ELEVENTH BI-ANNUAL REPORT OF THE MONETARY POLICY COMMITTEE

BANKI KUU YA KENYA

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Enquiries concerning the Report should be addressed to:

Monetary Policy Committee Secretariat,
Central Bank of Kenya,
P.O. Box 60000-00200 Nairobi, KENYA

also available on http://www.centralbank.go.ke

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.

Paper laid By Leader of Majority on Tuesday 17/6/2014

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

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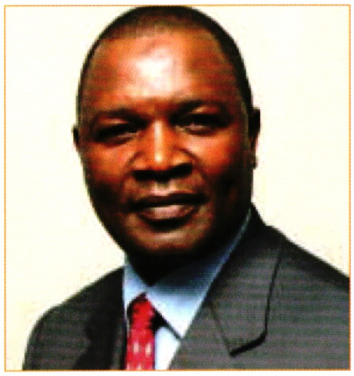
MEMBERS OF THE MONETARY POLICY COMMITTEE



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

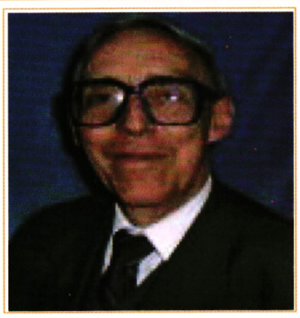
Dr. Haron Sirima (OGW)
Deputy Governor, Vice-Chairman

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

Mrs. Sheila S.M.R M'Mbijjewe
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

2013. The resilience of the economy to shocks was demonstrated in August and September 2013 during the fire at the Jomo Kenyatta International airport and the terrorist attack at the Westgate mall, respectively. Exchange rate stability was maintained after these incidences, an indication of sustained confidence in the economy.

The MPC continued with its regular interactions with stakeholders in the financial sector and timely release of relevant data during the period. This continued to enhance the effectiveness and transparency of monetary policy formulation and implementation. However, the slow recovery of the global economy characterized by the continued recession in the Eurozone remained the main risks to the macroeconomic outlook during the period. The MPC remains vigilant to these risks and their likely impacts to domestic prices.

1. INTRODUCTION

The eleventh bi-annual Report of the MPC covers the period May to October 2013. The Report provides an update on macroeconomic developments and the impact of the monetary policy measures adopted by the CBK in pursuit of its price stability objective.

Monetary policy measures and stable international oil prices continued to support both a stable inflation rate and exchange rate during the six months to October 2013. However, overall inflation maintained a gradual upward trajectory in May through September 2013 attributed to seasonal factors affecting food prices as well as a base effect. The threat of imported inflation was however dampened by a stable exchange rate during the period. In addition, the 12-month cumulative current account deficit (as percentage of GDP) improved from 10.30 percent in April 2013 to an estimated level of 8.4 percent by October 2013. This was attributed to a slowdown in the import bill coupled with net receipts from services. The composition of imports continued to be dominated by capital goods such as machinery and transport equipment that are essential for enhancing the future productive capacity of the economy.

On the international scene, the global economic recovery remained fragile and the recession in the Eurozone slowed down export earnings from tourism. The US Dollar remained a stronger currency globally as it was perceived as safer by investors. Reflecting a stronger US Dollar, several emerging market currencies and those in the region, including the Kenya Shilling, weakened against the US Dollar. In addition, the disturbances in the Middle East and North Africa (MENA) region affected the marketing of tea exports and the price of oil. Despite these developments, the monetary policy measures adopted by the CBK sustained a credible exchange rate stability during the period. Exchange rate stability was also sustained despite the fire at the Jomo Kenyatta International airport in August 2013 which temporarily disrupted tourism activities, and the terrorist attack at the Westgate mall in September 2013. This is an indication of the resilience of the economy to shocks and sustained confidence.

The remainder of this Report is structured as follows. Section 2 provides highlights of the monetary policy formulation in response to threats to price stability during the period while Section 3 provides a discussion of outcomes on key economic indicators. Other activities of the MPC with relevance to monetary policy formulation and implementation are discussed in Section 4 while Section 5 concludes.

2. MONETARY POLICY FORMULATION

2.1 Attainment of Monetary Policy Objectives and Targets

The MPC formulated monetary policy to achieve and maintain overall inflation within the target bounds set by the Cabinet Secretary for the National Treasury on an annual basis. The Government medium-term overall inflation target is 5 percent for the Fiscal Year 2013/14 with an allowable margin of 2.5 percent on either side.

The CBR remained the base for monetary policy operations and continued to guide movements in short-term interest rates in the period. The movement in the CBR, both in direction and magnitude, signals the monetary policy stance. The monetary policy stance is operationalised through various instruments. These include Open Market Operations (OMO), changes in cash reserve requirements at CBK, foreign exchange market transactions, and the CBK Standing Facility – the CBK Overnight Discount Window when it acts as lender of last resort.

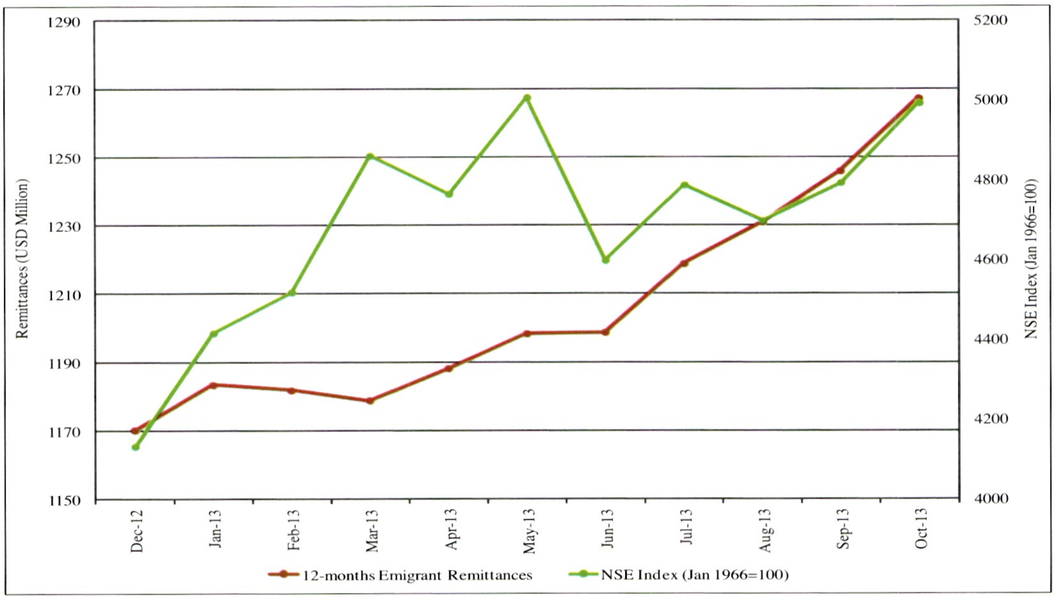
The MPC continued to pursue the monetary programme that was in line with the targets outlined in the Extended Credit Facility (ECF) where the Net International Reserves (NIR) and Net Domestic Assets (NDA) are the quantitative performance criteria measures. The CBK met the NDA and NIR targets for June 2013 and September 2013 and remained on course with respect to the December 2013 targets. By end October 30, 2013, the NDA averaged Ksh -108.9 billion compared to the target ceiling of Ksh -10.0 billion while the NIR averaged USD 4,941.5 million against a target floor of USD 4,450 million. The annual growth rates of broad money supply (M3) and its dominant source – private sector credit – were also within acceptable margins of the projected path in October 2013.

2.2 Economic Environment

During the six months to October 2013, the economic environment was characterized by general stability of key macroeconomic indicators. This was supported by the prudent monetary policy stance reflected in a stable exchange rate and non-inflationary growth in private sector credit distributed across key sectors of the economy. The non-food-non-fuel inflation, which is influenced by the monetary stance, remained within the allowable margin of the Government's medium-term target. This was supported by an examination of inflation measured on non-tradable goods and services. However, overall month-on-month inflation increased in the review period reflecting an increase in food prices coupled with the impact of the base effect attributed to the decline in the Consumer Price Index in mid-2012 and the one-off effect of the implementation of the VAT Act in September 2013. The food price index increased from 154.4 in April 2013 to 159.5 in October 2013.

However, the exchange rate remained stable over the period supported by foreign exchange inflows on account of improved investor confidence following successful conclusion of elections in March 2013, and the Central Bank liquidity management. Improved investor confidence in the economy is collaborated by the World Bank Country Policy and Institutional Assessment rating undertaken in June 2013 that places Kenya as one of the top two countries in Sub-Saharan Africa. The planned issuance of a Sovereign Bond in the Fiscal Year 2013/14 will further endorse the confidence in the economy. In addition, the NSE-20 index remained buoyant with increased foreign investor participation. In addition, the Diaspora remittances have remained resilient, averaging above USD107 million per month since May 2013 (Chart 1a).

Chart 1a: 12-months Cumulative Diaspora Remittances (USD Million) and NSE Index (Jan 1966=100)



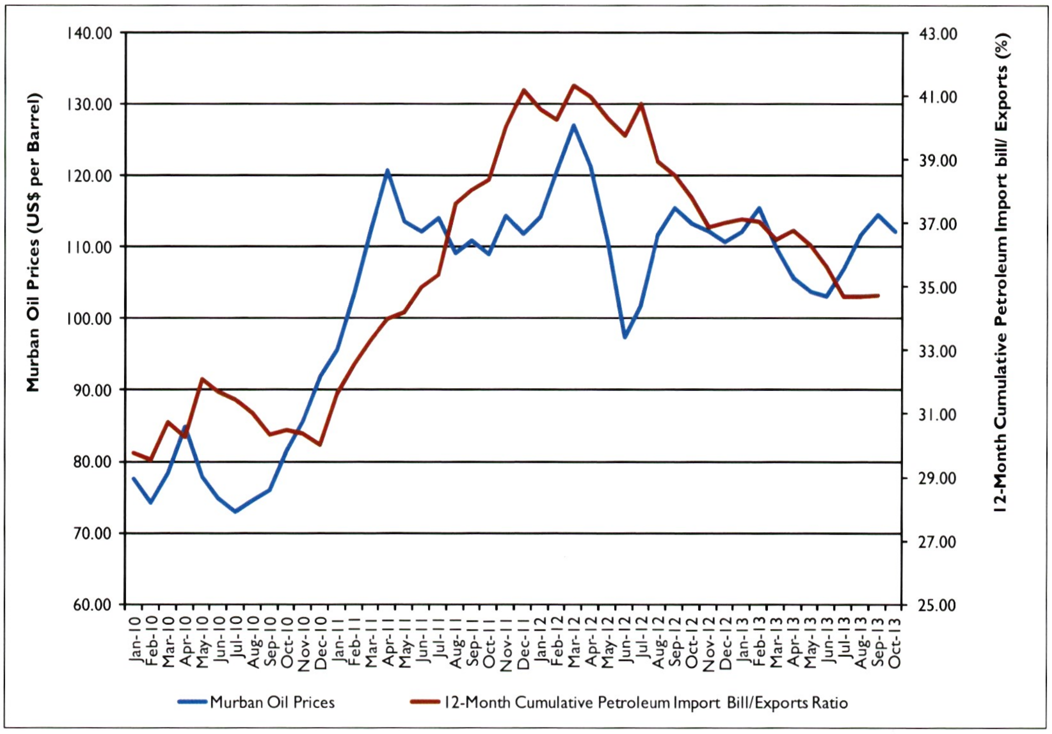
Source: *Central Bank of Kenya*

Improved liquidity conditions observed since adoption of a gradual easing of monetary policy in July 2012 was sustained in the six month to October 2013. This was supported by higher redemptions of Government securities relative to new issues towards the end of Fiscal Year 2012/13.

However, volatile international crude oil prices, instability in the Eurozone and the MENA region continued to pose risks to macroeconomic stability. Disturbances in the MENA region affected the price of oil and tea exports, and with subsequent implications on the balance of payments and inflation. Murban crude oil prices declined from USD 105.7 per barrel in April 2013 to USD 103.0 per barrel in June 2013 but rose to USD 114.5 per barrel in September

2013. It eased slightly to USD 112.5 in October 2013. Consequently, the percentage of export earnings that were spent on petroleum product imports stabilised at about 35.2 percent in the period compared with about 36.9 percent in the previous period (Chart 1b).

Chart 1b: Murban Oil Prices and Ratio of 12-Month Cumulative Petroleum Import Bill/Total Exports (%)



Source: *Central Bank of Kenya*

2.3 Monetary Policy Committee Decisions

A gradual easing of the monetary policy stance was adopted by the MPC in July 2012. The MPC remained vigilant to developments in the domestic and international markets and took appropriate measures to sustain price stability. Sustained OMO was undertaken to ensure stability in the interbank market and that of short-term interest rates.

Since the monetary policy measures continued to deliver the desired results, the MPC reduced the CBR by 100 basis points to 8.50 percent on 7th May 2013 to consolidate gains from the monetary policy measures previously implemented. The reduction in CBR was to provide policy space for the private sector to support the programmed economic recovery. The monetary policy measures adopted continued to support a low and stable inflation as well as exchange rate stability. The month-on-month overall inflation and the non-food-non-fuel inflation were generally within the Government target bounds. However, overall inflation exceeded the target bound in September and October 2013 largely due to the impact of an increase in food inflation. The MPC retained the CBR at 8.50 percent on 9th July and 3rd September 2013 in order to anchor inflationary expectations. The reductions in the CBR in the previous period supported a non-inflationary growth in credit to the private sector.

The Government domestic borrowing plan ensured that Government borrowing did not crowd-out private sector credit growth through an increase in interest rates on Government securities. The borrowing plan was also consistent with the thresholds set in the Medium Term Debt Management Strategy for domestic debt.

The stability in the foreign exchange market during the six months to October 2013 prompted commercial banks to sell foreign exchange to the CBK. This contributed to the build-up in official usable foreign exchange reserves which bolstered the Bank's capacity to respond to shocks in the market. Consequently, interventions through foreign exchange sales by CBK complemented other liquidity management measures in stabilizing the exchange rate and managing expectations over the period covered by this Report.

3. OUTCOMES ON KEY ECONOMIC INDICATORS

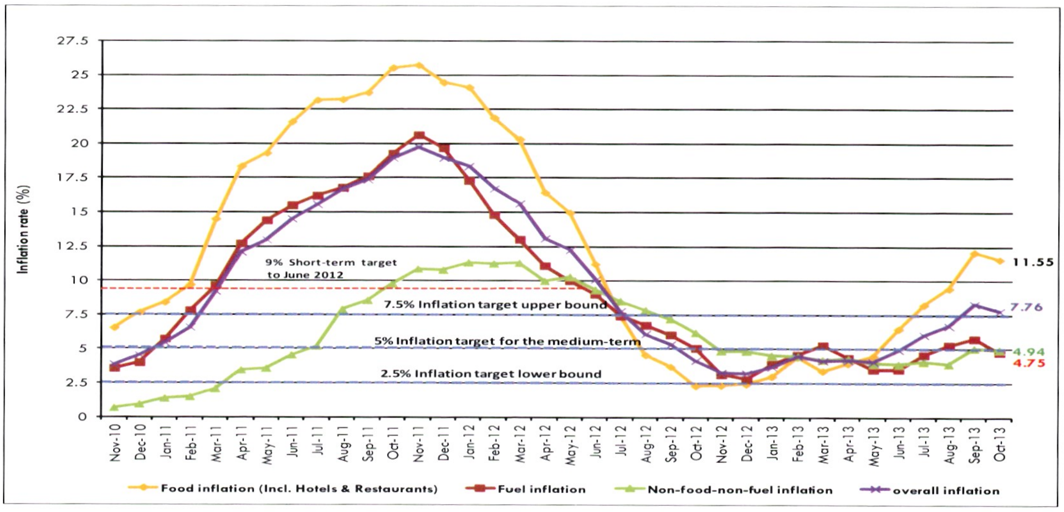
3.1 Inflation

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 (Chart 2a). The 12-month overall inflation exceeded the 7.5 percent upper bound of the Government medium term target of 5 percent for the Fiscal Year 2013/14 in September and October 2013.

However, overall inflation declined from 8.39 percent in September to 7.76 in October 2013 reflecting the impact of monetary policy measures coupled with the move by the Government to ensure that the application of the new VAT law was consistent with the targeted items. The new VAT measures had a one-off impact on inflation while inflationary expectations did not change relative to the pre-VAT Act period. 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 fact that implementation of the VAT Act had a one off effect on inflation in September 2013 is evident in Chart 2b with the decline in the 1-month annualized inflation measure to -0.63 percent in October 2013. This implies that the inflationary expectations had not changed relative to the pre-VAT Act period.

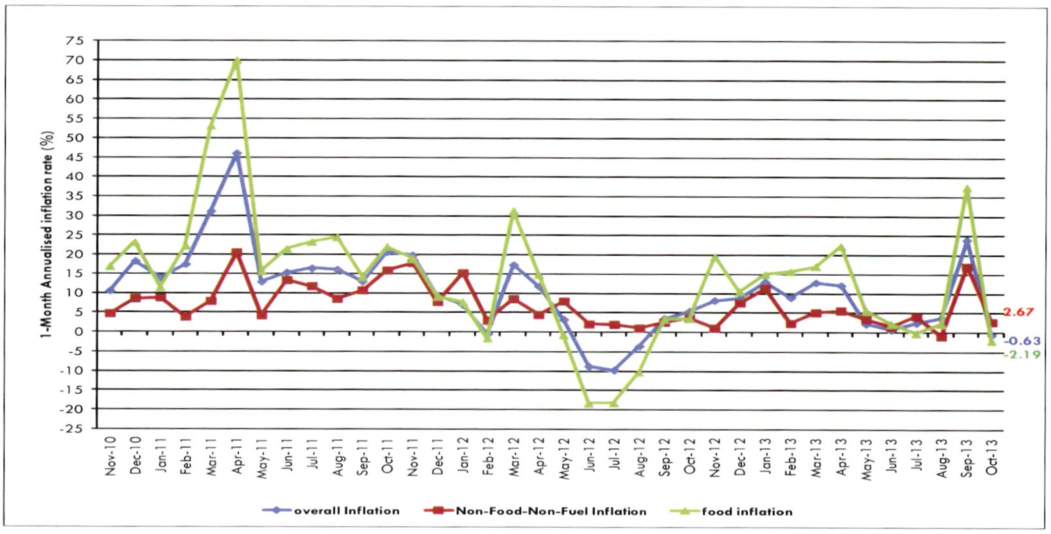
These developments supported a low and stable outlook for inflation. However, as mentioned above, volatility in crude oil prices, higher world food prices, and the instability in the Eurozone working through the exchange rate, remained the main risks to the inflation outlook.

Chart 2a: 12-Month Inflation in Broad Categories (%)



***Source**: Kenya National Bureau of Statistics and CBK*

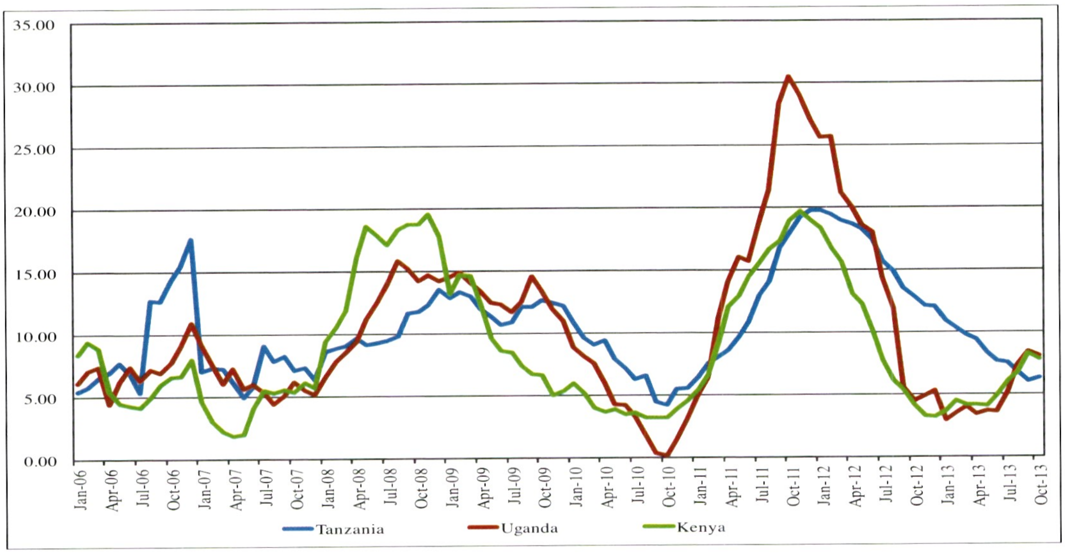
Chart 2b: 1-Month Annualised Inflation Measures (%)



***Source**: Kenya National Bureau of Statistics and CBK*

On the regional front, the trends in inflation rates in Uganda and Tanzania show a significant similarity to Kenya (Chart2c). Inflation picked up in June through September 2013 in Kenya and Uganda but continued to decelerate in Tanzania. However, while inflation declined in October 2013 for Kenya and Uganda it increased in Tanzania. These trends reflect a common experience in food and energy prices.

Chart 2c: 12-Month Inflation in the Selected EAC Countries (%)



***Source**: Websites of respective Central Banks*

3.2 Interest Rates

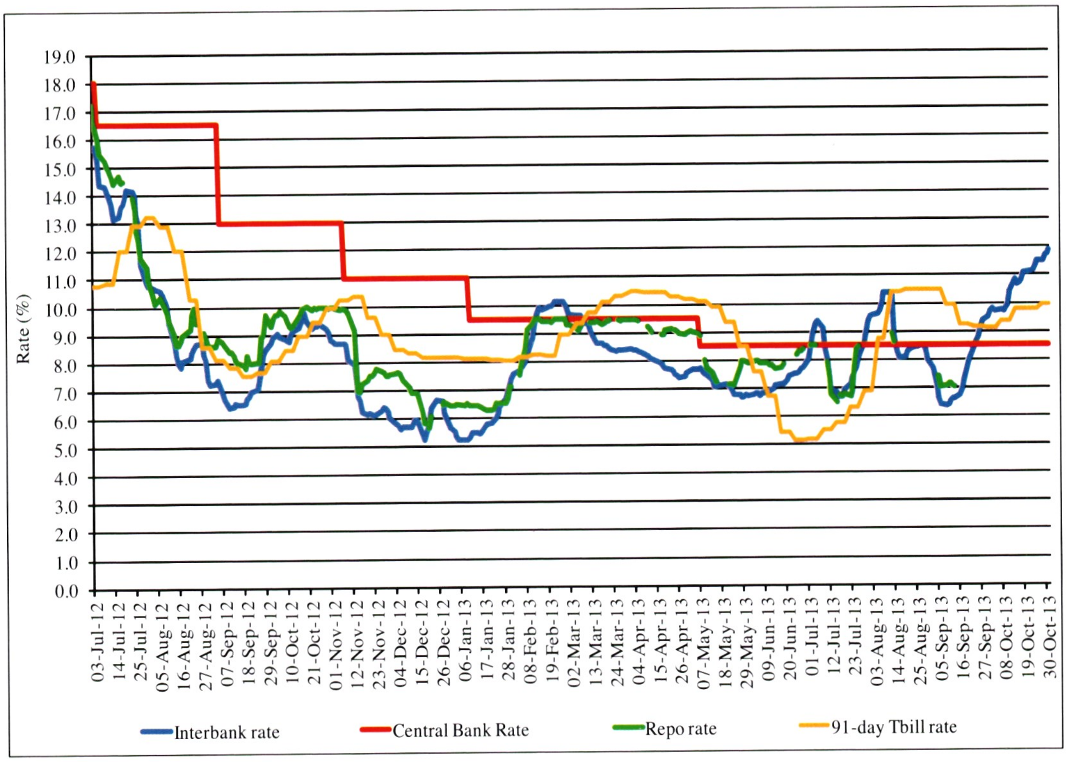
3.2.1 Short-Term Interest Rates

Movements in short-term rates were aligned to the CBR during the review period. In May and June 2013, money market liquidity improved supported by net redemptions of Government securities as the supply of government securities was reduced after realization of the borrowing programme for the Fiscal Year 2012/13. To address the threat posed by excess liquidity in the market, the Bank enhanced OMO activity to stabilise the interbank rate (Chart 3).

However, liquidity conditions tightened in July and August 2013 owing to accumulation of Government deposits at the Central Bank as the payments structures for the newly constituted and leaner Government was being set up. The resultant pressure on interbank rates were moderated by the CBK redeeming outstanding Repo securities held by commercial banks and providing Reverse Repos which rapidly reversed the upward trend in the second week of August 2013. In the remainder of the review period, liquidity conditions improved albeit challenges remained due to the skewed distribution of liquidity in the interbank market.

The CBK is therefore working with stakeholders in the banking sector to enhance the use of Horizontal Repos, as well as developing other mechanisms for redistributing liquidity.

Chart 3: Trends in Daily Short Term Interest Rates (%)



***Source**: Central Bank of Kenya*

3.2.2 Commercial Banks' Interest Rates and Spreads

Commercial banks' average lending interest rates declined from 16.77 percent in April 2013 to 16.32 percent in September 2013 while average deposit rates declined slightly from 6.74 percent to 6.45 percent in the period. The decline in commercial banks' average interest rates was consistent with the reduction of the CBR, and reflected improved liquidity conditions in the market. As a result, the average spread between the lending and deposit rates declined from 10.03 percent to 9.87 percent in the period. Interest rate spreads declined slightly across all bank categories in the period covered by this Report. By September 2013, small banks had the lowest average spread at 9.55 percent, followed by medium sized banks at 9.57 percent, and large banks at 12.0 percent.

The CBK continued to work with the Kenya Bankers Association (KBA) to implement various initiatives to reduce the cost of doing business in the banking sector. These initiatives include allowing banks to use mobile phone financial platforms that leverage on technology development to reduce transaction costs, cheque truncation to T+1 which ensures that cheques are cleared within one day of delivery of the cheque to the bank, adoption of the Agency Banking framework, and operationalisation of Credit Reference Bureaus which have reduced the costs of information search and risk profiling process. In addition, opening of

Currency Centres across the country has reduced costs associated with transporting cash.

The ongoing initiatives to enhance the role of the capital markets as a source of long-term finance will ease further the pressure on lending rates by providing an alternative source of finance to that provided by banks. As part of moral suasion, the CBK has also continued to engage the Chief Executive Officers of commercial banks through the KBA on this issue through bi-monthly forums.

3.3 Exchange Rates

The foreign exchange market remained stable during the six months to October 2013 reflecting the impact of monetary policy measures in place (Chart 4a). The exchange rate of the Kenya Shilling against the US Dollar fluctuated within a range of between Ksh 83.72 and Ksh 87.70 per US dollar over the period compared with a range of between Ksh 83.77 and Ksh 87.63 per US dollar in the six months to April 2013.

The stability of the Kenya Shilling to US Dollar during the period was also supported by resilient inflows of diaspora remittances that averaged USD 107 million per month during the period, the Central Bank liquidity management and increased foreign investor participation in equity at the Nairobi Securities Exchange. Positive market sentiment, build-up of foreign exchange reserves and increased investor confidence in the economy after the elections in March 2013 also buoyed the Kenya Shilling during the period. However, the exchange rate of the Kenya Shilling against the Sterling Pound and the Euro in the period reflected the volatility of currency moves in Europe. Interbank purchases of foreign exchange amounted to USD 381.0 million between May 2013 and October 2013 which fully compensated for the foreign exchange sales in May 2013 and July 2013.

The Kenya Shilling remained stable against the currencies of the major East African Community countries but strengthened significantly against the South African Rand during the period. The Rand has weakened substantially against the US Dollar reflecting the strong trade links between South Africa and the turbulent Eurozone, the impact of the labour crisis in the mining sector, and the gradual recovery of the US economy. The movements in the Uganda and Tanzania Shilling against the US dollars mirrors the Kenya Shilling. The exchanges rates have remained relatively stable since January 2012.

It is noteworthy that US Dollar related shocks in October 2008, July 2010 and July to October 2011 were all experienced in a similar way by the East African economies (Chart 4b).

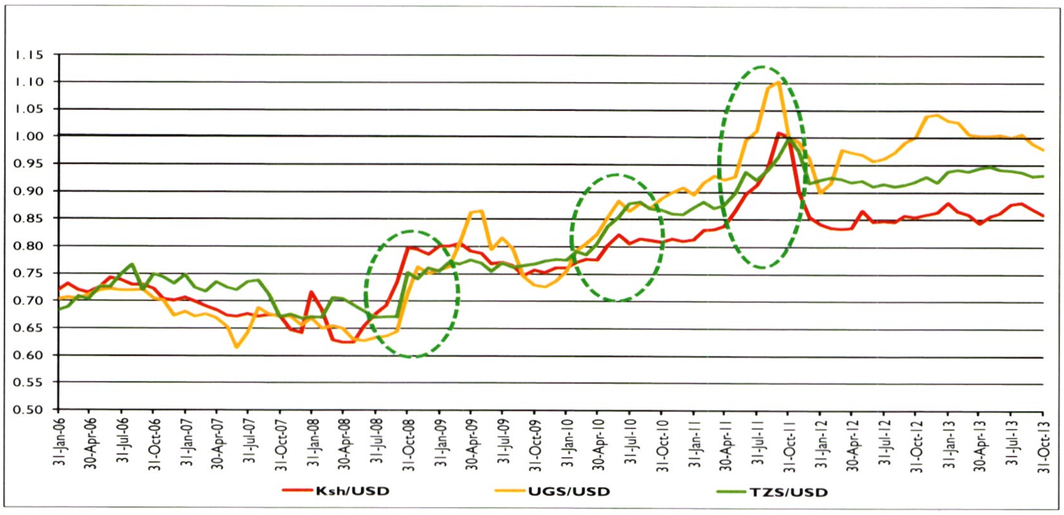
The resilient diaspora remittance inflows, expectations for increased foreign direct investment with increased investor confidence in the economy and enhanced marketing abroad on available investment opportunities in Kenya by the Government, improved current account deficit to within a sustainable range and the prudent monetary policy stance support a stable outlook for the exchange rate.

However, as indicated, the main risks to exchange rate stability and foreign exchange reserves remain the fragile global economic recovery and recession in the Eurozone that has slowed exports earnings from tourism and trade during the period.

Chart 4a: Normalised Exchange Rates of the Kenya Shilling Against Major Currencies (2nd January, 2013 = 1)

***Source**: Computations based on data from Central Bank of Kenya*

Chart 4b: Normalised Exchange Rates of Major Currencies in the Region against the US Dollar (31st October, 2013 = 1)



***Source:** Computations based on data from websites of the respective Central Banks*

The 12-month cumulative current account deficit (as percentage of GDP) improved from 10.30 percent in April 2013 to an estimated level of 8.4 percent by October 2013. The improvement in current account is attributed to slowdown in the import bill coupled net receipts from services. As a result, the proportion of imports of goods and services financed by exports of goods and services increased to 64 percent in September 2013 from an average of about 61 in the six months to April 2013, (Chart 5). Nonetheless, imports of machinery and other equipment continued to account for a higher proportion of the import bill at about 27 percent during the review period. These are essential for enhancing future productive capacity of the economy.

Chart 5: Increasing Trend in Exports/Imports of Goods and Services (%)

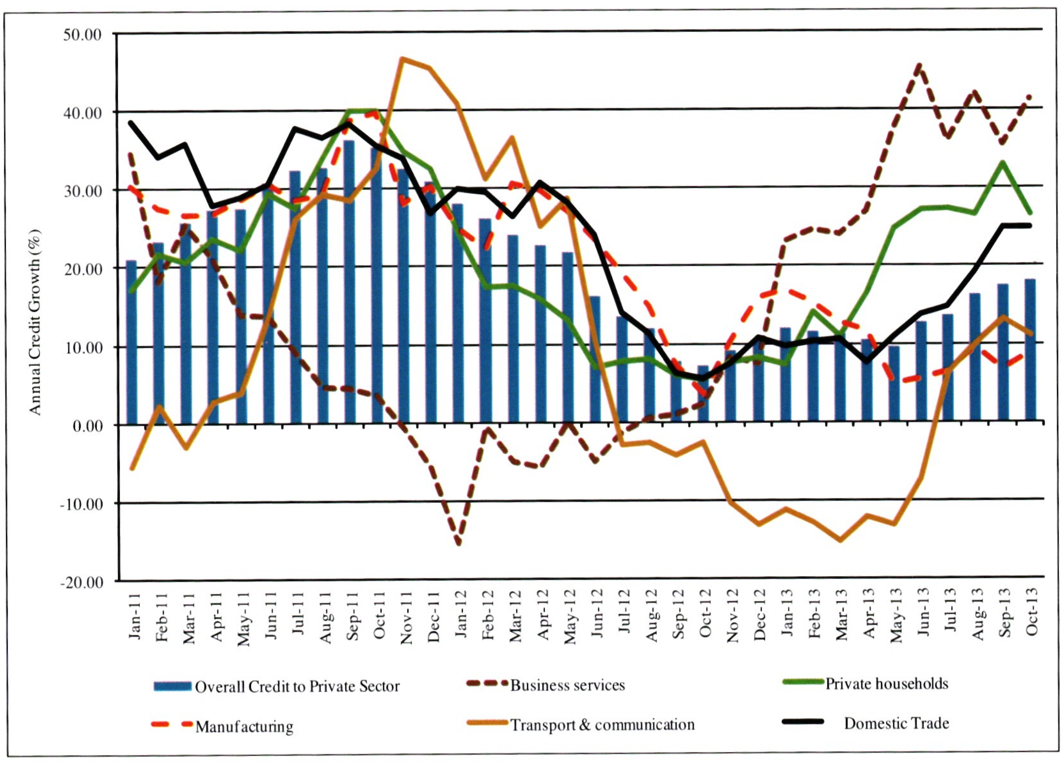
***Source:** Central Bank of Kenya*

3.4 Credit to Private Sector

During the period covered by this Report, private sector credit growth picked up in response to the gradual easing of monetary policy stance and improved investor confidence in the economy after the March 2013 election (Chart 6). Annual growth in overall private sector credit rose from 10.52 percent in April 2013 to 17.99 percent in October 2013, and was largely consistent with the projected growth path. The private sector credit growth through October 2013 supported business services, private households, domestic trade financing, transport and equipment, and manufacturing. Credit to these sectors grew, on an annual basis, by 41.29 percent, 26.48 percent, 24.88 percent, 11.05 percent and 8.76 percent, respectively.

Similarly, financing to real estate and building and construction increased by 16.56 percent and 11.81 percent, respectively in the year to October 2013. The monetary policy stance adopted by the MPC during the period is expected to support a non-inflationary credit expansion to the key sectors of the economy in the remainder of 2013 following a pick-up in economic activity and improved investor confidence in the economy.

Chart 6: Annual Growth in Private Sector Credit (%)



Source: *Central Bank of Kenya*

4. OTHER ACTIVITIES OF THE MONETARY POLICY COMMITTEE

In the six months to October 2013, the MPC continued to hold stakeholder forums with Chief Executive Officers of commercial banks through the KBA Governing Council. The Committee also continued to improve on the information gathering processes through the bi-monthly Market Perception Surveys and communication with key stakeholders on the MPC decisions to obtain feedback. The MPC worked with CBK staff to complete various research studies during the period. It initiated research papers that were targeted at providing insights in topical areas relevant for the formulation and implementation of monetary policy. The MPC has also been working with the CBK to develop articles on topical issues which were uploaded on the CBK website.

The MPC also continued to improve on its Press Releases by enhancing their clarity and making them better focused to the public, media, financial sector and other stakeholders. As part of enhancing its capacity, MPC members participated in various conferences locally over the period covered by this Report. The conferences enable MPC members to share their experiences with other policy experts on critical challenges underlying monetary policy effectiveness in developing countries under different monetary policy frameworks and facing different macroeconomic shocks.

5. CONCLUSION

The monetary policy measures adopted by the CBK during the six months to October 2013 contributed to the stable outcome on inflation as well as the exchange rate. The MPC has continued to monitor developments in the domestic and global economy that could have either direct or indirect impact on the economy, while recommending, where necessary, the appropriate monetary policy measures to be taken.

The CBK is working with the Kenya National Bureau of Statistics and the IMF to improve the quality of balance of payment data. This will enhance the analysis of the external sector data and its implications on the economy.

APPENDIX: CHRONOLOGY OF EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (MAY - OCTOBER 2013)

Date	Events
May 2013	a) The MPC reduced the CBR by 100 basis points to 8.50 percent to consolidate gains from monetary policy measures implemented. This was targeted at increasing the uptake of private sector credit and re-aligning interest rates in the economy.
	b) The CBK purchased a net of USD 191 million from the market to build its foreign exchange reserves following stability in exchange rate market.
June 2013	a) Political disturbances in Egypt and South Sudan
	b) Announcements of commercial viability of Kenya's oil discoveries
July 2013	a) The CBK sold a net of USD 48 million in line with the CBK's exchange rate policy.
August 2013	a) The CBK purchased USD 35 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
	b) Introduction of T+1 cheque clearing system allowing cheques to be cleared and the money accessed within one day.
September 2013	The CBK purchased USD 122 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.
October 2013	The CBK purchased USD 5 million offered by the market to build its foreign exchange reserves following stability in exchange rate market.

GLOSSARY OF KEY TERMS

Overall Inflation: This is a measure of inflation in the economy measured by the month-on-month movement of indices of all consumer price items of goods and services sampled by the KNBS. It is affected by commodity components in the market that may experience sudden inflationary spikes such as food or energy.

Reserve Money: These are CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and non-bank financial institutions held with the CBK. However, it excludes Government deposits.

Money Supply: Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are defined as follows:

M1 Currency outside banking system + demand deposits

M2 M1 + time and savings deposits + certificates of deposits + deposit Liabilities of Non-Bank Financial Institutions (NBFIs)

M3 M2 + residents' foreign currency deposits

Central Bank Rate (CBR): This is the lowest rate of interest that the CBK charges on overnight loans to commercial banks. It is reviewed and announced by the Monetary Policy Committee at least every two months as part of its decisions. It is used by the commercial banks as a reference interest rate hence transmits to the financial sector and signals the CBK's monetary policy stance.

Cash Ratio Requirement (CRR): This is the ratio of total deposit liabilities of commercial banks and non-bank financial institutions maintained with the CBK as reserves. The ratio is fixed by CBK as provided for by the law.

CBK Discount Window: The CBK Discount Window is a collateralised facility of last resort for banks. It has restrictive guidelines controlling access. The Discount Window plays a significant role in ensuring banking sector stability by offering overnight liquidity as a last resort. It is anchored on the CBR.

Open Market Operations (OMO) : The act of buying or selling of government securities from or to commercial banks by the Central Bank in order to achieve a desired level of bank reserves. OMO is carried out in the context of an auction where commercial banks bid through the Reuters dealing system or by phone/ fax.

Repurchase Agreement (Repo): Repos/reverse repos are agreements between the CBK and commercial banks to purchase/sell Government securities from/ to commercial banks at agreed interest rates (REPO rate) for a specified period with an understanding that the commercial bank will repurchase/resell the security from/to the CBK at the end of the period. The period can be limited by the CBK.

Horizontal Repo: This is an interbank Repo instrument which recognises Government securities as collateral for borrowing. The instrument has a variable tenor and allows commercial banks without credit lines with other banks to access credit from the interbank market.

Interbank Market: The interbank market is a critical channel for distributing liquidity that reduces the need for banks to access the CBK Overnight Discount Window. However, since not all banks have credit lines with each other, it is not a perfectly operating market and therefore banks come to the Window as a last resort. The interest rates charged by banks reflect an individual bank's perception of the risk of the particular bank borrower and also the tightening liquidity in the market.