PanDEBTmic – Potential Impact of the COVID-19 Pandemic in Kenya

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Introduction

The Covid-19 or coronavirus was first reported in late December 2019. Since then, Covid-19 has become a global pandemic with 2,858,635 confirmed cases and 196,295 deaths across 213 countries, areas and territories. The spread of the virus has led to unprecedented actions by countries globally including border closures, quarantines, curfews, and so on, not seen since the second world war in a bid to slow down the global contagion that is already underway in Europe, Americas, and now Africa. In Africa, there are 20,316 confirmed cases of which 819 were new as of 26th April 2020 and 839 confirmed deaths of which 27 were as of 26th April 2020. In Kenya, as of 26th April 2020, there were 355 confirmed cases of which 12 were new as of 26th April, 14 deaths, and 106 recoveries from the Covid-19 virus.

Potential Impact of the Covid-19 Pandemic in Kenya

The global and national measures being put in place to slow the spread of the Covid-19 virus will have a significant impact on the Kenyan economy. This impact is expected to be felt across all sectors of the economy and society.

Economic impacts

- **Growth -** The Kenyan economy has been stuttering for the past decade averaging between 5% and 6% growth rate. Its continued reliance on the export of primary commodities and inability to move up the value chain across all major economic and productive sectors make the economy extremely vulnerable to the spillover effects of the Covid-19 virus. The National Treasury, in its 2020 Budget Policy Statement, noted a lower than expected growth in 2019 at 5.6% against a target of 6.2%. The onset of the Covid-19 virus this growth rate is likely to be revised further downwards to about 2% to 3%.
- **Revenues -** The result of lower than expected growth will have a direct impact on the revenues raised in order to fund its next fiscal period. Revenue targets in Kenya have been missed for the past decade, and according to the National Treasury, ordinary revenue targets for the current fiscal year have been revised downwards by Kshs 33.4 billion to Ksh. 1.78 trillion. The onset of the Covid-19 virus will affect tax revenues owing to businesses reduced operations, disrupted supply chains, and depressed consumption due to the restriction on movement of people.
- **Debt -** Kenya’s national debt has been a growing concern, given the government’s increased appetite for commercial and non-concessional loans that attract higher interest rates. A parallel concern is how this accrued debt, especially from instruments such as the ‘Eurobonds’, is being used. Kenya finds itself borrowing to pay debt and not investment. The most recent figures indicate the country is headed towards a debt precipice. Public debt stands at over Ksh 5 trillion (US$50 billion) or 60.15% of Kenya GDP, a 4.97 percentage point rise from 2017 when it was 55.18% of GDP. According to the most recent debt sustainability assessment, the government has breached key debt service to revenue ratios, with concerns on the increased proportion of commercial loans with high interest rates. To put this into perspective, the debt per capita or debt per Kenyan is has risen to US$1,029 in 2018 per inhabitant from US$865 in 2017. The onset of Covid-19 in Kenya is likely to worsen the country’s debt position due to a possible depreciation of the Kenya shilling, which will increase the value of the national debt. Overall debt might also worsen from the borrowing the government will need to take to finance the

stimulus packages planned to smooth over businesses and citizens during this period. With an anticipated contraction of the economy, resulting in reduced revenues, both the public and private (individual) debt situation is likely to worsen in the short and medium term.

Social impacts

- **Unemployment -** rising unemployment in Kenya remains a major challenge for the government despite the modest economic growth of between 5% and 6% over the past decade. It is estimated that in the decade from 2015 to 2025 that 9 million individuals will enter the labour market in Kenya. The number of jobs created in 2018 was 840,600 down on the 2017 figure of 909,800 against 7 million unemployed. As Covid-19 takes a foothold in Kenya, lower predicted growth rates mean there will be a lag in businesses readjusting back to full operations. Therefore in the short and medium term, Kenya can expect a rise in unemployment.
- **Poverty and Inequality -** like most crises, whether national or global, there is always a risk of there being an increase in poverty and an exacerbation of Inequality. The Covid-19 pandemic will lead to an increase and poverty and Inequality in Kenya and reverse the positive steps taken by the government that saw the number of Kenyans living below $1.90 a day has declined from 46.8% in 2005/06 to 36.1% in 2015/16. The impact of Covid-19 on poverty is still too early to estimate, but it can be expected those in the informal sector will be hit the hardest and more specifically, women. The full depth of the poverty and inequality impacts of Covid-19 will depend on the speed with which government interventions stem the contagion and get the economy moving again.

Covid-19 Responses to smooth over the economy and citizens

In designing responses to the Covid-19 pandemic, it is important to note this is a medical emergency with both economic and social impacts. Therefore, to effectively minimise the economic and social consequences, it will be critical for the government of Kenya to take drastic steps to stem the spread of Covid-19. It will simultaneously need to consider a combination of economic and social protection measures to ensure the depth and duration of this shock are shortened as much as possible.

Addressing the Medical Emergency

Contact, Trace, and Test is the most critical components in determining the depth of contagion in the country and will inform further measures to be taken with regards to isolation and treatment. The measures the government of Kenya has taken in response to the onset of Covid-19 within its borders are significant and positive. The move to close schools, restrict movement, and promote cleanliness and personal hygiene have been well timed when compared with other countries globally. While there are still gaps in actually dealing with the peak epidemic in terms of medical facilities like health centres, ventilation machines, and intensive care units across the country, being behind the global contagion provides the government with a time buffer to cover these gaps. It is important to note that low confirmed numbers do not equal low contagion, it is imperative that testing is sped up and carried out with urgency if the country is to short the period to reaching peak contagion and turn the curve. The experience in other parts of the world suggests that testing as being critical in the containment of the spread.

Buffering the Economy

The ensuing economic crisis is very different from the financial crisis of 2007-08, where only certain sectors were directly impacted. The crisis Kenya and the rest of the world are staring at is a near total stalling of all economic activity, contraction of global demand for the majority of goods and services, business closures, job losses and increase in unemployment, increased indebtedness, and certainly deep recession that will take a long time to recover from.

As this medical emergency takes centre stage in Kenya, it will soon begin to mutate itself into an economic crisis the country has probably never witnessed. As the rest of the world, with whom Kenya trades with and relies for both imports, exports, and foreign exchange, gradually grinds to a halt, the spillover effects will start being felt. Kenya’s reliance on imports for key industries and supply chain means we will witness a dramatic fall in the output from these sectors A similar experience is likely to be witnessed in the export sector where agricultural and horticulture demand slows, businesses in this sector will begin to feel the effects of this global contraction. Foreign exchange from remittances and tourism are likely to drop dramatically as diaspora deal with the effects of lockdowns and being furloughed by their employers; and with international travel practically grounded, tourist visits will decline. The tourism industry will suffer a double whammy of missing out on both international and domestic tourists given the restriction on movement.

Interventions to keep businesses afloat during this period will need a combination of both fiscal and monetary policy interventions. The overall objective of the policy measures will be to ensure cash flow in the economy continues as uninterrupted as possible. The measures by the central bank to cut its base rate is a welcome first step as this will provide some liquidity to commercial banks to support businesses especially. It will also enable the National Treasury to consider some recovery fund and instrument options that can be used to ease the financial stress the economy is going to experience in the short to medium term. The current rate cut will need to go further than the 7.25% announced in March 2020. Further rate cuts will likely be needed to further the cushion the economy as the government takes more actions to buffer businesses.

Furthermore, the announcements made by the government to reduce certain taxes are the first wave of policy responses we are likely to see. The reduction in VAT and corporate tax rate while welcome will impact on the country's revenue projections targets. Moreover, even with the reduction of personal income tax rates, the likely redundancies will definitely aggravate the situation. In particular, the suspension of CRB listings backdated to 1st March 2020 will be a welcome relief to business owners who are at most risk during this crisis.

These measures are welcome but will need to go further as Covid-19 stretches its footprint across the country. In addition to further base rate cuts, the government will need to consider developing financing instruments that can be made available to businesses. For MSMEs, the government might want to consider more radical reliefs, for example, suspending VAT, deferring the turn over tax, and suspending other rate and permit fees that require monthly renewals. Such proposals will provide much needed cash flow for the MSME sector in Kenya and facilitate the continuation of operations. For domestic manufacturers and industry, the government could pass emergency legislation to get the sector players to repurpose their production line towards producing much needed health care equipment. For example, the apparel and textile sector is producing PPEs for healthcare workers; other industries and manufacturing firms could also join the efforts to combat Covid-19. Hotels and other similar facilities could be repurposed as quarantine centres across the country to support the medical efforts and ease the stress on the health system in the short to medium term. Such interventions and initiatives will keep some several businesses across different supply chains operating and enhance even further the preparedness of the country to deal with the worst that is yet to come.

Borrowing will be at the centre of any interventions the government needs to take in ensuring the economy is not crippled to its knees. With the red flags already flying high in the National Treasury's face over the national debt, the government will need to assume a pragmatic approach with its creditors. Consolidating and restructuring the country's debt repayments will go a long way to freeing up resources to be used to cushion the economy. Similarly, the government will need to negotiate even less conditionalities on credit lines from institutions such as the IMF and the World Bank if it is to create the fiscal and monetary policy space to see itself through this crisis. The road to recovery will be long, and because Kenya is about 3-4 months behind the pandemic curve, there will be an additional lag in recovery as other regions begin to flatten their curve.

Shielding Citizens

Besides businesses and the economy, the worst affected by both the medical emergency and the economic crisis will be citizens. The government, while addressing the economic impact of Covid-19, needs to critically assess the impact on citizens and how to shield them from this crisis, especially the most vulnerable in society. The aim of the interventions should be about ensuring the government can provide a reliable safety net for all citizens. The measures announced, including reducing VAT from 16% to 14% does not help much. The low-income earners and informal sector workers are likely to bear the sharp end of reduced or lost incomes and VAT still being applied on goods will make them worse off despite the VAT reduction. The government might consider either suspending VAT or scrapping all together with VAT on basic and essential goods. This will put more money in the pockets of citizens and will have a net benefit for those who will experience income shocks in the short to medium term. A welcome proposal by the government for the credit reference bureau (CRB) not to enlist people from 1st March will be a welcome relief for many especially given the number of citizens who will find it difficult to keep up payments on loans.

The government will need to bolster up its social protection programme and infrastructure. The 100% tax relief for those earning up to Ksh 24,000 is welcome but does not go far enough to cushion citizens. It is not clear if this is for gross or net income per month. To adequately cover many of those in employment and keep cash in the pockets of citizens, the government may want to consider increasing this threshold. The increased allocation of Ksh 10 billion to the cash transfer programme is a good first step but as the depth of Covid-19 is unmasked over time, this amount will need to be increased significantly both in terms of finances but also coverage of citizens. The policy space the government is manoeuvring needs to pay close attention to the social impact of Covid-19.

The supply chain of food, fuel, and medical treatment needs to be shored up as the country awaits the peak of the Covid-19 contagion in Kenya. To keep the population fed and healthy in order to minimise the risks of other diseases and illnesses, taking a foothold in the country, the government needs to ensure the country's food and fuel reserves both in warehouses and with retail supermarkets will be sufficient in the wake of full lockdown and peak contagion scenario. With global supply chains at a practical standstill, it is possible the country or parts of the country might begin to experience food and fuel shortages leading broader social and health issues amongst citizens. There should be safeguards such as price freezes, for example, to protect citizens.

What lies ahead?

As the Covid-19 disrupts life as we know it globally and nationally, it will test to the core the ability of the state to defend its citizens from experiencing the most holistic crisis we have ever faced as a country. Kenya has lived through curfews, food shortages, economic difficulties but all at different stages and periods. With growth prospects reduced, lower than expected tax revenues, and Kenya's debt to GDP levels is already in the doldrums. It may be important to explore how proposed measures aimed at cushioning the economy may be implemented. Covid-19 is a package of crises that promises disruption and guarantees a regression on social gains from the past decade. The cost of fixing these crises will require unorthodox policy decisions and approaches, and a radical role for the state in guaranteeing the protection of citizens and buffering of businesses. When the dust from Covid-19 begins to settle (whenever that will be), what will emerge is that Kenya will be facing a **panDEBTmic**.

**The author is Jason Rosario Braganza, an Economist from Kenya writing in an independent capacity. The views expressed do not reflect those of any organisation or institutions he is affiliated to. At the time of writing, the fluid nature of the Covid-19 virus pandemic is understood and that data, statistics, and interventions might have changed.*

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