Kingdom Securities Limited

East Africa - Macroeconomic Outlook 2022

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Global Economy

According to the World Bank's Economic Outlook Report – October 2021 Edition, the global economy is projected to grow 5.9% percent in 2021 and 4.9% in 2022. The growth in pegged on:

- Full reopening of global economy,
- Mass vaccination against Covid-19 to reach herd levels – the target is to have 70.0% of global population vaccinated
- Optimal recovery of global manufacturing which will boost commodity prices
- Ease of travel that will revive tourism and hospitality sectors
- Stability of petroleum prices
- Global political stability

The growth is also bound to face head winds which include but not limited to:

- Covid-19 Variant – a big factor on growth with hindrance on travel and cause disruption on supply chain.
- Effects on climate change on rain dependent agriculture.
- Rates Hike - central banks need to look at containing inflation mostly driven by consumption. Demand push due to high cost of raw materials and supply chain disruptions caused by shipping which has led to increase in shipping cost which is passed down to consumers.
- Tightening financial conditions due to high unemployment and reduced consumer income and increased price of essential commodities due to high inflation levels.
- International petroleum prices – variation in price has been affected by global demand impacted by OPEC+ and Covid-19.
- Trade stalemate between America and China due to various reasons including territorial disputes in the South China Sea and Hong Kong.
- UK vs European Union Trade Agreement on Brexit with Article 16 of the agreement stating "Except as otherwise provided, this Chapter applies to trade in goods of a Party" leaves confusion how Northern Island fits in on Post Brexit rules on commerce.

East Africa Economy

The East Africa economy is projected to grow 4.9% in 2022 from an estimated growth of 4.1% in 2021 according to the East African Economic Outlook by African Development Bank. Constraint on the growth will be due to rollout of the vaccination program, threat of rain fed agriculture which is vulnerable to climate change effects and high debt levels limiting fiscal space.

The regional economy continues to be sustained by spending on large infrastructure projects, output in agriculture and increase in trade from regional economic development while at the same time benefiting from direct foreign inflows especially in technology.

Kenya

Kenyan economic growth is expected to ease to 5.0% in 2022 from 6.1% in 2021. The economic growth will be boosted by;

i. improved business interaction as vaccination against Covid-19 continues. Treasury and ministry of health have budgeted to facilitate vaccination of 26Mn people or 53.3% of the population by end of 2022.
ii. Monetary to remain expansionary with retention of CBR and CRR at 7.0% and 4.25% respectively.
iii. Inflation to remain within government target of 5.0%±2.5%.
iv. growth in agriculture with expected adequate rainfall for the year
v. recovery of the tourism and hospitality industry
vi. boost in international trade as the global economy continues with an upward projection as the World Bank has forecast global economy would expand by 4.3% while Sub Sahara to grow by 5.1% on recovery of commodity prices.
vii. uptick in the service industry which is expected to outpace the manufacturing industry

Public Debt: Debt levels remain high and poses economic risk. Present value of total public debt to GDP is projected at 64.2% for 2022. This remains sustainable as it is below 70%. With external debt at 52.6%, the combined exchange-rate and interest-rate risk shock scenario assumes an increase in interest rate by a moderate shock of 2.5% in 2022 combined with a 5.0% exchange rate depreciation.

Politics: Kenya will be holding general elections is set to take place on Tuesday August 9th, 2022. Political view shows two strong candidates. Kenyans will be voting for the 5th president with 21 governors who are serving their second and final term. Political risk remains high with key issue being land, unemployment and poverty.

Kenya - Downside Scenario

i. Slowdown in vaccination can lead to travel sanctions on the country
ii. Adverse climatic effect on agriculture due to climate change leading to lower production
iii. Macroeconomic instability due to political risk on the upcoming general elections
iv. Credit risk on public debt, especially external debt which can lead to depreciation of the Kenyan shilling
v. Capital market instability
vi. Terrorism attacks remains a key issue
vii. High commodity prices, especially petroleum prices and rising cost of borrowing

Uganda

According to the World Bank, Uganda economy is forecasted to grow by 6.3% in 2021 with H1-21 growing by 8.3%. IMF foresees a 5.0% growth in 2022 driven by recovery in agriculture as the sectors absorbed a large portion of workers who lost their jobs during the onset of the pandemic.

Uganda has experienced a slowdown in general economic growth over the last decade due to a decline in work force employed in the agriculture and agriculture related industry leading to income volatility and stagnation. About 41.0% of total land is now degraded leading to low agriculture output and this will be affected further by ongoing climate change.

Uganda Covid-19 management continues to be slowed by the vaccination with less than 2Mn people have been vaccinated with at least one dose from a population of 47Mn and an intended target of 21Mn people that will enable removal of full restrictions imposed to contain the virus..

Uganda: Downside Scenario

i. The economic growth will be hindered by slow uptake of Covid-19 vaccine with misinformation and slow delivery of information about the vaccine.
ii. Climate shock remains a key risk to economic recovery as agriculture contributes about 25% to the total economy, 50% of export and 70% of employment.
iii. Weak commodity prices on export items while high cost of imported commodities including petroleum.
iv. Limited fiscal space due to low revenues and rising public debt.
v. Terrorism risk remains high with the recent attacks leaving the country vulnerable to further attacks undermining investments and tourism activity.
vi. Politics and regional instability – political risk in neighboring Kenya can cause a ripple effects on the land locked Uganda.

Tanzania

According to the Tanzania Bureau of Statistics, Tanzania GDP expanded by 4.8% in 2020 while World Bank estimates Tanzania's GDP to decelerated t 2.0%impacted by global economic slowdown that affected Tanzania's export focused industries and tourism. The economy is forecasted to grow by 4.5% in 2021 and 5.5% in 2022 boosted by recovery of hospitality and manufacturing sectors.

Political instability in neighboring countries will benefit Tanzania's hospitality industry.

Recovery of commodity prices will boost the countries mining sector with global gold prices remaining high and manufacturing goods will shoulder growth in country's exports with exports having contracted by 8.8% in 2020.

Financial sector has faced distress leading to private credit growth slowdown as the share of non-performing loans (NPLs) soaring.

The Tanzanian government has allocated funds to enable vaccination of 60% of the country's 58 Mn population. By the start of November, only 1.5% of the population had been vaccinated.

Contained domestic borrowing and adequate forex reserves ratio (5.6-months import cover) will aid in containing currency movement while keeping the T-Bill rates at traditional stable levels of 2.5% - 3.0%.

Tanzania: Downside Scenario

i. Slow vaccination levels will affect hospitality industry with tourism continue to be affected due to travel restrictions to the country.

ii. Financial sector risk – high cost of credit due to soaring NPLs. Total credit to GDP slowed to 17.6% in 2020 improving form 16.9% in 2019.
iii. Weak domestic innovation, poor human resource and poor technology platform will lead to slow foreign investments in the country.
iv. Increasing public debt: with 79.4% of the total debt as foreign debt to can lead to interest rate risk and exchange rate risk.
v. International commodity prices including a drop in global gold prices and increasing petroleum prices.
vi. Terrorism risk remains a key factor especially with the attacks seen in the neighboring countries.

Rwanda

Rwanda GDP is projected to growth by 7.0% in 2022 from a growth of 51% in 2021. The continued global travel restriction will impact the country's tourism and labor market and further restriction of capital flow with the country's economy infrastructure growth heavily depended on public private partnership.

The Rwanda government as targeted to vaccinate 60% of the population by the end of 2022 as vaccination continues to be impacted by vaccine shortage and logistical challenges especially in rural Rwanda.

High public debt to GDP of 71.0% as at end of 2021 and expected to increase to 84.0% in 2023 is set to put strain on local revenues with risk of external debt distress from low to moderate.

Monetary policy will continue to be accommodative as the government continue to support economic recovery.

Rwanda: Downside Scenario

i. Resurgent of covid-19 and uncertainty on the pandemic evolution coupled with low vaccination can impact government policy on health and investment.
ii. Climate change impact on agriculture could impact major crop export of tea and coffee limiting forex inflows.
iii. Cost of finance with the level of external borrowing distress moved from low to moderate. This increases interest rate risk and exchange rate risk.
iv. Widening current account deficit and fiscal pressure due to need to increase infrastructure spending in transport, electricity, telecom, and water sectors will lead to further pressure on revenues.
v. Travel restriction could limit capital flow impacting huge on labor market leading to high unemployment rates.

Ethiopia

Ethiopia growth projection has been direly affected by the ongoing one-year civil war that began on November 3rd, 2020. This is set to limit the 4.0% 2021 growth and 4.6% projected growth in 2022. Covid-

19 crisis on tourism and effects of climate change on key export of flowers, coffee and khat will have negative influence economic performance.

Monetary policy to remain flexible with government maintaining growth strategy.

Fiscal deficit with 2022 fiscal deficit projected at 5.6% compared to 5.8% in 2021 and 4.4% in 2020. Current account deficit to improve to 6.2% in 2022 as service exports improve. Economy to continue to be dependent on large infrastructure projects on dams and roads.

Ethiopia: Downside Scenario

i. High inflation with 2021 inflation estimated at 21.2% with 2022 projected at 18.3%.
ii. Trade sanctions could have an impact on fiscal and current account deficit.
iii. Political risk due to the on-going conflict will affect tourism and foreign investment inflows.
iv. Interest rates risk - need for public infrastructure spending will lead to additional public debt putting pressure on fiscal space leading to payment risk.

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