KEYNOTE ADDRESS BY THE CABINET SECRETARY/THE NATIONAL TREASURY, HON. HENRY K. ROTICH, DURING THE LAUNCH OF THE KENYA COUNTRY ECONOMIC MEMORANDUM ON MARCH 08, 2016

Ladies and Gentlemen

Good Morning.

1. Allow me from the onset to thank the World Bank through the County Director Ms. Diarietou Gaye, for the invitation to this important function for the launch the Kenya Country Economic Memorandum.

2. It is indeed my great pleasure to be with you this morning.

Ladies and gentlemen

3. Considering that we are here to deliberate on economic agenda for growth let me start by highlighting the recent economic developments in the country.

Economic Growth

4. The Kenya's economic growth has remained strong supported by significant infrastructure investments, construction, mining, lower energy prices and improvement in agricultural productivity. The economy grew by 5.3 percent in 2014 and remained resilient in 2015, with the first three quarters of 2015 recording an average growth of 5.5 percent, compared to a growth of 5.3 percent registered in a similar period in 2014.

5. The economic outlook is framed against a backdrop of uneven and moderate global recovery. As you are aware, global growth for 2015 is projected to slow down to 3.1 percent from 3.4 percent in 2014 and recover to 3.6 percent in 2016. Recovery is expected in advanced economies while activity in emerging market and developing economies is projected to slowdown, primarily reflecting the declining commodity prices, reduced capital flows and pressure on their currencies, and increasing financial market volatility. We therefore project that the Kenyan economy will record a real growth rate of 5.5 percent in FY 2014/2015, 5.8 percent in FY 2015/2016, 6.1 percent in FY 2016/2017.

Inflation

6. In addition to the resilient growth, Kenya has preserved the Macroeconomic stability with inflation remaining on average within target. Overall month-on-month inflation declined to 7.8 percent in January 2016 from 8.0 percent in December 2015.

7. Though the annual average inflation, in 2015 was within target at 6.5 percent, some months recorded higher than target inflation rates. The higher rates was mainly as a result of temporary factors, including the pass-through from past exchange rate depreciation, increases in food prices, and adjustments to fuel prices.

8. We expect that the inflation will revert back to target in the next few months driven by the prudent monetary policy being implemented by the Central Bank of Kenya.

Exchange Rate

9. The Kenya Shilling exchange rate which had weakened against major international currencies from mid-2015 has strengthened reflecting monetary policy measures instituted in the third quarter of 2015 that led to increased foreign exchange inflows in the money market. The depreciation of the currency was mainly due to the global strengthening of the US Dollar on the international market, and high dollar demand by importers in the domestic market.

10. The Kenya Shilling exchange rate has continued to display relatively less volatility compared with the major regional currencies and depreciated against the dollar by only 12 percent for the period to January 2016.

This is due to due to increased foreign investor participation in the NSE resulting to foreign exchange inflows into the money market, narrowing of the current account deficit reflecting lower import bill for products, recovery of the tourism, tea and horticulture exports and Diaspora remittances.

11. From a high exchange rate of Ksh.105.3 against the dollar, Ksh.161.5 against the Sterling Pound and Ksh.118.2 against the Euro in September 2015, the currency has since stabilized. The shilling strengthened to Ksh.102.3 against the dollar, Ksh.147.5 against the sterling pound and Ksh.111.1 against the Euro in January 2016.

Interest rates

12. Tight monetary policy stance to anchor inflationary pressures and liquidity tightness following the receivership of Imperial bank led to the interest rate spike in October 2015. Liquidity conditions in the market have now stabilized resulting in a decline in the interest rates. The interbank rate which averaged 7.3 percent in December 2015 from a high of 19.9 percent in September 2015, has gone even further lower to 4.2 percent as of 22nd February, 2016. The 91-day Treasury bill rate declined to 10.8 percent as of 22nd February, 2016 from a high of 21.7 percent in October 2015.

13. Arising from an upward revision of The Kenya Banks Reference Rate (KBRR) from 8.5 percent in January 2015 to 9.87 percent in July 2015, average lending rates have increased marginally to 18.3 percent in December 2015, up from 16.0 percent in December 2014, while the deposit rate increased to 8.0 percent from 6.8 percent over the same period. Consequently, interest rate spread rose slightly to 10.3 percent in December 2015 from 9.2 percent in December 2014.

Foreign Exchange Reserves

14. The current level of foreign exchange reserves continues to provide an adequate cushion against exogenous shocks. Gross official reserves held by the Central Bank decreased to US$ 7,534 million (4.8 months of import cover) in December 2015 from US$ 7,895 million (5.0 months of import cover) in December 2014.

15. Gross foreign exchange holdings of the banking system increased by 0.6 percent from US$ 9,738 million in December 2014 to US$ 9,794 million in December 2015. The commercial banks' reserves increased from US$ 1,843 million in 2014 to US$ 2,259 million in 2015.

16. Furthermore, the current account deficit narrowed, mainly due to a lower oil import bill, and a slowdown in consumer imports and importation of air transport equipment in 2014.

17. It is worth mentioning that the lower commodity prices especially oil prices are expected to impact positively on our economy. The near-term prospects remain quite favorable benefiting from lower oil prices, although, this positive effect is partly offset by the decline in the prices of other exported commodities. The low oil prices will continue benefitting the country through infrastructure investment; buoyant services sectors, and strong agricultural production.

18. Having said that, the journey to achieving high and equitable growth is not all smooth as we are faced by challenges both within and from outside. Kenya's economic growth has shown higher volatility compared to our peers in the last decade. The sources of the volatility have been exogenous _through trade or global commodity prices and domestic _election cycle, weather (these domestic shocks have longer effects than exogenous shocks).

Ladies and gentlemen

19. As we thrive to surmount the challenges in our economy, we need to consciously think of ways we can accelerate and sustain growth over the long term.

20. The government has deliberately in the last two years designed policies that aim at pushing the country's growth in a trajectory so that her people can enjoy the growth benefits equally. Among the policies that were stated and continue to be implemented by the government include: creating and sustaining a conducive business

environment for job creation; investing in sectoral transformation to ensure broad based and sustainable economic growth; investing in infrastructure for growth of competitive industries; investing in quality and accessible social services (health, education and social safety net); and consolidating gains made in devolution in order to provide better services and enhanced rural economic development.

21. We have made tremendous achievements and continued implementation of programmes under the areas I have mentioned above will create a strong economic growth by raising overall productivity and efficiency in the economy, thereby bolstering and sustaining high and inclusive growth.

22. Let me enumerate just but a few of the achievements by the government:

- Greatly improved business environment for investment opportunities by safeguarding macroeconomic stability, enhanced security particularly police and military modernisation, enhanced security organs mobility, decent housing among others.
- Improved general infrastructure within the country; construction of the Standard Gauge Railway is 65 percent complete; major roads have been improved; enhanced generation of energy particularly geothermal; enhanced electricity connection; scaled up the street lighting programme.
- Increased capitation for free primary and free day secondary education.
- Equipped public hospitals in various Counties with specialised medical equipment.
- Continued to modernise the agriculture sector and rolled out irrigation programmes across the country.
- Proactive policy interventions as well as strategic investments in infrastructure rollout for ICT hence making Kenya among the leading lights.

Ladies and gentlemen

23. Among other factors, the achievements have continued to place Kenya as a safer and preferred investment destination. According to the recent ratings, Moody's reaffirmed Kenya's rating at B1. They have predicted a stable outlook for Kenya supported by infrastructure development expected to boost productivity, a rapidly expanding services sector and a near term improvement in the country's terms of trade. The country will benefit from low crude oil prices that will significantly reduce import bill and impact positively on the CA deficit.

Ladies and gentlemen

24. A quick glance at the Kenya country economic memorandum by the World Bank gives a picture of where we have come from as a county and where we will head as long as we implement policy reforms consistent with our development agenda.

25. Key message that I wish to pass to this gathering, which may be covered by the memorandum or not, is that:

(i) The fiscal decentralization (Kenya is in her third year since devolution) will catalyse economic growth. However, we are conscious of the downside risks that it may pose to our economic growth. As a government, we shall continue working keenly and closely with the County governments to address the challenges that may jeopardize the benefits of decentralization. As you may be aware, the Public Finance Management regulations for the governments (County and National) 2015, separately, are now in place to ensure that better management of public finances and service delivery as expected by the constitution.

(ii) The recently passed Special Economic Zones (SEZ) Act, 2015 provides for the establishment of special economic zones, the promotion and facilitation of global and local investors, the development and management of enabling environment for such investments, among other connected purposes. Considering that in the past we have had export processing zones that focused mainly on the apparel industry, we hope that with the successful implementation of the SEZ Act, 2015 some failures we encountered in the past will be addressed and that more areas will be covered as provided for in the spirit of the Act.

(iii) Kenya has great potential in our large and growing youth with entrepreneurial spirit if only we can facilitate through improving access to technology, expanding education, encouraging diversification of the economy, enhancing access and affordability of credit.

(iv) Kenya's growing economy has been consumption driven, so opportunities to meet the demand for goods and services for the rising middle class are plenty. However, importing those goods and services is more profitable than producing given high cost of labor and utilities (electricity, land, and transport). We therefore need to improve our competitiveness in addressing the issues that hinder firms from setting up their industries in the country.

(v) As a country, we shall also endeavour to ride in our success stories to continue marketing Kenya as a hub for investment and doing business. The rapid development and penetration of mobile services has been a blessing and through policies of increasing penetration and access the country will continue reaping benefits of this 21st century advances.

26. In conclusion, **Ladies and gentlemen**, I hope that the deliberations and conclusions from this very important forum and the memorandum that is being launched today will assist the government in identifying the drivers of the economic growth and take home message on the areas that we can reap more as a nation.

27. Finally, Ladies and gentlemen, as a Government, we wish to reiterate our commitment that our doors remain open to all stakeholders who wish to partner with us in our endeavours.

Thank you.

-----------OoO----------