



**Central Bank of Kenya**

# **STATE OF THE ECONOMY AND OPPORTUNITIES FOR ECONOMIC GROWTH**

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**INDUCTION RETREAT  
FOR THE MEMBERS OF THE 13<sup>TH</sup> PARLIAMENT**

Monday, September 19, 2022  
Dr. Patrick Njoroge

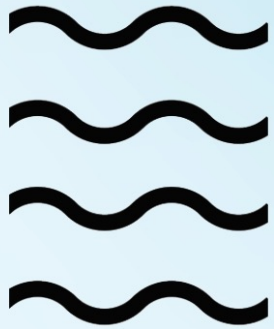
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# Voyage of MV Kenya

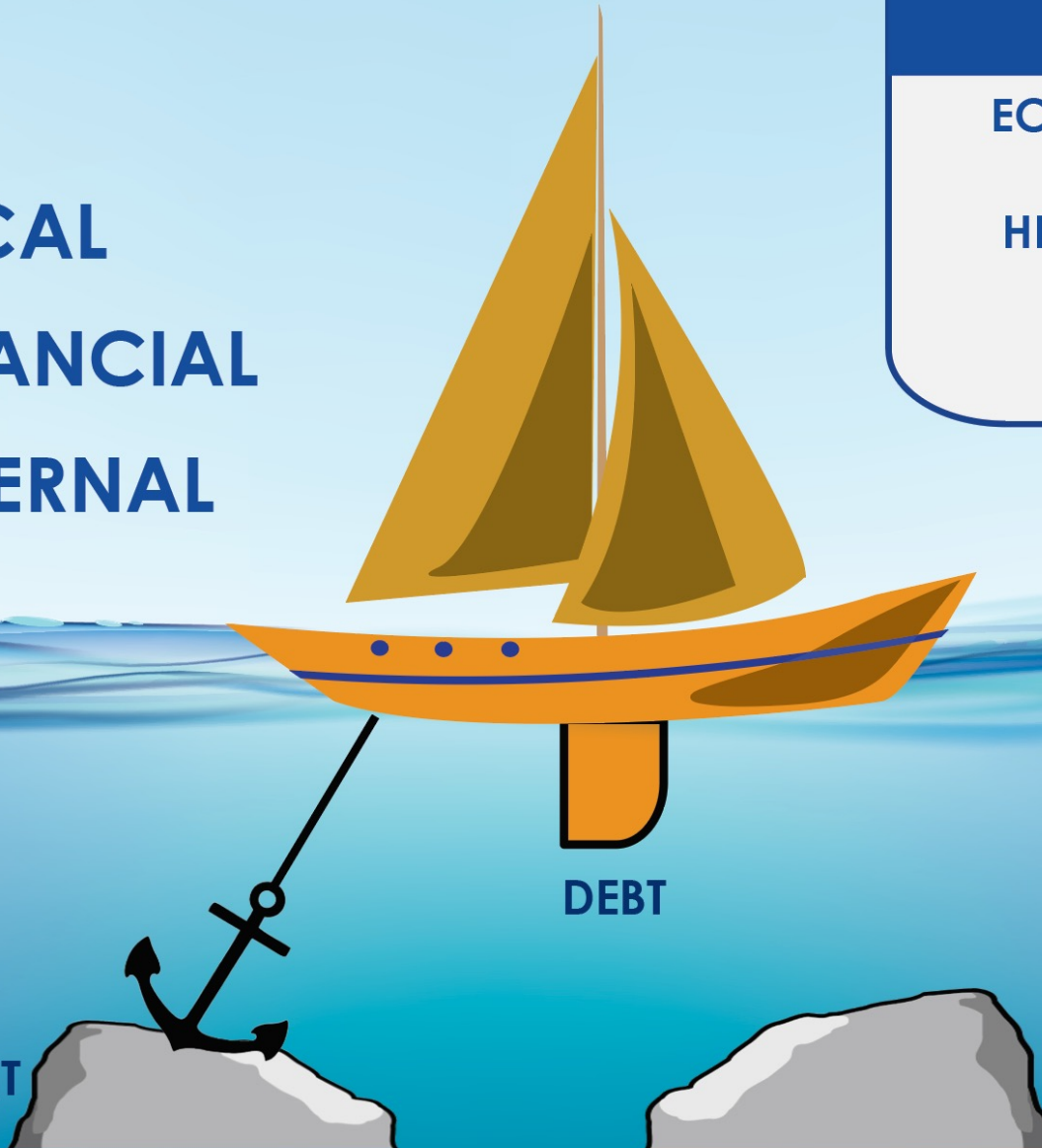


**FISCAL**

**FINANCIAL**

**EXTERNAL**

- CORRUPTION
- PENDING BILLS
- HIGH INFLATION
- WEAK INSTITUTIONS
- POOR ENVIRONMENT



## DASHBOARD

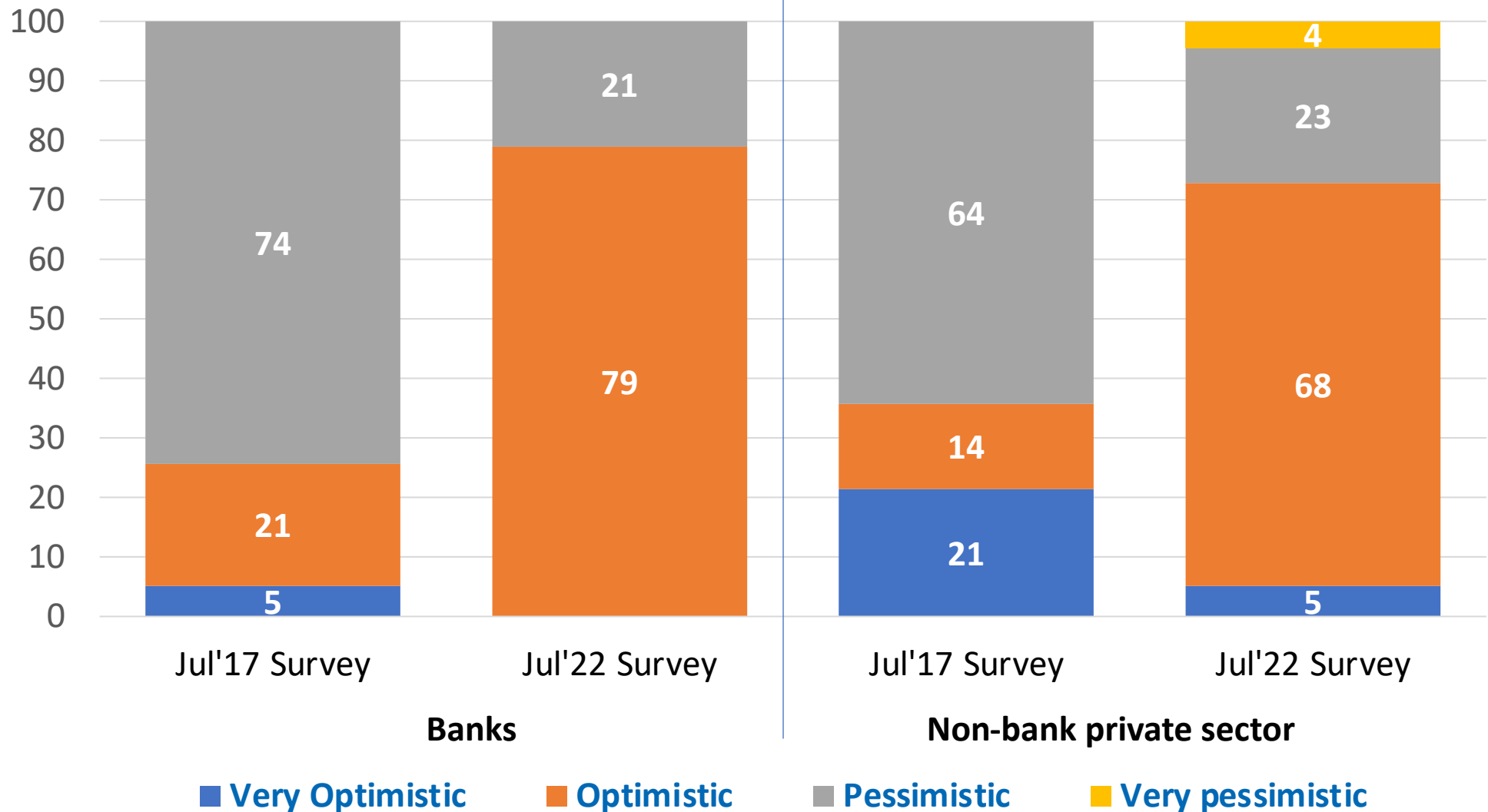
**ECONOMIC GROWTH**  
**COST OF LIVING**  
**HEALTH, EDUCATION**  
**INFRASTRUCTURE**



## July 2022 MPC Market Perceptions Survey:

Stronger optimism in Kenya's economic prospects in 2022 compared to 2017

### Optimism in economic prospects in the next 12 months (percent of respondents)



## Domestic economy:

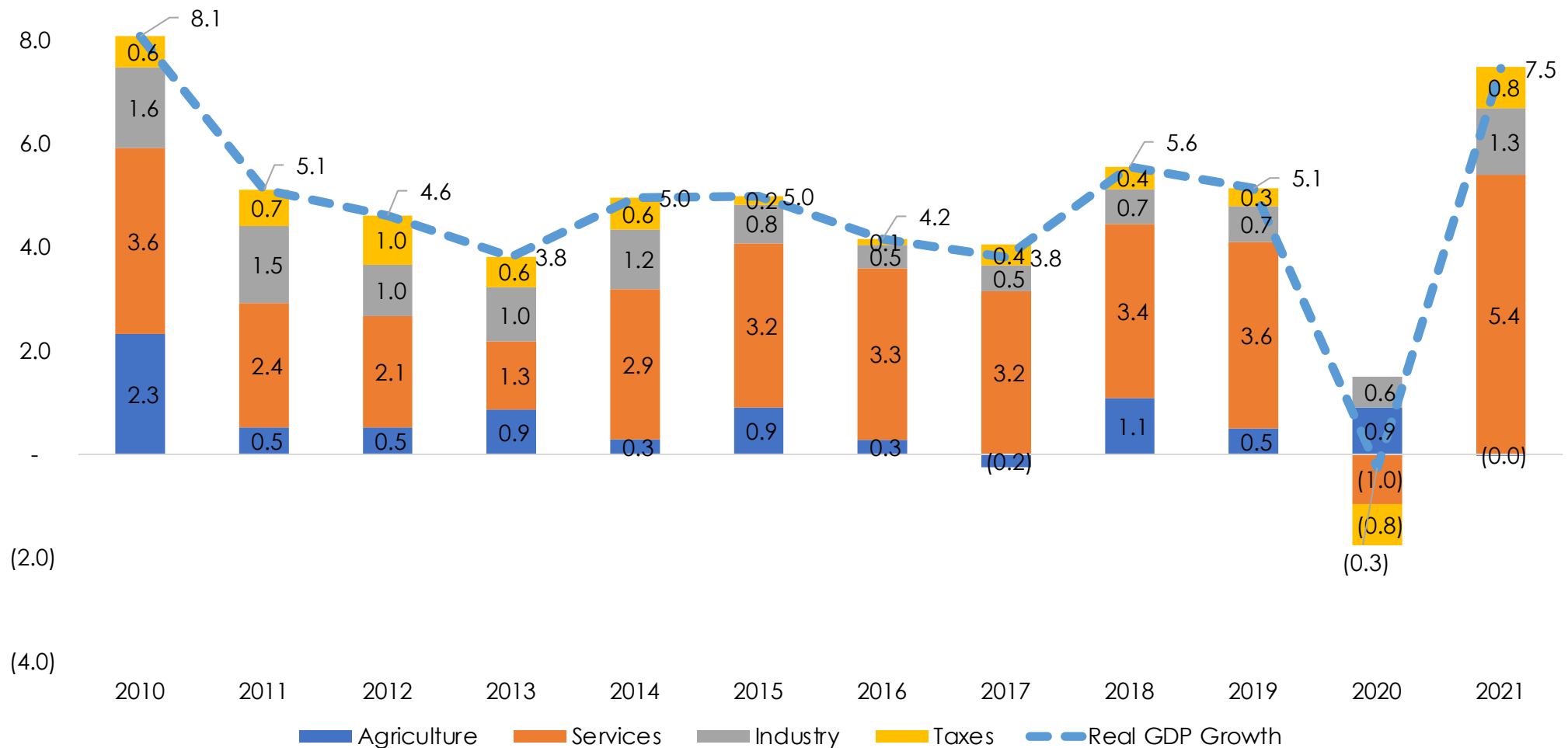
Economic growth is expected to remain strong in 2022

Real GDP growth (y/y, percent)							
	2018	2019	2020	2021	2022		
					Q1	Q2 Est.	Annual Proj.
<b>1. Agriculture</b>	5.7	2.7	4.8	-0.2	-0.7	1.3	1.0
<b>2. Non-Agriculture (o/w)</b>	5.6	5.7	-0.7	9.4	8.7	5.6	6.4
<b>2.1 Industry</b>	3.8	4.0	4.0	7.2	5.5	4.6	4.8
Mining & Quarrying	-4.8	4.3	6.7	18.0	22.1	12.1	11.8
Manufacturing	3.6	2.6	-0.1	6.9	3.7	3.2	3.5
Electricity & water supply	3.6	1.7	0.1	5.0	1.9	5.7	4.8
Construction	6.1	7.2	11.8	6.6	6.4	4.9	5.2
<b>2.2 Services</b>	6.1	6.5	-2.2	9.8	9.2	5.4	6.5
Wholesale & retail Trade	5.9	5.3	-0.4	7.9	8.7	6.1	6.8
Accommodation & food services	15.6	14.3	-47.7	52.5	56.2	18.2	25.4
Transport & Storage	6.0	6.3	-7.8	7.2	8.1	5.2	6.0
Information & Communication	7.9	7.0	4.8	8.8	6.1	7.6	7.5
Financial & Insurance	2.7	8.1	5.6	12.5	14.4	4.7	7.1
Public administration	7.9	8.4	5.3	5.6	6.4	5.2	5.6
Professional, Admin & Support Services	6.9	6.8	-15.0	5.7	14.9	3.8	6.4
Real Estate	6.5	6.7	4.1	6.7	6.1	4.8	5.4
Education	6.4	5.7	-10.8	21.4	6.2	4.6	5.1
Health	5.4	5.5	6.7	6.0	5.0	5.0	5.0
Other Services	3.3	4.3	-14.2	12.6	11.1	2.3	4.2
FISIM	3.7	9.5	-2.0	5.5	6.4	3.1	3.8
<b>2.3 Taxes on products</b>	5.9	3.9	-7.9	11.9	12.3	9.6	9.0
<b>Real GDP Growth</b>	5.6	5.1	-0.3	7.5	6.8	4.7	5.4

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

# Domestic economy: Contributions to real GDP growth by sector (2010-2021)

## Percentage points





## Global growth outlook: A weaker global growth expected in 2022

### Global and selected countries' real GDP growth (y/y, percent)

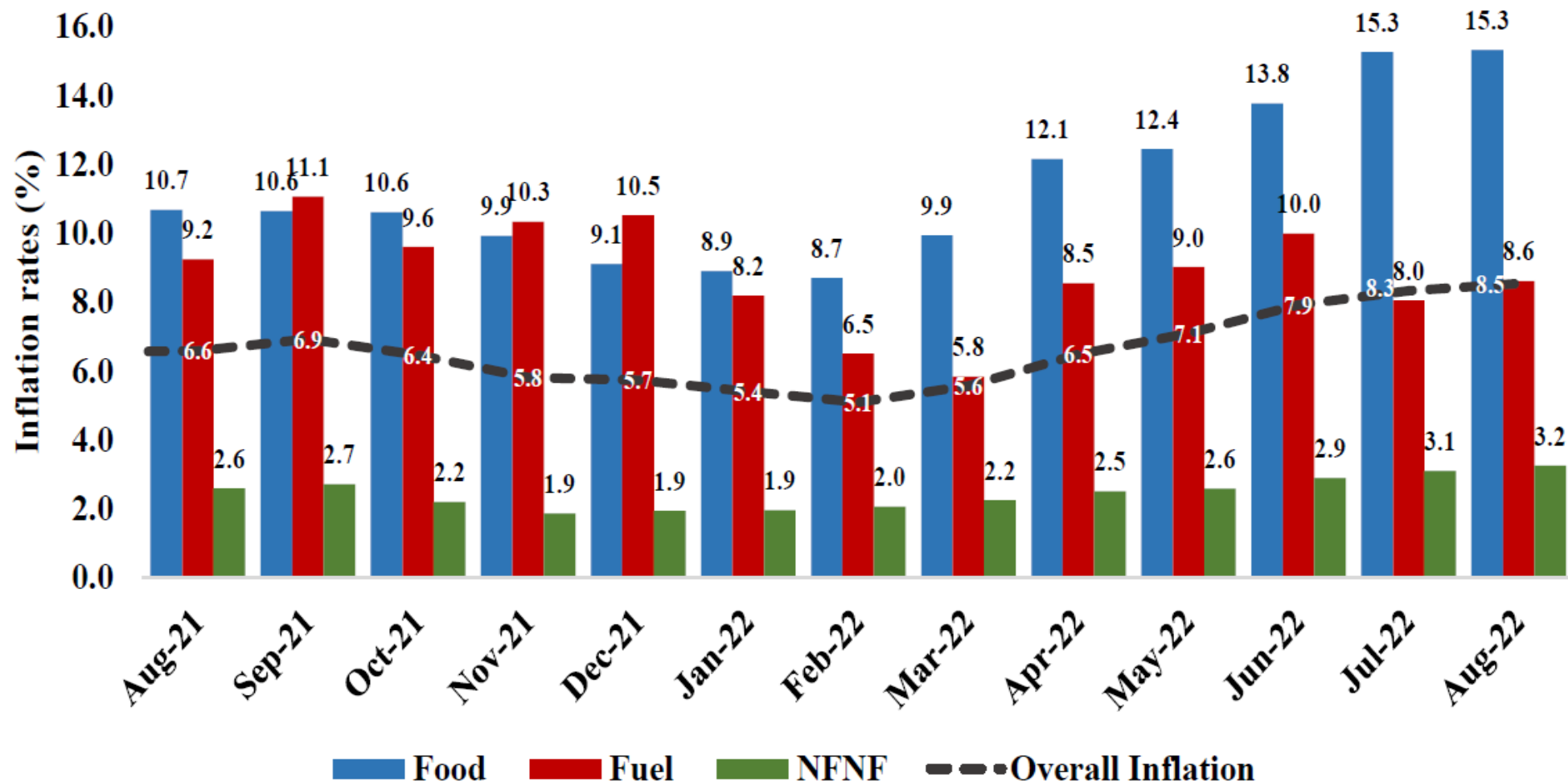
	2021 Act.	2022 Proj.		
		July 2022 WEO	Difference from Apr. 2022 WEO	Difference from Jan. 2022 WEO
<b>World</b>	<b>6.1</b>	<b>3.2</b>	<b>-0.4</b>	<b>-1.2</b>
<b>Advanced Economies</b>	<b>5.2</b>	<b>2.5</b>	<b>-0.8</b>	<b>-1.4</b>
United States	5.7	2.3	-1.4	-1.7
United Kingdom	7.4	3.2	-0.5	-1.5
Japan	1.7	1.7	-0.7	-1.6
Euro area	5.4	2.6	-0.2	0.1
<b>Emerging Market and Developing Economies</b>	<b>6.8</b>	<b>3.6</b>	<b>-0.2</b>	<b>-1.2</b>
China	8.1	3.3	-1.1	-1.5
India	8.7	7.4	-0.8	-1.6
Russia	4.7	-6.0	2.5	-8.8
<b>Sub-Saharan Africa</b>	<b>4.6</b>	<b>3.8</b>	<b>0.0</b>	<b>0.1</b>
South Africa	4.9	2.3	0.4	0.4
Nigeria	3.6	3.4	0.0	0.7
Kenya	7.5	5.7	0.0	0.0

Source: IMF World Economic Outlook

## Domestic inflation:

Inflation increased in recent months due to food and fuel prices

Inflation by broad category (y/y, percent)

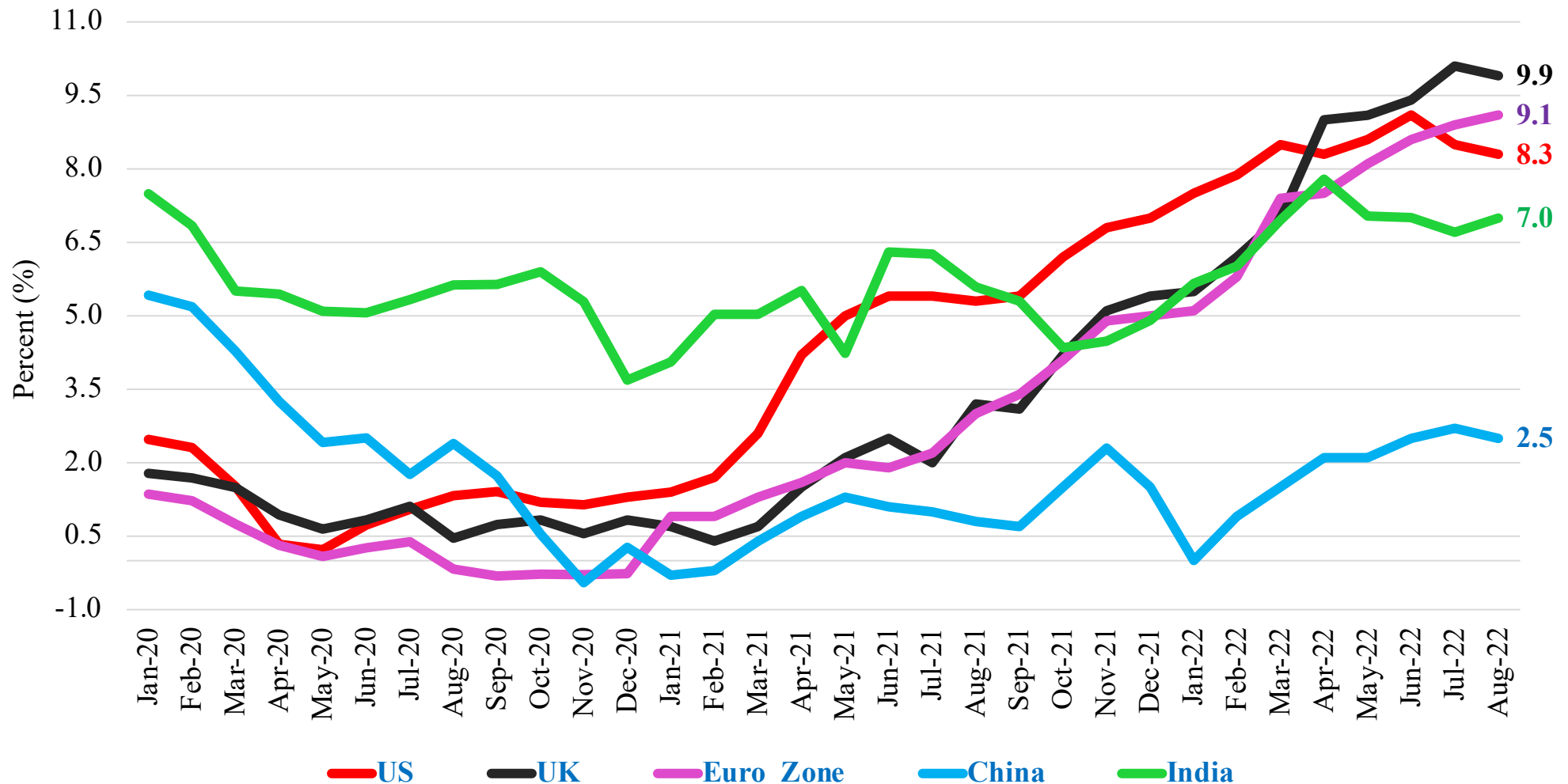


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

# Global inflation:

Inflation remains elevated in the major economies

## Overall inflation (y/y, percent)



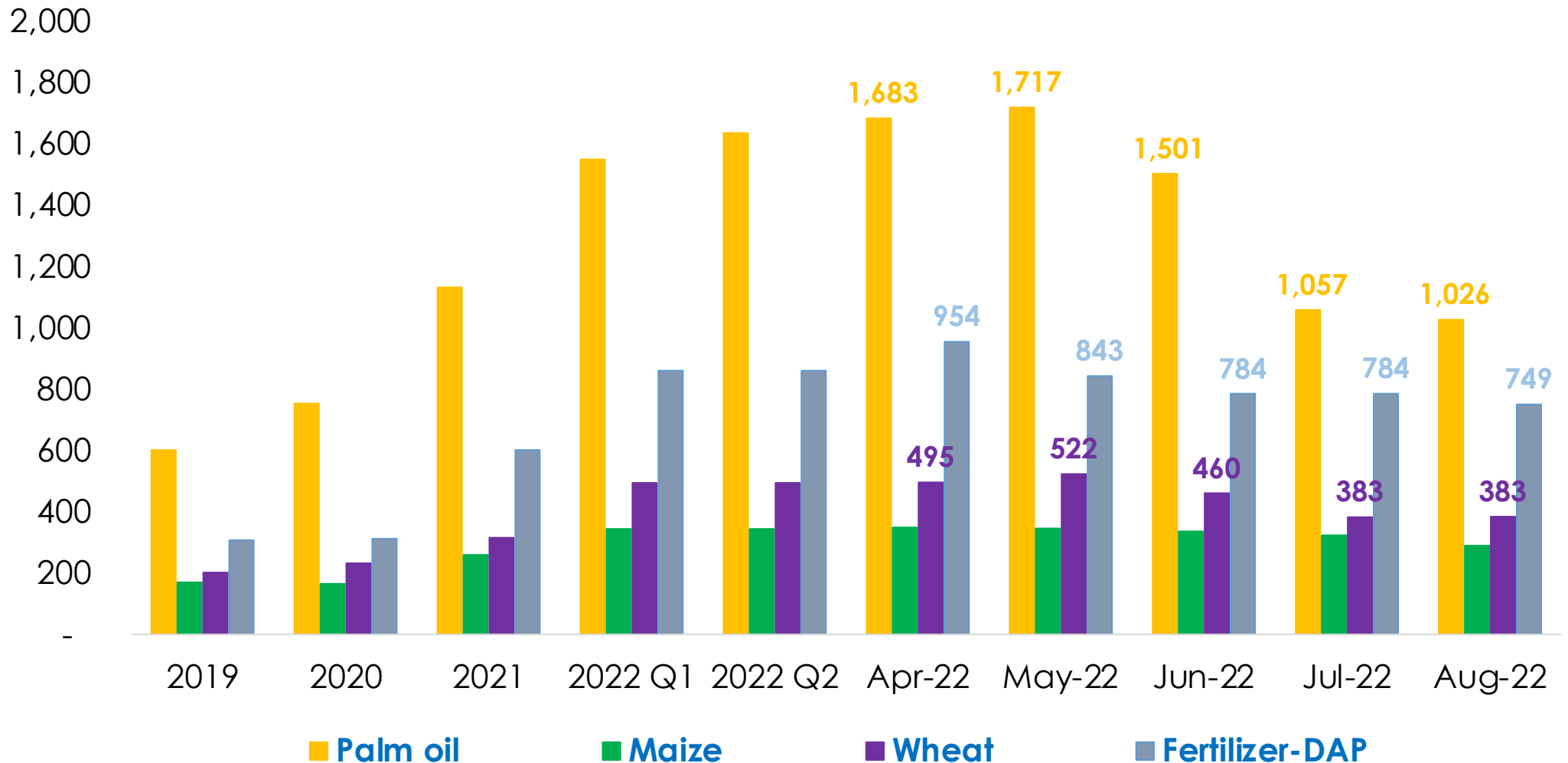
Source: Websites of respective countries



## Global commodity prices:

Prices of palm oil, fertilizer-DAP, and wheat have moderated

Global prices of selected commodities (USD, per metric tonne)



Source: World Bank Commodity Prices

# International crude oil prices:

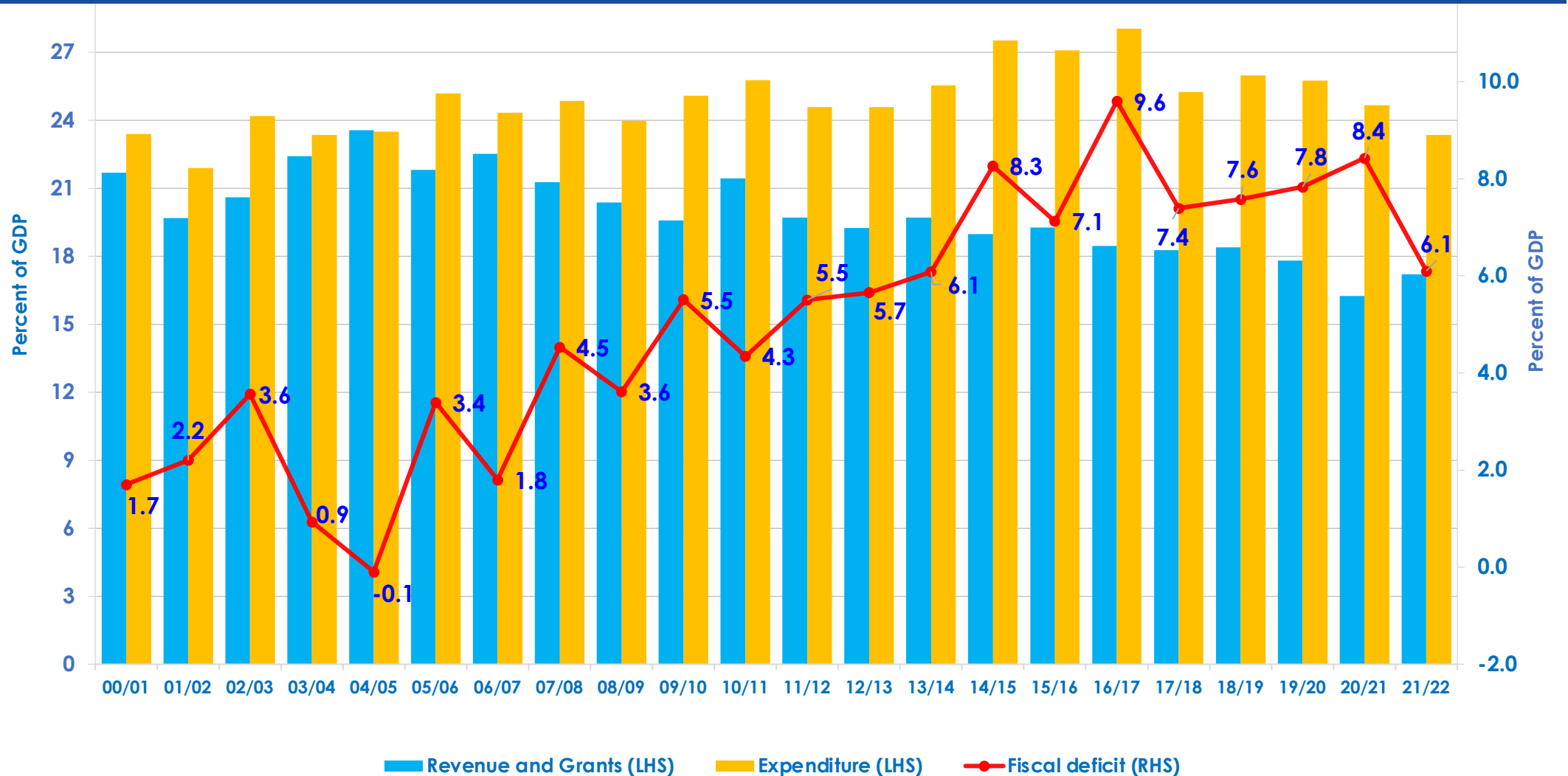
The price of oil has moderated but remains volatile

## Murban oil price (USD, per barrel)

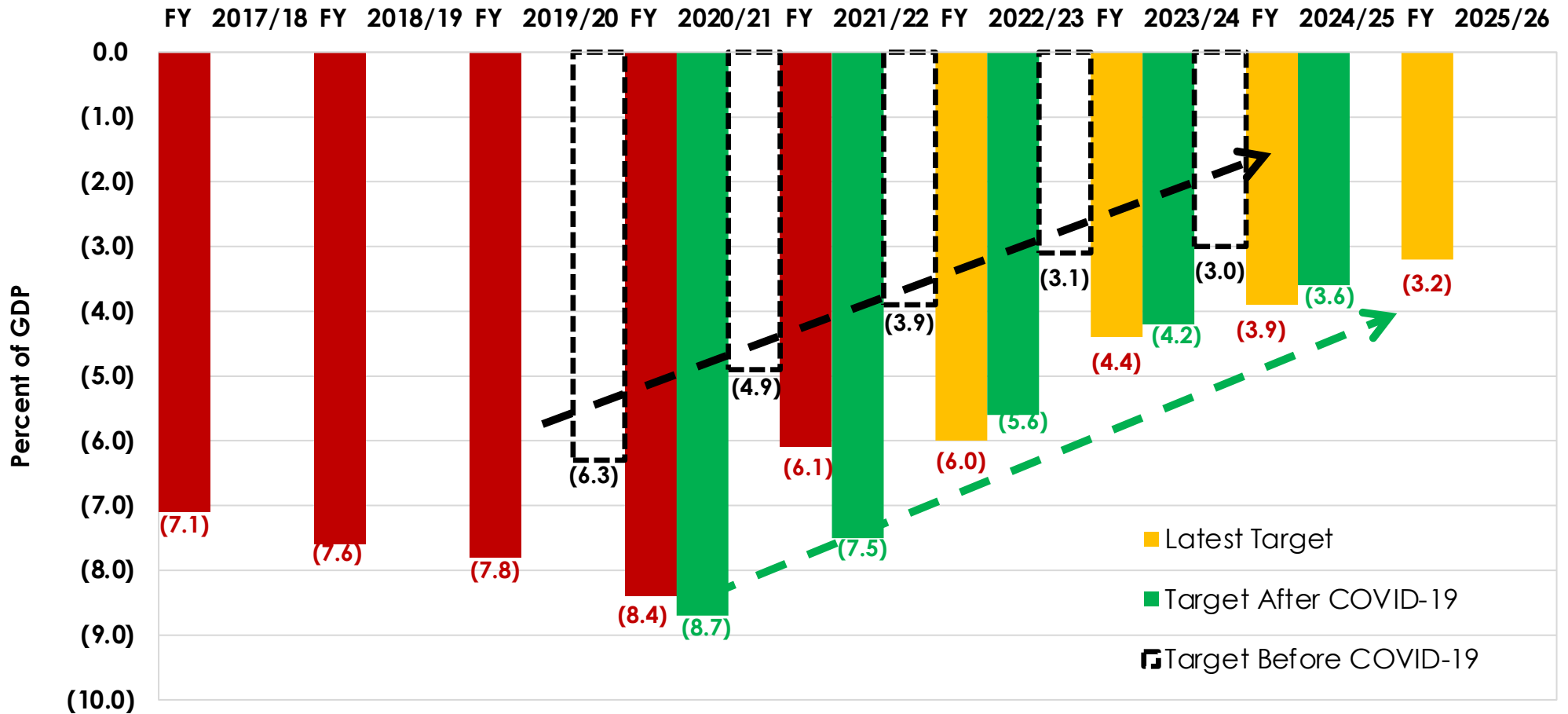


Source: Oilprice.com

## Percent of GDP



## Budget deficit (Percent of GDP)

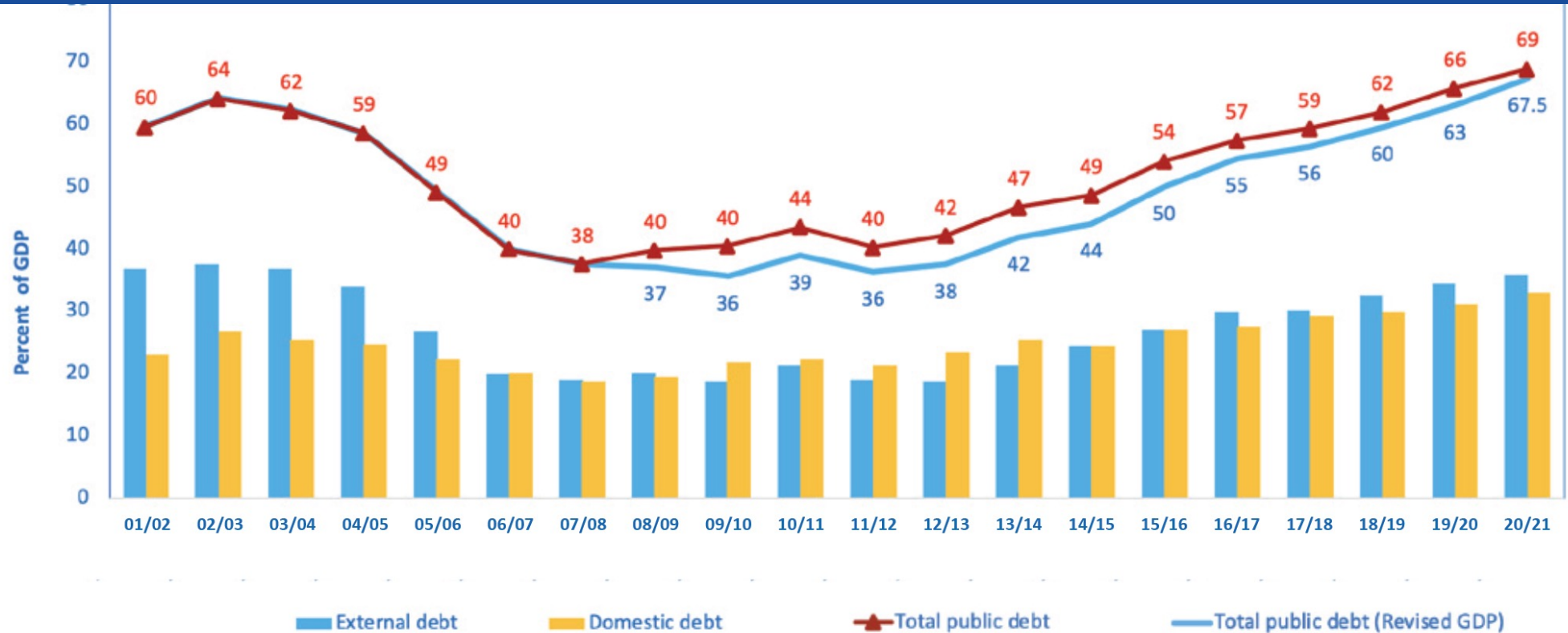


Source: National Treasury

## Evolution of Kenya's Public Debt...

### ➤ Debt to GDP ratio

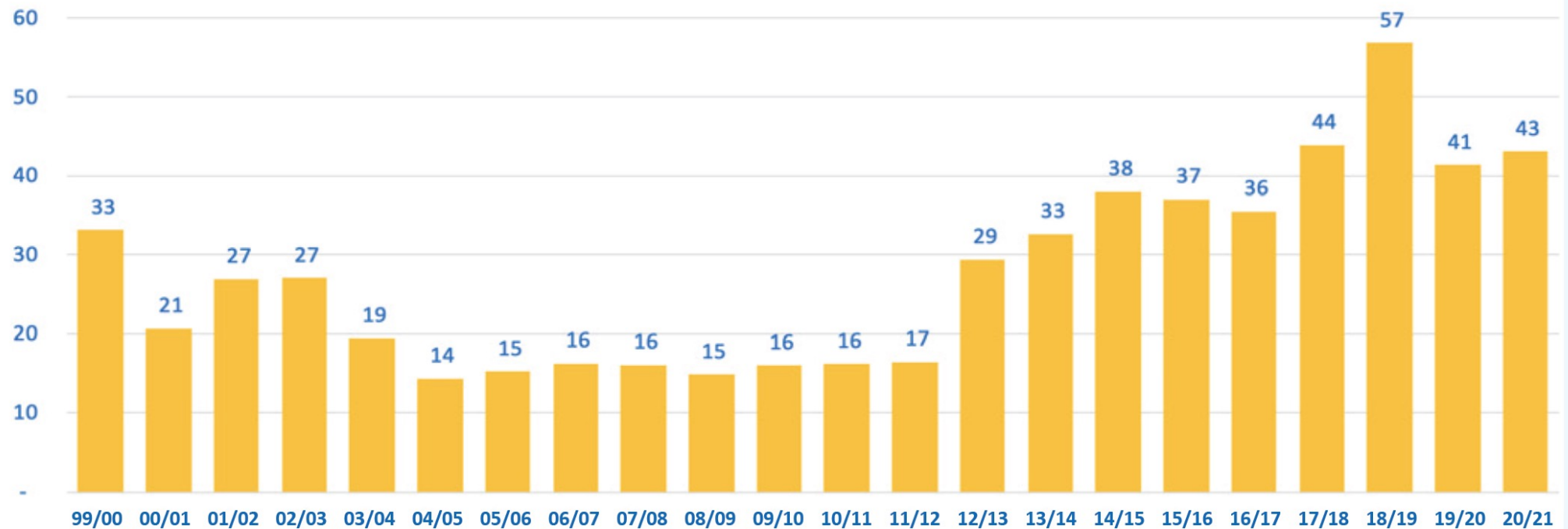
#### Percent of GDP



- Kenya's public debt to GDP ratio declined from 64.1 percent in June 2003 to 38.1 percent in June 2012, but increased thereafter driven largely by spending on infrastructure and more recently, COVID-19 related spending.



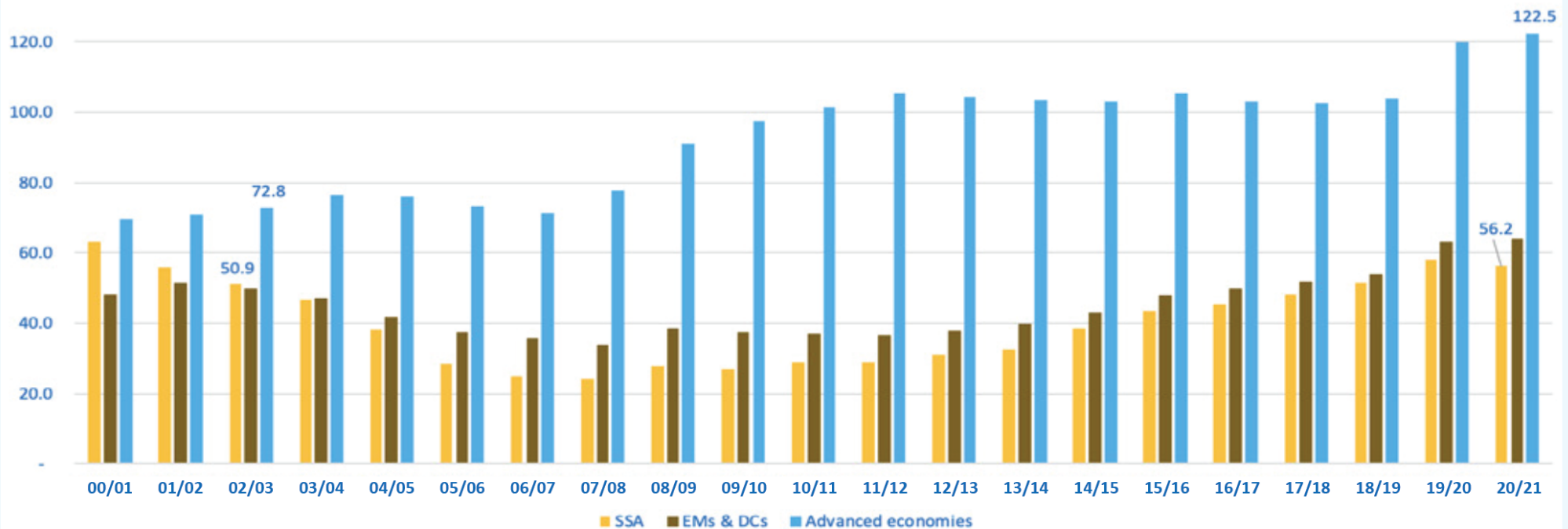
### Debt service to revenue (Percent)



- Total debt service to revenues increased to 57 percent in 2019 from 17 percent in 2012 due to an increased debt stock and changing terms on new loans including one-off repayment of syndicated loans and Eurobonds in 2019.
- This trend is expected to reverse in the medium term due to improving terms on new loans, and the restructuring of external commercial loans that have heavy maturities and high interest cost.



## Government debt (percent of GDP)



Source: WEO April 2021

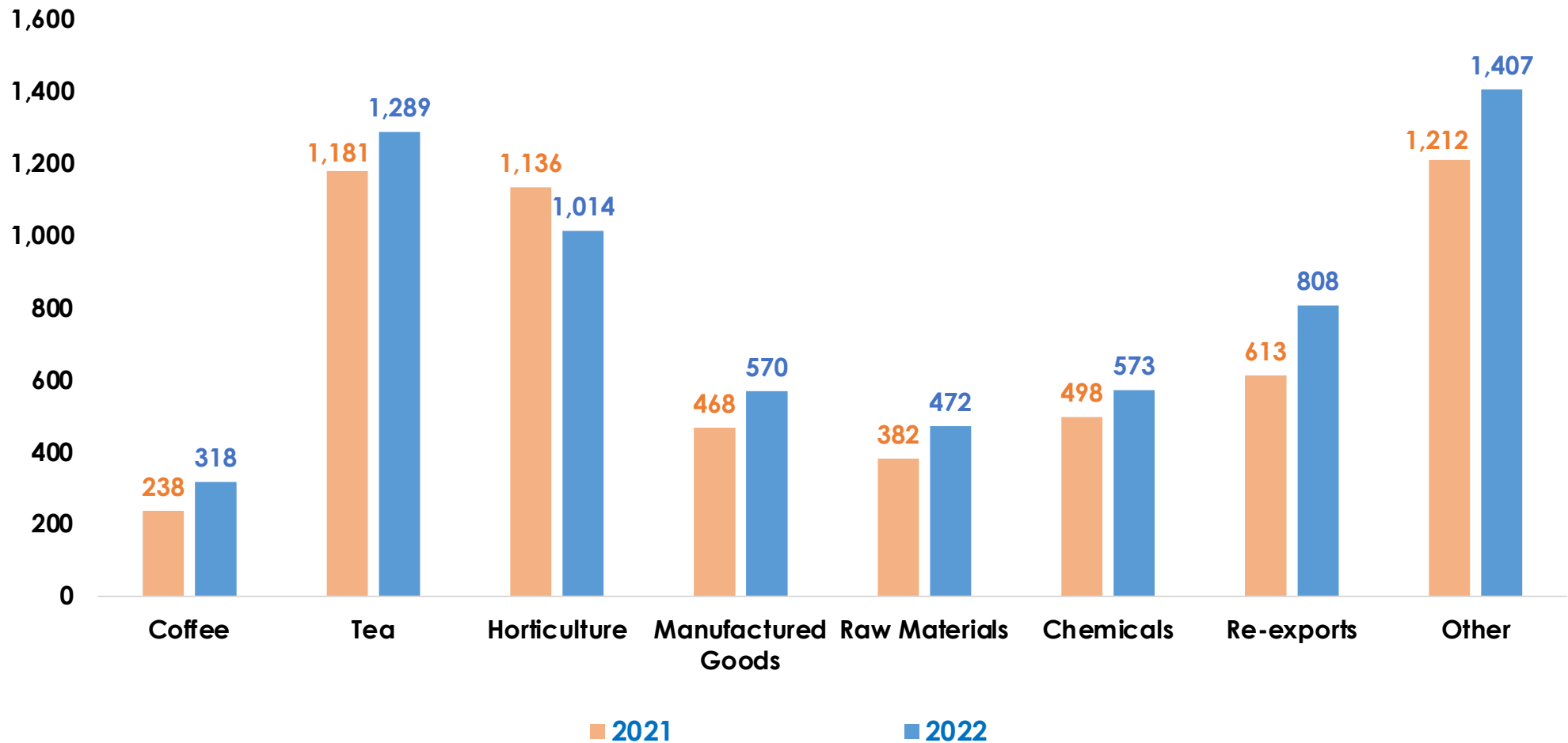
- Government debt to GDP ratio in Advanced Economies (AEs), Emerging Markets and Developing Countries (EMs & DCs) and Sub-Saharan Africa (SSA) has been on an upward trend in the last decade.
- The Sub-Saharan Africa debt to GDP ratio decreased during 2000 - 2010 as several countries in the region benefitted from Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt relief programmes.

- **It narrows the fiscal space**, therefore limited resources for development and recurrent expenditure
- **Narrows the fiscal buffers**, thus limited space to pursue countercyclical fiscal policy leading to increased volatility and lower growth rates
- **Increases the interest rate structure for the sovereign and the private sector**, thus stifling innovation and productivity and eventually reducing the economy's growth potential

## Balance of payments:

Exports of goods have been growing strongly

### 12 Months cumulative exports of goods to July (USD, Million)

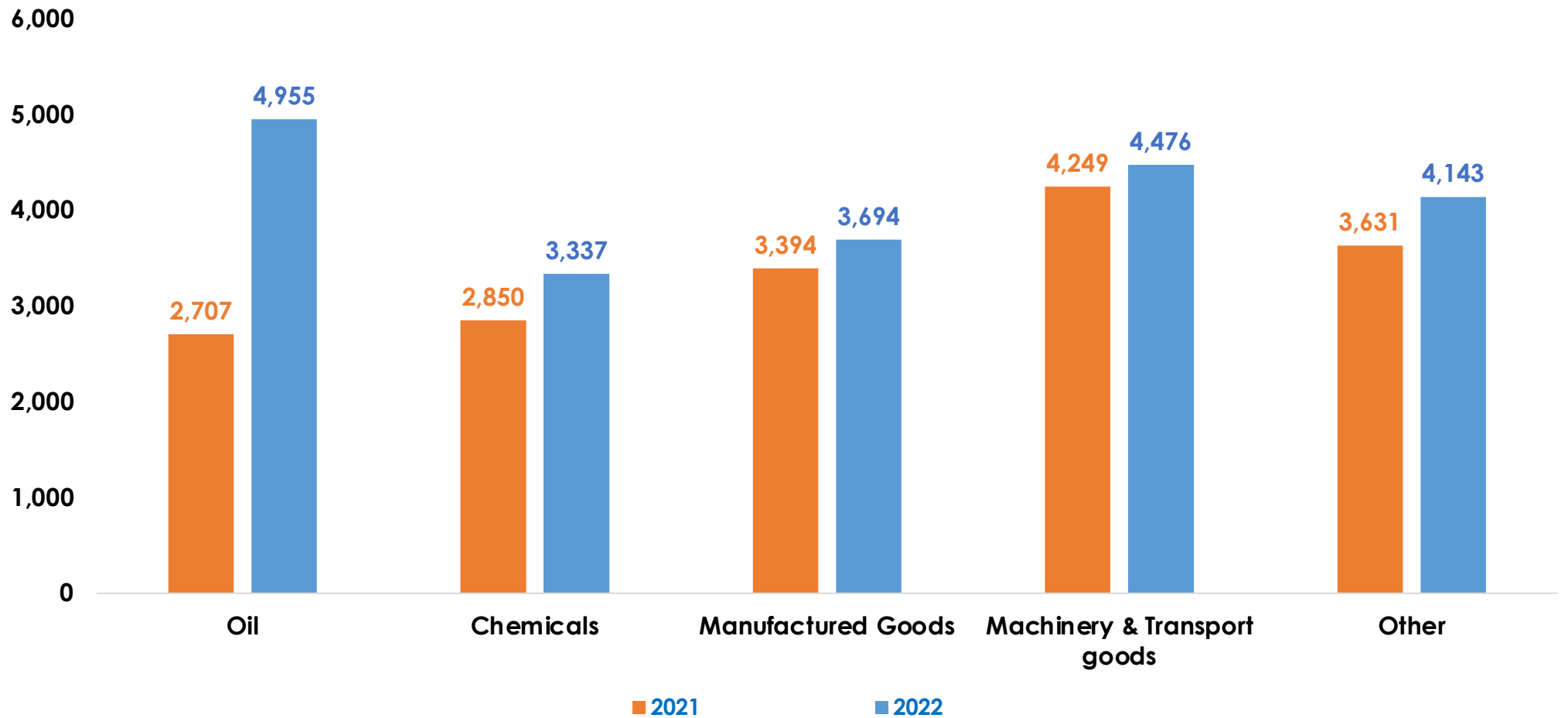


Source: CBK and KRA

## Balance of payments:

Imports of goods have increased largely due to oil imports

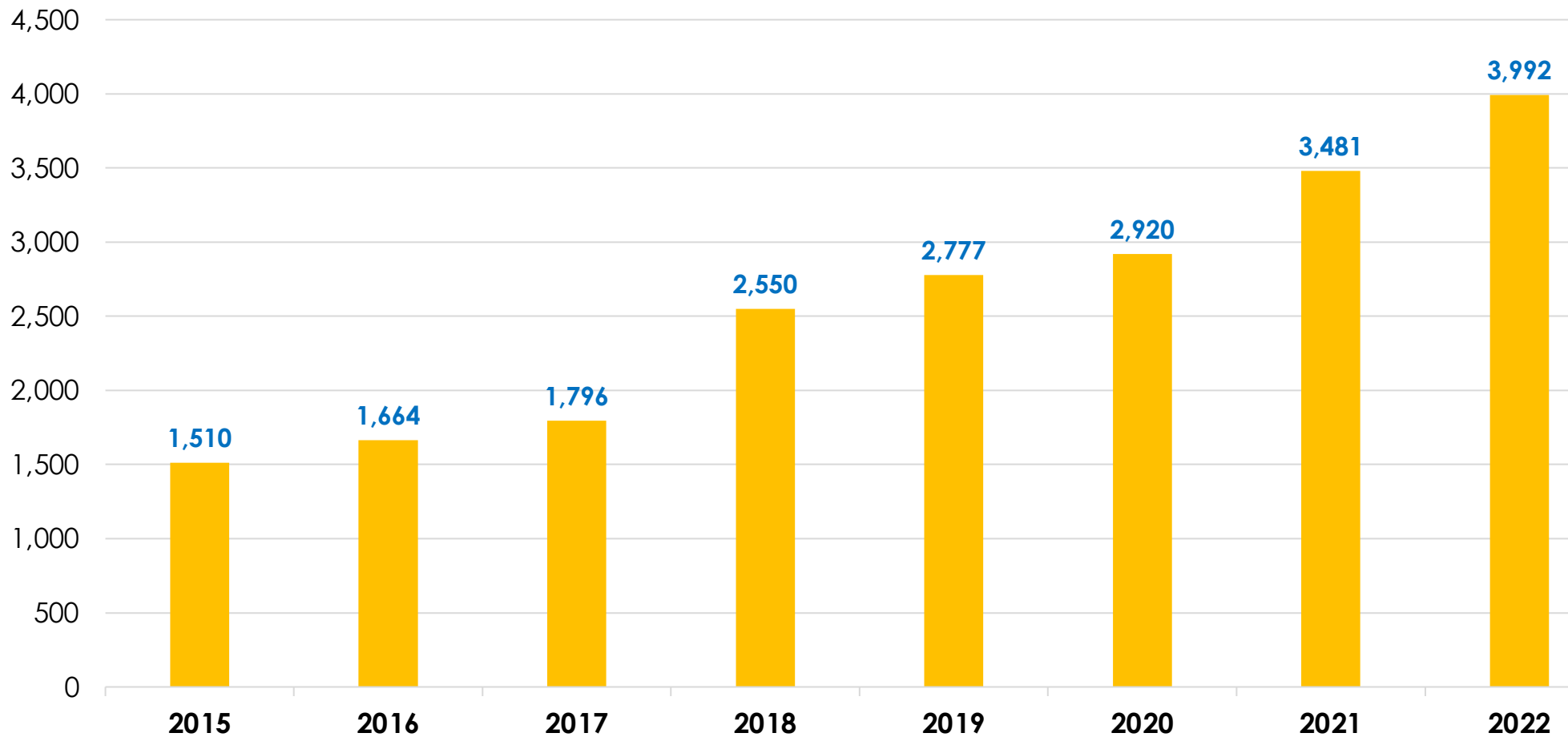
### 12 Months cumulative imports of goods to July (USD, Million)



Source: CBK and KRA

## Diaspora remittances: Remittances inflows have remained strong

### 12 months cumulative remittances to August (USD, Million)

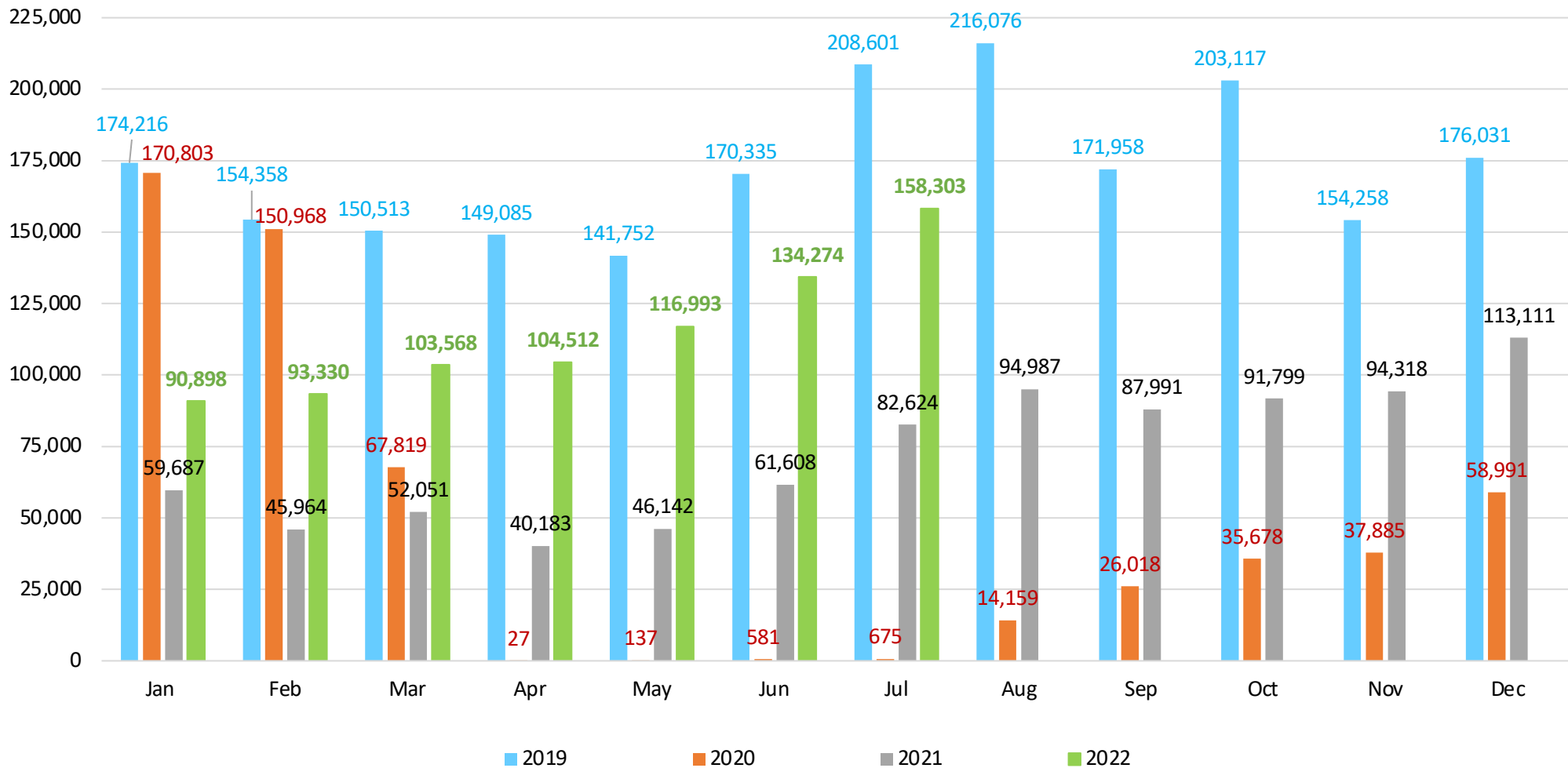


Source: CBK

# Tourism sector:

## Tourist arrivals have recovered strongly

### Total number of tourist arrivals



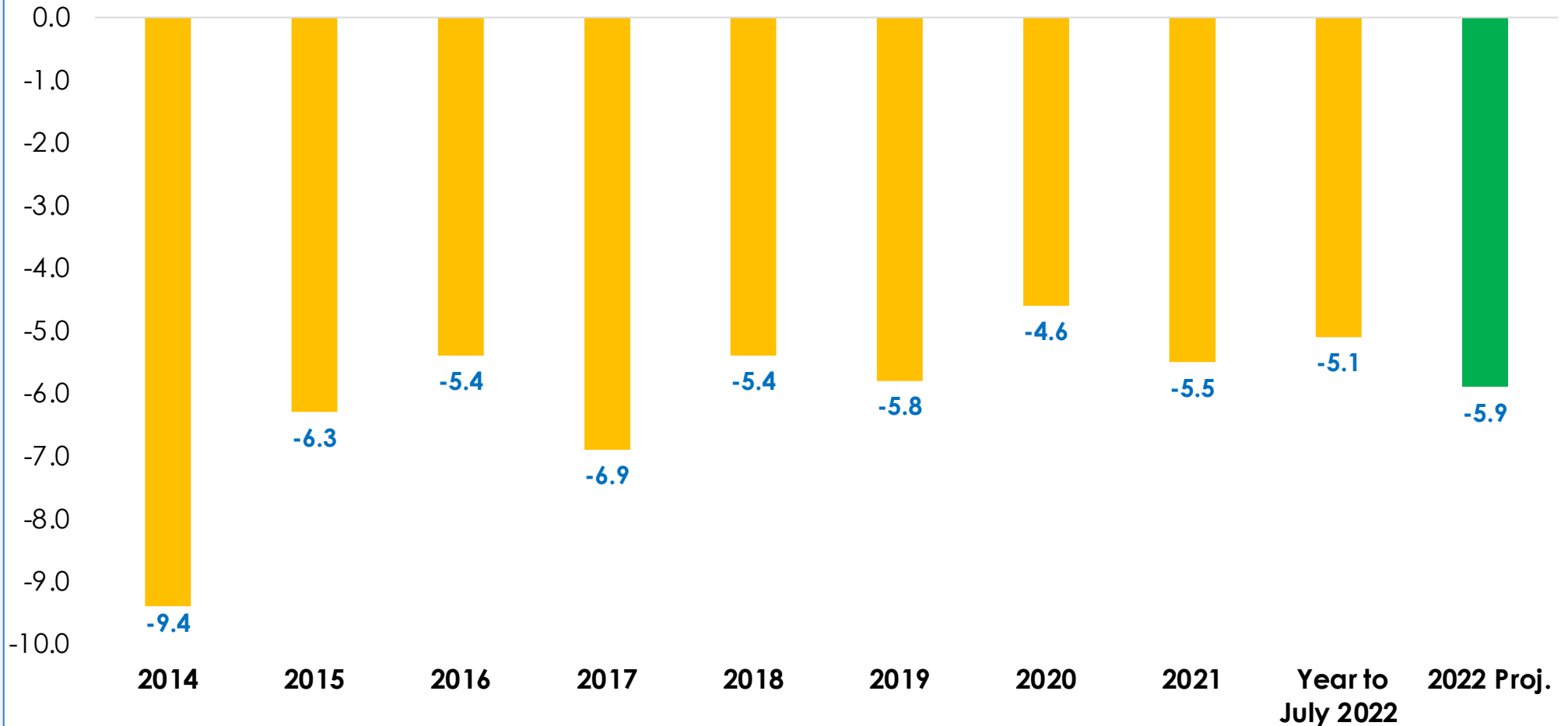
Source: Kenya Tourism Board



## Current account balance:

The deficit is expected to widen in 2022 due to higher oil prices

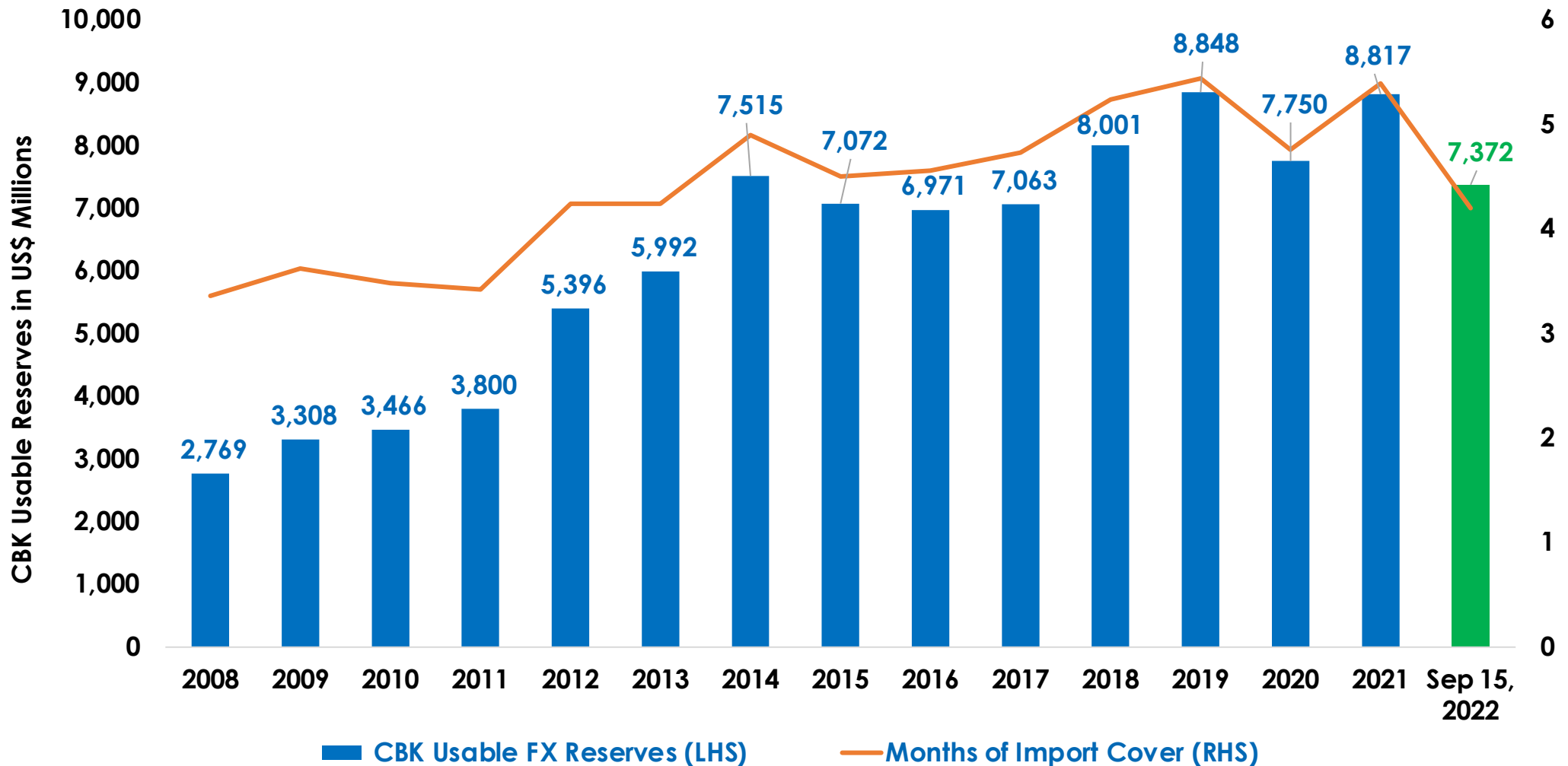
### Current account balance (percent of GDP)



Source: CBK

# CBK usable foreign exchange reserves: Foreign exchange reserves remain adequate

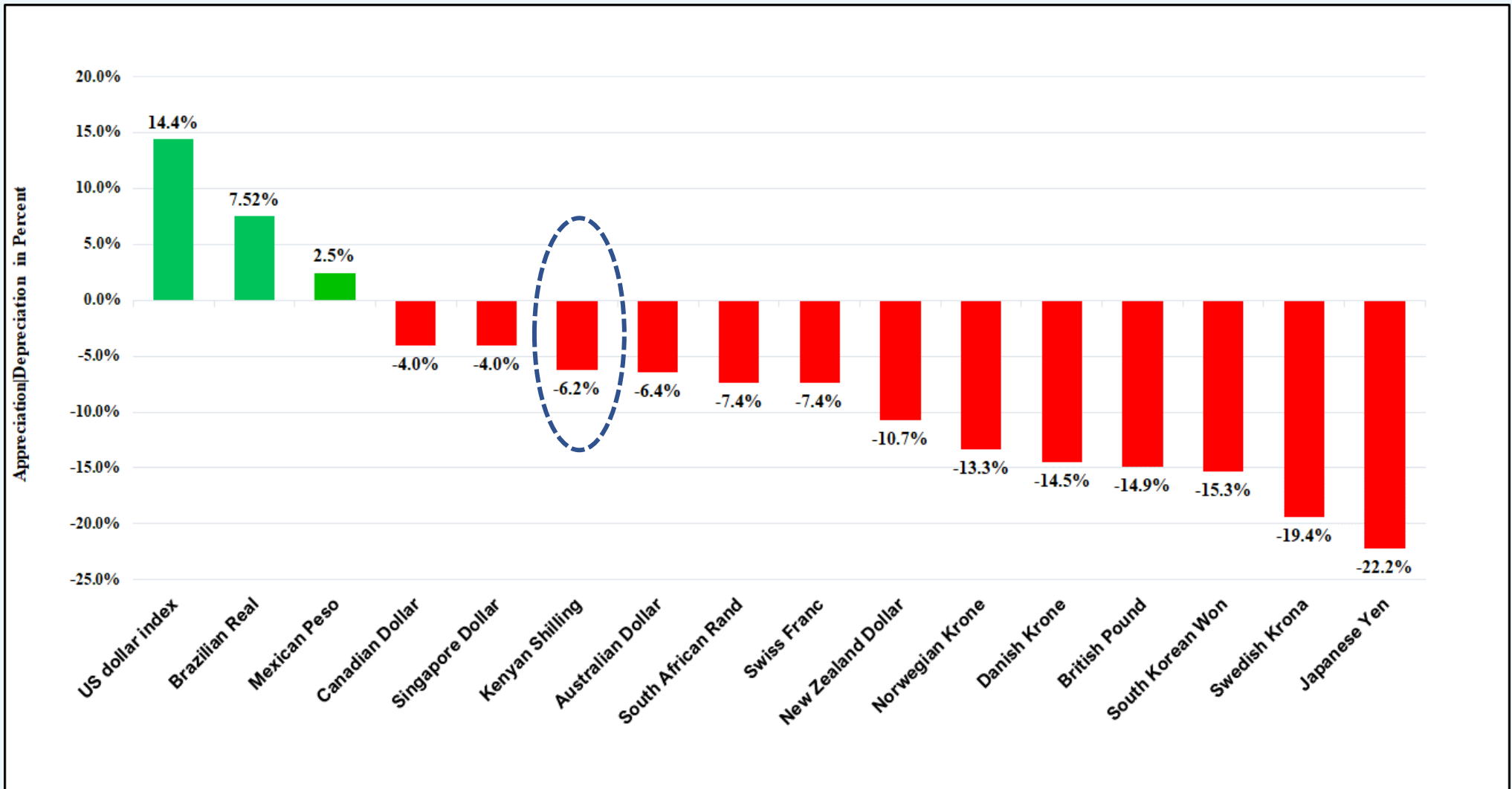
## CBK usable foreign exchange reserves (end period)



Source: CBK as of September 15, 2022

## Exchange rates:

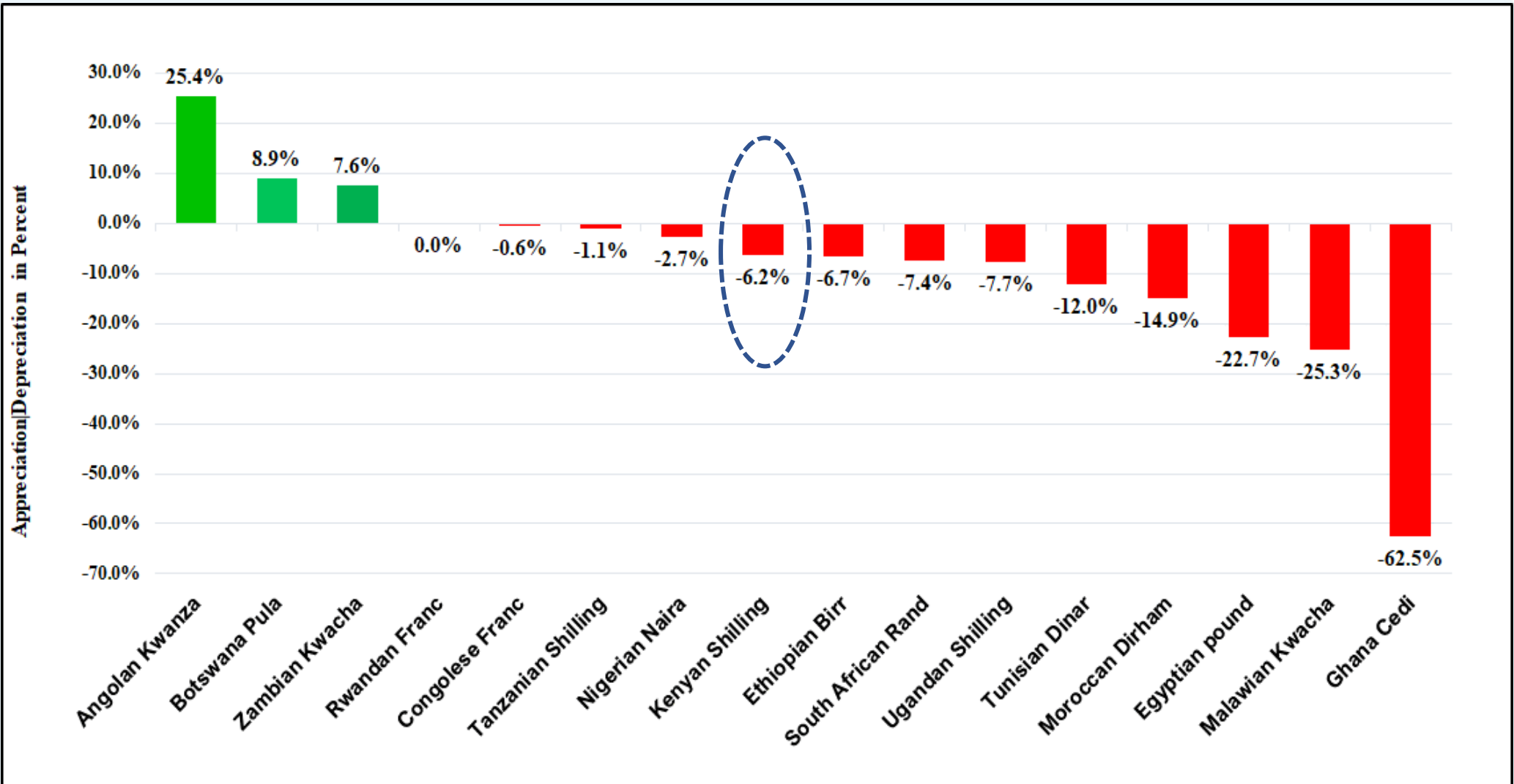
Major currencies vs. U.S. Dollar: January to September 2022



Source: Refinitiv, as of 6 September 2022

## Exchange rates:

African currencies vs. U.S. Dollar: January to September 2022



Source: Refinitiv, as of 6 September 2022

- The National Payments System (NPS) Infrastructure has been strengthened to promote and maintain financial stability and support economic growth.
- The CBK launched the National Payments Strategy 2022-2025 in February 2022.

**Vision:** A secure, fast, efficient and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans.

### NPS 2022-2025 Strategy Principles



## 1. Financial Inclusion in Kenya

- Financial inclusion increased from 26.7 percent in 2006, to 83.7 percent in 2021;
  - On the back of digitalization, and more specifically the introduction of mobile money in Kenya.



### General

Population (2019)	<b>47.6 million</b>
Population below 34 years	<b>75%</b>
Gross domestic product	<b>\$101 billion</b>

### Financial inclusion

Financial access (2021)	<b>83.7%</b>
Mobile money accounts	<b>81%</b>
Traditional bank accounts	<b>44%</b>
Mobile phone penetration	<b>132%</b>

### Renewable energy:

**M-KOPA**

### Education: Lipa Karo

**SOMA NA SHUPAVU 291**

### Gov't payments:

**eCitizen**  
fast.Secure.Convenient

### E-commerce:

**MA SOKO**  
BY SAFARICOM

### Health:

**m-tiba**

### Securities:

M-Akiba;  
Dividend payments

**M-AKIBA**

### Aviation:

M-Ticketing

### Real estate:

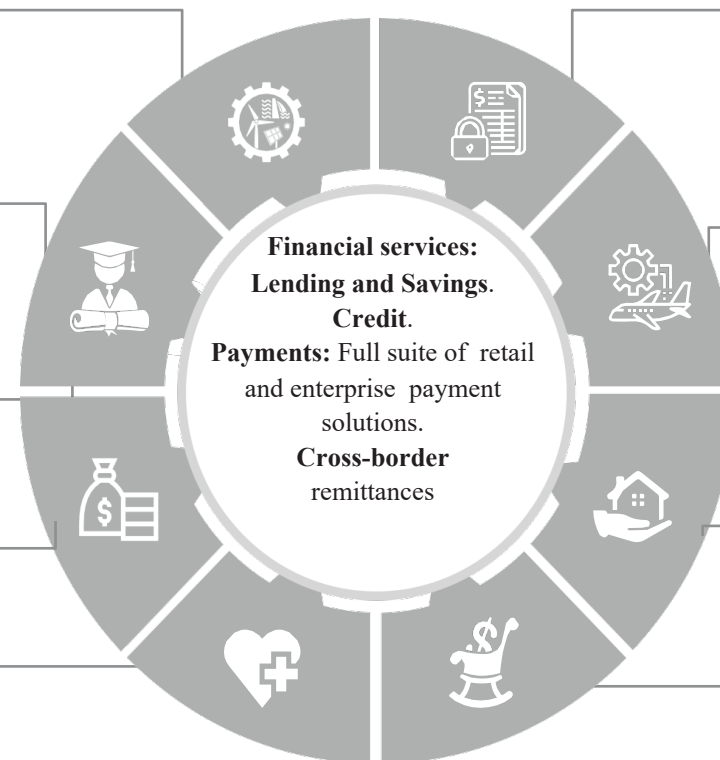
Lipa kodi

### Agriculture:

**Digi Farm**  
BY SAFARICOM

### Pensions:

"Mbao" plan



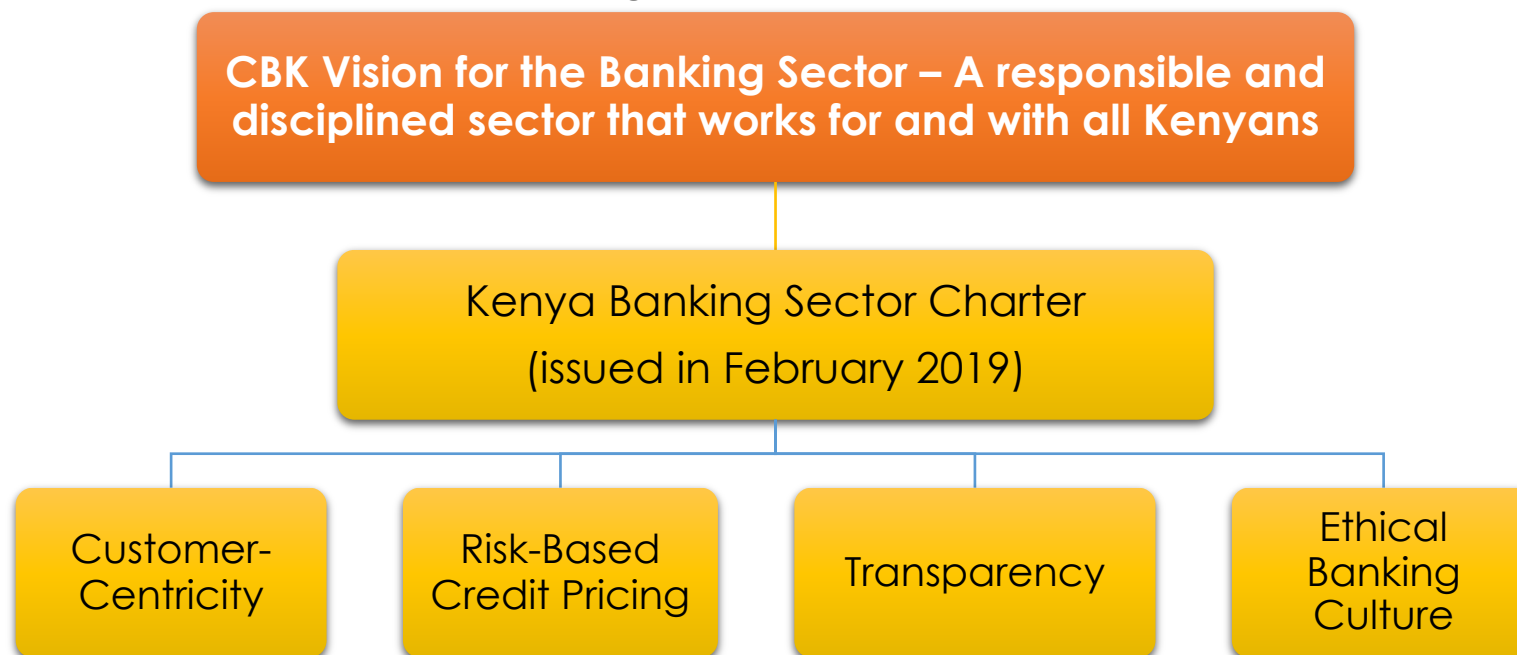
Source: CBK FinAccess Report 2021



## 2. Vision of the Banking Sector

The Central Bank of Kenya's (CBK) vision for the banking sector is "a banking sector that works for and with Kenyans".

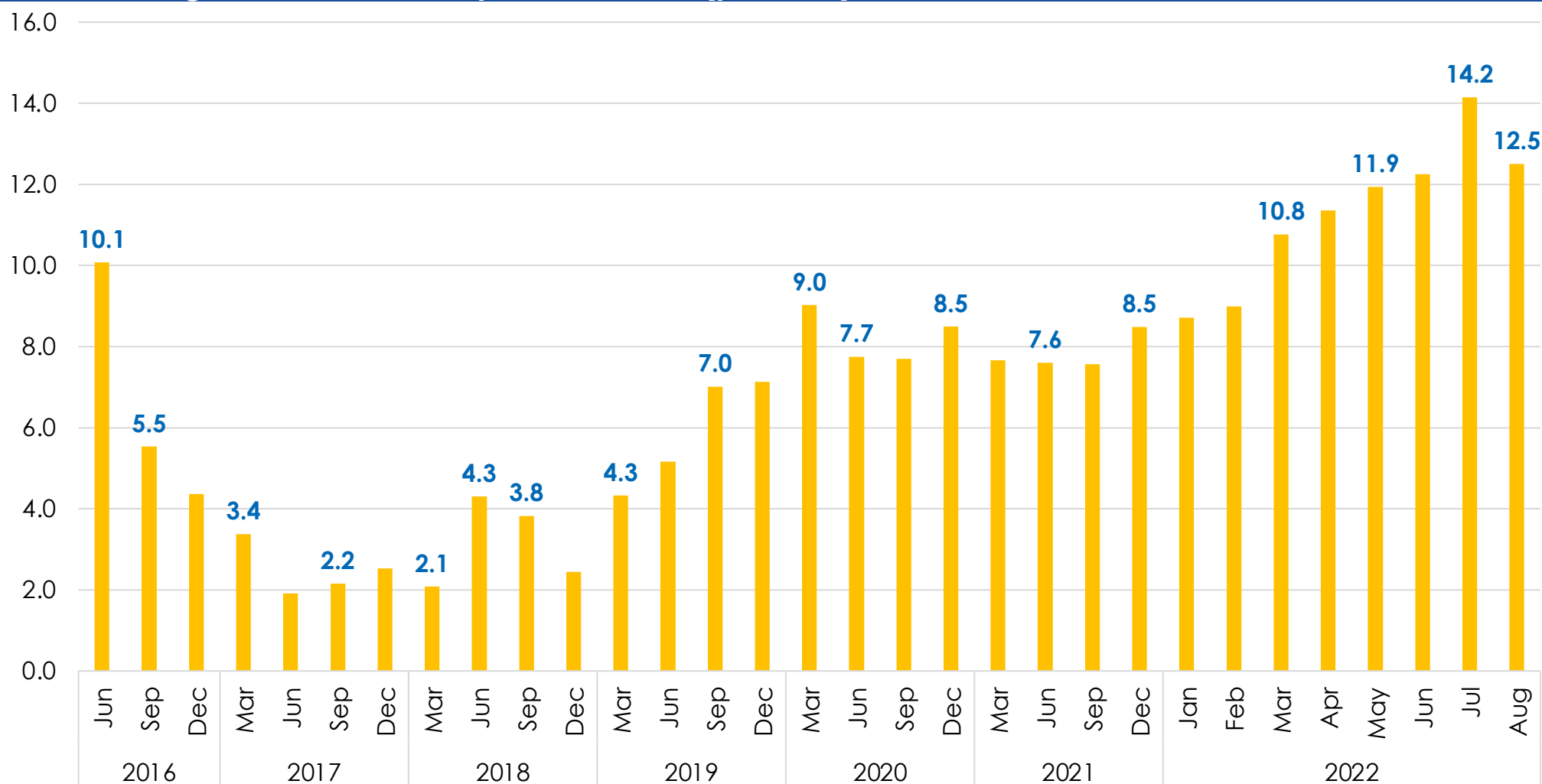
- This is outlined in CBK's Kenyan Banking Sector Charter.



# Banking sector developments:

## Strong growth in credit to key sectors of the economy

### 12 Months growth in credit to private sector (percent)



Source: CBK

### 3. Key Banking Sector Milestones

#### Regulation of Digital Credit Providers:

- Central Bank of Kenya (Amendment) Act, became effective on December 23, 2021.
- The CBK (Digital Credit Providers) Regulations, 2022, published and operationalized on March 18, 2022.
- The Amendment and Regulations provide for regulation of previously unregulated Digital Credit Providers (DCPs) by CBK.
  - This follows public concern on high costs, unethical debt collection practices and misuse of personal data by unregulated DCPs.
  - Unregulated DCPs are required to apply for licencing by CBK by September 17, 2022.

#### Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT):

- **National Risk Assessment on Money Laundering and Terrorism Financing (NRA) - 2019 to 2021**
- The main objective of the NRA was to identify, understand and assess Kenya's Money Laundering (ML) and Terrorism Financing (TF) risks at a national and sectoral level.
- Recommendations to strengthen Kenya's AML/CFT regime are contained in the NRA Strategy and Action Plan issued with NRA report in July 2022.
- **Mutual Evaluation of Kenya by the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) – September 2021 to September 2022**
- Kenya has undergone a mutual evaluation of its AML/CFT framework against international standards issued by the Financial Action Taskforce.
- The report of Kenya's mutual evaluation was adopted by ESAAMLG on September 2, 2022.
- The report has made recommendations to strengthen Kenya's AML/CFT legal and regulatory framework.

#### 4. Areas of Support from the National Assembly

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1

- **Consideration of Microfinance Bill, 2021**
- Microfinance Bill seeks to strengthen MFBs to effectively serve underbanked and unbanked Kenyans in peri-urban and rural areas.

2

- **Designation of lawyers as reporting persons under Proceeds of Crime and Anti-Money Laundering Act (POCAMLA)**
- This was enacted through POCAMLA Amendment Act, 2021.
- Implementation was stopped by a court order as petition against designation of lawyers is heard and determined.
- Seeks to ensure Kenya's compliance with international AML/CFT standards.

3

- **Strengthening of AML/CFT legal framework.**
- Implementation of the NRA Strategy and Action Plan, and recommendations from ESAAMLG Mutual Evaluation of Kenya.
- This will strengthen Kenya's AML/CFT legal and regulatory environment to fully secure the country.
- Support Kenya's aspiration to be a premier regional financial services hub.

- **The IMF completed the 3<sup>rd</sup> Review of the ECF/EFF Arrangements on July 18, 2022:**
  - A strong recovery is underway although global shocks are creating new spending needs and adding to inflation pressures.
  - Kenya's program is delivering resilience, helping navigate these global shocks.
- **S&P affirmed Kenya's short-term foreign and local currency sovereign rating at "B". The outlook is stable:**
  - The stable outlook balances the expectation of relatively strong economic growth and modest fiscal consolidation against the pressures of a more difficult global financing environment.
  - It also assumes a relatively smooth post-election handover.

*Thank You!*



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