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NAVIGATING THROUGH TURBULENT TIMES
Remarks by Dr. Patrick Njoroge
Governor, Central Bank of Kenya
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As Prepared for Delivery

Good morning! I am indeed honored to speak before this distinguished forum.

I would like to express my thanks to the organizing committee of this conference for the invitation to participate in this session, and to deliver the keynote address. Let me also acknowledge the important role of the GenAfrica Asset Managers Limited in the economy particularly with respect to pension fund management and property investment advisory. Although your investment philosophy is to achieve investment returns without exposing clients' assets to unnecessary risk, we have seen heightened uncertainties in the domestic and global economies which require closer monitoring.

The theme of this conference – *Navigating through Turbulent Times* – resonates with the challenges that most emerging and developing economies are going through as they seek to deliver on their mandates of ensuring macroeconomic stability and promoting growth. These economies, Kenya included, have become more integrated with the global economy, and are therefore exposed to external shocks largely through the linkages in the financial markets, foreign direct investment flows, as well as commodity prices.

Growth in Sub-Saharan African (SSA) region has been held back in 2016 by the weak global economy, the decline in commodity prices, and uncertainty in the financial markets. In particular, SSA growth is projected to decelerate to 1.4 percent in 2016 from 3.4 percent in 2015, and from an average of 5.3 percent in the period 2010–2014. This is the slowest growth for the region in twenty years. The outlook for the global economy is confounded by uncertainties around the impact of Brexit and political developments in the U.S. Given these risks, and in line with the theme of this forum, I would like to provide some highlights on the outlook for Kenya's economy, and to outline some of the measures we are implementing to mitigate the risks.

Kenya's economy has remained strong, growing at an average of 5.6 percent during the period 2011-2015, which was higher than the SSA average growth of 4.3 percent. The growth averaged 6.1 percent in the first half of 2016 and is projected at 6.0 percent in 2016, up from 5.6 percent in 2015. This outlook is underpinned by continued public and private sector investment, strong agriculture performance, increased private consumption, and a stable macroeconomic environment.

Improved business conditions reflected in a stable macroeconomic environment, security, and infrastructure development have created a conducive and predictable environment for investment, and economic activity. According to the World Bank 2017 Doing Business Report, Kenya climbed 16 ranks to position 92 from 108 in 2016 and is the World's third most reformed country. These developments reflect the ongoing reform effort by the Government to improve the business environment.

Prudent monetary policy has kept inflation within the government target range, and maintained stability in the foreign exchange market. Despite the significant pressures on food prices, inflation was 6.7 percent in November 2016 compared with 7.3 percent in November 2015, and 6.5 percent in October 2016. Non-food non-fuel inflation remains relatively stable. The CBK remains cognisant of the adverse effects of food and oil price shocks on inflation.

Kenya's external position remains resilient despite the weaker global growth prospects. The current account deficit is expected to narrow to 5.5 percent of GDP in 2016 from 6.8 percent in 2015 largely reflecting a decline in the value of imports of petroleum products and machinery and equipment. In addition, export earnings from tea, coffee, and horticulture have stabilised, while diaspora remittances and receipts from tourism have improved. These developments continue to support stability in the foreign exchange market despite the uncertainty in the global financial markets following the U.S. elections, and the potential for a resumption of tightening of U.S. monetary policy. The CBK foreign exchange reserves, which stand at 4.8 months of import cover, together with the Precautionary Arrangements with the IMF totalling USD 1.5 billion continue provide buffers against short term shocks.

The continued achievement of the CBK's price stability objective has provided an adequate policy space for the economy to withstand external shocks. In addition, the floating exchange rate regime has allowed continued adjustment of the exchange rate to shifts in the demand for and supply of foreign exchange, while ensuring that reserves are only used to smoothen short term volatility in the exchange rate.

Nevertheless, risks to the economy remain largely with regard to the uncertainty surrounding future trade relationships with the U.K. and E.U. following Brexit, as well as uncertainty over the signing and subsequent ratification of the EU–EAC economic partnership agreements (EPAs). Kenya has significant trade links with Europe, as our main foreign exchange earners notably tea, horticulture and tourism exports are to the EU region. The government has already intensified efforts in the EAC region to renew the EPAs.

The diversification in Kenya's export products and external markets is expected to moderate any adverse effects of external shocks on exports. A significant share of Kenya's exports, about 40 percent, is exported to Africa, and these economies are not dominantly reliant on commodity exports. We are also closely monitoring the impact of the recent elections in the U.S. on trade given that the U.S. accounts for about 7 percent of Kenya's total exports; largely through the African Growth and Opportunity Act (AGOA) framework.

Before I conclude, I would like to reiterate that the CBK is strengthening the banking sector to ensure greater transparency and stronger governance, and also to promote effective business models and innovation. As you may be aware, the financial sector continues to support the transformation of our economy, and to contribute to economic growth. The CBK is closely monitoring the impact of the recent legislation to cap bank interest rates on the economy, while implementing additional measures to lower the cost of credit on a sustainable basis. These measures include promoting innovation in the banking sector leveraging on ICT, and strengthening the Credit Reference Bureaus to provide for a credit scoring framework.

Finally, **Ladies and Gentlemen,** allow me once again to applaud GenAfrica Asset Managers Limited for organizing this forum.

Thank you!