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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 14TH JANUARY, 2014
ANCHORING A STABLE MONETARY POLICY PATH

The Monetary Policy Committee met on 14th January, 2014, to review market developments and the outcomes of the previous monetary policy stance. The Committee noted that overall inflation had continued to decline in December 2013 and remained within the target range. Similarly, exchange rate stability was sustained during the period which reduced the risk of imported inflation. Specifically, the Committee noted the following positive outcomes in the market since its meeting in November 2013:

- The overall month-on-month inflation declined from 7.36 percent in November 2013 to 7.15 percent in December 2013 showing that credit expansion during the period had not been inflationary. Similarly, month-on-month non-food-non-fuel (NFNF) inflation declined from 5.01 percent to 4.71 percent during the month reflecting the impact of the monetary policy stance. In addition, the 3-month annualised Overall and NFNF inflation measures declined during the period. These reflected an easing of underlying inflationary pressure.
- The exchange rate remained stable during the period. It fluctuated within a narrower range of Ksh.85.72 and Ksh.86.72 against the USD in December 2013 compared to a range of Ksh.85.27 and Ksh.86.99 in November 2013. It has averaged Ksh.86.67 so far in January 2014. The Central Bank of Kenya (CBK) increased its level of usable foreign exchange reserves from USD5,868.86 million (equivalent to 4.11 months of import cover) at the end of October 2013 to USD6,164.94 million (equivalent to 4.32 months of import cover) at the end of December 2013. The build-up in foreign exchange reserves during the period was largely attributed to the disbursement of USD110 million by the International Monetary Fund (IMF) in December 2013 following the successful completion of the Extended Credit Facility (ECF) Program, and commercial banks selling foreign exchange to the CBK.
- The 12-months cumulative current account deficit (as a percentage of GDP) improved from 10.45 percent in December 2012 to an estimated level of about 8.5 percent by November 2013.
- The Government domestic borrowing programme for the Fiscal Year 2013/14 remains consistent with the monetary policy objectives. The coordination between monetary policy and the supportive growth-oriented fiscal policy continues to generate inflation and exchange rate stability, increased capital inflows and an improved environment for financial intermediation.
- The movements in the short-term interest rates were generally aligned to the Central Bank Rate (CBR) while Open Market Operations were sustained to support liquidity management. Commercial banks' lending rates declined from an average of 19.73 percent in 2012 to about 16.80 percent in 2013 which was consistent with the monetary policy stance. However, there remains space for further reductions in lending rates by commercial banks while raising deposit rates to incentivise mobilisation of investible funds.

- The latest stress tests and data showed that the banking sector remains solvent and resilient. The number of loan applications increased from 109,260 in October 2013 to 129,751 in November 2013 and was distributed across the key sectors of the economy. Consequently, the annual growth in private sector credit increased from 18.0 percent in October 2013 to 20.0 percent in November 2013. The ratio of non-performing loans to total loans, which measures credit risk, declined from 5.3 percent to 5.1 percent during the period.
- The latest data from the Kenya National Bureau of Statistics (KNBS) shows that the financial intermediation sector continued supporting growth. In addition, the strong performance of the manufacturing and building and construction sectors during the third quarter of 2013 was an indication of continued recovery of the economy.
- Confidence in the economy remains strong. Specifically, improved activity at the Nairobi Securities Exchange (NSE) was reflected in the buoyancy of the NSE-20 index which averaged 5006.9 from October to December 2013. Furthermore, the NSE was listed among the most active stock markets in Africa during the period. Diaspora remittances remained resilient and averaged USD110.6 million per month from July to November 2013. In addition, the MPC Market Perceptions Survey conducted in December 2013 showed that the private sector expects inflation and the exchange rate to remain stable, and a strong growth in 2014. The recent visit and statements by the Managing Director of the IMF endorsing the country's track record of prudent macroeconomic policy and management have provided a positive signal to potential investors. This endorsement will be enhanced by any future partnership.

The Committee noted that although the growth of the global economy was projected to pick-up in 2014, the recovery was expected to be modest and uneven. Similarly, the projected slowdown in the growth of emerging market economies that are more integrated with the global economy coupled with normalisation of financial conditions in advanced countries could create some volatility in the financial markets. However, the projected robust growth of Sub-Saharan Africa economies in 2014 endorsed a stable outlook for the exchange rate with expectations for increased foreign exchange inflows from regional trade. In addition, the forthcoming Sovereign Bond issue will further bolster the country's foreign exchange reserves and support exchange rate stability.

The Committee concluded that the monetary policy stance had anchored inflationary expectations and continues to deliver the desired objective of price stability. The Committee therefore decided to retain the CBR at its current level of 8.50 percent to encourage a full impact of this monetary policy path to be felt throughout the economy. 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

14th January, 2014