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## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING**

The Monetary Policy Committee (MPC) met on August 5, 2015 to review market developments and the outcomes of its previous monetary policy decisions. It noted the following developments since its meeting in July 2015:

- Overall inflation decreased in July 2015, and remained within the Government's target range of 2.5 percent on either side of the 5 percent target. Month-on-month inflation eased to 6.6 percent in July 2015 from 7.0 percent in June 2015, mainly reflecting lower food prices which offset the increase in fuel prices during the period and pass-through effects of the depreciation of the Kenya Shilling. The month-on-month non-food-non-fuel (NFNF) inflation increased marginally to 4.7 percent from 4.6 percent during the period.
- The foreign exchange market was volatile in early July 2015, but has stabilised reflecting in part the impact of monetary policy measures. In particular, Open Market Operations and the sale of foreign exchange by the Central Bank of Kenya (CBK) have stemmed the volatility and resulted in tight liquidity conditions. The current account deficit has widened mainly due to imports of capital goods and lower earnings from exports. Nevertheless, diaspora remittances have remained strong.
- The CBK's foreign exchange reserves stood at USD 6,413 million at the end of July 2015. This level of reserves together with the precautionary facility with the International Monetary Fund provides an adequate buffer against short-term shocks.
- Consistent with the policy stance adopted by the MPC in its July 2015 meeting, overall liquidity conditions remained tight, with the interbank interest rate rising above the Central Bank Rate (CBR).
- The latest data indicates that the banking sector is resilient, though credit and liquidity risks remain.
- Global economic growth remains moderate with a projected gradual pickup in activity in the remainder of 2015. However, the uncertainty around the timing of the increase in U.S. interest rates, coupled with the fall in equity prices in China and the debt crisis in Greece have led to heightened uncertainty and increased instability in the global financial markets. Most currencies have remained volatile against the U.S. dollar.

The CBK's Market Perceptions Survey of July 2015 showed optimism for increased foreign direct investment and recovery of key sectors of the economy. Early indications point to improved performance in tourism and agriculture.

The Committee concluded that the measures taken in the previous meetings were yet to be fully transmitted to the economy. In particular, the impact of the increase in the Kenya Banks' Reference Rate (KBRR) takes effect from August 2015. The MPC therefore decided to retain the CBR at 11.50 percent in order to anchor inflation expectations. The CBK stands ready to use the instruments at its disposal to maintain overall price stability.

The MPC will hold its next meeting in September 2015.

**DR. PATRICK NJOROGE**  
**CHAIRMAN, MONETARY POLICY COMMITTEE**

August 5, 2015