

Governor

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING 27TH JULY, 2011

The Monetary Policy Committee met on 27th July, 2011 to assess developments in the economy since its last meeting and review the impact of its decision to tighten the monetary policy stance to rein in inflation and inflationary expectations. While the latter had been achieved, the Committee was concerned with the persistent inflationary pressures and exchange rate volatility driven by the further supply constraints and heightened expectations. It carefully examined a broad array of available information as well as the results of the latest Market Perception Survey which revealed strong economic growth and confidence in the economy.

Exchange and interest rates volatility in the recent past had necessitated the need for policy actions to improve commercial banks' liquidity management and close loopholes for arbitrage that have perverse outcomes. The Committee noted that the direction and volatility of the exchange rate in recent times was not supported by fundamentals. It was further noted that the foreign exchange reserves continued to lie within the target range while the fiscal deficit continued to support macroeconomic stability.

The Committee observed that the tight monetary policy stance would not achieve the desired results at the moment if the supply sides of food, fuel and energy were not effectively being managed to signal relief to the constraints guiding inflationary expectations. It was noted that the growth of broad money supply has been below its target since September 2010 which rules out demand pull inflation. The Committee was of the view that monetary policy was tight enough and that any further tightening would be counter-productive given the underlying factors.

Consequently, the Committee decided to retain the CBR at 6.25 percent. Furthermore, in order to facilitate commercial banks liquidity management, the Committee decided that commercial banks will be required to maintain Cash Reserve Ratio (CRR) based on a weekly average instead of the current daily average.

The full Press Release of the Committee's deliberations and the indicators used in reaching its decisions will be released on Monday, 1st August, 2011, followed by a Press Conference on the same day at 11.00 am.

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

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

27th July, 2011