

# Kenya Macroeconomic Q3'2021 Review

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According to the 2021 Economic Survey Report by the Kenya National Bureau of Statistics (KNBS), the Kenyan economy contracted by 0.3% in 2020, from the restated 5.0% growth recorded in 2019 due to the lockdowns following the emergence of the COVID-19 pandemic. However, the first 9 months of 2021 have seen a gradual recovery evidenced by improved business conditions in the Kenyan private sector. Notably, the average Stanbic Bank Monthly Purchasing Managers' Index (PMI) for the first eight months averages 50.2, higher than the 45.2 recorded during a similar period in 2020, and the 50.0 recorded at the end of Q2'2021. For the month of August 2021, the index increased to 51.1 from the 50.6 recorded in July 2021 partially driven by an acceleration in new order growth and a rise in sales in four of the five monitored sectors. On the other hand, the overall inflation has been on the rise with the inflation ending Q3'2021 at 6.9% in September. The increase in the inflation rate is attributable to the rising food and fuel prices since the start of the year.

Below, we summarize the various macroeconomic indicators, the actual Q3'2021 experience, the impact of the same, and our expectations going forward;

### Macro-Economic & Business Environment Outlook

Indicators	Q3'2021 Experience and Outlook going forward	Outlook at the beginning of the year	Current Outlook
Government Borrowing	<ul style="list-style-type: none"> <li>The Government, as at the end of September 2021, was 63.4% ahead of its prorated borrowing target of Kshs 164.6 bn having borrowed Kshs 269.1 bn and has domestic maturities worth Kshs 760.8 bn. The government will have to borrow Kshs 42.0 bn monthly to meet its domestic borrowing target of Kshs 658.5 bn in the 2021/2022 fiscal year, in addition to the Kshs 7.7 tn public debt as of June 2021,</li> <li>The budgetary support received from the IMF under the Extended Fund Facility (EFF)/ Extended Credit Facility (ECF), pegged on fiscal and structural reforms and aimed at reducing debt-related vulnerabilities, is expected to lead Kenya on a path to debt sustainability,</li> <li>However, the government's high borrowing appetite could mean that the country is heading towards levels of distress given the high debt servicing obligations. We therefore believe that with the slow recovery in sectors such as Tourism, fiscal consolidation will continue to remain a concern in the medium term</li> </ul>	Negative	Negative
Exchange Rate	<ul style="list-style-type: none"> <li>The Kenya Shilling depreciated against the US Dollar by 1.9% in Q3'2021, to close at Kshs 110.5, from Kshs 108.5 in Q3'2020, marking a 9-months low since the year begun</li> <li>The Kenya Shilling is expected to remain stable against the US Dollar, with continued support from the CBK in the short term through its sufficient reserves currently at of USD 9.4 bn (equivalent to 5.8-months of import cover)</li> <li>However, the shilling is expected to remain under pressure on the back of increasing demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally, coupled with the rising global crude oil prices</li> </ul>	Neutral	Neutral

Macro-Economic & Business Environment Outlook

Indicators	Q3'2021 Experience and Outlook going forward	Outlook at the beginning of the year	Current Outlook
Interest Rates	<ul style="list-style-type: none"> <li>The interest rate environment has remained stable in 2021, with the MPC retaining the CBR at 7.0%. This has led to a decline in commercial banks' lending rates to 12.1% in July 2021, from 12.3% seen in January 2020</li> <li>With the rising inflation rates, we expect slight upward pressure on interest rates going forward, as the MPC focuses on stabilizing prices</li> </ul>	Neutral	Neutral
Inflation	<ul style="list-style-type: none"> <li>Overall Y/Y inflation has been on the rise in 2021 hitting a 19-month high in September having increased to 6.9% from 6.6% in August</li> <li>We expect Inflation pressures to remain elevated in the short term mainly driven by increases in transport costs following the removal of the fuel subsidy and a rise in food prices on the back of erratic weather conditions. Additionally, the recently issued communication by KRA on inflation adjustment on Specific Rates of Excise Duty effective from 1st October 2021 will cause an upward pressure on the inflation rate in the coming months, as the burden will be passed to the consumers</li> </ul>	Positive	Negative
GDP Growth	<ul style="list-style-type: none"> <li>Kenya's economy contracted by 0.3% in 2020, a decline compared to the revised growth of 5.5% recorded in 2019, mainly attributable to a slowdown in economic activities due to emergence of the COVID-19 pandemic which resulted in sharp declines in demand and supply of goods and services,</li> <li>We expect Kenya's economy to rebound in 2021, with a projected growth range of 4.0% - 4.5%, driven by the upturn in economic activities following the reopening of the services sectors including education, manufacturing, as global demand strengthens</li> <li>The World Bank projects the Kenyan economy to register a 4.5% GDP growth in 2021 supported by the gradual recovery of the business environment more so in sectors such as trade, tourism and education which were the worst hit by the pandemic in 2020</li> <li>We however believe that risks around the economic recovery as more strains of the virus continue to be discovered and slow vaccine inoculation persists</li> </ul>	Neutral	Neutral
Investor Sentiment	<ul style="list-style-type: none"> <li>Kenyan Eurobonds declined marginally in the Q3'2021, partly attributable to improved investor confidence on the back of gradual economic recovery and a positive outlook</li> <li>However, we expect a deterioration in foreign inflows in the medium term as investors trade cautiously given the COVID-19 operating environment and the increased activity on the political front where politicians are getting ready for the next general elections</li> </ul>	Positive	Neutral
Security	<ul style="list-style-type: none"> <li>Security in Kenya has remained stable throughout the year with key concerns tied to 2022 elections as tension persists among Kenyans. With significant constitutional amendments suspended for now, and swirling new alliances taking shape, Kenya's political scene is shrouded in uncertainty as the country eyes elections due a year from now</li> </ul>	Neutral	Neutral

*Of the 7 indicators we track, 5 are neutral and 2 are negative with changes in inflation and investor sentiment which were positive and are now neutral and negative, respectively. Our general outlook for the Macroeconomic environment remains NEUTRAL for 2021, unchanged from the beginning of the year.*

Conclusion

Q3'2021 recorded a better performance as compared to Q2'2021 as evidenced by the improvement in business conditions with the Stanbic Bank Monthly Purchasing Managers' Index (PMI) for the month of August, 2021 increasing to 51.1 from the 50.6 recorded in July 2021, pointing towards

economic recovery. In addition, we expect Kenya's economy to record a gradual recovery in 2021, growing at a rate of 4.0%, from the 0.3% contraction recorded in 2020. The growth is largely supported by the continued COVID-19 Vaccine inoculation coupled with the gradual recovery in the business environment more so in sectors such as trade and tourism which were the worst hit by the pandemic in 2020. However, the growth is underpinned by weak external demand, slow COVID-19 vaccines distribution, resurgence of new cases following emergence of new variants as well as the high debt appetite by the government.

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