Political and Economic Review

Positive, but near-term risk persists

The year ended on an upbeat mode despite persisting COVID-19 uncertainties. Stanbic Kenya's Purchasing Managers Index (PMI) showed an improvement in business conditions as economic activity increased. The ***Nairobi All Share Index (NASI)*** gained ***9.4% year-on-year*** as banking and telecommunications sector stocks recovered. Average inflation was contained at 6.1%, well within Central Bank's upper limit of 7.5%. The Kenya Shilling depreciated marginally by 3.6% year-on-year against the USD supported by ample foreign exchange reserves. On the fixed income front, the yield curve shifted up marginally due to increased government borrowing. However, the COVID-19 pandemic, fiscal pressures in the run-up to the elections and the 2022 general elections may present risks in 2022.

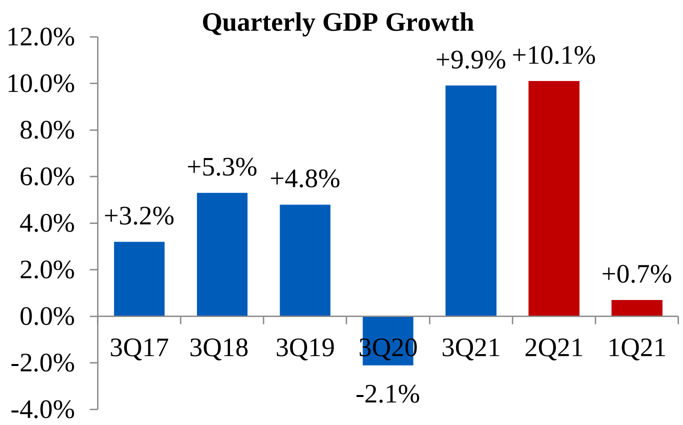
COVID-19 vaccination picked up speed

The vaccination rate rose in the last quarter of 2021 as vaccine supply increased. As of 30th December 2021, Kenya had administered a total of 10.0m vaccines up from 3.8m vaccines at the end of September 2021. This indicates that 5.3% adults were fully vaccinated at the end of 4Q2021, up from 3.4% at the end of 3Q21. The government's target is to vaccinate 26m people by end of 2022. So far, the government has focused more on raising the vaccination rate than on severe restrictions which will continue improving consumer and business sentiment.

Economy grows by 9.9% in the third quarter of 2021

The economy grew by 9.9% in the third quarter of 2021 in comparison to a contraction of 2.1% reported in the third quarter of 2020. The first three quarters of 2021 showed improved growth driven by significant rebounds in most economic activities that had contracted in the same period in 2020. Year-on-year, the impressive growth was buoyed by manufacturing (+9.5%), education (+64.7%), transportation and storage (+13.0%), accommodation and food serving activities (+24.8%) and financial and insurance activities (6.7%) financial and insurance activities (+6.7%).

However, agriculture contracted by 1.8% in 3Q21 compared to 4.2% in 3Q20.The contraction was due to the drought conditions that characterized the quarter under review in most parts of the country.



Source: KNBS

PMI signals robust economic recovery

Stanbic Kenya's Purchasing Managers Index (PMI) continued to show improvement in business conditions as economic activity increased. The PMI rose to a 14-month high at 53.7 in December 2021 from 53.0 in November 2021. The performance was on the back of rising output and improved consumer sentiment.

Current account deficit widens

The current account deficit increased by 27.4% to KES 184.6bn as at September 2021, compared to KES 145.0bn over the same period in 2020. The wider deficit was as a result of a 26.5% growth in imports of non-food industrial supplies. Remittance inflows remained resilient, improving by 21.9% to KES 106.9bn in 3Q21 while earnings from exports improved by 7.9% to KES 176.2bn boosted by increased exports of horticulture, articles of apparel, edible products and titanium. On the other hand, net financial inflows increased to KES 175.0bn from a KES 39.5bn owing to an increase in other investment inflows in the financial account. This resulted in a decline of the overall Balance of Payments deficit to KES 34.4bn in 3Q21 from a deficit of KES 103.9bn in the same period of 2020.

IMF concludes Kenya's second review

The International Monetary Fund (IMF) completed the second review of Kenya's economic program under the ***Extended Fund Facility (EFF)*** and ***Extended Credit Facility (ECF)*** in December 2021. Kenya got access to approximately USD 258.1m bringing Kenya's total disbursements for budget support under the arrangements to USD 972.6m.

Kenya's EFF/ECF arrangements for a total of USD 2.34bn is aimed at supporting four key reform priorities which include scaling up COVID-19 response, reducing debt vulnerabilities, structural governance reforms and implementing specific measures to strengthen the monetary policy framework. IMF noted that all quantitative targets were met and reforms to improve government effectiveness and manage fiscal risks are ongoing.

Economic outlook

Economic growth in 2022 is expected to continue with recovery supported by increased growth in the transport, accommodation, manufacturing, education and Information Communication and Technology (ICT) sector. The downside risk to 2022 economic growth is the below-average expected rains which will affect agriculture sector, a slowdown in economic activity ahead of the August elections, fiscal pressures in the run-up to the elections, global oil prices and subsequent COVID-19 variants. We note that the COVID-19 vaccination roll-out is expected to reduce disruption going forward.

Currency, Inflation and Fixed Income Markets Review

Kenya Shilling depreciates further

The Kenya Shilling (KES) weakened further by 2.4% against the US Dollar (USD) quarter-on-quarter and by 3.6% year-on-year to close at KES 113.14. The KES weakened on increased dollar demand for imports and a widening current account deficit. Further weakening was mitigated by adequate FX reserves during the quarter which closed at KES 8.8bn (5.4 months of import cover) as at 30th December 2021. The USD 258.1m access from the IMF under the IMF EFF/ECF arrangements and Central Bank of Kenya (CBK) intervention provided additional support.

	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	31-Dec-21	Q-on-Q	Y-on-Y
USD/KES	109.17	109.51	107.85	110.49	113.14	-2.4%	-3.6%
GBP/KES	148.36	150.69	149.20	149.64	152.05	-1.6%	-2.5%
EUR/KES	133.90	128.60	128.23	129.01	127.99	0.8%	4.4%
ZAR/KES	7.46	7.31	7.51	7.33	7.11	2.9%	4.7%
KES/UGX	33.38	33.47	32.96	32.00	31.31	-2.2%	-6.2%
KES/TZS	21.24	21.18	21.50	20.91	20.37	-2.6%	-4.1%

Source: Central Bank of Kenya

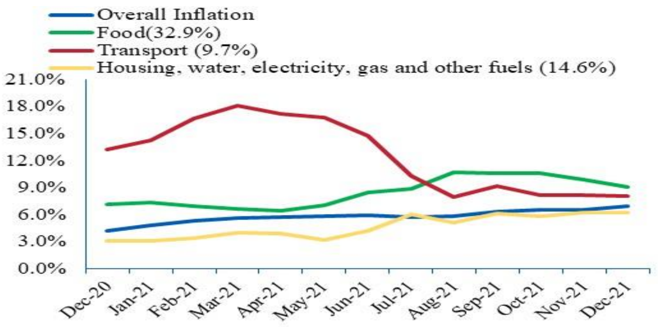
During the quarter, the KES strengthened by 2.9% against the South African Rand and by 4.7% year-on-year while against the Euro, the KES strengthened by 0.8% in the quarter and by 4.4% year-on-year. The KES weakened by 1.6% against the Sterling Pound in the quarter and by 2.5% year-on-year. The local unit weakened against the Tanzanian shilling and the Uganda shilling losing 2.6% and 2.2% respectively during the quarter and 4.1% and 6.2% respectively in 2021.

Currency outlook

The shilling is expected to gradually weaken as corporate demand picks up with a potentially lower reserve position as the debt relief moratorium ended towards the end of last year. Overall, demand has been higher than supply causing pressure on the local unit. The currency is expected to get support from remittance inflows as well as further foreign currency loan receipts that is expected to improve the reserve position in the medium term. Additionally, CBK is likely to support the currency in cases of extreme volatility as well as manage the liquidity through open market operations.

Inflation rate declines

The average overall rate of inflation for the fourth quarter of 2021 decreased to 6.0% from 6.7% in 3Q21. On an annual basis, average inflation was up to 6.1% compared to 5.2% in 2021.



Source: KNBS

The food inflation decreased to an average of 6.0% in the 4Q21 compared to an average of 6.7% in 3Q21. The transport index also reported lower average inflation of 8.1% in the 4Q21 compared to 9.2% in 3Q21 due to the decrease in bus fares. The housing, water, electricity, gas and other fuels index on the other hand increased from 5.7% to 6.1% as the price of cooking gas and electricity increased.

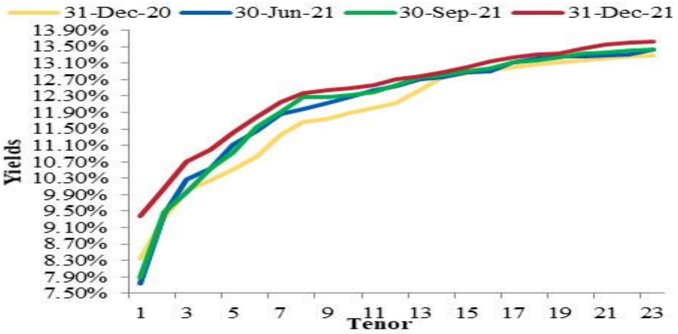
Inflation outlook

The weakening currency, the rise in oil prices in international markets, as well as concerns around the possibility of food shortages in certain parts of the country, could result in higher inflation in 2022. It is however unlikely to exceed the Central Bank upper target of 7.5%.

Yield curve inches up

The yield curve edged up across all tenors during the year as government appetite for borrowing saw investors demand higher rates at government bond auctions. The yield curve went up by 51 basis points in 2021 (27 basis points quarter-on-quarter).

The greatest increase was seen on the short end (bonds below 5 years), inching up by 81 basis points quarter-on-quarter (80 basis points year-on-year). During the quarter, the mid end (tenor of between 5 years to 12 years) saw a 22 basis points (73 basis points year-on-year) increase in the yields while the long end (bonds above 12 years) was up 14 basis points (26 basis points year-on-year). The net domestic borrowing in the first half of FY2021/22 stood at KES 343.1bn against the annual target of KES 616.8bn, representing 55.6% of the FY2021/22 target.



Source: NSE Graph

Treasury Bill rates also trended higher on average in the fourth quarter of 2021. The highest increase was on the 364-day T-Bill which went up by 115 basis points. The 182-day T-Bill and the 91-day T-Bill went up by 62 basis points and 46 basis points respectively. The 91-day T-Bill, 182-day T-Bill and the 364-day T-Bill closed the quarter at 6.9%, 7.3% and 7.9%, respectively.

Treasury Bill Quarterly Average Rates	4Q20	1Q21	2Q21	3Q21	4Q21	Q/Q	Y/Y
91 Day	6.69%	6.95%	7.10%	6.66%	7.12%	0.46%	0.42%
182 Day	7.13%	7.65%	7.84%	7.13%	7.75%	0.62%	0.62%
364 Day	8.03%	8.80%	9.05%	7.57%	8.72%	1.15%	0.69%

Source: Averages computed from actual CBK weekly data

CBK maintained the policy rate at 7.0% during the quarter with a private sector credit growth of 7.8% year-on-year at end of October 2021. The interbank market remained relatively tight with the average rate increasing to 5.1% from 3.9% in the previous quarter.

Interest rate outlook

Overall, rates are expected to gradually increase in the short term as a result of higher domestic borrowing and potentially lower liquidity in the markets. The increase is likely to be more pronounced in the short end of the yield curve. The fiscal outlook may be improved by the additionally IMF drawdowns, access to concessional foreign currency loans and the tax revenue performance which has been in recent months on track with projections.

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NSE closes the year on a positive note

The stock market rebounded in 2021 reversing the previous year's losses with returns primarily coming from the banking and telecommunications sector. The ***Nairobi All Share Index (NASI)*** gained ***9.4%*** year-on-year while the ***NSE 20 Index*** gained ***1.8%*** year-on-year. On a quarterly basis however, the ***NASI*** was down ***6.6%*** while the ***NSE 20*** share index shed ***6.3%*** on the back of higher foreign outflows as Omicron cases spiked globally.

	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	31-Dec-21	Q-on-Q	Y-on-Y
NSE 20	1,868.4	1,846.4	1,927.5	2,031.2	1,902.6	-6.3%	1.8%
NASI	152.1	158.6	173.5	178.3	166.5	-6.6%	9.4%
NSE 25	3,415.2	3,531.6	3,772.2	3,914.5	3,743.9	-4.4%	9.6%
FTSE NSE 15	178.2	184.8	204.1	215.1	209.5	-2.6%	17.6%
FTSE NSE 25	197.6	207.0	228.9	237.4	224.4	-5.5%	13.6%

Source: NSE

Best performing stocks in 2021 were ***Equity* (+44.3%)**, ***ABSA*** **(+22.7%)**, ***KCB* (+19.3%)**, ***Safaricom* (+10.8%)**, ***EABL* (7.0%)** gained. During the fourth quarter, ***ABSA* (+12.3%)** and ***Equity Bank* (+3.9%)** gained while ***Centum* (-19.9%), *Safaricom* (-9.9%), *Stanbic* (-5.2%)** and ***EABL* (-3.4%)** lost.

Resilient performance for banks in 3Q21

The banking sector third quarter financial results portrayed an improvement in profitability on the back of a stronger top line growth, a lower loan loss provision expense as well as the overall recovery of the operating environment. ***ABSA*** reported the highest earnings growth of ***328.3%*** while ***Co-operative Bank*** reported the lowest at ***18.9%***. There was mixed performance across various banks as shown below:

Bank's 3Q21 Performance	ROE	Earnings growth	Loan growth	Deposit growth	NPL Ratio
Equity Group	21.5%	78.6%	23.3%	26.6%	9.1%
Stanbic Bank	15.2%	43.2%	11.2%	-5.8%	10.9%
Co-operative Bank	16.3%	18.9%	7.8%	12.0%	13.9%
Stanchart Bank	16.0%	46.7%	0.1%	6.4%	14.9%
KCB Bank	20.4%	131.4%	12.9%	11.2%	13.1%
I&M Holdings	10.1%	25.1%	11.8%	14.2%	9.9%
ABSA Bank	20.1%	328.3%	9.5%	9.0%	7.9%
Diamond Trust Bank	8.6%	20.1%	-0.03%	12.3%	11.1%
NCBA Bank	11.6%	159.0%	-4.6%	11.2%	16.2%

Source: Company filings

Credit growth varied across various banks due to the prevailing credit risk uncertainties. ***Equity Group*** reported the highest loan growth (+***23.3%)*** followed by ***KCB Group*** (+***12.9%)*** while ***DTB Standard Chartered Bank (+0.1%)*** growth was flat. ***Equity Group (+26.6%)*** and ***NCBA Bank (+14.2%)*** reported the highest deposit growth in the third quarter of 2021.

IFC set to acquire 6.71% stake in Equity Group

Britam Holdings and ***Britam Life Assurance Company*** entered into a share purchase and sale agreement of 253.1m shares in ***Equity Group*** with International Finance Cooperation (IFC) and IFC Financial Institutions Growth Fund (FIG). IFC will acquire 164.2m shares, accounting for a 4.36% stake while IFC FIG Fund will acquire 88.6m shares, accounting for 2.35% of stake in the lender. The deal is by way of private transaction and subject to the approval of the Capital Markets Authority.

KCB cancels ABC Tanzania acquisition plans

KCB Group terminated its plan to acquire a 100% stake in African Banking Corporation Tanzania (BancABC) from Atlas Mara citing that certain regulatory approvals had not been received within the prescribed timeframe specified in the agreement.

Safaricom 1H22 earnings grow by 12.1%...

Safaricom released results for the half year ended 30th September 2021 reporting a 12.1% year-on-year growth in profit after tax. This was on the back of higher revenues and base effects. Service revenue grew by 16.9% year-on-year to KES 138.4bn driven by M-Pesa and data revenue. Earnings before interest and tax (EBIT) was up 28.8% year-on-year to KES 57.9bn. Net finance cost surged to KES 2.9bn on account of new debt to fund the Ethiopia investment.

…and targets Ethiopia launch in mid-2022

Safaricom is in the process of setting up its operations in Ethiopia with a target for commercial launch in mid-2022. The telco intends to spend USD 1.5-2.0bn in the next 5 years and targets to break even in the fourth year. During the quarter, the war that intensified in the Tigray region forcing ***Safaricom*** to evacuate some of its employees from Ethiopia may have caused delays. On a positive note, towards the end of December, Tigrayan rebels called for peace and tabled proposals for negotiations. This move is positive for the telco's countrywide rollout plans avoiding further delays.

CA slashes mobile rates

The Communications Authority of Kenya (CA) slashed the interconnect mobile rates by 87.9% to KES 0.12 per minute. This is the first review of interconnection rates in six years and is expected to give other operators more leeway to compete on price. So far, a tribunal has suspended CA's decision on the cuts following ***Safaricom's*** petition. The interconnect mobile rates were expected to be implemented in 2022.

Centum's Group loss narrows

Centum Group released 1H22 results posting an improvement in the loss after tax to KES 662.1m in 1H22 from a prior loss of KES 1.9bn in 1H20 on the back of an increase in investment income and reduced finance costs. The loss after tax was mainly driven by an impairment provision of KES 721.4m. The loss was mitigated by a 134.3% increase in investment income to KES 771.1m and a 27.9% year-on-year reduction in finance costs to KES 326.9m. However, operating costs increased by 13.1% year-on-year to KES 401.0m. The Net Asset Value per share declined by 1.2% year-on-year to KES 62.1 due to an impairment provision of KES 413.0m, the unrealized fair value loss of KES 295.8mn and KES 219.0m divided declared during the period.

EABL's MTN oversubscribed

East African Breweries Plc issued a 5-year Medium Term Note (MTN) of up to KES 11bn with a fixed rate of 12.25% per annum payable semi-annually. The proceeds will be used to refinance short-term borrowings, provide working capital for the Group as well as repay borrowings.

Stock market outlook

The corporate earnings outlook in 2022 remains modest as most recovery has already come through in 2021. Heading into a political year, a "*wait-and-see"* attitude from investors may suppress the stock prices in the short-term offering opportunities for long term investors to build up positions on fundamentally strong companies. COVID-19 uncertainties continue to pose a threat to the outlook.

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Political and Economic Review

When it rains, it pours
The fourth quarter of 2021 presented significant challenges across the social-economic spectrum. The COVID-19 pandemic remained the most significant factor given the far-reaching effects of containment measures. This challenge was exacerbated by terror activity (bombings) that the government attributed to the Allied Democratic Front. However, the Uganda Shilling (UGX) remained resilient. Headline inflation edged up to average 2.5% in the last quarter of the year. The Equities market saw some action with the listing of the biggest Telecommunications network in the country, raising UGX 535.3bn at IPO. Bank of Uganda provided support to the economy by cutting the Central Bank Rate (CBR) to a record low of 6.5% and projected Economic growth to range 3.5%-3.8% for the FY2021/22.

Economy grows by 3.8% in 3Q21
Economic growth for the quarter ended September 2021 expanded by 3.8% year-on-year compared to the revised contraction of 0.8% recorded in the same period of the previous year. However, in comparison to the growth for quarter ended June 2021 (+13.7%), the slowdown in activity specifically in the industry and services sectors was attributed to the 42- day lockdown. Agriculture sector grew by 3.0% in 3Q21 compared to a revised growth of 6.8% in the same period of the previous year. Industry sector grew by 0.3% in 3Q21 compared to a decline of 2.7% the previous year. The Services sector grew by 7.9% in 3Q21 compared to a decline of 4.5% in 3Q20.

Economic outlook
Economic activity is gradually normalising with a pick-up in momentum seen in 4Q21. Business activity is expected to improve supported by reopening of the economy in 2022, expansion of global demand, and higher private sector expenditure. However, the risk posed by a resurgence of COVID-19 variants like Omicron upon which containment measures are taken is still imminent. Bank of Uganda projects Economic growth for FY2021/22 to range between 3.5%-3.8% supported by improvement in aggregate demand and government infrastructure development initiatives.

Uganda Shilling shifts direction
The Uganda shilling depreciated in October 2021, largely due to the global strengthening of the US Dollar (USD) against major international currencies and the recovery of domestic demand. This was followed by an appreciation in November 2021, supported by inflows mainly from offshore players seeking higher returns on government paper, transfers from Non-Governmental Organizations (NGOs), export earnings, and remittances. The Shilling therefore closed 4Q21 with a marginal loss of 0.2% against the USD quarter-on-quarter and a 3.1% gain year-on-year.

Currency outlook
The UGX is expected to depreciate against the US dollar, partly due to a pickup in import and domestic demand as the economy reopens. However, foreign portfolio inflows and remittances combined with the continued strong performance of coffee exports may provide support to the shilling.

Inflation averages 2.5% in the fourth quarter
Headline inflation rose in 4Q21 averaging 2.5% compared to 2.1% in 3Q21. This was largely driven by the rapidly rising energy and food crop prices. Core inflation also increased to an average of 2.5% in 4Q21 compared to 2.3% in 3Q21 from services and other goods inflation.

Inflation outlook
Inflation is expected to trend upwards, due to rising oil prices and an increase in domestic demand, as a result of the reopening of the economy. However, it is expected to stabilize around the Central Bank's target range of 5%.

Yields rise q-on-q, CBR maintained at 6.5%
During the quarter ended December 2021, the Bank of Uganda (BoU) maintained the Central Bank Rate (CBR) at 6.5% due to the excess capacity in the economy necessitating continued monetary policy support. On a quarterly basis, yields on government paper rose except for the 91-Day T-Bill that was down 25 basis points. The highest rise was seen in the medium-term tenors with the 5-year bond (+218 basis points) and the 3-year bond (+193 basis points). On a year-on-year basis, the yield curve declined, largely reflecting eased liquidity conditions partly due to BoU's accommodative monetary policy stance. Yields on the long end of the curve dropped, by average of 173 basis points. The short end of the curve declined by average of 249 basis points while the mid-section of the curve declined by an average of 314 basis points.

Interest rates outlook
In view of the excess capacity in the economy, we expect Bank of Uganda to maintain the Central Bank Rate at 6.5% to continue supporting economic recovery. Government yields are expected to edge up slightly in the short term driven by potential changes in liquidity and near-term inflationary pressures.

Equities close the fourth quarter in the red
On a quarterly basis, the ***All Share Index (ALSI)*** declined by ***6.0%*** led by cross-listed stocks namely ***NMG (-27.1%), Centum (-20.4%), EABL (-6.0%), KCB (-5.4%)*** and ***EQUITY (-1.7%).*** However, on a year-on-year basis the ***ALSI*** gained ***8.5%*** attributed to positive performance of the banking stocks in the first half of the year. The ***Local Share Index (LSI)*** did not provide much reprieve, recording a ***5.0%*** loss on a quarterly basis. All counters recorded declines except for ***British American Tobacco Uganda*** and ***National Insurance*** that traded flat while ***Uganda Clays*** gained ***52.9%.*** Notable declines were ***Bank of Baroda (-18.4%), New Vision PLC (-10.1%), Umeme (-10.0%), Cipla Quality Chemicals (-3.2%)*** and ***Stanbic Uganda Holdings (-1.4%).*** On a year-on-year basis, the ***LSI*** lost ***2.2%.***

Stock market outlook
We anticipate a pick-up in activity and improved liquidity, as the economy reopens. However, we remain cognizant of the resurgence of COVID-19 variants, and subsequent containment measures, that might pose a risk to corporate earnings.

Rwanda

Economic growth expands by 10.1% in 3Q21

The Rwandan economy grew by 10.1% year-on-year in the third quarter of 2021 supported by the Services and Industry sector. The Services sector grew by 11.0% led by the education sector as schools and universities re-opened. The industry sector grew by 12.0% with the main contributors being construction activities (+15.0%) and manufacturing activities (+7.0%). The agriculture sector grew by 6.0% supported by food crops and export crop production. The International Monetary Fund (IMF) projects 2021 economic growth at 10.2%, from a sizable contraction of 3.4% in 2020. The growth is expected to be driven by policy support, robust remittances, accelerated vaccination rollout and progress in structural reforms.

China, Rwanda sign agreement on the elimination of double taxation

China and Rwanda signed the agreement on the elimination of double taxation with respect to taxes on income and the prevention of tax evasion and its affiliated protocol. This will effectively reduce the tax burden of taxpayers investing in either country and further facilitate bilateral economic and trade cooperation and personnel exchange. Over the past years, China has become Rwanda's largest project contractor and one of its most important trading partners. According to the World Bank, 19.9% of imports to Rwanda came from China in 2019.

Inflation edges up, CBR maintained at 4.5%

Annual urban inflation edged up to 1.0% in November 2021 from 0.6% in October 2021 driven by a rise in transport costs, reopening of schools and increased activity in hotels and restaurants. The National Bank of Rwanda maintained the Central Bank Rate at 4.5% to support economic recovery.

RWF depreciates against the USD

The Rwandan Franc (RWF) depreciated by 1.2% against the USD in 4Q21 (-3.7% year-on-year). This was due to a pickup in imports as economic activities resumed while inflows from Foreign Direct Investments remained subdued.

Inflation, interest rates and currency outlook

The National Bank of Rwanda projects inflation to rise to the benchmark rate of 5.0% during 2022 driven by higher aggregate demand and commodity prices as the economy continues to recover from the pandemic. The RWF therefore faces depreciation pressures. However, it is likely that the accommodative monetary policy stance will be maintained for further economic support.

RSE closes year in the red

The ***Rwanda Stock Exchange (RSE)*** closed the year in the red with ***Local Share Index*** recording ***-2.7% quarter-on-quarter (-7.6% year-on-year).*** The ***All-Share Index*** recorded ***-0.6% quarter-on-quarter (-1.9% year-on-year).*** Notably, ***Bralirwa*** gained ***5.0%*** quarter-on quarter ***(4.1% year-on-year)*** while ***MTN Rwanda*** stock price dipped by ***10.0% quarter-on-quarter.***

Stock Market outlook

Rwanda's high COVID-19 vaccination rates (over 40.0%) may influence corporate earnings in 2022. However, risks from subsequent COVID-19 variants and containment measures are imminent and are likely to slow the rebound of the stock market.

Tanzania

Economic growth recorded at 4.3% in 2Q21

In the second quarter of 2021, Tanzania's economy recorded growth of 4.3% compared to 4.0% in a similar period in 2020. Activities that increased at higher growth rates were Information and Communication (12.3%), Electricity (12.1%), Other Social Services (10.8%), Accommodation and Food Services (10.1%), Water (8.4%) and Mining and Quarrying (7.3%). The IMF projects growth at 4.6% in FY2021/22, slight improvement from the estimated 4.1% growth in FY2020/21, due to expected improved performance of the tourism sector and the reopening of trade corridors.

Tanzania signs USD 1.9 bn railway contract with Turkish firm

A Turkish construction firm, Yapi Merkezi, secured a lucrative deal to build a 368-kilometer section of the standard gauge railway line linking the largest port city in Tanzania with the hinterland. The deal, which is expected to cost USD 1.9bn, is the third of four deals the company has so far clinched from the Tanzanian government. This is part of its broader push to finish a 1,219-kilometer railway line expected to unlock trade potential with the landlocked countries of Rwanda, Burundi and Uganda. The project is expected to be financed through loans.

Inflation inches up slightly

Annual headline inflation slightly increased to 4.1% in November 2021 from 4.0% that was recorded in October 2021 mainly due to food and non-alcoholic beverages.

TZS maintains resilience in 2021

The Tanzania Shilling (TZS) was stable both on a quarterly and annual basis against the USD. This can be attributed to a surplus Balance of Payments position and adequate foreign exchange reserves (6.8 months of projected imports of goods at the end of November 2021).

Inflation, interest rates and currency outlook

The TZS is expected to maintain stability as export proceeds of minerals, cash crops and tourism improve. The Bank of Tanzania is likely to maintain an accommodative monetary policy stance to support private sector credit growth. Inflation is expected to remain within the Central Bank's target of 3 to 5%.

DSE records a decline during 4Q21

The ***Dar-es-Salaam Stock Exchange (DSE)*** recorded a decline of ***2.7% quarter-on-quarter (+4.4% year-on-year)*** on the ***All-Share Index. The Local Index*** lost ***0.6% (+2.3% year-on-year).*** On the quarterly basis, the top gainers included ***Tanga Cement (105.6%)*** and ***CRDB (+16.7%)***. ***NMB (-10.7%),*** and ***Tanzania Portland Cement Company (-10.5%)*** recorded declines.

Stock market outlook

We anticipate increased activity on the stock exchange in 2022 particularly for companies that will report increased profitability. However, even with minimal COVID-19 containment measures put in place by the Tanzanian government, the country is not immune to global supply chain disruptions and outbreaks of more contagious variants of COVID-19 which continue to pose risks.

Global markets close year on a positive note

Despite plenty of challenges, including rising inflation in the US, global supply chain disruptions and outbreaks of more contagious variants of COVID-19, global indices recorded gains on both a quarterly and annual basis with the exception of the MSCI Emerging Markets Index. The MSCI Emerging Markets lost 1.7% quarter-on-quarter (-4.6% year-on-year) mainly because of the poor performance of China equities in the index amidst unprecedented regulatory action. Brazil and South Korea markets remained subdued further dragging the emerging market index down.

Index	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	31-Dec-21	Q-on-Q	Y-on-Y
S&P 500	3,756.1	3,972.9	4,297.5	4,307.5	4,766.2	10.6%	26.9%
MSCI World	2,690.0	2,811.7	3,017.2	3,006.6	3,231.7	7.5%	20.1%
MSCI World ex USA	2,140.7	2,213.4	2,321.3	2,292.8	2,357.5	2.8%	10.1%
MSCI Euro	1,246.5	1,314.0	1,386.4	1,375.7	1,407.9	2.3%	13.0%
MSCI Emerging Markets	1,291.3	1,316.4	1,374.6	1,253.1	1,232.0	-1.7%	-4.6%
Shanghai Composite Index	3,473.1	3,441.9	3,591.2	3,568.2	3,639.8	2.0%	4.8%

Source: MSCI, S&P 500, Shanghai Composite

No signs of slowing down for crude oil prices

Brent Crude prices were up by 0.9% quarter-on-quarter (+52.9% year-on-year). The rise of Crude oil prices in 2021 was spurred by loosening pandemic-related restrictions, and a growing economy which resulted in global petroleum demand rising faster than petroleum supply. Global oil prices may rise further in 2022 as demand catches up.

Angela Merkel bows out…

After 16 years as Germany's vice chancellor, Angela Merkel handed over power to Olaf Scholz. Mr.Scholz, the leader of the center-left Social Democrats will head a coalition government with the enviromentalist Green Party and the neoliberal Free Democrats. The new government is viewed as more socially progressive than its predecessor and is embracing policies like lowering the voting age to 16, expanding citizenship rights, investing in affordable housing, legalizing marijuana, and accelerating some of the country's climate commitments. Creating a strong, sovereign and open European Union is also high up on the agenda. Nonetheless, the battle to curb COVID-19 is the most pressing issue given the surging cases in the country.

…as France takes over EU Presidency…

On 1st January 2022, France took over the presidency of the Council of the European Union (EU) after a 13-year break and will lead the work of the council for a six-month period. France seeks to place the continent's digitisation and climate protection at the forefront of its time at the helm of the EU. Strategic autonomy and strengthening the minimum wage are also top agenda items. The French presidency however, coincides with the presidential elections in April 2022. This might futher influence its direction on the EU presidency.

…*and inflation soars*

Inflation across the 19-member eurozone soared to 4.9% (above the ECB's 2.0% target) in November 2021. The inflationary surge has been blamed on high gas prices and the cost of imported goods. The European Central Bank (ECB) has advised that inflationary pressures are likely to be temporary and would probably begin to wane in 2022. It is therefore likely to take a more cautious view, holding back from announcing any big policy changes while tests are carried out on the effects of the COVID-19 omicron variant.

US inflation rises to historically high levels

According to the Bureau of Labor Satistics, US annual inflation rate rose to 6.8% in the year to November 2021, its highest point since 1982. Price increases were seen across many sectors, including gas, food and housing. However, Fed officials have stressed that inflation is "transitory," and is unlikely to leave a lasting imprint on the economy. They have linked the rising prices to pandemic-related factors such as extraordinary demand that has outstripped supply but ultimately will fade. Nevertheless, the Federal Reserve is accelerating the end to the pandemic-era support of the economy starting with the reduction of its monthly bond purchases and has guided atleast three rate hikes in 2022.

US economic growth slows in 3Q21

As COVID-19 restrictions were rolled back, the economy grew at a brisk 6.3% annualised rate in the first quarter of 2021 and 6.7% in the second quarter. However, the spread of the Delta variant during the summer slowed down the recovery in the third quarter of 2021 resulting in a 2.3% growth rate.

Power crunch slows China's GDP growth

China's economic growth for third-quarter of 2021 slowed to 4.9% from 18.3% recorded in the first quarter and 7.9% recorded in the second quarter. This was mainly due to a surge in the price of coal and a shortage of electricity that prompted local authorities to abruptly cut off power resulting in a cease of production for many factories. The Chinese economy is expected to face challenges going forward from the investment sector, as market expectations for the property market are trending down as a result of banks' tightening home loan requirements as well as the Evergrande debt crisis.

Evergrande woes deepen

Evergrande's woes intensified in the fourth quarter of 2021, after it was unable to pay interest due in December 2021 on two dollar-denominated bonds resulting in a downgrade by Fitch Ratings. The company was also ordered to demolish dozens of buildings on the tropical island province of Hainan because of an administrative penalty from local authorities amisdst a drop in property sales of 39.0% in 2021 compared to 2020.

Outlook

Global economies are geared for further recovery in 2022. However, financial markets are likely to experience more volatility in the face of soaring inflationary pressure, rising interest rates and ongoing disruption to international supply chains caused by emerging variants of COVID-19.

GenAfrica ASSET MANAGERS