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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING 5TH OCTOBER, 2011

TAMING INFLATIONARY AND EXCHANGE RATE PRESSURES

The Monetary Policy Committee met on 5th October, 2011 to assess developments in the economy since the Special MPC Meeting held on 14th September, 2011. It reviewed the impact of its decision to tighten the monetary policy stance so as to rein in inflation and inflationary expectations. The Committee was concerned that inflationary pressure continued to increase and that both the weakening of the shilling and its volatility posed additional threats. The Committee was concerned that the gradual tightening which has been directing monetary policy has been based on the belief that the supply side problems would soon be resolved as had happened in previous, even worse, drought episodes.

The Committee carefully examined a broad array of available information and analyses that showed these developments are a threat to economic recovery and macroeconomic stability: second quarter growth declined to 4.1 percent. Decisive and immediate action is required from the monetary policy side to stem these inflationary pressures, stabilize the exchange rate and re-establish a healthy growth base.

The Committee considered that an enhanced tightening of the monetary policy stance was required at this time but observed that this needed to be complemented by the ongoing actions on the supply side with respect to food, fuel and energy. These complementary actions should effectively signal relief to the supply constraints that have been driving inflationary expectations and adverse expectations with respect to the exchange rate.

Consequently, having established these objectives, the Committee decided to raise the CBR by 400 basis points to 11.0 percent. In addition, the MPC will be meeting every first week of the month until further notice. The Committee will revise the CBR further if inflation and exchange rate volatility do not abate.

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

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

5th October, 2011