

Kenya's Q3'2024 Balance of Payments Note

According to the Q3'2024 [Balance of Payment Report](#) released by the Kenya National Bureau of Statistics (KNBS), Kenya's balance of payments position improved significantly by 113.5% in Q3'2024, with a surplus of Kshs 17.8 bn, from a deficit of Kshs 131.5 bn in Q3'2023, and a 78.9% decline from the Kshs 84.1 bn surplus recorded in Q2'2024. 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 marginally by 0.4% to Kshs 139.2 bn in Q3'2024 from the Kshs 139.8 bn deficit recorded in Q3'2023. The y/y contraction registered was driven by:

- i. A 37.0% improvement in the services trade balance to a surplus of Kshs 24.4 bn from a surplus of Kshs 17.8 bn in Q3'2023,
- ii. 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 2.6% to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023 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 1.5% to Kshs 80.6 bn in Q3'2024, from Kshs 81.8 bn recorded in Q3'2023.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q3'2024 and Q3'2023:

Item	Q3'2023	Q3'2024	Y/Y % Change
Merchandise Trade Balance	(327.3)	(341.0)	(4.2%)
Services Trade Balance	17.8	24.4	37.0%
Primary Income Balance	(81.8)	(80.6)	1.5%
Secondary Income (transfer) Balance	251.5	258.0	2.6%
Current Account Balance	(139.8)	(139.2)	0.4%

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) widened by 4.2% to Kshs 341.0 bn in Q3'2024, from Kshs 327.3 bn recorded in Q3'2023. This is despite the 6.0% growth in merchandise exports to Kshs 284.3 bn, from Kshs 268.3 bn in Q3'2023, which outpaced the 5.0% growth in merchandise imports to Kshs 625.3 bn from Kshs 595.5 bn recorded in a similar period in 2023. The increase in merchandise exports was mainly driven by a 28.6% increase in coffee exports to Kshs 12.0 bn, from Kshs 9.5 bn recorded in Q3'2023 coupled with the 3.1% growth in exportation of horticulture products to Kshs 50.3 bn, from Kshs 48.8 bn recorded in Q3'2023. On the other hand, the slower growth in the import bill is attributable to the 26.7% decline in importation of animal and vegetable oils to Kshs 31.5 bn from Kshs 43.0 bn reported in Q3'2023 coupled with a 24.2% decrease in wheat imports to Kshs 16.8 bn in Q3'2024 from Kshs 22.1 bn in Q3'2023 and a 19.7% decrease in electrical machinery and apparatus imports to Kshs 6.0 bn from Kshs 7.4 bn recorded in Q3'2023,
- ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 37.0% increase in Q3'2024 to a surplus of Kshs 24.4 bn, from a surplus of Kshs 17.8 bn in Q3'2023. The y/y increase in service trade balance was mainly driven by a 9.3% growth in services receipts to Kshs 194.7 bn from Kshs 178.2 bn recorded in Q3'2023, which outpaced the 6.2% growth in services outflows to Kshs 170.4 bn from Kshs 160.4 bn recorded in Q3'2023,

- 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 1.5% to a deficit of Kshs 80.6 bn in Q3'2024 from a deficit of Kshs 81.8 bn in Q3'2023, on the back of repayment of interest, largely on external debt of general government debt,
- 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 2.6% to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023,
- v. Diaspora remittances recorded a 5.8% growth to Kshs 164.9 bn from Kshs 155.9 bn recorded in Q3'2023,
- vi. Total exports grew by 5.5% in Q3'2024 to Kshs 282.4 bn, up from Kshs 267.7 bn recorded in Q3'2023. In terms of exports by region, Africa remained the largest merchandise export recipient, accounting for 39.6% of total exports in Q3'2024 despite registering a 5.2% decrease in export earnings to Kshs 112.0 bn, from Kshs 118.1 bn in Q3'2023. The decrease was mainly attributable to 43.5% decrease in exports to South Africa, to Kshs 1.3 bn from Kshs 2.3 bn in Q3'2023, coupled with 27.5%, and 5.3% decline in exports to South Sudan and Somalia. Asia followed in second place, accounting for 28.1% of all exports and recording a growth of 13.0% in Q3'2024 to Kshs 79.3 bn, up from Kshs 70.2 in Q3'2023, and
- vii. Overall imports grew marginally by 4.3% to Kshs 675.8 bn in Q3'2024 from 647.7 bn recorded in Q3'2023. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 69.6% of total imports, with the value of imports increasing by 8.2% to Kshs 470.4 bn, up from Kshs 434.6 bn recorded in Q3'2023. The growth was mainly attributed to the increase in imports from China of 42.1% to Kshs 170.2 bn from Kshs 119.7 bn in Q3'2023 however weighed down by an 87.3% decrease in imports from Ukraine to Kshs 0.3 bn, from Kshs 2.2 bn recorded in Q3'2023. The European Union accounted for 13.7% of total imports in Q3'2024, valued at Kshs 92.6 bn, a 5.7% growth from the Kshs 87.7 bn recorded in Q3'2023 mainly driven by the 45.5% increase in imports from Netherlands.

B. Balance of Payments

Kenya's balance of payment (BoP) position improved significantly by 113.5% in Q3'2024, with a surplus of Kshs 17.8 bn, from a deficit of Kshs 131.5 bn in Q3'2023, and a 78.9% decline from the Kshs 84.1 bn surplus recorded in Q2'2024. The y/y positive performance in BoP was mainly driven by a significant 5,756.4% improvement in the financial account balance to a surplus of Kshs 62.9 bn in Q3'2024, from a deficit of Kshs 1.1 bn in Q3'2023. The performance was however weighed down by a 60.4% deterioration in the capital account balance to a surplus of Kshs 1.4 bn from a surplus of Kshs 3.4 bn in Q3'2023. The table below shows the breakdown of the various balance of payments components, comparing Q3'2023 and Q3'2024:

Item	Q3'2023	Q3'2024	Y/Y % Change
Current Account Balance	(139.8)	(139.2)	0.4%
Capital Account Balance	3.4	1.4	(60.4%)
Financial Account Balance	(1.1)	62.9	5,756.4%
Net Errors and Omissions	6.0	92.7	1442.5%
Balance of Payments	(131.5)	17.8	113.5%

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 0.4% to Kshs 139.2 bn from Kshs 139.8 bn in Q3'2023. The y/y narrowing of the current account was brought about by the 37.0% improvement in the services trade balance to a surplus of Kshs

- 24.4 bn from a surplus of Kshs 17.8 bn in Q3'2023, coupled with a 2.6% increase in secondary income/transfers to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023,
- 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), decreased by 60.4% to a surplus of Kshs 1.4 bn in Q3'2024 down from a surplus of Kshs 3.4 bn in Q3'2023,
 - 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 net inflow of Kshs 62.9 billion in Q3 2024, compared to a net outflow of Kshs 1.1 billion in Q3 2023, attributable to increased inflows of debt securities and other investments, in spite of the reduced loan disbursements to general government. 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 improved to a deficit of Kshs 17.8 bn in Q3'2024, from a deficit of Kshs 131.5 bn recorded in Q3'2023.

C. Public External Debt

During the period under review, the stock of external public and public guaranteed debt decreased by 7.5% to Kshs 5.1 tn as at September 2024, down from Kshs 5.5 tn recorded in September 2023, mainly driven by a 18.2% decrease in debt securities held by non-residents to Kshs 0.9 tn in Q3'2024, down from Kshs 1.1 tn recorded in Q3'2023. Notably, external public debt by commercial banks decreased by 9.5% to Kshs 0.3 tn in Q3'2024, up from Kshs 0.3 tn in 2023. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q3'2024 and Q3'2024:

Cytonn Report: Kenya's Public External Debt				
Debt Source	Q3'2023	Q3'2024	Y/Y % Change	% contribution
Multilateral	2.83	2.85	0.7%	55.6%
Bilateral	1.3	1.1	(16.1%)	20.6%
Debt Securities held by non-residents	1.1	0.9	(18.2%)	17.3%
Commercial Banks	0.3	0.3	(9.5%)	6.1%
Suppliers Credit	0.02	0.01	(8.5%)	0.3%
Total External Public Debt	5.5	5.1	(7.5%)	100.0%

All values in Kshs tn

Key take-outs from the table include;

- i. Multilateral debt increased by 0.7% to Kshs Kshs 2.85 tn in Q3'2024, up from Kshs 2.83 tn recorded in Q3'2023, accounting for 55.6% of the total external debt. Additionally, bilateral debt accounted for 20.6% of the total external debt, despite the amount decreasing by 16.1% to Kshs 1.1 tn, down from Kshs 1.3 tn in Q3'2023.

D. Conclusion

Kenya's balance of payments improved in Q3'2024, mainly on the back of a 5,756.4% improvement in the financial account balance to a surplus of Kshs 62.9 bn in Q3'2024, from a deficit of Kshs 1.1 bn in Q3'2023 reflecting significant inflows of financing to the country, possibly in government securities. The current account deficit (value of goods and services imported exceeds the value of those exported) narrowed by 0.4% to Kshs 139.2 bn from Kshs 139.8 bn in Q3'2023. The y/y narrowing of the current account was brought about by the 37.0% improvement in the services trade balance to a surplus of Kshs 24.4 bn from a surplus of Kshs 17.8 bn in Q3'2023, coupled with a 2.6% increase in secondary income/transfers to Kshs 258.0 bn from Kshs 251.5 bn in Q3'2023, which outpaced the 4.2% deterioration in Merchandise trade deficit to Kshs 341.0 bn in Q3'2024, from Kshs 327.3 bn in Q3'2023. 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 stability 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.