



CENTRAL BANK OF KENYA

LAUNCH OF CBK@50 CELEBRATIONS

Crowne Plaza Hotel, Nairobi

Remarks by Dr. Patrick Njoroge

Governor of the Central Bank of Kenya

September 25, 2015

As Prepared for Delivery

On this singularly historic day, marking the launch of the Central Bank of Kenya Golden Jubilee celebrations, I join the Central Bank staff in thanking you, our distinguished guests, for gracing this celebration. I want to pay special tribute to Mr. Henry Rotich, the Cabinet Secretary to the National Treasury, who graciously accepted to launch this important event.

Today marks the beginning of the CBK@50 celebrations. It ushers in a number of events that will culminate in an epic celebration on September 14, 2016, when the Central Bank turns 50. We chose to commence our celebrations on the 49th anniversary going on 50, so that we have sufficient time to flag the key accomplishments and challenges in the CBK's history. Guided by our anniversary theme - *Bankikuu@50: Promoting Price Stability, a Sound Payments System and a Stable Financial System*, we are recalling the hills and valleys in our journey, reflecting on our performance in light of our mandate. I have no doubt that many of you seated here have, in one way or another, been part of this journey.

It is not possible to compress 50 years of the CBK's history into the few minutes that I have for this speech. That is left to historians, though some "forward guidance" would be helpful. However, in the middle of next year the Central Bank will release two publications and a documentary chronicling the Bank's journey from 1966 to-date. These publications will also be part of the Central Bank's contribution to our nation's history. Suffice to say that the establishment of the Central Bank of Kenya has its roots in the nationalistic aspiration of the 1960s in the newly independent East African states.

Immediately after independence, the East African Currency Board performed the responsibilities of a monetary authority and undertook monetary policy functions to supplement other economic policies. However, under a joint monetary authority, it proved difficult for the new states to pursue independent monetary policy in line with their national economic aspirations. This led to the establishment of separate central banks for Kenya, Uganda and Tanzania, with the Central Bank of Kenya legally established on March 24, 1966 when the CBK Act received Presidential assent. At establishment, the Bank's principal objectives and functions were set out as; issuance of notes and coins, assisting in the development and maintenance of a sound monetary, credit and banking system in Kenya. Six months later on September 14, 1966, the Bank officially opened its doors to the public, and circulated the first generation of Kenyan currency notes.

The Government appointed Dr. Leon Baransky the first Governor. Dr. Baransky served as Governor for one year from May 1966. In May 1967, Mr. Duncan Ndegwa was appointed the first Kenyan Governor of the Central Bank of Kenya.

As the banking sector grew in the 70s, the Banking Act was amended to harmonise it with the CBK Act and empower the Central Bank to inspect banks and financial institutions, and take over the responsibility of the Office of the Registrar of Banks from the Ministry of Finance. In the 80s, a large number of indigenous Kenyans invested in the banking sector. However, inadequate capacity and inexperience on the part of the new entrants led to market indiscipline, and soon the banking sector began to experience liquidity and solvency problems. This led to the banking crises of the mid-eighties and the eventual establishment of the Deposit Protection Fund Board (DPFB) as an important pillar for the banking system.

In the early 90s, the advent of political pluralism resulted in high levels of inflation, forcing the Central Bank to undertake massive liquidity mop-up operations to reign-in runaway inflation and restore confidence in the financial system. As a result of the tight monetary policy stance, short-term nominal and real interest rates rose significantly causing an appreciation of the exchange rate. At that time, Parliament repealed the Exchange Control Act and amended the CBK Act to allow the Central Bank to exercise greater operational autonomy in the conduct of monetary policy, while maintaining price stability as one of its primary objectives. The liberalisation of interest rates and exchange rates at that time was part of the broader financial sector reforms undertaken by the Government.

In the early part of the last decade, the Central Bank set out to promote the development of government bonds market in Kenya, with the objective of lengthening the maturity profile of securities in the domestic debt portfolio, deepening the local financial markets, and developing a yield curve. Through this initiative, the Central Bank in conjunction with the Treasury successfully revitalised the government bond programme and skewed the debt portfolio to the current ratio of 78 percent bonds and 22 percent bills.

Perhaps the most remarkable developments coming out of the last and current decade are the innovations in the payment systems, which inspired efficiency and effectiveness of the payments, clearing, and settlement system. These innovations, together with the emergence of mobile financial services completely revolutionised financial services delivery mechanism and enabled millions of hitherto financial excluded Kenyans to access financial services. Indeed, this has been a game changer around the globe and the Central Bank of Kenya is proud to have led the world in affirming that when regulators support market innovations with smart regulatory interventions, they become critical enablers of development.

On the monetary policy mandate, we have drawn useful lessons from around the world on how to conduct monetary policy. As you are aware, it is now well accepted that the greatest contribution a central bank can offer the economy is ensuring stability in prices. This we have endeavoured to achieve despite a very challenging domestic and external environment, in which many of the factors that impact macro-economic stability are not within our control. The introduction of the Central Bank Rate (CBR) has enabled better coordination of monetary policy and achieved the desired objective of maintaining price stability. Additionally, the velocity of money and proportion of currency outside banks have declined significantly, reflecting financial deepening and increased financial innovations.

These developments have transformed our financial sector in its support of growth. There have been many other notable changes: stronger institutions; better policy coordination; increased usage of electronic platforms to conduct financial services; and improved mechanisms for transmitting monetary policy signals. More importantly, Kenya has become the anchor economy in the region.

As we look forward to the 50th anniversary epic celebration, we are mindful of the possible challenges of the coming decades, and are conscious of the objective— *price stability, safer and efficient payment systems and a vibrant financial sector*. We are well aware of the increasing complexity of financial systems, which comes with distinct risks. Furthermore, the integration of financial markets across borders and industry, while a worthwhile outcome of enabling technologies, is desirable but also precarious. Global growth prospects remain more uncertain and monetary policy uncharted waters, and as traditional tools show, mixed success. The anticipated policy normalization in a number of advanced countries is already causing turbulence in the global markets.

Nevertheless, we count on the support of our Government, development partners, and our stakeholders, in order to achieve our objectives. Even with a strong mandate and an enabling legislative framework, our task will be made much easier through more collaboration and engagements. The Central Bank of the future will therefore be a much more proactive institution in its public engagements. We will match our operational independence with greater accountability to our core constituencies. In partnership with our fellow regulators, we shall enhance our public education function through targeted collaboration with relevant institutions.

As a start, and as part of the celebration activities, the Central Bank will in 2016;

- Partner with the Kenya Music Festival Committee as a *Title and Thematic Sponsor of the Festival* to mainstream financial education through music.
- Launch a youth internship and exposure programme targeting university students as a way of exposing them to central banking at an early age.
- Stage an exhibition, in partnership with the National Museums of Kenya, featuring the evolution of the Kenyan currency and other important artefacts.
- Hold a high level symposium bringing together local and international stakeholders to discuss issues of mutual relevance.

Please allow me to challenge all of you, especially our stakeholders from the financial sector, to include youth programmes in your business models as a means to nurture young talent in financial literacy.

Time does not allow me to outline the strategic priorities of the Central Bank going forward. We shall have ample opportunities to delve into that subject in the future. I may only allude to areas of focus going forward, such as: emphasis on further deepening of the financial markets; greater supervisory vigilance; increased market discipline; smarter regulation; inclusive banking through payment systems innovations; increased policy coordination with fellow central banks and regulators; and review of monetary policy frameworks. Notably, the Central Bank will endeavour to promote transparency in credit pricing and improve the monetary policy transmission to the real sector.

On behalf of the Central Bank, I want to express our appreciation for the support we have received from all our stakeholders, without whom there would be nothing to launch today. I thank my predecessors, the past Governors and staff of the Bank. I also thank our partners, fellow regulators, legislative authorities, financial sector players, development partners... I cannot exhaustively mention everyone today. There will be opportunities to do so in the coming events.

It is now my pleasure to invite Mr. Mohammed Nyaoga, the Chairman of the Central Bank of Kenya Board, to make his remarks.

Karibu Chairman.