Economic Outlook - 2024

Kenya

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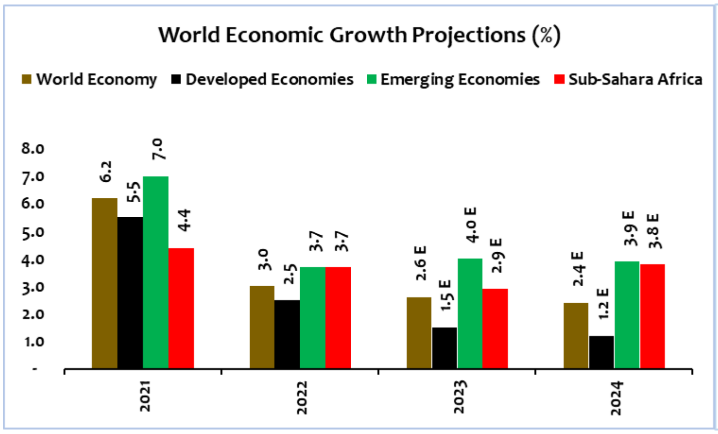
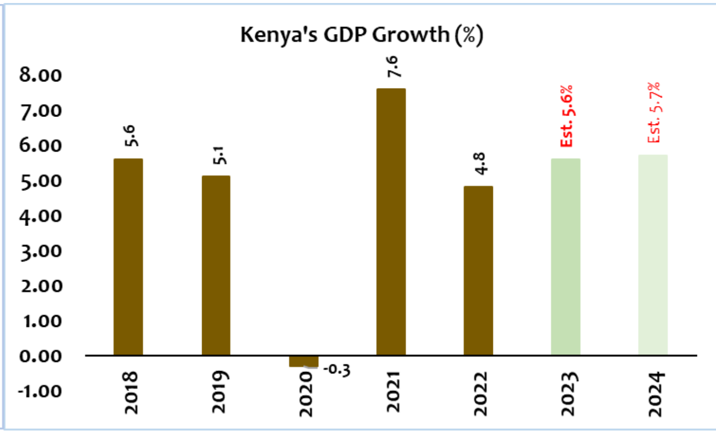
Global Economic Outlook

Global economic performance is set to slow down further in 2024 on persistent inflations, elevated borrowing costs and heightened geopolitical risks with rebounds projected to start in 2025. Consequently, global gross product (GDP) growth is expected to slow down to 2.6% in 2024 depressed by minimal economic upticks in the first world countries especially those in Europe. War shocks in the Euro Area continue to decelerate economic activities with a likely of spreading to the other parts of the world. Drop to 3.5% in 2022 and even as a the same is expected to have driven this down in 2023 and 2024.

Advanced economies are expected to further decline even as reprieve is expected as from the second half of 2024, where rate cuts are anticipated.





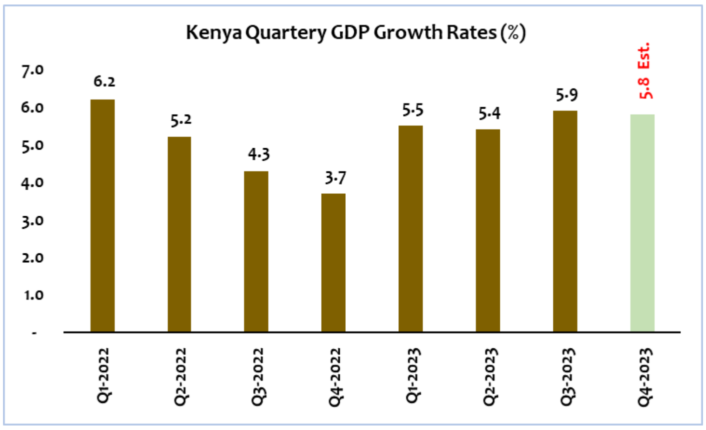
Local Economic Outlook

Emerging economies' growth remain subdued with projections of 3.9% in 2024, lagged by slow recovery from the covid pandemic, higher debt vulnerability and elevated cost of borrowings.

According to the International Monetary Fund (IMF), Kenyan economic projections are estimated at 5.0% and 5.2% for 2023 and 2024 respectively, behind that of Ethiopia, Cote d'Ivoire, Benin, Uganda and Tanzania which are projected at 6.4%, 6.3%, 6.0%, 6.0%, and 5.5% for 2024 respectively.

Local economy remains very promising albeit being affected by higher public debt and heavy taxations that is set impact disposable income.

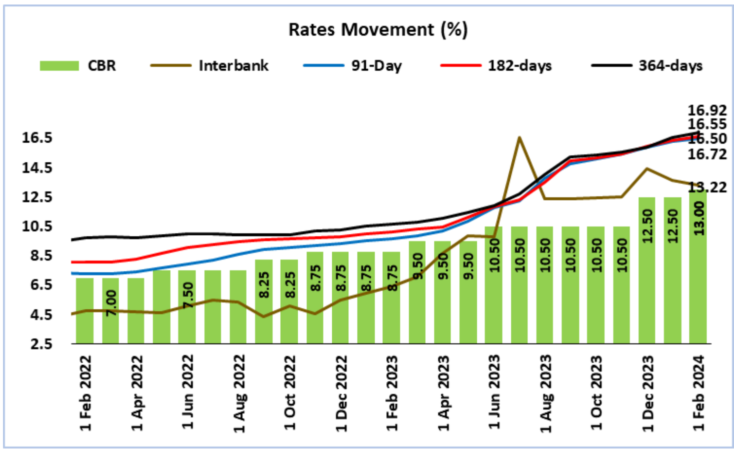
Revised Government estimates point to a strong real GDP of 5.6% and 5.7% for 2023 and 2024 respectively, supported by the services and agriculture sectors after recovery from drought. The revised estimates come after the country reported an average growth of 5.6% in the first three quarters of 2023, surpassing the 5.5% target mark projected by end of 2022.

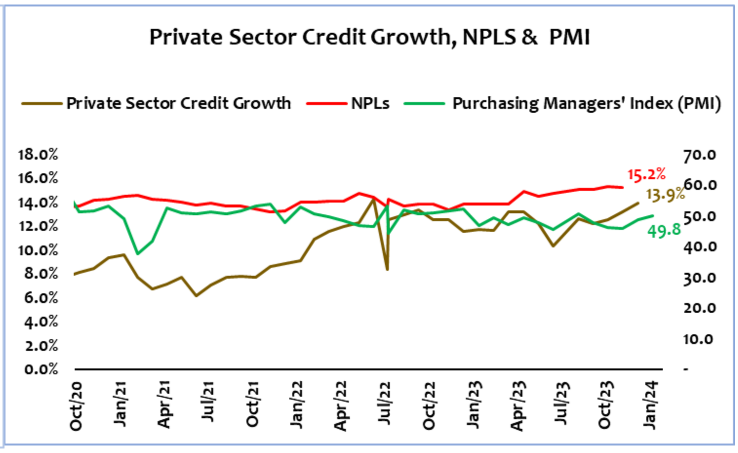


Drivers of a Better Economic Outlook – Kenya

CBK - Monetary Policy Reviews

- The Central Bank of Kenya, in its capacity continue implementing various monetary policies geared towards stabilizing prices, the forex market and the inflation in overall. At its recent meeting, the MPC hiked its lending rate by 50bps to 13.0%, the highest since November 2012.
- We foresee a reverse in the recent 50.0bps rate hike as from the start of the second half of 2024, with substantive rate cuts anticipated to start in Q4 -2024.
- Introduction of an interest rate corridor of a 250bps ± around the Central continue anchor the interbank rate on the upper lower limit of the CBR rate which had skyrocketed above 17% on tight liquidity. The interbank rate has averaged at 13.53% and 12.24% y-t-d since the policy review on 9th August 2023.
- We forecast the interbank rate to remain below 14.0% till the next review of the next CBR review.
- Bank excess reserves, however, remain under pressure as many investors divert to the appetizing government papers thus the reason for an elevated interbank rate.
- Bank credit growth remains strong with this expected to better up following the local currency strengthening and stability. The strengthening of the shilling is projected to bring more private credit for investments.
- Overall private sector credit remains on an upward trajectory with high growths of above 20% witnessed in the manufacturing and transport & telecommunications sectors . We forecast a reverse Exchange rate depreciation impact on the overall private sector credit to grow at almost the same rate as the credit growth rate adjusted for exchange rate depreciation.



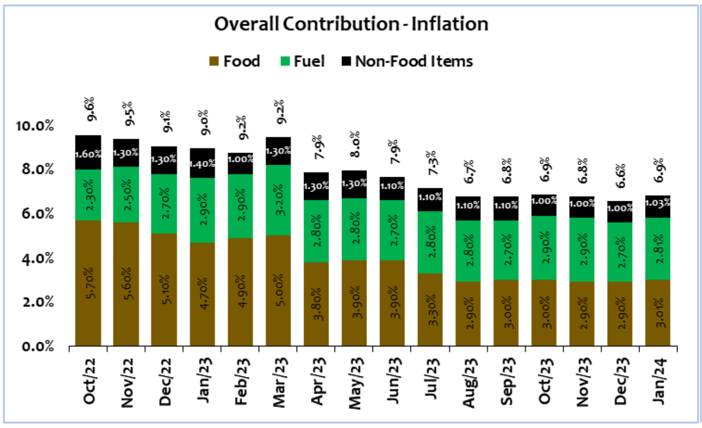


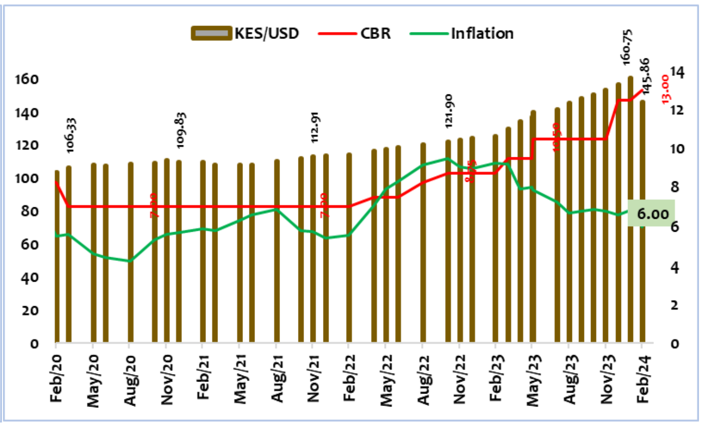
Moderating Inflation

Kenya's inflation is projected and driven towards a 5.0% market as evidenced by monetary policies reviews as instituted by Kenya's monetary policy Committee.

- We forecast an easing in the inflation rate to ease towards the government target as from May 2024 when following a full impact of the ongoing economic developments discussed herein.
- Sor far the country has seen eight interest rate hikes since May 2022 with three happening in 2023 and one on 6th Feb 2024 to bring down inflation which had hit above 9.0% in early 2023.
- The downward trend remains largely contained by the starts of the rains after a 40-year record long drought. With the government intervention of fertilizer subsidy, prices of major food including maize and vegetables, have cut down contribution of food inflation to about 3.0 points from that of above 5.0% witnessed in 2022 and early 2023.

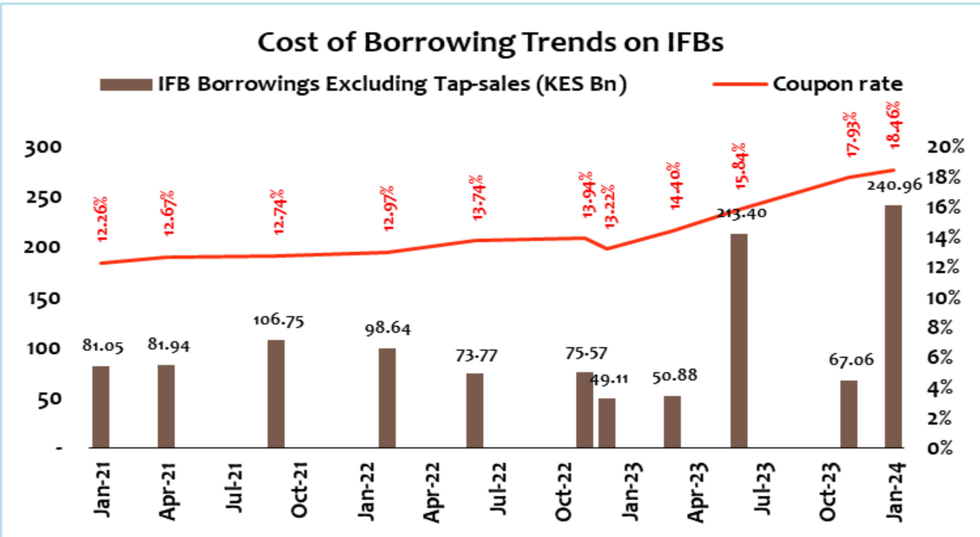
- According to the ministry of Agriculture, maize production is projected to have expanded by 29.9% to 44.6Mn bags on the above favorable weather. Sorghum preproduction doubled at 150.7% year-on-year, as beans, wheat and millet production estimated at growths of above 50% y-y at 81.3%, 62.6% and 61.8% respectively.
- Fuel inflation's contribution to overall inflation at 2.8% to the current 6.85% inflation and we expect this contribution to reverse downwards as from the next three months when the shilling appreciation will reflect in the oil prices. Petroleum prices contribute the highest to Kenya's fuel inflation.





T-Bills and Bonds' Rates to Start Easing in H2-2024

- With the overall economy stabilizing on expected, pressure easing for new financing required to support the budget, we anticipate government securities returns to start falling in H2-2024.
- So far, rates have almost hit their ceiling levels with infrastructure bond papers touching 18.46% as treasury papers are expected to hit above 17% in the coming auctions while the government remains aggressive in value uptake, which we see as a tactic to conserve funds rate cuts implementation.



Eurobond Buyback to Spur Economic growths

- Kenya issued a seven-year Eurobond targeting USD 1.5Bn on 7th Feb. 2024, which was oversubscribed over USD 5.0Bn, confirming high confidence in the country, with the government accepting its initial offer towards a buying back USD 1.5Bn of the USD 2.0Bn maturing on 24th June 2024.
- Results of the buyback will be announced on 21st February 2024.

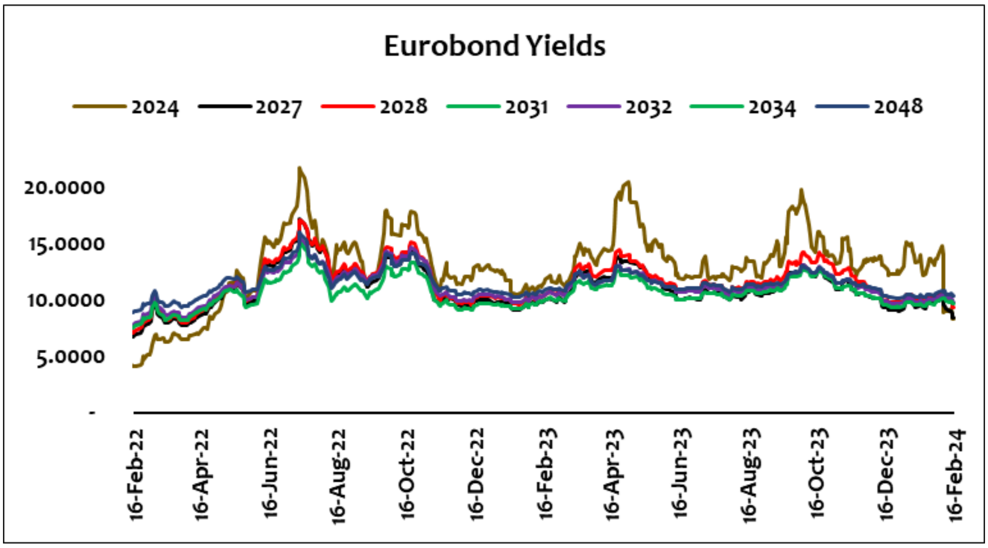
- The new international bond was priced at 9.75% as opposed to a 6.875% coupon on the Jun-2024 paper.
- However expensive, the issue provided an escape solution, clearing default fears and setting the shilling on recovery road while beckoning foreign investments which all will spur the economy upwards.
- This will further soften inflation rates resulting in interest rate cuts leading to cheaper cost of financing and ultimately grow the disposable/investments income to spur the domestic economy.
- Immediately after a successful Eurobond auction, the Kenya shilling gained phenomenally at 4.9% or KES 7.35 in a single day, resulting to a total gain of 8.9% within a week, week ending 16th February 2024.

Kenya's International Bonds				
Name	**Issue Date**	**Maturity Date**	**Coupon**	**Amount (USD Mn)**
Kenya 24	24 Jun 2014	24 Jun 2024	6.875	2,000
Kenya 27	22 May 2019	22 May 2027	7.000	900
Kenya 28	28 Feb 2018	28 Feb 2028	7.250	1,000
Kenya 31	12-Feb-2024	16-Feb-2031	9.750	
Kenya 32	22 May 2019	22 May 2032	8.000	1,200
Kenya 34	23 Jun 2021	23 Jan 2034	6.300	1,000
Kenya 48	28 Feb 2018	28 Feb 2048	8.250	1,000
Totals				**7,100**

Eurobond Yield Movements

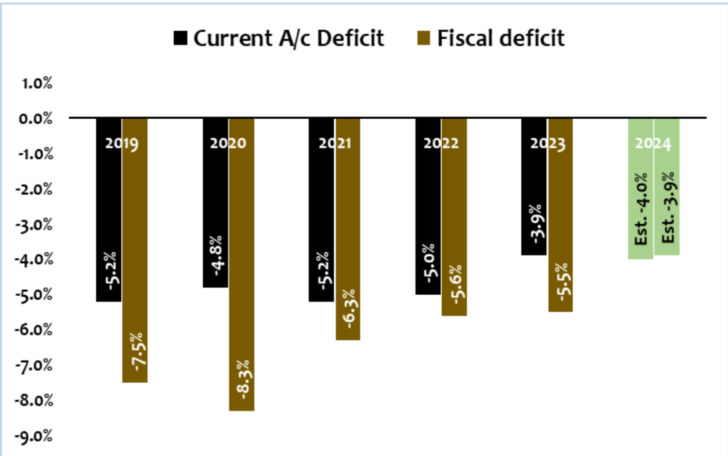
- We view a continued relaxation of yields rates in the international market on the growing confidence of Kenya's economy remaining strong after making the bold and wise move of abating the fears of its ability to clears the USD 2.0Bn.
- Immediately after the offer issue and buyback offers, yields on Jun-2024 and that of May 2027 fell sharply as the rest follow gradually.

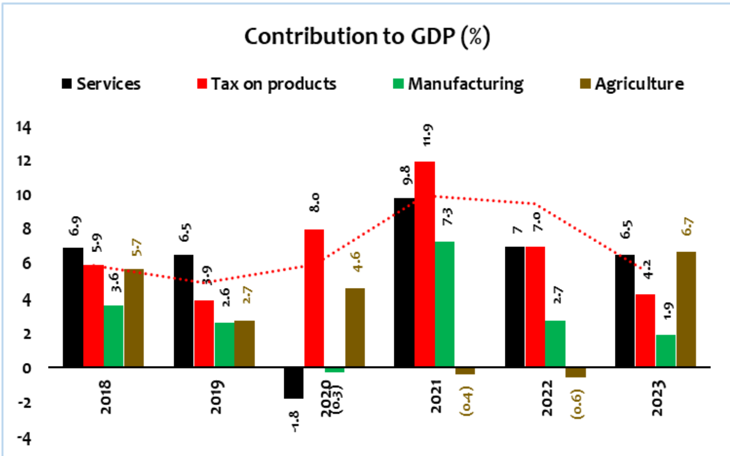
Euro-bond Paper	16-Feb-23	16-Jan-24	16-Feb-24	Δ bps y-y	Δ bps m-m
Jun-2024	11.483	13.434	8.260	322.30	517.40
May-2027	9.878	9.411	8.420	145.80	99.10
Feb-2028	10.365	10.051	9.315	105.00	73.60
Feb-2031			9.801		
May-2032	10.360	9.801	9.735	62.50	6.60
Jan-2034	9.865	9.536	9.630	23.50	(9.40)
Feb-2048	10.760	10.273	10.359	40.10	(8.60)



Fiscal performance Outlook

- The progressive reduction of the fiscal deficit through taxes and slight budget cuts, is expected to see public debt decline to a sustainable level.
- Since 2021, the overall fiscal consolidation has resulted to a decline in the actual fiscal deficit which we expect to drop signaling of improvements in government spending and tax collection.
- However, with the rise in taxes, we continue to see the tax contribution from products to total GDP shrink signaling of either capital flights in the business sector or low consumption of mostly locally produced products on higher taxed.
- We view that a strategic privatization of some non-performing state-owned enterprises will better contribute to the fiscal consolidation by lifting some burdens from running these institutions.
- The ongoing launch of industrial parks in counties will further see an improvement in exports from manufacturing that will see the current account deficit improve and stabilize the currency while reducing borrowings.
- Further, rising agricultural exports on better farming conditions will see the fiscal deficit contract to levels of below 4% y-y in 2024.

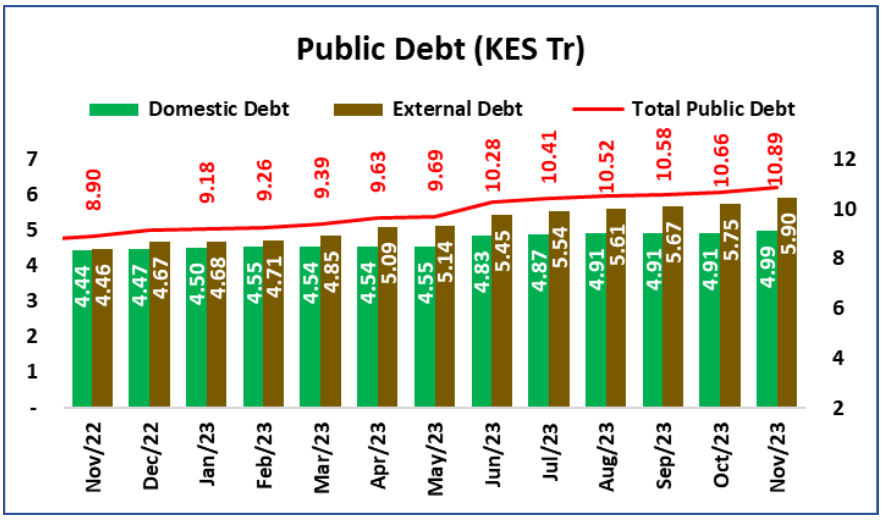




Public Debt

We expect a significant decline in the overall public debt following the appreciation of the local currency which had elevated soared 32.1% y-y as per November 2023 official statistics.

Domestic debt, however, is projected to expand faster on government change of tactic to local financing to contain the forex exposure. See below statistics:



Exchequer issues

Exchequer estimates indicate tax performance of 83.6% against a target of KES 1,455.90Bn in the last sev3n months of the Fiscal year 2023/24.

County disbursements stand at 77.5% of KES 174.33Bn with development receiving a total of KES 105.05Bn representing a performance of 38.6%.

Domestic borrowing of KES 851.90Bn comprises a net borrowing of KES 471.36Bn with rollover redemptions accounting for KES 380.54Bn.

Revenues (KES Bn)						
Source	**Original Estimate**	**Revised Estimate**	**Proportionate**	**Receipts**	**% Receipt to revised Estimates**	**% Receipt to Proportional**
Tax Revenues	2,495.83	2,495.83	1,455.90	1,216.42	48.74%	83.6%
Total Revenues	**4,132.74**	**4,281.61**	**2,497.61**	**1,808.80**	**42.25%**	**72.4%**
Expenditure (KES Bn)						
Expenditure	**Original Estimate**	**Revised Estimate**	**Proportionate**	**Receipts**	**% Receipt to Exchequer**	**% Receipt to Proportional**
Recurrent Exchequer Issues	1,302.80	1,360.12	793.40	700.16	51.5%	88.2%
Public Debt	1,751.07	1,866.04	1,088.52	764.28	41.0%	70.2%
CFS Exchequer Issues	1,963.70	2,078.85	1,212.66	831.77	40.0%	68.6%
Development Exchequer Issues	480.82	457.22	266.71	103.05	22.5%	38.6%
Issues to National Government	**3,747.32**	**3,896.19**	**2,272.78**	**1,634.98**	**42.0%**	**71.9%**
Total Issues to County Government	385.42	385.42	224.83	174.33	45.2%	77.5%
Total Exchequer Issue	**4,132.74**	**4,281.61**	**2,497.61**	**1,809.31**	**42.3%**	**72.4%**

Currency

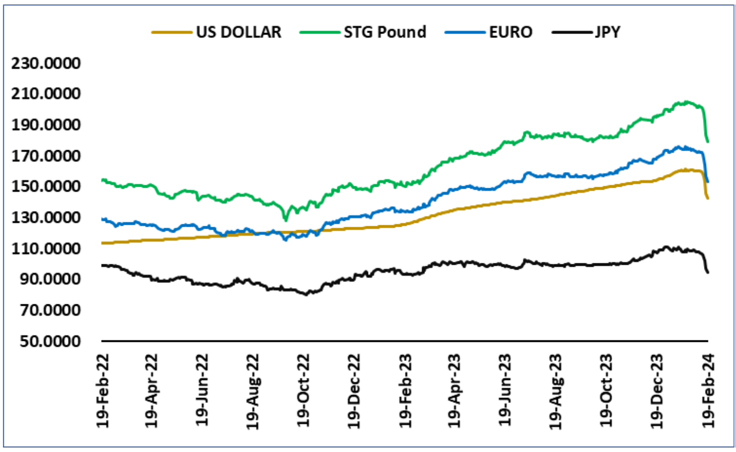
The Kenyan shilling continue gaining after the anticipated 24th June 2024, dollar demand was cleared by issuance of a new Eurobond that facilitated a buyback of USD 1.5Bn out of the 2.0Bn. This resulted in an oversupply of US dollar currency in the market and its subsequent devaluation since there's no need to keep holding the currency on its weak demand outlook. We view the shilling stabilizing to the levels of about KES 120 against the US dollar by the late second half of 2024.

As a result, the Kenya shilling continue gaining momentum supported by heavy direct foreign investment especially by the development partners (the World Bank and the IMF) and foreigners interested in emerging markets, a growing forex remittance, the rising exports mostly from agriculture.

The adoption of electronic matching of forex rates, removal of a twenty-cent maximum on indicative forex rate and publishing of a single rate based on previous day market transactions will further bolster the shilling.

Forex reserves have already hit above USD 7.0Bn and this is expected to rise on above anticipated inflows.

Currency	20-Feb-23	19-Jan-24	19-Feb-24	%Δ y-y	%Δ m-m
Dollar	125.77	160.35	142.92	**-13.6%**	**10.9%**
STG Pound	150.26	203.62	179.43	**-19.4%**	**11.9%**
Euro	133.61	174.47	153.52	**-14.9%**	**12.0%**
JPY	93.33	107.87	94.88	**-1.7%**	**12.0%**
US Dollar Index	103.92	103.29	104.72	**0.8%**	**1.4%**


US DOLLAR
STG Pound
EURO
JPY
230.0000
210.0000
190.0000
170.0000
150.0000
130.0000
110.0000
90.0000
70.0000
50.0000
19-Feb-22
19-Apr-22
19-Jun-22
19-Aug-22
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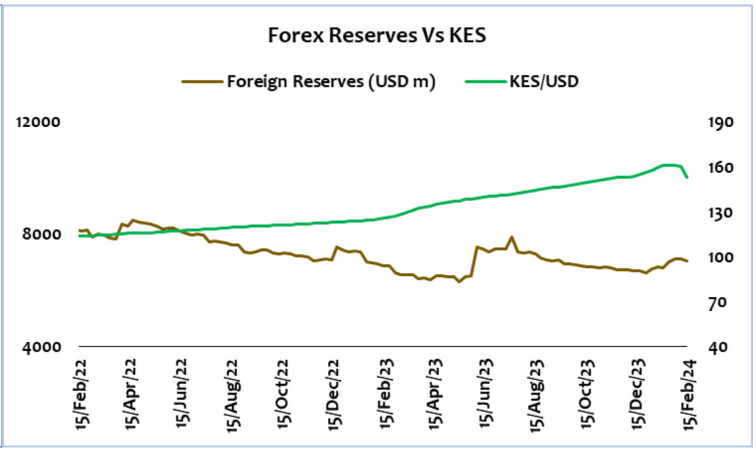
19-Dec-23
19-Feb-24


Forex Reserves Vs KES
Foreign Reserves (USD m)
KES/USD
12000
8000
4000
190
160
130
100
70
40
15/Feb/22
15/Apr/22
15/Jun/22
15/Aug/22
15/Oct/22
15/Dec/22
15/Feb/23
15/Apr/23
15/Jun/23
15/Aug/23
15/Oct/23
15/Dec/23
15/Feb/24

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