TENTH
BI-ANNUAL REPORT OF THE MONETARY POLICY COMMITTEE

BANKI KUU YA KENYA

Central Bank of Kenya

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LETTER OF TRANSMITTAL TO THE CABINET SECRETARY FOR THE NATIONAL TREASURY

Honourable Cabinet Secretary,

I have the pleasure of forwarding to you the tenth bi-annual Monetary Policy Committee (MPC) Report in accordance with section 4D (6) of the Central Bank of Kenya Act. The Report outlines the monetary policy formulation; developments in key interest rates, exchange rates and inflation and other activities of the Committee in the six months to April 2013. Copies of MPC Press Statements and the Minutes of all the Meetings of the MPC between November 2012 and April 2013 are attached to the Report for your information.

Prof. Njuguna Ndung'u, CBS
Governor, Central Bank of Kenya

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Mr. Charles G. Koori
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Mrs. Farida Abdul
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Mr. John Birech
Member

EXECUTIVE SUMMARY

The tenth bi-annual Report of the Monetary Policy Committee (MPC) reviews Kenya's monetary policy formulation and economic developments during the six months to April 2013. Monetary policy operations in the six months to April 2013 were aimed at maintaining inflation within the Government's medium-term target of 5 percent in the Fiscal Year 2012/13. This is consistent with the price stability objective of the Central Bank of Kenya (CBK).

This Report reviews the market outcomes of the monetary policy measures adopted by the MPC to keep inflation within the Government target bounds and maintain exchange rate stability. The decisions by the MPC contributed to the low and stable inflation which remained within the target bounds, and exchange rate stability. In addition, the Central Bank Rate (CBR) continued to guide movements in short-term interest rates. Reflecting the improved outlook for a low and stable inflation and exchange rate stability, the MPC has continued with its gradual easing of the monetary policy stance.

The MPC reduced the CBR from 11 percent in November 2012 to 9.50 percent in January 2013 and retained it at that level through April 2013 to provide time for the effects of the previous decisions to work through the economy. Overall and non-food-non-fuel inflation stood at 4.14 percent and 4.28 percent, respectively, in April 2013 which was within the 5 percent target set by the Government for the Fiscal Year 2012/13. The inflation outcome in the period covered by this Report was supported by stable food and fuel prices attributed to improved weather conditions and a decline in international oil prices coupled with stability in the exchange rate.

Exchange rate stability during the period was supported by improved foreign exchange reserves following, among other things, receipt of USD 108.5 million under the Extended Credit Facility (ECF) programme on the successful completion of the programme's Fifth Review, resilient inflows of diaspora remittances, and stronger participation by foreign investors at the Nairobi Securities Exchange. Consequently, the CBK usable foreign exchange reserves stood at USD 5,751.37 million (equivalent to 4.25 months of import cover) in April 2013. This level of foreign exchange reserves provided a cushion to the foreign exchange market in the event of volatility.

The MPC continued with its regular interactions with stakeholders in the financial sector and timely release of relevant data during the period. This continued to enhance the effectiveness and transparency of monetary policy formulation and implementation. The high current account deficit in the balance of payments and projected slow recovery of the global economy coupled with the continued recession in the Eurozone remained the main risks to the macroeconomic outlook during the period. The MPC remained vigilant to these risks and their likely impacts to domestic prices and continued to work with other Departments of the CBK to take appropriate measures in the period.

1. INTRODUCTION

The tenth bi-annual Report of the MPC covers the period November 2012 to April 2013. The Report provides an update on the macroeconomic developments adopted by the CBK in pursuit of sustained stability of inflation and the exchange rate during the period.

A favourable domestic macroeconomic environment and improved weather conditions continued to support a low and stable inflation and stability in the exchange rate during the six months to April 2013. On the domestic scene, normal rainfall conditions in the first half of the Fiscal Year 2012/13 coupled with stable international oil prices supported the low and stable inflation outcome. The threat of imported inflation was dampened by a stable exchange rate during the period. In spite of these developments, the high current account deficit attributed to the higher import bill relative to sluggish growth in foreign exchange earnings from exports continues to exert pressure on the exchange rate. Noticeably, exports of goods and services have continued to finance a smaller proportion of imports thereby exerting pressure on the exchange rate and foreign exchange reserves. The composition of imports was dominated by capital goods such as machinery and transport equipment that are important for enhancing the future productive capacity of the economy.

On the international scene, the global foreign exchange markets remained turbulent throughout the period owing to the persistent instability in the Eurozone. Consequently, the US Dollar remained the stronger currency globally as it was perceived as safer by investors. Reflecting a stronger US Dollar, several emerging market currencies and those in the region, including the Kenya Shilling, weakened against the US Dollar. Despite these developments, the monetary policy measures adopted by the CBK sustained credible exchange rate stability during the period.

The remainder of this Report is structured as follows. Section 2 provides highlights of the monetary policy formulation in response to threats to price stability during the period while Section 3 provides a discussion of outcomes on key economic indicators. Other activities of the MPC with relevance to monetary policy formulation and implementation are discussed in Section 4 while Section 5 concludes.

2. MONETARY POLICY FORMULATION

2.1 Attainment of Monetary Policy Objectives and Targets

The main objective of the CBK is the formulation and implementation of monetary policy to achieve and maintain price stability in the economy. Price stability supports investment and economic growth as well as employment creation. The CBK formulates, through the MPC, monetary policy to achieve and maintain inflation within the target set by the Cabinet Secretary for the National Treasury. The Government medium-term inflation target is 5 percent for the Fiscal Year 2012/13. The Bank has adopted a monetary policy framework that targets more monetary aggregates on a quarterly basis. This is supported by daily monitoring of the interbank rate to stabilise the domestic money market consistent with the Government inflation objective while supporting the National Treasury's liquidity requirements.

The CBR remained the base for monetary policy operations and continued to guide movements in short-term interest rates in the period. The movement in the CBR, both in direction and magnitude, signals the monetary policy stance. The monetary policy stance, as signalled by the movements in the CBR, is operationalised through various instruments. These include Open Market Operations (OMO), changes in cash reserve requirements at CBK, foreign exchange market transactions, and the CBK Standing Facility – the CBK Overnight Discount Window when it acts as lender of last resort.

The MPC continued to pursue the monetary programme that was in line with the targets outlined in the Extended Credit Facility (ECF) where the Net International Reserves (NIR) and Net Domestic Assets (NDA) are the quantitative performance criteria measures. The CBK met the NDA and NIR targets for December 2012 and March 2013 and remained on course with respect to the June 2013 Performance Criteria. By end April 30, 2013, the NDA averaged Ksh -89.8 billion compared to the target ceiling of Ksh -35.0 billion while the NIR averaged USD 4,703.6 million against a target floor of USD 4,250 million. The annual growth rates of broad money supply (M3) and its dominant source in the economy i.e. private sector credit were also within acceptable margins of the April 2013 targets.

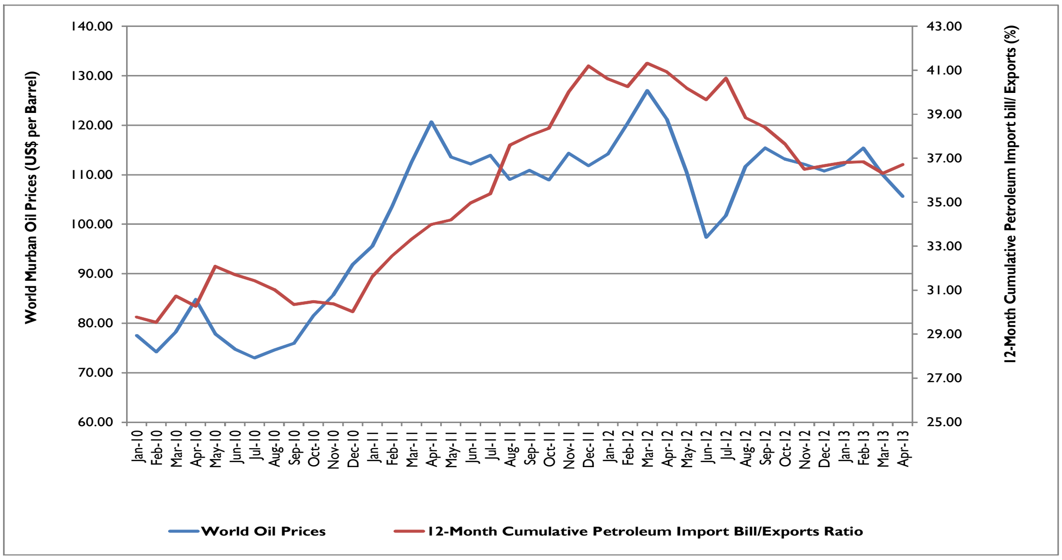
2.2 Economic Environment

During the six months to April 2013, the economic environment was characterised by a stable macroeconomic environment. This reflected declining demand pressures supported by a prudent monetary policy stance adopted in the previous period coupled with stable food and fuel prices. The exchange rate on the other hand remained stable over the period reflecting a steady inflow of foreign exchange through diaspora remit tances and short term capital flows. Sentiments around the electioneering period in March 2013 did not have a significant impact on the exchange rate. Liquidity conditions in the market improved following the adoption of a gradual easing of the monetary policy stance coupled with sale of foreign exchange by banks to the CBK and higher redemptions of Government securities relative to new issues.

The general elections were held in March 2013 which made this period untypical on account of expectations and developments associated with an electioneering period. In this regard, the MPC analysed the economic environment around the time of all previous elections so as to assess those variables within its control which are vulnerable to changes in expectations. In particular, in the past, it had been observed that the slowdown in the economy appeared to be associated with speculators' flight to safety. This would exert pressure on the exchange rate and hence the CBK was able to use its foreign reserves to moderate speculators' expectations and then later to recover the funds without disturbing the market. The peaceful outcome of the elections was welcomed but new challenges such as Devolution could exert pressure on the National Treasury's borrowing requirements.

The exchange rate remained vulnerable to the high current account deficit and persistent instability in the Eurozone during the period. However, Murban crude oil prices declined from USD 113.2 per barrel in October 2012 to USD 105.7 per barrel in April 2013. Consequently, the percentage of export earnings that were spent on petroleum product imports stabilised at about 37 percent in the period compared with about 40 percent in the previous period. Given that movements in crude oil prices have a direct pass-through to domestic oil prices, the decline in crude oil prices in the period moderated inflationary pressures as well as easing the build-up in the current account deficit (Chart 1).

Chart 1: Murban Oil Prices and Ratio of 12-Month Cumulative Petroleum Import Bill/Total Exports (%)



Source*: Central Bank of Kenya*

In addition, the MPC's concern over the effect of Sell-Buy-Back transactions on the banking system gave rise to actions within the Nairobi Securities Exchange and revision of the CBK's Prudential and Risk Management Guidelines.

2.3 Monetary Policy Committee Decisions

A gradual easing of the monetary policy stance was adopted by the MPC in July 2012 following the decline in inflation and stability in the exchange rate. The MPC remained vigilant to developments in the domestic and international markets and took appropriate measures to sustain price stability. In addition, sustained OMO was undertaken to ensure stability in the interbank market and that of short-term interest rates.

Given that the monetary policy measures continued to deliver the desired results, this provided policy space to encourage the private sector to fulfill its growth augmenting role. Consequently, the MPC reduced the CBR by 200 basis points to 11.0 percent in November, 2012 and by a further 150 basis points to 9.50 percent on 10th January, 2013. The MPC retained the CBR at 9.50 percent on 12th March, 2013 in order to allow the implications of its previous decisions to work through the economy. The reduction in the CBR during the period contributed to a non-inflationary growth in credit to the private sector.

The Government fiscal operations over the period covered by this Report were in line with the monetary policy objectives. In this regard, the Government domestic borrowing plan ensured that Government borrowing did not crowd-out private sector credit growth through an increase in interest rates on Government securities. The borrowing plan was also consistent with the thresholds set in the Medium Term Debt Management Strategy for domestic debt.

The general stability in the foreign exchange market, boosted by the peaceful general elections in March 2013, enabled commercial banks to sell foreign exchange to the CBK. This coupled with the disbursement of USD 108.5 million by the International Monetary Fund in April 2013 following the successful completion of the Fifth Review of the ECF programme contributed to the buildup in official usable foreign exchange reserves. This bolstered the Bank's capacity to respond to shocks in the market. Consequently, interventions through foreign exchange sales by CBK complemented other liquidity management measures in stabilising the exchange rate and by managing expectations over the period covered by this Report.

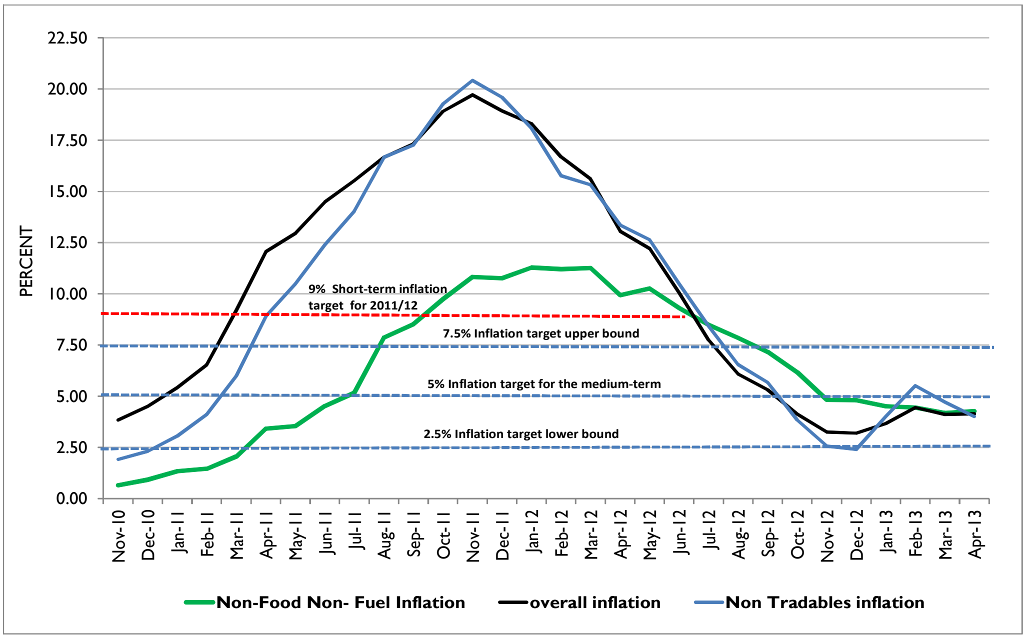
3. OUTCOMES ON KEY ECONOMIC INDICATORS

3.1 Inflation

Overall inflation remained low and stable during the six months to April 2013 and was within the 5 percent target set by the Government for the Fiscal Year 2012/13 (Chart 2). Despite the volatility witnessed in domestic fuel prices, declining food prices coupled with easing demand pressures in the economy supported the stable inflation rate in the period. The 12-month overall inflation rate stood at 4.14 percent in April 2013, the same level as that in October 2012. However, the 12-month non-food-non-fuel inflation declined steadily from 6.17 percent to 4.28 percent during the period, indicating easing demand pressures in the economy.

These developments supported a low and stable outlook for inflation. However, as mentioned above, future volatility in crude oil prices, higher world food prices, widening current account deficit, and persistent instability in the Eurozone working through the exchange rate, remain the main risks to the inflation outlook.

Chart 2: 12-Month Inflation in Broad Categories (%)



***Source**: Kenya National Bureau of Statistics and CBK*

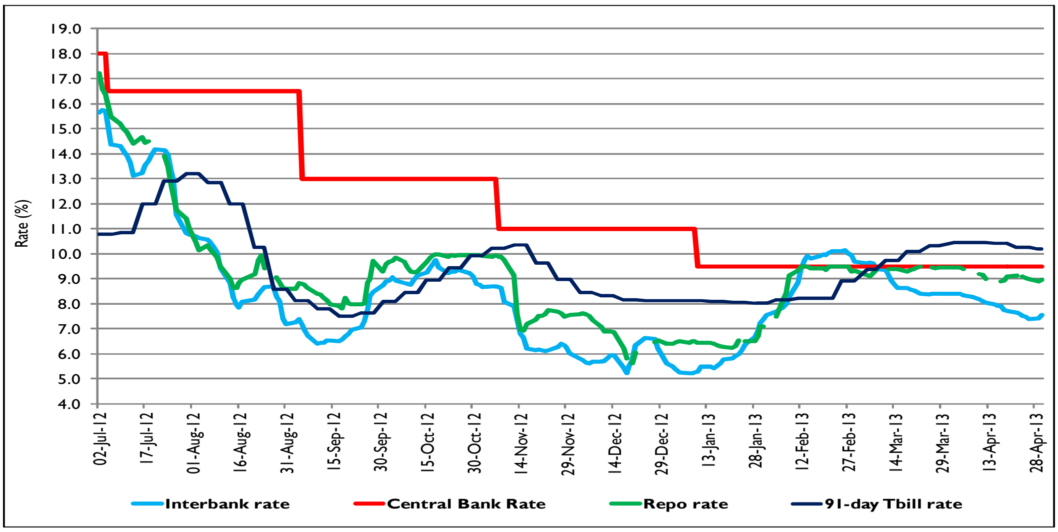
3.2 Interest Rates

3.2.1 Short-Term Interest Rates

Since the transmission of signals by the magnitude and direction of changes in the CBR impact on the overnight interbank rate and then through OMO it was possible to gradually ease the monetary policy stance. This coupled with sustained OMO in the six months to April 2013 resulted in improved liquidity conditions and stability in the interbank market. OMO operationalised the decisions of the MPC to ensure that movements in short-term rates were aligned to the CBR (Chart 3).

The improved liquidity conditions in the market coupled with a high penal rate above the CBR on the CBK Discount Window facility ensured its proper use as a last resort. The banks only accessed funds totalling Ksh 8.09 billion from the CBK Discount Window between November 2012 and April 2013 compared with Ksh 252.71 billion between November 2011 and April 2012 when a tight monetary policy stance had been adopted by the CBK.

Chart 3: Trends in Daily Short Term Interest Rates (%)



***Source**: Central Bank of Kenya*

3.2.2 Commercial Banks' Interest Rates and Spreads

Commercial banks' average lending interest rates declined from 19.04 percent in October 2012 to 17.87 percent in April 2013 (Table 1). However, average commercial banks' deposit rates declined at a much slower rate from 6.85 percent to 6.39 percent over the same period. The decline in commercial banks' average interest rates reflected improved liquidity conditions in the market which resulted in decline in short-term interest rates. Consequently, the average spread between the lending and deposit rates declined from 12.19 percent to 11.48 percent in the period. Medium and Small banks had lower spreads attributed to more competitive deposit rates on average compared with large banks.

Although interest rate spreads declined across all bank categories in the period covered by this Report, the moderate decline implies that there is still scope for banks to reduce their spreads further given the various initiatives implemented by CBK and Kenya Bankers Association (KBA) to reduce the cost of doing business. These initiatives include allowing banks to use mobile phone financial platforms that leverage on technology development to reduce transaction costs, adoption of the Agency Banking framework, and operationalisation of Credit Reference Bureaus which have reduced the costs of information search and risk profiling process. In addition, opening of Currency Centers across the country have reduced costs associated with transporting cash. The CBK has also continued to engage the Chief Executive Officers of commercial banks through the KBA on this issue through bi-monthly forums.

Table 1: Average Commercial Banks Interest Rates and Spreads (%)

	Lending rates				Deposit rates				Interest rates Spreads			
	All banks	Small banks	Medium banks	Large Banks	All banks	Small banks	Medium banks	Large Banks	All banks	Small banks	Medium banks	Large Banks
Apr-12	20.22	19.65	21.38	20.97	9.04	8.35	10.19	6.61	11.19	11.30	11.19	14.35
May-12	20.12	20.00	20.68	21.00	8.42	8.38	9.50	5.09	11.69	11.62	11.19	15.91
Jun-12	20.30	20.97	21.44	20.86	7.88	8.52	9.38	5.07	12.41	12.45	12.07	15.79
Jul-12	20.15	20.31	21.16	20.77	8.25	8.26	9.34	5.02	11.90	12.04	11.82	15.75
Aug-12	20.13	19.68	20.85	21.51	7.85	8.46	8.83	5.07	12.28	11.21	12.02	16.44
Sep-12	19.73	19.60	20.62	21.09	7.40	8.29	7.96	4.36	12.33	11.31	12.66	16.72
Oct-12	19.04	18.68	19.82	20.57	6.85	7.75	7.74	4.17	12.19	10.92	12.09	16.40
Nov-12	18.74	18.30	18.87	20.40	6.69	7.64	7.63	4.16	12.05	10.66	11.25	16.24
Dec-12	18.15	18.43	17.88	19.73	6.80	7.42	7.34	4.06	11.34	11.02	10.54	15.67
Jan-13	18.13	18.40	17.66	19.78	6.51	7.17	7.17	3.98	11.62	11.23	10.49	15.80
Feb-13	17.84	17.87	16.81	19.71	6.29	6.60	7.01	3.88	11.55	11.28	9.80	15.83
Mar-13	17.78	17.79	17.19	19.41	6.54	6.81	6.57	4.31	11.24	10.98	10.63	15.10
Apr-13	17.87	17.42	17.07	19.66	6.39	6.42	6.60	4.35	11.48	10.99	10.48	15.31

Source*: Central Bank of Kenya*

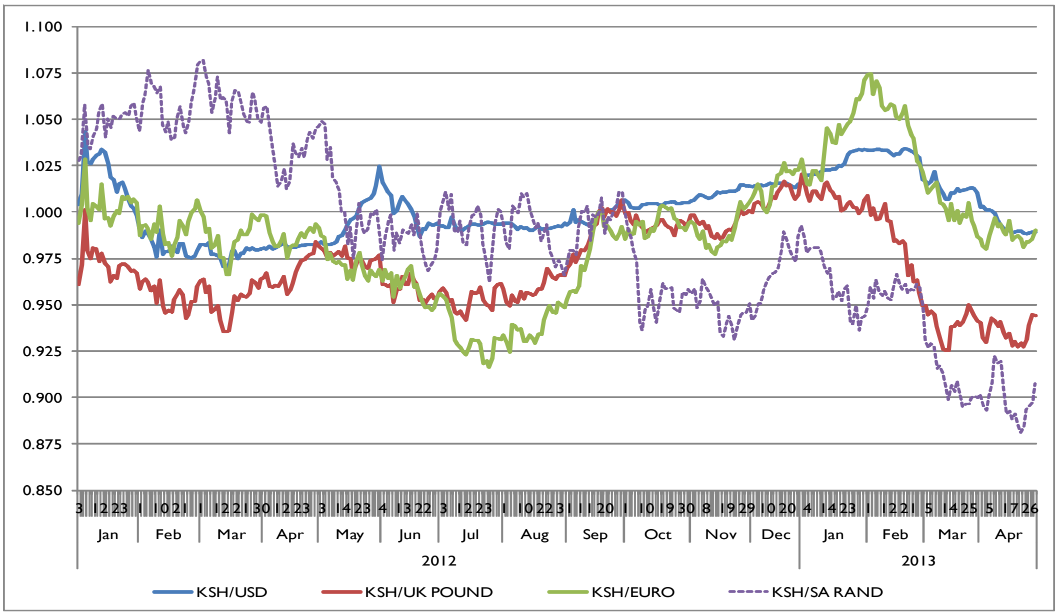
3.3 Exchange Rates

The foreign exchange market remained generally stable during the six months to April 2013 reflecting the impact of monetary policy measures in place (Chart 4). The exchange rate of the Kenya Shilling against the US Dollar fluctuated within a range of between Ksh 83.80 and Ksh 87.60 per US dollar over the period compared with a range of between Ksh 82.30 and Ksh 99.33 per US dollar in the six months to April 2012. Exchange rate stability during the period was supported by increased inflows of diaspora remittances that averaged USD 100.0 million per month during the period, disbursement of the USD 108.5 million under the ECF programme in April 2013, and increased purchases of equity by foreigners at the Nairobi Securities Exchange. Positive market sentiment, continued build-up of foreign exchange reserves and increased confidence after the elections in March 2013 also buoyed the Kenya Shilling during the period. Interbank purchases of foreign exchange amounted to USD 480.50 million between November 2012 and April 2013 which fully compensated for the foreign exchange sales in December 2012 and January 2013.

The Kenya Shilling remained stable against the currencies of the major East African Community countries but strengthened significantly against the South African Rand during the period. The Rand has weakened substantially against the US Dollar reflecting the strong trade links between South Africa and the turbulent Eurozone, the impact of the labour crisis in the mining sector, and the gradual recovery of the US economy.

The resilient diaspora remittance inflows and expectations for increased foreign direct investment following the peaceful elections in March 2013 support a stable outlook for the exchange rate. However, as indicated, the main risks to exchange rate stability and foreign exchange reserves remain the high current account deficits and the persistent instability in the Eurozone. The 12-month cumulative current account deficit expressed as a proportion of GDP increased slightly from 10.4 percent in December 2012 to an estimated 11 percent in April 2013. Foreign exchange inflows through tourism and trade with Europe were subdued during the period mainly due to the instability in the Eurozone and the perceptions related to the elections.

Chart 4: Normalised Exchange Rates of the Kenya Shilling Against Major Currencies (18th September, 2012 = 1)



Source: *Central Bank of Kenya*

The proportion of imports of goods and services financed by exports of goods and services that had stabilised at about 61 percent in the six months to October 2012, increased slightly to 63 percent in November 2012 due to a one-off large value export of non-factor services (Chart 5). It however, declined back to 61 percent by April 2013. The general long-term downward trend reflects, in part, the impact of the monetary policy adopted by the MPC on import financing and a general adjustment in the structure of imports and exports. Imports of machinery and other equipment continue to account for an increasing proportion of the import bill from an average of 26.5 percent in the six months to October 2012 to 29.6 percent in the six months to April 2013. Exports are however still growing at a lower rate compared with imports thereby exerting pressure on the exchange rate.

Chart 5: Stabilisation of the Trend in Exports/Imports of Goods and Services (%)

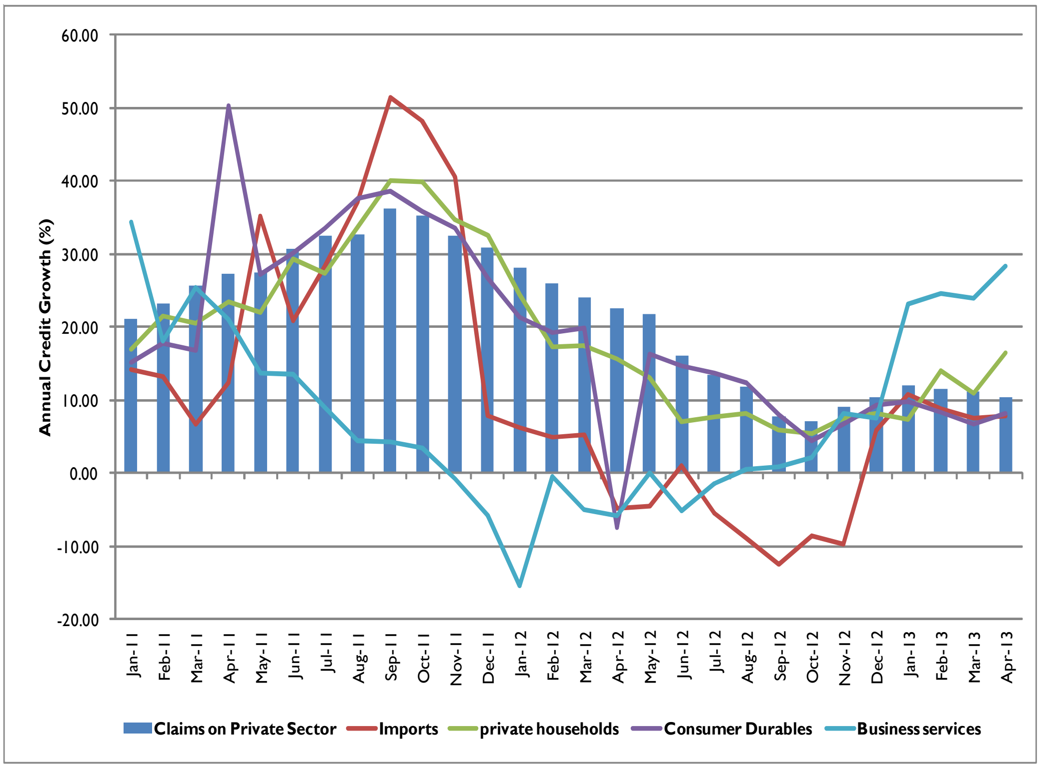
***Source**: Central Bank of Kenya*

3.4 Credit to Private Sector

During the period covered by this Report, private sector credit growth picked up, albeit slowly in response to the gradual easing of monetary policy stance (Chart 6). Annual growth in overall private sector credit picked up from 7.12 percent in October 2012 to 10.43 percent in April 2013. The recovery in private sector credit growth through April 2013 was supported by business services, manufacturing, private households and import financing mainly of capital goods which grew by 23.09 percent, 16.93 percent, 7.34 percent and 10.85 percent, respectively, on an annual basis in April 2013. Credit growth to the above economic sectors was higher rates than those recorded in October 2012.

The monetary policy stance adopted by the MPC during the period is expected to support a non-inflationary credit expansion to the key sectors of the economy in 2013. Demand for credit to finance economic activity is expected to pick-up in the remainder 2013 following the peaceful elections in March 2013.

Chart 6: Annual Growth in Private Sector Credit (%)



Source: *Central Bank of Kenya*

4. OTHER ACTIVITIES OF THE MONETARY POLICY COMMITTEE

In the last six months to April 2013, the MPC continued to hold stakeholder forums with Chief Executive Officers of commercial banks through the KBA Governing Council. The Committee continued to improve on the information gathering processes through the bi-monthly Market Perception Surveys and communication with key stakeholders on the MPC decisions to obtain feedback.

The MPC initiated research papers that were targeted at providing insights in topical areas relevant for the formulation and implementation of monetary policy. These studies cover: Monetary policy transmission mechanism in Kenya; Validity of the Taylor Rule for Kenya; Real exchange rate misalignment and implications for the nominal exchange rate level in Kenya; Food and oil prices pass-through to overall and non-food non-fuel inflation in Kenya; An update of the paper "A Dynamic Model of Inflation for Kenya by Durevall and Ndung'u (1999)"; Determinants of interest rate spreads in Kenya; Term structure of interest rates and inflationary expectations in Kenya; An assessment of Kenya's public debt sustainability, and; Information content of the term structure of interest rates in Kenya: yield curve dynamics, 2009-2013.

The MPC also continued to improve on its Press Releases by simplifying them and making them better focused to the public, media, financial sector and other stakeholders. The Press Releases were also published in the widely circulating local dailies. As part of enhancing its capacity, MPC members participated in various conferences both locally and internationally over the period covered by this Report. The conferences enable MPC members to share their experiences with other policy experts on critical challenges underlying monetary policy effectiveness in developing countries under different monetary policy frameworks and facing different macroeconomic shocks.

5. CONCLUSION

The monetary policy measures adopted by the CBK during the six months to April 2013 contributed to the low and stable outcome on inflation as well as exchange rate stability. The MPC will continue to monitor developments in the domestic and global economy that could have either direct or indirect impact on the economy, while recommending, where necessary, the appropriate monetary policy measures to be taken.

Lastly, given that export earnings have been financing fewer imports, there is need for the Government to develop a long-term policy to support the export sector. Such measures will provide an avenue for addressing the high current account deficit, thereby easing pressure on the exchange rate.

APPENDIX: EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY FROM NOVEMBER 2012 TO APRIL 2013

	Date	Banking Circular/ Foreign Exchange Transactions	Objective
1	8th November 2012	Banking Circular No. 7 of 2012 that announced the MPC decision.	CBR adjusted downwards by 200 basis points from 13.00 percent to 11.00 percent since there was adequate space for a gradual easing of monetary policy while maintaining macroeconomic stability.
2	11th January 2013	Banking Circular No. 1 of 2013 that announced the MPC decision.	CBR adjusted downwards by 150 basis points from 11.00 percent to 9.50 percent. This was targeted at increasing the uptake of private sector credit and re-aligning interest rates in the economy.
3	12th March 2013	Banking Circular No. 2 of 2013 that announced the MPC decision.	CBR maintained at 9.50 percent to allow for the full impact of previous cuts on the CBR to work through the market.
CBK Foreign Exchange Transactions			
4	November 2012	Purchased USD 62 million	Purchase of foreign exchange offered by the market following stability in the exchange rate market.
5	December 2012	Purchased USD 30 million	
6	January 2013	Sold USD 338.50 million	Sale of foreign exchange in line with the CBK's exchange rate policy
7	March 2013	Purchased USD 181 million	Purchase of foreign exchange offered by the market following stability in the exchange rate market.
8	April 2013	Purchased USD 546 million	

GLOSSARY OF KEY TERMS

Overall Inflation: This is a measure of inflation in the economy measured by the month-on-month movement of indices of all consumer price items of goods and services sampled by the KNBS. It is affected by commodity components in the market that may experience sudden inflationary spikes such as food or energy.

Reserve Money: These are CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and non-bank financial institutions held with the CBK. However, it excludes Government deposits.

Money Supply: Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are defined as follows:

M1 Currency outside banking system + demand deposits
M2 M1 + time and savings deposits + certificates of deposits + deposit Liabilities of Non-Bank Financial Institutions (NBFIs)
M3 M2 + residents' foreign currency deposits

Central Bank Rate (CBR): This is the lowest rate of interest that the CBK charges on overnight loans to commercial banks. It is reviewed and announced by the Monetary Policy Committee at least every two months as part of its decisions. It is used by the commercial banks as a reference interest rate hence transmits to the financial sector and signals the CBK's monetary policy stance.

Cash Ratio Requirement (CRR): This is the ratio of total deposit liabilities of commercial banks and non-bank financial institutions maintained with the CBK as reserves. The ratio is fixed by CBK as provided for by the law.

CBK Discount Window: The CBK Discount Window is a collateralised facility of last resort for banks. It has restrictive guidelines controlling access. The Discount Window plays a significant role in ensuring banking sector stability by offering overnight liquidity as a last resort. It is anchored on the CBR.

Open Market Operations (OMO) : The act of buying or selling of government securities from or to commercial banks by the Central Bank in order to achieve a desired level of bank reserves. OMO is carried out in the context of an auction where commercial banks bid through the Reuters dealing system or by phone/ fax.

Repurchase Agreement (Repo): Repos/reverse repos are agreements between the CBK and commercial banks to purchase/sell Government securities from/ to commercial banks at agreed interest rates (REPO rate) for a specified period with an understanding that the commercial bank will repurchase/resell the security from/to the CBK at the end of the period. The period can be limited by the CBK.

Horizontal Repo: This is an interbank Repo instrument which recognises Government securities as collateral for borrowing. The instrument has a variable tenor and allows commercial banks without credit lines with other banks to access credit from the interbank market.

Interbank Market: The interbank market is a critical channel for distributing liquidity that reduces the need for banks to access the CBK Overnight Discount Window. However, since not all banks have credit lines with each other, it is not a perfectly operating market and therefore banks come to the Window as a last resort. The interest rates charged by banks reflect an individual bank's perception of the risk of the particular bank borrower and also the tightening liquidity in the market.