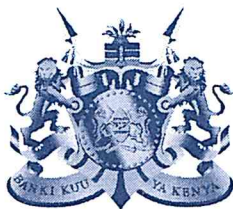


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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 4TH NOVEMBER, 2014

SUSTAINING STABILITY IN THE MONETARY POLICY PATH

The Monetary Policy Committee (MPC) met on 4th November, 2014 to review market developments and the outcomes of its previous monetary policy decisions. The Committee noted that overall inflation had declined in both September and October 2014 to be within the prescribed range of the medium-term target of 5 percent after some sporadic effects in the previous months. In particular, the Committee noted the following outcomes in the market since its meeting in September 2014:


- The overall month-on-month inflation declined from 6.60 percent in September 2014 to 6.43 percent in October 2014 primarily as an outcome of decreases in the prices of most foodstuffs and energy prices. Furthermore, month-on-month non-food-non-fuel (NFNF) inflation, which measures the impact of the monetary policy stance, declined from 3.66 percent to 3.47 percent during the period. In addition, the 1-month and 3-month annualised overall and NFNF inflation declined during the period, indicating that there was no incipient inflationary pressure.
- The exchange rate remains stable despite short-term pressures arising from external events in the Eurozone and the United Kingdom that has resulted in a “flight to safety” and the strengthening of the US Dollar. Resilient foreign exchange inflows through diaspora remittances and sustained foreign investor participation in the Nairobi Securities Exchange (NSE) continued to support the Kenya Shilling. The CBK’s level of usable foreign exchange reserves increased from USD 6,376.95 million (equivalent to 4.21 months of import cover) at the beginning of September 2014 to USD 7,116.3 million (equivalent to 4.64 months of import cover) at the end of October 2014. This build-up of foreign exchange reserves during the period was attributed to the utilization of the proceeds of the Sovereign Bond by the Government. This level of foreign exchange reserves is considered adequate to cushion the foreign exchange market against short-term shocks.
- The liquidity management by the CBK through Open Market Operations continued to support the stability of the interbank market. Consequently, the movements in short-term interest rates showed decreased volatility and were aligned to the directions of the Central Bank Rate (CBR).
- The Government’s domestic borrowing programme for the Fiscal Year 2014/15 remained consistent with the monetary policy objectives. In addition, the domestic borrowing strategy has continued to deepen the capital market through issuance of longer-tenor bonds by the Government. This has minimised the roll-over risks associated with short-term domestic borrowing.
- The latest data and stress tests show that the banking sector remains resilient. The annual growth in private sector credit slowed down slightly from 25.54 percent in July 2014 to 24.49 percent in September 2014. This credit was largely channelled to productive sectors of the economy. The ratio of gross non-performing loans to gross loans decreased from 5.6 percent in July 2014 to 5.4 percent in September 2014 indicating a lowering in credit risk. The CBK and Kenya Bankers Association continued to monitor the implementation of the Kenya Banks’ Reference Rate (KBRR) and the Annual Percentage Rate (APR) frameworks by commercial banks. Updated data

from commercial banks and microfinance banks indicate that new and existing loans amounting to Ksh. 397.24 billion and covering 1,220,756 loan accounts had benefited from the KBRR framework by 19th October, 2014. The Committee noted that the CBK is analysing the premium (K) for banks and microfinance banks and there are plans to publish it for reference to aid borrowers with information to support their decisions while seeking credit facilities.

- The latest data from the Kenya National Bureau of Statistics shows that the “financial and insurance” sector continued to contribute significantly to the country’s growth; it grew by 8.3 percent in the second quarter of 2014 compared with 11.1 percent in a similar period in 2013. The “information and communications” sector that has provided the platform for continued innovations and diversification of products in the financial and insurance sector, grew by 6.4 percent in the second quarter of 2014 from 13.0 percent in a similar period of 2013.
- Confidence in the economy remains strong. Activity at the NSE remains buoyant partly supported by sustained foreign investor participation. Diaspora remittances rose significantly to an all-time high, averaging USD 128.1 million per month in August and September 2014 compared with USD 107.0 million in a similar period of 2013. In addition, the MPC Market Perception Survey conducted in October 2014 showed that the private sector expects inflation and the exchange rate to be stable for the remainder of 2014 and that growth will remain resilient. Furthermore, the Survey showed that the private sector’s optimism for an improved business environment in the remainder of 2014 is high.

On the international scene, the global economy is projected to grow by 3.8 percent in 2015 up from a projection of 3.3 percent in 2014. Geo-political uncertainties and a decline in energy prices have contributed to a downward revision of the projection for global growth in 2014. Despite weaknesses in the Eurozone and some emerging market economies, the US economy is gaining momentum. Sub-Saharan African economies are projected to grow by 5.8 percent in 2015 from a projected 5.1 percent in 2014. In addition, the growth of Kenya’s main trading partners in the region is also projected to gain momentum in 2015. This is expected to boost exports and support exchange rate stability. These developments, coupled with the declining international oil and food prices indicate a stable outlook for inflation.

The Committee noted that there has been no fundamental change in the factors driving inflation over the last 12 months, and concluded that the current monetary policy stance coupled with effective liquidity management operations had moderated inflationary pressure. However, there were notable sporadic spikes on inflation that were witnessed in the months of July and August 2014, although they did not have permanent effects as predicted in the previous meeting. This is the case as overall inflation has declined over the last two months and is expected to continue declining in the coming months. The current forecast indicates that inflation is moving towards its 5 percent target. Given these considerations, the MPC decided to retain its policy stance by maintaining the CBR at 8.50 percent in order to continue anchoring inflationary expectations. The CBK will continue to monitor the key macroeconomic aggregates and any emergent risks from the external and domestic economies that may impact on price stability.



PROF. NJUGUNA NDUNG’U, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE

4th November, 2014