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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on November 17, 2015, to review market developments and the outcomes of its previous monetary policy decisions. Since the MPC meeting of September 2015, turbulent conditions emerged in the financial markets, primarily due to pressures on the Government borrowing plan and the placement of Imperial Bank Limited into receivership. These adverse conditions have now abated. The following developments were also noted:

- In September and October 2015, liquidity conditions were tight with short-term interest rates remaining above the Central Bank Rate (CBR). The significant rise in Treasury bill rates also reflected Government domestic borrowing. However, a notable improvement in liquidity conditions has been recorded in November, with the interbank and Treasury bill rates declining. The distribution of liquidity was also enhanced through Reverse Repos, thus addressing the temporary shortages in segments of the market.

- The fiscal measures taken by the National Treasury, including the issuance of a syndicated loan in November, have eased pressures on Government domestic borrowing and interest rates. The Central Bank of Kenya (CBK) is working closely with the National Treasury to strengthen the coordination of monetary and fiscal policies to support overall macroeconomic stability.

- Although the banking sector is liquid and well capitalized, credit and liquidity risks—largely from market segmentation—remain. The CBK is closely monitoring the sector and continues to address and support financial stability. In particular, it notes the recent reduction in short-term interest rates and expects them to be transmitted to commercial lending rates.

- Overall month-on-month inflation increased to 6.7 percent in October 2015, from 6.0 percent in September, but remained within the Government target range. Month-on-month non-food-non-fuel (NFNF) inflation rose marginally to 4.8 percent in October from 4.7 percent in September. The rise in inflation was largely due to increases in the prices of some food items, and a significant base effect. However, the 3-month annualised NFNF inflation declined to 2.5 percent in October from 3.4 percent in September, indicating moderating demand pressure due to the impact of the monetary policy measures.

- The foreign exchange market has been stable since September supported by CBK's monetary policy operations. Furthermore, the current account deficit narrowed, mainly due to a lower oil import bill, and a slowdown in consumer imports. Diaspora remittances remain strong.

- The CBK's foreign exchange reserves stands at USD 6,777.2 million (4.3 months of import cover) from USD 6,115.9 million (3.9 months of import cover) at the end of September. The build-up in reserves was supported by purchases of foreign exchange from the market and proceeds of the Government's syndicated loan. These reserves, together with the Precautionary Arrangements with the International Monetary Fund (IMF), continue to provide an adequate buffer against short-term shocks.

- The CBK's Market Perceptions Survey of November 2015 showed that private sector firms expect growth to be resilient in 2015 and to pick up in 2016 supported mainly by infrastructure investments. The Survey also showed that inflation expectations are moderating supported by lower oil and food prices. However, respondents flagged a rise in U.S. interest rates as a risk to the inflation outlook through its impact on the exchange rate. In addition, the *El Niño* rains remain a threat to stability of food prices if it disrupts the food supply chains.

- Global economic growth has been weaker than expected, but indications are for a gradual pickup in 2016, driven mainly by the U.S. economy. However, the prospects for slower growth in China could lower growth in emerging and frontier market economies. In addition, the financial markets remain uncertain in respect of the timing of the increase in U.S. interest rates and the easing of monetary policy in the Euro Area.

The Committee concluded that the monetary policy measures in place are appropriate to maintain market stability and anchor inflation expectations. The MPC therefore decided to retain the CBR at 11.50 percent. The CBK will continue to use the instruments at its disposal to maintain overall price and financial sector stability.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

November 17, 2015