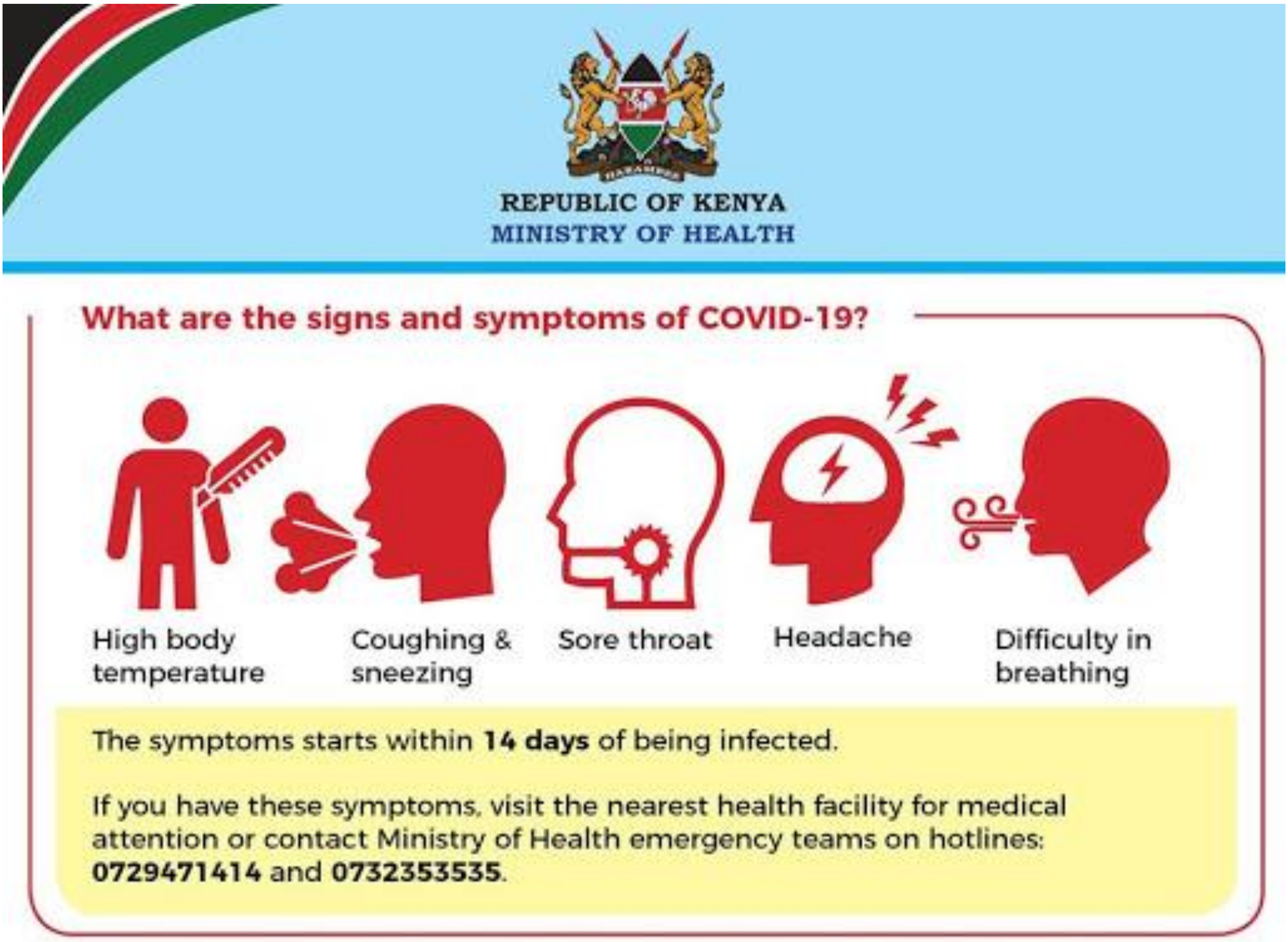
QUARTERLY E-BULLETIN Q4 2019 / 2020


REPUBLIC OF KENYA
MINISTRY OF HEALTH
What are the signs and symptoms of COVID-19?
High body temperature
Coughing & sneezing
Sore throat
Headache
Difficulty in breathing
The symptoms starts within **14 days** of being infected.
If you have these symptoms, visit the nearest health facility for medical attention or contact Ministry of Health emergency teams on hotlines: **0729471414** and **0732353535**.

Impact of Covid -19 on the Kenyan Economy

The Monetary Policy Committee (MPC) met on 25th June 2020 to review the prevailing macroeconomic conditions and decide on the direction of the Central Bank Rate (CBR). The MPC maintained the CBR at 7.00%, which was in line with our expectations in our June 2020 MPC Note. The MPC indicated that the previous cuts in the CBR rate in March and April 2020 to the current 7.00%, was having the intended outcome. The key highlights from the meeting:

- Inflation is expected to remain within the Government's target of between 2.5% - 7.5%, largely supported by the improving food supply due to favourable weather conditions, lower international oil prices, reduced VAT rate on some commodities and muted demand pressures,
- The most recent economic indicators points that growth in Q1'2020 was strong, an indication that impact of the COVID-19 virus was majorly pronounced in April 2020. There was a notable recovery in the economy in May 2020 driven by increased agricultural output and exports. The revenues from the services sector likes tourism and aviation remained low,
- Taking into consideration the impact of COVID-19, the current account deficit is expected to remain at 5.8% of GDP in 2020, suported by an increase in exports of tea and horticulture. The service sector, and in particular air travel and tourism, continue to be adversely affected by the COVID-19 pandemic,
- The banking sector recorded an improvement in asset quality with the gross non-performing loans ratio coming in at 13.0% in May 2020 as compared to 13.1% in April 2020. The performance was attributable to repayments and recoveries in the manufacturing and real estate sectors,
- In line with the measures announced by the Central Bank in March 2020 regarding loan restructuring, total loans worth Kshs 679.6 bn had been restructured representing 23.4% of the total banking sector loan book which amounts to Kshs 2.9 tn. A total of Kshs 199.1 bn (25.0% of total personal loans) have been restructured. Other major sectors where loan restructuring has taken place include trade (23.7%), real estate (20.6%), tourism (12.5%), and transport and communication sector (11.2%), and,
- There was an Improvement in private sector credit growth, with the growth at 1% in the 12-months to May 2020, above the 5-Year historical average, of 8.0%. Strong credit growth was observed in the Manufacturing sector (18.6%), consumer durables (16.7%), trade (8.2%), and finance and insurance (7.2%).

The committee noted that the policy measures put in place in March and April were having the intended effect on the economy and are still being transmitted. They concluded that the current accommodative stance is appropriate.

The Governor of the Central Bank of Kenya noted that measures put in place to cushion the economy such as waiving transaction charges for transfer of money between banks as well as waiving fees for any mobile transactions below Kshs 1,000.0 were having the intended effect on the economy. The governor also noted that other tools of monetary policy such as Cash Reserve Ratio (CRR) and Repos continue to remain efficient in stimulating the economy.

Inflation Projection

The inflation rate for June 2020 is projected to remain stable within the range of 5.4% - 5.7%, compared to 5.5% recorded in May. The key drivers include:

i. Petrol prices increased by 6.9% while kerosene and diesel prices declined by 21.7% and 4.8%, respectively. The increase in petrol prices, together with travel restrictions by government in the wake of COVID-19 are likely to have upward pressure on the transport index which holds a weighting of 8.7%,

ii. Food prices have remained relatively stable during the month given the favourable weather and an improvement in agricultural output, and,

iii. The reclassification of the Food Index in the Consumer Price Index from 36.0% to 32.9%, which is expected to have an impact on the final inflation figures.

We expect inflation to remain stable despite supply side disruption due to COVID-19 as low demand for commodities compensates for the cost-push inflation. The recent reopening of majority of the global markets will also address supply chain disruptions leading to stable import prices.

It is believed that the uncertainty affecting the global financial markets brought about by the Covid 19 will make it harder for the government to access foreign debt, and might result in investors attaching a high-risk premium on the country. As a result of depressed revenue collection with the revenue target for 2020/2021Financial Year at Kshs 1.9 tn, we expect a higher budget deficit, which the Treasury estimates at 7.5% of GDP, creating uncertainty in the interest rate environment as additional borrowing from the domestic market will be required to plug in the deficit. Owing to this uncertain environment, our view is that investors should be biased towards short-term fixed income securities to reduce duration risk.

Highlights of the Tea Industry Regulations, 2020

In his statement during the announcement of the final tea regulations 2020 after the public consultation process at Kilimo house, Agriculture Cabinet Secretary Peter Munya said farmers have suffered under the hands of cartels and therefore the regulations will re-balance power and influence wielded by tea sub sector value chain players.

“There will be reduction of unnecessary cost burdens imposed on vulnerable tea farmers as these regulations will significantly improve productivity and efficiency in the tea value chain, create transparency and accountability among value chain actors including auction organizers, improve competitiveness of tea exports in the international market and generate more earnings to the country and farmers from tea exports”, said the CS.

Munya indicated that the Key highlights of the regulations is that all teas processed and manufactured in Kenya for the export market with the exception of orthodox and purple tea shall within 2 months from the date of commencement of the regulations be offered for sale exclusively at the auction floor.

“Sale of tea by private treaty is outlawed and any tea not sold at the auction shall be relisted for sale during the subsequent auction”, the CS added

All buyers at the auction, the CS added shall prior to the auction submit to the authority a performance bond equivalent to 10 percent of the estimated value of the tea or teas they intend to buy at the auction in the form of a bank guarantee from a licensed commercial bank.

The regulations have also incorporated reduction of brokerage fee from 1.50 percent of the value of tea sold to 0.75 percent with the farmers paying 0.2 percent and buyers paying 0.55 percent respectively.

There has been reduction of the number of directors for Smallholder tea factory limited companies to three (3) as well as reduction of the directors servicing small holder tea factory limited companies to two terms of three years each. “By ending this , government will be addressing capture of cartels that has been continuously been preserved by numerous value chain players for years subjecting the smallholder farmers to endless suffering.

The government, Munya further said that the regulations will outlaw persons who are not tea growers, commonly known as “soko-huru”or “mukohoro” from engaging in the business of buying and selling green leaf to tea factory limited companies.

For any exporter to ship tea from the country they must have put in 40 percent value addition to their tea and this will be in a duration of 8 years for buyers who have been in operation and five years for new buyers coming into the market “, Munya said adding that failure to this will see the exporters loosing their licenses.

The regulations have also reduced the management agency fees for smallholder tea factories from 2.5 percent to 1.5 percent of the value of tea sold as well as removal of the requirement for registration of commercial green leaf transporters.

The regulations have been forwarded to the Attorney General office for legal scrubbing after which they will be published by the minister and forwarded to parliament for discussion and final approval.

Munya has since appointed a taskforce to spearhead implementations of the regulations.

COFFEE SUB SECTOR REVITALIZATION PLAN

The World Bank is set to fund a concessional loan for coffee sub sector revitalization plan in Kenya through The Ministry of Agriculture, Livestock, Fisheries and Cooperative. This loan will focus on improving the production and quality of coffee that has been on a steady decline throughout the years.

The initial phase of the programme will focus on eight traditional growing counties (Machakos, Kiambu, Muranga, Kirinyaga, Nyeri, Embu, Meru and Tharaka Nithi) which accounts for 70% of the country`s coffee production and later up-scaled to the rest of the counties.

The Cabinet Secretary for Agriculture, Peter Munya stated that the program would involve: -

- the revival of coffee production
- training and supporting farmers with certified planting materials
- provision of extension services through the county governments
- refurbishing of coffee factories and mills
- to improve storage and sourcing of new markets
- interrogate on how to improve efficiency of farmer cooperatives, support research development and technology.

The programme will be undertaken through ongoing World Bank projects, namely the National Agricultural and Rural Inclusive Growth Project (NAGRIP) and the Kenya Climate Smart Agriculture Project (KCSAP). The programme will focus on four areas in detail that will include:

Resource allocation for activities within the Coffee Revitalization Programme	**%**
Increasing production and productivity (fertilizer subsidy and propagation of seeds? Distribution of coffee planting materials)	20
Enhancing efficiency and primary coffee processing infrastructure and quality of coffee. (automation of cooperatives processes, modernization of equipment)	60
Strengthening cooperatives institution and cooperatives governance (officials and staff training)	10
Project coordination (support the integration of database, monitoring and backstopping)	10

Locusts Invasion Phase II

A second invasion by desert locusts has hit East Africa in just a few months, as younger and more aggressive swarms hatch and spread across a region already battling hunger and coronavirus, which has made it more difficult to get supplies to kill the crop-devouring pests. Ethiopia, Kenya and politically unstable Somalia.

The UN has warned that the devastation at the beginning of the year that occurred in more than 20 counties in Kenya – where over 70,000 hectares of vegetation were destroyed by the pest – could be multiplied by 20 times by a second wave brought about by recent rains which favors locust proliferation. In Kenya, Ethiopia and Somalia, widespread breeding is in progress and new swarms have formed and are starting to lay eggs in a new cycle of reproduction, representing an unprecedented threat to food security and livelihoods.

Desert locust are voracious eaters that target both food crops as well as the vegetation and pastures that pastoralists in East Africa depend on. Coming at the onset of recent long rains and the main planting season, ongoing locust reproduction presents a significant threat to the food security and the livelihoods of Kenyans who are also dealing with the effects of the coronavirus pandemic and recent floods.

We are currently facing a very serious and complex challenge that combines COVID-19 pandemic–related health crisis exacerbated by the disruption of international cooperation and the continuing devastating locust invasion that threatens to undermine the nation's food security. This situation requires a comprehensive response. Desert locust swarms in Ethiopia, Kenya and Somalia, already unprecedented in their size and destructive potential - could swell exponentially and spill over into more countries in East Africa if efforts to deal with the voracious pest are not massively scaled up across the region.

The second wave of the locust swarms is waiting to ravage farmlands across the country this coming months. In a new report, FAO has warned of a potentially serious food security crisis and significant livelihood losses unless urgent action is taken to contain the pests breeding in parts.

The infestation could deepen the economic pain already being felt by people because of the Covid-19 outbreak, which has shuttered the economy, forced massive layoffs and pushed millions into poverty. The FAO's call for controlling the influx amid the impact of Covid-19 on health, livelihoods and food security and nutrition of vulnerable communities needs to be heeded without delay. An unprecedented threat to the nation because it coincides with the early beginning of the long rains and the current growing season. A new generation of breeding is underway in Kenya where more eggs will hatch and form hopper bands during May, followed by new swarms in late June and July, which coincides with the start of the harvest.

According to the report, in the beginning of April, the Locust swarms continued to mature and form an increasing number of immature swarms that matured in north and central countries, primarily Isiolo, Marsabit, Samburu, Turkana, and parts of Laikipia, Meru, Tharaka and Garissa. By the last week of April the Swarms had finished fledging. Second generation hatching probably started about mid-month and by the end of the month there were few reports of swarms in Marsabit, Samburu and Isiolo. Ground and aerial control operations treated 14,637 ha of which 13,460 ha were by air.

Forecasts indicate the locust's numbers will concentrate and breed mainly in Turkana, Marsabit, Samburu and to a lesser extent in Isiolo and Mandera where laying, hatching and band formation will occur in May, giving rise to a new generation of immature swarms from mid-June onwards.

Unlike in Kenya where farmers use traditional / unconventional methods such as screaming, shouting and beating metallic objects to produce sound, the Prime Minister of Pakistan has endorsed plans to expand a pilot project where villagers earn cash by gathering locusts that were then dried out, shredded and added to poultry feeds.

At night, locusts cluster on trees and plants, making them easy to scoop up as they lie motionless in the cooler temperatures.

While the project is not a solution to devastation inflicted on crops, it can provide hard hit farmers with a fresh revenue stream and relieve pressure on government struggling to distribute locust beating pesticides if adopted in Kenya.

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