



PRESS RELEASE

ENHANCING MONETARY POLICY TRANSMISSION THROUGH DHOWCSD, INTEREST RATE CORRIDOR AND IMPROVED ACCESS TO THE DISCOUNT (OVERNIGHT) WINDOW

The Monetary Policy Committee (MPC) that met on August 9, 2023, considered and approved measures aimed at improving the monetary policy implementation framework and enhancing the transmission of monetary policy. This is in line with the reforms outlined in the [*White Paper on Modernisation of the Monetary Policy Framework and Operations*](#). Accordingly, the MPC approved measures based on inflation targeting and introduced an interbank interest rate corridor around the Central Bank Rate (CBR) set at $CBR \pm 2.5$ percent. Henceforth, the monetary policy operations will be aimed at ensuring that the interbank rate, as an operating target, closely tracks the CBR. The framework allows the CBK's open market operations to be conducted on the basis of a flexible rate fixed quantity as is currently the case. This implies that the CBK will determine the amount of liquidity to inject or withdraw from the banking system and banks will be free to bid for the amount of liquidity they need/offer at their bid/offer price.

In addition, to improve access to the Discount (Overnight) Window, the Committee approved changes to the terms and conditions for the facility, and the changes take effect immediately. The applicable interest rate on the facility has been reviewed from 600 basis points above the CBR to 400 basis points above the CBR. As has been the case, advances through the window will be secured by Government of Kenya securities subject to a haircut of 10 per cent and 20 per cent for Treasury bills and Treasury bonds, respectively. No other administrative encumbrances will be attached to the facility. The improved access to this facility is designed to enhance monetary policy transmission and complement the effectiveness of the interest rate corridor. The existing terms for access to the Intra-day Liquidity Facility (ILF) remain unchanged.

The CBK also implemented the DhowCSD on July 31, 2023, an upgraded Central Securities Depository infrastructure which will greatly enhance efficiency in investment in Government Securities. The system has enabled an 'anywhere anytime' investment in Treasury Bills and Treasury Bonds, a development that will greatly benefit all investors, and particularly the Kenyan Diaspora. DhowCSD will also improve the functioning of the interbank market by facilitating collateralised lending amongst commercial banks and further reduce segmentation in the interbank market.

The CBK expects these measures to enhance monetary policy transmission and support the key objectives of price and financial system stability.

CENTRAL BANK OF KENYA

August 10, 2023