Patrick Njoroge: Launch of the *Foreign Investment Survey* 2016

Remarks by Dr Patrick Njoroge, Governor of the Central Bank of Kenya, at the launch of the *Foreign Investment Survey 2016*, Nairobi, 4 August 2016.

*   *   *

Good morning!

It is a great honor to welcome you this morning to the launch of *Foreign Investment Survey (FIS) 2016*, the fourth since the launch of the project in 2010. I am grateful to each one of you for your attendance. I also thank the Cabinet Secretary, Ministry of Devolution and Planning, for finding time to be with us. I acknowledge the support from the Government, and the strong partnership between the key collaborating institutions in funding and organizing the FIS.

This year's FIS theme *improving the quality of cross-border financial flows for better decision making* is quite relevant to our circumstance and in the context of the current global developments, which I will shortly turn to. It is a fact that globalization and interconnectedness of the world economy has become an integral part of policymaking today. The challenges we face in the current economic climate, call for data-driven policymaking, requiring accurate and timely data for effective policy action.

Financial integration is bringing about steadily rising cross-border financial flows and the accumulation of such inward and outward foreign direct investment (FDI), portfolio investment and financial derivatives. Today, we seek to raise awareness among the private enterprises that will be covered during the FIS 2016, on the importance of quality data and information, and also on achieving broader coverage.

This exercise is significant as it will enable us collect the relevant disaggregated data for analysis, and also to understand the dynamics of cross border financial flows. Examining the details behind the aggregate statistics enriches our understanding of economic developments, and at the same time increases our flexibility in responding to unforeseen challenges in an appropriate manner.

According to UNCTAD's *2016 World Investment Report*, global FDI flows increased by 38 percent to US$ 1.76 trillion in 2015, though still 10 percent below the peak in 2007. This improvement mostly reflects increased cross-border mergers and acquisitions. In 2016, FDI flows are expected to decline by between 10 and 15 percent against the backdrop of weak global growth which has had a direct impact on the profitability of enterprises.

Kenya continues to be a top destination for FDI flows and is now ranked third by project numbers among countries in the Middle East and Africa in the *2016 FDI Intelligence Report* published by the Financial Times. FDI into Kenya by project numbers increased by 47 percent, reaching 84 announced projects, compared with increases in Ghana (21 percent), Nigeria (19 percent), Egypt (14 percent) and South Africa (3 percent). Likewise Kenya ranks high as a home country for FDI. In particular, FDI out of Kenya by capital investment reached US$1 billion in 2015 placing it tenth in the Middle East and Africa region compared with U.A.E. (US$21.8 billion), South Africa (US$2.5 billion), Mauritius (US$2.1 billion), and Egypt (US$1.7 billion).

Key trends on foreign inflows in 2015, reported in the Economic Survey, include:

- FDI into Kenya increased by 8.4 percent to US$1.5 billion in 2015
- Portfolio investments declined from US$3.4 billion to US$34 million in 2015 on the backdrop of the sovereign bond issuance in 2014
- Other investment flows more than doubled from US$2.2 billion to US$4.6 billion in 2015

Analysis by sector indicates that the top five recipient sectors of FDI inflows include: wholesale and retail trade, financial and insurance, manufacturing, construction, and electricity and gas supply.

Allow me now to touch on three global developments that are likely to have implications for foreign investment flows to our country.

- First, the subdued global economic growth that has been worsened by the prolonged period of uncertainty relating to the slowdown and rebalancing of the Chinese economy, lower commodity prices, and geopolitical developments and concerns surrounding “Brexit”. Consequently, global growth is now projected at a worrisome 3.1 percent in 2016.The fact that central banks in advanced economies are maintaining an accommodative stance is a clear indication that the global economy has not yet recovered to sustainable levels. In addition, most of the emerging economies have faced volatile capital flows and exchange rates attributable to the accommodative policies, and the prospects of unwinding the unconventional monetary policies.
- Second, the ongoing divestiture of major international companies around Africa, as reflected in a number of multinational enterprises downsizing their assets through outright sale and transfer to domestic companies, otherwise referred to as de-risking. The main problem we observe with this process is the ambiguity and poor information flow on the measures by these enterprises to facilitate proper supervision and regulation, especially in the financial sector.
- Third, the implication of “Brexit” on trade and investment. Whereas the first round effects have had minimal impact on our financial market, we expect longer-term implications on economic growth and development, given that Kenya has significant trade links with Europe, as our main foreign exchange earners notably tea, horticulture and tourism exports, are to the EU region. In addition, there are several European companies that have invested in Kenya. Available data shows that the stock of inward foreign direct investment from Europe to Kenya stands at 45 percent of total FDI. The UK alone accounts for 23 percent. A reduction though unlikely in the short term in both trade and investment from Europe may have negative implications on the Kenyan economy.

In light of these concerns, regulators, particularly of the financial sector around the world have embarked on regulatory reform programs to minimize the envisaged spill-over effects of these crises on financial and real sector of the economy. Policy measures being undertaken by the Central Bank of Kenya and the other financial sector regulators are intended to build confidence in investors and the general public. The intended outcome of the policy measures is to improve the domestic macroeconomic environment; in particular, overall price and financial sector stability, narrowing the current account balance as well as maintaining adequate reserve buffers.

Finally, the survey embodies inputs from many teams – designing the survey, respondents and analysts. I want to pay tribute to these unsung heroes, without who we would have no hope for quality data.

With these remarks, Ladies and Gentlemen, let me once again welcome you to this breakfast launch event.

Thank you.