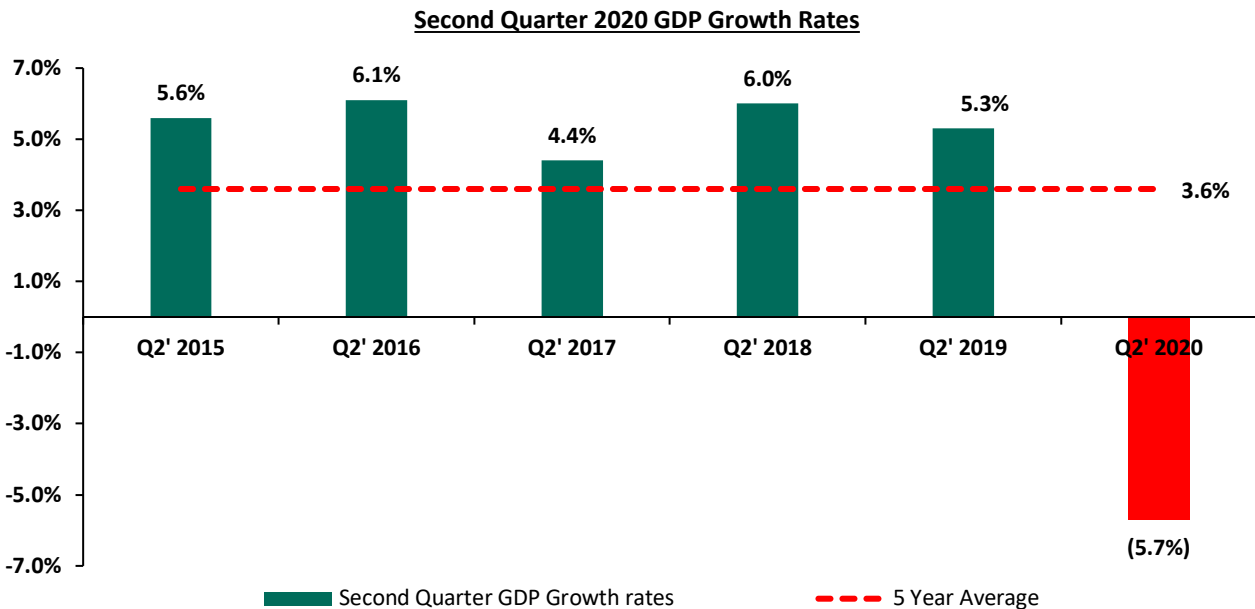


### Kenya Q2'2020 GDP Growth

According to Kenya National Bureau of Statistics (KNBS) [Quarterly Gross Domestic Product Report](#), the Kenyan economy recorded a 5.7% contraction in Q2'2020 down from a growth of 5.3% recorded in a similar period in 2019. This is the first contraction since the third quarter of 2001 when the country recorded a 2.5% contraction. 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 GDP:

Sector	Contribution Q2'2019	Contribution Q2'2020	Q2'2019 Growth	Q2'2020 Growth	Weighted Growth Rate Q2'2019	Weighted Growth Rate Q2'2020	Variance
Agriculture and Forestry	22.8%	25.7%	2.9%	6.4%	0.7%	1.6%	3.5%
Taxes on Products	10.9%	9.9%	4.0%	(14.2%)	0.4%	(1.4%)	(18.3%)
Manufacturing	9.7%	9.9%	4.0%	(3.9%)	0.4%	(0.4%)	(7.9%)
Real estate	8.3%	9.0%	6.0%	2.2%	0.5%	0.2%	(3.8%)
Wholesale and retail trade	7.3%	7.3%	7.8%	(6.9%)	0.6%	(0.5%)	(14.7%)
Education	6.8%	3.2%	6.0%	(56.2%)	0.4%	(1.8%)	(62.1%)
Transport and Storage	6.9%	6.5%	7.6%	(11.6%)	0.5%	(0.7%)	(19.1%)
Financial & Insurance	6.0%	6.5%	7.8%	1.7%	0.5%	0.1%	(6.2%)
Construction	5.5%	6.1%	7.2%	3.9%	0.4%	0.2%	(3.3%)
Information and Communication	3.5%	3.9%	7.8%	4.3%	0.3%	0.2%	(3.6%)
Public administration	4.4%	4.9%	7.5%	6.9%	0.3%	0.3%	(0.6%)
Electricity and Water Supply	2.9%	3.0%	7.3%	(0.6%)	0.2%	(0.0%)	(7.9%)
Professional admin	2.2%	2.0%	4.2%	(15.7%)	0.1%	(0.3%)	(20.0%)
Health	1.8%	2.1%	6.2%	10.3%	0.1%	0.2%	4.1%
Accommodation & Food Services	1.0%	0.2%	12.1%	(83.3%)	0.1%	(0.2%)	(95.4%)

Other services	1.2%	1.2%	5.6%	(8.5%)	0.1%	(0.1%)	(14.1%)
Mining and quarrying	0.9%	1.1%	5.0%	10.0%	0.0%	0.1%	5.0%
Financial Services Indirectly Measured	(2.1%)	(2.4%)	7.3%	4.0%	(0.2%)	(0.1%)	(3.3%)
<b>GDP at Market Prices</b>	<b>100.0%</b>	<b>100.0%</b>	<b>5.3%</b>	<b>(5.7%)</b>	<b>5.3%</b>	<b>(5.7%)</b>	<b>(11.0%)</b>

The key take-outs from the report are:

- Agriculture remains the key contributor to GDP followed by Taxes, Manufacturing and real estate.
- Agriculture, Forestry and Fishing activities recorded a growth of 6.4% in Q2'2020 compared to 2.9% growth in Q2'2019. The sector's performance was supported :
  - i. Increased in Tea production which grew by 34.5% to 143,037.0 metric tonnes from 106,314.0 metric tonnes in Q2'2019,
  - ii. Increased cane deliveries from 972.1 thousand metric tonnes in Q2'2019 to 1,666 thousand metric tonnes,
  - iii. A 6.0 % increase in milk intake from 142.1 million litres in 2019 to 151.2 million litres.
 There was however some laggards among them:
  - i. The volume of cut flowers and vegetables exported contracted by 34.5% and 14.8% respectively.
- The manufacturing sector reported a contraction of 3.9% in Q2'2020 compared to an expansion of 4.0% in the same period of 2019. The performance was mainly driven by:
  - i. Non-food products contracting by 4.9% Q2'2020 as evidenced by a contraction in the assembly of motor vehicle and manufacture of galvanized iron sheets.
  - ii. Manufacture of food which include beverages, meat and meat products among recorded a contraction of 2.5%.

Despite the low performance, credit to the sector grew by 16.9% in Q2'2020 compared to 8.6% growth in Q2' 2019.

- The financial and insurance grew by 1.7% compared to 7.8% Q2'2019, Some of the notable changes include:
  - i. Broad money supply (M3) expanded to Kshs 3,863.6 billion as at June 2020 from Kshs 3,564.2 billion as at June 2019
  - ii. Net foreign assets reduced to Kshs 885.4 billion as at June 2020 from Kshs 939.9 billion as at June 2019.
  - iii. Total domestic credit and credit to private sector expanded by 11.9% and 7.7% to Kshs 3,905.7 billion and Kshs 2,695.03 billion in June 2020 following accommodative monetary policy stance in Q1' 2020.
- **Huge decline in growth of the Accommodation and food services sector-** The sector activities contracted by 83.3% in Q2' 2020 compared to an expansion of 12.1% growth in Q2' 2019. 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. The significant reduction in the number of visitor arrivals through Jomo Kenyatta International Airport (99.5%) and Moi International Airport (99.9%) adversely affected the sector's performance. We expect the sector to pick up in the coming quarter as some of the restrictions have been lifted and eateries are opening up for business.
- **Growth in the Real Estate and Construction sectors** –Real estate and construction sectors grew at 2.2% and 3.9%, compared to a growth of 6.0% and 7.2% in 2019. Cement consumption rose by 6.0% to 1.54 mn metric tonnes compared to the 1.45 mn metric tonnes recorded during the same period in 2019. Credit to the sector grew by 6.0% compared to a 5.6% contraction in the second quarter of 2019 to stand at Kshs 347.6 bn, and,
- **Transportation and storage sector** is contracted by 11.6% in Q2' 2020 compared to 7.6% in Q2'2019. The decline in performance can be attributed to the restriction of movements which resulted in a significant decline in travel activities. Some of the key observations are;

- i. The volume of port throughput declined by 10.5% to 7,752.8 thousand metric tonnes in Q2' 2020 from 8,666.0 thousand metric tonnes in Q2'2019. However, Freight movement through Standard Gauge Railway (SGR) rose by 3.9% to stand at 1,053 thousand metric tonnes.
- ii. The number of passengers by SGR declined by 98.4% to 6,363.0 in the review period from 408,931.0 recorded in Q2'2019,
- iii. There was a decline in the consumption of light diesel, which contracted by 32.4% compared to a marginal growth of 0.2% in Q2'2019.

Considering the recent easing of some of the restrictions and reopening of some of the sectors we expect the economy to rebound. This can be seen in the September PMI release where there was an improvement of the reading to 56.3 from 53.0 in August, the highest reading since April 2018, pointing to an improvement in the Kenya private sector outlook. The IMF October Report: *A long and difficult ascent* also expects the Kenya's Economy to grow by 1.0% an improvement from the June projections of a (1.0%) growth but the economy should recover to grow at 4.7% in 2021. Notably, H1'2020 average GDP growth now stands at 1.0%.

***In our View the economy has already felt the full effects of the pandemic and with some of the worst affected sectors, Education, accommodation and food services, showing signs of recovery which we believe will also be transmitted to the rest of the economy. We expect slight recovery in the subsequent quarters given the continued partial reopening of the economy. However, given the uncertainty of the tenor and the severity of the pandemic we maintain our expectations of a best case scenario of a 1.4% economic growth for 2020.***