Kenya's Q3'2023 Balance of Payments Note

According to the Q3'2023 Quarterly Balance of Payment Report released by the Kenya National Bureau of Statistics (KNBS), Kenya's balance of payments position deteriorated registering a deficit of Kshs 131.5 bn in Q3'2023, from a deficit of Kshs 112.7 bn recorded in Q3'2022, and a reversal from the Kshs 152.9 bn surplus recorded in Q2'2023. In this note, we provide a detailed analysis of the current account and the balance of payment before giving an outlook on both.

A. Current Account Balance

Kenya's current account deficit narrowed by 42.1% to Kshs 122.5 bn in Q3'2023 from the Kshs 211.6 bn deficit recorded in Q3'2022. Similarly, the performance was an improvement from the previous quarter, with the Q3'2023 deficit narrowing by 11.7% from the deficit of Kshs 138.7 bn recorded in the second quarter of the year. The y/y contraction registered during the quarter was driven by:

i. The contraction of the merchandise trade account deficit (the value of import goods exceeds the value of export goods, resulting in a negative net foreign investment) by 12.6% to Kshs 326.2 bn in Q3'2023, from Kshs 373.1 bn recorded in Q3'2022. On a q/q basis, the merchandise trade account deficit narrowed by 5.0% from a deficit of Kshs 343.2 bn recorded in Q2'2023, and,

ii. A 35.2% improvement in the secondary income (transfer) balance to a surplus of Kshs 251.9 bn from a surplus of Kshs 186.3 bn in Q3'2022. Additionally, the secondary income balance recorded a 7.4% q/q improvement from a surplus of Kshs 234.5 bn in Q2'2023.

The table below shows the breakdown of the various current account components on a year-on-year basis, comparing Q3'2022 and Q3'2023:

Cytonn Report: Current Account Balance				
Item	**Q3'2022**	**Q2'2023**	**Q3'2023**	**Y/Y % Change**
Merchandise Trade Balance	(373.1)	(343.2)	(326.2)	(12.6%)
Services Trade Balance	38.5	35.4	36.2	(5.8%)
Primary Income Balance	(63.3)	(65.4)	(84.5)	33.5%
Secondary Income (transfer) Balance	186.3	234.5	251.9	35.2%
Current Account Balance	**(211.6)**	**(138.7)**	**(122.5)**	(42.1%)

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) narrowed by 12.6% to Kshs 326.2 bn in Q3'2023, from Kshs 373.1 bn in Q3'2022. This is attributable to the 19.7% growth in merchandise exports to Kshs 270.0 bn, from Kshs 225.6 bn in Q3'2022 compared to the 0.4% decline in merchandise imports to Kshs 596.2 bn from Kshs 598.7 bn recorded in a similar period in 2022. The increase in merchandise exports was mainly driven by a 41.2% increase in horticulture exports to Kshs 48.8 bn, from Kshs 34.6 bn recorded in Q3'2022 coupled with the 24.5% increase in exportation of tea to Kshs 50.1 bn, from Kshs 40.2 bn recorded in Q3'2022. The increase in exports was also driven by the 44.3%, 18.7%, 16.3% and 6.5% growth in exports of petroleum products, medicinal & pharmaceutical products, iron & steel and industrial machinery, respectively. On the other hand, the marginal decline in the import bill is attributable to the 17.9% decline in importation of petroleum products to Kshs 147.8 bn from Kshs 180.1 bn reported in Q3'2022 coupled with a 72.4% decline in chemical fertilizer imports to Kshs 5.7 bn in Q3'2023 from Kshs 20.5 bn in Q3'2022,

ii. Service Trade Balance (the difference between the imports and exports of services) recorded a 5.8% decrease in Q3'2023 to a surplus of Kshs 36.2 bn, from a surplus of Kshs 38.5 bn in Q3'2022. However, the Q3'2023 surplus was a 2.2% improvement from a surplus of Kshs 35.4 bn recorded in Q2'2023 indicating that global business environment improved during the quarter. The y/y decline in service trade balance was mainly driven by the 5.1% decrease in services receipts to Kshs 186.2 bn from Kshs 196.3 bn recorded in Q3'2022 as well as the 14.1% decrease in travel account receipts to Kshs 26.8 bn in Q3'2023, down from Kshs 31.2 bn recorded in Q3'2022,

iii. Primary income deficit (income that residents earn from, less that they pay to the rest of the world from working and from financial investments) widened by 33.5% to a deficit of Kshs 84.5 bn in Q3’2023 from a deficit of Kshs 63.3 bn in Q3’2022, and widened further by 29.1% from a deficit of Kshs 65.4 bn recorded in Q2’2023,

iv. 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 a significant 35.2% to Kshs 251.9 bn from Kshs 186.3 bn in Q3’2022. Additionally, the Q3’2023 surplus was a 7.4% improvement from Kshs 234.5 bn recorded in Q2’2023,

v. Diaspora remittances recorded a 36.4% growth to Kshs 155.9 bn from Kshs 114.3 bn recorded in Q3’2022, and translated to a 10.9% increase from the Kshs 140.5 bn recorded in Q2’2023,

vi. Total exports grew by 19.7% in Q3’2023 to Kshs 270.0 bn, up from Kshs 225.6 bn recorded in Q3’2022. In terms of exports by region, Africa remained the largest merchandise export recipient, accounting for 44.4% of total exports in Q3’2023 and registering a 23.4% increase in export earnings to Kshs 119.7 bn, from Kshs 97.0 bn in Q3’2022. The increase was mainly attributable to 27.7% increase in exports to Uganda, coupled with 78.6%,64.4% and 16.5% growth in exports to Democratic Republic of Congo, South Sudan and Somalia. Asia followed in second place, accounting for 26.1% of all exports and recording a growth of 30.3% in Q3’2023 to Kshs 70.2 bn, up from Kshs 53.9 in Q3’2022, and

vii. Overall imports declined marginally by 1.6% to Kshs 648.6 bn to Q3’2023 from 659.1 bn recorded in Q3’2022. In terms of imports by region, Asia remained the largest merchandise import source, accounting for 67.1% of total imports, however, the value of imports declined by 4.0% to Kshs 435.3 bn, down from Kshs 453.3 bn recorded in Q3’2022. The decline was mainly attributed to the sharp decline in imports from South Korea of 74.9% to Kshs 4.4 bn from Kshs 17.6 bn in Q3’2022 however mitigated by 5.6% increase in imports from India to Kshs 55.6 bn, from Kshs 52.6 bn recorded in Q3’2022. Notably, imports from the United Arabs Emirates (UAE) increased by 11.7% to Kshs 123.8 bn from Kshs 110.9 bn reported in Q3’2022 driven by increase in gas oil and gasoline imports. The European Union accounted for 13.5% of total imports in Q3’2023, valued at Kshs 87.7 bn, a 4.1% decline from the Kshs 91.4 bn recorded in Q3’2022 mainly driven by the 18.1% decrease in imports from Germany.

B. Balance of Payments

Kenya’s balance of payment (BoP) position deteriorated by 16.7% in Q3’2023, coming in at a deficit of Kshs 131.5 bn, from a deficit of Kshs 112.7 bn in Q3’2022, and a reversal from the Kshs 152.9 bn surplus recorded in Q2’2023. The y/y performance in BoP was mainly driven by the reversal of the financial account balance to a deficit of Kshs 20.6 bn from a surplus of Kshs 175.1 bn in Q3’2022, which outweighed the 42.1% narrowing of the current account balance deficit to Kshs 122.5 bn in Q3’2023 from Kshs 211.6 bn in Q3’2022 and the 448.2% increase in capital account balance to Kshs 3.4 bn from Kshs 0.6 bn recorded in a similar period in 2022. The table below shows the breakdown of the various balance of payments components, comparing Q3’2023 and Q3’2022:

Cytonn Report: Current Account Balance				
Item	**Q3'2022**	**Q2'2023**	**Q3'2023**	**Y/Y % Change**
Current Account Balance	(211.6)	(138.7)	(122.5)	(42.1%)
Capital Account Balance	0.6	4.9	3.4	448.2%
Financial Account Balance	175.1	321.5	(20.6)	(111.8%)
Net Errors and Omissions	(76.9)	(34.8)	8.3	(110.7%)
Balance of Payments	**(112.7)**	**152.9**	**(131.5)**	16.7%

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) narrowed by a significant margin of 42.1% to Kshs 122.5 bn from Kshs 211.6 bn in Q3’2022, however, on a q/q basis the account deteriorated by 11.7% from the Kshs 122.5 bn deficit recorded in Q2'2023. The y/y narrowing of the current account was brought about by the 12.6% improvement in Merchandise trade deficit to Kshs 326.2 bn in Q3'2023, from Kshs 373.1 bn in Q3'2022 driven by the 19.7% growth in merchandise exports to Kshs 270.0 bn, from Kshs 225.6 bn in Q3'2022 which outpaced the 0.4% decline in merchandise imports to Kshs 596.2 bn from Kshs 598.7 bn recorded in a similar period in 2022,

ii. The capital account balance (shows capital transfers receivable and payable between residents and non-residents, including the acquisition and disposal of non-produced non-financial items), which includes foreign direct investments (FDIs), increased sharply by 448.2% to a surplus of Kshs 3.4 bn in Q3'2023 up from a surplus of Kshs 0.6 bn in Q3'2022. However, relative to the Q2'2023 surplus of Kshs 4.9 bn, the capital account balance in Q3'2023 narrowed by 30.2%,

iii. The financial account balance (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by foreign buyers) recorded a deficit of Kshs 20.6 bn in Q3'2023, a sharp decrease of 111.8% from the surplus of Kshs 175.1 bn recorded in Q3'2022, and a reversal from the Kshs 321.5 bn deficit recorded in Q2'2023. Notably, the stock of gross official reserves increased by 18.7% to Kshs 1,116.0 bn in Q3'2023 from Kshs 940.2 bn in Q3'2022 mainly attributed the increased disbursement of programme loans from the International Monetary Fund (IMF) and multilateral sources during the period of review, and,

iv. Consequently, the Balance of Payments (BoP) position deteriorated to a deficit of Kshs 131.5 bn in Q3'2023, from a deficit of Kshs 112.7 bn recorded in Q3'2022.

C. Public External Debt

During the period under review, the stock of external public and public guarantee debt increased by 30.9% to Kshs 5.5 tn in Q3'2023, up from Kshs 4.2 tn recorded in Q3'2022, mainly driven by a 44.4% increase in multilateral debt to Kshs 2.8 tn in Q3'2023, up from Kshs 2.0 tn recorded in Q3'2022. Notably, domestically issued debt held by non-residents increased by 21.9% to Kshs 1.1 tn in Q3'2023, up from Kshs 0.9 tn in Q3'2022. The table below shows the breakdown of the outstanding external public and publicly guaranteed debt, comparing Q3'2023 and Q3'2022:

Cytonn Report: Q3'2023 Public External Debt				
Debt Source	**Q3'2022**	**Q2'2023**	**Q3'2023**	**Y/Y % Change**
Bilateral	1.1	1.3	1.3	16.6%
Multilateral	2.0	2.7	2.8	44.4%
Commercial Banks	0.3	0.4	0.3	20.3%
Suppliers Credit	0.01	0.01	0.02	30.0%
Debt Securities held by non-residents	0.9	1.0	1.1	21.9%
Total External Public Debt	**4.2**	**5.3**	**5.5**	30.9%

All values in Kshs tn

Key take-outs from the table include;

i. Multilateral debt increased by 51.1% to Kshs 2.8 tn in Q3'2023, up from Kshs 2.0 tn recorded in Q3'2022, accounting for 51.1% of the total external debt. On a quarterly basis, multilateral debt registered a 6.5% growth from Kshs 2.7 bn recorded in Q2'2023, brought about by increased disbursement of programme loans from the International Monetary Fund (IMF) during the period of review.

D. Conclusion

The deterioration in the balance of payments performance is mainly due to the reversal of the financial account balance from a surplus to a deficit driven by debt servicing costs that have been on the rise given the continued depreciation of the Kenya shilling against the US dollar, given that 67.1% of Kenya's external debt as of June 2023 is denominated in USD. Consequently, the sustained depreciation of the shilling against hard currency continues to inflate the country's import bill, having depreciated by 26.8% against the USD since the year began. As such, we expect the high costs of imports, especially fuel imports, to continue weighing down on the current account's performance in the medium term. However, we expect that the current administration's focus on fiscal consolidation will improve the balance of payments performance by minimizing the costs of servicing external debts and making adequate arrangements for the repayment of the 2014 Eurobond debt maturing in June 2024.

Additionally, the favorable weather conditions are set to boost agricultural production in the country, thereby increasing the export of agricultural products, and supporting the current account. We anticipate that the balance of payments will be more stable with the help of multiple trade agreements, such as the one between Kenya and the EU and the one among the EAC, SADC and COMESA, as the agreements will boost the amount and variety of exports that are needed and offer more opportunities to sell them.