Central Bank of Kenya

Thirty-Third Bi-Annual Report of the Monetary Policy Committee

October 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 for The National Treasury and Economic Planning, the 33rd 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 October 2024.

Dr. Kamau Thugge, CBS

Governor

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MEMBERS OF THE MONETARY POLICY COMMITTEE


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Deputy Governor


Dr. Margaret Chemengich
External Member


Dr. Chris Kiptoo
PS, The National Treasury


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External Member


Dr. Benson Ateng'
External Member


Mr. Humphrey Muga
External Member


Mr. David Luusa
Director, Financial Markets


Prof. Robert Mudida
Director, Research

EXECUTIVE SUMMARY

The thirty-third 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 October 2024.

The conduct of monetary policy during the period was aimed at ensuring that overall inflation remains stable around the mid-point of the 5.0±2.5 percent target range in the near term, consistent with the price stability objective of the Central Bank of Kenya (CBK).

The MPC continued to monitor the implementation of the new monetary policy framework adopted in August 2023. The framework is based on inflation targeting, and an interest rate corridor around the Central Bank Rate (CBR) initially set at ±250 basis points. To further enhance the effectiveness of the monetary policy framework, the MPC reviewed the width of the interest rate corridor around the CBR from ± 250 basis points to ±150 basis points in June 2024. Additionally, to improve access to the discount window, the Committee adjusted the applicable interest rate from 400 basis points above CBR to 300 basis points.

During the six months to October 2024, monetary policy operations were aimed at ensuring the interbank rate, as an operating target, closely tracked the CBR. An assessment of the performance of the new monetary policy implementation framework showed improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission.

Monetary policy in the period was conducted against a backdrop of an improved global outlook for growth, continued easing in inflation in advanced economies, and persistent geopolitical tensions. Global growth continued to recover, supported by strong growth in the United States and resilient growth in some large emerging market economies, particularly China and India. However, global growth was subject to risks arising from possible further escalation of geopolitical tensions. Global inflation continued to moderate, with central banks in the major economies including the US Federal Reserve lowering interest rates. International oil prices moderated, but the risk from the Middle East conflict remained elevated following escalation of tensions.

The MPC held three meetings between May 2024 and October 2024, to review the outcome of its previous policy decisions and economic developments, and to put in place appropriate measures aimed at maintaining price stability. The MPC maintained the CBR at 13.00 percent in June 2024, noting that its previous measures had lowered overall inflation to the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. In the August 2024 meeting, the MPC noted that its previous measures had lowered overall inflation to below the mid-point of the target range, moderated non-food-non-fuel (NFNF), stabilized the exchange rate and anchored inflationary expectations. The MPC concluded that there was scope for a gradual easing of the monetary policy stance, while ensuring continued exchange rate stability and decided to lower the CBR to 12.75 percent from 13.00 percent. In the October 2024 meeting, the Committee noted a further decline in overall inflation, with expectations of overall inflation remaining below the midpoint of the target range in the near term. The MPC also noted the sharp deceleration in credit to the private sector and the slowdown in growth in the second quarter of 2024 and concluded that there was scope for further easing of the monetary policy to support economic activity while ensuring price stability. Therefore, the Committee decided to lower the CBR to 12.00 percent from 12.75 percent.

Overall inflation declined and has remained below the mid-point of the target band since June 2024, mainly reflecting significant declines in energy prices and continued easing of food prices. Overall inflation declined from 5.0 percent in April 2024 to 2.7 percent in October 2024. Easing inflation has been supported by abundant supply of food arising from favorable weather conditions,lower fuel inflation attributed to appreciation of the exchange rate and lower international oil prices, and the decline in non-food-non-fuel (NFNF) inflation reflecting impact of previous monetary policy tightening.

The performance of the economy slowed down in the first half of 2024.However, the economy was supported by resilient performance of services and agriculture sectors. Real GDP growth averaged 4.8 percent in the first half of 2024 compared to 5.5 percent in the first half of 2023.

The foreign exchange market remained stable in the six months to October 2024, supported mainly by resilient earnings of exports of goods as well as strong remittances. The CBK foreign exchange reserves, which stood at USD 8,574 million (4.41 months of import cover) as at end October, continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market. However, uncertainties over the outcome of the US elections and increased tension in the Middle East remained.

The banking sector remained stable and resilient in the period ended October 2024, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 54.3 percent and 19.1 percent in October 2024, respectively. The ratio of gross non-performing loans (NPLs) to gross loans stood at 16.5 percent in October 2024, an increase from 16.1 percent in April 2024.

Commercial bank lending to the private sector remained broadly unchanged in October 2024 compared to the previous year, partly reflecting exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling, and reduced demand attributed to high lending interest rates.

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 with 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

Global economic growth is projected to remain steady in 2024 and 2025. The IMF's World Economic Outlook (WEO) Report for October 2024 projects the global economy to grow by 3.2 percent in 2024 and 2025, driven by growth in the advanced economies, which is projected at 1.8 percent in 2024 and 2025. The United States growth is projected at 2.8 percent in 2024 driven by stronger outturns in consumption and supply and demand factors in the labour market. Growth in the Euro Area is expected at 0.8 percent in 2024 from 0.4 percent in 2023 driven by better export performance, while growth in the United Kingdom is projected at 1.1 percent in 2024 and 1.5 percent in 2025, from 0.3 percent in 2023 reflecting falling inflation and interest rates that is expected to stimulate demand.

Growth in emerging markets and developing economies is projected to remain stable at 4.2 percent in 2024 and 2025, with divergence across major economies. Growth is expected to be buoyant in India, supported by strong public investments and improving business confidence. In China, the stronger fiscal policy stimulus is expected to support domestic demand, despite the ongoing weakness in the property sector. GDP growth in Brazil is projected to expand by 3.0 percent in 2024 and 2.2 percent in 2025, driven by stronger consumption and investment in the first half of 2024. Growth in Sub-Saharan Africa (SSA) is projected to grow by 3.6 percent in 2024 and 4.2 percent in 2025, as the negative effects of earlier weather shocks subside, and supply issues improve gradually.

Global inflation concerns have eased, with notable declines observed in key economies. The annual consumer price inflation for advanced economies is projected to ease gradually to 2.6 percent in 2024 and converge to the central bank targets by 2025. In emerging market economies, declines in commodity prices will help to curb intermediate input cost increases and lower goods price inflation.

2. DEVELOPMENTS IN THE KENYAN ECONOMY

2.1 Overall Economy

The performance of the economy slowed down in the first half of 2024. The economy was however supported by resilient performance of services and agriculture sectors. Real GDP growth averaged 4.8 percent in the first half of 2024 compared to 5.5 percent in the first half of 2023. The agriculture sector recorded a resilient growth of 5.4 percent compared to 7.1 percent over the same period reflecting increased agricultural activity following favourable weather conditions and Government support through the subsidized fertilizer program. Services sector recorded a growth of 5.9 percent in the first half of 2024 compared to 6.8 percent in a similar period in 2023, driven by strong performance of accommodation and food services, information and communication, real estate, finance and insurance, and health sectors. However, industrial sectors recorded a significant slowdown largely due to a significant contraction in construction sector. The sector grew by 0.3 percent in the first half of 2024 compared to 1.5 percent in a similar period of 2023 **(Table 1)**.

The economy is projected to remain resilient in 2024, supported by strong performance of agriculture and services sectors, a stable macroeconomic environment and targeted Government initiatives across priority sectors. However, the downside risks to growth remain, with further escalation of geopolitical tensions in the Middle East and Ukraine. Additionally, supply disruptions are likely to increase due to attacks in the Red Sea with implications on international trade and production costs.

Table 1: Real GDP growth (percent)

	2023	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2023H1	2024H1
Agriculture	6.5	-0.9	-2.1	-1.1	-1.7	6.4	7.8	5.1	6.2	6.1	4.8	7.1	5.4
Non-Agriculture (o/w)	5.4	7.6	6.7	5.6	5.2	5.2	5.1	6.2	4.9	4.7	4.5	5.2	4.6
Industry	1.9	5.2	4.9	3.9	1.7	1.5	1.4	3.1	1.4	0.1	0.6	1.5	0.3
Services	7.0	8.3	7.5	6.0	6.2	6.8	6.8	7.8	6.5	6.2	5.5	6.8	5.9
Taxes on products	2.2	8.3	5.4	6.8	6.2	3.0	1.8	1.9	2.0	4.4	5.7	2.4	5.1
Real GDP Growth	5.6	5.9	4.9	4.6	4.1	5.5	5.6	6.0	5.1	5.0	4.6	5.5	4.8

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

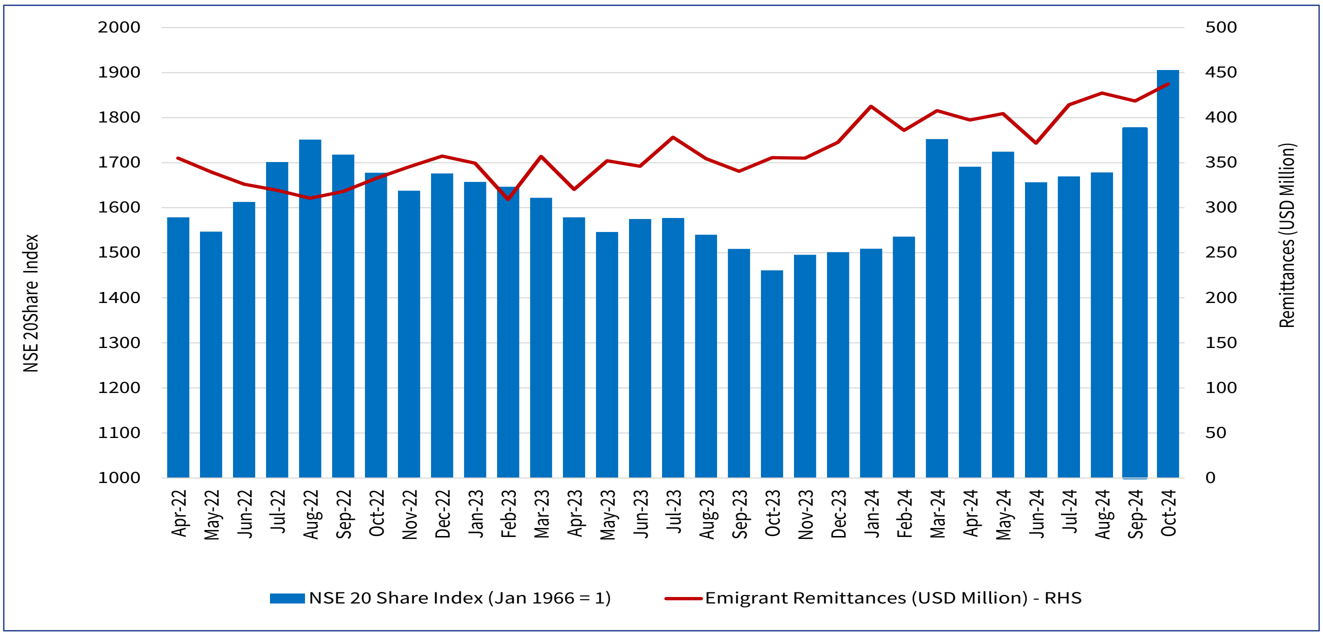
2.2 Financial Market Developments

During the six months to October 2024, global financial markets conditions remained stable largely boosted by increased markets expectation of further policy interest rate cuts in advanced economies. Risk appetite in emerging and developing economies remained robust, reflecting expectations of further U.S. policy rate cuts and strengthening of domestic currencies.

The US dollar strengthened, supported by expectations of more robust US economic growth. Equities for select advanced economies rallied as the US Federal Reserve, European Central Bank (ECB) and Bank of England (BOE) cut their rates, with indications of further cuts in 2024 and 2025.

In the domestic economy, diaspora remittances remained strong over the period **(Chart 1a)**. Activity at the Nairobi Securities Exchange (NSE) picked up with the NSE 20-Share index increasing to 1,905.51 in October 2024 from 1690.98 points in April 2024 supported by improved investor confidence in the economy.

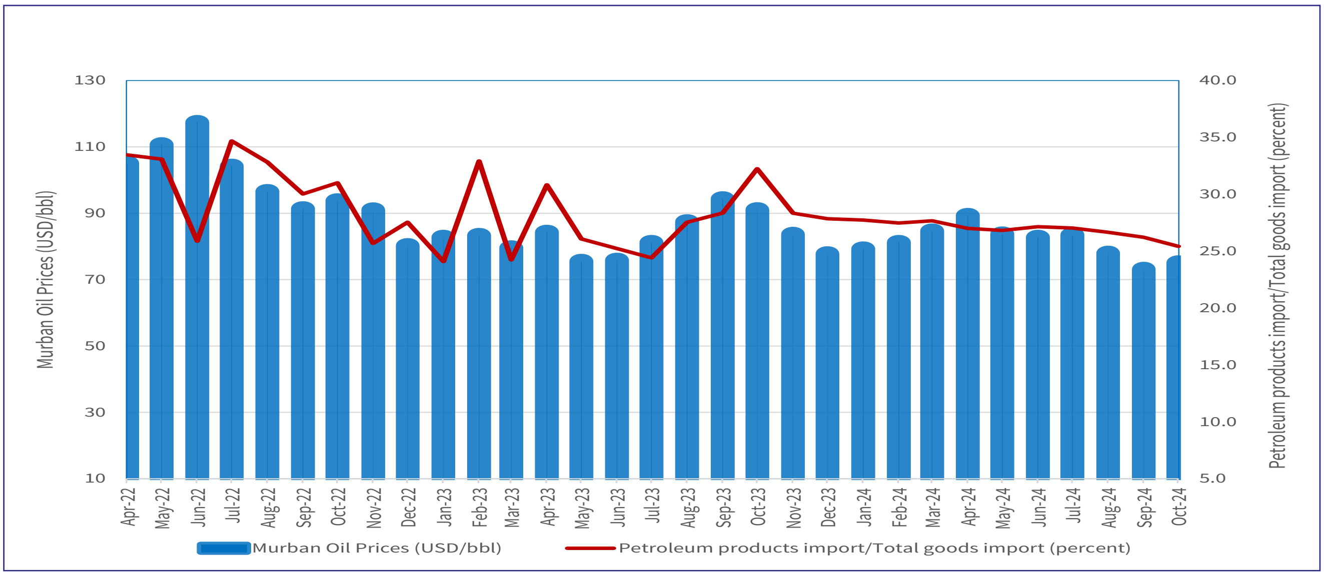
Chart 1a: Monthly diaspora remittances (USD million) and NSE Index (Jan 1966=100)



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. International oil prices declined with murban oil averaging at USD 79.39 per barrel for the six months to October 2024 reflecting subdued global demand and increased production from non- OPEC production. However, geopolitical conflicts pose uncertainty and potential volatility in the oil markets **(Chart 1b)**.

Chart 1b: Murban oil prices 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

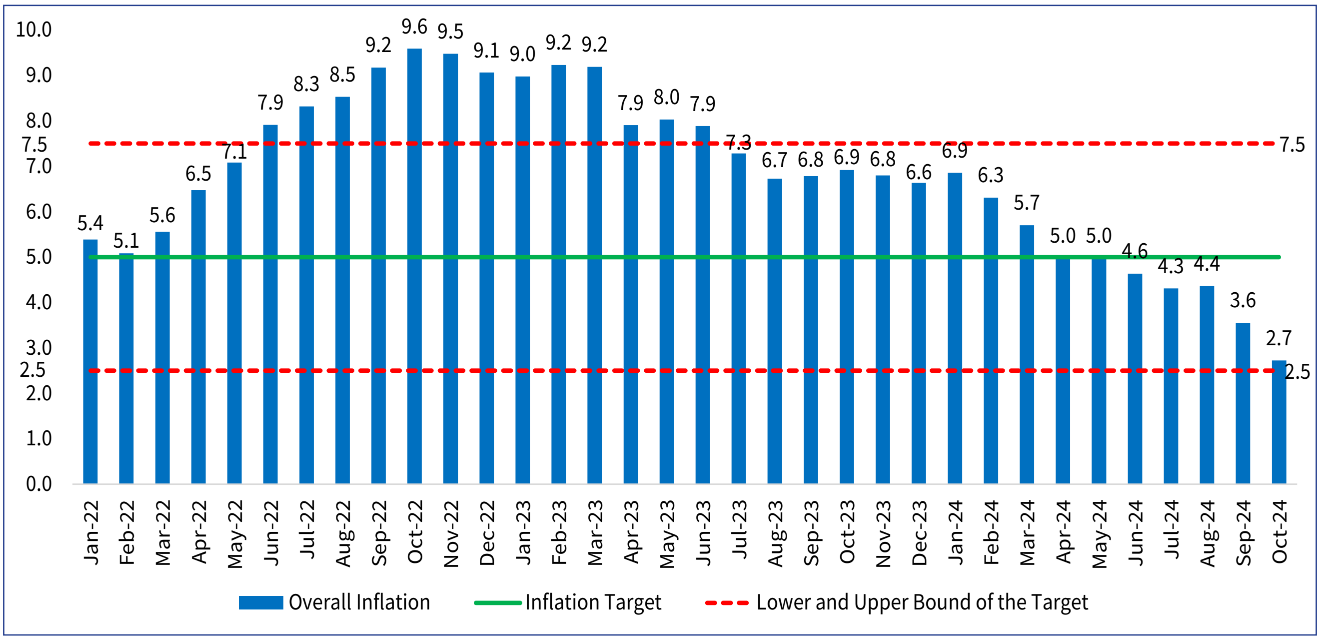
2.3.1 Inflation

Overall inflation declined to below the 5.0 percent target and remained below the mid-point of target band since June 2024 mainly reflecting significant decline in energy prices and continued easing of food prices. Overall inflation declined from 5.0 percent in April 2024 to 2.7 percent in October 2024. Easing inflation has been supported by abundant supply of food arising from favorable weather conditions, appreciation of the exchange rate, and the impact of monetary policy tightening **(Chart 2a-2c)**.

Food inflation continued to decline from 7.8 percent in October 2023 to a low of 4.3 percent in October 2024, reflecting easing domestic prices. The decline reflects increased supply due to favorable weather conditions and Government initiatives including affordable inputs particularly fertilizer subsidy programmme. Although international food prices increased in recent months, the impact has been muted by the appreciation of the exchange rate compared to the same period last year. Fuel inflation declined significantly from the peak in November 2023 due to easing electricity and pump prices. It declined to -1.7 percent in October 2024 from 15.5 percent in November 2023. The appreciation of the exchange rate resulted in favorable pass-through of international oil prices resulting in lower domestic pump prices. Additionally, it resulted in a significant reduction in electricity prices as the Foreign Exchange Rate Fluctuation Adjustment (FERFA) on electricity prices declined from a peak of KSh 6.46 per kilowatt hour in January 2024 to KSh 1.2 per kilowatt hour in October 2024.

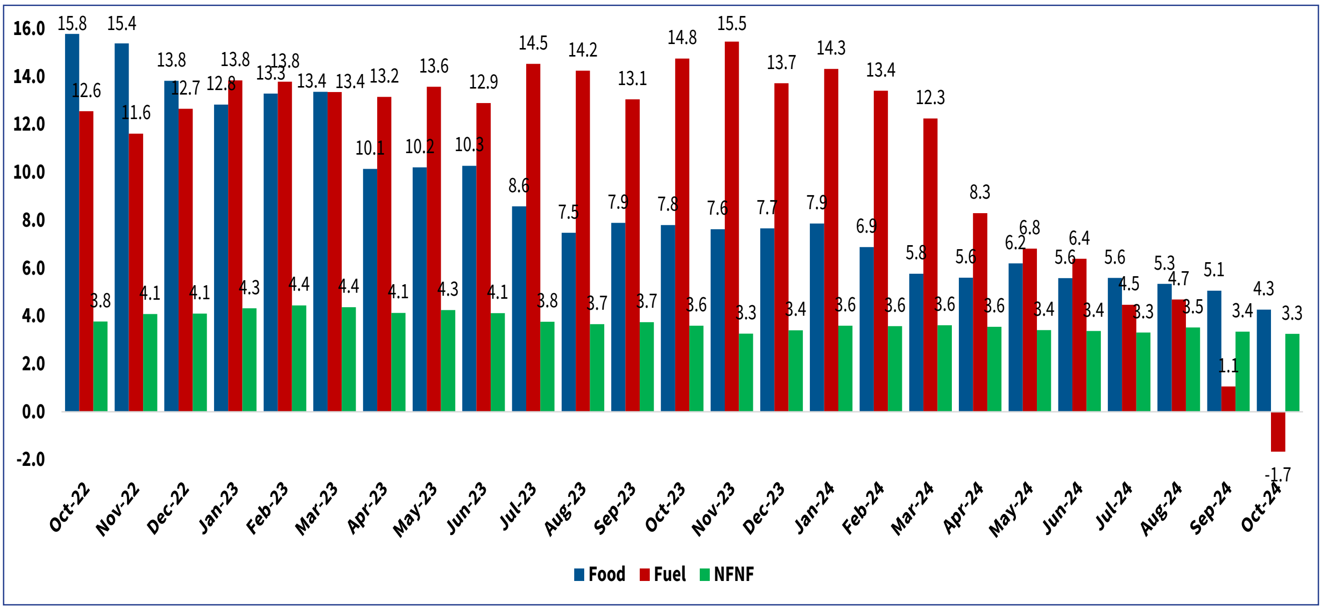
Non-food-non-fuel (NFNF) inflation eased reflecting the impact of tight monetary policy, muted demand pressures in the economy, low second order effects of energy prices, and exchange rate appreciation. It declined from 3.6 percent in April 2024 to 3.3 percent in October 2024.

Chart 2a: Developments in overall inflation (y/y, percent)



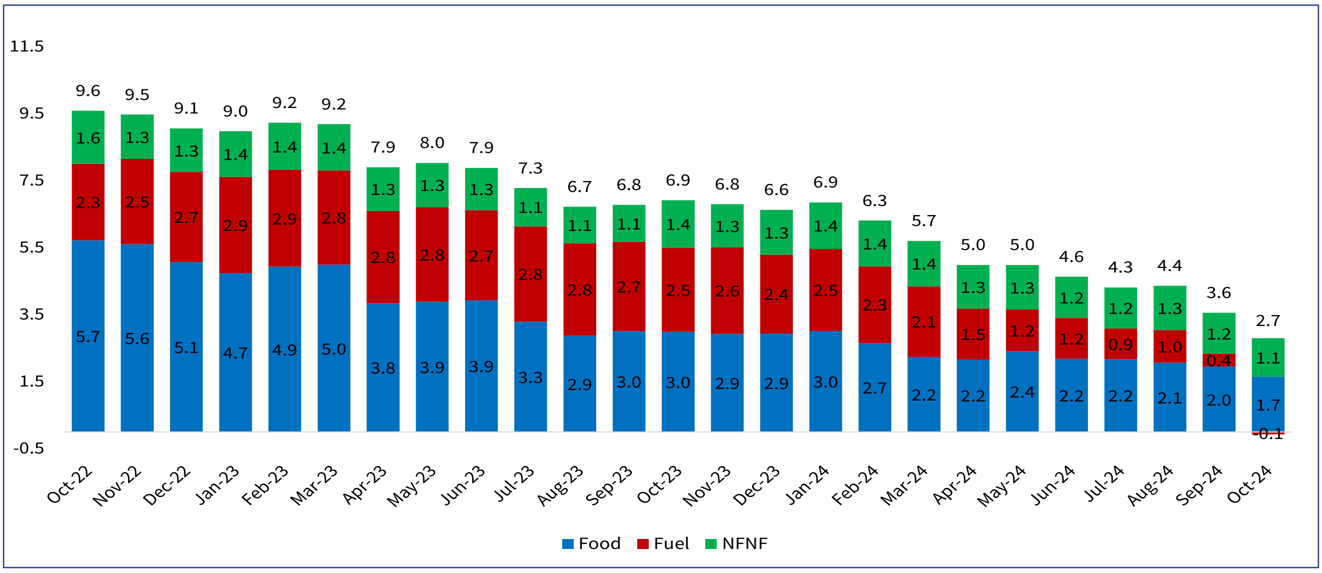
Source: Kenya National Bureau of Statistics

Chart 2b: Developments in broad components of inflation (y/y, percent)



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

Chart 2c: Contributions to overall inflation (percentage points)



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

Inflation Outlook

Inflation is expected to remain within the target range in the near term and in the medium term. Prices are expected to be contained by increased food supply following ongoing harvests, stability of the exchange rate and easing energy prices. Additionally, NFNF is expected to remain low as the demand pressures remain low in the economy.

Risks to inflation outlook include heightened geopolitical tensions associated with the wars in Ukraine and Middle East, which have implications on global supply chains.

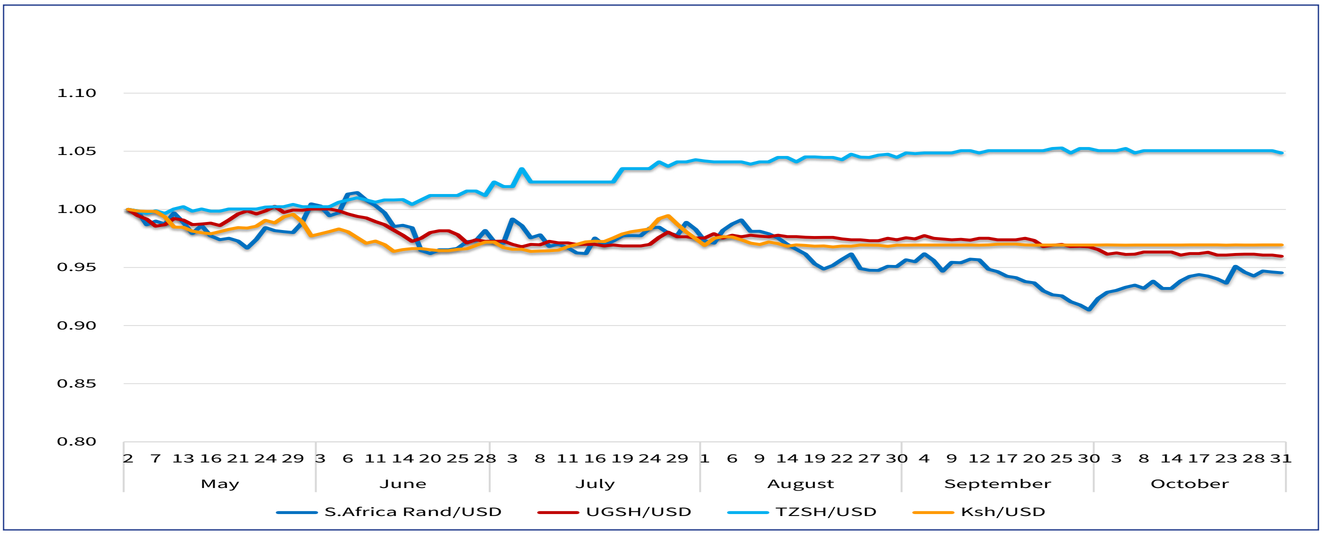
2.3.2 Foreign Exchange Market Developments

The foreign exchange market remained stable in the six months to October 2024, supported mainly by resilient earnings of exports of goods as well as resilient remittances **(Charts 3a and 3b)**. Diaspora remittances totaled USD 437.2 million in October 2024 compared to USD 355.6 million in October 2023.

The CBK foreign exchange reserves, which stood at USD 8,574 million (4.41 months of import cover) as at end of October 2024 continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

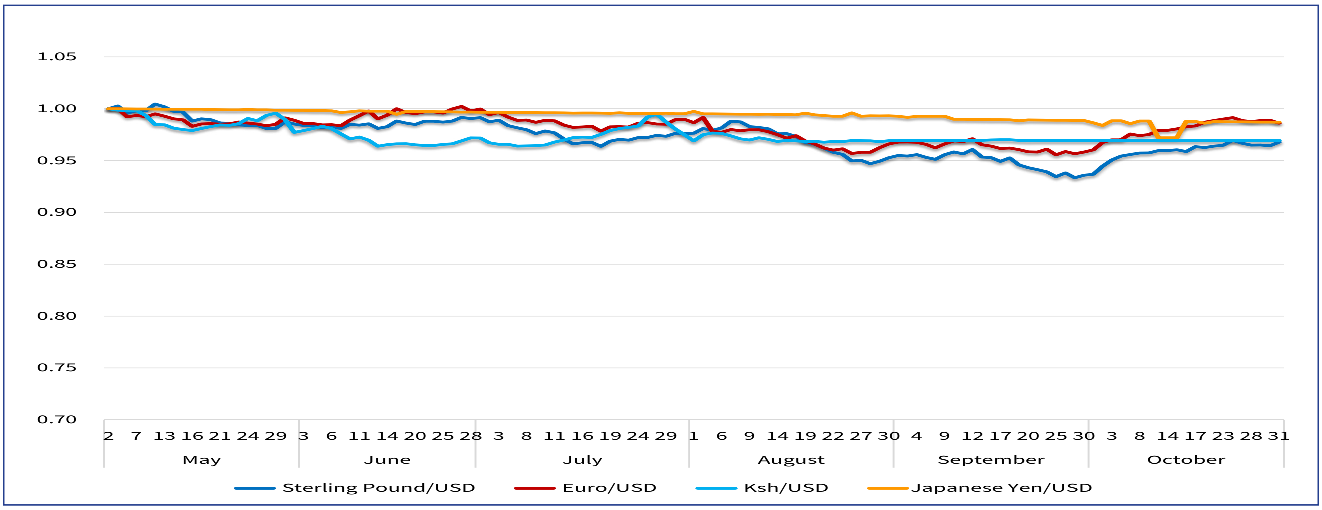
Financial conditions remained relatively stable in the period under review. However, uncertainties over the outcome of the US elections and increased tensions in the Middle East remained the main risks.

Chart 3a: Normalized exchange rates of the Kenya Shilling and regional currencies against the US Dollar (May 2, 2024 = 1)



Source: Central Bank of Kenya

Chart 3b: Normalized exchange rates of the Kenya Shilling and major currencies against the US Dollar (May 2, 2024 = 1)



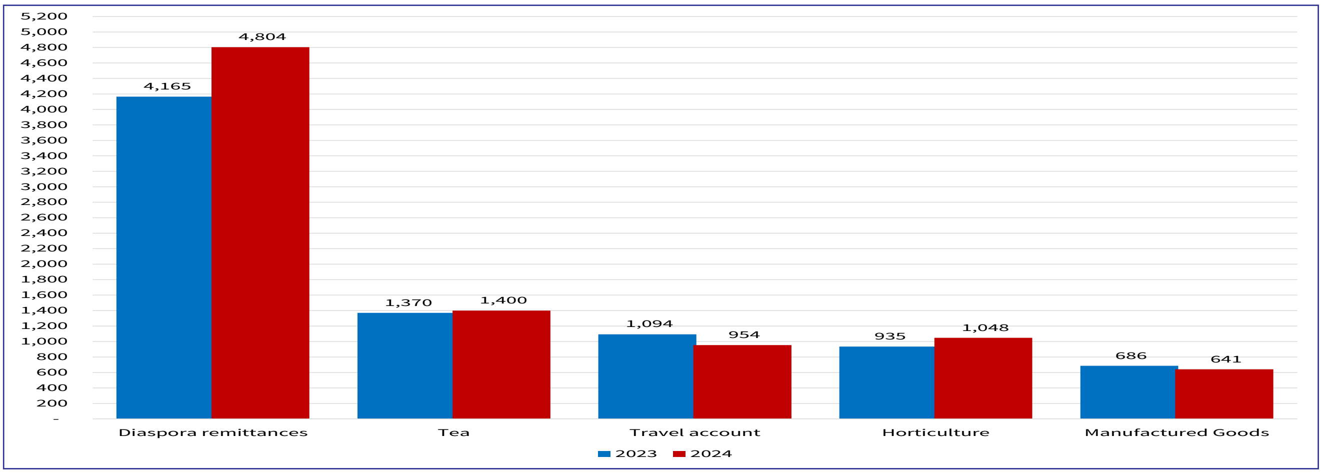
Source: Central Bank of Kenya

2.3.3 Balance of Payments Developments

In the 12-months to October 2024, the current account balance was at a deficit of USD 4,471 million (3.8 percent of GDP), compared to a deficit of USD 4,103 million (3.7 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 of GDP in 2024.

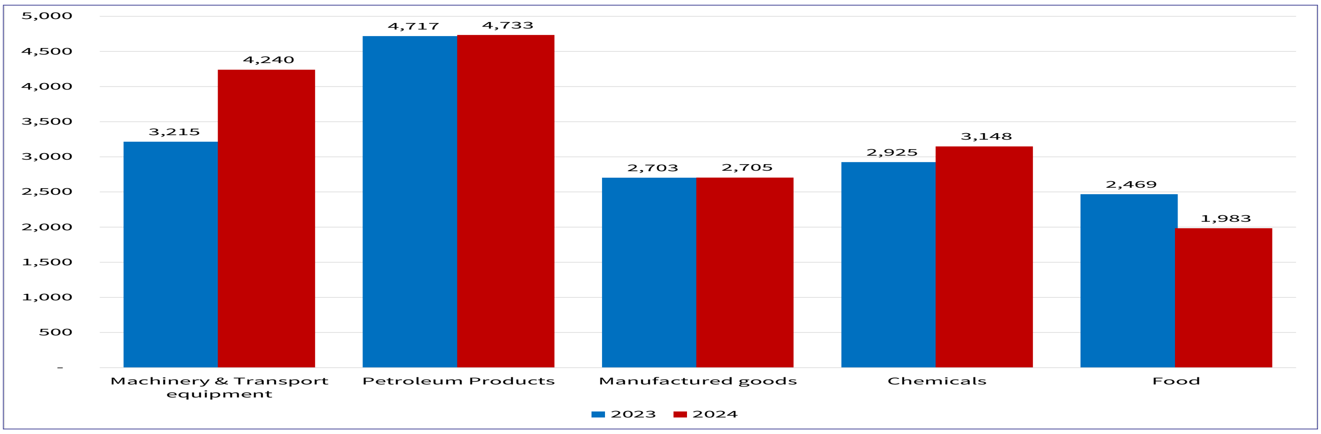
The deficit in the goods account widened to USD 10,472 million in the 12 months to October 2024, largely reflecting pick up in goods imports. The performance of exports rose by 11.9 percent to USD 8,139 million in the 12 months to October 2024, on account of increased earnings from horticulture exports (12 percent), receipts from tea (2 percent), miscellaneous manufactured articles (18.3 percent), and re-exports (78.1 percent). However, receipts from manufactured goods decreased by 6.6 percent during a similar period in 2024. Imports of goods increased by 7.9 percent in the 12 months to October 2024, compared to a contraction of 12.8 percent during the corresponding period in 2023. The growth was primarily driven by a 32 percent and 8 percent rise in imports of machinery and transport equipment, and chemical products, respectively. In contrast, food imports declined by 19.7 percent over the same period **(Chart 4a and Chart 4b)**.

Chart 4a: Foreign exchange inflows from major export categories in the 12-months to October (USD million)



Source: Central Bank of Kenya

Chart 4b: Imports by major categories in the 12-months to October (USD million)



Source: Central Bank of Kenya

Financial account net inflows increased by USD 2,470 million in the 12 months to October 2024, compared to a similar period in 2023 reflecting an increase in portfolio inflows and a reduction in foreign assests of the commercial banks. The capital account on the other hand, recorded a surplus of USD 139.9 million in the 12-months to October 2024. Imports from China accounted for 18.4 percent of the total imports in the 12 months to October 2024, while United Arabs 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., U.S. and UAE accounted for 5.4 percent, 7.8 percent and 9.4 percent, respectively, of Kenya's total exports in the 12-months to October 2024. Exports to other trading blocs such as the EAC, COMESA and the EU accounted for 27.4 percent, 25.4 percent, and 19.5 percent, respectively, of total exports over the period, compared to 29.9 percent, 28.2 percent and 20.5 percent of total exports in the 12-months to October 2023, respectively.

2.3.4 Banking Sector Developments

The banking sector remained stable and resilient in the period ended October 2024, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 54.3 percent and 19.1 percent in October 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 16.5 percent in October 2024, an increase from 16.1 percent in April 2024. Gross NPLs increased by 1.9 percent from Ksh.662.2 billion in April 2024, to Ksh.674.9 billion in October 2024 mainly due to a challenging business environment. The main sectors with increased NPLs were transport and communication, building and construction, personal and household and trade.

Customer deposits remained the main source of funding to the banking sector accounting for 75.4 percent of the banking sector's total liabilities and shareholders' funds as at October 2024. This was a slight increase from 73.5 percent in April 2024. Customer deposits increased by 2.0 percent to Ksh.5,682.0 billion in October 2024, from Ksh.5,569.8 billion in April 2024.

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 October 2024, the seven banks participating in the CGS had disbursed guaranteed loans to MSMEs amounting to Ksh 6.2 billion.

The banking sector is projected to remain stable. Credit risk is expected to remain elevated in the short to medium term. Interest rate risk is expected to remain stable in the backdrop of stabilizing interest rates. Operational risk is expected to remain elevated. Liquidity risk is expected to remain stable.

2.3.5 Developments in Private Sector Credit

Commercial bank lending to the private sector remained broadly unchanged in October 2024 compared to the previous year, partly reflecting reduced demand attributed to high lending rates and exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling. Growth in local currency-denominated loans stood at 4.0 percent in October 2024, with the foreign currency-denominated loans, which account for about 26 percent of total loans, contracting by 11.8 percent. Reduction in credit growth was reflected across key sectors of the economy, including manufacturing, transport and communications, and building and construction; and most of these sectors have significant foreign currency denominated loans **(Table 2)**. Subdued growth in private sector credit is expected in the near term. Recovery is expected in 2025, partly reflecting the impact of recent easing of monetary policy stance and resilience in economic activity to support credit demand for working capital requirements.

Table 2: 12-month growth in private sector credit (percent)

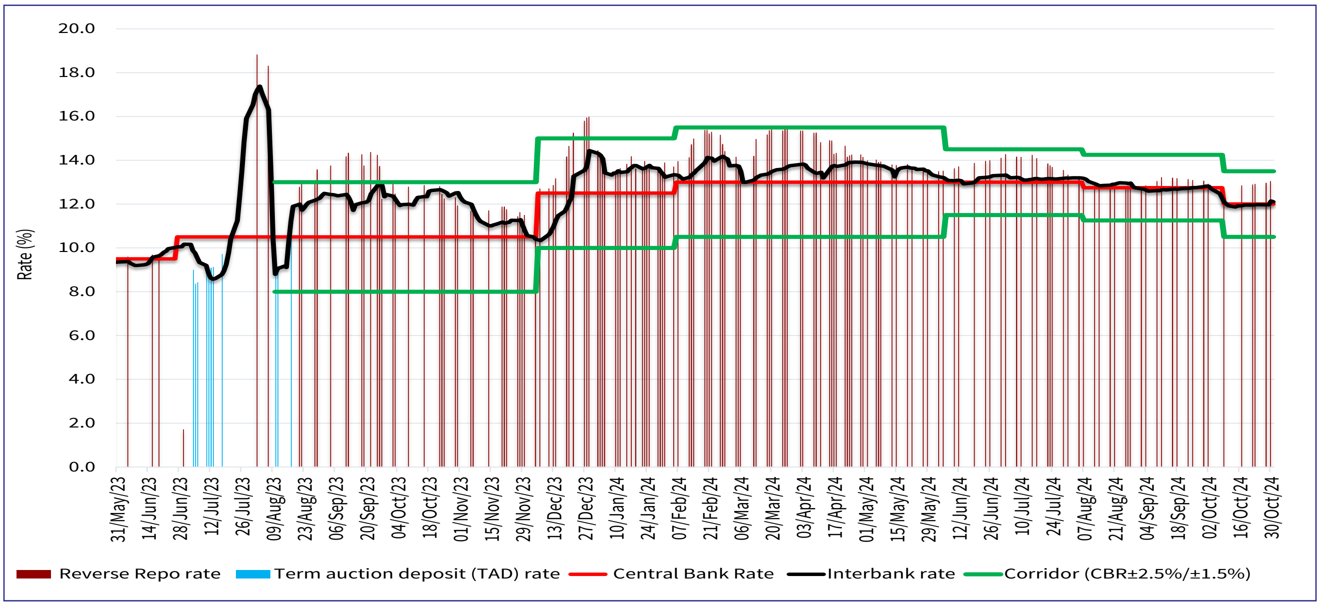
	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Total Credit to Private Sector	**12.5**	**13.2**	**13.9**	**13.8**	**10.3**	**7.9**	**6.6**	**4.5**	**4.0**	**3.7**	**1.3**	**0.4**	**0.0**
Agriculture	18.5	23.7	23.4	32.5	28.2	17.5	15.7	9.9	10.1	11.3	7.1	7.2	8.9
Manufacturing	18.4	20.0	20.9	23.1	13.6	9.4	4.3	1.6	-0.6	0.4	-6.7	-14.3	-11.6
Trade	9.9	10.2	13.1	12.9	10.7	6.2	5.1	2.7	3.1	0.6	0.8	6.5	4.7
Building & construction	13.0	3.6	8.6	3.0	4.1	0.1	5.0	-4.0	-8.3	-7.9	-13.0	-13.4	-16.7
Transport & communication	16.2	22.9	20.8	16.6	7.5	6.9	9.6	4.4	4.4	7.3	-1.1	1.4	8.0
Finance and insurance	41.6	38.9	60.2	32.8	16.9	13.0	6.2	-0.1	3.2	0.9	4.4	0.3	-5.2
Real estate	6.5	6.5	7.1	8.0	6.1	5.2	5.4	7.3	3.6	3.6	3.8	2.3	2.8
Mining & quarrying	5.9	11.8	15.1	8.0	4.3	34.4	26.9	47.2	111.7	106.7	102.3	96.7	26.3
Private households	8.3	7.8	2.5	7.3	8.9	8.6	10.4	7.6	7.5	7.6	5.9	7.0	5.9
Consumer durables	10.8	11.1	9.9	9.3	7.4	6.4	5.2	5.7	3.9	2.7	3.8	2.7	3.3
Business services	8.3	7.2	7.7	9.5	3.3	6.8	-0.4	0.9	1.9	2.1	1.4	-2.8	-3.8
Other activities	7.1	12.8	16.4	15.7	29.6	15.2	10.4	7.3	8.8	5.6	-2.8	-7.4	-16.1

Source: Central Bank of Kenya

2.3.6 Interest rates

Short-term interest rates have decreased in line with the reduction in the Central Bank Rate (CBR) and improved liquidity conditions. The weighted interbank rate has remained within the prescribed corridor around the CBR. The interest rate corridor was reviewed by the MPC in June 2024 from ±2.5 percent to ±1.5 percent around the CBR. Open market operations remained active during the period **(Chart 5a)**.

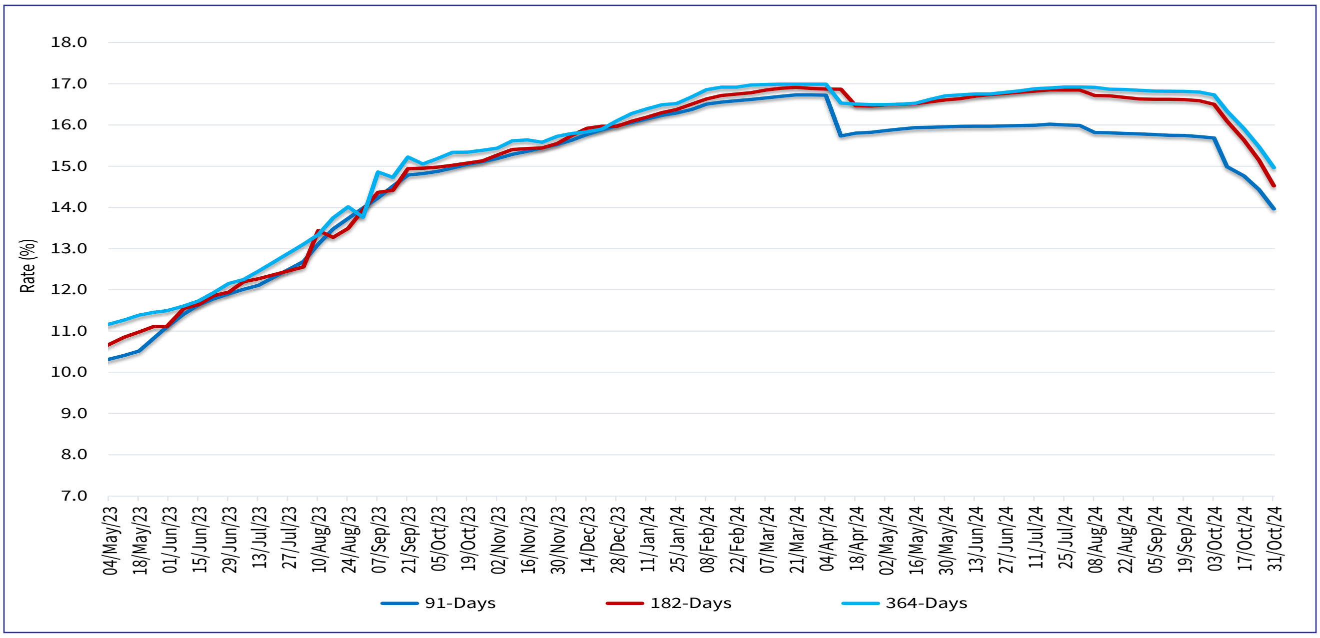
Chart 5a: Trends in short term interest rates (percent)



Source: Central Bank of Kenya

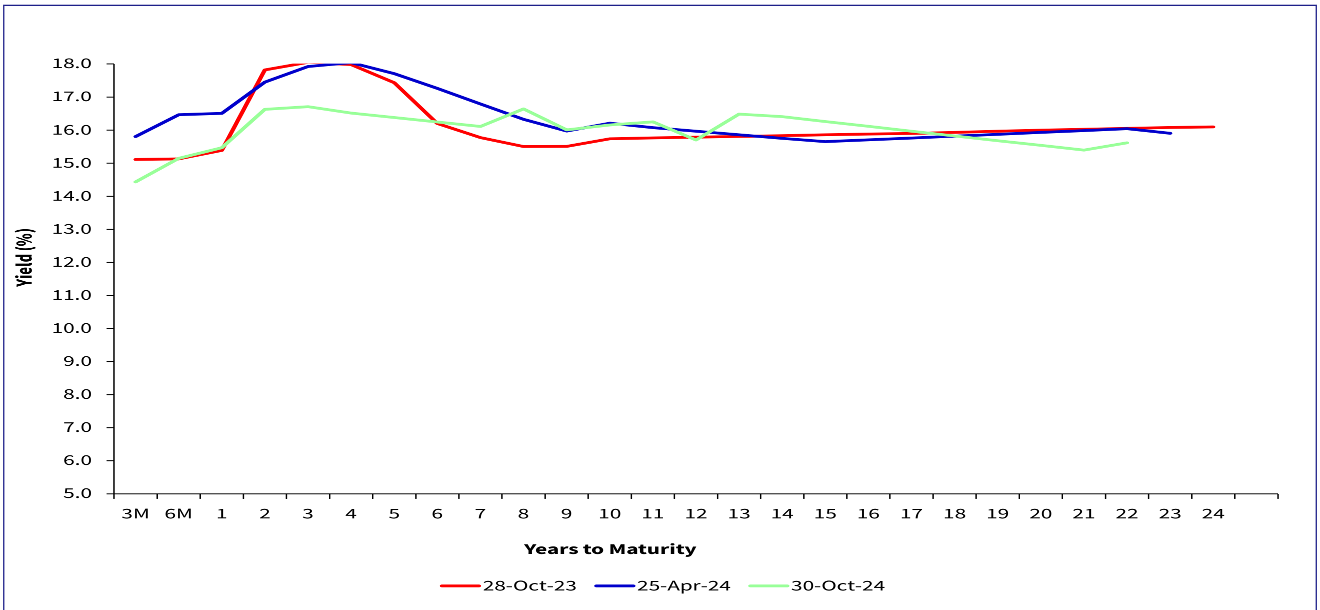
Interest rates on Government securities also declined during the period, which is more evident at the short end of the yield curve, partly reflecting easing of the monetary policy stance and improved liquidity conditions. The 91-day Treasury bill rate declined from 15.82 percent at the end of April 2024 to 13.97 percent at the end of October 2024, while the 182-day Treasury bill rate declined from 16.46 percent to 14.52 percent over a similar period. 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 5b & 5c).**

Chart 5b: Interest rates on treasury bills (percent)



Source: Central Bank of Kenya

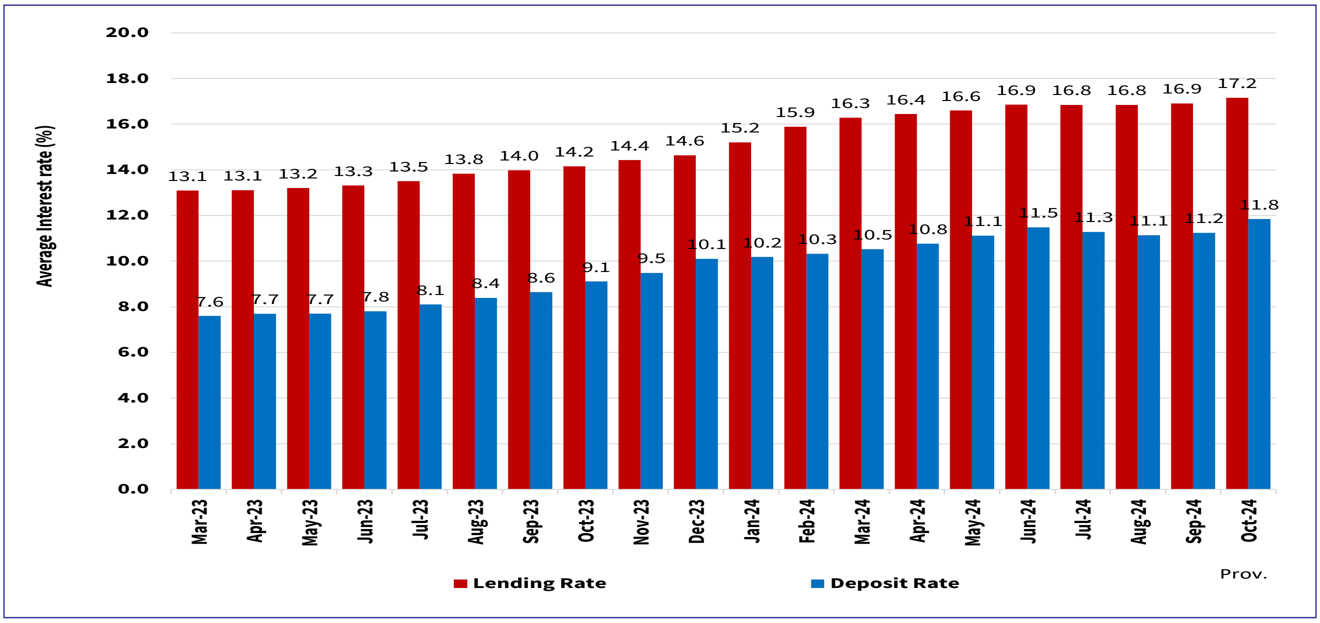
Chart 5c: Government securities yield curve (percent)



Source: Central Bank of Kenya

Nevertheless, commercial banks' average lending rates remained elevated during the period, partly reflecting the lagged effects of the previous tightening of the monetary policy. The weighted average lending rate increased to 17.2 percent in October 2024 from 16.4 percent in April 2024. Similarly, the weighted average deposit rate increased to 11.8 percent from 10.8 percent in April 2024 **(Chart 6)**.

Chart 6: Commercial banks' average interest rates (percent)



Source: Central Bank of Kenya

3.1 Attainment of Monetary Policy Objectives and Targets

During the six months to October 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 and FY2024/25 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 implementation ofthe new monetary policy framework adopted in August 2023. The framework is based on inflation targeting, and an interest rate corridor around the Central Bank Rate (CBR) initially set at ±250 basis points. To further enhance the effectiveness of the monetary policy framework, the MPC reviewed the width of the interest rate corridor around the CBR from ± 250 basis points to ±150 basis points in June 2024. Additionally, to improve access to the discount window, the Committee adjusted the applicable interest rate from 400 basis points above CBR to 300 basis points.During the six months to October 2024, monetary policy operations were aimed at ensuring the interbank rate, as an operating target, closely tracked the CBR. An assessment of the performance of the new monetary policy implementation framework showed improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission.

3.3 Monetary Policy Committee Meetings and Decisions

Over the six months to October, the MPC held three meetings on June 5, 2024, August 6, 2024, and October 8, 2024 against a backdrop of an improved global outlook for growth, easing inflation in advanced economies, and persistent geopolitical tensions. The meetings reviewed the outcomes of the MPC's previous decisions and measures implemented to anchor inflationary expectations and maintain exchange rate stability.

In the June 2024 meeting, the MPC noted that global growth had continued to recover, supported by stronger than expected growth in the United States, and resilient growth in some large emerging market economies, particularly India. In addition, global inflation had moderated, but some stickiness in core inflation had persisted in the advanced economies. Food inflation had continued to decline with improved supply of key food items, particularly sugar and cereals. International oil prices had moderated, due to reduced risk premium from the Middle East conflict and improved supply by non-OPEC+ oil producers. However, freight costs had remained high on account of longer transits by shippers avoiding possible attacks on vessels in the Red Sea. Kenya's overall inflation had remained broadly unchanged at 5.0 percent in May 2024 and April 2024. Food inflation stood at 6.2 percent in May compared to 5.6 percent in April, reflecting increases in prices of select vegetables, particularly onions, tomatoes, Irish potatoes, and kales (sukuma wiki), due to supply disruptions attributed to the heavy rains and flooding in some parts of the country. Prices of key non-vegetable food items, particularly maize, sugar, and wheat flour had declined following improved supply. Fuel inflation had declined to7.8 percent in May from 8.3 percent in April, partly reflecting a downward adjustment in pump prices and lower electricity prices. Non-food non-fuel (NFNF) inflation had eased to 3.4 percent in May from 3.6 percent in April, reflecting the impact of monetary policy measures. The Kenyan economy recorded strong growth in 2023, supported by robust performance of the agriculture and service sectors. Real GDP grew 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 had slowed down. Despite the flooding experienced in some parts of the country, the economy was expected to remain strong in 2024, supported by the resilience of the services sector, robust performance of agriculture sector, and continued implementation of Government measures to boost economic activity across priority sectors. The Committee noted that its previous measures had lowered overall inflation. The Committee further noted that overall inflation was expected to remain stable around the mid-point of the target range in the near term, supported by the stable exchange rate, improved food supply attributed to favorable weather conditions, stable fuel prices, and the impact of monetary policy actions which continued to filter through the economy. The committee concluded that the prevailing monetary policy stance would ensure that overall inflation remained stable around the mid-point of the target range in the near term, while ensuring continued stability in the exchange rate, and retained the CBR at 13.00 percent.

The August 2024 meeting was held against a backdrop of an improved global outlook for growth, easing inflation in advanced economies, and persistent geopolitical tensions. Global growth continued to recover, supported by strong growth in the United States and improved growth prospects in some large emerging market economies, particularly China and India. Global inflation had moderated, with central banks in some major economies lowering interest rates. Food inflation had continued to decline with improved supply of key food items. International oil prices had moderated, but the risk premium from the Middle East conflict increased following escalation of tensions. Kenya's overall inflation had declined to 4.3 percent in July 2024 from 4.6 percent in June, remaining below the mid-point of the target range. Food inflation remained stable at 5.6 percent in June and July, with declines in prices of key non-vegetable food items, particularly maize, sugar, and wheat flour, offsetting increases in prices of select vegetables, particularly tomatoes, Irish potatoes, and cabbages. Fuel inflation declined to 4.5 percent in July from 6.4 percent in June, due to a downward adjustment in pump prices and lower electricity prices. Non-food non-fuel (NFNF) inflation eased to 3.3 percent in July from 3.4 percent in June, reflecting the impact of monetary policy measures. The GDP data for the first quarter of 2024 showed continued resilient performance of the Kenyan economy, with real GDP growing by 5.0 percent. This reflected continued strong performance of the agriculture sector attributed to favourable weather conditions, and robust performance of the services sector, particularly wholesale and retail trade, accommodation and food services, financial and insurance, information and communication, and real estate. Nevertheless, growth of the industrial sector, particularly manufacturing and construction, slowed down. The MPC noted that its previous measures had lowered overall inflation to below the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. The Committee further noted that NFNF inflation had moderated, while central banks in some major economies had lowered interest rates in response to easing inflationary pressures, with indications that other central banks would embark on a similar trajectory. The MPC concluded that there was scope for a gradual easing of the monetary policy, while ensuring continued exchange rate stability. Therefore, the Committee decided to lower the CBR to 12.75 percent from 13.00 percent.

The October 2024 meeting was held against a backdrop of an improved global outlook for growth, continued easing of inflation in advanced economies, and persistent geopolitical tensions. Global growth continued to recover, supported by stronger-than-expected growth in the United States, strong growth in some large emerging market economies such as India, and improved growth prospects in the United Kingdom. Global inflation continued to moderate, with central banks in the major economies including the US Federal Reserve, lowering their interest rates. International oil prices had moderated, but the risk from the Middle East conflict had remained elevated following escalation of tensions. Global food inflation had risen slightly, mainly driven by higher edible oil prices. Kenya's overall inflation declined to 3.6 percent in September 2024 from 4.4 percent in August, remaining below the mid-point of the target range. Food inflation declined to 5.1 percent in September from 5.3 percent in August, mainly reflecting lower vegetables price inflation attributed to declines in prices of key items including tomatoes, cabbages, onions, and potatoes. Fuel inflation declined to 1.1 percent in September from 4.7 percent in August, mainly due to lower electricity and pump prices. Non-food non-fuel (NFNF) inflation eased to 3.4 percent in September from 3.5 percent in August, reflecting the lagged effects of previous monetary policy tightening. The GDP data for the second quarter of 2024 showed a slowdown in the performance of the Kenyan economy, with real GDP growing by 4.6 percent compared to 5.6 percent in the second quarter of 2023. This slowdown mainly reflected deceleration in growth in most sectors of the economy. The projected growth of the economy in 2024 was revised to 5.1 percent from 5.4 percent. Nevertheless, growth in 2024 is expected to be supported by the resilience of key service sectors, robust performance in agriculture and improved exports. The MPC noted that overall inflation had declined further and was expected to remain below the midpoint of the target range in the near term, supported by stable food inflation attributed to improved supply from ongoing harvests, a stable exchange rate, and lower fuel inflation. Additionally, the Committee noted that non-food non-fuel (NFNF) inflation had moderated and was expected to remain stable, while central banks in the major economies had continued to lower interest rates in response to easing inflationary pressures, with expectations of further reductions in the coming months. The MPC also noted the sharp deceleration in credit to the private sector, and the slowdown in growth in the second quarter of 2024, and concluded that there was scope for a further easing of the monetary policy stance to support economic activity, while ensuring exchange rate stability. Therefore, the Committee decided to lower the CBR to 12.00 percent from 12.75 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 the 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 sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was primarily attributed to the stable macroeconomic environment reflected in the low inflation rate and stability in the exchange rate, expectations of a decline in interest rates, continued strong performance of agriculture, resilience of the services sector, and improved global growth prospects. Nevertheless, respondents expressed concerns about high cost of doing business, taxation, subdued consumer demand, political noise, and high cost of credit. The Agriculture Sector Survey showed high input costs, labour costs, pests and diseases and transport costs as the main 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 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 representatives 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 October 2024 continued to support price stability. The measures lowered inflation to below the midpoint of the target range, stabilized the exchange rate, 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, to enhance the effectiveness of monetary policy and support anchoring of inflation expectations.

ANNEX

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (MAY 2024 – OCTOBER 2024)

Date	Events of Relevance to Monetary Policy
June 2024	CBR retained at 13.00 percent.
	The MPC assessed the new monetary policy implementation framework introduced in August 2023 and noted that it had resulted in improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission. To enhance the effectiveness of the monetary policy implementation framework, the MPC reviewed the width of the interest rate corridor around the Central Bank Rate (CBR) from ±250 basis points to ±150 basis points in the June 2024 meeting. Additionally, to improve access to the discount window, the MPC adjusted the applicable interest rate from 400 basis points above CBR, to 300 basis points.
July 2024	Release of July 2024 IMF World Economic Outlook (WEO) Update showing that global growth was projected at 3.2 percent in 2024 and 3.3 percent in 2025 from an estimate of 3.3 percent in 2023. Global inflation rates continued to ease in response to policy tightening actions, but core inflation remained sticky.
August 2024	CBR lowered to 12.75 from 13.00 percent.
October 2024	CBR lowered to 12.00 percent from 12.75 percent.
	Release of October 2024 IMF World Economic Outlook (WEO) Report showing that global growth was expected to decline marginally and hold steady at 3.2 percent in 2024 and 2025, from 3.3 percent in 2023. Global inflation is forecast to decline, with advanced economies returning to their inflation targets sooner than emerging and developing economies.

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.

Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

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