KINGDOM SECURITIES

Report on the Consideration of the President's Memorandum on the Finance Bill 2019

The Committee on Finance and National Planning considered the President's memorandum and recommended that Clause 45 of the Finance Bill 2019 be deleted and replaced by Repealing Section 33B of the banking act.

In his memorandum, the president raised the following issues;

i. Reduction of Credit to the Private Sector and especially MSMEs.
ii. Decline in economic growth
iii. Weakening in effectiveness of monetary policy
iv. Reduction of loans and advances
v. Mushrooming of shylocks and other unregulated lenders in the financial sector
vi. Effects in the banking sector:
   a. Withdrawal of lending to specific sectors
   b. Increase in average loan size- lower access to small borrowers and larger loans to more established firms
   c. Decrease in diversity on loan products

The Committee amended the bill accommodating the President's reservation in full while adding a clause that protects any agreement entered in the provision of Section 33B continue to the full term as per agreement.

The Committee Recommendations will be presented to parliament for consideration then be sent to the president within twenty one days since the president returned it to parliament.

Our view is the parliament will ratify the committee's recommendation and president will assent Finance Bill into Law with the recommendation by the Committee on Finance and Planning.

The Finance and Baking Industry - In pushing for the repeal of Section 33B of the Banking Act, financial institutions, including Banks, Microfinance and Mortgage Companies came up with the Kenya Banking Sector Charter which was effected on March 1st 2019.

The charter's commitment is to resolve public concern of high cost of credit charged by the banking sector (which was the main concern of the Interest Rate Cap Law) and poor customer service.

The Key Features with regards to Interest Rate Capping were-

- Fairness – The banks have acknowledged and are in agreement to implement risk based credit scoring techniques on loan screening processes.
- Transparency – all banks were required to upload their respective internal and external fees for all products on the cost of credit website to enable customers make rational financial (product) decisions. www.costofcredit.co.ke .

CBK's Role: To create a base on loan pricing, we view the market will revert to using the Kenya Banks Reference Rate (KBRR). Previously, KBRR was calculated using an average of the Central Bank Rate (CBR) and the weighted 2 month moving average of the 91 day T-Bill rate.

As per our earlier report on the same topic issued on Tuesday October 22nd, 2019, we forecast the following

i. **An upward shift on the yield curve as government is forced to offer a better return by competing with the private sector for available funds. This will lead to less appetite in domestic debt.**
ii. **Switch short fund investments to 91 day paper with the aim of benefiting from reinvestment returns.**
iii. **Slowdown in the secondary bonds market with banks opting to channel the funds to private credit.**
iv. **Repealing of the caps will not accelerate credit growth faster than current rate of 6.5% as banks have already adjusted their balance sheet towards lending while focusing on quality lending rather than mass lending.**
v. **We advise our clients to buy bank and finance stocks.**

Research analyst certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

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