

Governor

**BANKI
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PRESS RELEASE

THE GLOBAL CRISIS OF CONFIDENCE AND ITS EFFECTS ON THE RECENT DEVELOPMENTS ON THE EXCHANGE RATE

The Central Bank of Kenya has been monitoring the volatility of the Kenya Shilling exchange rate as well as its causes since policy decisions must be informed by knowledge of what has given rise to that volatility. These current changes in exchange rate are partly attributed to global financial markets which have continued to deteriorate with major declines in international stock markets. This is what is being described as the global crisis of confidence and naturally has caused panic in our market. However, there are other pressures on the exchange rate arising from the increased demand for imports associated with Kenya's recovery to a high growth path. The Central Bank will continue to ensure that those contributing to the real development of the economy are not deprived of access to the necessary foreign exchange.

The Central Bank has already taken initial actions on monetary policy to contain inflation and foresees an easing of balance of payments pressures in the near future as the need for food imports declines and oil prices return to lower, stable levels. In the meantime, addressing the balance of payments gap will be the focus of discussions with the multilateral development partners.

The CBK is required to maintain adequate liquidity in the market and will therefore intervene with reverse repos as and when it is necessary. This week's liquidity injection was to cater for shortfalls as VAT payments produced extreme tightness in the market. The current monetary policy stance will continue with consequential effects on inflation, interest rates and exchange rates.

The Central Bank remains committed to a market determined exchange rate for as long as it is supported by fundamentals. The Bank will remain vigilant through regular surveys of commercial banks. The Bank wishes to reassure the Kenya business community that it will not take any action that will undermine the confidence necessary for investment and growth. It will however take appropriate action on other factors outside the normal trading patterns that periodically produce volatility in the foreign exchange market.

A handwritten signature in black ink, appearing to read 'Prof. Njuguna Ndung'u'.

PROF. NJUGUNA NDUNG'U, CBS

23rd September, 2011