SUMMARY

Performance in the Real Sector

The COVID-19 pandemic remains a major downside risk to global economic activity. Advanced economies are projected to contract by 8 per cent and emerging markets and developing economies by 3 per cent growth in 2020. Kenya’s economy contracted by 5.7 per cent in the second quarter of 2020, resulting in an average -0.4 percent half year growth rate.

The overall inflation in Kenya declined from a high of 7.7 per cent in January to 4.8 per cent in October 2020. A general decline in prices was experienced in food and non-alcoholic beverages, housing and utilities, health, clothing and footwear while fuel inflation took a gradual increase occasioned by rise in crude oil and subsequent increase in local pump prices. The short rains in the next quarter are expected to maintain food prices stable.

International Market

Production, exports and prices of tea and coffee continued to follow the seasonal patterns depicted in previous years. Between beginning of July 2020 and end of October 2020, the Kenya shilling (Ksh) depreciated by 2.1 per cent, 7.6 per cent and 6.4 per cent against the US Dollar, Sterling Pound and the Euro, respectively. A similar trend in exchange rate to the US Dollar is depicted for other markets in the region. Kenya maintains an average of 5.4 months of import cover.

Monetary and Financial Sector

The Central Bank of Kenya maintained an eased monetary policy stance, with the policy rate at 7 per cent, to support economic activity. Similarly, most Central Banks in in the region maintained eased monetary policy stance to stimulate economic activity. The 91-day, 182-day and 364-day Treasury bills interest rates decreased from 6.7 per cent, 7.4 per cent and 8.1 per cent at the beginning of July 2020 to 6.6 per cent, 6.9 per cent and 7.8 per cent, respectively, while the interbank market rate increased from 1.9 per cent to 6.1 per cent between beginning of July and end of October 2020.

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 30th June 2020 totaled Ksh 1,753.0 billion, an increase of 4.7 per cent compared to June 2019. In the first quarter of 2020/21, the Government revenue collected was lower by 15.7 per cent compared to a similar quarter in 2019. The exchequer allocation to the Ministry of Health as a percentage of
total issues to Ministries, Departments and Agencies (MDAs) was higher in the April to September 2020 period (5.0%) compared to a similar period in 2019 (3.8%), as the Government stepped up support to the health sector in the counties in preparation to combat the COVID-19 pandemic.

The total public debt as at June 2020 was Ksh 6,693.7 billion, an increase of 33.4 per cent from June 2019. Government domestic debt is mainly held in treasury bonds and treasury bills. In the first quarter of 2020/21, the proportion of domestic debt held in treasury bonds rose to 70.5 per cent from 63.5 percent in similar quarter last year, while debt held in treasury bills declined to 28.3 per cent in 2020 from 33.6 per cent in the previous year.

**Capital Markets**

With confirmed COVID-19 cases, stock markets world-wide registered a sharp drop in the first quarter of 2020 as investors adopted a wait-and-see stance, evaluating the possible negative impact of the pandemic. A global recovery phase was experienced in April-August as countries adopted new ways of trading. However, the market jitters with resurgence of a second wave of COVID-19 pandemic are witnessing a slowing market activity.

The stock market in Kenya has also taken a declining trend since January 2020, occasioned by declined foreign investor participation. The 10-year Kenya Eurobond (2024) saw a declining yield after a sharp increase in March-April 2020 occasioned by volatility and uncertainty in the international markets in the light of COVID-19 pandemic escalation.

**Risk-related Factors**

The Purchasing Managers’ Index (PMI) for Kenya moved further above the 50-threshold, increasing to 59.1 in October, marking the fourth consecutive month of improved business conditions since the outbreak of the COVID-19 pandemic. 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 491.7mm and 277.5mm in March-May and June-August 2020, respectively, which was higher than that recorded in the previous year. Coupled with favourable mean monthly temperatures, this has contributed to good performance in the agricultural sector and stable food prices.

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 fairly low since the first confirmed case in the country in March 2020, a surge in infection rate in the fourth quarter depicts a possible ‘second wave’ of the COVID-19 pandemic.
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Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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![Graph showing the exchange rate of Kenya shilling to regional currencies](image)

Data source: Central Bank of Kenya

Figure 15: Performance of select currencies against the US Dollar

![Graph showing the performance of select currencies against the US Dollar](image)

Data source: Country Statistics Offices; https://www.investing.com
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Data source: Central Bank of Kenya

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Data source: Central Bank of Kenya
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Data source: Central Bank of Kenya;  
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![Graph showing Liquidity Ratio and Ratio of Gross NPL to Gross Loans from April 19 to June 20.

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Table 1: Fitch rating for Kenya

<table>
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<th>Type</th>
<th>Current Rating (as at 19 June 2020)</th>
<th>Prior Rating (as at 10 December 2019)</th>
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Data Source: Kenya Meteorological Department; https://www.worldweatheronline.com/

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Source: International Monetary Fund, World Economic Outlook, April 2020
About the KIPPRA Quarterly Market Analysis Report

The KIPPRA quarterly market analysis report is one of the Institute’s policy intelligence publications that focuses on reviewing trends in performance in the real sector (gross domestic product, price movements, production, consumption); international markets (commodity markets, exchange rates, remittances); money market (interbank, treasury securities, banking sector performance, monetary policy); fiscal performance; capital markets; and risk related factors in Kenya’s economy and selected global markets in each quarter, with a view to identifying policy-related dimensions.