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(3) Ms. Kaveta
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REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING
STATE DEPARTMENT FOR PLANNING

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Ref: TNTP/SDP/11/82 VOL.II

3rd June, 2022

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Ministry of Agriculture, Livestock and Fisheries and Irrigation
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Ministry of Sports, Culture and Heritage
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(1) DLPS

(2) Mr. Mogere (DDLPS)

Dlom

PS facilitate tabling and referral to the Standing Committee on Finance for information.
13/6/22

Kindly deal.
13/06/2022

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Dear

REPORT ON THE STATUS OF THE KENYAN ECONOMY (JUNE, 2022)

Please find attached for your information and reference, a Report on the Status of the Kenyan Economy. The Report has been prepared based on the most recent GDP estimates from Kenya National Bureau of Statistics (KNBS) as well as other recent data on the performance of the economy. The Report is produced by the National Treasury and State Department for Planning through consultative meetings with the Central Bank of Kenya, Kenya Revenue Authority, Kenya National Bureau of Statistics, Kenya Institute of Public Policy Research and Analysis, Commission on Revenue Allocation and Controller of Budget. The production of the

Report also involved consultations with relevant Ministries, departments and Agencies with regard to sourcing of data and necessary information and analysis.

The Report provides a review of the Country's Economic Performance based on the most recently data (annual and quarterly GDP) sectoral performance, fiscal and monetary policies, banking and financial sector, balance of payments and economic outlook (global, regional and National). It provide risks to the Country's economic outlook as well as recommendations for implementation.

Yours

Hon. (Amb.) Ukur Yatani, EGH
CABINET SECRETARY/NATIONAL TREASURY AND PLANNING

Copy to: **Dr. Joseph K. Kinyua, EGH**
Head of Public Service
Executive Office of the President
State House
NAIROBI

Clerk of National Assembly & Senate

All Principal Secretaries

REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

STATE DEPARTMENT FOR PLANNING

STATE OF THE ECONOMY

June, 2022

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PREAMBLE

The Status of Kenya Economy Report is a publication by Macroeconomic Planning and International Economic Partnerships Directorate of the State Department of Planning, the National Treasury and Planning. The Report provides a review of the country's economic performance (annual and quarterly GDP), sectoral performance, fiscal and monetary policies, banking and financial sector, and economic outlook (global, regional and Kenya). The analysis of various economic variables guides in making recommendations in the report.

The Report is prepared by the Macro Working Group (MWG) through regular consultative meetings. MWG comprises of representatives from State Department for Planning, the National Treasury, Central Bank of Kenya (CBK), Kenya Revenue Authority (KRA), Kenya National Bureau of Statistics (KNBS), Kenya Institute for Public Policy Research and Analysis (KIPPRA), Commission on Revenue Allocation, and Controller of Budget. Consultations with relevant Ministries, Departments and Agencies (MDAs) with regards to sourcing of data and necessary information are undertaken.

The report is enriched by the most recent data provided by the following institutions:

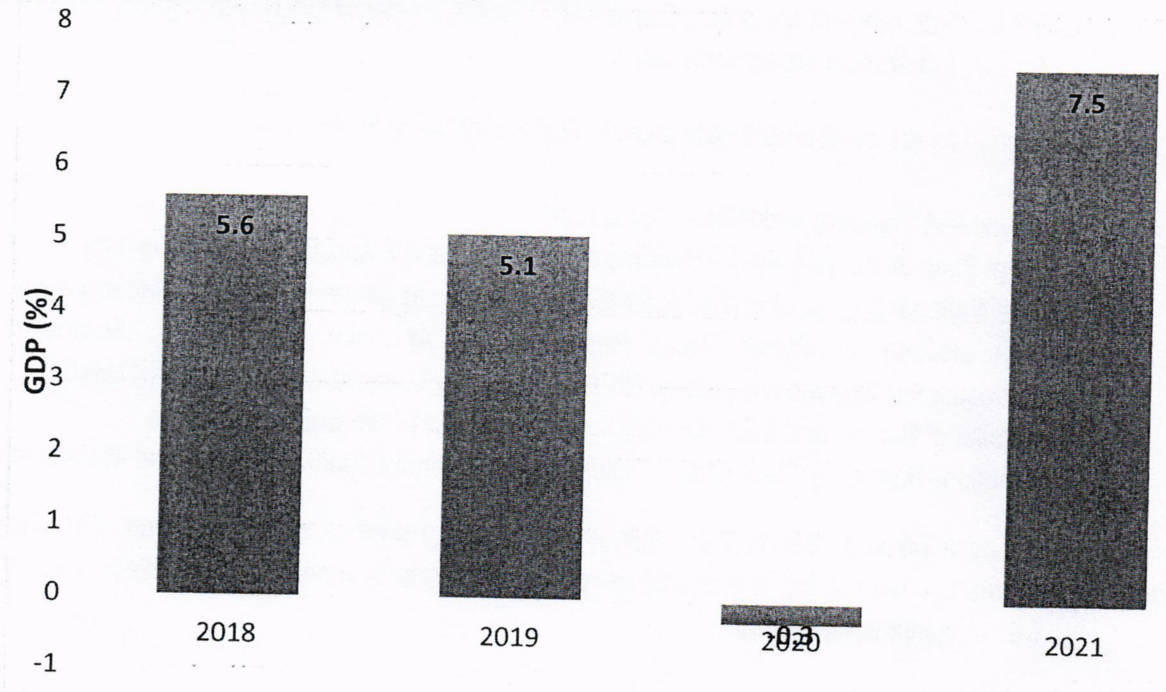
i. The National Treasury and KRA – Fiscal data
ii. Central Bank of Kenya (CBK) – Balance of Payments and Financial and Banking data
iii. Kenya National Bureau of Statistics (KNBS) – Annual and quarterly GDP and Sectoral data
iv. Kenya Institute for Public Policy Research and Analysis (KIPPRA) – Forecasts of macroeconomic indicators based on KIPPRA-Treasury Macroeconomic Model (KTMM)
v. Controller of Budget and CRA- County Expenditures and Own Source Revenue
vi. International Monetary Fund (IMF) – Global and Regional Economic Trends and Projections.

The Report acts as a briefing note to the Cabinet Secretaries, Principal Secretaries and other Senior Government Officers to inform policy. It also acts as reference document during Economic Review Missions and meetings with development partners.

1.0 ECONOMIC PERFORMANCE

The economy recovered from the crippling effects of the COVID-19 pandemic to expand by 7.5 per cent in 2021 compared to a contraction of 0.3 per cent in 2020. The recovery was mainly driven by resumption of most economic activities after the lifting of the COVID-19 containment measures instituted in 2020 to curb the spread of the virus. Economic growth in 2021 was supported by improved performances in key sectors of the economy including; Manufacturing (6.9%), Wholesale and Retail Trade (7.9%), Real Estate (6.7%), Transportation and Storage (7.2%), Financial and insurance activities (12.5%), Accommodation and Food Services (52.5%), and Education services (21.4%). However, agriculture sector contracted by 0.2 per cent due to unfavourable weather conditions that characterized the better part of 2021 that affected production of key crops such as maize, beans, vegetables, tea and coffee.

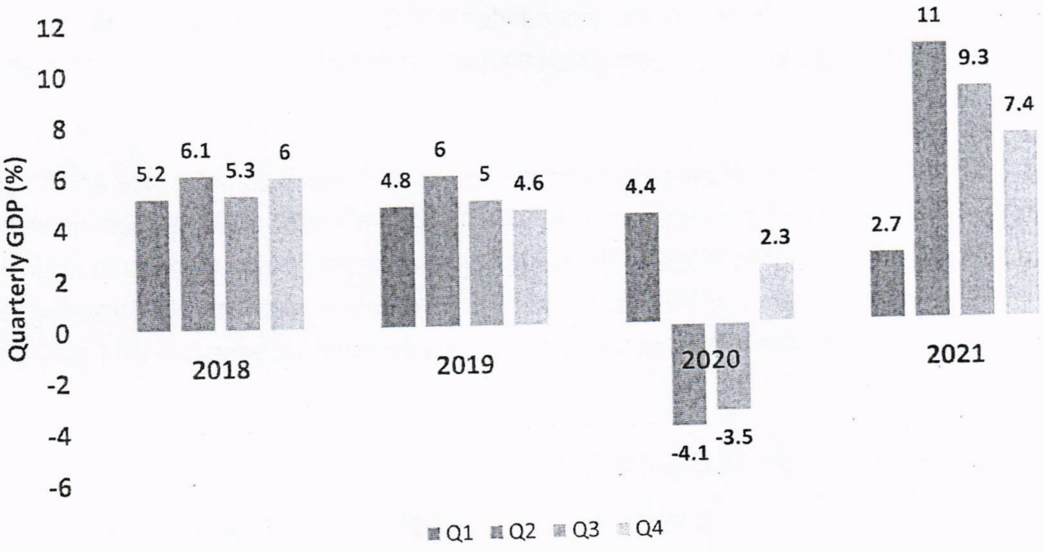
Figure 1: Annual GDP Growth Rates, 2018-2021



Source: Economic Survey 2022

Real gross value added expanded by 7.4 per cent the fourth quarter 2021 compared to 2.3 per cent in the similar quarter in 2020 (Figure 2). The expansion was largely driven by recoveries of most of the sectors of the economy from the negative impacts of restrictions measures instituted to curb the spread of COVID-19 pandemic in 2020. The most notable growths were those of accommodation and food services (118.6%), mining and quarrying (34.5%), education (18.0%), other services (16.8%), transportation and storage (6.5%), wholesale and retail trade (8.4%), professional and administrative services (8.1%), health (7.8%) and real estate (6.7%). However, performance of the financial intermediation and insurance services, information and communication, and construction slowed during the fourth quarter of 2021 compared to a similar period in 2020. The agriculture sector contracted by 1.2 per cent during the quarter under review compared to a robust growth of 9.8 per cent during a similar quarter in 2020.

Figure 2: Quarterly GDP Growth Rates, 2018-2021



Source: KNBS Quarterly GDP Reports

2.0 ANALYSIS OF ECONOMIC PERFORMANCE BY SECTOR

2.1 Agriculture

The sector Gross Value Added (GVA) contracted by 0.2 per cent in 2021 compared to 4.6 per cent growth in 2020. This was mainly attributed to unfavourable weather conditions, which led to reduction in crop production particularly maize which declined from 42.1 million bags in 2020 to 36.7 million bags in 2021. Wheat production decreased by 39.4 per cent from 405.0 thousand tonnes in 2020 to 245.3 thousand tonnes in 2021. Tea production declined by 6.1 per cent from 570.5 thousand Metric Tonnes (MT) in 2020 to 535.8 thousand MT in 2021 (Table 1a).

The sector was cushioned from steeper contraction by good performance in horticulture, coffee, sugar cane and milk intake. The volume of cut flower, fruit and vegetable exports grew by 43.9, 11.6 and 24.8 per cent, respectively in 2021 mostly due to increased demand from Kenya's export markets. Similarly, milk intake and cane deliveries increased by 17.2 and 11.1 per cent from 682.3 million litres and 6.9 MT in 2020 to 801.9 million litres and 7.7 MT in 2021 respectively.

Table 1a: Key Indicators of Agricultural Activities (000 MT)

Crop	Jan –Dec 2020	Jan –Dec 2021	Growth rate (%)
Tea production	570.5	535.8	-6.1
Coffee sales	24.4	28.2	15.6
Cut flowers Exports	146	210.1	43.9
Fruit Exports	105.1	117.3	11.6
Vegetable Exports	62.6	78.1	24.8
Sugarcane Deliveries	6,894.4	7,657.5	11.1
Milk Intake (Million Litres)	682.3	801.9	17.2

Source: KNBS Leading Economic Indicators

During the first quarter of 2022, the volume of cane deliveries increased by 6.3 per cent to 2,180.3 thousand MT from 2,051.4 thousand MT recorded in a similar quarter in 2021. Milk intake volumes increased by 3.3 per cent in the first quarter 2022 to 197.5 million litres compared to the 191.2 million litres in a similar quarter in 2021.

As shown in Table 1b, the value of tea exports grew by 0.5 per cent, while that of coffee and horticultural produce increased by 17.6 and 5.0 per cent, respectively. The price of coffee at the auction increased from $ 4.24 per kg in 2020 to $ 5.91 per kg in 2021. The surge in prices was attributed to low production in Brazil which is the world largest producer of coffee occasioned by unfavorable weather condition resulting to higher prices. On the other hand, the price of tea auctioned recorded a marginal increase to $ 2.11 per kg in 2021 from $ 2.01 per kg in 2020.

Table 1 b: Value of Main Agricultural Exports (Kshs. billion)

Crop	2020	2021	Growth rate (%)
Tea	130.2	130.8	0.5
Coffee	22.2	26.1	17.6
Horticulture	150.2	157.7	5.0

Source: KNBS Leading Economic Indicators

During the first quarter of 2022, value of exports of tea and coffee increased by 10.4 and 19 per cent to Kshs. 39.5 billion and Kshs. 9.6 billion from Kshs. 35.7 billion and Kshs. 8.1 billion in similar period of 2021 respectively.

2.2 Manufacturing

The sector recorded an accelerated growth of 6.9 per cent in 2021 compared to 0.4 per cent contraction in 2020. This was mainly on account of the relaxation of COVID-19 containment measures leading to increased demand for manufactured products. The food sub- sector expanded by 5.5 per cent while the non-food sector grew by 8.8 per cent in the review period. In the manufacture of food products, activities that posted notable increase in 2021 included; processing of sugar (16.0%); meat and meat products (13.1%); dairy products (10.8%); and bakery products (9.3%). However, manufacture of preserved fruits and vegetables, and that of animal and vegetable fats and oils declined by 14 and 2.8 percent respectively during the review period. Some of the non-food activities that posted significant increases include; manufacture of other non-metallic mineral products (23.2%); manufacture of leather and related products (15.6%) and manufacture of motor vehicle, trailers and semi-trailers (18.9%).

2.3 Electricity Supply

Overall, the sectors' real Gross Value Added (GVA) grew by 5 per cent in 2021 compared to a contraction of 0.6 per cent in 2020. Electricity supply sector grew by 4.4 percent in 2021 from a contraction of 0.4 per cent registered in 2020 while water supply grew by 6.4 per cent from a growth of 3.4 per cent in 2020. This growth was attributed to an increase in local electricity generated from 11,466.9 Gigawatt Hour (GWh) in 2020 to 12,126.7 GWh in 2021 while imports of electricity increased from 136.7 GWh to 288 GWh over the same period. Local electricity generation from renewable sources increased by 1.4 percent from 10,712.4 GWh in

2020 to 10,864.7 GWh in 2021. Generation from non-renewable sources increased from 754.5 GWh in 2020 to 1,263.0 GWh in 2021.

During the first quarter of 2022 electricity generation increased marginally by 1.2 per cent to 3,013.1 million kilowatt hours from 2,977.4 million kilowatt hour in the corresponding quarter of 2021. Generation of electricity from thermal source increased more than two-fold from 243.3 million kilowatt hour in first quarter 2021 to 600.4 million kilowatt hour in the first quarter of 2022. Similarly, electricity generation from solar power increased more than three-fold from 22 kilowatt hour to 97.5 kilowatt hour while wind power generation increased by 7.6 per cent from 447.3 kilowatt hour to 481.1 kilowatt hour over similar period. On the other hand, electricity generation from hydro and Geo-thermal sources declined by 12 and 23 per cent respectively during first quarter of 2022 compared to similar period in 2021.

2.4 Accommodation and Food Service Activities

This sector benefitted from the lifting of most of the COVID-19 mitigation measures both overseas and domestically in 2021. The sector's real GVA grew by 52.5 per cent in 2021 compared to a contraction of 47.7 per cent in 2020. The number of international visitor arrivals grew by 50.3 per cent from 579.6 thousand visitors in 2020 to 871.3 thousand visitors in 2021. Bed night occupancy increased by 50.3 per cent to 5,517.0 thousand in 2021 while the number of conferences held increased significantly from 1,204 in 2020 to 8,409 in 2021.

In the first quarter of 2022, there was a significant increase in the number of visitor arrivals by 85 per cent to 225.3 thousand visitors from 121.7 thousand visitor arrivals in the first quarter of 2021. The number of visitors arriving through JKIA and MIA increased from 112.4 thousand and 9.2 thousand in the first quarter of 2021 to 207.2 thousand and 18.1 thousand visitors in the first quarter of 2022 respectively.

2.5 Construction

The sector expanded by 6.6 per cent in 2021 compared to a growth of 10.1 per cent in 2020. This growth was mainly supported by continuous public investment in road infrastructure. The roads sub-sector in 2021 received significant boost from the private sector participation through Public-Private Partnerships (PPPs) projects such as Nairobi Express Way. There was an increase of 23.4 per cent in cement consumption from 7,375.6 thousand tonnes in 2020 to 9,098.4 thousand tonnes in 2021.

Cement production increased from 1,282,510 MT to 1,690,608 MT translating to an increase of 31.8 percent in between January-February 2022 compared to a similar period in 2021 respectively. Similarly, cement consumption increased by 30.9 percent in the same period, from 1,269,999 MT to 1,662,323 MT.

2.6 Transportation and Storage

Transportation and storage activity increased in 2021, owing to the easing and ultimate lifting of COVID-19 restrictions particularly allowing public service vehicles to operate at full capacity. Additionally, reopening of foreign economies, aided growth in passenger air transportation, which had been negatively impacted in

2020. As a result, the industry is estimated to have grown by 7.2 percent in 2021, compared to a decrease of 7.8 percent in 2020.

During the first quarter of 2022, light diesel, which is widely utilized as an input in the land transportation subsector, rose by 0.5% to 578.49 thousand MT from 575.33 thousand MT in the same period of 2021. Passenger transport through the SGR increased from 448,526 in the first quarter of 2021 to 518,780 passengers in the first quarter of 2022 while income grew to Kshs.569.3 million, up from Kshs.495.7 million over similar period. Similarly, freight tonnage increased by 10.4 per cent to 1,536.0 thousand metric tonnes in the corresponding quarter of 2022. However, freight revenue from SGR fell from Kshs.3,169.1 million in the first three months of 2021 to Kshs.3,082.5 million in the same period of 2022. Cargo throughput at the Port of Mombasa reduced by 14.4 per cent in the first two months of 2022, from 6,384.4 ('000) MT in 2021 to 5,464,9 ('000) MT in 2022, indicating lower transportation activity.

2.7 Information and Communication

The sector recorded a growth of 8.8 per cent in 2021 compared to 6.3 per cent in 2020. This growth was mainly supported by increase in mobile money and commerce transactions coupled with the continued use of digital platforms and services which picked up during the Covid-19 pandemic. The total number of mobile money and commercial transfers increased by 31.7 per cent and 35.0 per cent to stand at Kshs.6.9 trillion and Kshs.9.4 trillion, respectively in 2021. The number of licensed internet service providers increased from 366 in 2020 to 420 in 2021. The total number of fixed and wireless internet subscriptions increased by 4.4 per cent to stand at 46,355.0 thousand in 2021. Fibre to office subscription increased by 11.9 per cent while international telephone traffic increased by 1.3 per cent in the review period.

2.8 Domestic and International Trade

The wholesale and retail trade sector expanded by 7.9 percent in 2021 compared to a contraction of 0.5 per cent in 2020. Volume of international trade increased from Kshs.2,287.3 billion in 2020 to Kshs.2,894.9 billion in 2021. Total export earnings increased by 15.5 percent from Kshs.643.7 billion in 2020 to Kshs.743.7 billion in 2021. The growth was largely attributable to increases in domestic exports of horticulture; titanium ores and concentrates; and articles of apparel and clothing accessories. Similarly, imports rose by 30.9 percent from Kshs.1,643.6 billion in 2020 to Kshs.2,151.2 billion, mainly driven by an increase in imports of petroleum products.

The value of imports in the first three months of 2022 increased by 16.6 per cent to Kshs.591.6 billion from Kshs.507.4 billion in a similar period of 2021.This is attributed to increase in demand of non-food industrial supplies due to increase in economic activity in the country post-COVID. Similarly, the value of exports increased by 26.3 per cent in the first three months of 2022 to Kshs.240.1 Billion from Kshs.190.1 Billion during the same period in 2021.This was attributed to the increase in demand for food and beverages from our export destinations.

3.0 FISCAL DEVELOPMENTS

Execution of the FY 2021/22 budget is on course supported by strong revenue performance. The impressive performance in revenue is mainly driven by continued economic recovery following easing of COVID-19 related restrictions and implementation of targeted economic stimulus program by the Government. The Government will however continue to monitor this performance given the uncertain economic environment occasioned by effects of the Russia-Ukraine conflict and the general elections scheduled for August 2022.

3.1 Revenue

Total revenue collection including ministerial appropriation in aid (A-i-A) for the period July 2021 to April 2022 was Kshs.1,718.9 billion (13.6 per cent of GDP) compared to the target of Kshs.1,723.9 billion (13.6 per cent of GDP). This revenue performance was below target by Kshs.5.0 billion on account of underperformance registered in Ministerial A-i-A of Kshs.24.1 billion. Ordinary revenue was however above target by Kshs.19.1 billion. Total revenue for the period grew by 20.7 per cent compared to a contraction of 3.0 per cent recorded in similar period in the FY 2020/21 when total revenue was Kshs.1,423.8 billion (12.6 per cent of GDP) (Table 2).

Table 2: Government Revenue and External Grants Performance for FY2021/22 (Kshs. billions)

Revenue (Ksh billions)	July 20- April 21		July 21 - April 22					
	Prel. Issues	% of GDP	Revised Target	Prel. Issues	Deviation	% of GDP	Performance Rate	Growth
TOTAL REVENUE	**1,423.8**	**12.6%**	**1,723.9**	**1,718.9**	**(5.0)**	**13.6%**	**99.7%**	**20.7%**
Ordinary revenue	**1,269.8**	**11.2%**	**1,493.2**	**1,512.2**	**19.1**	**12.0%**	**101.3%**	**19.1%**
Import Duty	89.1	0.8%	96.2	93.7	(2.5)	0.7%	97.4%	5.2%
Excise Taxes	180.6	1.6%	209.2	206.4	(2.8)	1.6%	98.6%	14.2%
Income Tax	**542.1**	**4.8%**	**670.9**	**679.2**	**8.2**	**5.4%**	**101.2%**	**25.3%**
o/w PAYE	288.4	2.6%	361.4	376.0	14.6	3.0%	104.0%	30.4%
o/w Other Income Tax	253.7	2.2%	309.5	303.1	(6.4)	2.4%	97.9%	19.5%
Value Added Tax (VAT)	**330.6**	**2.9%**	**405.9**	**422.2**	**16.3**	**3.3%**	**104.0%**	**27.7%**
o/wVAT (Domestic)	158.3	1.4%	193.7	202.3	8.6	1.6%	104.5%	27.8%
o/wVAT (Imports)	172.4	1.5%	212.3	219.9	7.6	1.7%	103.6%	27.6%
Other Revenue	**127.4**	**1.1%**	**111.0**	**110.8**	**(0.1)**	**0.9%**	**99.9%**	**-13.0%**
Ministerial AIA	**154.0**	**1.4%**	**230.7**	**206.6**	**(24.1)**	**1.6%**	**89.6%**	**34.2%**
Recurrent	86.7	0.8%	166.4	143.3	(23.1)	1.1%	86.1%	65.3%
Development	67.3	0.6%	64.4	63.3	(1.0)	0.5%	98.4%	-5.9%
GDP	11,353.0	100%	12,646.2	12,646.2	-	100.0%	100.0%	11.4%

1/ other revenue includes rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue.

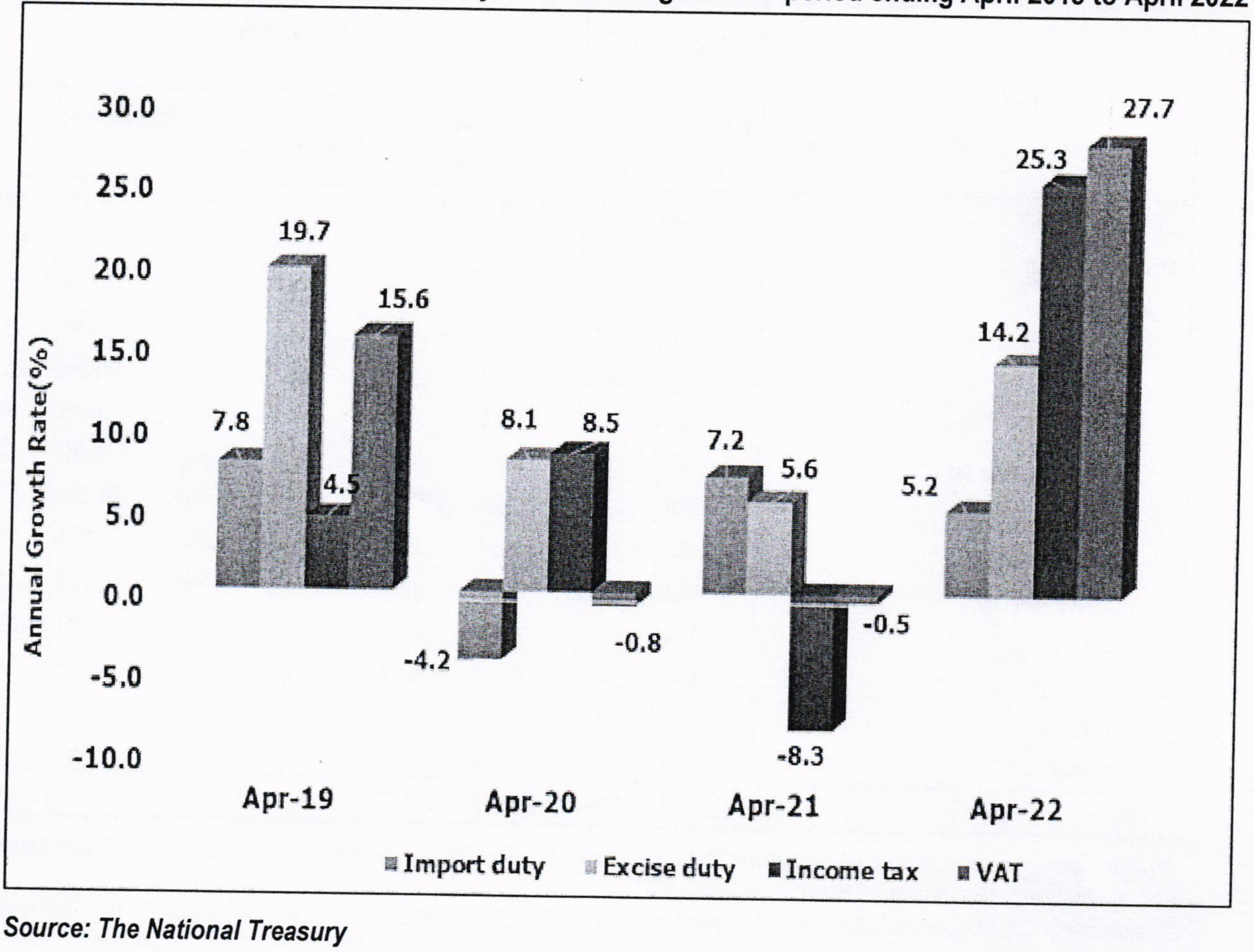
2/ ministerial A-I-A includes receipts from Road Maintenance Levy Fund, Railway Development Levy, and A-I-A from Universities

Source: National Treasury

Ordinary revenue collection during the period amounted to Kshs.1,512.2 billion (12.0 per cent of GDP) against a target of Kshs.1,493.2 billion (11.8 per cent of GDP) recording an above target collection of Kshs.19.1 billion. This surplus was on account of above target collection registered in VAT of Kshs.16.3 billion and PAYE of Kshs.14.6 billion. The above target performance in PAYE was largely due to an 8.3 per cent growth in the overall number of employees in March 2022 compared to March 2021 as well as payment of bonuses and directors' fees by a number of firms. The 27.8 per cent growth in VAT Domestic was due to increased enforcement measures being deployed by KRA to enhance taxpayer compliance while increased volume of imports led to a growth of 27.6 per cent in VAT imports. However, excise taxes and import duty performed below target by Kshs.2.8 billion and Kshs.2.5 billion, respectively. The performance of import duty was mostly attributed to a 26.9 per cent decline in the number of vehicles imported. The below target performance of excise duty was partly due to decrease in volumes of tobacco, spirits, Cosmetics and 'Other' products (i.e., Wines, Chocolates and Food supplements).

For the period ending April 2022, ordinary revenue registered an annual growth of 19.1 per cent compared to a contraction of 5.7 per cent in similar period in the FY 2020/21. Over the same period, growth rates of the major tax heads were as follows: import duty (5.2%), excise taxes (14.2%), income tax (25.3%) and VAT (27.7%), an indication of recovery in revenue performance in the FY 2021/22 (**Figure 3**).

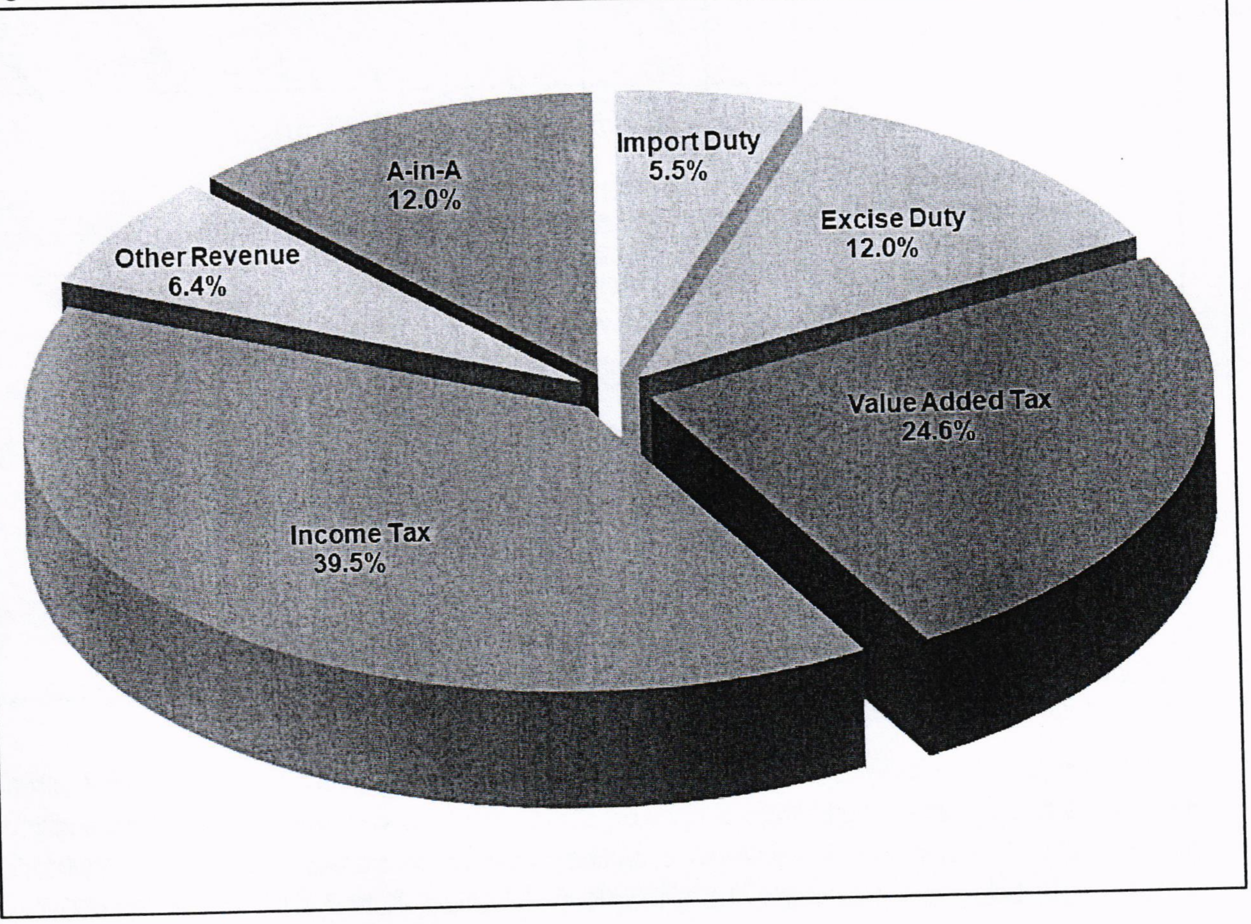
Figure 3: Growth rates of the ordinary revenue categories for period ending April 2019 to April 2022



Source: The National Treasury

On the composition of total revenue, income tax takes the largest share at 39.5 per cent followed by VAT at 24.6 per cent, and excise taxes and A-i-A at 12.0 per cent (Figure 4).

Figure 4: Composition of Total Revenue as at April 2022 (Per centage)



Source: The National Treasury

3.2 Expenditure

Total expenditure and net lending for the period ending April 2022 amounted to Kshs.2,317.7 billion (18.3 per cent of GDP), which was below the target of Kshs.2,442.6 billion (19.3 per cent of GDP), by Kshs.125.0 billion. This was largely on account of below target disbursement of recurrent expenditure by Kshs.57.5 billion, development expenditure by Kshs.40.5 billion and county governments by Kshs.27.0 billion. Total expenditure and net lending for the period grew by 13.9 per cent compared to the similar period in the last financial year (Table 3).

Table 3: Expenditures Performance in FY 2021/22 (Kshs. billions)

EXPENDITURE (Ksh billions)	Jul 20-April 21	Jul 21-April 22				Revised Estimates
	Actual	Target	Actual	Deviation	% Growth	FY2021/22
TOTAL EXPENDITURE AND NET LENDING	**2,035.7**	**2,442.6**	**2,317.7**	**(125.0)**	**13.9**	**3,215.2**
1. Recurrent Expenditure	**1,387.1**	**1,703.7**	**1,646.2**	**(57.5)**	**18.7**	**2,162.3**
Domestic Interest	318.5	380.6	371.3	(9.3)	16.6	479.2
Foreign Interest due	83.0	95.8	96.2	0.3	15.9	126.1
Pensions & Other CFS	76.4	101.3	93.9	(7.4)	22.9	137.3
Contribution to Civil Ser Pension	5.9	19.7	22.4	2.7	0.0	20.8
Operations & Maintenance	419.3	509.9	488.7	(21.2)	16.6	652.8
Wages & Salaries	406.7	438.5	438.5	0.0	7.8	526.6
Ministerial Recurrent AIA	77.5	158.0	135.2	(22.7)	74.6	219.4
2. Development	**399.5**	**451.0**	**410.5**	**(40.5)**	**2.8**	**643.0**
Domestically Financed (Gross)	264.6	297.3	303.4	6.1	14.7	383.3
Foreign Financed	134.9	149.7	107.0	(42.6)	-20.7	252.9
Net Lending	-	-	-	0.0	0.0	-
Equalization Fund	-	4.0	-	(4.0)	0.0	6.8
3. County Transfer	**249.0**	**288.0**	**261.0**	**(27.0)**	**4.8**	**409.9**
o/w Equitable Share	220.6	270.5	261.0	(9.5)	18.3	370.0
4. Contingency Fund	-	-	-	0.0	0.0	-

Source: National Treasury

Recurrent expenditure for the period was Kshs.1,646.2 billion against a target of Kshs.1,703.7 billion thus recording a below - target expenditure of Kshs.57.5 billion. The below target in recurrent expenditure was mainly attributed to operations & maintenance, domestic interest, pensions & other CFS and Ministerial A-i-A which were below target by Kshs.21.2 billion, Kshs.9.3 billion, Kshs.7.4 billion and Kshs.22.7 billion, respectively.

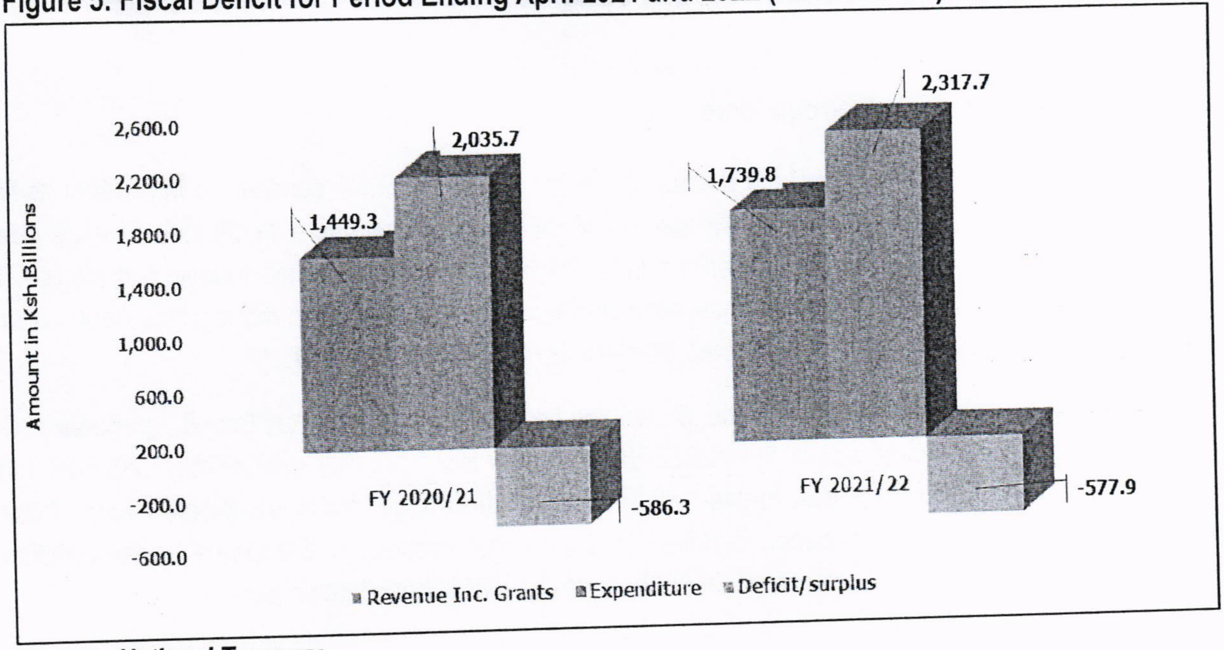
Development Expenditure for the period ending April 2022 was Kshs.410.5 billion, against a target of Kshs. 451.0 billion. The shortfall of Kshs.40.5 billion was on account of below target disbursement towards foreign financed programmes. This can be partly attributed to long procurement processes by the contractors and delay in securing land and way-leaves especially for infrastructural projects.

3.3 Fiscal Balance and Financing

Overall, fiscal deficit including grants (on cash basis) for the period ending April 2022 was Kshs.577.9 billion (4.6 per cent of GDP) against a target of Kshs.682.5 billion (5.4 per cent of GDP) (Figure 5). The Grants for the period were Kshs.20.9 billion against a target of Kshs.36.2 billion registering a shortfall of Kshs.15.3 billion.

This deficit was financed by net foreign financing of Kshs.63.1 billion (0.5 per cent of GDP) and net domestic financing of Kshs.481.2 billion (3.8 per cent of GDP). The net foreign financing constituted of disbursements (inflows) of Kshs.222.0 billion and external repayments (outflows) of principal debt of Kshs.158.9 billion.

Figure 5: Fiscal Deficit for Period Ending April 2021 and 2022 (Kshs. Billion)



Source: National Treasury

3.4 Fiscal Outlook for FY 2021/22

Going forward, revenue performance will be driven by economic recovery, and continued reforms in tax policy and revenue administration. As such, the total revenue including A-in-A is projected to grow by 19.1 per cent from Kshs.1,783.7 billion in FY2020/21 to Kshs.2,124.5 billion in FY2021/22. The Ordinary revenue for FY 2021/22 is expected to grow by 15.8 per cent to Kshs.1,808.3 billion from a collection of Kshs.1,562.0 billion in FY 2020/21.

The following factors are expected to impact on revenue outlook in the rest of the FY 2021/22:

i. Continued economic recovery across various sectors mainly due to easing of COVID-19 containment measures and implementation of Economic Recovery Strategy. In particular, performance in the service sectors is expected to continue on a positive trajectory.

ii. Realization of full impact from the implementation of the Finance Act, 2021.

iii. Supply chain interruption due to external uncertainties related to the Russia- Ukraine conflict and China lockdown,

iv. Uncertain operating environment due to the August 2022 general elections.

v. Implementation of KRA Revenue Enhancement Strategy for FY 2021/22 with focus on strengthening compliance and enforcement, tax base expansion, risk-based audit among other strategies.

Total expenditure and net lending is projected at Kshs.3,215.2 billion for FY2021/22 compared to Kshs.2,749.5 billion in FY2020/21. Of this, recurrent expenditure is expected to amount to Kshs.2,162.3 billion and development expenditure at Kshs.643.0 billion. Considering the projected revenues and expenditures, the fiscal deficit inclusive of grants is projected at Kshs.1,204.3 billion (8.1 per cent of GDP) in the FY 2021/22.

3.5 Fiscal Consolidation Programme

Going forward into FY 2022/23 and the medium term, the government will continue to implement its fiscal consolidation plan through enhanced revenue mobilization and expenditure prioritization policy geared towards economic recovery. Revenue performance will be driven by economic recovery strategies, and continued reforms in tax policy and revenue administration. The tax reforms in the medium term will entail development of a National Tax Policy and the Medium-Term Revenue Strategy.

The medium-term consolidation policy aims at reducing fiscal deficit progressively from 8.1 per cent of GDP in FY 2021/22 to 6.2 per cent of GDP in FY2022/23 and further to 3.2 per cent of GDP in FY 2025/26. In this respect, the Government shall limit in-year adjustments of the budget for new projects except those of emergency nature. This will enhance certainty in the budget process and improve implementation of Government programmes and projects while adhering to the fiscal consolidation plan.

3.6 Public Debt

The gross public and publicly guaranteed debt was Kshs.8,402,095 million as at end of March, 2022 an increase of Kshs.1,062,387 million from Kshs.7,339,708 million as at end of March 2021. This comprised 50.1 per cent and 49.9 per cent of external and domestic debt respectively. The public debt increase is attributed to disbursements and exchange rate fluctuations on external debt; and the uptake of domestic debt during the period under review. The net public debt was KShs.7, 967,882 million net of government deposits for the period under review (Table 4).

Table 4: Overall debt position from March 2020 to March 2022(Kshs. million)

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22*
Bilateral	1,060,609	1,074,257	1,102,890	1,156,991	1,142,718	1,140,529	1,150,037	1,171,701	1,171,827
Multilateral	1,075,901	1,321,629	1,421,840	1,498,837	1,495,606	1,659,411	1,702,679	1,782,085	1,817,326
Commercial Banks	1,058,796	1,102,294	1,120,803	1,119,388	1,113,417	1,187,440	1,197,506.60	1,208,283	1,208,247
Suppliers Credits	17,328	17,630	17,958	18,069	18,126	12,162	12,283	12,303	12,344
Sub-Total External	**3,212,634**	**3,515,810**	**3,663,491**	**3,793,285**	**3,769,867**	**3,999,542**	**4,062,505**	**4,174,372**	**4,209,743**
Central Bank	106,433	98,878	107,356	98,741	99,869	87,575	90,938	88692	95,575
Commercial Banks	1,570,595	1,653,194	1,808,044	1,769,450	1,776,713	1,814,199	1,917,628	1943018	1,978,489
Total Banks	**1,677,028**	**1,752,072**	**1,915,400**	**1,868,191**	**1,876,582**	**1,901,774**	**2,008,566**	**2,031,710.00**	**2,074,064**
Non-bank & Non Residents	1,393,162	1,425,454	1,541,707	1,620,616	1,693,259	1,795,319	1,929,212	2,000,658	2,118,288
Sub-Total Domestic	**3,070,189**	**3,177,526**	**3,457,107**	**3,488,807**	**3,569,841**	**3,697,093**	**3,937,778**	**4,032,368**	**4,192,352**
Grand Total Gross	**6,282,823**	**6,693,336**	**7,120,598**	**7,282,092**	**7,339,708**	**7,696,635**	**8,000,283**	**8,206,740**	**8,402,095**
Less On-lending	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	-	-	-	-
Less Government Deposits	(457,623)	(497,609)	(614,353)	(449,585)	(416,765)	(556,430)	(544,187)	(461,273)	(434,213)
Grand Total Net	**5,819,499**	**6,190,026**	**6,500,544**	**6,826,806**	**6,917,242**	**7,140,205**	**7,456,096**	**7,745,467**	**7,967,882**

* Provisional
Source: The National Treasury and Central Bank of Kenya

Kenya's public debt remains sustainable despite the impact of COVID-19 pandemic on the domestic economy leading to the re-assessment of Kenya's debt carrying capacity from strong to medium through the World Bank- IMF Composite Indicator (CI). Whereas a few indicative indicators remain above the Country`s thresholds, the Government commitment to fiscal consolidation under the IMF program safeguards debt sustainability. Various measures have been undertaken to increase tax revenue and control expenditures in order to reduce the fiscal deficit over the medium term. The debt indicators are expected to gradually improve as implementation of fiscal consolidation program continues and exports recover to its potential levels.

The external public debt stock increased by US$ 2,196.08 million to US$. 36,620.38 million as at end of March, 2022 from US$. 34,424.30 million at end of March 2021 (Table 5). This comprised of 43.17 per cent, 27.83 per cent, 28.70 per cent, and 0.29 per cent debt owed to multilateral, bilateral, commercial banks and Suppliers Credit lenders respectively. The increase in external debt is due to disbursements received and exchange rate fluctuations during the period under review.

Table 5: Kenya's Public and Publicly Guaranteed External Debt, March 2022 (USD millions)

CREDITOR	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22*
BILATERAL									
AUSTRIA	12.84	13.14	13.52	14.18	13.57	13.33	12.98	12.28	11.94
BELGIUM	113.08	112.42	113.07	123.31	121.70	117.61	119.13	114.42	116.88
CANADA	0.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0
DENMARK	5.87	5.67	5.41	5.03	4.33	4.39	4.30	4.18	4.12
FINLAND	13.09	13.40	12.51	13.11	11.16	11.31	9.71	9.42	7.93
FRANCE	698.14	748.38	762.54	835.65	800.13	851.83	836.00	812.00	800.51
GERMANY	371.11	333.07	345.47	342.54	323.67	338.31	331.43	336.11	351.21
ITALY	342.57	349.64	365.49	383.17	366.88	371.85	364.79	353.78	347.71
JAPAN	1,385.84	1,423.97	1,489.84	1,525.90	1,447.97	1,474.72	1,463.17	1,416.58	1,382.43
NETHERLANDS	1.00	0.51	0.53	-	-	-	-	-	-
UK	0.30	-	-	-	-	-	-	-	-
USA	15.16	14.83	12.32	11.98	11.77	13.14	12.44	12.26	10.78
CHINA	6,746.26	6,753.13	6,731.17	7,016.85	7,013.42	7,056.92	6,917.51	6,951.45	6,835.26
OTHERS	570.92	316.66	313.28	326.17	320.06	321.73	337.44	333.61	323.09
TOTAL BILATERAL	**10,276.76**	**10,084.80**	**10,165.16**	**10,597.89**	**10,434.65**	**10,575.15**	**10,408.90**	**10,356.09**	**10,191.86**
MULTILATERAL									
ADB/ADF	2,404.62	2,475.99	2,726.74	2,910.65	2,886.38	2,988.35	3,068.91	3,187.81	3,317.25
BADEA	36.06	36.66	36.34	38.36	37.51	39.53	38.94	38.72	39.2
EEC/EIB	152.65	157.67	186.99	195.65	185.05	215.38	203.88	197.09	188.94
IBRD	-	250.00	250.00	296.11	294.15	294.98	298.58	297.56	296.74
IDA/IFAD	7,146.77	8,399.27	8,808.04	9,219.83	9,220.59	10,146.65	10,118.26	10,150.48	10,099.33
IMF	341.14	1,038.33	1,047.10	1,016.70	985.04	1,652.44	1,635.00	1,834.49	1,824.62
OTHERS	49.46	49.13	49.66	51.86	48.32	48.97	47.26	44.83	43.87
TOTAL MULTILATERAL	**10,130.70**	**12,407.05**	**13,104.87**	**13,729.16**	**13,657.03**	**15,386.29**	**15,410.83**	**15,750.98**	**15,809.95**
COMMERCIAL[1]	**10,113.38**	**10,348.00**	**10,330.26**	**10,253.45**	**10,167.10**	**11,010.10**	**10,838.54**	**10,679.43**	**10,510.99**
O/W International Sovereign Bond	-	-	-	-	-	7,106.58	7,100.00	7,106.28	7,100.00
EXPORT CREDIT	**165.51**	**165.51**	**165.51**	**165.51**	**165.51**	**112.77**	**111.17**	**108.74**	**107.58**
GRAND TOTAL	**30,686.36**	**33,005.37**	**33,765.80**	**34,746.02**	**34,424.30**	**37,084.30**	**36,769.44**	**36,895.24**	**36,620.38**
In per centage of total									
BILATERAL	33.49	30.56	30.10	30.50	30.31	28.52	28.31	28.07	27.83
MULTILATERAL	33.01	37.59	38.81	39.51	39.67	41.49	41.91	42.69	43.17
COMMERCIAL BANKS[1]	32.96	31.35	30.59	29.51	29.53	29.69	29.48	28.95	28.70
EXPORT CREDIT	0.54	0.50	0.49	0.48	0.48	0.30	0.30	0.29	0.29
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* Provisional

Source: The National Treasury and Central Bank of Kenya

Provisional External Debt Service for the Quarter Ending March 2022

The cumulative external debt service payments amounted to Kshs.237,266 million by end of March, 2022. This comprised Kshs.144,724.25 million principal repayments and Kshs.92,541.75 million interest payments representing 61.0 per cent and 39.0 per cent of cumulative debt service respectively (Table 6). Commercial, Bilateral and Multilateral creditors constituted 46.3 per cent, 38.0 per cent, and 15.7 per cent of the cumulative debt service as at end of March 2022, respectively.

Table 6: Cumulative External Debt Service for the Quarter Ending March, 2022 (Kshs. Millions)

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
ABU DHABI	76.17	14.47	90.64
AUSTRIA	57.78	21.07	78.85
BELGIUM	1,560.93	157.18	1,718.11
CHINA	50,926.42	22,553.85	73,480.27
FRANCE	3,248.14	1,171.38	4,419.52
GERMANY	1,290.72	212.88	1,503.60
INDIA	662.61	85.98	748.59
ISRAEL	329.26	44.07	373.33
ITALY	4,387.53	996.34	5,383.87
JAPAN	320.75	165.85	486.60
KOREA	56.39	10.74	67.13
KUWAIT	128.93	17.9	146.83
POLAND	-	8.37	8.37
SAUDI ARABIA	58.01	13.78	71.79
SPAIN	1,228.76	136.31	1,365.07
USA	271.66	49.31	320.97
SUB-TOTAL BILATERAL	**64,604.07**	**25,659.49**	**90,263.56**
MULTILATERAL			
ADB/ADF	3,478.60	2,366.13	5,844.73
BADEA	185.72	35.28	221.00
EIB/EEC	1,712.74	489.12	2,201.86
IDA	17,460.33	9,498.87	26,959.20
OPEC	528.93	37.77	566.70
NDF	377.2	21.79	398.99
IFAD	483.71	158.79	642.50
IBRD	-	341.14	341.14
SUB-TOTAL MULTILATERAL	**24,227.22**	**12,948.88**	**37,176.10**
SUB-TOTAL COMMERCIAL	**55,892.96**	**53,933.39**	**109,826.35**
GRAND TOTAL	**144,724.25**	**92,541.75**	**237,266.00**

* Provisional

Source: The National Treasury and Central Bank of Kenya

4.0 EXTERNAL TRADE AND BALANCE OF PAYMENTS

4.1 Balance of Payments

The current account balance recorded a deficit of USD 6,027 million (5.5 % of GDP) in 2021 from a deficit of USD 4,619 (4.6 per cent of GDP) in 2020, following increases in imports which more than outweighed the increase in exports as the economies reopened (Table 7). Imports of goods increased by 25.4 per cent in 2021 compared to the decline of 12.4 per cent in 2020, reflecting increased imports of oil and other intermediate goods. Exports of goods registered strong growth of 11.0 per cent in 2021 compared to 3.2 per cent in 2020. In particular, receipts from horticulture and manufactured goods exports increased by 18.9 per cent and 33.4 per cent, respectively, in 2021 compared to 2020. Tourism and transportation receipts also increased as international travel continued to improve.

In the year to March 2022, current account balance is estimated to have widened to a deficit of USD 5,911 million (5.3 % of GDP) from a deficit of USD 4713.5 million (4.7% of GDP) in the year to March, 2021. The widening is reflection of an increase in imports which more than off-set an improvement in service receipts and increases in secondary income transfer largely remittances inflows. The Current account deficit is estimated at 5.9 per cent of GDP in 2022, reflecting increased imports of petroleum products on account of elevated oil prices in the global market. The deficit will partly be moderated by growth in exports of tea and manufactured goods, robust remittances, and continued recovery of services.

The usable foreign exchange reserves remained adequate at USD 8,317 million (4.94 months of import cover) as of May 20, 2022. This meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover, and the EAC region's convergence criteria of 4.5 months of import cover.

Table 7: Balance of payment development

	2020 Actuals	2021 Provisional	Percentage Change	2022* Provisional
Current account	**-4,619**	**-6,027**	**30.5**	**-5,911**
Trade balance	**-8,430**	**-11,439**	**35.7**	**-11,718**
Goods: exports, f.o.b.	**6,062**	**6,730**	**11.0**	**6,818**
Tea	*1,226*	*1,193*	*-2.7*	*1,203*
Horticulture	*950*	*1,129*	*18.9*	*1,122*
Manufactured Goods	*380*	*507*	*33.4*	*511*
Other	*3,507*	*3,901*	*11.3*	*3,982*
Goods: imports, f.o.b.	**14,492**	**18,169**	**25.4**	**18,536**
Oil products	*2,185*	*3,483*	*59.4*	*3,577*
Other	*8,333*	*10,022*	*20.3*	*10,329*
Machinery & Transport equipment	*3,973*	*4,663*	*17.4*	*4,630*
Services balance	**355**	**740**	**108.3**	**1,250**
Services, Credit	**3,732**	**4,859**	**30.2**	**5,706**
Transportation	*1,156*	*1,482*	*28.2*	*1,782*
Travel	*545*	*843*	*54.8*	*907*
Services, Debit	**3,377**	**4,120**	**22.0**	**4,456**
Transportation	*1,173*	*1,640*	*39.8*	*1,910*
Primary income, balance	**-1,494**	**-1,488**	**-0.4**	**-1,796**
Secondary income, balance	**4,950**	**6,160**	**24.4**	**6,353**
Remittances	*3,102*	*3,783*	*21.9*	*3,959*
Capital account	**131**	**195**	**48.6**	**194**
Financial Account	**-2,950**	**-6,892**	**133.6**	**-6,902**
Foreign Direct Investment	*-499*	*4*	*-100.8*	-49
Portfolio Investment	*1,279*	*-135*	*-110.5*	-85
Other Investment	*-3,730*	*-6,762*	*81.3*	-6,769
Overall balance	**1,427**	**-788**	**-155.2**	**34**

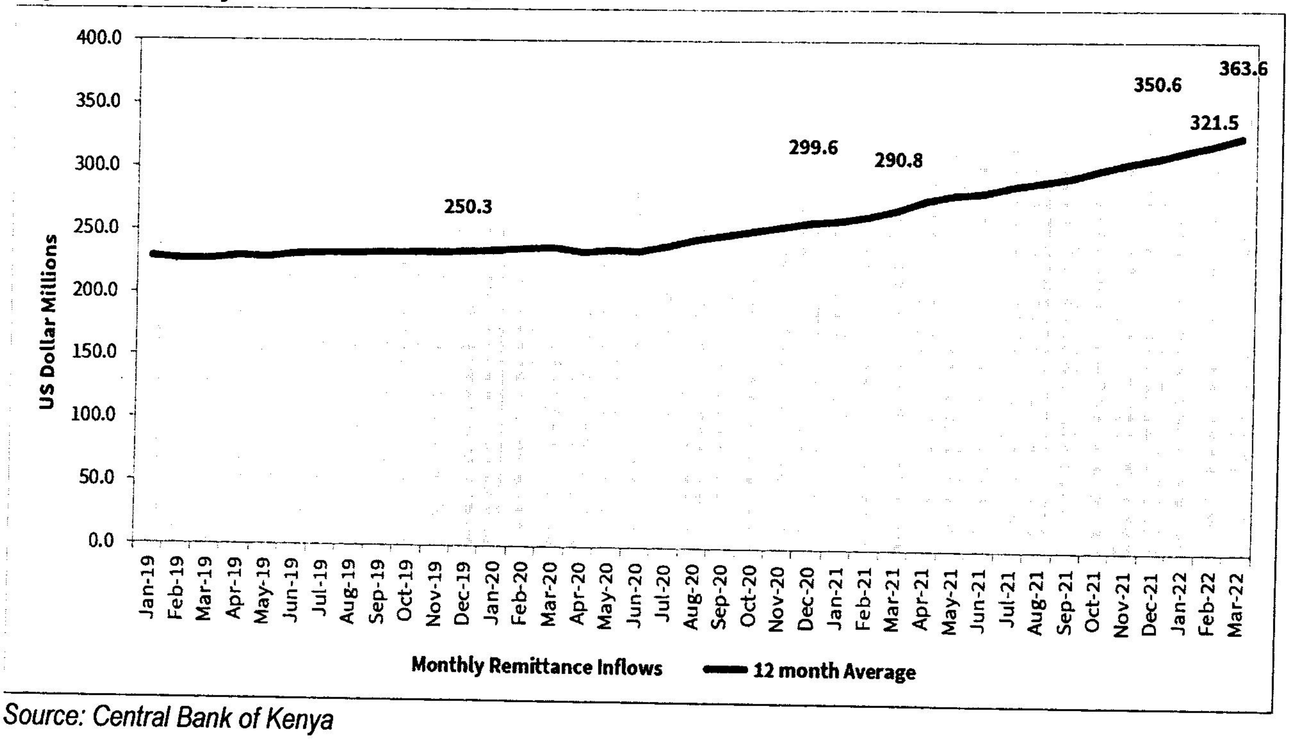
*Note: *corresponds to March 2022 provisional statistics*

Source: Central Bank of Kenya

4.2 Remittances from the Diaspora

Remittance inflows in March 2022 hit a record monthly high of US$ 363.6 million compared to US$ 290.8 million in March 2021, a 25.0 per cent increase (Figure 6). The inflows were higher by 13.1 per cent compared to the US$ 321.5 million in February 2022, in line with seasonal factors. The cumulative inflows for the 12 months to March 2022 totaled US$ 3,912 million compared to US$ 3,216 million in the same period in 2021, an increase of 21.6 per cent. US remains the largest source of remittances into Kenya, accounting for 58.0 per cent in March 2022.

Figure 6: Monthly Remittance Inflows



Source: Central Bank of Kenya

4.3 Exchange Rate

The Kenya Shilling weakened against major international currencies in April 2022 relative to April 2021. It weakened by 6.8 per cent and 0.4 per cent against the US Dollar and the Sterling Pound while it strengthened by 2.9 per cent against the Euro. It also outperformed all East African Regional currencies with Ugandan and Tanzanian Shillings depreciating against Kenya Shilling strongly.

5.0 BANKING AND FINANCIAL SECTOR

5.1 Money Supply and Domestic Credit

Annual growth in broad money, M3, moderated to 6.9 per cent in April 2022 compared to 9.3 per cent in April 2021, partly reflecting reduced net lending to government. Growth in commercial banks net lending to government moderated to 18.4 per cent in April 2022 compared to 19.5 per cent in April 2021. Credit to the private sector continued to improve in four months of 2022. It grew by 11.5 per cent in the 12 months to April 2022 supported by improved demand with rebound in economic activities and accommodative monetary policy stance. Strong lending was registered in transport and communication, manufacturing, trade, business services, mining and quarrying and consumer durables (Table 8).

Table 8: 12-Month Growth in Private Sector Credit by activity (per cent)

	Shares in credit	**12-month growth in Private Sector Credit (%)**												
Sectors	**April-22**	**Jan-21**	**Feb-21**	**Mar-21**	**Apr-21**	**Jun-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**	**Jan-22**	**Feb-22**	**Mar-22**	**Apr-22**
Agriculture	**3.2**	15.6	13.4	12.3	10.0	3.7	3.3	2.7	1.3	0.5	1.3	3.0	7.7	6.4
Manufacturing	**14.8**	12.6	15.8	10.7	4.0	8.1	9.8	10.9	11.5	13.1	9.7	7.6	9.9	12.0
Trade	**17.0**	5.5	3.9	2.1	0.9	1.9	4.7	5.5	6.1	8.5	9.6	8.9	10.4	10.7
o/w domestic trade	**15.4**	*7.7*	*6.1*	*4.2*	*3.0*	*1.5*	*4.4*	*5.4*	*6.9*	*8.4*	*8.8*	*8.2*	*9.6*	*9.8*
Building & construction	**4.1**	2.5	5.2	2.9	3.4	2.0	0.5	(0.5)	2.8	1.9	2.9	7.9	6.4	8.2
Transport & communication	**8.6**	14.4	19.0	17.4	13.3	11.8	10.9	9.6	8.3	14.3	20.7	24.1	25.0	28.9
Finance and insurance	**3.6**	14.0	9.0	7.5	7.6	11.5	11.7	8.9	7.1	5.8	3.5	3.6	3.6	5.8
Real estate	**12.9**	8.8	8.8	7.7	5.8	4.0	2.9	2.4	1.1	0.6	0.5	0.7	0.5	0.8
Mining & quarrying	**0.5**	(6.1)	21.6	(3.6)	(8.8)	(13.0)	(8.4)	6.2	8.3	42.9	24.9	(10.7)	(4.9)	28.3
Private households	**15.3**	4.7	4.2	2.9	4.5	3.2	2.6	2.7	3.3	3.7	4.3	5.0	7.5	6.7
Consumer durables	**10.9**	18.7	20.3	17.6	19.3	23.4	17.6	16.5	15.3	15.0	14.6	14.0	15.6	16.1
Business services	**5.8**	6.5	5.0	5.7	7.2	5.2	7.6	8.2	10.8	9.5	8.4	11.6	14.7	12.2
Other activities	**3.2**	5.8	3.8	5.2	24.3	65.2	59.5	64.1	55.2	38.9	46.8	49.7	60.5	53.6
Total Private Sector Credit	**100.0**	**9.3**	**9.6**	**7.7**	**6.7**	**7.7**	**7.7**	**7.8**	**7.7**	**8.6**	**8.8**	**9.1**	**10.9**	**11.5**

Source: Central Bank of Kenya

5.2 Capital Market

Trading of equities at the Nairobi Securities Exchange (NSE) declined in April 2022 compared to April 2021. The Nairobi Securities Exchange All Share Index (NASI), NSE 25 and NSE 20 Share price indices declined by 11.2 per cent, 8.0 per cent, and 3.5 per cent, in April 2022 compared to April 2021, respectively. Market capitalization, equities turnover and total number of shares traded declined by 9.9 per cent, 40.8 per cent, and 34.2 per cent, respectively. The share of foreign investors trading in equities also declined to 62.9 per cent in April 2022 from 64.8 per cent in April 2021 (Table 9).

In the domestic secondary bond market, bonds turnover increased by 5.6 per cent to Kshs.67.6 billion in April 2022 from Kshs.71.4 billion in April 2021. In the international market, yields on Kenya's Eurobonds increased by an average of 538.1 basis points. Eurobond yields of other African countries also increased in April 2022 compared to April 2021.

Table 9: Developments in Capital Markets

	NASI (2008=100) Points	NSE 25 Share Index	NSE 20 Share Index (1966=100) Points	Number of Shares Traded (Million)	Equities Turnover (KSh Million)	Market Capitalization (KSh Billion)	Bond Turnover (KSh Million)	Number of Bond Deals	Foreign Participation to Equity Turnover (%)	FTSE NSE Kenya Govt. Bond Index	7-Year Eurobond Yield (%) (2027)	10-Year Eurobond Yield (%) (2024)	10-Year Eurobond Yield (%) (2028)	12-Year Eurobond Yield (%) (2032)	13-Year Eurobond Yield (%) (2034)	30-Year Eurobond Yield (%) (2048)
Jan-21	156.56	3,434.52	1,868.39	281.70	8,176.28	2,405.34	54,414.45	2,070.00	29.71	97.21	4.85	3.68	5.34	6.10		7.19
Feb-21	165.39	3,624.96	1,915.68	330.68	10,819.73	2,541.16	77,395.00	2,124.00	61.96	97.00	4.63	3.21	5.32	6.27		7.27
Mar-21	158.62	3,531.58	1,846.41	372.93	12,064.04	2,437.04	67,569.02	1,658.00	56.37	96.40	5.60	3.56	6.28	7.12		7.98
Apr-21	169.15	3,674.77	1,866.58	293.00	9,877.58	2,599.05	67,590.61	2,046.00	64.75	96.69	5.01	3.24	5.75	6.68		7.66
May-21	169.97	3,669.57	1,871.55	385.94	14,161.67	2,646.71	107,044.58	4,286.00	56.71	96.80	4.63	3.08	5.31	6.24		7.33
Jun-21	173.53	3,772.19	1,927.53	420.71	13,952.58	2,702.22	96,603.95	1,668.00	54.74	96.81	4.77	3.32	5.37	6.28	6.28	7.36
Jul-21	177.52	3,890.09	1,974.29	284.95	9,275.32	2,766.28	92,753.15	1,720.00	56.16	96.88	4.81	3.27	5.36	6.22	6.18	7.34
Aug-21	182.33	4,018.77	2,020.77	344.56	11,854.12	2,841.40	87,139.60	2,010.00	48.53	96.57	4.63	3.09	4.99	6.04	5.94	7.14
Sep-21	178.31	3,914.52	2,031.17	316.97	10,231.97	2,778.65	118,188.78	2,589.00	49.91	96.74	5.03	3.20	5.40	6.51	6.45	7.54
Oct-21	177.96	3,851.67	1,961.33	264.32	10,274.23	2,777.07	66,243.60	1,924.00	64.83	96.83	5.50	3.72	5.75	6.74	6.61	7.86
Nov-21	163.90	3,633.46	1,871.31	457.24	15,584.03	2,552.93	65,793.65	2,003.00	51.16	96.61	6.01	4.42	6.20	7.13	6.96	8.37
Dec-21	166.46	3,743.90	1,902.57	285.62	10,463.77	2,592.92	53,224.30	3,022.00	57.20	96.05	5.57	4.45	5.76	6.71	6.58	8.13
Jan-22	163.29	3,680.19	1,889.33	220.50	8,247.72	2,543.44	48,426.29	2,972.00	59.73	96.54	6.28	4.21	6.57	7.25	7.12	8.66
Feb-22	160.25	3,621.15	1,886.75	281.35	9,971.51	2,495.89	54,884.57	2,060.00	57.02	96.44	8.12	5.36	8.13	8.82	8.56	9.62
Mar-22	155.74	3,565.06	1,846.74	251.35	9,641.00	2,425.53	87,640.42	3,066.00	47.89	95.67	8.14	6.87	8.23	8.70	8.30	9.53
Apr-22	150.17	3,382.77	1,800.64	192.91	5,851.36	2,340.77	71,363.67	1,895.00	62.92	94.83	10.505	8.693	10.016	10.431	10.000	10.989

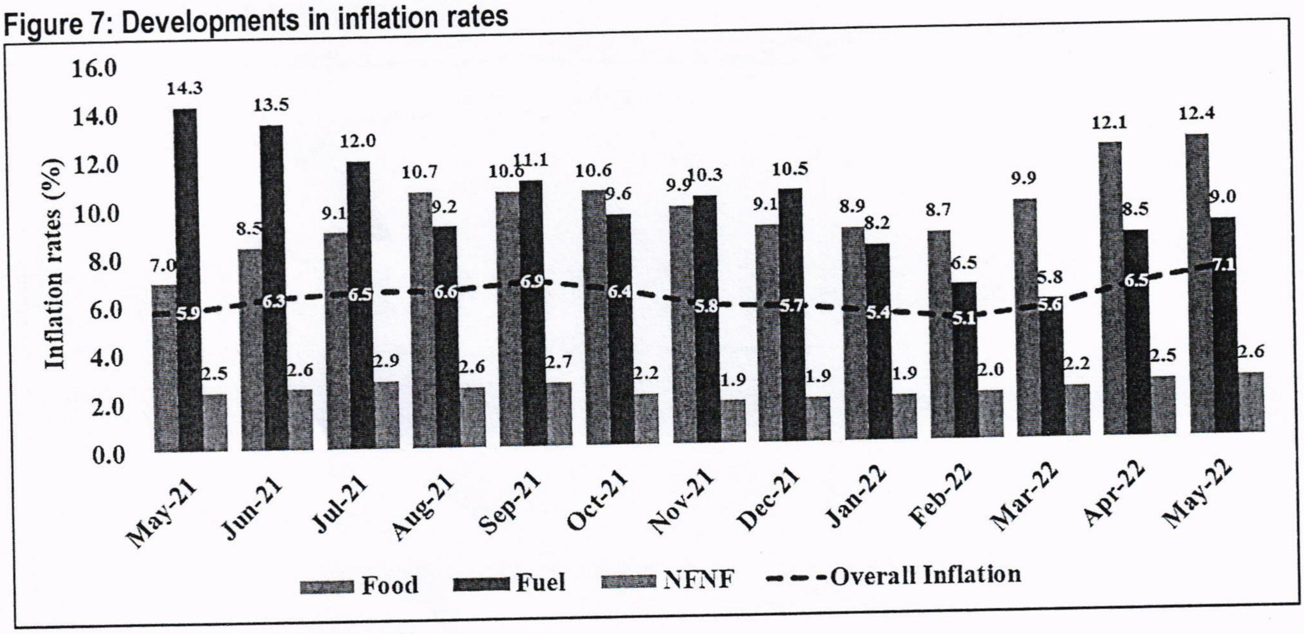
Source: NSE and Reuters

6.0 PERFORMANCE OF OTHER MACRO –ECONOMIC INDICATORS

6.1 Inflation

Overall inflation increased but remained within the target range of 5±2.5 per cent. It increased to 7.1 per cent in May 2022 from 6.5 per cent in April 2022 and 5.9 per cent in May 2021 due to higher food and fuel prices. Food inflation remained elevated due to unfavourable weather conditions, and continued transport and supply chain disruptions. It increased to 12.4 per cent in May from 12.1 per cent in April. Despite government interventions, fuel inflation increased reflecting elevated international oil prices. It increased to 9.0 per cent in May from 8.5 per cent in April. Non-Food-Non-Fuel inflation remained low and stable reflecting muted demand pressures in the economy. It stood at 2.6 per cent in May compared to 2.5 percent in April. In the medium term, inflation is projected to remain elevated but within the target range, on account of declining food prices following favorable weather conditions, continued government interventions to stabilize pump and electricity prices, and muted demand pressures (Figure 7).

Figure 7: Developments in inflation rates



Source: KNBS and Central Bank of Kenya

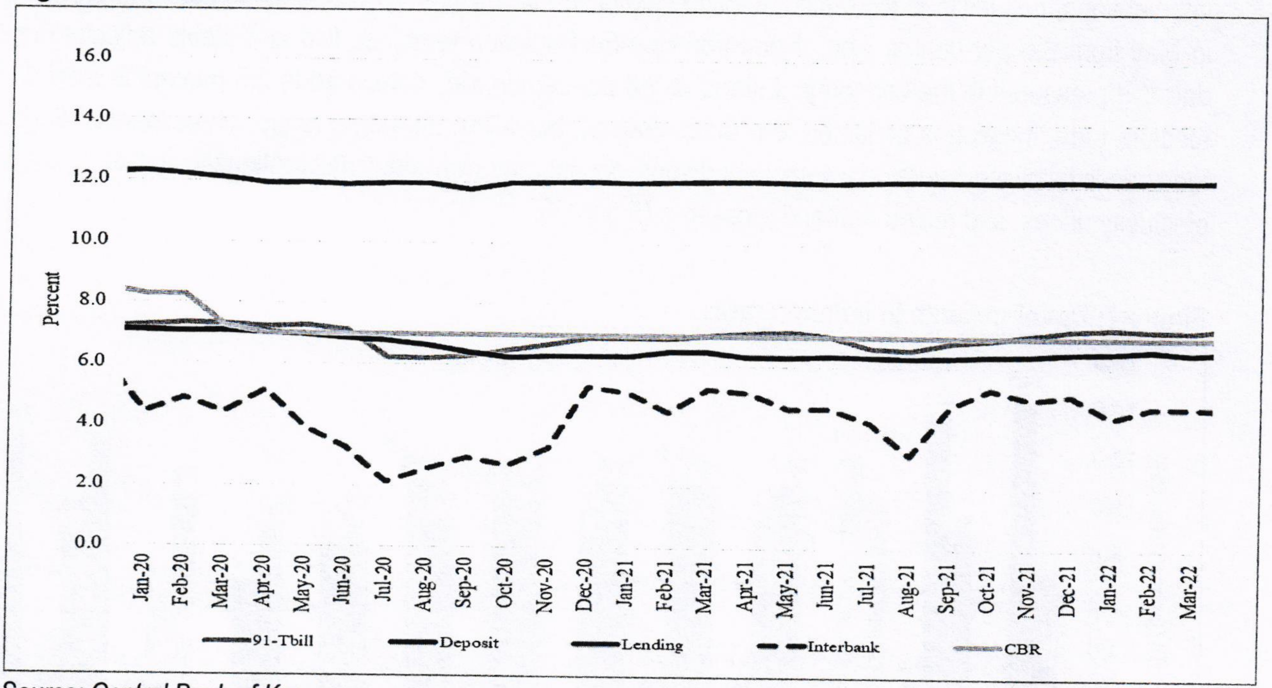
6.2 Interest rates

The Monetary Policy Committee (MPC) raised the Central Bank Rate to 7.50 per cent from 7.00 per cent in May 2022. During the May meeting the MPC noted elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions, and concluded that there was scope for tightening of monetary policy in order to further anchor inflation expectations.

Short term interest rates remained relatively stable in the first quarter of 2022 supported by accommodative monetary policy stance and ample liquidity conditions in the market. The weighted average interbank rate declined to 4.72 per cent in March 2022 from 5.23 per cent in March 2021. The average 91-day Treasury bill rate increased slightly to 7.25 per cent in March 2022 compared to 7.03 per cent March 2021.

Commercial banks' lending and deposit rates remained relatively stable in the first quarter of 2022 supported by accommodative monetary policy stance. The weighted average lending rate increased marginally to 12.15 per cent in March 2022 from 12.05 per cent in March 2021, while the weighted average deposit increased marginally to 6.50 per cent from 6.46 per cent over the same period. (Figure 8).

Figure 8: Interest Rates



Source: Central Bank of Kenya

7.0 OUTLOOK FOR 2022

7.1 Global Economy

Global growth rebounded to 6.1 per cent in 2021 compared to a contraction of 3.1 per cent in 2020 due to recovery of economy from the adverse effects of Covid-19. This was supported by Covid-19 vaccination drive, easing of mobility restrictions and roll-out of fiscal support in some large economies. As shown in Table 10, China, UK and France registered high growth of 8.1, 7.4 and 7.0 per cent in 2021 respectively compared to a growth of 2.2 per cent in China, and contraction of 9.4 and 8.0 per cent for UK and France in 2020 respectively.

Global economy is projected to decline from the estimated 6.1 per cent in 2021 to moderate at 3.6 per cent in both 2022 and 2023. The projected decline is attributed to ongoing conflict between Ukraine and Russia which will have direct negative impacts on the two countries and global spillovers via global commodity prices, trade and financial linkages, labour supply, and humanitarian impacts. In addition, monetary tightening, financial market volatility, and fiscal withdrawals are expected to exacerbate the slowdown in global economy. China's growth is expected to decline from 8.1 per cent in 2021 to 4.4 per cent in 2022 due to the pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and protracted financial stress among property developers. In the euro area, the conflict between Ukraine and Russia will affect their economy through rising global energy prices and energy security since they are net energy importers. As a result, euro area GDP growth in 2022 is expected to decline to 2.8 per cent, with growth in Germany and Italy projected at 2.1 and 2.3 per cent respectively.

Table 10: Global Economic Outlook and Growth in the Leading Economies

	2020	2021	2022*	2023*
World Economy	-3.1	6.1	3.6	3.6
United States	-3.4	5.7	3.7	2.3
Japan	-4.5	1.6	2.4	2.3
China	2.2	8.1	4.4	5.1
Euro Area	-6.4	5.3	2.8	2.3
Germany	-4.6	2.8	2.1	2.7
France	-8.0	7.0	2.9	1.4
United Kingdom	-9.3	7.4	3.7	1.2
Italy	-8.9	6.6	2.3	1.7

Source: IMF World Economic Outlook (April 2022)
* Projections

7.2 Regional Economies and Sub-Sahara Africa

Table 11 indicates that Economic growth in Sub-Saharan Africa rebounded to 4.5 per cent in 2021 from a contraction of 1.7 per cent in 2020 mainly due to easing of Covid-19 restrictions that led to recovery of economic activities.

Sub-Saharan Africa growth is expected to decline to 3.8 per cent in 2022. The decline is attributed to countries' minimal policy space to respond to global economic shocks resulting from Russian invasion of Ukraine. The conflict between Ukraine and Russia has led to surging oil and food prices that are straining the external and fiscal balances of commodity-importing countries, and increased food security concerns in many countries. In addition, growth will be hampered by increased security risks in some countries and acceleration in the pace of monetary tightening in advanced economies which may lead to higher borrowing cost and weaker external demand.

Table 11: Economic Outlook for SSA and Regional Economies

	2020	2021	2022*	2023*
SSA	-1.7	4.5	3.8	4.0
South Africa	-6.4	4.9	1.9	1.4
Nigeria	-1.8	3.6	3.4	3.1
Ghana	0.4	4.2	5.2	5.1
Burundi	0.3	2.4	3.6	4.6
Kenya	-0.3	7.5	5.7	5.3
Rwanda	-3.4	10.2	6.4	7.4
Tanzania	4.8	4.9	4.8	5.2
Uganda	-1.4	5.1	4.9	6.5

Source: IMF Regional Economic Outlook Sub-Saharan Africa (April, 2022)
* Projections

7.3 Medium Term Prospects for Kenya

The medium-term prospects of the economy are assumed not to experience significant risk to alter the prevailing growth trajectory. In this regard, the economy is projected to grow at 6.3 percent in 2022 with an average of 6.0 percent in the medium-term (see Table 12). This robust growth rate will be underpinned by continued improvements in economic activities following the reopening of the economy in 2021 and stabilization of the macroeconomic fundamentals such as inflation that continue to remain within the target. From the demand side, improvements in private consumption that continues to average about 75 percent of real GDP will be crucial in driving GDP growth. Moreover, existing policy support both from the monetary and fiscal side are expected maintain the current growth momentum. However, the existing global challenges such as the Ukraine – Russia conflict and the new COVID-19 variant are likely to increase the cost of production thus, amplifying the effect on commodity prices.

Table 12: Economic outlook baseline scenario

	2019	2020	2021	2022*	2023*	2024*
			Rates (%)			
GDP Growth	5.2	-0.3	7.5	6.3	6.1	6.4
Inflation	5.2	5.4	6.1	5.6	5.0	5.0
Interest Rate	6.9	6.9	7.0	7.0	6.9	6.9
			Volume Growth			
Private Consumption	5	-2.6	6.4	7.2	6.1	6.7
Government Consumption	5.6	3	5.7	3.4	6.5	6.6
Private Investments	8.5	6.5	3.9	4.9	2.7	4.1
Government Investments	18.1	8.7	4.2	-5.7	10.9	9.1
Export Goods and Service	-3.2	-8.8	12.9	6.4	7.2	7.7
Import Goods and Service	1.8	-9.2	18.9	4.3	5.3	4.6
			% of GDP			
Current Account Balance	-5.2	-4.8	-5.5	-6.1	-5.8	-5.6
			Index			
Ksh per Dollar	102.1	106.5	109.6	114.3	113.5	110.4

*Source: KIPPRA (2022), KIPPRA Treasury Macroeconomic Model (KTMM) where * is forecast*

Going forward, inflation is expected to remain within the Government's range of 5±2.5 per cent in the medium term. While inflation in 2021 was elevated at 6.1 per cent it remained below the target and it is projected to narrow to 5.6 per cent in 2022 and settle at 5.0 per cent by 2024. On the exchange rate side, the Kenya shilling is projected to depreciate marginally to the US dollar to an average of Ksh 114.3 in 2022 from an average of Ksh 109.6 in 2021. The depreciation of the Kenya shilling in 2022 is largely due to the effects of Ukraine-Russia conflict that increased the cost of global oil prices, agricultural factor inputs such as fertilizer and high demand for the dollar following huge import bills. However, the Kenya Shilling is expected to strengthen in the medium term against the US Dollar to settle at Ksh 110.4 to a Dollar in 2024. Further, the improved market access of Kenyan exports is likely to improve the foreign currency thus, strengthening the domestic currency.

8.0 RISKS TO THE ECONOMIC OUTLOOK

i. Persistent increase in crude oil prices resulting to increase in pump prices.

ii. Instability between Russia and Ukraine may negatively affect global trade due to supply chain disruptions and rise in commodity prices. The two countries are also the leading exporters of wheat, furthermore, Kenya imports about 32% of its wheat from Russia and Ukraine while about 10% of total fertilizer used is imported from Russia. Thus, the imports from these countries may be reduced, leading to increased cost of food and farm inputs.

iii. Exchange rate volatility elevates uncertainties in the economy. The current depreciation of the Kenya shilling relative to the US dollar and other currencies increases the cost of intermediate goods that are factor inputs in the manufacturing sector. Additionally, the current depreciation of the domestic currency is expected to increase the cost of external debt service.

iv. Delay and below average rainfall pattern experienced between March and May, 2022 is expected to negatively affect crop and livestock production.
v. High cost of farm inputs particularly fertilizer may lead to increase in the cost of production which in turn result in a decline in production and hamper efforts towards achieving food security
vi. Political uncertainty emanating from the upcoming general election may create a "wait and see" attitude among the investors.
vii. The uncertainty of emergence of new COVID-19 variants coupled with slow uptake of vaccination may hamper recovery of the economy.

9.0 RECOMMENDED ACTIONS

i. The Ministry of Health to scale up campaigns on uptake of COVID-19 vaccines, and put in place measures to curb spread of emerging variants.
ii. There is need to diversify the source of imports such as food products and fertilizers to cushion the economy from the effects of the Russia - Ukraine conflict. The wheat and fertilizer products can be sourced from other African countries under the Africa Continental Free Trade Area (AfCFTA) framework.
iii. The National Treasury should enforce timely reporting of State Corporations' A-i-A through IFMIS.
iv. Public Investment Management Unit to ensure fulfilment of conditions precedent before projects are pipelined for financing.
v. Invest more in irrigation as well as increase the productivity of existing irrigation schemes to reduce over-reliance on rain-fed agriculture.
vi. Promote a peaceful political environment during electioneering period for robust economic activities.
vii. The national Government policy on clearance of pending bills continues to be in force. All MDAs and Counties should continue prioritizing payment of the pending bills by settling them as a first charge in line with the Treasury Circular No. 7/2019.
viii. Enhance revenue collection and administration through:
   a. Recruitment of additional active taxpayers into the tax bracket;
   b. Review the High Net-Worth Individual (HNWI) framework to redefine sub-segments of HNWIs to include wealth value;
   c. Turnaround of perpetual non-filers into filers;
   d. Continued implementation of post clearance risk-based audits;
   e. Use of block management system to recruit additional landlords;
   f. Partnerships and collaborations for revenue mobilization; and
   g. Roll-out of simplified online self-services.