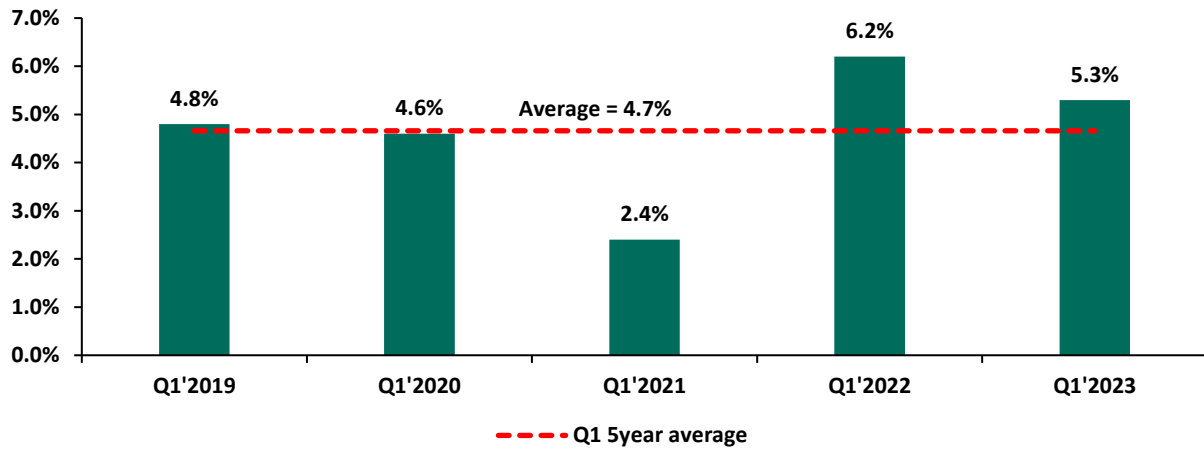


Kenya Q1'2023 GDP Note

The Kenya National Bureau of Statistics (KNBS) recently released the [Q1'2023](#) Quarterly Gross Domestic Product (GDP) Report, highlighting that the Kenyan economy recorded a 5.3% growth in Q1'2023, albeit slower than the 6.2% growth recorded in Q1'2022. The growth was mainly supported by a rebound in agricultural activities, which grew by 5.8% in Q1'2023 compared to a contraction of 1.7% in Q1'2022. All sectors in Q1'2023 recorded positive growth, with varying magnitudes across activities. However, most sectors recorded subdued growth compared to Q1'2022 with Mining and Quarrying, Accommodation and Food Services, and Financial and Insurance sectors recording the highest growth declines of 20.5% points, 18.6% points, and 11.2% points, respectively. The decline in overall GDP growth can be attributed to the above growth declines in respective sectors.

Cytonn Report: First Quarter Growth Rates



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

Cytonn Report: Q1'2022 and Q1'2023 GDP Contribution and Growth rates				
Sector	Contribution Q1'2022	Contribution Q1'2023	Q1'2022 Growth	Q1'2023 Growth
Agriculture, Fishing and Forestry	23.4%	18.5%	(1.7%)	5.8%
Real estate	8.5%	10.0%	6.0%	5.2%
Transport and Storage	11.0%	9.1%	7.7%	6.2%
Financial and insurance	6.8%	8.8%	17.0%	5.8%
Wholesale and retail trade	8.3%	8.7%	4.9%	5.7%
Taxes on Products	8.7%	8.6%	9.5%	4.4%
Manufacturing	7.3%	8.1%	3.8%	2.0%
Public administration	4.7%	5.7%	6.2%	6.6%
Construction	7.3%	5.7%	6.0%	3.1%
Education	4.3%	5.0%	4.6%	3.6%
Information and Communication	2.3%	3.2%	9.0%	8.7%
Professional admin	2.3%	2.6%	13.1%	7.3%
Electricity and Water Supply	1.8%	2.3%	3.2%	2.3%
Health	1.6%	2.1%	5.7%	5.4%
Other Services	1.9%	2.0%	8.9%	3.0%
Mining and quarrying	1.0%	1.3%	23.8%	3.3%
Accommodation & Food Services	1.0%	1.1%	40.1%	21.5%
Financial Services Indirectly Measured	(1.9%)	(2.6%)	0.8%	0.6%
GDP at Market Prices	100.0%	100.0%	6.2%	5.3%

The key take-outs from the report are:

- **Sectoral contribution to growth:** The biggest gainer in terms of sectoral contribution to GDP was the financial and Insurance sector, increasing by 1.9% points to 8.8% in Q1' 2023 from 6.8% in Q1'2022, while Agriculture and Forestry was the biggest loser, declining by 4.9% points to 18.5% in Q1'2023, from 23.4% in Q1'2022. Real Estate was the second largest contributor to GDP at 10.0% in Q1'2023, 1.5% points increase from 8.5% in Q1'2022, indicating sustained growth. The accommodation and Food Services sector recorded the highest growth rate in Q1'2023 growing by 21.5%, albeit slower than the 40.1% growth recorded in Q1'2022.
- **Rebound in the Agricultural Sector:** Agriculture, Forestry and Fishing activities recorded a growth of 5.8% compared to a contraction of 1.7% in Q1'2022. This is after a consecutive contraction of four quarters. The positive growth recorded during the quarter was mainly attributable to the sufficient rainfall experienced in the quarter under review, which resulted in increased agricultural production. Notably, during the quarter, production of key food crops increased, with a significant increase in the volume of vegetable and fruit exports during the quarter under review. However, the sector's performance was curtailed by decline in milk deliveries to processors, production of tea, coffee and sugarcane with;
 - i. Volume of milk deliveries declined by 15.7%, to 166.5 mn litres in Q1'2023 from 197.5 mn litres in Q1'2022
 - ii. Tea production declined by 13.0%, to 118.1 thousand metric tonnes in Q1'2023 from 135.8 thousand metric tonnes in Q1'2022
 - iii. Coffee exports declined by 5.4% to 11,284.9 metric tonnes in Q1'2023 from 11,923.1 metric tonnes in Q1'2022
 - iv. Sugarcane production declined by 0.4%, to 2171.0 thousand metric tonnes in Q1'2023 from 2,180.3 thousand metric tonnes in Q1'2022
- **Slower growth in the manufacturing sector:** The manufacturing sector recorded slower growth of 2.0% in Q1'2023 compared to 3.8% growth in a similar period of review in 2022. However, the sectoral contribution to GDP increased by 0.8% points, to 8.1% in Q1'2023 from 7.3% in Q1'2022.
 - i. The growth in food production was supported by a 15.2% growth in manufacture of bakery products and processing, coupled with a 7.2% expansion in fish preservation.
 - ii. In the non-food subsector, growth was supported by sustained growth in the manufacture of basic metals and fabricated metal products.
 - iii. Credit advanced to manufacturing sector enterprises grew by 14.9%, to Kshs 1.6tn in Q1'2023 from Kshs 1.4 tn in Q1'2022.
- **Significant decline in the Financial and Insurance sector growth:** Financial and Insurance sector growth declined by 11.2% points, to 5.8% in Q1'2023 from 17.0% growth that was recorded in Q1'2022. Additionally, the contribution to GDP decreased by 2.0% points, to 8.8% in Q1'2023, compared to 6.8% recorded in Q1'2022. 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 10.4%, to Kshs 5.2 tn in Q1'2023 from Kshs 4.2 tn in Q1'2022
 - ii. Net foreign assets declined by 28.1%, to Kshs 307.8 bn in Q1'2023, from Kshs 427.8 bn in Q1'2022.

The Central Bank of Kenya (CBK), in efforts to curb the high inflation, raised the Central Bank Rate (CBR) to 9.5% in March 2023, compared to 7.00% during a similar period in 2022.

- **Sustained resilience in the Accommodation and Food services sector:** The sector recorded 21.5% growth in Q1'2023, albeit lower than the 40.1% growth recorded in Q1'2022. This comes after the sector recorded significantly subdued performance in 2020 and part of 2021 as a consequence of the COVID-19 pandemic. The activity in the sector remained resilient during the quarter, with the number of visitor arrivals through Jomo Kenyatta International Airport and Moi International Airport increasing by 50.0% to 337,937 in Q1'2023 up from 225,321 recorded in Q1'2022. Additionally, the sectoral contribution to GDP increased by 0.1% points, to 1.1% in Q1'2023 from 1.0% recorded in Q1'2022.
- **Sustained growth in the Real Estate and Construction sectors:** The Real Estate sector grew by 5.2% in Q1'2023, albeit 0.8% points lower than the 6.0% recorded in Q1'2022. The decline in Real Estate performance was mainly attributed to the increased cost of construction materials arising from increased inflationary pressures and prevailing local currency depreciation, which hindered optimum investments. However, the sectoral contribution to GDP increased by 1.5% points to 10.0% in Q1'2023, from 8.5% in Q1'2022.
- On the other hand, the construction sector recorded a growth of 3.1% in Q1'2023, compared to 6.0% in Q1'2022. The decelerated growth in the construction sector was reflected in cement consumption, which declined by 7.7%. The growth, albeit slower than Q1'2022 was evident in the volume of imports of construction materials like bitumen and iron steel in Q1'2023 compared to the same period in 2022. Notably, the sectoral contribution in Q3'2022 contracted by 1.6% points, to 5.7% in Q1'2023, from 7.3% in Q1'2022, with Credit advanced to the construction sector increasing by 4.2%, to Kshs 414.6 bn in Q1'2023, from Kshs 397.8 bn in Q1'2022.
- **Growth in the Transport and Storage Sector:** Transportation and storage sector grew by 6.2% compared to a 7.7% growth recorded in Q1'2022. The growth, albeit slower than Q1'2022 was a result of improved performance in most of the sub-sectors, especially transportation of passengers and freight through rail. The sector's contribution to GDP decreased by 1.9% points to 9.1% in Q1'2023 from 11.0% recorded in Q1'2022. Some of the key observations are;
 - i. Passenger transport through Standard Gauge Railway (SGR) increased by 15.2% to 597.5 thousand passengers in Q1'2023 from 518.8 thousand passengers in Q1'2022,
 - ii. Mombasa port throughput increased by 1.8% points to 8,792.0 thousand metric tonnes in Q1'2023 from 8,638.0 thousand tonnes in Q1'2022.

Going forward, we expect the economy to grow at a slower pace given the subdued general business environment in the country, mainly as a result of elevated inflationary pressures occasioned by high fuel and food prices. Additionally, the Central Bank of Kenya's Monetary Policy Committee's (MPC) decision to hike the Central Bank Rate (CBR) in 27th June 2023 by 100.0 bps to 10.5% from 9.5% in a bid to curb inflation and maintain price stability is expected to curtail economic growth. The increase in CBR is set to increase the cost of credit issued by lenders, hence discouraging borrowing, which will in turn lead to reduced investment spending in the economy by both individuals and businesses. Additionally, the elevated inflationary pressures in the country, which have remained above the CBK target range of 2.5%-7.5% in the last 13 months to June 2023, continue to lower consumer purchasing power, resulting in reduced demand for goods and services and consequentially slowed economic growth. However, we expect the agricultural sector to continue recuperating following the sufficient long rains that have been experienced in the country, coupled with recent fiscal policies such as subsidizing the costs of crucial farm inputs such as fertilizers that will enhance growth in the sector, which remains Kenya's largest contributor to GDP, as well as food prices being a major contributor to headline inflation.

In our view, the economy's growth is largely pegged to how quickly inflationary pressures in the country are brought under control. These pressures have been fueled by pre-existing supply chain disruptions brought on by ongoing conflict in Ukraine and worsened by the sustained depreciation of the Kenya shilling, which has made imports expensive, leading to high food and fuel prices in the country. Fuel being a major input in the majority of the sectors, growth is likely to be subdued. As a result, we forecast a 5.0% economic growth rate in 2023.