

## Kenya's Balance of Payments Report and Cytonn Weekly #43/2024

### **Executive Summary:**

**Fixed Income:** During the week, T-bills were oversubscribed for the fourth consecutive week, with the overall oversubscription rate coming in at 357.3%, higher than the oversubscription rate of 337.2% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 34.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 855.7%, significantly higher than the oversubscription rate of 434.3% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 281.5% and 233.8% respectively from the 341.9% and 293.7% respectively, recorded the previous week. The government accepted a total of Kshs 41.8 bn worth of bids out of Kshs 85.8 bn bids received, translating to an acceptance rate of 48.7%. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day, and 91-day papers decreasing by 44.2 bps, 49.0 bps, and 33.4 bps to 15.5%, 15.1%, and 14.4% respectively from 15.9%, 15.6% and 14.8% respectively recorded the previous week;

In the primary bond market, the government is looking to raise Kshs 45.0 bn through the reopened two-ten years and one fifteen years fixed coupon bonds; FXD1/2023/10, FXD1/2024/010 and FXD1/2022/15 with a tenor to maturity of 8.3 years, 9.4 years and 12.5 years respectively. The bonds will be offered at fixed coupon rates of 14.2%, 16.0% and 13.9% respectively. Our bidding range for the reopened bonds are 16.25%-16.55%, 15.20%-15.50% and 16.45%-16.55% for the FXD1/2023/10, FXD1/2024/010 and FXD1/2022/15;

We are projecting the y/y inflation rate for October 2024 to come in at the range of **3.4% - 3.8%** mainly on the back of reduced fuel prices, which we, however, expect will be weighed down by the lower Central Bank Rate, slightly increased electricity prices and the slight currency depreciation prices and slight depreciation of the Kenyan Shilling against the US Dollar;

**Equities:** During the week, the equities market recorded a mixed performance, with NASI gaining by 0.8%, while NSE 10, NSE 20, and NSE 25 declined by 0.8%, 0.4%, and 0.3% respectively, taking the YTD performance to gains of 33.4%, 31.2%, 25.6% and 22.9% for NSE 10, NSE 25, NASI and NSE 20 respectively. The equities market performance was mainly driven by gains recorded by Bamburi, DTB-K, and Safaricom of 17.4%, 5.4%, and 4.1% respectively. The gains were however weighed down by losses recorded by large-cap stocks such as EABL, KCB Group and Equity Group of 4.7%, 3.8% and 1.2% respectively;

During the week, the Capital Markets Authority (CMA) of Kenya approved HF Group PLC's rights issue, paving the way for a significant capital-raising initiative aimed at strengthening its balance sheet and supporting its strategic growth objectives. HF Group's rights issue involves the issuance of up to 1.1 bn new ordinary shares, priced at KES 4.0 each, with a par value of KES 5.0 per share;

**Real Estate:** During the week, Hass Consult, a Kenyan consulting and Real Estate development firm, released its [House Price Index Q3'2024 Report](#), focusing on the residential Real Estate sector's performance in the Nairobi Metropolitan Area (NMA);

Additionally, during the week, Student accommodation developer Acorn Holdings announced that it has fully redeemed its Kshs 5.7 bn green bond before its scheduled maturity on November 8, 2024. The firm announced that it had paid the balance of Kshs 2.7 bn from the paper, alongside the accrued interest, on its five-year medium-term note issued in November 2019;

On the [Unquoted Securities Platform](#), Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 25<sup>th</sup> October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 25<sup>th</sup> October 2024, representing a 45.0% loss from the Kshs 20.0 inception price;

**Focus of the Week:** In pursuit of a stable and sustainable economic future, the Kenyan government prioritizes balancing its economic policies, especially regarding the Balance of Payments. Achieving this balance is essential to ensuring stable trade relations, managing capital inflows and outflows, addressing inflationary pressures, and maintaining a favourable exchange rate system. These efforts are geared towards fostering economic growth, creating employment opportunities, and implementing strategic commercial policies, all of which play pivotal roles in Kenya's pursuit of a robust and sustainable economic trajectory. In light of this, we saw it fit to focus on Kenya's balance of payments to analyse the current state and what can be done to improve it;

#### **Investment Updates:**

- Weekly Rates: Cytonn Money Market Fund closed the week at a yield of 18.1 % p.a. To invest, dial \*809# or download the Cytonn App from Google Play store [here](#) or from the Appstore [here](#);
- We continue to offer Wealth Management Training every Monday, from 10:00 am to 12:00 pm. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click [here](#);
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through [wmt@cytonn.com](mailto:wmt@cytonn.com);
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through [insuranceagency@cytonn.com](mailto:insuranceagency@cytonn.com);
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through [pensions@cytonn.com](mailto:pensions@cytonn.com);

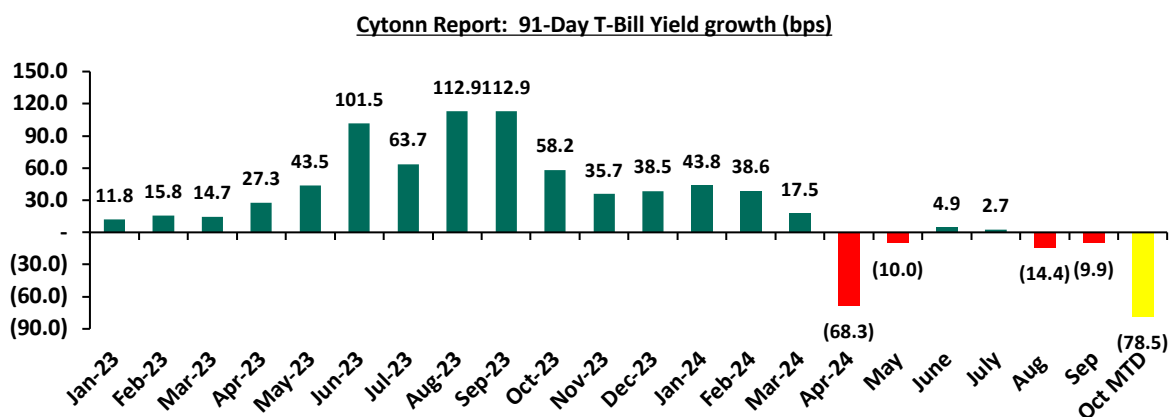
#### **Hospitality Updates:**

- We currently have promotions for Staycations. Visit [cysuites.com/offers](https://cysuites.com/offers) for details or email us at [sales@cysuites.com](mailto:sales@cysuites.com);

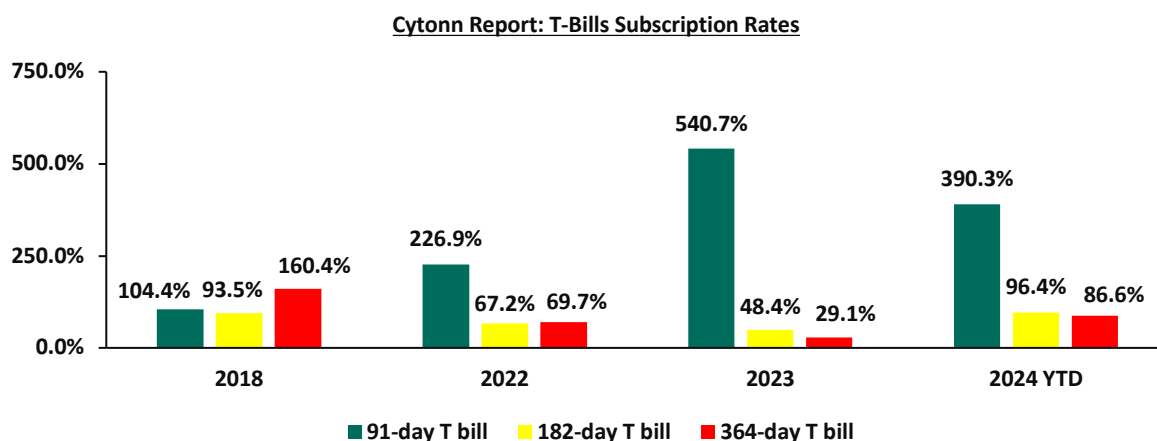
### **Fixed Income**

#### **Money Markets, T-Bills Primary Auction:**

During the week, T-bills were oversubscribed for the fourth consecutive week, with the overall oversubscription rate coming in at 357.3%, higher than the oversubscription rate of 337.2% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 34.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 855.7%, significantly higher than the oversubscription rate of 434.3% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 281.5% and 233.8% respectively from the 341.9% and 293.7% respectively recorded the previous week. The government accepted a total of Kshs 41.8 bn worth of bids out of Kshs 85.8 bn bids received, translating to an acceptance rate of 48.7%. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day and 91-day papers decreasing by 44.2 bps, 49.0 bps and 33.4 bps to 15.5%, 15.1% and 14.4% respectively from 15.9%, 15.6% and 14.8% respectively recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:



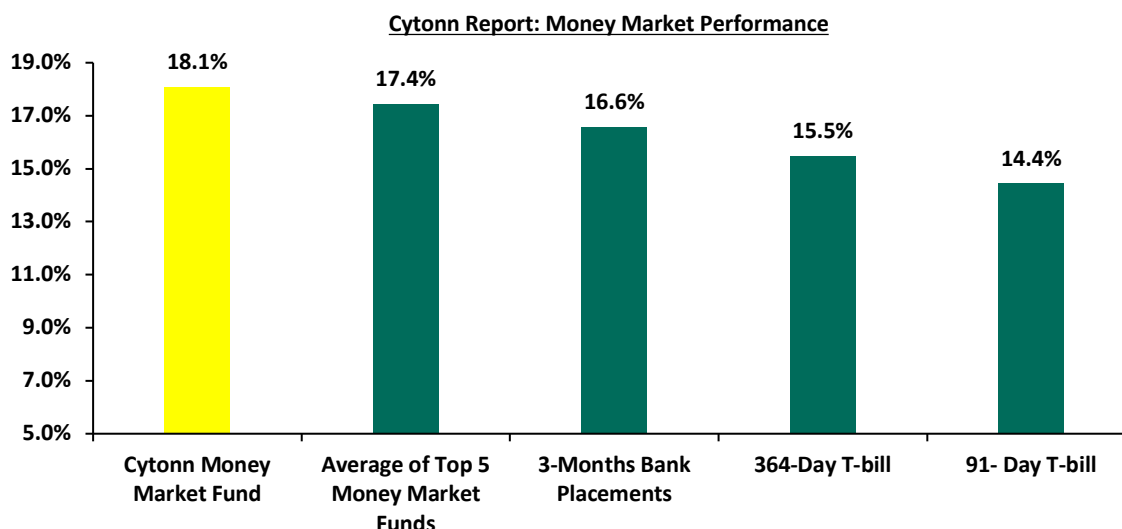
The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):



In the primary bond market, the government is looking to raise Kshs 45.0 bn through the reopened two-ten years and one fifteen years fixed coupon bonds; FXD1/2023/10, FXD1/2024/010 and FXD1/2022/15 with a tenor to maturity of 8.3 years, 9.4 years and 12.5 years respectively. The bonds will be offered at fixed coupon rates of 14.2%, 16.0% and 13.9% respectively. Our bidding range for the reopened bonds are 16.25%-16.55%, 15.20%-15.50% and 16.45%-16.55% for the FXD1/2023/10, FXD1/2024/010 and FXD1/2022/15.

### Money Market Performance:

In the money markets, 3-month bank placements ended the week at 16.6% (based on what we have been offered by various banks), and the yields on the government papers were on a downward trajectory, with the yields on the 364-day and 91-day papers decreasing by 44.2 bps and 33.4 bps respectively, to 15.5% and 14.4% respectively from 15.9% and 14.8% respectively recorded the previous week. The yields on the Cytonn Money Market Fund decreased marginally by 1.0 bps to close the week at 18.1%, remaining relatively unchanged from the previous week, while the average yields on the Top 5 Money Market Funds increased by 2.6 bps to close the week at 17.4%, remaining relatively unchanged from the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 25<sup>th</sup> October 2024:

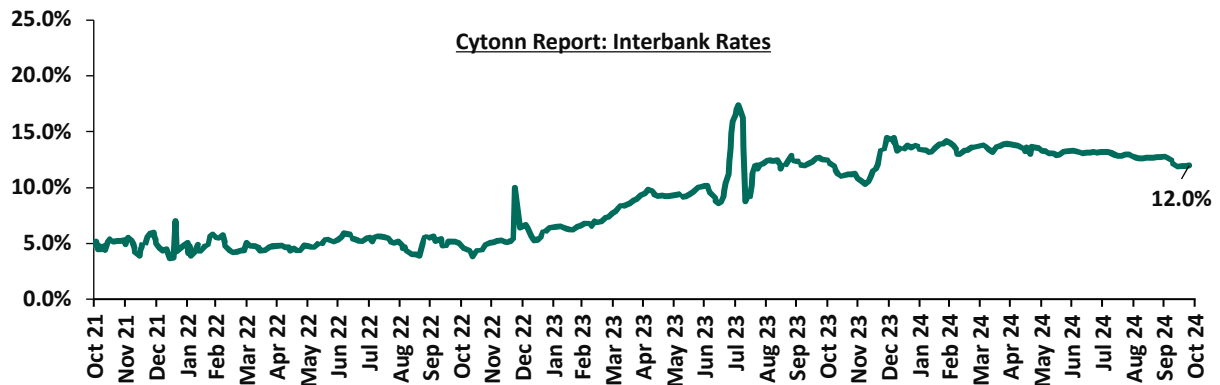
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 25 <sup>th</sup> October 2024		
Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (Dial *809# or Download the Cytonn App)	18.1%
2	Lofty-Corban Money Market Fund	18.0%
3	Etica Money Market Fund	17.1%
4	Kuza Money Market fund	17.0%
5	Arvocap Money Market Fund	17.0%
6	GenAfrica Money Market Fund	16.0%
7	Nabo Africa Money Market Fund	15.7%
8	Ndovu Money Market Fund	15.5%
9	Jubilee Money Market Fund	15.5%
10	Co-op Money Market Fund	15.4%
11	Madison Money Market Fund	15.4%
12	Mali Money Market Fund	15.2%
13	KCB Money Market Fund	15.2%
14	Sanlam Money Market Fund	15.2%
15	Absa Shilling Money Market Fund	15.0%
16	Enwealth Money Market Fund	14.9%
17	Faulu Money Market Fund	14.9%
18	Mayfair Money Market Fund	14.9%
19	Orient Kasha Money Market Fund	14.8%
20	Genghis Money Market Fund	14.7%
21	Dry Associates Money Market Fund	14.1%
22	Old Mutual Money Market Fund	13.9%
23	Apollo Money Market Fund	13.8%
24	Stanbic Money Market Fund	13.8%
25	CIC Money Market Fund	13.7%
26	ICEA Lion Money Market Fund	13.7%
27	AA Kenya Shillings Fund	13.5%
28	British-American Money Market Fund	13.3%
29	Equity Money Market Fund	13.2%

Source: Business Daily

#### Liquidity:

During the week, liquidity in the money markets marginally tightened, with the average interbank rate increasing by 5.1 bps, to 12.0% from the 11.9% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 4.9%

to Kshs 41.9 bn from Kshs 44.0 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



### Kenya Eurobonds:

During the week, the yields on Eurobonds were on an upward trajectory, with the yields on the 12-year Eurobond issued in 2019 increasing the most by 31.5 bps to 10.1% from 9.8% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 24<sup>th</sup> October 2024;

Cyttonn Report: Kenya Eurobonds Performance						
	2018		2019		2021	2024
Tenor	10-year issue	30-year issue	7-year issue	12-year issue	13-year issue	7-year issue
Amount Issued (USD)	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn	1.5 bn
Years to Maturity	3.3	23.4	2.6	7.6	9.7	6.3
Yields at Issue	7.3%	8.3%	7.0%	7.9%	6.2%	10.4%
1-Jan-24	9.8%	10.2%	10.1%	9.9%	9.5%	
1-Oct-24	8.6%	9.9%	8.3%	9.6%	9.4%	9.5%
17-Oct-24	8.9%	10.1%	8.1%	9.8%	9.6%	9.7%
18-Oct-24	8.8%	10.1%	8.0%	9.8%	9.7%	9.7%
21-Oct-24	9.0%	10.2%	8.3%	10.0%	9.8%	9.9%
22-Oct-24	9.1%	10.3%	8.4%	10.1%	9.9%	10.0%
23-Oct-24	9.1%	10.3%	8.5%	10.1%	9.9%	10.0%
24-Oct-24	9.1%	10.3%	8.4%	10.1%	9.9%	10.0%
<b>Weekly Change</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.2%</b>
<b>MTD Change</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.1%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.5%</b>
<b>YTD Change</b>	<b>(0.7%)</b>	<b>0.1%</b>	<b>(1.7%)</b>	<b>0.2%</b>	<b>0.4%</b>	<b>-</b>

Source: Central Bank of Kenya (CBK) and [National Treasury](#)

### Kenya Shilling:

During the week, the Kenya Shilling appreciated marginally against the US Dollar by 0.8 bps, to remain relatively unchanged at the Kshs 129.2 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 17.7% against the dollar, a contrast to the 26.8% depreciation recorded in 2023.

We expect the shilling to be supported by:

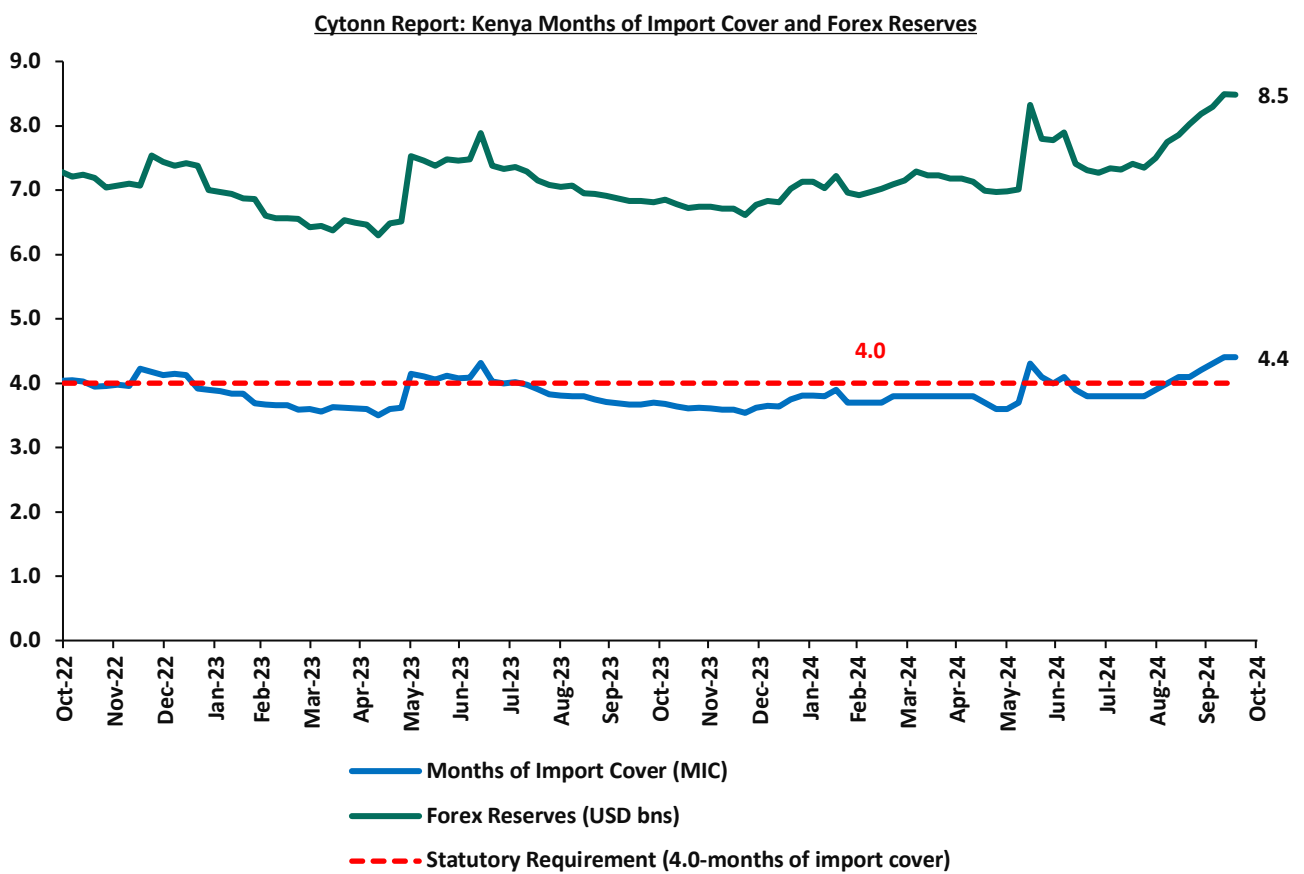
- i. Diaspora remittances standing at a cumulative USD 4,723.0 mn in the 12 months to September 2024, 14.0% higher than the USD 4,142.0 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the September 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 55.4% in the period, and,
- ii. The tourism inflow receipts which came in at USD 352.5 bn in 2023, a 31.5% increase from USD 268.1 bn inflow receipts recorded in 2022, and owing to tourist arrivals that improved by 21.0% in the 12 months to August 2024, compared to a similar period in 2023.

- iii. Improved forex reserves currently at USD 8.5 bn (equivalent to 4.4-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, but slightly lower than the EAC region’s convergence criteria of 4.5-months of import cover.

The shilling is however expected to remain under pressure in 2024 as a result of:

- i. An ever-present current account deficit which came at 3.8% of GDP in Q2’2024 from 3.7% recorded in Q2’2023, and,
- ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.9% of Kenya’s external debt is US Dollar-denominated as of March 2024.

Key to note, Kenya’s forex reserves decreased marginally by 0.1% during the week to close the week at USD 8.5 bn equivalent to 4.4 months of import cover, to remain relatively unchanged from the previous week, and above the statutory requirement of maintaining at least 4.0-months of import cover. The chart below summarizes the evolution of Kenya's months of import cover over the years:



**Weekly Highlights:**

**I. October Inflation Projection**

We are projecting the y/y inflation rate for October 2024 to come in at the range of **3.4% - 3.8%** mainly on the back of:

- i. **The decrease in the Central Bank Rate (CBR) by 75.0 bps to 12.00% from 12.75%** – Earlier this year, the monetary policy committee noted that there was need to tighten the monetary policy following the sustained depreciation of the Kenyan shilling as well as the heightened inflationary pressures. Over a number of meetings, the CBK Monetary Policy Committee raised the rates to a high of 13.00%, with cuts starting in the August meeting, which cut the rates by 25 bps to 12.75%.

In their last meeting on 8<sup>th</sup> October 2024, the committee went for an even bigger cut, reducing the CBK rate by 75.0 bps to 12.00% from 12.75%. This reduction in the CBR is likely to increase the money supply and lower borrowing costs, which may cause a slight rise in inflation rates as the effects of the CBR gradually take hold in the broader economy,

- ii. **Slight in electricity prices** – In October 2024, EPRA [announced](#) that electricity prices would increase slightly on account of foreign exchange adjustment, with the adjustment being made by a slight at Kshs 114.9 cents per kWh for the month of October. With electricity being one of the major inputs of inflation, this increase is expected to increase production costs for businesses as well as increase electricity costs for households thus tightening inflation, and,
- iii. **Slight depreciation of the Kenya Shilling against the US Dollar** – The Kenya Shilling has recorded a marginal 0.8 bps month-to-date decline as of 26<sup>th</sup> October 2024 to remain relatively unchanged at Kshs 129.2, and a 17.7% year-to-date gain from the Kshs 157.0 recorded at the beginning of the year. This depreciation in the exchange rate, though slight, could increase inflationary pressures.

We, however, expect that the inflation rate will, however, be supported by:

- i. **Reduced Fuel Prices in September** – In their last fuel release, EPRA announced that the maximum allowed price for Super Petrol, Diesel and Kerosene decreased by Kshs 8.2, Kshs 3.5, and Kshs 6.9 per litre respectively. Consequently, Super Petrol, Diesel, and Kerosene will retail at Kshs 180.7, Kshs 168.1, and Kshs 151.4 per litre respectively, from Kshs 188.8, Kshs 171.6, and Kshs 158.4 per litre respectively in the last month. This followed the government's efforts to stabilize pump prices through the [petroleum pump price stabilization mechanism](#) which expended Kshs 9.9 bn in the FY2023/24 to cushion the increases applied to the petroleum pump prices. This stability in fuel prices is likely to provide a stabilizing effect on consumer purchasing power as well as business operational costs since fuel is a major input cost for businesses.

Going forward, we expect inflationary pressures to remain anchored in the short term, remaining within the CBK's target range of 2.5%-7.5% aided by the reduced fuel prices, decreased energy costs, and stability in the exchange rate. However, risks remain, particularly from the potential for increased demand-driven inflation due to accommodative monetary policy. The decision to lower the CBR to 12.00% during the latest MPC meeting will likely increase money supply, in turn increasing inflation, especially with further cuts expected in the coming meetings. The CBK's ability to balance growth and inflation through close monitoring of both inflation and exchange rate stability will be key to maintaining inflation within the target range.

***Rates in the Fixed Income market have been on a downward trend given the continued low demand for cash by the government and the occasional liquidity easing in the money market. The government is 131.2% ahead of its prorated net domestic borrowing target of Kshs 133.5 bn, having a net borrowing position of Kshs 308.7 bn. However, we expect a downward readjustment of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating pressure in the domestic market. As such, we expect the yield curve to normalize in the medium to long-term and hence investors are expected to shift towards the long-term papers to lock in the high returns.***

## **Equities**

### **Market Performance:**

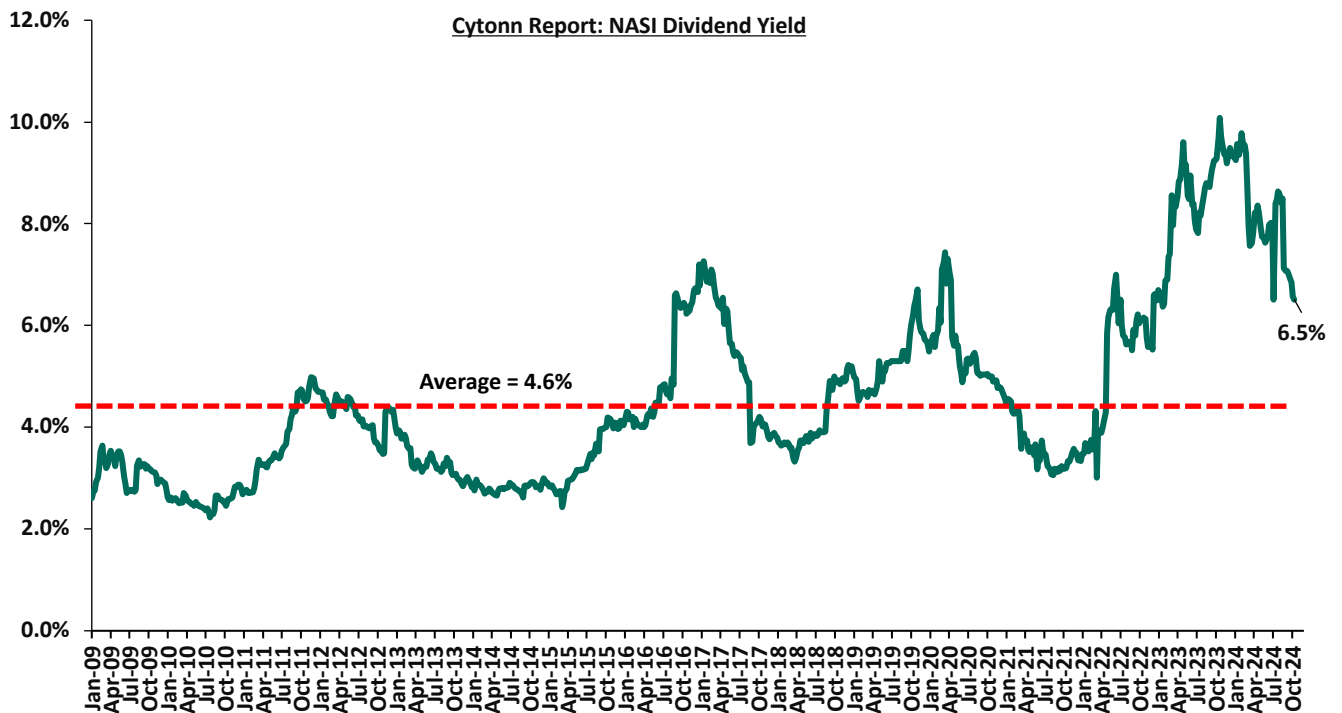
During the week, the equities market recorded a mixed performance, with NASI gaining by 0.8%, while NSE 10, NSE 20, and NSE 25 declined by 0.8%, 0.4%, and 0.3% respectively, taking the YTD performance to gains of 33.4%, 31.2%, 25.6% and 22.9% for NSE 10, NSE 25, NASI and NSE 20 respectively. The equities market

performance was mainly driven by gains recorded by Bamburi, DTB-K, and Safaricom of 17.4%, 5.4%, and 4.1% respectively. The gains were however weighed down by losses recorded by large-cap stocks such as EABL, KCB Group, and Equity Group of 4.7%, 3.8%, and 1.2% respectively.

During the week, equities turnover increased by 46.4% to USD 9.1 mn from USD 6.2 mn recorded the previous week, taking the YTD turnover to USD 512.5 mn. Foreign investors remained net sellers for the third consecutive week, with a net selling position of USD 1.6 mn, from a net selling position of USD 0.7 mn recorded the previous week, taking the YTD net selling position to USD 0.7 mn.

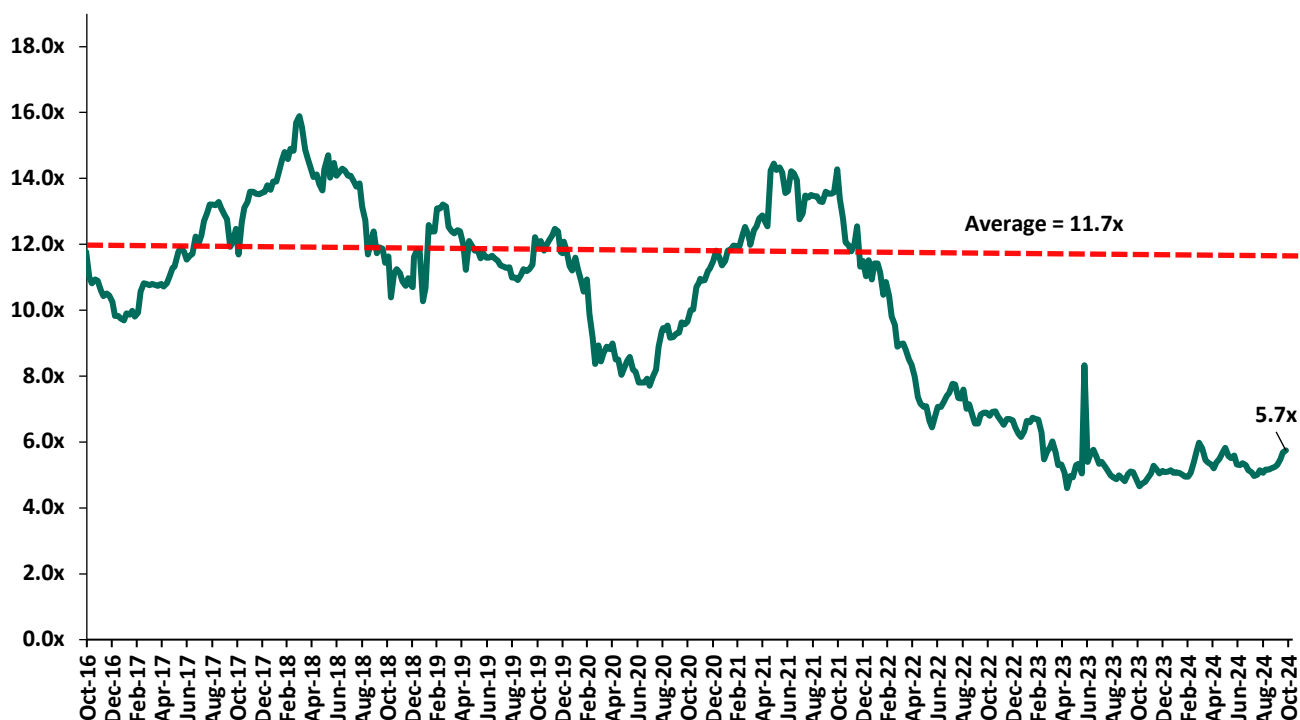
The market is currently trading at a price-to-earnings ratio (P/E) of 5.7x, 51.1% below the historical average of 11.7x, and a dividend yield of 6.5%, 1.9% points above the historical average of 4.6%. Key to note, NASI's PEG ratio currently stands at 0.7x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market may be overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued.

The charts below indicate the historical P/E and dividend yields of the market;





**Cytonn Report: NASI P/E**



**Universe of Coverage:**

**Cytonn Report: Equities Universe of Coverage**

Company	Price as at 18/10/2024	Price as at 25/10/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield***	Upside/Downside**	P/TBv Multiple	Average
Jubilee Holdings	168.0	165.0	(1.8%)	(10.8%)	185.0	260.7	8.7%	66.6%	0.3x	Buy
CIC Group	2.2	2.1	(3.2%)	(8.7%)	2.3	2.8	6.2%	40.2%	0.7x	Buy
Equity Group***	47.4	46.9	(1.2%)	37.0%	34.2	60.2	8.5%	37.0%	0.9x	Buy
Britam	5.8	5.5	(4.8%)	7.0%	5.1	7.5	0.0%	36.4%	0.8x	Buy
NCBA***	44.2	44.0	(0.3%)	13.3%	38.9	55.2	10.8%	36.3%	0.8x	Buy
Co-op Bank***	13.9	13.8	(0.7%)	21.6%	11.4	17.2	10.9%	35.5%	0.6x	Buy
Diamond Trust Bank***	51.0	53.8	5.4%	20.1%	44.8	65.2	9.3%	30.6%	0.2x	Buy
Stanbic Holdings	122.8	124.5	1.4%	17.5%	106.0	145.3	12.3%	29.0%	0.8x	Buy
ABSA Bank***	14.9	15.0	0.3%	29.4%	11.6	17.3	10.4%	26.1%	1.2x	Buy
KCB Group***	39.1	37.6	(3.8%)	71.1%	22.0	46.7	0.0%	24.2%	0.6x	Buy
Standard Chartered Bank	228.8	230.3	0.7%	43.7%	160.3	235.2	12.6%	14.7%	1.5x	Accumulate
I&M Group***	27.5	27.5	0.0%	57.3%	17.5	26.5	9.3%	5.8%	0.6x	Hold

\*Target Price as per Cytonn Analyst estimates  
 \*\*Upside/ (Downside) is adjusted for Dividend Yield  
 \*\*\*Dividend Yield is calculated using FY'2023 Dividends

**Weekly Highlights**

- I. CMA Approves HF Group's Rights Issue

On October 25, 2024, the Capital Markets Authority (CMA) of Kenya [approved](#) HF Group PLC's rights issue, paving the way for a significant capital-raising initiative aimed at strengthening its balance sheet and supporting its strategic growth objectives. This move comes as part of HF Group's broader vision to bolster investments in its subsidiary, HFC Limited, and expand into diversified business segments, especially in the digital space.

HF Group's rights issue involves the issuance of up to 1,153,842,504 new ordinary shares, priced at Kshs 4.0 each, with a par value of Kshs 5.0 per share. This initiative, if fully subscribed, will generate Kshs 4.6 bn in gross proceeds, with a further potential to raise up to Kshs 6.0 bn through a green shoe option, which allows for an additional 346,614,168 shares if demand exceeds expectations. The green shoe option is designed to cater to oversubscription and reflects confidence that the Group's growth narrative and restructuring strategy are likely to resonate positively with investors.

The offer price of Kshs 4.0 per share represents a 4.4% discount on the six-month volume-weighted average share price as of September 30<sup>th</sup>, 2024 of Kshs 4.2 per share, giving shareholders a financial incentive to participate. Eligible shareholders will be allotted two new shares for every share held on the record date, with additional shares available for those interested in expanding their holdings. Importantly, these shares are renounceable, meaning shareholders who choose not to exercise their rights can either sell or transfer them, providing additional flexibility.

The proceeds from the rights issue will be directed towards several key areas aligned with HF Group's long-term strategy. Primarily, the Group aims to use this capital to reinforce its investment in HFC Limited's expanded business segments, which cover a wide range of financial services tailored to both retail and corporate clients. Before the rights issue, HF Group's capital adequacy ratios were significantly below the statutory requirements set by the Central Bank of Kenya in H1'2024, with both Core Capital to Total Liabilities and Core Capital to Total Risk-Weighted Assets ratios in deficit. Post-rights issue, HF Group's capital adequacy position will improve significantly, and will be above the statutory minimums. The table below shows the capital adequacy ratios before and after the rights issue;

HF Group's Capital Adequacy Ratios	Before the rights issue	After the rights issue	Change
Core Capital/Total Liabilities	4.0%	14.2%	10.2%
Minimum Statutory ratio	8.0%	8.0%	0.0%
<b>Excess</b>	<b>(4.0%)</b>	<b>6.2%</b>	<b>10.2%</b>
Core Capital/Total Risk Weighted Assets	4.6%	16.5%	11.9%
Minimum Statutory ratio	10.5%	10.5%	0.0%
<b>Excess</b>	<b>(5.9%)</b>	<b>6.0%</b>	<b>11.9%</b>

Compared to peer banks in Kenya, HF Group will become sufficiently capitalized after accounting for the rights issue. The tables before show HF Group's capital adequacy ratios compared to its peers;

Cytonn Report: H1'2024 Capital adequacy to risk weighted assets			
Bank	Ratio	Minimum statutory ratio	Excess/(Deficit)
NCBA Bank	19.9%	10.5%	9.4%
Stanchart	18.8%	10.5%	8.3%
Coop Bank	18.1%	10.5%	7.6%
KCB	17.8%	10.5%	7.3%
DTBK	17.6%	10.5%	7.1%
<b>HF Group*</b>	<b>16.5%</b>	<b>10.5%</b>	<b>6.0%</b>
Equity Group	15.8%	10.5%	5.3%
Absa Bank	14.8%	10.5%	4.3%
I&M Bank	14.8%	10.5%	4.3%
Stanbic Bank	13.5%	10.5%	3.0%
<b>HF Group**</b>	<b>4.6%</b>	<b>10.5%</b>	<b>(5.9%)</b>

\*After the rights issue

\*\*Before the rights issue

Cytonn Report: H1'2024 Capital adequacy to risk weighted liabilities			
Bank	Ratio	Minimum statutory ratio	Excess/(Deficit)
Coop Bank	23.1%	8.0%	15.1%
Stanchart	19.7%	8.0%	11.7%
NCBA Bank	18.8%	8.0%	10.8%
ABSA Bank	18.3%	8.0%	10.3%
DTBK	18.2%	8.0%	10.2%
I&M Bank	17.7%	8.0%	9.7%
Equity Group	17.4%	8.0%	9.4%
KCB Group	15.8%	8.0%	7.8%
Stanbic Bank	14.9%	8.0%	6.9%
HF Group*	14.2%	8.0%	6.2%
HF Group**	4.0%	8.0%	(4.0%)

\*After the rights issue

\*\*Before the rights issue

The table below summarizes the rights issue statistics;

Cytonn Report: HF Group Rights Issue Summary	
Data	Statistic
Par value	Kshs 5.0 each
Offer value	Kshs 4.0 per share
Number of issued and paid-up shares prior to the Rights issue	384,614,168
Number of entitlement shares	769,228,336
Number of additional shares	384,614,168
Number of new shares	1,153,842,504
Number of Green Shoe Option Shares	346,614,168
Number of new shares plus green shoe option shares	1,499,995,255
Number of issued and fully paid-up shares post-Rights Issue assuming full subscription	1,538,456,672
Number of issued and fully paid-up shares post-Rights Issue assuming full subscription and 100% uptake of the green shoe option	1,884,609,423
Gross proceeds of Rights Issue assuming full subscription	Kshs 4,615,370,016
Gross proceeds of Rights Issue assuming full subscription and 100% uptake of the green shoe option	Kshs 5,999,981,020

Source: HF Group

Additionally, HF Group's largest shareholder, Britam, has committed to fully subscribing to its rights, indicating strong support from major stakeholders. This support is essential, as the rights issue's success will hinge on substantial participation from current shareholders. With a structure that allows for renounceable rights, shareholders who opt not to exercise their rights can transfer or sell them, potentially widening participation

Going forward, it is our expectation that HF Group's success will hinge on its ability to effectively deploy the new capital to fuel growth and deliver on its strategic goals. As it strengthens its capital base and enhances digital capabilities, HF Group is positioned to expand its customer base and diversify revenue streams, critical for competing in Kenya's increasingly digitalized financial services sector. Shareholders will be looking for tangible outcomes from these initiatives, particularly in increased profitability and market share.

***We are "Neutral" on the Equities markets in the short term due to the current tough operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery. With the market currently being***

***undervalued for its future growth (PEG Ratio at 0.7x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current foreign investors' sell-offs to continue weighing down the equities outlook in the short term.***

## **Real Estate**

### **I. Industry Report**

During the week, Hass Consult, a Kenyan consulting and Real Estate development firm, released its [House Price Index Q3'2024 Report](#), focusing on the residential Real Estate sector's performance in the Nairobi Metropolitan Area (NMA). The following are the key take-outs from the report;

- i. The average selling prices for all properties posted a 0.7% increase on a quarter-on-quarter (q/q) basis in Q3'2024, an improvement from a 1.1% decrease in Q3'2023. The performance can be linked to a 0.8% increase in detached house prices coupled with a slight increase of 0.01% in apartment units' prices q/q. Similarly, semi-detached units registered a 0.7% uptick q/q in selling prices, bolstering the overall performance. On a year-on-year (y/y) basis, property prices showed an 8.7% increase, contrasting with a 3.7% decrease witnessed in Q3'2023. The rise in property prices is largely attributed to an increase in construction costs, tough economic times in the country, and the aftermath of the June and July 2024 protests which affected a majority of NMA areas. The significant hike further elevated the cost of financing house purchases, making it more expensive for buyers. Additionally, protests that affected the country during the year in June and July saw cautious pricing in a period of uncertainty, dampening the market that was coming off a period of strong price growth in the last quarter of 2023 and the first half of 2024. Furthermore, developers are facing rising construction costs, which they are forced to pass on to homebuyers, further driving up property prices,
- ii. The average asking rents of housing units in the NMA during the period under review decreased slightly by 0.6% on a q/q basis, a reversal from 0.4% increase recorded in Q3'2023. On a y/y basis, the average asking rent increased by 2.2% compared to the 1.5% decline recorded in Q3'2023. The decrease in q/q performance was attributable to decreased rents in detached houses, semi-detached houses, and apartments, registering a q/q decline of 0.04%, 2.4%, and 0.3% respectively in Q3'2024, as landlords tried to hedge against a tough operating environment during the period,
- iii. Apartments registered the highest y/y increase in asking rents of 5.5% in Q3'2024, a decrease from 5.9% increase in Q3'2023. In addition, semi-detached and detached units witnessed increases of 1.1% and 0.9% in asking rents respectively, a major turnaround from the 5.2% and 3.6% declines recorded in Q3'2023 respectively. The rise in rental rates can be attributed to the growth of the middle class, with more people joining this income bracket and thereby increasing demand for apartments and semi-detached units, which tend to be more affordable. At the same time, as some individuals transition from the middle class to higher income levels, demand for detached units has also increased, driving up prices in this segment of the market,
- iv. In the Nairobi Suburbs properties, Ridgeways was the best-performing region registering a y/y capital appreciation of 13.5% attributable to i) close proximity to Nairobi's CBD and key areas like Kiambu Road makes it desirable for both residential and commercial buyers, ii) enhanced road networks, including the Northern Bypass, have improved accessibility to Ridgeways, increasing its appeal, iii) the area offers numerous shopping centers, such as Ridgeways Mall and Ciata Mall, along with schools and healthcare facilities, making it attractive for families, and, iv) Ridgeways maintains a serene, suburban setting with ample green spaces, appealing to middle- and upper-income buyers. On the other hand, Gigiri recorded a depreciation of 2.3% on a y/y performance

mainly attributed to stiff competition from the surrounding neighbourhoods like Runda, Ridgeways, Muthaiga, and Kitisuru,

- v. In the Nairobi Suburbs apartments, Kileleshwa was the best-performing region recording a y/y capital appreciation of 7.6%, due to i) its close proximity to key commercial, social, and recreational facilities such as Fogo Gaucho and Lavington Mall, among other retail outlets, ii) its accessibility to the Central Business District, supported by good road networks like Ring Road and Oloitoktok Road that reduce commute times, and iii) a growing middle-class population in the area, which has led to an increased demand for apartments. On the other hand, Upperhill saw the highest year-on-year price correction of 9.3%, driven by reduced demand as residents favored nearby areas like Kilimani and Spring Valley,
- vi. In the satellite towns, properties in Juja posted the highest year-on-year price appreciation, coming at 15.6%. This surge can be linked to several factors: i) Excellent connectivity via the Thika Super Highway, ii) an increasing preference among the middle class to settle and raise families in this area, iii) proximity to major retail centres like Unicity Mall and Juja City Mall, and, iv) access to essential amenities, including educational institutions such as Jomo Kenyatta University of Agriculture and Technology (JKUAT) and hospitals. On the other hand, Kiambu recorded the lowest year-on-year price growth at 2.5%, mainly due to strong competition from neighboring areas like Ruiru and Ruaka, which are becoming increasingly favoured by residents seeking a superior residential environment, and,
- vii. In satellite towns' apartments, Syokimau recorded the highest y/y price appreciation of 11.4% which was supported by good connectivity through infrastructure such as the Nairobi Expressway, eastern bypass, and Mombasa Road. With rising property prices in the NMA, Syokimau has become an ideal alternative, offering spacious apartments and gated communities that cater to middle-income earners. The area has further seen an increase in the development of social amenities, including shopping centres, schools, and healthcare facilities, making it convenient for residents. Retail centres like Gateway Mall and nearby medical facilities enhance Syokimau's attractiveness for families and working professionals alike. Conversely, Kitengela registered a y/y price correction of 0.2% attributed to stiff competition faced by neighbourhoods such as Athi River and Mlolongo which enjoy closer proximity to Nairobi CBD and are more affordable witnessed by their 1.8% and 7.7% y/y price increases.

The findings of the report are in line with our [Cytonn Markets Review – Q3'2024](#), highlighting that selling prices of residential properties in the Nairobi Metropolitan Area (NMA) recorded a 0.7% appreciation in Q3'2024. The performance was supported by 0.7% price appreciation realized by both apartments, detached and semi-detached units in the period under review.

Hass Consult also released its [Land Price Index Q3'2024 Report](#) which highlighted the performance of the Real Estate land sector in the Nairobi Metropolitan Area (NMA). The following were the key take outs from the report;

- i. The average q/q selling prices for land in the Nairobi suburbs grew by 1.6%, compared to a 0.4% increase recorded in Q3'2023. On a y/y basis, the performance represented an 8.2%-points increase, compared to the 0.8% increase recorded in Q3'2023. Consequently, q/q and y/y land prices in satellite towns of Nairobi increased by 3.0% and 12.6% respectively, compared to the 2.7% and 6.4% growth recorded in Q3'2023. The ongoing market recovery underscores the sector's resilience, with demand steadily increasing due to emerging opportunities in retail, manufacturing, and logistics, which are crucial for supporting the rapid urbanization of towns and the Nairobi CBD. This growth is further fueled by the strategic expansion of infrastructure and businesses looking to capitalize on the expanding urban population and improving economic conditions. The

convergence of these factors positions the sector for sustained growth as it adapts to the evolving needs of a dynamic urban environment,

- ii. Spring Valley was the best-performing node in the Nairobi suburbs with a y/y price appreciation of 13.5%. This was attributed to; i) its close proximity to key commercial, social, educational, and recreational facilities, including malls like West Gate and Village Market, ii) improved accessibility thanks to well-developed road networks such as Peponi Road and Lower Kabete Road, and, iii) growing preference among land buyers compared to neighboring areas like Kitisuru. In contrast, Kilimani experienced the lowest year-on-year land price appreciation at 1.9%. This can be attributed to land buyers increasingly favoring nearby areas such as Lavington and Kileleshwa, which offer a wider range of amenities, superior infrastructure, closer proximity to retail hubs, and a more established residential environment, and,
- iii. For satellite towns, Mlolongo was the best-performing node with a y/y capital appreciation of 18.5%, followed by Syokimau which recorded a y/y capital appreciation of 18.1%. The improvement in performance in Mlolongo was driven by; i) enhanced access provided by the Nairobi Expressway, which has made the area more accessible for both residential and industrial developments, and, ii) there has been a surge in demand for both residential and commercial land, driven by its strategic location near Nairobi. This demand has been further boosted by infrastructure developments and the area's growing attractiveness to investors seeking high returns on their property investments. On the other hand, land prices in Syokimau were bolstered by its proximity to Nairobi and excellent connectivity via the Nairobi Expressway, making it a prime location for residential and industrial developments. Conversely, Ongata Rongai was the least performing node with a y/y price appreciation of 7.1 %, attributable to increased competition from the neighboring areas such as Kiserian and Ngong, which had a y/y price appreciation of 16.6% and 7.8% respectively, attributable to improved infrastructure developments, availability of larger land parcels, and growing investor interest in these emerging markets that offer more competitive pricing and development potential.

The findings of the report are also in line with our [Cytonn Markets Review – Q3'2024](#) which highlighted that the overall average selling prices for land in the NMA recorded a price appreciation of 3.9% to Kshs 130.8 mn from 129.0 mn. This performance was bolstered by; i) growing demand for housing which is driven by positive demographics such as high population and urbanization, which currently stands at [1.9%](#) and [3.7%](#), which is relatively higher than the global averages of [0.9%](#) and [1.6%](#) respectively, ii) the fixed supply of land has intensified demand, particularly for residential and commercial purposes, leading to an increase in land prices, iii) there is an expanding middle class in the NMA with disposable income, willing to invest in land as a savings and investment option, iv) the government's ongoing infrastructural development projects, such as roads, sewers, railways, and water connections, are opening up more satellite towns, subsequently driving land prices upward, v) the widely held belief among the middle class that land represents a secure form of wealth has prompted many families to save specifically for land acquisition, and, vi) the government's Affordable Housing Program, under the Bottom-Up Economic Transformation Agenda (BETA), has initiated construction projects across various parts of Nairobi and the country, further increasing land values due to heightened construction activity.

## **II. Real Estate Investments Trusts**

### **a. Full Redemption of Acorn's Green Bond**

During the week, Student accommodation developer Acorn Holdings announced that it has fully redeemed its Kshs 5.7 bn green bond before its scheduled maturity on November 8, 2024. The firm announced that it had paid the balance of Kshs 2.7 bn from the paper, alongside the accrued interest, on its five-year medium-term note issued in November 2019.

This early redemption strengthens Acorn's financial position, reinforces its capital markets reputation, and underscores its ability to provide affordable student housing. The green bond, issued by Acorn's Student



Accommodation (ASA) Development REIT (D-REIT), has consistently delivered a fixed annual interest rate of 12.5% to investors and supported the construction of thousands of student beds across Nairobi. Its success also highlights investor confidence in sustainable infrastructure projects within Kenya's real estate sector.

Acorn's green bond, the first of its kind in Africa, was cross-listed on the International Securities Market of the London Stock Exchange and the Nairobi Securities Exchange, demonstrating its broad appeal. The proceeds funded the construction of 7,000 student beds across eight properties in Nairobi, including facilities in Chiromo, Hurlingham, Karen, Thika Road, and Madaraka. The issuance, guaranteed by GuarantCo and managed by SBG Securities, was a restricted public offer, targeting sophisticated investors. Acorn typically funds its projects with a financing structure of approximately 65% debt and 35% equity, with early redemptions under the bond-funded through sales of properties to its Investment REIT (I-REIT). The I-REIT then generates income through rent and utilities, which is subsequently distributed as dividends to its holders. As of June 2024, the ASA I-REIT [managed](#) 7 hostels worth Kshs 10.3 bn, while the ASA D-REIT held 11 properties valued at Kshs 10.9 bn, including Qwetu and Qejani hostels in Karen slated for transfer to the I-REIT by early 2025.

We expect Acorn to continue leveraging REITs and sustainable financing options to expand its portfolio and meet the growing demand for quality student housing across Kenya.

#### **b. REITs Weekly Performance**

On the [Unquoted Securities Platform](#), Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 25<sup>th</sup> October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 25<sup>th</sup> October 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

REITs offer various benefits, such as tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering significant previous investments. Additional general challenges include: i) insufficient understanding of the investment instrument among investors leading to a slower uptake of REIT products, ii) lengthy approval processes for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, iv) limiting the type of entity that can form a REIT to only a trust company, and, v) minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs.

***We expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) the initiation and completion of major infrastructure projects, opening up areas for development, iii) demand for housing sustained by positive demographics, such as urbanization and population growth rates of [3.7% p.a](#) and [2.0% p.a](#), respectively, against the global average of [1.7% p.a](#) and [0.9% p.a](#), respectively, as at 2023, iv) activities by the government under the Affordable Housing Agenda (AHP) which has boosted land prices within the NMA area, v) heightened activities by private players in the residential sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.***

## **Focus of the Week: Kenya's Balance of Payments Report**

In pursuit of a stable and sustainable economic future, the Kenyan government prioritizes balancing its economic policies, especially regarding the Balance of Payments. Achieving this balance is essential to ensuring stable trade relations, managing capital inflows and outflows, addressing inflationary pressures, and maintaining a favourable exchange rate system. These efforts are geared towards fostering economic growth, creating employment opportunities, and implementing strategic commercial policies, all of which play pivotal roles in Kenya's pursuit of a robust and sustainable economic trajectory. In light of this, we saw it fit to focus on Kenya's balance of payments to analyse the current state and what can be done to improve it.

We have previously tackled the subject of balance of payments in our topical titled [Kenya's Balance of Payments](#) - released in September 2023, we explored the country's balance of payments, which reflects its economic transactions with other nations. We examined the key components, including the current account and the capital account, and assessed Kenya's performance. Additionally, we analyzed the factors influencing the balance of payments and provided policy recommendations for addressing the situation.

This week, we will review Kenya's current balance of payment by covering the following:

- i. Overview of the Balance of Payments,
- ii. The Current State of Kenya's Balance of Payments,
- iii. Evolution of Kenya's Balance of Payments,
- iv. Performance Measurements of Kenya's Balance of Payments,
- v. Factors Affecting Kenya's Balance of Payments, and,
- vi. Policy Recommendations and Conclusion.

### **Section I: Overview of the Balance of Payments**

The balance of payments (BOP) is the method by which countries measure all of the international monetary transactions within a certain period. It is a crucial financial record that captures the economic interactions between Kenya and the rest of the world during a specified timeframe. It provides a systematic account of how the country engages with the global economy, encompassing a wide range of economic activities including trade of goods and services, financial investments, and various transfer payments like foreign aid and grants from other nations. The Balance of Payments (BOP) holds significant importance as a key economic metric, offering a concise representation of the movement of resources between a nation and its trade partners. This financial record categorizes transactions into three primary accounts: the Current Account, the Capital Account, and the Financial Account;

#### **a) Current Account**

The Current Account is one of the primary components of the BoP and tracks transactions related to the day-to-day economic activities of a country with other countries. The component captures transactions of exports and imports of goods and services, income receipts, and payments. It includes four main sub-accounts;

- i. **Balance of Trade (Trade Balance)** - This sub-account records the value of Kenya's exports of goods (like tea, coffee, and flowers) and imports of goods (machinery, petroleum, etc.). If Kenya's exports are more than its imports, it has a trade surplus in this category, otherwise, it has a trade deficit,
- ii. **Services Trade** - The services trade accounts for the export and import of services such as tourism, transportation, and financial services. Kenya's income from foreign tourists and



revenue from providing services to other nations contribute to the services subsection of the current account,

- iii. **Income** - In this sub-account, Kenya records income flows from its foreign investments (like profits and dividends from foreign-owned assets in Kenya) and income paid to foreign investors holding assets in Kenya, and,
- iv. **Current Transfers** - This sub-account captures unilateral transfers of funds, including foreign aid, remittances from Kenyan expatriates working abroad, and other gifts or grants from foreign sources.

#### b) **Capital Account**

The Capital Account in the BoP records capital transfers and transactions involving non-produced, non-financial assets. It may include items like the transfer of ownership of patents, copyrights, and trademarks;

- i. **Capital transfers** – They represent transactions involving the transfer of ownership of non-financial assets between a country and other countries which do not result in any corresponding goods, services, or financial claims, and,
- ii. **Acquisition/disposal of non-produced, non-financial assets** – These are transactions involving the transfer of ownership rights to assets that are neither produced nor considered financial assets, that is, intangible assets such as brand names and trademarks, and rights to use land resources for various economic activities.

#### c) **Financial Account**

The Financial Account is a crucial component that records financial transactions between Kenya and other countries. It includes;

- i. **Foreign Direct Investment (FDI)** - This sub-account tracks the flow of investments where foreign entities directly invest in Kenyan businesses or assets. For example, foreign companies setting up operations in Kenya,
- ii. **Portfolio Investment** - Portfolio investment includes transactions involving financial assets like stocks and bonds. It reflects foreign investors' purchases of Kenyan securities and Kenyan investors' purchases of foreign securities,
- iii. **Reserves Assets** - The official reserves sub-account accounts for changes in Kenya's foreign exchange reserves held by the central bank. This can result from currency interventions or other actions affecting reserves, and,
- iv. **Other reserves** - This covers various financial transactions such as loans, currency, deposits, and trade credits between Kenya and foreign countries.

Other components under financial account include Financial Derivatives and Other Changes in Financial Assets and Liabilities.

## **Section II: The Current State of Kenya's Balance of Payments**

In this section, we will analyse the individual components of Kenya's balance of payments.

#### **a. Current Account Balance**

Kenya's current account deficit narrowed by 34.5% to Kshs 104.1 bn in Q2'2024 from the Kshs 159.0 bn deficit recorded in Q2'2023. The narrowing of the deficit was driven by;

- i. The narrowing of the merchandise trade account deficit (the value of import goods exceeds the value of export goods, resulting in a negative net foreign investment) by 3.7% to Kshs 341.2 bn in

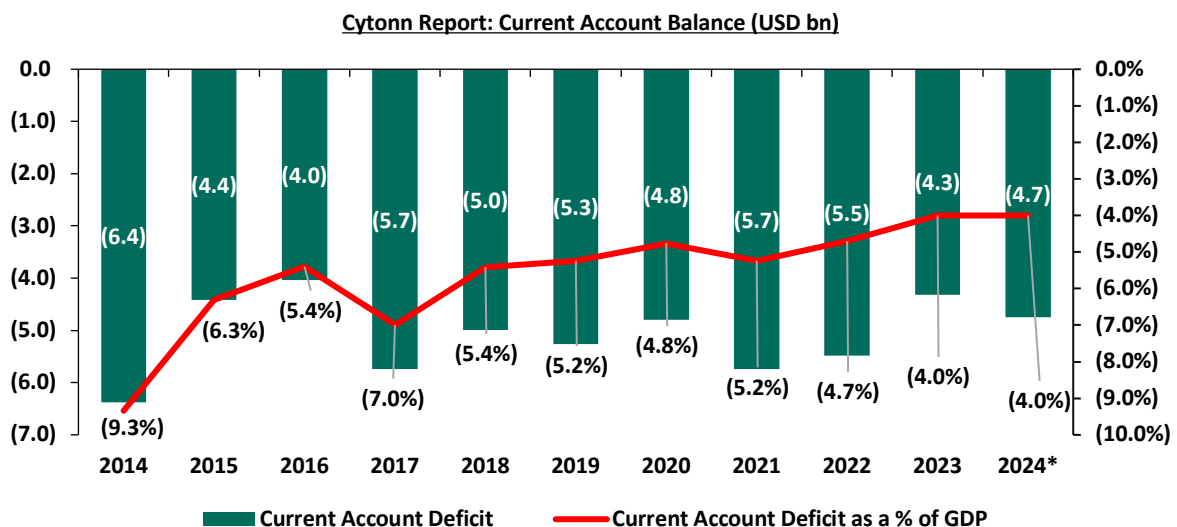
- Q2'2024, from Kshs 354.3 bn recorded in Q2'2023, driven by the 10.9% growth in merchandise exports to Kshs 276.2 bn, from Kshs 249.1 bn in Q2'2023 which outpaced the 2.3% increase in merchandise imports to Kshs 617.5 bn from Kshs 603.4 bn recorded in a similar period in 2023,
- ii. A 0.6% improvement in the secondary income balance 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) to a surplus of Kshs 239.2 bn from a surplus of Kshs 237.7 bn in Q2'2023, and,
  - iii. The narrowing of the primary income deficit (the earnings that residents of a country receive from their investments abroad and the compensation they receive for providing labour to foreign entities) by 34.6% to Kshs 45.6 bn in Q2'2024, from Kshs 69.8 bn recorded in Q2'2023, attributable to a reduction in interest payable on external debt.

The table below shows the breakdown of the various current account components, comparing Q2'2022, Q2'2023 and Q2'2024:

Cytonn Report: Q2'2024 Current Account Balance				
Item	Q2'2022	Q2'2023	Q2'2024	Q2'2023-Q2'2024 % Change
Merchandise Trade Balance	(365.6)	(354.3)	(341.2)	3.7%
Service Trade Balance	59.3	27.4	43.6	59.1%
Primary Income Balance	(51.6)	(69.9)	(45.6)	34.6%
Secondary Income (Transfers) Balance	63.2	237.7	239.2	0.6%
<b>Current Account Balance</b>	<b>(294.6)</b>	<b>(159.0)</b>	<b>(104.1)</b>	<b>34.5%</b>

Source: Kenya National Bureau of Statistics (KNBS), All values in Kshs bn

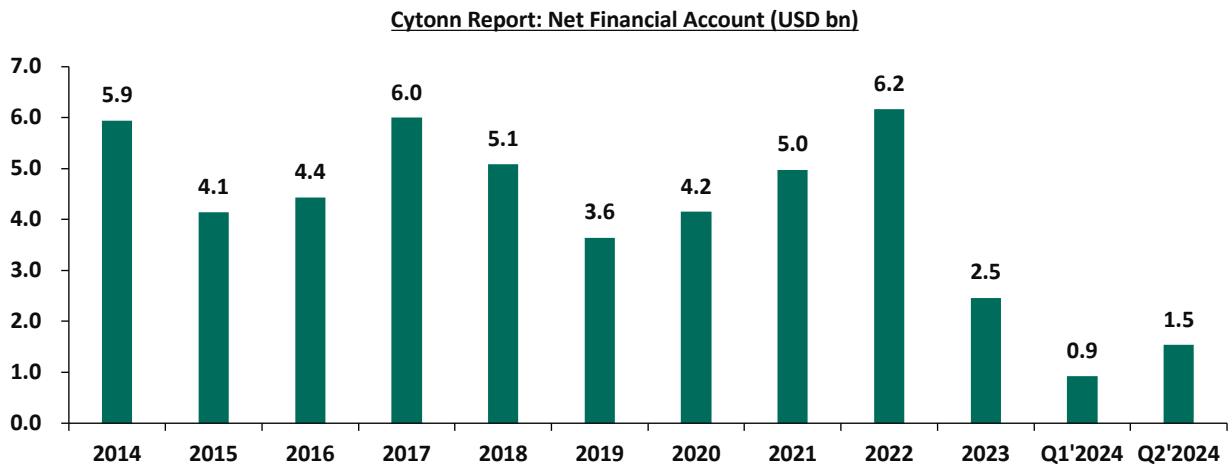
We observe that, over the last ten years, Kenya's current account balance has been running deficits, implying that the country relies more on the outside world for its goods and services. The current account deficit as a percentage of GDP was at 4.0% in 2023. The current account deficit is projected to remain stable at 4.0% of GDP in 2024 due to the improvement of exports, especially of agricultural commodities, resilient remittances, and a recovery in imports supported by a stable exchange rate. The chart below shows the current account deficit over the last 10 years;



Source: IMF Data \*projected for 2024

### b. Financial Account and Capital Account

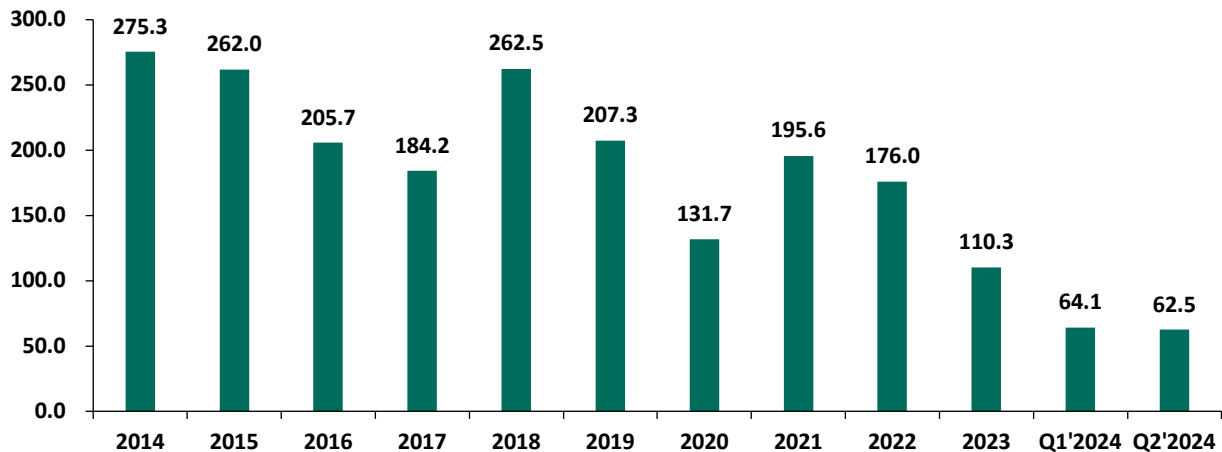
The financial account balance represents the difference between domestic buyers' purchases of foreign assets and foreign buyers' acquisitions of domestic assets. A surplus contributes positively to the balance of payments, while a deficit subtracts from it. This balance reflects the claims or obligations related to financial assets involving non-residents, where an increase in domestic ownership of foreign assets is an outflow and decreases the financial account of the country, while an increase in foreign ownership of domestic assets is an inflow and increases the financial account. The financial account balance recorded a surplus of Kshs 198.3 bn in Q2'2024, a decrease of 40.0% from the surplus of Kshs 330.7 bn recorded in Q2'2023. A key point to note is that a deficit in the financial account indicates that there are more investment funds flowing out of the country than inflows, while a surplus in the financial account means that more investment funds are flowing into the country than out, indicating that foreign investors are purchasing more domestic assets than domestic investors are acquiring foreign assets, leading to a net inflow of capital. The chart below shows the trend in the financial account over the last ten years;



Source: World Bank Data, KNBS Data

On the other hand, the capital account balance increased by 64.4% to a surplus of Kshs 8.0 bn in Q2'2024 up from a surplus of Kshs 4.9 bn in Q2'2023. Notably, the capital account has shown mixed performance over the past 10 years, with a negative 10-year compound annual growth rate (CAGR) of 8.7%, declining to USD 110.3 mn in 2023 from USD 275.3 mn in 2014. This decline is partly due to capital flight, as many foreign direct investors have become hesitant to invest in the country. Below is a chart highlighting the movement of the capital account over the last 10 years;

**Cytonn Report: Net Capital Account (USD mn)**

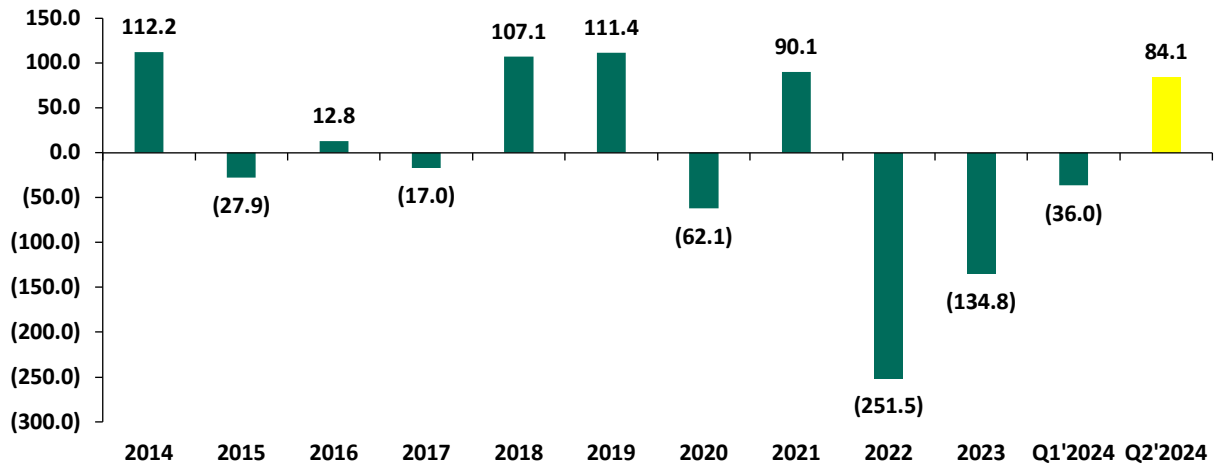


Source: World Bank Data, KNBS Data

### Section III: Evolution of Balance of Payments

Kenya’s overall balance of payments has been fluctuating over the years, with the balance of payments standing at a surplus of Kshs 84.1 bn in Q2’2024, a deterioration from a surplus of Kshs 152.9 bn in Q2’2023, but a significant improvement from a surplus of Kshs 10.9 bn in Q2’2022. The shift from Q2’2022 is primarily attributable to a reduction in the running current account deficit, an increase in the capital account surplus, and the reduced cost of debt servicing, which have collectively offset the persistent trade imbalance caused by Kenya’s high import dependency. Below is a graph highlighting the trend in Kenya’s balance of payments over the last ten years;

**Cytonn Report: Overall Balance of Payments (Kshs bn)**



Source: Kenya National Bureau of Statistics (KNBS)

Key take-outs from the chart include;

- a) In 2022, the balance of payment ended the year at a deficit of Kshs 251.5 bn primarily due to increased capital outflows following the heightened uncertainty in the business environment following the political tensions arising from the country’s general election,
- b) In 2023 the balance of payment ended the year at a deficit of Kshs 138.4 bn, narrowing from a deficit of Kshs 251.5 bn in 2022, mainly driven by a 13.0% improvement in the current account balance to a deficit of Kshs 603.7 bn in FY’2023, from a deficit of Kshs 694.2 bn in FY’2022, and the 4.6% increase in capital account balance to Kshs 17.3 bn from Kshs 16.5 bn recorded in a similar

- period in 2022. The performance was however weighed down by a 21.2% decrease in the financial account balance to a surplus of Kshs 384.7 bn from a surplus of Kshs 488.4 bn in FY'2022,
- c) Kenya's balance of payment (BoP) position improved by 71.8% in Q1'2024, as the deficit narrowed to Kshs 36.0 bn, from a deficit of Kshs 127.8 bn in Q1'2023, and a significant improvement from the deficit of Kshs 134.8 bn recorded in FY'2023. The y/y positive performance in BoP was mainly driven by a 246.1% improvement in the financial account balance to a surplus of Kshs 121.6 bn in Q1'2024, from a deficit of Kshs 83.2 bn in Q1'2023, and a 22.2% increase in capital account balance to Kshs 8.5 bn from Kshs 6.9 bn recorded in a similar period in 2023. The performance was however weighed down by an 18.8% deterioration in the current account balance to a deficit of Kshs 131.2 bn from a deficit of Kshs 110.5 bn in Q1'2023, and,
  - d) The balance of payment deteriorated by 45.0% in Q2'2024, with a surplus of Kshs 84.1 bn, from a surplus of Kshs 152.9 bn in Q2'2023, and a significant improvement from the Kshs 36.0 bn deficit recorded in Q1'2024. The y/y negative performance in BoP was mainly driven by a 40.0% decline in the financial account balance to a surplus of Kshs 198.3 bn in Q2'2024, from a surplus of Kshs 330.7 bn in Q2'2023. This follows the depletion of reserve assets by Kshs 33.2 bn, and the government did not receive credit and loans from the International Monetary Fund (IMF) during the quarter. The performance was however supported by a 34.5% improvement in the current account balance to a deficit of Kshs 104.1 bn from a deficit of Kshs 159.0 bn in Q2'2023.

Looking ahead, we anticipate that the balance of payments will remain in surplus in the short term, as the continued strengthening of the shilling against major currencies helps reduce the country's import costs, narrowing the current account deficit. Additionally, various trade agreements, such as those between Kenya and the EU, and among the EAC, SADC, and COMESA, will help increase both the volume and diversity of exports. These agreements will also create more opportunities for Kenya to access new markets and sell its goods. The outlook for Kenya's current account is optimistic, as continued growth in key export sectors and sustained diaspora remittances are expected to further improve the current account balance. Efforts to diversify exports and enhance value addition in agricultural products, along with prudent fiscal and monetary policies, will be crucial in sustaining this positive trajectory. We expect that the current administration's focus on fiscal consolidation will improve the balance of payments performance by minimizing the costs of servicing external debts. Additionally, favourable weather conditions and government intervention through subsidy programs are set to boost agricultural production in the country, thereby increasing the export of agricultural products, and supporting the current account.

#### **Section IV: Performance Measurements of Balance of Payments**

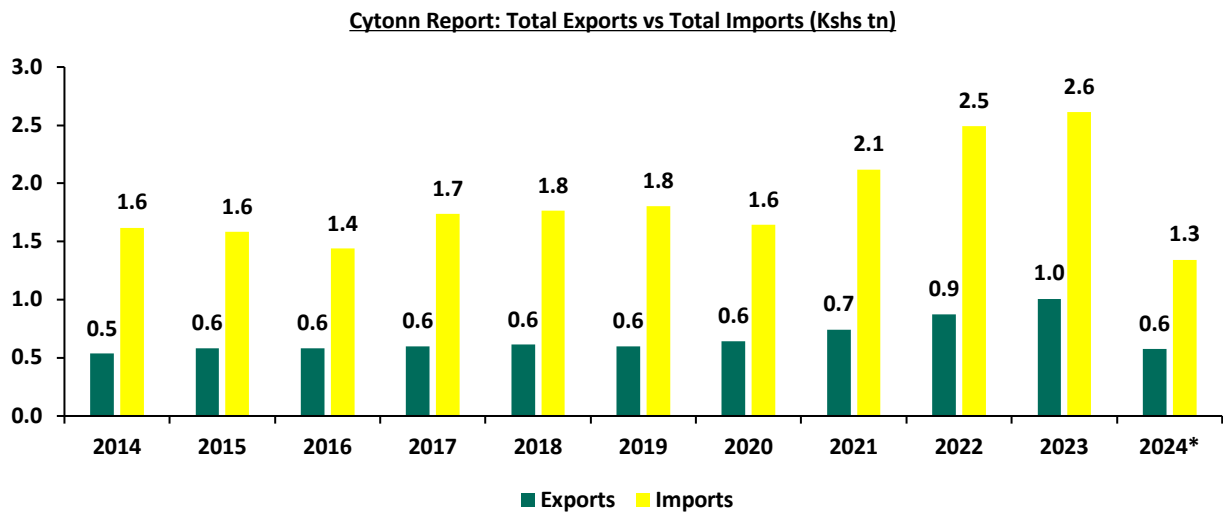
Balance of payments is influenced by a number of factors which include;

##### **a. Exports and Imports**

Exports are goods and services that a country sells to other countries. Exports affect the balance of payment by increasing the value of goods and services sold to other countries and reducing the trade deficit. Exports also form a major source of foreign currency, which contributes to the stability of the domestic currency against other currencies. Imports on the other hand are goods and services that a country buys from other countries. Imports affect the balance of payment by offsetting the value of goods and services sold to other countries and thereby increasing the trade deficit. An increase in the value of imports also reduces the foreign currency reserves and the current account balance.

Over the last ten years, Kenya's annual value of imports has averaged Kshs 1.9 tn, higher than the average annual value of exports of Kshs 0.7 tn, hence resulting in running trade deficits over the period. However, over the same period, exports registered a compounded annual growth rate of 6.5% to Kshs 1.0 tn in 2023 from Kshs 0.5 tn in 2014, which outpaced that of imports at 4.9% to Kshs 2.6 tn in 2023 from Kshs 1.6 tn in

2014, attributable to the government’s efforts to diversify the country’s export base and boost export-oriented sectors like agriculture as well as increased access to regional and international markets. The chart below shows the total imports and exports over the last ten years;

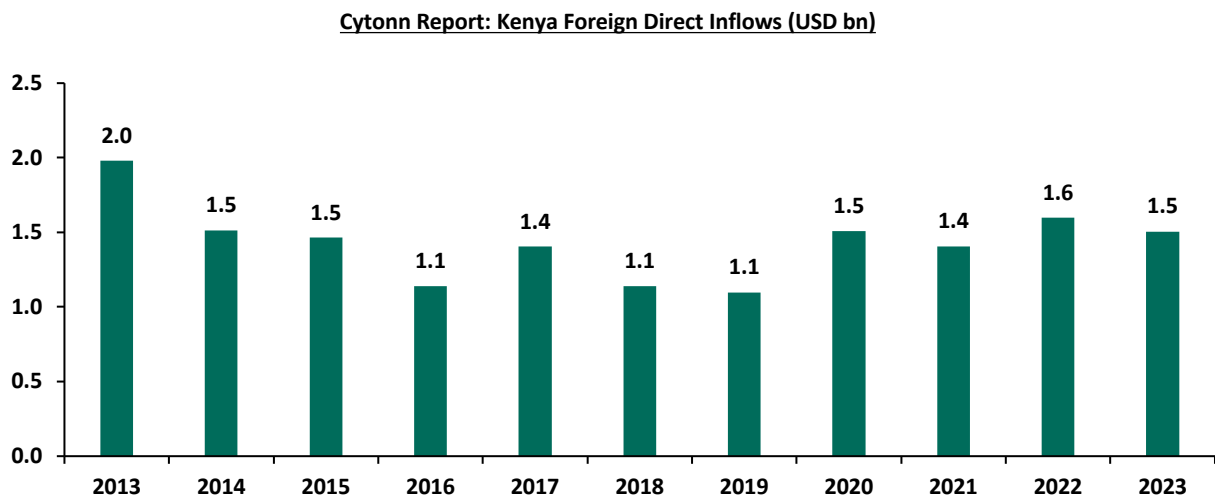


Source: KNBS, \*Provisional figures (as of Q2’2024)

### b. Foreign Direct Investments

A Foreign direct investment (FDI) is an investment by a business or an individual in one country in an enterprise in another country with the intention of establishing a lasting interest. FDI inflows decreased by 5.8% to USD 1.5 bn in 2023, from USD 1.6 bn in 2022 attributed to the tough economic environment and the high interest rates in global giant economies which made them more attractive for foreign investments.

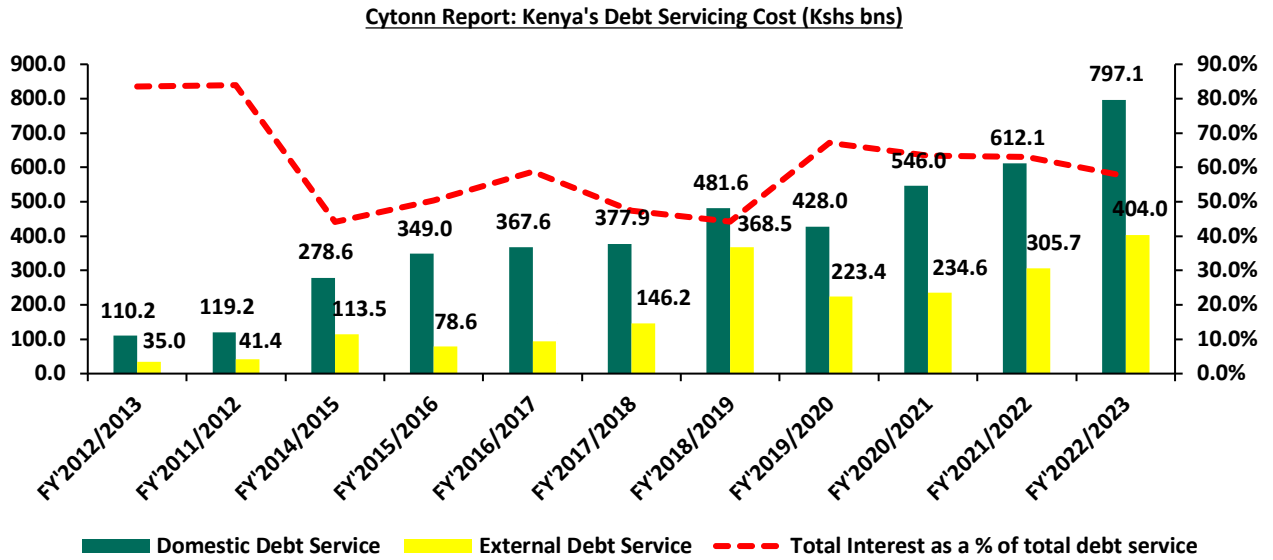
FDI can improve the current account of the BOP by increasing the exports of goods and services from the host country to the foreign market. This is especially true if the FDI is in export-oriented sectors or if the foreign investor uses local inputs and suppliers. A good example is FDI in Kenya’s horticulture sector which has boosted its exports of flowers, fruits, and vegetables to Europe and other regions. FDI can also worsen the current account of the BOP by increasing the imports of goods and services from the foreign market to the host country if the FDI is in import-dependent sectors. The chart below shows [Kenya’s](#) FDI inflows over the last ten years;



Source: UNCTAD World Investments Report

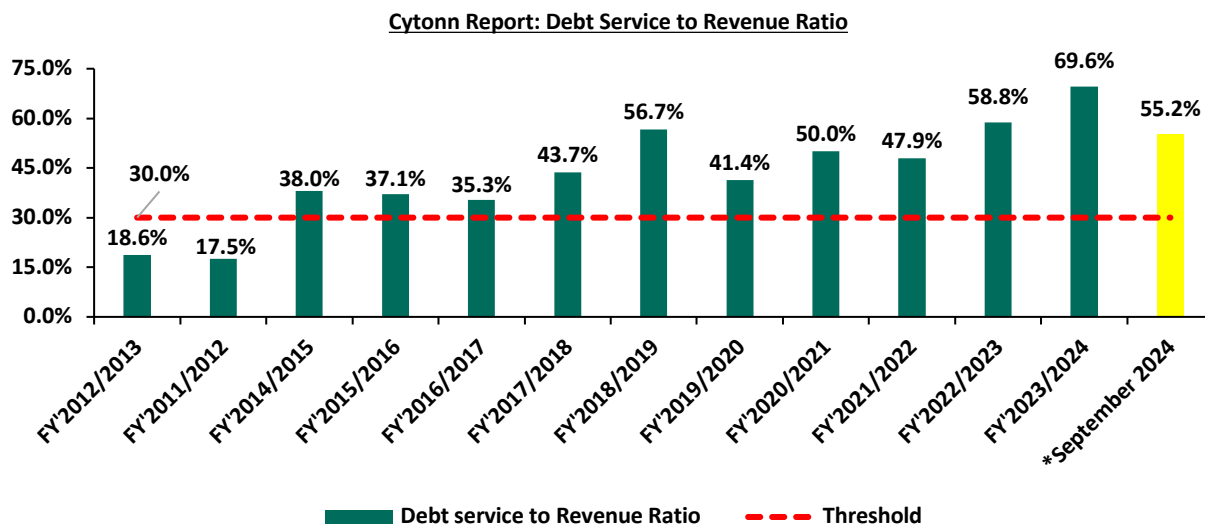
**c. Debt**

Kenya’s debt stock has been on the rise over the years mainly due to a widening fiscal deficit coupled with increased debt servicing costs. Key to note, the country’s debt stood at Kshs 10.8 tn as of October 2024, equivalent to 66.7% of GDP and 16.7% points above the IMF recommended threshold of 50.0% for developing nations. The increased debt burden has consequently led to a decline in the gross reserves as it necessitates a drawdown in the reserves, leading to the deterioration of the balance of payments. The graph below shows the debt servicing costs over the last ten fiscal years:



Source: National Treasury

The country’s debt service to revenue ratio increased by 10.8% points to 69.6% in the FY’2023/2024 up from 58.8% observed in FY’2022/2023, and remained a significant 39.6% points above the IMF’s recommended threshold of 30.0%. Notably, the country’s debt service to revenue ratio stood at 55.2% as at the end of September 2024. The sustained level of debt service to revenue ratio above the recommended threshold is a worrying sign but has been steadily improving following the successful buyback of Kenya’s Eurobond back in February which reduced credit risks for the country and the ongoing IMF program. The situation is, however, still at risk from global supply disruptions accelerated by the ongoing geo-political tensions in the Russian-Ukrainian and Israel-Palestine conflicts. Below is a chart showing the debt service to revenue ratio for the last ten fiscal years;



Source: National Treasury, \*Provisional figures

Balance of payments deficit indicates that the country is spending more than it is receiving. As such, it is forced to borrow more money to pay for goods and services from the rest of the world. In the long term, a country becomes a net consumer and not a net producer of global economic output which leads to more debt requirements. Additionally, a persistent deficit may necessitate the selling of some of the resources to pay its creditors.

#### Section V: Factors Affecting Balance of Payments

The balance of payment reflects the economic interaction of a nation with the rest of the world over a specific period. Several factors not limited to economic, political, government policies, global economic conditions as well as currency, determine the state of balance of payment of a nation. These factors include:

- i. **Balance of Trade** - When a country's value of exports of goods and services is more compared to its imports, then it has a trade surplus. This in turn is a good indicator of the balance of payments as it means the inflows outrun the outflows. Further, more import value of goods and services of a country compared to the export value is called a trade deficit and is viewed as an indicator of a poor balance of payment as the nation is spending more on imports than its earnings, which negatively affects the balance of payment,
- ii. **Interest Rates** - Fluctuations in a country's interest rates can influence capital flows, as higher interest rates often attract foreign capital, improving the financial account of the balance of payments. Conversely, low interest rates can encourage capital outflows as investors seek higher returns abroad, potentially leading to a deterioration in the balance of payments,
- iii. **Foreign Direct Investment (FDI)** - FDI refers to foreign investments in terms of business interests and assets into a foreign country. This in turn increases the inflow of foreign exchange, the development of new technology, increased employment opportunities as well as increased tax revenues. In turn, an increase in FDI is favourable to the balance of payment while a decrease has a negative effect on the country's BoP,
- iv. **Exchange rates** - When market forces or deliberate government policies depreciate the currency of a nation, the prices of exports in foreign markets are cheaper compared to the imports. In turn, the export inflows increase due to an increase in demand, resulting from cheaper prices, while the imports decrease as the inflated import prices reduce consumption appetite,



- v. **Economic growth rate** - When the differential rate of GDP growth across countries increases, the country's attractiveness of its assets increases, which in turn leads to increased capital flows. This can be in the form of portfolio investments, loans, and other capital flows. Consequently, this will lead to an improved balance of payment account, by improving the financial account,
- vi. **Inflation** - When a country's inflation rate increases compared to its trade partners, the home prices of goods and services increase, which reduces the demand for the country's exports. Additionally, high inflation increases the cost of imports as they are cheaper compared to domestic products being exported to other countries. In turn, this can lead to a deficit in the BoP,
- vii. **Government policies** - The government can enact policies that are geared to encourage exports or to reduce the value of imports, which is meant to improve the trade surplus. Some of the policies can be imposing tariffs, quotas on imports, or a total import ban on a product, to reduce the value of imports. Such policies can affect the financial account of the BoP. Tighter controls may prevent foreign investment and restrict outflows, potentially causing capital flight and negatively impacting the balance of payments,
- viii. **Global economic conditions** - Shifts in the global economies like commodity price fluctuations, and recessions, affect the state of the balance of payment. This is a result of impacted trade, capital flows, foreign remittances, and reduced financial transactions. All these can affect the health of the BoP leading to a trade deficit,
- ix. **Excessive government borrowing** - High levels of foreign debt can increase a country's risk of financial crises, which can make investors pessimistic about the government's ability to service debt. As a result, it can lead to the withdrawal of investments, and capital flight as well as negatively impact the financial account of the BoP, and,
- x. **Remittances** - Money sent back home by citizens working abroad can significantly impact the current account of a country's BoP. The flow of remittances contributes positively by increasing foreign currency reserves, which can improve the balance of payments. A decline in remittances may have the opposite effect.

## Section V: Policy Recommendations and Conclusion

To establish a balance of payment surplus, every government must implement policies that benefit the BOP's health by increasing exports while decreasing imports. As a result, we propose the following specific recommendations for the government to reduce the BoP deficit and enhance the overall status of the BoP account:

- i. **Encourage export diversification** - the government should shift from complete over-reliance on traditional exports like tea, horticulture, and coffee, through diversification in promoting value-added processing and manufacturing to increase export revenue,
- ii. **Reducing Imports** - The government should carefully cut down on imports and only import what is needed while encouraging domestic production of some of the imports. This can be achieved through the introduction of import restrictions like quotas and tariffs. Notably, this should be carefully done to strike a balance between domestic industry protection as well protecting existing trade relationships with other nations,
- iii. **Export promotion** - The government can employ different strategies to encourage more export volumes and produce. This can be done through actively engaging in trade pacts that favour Kenyan exports in new markets. Additionally, the government can provide export incentives and subsidies to increase Kenyan products' price competition in foreign markets,
- iv. **Encouraging Foreign Direct Investment (FDI)**- The government should be strategic in creating an attractive investment environment for foreign investments through improving regulatory transparency as well as reducing hurdles in the process. The Kenyan government can target key investment sectors of global interest like the Renewable energy sector and Sustainable Energy Development Goals (SEDG), and make it favourable for foreign investors,

- v. **Increase agricultural produce-** the government should support small-scale farmers with improved agricultural technology and quality inputs, as well as improved access to credit. This will help increase agricultural productivity, thus increasing exports, while reducing the dependence on some of the unnecessary agricultural imports like sugar and wheat, and,
- vi. **Maintaining a sustainable debt level-** The government should also strike a balance between foreign borrowing which helps increase the foreign reserves, while maintaining a good credit score with its creditors. This ensures that the country remains attractive for investors' capital and financial flows.

The country's balance of payments continues to be weighed down by the persistent current account deficit. This has been brought about by the high costs of debt servicing as well as the high import dependency and slower export growth. The government has a significant role to play in managing the debt levels, reducing the fiscal deficit, and restoring economic stability to improve the balance of payments position. Looking ahead, Kenya's balance of payments looks optimistic, driven by growth in key export sectors, fiscal consolidation, and sustained diaspora remittances which are expected to improve the current account balance. We note that the current administration's focus on fiscal consolidation will improve the balance of payments performance by reducing the costs of servicing external debts through the change of the public debt mix in the FY/2024/25 budget to consist of 46.3% external financing and 53.7% domestic financing. Moreover, the fertilizer subsidy program is expected to lower the costs of farm inputs, enhance agricultural production in the country, and increase exports of agricultural products. Furthermore, the ongoing strengthening of the Kenyan Shilling against most trading currencies is expected to lower the import bill hence narrowing the current account deficit. We also expect that multilateral trade partnership deals such as the one between Kenya and the EU and the one among the EAC, SADC, and COMESA, will boost the amount and variety of exports that are needed and offer more opportunities to sell them. However, the government needs to reduce the country's overreliance on debt and imports. One of the best ways to achieve this is to promote domestic production and attract foreign direct investments, especially in export-oriented sectors, to boost the country's export values.

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