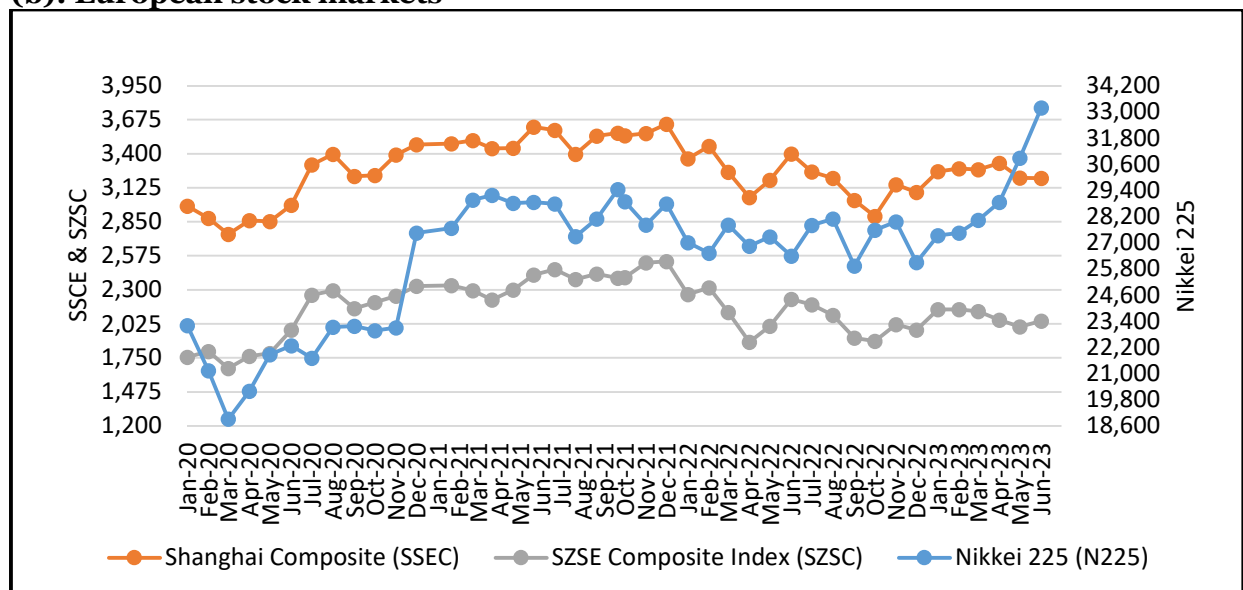
**Figure 40: Stock market performance of selected advanced and emerging markets**

**(a): USA stock markets**



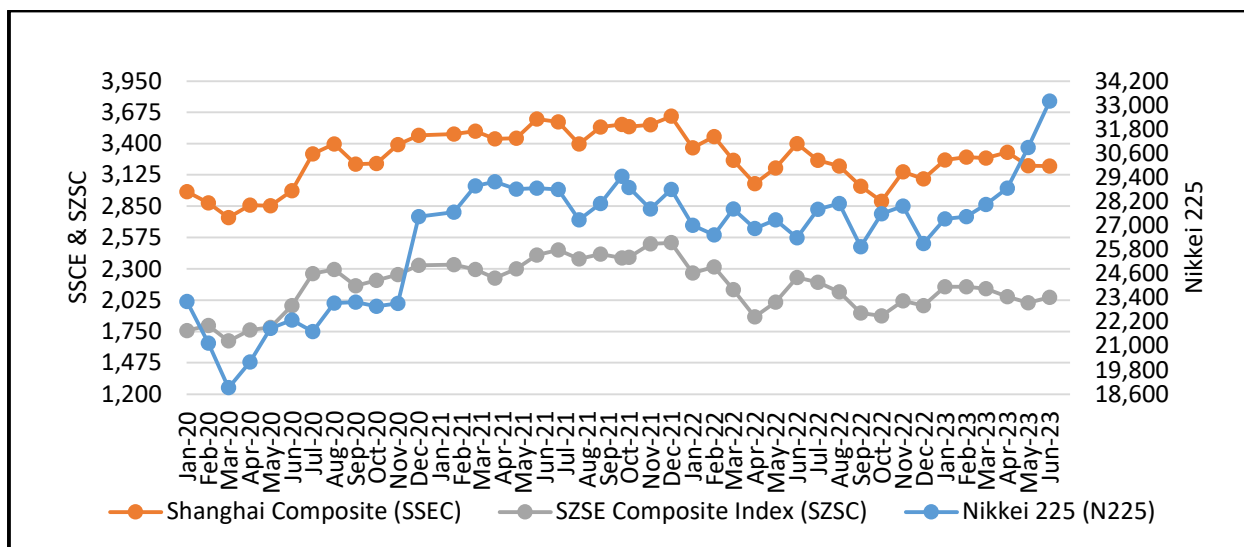
Data source: Country Stock Exchanges; <http://www.investing.com>

**(b): European stock markets**



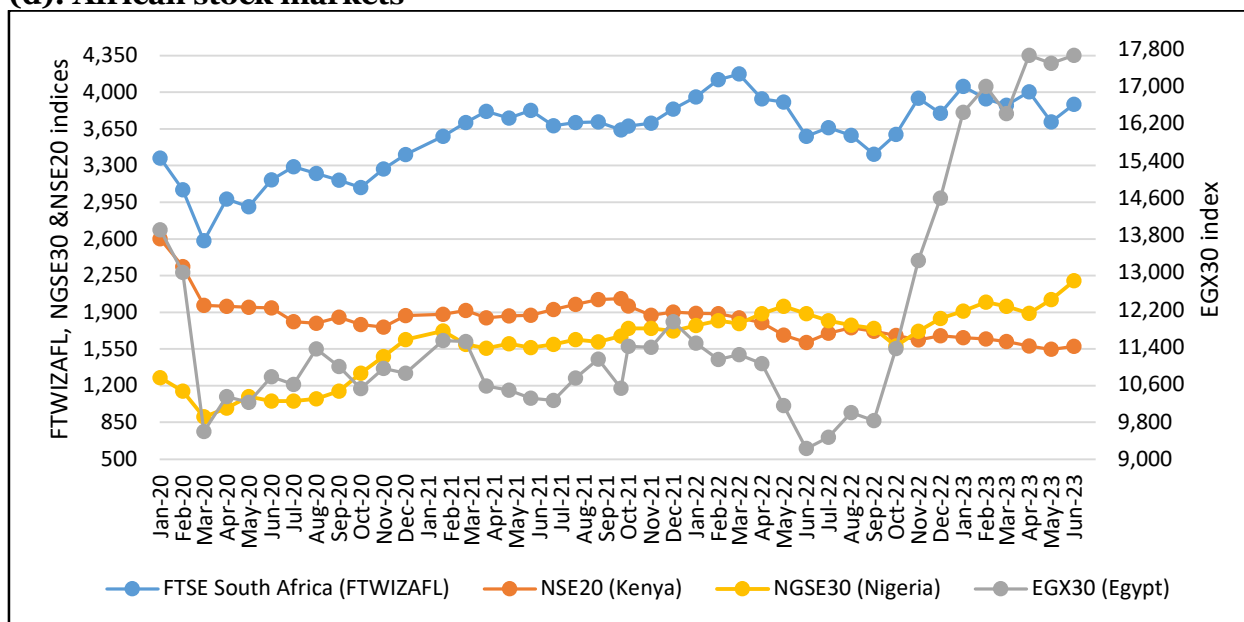
Data source: Country Stock Exchanges; <http://www.investing.com>

### (c): Asian stock markets



Data source: Country Stock Exchanges; <http://www.investing.com>

### (d): African stock markets



Data source: Country Stock Exchanges; <http://www.investing.com>

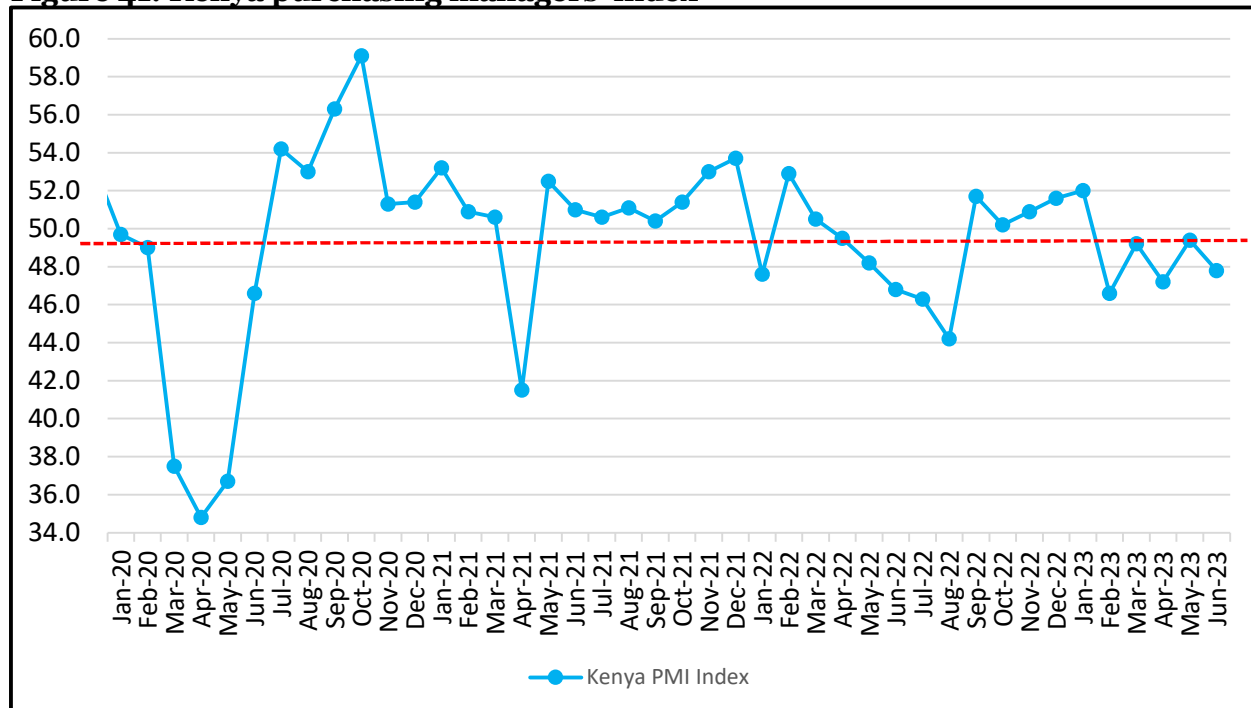
## **6. RISK-RELATED FACTORS**

The business environment in the Q2 of 2023 exhibited mixed purchasing manager index (PMI), with April recording 47.2, May 49.4 and June 47.8. A PMI reading of more than 50 indicates an improvement in business conditions from the previous month, while a reading below 50 signifies a deterioration. The decline in the PMI has been attributed to persistent contraction in the private sector, which is worsened by inflationary pressures, difficulties in accessing US dollars, and a weakening of the exchange rate. These factors have collectively contributed to the difficult business environment experienced during the last two months of the quarter.

During Q2, seasonal rainfall ceased in most parts of the country, save for Lake Victoria Basin, the Highlands West of the Rift Valley, the Central and South Rift Valley, and the Coastal Strip. The March-April-May (MAM) 2023 seasonal rainfall forecast suggests that rain distribution in most parts of the country, both in time and space, was good especially in March and April 2023. Conversely, several parts of the country were dry in the month of May while the Highlands West of the Rift Valley, Lake Victoria Basin, Central and South Rift Valley and the Coastal region recorded near to below average rainfall.

The outlook for Kenya was downgraded in July 2023 by Fitch Ratings to B- from B reflecting an increase in external financing constraints. In financing the bottom-up economic transformation agenda (BETA), the government plans to issue a Eurobond to support the repayment of the 10-year Eurobond maturing in June 2024.

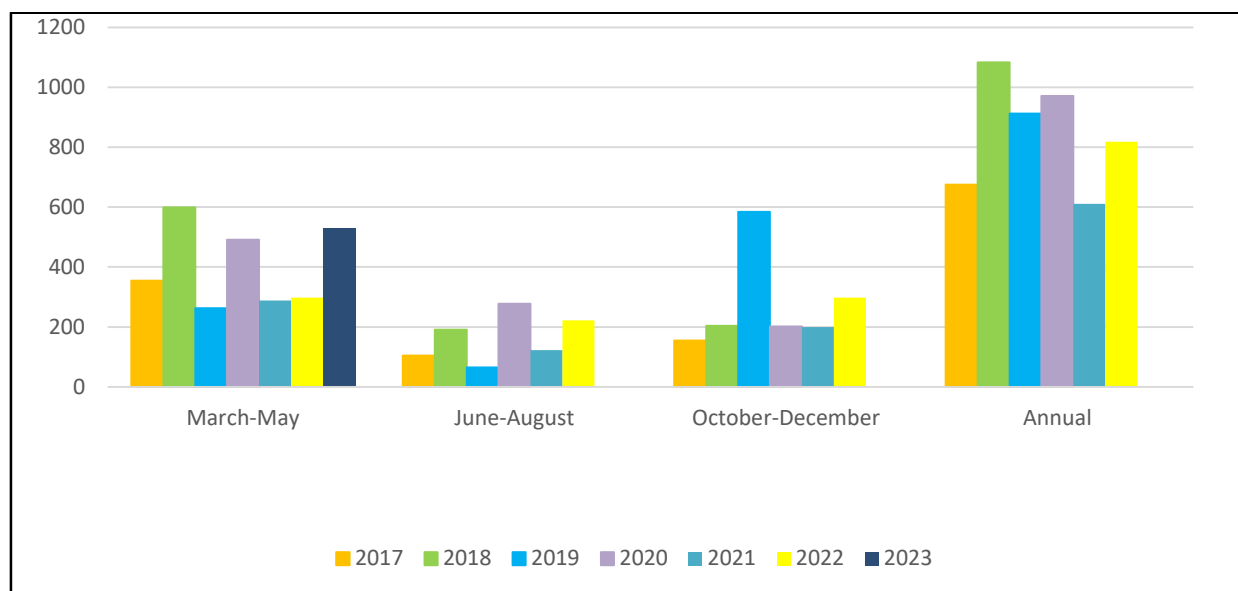
**Figure 41: Kenya purchasing managers' index**



Data Source: Stanbic Bank (<https://www.stanbicbank.co.ke>); IHS-Markit (<https://ihsmarkit.com>)

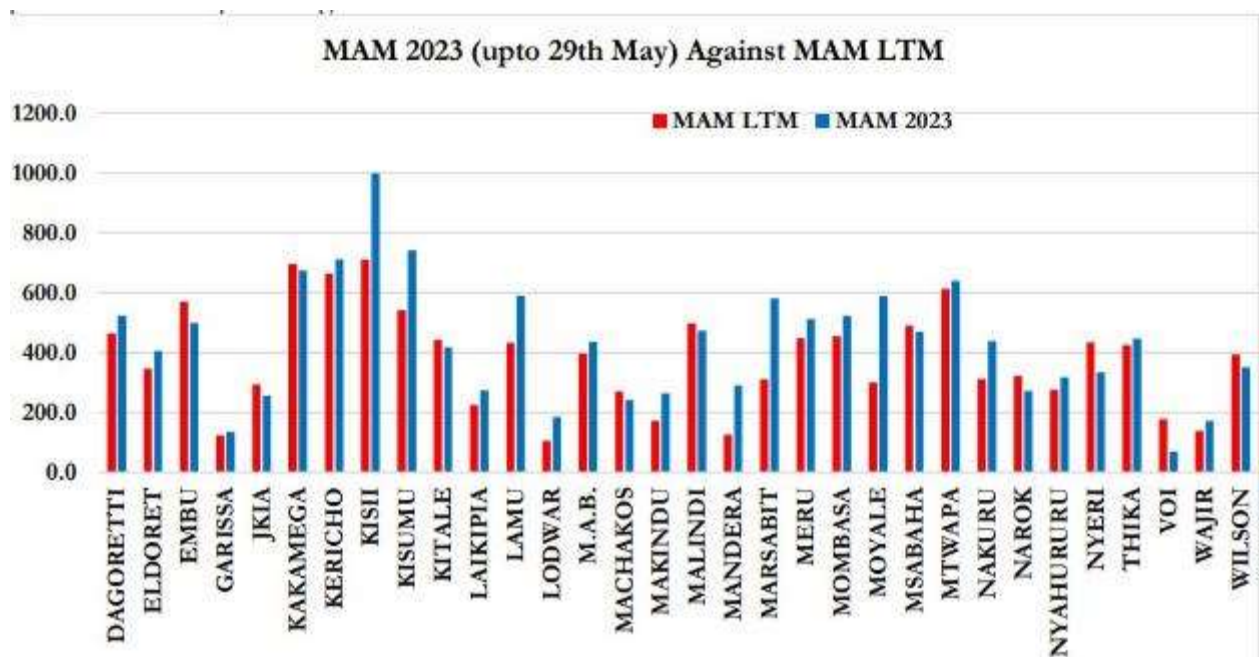
Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

**Figure 42: Mean annual and seasonal rainfall (millimeters)**



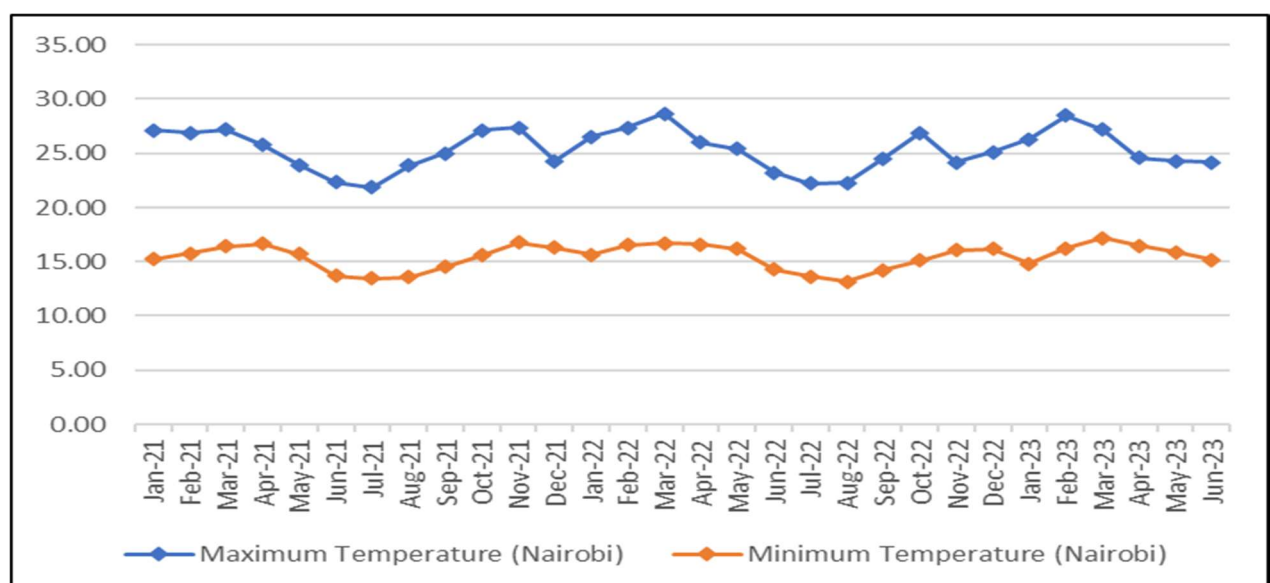
Data Source: Kenya National Bureau of Statistics; Kenya Meteorological Department

**Figure 43: March-April-May (MAM) 2023 recorded rainfall against seasonal long-term means (millimeters)**



Source: Kenya Meteorological Department

**Figure 44: Monthly temperature (Nairobi)**



<https://www.visualcrossing.com/weather/weather-data-services/nairobi?v=api>

**Table 1: Fitch rating for Kenya**

Type	Current Rating (as at 20 July 2023)			Prior Rating (as at 14 December 2022)		
	Rating	Outlook	Action	Rating	Outlook	Action
LTR (Long term Issuer default rating)	B-	Negative	Affirmed	B	Stable	Downgrade
STR (Short-term Issuer default rating)						
Local Currency Short Term Issuer Default Rating						
Country Ceiling	B		Affirmed	B		Downgrade
Local Currency Long Term Issuer Default Rating	B-	Stable	Affirmed	B	Stable	Downgrade

Data source: <https://www.fitchratings.com/entity/kenya-86485911#ratings>