

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
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BANKING CIRCULAR NO. 4 OF 2014

TO: ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS AND MORTGAGE FINANCE COMPANIES

OPERATIONALISATION OF THE KENYA BANKS' REFERENCE RATE (KBRR)

In January 2014, a Committee led by the Cabinet Secretary for National Treasury Hon. Henry Rotich was constituted to explore ways of increasing and enhancing private sector credit and mortgage finance supply in Kenya. Subsequently, a Press Release on the operationalization of the recommendations of the Committee was issued by the Cabinet Secretary for the National Treasury on 30th May 2014. One of the key recommendations of the Committee was the introduction of a transparent credit pricing framework to be known as the Kenya Banks' Reference Rate (KBRR).

Following the Monetary Policy Committee meeting held on 8th July, 2014 which set 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 set the KBRR at 9.13 percent.

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

- 1. The KBRR of 9.13 percent shall be effective from, 8th July, 2014, and will remain at this level until its next review in January 2015 (if market conditions do not drastically change).**
- 2. All banks and mortgage finance companies will price their flexible rate loans using the KBRR as the base rate.**
- 3. For individual banks, the interest rate they charge their customers will be KBRR + K. We expect banks and mortgage finance companies to vary their lending rates to be as close as possible to KBRR.**
- 4. Banks and mortgage finance companies will disclose to their respective borrowers and 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 new KBRR framework.**
6. **Existing flexible/variable credit facilities shall be transitioned to the new KBRR framework by 30th June 2015.**

The CBK will work 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.



F.P.K. PERE

DIRECTOR, BANK SUPERVISION

9th July 2014

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