



Kenya Economic Outlook 2024/5

Business world



How ICEA LION Asset Management sits within ICEA LION Group



Global markets: Slower growth expected despite monetary policy easing

Table 1. Overview of the World Economic Outlook Projections

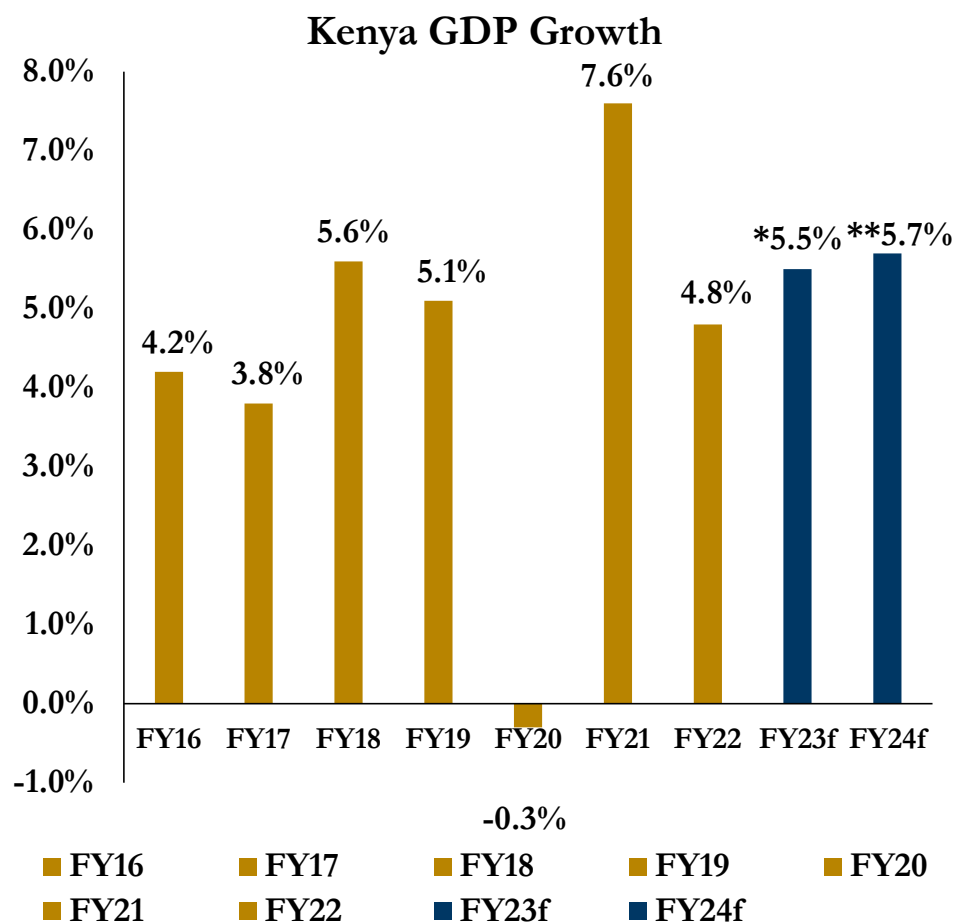
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	Estimate		Projections		Difference from October 2023		Estimate	Projections	
	2022	2023	2024	2025	WEO Projections 1/				
					2024	2025	2023	2024	2025
World Output	3.5	3.1	3.1	3.2	0.2	0.0	3.1	3.1	3.1
Advanced Economies	2.6	1.6	1.5	1.8	0.1	0.0	1.6	1.6	1.7
United States	1.9	2.5	2.1	1.7	0.6	-0.1	2.9	1.5	1.9
Euro Area	3.4	0.5	0.9	1.7	-0.3	-0.1	0.2	1.5	1.6
Germany	1.8	-0.3	0.5	1.6	-0.4	-0.4	-0.1	1.1	1.9
France	2.5	0.8	1.0	1.7	-0.3	-0.1	0.6	1.4	1.8
Italy	3.7	0.7	0.7	1.1	0.0	0.1	0.2	1.3	1.0
Spain	5.8	2.4	1.5	2.1	-0.2	0.0	1.5	1.8	2.1
Japan	1.0	1.9	0.9	0.8	-0.1	0.2	1.4	1.6	0.5
United Kingdom	4.3	0.5	0.6	1.6	0.0	-0.4	0.9	0.6	1.8
Canada	3.8	1.1	1.4	2.3	-0.2	-0.1	1.1	1.9	2.2
Other Advanced Economies 3/	2.7	1.7	2.1	2.5	-0.1	0.2	1.5	2.6	2.0
Emerging Market and Developing Economies	4.1	4.1	4.1	4.2	0.1	0.1	4.3	4.3	4.1
Emerging and Developing Asia	4.5	5.4	5.2	4.8	0.4	-0.1	5.2	5.5	4.7
China	3.0	5.2	4.6	4.1	0.4	0.0	5.4	4.4	4.0
India 4/	7.2	6.7	6.5	6.5	0.2	0.2	5.0	7.8	6.7
Emerging and Developing Europe	1.2	2.7	2.8	2.5	0.6	0.0	4.1	2.0	2.9
Russia	-1.2	3.0	2.6	1.1	1.5	0.1	4.4	1.4	1.0
Latin America and the Caribbean	4.2	2.5	1.9	2.5	-0.4	0.1	2.2	1.7	2.6
Brazil	3.0	3.1	1.7	1.9	0.2	0.0	2.3	2.6	1.4
Mexico	3.9	3.4	2.7	1.5	0.6	0.0	3.4	1.9	1.4

Source: IMF World Economic Outlook January 2024

- The IMF projects global GDP growth of 3.1% in 2024 and 3.2% in 2025, below the 3.8% average growth in 2000-19
- Japan and the UK already in economic recession (negative economic growth in 2H23)
- Germany likely to go into economic recession this quarter due to higher inflation and an industrial slowdown
- China facing economic turmoil due to debt & real estate issues (China)
- US economy expected to have a soft landing and avoid recession
- Federal Reserve Bank expected to cut its policy rate in 2H24
- Trump has a strong chance of winning US election, which could mean a less outward-looking US policy
- Declining rates indicate preference for investing in fixed rate instruments

GDP growth projected at 5.5%

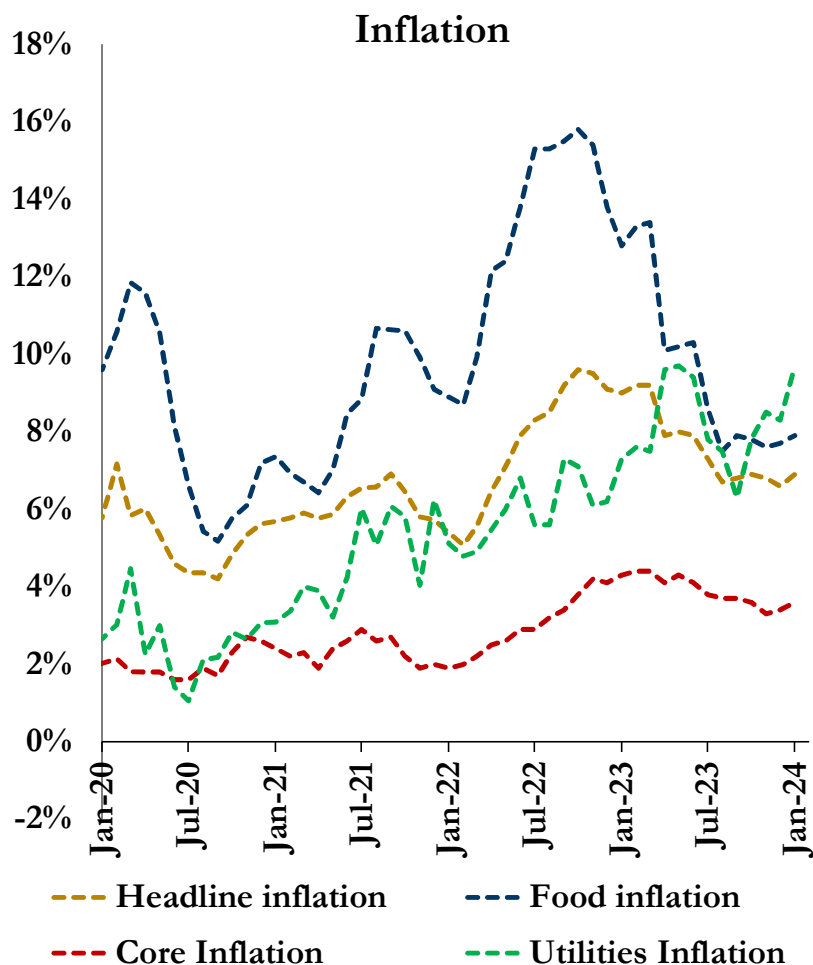


Source: Kenya National Bureau of Statistics, * - CBK estimates ** - ICEA LION Asset Management estimates

Analysis & Outlook

- In 2024, we project a **slight reduction** in GDP growth to 5.5% driven by high base effects in the agriculture
- The rebound in the agriculture sector in 2023 is unlikely to be sustained and we expect more moderate growth this year if there are adequate rains
- The manufacturing sector is expected to continue to record low growth due to higher taxation and pressure on disposable income (as reflected in EABL and BAT half year results)
- Financial services may continue to provide growth momentum despite the high rate environment, as will tourism despite the global economic slowdown
- The real estate sector is expected to experience uneven growth depending on the sub sector. The Hass Indices have had far more positive quarters than negative ones since 2021

Headline inflation should remain within CBK target

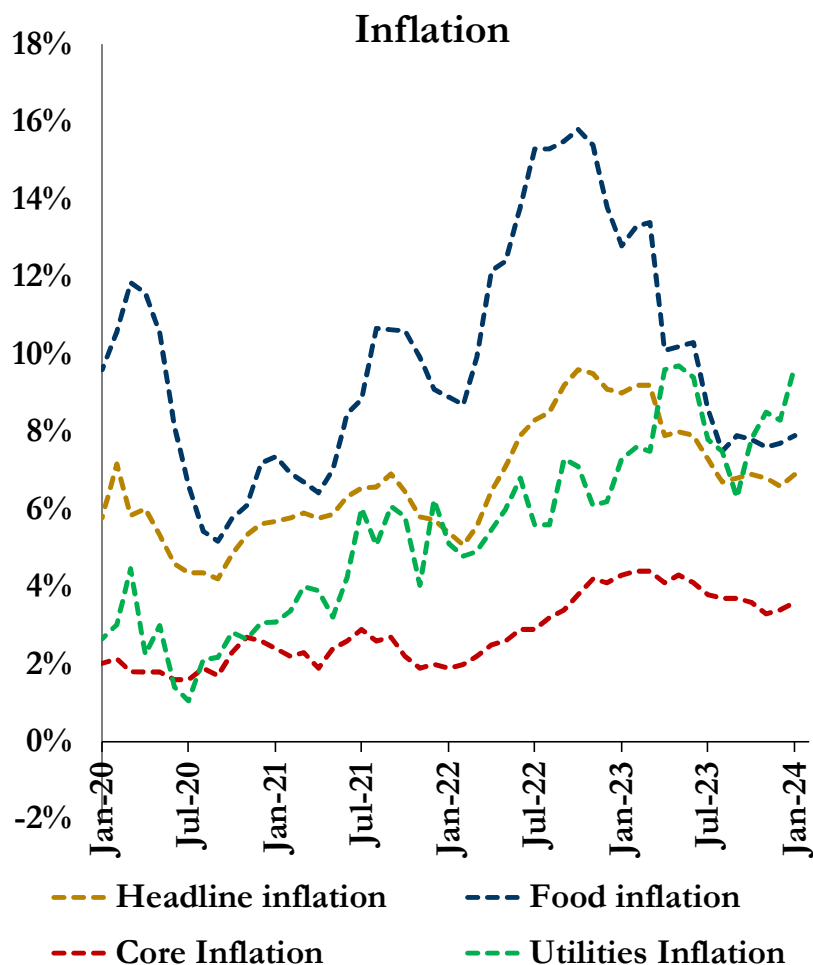


Source: Kenya National Bureau of Statistics, Central Bank of Kenya

Analysis

- As a result of slower economic growth, crude oil prices are expected to average USD 75-80 per barrel in 2024 compared to an average of USD 83 in 2023. However there may be periods of volatility that could see crude oil prices exceed USD 90/bbl.
- The lower average crude oil prices is expected to be beneficial for fuel prices locally
- The Kenya Meteorological Department is yet to release its long rains forecast, but the absence of drought warnings indicate that rainfall may be adequate, resulting in moderate food inflation
- We therefore expect average inflation to remain within the 7.5% CBK target this year

Headline inflation should remain within CBK target



Source: Kenya National Bureau of Statistics, Central Bank of Kenya

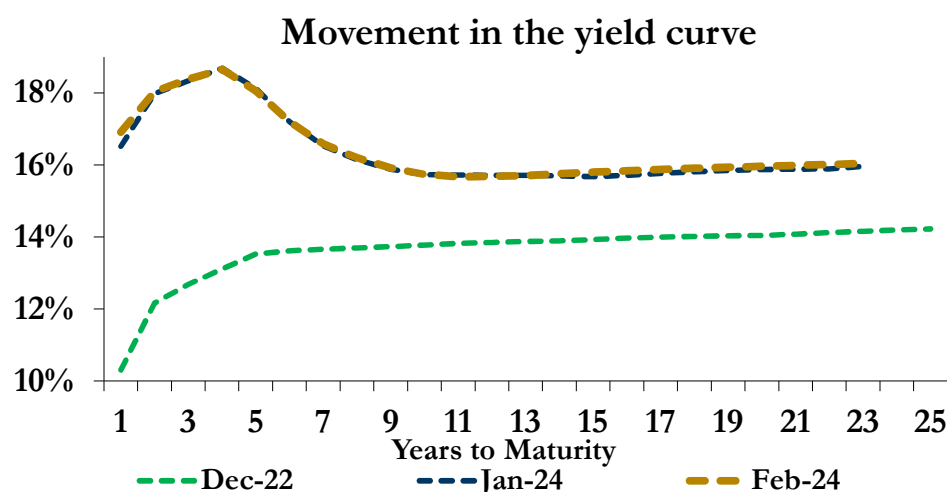
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Consumer disposable income expected to remain under pressure

- The ILAM Consumer Spending Index was last month
- 100 retail businesses and 500 individual consumers were surveyed in the greater Nairobi region
- Overall, consumer spending remained **fairly resilient** in 2023, although some worrying trends were noted
- 39% of individual respondents experienced a **decline** in income between 2022 and 2023. 37% said they experienced no change in income whereas 24% saw an increase in income between 2022 and 2023
- All socio economic worker categories (entry level, unskilled, semi skilled, supervisory and managerial) saw a **reduction** in consumer spending trends, with the unskilled and semi skilled worker categories experiencing the biggest decline in spending trends in the third quarter of 2023
- The large retail business segment and the micro business segment recorded improvements in sales trends in 3Q23, while the medium sized business segment recorded an 18% **decline** in sales trends in Q3
- Overall, the ILAM Consumer Spending Index declined by 1.5% between second and third quarter 2023

Interest rates to remain elevated but could see greater stability



Benchmark yields	Current week	Previous week	Change	Ytd
2-year	18.044%	17.954%	▲ 9 bps	▲ 12 bps
5-year	18.064%	18.081%	▼ 2 bps	▲ 61 bps
10-year	15.741%	15.743%	▼ 0.1 bps	▲ 4 bps
15-year	15.804%	15.803%	▲ 0.1 bps	▲ 8 bps
20-year	15.965%	15.965%	▲ 0.1 bps	▲ 7 bps
IFB1/2022/18	14.449%	14.449%	-	▲ 9 bps
IFB1/2022/14	14.810%	14.810%	-	-
IFB1/2022/6	13.253%	13.253%	-	-
IFB1/2023/17	15.038%	15.038%	-	-
IFB1/2023/6.5	17.402%	17.244%	▲ 16 bps	▼ 38 bps

* - Since issuance

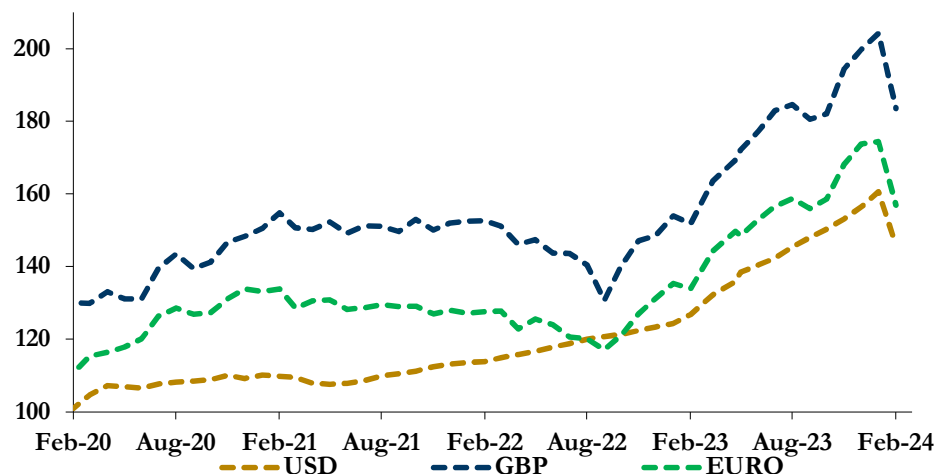
Source: Nairobi Securities Exchange, Central Bank of Kenya (CBK), ICEA LION Asset Management Research

Analysis

- Longer dated treasury bills have been experiencing higher subscriptions recently compared to most of 2023 when the 182 and 364-day bills were greatly undersubscribed resulting in high interest rates
- The recent IFB auction also witnessed significant foreign investor participation
- Following the significant amount raised in the IFB auction, the CBK is now ahead of its domestic borrowing program
- As such, there are indications that domestic borrowing rates could be nearing their peak and could level off in 1H24
- However, tax revenues are significantly lagging targets, indicating that additional borrowing may be necessary

Exchange rates: A more stable KES beckons

Currency Movement



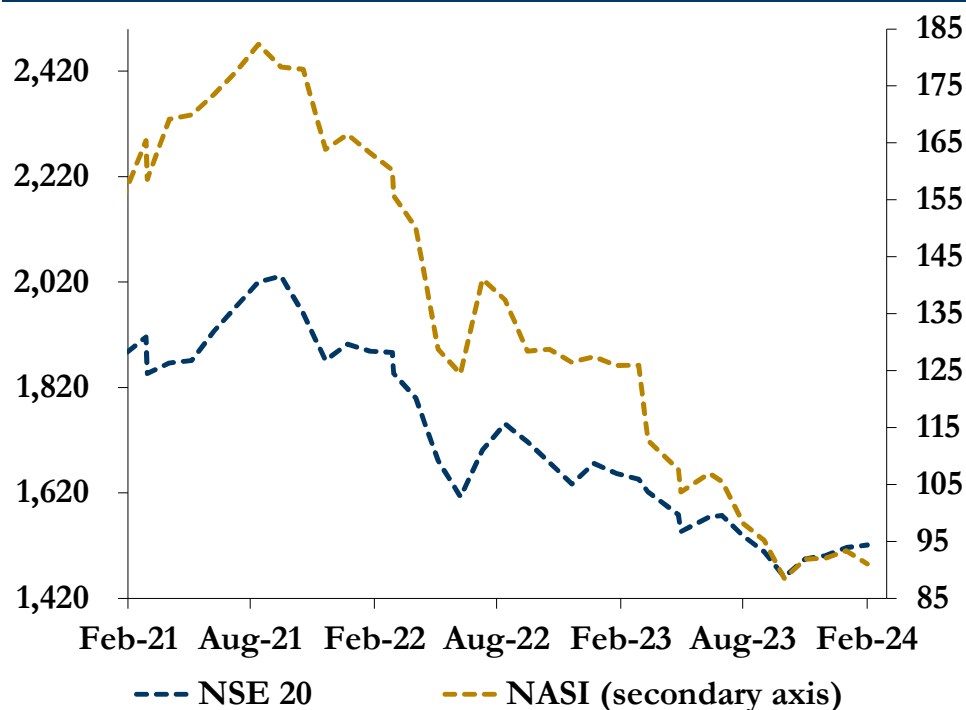
Currency pair	Close	Weekly chg	Ytd
USD-KES	145.86	9.8%	7.3%
GBP-KES	183.53	10.1%	8.9%
EUR-KES	156.95	9.9%	10.7%
JPY-KES	97.05	10.4%	14.4%
ZAR-KES	7.70	9.7%	9.7%
KES-UGX	26.57	10.8%	9.8%
KES-TZS	17.45	8.1%	8.6%
KES-RWF	8.73	9.9%	8.5%
FX reserves (USD bn)	7.03	-1.4%	6.3%
Import cover (months)	3.80	0.0%	8.6%

Source: CBK (Secondary axis: USD)

Analysis

- The shilling gained significantly against the US dollar during the week following short-term positive sentiment emanating from the successful Eurobond issuance. The shilling **rallied** against the majority of relevant currencies, registering the highest gain (10.8%) against the Ugandan shilling and the lowest gain against the Tanzanian shilling (8.1%)
- The change in sentiment is expected to be beneficial for KES this term
- The Central Bank's foreign exchange reserves ended the week at USD 7.0 billion (equivalent to 3.8 months of import cover). This is below the statutory requirement to maintain at least 4 months of import cover.

Equity market could surprise



Source: NSE (secondary axis: NASI)

Index	Close	Weekly chg	Ytd
NSE 20	1,521	0.3%	1.4%
NASI	91	-0.1%	-1.1%
NSE 25	2,402	-0.5%	0.9%
Equity Turnover (KES Mn)	1,010	0.9%	2.9%
Equity Turnover (USD Mn)	6.9	0.9%	-18.9%
Net foreign flows (USD Mn)	(1.80)		

Analysis

- The NASI has seen more weekly gains at this point compared to 2023
- Repayment of the 2024 Eurobond and an easing in the FX liquidity situation may result in improved foreign investor sentiment regarding the NSE this year
- Due to the selloff in 2022 and 2023, most NSE stocks are at very attractive entry points
- Many large cap stocks are now reflecting double digit dividend yields which could provide support in 1Q24

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