

Kamau Thugge: Acceptance speech - African Bankers Awards 2024

Acceptance speech by Dr Kamau Thugge, Governor of the Central Bank of Kenya, at the African Bankers Awards 2024, Nairobi, 28 May 2024.

* * *

As prepared for delivery

Excellencies
Distinguished Guests
Ladies and Gentlemen

Good evening. I am very pleased to join you on this auspicious occasion of the African Banker Awards, 2024. I greatly appreciate the invitation to this important event, and I am humbled and honoured to be awarded the African Central Bank Governor of the Year Award. The Award reflects the efforts of the Board, Monetary Policy Committee, the Management, and staff of the Central Bank of Kenya (CBK), to whom I am grateful.

Tonight's recognition affirms Kenya's sound macroeconomic policies, for which I thank His Excellency the President, Dr. William Samoei Ruto, for providing overall leadership. I also greatly appreciate the institutions we have walked the journey with including the National Treasury, the President's Council of Economic Advisors, my banking sector colleagues, and our development partners.

When I was appointed CBK Governor in June 2023, the Kenyan economy was reeling from shocks such as a surge in global energy and food prices, and climate factors that were exerting upward pressure on food prices. Currencies in emerging and developing economies were on a free fall, due to the monetary policy tightening in advanced economies. Capping all this, was our dysfunctional interbank foreign exchange market, with low liquidity and significant foreign payments backlog, which led to low investor confidence, especially for foreign investors.

As a result of these shocks, our overall inflation rose sharply to peak at 9.6 percent in October 2022, and remained elevated at around 8.0 percent through May 2023. The shilling also depreciated rapidly, exerting upward pressure on domestic prices, and contributing to a significant increase in the Kenya shilling value of foreign currency denominated debt and debt service.

My priority, therefore, was to address the inflationary pressures and the rapid depreciation of the Kenya Shilling. I convened my first Monetary Policy Committee (MPC) Meeting on June 26, 2023, one week after my appointment as CBK Governor, and The Committee agreed to raise the Central Bank Rate (CBR) by 100 basis points- the highest single rate increase since July 2015. This was followed by another sharp rate increase in December 2023 of 200 basis points, and a further 50 basis points in February 2024, thereby raising the CBR cumulatively by 350 basis points to 13.00 percent. This tight monetary policy stance continues to anchor inflationary expectations and addressing any residual exchange rate pressures.

In addition to tightening monetary policy to anchor macroeconomic stability, we immediately embarked on several other key reforms including:

- (i) Introducing a new monetary policy framework based on inflation targeting in order to enhance monetary policy transmission.
- (ii) Introducing the Kenya Foreign Exchange code for commercial banks, aimed at strengthening and promoting the integrity and effective functioning of the wholesale foreign exchange (FX) market.
- (iii) Introducing the Electronic Matching Systems (EMS) in the interbank forex market in August 2023 to promote a transparent and accountable price discovery mechanism and ensure visibility to all market participants; and
- (iv) Unifying the parallel exchange rates whereby the CBK was quoting a different exchange rate from that quoted by commercial banks. We now have a single rate which is based on actual transactions in the interbank forex market.

The CBK has also introduced a state of the art Financial Market Infrastructure, the Dhow Central Securities Depository (DhowCSD), which was launched by His Excellency President William Ruto, on September 11, 2023. The system has transformed Kenya's financial markets through enhanced operational efficiency and expansion of digital access, market deepening for broader financial inclusion, and improved monetary policy operations. It has improved domestic and foreign investor access to the Kenyan capital market, by providing a simple, secure and efficient process for Diaspora Kenyans to invest in government securities, wherever they maybe globally. The DhowCSD platform has been named the winner of "Central Banking's Payments and Market Infrastructure Initiative Award", by Central Banking Publications. The award recognizes the critical role DhowCSD has played in improving the financial markets infrastructure in Kenya.

In line with the Government's focus on "Hustlers" and ensuring no-one is left behind, the CBK intends to leverage the DhowCSD to introduce a retail bond for low-income investors, known as M-Akiba. We expect low-income investors to invest as low as US\$ 5 in government securities through M-Akiba-thereby democratizing investing in Government Securities.

Turning to financial stability, Kenya's banking sector remains sound and stable, with adequate capital and liquidity buffers. Taking cognizance of the existential threat of climate change and working together with our development partners including the International Monetary Fund and the European Investment Bank, we have embarked on our vision of greening the banking sector. Towards this end we have issued the draft Kenya Green Finance Taxonomy (KGFT) for public consultation. The KGFT will serve as a reference for Kenya's transition to being a green economy.

On the payments system front, Kenya has continued to be a global leader in digital financial services with an elaborate ecosystem. This has greatly expanded access to financial services in Kenya from 26 percent in 2006 to 83 percent in 2021. The Kenyan economy has also become more cash lite due to the advent of mobile money payments, with currency in circulation as percentage of GDP standing at 2.1 percent in

2023, way below other countries. In the past year have licensed additional Payment Service Providers (PSPs) and Digital Credit Providers (DCPs) to provide additional choice and access to Kenyans.

On cross border payments, the CBK continues to support the East African Payments System (EAPS) and the Pan-African Payments and Settlement System (PAPSS). Accordingly, CBK signed an Agreement with Afreximbank to enable Kenyan financial institutions to join PAPSS, which will enable them to participate in the continental payment system to spur intra-Africa trade.

Overall, the various measures I have highlighted tonight have contributed significantly to restoring macroeconomic stability. Overall inflation rate eased to CBK's target of 5.0 percent in April 2024 compared to 8.0 percent in May 2023. This is the lowest overall inflation since October 2020, 43 months ago. In addition, the Shilling has appreciated by 17% against the U.S. dollar since the beginning of 2024, making it the best performing currency globally, against major currencies. The appreciation has led to huge savings in debt service and reduced debt stock in Kenya shillings-our shilling denominated debt declined by around 6 percent of GDP within a period of weeks.

As I conclude, CBK will continue to build on these gains and reforms to safeguard macroeconomic and financial stability and support the Government's economic growth objective. With improved investor confidence and sustained macro-stability, we expect the economy to remain strong in 2024, with growth projected at about 5.7 percent, supported by agriculture, resilience of the services sector, and implementation of Government measures to boost economic activity across priority sectors in line with the Bottom-up Economic Transformation Agenda (BETA). This projected growth is well above the global average of 3.2% and that of SSA at 3.8%.

On this note Ladies and Gentlemen, and with humility and profound gratitude, I accept this award. Thank You.