

Kenya's Q3'2022 Balance of Payment Note

The Kenya National Bureau of Statistics recently released the [Q3'2022 Quarterly Balance of Payment](#) report highlighting that Kenya's balance of payments position recorded a 283.9% deterioration to a deficit of Kshs 112.7 bn, from a deficit of Kshs 29.3 bn recorded in Q3'2021 and a significant reversal from the Kshs 10.9 bn surplus recorded in Q2'2022. In this note, we analyze the changes in the current account and the balance of payment before giving an outlook on both.

A. Current Account Balance

Kenya's current account deficit expanded by 5.5% in Q3'2022 to Kshs 193.4 bn from Kshs 183.4 bn recorded in Q3'2021. The Q3'2022 deficit was also a significant increase of 10.9% from the deficit of Kshs 174.4 bn recorded in Q2'2022. The widening during the quarter was driven by:

- i. The widening of the merchandise trade imbalance (the value of import goods exceeds the value of export goods resulting in a negative net foreign investment) by 2.0% to Kshs 373.1 bn, from Kshs 322.0 bn recorded in Q2'2022. On a y/y basis the merchandise trade balance account widened by 15.8% during the quarter from Kshs 322.0 bn recorded in Q3'2021, and,
- ii. A 21.7% deterioration in the primary income balance to a deficit of Kshs 63.3 bn, from a deficit of Kshs 51.6 bn in Q2'2022. Additionally, the primary income balance recorded a 19.5% y/y deterioration from a deficit of Kshs 53.0 bn in Q3'2021.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q3'2021 and Q3'2022:

Cytonn Report: Current Account Balance					
Item	Q2'2021	Q2'2022	Q3'2021	Q3'2022	% Change (Y/Y)
Merchandise Trade Balance	(271.6)	(365.6)	(322.0)	(373.1)	15.8%
Services Trade Balance	12.7	59.3	22.5	59.2	162.7%
Primary Income Balance	(62.5)	(51.6)	(53.0)	(63.3)	19.5%
Secondary Income (transfer) Balance	162.5	183.5	169.1	183.8	8.7%
Current Account Balance	(158.9)	(174.4)	(183.4)	(193.4)	5.5%
GDP at Current Prices (Q3'2022 Quarterly GDP Report)	3,046.4	3,329.1	2,947.3	3,208.2	8.9%
<i>Current Account Balance as a % of GDP</i>	(5.2%)	(5.2%)	(6.2%)	(6.0%)	(0.2%)

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 15.8% to Kshs 373.1 bn in Q3'2022, from Kshs 322.0 bn in Q3'2021. This is despite a faster 29.7% increase in merchandise exports to Kshs 228.2 bn, from Kshs 175.9 bn in Q3'2021, relative to the 20.8% increase in merchandise imports to Kshs 601.2 bn, from Kshs 497.9 bn recorded in a similar period in 2021. The increase in the merchandise exports was mainly driven by a 45.5% increase in exportation of tea to Kshs 40.3 bn, from Kshs 27.7 bn recorded in Q3'2021, while the high import bill can be attributed to the high cost of petroleum products and chemical fertilizers, which increased by 121.9% and 58.0% respectively to Kshs 182.6 bn and Kshs 12.6 bn in Q3'2022, from Kshs 82.3 bn and Kshs 8.0 bn, respectively, in Q3'2021,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 162.7% increase in Q3'2022 to a surplus of Kshs 59.2 bn, from a surplus Kshs 22.5 bn in Q3'2021. However, it was a 0.3% decline from a surplus of 59.3 bn recorded in Q2'2022 indicating the deterioration of the business environment globally. Notably, services receipts increased by 66.0% to Kshs 217.9 bn in Q3'2022, from Kshs 131.3 bn in Q3'2021 mainly driven by the increase in travel and transport services receipts following resumption in international travel after majority of economies lifted travel restrictions,

- 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) increased by 19.5% to a deficit of Kshs 63.3 bn in Q3'2022 from a deficit of Kshs 53.0 bn in Q3'2021, and widened further by 21.7% from a deficit of Kshs 51.6 bn recorded in Q2'2022,
- 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 8.7% to Kshs 183.7 bn, from Kshs 169.1 bn in Q3'2021. Additionally, it was a marginal increase of 0.2% from Kshs 183.5 bn recorded in Q2'2022,
- v. Diaspora remittances also recorded a 7.7% increase to Kshs 114.3 bn, from Kshs 101.3 bn recorded in Q3'2021, a notable 5.0% drop from the Kshs 120.3 bn recorded in Q2'2022,
- vi. In terms of exports by region, Africa was the largest merchandise export recipient having registered 31.7% increase in exports earnings to Kshs 97.6 bn, from Kshs 74.1 bn in Q3'2021. The increase was mainly attributable to 196.0% increase in exports to South Africa, coupled with 79.1% and 50.0% increase in exports to Rwanda and Uganda. However, the increase was weighed down by a 20.0% decline in exports to Ethiopia to Kshs 4.8 bn from Kshs 6.0 bn recorded in Q3'2021. Exports to the United States of America increased by 40.9% to 25.7 bn, from Kshs 18.2 bn recorded in Q3'2021 making it the second leading export destination in Q3'2022 after Uganda which had a total export volume of Kshs 28.3 bn in the period, and,
- vii. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 68.6% of total imports, with the value of imports increasing by 30.2% to Kshs 453.8 bn, from Kshs 348.6 bn recorded in Q3'2021. The increase was mainly attributed to a 143.7% increase in imports from United Arabs to Kshs 111.3 bn, from Kshs 45.6 bn, majorly driven by increased imports of gas oil and motor spirit (gasoline) premium. Moreover, imports coming from Oman increased significantly to Kshs 21.9 bn from Kshs 2.6 bn recorded in Q3'2021, partly due to increase in import value of motor spirit (gasoline) premium. The increase in imports was however weighed down by a 63.5% and 34.2% decline in imports from Belgium and Saudi Arabia, respectively. The European Union accounted for 9.5% of total imports in Q3'2022, valued at Kshs 62.6 bn, a 5.1% decline from the Kshs 66.0 bn recorded in Q3'2021. Additionally, the value of imports from Australia increased recording 67.0% increase to Kshs 5.6 bn in Q3'2022 from Kshs 3.3 bn in Q3'2021, driven by increased importation of wheat and meslin. However, the volume of imports was a significant decline from the Kshs 13.2 bn recorded in Q2'2022.

B. Balance of Payment

Kenya's balance of payment position deteriorated by 283.9% in Q3'2022, coming in at a deficit of Kshs 112.7 bn, from a deficit of Kshs 29.3 bn in Q3'2021, and a reversal from the Kshs 10.9 bn surplus recorded in Q2'2022. The deterioration was brought by a 5.5% widening of the Current Account deficit to Kshs 193.4 bn, from Kshs 183.4 bn in Q3'2021, coupled with a 13.4% expansion of the financial account deficit to Kshs 190.8 bn from Kshs 168.3 bn recorded in Q3'2021. The table below shows the breakdown of the various balance of payments components, comparing Q3'2022 and Q3'2021:

Cyttonn Report: Quarterly Balance of Payment					
Item	Q2'2021	Q2'2022	Q3'2021	Q3'2022	% Change
Current Account Balance	(158.9)	(174.4)	(183.4)	(193.4)	5.5%
Capital Account Balance	7.4	4.9	3.9	0.6	(84.0%)
Financial Account Balance	(282.5)	(253.0)	(168.3)	(190.8)	13.4%
Net Errors and Omissions	48.7	(72.6)	(18.1)	(110.7)	511.7%
Balance of Payments	179.8	10.9	(29.3)	(112.7)	283.9%

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 5.5% to Kshs 193.4 bn from Kshs 183.4 bn in Q3'2021, and by 10.9% from Kshs 174.4 bn recorded in Q2'2022. The widening of the current account was brought by a 15.8% deterioration in trade imbalance to Kshs 373.1 bn, from Kshs 322.0 bn in Q3'2021. This is despite merchandise exports increasing by a faster 29.7% to Kshs 228.2 bn in Q3'2022 from 175.9 bn recorded in Q3'2021 relative to a 20.8% increase in merchandise imports to Kshs 601.2 bn in Q3'2022 from Kshs 498.0 bn recorded in a similar period in 2021,
- ii. The capital account (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), contracted by 84.0% to Kshs 0.6 bn from Kshs 3.9 bn in Q3'2021, and a further 87.2% contraction from Kshs 4.9 bn recorded in Q2'2022, on the back of capital outflows due to the increased perceived risks by investors. Investor sentiments remained negative driven by the deteriorated macroeconomic conditions and the subdued business environment in the country,
- iii. The financial account balance deficit (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by foreign buyers) expanded by 13.4% to Kshs 190.8 bn from a deficit of Kshs 168.3 bn recorded in Q3'2021. However, it was a 24.6% improvement from Kshs 253.0 bn recorded in Q2'2022. Also, the stock of gross official reserves declined by 11.7% to Kshs 940.2 bn, from Kshs 1,064.2 in Q3'2021 as a result of increase in debt servicing costs and repayments, and,
- iv. Consequently, the Balance of Payments (BoP) position deteriorated to a deficit of Kshs 112.7 bn from a deficit of Kshs 29.3 bn.

C. Public External Debt

During the period under review, the stock of external public and public guarantee debt increased by 8.5% to Kshs 4.3 tn, from Kshs 3.9 tn recorded in Q3'2021, mainly driven by a 15.9% increase in multilateral debt to Kshs 2.0 tn from Kshs 1.7 tn in Q1'2020. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q3'2022 and Q3'2021:

Cyttonn Report: Q3'2022 Public External Debt					
Debt Source	Q2'2021	Q2'2022	Q3'2021	Q3'2022	% Change
Bilateral	1.1	1.1	1.1	1.1	1.9%
Multilateral	1.7	1.9	1.7	2.0	15.9%
Commercial Banks	1.1	1.1	1.2	1.2	3.8%
Suppliers Credit	0.0	0.0	0.0	0.0	(2.7%)
Total External Public Debt	3.9	4.2	3.9	4.3	8.5%

All values in Kshs tn

Key take-out from the table include;

- i. Multilateral debt increased by 15.9% to Kshs 2.0 tn, from Kshs 1.7 tn recorded in Q3'2021, accounting for 46.2% of the total external debt. On a quarterly basis, multilateral debt registered a 2.6% growth from Kshs 1.9 bn recorded in Q2'2022, brought about by increased disbursement of programme loans from the International Monetary Fund (IMF) during the period of review.

D. Conclusion

The deterioration in the Balance of Payment performance due to widening of the current account deficit is an indication of the country's over-reliance on imports. The current account deficit was driven by the elevated global fuel prices that led to 121.8% increase of fuel expenditure on the import bill to Kshs 182.6 bn in Q3'2022 from Kshs 82.3 bn recorded in a similar period in 2021. This was further worsened by low agricultural production due to erratic weather patterns, with agriculture being the leading contributor to Kenya's export products. As such, we expect the importation costs of fuel to continue weighing down on the current account performance in the medium term. However, we expect that the current administration's focus on fiscal consolidation will improve the Balance of payment performance by minimizing the costs of servicing external debts. Additionally, the introduction of the fertilizer subsidy program will reduce the costs of agricultural production, and consequently anchor inflation levels in the country with food inflation being a major driver of headline inflation. These

initiatives are in response to the aggressive currency depreciation and the high inflation levels experienced in the country for majority of 2022. We also expect that the multilateral trade partnership deals such as the US-Kenya Strategic Trade and Investment Partnerships and the Africa Continental Free Trade Area (AfCFTA) will help stabilize the Balance of payment performance by increasing the volume of exports demanded and providing export markets for the same.