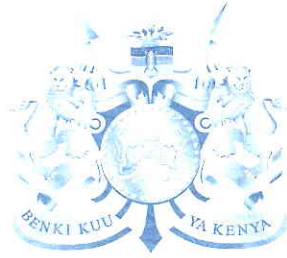


BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA

11th July, 2011

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BANKING CIRCULAR NO. 6 OF 2011

TO CHIEF EXECUTIVES OF COMMERCIAL BANKS

GUIDELINES ON THE USE OF THE CENTRAL BANK OF KENYA DISCOUNT WINDOW

Further to the Banking Circular No. 5 of 2011, and in support of the tight monetary policy stance that the CBK has been implementing to rein in inflation, the CBK has found it necessary to review further the guidelines on the use of CBK Discount Window. Central banks always run discount windows as facilities of last resort as a means of providing temporary liquidity to banks in extreme cases. The CBK is concerned that recently, commercial banks have not been using the Discount Window as a last resort, but as a permanent supply of liquidity.

Since the issue of Banking Circular No. 5 of 2011 which introduced the overnight penalty rate currently at 8 percent, the CBK has noted that the rate is being used as a base for setting the interbank rate and has resulted in distortions to the money market. This has now been reviewed and conditions imposed on the Discount Window as follows:

1. Any bank lending in the interbank market will not be allowed to access funds through the Discount Window on the same day.
2. In any week (Monday to Friday), banks will be restricted to borrowing a maximum of their statutory cash reserves from the CBK Discount Window.
3. Given that the quantities to be borrowed through the CBK Discount Window have been restricted, the interest rate applicable on the Discount Window will revert to the Central Bank Rate of 6.25 percent.

Since the CBK is the lender of last resort, commercial banks should therefore consider other avenues to satisfy their liquidity requirements before considering the Discount Window. In this regard, they should consider liquidating their portfolios of Treasury bills, Treasury bonds or foreign currency positions, among others, prior to resorting to the Discount Window.

This circular takes effect from 12th July, 2011.


JACKSON M. KITILI

**DIRECTOR, BANKING SERVICES, NATIONAL PAYMENT SYSTEMS & RISK
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CC. Kenya Bankers Association