

Kenya Business Forecast Report Q4 2014

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Abstracts

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Core Views

A wave of terrorist attacks shows that the Kenyan security services are unable to prevent Somali-based al Shabaab from operating across the country. Another large-scale attack, especially in Nairobi, would have a devastating effect on investor confidence.

Over the longer term, sharp ethnic divisions pose a serious threat to political stability in Kenya. Political parties are mostly organised along ethnic lines, and it remains possible that future elections could lead to a crisis such as the one seen in 2007-2008. Real GDP growth in Kenya will be just 5.0% in 2014 and 5.4% in 2015 owing to weak agricultural production and a deteriorating security situation. Government attempts to raise trend growth towards 10.0% will fail.

Small and medium enterprises (SMEs) in Kenya are better placed than most to grow and succeed than those in most other Sub-Saharan African states. An improving business environment, a technologically adept population, and established trade links with key export markets will help SME growth.

Weak export growth and a fall in tourist arrivals will cause Kenya's current account deficit to widen to 9.0% of GDP in 2014. Lower import costs will see this shortfall narrow over the course of our 2014-2018 forecast period. Accelerating economic growth and poor budget allocation will see Kenya's fiscal deficit narrow to 6.4% of GDP in 2014/2015, despite the announcement of an expansionary budget target.

A annual real GDP growth in Kenya will average 5.8% between 2014 and 2023, slower

than in many African peers. The country's economy is relatively diversified, and growth will be broader-based than in most other African states.

Major Forecast Changes

We have downwardly revised our real GDP growth forecasts due to a weaker outlook for agricultural production and a worsening security situation, which is damaging the economically vital tourism sector.

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Security Situation Deteriorating

While it remains unclear who was responsible for the June massacres in and around Mpeketoni, it is clear that Kenya's security outlook is deteriorating rapidly. A massive culture change within the security services will be necessary if fresh negative travel advisories are to be reversed.

Table: Political Overview

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.

CHAPTER 2: ECONOMIC OUTLOOK

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Real GDP growth in Kenya will be just 5.0% in 2014 and 5.4% in 2015 owing to weak agricultural production and a deteriorating security situation. Government attempts to raise trend growth towards 10.0% will fail.

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Kenyan SMEs Set To Outperform

Small and medium enterprises (SMEs) face challenges across Sub-Saharan Africa, but those in Kenya are better placed than most to grow and succeed. An improving business environment, a technologically adept population, and established trade links with key export markets will help SME growth.

Fiscal Policy

Poor Budget Execution Will Reduce Fiscal Deficit

Accelerating economic growth and poor budget allocation will see Kenya's fiscal deficit narrow to 6.4% of GDP in 2014/2015, despite the announcement of an expansionary budget target.

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Weak export growth and a fall in tourist arrivals will cause Kenya's current account deficit to widen to 9.0% of GDP in 2014. Lower import costs will see this shortfall narrow over the course of our 2014-2018 forecast period.

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Solid Headline Growth, Rapid Economic Diversification

Real GDP growth in Kenya will gradually accelerate over the next 10 years, averaging 5.8% between 2014 and 2023. While headline growth will be slower than in many African countries, Kenya's economy is relatively diversified, and growth will be broad-based and comparatively sustainable.

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