

Governor

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING OF 28 JULY, 2010

At its Meeting on 28th July, 2010, the Monetary Policy Committee (MPC) reviewed its monetary policy stance and noted the following developments in the economy; inflation had declined and there were no indications of imminent pressure; economic growth in the first quarter was a satisfactory 4.4 percent and indications are that second quarter growth will be comparable. The Committee was satisfied with the continued decline of short term interest rates (Government paper and inter-bank rates). Performance in the banking sector has improved with domestic credit growing by 26.6 percent in the year to June and the level of non-performing loans declining. In addition, the July 2010 MPC Market Perception Survey shows increased optimism for growth, declining inflation threat and minimal exchange rate volatility in the near term.

The Committee's review of available data shows that overall inflation continued to decline. The inflation rate is still largely influenced by food prices. The upside risks to inflation are still low given adequate food supply, exchange rate stability and declining energy prices. In addition, there is no threat of monetary driven inflation.

Economic growth indicators show that the economy continues to strengthen. To enhance this growth capacity, the Committee agreed with the fiscal direction that had allocated more public investment funds to consolidate further the fiscal stimulus that was initiated in the fiscal year 2009/2010. To complement this, the Committee is of the strong view that private sector investment should be supported with adequate and affordable credit. Even though the banks had generally lowered their base and lending rates, the Committee noted that there is scope to lower the rates further.

Given the low inflation risk, the strengthening growth profile and growing confidence in the economy, the Committee took the view that commercial banks and the private sector needed a strong signal in order to provide them with information that overall downside risks were declining and that other factors such as the East African Common Market Protocol offer significant opportunities. The Committee therefore lowered the CBR by 75 basis points to 6.00 percent.

The full Press Release of the Committee's deliberations and indicators utilised in reaching its decisions will be released on Monday 2nd August, 2010 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', written over a light blue circular stamp.

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

28th July, 2010