

Governor

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## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING 1<sup>ST</sup> DECEMBER, 2011**

#### **SUSTAINING MONETARY POLICY DIRECTIONS TO FIGHT INFLATION**

The Monetary Policy Committee met on 1<sup>st</sup> December, 2011 to assess the economy's response to its previous monetary policy decisions and the economic developments since its last meeting. Although inflation in November 2011 had continued to rise, the rate of increase had slowed down. Food and fuel prices continue to be the key factors driving overall inflation. The Kenya Shilling has been appreciating strongly and private sector credit growth, which had been observed to be exacerbating demand pressures on inflation, eased in October 2011. These developments supported analyses showing that the tight monetary policy stance adopted by the Committee is achieving its desired results. However, the response with respect to inflation is yet to be felt.

The information analysed by the Committee showed that most commercial banks had revised their base rates, effective lending rates, and deposit rates upwards. The rise in deposit rates reflects increased competition for deposits amidst tight liquidity conditions and is expected to promote savings. The tightness in the market was also noted to have dampened demand for imports, thereby easing pressure on the exchange rate. Furthermore, banks were noted to be revising their asset portfolios with a significant number offloading some of their foreign exchange holdings to the benefit of the exchange rate. In addition, it was noted that several banks had commenced discussions with borrowers with a view to restructuring loans and refinancing arrangements to avoid any threat of default. The Committee noted that this is an appropriate process to be formally encouraged to work out modalities that would enhance these short-run measures to protect borrowers and banks alike.

The Committee noted that although supply shocks continued to drive domestic prices upwards, demand driven inflation pressures arising from the growth of private sector credit continued to persist. In addition, it was noted that there were exchange rate risks emanating from uncertainty in the global financial markets due to the debt crisis in the eurozone. In order to address these risks, the Committee considered it necessary to further tighten the monetary policy stance at the margin.

The Committee noted that since inflation continued to increase in November, 2011 and other policy measures, including the Cash Reserve Ratio raised in the last MPC Meeting were still transmitting through the market, it was necessary to enhance these monetary policy actions. The Committee therefore decided to revise upwards the Central Bank Rate by 150 basis points from 16.5 percent to 18.0 percent. This is expected to ease inflation and contain inflationary expectations.

A handwritten signature in blue ink, appearing to read 'Njuguna Ndung'u', written over a light blue circular stamp.

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

1<sup>st</sup> December, 2011