Central Bank of Kenya

PRESENTATION TO THE SENATE AD HOC COMMITTEE ON THE COVID-19 SITUATION

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Outline

A. Chronology of Measures by CBK to Mitigate impact of COVID-19

B. Monetary Policy Committee (MPC) Policy Actions

C. Emergency Measures to cushion borrowers

D. Support to Small and Medium Enterprises (SMEs)

E. Balance of Payments

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A. Chronology of CBK's Measures to Mitigate impact of COVID-19

Digital Platforms: On March 16, 2020, the Central Bank of Kenya (CBK) announced a set of measures to facilitate increased use of mobile money transactions instead of cash. The objective was to reduce the risk of transmission of COVID-19 by handling banknotes.

Bank Borrowers: On March 18, 2020, CBK announced emergency measures to mitigate the adverse economic effects on bank borrowers from the Coronavirus pandemic.

Monetary Policy: On March 23, 2020, CBK's Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) and Cash Reserve Ratio (CRR) as part of policy actions to prevent the COVID-19 health crisis becoming a severe economic and financial crisis.

Business Continuity: On March 25, 2020, CBK instructed banks to activate their precautionary measures to ensure continuity of operations while mitigating the pandemic risk.

Pandemic Planning: On March 27, 2020, CBK issued further guidance on pandemic planning for the banking sector that provides minimum standards for resilient frameworks to address pandemic risks.

Monetary Policy: On April 29, 2020, CBK's MPC lowered the CBR from 7.25 percent to 7.00 percent to signal banks to further lower their interest rates.

B. MPC Policy Actions to contain COVID-19

In order to prevent the COVID-19 health crisis from becoming a severe economic and financial crisis, MPC decided on the following policy actions:

Lowered the Central Bank Rate (CBR) to 7.25 percent from 8.25 percent. This signals commercial banks to lower their lending and deposit rates.

8.25% → 7.25%

Reduced the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent, releasing KES.35.2 billion to banks to directly support borrowers that are distressed as a result of COVID-19.

5.25% → 4.25%

KES.35.2 Billion

CBK to ensure smooth functioning of the interbank market and liquidity management across the sector:-

- CBK extended the maximum tenor of Repurchase Agreements (REPOs) from 28 to 91 days to enable banks access longer term liquidity secured on their holdings of government securities without having to discount them.
- CBK shall provide flexibility to banks with regard to requirements for loan classification and provisioning for loans that were performing on March 2, 2020 and whose repayment period was extended or were restructured due to the pandemic.

C. Emergency Measures to mitigate the adverse economic effects on bank borrowers from COVID-19

In order to alleviate the adverse effects of COVID-19, the following emergency measures will apply for borrowers whose loan repayments were up to date as at March 2, 2020.

1. Banks will provide relief to personal loan borrowers based on their individual circumstances arising from the pandemic.
   - The relief on personal loans by banks will include review of requests from borrowers for extension of their loan for a period of up to one year.
2. Medium-sized enterprises (SMEs) and corporate borrowers can contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic.
3. Banks will meet all the costs related to the extension and restructuring of loans.
4. To facilitate increased use of mobile digital platforms, banks will waive all charges for balance inquiry through digital platforms.

C.

Impact of Emergency Measures to mitigate COVID-19 on borrowers

	EMERGENCY MEASURE	NO. OF LOAN ACCOUNTS	AMOUNT (KSH.'000)	PERCENTAGE OF TOTAL LOAN BOOK VALUE AS AT MARCH 2020
PERSONAL/ HOUSEHOLD SECTOR	EXTENSION OF TENOR	6,430	9,852,206	0.35
OTHER 10 SECTORS	RESTRUCTURING	1,841	81,557,914	2.87

- The personal/household loan accounts extended accounted for 1.2 percent of the total personal/household Sector gross loans of Ksh.811.90 billion as at March 2020.
- In the other 10 sectors, most of the loans restructured were for Tourism (31 percent), Real Estate (17.2 percent), Building and Construction (17.0 percent) and Trade (12.4 percent).
- In general, the banking sector has started to feel the adverse impact of COVID-19 as a result of slowdown in most economic sectors.
- Requests for extension of personal loans and restructuring of other sectors loans are expected to ramp up in coming months if the pandemic continues to penetrate.
- In April 2020, the seven largest banks restructured loans amounting to Ksh.176 billion.

C. Impact of Reduced Cash Reserve Ratio

- As at end of April 2020, eleven commercial banks and one microfinance bank had been granted approval to access Ksh.17.59 billion freed from the reduction in CRR.
  - This accounted for 50 percent of the Ksh.35.2 billion freed by the 1 percent reduction in CRR.
  - With 50 percent having been used in just one-month, depicts the increased demand for funding from the banking sector.
- The main sectors funded are Tourism (45.58 percent), Agriculture (16.7 percent), Real Estate (11.94 percent) and Trade (10.37 percent).

Economic Sectors	Total Amount, Ksh.'000	Percentage(%)
Manufacturing	1,295,077	7.36
Real Estate	2,100,568	11.94
Agriculture	2,937,148	16.70
Energy and Water	17,142	0.10
Tourism, Restaurant and Hotels	8,018,521	45.58
Transport and Communication	688,418	3.91
Personal/Household	593,786	3.38
Trade	1,825,080	10.37
Financial Services	2,878	0.02
Building and Construction	97,084	0.55
Mining and Quarrying	16,206	0.09
Grand Total	**17,591,907**	**100.00**

D. Support to Micro, Small and Medium Enterprises

- COVID-19 has adversely affected the Micro, Small and Medium Enterprises (MSMEs).
- To mitigate the impact on MSMEs, CBK is working with banks, Government and development finance institutions (DFIs) on:-
    - Access to concessionary and affordable funds.
    - Credit guarantee scheme to facilitate ease access to commercial credit.
    - Finance Plus – Re-skilling and retooling of MSMEs for when the COVID-19 abates.

E. Impact of COVID-19 on the Balance of Payments

- The current account deficit is projected to remain stable at 5.8 percent of GDP in 2020. This reflects offsetting effects of COVID-19 on the current account.
- Horticulture exports, receipts from transport and tourism services, are expected to decline.
  - A significant decline in horticulture exports, particularly flowers was noted, from March to mid-April 2020. This was mainly due to reduced demand in Kenya's key export market destinations.
  - However, orders have started to return, reflecting the impact of mitigation measures put in place by the Government, particularly those targeted at maintaining cargo flights. Easing supply restrictions and lifting of lockdown measures in some of the key destination markets has also helped.
- The imports of petroleum products is expected to decline by US$ 1.1 billion (or 32 percent) due to low international oil prices, offsetting the decline in export earnings and remittances
- Foreign exchange reserves are projected to remain adequate through 2020.
  - Additional financial flows from IFIs in support of the Government 's efforts (e.g., the IMFs RCF of US$ 745 million and World Bank DPO of US$ 1 billion).
  - Foreign exchange reserves are projected to close the year at about 5 months of import cover.

F. Regulation of Digital Lenders

- Concerns on digital lenders on borrower indebtedness, financial integrity and consumer protection.
- Amendments to the Central Bank of Act under consideration by the National Assembly.
- The proposed Central Bank (Amendment) Bill, 2019 seeks to:-
  - Empower the Central Bank of Kenya (CBK) to regulate credit only entities starting with digital lenders.
  - CBK will in regulations set out a regulatory framework for digital lenders.
  - Focus initially on digital lenders and then extend to all unregulated credit providers.

Thank You!

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