The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Thinking Policy Together

QUARTERLY MARKET ANALYSIS REPORT

OCTOBER– DECEMBER 2022

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1. PERFORMANCE IN THE REAL SECTOR

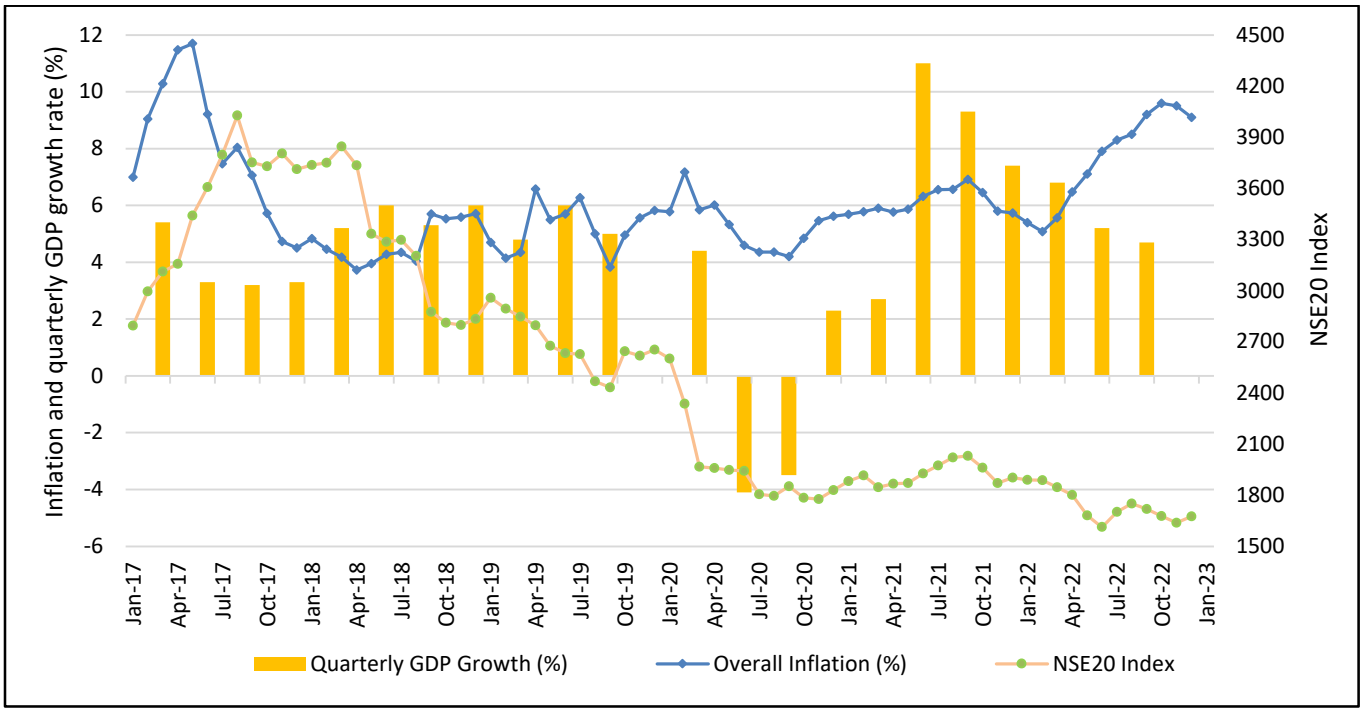
The Global economy growth rate is projected to fall from the 3.4 per cent estimated in 2022 to 2.9 per cent in 2023 (IMF World Economic Outlook January 2023). While the projected growth rate for 2023 is below the historical average of 3.8 per cent, the 2023 forecast is 0.2 percentage points higher than the prediction made in October 2022 but it is yet to reach the pre-COVID-19 pandemic level. The projected growth rate for Sub-Saharan Africa is 3.8 per cent growth rate in 2023 while advanced economies are projected to grow at 2.4 per cent. Global inflation rate is projected to decline from a high of 8.8 per cent in 2022 to a low of 6.6 per cent in 2023.

Kenya's GDP expanded with a growth of 4.7 per cent in the third Quarter of 2022 compared to 9.1 per cent in the similar period in 2021. This means the average growth rate for Kenya in the nine months of 2022 was 5.57 per cent. The realized growth was supported by accommodation and food services (22.9%), wholesale and retail (9.1%), education services (7.1%), and financial and insurance sectors (5.3%). The agriculture sector recorded a decline of 0.6 per cent in the third quarter of 2022. The sector had contracted by 1.8 per cent in the same period in 2021, but in third quarter of 2020, agriculture recorded an expansion of 4.2 per cent. The capital market performance was on a downward trajectory, with the benchmark NSE index declining by 4.29 per cent quarter-on-quarter and 11.90 per cent year-on-year to December 2022.

The inflation rates in Kenya remained above the government targeted band of 5±2.5 per cent. However, the inflation rate slowed for the second consecutive month to 9.1 per cent in December 2022 from 9.5 per cent in November and 9.6 per cent in October 2022. The reduced inflation is also witnessed in the East African Countries of Uganda, Tanzania, and Rwanda. The reduced inflation is attributed to, among other factors, the slight decline in fuel prices. The average prices for Motor Gasoline Premium, Light Diesel and Kerosene all declined in the fourth quarter, following a similar pattern to the prices of OPEC Crude Oil. However, the recent removal of all fuel subsidies in Kenya may have implications on fuel prices going forward. During the quarter under review, food and non-alcoholic beverages were the leading contributors to inflation, followed by fuel, and housing and its utilities such as electricity and water. The increase in wholesale price indices for cereals, legumes and tubers are evidence of rising food inflation.

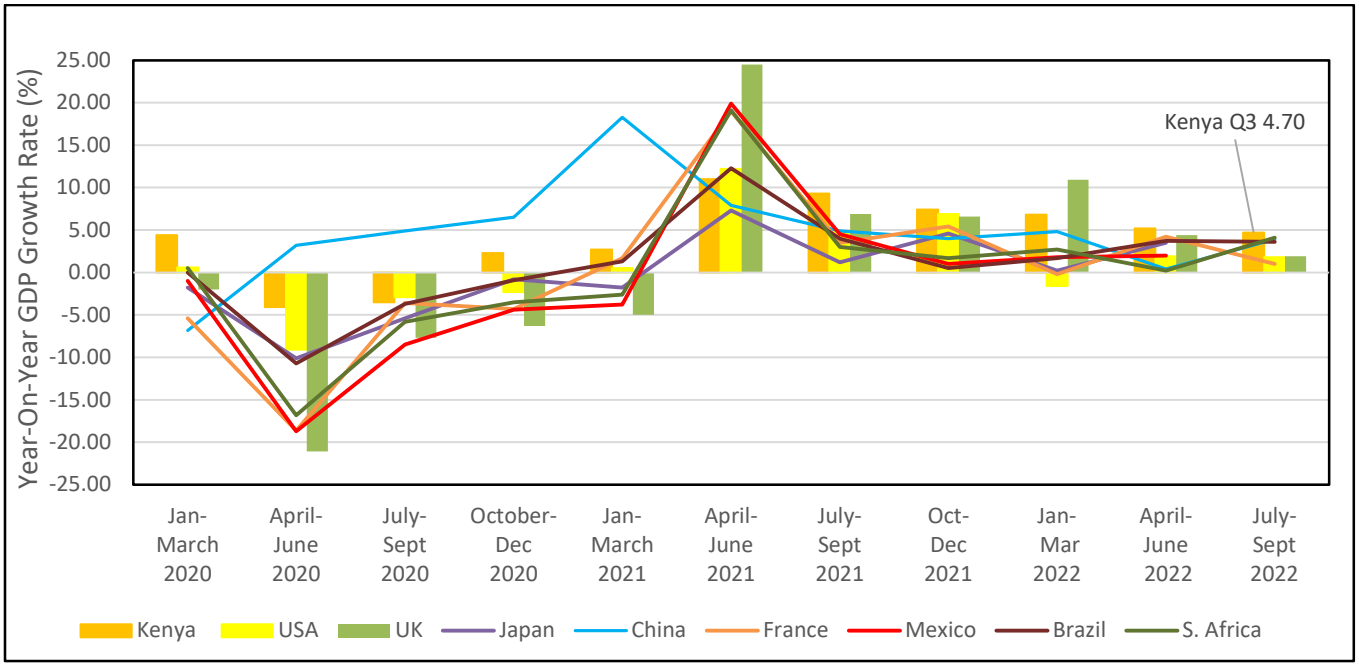
a) GDP performance

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



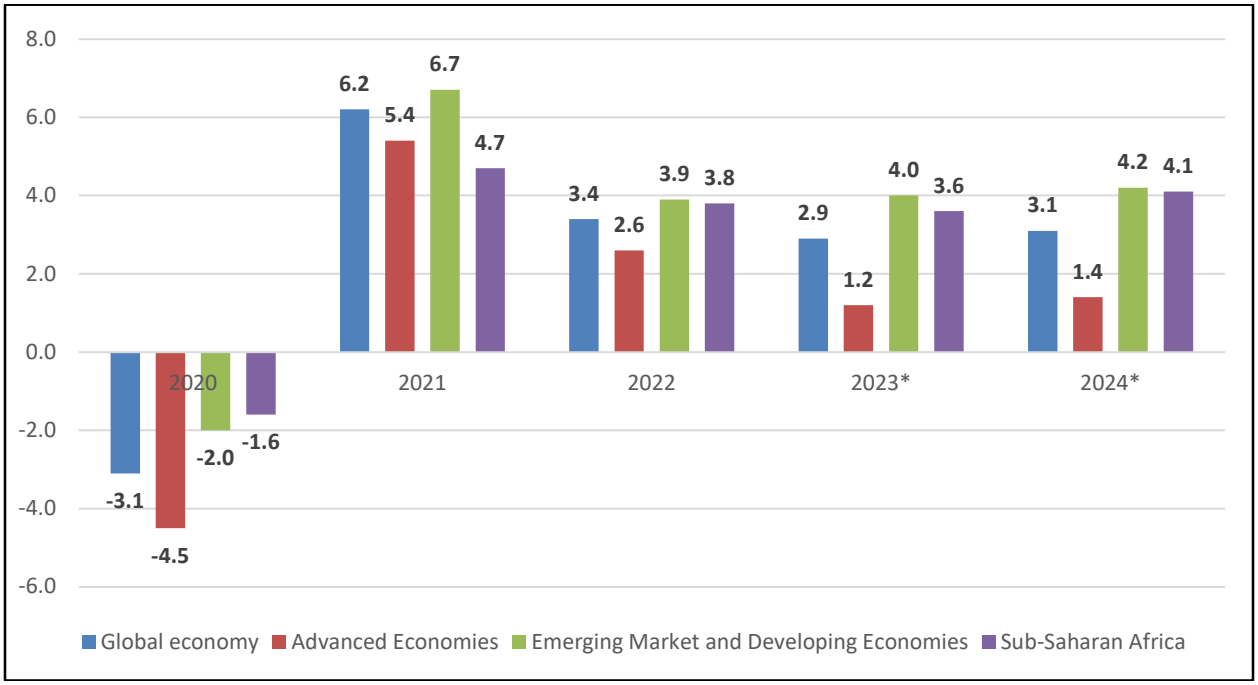
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics; The National Treasury; Nairobi Securities Exchange

Figure 2: Economic performance of selected advanced and emerging markets



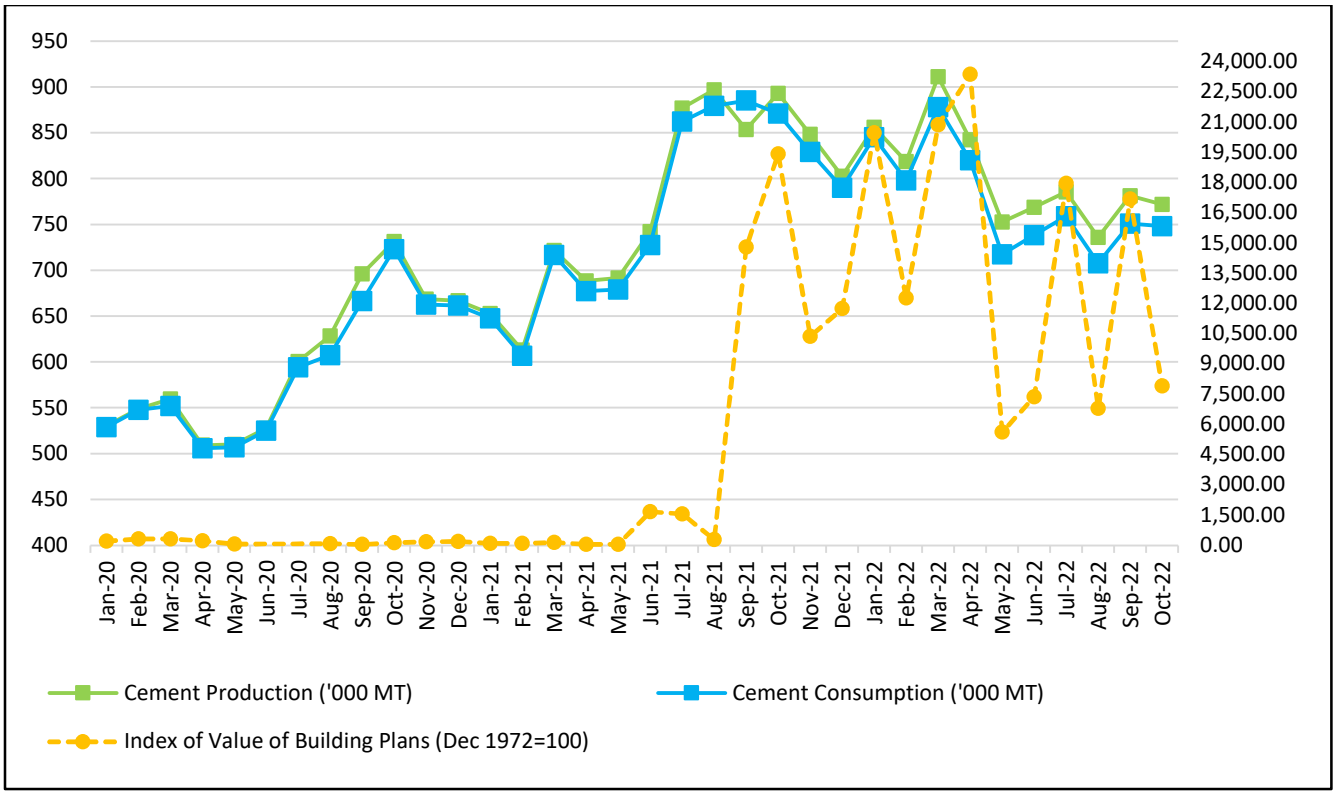
Data source: Country statistical offices; https://tradingeconomics.com/; https://www.ceicdata.com/en

Figure 3: Global growth projections



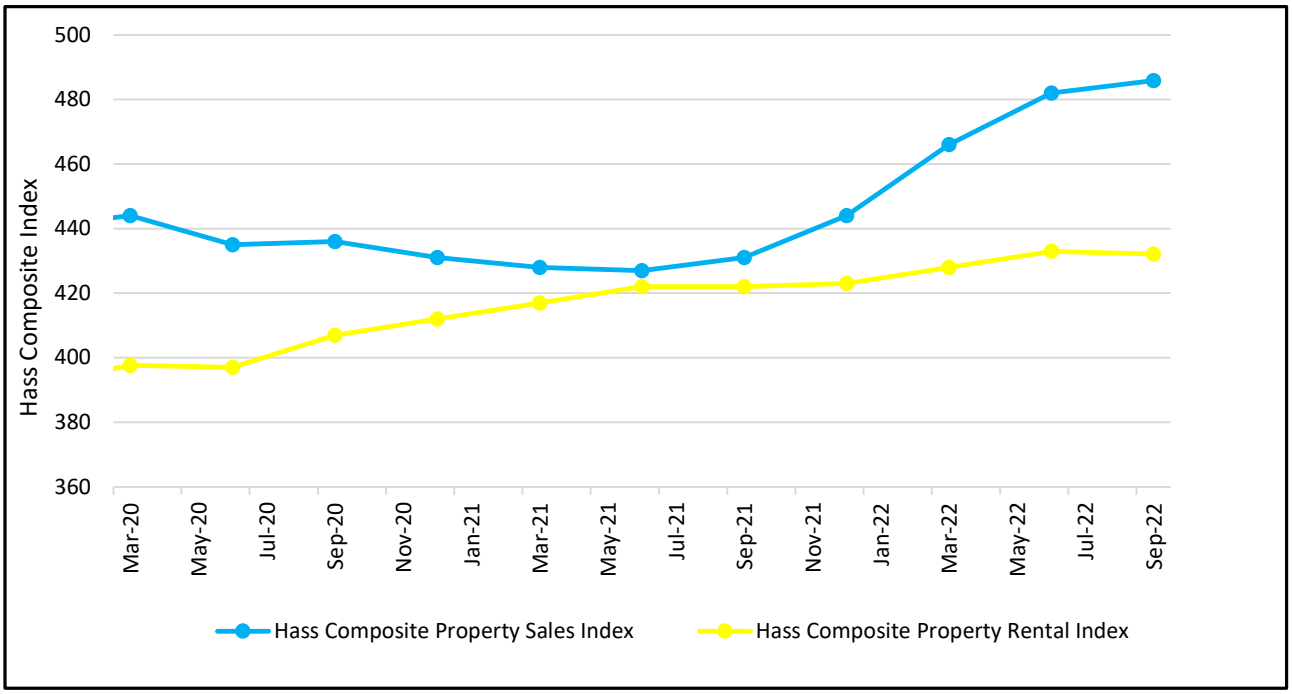
Data Source: International Monetary Fund (2023), World Economic Outlook January 2023

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



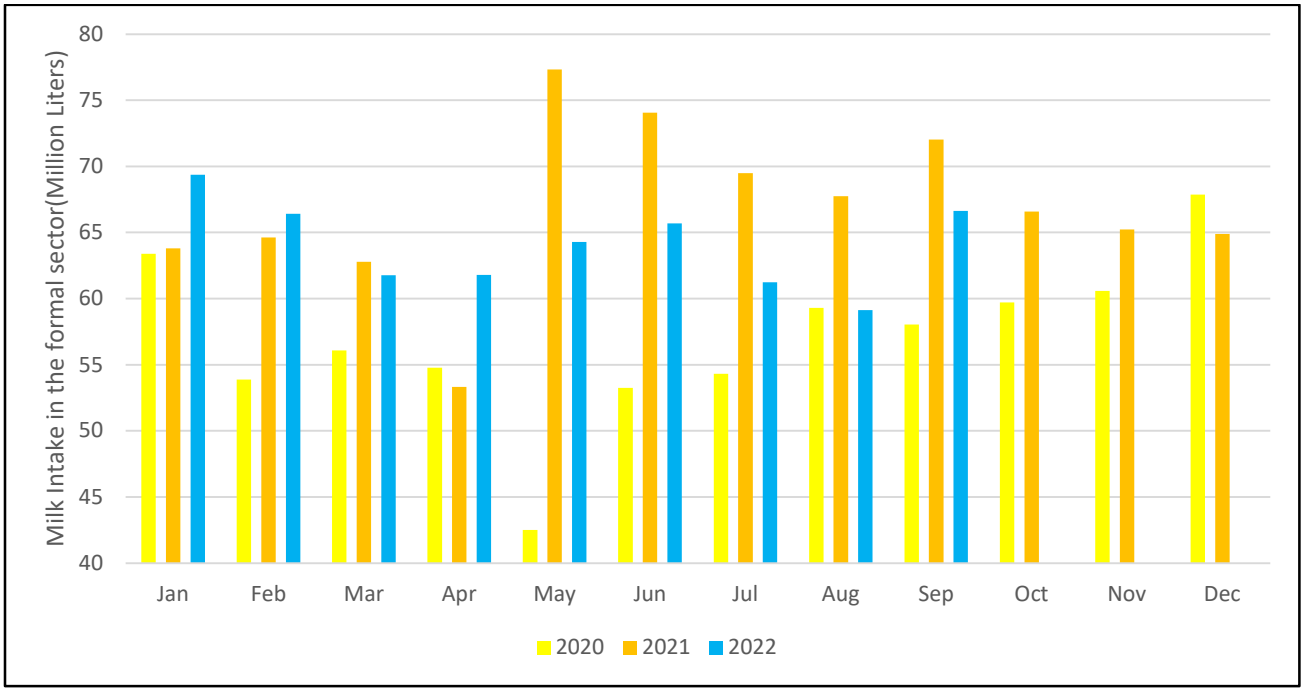
Data source: Kenya National Bureau of Statistics

Figure 5: Kenya Housing and Property Indices



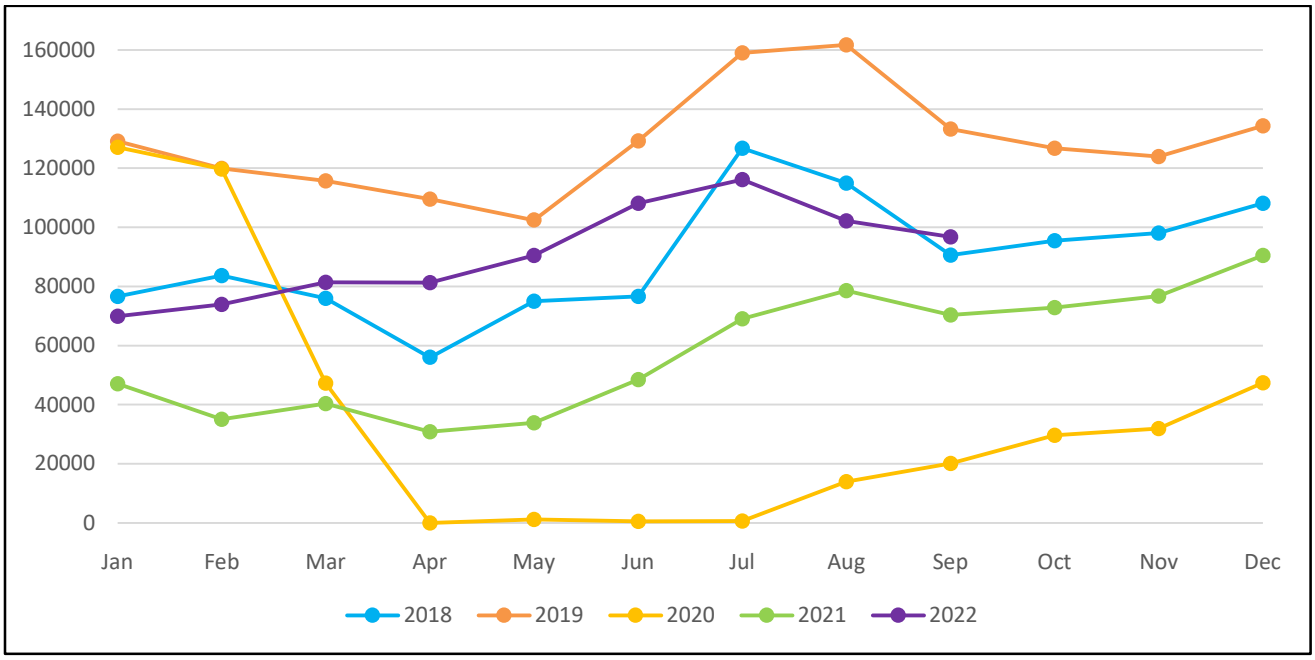
Hass Composite Property Sales Index: Year 2000 = 100; KBA Housing Price Index (fixed base): Q1 – 2013 = 100. *Data Source: Hass Property Index (http://hassconsult.co.ke/real-estate/hass-index/) Kenya Bankers Association*

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



Data source: Kenya National Bureau of Statistics

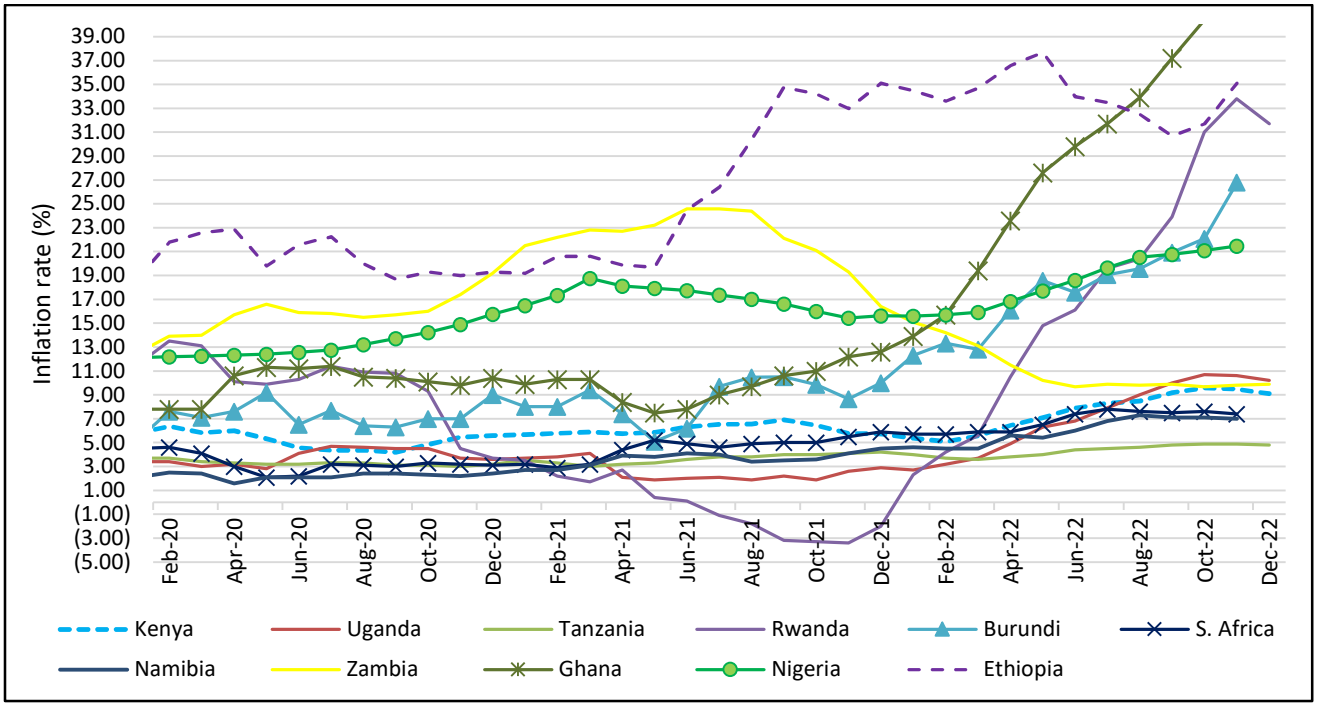
Figure 7: Monthly tourist arrivals (number)



Data source: Kenya National Bureau of Statistics

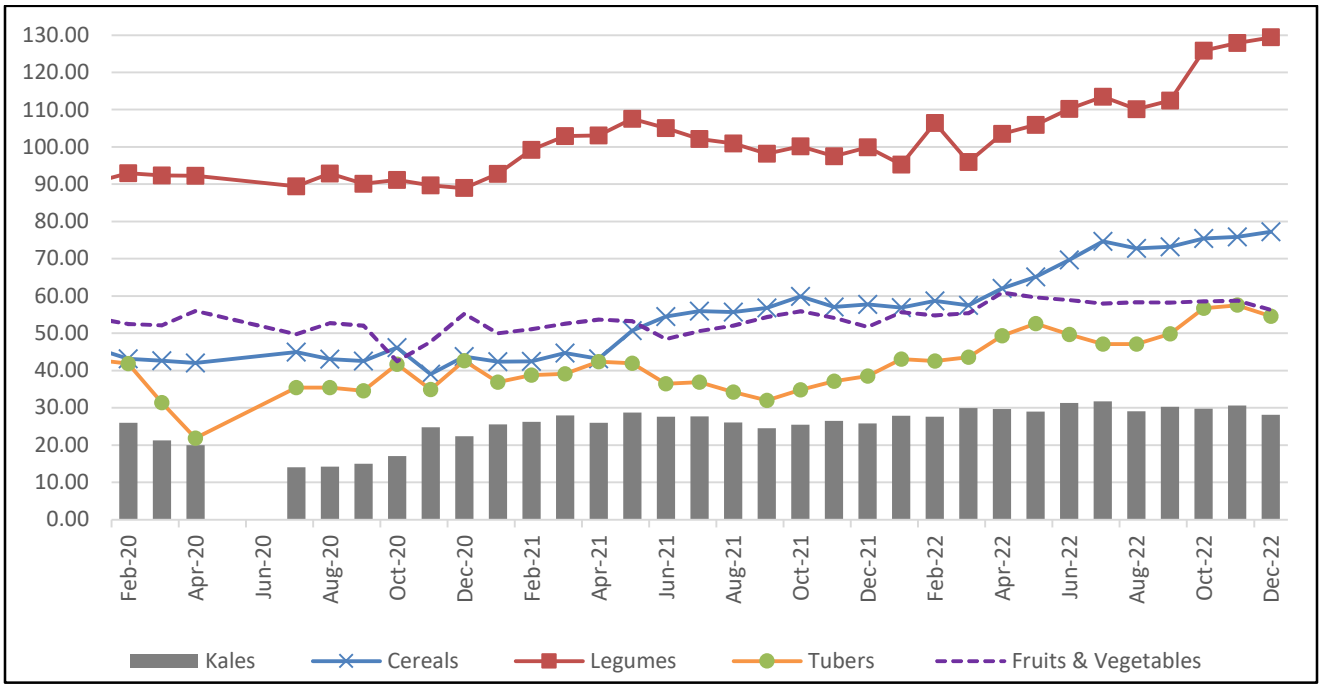
b) Price movement

Figure 8: Comparative inflation for selected countries in Africa



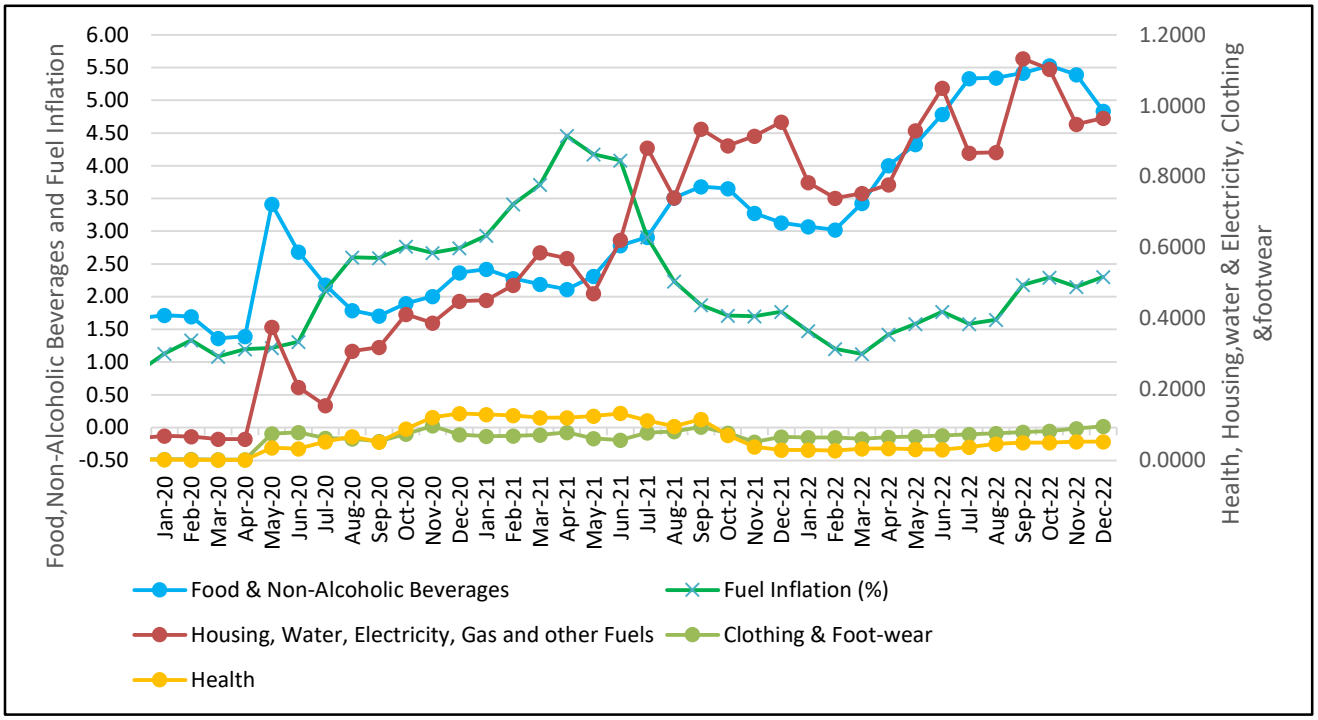
Data Source: Country statistical offices; https://tradingeconomics.com

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



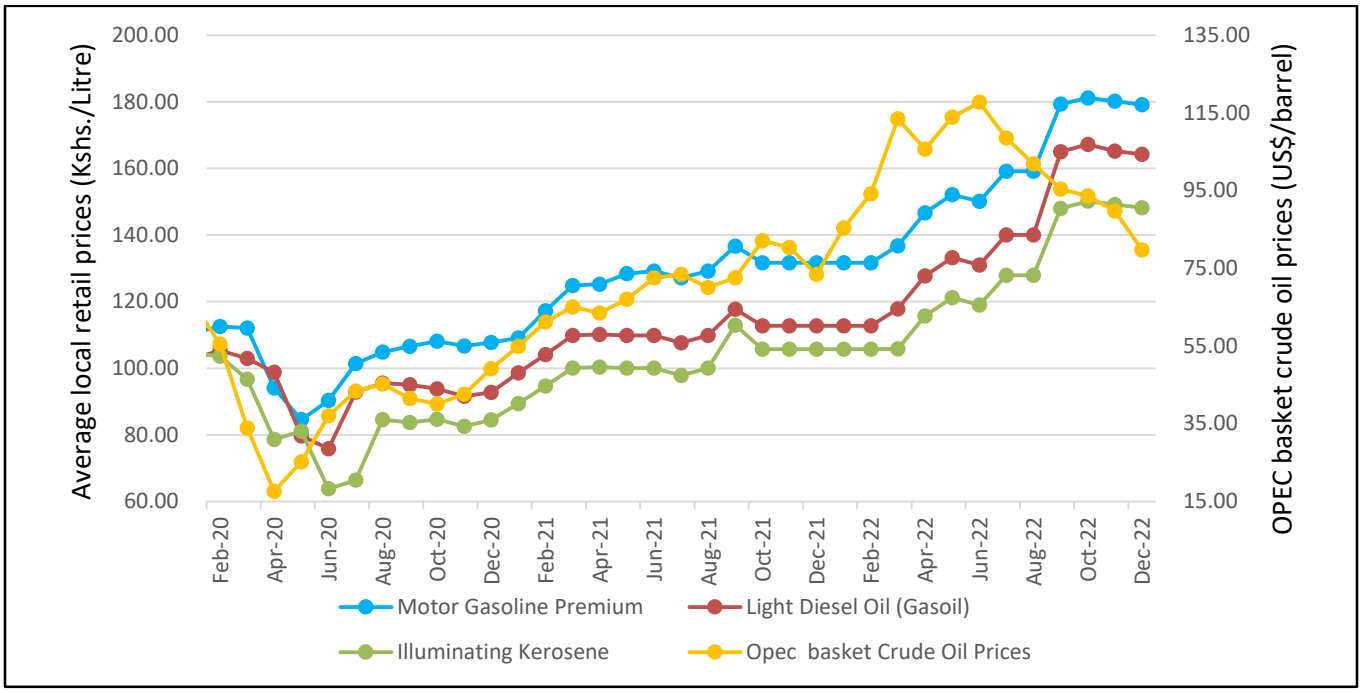
Data source: Calculated by KIPPRA using data from Ministry of Agriculture

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



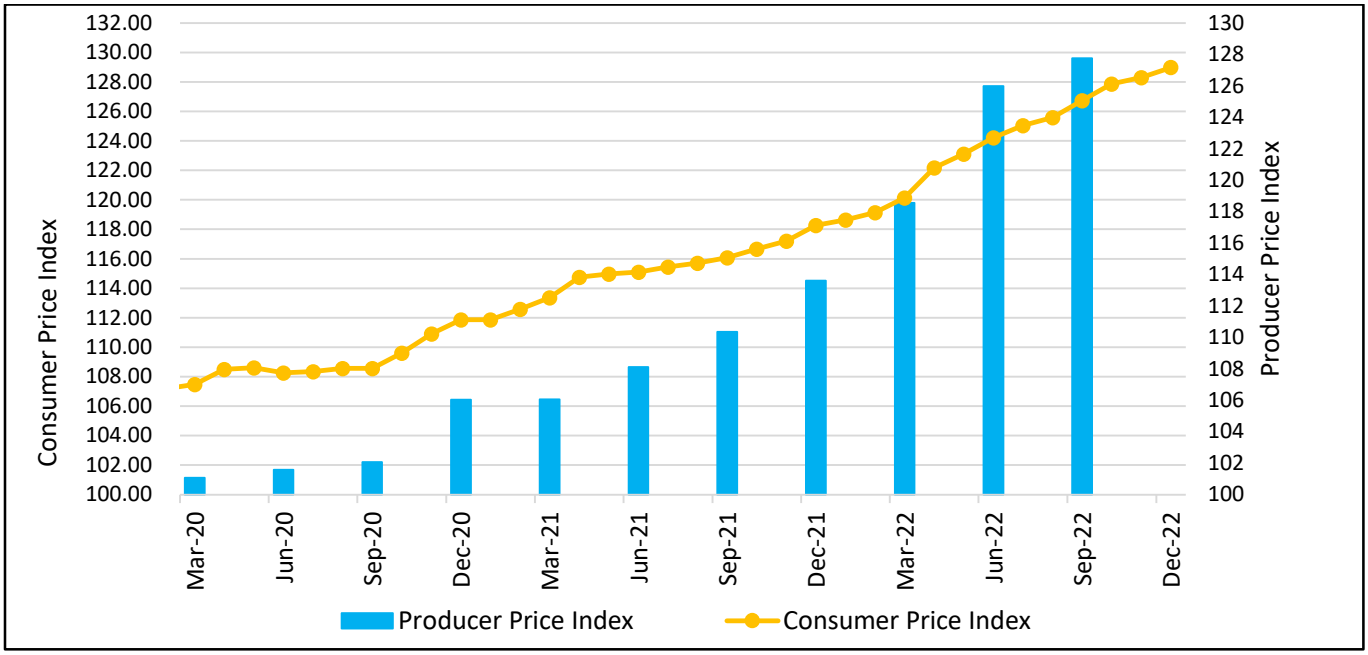
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

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

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

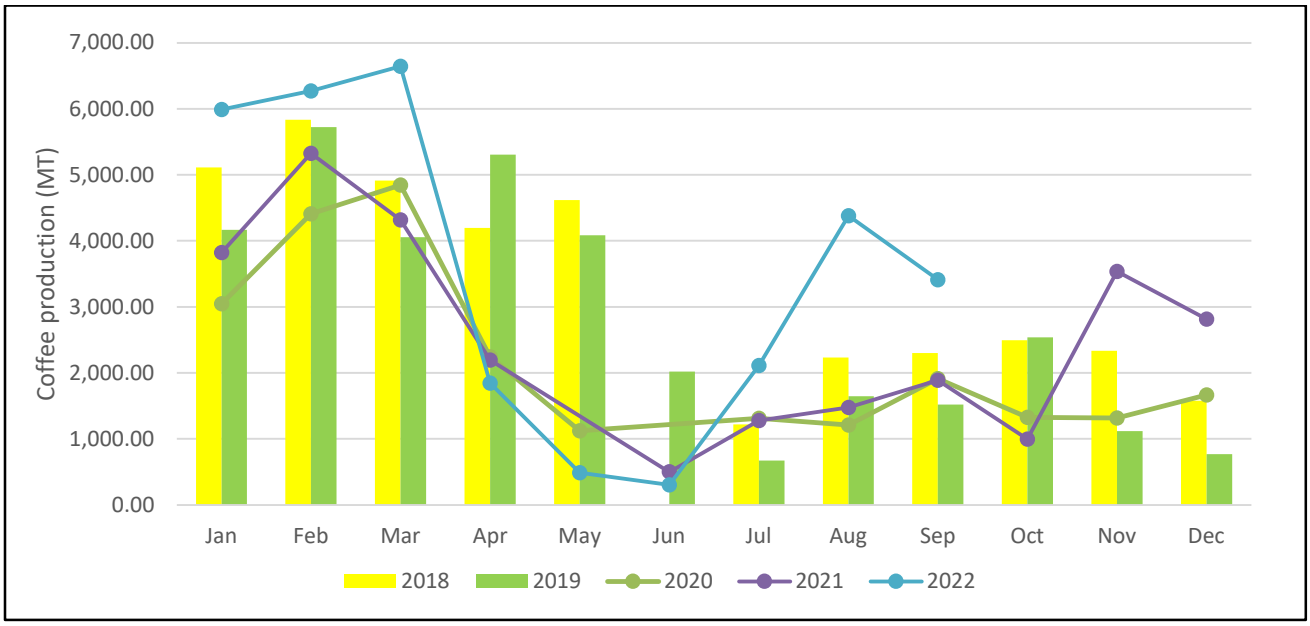
Global coffee exports increased from 581,400 metric tons in October 2022 to 614,400 metric tons in November 2022. However, the global coffee composite prices declined from US Cents/lbs 178.54 in October 2022 to US Cents/lbs 156.66 in November 2022 before rising slightly to US Cents/lbs 157.19 in December 2022. Domestically, coffee production in the third quarter of 2022 rose steadily to a total of 9,900.71 metric tons up from 2,640.26 metric tons in the second quarter of 2022. The value of coffee exports, however, declined in the third quarter to Ksh 8.67 billion down from Ksh 13.16 billion, reflecting the decline in prices. The value of tea exports crossed Ksh 14 billion in September 2022 for the first time since February 2018.

The Kenyan Shilling weakened against the US Dollar, depreciating by 9.07 per cent between December 2021 and December 2022. In the same period, regional currencies depreciated against the US Dollar. For instance, Ugandan Shilling, Tanzanian Shilling, Rwandan Franc, and Burundian Franc all depreciated against the US Dollar by 4.77 per cent, 1.13 per cent, 2.86 per cent, and 4.20 per cent, respectively. The USD index remained above the 100-mark throughout the quarter to close at 103.269, implying the US Dollar appreciated by 3.269 per cent against the basket of currencies making up the USD Index. This has had implications on the continued depreciation of Kenya Shilling against the dollar.

The diaspora remittances increased in the October-December 2022 quarter from US$ 345.4 million in October 2022 and further to US$ 357.3 million in December 2022. Foreign Exchange Reserves in terms of months of import cover declined from 4.3 in October 2022 to 4.0 months in November 2022, and slightly improved to 4.17 months of import cover as at end of December 2022. Foreign Reserves in months of import cover remained slightly above the CBK's statutory requirement of at least 4 months.

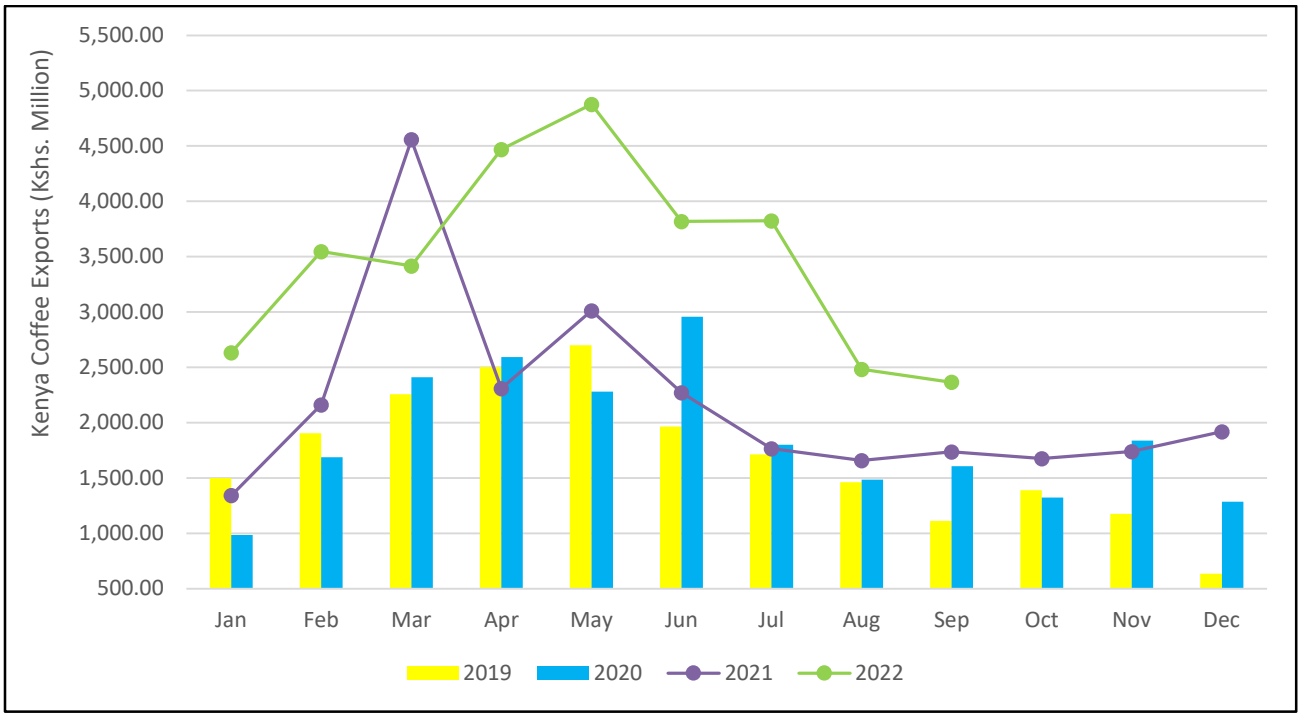
Figure 13: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)

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



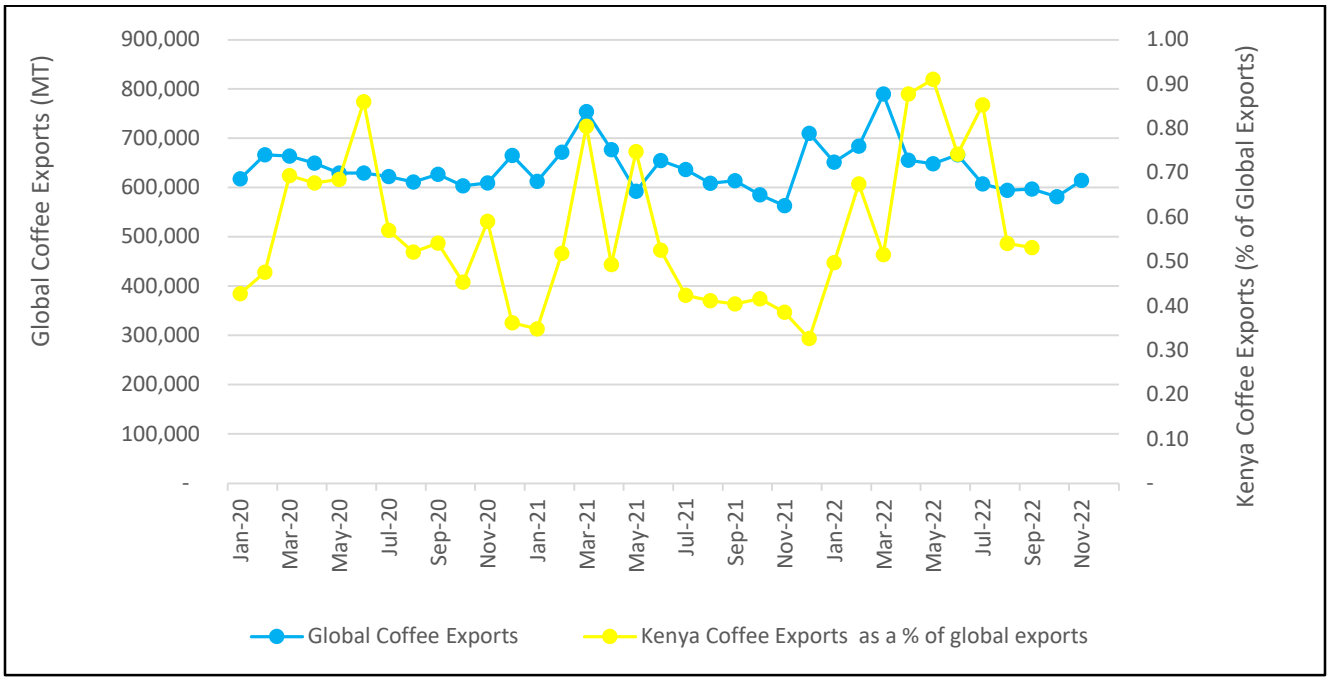
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (http://nairobicoffeeexchange.co.ke/)

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



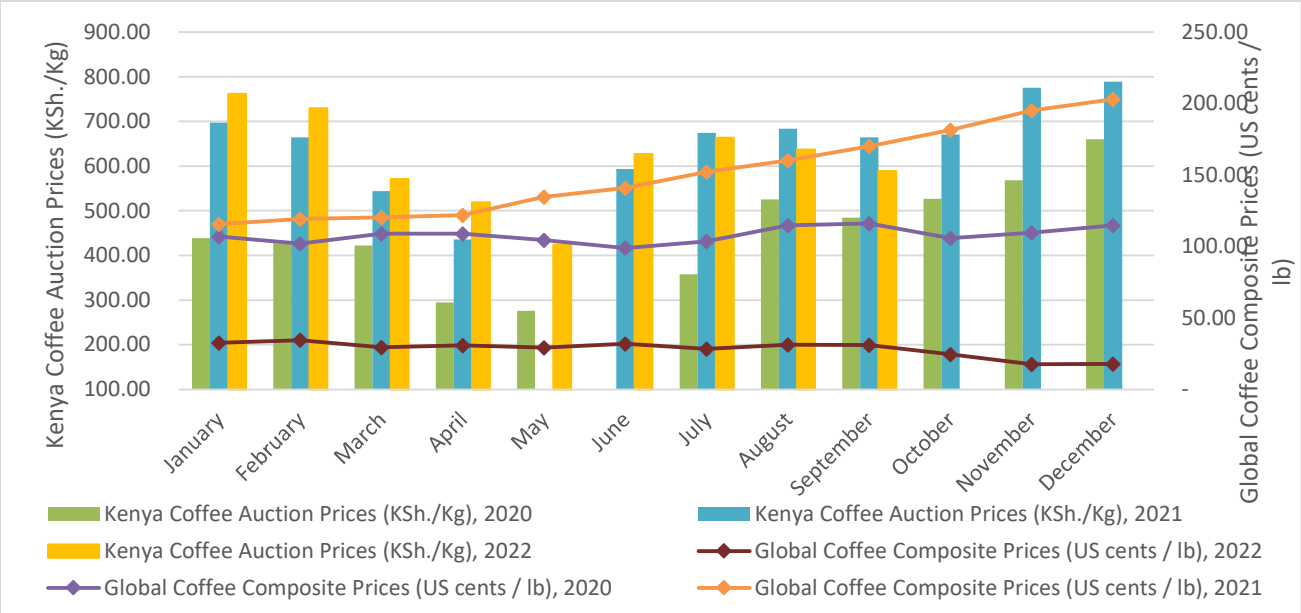
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (http://nairobicoffeeexchange.co.ke/)

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)

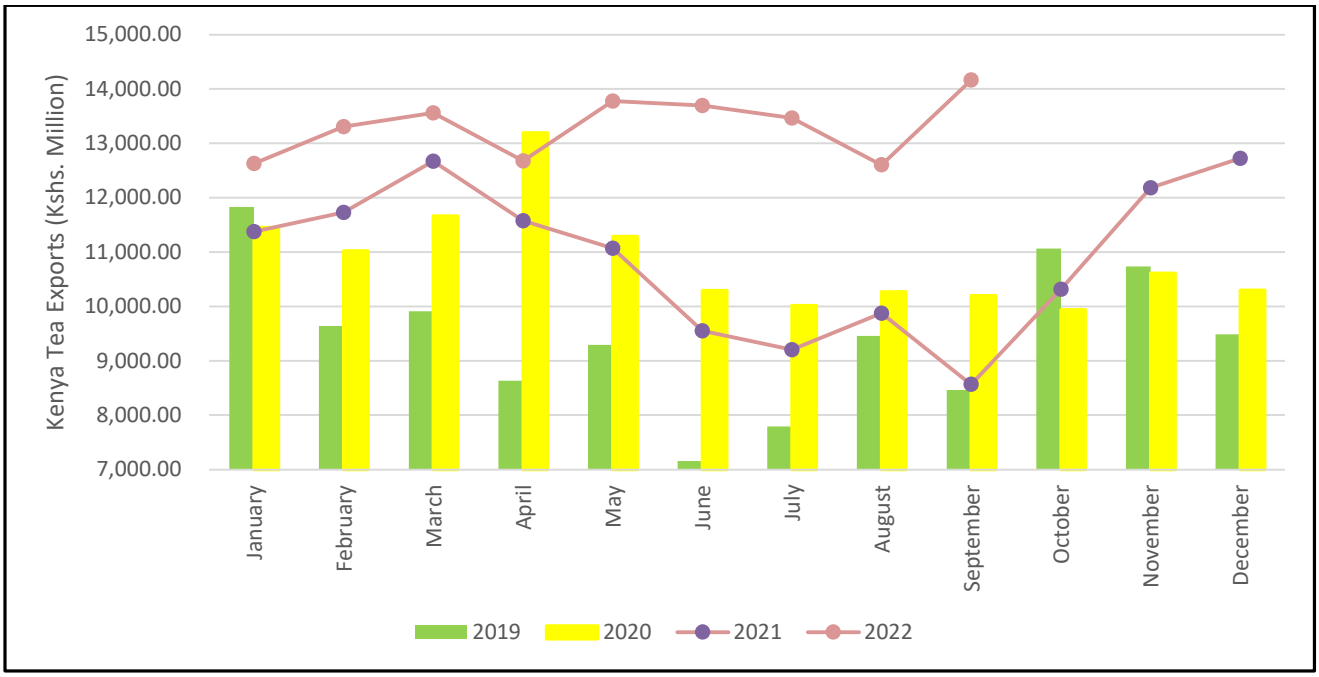


Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (http://nairobicoffeeexchange.co.ke/); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

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

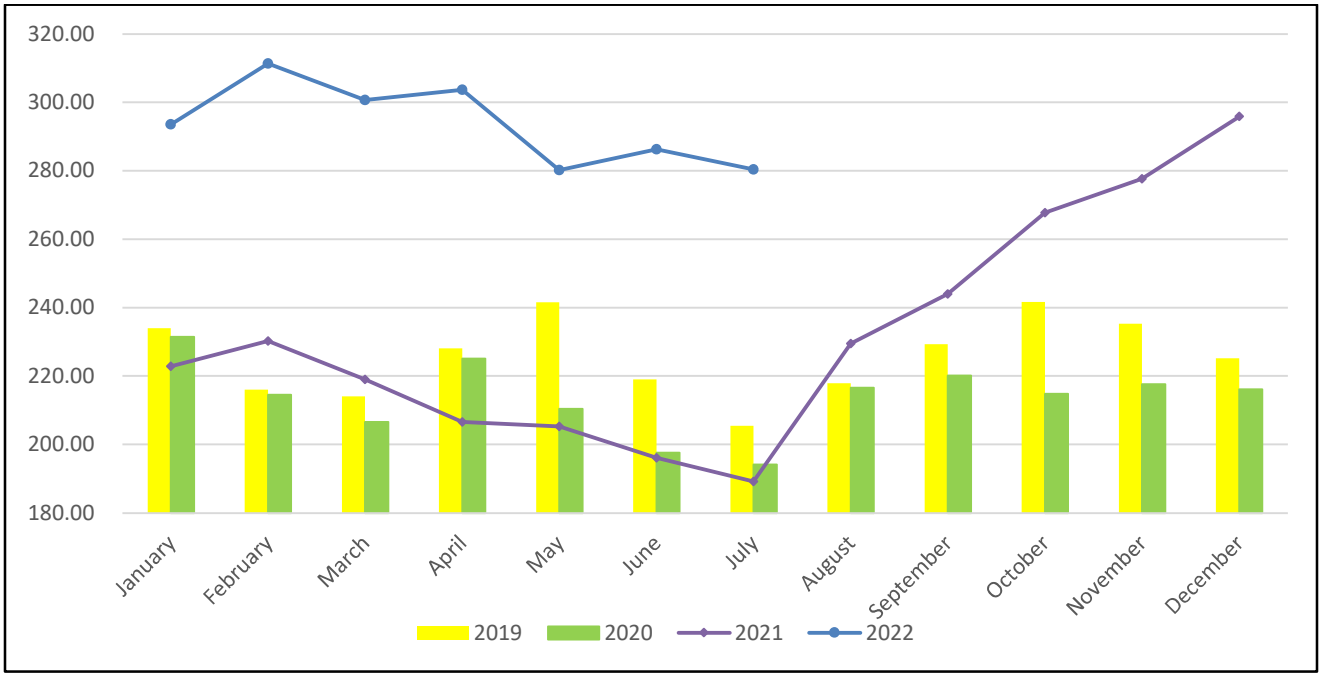
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



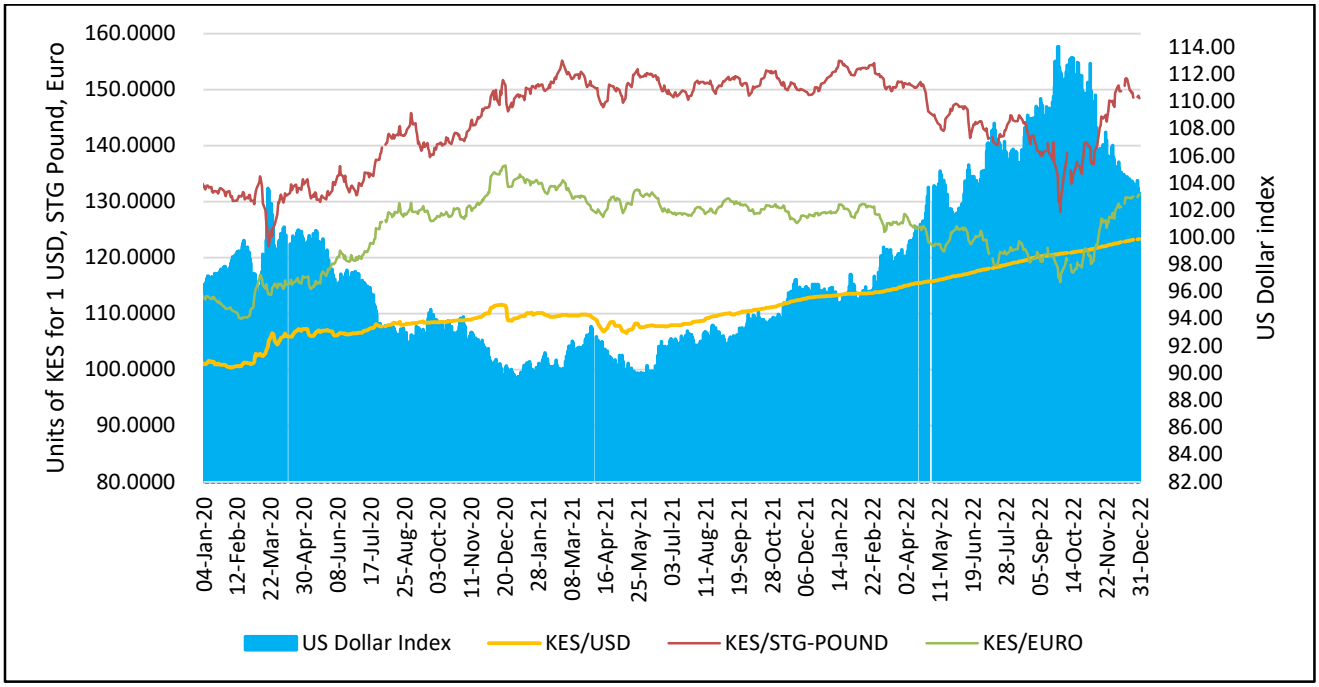
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



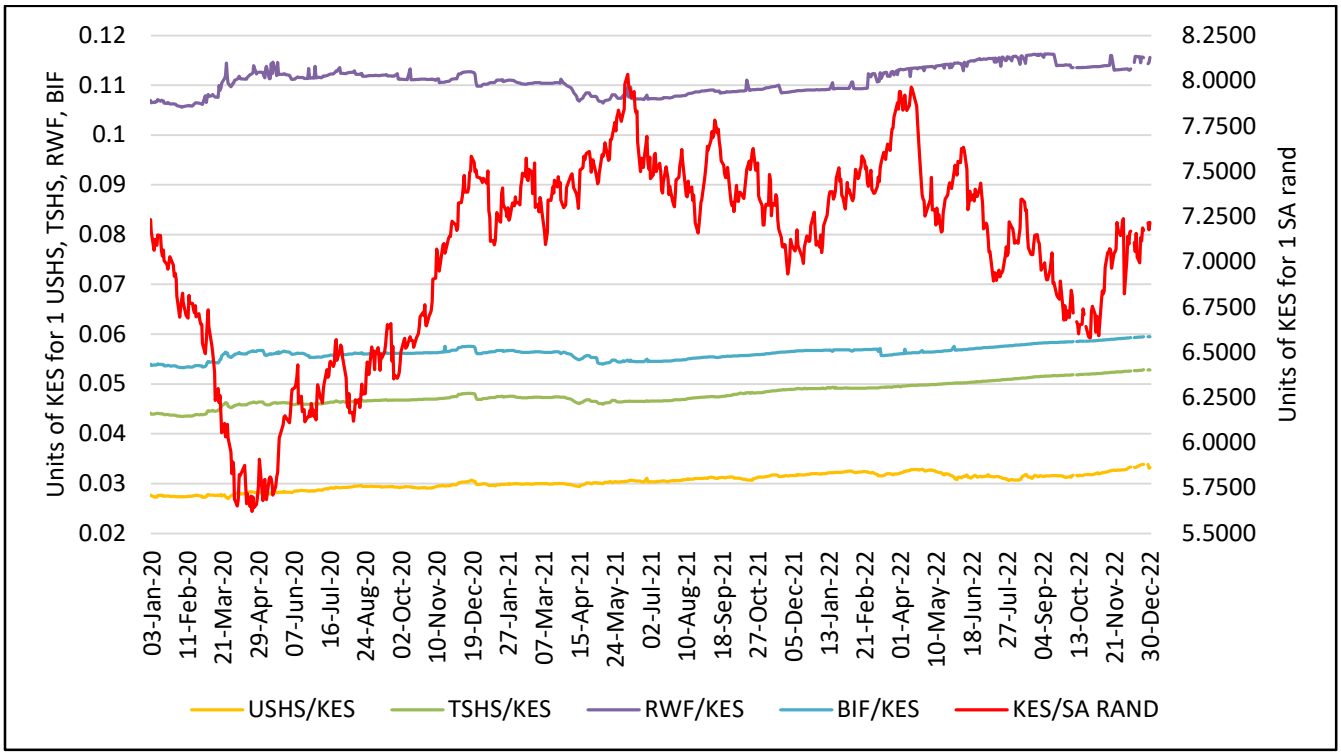
Data Source: KNBS; East Africa Tea Trade Association; Mombasa Tea Auction

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



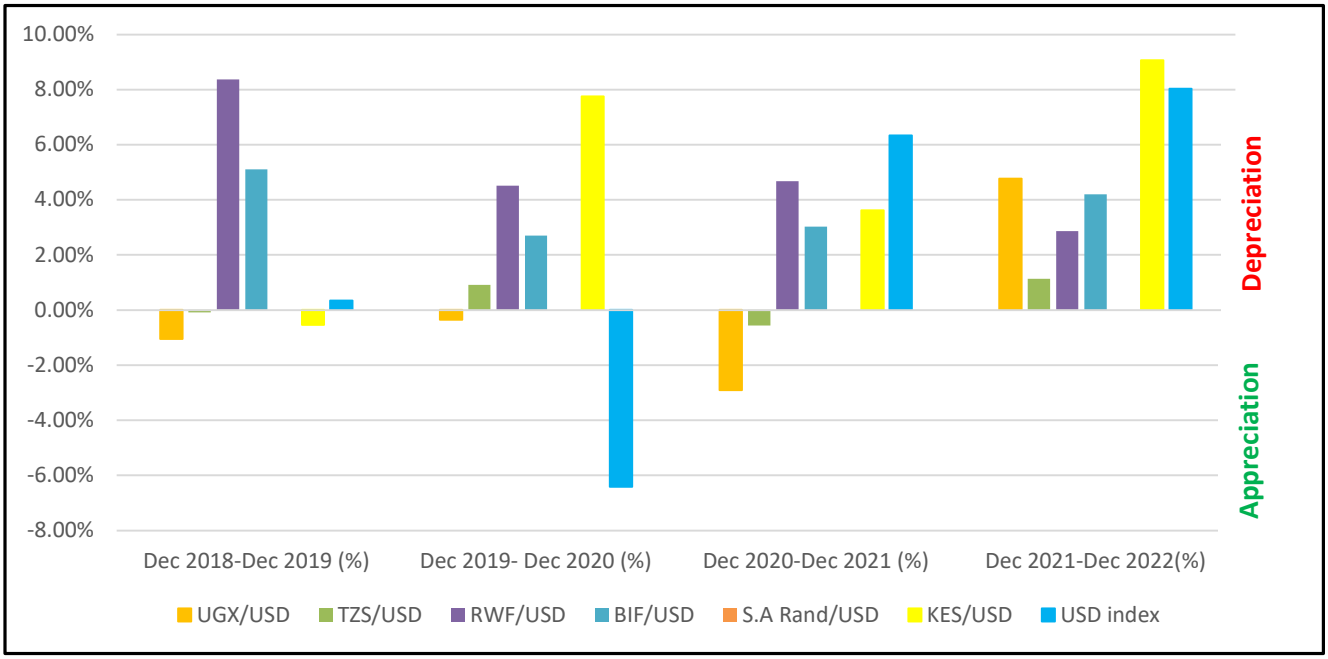
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics; https://www.investing.com/quotes/us-dollar-index-historical-data

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



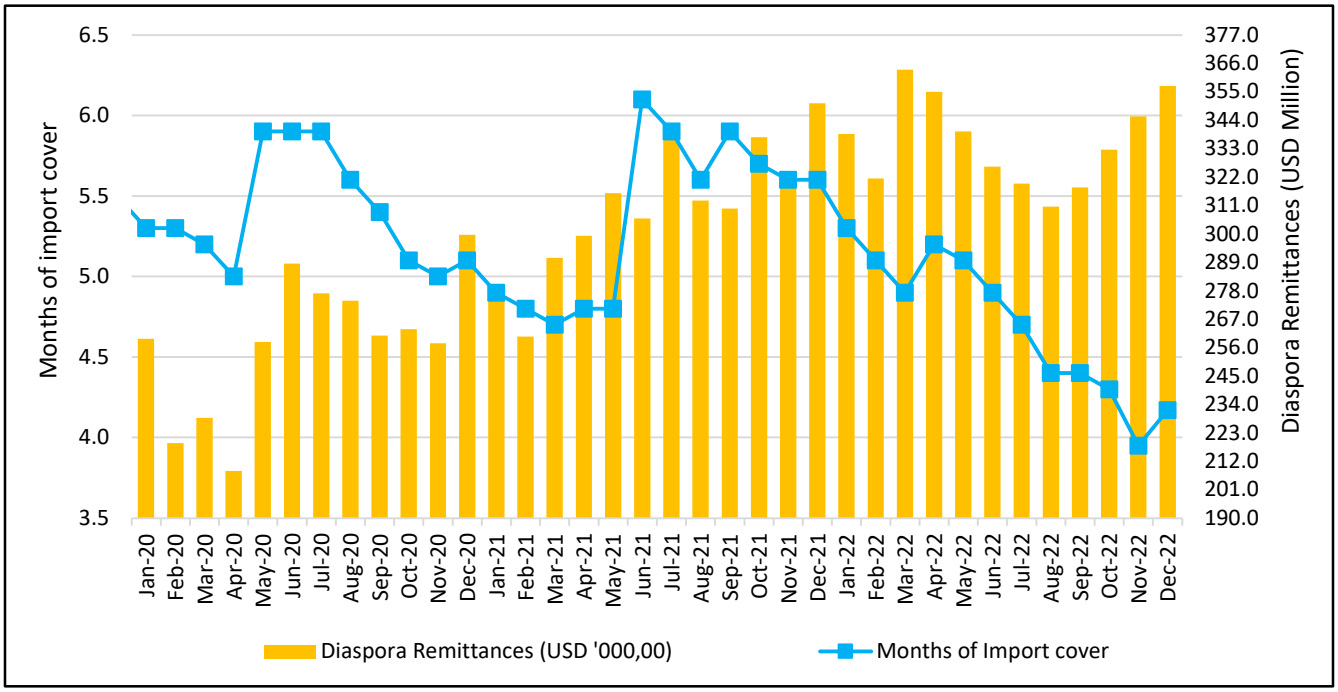
Data source: Central Bank of Kenya

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

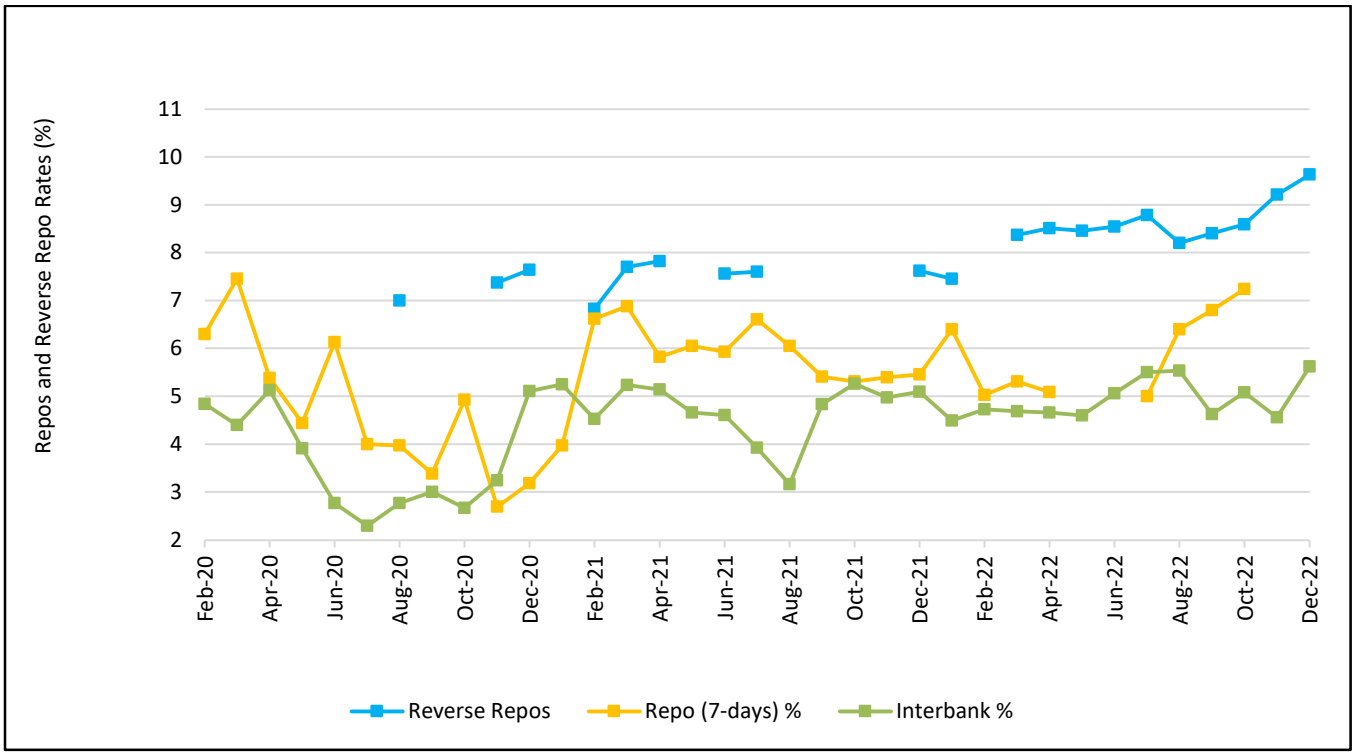
3. MONETARY AND FINANCIAL SECTOR

The Central Bank of Kenya increased the Central Bank Rate (CBR) by 50 basis points in November 2022 to 8.75 per cent. The decision of the Monetary Policy Committee was guided by the sustained inflationary pressures, weakened global economic outlook and the impacts of the monetary policy tightening in advanced economies. The regional central banks also adopted the same stance, with Rwanda and Uganda increasing their rates by 50 and 100 basis points, respectively, during October-December 2022 quarter. Tanzania, however, maintained its central bank rate at 5 per cent over the quarter.

The interest rates for the Treasury bills are on an upward trajectory. The weighted average interest rate for the 91-day, 182-day and 364-day Treasury Bills rose from an average of 9.06, 9.65 and 9.92, respectively, in October 2022 to 9.332, 9.79 and 10.181 per cent, respectively, in December 2022. On average, the Treasury bill rates for 91-day, 182-day and 364-day were 9.19, 9.72 and 10.09 per cent in October-December 2022 compared to an average of 7.10, 7.66 and 8.4 per cent for 91-day, 182-day and 364-day Treasury Bills, respectively, in a similar period in 2021.

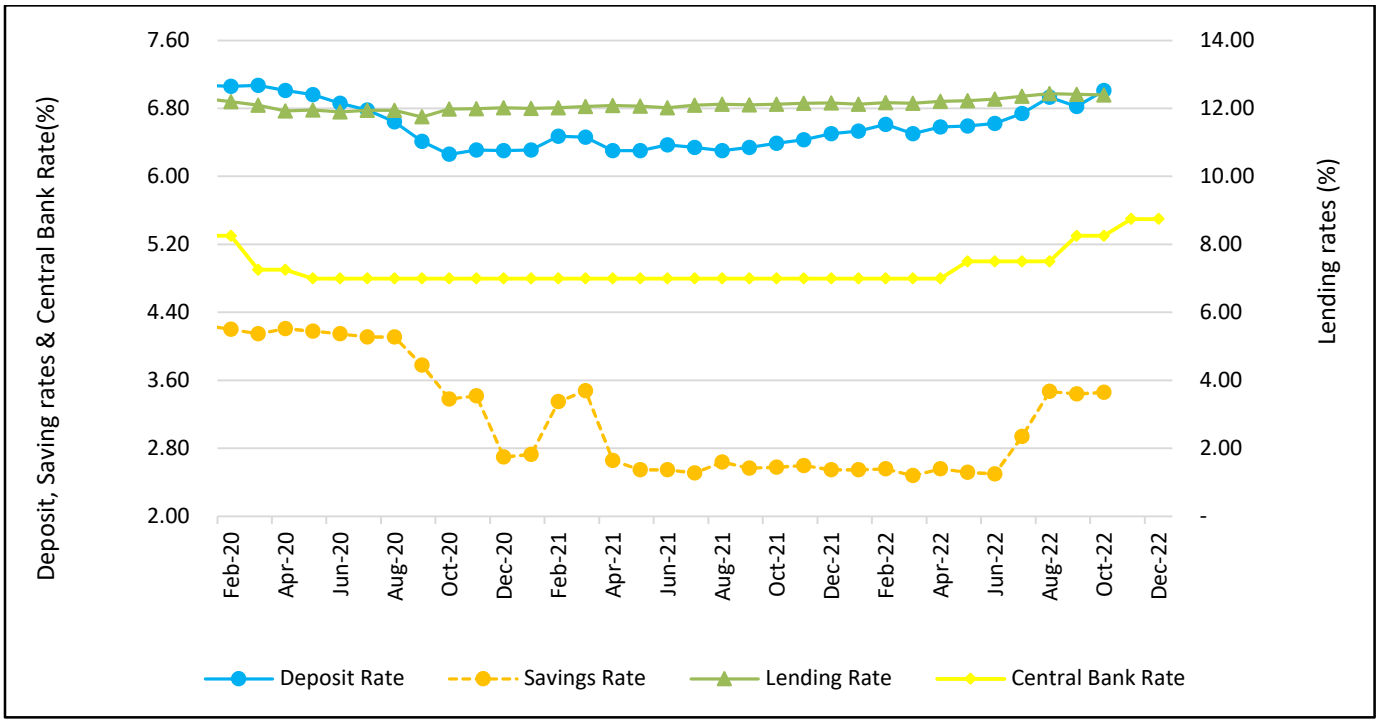
The private sector credit grew by 13.3 per cent in October 2022 compared to 7.8 per cent in October 2021. Further, the proportion of the public sector credit was 36.85 per cent in October 2022 compared to 36.36 in October 2021. The ratio of Non-Performing Loans to Gross Loans was 13.82 per cent October 2022 compared to 13.63 per cent in October 2021. However, a downward trajectory in the ratio of NPL to Gross-Loans is notable since May 2022. Return-on-Assets (ROA) for the banking sector was generally impressive and higher in 2022 compared to 2021 and 2020. The return-on-assets in the banking sector as of October 2022 was 3.20 per cent, which was higher than the 2.75 and 1.86 per cent in the same period in 2021 and 2020, respectively. The improved return on assets reflected recovery of the economy from the depressing effects of the COVID-19 pandemic

Figure 18a: Repos and reverse repo interbank rates



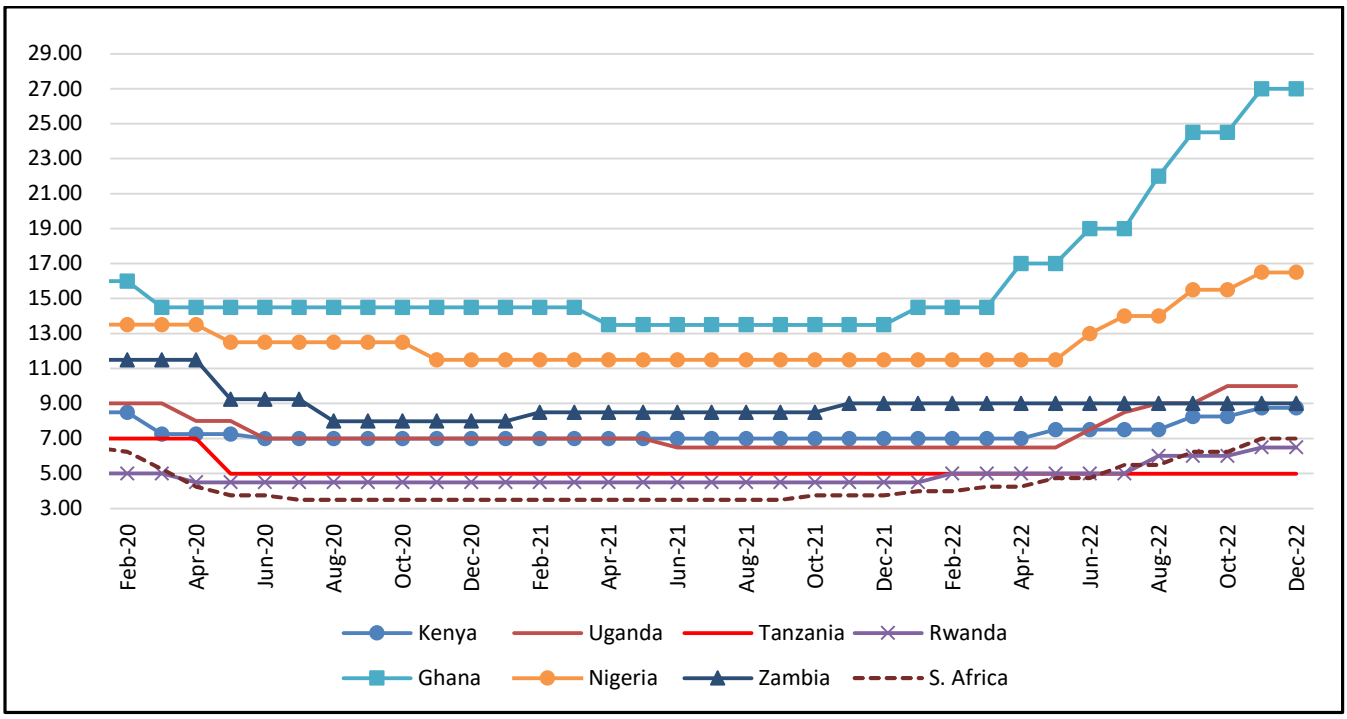
Data source: Central Bank of Kenya

Figure 18b Commercial bank rates and central bank rate



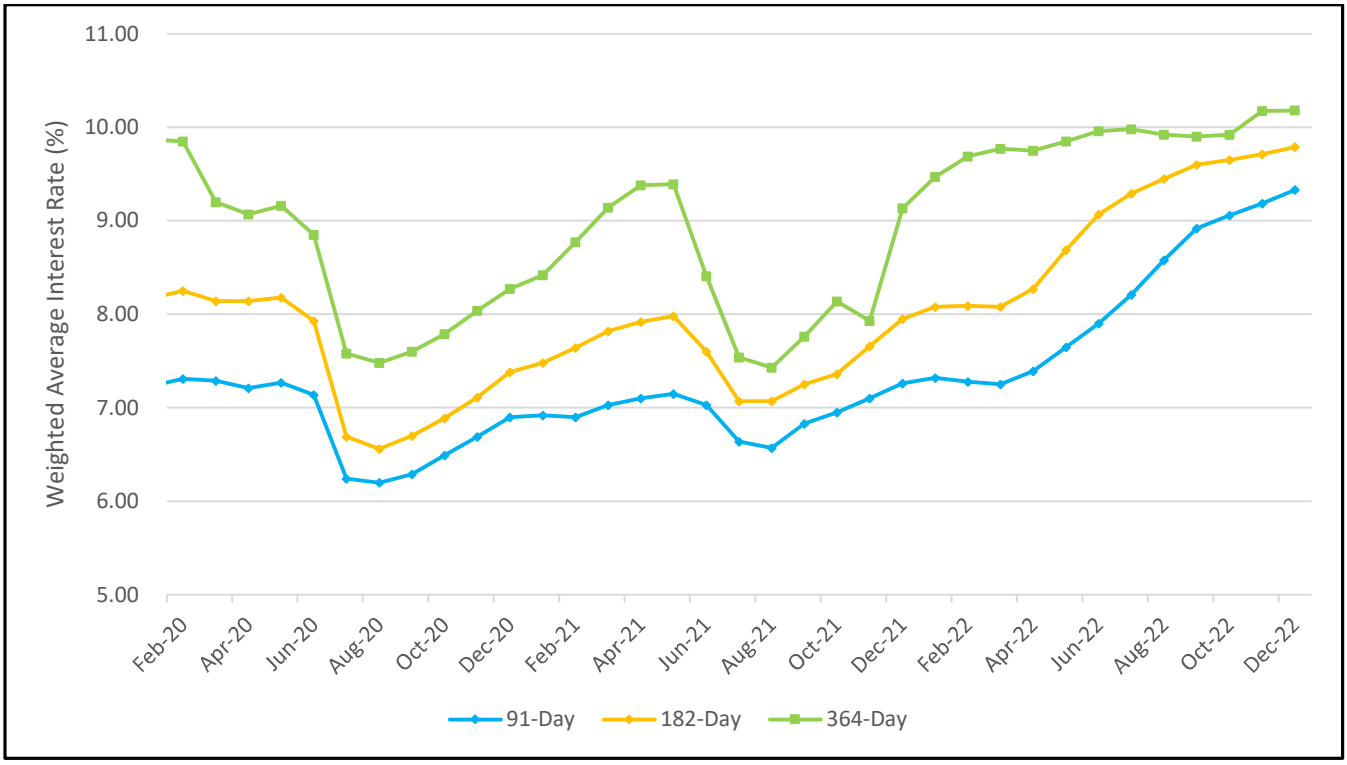
Data source: Central Bank of Kenya

Figure 19: Monetary policy stance for selected countries in Africa



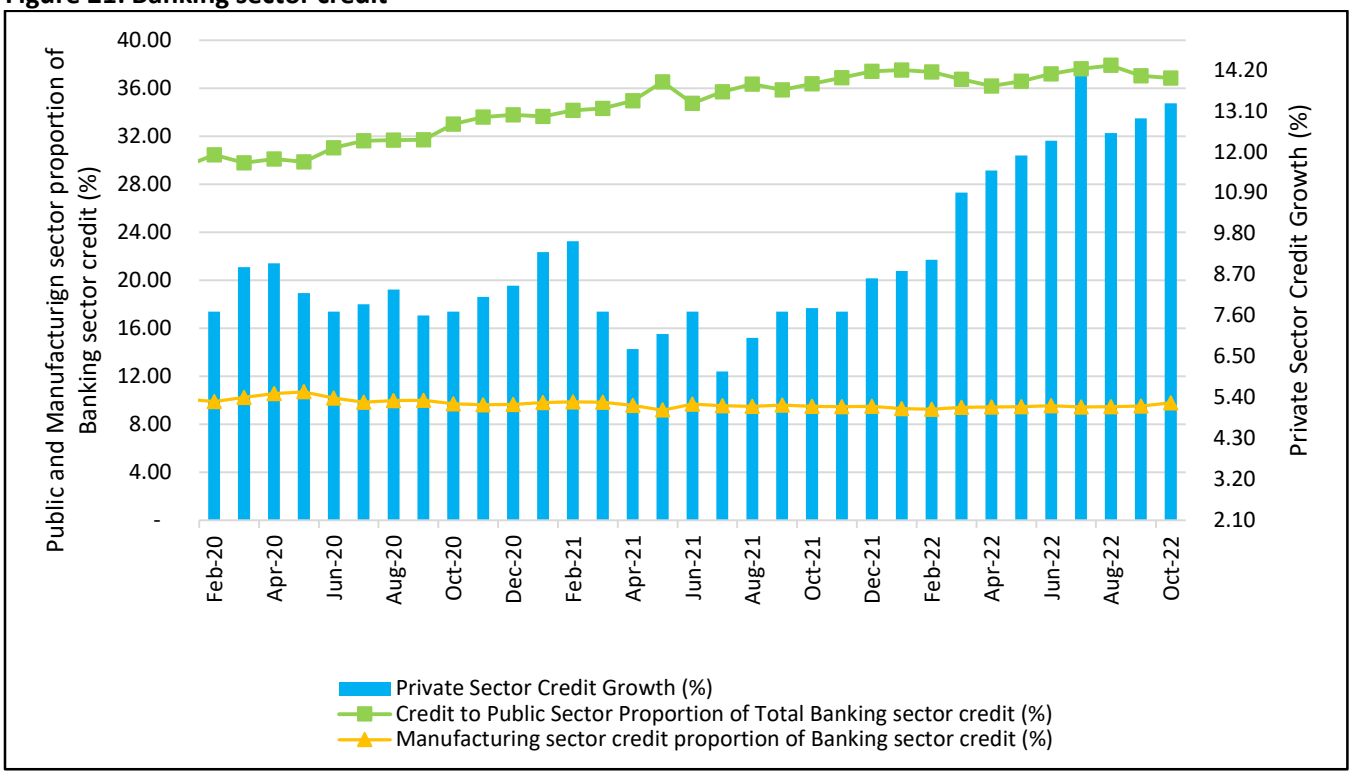
Data Source: Country Central Banks

Figure 20: Treasury bill weighted average rate (%)



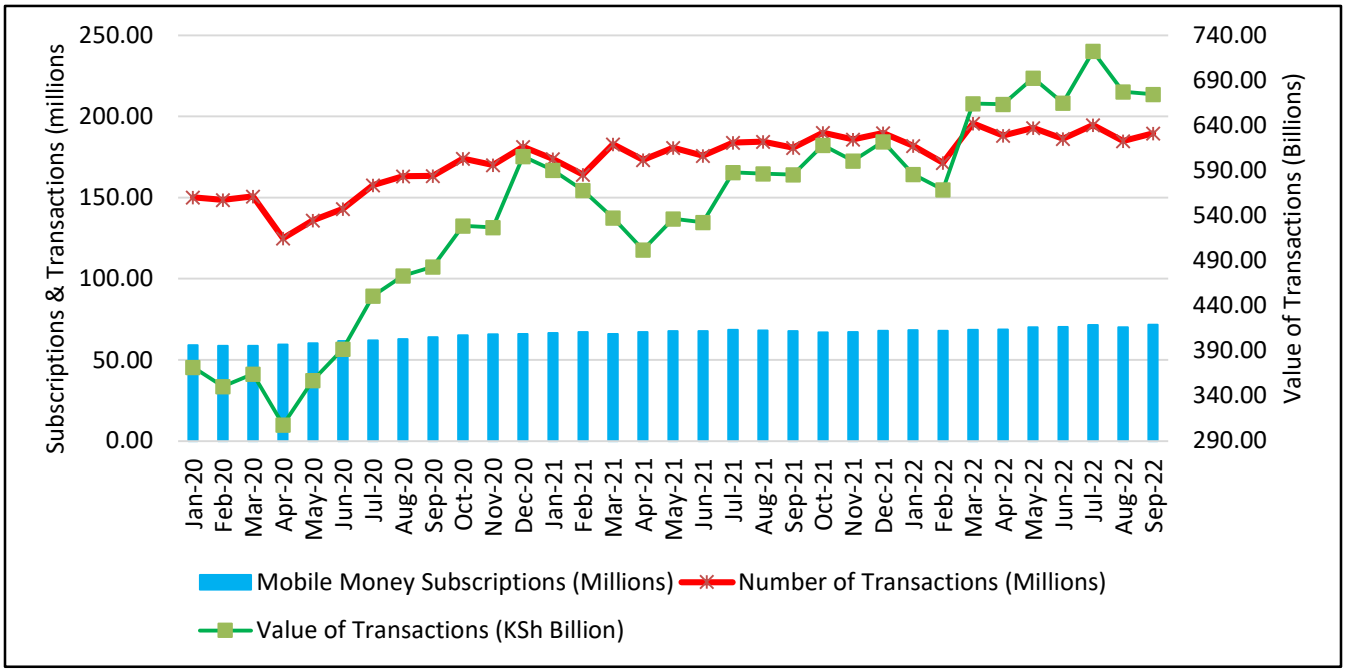
Data source: Central Bank of Kenya

Figure 21: Banking sector credit



Data Source: Central Bank of Kenya

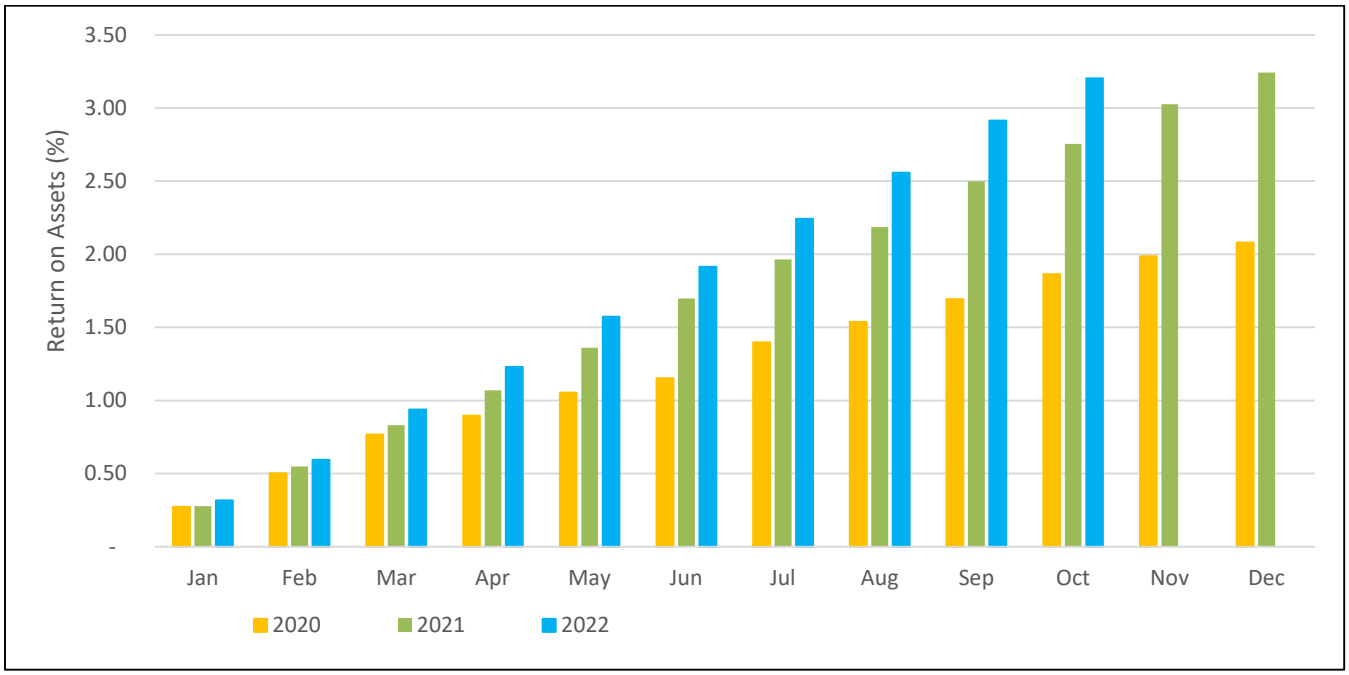
Figure 22: Mobile money transactions



Data source: Kenya National Bureau of Statistics

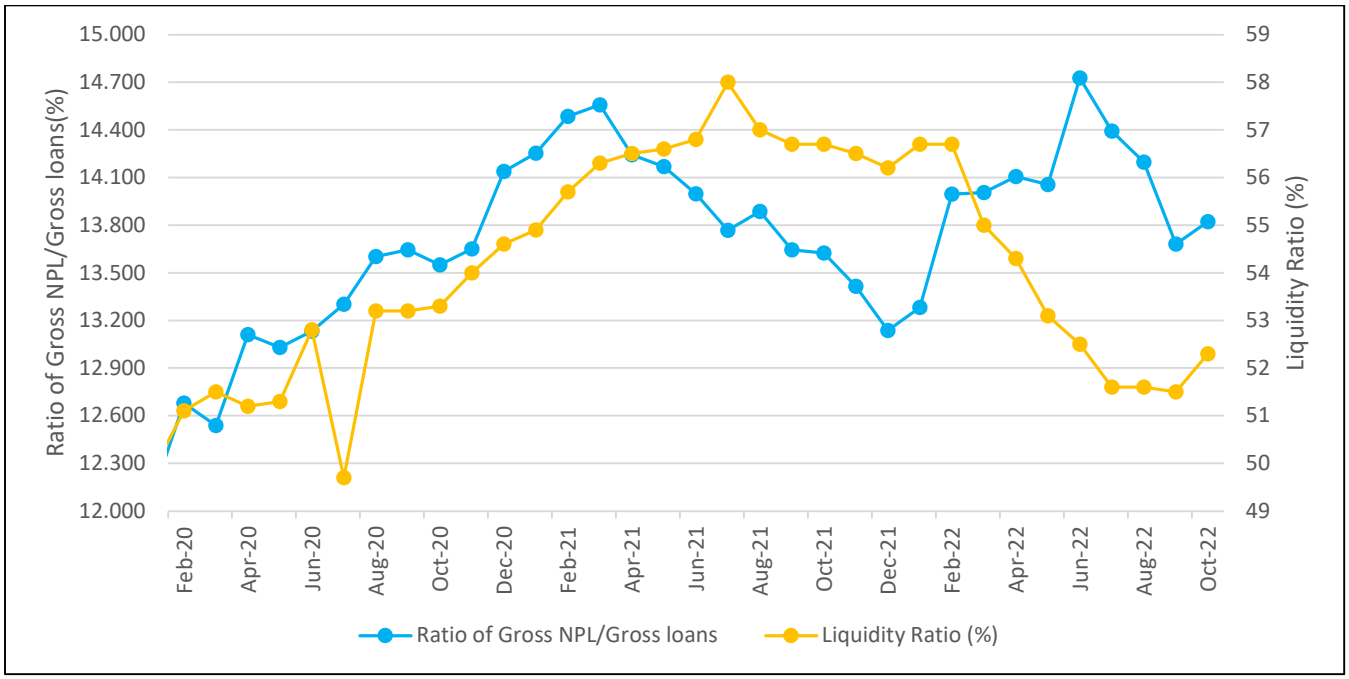
Figure 23: Kenya banking sector performance

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

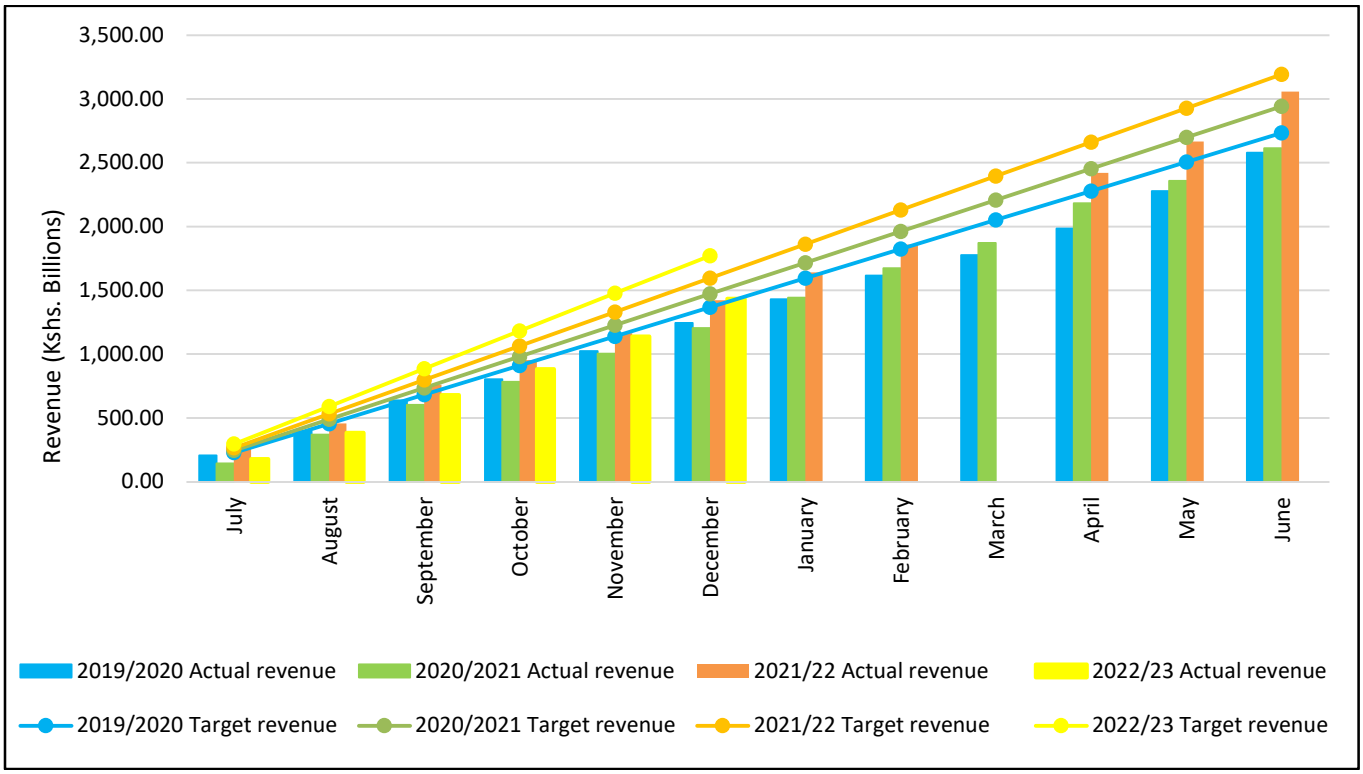
4. FISCAL PERFORMANCE

The Budget for 2022/2023 is estimated at Ksh 3.30 trillion, an 8.9 per cent increase from 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%). The new government is implementing a Ksh 300 billion budget cut expected to reduce fiscal deficit, this notwithstanding the ambitious bottom economic up plan being implemented.

In the second quarter of 2022/23, October - December 2022, the government raised Ksh 1.43 trillion of the national revenue against a target of Ksh 1.77 trillion, which represents a performance of 80.94 per cent. In a similar period in 2021/22, the government achieved 89.07 per cent of revenue against the target. Consequently, disbursements to the National and County governments were below the target. For instance, the exchequer issues to the National government were Ksh 1.23 trillion out of the targeted amount of Ksh 1.59 trillion. Similarly, the exchequer issues to the County governments did not meet the target of Ksh 184.98 billion as the cumulative exchequer issues stood at Ksh 141.09 at the end of December 2022. The fiscal deficit stood at Ksh 199.52 billion as at the end of November 2022, which is way below the fiscal deficit recorded in the same period in 2021 and 2020.

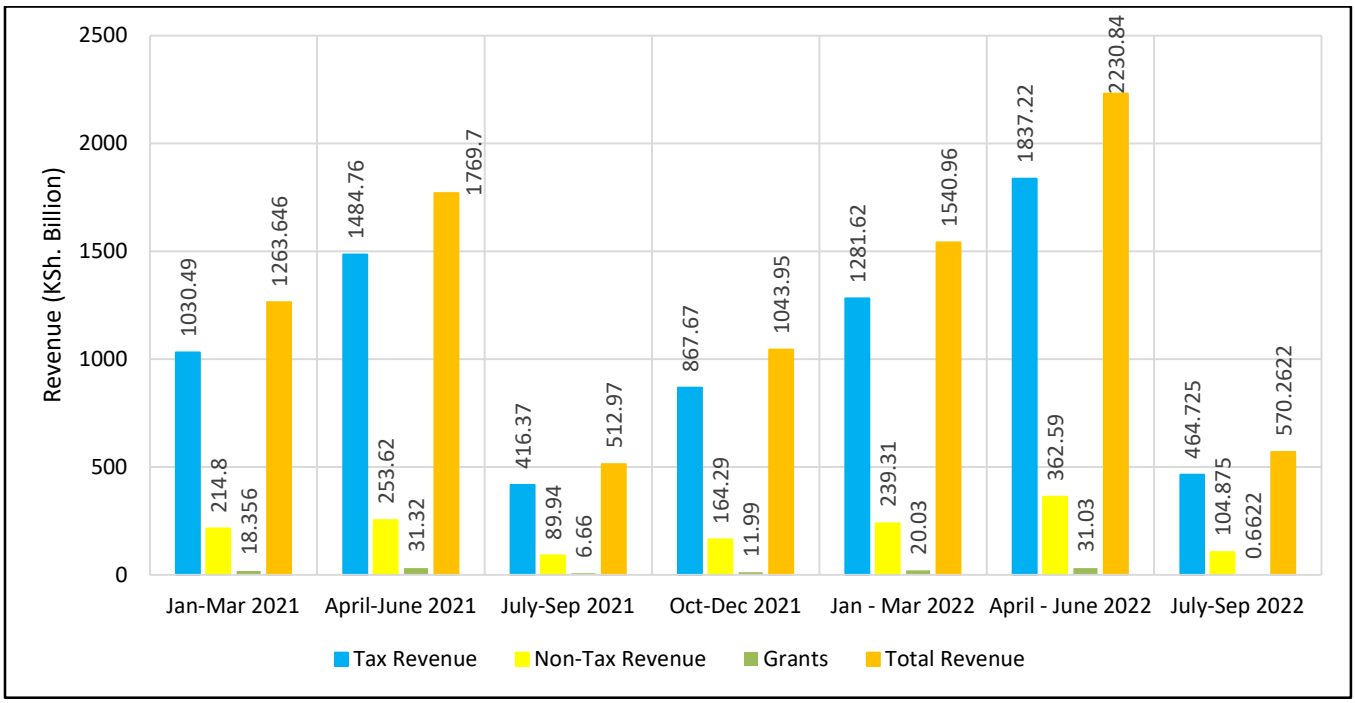
The public debt stood at Ksh 8.7 trillion as of September 2022, composed of 49.82 per cent in domestic debt and 50.18 per cent in external debt. The composition of domestic debt saw the proportion of Treasury bonds increase to 82.80 per cent in October-December 2022 compared to 79.58 per cent in similar period in 2021 and 72.92 per cent in 2020. In terms of debt holding, while banking institutions continued to dominate, the proportion held continued a downward trend to 47.32 per cent in October-December 2022 from 50.38 per cent in a similar period in 2021 and 54.24 per cent in 2020. For the external debt, the share of multilateral credit increased to 45.31 per cent in October-December 2022 compared to 41.84 per cent in a similar period in 2021 and 39.42 per cent in 2020.

Figure 24: National revenue (Ksh billion)



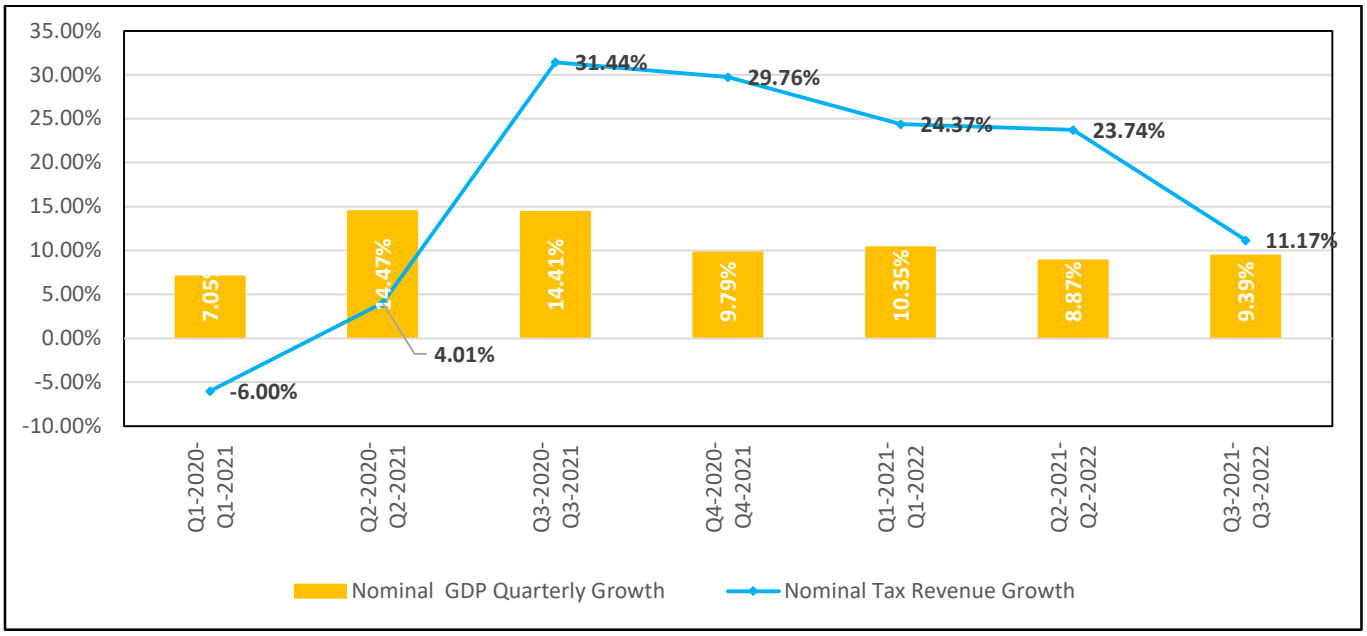
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 25: Composition of government revenue (Ksh billion)



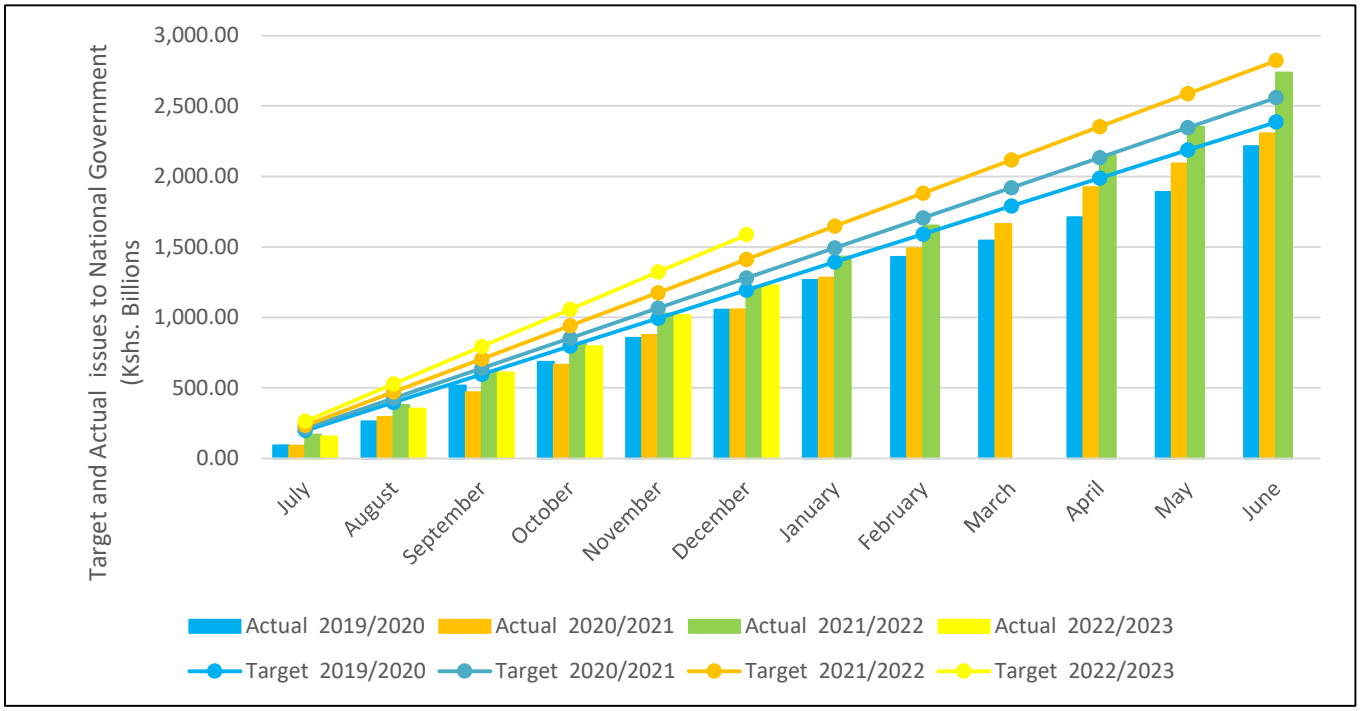
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices

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



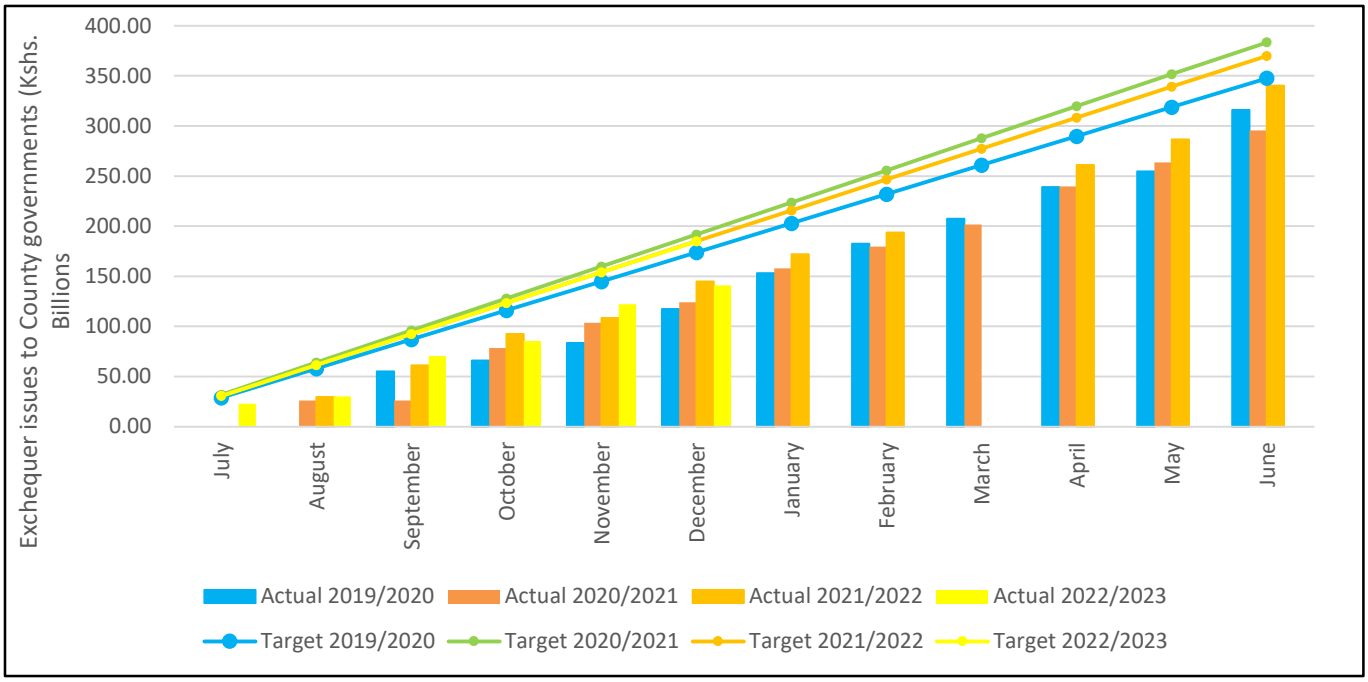
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

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



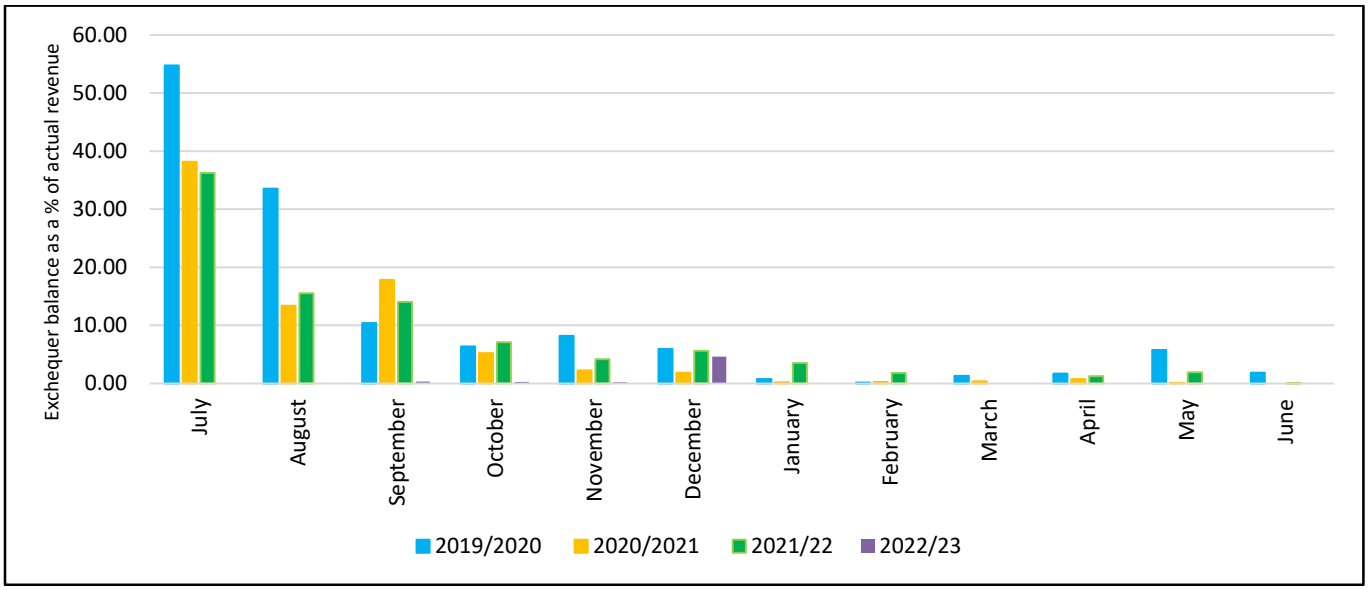
Data Source: Monthly Gazette Notices, The National Treasury and Planning

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



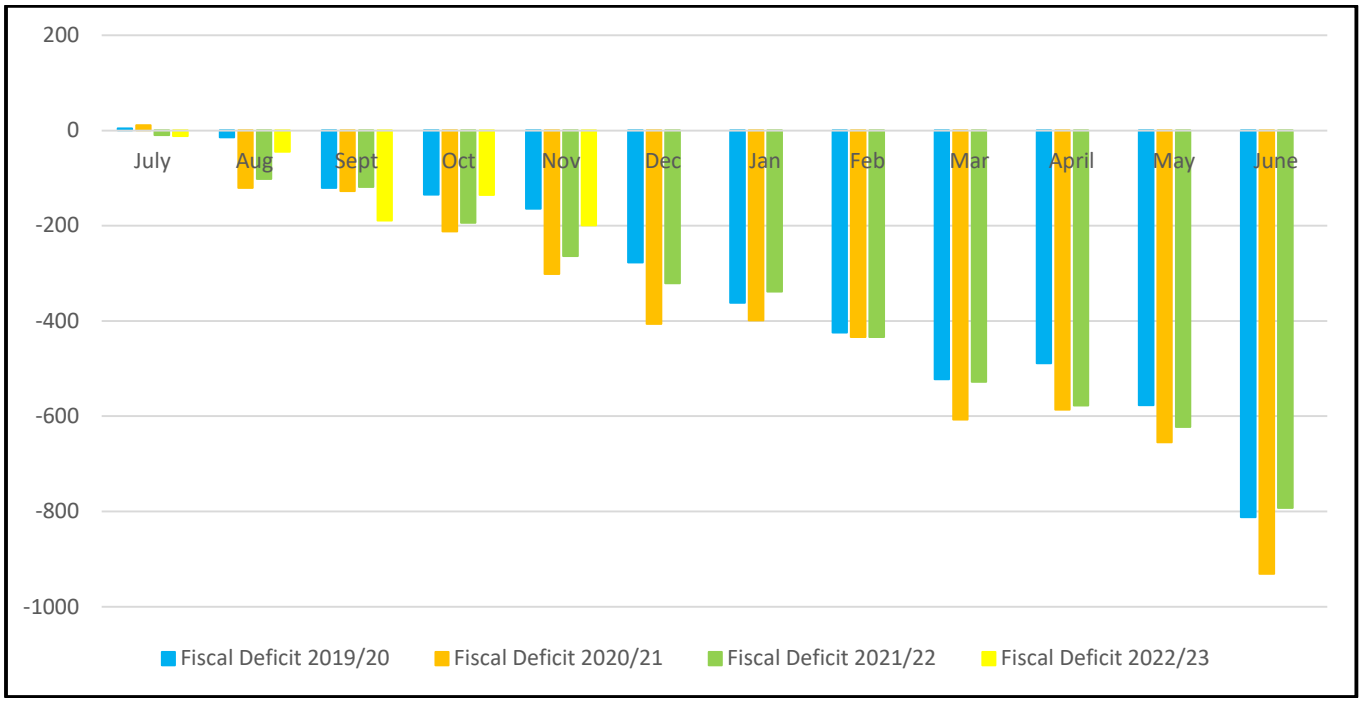
Data Source: Monthly Gazette Notices, The National Treasury and Planning

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



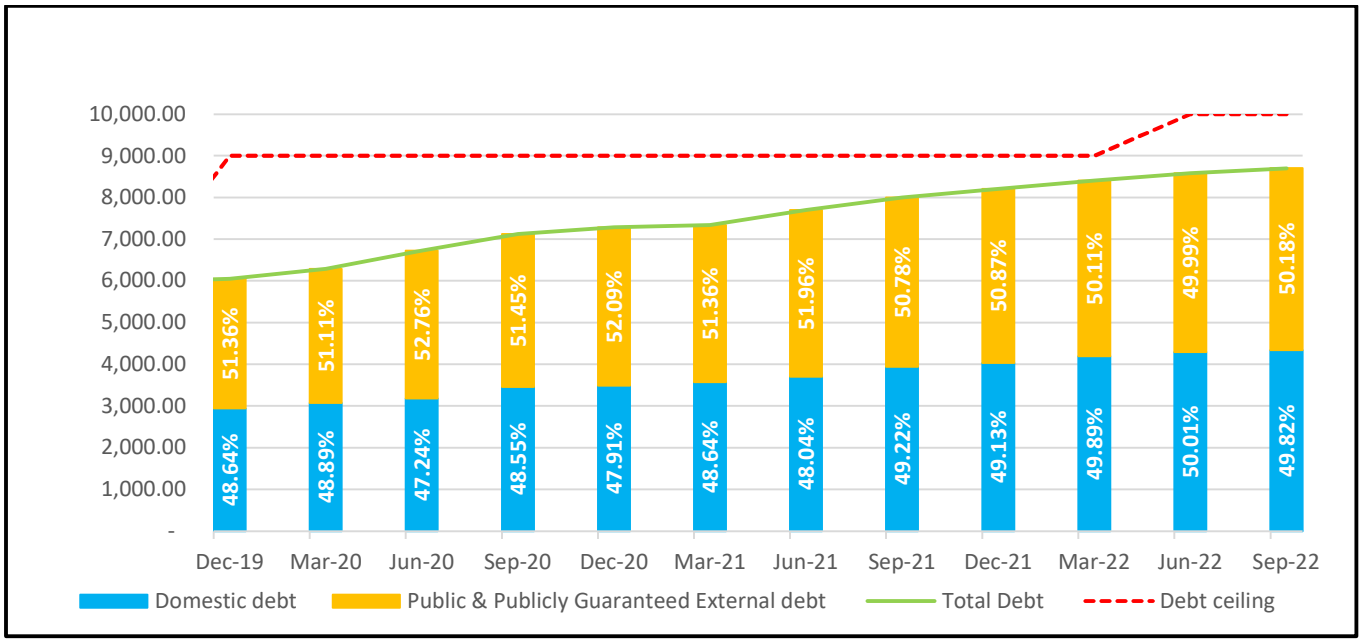
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 30: Fiscal deficit (Ksh billion)



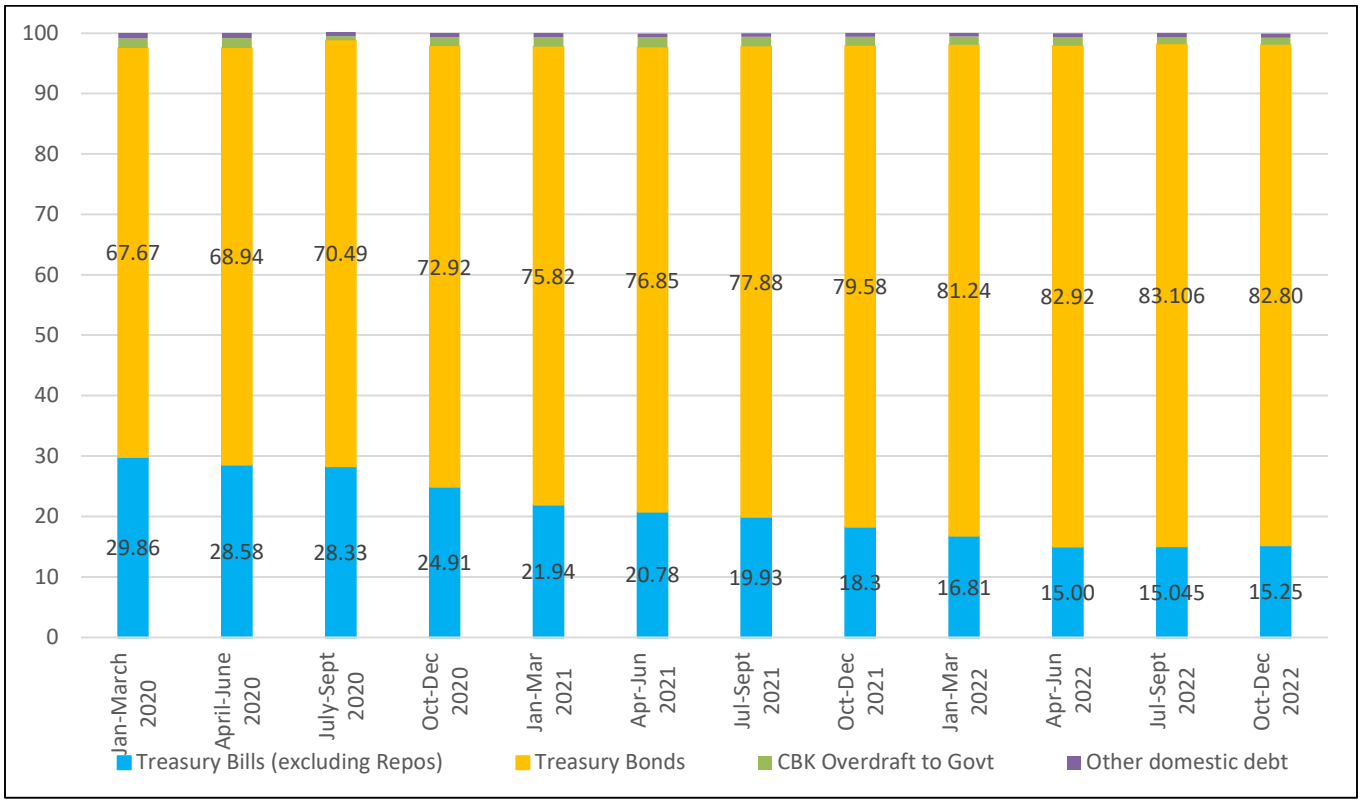
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notice

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



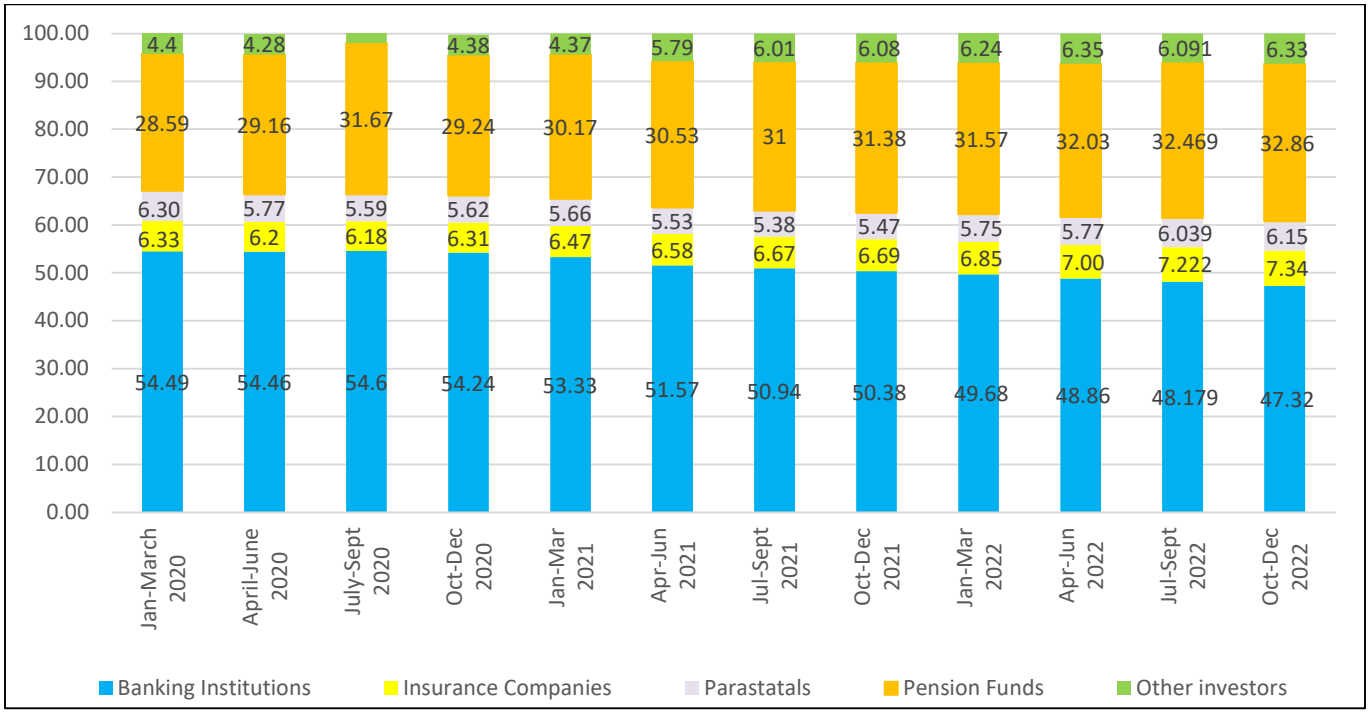
Data Source: Calculated using data from Central Bank of Kenya

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



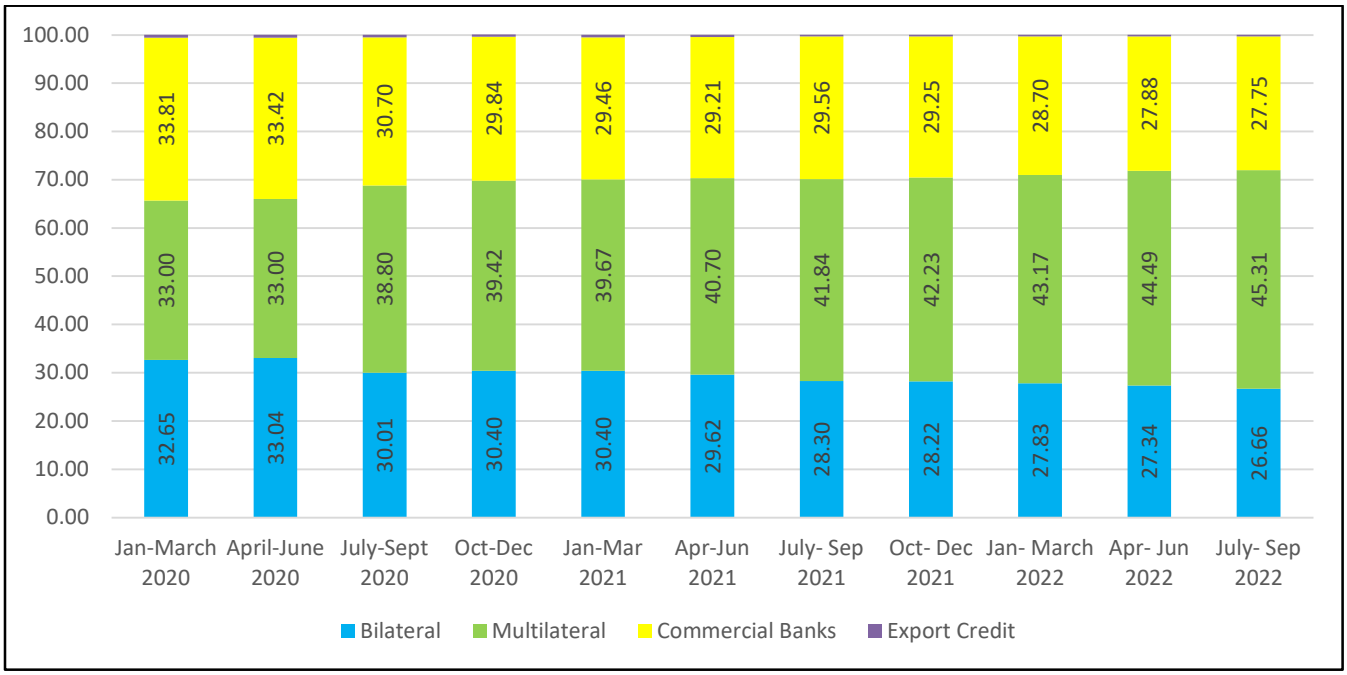
Data Source: Calculated using data from Central Bank of Kenya

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

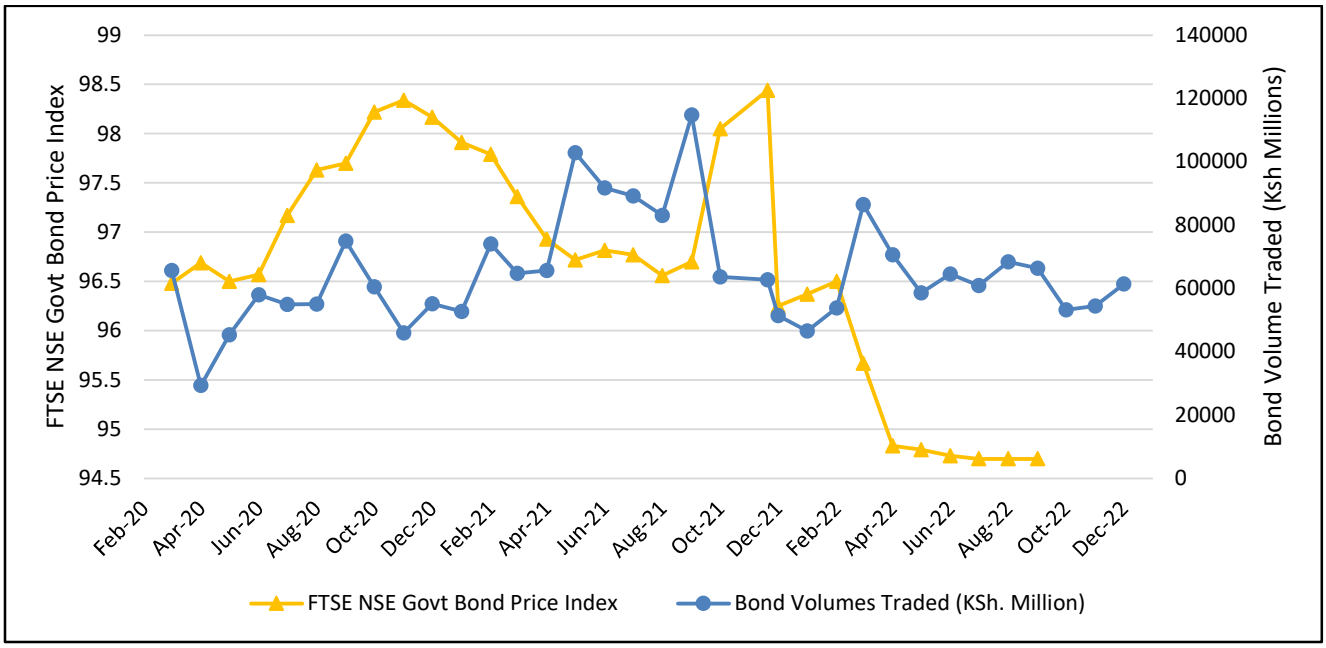
5. CAPITAL MARKETS

Capital Markets in Kenya exhibited a downward trajectory across the key indices between October and December 2022. The benchmark NSE 20 share index closed at 1676.10 during the quarter down from 1699.23 at the start of the quarter. Similarly, the NSE25 index and the NASI recorded a decline to close at 3133.64 points and 127.47 points, respectively. However, the volume of the bonds traded in the NSE rose from Ksh 53.91 billion in October 2022 to Ksh 61.44 billion in December 2022. Foreign investors assumed a net selling position throughout the quarter. However, the volume of trading activity increased with the average investor participation rising from 31.83 per cent in October 2022 to 59.21 per cent in December 2022. This is possibly explained by the peaceful conclusion of the August 2022 general elections. The foreign purchases increased from Ksh 1,519.60 million in October 2022 to Ksh 2,092.80 million in December 2022, whereas the foreign sales decreased slightly from Ksh 3,838.20 million in October 2022 to Ksh 3,754.10 million in December 2022.

The 2024 Eurobond yields for Kenya improved from an average of 16.56 per cent in October 2022 to an average of 12.99 per cent and 12.59 per cent in November 2022 and December 2022, respectively. However, it remained elevated compared to the same period in 2021 where it recorded an average of 3.54 per cent, 3.90 per cent and 4.44 per cent in October, November, and December 2021, respectively.

The regional and global markets showed a mixed performance; for instance the US stock markets showed a declining performance as reflected in the key indices; NYSE Composite, Nasdaq 100, and Dow Industrial Average. However, the European stock markets recorded an improvement during the quarter as shown by the Euro Next 100 index and the London Stock Exchange FTSE100.

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

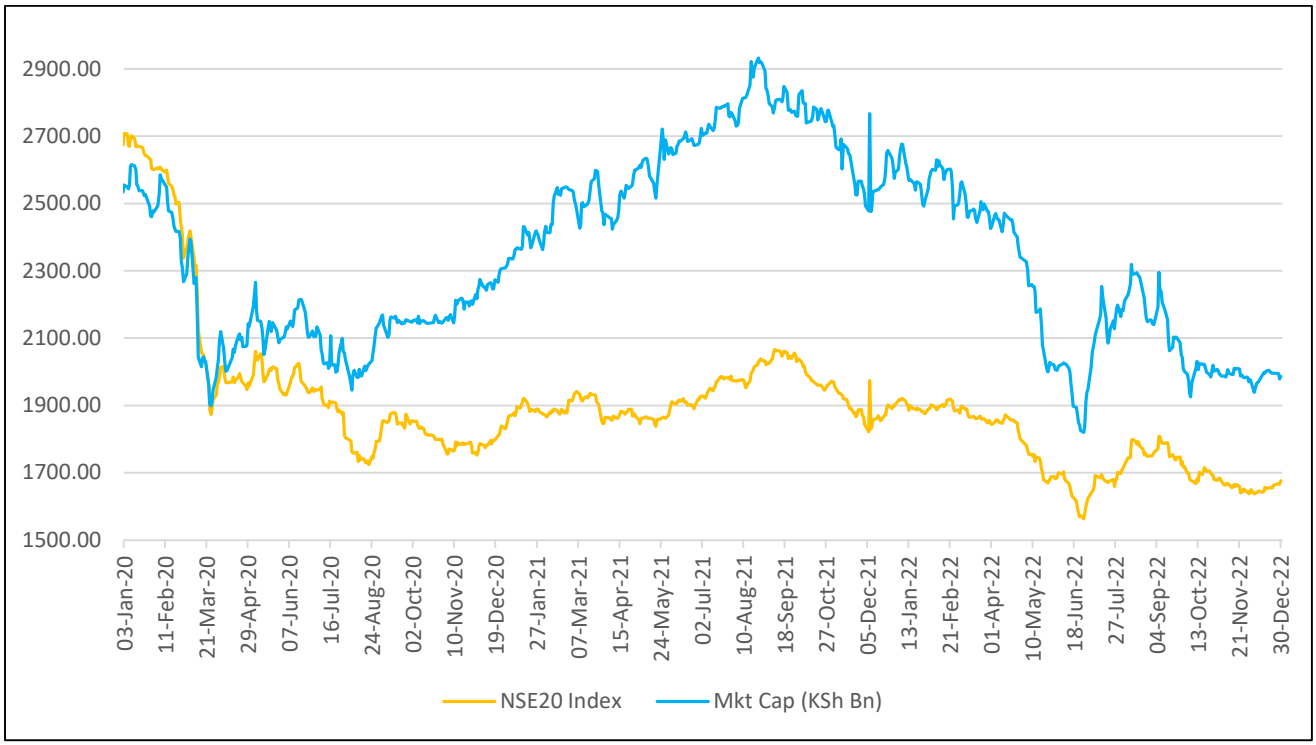


Data Source: Nairobi Securities Exchange; Central Bank of Kenya

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

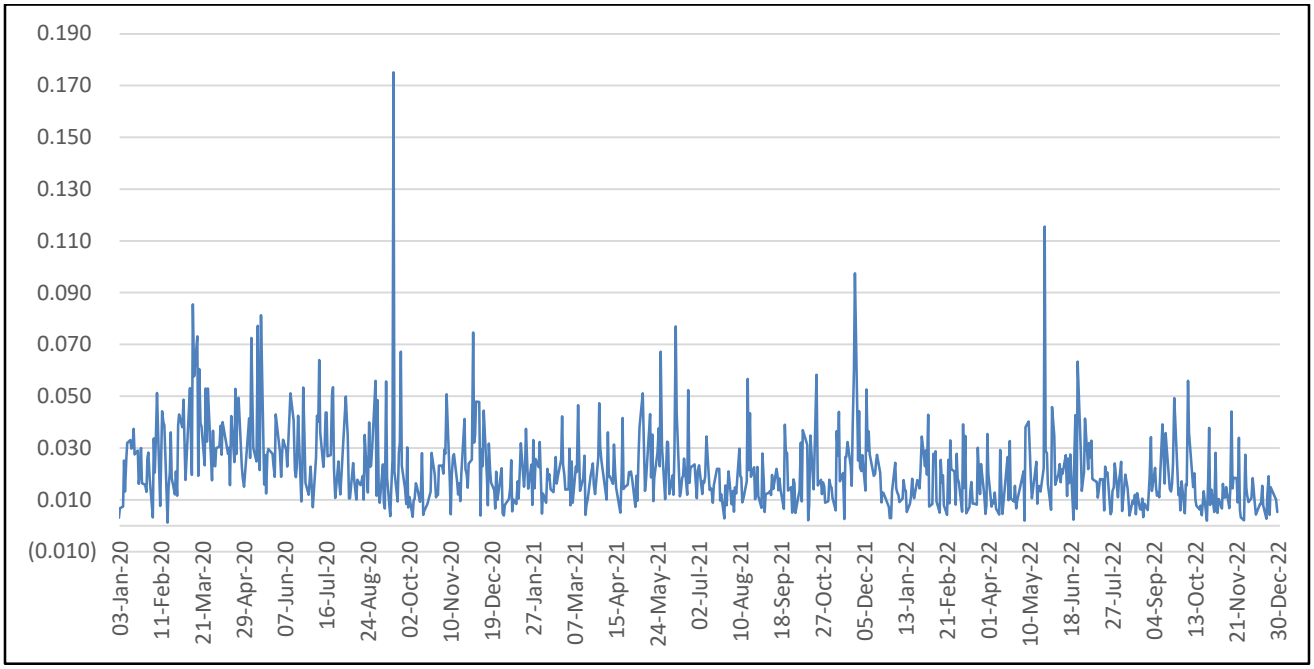
Data Source: Central Bank of Kenya

Figure 37: Stock market performance



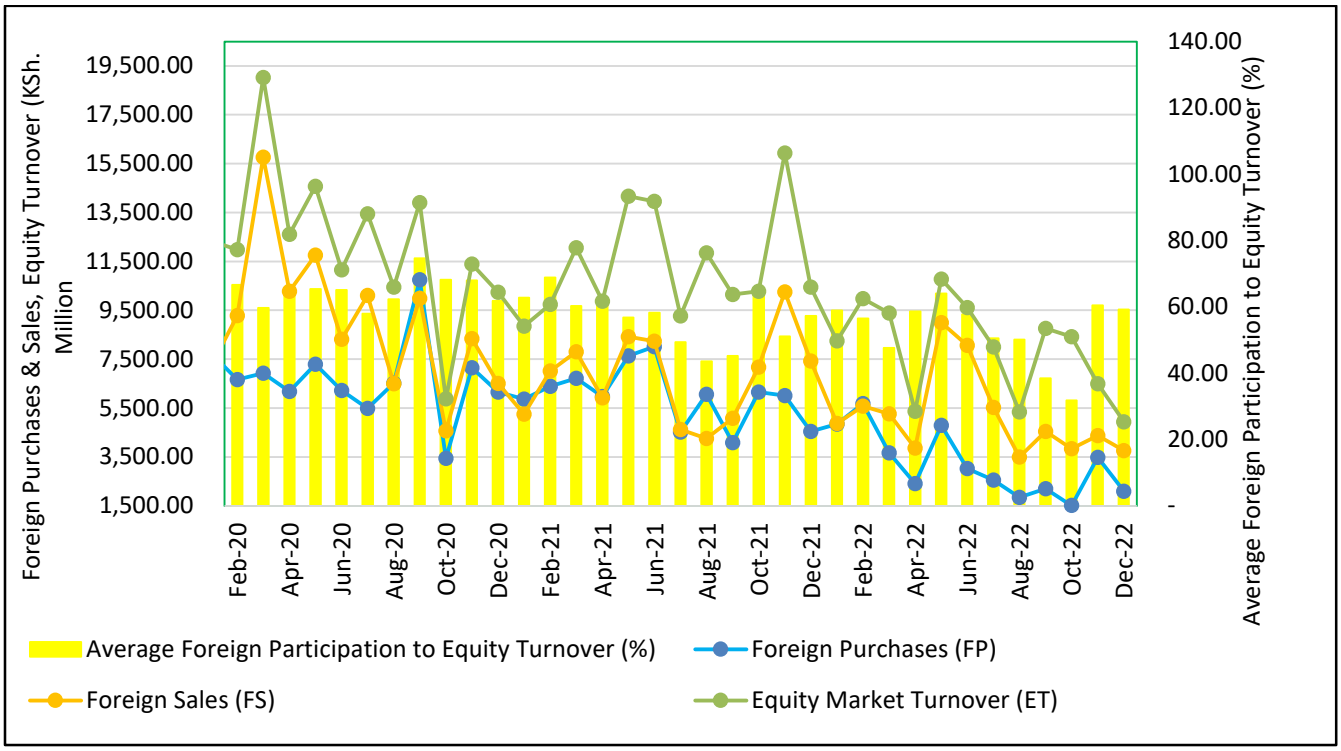
Data Source: Nairobi Securities Exchange

Figure 38: Stock value turnover ratio (%)



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

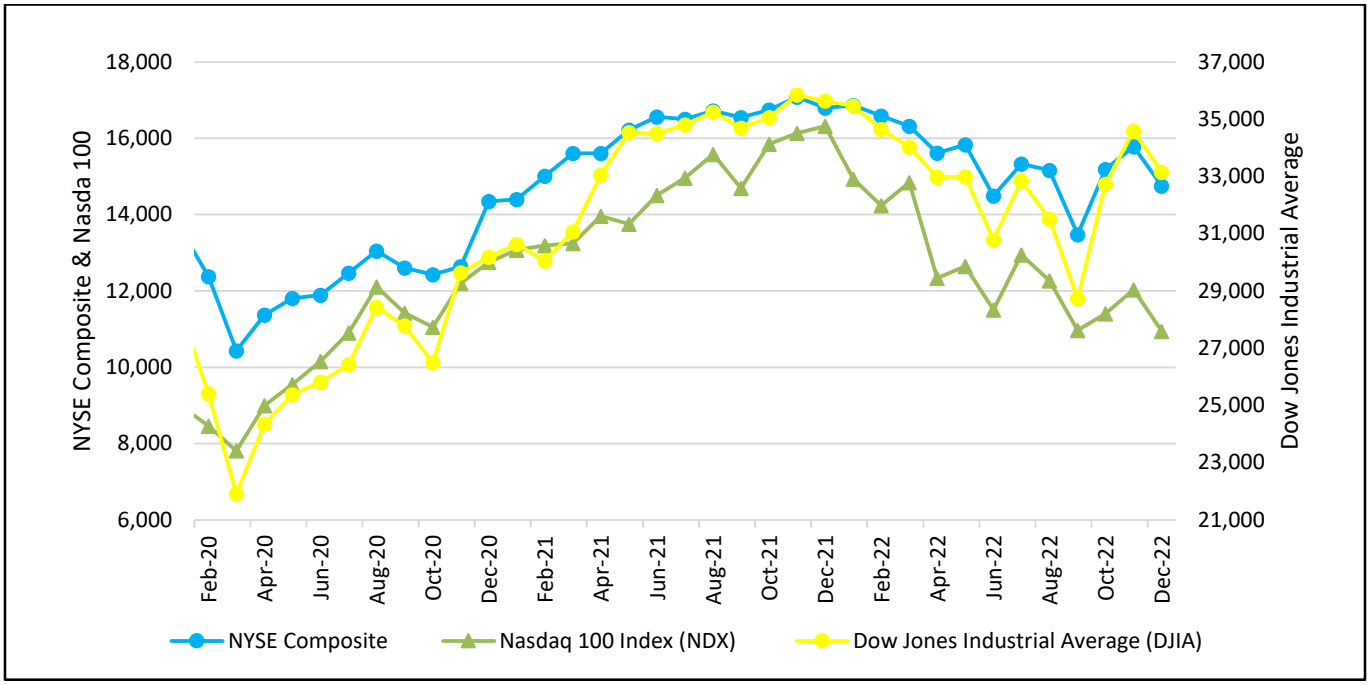
Figure 39: Foreign trading in the stock market



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

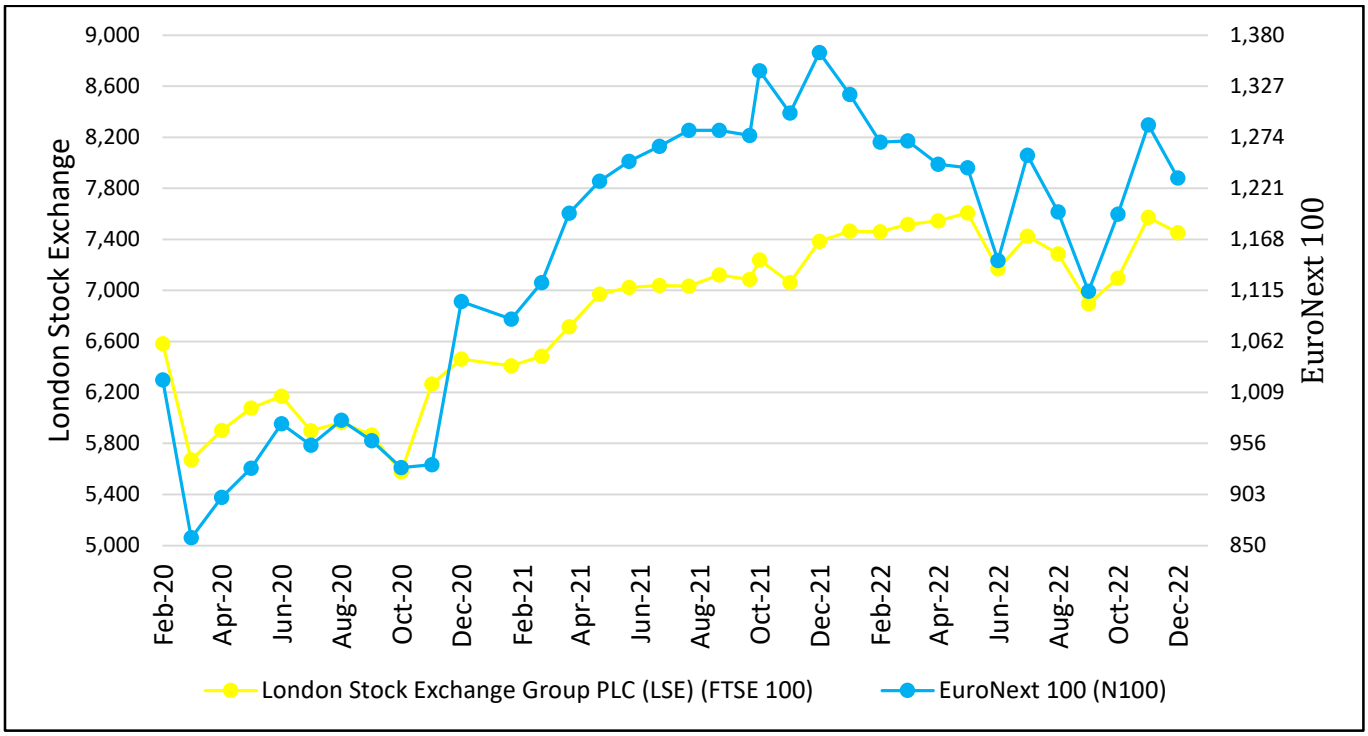
Figure 40: Stock market performance of selected advanced and emerging markets

(a): USA stock markets



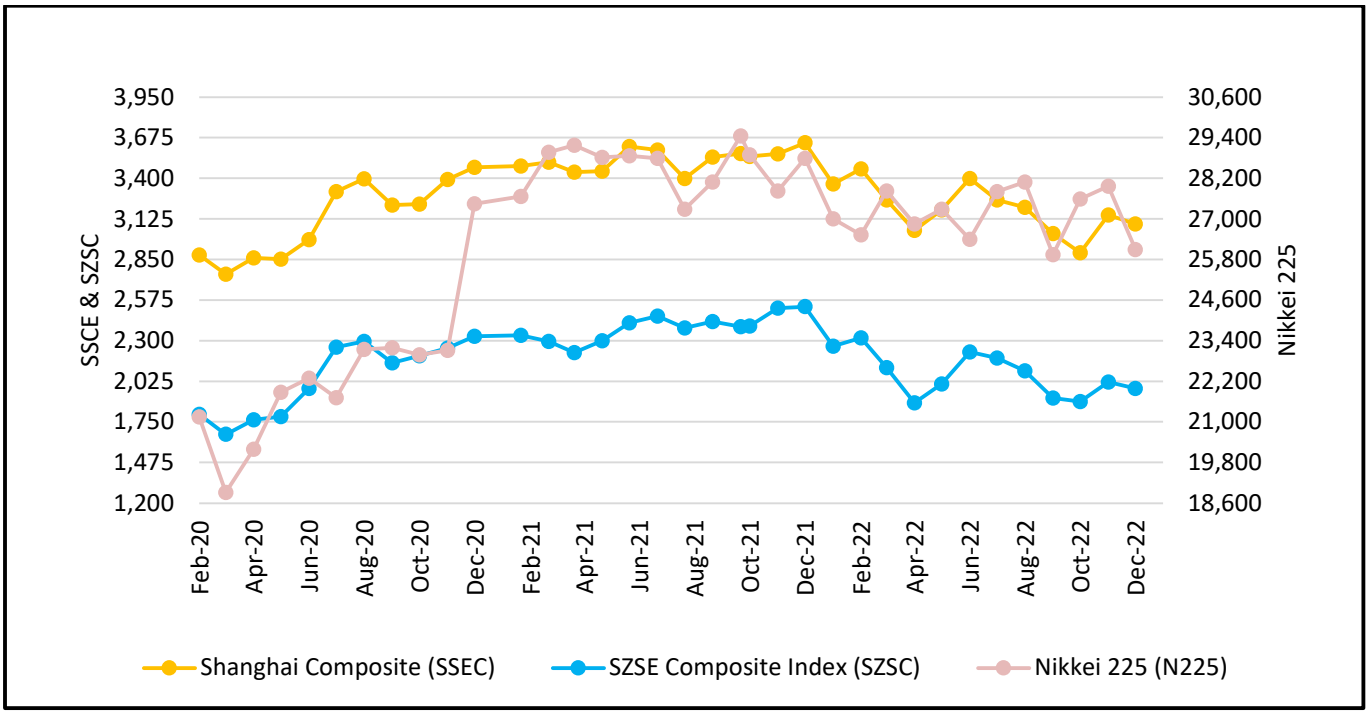
Data source: Country Stock Exchanges; http://www.investing.com

(b): European stock markets



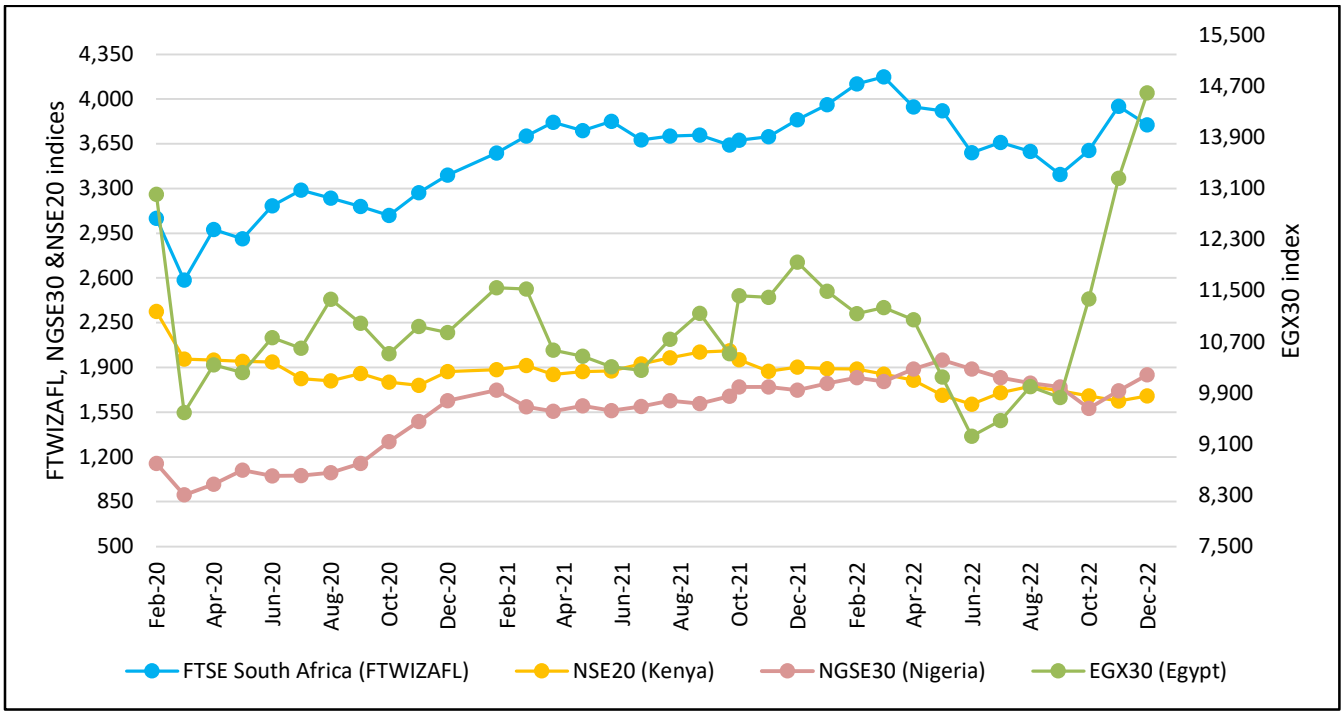
Data source: Country Stock Exchanges; http://www.investing.com

(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

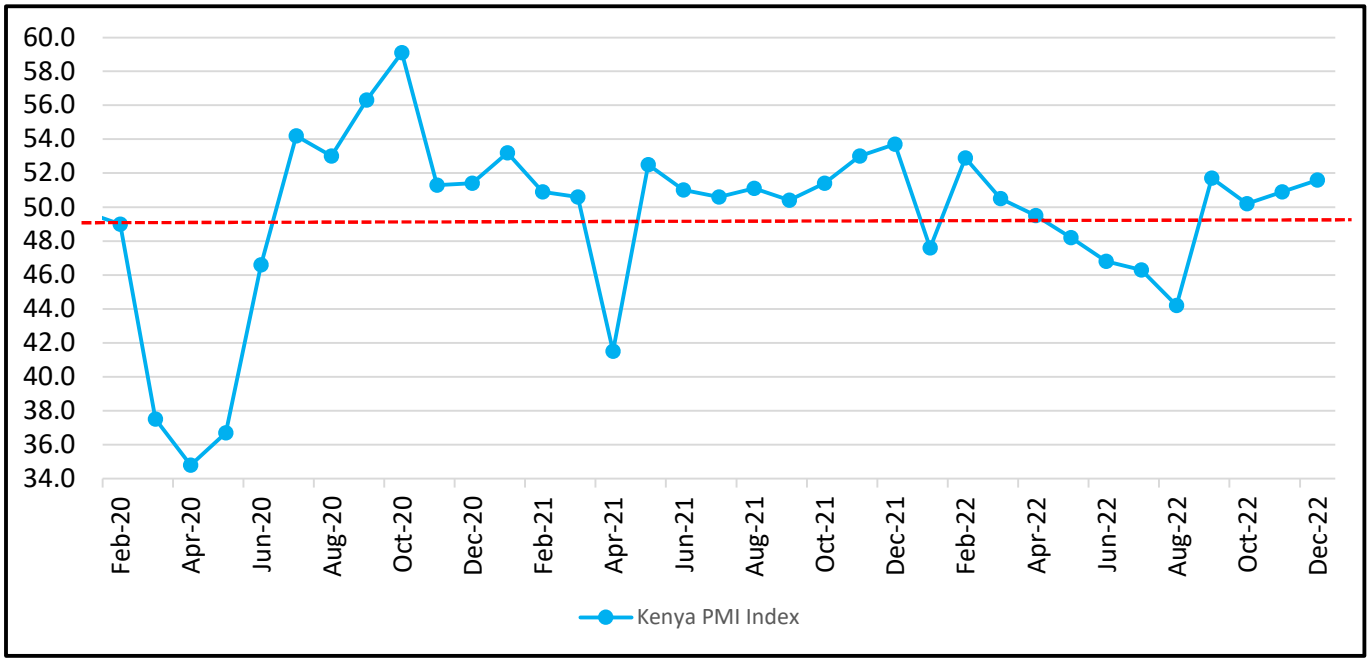
6. RISK-RELATED FACTORS

The Stanbic Kenya Purchasing Managers' Index (PMI) increased to a three month of 51.6 in December 2022 up from 50.2 in October 2022 following output expansion, higher demand, favourable weather conditions, and ease in inflationary pressures. However, the PMI Survey projects that business outlook for 2023 will be subdued due to continued worries about global economic conditions.

The October-December short rains performed well, with Kericho and Kakamega stations recording rainfall that was above their Long-Term-Means (LTM). Kisii and Narok weather stations recorded rainfall that was nearly the same as the LTMs, while all other stations recorded rainfall below their LTMs with Lodwar recording the lowest rainfall of 15.2 per cent of its LTM.

The credit rating for Kenya was downgraded Fitch ratings from B+ to B in December 2022 largely due to fiscal deficit, relatively high debt and deteriorating external liquidity. The government faces elevated debt service obligations between 2023-2024, with the anticipated maturity of US$ 2 billion Eurobond in June 2024, which will further exert pressure on international reserves.

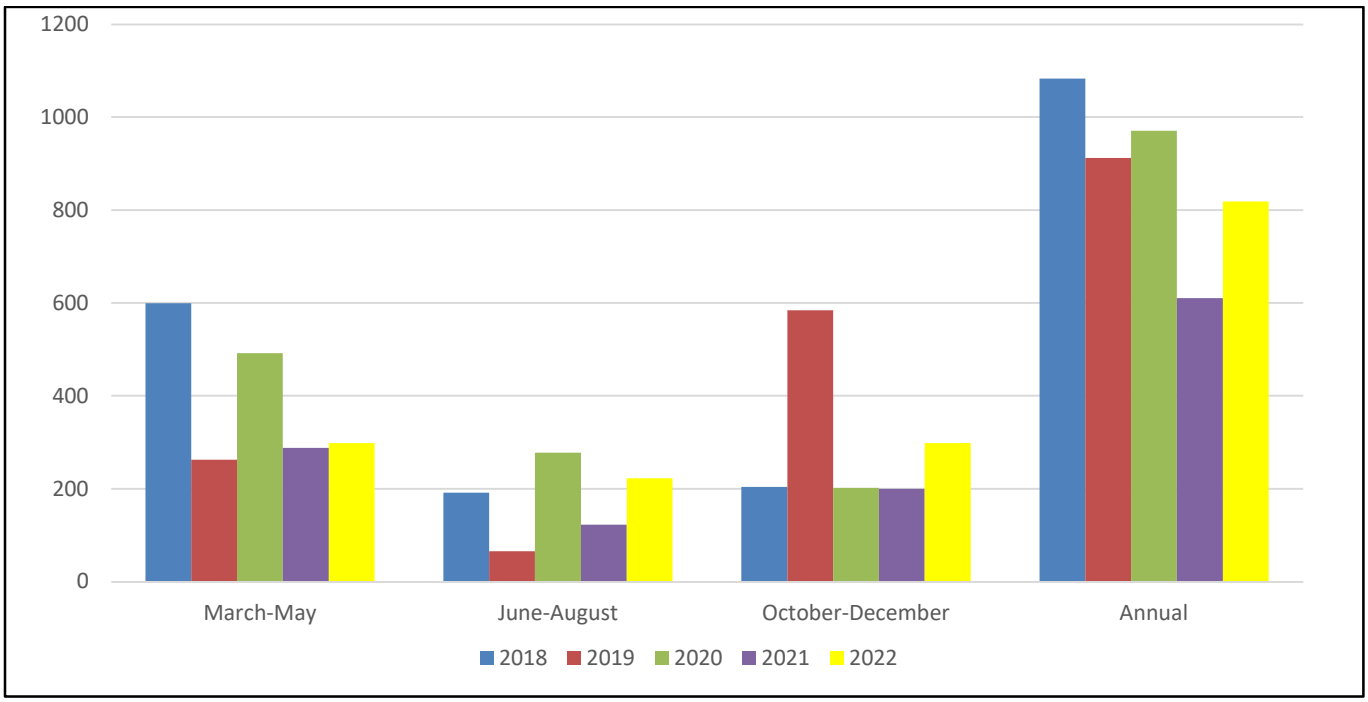
Figure 41: Kenya purchasing managers' index



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

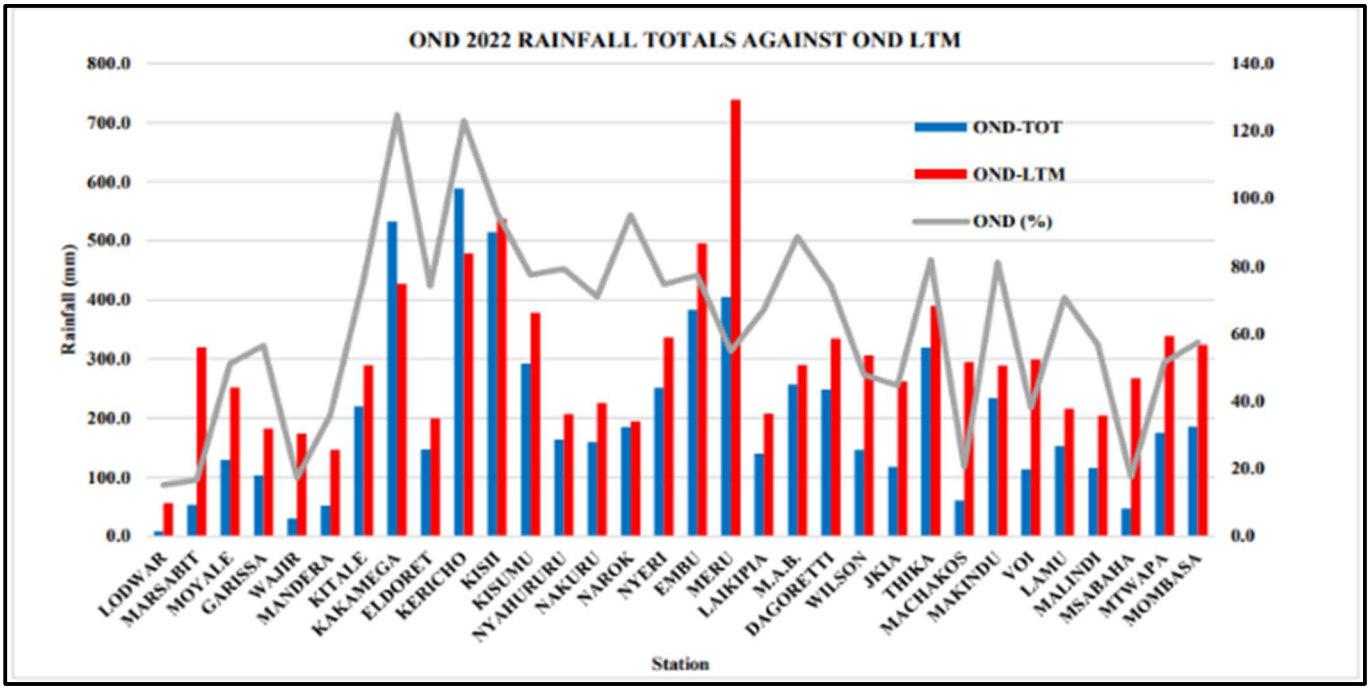
Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

Figure 42: Mean annual and seasonal rainfall (millimeters)



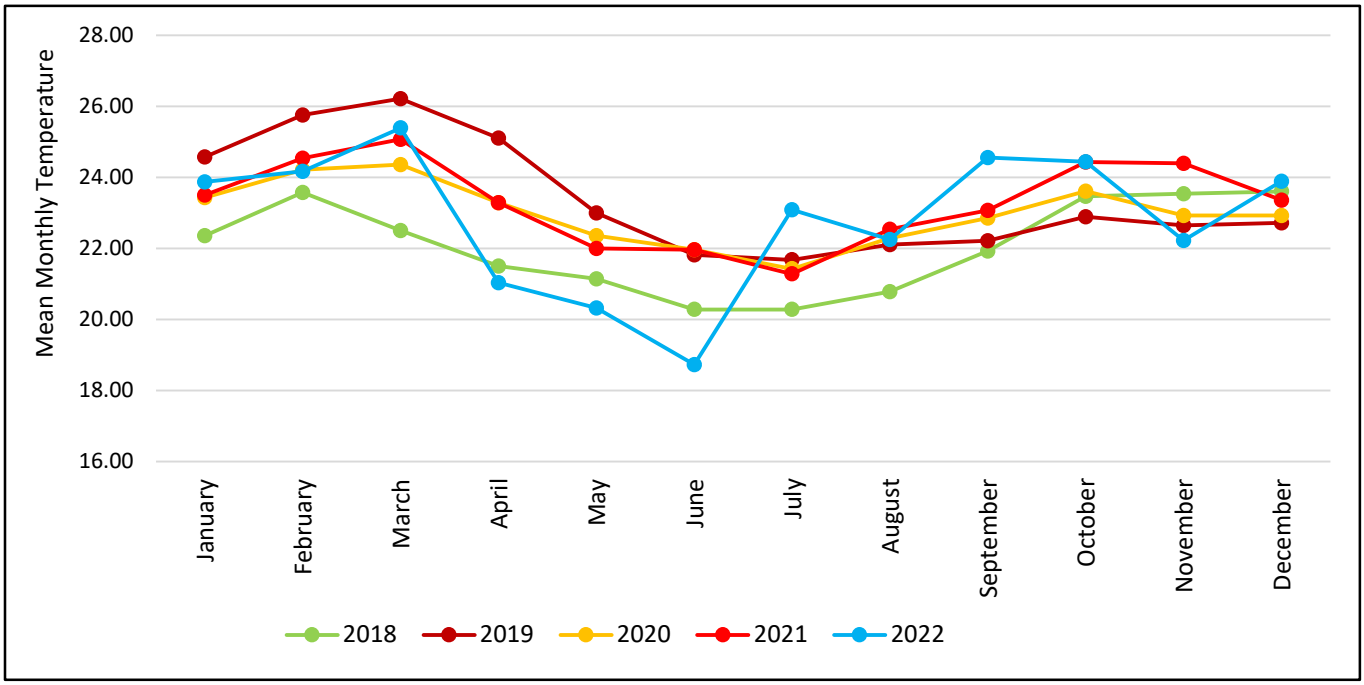
Data Source: Kenya National Bureau of Statistics; Kenya Meteorological Department

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; https://world-weather.info/forecast/kenya/nairobi/

Table 1: Fitch rating for Kenya

Type	Current Rating (as at 14 December 2022)			Prior Rating (as at 22 March 2022)		
	Rating	**Outlook**	**Action**	**Rating**	**Outlook**	**Action**
LTR (Long-term Issuer default rating)	B	Stable	Downgrade	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		Downgrade	B+		Affirmed
Local Currency Long-term Issuer Default Rating	B	Stable	Downgrade	B+	Negative	Affirmed

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