GOVERNOR

BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

Haile Selassie Avenue
P. O. Box 60000-00200 Nairobi, Kenya
Telephone: 2861003/24 Fax: 2716556

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on November 28, 2016, to review the outcome of its previous policy decisions and the recent economic developments. The meeting was held against the backdrop of increased uncertainties in the domestic and global economies. The Committee noted the following:

- Month-on-month overall CPI inflation increased to 6.5 percent in October 2016 from 6.3 percent in September, largely due to changes in the prices of food items such as tomatoes and sugar. Nevertheless, overall inflation remained within the Government target range. Month-on-month non-food-non-fuel (NFNF) increased to 5.4 percent in October from 5.1 percent in September, reflecting increases in the prices of items in the *clothing and footwear* CPI category and the impact of the excise tax introduced in December 2015. The 3-month annualised NFNF inflation rose slightly in October, an indication of mild demand pressures in the economy.
- The foreign exchange market has been relatively stable despite the volatility in the global financial markets following the U.S. elections, and the seasonal increase in demand for foreign exchange by corporates to finance dividend payments. The foreign exchange market continues to be supported by the narrowing of the current account deficit mainly due to lower imported petroleum prices, lower imports of machinery and equipment, and resilient diaspora remittances. Tourism earnings and export receipts from tea and horticulture have stabilized.
- The CBK's foreign exchange reserves which currently stand at USD7,305 million (4.8 months of import cover) together with the Precautionary Arrangements with the International Monetary Fund (equivalent to USD1.5 billion) have continued to provide adequate buffers against short-term shocks.
- The CBK is working closely with the National Treasury to ensure coordination of monetary and fiscal policies. Execution of the Government's domestic borrowing plan for FY2016/17 continues to support stability in the market.
- Banking system liquidity and its distribution have stabilized. The average commercial banks' liquidity ratio increased to 43.6 percent in October from 41.9 percent in August 2016, and the average capital adequacy ratio stood at 19.1 percent in October. The CBK continues to closely monitor credit and liquidity risks in the sector. Continued interest of foreign banks to enter the local market indicates confidence in the banking sector.

- Following the introduction of interest rate caps on bank lending and deposits, the Committee noted that the available data were inadequate to facilitate a conclusive analysis of their impact on monetary policy and the overall economy. The CBK will continue to closely monitor developments in this respect.
- The Committee observed that private sector credit growth had stabilized at 4.6 percent in October. The slower growth witnessed over the last several months was found to be largely an outcome of structural factors in the banking sector rather than monetary policy. However, there is no evidence that this is having a negative impact on economic growth.
- The performance of the economy in the second quarter of 2016 was strong, growing by 6.2 percent compared to 5.9 percent in a similar period of 2015. The MPC Market Perception Survey conducted in November 2016 showed mixed expectations. While the non-bank private sector remains optimistic for higher growth in 2016, banks were cautious as they continue to monitor the potential impact of the capping of interest rates.
- Global growth prospects remain fragile on account of uncertainties in part due to the impact of Brexit and political developments in the U.S. Uncertainty relating to the tightening of U.S. monetary policy and its implications for global capital flows remain a concern.

The Committee concluded that inflationary pressures were mild and inflation will remain within the Government target range in the short term. Given the prevailing domestic and global economic uncertainties, and the need for more conclusive information on these developments, the MPC decided to retain the Central Bank Rate (CBR) at 10.0 percent.

Patrick Njoroge

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

November 28, 2016