

Governor

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING, 4TH APRIL, 2012

TARGETING PRICE AND INTERBANK MARKET STABILITY

The Monetary Policy Committee met on 4th April, 2012 to review the relevant market developments in order to evaluate the outcome of its monetary policy stance. The Committee observed that the monetary policy measures in place continue to yield the desired results: inflation has declined; exchange rate stability sustained; and private sector credit growth has slowed down gradually.

Detailed information provided to the Committee on recent relevant market developments shows that:

- Exchange rate stability has been sustained thereby dampening the risks of imported inflation. The exchange rate against the US Dollar ranged between Ksh.82.27 and 83.36 in March 2012 compared with a range of between Ksh.82.65 and 83.93 in February 2012.
- Overall month-on-month inflation continued to decline, falling from 16.69% in February 2012 to 15.61% in March 2012. In addition, non-food-non-fuel inflation remained stable at about 11.2%.
- There was, on an annual basis, a further slowdown in private sector credit growth from 27.7% in January 2012 to 25.8% in February 2012. This has dampened demand pressure on inflation.
- Interest rates on Government securities and certain commercial bank loan products have been declining reflecting the impact of Government fiscal measures as well as the measures announced by the Kenya Bankers Association in December 2011 to reduce any threat of loan defaults.
- The 2011 published annual accounts of commercial banks show that the banking sector remains sound and stable.
- Confidence in the economy remains strong as indicated by the increasing diaspora remittances that stood at USD103.98 million in February 2012.

However, the Committee noted that there were still potential risks in the economy attributed to the following drivers:

- Non-food-non-fuel inflation, an inflation measure that reflects the impact of the monetary policy stance being pursued, is still above the Government short-term inflation target of 9% for the fiscal year 2011/12.
- Although the growth in private sector credit has been declining, it is still above target. In particular, the demand for credit to finance consumer durables increased in February 2012.
- The wide current account deficit and rising crude oil prices attributed to a geo-political risk premium remain a threat to both continued exchange rate stability and further easing of inflation pressure.
- The forecast of a delay in the onset of the long rains, which may also be depressed in the main water catchment areas, could affect electricity generation and agricultural production thereby exerting pressure on domestic food and energy prices. Food currently accounts for 56.3% of the observed overall inflation up from 54.9% in December 2011.
- The interbank rate has been relatively high and volatile.

In view of the above considerations, the Committee maintained its monetary policy stance by retaining the Central Bank Rate (CBR) at 18.0%. This will ensure that inflation continues to decline towards the Government target while exchange rate stability is maintained. Furthermore, the CBK will continue its interventions through Open Market Operations more actively to reduce the volatility in the interbank rate and bring it closer to the CBR, while ensuring consistency with the current monetary policy stance.

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

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

4th April, 2012