REMARKS BY NCBA GROUP MANAGING DIRECTOR MR. JOHN GACHORA AT THE “NAVIGATING COVID-19 – A BUSINESS UPDATE WEBINAR” BY NCBA BANK HELD ON APRIL 3RD, 2020.

Acknowledgement to:

- **CS Trade, Ms. Betty Maina**
- **Our panellists**
- **Esteemed customers**
- **Colleagues**
- **Ladies and gentlemen**

Good morning!
I hope you are all keeping safe and social distancing.

This global pandemic will change us in ways we are not sure of today. You would all agree with me that a lot has changed since the last time we interacted under the NCBA Economic Forum platform just two months ago.

While it would have been my wish that our subsequent engagements be under better circumstances, the reality today is not only different…. but.... (excuse the tautology) …. unprecedented!

I think its Dwight Eisenhower, the 34th President of the United States who once presciently quipped…and I quote “**I have always found that plans are useless, but planning is indispensable”**. Indeed plans from as recent as just a few weeks back have been rendered unrecognizably useless.

Covid-19 pandemic has ravaged the world. We are all struggling to deal with effectively, and whose duration remains uncertain.

As individuals, companies, businesses, the Country and the whole world over, we have had to readjust day-to-day living, how we interact and how we do business.

The pandemic is disproportionately affecting countries not only as a health crisis but also as a devastating social and economic catastrophe.

To contain the contagion governments have minimized movement with curfews, such as here in Kenya, and full lockdowns in many affected countries in Europe and even South Africa.

It is no longer business as usual, our lives to a degree have changed unimaginably in just a few weeks.

Look at us today, all logging into this forum as part of the social distancing and work from home directive given by our Government to reduce contact and the spread of this virus.

We have seen the number of infected globally increase to over 900,000 and over 47,000 deaths so far. In Kenya, the numbers have been on the rise with 81 infected.

While developed markets have been most affected, emerging and frontier economies such as ours, are beginning to contend with increasing new infections and the secondary effects of the economic fallout from advanced economies given the current reality of economic integration and supply chain infrastructure/linkages.

Like the rest of the world, Covid-19 has drastically reshaped Kenya's economic outlook.

Sentiment has weakened and investor confidence deteriorated.

Domestic demand, which was already fragile, will wane even as supply shocks impair productivity across many sectors. This could degrade economic growth to just about 2.3% should the crisis persist through the second quarter of this year, from our inhouse initial forecasts.

Protecting the health of the public continues to take precedence at this point with the contingency measures that are in place to contain the virus will add to the economic vulnerabilities.

Additional restrictions to personal mobility including self-distancing and quarantine will impact the economy further.

Companies' effective capacity is falling fast, and export markets are quickly shrinking. Tougher guidelines on freights, border tensions with Uganda and potentially other regional partners and expected decline in domestic and regional demand for some goods is hampering trade. Demand for non-essential goods has dried up hurting the retail and wholesale sector.

Moreover, given the profound uncertainty, financial markets have seen exceptional volatility in recent weeks. The NSE is not exempted! Valuations have fallen sharply with over 20% decline in stock prices. At the same time, global risk aversion and the potential impact of the crisis on export earnings and remittances could further weaken the shilling outlook already reeling from global risk aversion that has seen a significant appreciation in the US dollar. Bond markets though considered safe-haven are themselves reeling from the global thirst for liquidity and flexibility that these levels of uncertainty bring forth.
Some industries have been hit hard:
The aviation industry has come down crashing. It is estimated by The Global Centre for Aviation that all airlines will be bankrupt by May 2020 if the pandemic is prolonged and in effect keep travel restrictions in place. IATA estimates the industry may lose up to $115Bn in revenues by June.

Our own national carrier Kenya Airways is grounded and already seeking the government's support to stay afloat.

The tourism, service and hospitality sectors have come to a standstill impacting thousands of households.

The manufacturing sector, which was already suffering from the shocks from the Sino-US trade war, is caving in under the weight of fresh supply chain disruptions from prolonged and unscheduled production shutdown as well as labor market disruptions from the containment measures.

Kenya's imports have dropped by over KES 60Bn so far this year, mostly in industrial supplies and goods for household use. We can expect a further drop.

Meanwhile, services, which had supported global demand and labor markets, are also wobbling as demand sharply wanes on the back of increased uncertainty and reduced incomes.

Initial assessment of job markets by the International Labor Association shows almost 25Mn jobs may be lost globally, higher than the 22Mn increase in unemployment during the 2008-9 global financial crisis. Moreover, underemployment is also expected to increase as working hours and wages reduce.

In Kenya, according to our in-house economists, over 20,000 formal jobs may be lost this year, with many more layoffs expected in the informal sector.

Meanwhile, self-employment in developing countries, which often serves to cushion the consumers from shocks to incomes, may not do so this time because of restrictions on the movement of people (e.g. service providers) and goods.

That said, the struggle to save lives and the economy is presenting agonizing trade-offs for governments. The government is dialing up financial support to cushion people and businesses to an unparalleled degree.

As central banks reduce interest rates sharply and reintroduce or increase bond purchases, governments are piloting other unorthodox measures to supplement income losses and to firms to ensure they sustain their payroll.

In Africa, where the number of infections and deaths are on the rise governments have stepped up efforts to contain the pandemic. There are concerns over the continent's ability to effectively deal with the evolving contagion.

Under-resourced hospitals and fragile health care systems are already being overwhelmed. Fiscal positions have weakened, and the high rates of communicable diseases could make the population more vulnerable.

The reality in each country may be different, but the responsibility is broadly the same. Getting through these extraordinary times will require a collective effort and partners who can work across systems and sectors and in contexts that are both complex and uncertain!

Given the nature of the shocks we face today; it is obvious that fiscal policy may have to do the heavy lifting in reducing the economic fallout, notwithstanding the obvious strains on that end.

The measures taken by the government so far in providing some relief for consumers, protecting jobs and bolstering business liquidity are in this regard a step in the right direction.

As a bank, we acknowledge that we have a central role to play in supporting the economy during this crisis and facilitating a rapid and sustained recovery.

The leadership by the central bank in providing liquidity for banks, lessening the financing costs for businesses and allowing some flexibility in loan restructuring is therefore welcome.

As your trusted financial partner, NCBA understands that the issue of working capital may prove existential for many businesses. To this end, we are already in individual conversations with our customers, some of you who are here, to understand the impact and implications for each of your respective business and walk together through these unchartered waters.

Your respective relationship managers will continue with these discussions in the coming days.

We understand that these are unprecedented times and will require us in the banking sector to step up our response time, because every day counts. To this end, we have a dedicated team to fast track requests from yourselves. We have also upgraded our online platforms to enable you meaningfully to run your businesses in line with the evolving realities for our business models.

We urge you to actively engage our global markets team for any risk management solutions.

For strategic balance sheet restructuring, our advisory unit NCBA Investment Bank will be on hand to guide you.

All said, while the challenges from restricted mobility may be temporary, we believe that the longer-term effects may follow if a large number of businesses, banks or other financial sector participants find themselves in difficulties.

Therefore, proactiveness, flexibility and coordination will be crucial in lessening any pains that all of us will confront in this period.

This is on all of us and everyone therefore must pull some weight in helping contain the contagion and pulling back from the crisis.

The systemic challenges spawned by this crisis, though severe are surmountable if we collectively confront the challenges.

With that, I look forward to a fruitful conversation with our speakers here and yourselves.

We are privileged to have Ms. Betty Maina, the CS Industrialization and Trade on call to shed some more light on the government's effort to lessen the financial pains of this pandemic on All of US and to share with us thoughts on how we could play our part in confronting the challenges ahead.

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