



REPUBLIC OF KENYA

STATEMENT BY THE DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE ON RECENT DEVELOPMENTS IN SHILLING EXCHANGE RATE

1. Good morning Ladies and Gentlemen of the Press.
2. I have called this Press Briefing as a follow-up to recent measures outlined by the Rt. Hon. Prime Minister to restore stability in our foreign exchange market. As the Minister for Finance, I would like to take this opportunity to assure the business community and the public at large that henceforth we shall consistently and decisively stem any instability in the foreign exchange market and restore confidence in the Kenya Shilling.
3. We are doing this after careful review of the factors that have contributed to the recent instability. We note that the on-going weakening of the Kenya Shilling is not driven by changes in economic fundamentals. Indeed, our underlying economic conditions remain broadly sound, and there is no need to panic as the Government is taking decisive and firm actions to restore stability.
4. It is now evident that the recent weakening of our currency was occasioned by two main factors, namely: (i) increased genuine demand for foreign exchange to meet imports for production and consumption; and (ii) demand pressures from market players who are taking positions that are largely driven by uncertainty in the market.
5. While a number of actions have already been taken address the recent challenges, we are ready to do more to ensure that stability is restored. In this respect, the actions we are announcing today are aimed at ensuring that first and foremost, foreign exchange is available to meet genuine demand, while at the same time discouraging unproductive foreign exchange trading.

Further actions to restore stability

6. As we look forward, we are confident that the current pressures on prices and the exchange rate will subside in line with the measures we are taking. This will be supported by expected decline in international oil prices and the good harvest that is beginning to reach the market, both of which will reduce the demand for imports, lower food prices and stabilize the exchange rate.
7. In the meantime, the Government will take the following additional measures to ease inflation, and stabilize the shilling exchange rate:
 - We support the CBK's stance to tighten liquidity by raising the policy rate by 400 basis points to 11 percent. We also support the CBK's actions in the money market to tighten credit conditions, as well as their readiness to take further actions including increasing the cash ratio requirement (CRR) if necessary. These actions will reduce demand pressure, which will in turn ease inflation and stabilise exchange rate.

- We further support the CBK's action to lower, with immediate effect, the foreign exchange exposure limit of commercial banks from 20% to 10%, subject to further review in consultation with commercial banks.
- We welcome CBK's readiness to meet any genuine demand for foreign exchange through the interbank market. We also welcome CBK's action to revive the Forex Dealers' Forum that will allow commercial banks' treasurers to freely interact with CBK to ensure that large foreign exchange transactions are met in an orderly manner.
- To assure ample supply of foreign exchange, the Government will from today commence discussions with the IMF for additional resources under the ongoing Extended Credit Facility (ECF) arrangement.
- On our part, to mitigate the impact of tightening monetary policy on interest rate, we will review Government expenditure with a view to cutting back on non-priority areas.

8. Finally, working with the CBK, the Government has commenced the review of the CBK Act in line with the new Constitution, with a view to enhance effectiveness of monetary policy. Meanwhile, the CBK has taken steps to enhance capacity in monetary policy operations.

9. We will continue to encourage closer and regular consultations between the CBK and commercial banks on issues related to financial matters.

10. Overall, I am confident that these actions will encourage banks to realign their portfolios, stem capital outflows, and boost foreign exchange reserves, thereby restoring stability in prices and the shilling exchange rate in the immediate term.

Conclusion

11. In conclusion, the Government wishes to reaffirm that the underlying economic conditions are broadly sound, and it remains fully committed to restore macro-economic stability.

12. Lastly, I wish to call upon all players in the foreign exchange market to trade responsibly as their actions will ultimately affect the business community and our beloved Kenyans. It is therefore incumbent upon us all to be responsible in our day to day operations so that we continue to put this country on a sound economic footing.

Thank You and God Bless You

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