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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 6TH MARCH, 2012

SUSTAINING PRICE STABILITY

The Monetary Policy Committee met on 6th March, 2012 to review the economic developments since its last meeting in February 2012 and evaluate outcomes of its previous decisions. The Committee observed that the current monetary policy stance supported by appropriate fiscal policy continued to deliver the desired outcomes on inflation and exchange rate stability.

The information provided to the Committee revealed the following positive developments for the economy:

- Overall inflation continued to decline, dropping from 18.31 percent in January 2012 to 16.69 percent in February 2012.
- The exchange rate of the Kenya Shilling to the US Dollar remained stable within the narrow range of 82.65 to 83.93. This is an outcome of the policy of a floating exchange rate.
- Demand pressures on inflation eased following the slowdown in private sector credit growth that expanded on an annual basis by 28 percent in January 2012 from 30.9 percent in December 2011.
- The measures taken by the Kenya Bankers Association in December 2011 were noted to have assisted to cushion borrowers from potential effects of high interest rates and that there was no increase in net non-performing loans.
- Average commercial banks lending interest rates and the average spread between lending and deposit rates have also declined during the month.
- The MPC Market Perceptions Survey conducted in February 2012 revealed that the private sector expects inflation to continue declining; the exchange rate to remain stable and the economy to remain resilient in 2012.

Nevertheless, the Committee noted that there were still potential risks in the economy:

- The inflation measure excluding food and fuel (an inflation measure that excludes volatile items that are not subject to monetary policy) had yet to respond dramatically to its measures taken in the recent months.
- The forecast balance of payments continued to be a matter of concern as the heightened risks around the movement of oil through the Strait of Hormuz are already causing global crude oil prices to rise. Due to the significance of oil in the import bill, this was seen as a threat to both the stability of the exchange rate and continued easing of inflation pressure.
- Although private sector credit growth was declining, its effect on both the demand for imports and consumer goods had yet to be adequately felt.
- Uncertainties surrounding the resolution of the Greek debt crisis could cause a downturn in the eurozone growth. This could depress tourism and demand for some of Kenya's horticultural exports thereby constraining domestic economic activity as well as supply of foreign exchange.

Given the above considerations, and the need to ensure that inflation continues to decline towards the Government target, the Committee maintained the Central Bank Rate at 18.0 percent. This will ensure that the monetary policy measures in place continue to work through the economy to deliver the desired outcomes of reducing inflation, dampening inflationary expectations and sustaining exchange rate stability.

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

6th March, 2012