

### Kenya Q2'2022 Balance of Payments Note

The Kenya National Bureau of Statistics released the [Quarterly Balance of Payments report for Q2'2022](#). In this note, we analyse the changes in the current account balance and the balance of payments before giving an outlook on both.

#### A. Current Account Balance

Kenya's current account deficit widened by 9.8% to Kshs 174.4 bn in Q2'2022, from Kshs 158.9 bn recorded in Q2'2021. The Q2'2022 deficit was also a significant increase of 83.6% from the deficit of Kshs 95.0 bn in recorded in Q1'2022. The widening during the quarter was majorly driven by:

- (i) The widening of the merchandise trade deficit (a scenario where imports are greater than exports of goods resulting to a negative net foreign investment) by 9.7% to Kshs 365.6 bn in Q2'2022, from a deficit of Kshs 333.4 bn in Q1'2022,
- (ii) A 40.0% decline in service trade balance (the difference between imports and exports of services) to Kshs 59.3 bn from Kshs 98.9 bn recorded in Q1'2022, and,
- (iii) A 33.6% widening of the primary income deficit (income that residents earn from, less that they pay to, the rest of the world from working and from financial investments) to Kshs 51.6 bn from Kshs 44.6 bn recorded in Q1'2022.

The table below shows the breakdown of the various current account components, comparing Q2'2021 and Q2'2022

Cytonn Report: Quarterly Current Account Balance					
Item	Q1'2021	Q1'2022	Q2'2021	Q2'2022	% Change (y/y)
Merchandise Trade Balance	(281.4)	(333.4)	(271.6)	(365.6)	34.6%
Service Trade Balance	11.2	98.9	12.7	59.3	366.9%
Primary Income Balance	(41.7)	(44.6)	(62.5)	(51.6)	(17.4%)
Secondary Income (Transfers) Balance	154.5	184.1	162.6	183.5	12.9%
<b>Current Account Balance</b>	<b>(157.5)</b>	<b>(95.0)</b>	<b>(158.9)</b>	<b>(174.4)</b>	<b>9.8%</b>

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) grew by 34.6% to Kshs 365.6 bn in Q2'2022, from Kshs 271.6 bn in Q2'2021, driven by a 31.7% increase in merchandise imports to Kshs 594.3 bn, from Kshs 451.1 bn in Q2'2021, which outpaced the 27.4% increase in merchandise exports to Kshs 228.7 bn, from Kshs 179.5 bn recorded in a similar period in 2021. The high import bill was majorly driven by the rising oil prices which increased the import cost of petroleum products. The increase in the merchandise exports was mainly on account of increase in value of exports of Tea and Coffee which recorded an increase of 25.2% and 67.9% to record exports of Kshs 40.3 bn, 12.7 bn from Kshs 32.2 bn and 7.6 bn respectively, as recorded in Q2'2021,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 366.9% increase in Q2'2022 to a surplus of Kshs 59.3 bn, from a surplus Kshs 12.7 bn in Q2'2021. However, it was a 40.0% decrease from a surplus of Kshs 98.9 bn recorded in Q1'2022. Services receipts increased by 81.2% to Kshs 214.0 bn in Q1'2022, from Kshs 118.1 bn in Q2'2021 mainly driven by the increase in travel and transport services receipts following resumption in international travel after some of the restriction measures were lifted,
- 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) contracted by 17.4% to Kshs 51.6 bn in Q2'2022 from a deficit of Kshs 62.5 bn in Q2'2021, however, it widened by 15.7% bn from a deficit of Kshs 44.6 bn recorded in Q1'2022,

- 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 12.9% to Kshs 183.5 bn, from Kshs 162.6 bn in Q2'2021. However, it was a slight decline from a surplus of Kshs 184.1 bn recorded in Q1'2022. Diaspora remittances also recorded a 18.7% increase to Kshs 120.3 bn, from Kshs 101.3 bn recorded in Q2'2021,
- v. In terms of exports by region, Africa remained the largest merchandise export destination with 39.6% of the total exports valued at Kshs 90.5 bn, a 13.7% rise from Kshs 79.6 bn in Q2'2021. The increase is mainly attributable to 64.3% increase in export to Rwanda coupled with 74.9% increase in the exports to South Sudan. However, the increase was weighed down by a 65.9% decline in exports to DRC to Kshs 4.3 bn from Kshs 12.6 bn recorded in Q2'2021. Exports to the United States of America increased by 84.7% to 25.0 bn, from Kshs 13.5 bn recorded in Q2'2021 making it the leading export destination in Q2'2022 after overtaking Uganda,
- vi. In terms of imports by region, Asia was the largest merchandise import source, accounting for 72.2%, with the value of imports increasing by 51.2% to Kshs 475.0 bn, from Kshs 314.1 bn recorded in Q2'2021. The increase was mainly attributed to a 47.5% increase in imports from India to Kshs 88.2 bn, from Kshs 59.8 bn, majorly driven by increased imports of gas oil. Moreover, imports coming from the United Arab Emirates increased significantly by 173.7% to Kshs 105.7 bn from Kshs 38.6 bn recorded in Q2'2022, partly due to increase in import value of motor spirit (gasoline) premium. The increase in imports was however weighed down by a 67.3% and 10.3% decline in imports from Indonesia and Singapore, respectively. The European Union accounted for 9.9% of total imports in Q2'2022, valued at Kshs 65.2 bn, a 17.6% decline from the Kshs 79.1 bn recorded in Q2'2021. Additionally, value of imports from Australia decreased recording a 14.5% decline to Kshs 13.6 bn in Q2'2022 from Kshs 15.9 bn in Q2'2021.

## B. Balance of Payments

Kenya's balance of payments position recorded a surplus of Kshs 10.9 bn, a significant decline of 93.9% from a surplus of Kshs 179.8 bn recorded in Q2'2021, however, it was a 109.0% increase from a deficit of Kshs 120.6 bn in Q1'2022. The performance was mainly attributable to widening of the current account deficit by 9.8% to Kshs 174.4 bn from Kshs 158.9 bn recorded in Q2'2021. The deterioration was however mitigated by a 10.4% contraction of the financial account deficit to Kshs 253.0 bn, from Kshs 282.6 bn in Q2'2021. The table below shows the breakdown of the various balance of payments components, comparing Q2'2022 and Q2'2021:

Cytonn Report: Quarterly Balance of Payments					
Item	Q1'2021	Q1'2022	Q2'2021	Q2'2022	y/y % Change
Current Account Balance	(157.5)	(95.0)	(158.9)	(174.4)	(9.8%)
Capital Account Balance	7.8	7.4	7.4	4.9	(33.8%)
Financial Account Balance	(107.3)	(92.2)	(282.6)	(253.0)	(10.4%)
Net Errors and Omissions	17.0	(125.2)	48.7	(72.7)	(249.1%)
<b>Balance of Payments</b>	<b>(25.3)</b>	<b>(120.6)</b>	<b>179.8</b>	<b>10.9</b>	<b>(93.9%)</b>

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) expanded by 9.8% to Kshs 174.4 bn, from Kshs 158.9 bn in Q2'2021, and by 83.6% from a deficit of Kshs 95.0 bn in Q1'2022. The widening was mainly attributable to 34.6% increase in the merchandise trade balance deficit to Kshs 365.6 bn, from Kshs 271.6 bn recorded in Q2'2021,
- ii. The financial account balance deficit (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by the foreign buyers) contracted by 10.4% to Kshs 253.0 bn, from a deficit of Kshs 282.6 bn in Q2'2021. However, it was an expansion of

- 174.4% from a deficit of Kshs 92.2 bn recorded in Q1'2022. Also, the stock of gross official reserves declined by 6.8% to stand at Kshs 1,001.0 bn, from 1,069.1 bn in Q2'2021, and,
- iii. Consequently, the Balance of Payments (BoP) position declined to a surplus of Kshs 10.9 bn from a surplus of Kshs 179.8 bn in Q2'2022, mainly due to the 9.8% in the widening in current account deficit and 33.8% decline in capital account balance. However, it improved by 109.0% from a deficit of Kshs 120.6 bn recorded in Q1'2022.

### C. Public External Debt

During the period under review, external public and public guaranteed debt increased by 7.5% to Kshs 4.3 tn, from Kshs 4.0 tn recorded in Q2'2021, mainly driven by a 15.9% increase in multilateral debt to Kshs 1.9 tn from Kshs 1.7 tn in Q2'2021. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q2'2021 and Q2'2022:

Q2'2022 Public External Debt			
Debt Source	Q2'2021	Q2'2022	% Change
Multilateral	1.7	1.9	15.9%
Bilateral	1.1	1.2	2.9%
Commercial Banks	1.2	1.2	(0.5%)
Suppliers Credit	0.01	0.01	(0.1%)
<b>Total</b>	<b>4.0</b>	<b>4.3</b>	<b>18.2%</b>

All values in Kshs tn

Key take-out from the table include;

- i. Multilateral debt, which contributed 44.8% of the total external debt, increased by 15.9% to Kshs 1.9 tn, from Kshs 1.7 tn recorded in Q2'2021, mainly attributable to the increase in the disbursement of programme loans from the International Monetary Fund (IMF) during the period of review.

### Conclusion

The widening of the current account deficit has continuously been weighing down the balance of payments, majorly due to the high import bill with Kenya being a net importer. Additionally, the high global oil prices have further expanded the import bill and are expected to remain high in the near term. Going forward, we expect the government to pursue policies aimed at cutting overall spending on imports while encouraging and increasing exports. Additionally, the focus should shift to attracting Foreign Direct Investments by offering incentives and easing the ease of doing business for foreign investors while reducing the public debt stock, more so external foreign currency denominated debt.

***Development-essential goods such as machinery & transport equipment are one of the largest contributors to the country's import bill while weather-dependent agricultural products make up almost 50.0% of our exports, we expect the trade balance to decline further in medium term due to the high costs of fuel importation as a result of disruption in global supply chains.***