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IMPACT OF THE WAR IN UKRAINE ON TRADE.

The imminent and looming crisis is now a present reality considering how fast the escalations have taken root and already causing devastating effects and pain among the Ukrainians. The deteriorating outlook for the global economy due to the rising prices of food, fuel, and fertilizer is also a hard reality. This war brings to fore the complexities of global supply chains and the need for more effective measures to address them. The death rate amongst the Ukrainian population is already high with over 500,000 people fleeing the country to the neighbouring countries such as Romania, Slovakia, Belarus, Poland, Hungary and Moldova as a result of the war.

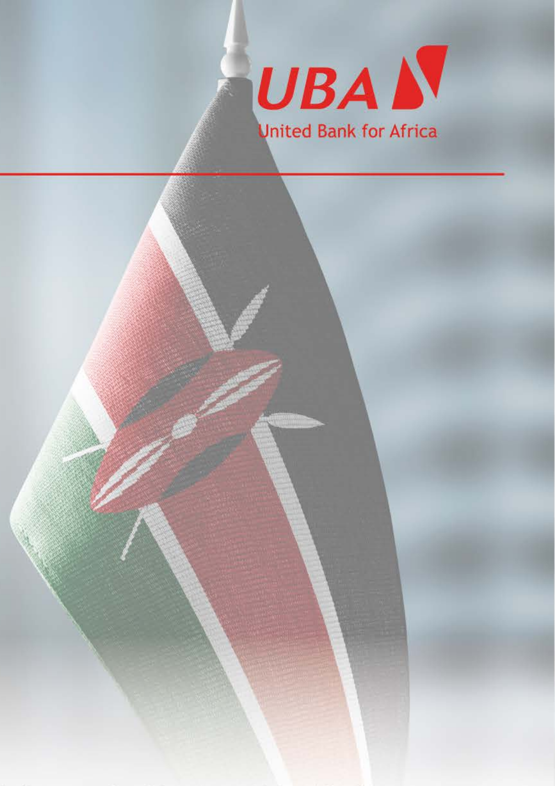
The two nations in conflict – Russia and Ukraine – bear significant contributions in the world economy that is already affected by the war. They both carry a huge percentage of wheat production in the world, and fertiliser, which is also an input in the production of grains, with Russia contributing 10% while Ukraine is 4%. Kenya finds itself in this geopolitical conundrum that adversely affects the global agricultural market since we import a great deal of wheat from the two countries.

The latest available numbers indicate that the wheat importation stood at Ksh.11 billion and Ksh.5 billion from Russia and Ukraine respectively in 2019. The conflict directly puts a strain in this supply chain rendering the price of wheat to take an upward trend. Fertiliser prices in Kenya had also been set to shoot above Ksh7,000 ($63.7) for a 50-kilogramme bag on fears that Russia's invasion of Ukraine will impact global supply.

Considering how vital bread is in Kenyan households, we cannot start to imagine how that pressure could go in affecting the pocket of the ordinary Kenyan, against the backdrop of other anticipated economic shocks yet to be felt from the war. As a matter of fact, wheat remains the third most consumed food commodity in Kenya. The anticipated price hike will only add to the misery of the locals after we experienced price increase of 800g loaf of bread by Kes.30 in the last five months and Kes.40 price increase for a 2Kg packet of wheat flour in the past half year.

Being an election year in Kenya, we are already prone to face strain as many funds from public coffers somehow find their way for usage on the campaign trail. It leaves little funds flowing into local citizens' pockets for expenditure, much less to pump into savings and investments. Already, we saw a decline of the stock market as investors lost near Ksh.100 billion in a day from price dives drawn from the invasion. This kind of decline will, as anticipated, keep off foreign investors who account for 58% of trading at the bourse and lead many investors to safe assets such as bonds. As such, Kenyans will do well to brace for tougher economic times ahead. Investing in capital-intensive projects now may be precarious without a critical understanding of the impact the war abroad has here at home.

On the export segment, Kenya's exports to Russia and Ukraine include tobacco and its substitutes, coffee, tea, mate and spices, live trees, plants, bulbs, roots, cut flowers, edible fruits, nuts, peel of citrus fruit and melons. Kenya, being the largest supplier of flowers to Russia after Ecuador and Colombia, has faced challenges in exporting flowers to both Russia and Ukraine. Johnson Weru, the Principal Secretary in the Trade Ministry said that the passenger and cargo aircraft could not travel to the region since it was almost impossible to enter the Ukrainian airspace and largely Kenya's exports to Russia reach Moscow through Poland, and Poland neighbours Ukraine. Definitely, our trade with Russia was affected by that closure of the airspace by NATO.



Highlight of the **National Budget**

This year's budget, ordinarily read in June was aimed at accelerating economic recovery for improved livelihoods. Below is a summary of the key allocations made in the Ksh3.3 trillion budget read by the Treasury Cabinet Secretary UKur Yattani:

1. Universal Health Care

The budget allocated Ksh 62.3 billion to the Universal Health Care unit. Key allocations to the sector include; Ksh 9.3 billion for roll out of Universal Health Coverage, Ksh 4.1 billion for free Maternity Health Care and Construction and Ksh 16.2 billion on Global Fund.

Additionally, Kenyatta National Hospital (KNH) was allocated Ksh18.1 billion and the Moi Teaching and Referral hospital Ksh 11.7 billion.

2. Manufacturing Sector

In the FY 2022/23, Ksh 10.1 billion has been set aside to promote local industries under various Ministries, Departments and Agencies
Supporting Access to Finance and Enterprise Recovery (SAFER) has the highest allocation for this segment bearing Ksh 3.1 billion, with the least allocation being the development of SEZ Textile Park in Naivasha with Ksh 85.0 million.

3. Provision of Affordable and Decent Housing for All Kenyans

Ksh 27.7 billion has been allocated for Affordable Housing. The key allocations in this segment include Ksh 7.7 billion for the Kenya Affordable Housing Project (Kenya Mortgage Refinance Company) and Ksh 5.9 billion on the Kenya Informal Settlement Improvement Project – Phase II.

4. Macro-Economic Stability

The economic growth is expected to grow at the fastest pace in 2022 which is an election year. A consensus outlook from 14 world-leading banks, consultancies and think-tanks suggests the economy- as measured by gross domestic product (GDP) - will likely grow by 5.4 percent in 2022.

- The inflation rate will remain within the policy target range of 5±2.5 percent while interest rates shall remain fairly low and stable to support credit access.
- The Government strives to promote a stable and competitive exchange rate and to ensure sufficient exchange reserves as a cushion from external shocks.
- The CBK foreign exchange reserves are above the minimum requirement of 4.0 months of imports cover to provide adequate buffer against short term shocks in the foreign exchange market;

5. Miscellaneous Fees and Levies

- Reduction of export levy from 80% to 50%.
- Inputs and raw materials for manufacture of pharmaceutical products exempted from RDL and IDF

6. Value added tax exemptions

The following measures have been taken under the VAT segement for the FY 2022/23;

- Tax exemption on locally manufactured motor vehicles.
- Exemption of tax on inputs and raw materials for manufacture of passenger motor vehicles.
- Tax on Plant and machinery for manufacture of pharmaceuticals exempted
- Exemption of tax on fuel pellets.
- Tax exemption on medical oxygen, urine bags, adult diapers, artificial breasts and colostomy or ileostomy bags.

DRC joining the EAST AFRICA COMMUNITY and the impact on regional trade

The Democratic Republic of Congo has joined the East African Community (EAC) as its seventh member, massively expanding the territory of the trade bloc, giving it access to the Atlantic Ocean and greatly increasing the numbers of French speakers in what began as a club of former British colonies.
What changes immediately?

EAC heads of state have approved the admission of DR Congo into the bloc at a summit meeting held earlier on, but although it officially has become a member, not much can change straight away.
• Congolese lawmakers still have to ratify the EAC laws and regulations before they come into effect.
• Congolese citizens wishing to visit the other member countries - Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda - without a visa may need to wait a little longer because full integration into the EAC could take months or even a year.

Impact on trade as DRC joins the EAC Bloc?

- More cargo is expected to shift from the Northern Corridor to the Central Corridor. Truckers are weighing their options on which route to use to ferry goods to the vast DRC.
- It will allow Congolese citizens to travel freely to the other countries and trade will become much quicker, simpler and cheaper, which should benefit businesses and consumers in all countries.
- The country shares borders with all EAC members except Kenya, and hopes to attract more investors from the region.
- Joining the Bloc gives DR Congo better access to facilities such as the Indian Ocean ports of Dar es Salaam and Mombasa. The East African countries could gain access to West Africa and the Atlantic Ocean through DR Congo, but the country's road and rail networks would need to be massively upgraded first. The only way of getting across this vast country, which is two-thirds the size of Western Europe, at the moment is by air. This potential expansion of trade links from the Indian Ocean to the Atlantic would help expand the region's economic potential at a time when the continent is working to implement the African Continental Free Trade Agreement (AfCFTA).
- Import taxes for goods accepted as being made in DR Congo will be removed or greatly reduced when entering the other countries, while transporting goods will become much cheaper.
- The inclusion of DR Congo's consumer market of close to 90 million people will expand the EAC market to almost

300 million, and open the bloc to the Congolese economy which is rich in all kinds of natural resources.

- The addition of DRC's economy to the community implies increased purchasing power as numbers matter in international trade.
- • DRC's entry means integrating the EAC's trade infrastructure, intermodal connectivity, one-stop border posts, and systems to reduce trade time and costs. "With lower tariffs on goods and the removal of trading restrictions among partner states, we anticipate that goods and services will move more freely. With a larger market, manufacturers in the EAC will benefit from economies of scale, making them increasingly efficient and competitive," said Peter Mathuki, EAC Secretary-General.

Challenges that may affect trade in the region

Poor infrastructure has been a matter of concern to EAC partner states. Damali Ssali, a trade expert reported that "If you look at the border posts that enter or border DRC, once you get to these borders, literally the infrastructure stops, even the infrastructure that is supposed to catalyse trade at the border is not as good as when you compare to the other countries. Then once you get into DRC, the corridors leading into the major towns have to be worked on because the roads are very poor."

Insecurity in December 2021, Ugandan troops crossed into DR Congo at the invitation of the Congolese government to help eliminate the Allied Democratic Forces (ADF), one of many armed groups wreaking havoc in the resource-rich east of the country. "Insecurity restricts trade - however, more official trade between the EAC and DRC may actually reduce conflict in the eastern part of DRC as it would reduce smuggling as a result of greater cooperation in various areas including customs, trade, and security," says Penina Simba, a trade consultant.

FINNOVEX East Africa | HYBRID

"Innovation in Agency Banking: A new banking model for Africa"

Finnovex, a series of Summits examines the Future of Financial Services on how disruptive innovations are reshaping the way they are structured, provisioned and consumed. The 2022 fully-hybrid summit edition in the African region, brought together all experts of the Banking and Financial Services ecosystem in-person and virtually. Through the strategic conversations and speaking engagement, UBA Kenya shared thought leadership in the Agency Banking model, how it continues to transform the financial services industry and the role of Finance in influencing business performance.

UBA Kenya CEO Chike Isiuwe and CFO Daniel Murage had the opportunity of speaking at this year's Finnovex Global series 2022 Summit.

Our Footprint

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