

MONTHLY ECONOMIC AND EXPORT REVIEW

REPORT

Prepared

BY

EXPORT PROMOTION COUNCIL

December, 2017

Overview

Kenyan economic growth trajectory has been greatly affected by a number of factors or odds in 2017. Firstly, adverse weather conditions in the first half of the year greatly affected food production. The food shortage experienced culminated into significant increases in food prices during the first and second quarters of 2017. However, with the good rains thereafter improved the food production and it is anticipated that will further improve food supply better compared to 2016. Secondly, the heightened political uncertainties during the prolonged electioneering period in 2017 affected private sector growth and caused it to continue on its decline trend thereby reducing aggregate demand. This was due to the private sector activity weakening over the first three quarters of 2017 on the account of the election induced wait-and-see attitude. Meanwhile, businesses are expected to regain back on investments as uncertainties settles after polls. A third important influence on the economic performance was the interest rate cap which resulted to banks adopting tight measures on credit rationing mainly to informal businesses which curtailed their growth. In the meantime, there is need for the Government to re-look at this measure so as to jumpstart the recovery of credit growth to the private sector, particularly to micro, small and medium sized businesses and households to boost their economic activity and hence contribution to the country's economic performance.

Economic Growth

Consistent with its robust performance in the recent years, the economic growth in Kenya in 2016, reached 5.8%, which was a five-year high. This was supported by a stable macroeconomic environment, low oil prices, earlier favourable harvest, rebound in tourism, strong remittance inflows, and an ambitious public investment drive.

According to the Kenya National Bureau of Statistics, real quarterly gross domestic product (QGDP) is estimated to have slowed down to 5.0 per cent in the second quarter of 2017 compared to 6.3 percent same period in 2016. This was largely attributed to the sharp rises in food prices due to poor weather condition and also the rise in oil prices in 2016. However, there was a slight

improvement when compared to the first quarter of 2017 that recorded a real quarterly gross domestic product of 4.7 percent. The third quarter also epitomizes signs of continued weakness.

Overall, the economy is now projected to slow down to a 4.9 per cent growth in 2017, its lowest in the past five years, but still higher than the sub-Saharan African average, (World Bank, December 2017). This is on the account of, among other factors; the on-going slowdown in private sector credit growth, prolonged election cycle and weakened private sector demand. The projected growth is sustained by recovery in tourism, better rains in the second half of the year and low global oil prices.

Exchange Rate

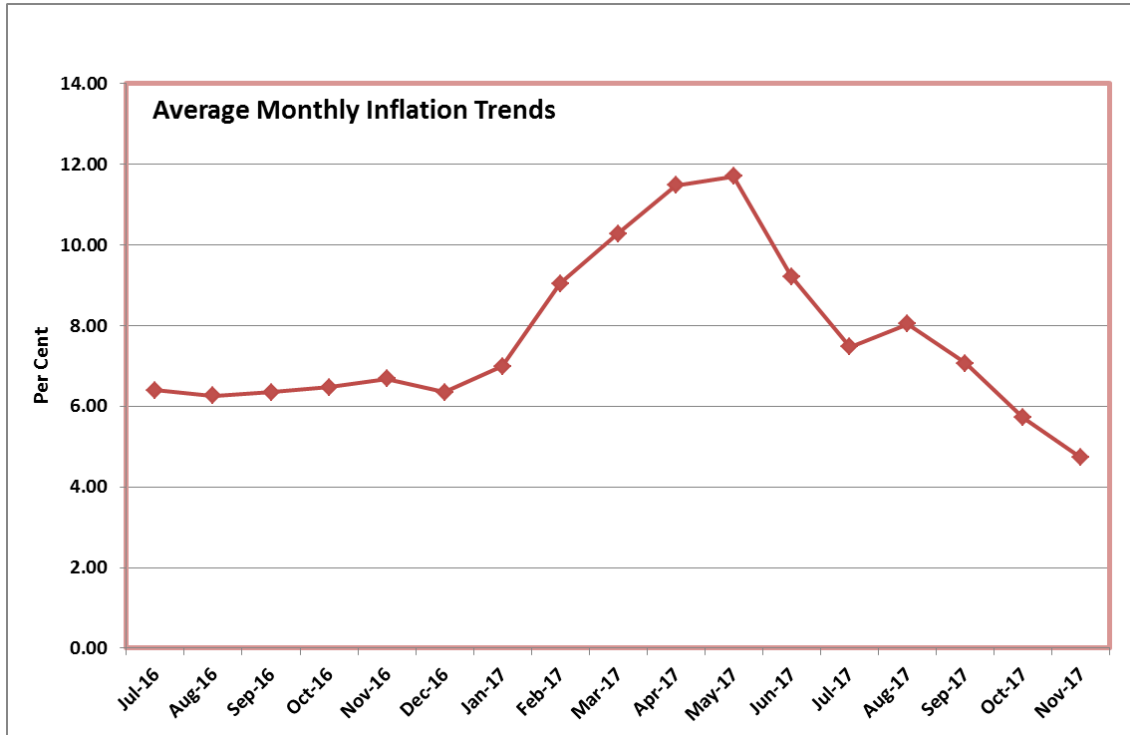
As at the end of October 2017 compared to same period in 2016, on average, the Shilling had lost value against the major international currencies i.e. the US dollar, the British Pound and the Euro by 2%, 9% and 9% respectively.

On monthly basis, the Shilling appreciated against the US \$ from a mean of 103.75 in January 2017 to a mean of September 103.13, and depreciated to 103.13 in October 2017. Going forward the shilling is expected to remain relatively stable against the dollar in the short term due to sufficient forex reserve, currently at US \$ 7.1 billion (4.7 month import cover) and also as a result of the US \$ weakening in the global markets as indicated by the US \$ index.

Conversely the Shilling weakened against the pound £ from a mean of 128.01 in January 2017 to mean of 136.98 by September 2017, before appreciating to 136.40 by October 2017. The Shilling also depreciated against the euro € from a mean of 110.17 in January 2017 from a mean of 122.86 in September 2017, before appreciating to 121.51 in October 2017.

Inflation

The annual average inflation rates for 2015 and 2016 were 6.6 per cent and 6.3 per cent respectively. In 2017, inflation rate registered a high of 11.48 per cent in April and 11.7 per cent in May respectively mainly as a result of the increase in the prices of basic food items contributed by the prevailing drought conditions.



Source: Central Bank of Kenya

However, the high inflation rates were contained by the month of July when inflation stood at 7.47 per cent but slightly down from 9.2 per cent in June. This was as a result of good weather conditions in some parts of the country and the government intervention in form of subsidies aimed at bringing down cost of staple food items. It has remained stable in August, September, October and November at 8.04 per cent, 7.06 per cent, respectively. This is attributed to the fall in the cost of several food items.

Kenya's External Trade Performance during January to October, in 2016 and 2017

Table 1: Kenya's Balance of Trade (10 Monthly trends Jan-Oct, in 2016 & 2017)

Value in KES billion

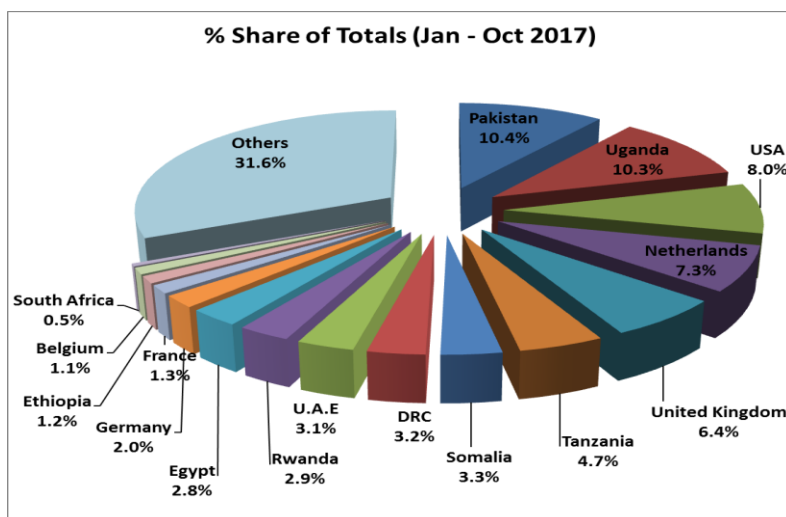
YEAR	YEAR 2016										TOTALS	YEAR 2017										Total
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Jan-Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Jan-Oct
Domestic Exports	41.0	43.0	46.5	42.8	45.5	42.9	40.9	41.0	40.0	35.5	419.2	43.7	43.8	47.5	42.7	46.9	46.4	47.4	37.2	46.3	43.2	445.2
Re-exports	7.0	9.3	7.5	3.5	4.4	5.3	7.0	6.1	5.9	6.5	62.5	5.1	4.1	6.6	5.7	5.7	5.2	5.6	4.5	4.8	5.9	53.1
Total Exports	48.0	52.3	54.0	46.3	49.9	48.2	48.0	47.1	45.9	42.1	481.7	48.8	48.0	54.1	48.4	52.7	51.6	52.9	41.7	51.1	49.1	498.3
Total Imports	106.5	100.5	114.4	124.8	116.2	127.2	117.3	132.9	124.4	115.2	1,179.4	150.7	130.8	141.1	129.1	151.4	143.0	165.6	144.3	141.2	147.9	1,445.1
Balance of Trade	(58.5)	(48.2)	(60.4)	(78.5)	(66.3)	(79.0)	(69.3)	(85.8)	(78.5)	(73.1)	(697.7)	(101.9)	(82.9)	(87.1)	(80.6)	(98.8)	(91.4)	(112.7)	(102.6)	(90.1)	(98.8)	(946.8)

Source: Kenya National Bureau of Statistics, Central Bank of Kenya

As at October, 2017, Kenya's total domestic exports were valued at **KES 445 billion** up from **KES 419 billion**, while imports rose to **KES 1.45 trillion** from **KES 1.18 trillion** during a similar period in 2016. The balance of trade steadily increased from January 2017 all through to October 2017 compared to the previous period. Kenya's overall balance of trade increased by 35% to a deficit **KES 947 billion** as at October 2017 from **KES 698 billion** during a similar period in 2016.

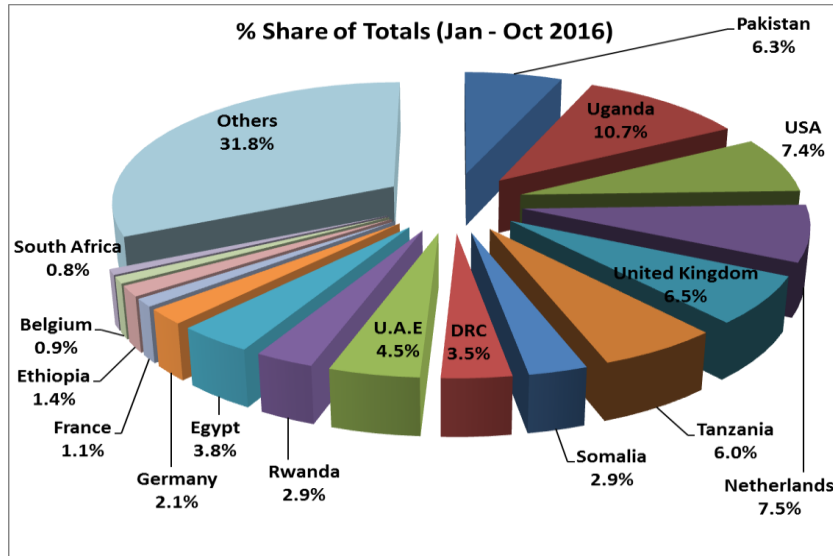
Kenya's Export Performance-by Markets

Figure 1: Kenya's major export markets



During the period January to October 2017, the rank of lead export markets were: Pakistan (10.4%), Uganda (10.3%), USA (8%), Netherlands (7.3%), and United Kingdom (6.4%). For same period in 2016, the

top lead destinations were; Uganda (10.7%), Netherlands (7.5%), USA (7.4%), United Kingdom (6.5%), and Pakistan (6.4%).



In comparison to the same period January to October last year, during the 2017, there was a high increase in Kenya's total exports to; Pakistan by KES 21.6 billion, USA by KES 4.5 billion and Somalia by KES 2.7 billion; and slight increase in exports to; France by KES 1.5 billion,

United Kingdom by KES 1.2 billion, and Belgium by KES 1 billion.

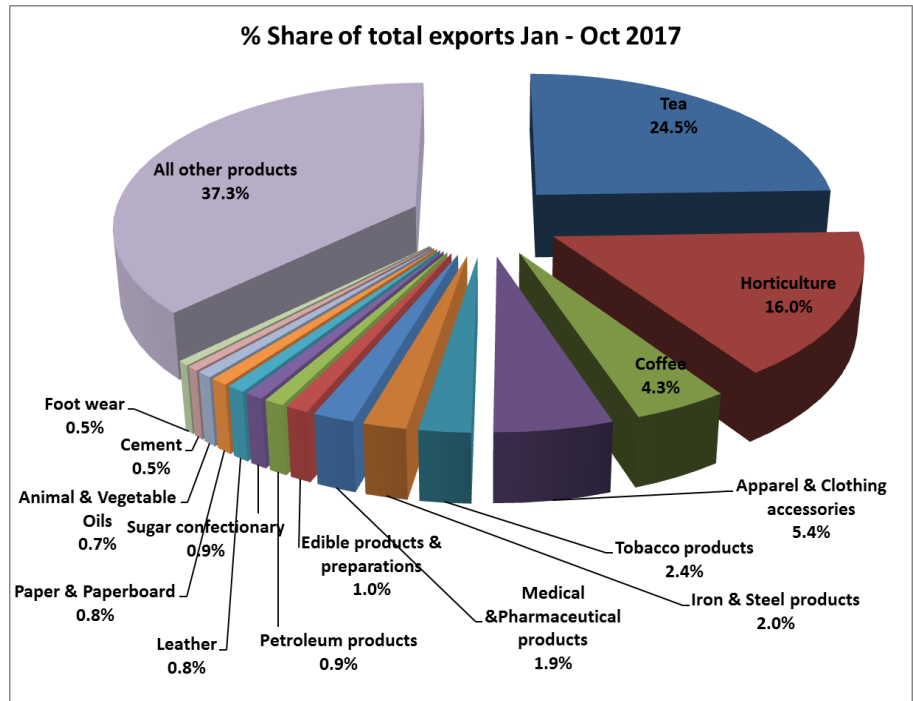
However, there was a decrease in exports to; Tanzania by KES 5.5 billion, Egypt by KES 4 billion, South Africa by KES 1.4 billion, and Ethiopia by KES 1 billion

Kenya's Export Performance-by Product

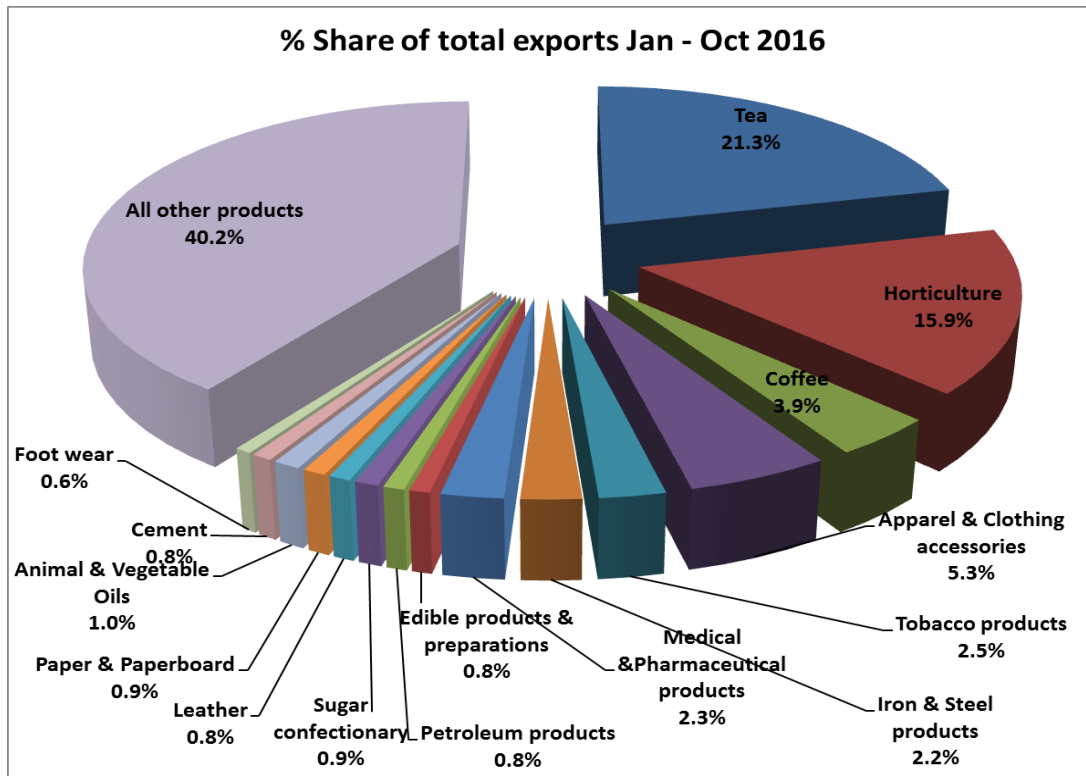
The top export products were more or less the same during period January to October for both 2016 and 2017 and included; tea, horticulture, apparel & clothing accessories, coffee, tobacco products, iron & steel products, medicinal & pharmaceutical products; and edible products & preparations.

In terms of performance of exports in 2017 compared to 2016, the export of tea recorded the highest increase of KES 18.34 billion, followed closely by; coffee with increase of KES 2.8 billion. Other commodities that recorded increase in performance were; horticulture by KES 2.4 billion, apparels and clothing accessories by KES 1.4 billion and; edible food preparations by KES 1.4 billion. There were, however, recorded decrease in the performance of other export products namely; pharmaceuticals by KES 2.5 billion, vegetable oils by KES 1 billion and cement by KES 0.9 billion.

As at October, 2017, the top leading export products remained the same as the previous period and were; tea (21.3%), horticulture (15.9%), articles of apparel (5.3%), coffee (3.9%), tobacco products (2.5%); and iron & steel products (2%). The top five and ten products



accounted for 52.6% and 59.2% respectively of all total exports for January - October 2017.



Kenya's Export Performance-Top 15 products as per Sector

The top export products were more or less the same during period January to Oct for both 2016 and 2017 and included; agriculture, and manufactures.

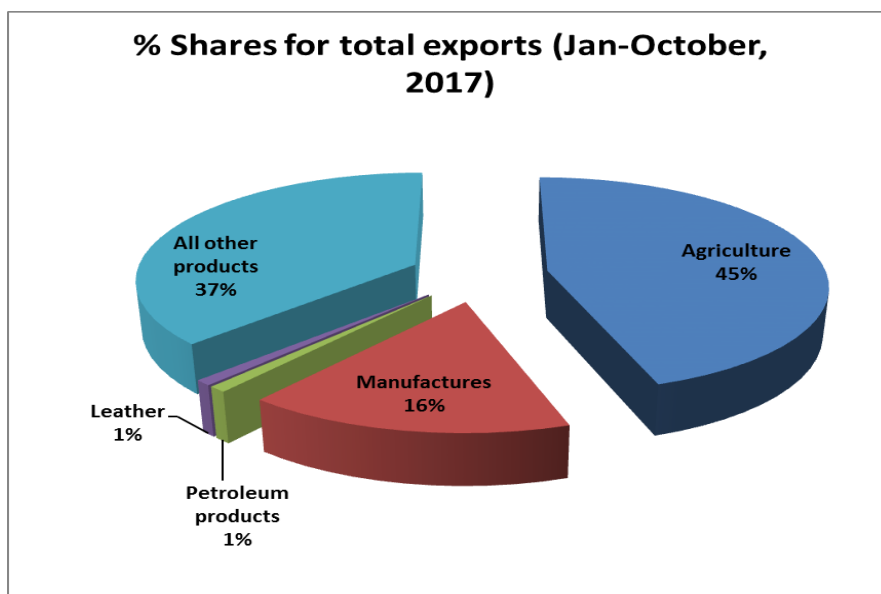
Values in KES billion

Sector	2016											2017										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total (Jan - Oct)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total (Jan - Oct)
Agriculture	20.00	21.18	21.59	20.54	20.73	21.83	19.82	19.10	17.43	15.56	197.79	22.51	21.50	21.89	20.01	24.47	24.15	23.91	18.07	22.20	22.67	221.37
Manufactures	7.19	8.16	10.52	8.50	8.46	7.94	8.22	8.38	8.09	7.34	82.81	7.52	8.04	9.25	6.71	8.21	7.57	8.99	7.68	8.41	7.34	79.72
Petroleum products	0.34	0.32	0.08	0.47	0.42	0.56	0.32	0.42	0.45	0.40	3.78	0.39	0.49	0.50	0.35	0.61	0.47	0.36	0.37	0.52	0.42	4.48
Leather	0.43	0.41	0.52	0.37	0.37	0.45	0.30	0.33	0.40	0.33	3.91	0.36	0.42	0.48	0.37	0.48	0.40	0.39	0.41	0.51	0.36	4.16
All other products	20.06	22.21	21.31	16.41	19.89	17.43	19.32	18.86	19.53	18.42	193.44	18.06	17.52	21.94	17.36	18.90	18.98	19.28	15.14	18.74	18.30	184.21
Total Exports	48.02	52.29	54.03	46.30	49.86	48.21	47.98	47.08	45.90	42.05	481.73	48.84	47.96	54.05	44.80	52.67	51.57	52.92	41.67	50.38	49.09	493.95

Source: Kenya National Bureau of Statistics, Central Bank of Kenya

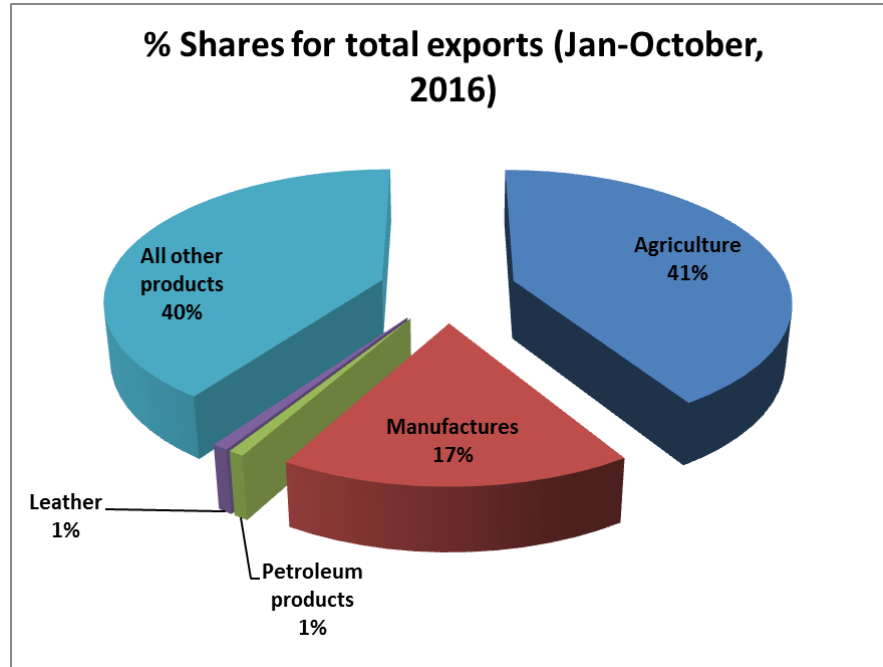
In terms of performance of exports in 2017 compared to 2016, the export of agricultural products recorded an increase of KES 23.6 billion, while manufactures decreased by KES 3.1 billion. Overall, total exports up to October

2017 increased by KES 12.2 billion.



As at October, 2017, the proportion of top leading export sectors remained the same as the previous period as shown in the figures below. Agricultural products accounted for 45% in 2017 compared to 41% in

2016; while manufactures dropped to 16% in 2017 from 17% in same period in 2016. Other sectors accounted for 39% and 41% respectively in 2017 and 2016.



Challenges on Export Performance

The following factors, among others, may explain the export performance is;

- Poor infrastructure and high cost of inputs (electricity, roads, communication, fuel and agricultural inputs)
- High cost of export finance
- Increased competition in key markets arising from globalization. This has particularly affected the East African Markets
- Stringent and changing market entry requirements
- Non-tariff barriers (certification, other social accountability issues, cultural, administrative, etc.)

What is Export Promotion Council doing to boost the exports?

The Export Promotion Council is making strategic efforts to tackle key obstacles hindering the performance of exports. The council is addressing these under eight areas of focus as; Addressing High Cost of Doing Business; Local Restrictions and Regulatory Requirements; Value Chain Weaknesses and Inadequacy of Raw Material; Market Competition and Terms of Trade; Slow Adoption and Adaptation of Technology; Weak Visibility and Branding; Addressing High Standards in the International Markets and Promotion; and Addressing Infrastructural Weaknesses.

The objective of all these efforts is to expand and diversify the product base as well as to consolidate, expand and diversify the export markets. Specifically, we shall be in the long run aiming to;

- a) Diversify the export base, especially those with higher value added components for the continental African markets. This is an effort to move far away from increasing competition from import substitution policies and generic products that are heightening competition in Africa and other emerging markets.
- b) Increase promotional activities within the African region to take advantage of the deepened regional integration and Europe, to take advantage of EAC-EU Economic Partnership Agreement (EPAs).
- c) Deepen the market where Kenya has strong foothold by establishing distribution infrastructure.
- d) Strengthen transport and logistics to the key markets by collaborating key trade facilitation agencies to reduce the turnaround time in the region as well as circumvent the bureaucratic barriers along transit corridors and borders

Annexes:

Table 1: Kenya's Major Export markets

		Value of Exports in KES billion																	
Year	Month/ Countries	Pakistan	Uganda	USA	Netherla nds	United Kingdom	Tanzania	Somalia	DRC	U.A.E	Rwanda	Egypt	Germany	France	Ethiopia	Belgium	South Africa	Others	Total
2016	Jan	2.50	4.64	2.87	4.25	3.92	3.26	1.19	1.54	1.71	1.35	1.62	0.71	0.48	0.70	0.46	0.50	16.32	48.02
	Feb	2.57	4.71	3.11	4.67	3.46	3.35	1.09	1.53	2.68	1.29	1.84	0.68	0.37	0.66	0.71	0.81	18.77	52.29
	Mar	2.35	6.27	3.13	5.04	3.49	4.04	1.67	1.59	2.04	1.51	1.94	1.33	0.57	0.45	0.95	0.28	17.40	54.03
	Apr	2.45	6.32	3.00	3.57	3.16	2.46	0.87	1.61	2.19	1.59	2.12	1.49	0.59	0.52	0.33	0.37	13.65	46.30
	May	3.16	4.22	3.36	3.79	2.98	3.44	1.91	1.50	2.88	1.22	1.85	1.07	0.50	0.75	0.54	0.52	16.18	49.86
	Jun	4.99	4.66	3.78	3.13	3.13	2.77	1.30	1.72	2.20	1.60	1.90	0.98	0.54	0.70	0.33	0.32	14.17	48.21
	Jul	3.38	6.12	4.87	2.84	3.05	2.09	1.36	1.48	2.30	1.42	2.10	0.99	0.53	0.89	0.32	0.15	14.06	47.96
	Aug	3.20	4.90	3.80	2.90	2.98	2.38	1.49	2.01	2.15	1.68	1.81	0.89	0.50	1.02	0.25	0.25	14.88	47.08
	Sep	3.03	4.55	4.36	3.27	2.78	2.63	1.66	1.91	1.91	1.32	1.86	0.97	0.67	0.82	0.27	0.16	13.74	45.90
	Oct	2.95	5.35	3.31	2.59	2.13	2.45	1.53	1.87	1.59	1.10	1.07	0.83	0.53	0.36	0.21	0.33	13.86	42.05
	Total (Jan - Oct)	30.59	51.75	35.59	36.05	31.09	28.86	14.06	16.74	21.66	14.09	18.09	9.93	5.26	6.87	4.37	3.69	153.03	481.70
2017	Jan	7.32	5.38	2.91	3.80	3.35	2.37	1.41	1.37	1.68	1.15	1.46	0.94	0.52	0.37	0.56	0.14	17.87	52.62
	Feb	4.35	5.67	4.04	4.55	3.41	2.56	1.42	1.63	1.59	1.27	1.53	1.23	0.52	0.49	0.82	0.20	16.31	51.59
	Mar	3.96	5.82	3.91	4.00	3.29	2.83	3.18	1.96	1.56	1.43	1.40	1.24	0.78	0.72	1.16	0.34	16.48	54.05
	Apr	3.77	4.77	3.46	3.83	2.55	1.64	1.60	1.31	2.02	1.39	0.93	1.35	0.61	0.66	0.43	0.21	14.28	44.80
	May	5.49	4.77	4.37	4.17	3.19	1.96	1.64	1.76	2.34	1.48	0.92	1.31	0.69	0.67	0.64	0.26	17.00	52.67
	Jun	5.83	4.88	4.67	3.49	3.35	1.88	1.46	1.55	1.97	1.42	1.75	0.91	0.66	0.65	0.40	0.17	16.55	51.57
	Jul	6.11	5.37	5.11	3.21	3.65	2.33	1.82	1.66	1.67	1.86	1.39	0.80	0.82	0.55	0.52	0.32	15.75	52.92
	Aug	3.99	4.46	4.05	2.64	2.86	2.55	1.39	1.31	1.07	1.40	1.21	0.67	0.95	0.56	0.26	0.27	12.02	41.67
	Sep	5.64	6.53	3.95	3.41	3.08	2.63	1.35	1.57	1.86	1.68	2.22	0.68	0.70	0.75	0.27	0.19	14.60	51.11
	Oct	5.75	4.08	3.66	3.45	3.54	2.63	1.46	1.78	-	1.41	1.36	0.87	0.50	0.44	0.27	0.20	17.69	49.09
	Total (Jan - Oct)	52.20	51.73	40.11	36.55	32.28	23.38	16.73	15.89		14.49	14.18	9.99	6.75	5.86	5.34	2.30	158.55	502.09
	Change 2016-2017	21.62	(0.01)	4.53	0.50	1.19	(5.48)	2.67	(0.85)		0.40	(3.91)	0.06	1.49	(1.01)	0.97	(1.39)	5.52	20.39
	% Change	70.68	(0.03)	12.71	1.39	3.82	(18.99)	19.01	(5.07)		2.83	(21.62)	0.60	28.28	(14.63)	22.22	(37.69)	3.61	4.23

Source: Kenya National Bureau of Statistics, and Central Bank of Kenya

Table 2: Composition of Kenya's Export Product

Value of Exports in KES billion

	Sector	Commodity	2016										2017											
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total (Jan - Oct)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total (Jan - Oct)
1	Agriculture	Tea	11.01	12.20	9.89	9.52	10.66	12.61	10.68	9.99	8.45	7.55	102.56	14.07	10.88	10.69	9.99	12.35	13.49	13.44	9.27	13.57	13.15	120.90
2		Horticulture	7.79	7.34	9.49	8.47	7.90	6.85	7.32	7.45	7.56	6.51	76.68	6.88	8.51	7.96	7.29	8.95	8.16	8.48	7.46	7.08	8.36	79.12
3		Coffee	1.20	1.64	2.21	2.56	2.18	2.37	1.82	1.65	1.41	1.50	18.55	1.56	2.11	3.24	2.73	3.17	2.51	1.99	1.34	1.56	1.15	21.35
			20.00	21.18	21.59	20.54	20.73	21.83	19.82	19.10	17.43	15.56	197.79	22.51	21.50	21.89	20.01	24.47	24.15	23.91	18.07	22.20	22.67	221.37
4	Manufactures	Apparel & Clothing accessories	2.43	2.55	2.43	2.19	2.38	2.52	3.17	2.76	2.65	2.28	25.36	2.32	2.46	2.87	2.29	2.56	2.65	3.37	3.09	2.84	2.32	26.77
5		Tobacco products	0.92	1.98	2.02	1.13	1.13	0.97	0.70	0.69	1.04	1.24	11.82	1.50	1.51	1.72	0.59	1.58	1.13	0.95	0.58	0.92	1.17	11.65
6		Iron and Steel	0.85	0.89	1.14	1.11	0.90	0.90	1.06	1.41	1.32	1.20	10.76	1.02	1.18	1.03	0.78	0.87	0.88	1.10	0.75	1.14	1.00	9.75
7		Medical & Pharmaceutical products	0.67	0.77	2.09	1.38	1.63	1.01	1.21	0.87	0.87	0.66	11.15	0.49	0.66	1.27	1.02	0.78	0.85	1.14	1.18	1.00	0.88	9.28
8		Edible products & preparations	0.32	0.31	0.46	0.35	0.37	0.36	0.26	0.60	0.40	0.25	3.68	0.44	0.42	0.38	0.44	0.61	0.37	0.80	0.36	0.62	0.63	5.08
9		Sugar confectionary	0.40	0.39	0.41	0.45	0.44	0.49	0.34	0.42	0.55	0.40	4.29	0.38	0.40	0.48	0.38	0.44	0.42	0.44	0.38	0.49	0.38	4.21
10		Paper & Paperboard	0.34	0.21	0.44	0.49	0.36	0.44	0.53	0.61	0.38	0.32	4.11	0.36	0.28	0.40	0.32	0.48	0.45	0.42	0.57	0.39	0.36	4.02
11		Animal & Vegetable Oils	0.28	0.42	0.61	0.79	0.53	0.55	0.44	0.42	0.41	0.48	4.91	0.46	0.51	0.50	0.29	0.25	0.33	0.28	0.32	0.46	0.19	3.59
12		Cement	0.70	0.32	0.56	0.32	0.34	0.43	0.22	0.34	0.24	0.21	3.69	0.28	0.29	0.31	0.36	0.37	0.18	0.25	0.26	0.22	0.20	2.71
13		Foot wear	0.30	0.33	0.37	0.28	0.38	0.27	0.30	0.25	0.24	0.30	3.02	0.26	0.32	0.30	0.24	0.27	0.29	0.23	0.21	0.31	0.23	2.67
			7.19	8.16	10.52	8.50	8.46	7.94	8.22	8.38	8.09	7.34	82.81	7.52	8.04	9.25	6.71	8.21	7.57	8.99	7.68	8.41	7.34	79.72
14	Energy	Petroleum products	0.34	0.32	0.08	0.47	0.42	0.56	0.32	0.42	0.45	0.40	3.78	0.39	0.49	0.50	0.35	0.61	0.47	0.36	0.37	0.52	0.42	4.48
15	Livestock	Leather	0.43	0.41	0.52	0.37	0.37	0.45	0.30	0.33	0.40	0.33	3.91	0.36	0.42	0.48	0.37	0.48	0.40	0.39	0.41	0.51	0.36	4.16
16	All others	All other products	20.06	22.21	21.31	16.41	19.89	17.43	19.32	18.86	19.53	18.42	193.44	18.06	17.52	21.94	17.36	18.90	18.98	19.28	15.14	18.74	18.30	184.21
		Total Exports	48.02	52.29	54.03	46.30	49.86	48.21	47.98	47.08	45.90	42.05	481.73	48.84	47.96	54.05	44.80	52.67	51.57	52.92	41.67	50.38	49.09	493.95

Source: Kenya National Bureau of Statistics, and Central Bank of Kenya