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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING OF 22ND JULY 2009

The Monetary Policy Committee at its meeting on 22nd July 2009 reviewed the way in which the economy had performed given external and internal events. It noted that inflation had declined. Market liquidity was noted to be sustaining rather than stimulating growth. The 3.9 percent economic growth in the first quarter of 2009 was supported by significant lending to the private sector. These lending levels were not maintained in the second quarter. Furthermore, the Committee noted that the signals from past decisions were yet to deliver the desired increases in efficiency in the financial sector. In fact, commercial banks' lending rates have not declined.

Against this background, the Committee considered lessons learnt from its past decisions, and related them to various targets which would provide the appropriate economic environment that can stimulate growth towards the Vision 2030 targets, and provide sustainable development as embodied in the 2009/10 budget.

Reviewing the monetary tools available to it, the Committee noted that while the cash reserve ratio was within its management, it strictly was not a liquidity management tool. The Committee reiterates that financial intermediation serves to stimulate the generation of loanable funds and also to allocate it efficiently. The primary concern is to ensure that the market has adequate liquidity to support an expanded private demand for credit. This requires that credit is available at lower interest rates to the private sector. In the past, inflationary pressure from monetary expansion has not arisen, and inflation has been falling. Going forward, the existence of significant slack in the economy convinced the Committee that there would be no inflationary threat from further credit expansion.

To achieve these objectives and to provide guidance on the path of monetary policy over the next two months, the Committee reviewed the CBR downwards by 25 basis points to 7.75 percent, lowered the cash reserve ratio to 4.5 percent and supported these decisions by reviewing the tenor on repo transactions by lengthening it to 7 days.

The full press release of the Committee deliberations will be released on 27th July 2009.

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

PROF. NJUGUNA NDUNG'U
CHAIRMAN, MONETARY POLICY COMMITTEE

22nd July 2009