

2024-2025 ECONOMIC FORECAST: A COMPREHENSIVE ANALYSIS

7TH ANNUAL TRUSTEES FORUM: VISIONARY LEADERSHIP; NAVIGATING NEW FRONTIERS

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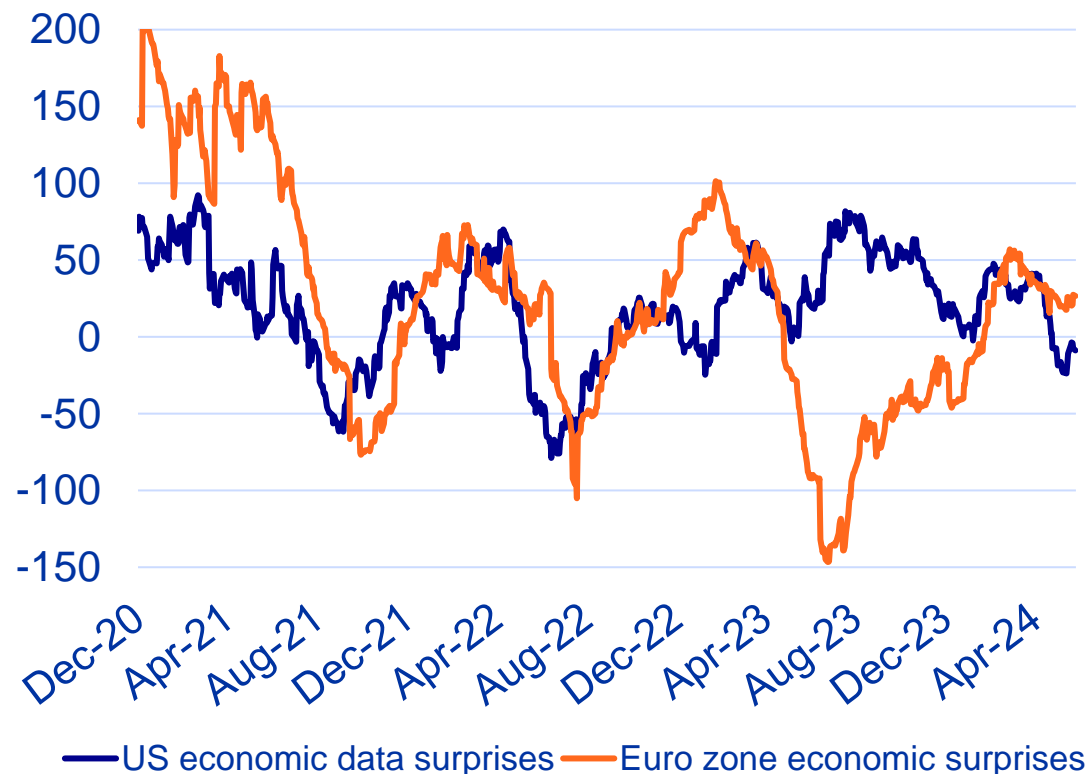


Global

Economic divergence moderating

- If 2023 was marked by notable economic divergence, as the US powered ahead of other G10 countries, 2024 is likely to see the imbalance narrow as the US slows and other countries catch up.
- The US economy should still grow by around 2% this year; the fastest in the G10 and still a good percentage point or more above other developed nations.

US 'exceptionalism' is pared back



WORLD ECONOMIC OUTLOOK UPDATE JULY 2024 GROWTH PROJECTIONS

(REAL GDP GROWTH, PERCENT CHANGE)

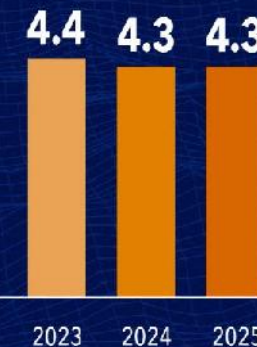
GLOBAL
ECONOMY



ADVANCED
ECONOMIES



EMERGING MARKET &
DEVELOPING ECONOMIES



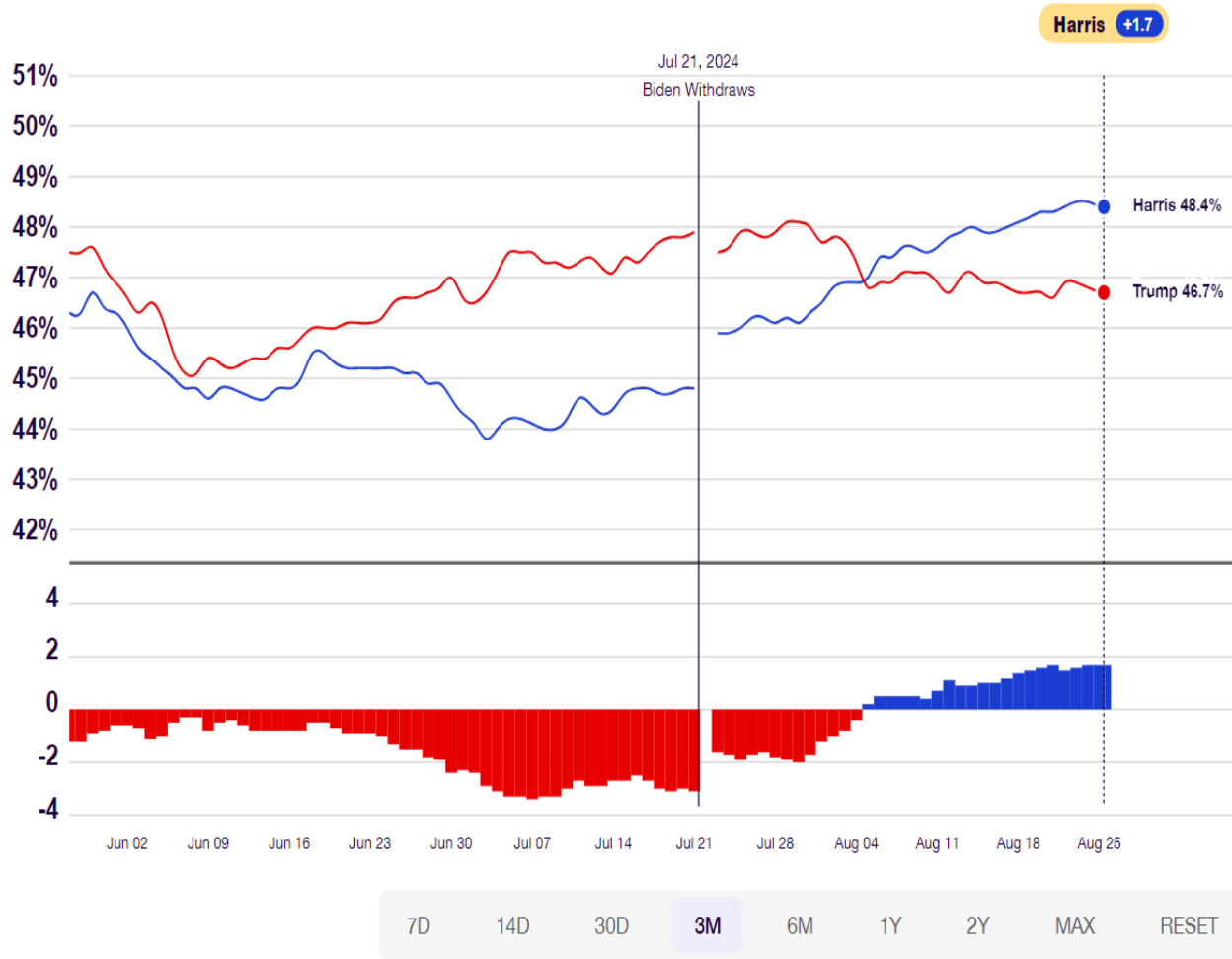
INTERNATIONAL MONETARY FUND

Politics plays a big role

A tight US election.

Trump vs. Harris

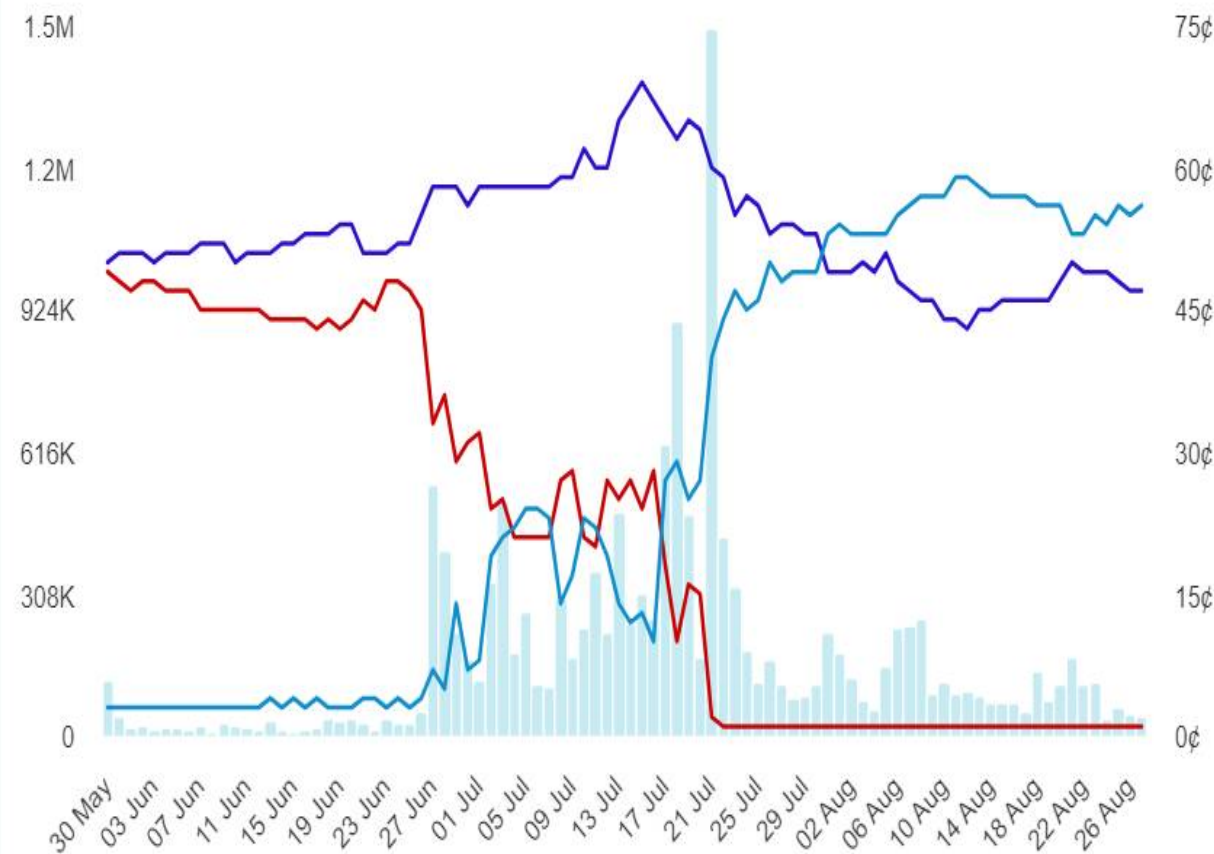
(Trump vs. Biden Before July 21, 2024)



Predict It

Volume

Price



Politics plays a big role

US elections: A Trump win, if it brings with it more fiscal largesse, new tariffs, increased geopolitical tension with China, and more, could create a far more volatile environment.

**NO SELF-IMPOSED LIMITS
ON FISCAL FLEXIBILITY IN
THE U.S.**

**TALK FROM WITHIN THE
TRUMP CAMP THAT
ACTION COULD BE
TAKEN TO LOWER THE
'OVERVALUED' DOLLAR**

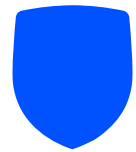
**TRUMP SEEKING TO MAKE
HIS TEMPORARY 2017
PERSONAL TAX CUTS
PERMANENT**

**EUR/USD COULD INITIALLY
SLIDE BELOW PARITY AS
PART OF A SUDDEN
SURGE IN THE DOLLAR.
HOWEVER, LONGEVITY OF
ANY SUCH RALLY COULD
PROVE LIMITED**



Politics plays a big role

US elections: A Harris win, brings with it continuation of Biden policies - fiscal largesse, static Fed policy, sustained geopolitical tension with Russia/Iran, and more.



**EXPANSIONARY FISCAL
POLICY STANCE**



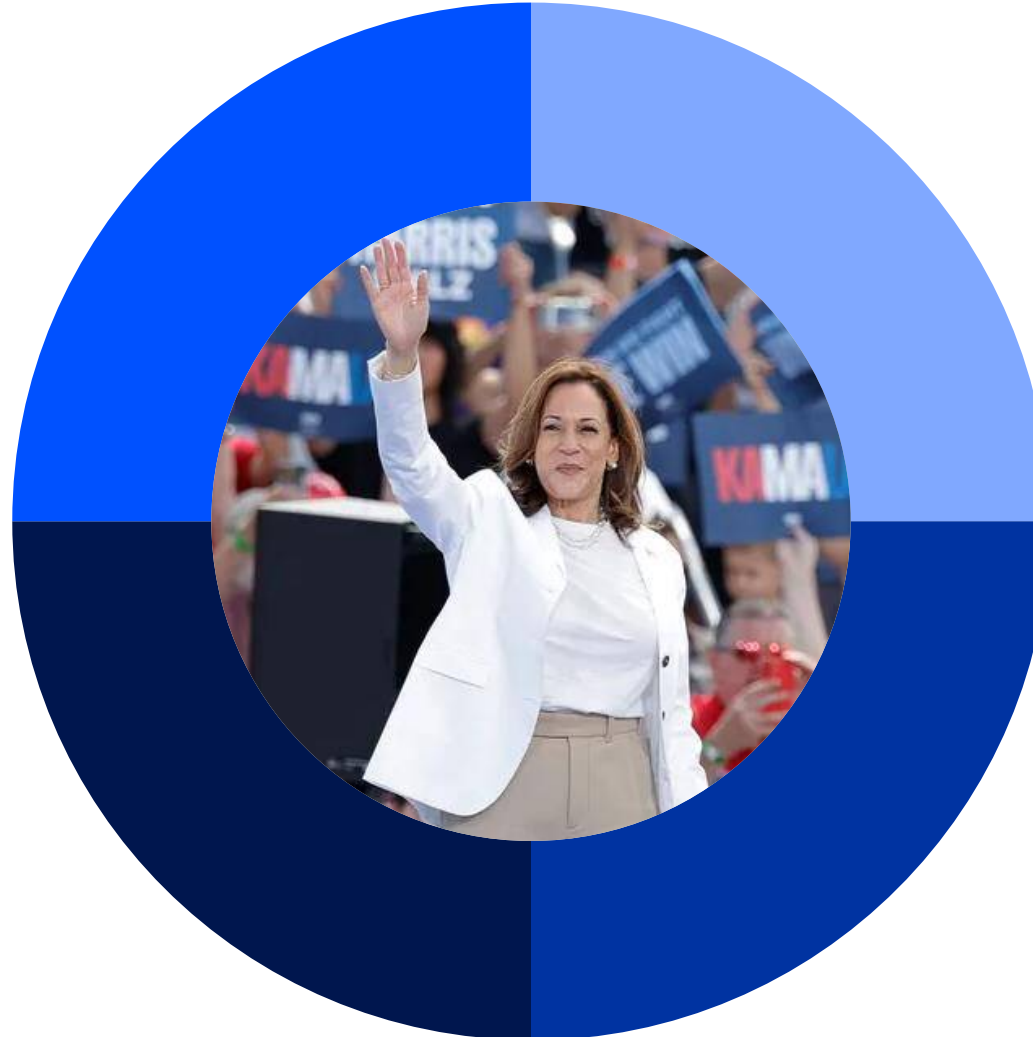
**IMPOSING A FEDERAL
BAN ON PRICE GOUGING**



**HARRIS SEEKING TO
EXTEND TRUMP 2017
PERSONAL TAX CUTS
INCREASE CORPORATE
TAC CUTS TO 28%**



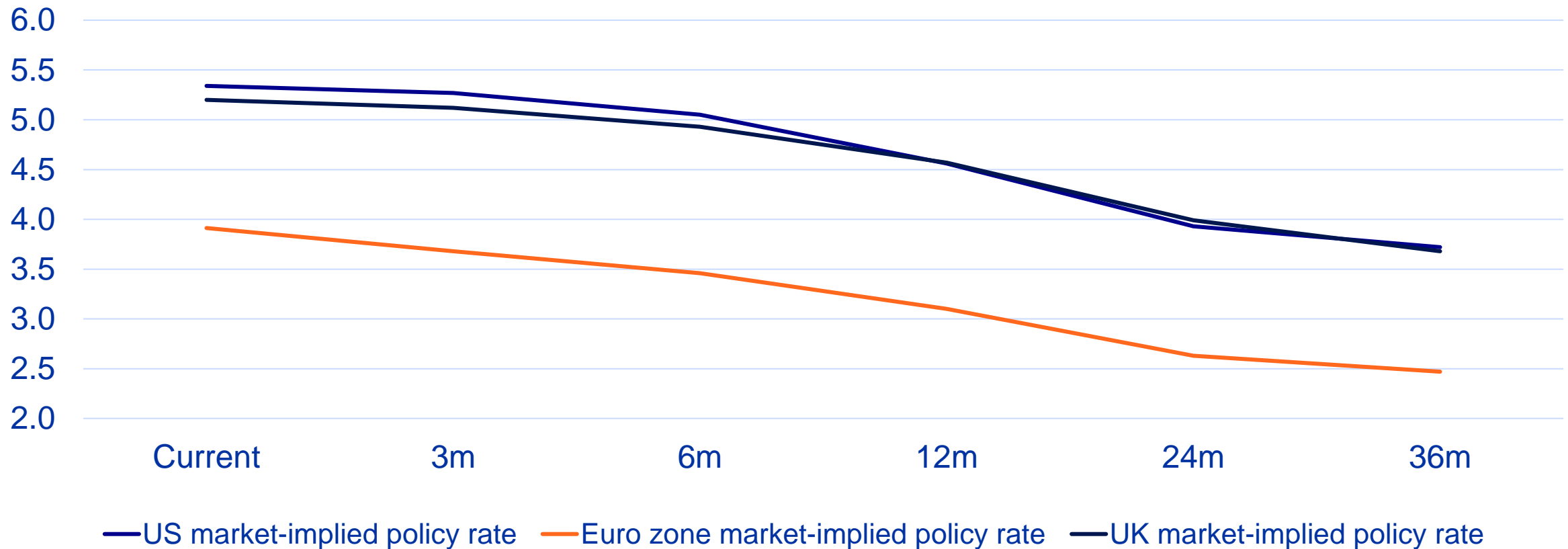
**EUR/USD COULD BE
STATIC AS MARKETS WILL
VIEW THIS AS
CONTINUATION OF
STATUS QUO**



Global interest rate easing cycle has begun

- Falling inflation has given a small number of developed-country central banks licence to start easing monetary policy. But easing cycles are likely to be slow and sedate.
- In 2025, easing cycles will likely step up a gear, with 3% rate seen likely in the US and 2% in the eurozone.

Policy easing priced in

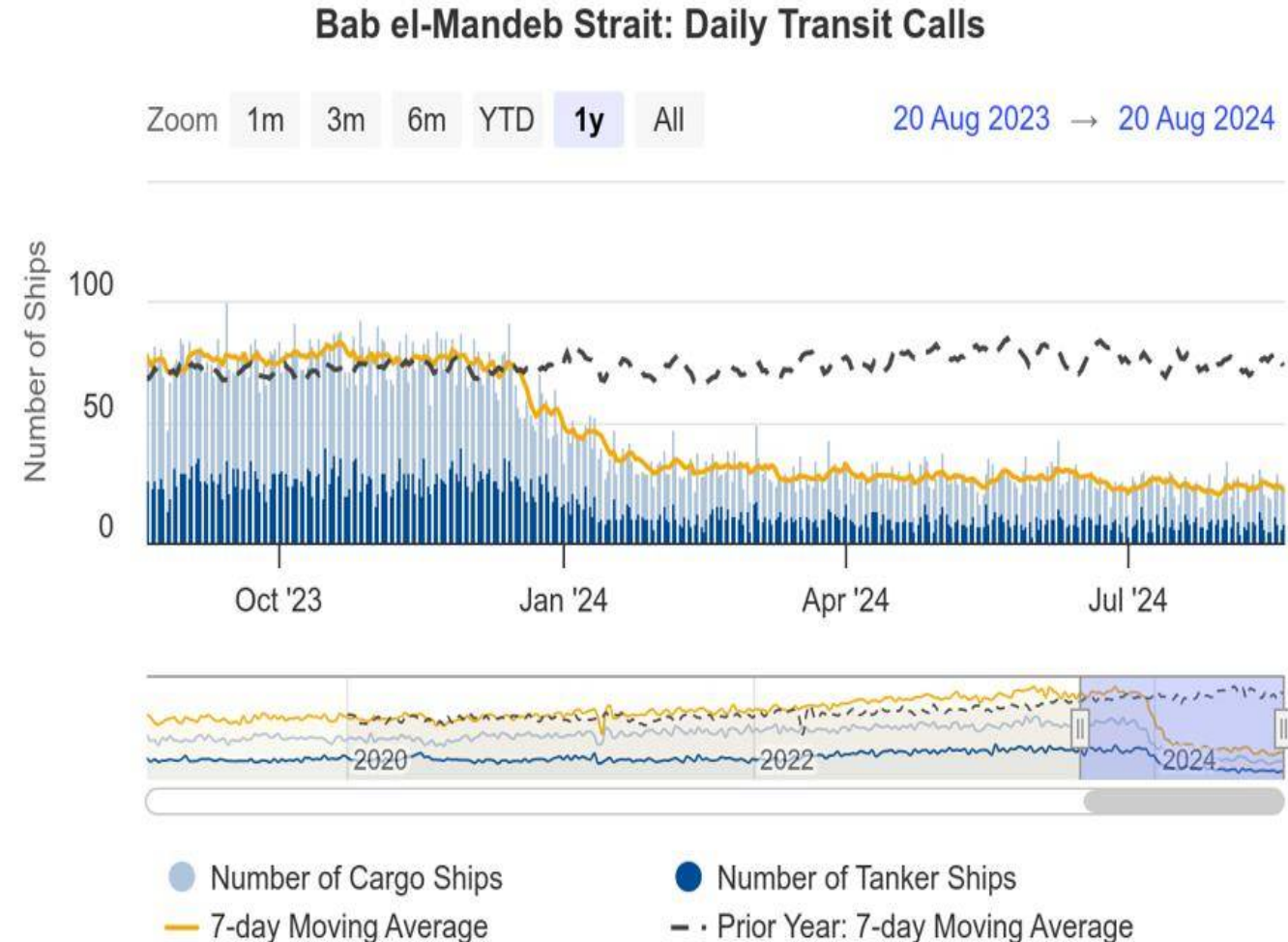


Geopolitical risk and global growth concerns impact freight

- In 2024, trade has been diverted from the Suez Canal to the Cape of Good Hope



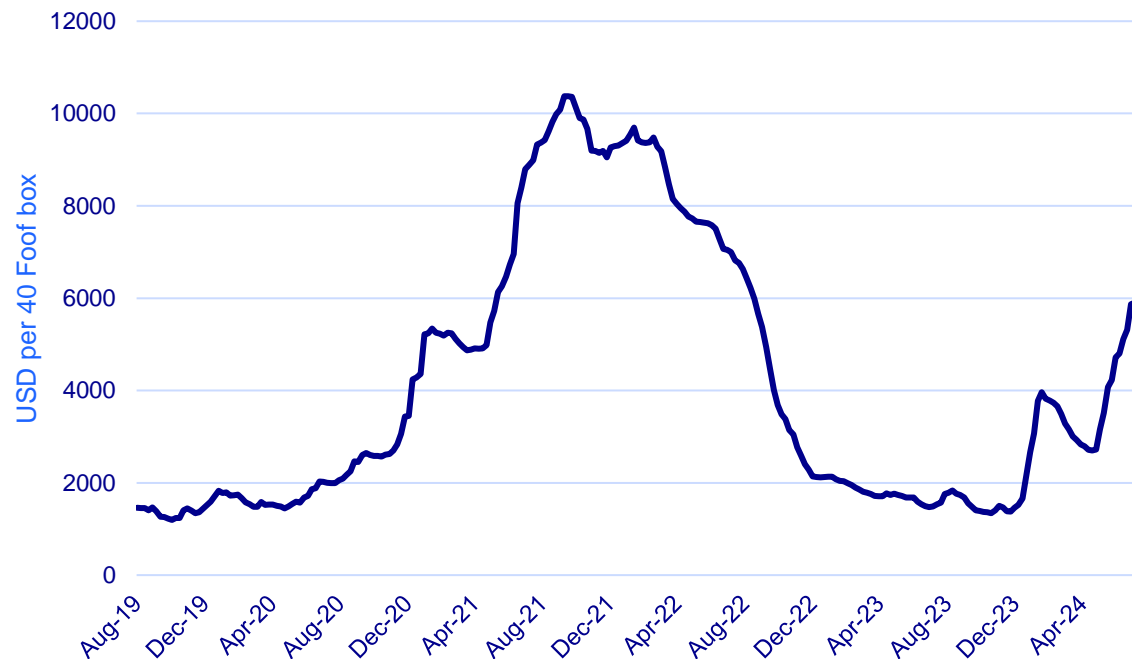
Sources: Shipman.org, IMF- Oxford portwatch



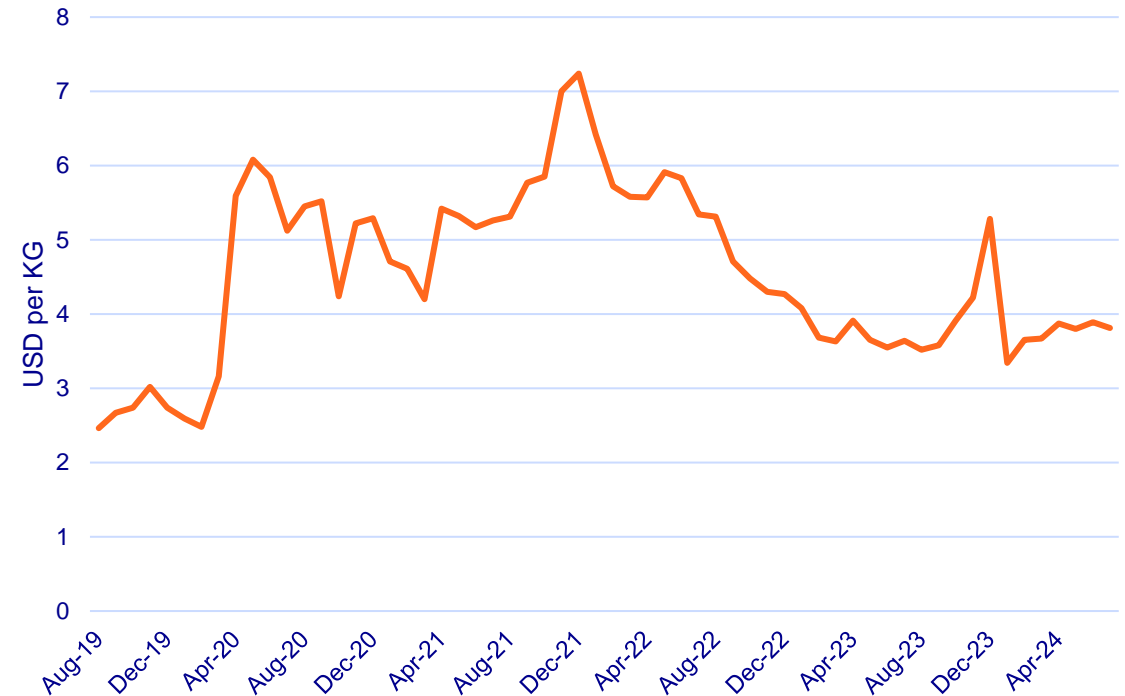
Geopolitical risk and global growth concerns impact freight

- Middle east tensions have impacted shipping rates in 2024.
- China weakness seems to be weighing on global airfreight rates.

**WCI composite container freight benchmark
rate per 40 foot box**



Drewry airfreight index





Sub-Saharan Africa

AFRICA: primary downside risks for economic growth in SSA for 2024

Adverse weather

- El Niño peaked in early 2024, then recede during H2:24, La Niña in H2:24 and 2025.

Debt burdens

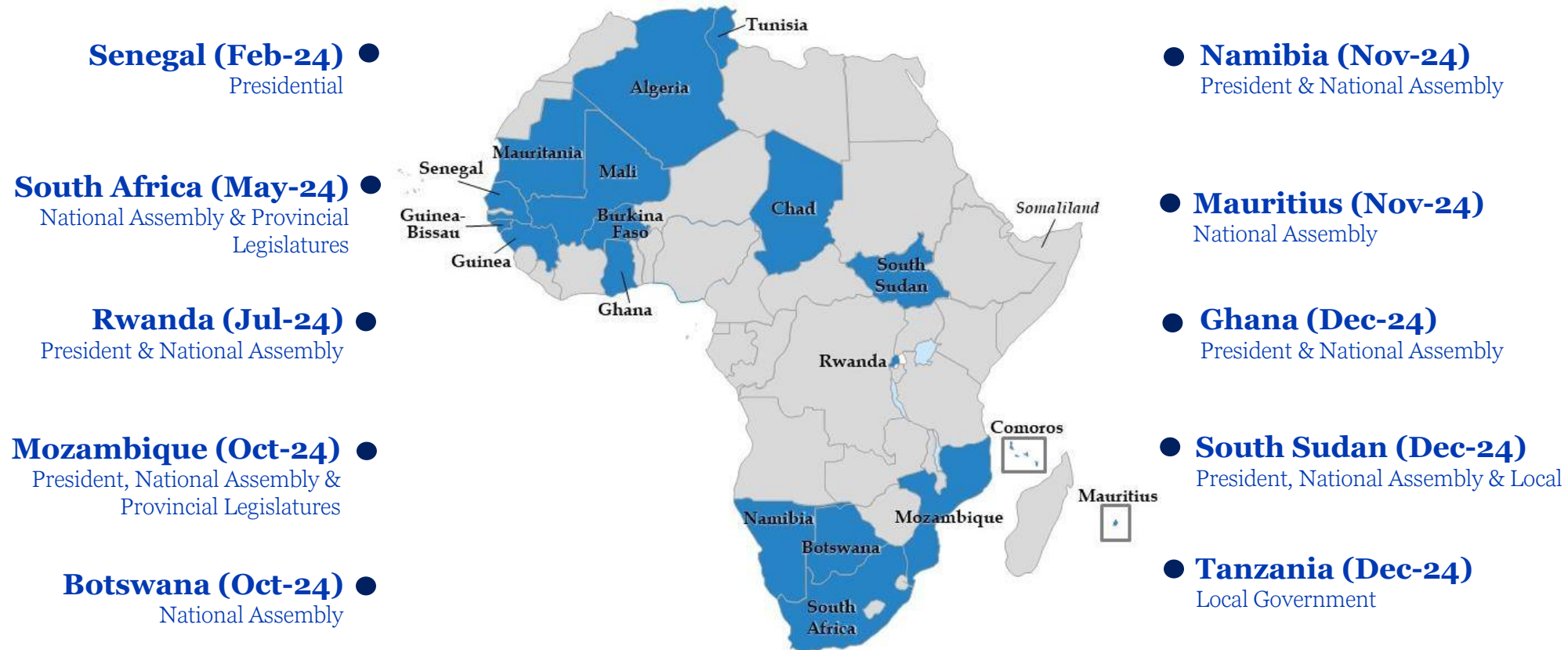
- Debt treatment and restructuring talks are the order of the day in SSA

Geopolitics

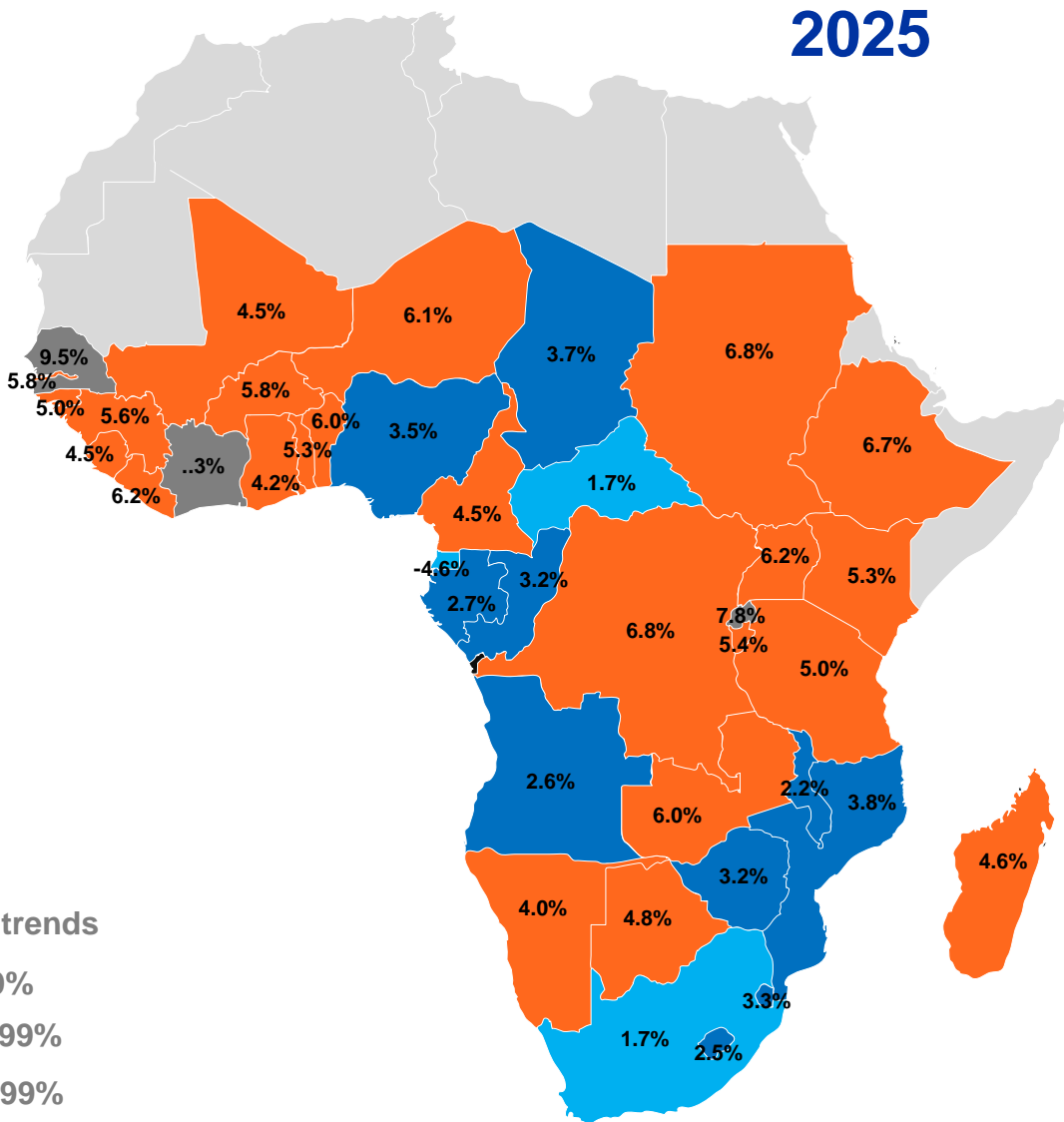
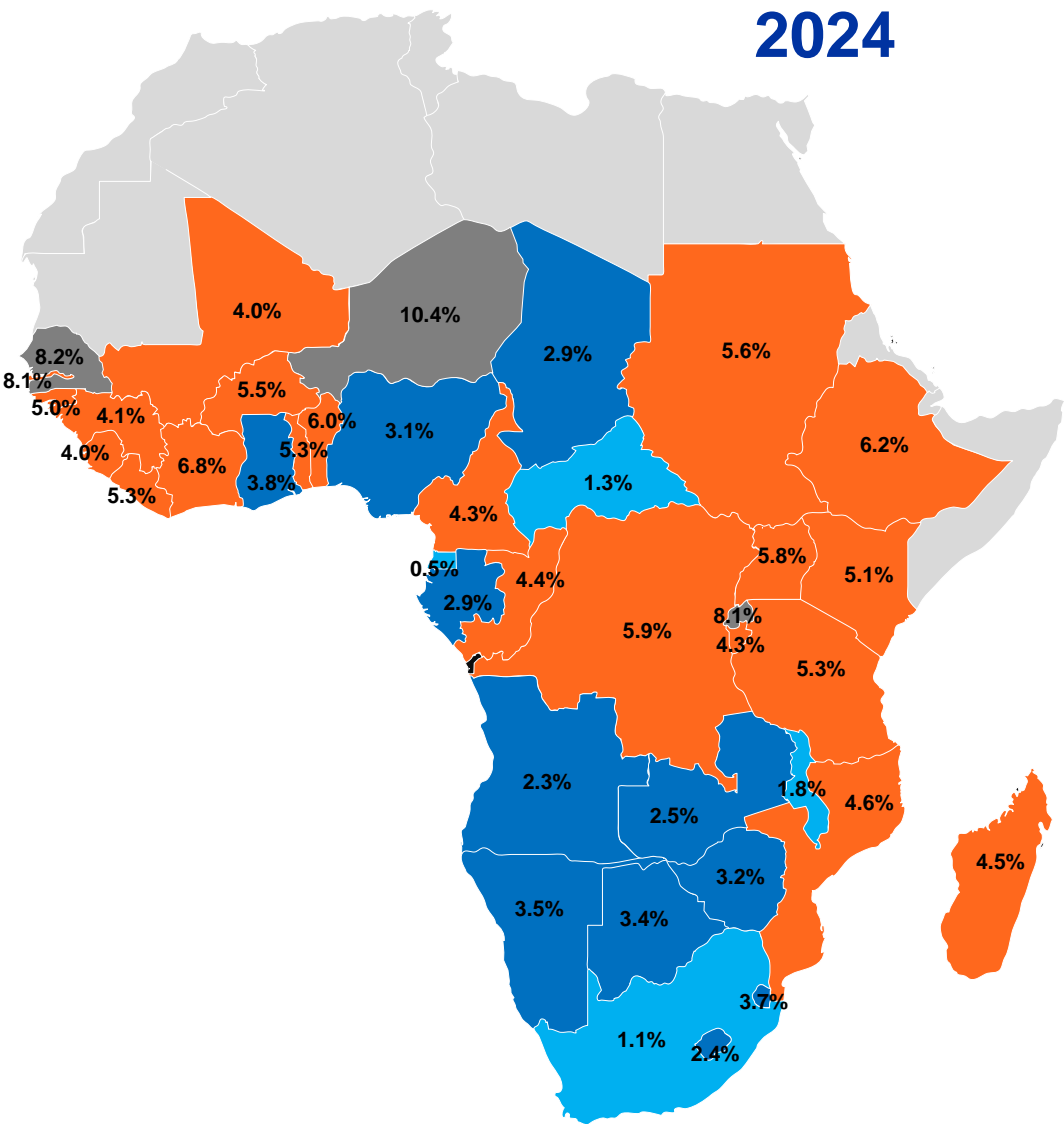
- Geopolitics remains a hotbed for global disruption
- Tensions could quite easily play out within commodity markets as well

Africa's elections muted near term impact

- 13 countries on the continent have held or are expected to hold elections in 2024.



Multi-speed growth



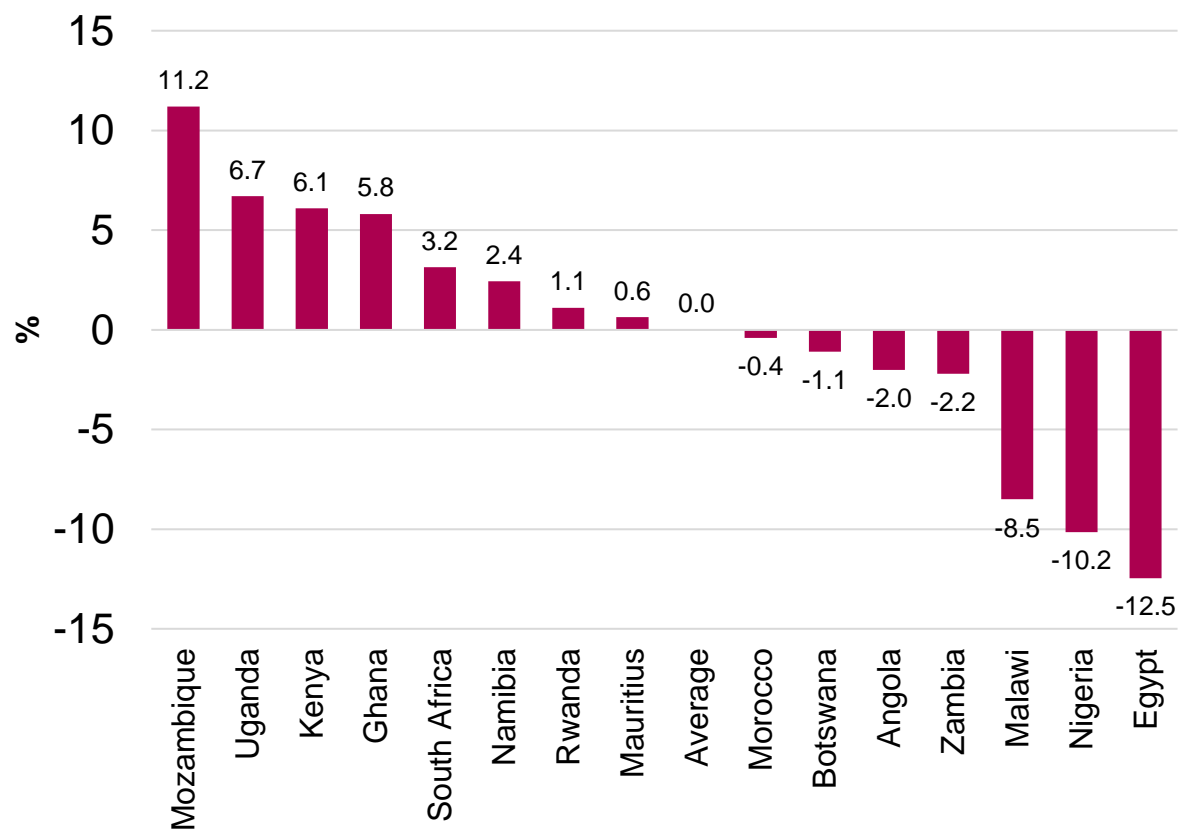
Country-level trends

- <0% - 1.99%
- 2.00% - 3.99%
- 4.00% - 6.99%
- Above 7%

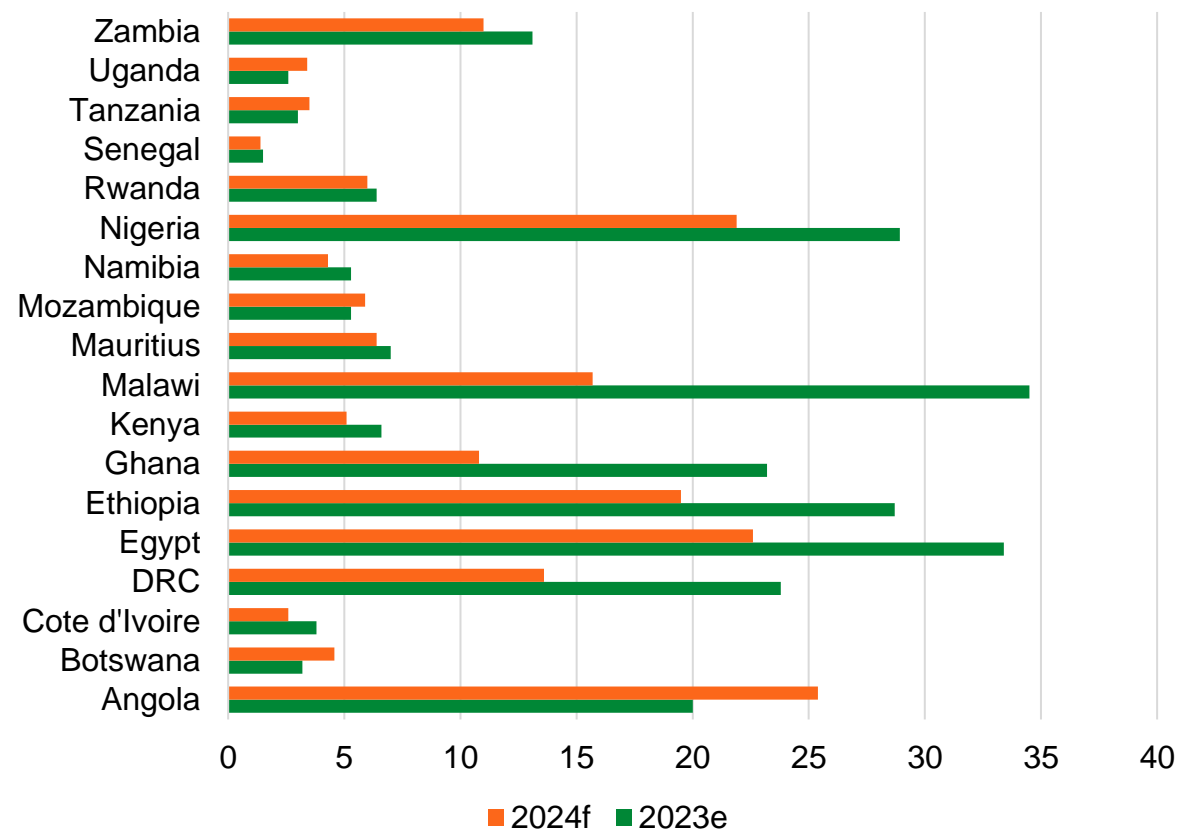
Africa's policy outlook is mixed

- Monetary policy outlook for African markets in 2024 is mixed, some will likely tighten, while others have started to ease policy rates.
- Global soft-landing scenario could restore risk appetite.

Real central bank rate



SBR inflation forecast

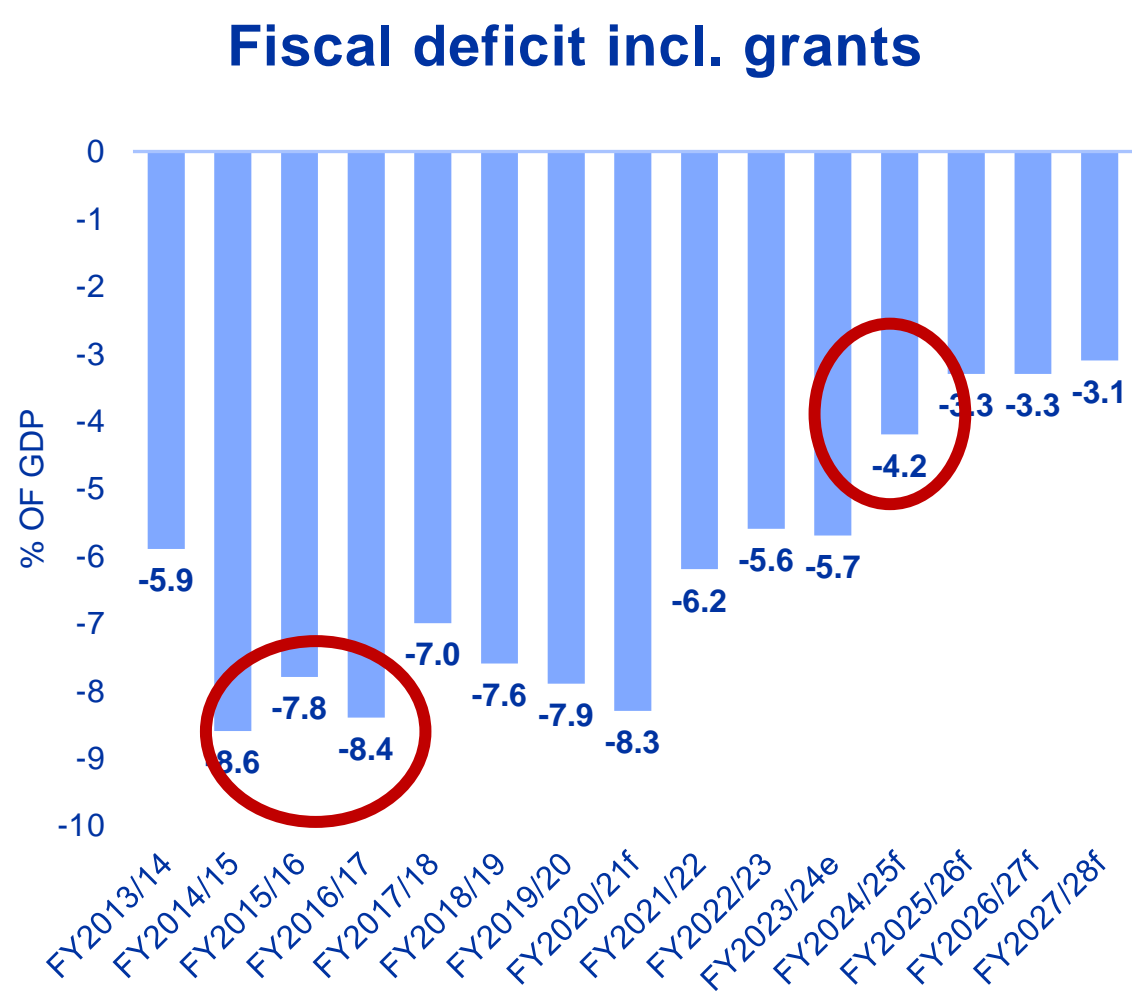




Kenya

Economy emerging slowly – but risks abound

KENYA: revenue-led fiscal consolidation derailed by gen-z protests



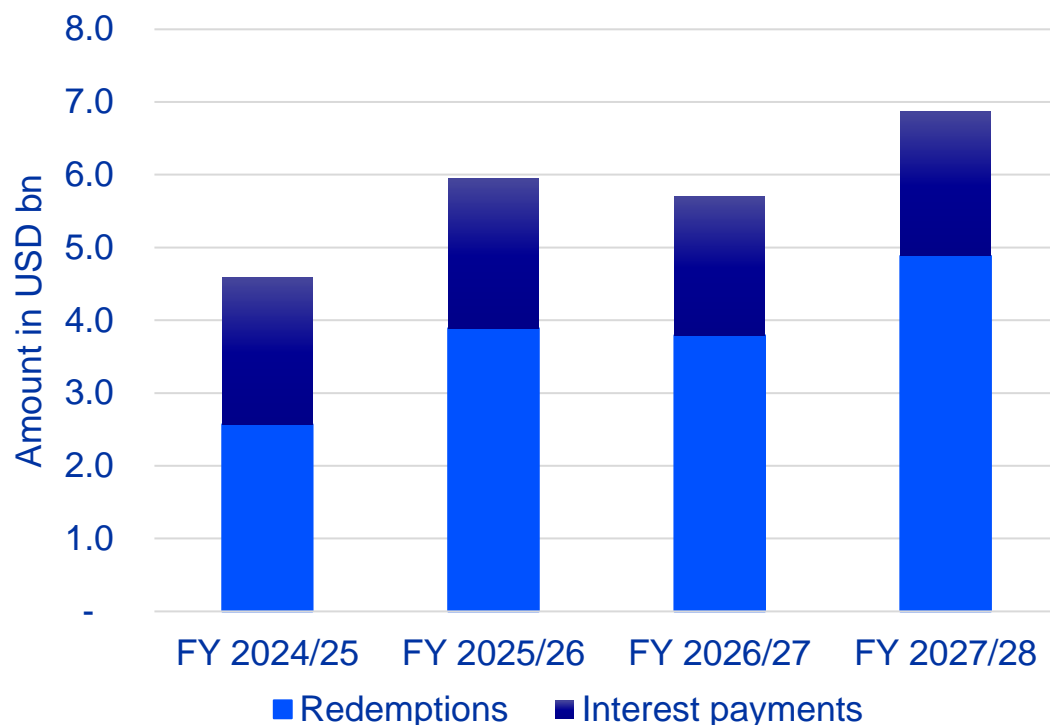
% of GDP	Budget		
	FY2023/24	FY2024/25	
	Estimates	Budget Estimates	Supplementary
Total revenue	17.9	18.6	16.9
Total expenditure	23.8	22.2	21.4
Recurrent	17.1	15.6	15.7
Wages	3.6	3.6	3.3
Domestic Interest	5.3	4.2	4.2
Foreign Interest	4.0	1.4	1.4
Development	4.0	4.1	3.2
County Transfers	2.6	2.5	2.5
Overall balance (+ grants)	-5.7	-3.3	-4.2
Overall balance (- grants)	-6.0	-3.6	-4.5
Net external borrowing	3.1	1.8	2.0
Net domestic borrowing	2.6	1.5	2.2
Donor support % of GDP	0.3	0.3	0.3

KENYA: external debt service looks cumbersome in the medium term

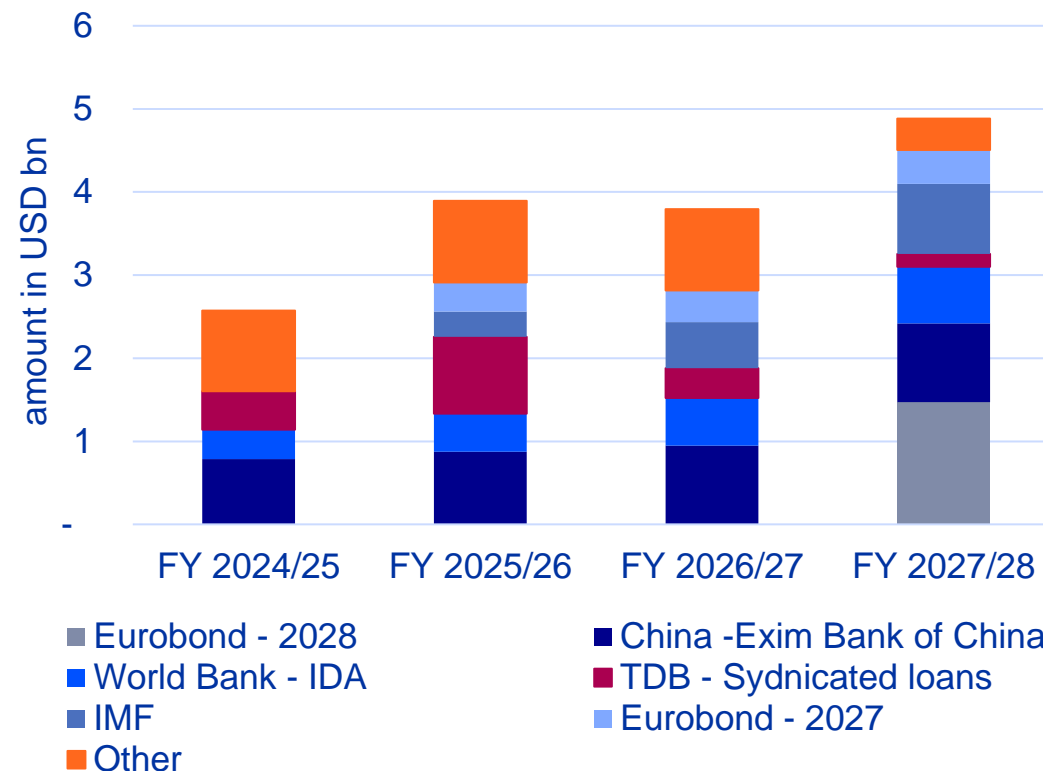
For FY2024/25 – FY2027/28, access to external funding sources will be crucial.

- In FY2025/26, total external debt redemptions rise to USD3.89bn, from USD2.57bn in FY2024/25. Thereafter, principal repayments remain elevated, at USD3.79bn in FY2026/27, before rising further, to USD4.88bn in FY2027/28.
- When external interest is included to principal, this stands at USD5.94bn in FY2025/26, from USD4.59bn in FY2024/25. Then in FY2026/27, it eases slightly relative to FY2025/26, to USD5.70bn, and then increases to USD6.86bn in FY2027/28.

External Debt Service



External Creditors

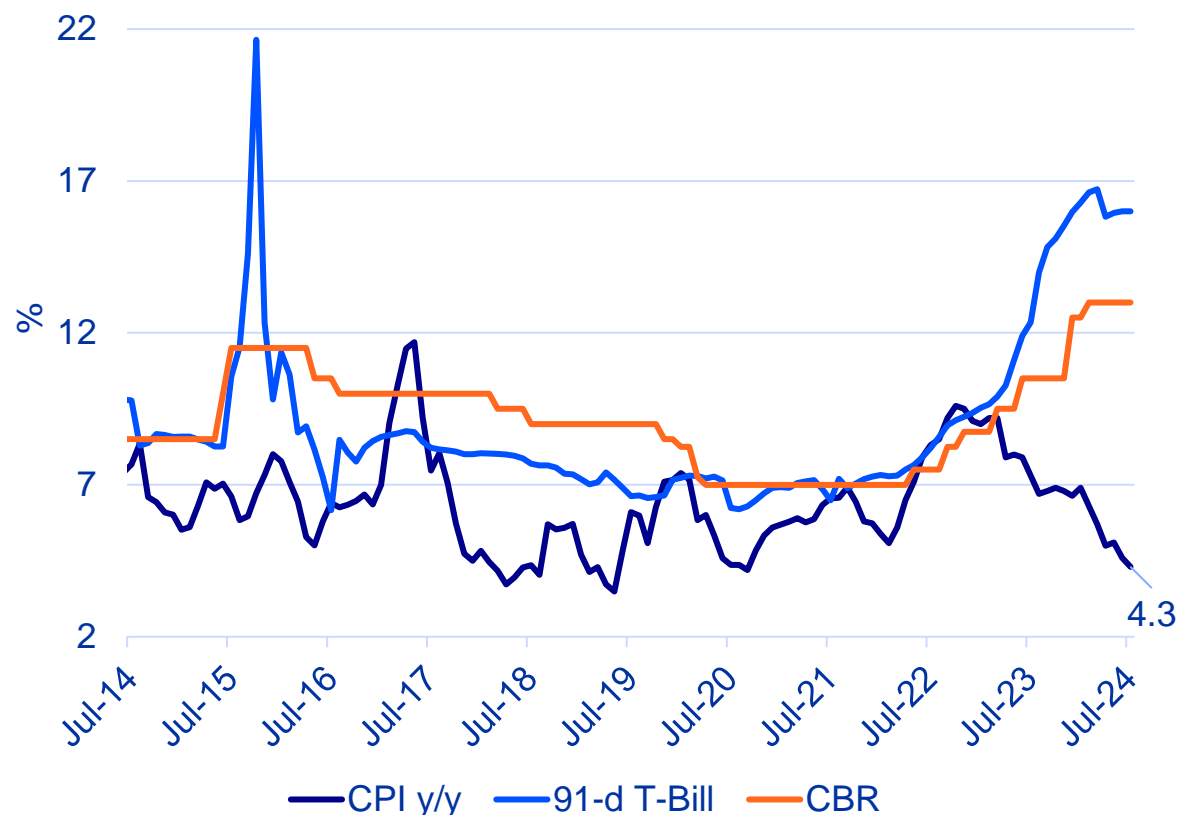


KENYA: an easing policy bias in H2:24

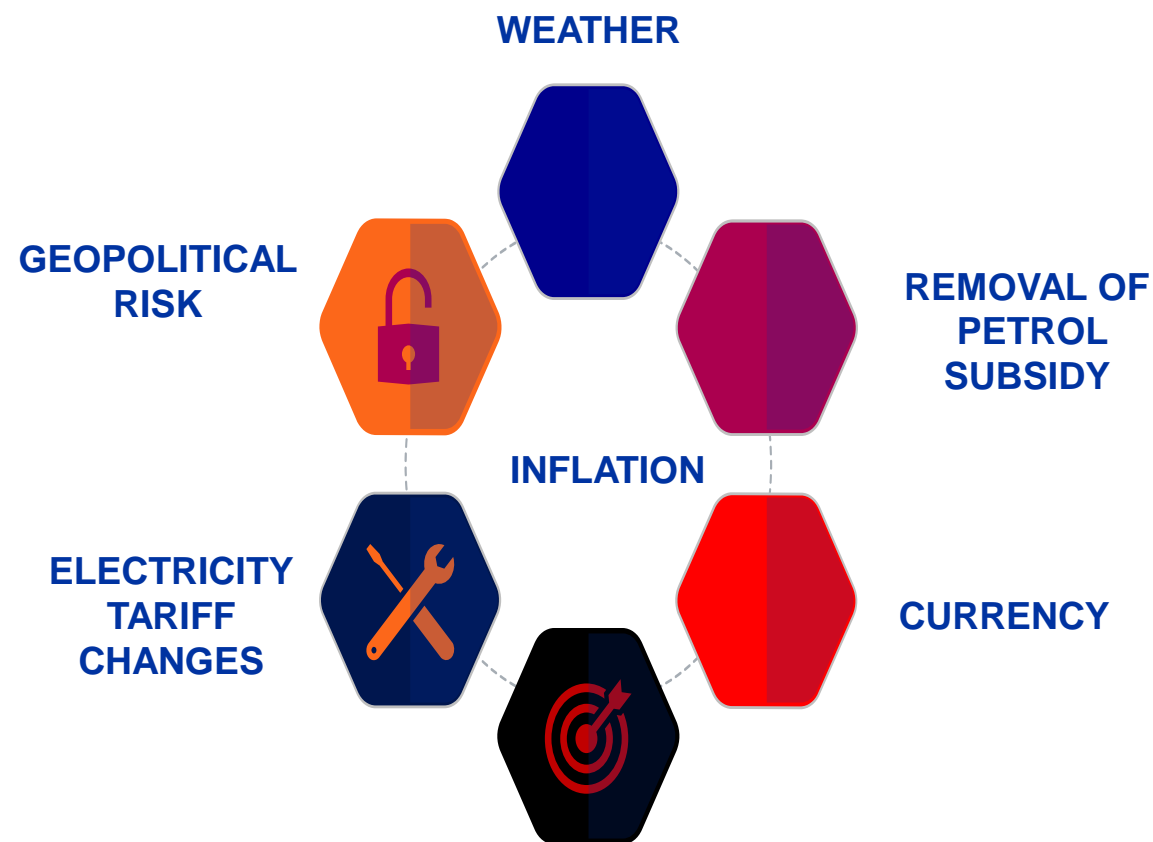
We foresee the MPC cutting the policy rate by 50-75 bps in Q4:24 and a further 100 bps in 2025.

- MPC cut 25bps at August meeting likely to remain cautious. Inflation will likely average 5.4% y/y in 2024 and 4.6% y/y in 2025. The MPC has refined monetary transmission:

Inflation and interest rates



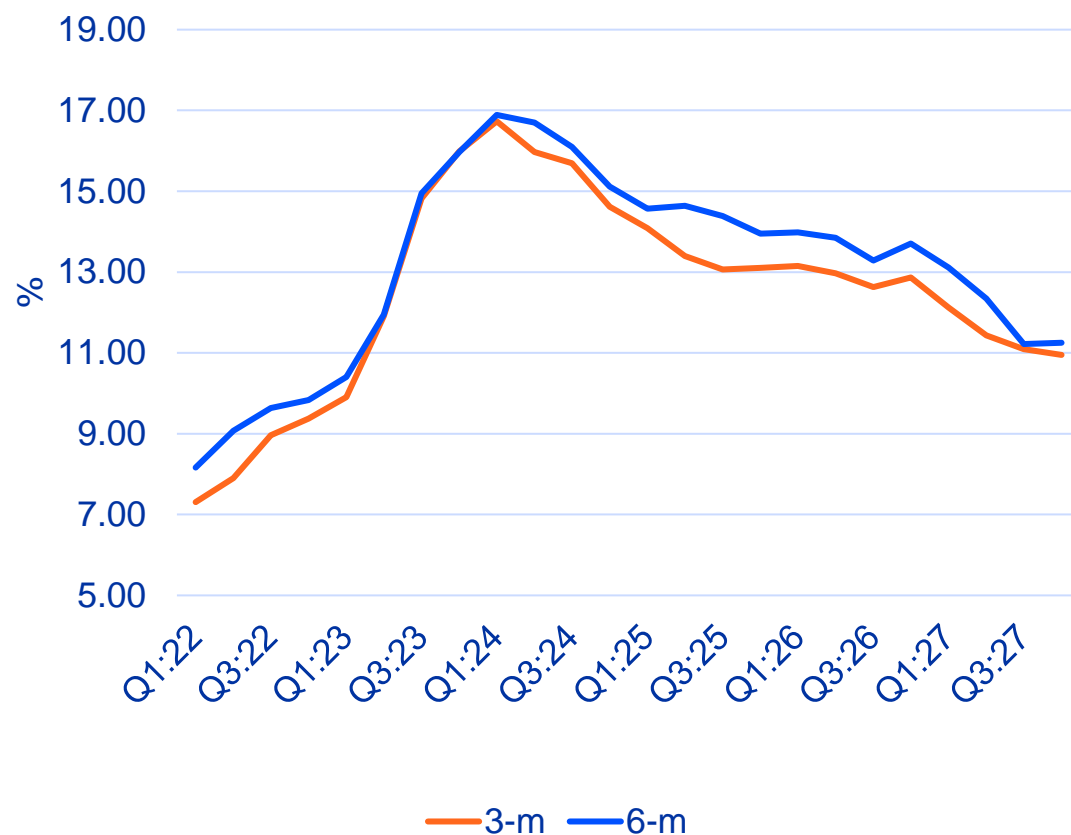
Recent Inflationary drivers



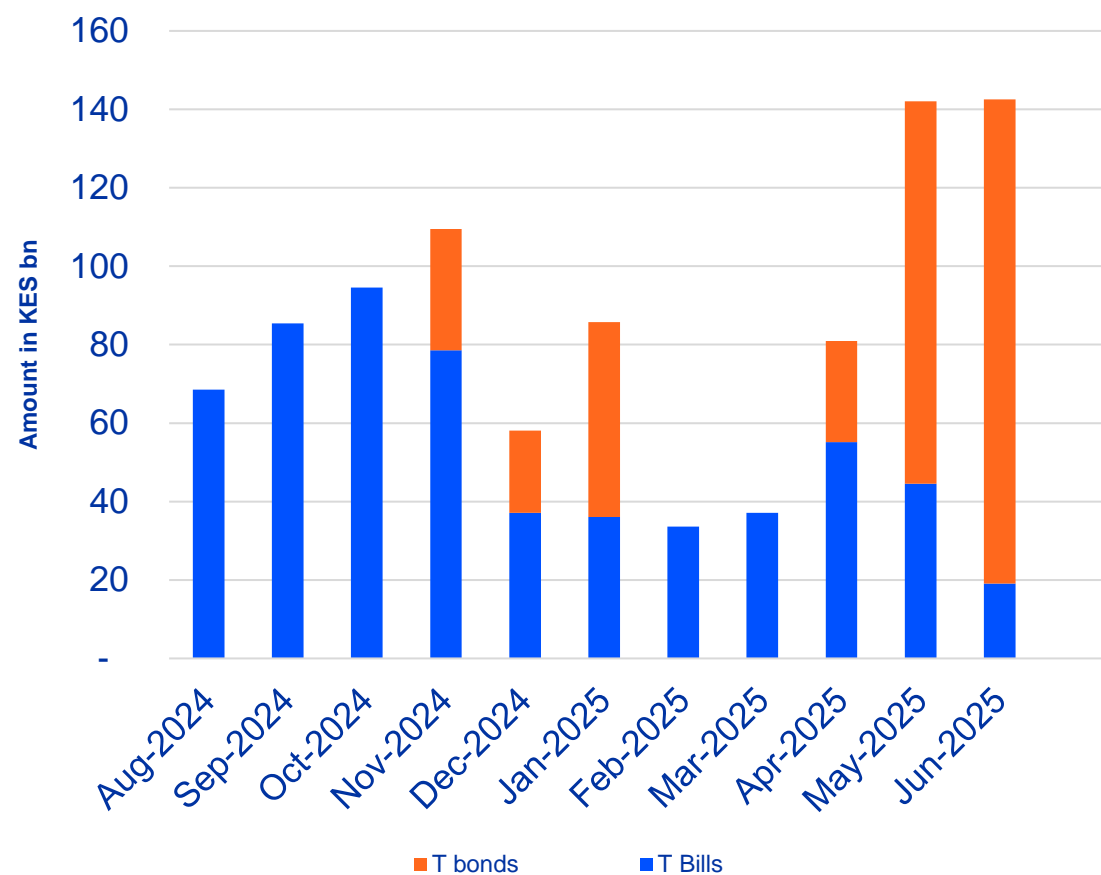
KENYA: gradual decline of borrowing costs in FY24/25

- The yield curve may bull-steepen over the next 6 -12 months. KES liquidity remains tight, and the government's borrowing program has benefited from a higher interest rate environment throughout FY2023/24. Domestic borrowing costs may remain elevated, especially if expenditure for FY2024/25 were not reduced meaningfully.

Interest rates outlook



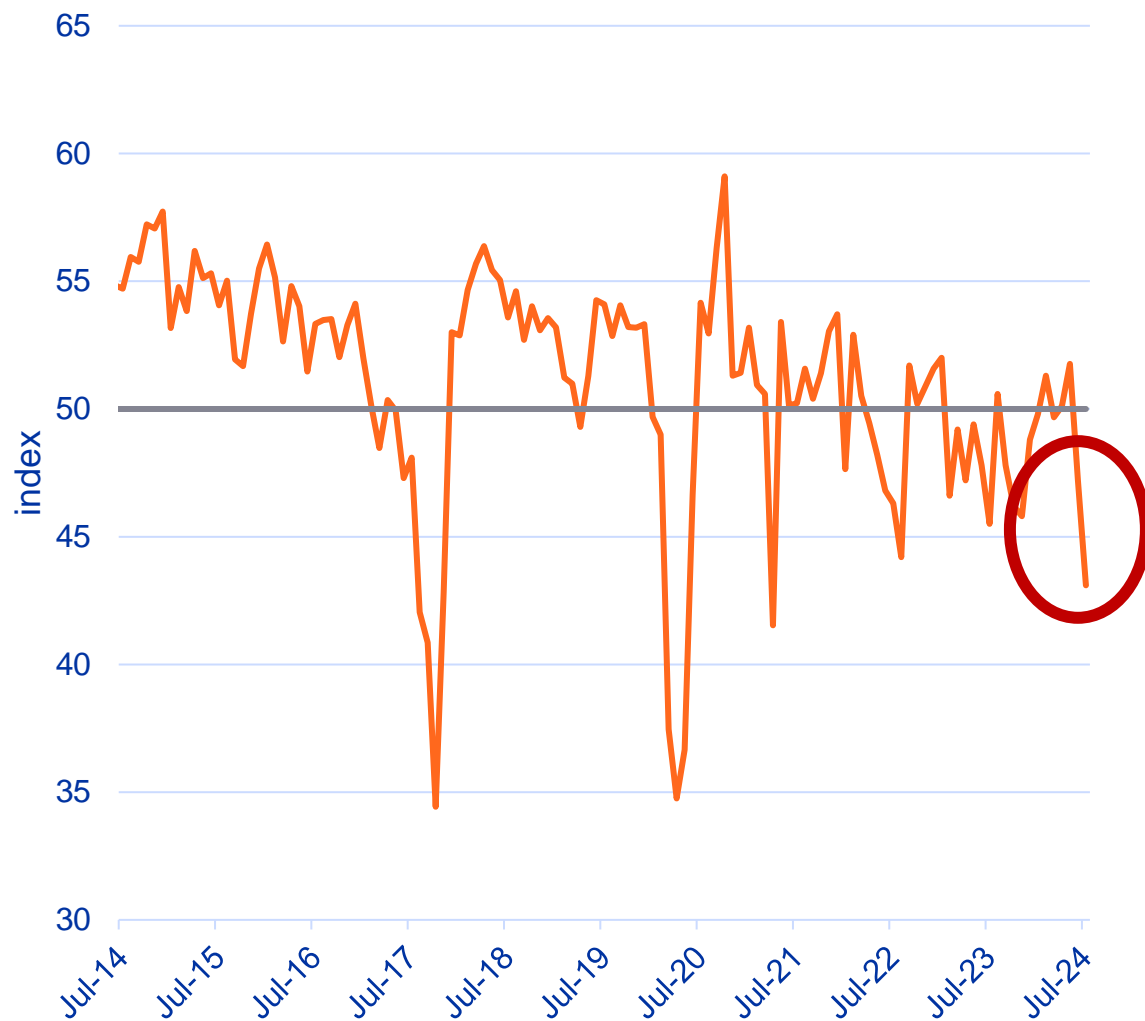
Domestic debt redemptions



KENYA: economy under pressure

We trim our 2024 GDP growth forecast to 4.9% from 5.1%

Stanbic Bank Kenya PMI



Youthful protesters mob a police vehicle along Kimathi Street in Nairobi during the Anti-Finance Bill protests on June 20, 2024.

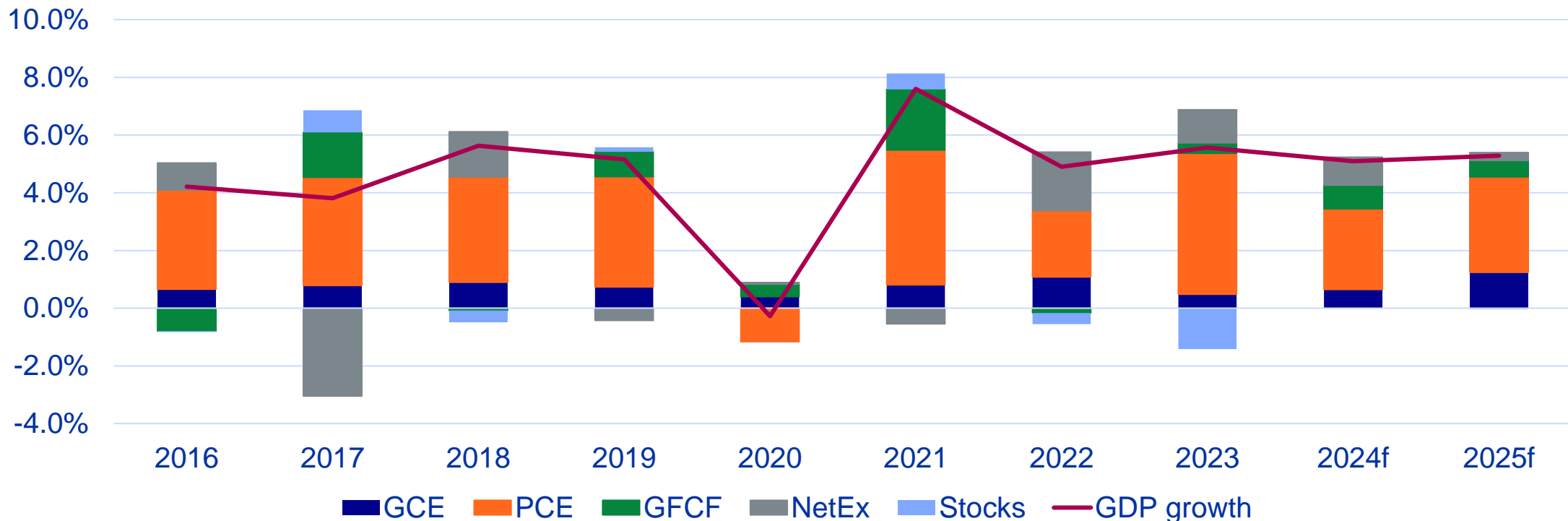
File | Nation Media Group

KENYA: gdp growth at 4.9% in 2024

We now forecast growth of 4.9% y/y, from 5.1% y/y previously, and 5.3% y/y for 2025.

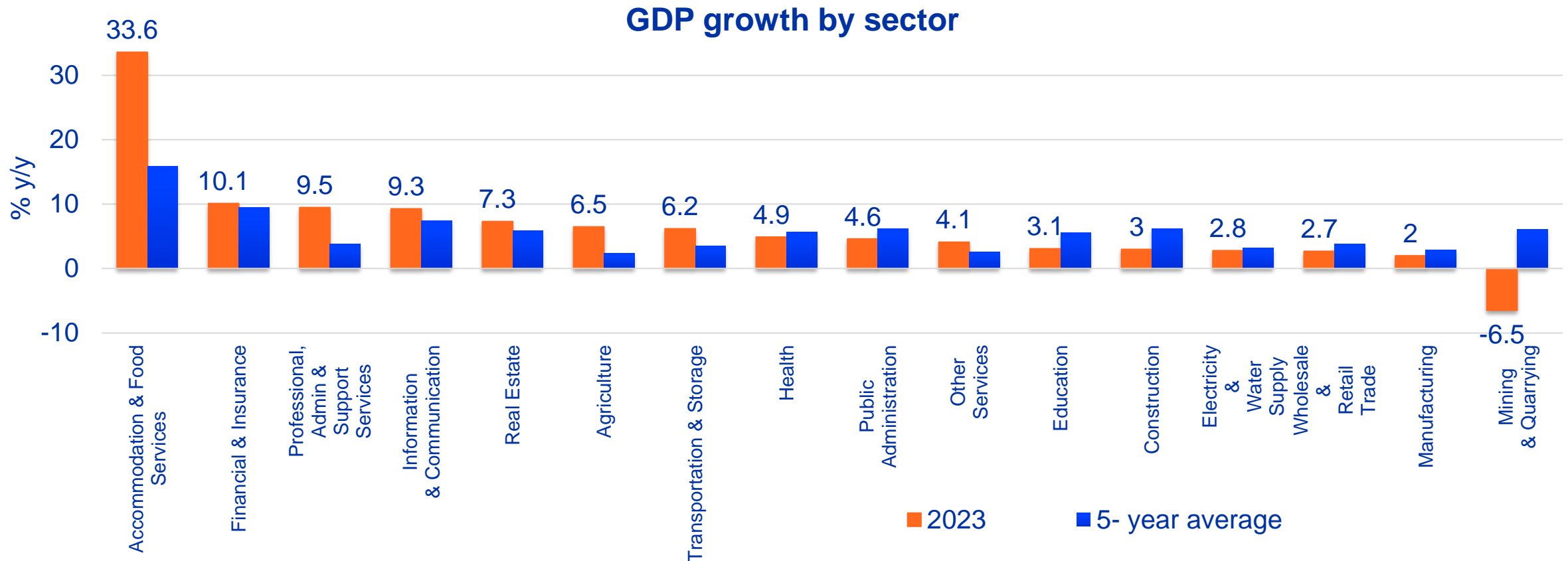
- We still see aggregate domestic demand under pressure in H2:24, thus diminishing output in industrial sub-sectors and the services sector. In July, the Stanbic PMI declining to 43.1, from 47.2 in June, reflecting several concerns, top of the list being widespread protests, with unrest in Kenya restraining output and new business as customers delayed spending

GDP contribution by demand



KENYA: diversity buoyed growth

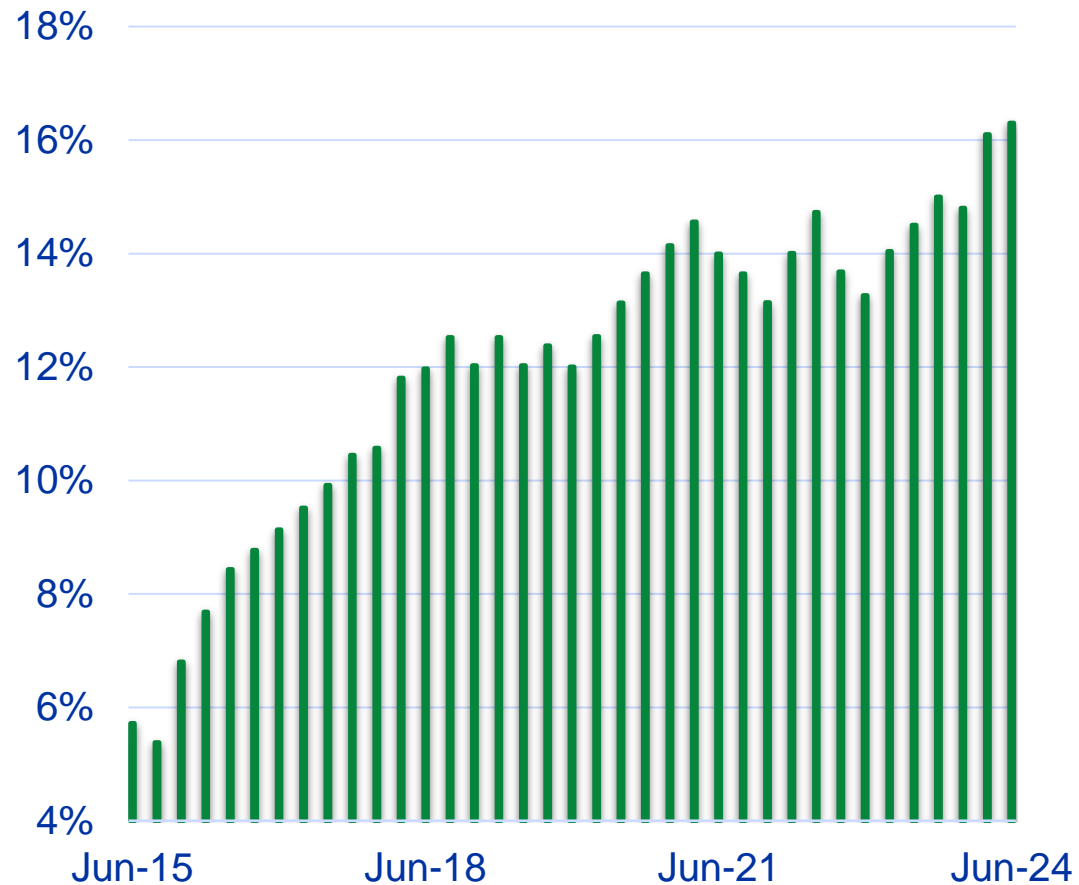
- The agricultural sector should perform robustly in 2024 (favourable weather & subsidized fertilizer to farmers) . The tourism sector should be robust in 2024 as conferencing has picked up. However, the recent flooding in the Maasai Mara and protests may affect tourism in H2:24 during the peak season.
- Hotels and food services, financial services professional services, ICT, Real Estate were the high growth sectors in 2023.
- The industrial sector grew at a tepid pace possibly weighed by higher taxes, import costs and depreciating exchange rate.



KENYA: private sector credit extension has slowed

Pending bills currently estimated at KES 662.3bn in Jun 24

Gross NPL to gross loans ratio



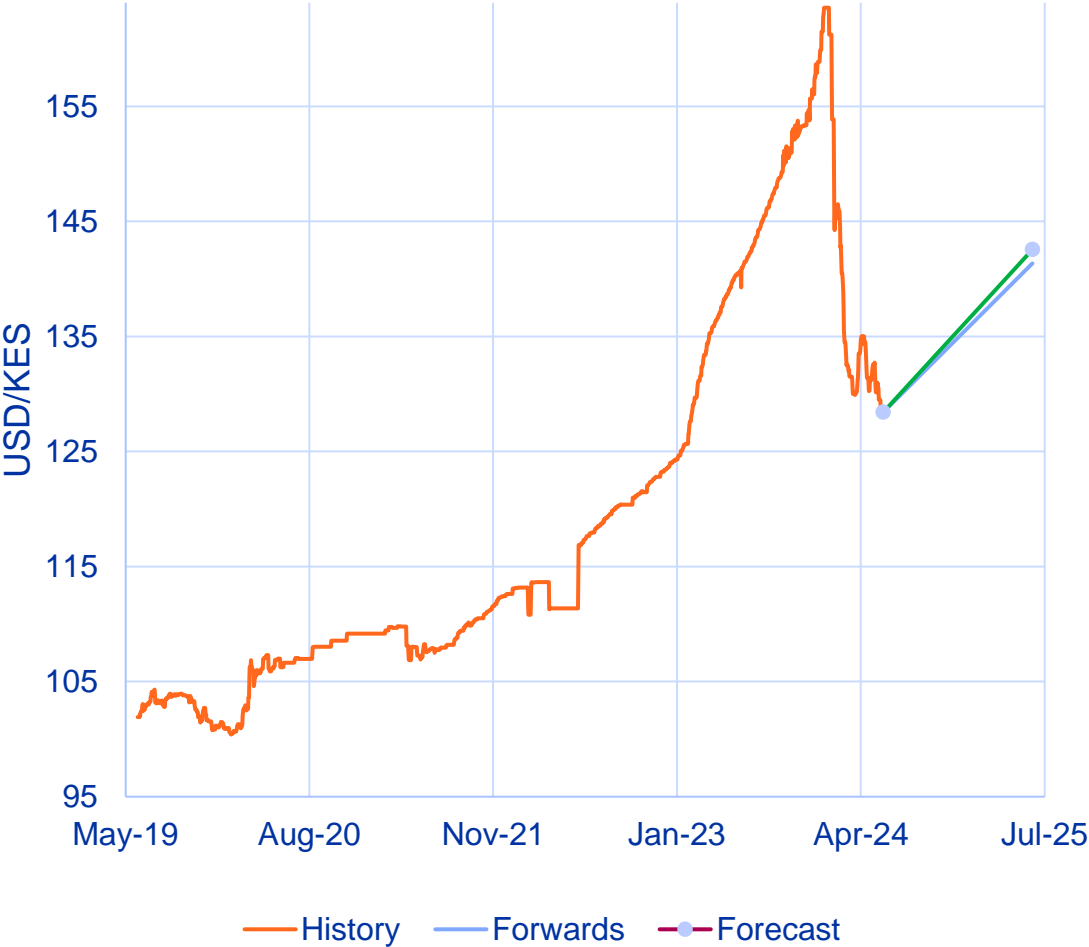
Private sector credit growth y/y



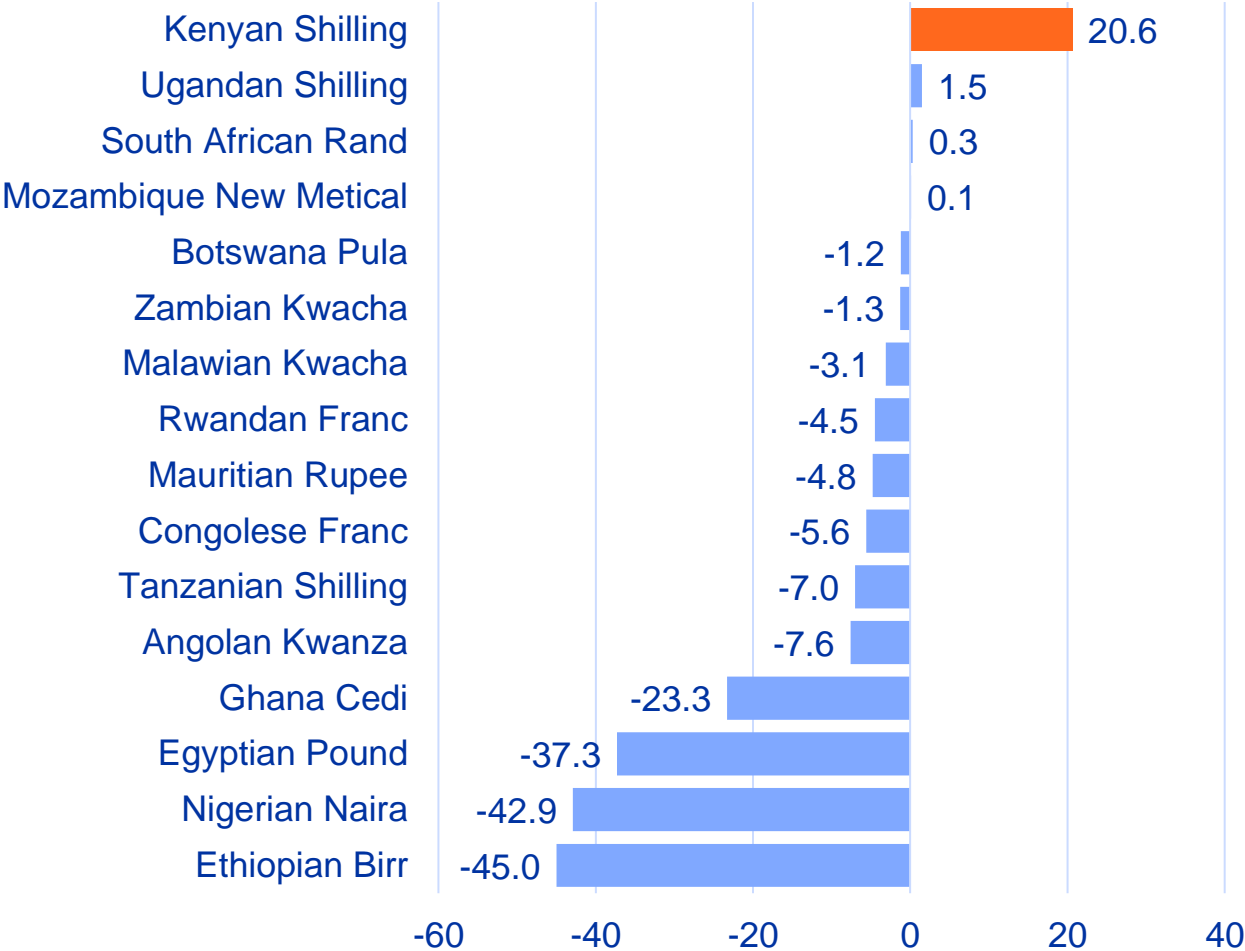
KENYA: FX outlook: stability in H2:24

We expect the USD/KES pair to average 132.3 in 2024 and 142.8 in 2025.

USD/KES forecast



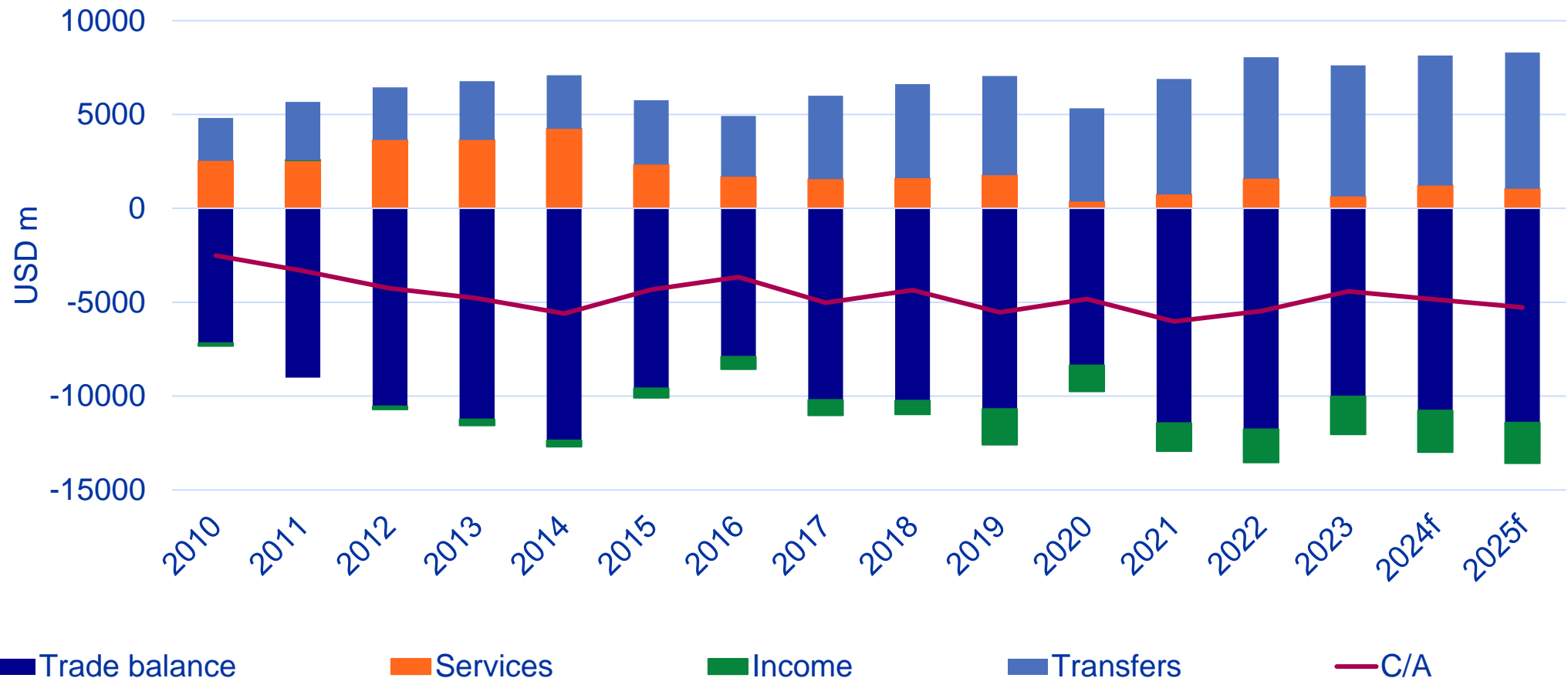
YTD currency performance



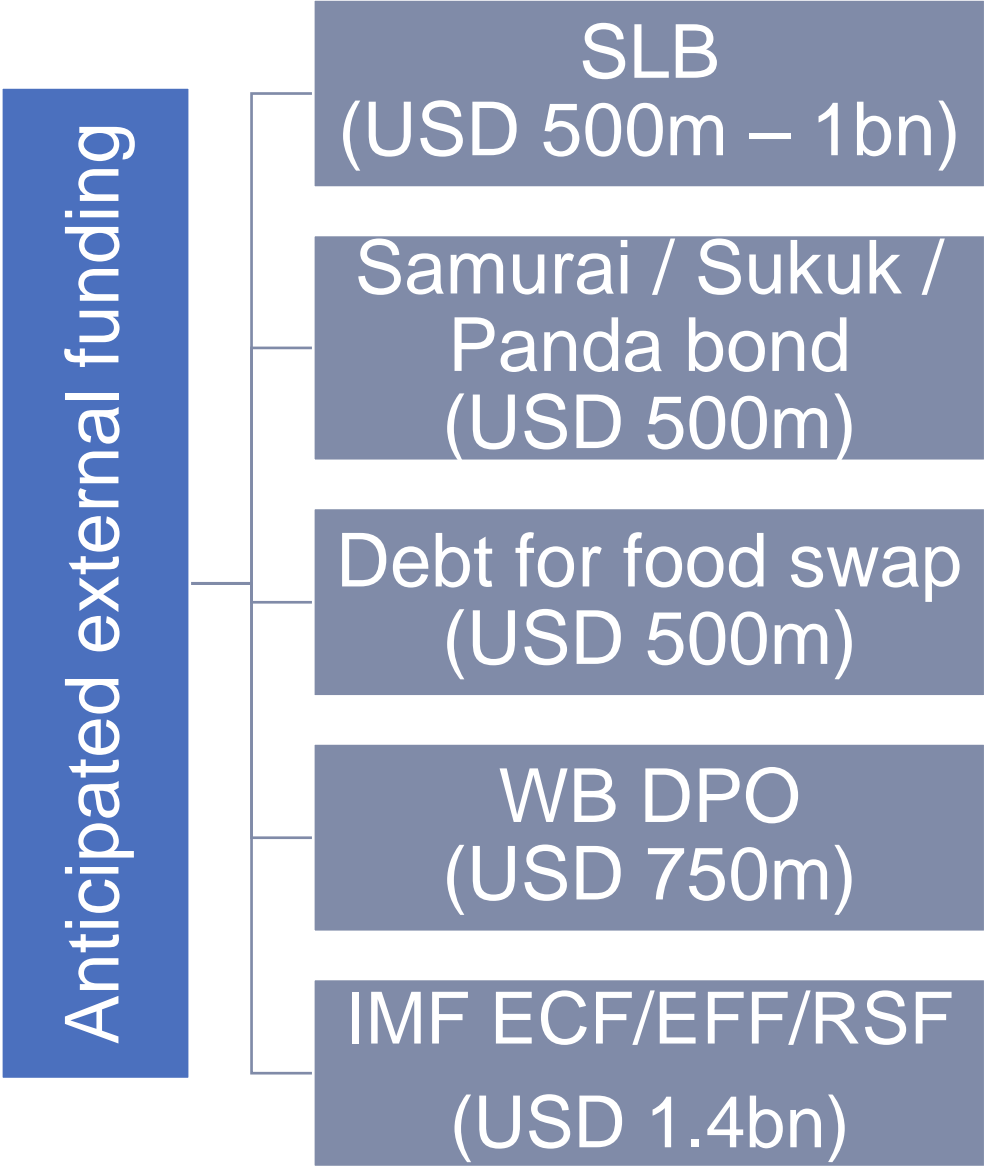
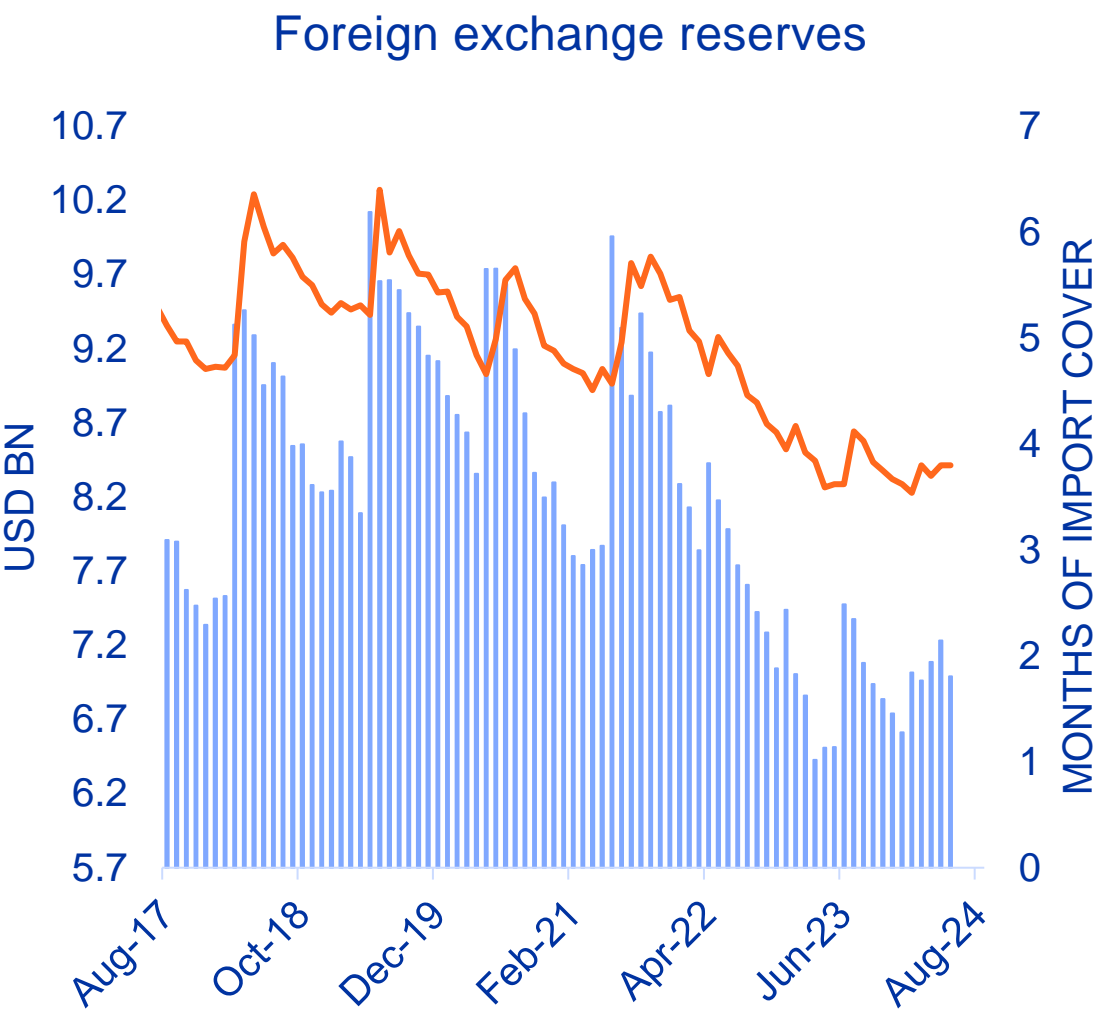
KENYA: concessional financing should enhance fx reserves

We see the C/A deficit at 3.9% of GDP in 2024 and 4.1% in 2025.

Current account developments



KENYA: expected external funding sources could boost reserves



KENYA: base case vs worst case scenarios

BASE CASE	WORST CASE
<ul style="list-style-type: none">• Protests fizzle out• New cabinet constituted	<ul style="list-style-type: none">• Protests persist• Fall of government• Caretaker government put in place• New election called.
<ul style="list-style-type: none">• Downgraded by S&P following Fitch & Moody's	<ul style="list-style-type: none">• Downgraded to default
<ul style="list-style-type: none">• Retain access to concessional financing (IMF & WB)	<ul style="list-style-type: none">• Lose access to IMF funding
<ul style="list-style-type: none">• Retain access to international capital markets• Refinance external commercial obligations	<ul style="list-style-type: none">• Lose access to international capital market• Unable to refinance external commercial obligations
<ul style="list-style-type: none">• Kenya fulfills medium-term debt obligations (2024 -2028)	<ul style="list-style-type: none">• Kenya defaults

KENYA: medium-term forecast

	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26	Q2:26	Q3:26	Q4:26	Q1:27	Q2:27	Q3:27	Q4:27	
GDP (% y/y) pa	5.0	4.8	4.6	5.3	5.5	6.1	6.4	6.7	7.9	6.7	2.7	3.5	3.0	3.0	6.7	5.6	
CPI (% y/y) pe	5.7	4.6	4.1	4.0	5.2	5.0	4.9	5.0	4.8	5.4	5.7	5.1	5.7	5.9	5.7	6.0	
CBK policy rate (%) pe	12.5	13.0	12.8	12.5	12.3	12.0	11.5	11.5	11.0	11.0	10.5	10.5	10.5	9.5	9.0	9.0	
3-m rate (%) pe	16.7	16.0	16.3	15.2	14.7	14.0	13.6	13.7	13.7	13.6	13.2	13.5	12.7	12.0	11.7	11.5	
6-m rate (%) pe	16.9	16.8	16.6	15.7	15.1	15.2	14.9	14.5	14.5	14.4	13.8	14.3	13.7	12.9	11.8	11.8	
USD/KES pe	131.5	128.4	133.0	136.4	142.1	145.4	143.2	140.3	140.2	139.8	139.4	139.4	141.8	145.5	147.5	147.5	

Source: Central Bank of Kenya; National Treasury; Kenya National Bureau of Statistics; Bloomberg; Standard Bank Research; Notes: pe – period end; pa –a period average

key Messages

- Global growth steady
- Rate cuts have commenced in 2024
- Geopolitical risks weigh on economies in 2024 and 2025
- GDP growth expected to be strong, but downside risks abound
- Inflation has hit Central Bank target
- Interest rates at peak, expected to taper in H2:24
- Currency has strengthened in H1:24, seen stable in H2:24
- BOP seen steady with expected concessional financing
- Fiscal and debt sustainability concerns



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