CENTRAL BANK OF KENYA

Points for Panel Discussion by

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at the

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The Workshop

The Central Bank of Kenya and the Kenya Bankers Association convened this workshop bringing together seasoned players in various sectors of the Kenyan economy as well as experts with international perspective on the Global Financial Crisis in order to:

1. Understand the issues
2. Understand the risks
3. Understand the opportunities
4. Draw solutions – short-run, medium-term and long-term
5. Create a forum for a follow-up

Economic Activity

The Indicators are

1. Cement Production
2. Transactions in M-Pesa
3. 12 Year Infrastructure Bond – Large/small investors – dominated in bids – (not value)

The conclusions drawn from these indicators are: Kenya has been resilient, it has future potential, and the vibrancy is still there and will be stronger once the risks of the global financial crisis are mitigated.

However, there are unresolved questions:

4. Liquidity (credit) is still an issue – but where is the problem:
    a) - Credit Quantity Issue?
    b) - Credit Pricing problem?
    c) - Collateral Technology being used in banks/markets
    d) - Market segmentation problems
    e) - Intermediation inefficiency
5. The Inflation debate and computation of lending rates !
6. Regulation – geared to strengthen all banks
7. Misinterpretation of forex reserves question – They are supposed to cushion shocks or contain market volatility

The Global Financial Crisis Presents Three Generic Challenges

1. Financial Sector Contraction – due to confidence–Risk averseness
    - Less resources mobilised – domestically/globally
    - But we can ring-fence domestic confidence and solve the resource constraints – These are the solutions we need in this forum
2. Real Sector Economic Decline: Pose Significant Risks – from the global side
    - But also Slow Adjustment
    - Production processes must be supported through public investment - Protect wage goods
3. Public Sector Resource Constraints:
    - Buffeted by several shocks – Food is the most critical
    - Flexibility of adjustment - ODA/BoP support may be limited – but it will come

Six Incremental Solutions

1. Partnership: make resources available to ride over shocks – BoP support and quick disbursements in WB and AfDB
2. Domestic Resource mobilization strategies
    - Target to support production and Open up production potential
    - Avenue for investment & savings – see the IB Model of supplying public infrastructure
    - Protect the wage good - consumption
3. Strengthen institutions and capacity in those institutions to focus on:
    - Appropriate policy given the global effects and Regulatory institutions to take the lead
    - Provide a coordinating framework across regulators
    - Innovative policy strategies

4. Stay the path of reforms – do not sacrifice long-run growth
   - Development budgets should not be cut – should be increased
   - Remain within attainable targets – growth targets, MDGs, etc
   - In the 1980s and 1990s – short-run shocks were used as an excuse to cut Development Budgets – sacrificed long-term growth
5. Aid Delivery modalities in times of Crisis: Quick disbursements to allow countries ride over shock quickly to protect economic erosion
   - But also DSA frameworks should signal changes in the policy paradigm
6. Look at the global financial architecture