

Governor

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PRESS RELEASE
MONETARY POLICY COMMITTEE MEETING
23 March, 2010

The Monetary Policy Committee met on 23rd March, 2010 and reviewed the evidence of market reactions to its previous decisions. Evidence available to the Committee indicates that short term interest rates (repo, interbank and Treasury bill rates) continued on a downward trend. The Horizontal Repo uptake was now more frequent but it had yet to realize its potential in redistributing liquidity. Policies on lengthening the maturity of debt and removing discontinuities in the yield curve were noted to be successful. The Committee was pleased to note that private sector credit had grown both in volume and the number of loan accounts. The Committee established that the reserve money and broad money targets were attained and that the fiscal Economic Stimulus Package continued its previously reported accelerated disbursements.

The Committee reviewed the banking sector's responses to its policies over the last one year. The cost of credit was still seen to be dampening the expansion of the critically important private sector loans. However, there was a commendable expansion of access to financial services with the number of loan accounts growing from 1,672,964 in December 2009 to 1,832,085 in February 2010. The MPC market survey indicated that inflation was no longer a significant determinant of the interest rate structure but that the cost of funds and credit risk were major constraints to credit supply. However, these constraints had been easing over time. The Committee perceived that credit expansion to critical sectors of the economy, was closely linked to the growth of those sectors and that the economy's growth path would be best served by a lower cost of credit.

The available evidence showed that economic recovery was gaining momentum but there were downside risks that called for supportive measures. These include an enhanced supply of credit, and monetary policy support, in addition to the ongoing Economic Stimulus Package. The analytical work presented to the Committee corroborates the evidence in the MPC market survey that there were no significant upside risks to inflation.

Based on the above information and analysis, the Committee decided to lower the CBR by 25 basis points to 6.75 percent. The direction and magnitude of movements of the CBR will send appropriate signals to the market; as inflation is not a significant threat, this policy stance aims to stimulate the supply of credit that will support economic growth and anchor inflation expectations.

The full Press Release of the Committee's deliberations will be released on Thursday 25th March, 2010 followed by a Press Conference on the same day at 2.30 pm.

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

PROF. NJUGUNA NDUNG'U
CHAIRMAN, MONETARY POLICY COMMITTEE

23rd March, 2010