

GOVERNOR

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on May 23, 2016, to review recent economic developments, and the outlook for the domestic and global economies. The Committee noted the following:

- Month-on-month overall inflation fell to 5.3 percent in April 2016, from 6.5 percent in March, and was within the Government's target range. This decline was largely due to reduction in the prices of food items and fuel. Month-on-month non-food-non-fuel (NFNF) inflation also declined to 5.8 percent in April from 6.0 percent in March. The CPI category *alcoholic beverages, tobacco and narcotics* contributed 1.1 percentage points to NFNF inflation in April, reflecting the revised excise tax introduced in December 2015. Significantly, the 3-month annualised NFNF inflation fell from 6.8 percent in March to 4.6 percent in April, indicating that there were no significant demand pressures in the economy.
- The foreign exchange market has remained stable, supported by a narrower current account deficit due to lower oil imports, improved earnings from tea and horticulture exports, and strong diaspora remittances. The current account deficit was estimated at 6.8 percent of GDP in 2015, a reduction of 3 percentage points from 2014, and is expected to narrow further in 2016.
- Foreign exchange reserves of the Central Bank of Kenya (CBK) currently stand at USD7,688.3 million (equivalent to 5.0 months of import cover) up from USD7,377.2 million (equivalent to 4.7 months of import cover) at the end of March 2016. These reserves, together with the Precautionary Arrangements with the International Monetary Fund (IMF) will continue to provide adequate buffers against short-term shocks.
- The coordination between monetary and fiscal policies continues to support macroeconomic stability. The National Government budget deficit is expected to narrow in FY2015/16 thereby easing pressure on interest rates.
- The banking sector is resilient and has begun to stabilise following the successful and quick reopening of Chase Bank, which has enhanced confidence in the sector. Furthermore, the CBK's enforcement of existing regulations particularly with respect to the classification of loans, has strengthened and increased transparency of the banking sector.

- The ratio of gross non-performing loans to gross loans was 8.2 percent in April 2016, partly reflecting better reporting standards. The CBK will continue to monitor credit and liquidity risks, which remain concerns.
- The performance of the economy remains strong, posting a growth of 5.6 percent in 2015, from 5.3 percent in 2014. The MPC Market Perception Survey conducted in May 2016, shows that the private sector remains optimistic supported by macroeconomic stability, stronger agriculture performance, public infrastructure investment, and tourism recovery.
- The outlook for global economy has deteriorated in recent months due to weaker growth prospects in advanced and emerging market economies. Uncertainties in the global financial markets have increased due to risks posed by, among other factors, slower growth in China, the timing of the U.S. Fed's next increase in interest rates, and the outcome of the referendum on U.K. membership of the European Union (Brexit). However, the growth outlook for Kenya's main trading partners in the region remains strong, suggesting better prospects for exports performance.

The Committee noted that overall inflation is expected to decline and remain within the Government target range in the short-term. Therefore, it concluded that there was policy space for an easing of monetary policy while continuing to anchor inflation expectations. The MPC therefore decided to lower the CBR by 100 basis points to 10.5 percent. The CBK will continue to monitor developments in the economy, and will use instruments at its disposal to maintain overall price and financial sector stability.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

May 23, 2016