CENTRAL BANK OF KENYA

Opening Remarks by

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CENTRAL BANK OF KENYA

at the

FIRST MONETARY POLICY FORUM

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Permanent Secretaries;
Heads of Government Parastatals;
Chairpersons and CEOs of Private Sector Organizations;
CEOs of Commercial Banks;
Scholars;
Distinguished Guests;
Ladies and Gentlemen:

It gives me great pleasure to welcome you here today for this very important and inaugural Monetary Policy Committee (MPC) Public Forum. Before I make my opening remarks, I take this opportunity on behalf of the Central Bank and the Kenya Bankers Association to warmly welcome you all to the Kenya School of Monetary Studies. Being the Chairman of the Monetary Policy Committee as well as the Governor of the Central Bank, I am privileged to have a double interest in the outcome of this forum.

As it is the practice for many Monetary Policy Committees in many central banks the world over, such public fora provide important avenues for bringing together key stakeholders to discuss how monetary policy affects them, to learn about banking sector developments and the opportunities they present. In addition, such a forum helps in the understanding of how finance supports private sector activities and sensitize the public on the range of financial services. While this is our First Monetary Policy Forum, it is not the first time we have come together. At a previous forum in February 2009, we dealt with the global financial crisis and its effect on Kenya and the required support from banks. In August 2009 we foregathered again to consider inflation measurement. In those two areas, I am happy to report that good progress has been made. But we need to keep the forum active so that we agree on issues and seek solutions to challenges that face us.

This public Forum comes at a time when the MPC has maintained a consistent monetary policy stance directed at enhancing credit expansion in support of economic growth. In response to successive cuts in the Central Bank Rate from 8.50 percent in December 2008 to 6.00 percent in July 2010, short term interest rates i.e. interbank and Treasury bill interest rates have declined dramatically from as high as 6.67 percent and 8.59 percent in December 2008 to 1.34 percent and 1.59 percent in July 2010, respectively. This has also followed the global trend. Further, 23 banks as at July 2010, had reduced their base lending rates. This is a good signaling mechanism. However, transmission to lower lending rates has been slow. Lower lending rates are crucial to spur credit expansion for investments that would yield high economic growth and job creation as envisioned in the *Vision 2030*. In addition, high lending rates increase the risk of default. To ensure that low lending rates regime gives rise to the desired outcome, the private sector must seize the opportunity and expand their investment with the available, affordable credit that is being mobilised by the banking sector.

The theme of this meeting is "***Lubricating the Economic Engine with Adequate and Affordable Credit***" and the agenda is designed to deliver just that. You will have noted on the agenda that I am slated to talk on the objective of this forum, but the objectives must start with the objective of monetary policy.

Monetary policy in its most general form, shares a platform with fiscal policy on macroeconomic management for economic development. Monetary and financial policies achieve this through fighting inflation, creating a financially stable environment and ensuring an efficient and effective national payments system. From this menu you can see that stability and predictability in prices as well as a stable and effective financial and payment system are important to support enterprise growth. For all Kenyans, fighting inflation as well as financial access is pro-poor. Financial access allows the poor accumulate capital through savings and affordable credit.

This brings me to my second objective. The MPC would like to take this chance to listen, interrogate and audit itself, as you – the financial and real sectors – discuss ways of overcoming challenges, understanding market signals, removing any obscurities and resolving market inefficiencies. Furthermore, we are receptive to any feedback on the impact of previous monetary policy decisions.

A third objective is much simpler but quite important moving forward. Monetary policy, I am sure you agree, has created the right environment, we want to urge you, the real sector, to go to the banks and negotiate for loans. The loans, based on good investment proposals will support investment for wealth and employment creation. This is what we all desire; I am sure the commercial banks are waiting.

Ladies and gentlemen, it is our expectation that this meeting will be characterised by open dialogue especially on these three objectives as well as your take on the challenges we all face. We take this opportunity once again to warmly invite your suggestions on how to improve the effectiveness and efficiency of our monetary instruments as well as constructive proposals for reform. This last point is particularly important since the reform agenda of *Vision 2030* is one that makes Kenya a dynamically efficient economy that benefits from openness and hence competitiveness.

I cannot close these remarks without an explicit appeal to those of you from the "fourth estate" – the media. The MPC has targeted mostly business writers so that we can build capacity on issues we deal with. One of the most fragile commodities in the market place is confidence. Confidence can be undermined by misinformation. Once undermined or lost it takes ages and a lot of resources to restore. Expectations are mostly self-fulfilling but we know there is an adaptive learning process. The media, as responsible agents of change, can challenge entrenched interest groups whose agenda fall far short of the common good; while at the same time ensuring an appropriate flow of information that is crucial for the market to process and hence support formulation of effective solutions.

We at CBK have supported this line with new institutions to help market players process information better and reduce the cost of doing business. Two of these are the: Credit Reference Bureaus and Agent Banking. I look forward to the media providing some feedback on how effective these will become over time, and of course any pitfalls.

I once again underscore the importance of sharing information and insights in shaping the conduct of monetary policy in this country. In this regard, we believe information gathered from this meeting, drawing participants from all sectors of the economy, will be critical in addressing challenges that have constrained the effective transmission of monetary policy.

On behalf of the Central Bank and the MPC, let me express our sincere gratitude to you all for responding to our invitation and gracing our deliberations with your presence and we look forward to your contributions in this meeting.

Ladies and Gentlemen, I now take this opportunity to declare this inaugural MPC Public Forum officially opened.

I wish you all fruitful deliberations.

Thank You