

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA

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12th August, 2011

BANKING CIRCULAR NO. 8 OF 2011

TO CHIEF EXECUTIVES OF COMMERCIAL BANKS

GUIDELINES ON THE USE OF THE CENTRAL BANK OF KENYA DISCOUNT (OVERNIGHT) WINDOW

Banking Circulars No. 5 and No. 6 of 2011 elaborated the reasoning behind the need to restore and enhance the capacity of the CBK Discount (Overnight) Window to attain its objective while reining in inflation and inflationary expectations. This Circular expands on the previous ones so as to address current problems. More recently, the foreign exchange market has once more been under severe pressure. Consequently, the link between interest rates and exchange rates requires further elaboration in the Prudential Guidelines which govern liquidity for commercial banks.

This Circular supersedes Banking Circulars No. 5 and No. 6 of 2011 and elaborates a number of requirements for use of the CBK Discount (Overnight) Window. It should be noted that these do not indicate a change in policy but are rather necessary to address the requirements for effective implementation of monetary policy management in the current uncertain international environment.

1. Any bank lending in the interbank market will not be allowed to access funds through the CBK Discount (Overnight) Window on the same day. Furthermore, any bank borrowing from the CBK Discount (Overnight) Window cannot lend in the interbank market either on the day of accessing the Window or on the following day.
2. The interest rate that will be charged at the CBK Discount (Overnight) Window will be the Central Bank Rate (CBR) which is currently at 6.25 percent *plus* the previous day's average interbank rate *minus* the CBR *plus* a penalty of 3 percentage points. However, when the interbank rate is equal to, or below the CBR the applicable rate on the CBK Discount (Overnight) Window will be the CBR *plus* 3 percentage points.
3. In determining eligibility for access to the CBK Discount (Overnight) Window, the CBK will consider an individual bank's foreign exchange trading behaviour over the previous four trading days.

The CBK has indicated that it will not be using the reverse repo until there is a change in its monetary policy stance. Thus, the opportunity for commercial banks to borrow for longer than one day has been reduced. Consequently, commercial banks are advised to consider increased use of the Horizontal Repo which permits diverse tenors which are negotiated bilaterally between banks.

This Circular takes effect on Monday 15th August, 2011.


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