TWELFTH
BI-ANNUAL REPORT OF THE MONETARY POLICY COMMITTEE

BANKI KUU YA KENYA

Central Bank of Kenya

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APRIL 2014

The Bi-Annual Report is prepared by the Members of the Monetary Policy Committee.

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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 twelfth 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 2014. Copies of MPC Press Statements and the Minutes of all the Meetings of the MPC between November 2013 and April 2014 are attached to the Report for your information.

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

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MEMBERS OF THE MONETARY POLICY COMMITTEE

Prof. Njuguna Ndung'u (CBS)
Governor, Chairman

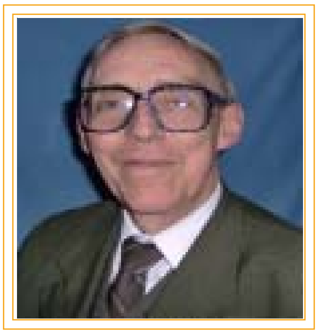
Dr. Haron Sirima (OGW)
Deputy Governor, Vice-Chairman

Dr. Kamau Thugge (EBS)
PS, National Treasury
Treasury Representative

Mrs. Sheila S.M.R M'Mbijjewe
Member

Mr. Charles G. Koori
Member

Prof. Francis Mwega
Member



Prof. Terry C. I. Ryan
Member

Mrs. Farida Abdul
Member

Mr. John Birech
Member

LEGAL STATUS OF THE MONETARY POLICY COMMITTEE

(1) Section 4D of the Central Bank of Kenya Act states that there shall be a Committee of the Bank, to be known as the Monetary Policy Committee of the Central Bank of Kenya, which shall have the responsibility within the Bank for formulating monetary policy.

(2) The Committee shall consist of the following members:-

- (a) the Governor, who shall be the chairman
- (b) the Deputy Governor, who shall be the deputy chairman
- (c) two members appointed by the Governor from among the staff
- (d) four other members who have knowledge, experience and expertise in matters relating to finance, banking and fiscal and monetary policy, appointed by the Minister
- (e) the Permanent Secretary to the Treasury, or his representative, who shall be non-voting member

(2A) Of the two members appointed under subsection (2) (c).

- (a) one shall be a person with executive responsibility within the Bank for monetary policy analyses; and
- (b) one shall be a person with responsibility within the Bank for monetary policy operations.

(3) At least two of the members appointed under subsection (2)(d) shall be women

(4) Each member appointed under subsection (2)(d) shall hold office for a term of three years and shall be eligible to be appointed for one additional term.

(5) The Chairman of the Committee shall convene a meeting of the Committee at least once every two months and shall convene an additional meeting if requested by at least four members in writing.

(6) At least once every six months the Committee shall submit a report to the Minister with respect to its activities and the Minister shall lay a copy of each report before the National Assembly.

(7) The quorum of the Committee shall be five members, one of who must be the chairman or vice chairman.

(8) The Bank shall provide staff to assist the Committee.

EXECUTIVE SUMMARY

The twelfth bi-annual Report of the Monetary Policy Committee (MPC) reviews Kenya's monetary policy formulation and economic developments during the six months to April 2014. Consistent with the price stability objective of the Central Bank of Kenya (CBK), the monetary policy stance in the six months to April 2014 was aimed at maintaining inflation within the allowable margin of 2.5 percent on either side of the Government's medium-term target of 5 percent in the Fiscal Year 2013/14.

The monetary policy measures adopted by the MPC contributed to a stable inflation rate which remained within the target bounds during the entire period. The overall inflation declined steadily from 7.76 percent in October 2013 to 6.41 percent in April 2014 partly reflecting the decline in prices of food as well as for some energy items together with a stable exchange rate. The 12-month non-food-non-fuel inflation, which measures the impact of monetary policy, remained stable around the 5 percent target during the period indicating that there was no adverse demand pressure in the economy. Consequently, the MPC retained the CBR at 8.50 percent during the period in order to continue anchoring inflationary expectations and maintain price stability in the economy. The effectiveness of the monetary policy transmission mechanism was enhanced by the improved signalling effect of the CBR.

The threat of imported inflation was dampened by sustained stability of the exchange rate of the Kenya Shilling during the period. This stability in the exchange rate was supported by resilient inflows of diaspora remittances, the Central Bank liquidity management and increased confidence with the build-up of the CBK official foreign exchange reserves. The CBK usable foreign exchange reserves stood at USD 6,334 million (equivalent to 4.37 months of import cover) at the end of April 2014. This was within the statutory minimum of 4 months of import cover.

The planned issuance of a Sovereign bond by the Government in June 2014 is expected to bolster further the level of foreign exchange reserves and support exchange rate stability. Improved confidence in the economy is collaborated by the latest Sovereign rating by Fitch Rating agency undertaken in February 2014 that placed Kenya at *"B+ with a stable outlook"*. Market confidence in the economy was also boosted by the positive sentiments on the economy by the Managing Director of the International Monetary Fund in January 2014 who endorsed the country's track record of prudent macroeconomic policy and management.

The effectiveness and transparency of monetary policy formulation and implementation by the Central Bank continued to be enhanced through its regular interactions with stakeholders in the financial sector and timely release of relevant data. The commencement of the tapering of the economic stimulus programme in the United States caused some volatility in the global bond, equity, and currency markets. Nevertheless, the impact on the stability of the exchange rates in Kenya had been minimal.

The volatile international crude oil prices, persistent instability in the Middle East and North Africa coupled with the Russia-Ukraine political situation, patchy rainfall conditions which could affect food production and hydro-electricity generation, and spillover effects of instability in some global currency markets following commencement of the tapering of the economic stimulus programme in the United States, remain the main risks to macroeconomic stability

1. INTRODUCTION

The twelfth bi-annual Report of the MPC covers the period November 2013 to April 2014. The Report provides an update on the macroeconomic developments in response to the monetary policy stance adopted by the CBK in pursuit of its price stability objective during the period.

The monetary policy measures adopted coupled with stable food and international oil prices continued to support both a stable inflation rate and exchange rate during the six months to April 2014. Overall inflation maintained a gradual downward trajectory between November 2013 and April 2014 and was within the Government target band. However, overall inflation remained in the upper bound of the medium-term target of 5 percent. The threat of imported inflation was dampened by a stable exchange rate which was supported by the resilient Diaspora remittance inflows and the CBK liquidity management. Exchange rate stability in the period was also supported by reduced pressure from imports as the proportion of imports of goods and services financed by exports of goods and services rose to 60.6 percent in March 2014 from an average of about 59.35 in the six months to October 2013. The composition of imports continued to be dominated by capital goods such as machinery and transport equipment that are essential for enhancing future productive capacity of the economy.

On the international scene, the improvement in global growth coupled with the tapering of the economic stimulus programme in the United States caused some volatility in the global bond, equity, and currency markets. However, the impact on the stability of exchange rates in Kenya has been minimal. The instability in the Middle East and North Africa (MENA) region coupled with the Russia-Ukraine political situation remain a threat to the stability of oil prices. Despite these developments, the monetary policy measures adopted by the CBK sustained a 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 MPC formulated monetary policy to achieve and maintain overall inflation within the target bounds set by the Cabinet Secretary for the National Treasury for the fiscal year 2013/14. The Government medium-term overall inflation target is 5 percent for the Fiscal Year 2013/14 with an allowable margin of 2.5 percent on either side.

The CBR remained the base for monetary policy operations and continued to coordinate 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) which involves use of Repos and Term Auction Deposits (TAD), 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.

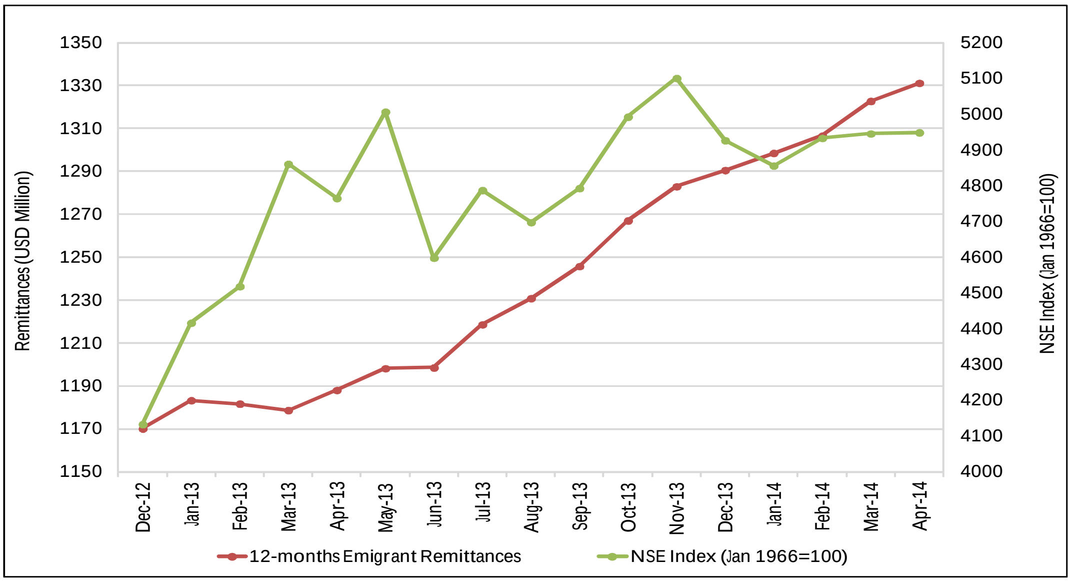
The MPC continued to pursue the monetary programme guided by the CBK targets on the Net International Reserves (NIR) and Net Domestic Assets (NDA) as the operational parameters. The CBK met the NDA and NIR targets for December 2013 and March 2014 and remained on course with respect to the June 2014 targets. By end April, 2014, the NDA averaged Ksh -128.7 billion compared to the target ceiling of Ksh -98.4 billion while the NIR averaged USD 5,226.7 million against a target floor of USD 5,082 million. The annual growth rates of broad money supply (M3) were also generally within acceptable margins of the projected path in April 2014 while private sector credit growth was non-inflationary.

2.2 Economic Environment

The economic environment during the six months to April 2014 was characterised by stability of key macroeconomic indicators. This was supported by the prudent monetary policy stance reflected in a stable exchange rate and non-inflationary growth in private sector credit. Overall month-on-month inflation and the non-food non fuel inflation remained relatively stable within the allowable margin of the Government’s medium-term target.

The exchange rate stability was sustained over the period supported by improved Diaspora remittances inflows, the Central Bank liquidity management and continued investor confidence in the economy. Improved confidence in the economy is collaborated by the latest Sovereign rating by Fitch Rating agency undertaken in February 2014 that placed Kenya at "*B+ with a stable outlook*". In addition, the NSE-20 index remained buoyant with continued foreign investor participation while the Diaspora remittances remained resilient, averaging above USD113 million per month since November 2013 (Chart 1a). Specifically, purchases of equity at the NSE by foreign investors recovered from a net outflow from December 2013 to March 2014, to a significant net inflow in April 2014. Market confidence was also boosted by the positive sentiments on the economy by the Managing Director of the International Monetary Fund in January 2014 who endorsed the country's track record of prudent macroeconomic policy and management.

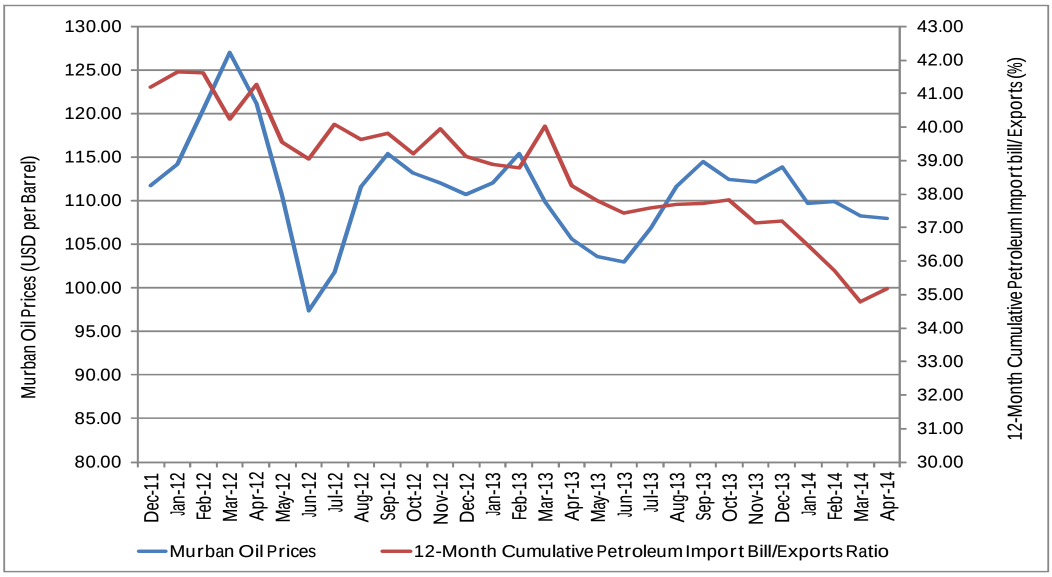
Chart 1a: 12-months Cumulative Diaspora Remittances (USD Million) and NSE Index (Jan 1966=100)



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

As already alluded to, volatile international crude oil prices, persistent instability in the Middle East and North Africa (MENA) coupled with the recent heightened Russia-Ukraine political situation continued to pose risks to macroeconomic stability. Disturbances in the MENA region continued to affect the price of oil which has implications on the trade balance and inflation. Murban crude oil prices increased from USD 112.5 per barrel in October 2013 to USD 113.9 per barrel in December 2013 before declining to USD 108.0 per barrel in April 2014. Consequently, the percentage of export earnings that were spent on petroleum product imports declined slightly to an average of 36.1 percent in the period from 37.7 percent in the previous period (Chart 1b).

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



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

2.3 Monetary Policy Committee Decisions

The MPC continued to monitor developments in the domestic and international markets and took appropriate measures to maintain price stability. Liquidity management operations were sustained to ensure stability in the interbank market and that of short-term interest rates.

The monetary policy measures adopted during the six months to April 2014 continued to support a low and stable inflation as well as exchange rate stability. The MPC retained the CBR at 8.50 percent in its meetings held on 5th November 2013, 14th January, 4th March, and 30th April 2014 in order to continue anchoring inflationary expectations and maintain price stability. This monetary policy stance supported a non-inflationary growth in credit to the private sector. The last adjustment of the CBR was on 7th May 2013 when it was lowered by 100 basis to the 8.50 percent. The private sector credit growth is being monitored carefully to ensure that it does not trigger any demand inflation pressure or adverse inflationary expectations.

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

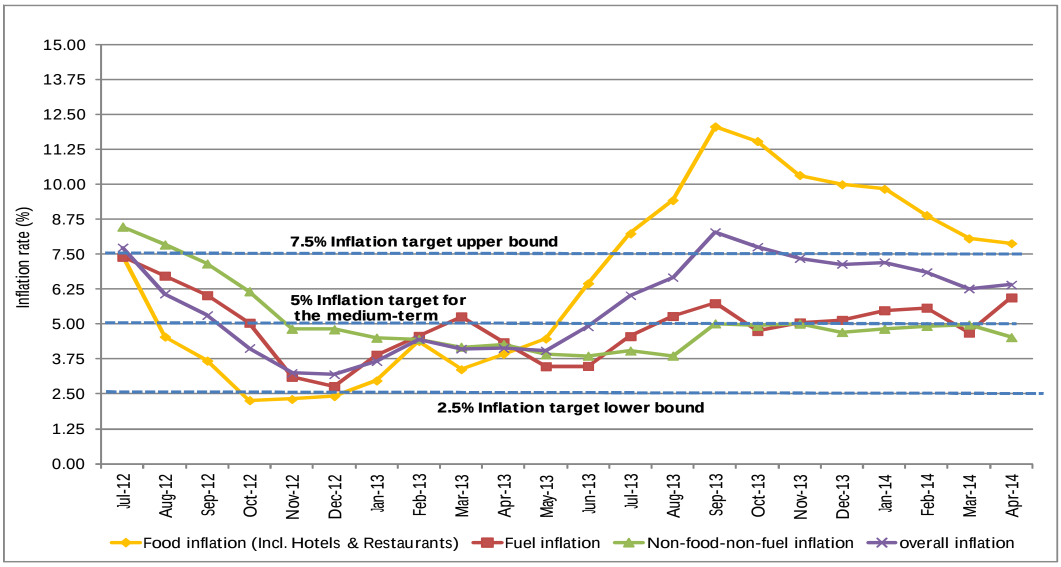
The general stability in the foreign exchange market during the six months to April 2014 prompted commercial banks to sell foreign exchange to the CBK. This contributed to the buildup in official usable foreign exchange reserves, which bolstered the Bank's capacity to respond to shocks in the market.

3. OUTCOMES ON KEY ECONOMIC INDICATORS

3.1 Inflation

During the six months to April 2014, the month-on-month overall inflation rate remained within the 7.5 percent upper bound of the Government medium term target of 5 percent for the Fiscal Year 2013/14 (Chart 2a). Specifically, it declined from 7.76 percent in October 2013 to 6.41 percent in April 2014. The decline in overall inflation was supported by the decline in prices of food as well as some energy items and the stable exchange rate. However, overall inflation remained in the upper bound of the medium-term target. The 12-month non-food-non-fuel inflation, which measures the impact of monetary policy, remained stable around the 5 percent target during the period indicating that there were no adverse demand pressures in the economy in the period. Although these developments supported a low and stable outlook for inflation, volatility in international crude oil prices, patchy rainfall conditions which could affect food production and hydro-electricity generation, and spillover effects of instability in some global currency markets due to the impact of the commencement of the tapering of the economic stimulus programme in the United States, remain the main risks to the inflation outlook.

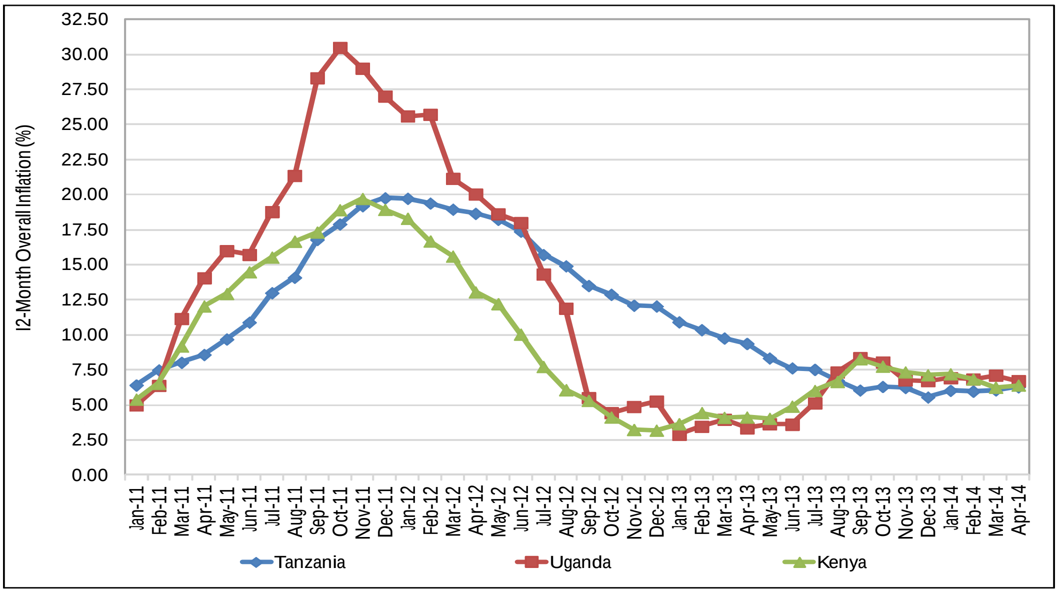
Chart 2a: 12-Month Inflation in Broad Categories (%)



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

In the East African Community (EAC) region, the trends in inflation rates in Uganda and Tanzania show a significant similarity to Kenya (Chart2b). Inflation generally declined in Kenya and Uganda between October 2013 and April 2014 but it remained relatively stable in Tanzania. These trends largely reflect a common experience in the composition of the CPI basket in the region which is largely skewed towards food and energy items.

Chart 2b: 12-Month Inflation in the Selected EAC Countries (%)



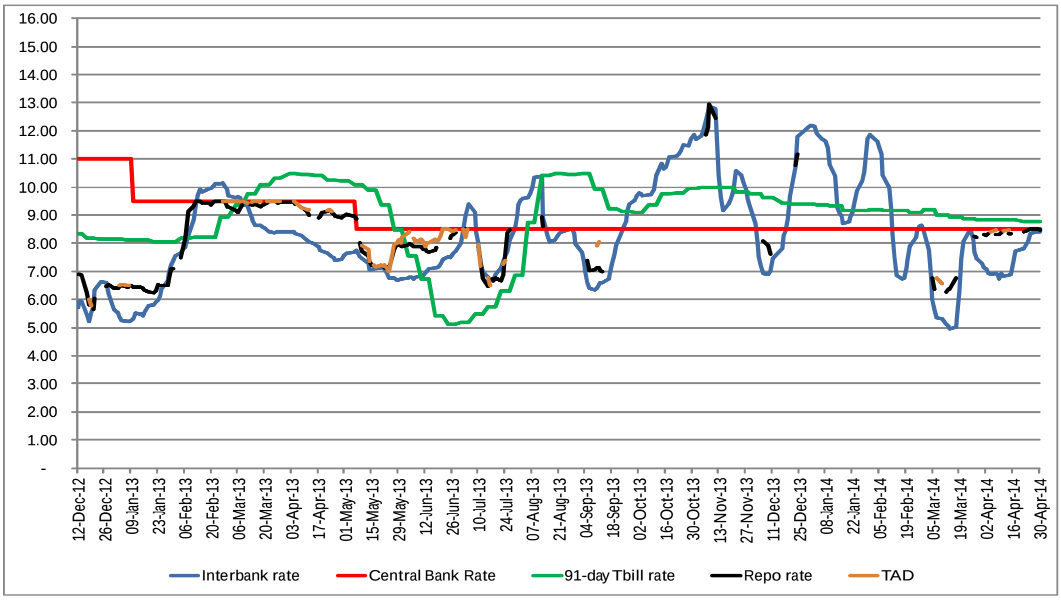
***Source**: Central Bank of Kenya*

3.2 Interest Rates

3.2.1 Short-Term Interest Rates

The CBR continued to coordinate movements in short-term rates during the review period. Liquidity conditions were relatively tight in November and December 2013 reflecting the buildup in Government deposits at the CBK and skewed distribution of liquidity in the interbank market. The CBK therefore used Open Market Operations (OMO) through injection of liquidity to ease the pressure on interbank rates. The targeted OMO interventions reversed the adverse trends in the interbank rate (Chart 3). Liquidity conditions improved thereafter supported by normalization of Government payments and large net redemptions of Government securities in March and April 2014. To address the threat posed by excess liquidity in the market, the CBK enhanced OMO activity to stabilise the interbank rate. The CBK also continued to engage stakeholder in the banking sector to identify other strategies to improve liquidity distribution as well as enhance the uptake of Horizontal Repos.

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 17.04 percent in the period May to October 2013 to 16.93 percent in the period November 2013 to April 2014. The decline in commercial banks' average lending interest rates in the two periods is consistent with the easing of the CBR, and reflected improved liquidity conditions in the market. However, average commercial banks' deposit rates increased slightly from 6.52 percent to 6.58 percent in the period reflecting increased competition for deposits. However, the average spread between the lending and deposit rates remained virtually unchanged at about 10 percent in the period.

The CBK continues to work with stakeholders including the Kenya Bankers Association (KBA) to implement initiatives aimed at reducing the cost of doing business in the banking sector. Commercial banks have been allowed to use mobile phone financial platforms that leverage on technology development to reduce transaction costs. The cheque truncation to T+1 has ensured that cheques are cleared within one day of delivery of the cheque to the bank. The adoption of the Agency Banking framework has increased access to banking services while the operationalisation of Credit Reference Bureaus has reduced the costs of information search and risk profiling process. The opening of Currency Centres across the country has reduced costs associated with transporting cash. In addition, the MPC has continued to engage the Chief Executive Officers of commercial banks through the KBA on various issues through the bi-monthly forums. This has facilitated moral suasion and provided a regular feedback mechanism based on a dialogue initiated through the MPC's Market Perception Survey.

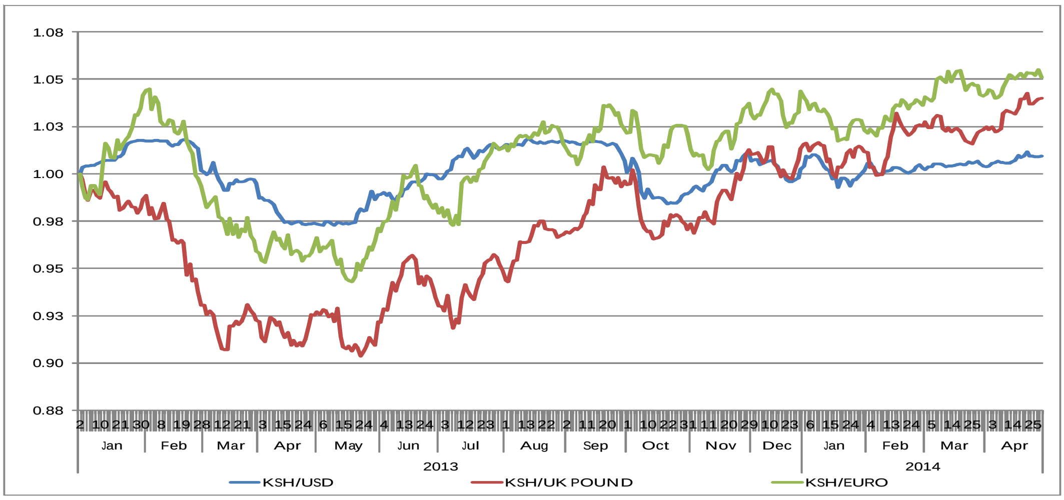
3.3 Exchange Rates

The foreign exchange market remained stable during the six months to April 2014 (Chart 4a). The Kenya Shilling exchange rate against the US Dollar fluctuated within a narrow range of between Ksh 85.27 and Ksh 87.08 per US dollar over the period compared with a range of between Ksh 83.72 and Ksh 87.70 per US dollar in the six months to October 2013. The resilient inflows of diaspora remittances that averaged above USD 113 million per month during the period and the CBK liquidity management supported the stability of the Kenya Shilling to US Dollar during the period. The build-up of foreign exchange reserves and sustained investor confidence in the economy – as foreign investor participation in equity at the Nairobi Securities remained elevated – buoyed the Kenya Shilling during the period. However, movements in the exchange rates of the Kenya Shilling against the Sterling Pound and the Euro continued to reflect the instability in Europe. The CBK purchases of the foreign exchange offered by commercial banks for sale amounted to USD 475.0 million in the period.

Analysis of the regional currencies showed that the Kenya Shilling remained relatively stable against the currencies of the major East African Community countries. Notably, the movements in the Uganda and Tanzania Shilling against the US dollars continued to mirror the Kenya Shilling but have remained stable in the review period (Chart 4b). The Kenya Shilling strengthened against the South African Rand up to January 2014, which reflected the South Africa strong trade links with the turbulent Eurozone as well as the spillover effects of the US tapering of quantitative easing programme. However, the Rand has gradually strengthened since February 2014 supported by the South Africa Reserve Bank decision to raise their policy rate from 5 to 5.5 percent to tame inflationary pressure which had emanated from the depreciation of the Rand.

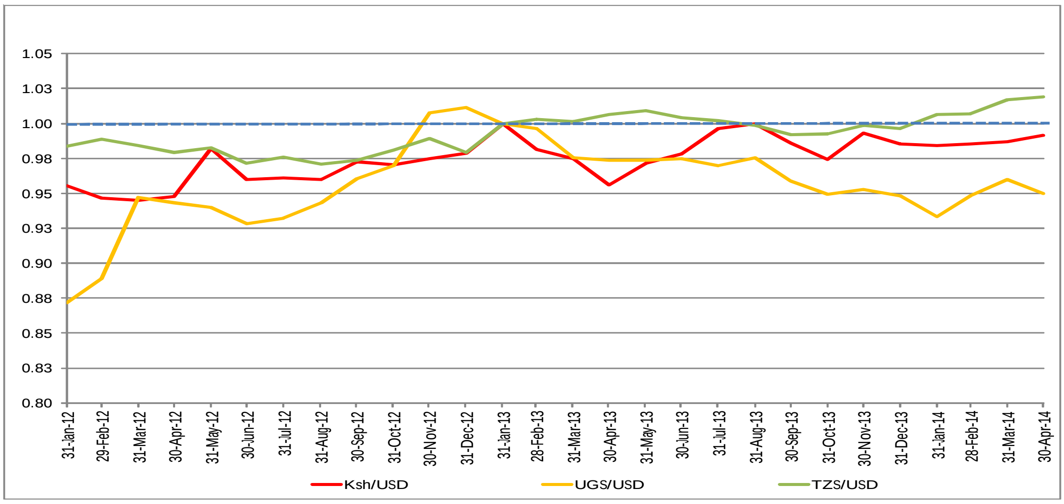
The exchange rate of the Kenya Shilling against major currencies was expected to remain stable reflecting resilient diaspora remittance inflows; expectations for increased foreign direct investment with sustained investor confidence in the economy and enhanced marketing abroad of available investment opportunities in Kenya by the Government; improved global economic recovery expected to increase demand for Kenya's exports; and the prudent monetary policy stance. The expected issuance of a Sovereign bond in June 2014 will boost the CBK foreign exchange reserves and strengthen the exchange rate. In addition, the expected gradual and measured tapering of the economic stimulus programme by the United States is expected to dampen any volatility in the global currency and financial markets. However, the uneven growth in the Eurozone that has slowed exports earnings from tourism, patchy rainfall conditions which could slowdown agricultural production for export poses risks to exchange rate stability and foreign exchange reserves.

Chart 4a: Normalised Exchange Rates of the Kenya Shilling Against Major Currencies (2nd January, 2013 = 1)



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

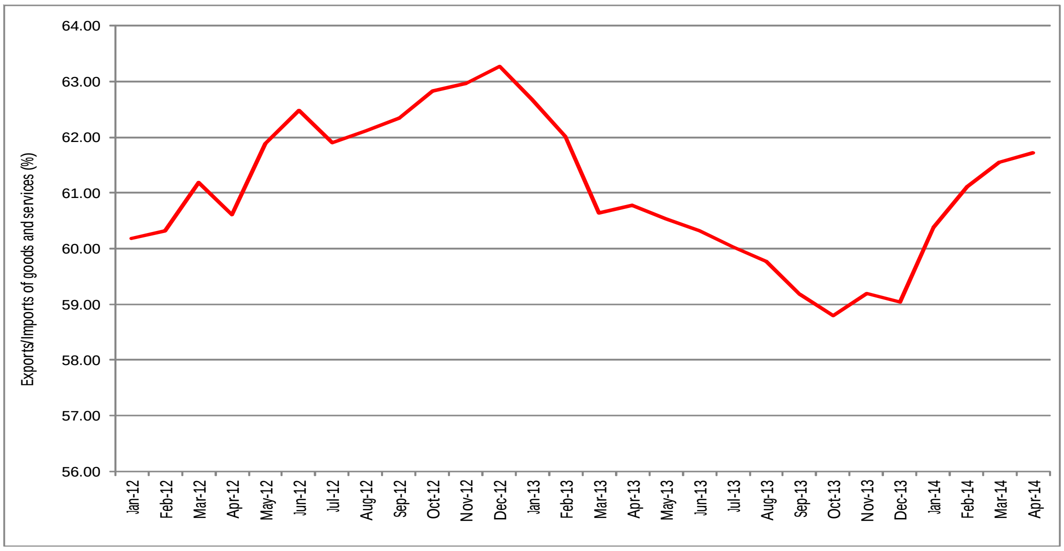
Chart 4b: Normalised Exchange Rates of Major Currencies in the Region against the US Dollar (31st January, 2013 = 1)



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

The pressure exterted on the exchange rate from a high import bill has been moderating since November 2013 with pickup in economic activity (Chart 5). This is depicted by the rise in the proportion of imports of goods and services financed by exports of goods and services from an average of about 59.77 percent in the six months to October 2013 to 61.7 percent in April 2014 (Chart 5). However, imports of machinery and other equipment, which are essential for enhancing the future productive capacity of the economy, continued to account for a higher proportion of the import bill at about 26.1 percent during the review period.

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



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

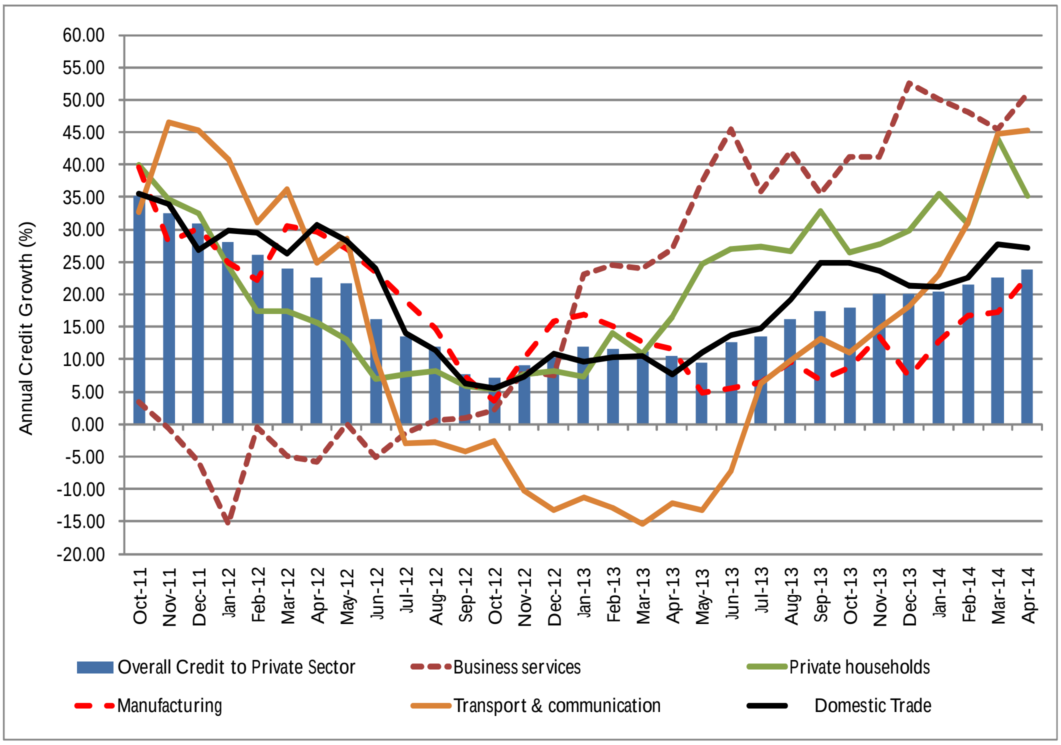
3.4 Credit to Private Sector

During the six months to April 2014, private sector credit growth picked up in response to the improved macroeconomic environment and sustained investor confidence in the economy. Annual growth in overall private sector credit rose from 17.99 percent in October 2013 to 23.87 percent in April 2014, and was largely within the acceptable margins of the projected growth path (Chart 6).

The private sector credit growth through April 2014 was mainly directed towards financing demand from business services, transport and communication, private households, domestic trade and manufacturing. The annual growth rates in credit to these sectors was 50.98 percent, 45.37 percent, 35.18 percent, 27.27 percent and 22.77 percent, respectively, in April 2014. Similarly, financing to real estate, finance and insurance, and agriculture increased by 33.15 percent, 31.23 percent and 16.08 percent, respectively in the year to April 2014.

The monetary policy stance adopted by the MPC during the period is expected to continue supporting a non-inflationary credit expansion to the key sectors of the economy in the remainder of 2014.

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



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

4. OTHER ACTIVITIES OF THE MONETARY POLICY COMMITTEE

During the period November 2013 to April 2014, the MPC continued to hold bi-monthly 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 worked with CBK staff on various research activities during the period. 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. As part of enhancing its capacity, MPC members participated in various conferences 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 MPC in the six months to April 2014 contributed to a stable inflation rate which remained within the target bounds, and exchange rate stability. The MPC will continue to monitor developments in the domestic and global economy and take appropriate measures to sustain price stability.

APPENDIX: CHRONOLOGY OF EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (NOVEMBER 2013 - APRIL 2014)

Date	Events
November 2013	The CBK purchased USD 70 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
December 2013	a) The CBK purchased USD 193 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
	b) The CBK successfully completed the Extended Credit Facility programme with the International Monetary Fund
	c) Introduction by CBK of a requirement that commercial banks start reporting on the participation by foreign investors in the Government securities market
January 2014	The CBK purchased USD 62 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
February 2014	a) The CBK purchased USD 10 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
	b) Start of the Russia-Ukraine political crisis
March 2014	The CBK purchased USD 35 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
April 2014	The CBK purchased USD 105 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.

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.