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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 20, 2016, to review market developments and the outcomes of its previous monetary policy decisions. The Committee noted the following developments:

- Month-on-month overall inflation was 8.0 percent in December 2015, up from 7.3 percent in November, and above the 7.5 percent upper bound of the Government's target range. The increase was driven largely by food prices, and the main items were Irish potatoes, tomatoes, kales (*sukuma wiki*), carrots, cabbages, onions, beef with bones, and avocados. These items contributed 2.3 percentage points to overall inflation and 6.3 percentage points to food inflation in December 2015. Many of these items are seasonal and fast-growing, and their impact on inflation is expected to dissipate by April.

- New Excise Taxes on alcoholic beverages and tobacco products, introduced on December 1, contributed 0.3 percentage points to overall inflation and 1.2 percentage points to the non-food-non-fuel (NFNF) inflation. The NFNF inflation increased to 5.6 percent in December from 4.8 percent in November. While the 3-month annualised NFNF inflation increased as a result of the new Excise Taxes, there were no evident adverse demand pressures in the economy.

- The foreign exchange market has remained stable since November 2015, despite the rise in U.S. interest rates, impact of the slowdown in China, and volatility in other global financial markets. Stability in the foreign exchange market continues to be supported by a narrowing current account deficit largely due to a lower import bill for petroleum products, recovery in tourism, tea and horticulture exports, and diaspora remittances. CBK's foreign exchange reserves which currently stand at USD 7,023.7 million (equivalent to 4.5 months of import cover), together with the Precautionary Arrangements with the International Monetary Fund (IMF), continue to provide an adequate buffer against short-term shocks.

- The Government's borrowing plan in the first half of the Fiscal Year 2015/16 ensured that the build-up in domestic debt was consistent with the thresholds set in the Medium-Term Debt Management Strategy. The Government continues to review its borrowing plan in line with market conditions and prudent budget management.

- Bank liquidity and its distribution has improved since November. Nevertheless, the CBK continues to monitor the sector, particularly liquidity and credit risks.

- Updated data from all commercial and microfinance banks show that new and existing loans amounting to Ksh.1,408.5 billion had been converted to the Kenya Banks' Reference Rate (KBRR) framework by end of December 2015, compared with Ksh.1,374.9 billion by the end of October 2015.

- The economy remained strong in the third quarter of 2015, posting a growth rate of 5.8 percent compared to 5.2 percent in a similar period of 2014. Significantly, the CBK Market Perception Survey of January 2016, showed increased optimism for improved business conditions and stronger growth in 2016, largely due to strengthened macroeconomic environment, continued public investment in infrastructure, lower oil prices, improving tourism performance, and a higher country profile.

- Global economic growth in 2016 is expected to be uneven across the advanced and emerging market economies. The risks to the global growth outlook relate to the slower growth prospects in China and other emerging markets, lower commodity prices, as well as the possibility of tight financing conditions following commencement of tightening of U.S. monetary policy. However, the impact on Kenya will be limited due to weak trade and financial linkages to these economies.

In view of the developments noted above, the Committee concluded that the current inflation pressures are temporary, and that the monetary policy measures currently in place are containing any demand pressures in the economy. The MPC therefore decided to retain the CBR at 11.50 percent in order to continue to anchor inflation expectations. The CBK will continue to use the instruments at its disposal to maintain overall price stability while ensuring stability in the financial sector.

Considering the above, and in order to ensure market stability, the CBK reviewed the Kenya Banks' Reference Rate (KBRR) and decided to retain it at its current level of 9.87 percent.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

January 20, 2016