

Governor

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## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING OF 26 January, 2010**

The Monetary Policy Committee met on the 26<sup>th</sup> January 2010 to review the market's reaction to previous decisions as well as the general economic performance. Evidence available to the Committee indicates that short term interest rates (repo, interbank and Treasury bill rates) declined significantly. Furthermore, the yield on short term Government bonds also declined and the average bond maturity lengthened. The Committee's previous efforts to encourage expanded private sector credit seemed to have succeeded with an increase of Ksh.28.0 billion in December 2009 up from an increase of Ksh.12.0 billion in November 2009. From these indicators, the monetary policy decisions have been successful.

Despite these monetary policy successes, the Committee was disappointed with the weak transmission of the CBR signal to the real sector in that the lending rates did not respond significantly as desired. The Committee noted that lending rates are determined by a wide range of factors most of which had improved in the period. These include declining credit risk, falling short term interest rates and improved prospects for growth. The Committee reiterated that commercial bank lending was critical to enhancing economic growth. Thus economic growth could be supported by institutional developments that support development banking and lending to small scale enterprises.

The poor economic growth outcome for the third quarter of 2009 arose from the intensity of the drought effects on various sectors. However, the evidence available to the Committee shows that growth in the fourth quarter recovered well, and hence the monetary expansion programmed at its November 2009 presented no threat to inflation. The Committee's survey of banks and private sector firms showed that there were no upside risks to inflation and that the 2010 growth expectations were in line with those espoused by the Government. The Economic Stimulus Package is beginning to yield fruit and is expected to continue to accelerate countrywide expenditures in the remainder of the fiscal year.

In view of the positive response from the market on the use of CBR as a means of signaling movements in short term interest rates, the Committee considered its current level of 7.00 percent to be appropriate to consolidate its current direction of monetary policy. Although signals from the CBR to the short term interest rates have worked, their effects are not being transmitted to the real sector through a response in lending rates. In this regard, the Committee asked the Bank to explore how development banking products can be introduced into the market; this would enhance the monetary policy transmission mechanism and lengthen the maturity profile of commercial bank term loans.

The full Press Release of the Committee's deliberations will be released on Thursday 28<sup>th</sup> January, 2010 followed by a Press Conference on Friday 29<sup>th</sup> January, 2010 at 11.00am.

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

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

26<sup>th</sup> January, 2010