

Anchoring a Stable Monetary and Financial Outlook

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Kenya: Ready to take off
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Kenya shows that monetary transmission works in low-income countries

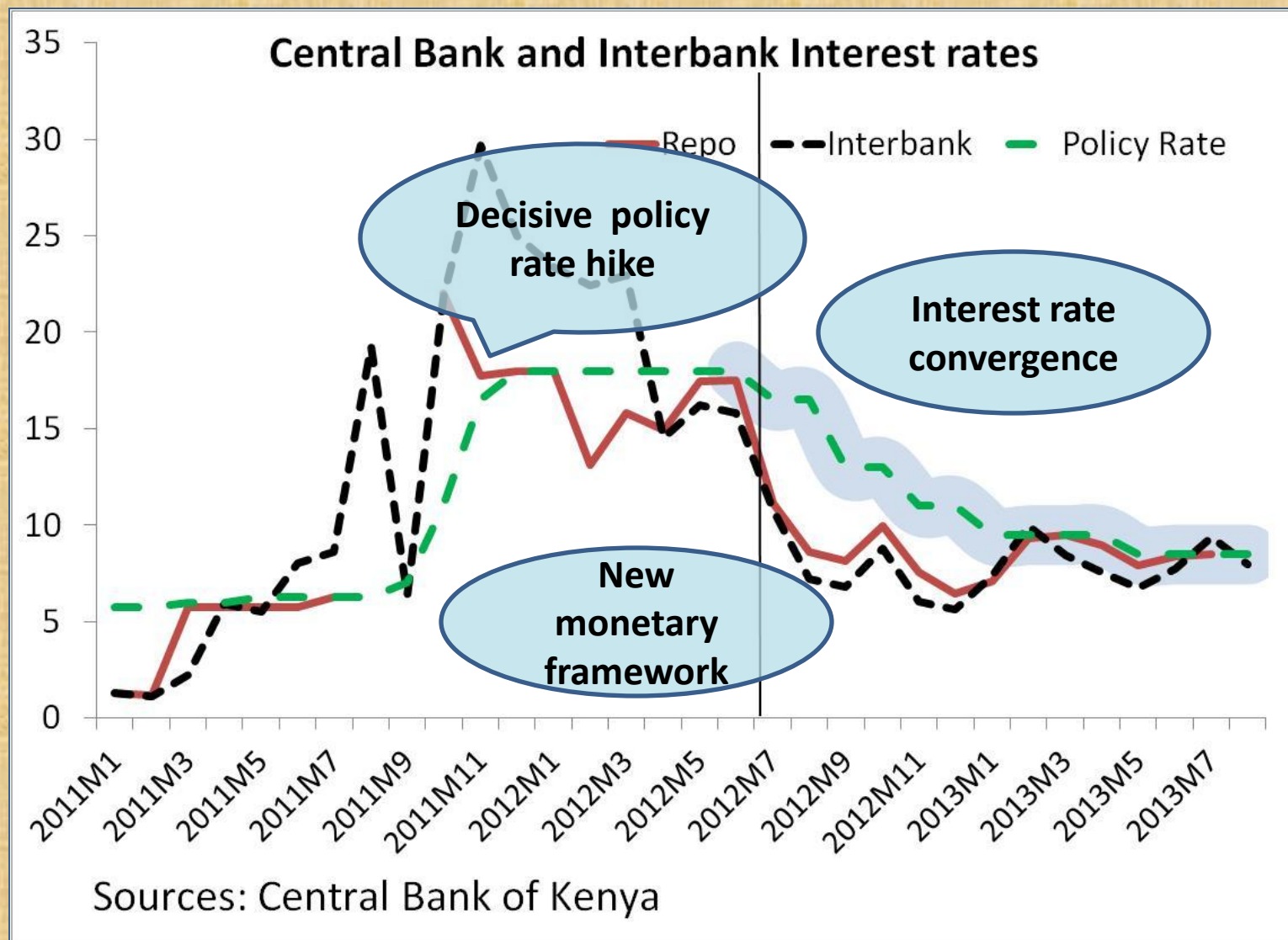
- Recurrent question: Can monetary transmission work in a low-income country with low financial intermediation?



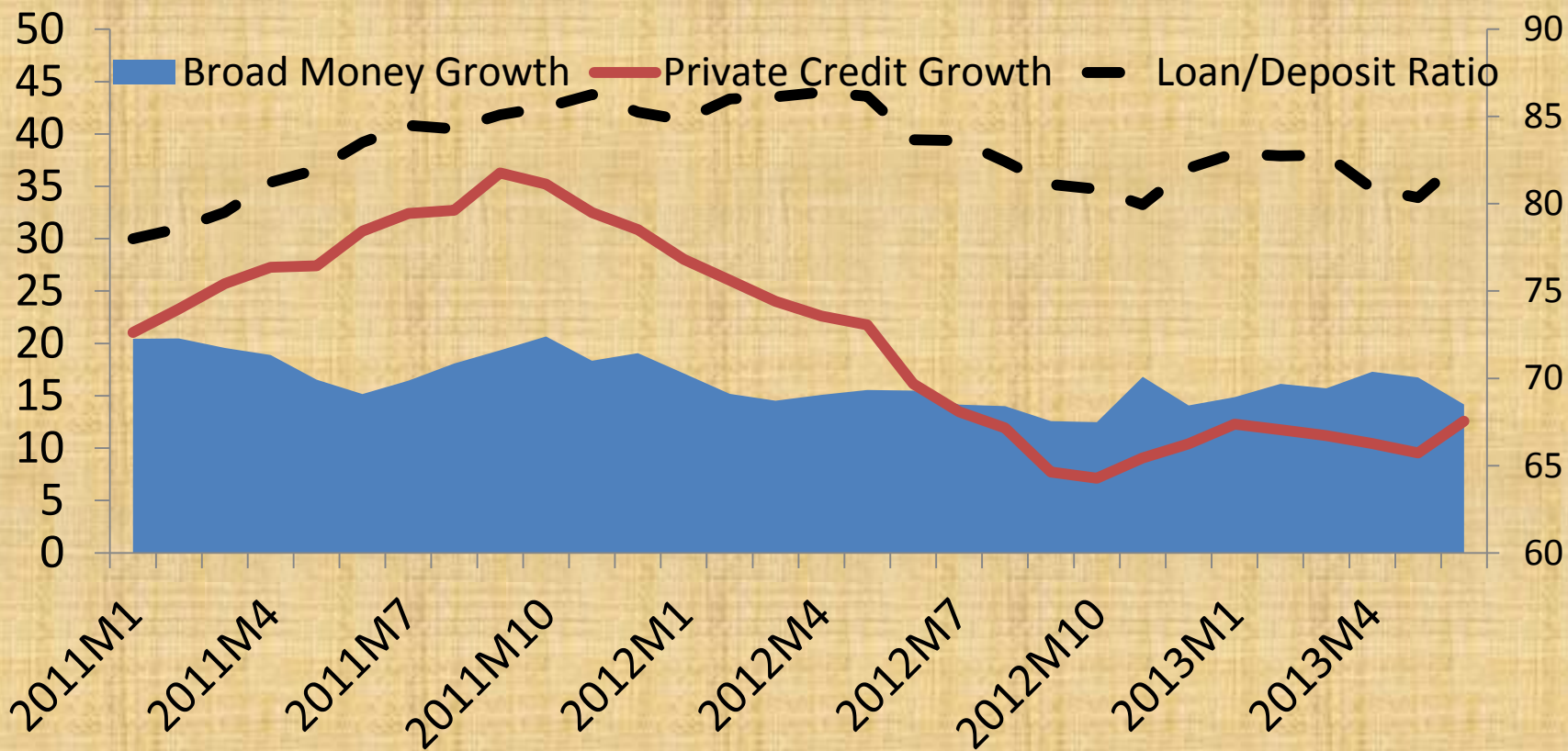
Copernicus thought that monetary transmission was possible in XVI century feudal and agrarian Poland:

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“...the coinage's estimation vanishes when it cannot buy as much silver as the money itself contains [...]. The solution is to mint no more coinage until it recovers its par value” (Copernicus, 1517).

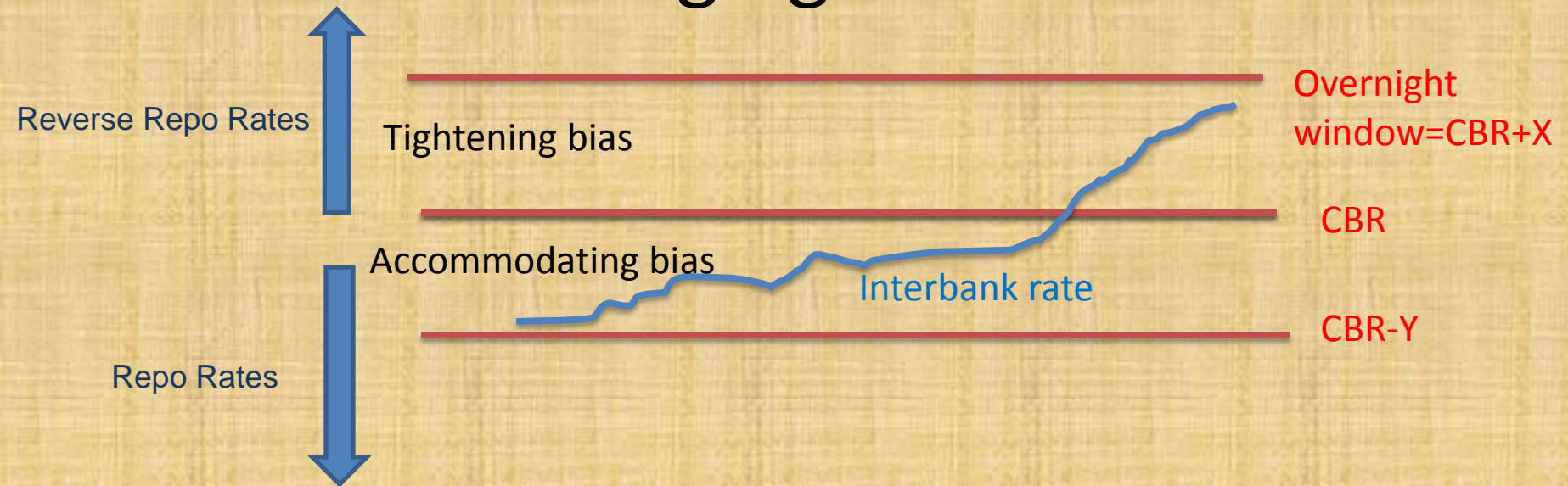
Following an inflation shock in 2011, monetary policy has taken the driving seat



Monetary policy curbed excessive credit growth

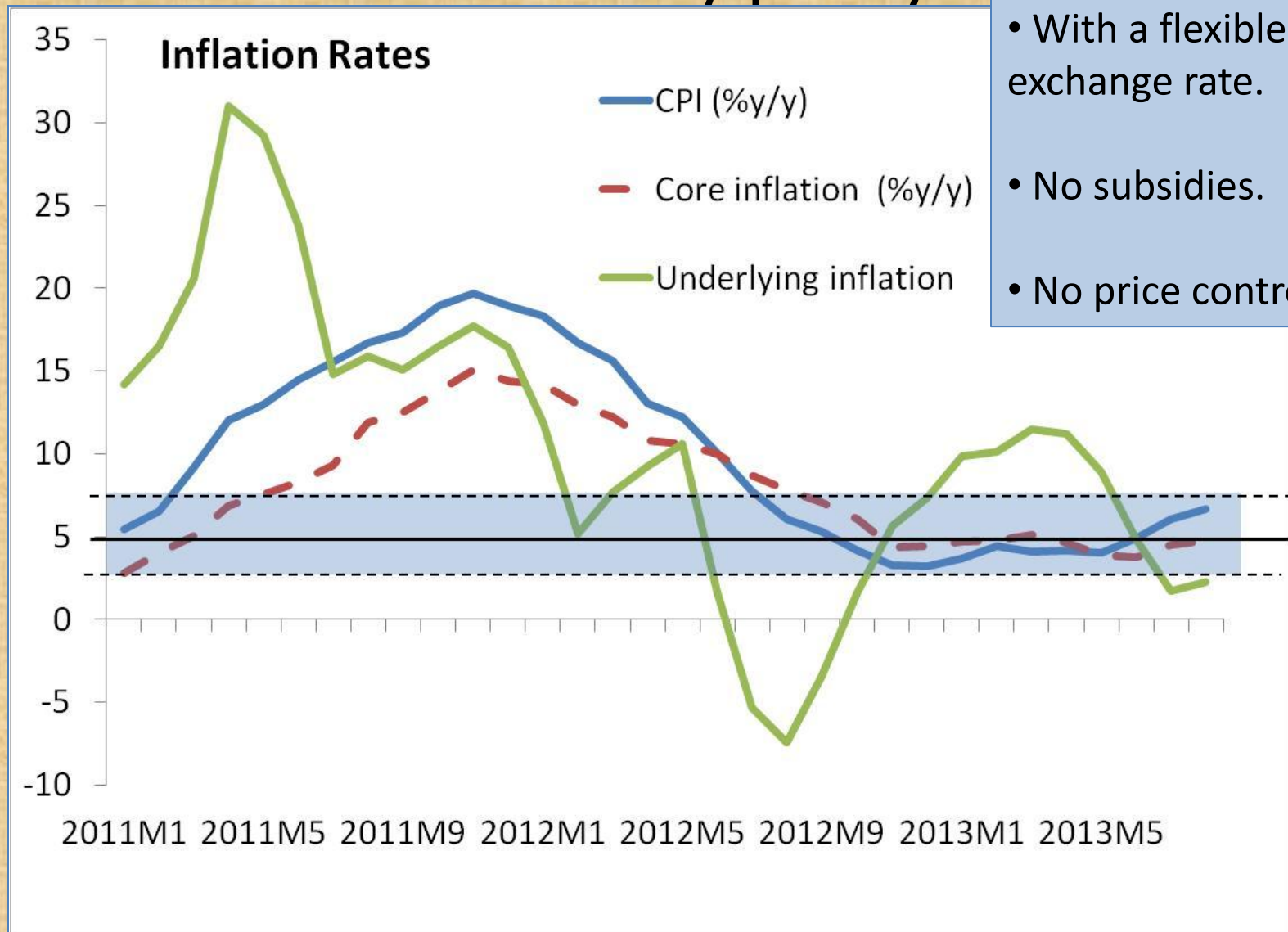


Monetary operations work as in emerging markets



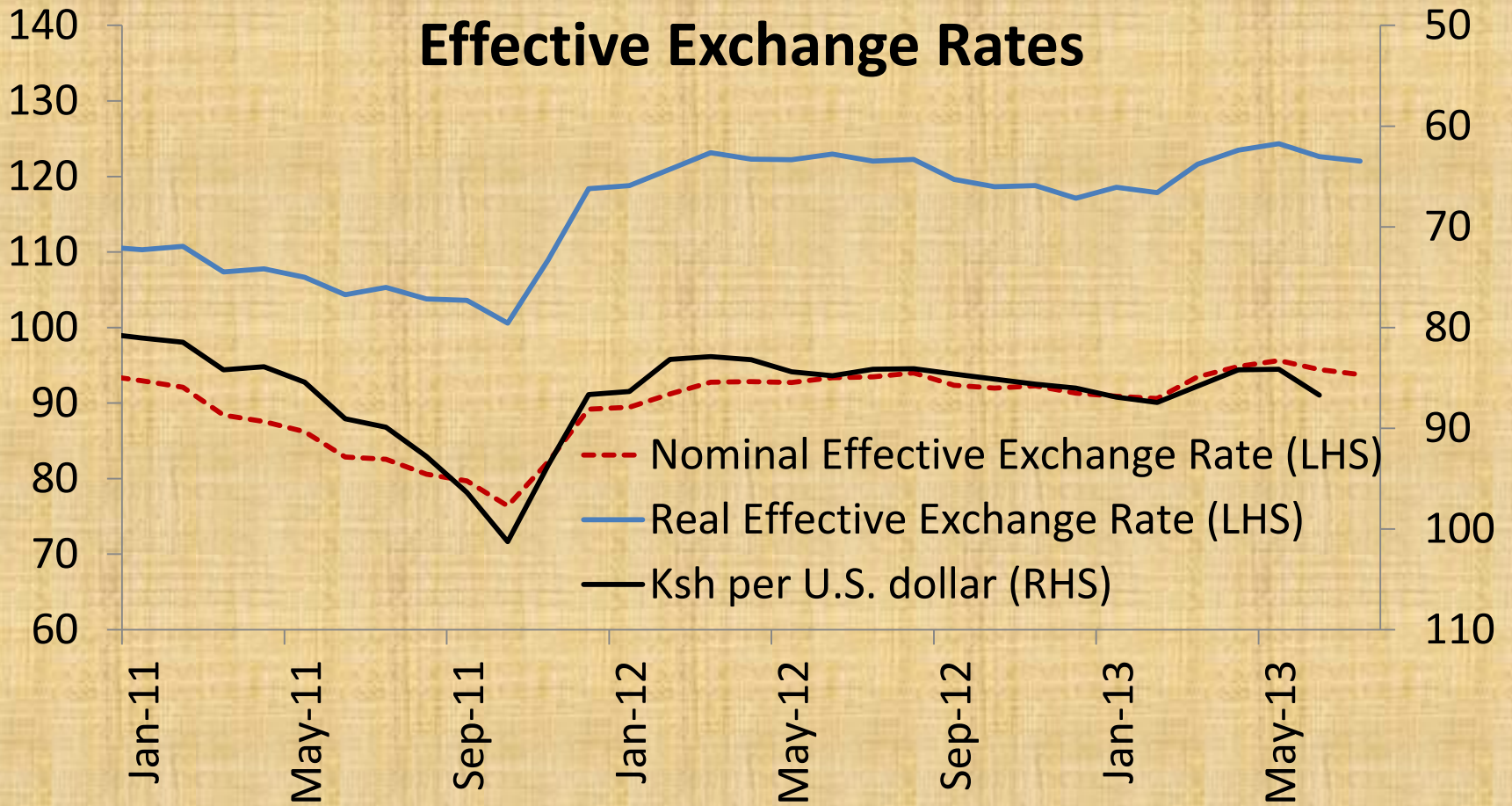
- Central bank influences liquidity conditions.
- Interbank rate consistent with central bank policy rate.
- Interest rates consistent with the inflation objective.

Low inflation in Kenya is an achievement of monetary policy

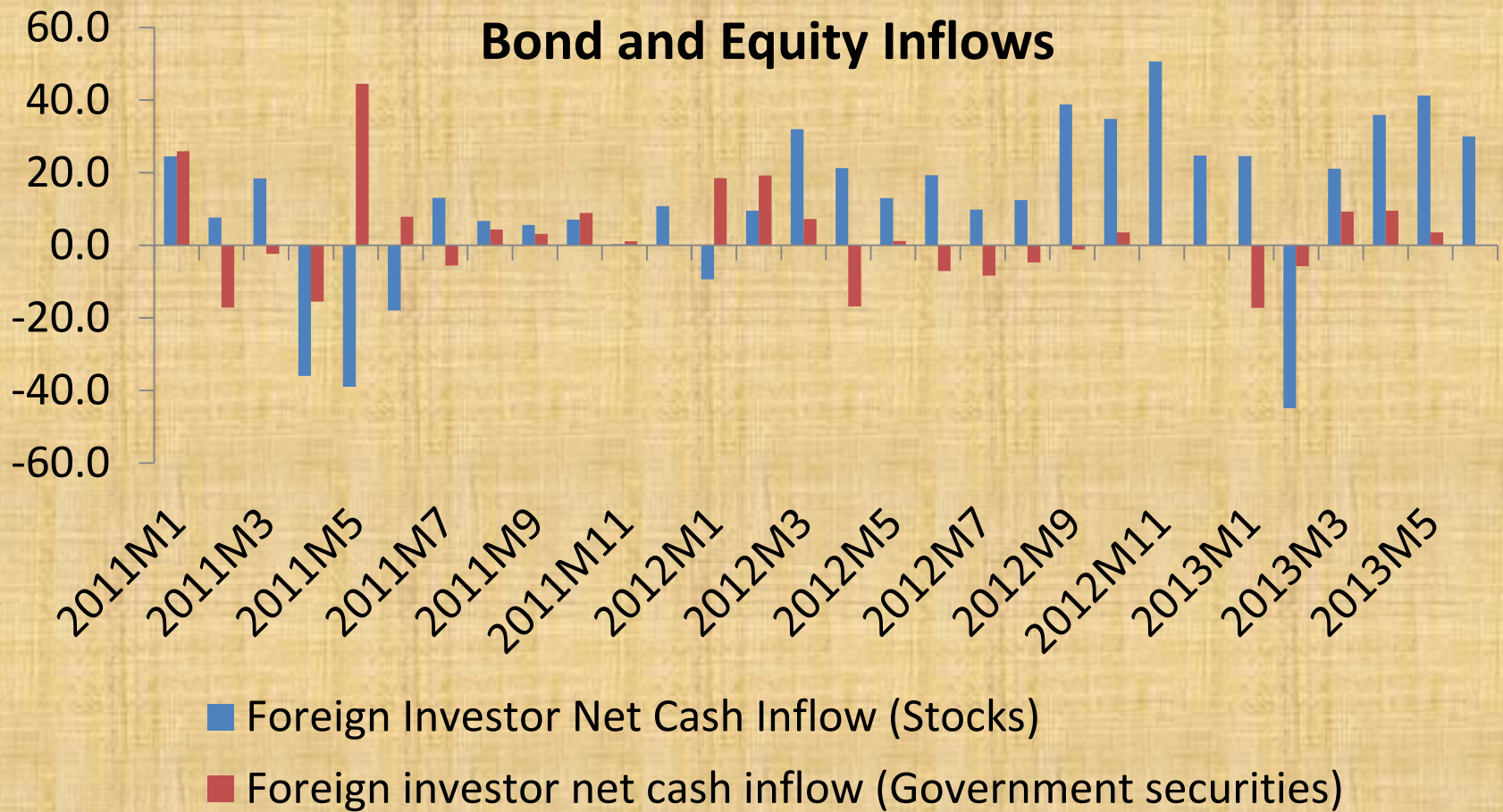


- With a flexible exchange rate.
- No subsidies.
- No price controls

And exchange rate stability is also an achievement, while maintaining the flexible exchange rate regime



Portfolio inflows have resumed, in a difficult international environment.



Helping build up international reserves buffers.



Key takeaways:

- Monetary policy transmission works, and is here to stay.
- Consistent monetary policy generates a virtuous circle of low inflation, stable exchange rate, capital inflows and better conditions for financial intermediation.
- A track record of prudent macroeconomic policy can be more important for investors than episodic international turmoil , because of its impact on the country risk premium.

Asante sana!