Global Economic Outlook

World economic outlook growths is anticipated to stabilize at 3.2% in 2024 and rise marginally to 3.3% in 2025 according to the world economic outlook July 2024 – edition by the International Monetary Fund (IMF). The sluggish outlook is mainly pegged on:

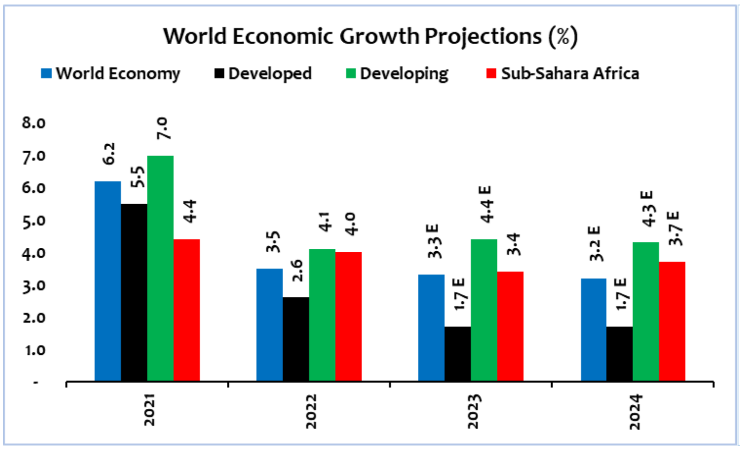
- Increased risks of higher inflations levels especially from the service sector which will has so far impacted disinflation momentum in H2-2024. However, fuel and food prices are expected to hit pre-covid levels and thus supporting in containing the overall inflation.
- World inflation projections point to a decline from 6.8% in 2024 to 5.9% in 2024 and 4.5% in 2025. The rate remains higher compared to an average of below 3.0% witnessed pre-covid.
- Elevated inflation is expected to see higher interest rates stay for longer than anticipated as new projections point to September 2024 up from the start of H2-2024. This is as many Central Banks remain cautious.
- Depreciation of emerging market currencies against major bench-mark currencies especially the US dollar that has seem to inform grip on higher rates by policy makers.

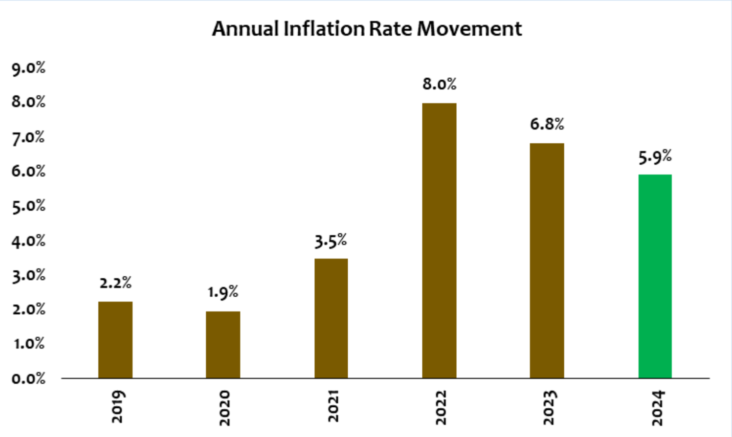
Despite fears on what is termed as premature rate cuts, some economies have already effected their first rates cuts with the Peoples' Bank of China being the latest by lowering its one-year medium-term lending facility rate from 2.5% to 2.3%.

In the US, economic growth was revised down from that of 2.7% forecasted in April 2024 to 2.6% for FY-2024 and further down to 1.9% in FY-2025. Actual Q1-2024 statistics pointed a 1.4% expansion rate still lower in relation to a 2.2% rise recorded in Q1-2023. In the Euro area, GDP is expected to remain on uptrend from 0.5% in 2023 to 0.9% in 2024, with Q1-2024 having recorded a 0.3% in the Q1-2024 to signal a slow recovery still underway. The Euro Area growth was the strongest since Q3-2022 in the war-torn region amid high energy costs.

On its last meeting of June 2024, the Federal Reserve held its rates steady at 5.25%-5.50% which we anticipate remain unchanged in the next meeting of end of July 2024.

Sub-Sahara Africa growth is expected to grow from an estimate of 3.4% to 3.7% by end of 2024 before rebounding up by 4.1% in 2025. The IMF outlook for the first time coincided with that of the Africa Development Bank which further outlines out East Africa as a leader in the projected 3.7% with a growth of 4.9% for 2024 and 5.7% in 2025. This can only be possible if the right goals are focused including improvement of its value addition and growth of manufacturing industries, human capital development among others.



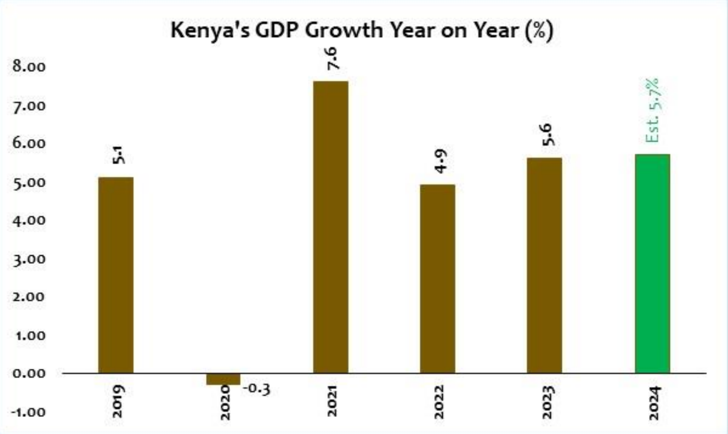


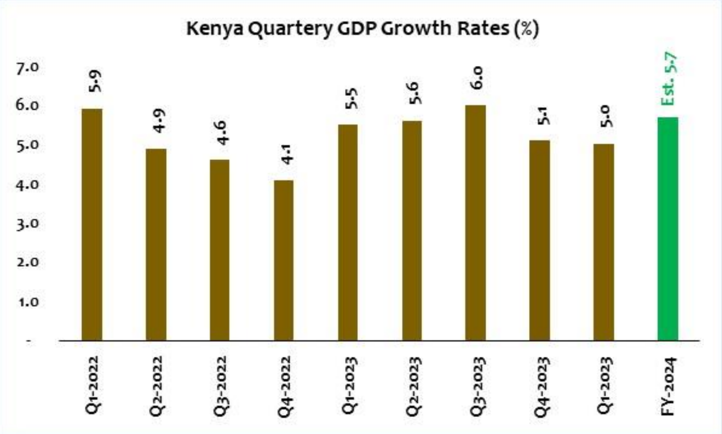
Kenya's Economic Outlook

The local economy is estimated to expand by 5.7% according to the Central Bank forecast issued in April 2024, a 0.1% upside from the 5.6% GDP recorded in 2023 as published by the Kenya National Bureau of Statistics (KNBS). According to the World Bank however, Kenya's growths projections stand at 5.2% on average for 2024 and 2025 mainly supported by projected strong growths in agriculture and the private sectors.

As of Q1-2024, Kenya's economy expanded 5.0% in relation 5.5% of Q1-2023 as reported by KNBS. The performance was largely supported by a 6.1% rise agriculture, 6.6% in real estate, 7.0% in financial sectors, 7.8% in information and technology, and a 28.0% surge in accommodation & food services. The agricultural sector was mainly boosted by the ample rainfall witnessed and that remains in support of food production.

In H2-2024, we anticipate a growth of around 5.0% against a government projection of 5.7% for the period supported by agriculture and the service sectors. Unlike H1-2024 which experienced heavy floods that impacted farming, the October-December rainy season is forecasted to be adequately distributed.



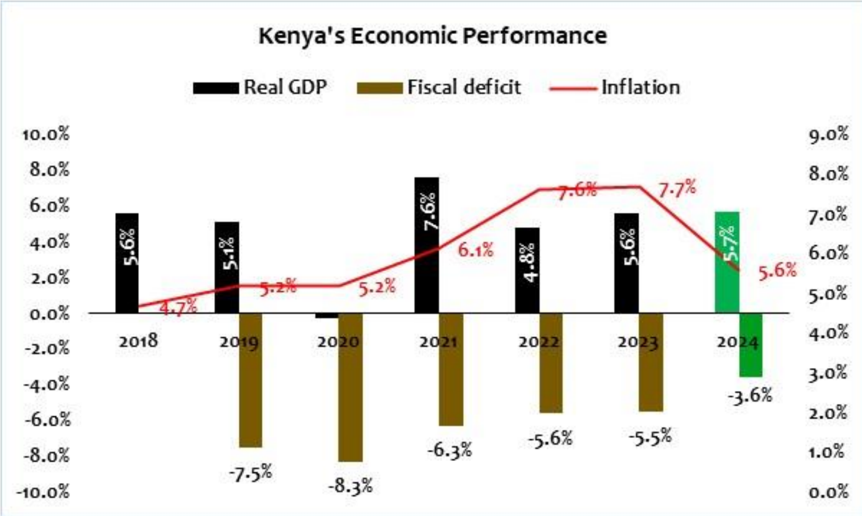


Despite the positive outlook, increased uncertainty remains as occasioned by failure to achieve the country's fiscal consolidation measures, especially in reducing debt vulnerabilities. The total rejection lof the FY-2024/25 finance bill seem to worsen the situation as this will result to increased debt to support government budget.

This is further worsened by the total withdrawal of the FY-2024/25 finance bill after the heightened demonstrations that forced the government to surrender. This resulted in an additional budget deficit of KES 190Bn from an original deficit of KES 597Bn to KES 787Bn which is expected to be covered by new public debt.

Kenya Budget FY2024/25 (KES Bn)			
	Original Approved Estimates	Revised Estimates	% Δ
Recurrent Expenditure	1,632.1	1,598.0	-2.1%
Development Expenditure	746.3	624.0	-16.4%
National Government Expenditure	**2,378.4**	**2,222.0**	-6.6%
Consolidated fund Services	1,213.5	1,237.2	2.0%
County Equitable allocation	400.1	411.0	2.7%
Total Expenditure	**3,992.0**	**3,870.2**	-3.1%

On a positive development besides total rejection of the FY2024/25 finance bill, the government implemented the fuel levy hike from KES 18.00 to KES 25.00 per letter on both petrol and diesel, citing generation towards maintenance of road. The last previous review on this happened in 2016 from KES 12.00 to KES 18.00.



Interest Rate Direction

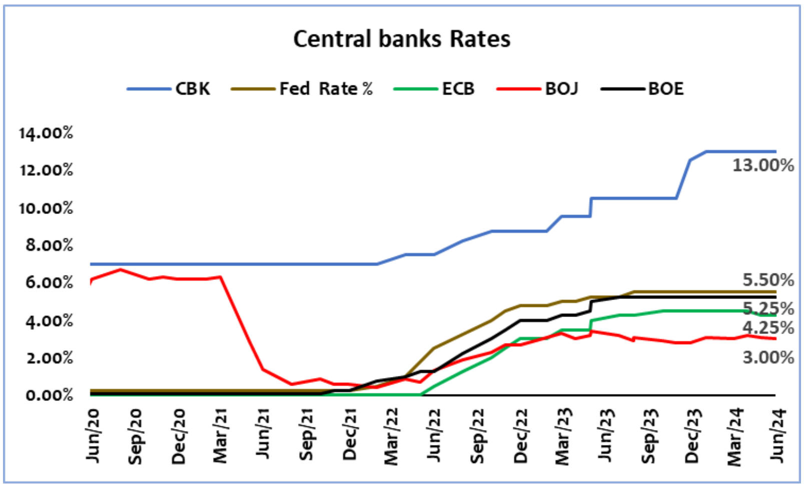
Globally, interest rates are forecasted to remain higher as inflation levels remain elevated in advanced economies. In view of this, many Central Banks are reluctant to implement rate hikes on inflationary risks should this happen prematurely.

New forecasts point easing of these higher rates as from September 2024.

Locally, we expect the CBR rate to be retained at 13.0% in the next monetary policy review in August 2024. This is as the current monetary stance has helped stabilize foreign exchange and the interbank rate.

I spite of the low inflation locally we view higher rates to take longer than expected on effect from global developments 0lower interest rates are seen to take long to come to reality on anticipated rise in demand for cash to cover the slashed financing from the finance bill 2024/25. This is as the government is expected to borrow much of the deficit.

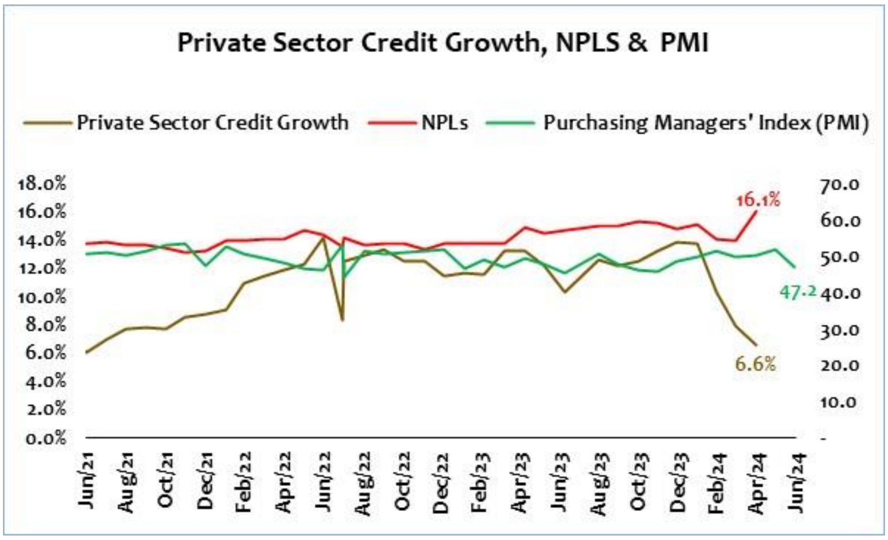
The current account deficit is expected to stabilize at 4.0% of GDP in 2024 supported by agricultural exports, a rising forex remittance and anticipated rise in foreign direct investments if the protects cool down early.



Private sector liquidity growth slowed to a growth of 6.6% in April 2024, on what appears to be effect of forex devaluation against the US dollar.

Banking sector gross non-performing loans (NPLs) stood at 16.1% in April 2024, against from 14.0% of March-2023, 15.1% in Jan-2024 and 13.8% in April 2023. Faster rise in NPLs is on agriculture, real estate, hospitality sectors and trade sectors. We expect the situation to remain in the mentioned sectors following heavy floods witnessed in the March-May rainfall season that impacted output; low uptake in the real estate; and low consumer sales on disruptions from the mass protests that started in Mid-June 2024.

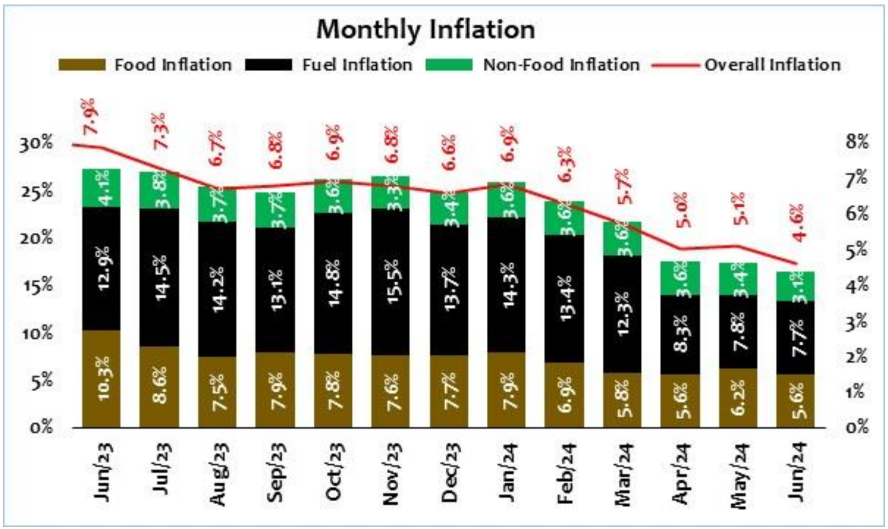
According to Stanbic Bank's Purchasing Managers' Index (PMI), business activity has sharply reduced as signalled by the June 2024 data, following wide-spread economic challenges on impact from the demonstrations and policy uncertainty in the economy.



Inflation

Local inflation level is expected to oscillate around the mid-point of the government target at about 5.0% for the rest of the year supported by stable currency, overall rise in food supply on favourable weather conditions and expected stable fuel prices.

Fuel inflation has so far fell from 12.3% in March, 8.3% in April and 7.8% in May to 7.7% in June follows the pricing in the forex gains made by the Kenya Shilling appreciation immediately after the partial Eurobond redemption that lifted forex demand on the US dollar.



Interbank

Liquidity pressure is anticipated to remain in the rest of H2-2024, occasioned by the projected rise in domestic borrowings which will in turn drain much of the liquidity from the market, informing investors of higher rates.

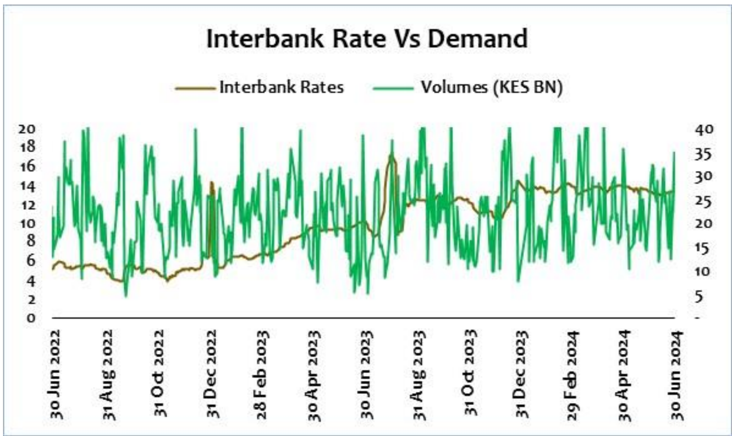
In H1-2024, the interbank rate went up 312.7bps y-y higher to 13.30%, compared to 10.17% of June 2023 on a higher CBR rate and overall increased liquidity demand from the government.

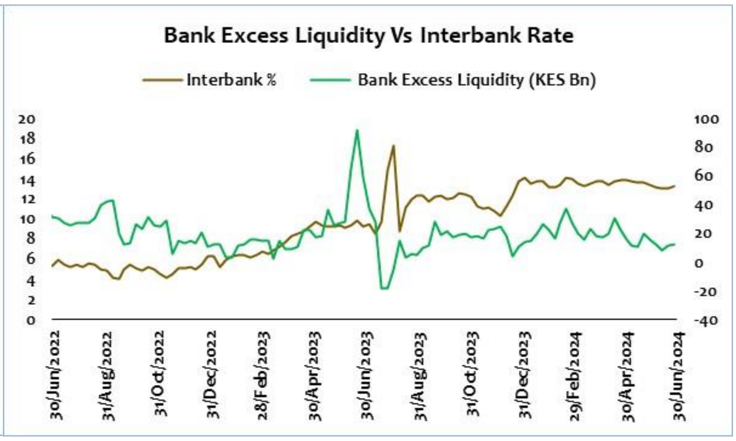
The rate has however been well maintained as anchored within the CBR rate with a ±250 bps corridor as instituted in August 2023 after the rate had skyrocketed on high demand for liquidity. Q-Q the rate went down 45.5bps from 13.75% in March 2024 to 13.30% by end of Jun-2024.

As informed by higher liquidity demand that has so far witnessed a 78.4% reduction in bank excess reserves, we anticipate the situation to remain almost similar as the government sources for budgetary support funding.

We therefore anticipate the interbank rate to mover around the CBR +<50 basis points till the next review of the CBR.

Key Rates	Q2-2023	Q1-2024	Q2-2024
Central Bank Rate	10.50%	13.00%	13.00%
Inter-Bank Rate	10.17%	13.75%	13.30%
Average Monthly Interbank	9.24%	13.60%	13.49%
Cash Reserve Requirement (CRR)	4.25%	4.25%	4.25%
Inflation	7.90%	5.70%	4.60%
91-Day T-Bill	11.785%	16.729%	15.977%
182-Day T-Bill	11.863%	16.888%	16.764%
364-Day T-Bill	11.934%	16.990%	16.791%
Bank Excess Reserves (KES Bn)	59.30	18.30	12.80
Bank Excess Liquidity (Avg)	33.44	21.85	16.11
Forex Reserves (USD Mn)	7,476	7,088	7,800
Forex Reserves -Avg (USD Mn)	6,765	6,993	7,266
Months of Import Cover	4.12	3.80	4.10
Bank Excess Average Liquidity (Avg)	59.30	18.30	12.80





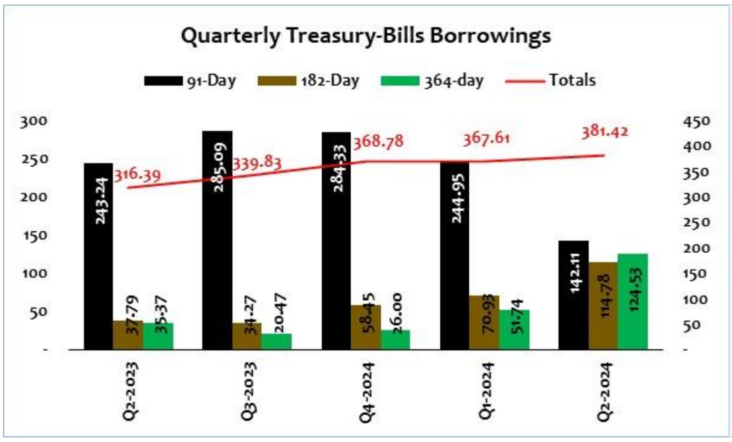
Treasury Bills

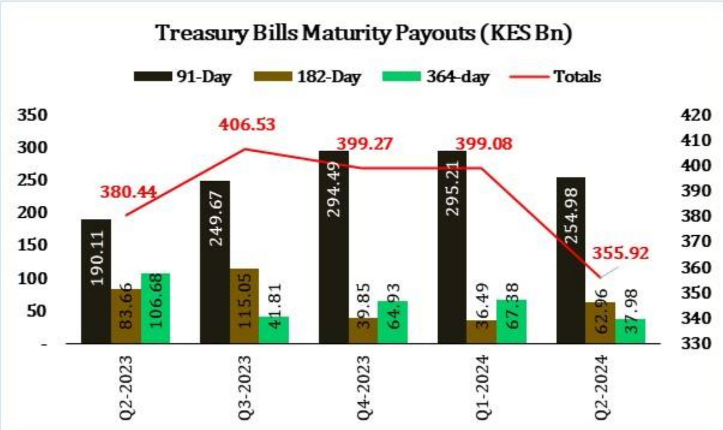
Since late May 2024, returns on investment in the T-bill papers have been on the rise, though at a slower pace rallied by high liquidity demand from maturing papers after hitting highs 16.9676%, 16.9137% and 16.9899% for the 91-, 182-, and 364-day papers respectively in the two last weeks of Q1-2024.

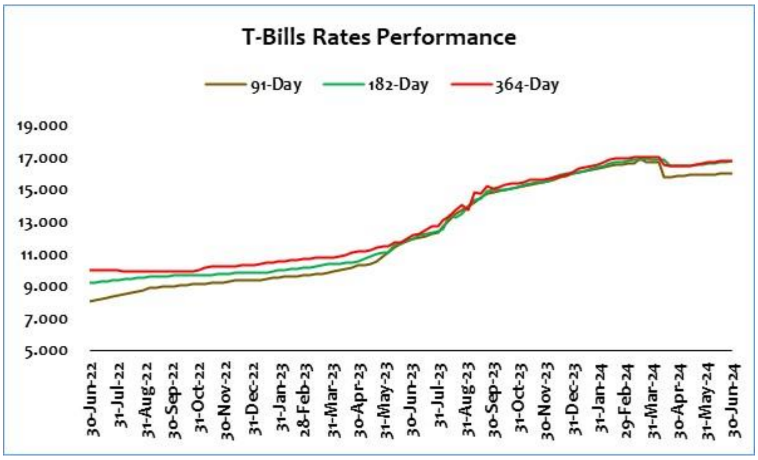
Return on investment jumped 419.2bps, 490.1bps and 485.7bps year-on-year higher from 11.785%, 11.863% and 11.934% by end of June 2023 to 15.9771%, 16.7636% and 16.7911% in the last auction of June 2024.

In July 2024, liquidity demand towards T-bills settlements stands at KES 77.84Bn from that of KES 82.18Bn for June 2024. The government's target treasury bill borrowing target for July stands at KES 120.00Bn. In August and September, T-bill maturities are expected at KES 85.40Bn and KES 90.44Bn respectively against total weekly targets of KES 96.00Bn and KES 120.00 Bn respectively.

We opine the return on investment across the three papers to maintain an upward trajectory to c.17%.







Currency

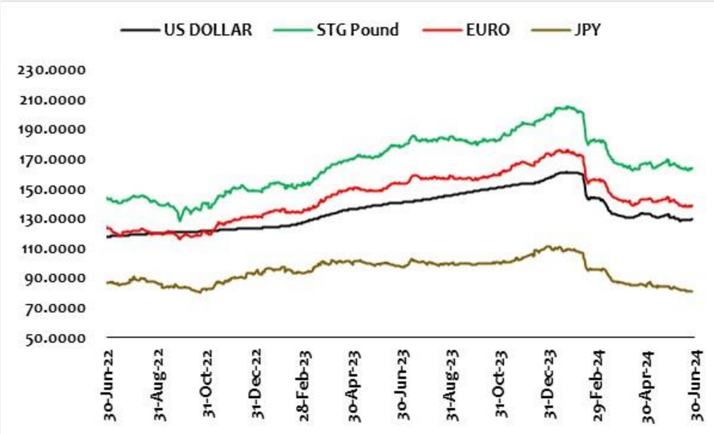
The Kenya shilling strengthened further in the quarter against major currencies, going up at 7.8%, 7.5%, 9.2% and 17.5% y-y against the US dollar, British pound, Euro and Japanese yen respectively.

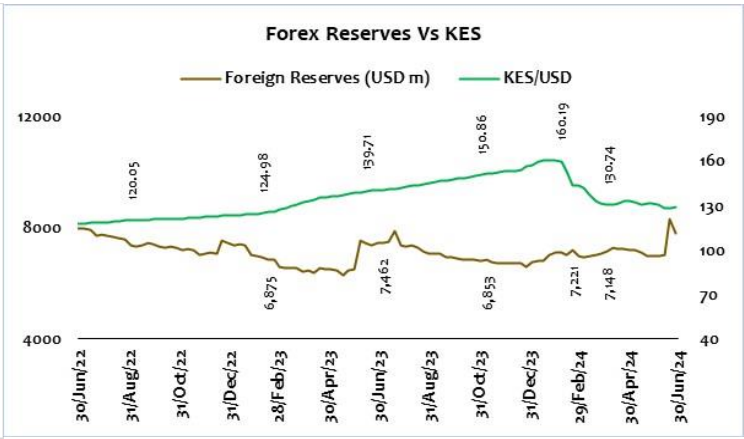
The value gains are majorly attributed to the partial redemption and maturity Eurobond payment that matured on 24th June 2024 which grew investor confidence for Kenya in its obligations. This further cleared fears of a default that had gathered momentum early in the year.

Above disbursements from the World Bank and other forex inflows saw the country's forex reserves 4.3% y-y and 10.0% Q-Q up from USD 7,485Mn by end of June 2023 and KES 7,088Mn in March 2023 to close 30th June 2024 at USD 7,800Mn.

Forex inflows jumped 14.9% up in the first two months of Q2-2024 to KES 404.45Mn in relation to KES 352.10Mn of the same months in 2023. This is even as the government continue pushing for export of labour.

DATE	30-Jun-23	02-Jan-24	28-Mar-24	28-Jun-24	% Δ Y-Y	%Δ Y-T-D	%Δ Q-Q





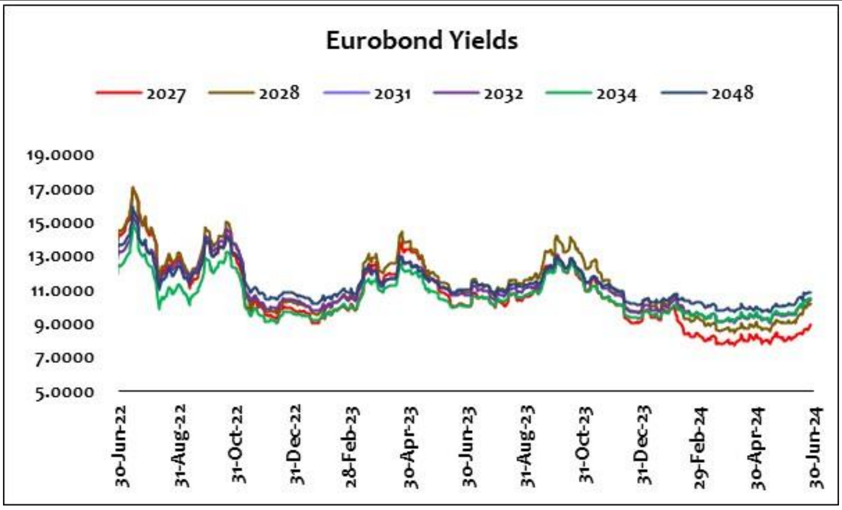
Eurobond

Partial redemption of the June 2024 paper saw rates on Kenya's international papers gain value as their yields stabilize for the second quarter in a row with minimal movements.

The May-2025 paper gained the most at 115.60bps y-y from 10.094% in Q2-2023 to 8.938% by end of Q2-2024, followed by the Feb 2028 with a gain of 69.7bps y-y.

Quarter on quarter, however, the yields went up worsened by what we view as impact of the anti-finance bill protests that turned chaotic.

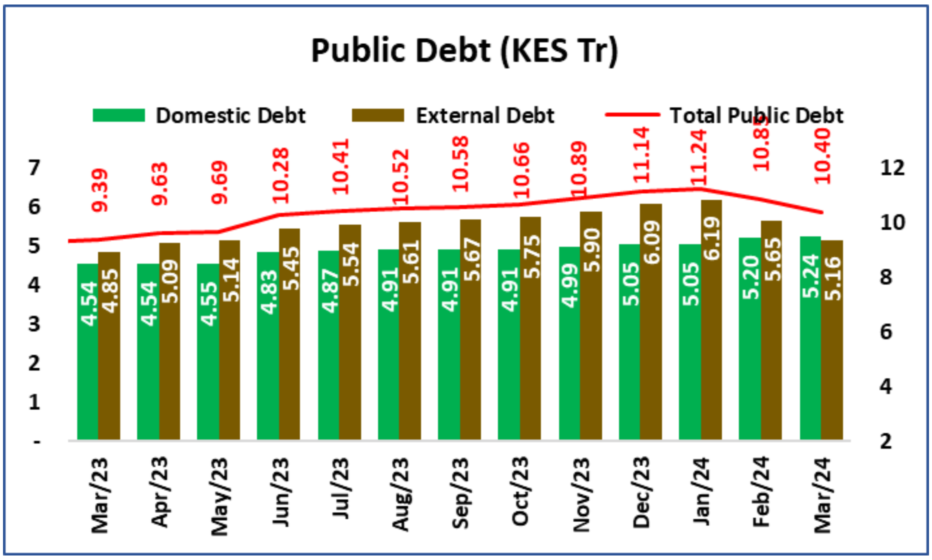
Euro-bond Paper	30-Jun-23	31-Mar-24	30-Jun-24	Δ bps yt-d	Δ bps Q-Q
May-2027	10.094	7.833	8.938	115.60	(110.50)
Feb-2028	10.852	8.611	10.155	69.70	(154.40)
Feb-2031		9.252	10.621		(136.90)
May-2032	10.711	9.103	10.445	26.60	(134.20)
Jan-2034	10.066	9.128	10.484	(41.80)	(135.60)
Feb-2048	10.982	9.770	10.875	10.70	(110.50)



Public Debt

Total public debt as recorded by The Central bank of Kenya, stands at KES 10,398.61Bn as of March 2024, a 7.5% year-to-date decline from that of KES 11,240.40Bn of January 2024. The decline in total follows the strengthening of the local currency that has seen external debt dip 16.6% in the first three months 2024.

Latest statistics indicate domestic debt at KES 5,413.86Bn, a 7.2% rise or KES 363.76Bn addition to that of KES 5,50.40Bn by end of January.



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