

Governor

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**PRESS RELEASE
MONETARY POLICY COMMITTEE MEETING
31ST MAY 2011**

The Monetary Policy Committee met on 31st May 2011 to evaluate the impact of both its previous monetary policy decisions and the continuation of the shocks which the economy encountered in the last few months. It reviewed the performance of the economy in the light of the information available. The Committee examined the results of its May 2011 Market Perception Survey which revealed that both the bank and the non-bank private sector had sustained their confidence in the economy despite inflationary pressures. With respect to its previous decisions, the Committee noted that the Central Bank Rate (CBR) had effectively coordinated changes in expectations in the various markets: the growth of inflation had decelerated; the exchange rate was responsive to the policy; and short term interest rates increased, as expected, and now have reverted to stable levels and less volatile.

With respect to domestic and external shocks, the Committee continued to monitor weather conditions and the consequential food price movements as well as developments in the Middle East and North Africa region which have been affecting fuel prices. In March 2011, the Committee forecast that inflation would decelerate. This was borne out by the May 2011 inflation data from the Kenya National Bureau of Statistics. The data showed that 88% of the inflation was attributed to changes in the prices of items in the food, transport, and housing sectors but the overall contribution of food was decreasing. This slowed down the rise in the inflation rate from 9.19% to 12.05% to 12.95% in March, April and May 2011, respectively.

Economic growth in 2010 was 5.6% and is expected to remain strong in 2011. It is expected that threats from potential food shortages will possibly impact negatively on the balance of payments position later in the year. The Committee further noted that the share of imports continued to weigh heavily in favour of capital and intermediate goods, which are supportive to growth. The fiscal position for the rest of the financial year is stable and is therefore not expected to create significant market pressures. The banking sector credit supply remains strong and on target, and was largely directed towards productive sectors. It was noted that the number of deposit and loan accounts across sectors had increased, endorsing confidence in the economy and revealing success of financial inclusion and access initiatives.

Having noted the success of its previous monetary policy stance the Committee continues to endorse a tight stance so that inflation expectations are tamed and exchange rate stability enhanced. In this regard, the Committee has raised the cash reserve ratio by 25 basis points to 4.75% and raised the CBR by 25 basis points to 6.25%. The Committee will also review the use of other tools to further enhance the effectiveness of monetary policy and liquidity management.

The full Press Release of the Committee's deliberations and indicators used in reaching its decision will be released on Monday 6th June, 2011 followed by a Press Conference on the same day at 11.30 am.

A handwritten signature in green ink, appearing to read 'Njuguna Ndung'u'.

**PROF. NJUGUNA NDUNG'U, CBS
CHAIRMAN MONETARY POLICY COMMITTEE
31 MAY 2011**