CENTRAL BANK OF KENYA

Remarks by

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at the

# WORKSHOP ON DEVELOPING KENYA'S MORTGAGE MARKET

*Crowne Plaza, Nairobi*
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**Mr. Joseph Kinyua, the Permanent Secretary, Ministry of Finance;**

**Mr. Johannes Zutt, the World Bank Country Director;**

**Distinguished Guests;**
**Ladies and Gentlemen:**

It is my great pleasure to warmly welcome you all to this important workshop on developing Kenya's mortgage market. This is indeed an important market to develop and focus on. The mortgage market and financing programs are critical in facilitating the realization of decent housing and expanding cities in Kenya.

First, I wish to thank the World Bank Group for partnering with the Central Bank of Kenya in conducting this important study that is informative on the appropriate policy options geared towards strengthening the mortgage market in Kenya. Further, I wish to acknowledge our Financial Institutions for their timely response to the baseline questionnaire survey on mortgage finance. The survey was intended to provide a snapshot of Kenya's mortgage finance market and it has formed a critical input into the report being released today.

***Ladies and Gentlemen:*** the Kenyan banking system through its intermediation role remains the key pillar in providing mortgage financing. Although there is evidently enormous opportunity in the sector, lending to the building and construction and real estate sector stands at 14.4 percent (Ksh.133.6 billion as at end of 2010) of the total credit by banks and mortgage finance companies. The bulk of long-term mortgage financing is currently funded mainly through short-term savings. The traditional mismatch constraint therefore comes into play. This requires a well developed mortgage market to address the long-term funding requirements of the sector.

Developing mechanisms for long-term finance is also good for monetary policy transmission. The Monetary Policy Committee has been trying to address the issue of long-term finance and we do hope that the recommendations from this study together with your contributions will help formulate solutions to move the mortgage market in Kenya to a higher level of development.

In 2010, the Central Bank made some policy proposals geared towards empowering commercial banks to extend more credit to the real estate sector. The Government accepted these proposals, which resulted to amendment of the Banking Act and with effect from January 2011. Two aspects of it are:

i) Mortgage finance companies are now allowed to operate current accounts, a measure intended to enable them mobilize additional deposits; and
ii) Banks have been allowed to advance up to 40 percent of their total deposit liabilities up from 25 percent for purchase, improvement or alteration of land.

These measures will unlock the sector's potential by availing funding required to finance growth of real estate in Kenya. The Central Bank will continue to work with the sector to improve the operating environment.

**Ladies and Gentlemen:** The housing sector has a critical role to play in the achievement of the goals envisaged by Vision 2030. Housing construction is a labour-intensive activity that will create jobs for the youth and the unemployed. Construction boom has upstream and downstream activities and strong linkages with other sectors of the economy. In addition, mortgage market development supports expanding cities with the accompanying productivity gains.

It is equally important for the players in this niche market to design innovative ways of securing funds to exploit opportunities available. For instance, pension funds are needed for guaranteeing members' mortgages. This is happening in Kenya, but still at a low scale. Leveraging on such long-term funds will lower costs and make decent and low cost housing available and affordable to potential borrowers. Also, other investment vehicles such as unit trusts have the potential of pooling funds required for specific projects.

The other source of long term finance is the bond market. The success of the Kenya Government infrastructure bond as well as other corporate bonds that have followed, demonstrate the enormous potential of this bond market. In 2010 alone the Government mobilized a total of Ksh.179.9 billion through bond issues, and the infrastructure bonds were oversubscribed every time. This is a clear testimony of the market's ability to provide cheaper source of funding for long-term projects such as mortgages. To further deepen the bond market, the Central Bank has implemented a number of measures, including introduction of benchmark bonds and re-opening of these benchmark bonds to create liquidity and facilitate trading.

This month, the Central Bank has as fiscal agent of the Ministry of Finance, issued a 30 year Savings Development Bond which is a landmark in the region. Long-dated Government bonds create a benchmark for issuance of long-term mortgage bonds. I am encouraged by recent moves by some players in this market to issue mortgage bonds, but much more potential remains to be tapped.

***Distinguished Guests, Ladies and Gentlemen;*** With these remarks, it is now my pleasure to welcome Mr. Joseph Kinyua, the Permanent Secretary, Ministry of Finance, to make his remarks and officially open this workshop.

**Thank you**