

Governor

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING 1ST NOVEMBER, 2011

MONETARY POLICY TIGHTENING TO PROTECT GROWTH AND MACROECONOMIC STABILITY

The Monetary Policy Committee met on 1st November, 2011 to assess the economy's response to the actions taken by MPC last month and the recent economic developments. Inflation continued to rise while exchange rate volatility persisted in October 2011. Consistent with the monetary policy stance taken by the last MPC meeting, there is therefore a need for further tightening of monetary policy to tame these inflationary pressures and stabilize the exchange rate.

The Committee's analysis of data and assessment of events showed that the banking sector remained robust. However, the information provided to the Committee showed that both inflationary pressures resulting from accelerating growth of private sector credit and exchange rate volatility threaten the economic recovery and macroeconomic stability. The MPC Market Perceptions Survey conducted in October 2011 showed that the private sector continues to expect high inflation to persist over the remainder of the year. Going forward, monetary policy has to reverse these expectations through further tightening that will bring inflation and inflationary expectations under control and stabilise the exchange rate to protect the economic growth base.

In view of these factors, the Committee decided to raise the Central Bank Rate (CBR) by 550 basis points to 16.5 percent and the Cash Reserve Ratio (CRR) by 50 basis points to 5.25 percent. The new CRR requirement will be effective from 15th December, 2011 to allow commercial banks adequate time to adjust. Other CRR requirements remain unchanged. In addition, with a new monetary policy framework, all Central Bank market operations will henceforth be based on the CBR in order to enhance clarity and certainty. The details of these administrative actions will be posted on the CBK website.

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

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

1st November, 2011