Sports. Real happy to be alive ahead of return tie. Page 56

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Seago Piraeus Cargo Ship docks at Lamu Port with 100 containers. Scarcity of dollars would affect pricing of imports. [Omondi Onyango,Standard]

Banks feel the heat of dollars shortage as demand soars

- A combination of factors, including the elevated need for the greenback as companies, pay dividends has the currency in short supply.
- The shilling has taken a beating from the strengthening of the dollar to trade at Sh115.7.

DOMINIC OMONDI, NAIROBI

Banks now say there is a high demand for dollars amid a biting shortage, making the cost of obtaining the critical currency go through the roof.

Under the aegis of the Kenya Bankers Association (KBA), the lenders said there is elevated dollar demand by companies to pay dividends and meet their overseas obligations in the wake of a strong Covid-19 recovery.

"We have been in constant contact with the Central Bank of Kenya (CBK) to address the strong demand of dollars in the market. The Central Bank, having the best view of the market situation, has assured us that the market is well balanced in terms of supply and demand of dollars," said KBA in a statement yesterday, even as it denied reports that the regulator, has been interfering with the foreign exchange (FX) market.

KBA explained that the country's reserve of foreign currencies has been constantly replenished by export earnings and remittances.

However, external obligations, particularly import payments, have been growing faster. "This, we believe, will stabilise in due course, and the market will revert to normal," said KBA in the statement signed by its Chief Executive Habil Olaka. There have been reports of shortage of dollars in the market, a situation that has made it difficult for traders to import raw materials and finished goods.

Because the dollar is the single largest currency for global trade, a low supply of the currency negatively affects its price.

However, Kenya has not only been paying its external loans as they mature using dollars, but CBK has also heeded the International Monetary Fund's (IMF) advice to stop propping up the shilling but instead let the exchange rate be used as a shock absorber.

"The CBK appropriately allowed the shilling to act as a shock absorber during the pandemic and should continue to do so while using forex interventions only to minimise excessive volatility," said the IMF.

It also noted that CBK "should continue to do so (using the exchange rate as a shock absorber) while using forex interventions only to minimise excessive volatility."

According to the received wisdom, flexible exchange rates insulate economies from external shocks such as the Covid-19 pandemic.

Noting there is a shortage of dollars, banks have also been pushing for CBK to get into the market and sell the greenback to forex traders at a subsidised rate. Unfortunately, it seems like the CBK's pace of allowing the local currency to weaken has been falling behind market expectations, according to EFG Hermes, an Egyptian-based investment bank.

This can get worse in what the firm described as a "thin FX market" like Kenya's, resulting in more cautious behaviour from market participants. "Sellers of FX tend to be slower in selling their holdings of foreign currency, while buyers tend to exaggerate their demand in order to secure larger amounts of FX (as a way of a hedging)."

The bank said the pressure on the country's external accounts came under pressure after the Ukraine war, which pushed up the price of imports such as wheat, fertiliser and fuel.

The shilling, which has been hitting new lows every day, is now trading at Sh115.7.

When the Covid-19 broke out, there was a capital flight as foreign investors, spooked by news of the first case of coronavirus in the country, evacuated their wealth from the Nairobi Securities Exchange (NSE).

And as governments imposed travel restrictions, tourism earnings dipped while lockdowns in Europe and America affected Kenya's export earnings - limiting supply of dollars.

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Local currency

SH115.7

TRADING

THE rate at which the shilling, which has been hitting new lows every day, is now trading at

FINANCIALS

Bamburi Cement profit jumps 22pc to Sh1.4b

Bamburi Cement has reported a 22.2 per cent jump in net profit to Sh1.38 billion for the year to December 2021 from Sh1.13 billion in 2020.

The company has recommended a dividend payout of Sh1.38 billion at a rate of Sh3.58 per share, which translates into 100 per cent of the profit made over the year, subject to shareholders' approval.

The company attributed last year's performance to an increase in the volume of cement sold as well as higher retail prices, especially for its premium products, cost-cutting initiatives and increased efficiencies.

"The performance also reflects the continued economic recovery from the impact of the Covid-19 pandemic, particularly in the construction sector," said Bamburi in a statement.

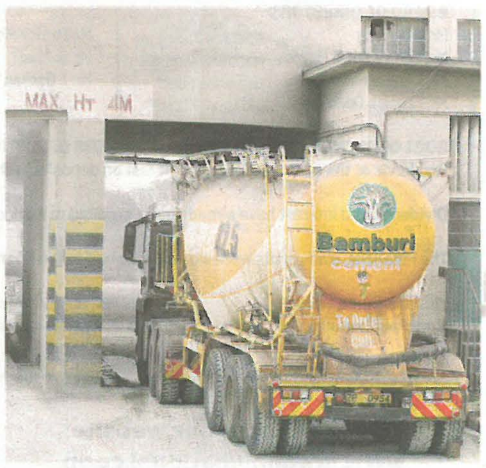
"Domestic selling price in Kenya improved compared to the prior year due to higher proportion of premium products sales and targeted price actions in the retail segment."

The group's turnover increased by 19 per cent to Sh41.4 billion from Sh34.9 billion.

The firm expects continued growth over this year but is cautious of the August polls as well as the Russia-Ukraine war that could see a surge in the cost of raw materials.

"In Kenya, the Big Four government agenda in the areas of affordable housing projects and the significant investments in infrastructure projects is expected to fuel this growth," said the company.

"The Eastern European conflict is expected to have an adverse impact on the global economy, especially on freight and imported raw material prices. In addition, the impact of the coming General Election is an unqualified risk factor, which potentially might affect market dynamics." **[Macharia Kamau]**



Bamburi Cement Ltd Trucks collects cement from a silo, a storage facility in Industrial area, Nairobi. [File, Standard]