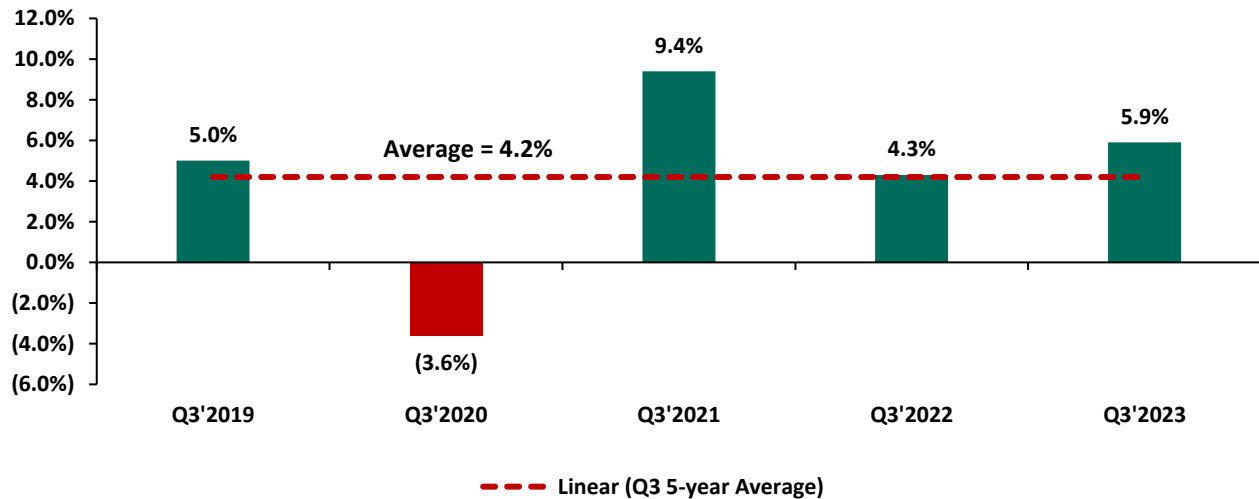


Kenya Q3'2023 GDP Note

The Kenya National Bureau of Statistics (KNBS) recently released the [Q3'2023](#) Quarterly Gross Domestic Product (GDP) Report, highlighting that the Kenyan economy recorded a 5.9% growth in Q3'2023, faster than the 4.3% growth recorded in Q3'2022. The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 6.7% in Q3'2023 compared to a contraction of 1.3% in Q3'2022. All sectors in Q3'2023 recorded positive growths, with varying magnitudes across activities. Most sectors recorded improved growth compared to Q3'2022 with Accommodation and Food Services, Agriculture, Forestry and Fishing and Mining and Quarrying Sectors recording the highest growth improvements of 9.1% points, 8.0% points, and 5.6% points, respectively. Other sectors that recorded expansion in growth rate, from what was recorded in Q3'2022 were Financial and Insurance Services, Information and Communication and Real Estate sectors, of 5.1%, 2.7% and 2.2% points respectively. The chart below shows the third quarter Kenyan GDP growth rates;

Cytonn Report: Second Quarter Growth Rates



Source: KNBS

The table below shows the growth of the various sectors and their overall contribution to GDP:

Cytonn Report: Q3'2022 and Q3'2023 GDP Contribution and Growth rates				
Sector	Contribution Q3'2022	Contribution Q3'2023	Q3'2022 Growth	Q3'2023 Growth
Agriculture and Forestry	14.6%	14.7%	(1.3%)	6.7%
Real estate	10.5%	10.5%	4.0%	6.2%
Transport and Storage	10.4%	10.1%	5.1%	2.8%
Financial & Insurance	9.1%	9.9%	9.6%	14.7%
Taxes on Products	8.9%	8.6%	7.3%	2.8%
Manufacturing	8.5%	8.3%	1.8%	2.6%
Wholesale and retail trade	8.2%	8.1%	3.6%	4.8%
Public administration	6.2%	6.1%	3.4%	4.2%
Construction	6.2%	6.1%	3.5%	3.8%
Education	5.0%	4.9%	3.9%	4.7%
Information and Communication	3.4%	3.4%	11.8%	7.3%

Professional admin	2.8%	2.9%	9.0%	9.5%
Electricity and Water Supply	2.7%	2.6%	6.0%	1.9%
Other services	2.3%	2.4%	5.7%	7.4%
Health	2.3%	2.3%	3.7%	5.1%
Accommodation & Food Services	1.0%	1.2%	16.9%	26.0%
Mining and quarrying	0.9%	0.9%	(4.5%)	1.1%
Financial Services Indirectly Measured	(3.0%)	(3.0%)	2.3%	3.8%
GDP at Market Prices	100.0%	100.0%	4.3%	5.9%

Source: KNBS

The key take-outs from the report are:

- Sectoral contribution to growth:** The biggest gainer in terms of sectoral contribution to GDP was the Financial and Insurance sector, increasing by 0.8% points to 9.9% in Q3'2023 from 9.1% in Q3'2022, while the Transport and Storage sector was the biggest loser, declining by 0.3% points to 10.1% in Q3'2023, from 10.4% in Q3'2022. Real Estate was the second largest contributor to GDP at 10.5% in Q3'2023, remaining relatively unchanged from Q3'2022, indicating sustained growth. The Accommodation and Food Services sector recorded the highest growth rate in Q3'2023 growing by 26.0%, faster than the 16.9% growth recorded in Q3'2022.

- Rebound in the Agricultural Sector:** Agriculture and Forestry recorded a growth of 6.7% in Q3'2023, a significant increase of 8.0% points, from the contraction of 1.3% recorded in Q3'2022. The positive growth recorded during the quarter was mainly attributable to favorable weather conditions that characterized the first three quarters of 2023. Notably, during the quarter, production of key food crops and cash crops increased with a significant increase in the production of fruits, tea and vegetables during the quarter under review. Fruits exports increased by 84.3% to 59.7 thousand metric tonnes in Q3'2023 from 32.4 thousand metric tonnes in Q3'2022,
- Vegetable exports increased by 35.4% to 20.4 thousand metric tonnes in Q3' 2023 from 15.1 thousand metric tonnes in Q3'2022,
- Tea production increased by and 28.0% to 138.8 thousand metric tonnes in Q3'2023 from 108.4 thousand metric tonnes in Q3'2022

However, the sector's performance was curtailed by decline in production of sugarcane;

- Sugarcane deliveries decreased by 55.1%, to 874.0 thousand metric tonnes in Q3'2023 from 1944.7 thousand metric tonnes in Q3'2022.
- Decelerated growth in the electricity and water supply sector** - The Electricity and Water Supply sector recorded a slowed growth of 1.9% in Q3'2023 compared to a 6.0% growth in a similar period of review in 2022, with, the sectoral contribution to GDP marginally decreasing to 2.6% in Q3'2023, from 2.7% recorded in Q3'2022.
- Geothermal power production increased by 0.5% to 1529.6 million kWh in Q3'2023 from 1521.8 million kWh in Q3'2022,
 - Hydropower production increased by 4.3% to 785.4 million kWh in Q3'2023 from 753.0 million kWh in Q3'2022,

However, the sector's performance was curtailed by decline in production of thermal and wind power production;

- Thermal power production decreased by 4.4% to 328.1 million kWh in Q3'2023 from 343.2 million kWh in Q3'2022,
 - Wind power production increased by 11.5% to 526.4 million kWh in Q3'2023 from 594.7 million kWh in Q3'2022
- Significant growth in the Accommodation and Food Service sector:** Accommodation and Food Services sector recorded the highest growth rate among all the sectors in Q3'2023, having expanded

by 26.0%, higher than the 16.9% recorded in Q2'2022. Likewise, the contribution to GDP increased by 0.2% points, to 1.2% in Q3'2023, compared to 1.0% recorded in Q3'2022. The growth was partly attributed to accelerated visitor arrivals witnessed during the Africa Climate Summit Conference held in September 2023, coupled with the country's stabilization from effects of uncertainties associated with elections in the third quarter of 2022. Some of the notable improvements include:

- i. Arrivals through Jomo Kenyatta International Airport (JKIA) grew by 27.5% to 410.9 thousand in Q3'2023 from 322.3 thousand recorded in Q3'2022
 - ii. Arrivals through Moi International Airport (MIA) grew by 95.6% to 40.5 thousand in Q3'2023 from 20.7 thousand recorded in Q3'2022.
- **Increased growth in the Financial and Insurance Services Sector:** The Financial and Insurance sector registered a significant growth of 14.7% in Q3'2023 compared to the 9.6% in Q3'2022. Additionally, the contribution to GDP increased to 9.9%, from 9.1% in Q3'2022. Some of the notable improvements include:
 - i. Broad money supply (M3)-which is a collection of all the currency flowing in the economy, rose by 18.6% to Khs 5.8 tn in Q3'2023 as compared to Kshs 4.9 tn recorded same period in 2022'
 - ii. Net foreign assets registered a remarkable growth of 142.1% to Kshs 708.0 bn in Q3'2023, from Kshs 292.5 bn in 2022'

The Central Bank of Kenya in efforts to curb the high inflation raised the Central Bank Rate (CBR) to 10.50% in Q3'2023, compared to 8.25% that was recorded same period in 2022, resulting to increased cost of credit by commercial banks, with interests on loans averaging 14.0% in Q3'2023 compared to the 12.4% recorded in Q3'2022

- **Sustained growth in the construction sector:** The construction sector recorded a marginally faster growth rate of 3.8% in Q3' 2023 compared to 3.5% growth in the same period last year;
 - i. Cement consumption rose by 5.9% to 2430.5 thousand metric tonnes in Q3'2023 from 2295.1 thousand metric tonnes recorded in Q3'2022,
 - ii. The quantity of imported bitumen grew by 24.6% to 31.1 thousand tonnes in Q3'2023 from 24.9 thousand tonnes in Q3'2022,
 - iii. Credit advanced to enterprises in the construction sector increased by 8.6% to Kshs. 149.6 billion from Kshs. 137.8 billion

However, the sector's performance was weighed down by;

- I. A marginal decline in the volume of imported iron and steel by 0.4% to 198.8 thousand tonnes in Q3'2023 from 198.1 thousand tonnes recorded in Q3'2022.
- **Slowed growth in the Transport and Storage Sector:** Transportation and storage sector grew by 2.8% compared to a 5.1% growth recorded in Q3'2022. The growth was mostly on the back of improved performance in most of the sub-sectors, especially transportation of passengers and freight through rail, port and air. Some of the key observations are;
 - i. The SGR freight increased by 10.2%, to 1,735.0 thousand metric tonnes, from 1,574.7 thousand metric tonnes in Q3'2022, and,
 - ii. Passenger transport through Standard Gauge Railway (SGR) increased by 13.9% to 701.1 thousand passengers in Q3'2023 from 615.8 thousand passengers in Q3'2022,
 - iii. Mombasa port throughput growth increased by 3.8% points to 4.7%, from 0.9% growth recorded in Q3'2022.
 - **Sustained growth in the Information and communication sector:** The Information and communication sector grew by 7.3% in Q3' 2023, compared to a 11.8% growth in the same period last year. Growth of the sector was supported by voice traffic, internet use and mobile money. Some key observations include;
 - i. Domestic voice traffic increased by 17.3% to 22.2 billion minutes in Q3'2023 from 19.0 billion minutes recorded in Q3'2022, and,

- ii. Total utilized international bandwidth increased by 78.8% to 11.0 thousand Gigabits per second (Gbps) in Q3'2023 from 6.1 thousand recorded in Q3'2022, and,
- iii. The number of money transactions increased by 7.7% to 613.0 million in Q3'2023 from 569.3 million recorded in Q3'2022.

However, growth in this sector was curtailed by;

- i. A decline in the use of domestic Short Messaging Services (SMSs) by 14.2% to 12.2 billion messages in Q3'2023 from 14.2 billion messages recorded in Q3'2022.

In the near-term, we expect the economy to grow at a slower pace given the subdued general business environment in the country, mainly as a result of elevated inflationary pressures occasioned by high fuel and food prices. Additionally, the Central Bank of Kenya's Monetary Policy Committee's (MPC) decision on 5th December 2023 to increase the Central Bank Rate (CBR) to 12.5% from 10.5% in a bid to curb inflation and maintain price stability is expected to curtail economic growth. The higher CBR is set to maintain the cost of credit issued by lenders high, hence discouraging borrowing, which will in turn lead to reduced investment spending in the economy by both individuals and businesses. Additionally, the inflation in the country remains high, although within the Central Bank's range, and risks going high in the short term with the persistent high fuel prices in the country, despite global fuel prices easing, mainly on the back of the depreciating shilling. Thus, the consumer purchasing power remains low, resulting in reduced demand for goods and services and consequentially slowed economic growth. However, we expect the agricultural sector to continue backing economic growth in the country, as the country continues to experience sufficient rain during the year. The sector remains Kenya's largest contributor to GDP, as well as food prices being a major contributor to headline inflation.

In our view, the economy's growth is largely pegged to how quickly inflationary pressures in the country are brought under control. These pressures have been fueled by pre-existing supply chain disruptions brought on by ongoing conflict in Ukraine and worsened by the sustained depreciation of the Kenya shilling, which has made imports expensive, leading to high food and fuel prices in the country. Fuel being a major input in the majority of the sectors, growth is likely to be subdued. As a result, we forecast a 5.1% economic growth rate in 2023.