

Kenya Business Forecast Report Q2 2011

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Abstracts

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Consumption, Finance And Infrastructure Hold The Keys For Kenya

Kenya shares many of the same challenges and opportunities with its Sub-Saharan African peers. It possesses a large (and growing), young and increasingly wealthy population meaning that consumer focussed industries such as pharmaceuticals, telecoms and food and drink will offer significant potential over the coming years. Kenya has the added advantage of being the economic hub of the Africa's most advanced trade bloc, the East African Community (EAC), which will open the door to opportunities in fellow EAC members. However, national infrastructure is inadequate and financial services are relatively underdeveloped: both of these issues will need to be addressed in order to facilitate the robust economic development of which Kenya is undoubtedly capable. In this report, we look at all of these industries in more depth.

A stable political environment will be necessary for these industries to flourish. Recent developments have been positive, especially the muted public reaction to the International Criminal Court's publication of the names of six individuals it believes are responsible for post-election violence. The announcement of the suspects had been much anticipated as there were concerns that it would strain relations in the government formed after disputed elections. There were also worries that if one ethnic group was perceived to be singled out by the ICC, this would lead to violent popular demonstrations.

The Kenyan economy continues to move from strength to strength with the latest available growth data from the National Bureau of Statistics showing that GDP came in at 6.1% y-o-y in real terms in the third quarter of 2010. With the political climate showing ongoing signs of improvement, boding well for investor sentiment, and the

macroeconomic climate looking favourable (low inflation, low interest rates and expansive fiscal policy), we believe the economy will continue to perform strongly. This being the case, we have revised up our growth forecasts to 6.0% for 2011 (from 5.4% previously) and 6.3% in 2012.

Much of this growth will come from gross fixed capital formation (GFCF), with the government set to make significant investments in the country's infrastructure. The first half of calendar year 2011 will be the second half of the 2010/2011 budget, which made a significant allocation to the development of infrastructure. We believe the 2011/2012 budget, due to be announced in June, will be similarly infrastructure-focussed and this will have a positive impact on the country's business environment.

Contents

Executive Summary

Consumption, Finance And Infrastructure Hold The Keys For Kenya

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Political Stability Not Affected By ICC Announcement Of Suspects

Following the successful passing of a new constitution, Kenya faces another test of its political stability after the International Criminal Court named suspected masterminds of post-election violence in early 2008.

Table: The ICC Suspect List

Long-Term Political Outlook

The Next 10 Years Depend On The Next Two

Kenya faces many obstacles on the road towards a mature post-ethnic democracy, as evidenced by the violence following the disputed 2007 election.

Table: Kenya Political Overview

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

The Consumer And The Investor To Drive Growth In 2011

We believe the Kenyan economy will grow by 6.0% in 2011 in real terms, accelerating to 6.3% in 2012.

Table: Economic activity

Balance of Payment

Widening Current Account Symptomatic Of Growth

We believe Kenya's current account deficit will widen in 2011 and 2012 as demand for imported goods, to facilitate strong investment and consumption growth, will see import growth outpace that of exports.

Table: Current account

Currency Forecast

Table: Kenya currency forecast

Table: Exchange rate

Key Sectors

Consumption, Finance And Infrastructure Hold The Keys For Kenya

A young, large population and rising incomes will make Kenya an attractive investment destination for consumer-related firms such as telecoms, pharmaceuticals and food and drink retailers.

Table: Major Infrastructure Projects

CHAPTER 3: 10-YEAR FORECAST

The Kenya Economy To 2020

Robust Growth Trajectory Over 2011-2020

Although Kenya has undoubtedly suffered in the aftermath of the global financial crisis, a severe drought and political instability, we remain fairly upbeat on the nation's long-term growth prospects and forecast annual average real GDP growth of 5.3% over 2011-2020.

Table: Kenya Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

BMI Business Environment Risk Ratings

Business Environment Outlook

Institutions

Table: BMI Business and operation risk ratings

Table: BMI Legal framework rating

Infrastructure

Table: Labour Force Quality

Market Orientation

Table: Middle East & Africa , annual fdi in flows

Table: Labour force quality

Operational Risk

Table: Top export destinations

CHAPTER 5: KEY SECTORS

Pharmaceuticals

Table: Generic Drug Sales Indicators 2006-2014

Table: OTC Medicine Sales Indicators 2006- 2014

Table: Prescription Drug Sales Indicators 2006-2014

Table: Patented Drug Sales Indicators 2006 – 2014

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Table: Global assumptions

Table: Global & regional real GDP growth

Table: Emerging markets real GDP growth forecasts

Table: Consensus forecasts

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