

Governor

**BANKI  
KUU YA  
KENYA**



**CENTRAL  
BANK OF  
KENYA**

Haile Selassie Avenue  
P.O. Box 60000-00200, Nairobi, Kenya  
Telephone: 2861003/24 Fax: 2716556

## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING OF September 23, 2010**

At its Meeting on 23<sup>rd</sup> September, 2010, the Monetary Policy Committee (MPC) reviewed its monetary policy stance. The Committee's analysis of data available and market feedback revealed that the perceptions of growth are positive while inflation and exchange rate remain stable. The Committee noted that, following its previous decision, credit growth responded and bank lending rates had slightly declined. However, there is still scope for further reduction in lending rates. Furthermore, credit expansion was in line with the set targets. In particular, it was noted that financial access by the private sector improved and this was coupled with a noteworthy growth in lending. This endorses the direction of the monetary policy decision made in July 2010.

The Committee also considered the measures that would be necessary to improve the efficiency of the financial sector to support its further growth and that of the economy. Factors that affect efficiency of the financial sector and give rise to higher costs of capital include the challenges of realizing on collateral and sufficiency of information on pricing risk. Furthermore, the Committee noted that the models used by the banking sector to price risk do not seem to reflect a competitive market environment. Consequently, it recommended that Central Bank of Kenya work with other relevant Government Departments to explore ways to address alternative dispute resolution models which could reduce the cost of borrowing. In addition, the Committee asked the Bank to avail data to track cost of borrowing by individual banks.

An analysis of the banking sector revealed its continuing strength. The presence of excess reserves in the banking system signals commercial banks readiness to meet any surge in demand for liquidity that could easily be absorbed with no adverse impact on interest rates structure. It was also observed that the factors influencing bank interest rate spreads have changed over time. These indicate a reduction in risk and therefore the capability for banks to reduce their spreads. The Committee was confident that access to financial services continues to improve evidenced by the introduction of agent banking, credit reference bureaus, with an increase in ATMs, bank branches, and enhanced mobile banking.

In view of the fundamentals the Committee decided to hold the CBR at its current level of 6 percent to consolidate the gains in this monetary policy stance. It would continue to explore ways of improving the transmission of the signal to other interest rates in the economy. This would include structural changes mentioned above aimed at enhancing financial sector efficiency and interest rate adjustments.

The full Press Release of the Committee's deliberations and indicators utilised in reaching its decisions will be released on Tuesday 28<sup>th</sup> September, 2010 followed by a Press Conference on Friday 1<sup>st</sup> October, 2010 at 11.00 am.

A handwritten signature in black ink, appearing to be 'Njuguna Ndung'u'.

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

23<sup>rd</sup> September, 2010