

Governor

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 1ST FEBRUARY, 2012

RESTORING PRICE STABILITY

The Monetary Policy Committee met on 1st February, 2012 to assess the economy's response to its previous monetary policy decisions as well as review domestic and international economic developments. The Committee noted that overall inflation continued to gradually decline for the second consecutive month, dropping from 18.93 percent in December 2011 to 18.31 percent in January 2012. This was mainly on account of easing food and fuel prices supported by the appreciation of the Kenya Shilling. Further, private sector credit growth declined in December 2011 in response to the tight monetary policy.

The Committee observed that inflation is expected to continue to ease in the coming months on account of the current monetary policy stance, stability of the exchange rate, decline in oil prices, and continued easing of demand pressures with the slowdown in private sector credit growth. Furthermore, reduced credit to finance imports is expected to ease pressure on the exchange rate.

The Committee's analyses of available information revealed the following:

- The banking sector remains stable with a limited threat of loan defaults following the recent measures taken by the Kenya Bankers Association to cushion borrowers against high interest rates. Moreover, the Government's planned external commercial financing as part of its domestic borrowing requirement in the fiscal year 2011/12 is expected to dampen upward pressure on interest rates. In addition, the continued coordination of fiscal and monetary policies will sustain the growth potential.
- Balance of payment pressures and the persistent uncertainty in the global financial markets due to the debt crisis in the eurozone remain the main risks to the inflation outlook and exchange rate pressure.
- Private sector credit growth has declined but needs to slow down further to dampen demand-related inflation pressures.
- The Meteorological Department has forecast a dry spell in most parts of the country as well as frost in February 2012. This presents risks to agricultural production and food supply.
- The geo-political risks associated with oil movement through the Strait of Hormuz could interrupt crude oil supply and affect fuel prices globally.
- A continued increase in diaspora remittances signals confidence in the economy despite the recent external shocks.

In view of these developments and the need to ensure that inflation declines to levels consistent with the Government's target, the Committee decided to retain the Central Bank Rate at 18.0 percent. This will allow time for the policy measures in place to work out and deliver decisive results on inflation and inflation expectations.

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

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

1st February, 2012