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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on September 22, 2015, to review market developments and the outcomes of its previous monetary policy decisions. It noted that the monetary policy measures taken in the previous meetings were being transmitted into the economy. The MPC noted the following developments since its meeting in August 2015:

- Overall month-on-month inflation decreased to 5.8 percent in August 2015, from 6.6 percent in July, moving closer to the 5 percent target. Month-on-month non-food-non-fuel inflation reversed its upward trend since April, falling to 4.5 percent in August from 4.7 percent in July. The decrease in inflation was due to lower food prices and moderating demand pressures, partially offsetting the pass-through effects of exchange rate movements.
- The foreign exchange market was volatile in August and early September largely reflecting international developments, in particular the impact of the devaluation of the Chinese Yuan and continued strengthening of the U.S. dollar against most currencies. However, the tight liquidity conditions and direct interventions by the Central Bank of Kenya (CBK) helped stabilise the market. The current account deficit narrowed slightly in July 2015, due to a slowdown in imports and improved exports. In addition, diaspora remittances remain strong.
- The CBK's foreign exchange reserves stand at USD6,183.6 million, which together with the Precautionary Arrangements with the International Monetary Fund (IMF) continue to provide an adequate buffer against short-term shocks. Following the first review of these Arrangements in September, the IMF endorsed the country's macroeconomic policies and the measures adopted to address the spillover effects of the volatility in the global markets.
- Consistent with the monetary policy stance, liquidity conditions remained tight with the average interbank interest rate above the Central Bank Rate (CBR). Consequently, other short-term interest rates have been rising.
- The banking sector is resilient although liquidity and credit risks remain. The CBK is closely monitoring the sector in view of the risks posed by volatility in the global markets.

- Global economic growth remains moderate supported mainly by the U.S. economy. However, the slowdown in China has dampened the growth outlook for the global economy and increased volatility in the financial markets. Most emerging and frontier market currencies have depreciated against the U.S. dollar mainly due to the uncertainty around the timing of the increase in U.S. interest rates.

The CBK's Market Perceptions Survey of September 2015 showed that private sector firms expect stronger growth in 2015 compared to 2014, supported mainly by public investment in infrastructure and improved confidence in the economy. In addition, the Survey showed that inflation was expected to be stable in the remainder of 2015 supported by lower food and oil prices. However, the forecasted *El Niño* rains could disrupt food supply chains and exert pressure on food prices in the short term.

The Committee observed that the measures taken in the previous meetings had continued to bring inflation nearer to the 5 percent target. However, the persistent turbulence in the global financial markets remain a risk to the inflation outlook, and its impact on the exchange rate should be monitored. The MPC concluded that the current monetary policy stance and supporting measures remain appropriate. The Committee 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.

DR. PATRICK NJOROGE
CHAIRMAN, MONETARY POLICY COMMITTEE

September 22, 2015