

Governor

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## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING OF 27 January, 2011**

The Monetary Policy Committee (MPC) met on the 27<sup>th</sup> of January 2011 to assess and evaluate the performance of the economy since its last meeting and review its current monetary policy stance. The Committee examined available key macroeconomic indicators that showed strong economic recovery and accelerating growth in the last three quarters of 2010 and higher potential growth for the future; low inflation and negligible inflationary threats and a satisfactory set of outcomes demonstrating monetary policy stance had been delivering on the desired outcomes.

Economic growth in the third quarter of 2010 was 6.1 percent and indications are that this growth momentum can be sustained towards meeting the Government's Vision 2030 growth trajectory. The Committee noted that economic growth is broad based, driven by the organic sectors; agricultural, trade, manufacturing and ICT. This growth is underpinned by a stable macroeconomic environment, an expanding private sector credit and a rise in imports of investment and intermediate goods. The increased optimism is supported by results of the January 2011 MPC Market Perception Survey. This is also corroborated by the performance of the banking system, expanding branch network across all regions and the continued decline in non-performing loans across all sectors.

The Committee further noted that the overall inflation of 4.5 percent for December 2010 was below the target of 5 percent and there are no foreseen upside risks to inflation in the near term. The Government has put adequate measures in place to resolve food distribution challenges. Any additional inflationary risk emanating from rising oil prices should be mitigated by economic growth. The Committee reiterated its previous observation that the government borrowing programme was on target and was unlikely to exert upward pressure on market interest rates. Furthermore, the Committee emphasised that interest rates on Government debt instruments are a poor predictor of the monetary policy stance or the market interest rates.

The Committee observed that its monetary policy stance had been successful as indicated by robust economic growth, a low and stable inflation regime and decreased volatility in the interbank rate. In addition, the CBR was effective in coordinating movement in short term interest rates. In order to provide the impetus to enhance further growth, the MPC was of the view that private sector investment should be supported with adequate and affordable credit. Even though the banks had generally lowered their base lending rates, the Committee concluded that there is adequate scope to lower the rates further. The Committee therefore decided to lower the CBR by 25 basis points to 5.75 percent.

The full Press Release of the Committee's deliberations and indicators utilised in reaching its decisions will be released on Tuesday 1<sup>st</sup> February, 2011 followed by a Press Conference on the same day at 11.00 am.

A handwritten signature in blue ink, appearing to read 'Njuguna Ndung'u', written over a light blue circular stamp.

**PROF. NJUGUNA NDUNG'U**  
**CHAIRMAN, MONETARY POLICY COMMITTEE**

27<sup>th</sup> January, 2011