

## **HIGHLIGHTS OF MACROECONOMIC DEVELOPMENTS AND OUTLOOK IN THE 2023/24 FINANCIAL YEAR**

### **A. World Economic Outlook**

#### **1. Economic growth**

Global economy has stabilized with global growth projected at 3.2 percent in 2024 and 3.3 percent in 2025 from 3.3 percent in 2023. The outlook reflects economic recovery in China, Euro area and UK. The main risks to the global growth outlook relate to further escalation of geopolitical tensions, interest rates remaining higher-for-even-longer in advanced economies, and policy uncertainty.

Growth in the advanced economies is projected to remain stable at 1.7 percent in 2024 and 1.8 percent in 2025. In the emerging market and developing economies, growth is projected at 4.3 percent in 2024 and 2025, reflecting stronger activity in Asia particularly China and India. In Sub-Saharan Africa (SSA), economic growth is projected to rise from an estimated 3.4 percent in 2023 to 3.7 percent in 2024 and 4.1 percent in 2025.

#### **2. Inflation**

Global inflation has moderated, with central banks in some major economies lowering interest rates. International oil prices have moderated, but the risk premium from the Middle East conflict has increased following the recent escalation.

Global headline inflation is expected to fall to 5.9 percent and 4.4 percent in 2024 and 2025, respectively. which is a slower pace due to higher-than-average inflation in services prices.

#### **3. World Trade**

World trade growth is expected to increase 3.1 percent and 3.4 percent in 2024 and 2025, respectively. Annual average oil prices and non-fuel commodity prices are projected to increase by 0.8 percent and 5.0 percent in 2024, respectively.

Global economic output showed resilience in the first half of 2024, with modest growth anticipated in 2024 and 2025, mainly due to improving economic activities in the United States, China, and India. Global growth was estimated at 3.3 percent for 2023 is projected to continue at the same pace in 2024 and 2025.

## **B. On the Domestic Scene**

### **1. Economic growth**

Kenya's economy grew by 5.6 percent in 2023, an improvement, from 4.9 percent in 2022, a demonstration of resilience and the beginning of economic recovery. This growth momentum has continued in 2024 with the economy expanding by 5.0 percent in the first quarter compared to a growth of 5.5 percent in the corresponding quarter of 2023. This growth is largely driven by resilient service sector and strong growth of agriculture supported by favorable weather conditions and government interventions.

**The average county contribution to GDP between 2019-2023 was 2.0% with a Gross County Product of Kshs 268,560 in 2023. The average county contribution to Agriculture, Forestry and fishing between 2019-2023 was 3.6%.**

**The county's average growth in real GCP relative to total Economy's growth in Gross Value Added (4.7%) was 2.1%, one of the poorest in the country.**

**The country's total economy's growth in Gross Value Added between 2019-2023 was 4.7%. on the other hand, the county's average growth in real GCP relative to total Economy's growth in Gross Value Added (4.7%) was 2.1%, one of the poorest in the country.**

**The average county contribution to service activities between 2019-2023 was 1.7%**

**The Gross County Product per capita in 2023 was Kshs 150,288 which was lower than the Country's GDP per capita of Kshs 293,229. GCP per capita represents the average economic output per person showing the economic well-being of the county residents.**

### **2. Inflation rate**

The overall year-on year inflation is under control and within the Government target range of  $5 \pm 2.5$  percent. Inflation declined to 4.6 percent in June 2024 from 7.9 percent in June 2023, due to easing of food and energy prices. The appreciating Shilling produced a strong pass-through effect to lower domestic prices supported by a tight monetary policy stance and Government interventions to lower the cost of food production.

### **3. Interest Rates**

Tight monetary policy to stabilize inflation has led to rising interest rates. The interbank rate increased to 13.1 percent in June 2024 compared to 9.6 percent in June 2023. The 91-day Treasury Bills rate increased to 16.0 percent in June 2024 compared to 11.5 percent in June 2023 while the 182-day Treasury Bills rate also increased to 16.7 percent from 11.5 percent over the same period. This has increased the cost of borrowing by Government from the domestic market. Additionally, the average lending rate increased to 16.6 percent in May 2024 from 13.2 percent in May 2023 while the average deposit rate increased to 11.1 percent from 7.6 percent over the same period.

#### **4. Money and Credit**

Broad money supply, M3, grew by 6.0 percent in the year to June 2024 compared to a growth of 13.4 percent in the year to June 2023. The slowdown in growth of M3 was due to a decline in Net Domestic Assets (NDA) particularly the growth of domestic credit. The primary source of the growth in M3 was an improvement in the Net Foreign Assets (NFA) of the banking system.

#### **6. Foreign Exchange Reserves**

The official foreign exchange reserves held by the Central Bank stood at US\$. 8,462.7 million in June 2024 an improvement compared to US\$. 8,036.7 million in June 2023. This represented 4.6 months of import cover as compared to the 4.1 months of import cover, respectively, and therefore provides adequate cover and a buffer against short term shocks in the foreign exchange market.

#### **7. Capital Markets**

Activity in the capital markets improved in the year to June 2024. Economic recovery, appreciation of the Kenya Shilling and macroeconomic stability have created confidence and attracted investors to the Nairobi Securities Exchange. The NSE 20 Share Index improved to 1,657 points in June 2024 compared to 1,575 points in June 2023 while Market capitalization also improved to KSh. 1,711 billion from KSh.1,666 billion over the same period.

### **HIGHLIGHTS OF THE ECONOMIC OUTLOOK FOR FINANCIAL YEAR 2024/25**

- Kenya's economy grew by 4.0 per cent in the third quarter of 2024 compared to 6.0 per cent growth in the corresponding quarter of 2023. The decelerated growth was largely due to a general decline in growth in most sectors of the economy. The growth was constrained by contractions in Construction and Mining and Quarrying activities. Construction activities contracted by 2.0 per cent while Mining and Quarrying posted a contraction of 11.1 per cent in the quarter under review. Nevertheless, the growth was supported by notable performances in Agriculture, Forestry and Fishing (4.2%), Transportation and Storage activities (5.2%), Financial and Insurance activities (4.7%), Real Estate activities (5.5%), Wholesale and Retail activities (4.8%) and Accommodation and Food service activities (13.7%).
- Kenya's economy is expected to continue improving in the fourth quarter of 2024, with businesses improving due to a stable political climate, low inflation, and a predictable exchange rate.

### **Factors that may affect Kenya's economic growth**

#### **i. Structural imbalances**

Kenya's growth is hindered by structural imbalances, such as a tight macroeconomic policy framework and declining business confidence.

#### **ii. Climate hazards**

Climate hazards could cause food insecurity and inflationary pressures, which could affect growth.

#### **iii. Commodity prices**

High commodity prices could tighten financial conditions, weaken external balances, and impact inflation.

#### **iv. Trade and investment policies**

Kenya needs to revise its trade and investment policies to foster export orientation.

### **Factors that may support Kenya's economic growth**

- a. **Trade agreements:** Kenya can benefit from the implementation of trade agreements, such as the African Continental Free Trade Area and the European Union Economic Partnership Agreement.

- b. **Private sector:** The private sector can drive growth as business confidence strengthens.
- c. **Public sector:** The public sector can continue to scale back.