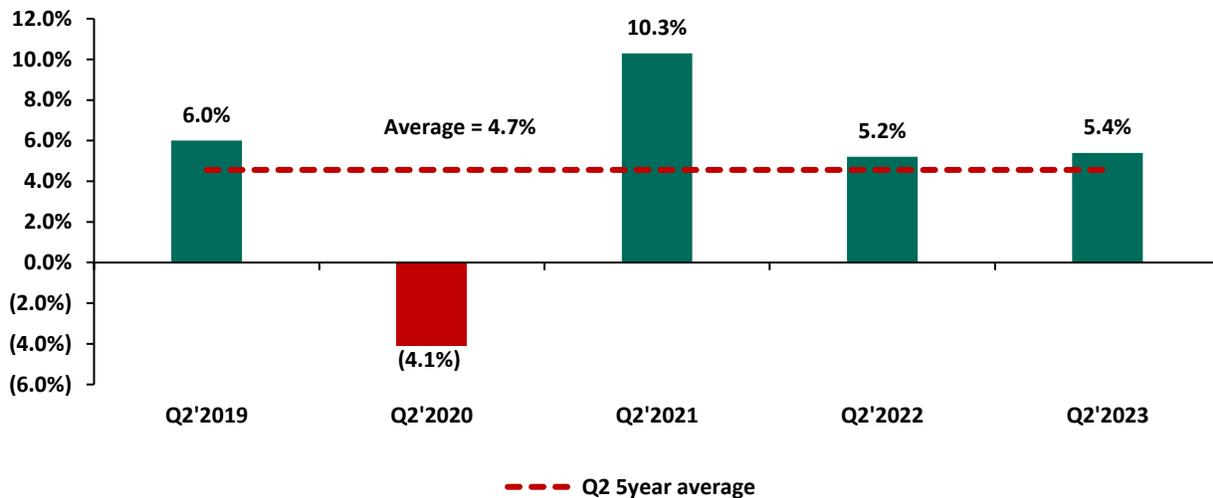


Kenya Q2'2023 GDP Note

The Kenya National Bureau of Statistics (KNBS) recently released the [Q2'2023 Quarterly Gross Domestic Product Report](#), highlighting that the Kenyan economy recorded a 5.4% growth in Q2'2023, marginally faster than the 5.2% growth recorded in Q2'2022. The growth was mainly supported by a rebound in agricultural activities, which grew by 7.7% in Q2'2023 compared to a contraction of 2.4% in Q2'2022. All sectors in Q2'2023 recorded positive growth, with varying magnitudes across activities. However, most sectors recorded subdued growth compared to Q2'2022 with Accommodation and Food Services, Mining and Quarrying, and Professional Administration sectors recording the highest growth declines of 31.8% points, 11.3% points, and 5.4% points, respectively. However, the expansion recorded in other sectors like Agriculture, led to the overall expansion in GDP. Other sectors that recorded expansion in growth rate, from what was recorded in Q2'2022 were Real Estate, Health, Education, and Wholesale and Retail Trade sectors, of 0.8%, 0.6%, 0.1% and 0.1% points, respectively,

Cytonn Report: Second Quarter Growth Rates



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

Cytonn Report: Q2'2022 and Q2'2023 GDP Contribution and Growth rates				
Sector	Contribution Q2'2022	Contribution Q2'2023	Q2'2022 Growth	Q2'2023 Growth
Agriculture and Forestry	19.2%	19.6%	(2.4%)	7.7%
Real estate	10.0%	10.0%	5.0%	5.8%
Financial & Insurance	8.9%	9.6%	16.1%	13.5%
Transport and Storage	9.6%	9.4%	7.2%	3.0%
Manufacturing	8.3%	8.0%	3.6%	1.5%
Taxes on Products	8.0%	7.9%	6.1%	3.8%
Wholesale and retail trade	7.7%	7.6%	4.1%	4.2%
Public administration	6.1%	6.1%	3.8%	3.8%
Construction	5.6%	5.5%	4.5%	2.6%
Education	4.5%	4.4%	4.4%	4.5%
Information and Communication	3.1%	3.1%	11.2%	6.4%
Professional admin	2.7%	2.7%	10.9%	5.5%

Health	2.3%	2.3%	4.4%	5.0%
Electricity and Water Supply	2.4%	2.3%	5.6%	0.8%
Other services	2.1%	2.0%	4.3%	1.6%
Mining and quarrying	1.2%	1.2%	16.6%	5.3%
Accommodation & Food Services	0.9%	1.0%	44.0%	12.2%
Financial Services Indirectly Measured	(2.7%)	(2.7%)	1.3%	6.1%
GDP at Market Prices	100.0%	100.0%	5.2%	5.4%

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 0.7% points to 9.6% in Q2'2023 from 8.9% in Q2'2022, while the Manufacturing sector was the biggest loser, declining by 0.3% points to 8.0% in Q2'2023, from 8.3% in Q2'2022. Real Estate was the second largest contributor to GDP at 10.0% in Q2'2023, remaining relatively unchanged from Q2'2022, indicating sustained growth. The Financial and Insurance sector recorded the highest growth rate in Q2'2023 growing by 13.5%, albeit slower than the 16.1% growth recorded in Q2'2022.
- **Rebound in the Agricultural Sector:** Agriculture, Forestry and Fishing activities recorded a growth of 7.7% a reversal from the contraction of 2.4% in Q2'2022. The performance was an increase of 1.9% points, from the growth of 5.8% recorded in Q1'2023. 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 and cash crops increased, with a significant increase in the production tea, coffee, milk, vegetables and fruits,
 - i. Tea production increased by 15.2%, to 155.5 thousand metric tonnes in Q2'2023 from 135.0 thousand metric tonnes in Q2'2022
 - ii. Coffee exports increased by 13.7%, to 18.9 thousand metric tonnes in Q2'2023 from 13.8 thousand metric tonnes in Q2'2022
 - iii. Fruits and vegetables exports increased by 93.1% to 84.0 thousand metric tonnes in Q2'2023 from 43.5 thousand metric tonnes in Q2'2022
 - iv. Volume of milk deliveries grew by 6.9%, to 205.0 mn litres in Q2'2023 from 191.8 mn litres in Q2'2022

However, the sector's performance was curtailed by decline in production of cut flower and sugarcane;

- i. Sugarcane production declined by 42.0%, to 1250.3 thousand metric tonnes in Q2'2023 from 2,156.0 thousand metric tonnes in Q2'2022
- **Slower growth in the manufacturing sector:** The manufacturing sector recorded slower growth of 1.5% in Q2'2023 compared to 3.6% growth in a similar period of review in 2022. Similarly, the sectoral contribution to GDP decreased by 0.3% points, to 8.0% in Q2'2023 from 8.3% in Q2'2022;
 - i. The growth in food production was curtailed by a 51.6% decline in sugar production, and a 10.7% decline in soft drinks production. However, the food production sub sector growth during the quarter under review was supported by, Tea production and Milk processing which registered growths of 15.2% and 14.5% respectively,
 - ii. In the non-food subsector the growth was weighed down by the 22.5% decline in production of assembled vehicles. However, the performance was supported by the 1.7% growth in production of galvanized sheets,
 - iii. Credit advanced to manufacturing sector enterprises registered a growth of 18.0%, to Kshs 0.6 tn in Q2'2023 from Kshs 0.5 tn in Q2'2022.

- **Significant growth in the Financial and Insurance sector growth:** Financial and Insurance sector recorded the highest growth rate among all the sectors in Q2'2023 having expanded by 13.5%, albeit lower than the 16.1% recorded in Q2'2022. Additionally, the contribution to GDP increased by 0.7% points, to 9.6% in Q2'2023, compared to 8.9% recorded over a similar period in 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 12.9%, to Kshs 5.6 tn in Q2'2023 from Kshs 4.9 tn in Q2'2022
 - ii. Net foreign assets grew by 29.0%, to Kshs 588.2 bn in Q2'2023, from Kshs 456.0 bn Q2'2022. The Central Bank of Kenya (CBK), in efforts to curb the high inflation, raised the Central Bank Rate (CBR) to 10.5% in June 2023, compared to 7.5% during a similar period in 2022,
- **Sustained resilience in the Accommodation and Food services sector:** The sector recorded 12.2% growth in Q2'2023, albeit lower than the 44.0% growth recorded in Q2'2022. 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 13.3% to 317,196 in Q2'2023 up from 279,981 recorded in Q2'2022. Additionally, the sectoral contribution to GDP increased by 0.1% points, to 1.0% in Q2'2023 from 0.9% recorded in Q2'2022,
- **Sustained growth in the Real Estate and Construction sectors:** The Real Estate sector grew by 5.8% in Q2'2023, higher by 0.8% points than the 5.0% recorded in Q2'2022. The growth in Real Estate performance was mainly attributed to the increased development activities on the back of resumed investor confidence, which was evidenced in the 6.2% increase in credit advanced to the real estate sector, to Kshs 495.0 bn in Q2'2023, from Kshs 466.0 bn recorded a similar period last year. Additionally, the sectoral contribution to GDP remained relatively unchanged at 10.0%,
- On the other hand, the construction sector recorded a growth of 2.6% in Q2'2023, compared to 4.5% in Q2'2022. The decelerated growth pace in the construction sector was reflected in the volume of imports of construction materials like bitumen which declined by 58.4%, to 17.1 thousand tonnes, from 41.2 thousand tonnes in Q2'2022. The growth, albeit slower than Q2'2022 was evident in the volume of cement consumption, which increased by 0.4%, coupled with a 29.6% increase in the volume of imported iron and steel. Notably, the sectoral contribution in Q2'2023 contracted by 1.0% points, to 5.5% in Q2'2023, from 5.6% in Q2'2022, with Credit advanced to the construction sector increasing by 3.8%, to Kshs 141.7 bn, from Kshs 136.5 bn in Q2'2022,
- **Growth in the Transport and Storage Sector:** Transportation and storage sector grew by 3.0% compared to a 7.2% growth recorded in Q2'2022. 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 0.2% points to 9.4% in Q2'2023 from 9.6% recorded in Q2'2022. Some of the key observations are;
 - i. Passenger transport through Standard Gauge Railway (SGR) increased by 7.0% to 652.3 thousand passengers in Q2'2023 from 609.6 thousand passengers in Q2'2022,
 - ii. The SGR freight increased by 11.3%, to 1,604.2 thousand metric tonnes, from 1,440.8 thousand metric tonnes in Q2'2022
 - iii. Mombasa port throughput growth increased by 1.6% points to 1.9%, from 3.5% growth recorded in Q2'2022.

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 on 3rd October 2023 to maintain the Central Bank Rate (CBR) at 10.5% in a bid to curb inflation and maintain price stability is expected to curtail economic growth. The high CBR is set to maintain the cost of credit issued by lenders high, hence discouraging borrowing, which will in turn lead to reduced investment spending in the economy by both individuals and businesses. Additionally, the inflation in the country remains high, although within the Central Bank's range, and risks going high in the short term with the fuel prices recently spiking up.

Thus, the consumer purchasing power remains low, resulting in reduced demand for goods and services and consequentially slowed economic growth. However, we expect the agricultural sector to continue backing economic growth in the country, as the country expects sufficient rain in the year. The sector 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 5.1% economic growth rate in 2023.