



Central Bank of Kenya

Thirty Second Bi-Annual Report of the Monetary Policy Committee

April 2024



LETTER OF TRANSMITTAL

In accordance with Section 4D of the Central Bank of Kenya Act, it is my pleasure to present to you, Honourable Cabinet Secretary of the National Treasury and Economic Planning, the 32nd Monetary Policy Committee Report. The Report outlines the monetary policy formulation, developments in the key indicators of the economy, and other activities of the Committee in the six months to April 2024.

Dr. Kamau Thugge, CBS

Governor

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MEMBERS OF THE MONETARY POLICY COMMITTEE



Dr. Kamau Thugge, CBS
Governor



Dr. Susan Koech
Deputy Governor



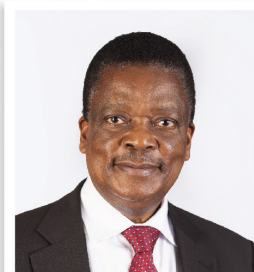
Dr. Margaret Chemengich
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Dr. Chris Kiptoo
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EXECUTIVE SUMMARY

The thirty-second bi-annual Report of the Monetary Policy Committee (MPC) reviews Kenya's monetary policy formulation and other developments that affected the economy in the six months to April 2024. The conduct of monetary policy during the period was aimed at ensuring that overall inflation declines to the mid-point of the 5.0±2.5 percent target range, which is consistent with the price stability objective of the Central Bank of Kenya (CBK). Monetary policy was also aimed at addressing the significant pressures on the exchange rate arising from global and domestic developments during the period.

The MPC continued to monitor the new monetary policy implementation framework adopted in August 2023. The new framework is based on inflation targeting, and an interest rate corridor around the Central Bank Rate (CBR) of ± 250 basis points. During the six months to April 2024, the monetary policy operations was aimed at ensuring the interbank rate, as an operating target, closely tracked the CBR. Assessment of the performance of the new framework in the period to April 2024 revealed increased interbank market activity, minimal interest rate spreads, reduced market segmentation and enhanced monetary policy transmission.

Monetary policy in the period was conducted against a backdrop of continued recovery in global growth, supported by strong growth in the U.S.A and resilient growth in some large emerging market economies particularly India. Global growth was subject to risks relating to persistent geopolitical tensions, and high interest rates in advanced economies. Currencies of most emerging and developing economies continued to depreciate due to a stronger U.S. Dollar. Global inflation moderated, but some stickiness persisted in the advanced economies. Food inflation continued to decline with improved supply of key food items. International oil prices trended upwards during the period, driven by supply cuts by major oil producers, and disruptions to shipping through the Red Sea following escalation of Israel-Palestinian conflict.

The MPC held three meetings between November 2023 and April 2024, to review the outcome of its previous policy decisions and economic developments, and to put in place appropriate measures aimed at addressing exchange rate pressures and maintaining price stability. The MPC raised the CBR from 10.50 percent to 12.50 percent in December 2023, noting that exchange rate depreciation continued to exert upward pressure on domestic prices, thereby increasing the

cost of living and reducing purchasing power. During its meeting in February 2024, the MPC raised the CBR from 12.50 percent to 13.00 percent, noting that overall inflation had remained sticky in the upper bound of the target range. The MPC retained the CBR at 13.00 percent in April 2024, noting that its previous measures had lowered inflation, addressed the exchange rate pressures, and anchored inflationary expectations. The MPC noted that the monetary policy stance would ensure that overall inflation declined to the mid-point of the target range.

Overall inflation declined to the 5.0 percent mid-point of the target range in April 2024, from 6.9 percent in October 2023, driven by lower food and fuel inflation. Food inflation eased to 5.6 percent in April 2024 from 7.8 percent in October 2023, due to increased supply of food attributed to favorable weather and impact of Government measures to zero-rate imports of key food items. Fuel inflation declined to 8.3 percent from 14.8 percent in the period, reflecting reduction in pump prices and lower electricity prices, mainly attributed to the appreciation of the exchange rate. The NFNF inflation remained sticky at 3.6 percent during the period, with the monetary policy measures continuing to filter through the economy. CBK continued to monitor the overall liquidity in the economy as well as any threats that could fuel demand driven inflationary pressures.

The Kenyan economy recorded strong growth in 2023 with real GDP growing by 5.6 percent from a revised growth of 4.9 percent in 2022, largely driven by the rebound in agriculture, and robust performance of the services sector, particularly transport and storage, financial and insurance, information and communication, accommodation and food services, and real estate. However, growth in manufacturing and wholesale and retail trade sectors slowed down. Leading indicators pointed to continued strong economic performance in the first quarter of 2024.

The Kenya Shilling strengthened in the six months to April 2024, reflecting increased foreign exchange inflows, impact of monetary policy measures, effects of reforms in the foreign exchange market, and the buyback of the June 2024 Eurobond by the Government. The current account deficit was estimated at 4.1 percent of GDP in the 12 months to April 2024, down from 4.8 percent of GDP in a similar period of 2023, mainly reflecting improved exports of goods, strong remittances, and goods imports. The recent key reforms in the foreign exchange market

include: introduction of the Kenya Foreign Exchange code for commercial banks; introduction of the Electronic Matching Systems (EMS); and unification of the parallel exchange rates whereby the CBK was previously quoting a different indicative exchange rate from that quoted by commercial banks. The CBK usable foreign exchange reserves, which stood at USD 7,174 million (3.78 months of import cover) at the end of April 2024, continued to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.

The banking sector remained stable and resilient during the period, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 16.1 percent in April 2024, with banks continuing to make adequate provisions for the NPLs. Growth in commercial bank lending to the private sector stood at 6.6 percent in the year to April 2024, partly reflecting exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling.

The Governor held virtual media briefings after every MPC meeting during the period. Additionally, the Governor held virtual post MPC meetings with CEOs of banks, non-bank private sector firms, and international investors. The meetings provided a forum to obtain feedback, and to apprise the market of the background information for the MPC decisions and updates on the economy. The meetings continued to enhance the public understanding of monetary policy formulation and implementation. The Bank continued to monitor and remained vigilant to the risks posed by developments in the domestic and global environment, including geopolitical tensions, on the economy and the overall price stability objective.

1. DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economic outlook improved in the six months to April 2024 albeit at a slow pace. Global economic activities though with diverse variations across economies, are expected to improve, reflecting increased pick up in global demand notably in the United States and some Emerging Markets and Developing Economies (EMDEs). According to the IMF World Economic Outlook (WEO) April 2024, annual global growth is expected to remain stable at 3.2 percent in 2024 and 2025, a 0.2 percentage point upgrade for 2024 from October 2023 projections.

Growth in the advanced economies, is expected at 1.7 percent in 2024 and 1.8 percent in 2025, amid stronger growth momentum in the US but weaker-than-expected growth in the Euro Area, reflecting reduced consumer confidence. Growth in most economies in this group is forecasted to improve in 2025, Euro Area (1.5 percent), UK (1.5 percent), and Japan (1.0 percent) but the US growth is projected to decline from 2.7 percent in 2024 to 1.9 percent in 2025.

In the emerging market and developing economies (EMDEs), growth is projected to modestly decline from an estimate of 4.3 percent in 2023 to 4.2 percent in 2024 and 2025, reflecting slowdown of economic activities in China amid rising prospects in India. In Sub-Saharan Africa (SSA), economic activity is projected to improve from 3.4 percent in 2023 to 3.8 percent in 2024 and 4.0 percent in 2025. The projected increase is attributed to the favorable weather conditions and increased investments in the service sectors in non-resource intensive economies. According to the IMF,

Nigeria, South Africa, and Kenya are expected to grow by 3.3 percent, 0.9 percent, and 5.0 percent in 2024, respectively. In 2025, they are expected to grow by 3.0 percent (Nigeria), 1.2 percent (South Africa), and 5.3 percent (Kenya).

Global financial conditions eased in the six months to April despite interest rates expected to remain higher-for-longer as market participants continue to scale back easing expectation. Global inflation concerns have moderated although some stickiness persists in core inflation in some advanced economies. Headline inflation is expected to gradually decline from 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025.

Global commodity market pressures are expected to continue to ease as nonfuel and fuel commodity prices converge towards their long-run historical standards. Oil prices are expected to fall by about 2.5 percent, and to average \$78.61 a barrel in 2024, while nonfuel commodity prices are expected to fall by 1.8 percent in 2024. Global demand is expected to pick up, reflecting increased consumer spending, particularly in the service sector as demand for travel, tourism, and recreational activities rises. World trade growth is expected at 3.0 percent in 2024, reflecting normalization of supply chain networks.

Risks to the global outlook remain largely balanced in the near term, with effects of geopolitical events remaining largely muted so far but would potentially escalate and concerns on persistent core inflation in some advanced economies.

2. DEVELOPMENTS IN THE KENYAN ECONOMY

2.1 Overall Economy

The economy recorded robust growth in 2023, largely driven by strong growth of the agriculture and services sectors. It grew by 5.6 percent compared to a revised growth of 4.9 percent in 2022. The agriculture sector rebounded and grew by 6.5 percent compared to a contraction of 1.5 percent in 2022. Growth in the sector was driven by increased agricultural activity following favourable weather conditions experienced in most parts of the country. Services sector maintained a strong growth momentum and grew by 7.0 percent in 2022 and 2023. Growth was buoyed by finance and insurance, transport and storage, real estate, information and communication, and accommodation and food services sectors. Industrial activity, however, remained subdued. The sector grew by 1.9 percent in 2023 compared to 3.9 percent in 2022, reflecting slowdown in activity in all sectors. (Table 1).

Outlook for economic growth in 2024 remains positive, despite continued uncertainty in the global economy. The economy is projected to record strong growth in 2024, supported by strong performance of agriculture and services sectors. Continued implementation of Government initiatives across key priority sectors and increased digitalization of the economy is expected to continue boosting activity. Additionally, continued macroeconomic stability is expected to provide a conducive environment for economic activity. However, the downside risks to growth remain significant, with possible escalation of geopolitical tensions in the Middle East and Ukraine as well as potential increase in international oil prices likely to dampen growth prospects domestically and externally. Additionally, worsening of supply disruptions due to the conflict in the Red Sea could lead to higher import and production costs.

Table 1: Kenya’s Real GDP Growth across the Main Sectors (Percent)

	2022	2023	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Agriculture	-1.5	6.5	-0.9	-2.1	-1.1	-1.7	6.4	7.8	5.1	6.2
Non-Agriculture (o/w)	6.3	5.4	7.6	6.7	5.6	5.2	5.3	5.1	6.2	4.9
Industry	3.9	1.9	5.2	4.9	3.9	1.7	1.7	1.4	3.1	1.3
Services	7.0	7.0	8.3	7.5	6.0	6.2	6.8	6.8	7.8	6.5
Taxes on Products	6.7	2.2	8.3	5.4	6.8	6.2	3.0	1.8	1.9	2.0
Real GDP Growth	4.9	5.6	5.9	4.9	4.6	4.1	5.5	5.6	6.0	5.1

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

2.1 Financial Market Developments

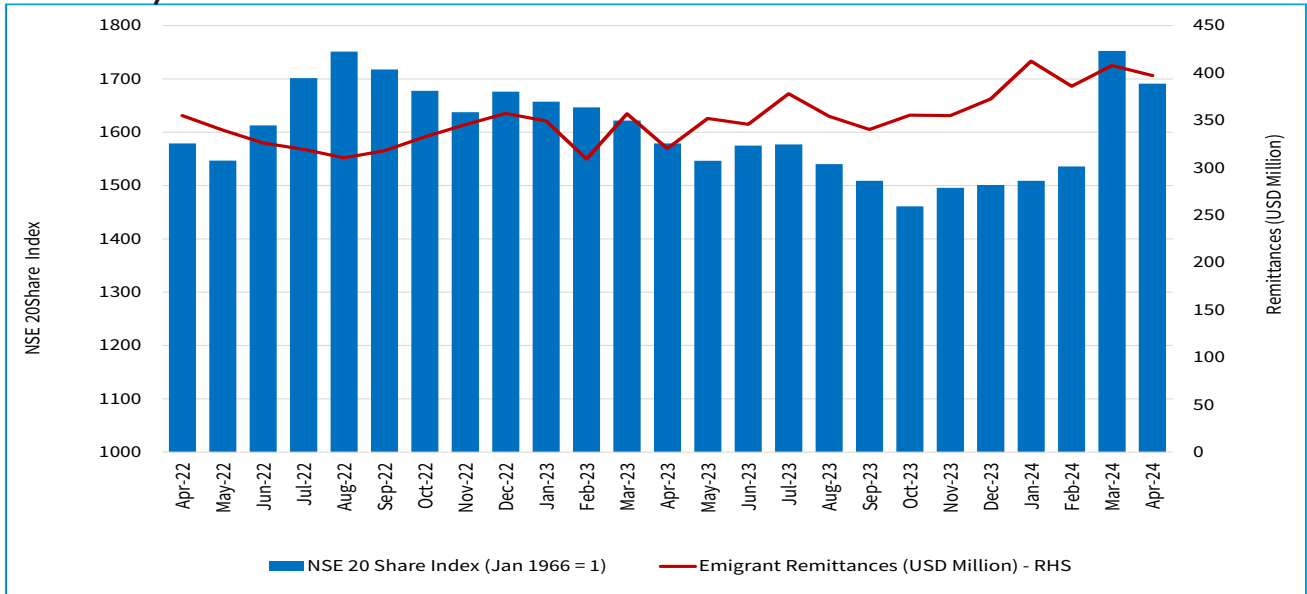
During the six months to April, global financial conditions eased supported by investor optimism about a soft landing, lower long-term yields, and rallies in stock and corporate bond markets. The advanced economies and major emerging markets tightened the lending standards amid concerns about deteriorating borrower risk profiles, expectations of economic slowdowns, and reductions in banks’ risk tolerance.

Backed by a strong economy and rising U.S. Treasury yields, the U.S. Dollar remained resilient against most

major currencies. Between March and April the euro fell versus the dollar by about 2 percent while the sterling pound fell by about 1.9 percent.

In the domestic economy, diaspora remittances remained strong over the period (Chart 1a). Meanwhile, activity at the Nairobi Securities Exchange (NSE) picked up with the NSE 20-Share price index increasing from 1,462.32 in October 2023 to 1690.98 points in April 2024 supported by attractive entry points for investors.

Chart 1a: Monthly Diaspora Remittances (USD Million) and NSE 20 share Index (Jan 1966=100)

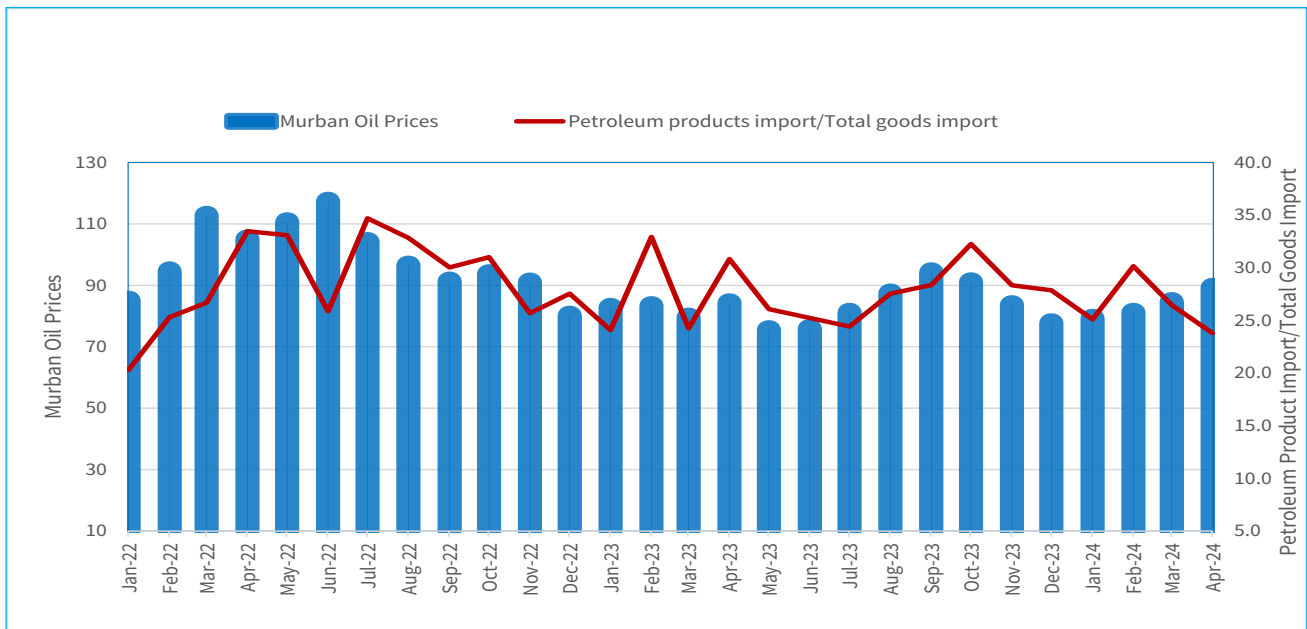


Source: Central Bank of Kenya and Nairobi Securities Exchange

Developments in international oil prices have implications on the balance of payments position particularly when the proportion of imports of petroleum products in total imports is high. After rising

between July and September, international oil prices declined beginning October 2023 as concerns about demand continued to replace the fear of production outages related to the Middle East conflict (**Chart 1b**).

Chart 1b: Murban Oil Price and the ratio of 12-Month Cumulative Petroleum Product Imports to Total Imports of Goods (percent)



Source: Oil price.com and Kenya Revenue Authority

2.3 Developments in Key Economic Indicators

2.3.1 Inflation

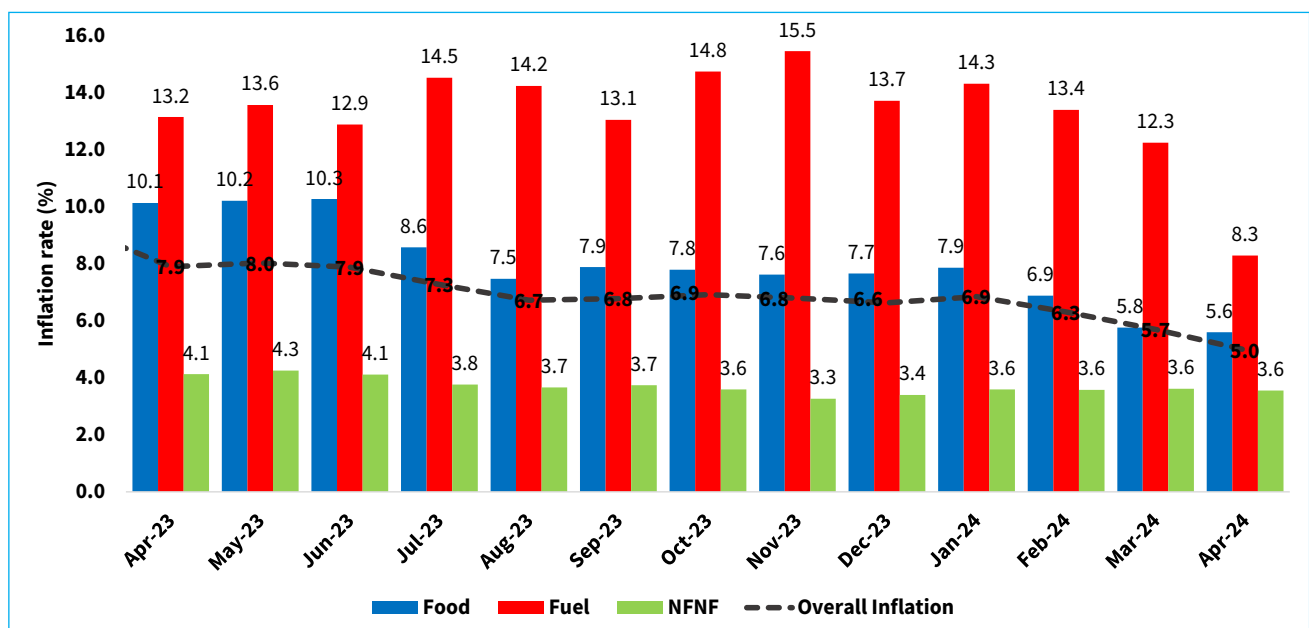
Headline inflation declined to the mid-point target of 5 percent in April 2024 reflecting easing prices across all the broad components of inflation. Headline inflation declined from a peak of 9.6 percent in October 2022 to 7.3 percent in July 2023 and remained sticky at an average 6.8 percent for the period August 2023 to January 2024. However, it moderated further thereafter and converged to the target in April 2024 on account of easing food prices, impact of monetary policy tightening, waning spillover effects of high energy prices and strengthening of the Kenyan Shilling against major currencies (**Chart 2a**).

Food inflation continued to decline from a double-digit peak of 15.8 percent in October 2022 to a single digit of 5.6 percent in April 2024, reflecting easing domestic and international food prices. Although food inflation had remained sticky between July 2023 and January 2024, significant declines were witnessed from February to April 2024. The decline reflects increased supply arising from favorable weather conditions and Government incentives such as zero-rating of select key food imports. On the international scene, food prices continued to ease, reflecting increased output and improvements in global supply chain networks. Additionally, exchange rate appreciation resulted in lower prices of imported food components.

Fuel inflation declined to a single digit in April 2024 from its peak in November 2023 due to easing electricity and pump prices. In April 2024, fuel inflation stood at 8.3 percent compared to a high of 15.5 percent in November 2023. The appreciation of the exchange rate more than counterbalanced the pass-through of international oil prices resulting in lower domestic pump prices. Additionally, it resulted in a significant reduction in the Foreign Exchange Rate Fluctuation Adjustment (FERFA) on electricity prices from a high of KSh 6.46 per kilowatt hour in January 2024 to KSh 1.96 per kilowatt hour in April 2024. Consequently, electricity prices declined substantially over the same period resulting in lower fuel inflation.

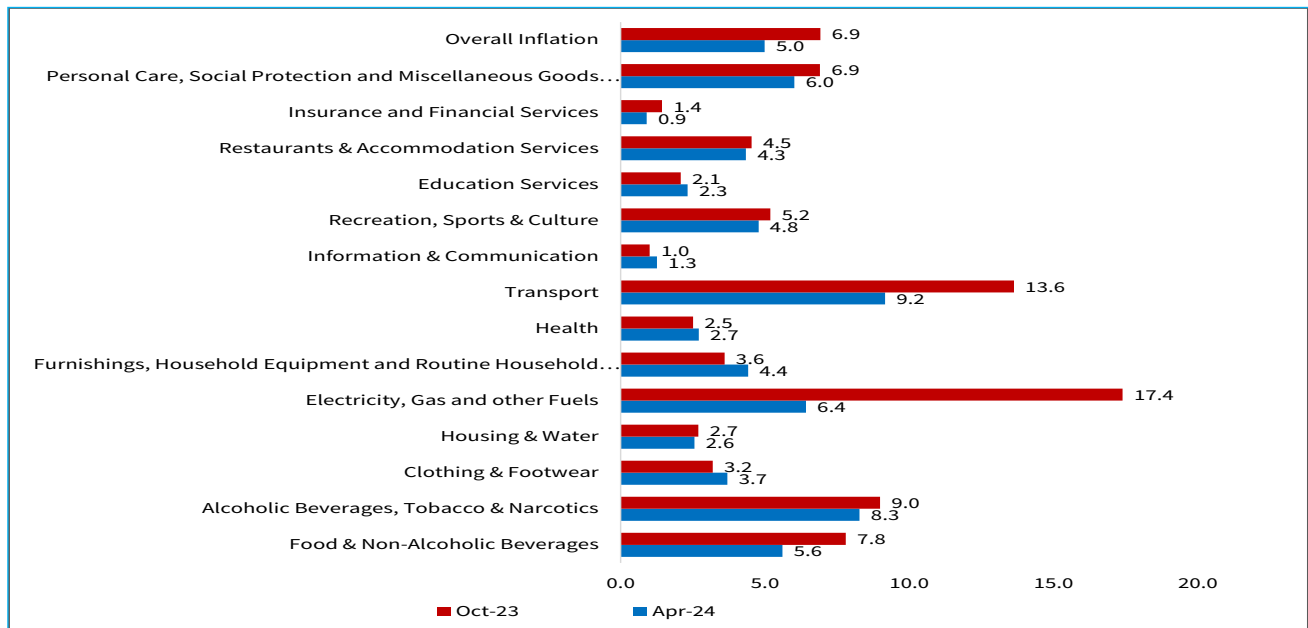
The Non-Food-Non-Fuel (NFNF) inflation eased from a peak of 4.4 percent in March 2023 to 3.6 percent in January 2024 and remained at that level until April 2024. Developments in NFNF inflation reflect weak domestic demand, particularly industrial activity and the impact of tight monetary policy stance. Additionally, the latter has continued to tame the second order effects of high energy prices on NFNF inflation.

Chart 2a: Developments in Headline Inflation (y/y, percent)



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Chart 2b: 12-month inflation by broad CPI category (%)



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Outlook

Inflation is expected to remain stable around the target in the near term, supported by easing food and energy prices. Domestic food prices are expected to be moderated by increased supply following ongoing favorable weather conditions which continue to boost agricultural production, and stability of the exchange rate which is expected to result in lower prices of imported food and energy commodities compared to similar periods in 2023. Additionally, the impact of the current tight monetary policy stance is expected to continue filtering through the economy.

Risks to inflation outlook include uncertainty around the evolution of international oil prices and the potential escalation of geopolitical tensions associated with the wars in Ukraine and Middle East which have implications on global supply chains.

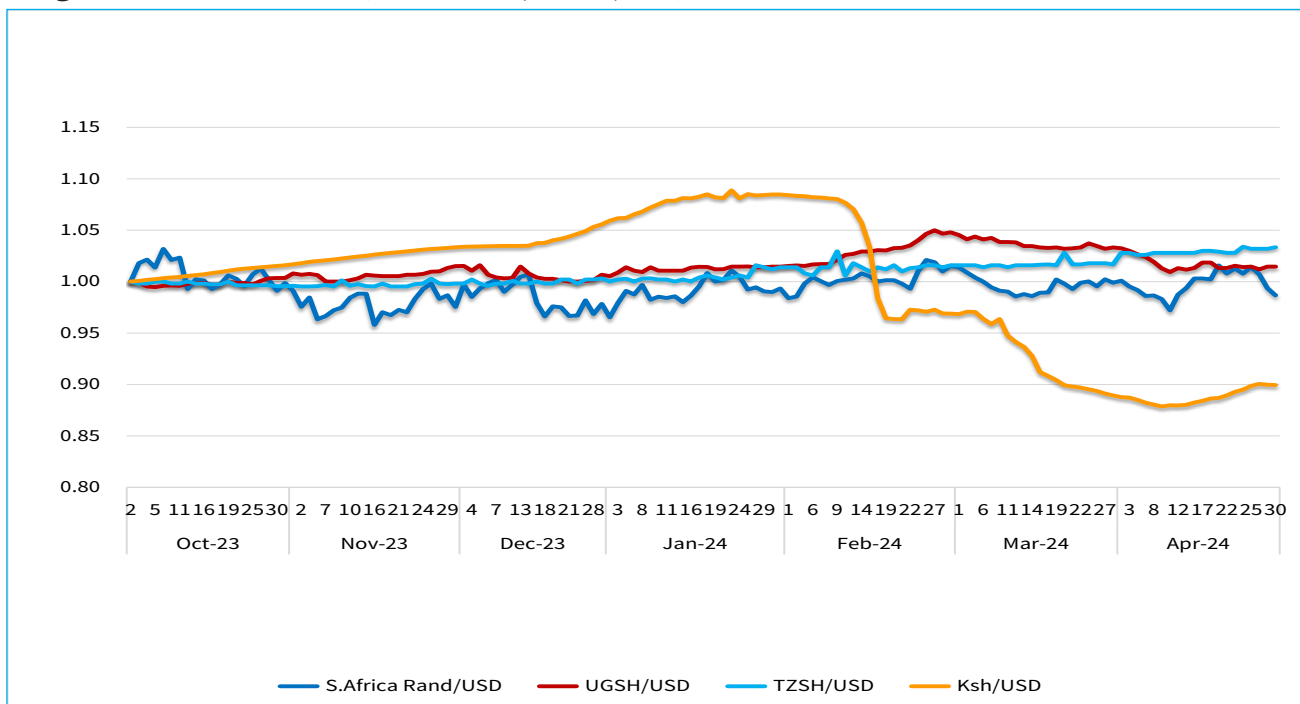
2.3.2 Foreign Exchange Market Developments

The foreign exchange market remained relatively stable in the six months to April 2024, supported mainly by exports of goods and services as well as resilient remittances. However, there was pressure from the strengthening of the U.S dollar against major currencies in the international markets as well as geopolitical tensions. Diaspora remittances totaled USD 397.3 million in April 2024 compared to USD 320.3 million in April 2023.

The CBK foreign exchange reserves, which stood at USD 7,174 million (3.78 months of import cover) as at end April 2024, continued to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.

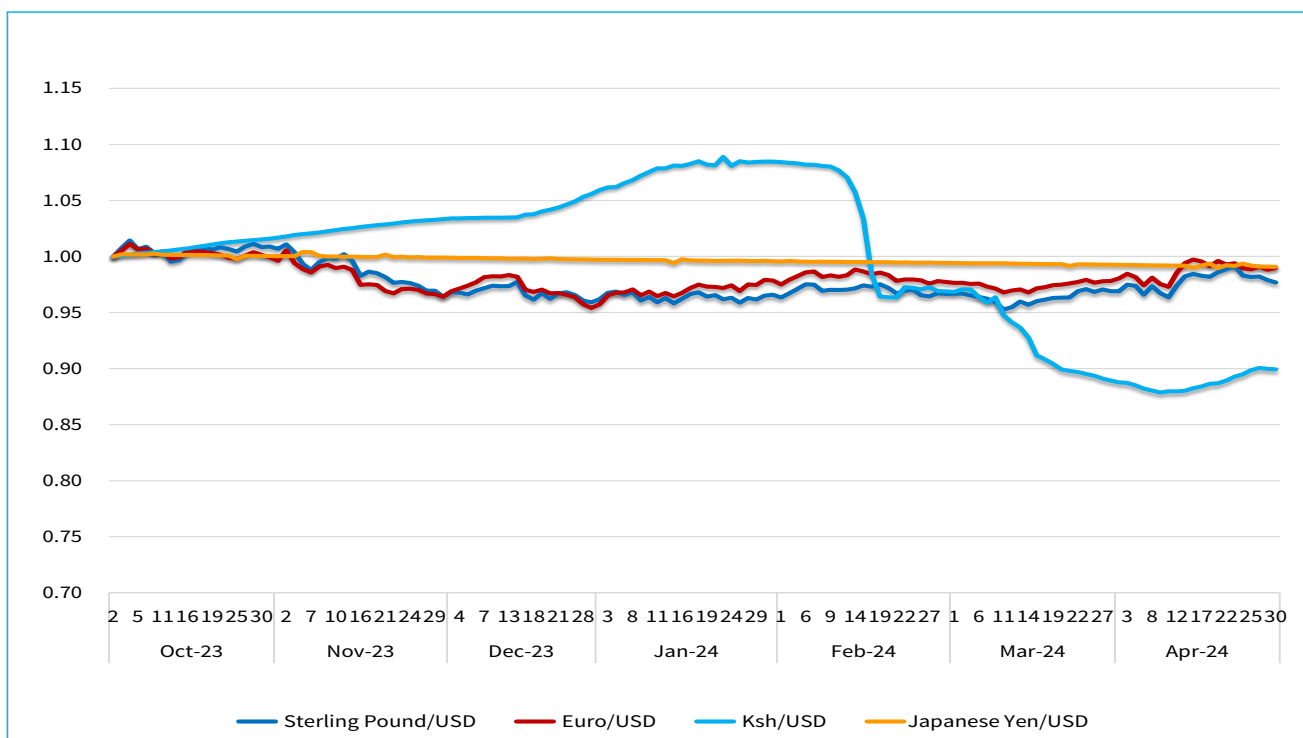
Global financial conditions eased in the six months to April despite interest rates expected to remain higher-for-longer as market participants continue to scale back easing expectation (**Charts 3a and 3b**). Kenya's external balance continued to support the stability of the Kenya Shilling. The shilling stability was also supported by the following reforms implemented in the foreign exchange Market, (i) Introduction of the Kenya Foreign Exchange code for commercial banks, aimed at strengthening and promoting the integrity and effective functioning of the wholesale foreign exchange market, (ii) Introduction of the Electronic Matching Systems (EMS) in the interbank forex market to promote a transparent and accountable price discovery mechanism and ensure visibility to all market participants; and (iii) Unification of the parallel exchange rates whereby the CBK was previously quoting a different indicative exchange rate from that quoted by commercial banks. Currently, there is a single rate which is based on actual transactions in the interbank forex market.

Chart 3a: Normalized Exchange Rates of the Kenya Shilling and Regional Currencies against the US Dollar (October 2, 2023, = 1)



Source: Central Bank of Kenya

Chart 3b: Normalized Exchange Rates of the Kenya Shilling and Major Currencies against the US Dollar (October 2, 2023, = 1)



Source: Central Bank of Kenya

2.2.3 Balance of Payments Developments

In the 12-months to April 2024, the current account balance was a deficit of USD 4,496 million (4.1 percent of GDP), compared to a deficit of USD 5,538 million (4.8

percent of GDP) in a similar period in 2023, reflecting improvement in goods exports and remittance inflows. The current account deficit is expected to remain stable at 4.0 percent in 2024 and in the medium term.

The deficit in the goods account narrowed to USD 9,777 million in the year to April 2024, largely reflecting improvement in goods exports. The performance of exports rose by 2.9 percent to USD 7,589 million in the year to April 2024, on account of increased earnings from horticulture exports (8 percent) and receipts from tea (6 percent). However, receipts from manufactured goods decreased by 3.9 percent, compared to a similar period in 2023. Imports dropped by 7.7 percent in the 12 months to April 2024 compared to an increase of 1.7 percent

in a similar period in 2023. The decline in imports was across all categories except for machinery and transport equipment, which increased by 2.9 percent. Decline of key import items were registered as follows: importation of intermediate goods especially mineral fuels (14.5%), chemicals (12.9%) and manufactured goods (16.3%). The decline in fuel products was due to lower international oil prices. Receipts from service exports also declined in the period under review (**Chart 4a and Chart 4b**).

Chart 4a: Foreign Exchange Inflows from Major Export Categories in the 12-Months to April (USD Million)

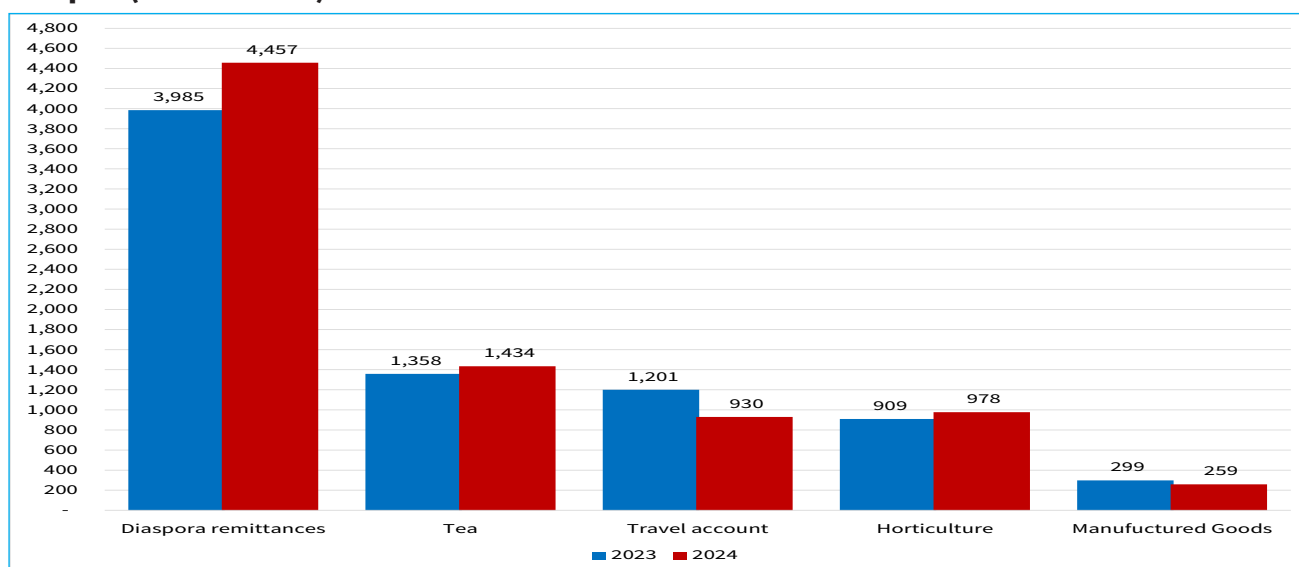
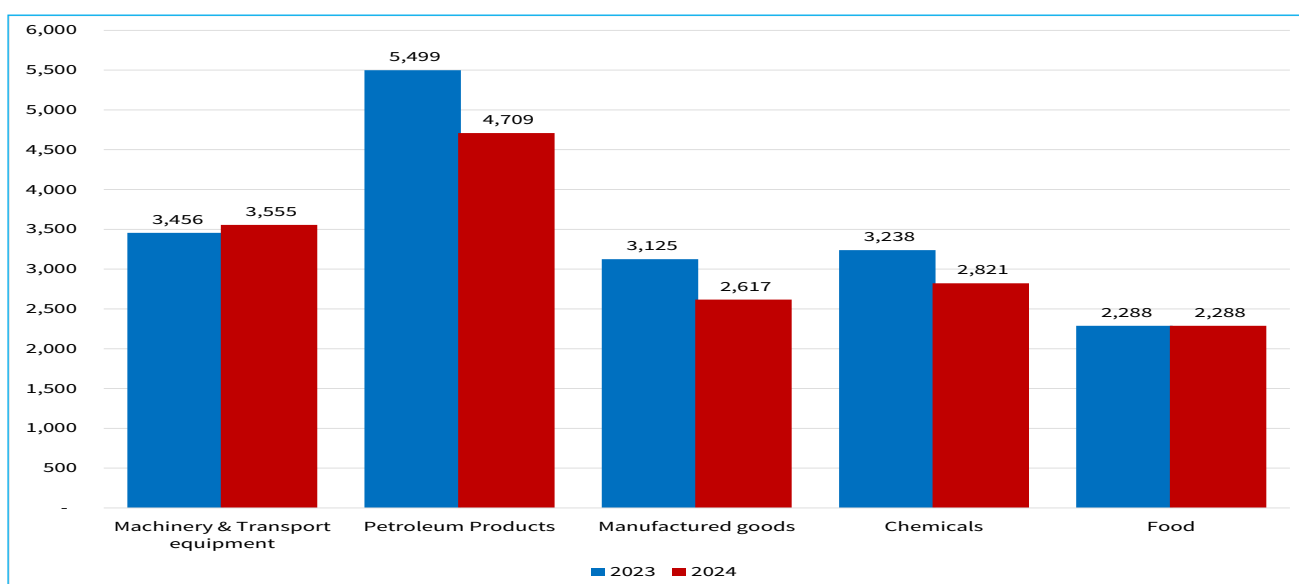


Chart 4b: Imports by Major Categories in the 12-Months to April (USD Million)



Financial account net inflows increased by USD 839 million in the 12 months to April 2024, reflecting inflows to the government and other sectors. The capital account on the other hand, recorded a surplus of USD 123.0 million in the 12-months to April 2024.

Imports from China accounted for 18.4 percent of the total imports in the 12 months to April 2024, while United Arab Emirates, India, the United States, and the United Kingdom accounted for 14.5 percent, 9.9 percent, 5.3 percent and 1.5 percent, respectively.

The U.K. and U.S. accounted for 5.6 percent and 6.7 percent, respectively, of Kenya’s total exports in the 12-months to April 2024. Exports to other trading blocs such as the EAC, COMESA and the EU accounted for 29.3 percent, 26.8 percent, and 15.0 percent, respectively, of total exports over the period, compared to 26.3 percent, 27.2 percent and 20.3 percent of total exports in the 12-months to April 2023, respectively.

2.3.4 Banking Sector Developments

The banking sector remained stable and resilient in the period ended April 2024, with strong liquidity and capital adequacy ratios. The average commercial banks liquidity and capital adequacy ratios stood at 53.3 percent and 18.9 percent in April 2024 respectively. These were above the minimum statutory limits of 20.0 percent and 14.5 percent respectively.

Credit risk was elevated, with the ratio of gross non-performing loans (NPLs) to gross loans standing at 16.1 percent in April 2024, an increase from 15.3 percent in October 2023. Gross NPLs increased by 4.4 percent from Ksh 634.0 billion in October 2023, to Ksh 662.2 billion in April 2024 mainly due to a challenging business environment. The main sectors with increased NPLs were Real Estate, Trade, Tourism, Restaurant and Hotels, Agriculture, Personal and Household, Financial Services and Building and Construction.

Customer deposits remained the main source of funding to the banking sector accounting for 73.5 percent of the banking sector's total liabilities and shareholders’ funds as at April 2024. This was a slight decrease from 74.4 percent in October 2023.

Customer deposits increased by 0.1 percent to Ksh 5,569.8 billion in April 2024, from Ksh 5,564.4 billion in October 2023.

The Credit Guarantee Scheme (CGS) established in October 2020, continued to support additional credit uptake by vulnerable Micro, Small, and Medium-sized Enterprises (MSMEs). As at the end of April 2024, the seven banks participating in the CGS had disbursed guaranteed loans to MSMEs amounting to Ksh 6.3 billion.

Going forward, the banking sector is projected to remain resilient and stable. Credit risk is expected to remain elevated in the short to medium term. Liquidity risk is expected to remain stable while operational risk and interest rate risk are expected to remain elevated (**Chart 5**).

2.3.5 Developments in Private Sector Credit

Growth in commercial bank lending to the private sector declined to 6.6 percent in the year to April 2024 from 12.5 percent in October 2023, largely reflecting the impact of exchange rate appreciation on foreign currency denominated loans. Foreign currency denominated loans which account for 26 percent of total credit to the private sector contracted by 14.2 percent in April 2024 compared to an increase of 7.3 percent in October 2023. Reduced credit growth was observed in manufacturing, transport and communications, trade and consumer durables (**Table 2**). These are some of the sectors with significant foreign currency denominated loans. Growth in private sector credit is expected to remain moderate in the near term consistent with a tight monetary policy stance.

Table 2: 12-Month Growth in Private Sector Credit (%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Total Credit to Private Sector	13.3	12.5	12.5	11.5	11.7	11.6	13.2	13.2	12.2	10.3	12.6	12.2	12.5	13.2	13.9	13.8	10.3	7.9	6.6
Agriculture	21.7	20.3	22.3	20.7	18.0	14.9	16.9	18.3	18.6	19.0	14.9	15.3	18.5	23.7	23.4	32.5	28.2	17.5	15.7
Manufacturing	17.5	14.9	13.8	13.8	15.2	15.8	21.7	19.3	18.0	14.7	19.6	22.0	18.4	20.0	20.9	23.1	13.6	9.4	4.3
Trade	15.3	14.3	11.4	11.1	11.8	11.9	13.7	15.4	10.2	7.4	9.4	7.1	9.9	10.2	13.1	12.9	10.7	6.2	5.1
Building & construction	8.0	6.0	8.2	5.8	3.0	5.8	4.2	5.1	4.9	1.9	2.7	7.9	13.0	3.6	8.6	3.0	4.1	0.1	5.0
Transport & communication	22.8	21.8	23.5	16.6	16.5	17.4	18.0	22.0	19.8	16.4	24.9	18.5	16.2	22.9	20.8	16.6	7.5	6.9	9.6
Finance and insurance	5.4	4.4	7.6	6.7	21.1	28.4	32.3	32.7	29.7	35.4	38.7	40.8	41.6	38.9	60.2	32.8	16.9	13.0	6.2
Real estate	1.6	2.8	3.2	3.3	2.9	2.3	2.4	1.9	3.7	3.0	3.7	7.6	6.5	6.5	7.1	8.0	6.1	5.2	5.4
Mining & quarrying	53.5	58.3	31.3	54.2	97.7	83.2	55.6	41.3	24.0	16.7	23.7	20.7	5.9	11.8	15.1	8.0	4.3	34.4	26.9
Private households	5.9	6.0	8.2	7.8	7.8	7.2	5.0	7.0	8.4	7.0	7.8	7.0	8.3	7.8	2.5	7.3	8.9	8.6	10.4
Consumer durables	14.0	12.6	12.9	12.5	12.4	12.7	13.3	11.9	12.0	12.9	12.7	10.5	10.8	11.1	9.9	9.3	7.4	6.4	5.2
Business services	13.2	14.5	13.7	13.7	13.5	9.3	12.5	13.5	12.1	10.7	8.1	11.7	8.3	7.2	7.7	9.5	3.3	6.8	-0.4
Other activities	49.8	44.8	41.8	33.3	15.3	11.9	20.6	6.8	8.7	0.5	10.8	-0.8	7.1	12.8	16.4	15.7	29.6	15.2	10.4

Source: Central Bank of Kenya

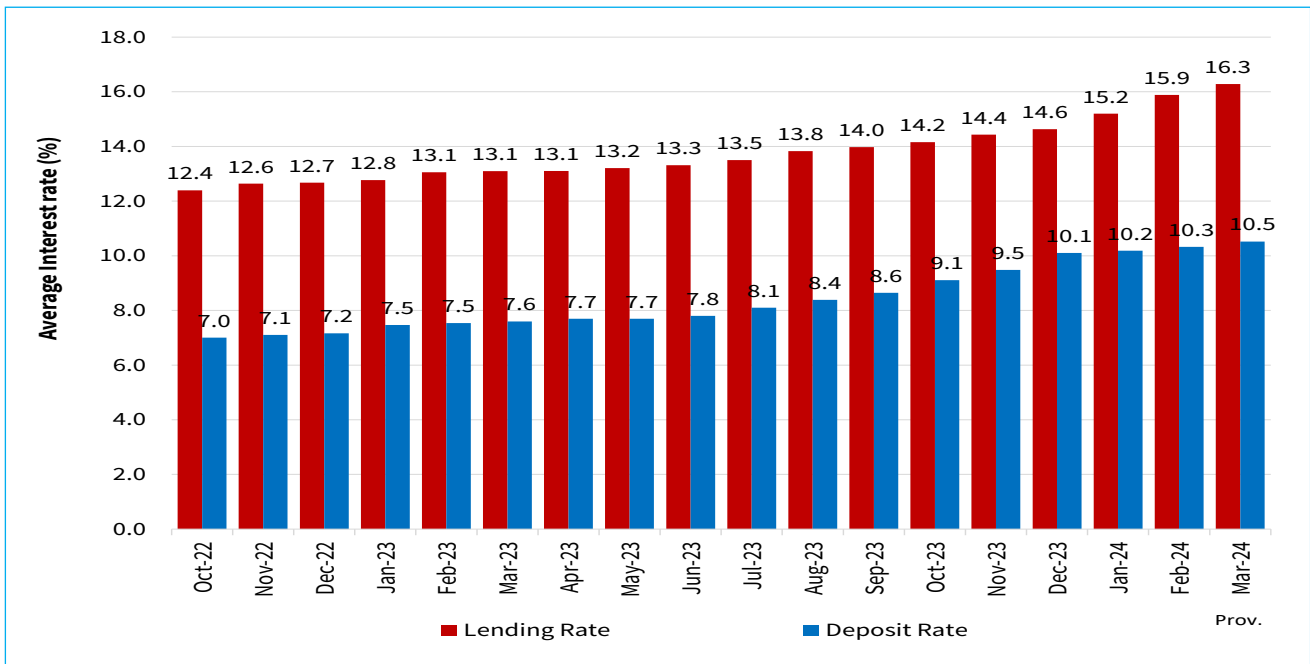
2.3.6 Interest rates

Short-term money market interest rates increased in the six months to April 2024, partly reflecting the tight monetary policy stance and liquidity conditions in the money market. Commercial banks' average lending rate increased during the review period, partly reflecting the tight monetary policy stance. The weighted average lending rate increased

to 16.3 percent in April 2024 from 14.4 percent in November 2023, while the weighted average deposit rate increased to 10.5 percent from 9.5 percent over the same period (Chart 5).

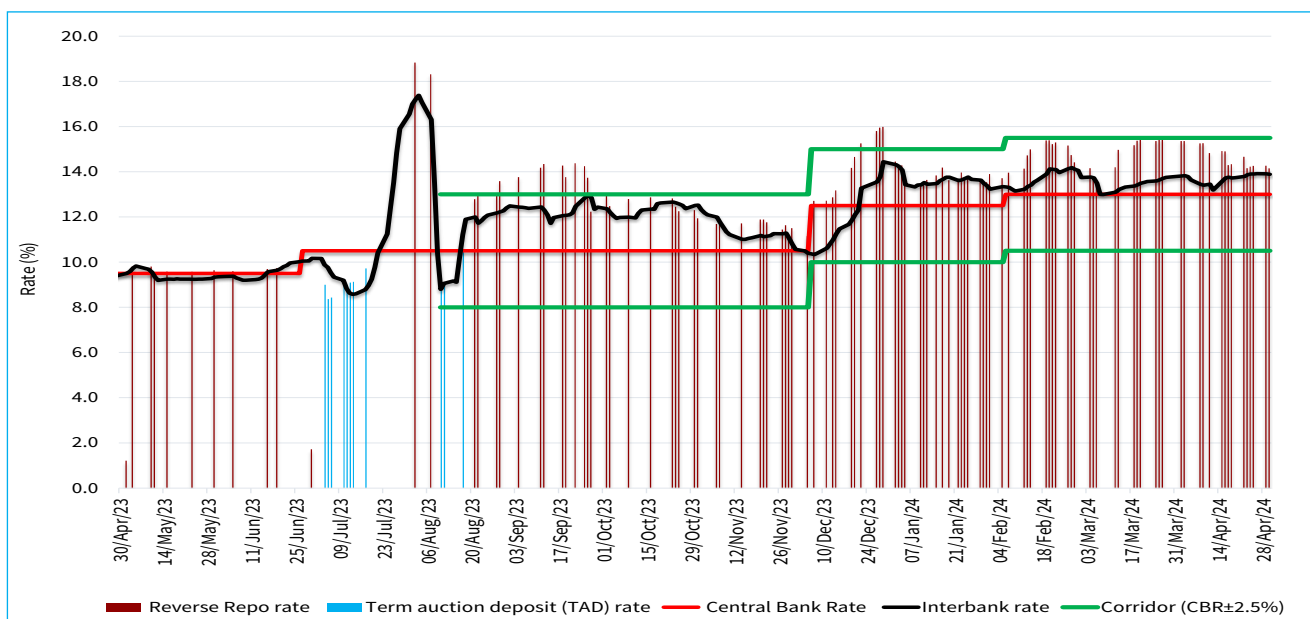
The interbank weighted average rate remained within the upper bound of the ± 250 basis points interest rate corridor set around the CBR reflecting the tight monetary policy stance bias. Open market operations remained active (Chart 6a).

Chart 5: Commercial Banks' Average Interest rates (%)



Source: Central Bank of Kenya

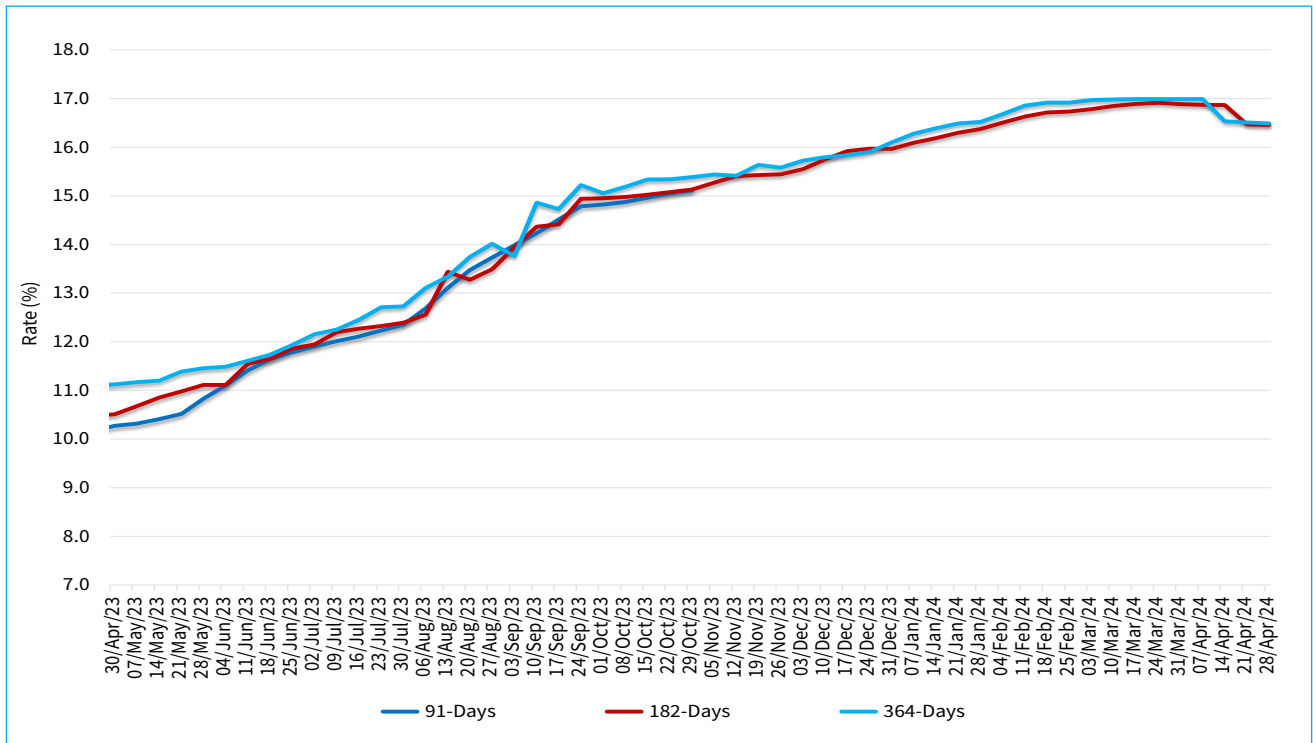
Chart 6a: Trends in Short Term Interest Rates (%)



Source: Central Bank of Kenya

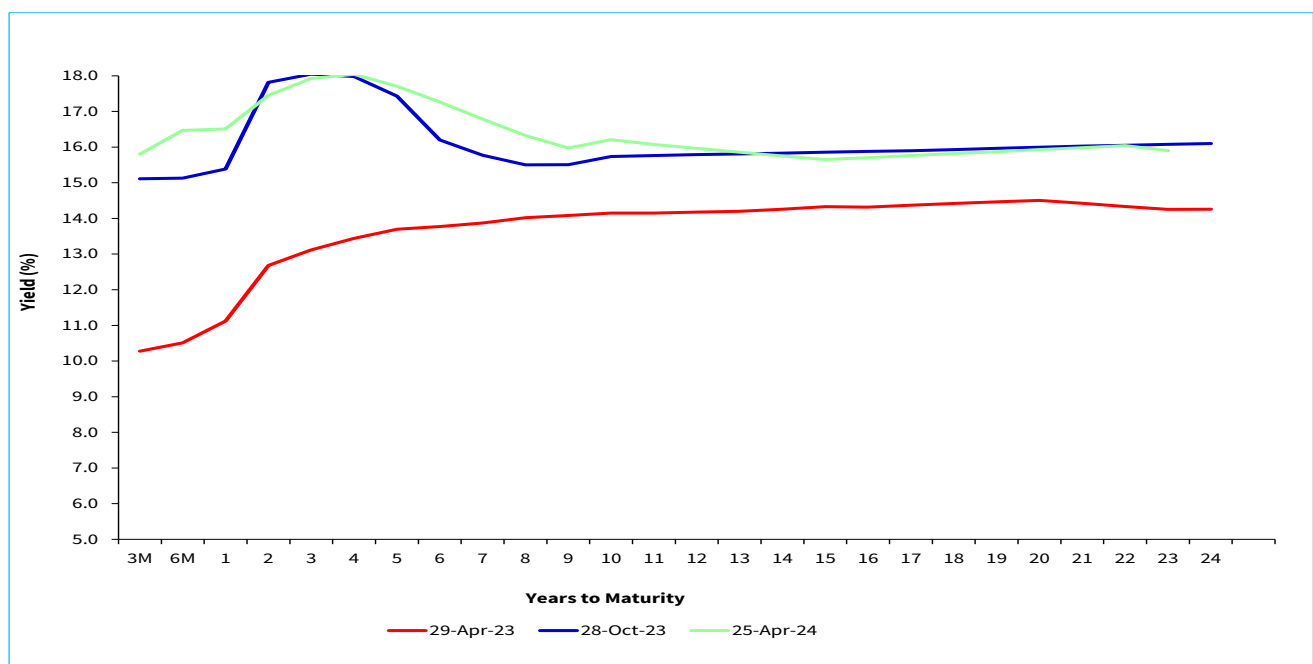
Interest rates on Government securities also increased during the period and have broadly tightened at the short end of the yield curve, partly reflecting the tight liquidity conditions. The effective coordination of monetary and fiscal policies, particularly in the implementation of the Government domestic borrowing programme continue to support the yield curve.

Chart 6b: Interest rates on Treasury Bills (%)



Source: Central Bank of Kenya

Chart 6c: Government Securities Yield Curve



Source: Central Bank of Kenya

3. MONETARY POLICY FORMULATION

3.1 Attainment of Monetary Policy Objectives and Targets

During the six months to April 2024, the MPC formulated monetary policy to achieve and maintain overall inflation within the target range as provided by the Cabinet Secretary for the National Treasury at the beginning of every fiscal year. The inflation target provided by the Cabinet Secretary for the National Treasury at the beginning of FY2023/24 was 5 percent with an allowable margin of 2.5 percent on either side.

The CBR remained the base for monetary policy operations and its adjustments both in direction and magnitude signaled the stance of monetary policy. The monetary policy stance was operationalized through various instruments including Open Market Operations (OMO), cash reserve requirements at CBK, and the CBK Standing Facility (Overnight Discount Window which is a lender of last resort facility). To ensure that the interbank rate remains within the corridor, OMO was conducted using Repurchase Agreements (Repos) and Term Auction Deposits (TAD). Monetary policy was conducted in the context of a flexible exchange rate regime.

3.2 Implementation of Monetary Policy Reforms

The MPC continued to implement the reforms outlined in the White Paper on *Modernization of the Monetary Policy Framework and Operations* aimed at enhancing the effectiveness of monetary policy and supporting the anchoring of inflation expectations. The MPC continued to monitor the new monetary policy implementation framework designed to enhance monetary policy transmission, adopted in August 2023. The new framework is based on inflation targeting and an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points. During the six months to April 2024, the monetary policy operations was aimed at ensuring the interbank rate, as an operating target, closely tracked the CBR. Assessment of the performance of the new framework in the period to April 2024 revealed increased interbank market activity, minimal interest rate spreads, reduced market segmentation and enhanced monetary policy transmission.

3.3 Monetary Policy Committee Meetings and Decisions

Over the six months to April, the MPC held meetings on December 5, 2023, February 6, 2024 and April 3, 2024. These meetings were held against a backdrop of continued recovery in global growth outlook, easing overall inflation and persistent geopolitical tensions. The meetings reviewed the outcomes of the MPC's previous decisions and measures implemented to mitigate the adverse economic impact and financial disruptions.

In the December 2023 meeting, the MPC noted that global growth was expected to decelerate from 3.0 percent in 2023 to 2.9 percent in 2024, reflecting the impact of high interest rates in advanced economies, weakening demand particularly in China and the Eurozone and heightened geopolitical tensions which continued to weigh down on economic activity. Additionally, overall inflation rates in advanced economies continued to ease, but remained above their respective core inflationary targets. However, global food prices declined from the peak levels witnessed in 2022, except for a few items such as sugar and rice. Overall inflation remained broadly unchanged at 6.8 percent in November 2023, compared to 6.9 percent in October, but remained sticky in the upper bound of the Government's target range since July 2023. Food inflation declined slightly to 7.6 percent in November from 7.8 percent in October, largely on account of lower prices of key nonvegetable food items particularly maize and wheat flour following improved supply attributed to the harvests from the previous season and Government measures to zero-rate key food imports. Nevertheless, prices of a few vegetables particularly onions, tomatoes and carrots, remained elevated in November due to reduced supply. Fuel inflation increased to 15.5 percent in November from 14.8 percent in October, reflecting the impact of higher international oil prices and depreciation of the shilling exchange rate. Non-food non-fuel (NFNF) inflation declined modestly to 3.3 percent in November from 3.6 percent in October. The MPC noted the GDP data for the second quarter of 2023 which indicated continued strong performance of the Kenyan economy, with real GDP growing by 5.4 percent compared to 5.2 percent in a similar quarter of 2022. This performance reflected a strong rebound in the agriculture sector, and a resilient services

sector supported by robust activity in information and communication, transport and storage, financial and insurance, and accommodation and food services. Leading economic indicators showed continued strong performance in the third quarter of 2023. Despite global uncertainties, the economy was expected to remain strong in 2023, supported by a resilient services sector, the rebound in agriculture, and implementation of measures to boost economic activity in priority sectors by the Government. The Committee noted that the risks to inflation were elevated in the near term, reflecting the impact of second-round effects of the rise in fuel inflation and pass-through effects of the exchange rate depreciation. The Committee further noted that the continued weakening of the exchange rate was contributing to a significant increase in the Kenya shilling value of foreign currency denominated debt. In view of these developments, the MPC decided to raise the Central Bank Rate (CBR) from 10.50 percent to 12.50 percent so as to address the pressures on the exchange rate, mitigate second round effects including from global prices and ensure that inflationary expectations remain anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the target range.

The February 2024 meeting was held against a backdrop of an improved outlook for global growth and inflation, moderating international oil prices, and heightened geopolitical tensions particularly in the Middle East. The global growth outlook for 2024 was revised upwards, reflecting stronger-than-expected growth in the United States, continued strengthening of the Chinese economy, and strong growth in several large emerging market and developing economies. However, global growth outlook remained vulnerable with concerns on the continuing effects of tight monetary policy, the withdrawal of fiscal support in advanced economies, and increased uncertainties arising from the escalation of geopolitical tensions particularly the Israel-Palestinian conflict. Inflation in advanced countries continued to decline across most economies due to tight monetary policy, and lower commodity prices particularly of oil and food. Domestic overall inflation increased to 6.9 percent in January 2024 from 6.6 percent in December 2023 and remained sticky in the upper bound of the Government's target range. Food inflation increased to 7.9 percent in January 2024 from 7.7 percent in December 2023, largely reflecting higher prices of a few non-vegetable items, following reduced supply partly attributed to seasonal factors. Fuel inflation rose to 14.3 percent in January 2024 from 13.7 percent in December 2023, largely due to higher

electricity tariffs. Non-food non-fuel (NFNF) inflation increased to 3.6 percent in January 2024 from 3.4 percent in December 2023, partly reflecting seasonal increases in education sector-related costs. The GDP data for the third quarter of 2023 shows continued strong performance of the Kenyan economy, with real GDP growing by 5.9 percent compared to 4.3 percent in a similar quarter of 2022. Leading indicators of economic activity pointed to continued strong performance in the fourth quarter of 2023. As a result, real GDP growth was estimated at 5.6 percent in 2023 from 4.8 percent in 2022. The economy was expected to remain strong in 2024, supported by the resilient services sector, the improved performance in agriculture, implementation of measures to boost economic activity in priority sectors by the Government, and the improved global growth outlook which was expected to benefit exports. The MPC observed that all key components of inflation had increased in January 2024 and noted that overall inflation had remained sticky in the upper bound of the target range. The MPC also noted the continued, albeit reduced, pressures on the exchange rate. The MPC therefore decided to raise the Central Bank Rate (CBR) from 12.50 percent to 13.00 percent to continue ensuring that inflationary expectations remained anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the target range and also to address residual pressures on the exchange rate.

The April 2024 meeting was held against a backdrop of an improved global outlook for growth and inflation, despite persistent geopolitical tensions. Global growth outlook continued to recover, supported by stronger than expected growth in the United States, and robust growth in some large emerging market economies, particularly India, despite the persistent risk related to the potential escalation of geopolitical tensions particularly the Israel-Palestinian and Russia-Ukraine conflicts. Global inflation moderated, but some stickiness persisted in some advanced economies, driven by core inflation. Overall inflation declined to 6.3 percent in February 2024 and further to 5.7 percent in March 2024 from 6.9 percent in January, driven by lower food and fuel inflation. Food inflation declined to 5.8 percent in March from 6.9 percent in February, reflecting lower prices of some key vegetable and non-vegetable food items, following improved supply attributed to the food harvests and favorable weather conditions. Fuel inflation declined to 12.3 percent in March from 13.4 percent in February, largely reflecting the impact of the shilling's appreciation which resulted in a decrease in electricity prices and a downward

adjustment in pump prices. Non-food non-fuel (NFNF) inflation remained stable at 3.6 percent in February and March. Overall inflation was expected to moderate further in the near term, supported by easing food and energy prices, pass-through effects of the exchange rate appreciation, and the impact of monetary policy actions which continued to filter through the economy. Leading indicators pointed to continued strong performance of the Kenyan economy in the first quarter of 2024, reflecting robust activity in the agriculture and service sectors, particularly accommodation and food services, and information and communication. The economy was expected to remain strong in 2024, supported by the resilient services sector, robust performance of

the agriculture sector, continued implementation of Government measures to boost economic activity across priority sectors in line with the Bottom-up Economic Transformation Agenda (BETA), and improved global growth outlook. The MPC noted that its previous measures had lowered inflation, addressed the exchange rate pressures, and anchored inflationary expectations. The Committee further noted that overall inflation was expected to continue declining in the near term towards the 5.0 percent mid-point of the target range, supported by lower food and fuel prices, and pass-through effects of the exchange rate appreciation. Therefore, the MPC decided to retain the Central Bank Rate (CBR) at 13.00 percent.

4. OTHER ACTIVITIES OF THE MONETARY POLICY COMMITTEE

The MPC Surveys conducted during the period as well as regular communication with the key stakeholders facilitated the MPC in its market information gathering process for effective conduct of forward-looking monetary policy. The MPC also continued to simplify its Press Releases to enhance the clarity of information communicated to the public, media, financial sector and other stakeholders.

The MPC's Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of the Agriculture sector, revealed continuing optimism about economic growth prospects for 2024. Respondents attributed this optimism largely to enhanced agricultural performance on account of favorable weather and government interventions in the sector, easing inflation, strengthening of the Kenya Shilling and a resilient private sector. Nonetheless, respondents remained concerned about taxation, high interest rates, weak consumer demand and geopolitical risks. The Agriculture Sector Survey revealed that high input costs, unpredictable weather conditions, as well as transport costs were the major factors constraining agricultural production.

Over the period, the MPC Chairman held virtual stakeholder meetings with the Chief Executives of commercial and microfinance banks after every MPC Meeting in order to apprise them on the background to its decisions and to obtain feedback. In addition, the Chairman of the MPC held virtual press conferences after each MPC meeting to brief the media on the background to MPC decisions and measures undertaken by the CBK to support macroeconomic stability.

The Governor also held virtual meetings with various potential investors and representative from the private sector to brief them on economic developments and the outlook for the economy. The MPC continued to monitor the implementation of monetary policy decisions by the CBK. The Committee also continued interaction with other government agencies such as the National Treasury and Kenya National Bureau of Statistics (KNBS) on various data issues.

5. CONCLUSION

The monetary policy measures adopted by the MPC in the six months to April 2024 continued to support price stability. The measures lowered inflation, addressed the exchange rate pressures, and anchored inflationary expectations. The stability of the exchange rate moderated any possible distortions that imported inflation would have had on the stability of domestic prices. The continued coordination of fiscal and monetary policies during the period also supported the achievement of price and market stability.

The CBK will continue to monitor developments in the domestic and global economy, the transmission of the monetary policy and other measures previously taken, and their effects on price stability. The MPC will also continue to implement the reforms outlined in the White Paper on *Modernization of The Monetary Policy Framework and Operations*, in order to enhance the effectiveness of monetary policy and support anchoring of inflation expectations.

ANNEX

ANNEX: EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (NOVEMBER 2023 – APRIL 2024)

Date	Event of Relevance to Monetary Policy
December 2023	CBR raised from 10.50 from 12.50 percent.
January 2024	Release of January 2024 IMF World Economic Outlook (WEO) Report showing that global growth was projected at 3.1 percent in 2024 and 3.2 percent in 2025 from an estimate of 3.1 percent in 2023. The forecast was modestly higher than predicted in the October 2023 WEO but remained weak by historical standards. The rise in central bank policy rates to fight inflation continued to weigh on economic activity.
February 2024	CBR raised to 12.50 from 13.00 percent.
April 2024	CBR retained at 13.00 percent. Release of April 2024 IMF World Economic Outlook (WEO) Report showing that global growth was expected to remain stable at 3.2 percent in 2024 and 2025, same as the 2023 growth. Global inflation is forecast to continue declining steadily, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. Core inflation is generally projected to decline more gradually.

GLOSSARY OF KEY TERMS

Overall Inflation: This is a measure of inflation in the economy measured by the year-on-year movement of indices of all consumer price items of goods and services sampled by the KNBS. It is affected by commodity components in the market that may experience sudden inflationary spikes such as food or energy.

Reserve Money: These are CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and non-bank financial institutions held with the CBK. It excludes Government deposits.

Money Supply: Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader terms as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are defined as follows:

- M1 Currency outside banking system + demand deposits
- M2 M1 + time and savings deposits + certificates of deposits + deposit Liabilities of Non-Bank Financial Institutions (NBFIs)
- M3 M2 + residents' foreign currency deposits

Central Bank Rate (CBR): This is the lowest rate of interest that the CBK charges on overnight loans to commercial banks. It is reviewed and announced by the Monetary Policy Committee at least every two months as part of its decisions. It is used by the commercial banks as a reference interest rate hence transmits to the financial sector and signals the CBK's monetary policy stance.

Cash Reserves Ratio(CRR): This is the ratio of deposits of commercial banks and non-bank financial institutions maintained with the CBK (as reserves) to commercial banks total deposit liabilities. The ratio is fixed by CBK as provided for by the law.

CBK Discount Window: The CBK Discount Window is a collateralized facility of last resort for banks. It has

restrictive guidelines controlling access. The Discount Window plays a significant role in ensuring banking sector stability by offering overnight liquidity as a last resort. It is anchored on the CBR with a prescribed penalty.

Open Market Operations (OMO) : The act of buying or selling of government securities from or to commercial banks by the Central Bank in order to achieve a desired level of bank reserves. OMO is carried out in the context of an auction where commercial banks bid through the Reuters dealing system or by phone/fax.

Repurchase Agreement (Repo): Repos/reverse repos are agreements between the CBK and commercial banks to purchase/sell Government securities from/to commercial banks at agreed interest rates (REPO rate) for a specified period with an understanding that the commercial bank will repurchase/resell the security from/to the CBK at the end of the period. The period can be varied by the CBK.

Term Auction Deposits (TAD): The TAD is used in exceptional market conditions when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer tenor options. The CBK seeks to acquire deposits through a transfer agreement from commercial banks at an auction price but with no exchange of security guarantee.

Horizontal Repo: This is an interbank Repo instrument which recognises Government securities as collateral for borrowing. The instrument has a variable tenor and allows commercial banks without credit lines with other banks to access credit from the interbank market.

Interbank Market: The interbank market is a critical channel for distributing liquidity that reduces the need for banks to access the CBK Overnight Discount Window. However, since not all banks have credit lines with each other, it is not a perfectly operating market and therefore banks may come to the Window as a last resort. The interest rates charged by banks reflect an individual bank's perception of the risk of the particular bank borrower and also the tightening liquidity in the market.



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