



PRESS STATEMENT
RECENT DEVELOPMENTS IN THE SHILLING EXCHANGE RATE

1. Good morning Ladies and Gentlemen.
2. I have called this Press Briefing to update the public on developments in the Kenya shilling exchange rate following the measures recently taken by the Government and the Central Bank to contain inflation and stabilize the exchange rate. You will recall I did promise that we will be regularly informing the public about the recent developments in our economy and in particular in the shilling exchange rate.
3. Let me recap the key measures we have taken in the last two weeks or so to restore macro-economic stability. These measures include: (i) raising the policy interest rate by 400 basis points to 11 percent; (ii) reduction of foreign exchange exposure limit of commercial banks from 20% to 10%; and (iii) other administrative actions taken by the Central Bank to streamline trading in foreign exchange.
4. Since the last briefing on October 13, 2011, the CBK has intensified operations in the money market with a view to withdrawing excess liquidity from the banking system that has fuelled growth in bank credit to the private sector. The CBK has also been active in the foreign exchange market to support any genuine demand for foreign exchange, while at the same time withdrawing liquidity in the system.
5. I am pleased to inform you that these measures have begun to yield dividends. The shilling exchange rate moved from Ksh 107 to the US dollar on October 12, 2011 to trade, for most of the past one week, slightly below Ksh 100 mark at around Ksh 99 to the US dollar. The CBK will continue to monitor closely and to hold regular consultations with commercial banks with a view to identifying early enough emerging issues and take corrective measures.
6. I wish also to indicate that availability of foreign exchange for trading in the interbank market has improved with the commercial banks observing the new foreign exchange exposure limit of 10 per cent with respect to inflation we remain hopeful that when the CPI numbers are released next week, the rate will have begun to edge downwards.
7. As you will recall when I briefed you on October 13, 2011, I indicated that an IMF mission was in the country to review the progress we have made in implementing the GoK economic programme that is supported by the IMF Extended Credit Facility (ECF). We are now in the process of concluding our discussions on the review of this economic programme; and GoK request for additional support to cushion our balance of payments. Successful completion of the review will increase our access of the IMF resources under the current Extended Credit Facility (ECF) from about US\$ 500 million to US\$ 750 million (equivalent to Ksh 75 billion at current exchange rate) over the next two years.
8. At the same Press briefing that I have referred to, I indicated that the Central Bank was taking steps to enhance capacity in monetary policy management, particularly in the monetary policy operations function. I wish, therefore, to announce that to further enhance the Bank's capacity, His

Excellency the President, Hon. Mwai Kibaki, has appointed Dr. Haron Sirima as the new Deputy Governor of the Bank with immediate effect.

9. Dr. Sirima has wide and practical experience in central banking operations and in public financial management, having worked at the CBK since 1986, before being seconded to the Treasury in 2004 until this appointment. We expect that Dr. Sirima will provide operational support to the Governor in ensuring effective implementation of measures to address the twin challenges of inflation and volatility in the Kenya Shilling exchange rate.

10. Once again, Ladies and Gentlemen, let me take this opportunity to reaffirm the Government's total commitment to restore macro-economic stability. The ongoing short rains in the country and the decline in international oil prices are good news that we expect to change the country's economic landscape. Nonetheless, we will remain vigilant and ready to take additional measures to stem any inflationary pressures and instability in the foreign exchange market.

Thank You.

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DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE

October 26, 2011