

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

*Thinking Policy Together*

# QUARTERLY MARKET ANALYSIS REPORT

APRIL– JUNE 2021

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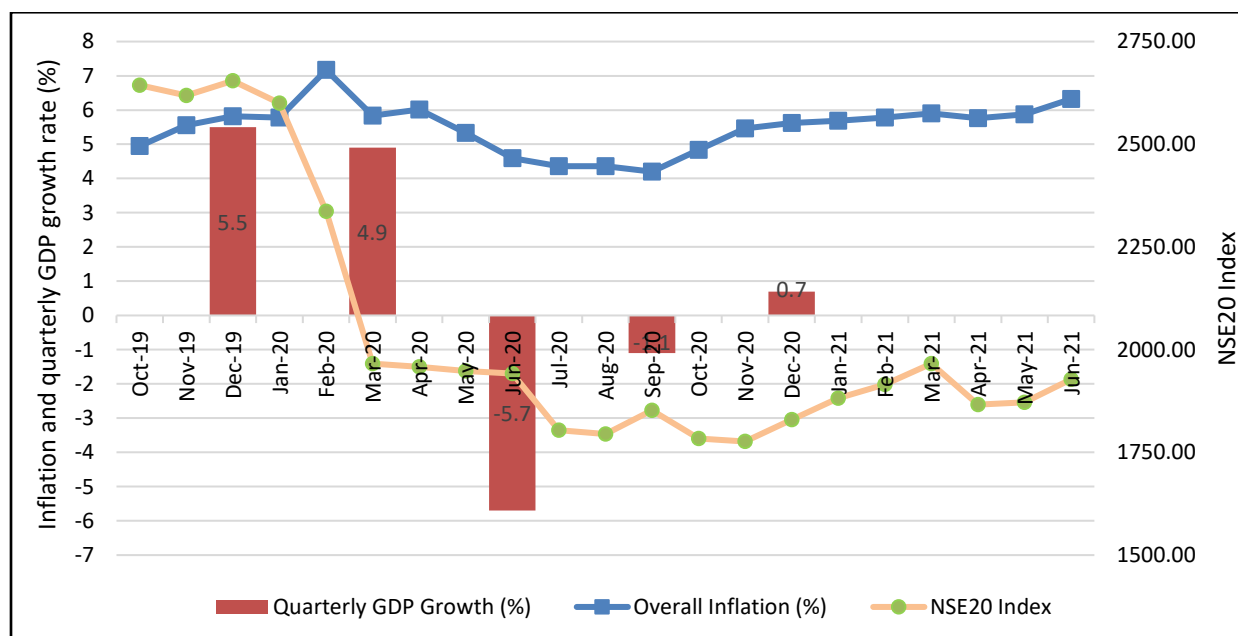
## 1. PERFORMANCE IN THE REAL SECTOR

We are not out of the woods yet despite the recovery trajectory being experienced and projected in the short- to medium-term. The global economy is expected to grow by 6.0 per cent in 2021, with emerging markets and developing economies making the highest contribution to this growth. Sub-Saharan Africa is expected to grow by 3.4 per cent in 2021, supported by improved exports commodity prices and a recovery of private consumption and investment. Kenya's economy is projected to grow by 7.6 per cent in 2021. The hospitality industry is recovering with higher number of tourist arrivals by air in 2021 compared to 2020. Further, the upward trend in cement production and consumption is an indication of a growing construction industry.

The overall inflation in Kenya in the second quarter of 2021 averaged 5.98 per cent compared to 5.31 per cent in the same quarter in 2020. In the period, inflation increased mildly from a low of 5.76 per cent in April 2021 to 6.32 per cent in June 2021. Fuels were the major contributors to overall inflation, and this was occasioned by the increase in international oil prices during the quarter where for instance, Murban crude oil prices increased by 14.18 per cent from a low of US\$ 63.52 per barrel in April 2021 to US\$ 72.53 per barrel in June 2021. Food and non-alcoholic beverages were the second largest contributors to overall inflation during the quarter, and this could be due to inadequate rainfall (288mm) experienced in the long rains period March to May 2021.

### a) GDP performance

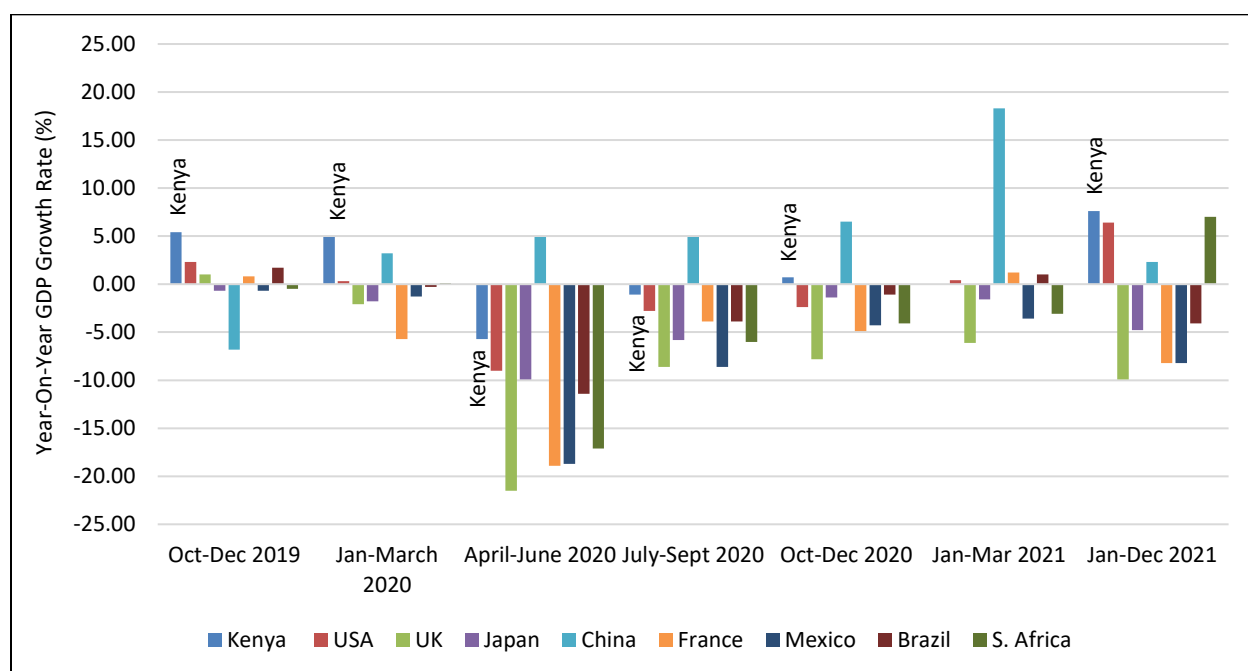
**Figure 1: GDP growth, inflation, and stock market performance**



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

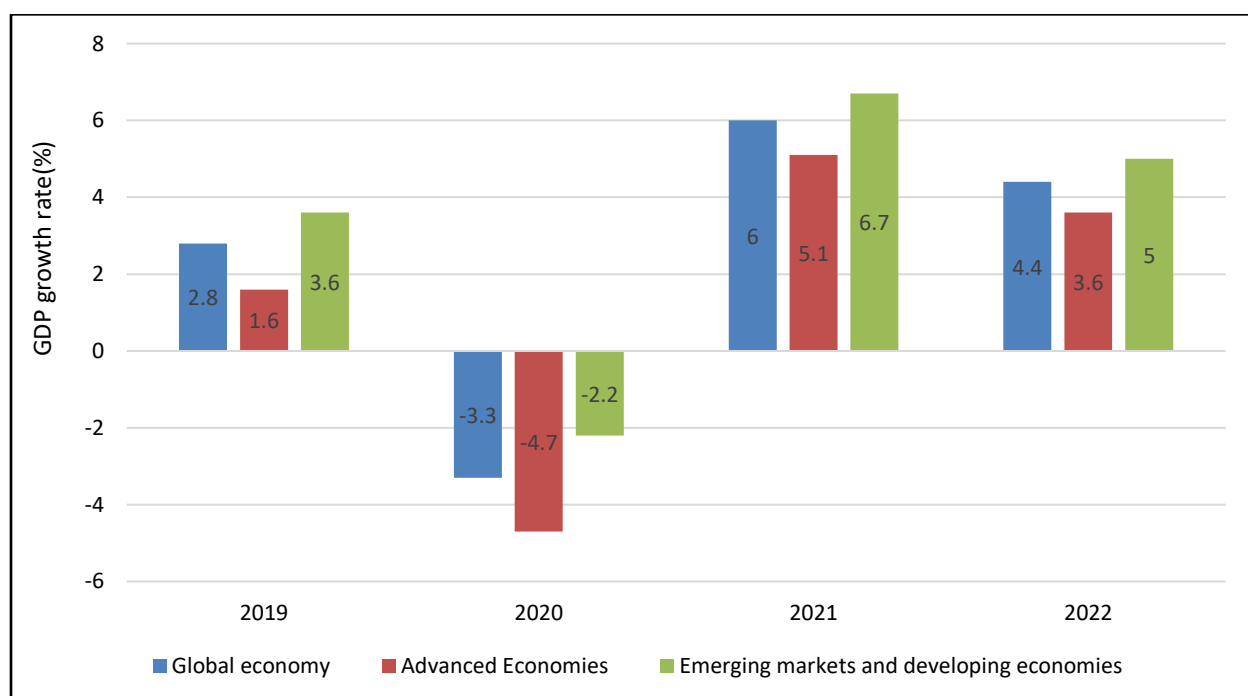
\*The October -December 2020 was calculated based on IMF's estimation of Kenya's economy to have contracted by 0.30 per cent in 2020.

**Figure 2: Economic performance of selected advanced and emerging markets**



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

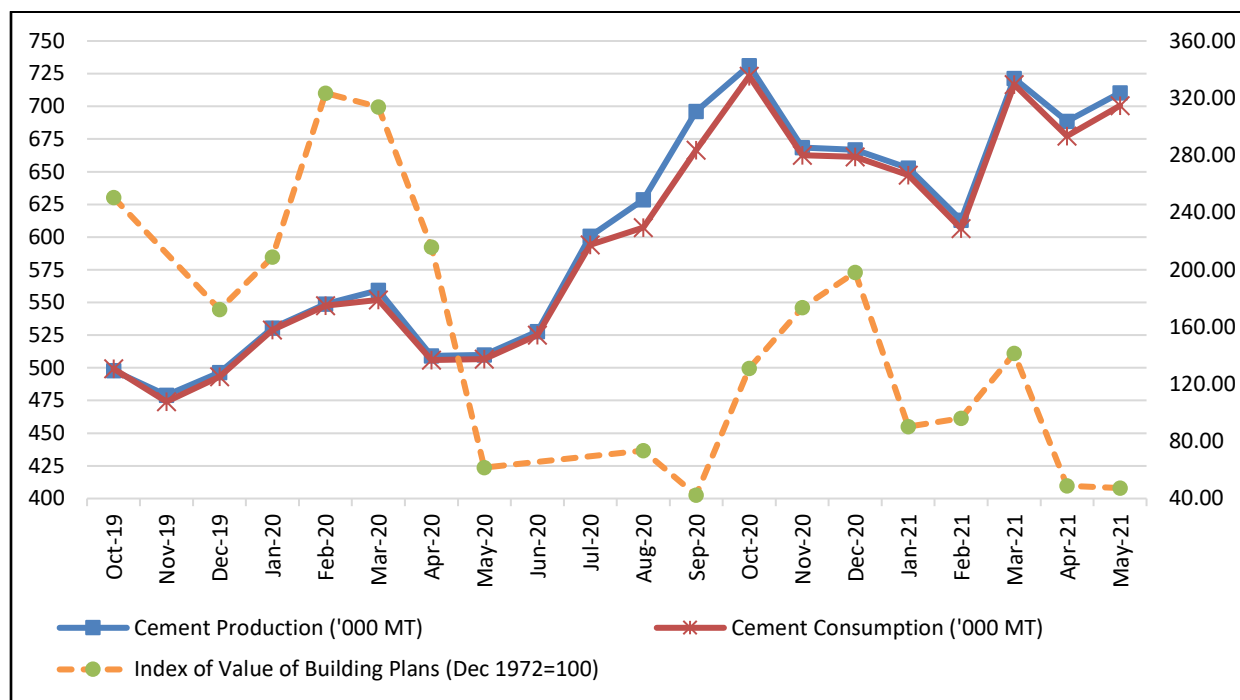
**Figure 3: Growth projections in time of COVID-19 pandemic crisis**



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

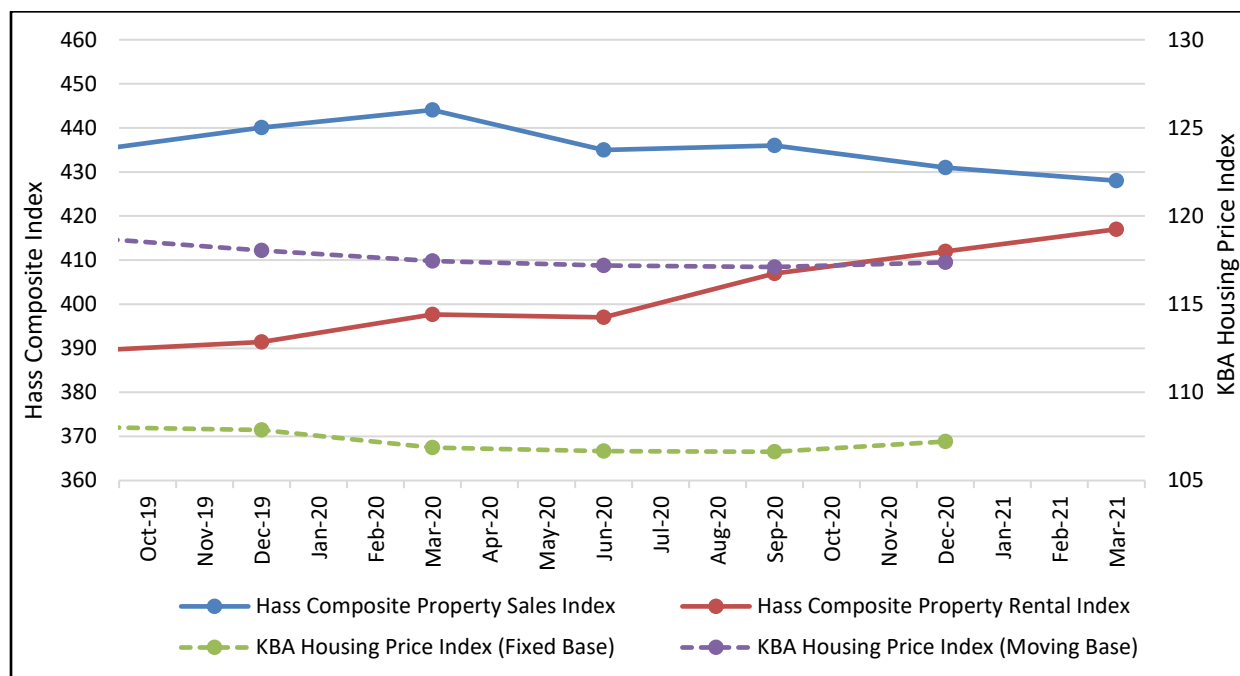
\*2019 and 2020 figures are estimates while 2021 and 2022 figures are projections

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



Data source: Kenya National Bureau of Statistics

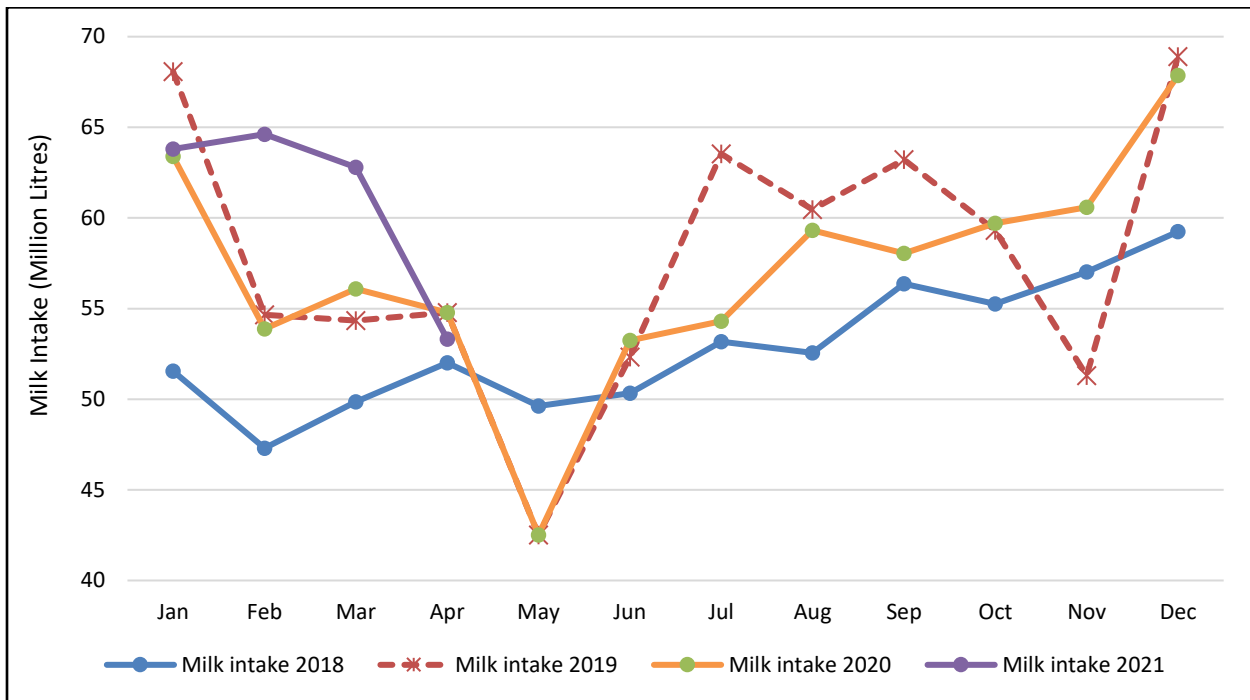
**Figure 5: Kenya Housing and Property Indices**



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/>)

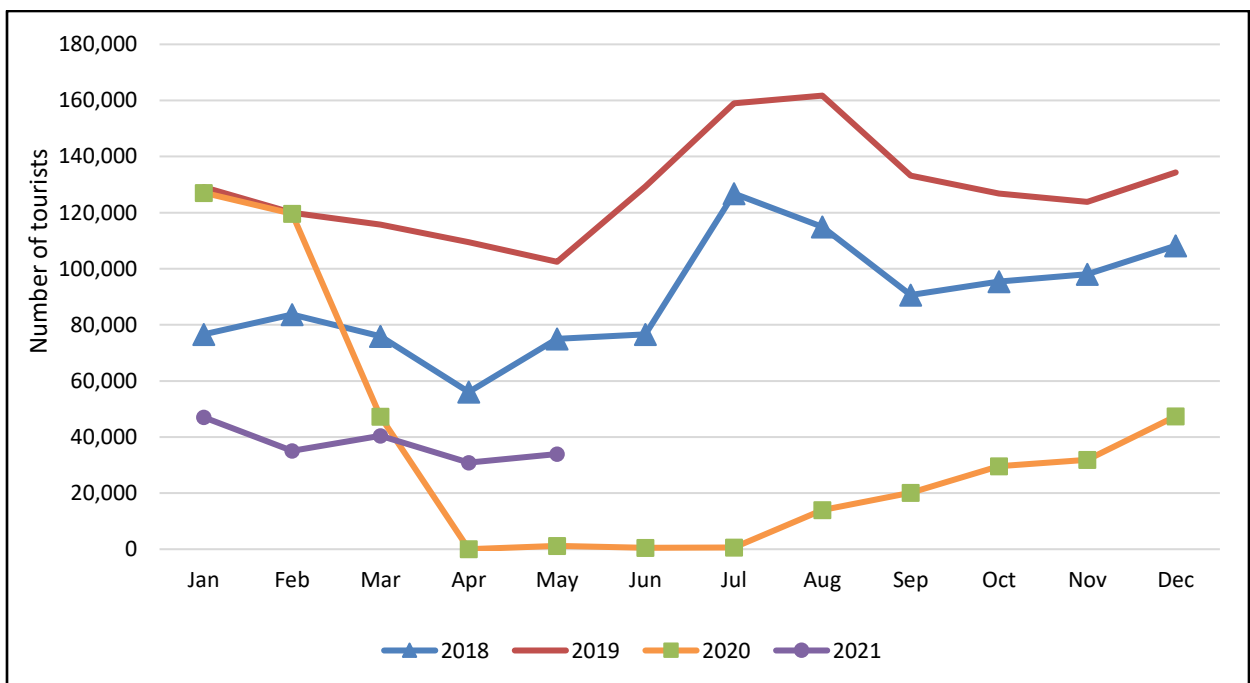
Kenya Bankers Association ([https://www.kba.co.ke/house\\_price.php](https://www.kba.co.ke/house_price.php))

**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)**



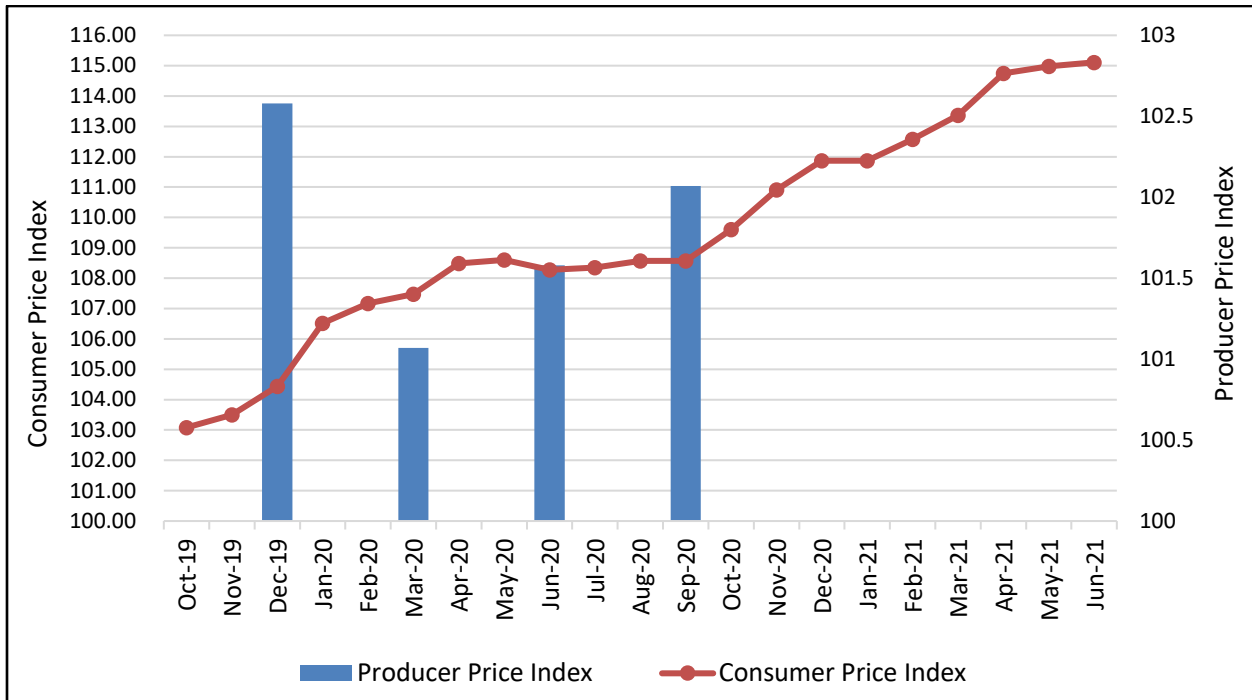
Data source: Kenya National Bureau of Statistics (Various), Economic Survey

\*Total tourist arrivals by Air



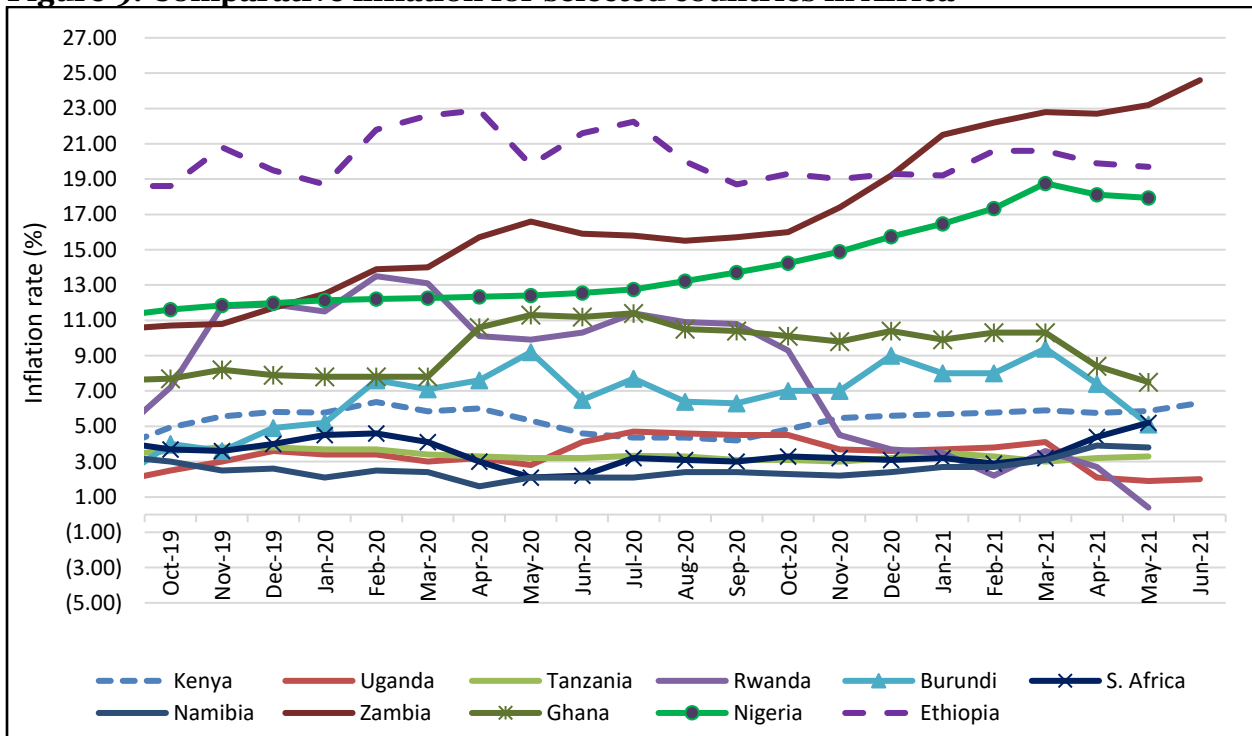
**b) Price movement**

**Figure 8: Consumer Price Index and Producer Price Index**



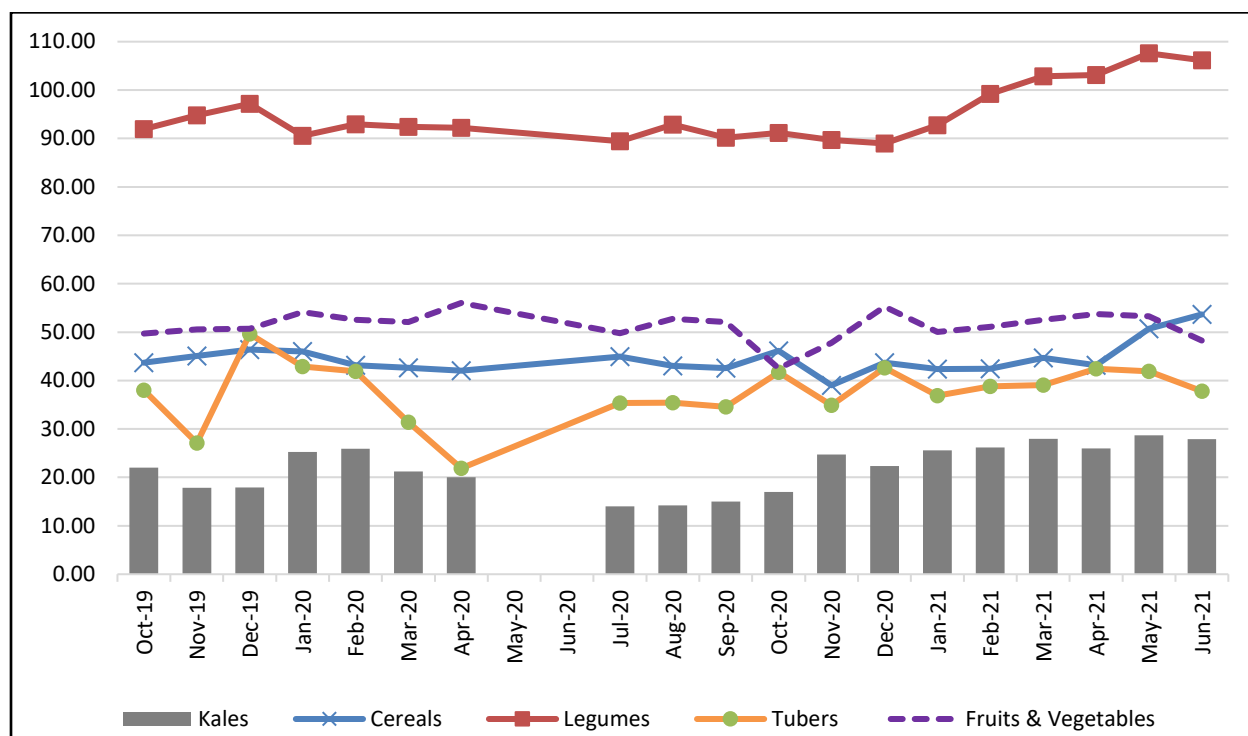
Data source: Kenya National Bureau of Statistics. CPI base year: February 2019 = 100; PPI base year: March 2019 = 100

**Figure 9: Comparative inflation for selected countries in Africa**



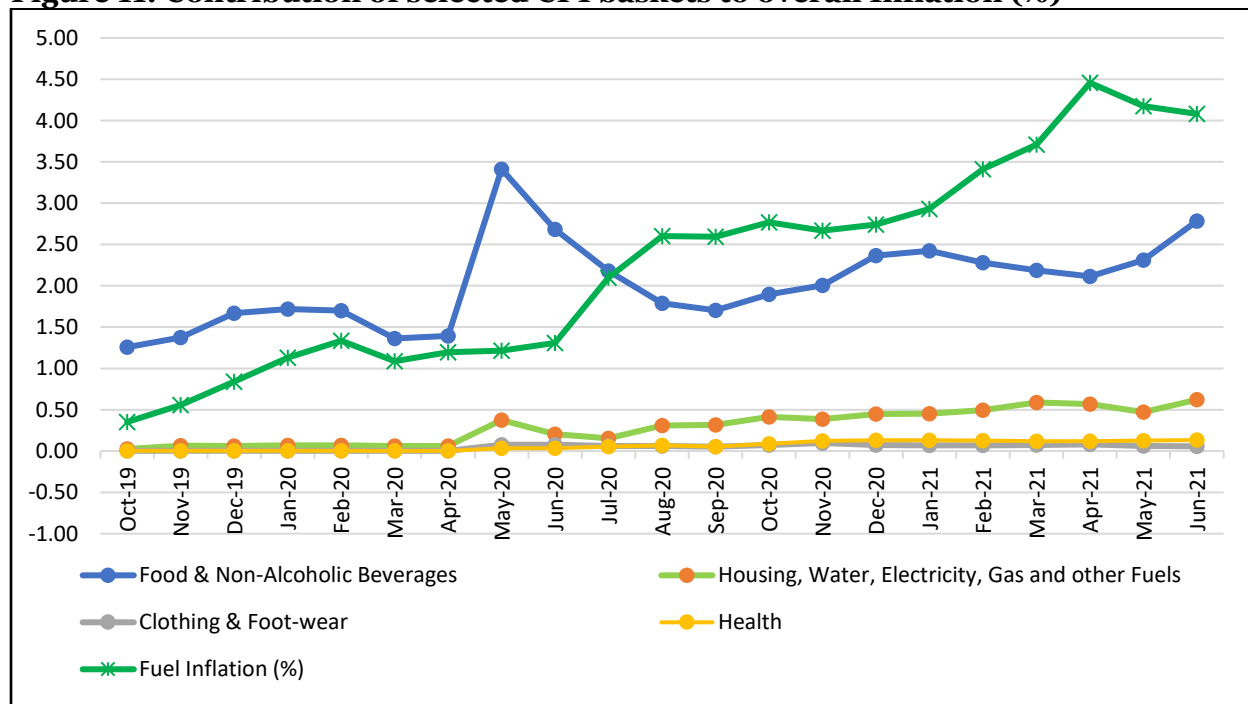
Data Source: Country statistical offices

**Figure 10: 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

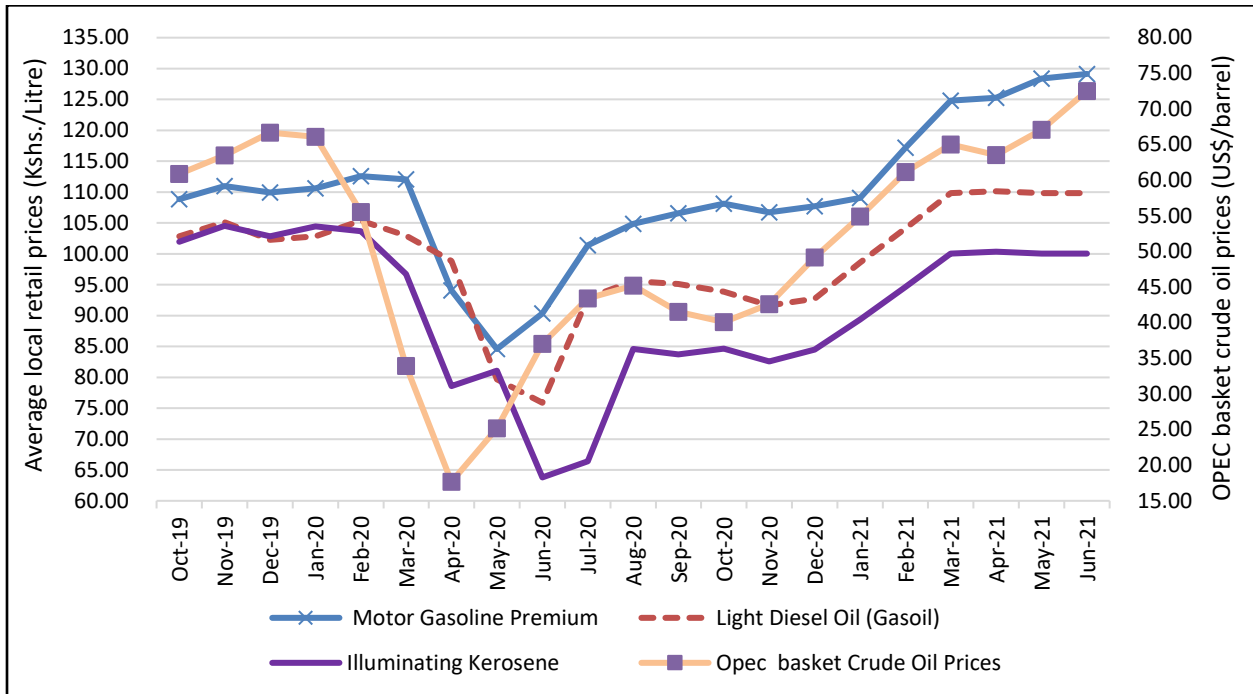
**Figure 11: Contribution of selected CPI baskets to overall Inflation (%)**



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



**Figure 12: Average domestic pump prices and global crude oil prices**



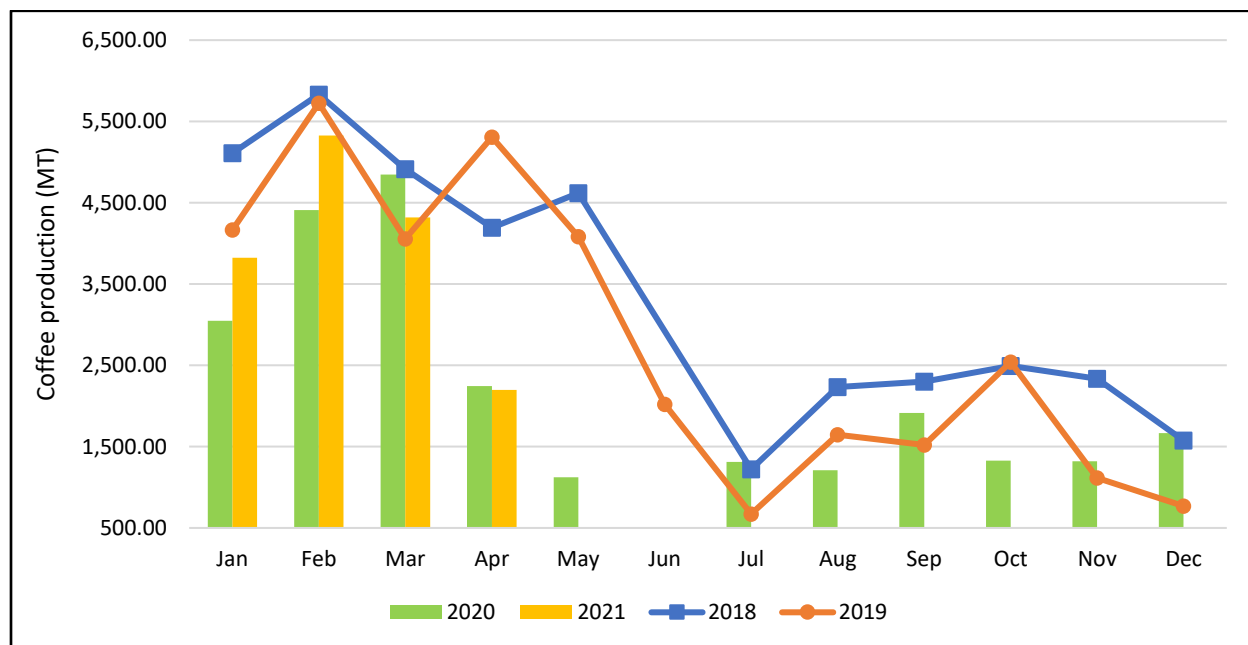
Data Source: Kenya National Bureau of Statistics; Energy and Petroleum Regulatory Authority; <https://oilprice.com/oil-price-charts/block/50>

## 2. INTERNATIONAL MARKETS

Production, exports and prices of tea and coffee continued to follow the seasonal patterns depicted in previous years. Coffee exports are higher in 2021 compared to 2020, an indication of reopening of global economies and a promise of increased demand for Kenyan coffee. The high coffee prices in 2021 reflect on reduced global exports. Tea exports face a similar situation, but tea auction prices are lower than previous years. In the period April to June 2021, the Kenya shilling (Ksh) appreciated by 1.37 per cent, 0.97 per cent, and 0.22 per cent against the US Dollar, Sterling Pound, and the Euro, respectively. Kenya maintained an average of 4.70 months of import cover. It is expected that the situation will improve further as most of the economic activities resume and the global economy is reopened. Diaspora remittances have continuously defied expectations of a dip due to COVID-19, with the highest record of approximately Ksh 34.00 billion in the month of May 2021, a 22.00 per cent increase from the same month in the previous year. The buoyancy of Kenya's diaspora remittances has been facilitated by financial innovations and more platforms where Kenyans abroad can send money to Kenya conveniently. If Kenyan banks continue to partner with foreign banks to reduce the cost of remittances, diaspora remittances are likely to remain buoyant.

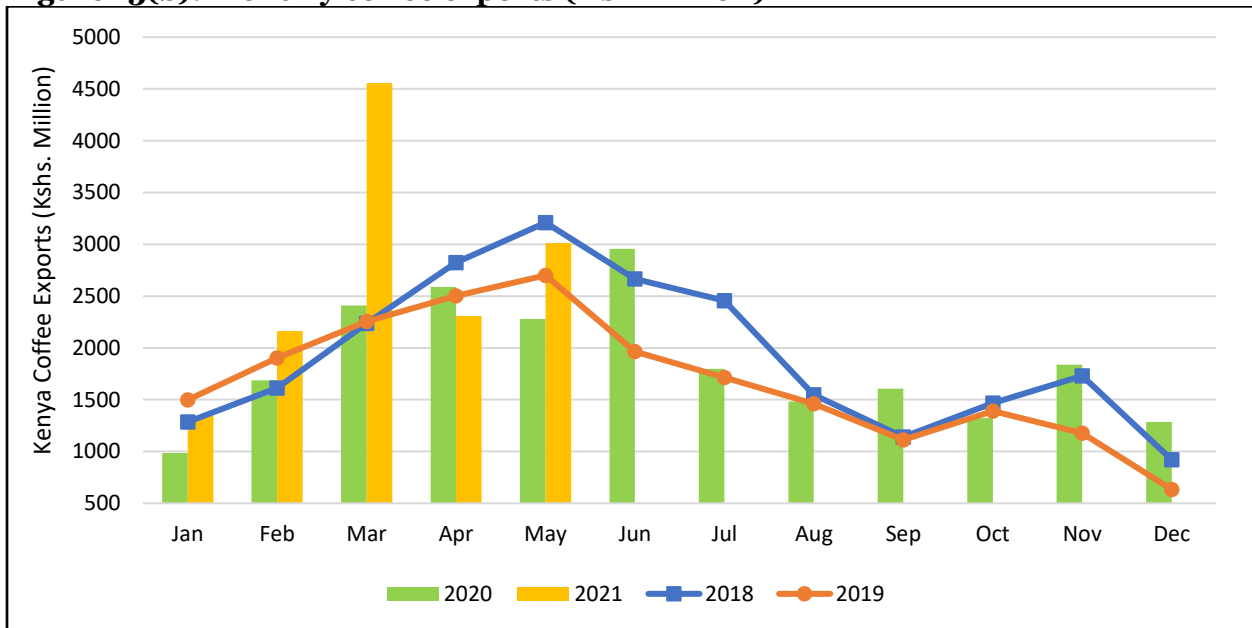
**Figure 13: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)**

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



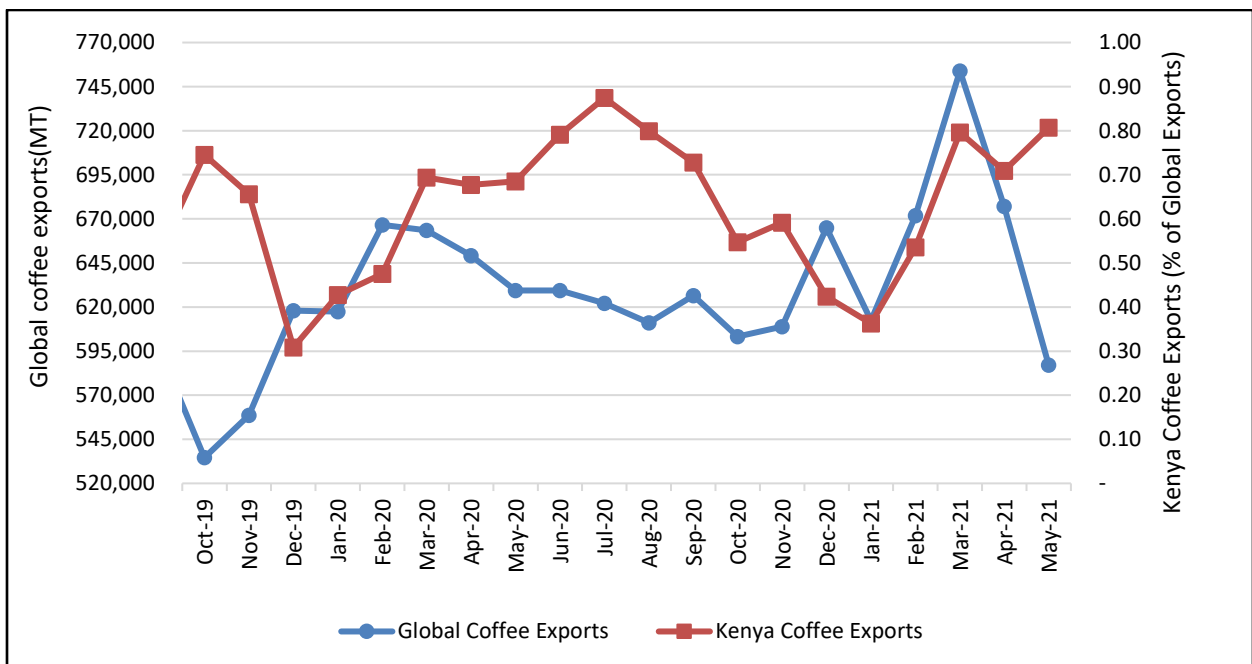
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>)

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



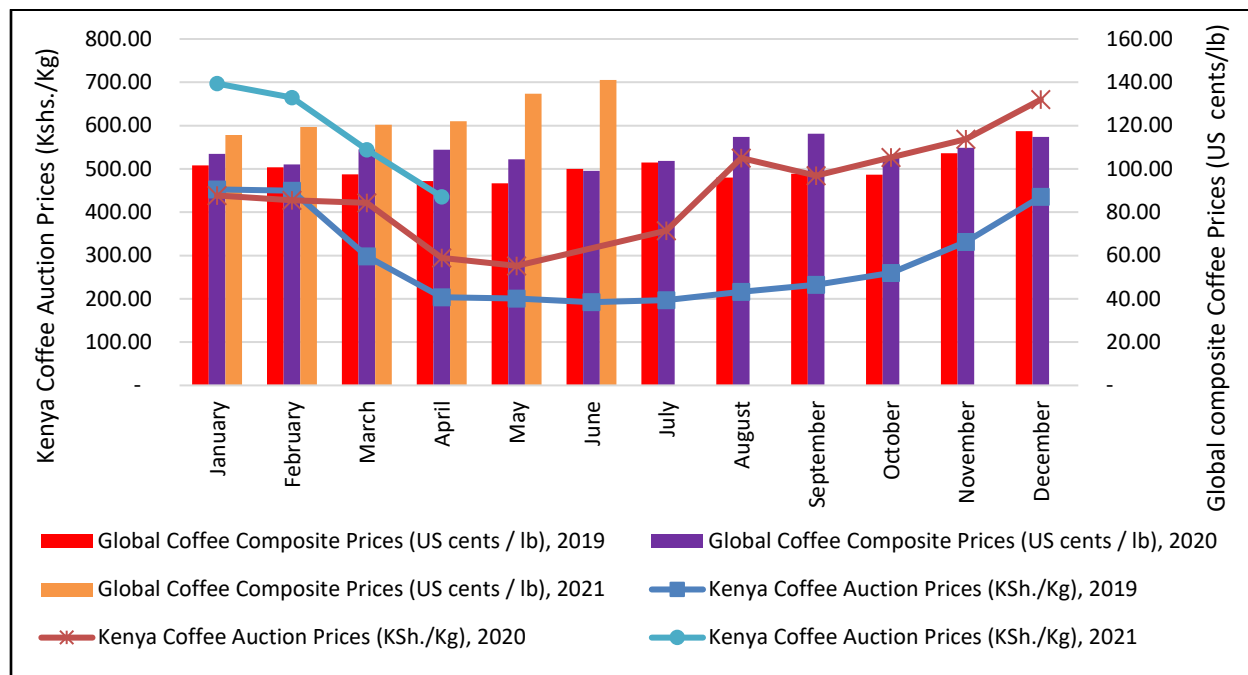
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); Figures for January and February 2020 are provisional.

**Figure 13(c): Comparison between global coffee exports (MT) and Kenya coffee exports (% of global total exports)**



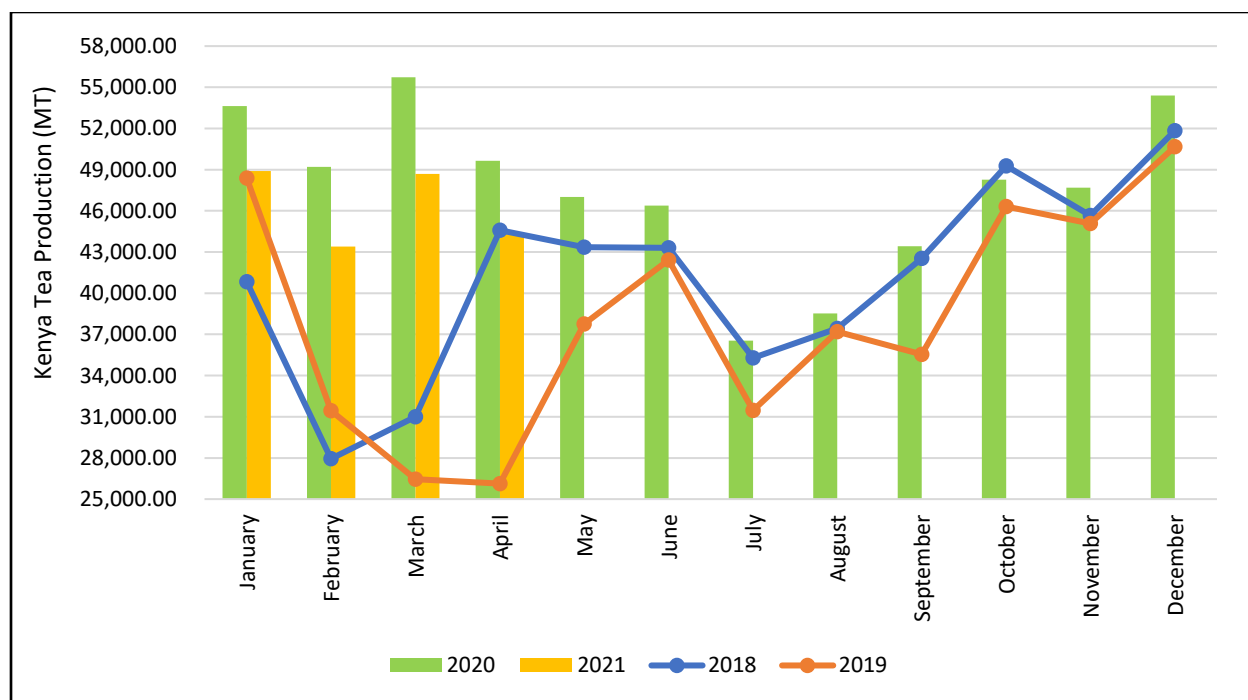
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization ([http://www.ico.org/coffee\\_prices.asp](http://www.ico.org/coffee_prices.asp))

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



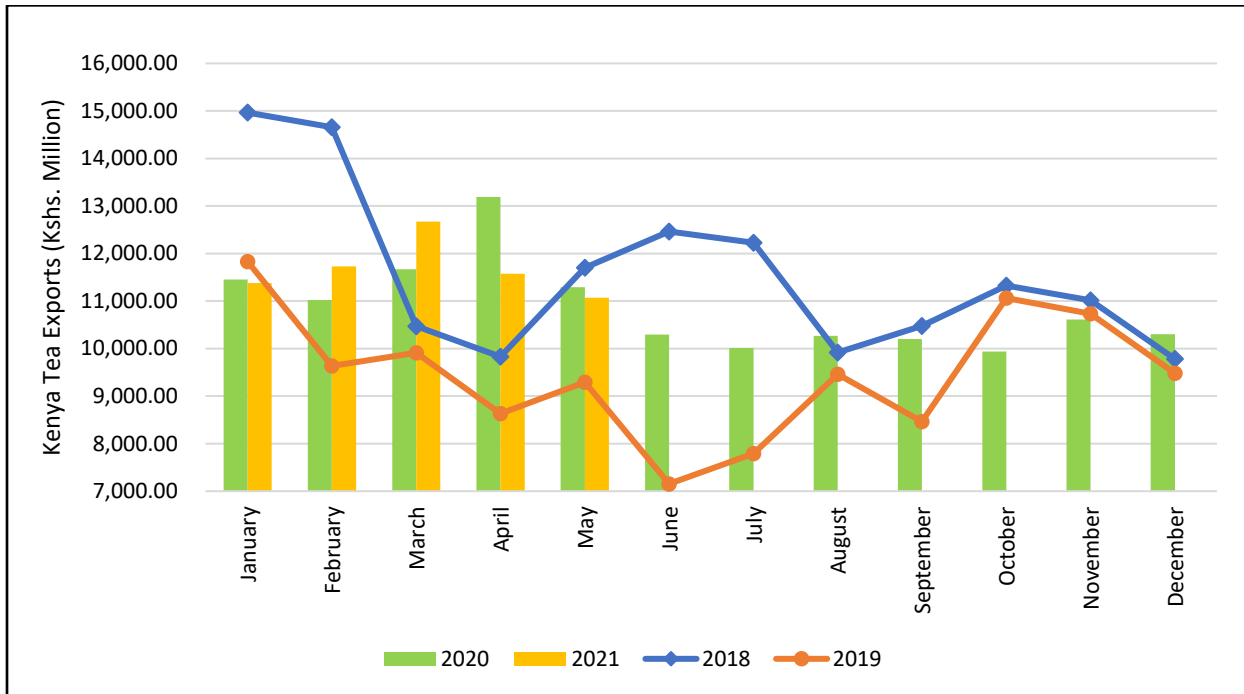
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization ([http://www.ico.org/coffee\\_prices.asp](http://www.ico.org/coffee_prices.asp))

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



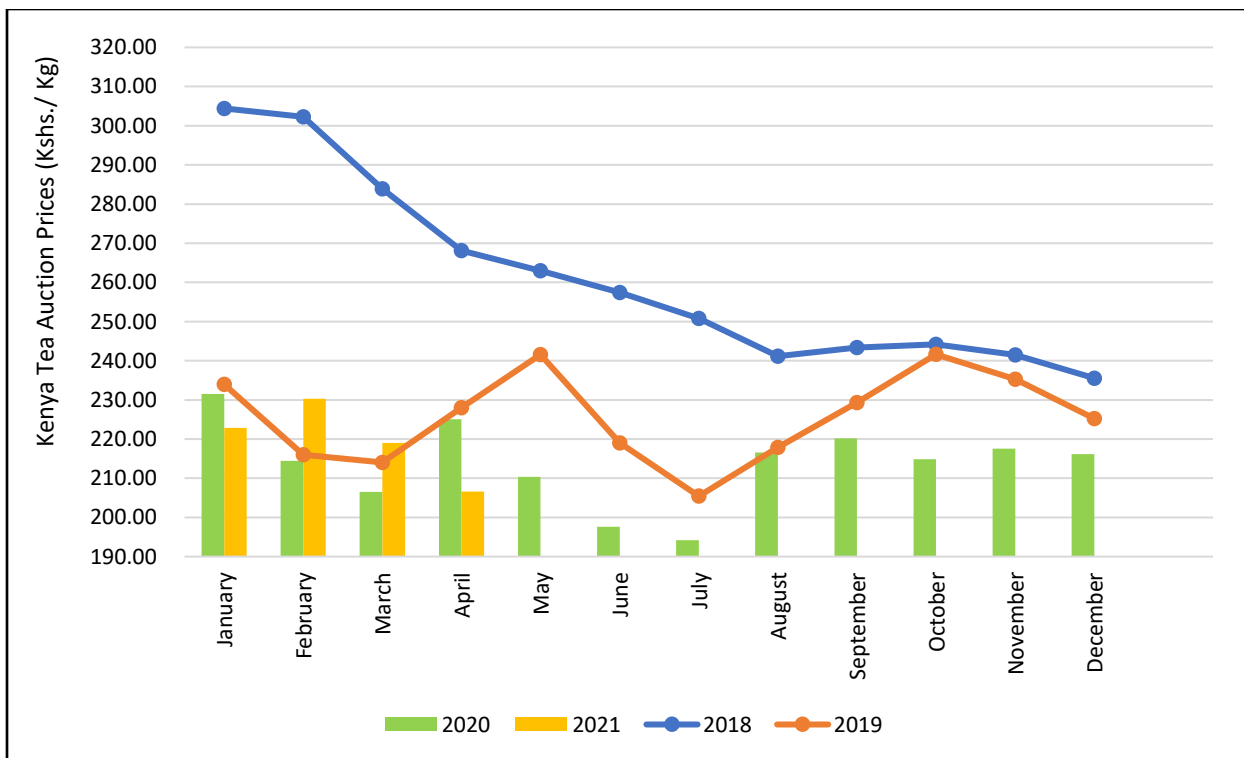
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



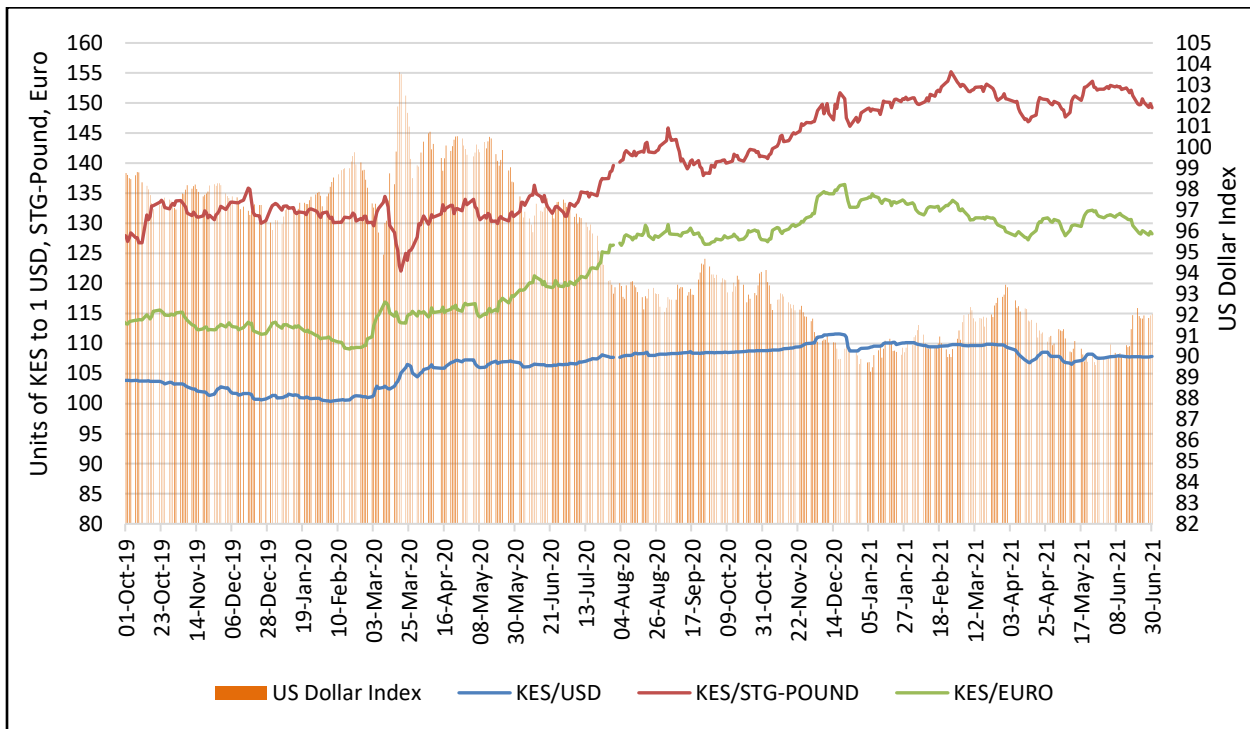
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

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



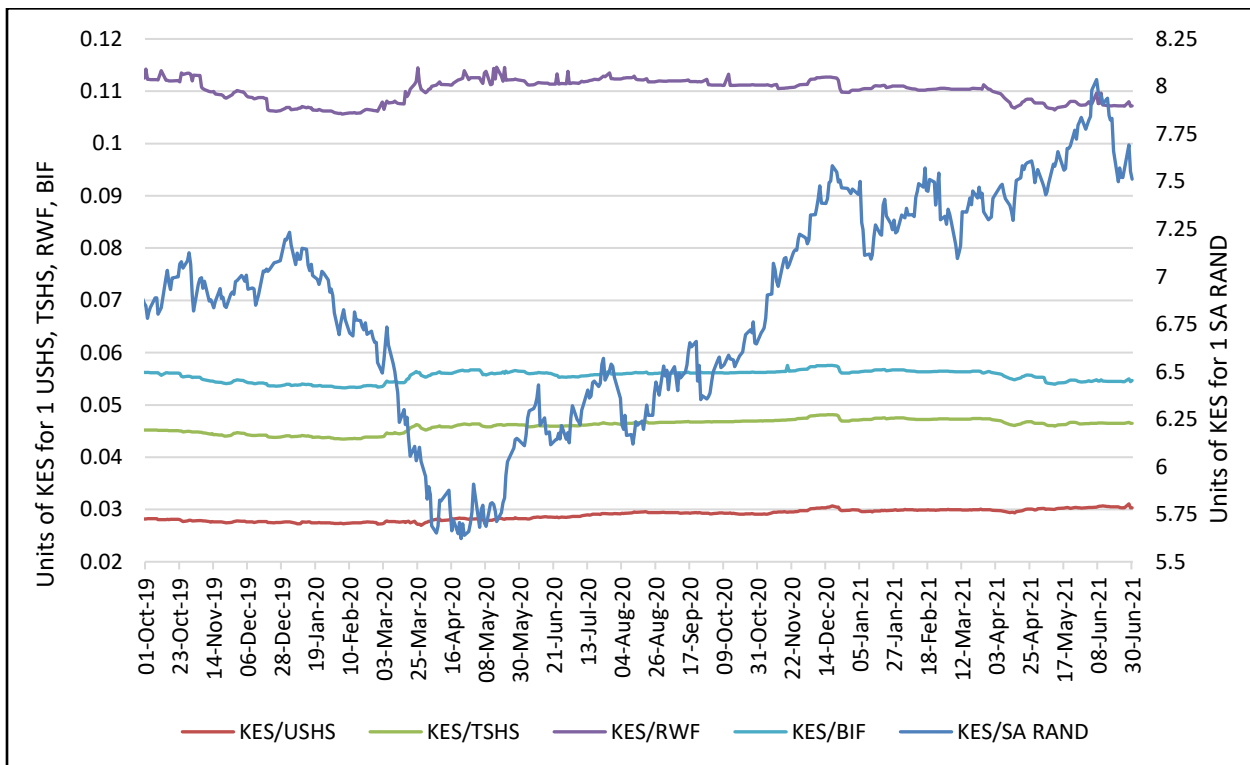
Data Source: KNBS; East Africa Tea Trade Association; Mombasa Tea Auction

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



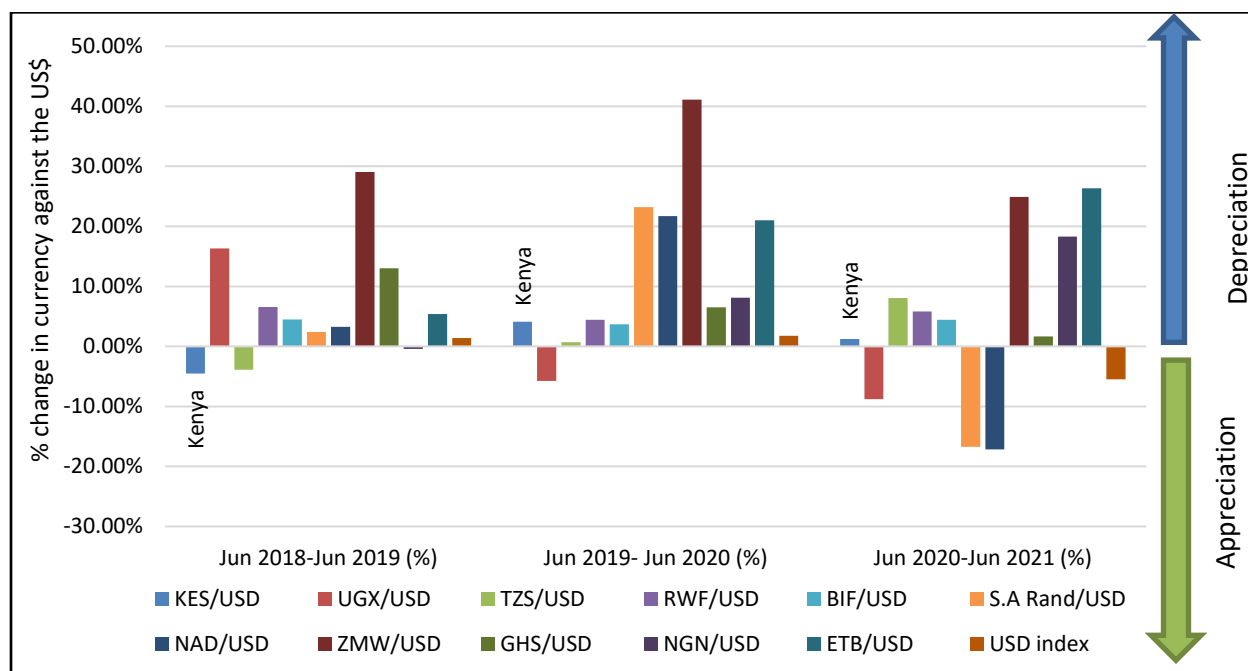
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics;  
<https://www.investing.com/quotes/us-dollar-index-historical-data>

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



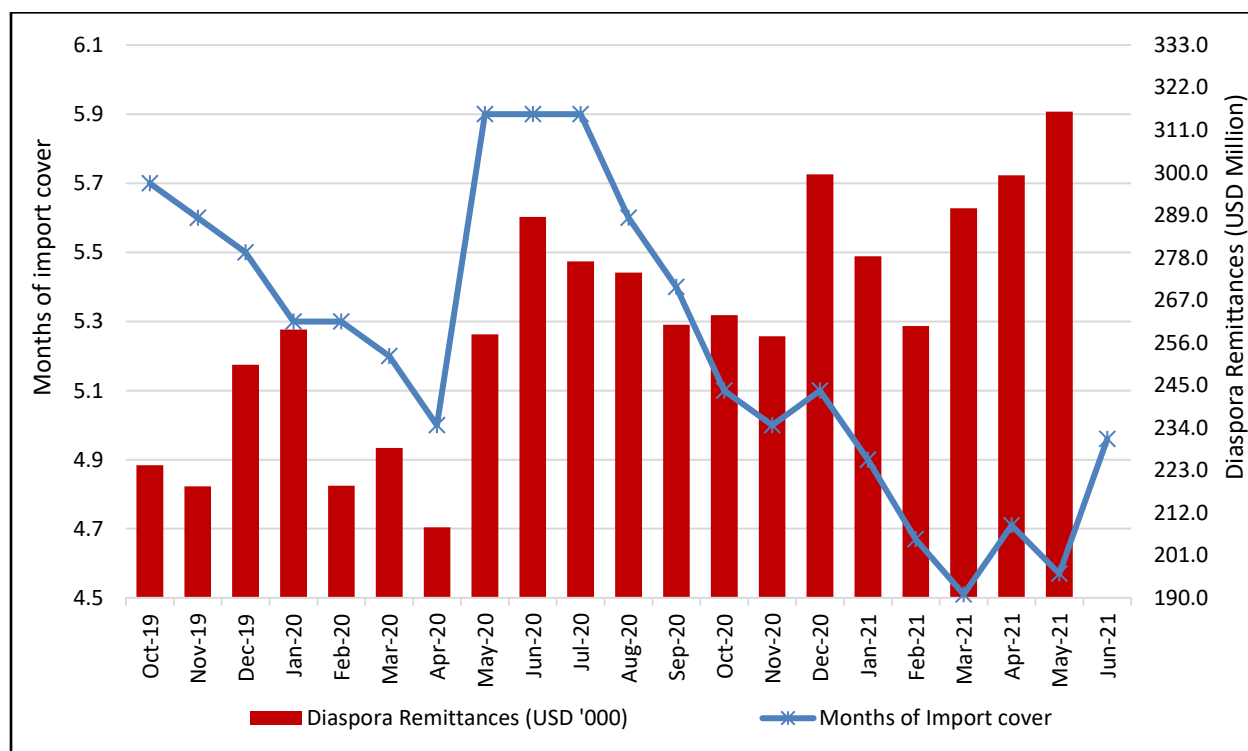
Data source: Central Bank of Kenya

**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. 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 17: Months of import cover and diaspora remittances**



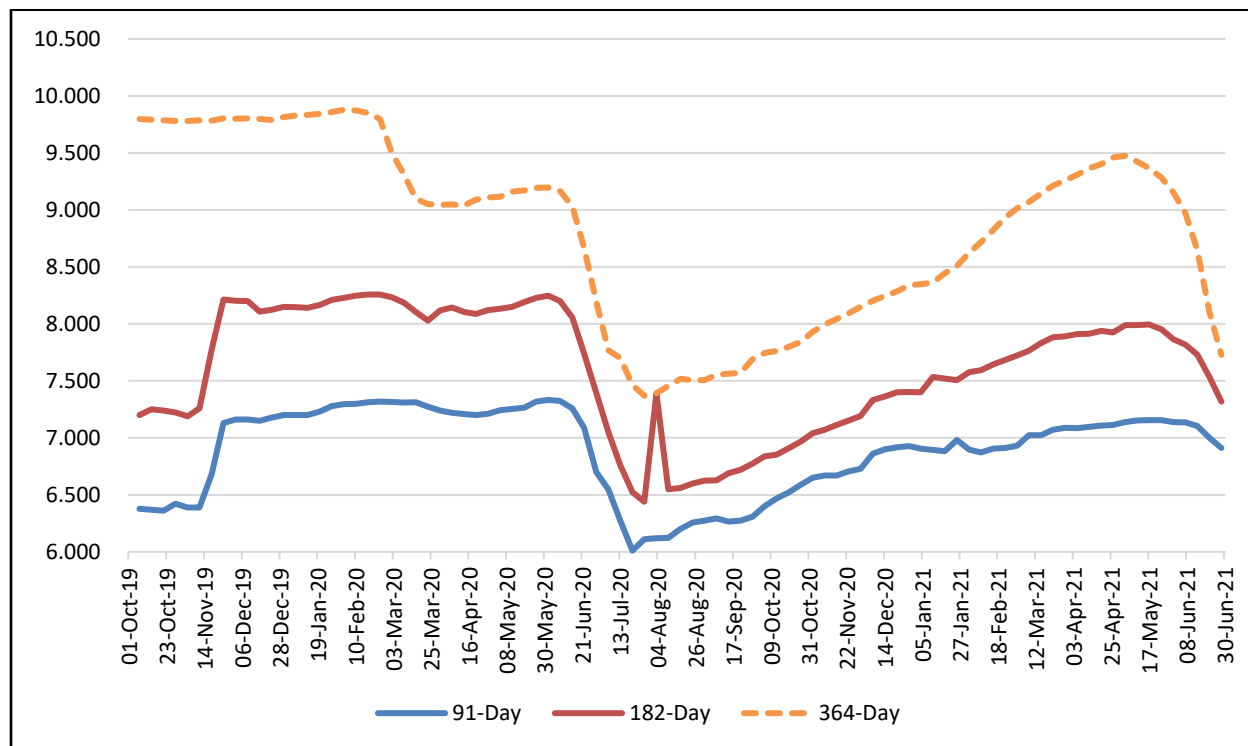
Data Source: Central Bank of Kenya



### 3. MONETARY AND FINANCIAL SECTOR

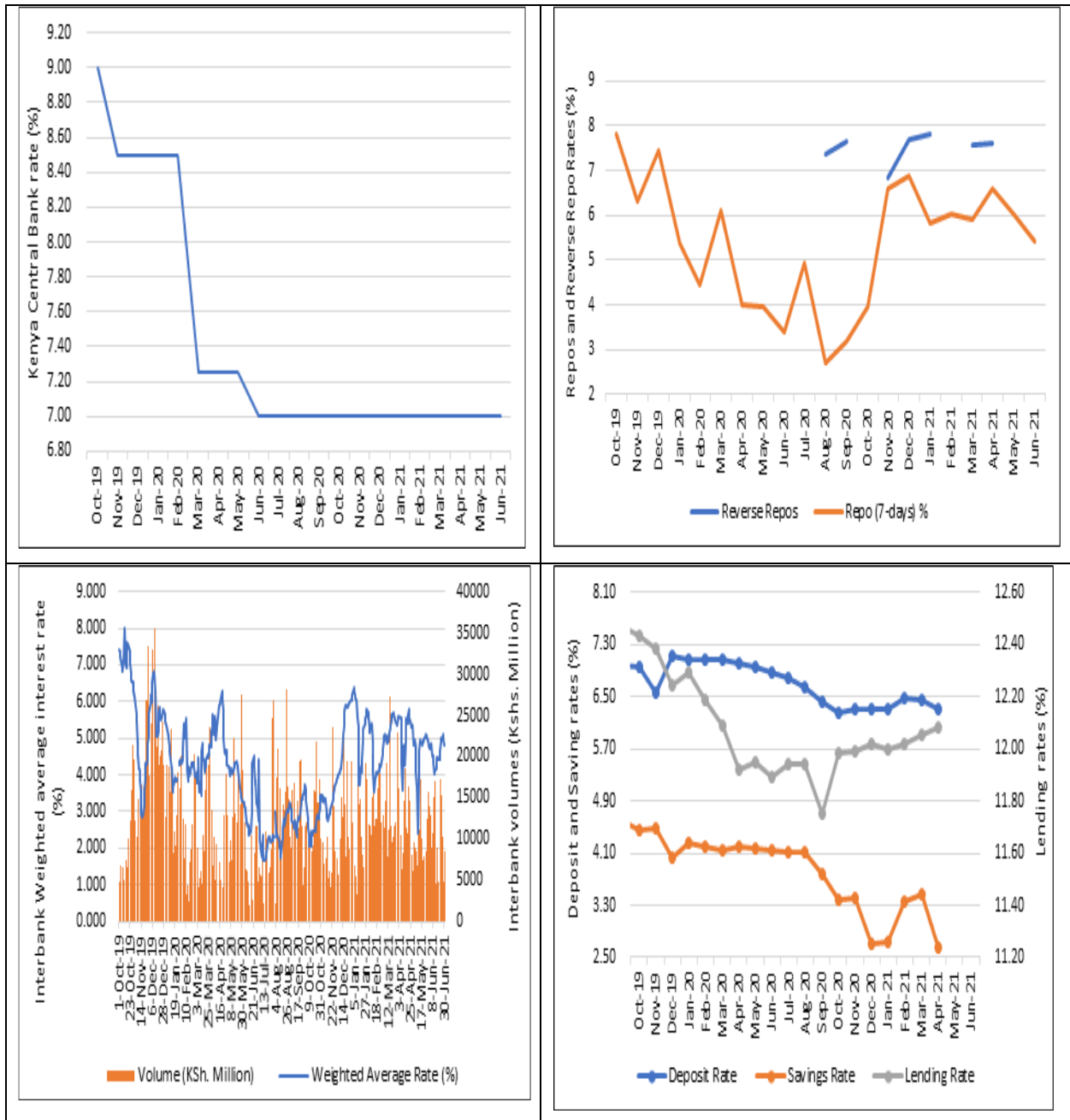
Noting that inflation had remained anchored within the target range and that the economy was performing below its potential, the Central Bank of Kenya maintained an accommodative monetary policy stance, with the policy rate maintained at 7.00 per cent to support the recovery of economic activities on 26<sup>th</sup> May 2021. Similarly, most Central Banks in the region maintained accommodative monetary policy stance to stimulate economic activities. The 91-day, 182-day and 364-day Treasury bills' interest rates decreased from 7.10 per cent, 7.92 per cent and 9.38 per cent in April 2021 to 7.04 per cent, 7.60 per cent and 8.36 per cent in June 2021, respectively. Investors' appetite has shifted to the longest tenor paper (364-day Treasury bills), and this is due to the high returns on that tenor. The value of mobile money transactions has been reducing since January 2021 compared to the preceding months. The number of mobile transactions has remained on an upward trend in the second quarter of 2021, an indication that most Kenyans have acculturated to cashless transactions, a phenomenon that robustly started as a way of avoiding contact when COVID-19 pandemic began. Deposit rates have reduced to a low of 6.30 per cent, a 11.39 per cent drop after the removal of interest rates cap. During the same period, interest rate spread has increased by 13.00 per cent from 5.13 per cent when the cap was removed to 5.78 per cent in April 2021.

**Figure 18: Treasury bill weighted average rate (%)**



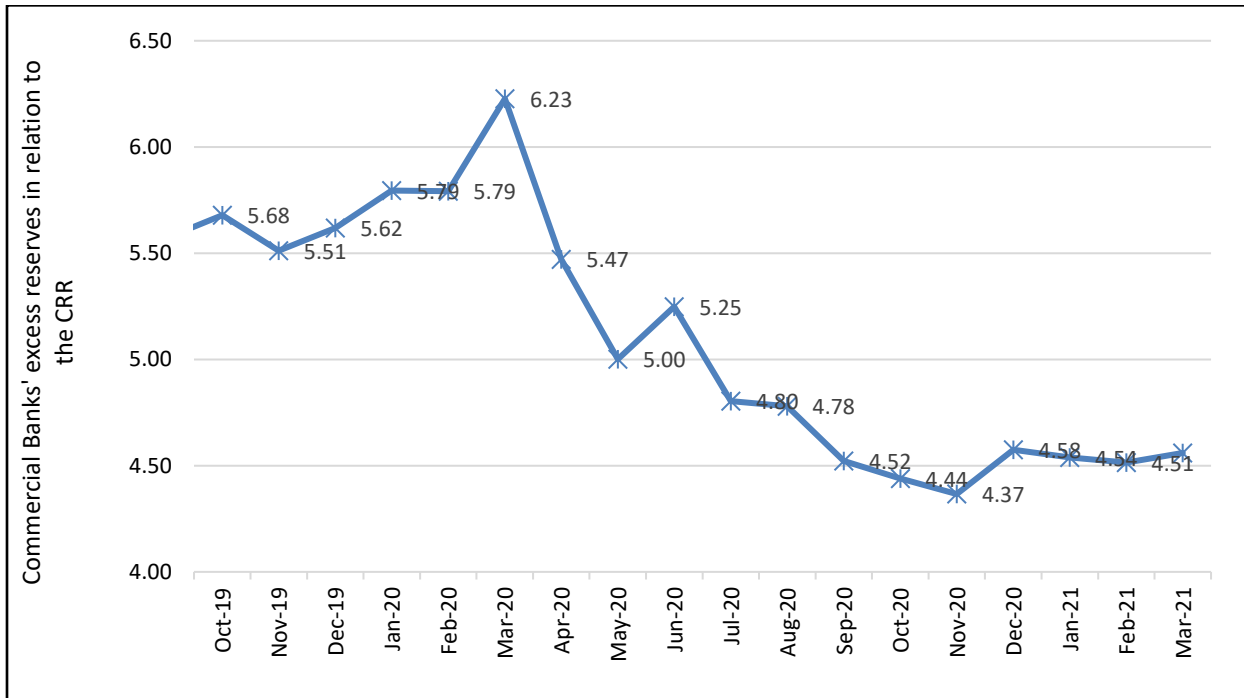
Data source: Central Bank of Kenya

**Figure 19: Interbank rate and volume, Repos, and other interest rates**



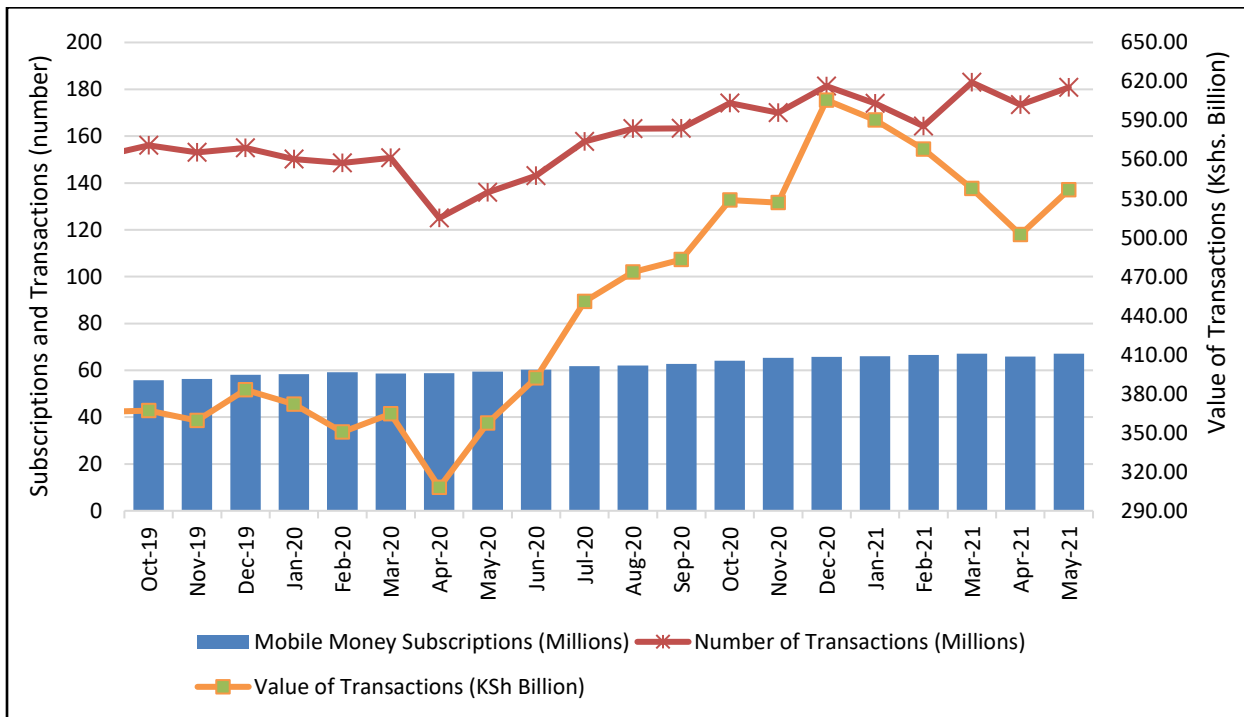
Data source: Central Bank of Kenya

**Figure 20: Commercial banks' excess reserves (%) in relation to the CRR**



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

**Figure 21: Mobile money transactions**

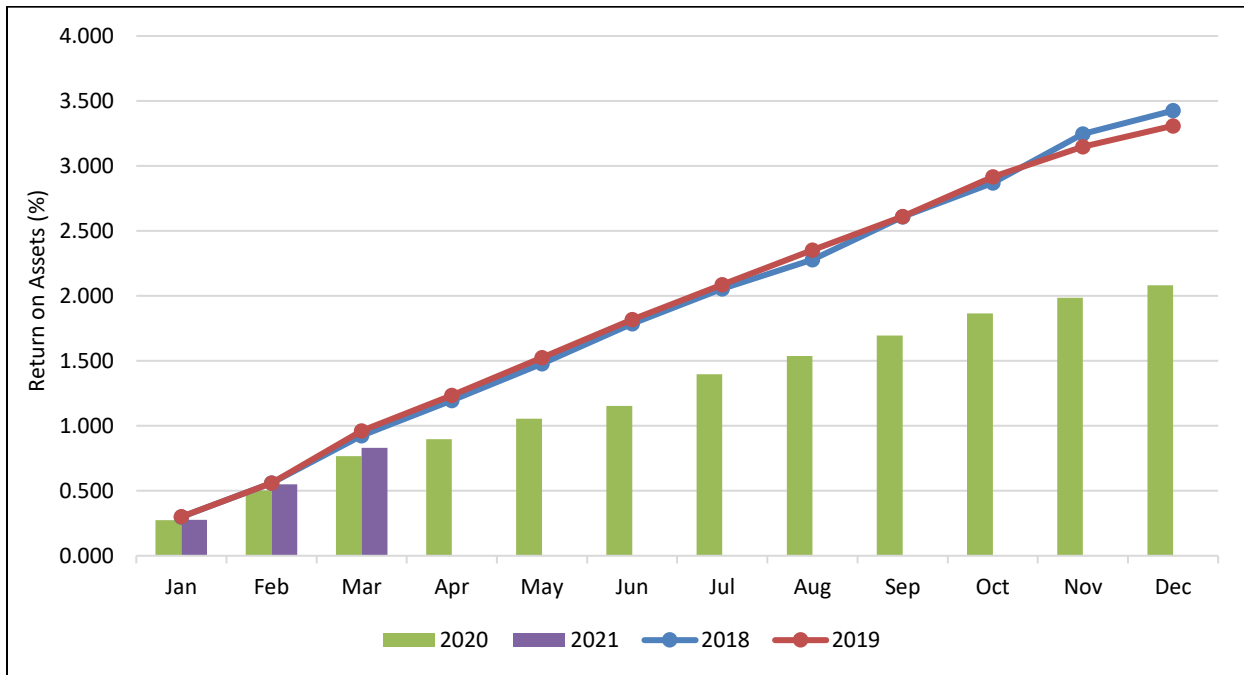


Data source: Kenya National Bureau of Statistics

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>)

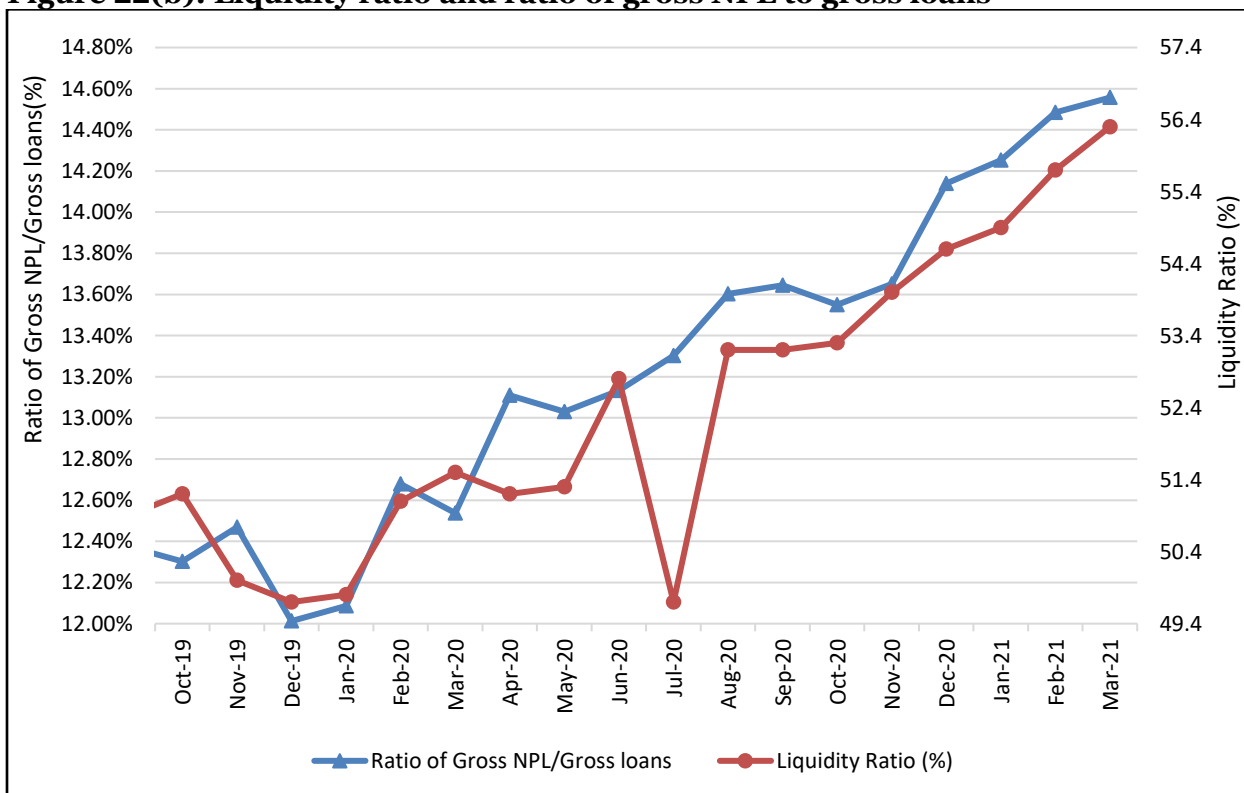
**Figure 22: Kenyan banking sector performance**

**Figure 22(a): Return on asset (%)**



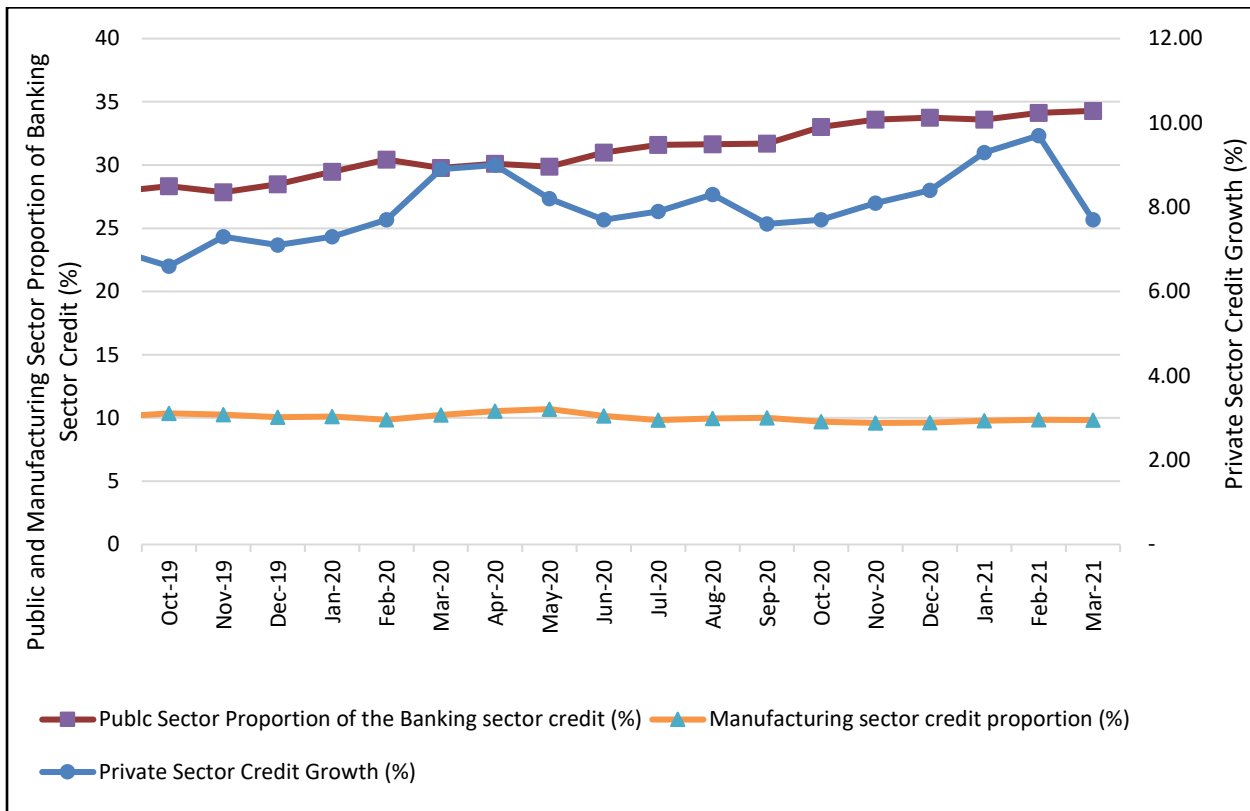
Data Source: Calculated using data from Central Bank of Kenya

**Figure 22(b): Liquidity ratio and ratio of gross NPL to gross loans**



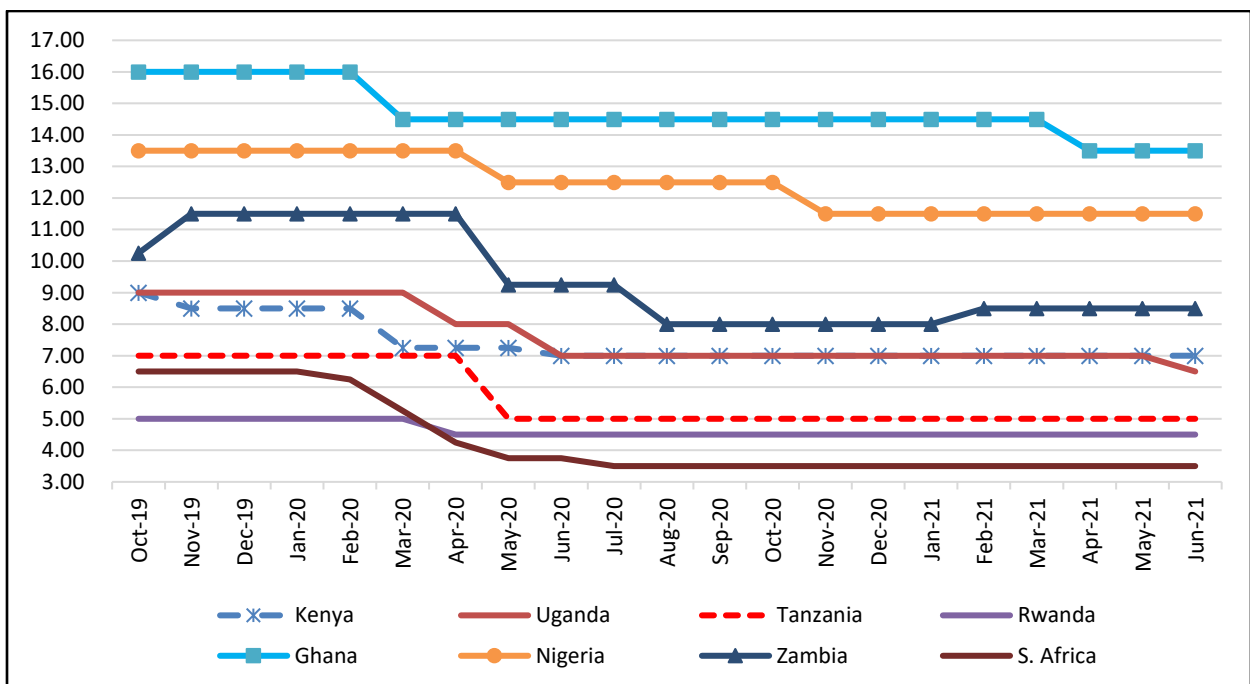
Data Source: Calculated using data from Central Bank of Kenya

**Figure 23: Banking sector credit**



Data Source: Central Bank of Kenya

**Figure 24: Monetary policy stance for selected countries in Africa**



Data Source: Country Central Banks

## 4. FISCAL PERFORMANCE

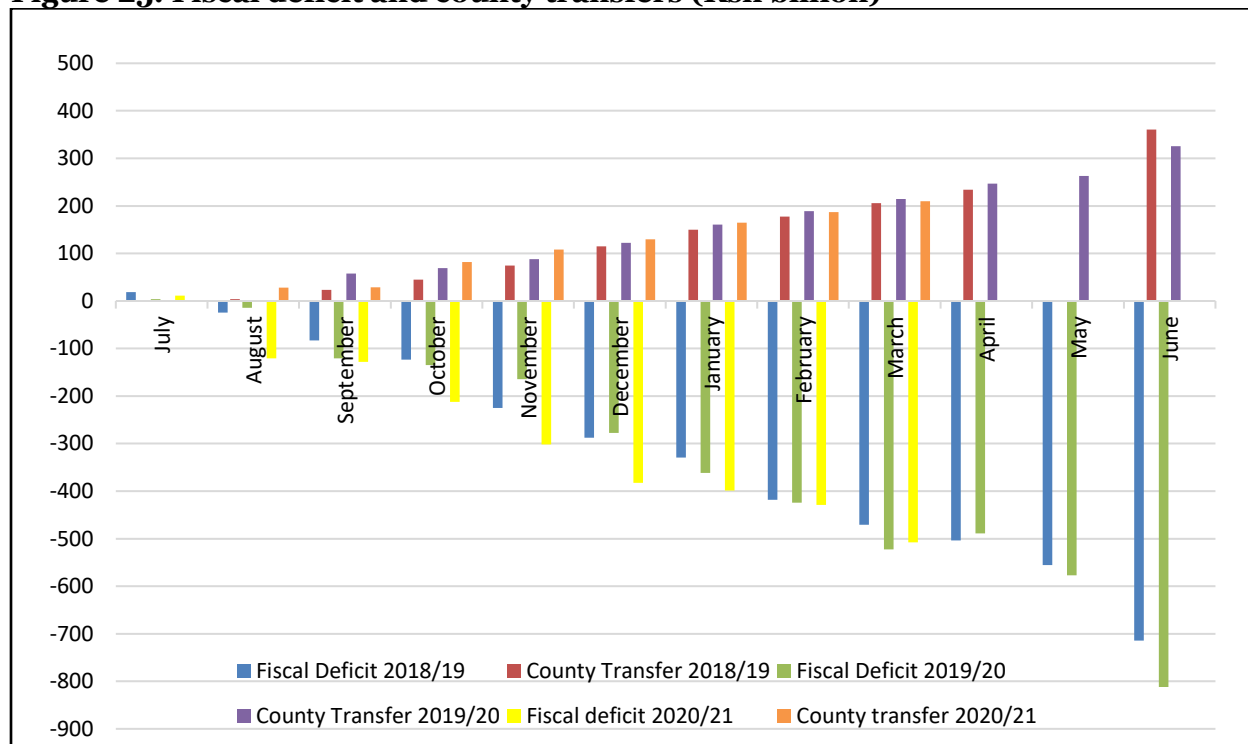
The 2021/22 financial year budget estimates were revealed on 10<sup>th</sup> June 2021 with an estimated annual budget of Ksh 3.03 trillion, a 4.80 per cent increase from last year's budget. The fiscal deficit of Ksh 929.70 billion will be financed through external borrowing (Ksh 271.20 billion–29%) and domestic borrowing (Ksh 658.50 billion–71%). The budget reflects additional foreign financing due to the extension of DSSI (Debt Service Suspension Initiative) relief through end-December 2021, as agreed by the G20 in April (US\$ 361 million). On 2<sup>nd</sup> April 2021, IMF approved US\$ 2.34 billion ECF (Extended Credit Facility) and EFF (Extended Fund Facility) arrangements for Kenya for 38 months to help the government in the next phase of combating COVID-19 pandemic and to reduce debt vulnerabilities while safeguarding resources to protect vulnerable groups. This will also help to fill the fiscal gap. Kenya also issued a 12-year Eurobond at 6.30 per cent on 17<sup>th</sup> June 2021, which will be repaid in 2 equal tranches in January 2033 and January 2034. By so doing, the country raised US\$ 1 billion.

The health sector has been allocated Ksh 112.09 billion, out of which only Ksh 15.40 billion is for COVID-19 management, which is quite low considering the gravity of the pandemic. Furthermore, this sector has for long relied on donor funding, an aspect that exposes it to vulnerability in the likely events of donor funding not resuming. For instance, there was a serious blood shortage when PEPFAR ceased to fund blood transfusion. Similarly, the agriculture, water, and environment sector has also been given a budget of Ksh 173.21 billion (5.7%), which is inadequate to complete the stalled projects and facilitate the efforts of achieving food security.

Turning on to revenues for the last financial year, the cumulative actual national revenue receipts as of 31<sup>st</sup> May 2021 totaled Ksh 2358.15 billion compared to a total of Ksh 2276.67 billion in May 2020, an increase of 3.58 per cent. 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 low of 7.91 per cent in May 2020 to 13.17 per cent in May 2021. This is attributable to the continued government efforts to support the health sector in combating the COVID-19 pandemic. The recurrent allocation of the sector as a percentage of total issues also increased to 4.15 per cent in May 2021 from 3.64 per cent in May 2020. In the last three financial years, the actual revenue generated in each quarter have been lower than the quarterly target revenue.

Public debt increased to Ksh 7.35 trillion in March 2021 with increased borrowing related to the COVID-19, of which about 48.89 per cent was domestic debt. In the second quarter of 2021, the proportion of domestic debt held in treasury bonds rose to 76.86 per cent from 68.94 per cent in a similar quarter in 2020.

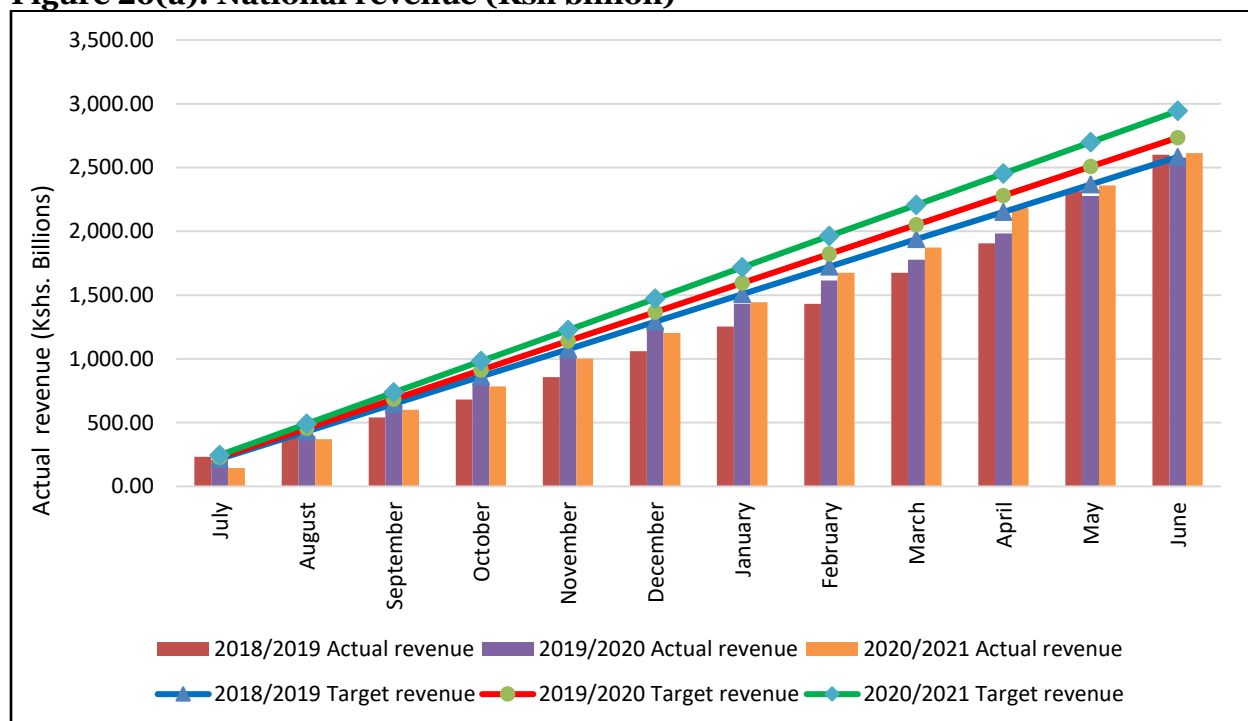
**Figure 25: Fiscal deficit and county transfers (Ksh billion)**



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

**Figure 26: Monthly utilization of revenue against target**

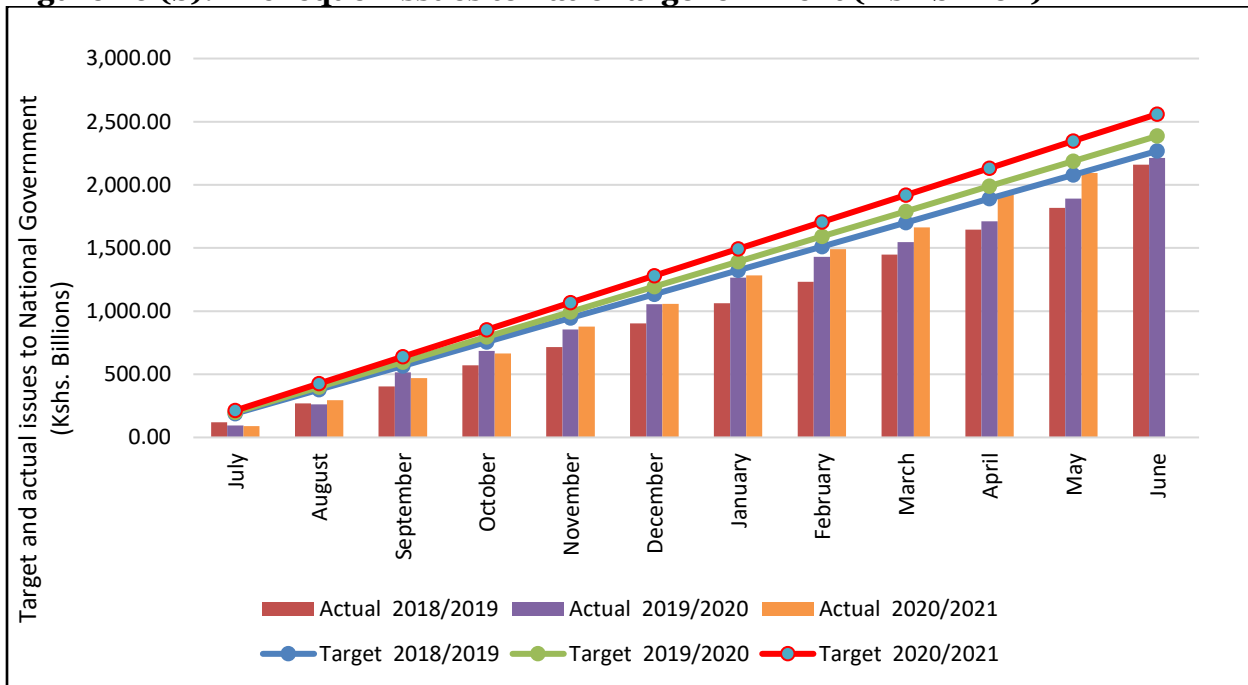
**Figure 26(a): National revenue (Ksh billion)**



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

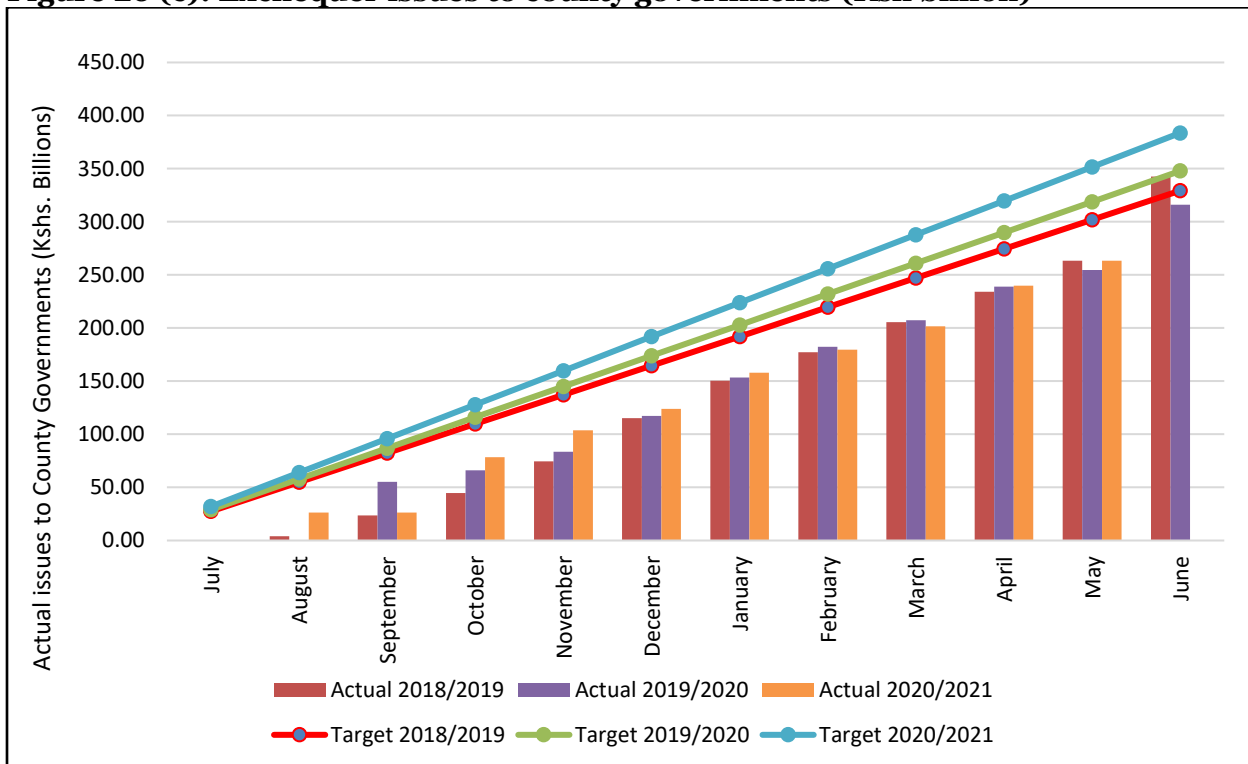


**Figure 26 (b): Exchequer issues to national government (Ksh billion)**



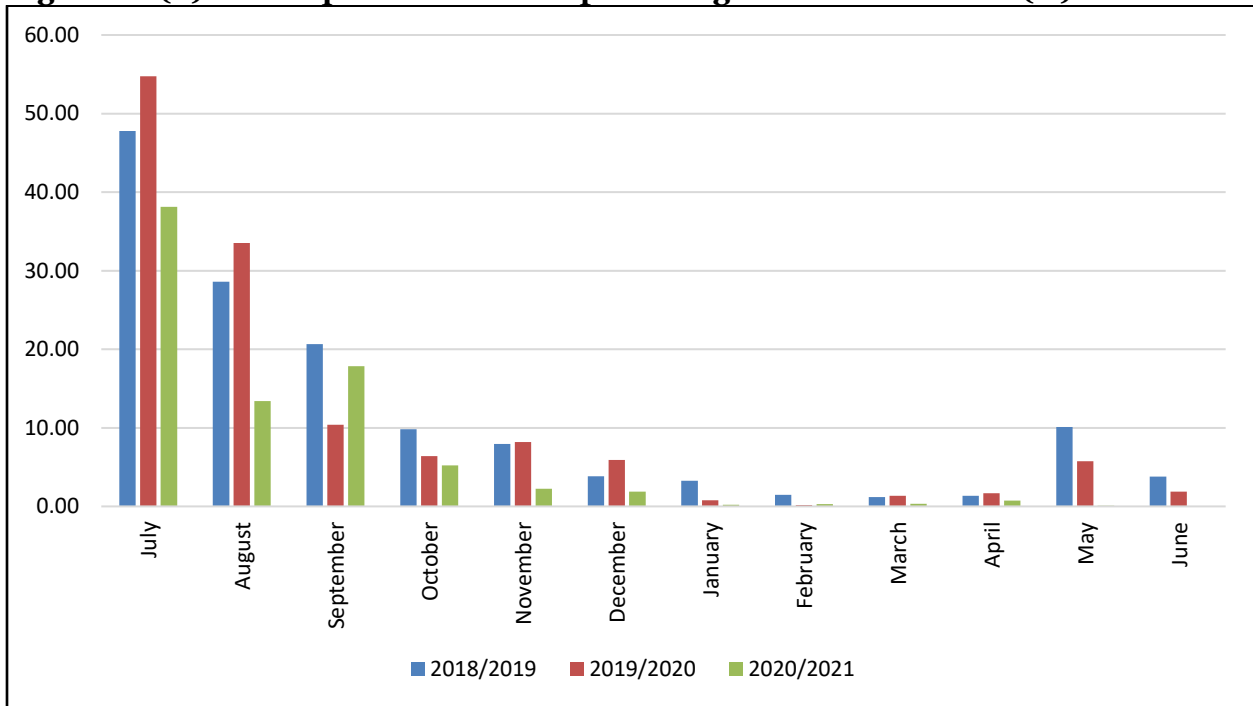
Data Source: Monthly Gazette Notices, The National Treasury and Planning

**Figure 26 (c): Exchequer issues to county governments (Ksh billion)**



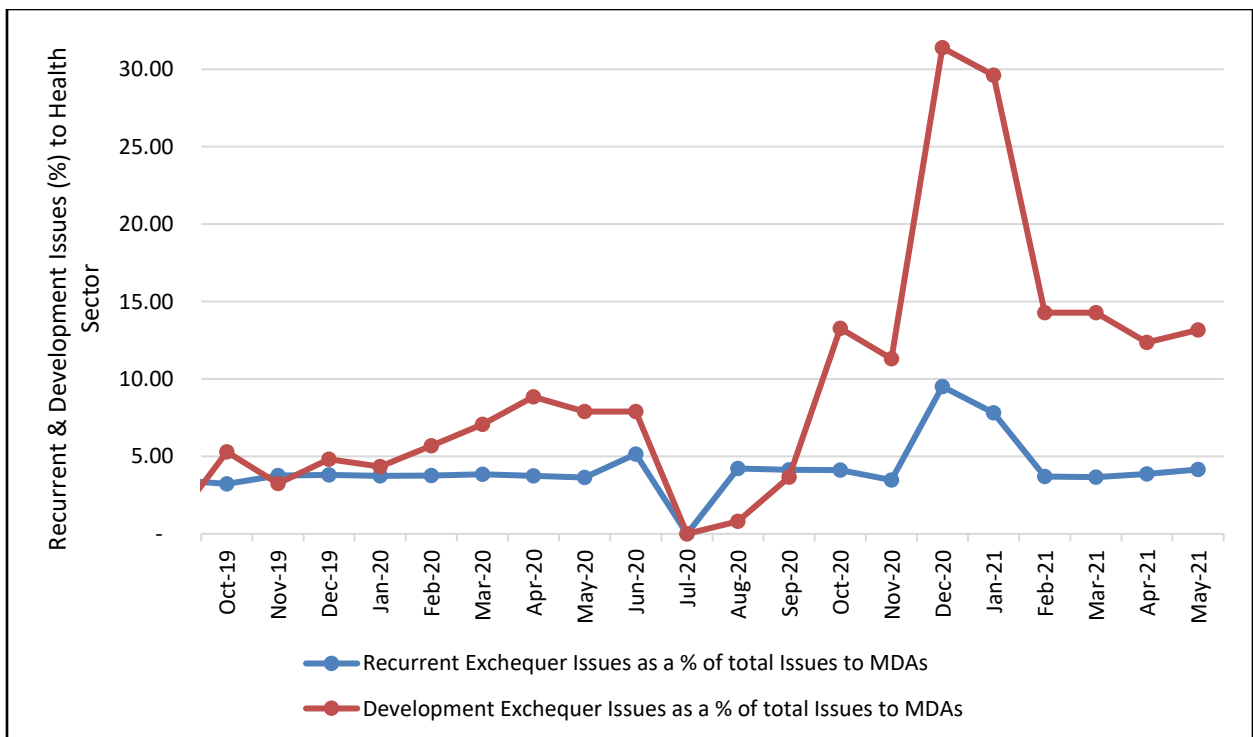
Data Source: Monthly Gazette Notices, The National Treasury and Planning

**Figure 26 (d): Exchequer balance as a percentage of actual revenue (%)**



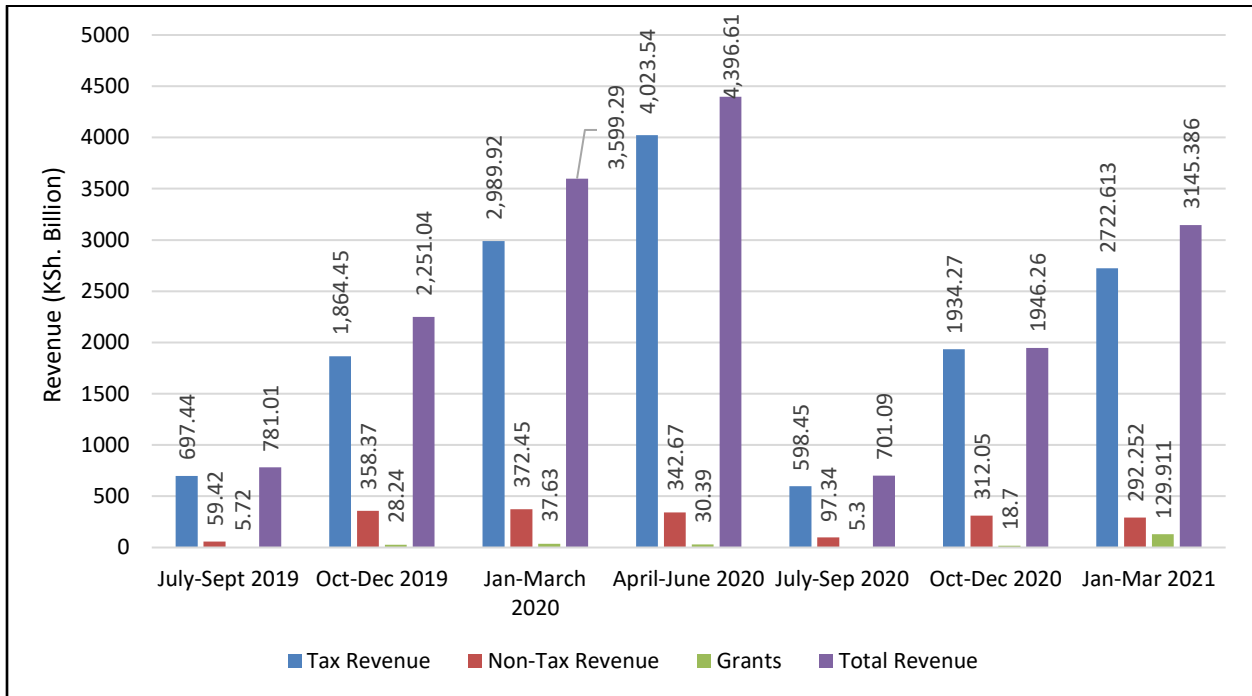
Data Source: Monthly Gazette Notices, The National Treasury and Planning

**Figure 27: Exchequer allocation to Ministry of Health as a % of total issues to Ministries, Agencies and Departments**



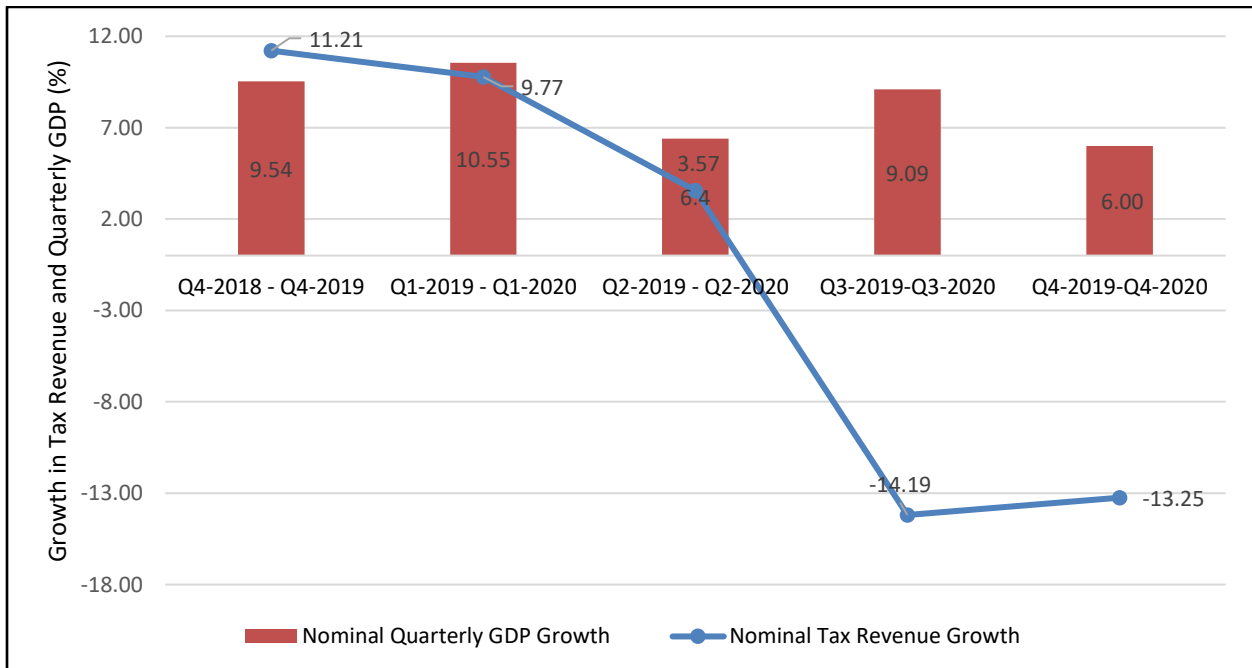
Data Source: Monthly Gazette Notices, The National Treasury and Planning

**Figure 28: Composition of government revenue (Ksh billion)**



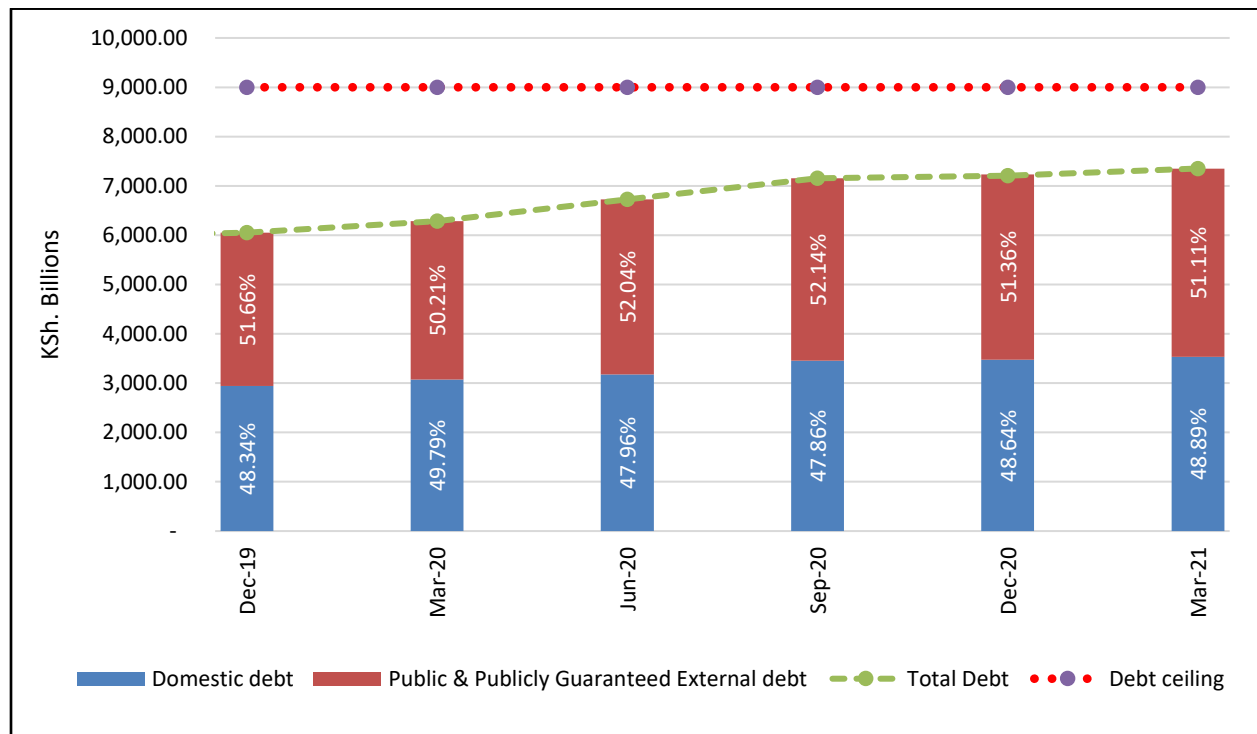
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices

**Figure 29: Growth in tax revenue (%) and quarterly GDP growth (%)**



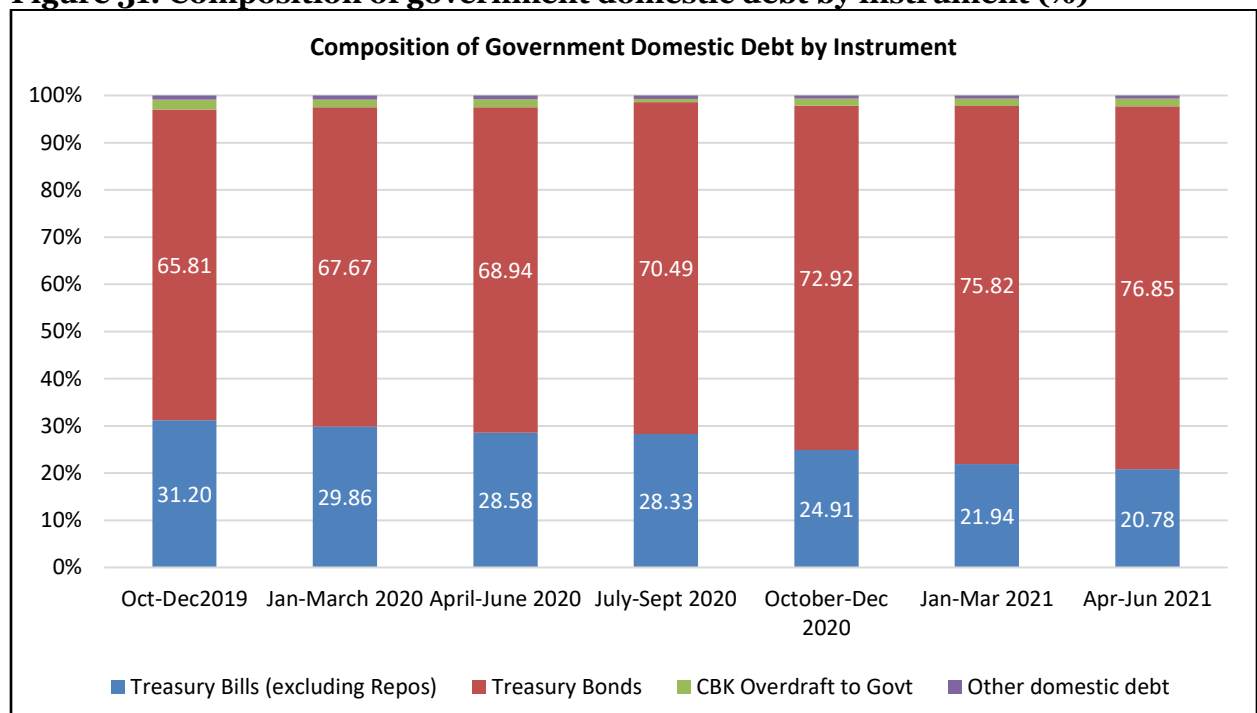
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

**Figure 30: Total debt (Ksh billion) and proportionate shares of domestic and foreign debt**



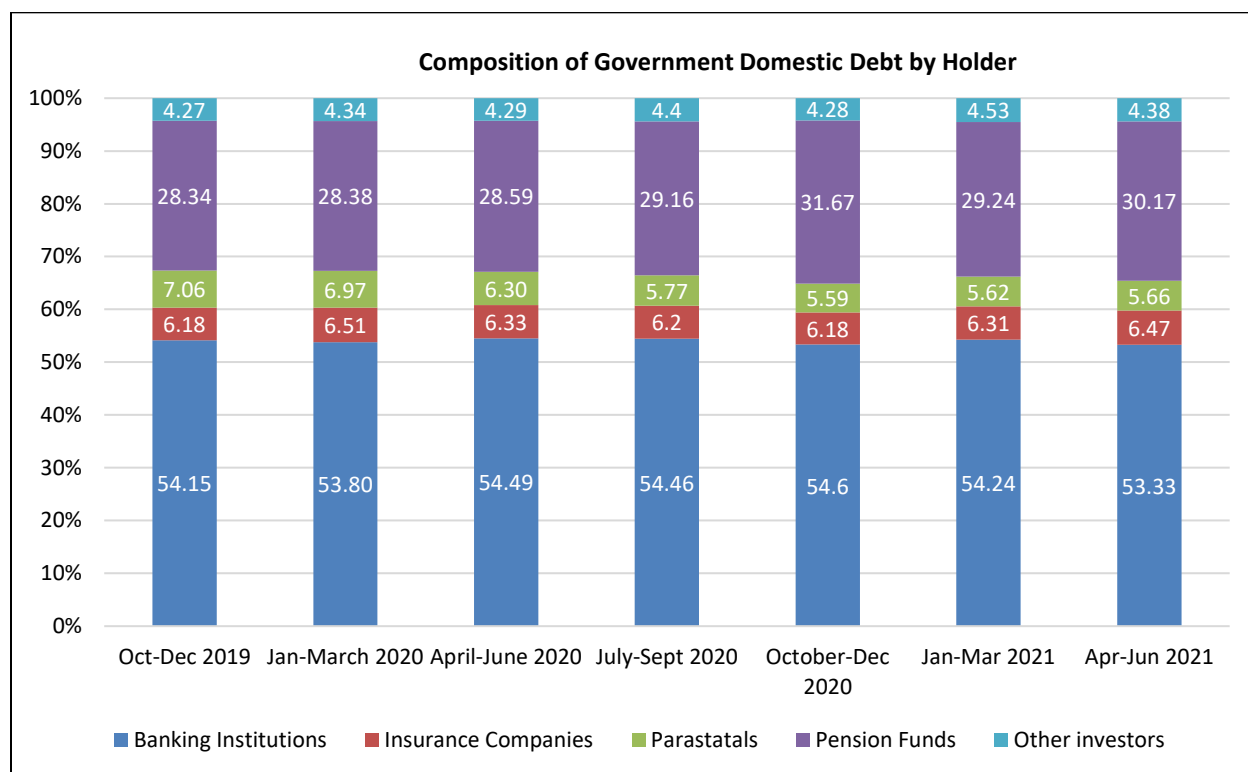
Data Source: Calculated using data from Central Bank of Kenya

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



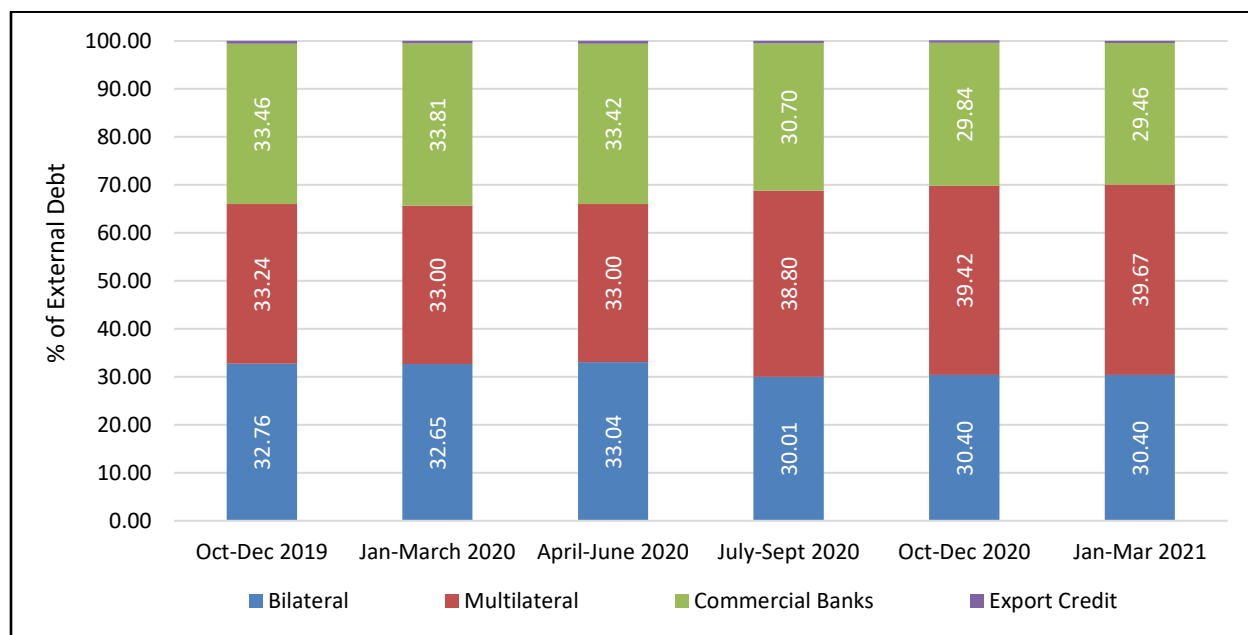
Data Source: Calculated using data from Central Bank of Kenya

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



Data Source: Calculated using data from Central Bank of Kenya

**Figure 33: Composition of external debt: Proportionate shares of bilateral, multilateral, commercial bank, and export credit (%)**

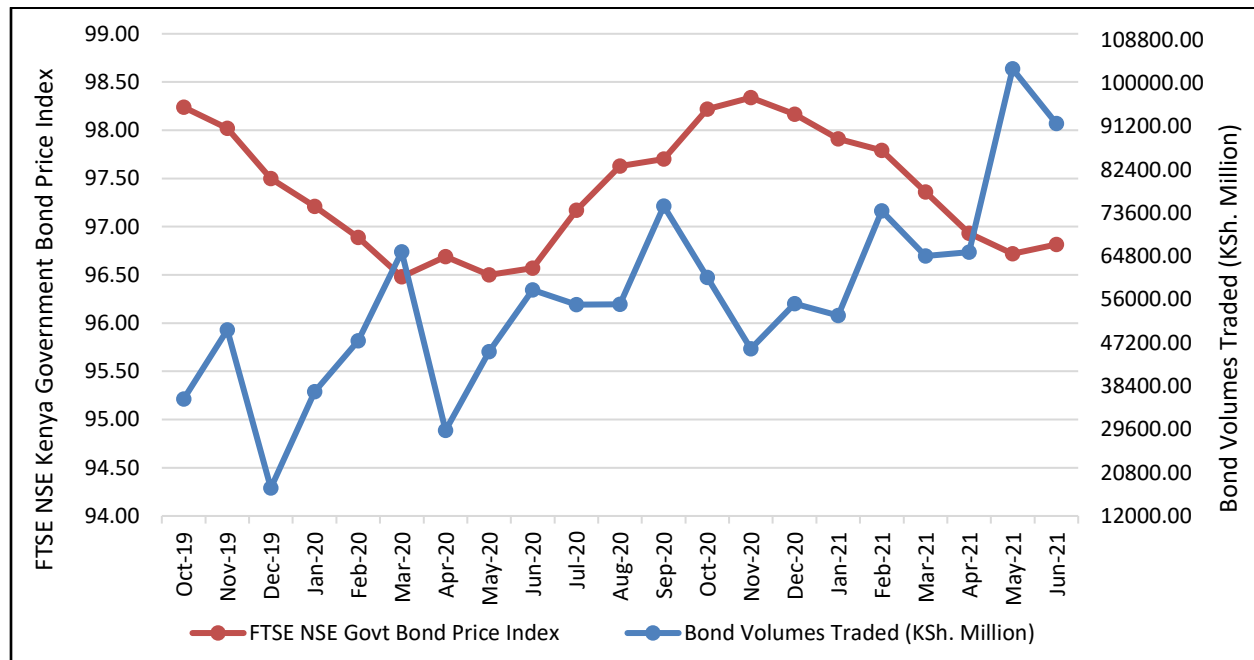


Data Source: Calculated using data from Central bank of Kenya

## 5. CAPITAL MARKETS

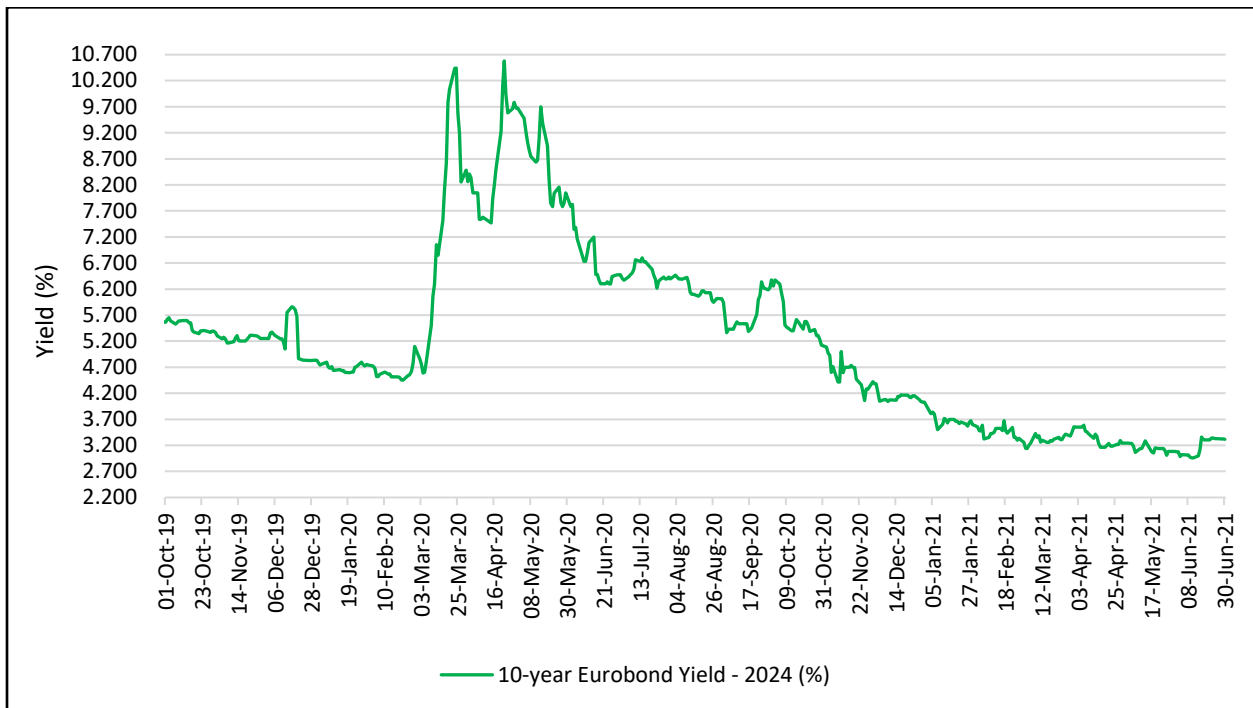
Following the reopening of economies and the resumption of businesses, US, European, and Asian stock markets registered upward trends and this trend has extended to the second quarter of 2021, implying that the afore markets are slowly growing resilient to COVID-19 pandemic. The stock market in Kenya also showed a steady recovery since October 2020 and this extended to the second quarter of 2021 despite the third wave of COVID-19 pandemic. This is attributable to increased economic activities following the reopening of the economy as facilitated by accommodative monetary stances in the economy. However, the NSE index is yet to get back to the levels before the pandemic. The 10-year Kenya Eurobond (2024) yield continued to decline in the second quarter of 2021, an indication that the international market is slowly regaining confidence with Kenya's creditworthiness.

**Figure 34: Bond volumes traded (Ksh million) and FTSE NSE Kenya government bond price Index**



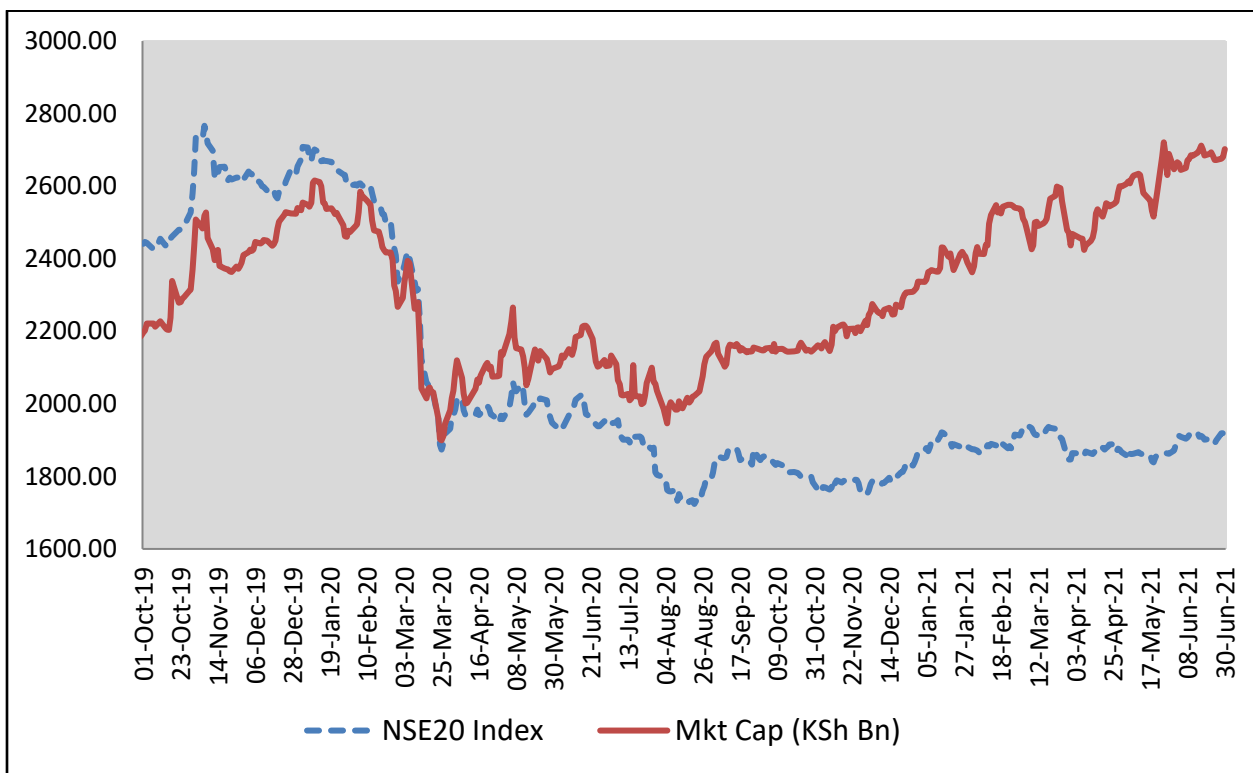
Data Source: Nairobi Securities Exchange; Central Bank of Kenya

**Figure 35: The 10-year Kenya Eurobond (2024) yield (%)**



Data Source: Central Bank of Kenya

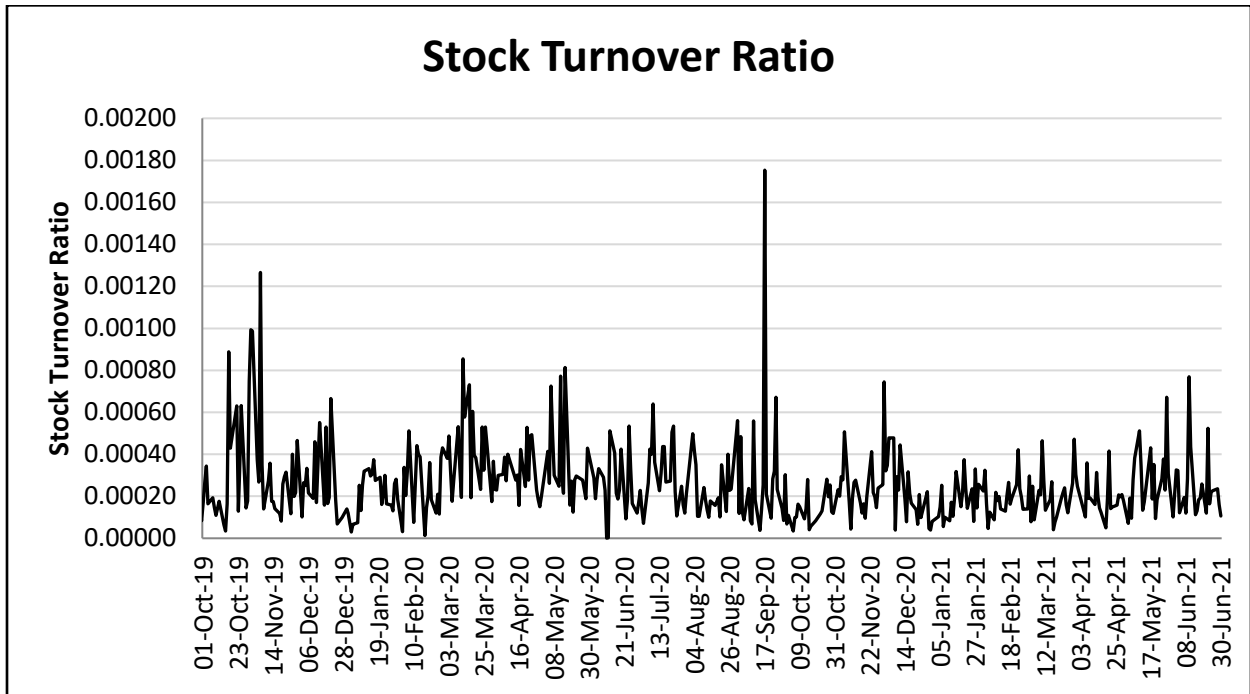
**Figure 36: Stock market performance**



Data Source: Nairobi Securities Exchange

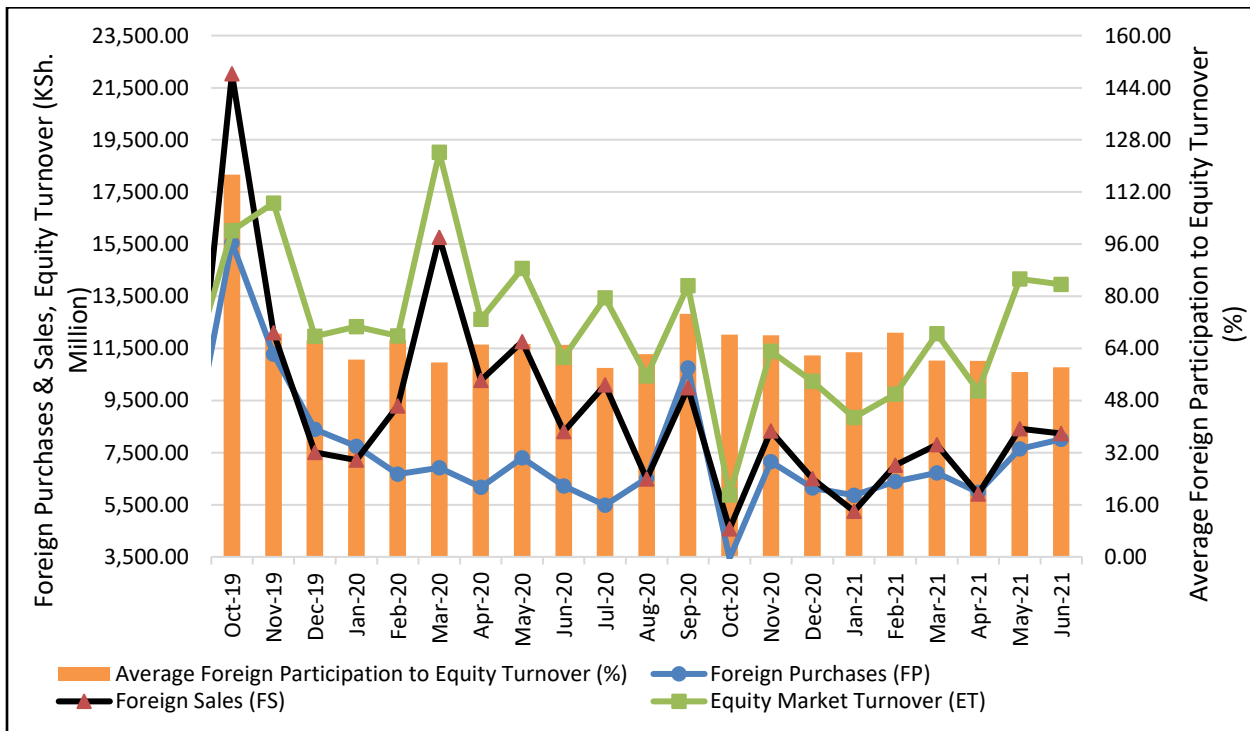


**Figure 37: Stock value turnover ratio (%)**



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

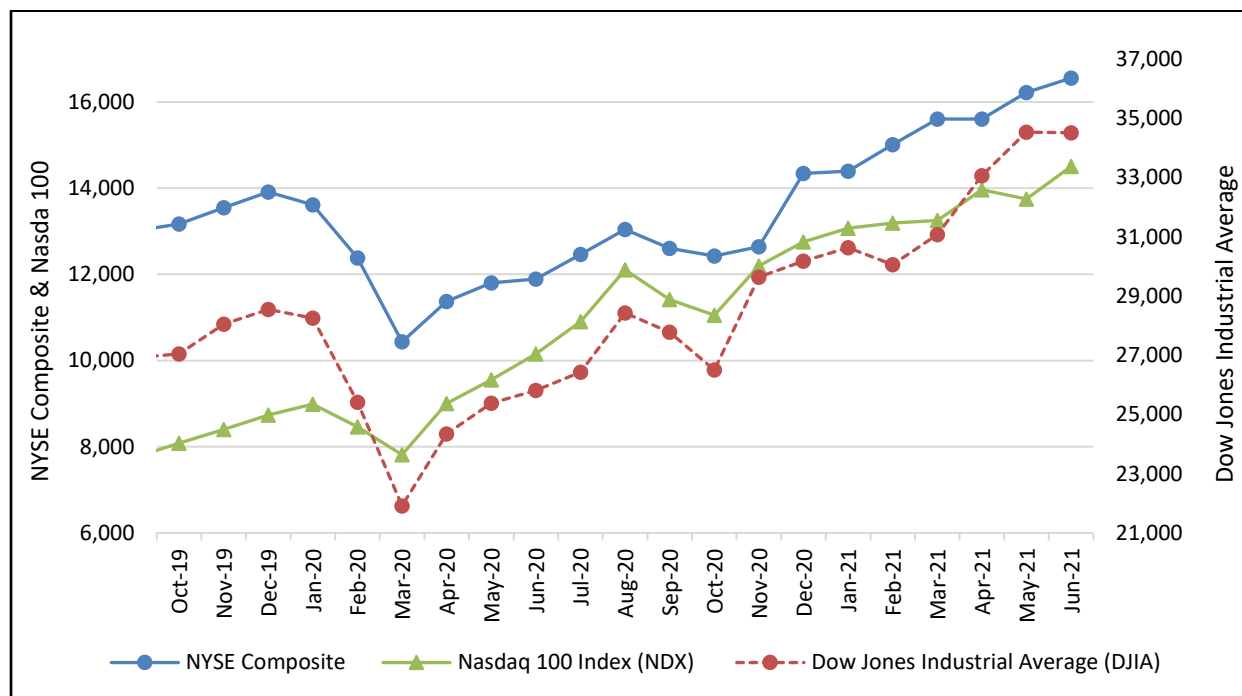
**Figure 38: Foreign trading in the stock market**



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

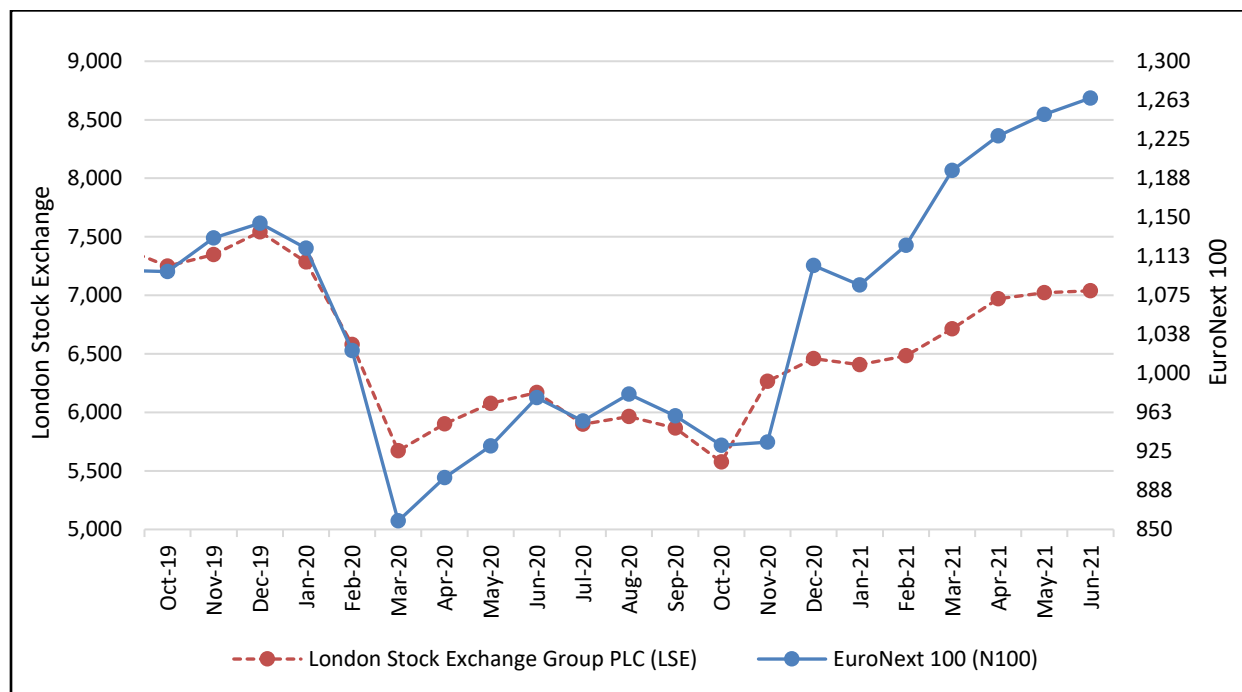
**Figure 39: Stock market performance of selected advanced and emerging markets**

**(a): USA stock markets**



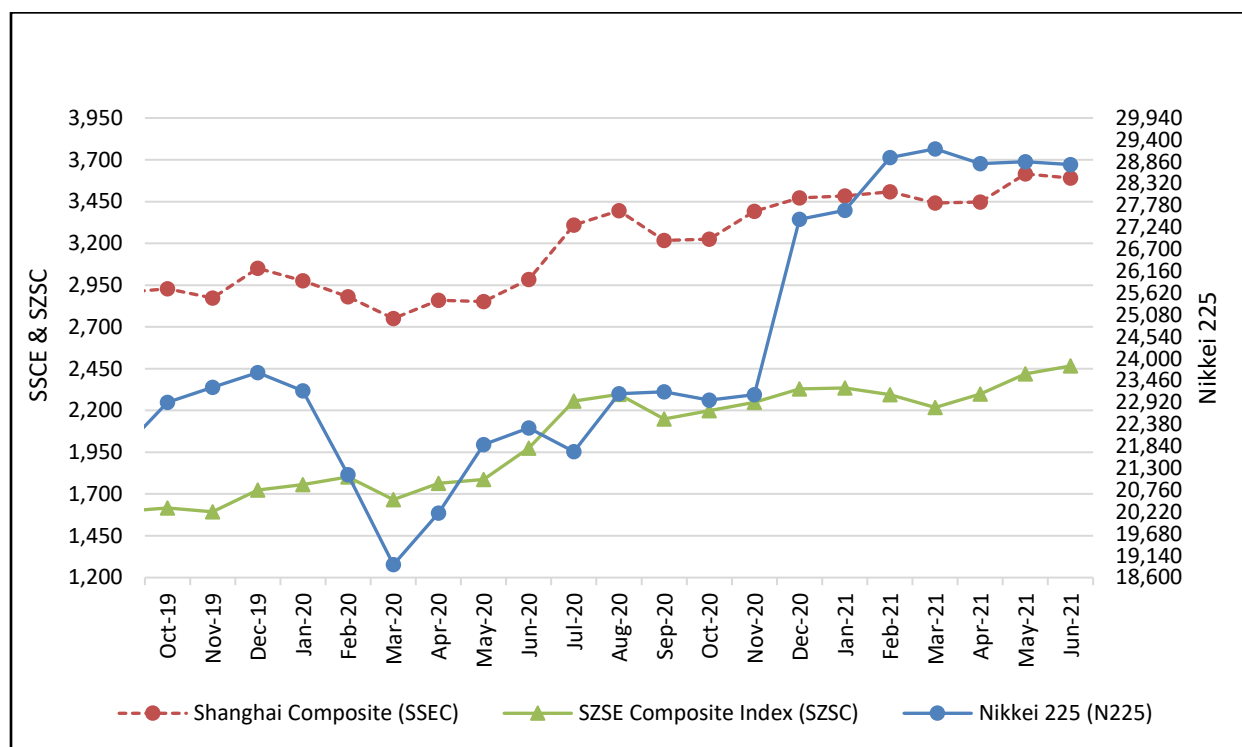
Data source: Country Stock Exchanges; <http://www.investing.com>

**(b): European stock markets**



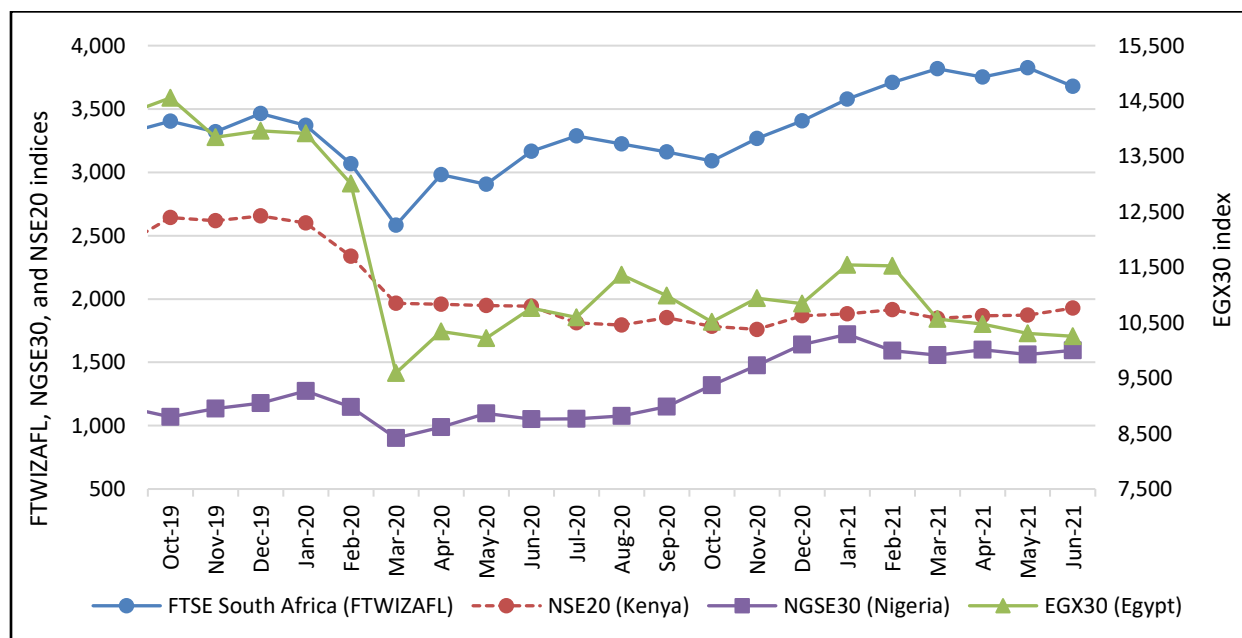
Data source: Country Stock Exchanges; <http://www.investing.com>

**(c): Asian stock markets**



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

**(d): African stock markets**

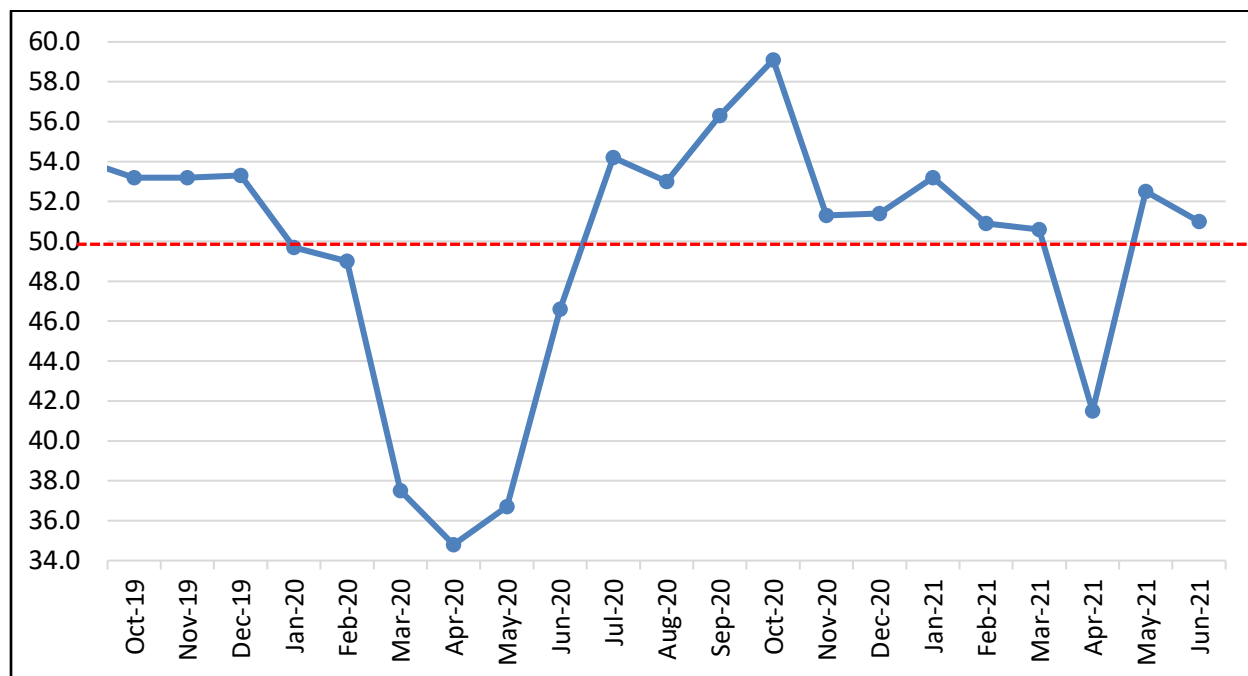


Data source: Country Stock Exchanges; <http://www.investing.com>

## 6. RISK-RELATED FACTORS

The Purchasing Managers' Index (PMI) for Kenya has increased from a low of 41.50 in April 2021 to a high of 52.50 in May 2021 then a slight drop to 51.00 in June 2021. April's contraction can be largely attributed to the renewed COVID-19 travel restrictions and lockdown of some zoned counties. The country recorded an average rainfall of 288.00mm in March-May, which was lower than that recorded in the same season in the previous year (491.73mm). This contributed to increased prices of food in the second quarter of 2021. In terms of credit rating for Kenya, the March 2021 fitch rating indicates a negative outlook for long term issuer default rating and local currency long-term issuer default rating. COVID-19 cases continue to pose a threat to the economy although we have witnessed a relatively low positivity rate in the second half of April to June 2021 quarter.

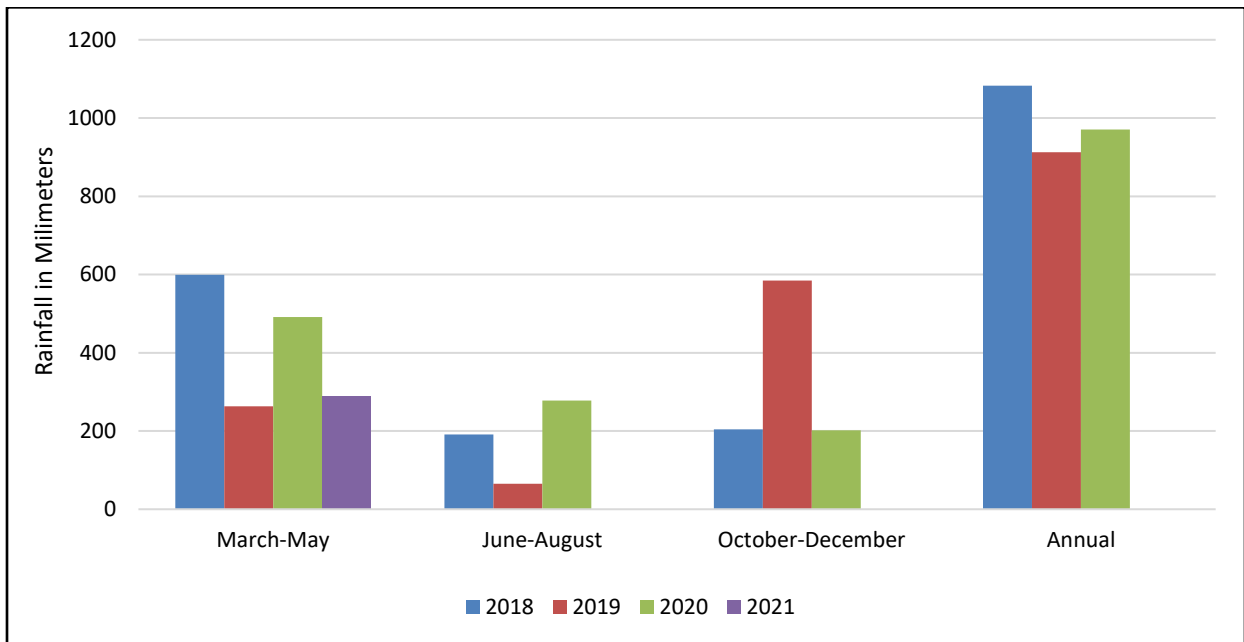
**Figure 40: Kenya purchasing managers' index**



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

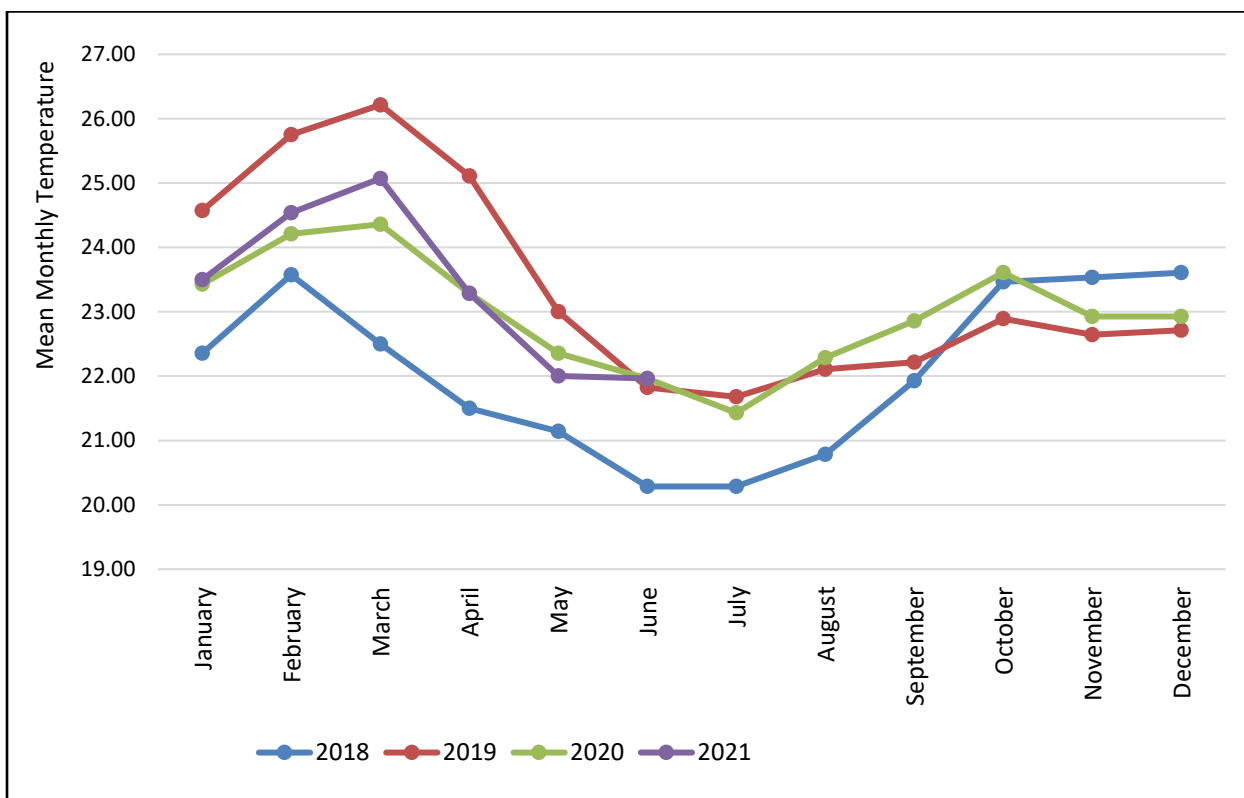
Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

**Figure 41: Mean annual and seasonal rainfall (millimeters)**



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

**Figure 42: Mean monthly temperature (degrees celsius)**



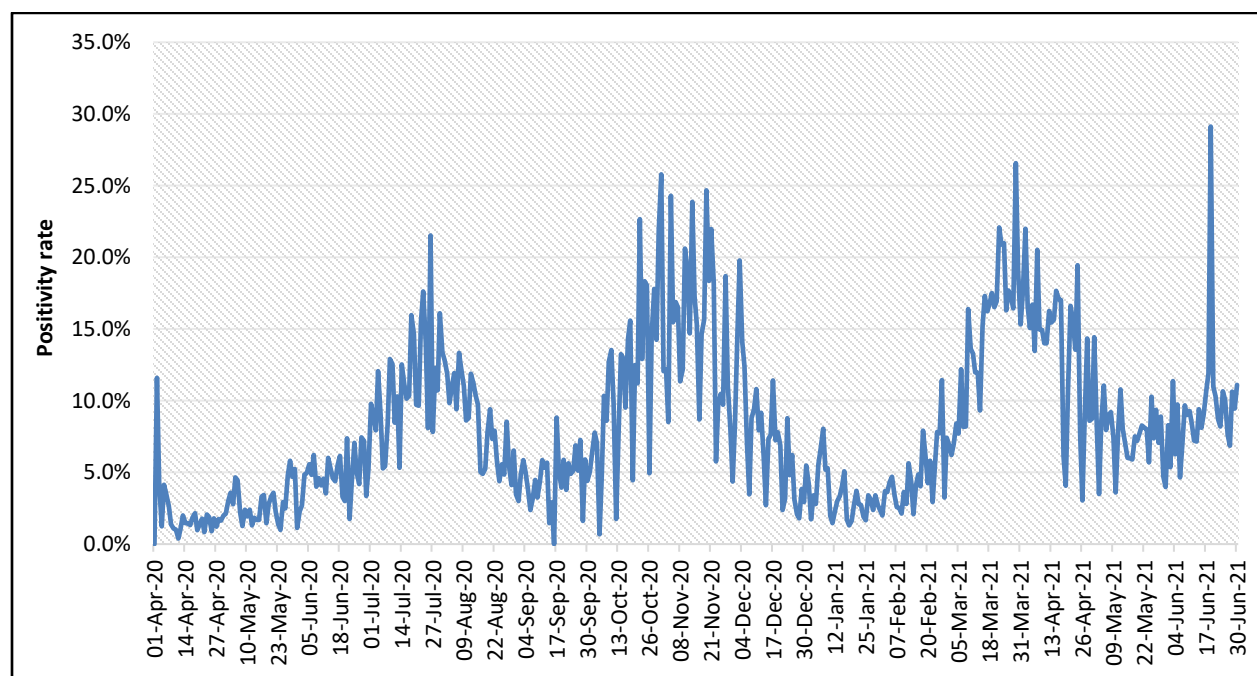
Data Source: Kenya Meteorological Department; <https://www.worldweatheronline.com/>

**Table 1: Fitch rating for Kenya**

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

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

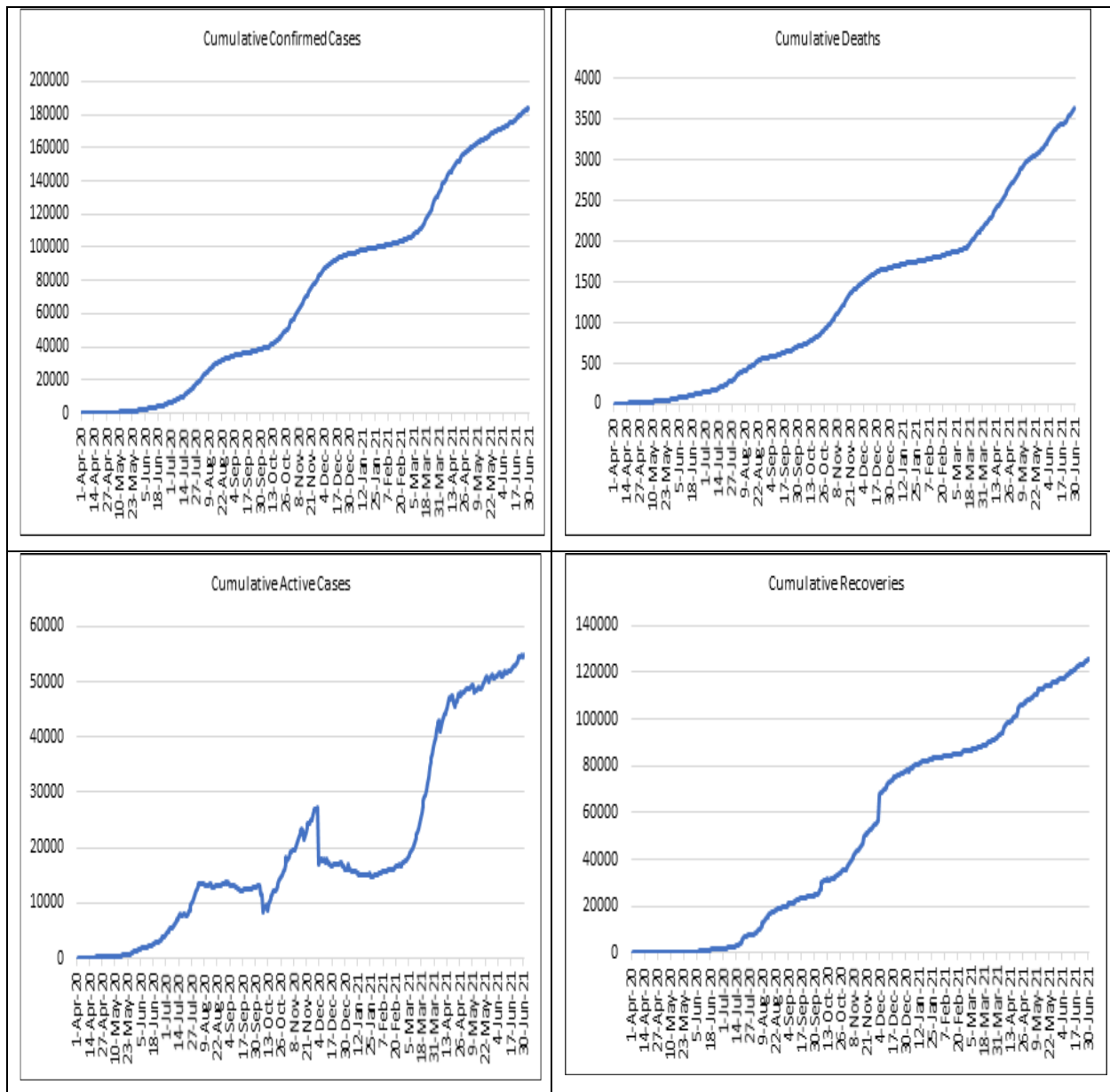
**Figure 43: Kenya COVID-19 positivity rate (%)**



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

\*Positivity rate is calculated by dividing the number of new cases with the sample tested.

**Figure 44: Other COVID-19 statistics for Kenya, April 2020- June 2021**



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