

WELCOME TO THE NCBA COVID-19 ECONOMIC UPDATE WEBINAR



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ROSALIND GICHURU

Group Director, Marketing, Communications and Citizenship
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HON. BETTY C. MAINA
CBS Cabinet Secretary, Ministry of
Industrialization,
Trade and Enterprise Development

Hon. Maina has 27 years' experience in organizational leadership and development, with an ability to prepare and implement strategic business plans and mobilize resources for implementation, traits that place her at a strategic position to effectively lead the coordination of Industrialization, Trade, and Enterprise Development in Kenya.

Prior to her appointment as the Cabinet Secretary, she served as the Principal Secretary in the Ministry of Environment and Forestry, State Department for industrialization, and the State Department of East African Affairs. She has also served as the Chief Executive of the Kenya Association of Manufacturers for 11 years (between June 2004–July 2015), where she not only oversaw the doubling of membership of the association, but also established seven satellite offices to compliment the services offered at the national office.

Ms. Maina was behind the successful implementation of the association's strategic plan, resource mobilization and fundraising and oversaw its revenue increase from Kshs 24 million to Kshs 400 million annually within her ten-year stewardship. Before joining the State Department, Ms Maina was the Director of her consultancy firm: BECEM Solutions and East Africa Regional Representative of Genetics: Analytics, an economic consulting group with offices in Nairobi, New Delhi and Johannesburg.



KWAME OWINO
CEO
Institute of Economic Affairs (IEA)

As the CEO for Institute of Economic Affairs (IEA), Kwame has been instrumental in leading IEA Kenya's strategic intervention into the go-to think tank for Sub-Saharan Africa and the region.

Having risen through the ranks at IEA Kenya, Kwame's led research and policy dialogue in economic regulation and competition policy. He also has diverse interests on economic regulation, employment economics and public sector reform.

He undertakes and 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.



Waceke Nduati is the Founder of Centonomy Ltd (which she started in 2009 in Kenya), an Author and Entrepreneurship Coach. She is driven by her passion for teaching people how to create wealth and Centonomy under her leadership, has been able to significantly change the lives of people in the East African Region region. This has been done through the various Financial Literacy as well as Entrepreneurship coaching programs which have reached over 200,000 people directly and over 1 million through their digital platforms. The impact has been seen as people who have gone through the programs get the confidence to pursue their dreams, overcome financial challenges, create wealth, start and grow sustainable businesses, employ people and become solution providers in their unique ways.

You can find more on Centonomy Ltd at www.centonomy.com

WACEKE NDUATI

Founder
Centonomy Ltd



JOHN GACHORA
Group Managing Director
NCBA Group PLC



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JOHN OKULO
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COVID-19 PANDEMIC AND THE NEXT “RECESSION/DEPRESSION?”.


- ❑ 203 countries affected
- ❑ +960K covid-19 cases
- ❑ +49K deaths
- ❑ 3.4% mortality rate

- Panic & fear
- **Forced quarantine**
- State of emergency
- **Travel restriction**
- School shut down
- **Work-home arrangement**
- **Recession fears**
- **Job uncertainties**
- **Business closures**
- **Losses from financial volatility**

- ❑ **Overwhelmed public health systems including infrastructure**
- ❑ **Loss of income for services**
- ❑ **Fiscal constraints for governments**

- ❖ **Bleeding Financial markets**

- ❑ **+200k Recovered**
- ❑ **Factories in China gradually returning to normal but new infections a key risk**

The silver lining

COVID-19 PANDEMIC TIPS GLOBAL ECONOMY INTO A RECESSION, FAR WORSE THAN THE FINANCIAL CRISIS OF 2008-09....HOPE OF A QUICKER REBOUND?

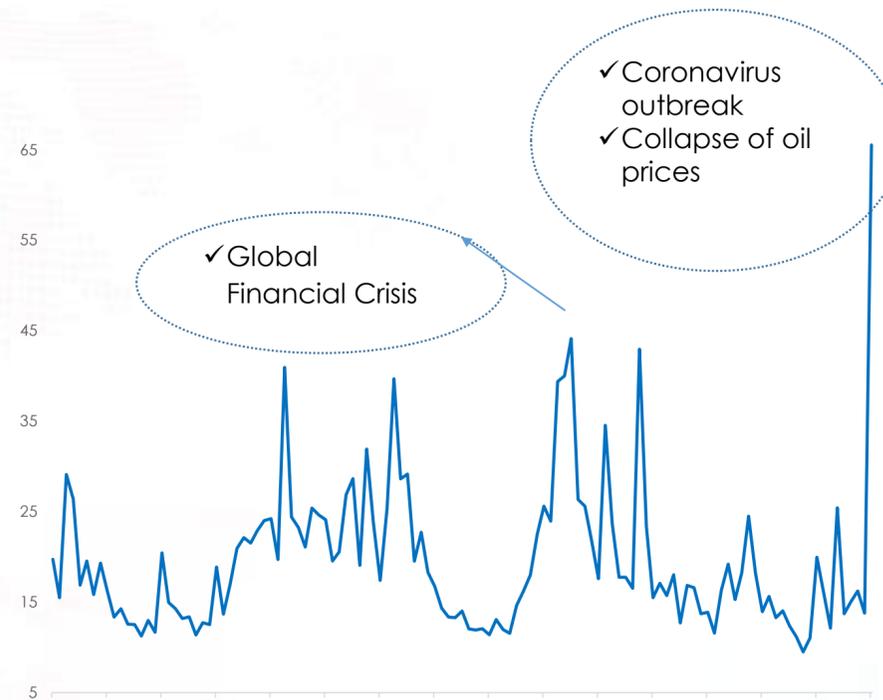
- ✓ The global economy is at yet another defining moment as the unprecedented confluence of supply, demand and confidence shocks from Coronavirus pandemic degrades baseline forecasts to a recession.
- ✓ What had earlier seemed like a V-shaped economic recovery is now turning into a nasty downturn as the public health crisis precipitates a financial and economic disaster!
- ✓ Immense disruptions to the supply chain by unscheduled and prolonged plant closure and the unprecedented containment measures including border closures is hurting the already fragile global trade. Consumption and investments have equally weakened on weak demand outlook, falling commodity prices.
- ✓ “Services” which was the ‘economic savior’ in the post financial crisis period is wobbling. Deteriorating views on economic activity, earnings, and credit quality has sent markets reeling as risk-aversion rises.
- ✓ Whereas the situations seems to be improving in China, the shift in the virus’ epicenter to Europe and accelerated pace of infection in the US and the rest of the world will sustain the public health concerns making the rollback of restriction slower than previously anticipated. In actual fact, Donald Trump an erstwhile proponent of quicker reopening has since revised restriction to run until April 30th in the US
- ✓ Whereas financial systems may be better prepared to deal with the crisis than in 2009, owing to stronger capital and liquidity buffers, the firepower for central banks has weakened. Moreover, the uncertainty of wading further into “terra incognita” and slow progress towards a coordinate response is dampening confidence of a quick recovery.
- ✓ That said, a combination of targeted fiscal interventions and liquidity support by banks will help lessen the economic fallout but not without some bailouts!

MARKETS TUMBLE DESPITE A BARRAGE OF GOVERNMENT AND CENTRAL BANK INTERVENTIONS.

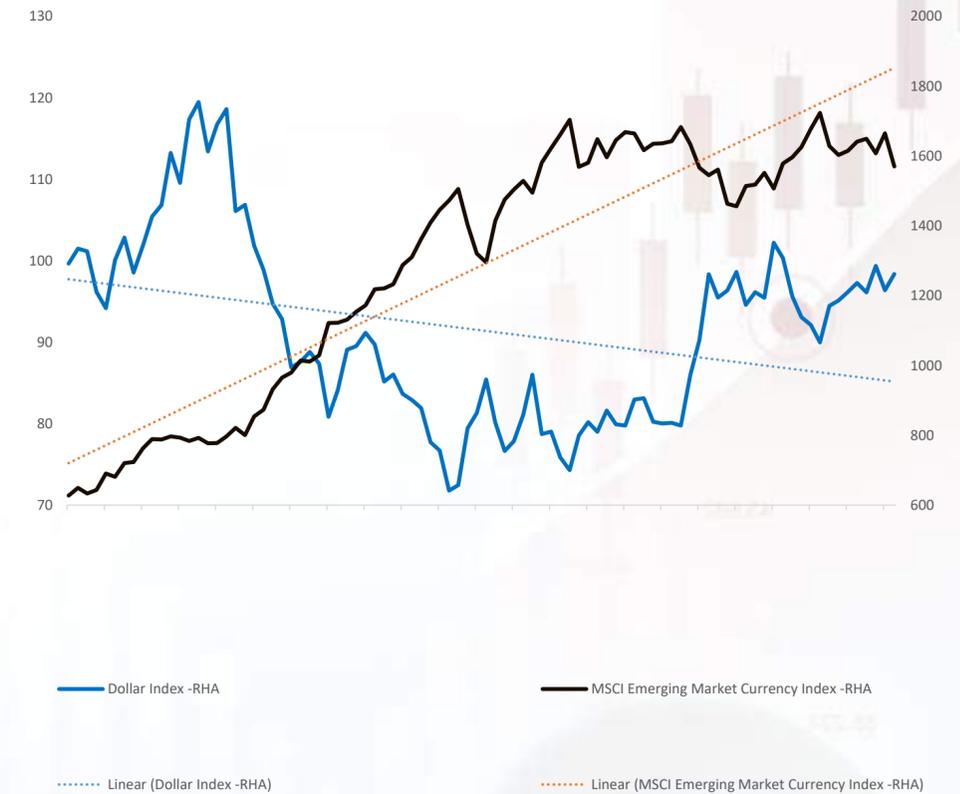
Brent Crude Oil price



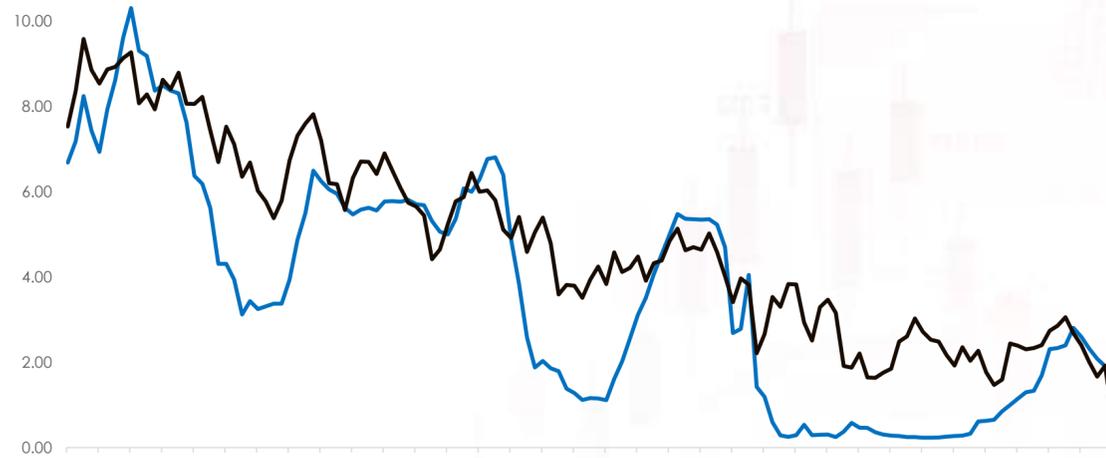
Volatility Index



US Dollar gains for Ems



The flight to safety



— USD 3-Month Libor — US 10-Year Treasury yield

- ✓ Accelerated COVID-19 contagion and governments' containment measures have increased recession calls
- ✓ A combination of demand, supply and confidence shocks will complicate policy response
- ✓ Extra-ordinary fiscal, monetary and behavioral responses by authorities have failed to halt the meltdown in financial markets
- ✓ Confidence undermined by lack of policy coordination
- ✓ For now, it seems like markets will only be calmed by declining number of new infection cases.

Model definition and assumptions

Base Case - V-shape progression

- Output is displaced with a sharp dip in Q2 followed by a gradual recovery in Q3 and Q4
- Current horizontal interdiction flattens the curve sooner avoiding a lockdown
- Policy interventions effective but a bit late
- Capital spending declines across board aggravated external supply shocks
- Demand declines sharply as incomes fall and uncertainty mounts
- Agriculture maintains strong output supported by favorable weather

Best Case – Shallow V-shape?

- Horizontal interdiction measures are in time and adequate
- Contagion is disrupted early enough
- Could take a shallow V-shape progression
- Consumption is temporarily disrupted in Q2 followed by a steady recovery
- Economic policies are in time and effective in cushioning the real economy averting structural supply shocks
- Globally, the contagion is arrested and travel restrictions lifted

Worst Case – U-shape

- Current containment measures are late and fail to arrest contagion
- Social distancing is escalated to a country wide lockdown
- Risk of fresh infections delays return to work, loss of productivity and border reopening
- Extended real economy freeze results in longer lasting structural shocks
- Policies are delayed, ineffective or with some missteps
- Output recovers but maintains considerable gap to the pre-crisis levels

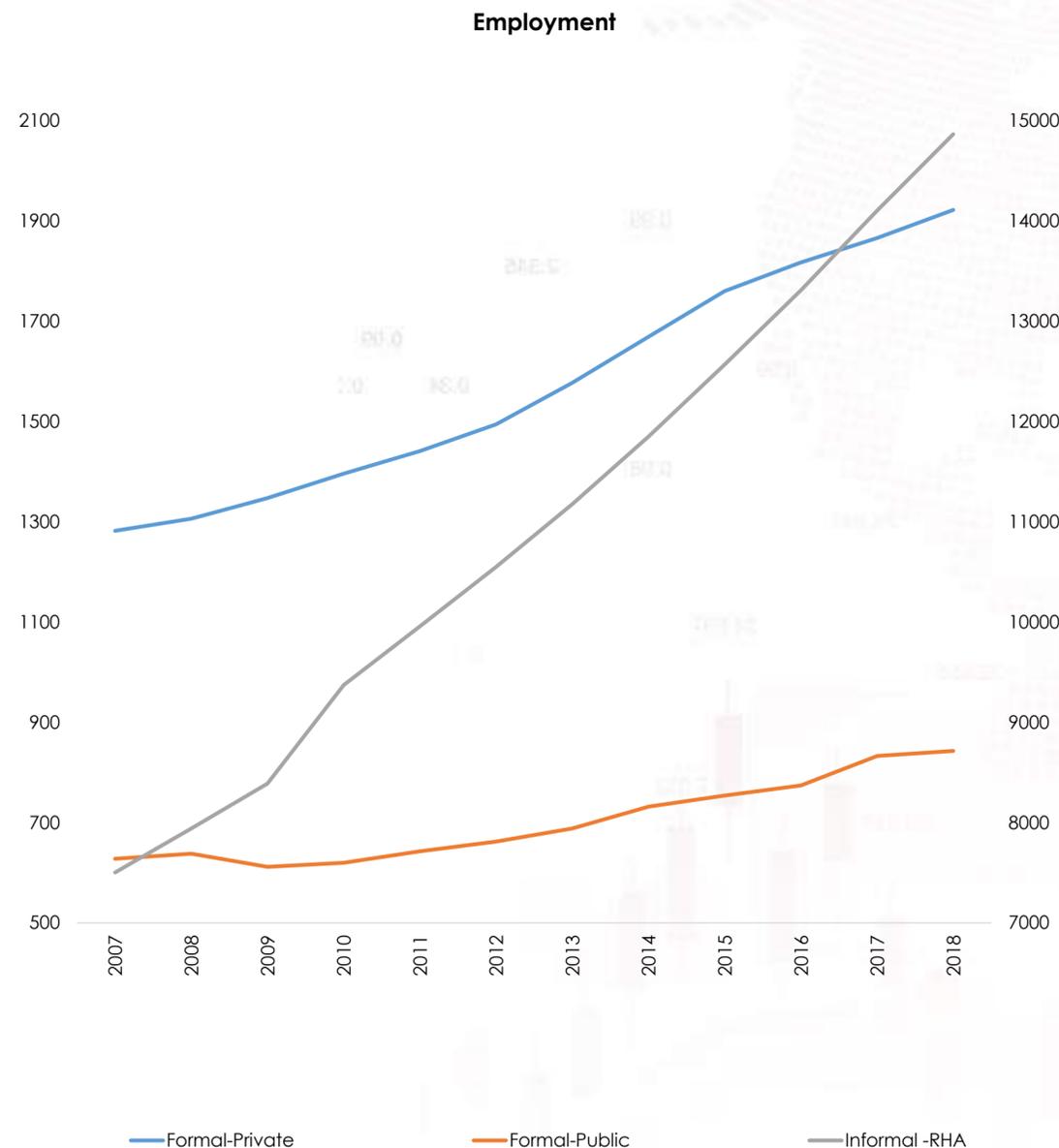
KENYA: ECONOMIC GROWTH AT RISK OF CONTRACTION FROM COVID-19 SHOCKS.

GDP Growth	Best case	Base Case	Worst case
Q1-2020	5.1%	3.8%	2.2%
Q2-2020	3.2%	1.0%	-2.0%
Q3-2020	3.7%	1.6%	-0.1%
Q4-2020	3.9%	2.6%	1.2%
Annualized	4.0%	2.3%	0.3%

Sector	2020 Est.	2019 Est.
Agriculture	3.50%	4.8%
Mining and quarrying	0.8%	4%
Manufacturing	1.1%	3.6%
Construction	4.0%	6.5%
Wholesale & Retail Trade	3.3%	6.0%
Accommodation & Restaurant	-50.0%	10.7%
Transport & Storage	3.1%	7.1%
ICT	7.5%	9.0%
Financial & Insurance	2.8%	6.2%
Real Estate	0.5%	4.7%
Education	2.6%	5.6%
Health	8.9%	4.8%

- ✓ Economic activity could contract in 2020 should the Covid-19 pandemic persist through Q2. GDP growth could decelerate sharply to 2.3% in 2020, a sharp downgrade from our 5.7% projection in January 2020.
- ✓ Effects of supply, demand and confidence shocks may be longer lasting than the shocks of 2008 post election violence. This will be worsened by limited scope for fiscal intervention.
- ✓ The downturn will be broad-based, although health and ICT may benefit from increased investments by the government and the shift in business operating models in favor of technology.
- ✓ The pandemic should aggravate risk from the already glaring fiscal imbalances. This has weakened room for government maneuver in steering a quick and strong response to the pandemic.
- ✓ Fiscal deficit could hit double digit at a time when international markets are dogged by heightened risk aversion. At the same time, the need to avail liquidity for businesses should limit scope for domestic borrowing.
- ✓ Recent tax incentives and monetary easing are welcome. However, the need for a turnaround in confidence, dependent on the evolution of the infection curve, locally and globally, will be crucial.

UNEMPLOYMENT LEVELS TO RISE WITH WEAKER PRIVATE SECTOR ACTIVITY



- ✓ The scale of job losses could hit unprecedented levels in coming months as business activity gradually grind to a halt
- ✓ Broad-based slowdown in activity will see increased job losses in the private sector while hiring in the public sector will stagnate.
- ✓ Informal sector will also see negative growth as demand weakens further with declining incomes
- ✓ Disruptions to supply chains and containment measures including curfews and potential shutdown should further weaken job prospects as businesses' operating capacity decline
- ✓ Formal employment growth has a 0.52 positive correlation with GDP growth. This is diluted to 0.37 by informal jobs.
- ✓ A decline in GDP growth to 2.3%, will therefore come with no new jobs if not a contraction in the employment level in both the formal and informal sectors.

WIDER FISCAL DEFICIT AND A NARROWER SPACE FOR MANEUVER, BETWEEN A ROCK AND A HARD PLACE?

	2019/20 EST.	2020/21 Est (NCBA)	2020/21proj (Treasury)	Difference
Import Duty	96.72	102.52	126.50	23.98
Excise Duty	179.55	193.01	258.00	64.99
Income Tax	659.82	620.23	862.30	242.07
VAT	374.75	389.23	494.40	105.17
Other Taxes Income	116.49	110.18	120.30	10.12
Total Tax Rev	1,427.32	1,415.17	1,861.50	446.33
Non-tax Rev	148.19	148.19	249.60	101.41
Total Rev	1,575.51	1,563.36	2,111.10	547.74
GDP Estimate	5.9%	2.3%	5.8%	3.5%

- ✓ Government revenues to shrink with the slowdown in economic activities
- ✓ Containment tax measures likely to cushion businesses but unlikely to spur demand in the period under review
- ✓ Businesses likely to enhance savings than boost capacity from the tax relief
- ✓ Should government maintain the KES 2.748 Trillion expenditure, deficit will widen to KES 1.118 Trillion, about 10.4% of GDP
- ✓ Deficit Financing option for government are limited. Increasingly averse international markets could tilt the bias towards domestic financing.
- ✓ On a positive note, there is a good chance of concessional financing from the World Bank, AFDB, IMF in coordinated response to the economic crisis.

KENYA – HAVE STRONGER GLOBAL TRADE INTERLINKAGES WEAKENED INSULATION TO EXTERNAL SHOCKS?

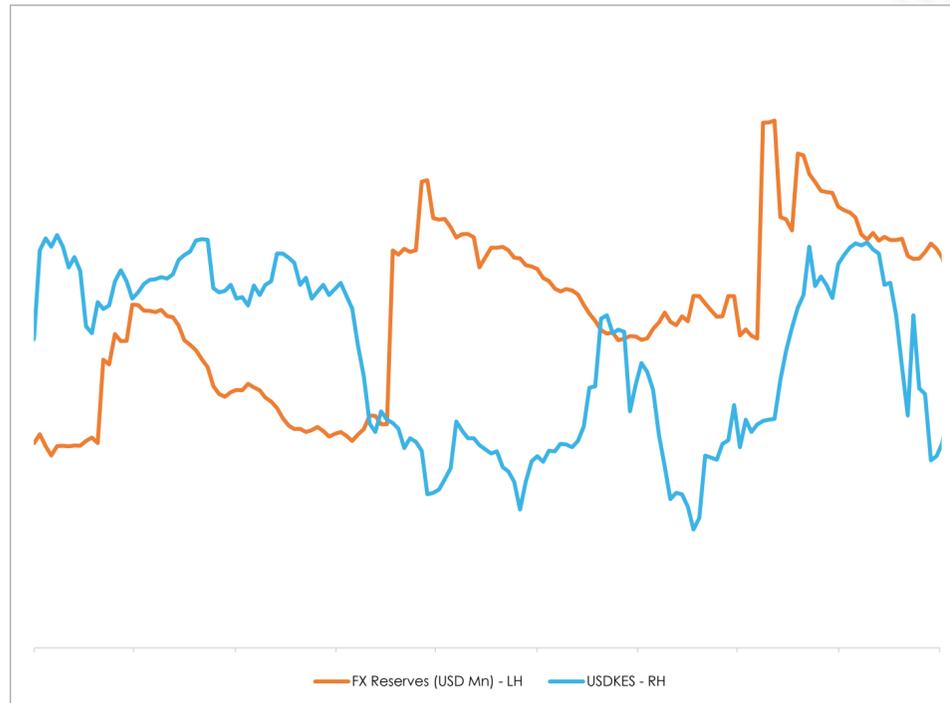
Kenya trade summary



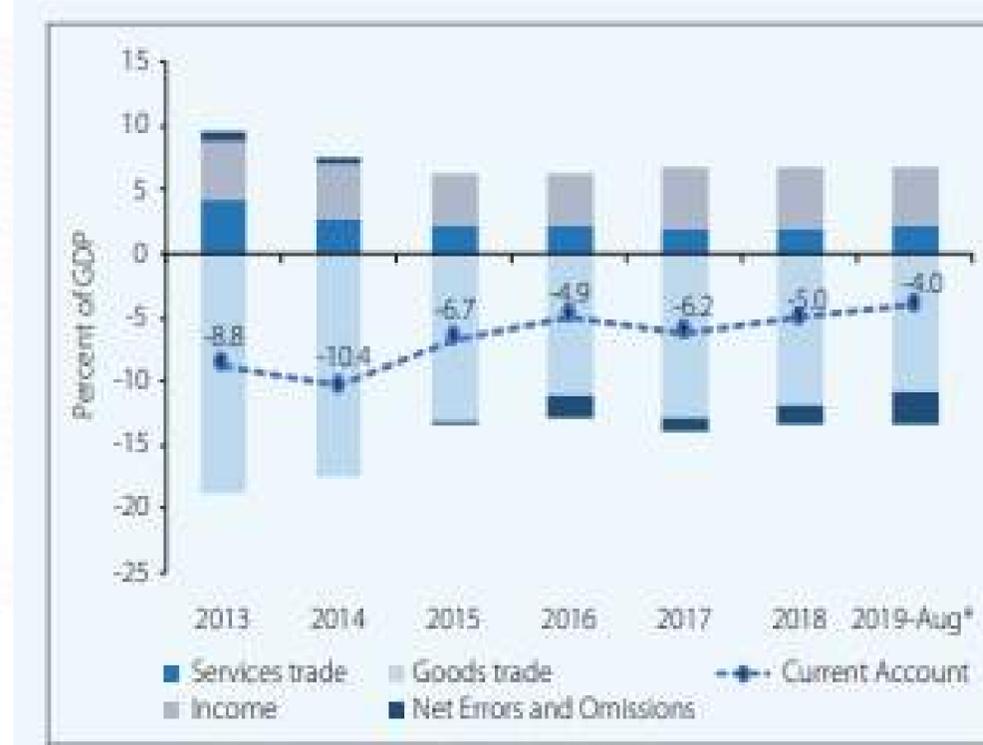
- ✓ Historically, Kenya has fared relatively well in times of global economic uncertainty, thanks to a diverse economic base.
- ✓ However, this insulation may have worn off somewhat with the increase in the country's global interlinkages, exposing it to global supply chain shocks.
- ✓ China is Kenya's single largest trading partner. Sustained interruptions in import deliveries due prolonged plant shut down in China and emerging bottlenecks may cause immense market dislocations and economic pain.
- ✓ The external sector may improve with slower imports . However, deteriorating export markets presents a bigger risk given the likely slow pace of recovery and the difficulties in sourcing for alternative markets.
- ✓ The weak growth in developed markets may hurt remittances and capital flows which has been a key source of current account deficit financing.

CORONAVIRUS FEARS MOUNT PRESSURE ON THE SHILLING

Moderate depreciation in 2020



Better trade balance underpinning C/A upside



Capital inflows have helped finance the gap

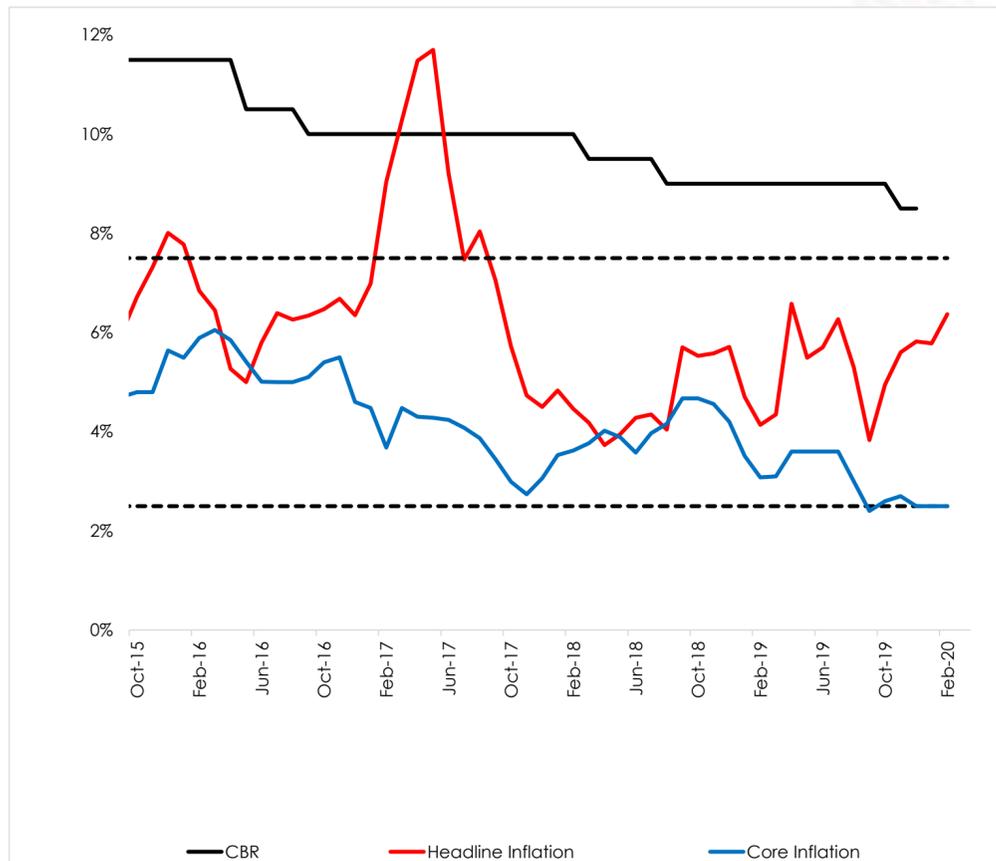


Forecasts	Prev.	Revise
Q1 2020	102.31	104.50
Q2 2020	103.41	105.50
Q3 2020	104.38	106.00
Q4 2020	105.16	105.80

- ✓ Sentiment for shilling has weakened on heightened risk aversion following the outbreak of Coronavirus
- ✓ Central bank intervention limited as need to strengthen buffers increase. CBK plans to buy \$100Mn monthly from the market to increase FX reserves
- ✓ Reduced international travel, tourism and exports will see a slump in dollar flows

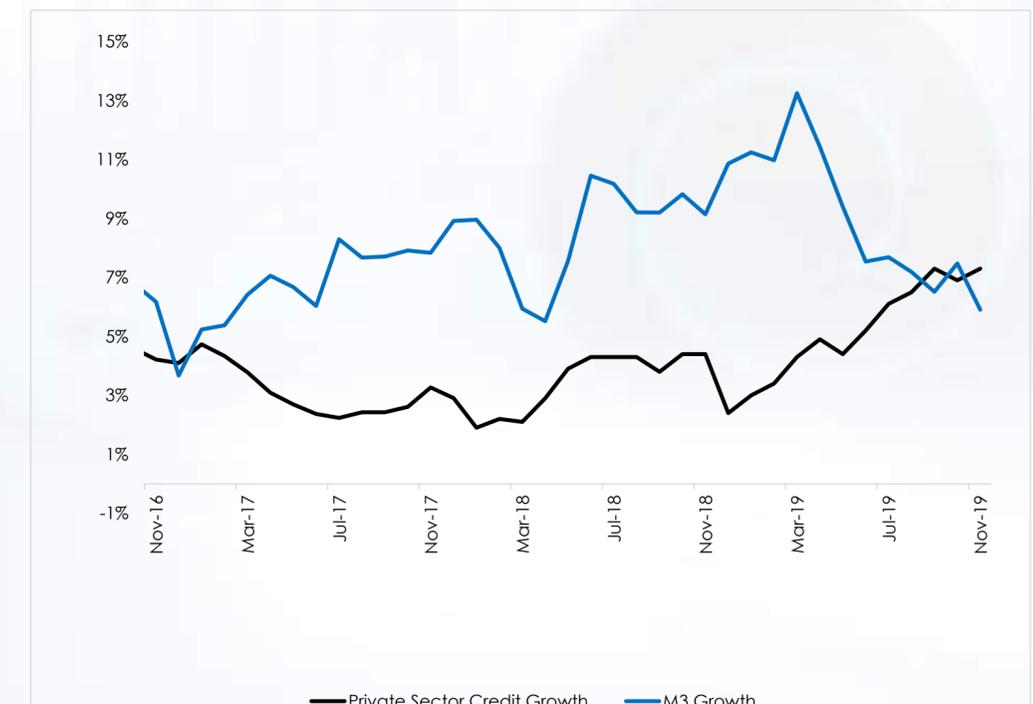
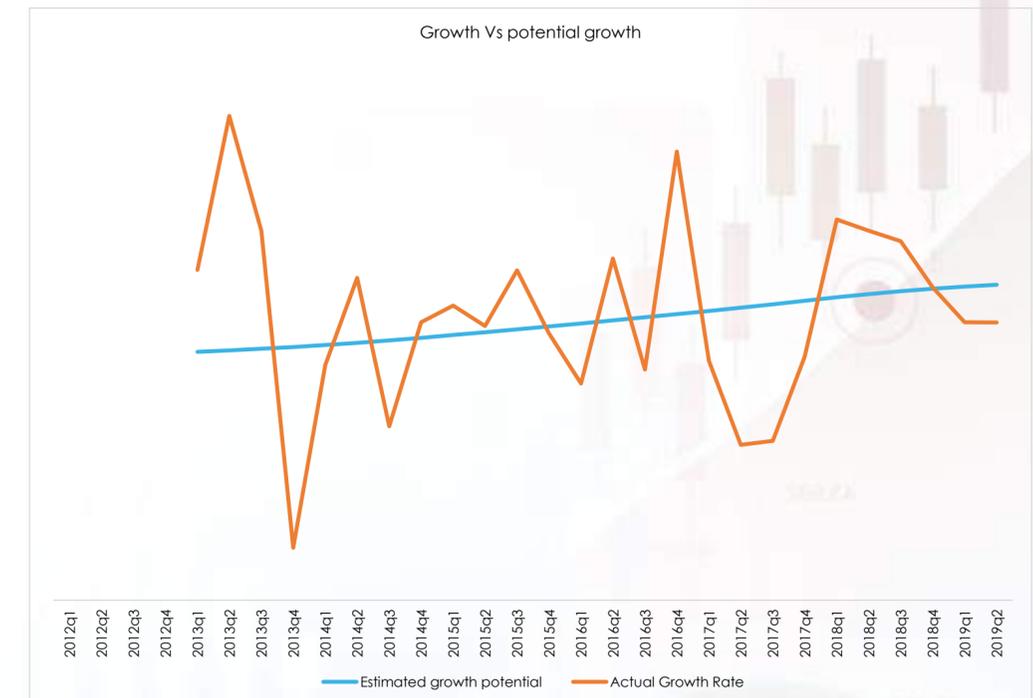
- ✓ Remittances and capital flows which have helped finance the gap may be hurt by the downturn in source markets
- ✓ Prospects of lower interest rates may also weaken shilling appeal.
- ✓ Lower oil import bill may however help lower the ceiling for the shilling.
- ✓ While direct intervention may be limited, moral suasion by the regulator may help stabilize markets

MONETARY POLICY STILL HAS ROOM FOR MANEUVER,.... BUT ARE CONVENTIONAL APPROACHES HITTING A POINT OF DIMINISHING RETURNS?



	Inflation(Prev)	Inflation(Rev)	CBR
Q1 2020	5.07%	6.58%	7.25%
Q2 2020	4.73%	6.20%	6.75%
Q3 2020	6.17%	6.17%	6.25%
Q4 2020	5.73%	6.20%	6.25%
Average	5.18%	5.73%	

- ✓ The current economic crisis will aggravate demand fragilities potentially keeping inflation within target.
- ✓ However supply disruptions from the some containment measures including the curfew could increase short term pressure on food prices.
- ✓ This may be exacerbated by increased border restrictions by Uganda and potentially TZ, key sources of food imports.
- ✓ Aggravated supply shocks in the event of a shutdown could increase risks of stagflation.
- ✓ CBK may cut interest rates further, providing more liquidity but is this sufficient to incentivize lending amidst deteriorating credit risk landscape?



THANK YOU FOR ATTENDING

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