CENTRAL BANK OF KENYA

Remarks by:

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DURING THE LAUNCH OF THE 2015 FOREIGN INVESTMENTS SURVEY

Hilton Nairobi Hotel
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Cabinet Secretary to the National Treasury;
Chief Executives of State Agencies and Private Enterprises;
Representatives of Media Houses;
Ladies and Gentlemen.

1. Welcome to the breakfast meeting to kick off the ***2015 Foreign Investment Survey*** under the Enhanced Data Dissemination Initiative Project. This project was initiated in 2010 with the **objective to improve the quality of data** through statistical surveys, such as the one we are launching this morning.

2. The purpose of this meeting is to **raise awareness among the enterprises** that will be covered by the survey to ensure its success. It also provides an opportunity to **share our experience** on past surveys and **receive feedback**.

3. ***Comprehensive, accurate and timely data*** is a prerequisite for better policy and strategic decision making, particularly in the quest to attract foreign direct investment to Kenya. It is therefore important that the exercise is carried out flawlessly. The data collected through past surveys has been incorporated in the Balance of Payments statistics and also enabled the compilation of Kenya's International Investment Position (i.e. the stock position foreign assets and liabilities).

4. **Ladies and Gentlemen**, Kenya has made good progress in improving the quality of its Balance of Payments statistics. This would not have been achieved within the set timeframe without the technical and financial support extended by the ***World Bank***, the International Monetary Fund and the ***Department for International Development (DfID)***. The ***Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)*** has also been instrumental in **providing the necessary software** for processing the data generated through the surveys and in **capacity building** both at the Kenya National Bureau of Statistics

(KNBS) and the Central Bank (CBK). Indeed, the ***2015 Foreign Investment Survey*** will be conducted and financed exclusively by both KNBS and CBK.

5. While the overall position on Kenya's Balance of Payments has been positive, **the current account has weakened over time on account of both rapidly growing capital imports** associated with the momentum of economic growth. Kenya's export growth has been sluggish while the tourism sector, our traditional source of foreign exchange earnings, has been **reflecting negative growth rate**. According to the latest ***Economic Survey***, Kenya's current account deficit stands at 10 percent of GDP, financed mainly through capital and financial inflows. The widening current account deficit **continues to exert pressure** on the Kenya Shilling exchange rate.

6. **Over the past four months, the Kenya Shilling exchange rate to the US Dollar has come under unusually intense pressure on account of a strong US Dollar and enhanced seasonal corporate demands**. The strengthening of the US Dollar globally largely reflects the strong recovery of the USA economy, the uncertainty around the timing of the first interest rate increase in the US following the tapering of Quantitative Easing (QE), **expectations of lower interest rates** in the **Eurozone** following adoption of QE by the European Central Bank in late January 2015, and the weak Eurozone growth recovery. During the period, **the Kenya Shilling exchange rate against the US Dollar depreciated by 5 percent. At the Global Market it is quite volatile with many countries experiencing strong capital outflows. The Nigerian Naira (9%), Uganda Shilling (9%), Tanzania Shilling (4%), Ghanian Cedi (20%) and even the Euro (11%) were hard hit.**

7. **What is the Central Bank doing to stem volatility?** First, the Bank adopted **a tight monetary policy operations stance** to minimise any likelihood of arbitrage activities between the interbank and foreign exchange markets – the **average interbank rate now**

stands at 10.4 percent. This is in excess of 250 basis points above the CBR. Second, the Bank continues to **intervene in the foreign exchange market** through direct sale of foreign exchange to commercial banks both to **ease demand pressures** and **drain Kenya Shilling liquidity**. In addition to dampening volatility, the interventions slowed down the rate of depreciation of the exchange rate. The Bank also **enhanced the prudential guidelines** of banks on foreign exchange dealings to promote transparency and safeguard the integrity of the financial market. The Bank has and will continue to actively **use moral suasion** with the banking industry to stem expectations.

8. **Going forward**, the **intense seasonal demand pressure** on the Kenya Shilling exchange rate is **slowly dissipating** though there is evidence of speculation in the foreign exchange market. In response, the Bank will scale-up OMO to tighten liquidity further to stem expectations. The **resilient diaspora remittances** and **recovery of the global economy** will support exchange rate stability. In addition, the Central Bank's **foreign exchange reserves** coupled with a **precautionary facility** from the IMF are adequate to stem volatility. The Central Bank will continue to monitor developments in the foreign exchange market but **allow genuine demand** and **supply factors** to determine the level of the Kenya Shilling exchange rate. Finally, **measures to promote exports** including **foreign direct investment** are critical to the long term stability of the Kenya Shilling exchange rate.

9. **In closing**, let me take this opportunity to thank **the over 300 private enterprises that responded to the year 2013 foreign investment survey questionnaires**. The response rate of 75 percent was impressive and we look forward to better this performance in this year's survey. The time spent building this critical information base is for **our mutual benefit** and **the people of Kenya**.

10. It is now my pleasure to invite the Cabinet Secretary, National Treasury to make his remarks and official launch the ***2015 Foreign Investment Survey***.

Thank you.