THE NATIONAL TREASURY
PRESS STATEMENT

INCREASING PRIVATE SECTOR CREDIT AND MORTGAGE FINANCE IN KENYA

The Cabinet Secretary to the National Treasury, Mr. Henry Rotich has briefed The Deputy President, His Excellency William Ruto on the recommendations by a Committee that was constituted to explore ways of enhancing private sector credit and mortgage finance in Kenya.

Kenya's financial sector has made commendable progress over the years in growing private sector credit which stands at about 40% of GDP. This compares favourably with regional comparator countries such as Nigeria, Uganda and Tanzania. However Kenya's level of private sector credit is way below international peer countries like Mauritius, South Africa and Malaysia whose private sector credit to GDP ratios are above 100%. One of the key barriers to the growth of credit in Kenya has been cited as the relatively high cost of accessing credit for both individuals and business enterprises.

The total number of mortgage accounts in Kenya currently stands at 20,000, which is significantly below the demand for housing units of more than 200,000 per year and growing. There is therefore an urgent need to increase the supply of new and affordable housing units. This should be supported by affordable mortgage finance to facilitate uptake of the units.

The main recommendations by the Committee include:-

- All banks to use a transparent pricing framework to be known as the Kenya Banks' Reference Rate (KBBR). The KBBR will be computed as an average of the Central Bank Rate (published by the Central Bank after Monetary Policy Committee meetings) and the average 91-day Treasury bill rate which is a short term proxy for risk free return on funds. The KBBR will be published by the Central Bank of Kenya and will be effective for six month periods. Following the announcement of the KBBR by the Central Bank, commercial banks will then price their flexible rate loans using the formula "KBBR+k" where k is a premium to be loaded to the reference rate and may depend on various factor including the banks' cost of doing business, the borrower's credit profile and product type. All new flexible loans issued after July 1, 2014 will be priced using the new KBBR framework while a transition period of one year from July 1, 2014 will be provided to allow banks to recalculate existing loans in line with the new framework