



PRESS RELEASE

WHITE PAPER ON THE MODERNISATION OF THE MONETARY POLICY FRAMEWORK AND OPERATIONS

The Central Bank of Kenya (CBK) announces the publication of a [White Paper](#) on the modernisation of the monetary policy framework and operations. This follows the conclusion of a review by the Monetary Policy Committee (MPC) of the current monetary policy framework to determine the aspects that would be improved. The monetary policy framework defines the relationships and processes that guide implementation of CBK's mandate of maintaining price stability. Following the repeal of interest rate caps in November 2019, the MPC has considered the circumstances opportune for progressing with the initiatives to strengthen the monetary policy framework.

Kenya's monetary policy framework has evolved from monetary aggregate targeting to a forward-looking monetary policy approach. This evolution was necessitated by the rapid and widespread adoption of new technologies in the financial sector, transformation of the payments system, a structural shift in economic conditions, and the need to better anchor inflation expectations. Whereas these developments have been beneficial in expanding financial inclusion and deepening the financial sector, they have weakened the efficacy of the monetary policy framework.

Against this backdrop, CBK has been implementing reforms aimed at strengthening the monetary policy framework. These reforms focus on strengthening the policy formulation tools, upgrading implementation infrastructure, ensuring effective communication, improving policy transmission and enhancing financial system stability. Some of the critical steps include: strengthening forecasting frameworks and institutionalisation of market perception surveys to better assess inflation expectations; issuance of the Kenya Banking Sector Charter to improve transparency and promote ethical culture in the banking industry; introduction of a cost of credit website, which provides information on fees and charges relating to loan products so as to enhance full disclosure to customers; initiation of the roll out of an upgraded Central Securities Depository (CSD) to improve CBK monetary operations, and the functioning of the interbank market and enhancement of its communication strategy in line with international best practices.

Despite the major milestones achieved so far, the MPC assessed that further reforms are needed to increase the effectiveness of monetary policy. The MPC reviewed Kenya's unique experiences, the diverse experiences of a wide range of countries, the insights from the IMF's Technical Assistance from and international best practice. Analysis of these inputs formed the basis of identifying the areas that need further reforms. These reforms mainly relate to the monetary policy decision process, monetary policy transmission and implementation as well as communication. Specifically, the reforms will focus on: refining macroeconomic modelling and forecasting frameworks in line with changing structure of the economy; improving functioning of the interbank market in order to strengthen monetary policy transmission and operations; and continued improvement of the public understanding on monetary policy decisions.

These reforms will support better anchoring of inflation expectations in view of the changing economic and financial environment, and complement the positive gains made so far. The MPC is fully committed to further enhancing monetary policy effectiveness and aligning it to the new economic and financial realities.

CENTRAL BANK OF KENYA

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