



**The KENYA INSTITUTE for PUBLIC
POLICY RESEARCH and ANALYSIS**

Thinking Policy Together

QUARTERLY MARKET ANALYSIS REPORT

JANUARY– MARCH 2021

SUMMARY

Performance in the Real Sector

The effects of COVID-19 pandemic continued to be felt in the first quarter of 2021 albeit with various countries witnessing a recovery trajectory from the fourth quarter of 2020 with reopening of economies. The global economy is estimated to have contracted by 3.30 per cent in 2020. Advanced economies contracted by 4.70 per cent and emerging markets and developing economies by 2.20 per cent. Kenya's economy was projected to have contracted by 0.30 per cent in 2020.

The overall inflation in Kenya in the first quarter of 2021 averaged 5.71 per cent compared to 6.26 per cent in the same quarter in 2020. Inflation increased mildly from a low of 5.69 per cent in January to 5.90 per cent in March 2021. Food and non-alcoholic beverages were the major contributors to overall inflation, followed closely by fuel. It is expected that food inflationary pressures will ease with the anticipated long rains in the months of March to May. Fuel inflation increased gradually mainly because of increase in local pump prices as the world crude oil prices continued with an upward trend.

International Market

Production, exports and prices of tea and coffee continued to follow the seasonal patterns depicted in previous years. In the period January to March 2021, the Kenya shilling (Ksh) depreciated by 0.27 per cent and 1.09 per cent against the US Dollar and Sterling Pound, respectively. However, the Kenyan shilling appreciated by 4.15 per cent against the Euro. Kenya maintained an average of 4.70 months of import cover, even though there was a downward trend in the months of import cover from 4.90 in January 2021 to 4.50 in March 2021. It is expected that the situation will improve further with disbursements on the recently approved arrangement with IMF.

Monetary and Financial Sector

The Central Bank of Kenya maintained an accommodative monetary policy stance, with the policy rate maintained at 7.00 per cent to support the recovery of economic activities. Similarly, most Central Banks in the region maintained accommodative monetary policy stance to stimulate economic activities. The 91-day, 182-day and 364-day Treasury bills' interest rates increased from 6.91 per cent, 7.40 per cent and 8.35 per cent in January 2021 to 7.09 per cent, 7.89 per cent and 9.26 per cent in March 2021, respectively. Both the value and the number of transactions have reduced in January 2021 compared to the preceding months, an aspect attributable to the resumption of transaction costs for mobile phone transactions above Ksh 100. Non-performing loans took an upward trend as expected with the slowed economic activity while growth in private sector credit slowed.

Fiscal Performance

The cumulative actual national revenue receipts as of 31st March 2021 totaled Ksh 1172.7 billion compared to a total of Ksh 1,345.77 billion in March 2020, a decrease of 14.76 per cent. The actual revenue for quarter one in 2020 was Ksh 669.23 billion compared to a quarterly target of Ksh 707.61 billion. The exchequer allocation for development expenditure to the Ministry of Health as a percentage of total issues to Ministries,

Departments and Agencies (MDAs) increased from a quarterly average of 5.70 per cent in quarter one of 2020 to 19.40 per cent in quarter one of 2021. This is attributable to the continued government efforts to support the health sector in combating the COVID-19 pandemic. The recurrent allocation of the sector as a percentage of total issues also increased to 5.06 per cent in quarter one of 2021 from 3.78 per cent of the corresponding quarter in 2020.

Public debt increased to Ksh 7.35 trillion in March 2021 with increased borrowing related to the COVID-19, of which about 48.89 per cent was domestic debt. In the first quarter of 2021, the proportion of domestic debt held in treasury bonds rose to 75.82 per cent from 67.67 per cent in a similar quarter in 2020.

Capital Markets

As the confirmed COVID-19 cases continue to be registered globally, the world stock markets registered fluctuating trends in 2020. However, following the reopening of economies and the resumption of businesses, US, European, and Asian stock markets registered upward trends since October 2020 and this trend has extended to the first quarter of 2021, implying that the afore markets are slowly growing resilient to COVID-19. The stock market in Kenya has also taken a declining trend since January 2020, occasioned by declined foreign investor participation. However, in the fourth quarter of 2020, the stock market showed a steady recovery, which continued to the first quarter of 2021 despite the third wave of COVID-19 pandemic. This is attributable to increased economic activities following the reopening of the economy. The 10-year Kenya Eurobond (2024) yield continued to decline in the first quarter of 2021, an indication that the international market is slowly regaining confidence with Kenya's creditworthiness.

Risk-related Factors

The Purchasing Managers' Index (PMI) for Kenya has dropped from a high of 53.20 in January 2021 to a low of 50.60 in March 2021, although it remains above the 50-threshold. This signals a notable deterioration in the private sector and health of the economy. The country recorded an average rainfall of 491.70mm and 277.50mm in March-May and June-August 2020, respectively, which was higher than that recorded in the previous year. However, October to December 2020 short rains were lower (201.60mm) compared to a similar season in 2019 (584.40mm). This contributed to increased prices of food in the fourth quarter of 2020 and the first quarter of 2021. The anticipated March to May short rains are expected to push food prices downwards. In terms of credit rating for Kenya, the March 2021 fitch rating indicates a negative outlook for long term issuer default rating and local currency long-term issuer default rating. The country's economic growth is likely to be challenged by the third wave of COVID-19 that kicked off in the first quarter of 2021.

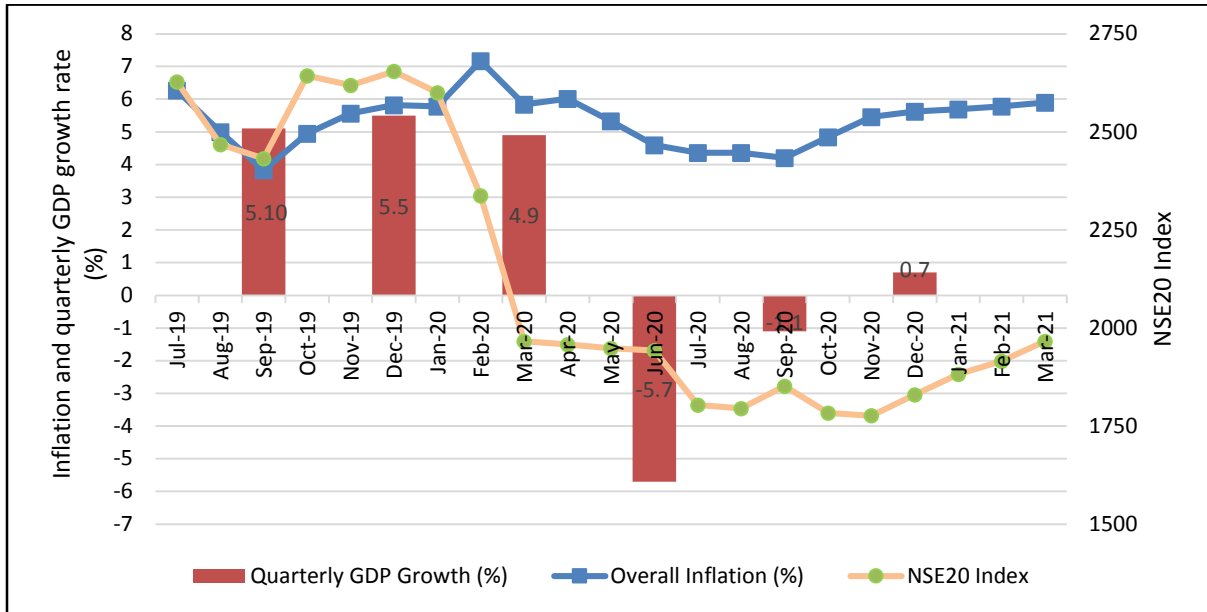
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1. Performance in the Real Sector

a) GDP performance

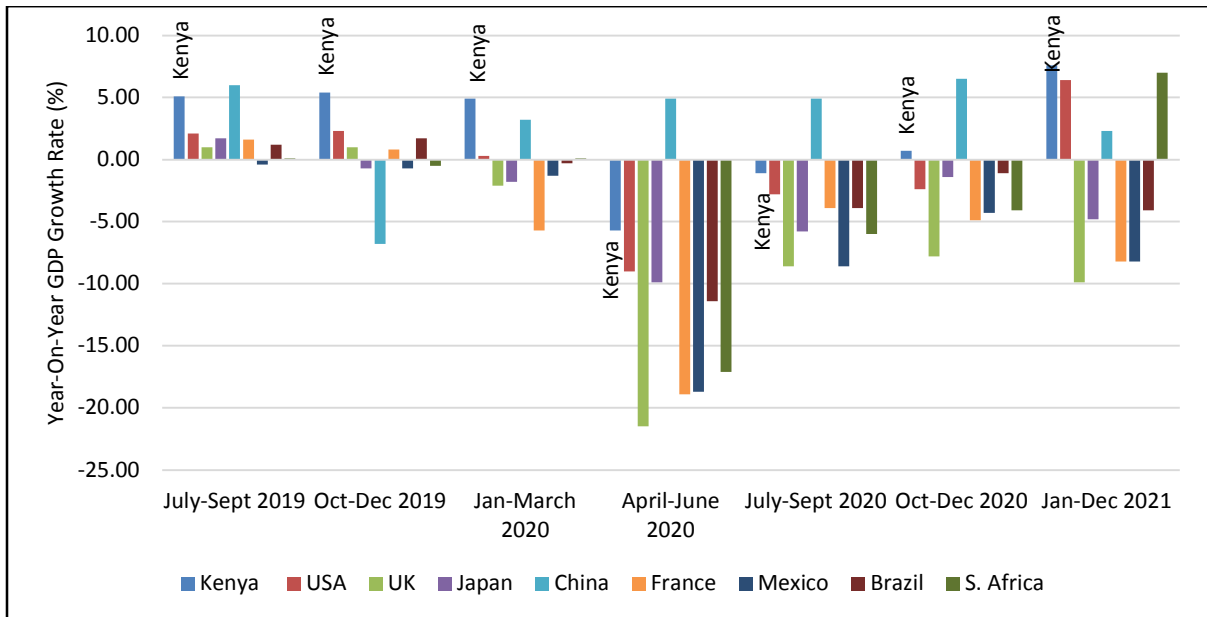
Figure 1: GDP growth, inflation, and stock market performance



Data source: Central Bank of Kenya; Kenya National Bureau of Statistics

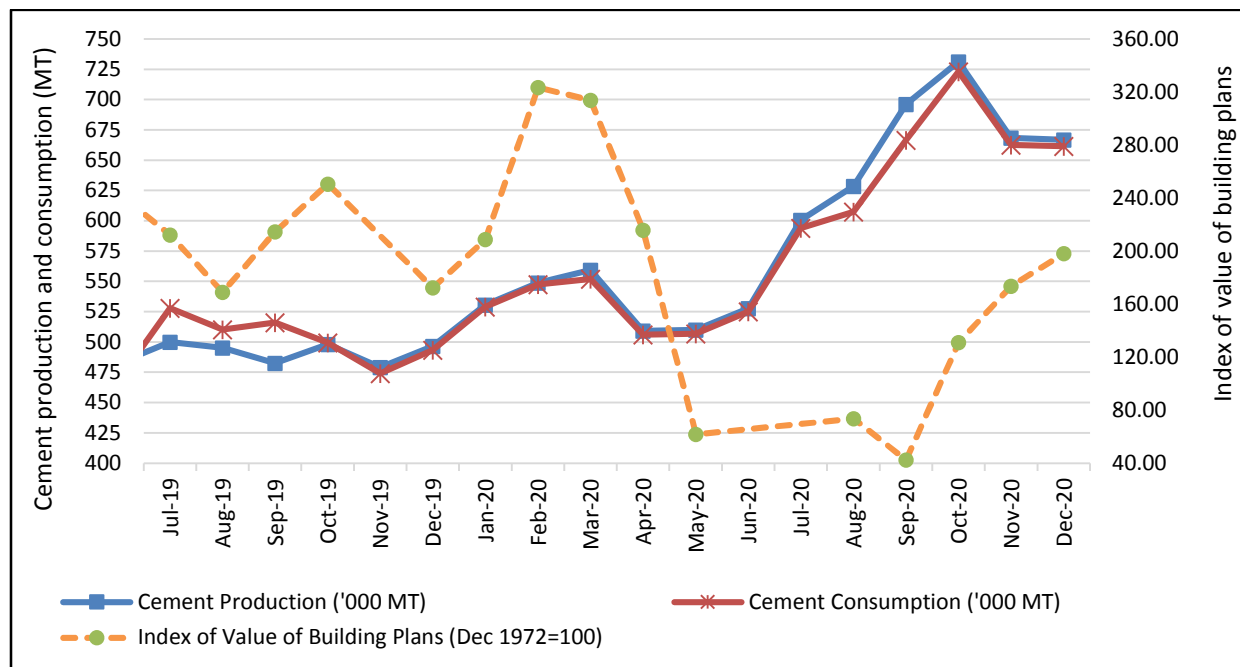
*The October -December 2020 was calculated based on IMF's estimation of Kenya's economy to have contracted by 0.30 per cent

Figure 2: Economic performance of selected advanced and emerging markets



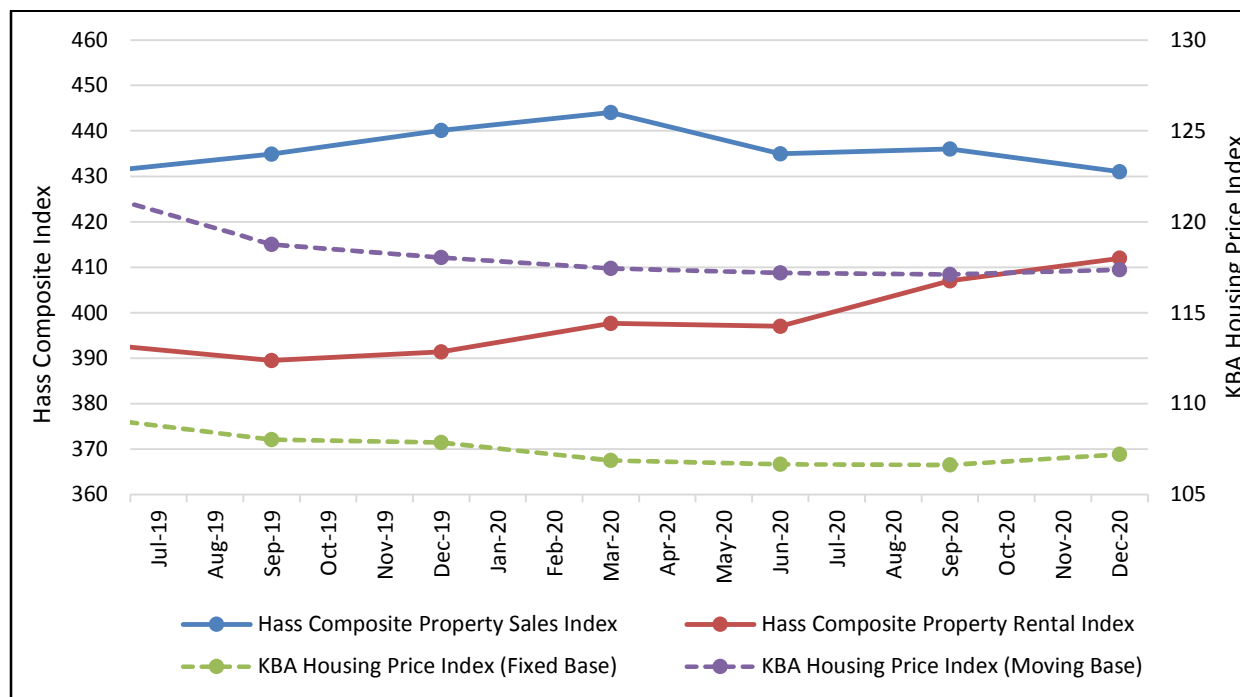
Data source: Country statistical offices; <https://tradingeconomics.com/>, IMF World Economic Outlook April 2021. *The January to December 2021 are IMF growth Projections for 2021

Figure 3: Cement production and consumption ('000 MT) and index of value of building plans



Data source: Kenya National Bureau of Statistics

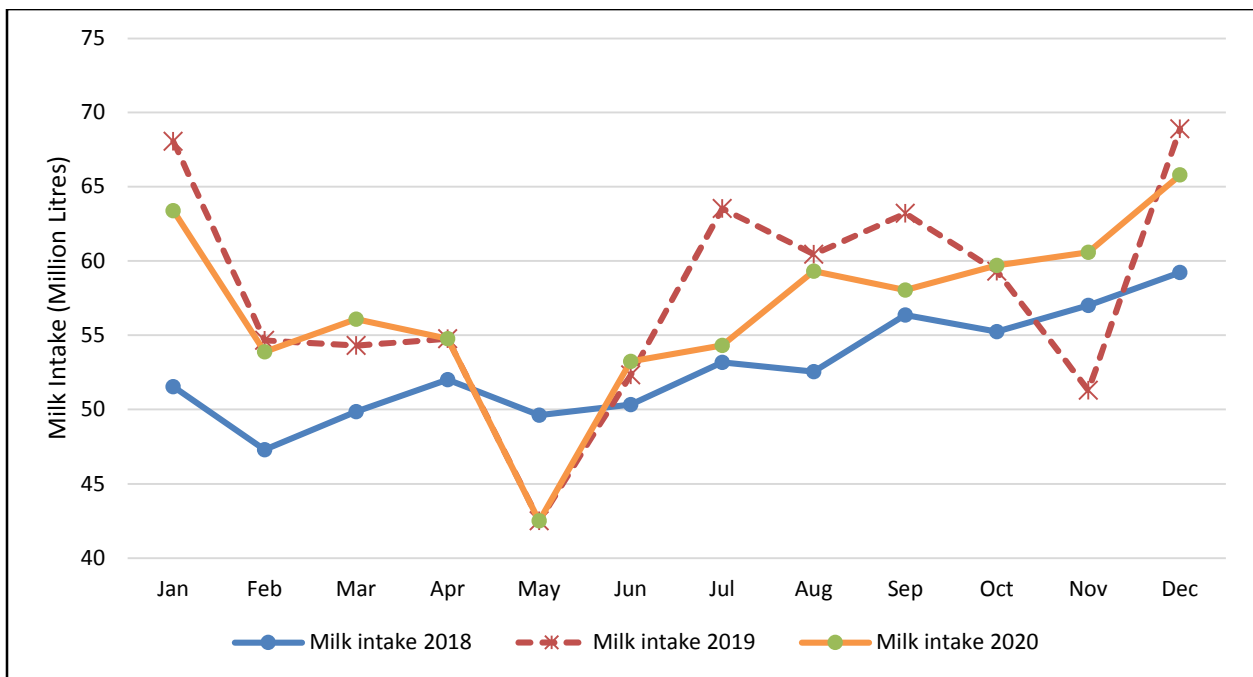
Figure 4: Kenya Housing and Property Indices



Hass Composite Property Sales Index: Year 2000 = 100; KBA Housing Price Index (fixed base): Q1 – 2013 = 100. Data Source: Hass Property Index (<http://hassconsult.co.ke/real-estate/hass-index/>)

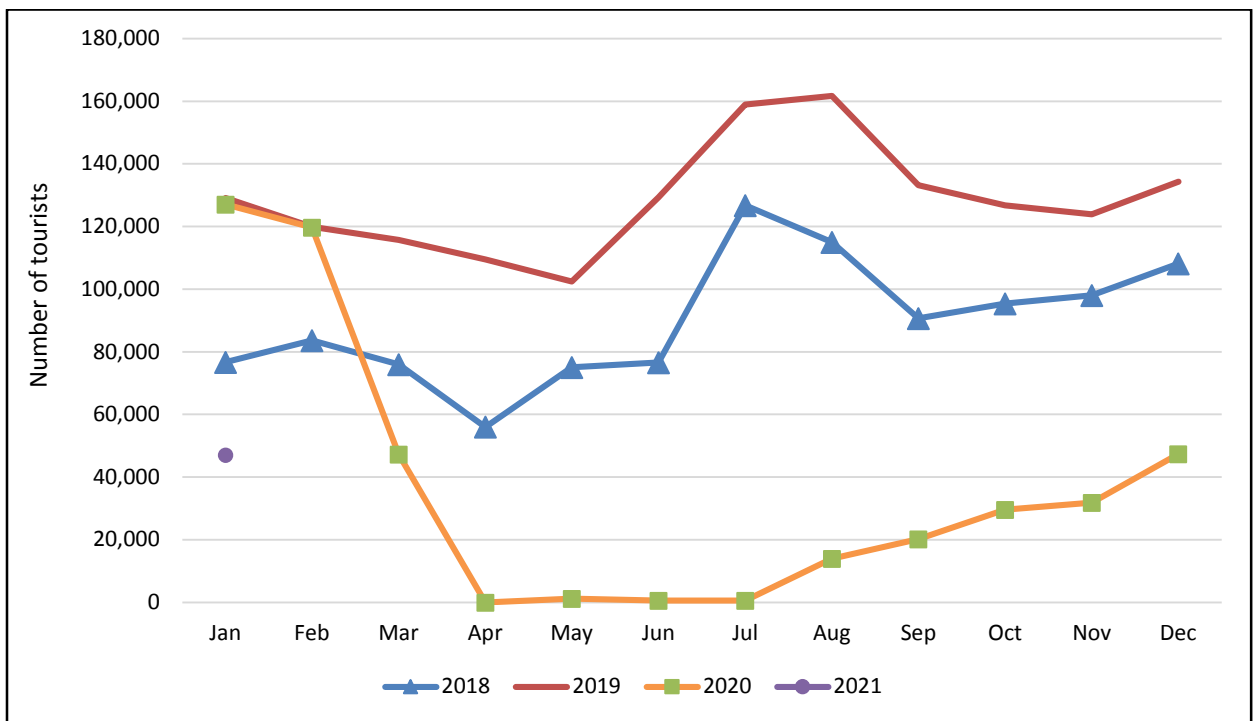
Kenya Bankers Association (https://www.kba.co.ke/house_price.php)

Figure 5: Intake of processed milk in the formal sector (million litres)



Data source: Kenya National Bureau of Statistics

Figure 6: Monthly tourist arrivals* (number)

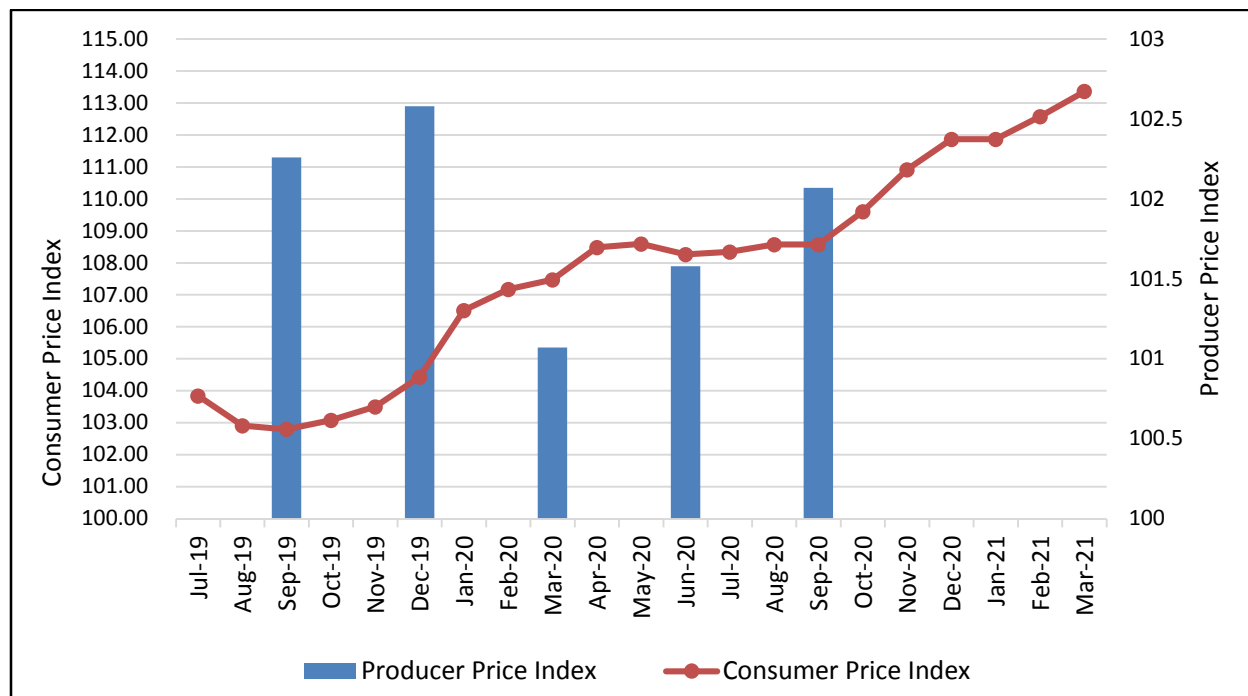


Data source: Kenya National Bureau of Statistics

*Total tourist arrivals by Air

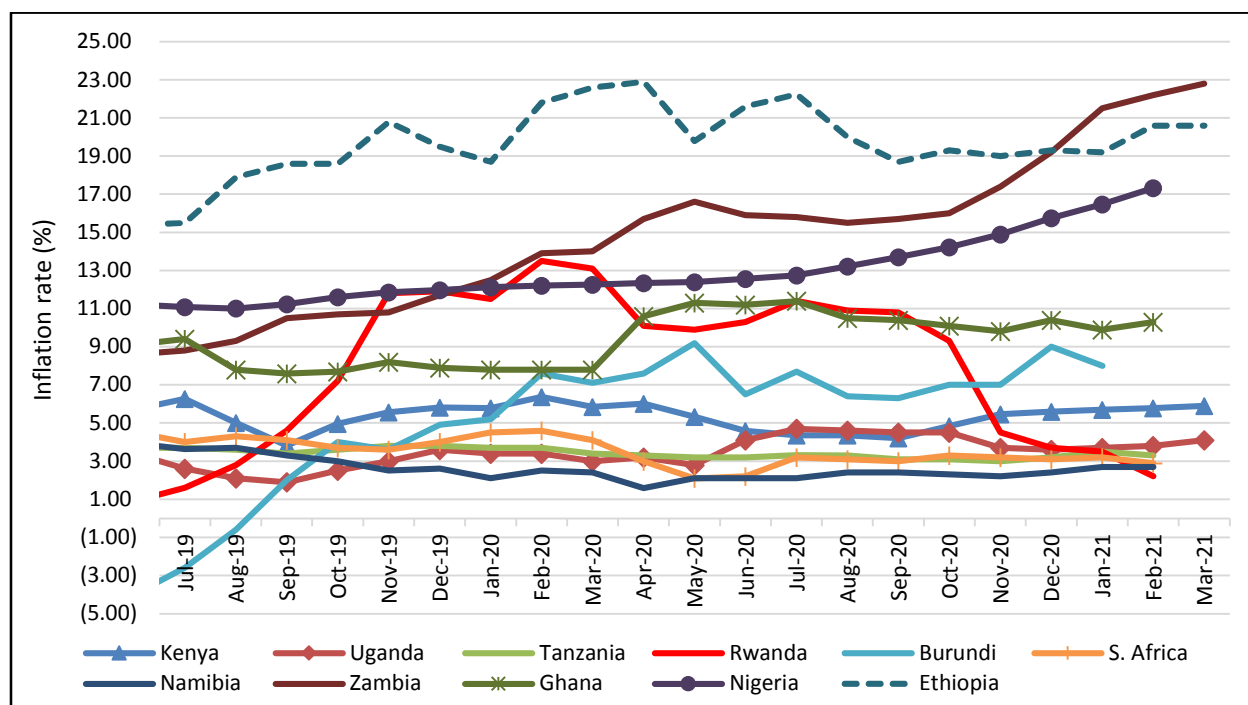
b) Price movement

Figure 7: Consumer Price Index and Producer Price Index



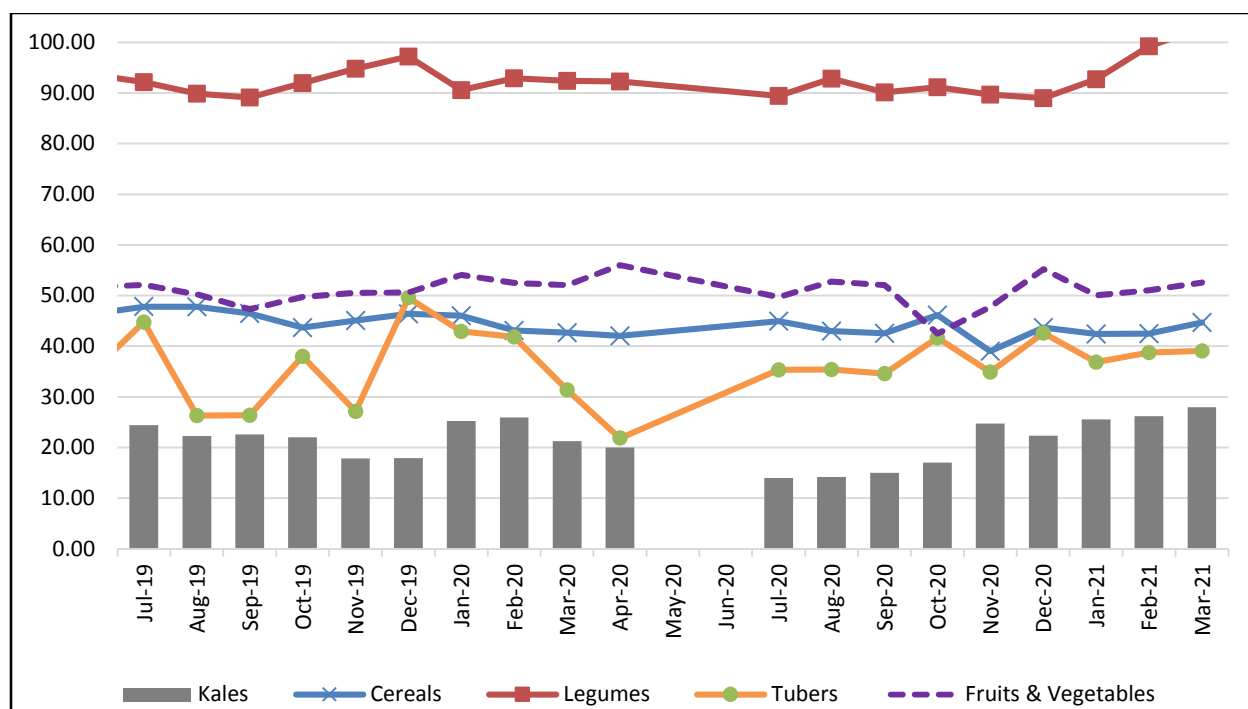
Data source: Kenya National Bureau of Statistics. CPI base year: February 2019 = 100; PPI base year: March 2019 = 100

Figure 8: Comparative inflation for selected countries in Africa



Data Source: Country statistical offices

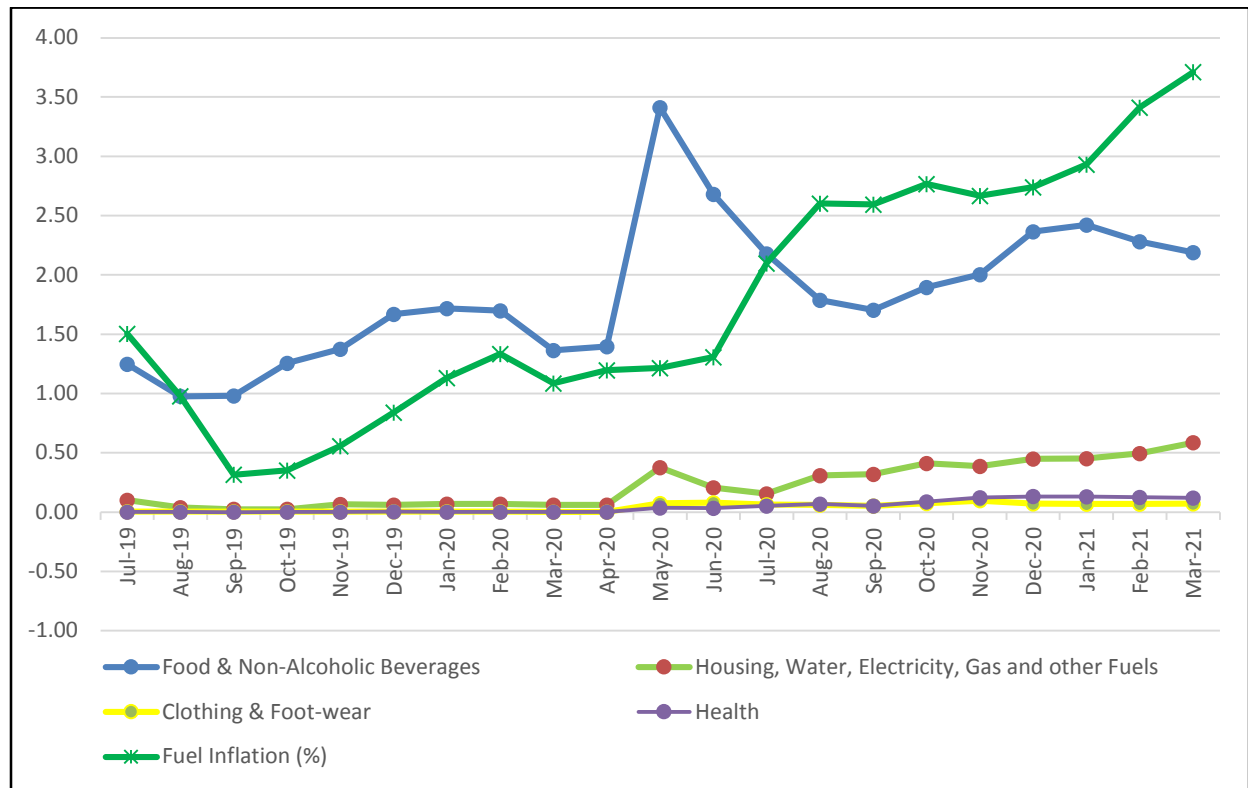
Figure 9: Domestic wholesale agriculture commodity prices (Ksh/Kg)



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

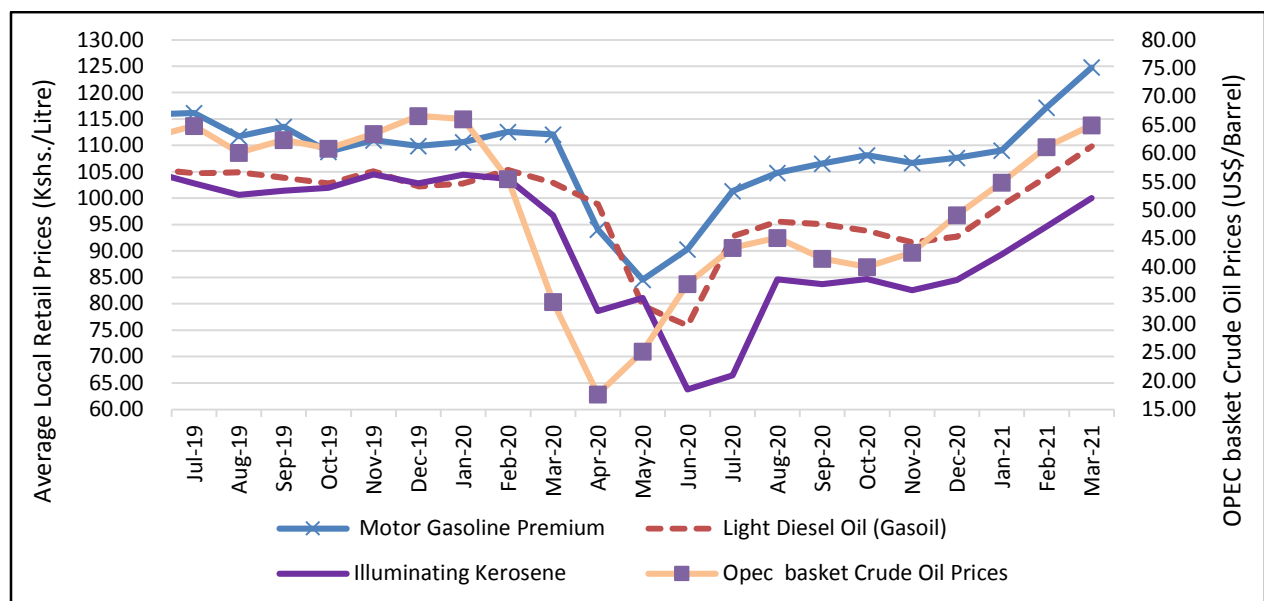
*There was no data from the ministry of Agriculture for May and June 2020

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

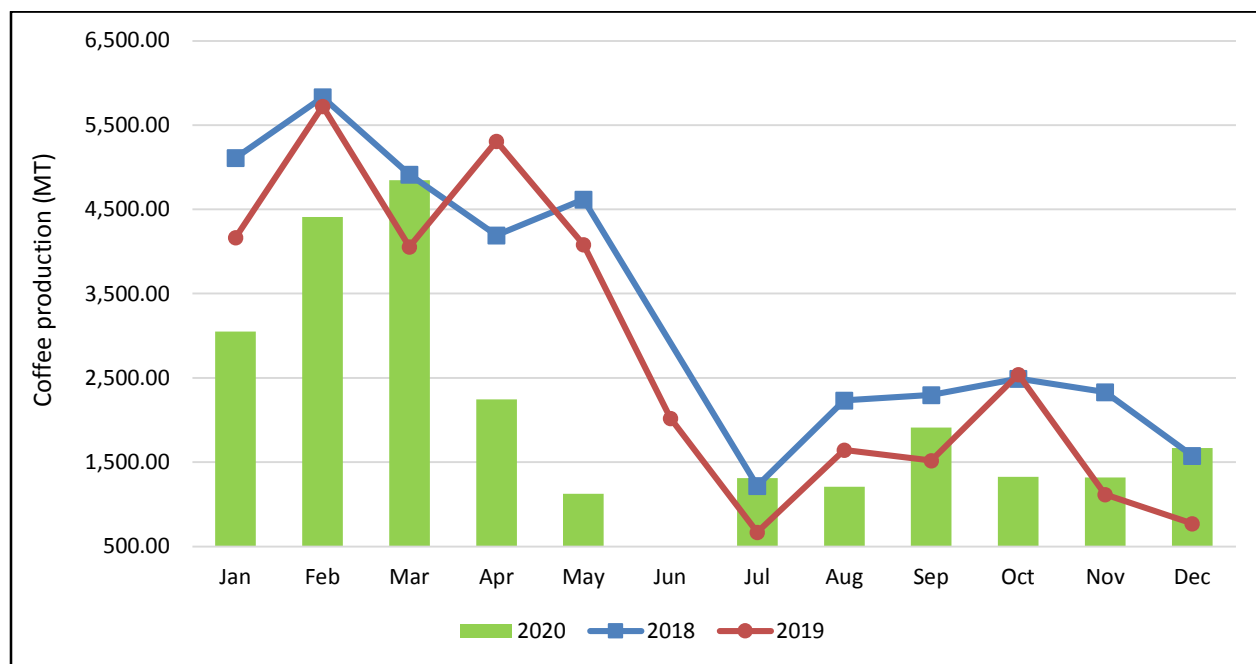


Data Source: Kenya National Bureau of Statistics; Energy and Petroleum Regulatory Authority; <https://oilprice.com/oil-price-charts/block/50>

2. International Markets

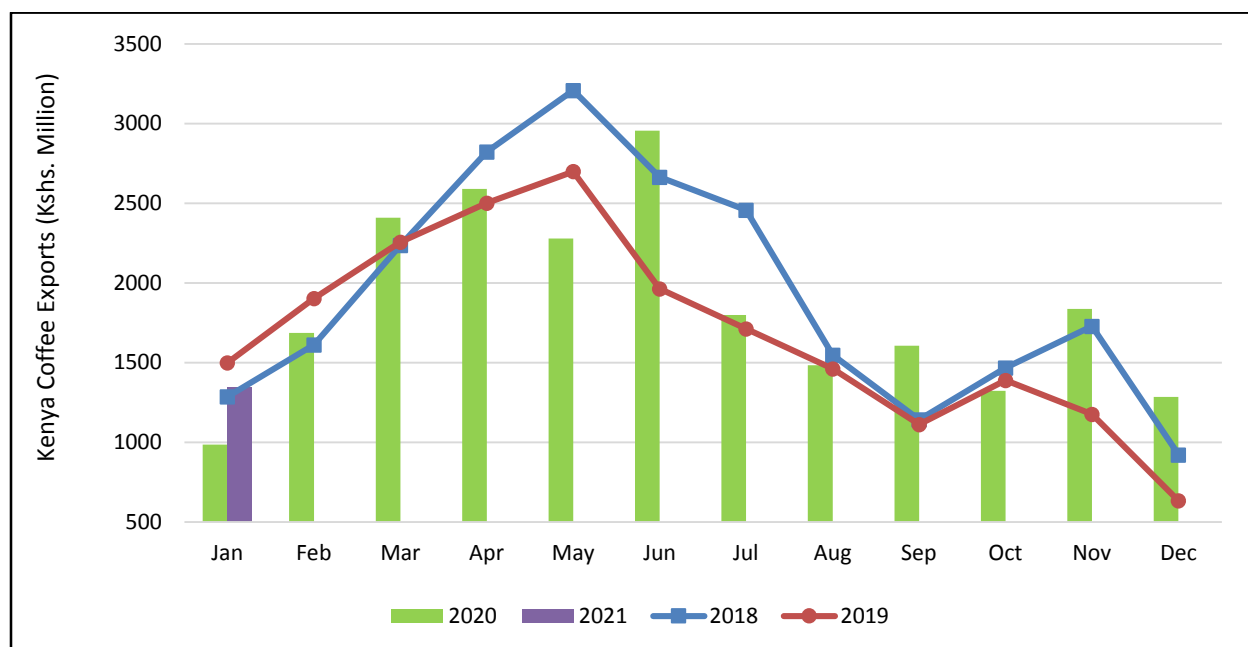
Figure 12: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)

Figure 12(a): Monthly coffee production (MT)



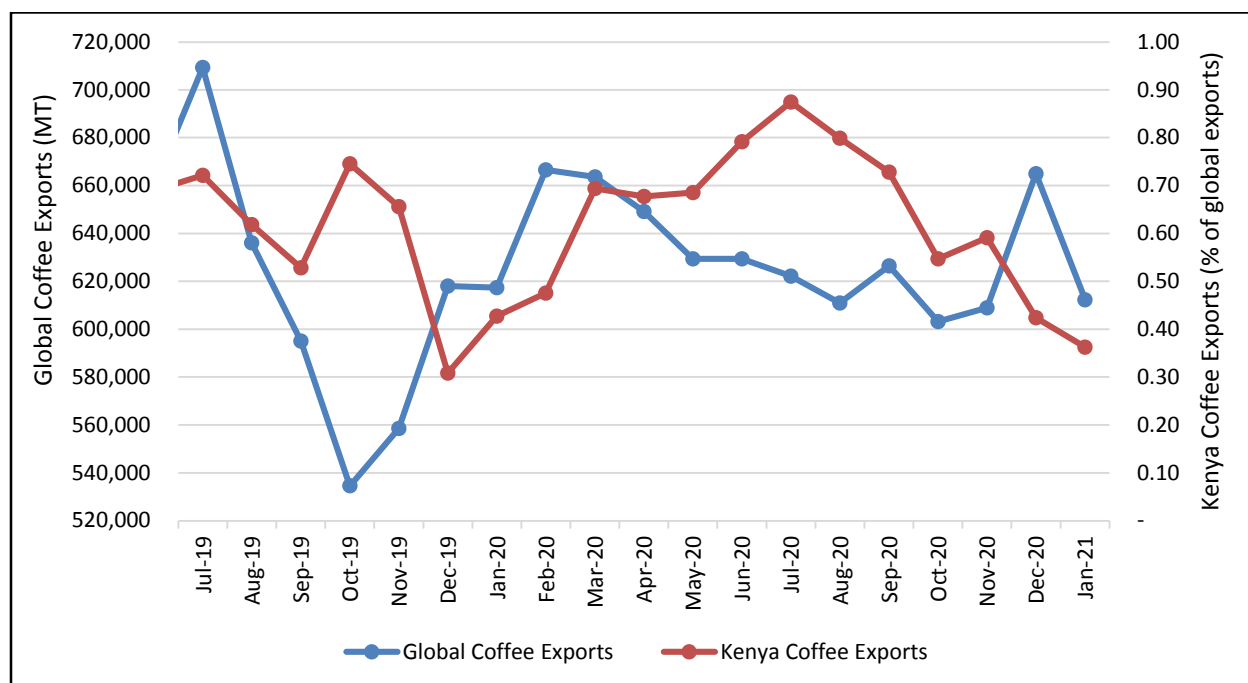
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobi coffeexchange.co.ke/>)

Figure 12(b): Monthly coffee exports (Ksh million)



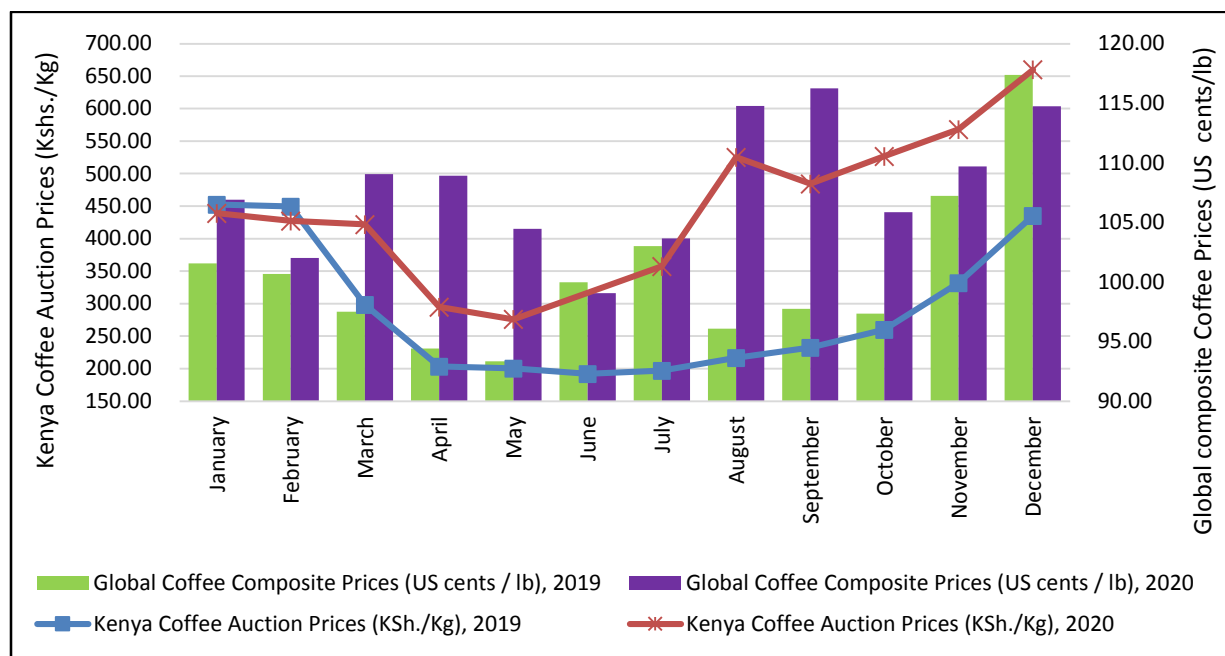
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); Figures for January and February 2020 are provisional.

Figure 12(c): Comparison between global coffee exports (MT) and Kenya coffee exports (% of global total exports)



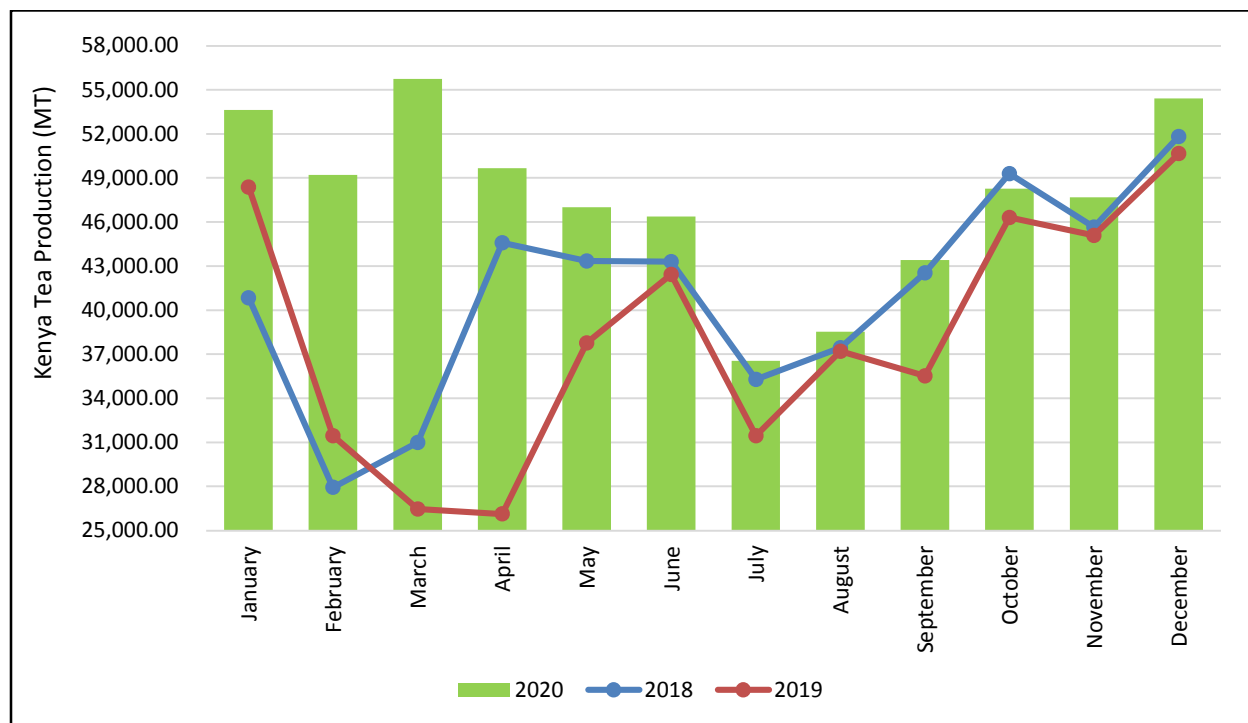
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

Figure 12(d): Monthly Kenya coffee auction prices (Ksh/Kg) and global composite prices (US cents/lb)



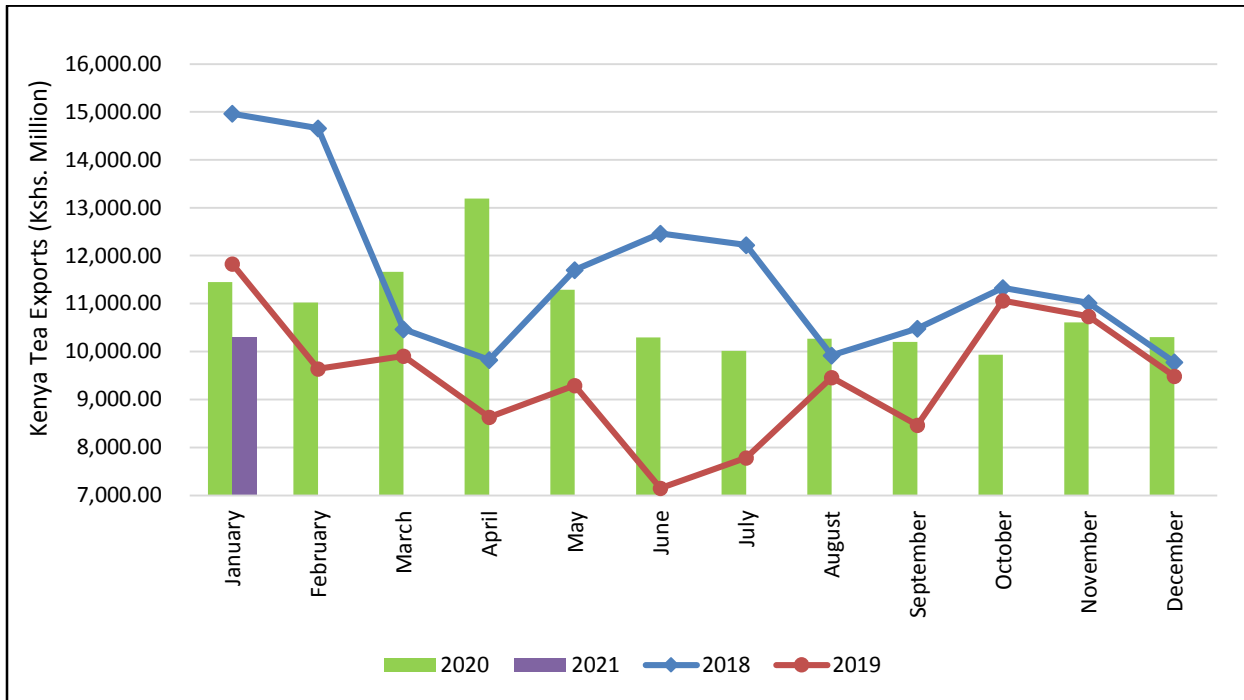
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

Figure 12(e): Monthly tea production (MT)



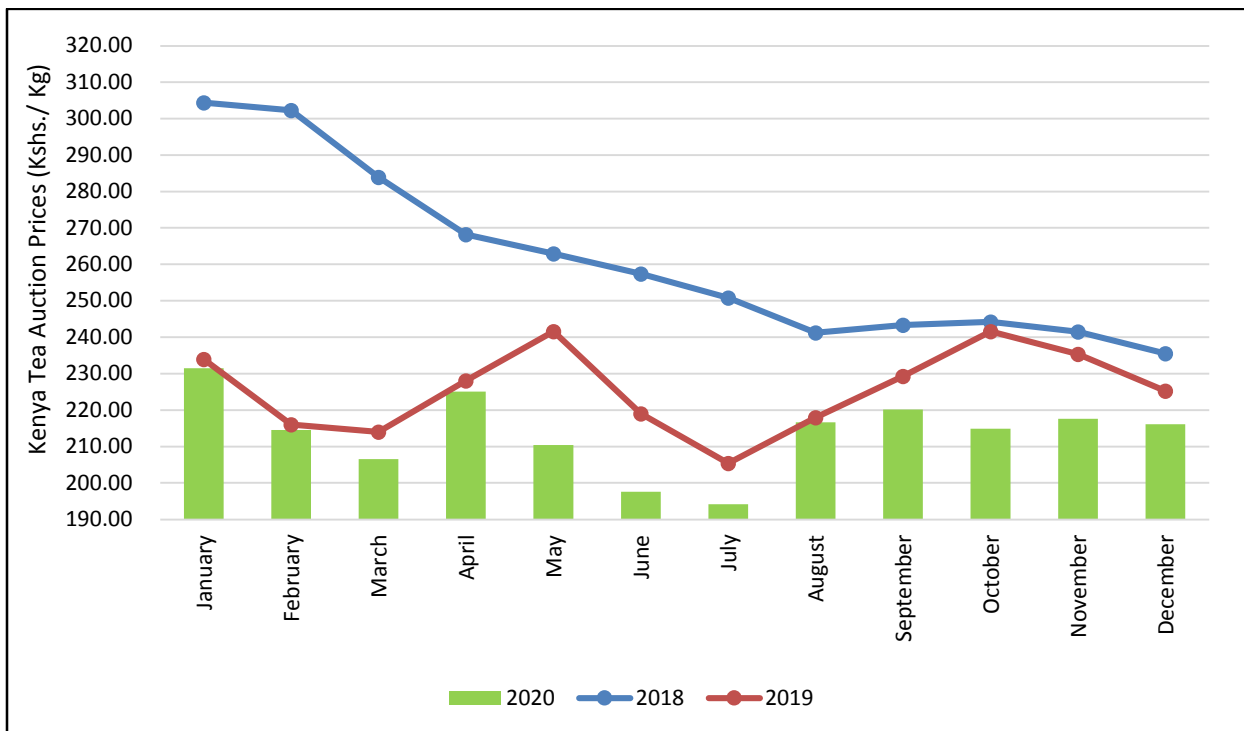
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

Figure 12(f): Monthly tea exports (Ksh million)



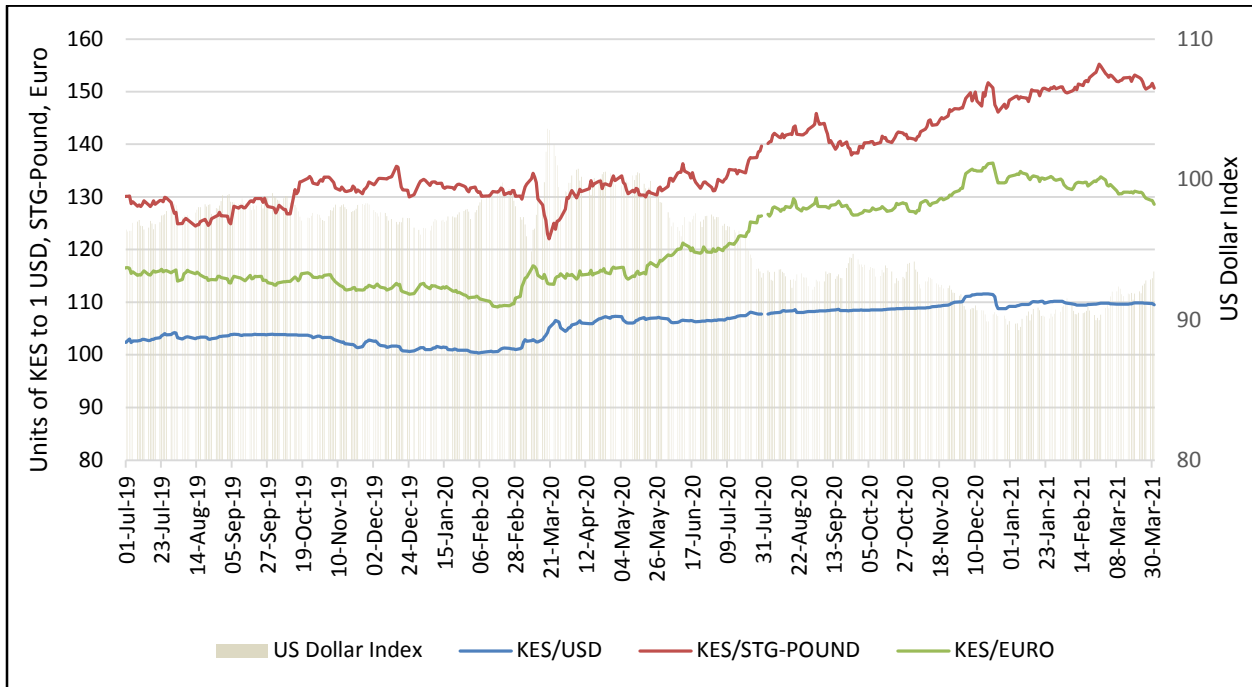
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

Figure 12(g): Monthly Kenya tea auction prices (Ksh/Kg)



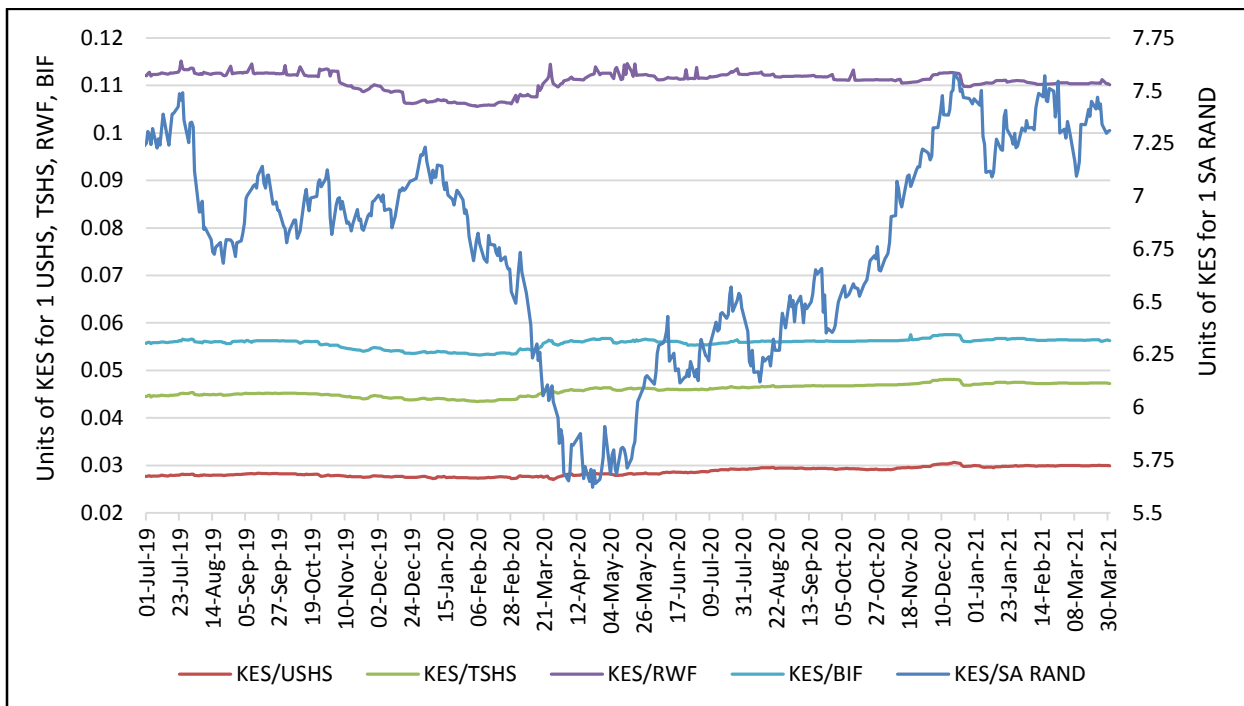
Data Source: KNBS; East Africa Tea Trade Association; Mombasa Tea Auction

Figure 13: The exchange rate of Kenya shilling to global currencies



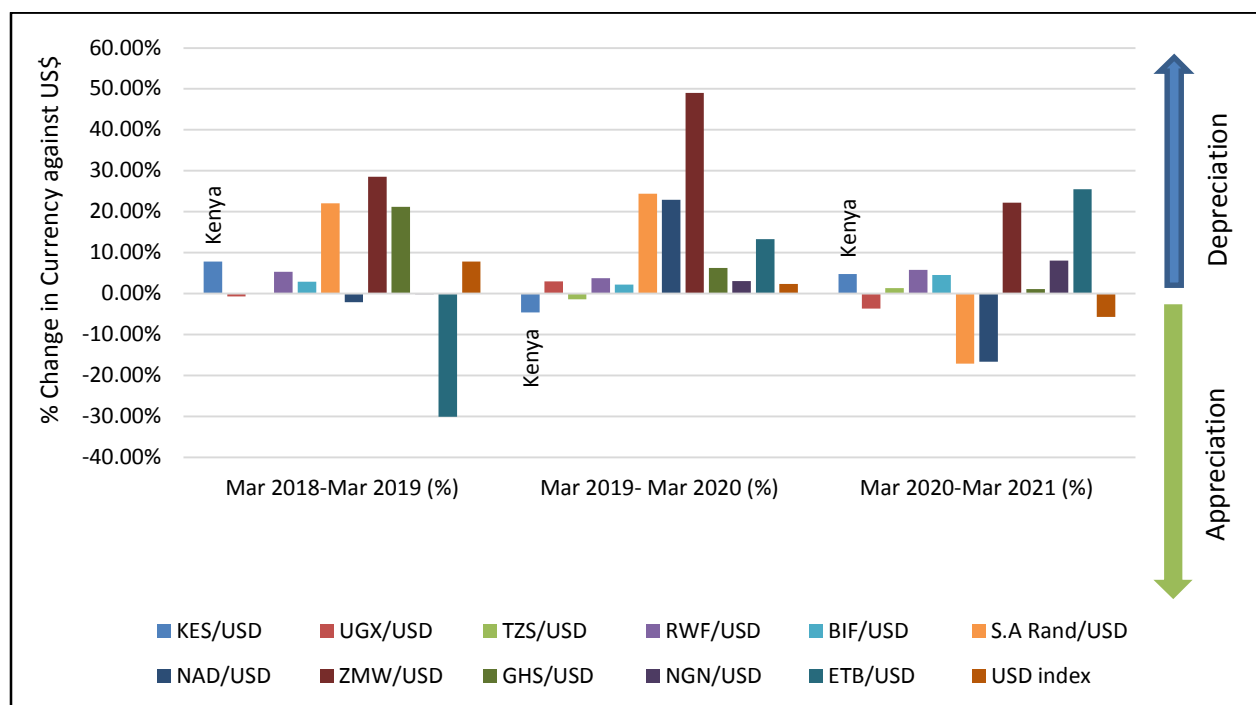
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics;
<https://www.investing.com/quotes/us-dollar-index-historical-data>

Figure 14: The exchange rate of Kenya shilling to regional currencies



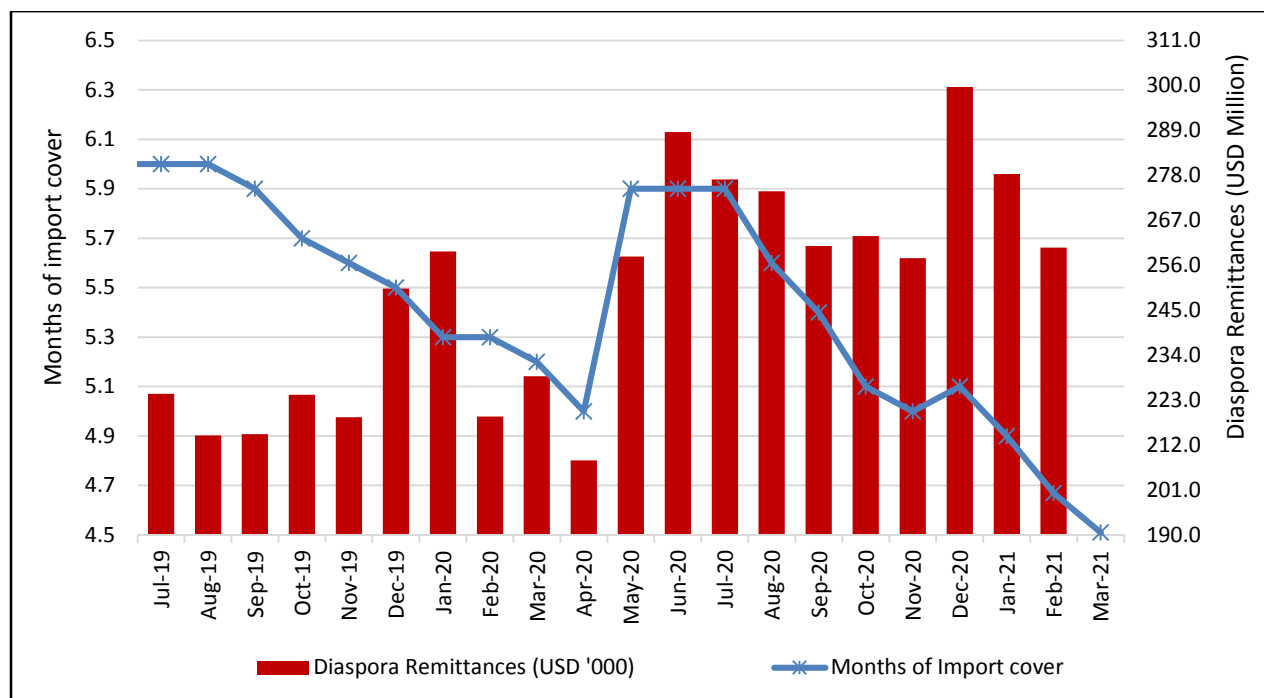
Data source: Central Bank of Kenya

Figure 15: 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. USD-US Dollar; KES - Kenyan Shilling; UGX-Ugandan Shilling; TZS-Tanzanian Shilling; RWF-Rwandan Franc; BIF-Burundian Franc; SA-South Africa; NAD-Namibian Dollar; ZMW-Zambian Kwacha; GHS-Ghanaian Cedi; NGN-Nigerian Naira; ETB-Ethiopian Birr

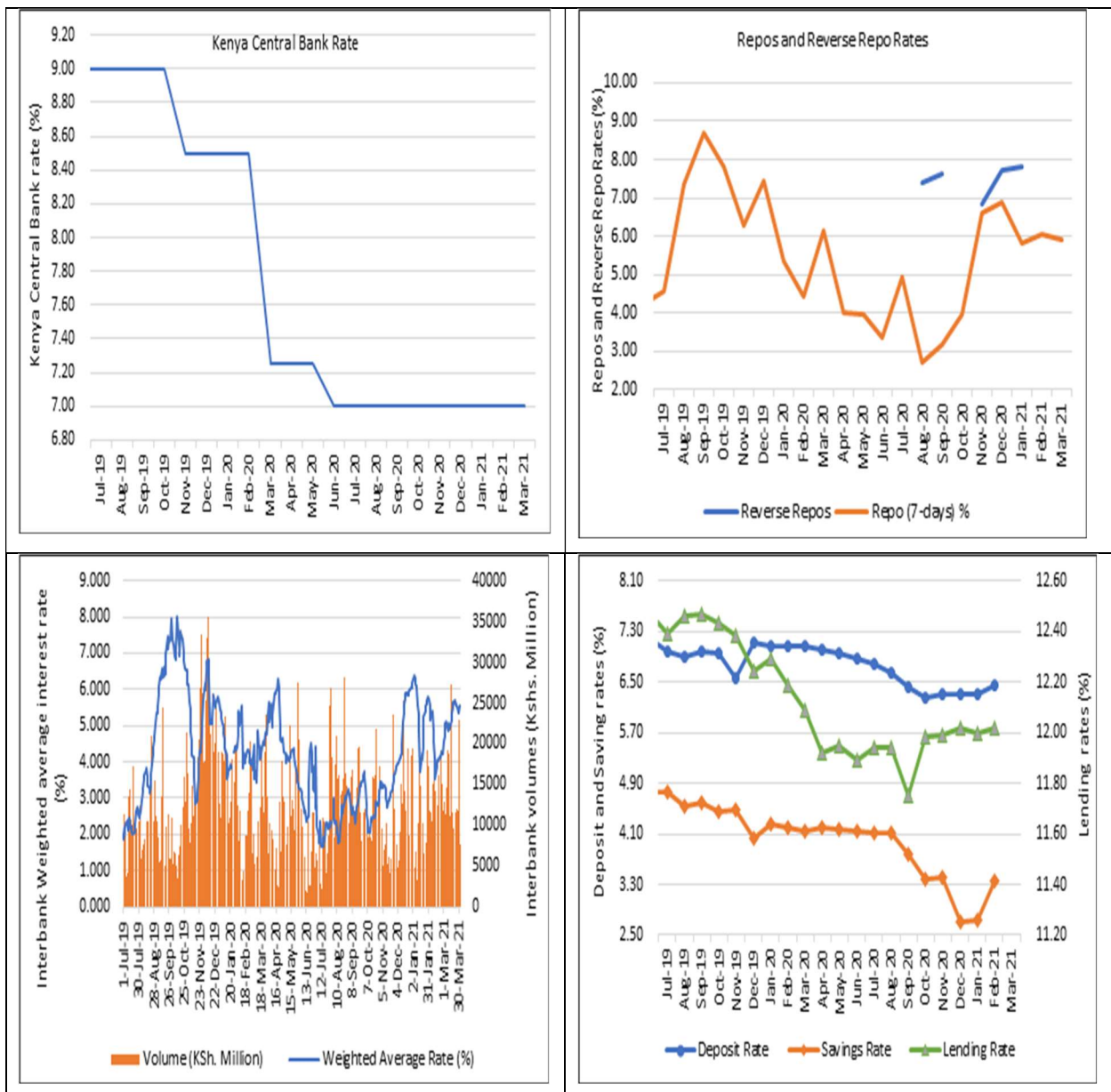
Figure 16: Months of import cover and diaspora remittances



Data Source: Central Bank of Kenya

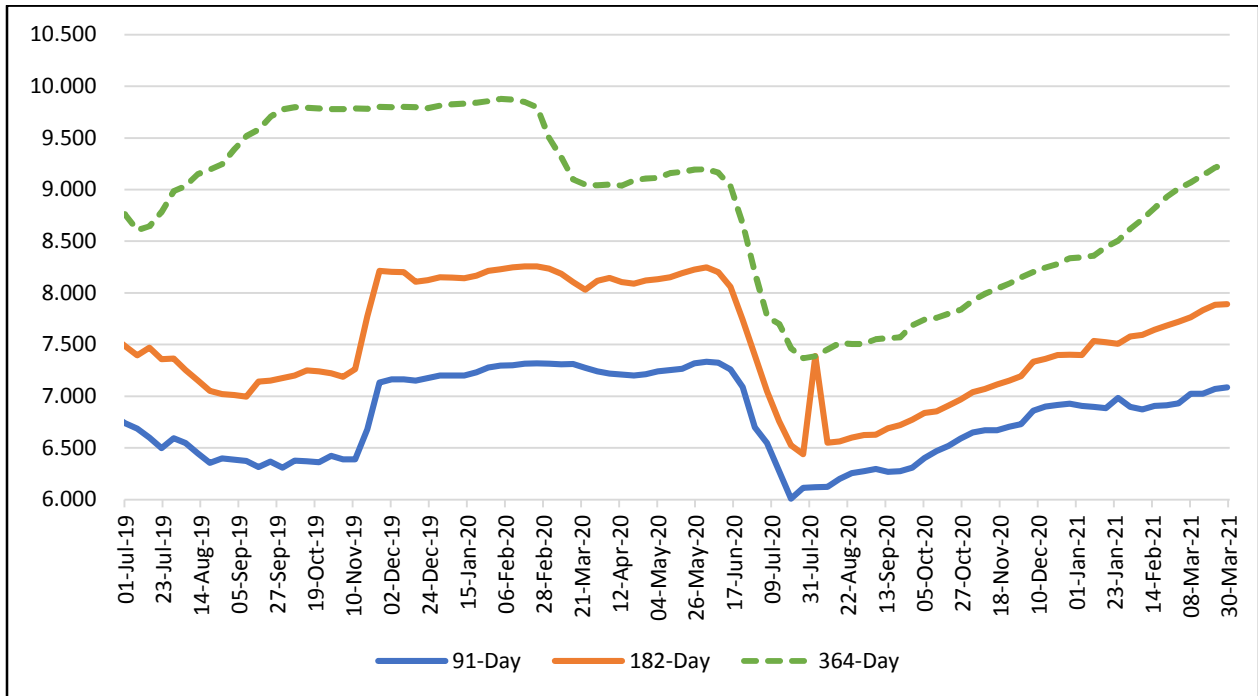
3. Monetary and Financial Sector

Figure 17: Interbank rate and volume, Repos and other interest rates



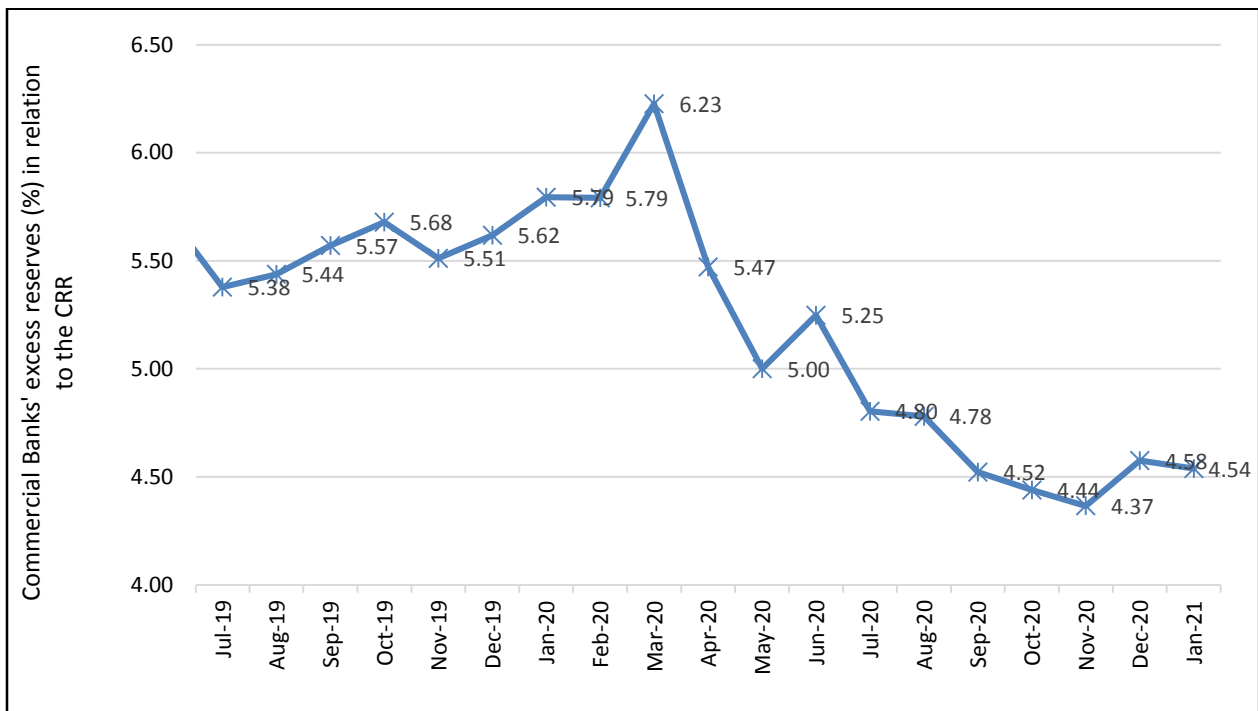
Data source: Central Bank of Kenya

Figure 18: Treasury bill weighted average rate (%)



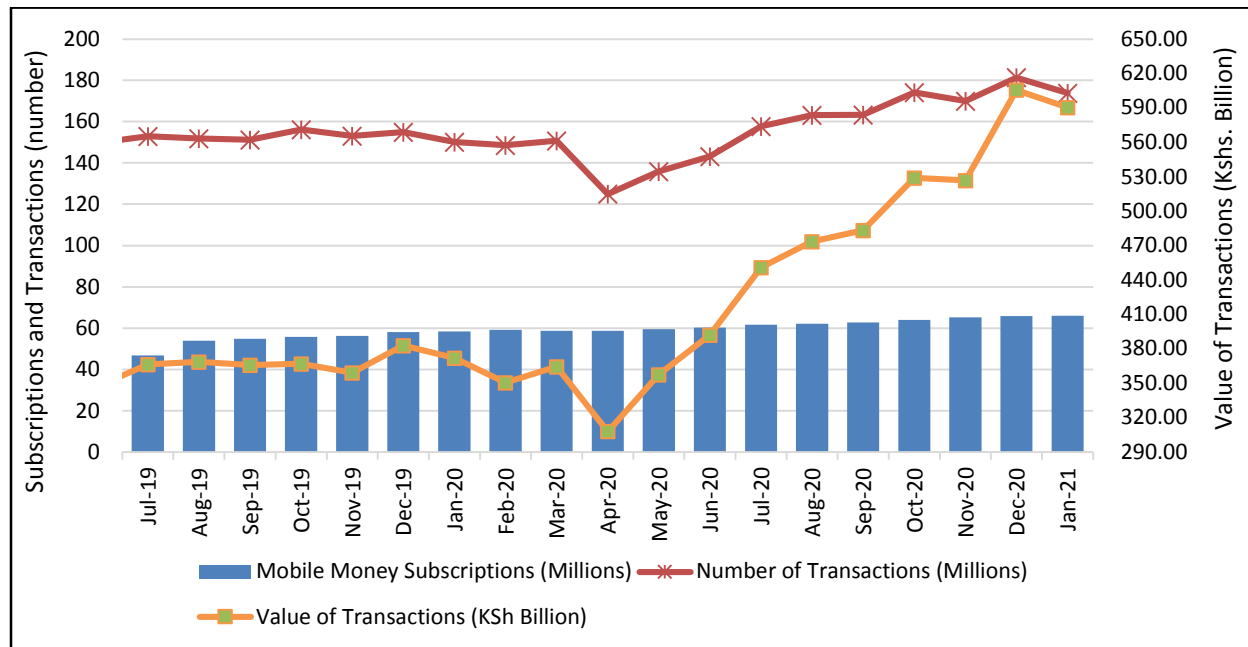
Data source: Central Bank of Kenya

Figure 19: Commercial banks' excess reserves (%) in relation to the CRR



Data source: Central Bank of Kenya; CRR = Cash Reserves Requirement; CRR before March 2020=5.25%, CRR after March 2020= 4.25%

Figure 20: Mobile money transactions

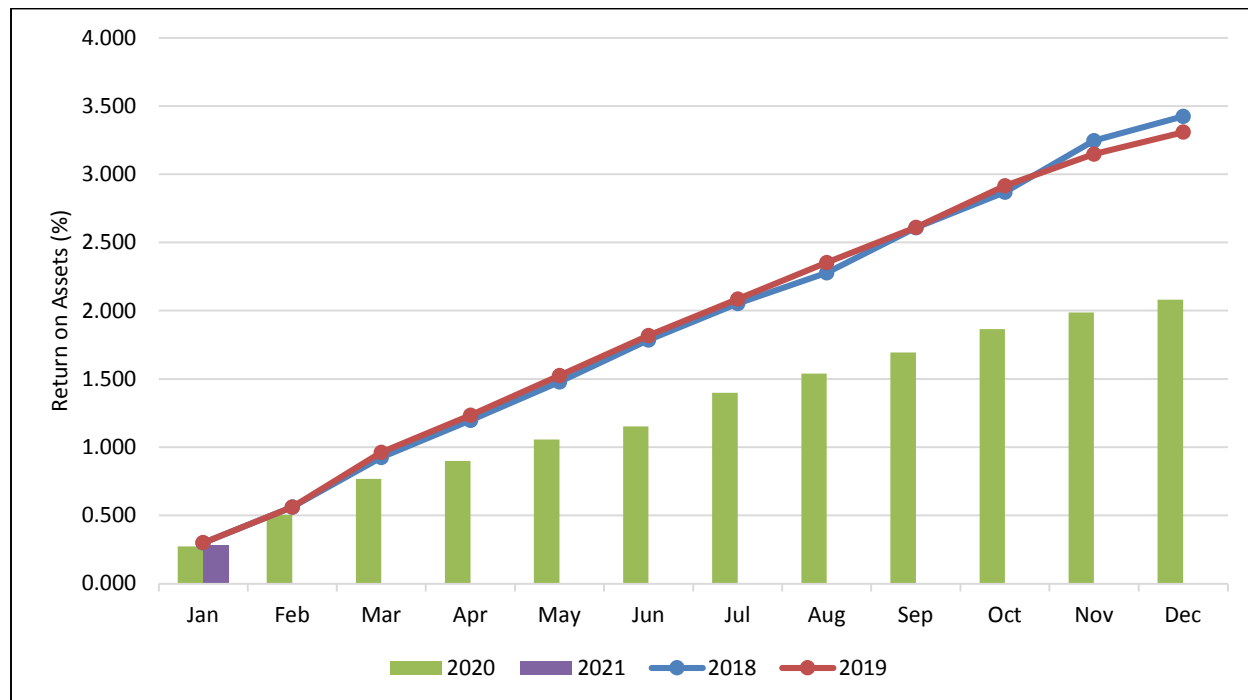


Data source: Kenya National Bureau of Statistics

Note: The mobile money subscriptions exceed total adult population since this is based on registered SIM Cards in transacting electronic gadgets (Individual mobile phones and Point of Sale gadgets). In addition, 30% of mobile users in Kenya own more than 1 SIM Card (<https://www.ca.go.ke>)

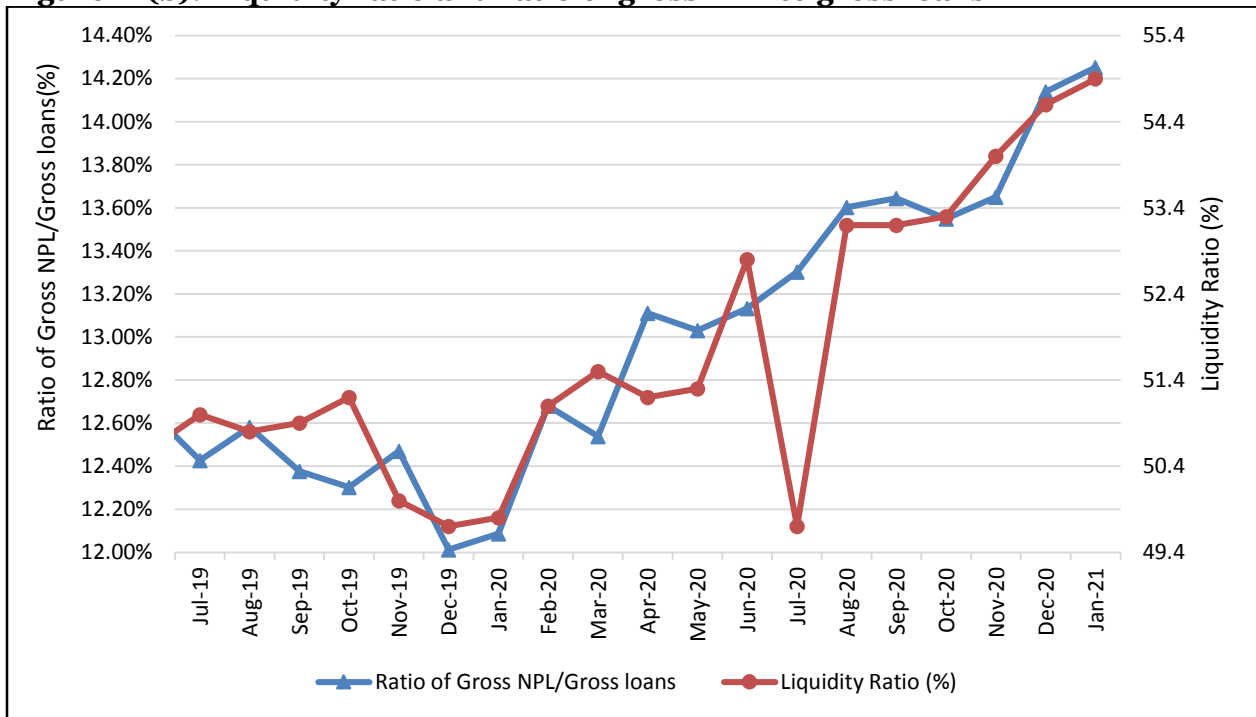
Figure 21: Kenyan banking sector performance

Figure 21(a): Return on asset (%)



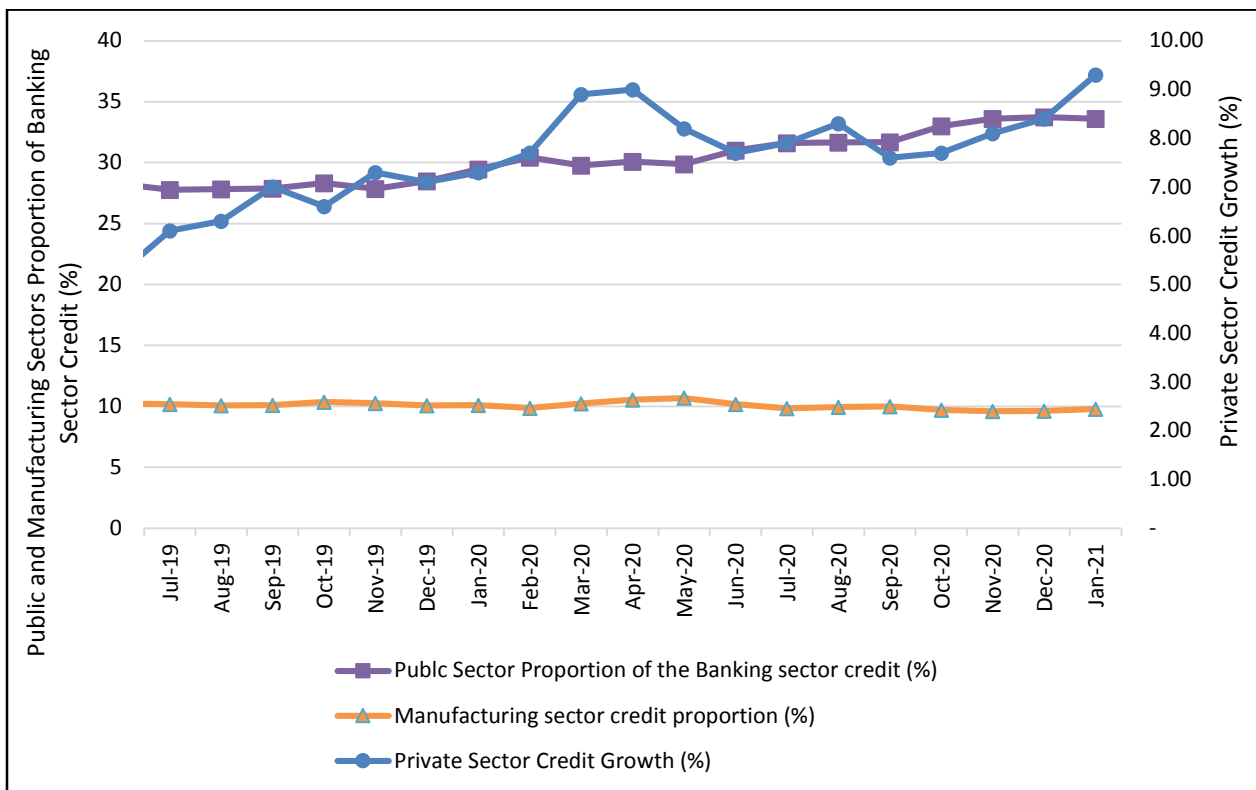
Data Source: Calculated using data from Central Bank of Kenya

Figure 21(b): Liquidity ratio and ratio of gross NPL to gross loans



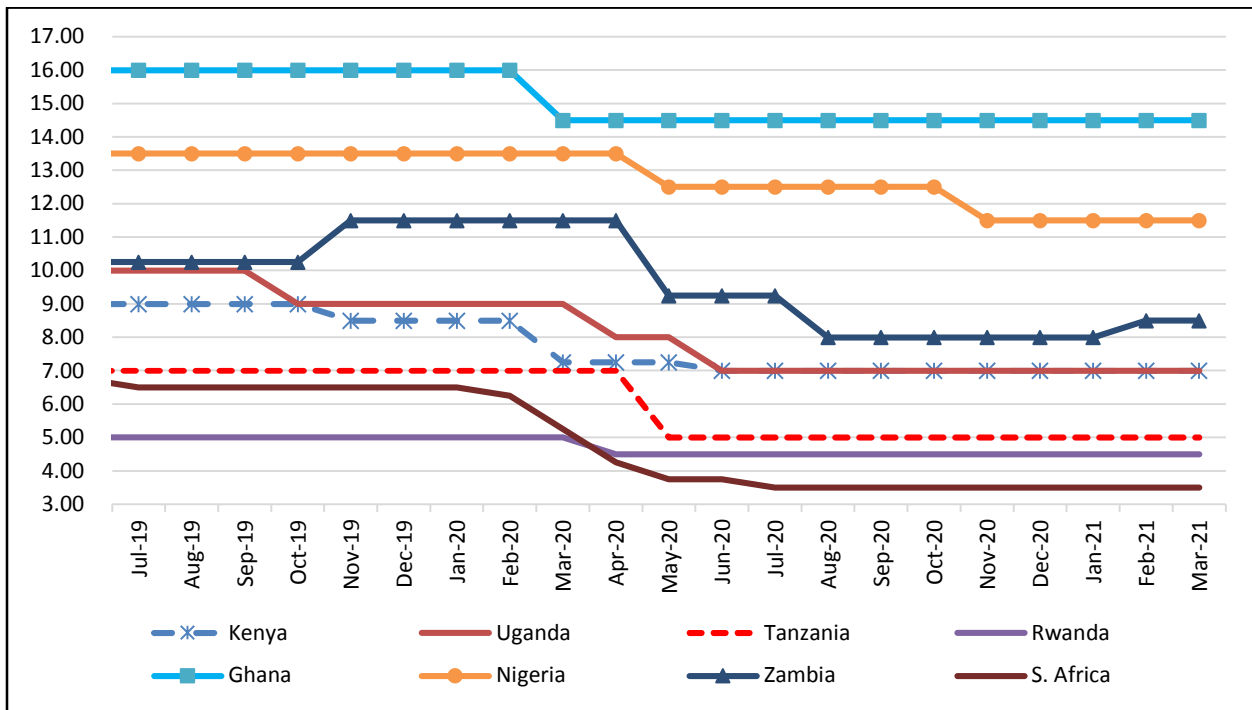
Data Source: Calculated using data from Central Bank of Kenya

Figure 22: Banking sector credit



Data Source: Central Bank of Kenya

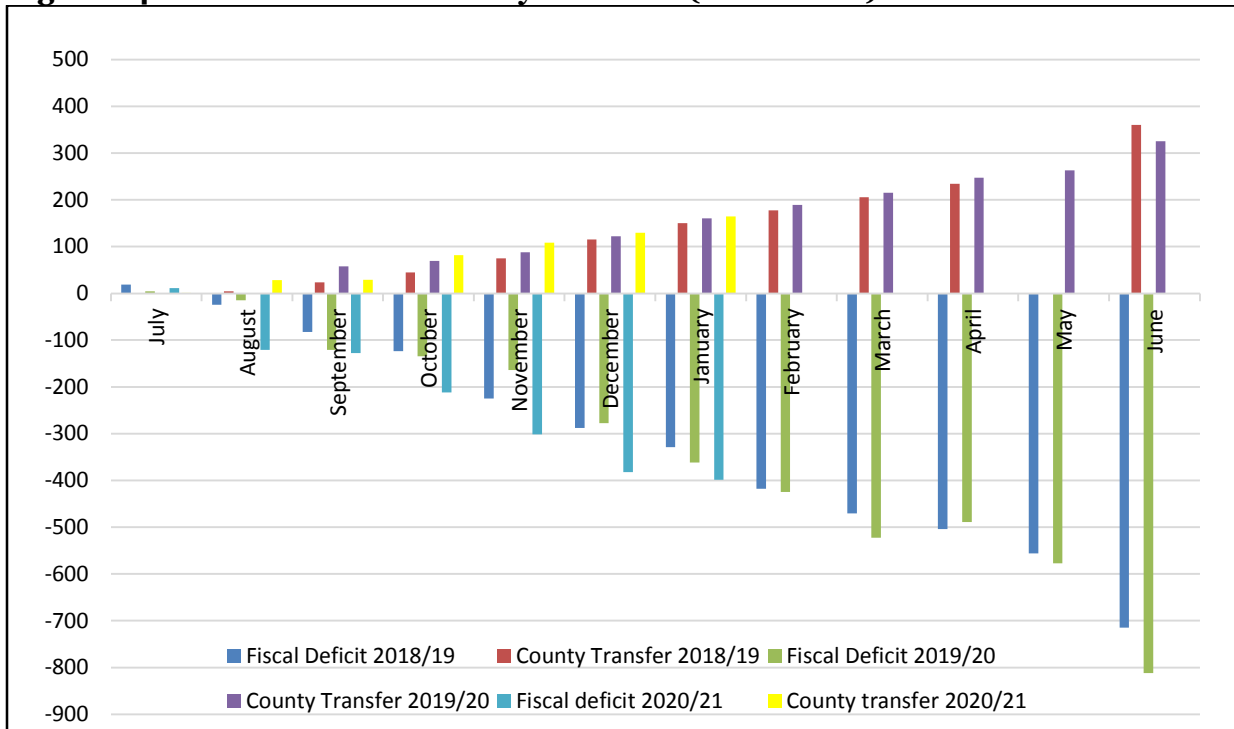
Figure 23: Monetary policy stance for selected countries in Africa



Data Source: Country Central Banks

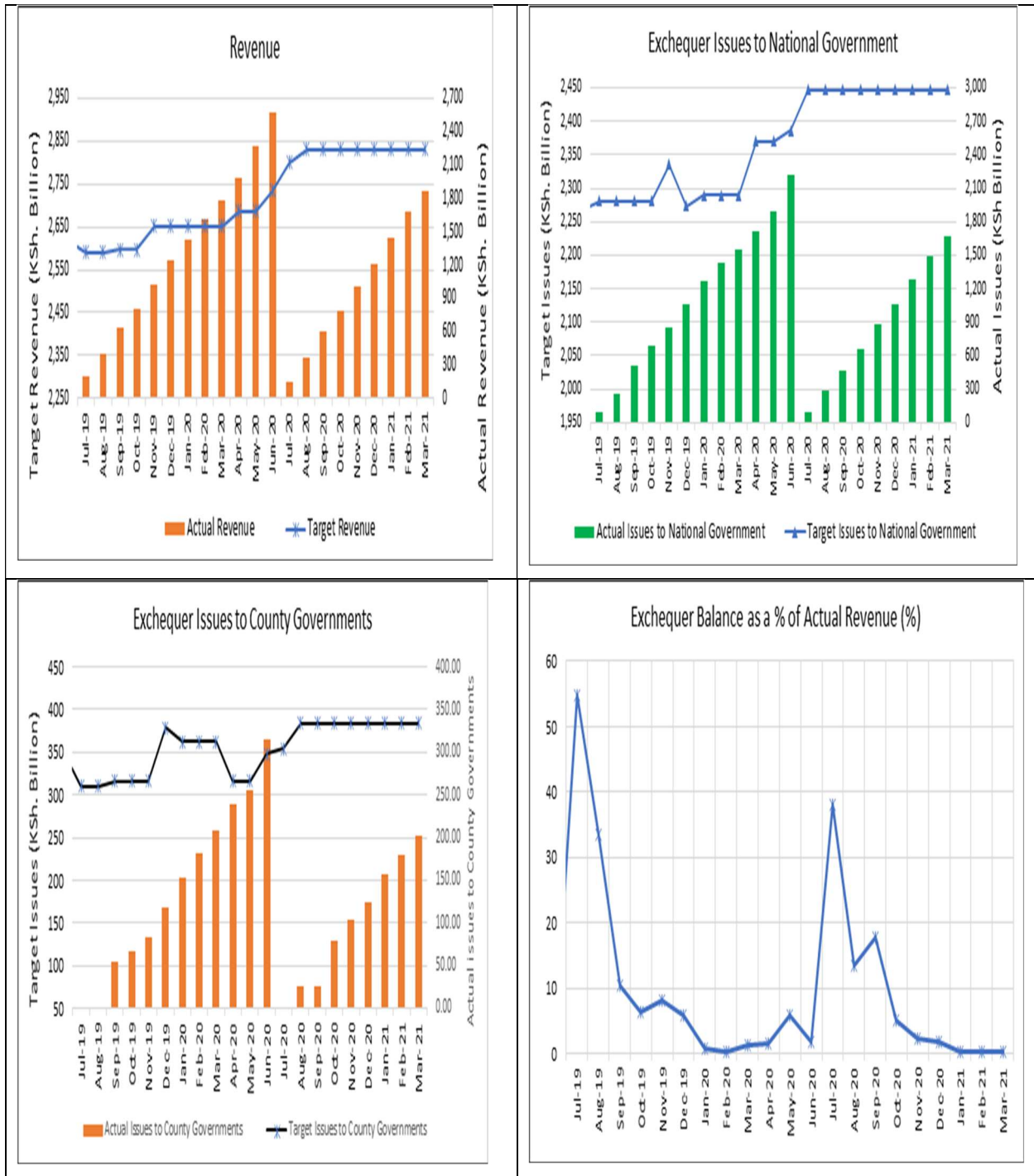
4. Fiscal Performance

Figure 24: Fiscal deficit and county transfers (Ksh billion)



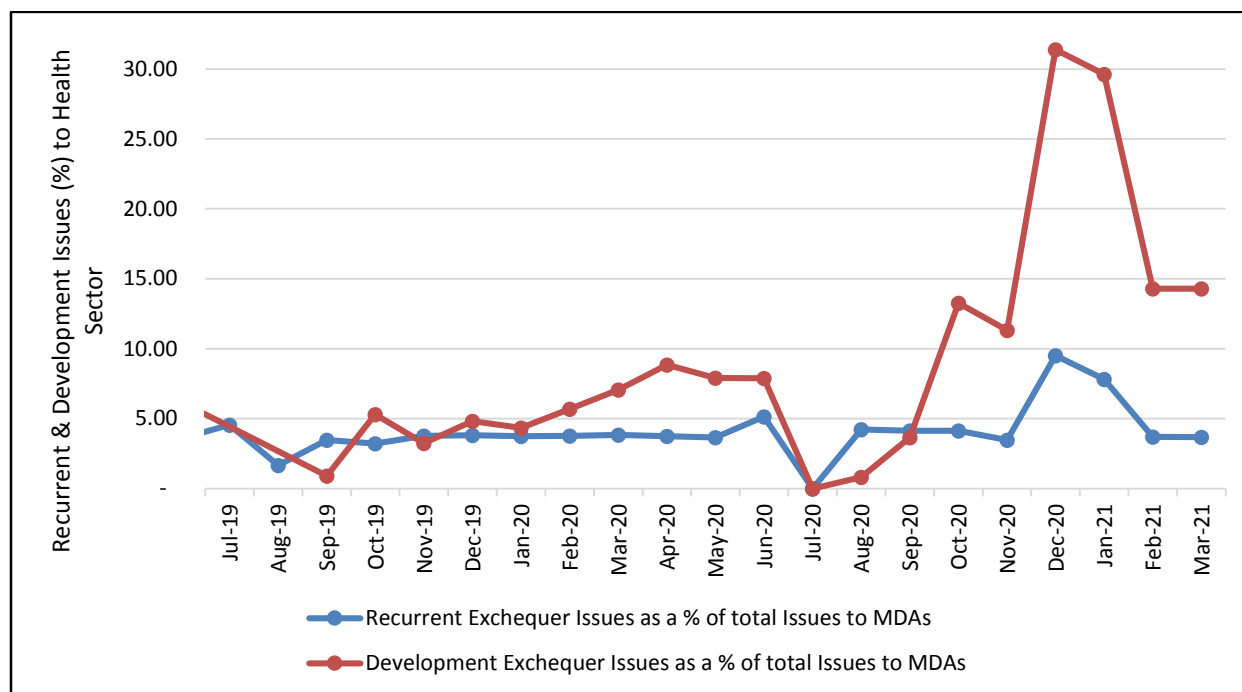
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices

Figure 25: Monthly utilization of revenue against target



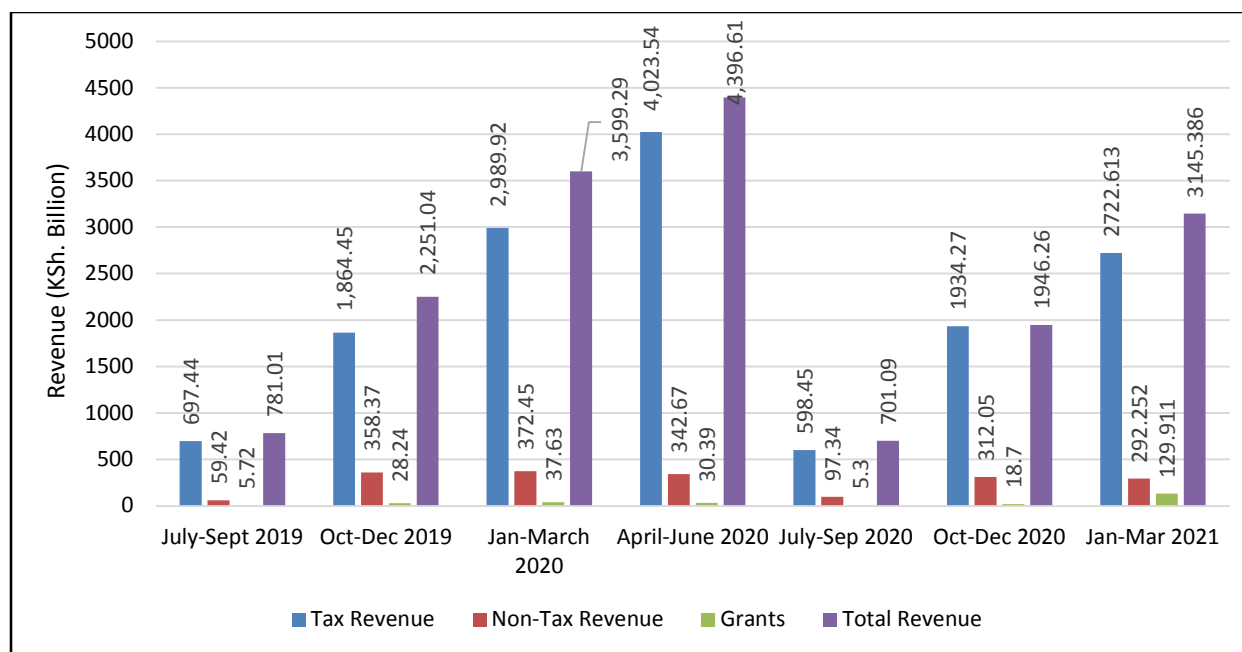
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 26: Exchequer allocation to Ministry of Health as a % of total issues to Ministries, Agencies and Departments



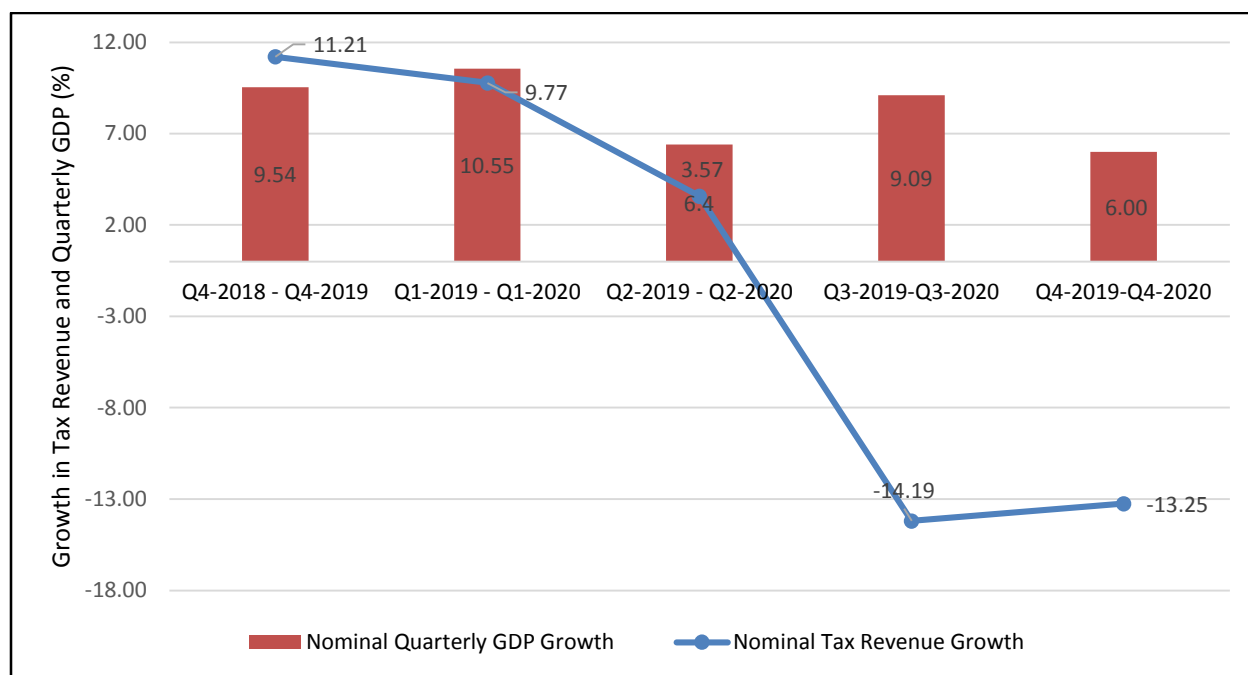
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 27: Composition of government revenue (Ksh billion)



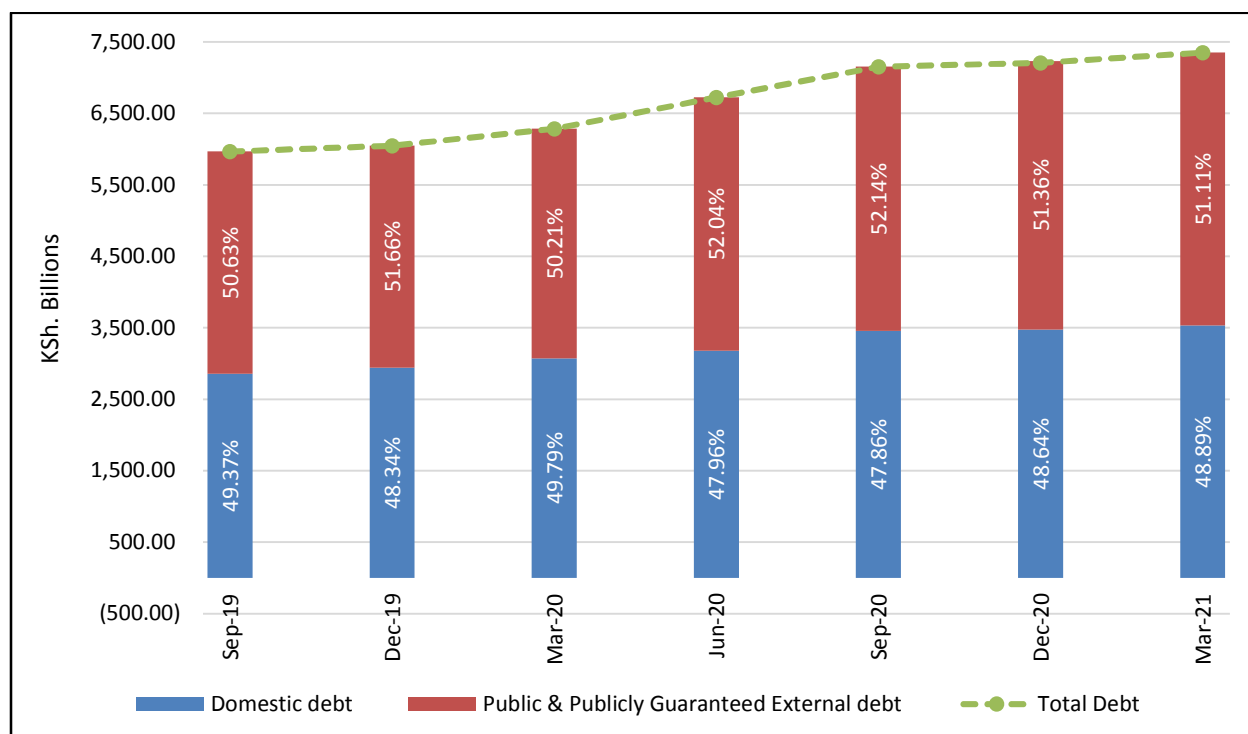
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices

Figure 28: Growth in tax revenue (%) and quarterly GDP growth (%)



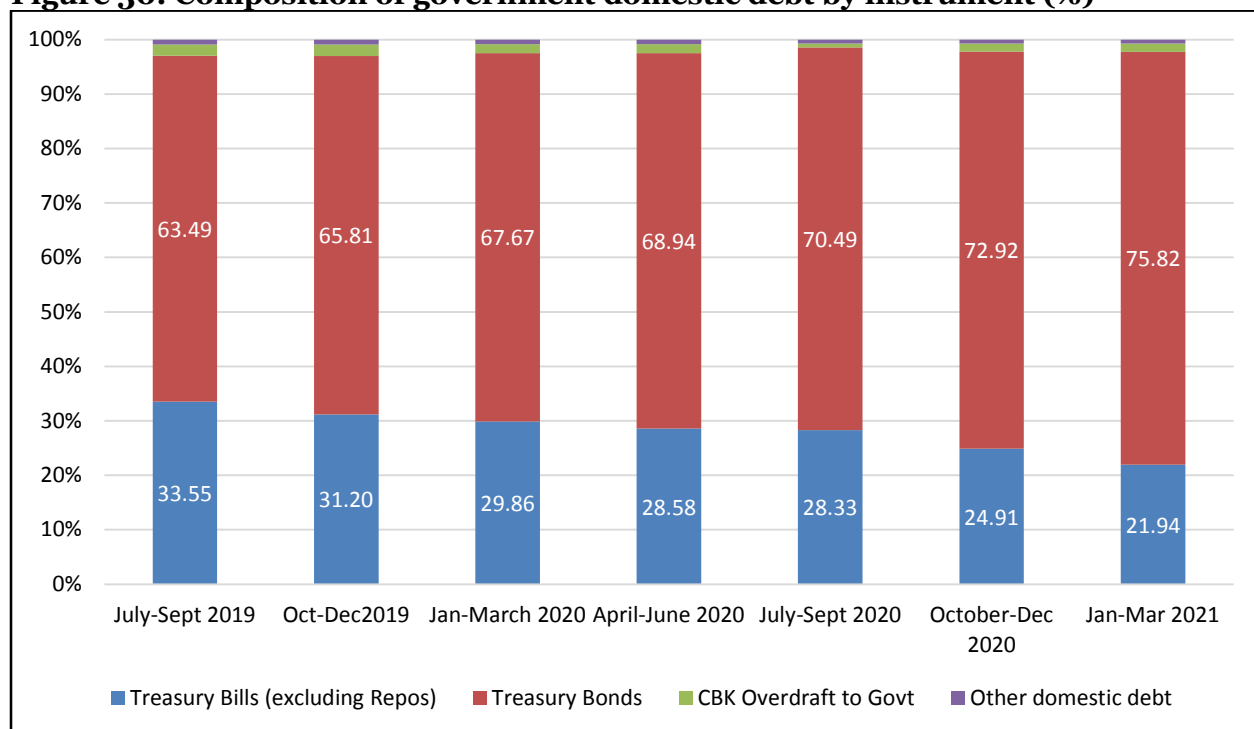
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Figure 29: Total debt (Ksh billion) and proportionate shares of domestic and foreign debt



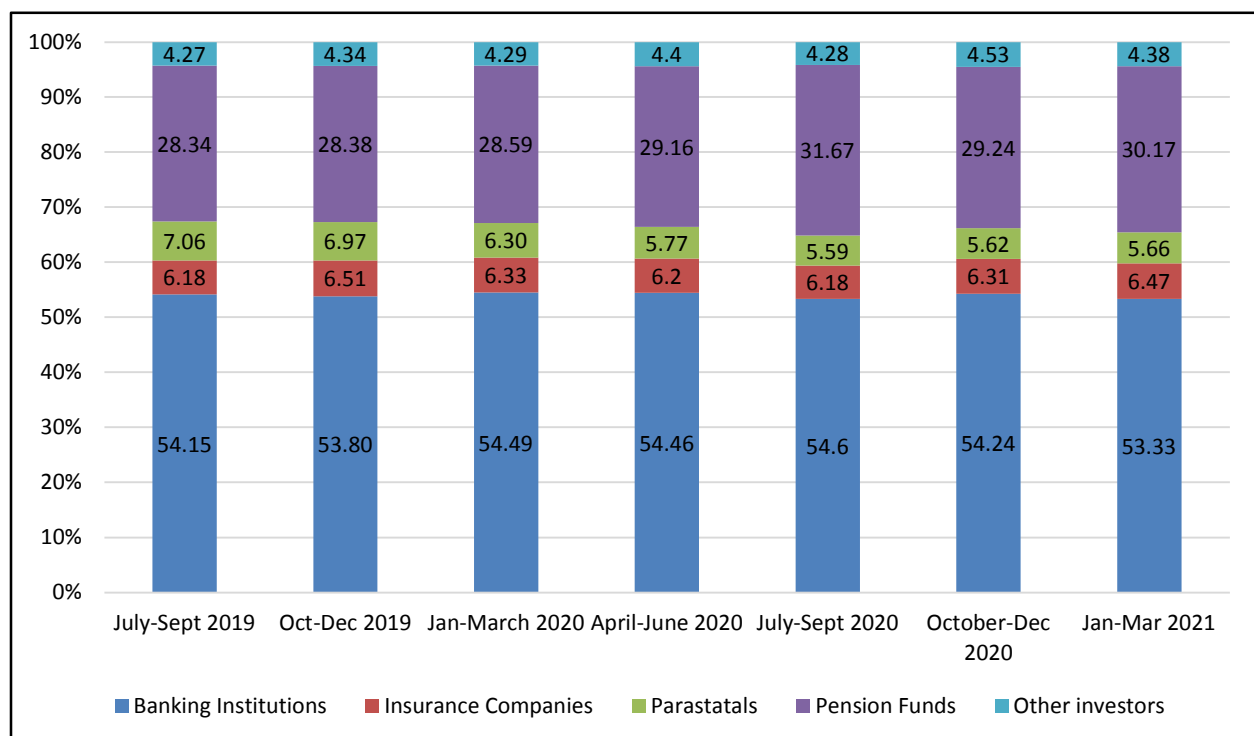
Data Source: Calculated using data from Central Bank of Kenya

Figure 30: Composition of government domestic debt by instrument (%)



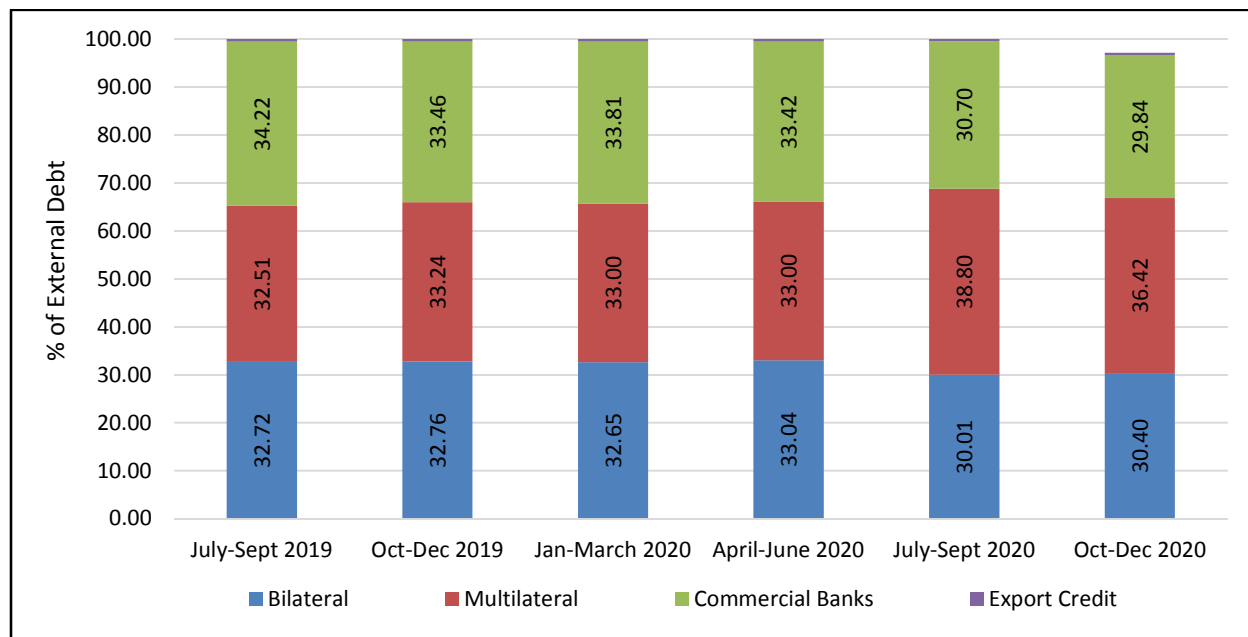
Data Source: Calculated using data from Central Bank of Kenya

Figure 31: Composition of government domestic debt by holder (%)



Data Source: Calculated using data from Central Bank of Kenya

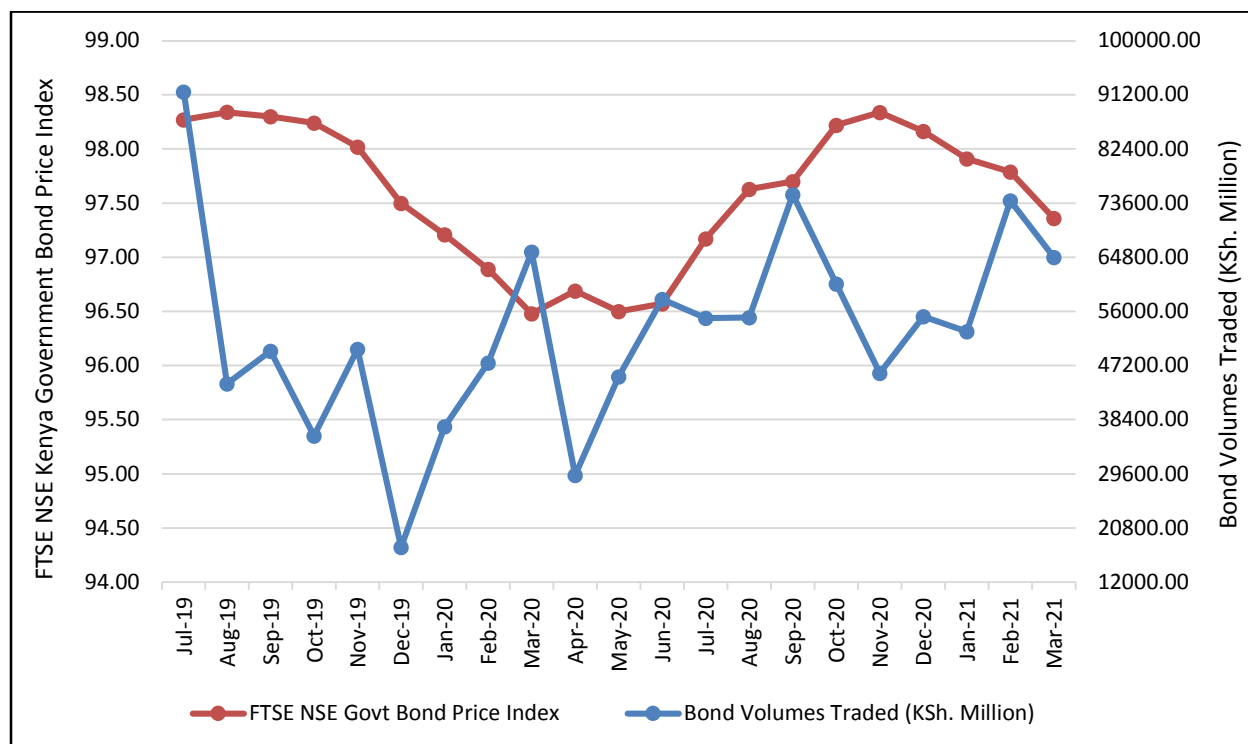
Figure 32: Composition of external debt: Proportionate shares of bilateral, multilateral, commercial bank and export credit (%)



Data Source: Calculated using data from Central bank of Kenya

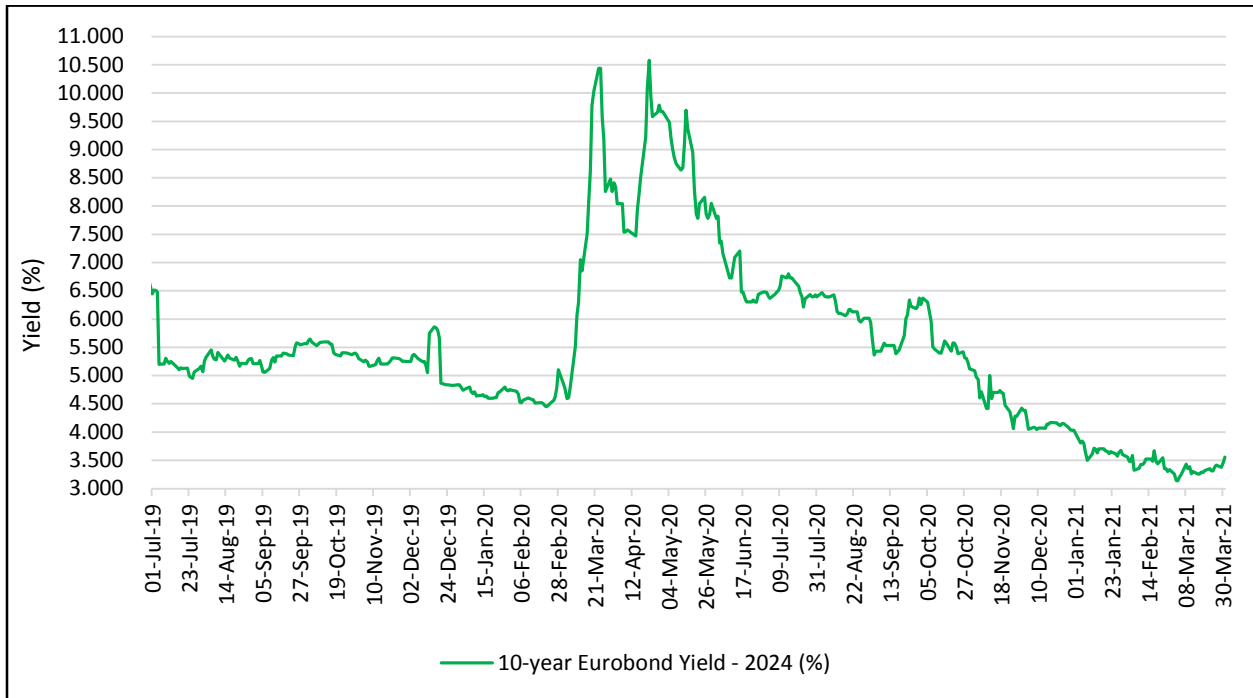
5. Capital Markets

Figure 33: Bond volumes traded (Ksh million) and FTSE NSE Kenya government bond price Index



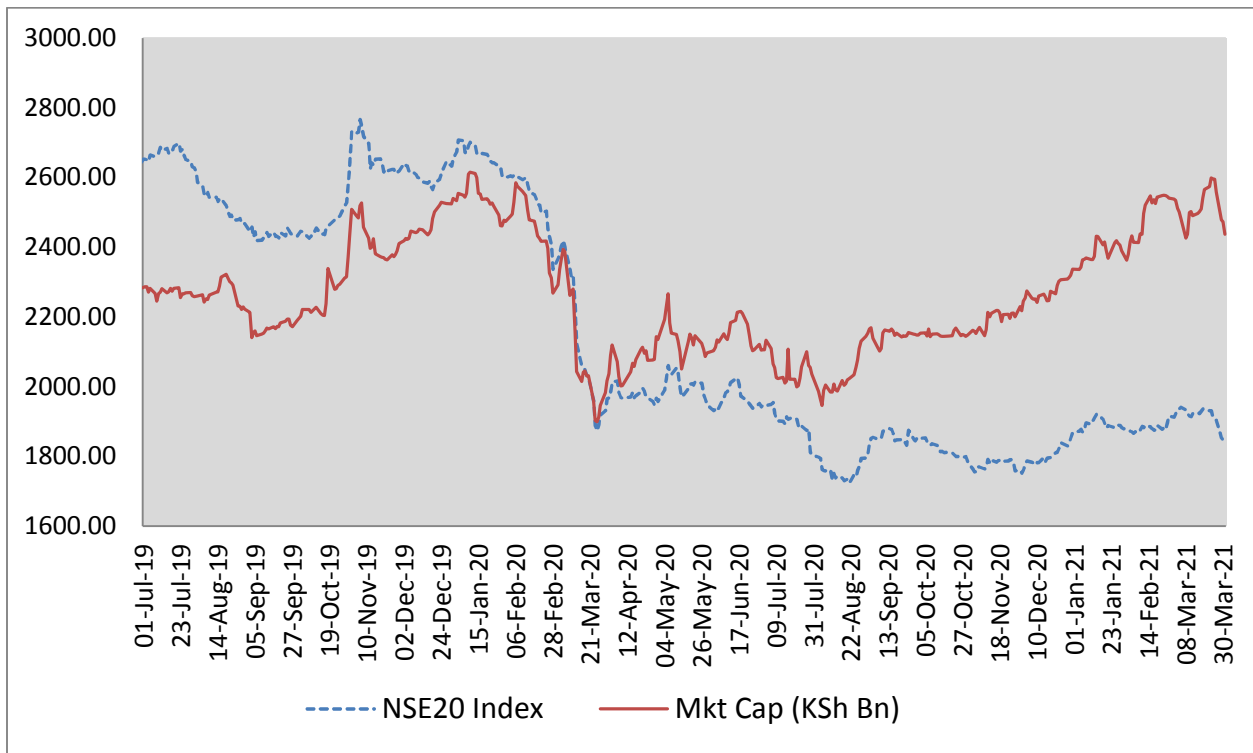
Data Source: Nairobi Securities Exchange; Central Bank of Kenya

Figure 34: The 10-year Kenya Eurobond (2024) yield (%)



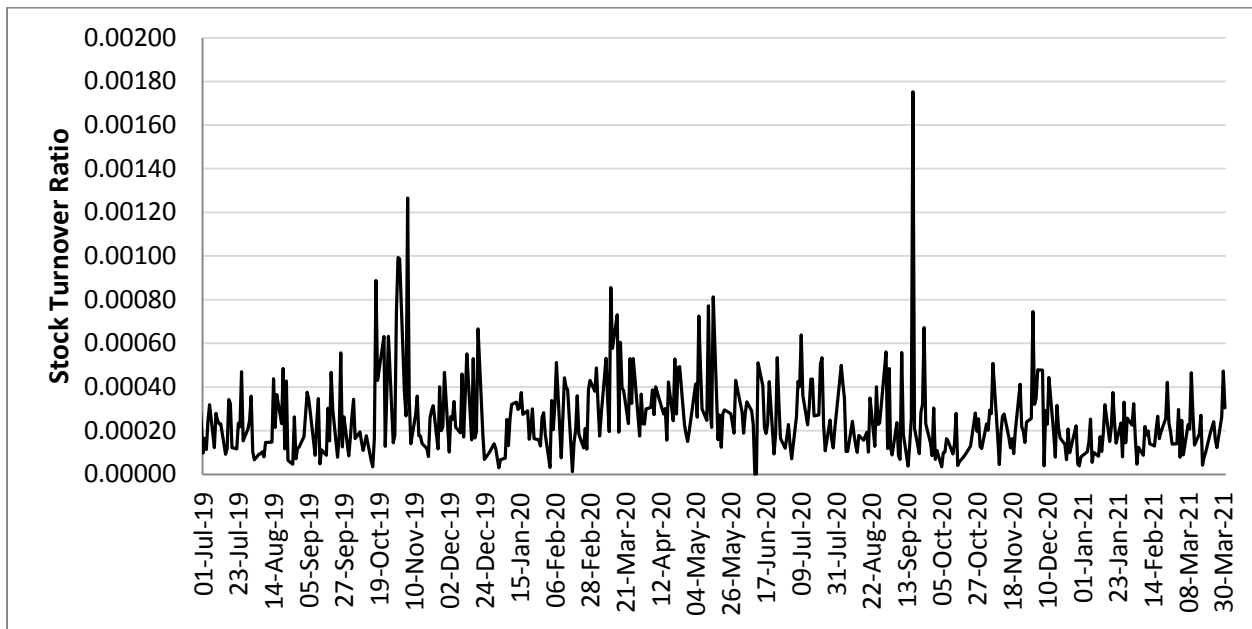
Data Source: Central Bank of Kenya

Figure 35: Stock market performance



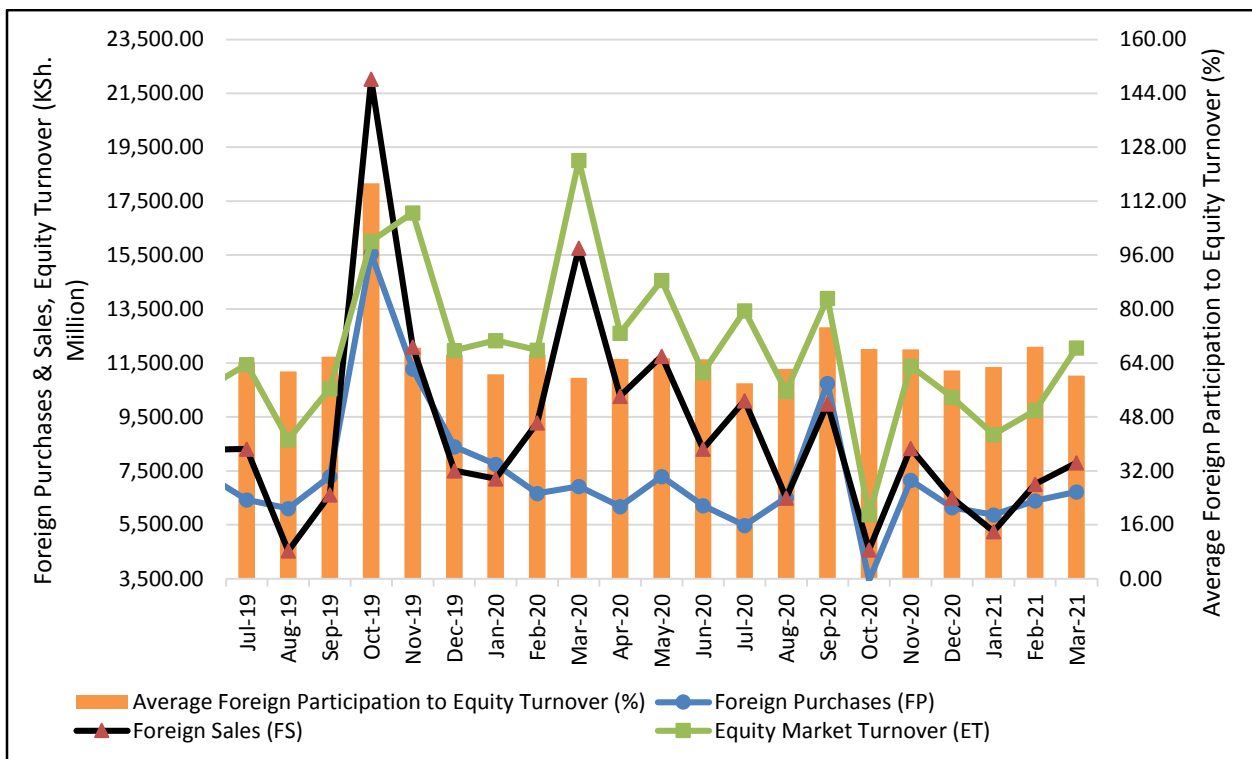
Data Source: Nairobi Securities Exchange

Figure 36: Stock value turnover ratio (%)



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

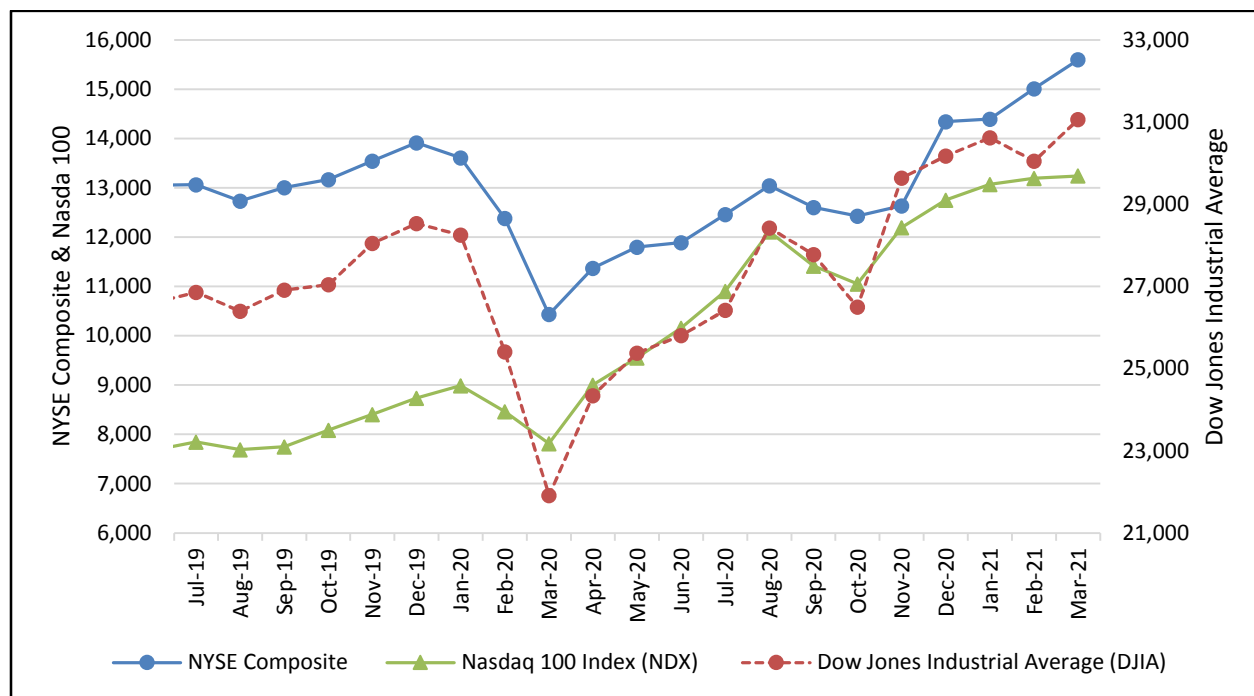
Figure 37: Foreign trading in the stock market



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

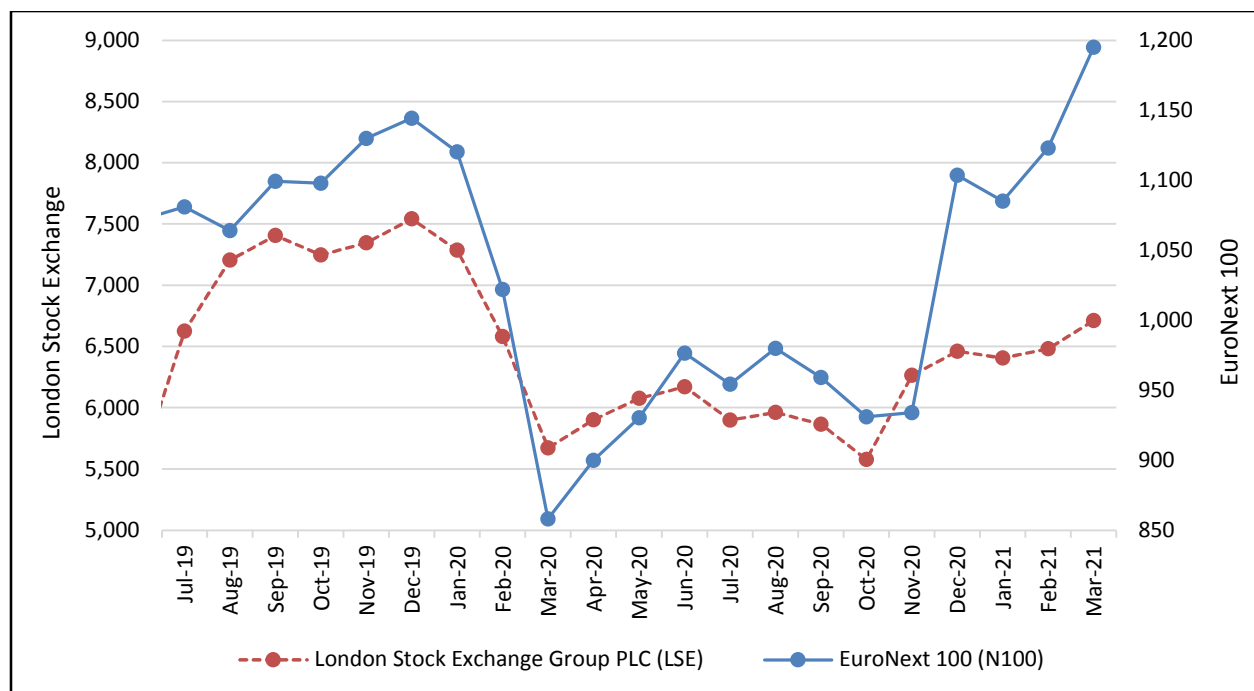
Figure 38: Stock market performance of selected advanced and emerging markets

(a): USA stock markets



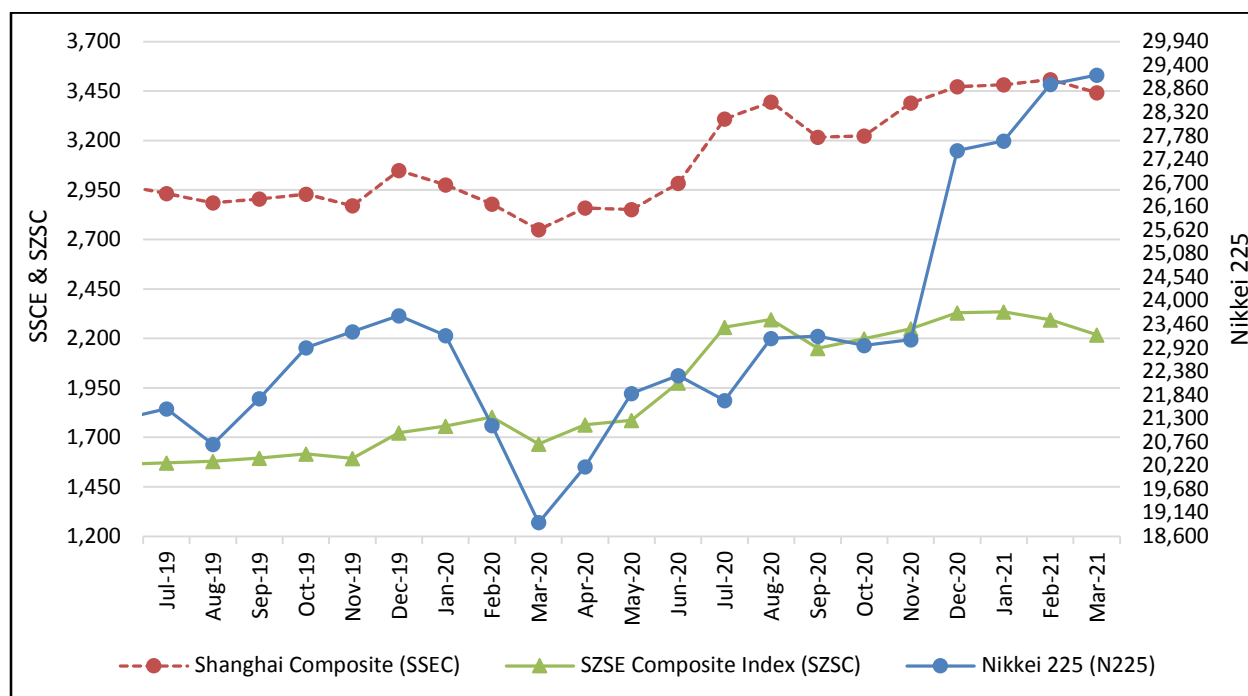
Data source: Country Stock Exchanges; <http://www.investing.com>

(b): European stock markets



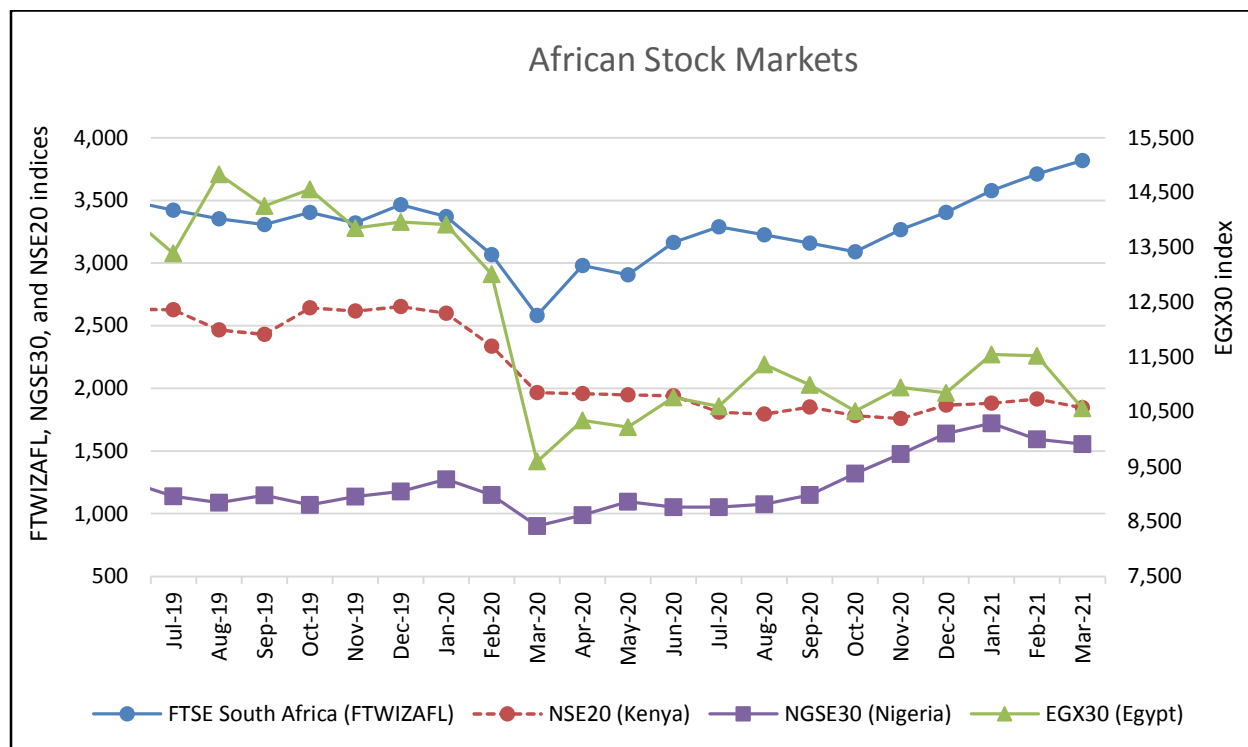
Data source: Country Stock Exchanges; <http://www.investing.com>

(c): Asian stock markets



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

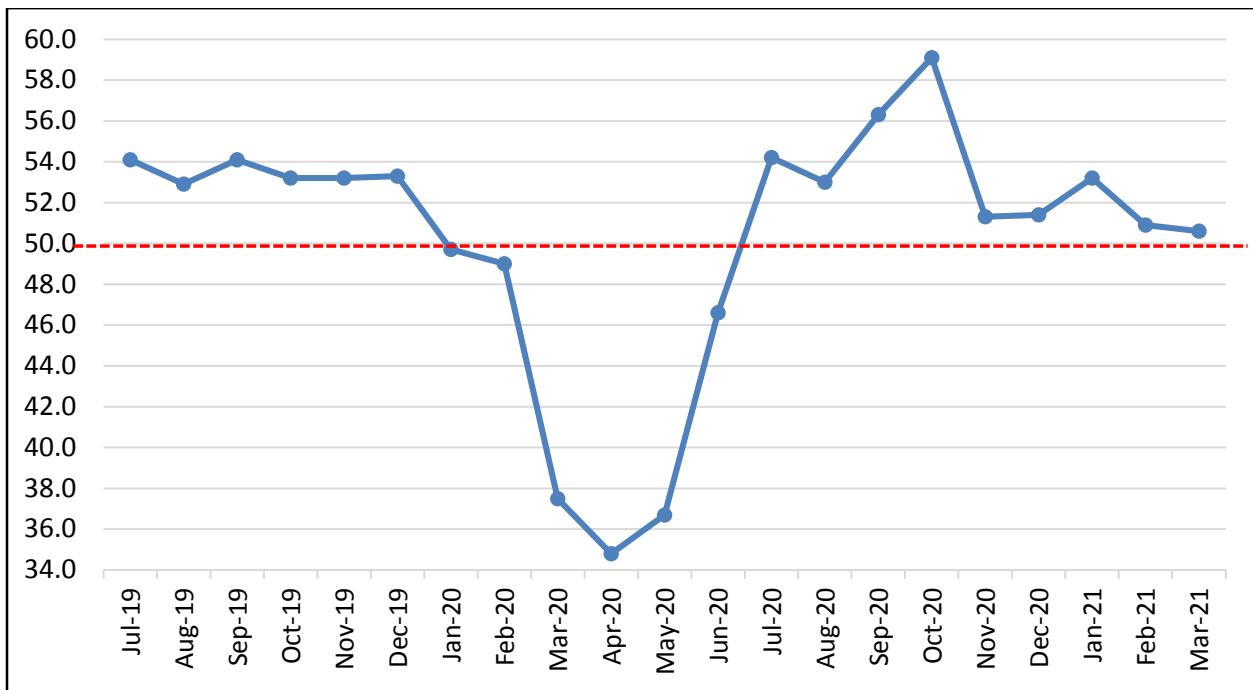
(d): African stock markets



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

6. Risk-related Factors

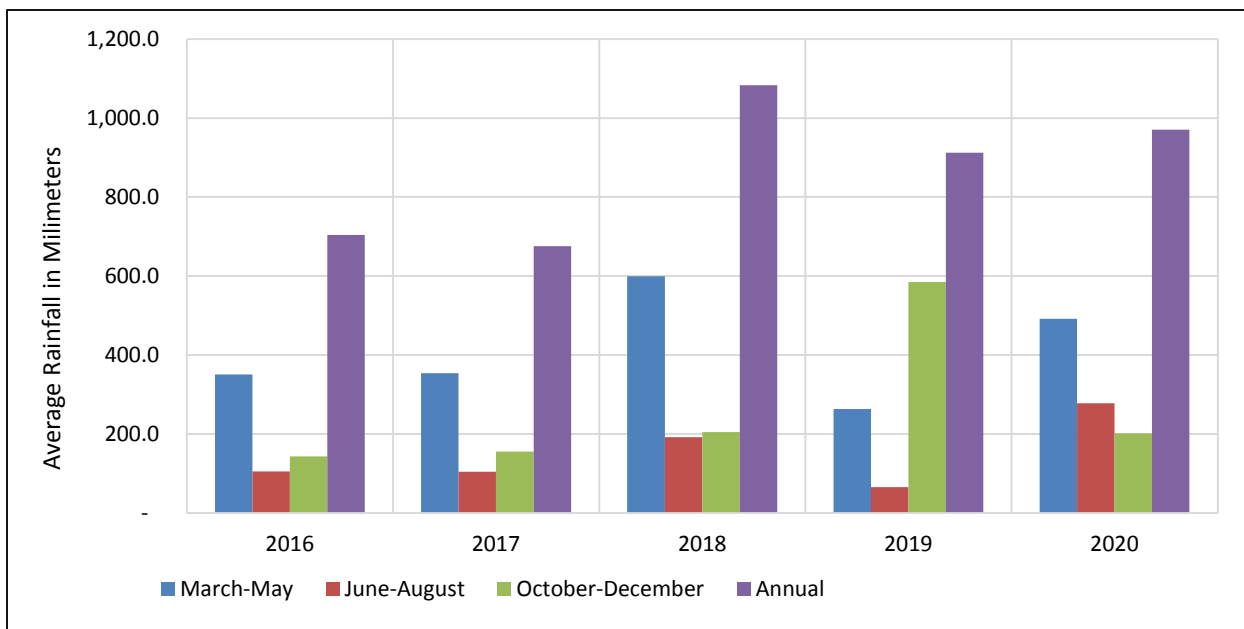
Figure 39: Kenya purchasing managers' index



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

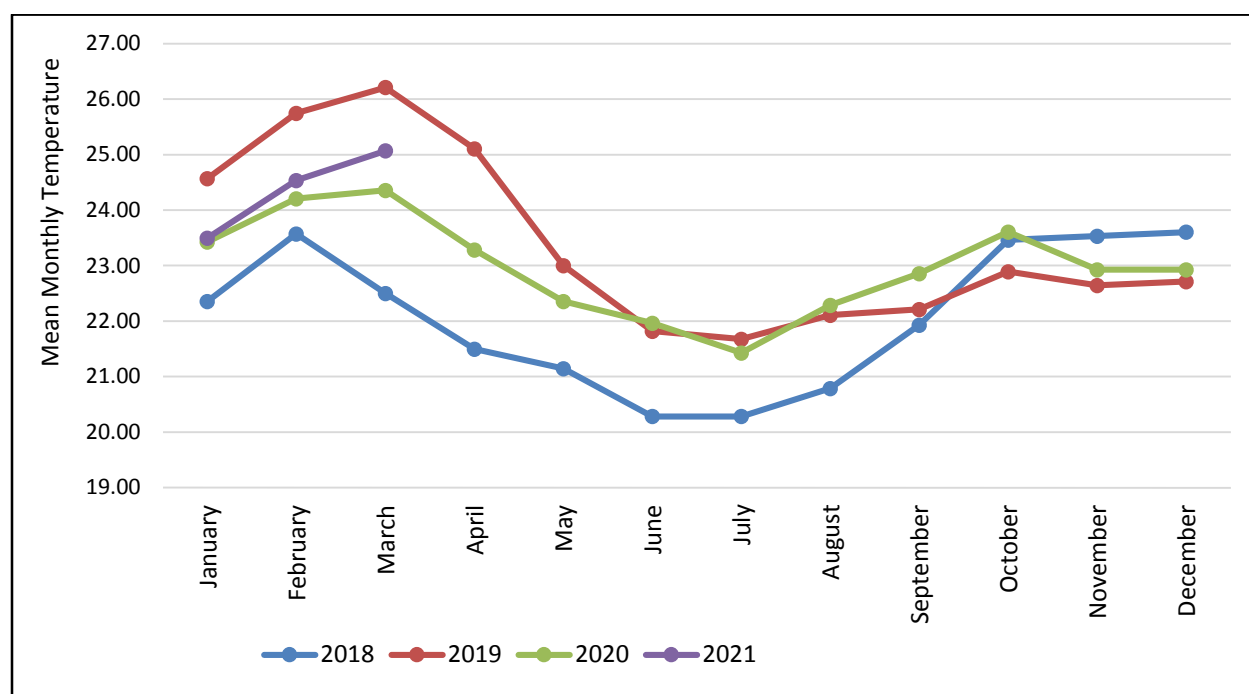
Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

Figure 40: Mean annual and seasonal rainfall (millimeters)



Data Source: Kenya National Bureau of Statistics; Kenya Meteorological Department; <https://www.worldweatheronline.com/>

Figure 41: Mean monthly temperature (degrees celsius)



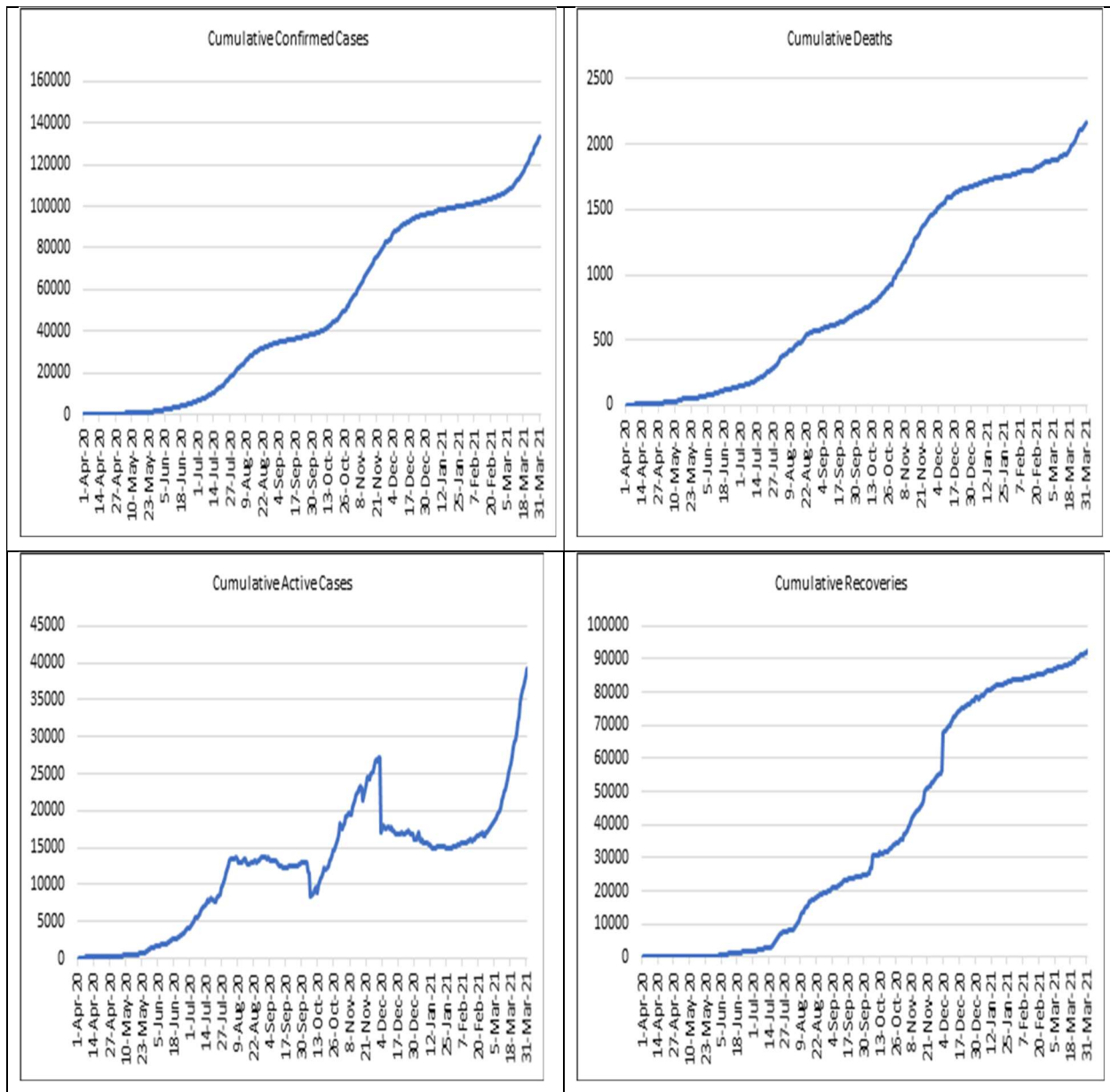
Data Source: Kenya Meteorological Department; <https://www.worldweatheronline.com/>

Table 1: Fitch rating for Kenya

Type	Current Rating (as at 26 March 2021)			Prior Rating (as at 19 June 2020)		
	Rating	Outlook	Action	Rating	Outlook	Action
LTR (Long term Issuer default rating)	B+	Negative	Affirmed	B+	Negative	Affirmed
STR (Short-term Issuer default rating)	B		Affirmed	B		Affirmed
Local Currency Short Term Issuer Default Rating	B		Affirmed	B		Affirmed
Country Ceiling	B+		Affirmed	B+		Downgrade
Local Currency Long Term Issuer Default Rating	B+	Negative	Affirmed	B+	Negative	Affirmed

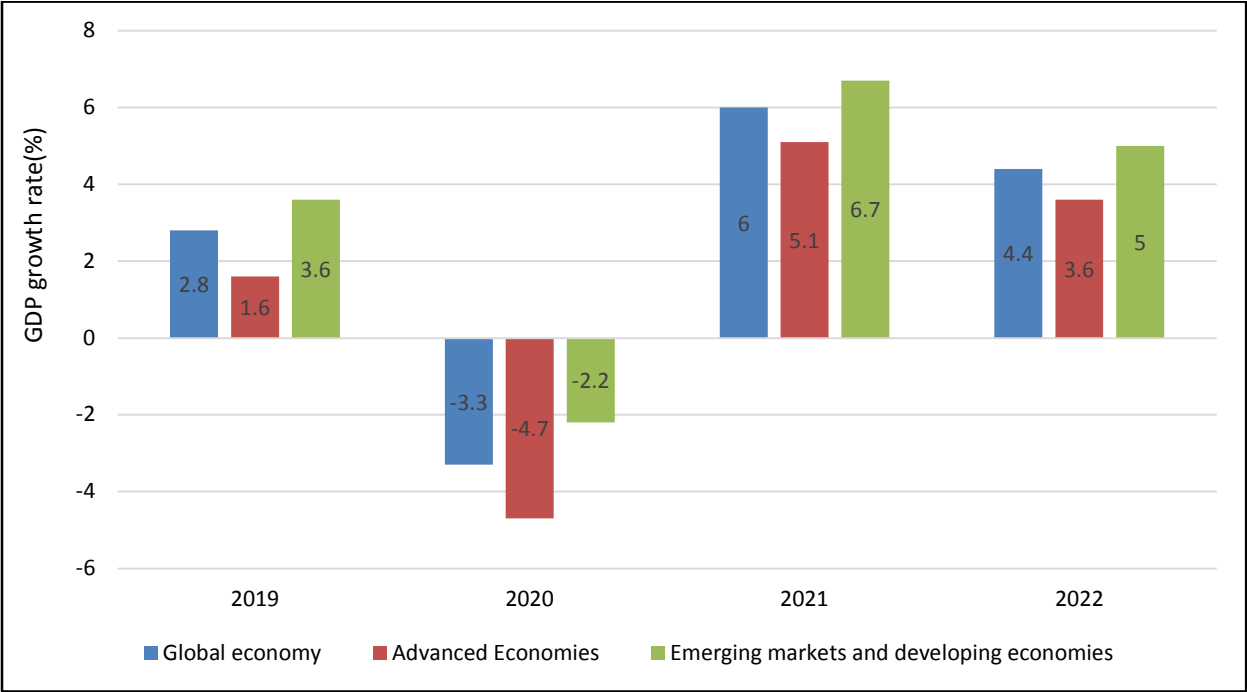
Data source: <https://www.fitchratings.com/entity/kenya-86485911#ratings>

Figure 42: COVID-19 statistics for Kenya, April 2020-March 2021



Data Source: World Health Organization,
<https://www.worldometers.info/coronavirus/country/kenya/>

Figure 43: Growth projections in time of COVID-19 pandemic crisis



Data Source: International Monetary Fund, World Economic Outlook, January 2021 and April 2021

**2019 and 2020 figures are estimates while 2021 and 2020 figures are projections*