

Governor

**BANKI
KUU YA
KENYA**



**CENTRAL
BANK OF
KENYA**

Haile Selassie Avenue
P.O. Box 60000-00200, Nairobi, Kenya
Telephone: 2861003/24 Fax: 2716556

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING OF 20 MAY, 2010

At its Meeting on 20th May, 2010, the Monetary Policy Committee (MPC) noted that the thrust of monetary policy decisions since July 2009 is bearing fruit: inflation has declined from 8.4 percent to the current level of 3.7 percent; growth recovered from 1.6 percent in 2008 to 2.6 percent in 2009; and short term interest rates declined. The banking sector performance has also improved both in lending to the private sector and in declining non-performing loans. The maturity of Government debt has lengthened by almost 33 percent indicating strong confidence in the economy. Since the last MPC meeting, commercial banks have reduced their base lending rates. Furthermore, the MPC Market Perception Survey for May 2010 showed a noteworthy sense of optimism in the economy by respondents from both the banking and private sectors.

The Committee's review of available data indicates that food prices are declining as a result of the good rains. This has reduced significant pressure on inflation and signaled growth in the most important sector of the economy, agriculture. Electricity prices are declining, lowering production costs; this will also provide some relief to households. Some of these benefits, though, could be offset by oil price movements and risks associated with exchange rate volatility due to the Greek debt crisis. However, the MPC concluded that there was no danger of demand driven inflation which might signal a need to tighten liquidity.

The Annual Economic Survey for 2010 forecasts strong growth in Kenya of 4.0-5.0 percent for 2010. The MPC also noted that the World Bank Country Policy and Institutional Assessment (CPIA) for Kenya had improved from 3.6 to 3.7 which is above the average of International Development Association (IDA). This puts Kenya firmly among the better performing IDA countries and makes it eligible for increased allocation of concessional IDA funding to the benefit of Government infrastructure development support.

Given the low inflation risk and declining commercial banks' base lending rates which have been driven by the CBR signal, the MPC was of the view that the market needed more time to consolidate its level of operation. It is expected that private sector credit will expand and further stimulate growth. The decision was therefore taken to maintain the CBR at 6.75 percent. The MPC will be reviewing the monetary programme in the new fiscal year.

The full Press Release of the Committee's deliberations will be released on Monday 24th May, 2010 followed by a Press Conference on the same day at 3.00 pm.

A handwritten signature in blue ink, appearing to read 'Njuguna Ndung'u', with a small blue dot at the end.

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

20th May, 2010