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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING
11TH JANUARY, 2012

CONSOLIDATING MONETARY POLICY DECISIONS

The Monetary Policy Committee met on 11th January, 2012 to assess the economy's response to its previous monetary policy decisions as well as the domestic and international economic developments since its last meeting. The tight monetary policy stance adopted by the Committee has contributed to a decline in inflation with overall inflation declining from 19.72 percent in November 2011 to 18.93 percent in December 2011. This positive signal was also supported by a fall in food and fuel prices and an appreciation of the exchange rate. In addition, private sector credit growth declined in November 2011 reflecting a continued easing of demand driven inflationary pressures. These developments show that the monetary policy stance adopted by the Committee is achieving its desired results.

The information analysed by the Committee showed that inflation is projected to ease further in early 2012. This outcome is a consequence of the monetary policy stance, the appreciation and stability of the exchange rate and the decline in oil prices. Furthermore, expected improvements in food supply will result in lower commodity prices. In addition, there are other corroborating positive outcomes:

- The banking sector remains stable while analyses showed a positive response by the banks to the Kenya Bankers Association's initiative to stem any threat of loan defaults.
- The Committee noted that the Government's request for an augmentation of the Extended Credit Facility programme was approved by the International Monetary Fund; this has boosted the CBK's foreign exchange reserves position and generated improved confidence in the policy arena.
- The recent re-affirming of Kenya's credit rating at "B+ with a stable outlook" by the Standard and Poor's rating agency is a reflection of confidence in the country as an investment destination.
- The MPC Market Perceptions Survey conducted in December 2011 revealed that the private sector also expects inflation to decline, the exchange rate to strengthen and the economy to remain resilient in 2012.

These developments signal sustained confidence in the economy despite the recent domestic and external shocks.

The Committee noted that although inflation eased in December 2011, balance of payments pressures and their potential impact on the exchange rate are major risks. In addition, the continued turbulence in the global financial markets due to the debt crisis in the Euro Zone presents a potential risk to the exchange rate and hence to inflation. Moreover, private sector credit growth must slow further to stem demand related inflation pressures.

Consequently, the Committee considered it necessary to maintain its current tight monetary policy stance and thus retained the Central Bank Rate at 18.0 percent to provide time for the adjustments in the CBR to have their full impact together with the liquidity management instruments in place.

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

11th January, 2012