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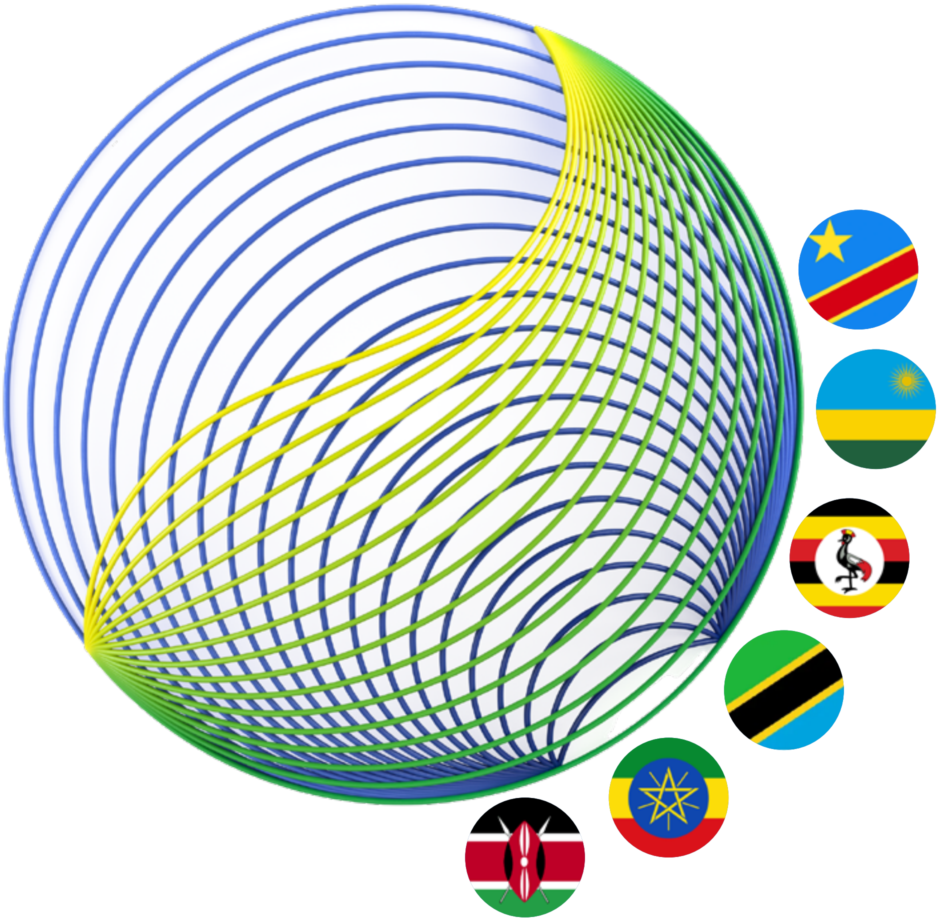
East Africa Macroeconomic Outlook

Volume IV



Cautious optimism
amid economic turbulence

MAKING AN IMPACT THAT MATTERS since 1845

Contents

Our publication is divided into two sections as highlighted below:

Global, Africa and East Africa Macro Overview

Pages 5-10

This section gives a brief overview of global, Africa and East Africa's macroeconomic overview. Here, we focus on economic evolution and the prevailing trends of the three aggregates.

In addition, we dive into the global debt dynamics, and review the status of the integration of Africa and further, East Africa.

Country and Sectoral analysis

Pages 11-85

In this section, we analyse six East Africa economies and their respective sectors between 2021 and 2023, with the review of the expected performance in 2024. We have analysed the agriculture, industry and services sectors in Kenya, Ethiopia, Tanzania, Uganda, Rwanda and Democratic Republic of Congo (DRC).

Countries Covered

Kenya

Ethiopia

Tanzania

Uganda

Rwanda

The Democratic Republic of Congo

Foreword

Welcome to Volume IV of the East Africa Macroeconomic Publication, where we explore the theme, **'Cautious optimism amid economic turbulence'.**

This volume provides a comprehensive overview of the current economic landscape of the region with a focus on the key themes that are shaping the outlook for the coming year. The last year has been challenging for the East African region, with increased global commodity prices, subsequent higher cost of living, an ensuing series of monetary tightening stances, currency depreciations and overall debt distress. The residual effects of these challenges continue to plague the East African countries and have posed macroeconomic headwinds.

This year's publication explores the following four key themes that are shaping the macroeconomic outlook for East Africa:

- **Global inflation and its impact on the region:** The effects of the Ukraine conflict precipitated global inflation and as a result, currency depreciations world over. East Africa, on account of its net importer status, was particularly vulnerable to imported inflation. This resulted in increased input costs, a high cost of living and subsequently, declining consumer demand.
- **Monetary policy and financial stability:** Central banks in East Africa have faced a difficult balancing act, with the need to tighten monetary policy to combat inflation while not stifling economic growth. The United States Federal Reserve rate, which currently sits at a 22-year high, has resulted in capital flight from emerging markets as investors look to derisk in search for lucrative and nearly inflation-free investments. This resulted in a decline in foreign investments in East Africa and consequently, a general economic slowdown.
- **Fiscal policy and debt sustainability:** The COVID-19 pandemic has led to a significant increase in public debt levels in East African countries, with the recent funding squeeze on account of high interest rates, elevated sovereign debt spreads and currency depreciation further raising the cost of debt. The publication assesses the fiscal policy challenges facing the region and discusses the options for ensuring debt sustainability.
- **Trade and investment:** Trade and investment are essential for economic growth in East Africa. We examine the latest trends in trade and investment in the region and discuss the policies that can be implemented to attract more foreign direct investment.

Despite these headwinds, we remain cautiously optimistic about the outlook for 2024 for the region, with expectations of abating macroeconomic challenges and better global growth outcomes in the medium term. In this publication, we use the latest available data up to 30 September 2023, unless otherwise stated.

East Africa is at the forefront of the global economic frontier. The region has immense potential to overcome its socioeconomic challenges. We hope that this publication will help you understand this potential and inform your decisions across various sectors.

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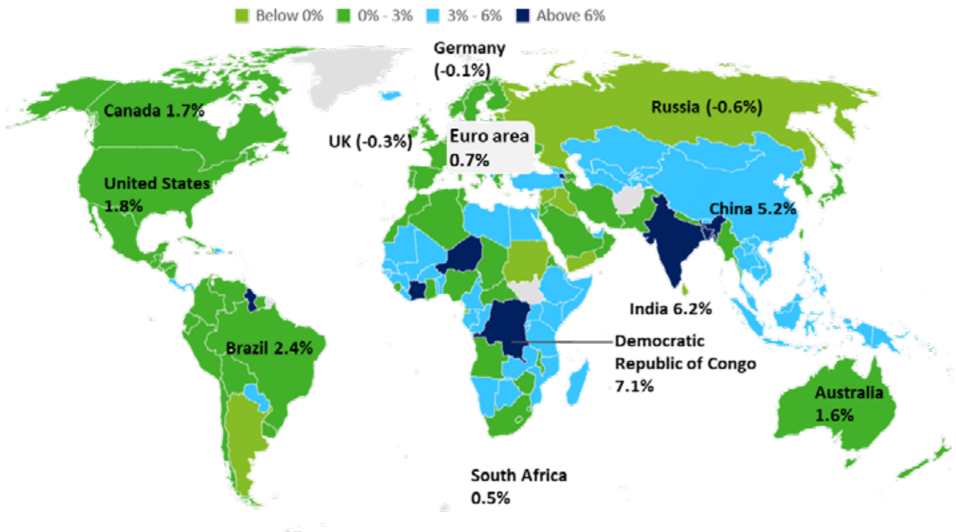
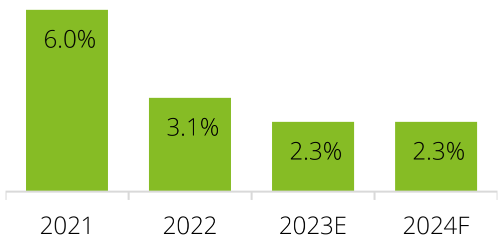
The global economy

The 2021 and 2022 global economic shocks have forced central banks globally to adopt tight fiscal policies to fight rising inflation which is expected to continue weighing heavily on real GDP growth in 2023 and 2024.

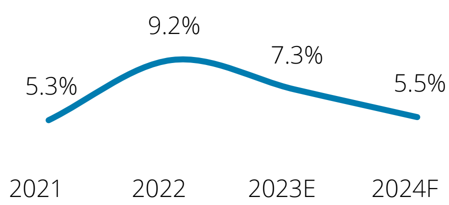
Global economic outlook - 2023 expectation (Real GDP Growth)



Global real GDP growth



Global average inflation



E(Estimate), F(Forecast)

Source: Economist Intelligence Unit, Fitch Solutions

Global macroeconomic outlook

The global economy experienced a sharp slow down in 2022, driven by the lingering effects of the COVID-19 Pandemic, Russia's invasion of Ukraine and the cost-of-living crisis.

Inflation peaked to multidecade highs in 2022 in numerous countries driven by pent-up demand, supply disruptions, and commodity price spikes. Due to rising inflation rates, central banks globally have aggressively tightened monetary policies in efforts to keep inflation expectations anchored. Global inflation is set to fall from 9.2% in 2022 to 7.3% in 2023 and further to 5.5% in 2024 primarily driven by falling commodity and energy prices. However, the Israel-Hamas war is expected to disrupt global oil supply posing risks to the inflation outlook.

Global economic growth is expected to remain subdued in 2023, with real GDP projected to decline from 3.1% in 2022 to 2.3% in 2023, owing to tight policy stances to curb inflation, uncertainty from the recent deterioration in financial conditions, the ongoing war in Ukraine, and the resultant growing geoeconomic fragmentation.

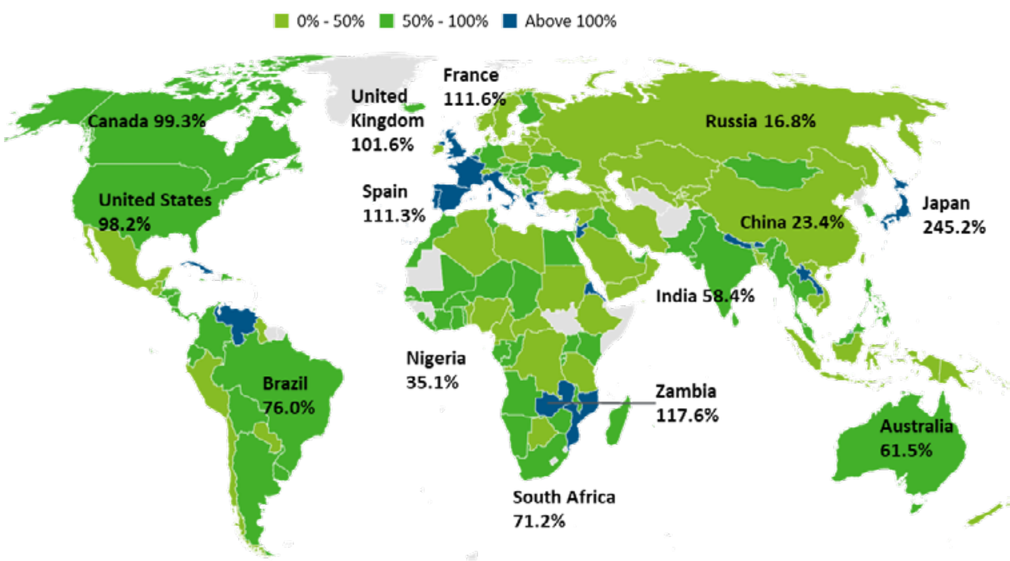
Global economic growth is expected to remain at 2.3% in 2024, matching the pace of growth in 2023. This is on account of tight fiscal policies that were adopted in 2023 that are expected to feed into weaker economic activity in 2024 and weakening demand in China and the Eurozone.

Economic slowdown is mostly concentrated in advanced economies, particularly the Euro area, where growth is expected to stand at 0.8% in 2023. The economic impact of the Russia-Ukraine war is felt strongly in Germany and central Europe, where energy-intensive industries are expected to struggle to remain competitive.

Global debt outlook

The global public debt-to-GDP ratio is expected to average 76.7% in 2024, posing significant concerns for governments in the wake of tighter global financial conditions, weak economic growth prospects, and a still stronger US dollar.

Global public debt as a % of GDP - 2023 expected outlook



Source: Economist Intelligence Unit, Fitch Solutions

Global public debt to GDP ratio

Percentage →	77.7%	75.1%	75.8%	76.7%
Year →	2021	2022	2023E	2024F

Global debt outlook

The global economy has been battling with unusual debt dynamics in the last two decades, with global public debt estimated to have increased fivefold in that period, outpacing the rate of economic growth. Real GDP is estimated to have only grown threefold over the same period.

Public debt as a percentage of GDP stood at 75.1% in 2022 and is expected to rise to 75.8% and 76.7% in 2023 and 2024, respectively. Developing countries owe an estimated 30.0% of the total global debt, with 70.0% attributable to China, India and Brazil. In the last decade, public debt has grown rapidly in developing countries than in developed countries primarily driven by growing development finance needs and by limited alternative funding sources.

In developing countries, the public debt burden has been heightened by an international financial system that worsens the negative impact of global financial crises through limiting access from development finance institutions (DFIs), thereby leading to borrowing from expensive sources. The ability of developing countries to generate foreign exchange through exports to service debt has also been declining.

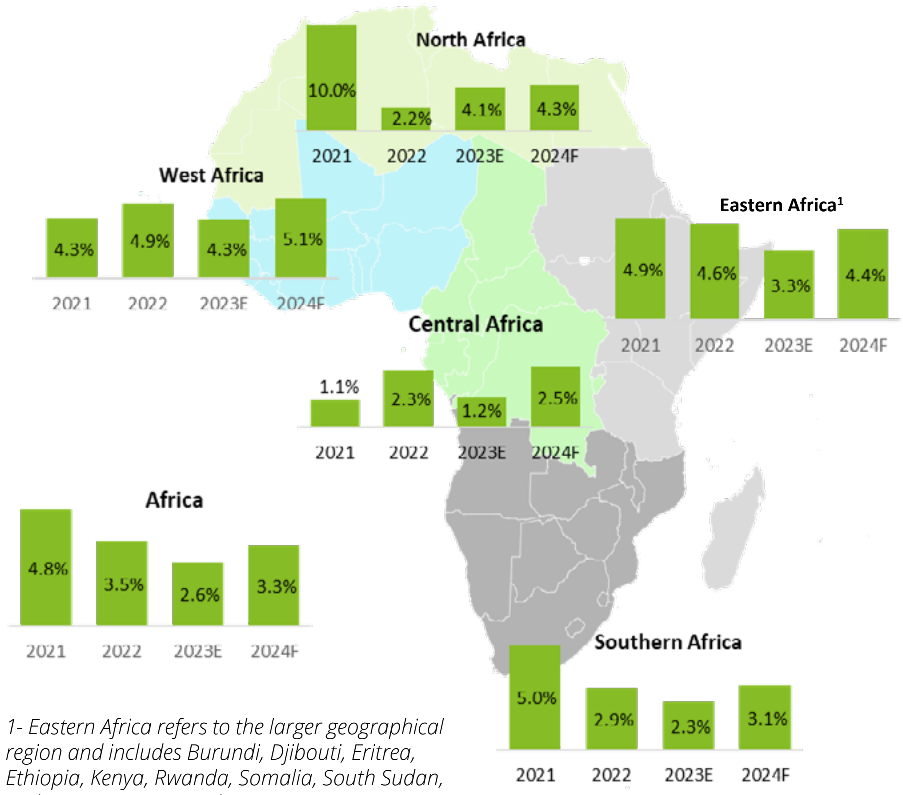
The elevated level of public debt has also resulted in borrowing costs in developing countries, thereby constraining spending in key development areas. Over the last decade, interest payments in developing countries have outpaced public spending on health, education and investment.

In the wake of the prevailing high cost of living crisis, governments will need to find the balance between priority spending, particularly for low-income households and prioritise debt sustainability over the medium term.

African macroeconomic outlook

Africa's economic activity is expected to slow down for the second consecutive year primarily driven by the global economic slowdown and tight global financial conditions.

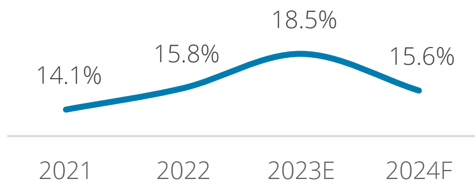
Africa economic outlook by region - 2023 expected outlook (Real GDP Growth)



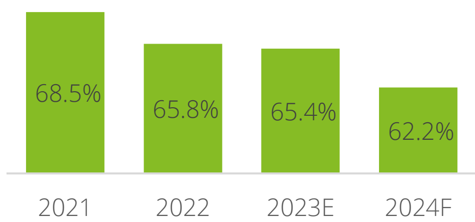
1- Eastern Africa refers to the larger geographical region and includes Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Sudan, Tanzania Uganda

Source: Economist Intelligence Unit, Fitch Solutions

Africa average inflation rate



Africa public debt as a % of GDP



Africa macroeconomic outlook

Economic growth in Africa is expected to slow down for the second consecutive year in 2023, with real GDP averaging 2.6% from the 3.5% recorded in 2022. This is primarily on account of the global economic slowdown, global financial tightening conditions and sluggish growth in key African economies such as South Africa. Economic growth is expected to rebound to 3.3% in 2024 on account of global economic recovery, moderating inflation and easing of monetary policy tightening.

Economic growth is however, not uniform across regions in Africa. Growth in the Central Africa region is expected to slow down from 2.3% in 2022 to 1.2% in 2023, as commodity prices decline. Growth in North Africa is expected to rebound from 2.2% in 2022 to 4.1% in 2023 owing to drought and oil production recoveries in Morocco and Libya. Growth in Southern Africa's GDP is expected to decline from 2.9% in 2022 to 2.3% in 2023 owing to high interest rates and power outages.

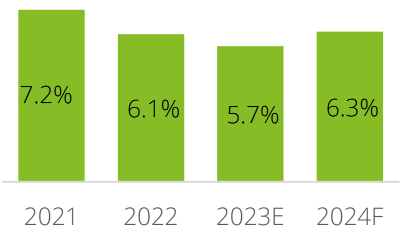
Average inflation in Africa is expected to surge for the second year in a row, increasing from 15.8% in 2022 to 18.5% in 2023, mainly driven by high consumer prices due to Russia-Ukraine war, restrictive monetary policy stances from major global economies and currency depreciations against the dollar. Inflation is expected to recede to 15.6% in 2024 as global energy markets continue to stabilise.

Africa's public debt as a percentage of GDP skyrocketed to 68.5% in 2021 owing to widening fiscal deficits brought about by the COVID-19 crisis. Public debt is expected to remain elevated at 65.4% in 2023 given the fiscal impacts of the Russia-Ukraine war, the global economic slowdown and exchange rate depreciations experienced in certain African countries. The African continent is approaching a maturity wall on its Eurobonds beginning in 2024. As a result, most African countries may struggle to tap into international markets to roll over maturing debts. This implies that most African countries may form part of IMF programmes with certain fiscal adjustment policies which may make it difficult to achieve sustainable debt and external balances.

East Africa macroeconomic outlook

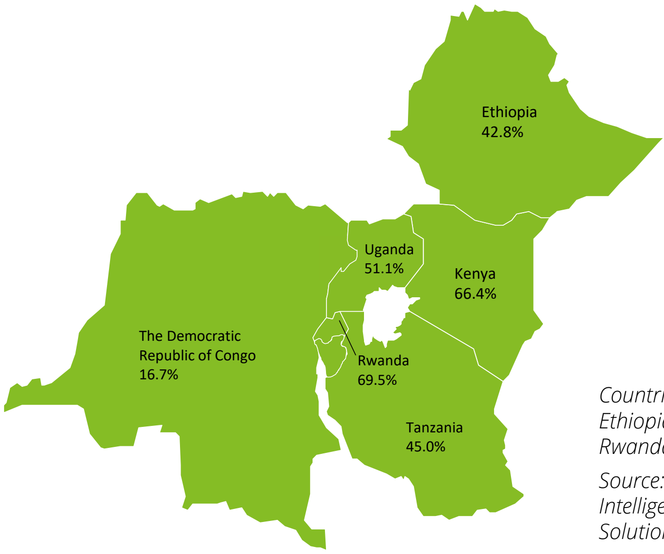
The socio-economic shocks experienced in East Africa in 2022 including drought, political instability, commodity price hikes and currency depreciation are expected to feed into weaker economic activity and high levels of inflation in 2023.

E.A. average real GDP growth



Source: Economist Intelligence Unit, Fitch Solutions

East Africa - public debt as a % of GDP - 2023 outlook



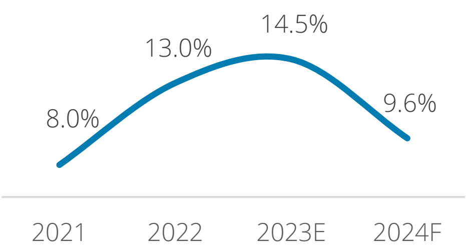
Countries included: Kenya, Ethiopia, Uganda, Tanzania, Rwanda and DRC*

Source: Economist Intelligence Unit, Fitch Solutions

East Africa macroeconomic outlook

GDP growth in East Africa is expected to slow down from 6.1% in 2022 to 5.7% in 2023 attributable to the global economic slowdown, rising commodity prices, tightening of global financial conditions and exchange rate depreciation. Growth is expected to recover in 2024, with real GDP growth averaging 6.3% driven by a full recovery of the services sector and improved export performance. The growth outlook could also be affected by commodity price volatility, rising debt service costs and the fast pace of currency depreciation in most East Africa countries.

E.A. average inflation rate*



Source: Economist Intelligence Unit, Fitch Solutions

Average inflation in the East Africa region is expected to increase for the second consecutive year, rising from 8.0% in 2021 to 13.0% in 2022 and further to 14.5% in 2023 primarily driven by high food and energy prices and currency depreciation. The inflationary pressures are expected to ease in 2024 as the global supply chain disruptions subside.

The average public debt as a percentage of GDP in East Africa stood at 51.6% in 2022 and is expected to remain elevated at 49.9% in 2023 due to the high cost of imports, weak recovery in exports and rising international interest rates.

E.A. public debt as a % of GDP*

Source: Economist Intelligence Unit, Fitch Solutions

The rising interest rates have led to increased debt service costs, with Burundi, Ethiopia, Rwanda, Tanzania and Uganda being listed on the Highly Indebted Poor Countries (HIPC) initiative.

Debt dynamics are however not uniform across the East Africa region. Of the East Africa countries, Burundi is expected to record the highest public debt to GDP ratio in 2023, standing at 71.7%, followed by Rwanda (69.5%) and Kenya (66.4%). On the other hand, the Democratic Republic of Congo is expected to record the lowest public debt to GDP ratio of 16.7% in 2023. Most East African countries are facing challenges in public debt management due to low tax revenue collection, high interest on external loans, the funding squeeze from developed countries and currency depreciation, which will lead to higher debt repayments since most of the amounts borrowed are denominated in foreign currency.

State of African Integration

Despite having the highest density of economic integration and cooperation arrangements, Africa has recorded a slow pace of regional integration attributed to inadequate political will, poor design of regional agreements, funding inadequacy and exclusion of key stakeholders in the regional integration process.

Trade integration

Trade integration in the African continent is still lagging owing to the fact that Africa has the highest average import duties and the highest average non-tariff barriers in the world.

Regional exports and imports are expected to grow as more countries ratify the African Continental Free Trade Area (AfCFTA) agreement and start liberalising trade within the continent. Growth in trade is expected to spur demand for production capacity and regional infrastructure, enhancing trade and overall integration.

Eswatini, Lesotho and South Africa, who are members of the Southern African Customs Union (SACU), rank as Africa's best performers in trade integration, as SACU boasts a full customs union that renders its economies strongly interdependent.

Macroeconomic integration

The continent fairs moderately on the macroeconomic front, with a huge gap between its most and least integrated countries, mainly driven by extremely high inflation in some countries.

Morocco is the most integrated country, ranking far ahead of the runner-up Mauritius, while the two least macro-economically integrated countries in Africa are South Sudan and Angola.

The top performers tend to be countries whose currencies are easily convertible to other currencies and have the greatest number of bilateral investment treaties presently in force. South Sudan has African's most unfavourable inflation rate and no bilateral investment treaties.

To experience regional economic stability, it will be critical to adhere to sound, coordinated fiscal and monetary policies.

Infrastructural integration

Infrastructural integration is still poor in Africa, with 31 countries considered to be poorly integrated and only 11 countries considered to be moderately integrated.

South Africa yet again ranks as the continent's most integrated country, on account of strong flight connections within the continent. North African countries: Egypt, Morocco and Tunisia also boast good flight connections.

South Sudan, Eritrea, Somalia, Chad, and Niger on the other hand have the least integrated infrastructure on the continent.

Productive integration

Africa performs worst in the productive integration dimension, implying that production is not evenly spread across the continent hence countries have not been realising the benefits of their comparative advantages. This is in part due to poor or inexistent logistics.

South Africa ranks as Africa's leader on this dimension, as regional imports and exports of intermediate products to and from South Africa account for a larger proportion of regional trade in South Africa than they do in any other country on the continent.

> “
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> ***Trade integration in the African continent is still lagging owing to the fact that Africa has the highest average import duties...***

Free movement of people

There exists a great disparity on how different African countries fair on free movement of people, reflecting roadblocks that African citizens encounter when travelling, hindering their ability to conduct business, improve tourism and enhance overall integration.

Comoros, Djibouti, Rwanda and Somalia rank highest, as citizens from all African countries can obtain a visa on arrival in these countries given these countries have adhered to the Free Movement of Persons Protocol (Kigali).

Libya, Eritrea, Ethiopia, Burundi, and Algeria on the other hand are the least integrated countries as none of these countries have signed the Free Movement of Persons Protocol (Kigali), and most African citizens need a visa to enter their territory.

Adherence to the Free Movement of Persons Protocol (Kigali) and greater visa openness is critical to this dimension as it lowers transaction costs, increases trade, and makes production more efficient.

East Africa Community: The Most Integrated Community in Africa

The regional integration process is in full swing in the East Africa Community as reflected by the progress of the East African Customs Union, the establishment of the Common Market in 2010 and the implementation of the East African Monetary Union Protocol.

EAC integration overview

Over the past few years, the EAC has made significant steps towards integration, making the region the second fastest growing Regional Economic Community (REC) globally.

On 8th March 2022, the Democratic Republic of the Congo (DRC) formally joined the EAC as the seventh member, strengthening the region's economic muscle and competitiveness towards realisation of free movement of people, goods and services across the Community.

The entry of the DRC increased the region's combined GDP by approximately 22% and the geographical area by 79%. Its entry is also expected to expand the labour market and enhance trade linkages in the Community.

The EAC integration journey commenced in 2000 and is underpinned by four main pillars discussed below.

The Customs Union Protocol (2005)

The Customs Union was established in January 2005 and became fully operational in 2010, kickstarting EAC's integration process.

The key aspects of the customs union comprise a Common External Tariff (CET) on imports from other countries outside the EAC, duty-free trade between Partner States and adoption of common customs procedures. Effective July 22, the EAC CET is structured under four bands of:

- 0% for raw materials and capital goods;
- 10% for intermediate goods not available in the region;
- 25% for intermediate goods available in the region; and
- 35% for imported finished products available in the region.

Key achievements of the customs union comprise reduction of non-tariff barriers and improving the business environment in the region, e.g., the Electronic Single Window System (ESWS) that has significantly reduced goods clearing time. Most notably, the transit time from Mombasa to Kigali was reduced from 21 to five days, with the cost of hiring a truck declining by averagely USD 1,000.

EAC Common Market Protocol (2010)

The Common Market Protocol came into force in July 2010 with the objective of deepening cooperation among partner states and facilitating free movement of goods & services, people, labour and capital and introduce the Right of Establishment and Residence.

The main achievements of the protocol comprise the use of IDs/ student cards as travel documents, removal of visa and work permit fees for East Africans, the right of establishment and Residence and East Africans having one common East African Electronic Passport from January 2017.

The Monetary Union Protocol (2013)

The Monetary Union Protocol was approved in November 2015, directing its members to implement the 10-year road map to a single common currency by establishing the institutions requisite to the protocol implementation.

In December 2022, the East African Legislative Assembly (EALA) passed a bill establishing the East African Financial Services Commission (EAFSC), one of the key steps on the road to achieving regional monetary union.

Progress on the monetary integration has however been slow, with all member states behind schedule, and pushing back on the timeline for implementation from 2024 to 2031.

Political Federation

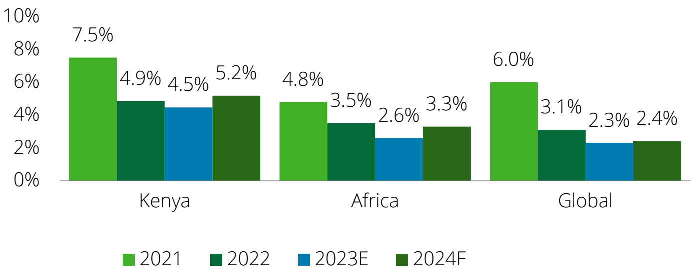
This is the ultimate stage of EAC integration, whose overall aim is to unite EAC member states into a unified political authority, capable of coordinating its policies and addressing common political, social and economic issues.

Kenya

Macroeconomic and sectoral analysis

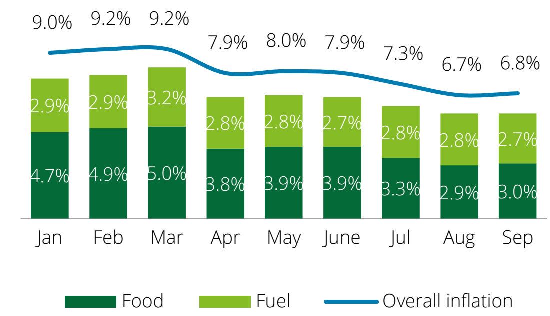
Kenya
Economy at a glance

Real GDP growth



Source: EIU, CBK, Stanbic Bank

YTD inflation - 2023



Source: EIU, CBK, Stanbic Bank

Kenya's real GDP growth decelerated from 7.5% in 2021 to 4.9% in 2022. The slowdown was attributable to global supply chain shocks from the Russia-Ukraine war as well as supressed agricultural production resulting from extended drought in the country. In 2022, the services sector contributed about 80% to the GDP growth, with the primary drivers being financial services and tourism sectors. GDP growth is expected to further shrink to 4.5% in 2023 mainly owing to the slowdown in global economy and domestic constraints.

Higher interest rates are expected to raise the cost of borrowing, reduce credit uptake, and limit consumption and investment. In addition, the increase in government taxes and fuel prices is expected to inflate input costs and product prices thereby exerting additional pressure on household disposable income. This is already reflected in the Purchasing Mananger Index (PMI) data that has been trending downwards from 49.2 in Q1 of 2023 to 48.1 in Q2 of 2023, and 47.9 in Q3 of 2023 signalling business contraction due to shrinking demand. In response to the deteriorating business environment, firms have resorted to reducing their workforce, which in October 2023, saw layoffs rise to COVID-19 levels.

The country's GDP is expected to accelerate to 5.2% in 2024, anchored on improved agricultural production and related exports, as well as growth in the services sector, particularly tourism. However, we remain cautious in our assessment as increased tax rate, higher fuel prices, slower global economic growth and heightened debt levels could impact consumption, investment and overall economic recovery.

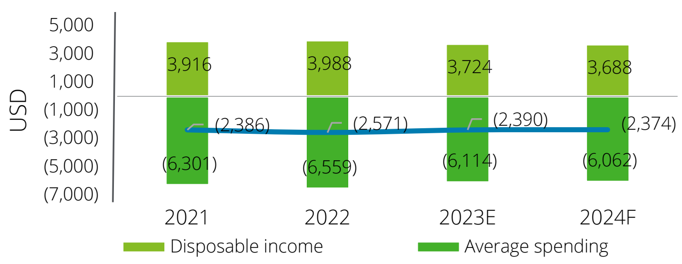
Kenya's inflation accelerated to 7.7% in 2022 from 6.1% in 2021 due to high commodity and food prices resulting from Russia-Ukraine war headwinds and poor local agricultural performance. In addition to these, high import costs resulting from brisk depreciation of the Kenya shilling have propelled average annual inflation to stand at 8.0% as at September 2023 compared to 7.1% in September 2022. Food inflation has recorded a general decline in H2 of 2023 except for the slight increase in September attributable to increased vegetable and sugar prices. Fuel inflation remains persistent mainly owing to the gradual increase in pump prices by the government which could be aggravated by the removal of fuel subsidies.

This has seen the cost of transport increase by 13.0% and housing, water, electricity, gas and other fuels increase by 6.3% between September 2022 and September 2023. The high cost of living has, in turn, restrained consumer spending on non-essential goods besides contributing to the social unrest and country wide protests experienced in the first half of 2023. The Central Bank of Kenya (CBK) expects inflation to fall below 7.5% by end of 2023, having reduced from 9.1% in Q1 of 2023 to 7.9% in Q2 of 2023 and further to 6.9% in Q3 of 2023 supported by easing food inflation and impact from the ongoing monetary tightening measures. Inflation is expected to further subside to 5.8% in 2024 due to reduced food inflation, fewer tax increases, and easing currency depreciation and slightly lower oil prices.

Annual inflation

Percentage →	6.1%	7.7%	7.8%	5.8%
Year →	2021	2022	2023E	2024F

Total household income and expenditure

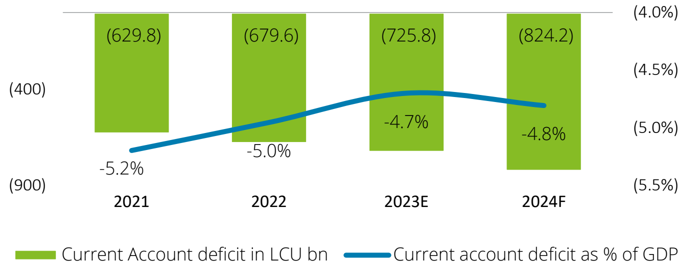


Source: EIU, CBK, Stanbic Bank

Household disposable income marginally increased from USD 3,916 in 2021 to USD 3,988 in 2022 supported by a 12.0% increase in minimum monthly wages and food and fuel subsidies that helped offset consumer price inflation. However, household disposable income is set to decline to USD 3,724 in 2023 and USD 3,688 in 2024 predicated by increased tax burden and sticky inflation that will outpace income growth.

Household expenditure increased from USD 6,301 in 2021 to USD 6,559 in 2022 due to a slight increase in disposable income and higher consumer product prices in the second half of 2022. Household spending is expected to shrink to USD 6,114 in 2023 and USD 6,062 in 2024 mainly owing to inflationary pressures and reduced disposable income. Notably , the average YTD PMI in 2023 stands at 48.5 reflecting reduced business output in response to declining orders throughout the year on the back of reduced household expenditure. Manufacturing, wholesale and retail, and construction sector have been the most hardly hit while agriculture is the only sector that has recorded expansion in 2023. Going into 2024, households are expected to prioritise basic essentials with spending on food and non-alcoholic drinks, transport, and housing set to account for 68.0% of household expenditure.

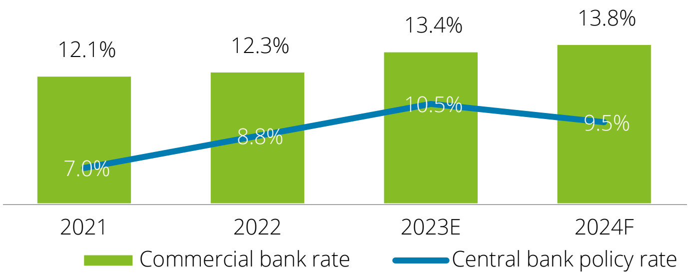
Current account deficit



Source: EIU, Fitch Solutions

The current account deficit slightly reduced to 5.0% of GDP in 2022 from 5.2% in 2021 on the back of increased export income and remittances. This was, however, largely offset by increased expenditure on imports and payment of services. The CBK expects the current account deficit as a percentage of GDP to narrow to 4.7% and 4.8% in 2023 and 2024 respectively, supported by lower international oil prices, resilient services receipts and remittances, and faster growth in exports compared to imports. In this regard, the total goods exported have increased marginally by 0.5% to stand at USD 7.3bn, while the total goods imported have declined by 11.9% to stand at USD 17.3 bn in the 12 months to August 2023. The total remittances have grown by 3.2% to stand at USD 4.1bn in the twelve months to August 2023 while tourist arrivals have increased by 55% in August 2023 compared to August 2022, contributing to increased service exports. Combined, these factors have seen the balance of payments increase from a deficit of USD 2.1bn in 12 months to August 2022 to a surplus of USD 1.0bn in 12 months to August 2023 and will contribute to the lower current account deficit.

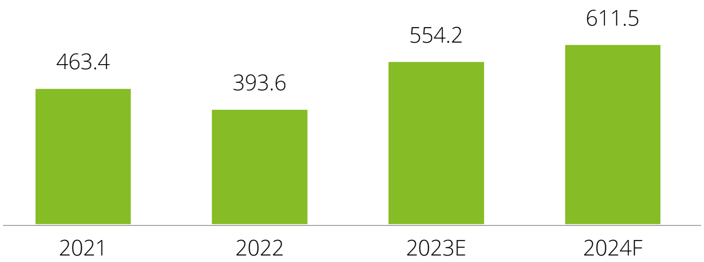
Lending rate



Source: EIU, Fitch Solutions

The CBK continues to implement tighter monetary policy aimed at bringing inflation to its target band of 2.5%-7.5%. In December 2023, the Monetary Policy Committee (MPC) hiked the policy rate to a record 12.5%, bringing the cumulative increase to 500 basis points in a year, noting that the interest rate hike was necessitated primarily by downward pressure on the shilling. Adoption of higher interest rates has seen commercial banks increase their lending rates to a weighted average of 13.4%. With Kenya recording declining inflation in H2 of 2023, the MPC is likely to maintain the benchmark rate at 10.5% and implement gradual cuts in 2024. However, further interest rate hikes in developed economies might compel the MPC to implement a tighter monetary stance, which will have an adverse impact on private sector borrowing and in turn, reduce consumption and investments.

FDI inflows USD in millions



Source: EIU, Fitch Solutions

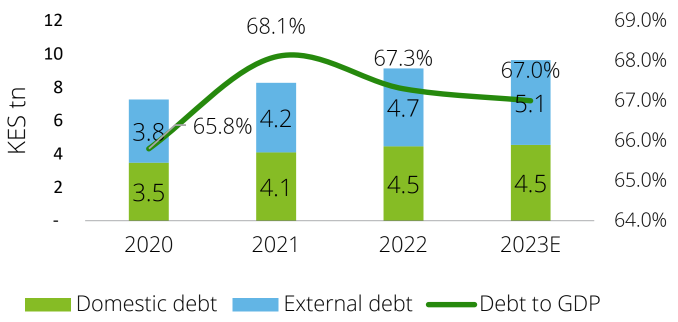
Foreign direct investment (FDI) inflows declined from USD 463.4m in 2021 to USD 393.58m in 2022 occasioned by investor preference for assets in developed markets, which were considered less risky than local assets. Between July 2022 and July 2023, the total foreign investor purchases of Kenyan equities amounted to KES 30.4bn compared to foreign investor sales of KES 60.7bn.

FDI inflows are expected to increase to USD 554.2m in 2023, and USD 611.5m in 2024 due to improved investor confidence in H2 2023 anchored by recovering forex reserves, ongoing fiscal consolidation, and continued capital injection from the IMF, World Bank, and Afrexim Bank which is perceived as a positive signal. Kenya recently gazetted the Two Rivers International Finance and Innovation Centre (TRIFIC) a special economic zone hoping to attract service-oriented foreign investment through lucrative tax incentives. Besides, Kenya's diversified economy, robust capital market and financial sector will continue to play a critical role in attracting FDI inflows. However, a tougher global economic environment and continued monetary tightening in developed markets in addition to internal factors such as high production costs and unfavourable regulatory environment, pose a downside risk to foreign direct investments inflows in the country.

FDI inflows are expected to increase to USD 554.2m in 2023, and USD 611.5m in 2024 due to improved investor confidence in H2 2023 anchored by recovering forex reserves...

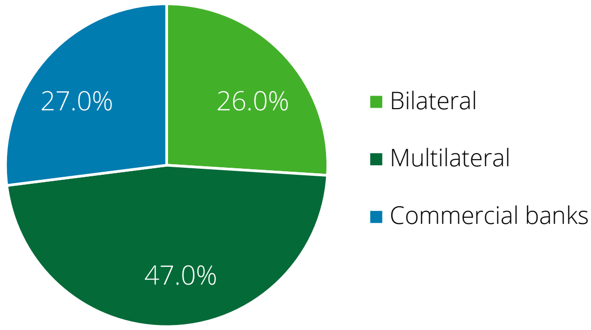
Debt analysis

Kenyan debt (2020 - 2023E)



Source: National Treasury

Share of external debt (Dec 2022)



Source: National Treasury

Kenya's debt-to-GDP ratio slightly dropped to 67.3% in 2022 from 68.1% in 2021. The debt-to-GDP ratio is expected to further decline to 67.0% in 2023 as the government looks to reduce borrowing.

The total debt stock as at December 2022 stood at KES 9.2trn of which KES 4.7trn was externally sourced, while KES 4.5trn was raised locally. The total debt is expected to increase to KES 9.6trn in 2023 due to anticipated government borrowing to cover the budget deficit in the 2023/24 fiscal year.

The country's budget balance was 5.7% of the GDP in fiscal year 2022/23, down from 6.2% in 2021/22 mainly attributable to the ongoing fiscal consolidation program. The government intends to narrow the budget deficit to 3.9% of GDP in 2024/25 to reduce its debt accumulation.

As at December 2022, interest payment on domestic debt was 3.9% of Kenya's GDP and triple the interest paid on external debt. Local debt sources carry higher interest rates due to the shallow nature of the market.

On the other hand, Kenya's external debt, which is denominated in foreign currency, has exposed the country to foreign exchange risk. In the last three years, Kenya shilling has depreciated by 31.1% against the US dollar moving from an average exchange rate of KES 106.4/USD in 2020 to KES 139.4/USD in 2023, which translates to increased cost incurred to service debt.

The country's largest maturity is in 2023 and is largely dominated by local treasury bills. However, upcoming Eurobond maturities in 2024 and 2028 will have more impact on the country's economy considering its pressure on the forex reserves.

Recent economic shocks from the COVID-19 pandemic, Russia-Ukraine war, and a prolonged drought, have increased the country's risk of debt default. In February 2023, global ratings agency S&P downgraded Kenya's debt rating from stable to negative. Poor ratings have constrained the country's access to debt in the international market forcing the government to postpone issuance of a new Eurobond in 2022.

Kenya 2024 Eurobond yield

Source: Refinitiv

Increased debt default risk and sustained inflation has propelled the government to pay higher interest rates to attract investors. Treasury yields across the short, intermediate and long term part of the yield curve recorded an increase between December 2021 and September 2023 due to reduced investor appetite for Kenyan bonds, which carry a higher risk.

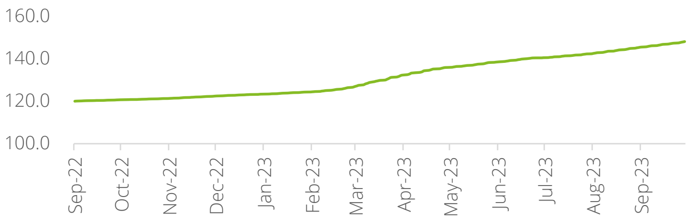
Kenya 2024 Eurobond yield (contd)

In its medium-term debt sustainability strategy, the government aims to optimise concessional funding and lengthen maturity profile of debt through issuance of medium to long dated bonds. Further, Kenya hopes to deepen its domestic bond market and has recently launched the Dhow CSD, a digital infrastructure for trading government securities. Combined, these initiatives are expected to help relieve the country's debt distress.

In addition, Kenya has a 38-month arrangement with the IMF's Extended Credit Facility (ECF) and Extended Fund Facility (EFF). Under this programme, Kenya has to undertake broader reforms such as addressing weaknesses in state-owned enterprises, strengthening accountability, and fiscal consolidation. These measures will help the country achieve debt sustainability in the future.

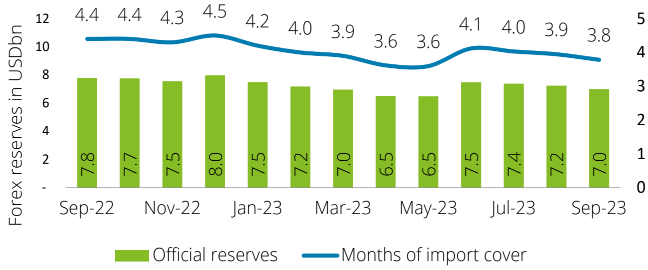
The currency conundrum

USD/KES daily exchange rate



Source: Central Bank of Kenya

Foreign exchange reserves



Source: KNBS

The Kenya shilling has depreciated against the USD from KES 120.4/USD in September 2022 to KES 146.8/USD in September 2023 and KES 150.27 in the fourth week of October 2023. This is largely due to the ongoing monetary tightening in the US that has seen the dollar strengthen over many currencies owing to increased demand by investors.

In a move aimed at taming heightened inflation and stabilising the local currency, the CBK hiked the benchmark rate by 100 basis points to 10.5% in June 2023, up from 9.5% that had been set in March 2023. The CBK, with lucrative interest rates, hopes to attract foreign investors who will inject foreign currency into the economy and ultimately help to reduce the currency depreciation.

The exchange rate is forecasted to average KES 139.4/USD in 2023, ending the year at KES 151.4/USD. The shilling depreciation is expected to subside averaging KES 153.1/USD in 2024 anchored on reduced monetary tightening in the US, improved balance of payment, and reduced inflation.

The weaker KES has contributed to the sustained inflation experienced in the country due to increased prices for imported commodities. Besides, it has inflated the cost incurred to service external debt. On the flipside, the weaker shilling is expected to discourage imports limiting growth to 1.6% in 2023 while catalysing exports, which are forecasted to record a 6.7% y-o-y growth. This will contribute to improved balance of payment, reduce the current account deficit, and ease the pressure on the country's forex reserves.

The country's official foreign exchange reserves declined from USD 8.3bn in July 2022, to USD 6.5bn in May 2023, leaving the country with 3.6 months worth of import cover. This decline was attributable to: (i) Increased cost of imports precipitated by the Russia-Ukraine war; (ii) Mass capital flight as foreign investor disposed the local assets holdings; and (iii) Continued servicing of external debt.

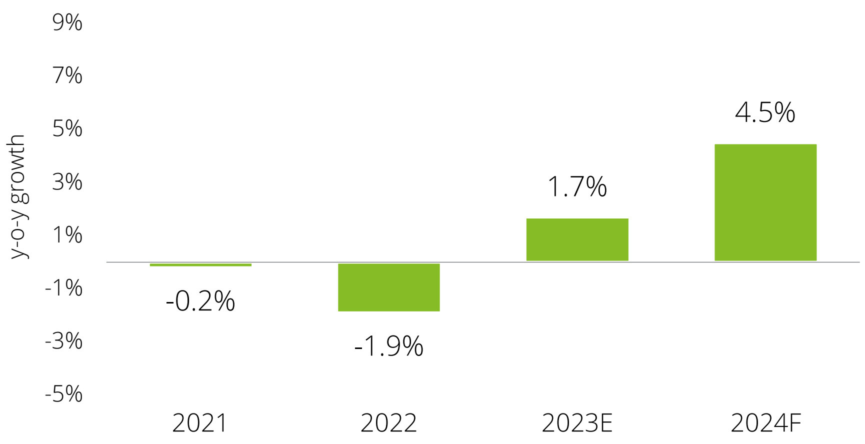
Tighter global financial conditions amplified by lower debt ratings have limited Kenya's ability to raise funds from international financial markets, greatly contributing to the country's declining reserves. This is aggravated by its debt servicing requirement that increased by 19.8% in FY20/21 and by 17.6% in FY21/22 respectively.

Kenya has recently received several loans including a USD 1bn disbursement from the World Bank in June 2023 extended to support fiscal consolidation, which, combined, contributed to the country's increased stockpile of foreign currency. Remittances from diaspora, which have grown at 15.7% CAGR in the last five years will play a significant role in improving forex reserves in the future. In 2024, the country's scheduled repayment of Eurobond will pose a great risk to its foreign currency reserves. However, the Central Bank will look to offset this impact through external financing from banks, bilateral and multilateral lenders.

Agriculture sector

Kenya's agriculture sector is expected to bounce back from a two-year contraction to grow by 1.7% in 2023, and 4.5% in 2024 attributable to increased rainfall experienced in most regions of the country.

Agriculture sector performance



Source: EIU

Agriculture continues to play a critical role in Kenya by employing at least 40.0% of the total population and 70.0% of the rural populace. In 2022, the sector contributed 21.2% to the GDP but this is expected to decline to 17.6% in 2023 and 16.9% in 2024 due to faster growth in other sectors.

The agriculture sector recorded a contraction in consecutive years. In 2022, the sector shrank by 1.9% against the forecasted growth of 2.7% in our East Africa Macro Economic Outlook Vol III. This was occasioned by drought in most parts of the country and rising costs of farm inputs; the price index for purchased inputs increased from 100.2 in 2021 to 139.5 in 2022. Ultimately, downturn in the sector muted GDP growth and accelerated inflation in the country.

In 2023, the country's self sufficiency in maize, sugar, wheat, and rice stands at 78.1%, 63.6%, 15.8%, and 8.1% respectively, highlighting the country's excess demand over local production. Considering the country's growing population, continued reliance on imported agricultural products is expected to expose Kenya to external shocks.

In September 2022, the government announced a KES 3.5bn subsidy for 71k MT of fertiliser resulting in a 50.0% reduction in prices. This came after fertiliser prices had surged by 70.0% earlier in the year due to the Russia-Ukraine war impact. In the 2023/24FY budget, the government set aside KES 49.9bn and committed to continue offering fertiliser subsidies as part of its long-term food security plan.

As a result, the sector is expected to rebound, recording a growth rate of 1.7% in 2023 and 4.5% in 2024 subject to adequate rainfall in the country. The government expects improved agricultural production to drive export growth and GDP expansion.

The government has also made initiatives to protect the country from vulnerabilities arising from climate change and exposure to import shocks. This will help maintain food security in tandem with the country's growing population. The initiatives include; (i) Lifting a ten-year ban on GMOs which are more drought and pest resistant; (ii) Development of a 300MW green ammonia and green fertiliser plant that will facilitate local fertiliser production; and (iii) Reviving the one-million-acre Galana-Kulalo irrigation project.

Construction | Infrastructure

The construction sector is expected to maintain 4.1% y-o-y growth in 2023 owing to lower government spending on infrastructure due to ongoing fiscal consolidation efforts. Growth is expected to accelerate to 5.3% in 2024 driven by the implementation of PPP infrastructure projects.

Source: Fitch

Kenya's construction sector growth declined from 6.6% in 2021 to 4.1% in 2022, lower than the forecasted growth of 5.1% in our East Africa Macro Economic Outlook Vol III. The slower growth was on account of reduced public spending on infrastructure projects in 2022 following the change in government regime that stalled several projects in addition to fiscal consolidation efforts.

In 2023, cement consumption is expected to record a slight increase of 4.1% to stand at 9,904k MT compared to 9,514k MT in 2022. In tandem, cement production is forecasted to increase from 9,523k MT in 2022 to 9,772k MT in 2023, marking a growth rate of 2.6%. This will be driven by mild growth in infrastructure and real estate property development.

The construction sector is expected to maintain a 4.1% growth in 2023 before accelerating to 5.3% in 2024 driven by expenditure on the ongoing and new infrastructure projects including; the first phase of the Nairobi Railway City Project valued at USD 95.4m; Ngong Road-Naivasha interchange valued at USD 25.8m; and expansion of the Kiambu road dual carriage valued at USD 286.0m.

The government has allocated KES 351.3bn in the 2023/24 budget to be used as follows: KES 244.9bn for road construction; KES 41.5bn for rail and ports; KES 62.3bn for reliable energy supply; and KES 2.6bn for development of Dongo Kundu Special Economic Zone.

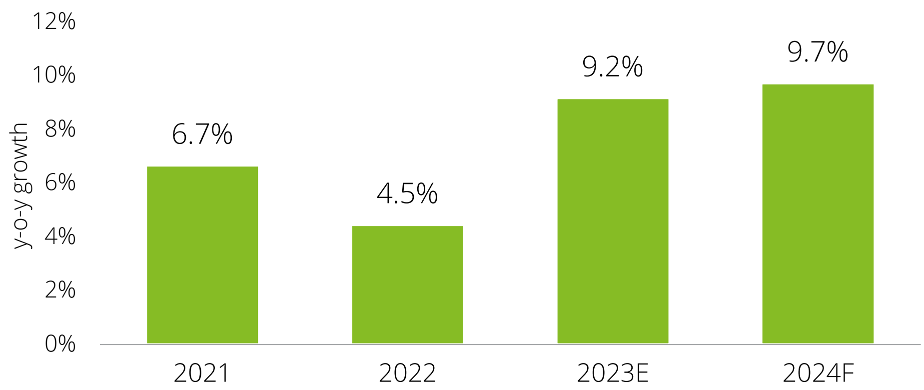
The government launched the Nairobi Express Way in May 2022. Valued at USD 696.5m, the project demonstrated the government's ability to utilise Public Private Partnership (PPP) in infrastructure development. In February 2023, the operating company's CEO noted that over 10,000 vehicles had been registered on their platform and 10m vehicles had used Nairobi Express Way. The road had generated revenue to the tune of KES 2bn since its inception.

The government is expected to look to increasingly utilise PPPs for implementation of infrastructure projects due to the anticipated fiscal consolidation measures. In addition, the government will operationalise Project Facilitation Fund (PFF) that will cover project preparation costs, viability gap funding, contingent liabilities arising from PPP projects and offer liquidity to meet payment obligations.

Construction | Real estate

Growth in the real estate sector is expected to accelerate to 9.2% in 2023 from 4.5% in 2022 driven by increased investor appetite for property, supportive demographics, and infrastructure development in the country.

Real estate sector



Source: EIU

The real estate sector growth reduced from 6.7% in 2021 to 4.5% in 2022 mainly attributable to slower real estate property development and fewer transactions. Property prices soared driven by increased cost of construction materials due to higher import prices and inflation in the country. Growth is expected to accelerate to 9.2% in 2023 and 9.7% in 2024 owing to continued development of private property and government's initiative in the affordable housing project.

The commercial office subsector has recorded an improved rental yield of 7.8% in H1 of 2023 (H123) compared to 7.4% in H2 of 2022 (H222). However, office occupancy levels declined to 71.5% in H123 from 75.4% following the introduction of more than 600,000sq.ft. of new office space in establishments such as the Global Trade Center. The subsector is expected to continue growing mainly driven by services sector expansion and Kenya's strategic location in East Africa that attracts foreign institutions.

The retail subsector rental yield has increased from 7.8% in H222 to 8.2% in H123. Similarly, occupancy rate has improved to 79.4% in H123 from 77.3% in H222. The subsector improvement is attributable to rapid expansion by local and foreign investors. The sector will sustain growth anchored on a growing number of malls and local and international retail stores.

The residential subsector yield has registered a marginal increase from 5.8% in H222 to 6.0% in H123. Property development is driven by demand for housing in line with a growing urban population. Other crucial factors include developed road infrastructure, superior social amenities, security and access to retail outlets.

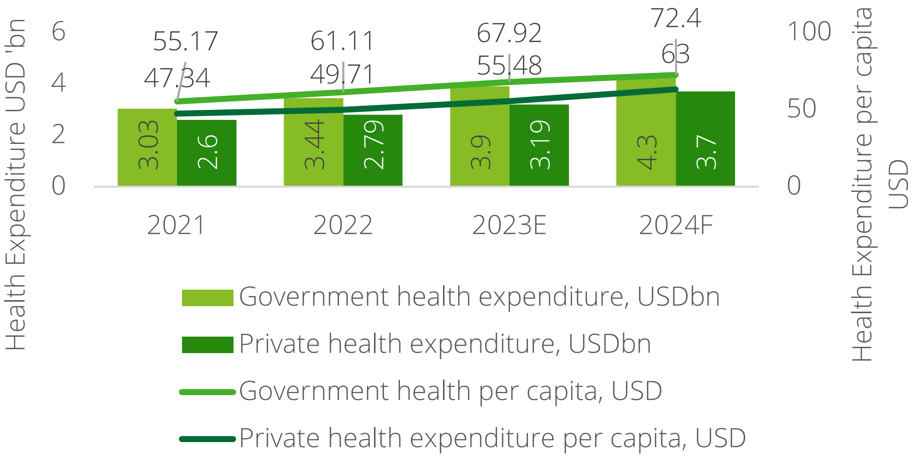
Affordability remains a major hurdle for most Kenyans in their quest to own homes, which speaks to the need for more affordable housing solutions such as affordable home loans or rent to own products.

As such, the national government has expressed commitment to providing affordable housing in a project that looks to construct 250,000 units annually. The government allocated KES 35.2bn in the FY23/24 budget to support the project. Further, the government introduced a 1.5% housing levy on employee's gross salary effective 1 July 2023, with the employer contributing an equal amount. The affordable housing program presents investors with an opportunity for PPPs with the government.

Healthcare sector

The prevalence of communicable diseases such as HIV/AIDs and tuberculosis has declined significantly in Kenya in recent years, but they continue to pose a serious health challenge. Meanwhile, chronic diseases are increasing as a result of longer life expectancy.

Kenya healthcare expenditure



Source: Kenya National Bureau of Statistics (KNBS), Fitch Solutions

The delivery of health care in Kenya is dominated by the public sector, which operates as a public-private health system. The country spends 54.0% of its healthcare budget on public services and 46.0% on private ones. Kenya has the third biggest healthcare market in Sub-Saharan Africa.

The government plans to increase its spending on health services by 26.4% from KES 122.5bn in 2022/23 to KES 154.9bn in 2022/23 as part of its efforts to ensure affordable, accessible and quality healthcare services for all its citizens. The government aims to allocate more resources to the health sector and to create a conducive environment for investments in the healthcare service delivery ecosystem. The government also prioritizes the provision of a social health insurance scheme that will cover all Kenyans.

Kenya strives to digitise its health ecosystem to facilitate data portability and health information interoperability. The eHealth policy 2016-2030 of the Ministry of Health is set to foster the development of digital health in Kenya. Digital health can address the disparity in healthcare services between urban and rural areas, given the country's high mobile and broadband penetration.

However, numerous challenges hinder digital healthcare in Kenya, such as insufficient infrastructure, low literacy, inadequate technical competence, unreliable power supply, limited funding and lack of government involvement in eHealth projects.

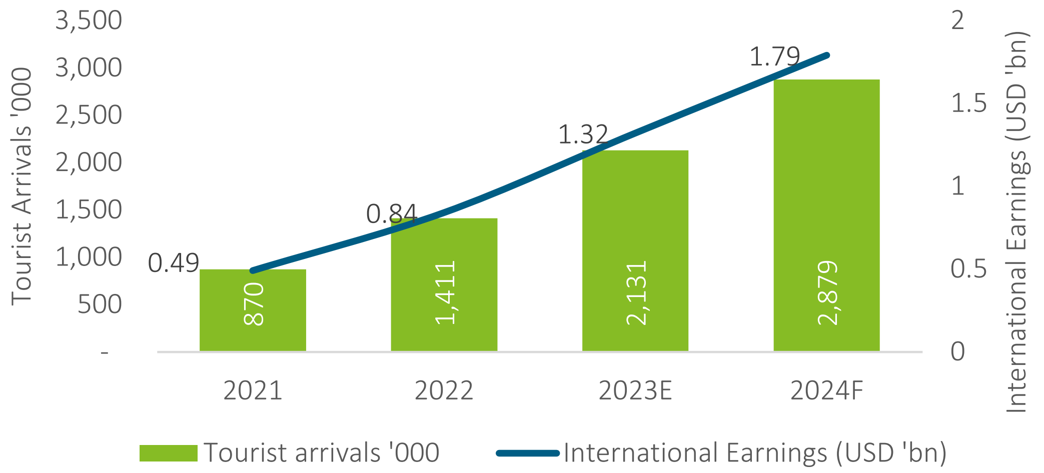
Year-on-year growth in health expenditure in Kenya exceeds both the global median (+5.5%) and the Sub-Saharan Africa median (+4.9%). Government expenditure on public health will rise substantially due to its commitment to increasing expenditure, particularly through reforms for those who cannot afford NHIF, such as the Linda Mama initiative. Private expenditure will also soar as the Kenyan government advocates the privatisation of healthcare through the UHC NHIF mandatory coverage scheme.

*“ **Kenya strives to digitise its health ecosystem to facilitate data portability and health information interoperability.***

Tourism sector

International tourism arrivals are forecasted to grow by 35.1% in 2024 reaching 2.9m visitors, despite high global living costs, rising interest rates and elevated geopolitical tensions weighing down the purchasing power of consumers.

Kenya tourism sector performance



Source: Kenya National Bureau of Statistics (KNBS), Fitch Solutions

The tourism sector recorded a 62% growth as tourist arrivals surged from 870 000 in 2021 to 1,400,000 in 2022, superseding the forecasted arrivals of 1,071,000 in our East Africa Macro Economic Outlook Vol III. This was largely attributable to the relaxation of COVID-19 pandemic restrictions in most countries and the ongoing efforts by the Kenyan government to promote tourism.

In a similar fashion, international earnings from tourism rose from USD 0.5bn in 2021 to USD 0.8bn in 2022. Tourism earnings are expected to further increase to USD 1.3bn in 2023, and USD 1.8bn in 2024 as the sector recovers to pre-pandemic levels. Kenya is investing in developing transport and accommodation infrastructure, and global marketing campaigns that are expected to boost the tourism industry.

Kenya has a huge potential for domestic tourism, driven by a fast-growing middle class. The Kenya Tourism Board (KTB) launched a series of golf tournaments under the 'Magical Kenya Golf Tour' in September 2022 to showcase key local tourism attractions.

As a destination for both safari and beach holidays, Kenya has a lot of potential for long-term growth in its tourism market. The country boasts many natural reserves and a beautiful coastline. However, Kenya faces challenges from ethnic and political conflicts, which make it one of the 20 most unsafe countries in the world according to the Global Terrorism Index for 2023.

Kenya relies more on international tourism expenditure than domestic consumption, and its inbound arrivals market is more diverse than many other Sub-Saharan African countries.

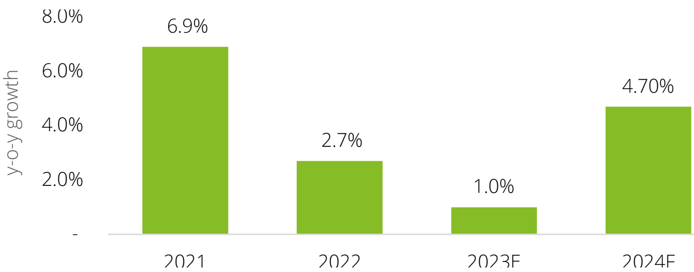
The inbound market is composed of a large share of European and North American arrivals, which are expected to increase in 2023 due to more charter flights from the EU and stronger travel links between Kenya and the US. Moreover, Kenya is strengthening its connection with Mainland China and other wealthy Asia-Pacific markets, which will boost travel in the medium term.

> ***Kenya has a huge potential for domestic tourism, driven by a fast-growing middle class.***

Manufacturing sector

Manufacturing sector is expected to grow by 4.7% in 2024 driven by increased inter-regional trade and improvement in power and input costs. However, growth could be impacted by increased cost of doing business and supply chain disruptions.

Kenya manufacturing sector performance



Source: Kenya National Bureau of Statistics (KNBS), Kenya Association of Manufacturers (KAM)

Kenya PMI index performance

Note: PMI>50 indicates an expansion of activity
PMI<50 indicates a contraction in activity

Source: Stanbic Bank

The manufacturing sector's growth declined from 6.9% in 2021 to 2.7% in 2022, below the forecasted growth of 4.8% in our East Africa Macro Economic Outlook Vol III. This was due to various uncertainties, such as high inflation, general elections, competition from imported goods and the Kenya shilling's devaluation against major currencies. Growth is expected to further shrink to 1.0% in 2023 predicated by sticky inflation that is driving product prices upwards besides exerting pressure on household spending.

The manufacturing sector was the third largest recipient of gross loans advanced by banks as of March 2023. The total lending received increased from KES 470.0bn in March 2022 to KES 560.0bn in March 2023. However, the sector recorded a surge in non-performing loans increasing from 77.8bn in March 2022 to KES 97.9bn in March 2023 attributable to tougher business conditions.

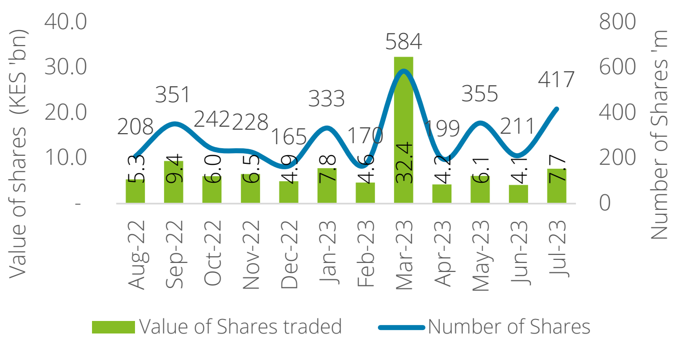
Notably, the manufacturing sector in Kenya is heavily reliant on imported raw materials, which have been adversely hit by the weakening Kenya shilling causing prices to skyrocket. In addition, more stringent tax policies including the reversal of investment deduction allowance and introduction of 16.0% VAT on imported plant and machinery have further dampened the sector outlook.

Kenya's manufacturing sector has contracted recording an average YTD PMI of 48.5 in 2023 down from 49.2 in 2022 and below the 50.0 neutral threshold. The main factor behind the contraction is high inflation, which has dampened consumer demand and reduced producer output amid increasing price pressures. Both input costs and selling charges have steadily increased driven by higher fuel prices, supply constraints, and a depreciating KES.

The African Growth and Opportunity Act (AGOA) aims to boost exports, particularly of apparel, from eligible Sub-Saharan Africa countries to the US. Through the AGOA initiatives, the value of exports grew from KES 48.8bn in 2021 to KES 54.1bn in 2022. The sub-sector also witnessed a significant increase of 31.5% in direct employment and a 7.2% increase in capital investment from KES 23.2bn in 2021 to KES 24.8bn in 2022.

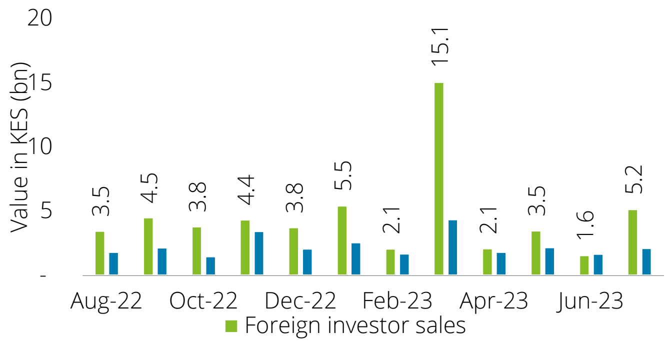
Financial Services | Equity Markets

Nairobi All Shares Index (NASI) perfomance



Source: Kenya National Bureau of Statistics (KNBS)

Foreign investor trade



Source: Central Bank of Kenya (CBK)

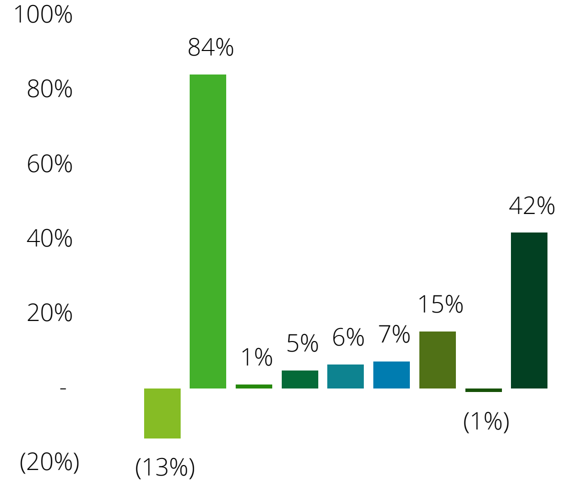
Both charts updated to Jul-23 as per available CBK data

The Nairobi All-Share Index (NASI) and NSE 20 Share index experienced a significant decline of -23.7% and -12.4% respectively in 2022, in contrast to the positive returns of +9.4% and +1.8% in 2021. This was largely attributed to the massive sell offs by foreign investors and the low confidence in the market.

The scarcity of dollars in the country has adversely affected Kenya's stock market, making it the worst-performing in the world. The country is facing a severe foreign-exchange crisis, which has caused major delays in repatriating dividends and capital gains for companies and investors. Between Jul-22 and Jun-23 the total foreign investor purchases of Kenyan equities amounted to KES 28.2bn compared to foreign investor sales of KES 53.9bn.

Besides the dismal performance of the stock market, trading volumes have also dropped considerably. The average daily volume of stocks is about half of what it was a year ago, while bond market turnover fell by 15.0% in the first three months of 2023.

NASI YTD performance by sector



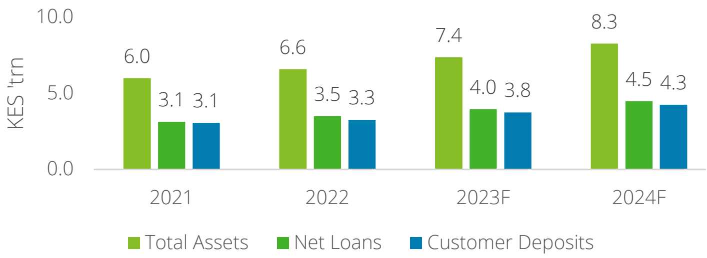
Source: Kenya National Bureau of Statistics (KNBS), S&P Capital IQ

- Agricultural
- Automobile and accessories
- Banking
- Commercial and services
- Construction and allied
- Energy and petroleum
- Insurance
- Manufacturing and allied
- Telecommunication and technology

Financial Services | Banking

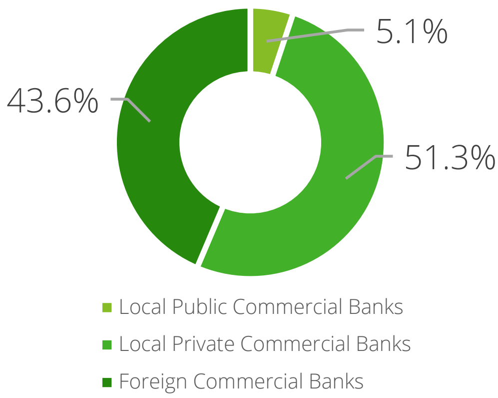
The total banking assets are expected to grow from KES 7.4trn in 2023 to KES 8.3trn in 2024 mainly driven by strong credit growth. Client deposits will also increase from KES 3.8trn to KES 4.3trn attributable to aggressive mobilisation especially through mobile banking.

Kenya banks deposits and loans



Source: Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS), EIU, Fitch Solutions

Operating banks in Kenya



Kenya's banking sector remained stable and resilient in 2022. Total banking assets grew from KES 6.0trn in 2021 to KES 6.6trn in 2022 and KES 6.7trn in March 2023.

This was supported by strong credit growth over the period with the total loans and advances growing from KES 3.1trn in 2021, to KES 3.5trn in 2022. As at December 2022, personal and household, trade, and manufacturing sectors held the largest share of total loans at 27.1%, 18.0%, and 14.6% respectively. The total loans and advances are expected to grow to KES 4.0trn in 2023 and KES 4.5trn in 2024 despite increased lending rates.

Customer deposits followed a similar trajectory growing from KES 3.1trn in 2021 to KES 3.3trn in 2022 helping banks improve their liquidity position. Customer deposits are expected to further increase to KES 3.8trn and KES 4.3trn in 2023 and 2024, respectively. The growth in deposits will be driven by bank's aggressive deposit mobilisation through agency banking and mobile banking platforms.

Nonetheless, the banking sector took a hit with the total non-performing loans increasing from KES 426.8bn in Q4 of 2021 to KES 487.7bn in Q4 of 2022, and 540.8bn in Q1of 2023 attributable to the deteriorating economic environment with the biggest contributors being trade, manufacturing, and real estate sectors.

The CBK adopted a tight monetary policy stance by raising the Central Bank Rate (CBR) from 7.0% in December 2021 to 8.7% in December 2022 and 10.5% in June 2023. Consequently, lending interest rates for both loans and advances and overdrafts increased from 12.2% and 11.5% in December 2021, to 12.3% and 12.2% in December 2022, and 13.3% and 12.8% in June 2023 respectively.

Banks will continue strengthening their business models, leveraging on technology and innovations. The adoption and usage of mobile money continues its upward trajectory in 2023 largely propelled by customer preference for mobile platforms due to the ease of access, efficiency, and existence of convenient delivery channels relating to the medium.

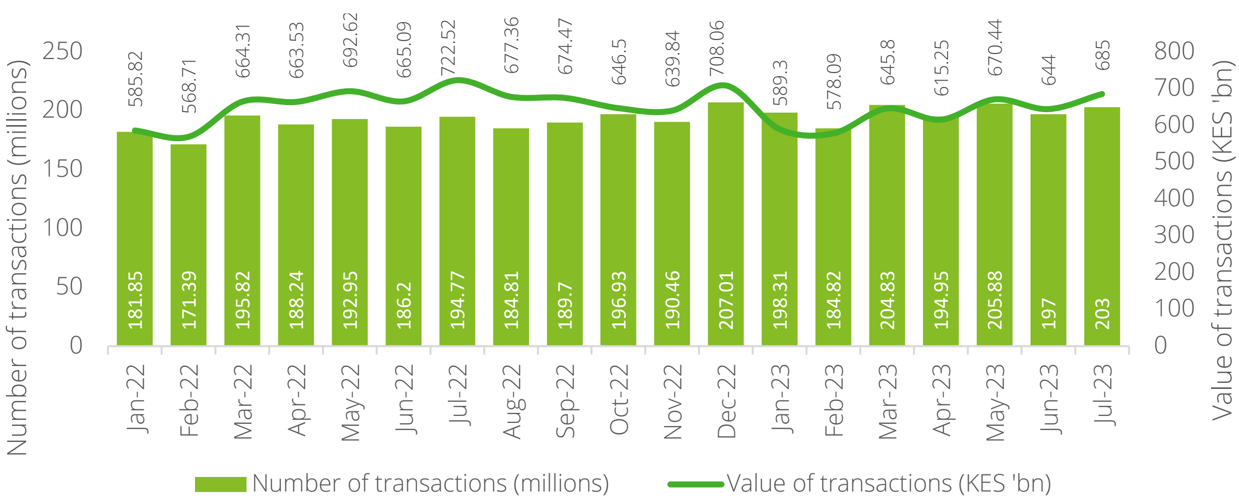
Approaching 2024, the outlook for the banking sector appears strong underpinned by adequate capitalisation and liquidity levels and continued implementation of efficient business models. However, rising inflationary pressure, concerns about public debt sustainability, and weakened economic recovery pose downside risks to the banking sector's growth.

> ***Customer deposits are expected to further increase to KES 3.8trn and KES 4.3trn in 2023 and 2024, respectively.***

Technology, Media and Telecommunications sector

The total YTD mobile money transactions as at July 2023 stood at KES 1.38bn compared to KES 1.31bn recorded in July 2022, reflecting the continued adoption of mobile money in the country attributable to the mode's ease of access and convenience.

Kenya mobile money transactions perfomance



Source: Kenya National Bureau of Statistics (KNBS), central Bank of Kenya (CBK), Communications Authority of Kenya (CA)

Total market value for IT in Kenya grew by 16.1% to KES 90.7bn in 2022 from KES 78.1bn in 2021. The total market value is expected to grow further to reach a value of KES 105.6bn in 2023 and KES 123.8bn in 2024 owing to the development of new economic verticals and healthy economic growth momentum.

The country has a low household purchasing power and this remains a negative force on the IT market's growth. However, the market remains at a stage of development and has significant medium and long-term growth potential owing to both enterprise demand and consumer spending. High profile efforts to modernise the country's power, energy, utilities and transportation sectors provides support for the IT industry.

In July 2023, all major mobile money metrics including number of agents, total subscriptions, and number of transactions registered a positive increase compared to July 2022 with the only exception being the total value of transactions, reflecting the country's tougher economic backdrop in H1 of 2023.

Notably, the total YTD mobile money transactions as at July 2023 stood at 1.38bn compared to 1.31bn recorded in July 2022, reflecting the continued adoption of mobile money in the country attributable to the mode's ease of access and convenience.

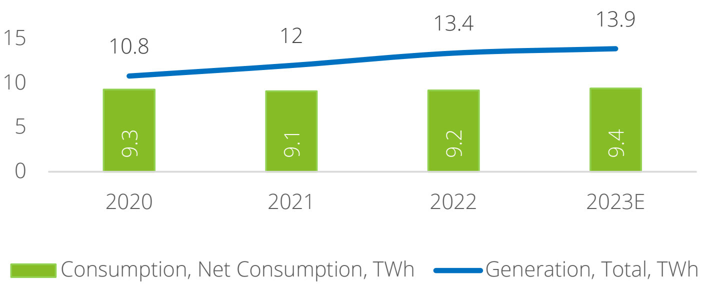
Wireless internet subscriptions increased from 45.7m in 2021 to 48.0m 2022, with terrestrial wireless data recording a growth of 67.4%. The 4G transceivers increased from 42,455 in 2021 to 57,498 in 2022 indicating a rising demand for faster internet connectivity. In 2022, 102 5G transceivers were launched indicating the ongoing evolution and advancements of mobile communication technology. The country is expected to continue developing as a hub for fintech activity and mobile money in the region.

In July 2022, it was announced that Cloudoon secured KES 6bn for the development of the largest data centre in the country, which will support the country's growing e-commerce market.

The ICT sector is a leading contributor to equity funding with the country's total value of disclosed deals in 2022 standing at USD 758m. Kenya's IT, especially cleantech, e-commerce, and fintech will continue to attract venture capital and private equity funding mostly due to the mature nature of the market.

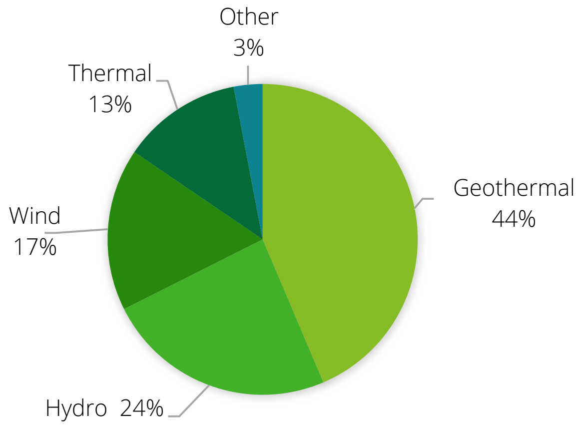
Energy sector

Consumption and generation of electricity



Source: World Bank, Fitch Solutions

Summary of Kenya's proportion of electricity generation by source-2022



Source: Kenya National Bureau of Standards

Kenya's electrification rate has improved from 19.2% in 2010 to 71.4% in 2020 according to the World Bank. The government is actively focusing on increasing access to electricity in rural areas. Electricity consumption in Kenya is expected to grow at an average annual rate of 3.0% from 2023 to 2032.

Consumption of electricity contracted in 2020 by 4.4% and continued to contract in 2021 by 0.2% as a result of government restrictions and limitations put in place due to COVID-19. However, there has been a steady y-o-y growth in 2022 and 2023, growing by 1.1% and 2.4%, respectively.

The key area of growth for Kenya's power sector is for non-hydropower renewables due to the government taking advantage of its natural geothermal capacity as well as some growth in wind and solar power projects.

Kenya's local electricity generation from renewable sources accounted for 87.5% with geothermal generation as the largest source of electricity generation, accounting for 43.6% of total generation in 2022.

Considering the current global transition to clean energy, Kenya's reliance on renewable energy could have benefits to the country. The country could see an increase in FDIs and green financing for the sector and a reduction of dependance on fuel imports could improve the country's balance of payments and energy security.

Kenya's reliance on renewable energy could also create potential for development of a strong carbon trading market since the country would have a carbon credit surplus.

Some of the latest developments in the energy sector in Kenya include:

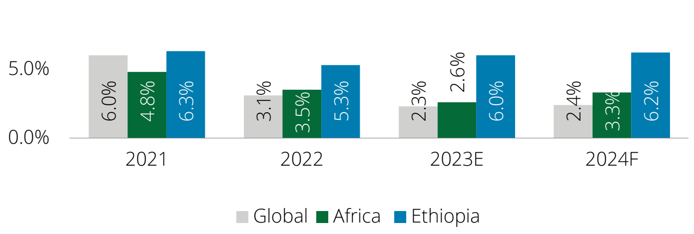
- In October 2022, Kenya signed a 25-year power purchase deal with Ethiopia making it Kenya's second biggest source of hydropower. In November 2022, Ethiopia started commercial power exports to Kenya.
- In November 2022, Fortescue Future Industries signed an agreement with the government of Kenya to develop a 300MW green ammonia and fertilizer facility in Kenya.
- In October 2022, the governments of Tanzania and Kenya agreed to accelerate the construction of a USD 1.1bn natural gas pipeline between the two countries.
- In February 2023, Globeleq awarded Toyota Tsusho a USD 108m contract to build a 35MW geothermal power plant in Menengai in Nakuru County, Kenya.

Ethiopia

Macroeconomic and sectoral analysis

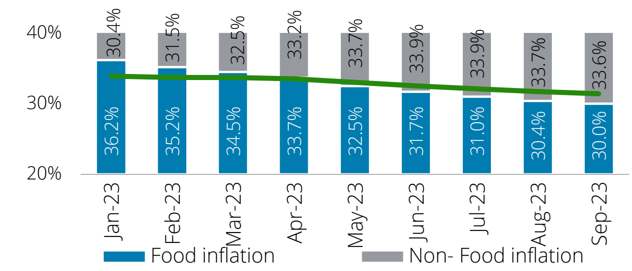
Ethiopia
Economy at a glance

Real GDP Growth Rate



Source: NBE, EMIS, EIU

Inflation



Source: NBE, CSA,EIU

Ethiopia's GDP grew by 5.3% in 2022, lower than the 6.3% recorded in 2021 but higher than the 4.1% projected in ur Vol. 3 publication. The decline in growth was predominantly attributed to internal conflict, liquidity challenges, high inflation levels and persistent weakening of the Birr. GDP is estimated to grow by 6.0% in 2023 and subsequently by 6.2% in 2024, owing to the temporary debt repayment suspension by its bilateral lenders, higher energy exports and reform programs expected to attract Foreign Direct Investments (FDI), a rebound in the services sector, and the expected liberalisation of the banking and sugar sectors. However, headwinds related to the recurrent internal conflicts, the high cost of living which limits private consumption, fiscal pressures, challenges in doing business in the country and liquidity challenges including its ability to service external debt (if not agreed to be structured with its lenders) could result in slower economic growth below 6%.

Inflation steadily increased to 33.9% in 2022 from the 26.8% recorded in 2021 mainly driven by expansion in money supply and cost-push factors attributable to the global increase in fertiliser and fuel prices as well as supply chain disruptions in the country. Inflation is expected to average at 30.8% in 2023, owing to a decrease in food and non-food prices. The inflation rate as at September 2023 stood at 31.4%, which was 2.6% below the 34.0% recorded in September 2022. This was driven by an 8.8% decrease in food inflation from 38.8% in 2022 to 30.0% in 2023 and a 6.1% decrease in non-food inflation over the same period.

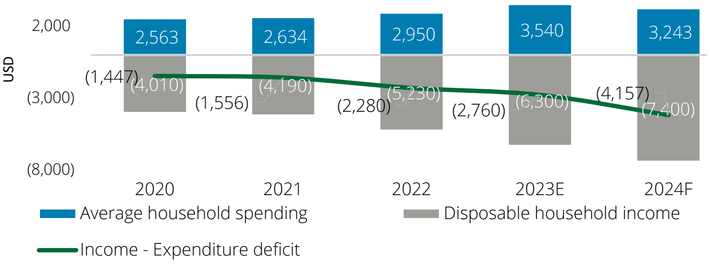
In August 2023, the National Bank of Ethiopia (NBE) restricted banks' yearly credit expansion to 14.0% to curb inflation. Inflation is expected to slow down through 2024/27, despite remaining in double digits. However, depreciation of the Birr - which has led to expensive imports – El Nino related weather shocks, and internal conflicts that continue to disrupt the supply chain, could have an impact on inflation.

> ***GDP is estimated to grow by 6.0% in 2023 and subsequently by 6.2% in 2024, owing to the temporary debt repayment suspension by its bilateral lenders, higher energy exports and reform programs expected to attract Foreign Direct Investments (FDI), a rebound in the services sector, and the expected liberalisation of the banking and sugar sectors.***

Annual Inflation

Percentage →	26.8%	33.9%	30.8%	27.2%
Year →	2021	2022	2023E	2024F

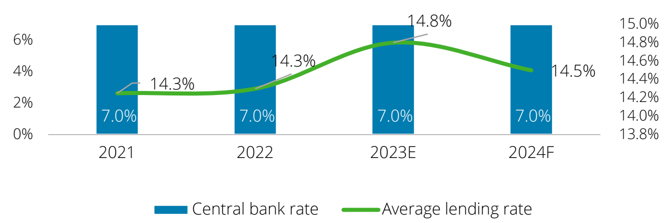
Total household income vs expenditure



Source: Statista, Fitch Solutions

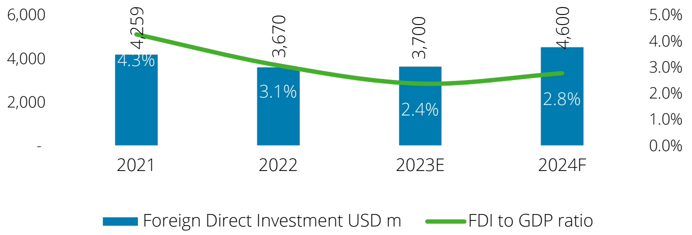
Total household spending grew by 15.3% in 2022 and is forecast to grow by 23.6% in 2023 driven by the real GDP growth rate in the same period from USD 82bn in 2022 to USD 102bn in 2023. While food and non-alcoholic spending accounts for half of total spending in Ethiopia, non-essential spending is expected to grow at a higher rate of 36.8% than essential spending. In 2024, total household spending will decrease by 5.7% to USD 96bn owing to the depreciation of the birr and the effects of the high inflation rate weighing on the purchasing power of consumers.

Lending rate



Source: EIU, National Bank of Ethiopia

Foreign Direct Investment



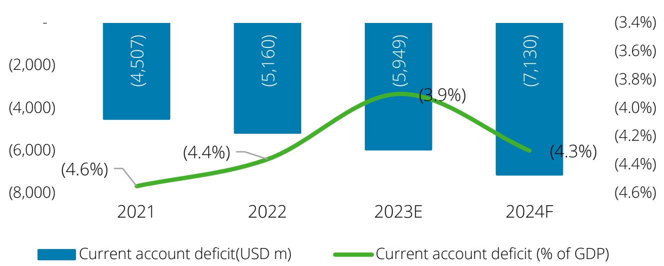
Source: EIU, UNCTAD

The NBE has maintained a policy rate of 7% since 2017, reflecting its low preference for use of interest rates as a monetary policy control tool. Instead, the NBE has opted to use monetary aggregate to control inflation and exchange rate in the country. In the recent monetary policy statement released in August 2023, the NBE noted that it will limit commercial bank credit growth to 14% in a move aimed at reducing the country's inflation. Notably, banks have increased the average lending rate to 14.8% in 2023 from 14.3% in 2022 due to increasing overhead costs and rising risk premium. The NBE has also stated its intention to shift towards an interest-based policy framework that will be more effective in controlling the country's elevated inflation.

FDI in Ethiopia decreased by 14% in 2022, from USD 4.2bn in 2021 owing to internal conflicts and foreign exchange shortages considering the difficulty in convertibility of the Ethiopian birr. FDI is estimated to increase by 0.8% to reach USD 3.7bn in 2023. This will be driven by ongoing investments in infrastructure and electricity, and the government's privatisation policy resulting in the anticipated privatisation of sectors such as the sugar industry. The forecasted increase of 24.3% in 2024 will be driven by and dependent on government's commitment to major economic reforms, the development of special economic zones and the country's focus on creating a safe investment climate.

> ***Notably, banks have increased the average lending rate to 14.8% in 2023 from 14.3% in 2022 due to increasing overhead costs and rising risk premium.***

Current account deficit



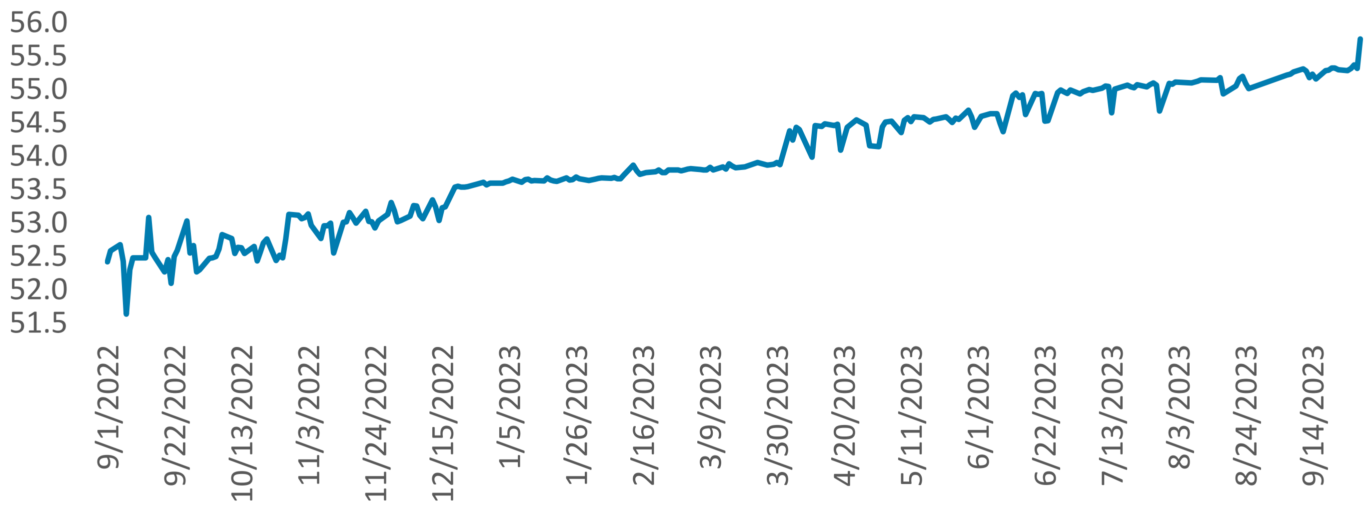
Source: EIU

The current account deficit increased to USD 5.1bn, 4.4% of GDP in 2022 from USD 4.5bn (4.6%) in 2021 driven by high food and fuel prices which increased the import bill and further widened the merchandise trade deficit. In 2023, the current account deficit is expected to decline by 3.9% this is will likely be due to import compression and a high nominal GDP due to inflation. It is forecast to increase to USD 7.1bn (4.3%) of GDP in 2024 attributable to increased foreign investments.

The currency conundrum

The depreciation of the Birr contributes to higher inflation driven by the Country's dependence on imports of key items such as wheat, cooking oil, fuel and inputs.

ETB/USD exchange rate



Source: National Bank of Ethiopia, EIU, Fitch Solutions

The Ethiopian Birr depreciated against the US dollar moving from ETB 39.0/USD in 2021 to ETB 48.6/USD in 2022 mainly owing to the increased imports to the country, increased demand for the US dollar over the Birr and higher global commodity prices.

To protect its competitiveness abroad, Ethiopia has opted to retain a controlled float currency rate regime. In 2022, the Birr was allowed to depreciate by 24.5% in nominal terms against the US dollar, while the Real Effective Exchange Rate (REER) declined by 36.5% as a result of the rise in trading partner prices relative to domestic inflation and the depreciation of the Birr against other trading partner currencies.

Expansion of government expenditure resulted in a high budget deficit of ETB 364.6bn in 2022, which was partly financed by printing money, prompting inflationary pressure leading to a decline in the purchasing power of the Birr. Owing to the decline in purchasing power, the Birr depreciated against foreign currencies.

Producers have had to incur more for imports while earning less money from their exports while consumers are enduring the worst part of the price increment owing to rising prices of imported merchandise. This has led to food scarcity as accessibility is limited owing to food prices increase.

Ethiopia aims to address its dollar liquidity challenge through (i) sectoral reforms (to unlock FDI); (ii) disbursements from an IMF credit facility; and (iii) debt relief under the G20 Common Framework (CF) debt treatment to augment deals already reached with China.

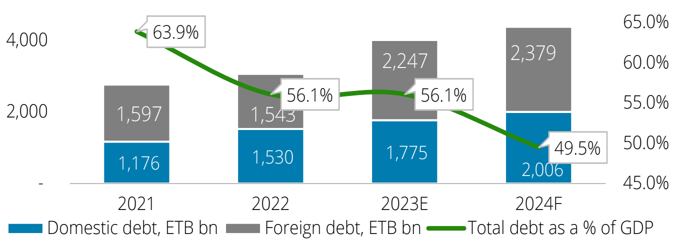
Additionally, the privatisation of parastatals is forecasted to attract FDI. However, despite the country's effort to tackle the liquidity hurdle, the operating environment remains challenging.

In 2022, the foreign reserves and import cover decreased to USD 1bn and 0.5 months respectively, creating pressure in the foreign exchange market and widening the gap between the official and parallel market rate.

A further depreciation of the Birr is expected to end at ETB 56.4/USD and ETB 64.3/EUR in 2023 and is forecast to depreciate further to ETB 70.2/USD and ETB 74.8/EUR.

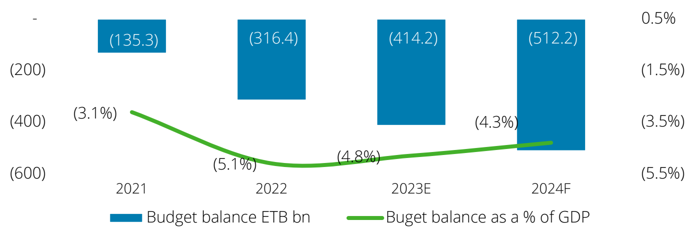
The debt debacle

Debt profile



Source: World Bank, Fitch Solutions

Budget balance



Source: National Bank of Ethiopia, Central Statistical Agency (CSA), IMF, AFDB, EIU, Fitch Solutions

Ethiopia's total debt stock grew by 10.8% to ETB 3,073bn in 2022 from ETB 2,773bn in 2021. Foreign debt accounted for 50.2% of the total debt, a decrease from 57.6% in 2021 while the share of domestic debt increased from 42.4% in 2021 to 49.8% in 2022. In addition, total debt as a percentage of GDP declined to 56.1% in 2022 from 63.9% in 2021.

Ethiopia's Eurobond was floated in December 2014 at a 6.6% yield to fund the development of industrial parks and sugar estates. The government settled on a bi-annual coupon payment in June 2015 with the principal payment of USD 1bn due in December 2024. However, in November 2023, the country reached an in-principle agreement with bilateral creditors to temporarily suspend debt payments and plans to start talks to restructure the expected bullet payment.

In February 2021, Ethiopia applied to the G20 Common Framework for Debt Treatment, an initiative for restructuring government debt aimed at low-income countries which saw credit rating agencies downgrade its credit rating from B to CCC. The country is currently in talks with the International Monetary Fund (IMF) to borrow USD 2bn under the reform program to fill a financing gap of at least USD 6bn it faces until 2026. Notably, in August 2023, China, agreed to a debt repayment suspension until July 2024.

The government is keen on domestic financing mainly sourced from the banking sector. In November 2022, the NBE issued a directive requiring commercial banks to purchase the five-year Treasury Bond at a 9.0% interest rate with the amount equivalent to 20% of monthly loans and advance disbursements.

In 2022, the United States' decision to delist Ethiopia from AGOA affected Eurobond yields, which dropped to an all-time low of USD 0.78.

The Ethiopia budget deficit grew to ETB 316.4bn in 2022 from ETB 135.3bn and is estimated to increase to an ETB 414.2bn deficit in 2023. The budget deficits have largely been financed by net external and domestic borrowing.

In 2024, the budget deficit will further increase to ETB 512.2bn, driven by increased government spending and insufficient tax revenue to balance the spending. Ethiopia's 2023/2024 budget is expected to rise to ETB 801.7bn from ETB 786.6bn in 2022/23 with the deficit expected to be funded through debt and grants.

In the absence of a secondary market in Ethiopia, treasury bills are auctioned bi-weekly. In FY22, bills worth ETB 858.5bn were auctioned reflecting a 159.6% increase from FY20. The average weighted treasury bill yield increased to 9.5% from 7.9%. The highest yield was 10.4% for a 91-day treasury bill while the lowest was 8.6% for a 28-day treasury bill.

With a weakening Birr and higher interest rates the cost of servicing dollar-denominated debts has significantly increased.

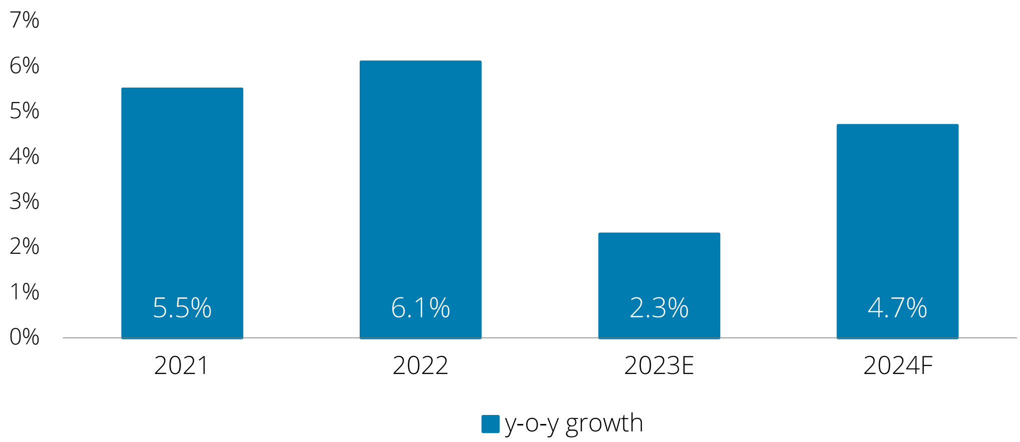
Besides the restructuring, Ethiopia's government has the following plans in place in a bid to continue financing its debts; (i) liberalisation of financial markets; (ii) entry of foreign investors into various sectors such as telecommunication; and (iii) privatisation of sugar industry.

In September, Moody's downgraded Ethiopia's foreign currency debt, sending it into the "junk" category. This downgrade will increase the country's cost of borrowing, further exacerbating the current liquidity crunch.

Agriculture sector

Ethiopia's agriculture sector is estimated to grow to 4.7% in 2024 after a 2.3% estimated growth in 2023 owing to expected favorable weather conditions, adequate rainfall and government initiatives such as irrigation practices.

Ethiopia Agriculture Sector Performance



Source: National Bank of Ethiopia, EIU, Fitch Solutions

Ethiopia's agricultural sector share of GDP marginally decreased to 32.4% in 2022 from 32.5% in 2021. The sector is made up of crop production(65.6%) while animal farming and hunting and forestry accounted for the remaining 34.4%.

The agriculture sector grew by 6.1% in 2022 from 5.5% in 2021, contrary to the forecast lower growth of 2.2% in our Vol. 3 publication. This was driven by a 6.9% increase in crop production with an estimated 328m quintals produced in 2022.

Ethiopia's agriculture sector is budding, with the country being a top flower exporter in Africa. In 2022, over USD 542m worth of flowers were exported from the country, an increase from USD 420m in 2021. The growth was due to favorable government incentives, increased land leases, and logistical support.

In 2022, Ethiopia exported coffee worth USD 1.4bn compared to the USD 909.4m in 2021. The 57.3% growth is attributable to government incentives and efforts including training by Ethiopia Coffee and Tea Authority to address Coffee Berry Disease.

Coffee accounted for 34.9% share of Ethiopia's total exports, an increase from 25.3% in 2021, owing to a 29% increase in international prices and a 22% increase in export volume.

Teff, wheat and maize are the most consumed cereals with the country importing 30% of its wheat consumption. In 2021, out of the USD 927m worth of wheat imported, USD 440m (47.5%) was from Ukraine. The Russia-Ukraine war led to trade bottlenecks and rising wheat prices which exacerbated Ethiopia's already existing macroeconomic problems and reduced the country's ability to import.

In recent months, the price of teff has almost tripled in Ethiopia owing to the internal conflicts, which is disrupting teff production and supply.

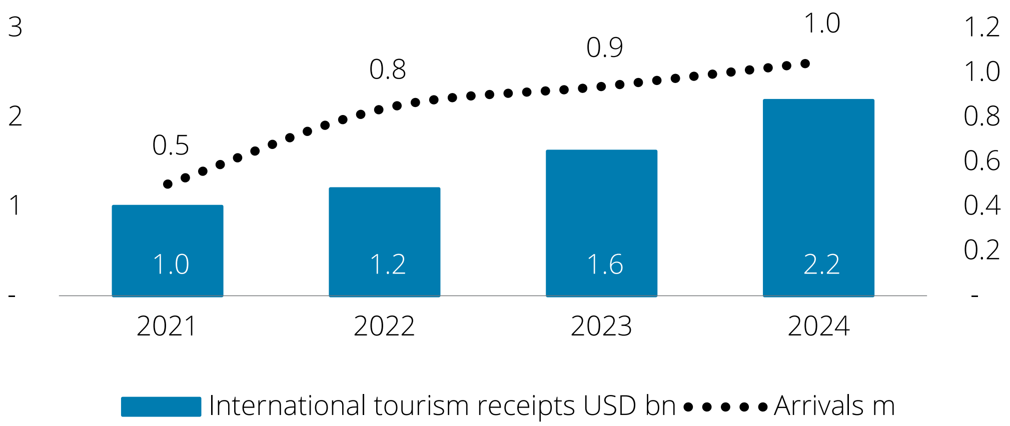
The agriculture sector is expected to decline by 2.3% in 2023 owing to prolonged drought in the southeastern parts of the country, thus leading to unreliable rainfall for sustainable agriculture. Limited access to infrastructure such as storage facilities and rural roads affect farmers' profitability, limiting investment in modern farm practices thus leading to poor production.

The forecasted growth of 4.7% in 2024 is expected to be driven by favorable weather conditions, increased production and availability of fertilizer. The government has also taken measures around irrigation and water harvesting methodologies to combat drought. Additionally, wheat yields are forecasted to increase driven by, government efforts including the USD 84m agreement with Africa Development Bank to increase wheat output, due to increasing demand for pasta, bread, noodles and baked goods and urbanisation levels.

Tourism sector

Tourism earnings are expected to post a 35% growth to reach USD 2.2bn in 2024 owing to 11.7% expected increase in tourist arrivals driven by ease of travel restrictions and government policies and legal frameworks to make the sector a key part of the local economic strategy.

Ethiopia Tourism Sector Performance



Source: NBE, EIU, Fitch Solutions, UNWTO, Deloitte Analysis

Ethiopia's economy depends on tourism, which accounts for about 9% of GDP. In addition, it is estimated that 2.2 million people, or one in every 12 jobs in the nation, are employed directly or indirectly by the tourist sector, making it a significant employment sector.

Tourist arrivals and tourism earnings grew to 840,000 and USD 1.2bn in 2022 from 500,00 and USD 1.0bn in 2021, respectively. This was attributable to political stability and ease in travel restrictions globally.

Tourist arrivals are forecast to increase to 0.94m and subsequently 1.05 m in 2024 above pre-Covid-19 levels with Europe, North America and the Middle East as the top three sources of arrivals. Consequently, the tourism receipts will increase to US$ 2.2bn in 2024.

Ethiopia's tourism sector provides potential visitors with a variety of attractions, including a developing ecotourism market, historic monuments, and ancient fossils, religious tourism and business opportunities.

The government through the Ethiopian Tourism Organisation (ETO) and the Ethiopian Tourism Transformation Council (ETTC) is working closely with international bodies such as UNESCO to promote its reputation as a tourism destination in global tourism. Infrastructure development, particularly in the transport sector is a focus to ensure accessibility of various scenic parts of the country.

The domestic market remains highly untapped with Ethiopia boasting the largest population in East Africa. Notably, Ethiopian passport holders have a provision for 37 visa-free or visa on travel countries globally. However, Ethiopian Airports Enterprise's plan to construct, expand and upgrade airports across the country is expected to revamp the domestic airline route in a bid to boost domestic travel.

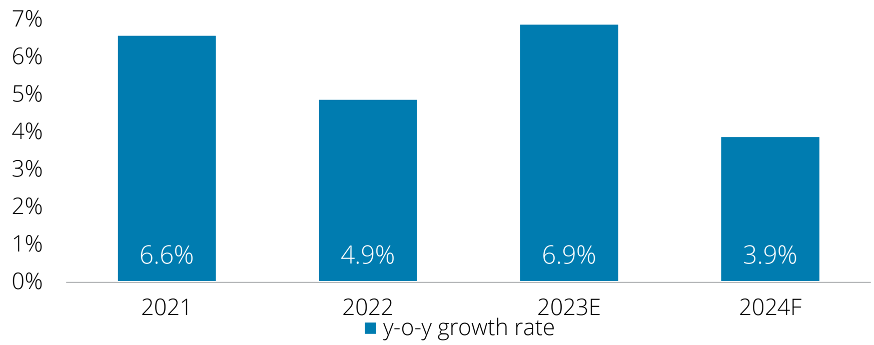
With Addis Ababa as the third largest diplomatic city after New York and Geneva, major hotel brands are expected to set up in the country with hotels expected to grow to 540 in 2024 from an estimated 520 in 2023. Overnight stays are forecast to reach 3.2mn in 2024 from 3.0mn in 2022.

Ethiopia's hotel and accommodation market is still small and investment opportunities exist in the establishment of high-quality hotels.

Construction and real estate

The construction sector is forecast to grow by 3.9% in 2024 from 6.9% in 2023 attributable to increased debt repayments reducing investment and higher cost of doing business.

Ethiopia construction sector performance



Source: National Bank of Ethiopia, EIU, Fitch Solutions

Ethiopia's construction sector grew by 4.9% in 2022, lower than our Vol.3 forecast due to poor existing infrastructure leading to lengthy delays and costs for businesses operating in the market and the internal conflicts that waned investor confidence limiting foreign and private investment in the sector. Construction contributed 72.2% to industrial output signifying its leading role due to investments.

The sector was estimated to grow by 6.9% in 2023 supported by investments in transport, manufacturing, tourism energy and industrial projects. Ethiopia's government efforts to ease doing business in the country including improvement in construction permits and credit processes will accelerate the growth.

In addition, while the government targeted rebuilding infrastructure worth around USD 20bn destroyed in the internal conflict in the previous years, this is yet to materialise. However, increased debt repayments leading to increased expenditure over revenue and the likelihood of renewed conflict could limit investor confidence as well as foreign infrastructure investment lowering the growth of the sector to 3.9% in 2024.

Chinese and Ethiopian construction businesses dominate Ethiopia's road construction industry at 46% and 36% respectively, which has been a major contributor to infrastructure growth in the last ten years. Ethiopian construction companies hold an estimated 39% of major road construction contracts.

Airport infrastructure across the country is a key focus of development, with the government committed to expanding the number of airports from 22 to 28. The plan envisages six new airports, six new passenger terminals, 10 new runways, and an increase in air passenger numbers from 10.2m to 48m by 2030.

Road infrastructure is a priority for the country with a USD 730mn grant already received from the World Bank in August 2023 for the construction of the Addis-Djibouti Corridor set to fund the 142km road from Miesso to Dire Dawa. The corridor forms part of the Horn of Africa (HoA) Regional Economic Corridor Project.

In a bid to diversify its trade corridors, Ethiopia, a landlocked country is keen on the development of Berbera port and roads connecting to the port with the first 12km of the Berbera-Ethiopia highway was inaugurated in June 2020.

In September 2023, the African Development Bank approved USD 104mn for the construction of a 157km long 400kv double circuit transmission lines and associated substations at Harar, Jijiga and Fafem. The financing includes a USD 52mn grant from the African Development Fund and a USD 52mn soft loan from South Korea's Economic Development Cooperation Fund.

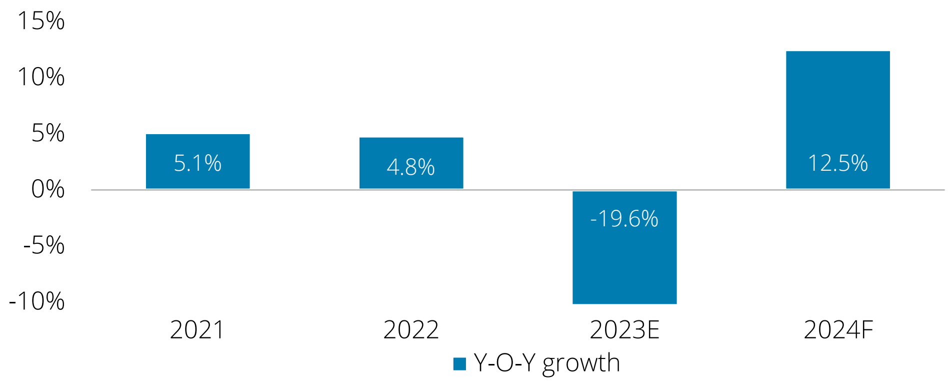
In July 2023, the Addis Ababa city administration signed an USD 8.2bn PPP with developers under the 70/30 housing development programme to build 100,000 houses to address the housing shortage in the city. Under the program, a resident is expected to save up to 70% down payments on the cost of a flat while Commercial Bank of Ethiopia will cover the remaining 30% in the form of long-term credit.

The expected airport construction by Ethiopia Airlines Group (EAG) worth USD 4bn in 2024 has been delayed to 2028. The airport is to be constructed in three phases and intends to serve a capacity of 100m passengers annually.

Manufacturing sector

The manufacturing sector is expected to grow by 12.5% in 2024. This will mostly be driven by investments around industrial parks and transport infrastructure. However, continued currency depreciation, higher input costs and internal supply chain disruptions could continue to disrupt the sectors growth.

Ethiopia manufacturing sector performance.



Source: NBE, EIU

Ethiopia's manufacturing sector grew by 4.8% in 2022, a slight drop from 5.1% in 2021 and a decline from our forecasted 6.8% in the Vol 3 publication. The sector contributed 23.4% to industrial output in 2022, similar to 2021.

The Ethiopian government in 2022 invested ETB 1.3bn, which was utilised by 26 manufacturing projects, a decline from ETB 12bn in 2021, which was utilised by 242 projects.

The manufacturing sector is estimated to decline by 19.6% in 2023 due to inadequate foreign currency in the market for importation by manufacturers, a depreciating currency thus a rise in input prices and internal conflicts. This will lead to a negative impact on demand for Ethiopian manufactured goods leading to reduced production, exports and as well as raw materials for processing thus affecting the sector.

The forecast growth of 12.5% in 2024 is expected to be driven by the government's agenda of constructing 11 industrial parks by 2030 and implementation of a Transport Infrastructure Plan for 10 years, which will be essential for companies to receive their materials and exports on time. Moreover, the construction of the Grand Ethiopian Renaissance Dam scheduled to be completed in 2024 will enable manufacturers to benefit from cheaper electricity.

Ethiopia's removal from the AGOA had negatively impacted the sector. In Hawassa Industrial Park, 5,600 workers were made redundant by exporting factories which benefited from AGOA preferential access to markets. Garment production companies reported that they have absorbed 30% to 70% of tariffs with clients and making it unsustainable given the typical 10% firm profit margins.

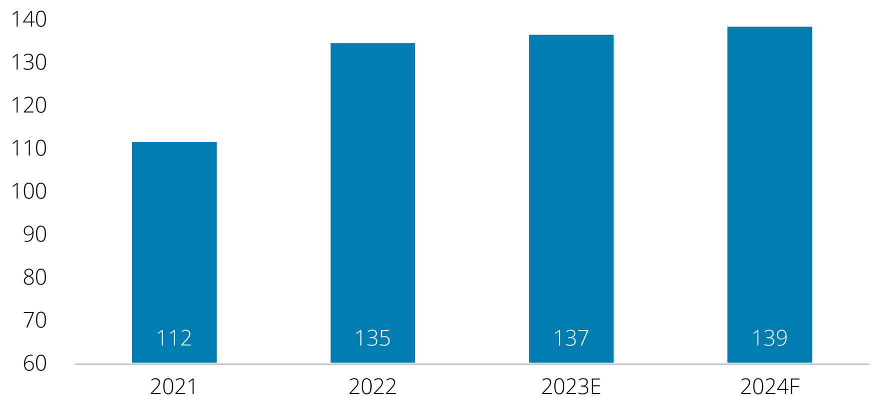
Some of the international manufacturing companies that set up the plant in Ethiopia include:

- The inauguration by Soufflet Malt Ethiopia factory at Bole Lemi II industrial park in 2022 has been one of the industry's latest developments. The total cost of the project had increased to EUR 60m, after securing EUR 20mn in financing from the International Finance Corporation (IFC) in 2019. The factory would domestically purchase barley from 50,000 farmers thus increasing production capacity as well as strengthening the agricultural sector. As opposed to 75% in 2022, this is expected to lead to 100% local supply of barley to the factory by 2024.
- Ethiopia Sky Technologies, with production facilities at Bole Airport, was established by a joint venture of Ethiopia Airlines and Geven-SkyTecno which is in Addis Ababa. The facility is to supply Boeing with products such as insulation blankets both in Italy and Ethiopia. This is expected to increase the country's aerospace manufacturing sector, which will constitute an essential business unit for the airline.

Technology, Media and Telecommunications

Telecom plays a key role in Ethiopia's economic growth through digitisation and financial inclusion. The Average Revenue Per User (ARPU) is expected to grow by 1.5% in 2024, driven by an increase in mobile subscribers and heavy investment in infrastructure.

Average revenue per user (ARPU)



Source: National Bank of Ethiopia (NBE), EIU, Fitch

Ethio Telecom, the dominant telecommunication company in Ethiopia, achieved a full year revenue of ETB 75.8bn in the 2022/2023 financial year, a 23.5% increase compared to the full year revenue in the 2021/22 financial year. The largest contributor to revenue was mobile voice and data, accounting for 43.7% and 26.6% respectively. Moreover, the total number of subscribers reached 71.7m, while mobile data and internet users increased to 33.5m as of September 2023. Telebirr, Ethio telecom's digital financial services, reached a remarkable 33.7m subscribers within two years and half. Telebirr mela provided micro loans worth ETB 4.1bn to 2.4m registered users, while 0.8m users saved ETB 3.3bn with Telebirr Sanduq.

The latest operator to enter this sector, Safaricom Telecommunications Ethiopia (STE) announced that it had 4.1 million subscribers by the end of September 2023. This could be attributed to its initial "city by city" pilots that began in August 2022, which reported an average of 20,000 new customers per day.

As of September 2023, network coverage had reached 22 cities with 2,057 sites having been set up thus attaining coverage of 30.0% of the population.

This is in comparison to the Sub-Sahran African average penetration of 43.5%.

Safaricom has so far generated ETB 1.1b as per its HY24 results issued on 9 November 2023. Mobile data and voice revenue continue to be the largest contributor to this revenue.

The monthly blended Average Revenue Per User (ARPU) increased from ETB 112 in 2021 to ETB 135 in 2022. This was mainly due to a 5.3% rise in the number of cellular subscribers from 58.7m in 2021 to 61.8m in 2022, reinforced network coverage and increased uptake of products provided by service providers.

In 2023, ARPU is estimated to grow to ETB 137 with a forecasted increase to ETB 139 in 2024. This will be driven by:

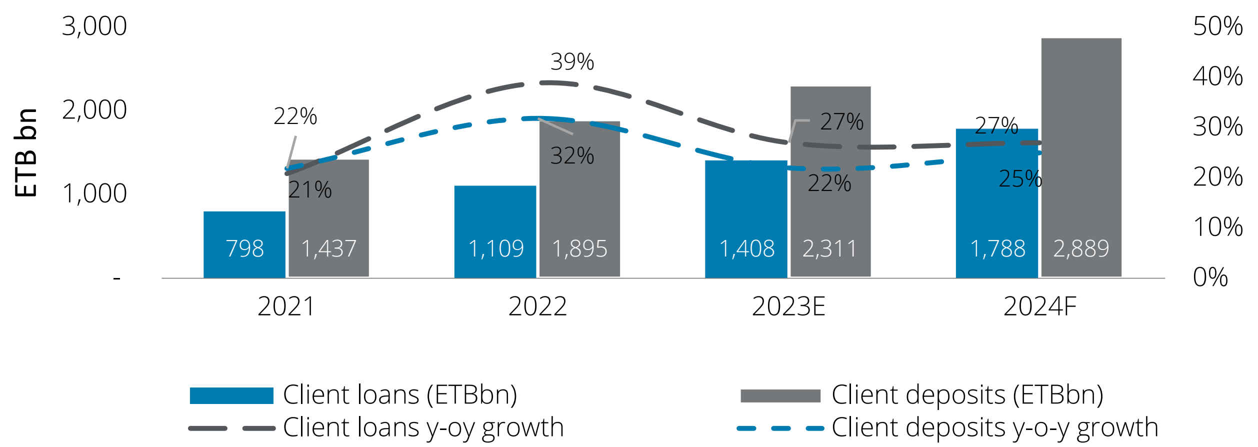
- Increase in number of adoption of smartphones, with mobile phone subscribers expected to reach 85.4m in 2024;
- An uptake in mobile financial services, with most subscribers using them to settle money transfers and bill payments; and
- Investment in improving network quality and coverage with Ethio Telecom upgrading and optimising its 3,251 mobile stations leading to 9.5m additional network capacity.

To address the growing technology demands of government, consumers and businesses, Ethio Telecom is a presently implementing an interconnectivity project in collaboration with the Addis Ababa city administration. This project will see installation of a wide area network to link various administrative centres for ease of communication and service rendering.

Financial Services | Banking

Client deposits are forecast to increase by 27% in 2024, with the entry of international banks and other financial institutions likely to increase the adult population's access to banks

Ethiopia Banks' deposits and loans



Source: National Bank of Ethiopia (NBE), Fitch

The financial services sector contributed 10.5% to GDP in 2022. During the 2021/2022 fiscal year, ETB 427.9bn in fresh loans were disbursed, a 29.9% increase with financing of international trade at 31.9% being the main beneficiary.

Loans were estimated to increase from ETB 1.1tn in 2022 to ETB 1.4tn in 2023 and were further projected to grow to ETB 1.8tn in 2024. However, the directive by the National Bank of Ethiopia, limiting credit expansion to 14.0% may affect projected growth.

The opening of new branches for banks in frontier regions helped to accelerate growth and financial inclusion. This resulted in increased deposit levels by 35.7% from ETB 1.4tn in 2021 to ETB 1.9tn in 2022.

There are various factors as well as an increase in the number of adult population with bank accounts, it is expected that deposits will reach ETB 2.3tn in 2023 and further increase to ETB 2.9tn in 2024.

Sectors such as the telecommunications sector, which has seen an interest driven by mobile money, continue to encourage an increase in client loans and banking assets.

The anticipated liberalisation of the banking sector is expected to help international banks to take full advantage of such opportunities. Nonetheless, the process of liberalisation is expected to be faced with several problems which include currency shortages in the country, strict policies by the NBE aimed at minimising risks from external competition as well as undercapitalised financial infrastructure.

As for micro-finance institutions (MFIs), Oromia, Amhara and Somali Credit and savings institutions transformed to full-fledged banks. This reduced outstanding credit, deposits, and capital assets of microfinancing institutions by half and is likely to affect MFIs.

Following the establishment of Rammis Bank on 4 June 2023, Islamic banking institutions in Ethiopia have grown to three. It is expected that this will provide additional financial support for low-income households, at an interest free rate.

The anticipated ease of foreign ownership restrictions on local banks is expected to boost the economy thus achieving price stability and a stable exchange rate.

Financial Services | Capital Markets

The capital market in Ethiopia is yet to develop in its entirety, but it is aimed at attracting more capital and financial support for both domestic and foreign enterprises.

The capital market in Ethiopia was non-existent until plans by the government to establish it took effect in mid-May of 2022. The aim was to increase the amount of capital and financing to small and medium-sized businesses, which are a major driver of Ethiopia's economy.

The Ethiopian Securities Exchange (ESX) is anticipated to offer a variety of product offerings, like a trading platform for stocks and fixed-income securities, as well as other financial derivatives.

The benefits of the securities exchange will not only give rise to more investments in the economy through additional financing but also require companies that are likely to be traded to meet certain corporate governance requirements to ensure transparency and accountability within the sector.

However, local stockbrokers, investment advisors, and fund managers, among others, still lack the necessary expertise. The Ethiopian Capital Market Authority (ECMA), the capital market regulator which was set up in 2021, is charged with the supervision of the ESX. The government is expected to own 25% of the ESX once established, with a further split between companies and intermediaries within the capital markets.

In October 2023, ECMA issued draft directives to govern the issuance of public offerings and trading securities which included private placements with less than 50 shareholders and government securities excluding state-owned enterprises not obligated to issue a prospectus, advertisement guidelines, and a mandatory 10% initial investment before approval.

In addition, ECMA introduced its fee directive detailing the application, licensing, and transaction fees for various market entities which includes a specification that while all fees are set in USD, payments will be made in Birr using the daily exchange rate from the NBE.

In November 2023, IFC in partnership with ECMA announced a four-year programme to support domestic capital markets and increase access to local currency finance.

Progress has been made towards the establishment of the capital markets. The securities exchange indicated that it expects 15 companies to be listed at initial stage, with a possible expansion to at least 50 companies which will consist mostly of banks and insurance firms. In addition, five state-owned enterprises are also expected to list.

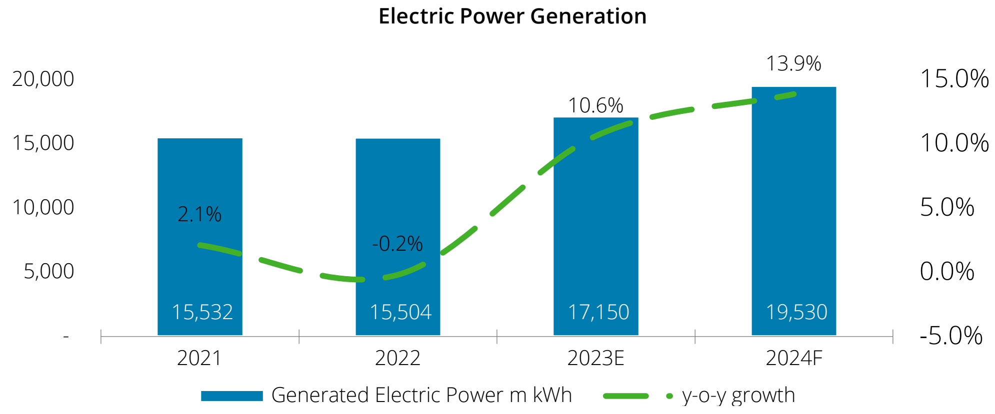
The total market capitalisation of the securities exchange in East Africa is estimated at EUR 22bn, with more growth to come once ESX launches its operations.

Country	Securities Exchange	Year of Operation	Number of listed companies
Kenya	Nairobi Securities Exchange	1954	62
Uganda	Uganda Securities Exchange	1997	18
Tanzania	Dar-es-Salaam Stock Exchange	1998	21
Rwanda	Rwanda Stock Exchange	2011	9

Source: East African Community

Energy sector

Ethiopian energy production is forecast to increase by 13.9% in 2024, this is likely to be driven by increased investments in alternative energy sources such as wind and power.



Source: NBE, Fitch Solutions

Ethiopia's current generation capacity is made up of 96.6% hydropower with wind sources accounting for 3.4%. Ethiopia's hydropower generation is on an upward growth with plans of accomplishing an expanded capacity of 13.5 GW by 2040. This will undoubtedly make Ethiopia second to the DRC in hydropower generation.

The sector is however confronted with several problems such as high electricity demand which continues to outpace supply as new hydropower plants are still unable to operate at full capacity. In addition, drought in Southern Ethiopia is creating a strain on electricity generation. The lack of key adequate infrastructure such as power transmission lines and distribution facilities also makes it challenging to meet demand.

In 2022, electricity generation fell by 0.2% to 15.50bn kWh, compared to 15.53bn kWh in 2021. Much of this was due to internal conflicts, which resulted in damage to infrastructure such as power lines and transmission towers. Moreover, accessibility to fuel and maintenance parts became difficult for power plants to carry out their operations.

Electricity generation is expected to grow by 10.6% to 17.2bn KWh in 2023 from 2022. A further projected 13.9% growth to reach 19.5bn KWh in 2024 is to be expected. Increased investments in alternative energy sources such as wind and solar power are likely to contribute to this. Several wind energy projects have been carried out by the Ethiopian Electric Power (EEP), with the most recent project being Adama II. These projects will bring the country's installed wind capacity to 324 MW, which shall be further increased by similar projects such as Ashegoda. The country is yet to reach its full potential of generating 1.3m MW of wind power.

Ethiopia's government intends to be a carbon neutral middle-income economy by 2025. Thus, the government is planning investments in solar energy, which will make use of Ethiopia's proximity to the equator. Moreover, there are currently over 10,000 MW of geothermal energy capacity. The World Bank estimated that USD 218.5m have been spent to date on geothermal projects.

In 2022, a single site had been confirmed and two more are expected for 2023. Eight drillings took place during the year in 2022 and 14 more are planned for the second half of 2023.

In November 2022 as part of diversifying its electricity export markets, which at present include Djibouti and Sudan, Ethiopia started to supply Kenya with energy under a Power Purchase Agreement (PPA) covering 25 years for 600 MW.

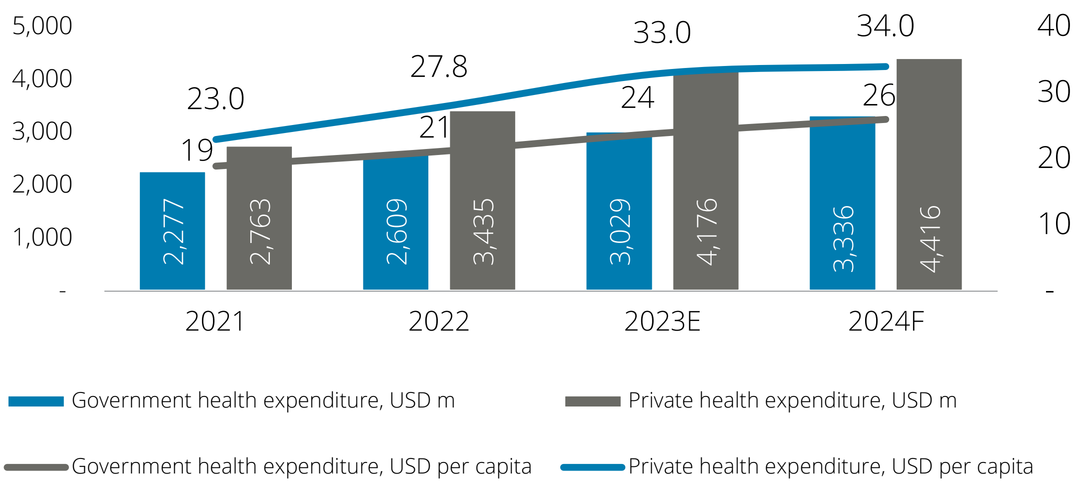
The energy sector saw investments reaching US$10m as of December 2022 and an upward trend is still to be expected. These investments include a 50 MW geothermal power plant under construction after the amount was approved by Tulu Moya Geothermal Operations PLC (TMGO) and the Sustainable Development Fund for Africa.

In addition, Masdar signed an agreement with EIH to develop two 500 MW peak (MWp) solar photovoltaic projects on January 23, 2023. It is expected that Masdar will finance these projects for an estimated total amount of USD 1bn. EEP has agreed to purchase the output from the projects under a PPA.

Healthcare sector

Healthcare expenditure growth is forecast to increase by 8.2% in 2024 to USD 6.7bn from USD 6.2bn in 2023 owing to increasing chronic diseases, prevailing infectious diseases and increasing urbanisation.

Ethiopia Health Expenditure



Source: NBE, EIU, Fitch Solutions

Ethiopia has a public-private healthcare system, with the public sector dominating healthcare delivery. Health expenditure per capita increased by 8% to USD 45 in 2022 from USD 41 in 2021 and is estimated to grow to USD 49 in 2023. It is forecast to grow by 4.2% to USD 51 in 2024 owing to an increase in chronic diseases and the government's commitment to Universal Health Coverage (UHC).

The Health Sector Transformation Plan and Health Extension Programme are driving the government's agenda to achieve UHC by 2035 through the piloting of the Community Based Health Insurance (CBHI) and Social Health Insurance (SHI) schemes.

Private health expenditure grew by 24.3% in 2022 to USD 3.4bn and is estimated to further increase by 21.5% to USD 4.2bn in 2023. It is forecast to grow to USD 4.4bn owing to slow implementation of the community-based health insurance (CBHI) and Social Health Insurance (SHI) schemes, increasing urbanisation and utilisation of medical products and services.

Lack of Information and Communication Technology (ICT) infrastructure, investment, human and institutional capacity, poses impediments to the achievement of digital health, a pillar of the UHC 2035 Agenda. In 2020, the government launched Digital Health Innovation and Learning Center to scale up digital health in the country. This provides an array of opportunities for both local and foreign investors.

In May 2023, the Industrial Parks Development Corporation (IPDC) signed an agreement with 5 local companies that would invest approximately ETB 3bn in Kilinto Industrial Park. The park was launched in 2018 and specialises in pharmaceutical products with a projection of hosting over 1,000 pharmaceutical companies.

Investors in the park will enjoy lower operating costs as a result of pharmaceutical industry incentives by the Ethiopian Investment Commission which includes; 100% custom duty exemption on the import of capital goods and certain production inputs, tax-free loans on up to 70% of greenfield investments and 60% for expansion projects and reduced land lease rates.

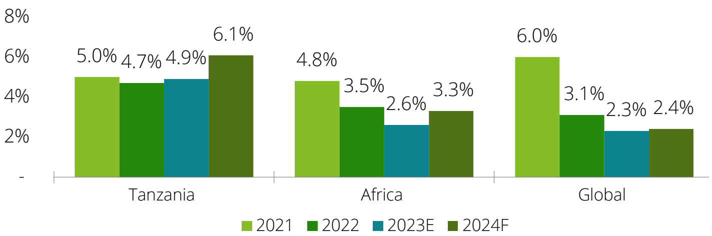
Some of the opportunities in the sector include a gap in the sufficient health workforce, inadequate medical facilities in rural areas and lack of digitisation in the sector.

Tanzania

Macroeconomic and sectoral analysis

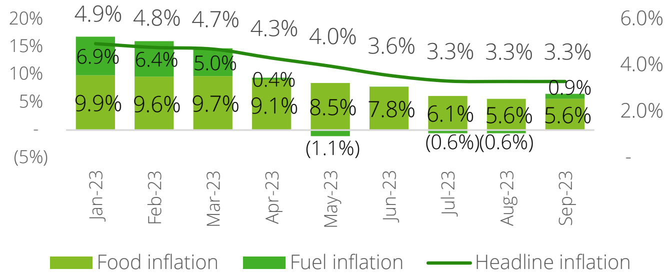
Tanzania
Economy at a glance

Real GDP growth rate



Source: EIU, Conference Board

Inflation



Source: EIU

Tanzania's real GDP growth rate decelerated to 4.7% in 2022 down from 5.0% in 2021. This was largely attributable to the impact of the Russia-Ukraine war and suppressed agricultural production.

In 2023, GDP growth is expected to accelerate to 4.9%, mainly driven by investments in large-scale infrastructure projects, in line with the country's third Five-Year Development Plan (FYDPIII). Further, GDP growth in 2024 is forecast to stand at 6.1%, predicated by the scaling of production of Liquified Natural Gas and increased activity in the tourism sector.

Inflation increased to 4.4% in 2022, up from 3.7% in 2021, on the back of elevated fuel and food prices. Nonetheless, inflation remained below Bank of Tanzania (BoT)'s target ceiling of 5.0%, mainly due to fuel and fertiliser subsidies that helped moderate prices.

In 2023, inflation is expected to marginally increase to 4.6% in 2023, due to gradual increase in food prices. During the year, food inflation has trended above headline inflation, on account of a rise in global fertiliser prices and supply chain constraints.

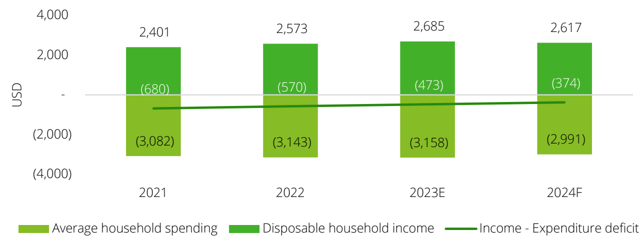
However, as global prices stabilise, food inflation has continued to taper off and consequently, headline inflation is forecast to decelerate to 4.1% in 2024.

Annual Inflation

Percentage →	3.7%	4.4%	4.6%	4.1%
Year →	2021	2022	2023E	2024F

Source: EIU

Total household income and expenditure



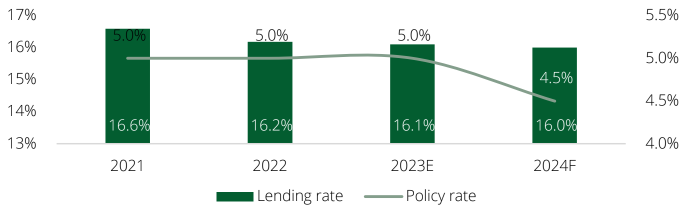
Source: Fitch Solutions, Deloitte Analysis

Households in Tanzania saw an increase in disposable income from USD 2,401 in 2021 to USD 2,573 in 2022, largely on account of the decline in unemployment rates in the country, predicated by multi-sectoral growth and sustained recoveries.

In tandem, average household spending increased from USD 3,082 in 2021 to USD 3,143 in 2022. This was a direct impact of the historic high inflation rate in 2022, resulting in an increase in commodities across the country. Food and non-alcoholic beverages and transport accounted for the largest proportion of additional spending in the year, on account of the high price increase.

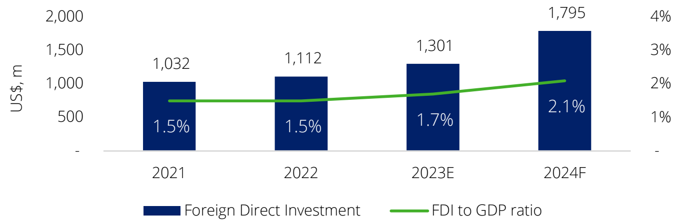
In 2023, household income is expected to increase in line with the forecast decline in unemployment, as household expenditure grows on account of a forecast increase in inflation. Household spending growth is however forecast to decline, driven by a decelerating inflation. Subsequently, in 2024, the income-expenditure deficit is forecast to decline to USD 374, largely on account of the decelerating inflation

Lending rate



Source: EIU, Bank of Tanzania

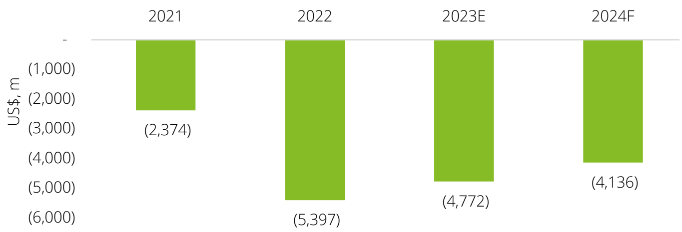
Foreign Direct Investment



Source: EIU, UNCTAD

Despite maintaining the policy rate at 5.0%, the overall treasury bill rate in the second half of 2022 increased to an average 5.0% up from 4.3% in the first half, signalling a shift from accommodative monetary policy to a less accommodative monetary policy by Bank of Tanzania (BoT). This was in response to global headwinds from Russia-Ukraine war and the COVID-19 pandemic. The BoT has since noted that it will maintain a less accommodative monetary policy stance, which is reflected in the average overall treasury bill rate of 6.3% in Q1 2023.

Current account deficit



Source: EIU

The country's current account balance increased from USD 2.4bn in 2021 to USD 5.4bn in 2022, which translated to 7.3% of GDP. The increase in the deficit was attributable to import growth exceeding export growth over the period, attributable to growth in consumer demand for goods and services.

In 2023 and 2024, the current account deficit is forecast to narrow to USD 4.8bn and subsequently to USD 4.1bn, on account of recovery of the manufacturing and agricultural sectors.

FDI inflows into Tanzania increased by 7.8% in 2022, from USD 1bn in 2021. This growth in inflows was higher than the East African average growth of 3.0% over the same period. Further, FDI inflows to Tanzania accounted for 12.7% of all inflows to East Africa, behind Ethiopia and Uganda, which accounted for 42.1% and 17.5%, respectively.

Growth in FDI was driven by an increase in the number of greenfield projects, which increased by 60% in 2022. The energy sector dominated the targeted sectors, with projects such as Masdar Tanzania renewable energy project – which is expected to generate 2GW of renewable energy, being developed.

FDI is expected to increase by 1.7% in 2023 and subsequently forecast to increase by 2.1% in 2024, to reach USD 1.8bn, on account of favourable business operating policies and availability of favourable investment opportunities.

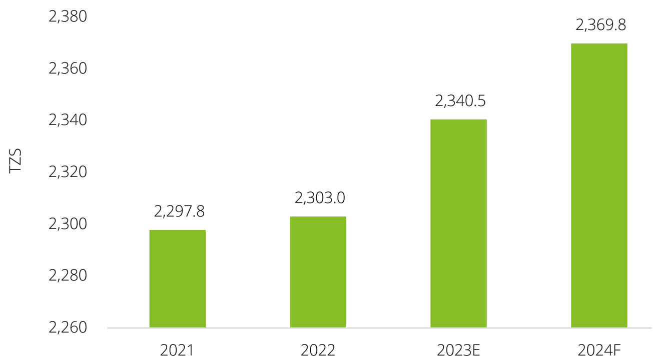
"

FDIs are expected to increase by 1.7% in 2023 and subsequently forecast to increase by 2.1% in 2024, to reach USD 1.8bn, on account of favourable business operating policies and availability of favourable investment opportunities.

The currency conundrum

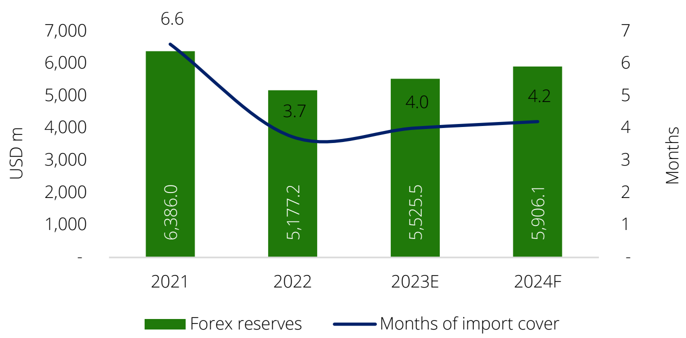
Foreign exchange reserves are forecast to grow by 6.9% in 2024, to reach USD 5.9bn, further contributing to the declined rate of depreciation of the Tanzanian shilling.

Exchange rate



Source: EIU, Bank of Tanzania

Forex reserves



Source: EIU, Bank of Tanzania

The Tanzania shilling slightly depreciated from TZS 2,297.8 / USD in 2021 to TZS 2,303.0/USD in 2022, owing to:

- The US monetary tightening policies that led to dollar strengthening over the local currency; and
- The increase in quantity of goods imported, which heightened local demand for the dollar by importers.

The currency is expected to further depreciate to TZS 2,318.1 in 2023, driven by sustained current account deficit and the country's continued deployment of inflation-targeting monetary instruments, including foreign exchange operations.

The rate of currency depreciation is however forecast to decelerate in 2024, as inflation decelerates and the BoT eases back to an accommodative monetary policy.

In 2022, Tanzania experienced pressure on its foreign exchange reserves, which declined by 18.9%, accounting for 3.7 months of import cover. The decline was primarily driven by BoT's intervention to meet increased demand for foreign currency.

Pressure on the country's foreign exchange reserves is however expected to ease in 2023 on the back of:

- Increased tourism-related receipts; and
- Declining global supply-driven commodity price pressures.

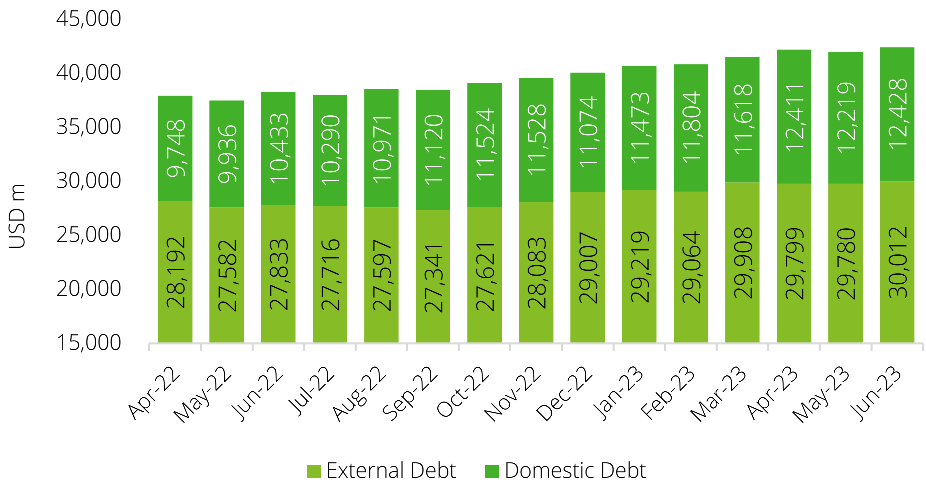
As of August 2023, foreign exchange reserves stood at USD 5.2bn, which translated to 4.7 months of import cover, further compounding the expected recovery of foreign reserves.

In 2024, foreign exchange reserves are forecast to grow by 6.9%, to reach USD 5.9bn, further contributing to the declined rate of depreciation of the Tanzanian shilling.

The debt debacle

Tanzania's debt stock stood at USD 42.4bn in 2023 with domestic debt accounting for 29.3%, while external debt accounts for 70.7%.

Tanzania debt stock



Source: Bank of Tanzania

Tanzania's total debt stock increased by 7.1% as at December 2022, to reach USD 40bn. The increase was predominantly driven by a 20.5% increase in domestic debt.

External debt however remained the largest proportion of total debt, accounting for 72.4% as at December 2022.

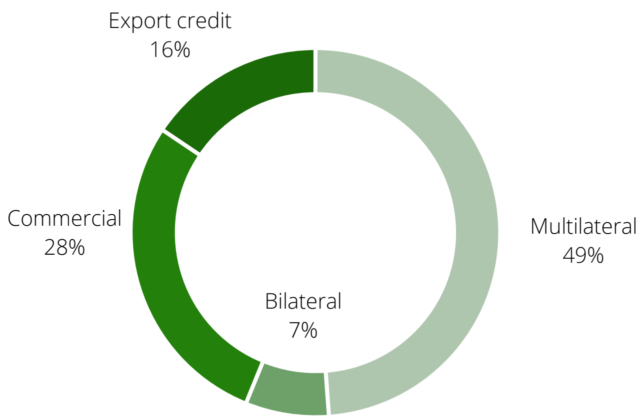
The country has maintained a conservative lending approach and consequently has one of the lowest debt-to-GDP ratios, standing at 41.9% in 2022. This is in comparison to the East African average of 48.9% and an ex-DRC average of 55.5%.

As of June 2023, Tanzania's debt stock stood at USD 42.4bn with domestic debt accounting for 29.3%, while external debt accounts for 70.7%.

The country's external debt profile continues to be dominated by multilateral debt, with the World Bank and the IMF as the largest lenders. Multilateral lenders accounted for 48.8% of the country's external debt stock as at July 23, compared to 46.1% over the same month of 2022.

The proportion of Tanzania's non-concessional loans marginally declined to account for 28.3% of total debt stock, in comparison to 29.0% as at July 22.

Tanzania's external debt profile as at July 2023



Source: Bank of Tanzania

Although the amount of commercial loans increased by 7.3%, the borrowing was 29.2% behind BoT's projections, in line with its policy to cut on non-concessional borrowing.

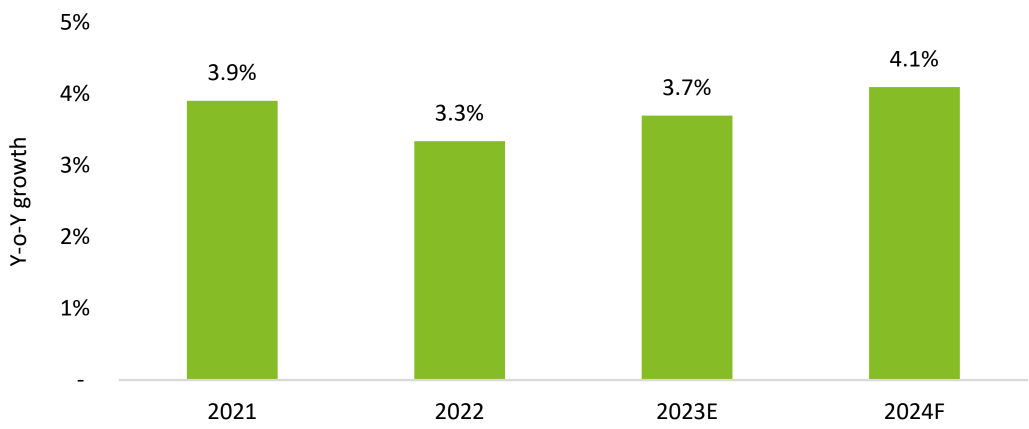
Borrowings were predominantly disbursed to:

- Transport and telecommunications projects – 20.6%;
- Social welfare and education – 18.1%;
- Energy and mining – 14.5%; and
- Balance of payments and budgetary support – 14.0%.

Agriculture sector

Tanzania's agriculture sector is expected to register a 3.7% y-o-y growth rate in 2023 and forecast to increase to 4.1% in 2024, mainly due to improved weather conditions and reduced input costs.

Agriculture sector performance



Source: EIU

Agriculture remained a key sector in Tanzania's economy, having contributed 26.0% to the country's GDP and employing 65.0% of the total population in 2022.

The sector benefited from the ease of COVID-19 but experienced headwinds from the Russia-Ukraine war, that saw a spike in fertiliser prices and other imported agricultural commodities like wheat. In addition, the sector took a hit from the extended drought, given that Tanzania's agriculture is predominantly rainfed.

In August 2022, the government announced a four-year subsidy program that saw reduction in DAP's price by 46.9%, UREA's price by 43.9%, CAN's price by 44.5%, CA's price by 39.6% and NPK's price by 43.0%. The initiative will boost agricultural production in 2023, given the reduced cost of farm inputs.

The sector is expected to grow by 3.7% in 2023, on account of improved weather conditions, expected reduction in input costs and increased private consumption.

Further, in 2024, the agricultural sector is forecast to grow by 4.1%, as agricultural inputs return to pre-war prices.

Tanzania's annual demand for rice grows by 6.0% due to increased consumption rate propelled by supportive demographic attributes, such as population growth. As such, the government is currently pursuing the National Rice Development Strategy (NRDS) aimed at improving production through value chain enhancement. The government will use public-private partnerships to attract investments and facilitate implementation of the NRDS.

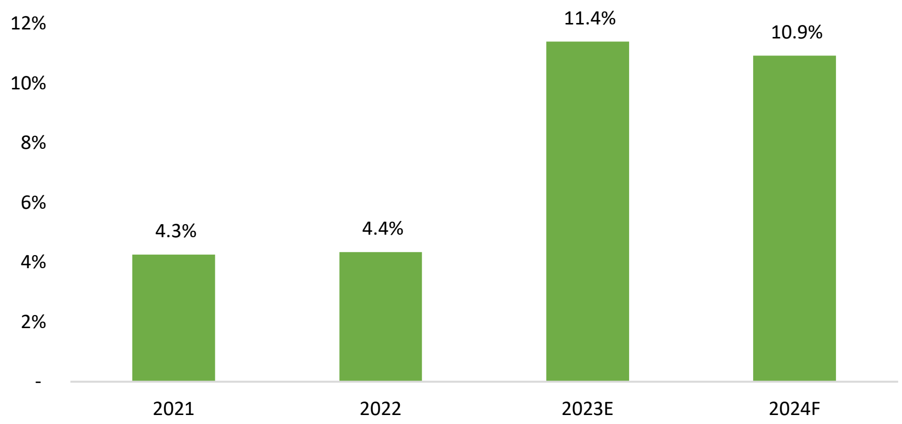
Maize is the country's most grown and consumed food crop. The country's maize reserves in May 2023 declined to a 33-month low on the back of harsh weather conditions that saw a 15.0% reduction in harvest and increased export demand from neighbouring countries. Tanzania stands to benefit from increased demand for maize from neighbouring countries. The country should improve farming agro-technology and value chain efficiency to ramp up maize production.

Tanzania produced 385k tonnes of sugar in 2023 against a demand of 604k representing a 36% demand gap. Kilombero Sugar Company, which is set to be commissioned in July 2023 will ramp up sugar production by 144k tones as Tanzania aims at self sufficiency by 2025.

Construction and infrastructure

Growth in the construction sector is expected to accelerate to 11.4% in 2023, owing to increased infrastructure development in the country. In 2024, growth is forecast to decline to 10.9%, as major public infrastructure projects are completed.

Construction sector performance



Source: EIU

Tanzania's construction sector contributed 16.0% to the country's GDP in 2022. The sector registered an annual growth rate of 4.4%, owing to continued government spending on infrastructure investments such as the Standard Gauge Railway (SGR), the J.P. Magufuli bridge (Kigongo-Busisi) and the Julius Nyerere Hydropower Project.

The sector growth is expected to accelerate to 11.4% in 2023, with several mega infrastructure projects kicking off in the year. Tanzania's pipeline of large-scale infrastructure projects is estimated to stand at USD 31bn, mainly comprised of road, railway and port projects.

Cement production increased from 7.6mn MT in 2021 to 8.0mn MT in 2022, with consumption rising from 7.2mn MT to 7.5mn MT over the same period, reflecting an acceleration of construction activities in the country. Supply of locally produced cement will increase uponcompletion of the Sinoma Cement Plant, which is expected to have a capacity to produce 7mn MT per annum.

In 2024, growth in the sector is forecast to decline to 10.9%, as some of the large-scale infrastructure projects, such as the Julius Nyerere dam are scheduled to be completed.

In February 2023, the government approved construction of the USD 3.5bn East African Crude Oil Pipeline, that will link Uganda's oil fields to Tanzania's port of Tanga. The pipeline will contribute to Tanzania's infrastructure growth and will also result in increased utilization of the Tanga Port.

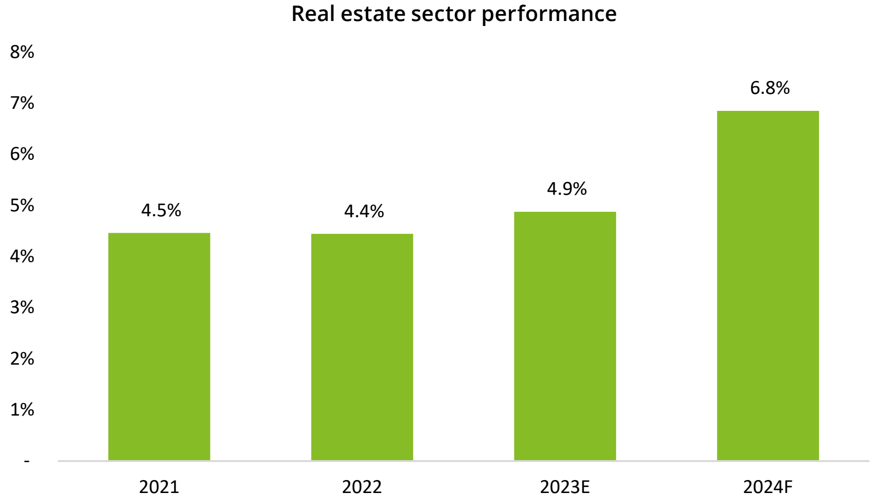
In 2023, the government will look to finalize construction of the first and second phase of SGR and continue the construction of the third and fourth phases of the Dar es Salaam-Mwanza SGR. The government has allocated USD 517.8m for the railway construction in the 2023/24 budget.

Tanzania will look to commence construction of seven roads covering 2,035km in 2023. Construction will be executed through Engineering Procurement Construction and Financing. The government has allocated US$ 1.6bn in the 2023/24 budget to finance the construction works.

Construction of Msalato International Airport which started in 2022 will continue through the year. The AFDB funded project is estimated to cost USD 329m and will target completion in 2026.

Real estate sector

Growth in the real estate sector is expected to accelerate to 4.9% in 2023, due to increased construction of commercial properties in the country. In 2024, retail demand for real estate is forecast to drive real estate growth to 6.8%.



Source: EIU

Tanzania real estate sector achieved an annual growth rate of 4.5% in 2022. This was attributable to slow growth in the office, residential, and industrial sector due to COVID-19 headwinds. Rental yields in the residential and office sector stood at 6.0% and 9.0%, respectively, while the retail and industrial sector posted 10.0% each.

The sectors' growth rate is expected to accelerate to 4.9% in 2023, driven by investment in commercial property in the hotel industry. Notable construction projects include the Zanzibar Domino Plaza and the Zanzibar Amber Resort estimated to cost USD 1.3bn and USD 1.6bn, respectively.

The government's recent agreement to support construction of a modern commercial and logistics center in Dar es Salaam estimated to cost USD 100mn will also contribute to near term growth in the real estate sector.

Growth in the sector is expected to increase to 6.8% in 2024, on the back of a surge in private demand as evidenced by the USD 12.4bn increase in residential mortgages in the second half of 2023.

Tanzania has a current housing deficit of 3m units, with annual demand for affordable housing standing at 200k. The current housing deficit in urban areas stands at 1.2m and will continue to grow driven by annual household growth of 130k and rural-urban migration.

The government, in Tanzania's Housing Development Plan, has set out to build at least 30k housing units by 2025. This will be supplemented by Tanzania Public Servants Housing Scheme that targets to build 50k houses.

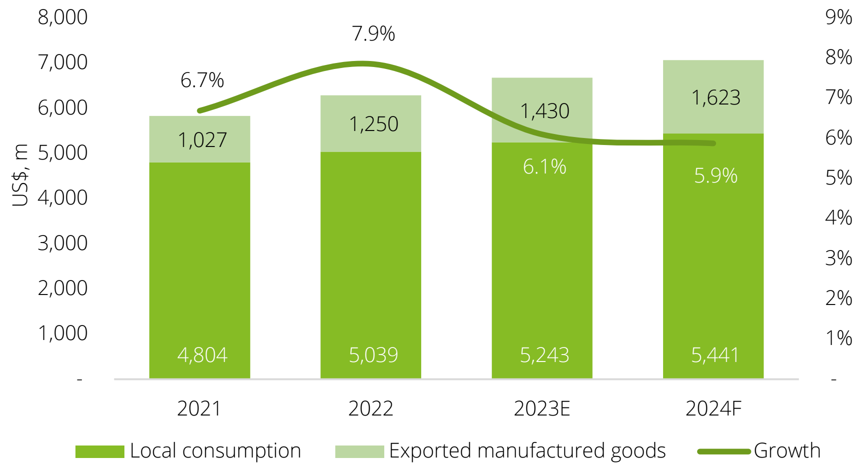
In addition, the government remains committed to building a strong industrial base in the country by creation of industrial parks to attract investors.

To this end, the government will accelerate development of special economic zones and export processing zones. These will attract developers with the potential to execute mega projects contributing to growth in industrial property in the country.

Manufacturing sector

With a target to double the manufacturing sector's contribution to employment by 2025, the Government of Tanzania continues to grow the incentives in the sector, in a bid to attract private investment.

Manufacturing sector performance



Source: Fitch Solutions, Bank of Tanzania, Deloitte Analysis

Tanzania's manufacturing sector grew by 7.9% in 2022 on the back of improved private consumption and an increase in demand for manufactured goods for export.

The sector is predominantly centred around the manufacture of agriculture-based products but is also comprised of other products such as chemical and pharmaceutical products, machinery and equipment.

In 2023, the sector is expected to further grow by 6.1% to reach a value of USD 6.7bn, driven by continued recovery of export of manufactured goods, which are expected to grow to USD 1.4bn in the year and growth in private consumption.

Subsequently, the sector is forecast to grow by 5.9% in 2024, on the back of increased demand for Tanzania's manufactured goods.

Tanzania's manufacturing sector remains relatively small, accounting for only 8.1% of the country's GDP in 2022.

However, in its Five-Year Development Plan 2021/22 – 2025/26, the government targets to increase the sector's contribution to GDP and share of total employment through the following targeted measures:

- Investment of USD 69mn in development of Special Economic Zones in Bagamoyo, Tanga, Kigoma, Mtwara and Songwe;
- Reduction of corporate tax from 30% to 20% for new entrants in manufacture of pharmaceutical and leather products for a period of 5 years; and
- Promoting the increment of the number of firms exporting manufactured goods from 1,180 as of 2020 to 2,114 as of 2026.

Combined, these measures are expected to sustain Tanzania's manufacturing sector over the medium term.

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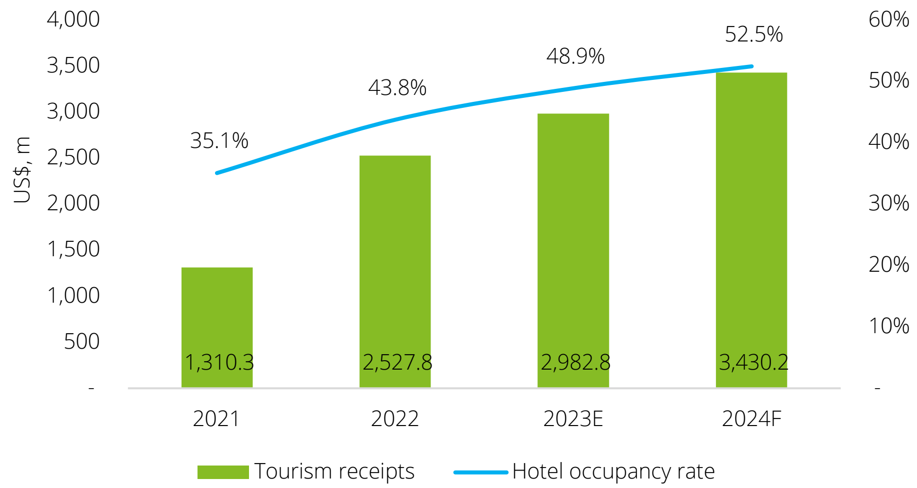
In 2023, the sector is expected to further grow by 6.1% to reach a value of USD 6.7bn, driven by continued recovery of export of manufactured goods, which are expected to grow to USD 1.4bn in the year and growth in private consumption.

Tourism sector

Growth in international tourism receipts is expected to accelerate by 18.0% in 2023, on account of increased tourist arrivals.Subsequently, in 2024, tourism receipts are forecast to increase by 14.1%, as number of tourists arriving in the country reaches 1.7m.

Tourism sector performance



Source: EIU, Fitch Solutions

International tourism plays a central role in Tanzania's economy, being one of the country's leading foreign exchange earners. Tourism accounted for 80.0% of Zanzibar's and 25.0% of Tanzania's foreign exchange sources in 2022.

Tanzania's tourism recorded a 92.2% Y-o-Y growth, as international receipts increased from USD 1.3bn in 2021 to USD 2.5bn in 2022, following the lifting of COVID-19 restrictions in most countries and continued government efforts to promote Tanzania's tourism.

The country remains one of the world leading tourist destinations, with popular beach holiday and safari destinations. In 2022, Tanzania was named one of the top 23 destinations to visit globally by CNN.

In 2023, Tanzania's tourism sector will edge closer to its pre COVID-19 levels with total receipts estimated to stand at USD 3.0bn (18.0% y-o-y growth), attributable to increased tourist arrivals. This traction is forecast to prevail in 2024, with receipts growing to USD 3.4bn and the average hotel occupancy rate increasing to 52.5%.

Africa is the leading contributor to total tourist arrivals in Tanzania by regional basis. In 2023, total tourist arrivals from the African market are projected to stand at 551,000 and will account for a quarter of total arrivals. Further, tourist arrivals from the Africa region will grow at a faster rate compared to other regions as local transport connections will be quicker to resume.

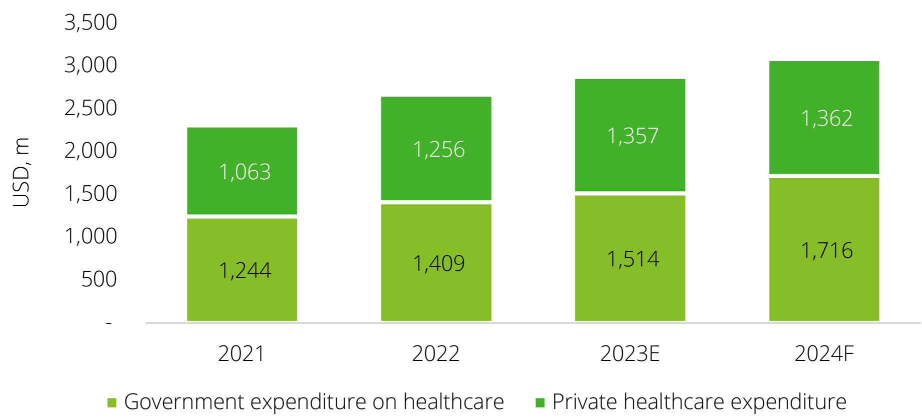
Tanzania recently partnered with France and Saudi Arabia to create direct travelling access, with the first flights having flown in the first half of 2023. In addition, Tanzania is currently constructing the Msalato International Airport, which is expected to have an annual passenger capacity of 1.5m and is expected to be completed in 2024. This will help drive growth in the total tourist arrivals in the country.

Further, hotel occupancy rate in 2023 is estimated to be 49.0% up from 44.0% in the previous year. Dar es Salaam is currently experiencing a shortage in hotel room, which will support increased investment in hotels in the city.

Healthcare sector

Healthcare expenditure is expected to increase by 7.7% in 2023, driven by government initiatives to improve healthcare in the country. Further, healthcare expenditure is forecast to increase by 7.2% in 2024, as government pushes for universal health coverage.

Healthcare expenditure



Source: Fitch Solutions

Aggregate healthcare expenditure in Tanzania increased by 15.5% from USD 2.3bn in 2021 to USD 2.7bn in 2022, largely driven by increased government spending on immunization, disease control programmes and improvement of healthcare infrastructure.

The government is currently implementing the digital health strategy that will leverage on digital platforms to improve health outcomes for the population. In addition, the government launched the Fifth Health Sector Strategic Plan that aims at: (i) improving maternal, new-born, children and adolescent health; (ii) control of communicable and non-communicable diseases; and (iii) improving response to epidemics and disasters.

In 2023, healthcare expenditure is projected to increase by 7.7%, due to continued government investment in healthcare and increased demand for high quality private healthcare.

Tanzania aims at achieving universal health coverage by 2030, although it remains relatively off the mark, as the National Health Insurance Fund cover is inaccessible to the majority of the country. Notably, 66.0% of the total population lacks any medical cover. This push for universal coverage is forecast to drive government expenditure on healthcare to USD 1.7bn in 2024.

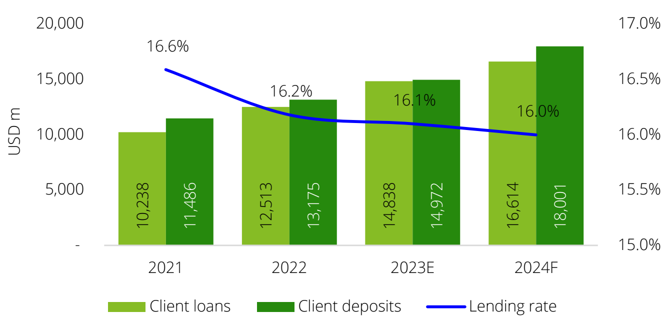
Tanzania's healthcare budgetary allocation in the 2023/24 fiscal year stands at TZS 2.4tn. The bulk of the health expenditure will go towards strengthening vaccination for children, improving healthcare infrastructure and availability and control of medicine, with the three having been allocated an approximate USD 61.9m, USD 39.6m and USD 88.4m, respectively.

The government has also prioritised disease control, maternal health and medical insurance coverage, particularly through reform of its national health insurer.

In 2023, healthcare expenditure is projected to increase by 7.7%, due to continued government investment in healthcare and increased demand for high quality private healthcare.

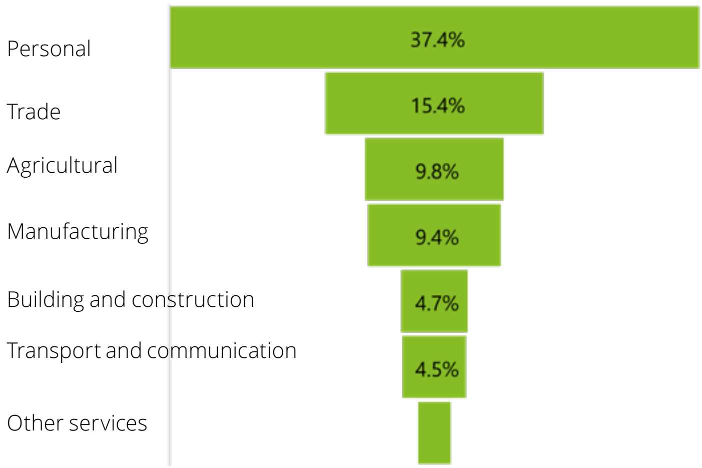
Financial Services | Banking

Banking indicators



Source: EIU, Fitch Solutions

Loan composition as at Jul-23



Source: Bank of Tanzania

The banking sector in Tanzania continued to expand in 2022, with loans advanced increasing by 22.2% to reach USD 12.5bn, while deposits held by deposit taking institutions increased by 14.7% to reach USD 13.2bn.

Growth in the sector was largely driven by an increase in economic activity in the year, which saw the loans advanced to the agriculture, mining & quarrying and personal loans increase by 42.1%, 36.5% and 27.5%, respectively as at June 2022.

Interest rates declined from 16.6% in 2021 to 16.2% in 2022, despite BoT holding the benchmark rates constant at 5% recently. This decline was on the back of an improvement of the overall credit risk, as demonstrated by the improvement of the non-performing loans ratio from 9.3% in 2021 to 7.8% in 2022.

In 2023, the banking sector is expected to further grow, with loans disbursed increasing to USD 14.8bn while deposits held increasing to 15.0bn. This is expected to be driven by continued economic rebound, following international supply chain shocks.

Subsequently in 2024, loans and deposits are expected to increase to USD 16.6bn and USD 18.0bn, buoyed by favourable lending rates and a favourable macroeconomic environment.

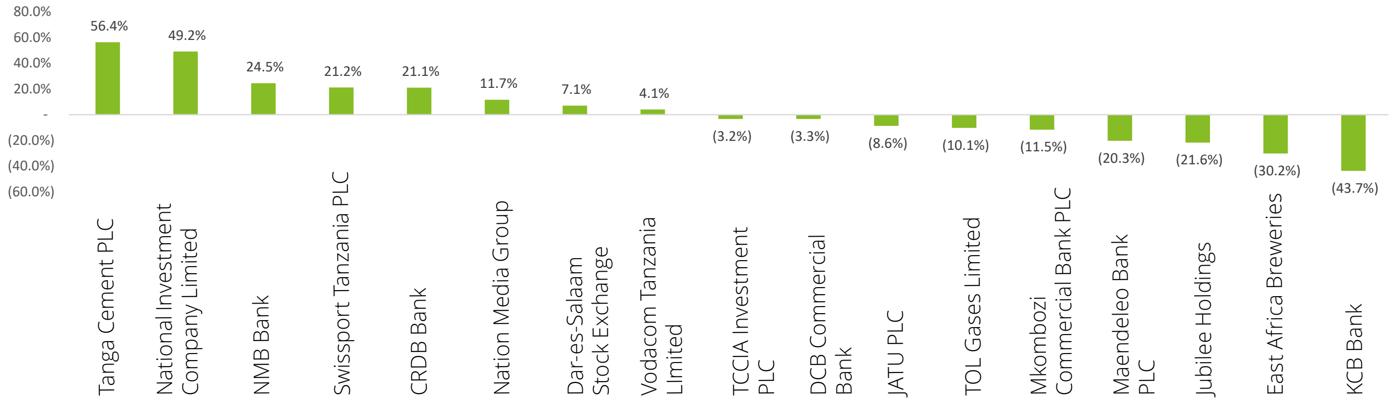
The credit outlook in Tanzania continues to improve, with non-performing loans ratio declining to 5.5% as of April 2023, in comparison to 8.3% in April 2022. In addition, the banking sector's core capital adequacy ratio stood at 19.6% in comparison to the minimum regulatory requirement of 10.0%.

Personal loans, particularly those disbursed for small and medium enterprises, remained the largest driver of credit and accounted for 37.4% of all credit in the market as at July 2023.

The sector continues to trend towards adoption of technology, led by the Bank of Tanzania. In 2022, the bank finalised the development of the Tanzania Instant Payment Systems, to enhance real time transfers between financial service providers.

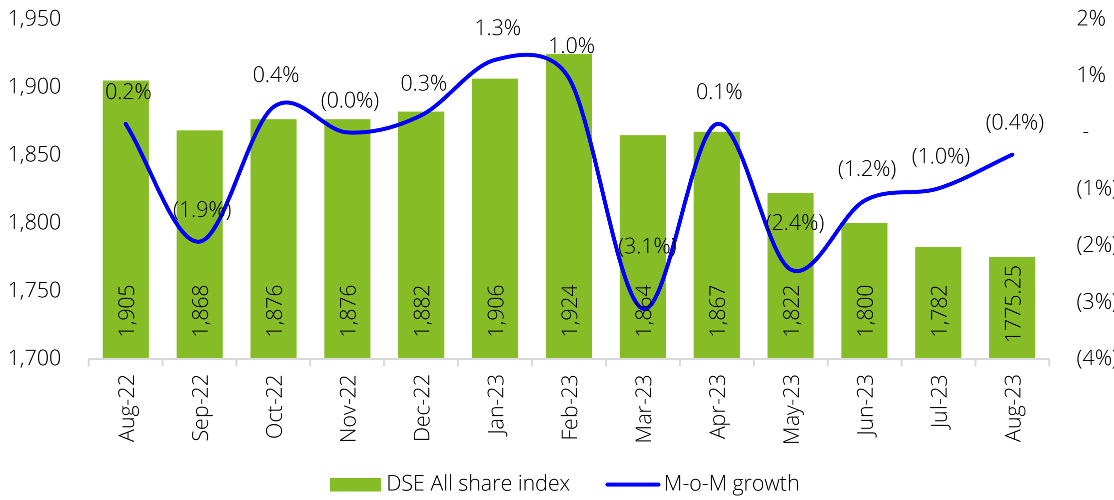
Financial Services | Equity Markets

YTD share performance as at 31-Aug-23



Source: Dar-es-Salaam Stock Exchange, Refinitiv

Dar-es-Salaam Stock Exchange all share index performance



Source: Dar-es-Salaam Stock Exchange, Refinitiv

Tanzania's stock market is comprised of 27 securities, with 21 local companies and 6 cross-listings. The bulk of the listed companies are in the financial services, manufacturing and oil and gas sectors, with proportions standing at 48.1%, 14.8% and 11.1%, respectively.

The exchange saw a decline in the year-to-date (YTD) performance, with the Dar es Salaam all-share index declining by 0.4% in August 2023, in comparison to a 0.2% growth in the same period in 2022. This decline was predominantly driven by a decline in performance of the agriculture and oil & gas segments.

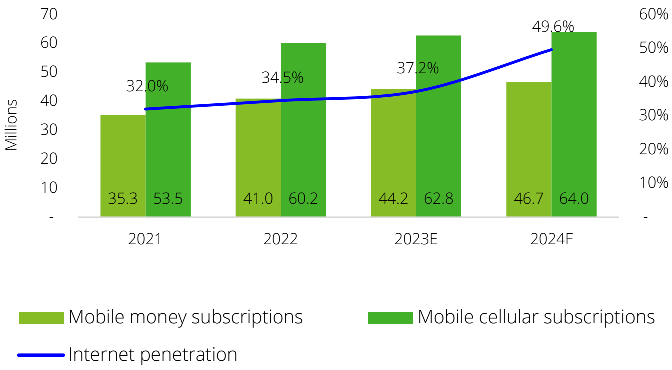
The manufacturing sector was the best performing market segment, with a YTD average increase in prices of 13.8%.

The best performing ticket was Tanga Cement Plc, with an increase of 56.4%. The Technology, Media and Telecommunication sector was the second-best performing segment, with a YTD average increase of 9.5%.

Although the stock exchange is relatively shallow, the Government of Tanzania intends to increase activity through floating shares of its ventures and attracting more private listings through (i) review of the tax reliefs targeting venture capital-backed start-ups and venture capital exiting via the exchange; and (ii) providing tax and non-tax incentives for profitable corporate sector to list their shares.

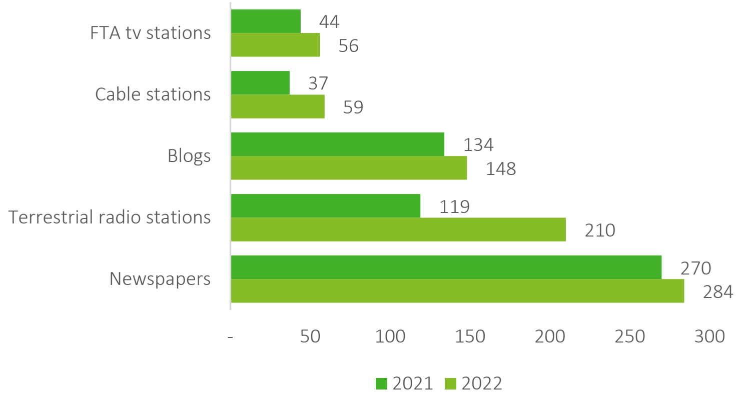
Technology, Media and Telecommunications sector

Telecommunication indicators



Source: World Bank, Fitch Solutions, Deloitte Analysis

Growth in media platforms



Source: Bank of Tanzania

The information and communication sector in Tanzania was one of the fastest growing sectors, with growth averaging 8.7% between 2020 and 2022.

Growth was predominantly driven by expansion of mobile money services, with subscribers increasing to 44.2m in 2023, compared to 41.0m in 2022.

Vodacom continued to dominate the market, with a 36.4% mobile money market share as at June 23, with revenue from its mobile money services increasing by 8.4%, to reach USD 152.6m in the 2023 financial year.

In addition, the decline in mobile data prices from an average price of USD 3.7/GB in 2019 to USD 0.7/GB in 2022, resulted in adoption of mobile internet and a consequent increase in internet penetration and mobile cellular subscriptions.

In 2023 and 2024, the sector is forecast to grow by an annual average of 3.1%, driven by sustained adoption of mobile internet and continued investment in the mobile financial services.

Tanzania's media sector similarly experienced growth in 2022, as media outlets increased on average by an average of 35.8% between 2021 and 2022.

Over the same period, the government invested USD 0.7m in building critical infrastructure to support the sector. In addition, the government has made amendments to a critical media regulatory Act, the Media Services Act, with the following key amendments:

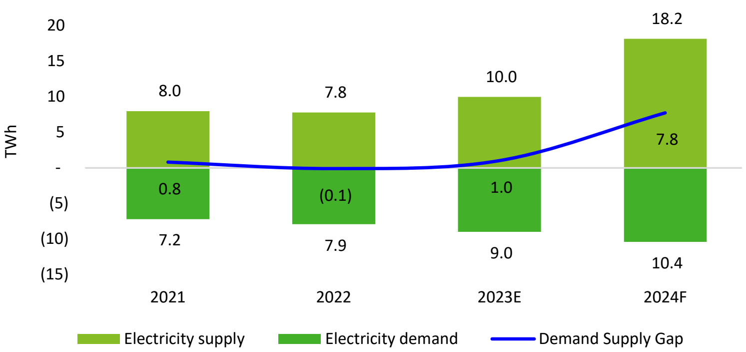
- Liberalization of government advertisements - allowing government agencies to decide on media outlets that they would place advertisements in, independent of the Director of Information Services;
- Establishment of a Journalists' Accreditation Board; and
- Removal of punishments for owners of printing plants.

The Government of Tanzania remains committed to the liberalization and promotion of the media industry to ensure its growth.

Energy sector

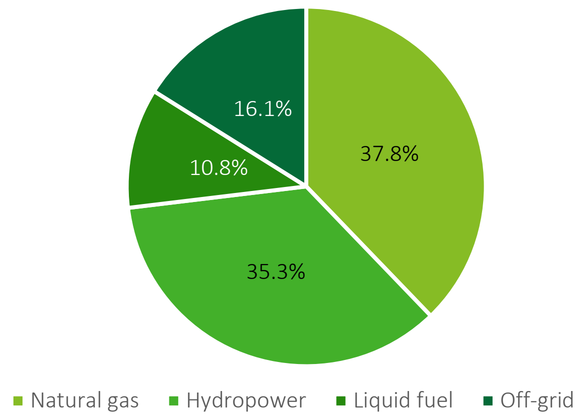
Tanzania's electricity generation capacity is expected to increase to 10TWh in 2023, driven by the anticipated completion of the 2,115MW Julius Nyerere hydropower.

Electricity demand and supply



Source: TANESCO, Fitch Solutions

Tanzania's energy mix



Source: TANESCO, Fitch Solutions

Tanzania's electricity sector is predominantly run by government through the Tanzania Electricity Supply Company – the country's sole agency responsible for transmission and distribution of electricity.

The country's generation capacity in 2022, stood at 7.8 TWh with natural gas accounting for 37.8% of this capacity, translating to 607.0 MW, as at December 2022.

To meet its occasional shortfalls in electricity supply, Tanzania imports electricity from Zambia and Uganda, in addition to supplementing this gap with supply from small power producers.

In 2023, Tanzania's generation capacity is expected to increase to 10TWh, driven by the anticipated completion of the 2,115MW Julius Nyerere hydropower, which was 86.9% complete as at April 2023. Similarly, consumption is expected to increase by 13.4% in 2023, driven by growth in manufacturing and increase in access to electricity.

In 2024, electricity generation is forecast to increase to 18.2TWh, driven by the government initiative to scale up and utilize the country's vast natural gas reserves.

The Government of Tanzania continues to invest in the energy sector, with the new financial year seeing a 4.9% increase in budget allocation to TZS 3.0tn.

The larger proportion of this allocation is intended to be directed towards:

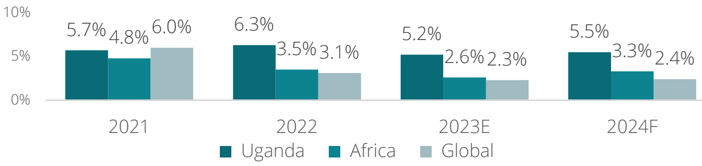
- Completion of three hydropower dams; Julius Nyerere hydropower dam (2115 MW), Ruhudhi dam (358 MW) and the Rumakali dam (222 MW);
- Increase in access to electricity, with a targeted coverage of 60.0% by 2026, from a current 39.9% of households; and
- Construction of natural gas distribution infrastructure, in preparation for construction of petroleum hubs.

Uganda

Macroeconomic and sectoral analysis

Uganda
Economy at a glance

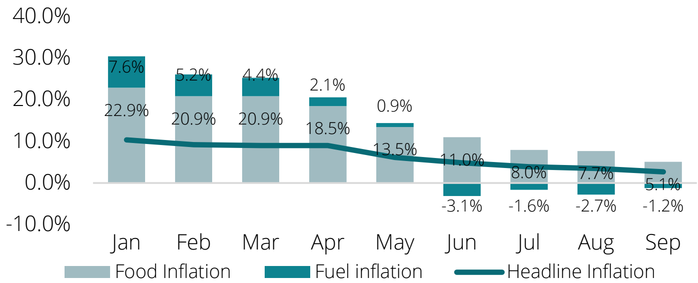
Real GDP growth rate



F: Forecast

Source: Oxford Economics, Economic Intelligence Unit (EIU)

Inflation 2023



Source: Uganda Bureau of Statistics

GDP grew by 6.3% in 2022 from 5.7% in 2021. The country is predominantly a services economy, with the sector (services) accounting for 43.7% of the economy. Local trade and healthcare services were the main drivers of growth.

Despite the noted growth in GDP, the economy experienced a slowdown in Q4 of 2022, due to the 4.6% drop in the industrial sector output, attributable to contractions in the manufacturing and mining sectors.

The GDP growth is estimated to slow down by 5.2% in 2023, due to the expected reduction in public and private consumption, on account of the elevated inflation. Subsequently, GDP growth is forecasted to slightly pick up in 2024, with an expected 5.5% growth in GDP, attributable to infrastructure investments in the energy sector, related to Lake Albert Oil Project.

Inflation surged to 7.2% in 2022 from 2.2% in 2021 due to increased global commodity prices following global supply challenges arising from the Russia-Ukraine crisis. This was further compounded by the unfavourable weather, that impacted the prices of food across the country. Energy and fuel inflation was also impacted in the year, as global prices of petroleum products increased in the year.

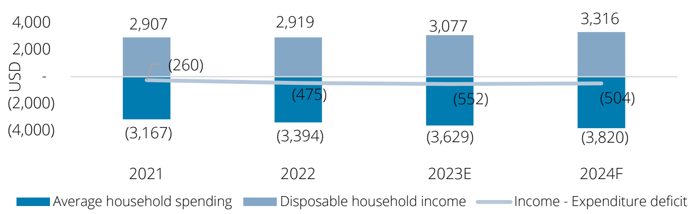
In 2023, inflation is projected to ease to 6.0% due to tightened domestic monetary policies, in a bid to bring inflation down to the target rate of 5.0%, and a global economic recovery. As global prices are expected to stabilise, inflation is projected to further decrease to 4.8% in 2024.

Annual inflation

Percentage →	2.2%	7.2%	6.0%	4.8%
Year →	2021	2022	2023E	2024F

Source: EIU

Total household income and expenditure



F: Forecast

Source: Fitch Solutions

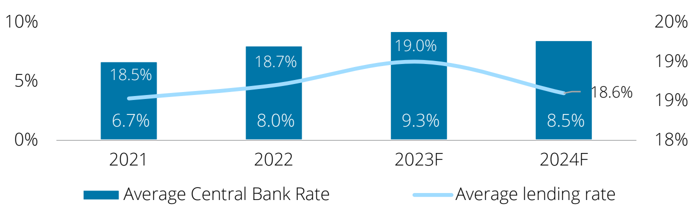
Disposable household income increased from USD 2,907 in 2021 to USD 2,919 in 2022, mainly due to the decrease in inflationary pressures, which has positively contributed to the real income gains.

Positive growth is projected in disposable household income in 2023 and 2024. Disposable income is expected to reach USD 3,077 in 2023 and grow even further to USD 3,316 in 2024, attributable to increase in economic activity resulting from the decreasing inflation.

Average household spending increased from USD 3,167 in 2021 to USD 3,394 in 2022, mainly due to the high price levels on key commodities. This is largely attributable to the supply chain challenges caused by the Russia-Ukraine war, which has created shortages of key commodities such as oil and gas, fertiliser and wheat.

Average household spending is projected to increase to USD 3,629 in 2023 and to USD 3,820 in 2024, due to the increasing commodity prices and in return an increase in consumer prices.

Lending rate

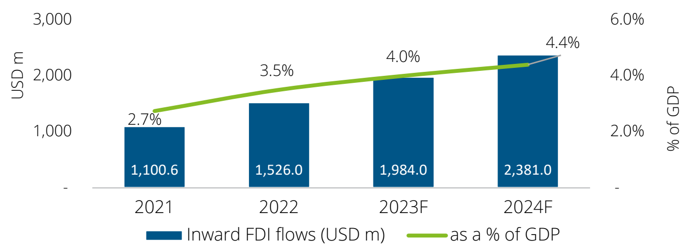


Source: Bank of Uganda, Economist Intelligence Unit

The average Central Bank Rate (CBR) rose from 6.7% in 2021 to 8.0% in 2022 mainly owing to the 350 basis points increase from 6.5% in January 2022 to 10.0% in October 2022 in view of the rapidly increasing local inflation driven by increased global inflationary pressures arising from the Russia-Ukraine crisis.

In August 2023, the Bank of Uganda (BoU) cut the CBR by 50 basis points to 9.5% from 10%, prompted by a sustained decline in the core inflation rate from 9.0% in January 23 to 3.8% in Juy 23. This marks the start of a loosening monetary loosening cycle as the CBR is expected to be reduced to 9.25% by end-2023 and to 8.5% in 2024 as global inflation continues to ease.

Foreign Direct Investment

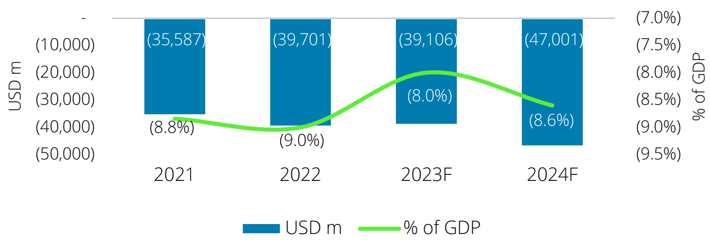


Source: Bank of Uganda, Economist Intelligence Unit

FDI grew by 38.6% from USD 1.1bn in 2021 to USD 1.5bn in 2022 mainly owing to the announcement of Total Energies' greenfield projects valued at USD 10bn. These include the development of the Lake Albert oil field in a joint venture with China National Offshore Oil Corporation and the Uganda National Oil Company valued at USD 6.5bn and the USD 3.5bn construction of the 1,440 km East African Crude Oil Pipeline.

As of June 2023, FDI inflows stood at USD 1,654.4m, driven by increased activities in the oil sector. FDI is projected to grow by 4.0% in 2023 and subsequently by 4.4% in 2024 to reach USD 2.4bn, in anticipation of oil production expected to kick-off in 2025.

Current account deficit



Source: Bank of Uganda, Economist Intelligence Unit

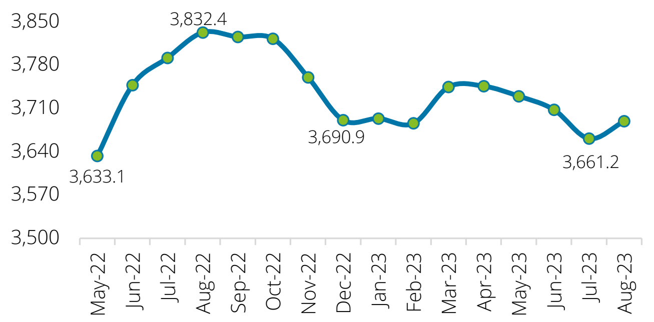
The current account deficit widened by USD 4.1bn from 8.8% of GDP in 2021 to 9.0% of GDP in 2022. The deficit was largely fueled by the adverse effects of the Russia-Ukraine conflict which led to escalated global commodity prices, thereby increasing the import bill and worsening the trade balance. Additionally, the Ebola disease outbreak declared in September 2022 reduced tourist inflows thus widening the services deficit.

The current-account deficit is expected to narrow to 8.0% of GDP in 2023, mainly owing to a resumption of gold exports following the proposed tax replacement of a contentious levy introduced in July 2021 that prompted exporters to halt all gold exports. The current-account deficit is then expected to widen to 8.6% of GDP in 2024 driven primarily by goods and services imports for development of the oil sector.

The currency conundrum

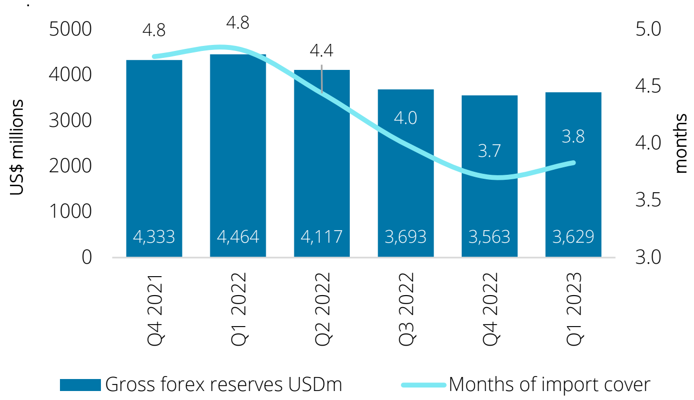
The tight global monetary conditions have led to a sharp increase in interest payments, encouraging the government to move away from external borrowing from 2024.

Average exchange rate



Source: Bank of Uganda

Import cover



Source: Bank of Uganda

The Ugandan Shilling depreciated to UGX 3,695/USD in 2022 from UGX 3,584.7/USD in 2021 attributable to the tight US monetary policies, in response to the rising global inflation.

The Ugandan Shilling weakened to UGX 3,832.4/USD in August 2022 and declined to UGX 3,690.9/USD in December 2022, mainly attributable to global strengthening of the US Dollar. The Ugandan shilling depreciation is expected to persistently accelerate in 2023 to UGX 3,748/USD, mainly due to increased US Dollar demand by importers and declining growth in export earnings.

Depreciation of the shilling makes Uganda's exports more competitive, but the current-account deficit makes imports bill costlier in local-currency terms.

The tighter global monetary conditions have led to a sharp increase in interest payments, encouraging the government to move away from external borrowing from 2024, resulting in further fiscal consolidation over the medium term as the government seeks to reduce financing requirements.

In 2024, the Ugandan shilling is forecasted to further depreciate to an average USD/UGX exchange rate of 3,744, as the country faces inflation challenges and increases its imports.

The foreign exchange reserves declined from an import cover of 4.7 months in 2021 to 3.5 months in 2022, mainly due to the increasing trade deficit.

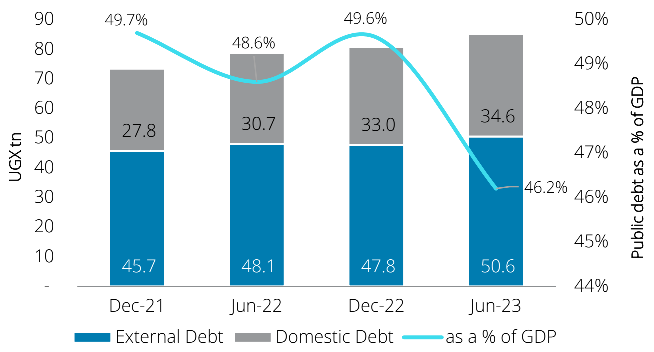
The Bank of Uganda had foreign currency reserves worth 3.8 months of import cover in April 2023, which is expected to continue to provide adequate cover in the medium term, 2023-27. However, this is below the 4 months target by Bank of Uganda.

The foreign reserves modest rise is attributable to increased exports, external debt inflows, strong foreign investment and a large import bill is expected to keep average import cover at 3.8 months in 2023-27.

The foreign debt repayment burden will also be pushed up due to the increasing depreciation, especially considering that just over 60% of Uganda's external debt stock is denominated in the US dollar.

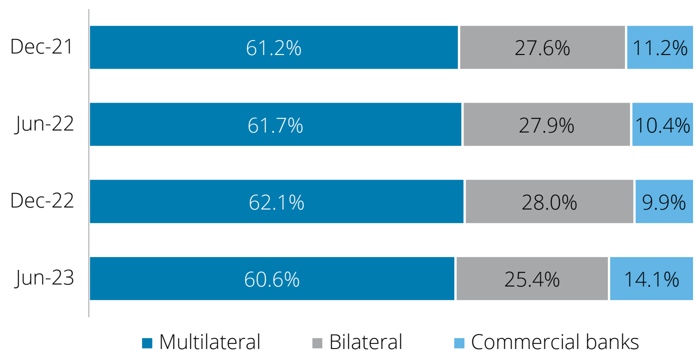
The debt debacle

Public debt



Source: Ministry of Finance, Planning and Economic Development

External debt share



Source: Ministry of Finance, Planning and Economic Development

Total public debt stock increased from UGX 73.5tn in December 1 to UGX 80.8tn in December 22 mainly driven by:

- an 18.7% increase in domestic debt on account of reduced redemptions; and
- a 4.6% increase in external debt primarily due to exchange rate fluctuations.

External debt constituted 59.1% of total public debt and was mainly owed to multilateral creditors, who comprised 62.1% of total external debt led by the International Development Association (IDA).

Bilateral debt comprised 28.0% dominated by the Exim Bank of China while commercial banks' share stood at 9.9% led by the Trade Development Bank.

As of June 2023, total public debt stood at UGX 85.2tn, driven by:

- a 5.9% increase in external debt on account of increased disbursements for budget support to fund critical projects; and
- a 4.7% increase in domestic debt primarily due to issuances to finance budgetary expenditure and redemptions.

Multilateral creditors continued to constitute the majority of Uganda's external debt (60.6%). However, there was a significant increase in the share of commercial banks from 9.9% in December 22 to 14.1% in June 23 mainly owing to increased disbursements from Standard Bank and Standard Chartered Bank for budgetary support during the year.

The said increase also led to:

- an increase in the share of external debt contracted on commercial terms from 19.1% in December 22 to 22.8% in June 23 which was additionally driven by an increase in the EURIBOR and LIBOR; and
- a decline in the share of external debt contracted on concessional terms from 56.4% in December 22 to 53.2% in June 23.

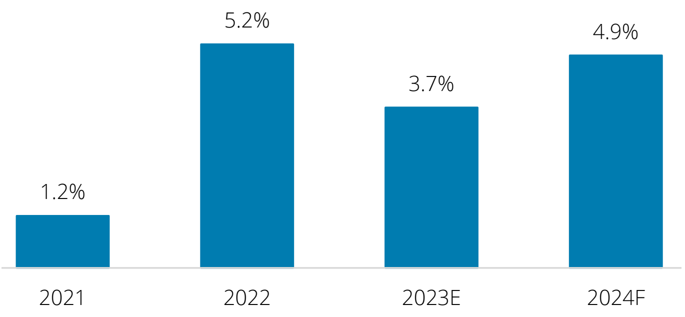
Uganda's risk of public debt distress is moderate and public debt remains sustainable, owing to Uganda's fairly stable exchange rate, favourable maturity structure of external debt and a shift towards concessional loans.

Public debt as a percentage of GDP is expected to increase to 51.1% as at end-2023 before slightly declining to 50.5% in 2024 mainly due to increased infrastructure spending in preparation for highly anticipated oil production in 2025.

Agriculture sector

The Agricultural sector accounted for about 25% of GDP, 33% of export earnings and comprised on average 72% of Uganda's working population in 2022.

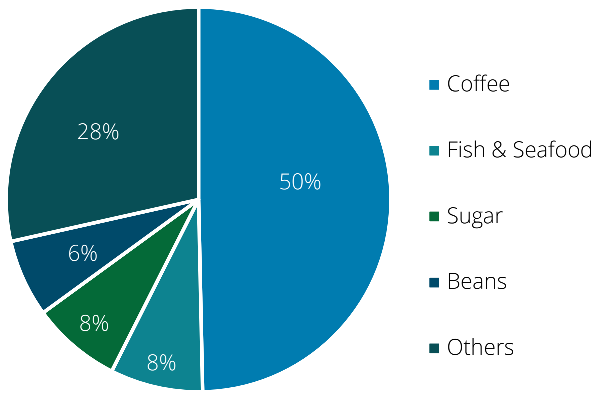
Agriculture performance



F – Forecast

Source: EIU

Total agricultural axports in 2022



Source: Bank of Uganda

The Agricultural sector accounted for about 25% of GDP, 33% of export earnings and comprised on average 72% of Uganda's working population in 2022.

The sector grew by 5.2% in 2022 from 1.2% in 2021, driven by increased agricultural yields owing to favourable weather conditions. This growth translated into:

- a 4.7% increase in food crop output to UGX 17,443bn in 2022 from UGX 16,658bn in 2021; and
- a 2.1% increase in the value of cash crop activities from UGX 3,627bn in 2021 to UGX 3,704bn in 2022.

Growth in food crop activities was mainly driven by higher production of beans, maize, green bananas and sweet potatoes, which was attributable to the good weather conditions throughout the year. Bean export earnings increased from USD 71.1mn in 2021 to USD 113.1mn in 2022.

Growth in cash crop activities was mainly supported by increased coffee export earnings from USD 554.9mn in 2021 to USD 862.2mn in 2022, driven by the growing global demand, farmer incentives and government sponsored promotional platforms.

As of 31 December 2022, the Agriculture Credit Facility (ACF), a private-public partnership with the end goal of modernization, commercialization and value addition of raw outputs in the agricultural ecosystem, had a loan book worth UGX 751.3bn, signifying increased credit demand from UGX 660.5bn in December 2021.

Growth in the sector is expected to slow to 3.7% in 2023, due to a decline in global prices of coffee and decreased demand from Europe which will negatively impact coffee exports as Europe is a key export destination. However, this will be offset by high local coffee prices which will provide farmers with more incentive to grow coffee.

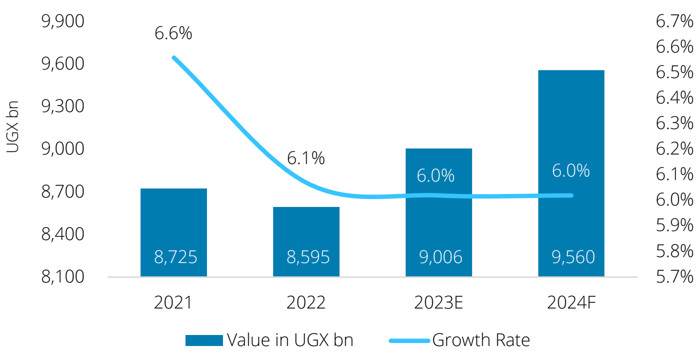
In March 2023, coffee exports grew by 2%, attributable to favourable global prices for robusta beans, which encouraged exporters cash in larger volumes.

Uganda's coffee production is expected to remain steady with an output of 6.6m 60kg bags in 2023. This is due to good harvests from the robusta trees planted in 2019 and favourable weather.

Additionally, the government is planning to provide farmers with subsidies and more disease-resistant coffee beans that can improve coffee production in the long term. As such, the sector's performance is expected to improve by 4.9% in 2024.

Construction and real estate

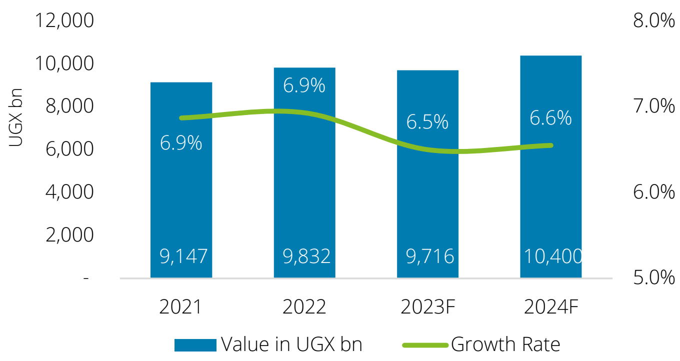
Construction and real estate



F: Forecast

Source: EIU

Real estate sector



F: Forecast

Source: EIU

Growth in Uganda's construction sector slowed from 6.6% (UGX 8.7tn) in 2021 to 6.1% (UGX 8.6tn) in 2022 mainly owing to increased inflationary and supply chain pressures, which prompted low investment in infrastructure. However, this performance was better than our Vol. 3 growth forecast of 5.8%.

Some of the infrastructure projects undertaken in 2022 include the privately funded 23.0MWp Nkonge photovoltaic farm project and the Kampala flyover project which had stalled during the COVID-19 pandemic.

Despite Uganda's construction market being smaller in value compared to leading regional markets like Tanzania and Ethiopia, its project pipeline is promising particularly relating to energy (utilities and hydrocarbon) and transport.

The construction sector growth is expected to remain muted at 6.0% in 2023 and 2024, which translates to UGX 9.0bn in 2023 and UGX 9.6bn in 2024, mainly driven by the expected commencement of the construction of the East Africa Crude Oil Pipeline (EACOP), which will also support growth in the medium-term (2023-2025). The EACOP Company Ltd received the construction license on 24 January 2023.

The Residential Property Price Index (RPPI), which measures the change in the average level of prices paid by households for residential properties sold, averaged 98.5 in Q4 2022. This was a 5.1% contraction from an average of 103.8 in Q4 2021, attributable to subdued property demand caused by the effect of increased inflationary pressures.

According to Knight Frank Uganda, the retail real estate sector registered an 8% annual increase in office occupancy and a 2.7% occupancy growth in its managed malls following the signing of the Final Investment Decision between the government and international oil companies, and the full reopening of the economy.

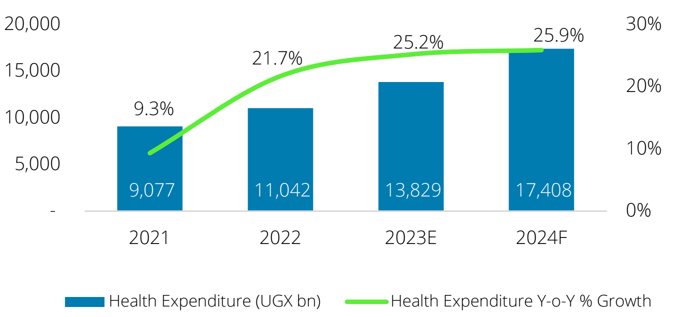
Growth in real estate is forecast at 6.5% in 2023 and 6.6% in 2024, mainly driven by increased demand for residential property and office space arising from rapid urbanization and the development of the oil industry, respectively.

Net Zero initiatives, Environmental, Social and Governance (ESG) standards and flexible office solutions will increasingly impact office choices, particularly for multinational companies.

Healthcare sector

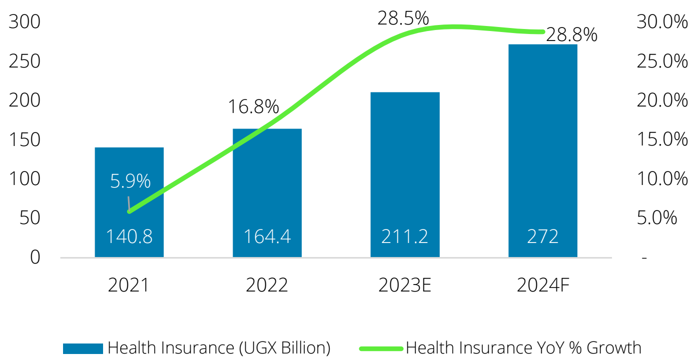
Health expenditure is projected to increase to UGX 17,408bn in 2024. This is attributable to the government's efforts to recommit to accessible and quality health services for all.

Ministry of health expenditure



Source: Ministry of Finance, Planning and Economic Development, Fitch Solutions

Medical insurance



Source: Fitch Solutions

The public healthcare system in Uganda has been criticised for being inequitable. The rural population has comparably low access to healthcare as higher-level facilities tend to be in urban centers such as Kampala.

Health expenditure grew from UGX 9,077bn in 2021 to UGX 11,042bn in 2022. This is attributable to the government's continued efforts to implement measures to mitigate the impact of the COVID-19 pandemic.

Expenditure was also allocated to managing and responding to the Ebola Virus Disease outbreak that was declared in September 2022.

In January 2023, the Government of Uganda, the global public health community and the Center for Disease Control and Prevention announced the end of the Ebola outbreak in Uganda.

Health expenditure is expected to grow by 25.2%, UGX 13,829bn in 2023. This is attributable to the government's strategy to improve the effective use of technology and information, creating a safer, sustainable, and more efficient healthcare system that will result in better health outcomes.

Health expenditure is projected to increase further to UGX 17,408bn in 2024. This is attributable to the government's efforts to recommit to accessible and quality health services for all.

This initiative is aiming at providing full healthcare coverage for Uganda's entire population by 2031.

Health insurance premiums grew by 16.8% from UGX 140.8bn in 2021 to UGX 164.4bn in 2022. The demand for health insurance was mainly driven by corporate schemes and workers in moderately paid employment seeking to protect their future income.

Health Maintenance Organisations (HMOs) revenues declined by 17.26% from UGX 48.4bn in December 2021 to UGX 39.93bn in December 2022, mainly driven by the acquisition of one of the biggest Health Maintenance Organisations (HMOs), IAA Healthcare by Prudential Life Assurance and the suspension of International Medical Link (IML), a private medical insurance service organisation which was licenced by Insurance Regulatory Authority of Uganda (IRA Uganda) as an HMO in 2012.

Health insurance premiums are expected to account for 28.5% of Uganda's non-life market in 2023, with premiums expected to reach UGX 211.2bn.

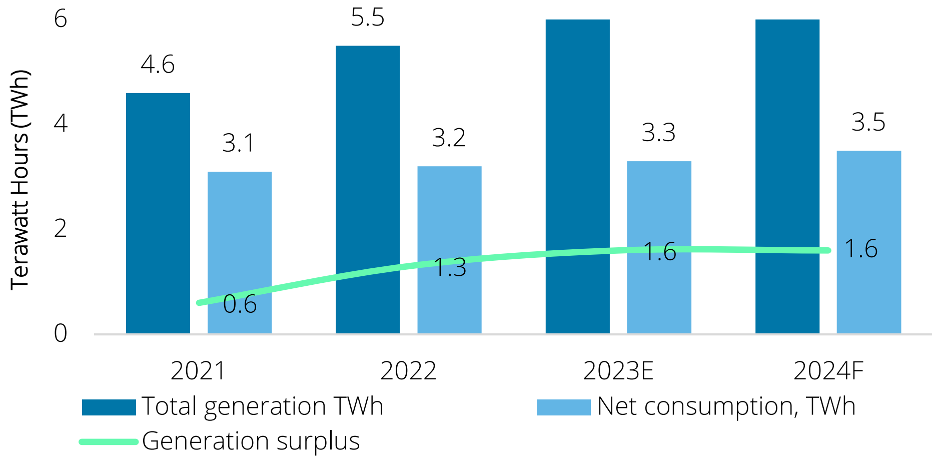
Premiums are projected to reach UGX 272bn, remaining muted at 28.8%.

In 2022, Uganda's National Health Insurance Scheme (NHIS) Bill, the first national social health insurance scheme was amended and passed with full population coverage is expected by the government by 2031.

Energy sector

The expected commencement of the construction of the East Africa Crude Oil Pipeline (EACOP), following the approval of the construction license in January 2023, will be the main driver of growth in the oil & gas sector in the medium-term (2023-2025).

Electricity generation and consumption



F: Forecast

Source: Fitch Solutions

Total electricity generated grew by 19.6% from 4.6 TWh in 2021 to 5.5 TWh in 2022, driven by an increase in hydropower following heavy rainfall experienced in September 2022. Hydropower was the main source of electricity and accounted for 90.4% of total electricity generated.

In 2022, net consumption grew by 3.2% from 3.1 TWh in 2021 to 3.2 TWh in 2022. This was mainly driven by the full re-opening of the economy which supported a resumption of industrial activities. Uganda has a low electrification rate (45%) hence majority of electricity consumption is industrial.

In 2022, the governments of Tanzania and Uganda signed an MoU for the development of a 30km 400kV transmission line to link the two countries, thus allowing Uganda to export its hydropower-generated electricity surplus to Tanzania, as Tanzania's energy demand grows.

Growth in electricity generation is forecast at 9.1% in 2023, mainly attributable to the 600 MW increase in hydropower capacity following the completion of the Karuma Hydropower Plant.

16 years since the discovery of commercial reserves of oil and gas in the Lake Albert Basin, the Government of Uganda through a joint venture with Total Energies, China National Offshore Oil Corporation Uganda (CNOOC) and Uganda National Oil Company (UNOC), reached a final investment decision on the Lake Albert Resources Development project in February 2022.

The Lake Albert Resources Development project involves a USD 10.0bn investment in the Total Energies-operated Tilenga project, the CNOOC-operated Kingfisher project, the 1,445km-long East Africa Crude Oil Pipeline (EACOP), as well as the 60,000b/d Hoima refinery.

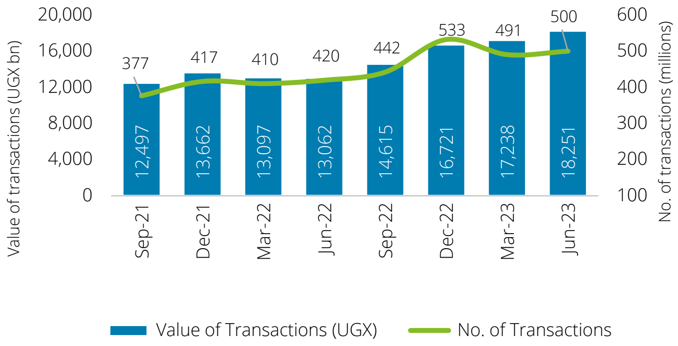
Oil production is expected to kick-off in 2025, with initial crude oil and condensates totaling 62,000b/d and peaking at 218,000b/d in 2028.

The Tanzanian section of the EACOP presents a downside risk given the possibility that the route will traverse the Serengeti National Park, which would trigger strong environmental opposition to the project.

Investors may be prompted to develop only the Ugandan portion and deliver the oil to the Tanzanian port by truck, which could prove time-intensive not to mention quite costly.

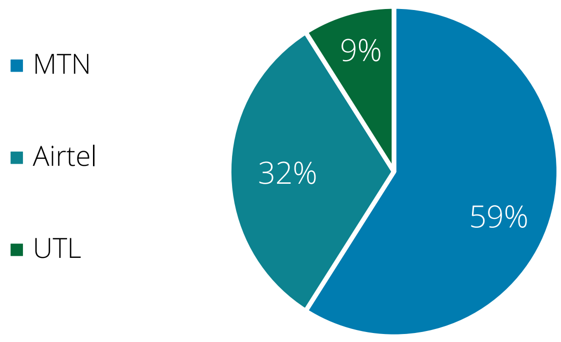
Technology, Media and Telecommunications

Mobile money statistics



Source: Bank of Uganda, BMI – Fitch Solutions

Mobile Network Operator - Market share at Q1 2023



Source: GSMA

Active mobile subscriptions grew by 10% from 30.2m in 2021 to 33.2m in 2022, translating into a 77% penetration rate. Increased subscriptions were attributable to the introduction, sale and distribution approval of new phone models from various distributors in the country.

The total number of registered mobile money subscribers grew by 12% from 32.7m in 2021 to 36.8m in 2022 while mobile money transactions grew by 4% from UGX 1.2bn in 2021 to UGX 1.4 bn.

This growth was mainly driven by the implementation of post-pandemic digital measures which led to an increase of People to Business (P2B) and People to People (P2P) mobile money service usage.

The total active internet connections grew from 23.9m in 2021 to 25.7m in 2022, translating into a 60% penetration rate. Growth internet connectivity was mainly attributed to a new smartphone marketing device activity which influenced a direct consumer migration from feature phones to smartphones.

Total internet connections are estimated to grow to 27.2m in 2023 and expected to grow to 35.4m in 2024 attributable to the steady growth of the mobile market and the introduction of 5G.

As of Q1 2023, MTN Uganda maintained its position having the largest market share at 59%, with Airtel trailing behind at 32% and Uganda Telecommunications (UTL) at 9%.

In May 2023, MTN reported that it had invested UGX 95.4b (USD 25.4mn) in Q1 of 2023 to expand its 4G network and fibre-optic fixed broadband access infrastructure, alongside 5G preparation, showing its commitment to the market.

Uganda reevaluated its previous efforts to impose digital tax for non-resident digital service providers and in July 2022, the Uganda Revenue Authority enforced VAT on digital services provided by non-resident persons like Google, Netflix, Spotify and Meta.

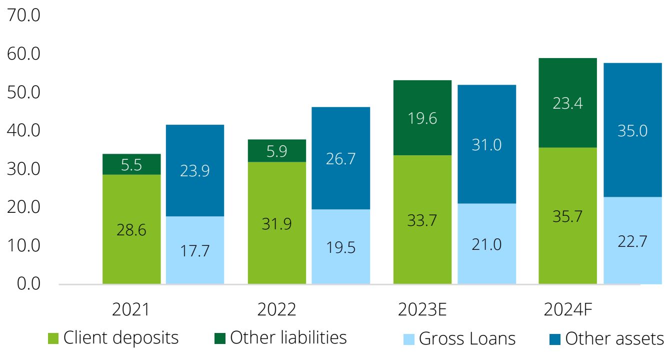
The enforcement of this new tax obligation affects services such as online advertising, online music and video streaming, access to databases, supply of software and access to films and betting games. Uganda is now the fourth country in Africa to enforce digital tax on non-resident persons providing digital services to its residents.

Despite this, increased state investments into the national fibre network expansion and modernisation plans is expected to help drive down broadband prices, reach new customers and improve quality of service in the medium term (2024 to 2027).

Financial Services | Banking

The proposed significant increase in capital requirements for banks to UGX 150bn by June 2024 is likely to provide merger and acquisition opportunities, as several banks' core capital position falls well below the new threshold.

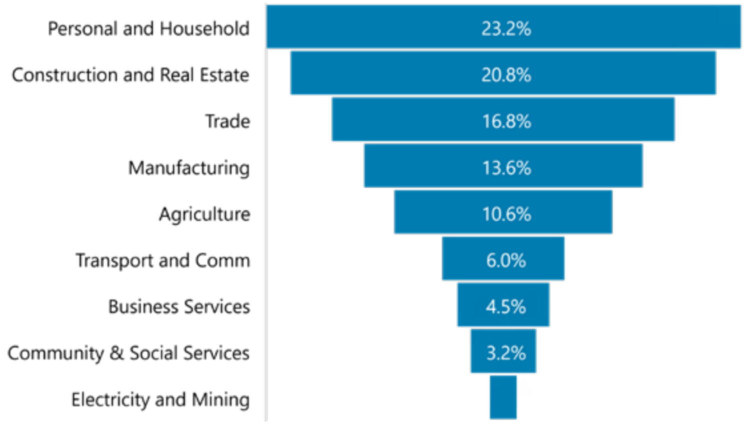
Deposits and loans



F: Forecast

Source: Bank of Uganda, Fitch Solutions

Private sector credit composition as of June 2023



F: Forecast

Source: Bank of Uganda, Fitch Solutions

Credit growth picked up with commercial banks' gross loans growing by 10.2% to UGX 19.5tn in 2022 from UGX 17.7tn, up from an 8.6% growth in 2021.

However, this growth was mainly due to the capitalization of outstanding interest payments on loans arising from failure of borrowers to meet scheduled loan repayments. This translated into an increase in non-performing loans (NPLs) ratio from 5.3% in 2021 to 5.4% in 2022.

Commercial banks' aggregate net profit-after-tax increased by 22.7% from UGX 214.3bn in Q4 2021 to UGX 263.0bn in Q4 2022, resulting from an increase in interest income. Net interest margin also improved from 10.4% in 2021 to 10.6% in 2022.

Commercial lending rates averaged 18.7% in 2022 compared to 18.5% in 2021 despite a 350 basis points increase in the central bank rate, thus reflecting a gradual pass through of refinancing costs unto borrowers. As of April 2023, the commercial lending rate was 19.3%, while the CBR remained at 10.0%.

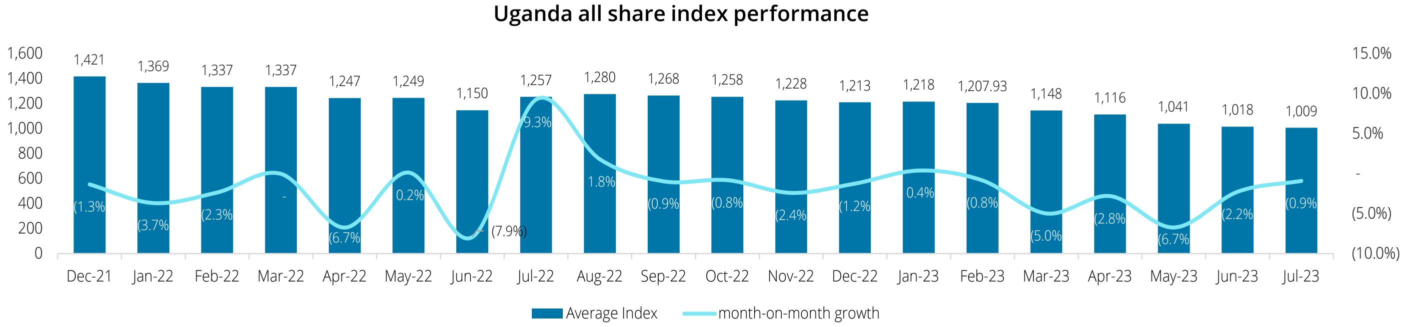
Personal & household loans and construction & real estate loans were the largest drivers of credit and accounted for 23.2% and 20.8% of private sector credit respectively as of July 2023.

Gross loans are projected to grow by 7.7% in 2023, supported by easing inflation and easing of the monetary policy which will prevent a further increase in borrowing costs and thus easing downward pressure on credit demand.

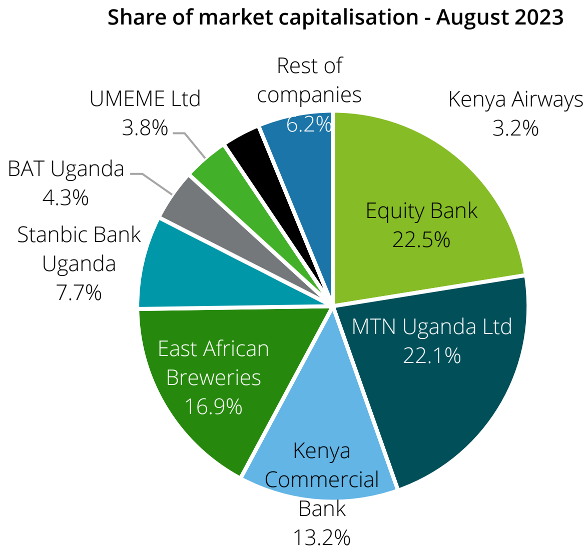
The proposed significant increase of capital requirements for banks to UGX 150bn by June 2024 is likely to provide merger and acquisition opportunities, as several banks' core capital position falls well below the new threshold.

The banking competitive landscape is projected to remain shallow and dominated by a small number of main banks, although growing financial inclusion and the emergence of fintech solutions will provide opportunities for growth.

Financial Services | Equity markets



Source: African Markets, Fitch Solutions, Uganda Stock Exchange



Source: African Markets, Fitch Solutions, Uganda Stock Exchange

The Uganda Securities Exchange (USE) comprises 16 listed companies, 7 of which are cross-listed in Kenya. Financial services institutions and manufacturing companies make up 43.8% and 25% of the listed companies respectively.

The Uganda All Share Index registered a 14.6% year-on-year decline from 1,421 in December 2021 to 1,213 in December 2022, reflecting limited interest by Uganda based firms in using the stock market as a means to raise capital.

There have been no new listings since MTN in December 2021, due to the failure of applicants to meet the criteria for listing owing to a lack of transparency and poor corporate governance. Investors are also deterred by low market growth compared to government bond yields.

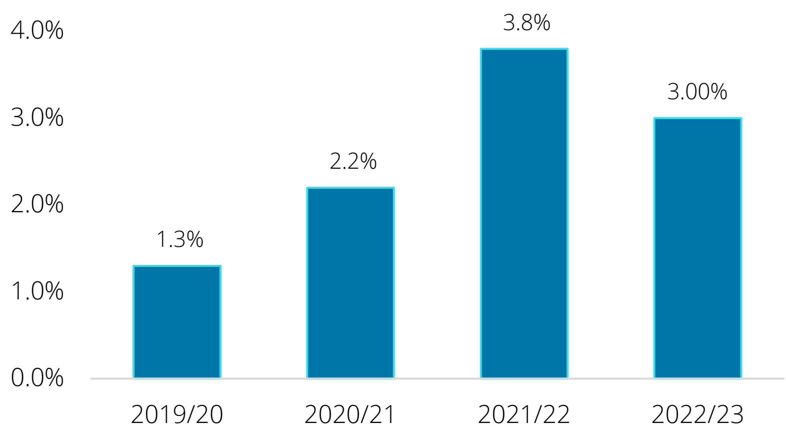
Market capitalisation totaled UGX 17.2tn as of 8 August 2023 with Equity Bank, MTN Uganda, East African Breweries Limited and Kenya Commercial Bank – most of which are Kenyan-based – representing 74.8% of total market capitalisation.

The listings on the USE have largely been as a result of privatisation, hence the main headwind in the medium-term (2023-2025) will be attracting listings from privately owned businesses.

Manufacturing

Of the UGX 894bn new loan applications the Uganda Development Bank (UDB) approved to receive funding in December 2022, UGX 454.8bn was allocated to manufacturing and agro-processing. This is expected to drive an expansion in agro-processing, thus increasing export volumes and earnings.

Manufacturing performance



Source: EIU, Background to the budget FY22/23, Fitch Solutions

Growth in manufacturing slowed from 3.8% in 2021/22 to 3.0% in 2022/23 mainly on account of lower production from pharmaceuticals, furniture and tea processing.

In addition, an increase in the price inputs stemming from increased global inflationary pressures also contributed to the slower growth.

In October 2022, the Uganda National Bureau of Standards (UNBS) supported by the Private Sector Foundation of Uganda (PSFU) offered free product certification (Q-Mark) to Micro, Small and Medium Enterprises (MSMEs) as part of the Covid-19 Economic Recovery and Resilience Response Program (CERRRP) funded by the Mastercard Foundation under the quality and standards component.

This initiative was aimed at lowering costs of product certification in order to enhance safety and quality of domestically manufactured products and promote access to all markets. Over 500 MSMEs across various sectors have received the certification.

UDB disbursed a total of UGX 776.6bn in loans in 2022, 76% of which was directed towards projects engaged in agriculture, agro-processing and manufacturing.

The aforementioned projects were expected to generate 35,372 new direct jobs, produce output worth UGX 9.4tn, generate UGX 393.8bn in tax revenue and attract foreign exchange earnings worth UGX 1.6tn.

Following the discovery of iron ore deposits in the southwest region of Uganda, the government – through the National Development Plan III – has prioritised the iron & steel industry for import substitution in order to enhance value addition on its huge deposits of unexploited iron ore. The Plan projects the reduction of imported iron and steel from USD 370mn in FY2017/18 to USD 6mn in 2024/25.

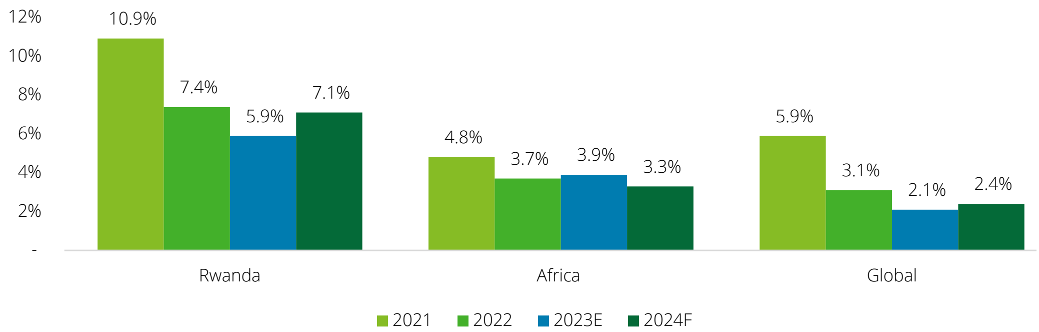
To this effect, the Government of Uganda entered a regional co-investment initiative with Devki Steel Mills Ltd which will see Uganda export iron ore to Devki in Kenya for processing. This is expected to create employment and accelerate social and economic development in both countries.

Rwanda

Macroeconomic and sectoral analysis

Rwanda
Economy at a glance

Real GDP growth rate



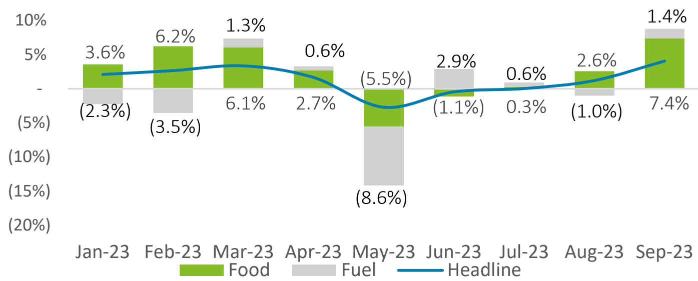
Source: National Institute of Statistics of Rwanda

Despite a strong recovery in 2021, Rwanda's economy faced headwinds in 2022, with real GDP growth slowing to 7.4% in that year, from 10.9% in 2021, amid global demand shocks, weather disruptions and supply-chain bottlenecks.

The country's economic growth is expected to be 5.9% in 2023, well below its average annual rate of 7.0% pre pandemic, due to the economic slowdown and the damage caused by the floods to the infrastructure. However, a rebound to 7.1% is projected for 2024, supported by service sector expansion, manufacturing and infrastructure investments.

> ***The country's economic growth is expected to be 5.9% in 2023, well below its average annual rate of 7.0% pre pandemic.***

YTD inflation (12-month change)



Source: National Institute of Statistics of Rwanda

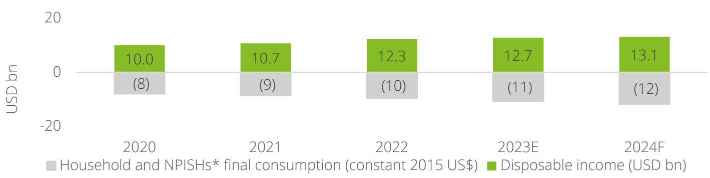
Inflation climbed rapidly in 2022 to 13.9% from 0.8% in 2021 following the Russia-Ukraine war which led to a sharp increase in wheat, cooking oil, fuel and electricity prices. In 2023, It is estimated that runaway inflation will hit 17.9%. The central bank is expected to mitigate this through aggressive monetary policy and a healthy foreign exchange buffer.

In the YTD period ended June 2023, Rwanda saw a disinflationary trend on the back of food and fuel price controls imposed by the government. 2024 is expected to see a slowdown in inflation to 5.1%. This will be driven by a further decline in global commodity prices and an easing of supply bottlenecks. Our forecast is subject to major risks from geopolitical shocks, which could cause inflation to surge again.

Annual inflation

Percentage →	0.8%	13.9%	17.9%	5.1%
Year →	2021	2022	2023E	2024F

Household expenditure against disposable income



**Non-profit institutions serving households*

Source: National Bank of Rwanda, National Institute of Statistics Rwanda, EIU, Fitch Solutions, World Bank

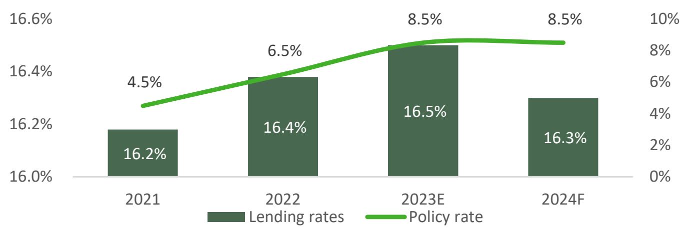
Rwandese households saw an aggregate increase in the disposable income from USD 10.7bn in 2021 to USD 12.3bn in 2022, largely on account of the overall economic recovery from the impacts of the pandemic and improvements in living standards and social indicators.

According to the World Bank, Rwanda achieved all the health Millennium Development goals.

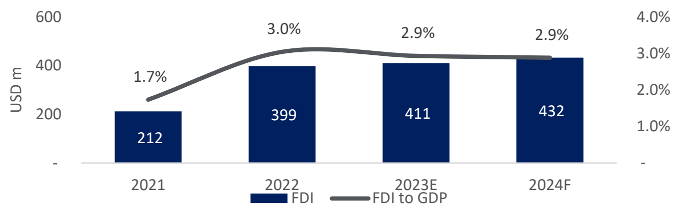
In the same period, household and Non-profit institutions serving households (NPISHs) expenditure increased from USD 8.7bn in 2021, to USD 9.7bn in 2022 in tandem with the runaway commodity inflation.

Disposable income is expected to grow to USD 11.8bn by 2024 driven chiefly by the government's poverty reduction strategies and aspirations towards being a middle income country by 2035. Based on the 7 Years Government Programme: National Strategy for Transformation (NST1), the government intends to create 1.5m decent and productive jobs and accelerating sustainable urbanisation and developing basic infrastructure which supports the forecast increase in disposable income and household expenditure.

Lending rate



Foreign Direct Investment



The National Bank of Rwanda (NBR) raised the policy rate by 200 basis points to 6.5% in 2022 marking the highest adjustment in 13 years. This was in response to rising consumer prices attributed to breakdown in supply chain amid the COVID-19 pandemic and Russia-Ukraine war. Lending rates rose marginally by 20 basis points to 16.4% in 2022 and remained high compared to other East Africa peers pointing to high cost of credit in the economy.

The policy rate is estimated to rise by 200 basis points in 2023 to 8.5%, in an effort to curb the expected rise in runaway inflation and is forecast to remain unchanged in 2024. Lending rates are expected to rise with lags to 16.5% in 2023.

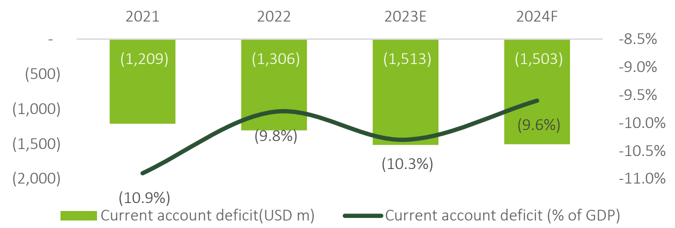
> ***The growth of FDI in Rwanda has been attributed to political stability and improvement.***

Foreign Direct Investments (FDIs) in Rwanda increased by 88.1% in 2022, from USD 399m in 2021. This growth in inflows was higher than the East African average growth of 3.0% over the same period. Despite the contribution of FDI to GDP rising to 3.0% in 2022 from 1.7% in 2021, FDI in Rwanda is low compared to East Africa peers.

The growth of FDI in Rwanda has been attributed to political stability and improvement in business environment characterised by tax breaks, non-limited foreign ownership control among other incentives to investors. FDIs in Rwanda are concentrated in energy and manufacturing sectors accounting for 45% and 30% respectively of total foreign inflows.

FDIs are estimated to increase by 3.0% in 2023 and further by 5.3% in 2024, to reach USD 432m, on account of favourable business operating policies and availability of favourable investment opportunities.

Current account balance



Source: National Bank of Rwanda, National Institute of Statistics Rwanda, EIU, Fitch Solutions, World Bank

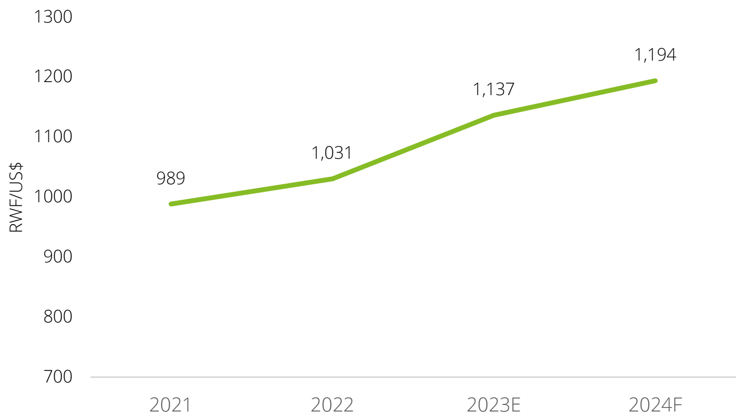
The country's current account balance increased from RFW 1.2tn in 2021 to RFW 1.3tn in 2022, which translated to 9.8% of GDP. The widening deficit was attributable to an imbalance between exports and imports over the period arising from high import bill resulting from 4.3% deprecation of RFW against the USD over the same period.

In 2023 and 2024, current account deficit is forecast to rise to RFW 1.5tn, on account of increase in cost of imports aggravated further by the forecast 15.8% depreciation of RFW against the US dollar.

The currency conundrum

The depreciation of the franc contributed to higher inflation driven by rising global prices of key foodstuffs such as wheat, cooking oil, fuel and electricity.

Exchange rate



Source: EIU

The Rwandan franc's depreciation by 4.3% against the US dollar from RWF 988.6 in 2021 to RWF 1,030.7 in 2022 was mainly due to a wider current account deficit driven by higher oil and commodity prices and increased imports for intermediate capital goods.

2022's forecast currency depreciation of RWF 1038.7 presented in Vol.III of our publication was within the margin of error at a 0.8% differential from actual.

The steady pace of depreciation is indicative of an overall weakening of investor sentiment towards riskier emerging markets. The wariness is as a result of heightened global uncertainty.

Inflationary pressures forced the National Bank of Rwanda (NBR) to tighten monetary policy and increase the policy rate by 200 basis points in the year to December 2022.

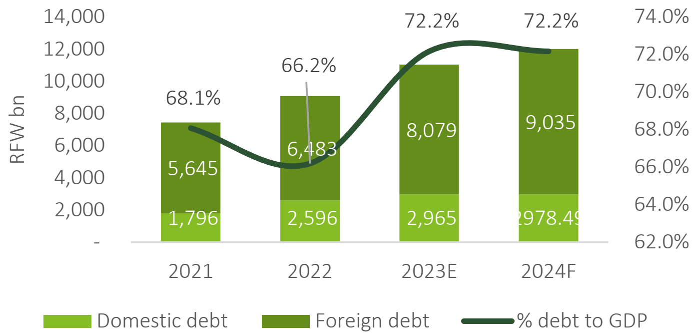
The outlook for the franc and inflation remains uncertain as the country faces significant downside risk in a global downturn that has dampened global growth forecasts to 1.7% in 2023, the lowest since 1993 bar the 2009 and 2020 crises.

The protracted Russia-Ukraine conflict and the mounting tensions between Rwanda and the DRC at the border could cause supply chain disruptions and price shocks for wheat and fertilizer imports as well as exports to DRC which accounts for 12.1% (USD 43.14mn) of total exports and 93.38% (USD 144.2mn) of total re-exports as at Q4 2022.

An adequate import cover of 3.9 months and expected disbursements from the IMF amounting to USD 74.6mn should provide an adequate foreign exchange buffer and help the NBR tamp down downward currency pressure. Despite this, 2023 will see continued currency depreciation through to 2024 where the exchange rate will hit RWF 1,194.2:USD 1, a 15.9% depreciation from 2022.

The debt debacle

Debt profile



Source: National Bank of Rwanda,Fitch solutions, EIU, Deloitte Analysis

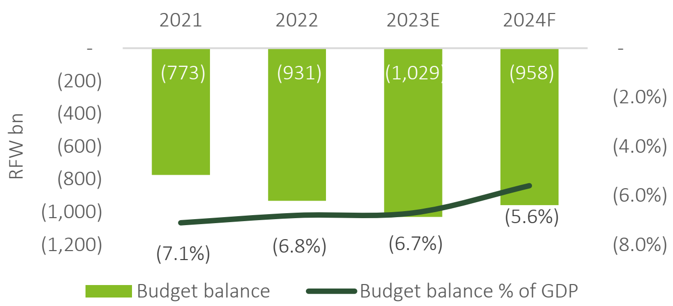
Rwanda's debt stock has been on the rise, increasing by a 25.3% CAGR between 2020 and 2022. The surge in debt stock was attributed to fiscal response to a multiplicity of challenges largely brought about by COVID-19 pandemic as well as sustained development of infrastructure projects.

Between 2021 and 2022, Rwanda maintained a high reliance on external financing to plug its budget deficit partly driven by a low revenue base and high cost of debt in the domestic market. As a share of total debt, external debt averaged 75.1% in the same period.

In 2021, Rwanda issued a second USD 620m Eurobond priced at 5.5%, strategically taking advantage of low interest rates in foreign financial markets during the year. A part of the Eurobond proceeds were used to retire its maturing ten-year USD 400mn Eurobond in 2023.

The proportion of external debt is expected to rise to 73.2% and 75.2% in 2023 and 2024 respectively driven by increased reliance on external financing to plug the budget deficit and depreciation of RFW against the US dollar which is expected to pose upward pressure on borrowing costs.

Budget balance

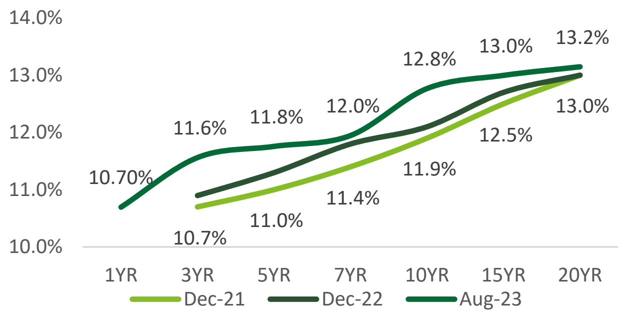


Rwanda ran a budget deficit between 2021 and 2022. In 2022, the budget deficit rose to RFW 931bn from RFW 773bn in 2021.

Budget balance - continued...

The rise in fiscal deficit in 2022 was attributed to declining domestic revenue owing to a subdued macroeconomic environment. The budget deficit is expected to rise by 10.5% equivalent to 6.7% of GDP in 2023 to RFW 1.0tn at the back of declining domestic revenues amid an expansive fiscal policy targeting infrastructural growth. In 2024, the budget deficit is forecast to decline marginally to RFW 958bn mainly driven by fiscal consolidation and relative increase in domestic revenue.

Yield curve



Treasury yields across the short, intermediate and long-term part of the yield curve have been on the rise owing to elevated inflation, increased pressure on government finances and deteriorating investor sentiment on the macroeconomic environment.

Between December 2021 and August 2023, the three, five, seven, ten, fifteen and 20-year treasury rates rose by 87, 76, 55, 87, 50 and 15 basis points, respectively. The yield spreads between short intermediate and long-term rates have also narrowed effectively resulting in a flat yield curve.

In February 2023, the Monetary Policy Committee (MPC) raised its policy rate to 7.0% from 6.5% to ward off raising inflationary pressures. The rise in the policy rate further put upward pressure on the yield curve and effectively implied high cost of borrowing.

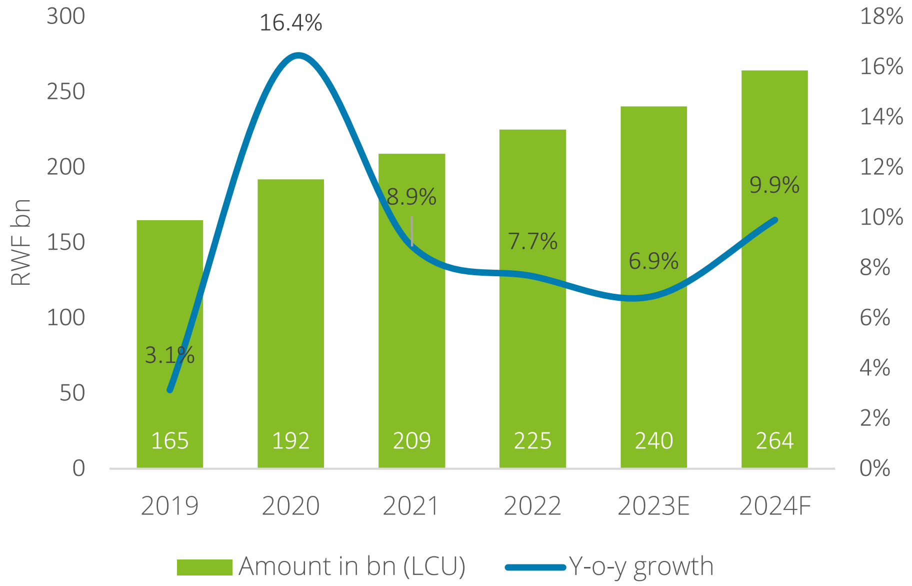
Despite the directive from the IMF to further raise the policy rate, the MPC held the rate at 7.0% in May citing easing inflation.

Treasury yields are expected to trend upward in 2023 and 2024 owing to a challenging macroeconomic landscape characterised by high inflation, persistent fiscal deficit and a low domestic revenue base.

Healthcare sector

Rwanda's healthcare expenditure as a percentage of GDP has between 2019 and 2021 averaged 6.8% which is in line with the Middle East & Africa regional average of 6.0% over the same period. In 2023, the human health and social work sector is expected to grow in tandem with real GDP.

Human health and social welfare activities expenditure



Source National Institute of Statistics of Rwanda, UNICEF Health Budget Brief, Deloitte Analysis

Rwanda's healthcare sector continues to lag behind international and regional standards. The country's size limits the presence of international drugmarkers further exacerbating other structural challenges facing the sector such as a pharmaceutical distribution network plagued by financial constratins and lack of investment incentives for drugmakers.

Its healthcare expenditure is dominated by government expenditure driven by significant budgetary allocation targeting priority sectors for children such as education and health.

Between 2020 and 2023, Rwanda's human health and social work contribution to GDP is expected to register a steady y-o-y decline due to the decreasing prevalence of the COVID-19 pandemic and its associated expenditure.

Over the long-term, Rwanda's government health expenditure is expected to outpace private health expenditure.

The current healthcare budgetary allocation (2022/2023) is RWF 355.8bn compared to the prior year's RWF 441.4bn. The RWF 78.4bn (18.1%) reduction in the funds allocated is attributable to the diminished severity of the COVID-19 pandemic and its attendant risks.

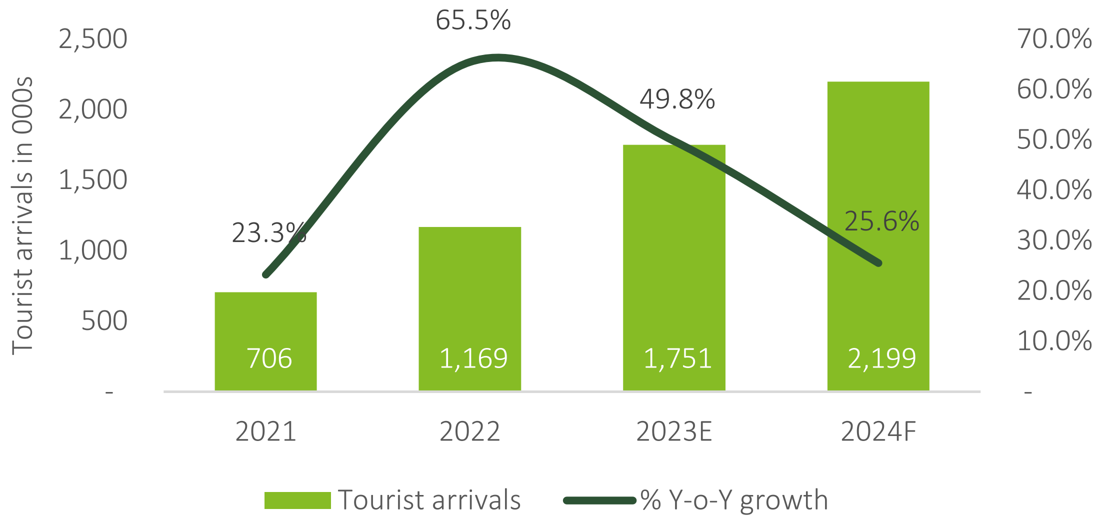
In the short-term, government healthcare expenditure will be geared towards health infrastructure such as subsidising the Mutuelle de Sante through the transfer of Community-Based Health Insurance premiums (CBHI), building a Research and Training Institute Against Digestive Cancer (IRCAD), construction of an outpatient facility at King Faisal Hospital, and the purchase of maternity and neonatology equipment.

The forecast 9.9% growth in human health and social work in 2024 is in part as a result of the 5.6% increase in the overall 2023/2024 budget. The finance minister identified strengthening the healthcare system as a key priority in the 2023/2024 fiscal year.

Tourism sector

Tourism is the largest foreign exchange earner in Rwanda and a key contributor to the national export strategy, a framework aimed at accelerating export growth.

Tourist arrivals



Source: National Institute of Statistics Rwanda, Rwanda Development Board (RDB) EIU, Fitch Solutions

According to the World Travel and Tourism Council (WTTC), Rwanda's tourism sector contributes about 12.7% to its GDP and accounts for about 14.9% of its total employment.

Rwanda's tourism sector staged a remarkable comeback in 2022, generating USD 445mn in revenues, a 171.3% increase from the previous year and an 89.3% recovery from the pre-pandemic levels of 2019. In 2022, 47.7% of tourist arrivals were business-related

In 2022, national parks attracted 109,800 tourists, a 142.4% increase from 2021 levels. Gorilla tourism, a mainstay for the sector accounted for USD 113mn (25.4%) of generated tourism revenues exceeding 2019's performance by 6%. The growth in gorilla tourism revenues is in part attributable to the RBD's marketing strategies promoting eco-tourism.

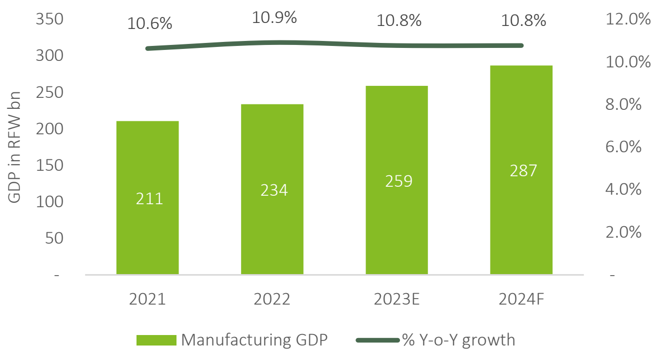
This impressive performance surpassed the initial projections by the Rwanda Development Board (RDB) of USD 350mn and was driven largely by the global easing of travel restrictions due to the COVID-19 pandemic, which boosted the confidence and mobility of international travellers.

The estimate for 2023 is more cautious, as tourist arrivals are expected to grow by 49.8%, a slower rate than the 65.5% recorded in 2022 due to the expectation that the positive effects of the lifting of COVID-19 restrictions will diminish. The growth in tourist arrivals is forecast to slow down in 2024 to 25.6% pointing to a return to the growth that prevailed before the shocks of COVID-19 pandemic.

Rwanda's heavy investment in infrastructure development, governance and innovation ecosystems is expected to solidify its position as a regional hub for trade and investment. This would allow sustainable growth beyond the waning effects of the post-COVID-19 tourism recovery.

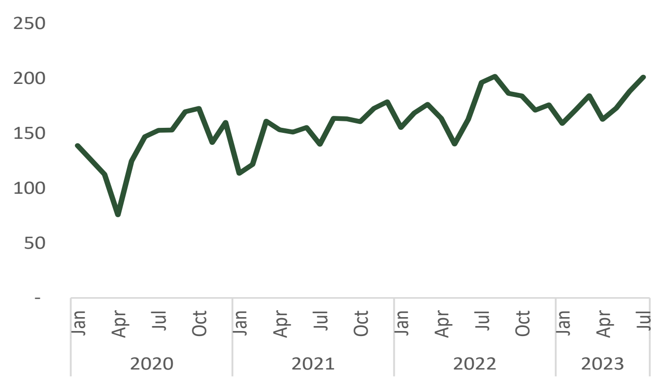
Manufacturing sector

Manufacturing



Source: Rwanda Association of Manufacturers (RAM) EIU, Fitch Solutions

Manufacturing index industrial production



Source: Rwanda Association of Manufacturers (RAM) EIU, Fitch Solutions

Rwanda's manufacturing sector contributed 12.7% to the country's GDP growth in 2022 while its proportionate share of GDP was 9.1% in the same period.

The manufacturing sector has been steadily expanding with the output increasing from RFW 211bn in 2021 to RFW 234bn in 2022, translating to an average y-o-y growth rate of 7.9%. The growth was driven by increased activity in food processing, textile and clothing and chemical production.

The government has rolled out key infrastructural developments aimed at attracting investment in the manufacturing sector, in order to diversify its basket of exports and overall raise the share of manufacturing to GDP.

This includes: (i) Expansion and construction of road and railway network; (ii) Investment in energy infrastructure; and (iii) Creation of export processing zones and designation of special economic zones.

The renewed focus on the manufacturing sector is expected to catalyse growth in the sector which is expected to expand by 10.8% to RFW 259bn in 2023 and further rise to 287bn in 2024.

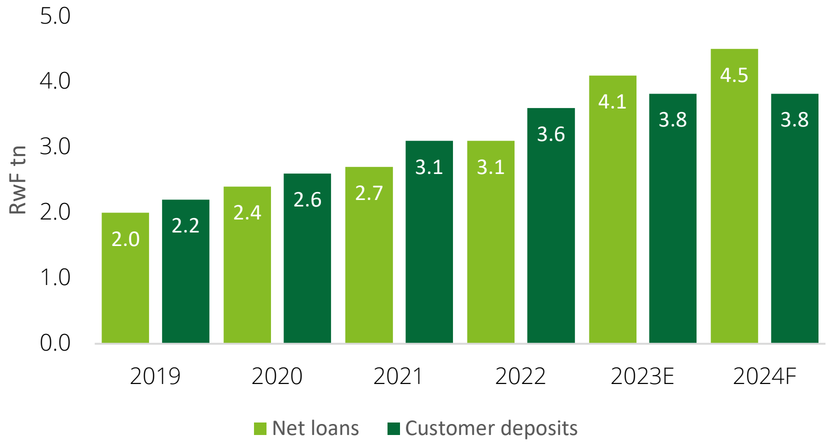
The manufacturing index rose by 2.4% to 201 points in July 2023 from 188 points in June 2023, reflecting growth in manufacturing output. The growth was primarily driven by:

- 54.3% increase in the manufacture of non-metallic mineral products;
- 10.0% rise in the manufacture of beverage and tobacco;
- 3.7% increase in manufacture of textiles, clothing and leather goods; and
- 2.3% rise in food processing.

Financial Services | Banking and Equity Markets

Rwanda's banking sector remained stable and resilient despite the adverse effects of COVID-19, with tier 1 banks recording a combined net profit of RWF 74.4bn in H1 2022, driven by an increased investment in earning assets i.e., loans.

Customer deposit and net loans



Source: Fitch Solutions, NBR Annual Report (2021/2022), Deloitte Analysis

The NBR raised the central bank policy rate by 250 basis points between February 2022 and March 2023 to 7.0% in a bid to bring inflation within the medium-term target range of 2% to 8%. The central bank is expected to remain hawkish in 2023, given the expectations of sustained upward price pressures exacerbated by domestic demand pressures and imported inflation.

The banking sub-sector's aggregate net profits increased to RWF 74.4bn, a RWF 18.5bn increase between H1 2021 and H1 2022.

The stock of non-performing loans (NPLs) reduced by RWF 12bn (6.7%) in June 2022 from 178bn in June 2021. The non-performing-loans (NPL) ratio declined to 4.3% in June 2021 from 5.7% in June 2022.

The decline in NPLs in both banks and microfinance institutions is as a direct result of the economic recovery seen after the lifting of COVID-19 restrictions.

Net loans grew from RWF 2.7tn in December 2021 to RWF 3.1tn in December 2022, a 14.8% increase driven by improved business confidence and favourable financial conditions that kept borrowing costs affordable.

Net loans and customer deposits are forecast to grow to RWF 4.1tn and 3.8tn respectively in 2023 in line with expected economic growth.

Commercial lending rates increased from 16.2% in 2021 to 16.4% in 2022 in line with a 200-basis-point increase in the policy interest rate over the same period.

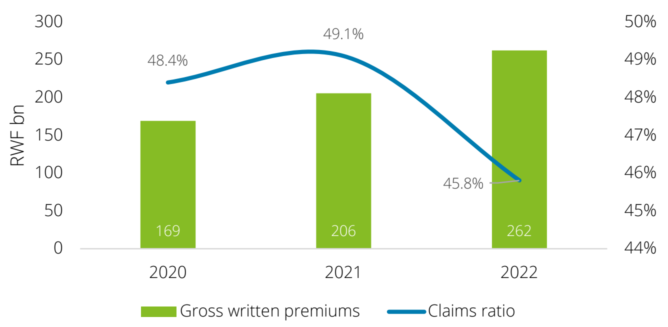
Credit risk remains a major risk facing the financial sector. NPLs declined from RWF 158bn in December 2021 to RWF 127bn in December 2022 as a result of write-offs of overdue loans (RWF 37.9bn) rather than improvement in loan portfolio quality.

The NBR is expected to hike the policy rate to 7.8% by the end of 2023 in a bid to contain inflation.

The Rwanda Stock Exchange All Share Index closed 2022 at 142.6 points, down from 145.3 points in 2021. The 2.7 points or 1.86% decline between December 2021 and December 2022 is attributable to the increasing interest and inflation rates in major economies resulting in capital flight due to decreased investor appetite for riskier assets.

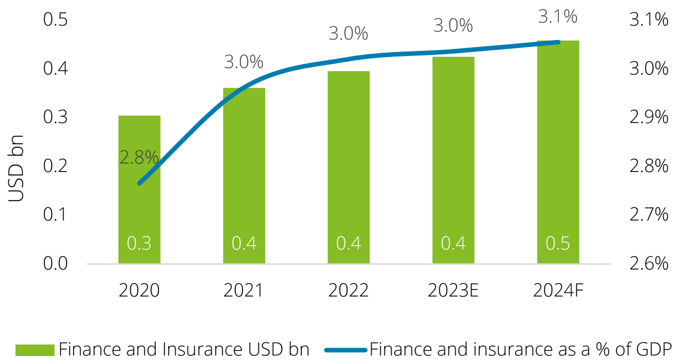
Financial Services | Insurance

Insurance sector performance



Source: National Bank of Rwanda

Finance and insurance sectors as a % of GDP



Source: EIU, National Institute of Statistics of Rwanda

Rwanda's insurance sector comprises 12 private insurers, 2 public insurers, 1 micro insurer, 1 captive insurer, and 1 Health Medical Organisation (HMO).

The sector is dominated by the two public insurers, RSSB-Medical and Military Medical Insurance (MMI), that have an asset size of 62.2% of total assets and 41.8% of Gross Written Premiums (GWP) of the insurance sector.

Non-life insurance companies represented 88.2% of gross written premiums as at June 2022. Of the total complement of insurance companies operating in Rwanda, only 3 offer life insurance.

Rwanda's insurance industry is dominated by motor and medical insurance products, which generate nearly two-thirds of the total premiums for private insurers. The remaining market share is distributed among other non-life insurance products, with property insurance being the second largest category at 13.2%, followed by engineering insurance at 7.9%. The rest of the categories each account for less than 6% of the total premiums as at December 2022.

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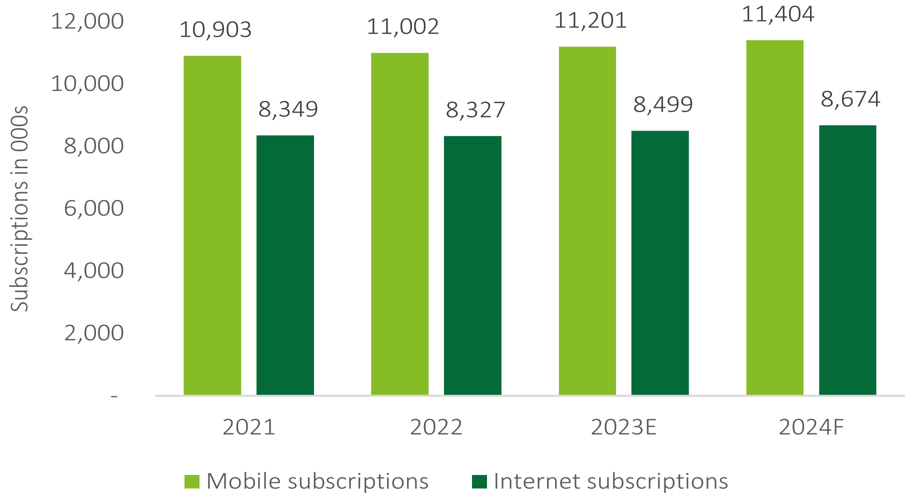
Technology, Media and Telecommunications

Mobile and internet subscriptions are forecast to grow by 1.8% and 2.1% respectively in 2024, mainly driven by competition between operators, increased investment in infrastructure and abolishment of 4G internet monopoly

Mobile and internet subscriptions



Source: National Institute of Statistics Rwanda; Deloitte Analysis

Rwanda's ICT sector grew by 20% in 2022 to RFW 78bn from RFW 65bn in 2021, driven by significant investment in network infrastructure by mobile network operators. Despite the robust growth in the ICT sector, its overall contribution to GDP remained relatively flat at 0.5% over the same period.

The Smart Rwanda Master Plan (SRMP), which is embedded in the country's vision 2050 strategy, envisages significant investment in the ICT sector. Through the SRMP program, the government plans to build human capital and improve digital skill database while leveraging on technology to catalyse economic growth.

Rwanda's telecom sector has a duopoly mobile network operator (MNO) status, MTN Rwanda and Airtel Rwanda, whose market shares stood at 63.3% and 37.6% respectively as at Q1 2023. In 2022, MTN Rwanda made RWF 47bn investments in its mobile infrastructure growing its countrywide network coverage to 97.8%.

As at Q1 2023, mobile penetration rate rose to 85.1% from 81.7% in Q1 2022 driven by increased network coverage and capacity.

Internet penetration in Rwanda declined marginally by 0.3% to 62.9% between 2021 and 2022. The marginal decline in internet connectivity was in part attributed to decreasing consumer purchasing power following inflationary conditions experienced in the country in 2022.

In February 2023, the ICT ministry abolished 4G internet monopoly previously held by Korea Telecom Rwanda Networks (KTRN). The progressive policy is expected to spur investment in mobile broadband and fibre network and increase access and affordability of internet services in the country.

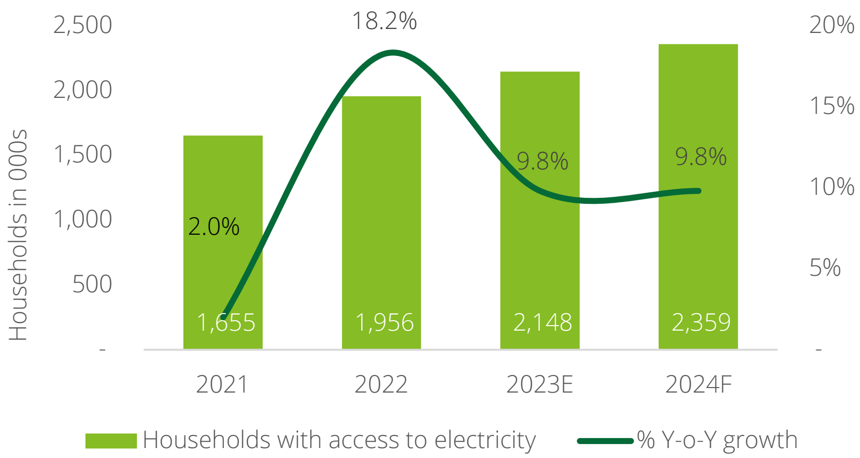
The value of mobile money transactions rose by 39.9% to RFW 15bn while the number of transaction rose by 66.3% to 1,521m between 2021 and 2022. Increased traction in mobile money payment was partly driven by rolling out mobile money interoperability between MTN and Airtel and ongoing national campaign for cashless payments.

Rwanda's mobile penetration and internet subscription is forecast to grow modestly by 1.8% and 2.1% respectively in 2023 and 2024.

Energy sector

Household access to electricity is expected to rise by 9.8% to 2m by 2023, driven by increased investment in energy infrastructure through public-private partnerships. The country aims to achieve universal electricity access by 2024.

Access to electricity



Source: National Institute of Statistics Rwanda; Fitch Solutions

Rwanda's energy demands have grown over the last three years driven by the government's plan to attain universal electricity access by 2024. The role of expanding, maintaining and operating the energy infrastructure is vested on Rwanda Energy Group (REG) alongside its subsidiary the Energy Development Corporation Ltd (EDCL).

In 2022, the country had 276MW installed capacity to generate electricity approximately equal to 105% of the country's current usage thus making the country self sufficient. The energy mix comprised of thermal, hydro and solar sources accounting for 51.9%, 43.9% and 4.2% respectively of the installed capacity.

Approximately 72.0% of the households had access to electricity in 2022. Connection to the grid was highest in the urban areas, while household access to electricity in the three districts of Kigali city; Gasabo, Kicukiro and Nyarugenge, was 90.0%, 97.4% and 93.9% respectively.

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Households access to electricity is expected to increase by 9.8% to 2.1m households in 2023 before reaching 2.4m in 2024. Rwanda plans to support the increased energy demand by expanding its energy infrastructure through Public Private Partnerships (PPP) and Privately-Initiated Projects (PIP). The following ongoing developments are expected to be operational by 2024 and jointly contribute 253MW to the national grid:

- Hakan peat to power plant (80MW);
- Rusumo falls hydropower power plant (26MW);
- Rusizi III (48MW), Shema (56MW); and
- Nyaborongo II (43MW).

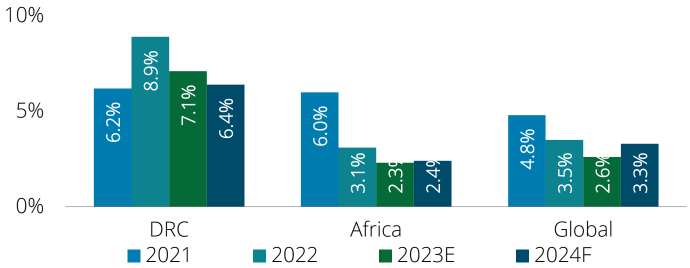
Democratic Republic of Congo

Macroeconomic and sectoral analysis

DRC
Economy at a glance

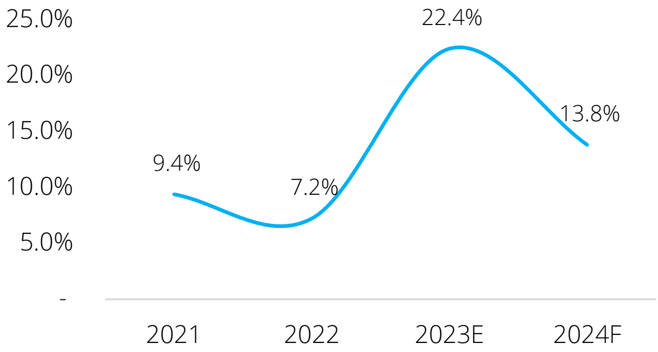
GDP

Real GDP Growth



Source: EIU, Banque Centrale Du Congo

Inflation



Source: EIU, Oxford Economics

DRC recorded an 8.9% real GDP growth rate in 2022, compared to the lower rate of 6.2% in 2021. Growth was predominantly driven by the extractives sector, recovery in the non-extractive sector and improved utilisation of other natural resources.

The country is highly dependent on mining, with the sector having accounted for 21.4% of GDP in 2022 and is estimated to have accounted for an average of 90.0% of exports over the last five years.

GDP growth rate is estimated to decelerate to 7.1% in 2023, on account of global inflation, which has resulted in a high cost of living and unfavourable copper and cobalt prices.

GDP growth rate is forecasted to decelerate further to 6.4% in 2024, as efforts to improve governance will be impeded by corruption, bureaucratic inefficiency and the lag effects of the global inflation over the last two years.

DRC's inflation declined from 9.4% in 2021 to 7.2% in 2022 due to policies adopted to moderate inflation and stabilise the exchange rate which include price caps on fuel and other major consumer commodities.

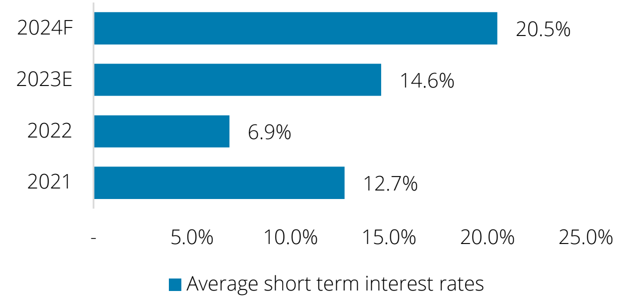
Inflation is expected to increase to an estimated 22.4% in 2023, owing to increased dollarisation that weakened the currency and the economic consequences of the Russia-Ukraine war, that led to a surge in global food prices and imported energy prices, which constitute the country's major imports.

The rise in inflation has resulted in a higher cost of living and limited access to necessities by citizens. Inflation is forecasted to decline to 13.8% in 2024, attributable to the slow rate of currency depreciation and decline in global food prices.

> ***GDP growth rate is estimated to decelerate to 7.1% in 2023, on account of global inflation.***

Interest rates

Average short term interest rates



Source: EIU, Banque Centrale Du Congo

In 2022, the average short term interest rate averaged at 6.9%, from 12.7% in 2021, on account of adoption of accommodative monetary policy stances by DRCs Central Bank, the Banque Centrale Du Congo.

In 2022, in a bid to counter the high inflation and tame the increased pressure on the local currency, the bank raised the policy rate to 14.6% in 2023.

Further tightening is expected in 2024 that would see the rate average at 20.5%, as the central bank seeks to counter currency depreciation and surging inflation.

The rising in interest rates is due to continued elevation of inflation. This will also assist in curbing inflation. The rising interest rates can also be attributed to the US federal reserves raising it's rates which places pressure on the Banque Centrale Du Congo to follow suit.

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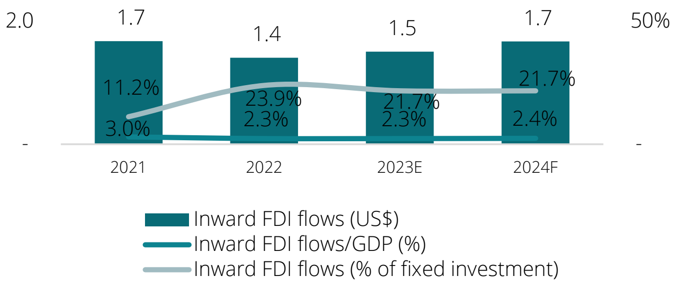
FDI inflows

Inward FDI flows



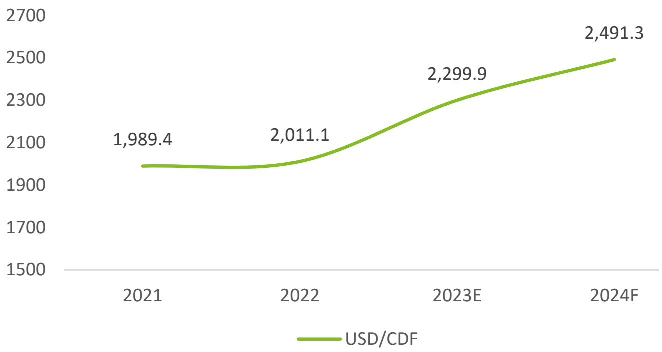
Source: Banque Centrale Du Congo, UNCTAD

The Foreign Direct Investment (FDI) inflows are fueled by multilateral donor financing and private domestic and international finance. The country's natural resource sector has historically attracted the most foreign investment and continues to attract investors' attention as global demand for the DRC's minerals grows.

There is also a huge potential in the growth of the energy sector that has attracted FDIs. DRC also benefits from an enormous domestic market and is strategically located in the focal point of the African landmass and being a member of the Common Market of Eastern and Southern Africa (COMESA). The government provides incentives, enacts laws that protect investors in the country and is reforming the country's legal system in order to attract FDIs.

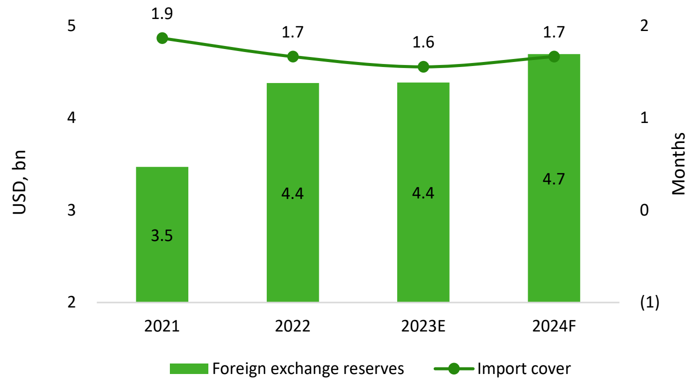
The currency conundrum

Exchange rate



Source: EIU, Banque Centrale Du Congo

Foreign exchange reserves



Source: EIU, Oxford Economics

The Congolese Franc (CDF) depreciated from an average USD/CDF rate of 1,989.4 in 2021 to a USD/CDF rate of 2,011.1 in 2022, mainly driven by a drop in copper export earnings as global prices declined.

DRC has one of the most dollarised economies in the world and this further contributes to the weakening of the local currency. Depreciation of the Franc has resulted in an increase in costlier imports, increased production costs and consequently higher commodity prices.

The geopolitical tensions stemming from the Russia-Ukraine war created uncertainty in the global investment markets, which led investors to seek safer assets. This further compounded the depreciation of the CDF to an average USD/CDF rate of 2,299.9 in 2023.

While inflation is expected to ease in 2024, the Congolese Franc is forecasted to further depreciate to 2,491.3/USD due to the impact of the conflict in the east of the country and sustained imported inflation. Higher inflation has primarily been the main driver for erosion of the purchasing power of the currency. DRC's foreign exchange market highly volatile, owing to its high dependence on imports.

The country's foreign exchange reserves increased from USD 3.5bn in 2021 to USD 4.4bn in 2022. Despite the increase, months of import cover declined from 1.9 months to 1.7 months during the same period, on account of the higher global commodity prices. Between 2021 and 2022, DRC's real value of imports increased by 24.8% in comparison to the nominal value, which increased by 42.7%.

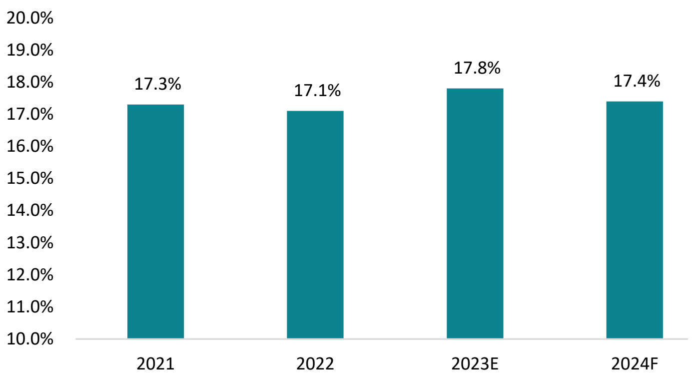
Foreign exchange reserves are estimated to remain largely unchanged in 2023 standing at USD 4.4bn, with the months of import cover marginally declining to 1.6 months, on account of an expected growth in imports.

Subsequently, foreign exchange reserves are forecasted to increase to 4.7bn in 2024, with months of import cover increasing to 1.7 months. Rising metal prices are forecasted to drive up export earnings, increasing foreign reserves.

In addition, strong inflows of foreign investment, as well as sustained decline in current account deficits, are expected to continue to prop foreign exchange reserves in 2024.

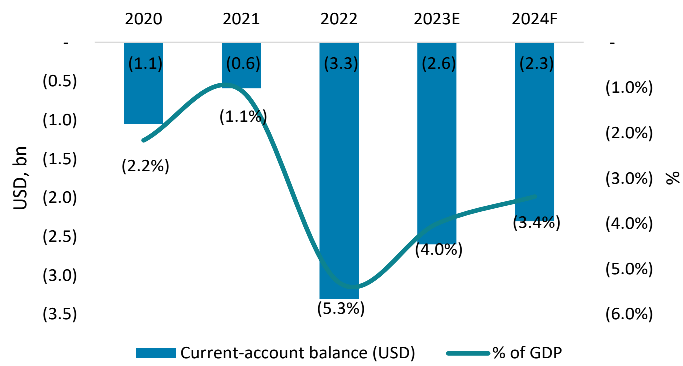
The debt debacle

Public debt as a % of GDP



Source: EIU, Banque Centrale Du Congo

Current account balance



Source: EIU, Oxford Economics

DRC's public debt (domestic and external debt) as a percentage of GDP has remained significantly lower than the Sub-Saharan Africa average. In 2022, the country's public debt declined to 17.1% from 17.3% in 2022. In comparison, the Sub-Saharan Africa average debt in stood at 52.1% in 2022.

The country's debt was predominantly external, accounting for 70.2% of the total public debt. Multilateral institutions (IMF, World Bank and AfDB), accounted for 48.9% of external debt, while bilateral lenders accounted for 51.1%. The Exim Bank of China holds the largest proportion of this component, at 87.3%.

The IMF, in its latest review of DRC, classified the country at moderate risk of debt distress, on account of its capacity to absorb more debt.

In 2023, public debt is estimated to rise to 17.8%, on account of the government's efforts to finance budgetary deficits. New multilateral debt in the year is estimated to stand at USD 2.5bn.

The current-account deficit to GDP ratio widened from 1.1% in 2021 to 5.3% in 2022, due to strong import growth and deteriorated terms of trade. In the same period, imports increased by 42.7%, in comparison to the 33.7% increase in exports.

The deficit is however expected to decline to 4.0% in 2023 and forecasted to further decline to 3.4% in 2024. This decline is attributable to the expectation of strong growth in export of mining extractives, further boosted by the expected recovery of the global mineral prices in 2024.

End notes: our sources

- African Development Bank
- African Markets
- Bank of Tanzania
- Bank of Uganda
- Banque Central Du Congo
- Central Bank of Kenya
- Central Statistical Agency
- Communications Authority of Kenya
- Conference Board
- Deloitte East Africa Macroeconomic Publication Vol. III
- Economist Intelligence Unit
- EMIS
- Fitch Solutions
- International Monetary Fund
- Kenya Association of Manufacturers
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- Ministry of Agriculture and Animal Resources – Rwanda
- Ministry of Finance and National Treasury - Kenya
- Ministry of Finance, Planning and Economic Development - Ethiopia
- National Bank of Ethiopia
- National Bank of Rwanda
- National Institute of Statistics – Rwanda
- Oxford Economics
- Refinitive
- Rwanda Association of Manufacturers
- Rwanda Development Board (RDB)
- Rwanda Housing Authority
- S&P Capital IQ
- Ugandan Stock Exchange
- United Nations Childrens' Fund (UNICEF)
- United Nations COMTRADE
- United Nations Conference on Trade and Development - UNCTAD World Investment Report
- United Nations World Tourism Organisation – UNWTO Tourism Statistics
- World Bank

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