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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 10TH JANUARY, 2013

FURTHER CONSOLIDATING MONETARY POLICY GAINS

The Monetary Policy Committee met on 10th January, 2013 to review market developments and evaluate the outcomes of its monetary policy stance since its November 2012 Meeting. It noted that its policy stance continued to contribute to a declining inflation and exchange rate stability as well as to achieve the targets in the monetary programme. The Committee observed and analysed the following positive outcomes in the market since its last Meeting:

- Overall month-on-month inflation declined from 3.25 percent in November 2012 to 3.20 percent in December 2012, reflecting a continued decline in food prices and easing demand pressure in the economy. Non-food-non-fuel inflation declined from 4.83 percent to 4.81 percent during the period. Both inflation measures remained within the 5 percent Government medium-term target for overall inflation. In fact overall inflation has flattened in the month of December 2012. These developments, coupled with improved weather conditions and declining international oil prices continue to support a low and stable short-term outlook for inflation.
- The exchange rate has remained stable since the last meeting, fluctuating within a range of Ksh.85.38 to Ksh.86.61 against the US Dollar. The Central Bank of Kenya (CBK) foreign exchange reserves increased during the period providing a cushion to the foreign exchange market against both external and domestic shocks. The level of usable foreign exchange reserves held by the CBK increased from USD5,274.9 million (4.14 months of import cover) at the beginning of November, 2012 to USD5,373.03 million (4.15 months of import cover) at the beginning of January 2013.
- The Government Revised Budget for 2012/13 and the updated macroeconomic outlook is consistent with the growth and inflation forecasts in the monetary programme. The outlook indicates a higher growth path and improvement in the current account deficit over the medium-term thereby indicating that there will be a continuation of the current exchange rate stability.
- The sustained easing of the monetary policy stance coupled with Open Market Operations resulted in improved liquidity and stability in the interbank market. Consequently the downward trend of the annual growth in private sector credit reversed, rising from 7.12 percent in October 2012 to 9.07 percent in November, 2012. This non-inflationary credit expansion was distributed across the key sectors of the economy and was supported by a slight decline in commercial banks' average lending rates. The number of loan applications increased by 32.5 percent from 73,770 in October 2012 to 97,756 in November 2012.

- The data presented and the stress tests conducted on commercial banks indicated that the banking sector remains robust. The CBK has issued new Prudential and Risk Management Guidelines for banks that will strengthen corporate governance and business practices. The Committee also noted that credit risk in the banking sector remained low; the ratio of gross non-performing loans to total loans declined from 4.7 percent in October 2012 to 4.6 percent in November 2012.
- The latest data from the Kenya National Bureau of Statistics shows that the economy registered a notable recovery in the third quarter of 2012 following improved macroeconomic stability and robust agricultural sector performance due to improved rains. Economic growth in the quarter was 4.7 percent up from 3.4 percent and 3.3 percent in the first and second quarters, respectively. This is also the quarter when inflation declined swiftly last year.
- The Committee noted that confidence in the economy remains high. The Standard and Poor's rating agency affirmed Kenya's rating at B+ with a stable outlook while Moody's assigned a B1 rating with a stable outlook. The NSE-20 index rose from 4,083.5 in November 2012 to 4,133.0 in December 2012 following increased participation by foreign investors. In addition, diaspora remittances increased from USD91.6 million in October 2012 to USD97.5 million in November 2012. The MPC Market Perceptions Survey conducted in December 2012 showed that the private sector expects inflation and the exchange rate to remain stable in 2013. The Survey also showed increased optimism for a strong recovery in growth in 2013.

However, the Committee noted that the main risks to macroeconomic stability were the uncertainty over the full resolution of the eurozone problems and balance of payments pressures attributed to the high current account deficit. Nevertheless, the monetary policy measures in place were considered adequate to ensure effective liquidity management and maintain stability in the interbank market in the coming months.

On the basis of the above considerations, the Committee concluded that there was a positive outlook on the economy including stability in both the product and foreign exchange markets reflected in stable inflation and the exchange rate. In order to enhance the monetary policy stance and its outcomes as well as increase the uptake of private sector credit and re-align interest rates in the economy, the Committee decided to lower the Central Bank Rate by 150 basis points to 9.50 percent. It will also continue to monitor closely any risks to the macroeconomic outlook in the coming months and take appropriate actions to maintain the required price stability.



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

10th January, 2013