

**Economic Update**

*IMF approves a USD 2.34 billion program for Kenya*

On 2<sup>nd</sup> April 2021, the International Monetary Fund (IMF) Board approved a 3-year financing program of USD 2.34 billion for Kenya to support the country's response to Covid-19 and budget support. This comes against a backdrop of increased debt-related vulnerabilities exacerbated by the Covid-19 pandemic.

The aim of the program is to address the nation's high indebtedness through a multi-year fiscal consolidation effort centered on raising tax collections and controlling spending in order to safeguard the interest of vulnerable groups.

Furthermore, it will also advance structural reforms and governance agenda by addressing weaknesses in some state-owned enterprises (SOEs) and strengthening transparency and accountability through an anti-corruption framework.

Consequently, the program will strengthen the country's monetary policy framework and support financial stability.

**Inflation**

*Headline inflation fell to 5.76% in April 2021*

Headline inflation fell to 5.76% in April 2021 compared to 5.90% recorded in the month of March 2021. The Food and Non-Alcoholic Drinks index rose by 1.73% in April compared to the 0.53% increase recorded in March.

This was contributed by increase in prices of tomatoes, cabbages and potatoes by 8.50%, 5.68% and 3.85%, respectively, which outweighed the decreases in the prices of others.

Over the review period, the Housing, Water, Electricity, Gas, and Other Fuels' Index increased by 0.38%. This was mainly due to increases of 1.83% and 0.05% in the prices of charcoal and house rent for a 1-bedroom unit, respectively.

There were no changes in the Transport Index due to the cancellation of revision to fuel prices announced in mid-April 2021.

**The Currency**

*The Shilling has strengthened by 1.22% against the USD year to date*

In the month of April, the Kenya Shilling strengthened by 1.52% against the US dollar to close the month at KES 107.84 from KES 109.51 in March 2021.

The strengthening of the Shilling was due to:

- i. Receipt of KES 33.7 billion disbursement from the IMF
- ii. Dollar inflows from remittances and tea, coffee and horticultural exports
- iii. Reduced dollar demand from importers

During the month, the Central Bank of Kenya keenly monitored the performance of the Shilling and held forex reserves of USD 7,664 million equivalent to 4.71 months of import cover as at 29<sup>th</sup> April 2021.

The Shilling has strengthened year to date by 1.22% against the USD as well as against some major global currencies and some local currencies.

We view, key risks to the KES are as follows:

- i. The ongoing Covid-19 pandemic
- ii. Reduced portfolio inflows
- iii. Upcoming foreign debt interest payment
- iv. Global expansionary monetary and fiscal stance being undertaken by the Central Banks

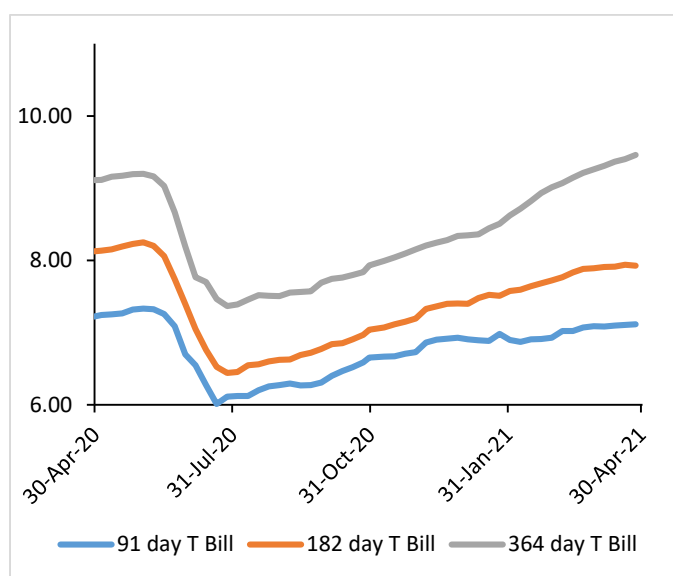
Kenya Shilling Performance	Apr-21	Mar-21	YTD
USD	1.52%	0.26%	1.22%
Sterling Pound	0.27%	2.68%	(1.29%)
Chinese Yuan	0.00%	1.80%	0.38%
Japanese Yen	0.30%	4.09%	6.61%
Uganda Shilling	0.81%	(0.26%)	0.55%

Central Bank of Kenya, Madison Investment Managers Limited (MIML) Research

**Fixed Income Performance**

*Yields on the money market instruments maintained upward momentum*

During the month under review, average yields on the 91-day paper, 182-day and 364-day papers increased by 7, 10 and 24 basis points, respectively, to close at 7.12%, 7.93% and 9.46%, respectively. Overall subscription decreased to 65.36% on average from 115.38% observed in March 2021 because of tight market liquidity.



(Central Bank of Kenya, Madison Investment Managers Limited (MIML) Research)

In April, the Central Bank issued an infrastructure bond, IFB1/2021/18, seeking to raise to KES 60bn to fund infrastructure projects. The auction was oversubscribed at 147.63%. The Central Bank received bids worth KES 88.58 bn and accepted KES 81.94bn resulting in an acceptance ratio of 92.50%.

The weighted average rate of accepted bids for the bond came in at 12.667% while the coupon rate was 12.667%. The bond is not subject to a withholding tax.

Secondary bond turnover rose by 1.31% in April to KES 65.65 bn from KES 64.80 bn in March.

**Equities Market Performance**

*The equities market was on an uptrend in April*

In the month of April, the indices were on an upward trend. NASI, NSE 25 and NSE 20 gained by 6.64%, 4.05% and 1.09%, respectively. This is attributable price gains recorded by large cap stocks such as Safaricom and Equity Group of 11.31% and 3.16%, respectively.

Foreign investors remained net sellers with a net selling position of KES 0.03 billion compared to the net selling position of KES 0.98 billion recorded in March 2021. On 30<sup>th</sup> April, Safaricom rallied to close at an all-time high of KES 40.35 driven by news of potential entry into Ethiopia’s telecom sector.

Equities turnover in the month declined by 18.14% to KES 9.87 bn from KES 12.06 bn.

**Global Markets**

*Global economy on firmer ground*

According to the IMF’s April 2020 update, the global economy is set on firmer ground, however, the prospects remain uncertain on account of new virus mutations.

In 2020, the economy is estimated to have contracted by 3.3% sustained by massive policy support witnessed in the year. Going forward, the global economy is projected to expand by 6.0% in 2021, moderating to 4.4% in 2022.

The projections are reflective of additional fiscal support in a few large economies, vaccines roll-out and higher than expected growth outturns in the last half of 2020 following the easing of lockdowns in most regions.

Locally, Kenya is projected to grow by 7.6% in 2021 supported by the rollout of vaccines coupled with accommodative fiscal and monetary policies undertaken by the government.

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