



Kenya Q2'2020 Balance of Payments Note

The Kenya National Bureau of Statistics released the [Quarterly Balance of Payments report for Q2'2020](#). In this note, we analyse the changes in the current account balance and the balance of payments before giving an outlook on both.

Current Account Balance

Kenya's current account position improved by 39.9% during Q2'2020, to Kshs 82.2 bn, from Kshs 136.9 bn in Q2'2019, equivalent to 7.0% of GDP from the 10.9% of GDP recorded in Q2'2019. This was mainly driven by:

- (i) An 84.8% decline in the services trade balance (the difference between the imports and exports of services) to Kshs 5.8 bn, from Kshs 38.4 bn,
- (ii) A 10.7% decline 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 132.9 bn, from Kshs 148.7 bn in Q2'2019, and,
- (iii) The deterioration was mitigated by the 32.5% narrowing of the merchandise trade deficit (a scenario where imports are greater than exports of goods) to Kshs 187.4 bn in Q2'2020 from Kshs 277.8 bn in Q2' 2019.

The table below shows the breakdown of the various current account components, comparing Q2'2020 and Q2'2019:

Q2'2020 Current Account Balance			
Item	Q2' 2019	Q2'2020	% Change
Merchandise Trade Balance	(277.8)	(187.4)	(32.5%)
Service Trade Balance	38.4	5.8	(84.8%)
Primary Income Balance	(46.2)	(33.5)	(27.4%)
Secondary Income (Transfers) Balance	148.7	132.9	(10.7%)
Current Account Balance	(136.9)	(82.2)	(39.9%)
GDP at Current Prices (Q2'2020 Quarterly GDP Report by KNBS)	1252.2	1181.9	(5.6%)
Current Account Balance as a % of GDP	(10.9%)	(7.0%)	4.0%

All values in Kshs bns

Key take-outs from the table include:

- i. The merchandise trade deficit (a scenario where imports are greater than exports of goods) declined by 32.5% to Kshs 187.4 bn, from Kshs 277.8 bn in Q2'2019, driven by a 23.2% decline in merchandise imports to Kshs 326.5 bn, from Kshs 425.0 bn in Q2'2019, coupled with the 5.5% decline in merchandise exports to Kshs 139.2 bn from Kshs 147.2 bn recorded in a similar period in 2019. The decline in the merchandise exports was mainly on account of a 6.1% decline in the value of horticulture exports to Kshs 28.2 bn from Kshs 30.1 bn. Notably, earnings from tea during the quarter improved by 38.9% to Kshs 34.8 bn from Kshs 25.1 bn in Q2'2019. Earning from coffee during the quarter also improved by 9.2% to Kshs 7.8 bn from Kshs 7.2 bn in Q1'2019,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded an 84.8% decline in Q2'2020 to Kshs 5.8 bn from Kshs 38.4 bn recorded in Q2'2020. Receipts from international trade in services declined by 36.4% to Kshs 89.7 bn in Q2'2020 from Kshs 141.0 bn, mainly on the back of the sluggish performance recorded in the exports of international travel and transport services. The travel restrictions put in place due to the pandemic saw the total number of visitors arriving through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) in Q2'2020 decline by 99.5% to 1.8 mn people from 341.3 mn people in Q2'2019,

- 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) declined by 10.7% to Kshs 132.9 bn, from Kshs 148.7 bn in Q2'2019. Despite this, diaspora remittances recorded a 0.7% increase to Kshs 81.4 bn, from Kshs 80.8 bn recorded in Q2'2019,
- iv. In terms of exports by region, Africa remained the largest merchandise export destination with 34.7% of the total exports valued at Kshs 48.3 bn, an 11.9% decline from Q2'2019 total exports of Kshs 54.9 bn. Exports to the United States of America declined by 20.9% to 11.7 bn from the Kshs 14.8 bn recorded in Q2'2019. However, exports to the European region increased by 5.9% to Kshs 39.1 bn, from Kshs 36.9 bn in Q2'2019, and
- v. In terms of imports by region, the European Union accounted for 19.2% of total imports in Q2'2020, valued at Kshs 67.3bn, an increase from the Kshs 64.1 bn recorded in Q2'2019. Asia was the largest merchandise import source, accounting for 61.4%, with the value of imports declining by 29.1% to Kshs 215.5 bn, from Kshs 304.1 bn recorded in Q2'2019. The decrease was attributed to a decline in imports from China (18.3%), India (25.2%), and Thailand (46.7%). The decline was however mitigated by a 42.7% increase in imports from Indonesia. Commodities that recorded a marked decrease in import values included gas oil from China and kerosene-type jet fuel from China India and Saudi Arabia

B. Balance of Payments

Kenya's balance of payments deficit declined in Q2'2020, coming in at a deficit of Kshs 44.0 bn from a deficit of Kshs 93.8 bn in Q2'2019, translating to a balance of payments deficit equivalent to 3.7% of GDP in Q2'2020 from a deficit equivalent to 7.5% of GDP recorded in Q2'2019. This was mainly due to the 36.7% decline in the Financial Account balance. The table below shows the breakdown of the various balance of payments components, comparing Q2'2020 and Q2'2019:

Q2'2020 Balance of Payments			
Item	Q2' 2019	Q2'2020	% Change
Current Account Balance	(136.9)	(82.2)	(39.9%)
Capital Account Balance	8.7	4.5	(48.1%)
Financial Account Balance	(284.1)	(179.9)	(36.7%)
Net Errors and Omissions	(62.2)	(58.2)	(6.3%)
Balance of Payments	(93.8)	(44.0)	(146.9%)
GDP at Current Prices (Q2'2020 Quarterly GDP Report by KNBS)	1,252.2	1,181.9	(5.6%)
Balance of Payments as a % of GDP	(7.5%)	(3.7%)	(3.8%)

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) contracted by 39.9% to a deficit Kshs 82.2 bn from Kshs 136.9 bn in Q2'2019, largely due to the narrowing of the Merchandise Trade Balance by 32.5% to Kshs 187.4 bn from Kshs 277.8 bn recorded in Q2'2019,
- ii. The financial account deficit (a situation where domestic buyers are purchasing more foreign assets than foreign buyers are purchasing of domestic assets) declined by 36.7% to a deficit of Kshs 179.9 bn from a deficit of Kshs 284.1 bn in Q2'2019 while the stock of gross official reserves increased by 9.0% to stand at Kshs 1,037.5 billion,
- iii. Consequently, the Balance of Payments (BoP) position declined to a deficit of Kshs 44.0 bn from a deficit of Kshs 93.8 bn in Q2'2019, mainly due to the 36.7% decrease in the financial account balance.



C. Public External Debt

During the period of review, external public and public guarantee debt increased by 16.3% to Kshs 3,515.8 bn from Kshs 3,023.1 bn recorded in Q2'2019, mainly driven by a 44.5% increase in multilateral debt to Kshs 1,321.6 bn from Kshs 914.4 bn in Q2'2019. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q2'2020 and Q2'2019:

Q2'2020 Public External Debt			
Debt Source	Q2' 2019	Q2'2020	% Change
Multilateral	914.4	1,321.6	44.5%
Bilateral	996.1	1,074.3	7.9%
Suppliers Credit	16.9	17.6	4.1%
Commercial Banks	1,095.8	1,102.3	0.6%
Total	3,023.1	3,515.8	16.3%

All values in Kshs bn

Key take-out from the table include;

- i. Multilateral debt, which contributed 37.6% of the total external debt, increased by 44.5% to Kshs 1,321.6 bn from Kshs 914.4 bn recorded in Q2'2019, mainly attributable to the increase in the disbursement of programme loans during the period of review.

Conclusion

Despite the narrowing of the current account position during Q2'2020, the Kenya shilling remained under pressure deteriorating by 4.1% y/y to close the quarter at Kshs 106.5 from Kshs 102.3 at the end of Q2'2019. The forex reserves held by the Central Bank of Kenya increased in the same period to close the quarter at USD 9.7 bn from USD 9.0 bn. We expect relative stability in the business environment in the coming quarter given the easing of the lockdown measures by Kenya's trading partners as well as continued support from the tea, coffee and horticulture exports due to the normalised demand in Kenya's export markets as the corona-virus restrictions continue to ease in many countries. However, given the uncertainty of the tenor and the severity of the pandemic, we believe that the current account deficit will continue to widen in the short term.