Interest Rates Advisory Centre
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25th August 2016

PRESS RELEASE

OPINION ON THE BANKING (AMENDMENT) BILL, 2015

The Banking (Amendment) Bill, 2015 which was signed by H.E The president yesterday is a significant milestone in the long struggle for affordable credit in Kenya.

The intention of **The Banking (Amendment) Bill, 2015** is clear "to cap interest rates" by introducing Section 31A and 33B to The Banking Act cap 488 of The Laws of Kenya.

There is however, confusion about the effect of the amendment and the reference point in the determination of effective interest rates.

Section 33B (1) **The Banking (Amendment) Bill, 2015 says:**

"a bank or financial institution shall set –

a) The maximum interest rate chargeable for a credit facility in Kenya at no more than four per cent, the base rate set and published by the Central Bank of Kenya : and
b) The minimum interest rate granted on a deposit held in interest earning in Kenya to at least seventy per cent, the base rate set and published by the Central Bank of Kenya.

The all-important phrase '***base rate***' is being misinterpreted to mean Central Bank Rate (CBR). This is the source of the confusion which needs to be addressed.

Section 36(4) of The Central Bank of Kenya Act clearly defines the term CBR which is reviewed and announced by the Monetary Policy Committee at least every two months. CBR is defined as **the lowest rate of interest the Central Bank of Kenya charges on loans to banks and microfinance banks**. It does not refer to the interest charged by banks for customers/borrowers.

Therefore what is base rate? The Central Bank has defined the Kenya Banks' Reference Rate (KBRR) which was introduced in July 2014 as a **uniform base lending rate across the banking sector to enable consumers compare the pricing of loan products.** The Monetary Policy Committee reviews the KBRR every six months.

Conclusion

Therefore the reference rate for the pricing of loans is not the CBR rate but the KBRR rate. The current KBRR rate set at the last meeting of the Monetary Policy committee on 25th July 2016 is **8.90% p.a.** The maximum effective rate of interest for credit/borrowing is therefore 8.90% plus 4% p.a. = **12.90% p.a.** and **NOT 14.5% p.a.**

Interest Rates Advisory Centre
Ambassador Court Block A3, Jakaya Kikwete Road (Next to former C.I.D. Hqs) P.O. Box 9034-00100, Nairobi
Tel: (254-20) 2722294, 2723572 Fax 2727554 Mobile: 0722-316111/ 0733 515200, Email: info@irac.co.ke