

Kenya's FY'2023 Balance of Payments Note

According to the FY'2023 [Economic Survey Report](#) released by the Kenya National Bureau of Statistics (KNBS), Kenya's balance of payments position improved by 46.4% in FY'2023, coming in at a deficit of Kshs 134.8 bn, from a deficit of Kshs 251.5 bn in FY'2022, and a slight deterioration from the Kshs 131.5 bn deficit recorded in Q3'2023. In this note, we provide a detailed analysis of the current account and the balance of payment before giving an outlook on both.

A. Current Account Balance

Kenya's current account deficit narrowed by 13.0% to Kshs 603.7 bn in FY'2023 from the Kshs 694.2 bn deficit recorded in FY'2022. The y/y contraction registered was driven by:

- i. The contraction of the merchandise trade account deficit (the value of import goods exceeds the value of export goods, resulting in a negative net foreign investment) by 0.3% to Kshs 1,401.6 bn in FY'2023, from Kshs 1,405.4 bn recorded in FY'2022, and,
- ii. A 27.2% improvement in the secondary income (transfer) balance to a surplus of Kshs 977.9 bn from a surplus of Kshs 768.8 bn in FY'2022.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing FY'2022 and FY'2023:

Item	FY'2022	FY'2023	Y/Y % Change
Merchandise Trade Balance	(1,405.4)	(1,401.6)	(0.3%)
Services Trade Balance	149.9	84.2	(43.9%)
Primary Income Balance	(207.4)	(263.9)	27.2%
Secondary Income (transfer) Balance	768.8	977.6	27.2%
Current Account Balance	(694.2)	(603.7)	(13.0%)

All values in Kshs bns

Key take-outs from the table include;

- i. Merchandise trade deficit (a scenario where imports are greater than exports of goods) narrowed by 0.3% to Kshs 1,401.6 bn in FY'2023, from Kshs 1,405.4 bn in FY'2022. This is attributable to the 15.5% growth in merchandise exports to Kshs 1,009.7 bn, from Kshs 874.4 bn in FY'2022 compared to the 5.8% growth in merchandise imports to Kshs 2,411.4 bn from Kshs 2,279.9 bn recorded in a similar period in 2022. The increase in merchandise exports was mainly driven by a 23.1% increase in horticulture exports to Kshs 187.4 bn, from Kshs 152.1 bn recorded in FY'2022 coupled with the 15.6% growth in exportation of tea to Kshs 188.7 bn, from Kshs 163.3 bn recorded in FY'2022. Additionally, the growth in merchandise exports was significantly influenced by the depreciation of the Kenyan Shilling against the currencies of major trading partners during the period under review. On the other hand, the slower growth in the import bill is attributable to the 19.8% decline in importation of iron & steel to Kshs 120.8 bn from Kshs 150.6 bn reported in FY'2022 coupled with a 6.1% decrease in industrial machinery imports to Kshs 289.8 bn in FY'2023 from Kshs 308.5 bn in FY'2022 and a 4.6% decrease in animal and vegetable oils imports to Kshs 139.1 bn from Kshs 145.8 bn recorded in FY'2022,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 43.9% decrease in FY'2023 to a surplus of Kshs 84.2 bn, from a surplus of Kshs 149.9 bn in FY'2022. The y/y decline in service trade balance was mainly driven by the 1.9% decrease in services receipts to Kshs 755.9 bn from Kshs 770.2 bn recorded in FY'2022,
- iii. Primary income deficit (income that residents earn from, less that they pay to the rest of the world from working and from financial investments) widened by 27.2% to a deficit of Kshs 263.9 bn in FY'2023 from a deficit of Kshs 207.4bn in FY'2022,
- iv. Secondary income/transfers surplus (the transactions recorded in the secondary income account pertain to those current transfers between residents and non-residents that directly affect the level

- of gross national disposable income and thus influence the economy's ability to consume goods and services) increased by a significant 27.2% to Kshs 977.6 bn from Kshs 768.8 bn in FY'2022,
- v. Diaspora remittances recorded a 23.6% growth to Kshs 591.2 bn from Kshs 478.5 bn recorded in FY'2022,
 - vi. Total exports grew by 15.4% in FY'2023 to Kshs 1,007.9 bn, up from Kshs 873.1 bn recorded in FY'2022. In terms of exports by region, Africa remained the largest merchandise export recipient, accounting for 43.2% of total exports in FY'2023 and registering a 21.6% increase in export earnings to Kshs 435.0 bn, from Kshs 357.7 bn in FY'2022. The increase was mainly attributable to 29.9% increase in exports to Uganda, to Kshs 126.3 bn from Kshs 97.2 bn in FY'2022, coupled with 20.9%, and 5.5% growth in exports to Tanzania and South Sudan. Asia followed in second place, accounting for 25.8% of all exports and recording a growth of 19.3% in FY'2023 to Kshs 259.7 bn, up from Kshs 217.6 in FY'2022, and
 - vii. Overall imports grew marginally by 4.9% to Kshs 2,612.0 bn to FY'2023 from 2,490.8 bn recorded in FY'2022. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 66.5% of total imports, with, the value of imports increasing by 0.9% to Kshs 1,737.2 bn, up from Kshs 1,722.0 bn recorded in FY'2022. The growth was mainly attributed to the increase in imports from China of 1.4% to Kshs 459.0 bn from Kshs 452.0 bn in FY'2022 however weighed down by a 43.8% decrease in imports from South Korea to Kshs 28.3 bn, from Kshs 50.2 bn recorded in FY'2022. The decline was mostly due to lower demand for kerosene jet fuel from South Korea. The European Union accounted for 8.5% of total imports in FY'2023, valued at Kshs 223.1 bn, a 10.3% growth from the Kshs 202.2 bn recorded in FY'2022 mainly driven by the 73.7% increase in imports from France.

B. Balance of Payments

Kenya's balance of payment (BoP) position improved by 46.4% in FY'2023, with the deficit narrowing to Kshs 134.8 bn, from a deficit of Kshs 251.5 bn in FY'2022, and a slight deterioration from the deficit of Kshs 131.5 bn recorded in Q3'2023. The y/y positive performance in BoP was mainly driven by a 13.0% improvement in the current account balance to a deficit of Kshs 603.7 bn in FY'2023, from a deficit of Kshs 694.2 bn in FY'2022, and the 4.6% increase in capital account balance to Kshs 17.3 bn from Kshs 16.5 bn recorded in a similar period in 2022. The performance was however weighed down by a 21.2% decrease in the financial account balance to a surplus of Kshs 384.7 bn from a surplus of Kshs 488.4 bn in FY'2022. The table below shows the breakdown of the various balance of payments components, comparing FY'2023 and FY'2022:

Item	FY'2022	FY'2023	Y/Y % Change
Current Account Balance	(694.2)	(603.7)	(13.0%)
Capital Account Balance	16.5	17.3	4.6%
Financial Account Balance	488.4	384.7	(21.2%)
Net Errors and Omissions	(62.3)	66.9	(207.5%)
Balance of Payments	(251.5)	(134.8)	(46.4%)

All values in Kshs bns

Key take-outs from the table include;

- i. The current account deficit (value of goods and services imported exceeds the value of those exported) narrowed by 13.0% to Kshs 603.7 bn from Kshs 694.2 bn in FY'2022. The y/y narrowing of the current account was brought about by the 0.3% improvement in Merchandise trade deficit to Kshs 1,401.6 bn in FY'2023, from Kshs 1,405.4 bn in FY'2022 driven by the 15.5% growth in merchandise exports to Kshs 1,009.7 bn, from Kshs 874.4 bn in FY'2022 which outpaced the 5.8% increase in merchandise imports to Kshs 2,411.4 bn from Kshs 2,279.9 bn recorded in a similar period in 2022,
- ii. The capital account balance (shows capital transfers receivable and payable between residents and non-residents, including the acquisition and disposal of non-produced non-financial items), which includes

- foreign direct investments (FDIs), increased by 4.6% to a surplus of Kshs 17.3 bn in FY'2023 up from a surplus of Kshs 16.5 bn in FY'2022,
- iii. The financial account balance (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by foreign buyers) recorded a surplus of Kshs 384.7 bn in FY'2023, a decrease of 21.2% from the surplus of Kshs 488.4 bn recorded in FY'2022. During the review period, reserve assets were depleted by Kshs 80.4 bn, and the government received Kshs 54.5 bn from the International Monetary Fund (IMF), a 27.7% decline from Kshs 75.3 bn in 2022., and,
 - iv. Consequently, the Balance of Payments (BoP) position improved to a deficit of Kshs 134.8 bn in FY'2023, from a deficit of Kshs 251.5 bn recorded in FY'2022.

C. Public External Debt

During the period under review, the stock of external public and public guarantee debt increased by 30.3% to Kshs 6.1 tn as at December 2023, up from Kshs 4.7 tn recorded in end of 2022, mainly driven by a 38.3% increase in multilateral debt to Kshs 3.1 tn in '2023, up from Kshs 2.2 tn recorded in 2022. Notably, external public debt by commercial banks increased by 28.2% to Kshs 1.6 tn in 2023, up from Kshs 1.2 tn in 2022. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing FY'2023 and FY'2022:

Debt Source	Dec-2022	Dec-2023	Y/Y % Change
Bilateral	1.2	1.4	17.8%
Multilateral	2.2	3.1	38.3%
Commercial Banks	1.2	1.6	28.2%
Suppliers Credit	0.01	0.02	37.6%
Total External Public Debt	4.7	6.1	30.3%

All values in Kshs tn

Key take-outs from the table include;

- i. Multilateral debt increased by 38.3% to Kshs 3.1 tn in FY'2023, up from Kshs 2.2 tn recorded in FY'2022, accounting for 50.3% of the total external debt. This is brought about by increased disbursement of programme loans from the International Monetary Fund (IMF) during the period of review. Additionally, bilateral debt accounted for 23.4% of the total external debt, with the amount increasing by 17.8% to Kshs 1.4 tn, up from Kshs 1.2 tn in FY'2022.

D. Conclusion

Kenya's balance of payments improved in FY'2023, mainly on the back of a 13.0% improvement in the current account to a deficit of Kshs 603.7 bn in 2023, from a deficit of Kshs 694.2 bn in 2022 reflecting significant improvements in the country's external economic position. This positive shift was primarily driven by a 0.3% contraction in the merchandise trade deficit, occasioned by a robust growth in merchandise exports, notably in horticulture and tea, coupled with a favorable exchange rate movement due to the depreciation of the Kenyan Shilling. Additionally, the secondary income balance saw a substantial increase, bolstered by strong growth in diaspora remittances. Looking ahead, the outlook for Kenya's current account is optimistic, as continued growth in key export sectors and sustained diaspora remittances are expected to further improve the current account balance. Efforts to diversify exports and enhance value addition in agricultural products, along with prudent fiscal and monetary policies, will be crucial in sustaining this positive trajectory. Furthermore, the ongoing strengthening of Kenyan Shilling against most trading currencies is expected to lower the import bill hence narrowing the current account deficit. We expect that the current administration's focus on fiscal consolidation will improve the balance of payments performance by minimizing the costs of servicing external debts. Additionally, the favorable weather conditions are set to boost agricultural production in the country, thereby increasing the export of agricultural products, and supporting the current account. We anticipate that the balance of payments will be more stable with the help of multiple trade agreements, such as the one between Kenya and the EU and the one among the EAC, SADC and COMESA, as the agreements will boost the amount and variety of exports that are needed and offer more opportunities to sell them.