

The Current Macro-Economic Environment

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Presentation Outline

- ✓ Introduction
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- ✓ East African Economic Outlook
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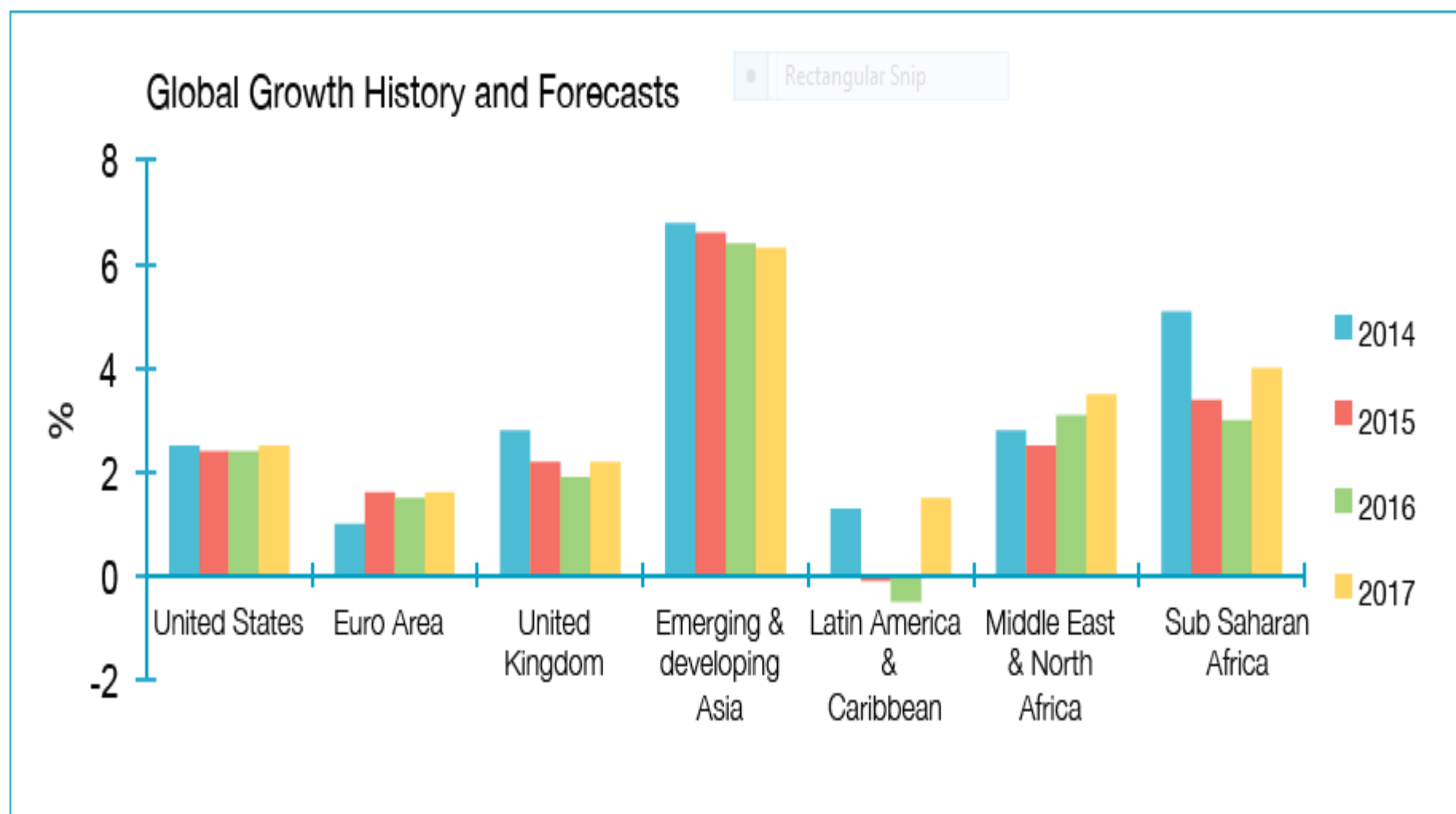
Introduction

- ❖ Kenya has experienced a higher GDP growth in the year 2015 than the world average's GDP growth
- ❖ In East Africa, the other countries (save for Burundi and South Sudan) experienced a higher GDP growth than Kenya
- ❖ Kenya has managed to keep the inflation rate at a single digit

Global Economic Outlook

- ❖ Global economy has continued to record modest growth
- ❖ In 2015, the world growth was 3.1% in 2015 from 3.4% in 2014
- ❖ The projected growth in 2016 is 3.2% downgraded from 3.5%
- ❖ Downgrade precipitated by:
 - Decline in commodity prices;
 - Continued volatility in exchange rates;
 - Instability in the Middle East (Syria); and
 - Uncertainty regarding the future of EU (Brexit)

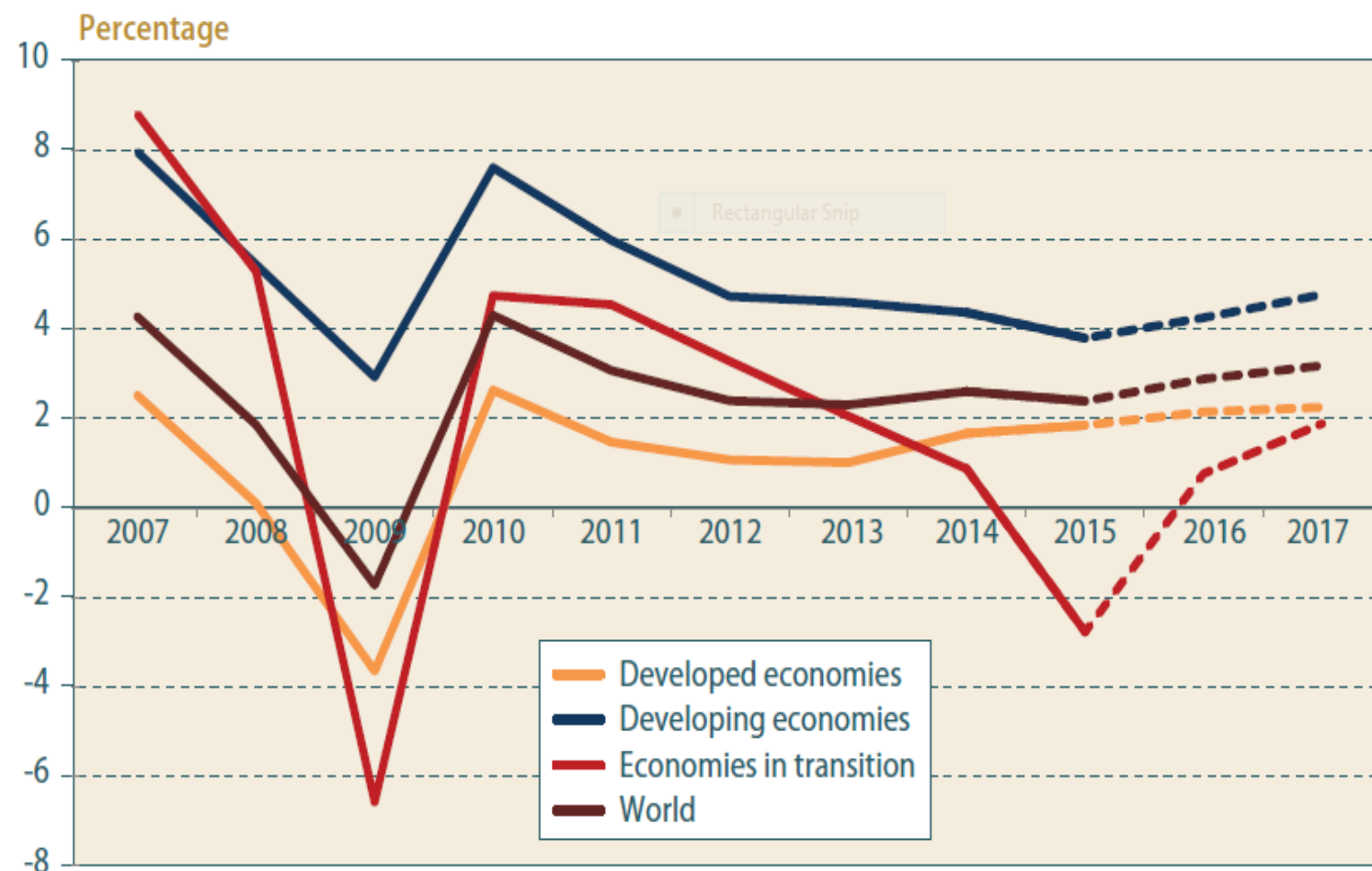
Global Economic Outlook



Source: IMF World Economic Outlook 2016

Global Economic Outlook

Growth of world gross product and gross domestic product by country grouping, 2007–2017



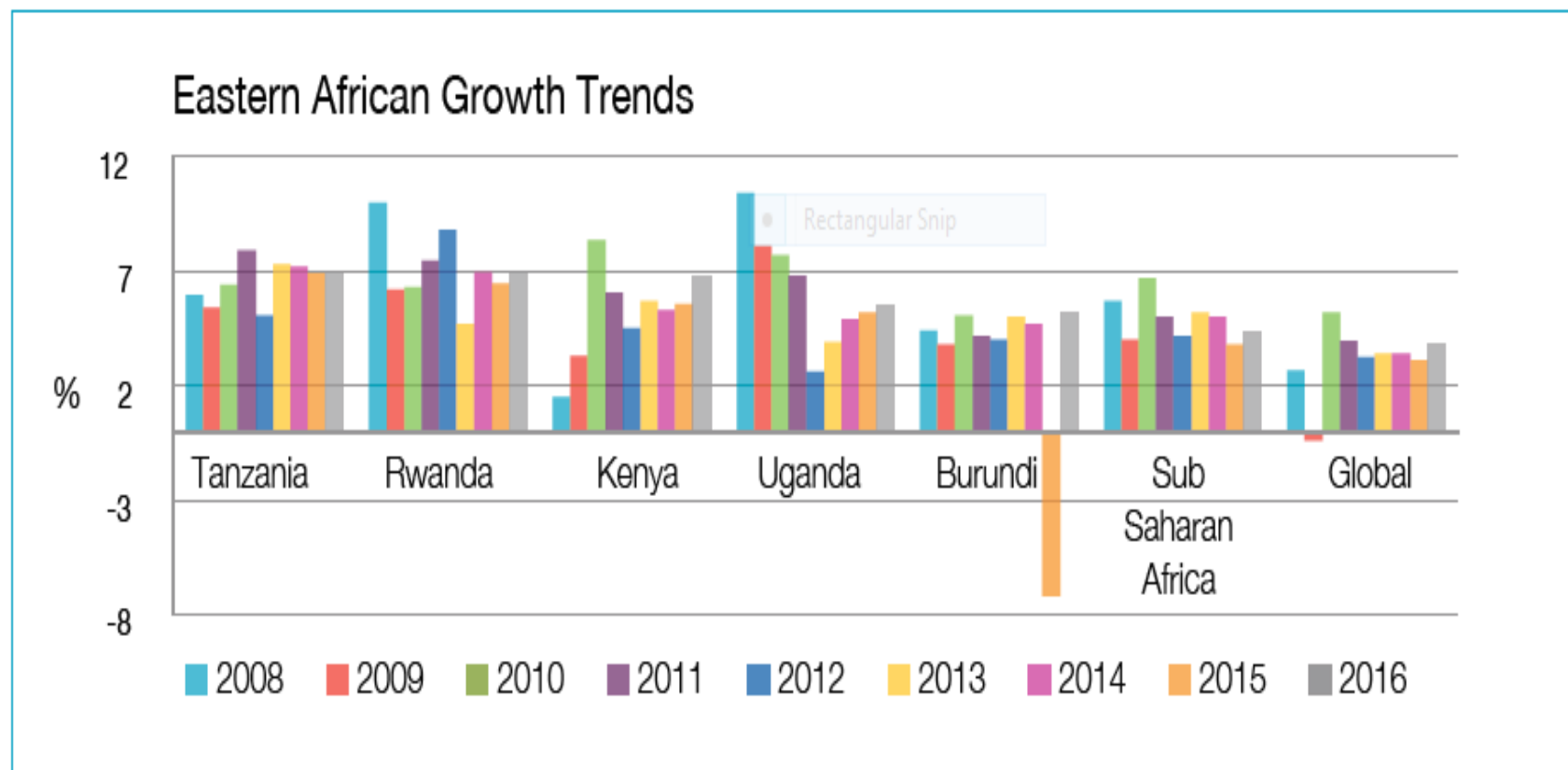
Source: UN/DESA.
Note: Data for 2015 are estimated; data for 2016 and 2017 are forecast.

East African Economic Outlook

- ❖ Growth in sub-Saharan Africa weakened from **5.1% in 2014 to 3.4% in 2015** and is projected to decline further to **3.0% in 2016**
- ❖ The sub-Saharan economy is projected to pick up at **4% in 2017** driven by sustained infrastructure development, buoyant service sectors, strong agricultural production etc.
- ❖ In EA, TZ and RW have recorded strong growth over the period from 2008 to 2015 and are expected to lead the way in 2016

East African Economic Outlook

East African Community GDP Growth in %



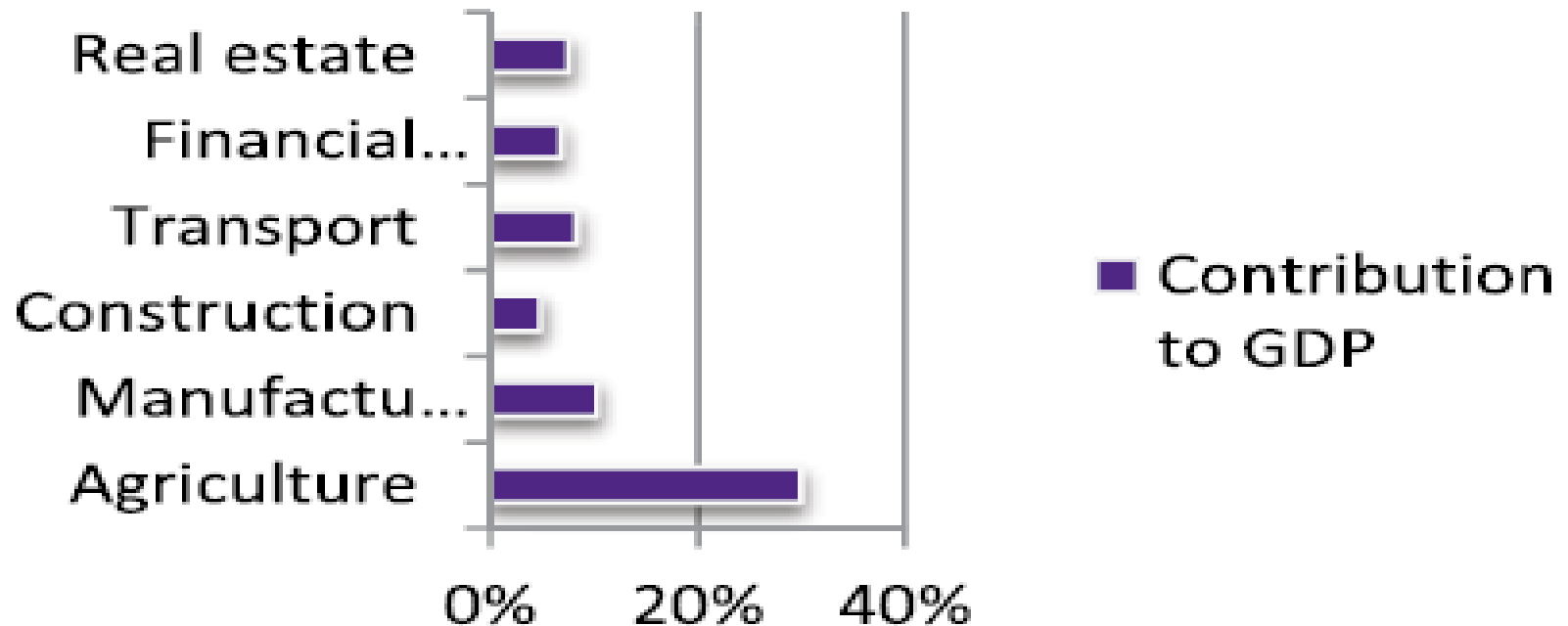
Source: Economic Survey, 2016

Kenya Economic Outlook

- ❖ In Kenya, the GDP grew by 5.6% in 2014 (5.4% in 2014)
- ❖ The expansion was due to significant growth in Agriculture, construction, real estate and financial services
- ❖ There was a decline in growth in mining and quarrying, Information Communication and Technology and wholesale and retail trade
- ❖ Accommodation and food recorded decline in the third year in the row
- ❖ Kenya has a stable macro-economic environment and improvement in outputs in the most significant economic sectors
- ❖ GDP expected to grow by 6% in 2016

Contributors to Growth

Contribution to GDP



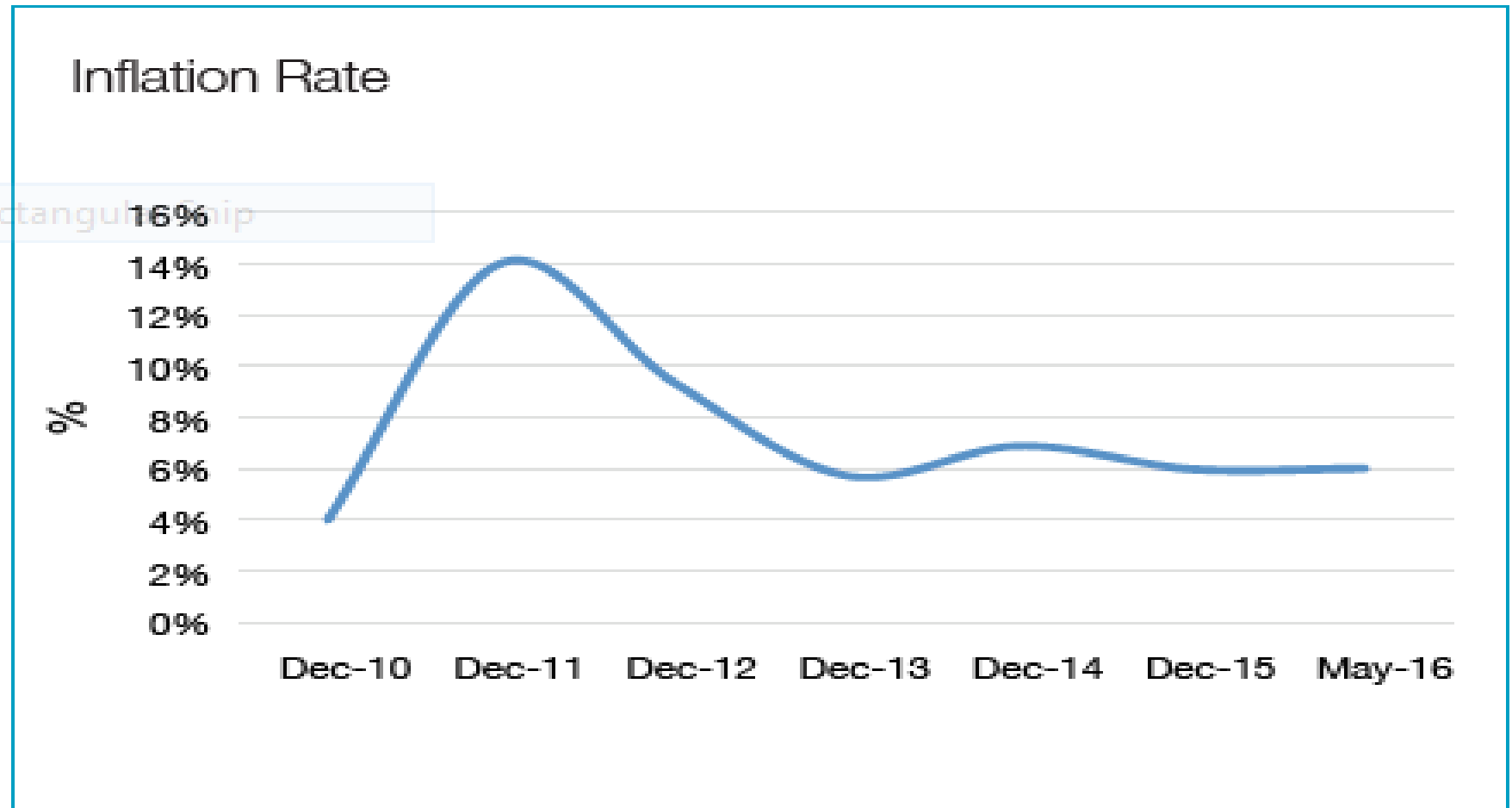
Macro-Economic Indicators



Inflation

- The Kenya National Bureau of Statistics and the WB report indicate the inflation rates increased from 4.2% in 2007 to 6.6% in 2015
- The volatility of Kenya inflation rate is caused by fluctuations in the oil prices
- Lower energy and transport cost saw inflation ease from 6.9% in 2014 to 6.6% in 2015
- Kenya inflation rate still higher than the Global inflation rate of 3.3% in 2015

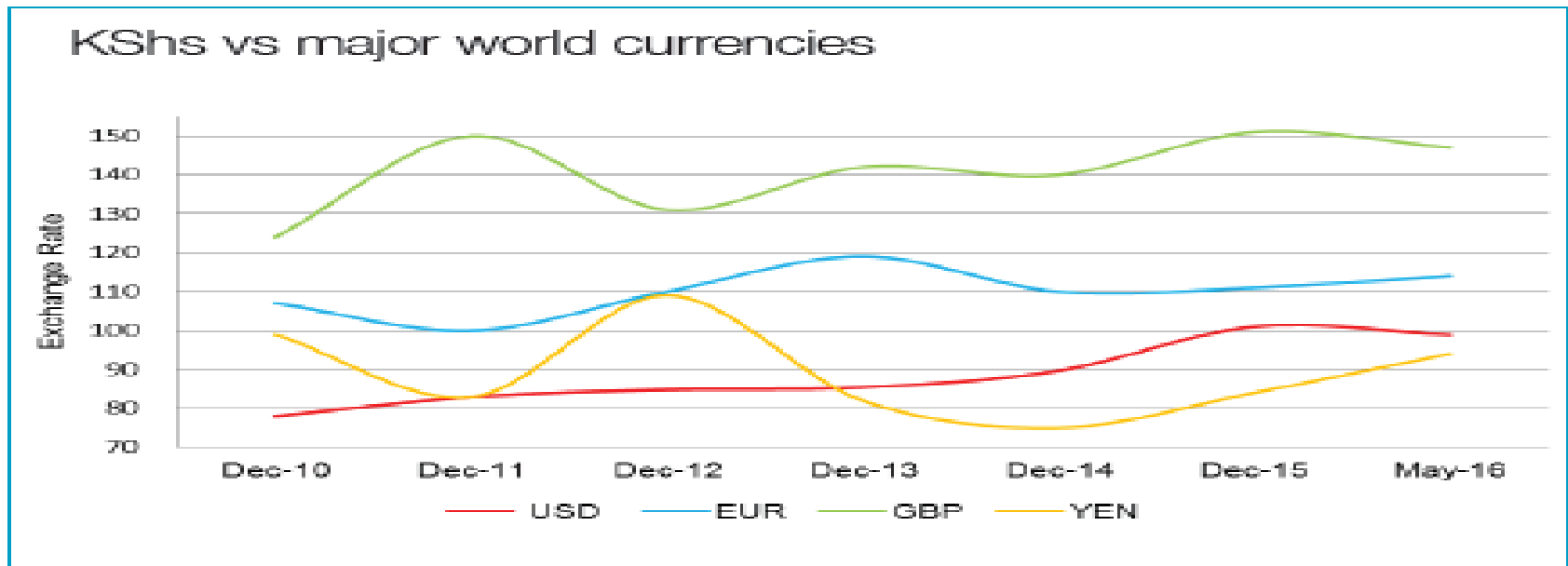
Inflation



Source: Kenya Economic Survey 2016

Exchange rates

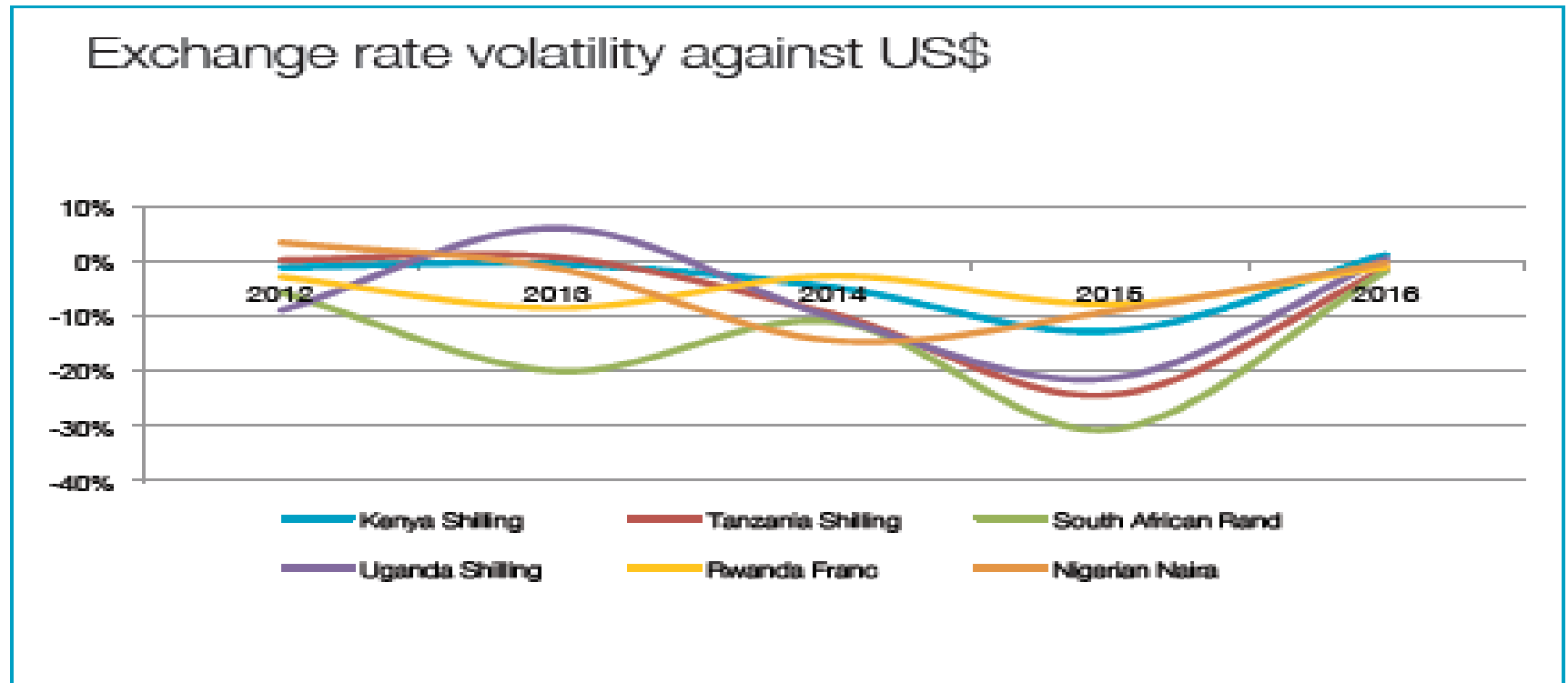
- ❖ Kenya uses the floating exchange rate system with some intervention by the Central Bank of Kenya through monetary policy
- ❖ The Kenya Shilling depreciated against its major trading currencies in the last two years



Source: www.oanda.com

Exchange rate

- ❖ Compared with other African currencies, Kenya has fared relatively well



Source: www.oanda.com

Exchange rates



- ❖ Kenya has a foreign exchange reserves of **7,688.3 million** (equivalent to **5 months import cover**)
- ❖ This is sufficient to buffer any economic shock

Interest rates

- ❖ The weighted average interest rates on commercial bank loans and advances rose by 1.40 basis points to 17.45% in Dec 2015 compared to 15.99% in December 2014
- ❖ This is despite adjustment of Central Bank Rate (CBR) and the and the Kenya Banks Reference Rate (KBRR)
- ❖ In June 2015, CBK raised the CBR from 8.5% to 10% and a further 11.5% in July

Interest rates

Table 5.6: Nominal Principal Interest Rates, 2011-2015

	Per cent					
	2011	2012	2013	2014	2015	
	December	December	December	December	June	December
CENTRAL BANK OF KENYA						
91 day Treasury Bills Rate	18.30	8.30	9.52	8.58	8.26	9.81
Central Bank Rate..	18.00	11.00	8.50	8.50	10.00	11.50
Repo rate..	17.59	6.85 ..		5.39	9.70	9.23
Inter-bank rate..	21.75	5.84	8.98	6.91	11.78	7.27
COMMERCIAL BANKS¹						
Average deposits..	6.99	6.80	6.65	6.81	6.64	7.92
Savings deposits..	1.59	1.60	1.58	1.85	1.85	1.56
Loan and Advances (maximum)	20.04	18.15	16.99	15.99	15.48	17.45
Overdraft..	20.20	17.79	16.51	15.86	15.65	17.19
Loans-Deposits Spread..	13.05	13.05	10.34	9.18	8.84	9.53

Source: Central Bank of Kenya.

¹Weighted average commercial bank interest rates

.. Data not available

Employment

- ❖ The economy created **841,600** new jobs in the year 2015
- ❖ In 2014, the number of jobs created was **799,000** (42,600 less than in 2015)
- ❖ Out of the jobs created in 2015, **128,000 were in the formal sector** and the rest in the informal sector

Employment

- ❖ Overall total earnings increased from **KShs 1.311 billion in 2014 to KShs 1.4973 billion in 2015**
- ❖ National annual average earnings per employee in 2015 **KShs 604,256**
- ❖ Kenya has been ranked by bloomerg as one of the 7 countries to invest in and the second biggest retail market in Africa
- ❖ **Tax incentive on Apprenticeship program**

Debt Situation

- ❖ In the 2016/2017 budget, externally funded development projects amounted to **KShs 413.6 billion (5.6% Of the GDP)**
- ❖ Total stock of debt as at end of 2014/2015 stood at **KShs 2,601.4 billion**
- ❖ **External debt was 54.7% of the entire debt**
- ❖ Debt Servicing charges net of repayment is estimated at *KShs 399 billion*

Table 6.11: National Government Outstanding Debt by Source, 2010/11-2014/15

	KSh Million				
	2010/11	2011/12	2012/13	2013/14	2014/15*
EXTERNAL DEBT:					
Lending Countries:					
Germany	26,670.05	24,878.80	25,042.37	26,571.29	22,558.54
Japan	111,842.72	107,402.77	86,788.50	84,514.51	79,016.83
France	40,347.13	36,708.95	47,397.05	61,579.73	59,032.26
USA.....	5,901.00	5,136.78	4,816.04	4,542.27	4,461.92
Netherlands	3,011.87	2,925.78	2,599.67	2,701.91	1,960.29
Denmark	2,774.66	2,076.63	1,987.79	1,991.76	1,437.14
Finland	132.30	104.81	96.64	93.59	71.43
China	32,453.00	36,661.87	63,123.40	80,858.59	252,039.33
Belgium	9,037.00	7,365.07	7,607.22	8,096.36	6,141.68
Other	28,839.52	20,281.11	22,048.18	22,907.13	18,337.23
Total (bilateral).....	261,009.25	243,542.57	261,506.86	293,857.14	445,056.63

Debt...cont'd

	KSh Million				
	2010/11	2011/12	2012/13	2013/14	2014/15*
International Organisations:					
IDA / IFAD	315,224.61	297,588.74	328,753.29	378,282.41	418,596.27
EEC/ EIB.	12,496.71	10,933.89	15,769.40	20,657.26	20,624.97
IMF.	47,581.72	66,593.02	73,779.44	83,282.16	86,149.90
ADF/ AfDB.	52,645.14	70,863.36	80,728.61	102,118.16	150,229.35
Other....	8,890.00	9,098.86	8,889.77	9,056.67	9,030.22
Total (multilateral)....	436,838.18	455,077.87	507,920.51	593,396.67	684,630.72
Commercial Banks	0.00	50,539.98	58,927.52	59,545.24	5,678.32
International Sovereign Bond....	0.00	0.00	0.00	175,253.80	271,258.35
Suppliers' Credit....	25,040.88	14,811.51	15,207.35	16,451.86	16,628.21
TOTAL EXTERNAL....	722,888.31	763,971.93	843,562.24	1,138,504.71	1,423,252.24
INTERNAL DEBT:					
Treasury Bills ¹	126,605.00	131,831.29	267,693.15	299,406.15	318,928.15
Treasury Bonds	595,661.00	686,950.90	744,174.06	914,762.09	1,035,706.68
Non Interest bearing debts ²	31,663.00	29,998.76	28,888.76	28,273.00	26,615.00
Others(includes stocks)	10,293.00	10,048.60	9,860.00	41,886.01	39,194.54
Less govt deposits & on-lending ..	-139,470.00	-90,260.29	-161,435.17	-205,520.00	-242,264.49
TOTAL INTERNAL (net)³ ..	624,752.00	768,569.26	889,180.80	1,078,807.25	1,178,179.89
TOTAL DEBT	1,347,640.31	1,532,541.19	1,732,743.04	2,217,311.96	2,601,432.13

Source: The National Treasury and Central Bank of Kenya

Debt...cont'd

- ❖ A moment a baby is born in Kenya, they already owe China KShs 7,000 and are more likely to pay KShs 28,000 in interest
- ❖ The debt situation in Kenya is almost becoming unsustainable
- ❖ World bank warned Kenya that the debt is pushing Kenya into unsustainable levels
- ❖ Neo-colonization by China (However pays the piper calls the tune)
- ❖ Raising of the debt ceiling by the National assembly (in 2013 from KShs 800 billion to KShs 1.2 Trillion, in 2015 raised to KShs 2.5 Trillion)

Debt...cont'd

- ❖ Is Kenya heading the Greece way (150%)?
 - Default by Treasury on the CBK loan
 - Delay in paying IMF and requesting for waiver
- ❖ Default by Argentina on the Sovereign bond

Treasury defense

- UK debt 90% of GDP
- US debt 100% of GDP
- Japan debt 200% of GDP

Debt...cont'd



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Kenya's public debt high, says Treasury

Kenya's public debt has reached unsustainable levels, mainly due to heavy government borrowing to fund massive infrastructure projects.

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Kenya sinks deeper into debt with Sh61 billion loan from China

By Dominic Omondi

Updated Sat, April 9th 2016 at 10:44 GMT+3

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Conclusion

- ❖ While as the Kenya Macro-economic is stable, the government ought to look at the debt situation to ensure that Kenya does not go the Greece way or the Ireland way
- ❖ Further, the government ought to tame the runaway corruption and avoid the excessive public expenditure bordering to wastage

Caveats

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity.

Although I endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Thank You !

Martin Gitau



Q & A Session

