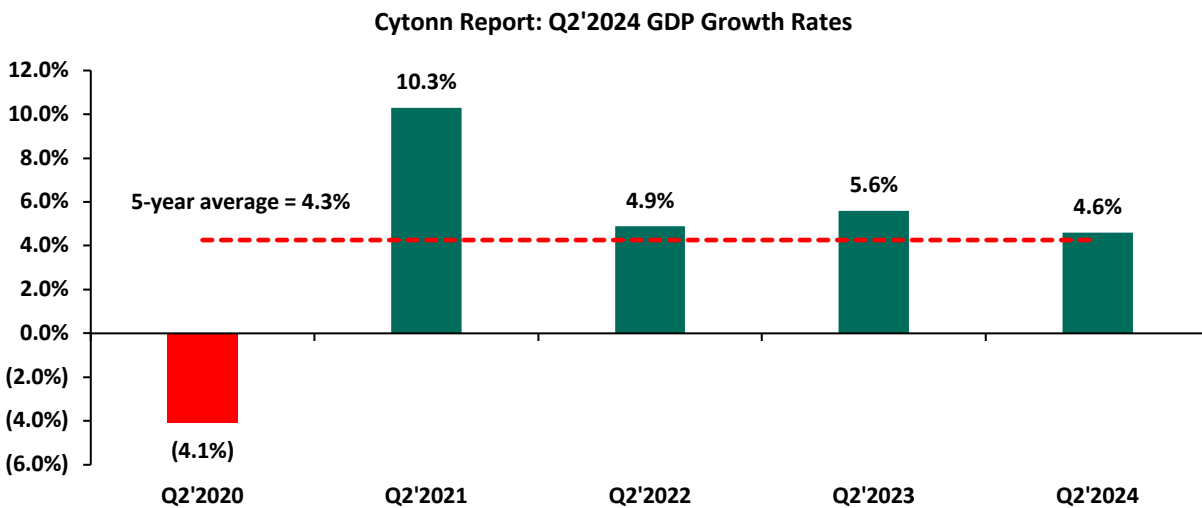


Kenya Q2'2024 GDP Note

The Kenya National Bureau of Statistics (KNBS) released the [Q2'2024 Quarterly Gross Domestic Product Report](#), highlighting that the Kenyan economy recorded a 4.6% growth in Q2'2024, slower than the 5.6% growth recorded in Q2'2023. The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 4.8% in Q2'2024, lower than the 7.8% expansion recorded in Q2'2023. All sectors in Q2'2024, except Mining and Quarrying; and Construction recorded positive growths, with varying magnitudes across activities. Most sectors recorded declining growth rates compared to Q2'2023 with Accommodation and Food Services; Financial & Insurance; and Construction Sectors recording the highest declines of 16.2%, 8.1%, and 5.6% points, respectively. Other sectors that recorded a contraction in growth rate, from what was recorded in Q2'2023 were Financial Services Indirectly Measured, Agriculture and Forestry and Real Estate sectors, of 4.0%, 3.0% and 2.1% points respectively. The chart below shows the Second Quarter Kenyan GDP growth rates;



Source: KNBS

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

Cytonn Report: Q2'2023 and Q2'2024 GDP Contribution and Growth rates				
Sector	Contribution Q2'2023	Contribution Q2'2024	Q2'2023 Growth	Q2'2024 Growth
Agriculture and Forestry	19.7%	19.7%	7.8%	4.8%
Real estate	10.2%	10.3%	8.1%	6.0%
Transport and Storage	9.5%	9.4%	4.6%	3.6%
Financial & Insurance	9.5%	9.6%	13.2%	5.1%
Wholesale and retail trade	7.4%	7.4%	2.1%	4.4%
Taxes on Products	7.7%	7.8%	1.8%	5.7%
Manufacturing	8.0%	7.9%	1.5%	3.2%
Public administration	6.0%	6.1%	3.2%	5.1%
Construction	5.5%	5.1%	2.7%	(2.9%)
Education	4.4%	4.3%	3.1%	3.1%
Information and Communication	3.1%	3.2%	7.6%	7.2%

Professional admin	2.7%	2.7%	6.6%	6.8%
Electricity and Water Supply	2.3%	2.2%	2.8%	1.0%
Health	2.3%	2.3%	4.7%	5.5%
Other services	2.1%	2.0%	2.4%	2.0%
Accommodation & Food Services	1.2%	1.5%	42.8%	26.6%
Mining and quarrying	1.0%	0.9%	(8.3%)	(2.7%)
Financial Services Indirectly Measured	(2.7%)	(2.6%)	4.9%	0.9%
GDP at Market Prices	100.0%	100.0%	5.6%	4.6%

Source: KNBS

The key take-outs from the report are:

- **Sectoral contribution to growth:** The biggest gainer in terms of sectoral contribution to GDP was the Accommodation and Food Services sector, increasing by 0.3% points to 1.5% in Q2'2024 from 1.2% in Q2'2023, while the Construction sector was the biggest loser, declining by 0.4% points to 5.1% in Q2'2024, from 5.5% in Q2'2023. Real Estate was the second largest contributor to GDP at 10.3% in Q2'2024, up from 10.2% recorded in Q2'2023, indicating sustained growth. The Accommodation and Food Services sector recorded the highest growth rate in Q2'2024 growing by 26.6%, slower than the 42.8% growth recorded in Q2'2023.
- **Slowed growth in the Agricultural Sector:** Agriculture and Forestry recorded a growth of 4.8% in Q2'2024. The performance was a decrease of 3.0% points, from the expansion of 7.8% recorded in Q2'2023. The sector's performance was supported by;
 - i. Sugarcane production increased by 81.5% to stand at 2,269.3 thousand metric tonnes in the period under review, from the 1,250.3 thousand metric tonnes registered in a similar period last year
 - ii. The volume of milk deliveries to processors increased by 7.9% to 221.1 million litres in the period under review, from 204.9 million litres in the second quarter of 2023
 - iii. The quantity of fruit exports increased by 4.3% to 71,787.0 metric tonnes during the quarter under review from 68,827.4 metric tonnes in the second quarter of 2023
- **Decelerated growth in the electricity supply sector** - The Electricity and Water Supply sector recorded a slowed growth of 1.0% in Q2'2024 compared to a 2.8% growth in a similar period of review in 2023, with the sectoral contribution to GDP marginally decreasing by 0.1% points in Q2'2024, to 2.2% from 2.3% recorded in Q2'2023. The slowed growth in the sector was due to a decline in total electricity generation, which decreased by 1.5% to 3,041.5 million kWh from 3,088.6 million kWh. The sector's growth was supported by an increase in hydroelectric power;
 - i. Hydroelectric generation increased significantly by 50.9% to 1,036.5 million kWh in Q2'2024 from 686.7 million kWh recorded in Q2'2023,

However, the sector's performance was curtailed by decline in production from all the other electricity sources including thermal and geothermal sources;

- i. Thermal generation decreased by 14.2% in the second quarter of 2024 compared to the same quarter in 2023, to stand at 1,279.3 million kWh
- ii. Electricity generated from geothermal decreased by 2.3%, slowing the sector's growth
- iii. Similarly, electricity generated from wind and solar declined by 33.9% and 5.0% to stand at 334.8 kWh and 114.4 kWh, respectively, in the quarter under review

- **Significant growth in the Accommodation and Food Service sector:** Accommodation and Food Services sector is the only sector that recorded double digit growth in Q2'2024, having expanded by 26.6%, albeit slower than the 42.8% recorded in Q2'2023. Additionally, the contribution to GDP increased by 0.3% points, to 1.5% in Q2'2024, compared to 1.2% recorded in Q2'2023. Some of the notable improvements include:

 - i. Arrivals through the two major airports, the Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA) rose by 6.4% in the second quarter of 2024 to stand at 370,923 visitors compared to 348,518 visitors in the corresponding quarter of 2023

- **Reduced growth in the Financial and Insurance Services Sector:** The Financial and Insurance sector registered a growth decline of 8.1% points to 5.1% in Q2'2024 compared to the 13.2% in Q2'2023, attributable to the rise in cost of credit during the period. However, the contribution to GDP increased marginally to 9.6%, from 9.5% in Q2'2023. Some of the notable improvements include:

 - i. The number of shares traded in the Nairobi Securities Exchange increased by 32.2% to 279.0 mn in June 2024 from 211.0 million in June 2023
 - ii. The NSE 20 Share Index rose by 5.2% to 1,657 points in June 2024 from 1,575 points in June 2023, signaling improved performance in the equity market.
 - iii. Broad money supply (M3)- which is a collection of all the currency flowing in the economy grew by 7.0% to KSh 6.0 trillion as at end of June 2024, from Ksh 5.6 trillion recorded as at the end of June 2023. Money and Quasi money (M2) increased by 4.5% to KSh 4.6 trillion as at end of June 2024 from KSh 4.4 trillion as at end of June 2023.
 - iv. Net foreign assets (NFA) increased by 54.8% to Kshs 910.5 billion as at end of June 2024, from Kshs 588.2 billion in June 2023 on account of increase in foreign asset holdings of commercial banks and other depository corporations.

- **Contraction in the construction sector:** The construction sector recorded a contraction rate of 2.9% in Q2'2024 compared to 2.7% growth in the same period last year. The contraction in the sector was supported by;

 - i. Credit extended to enterprises in the construction sector declined by 7.5% to stand at KSh 131.1 billion as at June 2024, compared to a 3.8% increase in the same period in 2023
 - ii. Cement consumption declined by 7.8% to stand at 2,053.9 thousand metric tonnes from 2,227.6 thousand metric tonnes in the corresponding period of 2023,
 - iii. The quantity of imported bitumen decreased by 8.1% to 15,566.2 metric tonnes in the period under review from 16,936.3 metric tonnes recorded in the second quarter of 2023,

- **Decelerated growth in the Transport and Storage Sector:** The Transport and Storage sector registered a decelerated growth of 1.0% points to 3.6% in Q2'2024 compared to the 4.6% in Q2'2023. Growth in the sector was supported by:

 - i. A rise in Mombasa Port throughput by 11.9% to 10,370.7 thousand metric tonnes in the period under review from 9,271.2 thousand metric tonnes in the second quarter of 2023
 - ii. The number of international passenger arrivals and departures handled rose by 7.1% to 2,941.9 thousand in the second quarter of 2024 from 2,746.9 thousand passengers in the second quarter of 2023.
 - iii. Similarly, the freight haulage via SGR increased by 8.7% to 1,743.3 thousand metric tonnes in the period under review from 1,640.2 thousand metric tonnes in the second quarter of 2023

However, growth in this sector was weighed down by;

- i. The number of passengers transported via Standard Gauge Railway (SGR) declined by 8.5% to 597.1 thousand in the second quarter of 2024 from 652.3 thousand in the second quarter of 2023

- ii. Domestic passenger traffic decreased by 1.0% to 1,224.9 thousand passengers in the review period from 1,236.7 thousand passengers in the corresponding quarter of 2024.

In the near term, we expect the economy to grow at a slower pace given the restrained business activity resulting from the challenging economic environment, driven by increasing taxes and elevated costs of living. However, recent economic developments, including the Central Bank of Kenya's (CBK) decision to lower the Central Bank Rate (CBR) in its August 2024 meeting by 25.0 bps to 12.75% and the anticipated further reduction in the October 2024 and subsequent meetings, will provide a more accommodative monetary policy stance. This shift, combined with the significant easing of inflation, currently at 3.6% as of September 2024, and a stronger Shilling is expected to alleviate some pressure on the cost of credit, thereby improving access to affordable borrowing. The lower CBR is likely to support investment spending by both individuals and businesses, contributing positively to economic activity. Inflation remains well within the CBK's target range of 2.5%-7.5%, and while risks of rising fuel prices persist due to global geopolitical tensions, the overall inflation outlook is more favorable. Despite this, consumer purchasing power remains somewhat constrained, which may limit demand for goods and services, moderating economic growth. On a positive note, the agricultural sector, Kenya's largest contributor to GDP, is expected to continue supporting growth due to favorable rainfall, while easing inflationary pressures and a strengthening Shilling provide further optimism for the economic outlook.

In our view, the economy's growth is largely pegged to if inflationary pressures in the country stabilize, at the current low rates and the sustainability of the strengthening of the Kenyan Shilling. We expect the reduced fuel prices to continue reducing production costs, leading to lower food prices in the country. However, growth is likely to be weighed down by increased taxation by the government thereby decreasing the purchasing power of consumers. As a result, we forecast a 5.3% economic growth rate in 2024.