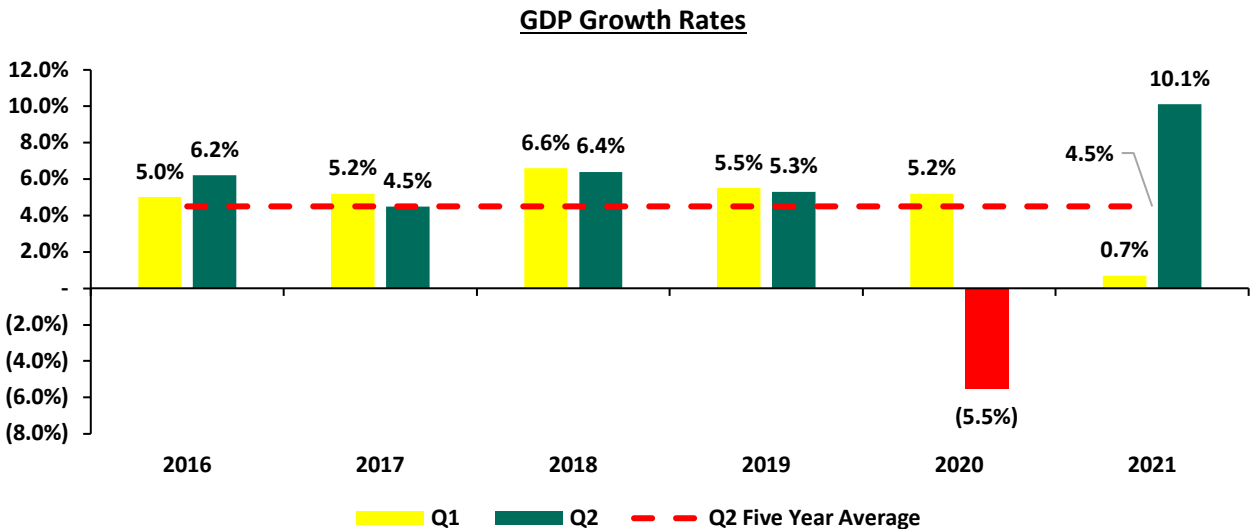


### Kenya's Q1'2021 and Q2'2021 GDP Growth

According to Kenya National Bureau of Statistics (KNBS) [Quarterly Gross Domestic Product Report](#) the Kenyan economy recorded a 10.1% growth in Q2'2021, up from the 0.7% growth in Q1'2021 and the 4.7% contraction recorded in Q2'2020 pointing towards an economic rebound. Consequently, the average GDP growth rate for the 2 quarters in 2021 is 5.4%, an increase from the 0.2% decline registered during a similar period of review in 2020. The chart below shows the quarter two GDP growth progression over the last 5 years;



The table below shows the growth of the various sectors and their overall contribution to GDP:

Sector	Contribution Q2'2020	Contribution Q2'2021	Q2'2020 Growth	Q2'2021 Growth
Agriculture and Forestry	22.7%	20.5%	4.9%	(0.9%)
Real estate	10.5%	10.0%	4.6%	4.9%
Transport and Storage	8.9%	9.4%	(16.8%)	16.9%
Manufacturing	8.4%	8.4%	(4.7%)	9.6%
Financial & Insurance	7.9%	7.9%	4.4%	9.9%
Wholesale and retail trade	7.8%	7.8%	(4.2%)	9.5%
Public administration	6.4%	6.6%	2.7%	13.0%
Taxes on Products	7.4%	6.3%	(20.8%)	0.5%
Construction	5.9%	5.7%	8.2%	6.5%
Education	3.7%	5.6%	(22.4%)	67.6%
Information and Communication	2.8%	3.2%	2.6%	25.2%
Professional admin	2.3%	2.4%	27.5%	17.6%
Electricity and Water Supply	2.3%	2.4%	(4.7%)	5.2%
Health	2.4%	2.4%	9.8%	10.0%
Other services	1.9%	2.1%	(22.1%)	20.2%
Mining and quarrying	1.0%	1.1%	4.4%	17.7%
Accommodation & Food Services	0.5%	0.5%	(56.8%)	9.1%
Financial Services Indirectly Measured	(2.8%)	(2.3%)	(3.8%)	0.5%
<b>GDP at Market Prices</b>	<b>100.0%</b>	<b>100.0%</b>	<b>(4.7%)</b>	<b>10.1%</b>

The key take-outs from the report are:

- **Sectoral Contribution to Growth** - The biggest gainers in terms of sectoral contribution to GDP were Education and Transport and Storage sectors, where education increased by 1.9% points to 5.6% from 3.7% in Q2' 2020, while the Transport and Storage sectors increased by 0.6% points to 9.4%, from 8.9% in Q2'2020. Agriculture was the biggest loser, declining by 2.3% points to 20.5% in Q2'2021, from 22.7% in Q2'2020, attributable to a decline in agricultural products due to erratic weather conditions. Notably, the Education sector recorded the highest growth rate in Q2'2021 growing by 67.6% compared to the 22.4% contraction recorded in Q2'2020. The performance is mainly attributable to the resumption of learning as schools had remained closed in Q2'2020.
- **Subdued Growth in the Agricultural Sector** – Agriculture, Forestry and Fishing activities recorded a decline of 0.9% in Q2'2021, compared to a 4.9% growth in Q2'2020 and a 0.1% contraction in Q1'2021. The contraction during the quarters is mainly attributable to unfavorable weather conditions witnessed during the period. However, the sector's performance was cushioned by a notable increase in milk production, horticultural exports and sugarcane production. During the quarter, production of key food crops recorded mixed performances:
  - i. The volume of milk intake by processors increased by 37.9% to Kshs 208.5 mn, from Kshs 151.2 mn in Q2'2020,
  - ii. Cane deliveries increased by 14.7% to 1.9 mn metric tonnes in Q2'2021, from the 1.7 mn metric tonnes recorded in a similar period in 2020,
  - iii. Vegetables, cut flowers and fruit exports rose by 58.1%, 55.2% and 23.5%, respectively, and,
  - iv. Tea production declined by 7.0% to 133,090.0 metric tonnes from 143,037.0 metric tonnes in Q2'2020.
- **Growth in the manufacturing sector** - The manufacturing sector recorded a 9.6% growth in Q2'2021 in comparison to the 1.5% recorded in Q1'2021 and the 4.7% contraction recorded in Q2'2020. Additionally, the sectoral contribution remained unchanged at 8.4%, as was recorded in Q2'2020. The performance was mainly driven by:
  - i. Non-food products recorded a mixed performance with positive growth in the assembly of motor vehicle and contractions in the manufacture of galvanized iron sheets and manufacture of paper and paper products, and,
  - ii. Manufacture of food which includes beverages, meat and meat products among others recorded a 6.7% growth during the review period.
- **Growth in the Financial and Insurance sector** – Financial and Insurance sector grew by 9.9% in Q2'2021 compared to 9.4% in Q1'2021 and the 4.4% growth recorded in Q2'2020, with the sectoral Contribution remaining unchanged at 7.9%, as was recorded in Q2'2020. Some of the notable improvements include:
  - i. Broad money supply (M3) – which is a collection of all the currency flowing in the economy, rose by 6.3% to Kshs 4.1 tn as at June 2021, from Kshs 3.9 tn as at June 2020, and,
  - ii. Net foreign assets reduced by 11.9% to Kshs 781.9 bn as at June 2021, from Kshs 887.4 bn as at June 2020.

The Central Bank of Kenya (CBK) in efforts to support the economy maintained the Central Bank Rate (CBR) at 7.0% during the first half of 2021.

- **Gradual rebound in the Accommodation and food services sector**- The sector recorded a 9.1% growth in Q2'2021, a notable improvement compared to the contraction of 48.8% and 56.6% recorded in Q1'2021 and in Q2'2020, respectively. The sectoral contribution remained relatively unchanged at 0.5% recorded in Q2'2020. This sector was the worst hit by the COVID -19 pandemic as businesses in accommodation and food services sector either operated under minimum capacity or completely closed down. Cessation of international flight as well as restrictions of movement within the country, adversely affected the sector's performance as these led to a significant decline in the number of

foreign arrivals. The growth witnessed in Q2'2021 is mainly attributable to the relaxation of most of the restrictions on the back of a positive vaccine rollout.

- **Slower growth in the Real Estate and Construction sectors** – The Real Estate and Construction sectors recorded a growth of 4.9% and 6.5% in Q2'2021, compared to 4.5% and 7.8% in Q1'2021, and 4.6% and 8.2% in Q2'2020, respectively. Key to note the sectoral contribution in Q2'2021 stood at 10.0% and 5.7%, for the Real Estate and Construction Sector, respectively, compared to 10.5% and 5.7% in a similar period of review in 2020. Consequently, credit advanced to the construction sector declined by 1.7% in the review period. Cement consumption rose by 29.3% to 2.1 mn metric tonnes in Q2'2021, from 1.6 mn metric tonnes recorded during the same period in 2020.
- **Growth in the Transport and Storage Sector** – Transportation and storage sector grew by 16.9% in Q2'2021 compared to the 8.7% contraction recorded in Q1'2021 and 16.8% in Q2'2020. The sector's contribution to GDP increased by 0.6% points to 9.4% from 8.9% recorded in Q2'2020. The growth was supported by lifting of movement restrictions that were put in place to control the spread of COVID-19. Some of the key observations are;
  - i. Freight movement through Standard Gauge Railway (SGR) increased by 25.9% to 1.3 mn metric tonnes in Q2'2021, from 1.1 mn metric tonnes in Q2'2020,
  - ii. Passenger transport through SGR increased significantly to 304,445 passengers in Q2'2021, from 6,363 passengers in Q2'2020, and,
  - iii. The transportation and storage growth was also reflected in the increase in consumption of light diesel, a major input to transportation activities, which rose by 27.4% compared to a contraction of 22.4% in Q2'2020.

Going forward, we expect Kenya's GDP to continue growing as most sectors of the economy continue to recover. The lifting of the dawn to dusk curfew that was put in place since March 2020 is expected to boost economic recovery in sectors such as accommodation and food services as well as the manufacturing sector as most businesses will use the opportunity to increase production which has already seen a notable improvement as evidenced by the increase in the October PMI to 51.4 from 50.4 recorded in September 2021. We note that agriculture continues to be the main driver of economic growth despite the contraction witnessed in H1'2021. However, concerns remain elevated on existence and emergence of new COVID-19 variants which poses economic uncertainty as this may lead to another wave of infections and consequently tighter restrictions that would slow down economic growth.

***In our view, the economy has already felt the full effects of the pandemic and with most sectors showing recovery in the first half of 2021, we expect continued recovery in the subsequent quarters given the reopening of the economy and the procurement and distribution of the COVID-19 vaccine. However, given the uncertainty of existence and emergence of new variants of COVID-19, we maintain our expectations of a best-case scenario of a 4.5% economic growth for 2021.***