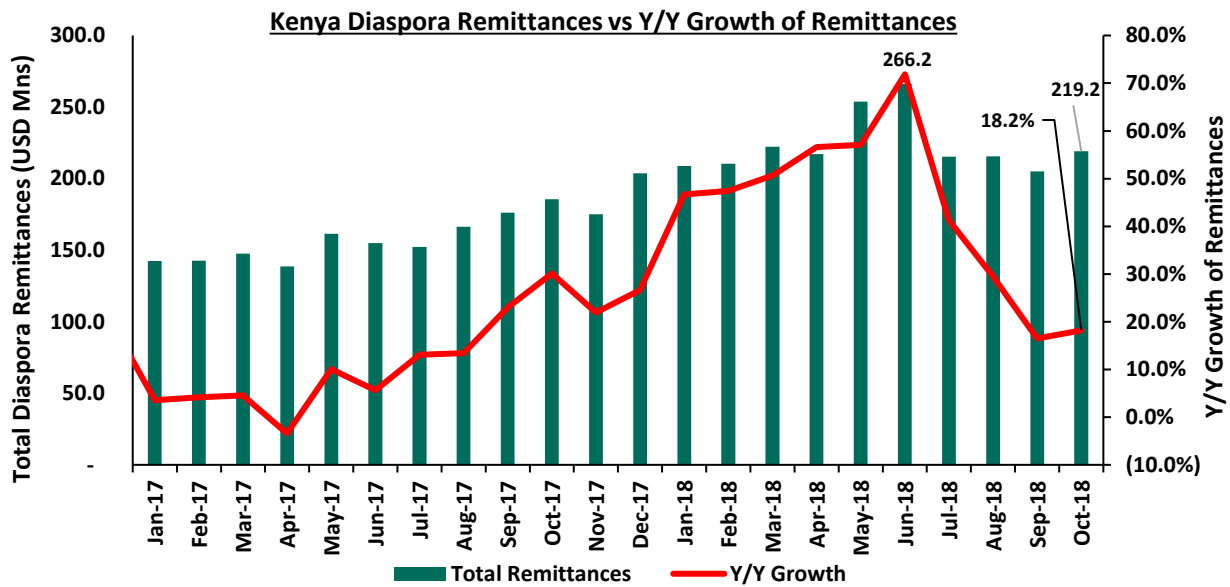


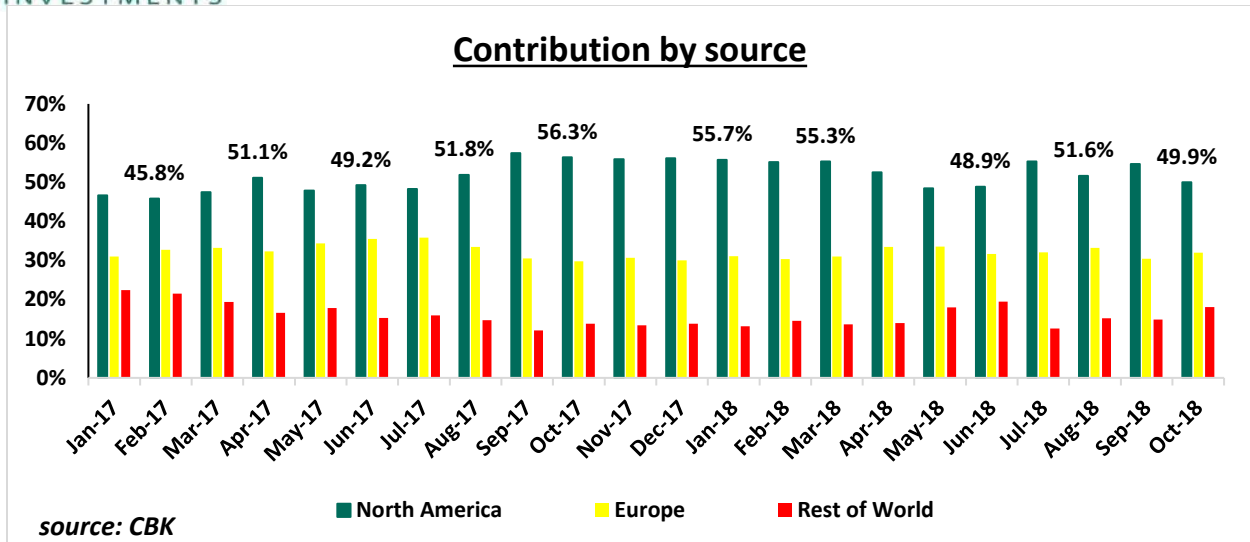
Diaspora Remittances Note – October 2018

According to the Central Bank of Kenya, (CBK) survey on diaspora remittance inflows, through formal channels that include commercial banks and other authorized international remittances service providers in Kenya conducted every month; Kenya recorded a 6.9% m/m growth in diaspora remittances in the month of October 2018 to USD 219.2 mn from USD 205.1 mn recorded in September. The y/y growth came in at 18.2% from USD 185.5 mn recorded in October 2017. Cumulatively, total diaspora remittances rose by 39.5% in the 12 months to October 2018 to USD 2.6 bn from USD 1.9 bn recorded in a similar period in 2017.



Diaspora remittances have become an important and regular source of foreign exchange and have continued to cushion the Kenyan shilling against other major currencies. The continued rise in foreign inflows is mainly attributed to:

- i. Increased inflows from abroad as individuals continued to take advantage of the tax amnesty granted on foreign income. The Tax Procedures Act had been amended in 2016 with the introduction of Section 37B, which granted amnesty on foreign income that had been earned on or before 31st December 2016 and was subject to taxation in Kenya. The section was later amended on 3rd April 2017, extending the deadline to allow full amnesty provided the foreign income was declared and funds realized were transferred to Kenya no later than 30th June 2018; failure to which they could be remitted within 5-years thereof but would be subjected to a 10% penalty. The amnesty was further extended to 30th June 2019, despite concerns that it would lead to inflows of illicit cash including proceeds from corruption,
- ii. Increased uptake of financial products by the diaspora due to financial services firms, particularly banks, targeting the diaspora, and
- iii. The new partnerships between international money remittance providers and local commercial banks making the process more convenient.



As highlighted in the chart above, North America maintained being the major contributor, with inflows totaling to USD 109.5 mn during the month, equivalent to 49.9% of the total diaspora remittances. The contribution from the region has been fluctuating but has remained the highest contributor over the years raising a concern over the dependency in the region, which might lead to shocks in the event of an economic slowdown in the region. There is therefore a need for the government and institutions to play a more active role in advising Kenyans across the world, on the available opportunities and helping them maximize returns in safe investments in order to enhance and diversify the sources of inflows.

Diaspora remittances have become a crucial buffer for the shilling against short-term shocks in the foreign exchange market, having overtaken tea, coffee, and tourism as the country's highest foreign exchange earner. As per the latest data by the CBK on the principal exports, the value of tea, coffee and horticulture exported in the month of August stood at Kshs 9.9 bn, Kshs 1.6 bn and Kshs 8.2 bn, respectively. Inflows from remittances during the same period came in at USD 215.6 bn (approximately Kshs 21.8 bn). This has assisted in stabilizing the Kenyan shilling, which has seen it gain by 0.6% year to date. The increased diaspora remittances coupled with, increased exports of tea and horticulture and strong receipts from tourism has seen the current account deficit to 5.3% in the 12 months to September, a decline from 6.5% in a similar period in 2017, and is expected to narrow to 5.2% of GDP in 2018 from 6.3% recorded in 2017. This together with the adequate forex reserves, which are currently at USD 8.0 bn (equivalent to 5.3 months of import cover), above the EAC region's convergence criteria of 4.5 months of import cover and the optimal level of reserves for Kenya as per the IMF set at 3.5 months, are expected to support the Kenyan Shilling in the short-term. The Key concern however, lies in the over-reliance on remittances, which might shift the country's attention from enhancing a stronger export base and improving the balance of payments, which should ideally be the main source of foreign exchange.

Despite the initial fears of a decline or stagnation in remittances following the new administration in the USA, that promised trade protectionism as well as harsh stand on immigrants, the growth has continued to improve significantly. Going forward, we expect the growth to remain steady mainly supported by:

- i. Technological advances as well as the partnerships between international money remittance providers and local commercial banks, which have made remittance transactions cheaper, faster and more convenient, with the latest development being the partnership between Safaricom and Western Union, which will allow users of the two platforms to transfer funds between themselves,
- ii. Continued support by the Government, which saw the launch of the Kenya Diaspora Policy in 2014. The policy had the main objectives of curbing high cost of remittances, enhancing structures to inform Kenyans in the diaspora of investment opportunities, and improving diplomatic services through



budgetary as well as personnel allocation, especially in countries with high concentration of Kenyans to address issues of Kenyans abroad and effectively promoting investments.