Parliamentary Budget Office
Enhancing the Legislative and Oversight Role of the Kenyan Parliament

QUARTERLY ECONOMIC BULLETIN

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Introduction

This Quarterly Economic Bulletin provides a brief of key recent economic and budget developments for 2024. It includes the macroeconomic and fiscal indicators as of the first quarter of FY 2024/25.

Overall, while there are positive developments such as the decline in inflation, the stabilization of the Kenyan Shilling, a healthier current account balance and improved performance of Appropriation in Aid (A in A) collection, some challenges, such as sluggish growth in the industry and service sectors and the declining private sector credit growth require policy interventions. In addition, there are fiscal challenges due to revenue shortfalls and high recurrent spending consequently, the government will need to carefully manage its debt strategy, enhance revenue collection and optimise expenditure to ensure sustainable economic growth.

Economic Growth

Global growth is projected to decline from 3.3 percent in 2023 to 3.2 percent in 2024 and 3.1 percent in the medium term[1]. Advanced economies have remained steady as a result of economic activity getting back in line with potential output on account of easing inflation, growth in consumption backed by rising real wages in the Euro area as well as in Japan and recovery in global trade. Notably, downward revisions of growth projections in the Middle East, Central Asia and Sub-Saharan Africa are a result of conflicts, civil unrest, flooding majorly in Brazil, decline in production as well as in shipping of commodities such as oil.

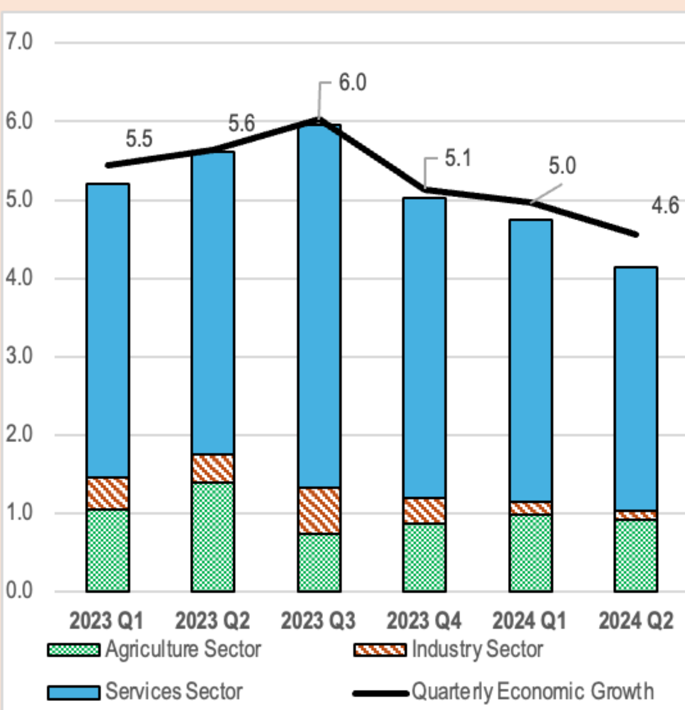
Revision in the economic growth projections for 2024 by the National Treasury are lower but unlikely to be achieved. The National Treasury revised its growth projections downwards from 5.5 percent to 5.2 percent for 2024. This is amid the risks to growth experienced within the year including civil unrest and fiscal consolidation measures. The growth projection is supported by agriculture with anticipated above-average rainfall coupled with government interventions such as subsidized fertilizer. Additionally, government investment in the BETA agenda such as in the affordable housing programme which is expected to spur the industry sector, and the resilience of the services sector are expected to support growth in 2024. Although government investments are expected to support growth, fiscal consolidation measures implemented by the government are likely to slow down government investments and consumption. However, there are anticipated risks that could lead to subdued growth in the industry and service sectors, as well as in private investment and consumption. These

[1] World Economic Outlook, October 2024 by the IMF

risks are attributed to the multiplier effects of fiscal consolidation efforts; therefore, the projected economic growth is likely to be 4.8 percent for 2024.

Real GDP growth recorded a decline from 5.6 percent in the second quarter of 2023 to 4.6 percent in the second quarter of 2024. The drop in growth is attributed to the Services sector due to civil unrest that affected business activities, a decline in accommodation & food services, real estate, finance & insurance transport & storage; the industry sector as evidenced by a drop in local electricity generation and the Agriculture Sector as evidenced by a decline in agricultural output from 7.8 percent to 4.8 percent.

Figure 1: Quarterly Contribution to Economic Growth GDP



Source of Data: Kenya National Bureau of Statistics

Specifically, within the agriculture sector, Kenya majorly exports horticulture, tea and coffee; the quantities of horticulture and coffee exports declined in the second quarter of 2024 compared to the second quarter of 2023. The quantity of horticulture exports declined by 58 percent while that of coffee exports declined by 16 percent. The overall decline in horticulture exports was a result of a decline in the quantity of cut flowers and vegetable exports, while fruit exports recorded an improvement in the period. Conversely, the quantity of tea exports in the same period improved by 15 percent, indicating an improvement in local production of tea. Cane deliveries also increased significantly by 82 percent while milk intake also increased in the same period by 8 percent.

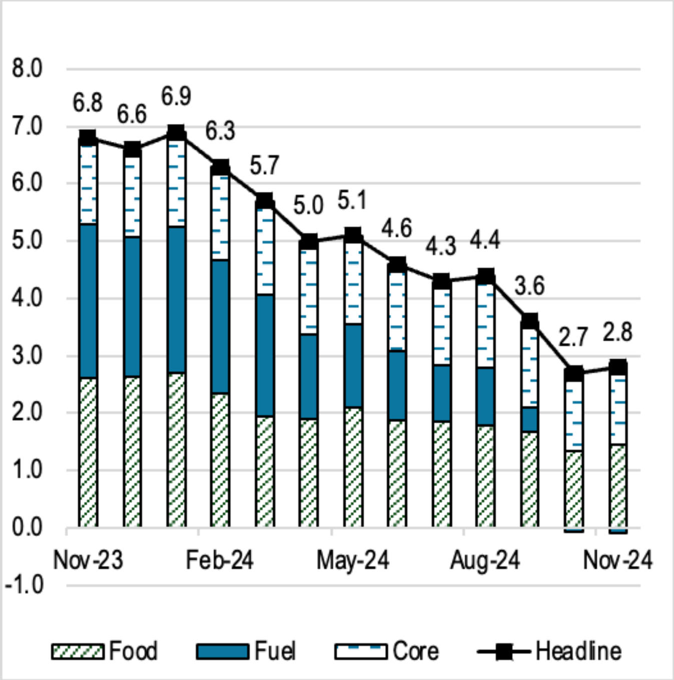
The growth of the industry sector declined from 2.1 percent in the second quarter of 2023 to 0.8 percent in the second quarter of 2024 despite an uptick in growth of the manufacturing subsector majorly on account of agro-processing. Sugar production significantly improved by 96 percent, matching the growth in sugarcane production in the second quarter of 2024 compared to the second quarter of 2023. The production of soft drinks and galvanized sheets also grew while the production of assembled vehicles declined in the same period.

The decline in growth of the industry sector was a result of a contraction in the construction subsector as well as slower growth in the electricity and water supply subsectors. Local electricity generation declined as a result of a decline in geothermal, thermal, wind and solar generation, however, hydropower generation recorded an improvement due to favorable rainfall.

Inflation rate

Headline inflation significantly declined from 6.8 percent in November 2023 to 2.8 percent in November 2024. The decline, which is tending towards the lower bound of 2.5 percent, is attributable to declining food and fuel inflation. Food prices that declined in the period included sugar prices, maize flour and wheat. However, prices of cooking oil, fruits and vegetables increased. Fuel prices also declined with kerosine per liter declining by 26.1 percent from Kshs. 205.79 to Kshs.152.18, prices of petrol per litre declined by 16.8 percent from Kshs. 217.97 to Kshs. 181.33 while prices of diesel per litre declined by 18.1 percent Kshs. 206.21 to Kshs. 168.82.

Figure 2: Contribution to inflation for the period November 2023 to November 2024



Source of Data: Kenya National Bureau of Statistics

Notably, core inflation declined slightly from 4.0 percent in November 2023 to 3.9 percent in November 2024 but remained higher than the headline inflation. The increase is attributed to an increase in the contribution of non-food non-fuel categories such as alcoholic beverages, furnishings & household equipment, recreation, sports and culture, restaurant & accommodation services, personal care & social protection goods and services. (Table 1)

Table 1: Contribution to overall inflation

Category	Jan 24	Feb 24	Mar24	Apr24	May24	Jun 24	Jul 24	Aug24	Sep 24	Oct 24	Nov24
Food & Nonalcoholic Beverages	39.2	37.1	34.0	37.9	41.0	40.7	43.3	40.6	46.6	49.5	51.4
Alcoholic Beverages, Tobacco & Narcotics	4.2	4.7	5.0	5.7	5.3	5.7	5.4	6.4	7.1	8.4	8.8
Clothing & Footwear	1.6	1.7	2.0	2.3	2.3	2.5	2.5	2.4	2.7	3.6	3.0
Housing, Water, Electricity, Gas, and other Fuels	21.4	20.0	20.8	11.4	12.9	10.0	13.4	14.3	10.6	2.0	0.5
Furnishings, Household Equipment and Routine Household Maintenance	2.3	2.4	2.9	3.4	3.1	3.4	3.9	3.7	3.9	5.4	5.1
Health	1.1	1.2	1.3	1.6	1.5	1.5	1.8	1.9	2.2	3.1	2.9
Transport	15.4	17.0	16.7	18.2	15.7	16.4	9.1	8.8	1.3	-4.4	-3.7
Information & Communication	1.5	1.7	1.8	2.1	2.0	2.2	2.2	2.9	3.0	3.8	3.8
Recreation, Sports & Culture	1.4	1.4	1.5	1.7	1.7	1.9	1.8	1.8	2.1	2.6	2.6
Education Services	2.3	2.2	2.3	2.6	2.6	2.7	2.9	3.6	4.5	5.6	5.6
Restaurants & Accommodation Services	5.3	5.7	6.5	7.2	6.8	7.9	8.2	8.5	9.9	13.0	12.7
Personal Care, Social Protection and Miscellaneous Goods & Services	4.1	4.4	4.8	5.5	4.7	4.7	5.0	4.8	5.6	6.9	6.3
Insurance and Financial Services	0.3	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.4	0.5	1.0
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Inflation Rate	**6.9**	**6.3**	**5.7**	**5.0**	**5.1**	**4.6**	**4.3**	**4.4**	**3.6**	**2.7**	**2.8**

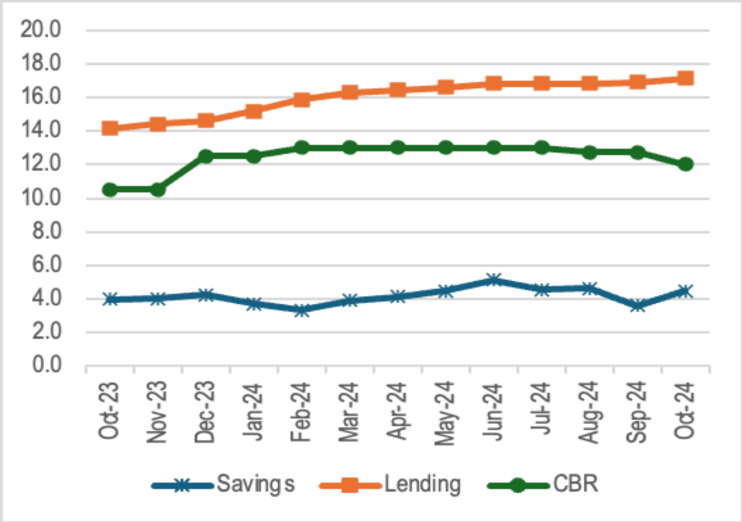
Source of Data: Kenya National Bureau of Statistics

Interest rates and Credit

The Central Bank lowered the Central Bank Rate (CBR) by 25 basis points from 12.75 percent in September 2024 to 12.0 percent in November 2024. The easing of monetary policy by CBK in the second half of 2024 marked a reversal of the tight monetary policy that the Bank had pursued since June 2022 which was aimed at curbing high inflation and stabilizing the exchange rate.

The 91-day T-bill rate increased from 14.4 percent in September 2023 to 15.8 percent in September 2024 an indication of increasing borrowing costs for the government. However, the rate has since then been on a downward trend decreasing to 11.2 percent by the end of November 2024. The double-digit interest rates coupled with the upward revision of the domestic borrowing target in the 2024/25 supplementary I budget may result in higher expenditure on public debt service as well as crowding out of the private sector.

Figure 3: Interest rates for the period October 2023 to October 2024



Source of Data: Central Bank of Kenya

The weighted average lending interest rates increased from below 14 percent in the second half of 2023 to over 16 percent in the second half of 2024 as indicated in figure 3. This has consequently hampered credit access and investment by the private sector.

Credit growth to the private sector declined in the first half of 2024. In the 12 months leading to August 2024 growth in credit to the private sector declined from 12.6 percent to 1.3 percent. The notable decline in credit to the private sector was on account of a decline in credit to manufacturing, trade, building & construction, transport & communication, business services and trade.

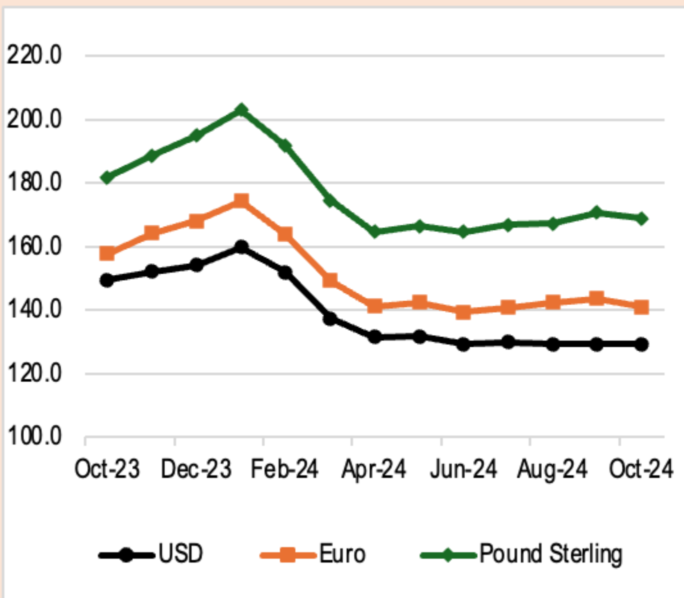
- ✓ The transmission effect of the rise in interest rates poses a risk of declining investments in the various sectors of the economy in the private sector, however, if the Central Bank continues to pursue gradual monetary policy easing, the cost of borrowing may decline making credit more accessible.

Exchange Rates

The Kenyan Shilling has appreciated against the US Dollar, strengthening from Kshs. 149.4 per USD in October 2023 to Kshs. 129.2 per USD in October 2024. Further, the exchange rate has remained stable at the 129 mark for five consecutive months between June and October 2024. The Kenyan Shilling also appreciated against the Pound Sterling from Kshs. 181.9 in October 2023 to Kshs. 168.8 in October 2024. The Euro also weakened against the Kenyan Shilling from 157.8 to 140.9.

This appreciation and stabilisation of the exchange rate comes amid Kenya's successful handling of the Eurobond bullet payment that was due in June 2024 as well as efforts to pursue monetary policy easing and a downward trend in inflation. These economic policy strategies have resulted in greater stability in the financial market.

Figure 4: Exchange rates for the period August 2023 to August 2024



Source of Data: Central Bank

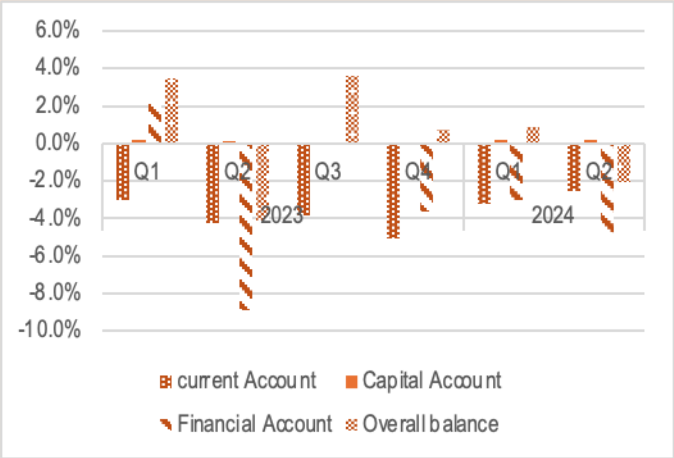
Balance of Payments

The current account deficit improved by 34.5 percent from a deficit of Kshs. 158.9 billion in the second quarter of 2023 to a deficit of Kshs. 104 billion in the second quarter of 2024., Exports saw a significant rise of 10.9 percent, which outpaced the modest 2.3 percent increase in imports. There was also a substantial growth of 59.1 percent in net services, which had been declining over the previous year. This growth came from sectors like transport and telecommunication services, indicating a broadening of Kenya's service industry. The primary income deficit decreased by 34.6 percent, largely due to a reduction in interest payments on external debt as a result of the strengthening of the Kenyan Shilling to the USD. The secondary income saw a modest increase of 0.6 percent, supported by growth in diaspora remittances. Remittances have been a vital source of foreign exchange, providing a buffer for the stability of the Kenyan Shilling.

Figure 5: Components of the current account balance as a share of GDP for the period 2022 to 2024

Source of Data: Kenya National Bureau of Statistics

Figure 5: Quarterly balance of payments components as a share of GDP for the period 2023 - 2024



Source of Data: KNBS

Financing the Budget

A review of exchequer releases indicates that domestic revenue dominated budget financing in the first quarter of FY 2024/25, with tax and non-tax revenue contributing 76 percent of the total, followed by domestic borrowing at 20 percent. In the first quarter of FY 2024/25, total budget financing from exchequer releases amounted to Kshs. 775.7 billion, representing 18.4 percent of the annual target of Kshs. 4.2 trillion. Compared to the same period in FY 2023/24, budgetary financing increased by Kshs. 30.4 billion, reflecting a growth in funding for budgetary expenditures during the first quarter.

Table 2: Q1 FY 2024/25 exchequer

	FY 2024/25 (Kshs. Million)	
Exchequer inflows	**Annual Target**	**Q1 Actuals**
Tax Revenue	2,475,063	525,553
Non-Tax Revenue	156,354	65,321
Domestic Borrowing	978,299	153,378
External Loans and Grants	593,502	27,131
Other Domestic Financing	4,686	4,339
TOTAL	**4,207,904**	**775,722**

Source: Kenya Gazzette, October 2024.

Revenue

There was strong revenue performance during the first quarter of FY 2024/25 which was driven by a significant increase in Appropriations in Aid (AiA). Total revenue and grants for the first quarter amounted to Kshs. 703.5 billion, exceeding the quarterly target by 11.5 percent (Kshs. 6.9 billion), reflecting strong performance. This was primarily driven by a significant increase in Appropriations in Aid (AIA), which surpassed the target by Kshs. 24.8 billion. The improved performance of A in A collection was partly attributed to the digitization and centralization of A in A collection through e-citizen.

Conversely, Ordinary Revenue fell short of the target (Kshs. 605.5 billion) by Kshs. 14.6 billion. This was as a result of the underperformance of the Value Added Tax (VAT) by Kshs. 15.2 billion, Excise Duty (by Kshs. 5.6 billion), Import Duty (by Kshs. 2.8 billion) and Pay-As-You-Earn (by Kshs. 1.8 billion). Despite this underperformance compared to the target, Ordinary Revenue grew by 10 percent or Kshs. 54.1 billion compared to the same period in FY 2023/24. Other sources of revenue such as, Investment Income increased significantly, by Kshs. 16 billion compared to the target and recording a 195.9 percent growth.

Table 3: Q1 Revenue Performance First Quarter of FY 2024/25 (Kshs. Million)

	2023/2024	2024/2025		Dev.	% Growth
	Actual	Actual	Target		
Total Revenue and Grants (A+B+C)	**633,003**	**703,525**	**696,585**	**6,940**	**11.1**
Total Revenue (A+B)	**629,588**	**702,172**	**691,928**	**10,244**	**11.5**
A) Ordinary revenue	**536,761**	**590,875**	**605,499**	**-14,624**	**10.1**
PAYE	*123,044*	*136,340*	*138,188*	*-1,848*	*10.8*
Other Income Tax	*120,910*	*122,268*	*122,988*	*-720*	*1.1*
Import duty	*32,434*	*34,619*	*37,420*	*-2,801*	*6.7*
Excise Duty	*68,570*	*68,133*	*73,779*	*-5,646*	*-0.6*
VAT local	*75,811*	*74,378*	*82,588*	*-8,210*	*-1.9*
VAT Import	*77,216*	*76,955*	*83,910*	*-6,955*	*-0.3*
Investment Revenue	*15,017*	*44,428*	*28,380*	*16,048*	*195.9*
Other Revenue	*23,759*	*33,754*	*38,246*	*-4,492*	*42.1*
B) AiA	**92,827**	**111,297**	**86,429**	**24,868**	**19.9**
C) External grants	**3,415**	**1,353**	**4,657**	**-3,304**	**-60.4**

Expenditure

Total expenditure for the first quarter reached Kshs. 890.1 billion, falling short of the target of Kshs. 915.6 billion by Kshs. 25.5 billion. However, this represented an increase of Kshs. 85 billion (11 percent growth) compared to the corresponding quarter in FY 2023/24. The expenditure was primarily driven by ministerial recurrent spending, which accounted for Kshs. 685.2 billion (70 percent of the quarterly total), while **ministerial development spending contributed to Kshs. 105.3 billion (15 percent of the quarterly total).**

Table 4: Expenditure Exchequer Issues (Kshs. Millions)

	Actual	Target
Recurrent	678,110	685,212
Development	136,767	105,294
County Governments	63,595	107,292
Others	11,634	17,824

Source: Kenya Gazzette, October, 2023 & 2024

Recurrent exchequer releases were largely disbursed to the Teachers Service Commission (Kshs. 81 billion), Ministry of Defence (Kshs. 36 billion), National Police Service (Kshs. 27 billion), State Department for Basic Education (Kshs. 25 billion), while largest receipts of development disbursements were to State Departments of Roads (Kshs. 16.7 billion), Cooperatives (Kshs. 8.1 billion) and Economic Planning (Kshs. 7.8 billion).

County government expenditures amounted to Kshs. 63.6 billion and on average, each county had received 15 percent of its exchequer receipts by the end of the quarter with the largest recipients being Nairobi, Nakuru, Turkana and Kakamega Counties.

Consolidated Fund Services (CFS)

Total Consolidated Fund Services[2] (CFS) expenditure stood at Kshs. 358.9 billion remaining the largest expenditure head of government. Compared to Q1 FY 2023/24, this was a reduction of Kshs. 26.1 billion in mandatory expenditures thus indicating increased fiscal space for the quarter. Public debt servicing, at Kshs. 326.72 billion accounted for 91 percent of these expenditures, indicating continued impact of high debt servicing expenditures and a probability of higher

[2] These consist of mandatory expenditures that are a direct charge to the Consolidated Fund.

expenditures for other quarters for the rest of the year. Pensions and gratuities rose slightly by Kshs. 1.3 billion, reaching Kshs. 32.1 billion, while spending on salaries, allowances, and miscellaneous items dropped sharply by Kshs. 6.9 billion to Kshs. 0.6 billion.

Public Debt

The stock of public debt amounted to Kshs. 10.79 trillion as of the end of September 2024. This is composed of domestic and external debt stock at Kshs. 5.60 trillion and Kshs. 5.19 trillion, respectively. The increase in domestic debt indicates an increased reliance on domestic financing in the overall borrowing strategy whilst the decline in external debt shows the impact of the exchange rate appreciation on the overall external debt stock. The domestic debt is composed of T-Bonds (83 percent) and T-Bills (14 percent), showing the continued strategy of issuance of government security in the medium term in order to reduce refinancing risk. External debt on the other hand is composed of commercial debt (23 percent), bilateral debt (22 percent) and multilateral debt (55 percent).

Sources:

i. *National Treasury – 2024 Budget Review and Outlook Paper (BROP); Quarterly Economic and Budgetary*
ii. *IMF -World Economic Outlook October 2024*
iii. *Kenya National Bureau of Statistics*
iv. *Central Bank of Kenya*