

## Kenya's Q2'2024 Balance of Payments Note

According to the Q2'2024 [Balance of Payment Report](#) released by the Kenya National Bureau of Statistics (KNBS), Kenya's balance of payments position deteriorated by 45.0% in Q2'2024, coming in at 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. 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 34.5% to Kshs 104.1 bn in Q2'2024 from the Kshs 159.0 bn deficit recorded in Q2'2023. The y/y contraction registered 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,
- ii. A 59.1% improvement in the secondary trade balance to a surplus of Kshs 43.6 bn from a surplus of Kshs 27.4 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 labor to foreign entities) by 34.6% to Kshs 45.6 bn in Q2'2024, from Kshs 69.8 bn recorded in Q2'2023.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q2'2024 and Q2'2023:

Item	Q2'2023	Q2'2024	Y/Y % Change
Merchandise Trade Balance	(354.3)	(341.2)	3.7%
Services Trade Balance	27.4	43.6	59.1%
Primary Income Balance	(69.8)	(45.6)	34.6%
Secondary Income (transfer) Balance	237.7	239.2	0.6%
<b>Current Account Balance</b>	<b>(159.0)</b>	<b>(104.1)</b>	<b>34.5%</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) narrowed by 3.7% to Kshs 341.2 bn in Q2'2024, from Kshs 354.3 bn recorded in Q2'2023. This is attributable to the 10.9% growth in merchandise exports to Kshs 276.2 bn, from Kshs 249.1 bn in Q2'2023 compared to the 2.3% growth in merchandise imports to Kshs 617.5 bn from Kshs 603.4 bn recorded in a similar period in 2023. The increase in merchandise exports was mainly driven by a 2.0% increase in tea exports to Kshs 44.7 bn, from Kshs 43.8 bn recorded in Q2'2023 coupled with the 6.0% growth in exportation of titanium ores and concentrates to Kshs 4.4 bn, from Kshs 4.2 bn recorded in Q2'2023. On the other hand, the slower growth in the import bill is attributable to the 57.0% decline in importation of rice to Kshs 11.6 bn from Kshs 27.0 bn reported in Q2'2023 coupled with a 42.8% decrease in iron and steel imports to Kshs 22.5 bn in Q2'2024 from Kshs 39.3 bn in Q2'2023 and a 4.6% decrease in petroleum products imports to Kshs 142.0 bn from Kshs 148.8 bn recorded in Q2'2023,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 59.1% increase in Q2'2024 to a surplus of Kshs 43.6 bn, from a surplus of Kshs 27.4 bn in Q2'2023. The y/y increase in service trade balance was mainly driven by a 2.3% increase in imports to Kshs 617.5 bn in Q2'2024, from the Kshs 603.4 bn recorded in Q2'2023, but was however weighed down by the 3.1% decline in services receipts to Kshs 200.2 bn from Kshs 206.6 bn recorded in Q2'2023,

- 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) narrowed by 34.6% to a deficit of Kshs 45.6 bn in Q2'2024 from a deficit of Kshs 69.8 bn in Q2'2023,
- 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 marginally by 0.6% to Kshs 239.2 bn from Kshs 237.7 bn in Q2'2023,
- v. Diaspora remittances recorded a 12.0% growth to Kshs 157.4 bn from Kshs 140.5 bn recorded in Q2'2023,
- vi. Total exports grew by 10.9% in Q2'2024 to Kshs 275.7 bn, up from Kshs 248.7 bn recorded in Q2'2023. In terms of exports by region, Africa remained the largest merchandise export recipient, accounting for 36.0% of total exports in Q2'2024 despite registering a 5.5% decrease in export earnings to Kshs 99.1 bn, from Kshs 104.5 bn in Q2'2023. The decrease was mainly attributable to 42.0% decrease in exports to Somalia, to Kshs 3.7 bn from Kshs 6.5 bn in Q2'2023, coupled with 23.5%, and 12.3% decline in exports to Ethiopia and South Sudan. Asia followed in second place, accounting for 33.2% of all exports and recording a significant growth of 52.2% in Q2'2024 to Kshs 91.7 bn, up from Kshs 60.2 in Q2'2023, and
- vii. Overall imports grew marginally by 1.9% to Kshs 659.5 bn in Q2'2024 from 651.8 bn recorded in Q2'2023. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 66.0% of total imports, despite the value of imports decreasing by 2.3% to Kshs 435.2 bn, up from Kshs 445.3 bn recorded in Q2'2023. The growth was mainly attributed to the increase in imports from China of 17.1% to Kshs 131.6 bn from Kshs 112.4 bn in Q2'2023 however weighed down by a 10.1% decrease in imports from the United Arab Emirates to Kshs 90.9 bn, from Kshs 101.1 bn recorded in Q2'2023. The European Union accounted for 20.6% of total imports in Q2'2024, valued at Kshs 56.8 bn, a 7.2% growth from the Kshs 53.0 bn recorded in Q2'2023 mainly driven by the 85.6% increase in imports from Netherlands.

## B. Balance of Payments

Kenya's balance of payment (BoP) position 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. 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. The table below shows the breakdown of the various balance of payments components, comparing Q2'2023 and Q2'2024:

Item	Q2'2023	Q2'2024	Y/Y % Change
Current Account Balance	(159.0)	(104.1)	34.5%
Capital Account Balance	4.9	8.0	64.4%
Financial Account Balance	330.7	198.3	(40.0%)
Net Errors and Omissions	(23.7)	(18.1)	23.5%
<b>Balance of Payments</b>	<b>152.9</b>	<b>84.1</b>	<b>(45.0%)</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) narrowed by 34.5% to Kshs 104.1 bn from Kshs 159.0 bn in Q2'2023. The y/y narrowing of the current account was brought about by the 3.7% narrowing in Merchandise trade deficit to Kshs 341.2 bn in Q2'2024, from Kshs 354.3 bn 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. 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 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,
- 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 198.3 bn in Q2'2024, a decrease of 40.0% from the surplus of Kshs 330.7 bn recorded in Q2'2023. During the review period, the government did not receive credit and loans from the International Monetary Fund (IMF),
- iv. Consequently, the Balance of Payments (BoP) position deteriorated to a surplus of Kshs 84.1 bn in Q2'2024, from a surplus of Kshs 152.9 bn recorded in Q2'2023.

### C. Public External Debt

During the period under review, the stock of external public and public guarantee debt decreased by 4.3% to Kshs 5.1 tn as at June 2024, down from Kshs 5.3 tn recorded in June 2023, mainly driven by a 13.1% decrease in bilateral debt to Kshs 1.1 tn in Q2'2024, down from Kshs 1.3 tn recorded in Q2'2023. Notably, external public debt by commercial banks decreased by 7.9% to Kshs 0.3 tn in Q2'2024, up from Kshs 0.4 tn in 2023. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q2'2024 and Q2'2024:

Cyttonn Report: Kenya's Public External Debt				
Debt Source	Q2'2023	Q2'2024	Y/Y % Change	% contribution
Multilateral	2.7	2.8	5.0%	54.9%
Bilateral	1.3	1.1	(13.1%)	21.5%
Debt Securities held by non-residents	1.0	0.9	(16.3%)	16.9%
Commercial Banks	0.4	0.3	(7.9%)	6.4%
Suppliers Credit	0.01	0.01	(4.2%)	0.3%
<b>Total External Public Debt</b>	<b>5.3</b>	<b>5.1</b>	<b>(4.3%)</b>	<b>100.0%</b>

All values in Kshs tn

Key take-outs from the table include;

- i. Multilateral debt increased by 5.0% to Kshs Kshs 2.8 tn in Q2'2024, up from Kshs 2.7 tn recorded in Q2'2023, accounting for 54.9% of the total external debt. Additionally, bilateral debt accounted for 21.5% of the total external debt, despite the amount decreasing by 13.1% to Kshs 1.1 tn, down from Kshs 1.3 tn in Q2'2023.

### D. Conclusion

Kenya's balance of payments deteriorated in Q2'2024, mainly on the back of a 40.0% decline in the financial account to a surplus of Kshs 198.3 bn in Q2'2024, from a surplus of Kshs 330.7 bn in Q2'2023 reflecting significant outflows of financing from the country. This follows 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 period under review. The current account deficit (value of goods and services imported exceeds the value of those exported) narrowed by 34.5% to Kshs 104.1 bn from Kshs 159.0 bn in Q2'2023. The y/y narrowing of the current account was brought about by the 3.7% narrowing in Merchandise trade deficit to Kshs 341.2 bn in Q2'2024, from Kshs 354.3 bn 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. Additionally, the secondary income balance saw a marginal increase, bolstered by strong growth in diaspora remittances. Looking ahead, 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. Furthermore, the ongoing strengthening of Kenyan Shilling against most trading currencies is expected to lower the import bill hence narrowing the current account deficit. 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, the favorable 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. We anticipate that the balance of payments will continue being 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.