Kenya Q3'2020 Balance of Payments Note

The Kenya National Bureau of Statistics released the Quarterly Balance of Payments report for Q3'2020. In this note, we analyse the changes in the current account balance and the balance of payments before giving an outlook on both.

A. Current Account Balance

Kenya's current account deficit narrowed by 10.6% in Q3'2020, to Kshs 141.1 bn, from Kshs 157.9 bn. This resulted to the Current Account to GDP improving to 11.5% from 12.7% in 2019 recorded in a similar period of review in 2019. This was driven by:

(i) The narrowing of the merchandise trade deficit (the difference between imports and exports of goods increased by 16.1% to Kshs 229.0 bn in Q3'2020, from Kshs 273.1 bn in Q3'2019,

(ii) A 106.6% decline in the services trade balance (the difference between imports and exports of services) to a deficit of Kshs 2.7 bn, from a surplus Kshs 41.2 bn, and,

(iii) A 2.3% increase in the secondary income balance (The transactions recorded in the secondary income account pertain to those current transfers between residents and non-residents that directly affect the level of gross national disposable income and thus influence the economy's ability to consume goods and services), to Kshs 131.5 bn, from Kshs 128.6 bn in Q3'2019.

The table below shows the breakdown of the various current account components, comparing Q3'2020 and Q3'2019:

Q3'2020 Current Account Balance			
Item	**Q3' 2019**	**Q3'2020**	**% Change**
Merchandise Trade Balance	(273.1)	(229.0)	**(16.1%)**
Service Trade Balance	41.2	(2.7)	
Primary Income Balance	(54.5)	(40.8)	**(25.1%)**
Secondary Income (Transfers) Balance	128.6	131.5	**2.3%**
Current Account Balance	(157.9)	(141.1)	**(10.6%)**
GDP at Current Prices (Q3'2020 Quarterly GDP Report by KNBS)	1239.4	1226.0	**(1.1%)**
Current Account Balance as a % of GDP	(12.7%)	(11.5%)	**1.2%**

All values in Kshs bns

Key take-outs from the table include:

i. Merchandise trade deficit (a scenario where imports are greater than exports of goods) declined by 16.1% to Kshs 229.0 bn, from Kshs 273.1 bn in Q3'2019, driven by a 6.6% decline in merchandise imports to Kshs 392.7 bn, from Kshs 420.4 bn in Q3'2019, coupled with the 11.1% increase in merchandise exports to Kshs 163.7 bn from Kshs 147.3 bn recorded in a similar period in 2019. The increase in the merchandise exports was mainly on account of increases from horticultural exports and earnings from both tea and coffee. Horticulture exports recorded a 24.1% increase to Kshs 33.6 bn, from Kshs 27.1 bn while earnings from tea increased by 20.5% to Kshs 30.5 bn, from Kshs 25.3 bn. Earnings from coffee during the quarter also improved by 18.4% to Kshs 4.9 bn, from Kshs 4.1 bn in Q3'2019,

ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 106.6% decline in Q3'2020 to a deficit of Kshs 2.7 bn, from a surplus of Kshs 41.2 bn recorded in Q3'2020. Receipts from international trade in services declined by 34.1% to Kshs 91.5 bn in Q3'2020, from Kshs 138.8 bn in Q3'2020 mainly on the back of the depressed performance in the tourism and transport sub-sectors. This is mainly due to the restricted movements occasioned by the pandemic,

iii. Secondary income/transfers surplus (The transactions recorded in the secondary income account pertain to those current transfers between residents and non-residents that directly affect the level of gross national disposable income and thus influence the economy's ability to consume goods and services) increased by 2.3% to Kshs 131.5 bn, from Kshs 128.6 bn in Q3'2019. Diaspora remittances also recorded a 28.9% increase to Kshs 87.6 bn, from Kshs 68.0 bn recorded in Q3'2019,

iv. In terms of exports by region, Africa remained the largest merchandise export destination with 41.1% of the total exports valued at Kshs 67.3 bn, a 16.6% rise from Kshs 57.8 bn in Q3'2019. Exports to the United States of America declined by 9.2% to 14.0 bn, from Kshs 15.4 bn recorded in Q3'2019. Exports to the European region however increased by 27.7% to Kshs 43.3 bn, from Kshs 33.9 bn in Q3'2019, and,

v. In terms of imports by region, Asia was the largest merchandise import source, accounting for 63.7% of all imports, despite recording a 3.1% decline to Kshs 267.9 bn, from Kshs 276.5 bn recorded in Q3'2019. The decline was mainly attributed to a 43.5% decline in imports, which mainly comprise of petroleum products, from United Arab Emirates to Kshs 19.6 bn, from Kshs 34.6 bn and a 26.4% decline in imports from Saudi Arabia to Kshs 23.1 bn from Kshs 31.4 bn. The decline was however mitigated by an 18.7% and 73.6% increase in imports from China and Malaysia, respectively. Commodities that recorded a marked increase in import values included locomotives from China and crude palm oil from Malaysia.

Balance of Payments

Kenya's balance of payments deteriorated in Q3'2020, coming in at a deficit of Kshs 178.0 bn from a surplus of Kshs 13.2 bn in Q3'2019, translating to a balance of payment deficit equivalent to 14.5% of GDP in Q3'2020 from a deficit equivalent to 1.1% of GDP recorded in Q3'2019. This was mainly due to the 73.5% decline in the Financial Account balance. The table below shows the breakdown of the various balance of payments components, comparing Q3'2020 and Q3'2019:

Q3'2020 Balance of Payments			
Item	**Q3' 2019**	**Q3'2020**	**% Change**
Current Account Balance	(157.9)	(141.1)	**(10.6%)**
Capital Account Balance	2.8	3.9	**39.7%**
Financial Account Balance	120.9	32.1	**(73.5%)**
Net Errors and Omissions	47.4	(72.9)	
Balance of Payments	13.2	(178.0)	
GDP at Current Prices (Q3'2020 Quarterly GDP Report by KNBS)	1,239.4	1,226.0	**(1.1%)**
Balance of Payments as a % of GDP	1.1%	(14.5%)	

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) improved by 10.6% to Kshs 141.1 bn, from Kshs 157.9 bn in Q3'2019, largely due to the narrowing of the Merchandise Trade Balance by 16.1% to Kshs 229.0 bn from Kshs 273.1 bn recorded in Q3'2019,

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 73.5% to a surplus of Kshs 32.1 bn, from a surplus of Kshs 120.9 bn in Q3'2019 . The stock of gross official reserves declined by 2.8% to stand at Kshs 951.0 bn from 977.6 bn, and,

iii. Consequently, the Balance of Payments (BoP) position deteriorated to a deficit of Kshs 178.0 bn from a surplus of Kshs 13.2 bn in Q3'2019, mainly due to the 73.5% decrease in the financial account balance.

C. Public External Debt

During the period of review, external public and public guarantee debt increased by 17.7% to Kshs 3.7 tn, from Kshs 3.1 tn recorded in Q3'2019, mainly driven by a 41.9% increase in multilateral debt to Kshs 1.4 tn from Kshs 1.0 tn in Q3'2019. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q3'2020 and Q3'2019:

Q3'2020 Public External Debt			
Debt Source	**Q3'2019**	**Q3'2020**	**% Change**
Multilateral	1.0	1.4	41.9%
Bilateral	1.0	1.1	7.7%
Suppliers Credit	1.1	1.1	4.9%
Commercial Banks	0.01	0.01	4.4%
Total	**3.1**	**3.7**	**17.7%**

All values in Kshs tn

Key take-out from the table include;

i. Multilateral debt, which contributed 38.8% of the total external debt, increased by 41.9% to Kshs 1.4 tn, from Kshs 1.0 tn recorded in Q3'2019, mainly attributable to the increase in the disbursement of programme loans during the period of review.

Conclusion

Despite the narrowing of the current account position during Q3'2020, the Kenya shilling remained under pressure deteriorating by 4.4% y/y to close the quarter at Kshs 108.5 from Kshs 103.9 at the end of Q3'2019. The forex reserves held by the Central Bank of Kenya declined in the same period to close the quarter at USD 8.6 bn, from USD 9.0 bn recorded at the end of Q3'2019. We expect relative stability in the business environment in the coming quarter given the easing of the lockdown measures by Kenya's trading partners, a promising vaccine, and continued support from the tea, coffee and horticulture exports due to the normalised demand in Kenya's export markets as well as earnings from the tourism sector. This is on the back of continued ease of the corona-virus restrictions in many countries which will support movement of both commodities and people.