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## **PRESS RELEASE**

**MONETARY POLICY COMMITTEE MEETING, 7<sup>TH</sup> MAY, 2013**

### ***CONSOLIDATING MONETARY POLICY GAINS***

The Monetary Policy Committee met on 7<sup>th</sup> May, 2013 to evaluate the economy's response to its monetary policy stance. The Committee noted that the monetary policy measures adopted continued to support a low and stable inflation as well as exchange rate stability. The key monetary aggregates also remained within their respective targets. The Committee observed and analysed the following outcomes in the market since its last meeting:

- The overall and the non-food-non-fuel month-on-month inflation rates remained within the Government medium-term target of 5 percent in March and April 2013. Overall month-on-month inflation stood at 4.14 percent in April 2013 compared with 4.11 percent in March 2013. Month-on-month non-food-non-fuel inflation stood at 4.28 percent in April 2013 compared with 4.18 percent in March 2013. The low and stable inflation was supported by stability in both the exchange rate and declining international oil prices.
- The exchange rate remained stable and strengthened marginally in April 2013. It averaged Ksh.85.82 against the US Dollar in March 2013 compared with Ksh.84.19 in April 2013. This partly reflected the increasing confidence in the foreign exchange market following the elections in March 2013 coupled with the build-up of foreign exchange reserves. The CBK increased its usable foreign exchange reserves from USD5,051.81 million (3.78 months of import cover) in March 2013 to USD5,751.37 million (equivalent to 4.25 months of import cover) in April 2013. The disbursement of USD108.5 million by the International Monetary Fund (IMF) in April 2013 following the successful completion of the 5<sup>th</sup> Review of the Extended Credit Facility (ECF) Programme, coupled with commercial banks' selling foreign exchange to the CBK, contributed to the build-up of the reserves.
- Short-term interest rate movements were coordinated by the Central Bank Rate (CBR) while Open Market Operations ensured that they remained stable. Commercial banks average lending rates continued their slow downward trend. Moreover, private sector credit growth during the first quarter of 2013 reached the traditional sectors of the economy.
- The Government domestic borrowing programme for the Fiscal Year 2012/13 remains consistent with the public debt thresholds in the Medium-Term Debt Management Strategy.
- Detailed analysis of the banking sector, including stress tests conducted on commercial banks' balance sheets, showed that the sector remains solvent and resilient. The performance of the banking sector has encouraged a number of local banks to expand into the East African Region in order to maintain their growth momentum. They now have 282 bank branches outside of Kenya. Despite the continued growth in the volume of loans, credit risk in the banking sector remains low.

- The Committee noted that confidence in the economy has increased following the elections in March 2013. The NSE-20 index has remained buoyant with increased foreign participation; the index rose from 4,518.6 in February 2013 to 4,765.2 in April 2013. Furthermore, the NSE was listed as one of the top performing stock markets among the frontier economies in the last one year. Diaspora remittances have remained resilient, averaging above USD100 million per month since October 2012. In addition, the MPC Market Perceptions Survey conducted in April 2013 showed that the private sector expects inflation and the exchange rate to remain stable for the remainder of 2013. This Survey also showed increasing optimism for a strong growth recovery in 2013 mainly on account of the prevailing macroeconomic stability. This expectation of increased economic activity is expected to be supported by higher net foreign direct investment flows into the country.

The Committee noted that the persistent strain in the eurozone coupled with the balance of payment pressures attributed to the high current account deficit, currently estimated at 11.4 percent of GDP, remain threats to the macroeconomic outlook. Nevertheless, the latest growth projections for Kenya's main trading partners in the region remain strong, endorsing a stable outlook for the exchange rate with expectations for increased foreign exchange inflows from regional trade. Furthermore, the prevailing weather conditions continue to support a low and stable short-term outlook for food inflation in spite of the risk posed by floods on food production and distribution.

The Committee concluded that the monetary policy measures continue to deliver the desired results, providing policy space to encourage the private sector to fulfil its growth augmentation role. The Committee therefore decided to reduce the CBR by 100 basis points to 8.50 percent. It will continue to monitor the outcomes on the key macroeconomic aggregates as well as any emergent risks to ensure that the policy stance continues to deliver price stability.



**PROF. NJUGUNA NDUNG'U, CBS**  
**CHAIRMAN, MONETARY POLICY COMMITTEE**

7<sup>th</sup> May, 2013