

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 September 20, 2016 to review recent economic developments, the economic outlook, and the outcome of its previous policy decisions. The Committee noted the following:

- Month-on-month overall inflation decreased to 6.3 percent in August 2016 from 6.4 percent in July, remaining within the Government target range. The month-on-month non-food-non-fuel (NFNF) inflation rose slightly to 5.0 percent in August from 4.9 percent in July. Nevertheless, the 3-month annualised NFNF inflation has remained stable since June, an indication that there were no significant demand pressures in the economy.
- The foreign exchange market has remained stable, reflecting the narrowing of the current account deficit due to improved export earnings from tea and horticulture, a reduction in the imports of petroleum products due to lower oil prices, resilient diaspora remittances, and improved tourism performance. The current account deficit is expected to narrow to 5.5 percent of GDP in 2016, from 6.8 percent in 2015.
- The CBK's foreign exchange reserves currently stand at USD7,803.6 million (5.2 months of import cover) from USD7,769.5 million (5.1 months of import cover) at the end of July 2016. These reserves, together with the Precautionary Arrangements with the International Monetary Fund, equivalent to USD1.5 billion, continue to provide adequate buffers against short-term shocks.
- The CBK continues to work closely with the National Treasury to ensure coordination of monetary and fiscal policies. In particular, the Government domestic borrowing plan in the FY2016/17 continues to support stability of interest rates on Government securities.
- The distribution of liquidity in the banking sector has improved. The average commercial banks' liquidity ratio increased to 41.9 percent in August from 41.6 percent in June 2016, while the capital adequacy ratio increased to 19.2 percent from 18.9 percent over the same period. Nonetheless, the CBK continues to closely monitor credit and liquidity risks in the sector.
- The MPC noted the coming into force of the Banking (Amendment) Act, 2016, on September 14, 2016. The CBK is closely monitoring the impact of the new law on monetary policy and on the overall economy. The CBK will continue to put in place measures to sustainably reduce the cost of credit and improve liquidity management.

- The MPC noted the continued decline in growth of private sector credit which has persisted since the last meeting, posing a risk to economic growth. Nevertheless, the *MPC Market Perception Survey* conducted in September 2016, shows that the private sector remains optimistic for an improved business environment in 2016, supported by macroeconomic stability, public investment in infrastructure, improved agricultural performance, and a further recovery in tourism.
- The outlook for the global economy remains weak, largely due to the slowdown in global growth, concerns about China, and continued uncertainty with respect to Brexit. Global financial markets remain unsettled partly due to the divergent monetary policies in the advanced economies.

The Committee observed that demand pressures on inflation are moderate and inflation is expected to decline in the short term, but the Committee remains concerned about the persistent slowdown in private sector credit growth. The MPC therefore decided to lower the CBR by 50 basis points to 10.0 percent. The CBK will continue to monitor developments in the domestic and international economies, and will use the instruments at its disposal to maintain overall price and financial sector stability.



Dr. Patrick Njoroge

CHAIRMAN, MONETARY POLICY COMMITTEE

September 20, 2016