Monetary policy tools of kenya

The most important agriculture sector is one of the least developed and inefficient, employing 75 percent workforce and less compared to 3 percent of that food secure developed countries. Jenny's economy grew by 7% in 2007, but this changed immediately after the disputed presidential election in December 2007, which followed with a chaos in the whole country. The economy has posted tremendous growth in the service sector, boosted rapid expansion in the telecommunication and tremendous financial activity over the last few decades and now contributes 62% of GAP.

Kenya has traditionally been a liberal economy with minimal government inference (price control). As of May 2001 , economic prospects are positive, with an expected 4-5% growth in GAP largely due to the expansion of electroluminescent, transport, construction and a recovery in agriculture. The World Bank estimated growth of 4. 3% in 2012. Kenya is east and central Africans hub for financial serviced. The Nairobi Securities Exchange (NOSE) is ranked 4th in Africa in terms of market capitalization. The Kenya banking system is supervised by the Central Bank of Kenya (CB).

Till July 2004, the system consisted of 43 commercial banks (down from 48 in 2001) several non-bank financial institutions, including mortgage companies, four savings and loan associations, and several score foreign- exchange bureaus. The conduct of Monetary policy in Kenya after liberalizing INSTITUTIONAL AND OPERATIONAL Following the economy wide economic reforms aimed at allowing market forces more latitude in decision-making in early sass's, the conduct of monetary policy at the CB was substantially modified to reflect the objectives of a modern central bank.

While the Cask's monetary policy strategy continued to be that of targeting monetary aggregates, there was a shift away from direct to indirect instruments of monetary control with clearly defined objectives and greater operational autonomy. A new institutional framework for conducting monetary policy was formalizes with the amendment of CB Act in 1996. The principal objective of the CB was stipulated as formulation and implementation of monetary policy directed to achieving and maintaining stability in the general level of prices and a greater autonomy of the CB in the conduct of monetary policy.

With respect to accountability and communication, the law stipulates that the CB, at intervals of not more than six months, submit to the Minister of Finance a monetary policy statement specifying the policies and earns by which the Bank intends to achieve the policy targets reasons for adopting such policies and meaner Review the progress of the implementation of monetary policy during the period preceding the policy statement.

Initially, for a greater part of asses, the conduct of monetary policy focused on the behavior of the broad monetary aggregate, MM, defined as currency in circulation and term and non-term domestic currency deposits with banks as well as non-bank financial institutions (NBS), the stability of the relation between MM and nominal GAP came into question with increased openness of the economy. By 1998, the bank had shifted to a much broader monetary aggregates, MM, defines as MM plus foreign currency deposits (FCC) held by residents as its intermediate target. The reserve money continued to be the operating target.

In terms of instruments of monetary policy, the CB initially managed monetary conditions in Kenya to obtain suitable growth in the money supply by engaging in primary functions of government paper. The volume of paper sold was in principle determined by both budgetary financing needs and monetary policy considerations. In addition, the reserve requirements and foreign exchange operations were actively used to influence monetary conditions. Later in the second half of sass's, further refinement was made in the monetary policy instruments with CB engaging in MOM through repurchase agreements (REPORT) and less reliance on reserve requirement.

The stated exchange rate policy of the CB has been and continues to be to pursue a market determined exchange rate, intervening only to smooth out erratic movement, service external obligations and achieve targeted level of foreign exchange reserves. There have been instances where intense lobbying from non-traditional exporters for a depreciated exchange rate putting pressure on the CB to influence the market rate in the short run. CONDUCT OF MONETARY POLICIES There was a fundamental shift in the way the CB conducted monetary policy beginning mid-asses.

The control of inflation became a major focus of monetary policy to reign in the consequences of relaxation of monetary policy that followed the run up to Jenny's first multiparty election in 1992 and increase in international oil prices occasioned by the Gulf war. Annual changes in monetary aggregates, since early asses, decelerated to fairly low levels and were sustained at the low levels through 2000 before picking up slightly in the run up to the 2002 elections. Inflation also declined remarkably as CB pursued a tight monetary policy.

The monetary control framework was implemented within the context of a floating exchange rate regime with a significantly liberalized capital account. This indicates that CB tightened money supply (implying tolerance of high interest rates) in period when inflation crept up. It therefore suggests that systematically adjusting money supply to offset inflationary pressures appear to have a key feature since 1993. Thus we can see that short-term interest rate has not been the most important instrument in conducting monetary policy in Kenya, due to several factors such as inefficient financial markets and uncompetitive banking sector.

Instead the CB has been placing emphasis on quantitative based instruments to monetary control, exchange rate interventions and the changes in minimum reserve requirements in conducting monetary policy. Since liberalizing of the financial sector in early asses, the monetary control framework used by the CB to pursue inflation objective has been reserve money targeting, with broad money (MM) as the intermediate target, and MOM are the main instruments. Current scenario Since the appointment of Managua Enduing as the governor of CB in March 2007, he has steered the institution towards implementation of various reforms that have resulted into a vibrant and most modern and monetary system in the region. He has committed to prioritize policies that would enable CB support the Government's placement in Vision 2030. The monetary policy stance adopted since 2007 has been successful as reflected by robust economic growth, a low and stable inflation regime and decreased volatility in the interbrain rate.

CB has effectively coordinated movement in short term interest rates that has made CB gain acceptance as a signaling mechanism for monetary policy stance. Along the way the effective discharge of the mandate has been challenged. First, postposition disruptions in early 2008 derailed the economy from its high growth trajectory that had been recorded since 2003. Secondly, the supreme mortgage in the US, the Euro crises in the Euro zone and the MEAN (Middle East & North Africa) political crisis, precipitated negative economic shocks that negatively affected the economy.

Nevertheless, the Bank rapidly embroiled the tools of monetary policy to ensure that neither the post-election problems nor the international financial problems become embedded in the Kenya economy. * Effectiveness of the monetary policy. The effectiveness of the monetary policy actions has also been improved through regular review of the monetary policy framework to facilitate transmission efficiency ND reduce transmission lags. By scaling up financial inclusion, deepening the financial and bond markets, the initiatives to improve the transmission of monetary policy impulses has borne fruit.

Kenya can boast of having a dynamic financial sector that has grown notably in the last decade. The key reason for this growth has been a commitment to financial social reforms by the government, through its Economic recovery Strategy (ERRS), 2003-2007 and the current economic blueprint, Kenya Vision 2030. Central Bank of Kenya , in line with its financial sectors mandates , infer the forms has been in front in pushing for more affordable financial services to Kenya while maintaining the stability, efficiency and integrity of financial system. Summary and Conclusion In relation to many other African Countries, the monetary policy and financial institutional of

Kenya has developed rapidly within the last two decades and probably more advanced than other countries at a similar stage of underdevelopment. Kenya opened its CB in September 1966 with the hope that it would generate secondary expansion by facilitating the creation of bank credit and accelerate the process of modernization of the economy's subsistence sector, in spite , of its openness and sensitivity to fluctuations of primary commodities.

Jenny's monetary and banking policies underwent changes as the oil shock of 1973 created inflexibility in the foreign exchange reserves as they declined considerably. Hence the magnitude and speed of reduction of credit expansion were not adequate to show the decline in foreign exchange reserves. In fact the fear that tight monetary policy induced from outside could hamper the rate of development at home led to feeble corrective measures such as restraining inflation due to price boom of exports, In the early sass's and asses Kenya experienced high inflation interest rates, etc. Exulting from a prolonged spell of drought and political instability. In 2002 the growth per capita was negative due to high corruption of the highly ranked government official and political interferences of major decision-making organs of government including CB. However in late 2010, the coalition government of Kenya gave hopes of recovery to various sectors of the economy. The New Constitution has rough about major reforms in the financial and political arenas more specifically the CB for an effective and independent monetary policy conduct.