

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA

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MICROFINANCE BANKING CIRCULAR NO. 1 OF 2015

TO: ALL CHIEF EXECUTIVES OF MICROFINANCE BANKS

OPERATIONALISATION OF THE KENYA BANKS' REFERENCE RATE (KBRR)

The Kenya Banks' Reference Rate (KBRR) framework was introduced in July 2014 to enhance transparency in the pricing of credit as well as improving the transmission of monetary policy signals into changes in banks' lending rates.

Following the Monetary Policy Committee meeting held on 14th January, 2015 which retained the CBR at 8.50 percent, and considering the weighted 2-month moving average of the 91-day Treasury bill rate, the Central Bank of Kenya (CBK) has revised the KBRR from 9.13 percent to 8.54 percent.

The purpose of this Circular is to operationalize the KBRR as follows:-

- 1. The KBRR of 8.54 percent shall be effective from, 14th January, 2015 and will remain at this level until its next review in July 2015, or earlier if market conditions change drastically.**
- 2. All microfinance banks will price their flexible rate loans using the KBRR as the base rate.**
- 3. For individual microfinance banks, the interest rate they charge their customers will be KBRR + K. We expect microfinance banks to vary their lending rates to be as close as possible to KBRR.**
- 4. Microfinance banks will disclose to their respective borrowers and to the Central Bank the breakdown of any deviation, K, from the KBRR, thereby enhancing transparency in pricing of credit and mortgage.**
- 5. All flexible/variable credit facilities applied for shall be priced using the KBRR framework.**

6. As indicated in the Microfinance Banking Circular No. 1 of 2014, existing flexible/variable credit facilities shall be transitioned to the KBRR framework by 30th June 2015.

The CBK will continue working closely with the institutions and other stakeholders to facilitate a smooth and effective implementation of the framework. It will also work with the stakeholders to facilitate a wide dissemination of the framework to the public.

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MATU MUGO

ASSISTANT DIRECTOR, BANK SUPERVISION

14th January, 2015

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