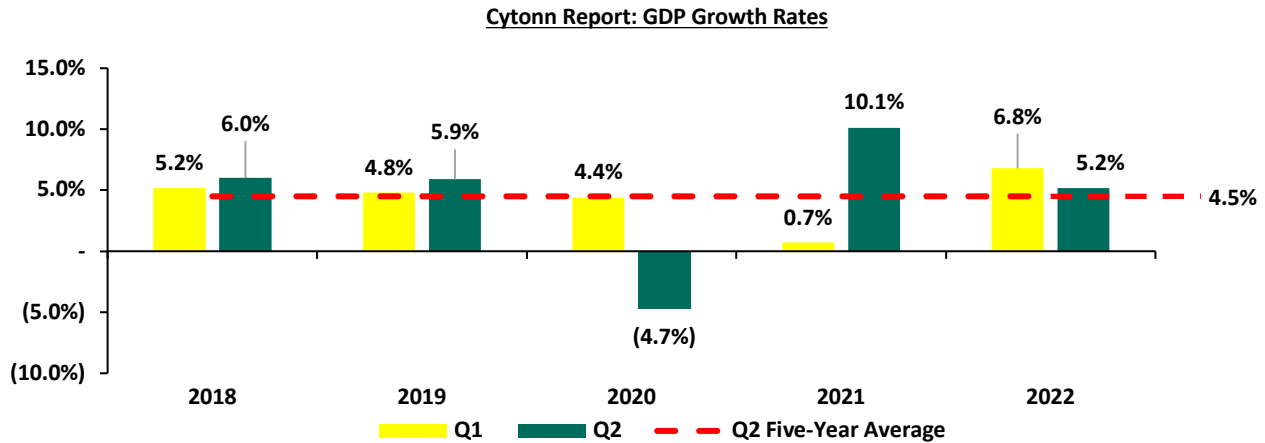


Kenya Q2'2022 GDP Note

According to Kenya National Bureau of Statistics (KNBS) [Quarterly Gross Domestic Product Report Q2'2022](#), the Kenyan economy recorded a 5.2% growth in Q2'2022, compared to an 11.0% growth in Q2'2021, pointing to slower economic growth. This is partly attributable to increased inflationary pressures felt around the country with the average inflation rate for Q2'2022 coming in at 7.2% against the average of 5.8% in Q2'2021. 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:

Cytonn Report: Q2 2021 and Q2'2022 GDP Contribution and Growth rates				
Sector	Contribution Q2'2021	Contribution Q2'2022	Q2'2021 Growth	Q2'2022 Growth
Agriculture and Forestry	20.9%	19.4%	(0.5%)	(2.1%)
Transport and Storage	9.4%	9.6%	18.6%	7.1%
Taxes on Products	7.9%	8.1%	18.5%	7.3%
Real estate	10.0%	10.0%	7.4%	5.5%
Wholesale and retail trade	7.7%	7.9%	9.2%	8.2%
Manufacturing	8.4%	8.2%	11.3%	3.6%
Construction	5.6%	5.6%	6.8%	5.8%
Financial & Insurance	8.3%	8.8%	17.3%	11.6%
Public administration	6.2%	6.1%	7.6%	4.2%
Education	4.4%	4.5%	31.6%	6.7%
Information and Communication	3.0%	3.1%	17.1%	6.6%
Professional admin	2.5%	2.6%	18.3%	11.2%
Other services	2.1%	2.2%	28.8%	6.7%
Electricity and Water Supply	2.4%	2.3%	7.2%	5.0%
Health	2.2%	2.2%	6.2%	4.8%
Accommodation & Food Services	0.8%	0.9%	6.2%	22.0%
Mining and quarrying	1.1%	1.2%	10.9%	22.6%
Financial Services Indirectly Measured	(2.8%)	(2.8%)	2.8%	4.9%
GDP at Market Prices	100.0%	100.0%	11.0%	5.2%

The key take-outs from the report are:

- **Sectoral contribution to Growth** - The biggest gainer in terms of sectoral contribution to GDP was Financial and Insurance sector, increasing by 0.5% points to 8.8% from 8.3% in Q2'2021 while Agriculture and Forestry was the biggest loser, declining by 1.5% points to 19.4% in Q2'2022, from 20.9% in Q2'2021. Mining and Quarrying sector recorded the highest growth rate in Q2'2022 growing by 22.6% compared to the 10.9% growth recorded in Q2'2021.
- **Continued contraction in the Agricultural Sector** – Agriculture, Forestry and Fishing activities contracted by 2.1% in Q2'2022, compared to a 0.5% contraction in Q2'2021. The continued contraction was primarily attributable to unfavorable weather conditions experienced during the period. During the quarter, production of key food crops dropped with;
 - i. The volume of milk intake by processors declining by 6.3% to Kshs 191.8 mn, from Kshs 204.7 mn in Q2'2021, and,
 - ii. The volume of fruit and vegetables exports declined by 34.2% and 33.0%, respectively to 28,863.3 tons and 14,626.7 tons in Q2'2022.
- **Growth in the manufacturing sector** - The manufacturing sector recorded a 3.6% growth in Q2'2022 in comparison to the 11.3% recorded in Q2'2021. Similarly, the sectoral contribution declined by 0.2% points to 8.2% from 8.4% recorded in Q2'2021. The performance during the quarter was mainly driven by:
 - i. Manufacture of food products, whose growth was majorly supported by processing and preserving of meat, processing and preserving of fish, and manufacture of bakery products.
 - ii. Non-food products, whose growth was supported by assembly of motor vehicles and production of cement, and,
 - iii. Credit advances to the enterprises in the manufacturing sector which increased by 14.2% to Kshs 1.4 tn in Q2'2022 from 1.3 tn in Q2'2021.However, the sector growth was repressed by reduced manufacture of dairy products and manufacture of edible oils.
- **Growth in the Financial and Insurance sector** – Financial and Insurance sector grew by 11.6% in Q2'2022 compared to 17.3% in Q2'2021, additionally, the contribution to GDP increased to 8.8% compared to 8.3% recorded in Q2'2021. 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 7.4% to Kshs 4.4 tn in Q2'2022, from Kshs 4.1 tn recorded in Q2'2021,
 - ii. Net foreign assets declined by 41.6% to Kshs 459.1 bn in Q2'2022, from Kshs 786.0 bn Q2'2021The Central Bank of Kenya (CBK) in efforts to curb the high inflation raised the Central Bank Rate (CBR) to 7.5% in May 2022 from 7.0% in April 2022, and thereafter, maintaining it at 7.5% in June.
- **Growth in the Accommodation and food services sector**- The sector recorded a 22.0% growth in Q2'2022, compared to 6.2% recorded Q2'2021. The sectoral contribution also increased to 0.9% from 0.8% recorded in Q2'2021. The growth witnessed in Q2'2022 is mainly attributable to the relaxation of most of the COVID-19 restrictions globally, which saw the number of visitor's arrival through Jomo Kenyatta international Airport and Moi international Airport increasing by 147.1% to 279,981 from 113,307 recorded in Q2'2021.
- **Slower growth in the Real Estate and Construction sectors** – The Real Estate and Construction sectors recorded a growth of 5.5% and 5.8% in Q2'2022, compared to 7.4% and 6.8% in Q2'2021, respectively. Key to note the sectoral contribution in Q2'2022 remained unchanged at 10.0% and 5.6%, respectively compared to Q2'2021. The growth in the construction sector was reflected by cement consumption which increased by 7.8% to 2,276.0 thousand metric tonnes from 2,112.1 thousand metric tonnes

recorded in Q2'2021. Additionally, credit advanced to the construction sector increased by 10.3% to Kshs 396.3 bn from 359.3 bn recorded in Q2'2021.

- **Growth in the Transport and Storage Sector** – Transportation and storage sector grew by 7.1% compared to a 18.6% growth recorded in Q2'2021. The sector's contribution to GDP increased relatively to 9.6% from 9.4% recorded in Q2'2021. The sector performance was majorly supported by increased activities in railway, air transport and port operations. Some of the key observations are;
 - i. Freight movement through Standard Gauge Railway (SGR) increased by 8.7% to 1,440.8 thousand metric tonnes in Q2'2022 from 1325.5 thousand metric tonnes recorded in Q2'2021
 - ii. Passenger transport through SGR increased significantly to 603,157 passengers in Q2'2022 from 304,445 passengers in Q2'2021, and,
 - iii. The transportation and storage growth was also reflected in the increase in consumption of light diesel, a major input to land transportation activities, which rose by 3.5% to 574.3 thousand MT in Q2'2022 from 555.1 thousand MT in Q2'2021.

In the near-term, we expect the economy to record a subdued growth on the back of high inflation rate, with September 2022 inflation coming in at 9.2%, significantly beyond the Central Bank of Kenya target range of 2.5% and 7.5%. This has necessitated a hiking of interest rates by the Central Bank of Kenya MPC by 0.75 bps to 8.25% in September 2022 from 7.50% in July 2022. However, we expect that recent fiscal policies such as subsidizing costs of crucial farm inputs such as fertilizer will revitalize the agricultural industry, which continues to be the country's largest contributor to GDP.

In our view, the economy's growth is largely pegged on how quickly the global inflationary pressures are brought under control. These pressures have been fueled by pre-existing supply chain disruptions brought by COVID-19, and worsened by the ongoing conflict in Ukraine which has led to high food and fuel prices globally. Fuel being a major input in the majority of the sectors, growth is likely to be subdued. As a result, we maintain our forecast of a 4.0% economic growth rate in 2022.