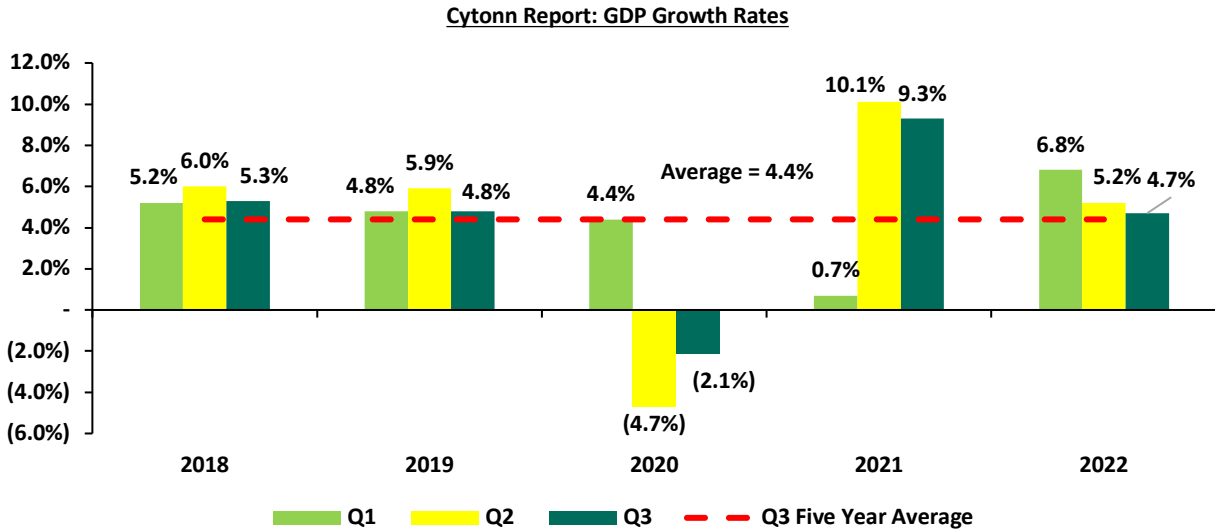


### Kenya Q3'2022 GDP Note

The Kenya National Bureau of Statistics (KNBS) recently released the [Q3'2022](#) Quarterly Gross Domestic Product (GDP) Report, highlighting that the Kenyan economy recorded a 4.7% growth in Q3'2022, significantly lower than the 9.3% growth recorded in Q3'2021 when the most sectors of the economy were recovering from the impacts of COVID-19 pandemic. The chart below shows the quarter three 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: Q3'2021 and Q3'2022 GDP Contribution and Growth rates				
Sector	Contribution Q3'2021	Contribution Q3'2022	Q3'2021 Growth	Q3'2022 Growth
Agriculture and Forestry	16.3%	14.8%	0.6%	(0.6%)
Real estate	10.1%	10.5%	7.1%	5.1%
Transport and Storage	10.0%	10.3%	14.2%	4.8%
Financial & Insurance	8.1%	8.9%	11.8%	5.3%
Taxes on Products	8.9%	8.9%	12.5%	7.6%
Wholesale and retail trade	8.1%	8.5%	6.4%	9.1%
Manufacturing	8.5%	8.5%	10.2%	2.4%
Construction	6.1%	6.2%	6.7%	4.3%
Public administration	6.2%	6.2%	4.8%	3.9%
Education	6.0%	5.0%	28.3%	7.1%
Information and Communication	3.2%	3.2%	4.1%	4.6%
Professional admin	2.6%	2.8%	13.4%	8.7%
Electricity and Water Supply	2.5%	2.6%	6.4%	4.7%
Other services	2.2%	2.4%	17.7%	6.9%
Health	2.3%	2.2%	4.1%	4.5%
Accommodation & Food Services	0.5%	1.0%	127.5%	22.9%
Mining and quarrying	1.1%	1.0%	16.4%	(2.2%)
Financial Services Indirectly Measured	(2.8%)	(3.1%)	5.1%	5.2%

GDP at Market Prices	100.0%	100.0%	9.3%	4.7%
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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 0.8% points to 8.9% from 8.1% in Q3'2021, while Agriculture and Forestry was the biggest loser, declining for a fourth consecutive quarter by 1.5% points to 14.8% in Q3'2022, from 16.3% in Q3'2021. Additionally, Real Estate was the 2<sup>nd</sup> largest contributor to GDP at 10.5%, a 0.4% points increase from 10.1% in Q3'2021, indicating sustained growth, also highlighted by increased credit advanced to sector which grew by 0.9% to Kshs 467.0 bn in Q3'2022, from Kshs 463.0 bn in Q3'2021. Accommodation and Food Services sector recorded the highest growth rate in Q3'2022 growing by 22.9%, albeit slower than the 127.5% growth recorded in Q3'2021.
- **Continued subdued Growth in the Agricultural Sector**– Agriculture, Forestry and Fishing activities recorded a decline of 0.6% in Q3'2022 compared to a growth of 0.6% in Q3'2021. The contraction recorded during the quarter was mainly attributable to unfavorable weather conditions experienced in the first three quarters of 2022 which resulted to lower agricultural production. Notably, during the quarter, production of key food crops dropped with;
  - i. The volume of vegetables exports recording a decline of 26.1% to 13,807.8 metric tons in Q3'2022, from 18,685.4 metric tons in Q3'2021, and,
  - ii. The volume of milk intake by processors declined by 10.7% to 187.0 mn liters, from Kshs 208.3 mn liters in recorded in Q3'2021.

However, the sector's performance was cushioned from a steeper contraction by improved production in fruits, coffee and cane with;

  - i. Fruit export growing by 53.9% compared to 19.9% contraction recorded in Q3'2021,
  - ii. Coffee production increased to 9,900.7 metric tons in Q3'2022, from 4,646.5 metric tons in Q3'2021, and,
  - iii. Cane deliveries rose by 6.0% to stand at 648.2 metric tons in Q3'2022.
- **Slower growth in the manufacturing sector** - The manufacturing sector recorded a growth of 2.4% in Q3'2022 compared to a 10.2% growth in a similar period of review in 2021. However, the sectoral contribution remained relatively unchanged at 8.5%, as was recorded in the similar period in 2021. The performance during the quarter was mainly driven by:
  - i. Sugar production which increased by 6.1% to 177,126.4 metric tons in Q3'2022, from 166,994.0 metric tons in Q3'2021, and,
  - ii. Production of assembled of motor vehicles which recorded a 12.7% increase to 3,304 units in Q3'2022, from 2,933 units recorded in Q3'2021,

However, the sector growth was constrained by a 12.8% decline in cement production to 2,302.7 metric tons in Q3'2022, from 2,640.2 metric tons in Q3'2021.
- **Growth in the Financial and Insurance sector** – Financial and Insurance sector grew by 5.3% in Q3'2022 compared to 11.8% in Q3'2021, additionally, the contribution to GDP increased by 0.8% points to 8.9% compared to 8.1% recorded in Q3'2021. 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 6.1% to Kshs 4.4 tn in Q3'2022, from Kshs 4.2 tn recorded in Q3'2021,
  - ii. Net foreign assets declined by 55.3% to Kshs 296.7 bn in Q3'2022, from Kshs 664.1 bn Q3'2021.

The Central Bank of Kenya (CBK) in efforts to curb the high inflation raised the Central Bank Rate (CBR) to 8.25% in September 2022 compared to 7.00% during similar period in 2021.

- **Sustained rebound in the Accommodation and Food services sector-** The sector recorded a 22.9% growth in Q3'2022 though lower than the 127.5% growth recorded in Q3'2021. This comes after 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's arrival through Jomo Kenyatta international Airport and Moi international Airport increasing by 44.6% to 315,112 up from 217,873 recorded in Q3'2021. Additionally, the sectoral contribution increased by 0.5% points to 1.0% in Q3'2022 from 0.5% recorded in Q3'2021.
- **Slower growth in the Real Estate and Construction sectors –** The Real Estate sector grew by 5.1% in Q3'2022, 2.0% points lower than the 7.1% recorded in Q3'2021. The decline in Real Estate performance was mainly attributed to increased cost of construction materials arising from increased inflationary pressures and prevailing local currency depreciation that hindered optimum investments. However, the sectoral contribution to GDP increased by 0.4% points to 10.5%, from 10.1% in Q3'2021, partly driven by increased credit advanced to the sector which grew by 0.9% to Kshs 467.0 bn in Q3'2022, from Kshs 463.0 bn in Q3'2021. On the other hand, Construction sector recorded a growth of 4.3% in Q3'2022, compared to 6.7% in Q3'2021. The slowed growth in the construction sector was reflected by cement consumption which declined by 14.6% to 2,217.0 thousand metric tons from 2,596.8 thousand metric tons recorded in Q3'2021. Additionally, the quantity of iron and steel imported declined by 27.5% to 198,849 tons, from 274,134 tons in Q3'2021. Notably, the sectoral contribution in Q3'2022 increased to 6.2%, from 6.1% in Q3'2021, with Credit advanced to Construction sector increasing by 16.3% to Kshs 143.0 bn in Q3'2022, from Kshs 123.0 bn in Q3'2021.
- **Growth in the Transport and Storage Sector –** Transportation and storage sector grew by 4.8% compared to a 14.2% growth recorded in Q3'2021. The high growth recorded in Q3'2021 was as a result of gradual pick up of the sector activities after lifting of restrictions on domestic and international travel. The sector's contribution to GDP increased by 0.3% points to 10.3% from 10.0% recorded in Q3'2021. The sector performance was majorly supported by increased activities in railway transport, road transport and water transport. Some of the key observations are;
  - i. Passenger transport through Standard Gauge Railway (SGR) increased by 2.6% to 615,760 passengers in Q3'2022 from 600,070 passengers in Q3'2021,
  - ii. Freight movement through the SGR increased by 30.4% to 1,574.7 thousand metric tons in Q3'2022 from 1,207.2 thousand metric tons recorded in Q3'2021
  - iii. Revenue generated from the SGR freight stream increased to Kshs 3,695.0 mn in the period under review, from 2,878.0 mn in Q3'2021, and,
  - iv. 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 marginally by 0.2% to 570.8 thousand metric tons in Q3'2022 from 569.6 thousand metric tons in Q3'2021.

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 decision to hike the Central Bank Rate (CBR) by 50.0 bps to 8.75% from 8.255% in a bid to curb inflation and maintain price stability is expected to curtail economic growth. Further, we expect the Agricultural sector to remain subdued largely due to erratic weather conditions. However, we expect the sector to be supported by the long rains being witnessed across the country coupled with recent fiscal policies such as subsidizing costs of crucial farm inputs such as fertilizers that will enhance growth in the sector, which remains as 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 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 4.5% economic growth rate in 2022.***