CENTRAL BANK OF KENYA

MONETARY POLICY COMMITTEE
SURVEY QUESTIONNAIRE – COMMERCIAL BANKS

DECEMBER 2012

Please check the boxes that best answer each topic in your opinion. A glossary of key terms is attached for your information.

1. Name of establishment ……………………………………………………………………………………

2. Please rank in order of priority (i.e. 1, 2 and 3 in that order) the three major sectors to which your bank lends.

☐ Agriculture and Forestry
☐ Manufacturing
☐ Mining/Quarrying
☐ Building and Construction
☐ Finance and Insurance
☐ Private households
☐ Trade (Wholesale/Retail)
☐ Real Estate (Residential)
☐ Real Sector (Commercial)
☐ Transport and Communication
☐ Energy & Water
☐ Hotels/Restaurants
☐ Other
Please Specify……………………………….…

3. Please rank in order of priority of 1 (most important) to 4 (least important) the major market segments that your bank lends to.

Consumer ☐ Small/Medium (SME) ☐ Corporate ☐

Other ☐ Please Specify…………………………………

Please indicate the percentage of total lending in a year that go to your top choice above ……….

4. Please indicate the proportion of credit issued by your bank in the last two months in the following maturities.

Below 1 year ☐ 1-3 years ☐ 4-5 years ☐ Over 5 years ☐

If the proportions have changed since August 2012, please indicate why…………………………………
………
……

5. Has your bank introduced any new loan products in the last two months?
Yes ☐ No ☐

If yes, please specify the type (deposit/Loan), market segment (consumer/SME/Corporate) and maturity for the new products ………………………………………………………………………………………
………

6. a) What is your current average level of lending interest rates relative to that in November 2012?

	higher by more than 2%	higher by 1 – 2 %	Same Level	lower by 1– 2 %	lower by more than 2%

	(Please specify)				(Please specify)

Please give a reason……..
………..

b) Please indicate the date of the last change in the lending rate by your bank………………………….
………..

7. Please rank on a scale of 1 (**less significant**) to 4 (**more significant**) the contribution of the following factors in the determination of the actual lending interest rates by your bank.

	1	2	3	4
a. Profit margins				
b. Central Bank Rate				
c. Treasury bill rate				
d. Administrative costs				
e. Cost of funds				
f. Country risk rating				
g. Return on risk weighted capital				
h. Risk profile of customer				
i. Quality of collateral				
j. Level of capitalization				
k. Inflation rate				
l. Competition				
m. Exchange rate				
n. Economic growth				
o. Other (specify and rank)				
i.				
ii.				

8. What is your perception on the direction of average commercial banks lending interest rates in the year 2013 relative to that in 2012?

increase by more than 2% (Please specify)	increase by 1 – 2%	Same Level	decrease by 1 - 2%	decrease by more than 2% (Please specify)

Please give a reason for your choice……………………………………………………………………………………….
……
……
……
……
……………………………………………………………………………………………………

9. Are you aware of what monetary policy entails?

Yes ☐ No ☐

If Yes, what were the implications of the monetary policy stance (including liquidity management) in the

last two months on your bank's operations……………………………………………………………………
………..

10. What is the perception on the growth in credit to private sector from your bank in the year 2013 relative to that in 2012?

Higher by more than 20% (Please specify)	Higher by (10-20)%	Higher by (1-10) %	Same Level	Lower by (1-5) %	Lower by more than 10% (Please specify)

Please provide reasons……………………………………………………………………………………………………
………

11. Did your bank meet its targeted growth in credit to private sector in the last 2 months?

Yes ☐ No ☐

If No, please indicate the reasons/challenges encountered…………………………………………………………

12. What is your perception on the direction of average commercial banks deposit interest rates in the year 2013 relative to that in 2012?

increase by more than 3% (Please specify)	increase by 2 – 3%	increase by 1 – 2%	Same Level	decrease by 1-2%	decrease by more than 2% (Please specify)

Please give a reason for your choice……………………………………………………………………………………
………

13. Please provide an indication of the maximum and minimum deposit interest rates on various products for your bank as below:

	October 2012		November 2012	
	Minimum	Maximum	Minimum	Maximum
a) Corporate				
Demand				
0-3 Months				
4-6 Months				
7-11 Months				
1-2 Years				
3-5 Years				
Over 5 Years				
b) Personal				
Demand				
0-3 Months				
4-6 Months				
7-11 Months				
1-2 Years				
3-5 Years				
Over 5 Years				

Please give an explanation for the trend in deposit rates above…………………………………………………
………
………
………

14. The following factors are often cited as determinants of interest rate spread. Please rank the factors on a scale of **1 (not significant)** to **5 (most significant)** with respect to your bank. Please **tick only one box per factor**.

	1	2	3	4	5

a) Interest rate risk					
b) Country risk					
c) Liquidity risk					
d) Profit margins					
e) Administrative/operational costs					
f) Credit risk					
g) Treasury bill rate					
h) Policy Rates (Central Bank Rate)					
i) Cost of funds					
j) Inflation					
k) Competition					
l) Economic growth					
m) Central Bank Discount Rate					
n) Exchange rate risk					
o) Legal risk					
p) Others (Specify and rank)					
i.					
ii.					

15. Please rank on a scale of 1 (**less significant**) to 4 (**more significant**) the importance of the following factors in the determination of interest rates on deposits in your bank.

	1	2	3	4
a. Level of Liquidity				
b. Treasury bill rate				
c. Level of Competition				
d. Return on invested capital				
e. Cash ratio rate				
f. Level of capitalization				
g. Other (Specify and rank)				
i.				
ii.				

16. a) Does your bank use the Government's economic growth forecast when planning?

Yes ☐ No ☐

If Yes, in what specific areas? ....
....

b) The Government economic growth target for the country in the year 2013 is 5.6%. What is your expectation?

above 6.0% (Please specify)	5.7 to 5.9%	Same Level (5.6%)	5.0 to 5.5%	below 5.0% (Please specify)

Please provide a reason for your perception in 16 (b) above on economic growth……………………………
………
………

17. a) Does the inflation rate guide the decision making process in your bank?

Yes ☐ No ☐

b) What is your expectation on the overall month-on-month inflation rate in the year 2013 relative to the 3.25% in November 2012?

increase by more than 2%	increase by 1 – 2%	Same Level	decrease by 1 - 2%	decrease by more than 2%

Please provide a reason for your expectation in 17(b) above on the inflation rate ……………………………
………
………

18. Which of the following currencies constitutes the largest proportion in which your bank lends to the private sector?

Ksh ☐ US$ ☐ Sterling Pound £ ☐ Euro € ☐

Other (Please indicate)…………………………………………………………………………………………………
………

19. What is your expectation on the direction of the average exchange rate of the Ksh/USD in the year 2013 compared with the 85.93 at the end of November 2012?

Strengthen by more than 3%	Strengthen by 1 – 3%	Same level	Weaken by 1 - 3%	Weaken by more than 3%

Please provide a reason for your expectation on the exchange rate…………………………………………………
………
………

20.(a) How would you rate the current level of liquidity in the entire banking system?

Adequate ☐ High ☐ Very High ☐ Low ☐

(b) If your answer to 20 (a) is high/very high/Low, please provide reasons for this level of liquidity from your bank's perspective…………………………………………………………………………………………
………

21. Please provide suggestions on how the Government could address the following:

(i) Maintain Exchange Rate stability
………
………

(ii) Maintain the current level of inflation within the target range (2.5-7.5)%
………
………

(iii) Maintain Interest rate stability
………
………

(iv) Enhance economic growth
………
………

22. (i) Name and position of person completing the questionnaire ………………………………………………………………………………………………
(ii) Date on which questionaire was filled ………………………………………………………………………………………………
(iii) Address: ………………………………………………………………………………………………
(iv) E-mail address (if any)
(v) Telephone Number
(vi) Town/Location

GLOSSARY OF KEY TERMS

1. Central Bank Rate (CBR)
This is the lowest rate of interest that the CBK charges on loans to commercial banks. It is reviewed and announced by the Monetary Policy Committee at least every two months as part of its decisions.

2. Reserve Requirements
The amounts that banks are required to keep on deposit at the Central Bank based on the legal Cash Ratio Requirements.

3. Excess Reserves
Bank reserves in excess of the reserve requirement set by the central bank. Bank reserves are banks' holdings of deposits in accounts with the central bank.

4. Retail Lending Products
These are loans to individuals rather than institutions.

5. Corporate Lending Products
These are loans to institutions rather than individuals.

6. Interest rate risk
The risk borne by an interest-bearing asset such as a loan or a bond, due to variability of interest rates.

7. Country risk
The risk of investing in a country, dependent on changes in the business environment, that may adversely affect operating profits or the value of assets in a specific country. For example, financial factors such as currency controls, regulatory changes, or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks. Price controls also bring in inefficiencies in the market.

8. Credit risk
Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit (either the principal or interest (coupon) or both). This is proxied by the ratio of gross non-performing loans to the total loans

9. Liquidity risk
The risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

10. legal risk
The risk of a loss arising from the uncertainty of legal proceedings

SUMMARY OF MPC DECISION ON 7TH NOVEMBER, 2012

The Monetary Policy Committee (MPC) met on 7th November, 2012 to review market developments and evaluate the outcomes of its monetary policy stance. The Committee noted that this stance had continued to deliver the desired outcomes of a decline in overall inflation and exchange rate stability. The Committee also noted that while there remain risks to the macroeconomic outlook emanating from continued volatility of international oil prices and high current account deficits, overall inflation had maintained its decline overtime and exchange rate remained stable. The Committee therefore concluded that there was adequate space for easing of monetary policy stance while monitoring the above developments. On the basis of this, the Committee decided to reduce the CBR by 200 basis points to 11.0 percent.