



STERLING CAPITAL LIMITED

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### July diaspora inflows drop to KES.29Bn amid US unrest

- Cash sent home by Kenyans living abroad dropped by KES.1.2Bn in July compared to the previous month, easing back after three months of increase.
- According to Central Bank of Kenya (CBK) shows the remittances in July amounted to US\$.277Mn (KES.29.9Bn) from US\$.288.5Mn (KES.31.2Bn) sent in June.
- The inflows, which are the country's largest source of foreign exchange, have however increased by 23.1% when compared to the US\$.225Mn that was sent home in July last year.
- During the month remittances from US and South Africa decreased slightly compared to June while inflows from United Kingdom, Saudi Arabia, Qatar and Germany increased.
- US is the largest country in terms of the inflows' contributions. However, the country has emerged as a global hotspot and faces economic tensions from ongoing racial protests and the upcoming elections.
- The cumulative inflows in the 12 months to July totaled to US\$.2.9Bn (KES.309Bn) compared to US\$.2.8Bn (KES.300Bn) in the 12 months to July 2019, representing a 3% increase.
- Remittances in the seven months to July were 3.9% higher than in the same period in 2019.
- The stabilisation of remittances since the dip in April has helped narrow the current account deficit to 4.7% of GDP in the 12 months to July compared to 5.0% of GDP in the 12 months to June.

### Our View

- **Kenyans in diaspora have defied hardships arising from the COVID-19 pandemic as remittances have remained high in 2020 and we expect a recovery in the coming months after the dip in July as most countries in the world ease coronavirus restrictions.**
- Remittances are important to not just households' income but also government through their contribution of nearly one third of the CBK's usable foreign currency reserves which are used to partly settle external debt and cushion the shilling.
- Remittances in Kenya has become the biggest source of foreign exchange, with tourism, tea, coffee, and horticultural exports, following in second, third, fourth, and fifth position respectively.
- The growth in diaspora inflows has boosted the country's forex reserve, currently at US\$.8.9Bn (equivalent to 5.4-months of import cover), above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover.
- Despite the good performance in diaspora remittances in 2020 and adequate foreign exchange reserves the exchange rate volatility has seen the KES/USD rate drop to an all-time low depreciating 6.8% against the dollar on a year-to-date basis.
- We expect the KES to trade between 108 and 110 against the dollar and to remain volatile for the remainder of the year due to reduced foreign direct investments.