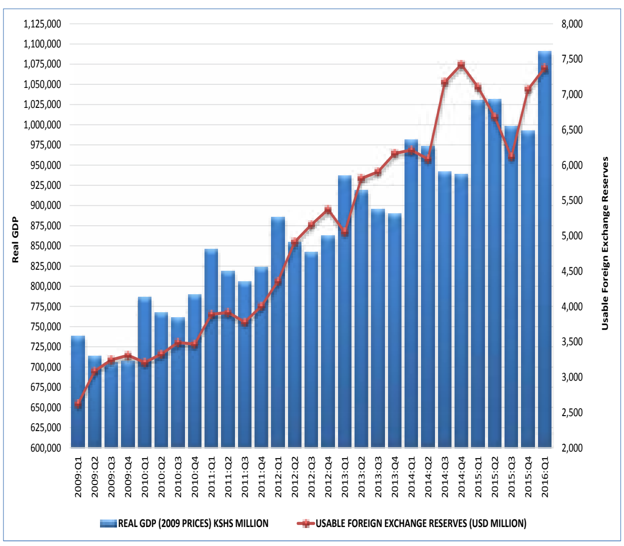

CENTRAL BANK OF KENYA

Monetary Policy Statement

Issued pursuant to Section 4B of the Central Bank of Kenya Act, Cap 491

JUNE 2016

Letter of Transmittal to the Cabinet Secretary for the National Treasury

Dear Honourable Cabinet Secretary,

I have the pleasure of forwarding to you the 38th Monetary Policy Statement (MPS) of Central Bank of Kenya (CBK), pursuant to Section 4B of the CBK Act. It reviews the outcome of the monetary policy stance during the first half of 2016, describes the current economic environment and outlook, and concludes with an outline of the direction of monetary policy for the Fiscal Year 2016/17.

Dr. Patrick Njoroge
Governor

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The Principal Objectives of the Central Bank of Kenya

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

(1) To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;

(2) To foster the liquidity, solvency and proper functioning of a stable, market-based, financial system; and

(3) Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.

Without prejudice to the generality of the above, the Bank shall:

- formulate and implement foreign exchange policy;
- hold and manage Government foreign exchange reserves;
- license and supervise authorised foreign exchange dealers;
- formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
- act as banker and adviser to, and fiscal agent of, the Government; and
- issue currency notes and coins.

The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the allowable margin (currently 2.5 percent) on either side of the target prescribed by the National Treasury after the annual Budget Policy Statement. The achievement and maintenance of a low and stable inflation rate coupled with ensuring adequate liquidity in the market facilitates higher levels of domestic savings and private investment which leads to improved economic growth, higher real incomes and increased employment opportunities.

The Bank's monetary policy is therefore designed to support the Government's desired growth in the production of goods and services and employment creation through achieving and maintaining a low and stable rate of inflation.

Instruments and Transmission of Monetary Policy

The CBK pursues its monetary policy objectives using the following instruments:

- **Open Market Operations (OMO):** This refers to actions by the CBK involving purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. OMO can also be used to stabilise short-term interest rates. When the Central Bank buys securities on the open market, it increases the reserves of commercial banks, making it possible for them to expand their loans and hence increase the money supply. To achieve the desired level of money supply, OMO is conducted using:
  - **i. Repurchase Agreements (Repos):** Repos entail the sale, through auction, of eligible securities by the CBK to reduce commercial banks' deposits held at CBK. Repos (also called Vertical Repos) have fixed tenors of 3 and 7 working days. Reverse Repos are purchases of securities from commercial banks and hence, they are an injection of liquidity by the CBK during periods of tighter than desired liquidity in the market. The current tenors for Reverse Repos are 7, 14, 21, and 28 days. The Late Repo, sold in the afternoon, has a 4-day tenor and is issued at an interest rate 100 basis points below the Repo on that day. When a weekend or public holiday coincide with the maturity date of the Repo, the tenor is extended to the next working day.
  - **ii. Term Auction Deposit (TAD):** The TAD is used when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer tenor options. The CBK seeks to acquire deposits through a transfer agreement from commercial banks at an auction price but with no exchange of security guarantee. Currently, the tenors for such deposits at CBK are 14, 21, or 28 day periods. At maturity, the proceeds revert to the respective commercial banks.
  - **iii. Horizontal Repos:** Although Horizontal Repos are not strictly monetary policy instruments, they are modes of improving liquidity distribution between commercial banks, and are conducted under CBK supervision. They are transacted between commercial banks on the basis of signed agreements using government securities as collateral, and have negotiated tenors and yields. Commercial banks, short of deposits at the CBK, borrow from banks with excess deposits on the security of an appropriate asset, normally a government security. Horizontal Repos also help banks overcome the problem of limits to lines of credit, thus promoting more efficient management of interbank liquidity.

- **Central Bank Rate (CBR):** The CBR is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months. Movements in the CBR, both in direction and magnitude, signal the monetary policy stance. In order to enhance clarity and certainty in monetary policy implementation, the CBR is the base for all monetary policy operations. Whenever the Central Bank is injecting liquidity through a Reverse Repo, the CBR is the lowest acceptable rate by law. Likewise, whenever the Bank wishes to withdraw liquidity through a Vertical Repo, the CBR is the highest rate that the CBK will pay on any bid received. However, to ensure flexibility and effectiveness of monetary policy operations in periods of volatility in the market, the CBK can raise the maximum acceptable interest rates on TAD to above the CBR. Movements in the CBR are transmitted to changes in short-term interest rates. A reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase.

  The efficiency in the Repo and interbank markets is crucial for the transmission of monetary policy decisions. The CBK monitors, but does not intervene, in the overnight interbank money market which is conducted by the banking industry. It responds to the tightness or slackness in the interbank market liquidity through OMO. Short-term international flows of capital are affected by short-term interest rates in the country. These are, in turn, affected by movements in the CBR and hence indirectly, the exchange rate could also be affected.

- **Standing Facilities:** The CBK does not have automatic standing facilities with respect to overnight lending. The CBK, as lender of last resort, provides secured loans to commercial banks on an overnight basis at a penal rate that is over the CBR. This facility is referred to as the Discount Window. Access to the Window is governed by rules and guidelines which are reviewed from time to time by the CBK. Banks making use of this facility more than twice in a week are scrutinised closely, and supervisory action taken.

- **The Cash Reserves Ratio (CRR):** In accordance with the law, the CRR is the proportion of a commercial bank's total deposit liabilities which must be held as deposits at CBK. These deposits are held in the CRR Account at no interest. The ratio is currently 5.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks are currently required to maintain their CRR based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below a CRR of 3 percent on any day.

- **Foreign Exchange Market Operations:** The CBK can also inject or withdraw liquidity from the banking system by engaging in foreign exchange transactions. A sale of foreign exchange to banks withdraws liquidity from the system while the purchase of foreign exchange injects liquidity into the system. Participation by the CBK in the foreign exchange market is usually motivated by the need to acquire foreign exchange to service official debt, and to build-up its foreign exchange reserves in line with the statutory requirement. The CBK uses its best endeavours to maintain foreign reserves equivalent to four months' imports as recorded and averaged for the last three preceding years. The CBK does not participate in the foreign exchange market to defend a particular value of the Kenya shilling but may intervene in the exchange market to stabilise the market in the event of excess volatility. The following regulatory measures have been introduced, through Prudential Guidelines of banks, to support stability of the exchange rate:
  i. Limiting the tenor of swaps and Kenya Shilling borrowing where offshore banks are involved to a tenor of not less than one year;
  ii. Limiting the tenor of swaps between residents to not less than seven days;
  iii. Reduction of the foreign exchange exposure ratio of core capital from 20 percent to 10 percent. The foreign exchange exposure limits should not exceed the 10 percent overall limit at any time during any day; and
  iv. Requiring that local banks obtain supporting documents for all transactions in the Nostro accounts of offshore banks.

- **Licensing and Supervision of Financial Institutions:** The CBK uses the licensing and supervision tools to ensure stability and efficiency of the banking system; this includes vetting potential managers for suitability both with respect to qualifications and character.

- **The National Payments System:** The modernisation of the National Payments System has continued to lower transaction costs, and improve the effectiveness of monetary policy instruments.

- **Policy coordination in the region:** Price and financial stability are also supported by regional policy coordination through the regular meetings of the Governors of the Central Banks of the East African Community Partner States, consolidated supervision and regulation of banks with branches in the region to safeguard the banking system from risks associated with cross border banking activities and country risks, and maintaining efficient regional payments systems to facilitate timely and secure settlement of cross border transactions

- **Communication:** The increasing use of communication media ensures a wider dissemination of monetary policy decisions and background data thereby increasing the efficiency of information transmission and managing expectations. The regular interaction between the MPC and the Chief Executive Officers of banks through the Kenya Bankers Association (KBA) has ensured that monetary policy decisions are transmitted to the banking sector. The regular Governor's Press Conferences have also enhanced the media understanding of monetary policy decisions. The CBK website is an important source of up-to-date data on all aspects of the financial market including interest rates, exchange rates, results of auctions of government securities, and the MPC releases. The CBK also participates in the regional and National Agricultural Society of Kenya Shows in order to sensitise the public on its functions.

Legal Status of the Monetary Policy Statement

1. Section 4B (1) of the CBK Act requires the Bank to submit to the Cabinet Secretary for The National Treasury, at intervals of not more than six months, a Monetary Policy Statement for the next twelve months which shall:

   i. Specify policies and the means by which the Bank intends to achieve its policy targets;
   ii. State reasons for adopting such monetary policies and means; and
   iii. Contain a review and assessment of the progress made in the implementation of monetary policy by the Bank during the period to which the preceding Monetary Policy Statement relates.

2. The Cabinet Secretary shall – by law – lay every Statement submitted under subsection (1) before the appropriate committee of the National Assembly not later than the end of the subsequent session of Parliament after the Statement is so submitted.

3a. The Bank shall – by law – publish in the Kenya Gazette:

   i) Its Monetary Policy Statement; and
   ii Its Monthly Balance Sheet.

3b. The Bank is further required to disseminate key financial data and information on monetary policy to the public.

4. In subsection (2) of section 4B, the expression "appropriate committee" means the committee of the National Assembly appointed to investigate and inquire into matters relating to monetary policy.

Executive Summary

This Monetary Policy Statement provides the direction of monetary policy in the Fiscal Year 2016/17. It also reviews the outcome of the monetary policy stance adopted in the first half of 2016.

Overall month-on-month inflation returned to within the Government target range in February, 2016 reflecting the impact of the monetary policy measures adopted by the CBK. It declined gradually from 8.0 percent in December 2015 to 5.8 percent in June 2016 partly due to a general decrease in food inflation. The contribution of alcoholic beverages, tobacco and narcotics category to overall inflation remained at 0.3 percentage points in the period, reflecting the impact of the excise tax that was implemented in December 2015. The 12-month non-food-non-fuel inflation declined from 5.6 percent in December 2015 to 5.0 percent in June 2016, indicating that there were no significant demand pressures in the economy. The lower petroleum product prices coupled with the stability of the Shilling moderated any risks of imported inflation.

The foreign exchange market remained stable in the first half of 2016 reflecting a narrower current account deficit due to lower imports of petroleum products, improved earnings from tea and horticulture exports, and strong diaspora remittances. The stability was also supported by the CBK's closer monitoring of the market before and after the U.K. vote to leave the European Union (Brexit).

The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 11.5 percent in its January and March 2016 meetings in order to continue to anchor inflation expectations. Nevertheless, the Committee lowered the CBR in May 2016 by 100 basis points to 10.5 percent. The Kenya Banks' Reference Rate (KBRR) was retained at 9.87 percent in January 2016 to ensure market stability. The liquidity management operations by the CBK ensured stability in the interbank market in the period. Reverse Repos were used to address the resultant temporary liquidity shortages in segments of the market following the temporary placement of Chase Bank Limited in receivership in April 2016. Confidence in the banking sector was restored following the successful and quick reopening of Chase Bank.

The monetary policy stance in the FY2016/17 will aim at maintaining overall month-on-month inflation rate within the Government's target range of 2.5 percent on either side of the 5 percent target. The price stability objective aims at supporting a strong and sustainable growth in the medium-term. The level of foreign exchange reserves together with the Precautionary Arrangements with the IMF will continue to provide an adequate buffer against short-term shocks. Overall macroeconomic stability and sustainability of public debt will be supported by continued coordination of monetary and fiscal policies.

Consistent with inflation and growth objectives in the Government Budget Policy Statement in 2016, monetary policy will aim at ensuring that annual growth in broad money (M3) is 11.9 percent by September 2016, 11.6 percent by December, 15.4 percent by March 2017 and 15.5 percent by June. Net Domestic Asset (NDA) of the CBK is projected at Ksh. -224 billion in September 2016, Ksh. -256 billion in December, Ksh. -232 billion in March 2017 and Ksh. -207 billion in June. The annual growth in credit to the private sector is projected to pick up gradually in the year to June 2017. The Net International Reserves (NIR) targets of the CBK are USD 5,852 million in September 2016 and USD 6,283 million in December, USD 6,433 million in March 2016 and USD 6,395 million in June. Monetary policy will aim at ensuring that movements in the short-term interest rates support the Bank's primary objective of price stability. The FY2016/17 Budget deficit will be financed largely through external borrowing, and is therefore not expected to exert significant pressure on interest rates. The Bank will also continue to review and enhance the effectiveness and efficiency of its monetary policy instruments in order to maintain price stability while ensuring financial sector stability.

Uncertainties in the global economy have increased with the U.K. vote to leave the European Union (Brexit), which sparked global financial market volatility and a sharp depreciation of the Sterling Pound. Other risks relate to, among others, slower growth in China and the timing of the U.S. Federal Reserve's next increase in interest rates. Although major central banks announced contingency measures to support confidence in the market including their readiness to provide liquidity and intervene to stabilise the financial markets, financial vulnerabilities remain of concern due to increased economic and political uncertainty in the European Union.

Financial sector stability is important in ensuring the effectiveness of monetary policy. The CBK will continue to strengthen bank supervision through promoting greater transparency, stronger governance, and, encouraging effective business models aimed at strengthening the resilience of banks, reducing costs, and supporting innovation. The CBK will work with the stakeholders in the banking industry to strengthen the use of the Annual Percentage Rate, and Credit Reference Bureau frameworks. The Bank will also continue its regular interactions with stakeholders in the financial and real sectors to obtain feedback, and ensure the timely release of relevant monetary and financial data.

1. Introduction

This Monetary Policy Statement (MPS) provides the direction of monetary policy for the Fiscal Year 2016/17. It also presents the outcome of the monetary policy stance adopted in the first half of 2016.

Price stability remains the primary objective of monetary policy formulation and implementation. The CBK targets for Net Domestic Assets (NDA) and Net International Reserves (NIR) are the operational parameters. The Bank also monitors targets for key monetary aggregates such as broad money (M3) and credit to the private sector. The Central Bank Rate (CBR) signals the monetary policy stance, and is the base for all monetary policy operations. The Bank's participation in the foreign exchange market is guided by the need to maintain adequate level of foreign exchange reserves, meeting the Government's external obligations, and ensuring stability of the value of the Shilling. The CBK foreign exchange reserves and the Precautionary Arrangements with the International Monetary Fund (IMF) provide an adequate buffer against short-term shocks.

On the domestic scene, volatility in food prices has continued to influence movement in consumer prices in 2016. Nevertheless, fuel inflation remains moderate despite the one-off pressures attributed to implementation of taxation measures in the FY2016/17 Budget. The stability in the exchange rate is expected to dampen any threat of imported inflation in spite of volatility in international oil prices. On the global scene, uncertainties have increased with the UK vote to exit the European Union (Brexit), which sparked global financial market volatility and a sharp depreciation of the Sterling Pound. Major central banks announced contingency measures to support confidence in the market including their readiness to provide liquidity and intervene to stabilise the financial markets. Forecasts for global growth in 2016 and 2017 have been revised downwards.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance proposed in the December 2015 MPS while Section 3 describes the current economic environment and outlook for the Fiscal Year 2016/17. Section 4 concludes by outlining the specific monetary policy path for the Fiscal Year 2016/17.

2. Actions and Outcomes of Policy Proposals in the December 2015 Monetary Policy Statement

The overall aim of the Monetary Policy Statement for December 2015 (37th MPS) was to set monetary policy targets that would ensure low and stable inflation, encourage growth, support long-term sustainability of public debt through stable interest rates and, by enhancing financial access within the economy, contribute to lowering the cost of doing business in Kenya. The following are the specific outcomes of the policy proposals in the 37th MPS:

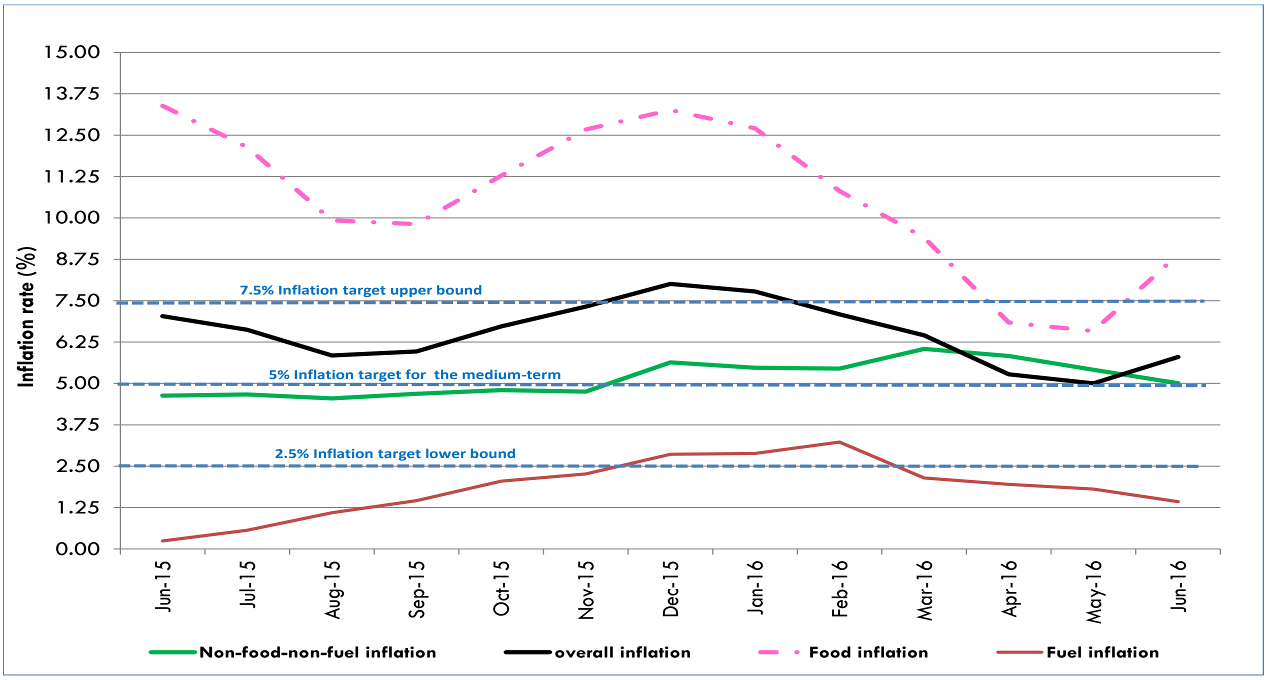
a. Inflation

The monetary policy measures pursued by the Monetary Policy Committee (MPC) anchored inflation expectations and ensured market stability during the first half of 2016. The CBR, which stood at 11.5 percent between December 2015 and April 2016, was lowered to 10.5 percent in May 2016 in order to ease the monetary policy stance while continuing to anchor inflation expectations. Overall month-on-month inflation returned to within the Government target range in February 2016 (Chart 1). It declined gradually from 8.0 percent in December 2015 to 5.0 percent in May 2016, largely reflecting decreases in food inflation from 13.3 percent to 6.6 percent.

The contribution of the CPI category food and non-alcoholic beverages to overall inflation decreased from 5.8 percentage points in December 2015 to 2.8 percentage points in May (Table 1). Overall month-on-month inflation rose slightly to 5.8 percent in June 2016 largely due to increases in the prices of some food items such as tomatoes, Irish potatoes, and cabbages. Food contributed 3.8 percentage points to the overall inflation in June. The contribution of the alcoholic beverages, tobacco and narcotics category to overall inflation remained unchanged at 0.3 percentage points in the period, reflecting the impact of the excise tax that was implemented in December 2015.

The month-on-month non-food-non-fuel (NFNF) inflation rose to 6.0 percent in March 2016 from 5.6 percent in December 2015, largely due to the revised excise tax on alcoholic beverages and tobacco products, implemented in December 2015. The contribution of the CPI category alcoholic beverages, tobacco and narcotics to NFNF inflation remained unchanged at about 1.1 percentage points in the period, largely due to the revised excise tax. Nevertheless, NFNF inflation declined to 5.0 percent in June, indicating that there were no significant demand pressures in the economy. The lower petroleum prices coupled with stability of the exchange rate moderated any risks of imported inflation.

Chart 1: 12-Month Inflation in Broad Measures (%)



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Table 1: Contributions to 12-Month Overall Inflation (%)

	Food & Non-Alcoholic Beverages	Alcoholic Beverages, Tobacco & Narcotics	Clothing & Footwear	Housing, Water, Electricity, Gas and other Fuels	Furnishings, Household Equipment and Routine Household Maintenance	Health	Transport	Communication	Recreation & Culture	Education	Restaurants & Hotels	Miscellaneous Goods & Services	Total
Weight	*0.36*	*0.02*	*0.07*	*0.18*	*0.06*	*0.03*	*0.09*	*0.04*	*0.02*	*0.03*	*0.04*	*0.05*	***1.00***
Jun-15	5.42	0.05	0.33	0.35	0.24	0.15	-0.29	0.02	0.07	0.10	0.26	0.32	**7.03**
Jul-15	4.92	0.06	0.33	0.38	0.23	0.14	-0.23	0.02	0.07	0.10	0.25	0.34	**6.62**
Aug-15	4.05	0.07	0.32	0.46	0.23	0.14	-0.17	0.02	0.06	0.10	0.24	0.32	**5.84**
Sep-15	4.02	0.06	0.33	0.52	0.25	0.14	-0.13	0.02	0.06	0.10	0.26	0.34	**5.97**
Oct-15	4.61	0.07	0.32	0.68	0.27	0.14	-0.14	0.02	0.06	0.10	0.24	0.34	**6.72**
Nov-15	5.18	0.07	0.31	0.72	0.27	0.14	-0.12	0.02	0.05	0.11	0.22	0.36	**7.32**
Dec-15	5.43	0.30	0.34	0.82	0.27	0.13	-0.06	0.03	0.05	0.10	0.25	0.34	**8.01**
Jan-16	5.22	0.30	0.33	0.78	0.28	0.15	-0.02	0.03	0.09	0.11	0.27	0.24	**7.78**
Feb-16	4.48	0.30	0.32	0.79	0.27	0.15	0.05	0.03	0.08	0.11	0.25	0.28	**7.09**
Mar-16	3.96	0.29	0.31	0.58	0.26	0.14	-0.03	0.05	0.08	0.11	0.28	0.41	**6.45**
Apr-16	2.94	0.28	0.31	0.56	0.25	0.14	-0.06	0.05	0.09	0.11	0.26	0.37	**5.27**
May-16	2.84	0.28	0.27	0.35	0.23	0.10	0.10	0.05	0.08	0.11	0.25	0.35	**5.00**
Jun-16	3.81	0.27	0.24	0.30	0.21	0.10	0.05	0.03	0.09	0.11	0.26	0.31	**5.80**

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

i. Credit to Private Sector

The 12-month growth in banks' lending to private sector credit declined from 17.8 percent in December 2015 to 8.6 percent in June 2016 (Table 2). The deceleration in credit growth was largely due to the tightening of credit standards following enhanced enforcement of the existing regulations by the CBK particularly with respect to the classification of loans, which aimed at strengthening and increasing transparency of the banking sector. Higher interest rates were also a factor in the decline in credit growth.

Although credit growth towards the key sectors of the economy declined, it remained strong in the agriculture, manufacturing, finance and insurance, real estate, trade, transport and communication, and building and construction sectors. Credit growth rates to consumer durables and private households were relatively lower in the period, suggesting low demand inflation pressures.

Table 2: Annual Growth in Private Sector Credit across Sectors (%)

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Agriculture	14.6	27.3	31.6	26.7	17.0	22.3	15.2
Manufacturing	22.2	19.0	21.7	24.1	15.0	12.4	13.0
Trade	23.2	4.6	2.3	0.7	18.6	17.3	11.3
Building & construction	32.2	28.2	23.4	26.3	22.7	16.1	12.9
Transport & communication	31.7	39.0	36.1	30.7	18.6	16.3	13.8
Finance and insurance	21.2	64.8	61.3	64.0	23.1	14.4	15.0
Real estate	7.6	15.6	17.1	22.5	13.4	8.0	10.1
Mining & quarrying	-11.3	-9.3	1.7	12.5	5.3	3.2	-1.6
Private households	13.8	11.6	9.1	7.3	10.8	8.4	3.8
Consumer durables	14.3	14.1	11.1	11.7	11.8	11.6	3.2
Business services	20.9	8.1	9.8	5.9	7.7	10.4	6.4
Other activities	8.8	20.3	15.4	11.7	-2.9	-11.6	-5.2
Total	**17.8**	**16.8**	**16.0**	**15.5**	**13.5**	**11.1**	**8.6**

Source: Central Bank of Kenya

ii. Developments in the other Monetary Aggregates and Impact of Financial Innovations

Broad money (M3) and its main component, the credit to private sector, were within target throughout the first half of 2016 (Table 3). The monetary aggregate targeting framework was the basis the CBK conduct monetary policy in order to achieve its price stability target. The June 2016 Performance Criteria on NIR and inflation, under the Precautionary Arrangements with the IMF, were met. The Indicative Target for NDA was also met.

Table 3: Actual and Targeted Growth in Key Monetary Aggregates

	Dec-15	Mar-16	Jun-16
Actual Broad Money,M3 (Ksh Billion)	2,658.2	2,662.6	2,753.6
Target Broad Money,M3 (Ksh Billion)	2,730.1	2,812.0	2,925.0
Actual Reserve Money (Ksh Billion)	392.4	401.9	390.1
Target Reserve Money (Ksh Billion)	400.0	391.0	421.0
Actual Net Foreign Assets of CBK (Ksh Billion)	621.4	640.8	690.4
Targets for Net Foreign Assets of CBK (Ksh Billion)	587.3	663.0	671.0
Actual Net Domestic Assets of CBK (Ksh Billion)	-228.9	-238.9	-300.3
Target Net Domestic Assets of CBK (Ksh Billion)	-187.2	-272.0	-251.0
Actual Credit to private sector (Ksh Billion)	2,220.0	2,230.6	2,245.3
Target Credit to private sector (Ksh Billion)	2,227.1	2,266.0	2,388.0
Memorandum Items			
12-month growth in actual Reserve Money (Percent)	3.4	16.1	4.9
12-month growth in Broad Money, M3 (Percent)	14.1	11.0	7.9

Source: Central Bank of Kenya

The predictability of money demand continued to be affected by an unstable money multiplier and the long-term decline in the velocity of money in circulation. The money multiplier remained unstable in the period, fluctuating between 6.6 and 7.1 while the velocity of money ranged between 2.3 and 2.4. These outcomes on velocity of money and money multiplier are associated largely with financial innovations such as the mobile phone platforms which have continued to affect the design and conduct of monetary policy.

The banking sector continued to implement measures aimed at improving the efficiency of the banking sector as well as financial inclusion in order to enhance the monetary policy transmission mechanism. The Agency Banking model continued to expand; a total of 17 commercial banks had been licensed by the CBK to undertake Agency Banking by June 2016. Banks contracted 43,675 active agents who facilitated 386.4 million cumulative transactions valued at Ksh. 1.6 trillion by June 2016. This was a significant increase from December 2015 when the number of Agents stood at 39,754, and the cumulative transactions at 221.6 million valued at Ksh. 1.2 trillion. The mobile phone continued to be an important platform for financial services thereby reducing transaction costs. Mobile money transactions were estimated at Ksh. 9.0 billion per day in May 2016 compared with Ksh. 8.6 billion in December 2015. Technology-led delivery channels have continued to facilitate an increase in access to financial services.

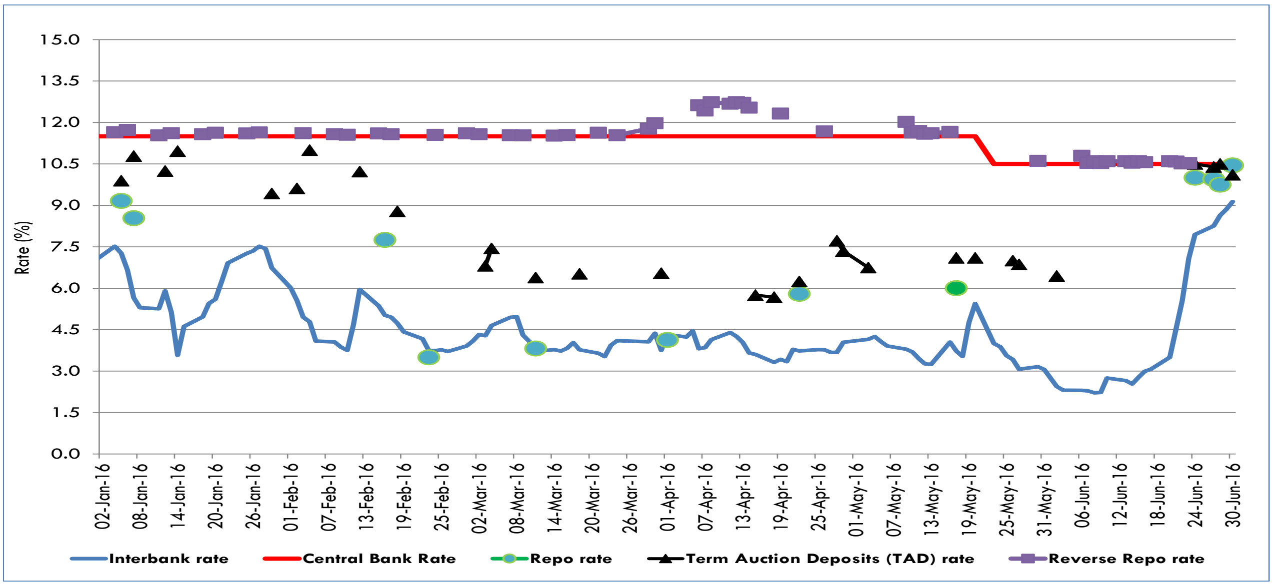
iii. Interest Rates and Liquidity

Liquidity management operations by the CBK ensured stability in the interbank market in the first half of 2016. The CBK used Reverse Repos to address the temporary liquidity shortages in segments of the market following the placement of Chase Bank Limited in receivership on 7th April 2016. Nevertheless, Chase Bank reopened on 20th April, 2016. Open Market

Operations through Term Auction Deposits and Repos were used by CBK to withdraw liquidity from segments of the market with surpluses (Chart 2a). The utilisation of Horizontal Repos in redistributing liquidity in the interbank market remained high at Ksh 33.5 billion in the first half of 2016, compared with Ksh. 41.8 billion in the second half of 2015.

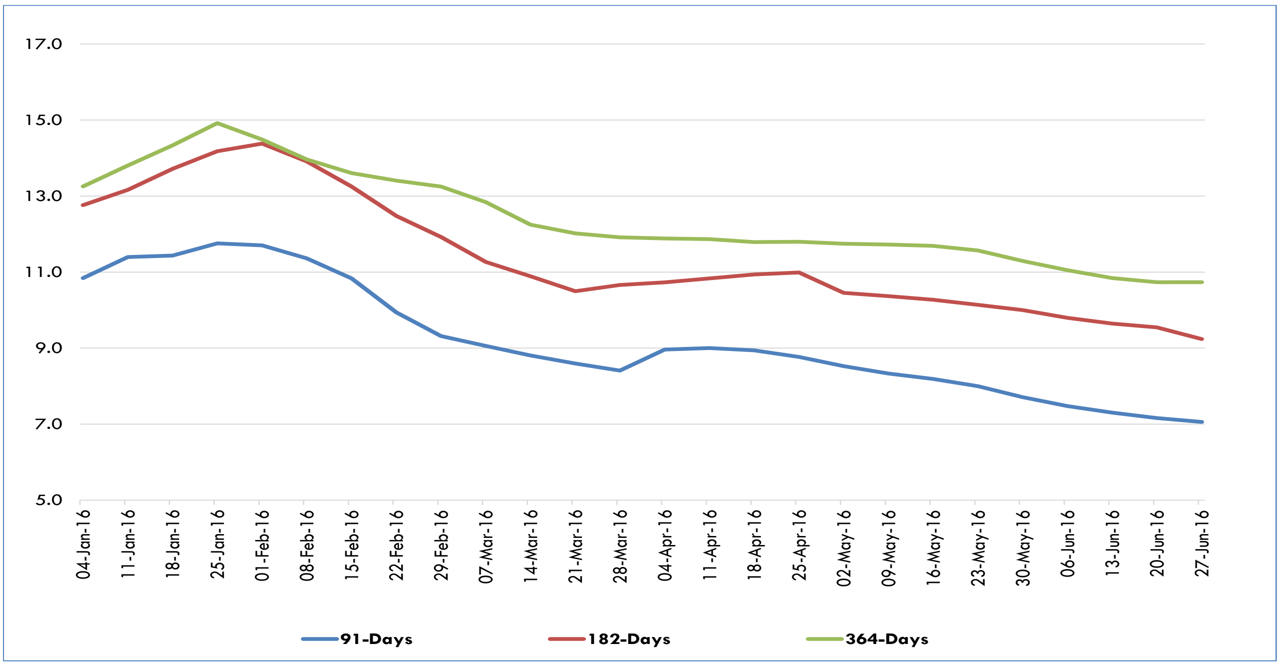
The interest rates on Government securities eased during the first half of 2016 partly due to reduced pressure on the Government domestic borrowing programme following rationalisation of expenditures (Chart 2b).

Chart 2a: Trends in Short Term Interest Rates (%)



Source: Central Bank of Kenya

Chart 2b: Interest rates on Treasury Bills (%)



Source: Central Bank of Kenya

iv. Other Banking Sector Developments

The banking sector remained stable with improved liquidity conditions in the first half of 2016. Although the bank liquidity and its distribution was temporarily disrupted by the placement of Chase Bank Limited under receivership in April 2016, the successful and quick reopening of the bank enhanced confidence in the sector. The CBK's enforcement of existing regulations particularly with respect to the classification of loans, strengthened and increased transparency of the banking sector in the period. The ratio of gross non-performing loans to gross loans stabilised after the impact of loan reclassification eased, and it fell marginally from a peak of 8.5 percent in May to 8.4 percent in June 2016. Nevertheless, the CBK continued to closely monitor the sector, particularly with respect to liquidity and credit risks.

The CBK retained the KBRR at 9.87 percent in January 2016 in order to ensure market stability. The average commercial banks' lending rates remained high at 18.2 percent in June 2016, albeit falling slightly from 18.3 percent in December 2015 (Table 4). The average deposit rate decreased during the period reflecting improved liquidity conditions. The spread between lending and deposit rates widened to 11.4 percent in June, and it remained comparably higher for large banks due to their lower deposit rates.

The CBK is strengthening bank supervision by promoting greater transparency, stronger governance, and, encouraging effective business models aimed at strengthening the resilience of banks, reducing costs, and supporting innovation. It commenced the quarterly publication of individual banks' lending rates across loan categories and maturities in order to promote transparency in credit pricing. The CBK also continued to work with stakeholders in the banking industry to explore measures to improve the transmission of monetary policy to banks' lending rates. Bi-monthly meetings were held between the CBK and Chief Executive Officers of commercial banks, through the Kenya Bankers Association (KBA), to discuss various issues through the post-MPC meeting forums. This has continued to facilitate moral suasion and provided a regular feedback mechanism.

Table 4: Trends in Commercial Bank Interest Rates and Spreads (%)

	Average Lending rates (%)				Average Deposit rates (%)				Average Spread (%)			
	Small	Medium	Large	Overall	Small	Medium	Large	Overall	Small	Medium	Large	Overall
Dec-15	19.0	18.6	18.0	18.3	9.4	8.0	7.4	8.0	9.6	10.6	10.6	10.3
Jan-16	18.8	18.3	17.5	18.0	8.8	7.8	6.7	7.5	9.9	10.5	10.9	10.4
Feb-16	18.2	18.2	17.5	17.9	8.4	7.8	6.8	7.5	9.8	10.4	10.7	10.4
Mar-16	18.1	18.0	17.5	17.8	8.9	7.6	6.2	7.2	9.2	10.5	11.3	10.6
Apr-16	18.0	18.4	17.6	17.9	8.0	7.5	6.0	6.7	9.9	10.9	11.6	11.2
May-16	18.0	18.3	17.9	18.1	8.3	7.6	5.3	6.4	9.7	10.7	12.6	11.7
Jun-16	17.9	18.4	18.0	18.2	8.4	7.4	5.4	6.8	9.5	11.0	12.6	11.4

Source: Central Bank of Kenya

b.Exchange Rates and Foreign Exchange Reserves Developments

i. Exchange Rates and External Sector Developments

The foreign exchange market remained stable in the first half of 2016 supported by a narrower current account deficit due to a lower petroleum product imports bill, improved earnings from tea and horticulture exports, and strong diaspora remittances (Charts 3a and 3b). The 12-month cumulative current account deficit was estimated at 5.0 percent of GDP in June 2016 down from 6.8 percent of GDP in December 2015. In particular, the annual growth in earnings from tea and horticulture exports rose from 16.6 percent and -5.9 percent in December 2015 to 22.6 percent and 12.3 percent, respectively, in June 2016. The stability was also supported by the CBK's closer monitoring of the market before and after the U.K. vote to leave the European Union (Brexit). The CBK's foreign exchange reserves together with the Precautionary Arrangements with the IMF provided an adequate buffer against short-term shocks.

The Shilling was relatively more stable against the U.S. dollar compared with most international and regional currencies, reflecting the resilience and diversified nature of the Kenyan economy relative to its peers. In the region, the South African Rand was the most volatile largely due to the slump in commodity prices, and widening trade deficit attributed to weak growth in its main trading partners including China.

The lower petroleum products import bill eased the demand for foreign exchange as international crude oil prices remained moderate in the first half of 2016. The lower international oil prices continued to be supported by increased production from the U.S. and Libya, sustained production by the Organization of Petroleum Exporting Countries (OPEC), and reduced demand particularly from China following weaker growth prospects. Nevertheless, Murban crude oil prices rose from USD37.3 per barrel in December 2015 to USD49.1 per barrel in June 2016 (Chart 3c). The proportion of petroleum product imports in total merchandise imports remained low at 13.4

percent in the 12-months to June 2016 compared with 14.4 percent in 2015. The 12-month cumulative proportion of imports of goods and services financed by exports of goods and services increased from 59.1 percent in December 2015 to 62.8 percent in June 2016.

Chart 3a: Movements of Exchange Rates of the Kenya Shilling and Major International Currencies against the U.S. dollar (4th January 2016 = 1)

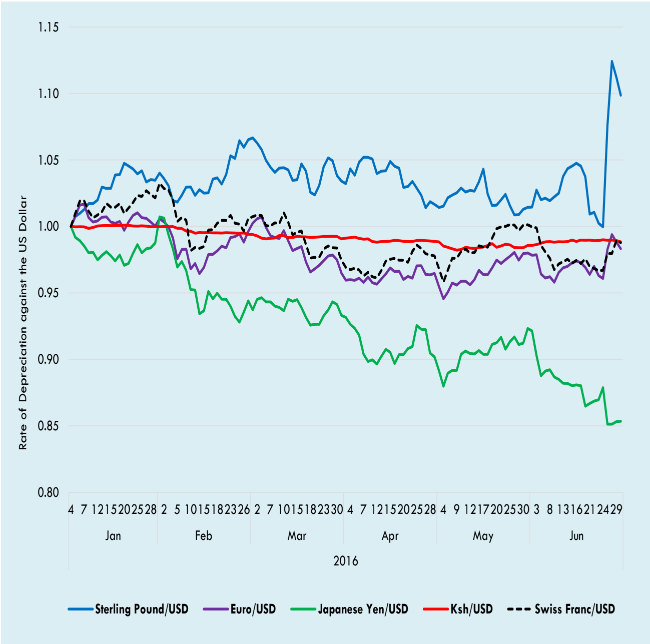
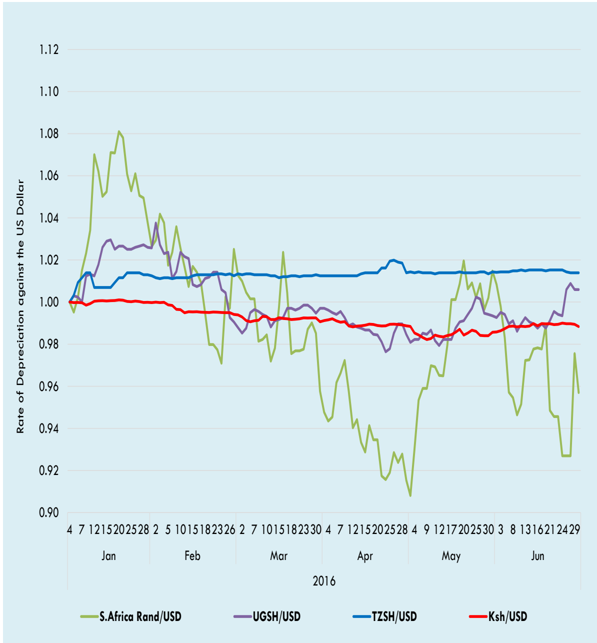
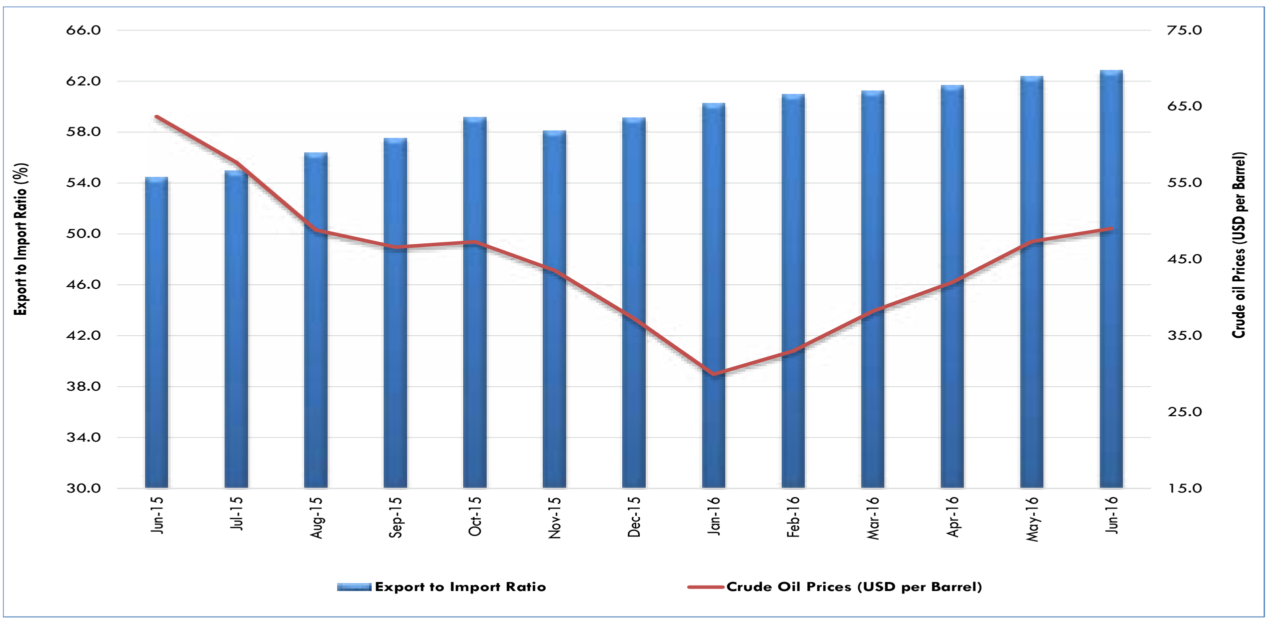


Chart 3b: Movements of Exchange Rates of the Kenya Shilling and Regional Currencies against the U.S. dollar (4th January 2016 = 1



Source: Central Bank of Kenya

Chart 3c: 12-Month Cumulative Exports/12-Month Cumulative Imports (%), and Oil Prices



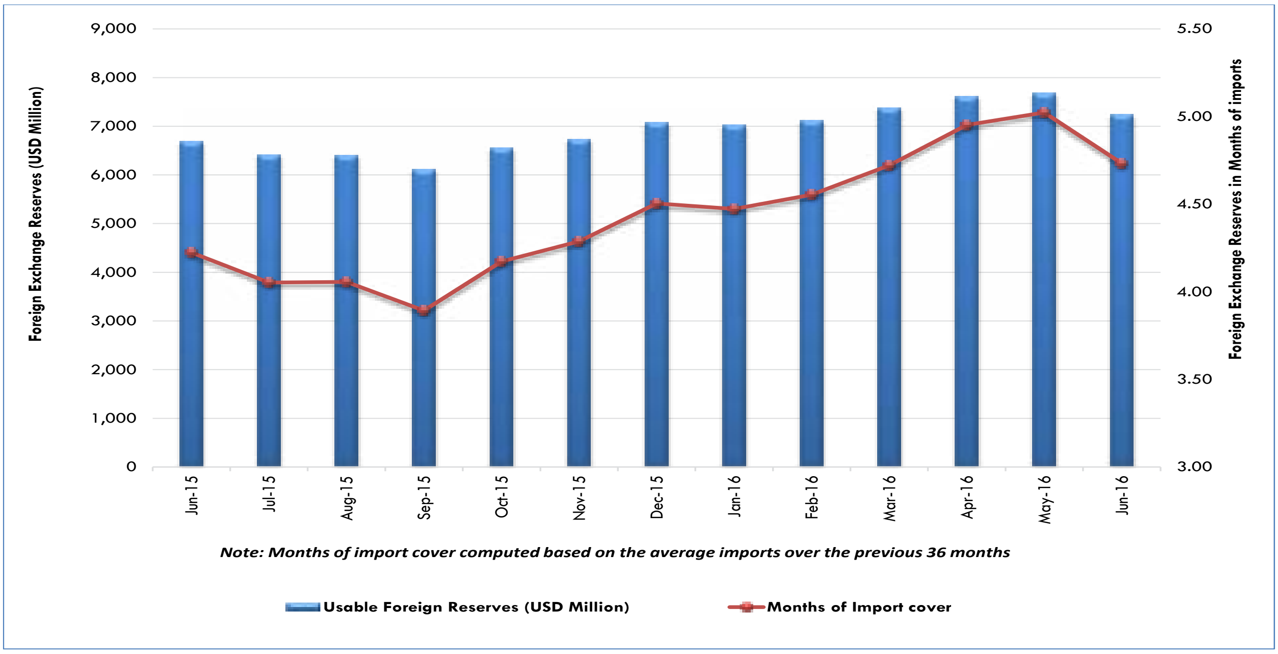
Note: Exports and imports comprise goods and services

Source: Kenya Revenue Authority and Central Bank of Kenya

ii. Foreign Exchange Reserves

The CBK level of usable foreign exchange reserves increased from USD 7,071.7 million (equivalent to 4.5 months of import cover) at the end of December 2015 to USD 7,273.3 million (equivalent to 4.7 months of import cover) at the end of June 2016 (Chart 4). Nevertheless, the reserves decreased slightly between May and June 2016 partly due to public external debt service. This level of reserves together with the approval in March 2016 of new IMF Precautionary Arrangements amounting to USD1.5 billion (SDR1.06 billion) covering 2 years provided additional buffers against short-term shocks. This boosted the CBK's capacity to respond to short-term volatility in the foreign exchange market.

Chart 4: CBK Usable Foreign Exchange Reserves



Note: The CBK usable foreign exchange reserves refer to reserves available for use without any restrictions held by the Central Bank. They exclude reserves held by CBK on behalf of the Government or commercial banks.

Source: Central Bank of Kenya

c. Economic Growth

The performance of the economy remains strong, posting a growth of 5.9 percent in the first quarter of 2016, compared with 5.0 percent in a similar period of 2015. Positive growth rates were registered across all sectors of the economy (Table 5). This performance was supported by macroeconomic stability, higher public investment spending, improved weather conditions that boosted agriculture, lower oil prices, and a higher country profile. Significantly, the accommodation and restaurant (tourism) sector grew by 12.1 percent in the first quarter of 2016, up from a contraction of 11.4 percent in the first quarter of 2015.

The improved performance of the accommodation and restaurants sector reflected increased tourist arrivals following improved security, positive impact of tourism promotion activities by the Government, and removal of travel advisories by major source markets such as U.K. and France. In addition, improved growth in agriculture, transport and storage, wholesale and retail trade, information and communication, mining and quarrying, electricity and water, and education sectors in the period was an indication of the sustained growth in the economy supported by macroeconomic stability. The finance and insurance sector which grew by 8.0 percent, continued to provide strong support to the growth performance.

Table 5: Sectoral and Overall Real GDP growth rates (%)

	Annual		Quarterly				
	2014	2015	2015				2016
Sectors			Q1	Q2	Q3	Q4	Q1
Agriculture	3.5	5.6	2.9	4.0	5.5	11.8	4.8
Mining & Quarrying	14.5	11.0	5.7	8.6	13.7	16.3	6.9
Manufacturing	3.2	3.5	4.1	5.1	3.3	1.2	3.6
Electricity & water supply	6.2	7.1	7.4	9.2	10.0	1.8	8.5
Construction	13.1	13.6	12.6	11.2	15.6	14.9	9.9
Wholesale & Retail Trade	7.5	6.0	6.4	5.2	6.2	6.0	7.3
Accommodation & restaurant	-16.7	-1.3	-11.4	-5.0	-6.5	21.2	12.1
Transport & Storage	4.6	7.1	6.7	6.8	9.4	5.5	8.4
Information & Communication	14.6	7.3	8.6	7.0	8.2	5.9	9.7
Financial & Insurance	8.3	8.7	10.6	7.7	10.3	6.5	8.0
Public administration	5.3	5.4	8.8	6.3	3.0	3.7	5.7
Professional, Administration & Support Services	3.0	2.6	3.8	5.1	1.9	-0.1	3.5
Real estate	5.6	6.2	7.8	10.2	11.4	-4.9	6.7
Education	6.3	4.7	4.3	4.5	5.7	4.2	5.5
Health	8.1	6.6	5.8	6.4	3.2	10.6	4.2
Other services	4.2	3.8	4.6	2.8	3.8	4.1	4.4
Financial intermediation services Indirectly measured	11.3	15.0	14.7	9.6	18.4	16.8	7.7
Taxes on products	5.3	4.2	2.9	5.8	1.9	6.5	4.3
GDP at market prices	**5.3**	**5.6**	**5.0**	**5.9**	**6.0**	**5.7**	**5.9**

Source: Kenya National Bureau of Statistics

d. Fiscal Developments and Debt

The Government's borrowing plan in the second half of the Fiscal Year 2015/16 ensured that the build-up in domestic debt was consistent with the thresholds set in the Medium-Term Debt Management Strategy. The Government continued to review its borrowing plan in line with market conditions and prudent budget management that focused on rationalisation of expenditures. The coordination between monetary and fiscal policies continued to support macroeconomic stability.

e. Stakeholder Forums, MPC Market Perception Surveys, and Communication

The MPC held forums with Chief Executive Officers of commercial banks after every meeting during the first half of 2016. The Committee also continued to improve on the information gathering processes through the Market Perception Surveys and communication with key stakeholders on the MPC decisions to obtain feedback. The MPC Press Releases were continuously reviewed to make them better focused to the public, media, financial sector and other stakeholders.

The Chairman of the MPC also held a press conference after every MPC meeting to brief the media on measures undertaken by the CBK to support macroeconomic and financial stability. As a result, the media and public understanding of monetary policy decisions and their expected impact on the economy continued to be enhanced.

3. The Current Economic Environment and Outlook for the Fiscal Year 2016/17

a. International Economic Environment

Global growth is projected to remain flat at 3.1 percent in 2016, and to rise to 3.4 percent in 2017, but is expected to be uneven across the advanced and emerging market economies (Table 6). Uncertainties in the global economy have increased due to risks posed by, among other factors, the Brexit outcome, slower growth in China and the timing of the U.S. Federal Reserve's next increase in interest rates. Specifically, Brexit sparked global financial markets volatility and a sharp depreciation of the Sterling Pound.

Although major central banks announced contingency measures to support confidence in the market including their readiness to provide liquidity and intervene to stabilise the financial markets, financial vulnerabilities remain due to increased economic and political uncertainty in the European Union. However, the growth outlook for Kenya's main trading partners in the region remains strong, suggesting better prospects for exports performance.

The inflation outlook in advanced and emerging market economies remain low in 2016 and 2017 reflecting lower commodity prices and weak domestic demand. Inflation in advanced economies is expected to rise from 0.3 percent in 2015 to 0.7 percent in 2016 and to 1.6 percent in 2017. In the emerging market and developing economies, inflation is projected to decline from 4.7 percent in 2015 to 4.6 percent in 2016 and to 4.4 percent in 2017. This suggests that the policy challenges are more diverse across advanced and emerging market economies in terms of supporting demand and structural reforms to stimulate medium term growth.

Table 6: Performance and Outlook for the Global Economy

	Real GDP Growth (%)		
	2015	**2016**	**2017**
	Act.	**Proj.**	**Proj.**
World	**3.1**	**3.1**	**3.4**
Advanced Economies	**1.9**	**1.8**	**1.8**
United States	2.4	2.2	2.5
Japan	0.5	0.3	0.1
Euro Area	1.7	1.6	1.4
United Kingdom	2.2	1.7	1.3
Other Advanced economies	2.0	2.0	2.3
Emerging and developing economies	**4.0**	**4.1**	**4.6**
Sub-Saharan Africa	3.3	1.6	3.3
Developing Asia	6.6	6.4	6.3
China	6.9	6.6	6.2
India	7.6	7.4	7.4
Middle East and North Africa	2.3	3.4	3.3

Source: IMF World Economic Outlook

b. Domestic Economic Environment

i. Economic Growth

The CBK's price stability aims at supporting sound and sustained economic growth. The Government projects real GDP growth to rise from 5.6 percent in 2015 to 6.0 percent in 2016 and 6.2 percent in 2017. The growth outlook is supported by sustained investment in infrastructure, strong agricultural production, recovery in tourism, increased investor and consumer confidence, buoyant services sector, and macroeconomic stability. The proposed measures by the Government to enhance security, and improve governance will also support the business environment and growth. Specifically, the increased Budget allocation for tourism promotion activities is expected to foster confidence in the tourism sector.

The MPC Market Perceptions Survey conducted in July 2016 showed optimism by private sector firms for a stronger growth in 2016 relative to 2015 on account of: stronger growth outcome in the first quarter of 2016, strong recovery in tourism and agriculture, investments in infrastructure, improved security and macroeconomic stability. However, there are downside risks to growth including possible reduction in exports to Europe and U.K. following Brexit.

ii. External Sector and Foreign Exchange Market

The Shilling is expected to be stable in the Fiscal Year 2016/17 on account of a narrowing current account deficit attributed to lower petroleum products import bill reflecting lower international oil prices and improved performance of tea and horticulture exports; strong diaspora remittances; recovery in tourism, improved market discipline; and increased foreign direct investment in infrastructure. The current account deficit is projected to ease from 6.8 percent of GDP in 2015 to 5.5 percent of GDP in 2016. The growth outlook for Kenya's main trading partners in the region remains strong, suggesting better prospects for exports performance. The Shilling exchange rate will also be supported by the adequate buffer of foreign exchange reserves and the Precautionary Facilities with the IMF. The main risks to the foreign exchange market in the Fiscal Year 2016/17 relate to possible volatility in the global financial markets due to increased uncertainties with the Brexit, slower growth in China, and the timing of the U.S. Federal Reserve's next increase in interest rates.

iii.Inflation

Overall inflation is expected to remain within the Government's target range in the Fiscal Year 2016/17 supported by the monetary policy measures, relatively lower international oil prices and a stable Shilling which is expected to dampen any risks of imported inflation. Nevertheless, the implementation of some of the taxation proposals in FY2016/17 could exert temporary upward pressure on inflation. On the other hand, food security measures such as increased budgetary allocations to ongoing irrigation projects country-wide for commercial farming are expected to boost food supply. The main risks to the inflation outlook relates to the vulnerability to adverse weather conditions given the dominance of food in the consumer basket, and volatility in international oil prices.

iv.Interest Rates

Interest rates are expected to ease in the Fiscal Year 2016/17 with lower inflation and a stable exchange rate, coupled with improved liquidity conditions in the money market. A review of business models by commercial banks is expected to give rise to fairly priced and improved banks' products, leading to sustainable lower interest rates. Among the initiatives underway to empower the customers and reduced associated borrowing costs are: strengthening the Credit Reference Bureaus to allow banks to distinguish risky from safe borrowers; establishment of a collateral registry; and, enhanced transparency about bank products, and pricing including implementing the Annual Percentage Rate (APR) that reflects the actual cost of borrowing. The main risks to the outlook on interest rates are the international economic developments, and supply side factors which could prompt additional measures by CBK to alleviate any adverse expectations with respect to inflation and /or exchange rate movements. Any measures to cap interest rates would lead to inefficiencies in the credit market, promote informal lending channels, and undermine the effectiveness of monetary policy transmission

v. Fiscal Policy

Government borrowing in the FY 2016/17 is anchored in the Medium-Term Debt Management Strategy which aims at maintaining public debt at sustainable levels. The FY2016/17 Budget deficit will be financed largely through external borrowing, and is therefore not expected to exert significant pressure on interest rates. The CBK will continue to work with the National Treasury to strengthen the coordination between monetary and fiscal policies.

vi.Confidence in the Economy

Confidence in the economy is expected to improve in the FY2016/17 due to macroeconomic stability, improved security, and higher country profile. Specifically, Kenya overall ranking in the World Bank's Ease of Doing Business Report improved significantly from position 129 in 2015 to position 108 out of 189 economies. The business environment is expected to improve further with the Government's establishment of an Inter-Agency Business Environment Delivery Unit tasked with the mandate of coordinating the business processes re-engineering for 6 out of 10 World Bank Doing Business Indicators.

The MPC Market Perception Survey conducted in July 2016 showed private sector firms expected the business environment to be stable in the remainder of 2016 supported by macroeconomic stability, infrastructure investments benefits, improved security and confidence in the economy, tourism recovery, relatively low international oil prices, strong prospects for agriculture, and the positive impact of regional integration.

4. Direction of Monetary Policy in the Fiscal Year 2016/17

Monetary policy in the FY2016/17 will focus on: setting monetary targets which are consistent with the objective of achieving and maintaining a low and stable inflation, encouraging growth, and supporting the long-term sustainability of public debt; and, enhancing financial inclusion.

a) Monetary Policy Path and Foreign Exchange Reserves

The monetary targets for the FY2016/17 are consistent with the Medium-Term Government Budget Policy Statement for 2016 summarised in Annex 1. The monetary targets for the period are presented in Table 7. Monetary policy will aim at ensuring that annual growth in broad money (M3) is 11.9 percent by September 2016, 11.6 percent by December, 15.4 percent by March 2017 and 15.5 percent by June. Net Domestic Asset (NDA) of the CBK is projected at Ksh. -224 billion in September 2016, Ksh. -256 billion in December, Ksh. -232 billion in March 2017 and Ksh. -207 billion in June. The annual growth in credit to the private sector is projected to pick up gradually in the year to June 2017. The Net International Reserves (NIR) targets of the CBK are USD 5,852 million in September 2016 and USD 6,283 million in December, USD 6,433 million in March 2017 and USD 6,395 million in June. Monetary policy will aim at ensuring that movements in the short-term interest rates are consistent with the Bank's primary objective of price stability. The Bank will also continue to review and enhance the effectiveness and efficiency of its monetary policy instruments in order to maintain price stability while ensuring financial sector stability.

These monetary targets are expected to enable the Bank maintain overall inflation within the current allowable margin of 2.5 percent on either side of the Government's medium-term target of 5 percent, and to anchor inflation expectations. The CBK foreign exchange reserves and the Precautionary Facility with the IMF will provide a buffer against short-term shocks in the foreign exchange market. The monetary policy stance will aim at ensuring that short-term interest rates are consistent with the CBK's price stability objective, while also ensuring the long-term sustainability of public debt. The coordination of monetary and fiscal policies will also support macroeconomic stability and sustainable public debt.

Table 7: Monetary Targets for the Fiscal Year 2016/17

	Sep-16	Dec-16	Mar-17	Jun-17
Broad Money, M3 (Ksh Billion)	2,860.6	2,967.4	3,073.7	3,180.7
Reserve Money, RM (Ksh Billion)	395.7	421.1	409.6	429.7
Credit to Private Sector (Ksh Billion)	2,304.5	2,374.1	2,431.6	2,531.9
NFA of CBK (Ksh Billion)	619.5	676.8	641.2	637.3
NDA of CBK (Ksh Billion)	-223.8	-255.7	-231.6	-207.6
12-month growth in RM (Percent)	5.1	7.3	1.9	10.1
12-month growth in M3 (Percent)	11.9	11.6	15.4	15.5
12-month growth in Credit to Private Sector (Percent)	5.5	6.8	9.0	12.4
12-month growth in Real GDP (Percent)		6.0		6.1
Medium-Term 12-month overall Inflation (Percent) Target	5.0	5.0	5.0	5.0

Source: Central Bank of Kenya and the National Treasury

The Bank will continue to monitor developments in the Monetary Targets and make any necessary reviews. The information will be reviewed and incorporated in the data so as to inform the MPC decision process accordingly. Monetary policy implementation will be based on the targets for NDA, NIR, RM and broad money (M3) to be achieved through Open Market Operations (OMO). The Repurchase Agreements (Repos) and Term Auction Deposits instruments will be used to withdraw any excess liquidity in the banking system on a timely basis and where necessary Reverse Repos will be used to inject liquidity.

The achievement of the targets set will depend on stability in the international prices of oil, favourable weather conditions, and continued commitment by the Government to operate within the domestic borrowing target in the FY2016/17. The success of the monetary policy measures will also depend on the effectiveness of the institutions charged with the responsibility of managing the supply side of economy that would have a direct impact on food and fuel prices.

b)Measures to Extend Access to Financial Services and Enhance Market Efficiency

The CBK will continue to support development of new products and innovations towards enhancing financial access in order to encourage economic growth. Appropriate legislation and regulations will be proposed to ensure that such innovations are operationalized accordingly so as to enhance market confidence. The Bank will monitor any new financial derivatives and /or innovations in the market that could have adverse effects on market stability. The CBK will work closely with the other stakeholders to improve the monetary policy transmission to lending rates, and promote transparency in credit pricing.

The CBK will continue to work with stakeholders to identify and implement measures to enhance redistribution of liquidity in the interbank market. Forums with Chief Executive Officers will continue to be held both to obtain feedback and to explain the background to MPC decisions. These initiatives will support improvements in the financial sector that contribute to the lowering of the cost of doing business. The CBK will also continue with its transparency policy through the timely dissemination of all the requisite data through its website.

ANNEX 1: MAIN MACROECONOMIC INDICATORS, 2015/16 - 2018/19

	2015/16	2016/17	2017/18	2018/19
	Est.	*Proj.*		
Annual percentage change				
National account and prices				
Real GDP	5.8	6.1	6.3	6.5
GDP deflator	6.8	6.2	5.6	5.4
CPI Index (eop)	5.8	5.0	5.0	5.0
CPI Index (avg)	6.5	5.0	5.0	5.0
In percentage of GDP				
Investment and saving				
Investment	23.5	22.8	24.5	23.9
Gross National Saving	16.1	16.8	18.7	17.7
Central government budget				
Total revenue	19.7	20.3	21.1	21.4
Total expenditure and net lending	28.1	30.6	27.7	26.5
Overall balance (commitment basis) excl. grants	-7.9	-9.4	-5.8	-4.3
Overall balance (commitment basis) incl. grants excl. SGR	-6.3	-8.2	-5.2	-4.1

Source: Budget Policy Statement, 2016, National Treasury

ANNEX 2: CHRONOLOGY OF EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JANUARY – JUNE 2016)

Date	Events
January 2016	The CBR was retained at 11.50 percent in order to anchor inflation expectations
	The CBK reviewed the Kenya Banks' Reference Rate (KBRR) and decided to retain it at its current level of 9.87 percent in order to ensure market stability
March 2016	The CBR was retained at 11.50 percent in order to continue anchor inflation expectations and enhance the credibility of its policy stance.
April 2016	Chase Bank Limited was placed under receivership by the CBK. The Bank was successfully re-opened within a short time following the appointment of KCB by the KDIC as the receiver manager.
May 2016	The CBR was lowered by 100 basis points to 10.50 percent in order to ease monetary policy while continuing to anchor inflation expectations.
June 2016	The U.K. voted to leave the European Union (Brexit), which sparked global financial market volatility and a sharp depreciation of the Sterling Pound. Major central banks announced contingency measures to support confidence in the market including their readiness to provide liquidity and intervene to stabilise the financial markets.

GLOSSARY OF KEY TERMS

Overall Inflation

Overall inflation is a measure of price change in the economy calculated as the weighted year-on-year movement of the indices of the prices charged to consumers of the goods and services in a representative basket established in a base year. The indices are derived from data collected monthly by the Kenya National Bureau of Statistics.

Reserve Money

Reserve Money is computed as the 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 (NBFIs) held by the CBK. 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 computed as follows:

Narrow Money

M0: Currency outside the banking system

M1: M0 + demand deposits of banks (or depository corporations).

Broad Money

M2: M1 + quasi (long term) money deposits i.e. time and savings deposits of banks and non-bank financial institutions.

Extended Broad Money

M3: M2 + residents' foreign currency deposits.

Overall Liquidity

L: M3 + non-bank holdings of Government Paper. This however, is not a monetary aggregate.