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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on March 21, 2016 to review market developments and the impact of its previous monetary policy decisions. The Committee noted the following developments:

- Month-on-month overall inflation fell to 6.8 percent in February 2016, from 7.8 percent in January, thereby returning to within the Government's target range of 2.5 to 7.5 percent. This decline was largely driven by developments in food and fuel prices. The month-on-month non-food-non-fuel (NFNF) inflation rose to 5.9 percent in February from 5.5 percent in the previous month, reflecting the revised excise tax on alcoholic beverages and tobacco products, implemented in December 2015. The contribution to NFNF inflation of the CPI category "*alcoholic beverages, tobacco and narcotics*" remained unchanged at 1.1 percentage points, mainly due to the revised excise tax.
- The foreign exchange market has remained stable even as the global markets were volatile due to pressures from China's financial markets, and uncertainties in the advanced economies. Developments in the foreign exchange market are supported by a narrowing current account deficit with improved exports, strong diaspora remittances, and a lower oil import bill.
- CBK's foreign exchange reserves currently stand at USD7,379.3 million (equivalent to 4.7 months of import cover) up from USD7,023.7 million (equivalent to 4.5 months of import cover) at the last MPC Meeting. The approval on March 14 of new IMF Precautionary Arrangements amounting to USD1.5 billion (SDR1.06 billion) covering 2 years, reflects confidence in the country's macroeconomic policies and provides additional buffers against short-term shocks.
- The revised Budget Estimates of the National Government, currently before the National Assembly, indicate a planned reduction in Government expenditures which should continue to ease pressures on domestic borrowing and interest rates.

- The banking sector remains stable and resilient. However, the CBK continues to closely monitor the sector, particularly concerning credit risk as reflected in an increase in non-performing loans. Liquidity in banks and its distribution has normalised, but further work is needed to strengthen liquidity management and operations of the interbank market.
- Average commercial banks' lending rates declined to 17.9 percent in February 2016, from 18.3 percent in December 2015. The CBK continues to urge banks to reduce their operating costs and enhance transparency in the pricing of credit. In this respect, the CBK has commenced the quarterly publication of individual banks' lending rates across loan categories and maturities.
- The MPC Market Perception Survey conducted in March 2016, shows that the private sector maintains its optimism for improved business conditions and high growth in 2016. These sentiments are underpinned by macroeconomic stability, continued public investment in infrastructure, and the improved performance of agriculture, especially horticulture and tea.
- The global economic outlook has worsened since January 2016, with weaker growth prospects, increased volatility in the financial markets, and heightened uncertainties in the emerging markets and advanced economies. However, the impact of these developments on Kenya is expected to be minimal due to the diversification of its export products and markets, and stable financial linkages.

The Committee noted that the monetary policy measures currently in place have continued to moderate inflation expectations. The MPC decided to retain the CBR at its current level of 11.5 percent, to continue to anchor inflation expectations and enhance the credibility of its policy stance. The CBK will continue to monitor developments and will use the instruments at its disposal to maintain overall price and financial sector stability.



Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

March 21, 2016