

From Land
by Leader of
Majimbo

**ELEVENTH
BI-ANNUAL REPORT OF THE
MONETARY POLICY COMMITTEE**

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Central Bank of Kenya

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OCTOBER 2013

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**LETTER OF TRANSMITTAL TO THE CABINET SECRETARY FOR
THE NATIONAL TREASURY**

Honourable Cabinet Secretary,

I have the pleasure of forwarding to you the eleventh bi-annual Monetary Policy Committee (MPC) Report in accordance with section 4D (6) of the Central Bank of Kenya Act. The Report outlines the monetary policy formulation, developments in key interest rates, exchange rates and inflation and other activities of the Committee in the six months to October 2013. Copies of MPC Press Statements and the Minutes of all the Meetings of the MPC between May 2013 and October 2013 are attached to the Report for your information.



**Prof. Njuguna Ndung'u, CBS
Governor, Central Bank of Kenya**

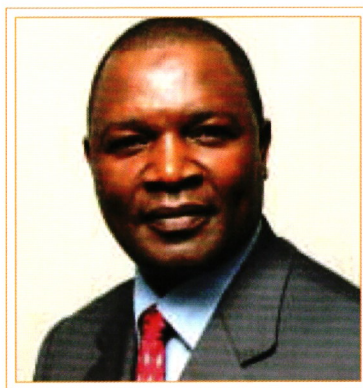
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By order of
majority
On Tuesday
14/10/2014

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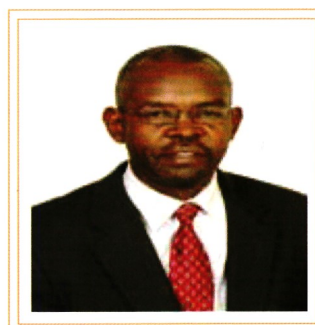
MEMBERS OF THE MONETARY POLICY COMMITTEE



Prof. Njuguna Ndung'u (CBS)
Governor, Chairman



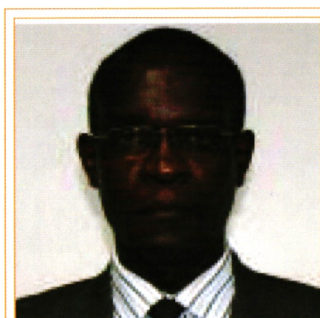
Dr. Haron Sirima (OGW)
Deputy Governor, Vice-Chairman



Dr. Kamau Thugge (EBS)
PS, National Treasury
Treasury Representative



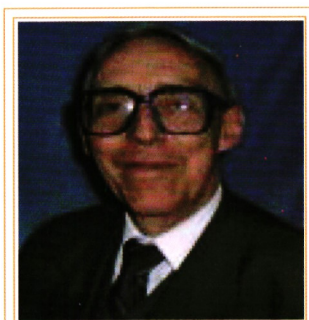
Mrs. Sheila S.M.R M'Mbijewe
Member



Mr. Charles G. Koori
Member



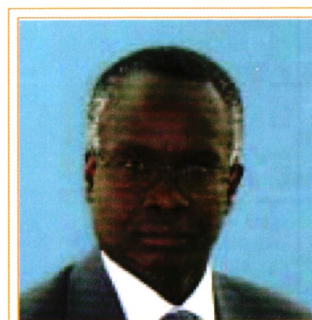
Prof. Francis Mwega
Member



Prof. Terry C. I. Ryan
Member



Mrs. Farida Abdul
Member



Mr. John Birech
Member

EXECUTIVE SUMMARY

The eleventh bi-annual Report of the Monetary Policy Committee (MPC) reviews Kenya's monetary policy formulation and economic developments during the six months to October 2013. Monetary policy operations during the period were aimed at maintaining inflation within the allowable margin of 2.5 percent on either side of the Government's medium-term target of 5 percent in the Fiscal Year 2013/14. This is consistent with the price stability objective of the Central Bank of Kenya (CBK).

The monetary policy measures adopted by the MPC contributed to a stable inflation rate which for five months remained within the target bounds in the period. A notable rise in food prices in September 2013 due to seasonal factors as well as unscrupulous traders imposing VAT on non VAT-able food items drove overall inflation above the upper target bound in that month. However, overall inflation declined from 8.39 percent in September to 7.76 percent in October 2013 as the Government moved to ensure that the application of the new VAT law was consistent with the targeted items. Notably, the new VAT measures had a one-off impact on inflation while inflationary expectations did not change relative to the pre-VAT Act period. Despite these developments, the 12-month non-food-non-fuel inflation, which measures the impact of monetary policy, remained stable within the target bounds during the period indicating relatively low demand pressures in the economy.

The MPC continued with its gradual easing of the monetary policy stance in the six months to October 2013 following a decline in the risks to the inflation outlook, coupled with stability in the exchange rate. The MPC reduced the Central Bank Rate (CBR) from 9.50 percent to 8.50 percent in May 2013 to provide policy space for the private sector to support economic recovery. The CBR was then retained at 8.50 percent for the rest of the period in order to anchor any inflationary expectations in the economy. The effectiveness of the monetary policy transmission mechanism has been enhanced by the improved signalling effect of the CBR.

Exchange rate stability dampened the threat of imported inflation during the period. This exchange rate stability was supported by resilient inflows of diaspora remittances, the Central Bank liquidity management, increased foreign investor participation in equity at the Nairobi Securities Exchange and confidence by the market following a build-up in the CBK official foreign exchange reserves. The CBK usable foreign exchange reserves stood at USD 5,868.86 million (equivalent to 4.11 months of import cover) by end of October