BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

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TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS

FURTHER TIGHTENING OF MONETARY POLICY STANCE VIA ACTIVE LIQUIDITY MANAGEMENT TO REIN IN INFLATIONARY EXPECTATIONS

The principal objective of monetary policy is to achieve and maintain stability of the general price level. Over the last three months, the Central Bank of Kenya (CBK) has been implementing a tight monetary policy stance to rein in inflation and curb inflationary expectations as well as stabilising the exchange rate. The CBK has also been reviewing the use of alternative tools to further enhance the effectiveness of its monetary policy. However, inflationary expectations have given rise to some persistent instability which requires immediate action through robust liquidity management. Furthermore, there is need to minimise arbitrage activities in the interbank market. The CBK has therefore revised the rules that guide the operations of the CBK Discount Window.

Up until now, the Central Bank Rate (CBR) which is the minimum interest rate charged on loans to commercial banks has been the operative rate through the CBK Overnight Discount Window. This will cease forthwith. Henceforth, the operational interest rate for the CBK Discount Window will be reviewed from time to time and posted on the CBK website on a daily basis by 9.00 am. In this regard, with immediate effect, the initial accommodation through the CBK Discount Window will be 8.00 percent. In addition, use of funds from the CBK Overnight Window to trade in the interbank market or for trading in foreign exchange is not allowed and stiff penalties will be imposed on banks that engage in these activities.

These measures will be implemented by the CBK with immediate effect. This further tightening of the monetary policy stance will curtail second round effects arising from fuel and maize prices and exchange rate volatility that have been fueling inflationary expectations.

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