

5th NCBA Economic Forum

June 2021





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MR. ALBERT MWENDA

Director General, Budget, Fiscal and Economic Affairs, The National Treasury

- Over 20 years of experience in central government and private sector organizations
- He oversees Macro and Fiscal Policy affairs; Intergovernmental Fiscal Relations; Financial and Sectoral policy issues; Budget issues; and Public Procurement affairs.
- Involved in the formulation of the Public Finance Management Act, 2012, the Public Procurement and Asset Disposal Act, 2015 and the Public Audit Act, 2015
- Previously worked as a consultant at the World Bank, the United Nations Children's Fund (UNICEF), United Nations Development Programme (UNDP), Norwegian People's Aid (NPA-Rwanda), State University of New York (SUNY Kenya), Society for International Development (SID), among others



MS. FLORA MUTAHI

Chair, KEPSA
Founder and CEO, Melvin Marsh
International Ltd

- Chair KEPSA
- Formerly served as the Chairlady of Kenya Association of Manufacturers from 2016 - 2018
- Founder and CEO of **Melvin Marsh International Ltd**
- Has a wealth of experience in a the private sector from banking to insurance amongst others
- Passionate about the next generation seeing them as the future leaders of the nation and believes very strongly in a sound education.



MR. FRED OMONDI
Partner, Deloitte

- Certified Public Accountant
- Has post-graduate training in tax law and administration
- Over 14 years' experience in taxation
- Currently leading the international tax and transfer pricing team for Deloitte East Africa
- Clients range from leading multinationals to important locally owned entities operating in various industries
- He is a regular contributor to various tax publications and also regularly facilitates at various tax and business fora



MR. KWAME OWINO

CEO, Institute of Economic Affairs
(IEA Kenya)

- Kwame has been instrumental in leading IEA Kenya's strategic intervention into the go-to think tank for Sub-Saharan Africa and the region
- Led research and policy dialogue in economic regulation and competition policy
- Has diverse interests on economic regulation, employment economics and public sector reform
- Oversees research in IEA Kenya's key policy areas on public expenditure and revenue analysis, international trade, economic regulation, devolution and the use of futures methodologies to inform public affairs in Kenya

KENYA ECONOMIC UPDATE

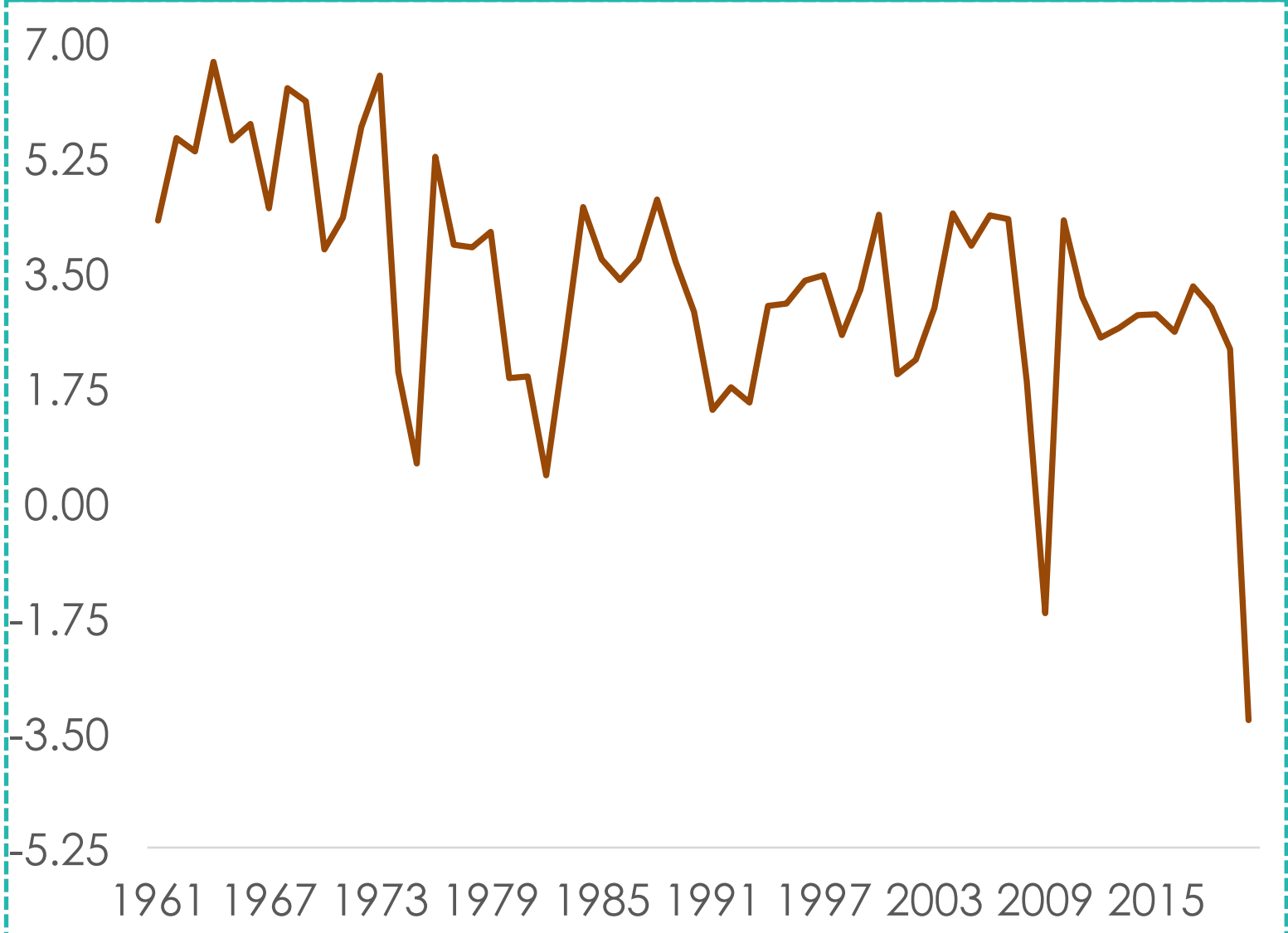


June 2021

Increased adaptation, unprecedented policy support and large scale vaccination to engineer record growth for the global economy but this will be uneven.

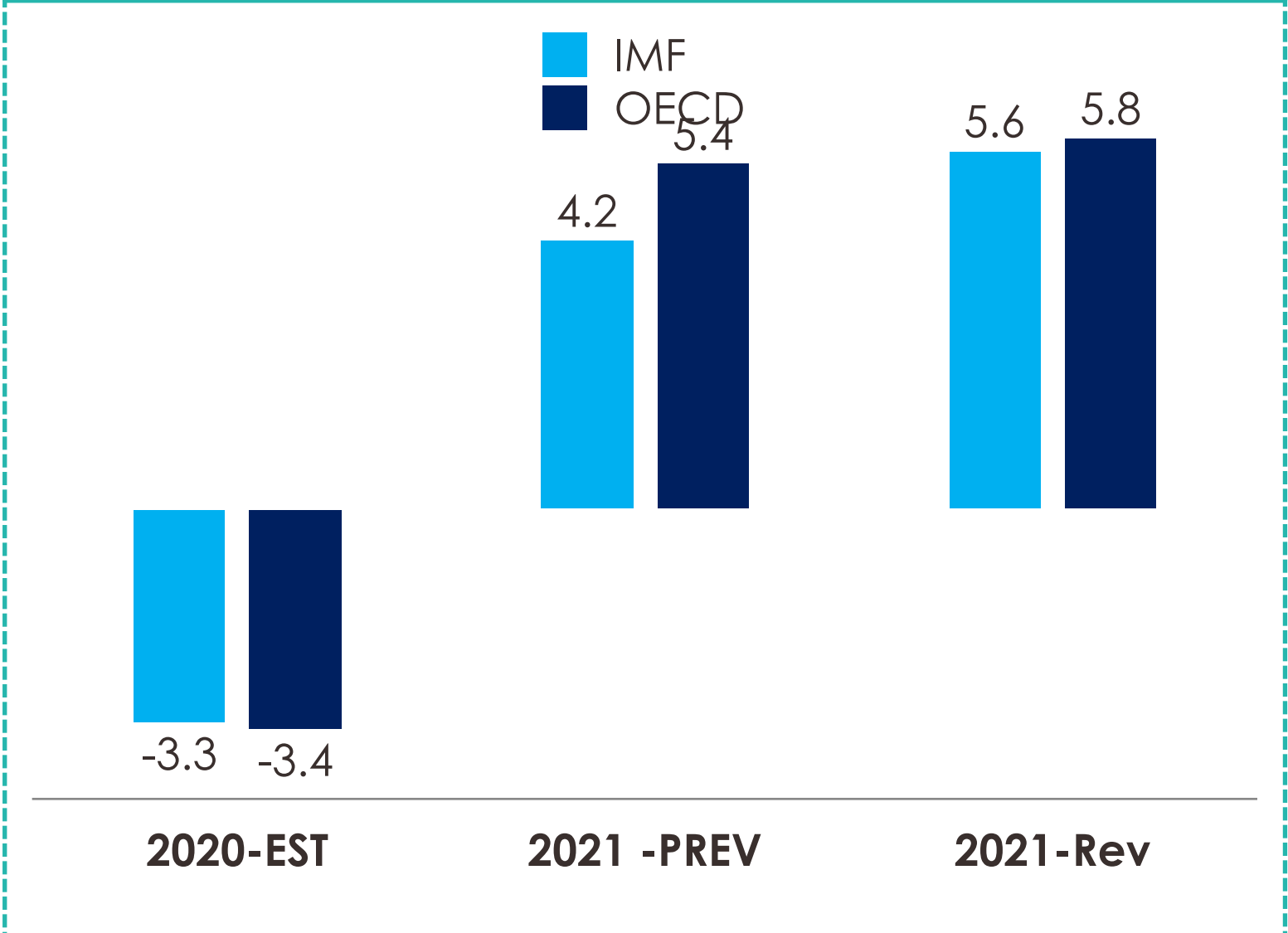


Historical Global Economic Growth



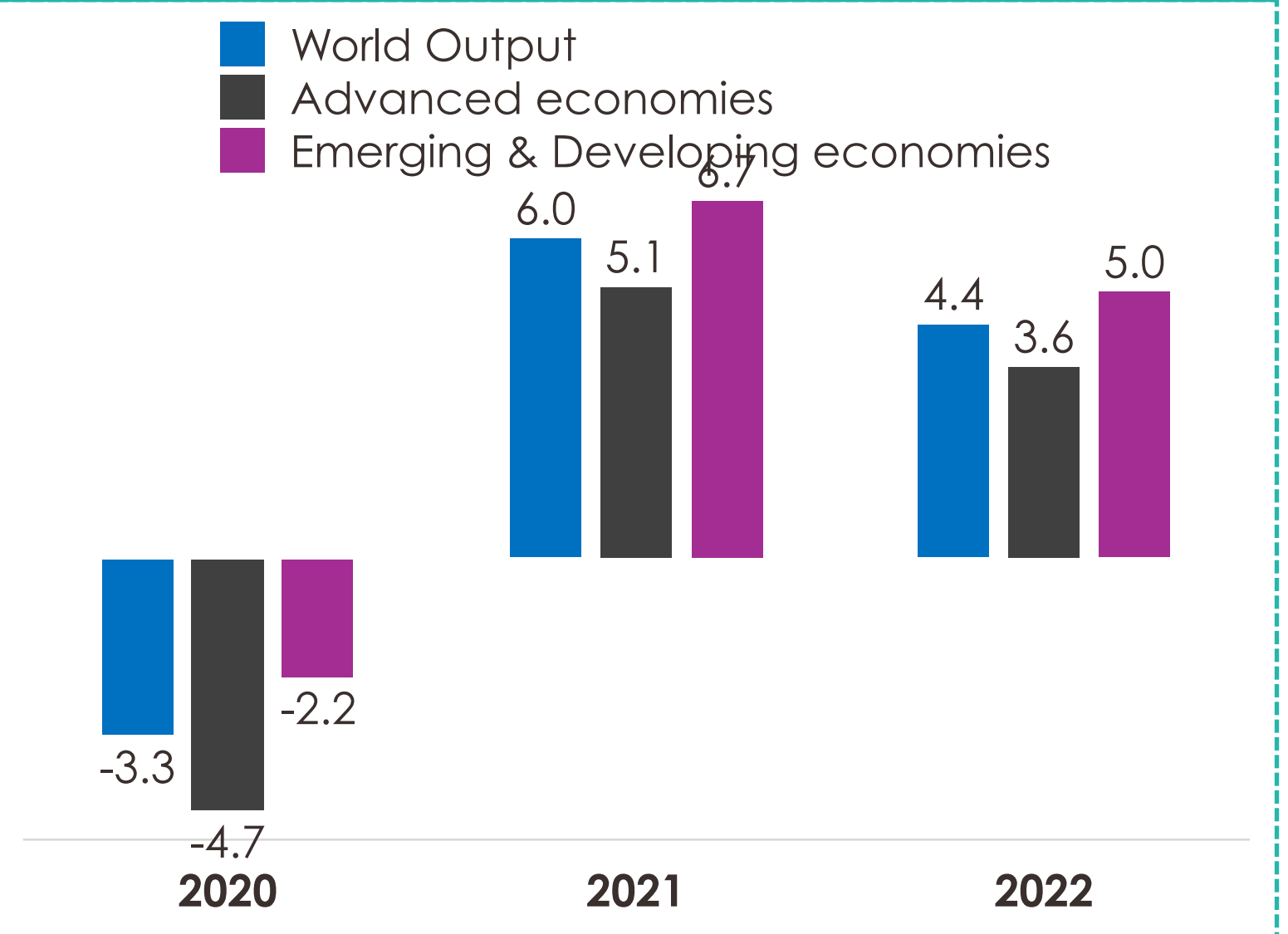
- After contracting at the sharpest pace since the greatest depression, the world is on course for a record rebound.
- **Global output** is now forecast to reach pre-crisis levels in **Mid-2021** – OECD.

Global Economic Growth



- The **recovery will be the fastest in nearly 50 years** thanks to the unprecedented response on both the health and economic fronts in advanced economies.
- The upside could be stronger should vaccines weaken the pandemic and further adjustments to the pandemic are made

Growth will diverge markedly across countries

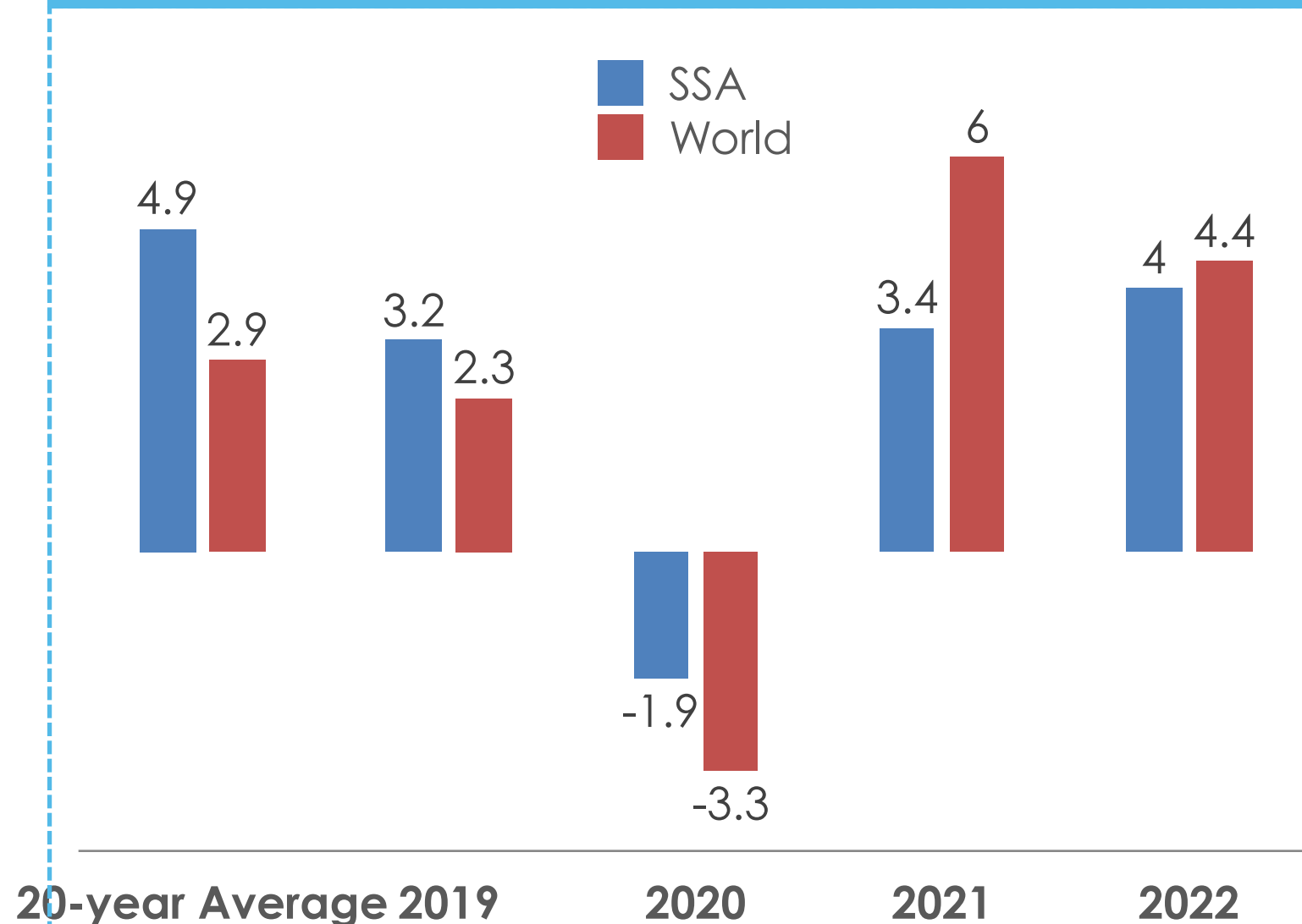


- The strong growth masks significant **divergences** across economies
- **Advanced economies are taking cyclical leadership** of global growth as they lead peers in in policy response &, vaccination
- Emerging markets will lag in recovery as low vaccine coverage and weaker interventions dilute the upside from firming external demand.

Severe economic pains for SSA in spite of low Covid-19 infection & mortality rates as well as less stringent containment measures...From the next frontier to the problem child?



Real GDP Growth



- The pandemic has **erased years of economic progress** in Africa and exacerbated earlier fragilities
- The region **contracted by 1.9% in 2020**, the worst performance on record.
- Once considered the “Next Economic Frontier” SSA will now lag the larger world in economic growth/recovery

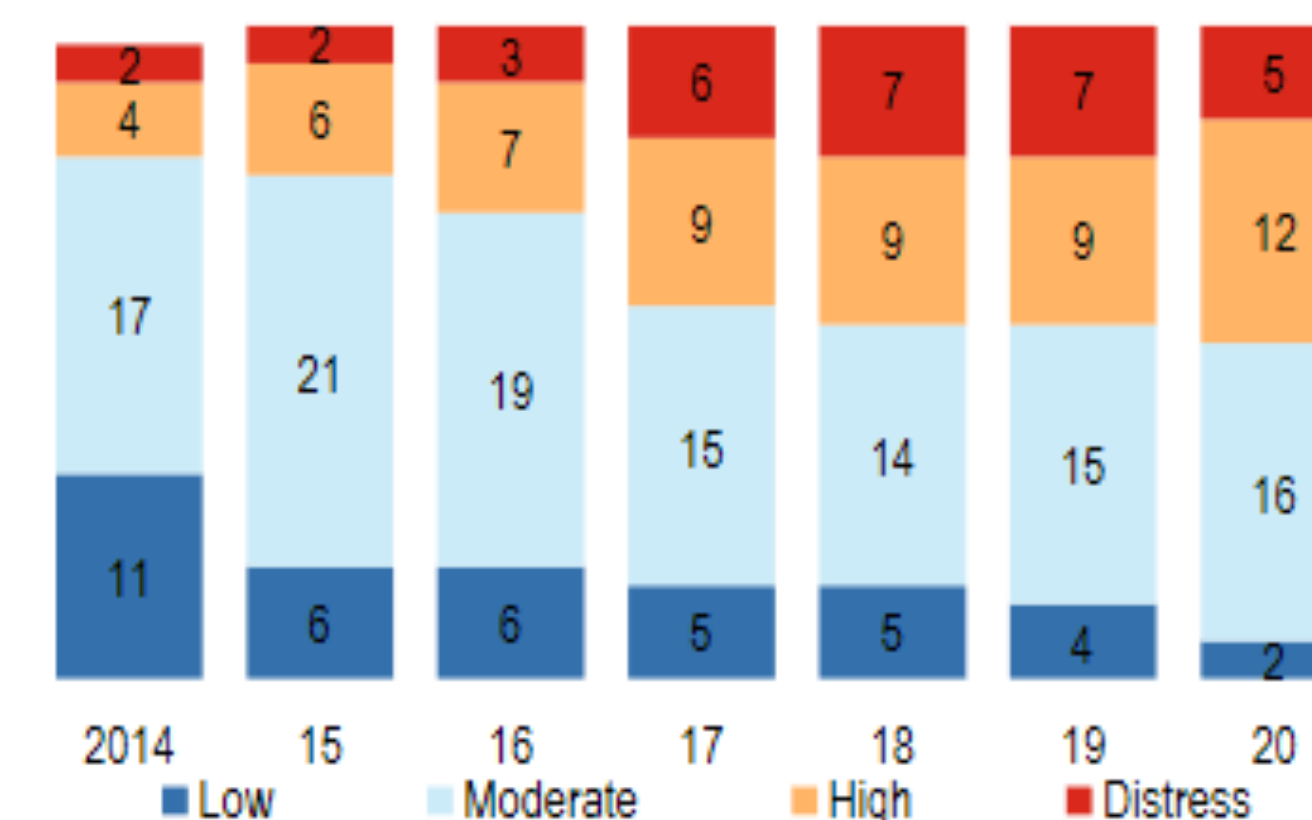
Recovery to diverge across countries



- **Slower growth** reflects persistence of the pandemic and **limited policy space**
- Recovery will diverge markedly depending on the magnitude of the pandemic, size of economic sectors exposed and the scale of policy support.

Weaker Public sector balance sheets

Figure 12. Sub-Saharan Africa: Debt Risk Status for PRGT-Eligible Low-Income Developing Countries, 2014–20



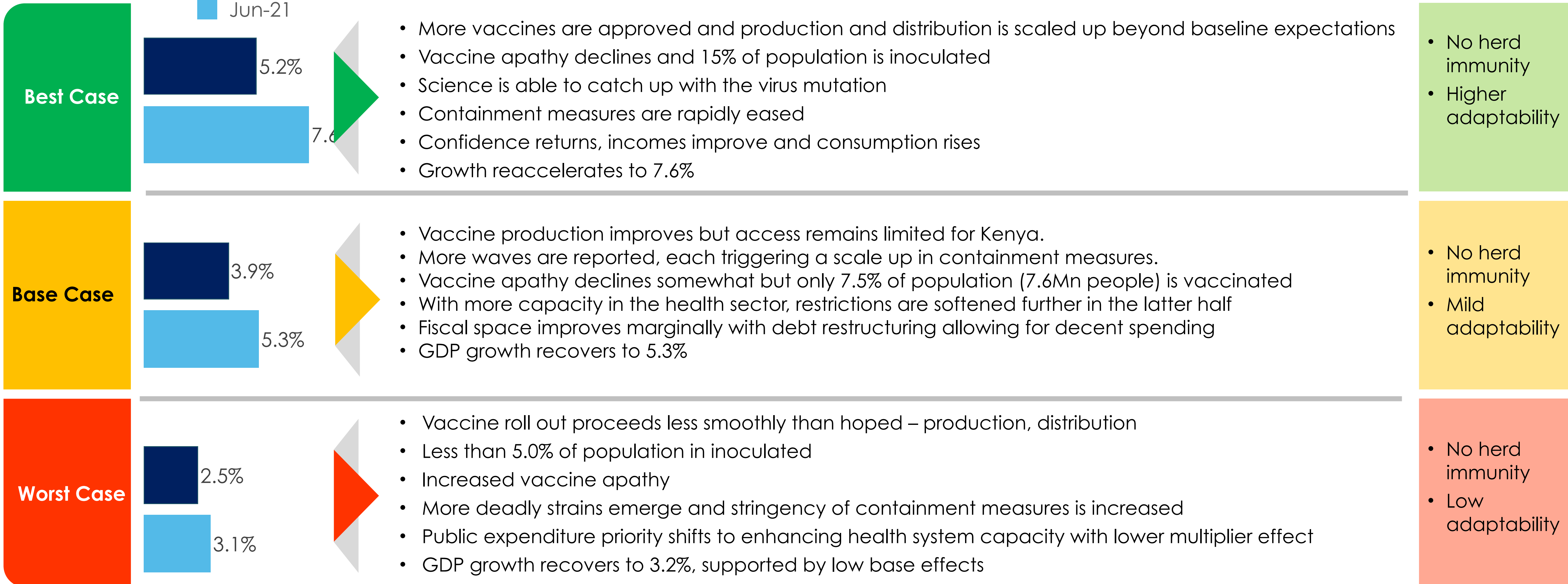
- Risks of **debt distress** have increased markedly following the pandemic
- While deficits have widened, lower cost of funding and **debt restructuring** have weakened the risk of distress in the short term
- The need for consolidation and economic reforms that generate efficiencies cannot be gainsaid
- Central bank support to underpin activity but fiscal imbalances have weakened its efficacy.

Kenya – Outlook has brightened but upside capped by slow vaccine rollout & persistent economic imbalances

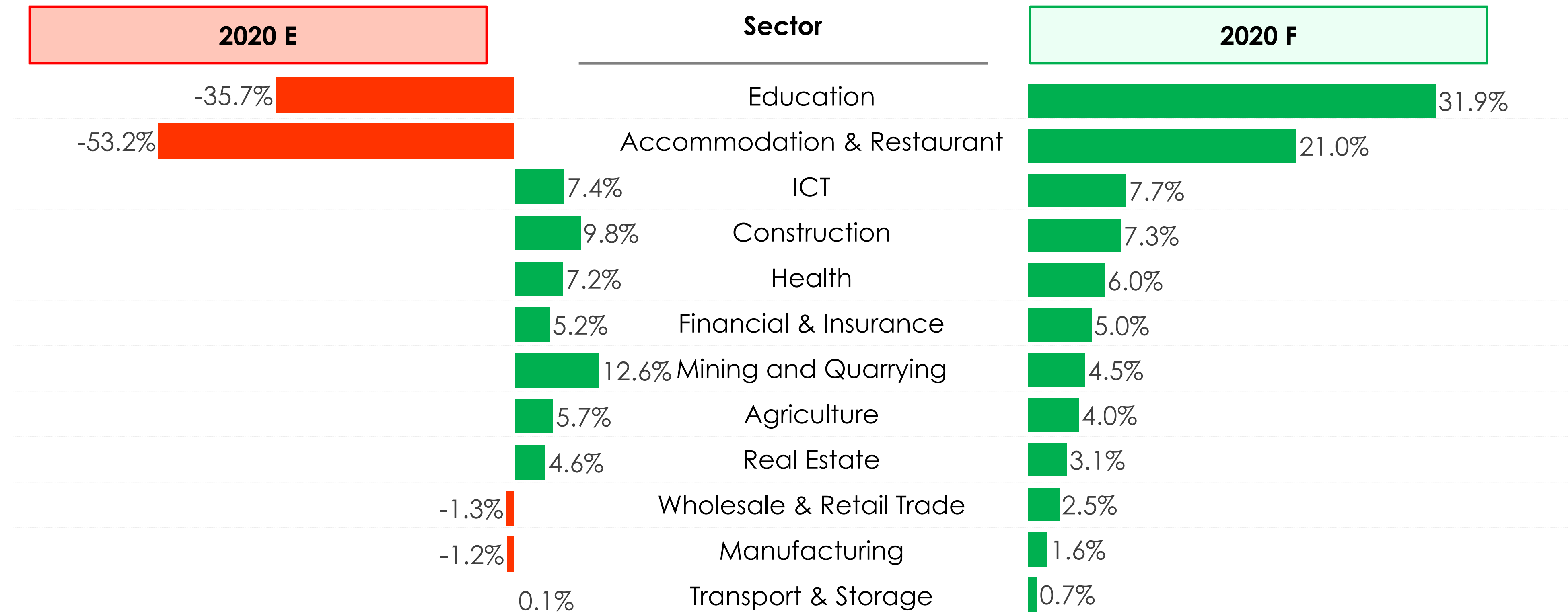


2021 GDP Forecasts

Oct-20
Jun-21



Growth will be public sector driven but the pace will vary across sectors



- Sectors hardest hit in 2020 will record stronger rebound – Base effects
- **Quality of growth/real activity will remain lethargic** albeit stronger
- Private investments, consumer spending to remain below pre-crisis levels

- Education - Reopening of schools, improvement of infrastructure
- Accommodation - Improved activity in H2, but only 40% of 2019 output will return
- ICT – Accelerated digitization as businesses prepare for a prolonged crisis
- Construction – Increased **public investments in infrastructure** for jobs
- Health – Continuous capacity building, fast-tracking of Universal Health coverage

On a positive note, the macroeconomic environment will remain largely stable



Low inflation and interest rates

- Low inflation, persistence of output gap will sustain monetary accommodation.
- Monetary multiplier will remain low but credit growth may pick up somewhat as credit risk environment recovers
- High fiscal deficit may continue to divert liquidity is diverted to the sovereign
- Expiry of moratoriums for the government may add to pressure but extension could provide some upside

Inflation	Prev	Rev	Output Gap	CBR
Mar-2021	4.25	5.9%	(536.60)bps	7.00%
Jun-2021	4.4%	5.5%	223.14bps	7.00%
Sept-2021	4.8%	5.3%	33.90bps	7.00%
Dec-2021	4.5%	4.7%	(14.50)bps	6.50%

Currency Outlook

USDKES

- Restructuring of debt has reduced public sector demand for US dollars
- Fragile confidence has also lessened capital investments and imports
- Current account expected to stabilize at around 5.2% of GDP
- Dollar liquidity may improve further – stronger remittances, development partner support, external borrowing, capital flows
- Exports receipts are also ticking up as the pandemic eases in key markets

USDKES	Prev	Rev
Q1-2021	111.42	109.51
Q2-2021	113.00	108.30
Q3-2021	114.60	110.30
Q4-2021	116.22	110.70



Thank you

