Kenya Macro-Economic Update
October 2024

KINGDOM SECURITIES

A subsidiary of the
Co-operative Bank of Kenya Limited

Shadrack Manoti
smanyinsa@co-opbank.co.ke
Research Department

Kenya Economic Update

The Kenyan 2024 GDP is estimated to grow by 5.0% down from earlier projection of 5.4%, following sluggish Q2-2024 growth, which dropped to 4.6% compared to 5.6% during the same period last year. As a result, growth in the first half of 2024 (H1-2024) declined to 4.8%, compared to 5.6% in H1-2023. Our forecast of a 5.0% GDP increase for FY-2024 is primarily supported by an expected acceleration in economic activity during the festive season at the end of Q4.

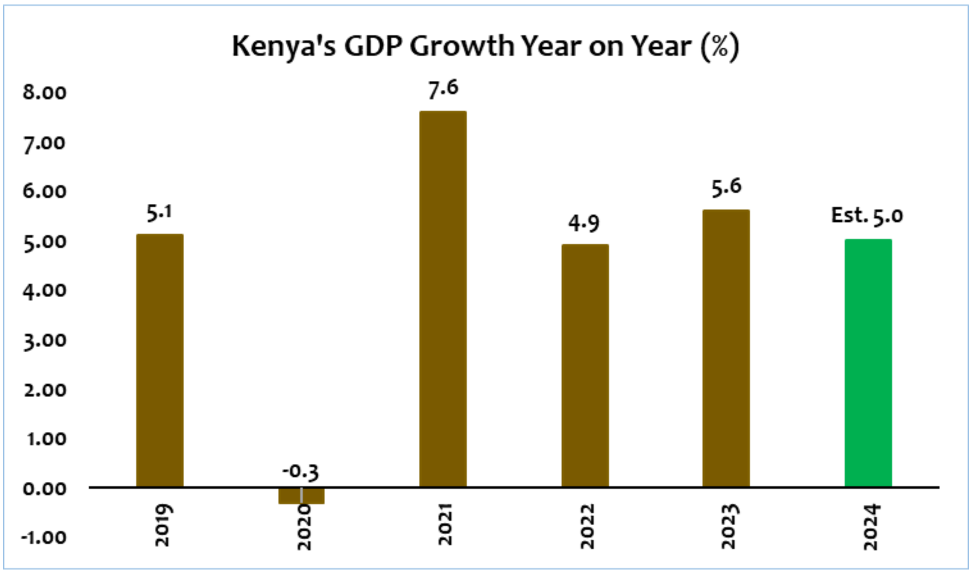
The sluggish growth in Q3-2024 is attributed to mass protests in July 2024, which negatively affected both production and consumption.

We project H2-2024 growth to increase at an average rate of 5.2%, down from our earlier estimate of 5.4%.

GDP FORECAST									
GDP FORECAST (%)	2018	2019	2020	2021	2022	2023	H1-2024 Actual	H1-2024 Forecast	FY-2024 Forecast
Real GDP Growths	**5.6**	**5.1**	**(0.3)**	**7.6**	**4.9**	**5.6**	**4.8**	**5.2**	**5.0**
Agriculture	5.7	2.7	4.6	(0.4)	(1.5)	6.5	**5.5**	**6.0**	**5.8**
Industrial Growth	3.8	4.0	3.3	7.5	3.9	1.9	**3.2**	**3.3**	**3.3**
Services	6.1	6.5	(1.8)	9.8	7.0	6.2	**7.0**	**6.7**	**6.9**
Taxes	5.9	3.9	(8.0)	11.9	6.7	2.2	**5.1**	**5.1**	**5.3**

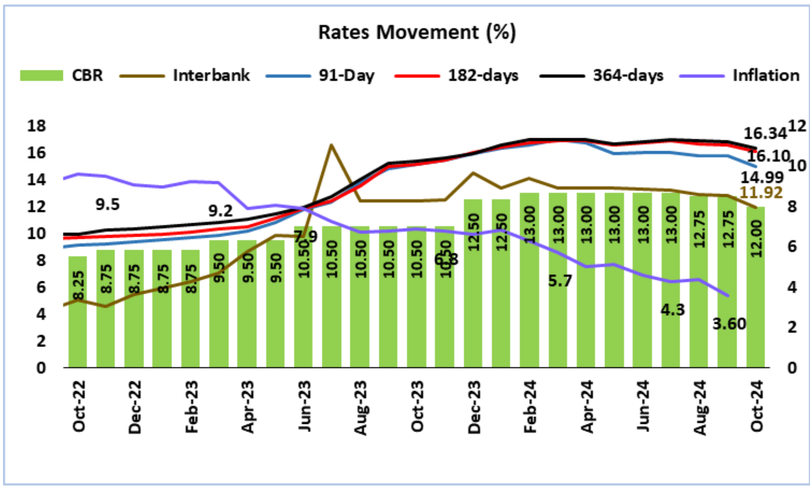
Agriculture remains the country's backbone for growth, contributing about 19.7% of the total GDP at market prices over the past year. Following the favorable weather of the last nine months, with harvests still ongoing, we anticipate a faster rise in agriculture, projected to exceed 6.0% in Q4 2024. This contrasts with the floods experienced at the same time last year, which negatively impacted agricultural production.

Despite the full withdrawal of the 2024 finance bill, tax contributions to total GDP have increased, averaging 5.1% in H1 2024 compared to 2.5% during the same period in 2023. Heavy spending in Q4 2024 is expected to accelerate further during the festive season.



Monetary Policy Operations

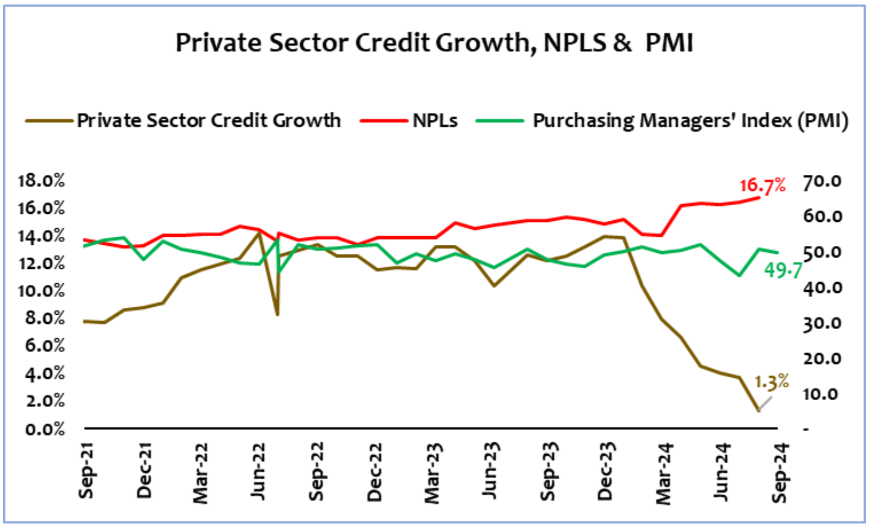
During its fifth monetary policy review of the year, the Central Bank of Kenya cut the benchmark rate by 75 basis points (bps), from 12.75% to 12.00%, citing contained inflation and a stable foreign exchange rate. This brings the total cut to 100 bps from the decade-high rate of 13.0% recorded in June 2024. As a result of the rate cut, we have observed a reduction in the overnight lending rate (interbank) and in returns on treasury bill auctions, with rates declining by over 40 bps in the first week of transmission.



Key Rates	Before Review 4th-Oct-2024	After CBR Review 11-Oct-2024
Central Bank Rate	12.75%	12.00%
Inter-Bank Rate	12.64%	11.91%
91-Day T-Bill	15.686%	14.990%
182-Day T-Bill	16.500%	16.095%
364-Day T-Bill	16.729%	16.338%

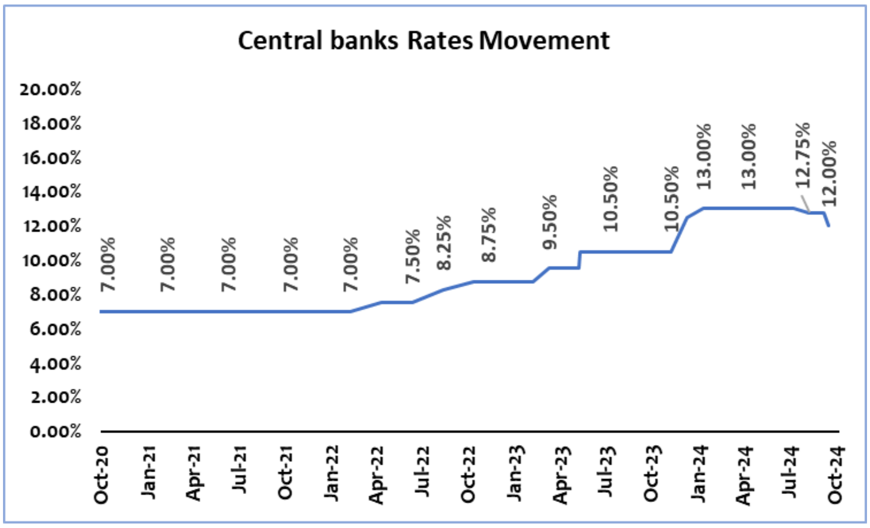
We expect further ripple effects in the overall economy as the rate cut transmits to the market:

- **Private sector credit** is expected to recover after recording its worst growth rates in May, June, July, and August—4.5%, 4.0%, 3.7%, and 1.3%, respectively—due to tight credit conditions resulting from high lending rates. The high cost of credit, which exceeded 18% per annum, prevented many businesses from qualifying for loans, while others refrained from seeking credit from banks.
- **Improvement in non-performing loan (NPL) ratios** is expected as the cost of borrowing decreases, which will directly improve bank loan disbursements. Earlier policy tightening caused the overall banking loan book to shrink by 4.3% between January and June 2024, from KES 4,224.4Bn in January to KES 4,042.3Bn in June 2024, with NPL ratios escalating to a high of 16.7% by the end of August 2024.
- **Businesses' expansions** are expected to register following an anticipated general rise in credit lines across various sectors. This is as credit scores improve and lending levels improve.



- **Increased foreign Direct investments** to be occasioned by an anticipated rise in return on investment as that of developed countries become unattractive on low returns.

We forecast an **additional rate cut of about or less than 50 basis points** in the base lending rate in December 2024 monetary policy meeting as a measure to support economic recovery. This expectation is based on the low GDP growth in the first half of 2024, which was significantly below the government's initial forecast.



CBR Projections

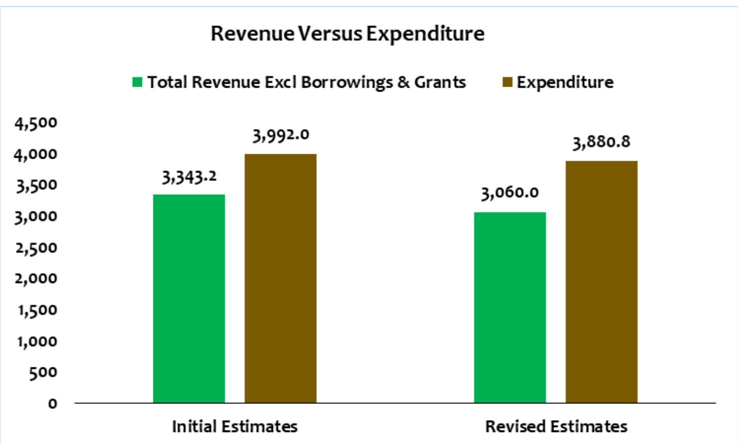
Dec-2024 11.5%

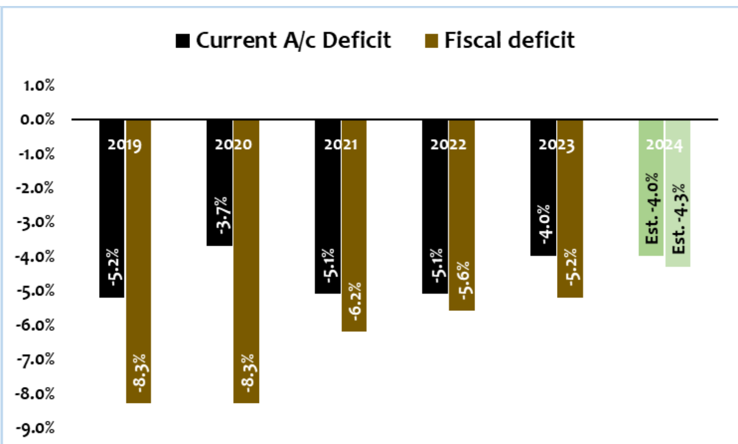
Fiscal Developments and Outlook

The reduced fiscal budget, from KES 3,992Bn to KES 3,880.8Bn for the financial year 2024/25, is expected to lower the fiscal deficit to 4.3% from 5.2% in the previous fiscal year (2023/24). The fiscal deficit for FY 2024/25, including grants, stands at KES 768.6Bn or 4.3% of GDP, with domestic financing estimated at KES 413.1Bn, down from KES 597.6Bn in the original estimates, as a measure to ease pressure on interest rates.

The current account deficit is projected at 4.0% of GDP, supported by rising exports, especially agricultural exports of tea, vegetables, and fruits. Total exports for the eight months ending August 2024 increased by 14.1% compared to the same period in 2023. Imports, however, grew at a slower pace of 7.8% in the same period, primarily driven by machinery.

Forex remittances continue to rise, accelerating by 16.4% in the first eight months of 2024, despite the strengthening of the local currency, which has devalued the relative value of foreign inflows. This continues to support forex reserves, which currently stand at USD 8,299Mn, sufficient for 4.3 months of import cover, compared to the target of 4 months of import cover.



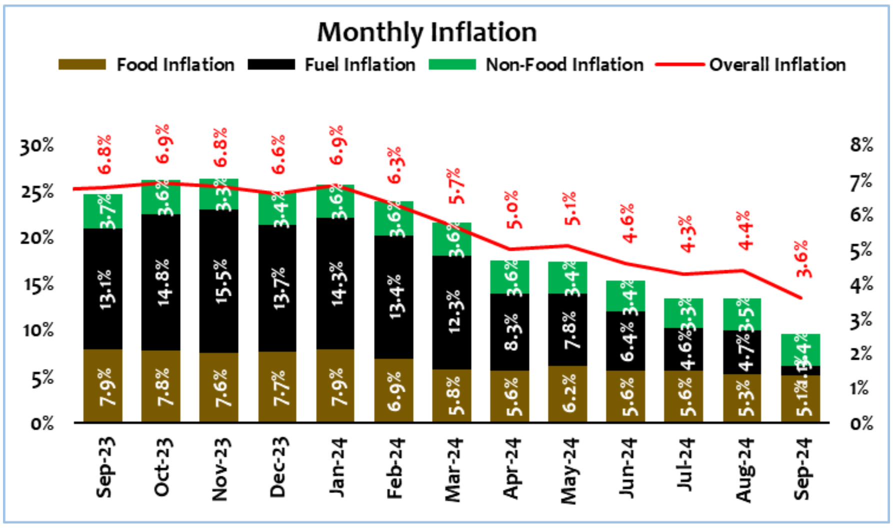


The inflation rate continues to remain below the government's mid-range target of 5% ± 2.5%, with inflation over the last four months averaging 4.2%, driven by low food and fuel prices and a stable foreign exchange rate.

September's inflation dropped to 3.6%, down from 4.4% in August and 4.3% in July 2024. Increased oil supply from oil-exporting countries, along with the strengthening of the Kenyan shilling, has led to a decrease in pump prices. The rise in supply also follows weak oil demand in China, the world's largest oil importer. As a result, petrol prices have decreased by 10.7% year-on-year and 8.9% year-to-date, as of the end of September 2024.

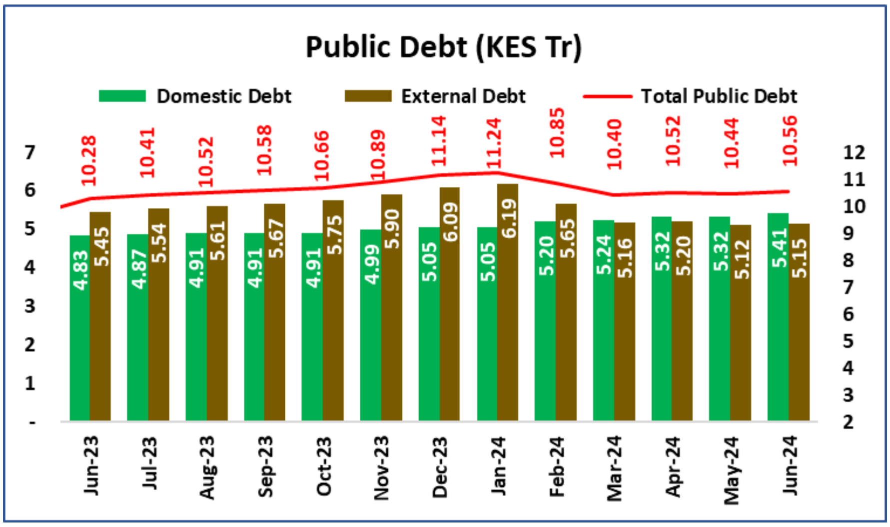
Food inflation has consistently been on a downtrend since January, due to increased food production following favorable rainfall and fertilizer subsidies.

We expect inflation to remain below 4.5% through year-end, supported by the ongoing harvest, the rise in fuel supply announced by OPEC in August, and a stable currency.



Public Debt

Public debt declined by 5.2% in the first half of 2024, from KES 11,139.7 billion in December 2023 to KES 10,561.0 billion by the end of June 2024. This was largely due to a 15.4% reduction in external debt, which fell from KES 6,089.6 billion to KES 5,150.8 billion, driven by gains from the strengthening of the local currency and the payment of a Eurobond in late June 2024



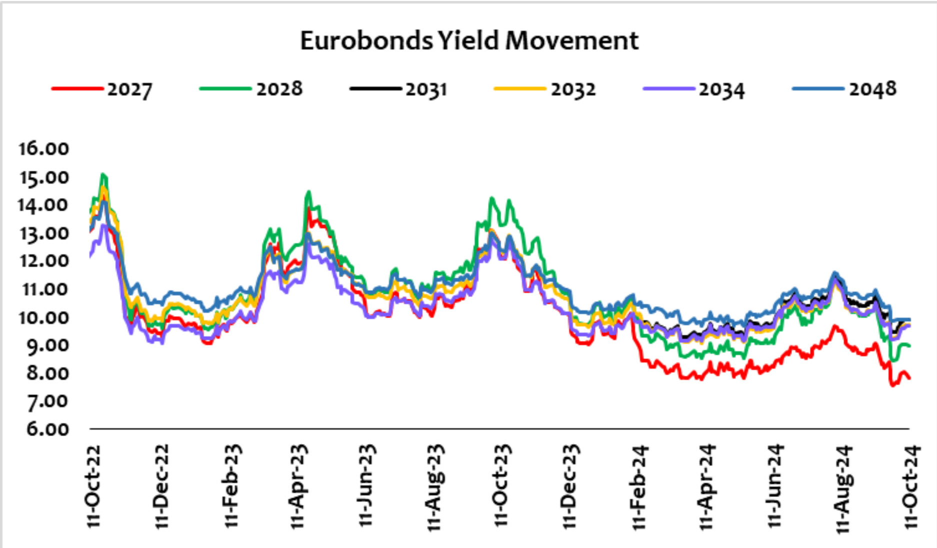
Eurobond

Kenya's international papers remain attractive in the international market especially after the country successfully paid of its USD 2.00Bn and lifting fears of default in June 2024. This has further been elevated by the strengthening of the local currency to average at KES 129.48 per US dollar, making it more predictable to foreign investors.

As a result, value on Kenya's international papers flourished as their yield rates edged down on increased demand as shown in the table below.

The resumption of political stability is estimated to maintain the rates yield rates low as the country remains the foreign destination in the region.

Euro-bond Paper	02-Jan-24	11-Sep-24	11-Oct-24	Δ bps y-t-d	Δ bps w-w
May-2027	9.198	9.070	7.834	136.40	123.60
Feb-2028	9.873	10.451	8.979	89.40	147.20
Feb-2031		10.760	9.872		88.80
May-2032	9.780	10.458	9.699	8.10	75.90
Jan-2034	9.426	10.496	9.663	(23.70)	83.30
Feb-2048	10.212	10.947	9.902	31.00	104.50



Research Analyst Certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Terms of Use – Disclaimer:

This research report has been prepared by Kingdom Securities Limited and is for information purposes only. This research report should not be construed as an offer or solicitation to sell or buy any investment or product. Any opinions expressed herein reflect the analyst's judgment at the date of publication and neither Kingdom Securities Limited, nor any of its affiliates or employees accepts any responsibility in respect of the information or recommendations contained herein. Unless otherwise stated, the opinions contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance is not a guarantee or indication of future results.

The information and opinions contained in this Material have been derived from sources believed to be reliable and in good faith or constitute Kingdom Securities' judgement as at the date of this research, but no warranty is made as to their accuracy and any opinions are subject to change and may be superseded without notice. In no circumstances will Kingdom Securities or its employees be liable to you for any errors or omissions in this report or for any losses you may incur in following any recommendations in the report. Kingdom Securities is a Subsidiary of Co-operative Bank of Kenya.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: info@kingdomsecurities.co.ke

Research Department

Shadrack Manyinsa	**+254 711 049 956**

Sales Team

Edgar Martim	**+254 711 049 534**
Asena Moffat	**+254 711 049 663**
Dennis Lagat	**+254 711 049 592**
Gloria Ohito	**+254 711 049 993**

Client Service and Operations

Joab Kiprono	**+254 711 049 888**
Purity Malombe	**+254 711 049 729**