Kenya Q1’2020 Balance of Payments Note

The Kenya National Bureau of Statistics released the Quarterly Balance of Payments report for Q1’2020. In this note, we analyse the changes in the current account balance and the balance of payments before giving an outlook on both.

Current Account Balance

Kenya’s current account deficit deteriorated by 10.2% during Q1’2020, coming in at Kshs 110.9 bn, from Kshs 100.6 bn in Q1’2019, equivalent to 4.0% of GDP similar to what was recorded in Q1’2019. This was mainly driven by:

(i) A 3.0% decline in the secondary income (transfers recorded in the balance of payments whenever an economy provides or receives goods, services, income or financial items) balance, to Kshs 124.1 bn, from Kshs 128.0 bn in Q1’2019,

(ii) A 67.0% decline in the services trade balance (the difference between the imports and exports of services) to Kshs 20.4 bn, from Kshs 61.9 bn, and,

(iii) The deterioration was mitigated by the 9.1% narrowing of the merchandise trade deficit (a scenario where imports are greater than exports of goods) to KSh 218.9 bn in Q1’2019 from KSh 240.7 bn in Q1’ 2020 mainly attributable to a 14.0% increase in exports which outweighed the 0.1% increase in imports.

The table below shows the breakdown of the various current account components, comparing Q1’2020 and Q1’2019:

Q1’2020 Current Account Balance			
Item	**Q1’ 2019**	**Q1’2020**	**% Change**
Merchandise Trade Balance	(240.7)	(218.9)	**(9.1%)**
Service Trade Balance	61.9	20.4	**(67.0%)**
Primary Income Balance	(49.8)	(36.5)	**(26.7%)**
Secondary Income (Transfers) Balance	128.0	124.1	**(3.0%)**
Current Account Balance	**(100.6)**	**(110.9)**	**10.2%**
GDP at Current Prices (Q1’2020 Quarterly GDP Report by KNBS)	2,507.9	2,613.	**10.6%**
Current Account Balance as a % of GDP	**(4.0%)**	**(4.0%)**	**(0.02%)**

All values in Kshs bns

Key take-outs from the table include:

i. Secondary income/transfers surplus (transfers recorded in the balance of payments whenever an economy provides or receives goods, services, income or financial items) declined by 3.0% to Kshs 124.1bn, from Kshs 128.0 bn in Q1’2019. On the contrary, diaspora remittances recorded a 4.7% increase to Kshs 71.1 bn, from Kshs 67.9 bn recorded in Q1’2019,

ii. Merchandise trade deficit (a scenario where imports are greater than exports of goods) contracted by 9.1% to Kshs 218.9 bn, from Kshs 240.7 bn in Q1’2019, driven by a 14.0% increase in merchandise exports to Kshs 179.8 bn, from Kshs 157.7 bn in Q1’2019, which outpaced the 0.1% increase in merchandise imports to Kshs 398.8 bn from Kshs 398.5 bn recorded in a similar period in 2019. The increase in the merchandise exports was mainly on account of an 8.8% increase in the value of tea exports,

iii. In terms of exports by region, Africa remained the largest merchandise export destination with 36.5% of the total exports valued at Kshs 66.4 bn, a 22.3% increase from Q1’2019 total exports of Kshs 54.3 bn. Exports to the European region declined by 0.7% to 39.8 bn from the Kshs 40.0 bn recorded in Q1’2019. Similarly, exports to the United States of America declined by 6.5% to Kshs 12.7 bn, from Kshs 13.6 bn in Q1’2019, and

iv. In terms of imports by region, the European Union accounted for 12.8% of total imports in Q1’2020, valued at Kshs 54.6 bn, a decline from the Kshs 66.1 bn recorded in Q1’2019. Asia was the largest merchandise import source, accounting for 65.7%, with the value of imports increasing by 7.8% to Kshs 280.0 bn, from Kshs 258.2 bn recorded in Q1’2019. The increase was attributed to an increase in imports from China (4.6%), India (55.7%), and Indonesia

(39.8%). Commodities that recorded a marked increase in import values from India included gas oil, kerosene-type jet fuel, and medicaments.

B. Balance of Payments

Kenya's balance of payments improved during Q1'2019, coming in at a surplus of Kshs 47.4 bn from a deficit of Kshs 25.2 bn in Q1'2019, translating to a balance of payments surplus equivalent to 1.7% of GDP in Q1'2020 from a deficit equivalent to 1.0% recorded in Q1'2019. This was mainly due to the 55.2% decline in the financial account balance. The table below shows the breakdown of the various balance of payments components, comparing Q1'2020 and Q1'2019:

Q1'2020 Balance of Payments			
Item	**Q1' 2019**	**Q1'2020**	**% Change**
Current Account Balance	(100.6)	(110.9)	**10.2%**
Capital Account Balance	4.3	2.5	**(41.9%)**
Financial Account Balance	(95.7)	(42.9)	**(55.2%)**
Net Errors and Omissions	25.9	18.2	**(29.7%)**
Balance of Payments	**(25.2)**	**47.4**	**288.1%**
GDP at Current Prices (Q1'2020 Quarterly GDP Report by KNBS)	2,507.9	2,772.6	**5.1%**
Balance of Payments as a % of GDP	(1.0%)	1.7%	**2.7%**

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) deteriorated by 10.2% to Kshs 110.9 bn from Kshs 100.6 bn in Q1'2019, largely due to the 67.0% decline in the services trade balance to Kshs 20.4 bn, from Kshs 61.9 bn,
ii. The financial account deficit (a situation where domestic buyers are purchasing more foreign assets than foreign buyers are purchasing of domestic assets) declined by 55.2% to a deficit of Kshs 42.9 bn from a deficit of Kshs 95.7 bn in Q1'2019 while the stock of gross official reserves increased by 6.2% to stand at Kshs 904.0 billion,
iii. Consequently, the Balance of Payments (BoP) position improved to a surplus of Kshs 47.4 bn from a deficit of Kshs 25.2 bn in Q1'2019, mainly due to the 55.2% decrease in the financial account balance.

Conclusion

Key to note, the narrowing current account in Q1'2020, failed to support the Kenya Shilling during the quarter, losing by 1.1% y/y to close the quarter at Kshs 101.9 from Kshs 100.7 at the end of Q1'2019. The forex reserves held by the Central Bank of Kenya also declined by 3.5% in the same period to close the quarter at USD 7.9 bn from USD 8.2 bn.

The continued decline in the export sector attributable to low demand for Kenyan exports brought about by the Coronavirus pandemic will see the current account deficit continue to widen. The Governor of the Central Bank of Kenya in his post-monetary committee press conference on 26th June 2020 highlighted that the current account deficit is expected to come in at 5.8% of GDP in 2020 similar to what was recorded in 2019, with an increase in exports of tea and horticulture being recorded so far due to a pick-up in demand supported by the easing of restrictions in key export markets. The service sector, and in particular air travel and tourism, continue to be adversely affected by the COVID-19 pandemic.

Despite the easing of the lockdown measures in Kenya's trading partners, we expect the business environment to have a sluggish growth towards the end of 2020. The tourism sector, one of the key foreign exchange earners, has suffered significant losses due to the ban on international travel. In March 2020, Kenya Airways announced a Kshs 8.0 mn revenue loss following the travel restrictions. On the plus side, however, Kenya could be facing a lower import bill on account of the reduced oil prices as well as the reduction in the imports of goods and services as many firms have scaled down their operations in light of the Coronavirus. The low import bill will however not be able to offset the current account deficit

Development-essential goods such as machinery & transport equipment are one of the largest contributors to the country's import bill while weather-dependent agricultural products make up more than 50.0% of our exports, as such, we expect the trade balance to remain at a deficit in the medium term as the country develops, weighed down by imports for the ongoing infrastructure developments.