

Kenya's Q1'2024 Balance of Payments (BOP) Note

According to the Q1'2024 [Quarterly Balance of Payment & International Trade Report](#) released by the Kenya National Bureau of Statistics (KNBS), Kenya's balance of payments position improved by 126.4% in Q1'2024, coming in at a surplus of Kshs 33.8 bn, from a deficit of Kshs 127.8 bn in Q1'2023, and a significant improvement from the Kshs 134.8 bn deficit recorded in FY'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 widened by 18.8% to Kshs 131.2 bn in Q1'2024 from the Kshs 110.5 bn deficit recorded in Q1'2023. The y/y expansion registered was driven by:

- i. The widening 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 10.3% to Kshs 341.6 bn in Q1'2024, from Kshs 309.6 bn recorded in Q1'2023, and,
- ii. A 35.3% deterioration in the services trade balance (transfer) balance to a deficit of Kshs 26.4 bn from a deficit of Kshs 40.7 bn in Q1'2023.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q1'2023 and Q1'2024:

Cytonn Report: Kenya's Current Account Balance			
Item	Q1'2023	Q1'2024	Y/Y % Change
Merchandise Trade Balance	(309.6)	(341.6)	10.3%
Services Trade Balance	40.7	26.4	(35.3%)
Primary Income Balance	(62.0)	(90.8)	46.6%
Secondary Income (transfer) Balance	220.3	274.9	24.7%
Current Account Balance	(110.5)	(131.2)	18.8%

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) widened by 10.3% to Kshs 341.6 bn in Q1'2024, from Kshs 309.6 bn recorded in Q1'2023. This is attributable to the 28.1% growth in merchandise exports to Kshs 298.1 bn, from Kshs 233.0 bn in Q1'2023 compared to the 19.3% growth in merchandise imports to Kshs 640.0 bn from Kshs 536.6 bn recorded in a similar period in 2023. The increase in merchandise exports was mainly driven by a 35.6% increase in horticulture exports to Kshs 61.2 bn, from Kshs 45.2 bn recorded in Q1'2023 coupled with the 33.6% growth in the exportation of tea to Kshs 57.8 bn, from Kshs 43.3 bn recorded in Q1'2023. On the other hand, the slower growth in the import bill is attributable to the 69.8% decline in importation of chemical fertilizers to Kshs 9.7 bn from Kshs 32.1 bn reported in Q1'2023 coupled with a 28.3% decrease in wheat and unmilled imports to Kshs 19.3 bn in Q1'2024 from Kshs 26.9 bn in Q1'2023 and a 6.1% decrease in Iron and steel oils imports to Kshs 27.7 bn from Kshs 29.5 bn recorded in Q1'2023,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 35.3% decrease in Q1'2024 to a surplus of Kshs 26.4 bn, from a surplus of Kshs 40.7 bn in Q1'2023. The y/y decline in service trade balance was mainly driven by the 6.5% decrease in services receipts to Kshs 196.7 bn from Kshs 210.5 bn recorded in Q1'2023,
- iii. Primary income deficit (income that residents earn from, less than they pay to the rest of the world from working and from financial investments) widened by 46.6% to a deficit of Kshs 90.8 bn in Q1'2024 from a deficit of Kshs 62.0 bn in Q1'2023,

- 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 24.7% to Kshs 274.9 bn from Kshs 220.3 bn in Q1'2023,
- v. Diaspora remittances recorded a 40.4% growth to Kshs 181.0 bn from Kshs 128.9 bn recorded in Q1'2023,
- vi. Total exports grew by 28.1% in Q1'2024 to Kshs 297.9 bn, up from Kshs 232.6 bn recorded in Q1'2023. In terms of exports by region, Africa remained the largest merchandise export recipient, accounting for 38.3% of total exports in Q1'2024 and registering a 38.3% increase in export earnings to Kshs 113.9 bn, from Kshs 100.2 bn in Q1'2023. The increase was mainly attributable to 56.0% increase in exports to DRC, to Kshs 8.6 bn from Kshs 5.5 bn in Q1'2023, coupled with 25.7%, and 10.3% growth in exports to South Sudan and Rwanda. Asia followed in second place, accounting for 27.0% of all exports and recording a growth of 37.9% in Q1'2024 to Kshs 80.3 bn, up from Kshs 58.2 in Q1'2023, and
- vii. Overall imports grew marginally by 4.9% to Kshs 684.0 bn in Q1'2024 from 589.8 bn recorded in Q1'2023. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 64.2% of total imports, with the value of imports increasing by 11.5% to Kshs 439.0 bn, up from Kshs 393.8 bn recorded in Q1'2023. The growth was mainly attributed to the increase in imports from China of 38.8% to Kshs 126.1 bn from Kshs 90.8 bn in Q1'2023 however weighed down by a 18.9% decrease in imports from the United Arab Emirates to Kshs 67.0 bn, from Kshs 82.6 bn recorded in Q1'2023. The European Union accounted for 24.5% of total imports in Q1'2024, valued at Kshs 73.1 bn, a 51.9% growth from the Kshs 48.1 bn recorded in Q1'2023 mainly driven by the 325.5% increase in imports from Belgium.

B. Balance of Payments

Kenya's balance of payment (BoP) position improved by 126.4% in Q1'2024, with a surplus of Kshs 33.8 bn, from a deficit of Kshs 127.8 bn in Q1'2023, and a significant improvement from the deficit of Kshs 134.8 bn recorded in FY'2023. The y/y positive performance in BoP was mainly driven by a 246.1% improvement in the financial account balance to a surplus of Kshs 121.6 bn in Q1'2024, from a deficit of Kshs 83.2 bn in Q1'2023, and the 22.2% increase in capital account balance to Kshs 8.5 bn from Kshs 6.9 bn recorded in a similar period in 2023. The performance was however weighed down by an 18.8% deterioration in the current account balance to a deficit of Kshs 131.2 bn from a deficit of Kshs 110.5 bn in Q1'2023. The table below shows the breakdown of the various balance of payments components, comparing Q1'2023 and Q1'2024:

Cytton Report: Kenya's Balance of Payments			
Item	Q1'2023	Q1'2024	Y/Y % Change
Current Account Balance	(110.5)	(131.2)	18.8%
Capital Account Balance	6.9	8.5	22.2%
Financial Account Balance	(83.2)	121.6	(246.1%)
Net Errors and Omissions	59.0	34.9	(40.8%)
Balance of Payments	(127.8)	33.8	126.4%

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) widened by 18.8% to Kshs 131.2 bn from the Kshs 110.5 bn deficit in Q1'2023. The y/y widening of the current account was brought about by the 10.3% widening in Merchandise trade deficit to Kshs 341.6 bn in Q1'2024, from Kshs 309.6 bn recorded in Q1'2023. This is attributable to the 28.1% growth in merchandise exports to Kshs 298.1 bn, from Kshs 233.0 bn in Q1'2023 compared

to the 19.3% growth in merchandise imports to Kshs 640.0 bn from Kshs 536.6 bn recorded in a similar period in 2023,

- 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 22.2% to a surplus of Kshs 8.5 bn in Q1'2024 up from a surplus of Kshs 6.9 bn in Q1'2023,
- 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 121.6 bn in Q1'2024, An increase of 246.1% from the deficit of Kshs 83.2 bn recorded in Q1'2023. During the review period, reserve assets were depleted by Kshs 90.8 bn, and the government received Kshs 74.0 bn from the International Monetary Fund (IMF), a 35.8% increase from Kshs 54.5 bn in 2023, and,
- iv. Consequently, the Balance of Payments (BoP) position improved to a surplus of Kshs 33.8 bn in Q1'2024, from a deficit of Kshs 127.8 bn recorded in Q1'2023.

C. Public External Debt

During the period under review, the stock of external public and public guarantee debt increased by 8.2% to Kshs 5.1 tn as at March 2024, up from Kshs 4.7 tn recorded in March 2023, mainly driven by an 18.3% increase in multilateral debt to Kshs 2.7 tn in Q1'2024, up from Kshs 2.2 tn recorded in Q1'2023. Notably, external public debt by commercial banks increased by 35.7% to Kshs 0.4 tn in Q1'2024, up from Kshs 0.3 tn in 2023. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q1'2024 and Q1'2023:

Cytonn Report: Outstanding External Public Debt			
Debt Source	Q1'2023	Q1'2024	Y/Y % Change
Bilateral	1.2	1.1	(11.1%)
Multilateral	2.2	2.7	18.3%
Commercial Banks	0.3	0.4	35.7%
Suppliers Credit	0.01	0.01	4.1%
Debt Securities held by non-residents	1.0	1.0	0.5%
Total External Public Debt	4.7	5.1	8.2%

All values in Kshs tn

Key take-outs from the table include;

- i. Multilateral debt increased by 18.3% to Kshs 2.7 tn in Q1'2024, up from Kshs 2.2 tn recorded in Q1'2023, accounting for 52.1% 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 20.9% of the total external debt, with the amount decreasing by 11.1% to Kshs 1.1 tn, up from Kshs 1.2 tn in Q1'2023.

D. Conclusion

Kenya's balance of payments improved in Q1'2024, mainly on the back of a 246.1% improvement in the financial account to a surplus of Kshs 121.6 bn in Q1'2024, from a deficit of Kshs 83.2 bn in Q1'2023 reflecting significant inflows of financing into the country. This follows the depletion of reserve assets by Kshs 90.8 bn, as the government received Kshs 74.0 bn from the International Monetary Fund (IMF), a 35.8% increase from Kshs 54.5 bn in 2022. The current account deficit (value of goods and services imported exceeds the value of those exported) widened by 18.8% to Kshs 131.2 bn from the Kshs 110.5 bn deficit in Q1'2023. The y/y widening of the current account was brought about by the 10.3% widening in Merchandise trade deficit to Kshs 341.6 bn in Q1'2024, from Kshs 309.6 bn in Q1'2023 driven by the 28.1% growth in merchandise exports to Kshs 298.4 bn, from Kshs 233.0 bn in Q1'2023 which outpaced the 19.3% increase in merchandise imports to Kshs 640.0 bn from Kshs 536.6 bn recorded in a similar period in 2023. 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 renewed focus on fiscal consolidation will improve the balance of payments performance by minimizing the costs of servicing external debts. Additionally, the favorable weather conditions and government intervention through subsidy programs 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 continue being 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.