GOVERNOR

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# PRESS RELEASE

## MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 30, 2017, to review the outcome of its previous policy decisions and recent economic developments. The meeting was held on the backdrop of increased global uncertainties.

- Month-on-month overall inflation declined to 6.4 percent in December from 6.7 percent in November 2016, remaining within the Government target range. This decline reflected in part the waning effect of the excise tax implemented in December 2015. Non-food-non-fuel (NFNF) inflation declined to 4.6 percent in December from 5.5 percent in November. The 3-month annualised NFNF inflation also decreased in December, suggesting that there were no demand pressures in the economy. Nevertheless, food inflation remained elevated in December, particularly for tomatoes, sugar, cabbages, kales (*sukuma wiki*), and maize flour, due to the prevailing unusually dry weather conditions. Food and electricity prices are expected to remain elevated in the near term.
- The foreign exchange market remains relatively stable. This is supported by a narrowing of the current account deficit, from 6.8 percent of GDP in 2015 to an estimated 5.5 percent in 2016. The improvement in the current account was largely due to lower imports of petroleum products, machinery and transport equipment. Additionally, inflows benefitted from improved horticulture and tea production, higher tourism receipts, and resilient diaspora remittances.
- The CBK's foreign exchange reserves currently stand at USD6,936 million (4.5 months of import cover), which together with the Precautionary Arrangements with the International Monetary Fund (IMF) continue to provide an adequate buffer against short-term shocks. The resilience of the economy, and international confidence in the country's macroeconomic policies was underscored by the successful completion of the first review of Kenya's economic programme on January 25, 2017, by the IMF.
- The banking sector recorded notable growth in 2016, with an expanded asset base, increased capitalization, and improved profitability. The average commercial banks' liquidity ratio and capital adequacy ratios stood at 41.4 percent and 18.7 percent, respectively, in December 2016. Private sector credit growth stabilized at 4.3 percent in December, 2016 driven by lending to trade, real estate, private households and consumer durables. The CBK will continue to closely monitor credit and liquidity risks in the sector.

- The Committee observed that available data was inconclusive for assessing the impact of the recent capping of interest rates. With regard to the impact on the banking sector, banks are reviewing their business models aimed at enhancing the resilience of their operations in the new environment. CBK continues to closely monitor and assess the impact of the interest rate caps.
- The performance of the economy in the third quarter of 2016 was robust, supported by macroeconomic stability, public investment in infrastructure, lower energy prices, and the recovery of the tourism sector. The MPC Market Perception Survey conducted in January 2017 showed that banks and non-bank private sector firms expect strong growth in 2017, supported by continued public investment in infrastructure, recovery of tourism, and relatively low oil prices. However, respondents expect the prevailing dry weather conditions to slowdown agricultural sector growth in the first quarter of 2017.
- Global growth is expected to pick up gradually in 2017, but substantial risks remain. Uncertainties have increased related to global growth, future policies under the new U.S. administration, and the outcome of the Brexit negotiations. The U.S. dollar has strengthened against most currencies, reflecting expectations of expansionary fiscal policies in the U.S. International oil prices have also risen moderately, largely due to an agreement by major oil producers to cut supply.

The Committee concluded that inflation was expected to remain within the Government target range in the short term. However, the Committee noted increased uncertainties with regard to the prevailing drought conditions and risks in the global markets. The MPC therefore decided to retain the Central Bank Rate (CBR) at 10.0 percent in order to anchor inflation expectations. The Committee will continue to closely monitor developments in the domestic and global economies, and stands ready to take additional measures as necessary.

The MPC considered the Kenya Banks' Reference Rate (KBRR) which was introduced to provide a transparent credit pricing framework. In view of the adoption of the new law capping interest rates the CBK decided to suspend the KBRR framework.

**Dr. Patrick Njoroge**
**CHAIRMAN, MONETARY POLICY COMMITTEE**

January 30, 2017