Governor

BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

Haile Selassie Avenue
P.O. Box 60000-00200, Nairobi, Kenya
Telephone: 2861003/24 Fax: 2716556

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 12TH MARCH, 2013

MANAGING RISKS TO MAINTAIN PRICE STABILITY

The Monetary Policy Committee met on 12th March, 2013 to review market developments and evaluate the outcomes of its monetary policy stance since its January 2013 meeting. The Committee noted that inflation had stabilised within the Government medium-term target of 5 percent while exchange rate stability was sustained. Specifically, the Committee observed and analysed the following positive outcomes in the market since its last meeting:

- Both overall and non-food-non-fuel month-on-month inflation measures remained within the Government medium-term target in January and February 2013. Month-on-month overall inflation increased from 3.67 percent to 4.45 percent during the period mainly reflecting increases in the prices of seasonal food stuffs and fuel, and a fall in the base price in February 2012. However, non-food-non-fuel inflation, which measures the impact of monetary policy, declined from 4.51 percent to 4.46 percent during the period. The predicted favourable weather conditions coupled with a non-inflationary credit growth are expected to offset the impact of rising international oil prices, and hence support a low and stable short-term outlook for inflation.
- The exchange rate remained stable; it fluctuated within a narrower range of between Ksh.86.24 and Ksh.87.63 for the US Dollar in February 2013 compared with a range of between Ksh.86.08 and Ksh.87.61 in January 2013. By the time the MPC had its March meeting, the exchange rate was fluctuating around Ksh.85.30 indicating a return of confidence. The stability of the exchange rate in the period was supported by effective liquidity management, including foreign exchange operations. The level of Central Bank of Kenya usable foreign exchange reserves stood at USD4,986.74 million as at 12th March, 2013 in line with monetary policy targets.
- The Government fiscal operations in the fiscal year 2012/13 are consistent with the monetary policy objectives. Consequently, the domestic borrowing plan and allied policy has ensured that Government borrowing does not crowd-out private sector borrowing thereby jeopardising investment. In addition, the borrowing plan is consistent with the thresholds set in the Medium Term Debt Management Strategy for domestic debt.
- Liquidity conditions at the end of February 2013 led to short-term interest rates remaining stable around the Central Bank Rate (CBR). Private sector credit growth maintained its upward trend supported by the improved liquidity conditions and declining average lending interest rates. This was consistent with monetary easing strategy adopted by the MPC. Annual growth in private sector credit rose from 10.42 percent in December 2012 to 11.95 percent in January, 2013. The credit expansion during the period was within the programmed growth path and was distributed across the key sectors of the economy. The Committee noted that the number of loan applications increased by 13.8 percent from 71,130 in December 2012 to 80,980 in January 2013.

- The data presented and the stress tests conducted on commercial banks indicated that the banking sector remains solvent and resilient. Despite the growth in the volume of loans, the ratio of gross non-performing loans to total loans increased marginally from 4.5 percent in December 2012 to 4.6 percent in January 2013, an indication that credit risk in the banking sector remains low.
- The Committee noted that confidence in the economy has been maintained. The NSE-20 index rose from 4,416.60 in January 2013 to 4,518.59 in February 2013 with increased foreign investor participation. Diaspora remittances rose from USD97.50 million in November 2012 to USD105.66 million in December 2012, and amounted to USD102.97 million in January 2013. In addition, the MPC Market Perceptions Survey conducted in February 2013 showed that the private sector expects inflation and the exchange rate to remain stable in the remainder of 2013. The Survey also showed sustained optimism for a strong growth recovery in 2013 on account of the prevailing macroeconomic stability and enhanced confidence in the economy following a peaceful election.
- The Committee expected that the recent elections will enhance confidence, giving rise to optimism and a revision of portfolios towards long-term investments. In addition, the devolved Government structure under the new Constitution will create new opportunities arising from the imaginative appraisal of the relative comparative resource endowments at the county level. Thus, opportunities for new economic growth poles will emerge.

Despite the above positive developments, the Committee noted that there were risks to the macroeconomic outlook. These are attributed to the renewed upward drift in international oil prices and a weak outlook for the global economy with the expectation of a more pronounced recession in the eurozone and a slow recovery of the US economy. This outlook, coupled with the persistent balance of payments pressures due to the high current account deficit remain a threat to the general stability of prices.

Given the above considerations, and the need to provide time for previous MPC decisions to work through the economy, the Committee decided to retain the CBR at 9.50 percent. However, the Committee will continue to closely monitor the macroeconomic aggregates and expectations dynamics to ensure that the policy stance continues to deliver the desired price stability.

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

12th March, 2013