2019

ECONOMIC FORECAST

METROPOL CORPORATION


METROPOL
reach new heights
2019 ECONOMIC FORECAST

Approach to forecasting

We approach GDP forecasting from the Gross fixed capital formation side. Capital formation is the investment in fixed assets of the country taken as a collective. For growth to happen there must be additional capacity created through accumulation of capital. This additional capacity is funded through savings and borrowings.

Our overall view

As elaborated in paragraph number 1-5 below, the nation will be fully engaged in early preparations for the execution of the big 4, that is, affordable housing, affordable health, food security and manufacturing. The prioritization of these presidential legacy programs are likely to somewhat decelerate 2019 growth momentum, but resulting in a robust growth rate of 6.5% in 2019.

FDI and Diaspora: FDI and diaspora remittances maintained strong momentum and this is expected to continue in 2019.Diaspora remittances was particularly strong rising to Kshs 274 billion from Kshs 198 billion in 2017, backed up by strong economic recovery in North America and the European Union .The expected global slowdown from 3.7% to 3.5% in 2019 will not affect the Kenyan and east African region economic performance.

We do not expect any change in the law on rate cap. Therefore, the Credit market in 2019 just as 2018 will continue under a controlled regime. However, banks have continued to innovate and a new M-Pesa enabled credit channel dubbed Fuliza (funded by KCB and CBA) will hit the market and is expected to move up to Kshs 100 billion over the year.

Government will continue to borrow heavily in the domestic market through increased issue of treasury bills and infrastructure bonds. A $2 billion Eurobond is planned for in the 1st half of 2019

2019 forecast

- *Interest rates*: These will remain under the controlled regime through 2019 at 13%. The 70% deposit rate has been deleted under the Finance Act 2019.
- *Current Account deficit*: This will be marginally narrow due to subdued petroleum prices. An over supplied oil market is forecast for 2019, at $60pb.
- *Inflation*: It is likely to remain within CBK limit of 2.5%-7.5% as the government efforts to cut expenditure continues with a moderate budget increase of 7.6% for financial year 2019/2020

- *Nominal growth*: we estimate this to be marginally better than 2018 at 6.5% due to increased mobile banking lending and good weather forecast for the long rains in March, April and May.

2019-2020: Expectations

Nominal growth 6.5-7%

The increased number of megaprojects under execution and the early impact of the big 4 in 2020 will provide the economic growth momentum and good weather forecast for the long rains.

2020/2021: Expectations

Nominal growth 8-9%

Largely driven by oil and Gas sub-sector which will be nearing full commercial production with crude oil pipeline to Lamu (850km) under construction. The FEED study was completed in November 2018 and the final investment decision is expected by Q2, 2019. Also the number of water dams under constructions will reach 15 with an estimated cost of Kshs 300 billion. However, this is the year that the Big 4 will have attained full traction and the economy will undergo “a bump effect” moving into 8-9% growth rate trajectory, going forward.

Detailed Analysis

1. **Food Security**

Following above-average good weather forecast, we expect good harvests in 2019 particularly in Tea and horticulture export subsectors.

The government is implementing an aggressive water dams’ programme of 57 medium size over the next 5 years. In the immediate future 10 such dams, with irrigation potential of 50,000 hectares, are under implementation .However, until the Galana-Kulalu 1 million acre scheme is implemented(5-6 years’ time),the food security will remain hostage to vagaries of the weather and climate change.

2. **Energy**

Major works continue to be implemented. Last mile connectivity continued over 2018 and the Suswa-Isinya 220 KV line was commissioned. Olkaria 5 and 6 (280 mw) should be commissioned by July 2019.

A number of 40-50mw solar plants are expected to be launched in 2019.The 55mw plant in Garissa town has already been commissioned (November 2018)

3. **Oil and Gas**

International oil prices are expected to be subdued owing to over supply which caused collapse of prices (late 2018) from $85per barrel to $50per barrel (currently at $60pb),which is likely to last over 2019.

2019 is going to be a busy year for Oil and Gas subsector. The operator (Tullow oil) has announced a total expenditure of Kshs293 Billion over 2019-2020 period in preparation for full commercialization of the Lokichar basin oil find. Heavy expenditure is concentrated on establishment of primary refinery and other basin facilities including storage to ultimately handle 80,000 per day for onward pumping to Lamu port on an 850km pipeline estimated to cost of Kshs 210 billion. In early 2019 the operators will make the decision to construct the pipeline

4. **Fiscal Deficit**

Fiscal consolidation (also known as austerity) has been expected for the last 3 years towards achieving 3.7 % of budgeted expenditure. This has not happened and the fiscal deficit continue at 6-8 % range. It is projected at 6.5 % for the 2019-2020 fiscal year .The question at hand is whether cutbacks of Government expenditure has merit in view of low inflation averaging 6 % in recent years and increased needs in education and health. Our expectations are that the deficit is likely to remain elevated owing to accelerated implementation of large projects in the water, roads, communication and the big 4 programs

5. **Current Account Deficit**

In 2018 the overall balance of payments had a positive balance. This resulted from substantial reduction of current capital deficit because of the increased FDI inflow and very strong Diaspora remittances.

Tourism continued to recovery very strongly while coffee and tea prices maintained stable or improved receipts over 2018

In 2019 we expect a narrowing current account deficit as a result of subdued petroleum prices in international markets (now at $60 per barrel from $85 per barrel in October 2018) The oversupply is expected to last over 2019 due to increased shale oil production in USA.


THANK YOU