011

covid-19 Brief

AKADEMIYA

The Expertise We Need. The Africa We Want.

October 2020

Impact of Trade Shocks on Growth and Poverty in Kenya.

***Ismael Fofana**, Director, Capacity and Deployment and **Leysa Maty Sall**, Associate Scientist.*

The COVID-19 pandemic is affecting economies through several channels, including through changes in global commodity markets. This Brief presents a short overview of an assessment of the growth and poverty effects of disruption in primary commodity markets in Kenya. The analysis focuses exclusively on the impact of the disruption in global commodity trade, that is, of changes in global prices and market access.

The combined variation of prices of Kenya's primary commodities[1] translate to an average drop in Kenya's export price index by -4.4 pp. The corresponding decline in the average import price index is -7.5 pp (Figure 1). The effects on Kenya's economy depends on its capacity to respond to changes in global trade conditions. The numbers on the horizontal axis represent decreasing degrees of responsiveness from 1 (highest) to 36 (lowest) as one moves from left to right. The measure for responsiveness is a combination of elasticities of export supply and import demand by Kenyan firms and consumers, as well as elasticities of demand for Kenyan exports in foreign markets.

The predicted, predominantly negative changes in prices, compounded by reduced access to foreign markets, have resulted in appreciation of the exchange rate from the highest to the lowest degree of responsiveness. As a result, the change in the value of exports ranges from an increase of 0.9 to a decrease of 5.3 pp. As can be seen in Figure 1, the pressures from global commodity markets induce a sharp decrease in imports and, to a lesser extent, exports. The changes in the value of imports varies between 7.2 and -0.4 pp (Figure 1).

The above changes reflect adjustments in the broader economy to changing global market conditions, with potentially serious consequences for overall growth and poverty rates. Figure 2 shows the probable effects on economic growth, with changes in GDP growth rates ranging from an increase by 0.4 pp to a decrease by -1.3 pp. The decline in GDP growth is the more likely case in face of limited capacity by the economy to respond to global price changes, given the widespread disruption in domestic supply chains. The slight decline in GDP growth across scenarios with the lowest responsiveness translates to a slight increase in poverty rates. Table 1 shows estimates of changes in poverty rates resulting from deteriorating global trade environment and adjustments by the Kenyan economy. The figures are based on the lowest responsiveness scenarios. As the country battles to gain control over the pandemic, the measures put in place are likely to slow down economic activities. It is therefore more likely that the actual ability to adjust to changing global trade conditions will be limited, meaning that actual responsiveness is more likely to be closer to the low scenario case. Poverty rates

1 See Figures 4 and 5 in Brief 010.

are thus estimated to increase by about 0.1 pp across in the country. In urban areas, poverty is estimated to increase by 0.4 pp, while poverty in rural areas decline by -0.1 pp. These rates are estimated based on the highest decline in exports (-5.2 pp), lowest decline in imports (-0.4 pp) and smallest reduction in GDP growth (1.3 pp). Higher responsiveness to the changing global trade environment would lead to more pronounced reaction by economic actors, with deeper effects on exports, imports, and growth, leading to higher impacts on poverty. This outcome is more likely the longer the disruption in global markets persists and the more firms and households find ways to adjust.

Figure 1: *Trade Effects of Global Commodity Market Disruption (pp)*

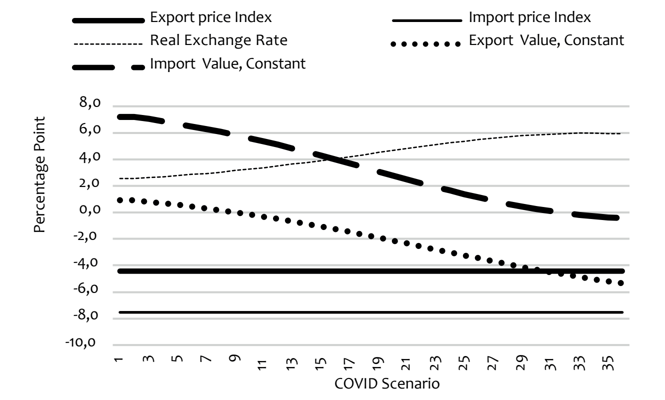
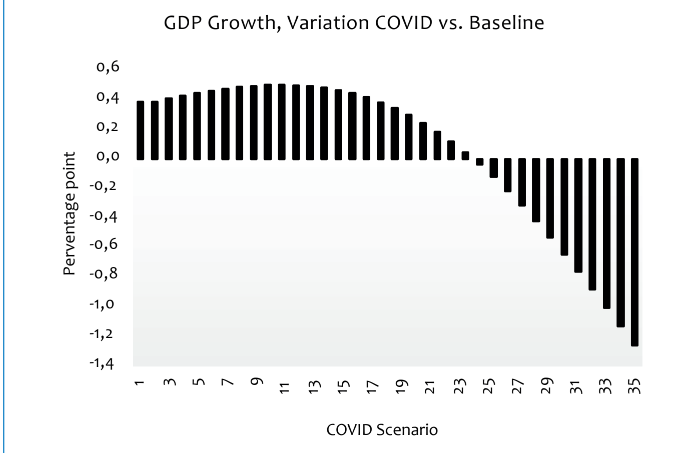


Figure 2: *GDP Growth Effects of Global Commodity Market Disruption (pp)*



Note: The COVID scenarios (1 to 36) combine different values of trade (import and export) elasticities across commodities to mimic the responsiveness of Kenya's economy to changing global market conditions. Scenario 1 uses the highest and scenario 36 the lowest elasticity values. The remaining scenarios combine difference values of elasticities between the two extremes. Export price refers to the average weighted F.O.B. price indexes. Import price refers to the average weighted C.I.F. price indexes. Export and import values are in constant 2019 prices.

Tableau 1. *Change in poverty headcount ratio resulting from global trade disruption (pp)*

	Kenya	Urbain	Rural
Taux (pp)	0.1%	0.4%	-0.1%
Nombre	57 183	72 526	-15 343

Source: Authors' calculations.

Note: The results are based on COVID scenario 36 which combines the lowest values of trade (import and export) elasticities with the shock in commodity prices.

AKADEMIYA2063 remercie l'USAID pour le financement de ce travail grâce à une subvention de l'initiative Feed the Future via Policy LINK. Les opinions exprimées ici sont celles des auteurs et ne reflètent pas nécessairement les positions d'AKADEMIYA2063.

a: AKADEMIYA2063 | Kicukiro/Niboye KK 341 St 22 | 1855 Kigali-Rwanda
t: +221 77 761 73 02 | t: +250 788 304 270 | e: hq-office@akademiya2063.org | w: akademiya2063.org