



### **Kenya Q3'2021 Balance of Payments Note**

The Kenya National Bureau of Statistics released the [Quarterly Balance of Payments report for Q3'2021](#). 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 widened by 27.4% in Q3'2021 to Kshs 184.6 bn, from Kshs 145.0 bn recorded in Q3'2020 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 39.6% to Kshs 321.8 bn in Q3'2021, from Kshs 230.5 bn in Q3'2020,
- (ii) A 272.0% increase in the services trade balance (the difference between imports and exports of services) to Kshs 12.0 bn, from Kshs 3.2 bn in Q3'2020, and,
- (iii) A 30.1% 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 169.7 bn, from Kshs 130.5 bn in Q3'2020.

The table below shows the breakdown of the various current account components, comparing Q3'2021 and Q3'2020:

<b>Q3'2021 Current Account Balance</b>			
<b>Item</b>	<b>Q3'2020</b>	<b>Q3'2021</b>	<b>% Change</b>
Merchandise Trade Balance	(230.5)	(321.8)	39.6%
Service Trade Balance	3.2	12.0	272.0%
Primary Income Balance	(48.2)	(44.5)	(7.6%)
Secondary Income (Transfers) Balance	130.5	169.7	30.1%
<b>Current Account Balance</b>	<b>(145.0)</b>	<b>(184.6)</b>	<b>27.4%</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) grew by 39.6% to Kshs 321.8 bn in Q3'2021, from Kshs 230.5 bn in Q3'2020, driven by a 26.5% increase in merchandise imports to Kshs 498.0 bn, from Kshs 393.8 bn in Q3'2020, coupled with the 7.9% increase in merchandise exports to Kshs 176.2 bn, from Kshs 163.3 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 horticulture, articles of apparel and clothing accessories as well as titanium ores and concentrates which recorded an increase of 9.6%, 30.0% and 40.3%, to record exports of Kshs 36.9 bn, Kshs 12.1 bn and Kshs 4.5 bn, from Kshs 33.7 bn, Kshs 9.3 bn and Kshs 3.2 bn, respectively, as recorded in Q3'2020,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 272.0% increase in Q3'2021 to a surplus of Kshs 12.0 bn, from a surplus Kshs 3.2 bn in Q3'2020. Services receipts increased by 40.1% to Kshs 125.9 bn in Q3'2021, from Kshs 89.9 bn in Q3'2020 mainly driven by the increase in travel and transport services receipts following resumption in international travel after some of the restriction measures were lifted,
- 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 30.1% to Kshs 169.7 bn, from Kshs 130.5 bn in Q3'2021. Diaspora remittances also recorded a 21.9% increase to Kshs 106.9 bn, from Kshs 87.7 bn recorded in Q3'2020,

- iv. In terms of exports by region, Africa remained the largest merchandise export destination with 42.3% of the total exports valued at Kshs 74.4 bn, a 10.5% rise from Kshs 67.3 bn in Q3'2020. The increase is mainly attributable to 56.2% increase in export to Tanzania coupled with more than triple the exports to Ethiopia. However, the increase was weighed down by a 12.7% and 37.5% decline in exports to Uganda and South Sudan to Kshs 19.2 bn and Kshs 3.8 bn from Kshs 22.0 bn and Kshs 6.1 bn, respectively. Exports to the United States of America increased by 30.6% to 18.2 bn, from Kshs 14.0 bn recorded in Q3'2020. Exports to the European region marginally increased by 0.8% to Kshs 43.7 bn, from Kshs 43.3 bn in Q3'2020, and,
- v. In terms of imports by region, Asia was the largest merchandise import source, accounting for 64.3%, with the value of imports increasing by 30.1% to Kshs 348.7 bn, from Kshs 267.9 bn recorded in Q3'2020. The increase was mainly attributed to a 26.8% increase in imports from India to Kshs 58.3 bn, from Kshs 46.0 bn coupled with more than double the imports coming from the United Arab Emirates. The increase was however weighed down by a 20.1% and 2.2% decline in imports from Saudi Arabia and Indonesia, respectively. The European Union accounted for 17.9% of total imports in Q3'2021, valued at Kshs 97.1 bn, a 13.9% increase from the Kshs 85.2 bn recorded in Q3'2020. Additionally, value of imports from Australia increased significantly recording a 327.4% rise to Kshs 3.4 bn in Q3'2021 from Kshs 0.8 bn in Q3'2020. Commodities that recorded a marked increase in import values included grain sorghum, wheat and meslin from Australia.

#### B. Balance of Payments

Kenya's balance of payments improved in Q3'2021, coming in at a deficit of Kshs 34.4 bn, from a deficit of Kshs 103.9 bn in Q3'2020, equivalent to 1.2% of the Gross Domestic Product (GDP) at current prices. The decline was mainly attributable to an 11.9% increase in the stock of gross official reserve to Kshs 1,064.2 bn from Kshs 951.0 bn in Q3'2020. The decline was however weighed down by a 27.4% expansion of current account balance to Kshs 184.6 bn, from Kshs 145.0 bn in Q3'2020. The table below shows the breakdown of the various balance of payments components, comparing Q3'2021 and Q3'2020:

Q3'2021 Balance of Payments			
Item	Q3'2020	Q3'2021	% Change
Current Account Balance	(145.0)	(184.6)	27.4%
Capital Account Balance	3.9	3.9	(0.7%)
Financial Account Balance	39.5	175.0	342.8%
Net Errors and Omissions	(2.4)	(28.6)	1,111.0%
<b>Balance of Payments</b>	<b>(103.9)</b>	<b>(34.4)</b>	<b>(66.9%)</b>

All values in Kshs bns

Key take-outs from the table include;

- The current account deficit (value of goods and services imported exceeds the value of those exported) expanded by 27.4% to Kshs 184.6 bn, from Kshs 145.0 bn in Q3'2020, mainly attributable to widening of the Merchandise Trade Deficit by 39.6% to Kshs 321.8 bn, from Kshs 230.5 bn recorded in Q3'2020,
- The financial account balance (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by the foreign buyers) increased by 342.8% to a surplus of Kshs 175.0 bn, from a surplus of Kshs 39.5 bn in Q3'2021. Similarly, the stock of gross official reserves increased by 11.9% to stand at Kshs 1,064.2 bn, from 951.0 bn in Q3'2020, and,
- Consequently, the Balance of Payments (BoP) position improved to a deficit of Kshs 34.4 bn from a deficit of Kshs 103.9 bn in Q3'2020, mainly due to the 11.9% increase in the stock of gross official reserves.

#### C. Public External Debt



During the period of review, external public and public guarantee debt increased by 10.9% to Kshs 4.1 tn, from Kshs 3.7 tn recorded in Q3'2020, mainly driven by a 19.8% increase in multilateral debt to Kshs 1.7 tn from Kshs 1.4 tn in Q3'2020. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q3'2021 and Q3'2020:

Q3'2021 Public External Debt			
Debt Source	Q3'2020	Q3'2021	% Change
Multilateral	1.4	1.7	19.8%
Bilateral	1.1	1.2	4.3%
Commercial Banks	1.1	1.2	6.8%
Suppliers Credit	0.02	0.01	(31.6%)
<b>Total</b>	<b>3.7</b>	<b>4.1</b>	<b>10.9%</b>

All values in Kshs tn

Key take-out from the table include;

- i. Multilateral debt, which contributed 41.9% of the total external debt, increased by 19.8% to Kshs 1.7 tn, from Kshs 1.4 tn recorded in Q3'2020, mainly attributable to the increase in the disbursement of programme loans from the International Monetary Fund (IMF) during the period of review.

### Conclusion

During the period of review, the Kenya shilling remained under pressure, deteriorating by 1.1% y/y to close the quarter at Kshs 109.2, from Kshs 107.9 at the end of Q3'2020. However, the shilling was supported by the high forex reserves held by the Central Bank of Kenya which increased by 9.5% in the same period to close the quarter at USD 9.4 bn, from USD 8.5 bn recorded at the end of Q3'2020. We expect relative stability in the business environment in the 2022 given the easing of the lockdown measures by Kenya's trading partners, positive COVID-19 vaccine rollout, and continued support from horticultural exports due to the normalised demand in Kenya's export markets as well as earnings from the tourism sector. However, risks remain elevated on the back of increasing global fuel prices that has led to increase in fuel importation cost, supply shortages and logistical bottlenecks, emergence of new COVID-19 variants which could lead to further restriction measures and the upcoming 2022 August elections.

***Development-essential goods such as machinery & transport equipment are one of the largest contributors to the country's import bill while weather-dependent agricultural products make up almost 50.0% of our exports, we expect the trade balance to remain at a deficit in the medium term as the country develops, weighed down by imports for the ongoing infrastructure developments such as the Nairobi Expressway.***