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# The Importance of Liquidity

Presented by

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# Outline

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## 1. Global Economy

- Liquidity trends
- Inflationary pressures

## 2. State of Kenyan Economy - Liquidity

## 3. Economic Measures and Outcomes in the Context of COVID-19 Pandemic

## 4. Conclusion

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## 1.0 Global Financial Crisis (GFC) strengthened global financial system-leading to strong buffers, synergies and aligned responses to COVID-19

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GFC was driven by excessive risk taking, weak governance & risk management frameworks, complex business models & short-termism.

- Post-GFC reforms sought to ensure:
    - Resilience of global financial systems.
    - Strengthening governance, risk management, business models and financial positions of institutions.
    - Shift towards long-term societal considerations.
  - Outcomes of reforms aligned financial institutions to ride through COVID-19 pandemic
    - Resilience- strong liquidity and capital buffers
    - Supporting the economy and borrowers-protecting the balance sheet and not profit and loss
    - Supporting customers to ensure continued operations post-COVID
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## 1.1 COVID-19 crisis - Importance of liquidity

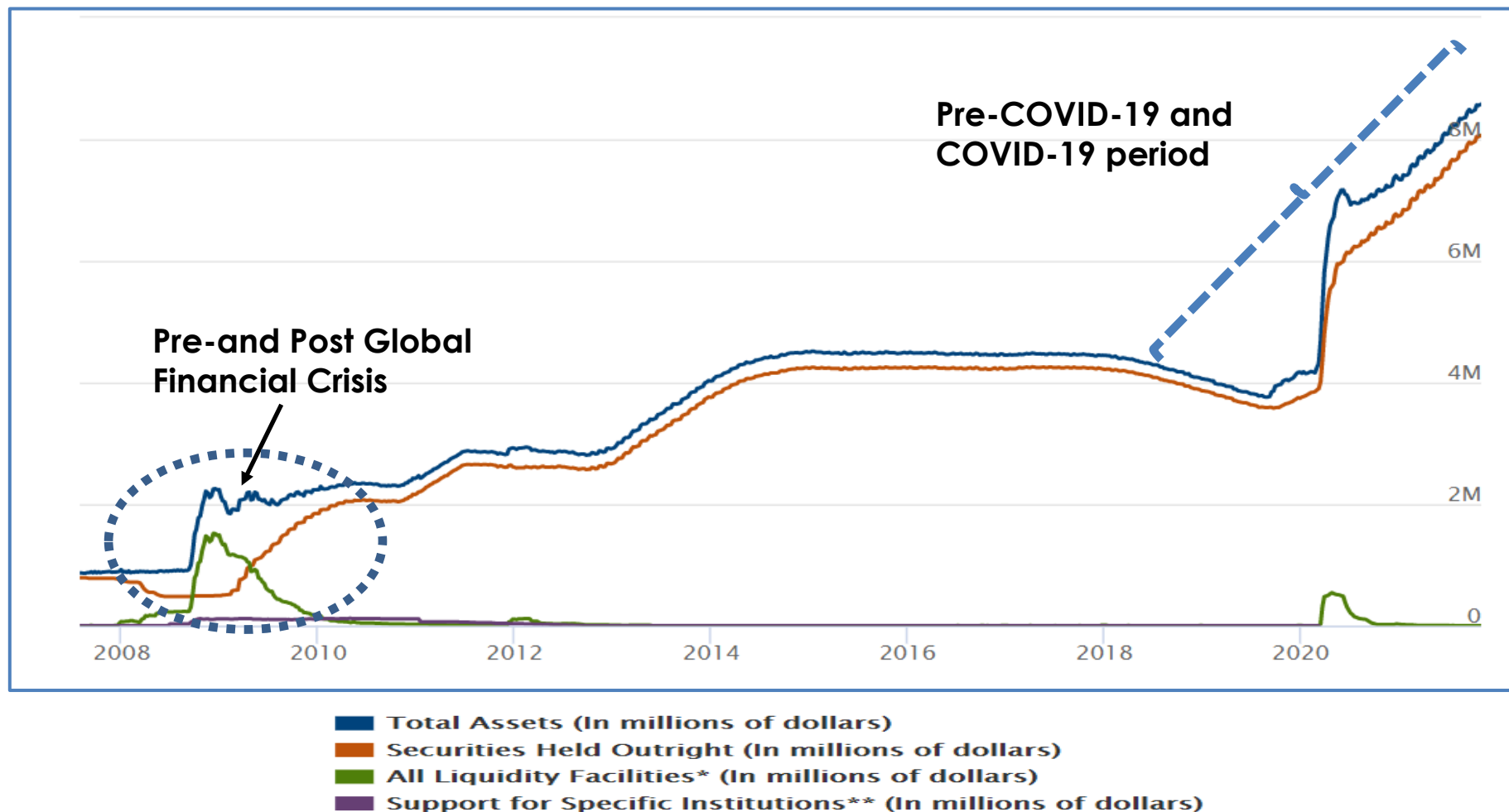
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All countries across the globe responded by injecting liquidity through various measures to:

- Support **vulnerable** groups (including elderly, orphans and youth)
- Support businesses continuity
- Provide **loan repayments relief** and restructuring, in particular to vulnerable sectors and households.
- **spur economic activity** and enable businesses recover from the adverse effects of COVID-19



## 1.2 Increased USA Federal Reserve balance sheet due to Liquidity injection in response to COVID-19 pandemic.

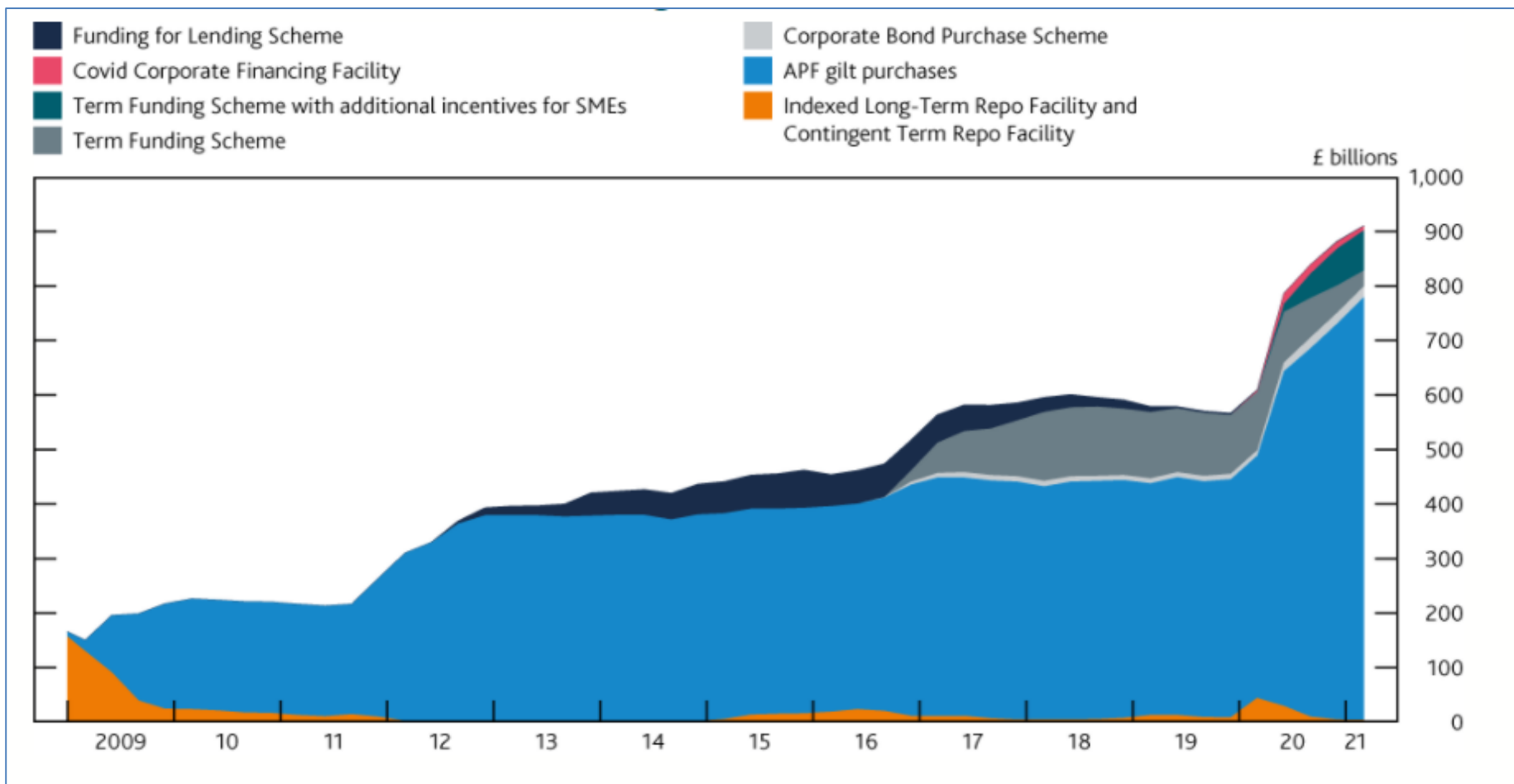


Source: Federal Reserve Bank Website



## 1.3 Bank of England balance sheet increased during COVID-19 pandemic compared to the global financial crisis period.

### Assets on Bank of England Balance Sheet

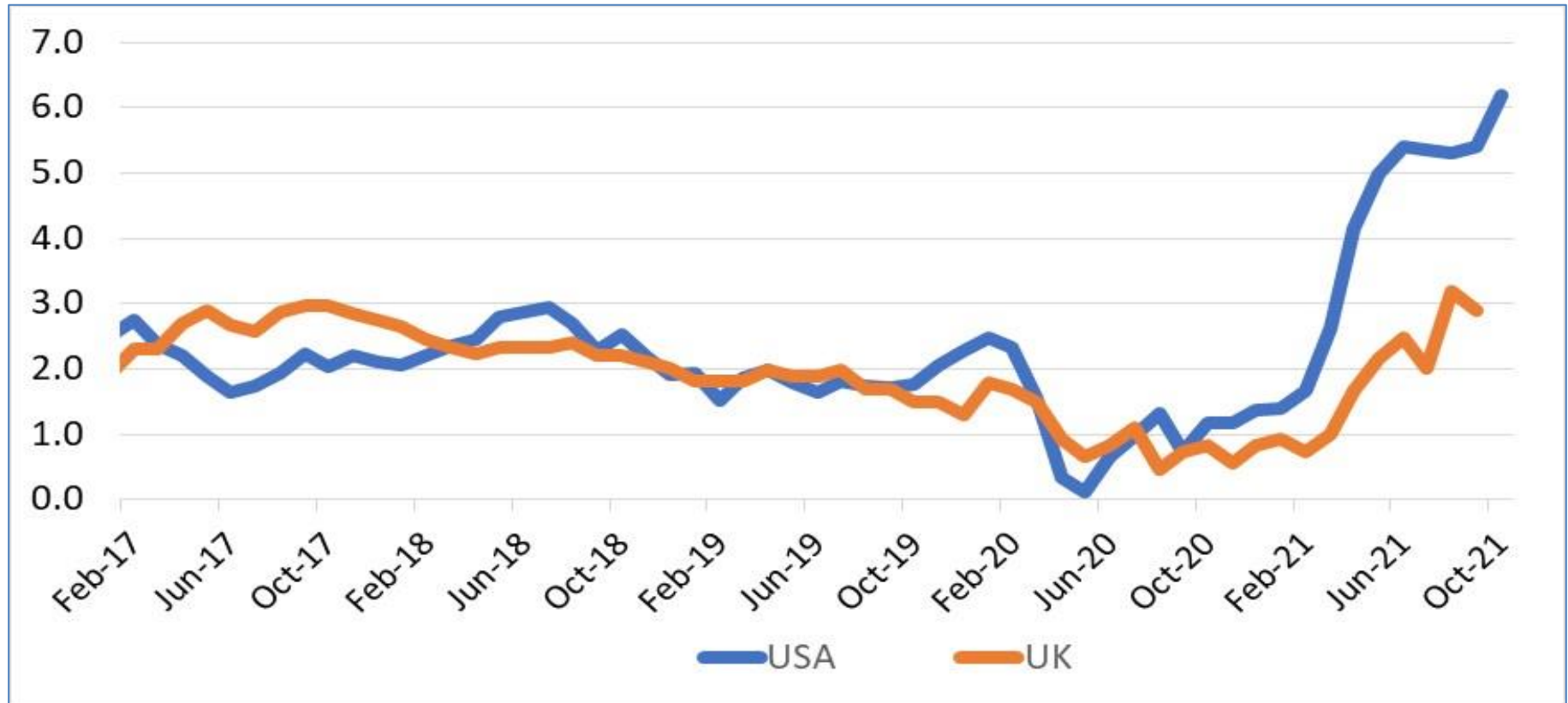


Source: Bank of England

## 1.4 Global Supply-demand mismatches and liquidity have led to inflationary pressures in advanced economies.



**Inflation Trends**  
(12-month inflation, percent)

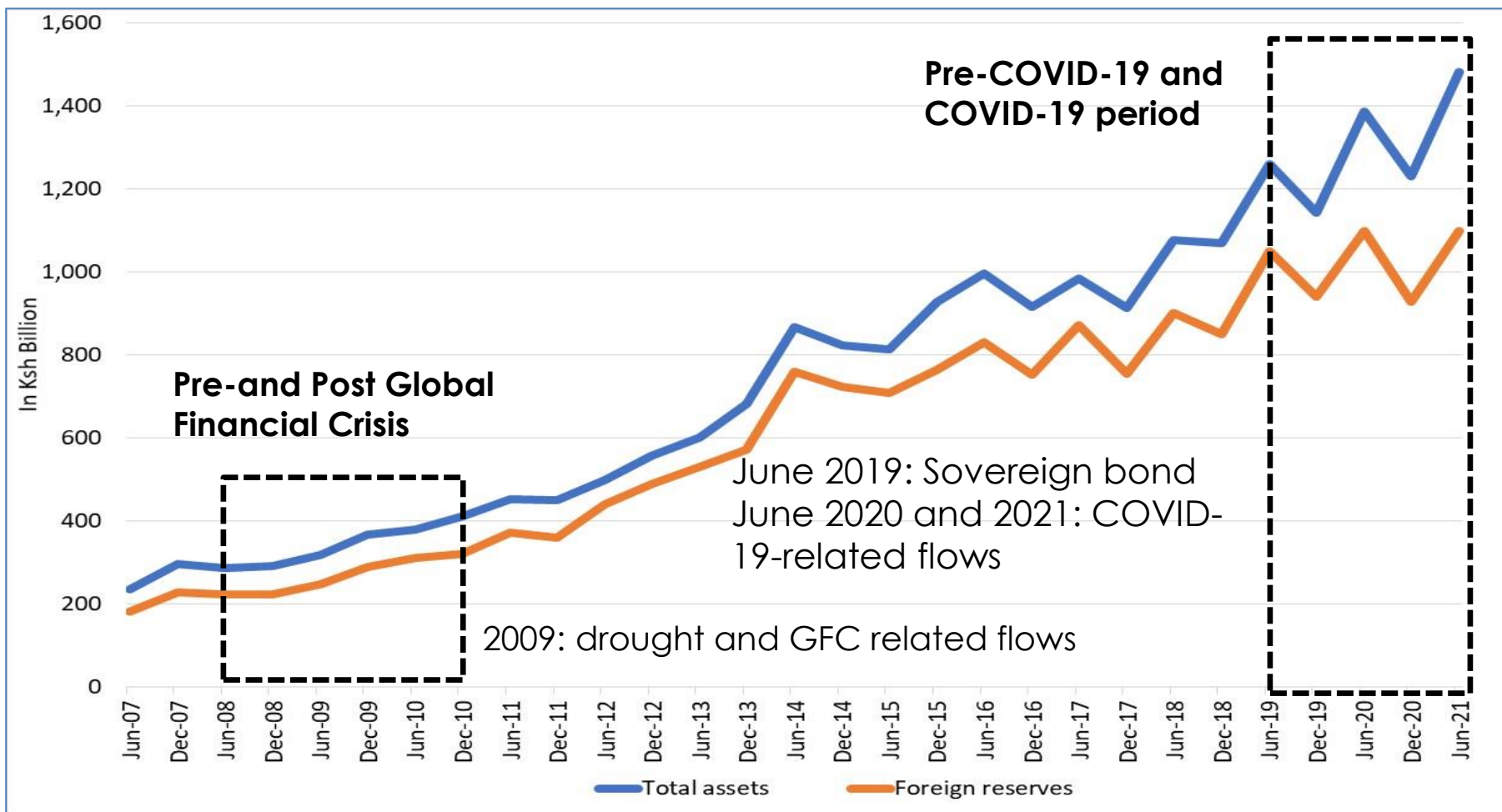


- US inflation rose to 6.2% in October 2021, highest in over 30 years
- UK inflation rose to 2.9% in September 2021



## 2.0 Kenya – modest liquidity injection. Accommodative monetary policy

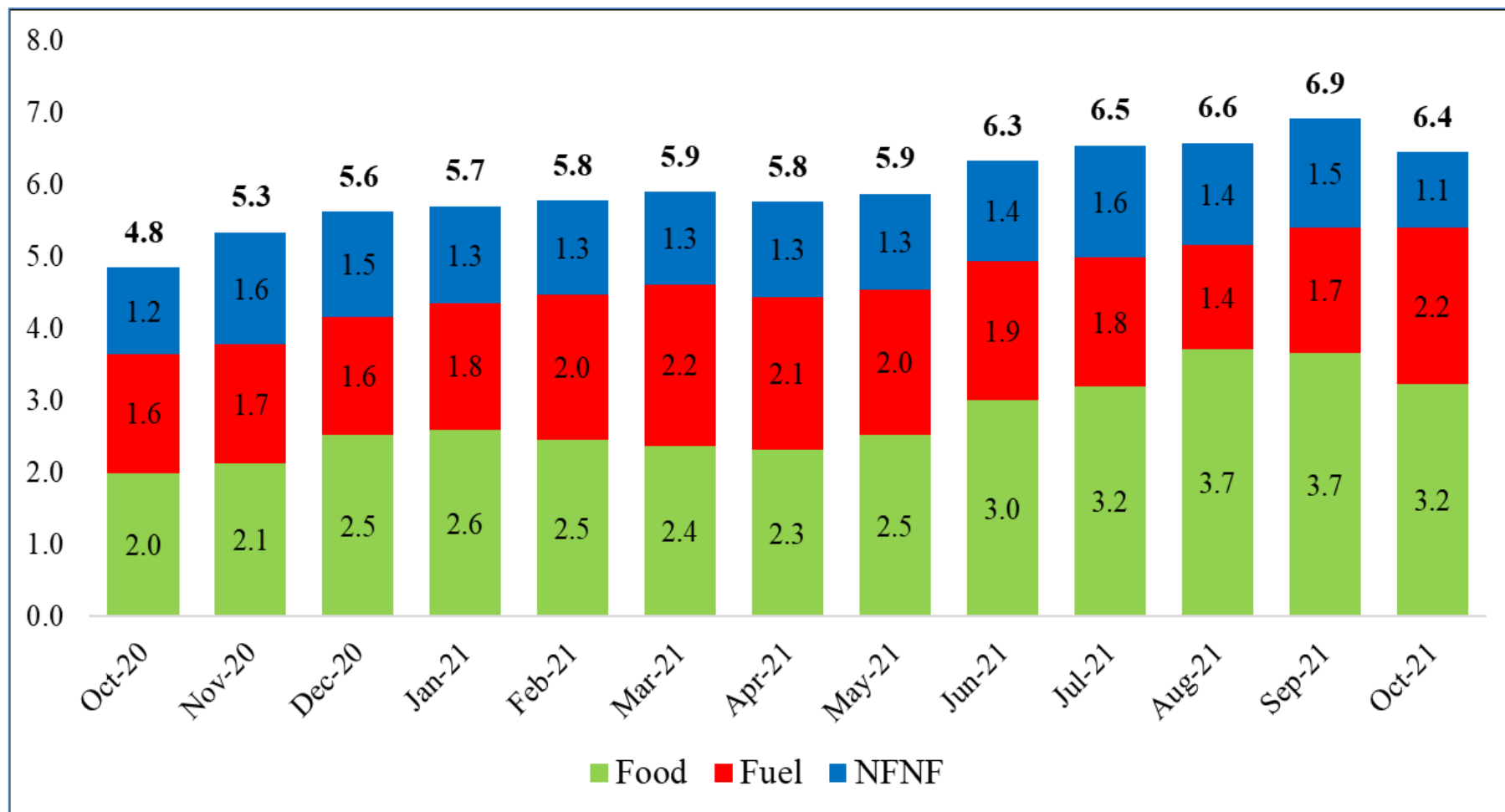
### Assets of the CBK (Ksh Billion)





## 2.1 Kenya's inflation remained stable. Pressure from oil and food prices on inflation but anchored in the medium-term.

### Contributions to Overall Inflation (Percent)



## 2.2 CBK facilitated a resilient banking sector with strong liquidity and capital adequacy ratios.



- Liquidity and capital adequacy ratios remained above the statutory limits.
- Strengthening the banking sector through a New Normal
  - strengthening business models,
  - enhancing the quality and effectiveness of governance frameworks
  - Improving transparency
- Issuance and Implementation of the Kenya Banking Sector Charter anchored on four pillars,
  - customer centricity
  - risk-based credit pricing
  - transparency and ethical banking.



## 3.0 Kenya's COVID-19 Monetary and Banking Response Measures

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### **Monetary policy measures:**

- Lowered CBR from 8.25% - 7.0%.
- Lowered CRR from 5.25% - 4.25%, KSh 35.2 billion released.
- Enhanced liquidity management: 91-days from 28 days Reverse Repo.

### **Banking Sector measures:**

- Loan repayment relief and restructuring.
- Reduced or waived charges on mobile money transactions to enhance use of mobile platforms.
- Business continuity measures worked.



## 3.0 Fiscal Policy Response Measures

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### 1. Tax measures

- Corporate tax reduction 30% - 25%.
- Turnover tax rate reduced 3% - 1%
- Income tax rate reduced 30% - 25%
- Reduction of VAT 16% to 14%
- Full tax relief for persons earning a gross monthly income of up to Ksh 24,000

### 2. Expenditure Measures

- Kshs 58.1 billion Economic Stimulus Programme (ESP)
- Kshs 10 billion in financial transfers to vulnerable groups
- Kshs 1 billion disbursement to recruit of additional medical personnel
- Ksh 23.1 billion Economic Recovery Programme (FY 2021/22 Budget)

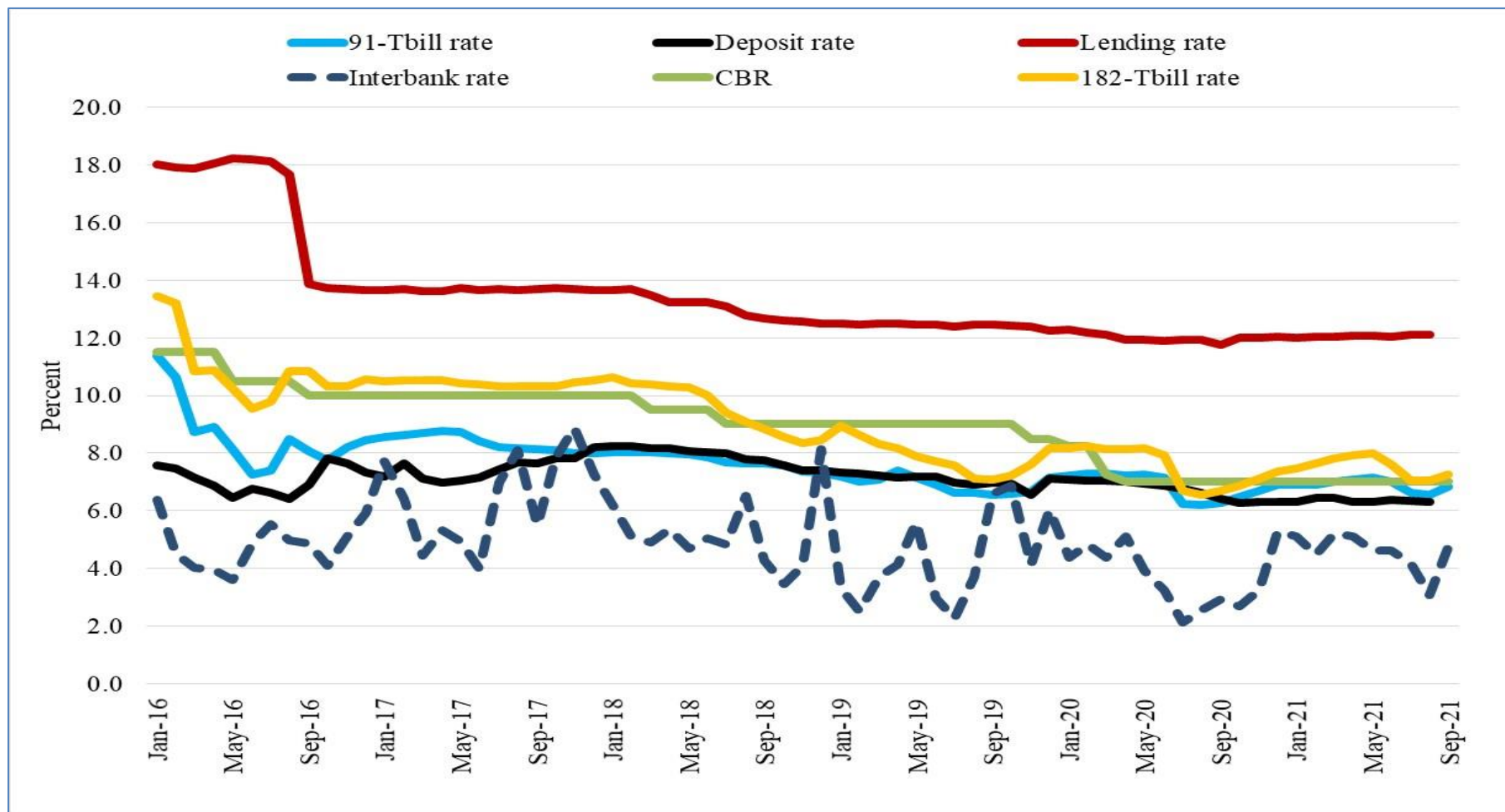
### 3. Other measures

- Kshs 13 billion payment of suppliers in pending bills
- Ksh 10 billion tax refunds



## 3.1 Outcomes of policy measures: modest decline in interest rates.

### Interest Rates Trends (Percent)





3.2 Of the Ksh.35.2 billion freed from reduction of CRR by 1.0 percent, Ksh.32.8 billion (93.1 %) have been used to provide relief to borrowers.

### Impact of lowering of the Cash Reserve Ratio (CRR)

Economic Sectors	Total Amount Approved as at May 17, 2021 Ksh.'000	Percentage of Total as at July 16, 2021 (%)	Total Amount Approved as at September 14, 2021 Ksh.'000	Percentage of Total as at September 14, 2021 (%)
<b>Manufacturing</b>	<b>3,967,366</b>	<b>12.1</b>	<b>3,967,366</b>	<b>12.1</b>
<b>Real Estate</b>	<b>4,142,110</b>	<b>12.6</b>	<b>4,142,110</b>	<b>12.6</b>
<b>Agriculture</b>	<b>3,269,412</b>	<b>10.0</b>	<b>3,269,412</b>	<b>10.0</b>
Energy and Water	190,718	0.6	190,718	0.6
<b>Tourism, Restaurant and Hotels</b>	<b>10,416,585</b>	<b>31.8</b>	<b>10,416,585</b>	<b>31.8</b>
<b>Transport and Communication</b>	<b>4,420,269</b>	<b>13.9</b>	<b>4,570,779</b>	<b>13.9</b>
Personal/Household	1,155,822	3.5	1,155,822	3.5
<b>Trade</b>	<b>4,844,719</b>	<b>14.8</b>	<b>4,844,719</b>	<b>14.8</b>
Financial Services	18,390	0.1	18,390	0.1
Building and Construction	175,426	0.5	175,426	0.5
Mining and Quarrying	19,706	0.1	19,706	0.1
<b>Grand Total</b>	<b>32,771,032</b>	<b>100.00</b>	<b>32,771,032</b>	<b>100.0</b>



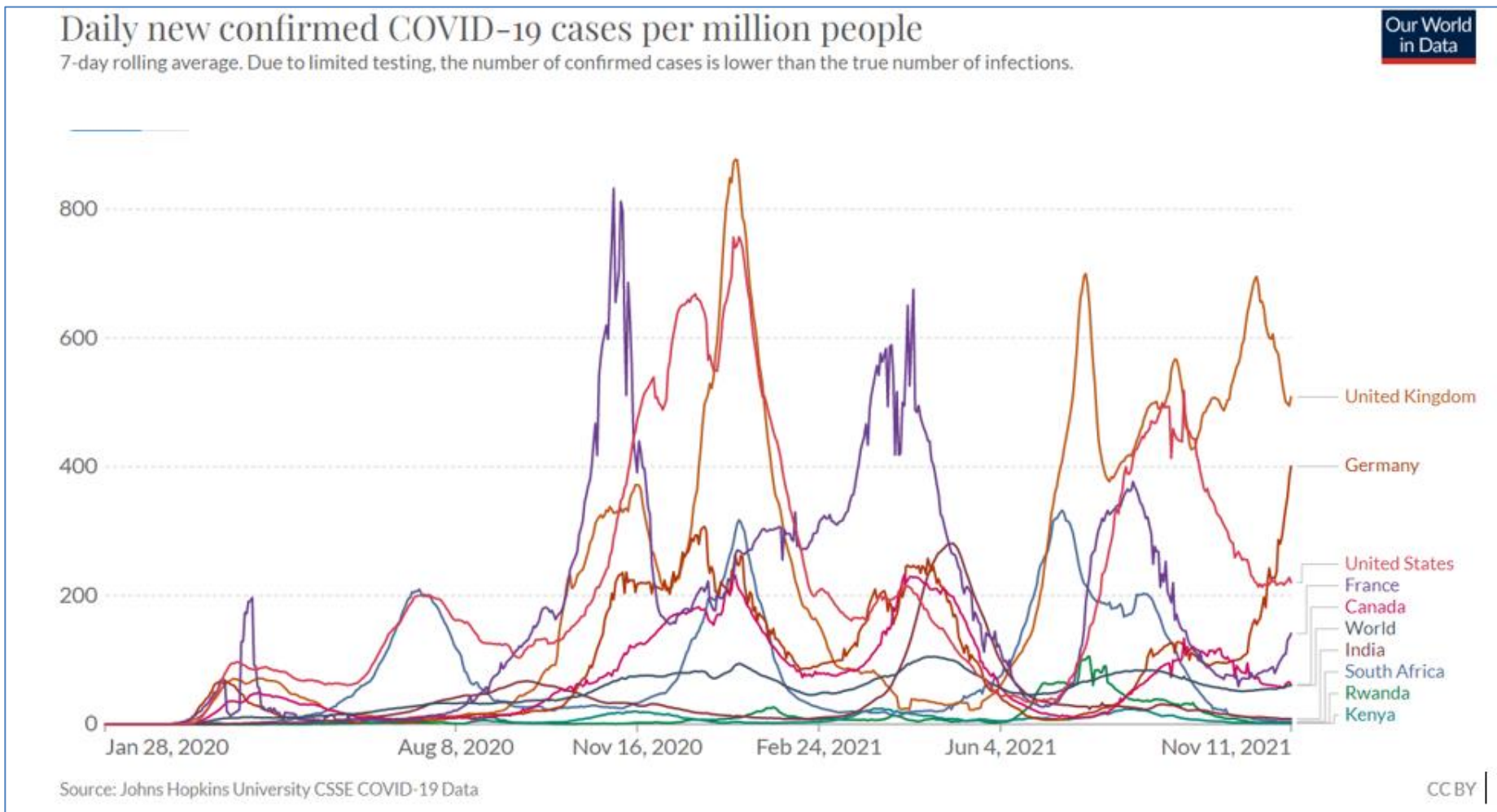
### 3.3 Outcomes of policy measures: Recovery in GDP growth.

GROWTH RATES	2020				2020 Annual	2021		2020H1	2021H1
	Q1	Q2	Q3	Q4		Q1	Q2		
<b>Agriculture</b>	4.3	4.9	4.2	5.8	4.8	-0.1	-0.9	4.6	-0.5
<b>2. Non-Agriculture (o/w)</b>	4.4	-7.2	-3.4	0.3	-0.7	1.0	13.3	-1.5	6.9
<b>2.1 Industry</b>	4.8	-0.3	3.5	7.8	4.0	4.4	8.5	2.3	6.4
Mining & Quarrying	6.4	4.4	7.0	9.2	6.7	16.4	17.7	5.4	17.1
Manufacturing	2.2	-4.7	-1.7	3.8	-0.1	1.5	9.6	-1.2	5.4
Electricity & water supply	1.5	-4.7	0.2	3.5	0.1	2.0	5.2	-1.6	3.5
Construction	10.4	8.2	12.5	16.2	11.8	7.9	6.5	9.3	7.2
<b>2.2 Services</b>	4.2	-7.1	-4.7	-0.9	-2.2	2.2	16.8	-1.5	9.2
Wholesale & Retail Trade	4.9	-4.2	-5.0	2.6	-0.4	7.4	9.5	0.4	8.3
Accommodation & restaurant	-8.1	-56.8	-63.4	-62.2	-47.7	-48.8	9.1	-31.6	-31.1
Transport & Storage	2.2	-16.8	-10.1	-6.1	-7.8	-8.7	16.9	-7.4	2.9
Information & Communication	5.6	2.6	3.2	7.6	4.8	16.1	25.2	4.1	20.5
Financial & Insurance	7.5	4.4	3.0	7.4	5.6	9.4	9.9	5.9	9.7
Public administration	4.0	2.7	6.3	8.4	5.3	9.1	13.0	3.3	11.1
Professional, Administration & Support S	0.3	-27.5	-19.7	-12.1	-15.0	-14.4	17.6	-14.1	-0.4
Real estate	5.4	4.6	3.7	2.7	4.1	4.5	4.9	5.0	4.7
Education	1.8	-22.4	-17.4	-5.3	-10.8	10.0	67.6	-10.2	34.6
Health	7.4	9.8	5.2	4.7	6.7	9.1	10.0	8.7	9.6
Other services	-1.5	-22.1	-12.9	-20.4	-14.2	-16.1	20.2	-11.8	-0.1
FISIM	-2.9	0.5	-2.3	-2.9	-2.0	0.3	-3.8	-1.2	-1.7
<b>2.3 Taxes on products</b>	5.1	-20.8	-8.5	-6.4	-7.9	-14.5	0.5	-8.5	-7.7
<b>Real GDP Growth</b>	4.4	-4.7	-2.1	1.2	-0.3	0.7	10.1	-0.2	5.3



### 3.4 The main risks in all economies is the evolution of the COVID-19 pandemic.

Uncertainty remains as COVID-19 pandemic is still evolving...





## 4.0 Conclusion

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- Global financial crisis of 2007 gave structure that provided direction and alignment to the financial global response to COVID-19
- Main response was release of liquidity globally
  - ensured continuity of activities
  - implied low interest rates
- Increased liquidity and supply side challenges
  - inflationary pressure
  - divergent growth and recovery
- COVID-19 is still not over yet.

*Thank You!*

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