

# Mentoria Economics

**DEMONETIZATION AND ITS IMPACT ON FINANCIAL FLOWS AND ECONOMIC GROWTH**

**FEBRUARY 2020**

The logo consists of a dark maroon square background. Inside this square is a white rectangular border. Within the white border, the words "MENTORIA" and "ECONOMICS" are stacked vertically in a white, serif, all-caps font.

**MENTORIA  
ECONOMICS**



## OUR GOAL AT MENTORIA ECONOMICS

*To be a leader in providing sharp, bold and insightful analysis on macroeconomic trends and emerging strategies*

# Team Leader



## KEN GICHINGA, CHIEF ECONOMIST

- Mr. Gichinga is the Founder and Chief Economist at Mentoria Economics.
- He holds an Economics Degree from Harvard University.
- In 2011, Mr. Gichinga was featured in the inaugural edition of the Business Daily's Top 40 under 40.
- He has served as a Senior Economist at Commercial Bank of Africa and Equity Bank.
- Prior, Mr. Gichinga worked in Microsoft in Seattle, Washington as a Business Analyst where he was responsible for analysing the supply-chain management processes.
- Every Friday, Ken Gichinga is on KTN News analysing various economic trends in Kenya

# Agenda

- What is Demonetization
- What were the Stated Objectives
- Impact on Financial Flows and Economic Growth
- Way forward to a vibrant economic growth

# What is Demonetization?



- Demonetization is the act of stripping a currency unit of its status as legal tender

# What is Legal tender?



- A medium of payment recognized by a legal system to be valid for meeting a financial obligation

# Characteristics of Legal tender?

- Anything, which when offered, “tendered”, in payment of a debt extinguishes the debt.
- Coins and banknotes are usually defined as legal tender in many countries but personal cheques, credit cards or non-cash methods are usually not.

# Stated Objectives for Demonetization in Kenya

*“We have assessed the grave concern that our large banknotes, particularly the older one thousand shilling series, are being used for illicit financial flows in Kenya and also other countries in the region.”*

Dr. Patrick Njoroge,  
Governor, Central Bank of Kenya  
June 1<sup>st</sup> 2019 (Madaraka Day)



# Unintended Consequences of Demonetization

## Cash in circulation at 6-year low after Sh1,000 note ban

FRIDAY, NOVEMBER 29, 2019 15:00

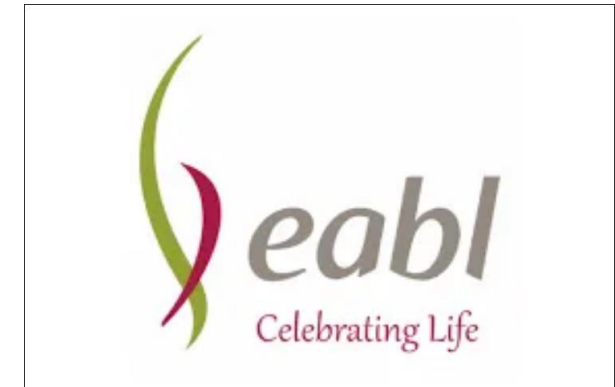


- Shs 60 billion cannot be traced with big chunks lost June – September 2019
- Cash circulating outside banks dropped to Sh157.7 billion the lowest since April 2014.
- Cash crunch has reflected in job cuts and stagnant wages for employees and a slow down in business.

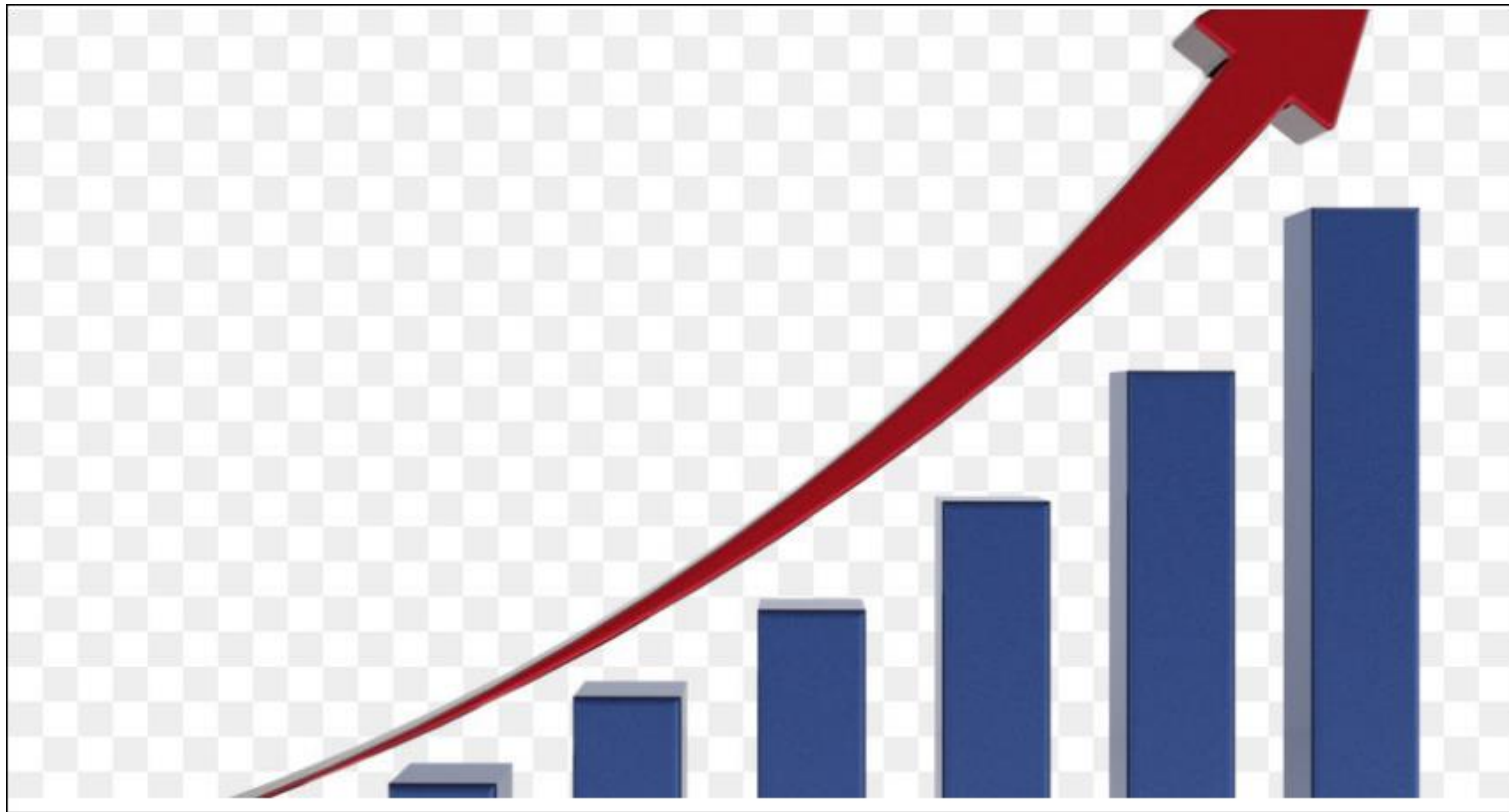
# Other Contributing Factors to Cash Crunch

- *2015 : Rising Debt Obligations due to switch to non-concessional loans.*
- *2016 : Interest Rate Cap implemented slowing down credit to private sector.*
- *2017 : Two General Elections slowed down pace of investment until “handshake”*
- *2018 : Rise in Austerity Measures*
- *2019 : Demonetization impacts cash in circulation*

# Several Companies Announcing Job Cuts



# How do we restore a vibrant economic growth?



# Remonetizing Economy

- Injecting Liquidity into the Economy using both indirect and direct techniques.

## Indirect Techniques

- Lowering Benchmark Interest Rates.
- Attracting Foreign Direct Investment

## Direct Techniques

- Stimulus Incentives
- Quantitative Easing