

Kenya Business Forecast Report Q1 2015

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Abstracts

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Core Views

The assassination of al-Shabaab leader Ahmed Abdi Godane will weaken the militant group but not eliminate the threat that it poses to Somalia, Kenya and the wider region.

The politicization of sharp ethnic divisions remains the key threat to Kenya's long-term political stability. Terrorism linked to Kenya's military involvement in Somalia is likely to remain a risk, but it does not pose a systemic threat to political stability. Economic growth in Kenya fell far below expectations in 2014, but the country's gradual economic recovery will pick up steam in 2015 and 2016. Real GDP growth will average 6.4% between 2015 and 2018.

Updated GDP figures have not led us to significantly revise our outlook for the Kenyan economy. Achieving 'middle income status' may increase investor interest in the country over the longer term. Kenya's fiscal health is improving, but disappointing real GDP growth and increased transfers to county-level governments will slow fiscal consolidation. The fiscal deficit will narrow from 5.3% in 2014/15 to 4.5% in 2018/19.

An improving food security situation and government cuts to fuel and energy prices will keep Kenyan inflation contained. While a rate hike remains almost certain, the bank will wait until early 2015 before increasing interest rates from 8.5% to 9.0%.

Weak export growth and the implosion of the tourism sector will keep Kenya's current account deficit wide in 2014 and 2015. Lower oil prices will cause the shortfall to narrow slightly between 2016 and 2018.

Real GDP growth in Kenya will gradually accelerate over the coming next 10 years, averaging 6.5% between 2015 and 2023. Kenya's economy is relatively diversified, and growth will be broad-based and comparatively sustainable.

Major Forecast Changes

The release of rebased GDP figures has led to substantial revisions to our estimates of Kenya's current account and fiscal deficits when presented as a fraction of GDP. Our general view on economic growth and the development of the Kenyan economy remains largely unchanged.

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Godane's Death Does Not Remove al-Shabaab Threat

The assassination of al-Shabaab leader Ahmed Abdi Godane will weaken the militant group but not eliminate the threat that it poses to Somalia, Kenya and the wider region.

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Long-Term Political Outlook

Ethnic Polarisation Remains Key Challenge

The politicization of sharp ethnic divisions remains the key threat to Kenya's long-term political stability. Although the 2013 elections were peaceful, voting patterns show that the electorate continues to cast ballots according to ethnicity. Terrorism linked to Kenya's military involvement in Somalia is likely to remain a risk, but it does not pose a systemic threat to political stability.

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Updated GDP figures have not led us to significantly revise our outlook for the Kenyan economy. Achieving 'middle income status' may

increase investor interest in the country over the longer term.

Fiscal Policy

Slow Growth, County Transfers Slow Fiscal Consolidation

Kenya's fiscal health is improving, but disappointing real GDP growth and increased transfers to county-level governments will slow fiscal consolidation. The fiscal deficit will narrow from 5.3% in 2014/15 to 4.5% in 2018/19.

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Moderate Food, Energy Prices Will Slow Inflation

An improving food security situation and government cuts to fuel and energy prices will keep Kenyan inflation within the government's 2.5%-7.5% target band for the duration of 2014. While a rate hike remains almost certain, the bank will wait until early 2015 before increasing interest rates from 8.5% to 9.0%.

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Weak export growth and the implosion of the tourism sector will keep Kenya's current account deficit wide in 2014 and 2015. Lower oil prices will cause the shortfall to narrow slightly between 2016 and 2018.

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