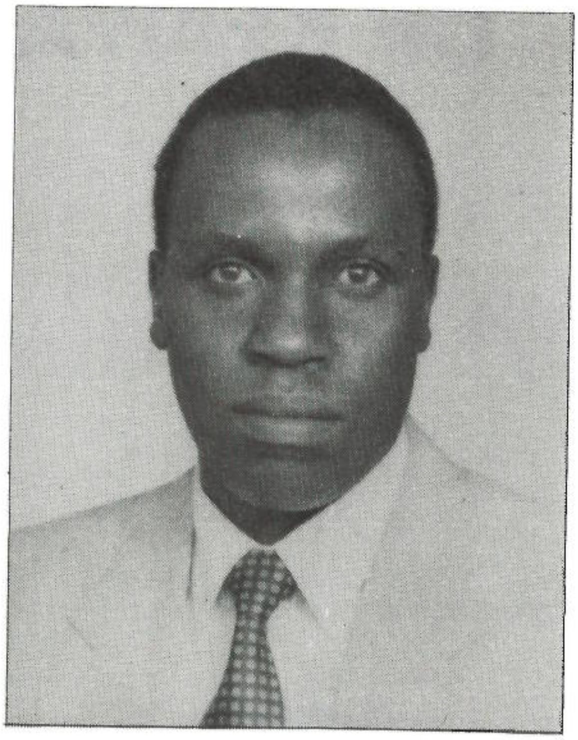
CENTRAL BANK OF KENYA

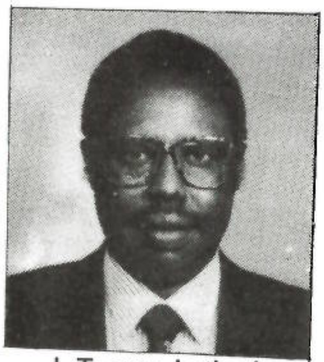
TWENTY FOURTH ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 1990

Central Bank of Kenya

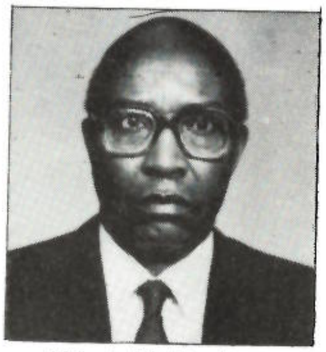
BOARD OF DIRECTORS



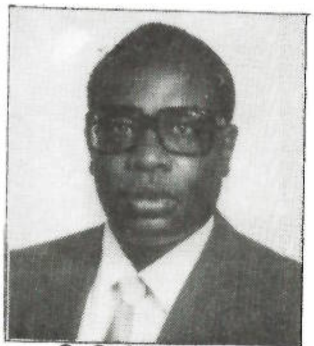
E. C. Kotut
Governor and Chairman



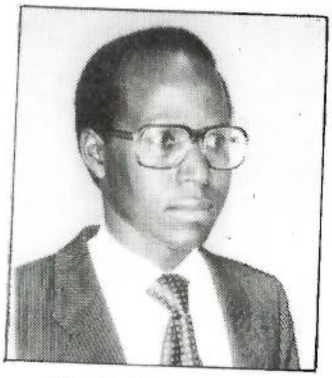
J. T. arap Leting'
Director



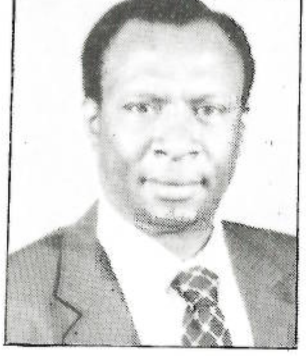
Wanjohi Muriithi
Deputy Governor



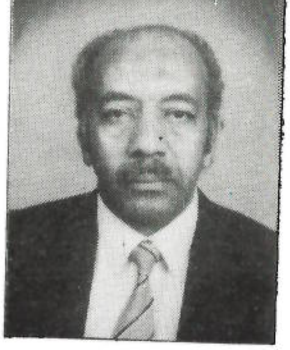
C. S. Mbindyo
Permanent Secretary
Treasury, ex-officio Director



M. K. Cheserem
Director



T. S. Kaloki
Director



Dr. A. H. S. El-Busaidy
Director

Letter of Transmittal

Central Bank of Kenya
September 17th, 1990

Hon. Prof. George Saitoti, M.P.,
Vice-President and Minister for Finance
P.O. Box 30007
NAIROBI

Your Excellency,

Twenty Fourth Annual Report of the Central Bank of Kenya

In accordance with Section 54 of the Central Bank of Kenya Act, I have the honour to present to your Excellency the Twenty Fourth Annual Report of the Central Bank of Kenya for the financial year ended June 30, 1990 together with the Statement of Audited Accounts.

Yours sincerely,

E. C. KOTUT
Chairman of the Board of Directors
and Governor of the Central Bank of Kenya

CONTENTS

CHAPTER 1

General Economic Developments

The growth of world output slowed down to 3.0 per cent in 1989 from 4.1 per cent in 1988. The slowdown was particularly pronounced in large industrial economies which in turn affected adversely the economic performance of the developing countries. The growth in world trade was also sluggish in 1989 and there was little progress made in the reduction of external imbalances among the major industrial countries.

The Kenyan economy continued to perform satisfactorily. The growth in real gross domestic product (GDP) slightly slowed down to 5.0 per cent in 1989 from 5.2 per cent in the previous year. The slowdown was mainly attributed to relatively weak world coffee prices, reduced international demand due largely to sluggish economic growth in industrial countries, poor rainfall distribution in some parts of the country and a fall in domestic demand resulting from stagnation in real average wage earnings. Buoyed by favourable weather conditions and provision of market incentives, the agricultural sector grew by 3.9 per cent compared with 4.4 per cent in 1988. The slowdown in growth of the sector was due mainly to the low prices of coffee. The manufacturing sector grew at 5.9 per cent, virtually unchanged from the previous year. The building and construction sector maintained the upward trend due to high demand for housing in urban areas. The other major sectors of the economy, with the exception of the financial sector, slowed down.

The overall balance of payments recorded a surplus in 1989 following deficits in 1988 and 1987. The favourable performance was due mainly to substantial improvement in the capital account as a result of large official capital inflows. The current account deficit widened from 5.4 per cent of GDP in 1988 to 7.1 per cent in 1989 due to a deterioration in the external terms of trade stemming from a sharp decline in coffee prices and higher crude oil prices.

The government's fiscal operations in fy 1989/90 resulted in an overall deficit of 4.0 per cent of GDP compared with a target of 4.2 per cent. The deficit was financed through borrowing from both the external and domestic sources, which accounted for 3.3 and 0.7 per cent of GDP respectively.

The growth in the money supply slowed down to 12.9 per cent in fy 1989/90 from 17.8 per cent in 1988/89. The increase in the money supply was supported by accelerated expansion in total domestic credit which expanded by 12.3 per cent of the money stock at the beginning of the year in 1989/90 compared with 9.7 per cent in the previous year. The net foreign assets of the banking system declined by 6.5 per cent of the initial money stock during the financial year.

Table 1.1

CHANGES IN KEY ECONOMIC INDICATORS (per cent)*

	1987	1988	1989	1990
Growth in GDP**	4.8	5.2	5.0	5.1
Budget Deficit as a Percentage of GDP***	−7.6	−4.2	−4.2	−3.8
Current account balance as a percentage of GDP	−6.2	−5.3	−7.1	−6.3
Growth in money supply (M2)***	23.0	4.0	17.8	16.5
Average annual rate of inflation	5.6	8.7	11.5	10.6

*Data for the budget deficit, the money supply and inflation in 1990 are provisional while growth in GDP is a projection.

**At constant 1982 prices.

***Fiscal year ended June 30.

Source: Central Bank of Kenya.

The average annual rate of inflation was 10.6 per cent in June 1990 compared with 11.5 per cent in June 1989. The slowdown in the inflation rate combined with the upward revisions of interest rates maintained the interest rates positive in real terms. Table 1.1 shows changes in some of the key economic indicators during the year.

The world economy is expected to slowdown further in 1990 due to the expected sluggish growth in industrial countries. The Kenyan economy is, however, expected to perform satisfactorily in the year. The improvement is expected to originate mainly from agriculture. The expected good performance of the agricultural sector in 1990 will have positive linkages with other sectors, in particular the manufacturing sector. The manufacturing sector is therefore expected to maintain its upward trend in the year. Current projections indicate that the current account of the balance of payments is likely to worsen mainly due to the surge in crude oil prices following the Persian Gulf crisis. Substantial worsening is also expected in the capital account due to expected large debt service payments. The overall balance of payments is therefore likely to revert to a deficit in 1990.

CHAPTER 2

Operations of the Central Bank

2.1 The Financial System

The financial system continued to expand during the year both in number and branch network. Three new commercial banks and one non-bank financial institution (NBFI) commenced operations during the year. As a result, the financial system at the end of June 1990, consisted of 27 commercial banks with 221 fully fledged branches, 71 sub-branches, 169 agencies and mobile units, and 55 operational NBFIs with 100 branches. One insurance company was deregistered following failure to comply with various regulations stipulated in the Insurance Act while two were amalgamated into one. Consequently, the number of insurance companies was 61 at the end of June 1990. In addition, there were 207 hire purchase societies, 13 building societies, a Post Office Savings Bank with a countrywide network, a stock exchange and 1,814 savings and credit co-operative societies. The Capital Markets Authority was also launched during the year, as a corporate body, to develop effective and efficient money and capital markets.

The Deposit Protection Fund which became operational in 1986 continued to be administered by the Central Bank. By the end of June 1990, 25 banks and 50 NBFIs were contributing to the Fund. Total contributions from member institutions and earnings from investment of the contributions amounted to shs 178m and shs 64m respectively.

The Bank continued to supervise the financial system by carrying out inspections through both on site and off site reviews. During the year, the Bank was able to inspect 18 institutions on site, comprising of 5 banks and 13 NBFIs compared with a total of 29 institutions in the previous year.

The average liquidity ratio[1] of commercial banks during the fiscal year was 25 per cent, compared with 26 per cent in the previous year and the minimum requirement of 20 per cent. The ratio fluctuated between 21 and 29 per cent compared with a narrower range of 24 and 27 per cent in the previous year. On average, 4 banks failed to meet the minimum liquidity requirement every month compared with 3 banks in the previous year. Treasury bills continued to dominate the composition of liquid assets of the banks followed by balances at the Central Bank, and vault and till cash.

In addition to the liquidity ratio, the cash ratio[2] of 6 per cent which was introduced in December 1986, remained in force for commercial banks. The requirement was generally well observed, with only one or two banks defaulting on any one day. The penalty for non compliance remained at 0.1 per cent of the shortfall every day.

The liquidity for the NBFIs remained high during the year, averaging 28 per cent as in the previous year. On average, 17 NBFIs failed to meet the minimum requirement of 24 per cent each month. The liquidity of the NBFIs was dominated by balances with commercial banks in Kenya. The other assets, in order of importance, were treasury bills, balances with other financial institutions, and vault and till cash. Table 2.1 shows the composition of liquid assets and average liquidity ratios for commercial banks and NBFIs.

The Bank continued to stress adequate capitalisation as the basis for a sound financial system. The minimum capital requirement remained the same as in the previous year. While all banks met the required paid up capital, two NBFIs failed to meet this requirement. In addition, commercial banks and NBFIs are required to maintain a gearing ratio of 7.5 per cent. One bank and nineteen NBFIs had not attained the ratio by the end of June 1990.

Table 2.1

LIQUID ASSETS OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS
(shillings million)

	1988/89	1989/90
Banks		
Vault and till cash	1,173	1,343
Balances at Central Bank	2,341	2,824
Balances at Kenya banks	—	—
Balances at Banks abroad	198	255
Treasury bills	4,725	2,931
Total liquid assets	8,438	7,353
Net deposit liabilities	34,469	38,455
Average liquidity ratio (%)	26	25
Non-Bank Financial Institutions		
Vault and till cash	24	60
Balances at Kenya banks	2,644	4,208
Balances at other financial institutions	1,444	1,300
Treasury bills	2,740	2,245
Total liquid assets	6,852	7,813
Total deposits	22,670	27,650
Average liquidity ratio (%)	28	28

Source: Central Bank of Kenya.

2.2 The Banking Act

Although several amendments had been made to the Banking Act of 1968, it became clear, over time, that there was a need to review the whole Act. This culminated in the Banking Act, of 1989 which was passed by Parliament and was implemented beginning November 1989. The Act incorporates the most extensive amendments made to the Banking Act of 1968, and clearly stipulates the respective rights and obligations of shareholders and directors. The main focus of the new Banking Act is on the strengthening of the supervisory functions of the Central Bank. The layout of the Act has also been revised to facilitate easy reference by banks.

The Act assigns a major responsibility to the Central Bank to ensure the safety of public deposits and gives the Bank wide powers to appropriately intervene in the management of institutions whose operations threaten the safety of deposits.

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[1] This is the ratio of till cash, balances at the Central Bank, balances with banks abroad and Treasury bills to total deposit liabilities.

[2] This is the ratio of the commercial banks' balances at the Central Bank to total deposit liabilities. Total deposits for this purpose exclude deposits held by the Central Government and by non residents.

During the year, the Bank together with the Treasury used the powers in the new Banking Act to work out a merger of ten weak financial institutions, including one commercial bank, to establish the Consolidated Bank of Kenya.

2.3 Management of Government Domestic Debt

The Central Bank of Kenya, as fiscal agent of the Government, is responsible for the management of national debt. The Bank issues and redeems government securities on behalf of the Government. The operations in the Government's internal debt including direct advances by the Central Bank in 1989/90 resulted in an increase in the debt by shs 4,004m compared with shs 627m in 1988/89 (Table 2.2).

The treasury bond became the most important instrument of domestic government debt, accounting for one third of the total domestic public debt. The objective of the treasury bond sales programme was to provide funds for budgetary deficit financing but more importantly to provide a means to mop up excess liquidity in the economy. The bond sales programme included 10 monthly issues of bonds for shs 10,000m of which bonds for shs 6,125m were subscribed. Out of this amount sales to banks accounted for shs 920m and the non banks accounted for shs 5,205m. Bonds for shs 3,852m were redeemed during the year resulting in a net increase of the outstanding bonds by shs 2,273m to shs 15,469m at the end of June 1990.

The bond issues were of 1, 2 and 5 year maturities. The Bank increased the coupon rates on the bonds from 14.5, 15 and 16.0 per cent to 15.0, 16.5 and 17.0 per cent for 1 year, 2 year and 5 year bonds respectively to improve on their marketability.

A total of 52 weekly auctions of treasury bills were made during 1989/90 for shs 2,000m per issue. The amount of treasury bills outstanding declined by shs 2,156m to shs 13,311m at the end of June 1990. The decline was attributed to government's decision to restructure its internal debt away from treasury bills to longer maturity in treasury bonds. The average tender rate, on treasury bills rose by one percentage point during the year to 15 per cent per annum at the end of June 1990.

There were no new issues of stocks during the year. However, stocks for shs 339m matured and were redeemed during the year. Consequently, the amount of outstanding stocks declined to shs 11,112m at the end of June 1990.

2.4 Monetary and Banking Activities

Monetary policy in 1989/90 was geared towards controlling expansion in money and credit in line with the capacity of the economy. The main concern was to ensure that the economy was supplied with sufficient liquidity to finance real economic activity without undue pressure on inflation and balance of payments. The Bank implemented monetary policy mainly through the use of credit guidelines to commercial banks and government debt operations. These were complemented by use of reserve requirements and interest rates reviews.

a) Credit Policy

The Government is committed to gradually shifting away from the use of direct controls to more generalised instruments of monetary policy. In the process of a gradual adjustment to these instruments the Bank in 1989/90 continued to rely mainly on the use of credit guidelines in implementing monetary policy. The credit targets set for the year were satisfactorily achieved through the use of this particular instrument.

b) Interest Rate Structure

The long term objective of the Government is to ultimately let the interest rates be freely determined by market forces. Towards this end, the principal interest rates were reviewed upwards twice during the year. In November 1989 the minimum savings rate for both banks and NBFIs was raised by 0.5 percentage point to 12.5 per cent and the maximum lending rate chargeable by commercial banks for loans and advances not exceeding three years was raised to 15.5 per cent while that for loans and advances with maturities greater than three years was set at 18 per cent. In April 1990, the minimum savings deposit rate was further raised to 13.5 per cent and the maximum commercial bank lending rate for loans and advances with maturities not exceeding three years was set at 16.5 per cent. Commercial bank lending rate for loans with maturities of more than three years was raised to 19 per cent. Interest charges by all financial institutions continued to be computed on reducing balance method with monthly rests. The interest rate structure for commercial banks is shown in Table 2.3 and that for NBFIs in Table 2.4.

c) Rediscount Policy

The rediscount window at the Bank remained open and rediscounted on demand treasury bills and other government securities with maturities of 3 months or less. The rediscount rate on treasury bills and other eligible government securities was set at 2.5 percentage points above the latest treasury bill rate in April 1990 while the margin for advances against other securities was set at 3.5 percentage points. Table 2.5 shows the Central Bank lending rates.

Activity in the rediscount market slowed down compared to the previous fiscal year. Total rediscounts amounted to shs 1,762.2m in 1989/90 compared with shs 2,016.9m in 1988/89. Advances and discounts against government securities and other credit instruments increased by shs 437 in 1989/90 compared with shs 808m in the previous year.

Table 2.2

OUTSTANDING GOVERNMENT DOMESTIC DEBT (shillings million)

	1988/89	1989/90*	Change
Direct Advances to Government	**8,756**	**12,982**	**4,226**
Treasury Bills	**15,467**	**13,311**	**−2,156**
Banks	4,688	2,843	−1,845
NBFIs	3,126	2,339	−787
Parastatals	5,990	6,128	138
Others	1,663	2,001	338
Treasury Bonds	**13,196**	**15,469**	**2,273**
Banks	2,959	2,937	−22
NBFIs	79	297	218
Parastatals	6,944	8,445	1,501
Others	3,214	3,790	576
Government Stocks	**11,451**	**11,112**	**−339**
Banks	3,428	3,375	−53
NBFIs	171	171	—
Parastatals	7,375	7,101	−274
Others	477	465	−12
Total Government Debt	**48,870**	**53,874**	**4,004**

* Provisional
Source: Central Bank of Kenya.

Table 2.3

INTEREST RATE STRUCTURE FOR COMMERCIAL BANKS (per cent)

	Effective 1988/89	1989/90*
Deposit Rates		
a) Current	—	—
b) Savings	12.0	13.5
c) Short term time deposits (minimum)		
(i) 3− 6 months	12.0	13.5
(ii) 6− 9 months	12.0	13.5
(iii) 9−12 months	12.0	13.5
Lending Rates		
a) Not exceeding 3 years	15.5**	16.5
b) 3 years and above	18.0**	19.0

* Effective 1 April, 1990.
**These rates applied to loans and advances with maturities not exceeding 4 years, and those with maturities exceeding 4 years respectively.
Source: Central Bank of Kenya.

Table 2.4

INTEREST RATE STRUCTURE FOR NON-BANK FINANCIAL INSTITUTIONS, BUILDING SOCIETIES AND AGRICULTURAL FINANCE CORPORATION (per cent)

	Effective 1988/89	1989/90
Deposit Rates		
a) Hire Purchase Companies and Merchant Banks	12.0−13.5	12.0−15.5
b) Building Societies	12.0−12.5	11.75−14.0
Lending Rates		
a) Hire Purchase Companies and Merchant Banks	18.0	19.0
b) Building Societies	16.5	18.0
c) Agricultural Finance Corporation		
(i) Loans for purchase of land	12.0	12.0
(ii) Seasonal Crop Loan	14.0	14.0
(iii) All other loans	13.0	13.0

Source: Central Bank of Kenya.

Table 2.5

CENTRAL BANK LENDING RATES

	1988/89	1989/90*
a) Rediscount on Treasury bills and other Government securities	1.5 percentage points above maximum current discount rate for treasury bills	2.5 percentage points above maximum current discount rate for treasury bills
b) Advances against Government securities	1.5 percentage points above maximum current discount rate for treasury bills	2.5 percentage points above maximum current discount rate for treasury bills
c) Advances against other securities	2.5 percentage points above maximum current discount rates for treasury bills	3.5 percentage points above maximum current discount rate for treasury bills

* Effective April 26, 1990
Source: Central Bank of Kenya.

CHAPTER 3

Issue of Currency

The Central Bank of Kenya is responsible for the management of currency in circulation. Notes are issued by the Bank to meet public demand for them and to replace those that are worn out, and withdrawn from circulation. The Bank also reissues used notes which are still fit for circulation and have been deposited at the Bank by commercial banks. Currency in circulation at the end of June 1990 amounted to shs 10,762m and comprised 38.1 per cent of the Bank's total liabilities compared with 39.1 per cent at the end of June 1989 as shown in the statement of Assets and Liabilities of the Bank.

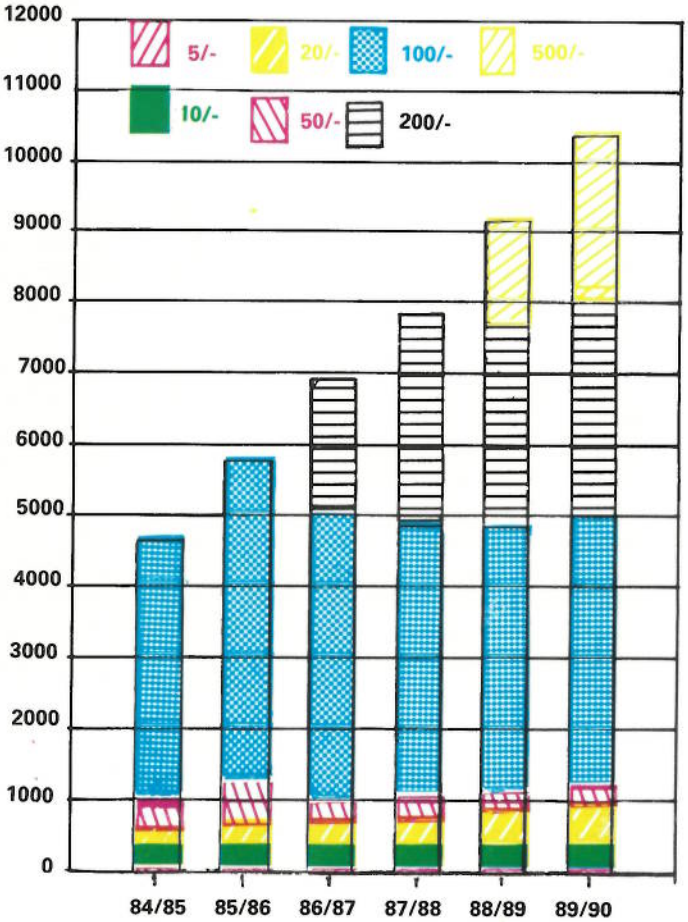
While the total number of notes in circulation increased by 5.4 per cent from 124.3m in June 1989 to 130.9m in June 1990, their total value rose by 13.5 per cent above June 1989 to shs 10,429m in June 1990, compared with an increase of 16.9 per cent in the year to June 1989. The ratio of notes to currency in circulation, in value terms, declined to 96.9 per cent in June 1990, compared with 97.5 per cent in June last year. Chart 1 shows the value of bank notes in circulation.

The value of coin in circulation amounted to shs 333m in June 1990, 9.4 per cent above the level in June 1989. At this level, coin accounted for 3.1 per cent of total value of currency in circulation. One and five shilling coins constituted 39.1 and 32.8 per cent of the increase in total value of coin during the year. Chart 2 shows the value of coin in circulation.

Chart 1

VALUE OF BANK NOTES IN CIRCULATION

(shillings million)

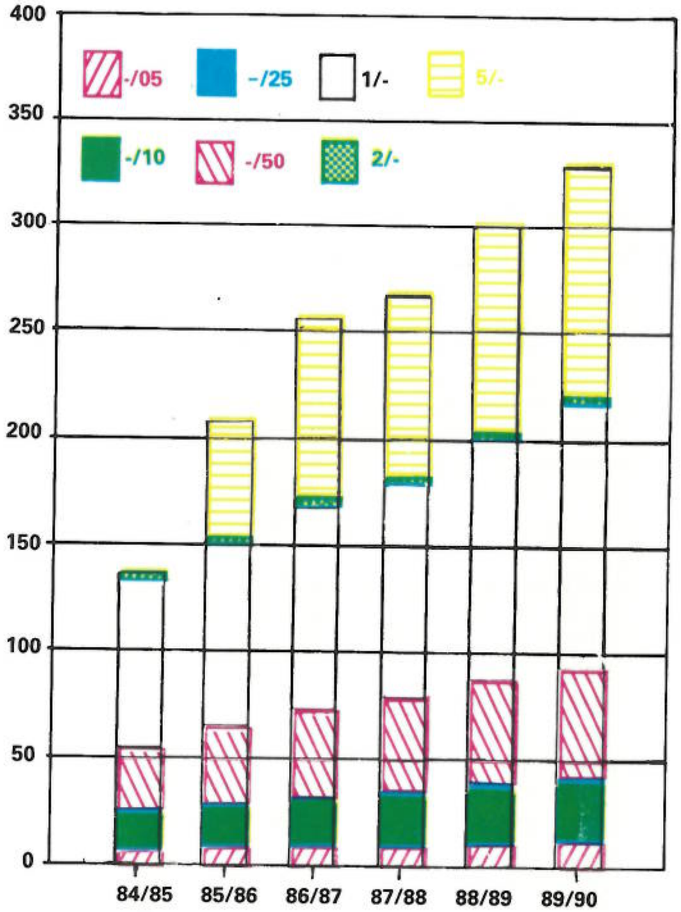


Source: Central Bank of Kenya.

Chart 2

VALUE OF COINS IN CIRCULATION

(shillings million)



Source; Central Bank of Kenya.

CHAPTER 4

Trade and Exchange Arrangements

4.1 Introduction

The objectives of the trade and exchange policies during the year continued to be the attainment of a viable external payments position, and a high and sustainable rate of economic growth. In line with these objectives, the authorities continued to pursue more liberal policy with regard to import licensing and introduced new measures to further strengthen the export sector. New measures were also taken to encourage direct foreign investment in Kenya to contain the rising cost of external debt servicing. To support these measures, a flexible exchange rate policy was maintained.

4.2 Import Policy

In order to make the licensing system more transparent and to achieve greater allocative efficiency, quantitative restrictions are gradually being replaced by tariff equivalents. This move, along with the reduction in the number of tariff categories, also helped ease administrative procedures. Items in Schedules I, II, and IIIA continued to be licensed without restrictions during the year. With effect from July 1989, items in Schedule IIIB were also licensed automatically after the quantitative restrictions on them were removed and replaced with tariffs. Consequently, approximately 98 per cent of total imports are now licensed automatically.

4.3 Export Policy

The thrust of export policy remained that of promoting non traditional exports. To this end, export promotion and development measures that have been in force for some time continued to be pursued. More items were also added to the eligibility list for the Export Compensation Scheme.

Satisfactory progress was made with regard to the establishment of the Export Processing Zones (EPZs) and Manufacturing Under Bond Schemes. Three sites, in Mombasa, Nairobi and Athi River were identified for the establishment of EPZs. A study on the EPZs was completed, and work is in progress for the design of the Athi River site. Financing arrangements are also being made for the development of infrastructure for the Nairobi and Athi River sites. The number of manufacturing ventures authorized to operate under Bond increased from fourteen in 1988/89 to thirty two in 1989/90. To support the export promotion effort, the Government continued to manage the shilling exchange rate flexibly while the liberal import policy ensured adequate supply of imported inputs. At the same time the Kenya External Trade Authority (KETA) continued its efforts to identify and expand markets within the PTA and outside the African region for Kenyan goods.

4.4 Tourism

Government policy remained supportive of the tourism industry which generally performed well during 1989 and recorded increases in visitor arrivals, bed occupancy and foreign exchange earnings. The Bank also continued to receive and process new applications by entrepreneurs for licences to accept foreign currency, which indicated that the sector remained attractive to investors.

During the past year, the Bank tightened the reporting and monitoring of foreign exchange earnings from tourism. The Bank inspected hotels, lodges and other establishments handling foreign currency to ensure that earnings from the sector were channeled into the banking system. In particular, efforts were made towards ensuring that all foreign exchange payments for tourism in Kenya were accounted for and surrendered to the Central Bank; ensuring that services rendered to non-residents in this sector were paid for in foreign currency or in other modes approved by the Bank; and improving management information on the tourism industry by applying computer-based information systems.

4.5 Capital Movements

The bulk of the country's external capital movements comprised mainly of official capital inflows. In order to contain the increasing cost of servicing the external debt, the government policy aimed at relying mostly on concessional borrowing with a large grant element through debts of longer maturities, longer grace periods and low interest rates. There was also considerable debt relief arising from debt writeoffs by a number of bilateral creditors including West Germany, France, the Netherlands, the United States and Belgium.

To encourage private capital inflows, the Government in addition to the provisions of Foreign Investments Protection Act (FIPA), designed a package of incentives for attracting direct foreign investment. This included the strengthening of the Investment Promotion Centre to facilitate the processing of foreign investment applications as well as liberalising the activities of the private sector through such measures as price decontrols and the reduction of the corporation tax as well as the establishment of the export processing zones with the attendant tax concessions. Capital outflows from the private sector and parastatals, however, gained momentum during the year compared with the previous year. Receipts increased only modestly by 6.8 per cent while payments rose by 42.6 per cent resulting into a doubling of capital outflows.

4.6 Foreign Exchange Reserves

The Central Bank of Kenya is the custodian of the country's external reserves. In managing foreign exchange reserves, the Bank continued to be guided by Section 26 (1) of the Central Bank of Kenya Act which requires that the Bank maintains a reserve of external assets of not less than the value of four months of imports. Due to mounting pressures from debt service and import payments, however, foreign exchange reserves covered 1.7 months of imports in June 1990 compared with 2.7 months in June 1989.

4.7 Exchange Rate Policy

The Kenya shilling remained pegged to a standard basket of currencies which made the bulk of Kenya's external trade. The Central Bank maintained its policy of flexible exchange rate. Reflecting this policy, the exchange rate of the shilling was regularly reviewed during the fiscal year. Table 4.1 shows the trend in the shilling exchange rate against some of the major international currencies over the past three years.

4.8 Other Developments

Various revisions of allowances and other remittances were made during the year. Commercial banks can now approve student allowances up to a maximum of shs 5,000 compared with shs 250 previously permitted. Basic travel allowance for residents was also increased from shs 4,000 to shs 10,000 over a three year period. Business travel allowance was increased from shs 1,000 to shs 2,500 per day for a maximum of twenty days.

Allowances granted to Muslims for travel to Mecca to perform the Hajj were also increased from shs 20,000 to shs 25,000 and the amount of Kenya currency which returning residents of Kenya may take and bring back to Kenya was revised from shs 100 to shs 200. Remittances of savings by foreigners working in Kenya were revised upwards from shs 4,000 to shs 10,000 per month while the initial settling-in capital amounts that emigrants can export on final departure from Kenya under emigration treatment were revised upwards from shs 100,000 to shs 200,000 with corresponding annual concessionaire remittances of shs 80,000, up from shs 40,000. The previous requirement for funds exceeding certain limits to be invested in special stocks was withdrawn. In addition there was an increase in the final departure benefits from shs 20,000 and shs 50,000 to shs 40,000 and shs 100,000 for persons who have been residing in Kenya for less than 4 years and less than 10 years respectively.

Table 4.1

SELECTED FOREIGN EXCHANGE MEAN RATES

(Mean Rates in Kenya shillings)

End–June	1988	1989	1990
US dollar	18.085	21.0661	23.1304
Pound sterling	30.970	32.5471	40.2122
Deutschemark	9.918	10.7289	13.8298
French franc	2.945	3.1612	4.1190
100 Italian lira	1.339	1.4846	1.8859
100 Japanese yen	13.592	14.6547	15.1080

Source: Central Bank of Kenya.

CHAPTER 5

Administrative Developments

5.1 Board of Directors

The composition of the Bank's Board of Directors for the year 1989/90 remained the same as in the previous year. During the year, His Excellency the President reappointed Mr. T. S. Kaloki to the Board for another term of four years, with effect from May 1, 1990. He also reappointed Prof. A. H. S. El-Busaidy for a similar term on expiry of his previous appointment on June 30, 1990.

5.2 Presidential Visit

His Excellency the President, Hon. Daniel Toroitich arap Moi, CGH, MP, paid an official visit to the Bank on October 17, 1989 and attended a luncheon hosted in his honour by the Governor. During the occasion, His Excellency the President was presented with a cheque for shs 1,621,552,044.70 being the dividend due to the Treasury for the financial year ending June 30, 1989. His Excellency the President also launched newly designed 100 and 10 shilling bank notes.

5.3 International Visits and Travel

In March 1990, the Governor Mr. E. C. Kotut attended a meeting of the East African Central Bank Governors in Dar-es-Salaam, Tanzania. In April 1990, the Governor and the Director of Research participated in a government negotiation of adjustment programmes with the World Bank in Washington D.C. In June 1990 the Governor attended the Annual Commonwealth Governors' meeting in London and the Governors' meeting at the Bank for International Settlements in Basle Switzerland. In May 1990, Mr. C. W. Ongoro, Senior Assistant Commissioner of Police attached to Exchange Control Investigations Branch and Mr. D. K. Kiangura, Computer Services Manager, travelled to West Germany on special duties.

In June 1990, Mr. M. J. P. Kanga, the Director of Research, was nominated to be part of the secretariat assisting H. E. the Vice- President and Minister for Finance, Prof. G. Saitoti, in his role as the Chairman of the Joint Remuneration Committee of the IMF and the World Bank.

5.4 Staff Training and Development

The Bank attaches great importance on the training of its staff at all levels. During the year, the Bank sponsored a total of 474 members of staff to attend courses both locally and overseas. A Deputy Exchange Controller, Mr. M. Cherwon, accompanied by five officers from Exchange Control Department undertook study tours of Cotecna Inspection S.A. in Switzerland. The Principal, Foreign Department and another officer undertook a study tour of the State Bank of Pakistan and the Reserve Bank of India. An Assistant Principal from the same Department attended Foreign Exchange Seminar organised by Swiss Bank Corporation in Zurich, Switzerland. Two Assistant Principals from Mombasa Branch and Internal Audit Division, respectively, attended an internal auditors course organised by Eastern and Southern African Management Institute (ESAMI) in Harare.

The Assistant Principal, Development Division, participated in a Seminar on Development Cooperation and the role of International Banks organised at the International Labour Organisation (ILO) Turin Centre in Italy. Two officers from the Bank's Supervision Department attended a Senior Bank Supervisors Seminar organised by the World Bank in collaboration with the Federal Reserve Bank in Washington D.C. while three others attended World Bank Supervisors course at Bahrain Institute of Banking and Finance in Bahrain. Another officer from the department attended a Seminar on Supervision at the Bank for International Settlements in Basle, Switzerland.

Several officers from various departments and divisions of the Bank attended financial management courses, mainly at the Eastern and Southern African Management Institute at their various venues within the PTA region. One officer attended the 22nd Commercial Banking Course at the State Bank of Pakistan while another attended a course at the Institute of Purchasing and Supplies (IPS), U.K. Three officers attended a Workshop on Financial Analysis and Programming in Blantyre, Malawi. An officer from Research Department attended Financial Programming and Policy Course at the IMF Institute, Washington D.C. while two others were sponsored for a seminar on Macroeconomic Analysis for Structural Adjustment organised by the Economic Development Institute (EDI) in conjunction with the University of Dar-es-Salaam in Harare, Zimbabwe. An officer from Training Division attended the Trainers Course at FINAFRICA, Milan, Italy. The Assistant Director, Research Department and an Assistant Manager Foreign Department attended High Level Seminar on Experiences with Instruments of Economic Policy organised by the African Centre for Monetary Studies (ACMS) in Addis Ababa, Ethiopia.

Other officers were sponsored for various courses such as Data Base Management, Auditing and Personnel Management at ESAMI, Arusha. One officer won a Cambridge Scholarship to study Master of Philosophy at Cambridge University while two other officers were sponsored for post-graduate training in Banking, Finance and Accounting at Strathclyde and Heriot-Watt universities in U.K.

Two officers from Bank's Supervision Department were sponsored for Bank Examiners Programme at the Bank of Philippines, Manila. Eight other officers from various departments were sponsored for the 8th East African Central Banking Course in Arusha.

On the local scene, a lot of emphasis was put on training at all levels. Three hundred and ninety nine officers ranging from support staff to Heads of Departments attended various courses in addition to in-house programmes. At the same time, an induction programme was organised for new employees.

A Deputy Exchange Controller, Mr. E. O. Otondi, was sponsored for the Advanced Management Programme organised by Kenya Institute of Management while Mr. A Meso, Principal Exchange Control, Mr. G. E. A. Wairoma, Assistant Principal, Kisumu Currency Centre and J. O. Ogundo, Assistant Principal, Mombasa Branch, attended Senior Management Seminars at the Kenya Institute of Administration.

Three members of staff were sponsored to the University of Nairobi for postgraduate studies in Computing, Bachelor of Philosophy in Economics and Master of Arts in Economics.

Other members of staff were sponsored for various courses such as clerical development, budgetary control, cashiers, action centred leadership, exchange control and foreign exchange, computer appreciation, import and export, accounts etc., at the various training institutions. Such institutions included College of Banking and Finance, Kenya Institute of Management, Kenya Institute of Administration and Training Schools of Commercial Banks such as the Standard Chartered Bank Training School.

A number of staff members were also sponsored to various courses during the year. Most of them attended two weeks courses at various training institutes.

On the Bank's Self Incentive Scheme, several members of staff continued to undertake private studies on various professional courses such as Chartered Institute of Bankers (CIB), Certified Public Accountants (CPA), Certified Public Secretaries (CPS) and Institute of Purchasing and Supply (IPS).

During the period under review, one officer completed a full CIB diploma, four completed CIB Stage I, twelve completed different Stages of CPA. Other members of staff continued to attempt academic examinations for their upgrading. Some have already been upgraded on successful completion of these examinations. The Secretarial Staff have continued to improve their typing and shorthand speeds. The Bank also initiated the training of staff such as telephonists and receptionists who mainly come into direct contact with Bank customers.

5.5 Computerization

The computerization exercise in the Bank continued to cover more areas in the year. New technical personnel, two systems analysts and two programmer/analysts, were recruited during the year to enhance the already existing staff. This will allow areas not already computerized to be covered with minimum delay.

New systems have been developed to cover such areas as Inward Clearing in Banking, Treasury Bonds, Personnel Records, External Private Debt and Foreign Operations. These systems have been developed on the mainframe computer except the External Private Debt which has been developed on micro computers. A Clearing and Ledger Maintenance System has been developed on micro computers to cater for branches which cannot utilise the mainframe system due to distance constraints.

The Bank continues to obtain assistance from the Swedish International Development Agency (SIDA) in the provision of consultants to assist in the computerization of the Bank, especially in the Exchange Control areas.

5.6 Sports

During the year, various teams from the Bank participated in the Inter-Banks/Financial Institutions sports competition held between September 16-17, 1989. Teams from Mombasa Branch merged with other respective teams from the Head Office to form teams in their various disciplines. The Bank's draughts team emerged as the winners while basketball, volleyball, lawn tennis and darts teams were runners-up in the tournament. Earlier, inter-departmental games featuring all teams from the Bank were held to mobilize and identify competitors for the Inter-Banks competitions. A member of staff, Mr J. Amugune, was selected by the Kenya Basketball Federation to the National Team which participated in the 15th African Masculine Championship in Angola.

5.7 Staff Movements

In October 1989 Mr J. K. Kilach joined the Bank as Deputy Financial Controller. In May 1990, Mr. R. C. K. Mwangi, formerly Deputy Chief Banking Manager, was posted to Banks Supervision Department, Mr. D. W. Njonge, formerly Deputy Chief Currency Manager, was posted to Kisumu Currency Centre as the Branch Manager, while Mr. P. N. Muiruri, formerly Branch Manager of the Centre, was posted to Head Office as Principal, Internal Audit. Mr. J. T. Thuo, formerly Project Engineer, was posted to Estates Division in the place of Mr. G. K. Ndubai who became Principal, Administration Division. Mr J. M. Kiama, Principal, Internal Audit, moved to Budgetary Control Division; Mr. H. H. Njoroge from Mombasa Branch moved to Banking Division at the Head Office while Mr. G. E. Gidali, Principal, Budgetary Control Division, moved to Mombasa Branch as the Branch Manager. Mr. E. K. Nkonge, formerly Assistant Principal, Administration Division, was posted to Eldoret as the Branch Manager. Mr. J. C. Kangethe, formerly Assistant Principal, Exports Division, was posted as Principal, Foreign Department while Miss E. W. Kagane, formerly Assistant Principal, Foreign Department, was posted as Principal, Exports Division. Mr F. A. G. Waweru, formerly Senior Superintendent, Exchange Control Audit Division, was posted as Assistant Principal, Services while Mrs. L. C. Soi, formerly Senior Superintendent, Supplies Division, was posted as Assistant Principal, Administration Division.

In June 1990, Mr. J. K. Kilach, formerly Deputy Financial Controller, was posted as Financial Controller while Mr. G. K. Kinyua, formerly Financial Controller, was posted to Deposit Protection Fund as the Director. Mr. T. K. B. Kuruna, formerly Chief Banking Manager, was posted to Exchange Control as the Exchange Controller while Mr. E. Riungu, formerly Exchange Controller, became Chief Banking Manager. Mr. K. Miano, Principal Legal Officer/Board Secretary was posted the Deposit Protection Fund while Mr. P. K. Kambo, Assistant Manager, Foreign Department, was posted to Internal Audit Division. Mr. M. Getecha, Assistant Principal, Banks Supervision Department, was posted to Exchange Control General Division while Mr. E. K. Chepkwony, Assistant Principal, Banks Supervision Department, was posted to Eldoret Branch. Mr. J. S. A. Awinyo, Assistant Principal, Internal Audit, was posted to Kisumu Currency Centre.

5.8 Kisumu Branch Building and Other Major Projects

Kisumu Branch

This consists of the main branch building, staff flats, police flats and cafeteria, and clinic buildings. Construction work started in March 1988 and is expected to be completed towards the end of 1990.

Eldoret Branch

The premises that are to be leased within a new building under construction are expected to be completed in August 1990. The premises have already been modified to accommodate currency vaults, banking office, caretaker and police rest houses, service yard and general administration offices. For staff accommodation twenty staff houses will be acquired from Kenya Reinsurance Corporation for resale to staff.

Headquarters Building

The design for the project is expected to be completed at the latest by August 1990. The project covers two separate plots. One of the plots has already been acquired and the other is in the process of acquisition. Construction is expected to start in early 1991.

College of Banking and Finance

This project is partly funded by the World Bank and design work is in progress. Designs are expected to be ready by December 1990 and construction may start as early as 1991.

CHAPTER 6

Balance Sheet and Accounts 1989/90

6. Balance Sheet

The balance sheet as at June 30, 1990 and the Profit and Loss Account for the year ended June 30, 1990 appear in the appendix on pages 16 and 17.

6.1 Assets and Liabilities

As can be seen in the balance sheet, the Bank's total assets increased by shs 3,963m over June 1989 to shs 28,270m at the end of June 1990. The Bank's holdings of foreign exchange decreased by shs 2,241m. Direct advances to the Government went up by shs 4,226m while advances and discounts to commercial banks increased by shs 437m. The Bank's holdings of treasury bonds increased by shs 106m while those of government stocks remained unchanged at shs 3,232m. The Bank did not hold any treasury bills at the close of the year. Uncleared effects, other assets and revaluation accounts rose by shs 319m, shs 198m, and shs 919m respectively.

On the liabilities side, currency in circulation increased by shs 1,267m. Deposits of Kenya banks increased by shs 431m while those of external banks rose by shs 429m during the fiscal year. IMF deposits increased by shs 1,093m while other deposit liabilities increased by shs 1,200m.

The Government's share of the Bank's profits for fy 1989/90 increased by shs 635m over fy 1988/89 while other liabilities and provisions fell by shs 41m.

The Bank's capital was increased from shs 26m in June 1989 to shs 500m in June 1990 as a result of a transfer of shs 474m from the General Reserve Fund. In accordance with Section 9 (1) of the Central Bank of Kenya Act, shs 251m was transferred to the General Reserve Fund from the net annual profits of the Bank in fy 1989/90. The capital and reserves of the Bank, therefore, stood at shs 1,259m by the end of June 1990.

6.2 Income, Expenditure and Profits Appropriation

Total gross receipts in fy 1989/90 amounted to shs 4,138m, an increase of shs 909m above the previous year. Earnings from foreign investments increased by shs 67m to shs 409m while receipts from domestic investments rose by shs 842m to shs 3,728m in the year. Total recurrent expenditure and provisions increased by shs 204m in the year to shs 1,631m. Administrative expenses accounted for shs 342m of the total recurrent expenditure. Interest and charges paid to the IMF accounted for shs 529m while supervision of foreign trade, and currency expenses took shs 303m and shs 379m respectively. Other expenses and provisions accounted for shs 78m. Net annual profits under Section 9 (2) of the Central Bank of Kenya Act, amounted to shs 2,507m for fy 1989/90 compared with shs 1,802m in fy 1988/89.

6.3 Revaluation Account

The account reflects a debit balance of shs 1,616m as at 30th June, 1990 compared with a debit balance of shs 697m as at 30th June, 1989. A revaluation loss of shs 1,299m arose from the revaluation of IMF SDR Deposits. There was, however, a revaluation gain of shs 39m in SDR holdings, shs 11m from revaluation of Gold and shs 330m on revaluation of Foreign Deposits and Securities. The net revaluation loss, therefore, amounted to shs 919m as at 30th June, 1990.

	shs	shs	1989 shs
CURRENCY IN CIRCULATION			
Notes		10,428,922,270	9,190,778,995
Coin		333,031,730	304,555,559
		10,761,954,000	9,495,334,554
DEPOSITS			
Government of Kenya	—		—
Banks—Kenya	2,785,861,382		2,355,155,985
—External	502,897,005		74,226,124
I.M.F.	9,691,833,613		8,599,080,765
Others	1,779,775,104		579,769,123
		14,760,367,104	11,608,231,997
GOVERNMENT OF KENYA — BALANCE OF PROFITS PAYABLE		956,092,361	1,621,552,045
OTHER LIABILITIES AND PROVISIONS		532,688,586	573,861,837
TOTAL LIABILITIES AND PROVISIONS		27,011,102,051	23,298,980,433
CAPITAL		500,000,000	26,000,000
GENERAL RESERVE FUND		759,025,184	982,348,255
	shs	28,270,127,235	24,307,328,688

PROFIT AND LOSS ACCOUNT FOR

TRANSFERRED TO GENERAL RESERVE FUND		250,676,929	180,172,449
PRE-PAID TO THE GOVERNMENT OF KENYA		1,300,000,000	—
BALANCE PAYABLE TO THE GOVERNMENT OF KENYA		956,092,361	1,621,552,045
	shs	2,506,769,290	1,801,724,494

The annexed notes form part of the Accounts.

REPORT OF THE AUDITORS PURSUANT TO SECTION

We have audited the above Balance Sheet and Profit and Loss Account and have obtained all and the Accounts which are in agreement therewith, comply with the requirements of the Central

The profit for the year ended on 30th June, 1990 has been ascertained in accordance with annexed notes give, in our opinion, a true and fair view of the state of affairs of the Bank at

Nairobi
September 17, 1990

PEAT MARWICK
Joint

At 30th June, 1990
ASSETS

BANKI KUU YA KENYA

	shs	shs	1989 shs
GOLD AND FOREIGN EXCHANGE			
Balances with Banks and Cash	4,134,493,302		6,367,325,426
Treasury Bills	141,897,033		73,138,316
Other Investments	701,395,682		641,950,582
Holdings of Special Drawing Rights	77,042,640		213,769,239
Total Foreign Exchange		5,054,828,657	7,296,183,563
SECURITIES ISSUED OR GUARANTEED BY KENYA GOVERNMENT		3,232,231,771	3,232,231,771
DIRECT ADVANCES TO KENYA GOVERNMENT		12,981,840,013	8,755,524,557
KENYA TREASURY BONDS		1,899,943,669	1,794,010,489
KENYA TREASURY BILLS		—	—
ADVANCES AND DISCOUNTS		448,900,000	12,000,000
UNCLEARED EFFECTS		2,293,803,460	1,974,932,355
OTHER ASSETS		742,653,224	545,039,770
REVALUATION ACCOUNT		1,615,926,441	697,406,183
	shs	28,270,127,235	24,307,328,688

E. C. KOTUT
....
Governor

THE YEAR ENDED JUNE 1990

NET PROFIT: After charging current expenditure, writing down fixed assets and providing for contingencies and movements in reserves	2,506,769,290	1,801,724,494
	2,506,769,290	1,801,724,494

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the information and explanations which we considered necessary. Proper books have been kept
Bank of Kenya Act.
Section 9 of the Central Bank of Kenya Act, and on this basis the Accounts together with the
30th June, 1990 and of the result of its operations for the year to that date.

BELLHOUSE MWANGI ERNST & YOUNG
Auditors

NOTES TO THE ACCOUNTS

1. EXCHANGE RATES

Foreign Exchange balances have been converted at the rates ruling at 30th June, 1990.

2. EXCHANGE DIFFERENCES

Differences on exchange have been dealt with as follows:-

a) **Profit and Loss Account**

Differences arising from dealings in foreign exchange have been transferred to Profit and Loss Account.

b) **Revaluation Account**

Differences arising from revaluation of Gold in accordance with Note 3 below, and from changes in exchange rates during the year, with the exception of those referred to in Note (a) above, and the amount which at 30th June, 1990 was required to maintain the value of local currency held by the International Monetary Fund in terms of Special Drawing Rights, have been transferred to the Revaluation Account set up under Section 51 of the Act.

3. VALUATION OF GOLD

Gold reserves, included in other investments, were revalued at 50 per cent of market price at 30th June, 1990. The revaluation gain arising, amounting to shs 10,637,104.35 has been transferred to Revaluation Account.

4. REVALUATION OF INVESTMENTS

Foreign and local securities are valued at the lower of cost or market value. To determine the lower of cost or market value investments are grouped into their respective currencies and only if the group total market value is lower than cost is a provision made against that group. At 30th June, 1990, the overall market value of investments under the following Balance Sheet headings were:-

Other Investments:-
Foreign Securities
shs 373,660,180.45
(1989 shs 324,449,594.30)
Gold shs 648,169,025.00
(1989 shs 626,894,816.30)

Securities issued or guaranteed by the Kenya Government shs 3,325,394,018.75 (1989 shs 3,326,097,769.80).

5. FORWARD EXCHANGE

Commitments for forward exchange operations at 30th June, 1990, were equivalent to shs 632,087,394.80 for forward sales and shs 360,704,802.60 for forward purchases. (1989 shs 3,748,570.00 and shs 594,787,634.00).

6. GOLD AND FOREIGN EXCHANGES

Included under Gold and Foreign Exchange are amounts totalling shs 1,022,987,242.85 (1989 shs 420,815,020.70) which represent external funds held by the Central Bank on behalf of the Government and other Public Entities. The corresponding liabilities are held under Deposits and Other Liabilities and Provisions.

7. CAPITAL ACCOUNT

During the year 1989/90, with the approval of the Minister for Finance, an amount of shs 474,000,000.00 was transferred from the General Reserve Fund to the Capital Account, raising the paid up capital of the Bank from shs 26,000,000.00 as at 30th June, 1989 to shs 500,000,000.00 as at 30th June 1990.