



### **Kenya Q1'2021 Balance of Payments Note**

The Kenya National Bureau of Statistics released the [Quarterly Balance of Payments report for Q1'2021](#). In this note, we analyse the changes in the current account balance and the balance of payments before giving an outlook on both.

#### **A. Current Account Balance**

Kenya's current account deficit expanded by 16.6% in Q1'2021, to Kshs 142.0 bn, from Kshs 121.7 bn recorded in Q1'2020 driven by:

- (i) The widening of the merchandise trade deficit (a scenario where imports are greater than exports of goods resulting to a negative net foreign investment) by 26.9% to Kshs 287.3 bn in Q1'2021, from Kshs 226.4 bn in Q1'2020,
- (ii) A 48.6% decline in the services trade balance (the difference between imports and exports of services) to Kshs 8.8 bn, from Kshs 17.1 bn in Q1'2020, and,
- (iii) A 23.6% increase in the secondary income balance (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 Kshs 155.1 bn, from Kshs 125.5 bn in Q1'2020.

The table below shows the breakdown of the various current account components, comparing Q1'2021 and Q1'2020:

<b>Q1'2021 Current Account Balance</b>			
<b>Item</b>	<b>Q1'2020</b>	<b>Q1'2021</b>	<b>% Change</b>
Merchandise Trade Balance	(226.4)	(287.3)	26.9%
Service Trade Balance	17.1	8.8	(48.6%)
Primary Income Balance	(37.9)	(18.6)	(51.0%)
Secondary Income (Transfers) Balance	125.5	155.1	23.6%
<b>Current Account Balance</b>	<b>(121.7)</b>	<b>(142.0)</b>	<b>16.6%</b>

*All values in Kshs bns*

Key take-outs from the table include:

- i. Merchandise trade deficit (a scenario where imports are greater than exports of goods resulting to a negative net foreign investment) widened by 26.9% to Kshs 287.3 bn in Q1'2021, from Kshs 226.4 bn in Q1'2020, driven by a 17.7% increase in merchandise imports to Kshs 478.2 bn, from Kshs 406.2 bn in Q1'2020, coupled with the 6.2% increase in merchandise exports to Kshs 190.9 bn, from Kshs 179.7 bn recorded in a similar period in 2020. The increase in the merchandise exports was mainly on account of increase in value of exports of coffee, horticulture and tea which recorded an increase of 58.6%, 40.1% and 4.9%, to record exports of Kshs 8.0 bn, Kshs 49.5 bn and Kshs 35.8 bn, from Kshs 5.1 bn, Kshs 35.3 bn and Kshs 34.1 bn, respectively, as recorded in Q1'2020,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 48.6% decline in Q1'2021 to a surplus of Kshs 8.8 bn, from a surplus Kshs 17.1 bn. Receipts from international trade in services declined by 3.3% to Kshs 8.8 bn in Q1'2021, from Kshs 9.1 bn in Q1'2020 mainly on the back of the depressed performance in the tourism and transport sub-sectors. This is mainly due to the restricted movements occasioned by COVID-19 pandemic,
- iii. Secondary income/transfers 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) increased by 23.6% to Kshs 155.1 bn, from Kshs 125.5 bn in

Q1'2020. Diaspora remittances also recorded a 30.9% increase to Kshs 93.1 bn, from Kshs 71.1 bn recorded in Q3'2019,

- iv. In terms of exports by region, Africa remained the largest merchandise export destination with 37.1% of the total exports valued at Kshs 70.8 bn, a 6.6% rise from Kshs 66.4 bn in Q1'2020. The increase is mainly attributable to 17.3% increase in export to Uganda coupled with more than doubled exports to Zambia. Exports to the United States of America increased by 16.6% to 14.8 bn, from Kshs 12.7 bn recorded in Q1'2020. Exports to the European region however declined by 27.7% to Kshs 33.1 bn, from Kshs 45.8 bn in Q1'2020, and,
- v. In terms of imports by region, Asia was the largest merchandise import source, accounting for 62.5%, with the value of imports increasing by 13.5% to Kshs 317.8 bn, from Kshs 280.0 bn recorded in Q1'2020. The increase was mainly attributed to a 37.8% increase in imports from the United Arab Emirates to Kshs 38.1 bn, from Kshs 27.7 bn and a 32.3% increase in imports from China to Kshs 107.0 bn from Kshs 80.9 bn. The increase was however weighed down by a 25.4% and 13.3% decline in imports from Indonesia and India, respectively. The European Union accounted for 19.3% of total imports in Q1'2021, valued at Kshs 98.3 bn, a 41.3% increase from the Kshs 69.3 bn recorded in Q1'2020. Additionally, value of imports from Australia increased significantly recording a 326.8% rise to Kshs 5.6 bn in Q1'2021 from Kshs 1.3 bn in Q1'2020. Commodities that recorded a marked increase in import values included locomotives from China and crude palm oil from Malaysia.

#### B. Balance of Payments

Kenya's balance of payments deteriorated in Q1'2021, coming in at a deficit of Kshs 59.4 bn, from a deficit of Kshs 47.4 bn in Q1'2020. The decline was mainly attributable to 47.1% increase in the Financial Account Deficit to a surplus of Kshs 73.6 bn, from a surplus of Kshs 50.1 bn in Q1'2021 coupled with 16.6% expansion of current account balance to Kshs 142.0 bn, from Kshs 121.7 bn in Q1'2020. The table below shows the breakdown of the various balance of payments components, comparing Q1'2021 and Q1'2020:

Q1'2021 Balance of Payments			
Item	Q1'2020	Q1'2021	% Change
Current Account Balance	(121.7)	(142.0)	16.6%
Capital Account Balance	2.5	8.0	222.3%
Financial Account Balance	50.1	73.6	47.1%
Net Errors and Omissions	21.8	1.0	(95.5%)
<b>Balance of Payments</b>	<b>(47.4)</b>	<b>(59.4)</b>	<b>(25.3%)</b>

All values in Kshs bns

Key take-outs from the table include;

- i. The current account deficit (value of goods and services imported exceeds the value of those exported) expanded by 16.6% to Kshs 142.0 bn, from Kshs 121.7 bn in Q1'2020, mainly attributable to widening of the Merchandise Trade Deficit by 26.9% to Kshs 287.3 bn from Kshs 226.4 bn recorded in Q1'2020,
- ii. The financial account deficit (a situation where domestic buyers are purchasing more foreign assets than foreign buyers are purchasing of domestic assets) increased by 47.1% to a surplus of Kshs 73.6 bn, from a surplus of Kshs 50.1 bn in Q1'2021, while the stock of gross official reserves declined by 6.2% to stand at Kshs 847.8 bn, from 903.8 bn in Q1'2020, and,
- iii. Consequently, the Balance of Payments (BoP) position deteriorated to a deficit of Kshs 59.4 bn from a deficit of Kshs 47.4 bn in Q1'2020, mainly due to the 47.1% decrease in the financial account deficit, coupled with 16.6% expansion of current account balance to Kshs 142.0 bn, from Kshs 121.7 bn in Q1'2020.

#### C. Public External Debt



During the period of review, external public and public guarantee debt increased by 17.3% to Kshs 3.8 tn, from Kshs 3.2 tn recorded in Q1'2020, mainly driven by a 39.0% increase in multilateral debt to Kshs 1.5 tn from Kshs 1.1 tn in Q1'2020. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q1'2021 and Q1'2020:

Q1'2021 Public External Debt			
Debt Source	Q1'2020	Q1'2021	% Change
Multilateral	1.1	1.5	39.0%
Bilateral	1.1	1.1	7.7%
Commercial Banks	1.1	1.1	5.2%
Suppliers Credit	0.02	0.02	4.6%
<b>Total</b>	<b>3.2</b>	<b>3.8</b>	<b>17.3%</b>

All values in Kshs tn

Key take-out from the table include;

- i. Multilateral debt, which contributed 39.7% of the total external debt, increased by 39.0% to Kshs 1.5 tn, from Kshs 1.1 tn recorded in Q1'2020, mainly attributable to the increase in the disbursement of programme loans during the period of review.

### Conclusion

During the period of review, the Kenya shilling remained under pressure, deteriorating by 4.6% y/y to close the quarter at Kshs 109.5, from Kshs 104.7 at the end of Q1'2020. The forex reserves held by the Central Bank of Kenya declined in the same period to close the quarter at USD 7.3 bn, from USD 8.0 bn recorded at the end of Q1'2020. We expect relative stability in the business environment in the coming quarter given the easing of the lockdown measures by Kenya's trading partners, COVID-19 vaccine rollout, and continued support from the tea, coffee and horticulture exports due to the normalised demand in Kenya's export markets as well as earnings from the tourism sector. However, risks remain firmly on the downside given the recent increase in fuel prices that has led to increase in fuel importation cost, supply shortages and logistical bottlenecks, and worse, emergence of new COVID-19 variants which could lead to further restriction measures.