

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

Thinking Policy Together

QUARTERLY MARKET ANALYSIS REPORT

OCTOBER– DECEMBER 2020

SUMMARY

Performance in the Real Sector

The effects of COVID-19 pandemic continued to be felt to the end of 2020. That said, various countries reopened, and a recovery trajectory witnessed in the fourth quarter for some economies. The global economy is estimated to have contracted by 3.50 per cent in 2020. Advanced economies contracted by 4.90 per cent and emerging markets and developing economies by 2.40 per cent. Kenya's economy was projected to contract by 0.30 per cent in 2020.

The overall inflation in Kenya in the fourth quarter of 2020 averaged 5.31 per cent compared to 5.44 per cent in the same quarter in 2019. In the fourth quarter of 2020, inflation increased from a low of 4.84 per cent in October to 5.62 per cent in December 2020. Food and non-alcoholic beverages were the major contributors to overall inflation. This was despite short rains in the fourth quarter, which were expected to maintain food prices stable. Fuel inflation also took a gradual increase occasioned by rise in crude oil and subsequent increase in local pump prices.

International Market

Production, exports and prices of tea and coffee continued to follow the seasonal patterns depicted in previous years. In the period October to December 2020, the Kenya shilling (Ksh) depreciated by 0.32 per cent, 5.10 per cent and 5.21 per cent against the US Dollar, Sterling Pound and the Euro, respectively. Kenya maintained an average of 5.40 months of import cover, even though there was a downward trend of the months of import cover from a high of 5.90 in July 2020 to a low of 4.80 in December 2020.

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 economic activity. Similarly, most Central Banks in the region maintained accommodative monetary policy stance to stimulate economic activity. The 91-day, 182-day and 364-day Treasury bills' interest rates increased from 6.59 per cent, 6.97 per cent and 7.84 per cent in October 2020 to 6.93 per cent, 7.40 per cent and 8.34 per cent in December 2020. The interbank market rate increased from 3.58 per cent to 6.10 per cent between October and December 2020. The spike in interbank rates could be attributed to the high demand for credit to cover banks' liquidity needs in the face of the pandemic, which has tended to reduce bank deposits. While mobile money subscriptions remained almost unchanged, the market witnessed a steep rise in both number and value of transactions since the Central Bank instituted various measures for cashless transactions. Non-performing loans took an upwards 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 December 2020 totaled Ksh 837.52 billion compared to a total of Ksh 940.52 billion in December 2019, a decrease of 12.30 per cent. The actual revenue for quarter four in 2020 was Ksh 451.70 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 4.45 per cent in quarter four of 2019 to 18.66 per cent in quarter four of 2020. This is attributable to the increased 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 5.71 per cent in quarter four of 2020 from 3.60 per cent of the corresponding quarter in 2019.

Public debt increased to Ksh 7.2 trillion in December 2020 with increased borrowing related to the COVID-19. Government domestic debt, which is about 48.89 per cent of the total debt, is mainly held in treasury bonds and treasury bills. In the fourth quarter of 2020, the proportion of domestic debt held in treasury bonds rose to 72.92 per cent from 65.81 per cent in a similar quarter in 2019, while debt held in treasury bills declined to 24.91 per cent in quarter four of 2020 from 31.20 per cent in the corresponding quarter in 2019.

Capital Markets

As the confirmed COVID-19 cases continue to be registered globally, the world stock markets registered fluctuating trends in the second and third quarters of 2020, followed by a sharp drop in the beginning of the fourth quarter of 2020. This could be attributed to the increased uncertainty by investors stemming from a rise in COVID -19 cases and the anticipated US elections. 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 has shown a steady recovery. 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 fourth quarter of 2020 and this is occasioned by volatility and doubt in the international markets in the light of escalating COVID-19 confirmed cases.

Risk-related Factors

The Purchasing Managers' Index (PMI) for Kenya has dropped from a high of 59.10 in October 2020 to a low of 51.40 in December, although it remains above the 50-threshold. This signals a notable improvement in the private sector and health of the economy, with growth in new orders mainly from Europe and the Middle East as customer demand expanded following further easing of restrictions.

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 the increased prices of food in the fourth quarter of 2020.

In terms of credit rating for Kenya, the June 2020 fitch rating indicates a negative outlook for long term issuer default rating and local currency long-term issuer default rating. While the infection rate remained relatively low since the first confirmed case in the country in March 2020, there was a surge in infection rate of COVID-19 in the fourth quarter.

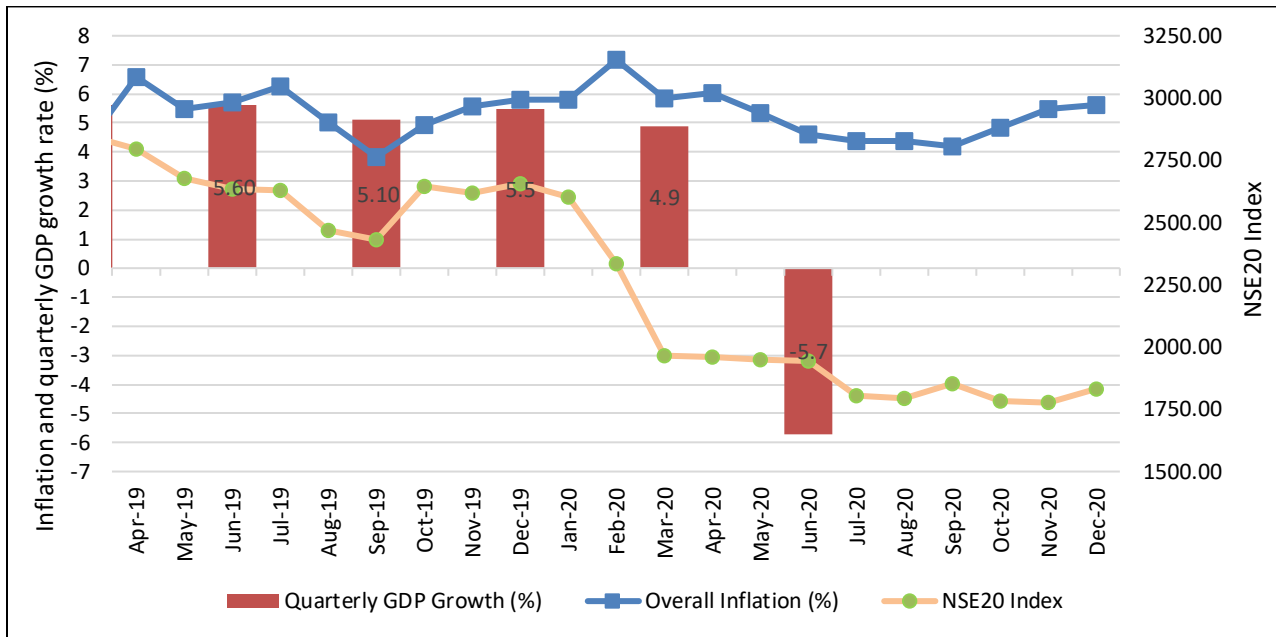
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1.0 Performance in the Real Sector

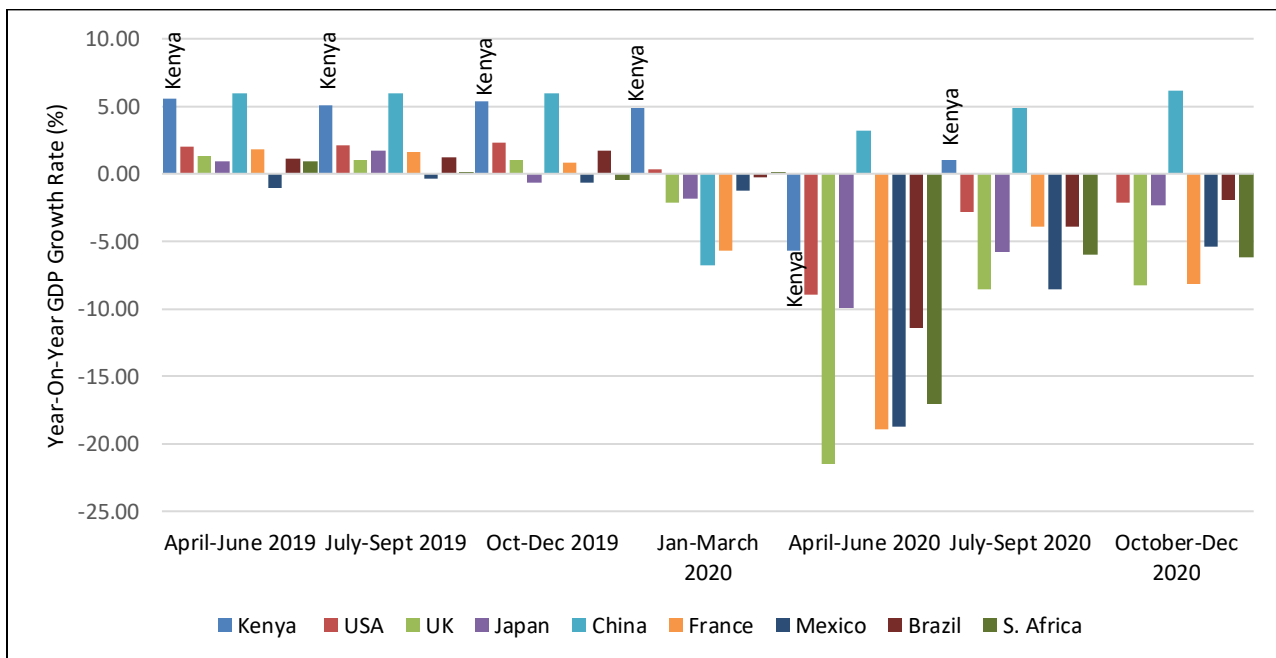
a) GDP performance

Figure 1: GDP growth, inflation and stock market performance



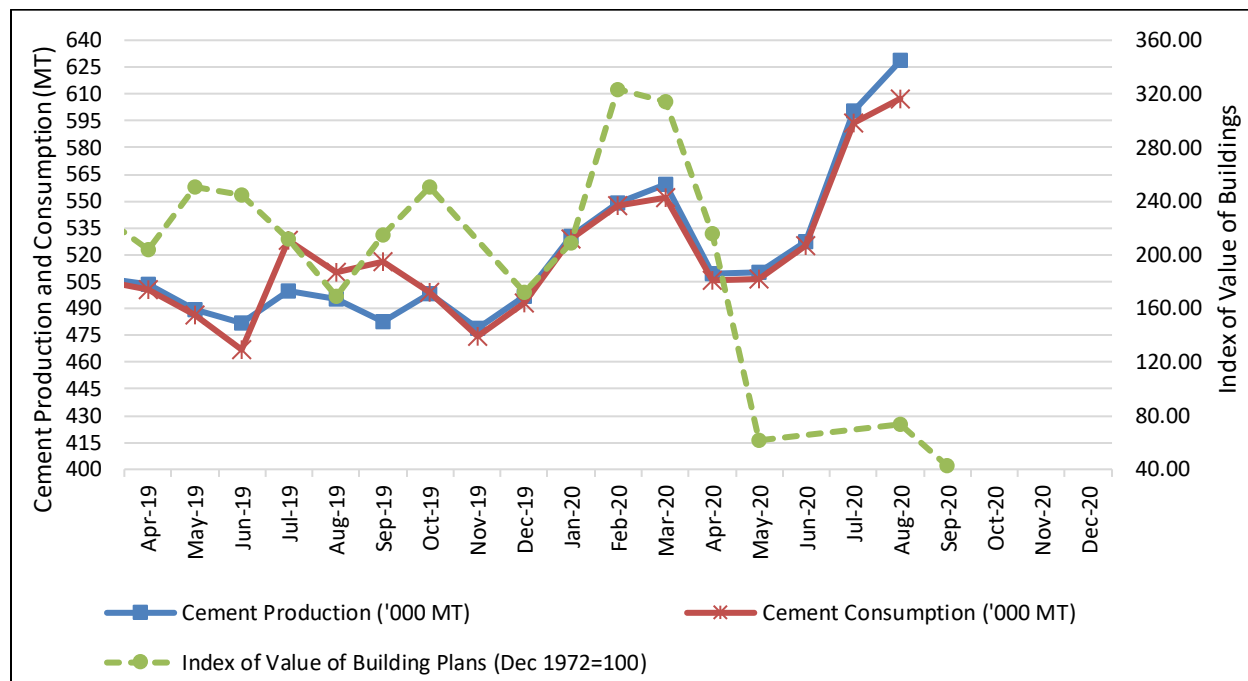
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics

Figure 2: Economic performance of selected advanced and emerging markets



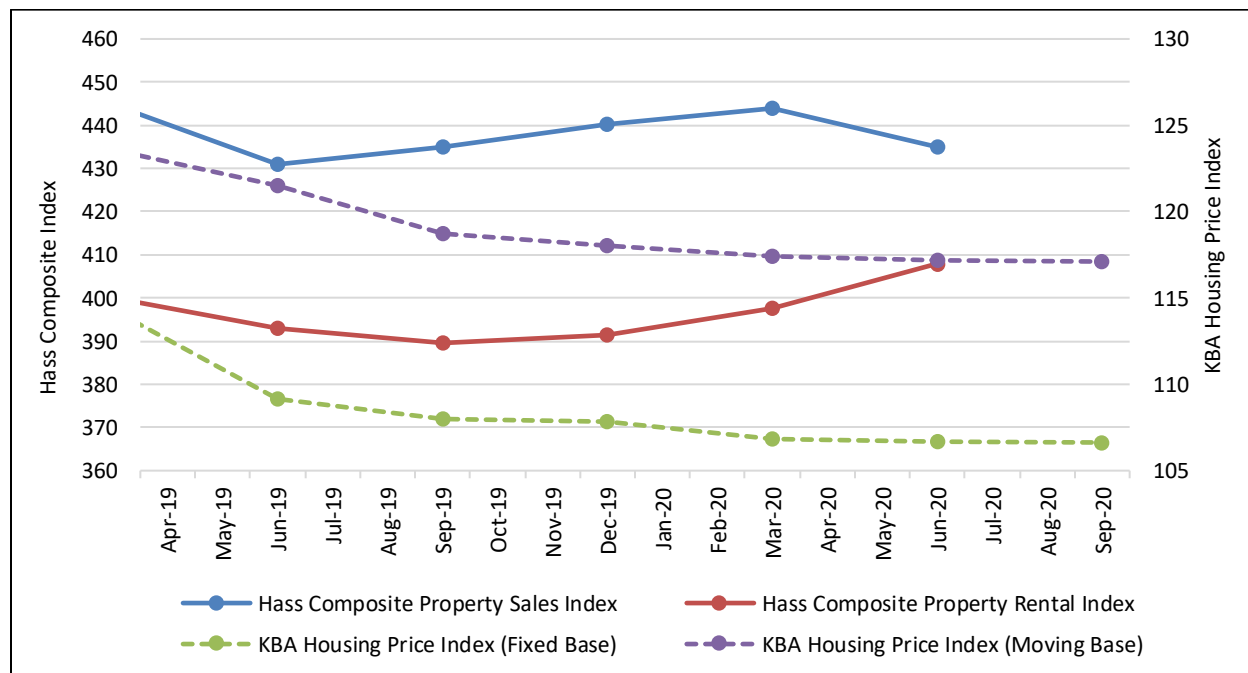
Data source: Country statistical offices; <https://tradingeconomics.com/>, IMF World Economic Outlook January 2021

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

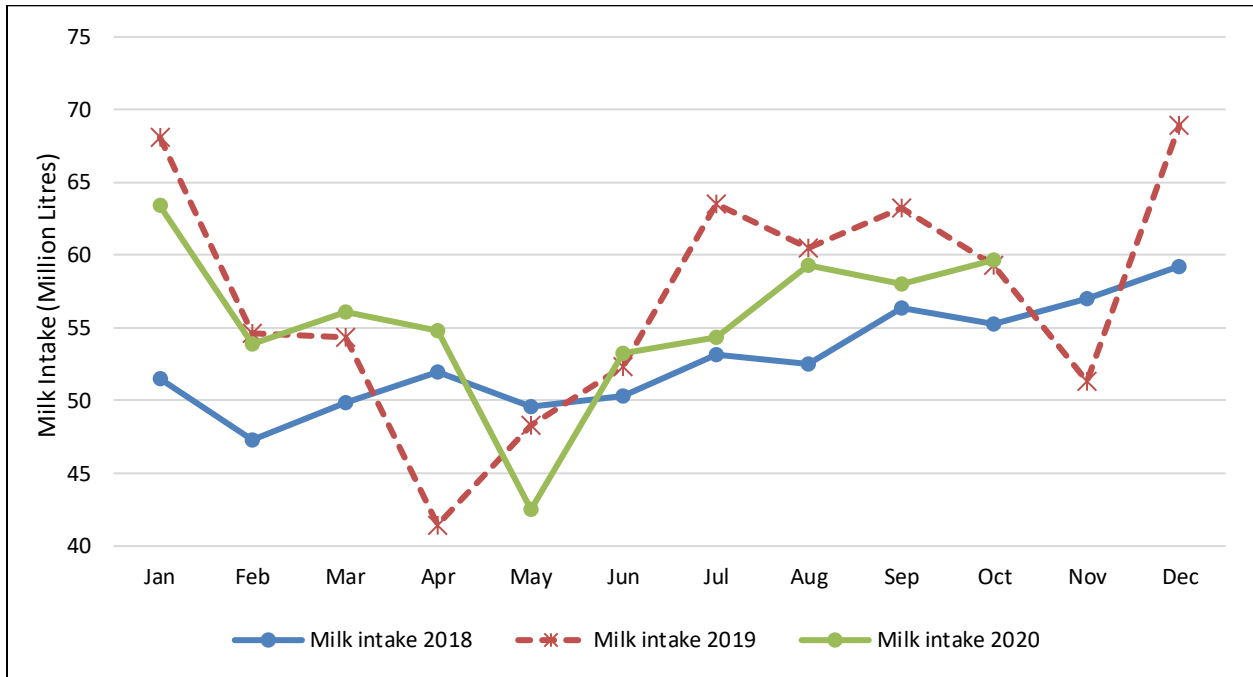


Hass Composite Property Sales Index: Year 2000 = 100; KBA Housing Price Index (fixed base): Q1 – 2013 = 100.

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

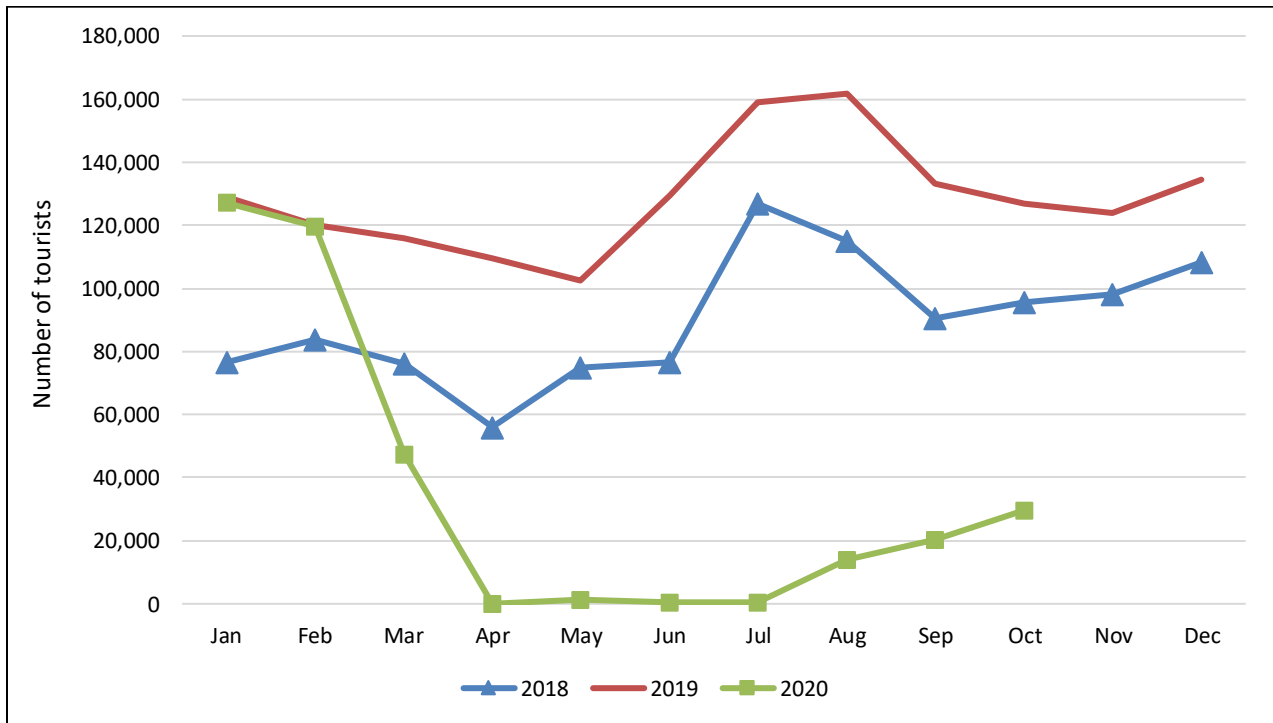
Kenya Bankers Association (https://www.kba.co.ke/house_price.php)

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)

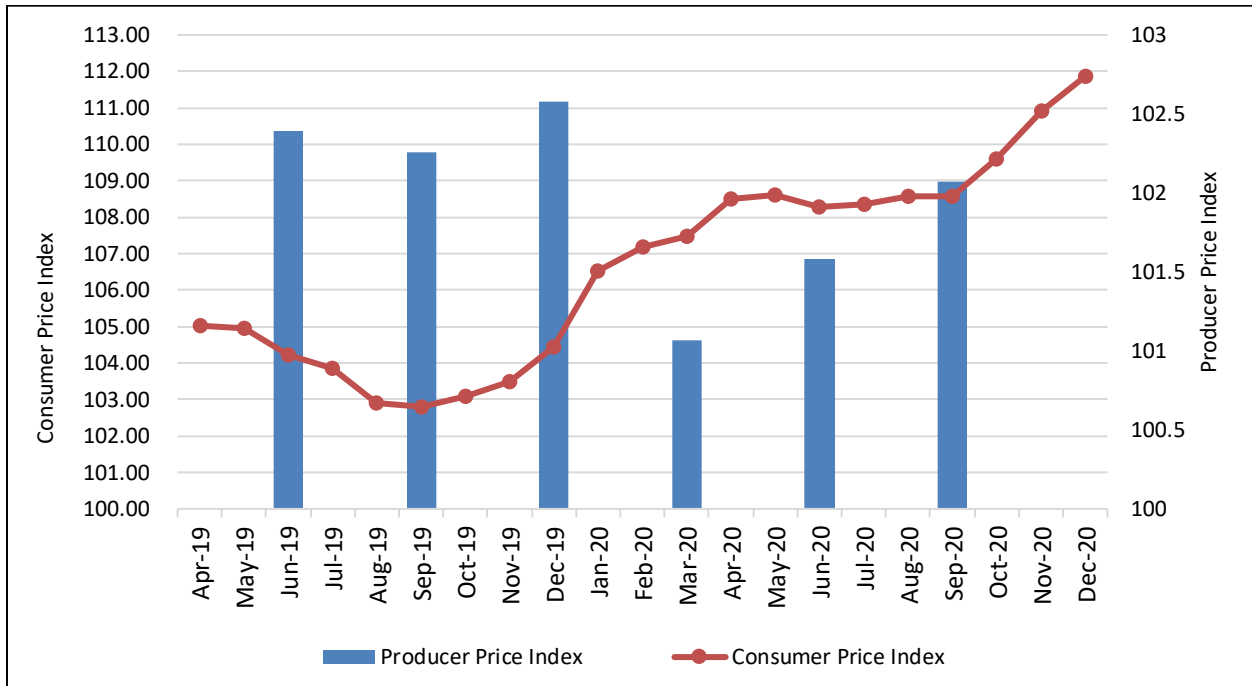


Data source: Kenya National Bureau of Statistics

*Total tourist arrivals by Air

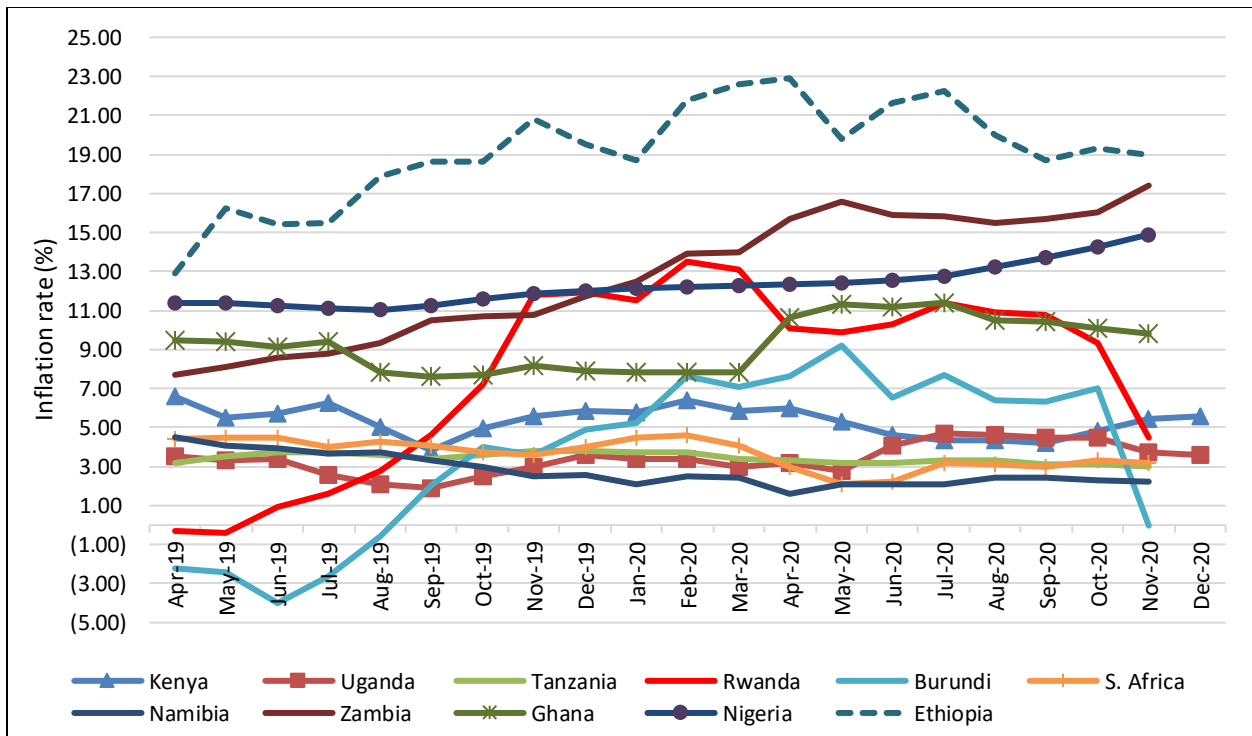
b) Price movement

Figure 7: Consumer Price Index and Producer Price Index



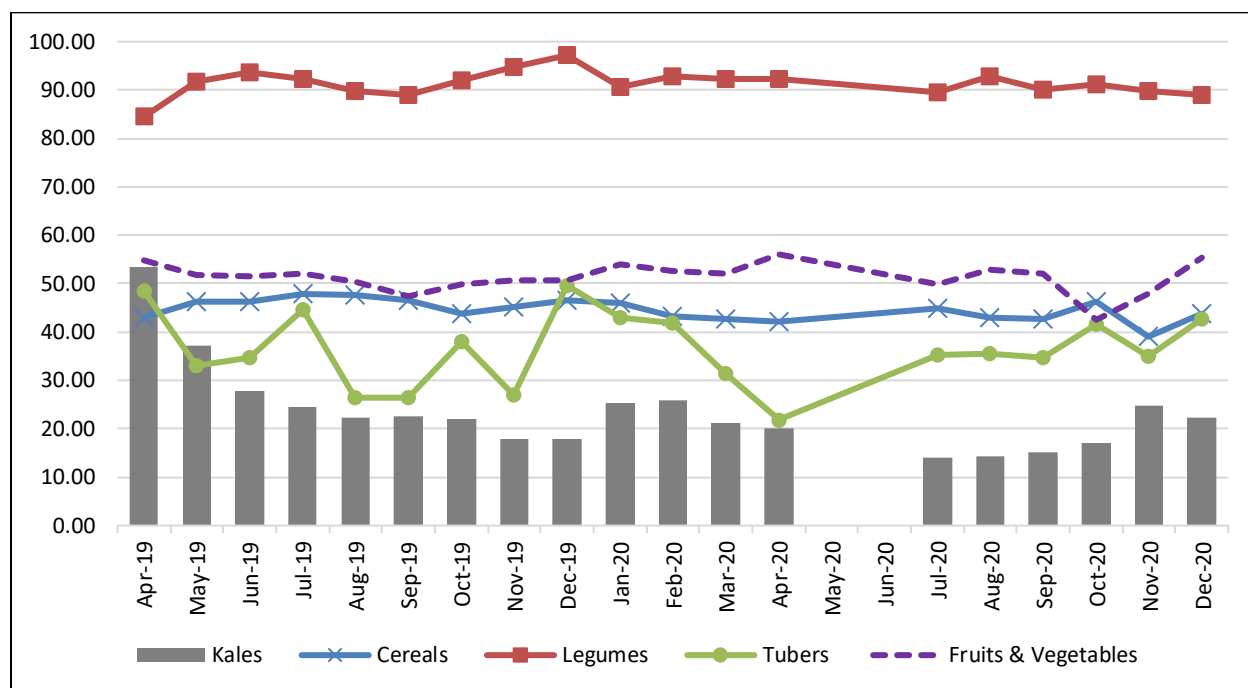
Data source: Kenya National Bureau of Statistics. CPI base year: February 2019 = 100; PPI base year: March 2019 = 100

Figure 8: Comparative inflation for selected countries in Africa



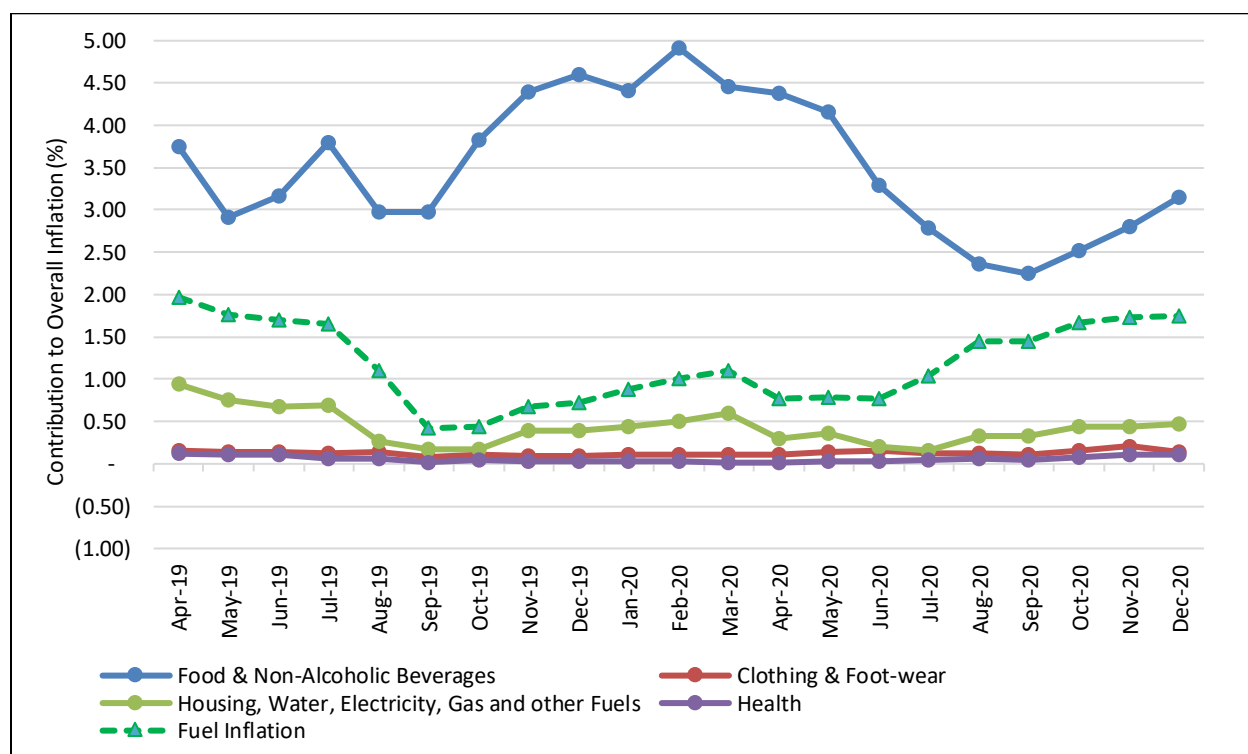
Data Source: Country statistical offices

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



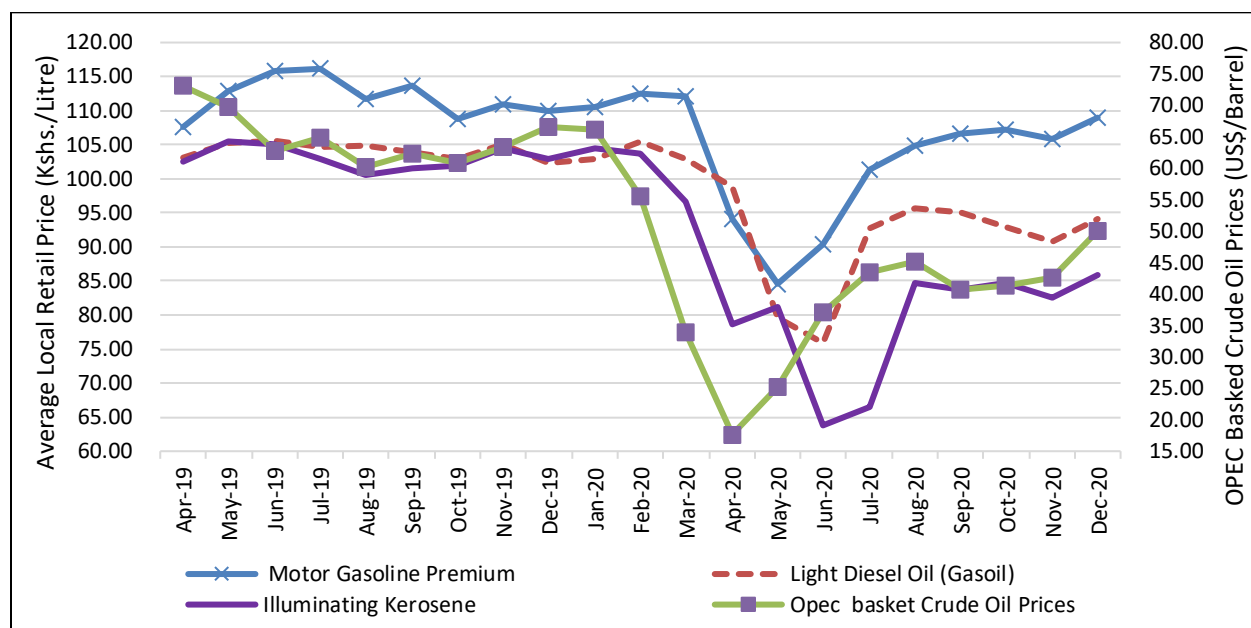
Data source: Calculated by KIPPRA using data from Ministry of Agriculture

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

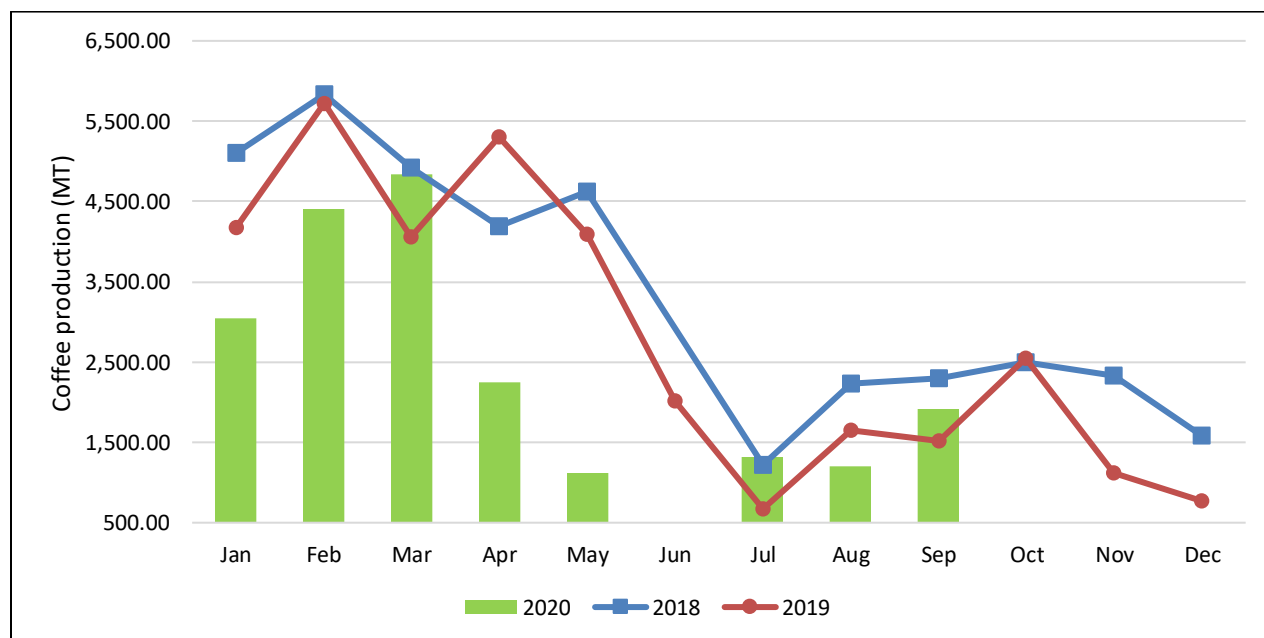


Data Source: Kenya National Bureau of Statistics; Energy and Petroleum Regulatory Authority; <https://oilprice.com/oil-price-charts/block/50>

2. International Markets

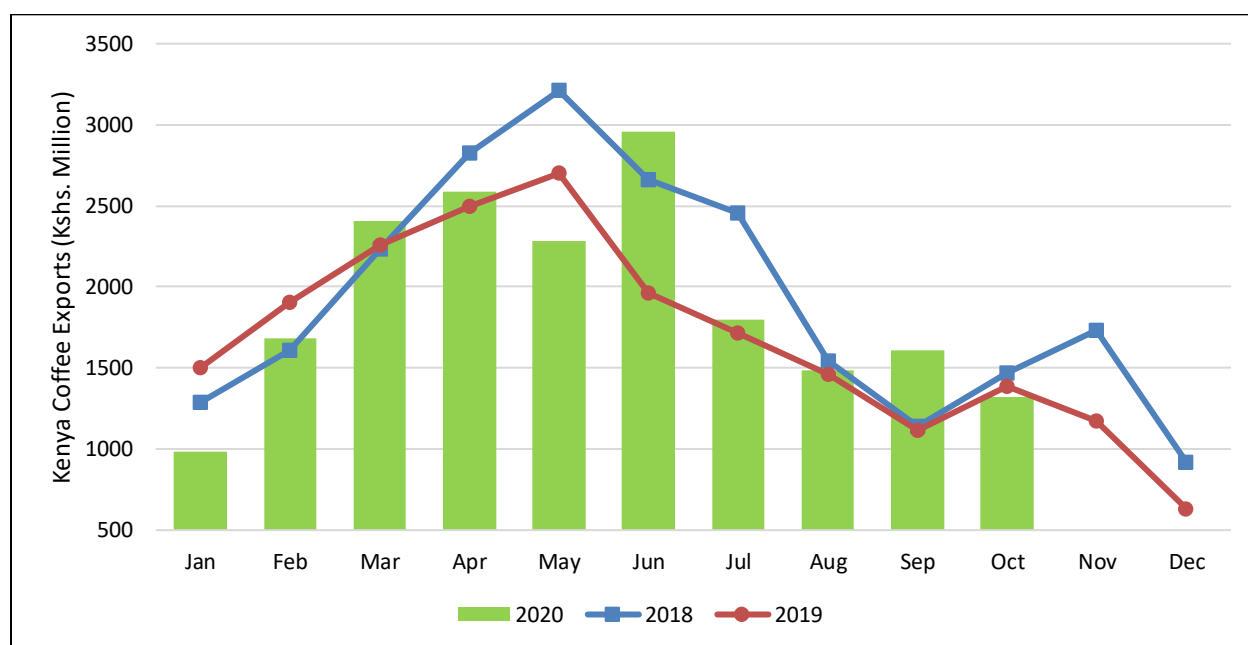
Figure 12: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)

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



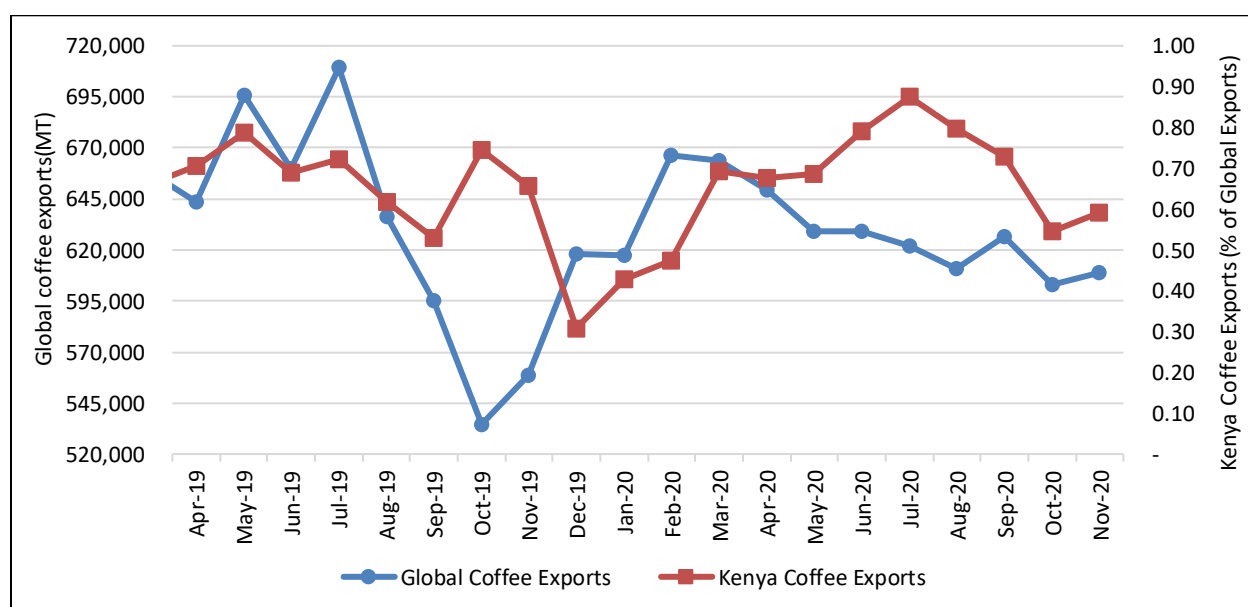
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeeexchange.co.ke/>)

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



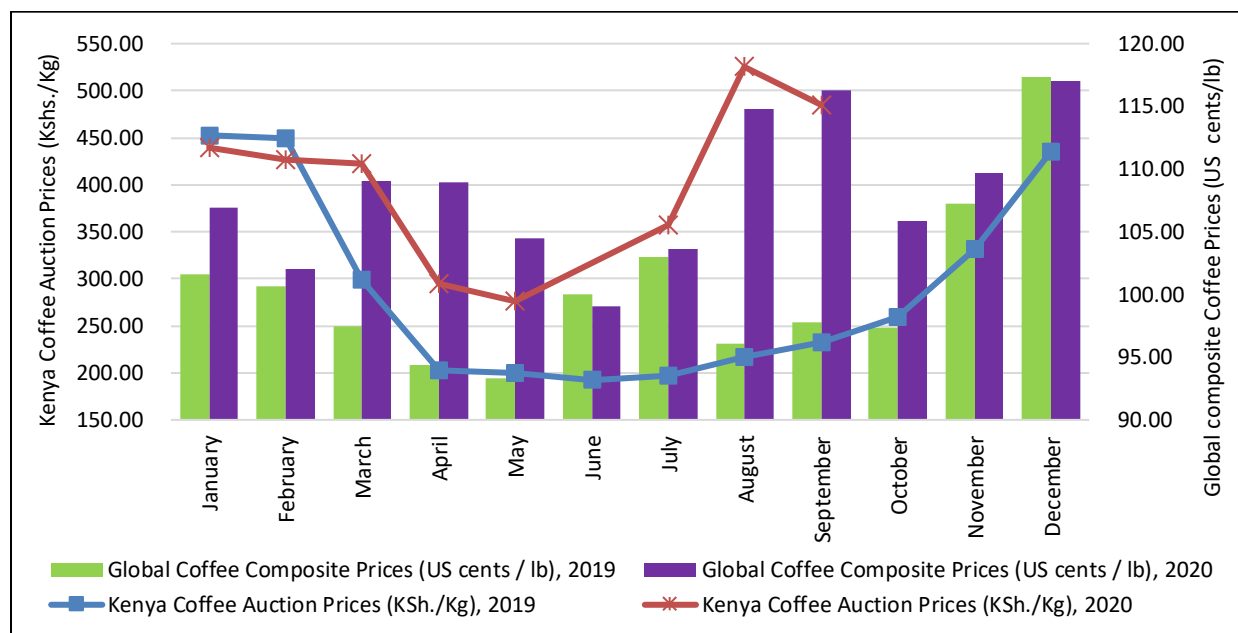
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobi coffeexchange.co.ke/>); Figures for January and February 2020 are provisional.

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



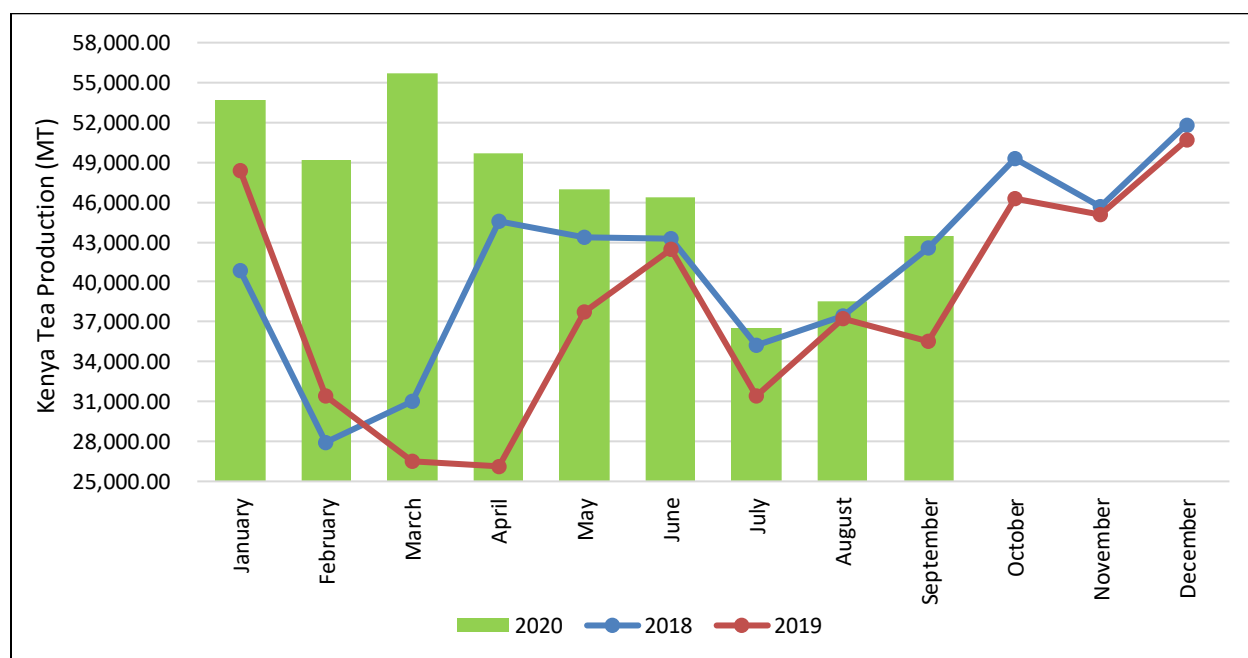
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobi coffeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

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



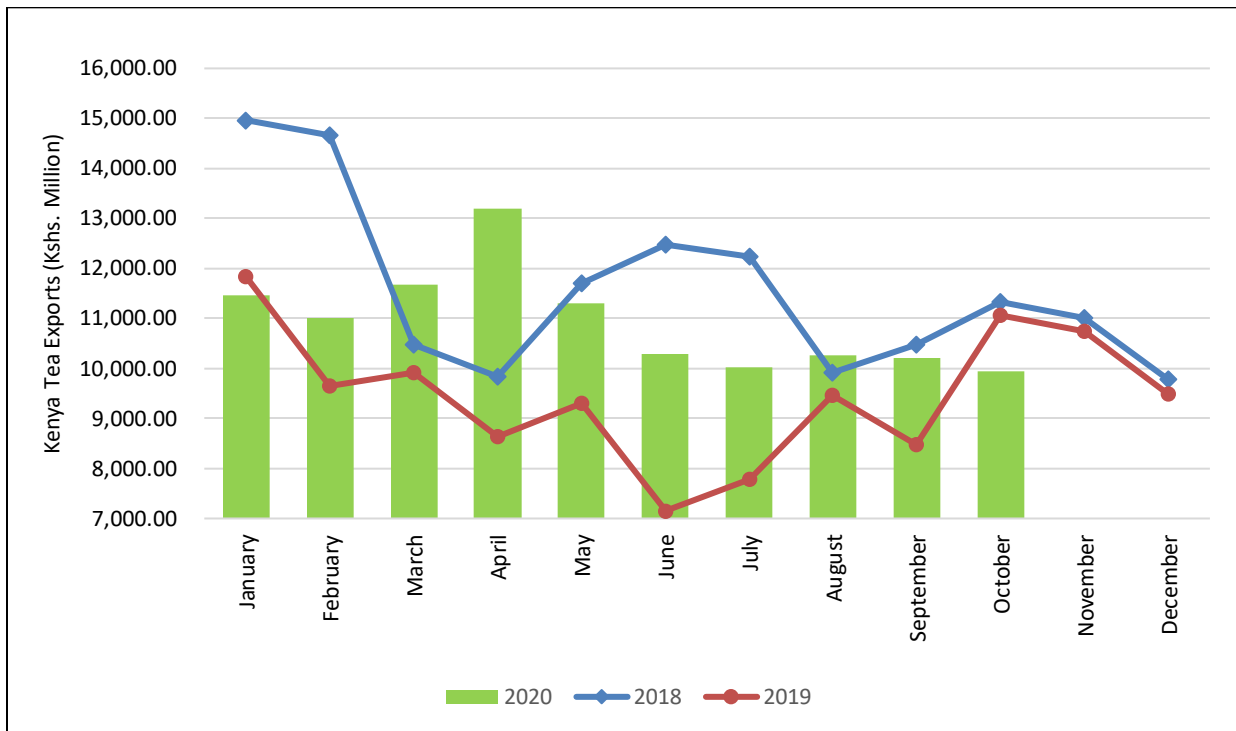
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobi coffeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

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



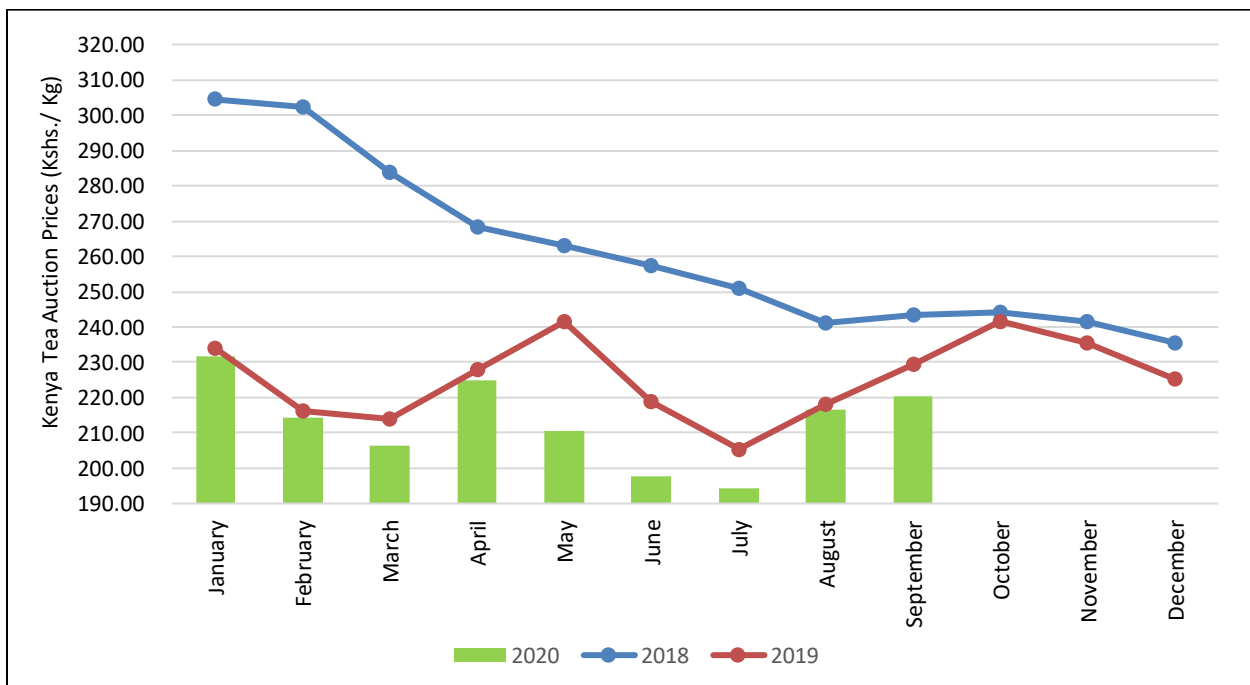
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



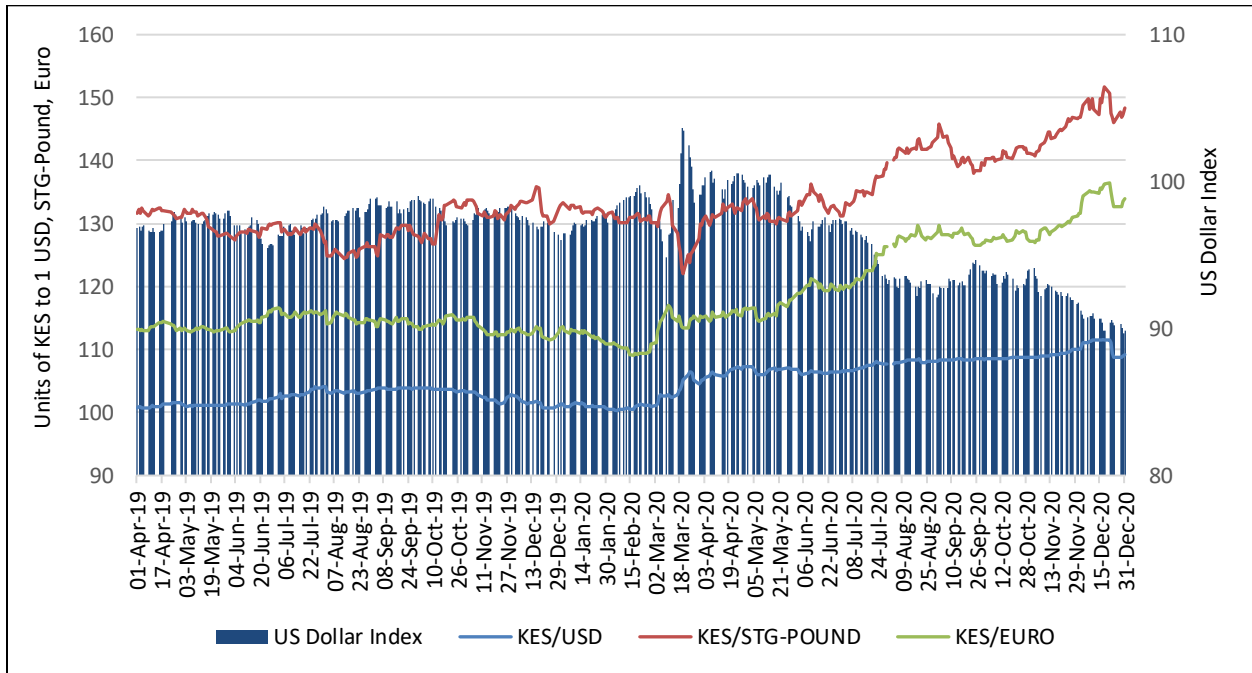
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



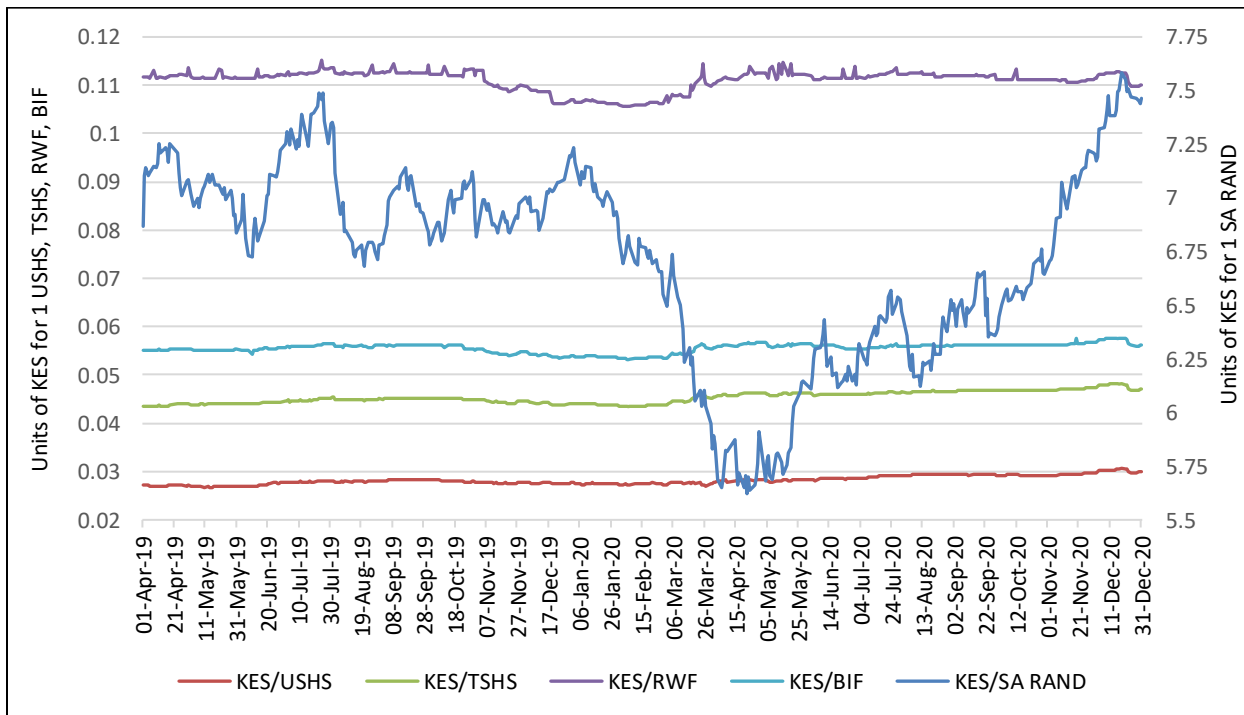
Data Source: KNBS; East Africa Tea Trade Association; Mombasa Tea Auction

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



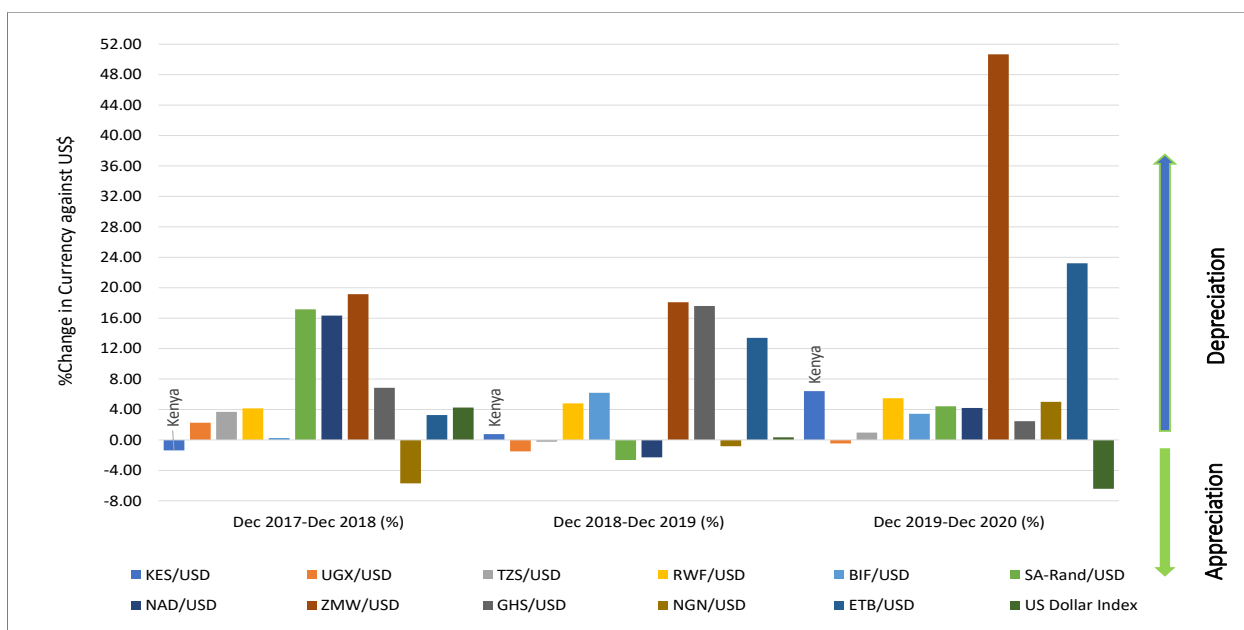
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics;
<https://www.investing.com/quotes/us-dollar-index-historical-data>

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



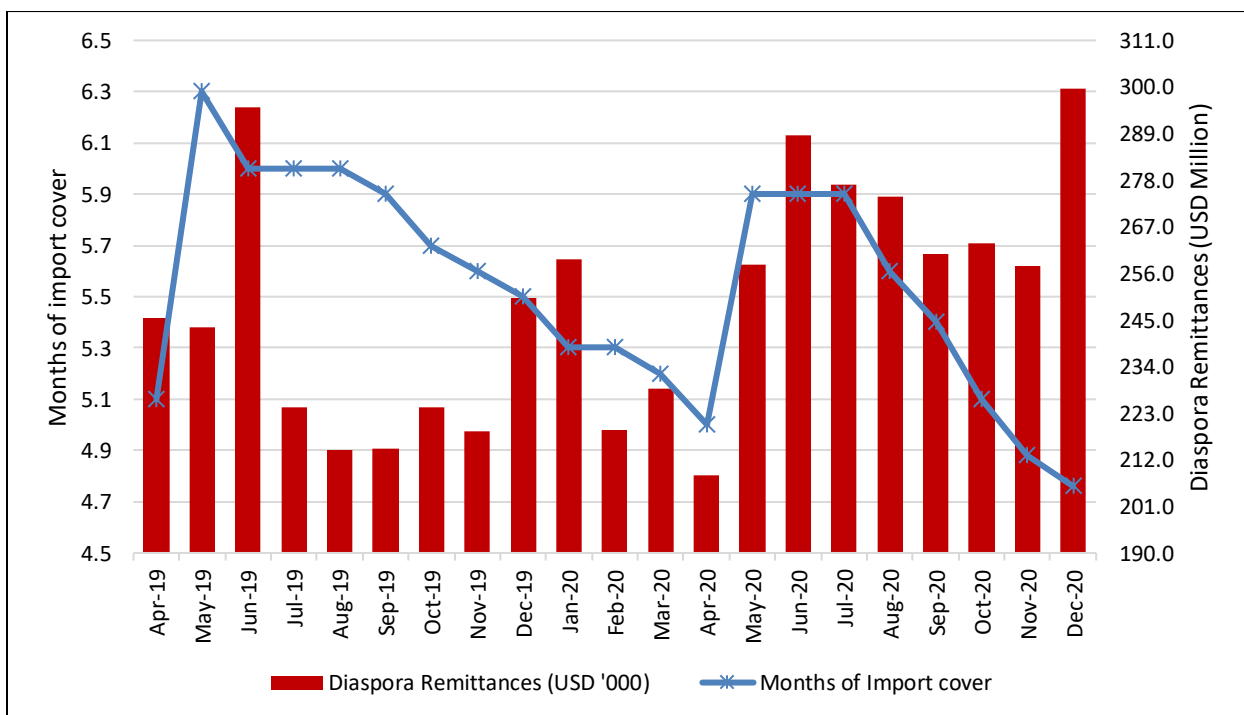
Data source: Central Bank of Kenya

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.

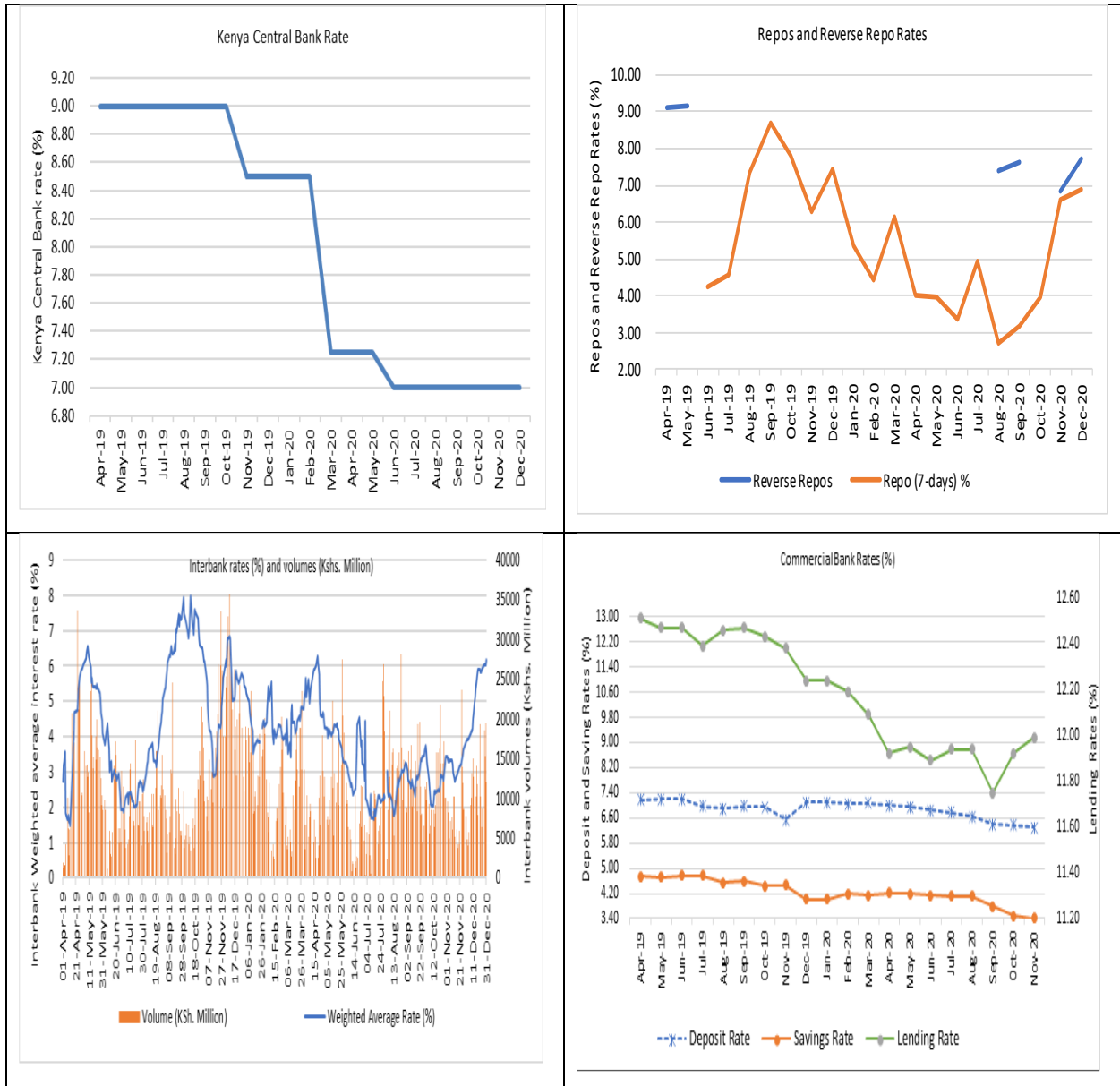
Figure 16: Months of import cover and diaspora remittances



Data Source: Central Bank of Kenya

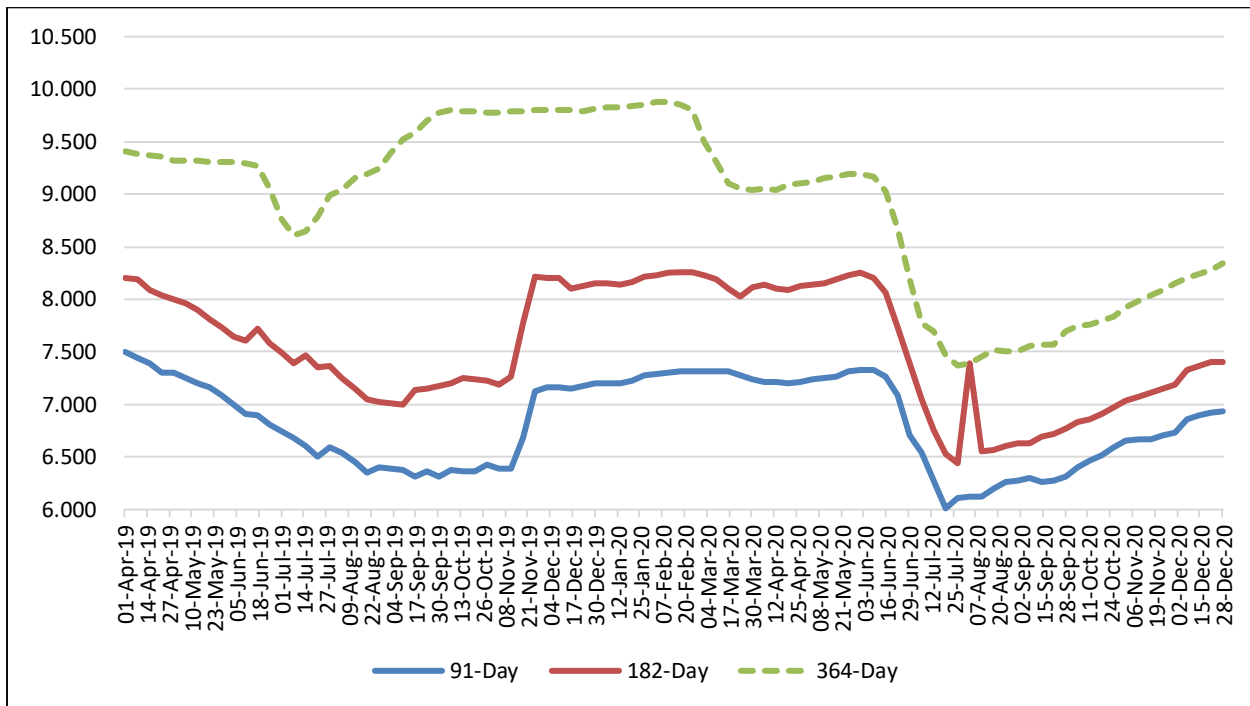
3.0 Monetary and Financial Sector

Figure 17: Interbank rate and volume, Repo and interest rates



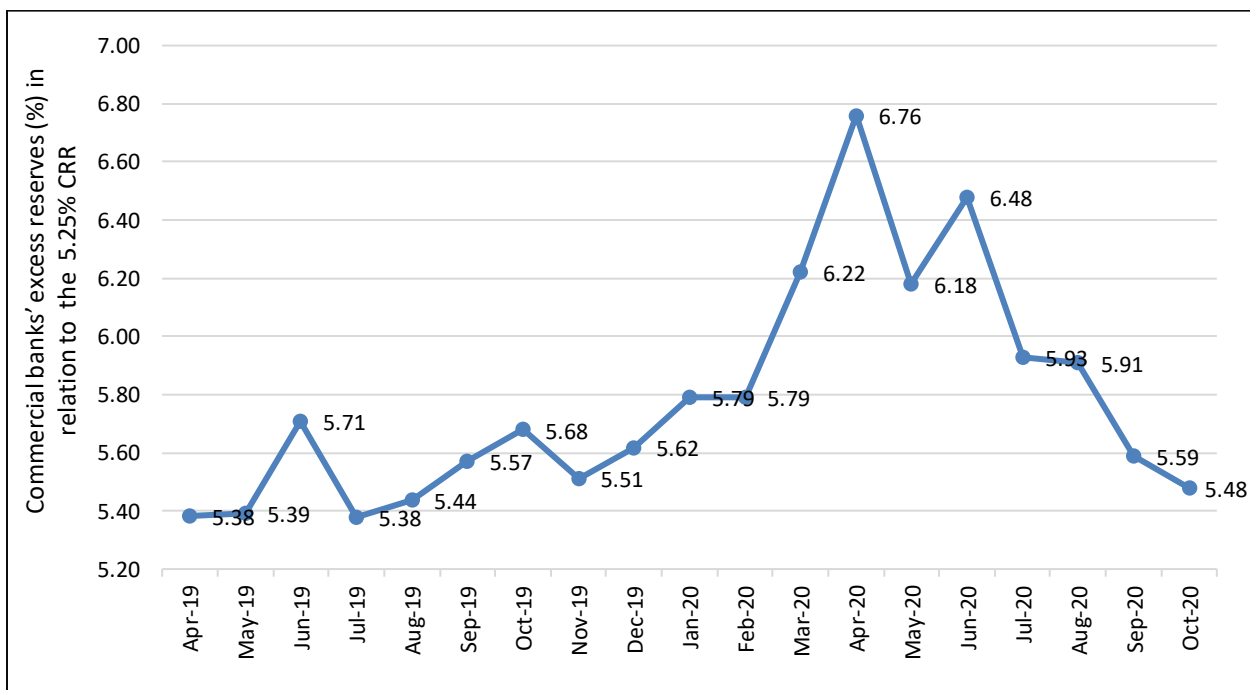
Data source: Central Bank of Kenya

Figure 18: Treasury bill weighted average rate (%)



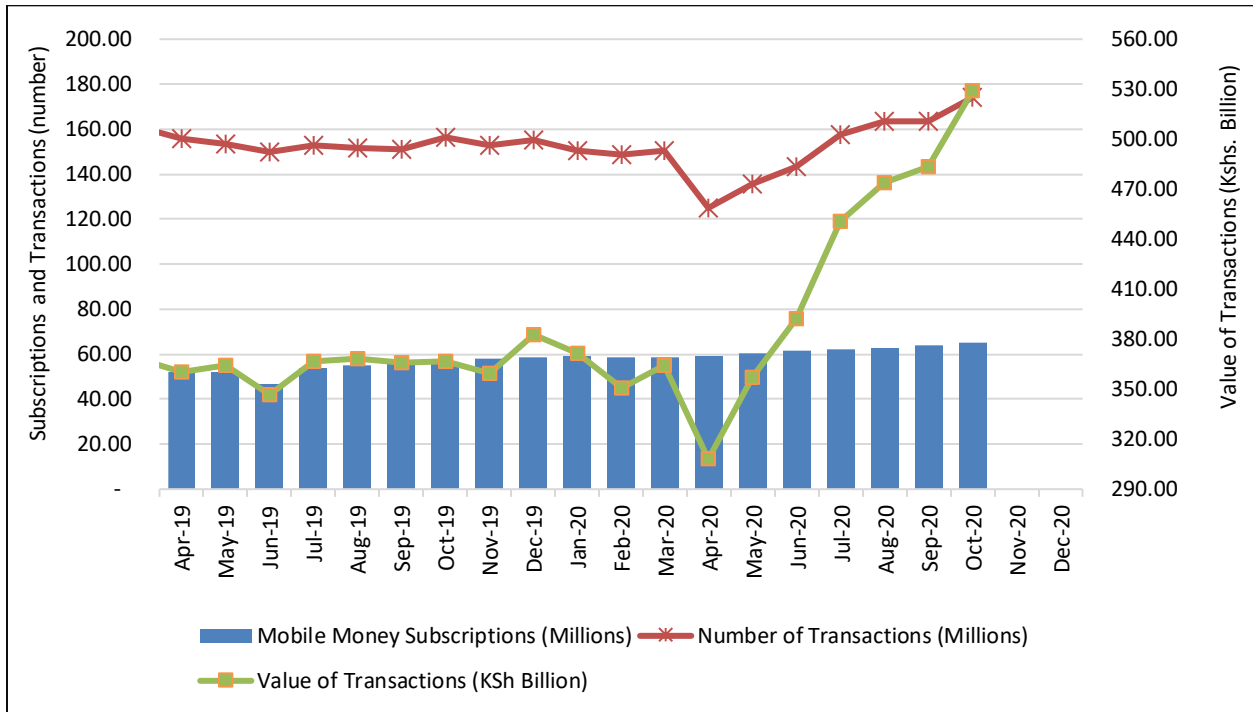
Data source: Central Bank of Kenya

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



Data source: Central Bank of Kenya; CRR = Cash Reserves Requirement

Figure 20: Mobile money transactions

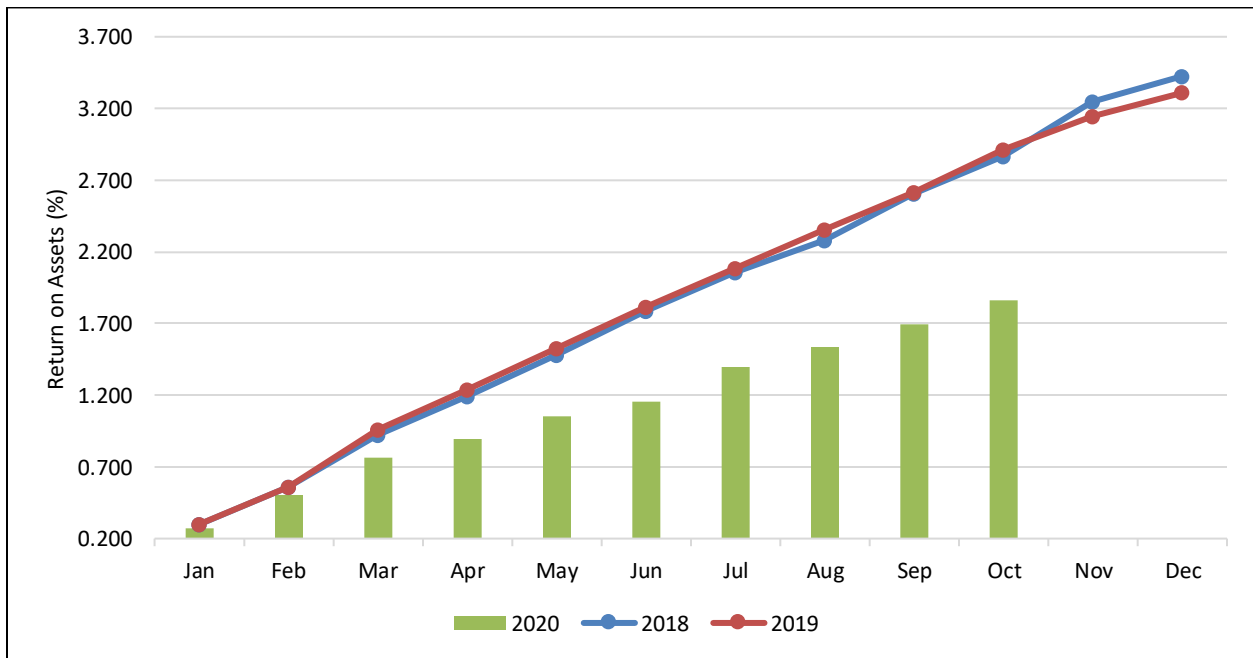


Data source: Kenya National Bureau of Statistics

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>).

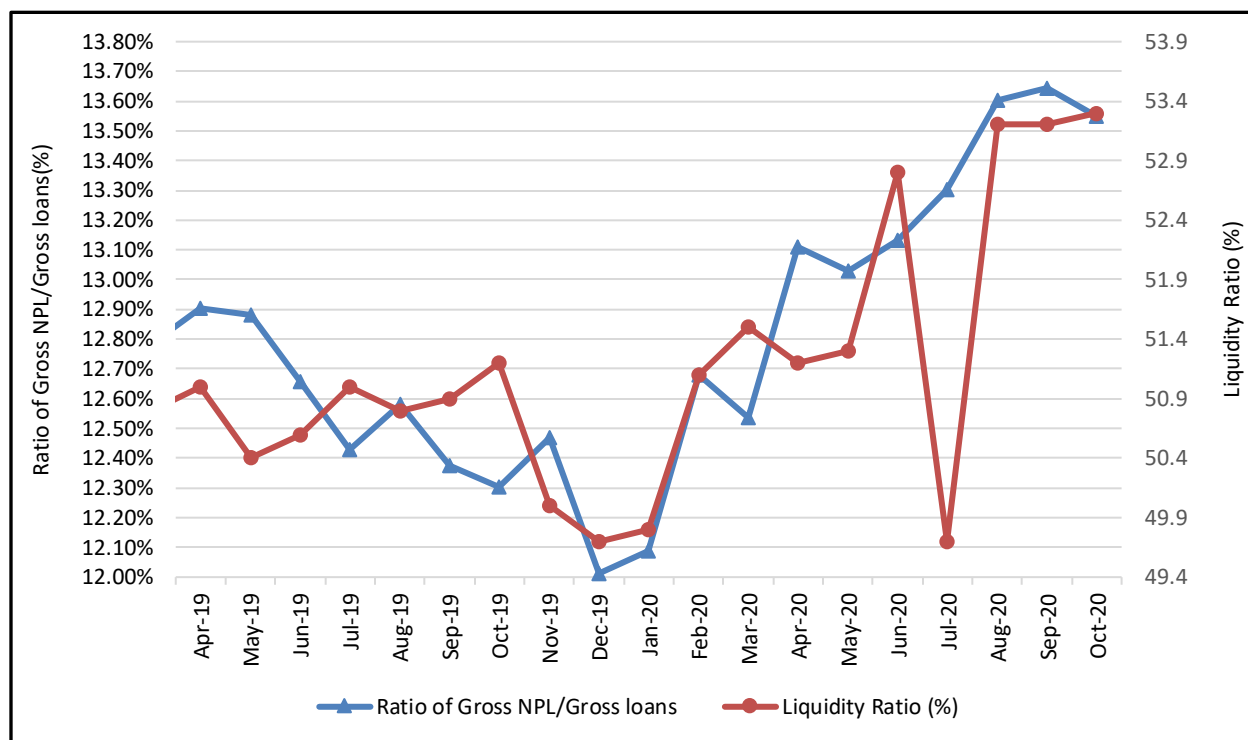
Figure 21: Kenyan banking sector performance

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



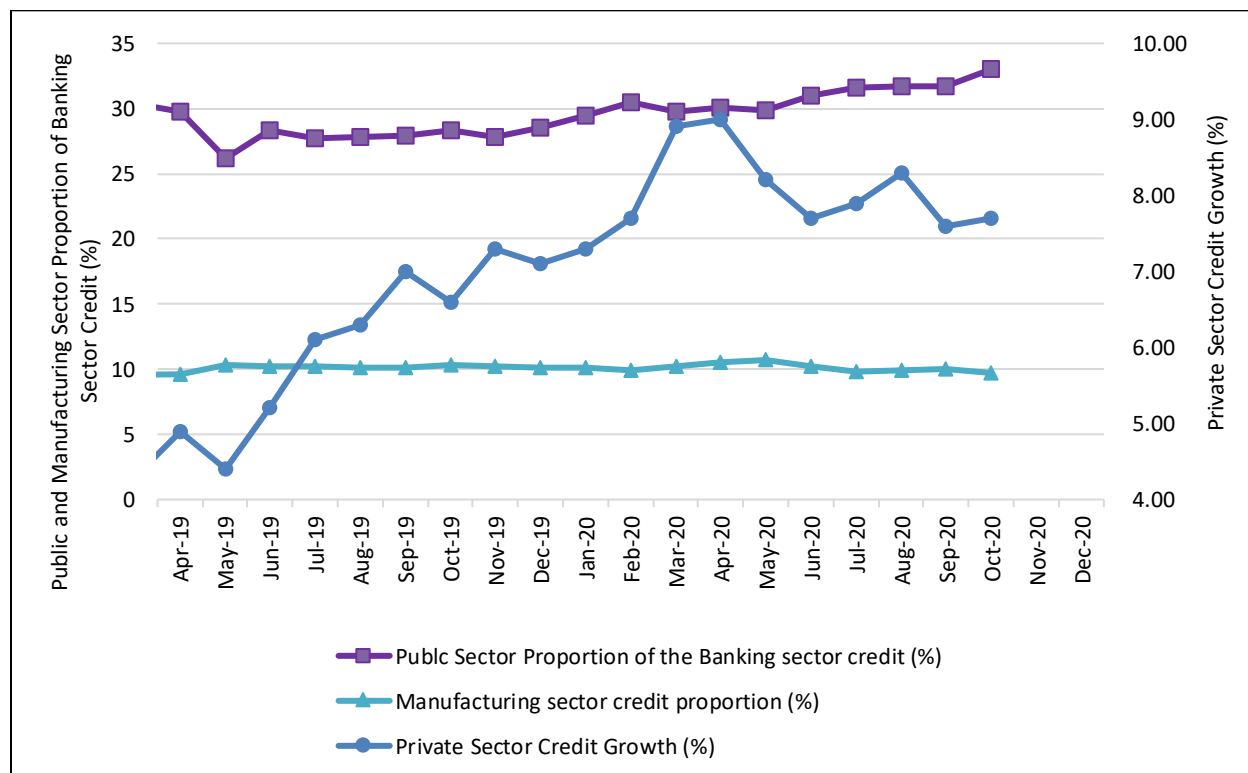
Data Source: Calculated using data from Central Bank of Kenya

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



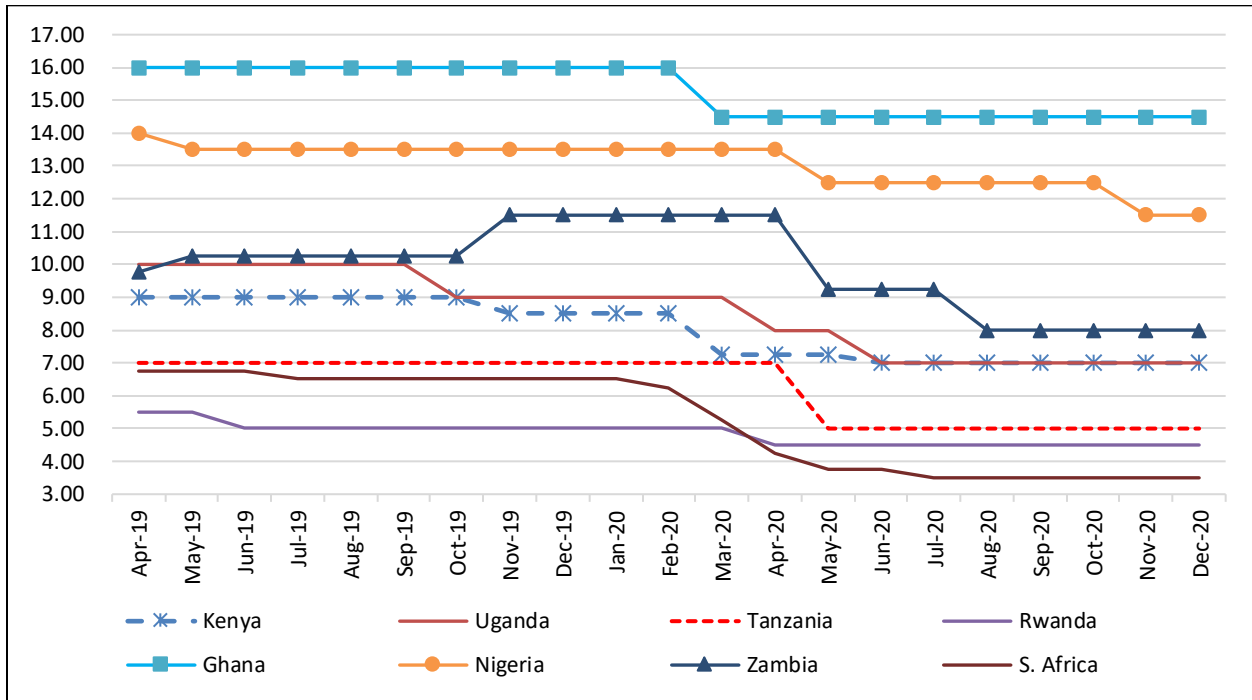
Data Source: Calculated using data from Central Bank of Kenya

Figure 22: Banking sector credit



Data Source: Central Bank of Kenya

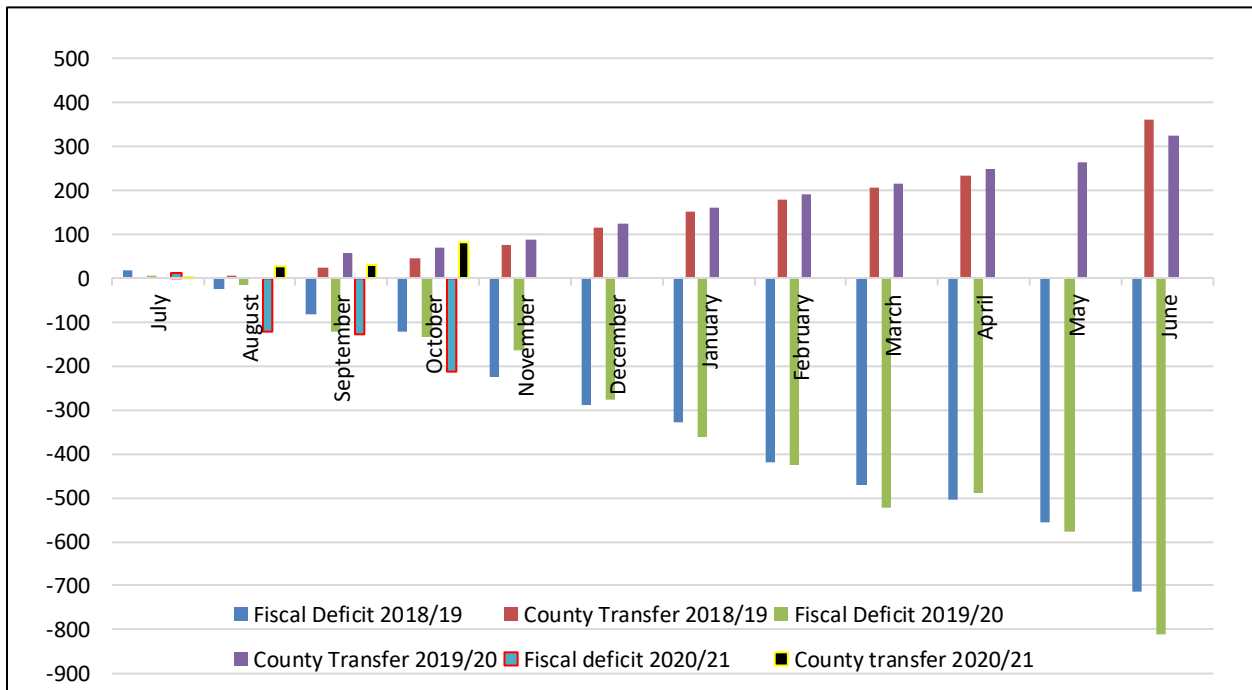
Figure 23: Monetary policy stance for selected countries in Africa



Data Source: Country Central Banks

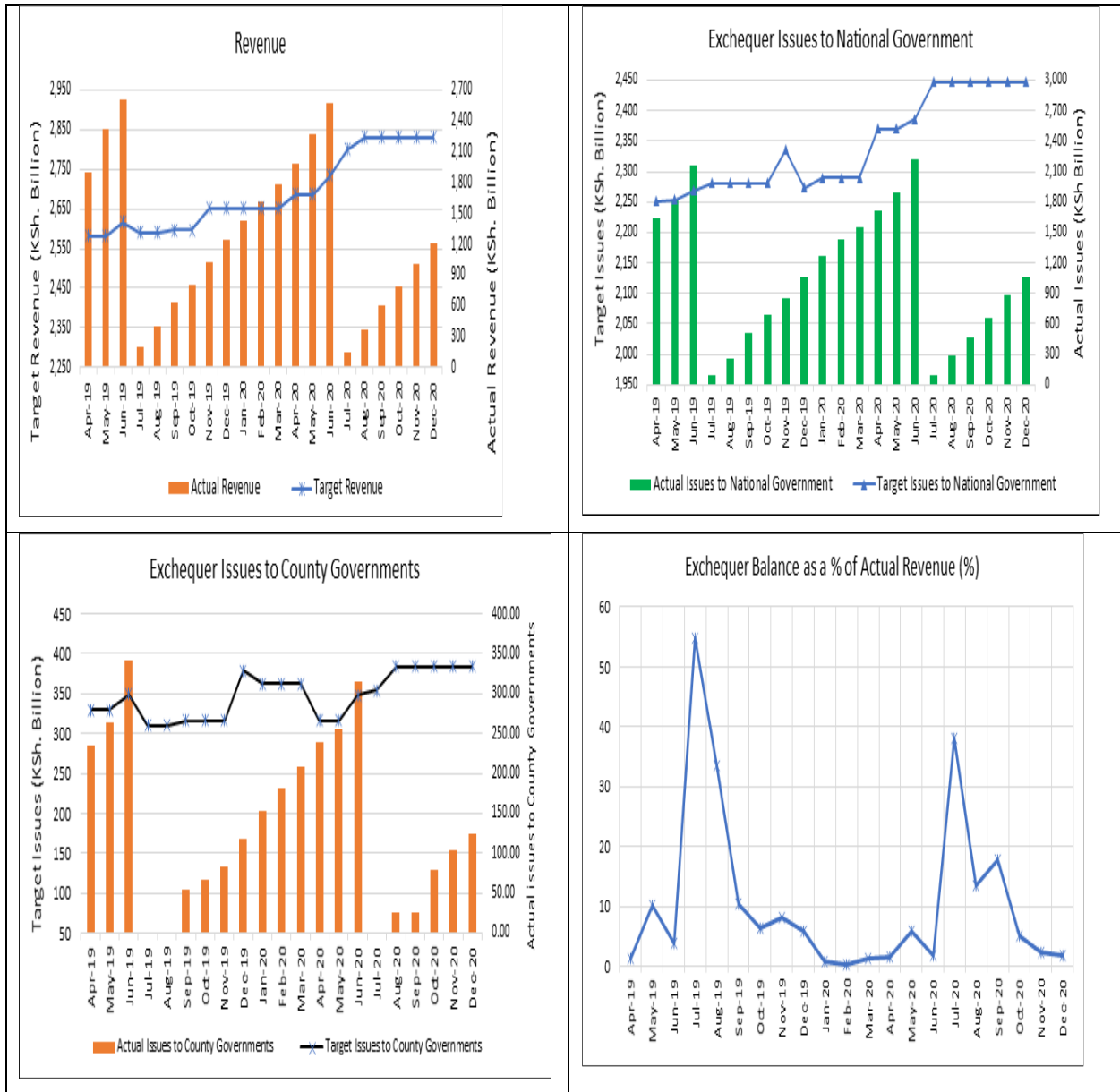
4.0 Fiscal Performance

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



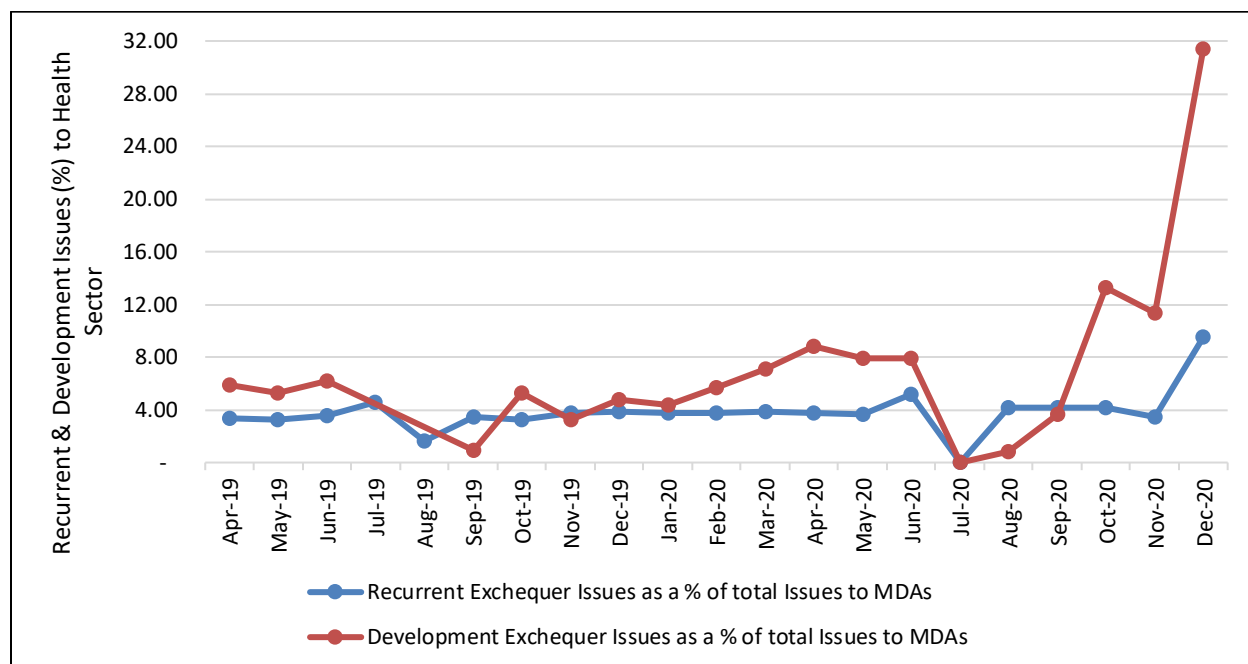
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices.

Figure 25: Monthly utilization of revenue against target



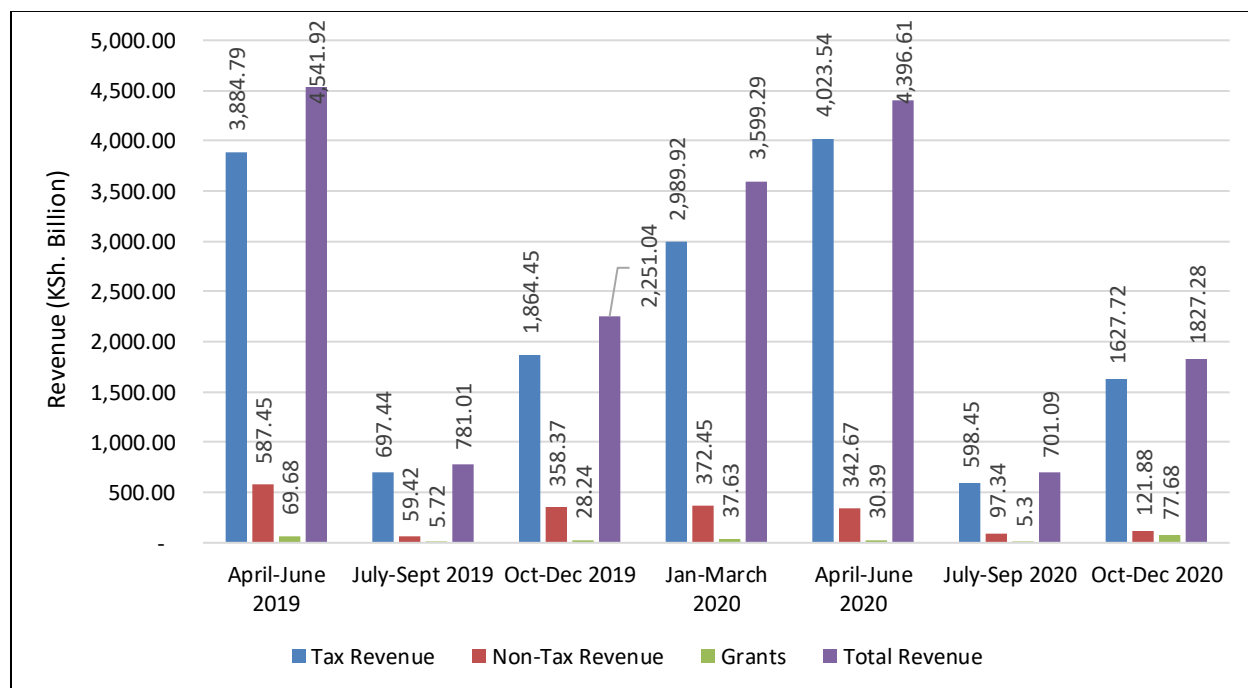
Data Source: Monthly Gazette Notices, The National Treasury and Planning

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



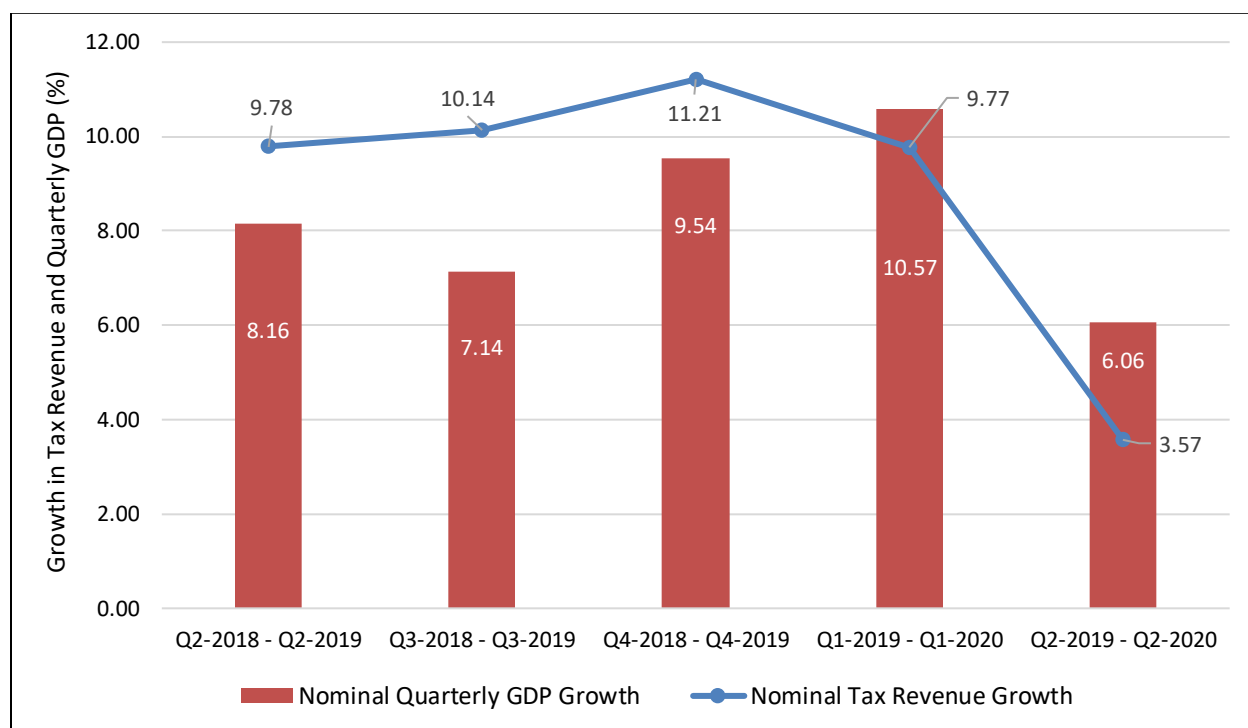
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 27: Composition of government revenue (Ksh billion)



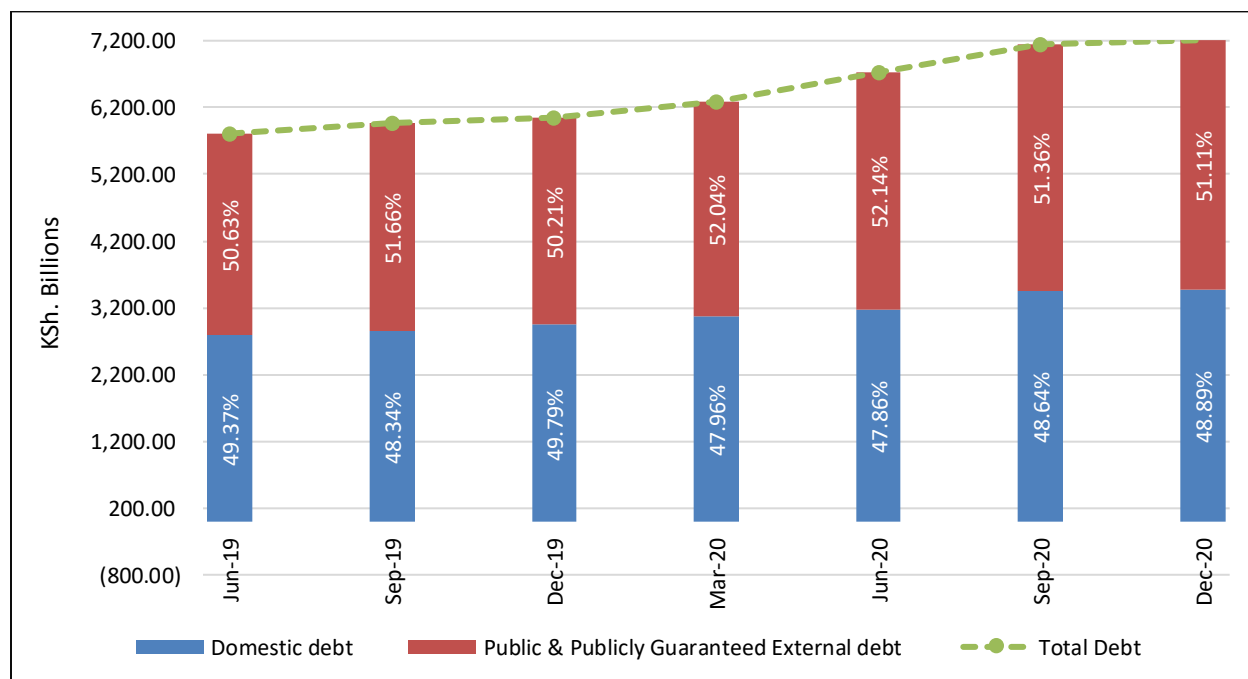
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices

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



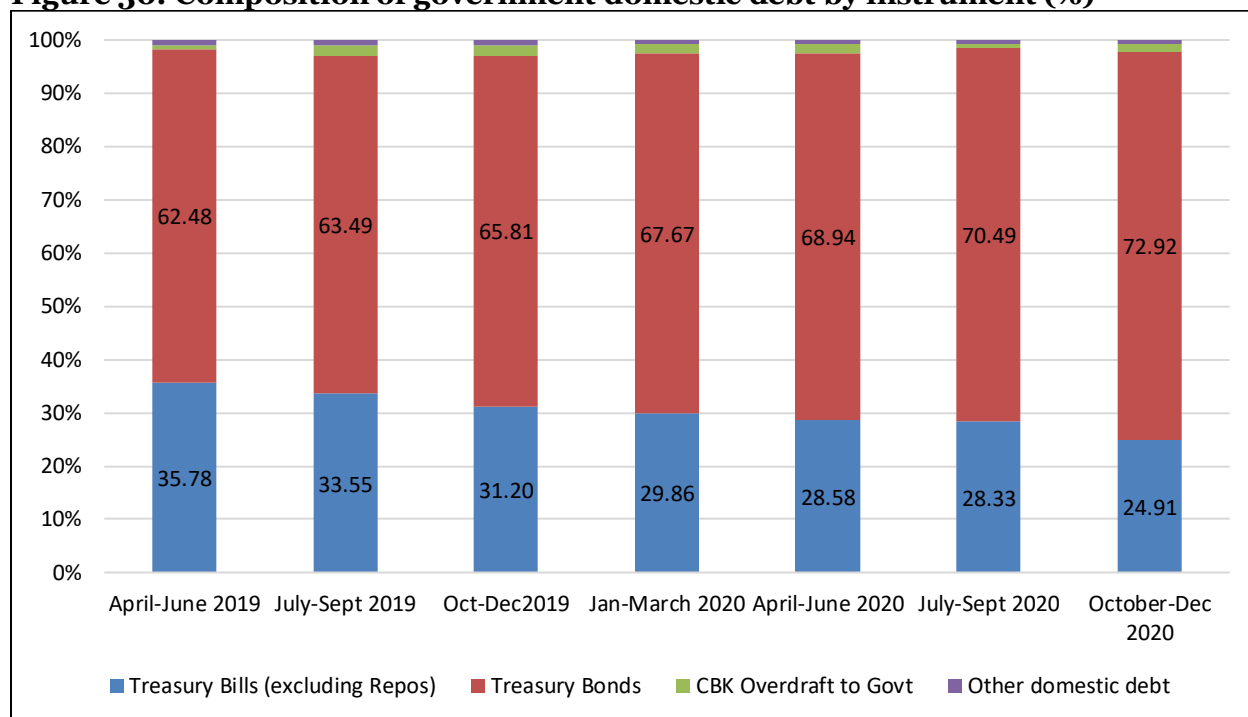
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

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



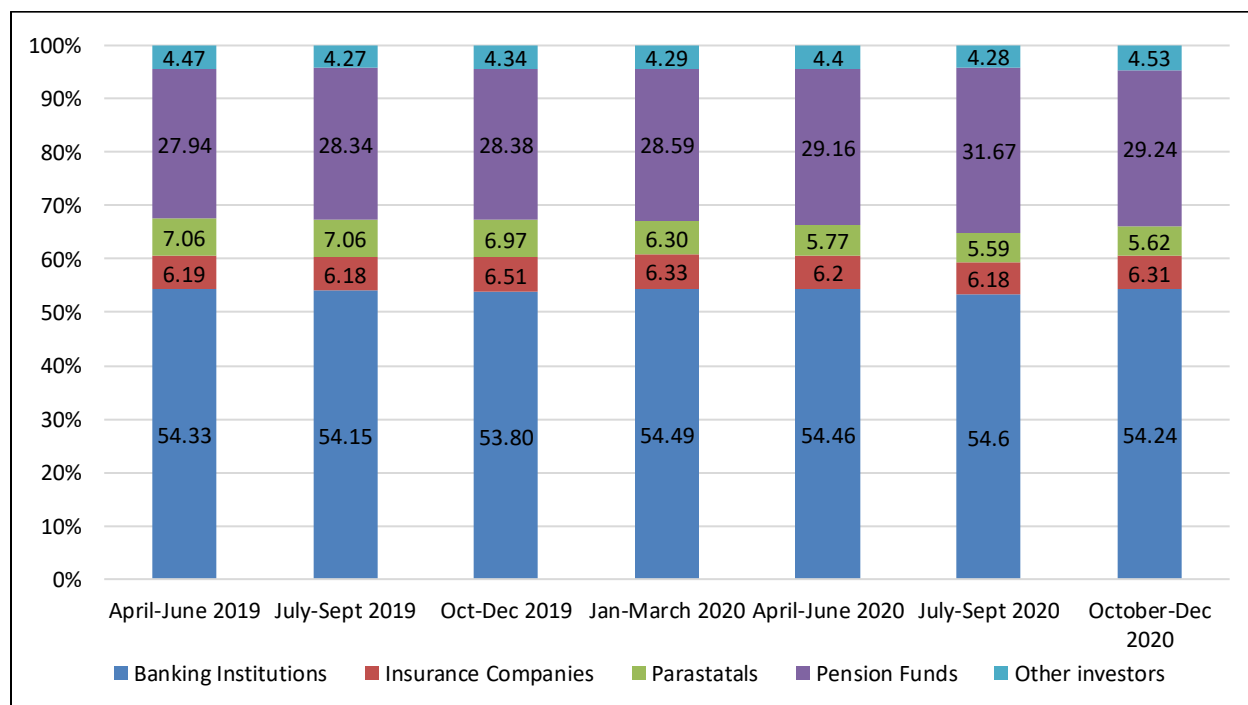
Data Source: Calculated using data from Central Bank of Kenya

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



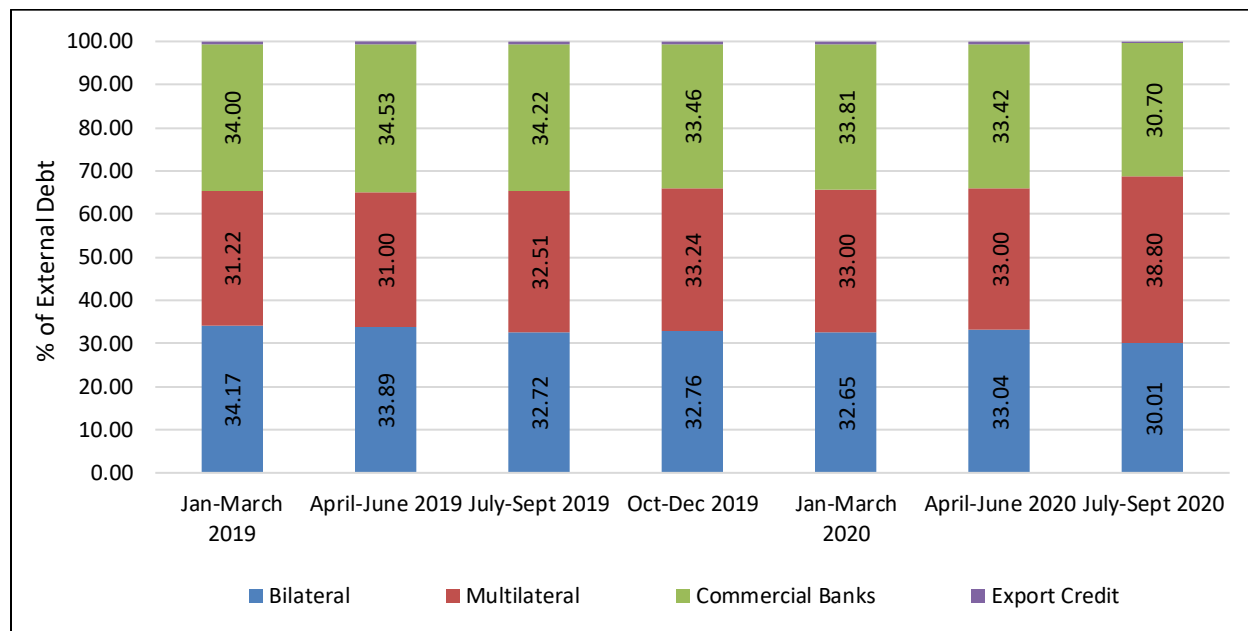
Data Source: Calculated using data from Central Bank of Kenya

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



Data Source: Calculated using data from Central Bank of Kenya

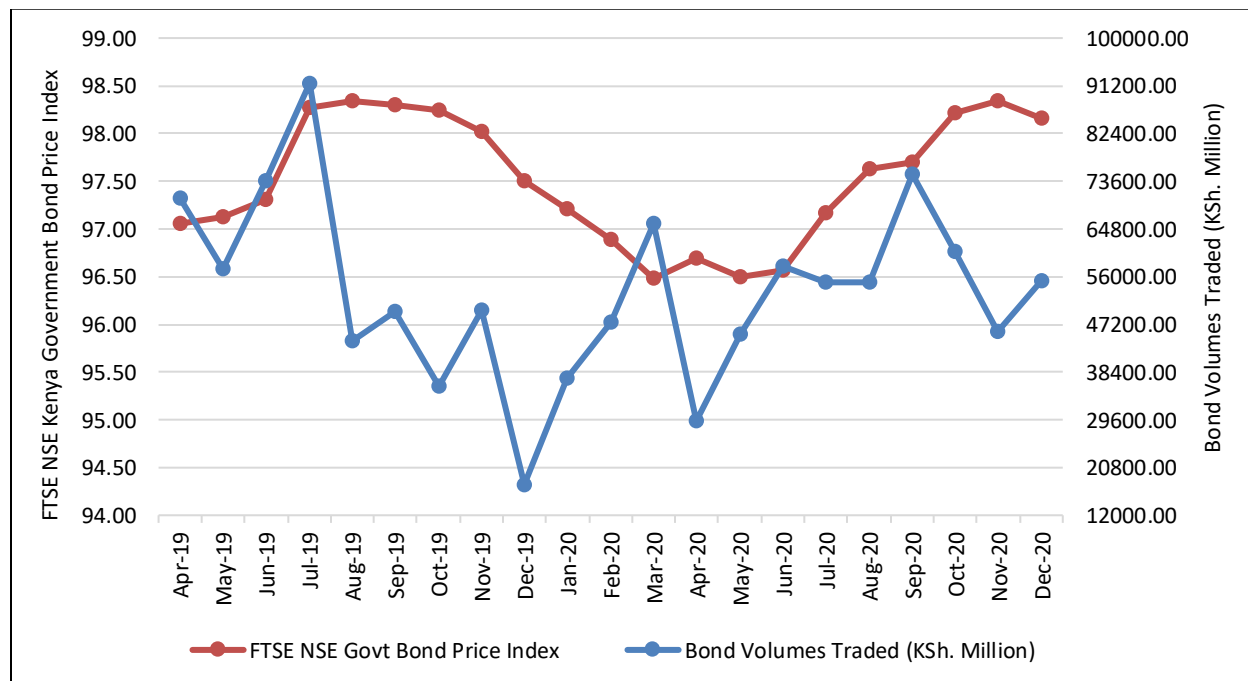
Figure 32: Composition of external debt: Proportionate shares of bilateral, multilateral, commercial bank and export credit (%)



Data Source: Calculated using data from Central bank of Kenya

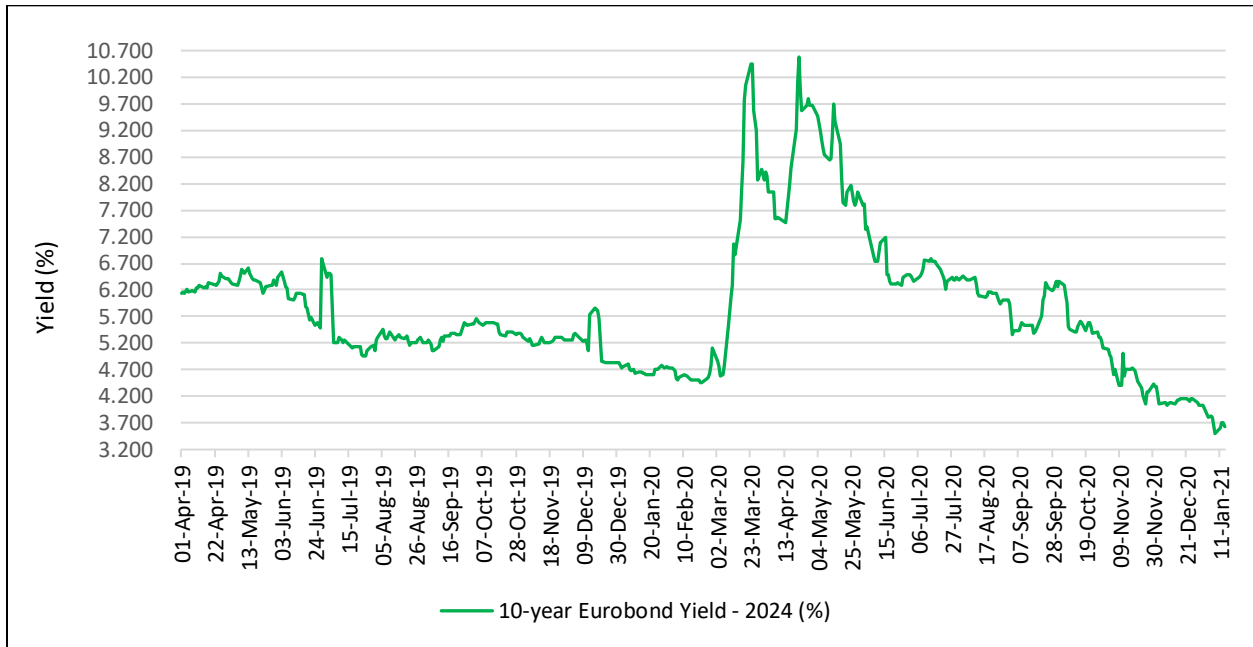
5.0 Capital Markets

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



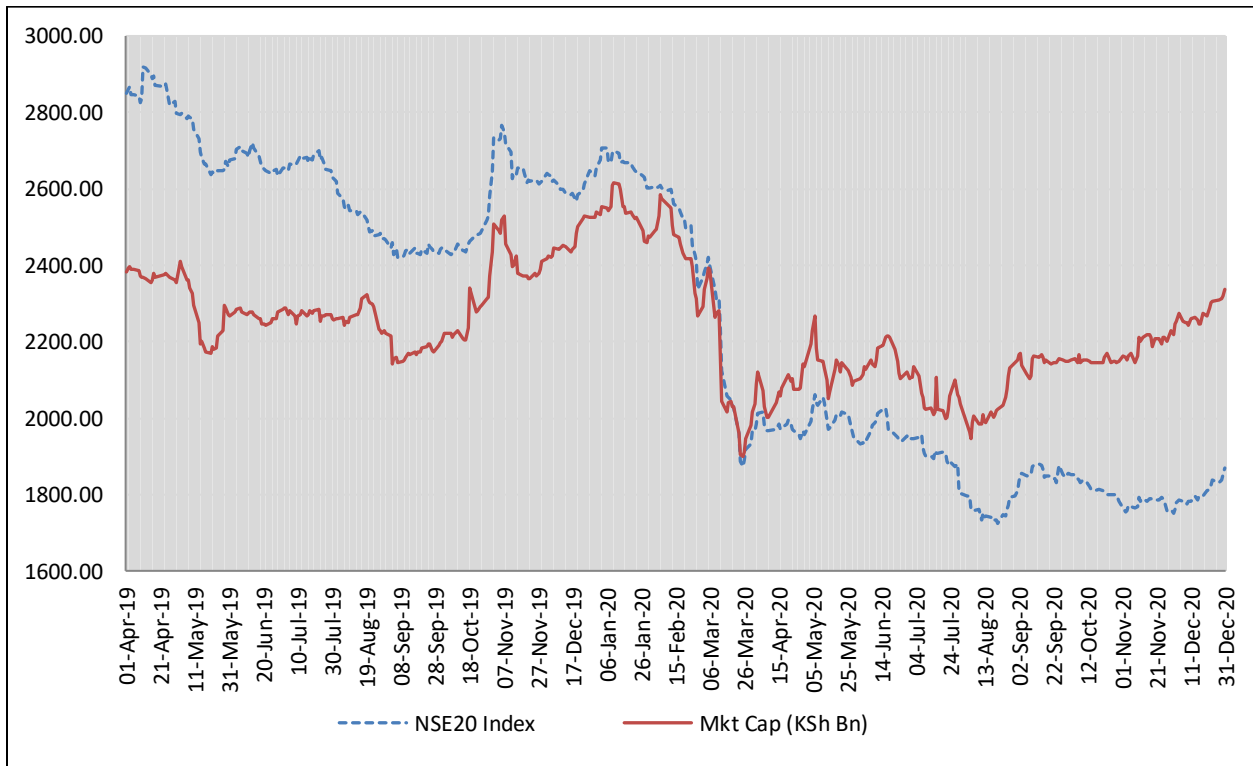
Data Source: Nairobi Securities Exchange; Central Bank of Kenya

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



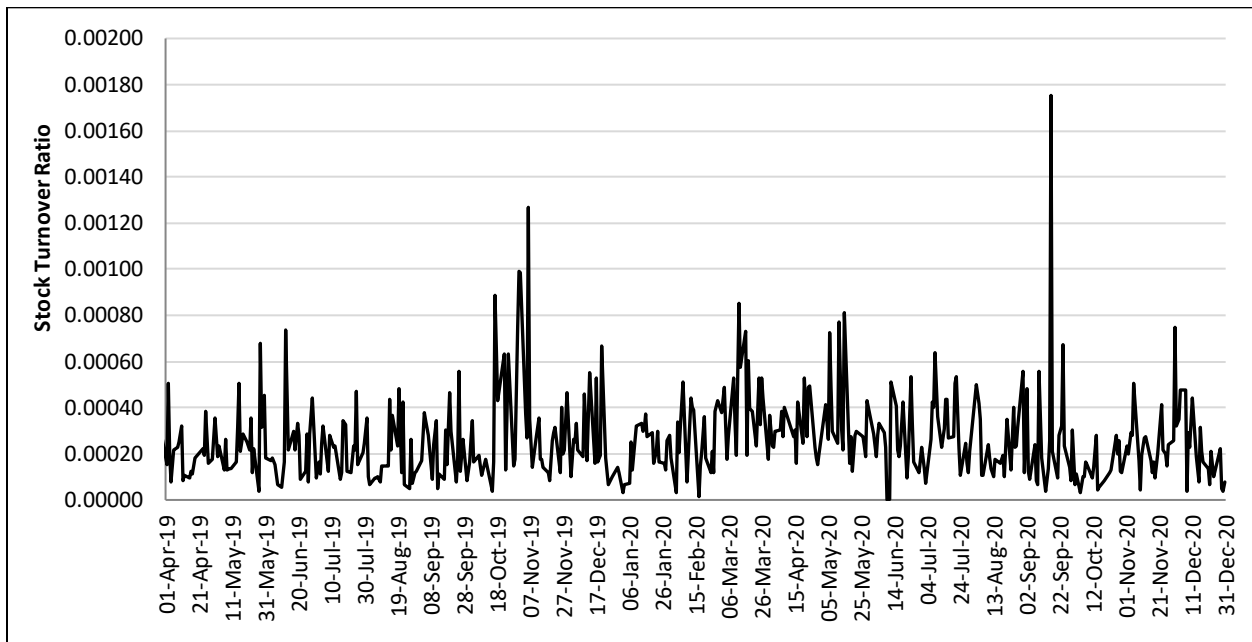
Data Source: Central Bank of Kenya

Figure 35: Stock market performance



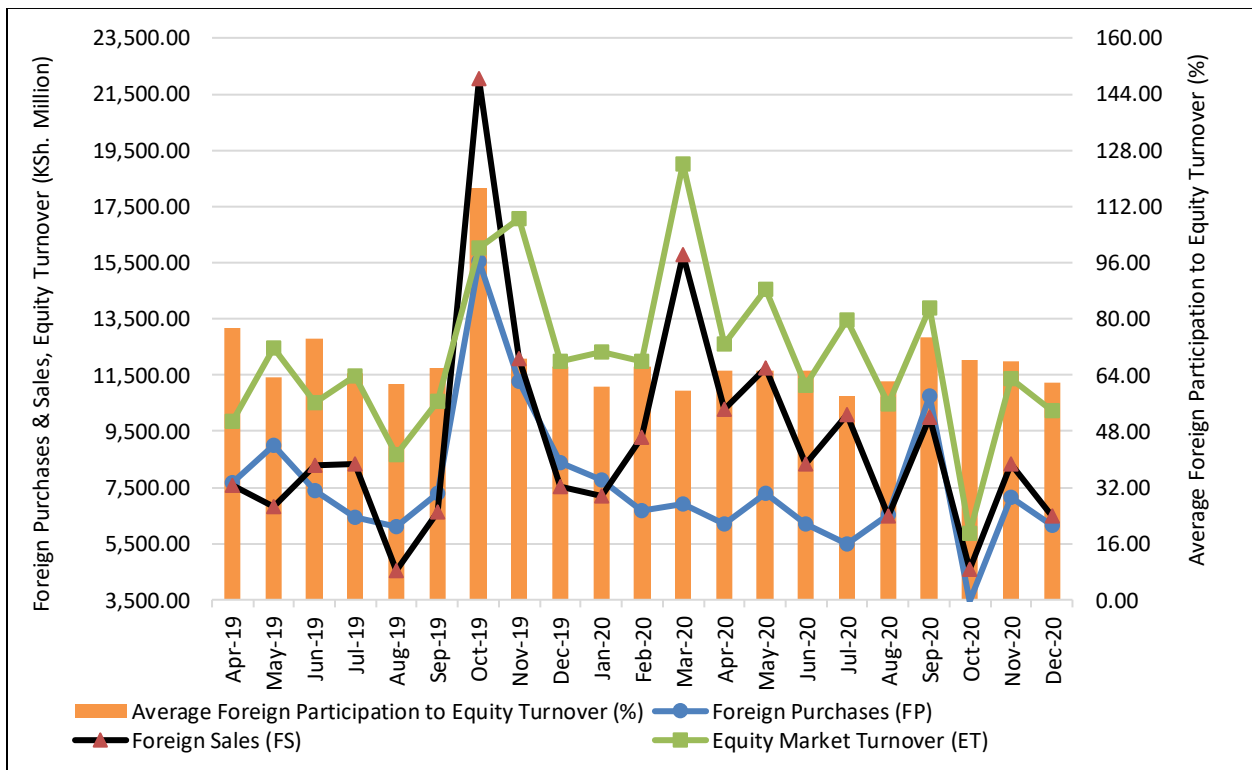
Data Source: Nairobi Securities Exchange

Figure 36: Stock value turnover ratio (%)



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

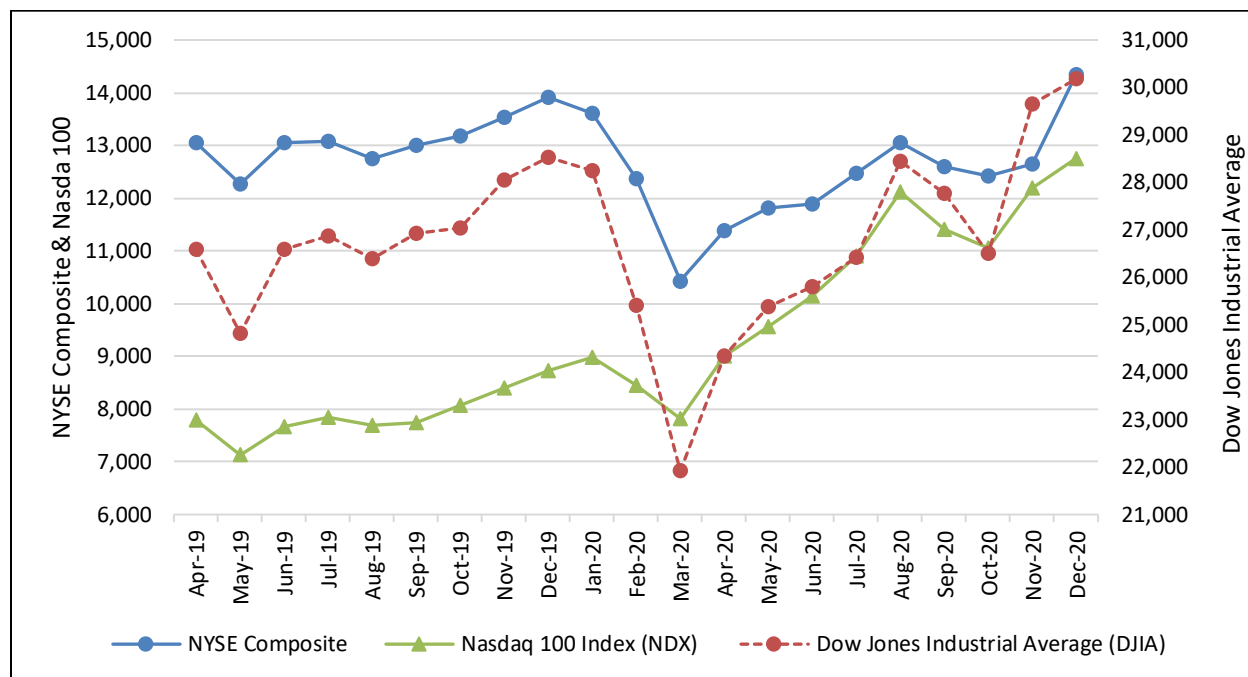
Figure 37: Foreign trading in the stock market



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

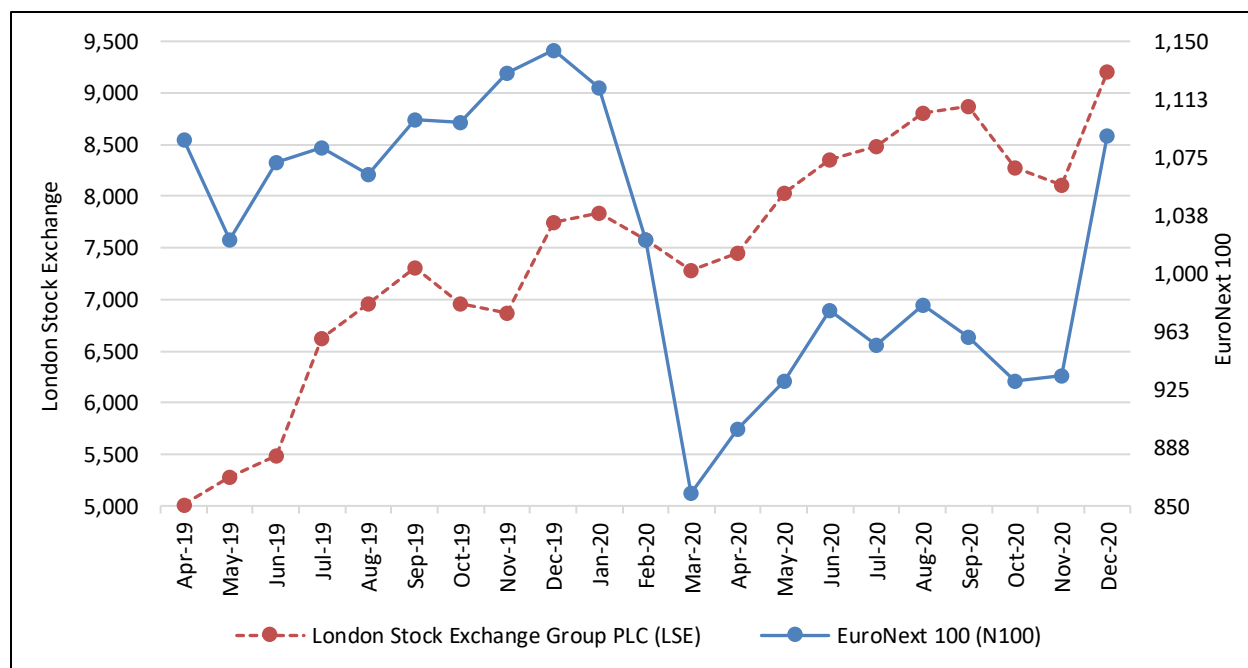
Figure 38: Stock market performance of selected advanced and emerging markets

Figure 38(a): USA stock markets



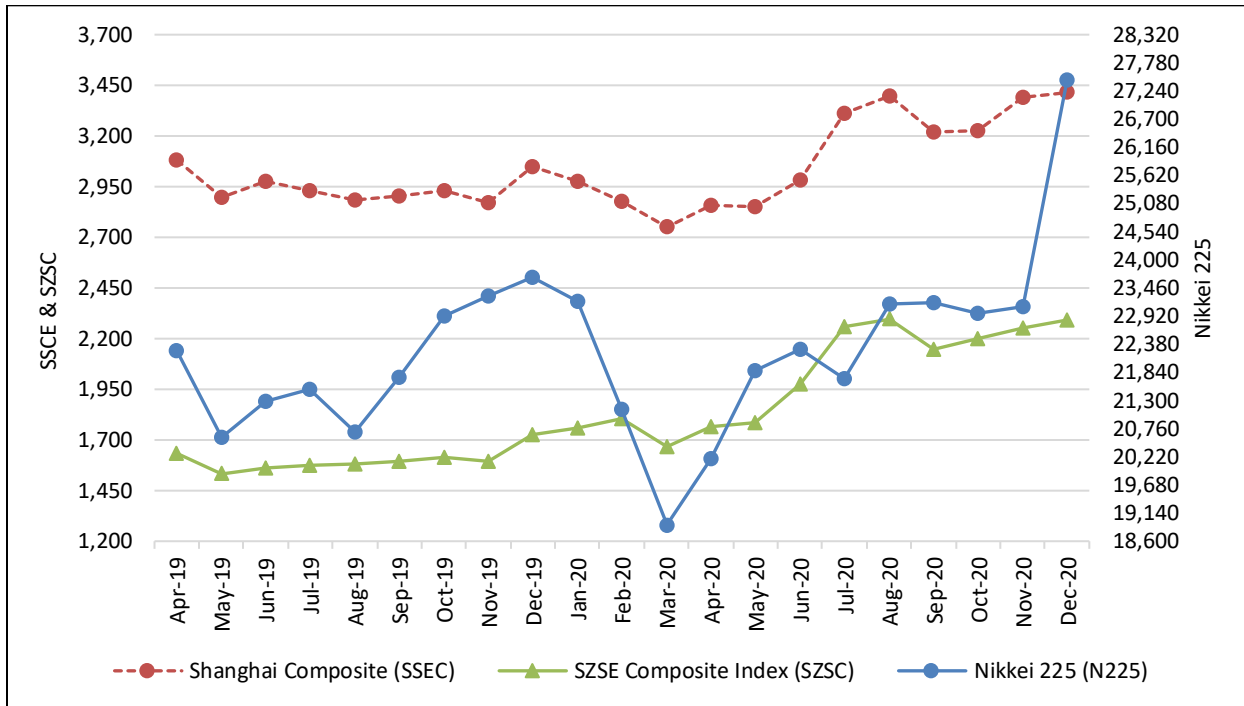
Data source: Country Stock Exchanges; <http://www.investing.com>

Figure 38(b): European stock markets



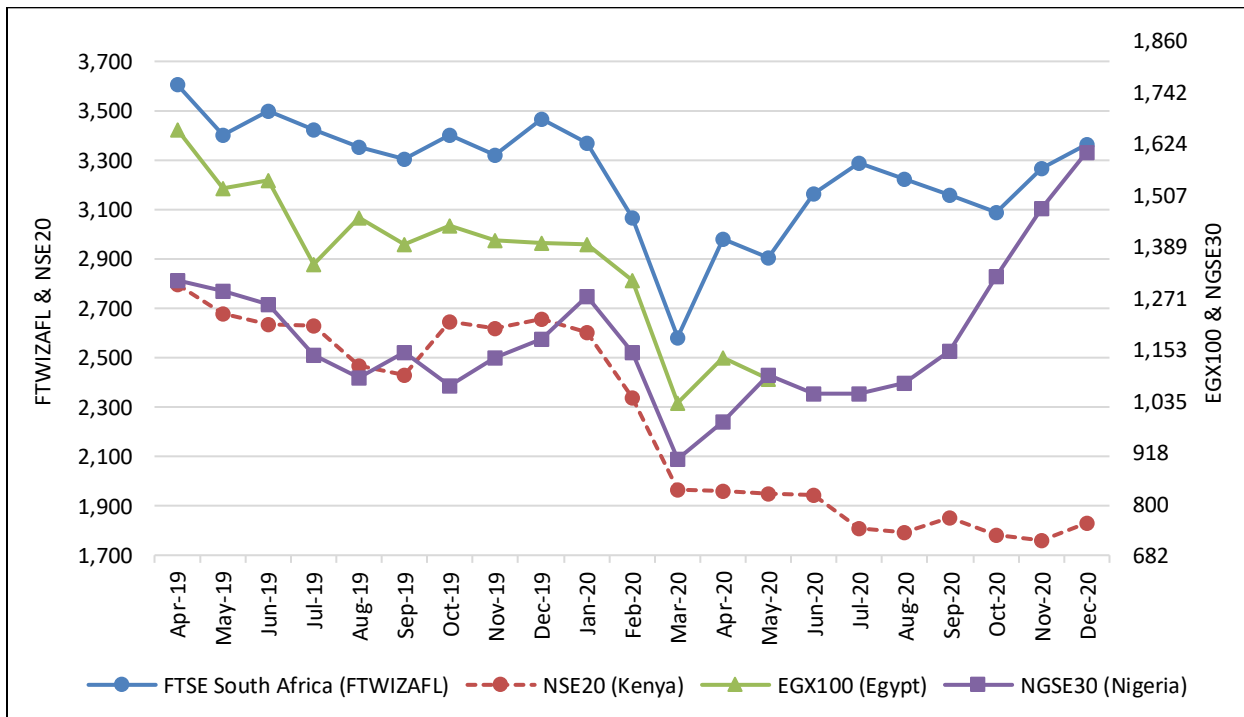
Data source: Country Stock Exchanges; <http://www.investing.com>

Figure 38(c): Asian stock markets



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

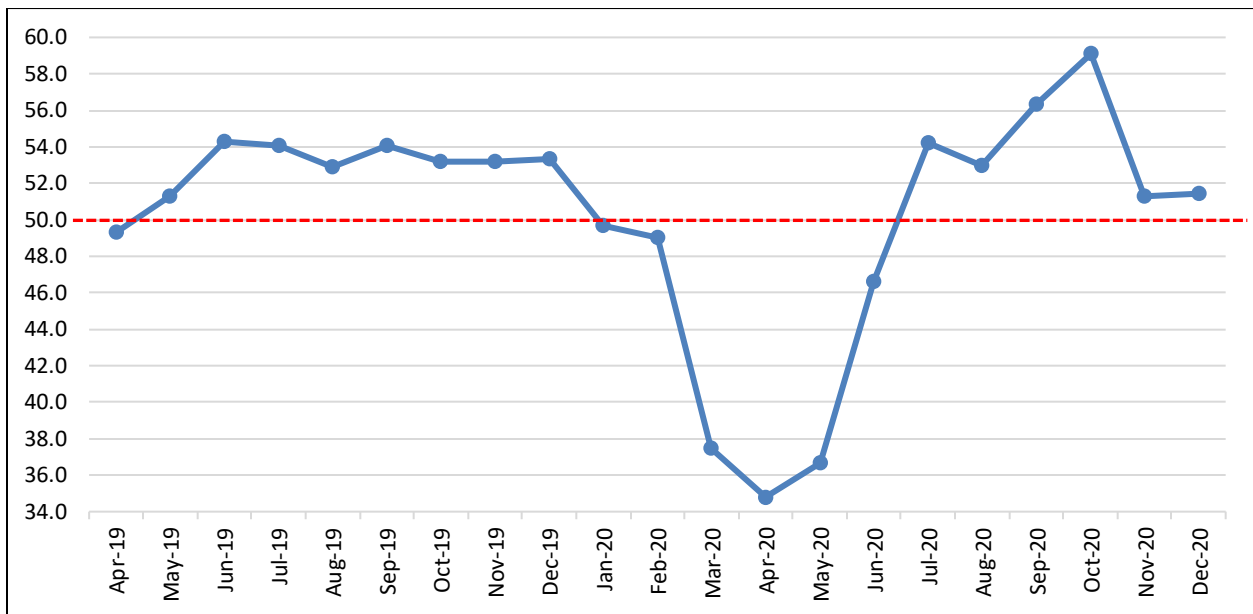
Figure 38(d): African stock markets



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

6.0 Risk-related Factors

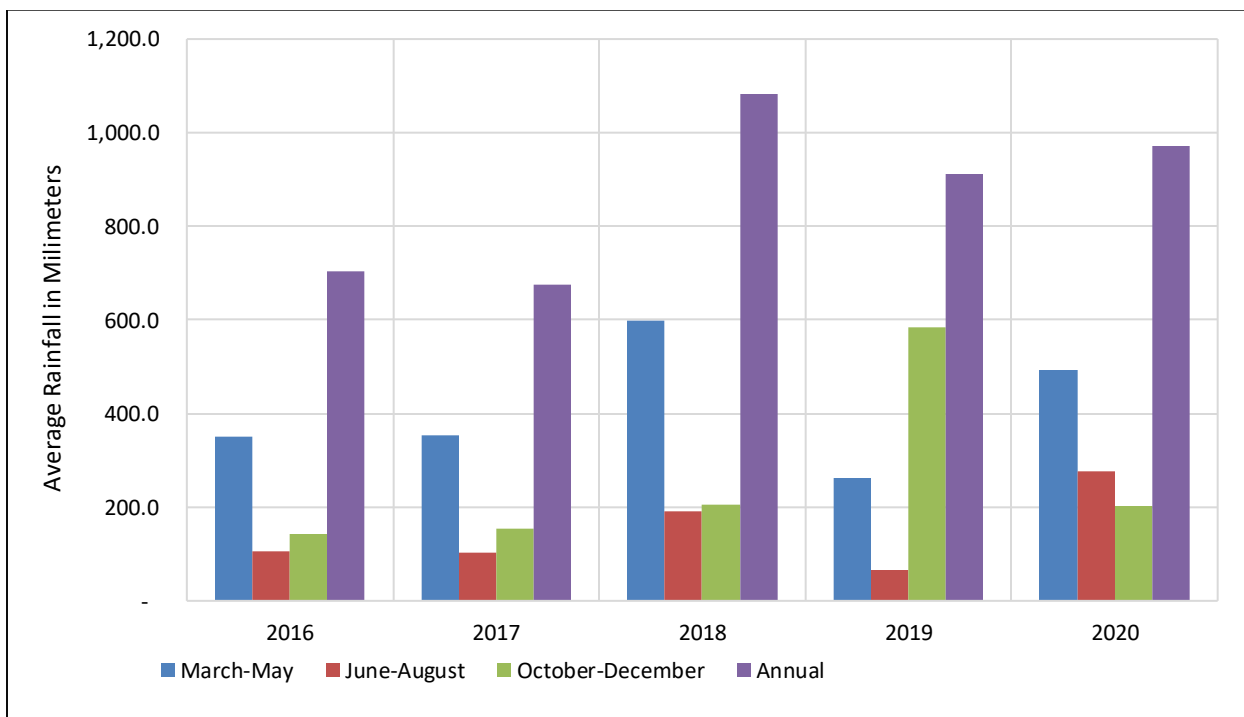
Figure 39: Kenya purchasing managers' index



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

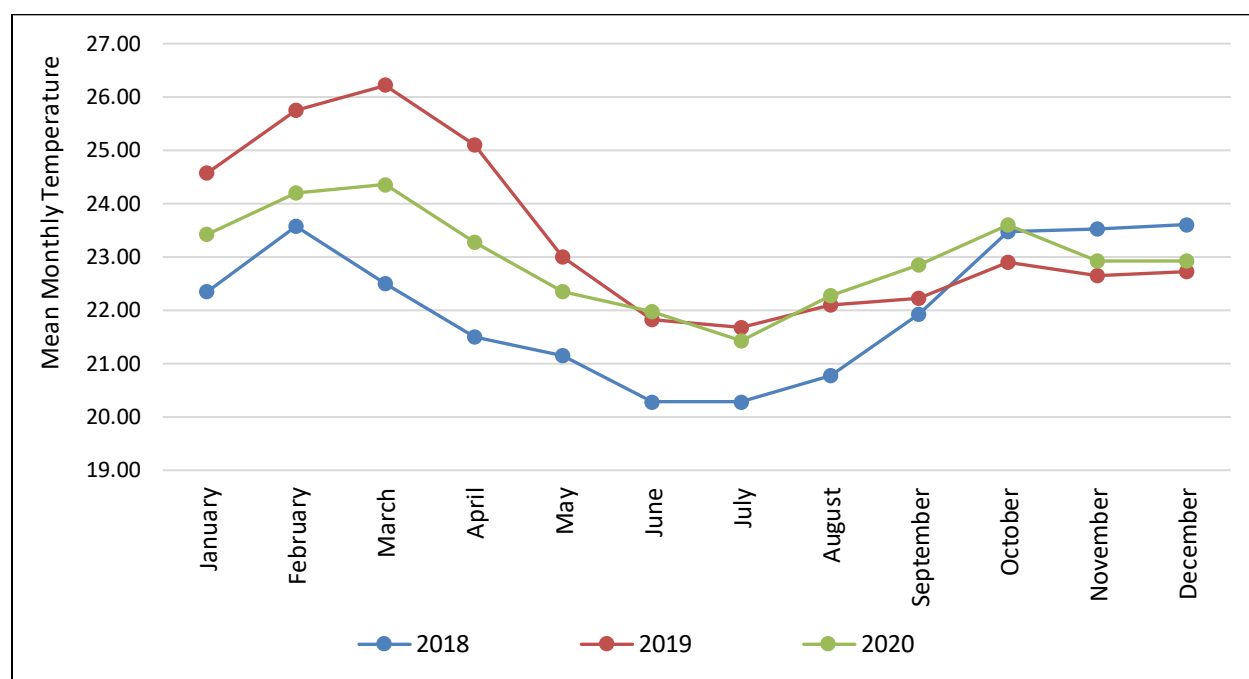
Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

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)



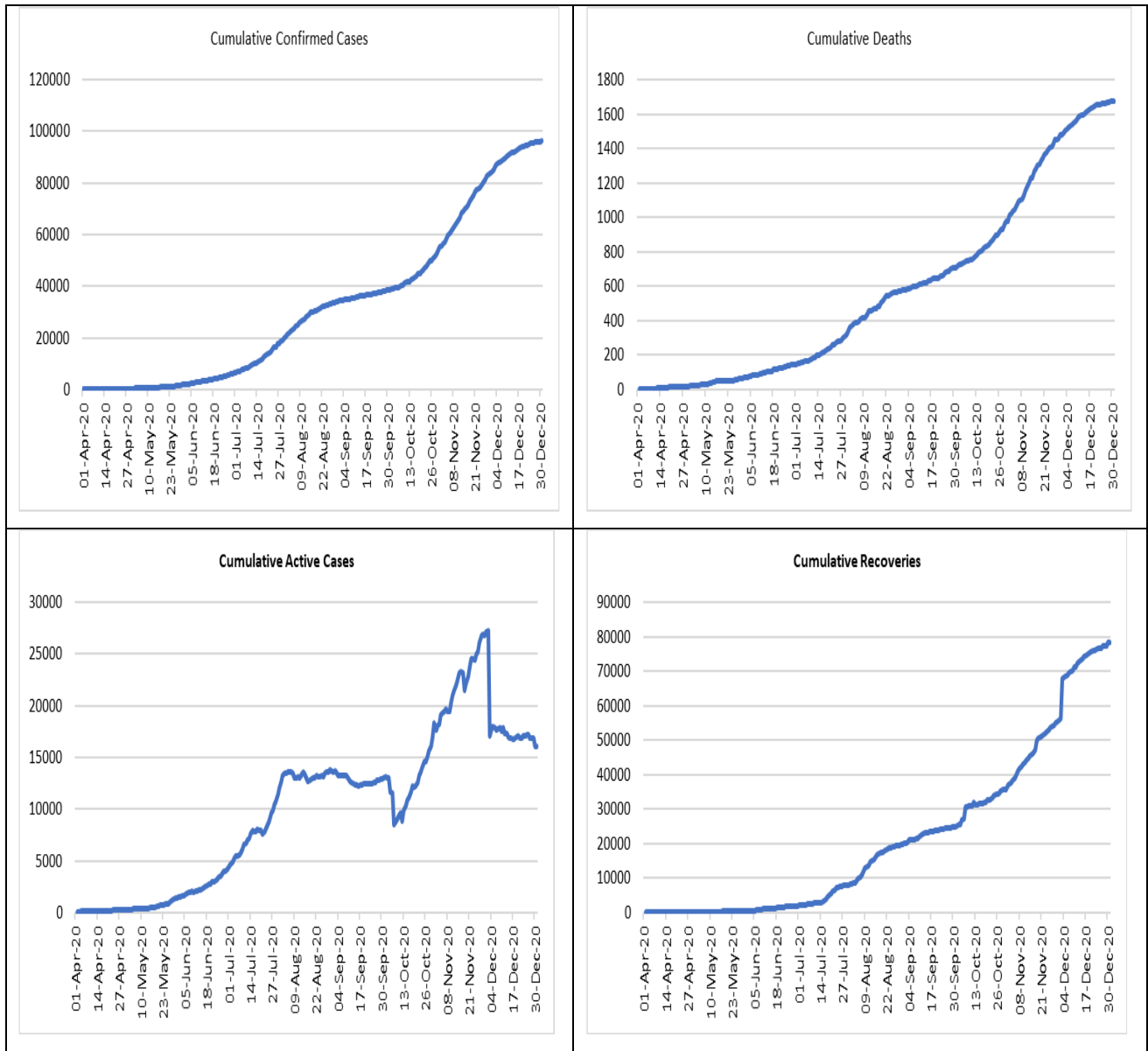
Data Source: Kenya Meteorological Department; <https://www.worldweatheronline.com/>

Table 1: Fitch rating for Kenya

| Type | Current Rating (as at 19 June 2020) | | | Prior Rating (as at 10 December 2019) | | |
|--|--|----------|-----------|--|----------|----------|
| | Rating | Outlook | Action | Rating | Outlook | Action |
| LTR (Long term Issuer default rating) | B+ | Negative | Affirmed | B+ | Evolving | 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 | BB- | | Affirmed |
| Local Currency Long Term Issuer Default Rating | B+ | Negative | Affirmed | B+ | Evolving | Affirmed |

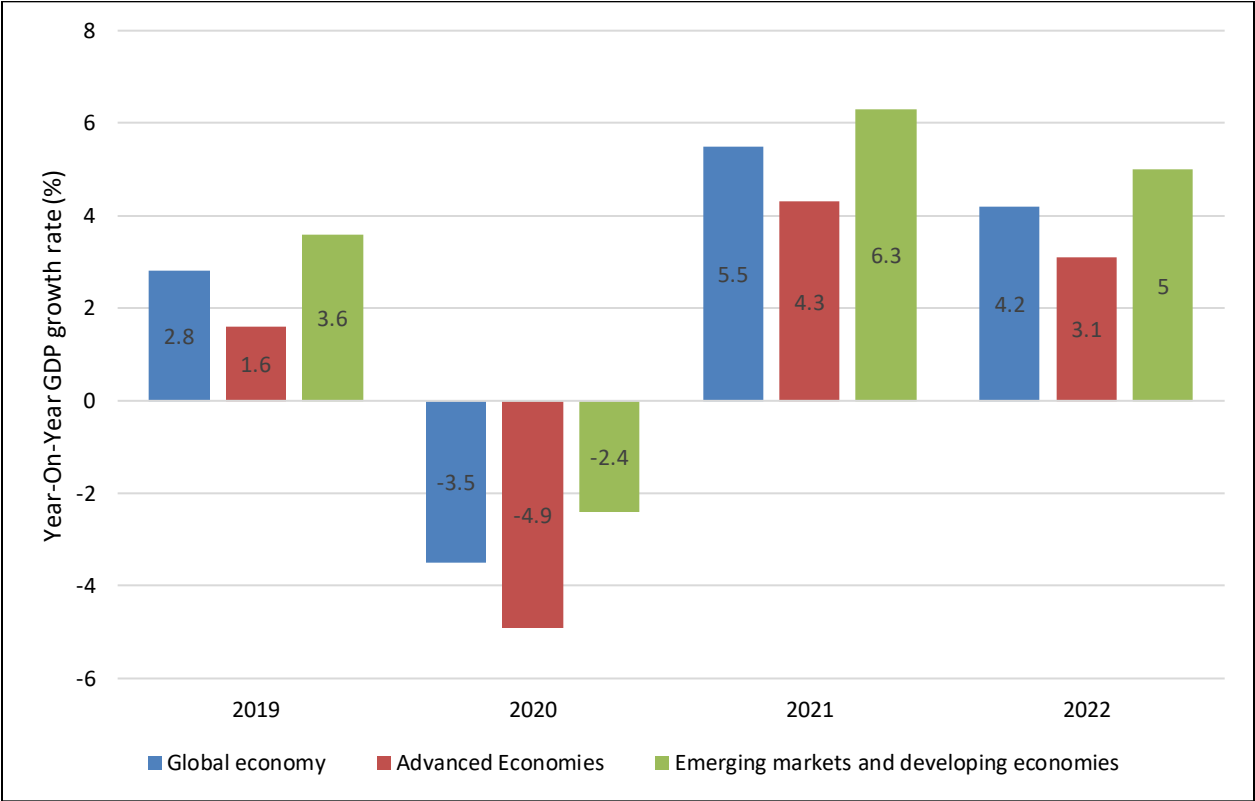
Data source: <https://www.fitchratings.com/entity/kenya-86485911#ratings>

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



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

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