Kenya's Q2'2023 Balance of Payments Note

According to the Q2'2023 Quarterly Balance of Payment Report released by the Kenya National Bureau of Statistics (KNBS), Kenya's balance of payments position improved significantly registering a surplus of Kshs 152.9 bn in Q2'2023, up from a surplus of Kshs 10.9 bn recorded in Q2'2022, and a reversal from the Kshs 127.8 bn deficit recorded in Q1'2023. In this note, we provide a detailed analysis of the current account and the balance of payment before giving an outlook on both.

A. Current Account Balance

Kenya's current account deficit narrowed by 32.7% to Kshs 138.7 bn in Q2'2023 from the Kshs 206.2 bn deficit recorded in Q2'2022. However, the performance was a deterioration from the previous quarter, with the Q2'2023 deficit widening by 63.4% from the deficit of Kshs 84.9 bn recorded in the first quarter of the year. The y/y contraction registered during the quarter was driven by:

i. The contraction 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 6.2% to Kshs 343.2 bn in Q2'2023, from Kshs 365.8 bn recorded in Q2'2022. However, on a q/q basis, the merchandise trade account deficit widened by 13.0% from a deficit of Kshs 303.6 bn recorded in Q1'2023, and,

ii. A 25.6% improvement in the services trade balance to a surplus of Kshs 35.4 bn from a surplus of Kshs 28.2 bn in Q2'2022. However, on a q/q basis, the services trade balance recorded a decline of 36.7% from a surplus of Kshs 56.0 bn in Q1'2023, and

iii. A 28.2% improvement in the secondary income (transfer) balance to a surplus of Kshs 234.5 bn from a surplus of Kshs 182.9 bn in Q2'2022. Additionally, the secondary income balance recorded a 6.8% q/q improvement from a surplus of Kshs 219.5 bn in Q1'2023.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q2'2022 and Q2'2023:

Cytonn Report: Current Account Balance				
Item	Q2'2022	Q1'2023	Q2'2023	Y/Y % Change
Merchandise Trade Balance	(365.8)	(303.6)	(343.2)	(6.2%)
Services Trade Balance	28.2	56.0	35.4	25.6%
Primary Income Balance	(51.6)	(56.8)	(65.4)	26.9%
Secondary Income (transfer) Balance	182.9	219.5	234.5	28.2%
Current Account Balance	**(206.2)**	**(84.9)**	**(138.7)**	**(32.7%)**

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) narrowed by 6.2% to Kshs 343.2 bn in Q2'2023, from Kshs 365.8 bn in Q2'2022. This is attributable to the 9.6% growth in merchandise exports to Kshs 249.6 bn, from Kshs 227.7 bn in Q2'2022 which outpaced the 0.1% decline in merchandise imports to Kshs 592.8 bn from Kshs 593.5 bn recorded in a similar period in 2022. The increase in merchandise exports was mainly driven by a 19.2% increase in horticulture exports to Kshs 47.0 bn, from Kshs 39.4 bn recorded in Q2'2022 coupled with the 8.8% increase in exportation of tea to Kshs 43.8 bn, from Kshs 40.3 bn recorded in Q2'2022. The increase in exports was also driven by the 66.8%, 53.3%, 26.2% and 13.8% growth in exports of petroleum products, industrial machinery, medicinal & pharmaceutical products and iron & steel, respectively. On the other hand, the marginal decline in the import bill is attributable to the 11.6% decline in importation of petroleum products to Kshs 148.8 bn from Kshs 168.3 reported in Q2'2022,

ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 25.6% increase in Q2'2023 to a surplus of Kshs 35.4 bn, from a surplus of Kshs 28.2 bn in Q2'2022. However, the Q2'2023 surplus was a 36.7% decline from a surplus of Kshs 56.0 bn recorded in Q1'2023 indicating that global business environment tightened during the quarter. The y/y improvement in service trade balance was mainly driven by the 7.4% growth in services receipts to Kshs 199.4 bn from Kshs 185.6 bn recorded in Q2'2022 as well as the 26.0% growth in travel account receipts to Kshs 35.4 bn in Q2'2023, up from Kshs 28.1 bn recorded in Q2'2022,

iii. Primary income deficit (income that residents earn from, less that they pay to the rest of the world from working and from financial investments) widened by 26.9% to a deficit of Kshs 65.4 bn in Q2'2023 from a deficit of Kshs 51.6 bn in Q2'2022, and widened further by 15.2% from a deficit of Kshs 56.8 bn recorded in Q1'2023,

iv. 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 a significant 28.2% to Kshs 234.5 bn from Kshs 182.9 bn in Q2'2022. Additionally, the Q2'2023 surplus was a 6.8% improvement from Kshs 219.5 bn recorded in Q1'2023,

v. Diaspora remittances recorded a 16.9% growth to Kshs 140.5 bn from Kshs 120.3 bn recorded in Q2'2022, and translated to a 9.0% increase from the Kshs 128.9 bn recorded in Q1'2023,

vi. Total exports grew by 9.6% in Q2'2023 to Kshs 249.2 bn, up from Kshs 227.4 bn recorded in Q2'2022. In terms of exports by region, Africa remained the largest merchandise export recipient, accounting for 42.1% of total exports in Q2'2023 and registering a 17.2% increase in export earnings to Kshs 105.0 bn, from Kshs 89.6 bn in Q2'2022. The increase was mainly attributable to 31.4% increase in exports to Uganda, coupled with 112.0%, 32.2% and 16.2% growth in exports to Somalia, Democratic Republic of Congo and South Sudan. Europe followed in second place, accounting for 25.2% of all exports and recording a growth of 18.0% in Q2'2023 to Kshs 62.8 bn, up from Kshs 53.2 in Q2'2022, and,

vii. Overall imports declined marginally by 1.6% to Kshs 647.0 bn to Q2'2023 from 657.3 bn recorded in Q2'2022. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 68.2% of total imports, however, the value of imports declined by 7.1% to Kshs 441.0 bn, down from Kshs 474.5 bn recorded in Q2'2022. The decline was mainly attributed to the sharp decline in imports from South Korea of 44.6% to Kshs 9.1 bn from Kshs 16.4 bn in Q2'2022 as well 14.7% decrease in imports from India to Kshs 75.2 bn, from Kshs 88.1 bn recorded in Q2'2022. Notably, imports from the United Arabs Emirates(UAE) decreased by 4.3% to Kshs 101.1 bn from Kshs 105.7 bn reported in Q2'2022 driven a decline in gas oil and gasoline imports. The European Union accounted for 14.1% of total imports in Q2'2023, valued at Kshs 90.9 bn, a 39.7% growth from the Kshs 65.1 bn recorded in Q2'2022 mainly driven by the 72.0% and 41.1% increases in imports from Belgium and Germany, respectively. In addition, the value of imports from Russia rose sharply by 405.3% to Kshs 14.7 bn in Q2'2023, up from Kshs 2.9 bn in Q2'2022, largely driven by increased importation of wheat.

B. Balance of Payments

Kenya's balance of payment (BoP) position increased sharply by 1,303.4% in Q2'2023, coming in at a surplus of Kshs 152.9 bn, from a surplus of Kshs 10.9 bn in Q2'2022, and a reversal from the Kshs 127.8 bn deficit recorded in Q1'2022. The improvement in BoP was mainly driven by the 60.9% increase in financial account balance to Kshs 321.5 bn from Kshs 199.8 bn in Q2'2022 coupled with 32.7% narrowing of the current account balance deficit to Kshs 138.7 bn in Q2'2023 from Kshs 206.2 bn recorded in a similar period in 2022. The table below shows the breakdown of the various balance of payments components, comparing Q2'2023 and Q2'2022:

Cytonn Report: Current Account Balance				
Item	**Q2'2022**	**Q1'2023**	**Q2'2023**	**Y/Y % Change**
Current Account Balance	(206.2)	(84.9)	(138.7)	(32.7%)
Capital Account Balance	4.9	6.9	4.9	0.6%
Financial Account Balance	199.8	(111.1)	321.5	60.9%
Net Errors and Omissions	12.5	61.2	(34.8)	(378.9%)
Balance of Payments	**10.9**	**(127.8)**	**152.9**	**1303.4%**

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) narrowed by a significant margin of 32.7% to Kshs 138.7 bn from Kshs 206.2 bn in Q2'2022, however, on a q/q basis the account deteriorated by 63.4% from the Kshs 84.9 bn deficit recorded in Q1'2023. The y/y narrowing of the current account was brought about by the 6.2% improvement in Merchandise trade deficit to Kshs 343.2 bn in Q2'2023, from Kshs 365.8 bn in Q2'2022 driven by the 9.6% growth in merchandise exports to Kshs 249.6 bn, from Kshs 227.7 bn in Q2'2022 which outpaced the 0.1% decline in merchandise imports to Kshs 592.8 bn from Kshs 593.5 bn recorded in a similar period in 2022,

ii. The capital account balance (shows capital transfers receivable and payable between residents and non-residents, including the acquisition and disposal of non-produced non-financial items), which includes foreign direct investments (FDIs), increased marginally by 0.6% to a surplus of Kshs 4.89 bn in Q2'2023 up from a surplus of Kshs 4.86 bn in Q2'2022. However, relative to the Q1'2023 surplus of Kshs 6.9 bn, the capital account balance in Q2'2023 narrowed by 29.3%,

iii. The financial account balance (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by foreign buyers) recorded a surplus of Kshs 321.5 bn in Q2'2023, a sharp increase of 60.9% from the surplus of Kshs 199.8 bn recorded in Q2'2022, and a reversal from the Kshs 111.1 bn deficit recorded in Q1'2023. Notably, the stock of gross official reserves increased by 12.8% to Kshs 1,129.4 bn in Q2'2023 from Kshs 1,001.0 bn in Q2'2022 mainly attributed the increased disbursement of programme loans from the International Monetary Fund (IMF) and multilateral sources during the period of review, and,

iv. Consequently, the Balance of Payments (BoP) position improved significantly to a surplus of Kshs 152.9 bn in Q2'2023, from a surplus of Kshs 10.9 bn recorded in Q2'2022.

C. Public External Debt

During the period under review, the stock of external public and public guarantee debt increased by 26.8% to Kshs 5.3 tn in Q2'2023, up from Kshs 4.2 tn recorded in Q2'2022, mainly driven by a 38.0% increase in multilateral debt to Kshs 2.7 tn in Q2'2023, up from Kshs 1.9 tn recorded in Q2'2022. Notably, domestically issued debt held by non-residents increased by 18.4% to Kshs 1.0 tn in Q2'2023, up from Kshs 0.9 tn in Q2'2022. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q2'2023 and Q2'2022:

Cytonn Report: Q1'2023 Public External Debt				
Debt Source	**Q2'2022**	**Q1'2023**	**Q2'2023**	**Y/Y % Change**
Bilateral	1.1	1.2	1.3	13.7%
Multilateral	1.9	2.2	2.7	38.0%
Commercial Banks	0.3	0.3	0.4	27.0%
Suppliers Credit	0.01	0.01	0.01	22.2%
Debt Securities held by non-residents	0.9	1.0	1.0	18.4%
Total External Public Debt	**4.2**	**4.7**	**5.3**	**26.8%**

All values in Kshs tn

Key take-outs from the table include;

i. Multilateral debt increased by 38.0% to Kshs 2.7 tn in Q2'2023, up from Kshs 1.9 tn recorded in Q2'2022, accounting for 50.0% of the total external debt. On a quarterly basis, multilateral debt registered an 18.3% growth from Kshs 2.2 bn recorded in Q1'2023, brought about by increased disbursement of programme loans from the International Monetary Fund (IMF) during the period of review.

D. Conclusion

The improvement in the balance of payments performance is mainly due to the 60.9% increase in financial account balance mainly driven by increased disbursements to the government by multilateral organizations, resulting to a rise in the foreign assets held by the Central Bank during the period under review. However, the sustained depreciation of the shilling against hard currency continues to inflate the country's import bill, having depreciated by 20.0% against the USD since the year began. As such, we expect the high costs of imports, especially fuel imports, to continue weighing down on the current account's performance in the medium term. However, 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 and making adequate arrangements for the repayment of the 2014 Eurobond debt maturing in June 2024. Additionally, the favorable weather conditions are set to boost agricultural production in the country, thereby increasing the export of agricultural products, and supporting the current account. We anticipate that the balance of payments will be more stable with the help of multiple trade agreements, such as the one between Kenya and the EU and the one among the EAC, SADC and COMESA, as the agreements will boost the amount and variety of exports that are needed and offer more opportunities to sell them.