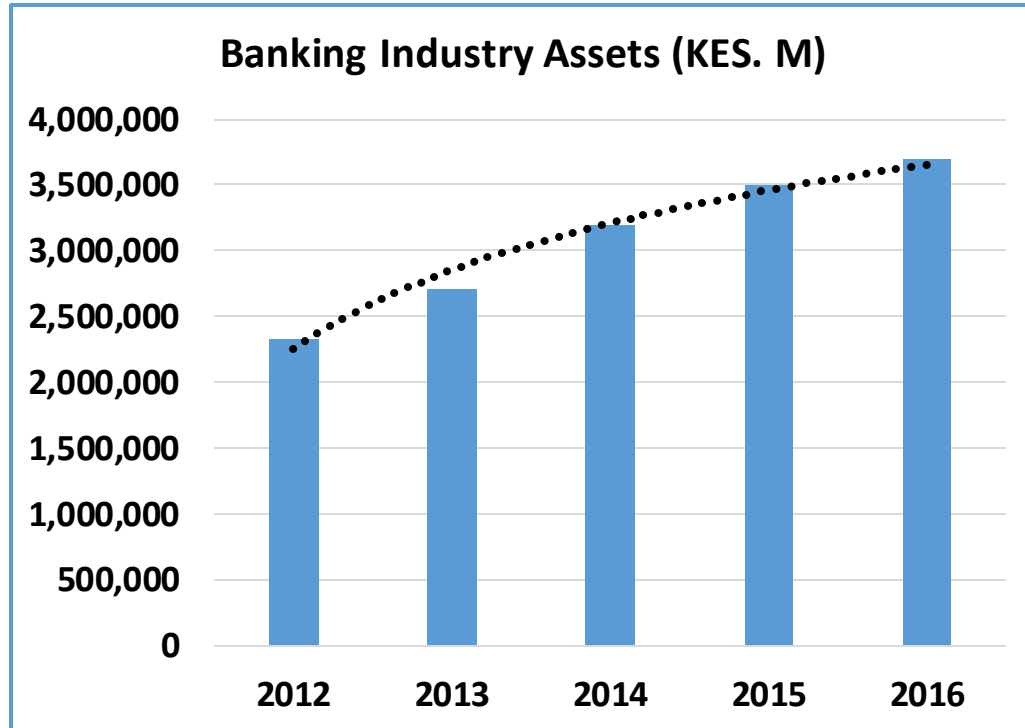


Lessons and Solutions in Managing Non-Performing Loans to SMEs in Africa

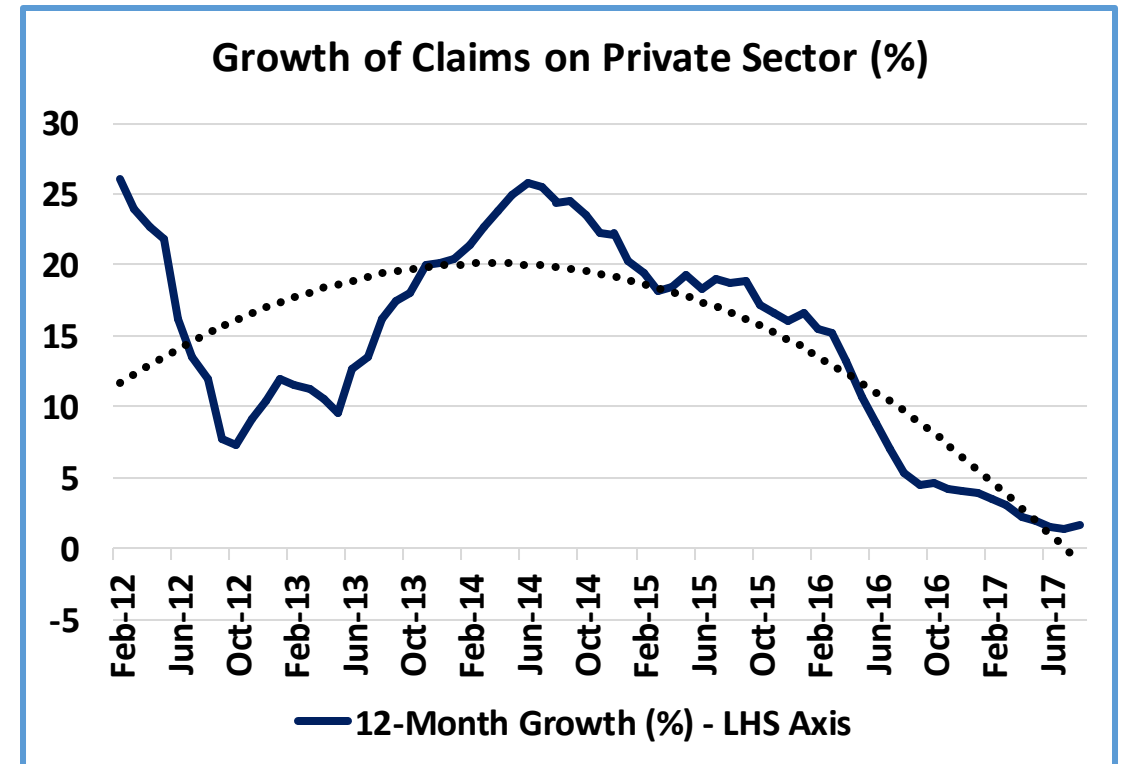
Dr. Habil Olaka; Chief Executive Officer, Kenya Bankers Association

The economy's performance and credit market interaction

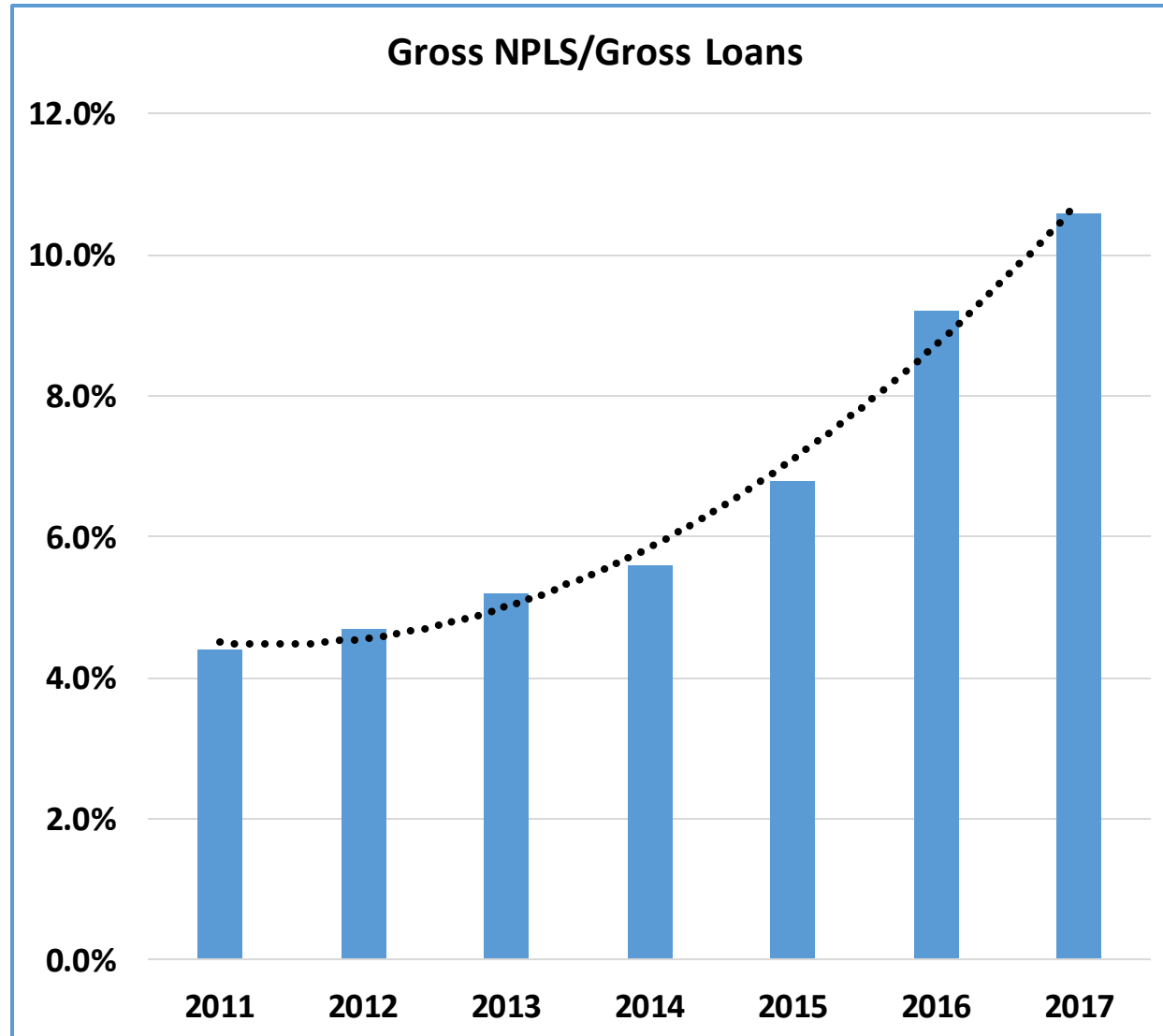


- The fast pace of the banking industry's assets has been occasioned by a double digit growth in credit to private sector.
- From an annual average of a high of nearly 26%, the private sector credit growth rate has subsequently plummeted to single digit levels.

- On the back of the economy's real output growth, the banking industry's balance sheet has been in a positive trajectory.
- The pace of the banking industry's assets has evidently slowed from 2015



• The Evolution of NPLs



- There has been a steady pick in NPLs from the stable levels of 2011 - 2014.
 - Credit towards government-driven growth associated with delayed payments;
 - Some key sectors that are sensitive to political/security situation (e.g. tourism);
 - The expansion strategy amongst market players associated with a higher risk appetite (decade to 2014)
 - The eventual slowdown in rate of credit growth on the back of market volatility (3 bank failures) that occasioned more cautious asset classification

Key issues of interest

1. Given the link between economic performance and private sector credit growth, there is need for a clear understanding on the relationship between NPLs and the business cycle.
2. The management of NPLs associated with lending to agencies doing business with government is important.
3. Interest rates regulation influences risk attitudes of banks; the connection of this form of regulation and the quality of assets is critical.
4. The market is currently leaning more towards short-term credit than long term; this has a negative influence on the overall economic performance. How that affects NPLs is an issue worth reflecting upon.
5. Regulatory issues of key interest in the context of asset quality are:
 1. IFRS9
 2. The implementation of the Basel 2

Key issues of interest

6. Broad outlook issues:

- (a) The slowdown in economic growth of 2017 is expected to be reversed; this has implications on the expectations on private sector credit and how that could influence the NPLs position.
- (b) The policy of fiscal consolidation needs to be seen in the context of
 - (i) its potential to lower the extent to which the government is a core driver of economic growth
 - (ii) how it translates to the private sector picking up momentum and how any ensuing vibrancy will translate into demand for credit. Both these aspects will have an influence on the NPLs position.