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# PRESS RELEASE

## MONETARY POLICY COMMITTEE MEETING, 4TH MARCH, 2014
## *MAINTAINING STABILITY IN THE MONETARY POLICY PATH*

The Monetary Policy Committee met on 4th March, 2014, to review market developments and the outcomes of its previous monetary policy stance. The Committee noted that overall inflation continued to decline in February 2014 and remained within the target range, while exchange rate stability was maintained. The Committee noted the following outcomes in the market since its meeting in January 2014:

- The overall month-on-month inflation declined from 7.21 percent in January 2014 to 6.86 percent in February 2014. Month-on-month non-food-non-fuel (NFNF) inflation remained relatively stable: it increased slightly from 4.83 percent to 4.93 percent during the period. This is an indication that the monetary policy stance has continued to support a stable inflation rate and that private sector credit growth during the period was non-inflationary. In addition, both the 1-month and 3-month annualised Overall and NFNF inflation measures stabilised in February 2014, indicating an easing of underlying inflationary pressure.
- Exchange rate stability was sustained during the period. The Kenya Shilling to US Dollar rate fluctuated within a narrower range of Ksh.86.06 and Ksh.86.58 in February 2014 compared to a range of Ksh.85.46 and Ksh.86.96 in January 2014. The Central Bank of Kenya (CBK) increased its level of usable foreign exchange reserves from USD6,165 million (equivalent to 4.32 months of import cover) at the end of December 2013 to USD6,258 million (equivalent to 4.38 months of import cover) at the end of February 2014. The build-up in reserves in the period was mainly attributed to commercial banks selling foreign exchange to the CBK.
- The 12-month cumulative current account deficit (as a percentage of GDP) to December 2013 improved to an estimated level of 8.09 percent from 10.45 percent in the previous year.
- The Government domestic borrowing programme for the Fiscal Year 2013/14 as provided in the Medium-Term Budget Policy Statement published by the Government in February 2014, remains consistent with the monetary policy objectives. Specifically, the programmed domestic borrowing ensures that the private sector is not crowded-out as that would jeopardise the expected increase in private investment. The domestic borrowing programme has enabled the bond market to remain vibrant while also facilitating the deepening of the capital market.

- The Central Bank Rate (CBR) continued to coordinate movements in the short-term interest rates while the liquidity management operations adopted by the CBK sustained the interbank market stability. The expected normalisation of Government deposits over the rest of the fiscal year would lead to more widespread use of the CBK liquidity management operations.
- The latest stress tests and data revealed that the banking sector remains solvent and resilient. The number of loan applications increased from 94,259 in December 2013 to 111,486 in January 2014. These were distributed across the key sectors of the economy. Similarly, the number of loan approvals increased from 85,889 to 102,287 during the same period. The annual growth in private sector credit stood at 20.47 percent in January 2014 compared with 20.08 percent in December 2013.
- Confidence in the economy remains strong. Specifically, the latest Sovereign rating by Fitch Rating agency undertaken in February 2014 placed Kenya at ***"B+ with a stable outlook"***. In addition, activity at the Nairobi Securities Exchange (NSE) was reflected in the buoyancy of the NSE-20 index which stood at 4,933.41 at the end of February 2014 from 4,856.15 at the end of January 2014. Diaspora remittances remained resilient and continued to average above USD110 million per month between July 2013 and January 2014. This was further supported by the MPC Market Perception Survey conducted in February 2014 which showed that the private sector expects inflation and the exchange rate to remain stable for the remainder of 2014. Furthermore, the private sector firms sustained their optimism for a strong growth in 2014.
- The global economy was projected to grow from an estimated 3.0 percent in 2013 to 3.7 percent in 2014. The improving global growth outlook coupled with the commencement of the tapering of the economic stimulus programme in the United States has caused some volatility in the global bond, equity, and currency markets: the impact of the spillover effects of this volatility on the stability of exchange rates in Kenya has so far been minimal. Nevertheless, the instability in Eastern Europe and the Middle East and North African region poses a risk to stability in oil prices.

The Committee concluded that the monetary policy measures had continued to deliver the desired price stability. However, overall inflation remained in the upper bound of the medium-term target of 5 percent. The Committee therefore decided to retain the CBR at 8.50 percent to continue anchoring inflationary expectations. The CBK will continue to monitor the key macroeconomic aggregates and any emergent risks that may impact on price stability.

**PROF. NJUGUNA NDUNG'U, CBS**
**CHAIRMAN, MONETARY POLICY COMMITTEE**

4th March, 2014