



The KENYA INSTITUTE for PUBLIC
POLICY RESEARCH and ANALYSIS

Thinking Policy Together

QUARTERLY MARKET ANALYSIS REPORT

JULY – SEPTEMBER 2022

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1. PERFORMANCE IN THE REAL SECTOR

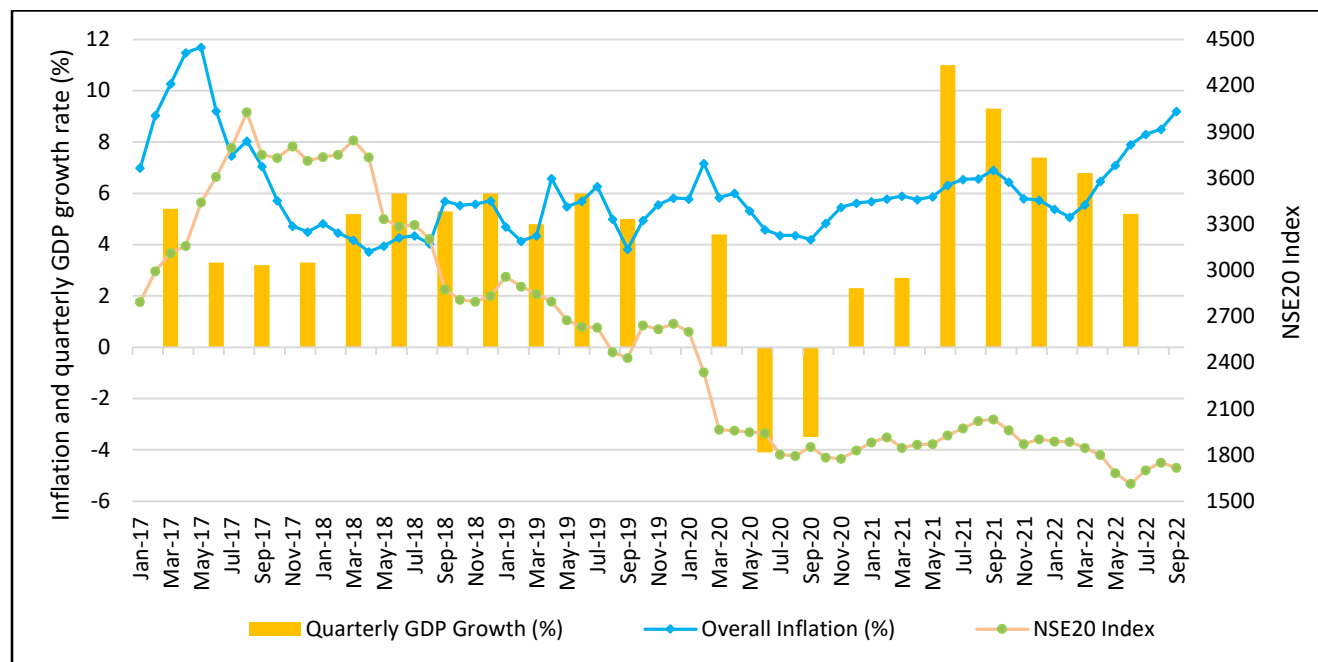
The Global economy is projected to grow at 3.2 per cent in 2022 and slow to 2.7 per cent in 2023 (IMF World Economic Outlook October 2022). While the 2022 global growth projection remains the same as that made in July 2022, the 2023 growth projection has been revised downwards by 0.2 percentage points. The growth of the Advanced Economies is projected at 2.4 per cent and 1.1 per cent in 2022 and 2023, respectively, which reflects a slowed economic growth compared to growth of 5.2 per cent in 2021.

The Sub-Saharan growth outlook is slightly weaker than predicted in July 2022. The projected growth rate is 3.6 per cent in 2022 and 3.7 per cent in 2023, reflecting a downward revision of 0.2 and 0.3 percentage points in 2022 and 2023, respectively. The IMF World Economic Outlook projects Kenya to grow by 5.3 per cent in 2022, which is a lower than 6.0 per cent projection made by the National Treasury and Planning in April 2022.

The anticipated slowing global economic growth is informed by economic pressures from the Ukraine War, including surging food and energy inflation, and rising interest rates as monetary policy tightens. The inflation rates in Kenya persistently rose during the quarter under review, exceeding the government targeted band of 5 ± 2.5 per cent to record a five-year high annual inflation rate in September 2022 of 9.2 per cent, up from 8.5 per cent in August 2022. Fuel, food, housing, and its utilities such as water, electricity and gas contributed significantly to the inflation. The increase in wholesale price indices for cereals, legumes and tubers are evidence of rising food inflation. The fuel inflation increased significantly with the removal of fuel subsidy programme. Motor Gasoline premium rose from an average price of Ksh 159.12 per litre in July 2022 to Ksh 179.30 per litre in September 2022, while light diesel oil average price per litre rose from Ksh 140.00 in July 2022 to Ksh 165.00 per litre in September 2022.

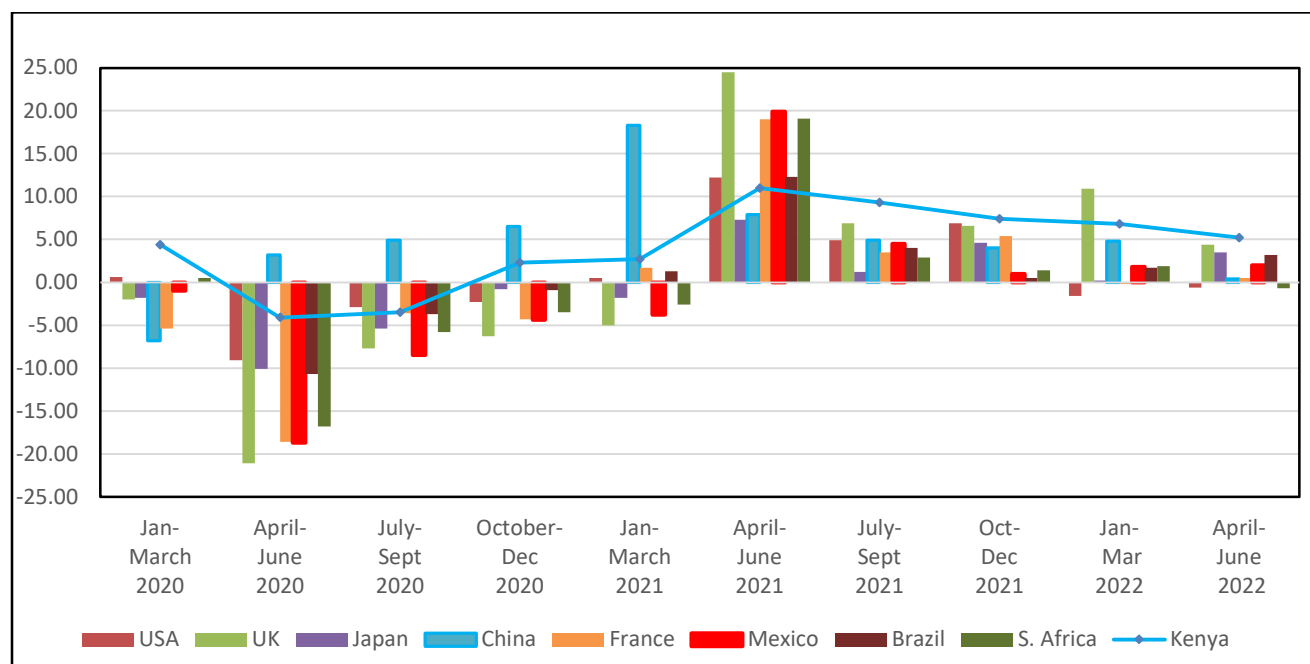
a) GDP performance

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



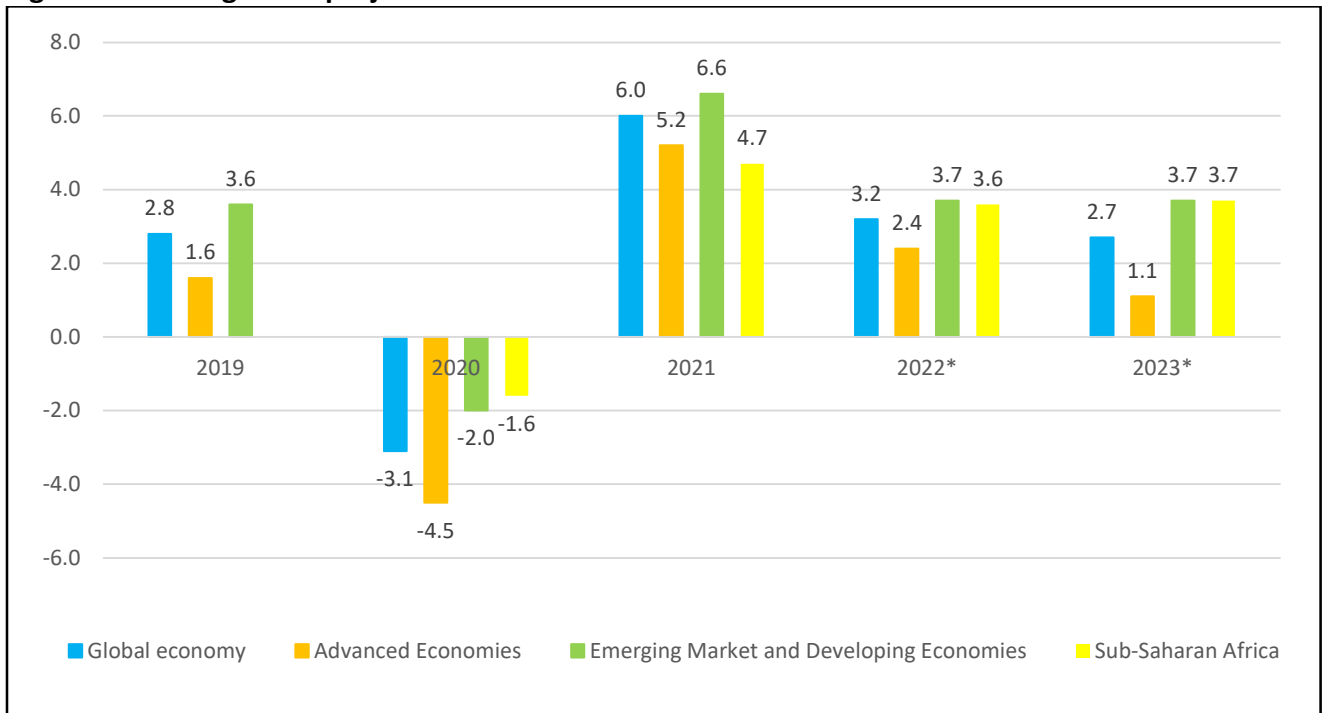
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics; The National Treasury; Nairobi Securities Exchange

Figure 2: Economic performance of selected advanced and emerging markets



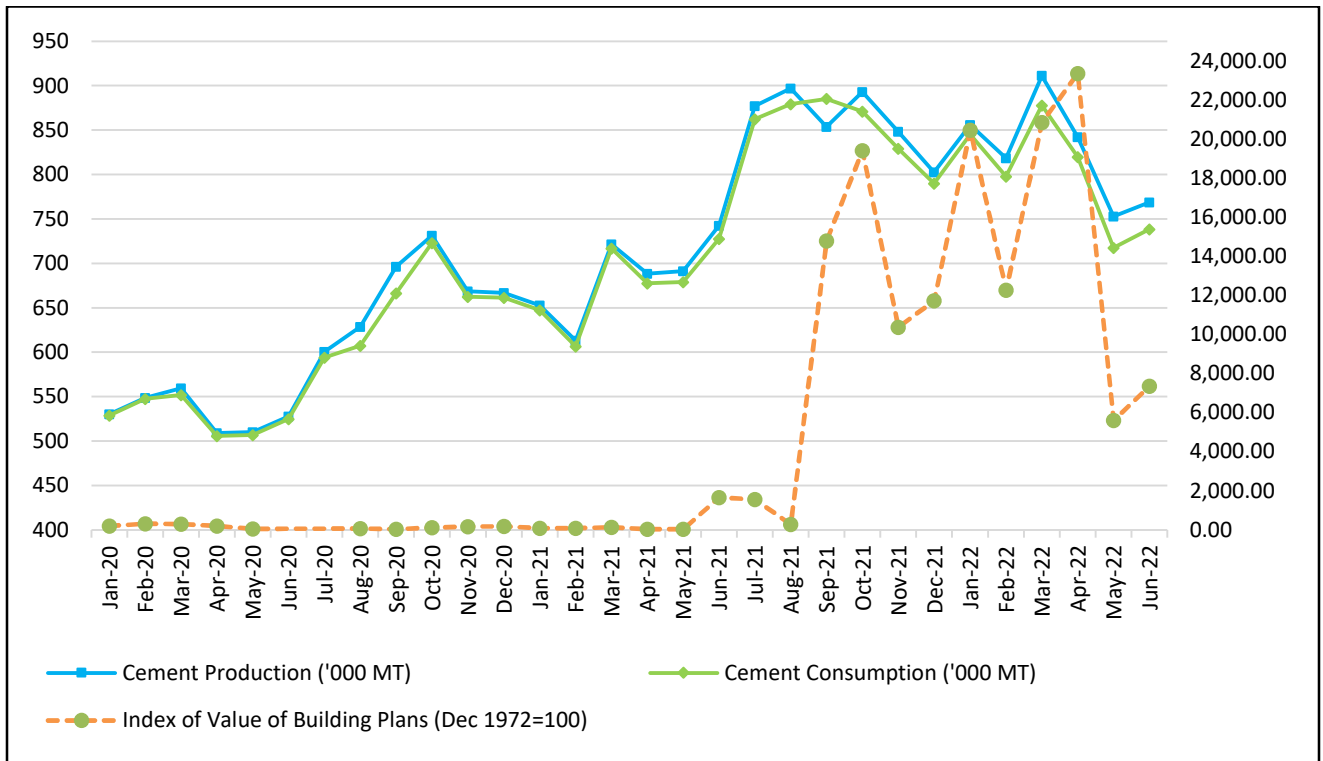
Data source: Country statistical offices; <https://tradingeconomics.com/>

Figure 3: Global growth projections



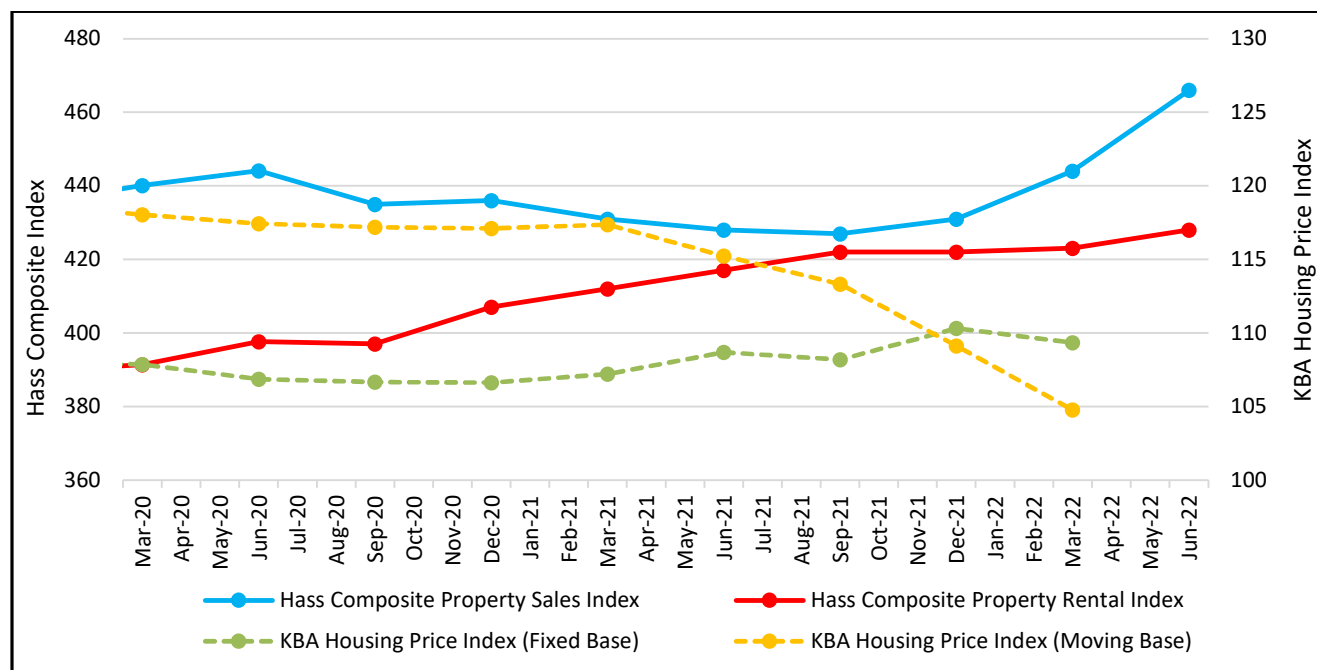
Data Source: International Monetary Fund (2022), World Economic Outlook October

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



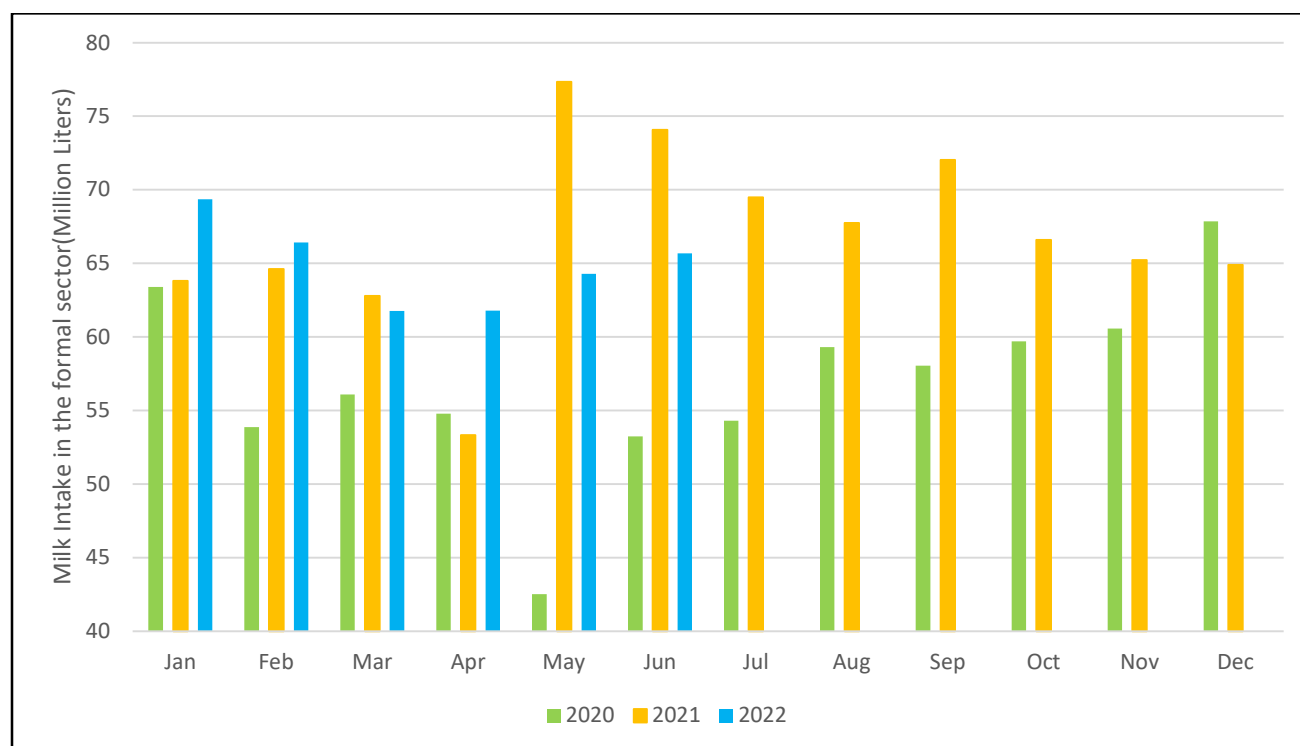
Data source: Kenya National Bureau of Statistics

Figure 5: Kenya Housing and Property Indices



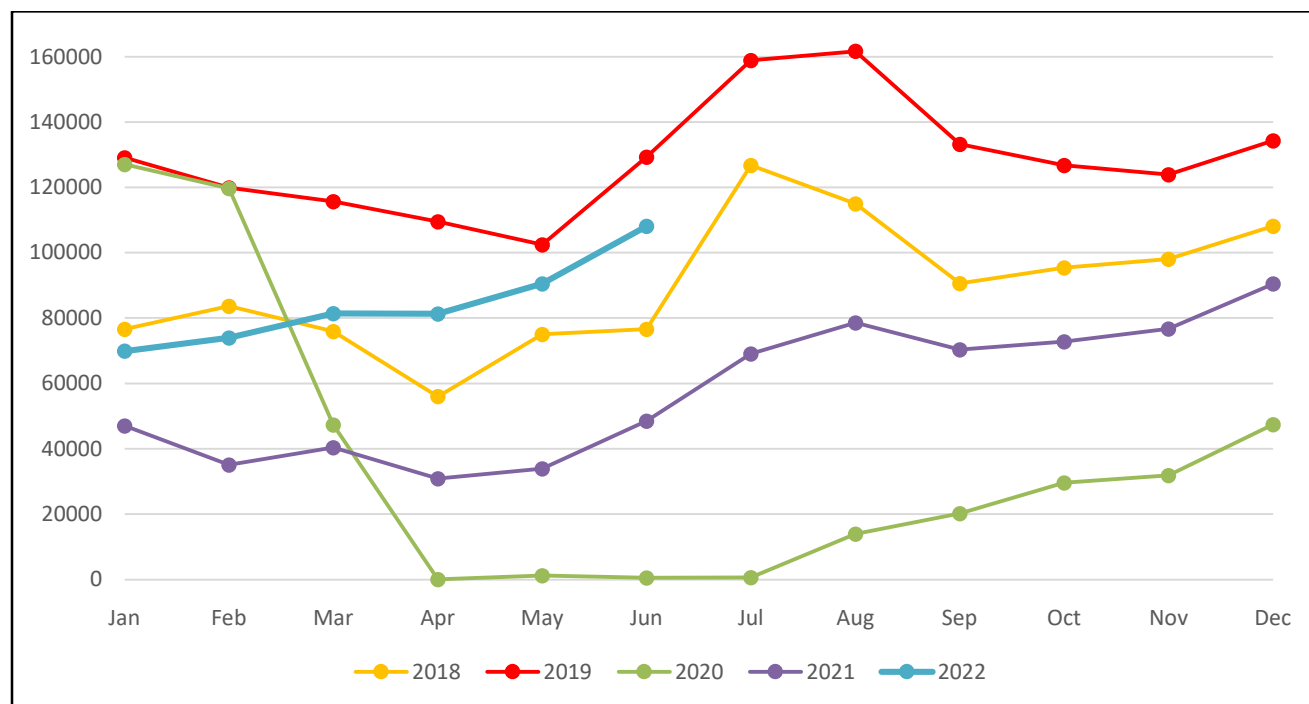
Hass Composite Property Sales Index: Year 2000 = 100; KBA Housing Price Index (fixed base): Q1 – 2013 = 100. Data Source: Hass Property Index (<http://hassconsult.co.ke/real-estate/hass-index/>) Kenya Bankers Association

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



Data source: Kenya National Bureau of Statistics

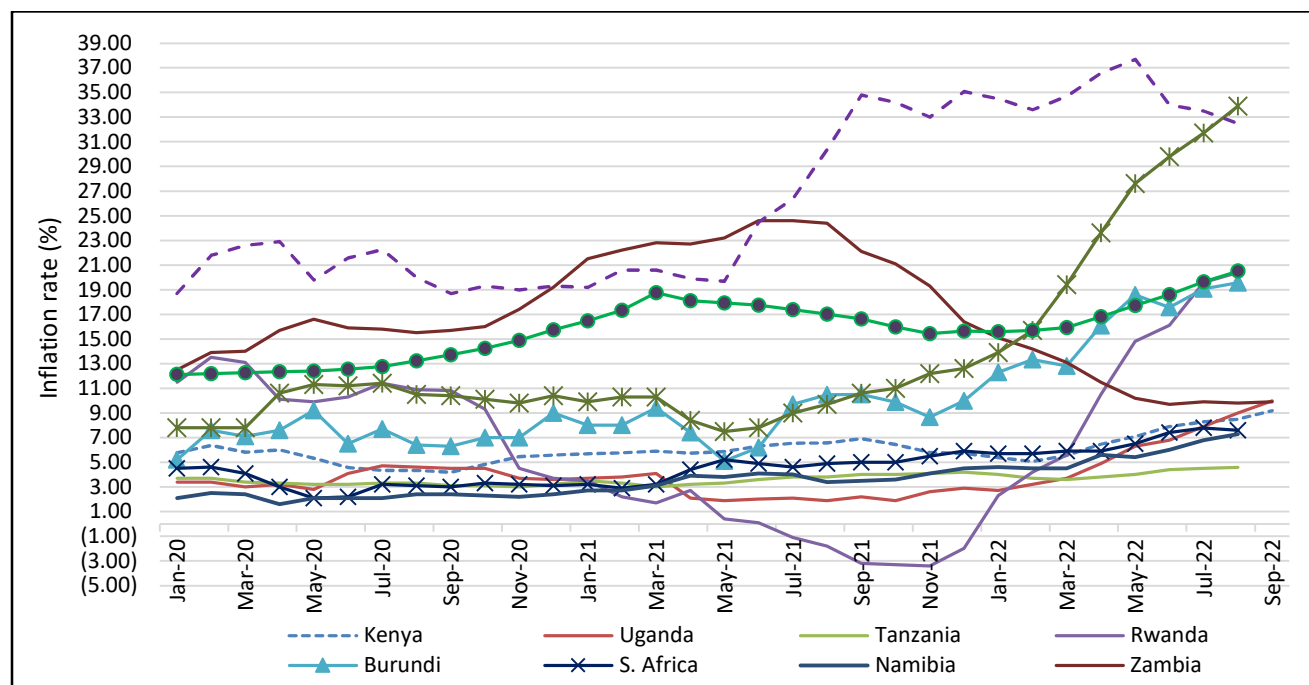
Figure 7: Monthly tourist arrivals (number)



Data source: Kenya National Bureau of Statistics

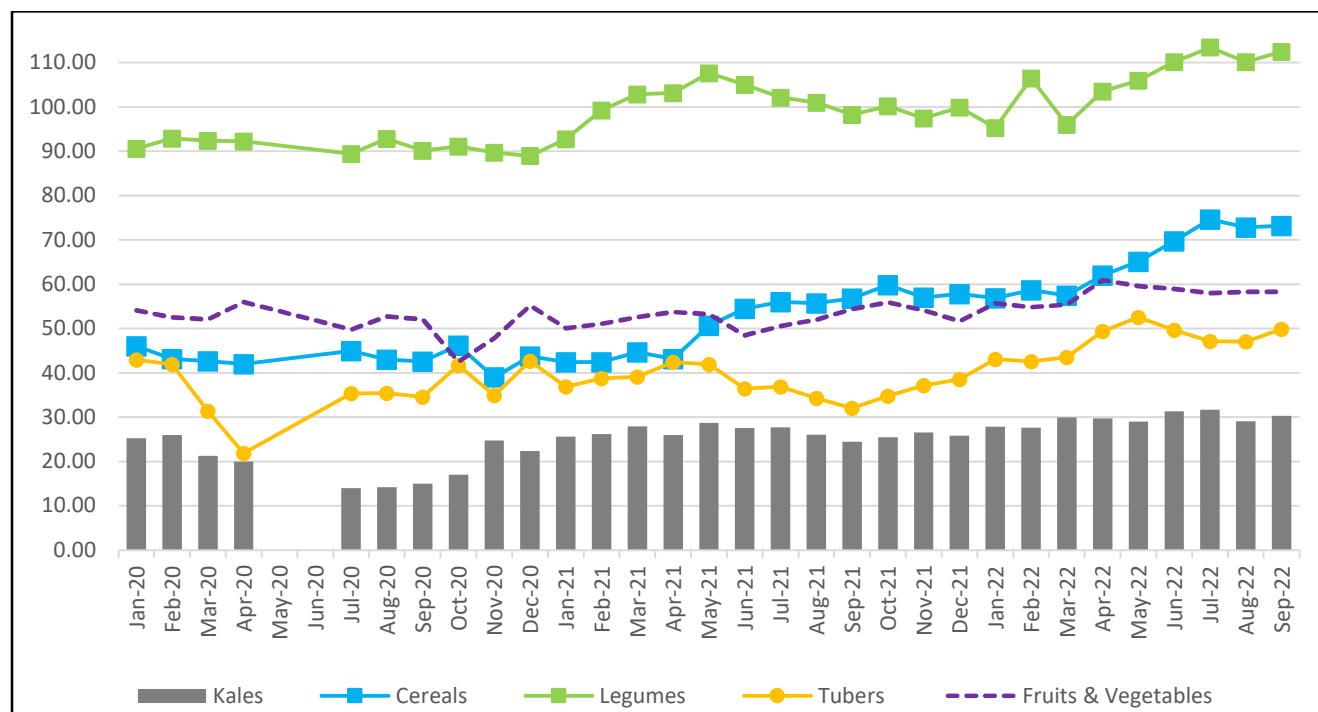
b) Price movement

Figure 8: Comparative inflation for selected countries in Africa



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

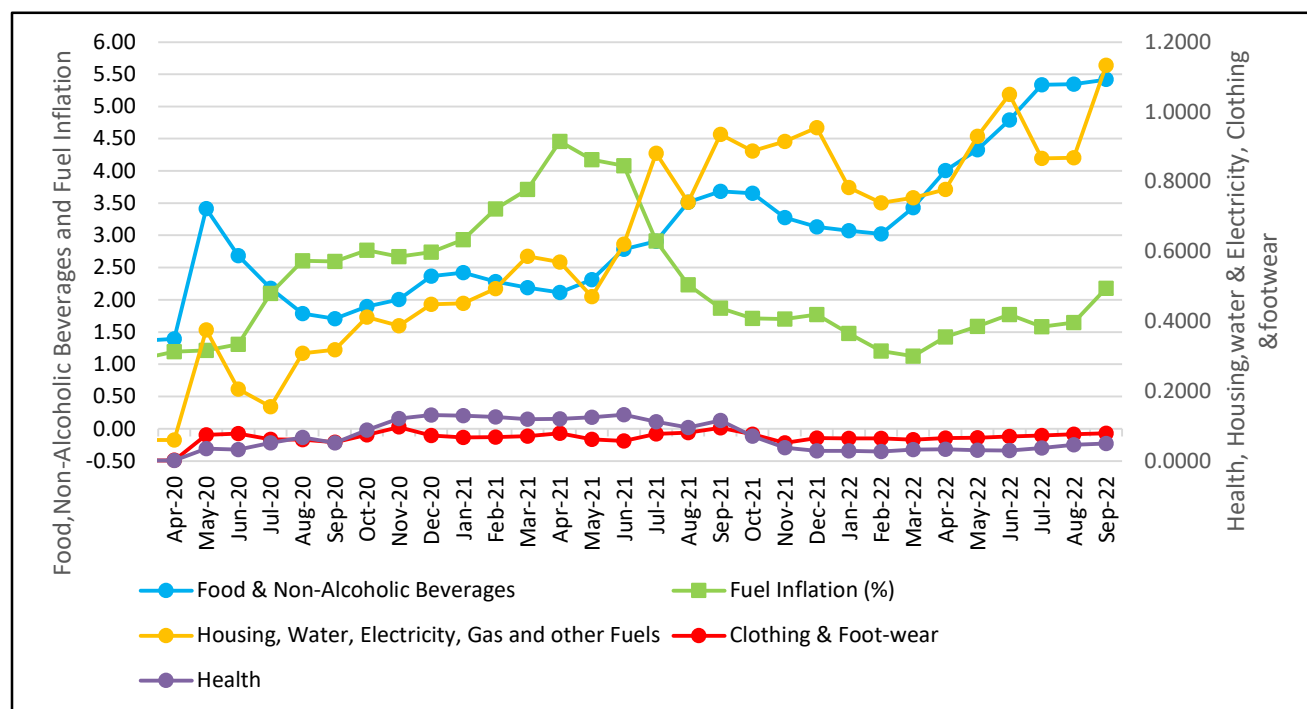
Figure 9: Domestic wholesale agriculture commodity prices (Ksh/Kg)



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

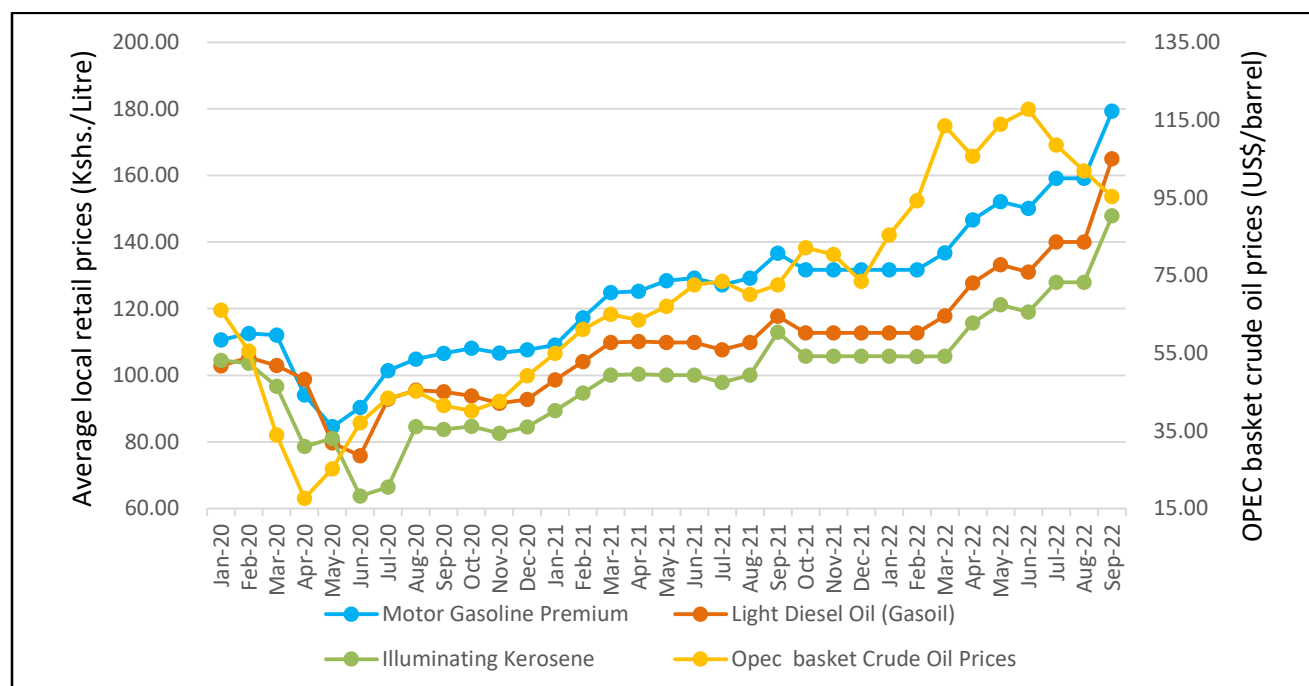
*There was no data from the Ministry of Agriculture for May and June 2020

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



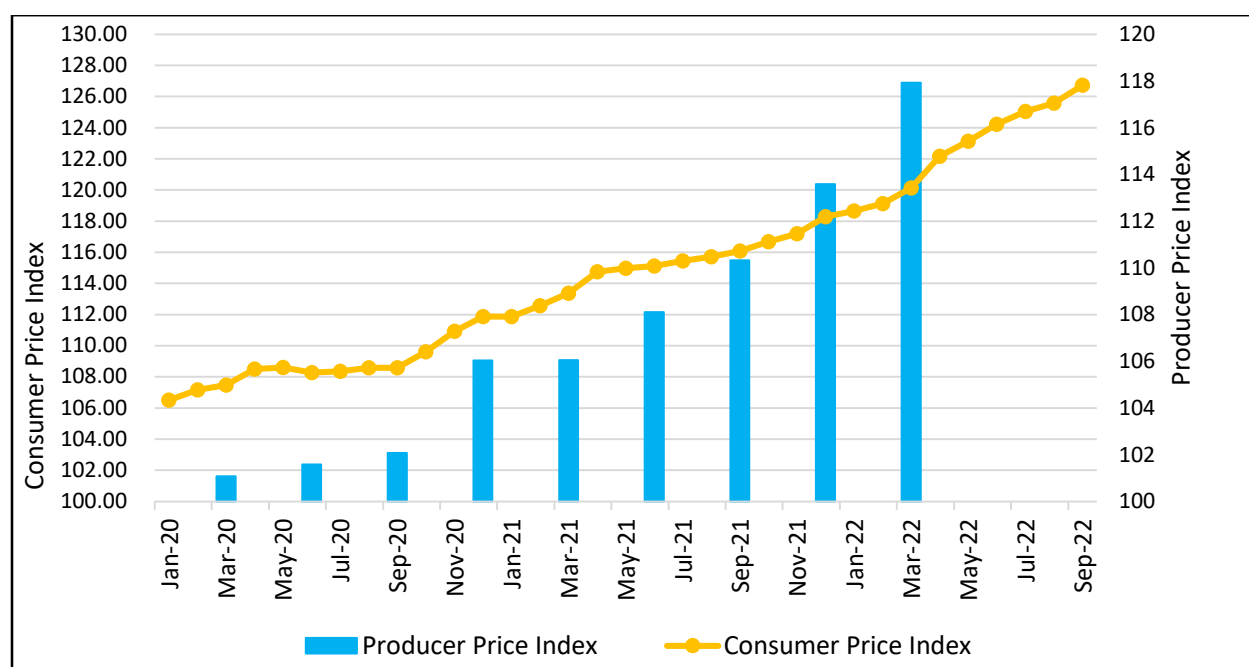
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

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



Data Source: Kenya National Bureau of Statistics; Energy and Petroleum Regulatory Authority; <https://www.statista.com/>

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 volume of coffee produced declined sharply from 6,645.52 metric tons in March 2022 to 1,845.56 metric tons in April 2022 and further to 490.61 metric tons in May 2022, while the value of coffee exports grew from Ksh 3,415.52 million in March 2022 to Ksh 4,876.66 million in May 2022 before declining to Ksh 3,818.35 million in May 2022. Coffee production follows a seasonal pattern where the first quarter of the year records the highest coffee production volumes, which declines steeply in the second quarter. In the third and fourth quarter, production volumes begin to rise steadily before peaking again in the first quarter of the following year. Global Coffee Composite prices averaged 196.85 US\$/lb in the quarter under review, which is higher compared to the same period July-September 2021 where the prices averaged 160.80 US\$/Lb. As of January 2022, the coffee auction price was Ksh 761.62 per kg and dropped consistently to Ksh 424.23/kg in May 2022. This pattern has been previously observed in 2020 and 2021.

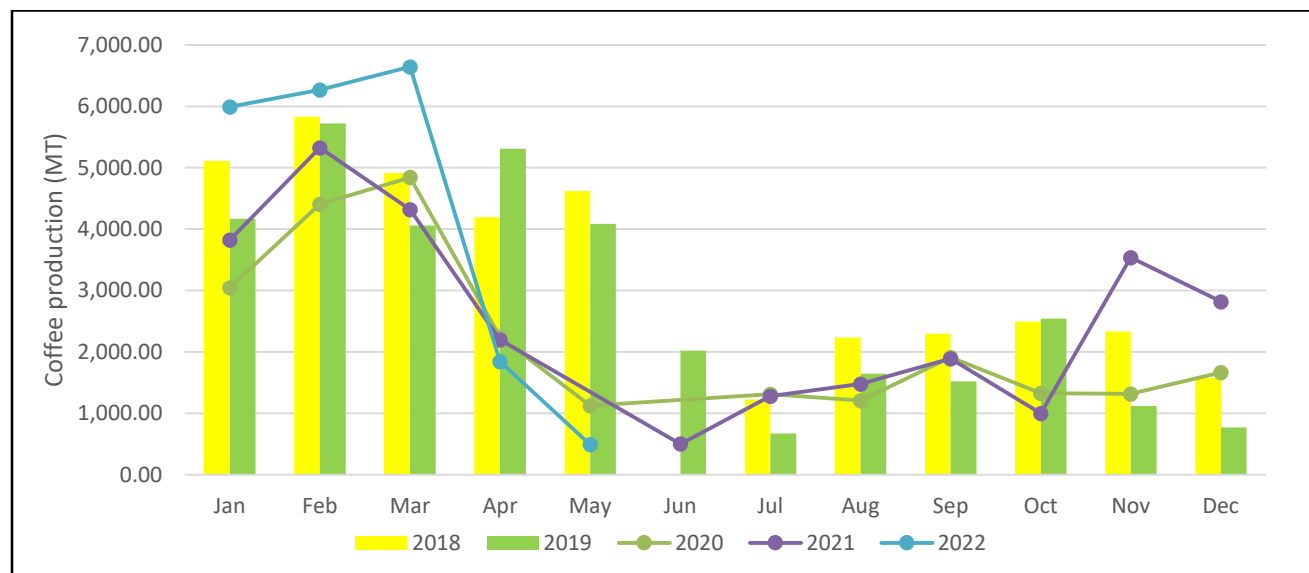
Tea production showed mixed performance. In April 2022, tea production was 41.17 million kilograms, the production peaked in May 2022 at 50.09 million kilogrammes attributed to good weather conditions with warm temperatures and enhanced rainfall in tea growing areas. However, production dropped to 43.27 million kilogrammes in June 2022 due to cessation of long rains and cooler temperatures in the tea growing areas East of Rift Valley.

The Kenyan Shilling weakened against the US Dollar, depreciating by 9.28 per cent between September 2021 and September 2022. In the same period, regional currencies depreciated against the US Dollar including Ugandan Shilling, Tanzanian Shilling, Rwandan Franc, Burundian Franc and SA Rand all depreciated against the US Dollar by 8.39 per cent, 1.04 per cent, 4.19 per cent, 4.59 per cent and 20.27 per cent, respectively. This was mainly attributed to strengthening of the US Dollar against a basket of currencies forming the US\$ Index. The US\$ index remained above the 100-mark throughout the quarter to close at 112.084, implying the US Dollar appreciated by 2.084 per cent against the basket of currencies making up the USD Index.

The diaspora remittances have been on a downward trend from US\$ 363.5 million in March 2022 to USD 310.5 million in August 2022. The remittances rose slightly to US\$ 318.0 million in September 2022. Similarly, the Foreign Exchange reserves in the months of import cover declined from 5.2 to 4.2 months of import cover April 2022 and September 2022, respectively. Foreign Reserves in months of import cover remained slightly above the CBK's statutory requirement of at least 4 months.

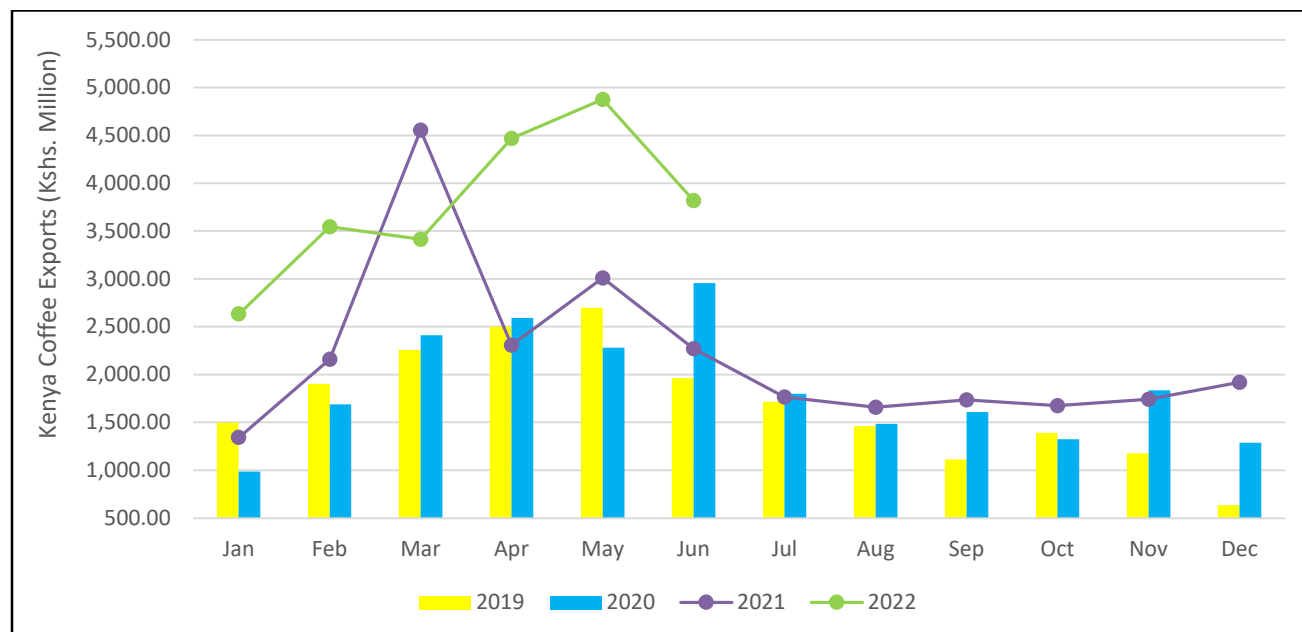
Figure 13: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)

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



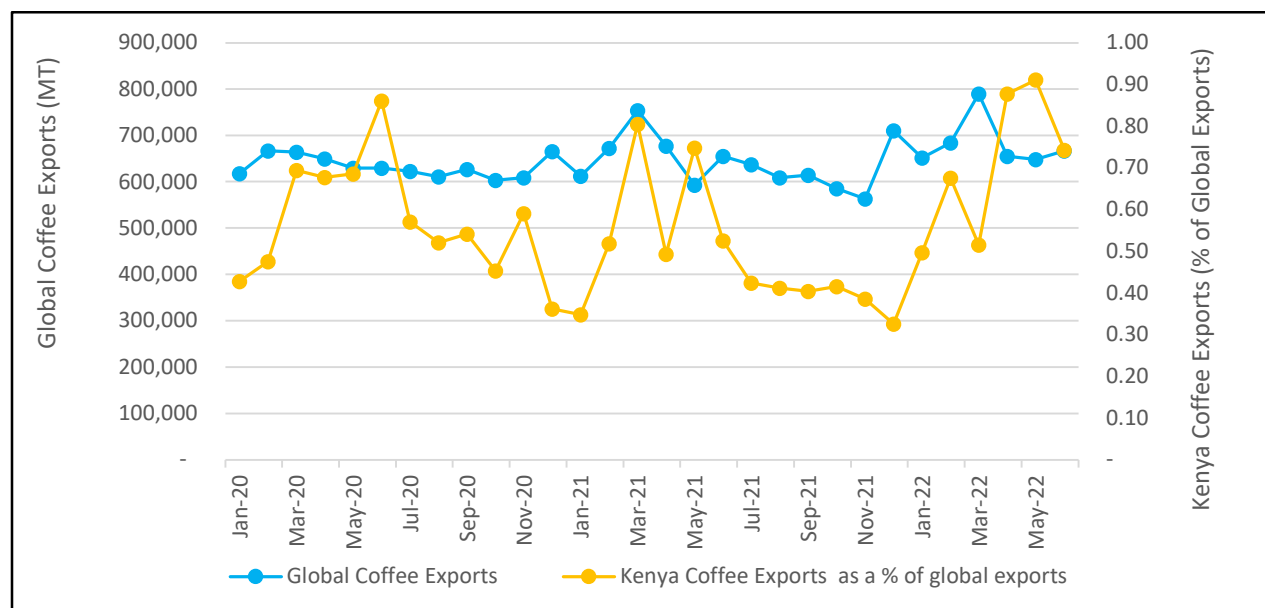
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>)

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



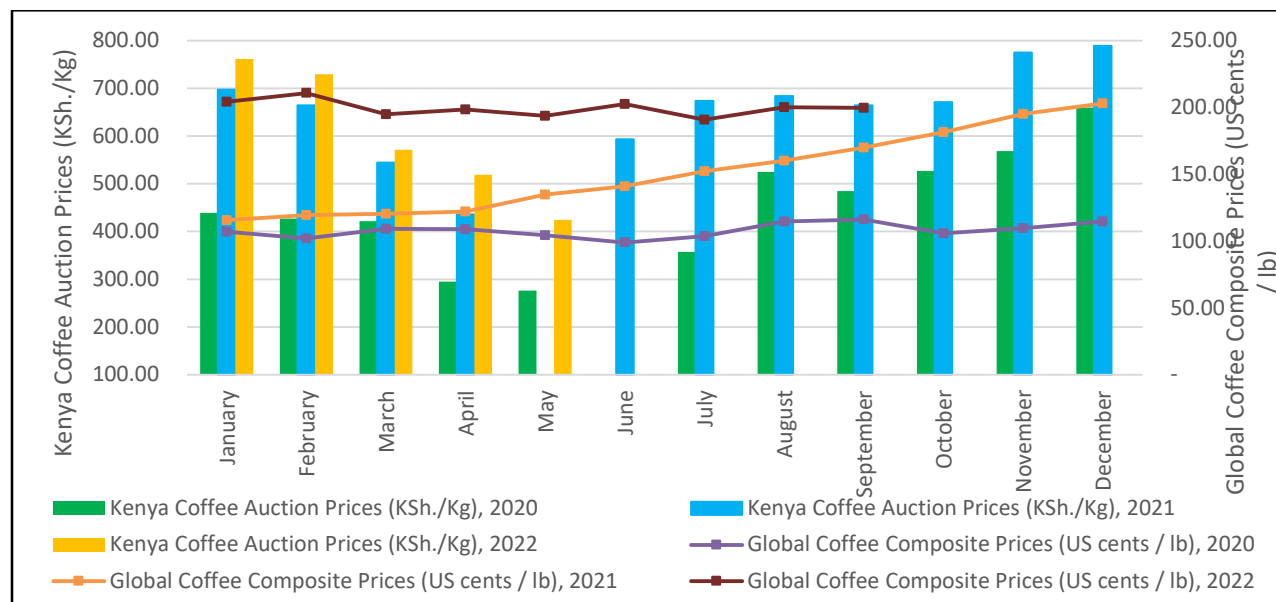
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>)

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://nairobicoffeeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

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



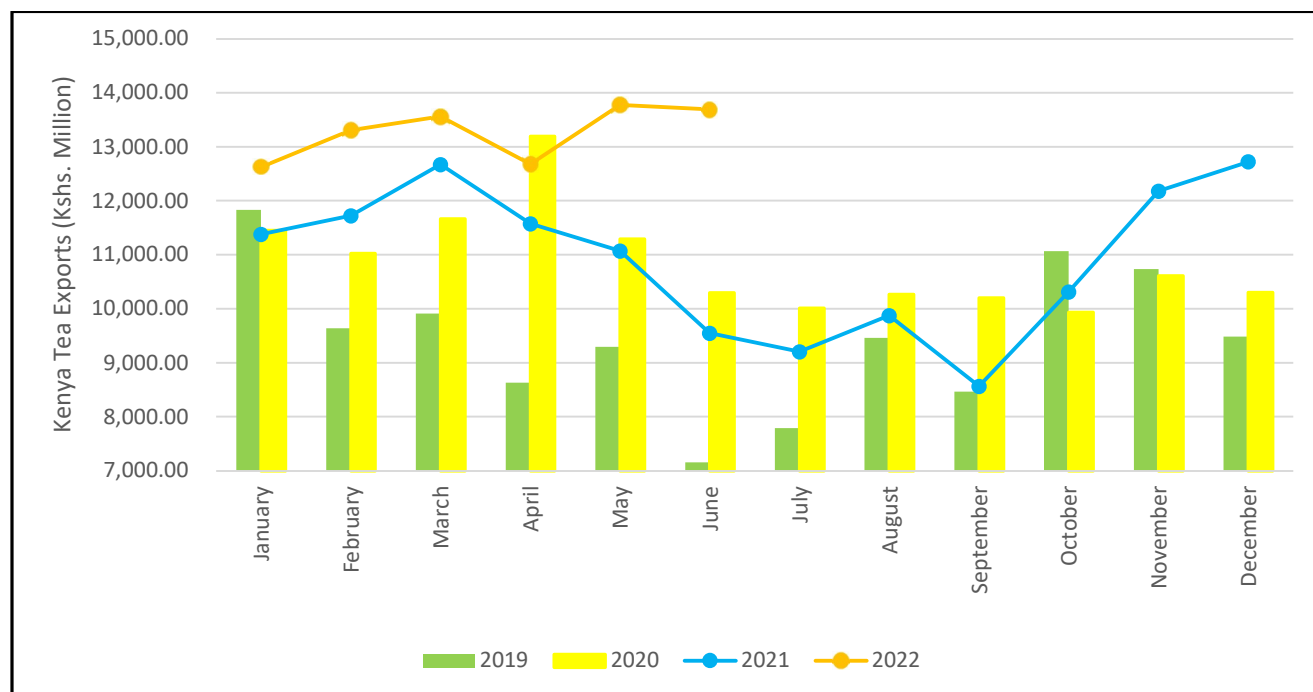
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

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



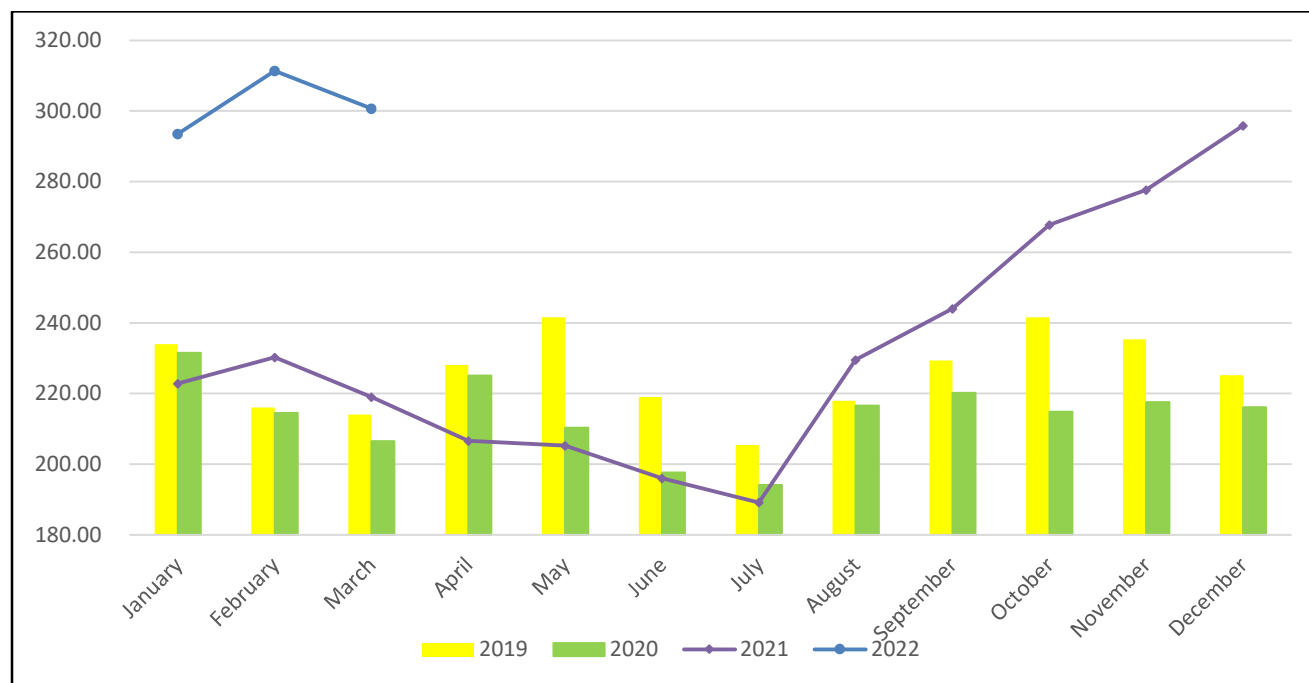
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



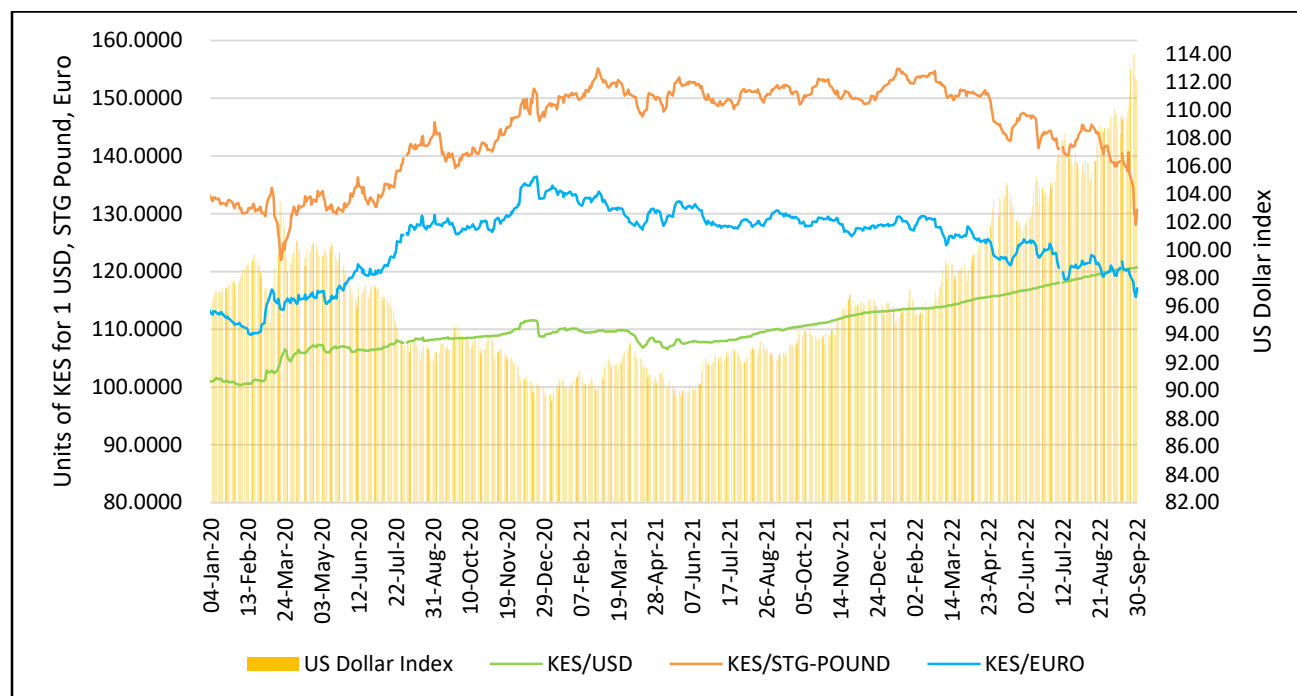
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



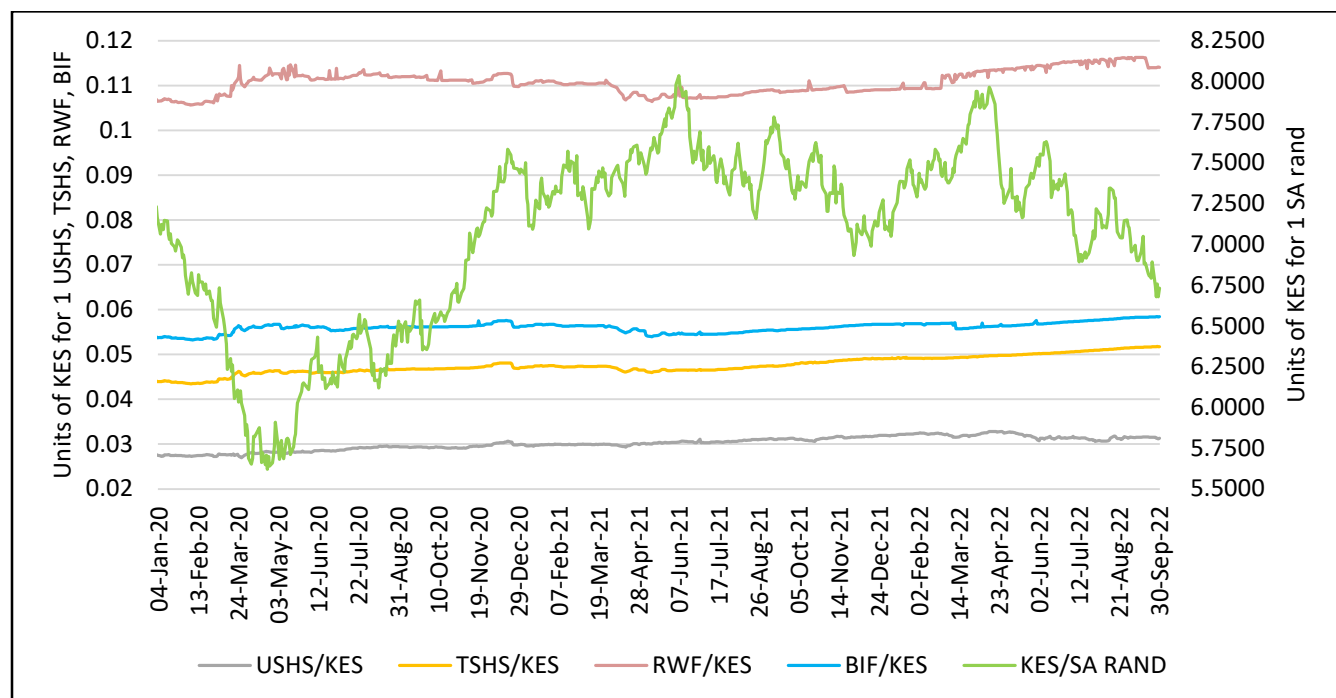
Data Source: Kenya National Bureau of Statistics; East Africa Tea Trade Association; Mombasa Tea Auction

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



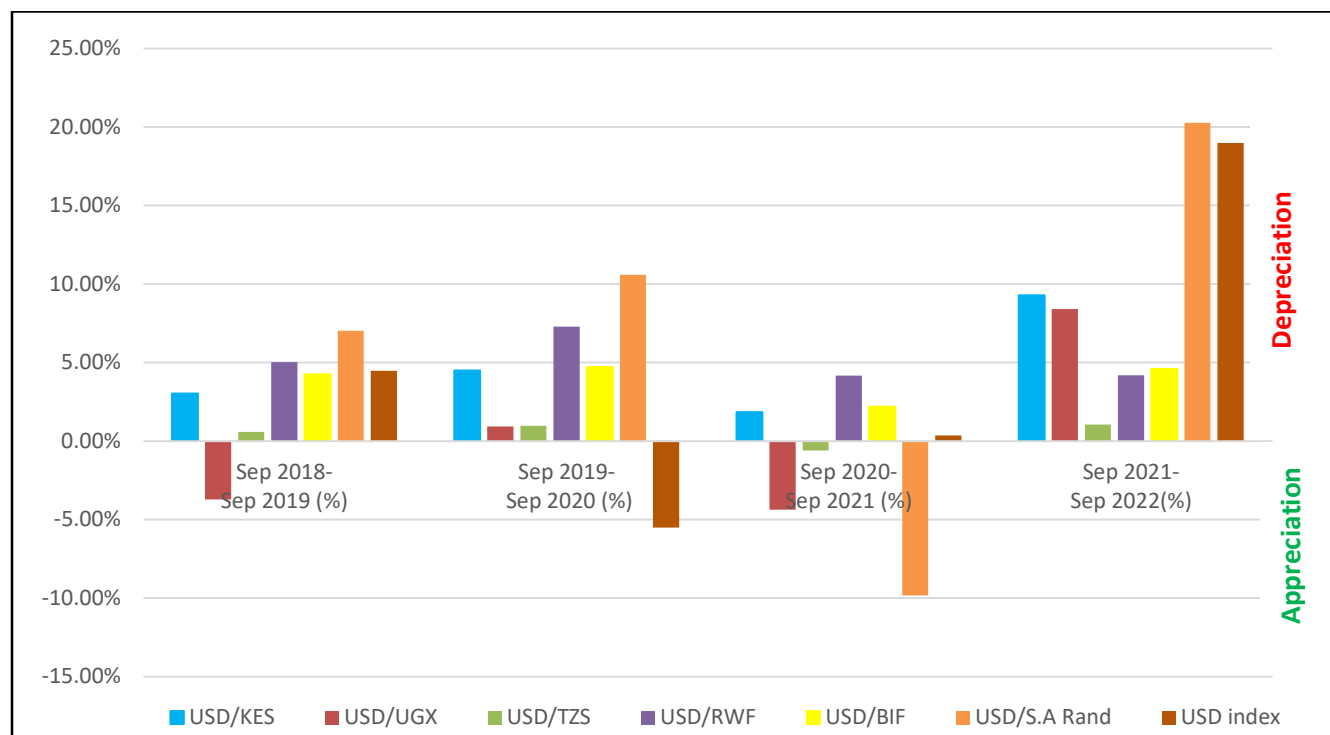
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics;
<https://www.investing.com/quotes/us-dollar-index-historical-data>

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



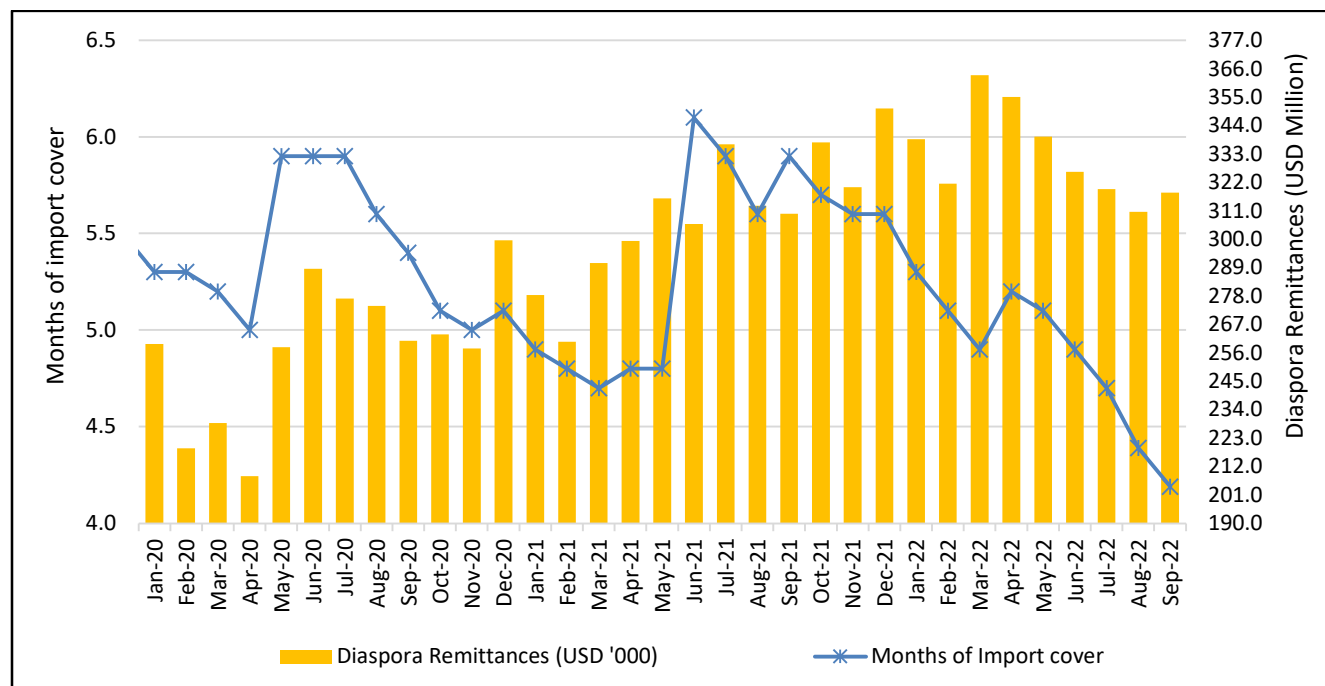
Data source: Central Bank of Kenya

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

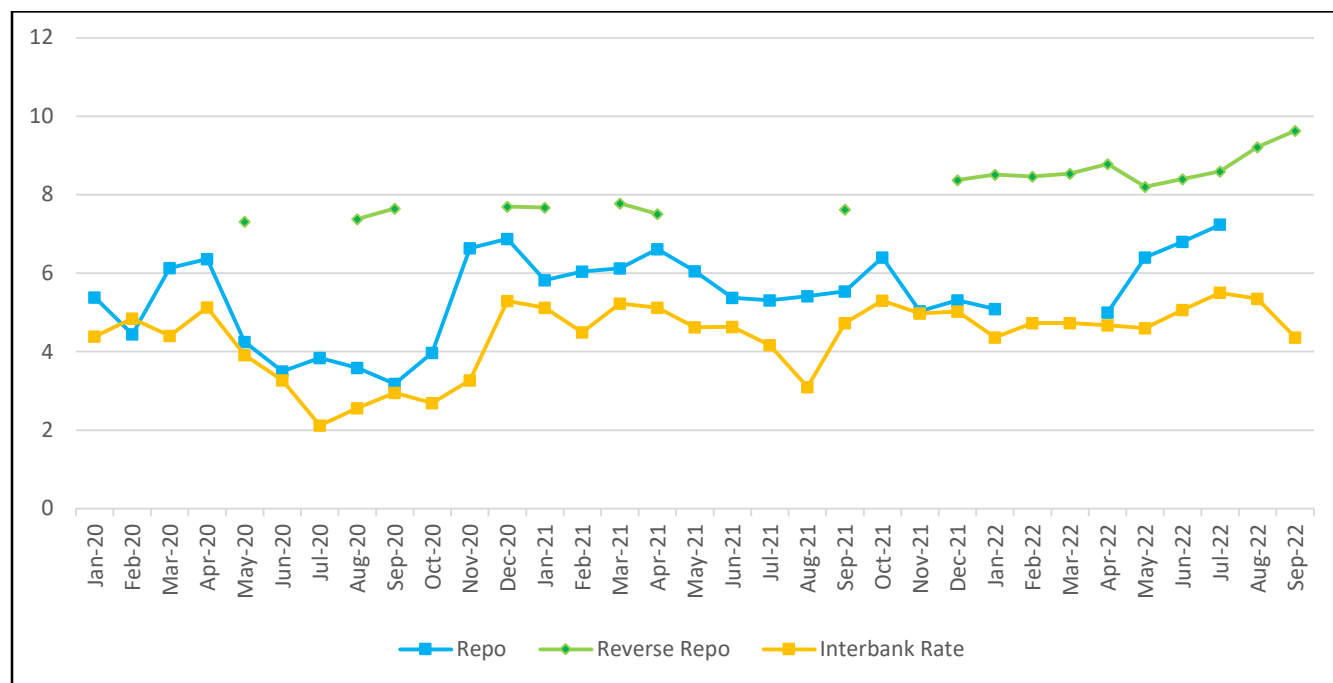
Central Bank of Kenya, in a bid to strike a balance between taming sustained elevated inflationary pressures and economic recovery, increased the Central Bank Rate by 8.25 per cent in September 2022. The Central Banks in the region are also raising their policy rates to address inflation pressures. The South African Reserve Bank raised the repurchase rate during the quarter by 75 per cent basis points, citing global economic growth slowdown and sustained inflation. Ghana, Nigeria, Uganda, and Rwanda also increased their policy rates as they aimed to anchor inflationary pressures while supporting economic growth and financial stability. However, Tanzania and Zambia maintained their policy rates at 5 per cent and 9 per cent, respectively.

The 91-day and 182-day Treasury bill rates kept a rising trajectory. The 91-day Treasury bill rate averaged 8.21 per cent, 8.58 per cent and 8.92 per cent in July, August, and September 2022, respectively, while the 182-day averaged 9.29 per cent, 9.45 per cent and 9.60 per cent in the same periods. The 364-day Treasury Bill rates declined slightly during the quarter to an average 9.98 per cent, 9.92 per cent and 9.90 per cent in July, August, and September 2022, respectively. The banking sector lending interest rates increased in the quarter under review, with July and August 2022 recording 12.35 and 12.38 per cent, respectively. The deposit rates also rose slightly from 6.74 per cent in July 2022 to 6.93 per cent in August 2022; however, the savings rate also increased from 2.94 per cent in July 2022 to 3.46 per cent in May 2022.

The growth of credit to private sector continued increasing from 11.90 per cent, 12.30 per cent to 14.20 per cent in May, June, and July 2022, respectively. The proportion of the credit to public sector increased from 36.57 per cent in May 2022 to 37.20 per cent in June 2022 and further to 37.63 per cent in July 2022, indicating an increased uptake of credit by private sector players as the economy navigates the multi-shocks occasioned by COVID-19, Ukraine war and drought effects. However, there are minimal changes in the proportion of credit to manufacturing sector increasing slightly from 9.47 per cent in May 22 to 9.54 per cent in June 2022 before decreasing to 9.42 per cent in July 2022.

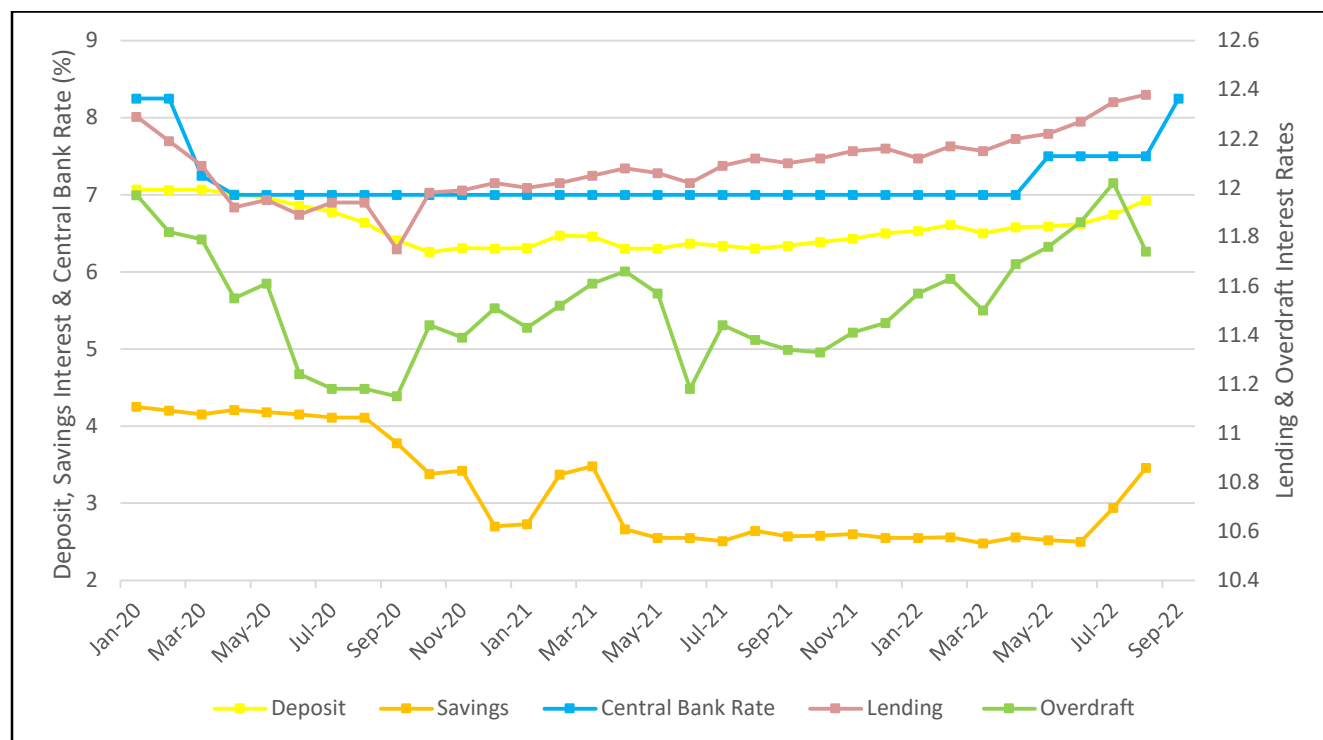
The ratio of Non-Performing Loans to Gross Loans declined to 51.6 per cent in July 2022 from 52.5 per cent in June 2022. This is the first time the ratio is declining since November 2021, an indication that more businesses are now able to honor their debt obligations. However, the liquidity ratios of the banking sector continue to show a declining trend. In terms of Return on Asset, the sector performed better in July 2022 at 2.24 per cent compared to July 2021 where the Return on Assets were 1.96 per cent.

Figure 18a: Repos and reverse Repo interbank rates



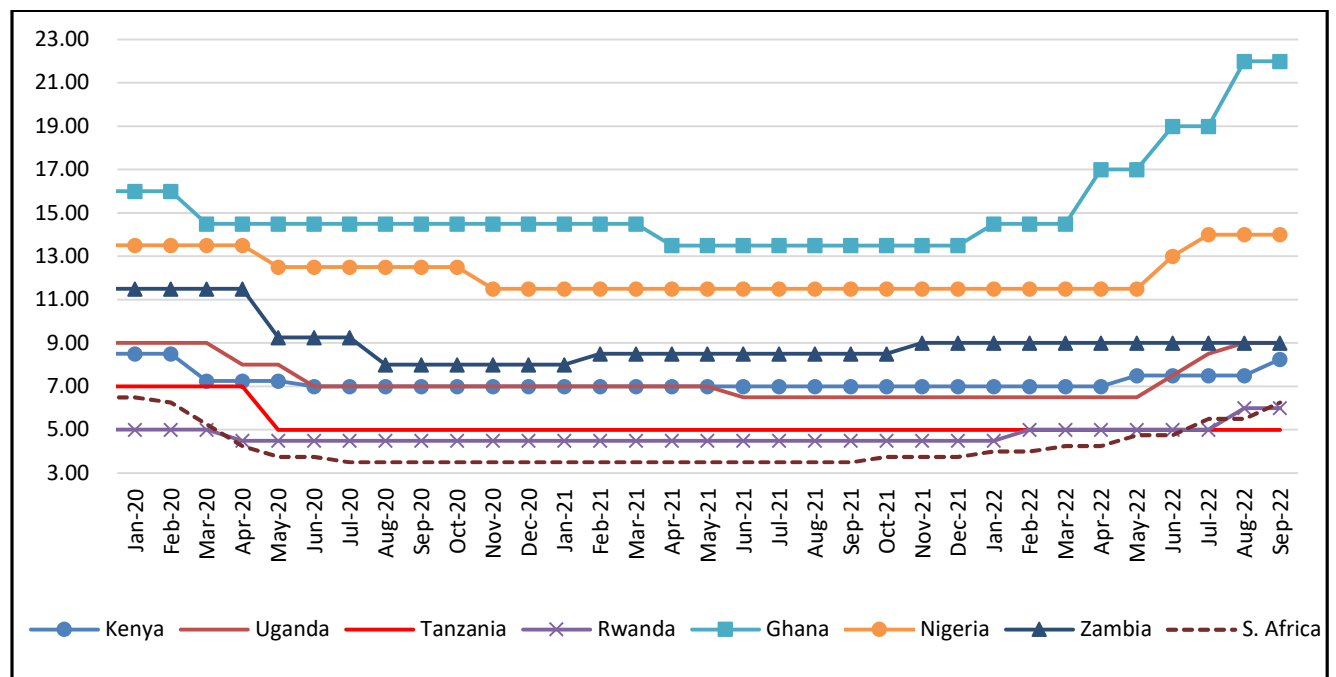
Data source: Central Bank of Kenya

Figure 18b: Commercial bank rates and Central Bank Rate



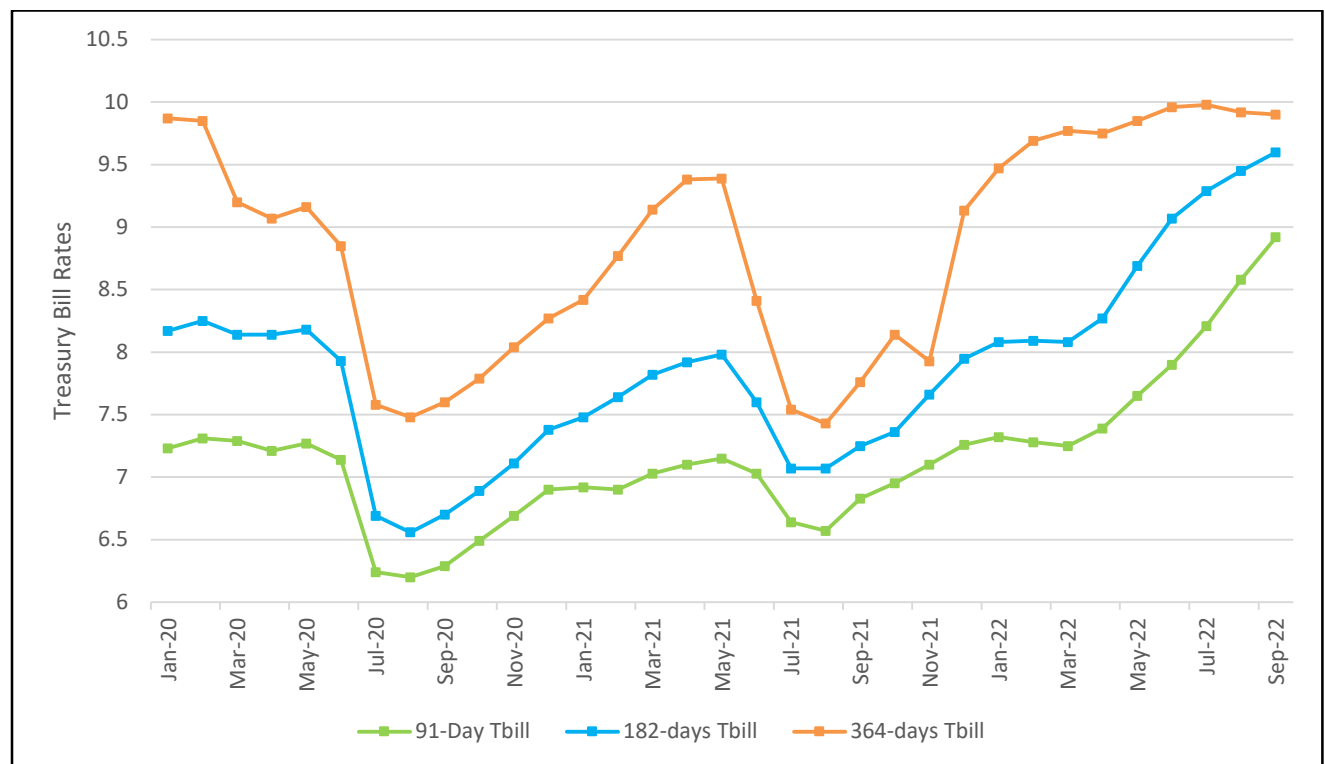
Data source: Central Bank of Kenya

Figure 19: Monetary policy stance for selected countries in Africa



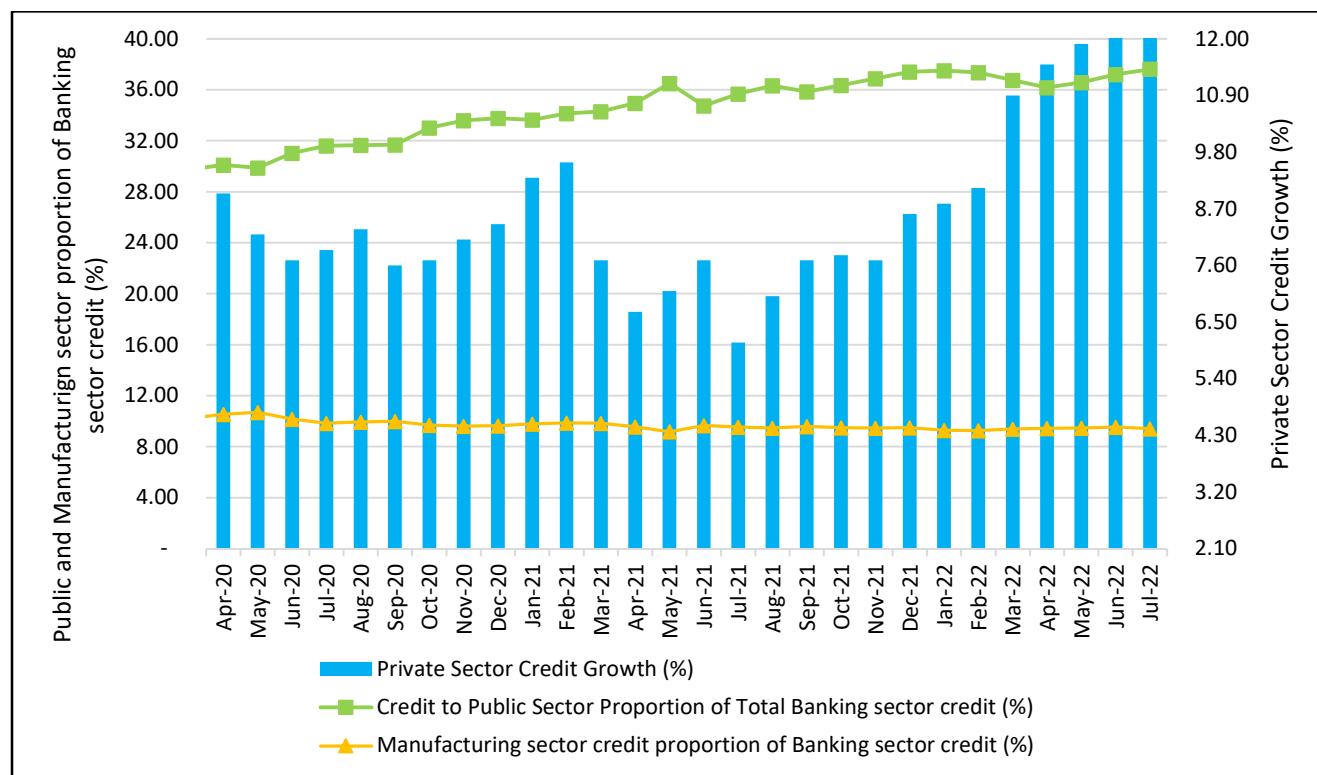
Data Source: Country Central Banks

Figure 20: Treasury bill weighted average rate (%)



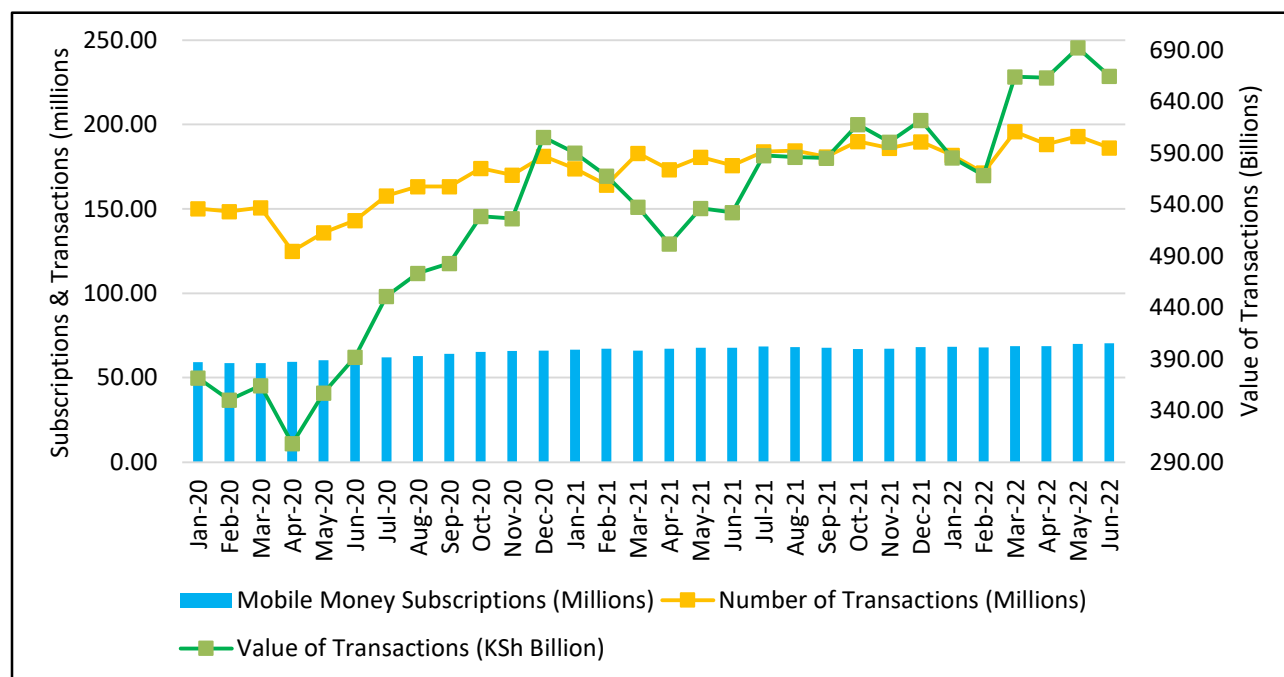
Data source: Central Bank of Kenya

Figure 21: Banking sector credit



Data Source: Central Bank of Kenya

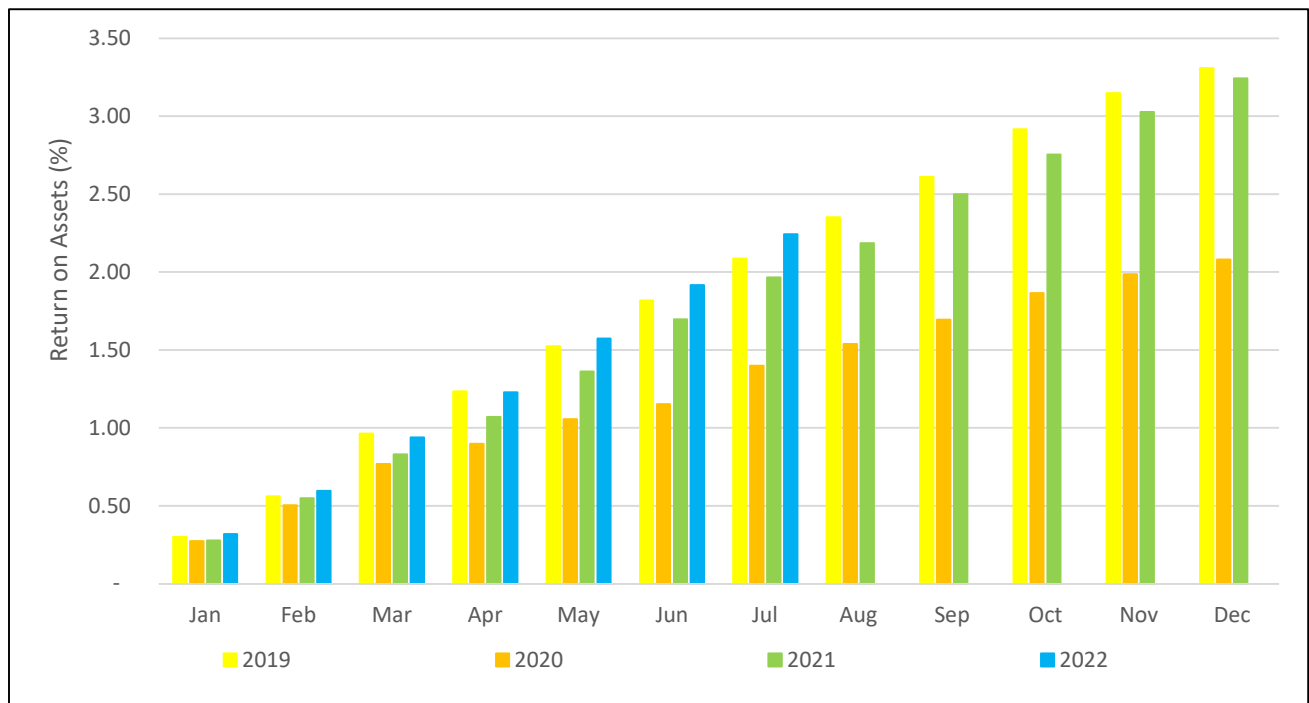
Figure 22: Mobile money transactions



Data source: Kenya National Bureau of Statistics

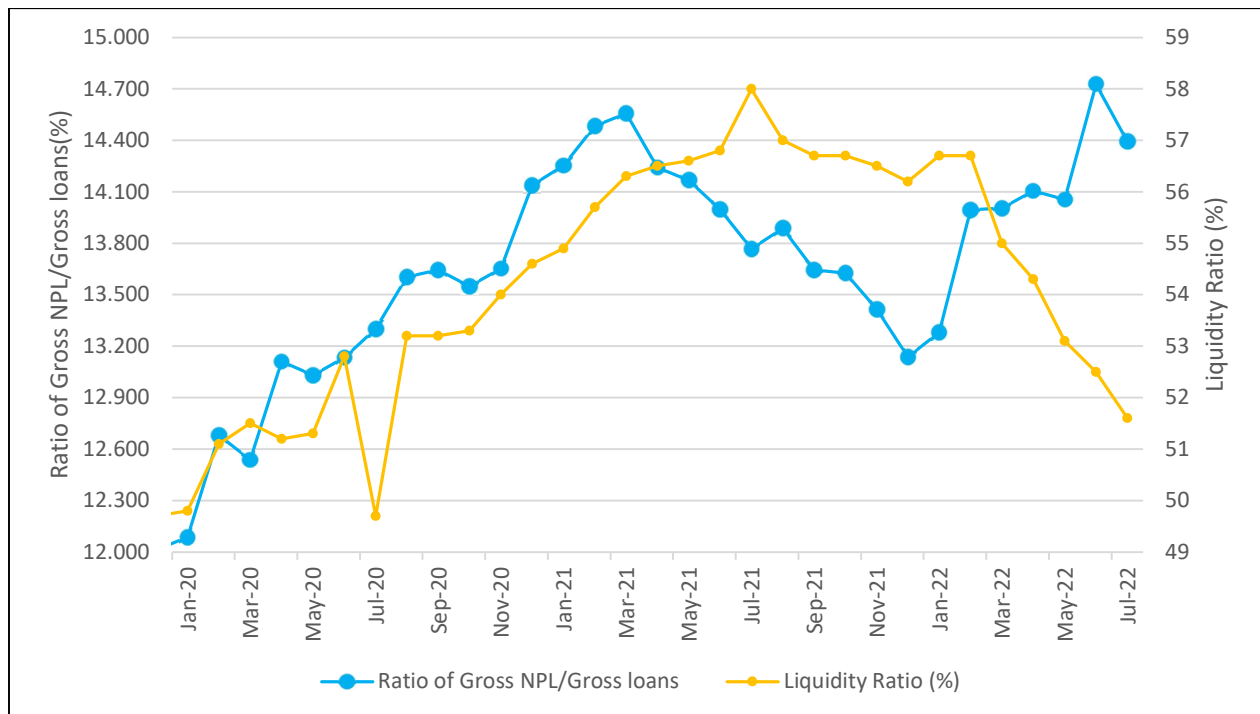
Figure 23: Kenya banking sector performance

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

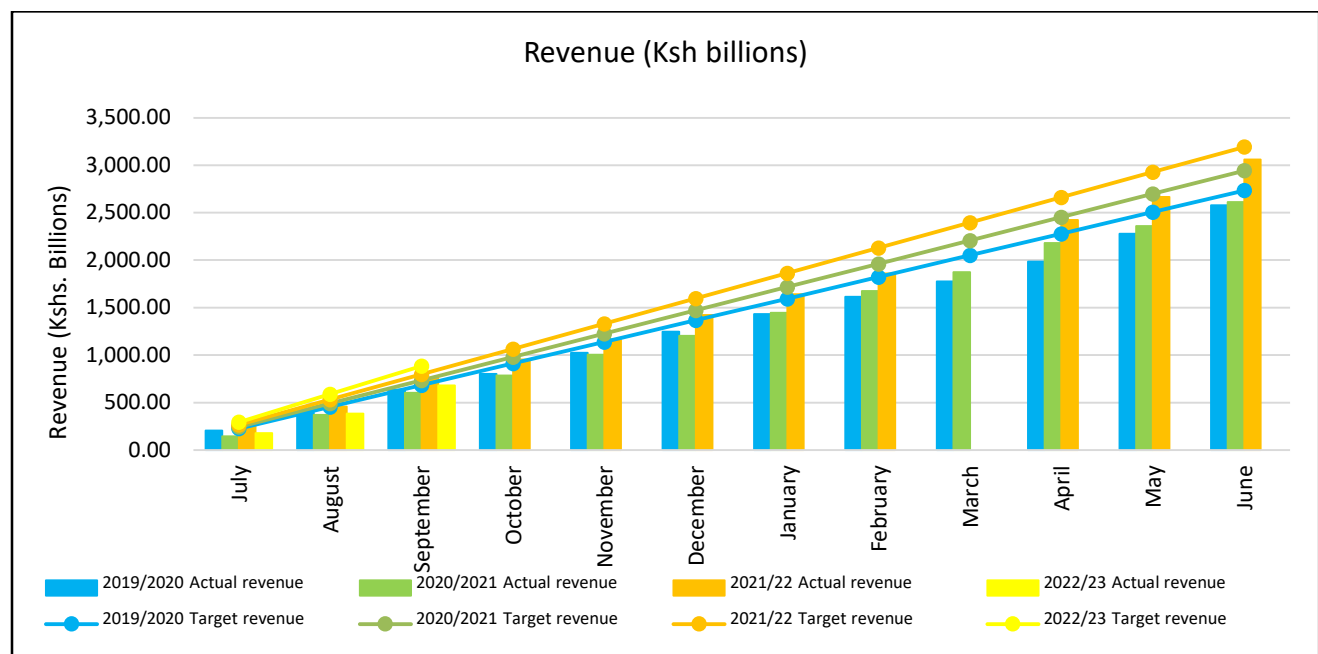
4. FISCAL PERFORMANCE

The budget for 2022/2023 is estimated at Ksh 3.30 trillion, an 8.9 per cent increase from the 2021/22 budget of Ksh 3.03 trillion. The government projects a fiscal deficit of Ksh 862.50 billion in 2022/23 to be financed through external borrowing of Ksh 280.70 billion (32.5%) and domestic borrowing of Ksh 581.7 billion (67.5%). In the first quarter of 2022/23, the government raised Ksh 680.68 billion national revenue by the end of the first quarter of 2022/2023 against an estimated target of Ksh 886.15 billion. The exchequer issued to the National Government in the quarter under review amounted to Ksh 608.96 billion, which is below the target exchequer issues of Ksh 793.65 billion. The exchequer issues to counties were also below the targeted amount of Ksh 92.49 billion, with the counties receiving Ksh 70.34 from the National Government by the end of the first quarter. The exchequer had a balance of Ksh 2,004,627,554.80, which is 0.30 per cent of the cumulative revenues as at the end of the first quarter.

Public debt stood at Ksh 8.58 billion as of June 2022 and is composed of 50.01 per cent domestic debt and 49.99 per cent external debt. The structure of public debt is changing; previously, it was composed of more than 50 per cent external debt, but currently domestic debt accounts for more than 50 per cent of public debt. Domestic debt is comprised of Treasury Bills, Treasury Bonds, Central Bank overdraft, among others. The share of domestic debt held in form of Treasury Bonds has increased over time, averaging 70.49 per cent, 77.88 per cent, and 83.11 per cent in the third quarters of 2020, 2021 and 2022, respectively, while the share of Treasury Bills averaged 28.83 per cent, 19.93 per cent, and 15.05 per cent, respectively, in the same period. Banking institutions hold the largest share of the domestic debt at 48.18 per cent, followed by pension funds, insurance companies, other investors, and parastatals whose shares are 32.47 per cent, 7.22 per cent, 6.09 per cent, and 6.04 per cent, respectively. The share of the banks declined from 50.94 as compared to the same period in 2021, while the share of insurance companies, parastatals, pension funds and other investors increased slightly.

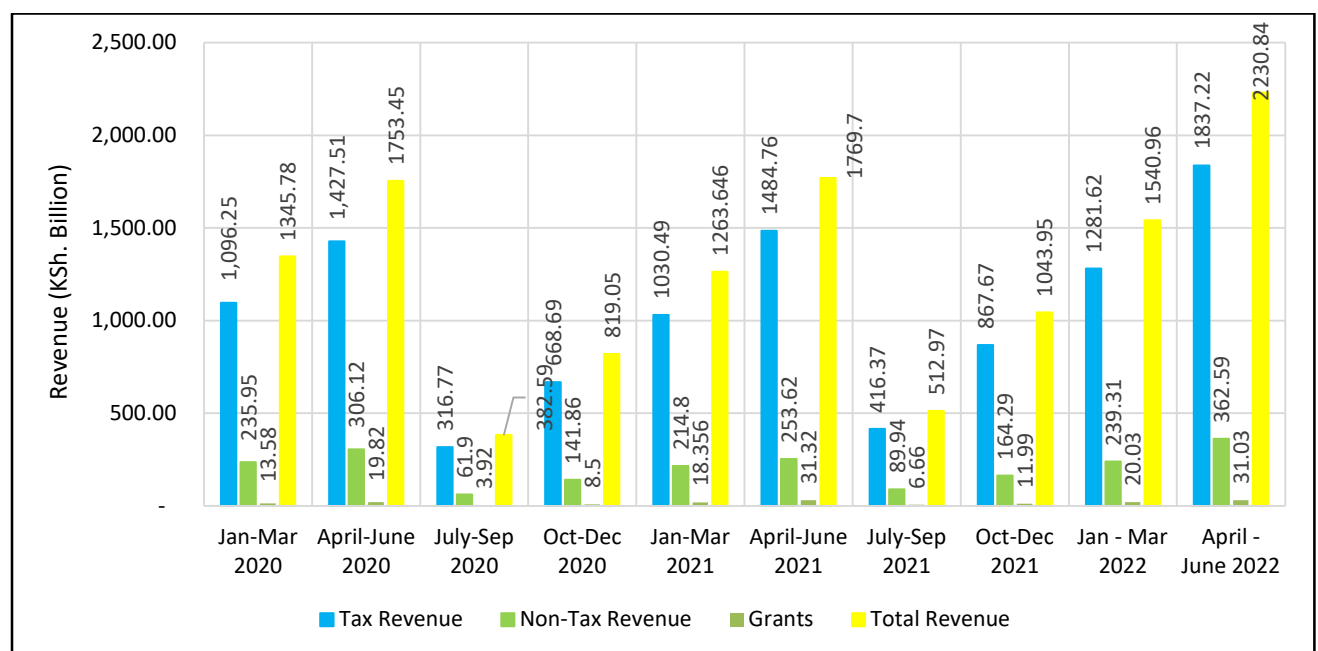
The share of multilateral loans in external debt increased from 33.00 per cent in July-September 2021 to 41.84 per cent in July-September 2021 and 44.84 in April-June 2022. In July 2022, external public debt was composed of 26.78 per cent bilateral loans, 45.48 per cent multilateral loans, 27.45 per cent commercial and 0.28 per cent export credit in July 2022. Multilateral debt projects an increasing share of concessional funding, which is desirable.

Figure 24: National revenue (Ksh billion)



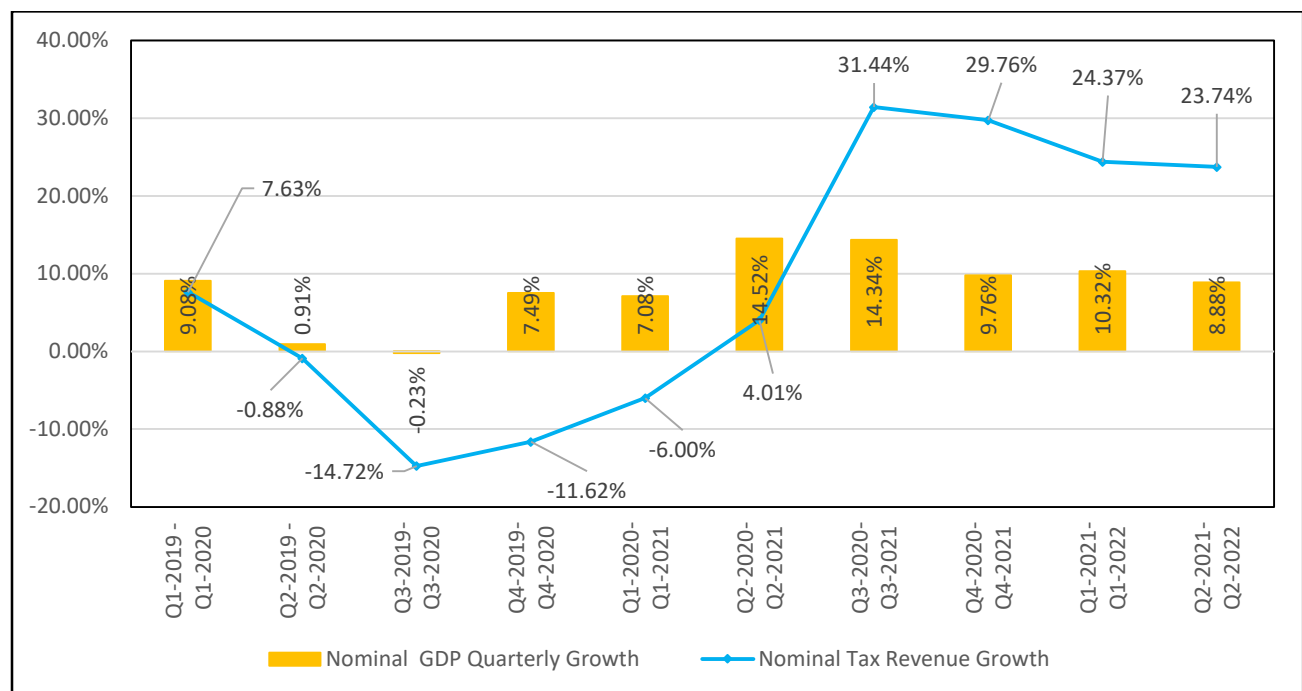
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 25: Composition of government revenue (Ksh billion)



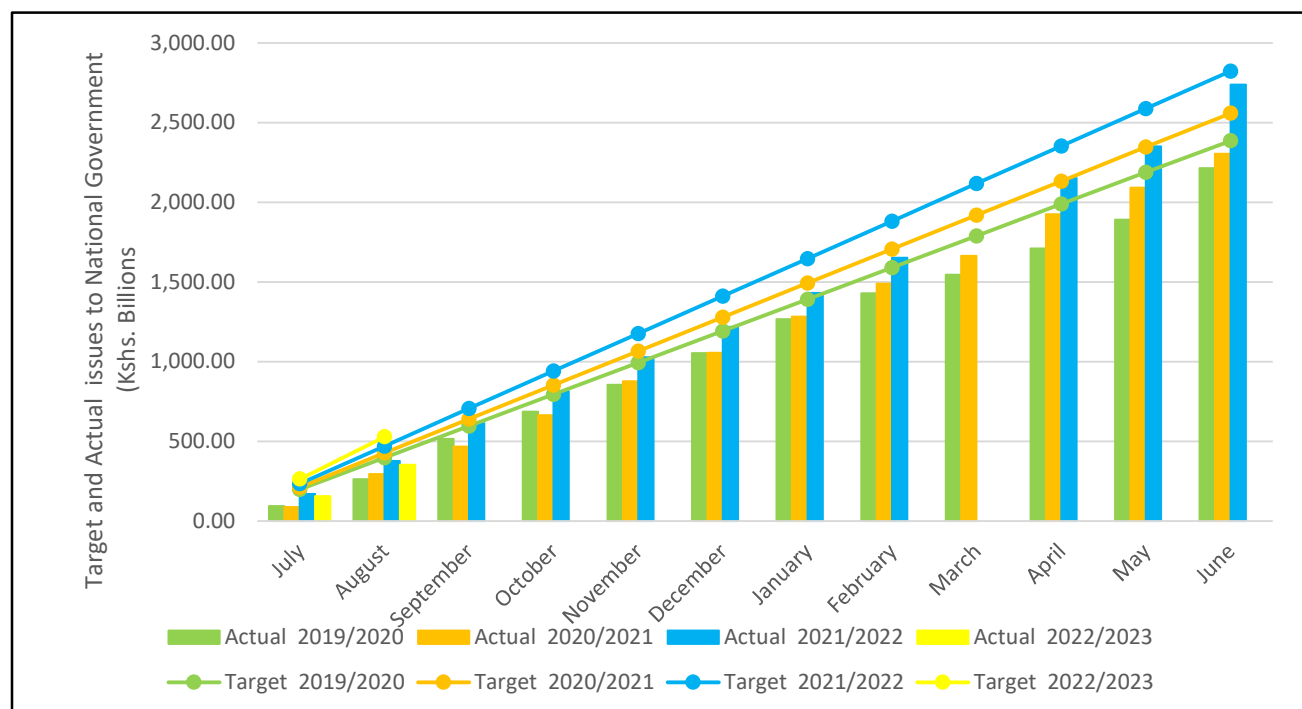
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices

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



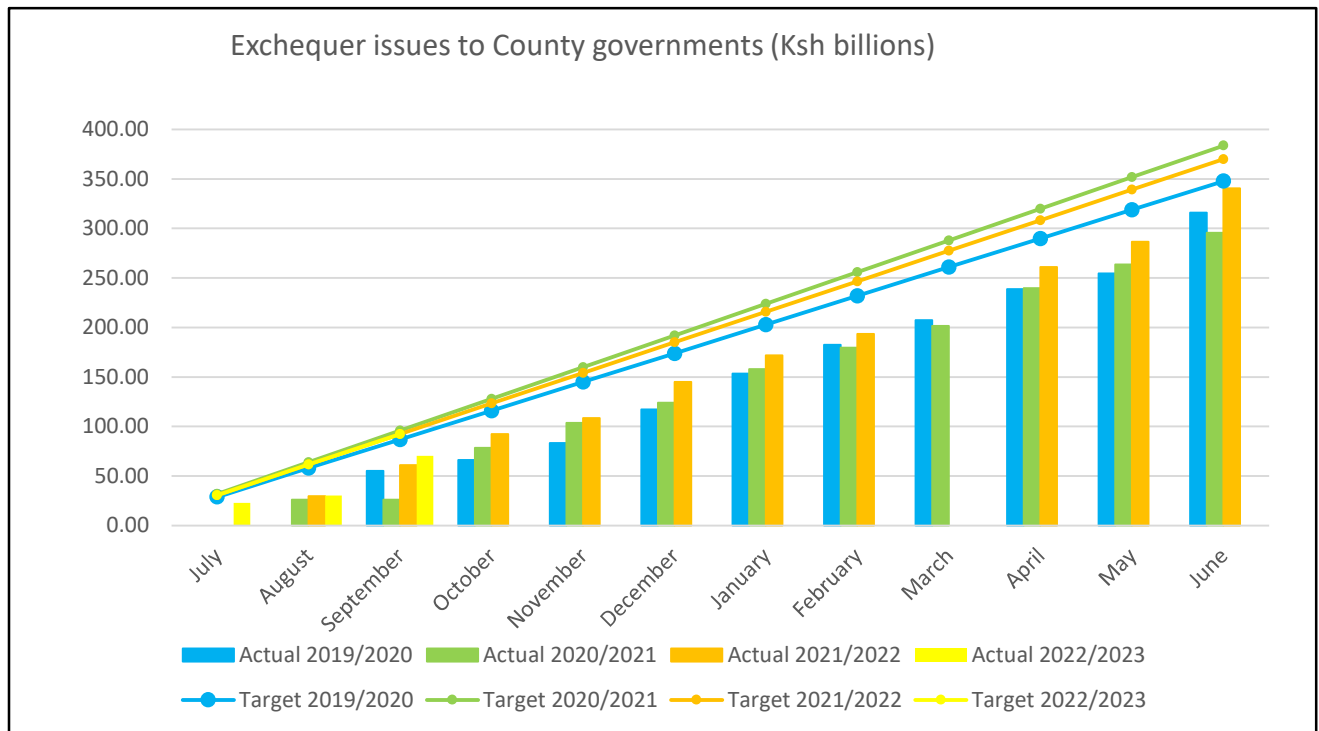
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Figure 27: Exchequer issues to national government (Ksh billion)



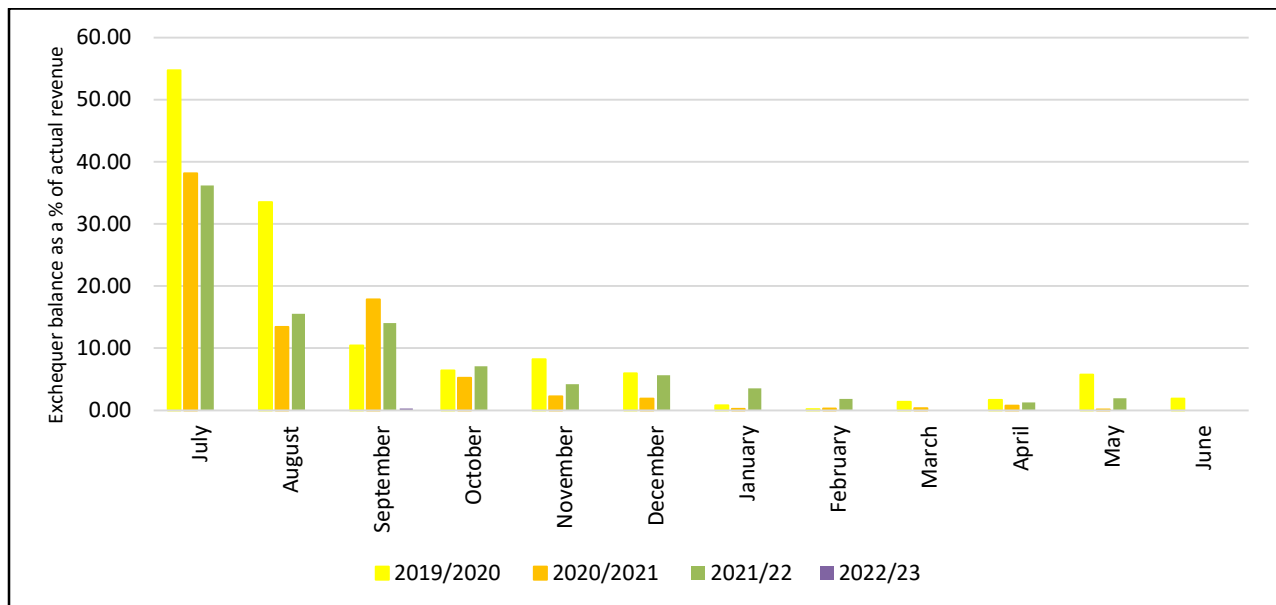
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 28: Exchequer issues to county governments (Ksh billion)



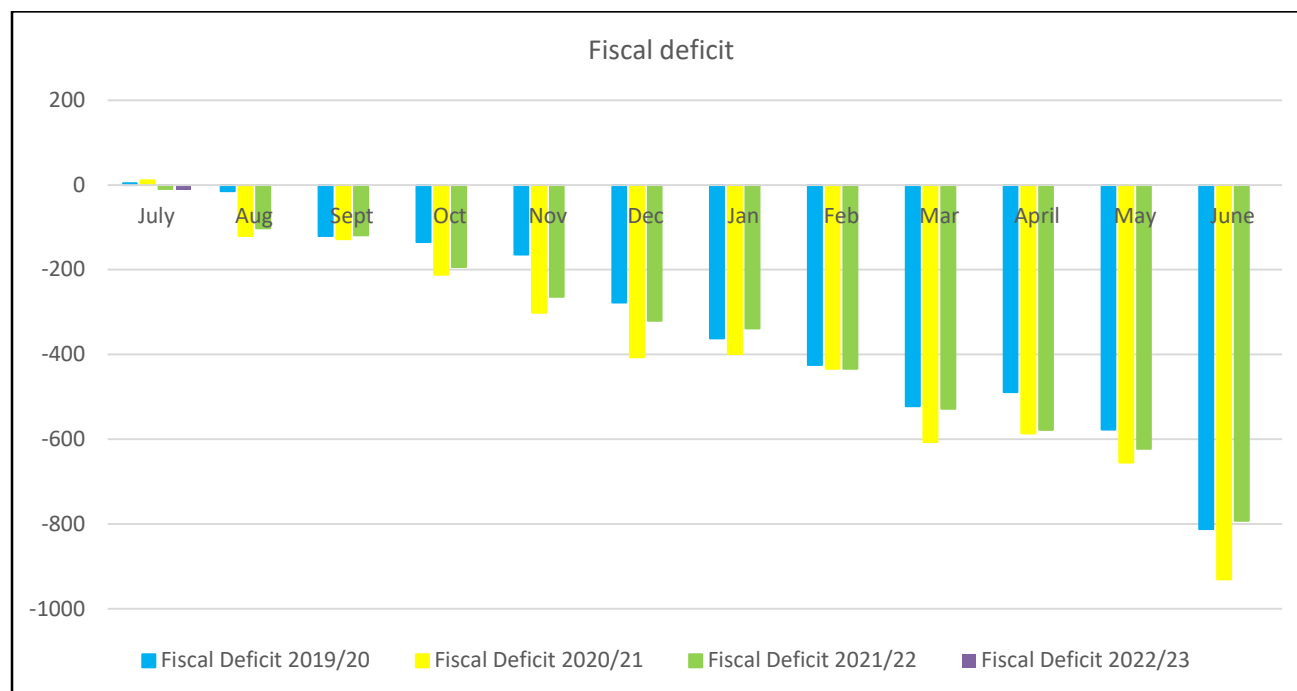
Data Source: Monthly Gazette Notices, The National Treasury and Planning

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



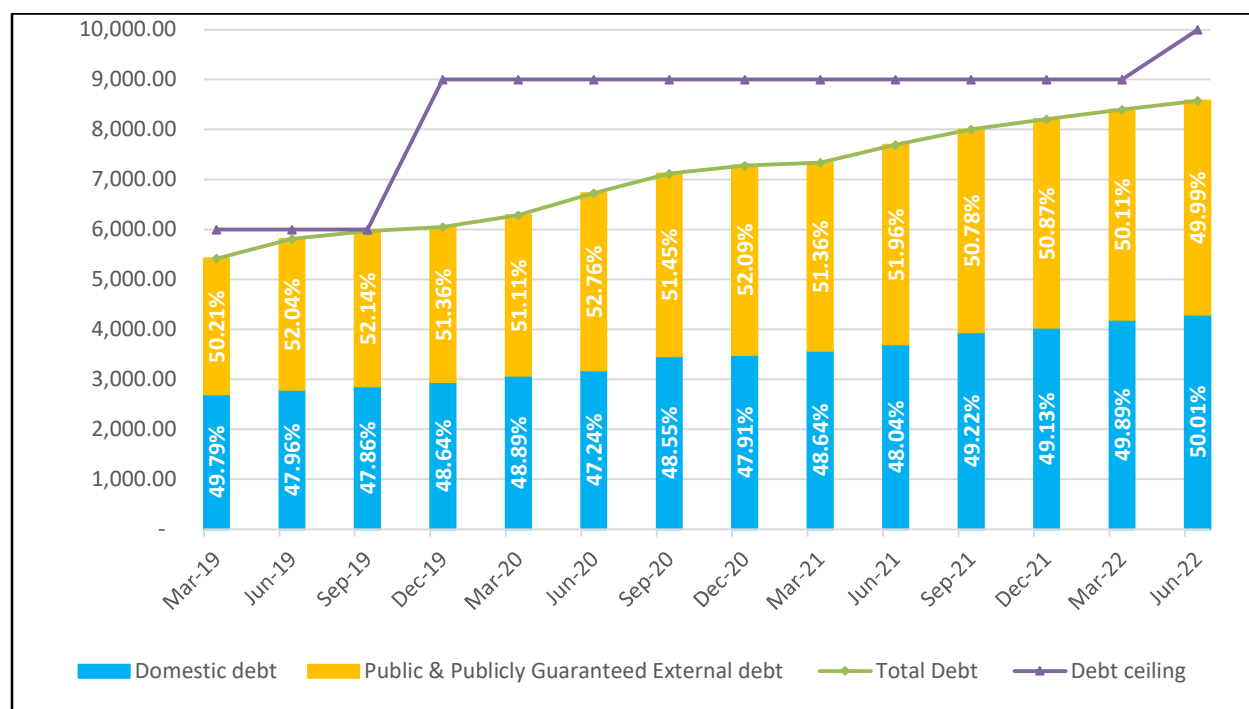
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 30: Fiscal deficit (Ksh billion)



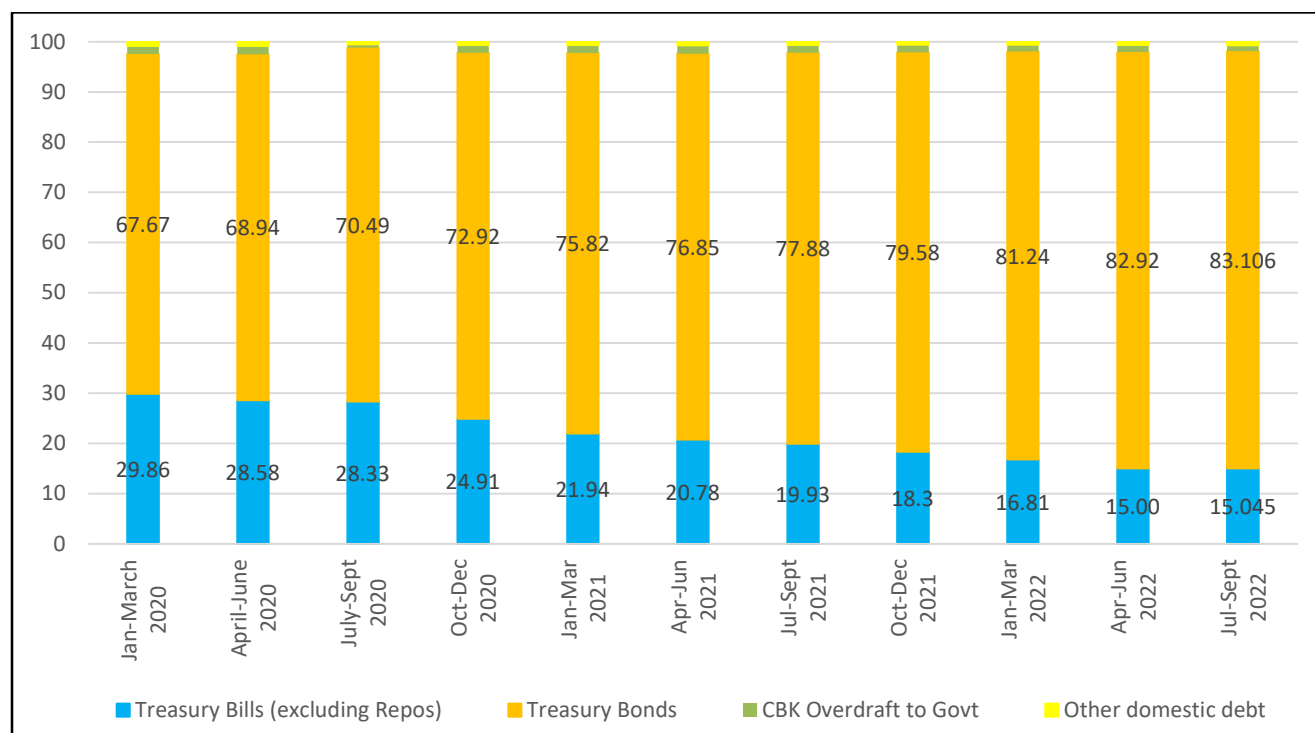
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notice

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



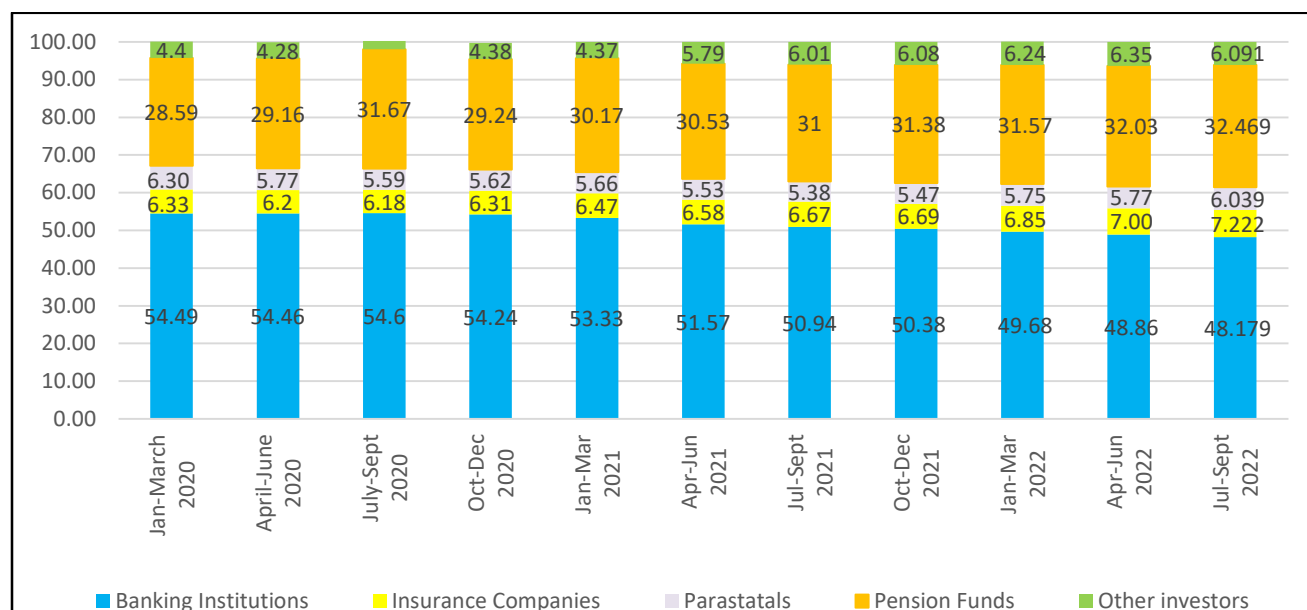
Data Source: Calculated using data from Central Bank of Kenya

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



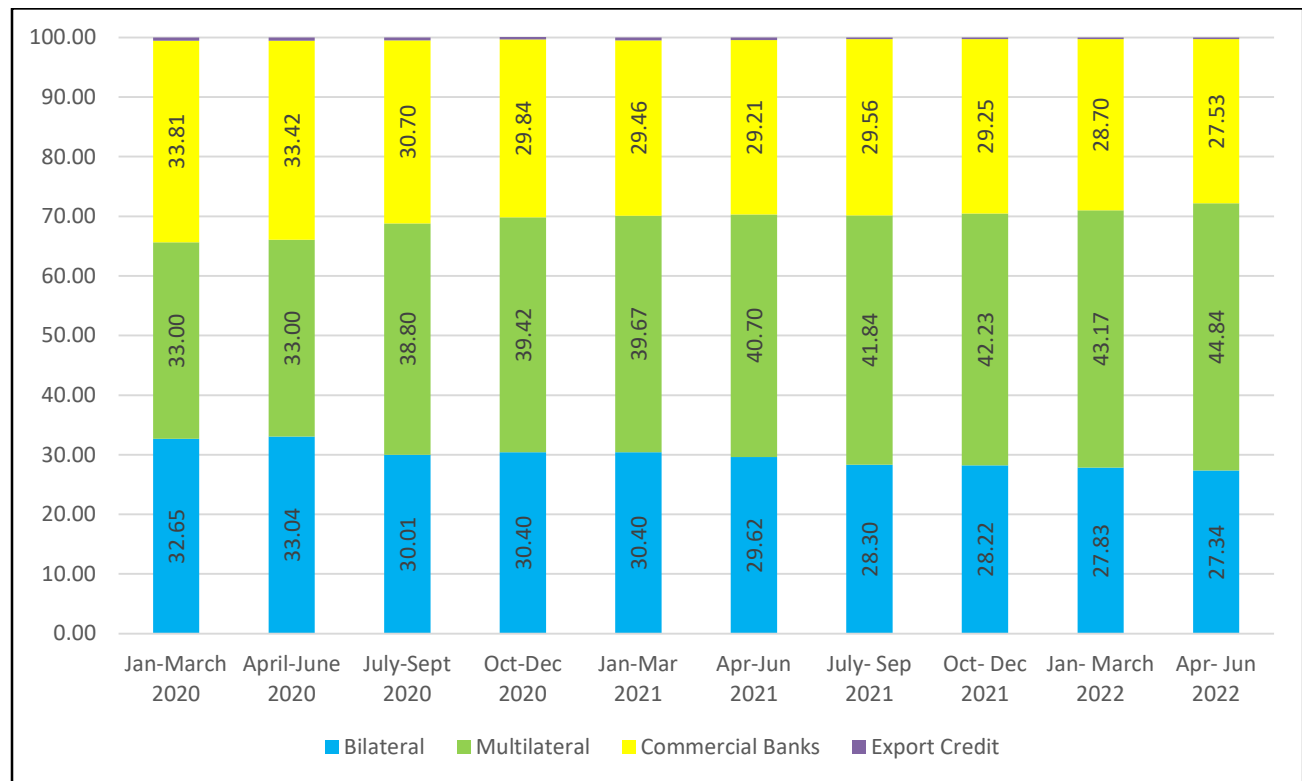
Data Source: Calculated using data from Central Bank of Kenya

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

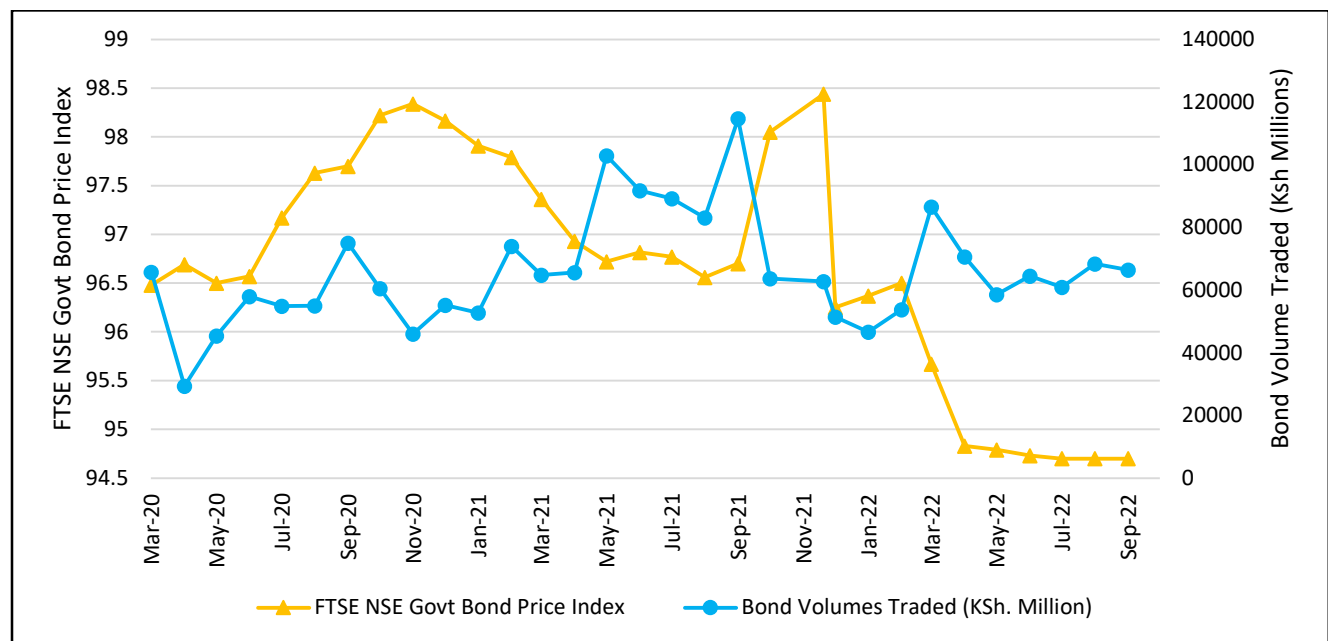
5. CAPITAL MARKETS

Capital Markets in Kenya showed a slight improvement in performance from the previous quarter. The benchmark NSE 20 rose to an average of 1,730.35 in July-September 2022 from an average of 1,728.91 in April-June 2022. The NSE 20 improved from 1,612.89 at the close of April-June 2022 quarter to close at 1,717.68 in July-September 2022. A slight improvement is also noted in the bond market where the total value of bonds traded at the Nairobi Securities Exchange grew from Ksh 193,720 million in April-June 2022 to Ksh 195,720 million in the July-September 2022. Between July 2022 and September 2022, foreign participation to equity turnover declined from 50.54 per cent in July 2022 to 50.12 per cent in August 2022, and further to 38.48 per cent in September 2022. The foreign investors also assumed a net-selling position, whereby the total foreign purchases and foreign sales throughout the July-September 2022 period amounted to Ksh 6,607.5 million and Ksh 13,571.6 million, respectively.

The 2024 Eurobond Yield for Kenya reached an all-time high of 22.04 per cent on 15th of July 2022. However, on average, it declined through the quarter, averaging 18.41 per cent, 14.35 per cent, and 13.68 per cent in July, August and September 2022, respectively. Despite this, Eurobond rates remain high compared to the same period in 2020 and 2021, signaling expensive debt for Kenya. The 10-year bond yield averaged 6.51 per cent, 6.18 per cent and 5.75 per cent in July, August, and September 2020, respectively. In July, August, and September 2021, it averaged 3.27 per cent, 3.15 per cent, and 3.08 per cent, respectively.

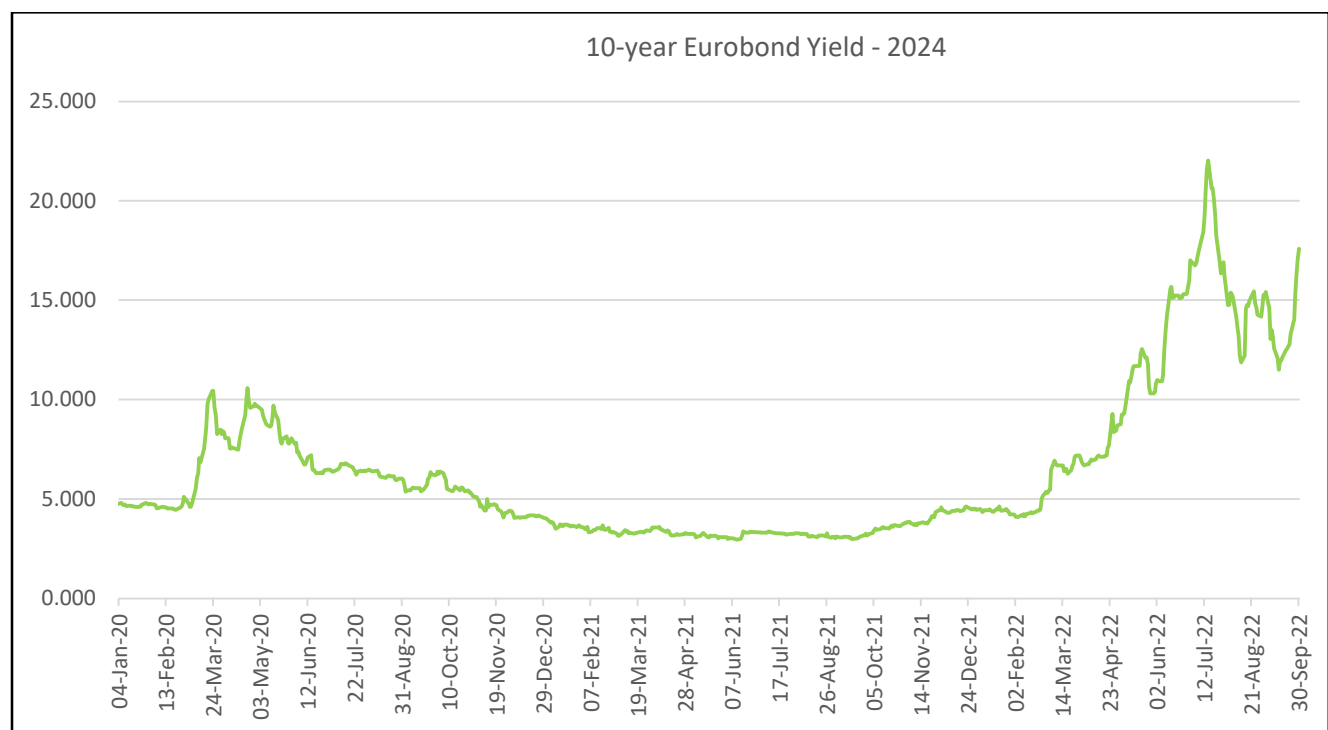
The regional and global markets showed a slowed performance. The US stock markets showed a declining performance as reflected in the key indices; NYSE Composite, Nasdaq 100, and Dow Industrial Average. The same is observed in key indices of European, Asian, and African stock markets.

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



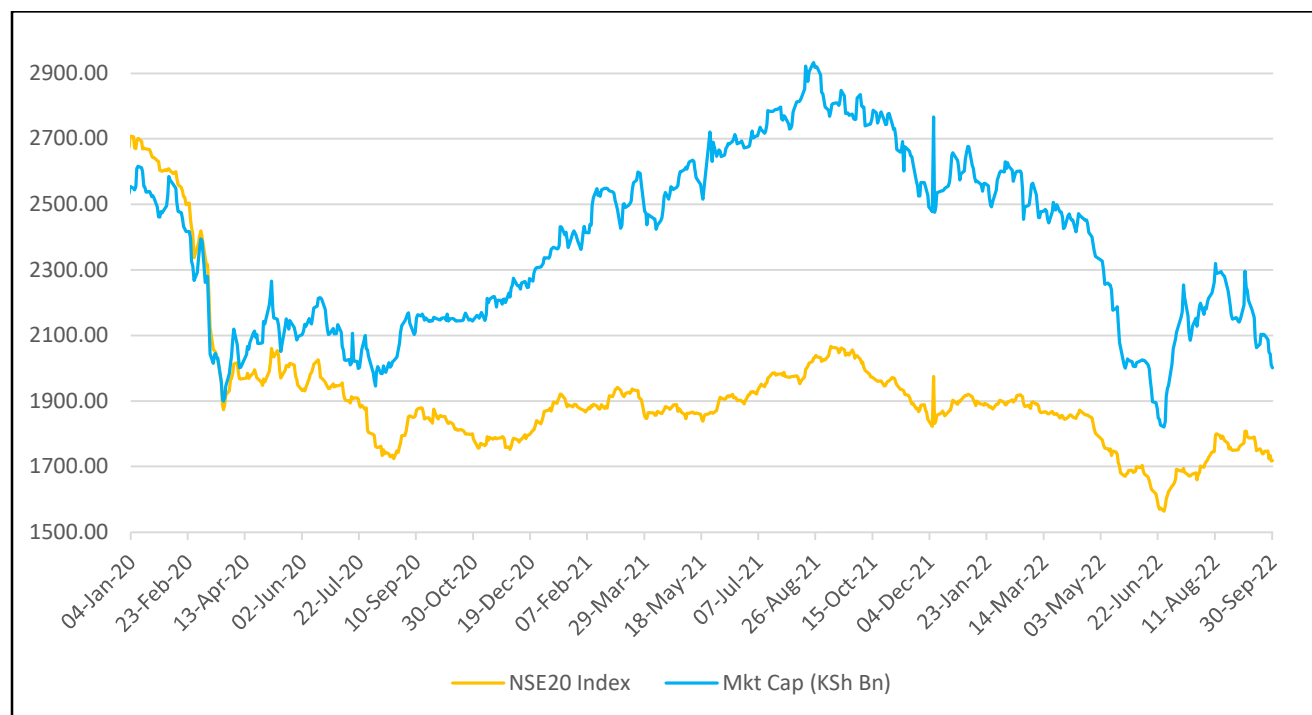
Data Source: Nairobi Securities Exchange; Central Bank of Kenya

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



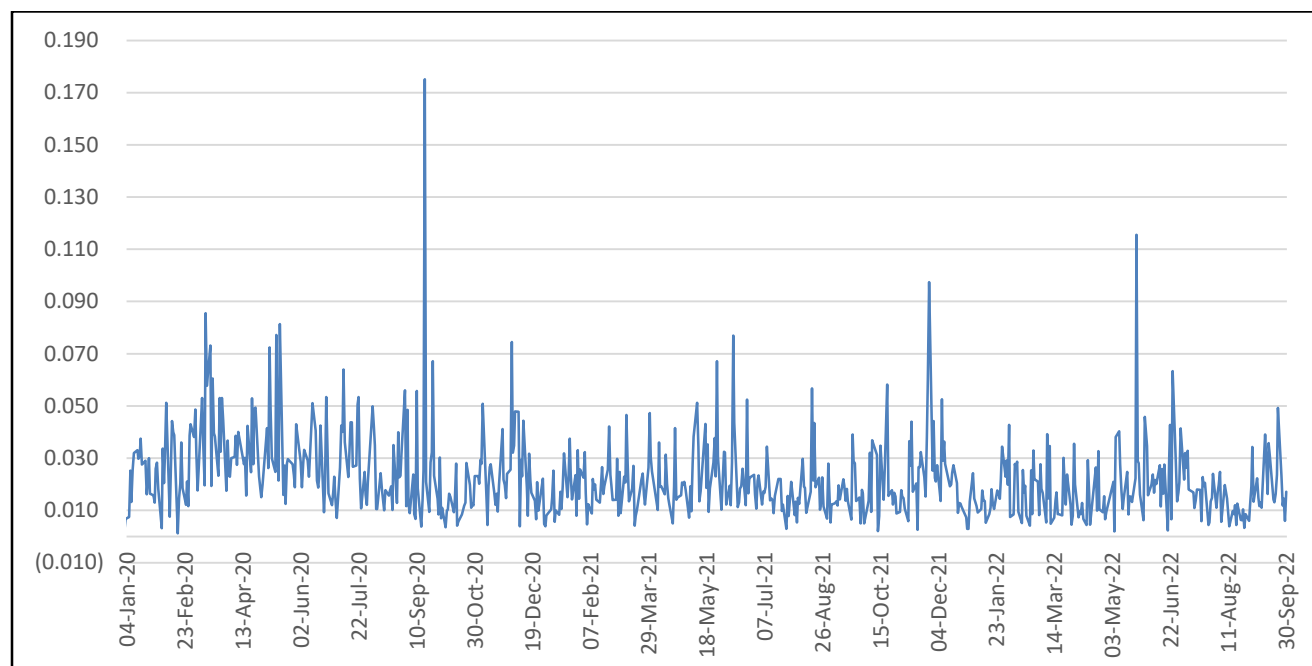
Data Source: Central Bank of Kenya

Figure 37: Stock market performance



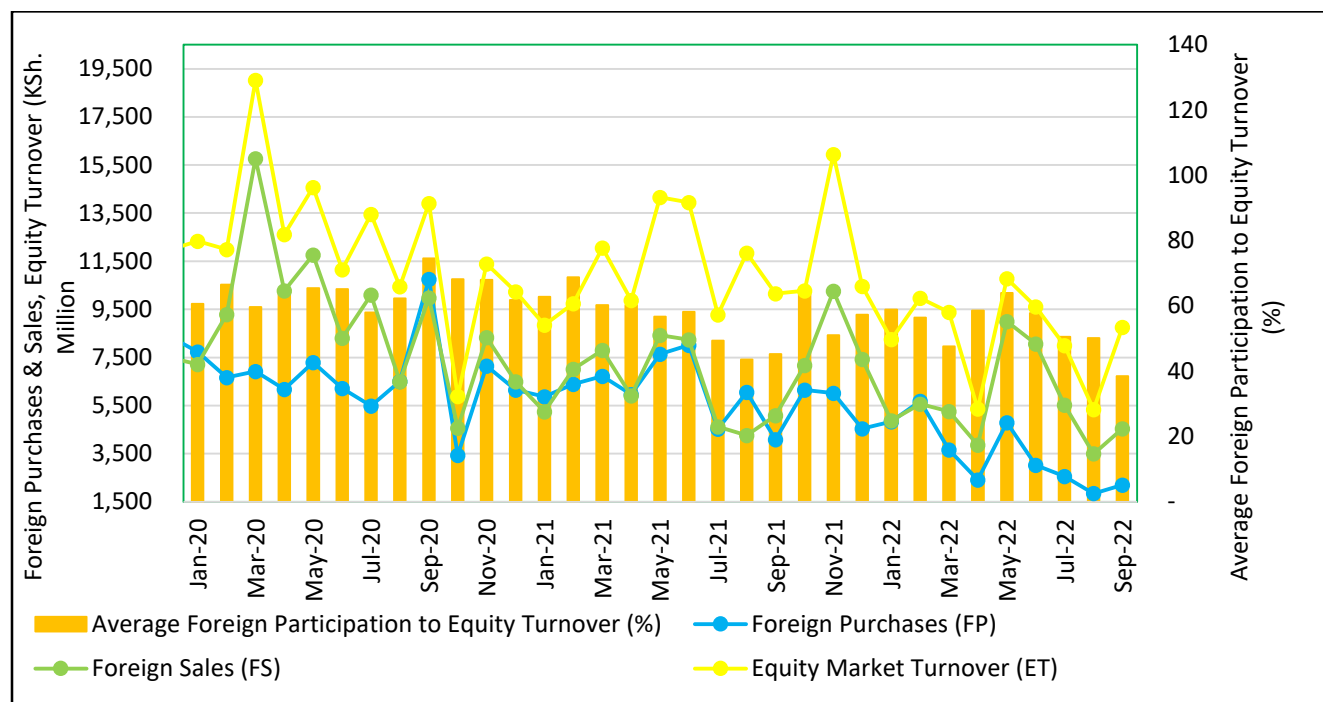
Data Source: Nairobi Securities Exchange

Figure 38: Stock value turnover ratio (%)



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

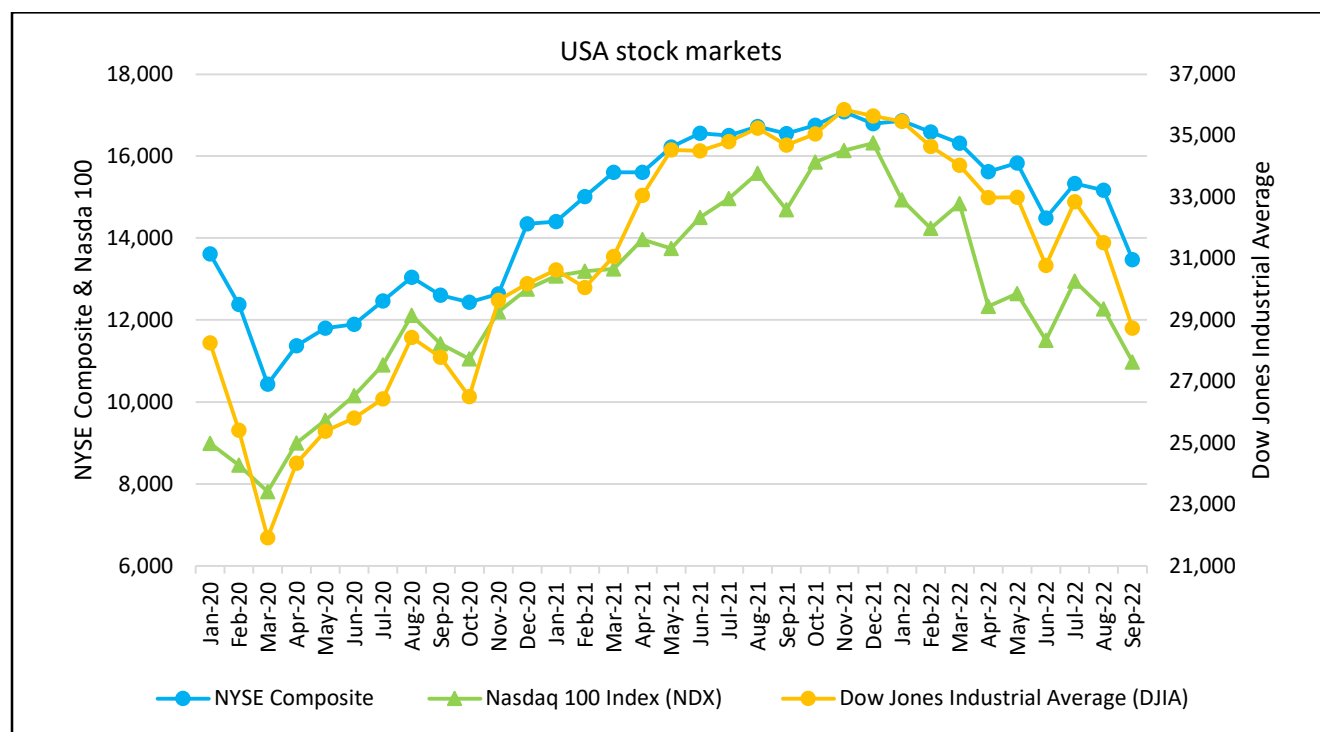
Figure 39: Foreign trading in the stock market



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

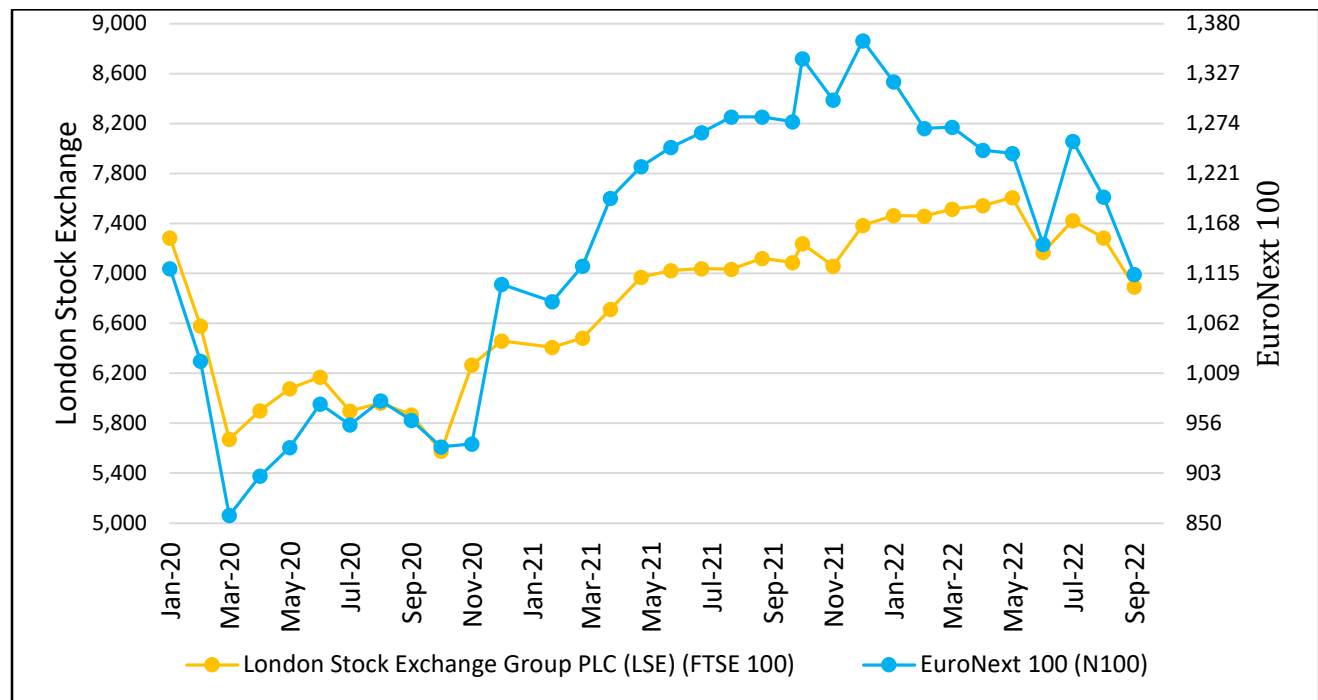
Figure 40: Stock market performance of selected advanced and emerging markets

(a): USA stock markets



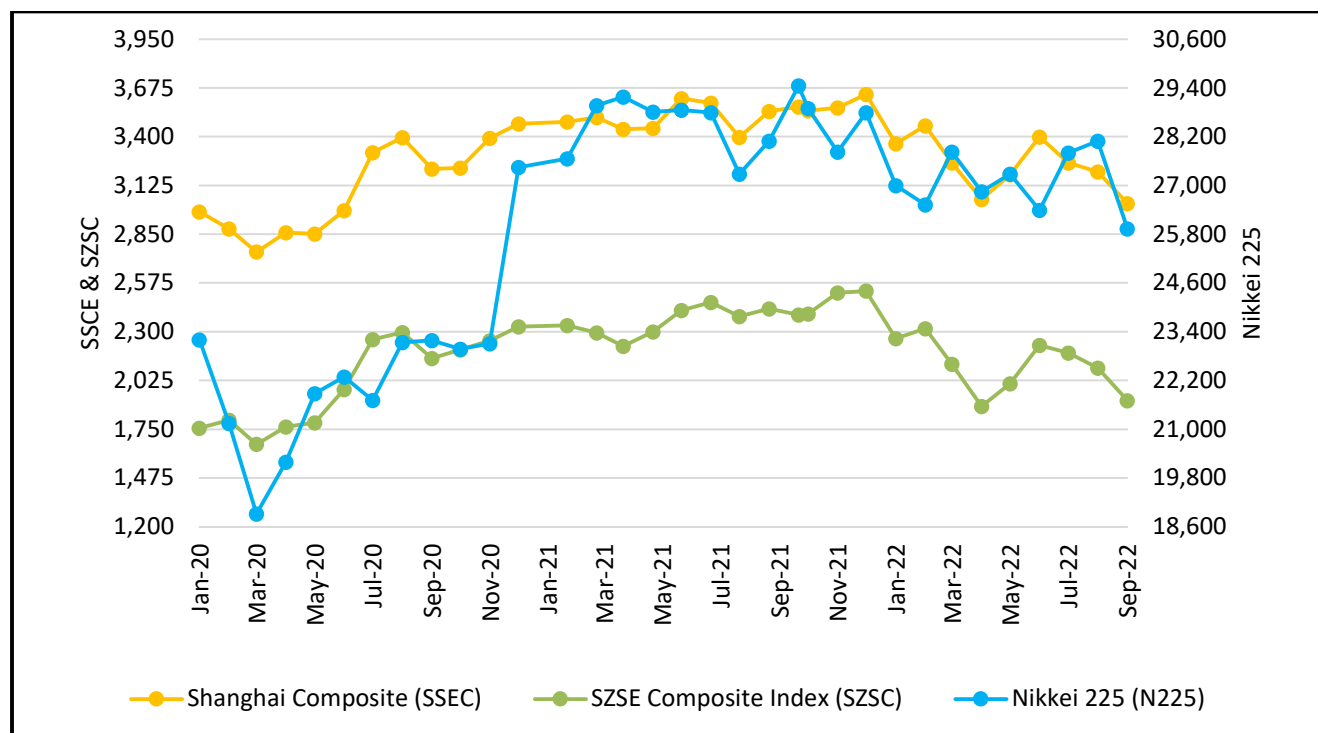
Data source: Country Stock Exchanges; <http://www.investing.com>

(b): European stock markets



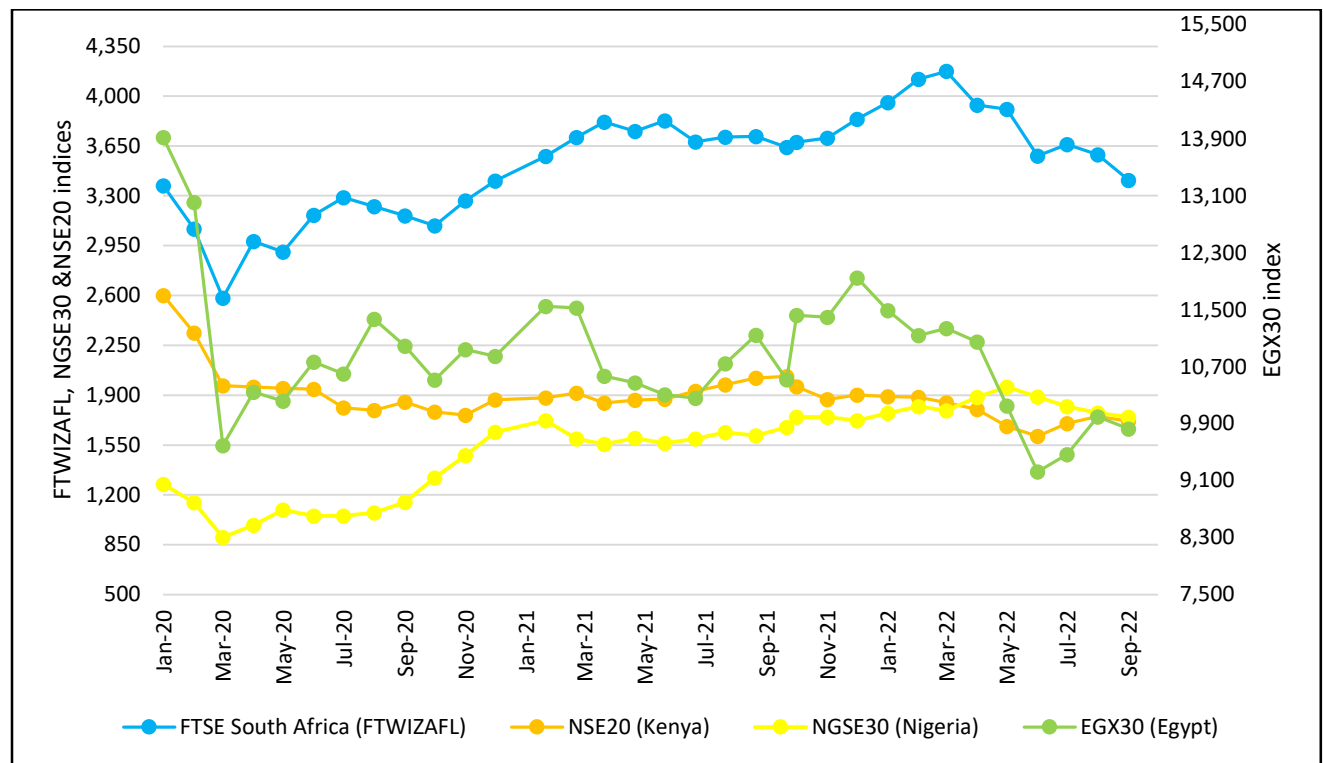
Data source: Country Stock Exchanges; <http://www.investing.com>

(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

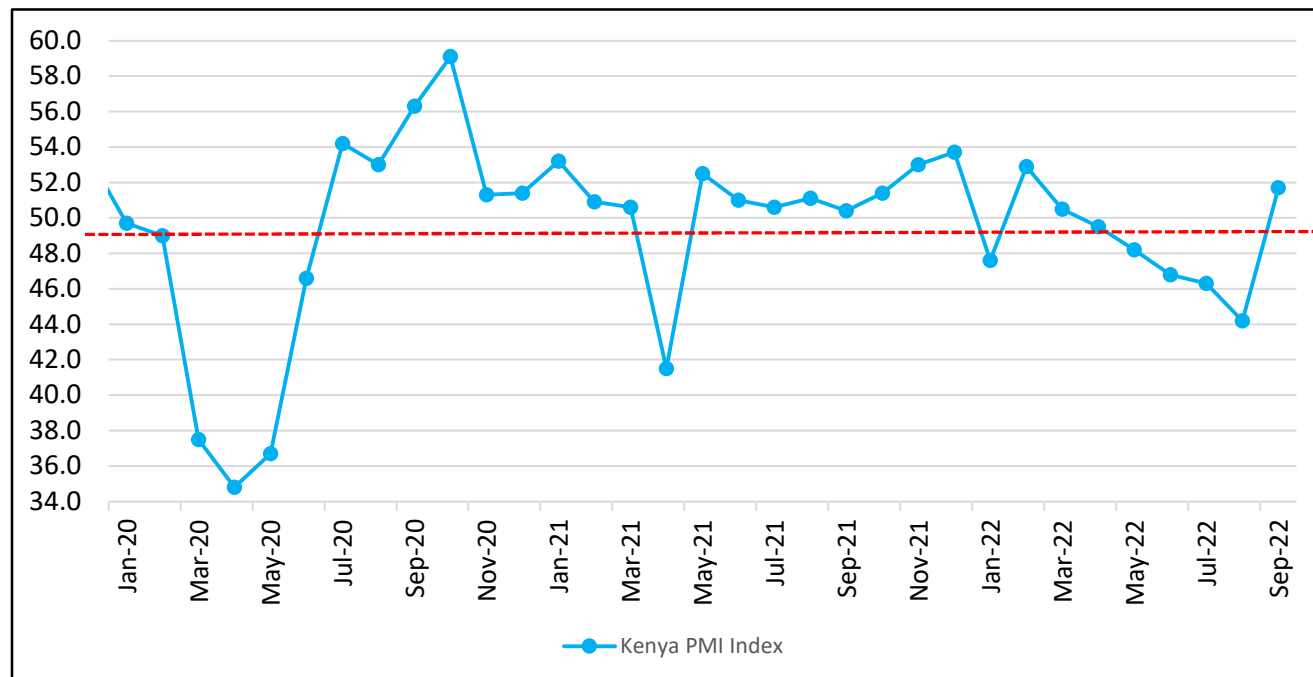
The Stanbic Kenya Purchasing Managers' Index (PMI) increased, for the first time in six months, to 51.7 in September 2022 up from 44.2 in August 2022 and 46.3 in July 2022. This signals an improved business environment, with business activity improving significantly following peaceful elections and improvement in supply chains. However, the positive outlook into the future is subdued by the increased cost of living.

Rainfall remained depressed during the June-July-August (JJA) 2022 and was consistently below the Long-Term Means (LTM) across all meteorological stations in Kenya. The highest recorded rainfall was 667.1mm in Eldoret Station, while the least was 1mm in Machakos Station. The average rainfall for JJA 2022 season was 222.5mm and was below MAM 2022 season, which recorded average rainfall of 268mm.

The credit rating for Kenya remained the same as that issued in March 2022. March 2022 fitch rating was a B+ with negative outlook for long-term issuer default rating and local currency long-term issuer default rating. B+ rating reflects a track record of strong growth and relative macroeconomic stability. However, these positive factors are balanced against high net external indebtedness, rising public debt levels, low GDP per capita, and poor governance indicators that were below the 'B' range medians. S&P Global Ratings affirmed the "B" Foreign Currency LT credit rating of Kenya in March 2022, with a stable outlook.

The COVID-19 positivity rates at the end of July-September 2022 were relatively low, with only 1.04 per cent of sampled individuals turning out positive for COVID-19. At the beginning of July-September 2022 quarter, the positivity rates were as high as 9.58 percent. The percentage of people fully vaccinated stood at 19.14 per cent of the total population, and this, among other measures, has helped to contain the spread of the virus, therefore keeping positivity rates very low.

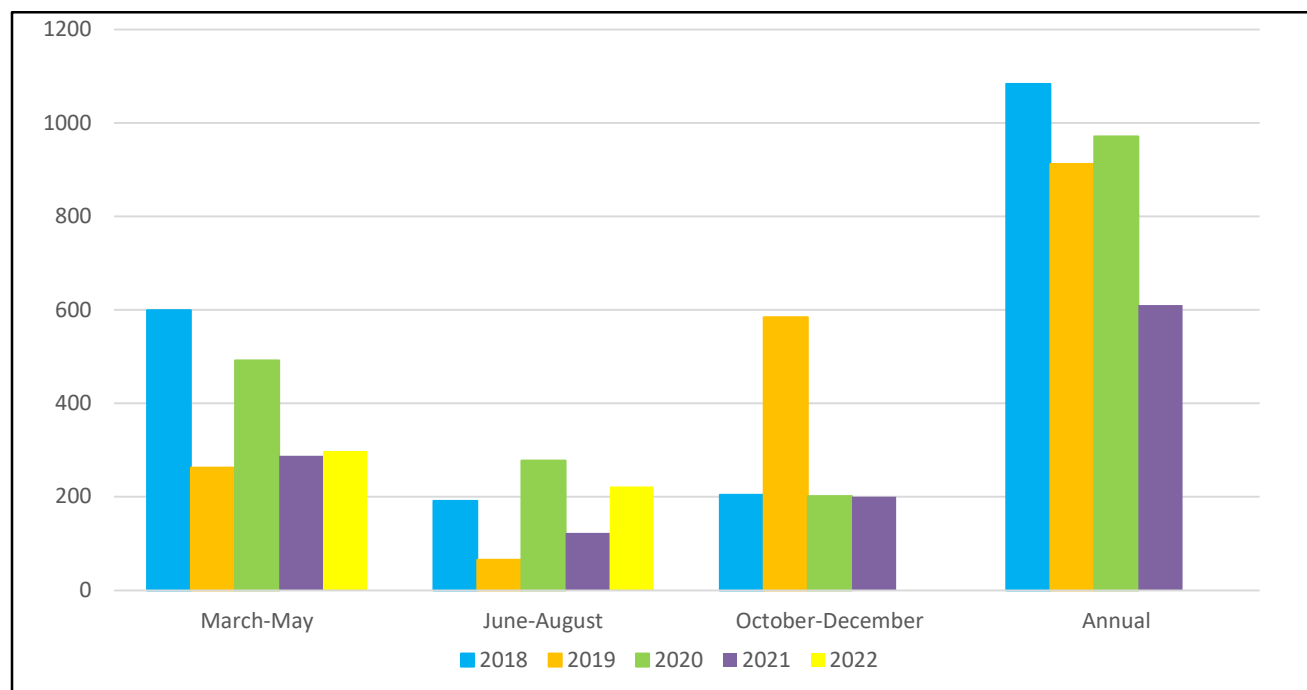
Figure 41: Kenya purchasing managers' index



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

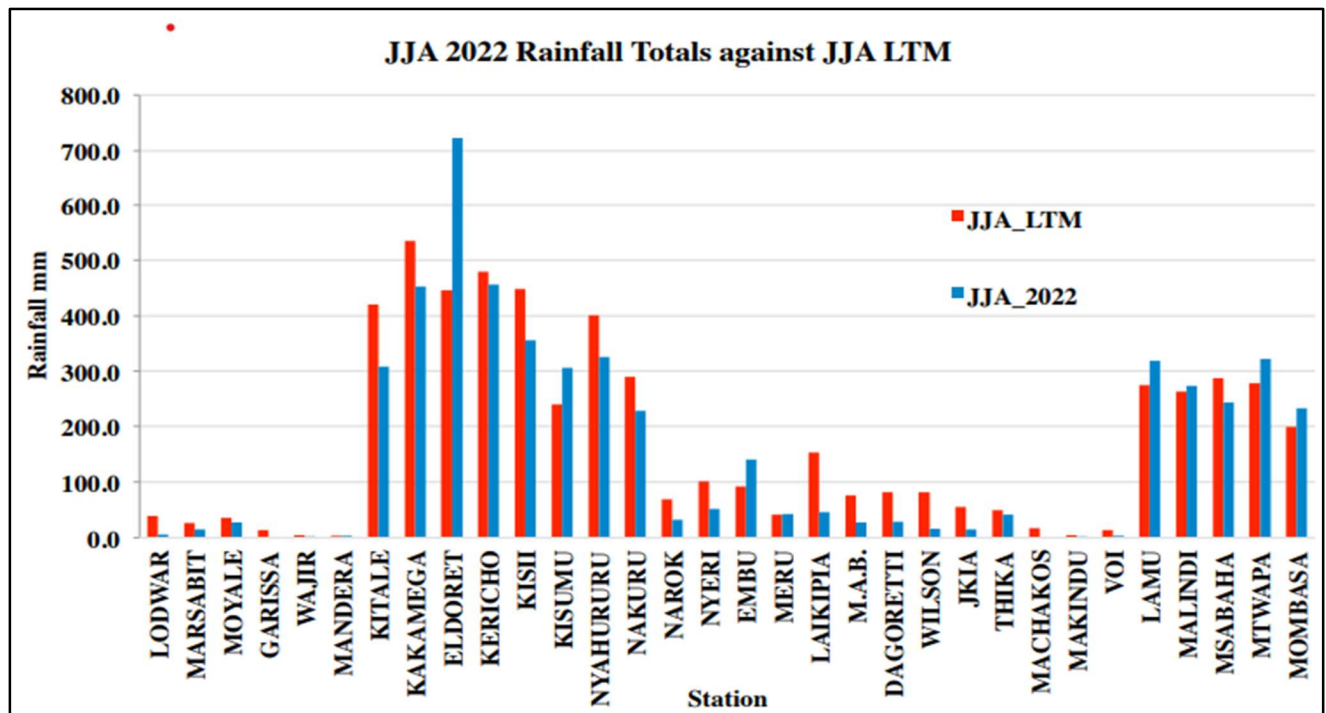
Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

Figure 42: Mean annual and seasonal rainfall (millimeters)



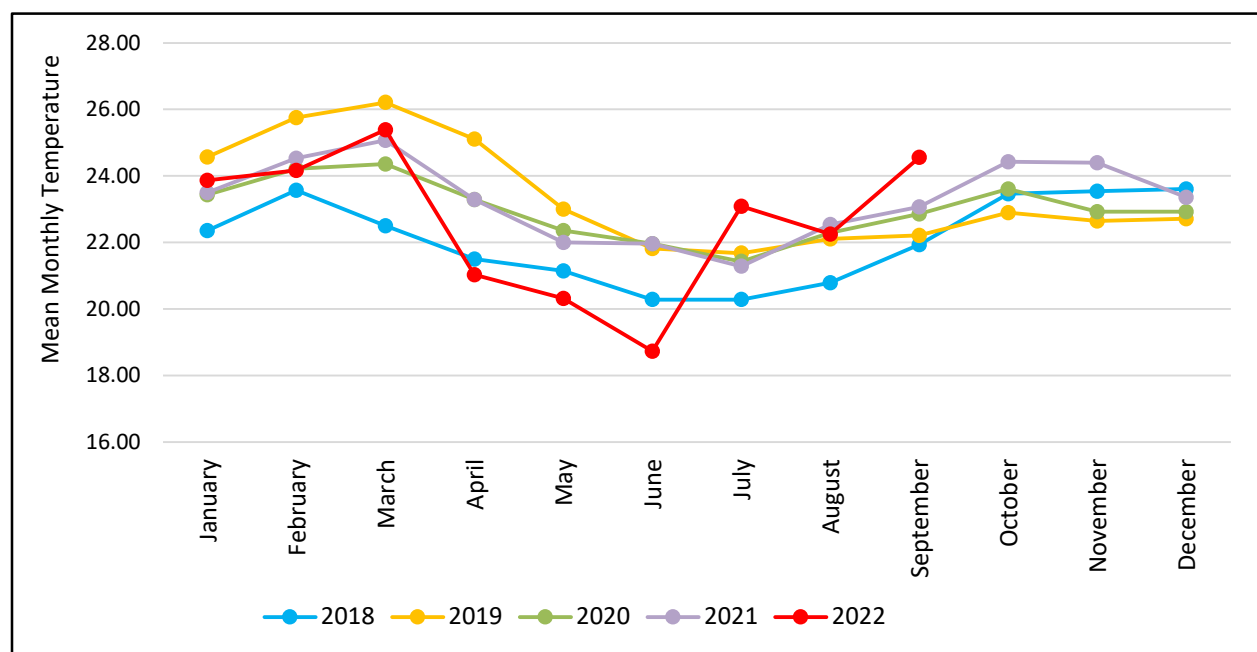
Data Source: Kenya National Bureau of Statistics; Kenya Meteorological Department

Figure 43: June-July-August (JJA) 2022 recorded rainfall against seasonal long-term means (millimeters)



Data Source: Kenya Meteorological Department

Figure 44: Mean monthly temperature (degrees Celsius)



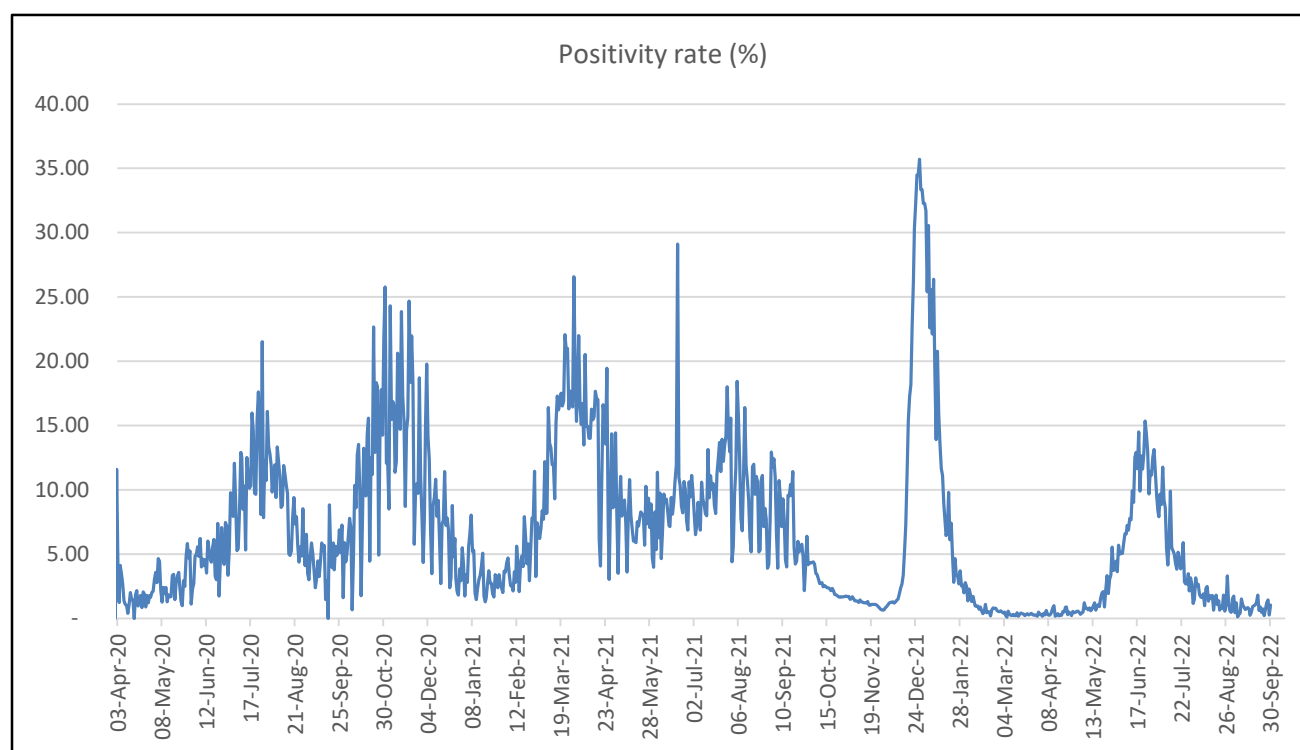
Data Source: Kenya Meteorological Department; <https://www.worldweatheronline.com/>; www.accuweather.com

Table 1: Fitch rating for Kenya

Type	Current Rating (As at 22 March 2022)			Prior Rating (As at 26 March 2021)		
	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+		Affirmed
Local Currency Long Term Issuer Default Rating	B+	Negative	Affirmed	B+	Negative	Affirmed

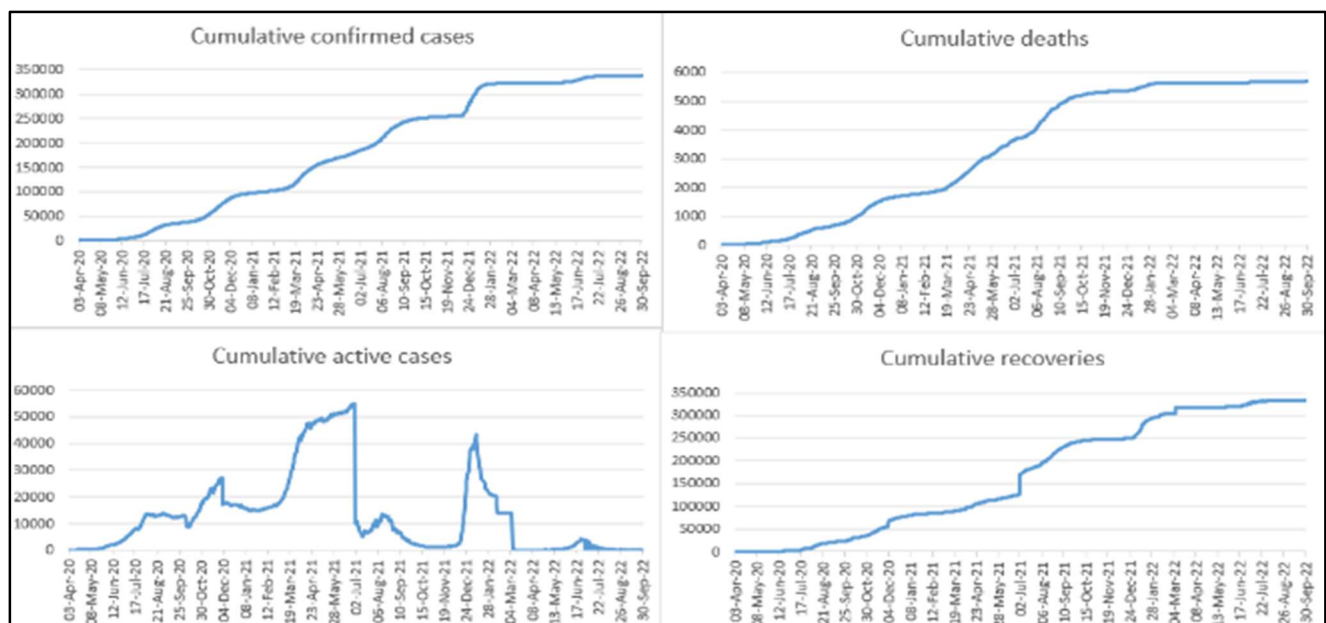
Data source: <https://www.fitchratings.com/entity/kenya-86485911#ratings>

Figure 45: Kenya COVID-19 positivity rate (%)



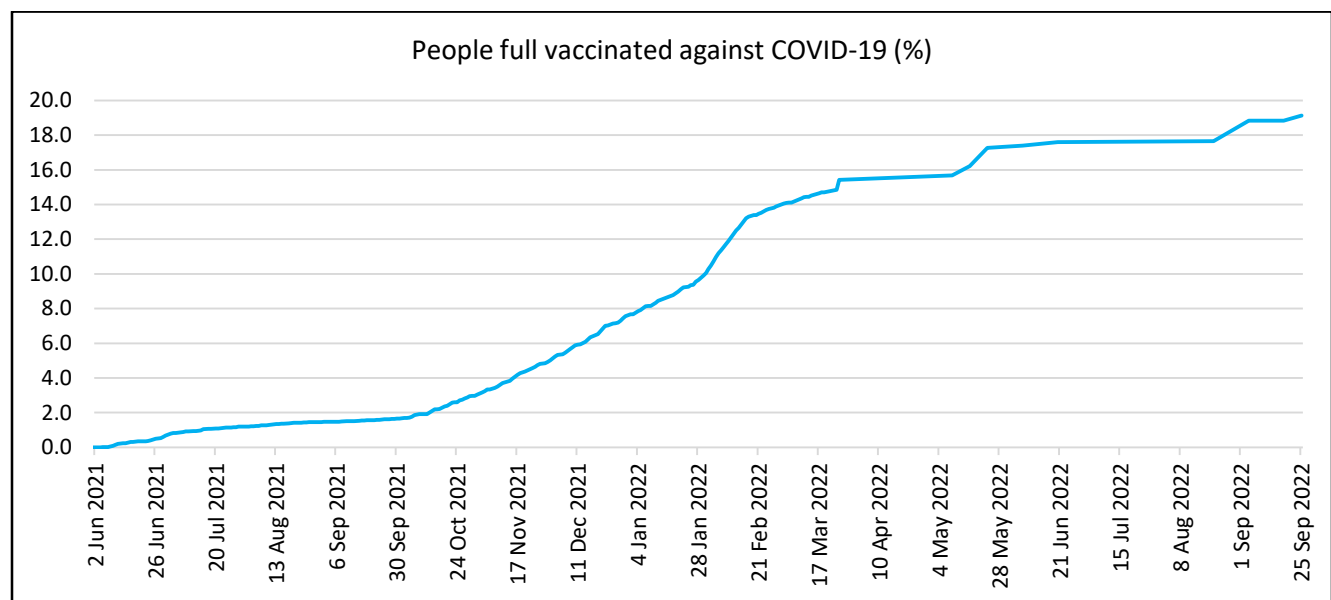
Data Source: <https://ourworldindata.org/coronavirus/country/kenya>

Figure 46: Other COVID-19 statistics for Kenya, April 2020 - June 2022



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

Figure 47: COVID-19 vaccination statistics for Kenya, May – June 2022



Data Source: <https://ourworldindata.org/coronavirus/country/kenya>