DYER & BLAIR INVESTMENT BANK
MACROECONOMIC OUTLOOK 2025

Founder Member of the Nairobi Securities Exchange

March 04TH 2025

DYER & BLAIR INVESTMENT BANK

WE KNOW. YOU KNOW.

KENYA: 2025 MACROECONOMIC OUTLOOK

Global growth is projected to edge up from an estimated 3.2% in 2024 to 3.3% in 2025. Global economic activity in 2025 is expected to be mainly affected by the general wave of continued monetary easing across economies globally and the policies put forward by the new Trump administration in the United States (US).

Our projections for Kenya's GDP growth in 2025 ranges between 4.5% and 5.5% supported in part by a stable currency, tamed inflation, rebound in credit growth to the private sector, resilient diaspora remittances and government spending; but curtailed by forecasted erratic rainfall affecting agriculture and uncertainty on US foreign policy and trade tariffs.

We expect average inflation to range between 5.0% and 5.5% in 2025 from an average of 4.7% in 2024 owing to monetary easing, stable electricity prices, the expectation of lower global crude oil prices and picking up of non-core inflation.

We expect the current account deficit to remain largely unchanged in 2025 ranging between 4.0% and 4.5% of GDP. We expect to see import expenditure in 2025 impacted by the expectation of decreasing global crude oil prices and the continued stability of the Kenya Shilling (KES) against the US Dollar (USD). We expect export earnings in 2025 to be supported by receipts from horticultural products, tea exports, and resilient diaspora remittances.

The Federal Reserve began cutting its benchmark rate late last year in September in line with other major central banks. In the most recent FOMC meeting (January 2025) the Fed held interest rates steady with the resolve to get inflation down to a maximum of 2.0% while also achieving maximum employment. The Central Bank of Kenya (CBK) also begin cutting interest rates in the latter part of 2024. We expect the CBK to continue cutting interest rates in 2025 but not as aggressively with inflation having been tamed and fallen to a 12 year low of 2.7% in October 2024.

KEY RATES & INDICATORS (%, END OF YEAR)

	2020	2021	2022	2023	2024
CBR	7.0	7.0	8.8	12.5	11.3
Inflation	5.6	5.7	9.1	6.6	3.0
Interbank	6.2	5.0	6.5	14.4	11.1
91-Yield	6.9	7.3	9.4	16.0	9.9
182-Yield	7.4	8.1	9.8	16.0	10.0
364-Yield	8.3	9.4	10.3	16.1	11.4
5YR-Yield	10.5	11.4	13.5	17.5	14.1
10YR-Yield	11.9	12.5	13.8	15.7	13.6
15YR-Yield	12.8	13.0	13.9	15.7	13.7

Source: CBK, KNBS, NSE

CONTENTS

Research Analyst

Sylvester Odhiambo

sotieno@dyerandblair.com

+254 709930127

Global Economic Environment

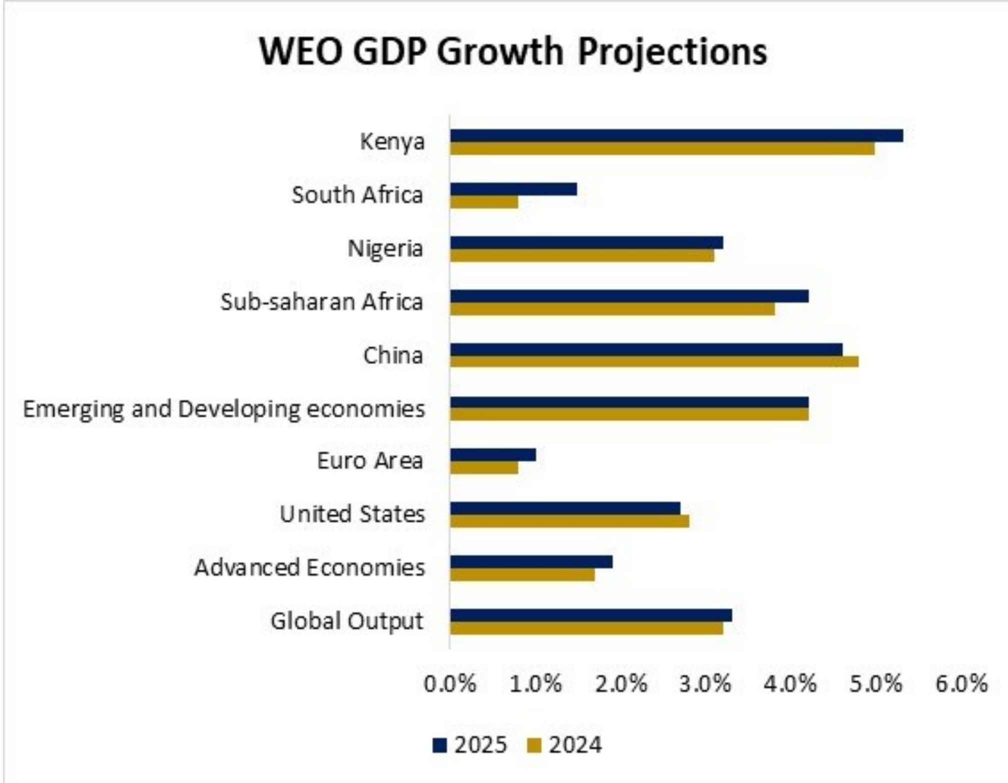
Global Output

According to the IMF's World Economic Outlook Update January 2025 (WEO) report, global growth is projected to marginally increase from an estimated 3.2% in 2024 to 3.3% in 2025 but still remain below the historical average (2000-2019) of 3.7%. Global economic activity in 2025 is principally expected to be affected by the easing monetary policies, easing supply chain constraints and the spillover effects of US foreign policies and trade tariffs. The forecast indicates better-than-anticipated growth in some of the advanced economies with growth expected to pick up in the euro area while growth in emerging market economies is expected to broadly match growth in 2024.

In advanced economies, GDP growth forecasts are mixed with the United States expected to grow by 2.7% in 2025 down by 0.1% from 2024. This mainly due to robust underlying demand reflecting strong wealth effects, supportive financial conditions and less restrictive monetary policy. The euro area is expected to grow at 1.0% in 2025 with the downward revision by 20 bps owed to weaker-than-expected momentum at the end of 2024, especially in manufacturing, and heightened political and policy uncertainty. Growth in advanced economies is anticipated to improve from 1.7% in 2024 to 1.9% in 2025 primarily owing to the view that monetary easing will continue but held back by trade policy uncertainty.

For emerging market and developing economies, growth forecast in 2025 is expected to match that of 2024 at 4.2%. China is projected to grow by 4.6% in 2025 due to the fiscal package announced in November largely offsetting the negative effect of investment from heightened trade policy uncertainty and property market drag. Growth in India is expected to be solid at 6.5% in 2025.

A moderate growth of 4.2% is projected for sub-Saharan Africa in 2025, up from 3.8% in 2024. Nigeria's economic growth in 2025 is placed at 3.2%, a marginal rise than the estimated 3.1% in 2024 owing to the country's currency stabilizing after rapidly weakening against major currencies in 2024. In South Africa, a greater growth of 0.7% is anticipated in 2025 (0.8% in 2024).



Source: IMF WEO Jan 25

Global Inflation

The IMF's January 2025 World Economic Outlook Update (WEO) report projects global disinflation to continue from 5.7% in 2024 to 4.2% in 2025. Even with the anticipation of worldwide disinflation, inflation is still predicted to stay above the pre-pandemic average of 3.5% (2017-2019 average). Inflation continues to slow down globally but there are signs that the progress is stalling in some countries where elevated inflation remains persistent. In regions where inflation is showing greater persistence, central banks are proceeding with caution in their easing cycles while monitoring economic activity, labor market trends, and fluctuations in exchange rates. Some central banks including Bank of Japan and Central Bank of Brazil are increasing interest rates, highlighting a divergence in monetary policy approaches. Disinflation in 2025 is premised on declining global fuel and non-fuel prices with cooling labor markets expected to keep demand pressures at bay.

Energy commodity prices are projected to decline by 2.6% in 2025. This reflects a drop in oil prices driven by weak Chinese demand and robust supply from non-OPEC+ which are partly offset by rising gas prices due to colder-than-expected weather and supply issues, such as the ongoing conflict in the Middle East and disruptions in gas production.

Potential Shocks to Global Economic Outlook

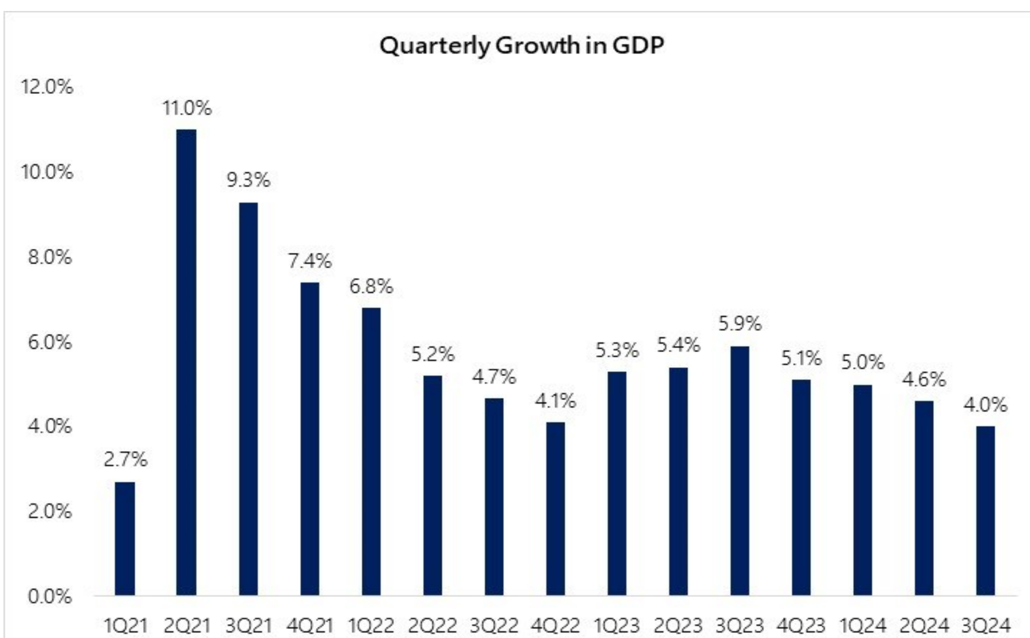
- **Easing monetary policy:** As monetary authorities continue easing their monetary stance, interest rates are expected to decline further in 2025. This continues to pose a big relief to emerging markets and developing economies which are still struggling with high debt levels with repayment likely to be impeded by lower debt service costs (on interest payments and easing limitations in raising debt in external markets).

- **Sticky inflation:** In the US, inflation has stalled in the recent months at 3.3% while still being above the fed target rate of 2.0% leading to a more cautionary Fed that we believe will be reluctant to cut rates at a faster pace. This also translates to interest rates remaining elevated for longer.

- **Trump Trade Tariffs and Policies:** Uncertainty among Trump's trade tariffs and trade policies have left advanced economies jittery with the US president planning a 25% tariff on imports from Canada and Mexico and a 10% additional tariff on imports from China. We see the aggressive foreign policies having some negative impact on the emerging markets especially in terms of foreign aid and grant funding which have been cut leading to insufficient funding and job cuts.

- **Ukraine-Russia conflict:** The new US administration is aiming to find a solution between Russia and Ukraine with assistance from European NATO allies. We believe a solution to this conflict would be a massive boost especially to European markets but we see a prolonged stalemate before an absolute solution is achieved between the two warring countries.

Kenya Economic Growth



Source: KNBS, CBK & DBIB Analysis

Kenya Economic Growth (Continued...)

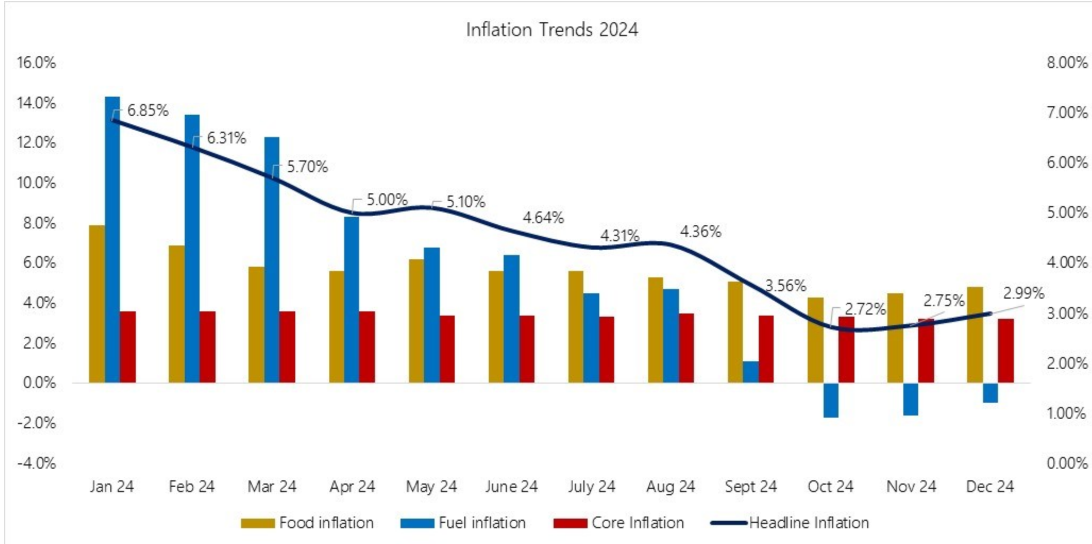
In 2025, we expect Kenya's GDP growth to pick up supported by a resurgence in the private sector. Our view is that monetary easing will accelerate private sector credit growth which slowed down in 2024 and posted a decline of 1.1% in November, 2024 due to high interest rates. We expect this to pivot and pick up in 2025 backed by declining interest rates with the CBK Governor projecting credit to private sector to grow by 10% in 2025. We see a recovery in private sector credit leading to moderate growth in majority of the economic sectors. However, we expect to see growth in 2025 being primarily supported by the trade, transport, finance, education and construction sectors.

The trade sector is expected to be largely supported by resilient diaspora remittances, access to credit (especially to the private sector) and government interventions to reduce prices of select food items. Both the construction and real estate sectors are poised to continue benefitting from the government's affordable housing program agenda and declining interest rates.

We continue to expect the agricultural sector to be supported by reduced fertilizer prices (through the continuing National Fertilizer Subsidy Program) but held back by forecasted erratic rainfall during the March–May rainfall season.

Against these factors, our projections for GDP growth in 2025 range between 4.5% and 5.5% supported in part by strong credit growth to the private sector, resilient diaspora remittances and government spending; but curtailed by constraining debt service obligations and forecasted erratic rainfall.

Inflation



Source: KNBS, CBK & DBIB Analysis

We expect inflation to pick up in 2025 after slowing down in 2024 and hitting a 17 year low of 2.72% in October 2024. The increase in inflationary pressures is informed by:

- Continued monetary easing by the CBK leading to more cash circulation in the economy.
- Forecasted erratic rainfalls that might distort food prices.
- Increasing transportation costs associated with inflation and labor costs.
- elevated non-core inflation.

We anticipate the increase in inflation in Kenya to be curtailed by declining global oil prices. The expectation of lower global crude oil prices is due to increased production from countries outside of OPEC+, slower demand growth of oil and reduced geopolitical risk.

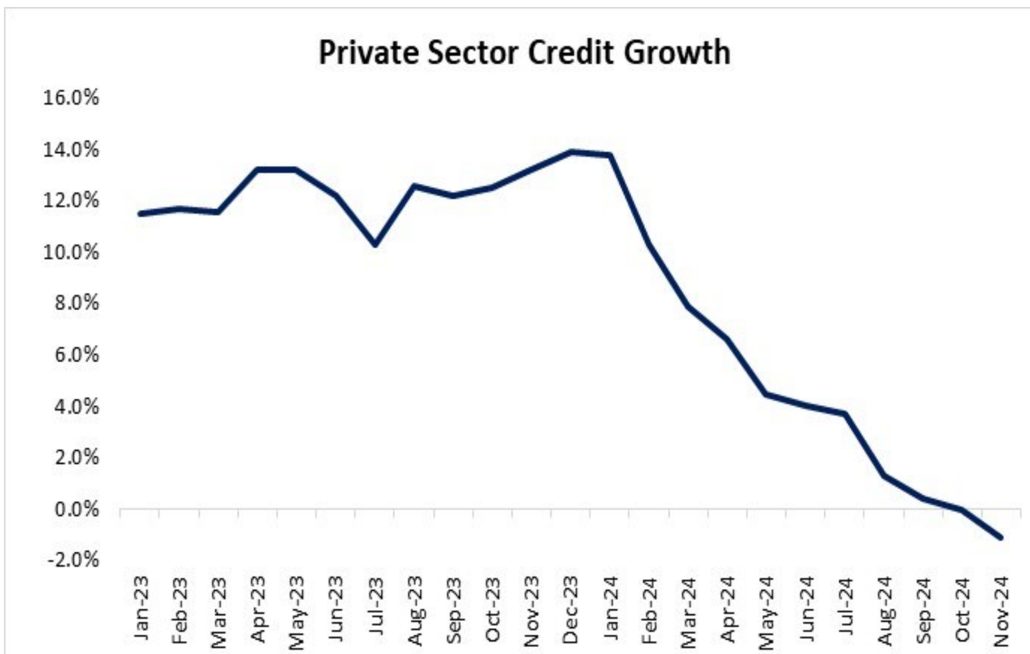
Taking the aforementioned forces into consideration, we expect average inflation to range to between 5.0% and 5.5% from an average of 4.7% in 2024.

Private Sector Credit Growth

Owing to tight monetary policy, we saw private sector credit growth slowdown in 2024. Private sector credit growth shrunk by 1.1% in November 2024. The CBK Governor stated that the private sector credit growth was projected to grow at 10.0% in 2025.

We expect growth in credit to the private sector to accelerate in 2025 as a result of continued monetary easing, leading to lower interest rates and pivoting banks to lend more to the private sector. This is backed by expected lower returns from government securities and availability of more capital to lend to the private sector. The main sectors we see benefiting from the strong growth in private sector credit are transport & communication, agriculture, manufacturing, mining and trade.

A key risk to growth in credit to the private sector is the deteriorating asset quality owing to macroeconomic challenges. The listed banks NPL ratio has been on an upward trajectory from June 2024 where it stood at 13.3% to 13.6% in September 2024.



Source: CBK & DBIB Analysis

Current Account Deficit

We expect to see import expenditure in 2025 impacted positively by the expectation of falling global crude oil prices, the stability of the Kenya Shilling (KES) against the US Dollar (USD), decreased importation of food products (bolstered by increased local harvests from improved rainfall and subsidized fertilizer from the government) and increased importation of machinery and transportation equipment.

Recent economic data for the US points to sticky inflation with the Fed's tone becoming more cautionary on rate cuts. With US inflation remaining stubbornly above the 2.0% inflation target, we expect to see the Fed hold rates for the better part of 2025. This should pile pressure on the KES/USD exchange rate.

We expect the current account deficit to benefit from increasing foreign remittances and increasing forex reserves from the extension of the importation of oil on a 180-day credit period (G-to-G oil import deal).

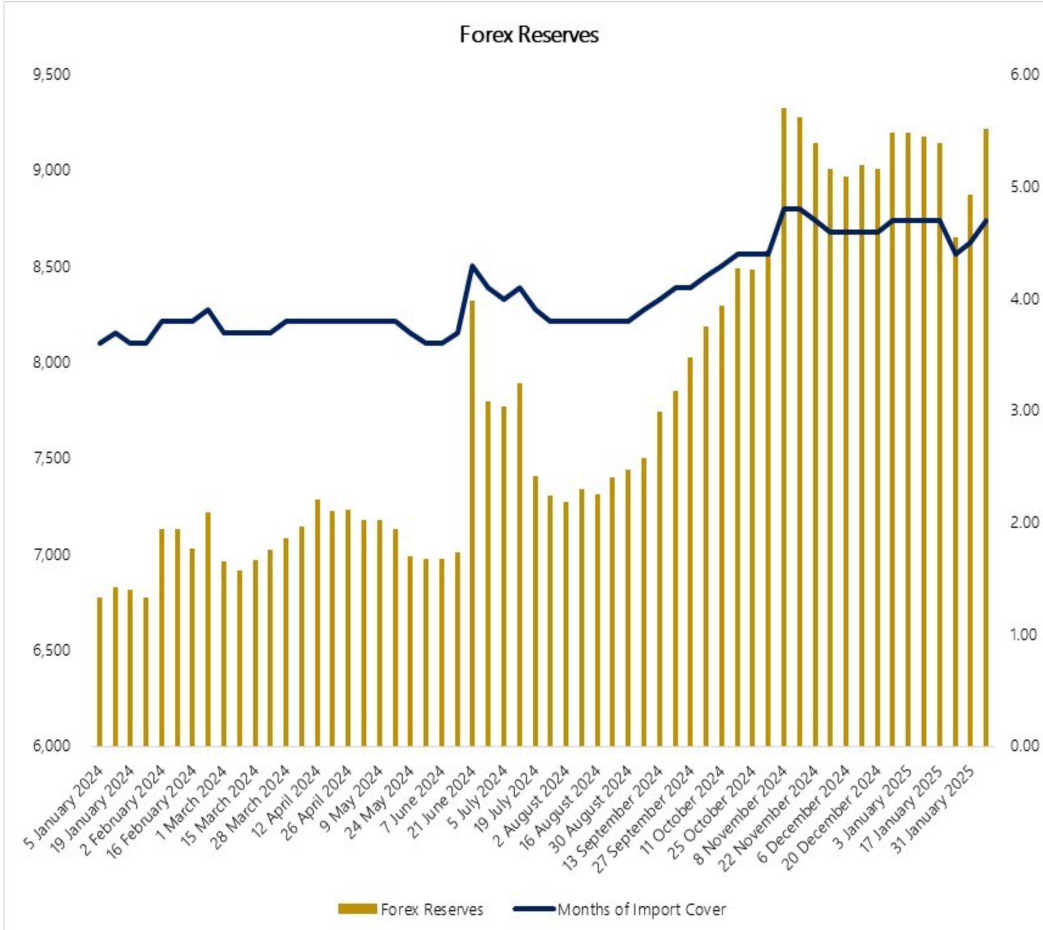
We expect export earnings in 2025 to be supported by receipts from manufactured goods, horticultural products and earnings from coffee exports especially with rising coffee prices.

We are optimistic about the continued stabilization of the KES/USD exchange rate in the short-term as we believe a longer period is necessary for these changes to crystallize before the shilling comes under pressure.

Taking all these factors into consideration, we expect the current account deficit to remain largely unchanged in 2025 ranging between 4.0% and 4.5% of GDP.

Source: CBK

Forex Reserves

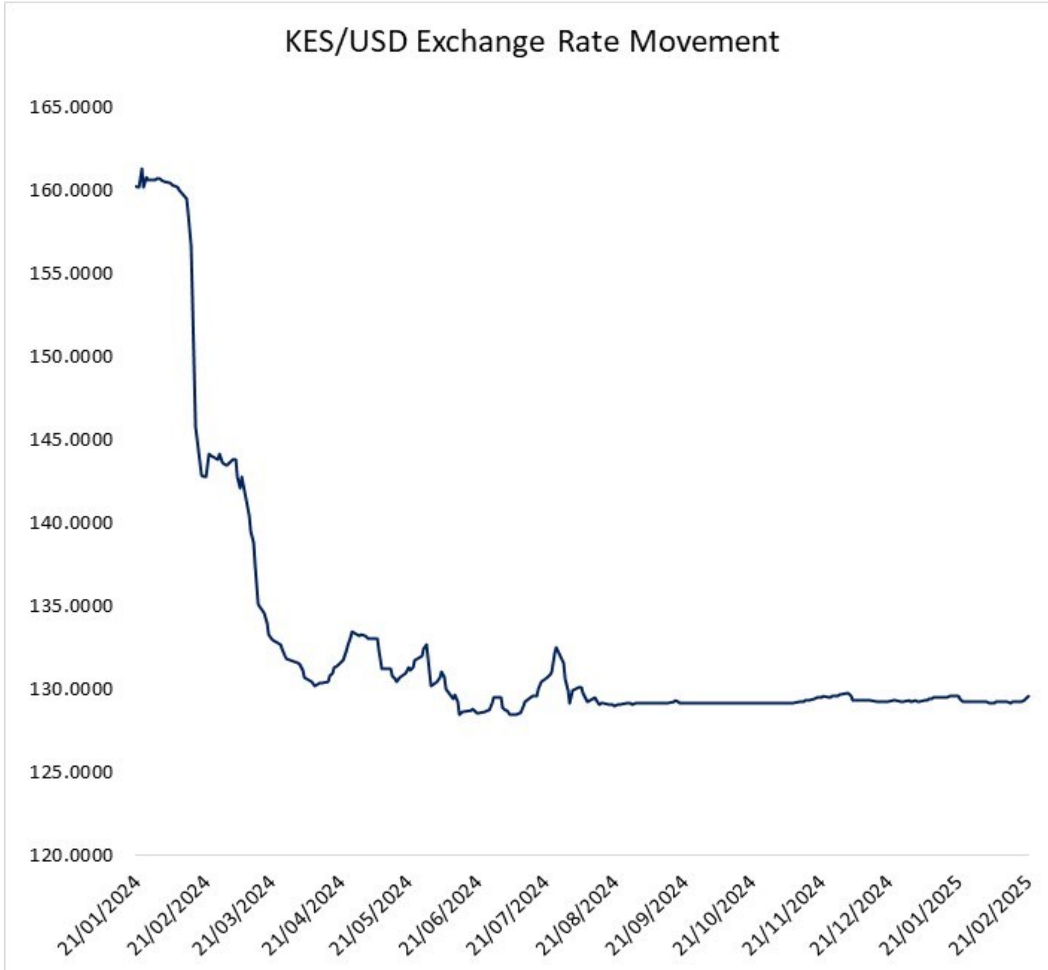


Source: CBK

The Kenyan Government extended the G-to-G oil import deal in December 2024 just as it was set to expire at the end of the year. We expect this to continue providing a reprieve to forex reserves in the near-term with the duration of the extension for the oil import deal currently remaining uncertain. We could see pressure on forex reserves if the oil payments should resume on a monthly basis.

We also see foreign debt service obligations also putting a strain on forex reserves; however, this will be curtailed by diaspora remittances.

Exchange Rate



We anticipate the Federal Reserve to hold interest rates for the better part of 2025 due to sticky inflation in the US. With this resolve to keep interest rates higher in order to tame inflation down to the target range of 2.0%, we expect this hawkish stance to continue resulting in a relatively stronger US Dollar in comparison to the Kenya Shilling, resulting in depreciation of the KES/USD exchange rate in 2025. However, we expect this to be curtailed by increased dollar flows through foreign remittances and continued intervention of the CBK in order to stabilize the shilling.

We also believe the immigration policies set by the new US administration will negatively impact the Kenyan Shilling. Majority of foreign remittances, about 55.0%, are from the US. From the aforementioned factors, we expect a slight depreciation in the KES/USD exchange rate to KES 140 against the Dollar .

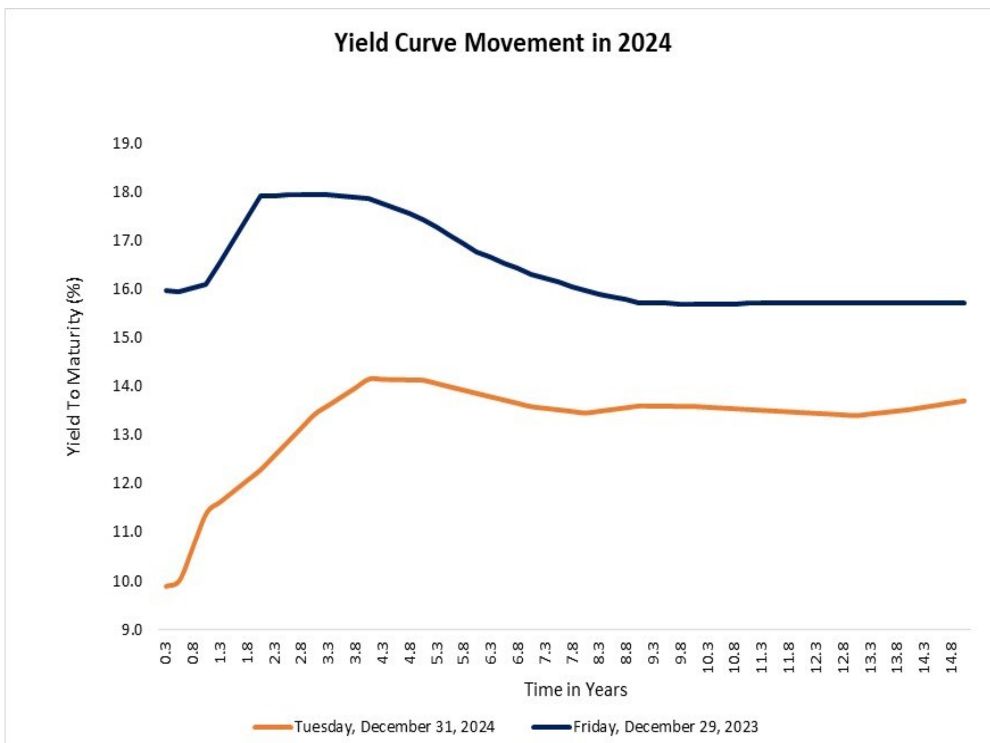
Interest Rates and Fixed Income Securities

By the end of 2023, the yield curve had risen by 350 bps on average across all maturities on a year-to-date basis. This was due to monetary tightening undertaken by the CBK in 2022 and 2023 in order to tame high inflation. This led to an inverted yield curve by the end of 2023.

By the end of 2024, the yield curve had declined by 336 bps on average across all maturities on a year-to-date basis.

The decrease in the yield curve in 2024 compared to 2023 was mainly due to the beginning of monetary easing by the CBK in the latter half of 2024.

In 2025, interest rates have continued decreasing with the yield curve having declined by 105 bps on average across all maturities YTD. With regard to the CBK's Central Bank Rate, we expect the Monetary Policy Committee to lower the CBR further this year due to tamed inflation but not as aggressively as seen in the latter half of 2024.



Source: CBK

Budget Operations

Going by the draft budget policy statement for 2025, the government plans to reduce total debt financing in FY25/26 by 3.7% to KES 831.0 BN from the current fiscal year's projected borrowing of KES 862.7 BN. The bulk of this reduction is projected to stem from net foreign borrowing which is anticipated to shrink by 47.6% to KES 146.8 BN in FY25/26. Domestic financing on the other hand is projected to rise by 17.4% y-o-y to KES 684.2 BN from KES 582.7 BN in FY24/25.

We note that for foreign financing, the cut is expected to emanate from programme loans (-34.3% y-o-y to KES 191.8 BN) and the absence of an IMF Extended Fund Facility (EFF) allocation which is projected at KES 126.3 BN in FY24/25. Commercial financing is expected to increase by 70.2% y-o-y to KES 221.2 BN. In FY25/26, external debt repayments are expected to jump by 58.2% y-o-y to KES 477.0 BN.

	FY25/26	**FY24/25**	**Change**
	KES BN	KES BN	(%)
Total Financing	831.0	862.7	(3.7)
Net foreign Financing	146.8	280.1	(47.6)
Net Domestic Financing	684.2	582.7	17.4
Net foreign Financing	146.8	280.1	(47.6)
Disbursements	581.7	623.9	(6.8)
Commercial Financing	221.2	130.0	70.2
Total Project Loans	151.3	210.9	(28.3)
Programme Loans	191.8	292.0	(34.3)
Debt Repayment	477.0	301.6	58.2

Source: Budget Policy Statement 2025

In 2024, the 91-day Treasury bill has more often than not been oversubscribed as investors positioned themselves in highly liquid assets in order to benefit from the high short term interest rates experienced for majority of the Year. Treasury bonds also remained oversubscribed in 2024(with the exception of FXD1/2024/10).

We note that as short term interest rates keep falling, this poses less pressure on the government's short-term debt service obligation costs going forward.

Given our outlook on falling interest rates due to monetary easing, we generally recommend investment in longer-dated papers as the yield from short-dated papers will most likely continue to fall.

Equities

With disinflation expected to continue in most economies around the world, it is becoming increasingly clear that the monetary easing will be the main path adopted by monetary authorities. This realization has rejuvenated the optimism in global equity investors.

Within emerging market and frontier economies, we expect capital inflows to rise on the back of easing global financial conditions and Improving investor sentiment, resulting in a better performance of equity markets.

Domestically, decreasing inflation, declining interest rates and stability of the KES/USD exchange rate, have resulted in increased interest from equity investors.

The strengthening investor sentiment has been mirrored in the performance of NASI, NSE 20, NSE 25 and NSE 10 which have improved by 6.1%, 10.5%, 4.5% and 4.0% respectively on a year-to-date basis.

Thus, in light of the aforementioned factors, we continue to expect resurging interest in equities in 2025. With regard to the Kenyan market, we expect the rally to continue as majority of listed companies gear to release their full year results in March 2025. At present, we recommend taking positions in a number of dividend-paying stocks, particularly for income investors.

UPCOMING EVENTS

Company	Announcement	Book Closure	Payment
E.A. Breweries	Interim: KES 2.50	21-Feb-24	30-Apr-25
Kenya Power	Interim: KES 0.20	28-Feb-25	11-Apr-25
Safaricom	Interim: KES 0.55	03-Mar-25	31-Mar-25
BAT Kenya	Final: KES 45.00	23-May-25	25-Jun-25

(Source: NSE, DBIB Research)

STA—Subject to approval*

Disclaimer

While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.