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STERLING CAPITAL LIMITED

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Fixed Income Note

October 2021

"Investor appetite dips as market liquidity tightens"

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Executive Summary

- Our fixed income report for the month of October 2021 titled **"Investor appetite dips as market liquidity tightens"** gives a detailed investment analysis of the Central Bank of Kenya's (CBK) three re-opened bonds; **FXD1/2013/15 (6.4 years), FXD3/2019/15 (12.9 years) and FXD1/2021/25 (24.7 years)** .
- Our weighted average bid predictions for the bonds through which the CBK intends to raise KES.60Bn are as follows:

Weighted Average Rate (WAR) of investor bids

- **FXD1/2013/15: 11.79% - 11.84%**
- **FXD3/2019/15: 12.89% - 12.94%**
- **FXD1/2021/25: 13.84% - 13.89%**

WAR of accepted bids

- **FXD1/2013/15: 11.74% - 11.79%**
- **FXD3/2019/15: 12.79% - 12.84%**
- **FXD1/2021/25: 13.74% - 13.79%**

- The report examines domestic primary auction performance and secondary debt trading activity.
- It also discusses market liquidity as measured by excess market liquidity and inter-bank rates as an indicator.
- Domestic debt redemptions are also reviewed to give direction on expected debt service for the coming month, which will impact CBK's borrowing strategy.
- Our fixed income portfolio allocation remains skewed to the IFB's as highlighted in the trading ideas section based on the current and expected yield curve movements.
- The yield curve section summarises the trends in domestic debt interest rates over the period in focus and gives an outlook of the yield curve direction.
- We give our inflation expectations over the short and medium term towards the end of the report, which concludes, with a view on the Monetary Policy Committee (MPC) meeting decision.

CBK in the market to raise KES.60Bn through re-opened debt issues

- The Central Bank of Kenya (CBK) invites bids for three re-opened treasury bonds; **FXD1/2013/15, FXD3/2019/15** and **FXD1/2021/25** with a target amount of KES.60Bn (Table.1).
- The three debt issues have remaining terms to maturity of 6.4, 12.9 and 24.7 years respectively.
- The fixed coupon rates for the three issues from the initial primary auction are 11.250%, 12.340% and 13.924% respectively.
- The CBK's strategy of lengthening the Average Term to Maturity (ATM) of public debt has been consistent evidenced by the long-term bond issues over the last few months.

Table.1: Primary Bond issue summary

Issue Number	FXD1/2013/15	FXD3/2019/15	FXD1/2021/25
Total Amount Offered	KES.60Bn		
Tenor (Years)	15 Years	15 Years	25 Years
Term to Maturity	6.4 Years	12.9 Years	24.7 Years
Coupon Rate (%)	11.250	12.340	13.924
Price Quote	Discounted/Premium/Par		
Period of Sale	21st September 2021 to 5th October 2021		
Auction Date	6th October 2021		
Value Date	11th October 2021		
Yield Curve (%) (Weighted average tenor - 24th September 2021)	**11.6516**	**12.6864**	**13.4524**

Source: Central Bank of Kenya

Weighted average bid estimates

- Analysis of yields of bonds of similar tenors on the Nairobi Securities Exchange (NSE) as at 24th September 2021 as well as discussions with fixed income traders resulted in the following bid predictions for the treasury bonds (Table.2).

Table.2: Auction bid predictions

Description	FXD1/2013/15	FXD3/2019/15	FXD1/2021/25
Market Weighted Average Rate (%)	11.79 - 11.84	12.89 - 12.94	13.84 - 13.89
Weighted Average Rate of Accepted Bids (%)	11.74 - 11.79	12.79 - 12.84	13.74 - 13.79

Source: Sterling Capital Research

Historical debt issues provide guidance

- We used implied yields of bonds of almost similar tenors to maturities on the Nairobi Securities Exchange (NSE) as at 24th September 2021 as a guide for investor bids (Table.3).

Table.3: Benchmark issues to guide investor bids

Treasury Bond	Issue Date	Coupon Rate (%)	Maturity Date	Term to Maturity Years (Days)	Implied Yield to maturity (%)	Yield Curve at time of issue
FXD1/2013/15						
FXD1/2013/15	25th Feb 2013	11.25%	7th Feb 2028	6.4 (2,327)	11.6850	N/A
FXD2/2013/15	29th Apr 2013	12.00%	12th Apr 2028	6.6 (2,390)	11.7112	N/A
FXD3/2019/15						
FXD2/2019/15	13th May 2019	12.73%	24th April 2034	12.6 (4,595)	12.6655	12.6500
FXD3/2019/15	29th July 2019	12.34%	10th July 2034	12.8 (4,672)	12.6783	12.3637
FXD1/2021/25						
FXD1/2021/25	10th May 2021	13.92%	9th April 2046	24.6 (8,963)	13.4600	13.9240

Source: Central Bank of Kenya

CBK will struggle to ensure full subscription for re-opened debt issues

- A comparison of historical primary auction results for 15 and 25-year issues show higher investor appetite for 25- year at a performance rate of 103% (Table.4).
- This can be explained by comparatively higher return than the shorter-term bonds.
- We expect the CBK to however struggle to attract full subscription for this month's issues and it could be forced to accept higher bids than initially anticipated to raise the full KES.60Bn for the following reasons:
- We however do not expect full subscription for these issues for the following reasons:

1) Oversupply of bonds in the secondary market with near similar tenors to maturity that has a negative impact on price appreciation in the secondary market:
   - **FXD1/2012/15Yr** and **FXD2/2013/15Yr** with 6 and 6.6 years to maturity respectively.
   - **FXD2/2019/15Yr** - 12.6 years to maturity.

2) Market liquidity has tightened following September's IFB1/2021/21 issue.

3) Long tenor of FXD1/2021/25 which only appeals to a small segment of investors such as pension funds with long-term investment horizons.

Table.4: Historical primary market auction performance

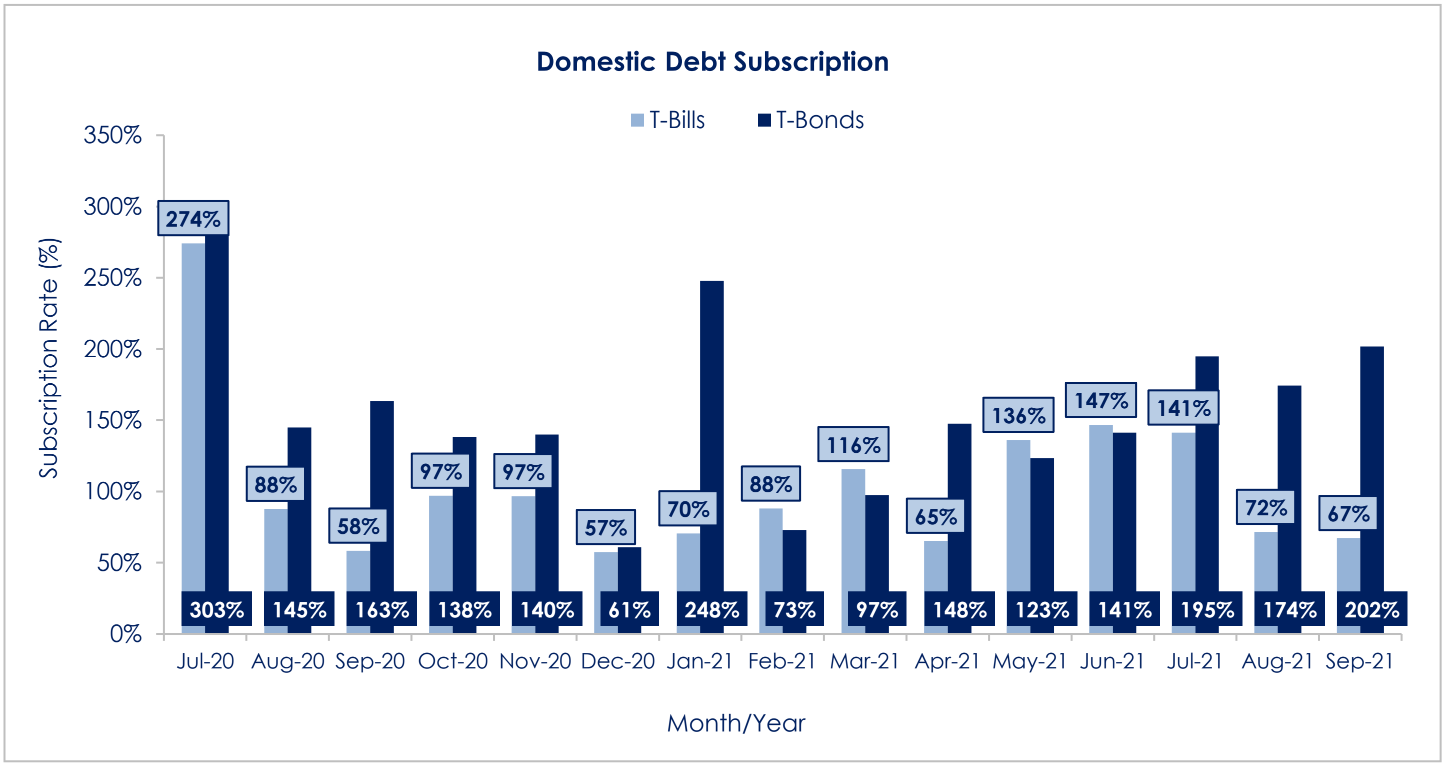
Issue	Offered (KES.Bn)	Bids Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yields (%)
15-Year						
FXD1/2012/15	40	9.3	8.5	23.2	11.000	12.8841
FXD1/2018/15	40	20.2	12.9	50.5	12.650	12.5385
FXD1/2019/15	40	25.1	14.7	62.7	12.857	12.6085
FXD2/2019/15	30	11.6	6.0	38.6	12.734	12.6802
25-Year						
FXD1/2021/25	30	31.0	14.3	103.4	13.92	13.5316

Source: Central Bank of Kenya

T-bill demand dips in September 2021 as market liquidity dries up after IFB issue

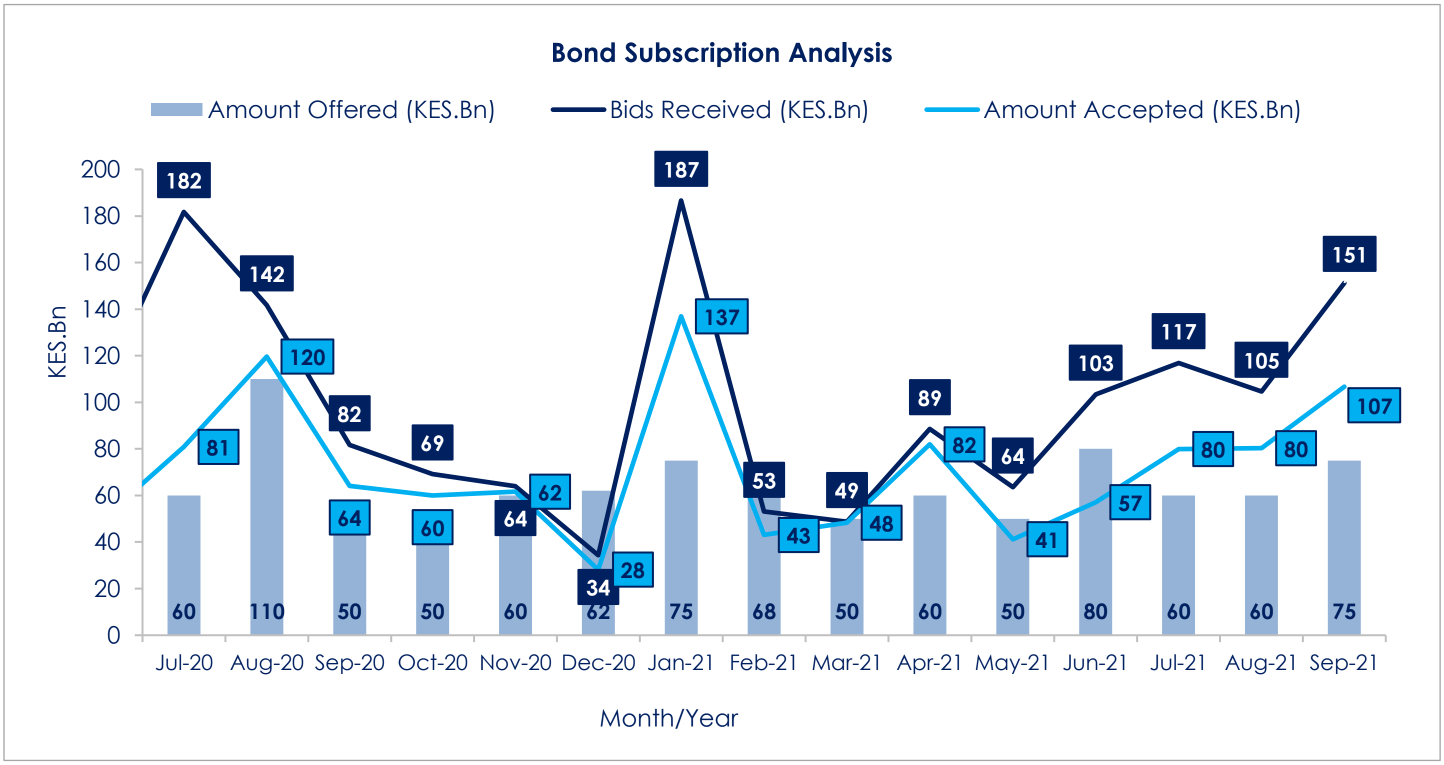
- The CBK received Treasury Bills' (T-bills) bids worth KES.64.6Bn against KES.96Bn offered in the month up to 24th September 2021, translating to a subscription rate of 67.3% (Figure.1).
- This trend was attributable to the direction of most investor capital towards the September Infrastructure Bond - IFB1/2021/21 (Figure.2).
- The IFB issue was also responsible for the tightening of market liquidity with the CBK intervention using reverse Repos to inject liquidity beginning mid-September.
- Over the period in consideration, the 91-Day T-Bill recorded the highest subscription rate (119.2%) with the 182 and 364 Day papers recording 72.8% and 40.9% subscription respectively.
- Investors are reluctant to tie up their capital for longer periods in an environment of rising interest rates and this explains the higher subscription for the 91-Day T-Bill.
- In addition, the 91 Day offers a comparatively favourable return on a risk-adjusted basis considering that the difference in average yields between the 91 and 182 and 364 - Day issues stands at a paltry 42 and 93 bps in the month of September respectively.
- We expect T-Bill subscriptions to remain subdued in October due lower market liquidity, which will also to some degree be negatively affected by three re-opened bond issues in October.

Figure.1: T-bond subscriptions remain elevated while T-Bill demand dips in September 2021



Source: Central Bank of Kenya

Figure.2: High demand for long-term domestic debt sustained

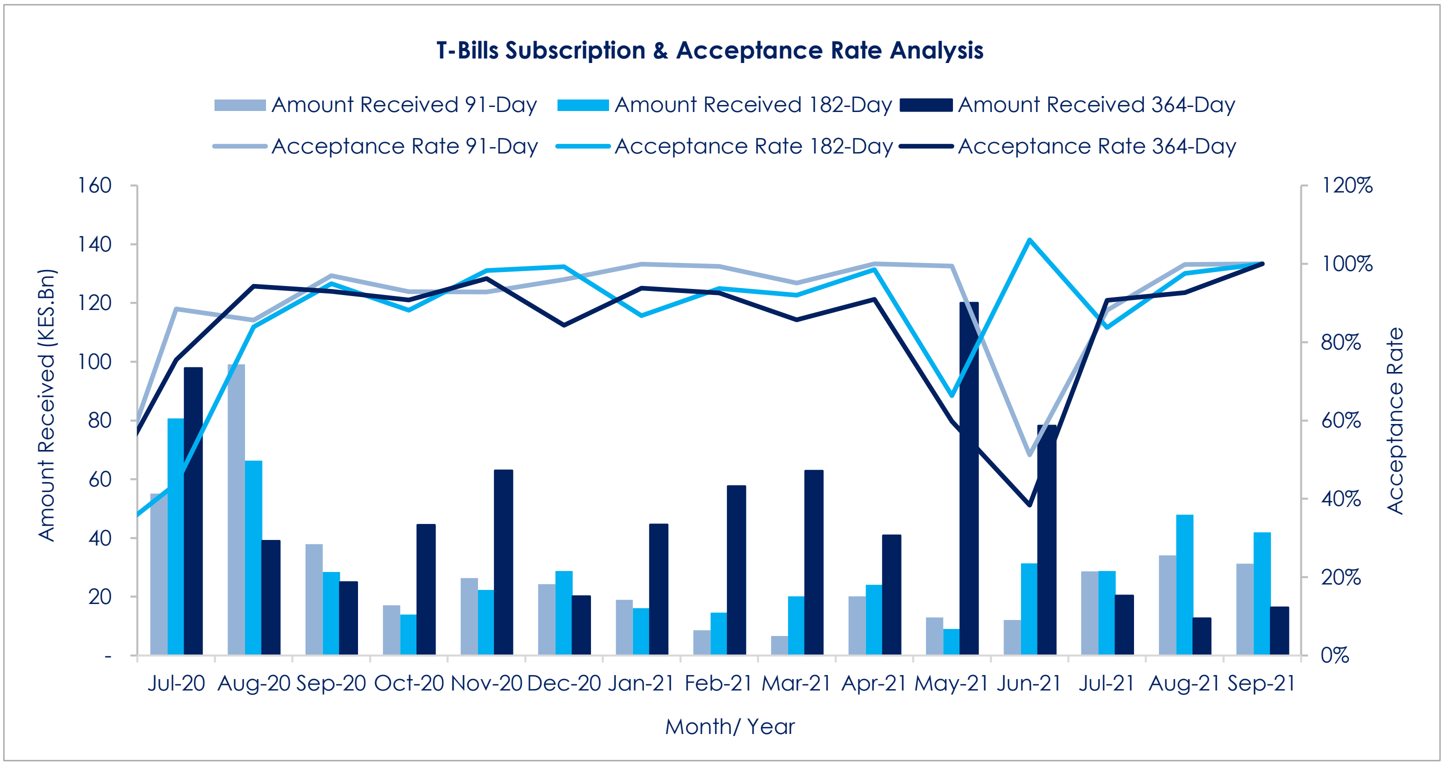


Source: Central Bank of Kenya

T-Bill rates on an upward trend as the CBK tries to meet National Treasury's financing needs

- The rising budget deficit has resulted in increased pressure on the CBK to accept higher rates in T-Bill auctions, resulting in a gradual rise in short-term domestic debt interest rates (Figure.3).
- The National Treasury's huge capital demand is evident from the CBK's high acceptance rates in T-Bill debt auctions in September, with nearly 100% acceptance rates for all T-Bill issues

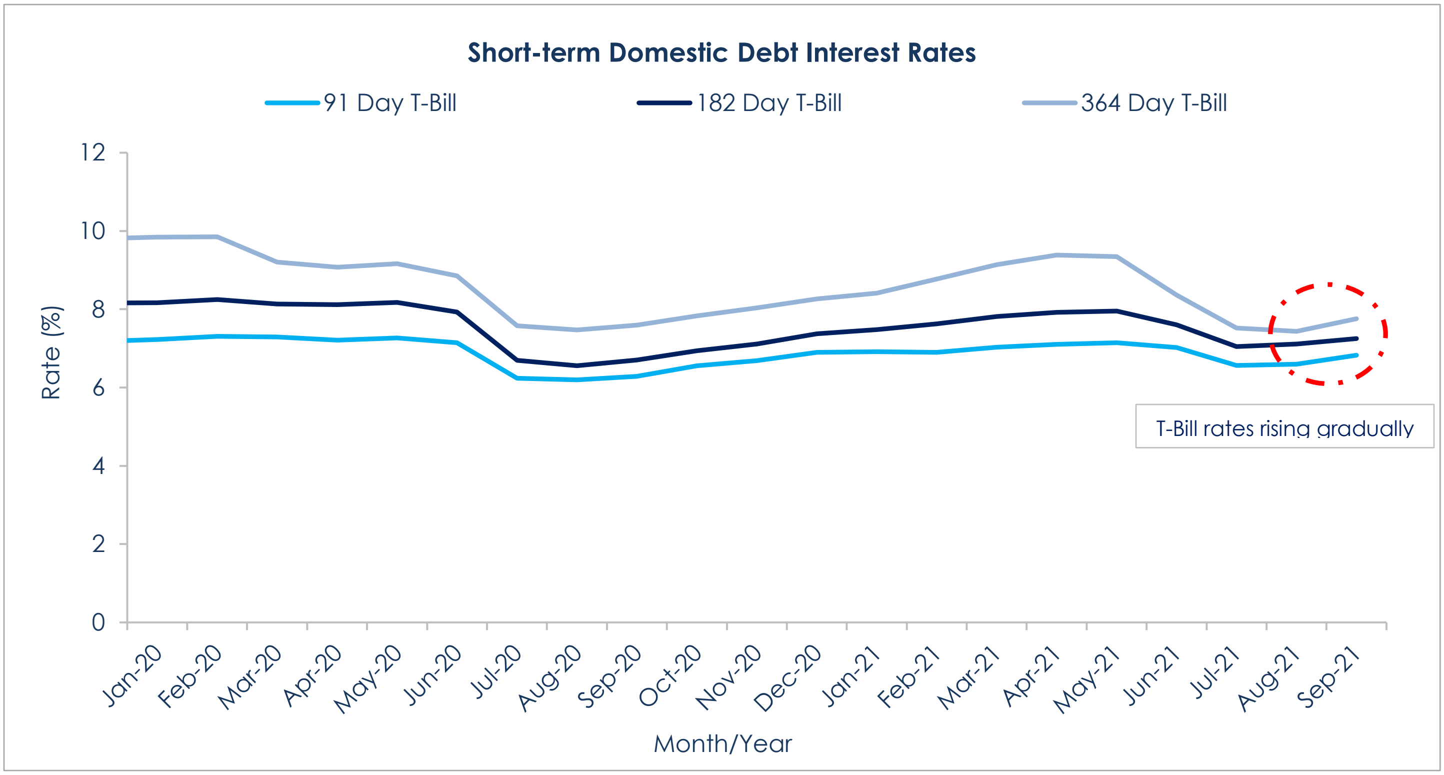
Figure.3: CBK accommodating higher investor bids to attract capital to finance fiscal deficit



Source: Central Bank of Kenya

- Average 91, 182, and 364-Day interest rates for September (up to 24th September) continued the gradual rise and stood at 6.8%, 7.3% and 7.8% respectively from 6.6%. 7.1% and 7.4% in August respectively (Figure.4).

Figure.4: Interest rates on short-term debt securities remained flat

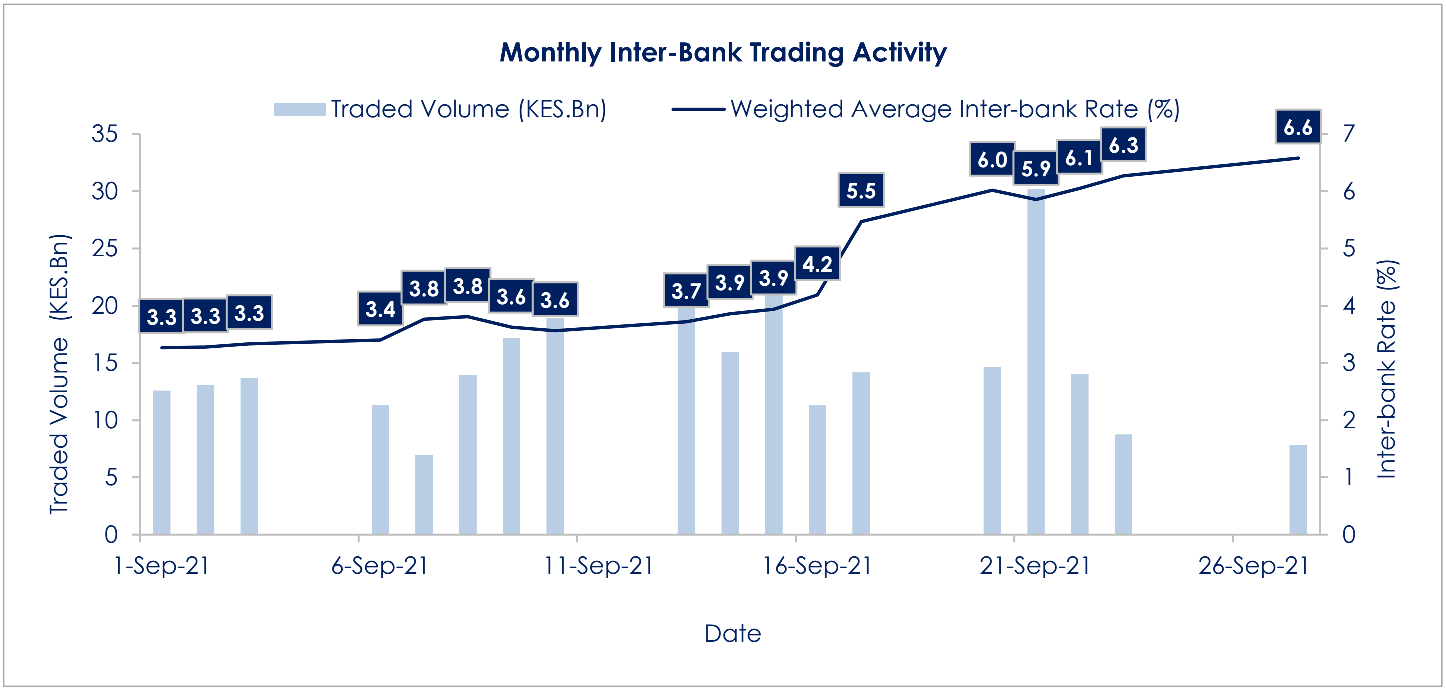


Source: Central Bank of Kenya

Average inter-bank rate up in September amid tightening market liquidity

- Average inter-bank rate for September 2021 stood at 4.4% compared to 3.2% in August because of tightening market liquidity following September's IFB issue (Figure.5).
- Total inter-bank trading volumes increased 27.9% to KES.269.3Bn during the period under review.
- Tightening market liquidity was evident during the month as the CBK intervened to inject liquidity via Reverse Repos.
- We see an improvement in market liquidity in October resulting from increased Government spending as well as some investors offloading their IFB holdings.
- Our average forecasted inter-bank rate for October 2021 is 3% - 4%.

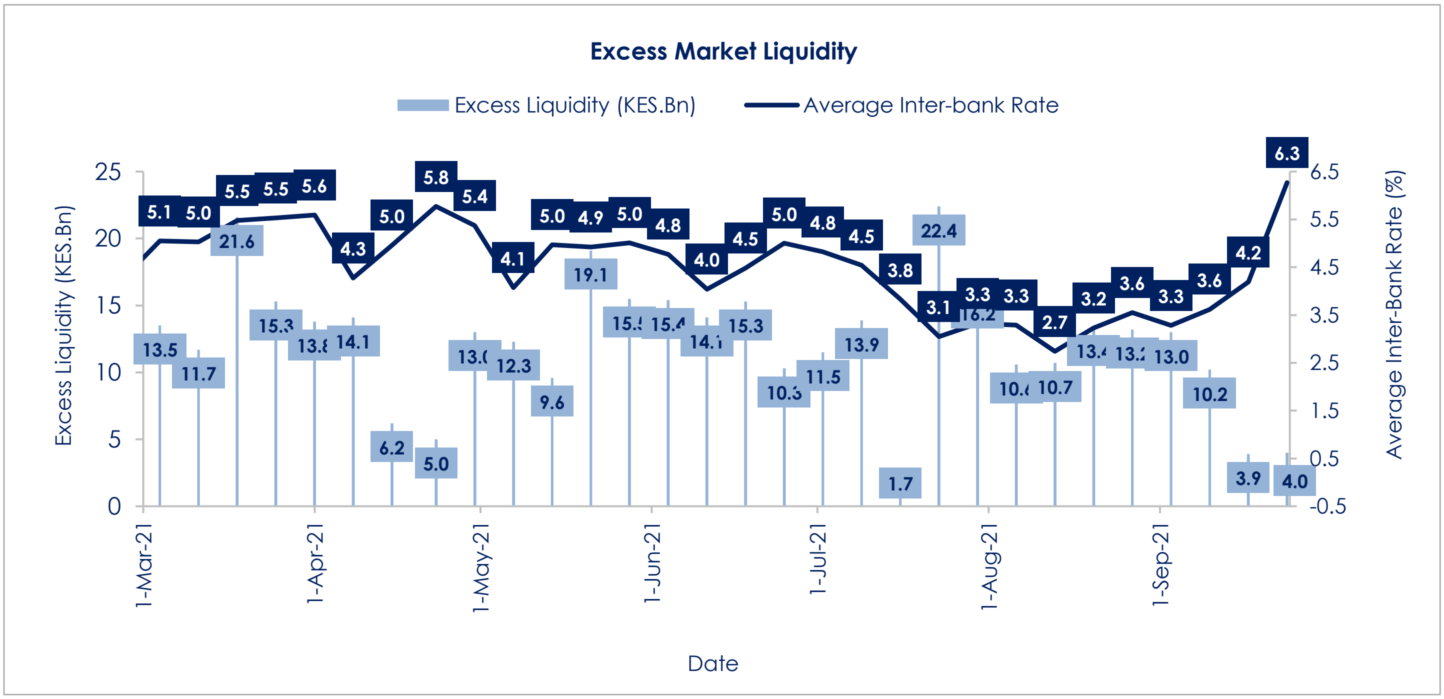
Figure.5: Inter-bank rates up in September 2021 on tightening market liquidity



Source: Central Bank of Kenya

- Excess reserves (additional liquidity above the minimum 4.25% Cash Reserve Ratio (CRR)) over the same period stood at KES.31.1Bn, a decline from KES.47.9Bn pointing to declining market liquidity (Figure.6).

Figure.6: Excess commercial bank reserves dip in September 2021 as market liquidity tightens

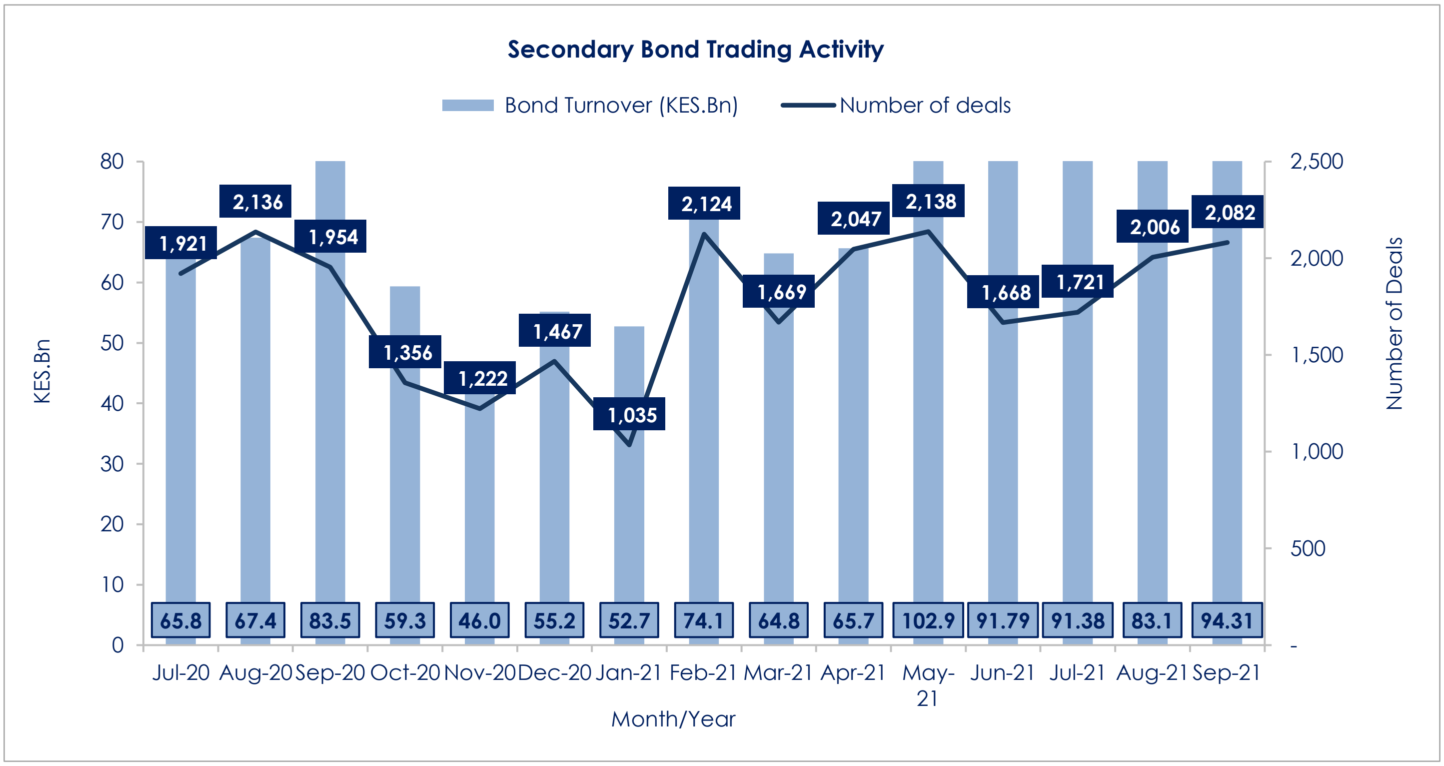


Source: Central Bank of Kenya

Secondary market trading spikes in September after IFB listing

- Secondary trading activity increased 13.5% in September 2021 compared to the previous month to KES.94.3Bn while the number of deals over the same period increased by 3.8% to 2,082 (Figure.7).
- We attribute this to a sharp increase in trading following the IFB1/2021/21 listing on 13th September.
- We expect a slight decline in secondary trading in October compared to September due to tighter liquidity with a bulk of trades still concentrated on last month's IFB issue.

Figure.7: Secondary trading activity declined in August 2021

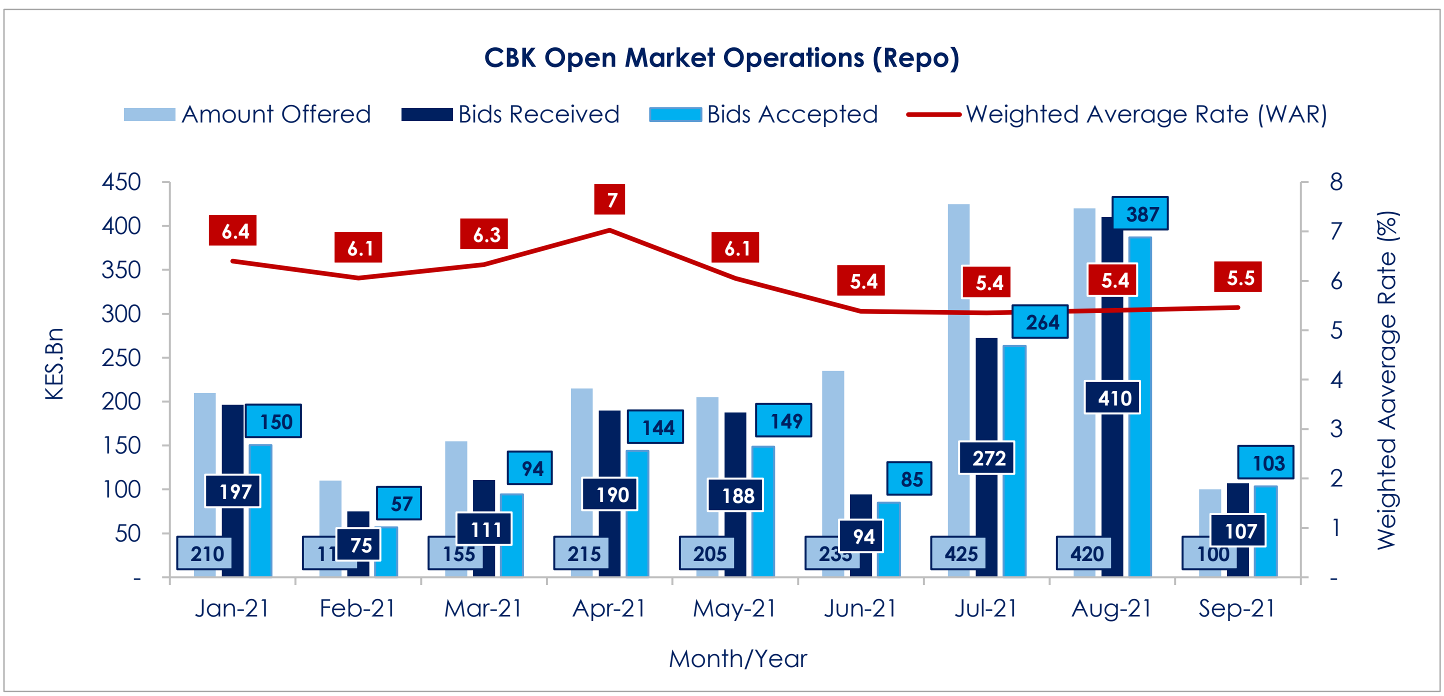


Source: Nairobi Securities Exchange & Sterling Research

September IFB and CBK mop up activity dries up market liquidity

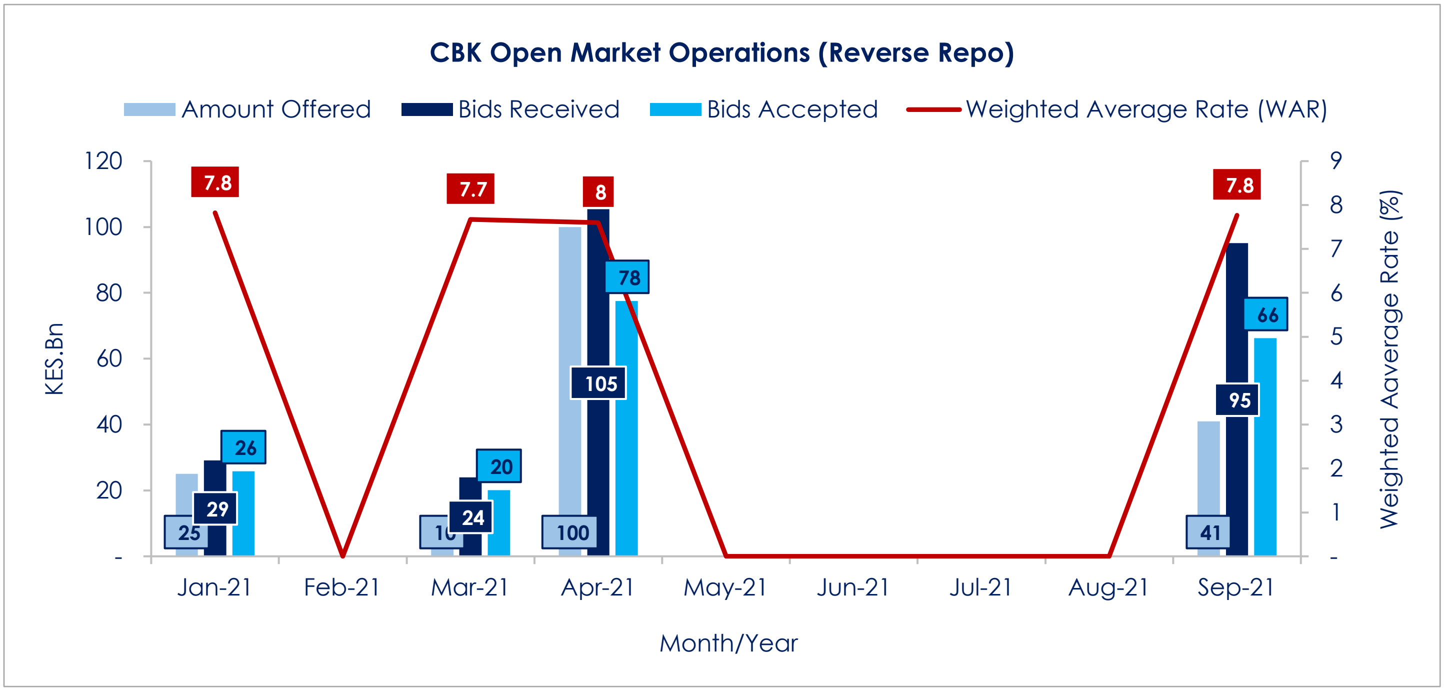
- We observe tightening of market liquidity mid-September following a combination of the issuance of IFB1/2021/21 and CBK liquidity mop up activity in the Repurchase Agreements (Repo) market through Term Auction Deposits (TAD).
- The CBK accepted bids worth KES.106.8Bn in the primary auction against a target amount of KES.75Bn and mopped up KES.115.6Bn between first and 9th September against a target of KES.105Bn at a weighted average rate of 5.5% (Figure.8).
- The resulting tightening of liquidity resulted in the CBK offering KES.41Bn in Reverse Repos the first of which was offered on 13th September (KES.5Bn) with an aggregate of KES.95.1Bn received and KES.66.2Bn being accepted at a weighted average rate of 7.8% during the month (Figure.9).
- Reverse repos were last offered by the CBK in April 2021 with the CBK accepting KES.75Bn of the KES.105.4Bn received at a weighted average rate of 8%.
- We expect liquidity injection through reverse repos to continue in the short term (at least until the first or second week of October).
- The recent tightening of liquidity has impacted T-Bill subscription in primary auctions and is likely to have the same effect on October's re-opened T-Bond auctions also noting that the issues come probably too soon after the IFB issue.
- National Treasury's transfers to the counties and other Government payments should however ease some of the current liquidity constraints.

Figure.8: CBK was actively mopping up excess liquidity prior to the issuance of IFB1/2021/21



Source: Central Bank of Kenya

Figure.9: CBK began injecting liquidity via reverse-repos mid-September in response to tightening liquidity



Source: Central Bank of Kenya

Trading ideas - Investors buy IFB1/2021/18 and IFB1/2021/21

- We recommend **IFB1/2021/18** and **IFB1/2021/21** as attractive bond investment options (Table.5).
- IFBs offer attractive high yields also taking into account their tax exemption, price appreciation and high liquidity in the secondary market.

Table.5: Trading ideas

Bond	Tenor (Years)	Coupon (%)	Modified Duration* (%)	Sterling Capital Yield to Maturity (%)	Current Yield** (%)
IFB1/2021/18	17.61	12.67	6.75	12.30	12.48
IFB1/2021/21	19.96	12.74	6.93	12.50	13.20

*Modified duration - Expresses the measurable change in the value of a security in response to a change in interest rates (for every 1% movement in interest rates, the bond would inversely move in price by the modified duration)
** Current Yield - Cash flows earned by an investor for holding a specific bond for 1 year as at 24th September 2021

Source: Central Bank of Kenya

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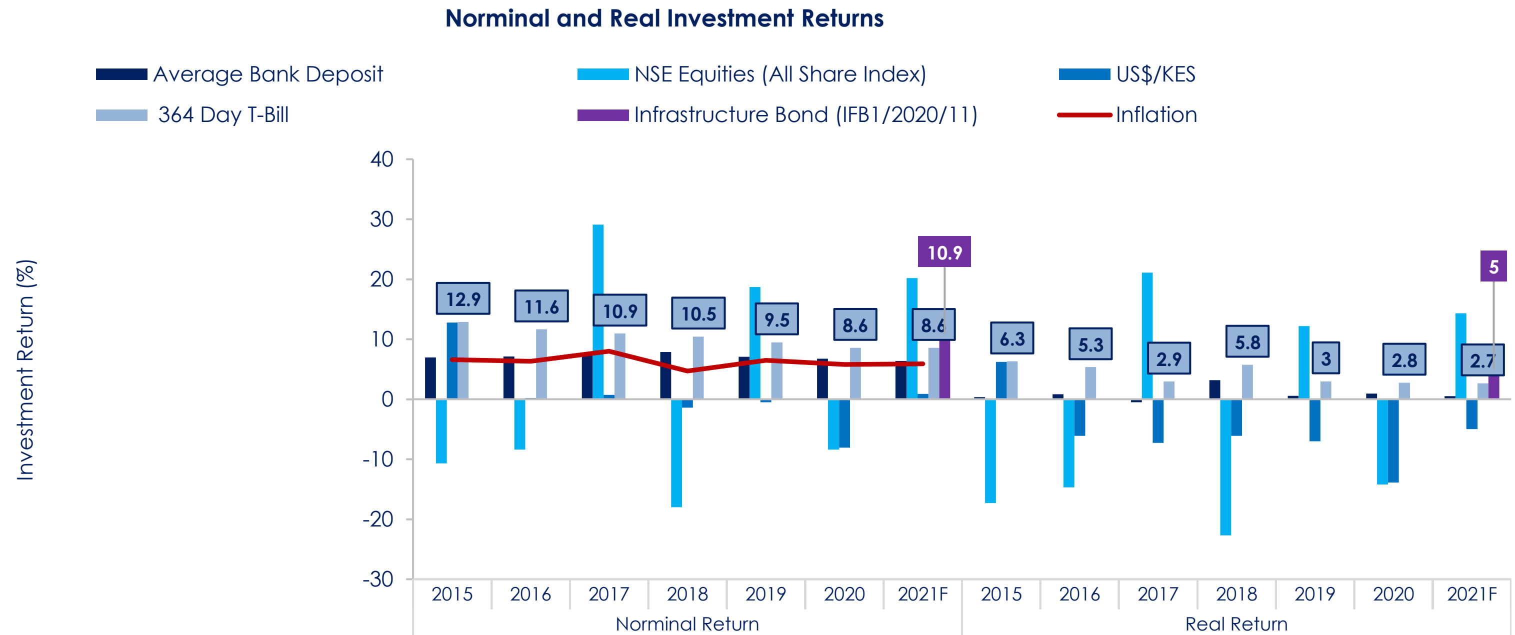
Kenya domestic debt has consistently delivered positive real returns

Kenya local currency domestic debt consistent positive real return.

- We have done an analysis of real returns (Return realized on an investment, adjusted for inflation) of different, the investment instruments to emphasize the consistency of Kenya domestic debt in delivering positive gain for investors (Figure.10).
- Domestic debt in this case is the 364-Day T-Bill and the IFB1/2020/11 issued in August 2020 (assuming that the investor adopts a buy, hold strategy, and does not trade the security in the secondary market for capital gains).
- While equities are expected to have the highest real return in 2021, returns are often volatile and not suitable for investors looking for initial capital protection or predictable returns.
- It is for this reason that we favour domestic debt investments for this segment of investors.
- **With inflation near the upper bank of 7.5%, we expect declines in investment returns from all asset classes.**
- **We recommend that investors with medium term investment horizons and low appetite for investment risk to invest in local currency denominated debt.**

Figure.10.Kenya domestic debt consistently delivers positive real return



	2015	2016	2017	2018	2019	2020	2021F	2015	2016	2017	2018	2019	2020	2021F
	Norminal Return							Real Return						
Average Bank Deposit	6.9	7.1	7.5	7.9	7.1	6.7	6.4	0.3	0.8	-0.5	3.2	0.6	0.9	0.5
NSE Equities (All Share Index)	-10.7	-8.4	29.1	-18	18.7	-8.4	20.2	-17.3	-14.7	21.1	-22.7	12.2	-14.2	14.3
US$/KES	12.8	0.2	0.7	-1.4	-0.5	-8.1	0.9	6.2	-6.1	-7.3	-6.1	-7	-13.9	-5.0
364 Day T-Bill	12.9	11.6	10.9	10.5	9.5	8.6	8.6	6.3	5.3	2.9	5.8	3	2.8	2.7
Infrastructure Bond (IFB1/2020/11)							10.9							5
Inflation	6.6	6.3	8	4.7	6.5	5.8	5.9							

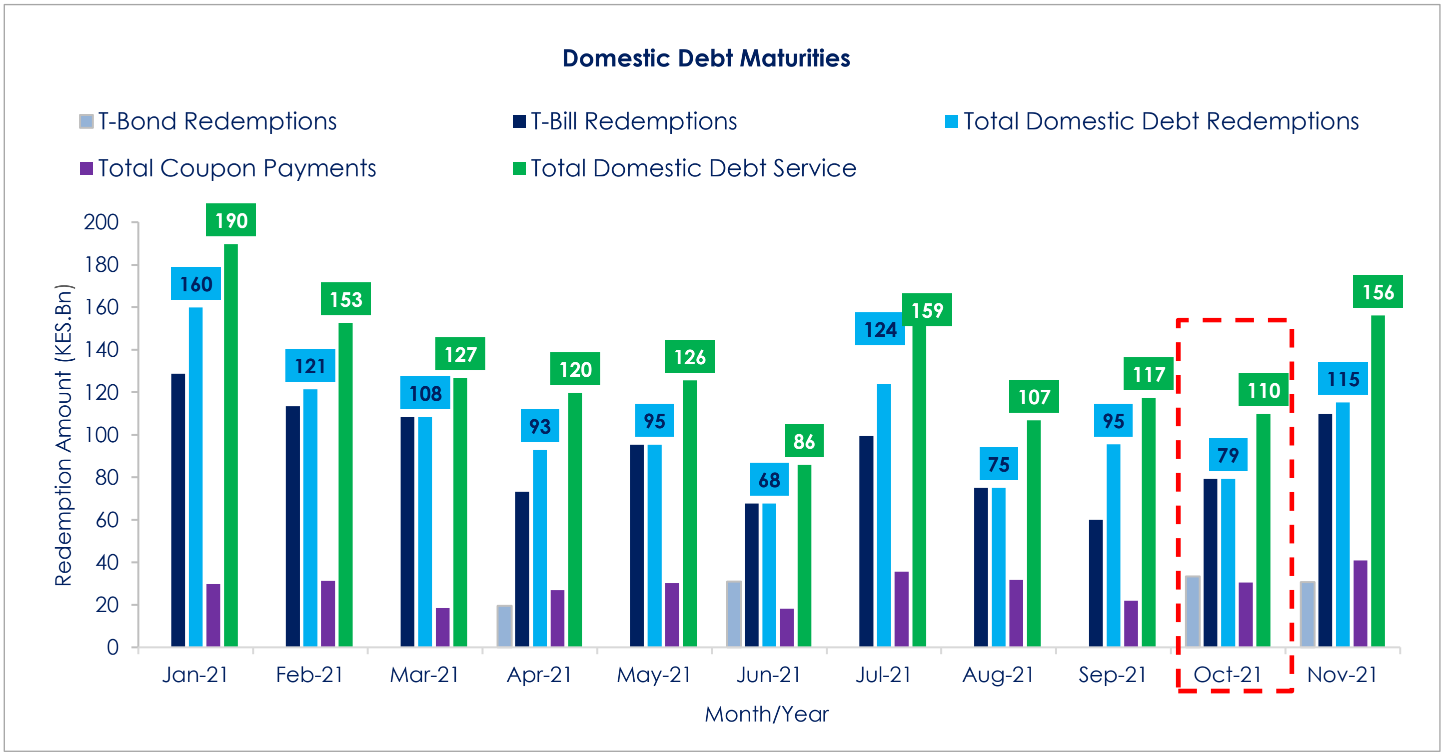
Year

Source: Central Bank of Kenya, Nairobi Securities Exchange and Kenya National Bureau of Statistics

Domestic debt service at KES.110Bn in October 2021

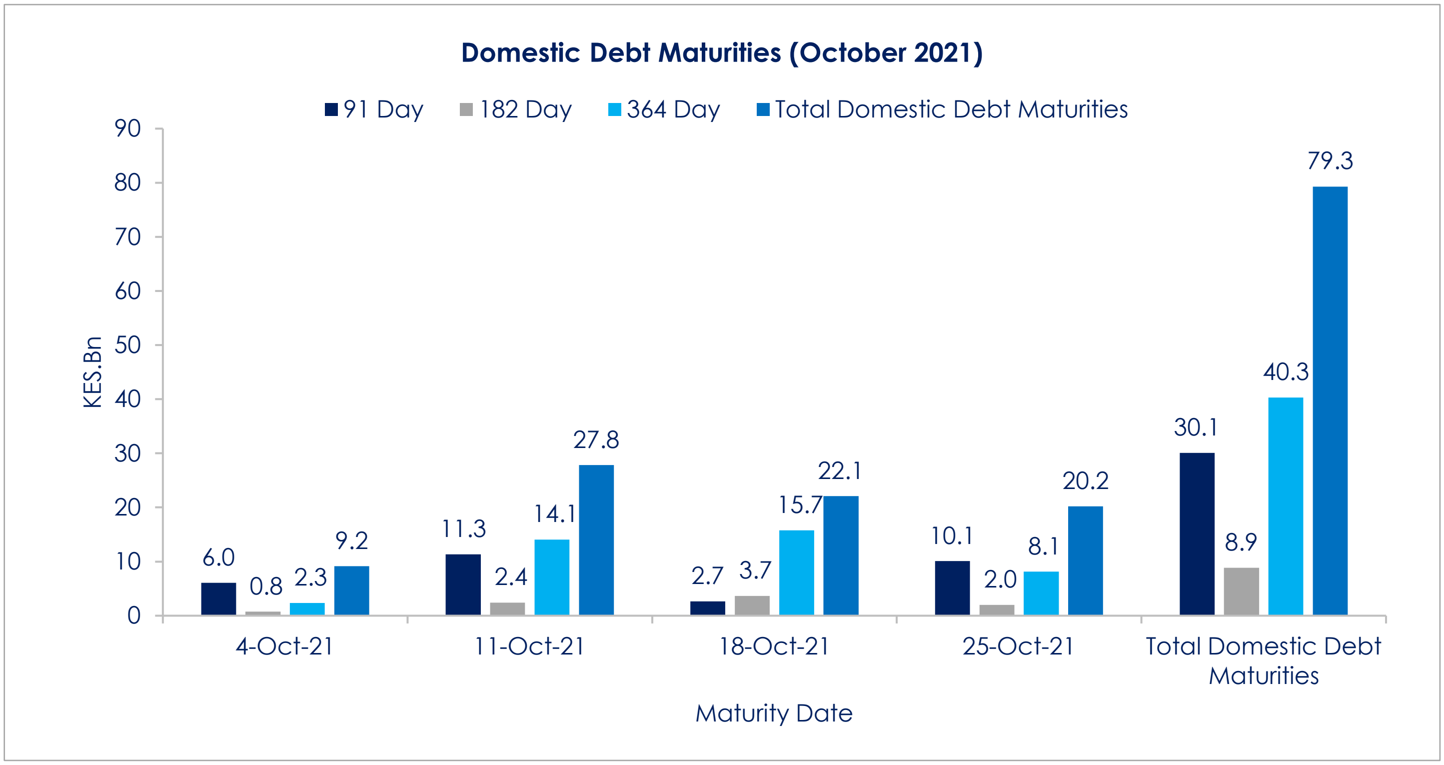
- Debt service for October is KES.109.8Bn, 6.5% a decline from KES.117.4Bn in September.
- This comprises of KES.79.3Bn and KES.30.6Bn in T-Bill and coupon payments respectively (Figure.11).
- Expected redemptions for the 91,182 and 364-day T-Bills during the month are KES.30.1Bn, KES8.9Bn, and 40.3Bn respectively with the second week of the month having the highest redemptions at KES.27.8Bn (Figure.12).

Figure.11: October debt service KES.110Bn



Source: Central Bank of Kenya

Figure.12: Weekly debt maturities October 2021



Source: Central Bank of Kenya

Domestic borrowing and total revenue above linear target run-rate

- Government's domestic borrowing and total revenue stood at 19.9% and 14.3% of original estimates as at the end of August 2021 above and below our linear target 2 months target run-rate of 16.7% (Table.6 and Figure.13).
- Tax revenue at KES.247.2Bn equivalent to 14.5% of the total target still remains below the target run-rate but appears to have picked up with gradual recovery of the economy.
- We maintain the view that tax revenues will fall short of the original estimates as the economy is yet to fully recover from the impact of the Covid-19 pandemic and we will see several revisions to the budgetary estimates during the current fiscal year.
- On the domestic borrowing font, we expect to see an upward adjustment to borrowing targets to compensate for revenue shortfalls.
- Here we see domestic borrowing exceeding KES.1Tn (including debt redemptions).
- This increased debt appetite should see the CBK become more accommodative of investor bids in debt auctions a scenario that will result in a gradual increase in interest rates.

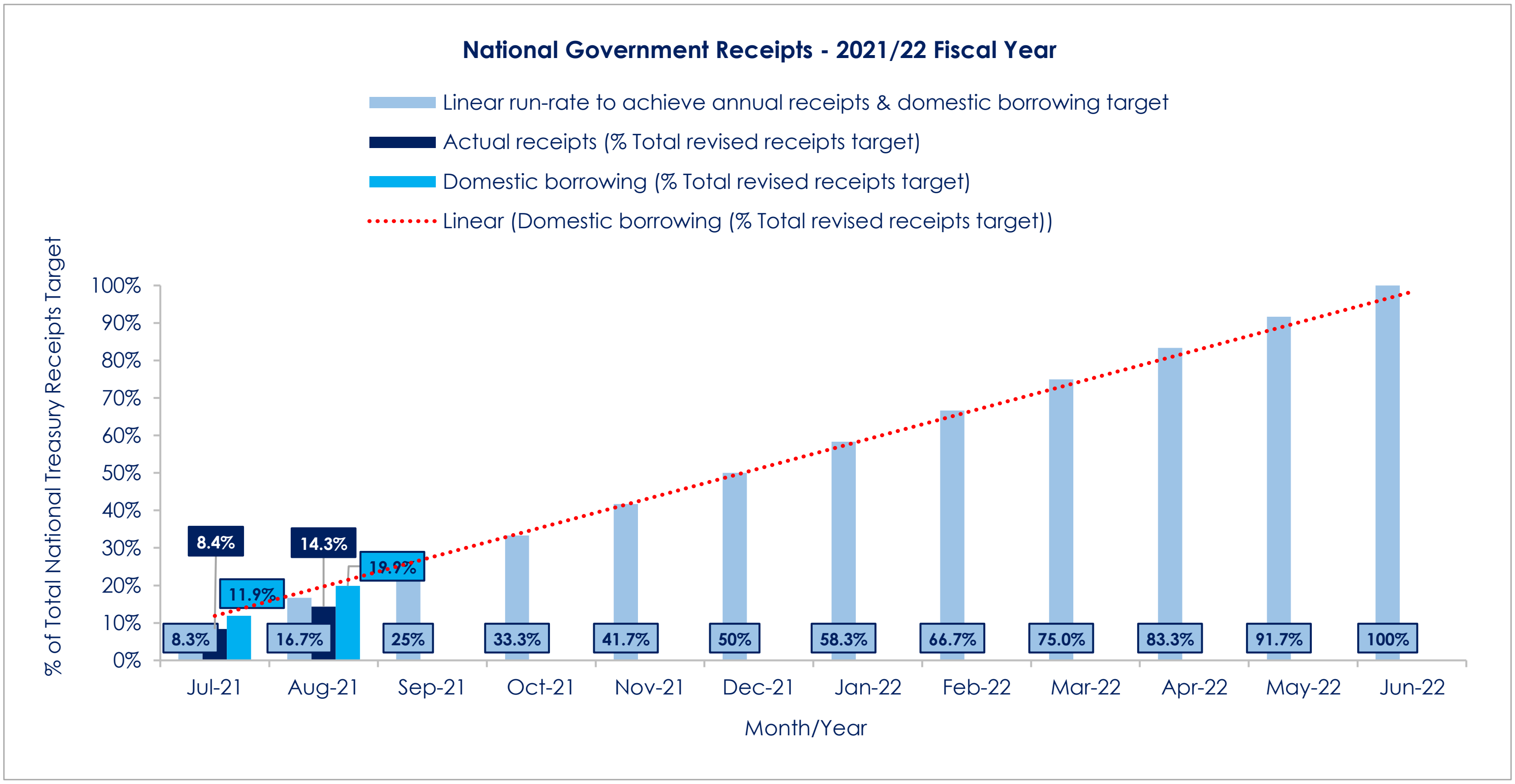
Table.6: 2021/22 fiscal year domestic borrowing and total revenue above linear target run-rate

Receipts	Original Estimates (KES) July 2021 (KES.Bn)	Actual Receipts (KES) 30th August 2021 (KES.Bn)	Proportion of Receipts Target 30th August 2021
Opening Balance (1st July 2021)		21.3	
Tax Revenue	**1,707.4**	**247.2**	**14.5%**
Non-Tax Income	68.2	3.9	5.7%
Domestic Borrowing*	**1,008.4**	**200.3**	**19.9%**
External Loans & Grants	379.7	1.7	0.5
Other Domestic Financing	29.3	4	13.6%
Total Revenue	**3,193**	**457.1**	**14.3%**

* Note 1: Domestic Borrowing of KES.1,008.4Bn = Net Domestic borrowing KES.661.6Bn & Internal Debt Redemptions (Roll-overs) KES.346.2

Source: The Kenya Gazette Vol. CXXIII - No.192 17th September 2021

Figure.13: 2021/22 Domestic borrowing and total revenue above linear run-rate target

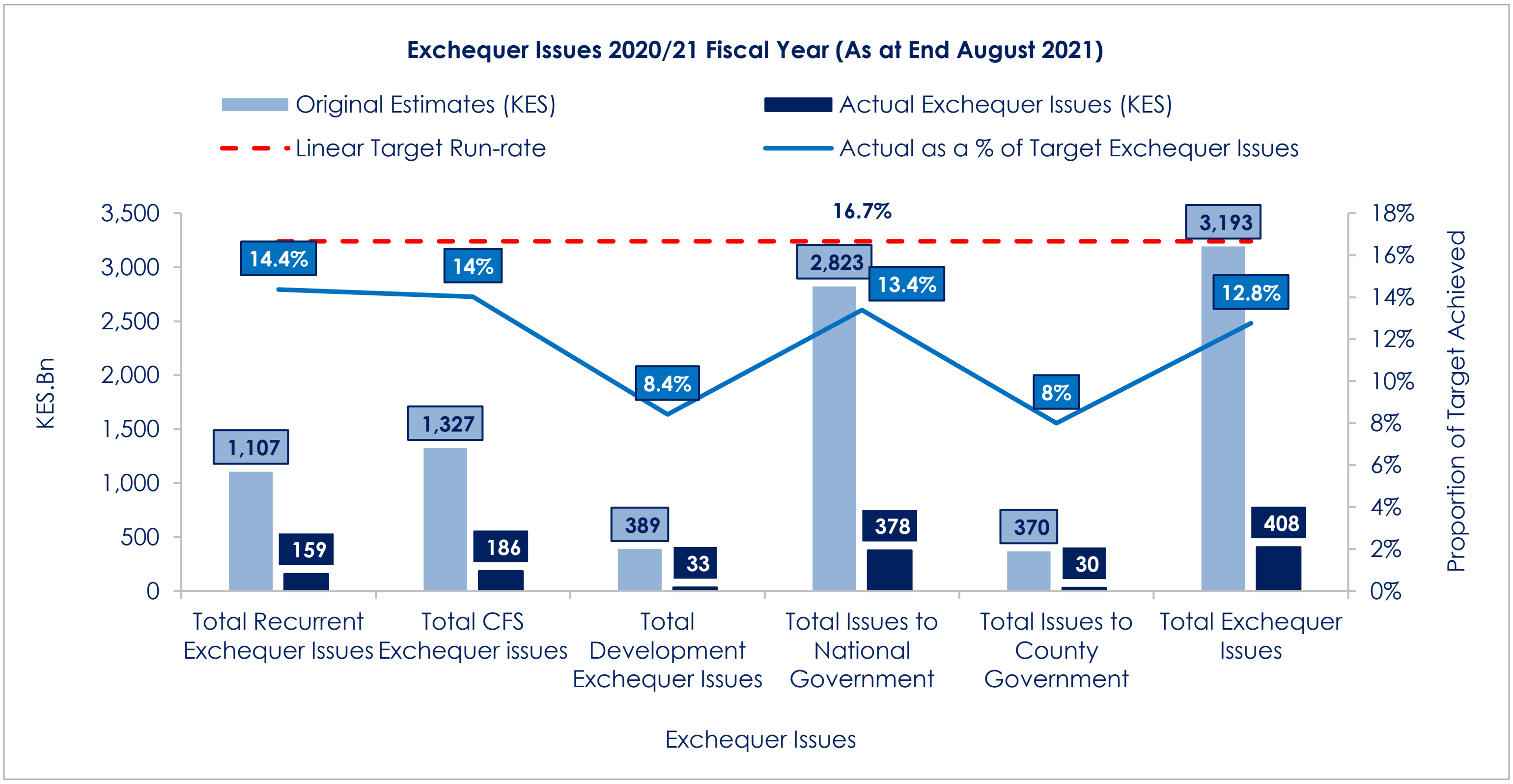


Source: The Kenya Gazette Vol. CXXIII - No.192 17th September 2021

National Treasury's falls short of set 2021/22 expenditure targets

- The National Treasury remained short of its entire exchequer (expenditure) targets for the 2021/22 fiscal year (assuming a linear run-rate of 16.7% for the two months of the current fiscal year - August 2021) (Figure.14)
- As had been predicted in our August fixed income report, there were reported Development (KES.33Bn) and county transfer (KES.30Bn) expenditures reported during the month of August.

Figure.14: Government short of set expenditure targets for 2021/22 fiscal year

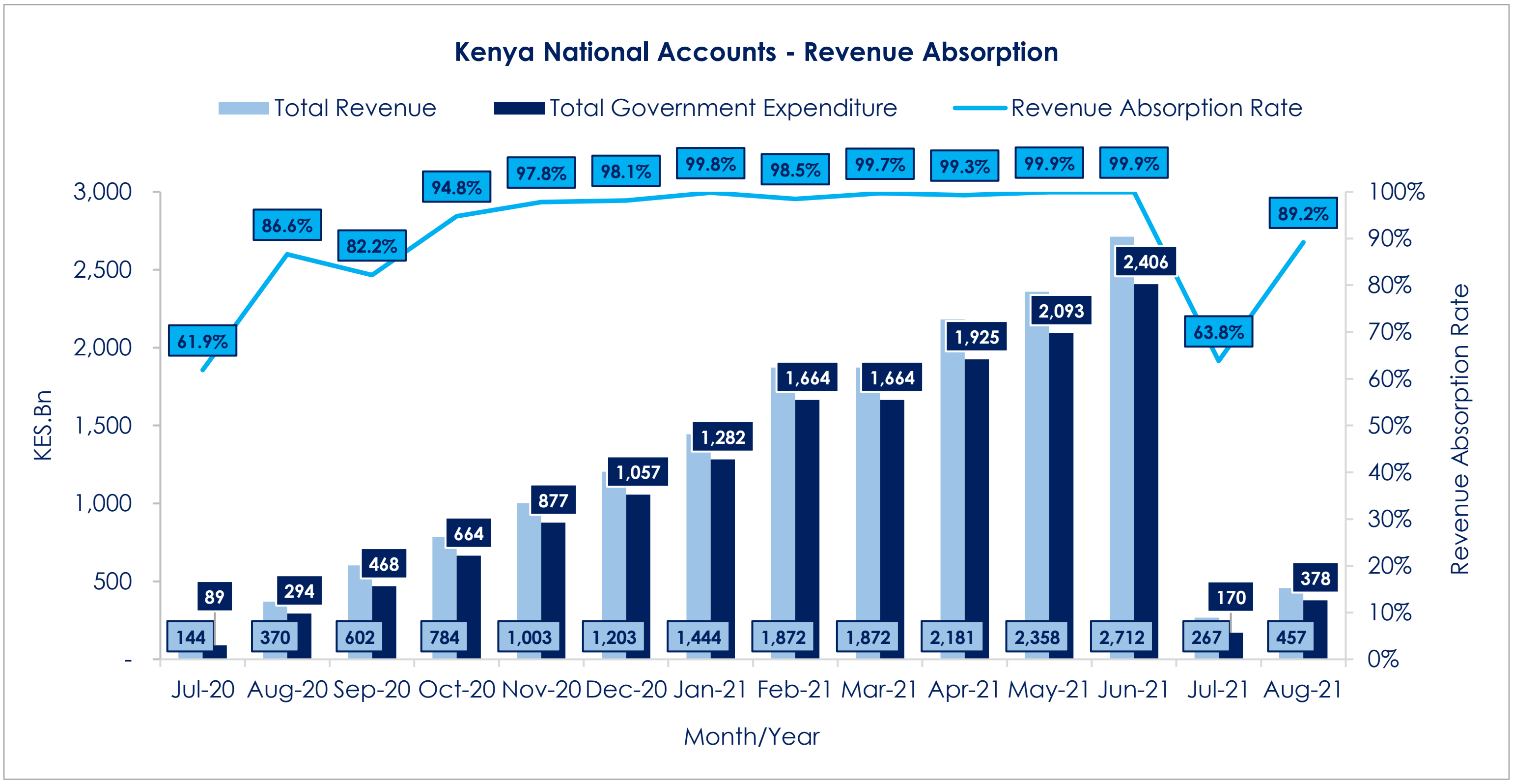


Source: The Kenya Gazette Vol. CXXIII - No.192 17th September 2021

Government revenue absorption picks up in August after slow start to the 2021/22 fiscal year

- The "Revenue Absorption Rate" (RAA) which is the rate at which the National Treasury uses its receipts (revenue) to finance its expenditure picked up in August 2021 after a slow start to the 2021/22 fiscal year (Figure.15).
- RAA as at the end of August stood at 89.2% higher than that in July (63.8%) and compared to the same period in August 2020 (86.6%).
- We also observe a 23.5% year on year increase in revenue compared to a 28.6% increase in expenditure during the period in focus.
- We expect RAA to tread above 90% with increased expenditure on all levels including county transfers.

Figure.15: National Treasury unlikely to meet FY2020/21 receipts target



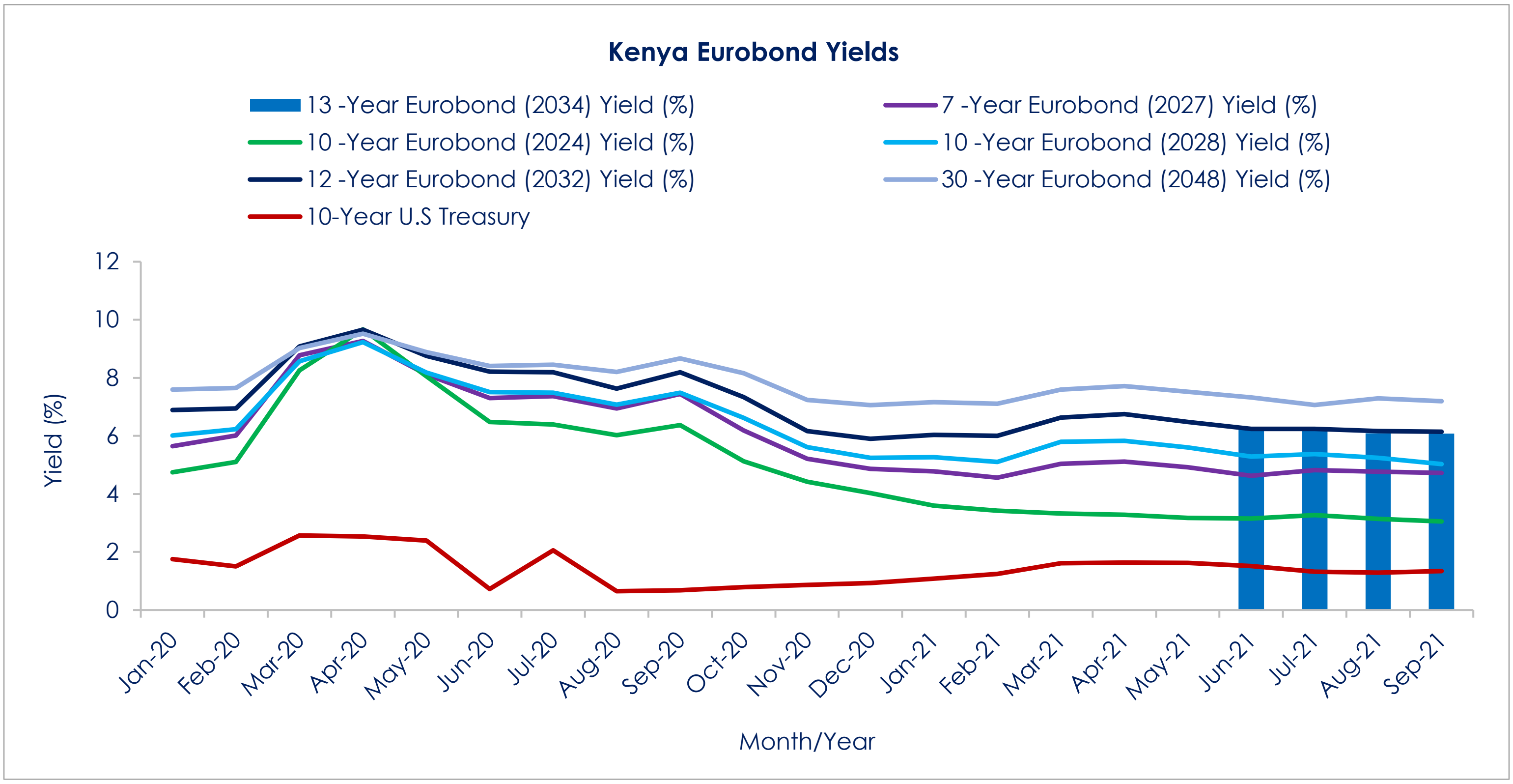
Data up to May 2021 from the National Treasury, June 2021 data Sterling Capital estimates

Source: The Kenya Gazette Vol. CXXIII - No.192 17th September 2021

Kenya Eurobond yields dip, U.S 10 year treasury rises in September 2021

- Average Government of Kenya Eurobond yields for the month of September 2020 (up to 23rd September 2021) declined compared to the previous month while the 10-year United States (U.S) treasury rate rose to its highest level (1.47%) for the first time since July 2021 (Figure.16).
- U.S treasury rates rose due to the Federal Reserve's (FED) signal that it will pull back on its quantitative easing program (monetary policy whereby a Central Bank purchases Government bonds or other investment securities in order to inject liquidity into the economy and drive economic activity).
- This could happen as soon as November and run until July 2022, and is an indication that the economy has recovered well from the Covid-19 pandemic.
- Rising inflation is a concern for U.S monetary policy makers and this appears to be one way of easing inflationary pressure, the other one being reviewing the benchmark interest rate upwards, although this is unlikely until mid or end of 2022.
- We expect Kenya Eurobond yields to continue declining gradually in the near term.

Figure.16: U.S treasury yields rise on tapering market signals

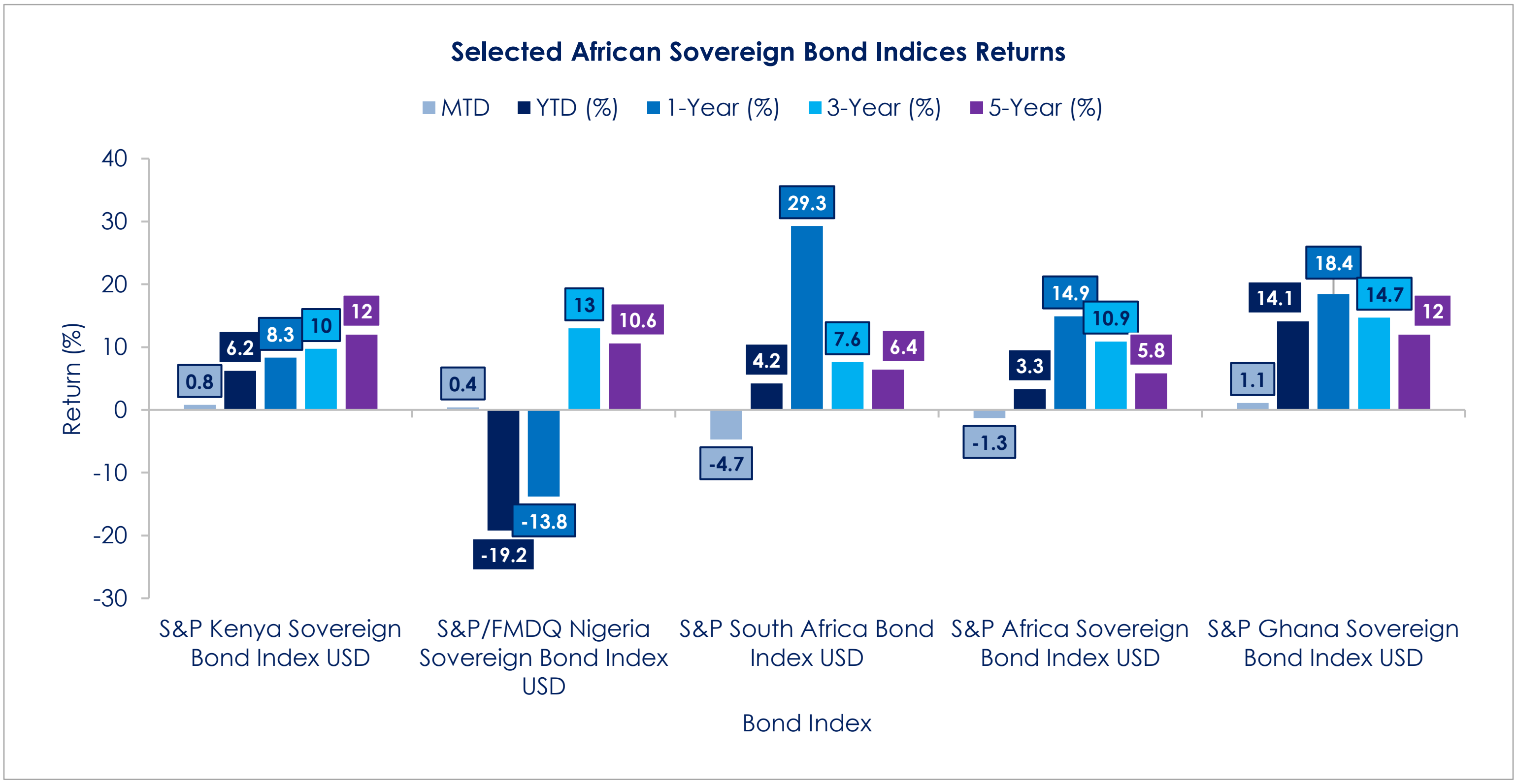


Source: Central Bank of Kenya

Ghana sovereign Bond index outperforms selected African indices in September 2021

- The Ghana Sovereign Bond was the top performing index amongst our comparables in the month of September 2021 (month to 24th September) with a return of 1.1% (Figure.17).
- Kenya's bond index had the second highest price appreciation (0.8%) during the month.
- South Africa and the Africa Sovereign bond indices lost 4.7% and 1.3% during the month respectively.
- With regards to 1-Year performance however, South Africa's index by far was the top performer (29.3%) while the Nigeria Bond index was the worst performer losing 13.8% in value.

Figure.17: Ghana Sovereign Bond Index top performer in September 2021



Source: S&P Global

The NSE yield curve has shifted upwards over the last one year

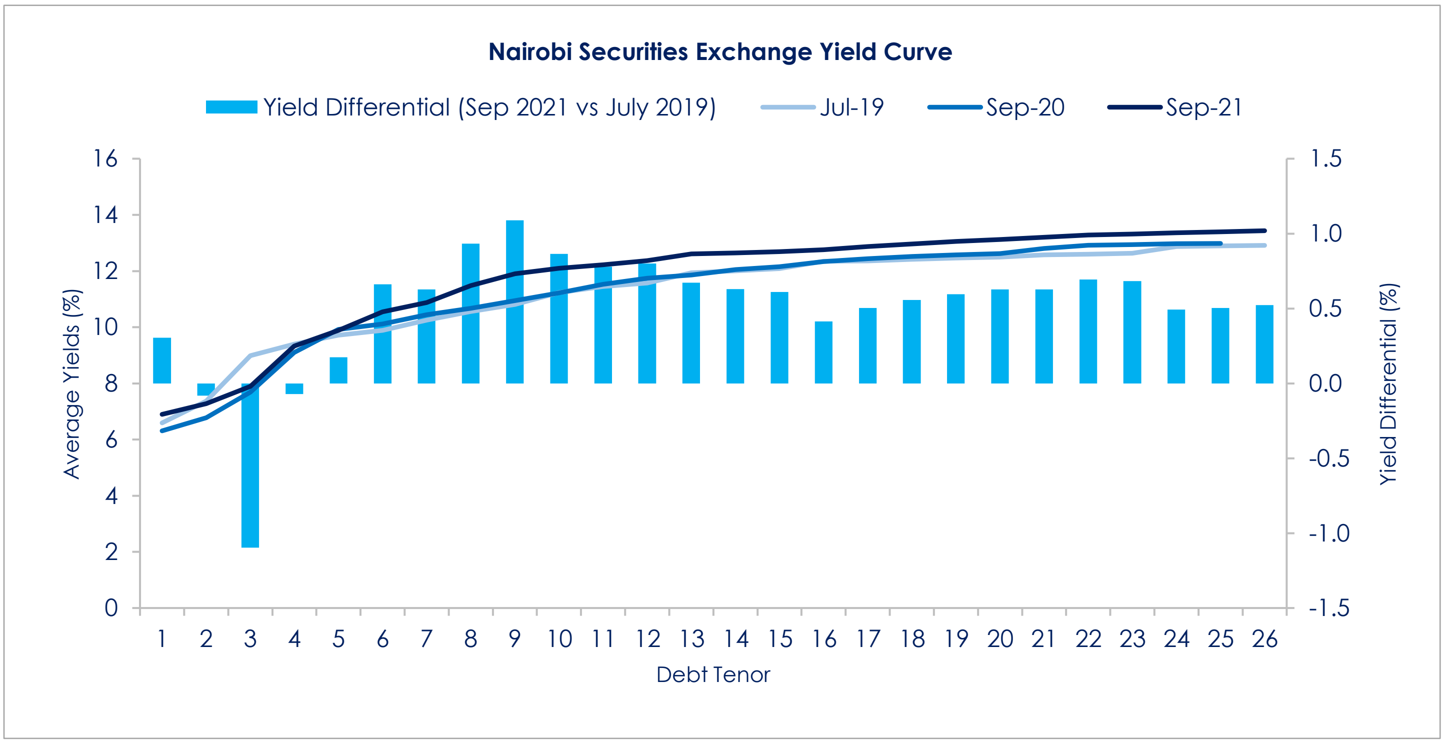
- A comparison of average yields on the NSE on 26th July 2019 (issuance of FXD3/2019/15) and 24th September 2021 shows a decline on short tenors while medium and long tenors rose (Table.7 and Figure.18).
- A comparison of current yields against those on 25th September 2020 however, shows an increase across the entire yield curve.
- The CBK has been driving demand for longer dated debt by accepting higher investor bids in debt auctions as its strategy to lengthen the Average Tenor to Maturity (ATM) of public debt.
- We predict a gradual increase in rates across the yield curve in 2021 due to an increased domestic debt financing demand.
- We maintain our recommendation of **BUY short and HOLD medium-term and long term papers.**

Table.7: Yield curve has shifted upwards since the issuance of FXD3/2019/15

Tenor	Yields (26th July 2019)	Yields (13th May 2021)	Yields (25th Sep 2020)	Yields (24th Sep 2021)	∆ Sep 2021 vs Jul 2019) (Bps)	∆ Sep 2021 vs May 2021 (Bps)	YoY ∆ Sep 2021 vs Sep 2020 (bps)	Sterling Capital yield Curve (Sep 2021)
1	8.9880	9.3650	7.6900	7.8900	↓109.8	↓147.5	↑20	7.95
2	9.3972	10.017	9.1000	9.3264	↓7.1	↓69.1	↑22.6	9.45
5	10.2551	10.9871	10.4471	10.8833	↑62.8	↓10.4	↑43.6	11.00
10	11.5750	12.3465	11.7437	12.3754	↑80.0	↑2.9	↑63.2	12.45
15	12.3637	13.0873	12.4338	12.8673	↑50.1	↓22.0	↑43.4	12.90
20	12.5945	13.3300	12.9197	13.2874	↑69.3	↓4.3	↑36.8	13.40
25	12.9125	13.6409	12.9818	13.4600	↑54.8	↓18.1	↑48	13.55

Source: Nairobi Securities Exchange

Figure.18: Short-term tenor yields dip, medium and long-term rise

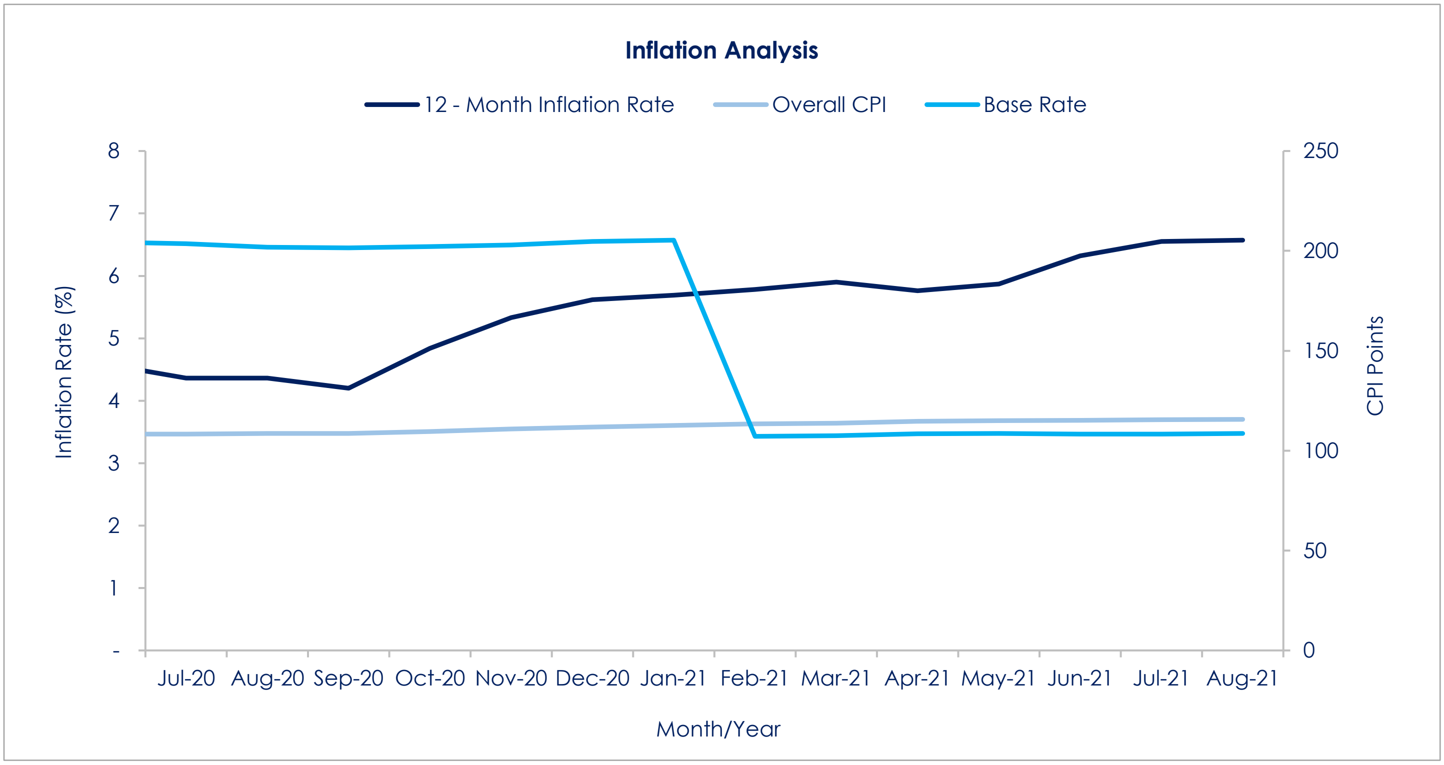


Source: Nairobi Securities Exchange

September 2021 inflation to rise on high fuel, food and transport costs

- Inflation for the month of August 2021 rose to 6.6% from 6.5% a month earlier largely due to marked increases in the prices of food and non-alcoholic beverages (10.7%), transport (7.9%) as well as housing, water, electricity, gas and other fuels (5.1%) (Figure.19).
- Fuel inflation remained elevated at 9.2% largely due to the impact of the rise in international oil prices.
- We see inflation remaining within the medium and upper inflation bands of 6.5% to 7.5% in the short-term in spite of the increase.
- The rise in inflationary pressure was an issue of great concern to the monetary policy makers during this month's monetary policy meeting but it did not result in an alteration in benchmark rates.

Figure.19: August 2021 inflation the highest since February 2020



Source: Kenya National Bureau of Statistics

MPC retains the CBR rate at 7% in the September 2021 meeting

- The Monetary Policy Committee (MPC) met on 28th September 2021 to review the impact of previous monetary policy measures on the economy and in line with our expectations resolved to retain both the Central Bank Rate (CBR) and Cash Reserve Ratio (CRR) at 7% and 4.25% respectively.
- As is the norm, the main points of discussion were inflation, the performance of the Shilling, foreign exchange reserve position, private sector credit, export data, commercial bank liquidity as well as asset quality.

1) **Inflation** - inflationary pressures to remain elevated in the near term, mainly driven by an increase in fuel and food prices, and the impact of the recently implemented tax measures.

   We hold the same opinion that inflation to remain above the mid band of 5%.

2) **Foreign exchange reserves** - Currently stand at US$9.5Bn (KES.1Tn) representing 5.8 months of import cover, sufficient cover against short-term shocks in the foreign exchange market.

   We see a slight decline in reserves but not enough to warrant concern as the National Treasury uses some of its reserves to meet the country's external debt obligations and import obligations.

3) **Private sector credit (PSC) growth** - Increased to 7% in August, from 6.1% in July with strong growth observed in transport and communication (11.8%), manufacturing (9.3%), finance and insurance (7.7%), business services (5.8%) and consumer durables (20.1%).

   We expect PSC to improve gradually in line with improving asset quality Gross Non Performing Loans (NPLs) at 13.9% in August compared to 14% in June 2021.

4) **Current Account** - Exports of goods and services increased 11.5% in the period January to August 2021 compared to a similar period in 2020. Receipts from exports of horticulture and manufactured goods rose by 25% and 39.1% respectively.

   The current account deficit is estimated at 5.5% of GDP in the 12 months to August 2021 and is projected at 5.2% of GDP in 2021.

5) **Diaspora remittances** - US$.313Mn (KES.34.3Bn) in August 2021, and were 19.2% higher in the period January to August 2021 compared to a similar period in 2020.

6) **Banking sector liquidity and capital adequacy ratios** - Commercial bank liquidity remains high while asset quality continues to improve in line with the gradual improvement of economic activity as observed in bank half year financial results.

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