

Governor

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## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING, 3<sup>RD</sup> MAY, 2012**

#### **TARGETING PRICE STABILITY**

The Monetary Policy Committee met on 3<sup>rd</sup> May, 2012 to review relevant market developments and to evaluate the outcome of its monetary policy stance. The Committee observed that the previous monetary policy measures supported by appropriate fiscal policy continue to deliver the desired outcomes of a gradual decline in inflation and inflationary expectations, as well as exchange rate stability.

The information available and analysed by the Committee revealed the following important developments in the market since its last meeting in April 2012:

- Overall month-on-month inflation declined from 15.61 percent in March 2012 to 13.06 percent in April 2012. Similarly, non-food-non-fuel inflation which reflects the impact of the monetary policy stance being pursued declined from 11.26 percent to 9.94 percent.
- Exchange rate stability has been maintained with the average exchange rate fluctuating between a narrow range of Ksh.83.07 and Ksh.83.37 against the US Dollar in April 2012. The Committee noted that the International Monetary Fund disbursed an equivalent of USD111 million under the Extended Credit Facility programme in April 2012 increasing the CBK's foreign exchange reserves position to USD4,629 million or 4.02 months of import cover. This will further cushion the market against external shocks and enhance confidence in the economy.
- Demand pressure on inflation has also eased as reflected by the continued slowdown in private sector credit growth which declined from an annual growth of 26.05 percent in February 2012 to 24.01 percent in March 2012.
- Confidence in the economy remains strong as indicated by the rising diaspora remittances that increased from USD89.76 million in January 2012 to USD103.98 million in February 2012 and further to USD106.40 million in April 2012. In addition, the MPC Market Perceptions Survey conducted in April 2012 showed that the private sector expects inflation to continue declining; the exchange rate to remain stable and the economy to remain resilient in 2012.

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

- An underlying inflationary pressure from food and fuel prices that resulted in an increase in the overall 3-month annualised inflation from 7.65 percent in March 2012 to 9.22 percent in April 2012.
- Furthermore, although non-food-non-fuel inflation declined in April 2012, it is still above the Government short-term inflation target of 9 percent for the fiscal year 2011/12.
- The rising international crude oil prices to USD127.0 per barrel in March 2012 increased the current account deficit to an estimated 13.6 percent of GDP. It continues to pose a threat to both exchange rate stability and the continued easing of inflation pressure.
- These considerations showed that there is still some lingering pressure on inflation that could give rise to adverse inflationary expectations. These must be addressed to facilitate a return to high economic activity supported by a low inflation regime.

In view of the above considerations, the Committee observed that there is need to maintain the current monetary policy stance to ensure that inflation continues to decline towards the target and to sustain the current exchange rate stability. The Committee therefore decided to retain the Central Bank Rate (CBR) at 18.0 percent. In addition, in order to ease the pressure on interest rates, the CBK will enhance its monetary policy operations to stabilise the daily interbank rate.

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

**PROF. NJUGUNA NDUNG'U, CBS**  
**CHAIRMAN, MONETARY POLICY COMMITTEE**  
3<sup>rd</sup> May, 2012