Trip Notes

African Policymakers and Country Experts

View of Nairobi from International Convention Centre

Aktia

Summary

- We traveled to Kenya and Uganda in February and met with policy makers in both Nairobi and Kampala.
- Growth outlook: Both Uganda and Kenya have delivered solid growth driven by private-sector activity, with Uganda set to see a temporary growth surge once oil production starts. Kenya continues to grow steadily at 4–5% led by a strong private sector.
- Monetary and external position: Central banks are broadly credible, inflation is contained, and external buffers are improving through reserve accumulation.
- Fiscal risks: Fiscal policy is the main vulnerability in both countries, with high deficits, rising debt burdens, and reliance on domestic markets. Political cycles increase the risk of fiscal slippage despite stated consolidation efforts.
- Political and social risks: Political uncertainty remains elevated, succession risk in Uganda and election-related, youth-driven social tensions in Kenya, which could weigh on policy discipline.

Photo: : Ministry of Finance Offices, in picture President William Ruto

Kenya

Kenya has recorded solid economic growth in recent years, averaging around 4.5% during the last ten year, driven by a strong private sector and large-scale infrastructure investment. The economy is predominantly private-sector led and benefits from one of the most developed financial systems in Sub-Saharan Africa. Despite relatively strong headline growth, job creation has lagged, as high-growth sectors such as IT do not generate employment at the scale required. As a result, authorities continue to focus on agriculture, which remains both a major employer and the country's main export sector. A consistently emphasized theme is the central role of the private sector as the primary engine of growth and the government's intention to further support it.

Growth in the construction sector has been strong, driven by both large public and private investments and large inflows of remittances. Remittance growth is expected to continue, reflecting Kenya's relatively high and widespread educational attainment combined with limited domestic employment opportunities for educated youth. This has pushed migration which has led to sustained and growing inflows of foreign earnings. Kenya also serves as the financial hub of the region, attracting capital from neighbouring countries. There has been an influx of people moving into the country from Somalia which has also supported remittance growth due to Somalis moving their remittance money from Somalia to Kenya. Multinational companies seeking exposure to East Africa frequently establish regional headquarters in Kenya. At the same time, the government aims to further deepen and modernize financial markets, including efforts to finance housing through initiatives such as the affordable housing levy and securitization structures.

Youth unemployment remains a key social and political challenge, exacerbated by the recent cost-of-living crisis. This culminated in widespread protests led by Generation Z, which ended after a forceful government response, including arrests and fatalities. These events have deepened dissatisfaction with the political elite, particularly President Ruto. With elections scheduled for 2027, concerns are growing around potential fiscal slippage as the government may seek to placate voters. While opposition parties remain fragmented, a key uncertainty is whether youth dissatisfaction will translate into meaningful voter mobilization. At the same time, the incumbent president is expected to use all available levers to retain power.

Fiscal policy represents the largest macroeconomic risk and was the dominant topic in meetings. Kenya has run elevated fiscal deficits for several years, with slippage particularly common ahead of elections. The fiscal deficit was budgeted at around 4.7% of GDP for FY 2025 but is now expected to widen to approximately 5.5%. The view was that risks are skewed to the upside in the coming years due to election year in 2027. Authorities emphasized that fiscal consolidation efforts are focused primarily on the revenue side, as expenditure restraint is politically difficult amid heightened social tensions, especially among younger cohorts.

Revenue-enhancing measures include broadening the tax base by improving the taxation of income and unreported revenues, simplifying the tax system, and lowering tax rates to increase compliance. Digitalization is already widespread in Kenya and is expected to play a key role in reducing the size of the informal economy, which remains very large. The stated objective of increasing the tax-to-GDP ratio by 1.5 percentage points per year is ambitious and widely viewed as unrealistic. On the expenditure side, the government aims to shift infrastructure investment off-budget through securitization. However, recent measures, such as the fuel levy, have been unpopular, and there is ongoing debate over whether these structures still represent implicit government liabilities.

Kenya

The likelihood of a meaningful decline in public debt appears low due to fiscal slippage. However, financing risks are contained. Kenya benefits from a deep and liquid domestic market, which has been able to absorb additional issuance and has contributed to lower domestic yields. The country also retains market access and has signaled potential plans to return to the Eurobond market. Concessional financing remains available, but political appetite for meeting World Bank and IMF reform conditions is limited, particularly given anti-corruption requirements and other structural demands. While President Ruto has expressed interest in an IMF program, the fiscal consolidation measures typically required would be politically difficult to implement. As noted by several authorities, Kenya does not face an immediate need for a program, further reducing the likelihood.

The current account deficit has improved noticeably decreasing from 5.1% of GDP in 2022 to 2.3% in 2025 according to authorities, driven mainly by stronger exports, remittances and a recovery in tourism. It was noted that the tourism sector is likely underreported in official statistics due to data limitations and the large informal economy. Kenya's export sector remains heavily agriculture-based, with tea and other horticultural products representing the largest components.

Inflation remained moderate throughout 2025, supported by a strong currency that has effectively functioned as a de facto peg against the US dollar. Food inflation remains the main upside risk, particularly following reports of drought in northeastern Kenya, though conditions have so far been managed. Historically, inflation in Kenya has been relatively low, and expectations are that it will remain contained, supported by currency stability.

Currency pressures remain tilted toward appreciation, as evidenced by significant reserve accumulation, with reserves increasing from USD 6.3 billion in 2023 to over 12 billion, equivalent to more than five months of import cover. Authorities view continued reserve accumulation and exchange rate stability as appropriate, both to strengthen external buffers and to support export competitiveness. Reserves are expected to rise further following the privatization of Safaricom, which is anticipated to generate over USD 2 billion, to be allocated between the national infrastructure fund and the clearance of arrears. As a result, reserves are expected to approach six months of import cover. Central Bank policy changes since the 2022 were positively highlighted by IMF.

View: Kenya remains one of or larger exposures in our Local Currency Frontier strategy with an exposure of about 6%, in both local bonds and NDFs. Risks surrounding debt sustainability and decreased real yields keeps us from increasing the position, but stable FX, good access to financing in the domestic market, growing reserves and strong private sector compensate for risks. We also have moderate position in our Hard Currency strategy as a diversifier in our lower credit rating names.

	2026F	2025F	2024	2023	2022	2011 - 2021
Real GDP (% annual percent change)	4.9%	4.8%	4.7%	5.7%	4.9%	4.5%
Inflation (% annual percent change)	5.2%	4.0%	4.5%	7.7%	7.6%	7.1%
Overall Fiscal Balance (% of GDP)	-5.6%	-6.0%	-5.8%	-5.7%	-6.1%	-6.5%
Government Debt (% of GDP)	70.1%	68.0%	67.3%	73.4%	67.8%	50.6%
Current Account (% of GDP)	-3.4%	-2.8%	-2.3%	-3.6%	-5.1%	-5.7%
Import Cover		6.3*	5.2	4.7	5.0	5.4

*Latest value that exists for Import Cover
Sources: Aktia, IMF and Macrobond

Uganda

Uganda has experienced strong economic growth under President Museveni's leadership, with average growth exceeding 5% over the past decade and accelerating to above 6% in the post-Covid period. Growth is expected to pick up further as oil production begins, currently expected in 2026 but potentially delayed to early 2027. The IMF forecasts a growth peak of 9.4% in fiscal year 2027, before moderating back toward a more sustainable level of approximately 6% in the long term. Key growth drivers have included foreign direct investment and strong agricultural performance, which has supported export growth. The main export commodities are coffee and cocoa. Gold exports are also significant; however, these currently consist largely of imported gold from neighbouring countries. Domestic gold production is expected to increase as the Wagagai Gold Mine project is finalized and as new gold reserves are expected to be discovered in the northeast.

The Bank of Uganda plans to purchase a share of domestically produced gold to build its foreign exchange reserves, a positive step toward greater reserve diversification. Reserves have already grown at a solid pace, increasing from USD 3.4 billion to 5.6 billion over the past year and now covering more than 3 months of imports driven by portfolio inflows. The Bank of Uganda is among the best-run central banks in Sub-Saharan Africa and successfully kept inflation under control even during the high-inflation period of 2022. Inflation currently stands at around 3.2%, while the policy rate remains at 9.75%, implying relatively high real interest rates. The central bank does not intervene in the foreign exchange market, and the Ugandan shilling is therefore considered largely freely floating. The currency appreciated in 2025, supported by robust portfolio inflows. Foreign participation in the local bond market remains relatively low at around 14% but the share has doubled from approximately 7% in 2024. Uganda does not have a Eurobond outstanding and finances itself in the domestic market.

Photo: : View of Kampala from Nakasero district

Uganda

Debt sustainability remains a medium-term concern. The government relies heavily on domestic issuance, which is relatively expensive due to the limited size of the local market compared to issuance sizes, with most debt held by domestic banks and pension funds. External debt remains affordable, as it is largely concessional and sourced from bilateral lenders or multilateral institutions such as the IMF and World Bank. However concessional finance sources are decreasing due to decline in foreign aid globally. Financing needs have been elevated, reflecting weak fiscal discipline and a budget process characterized by frequent supplementary budgets.

During the trip, supplementary budgets were a key topic of discussion. Views were mixed on whether their use would continue, although election-related spending pressures are expected to ease following the conclusion of the electoral cycle. Fiscal deficits have been high but are expected to moderate post-elections and as oil revenues begin to materialize which is forecasted by the IMF to increase revenues by 2% of GDP. On the expenditure side, room for adjustment is limited, as a large share of the budget is devoted to interest payments and wages. On the revenue side, there is scope for improvement through a reduction in tax exemptions and an expansion of the tax base by formalizing parts of the informal sector.

Investors frequently questioned why local yields remain high relative to peers. The main factors cited were the large volume of domestic issuance driven by supplementary budgets and political risk linked to uncertainty around President Museveni's health.

Uganda held elections in January, which, unsurprisingly, resulted in another victory for President Museveni, who has ruled since taking power in 1986. The political system is authoritarian, with opposition figures openly repressed, yet Museveni retains support due to perceived economic and developmental progress. The key concern raised during the trip was not Museveni's continued rule, but rather succession risk. At 81 years old, questions remain over who would assume power in the event of his death. His son is widely viewed as the most likely successor but concerns about his suitability and political effectiveness have led to speculation that he may ultimately not take power, raising the risk of a power vacuum. We continue to monitor developments related to President Museveni's health and succession plans.

View: Uganda is one of our core positions in the Local Currency Frontier strategy with an exposure of around 8% purely in government bonds. High real yields, strong growth prospects with an independent central bank compensate for risks surrounding fiscal slippage and political risks.

	2026F	**2025F**	**2024**	**2023**	**2022**	**2011 - 2021**
Real GDP (% annual percent change)	7.6%	6.4%	6.3%	4.9%	6.2%	4.7%
Inflation (% annual percent change)	4.3%	3.8%	3.3%	5.4%	7.2%	6.0%
Overall Fiscal Balance (% of GDP)	-5.3%	-6.7%	-4.0%	-4.9%	-5.4%	-3.9%
Government Debt (% of GDP)	53.0%	52.4%	51.5%	50.5%	50.2%	31.5%
Current Account (% of GDP)	-3.7%	-5.0%	-7.5%	-7.6%	-8.6%	-6.2%
Import Cover		3.6*	3.0	3.8	5.0	6.1

*Latest value that exists for Import Cover
Sources: Aktia, IMF and Macrobond

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