May 2020

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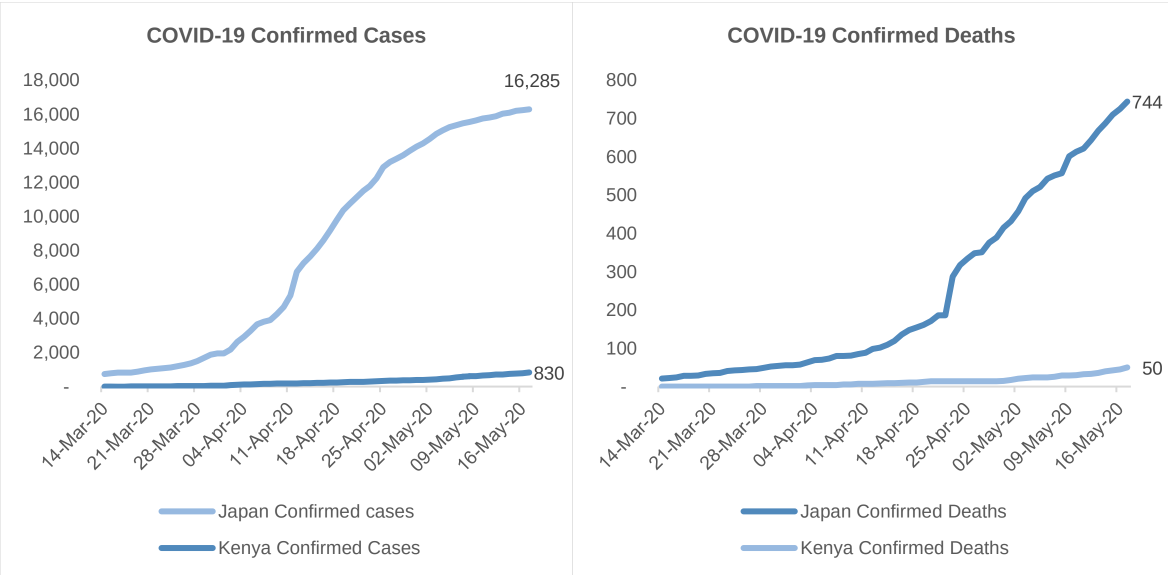
Impact of COVID-19 on Kenya

The first case of COVID-19 in Kenya, was reported on 13 March 2020, i.e. later than in Asia and Europe. As of 16 May, 744 cases have been confirmed and 50 deaths attributed to COVID-19. The following chart shows the growth trend in confirmed cases and deaths in Kenya as well as in Japan for comparative purposes. The latter is only of indicative value given differing testing and data collection levels.



Source: ourworldindata.org/coronavirus

Government Response

The Kenyan Government has experience of dealing with epidemics and was prompt to react as soon as COVID-19 cases were confirmed. On 15 March, all schools were closed, and public and private sector workers were instructed to work from home if possible. Subsequently travel restrictions were introduced initially providing for only Kenyan nationals and residents to be allowed into the country subject to self-quarantine for 14 days and later suspension of all international passenger flights and mandatory quarantining for 14 days. Non- essential retail outlets, bars and restaurants were instructed to close. Social distancing requirements were enforced on public transport and restrictions placed on travelling within certain parts of the country. Limitations have been imposed on public gatherings involving more than 15 people along with a curfew between 7pm and 5am.

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Economic Support Measures

The Kenyan Government was equally fast in introducing economic stimulus measures which McKinsey considers amounts to 1.5% of GDP:

Taxation: (i) Corporate and Personal income tax (highest band) rate reduced from 30% to 25%. (2) VAT reduced to 14% from 16% (3) Raising of the tax-free income threshold to KES 24,000 (USD 220) per month.

Monetary Policy: (i) Cut in Central Bank Policy Rate from 8.25% to 7.25% (ii) reduction in mandatory Cash Reserve Ratio from 5.25% to 4.25%. (iii) maximum tenor of Repurchase Agreements (REPOs) is extended from 28 to 91 days.

Budgetary Spending: (i) KES 1 billion from the Universal Health Coverage reserve allocation for recruitment of additional health workers (ii) KES 10 billion allocated to the elderly, orphans and other vulnerable members of society through cash-transfers by the Ministry of Labour and Social Protection

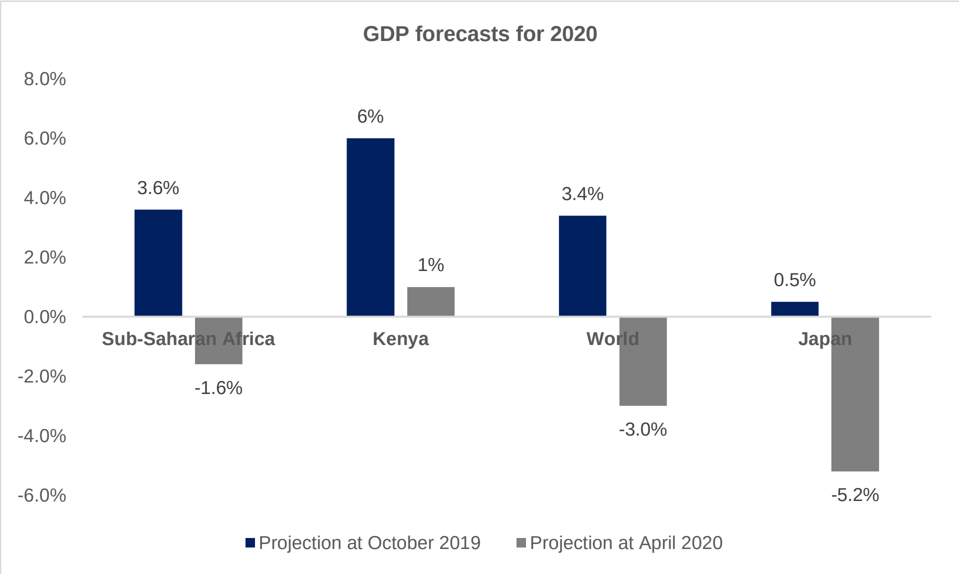
Multilateral COVID-19 Related Support

Leading multi-laterals have been responsive and either made general regional allocations as in the case of the AFDB USD10 billion COVID-19 response funding, from which Kenya will receive a share (to be determined) or Kenya specific allocations:

IMF: Approved a USD 739 million drawing under the Rapid Credit Facility to cover the balance of payments gap this year and ensure Kenya is able to undertake fiscal measures to safeguard public health and support households and firms affected by the crisis. IMF support is a key catalyst for other international funding support.

World Bank Group: USD 50 million to provide emergency funding for medical diagnostic services, surveillance and response, capacity building, quarantine, isolation and treatment centres, medical waste disposal, risk communications and community engagement as well as for strengthening of the country's capacity to provide safe blood services.

Economic Outlook



Source: IMF

The emergence of COVID-19 has had a material impact on the Kenyan economy. The Kenyan shilling has depreciated approximately 5.5% against the US dollar since the beginning of March, whilst the Nairobi Stock Exchange 20 Index has fallen approximately 16% during this period. The Central Bank of Kenya has revised its 2020 GDP Growth forecast downwards from 6.2% to 3.4% (IMF's revised forecast is for 1% growth).

It is very difficult to predict how long it will take before the virus is contained and authorities both in Kenya and those of its main trading partners decide it is safe to loosen restrictions. The virus is new and unpredictable, and the foregoing growth forecast may prove to be optimistic especially if as we have seen in places like Singapore and Hokkaido there is a second COVID-19 wave. However, it is important to note the fact that COVID-19 has a disproportionate impact on the elderly and Kenya does have a certain demographic advantage as the median age of its population is 20 and 93% of its population is below 55 years.

Assuming that the virus is broadly contained at the end of the second quarter, it is reasonable to anticipate a gradual easing of restrictions so that economic activity recommences. Under such a scenario GDP growth in Kenya is expected to recover sharply with the World Bank forecasting 2021 GDP growth of 5.2%.

COVID-19 Impact on Key Sectors of the Kenyan Economy

Agriculture

Agriculture is the mainstay of the Kenyan economy and represents 34% to GDP. Kenya is a leading exporter of flowers, tea, coffee, and vegetables. The sector has been adversely impacted by logistic difficulties as well as depressed international demand for flowers and low tea and coffee prices. International demand for fruit and vegetables is high, however limited air freight is a major constraint.

Manufacturing

Kenya, as the most industrialised country in East Africa, is an important regional manufacturing hub. Manufacturing contributes 17% to GDP and is well diversified with a broad range of industries including: agro-processing, manufacture of garments, electronics, paper, chemicals, pharmaceuticals, metal, and engineering products for both domestic and export markets. Post onset of COVID-19, domestic demand for essential goods such as food and medicine has been strong so far, however other more discretionary segments have been affected by the lock down and reduced demand.

Kenyan manufacturers, along with most peers worldwide, are confronting both demand and supply challenges. There is reduced overall demand both from domestic and international markets for non-essential products. Even where demand is present the ability and cost to fulfil is impacted by travel and logistics constraints. Firms are also challenged by extended cash flow cycles creating working capital challenges. Businesses are also impacted by supply chain dislocation which creates cost and availability challenges. Firms also face human resource challenges in terms of sickness, self-isolation, journey to work as well as incremental costs related to social distancing and PPE needs in order to meet health and safety standards.

Tourism, Hospitality and Event Management

Tourism is Kenya's third largest source of foreign exchange and along with hospitality and events management, has been amongst the most adversely affected sectors. A recovery is predicated on an easing of restrictions in Kenya as well as internationally along with a resumption of international air travel. This sector will take the longest to recover as any easing is likely to still require a maintenance of social distancing and use of PPE which will make the economics of most activities within the sector marginal or unattractive until a vaccine is widely available.

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Banking

The banking sector is working in tandem with the Central Bank of Kenya to address COVID-19 challenges. It has benefitted from the monetary measures outlined on Page 1. Furthermore, it has agreed with the Central Bank to take a pragmatic approach to loan classification and restructurings for COVID-19 affected clients. The top 7 Kenyan banks restructured KES 176 billion of loans in April 2020 mainly in the following sectors: tourism (31%), real estate (17.2%), building and construction (17%) and trade (12.4%). Banks in Kenya have high levels of liquidity which was the result of Government imposed interest rate caps which were only lifted at the end of 2019 and so banks did not have time to fully deploy the liquidity before COVID-19 struck.

Kenyan Banks are confident that they have the necessary capital to withstand the COVID-19 challenge as evidenced by the following quote from Dr. Olaka, CEO of the Kenyan Bankers Association "We anticipate the banking industry will remain sufficiently capitalised even under extreme stress. The capital adequacy will remain well above the regulatory requirements. That means, therefore, that banks are at a strong position to support businesses navigate the adversities associated with COVID-19 without risking systemic stability. That support is already evident."