TALKING NOTES FOR THE CHAIRMAN OF THE CBK BOARD AT THE FINNISH INVESTORS BRIEFING MEETING – 22ND SEPTEMBER, 2016

I THE INVESTMENT CLIMATE:

1. **Kenya has continued to grow and offers immense investment opportunities supported by:**
   - Stable macroeconomic environment
   - Regulatory reforms
   - Tax treaties and investment protection and protection of agreements
   - Pool of highly educated and skilled workforce
   - Strategic location
   - Highly developed social and physical infrastructure
   - Fully liberalized economy
   - Preferential market access
   - Well established and focal private sector

2. **Recent developments on the Kenyan Economy:**

   (a) **Economic growth:** The Kenyan economy remains resilient, having registered strong performance in 2015 despite headwinds from a weaker global economic environment. Real GDP growth accelerated from 5.3 percent in 2014 to 5.6 percent in 2016, supported by:
      - Higher public investment spending in high quality infrastructure projects… Standard Gauge Railway (SGR),
      - Improved weather conditions that boosted agricultural and hydro-power electricity production.
      - Low international oil prices which have supported lower cost of energy thus boosting manufacturing and transport and storage sectors
      - Recovery of the tourism sector after prolonged spell of poor performance.

(b) **Inflation has largely remained stable:** for an extended period of time it has remained within the government target of 5.0 percent +/-2.5 percent, supported by prudent monetary policy management. It has, however, remained in the upper band largely on account persistently high prices of food witnessed in the country due to unfavorable weather patterns.

(c) Exchange rate has largely remained stable largely supported by:
   - Improving current account balance which stands at 5.5% of GDP

- Adequate forex reserve buffer at the central banks of US$8.1 billion equivalent to 5.4 months of imports cover
- Resilient remittances flows by keys living abroad.

(d) **The Banking sector in Kenya is vibrant:** with over 40 commercial banks (both local and foreign).

- The banking sector remains sound despite the closure of 2 non-systemic banks late last year.
- commercial banks have a large branch network across the country.
- Have cross border operations in the region

(e) Financial inclusion has increased over the years to stand at 75.5 % in 2016 supported by enabling regulation by the Central Bank and other regulators

- Largely attributable to mobile money financial services
- Spillover effect in the region also notable (Uganda, Tanzania, Rwanda)

(f) **Interest rate capping law: the law came into force on September 14, 2016.** The CBK is supporting the sector in implementation of the law. Lending rates are now capped at no more than 400 basis points above the Central Bank Rate (CBR) and deposit rate at no less than 70 percent of CBR. In its meeting of September 20, 2016, the MPC set the CBR at 10.0 percent

II GROWTH AND INVESTMENT OPPORTUNITIES

3. Kenya is the most developed economy in the Eastern Africa. The country holds great potential for both domestic and foreign investment. Besides agriculture, sectors with opportunities for investment and expansion include the energy, construction and real estate, especially with the increased investment in the public infrastructure. Other sectors are Information and Communication Technology (ICT), transport, financial sector and ICT sectors, among others.

- The accelerated public investment in infrastructure (Standard Gauge Railway, port and road construction, investment in the energy sector, etc.) is expected to lower costs of doing business, boost investments and open up more job opportunities especially for the growing youth population.
- Kenya has distinguished itself in the area of financial innovation, particularly mobile financial services. This has greatly enhanced financial access, with 75.3 percent of the adult population having access to formal financial services.
- The mining industry has great potential for growth given the rising prospects of mineral and oil exploration.

III DEVELOPMENTS AND OPPORTUNITIES IN THE ENERGY SECTOR

4. The Government remains committed to its objective of developing world class infrastructure. To achieve this objective the Government has prioritized public investments in energy, roads, rail, ports and water supplies. As noted in the Budget Statement 2016-2017:

   - Significant progress has been made towards generation of 5000 MW of power. 615 MW of power have been added to the National grid and this has significantly reduced the cost of power. Further, the Government continues to exploit the vast geothermal resources that Kenya is endowed by creating a conducive environment for investors to invest, including providing a competitive power purchase agreement, letters of support and risk guarantees arrangements.

   - Kenya expects to produce 300 MW of power from wind in the next one year with the ongoing works at Lake Turkana Wind Project. These resources are expected to increase our clean energy mix cementing Kenya's position as a world leader in renewable energy. The additional power supplies will significantly reduce the cost of doing business, spur growth of enterprises and industries, and accelerate the creation of jobs.

   - The Government is implementing a programme to connect at least 70 percent of Kenyan households to electricity by 2017 and subsequently reduce the connection cost and time by at least 60 percent in the medium term. Already about 5 million households, 14,950 public primary schools and 980 public facilities have been connected to electricity under this programme.

   - For the fiscal year 2016/2017, the Government allocated KSh 120.2 billion (of which KSh 81.6 billion is to be funded by development partners and KSh 38.5 billion is by Government) to fund specific interventions in the energy sector. This will cater for: Geothermal Development; Power Transmission; Rural Electrification Programme; Last Mile Connectivity; National Street lighting Programme; Electrification of Public Facilities; Exploration and Distribution of Oil and Gas; Installation of Transformers in Constituencies; Connectivity Subsidy, and LPG Distribution and Infrastructure Programme.

5. Electricity demand is anticipated to rise as economic activity in the counties increase. Some of the energy-intensive activities contributing to the rise including the following:

   - Mining and production of iron and steel products from local iron ore deposits
   - Irrigation of large tracts of land for food security and agro-based industry
   - Operation of petroleum pipelines for both crude and refined oils

- Petrochemicals production
- Electrification of designated rail lines
- Development of new economic zones

6. Sources of this increased capacity include geothermal, natural gas, wind, coal. Most of these sources have been singled out because of being less vulnerable to environmental changes and external shocks.

   Locally produced natural gas and coal energy sources are expected to provide generation stability, and reduce the number of energy sources in Kenya reliant on imported materials like diesel powered thermal energy and climate affected sources like hydro.

THANKS