



Central Bank of Kenya

Monetary Policy Statement

June 2024





LETTER OF TRANSMITTAL

In accordance with Section 4B 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 54th Monetary Policy Statement of the Central Bank of Kenya. It reviews and assesses the implementation of monetary policy during the first half of 2024 and outlines the direction of monetary policy for the next 12 months.

Dr. Kamau Thugge, CBS

Governor

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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability and issuing currency.

The Bank also promotes financial stability through regulation, supervision, and licensing of financial institutions under its mandate. It also provides oversight of the payments, clearing and settlement systems, and fosters liquidity, solvency, and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

The CBK's monetary policy is designed to support the Government's objectives with respect to growth. The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the target prescribed by the National Treasury at the beginning of the financial year. Currently, this target is a range between 2.5 percent and 7.5 percent.

The achievement and maintenance of a low and stable inflation rate coupled with adequate liquidity in the market, facilitates higher levels of domestic savings and private investment. This leads to improved economic growth, higher real incomes, and increased employment opportunities.

INSTRUMENTS AND TRANSMISSION OF MONETARY POLICY

The CBK pursues its monetary policy objectives using the following instruments:

- **Open Market Operations (OMO):** This refers to actions by the CBK involving purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. OMO can also be used to stabilize short-term interest rates. When the Central Bank buys securities on the open market, it increases the reserves of commercial banks, making it possible for them to expand their loans and hence increase the money supply. To achieve the desired level of money supply, OMO is conducted using:
 - i. **Repurchase Agreements (Repos):** A repo is a collateralized loan involving a contractual arrangement between two parties, in which one party sells a security at a specified price with a commitment to buy the security back at a later date. Both parties therefore, meet their investment goals of secured funding and liquidity. CBK Repos are conducted through auctions with tenors of 3 and 7 days and are for mopping up liquidity from the market. The Late Repo, sold in the afternoon, has a 4-day tenor and is issued at 100 basis points below the repo rate of the day. Reverse Repos, on the other hand, are for liquidity injections and involve purchase of securities from commercial banks. The current tenors for Reverse Repos are 7, 14, 21, 28 and 91 days.
 - ii. **Term Auction Deposit (TAD):** The TAD is used when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer dated tenors. TAD is essentially not backed by collateral, and it is conducted through an auction, similar to Repos. Currently, the tenors for such deposits at CBK are 14, 21, 28 or 91 days and upon maturity of TAD, the CBK credits the respective commercial bank with the deposit and interest.
 - iii. **Horizontal Repos:** Horizontal Repos are modes of improving liquidity distribution between commercial banks and are conducted under CBK supervision. They are transacted between commercial banks on the basis of signed agreements using government securities as collateral and have negotiated tenors and yields. Commercial banks, short of deposits at the CBK, borrow from banks with excess deposits on the security of an appropriate asset, normally a government security. Horizontal Repos also help banks overcome the problem of limits to lines of credit, thus promoting more efficient management of interbank liquidity.

- **Central Bank Rate (CBR):** The CBR is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months. Movements in the CBR, both in direction and magnitude, signal the monetary policy stance. To enhance clarity and certainty in monetary policy implementation, the CBR is the base for all monetary policy operations. To enhance monetary policy transmission the MPC adopted a new monetary policy implementation framework in August 2023. The framework is based on inflation targeting and on interest rate corridor around the CBR at 150 basis points. Consistent with the new framework monetary policy operations are aimed at ensuring the interbank rate as an operating target closely targets the CBR.

The efficiency in the Repo and interbank markets is crucial for the transmission of monetary policy decisions. The CBK monitors the overnight interbank money market. It responds to the tightness or slackness in the interbank market liquidity through OMO. Short-term international flows of capital are affected by short-term interest rates in the country. These are, in turn, affected by movements in the CBR and hence indirectly, the exchange rate could also be affected.

- **Standing Facilities:** The CBK does not have automatic standing facilities with respect to overnight lending. The CBK, as lender of last resort, provides secured loans to commercial banks on an overnight basis at a penal rate that is over the CBR. This facility is referred to as the Discount Window. To improve access to the discount window the applicable interest rate is currently set at 300 basis points above the CBR.
- **The Cash Reserves Ratio (CRR):** In accordance with the law, the CRR is the proportion of a commercial bank's total deposit liabilities which must be held as deposits at CBK. These deposits are held in the CRR Account at no interest. The ratio is currently 4.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks are currently required to maintain their CRR based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below a CRR of 3 percent on any day.
- **Licensing and Supervision of Financial Institutions:** The CBK uses the licensing and supervision tools to ensure stability and efficiency of the banking system; this includes vetting potential managers for suitability.
- **The National Payments System:** The modernisation of the National Payments System has continued to lower transaction costs and enhanced the efficiency of the payments systems. This has ensured the effectiveness of monetary policy instruments.
- **Communication:** The increasing use of communication media ensures a wider dissemination of monetary policy decisions and background data thereby increasing the efficiency of information transmission and managing expectations. The regular interaction between the MPC and the Chief Executive Officers of banks has ensured that monetary policy decisions are transmitted to the banking sector. The regular Governor's Press Conferences have also enhanced the media understanding of monetary policy decisions. The CBK website is an important source of up-to-date data on all aspects of the financial market including interest rates, exchange rates, results of auctions of government securities, and the MPC releases.

EXECUTIVE SUMMARY

This Monetary Policy Statement provides the direction of monetary policy for the Financial Year (FY) 2024/25. It also reviews the outcome of the monetary policy stance adopted in the first half of 2024. During the first half of 2024, monetary policy was conducted in the context of an improved global economy supported by strong growth in the U.S.A and resilient growth in some large emerging market economies particularly India. However, the growth outlook is subject to significant risks arising from escalation of geopolitical tensions particularly the Israel-Palestinian conflict. Global inflation moderated, but some stickiness in core inflation persisted in the advanced economies. Food inflation continued to decline with improved supply of key food items. International oil prices marginally increased 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 continued to monitor the new monetary policy implementation framework adopted in August 2023. The MPC noted that the new framework 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.

The CBK conducted monetary policy in the first half of 2024 with the objective of maintaining overall inflation within the target range of 5 ± 2.5 percent. During the Monetary Policy Committee (MPC) meeting in February, the MPC raised the Central Bank Rate (CBR) to 13.00 percent noting that all the key components of inflation had increased, and the exchange rate pressures had persisted causing the overall inflation to remain sticky in the upper bound. The policy stance adopted was expected to anchor inflationary expectations, drive inflation on a firm downward path towards the 5.0 percent mid-point of the target range, as well as address residual pressures on the exchange rate. In April and June 2024, the Committee met and retained the CBR at 13.00 percent noting that the previous measures had lowered inflation to the mid-point of the target range. The MPC committee further noted that Non-Food Non-Fuel (NFNF) inflation had remained sticky during the period under review and that interest rates in the major economies were expected to remain higher-for-longer due to the stickiness of core inflation. The MPC maintained the policy stance to anchor inflationary expectations and 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.

Overall inflation remained within the target range from December 2023 to June 2024, mainly on account of low food and fuel prices. It declined to 4.6 percent in June 2024 from 6.6 percent in December 2023. Food inflation declined to 5.6 percent in June 2024 from 7.7 percent in December 2023 mainly on account of significant decreases in prices of select non-vegetable items reflecting improved supply attributed to favourable weather conditions and lower international food prices. The NFNF inflation remain sticky at 3.4 percent with monetary policy measures continuing to work through the economy.

The foreign exchange market remained relatively stable in the first half of 2024 despite increased global uncertainties, and persistent geopolitical tensions. The Kenya Shilling exchange rate strengthened against the U.S. Dollar from February supported by reforms in the foreign exchange market, buyback of Eurobond, flows from agricultural exports, remittances and portfolio investors. The current account deficit was estimated at 3.7 percent of GDP in the twelve months to June 2024, compared to 4.2 percent of GDP in a similar period in 2023. The CBK gross foreign exchange reserves stood at USD 8,490 million (4.4 months of import cover as at end June 2024) and continued to provide an adequate buffer against short-term shocks in the foreign exchange market.

The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 16.3 percent in June 2024 compared to 14.8 percent in December 2023. Banks continued to make adequate provisions for the NPLs. Private sector credit growth declined to 4.0 percent in June 2024 compared to 13.9 percent in December 2023, partly reflecting exchange rate valuation effects on foreign currency denominated loans.

Despite the challenging external environment, GDP data for the first quarter of 2024 together with leading indicators showed that the performance of the Kenyan economy remained strong in the first half of 2024. Real GDP growth was resilient at 5.0 percent in the first quarter of 2024 compared to a revised growth of 5.5 percent in a similar quarter in 2023, mainly supported by a rebound of the agriculture sector and continued resilience of the service sectors.

The monetary policy stance for the FY 2024/25 will aim at achieving and maintaining overall inflation within the target range of 5 ± 2.5 percent. The economy is expected to remain resilient in 2024, supported by continued strong performance of agriculture and services sectors, with real GDP growth projected at 5.4 percent. The foreign exchange market is expected to remain stable supported by resilient exports receipts, and buoyant remittances. The current account deficit is expected to remain stable at 4.0 percent of GDP in 2024. The continued coordination of monetary and fiscal policies is expected to sustain macroeconomic stability and support economic activity.

The Bank will continue to implement reforms outlined in the White Paper on *Modernization of the Monetary Policy Framework and Operations*, to strengthen the monetary policy framework and operations. The Bank will also continue to hold regular engagements with stakeholders in the banking sector, as well as with CEOs of non-bank private sector firms. The Bank will continue to monitor the impact of its policy measures, as well as developments in the global and domestic economy to mitigate the adverse economic impact and financial disruptions to safeguard price stability.

1. INTRODUCTION

This Monetary Policy Statement (MPS) provides the direction of monetary policy in the FY 2024/25. It also presents the outcome of the monetary policy stance adopted in the first half of 2024.

Price stability remains the primary objective of monetary policy formulation and implementation. The Central Bank Rate (CBR) signals the monetary policy stance and is the base for all monetary policy operations. The Bank monitors developments in inflation, and key monetary aggregates such as broad money (M3) and credit to the private sector, while maintaining a flexible exchange rate regime. The Bank's participation in the foreign exchange market is guided by the need to maintain adequate level of foreign exchange reserves, meeting the Government's external obligations, and ensuring stability in the foreign exchange market. The CBK foreign exchange reserves provide a buffer against short-term shocks.

Global growth is expected to remain steady in 2024 at 3.2 percent compared to 3.3 percent in 2023 supported by resilient growth in the US and some emerging economies, particularly, India and China as well as easing global inflation. In emerging markets, growth is expected to slightly decline to 4.3 percent in 2024 from 4.4 percent in 2023 while in Sub-Saharan Africa, growth is projected to increase to 3.7 percent in 2024 from 3.4 percent in 2023. The main risks to the

global growth outlook relate to further escalation of geopolitical tensions and the possibility of sustained high interest rates.

The CBK continued to monitor the impact of outcomes of its previous decisions and measures implemented to mitigate the adverse economic impact and financial disruptions, as well as developments in the global and domestic economy. At its meeting in February, MPC raised the CBR from 12.50 percent to 13.00 percent to address inflationary pressures and exchange rate pressures. In the subsequent meeting held in April and June, the MPC maintained the CBR at 13.00 percent, noting that overall inflation had declined to the mid-point of the target range and exchange rate pressures had dissipated. Nonetheless, the MPC noted that the NFNF had remained sticky and interest rates in the major economies were expected to remain higher-for-longer due to the stickiness of core inflation.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance implemented in the first half of 2024 while Section 3 describes the external economic environment and outlook for 2024/2025. Section 4 concludes by outlining the specific monetary policy path for 2024/25.

2. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE FIRST HALF OF 2024

During the first half of 2024, monetary policy formulation and implementation was aimed at achieving and maintaining overall inflation at the target of 5.0 percent with a flexible margin of 2.5 percent on either side. In view of the sustained inflationary pressures, pressures on the exchange rate at the beginning of the year and the continued global uncertainties, the CBK continued to monitor the overall liquidity in the economy as well as any potential threats which could fuel demand driven inflationary pressures.

During the MPC meeting of February 2024, the Committee raised the Central Bank Rate (CBR) to 13.00 percent from 12.50 percent, noting that all the key components of inflation had increased, and overall inflation had remained sticky in the upper bound. In addition, the exchange rate pressures persisted and filtered to consumer prices. The policy stance adopted would anchor inflationary expectations and address the residual pressures emanating from the exchange rate. The monetary policy measures were complemented by fiscal measures by the Government notably, the implementation of the FY2023/24 Government Budget, which continued to reinforce fiscal consolidation.

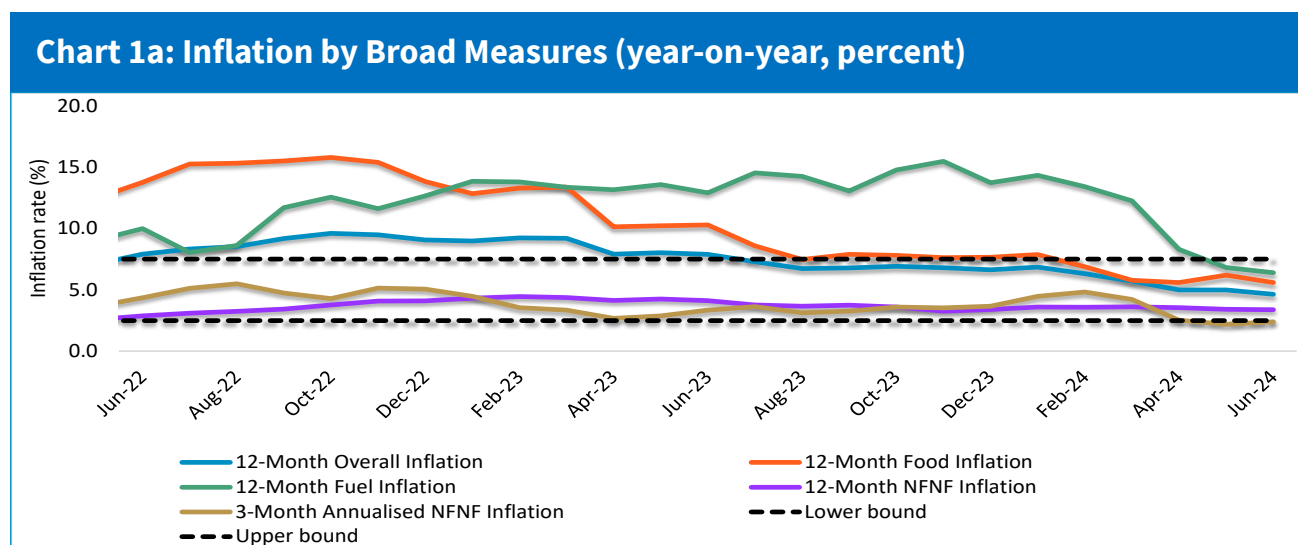
During the April and June 2024 meetings, the MPC met against a backdrop of reduced inflationary pressures, improved global outlook for growth albeit with some downside risks arising from geopolitical tensions. The MPC noted that the measures taken in February had lowered overall inflation to the midpoint of the target range, stabilized the exchange

rate and anchored inflationary expectations. However, the NFNF had remained sticky during the period under review and interest rates in the major economies were expected to remain higher-for-longer due to the stickiness of core inflation. The MPC therefore retained the CBR at 13.00 percent noting that this stance would maintain overall inflation stable around the mid-point of the target range in the near term, while ensuring continued stability in the exchange rate.

The following are the specific outcomes of the policy measures implemented in the first half of 2024.

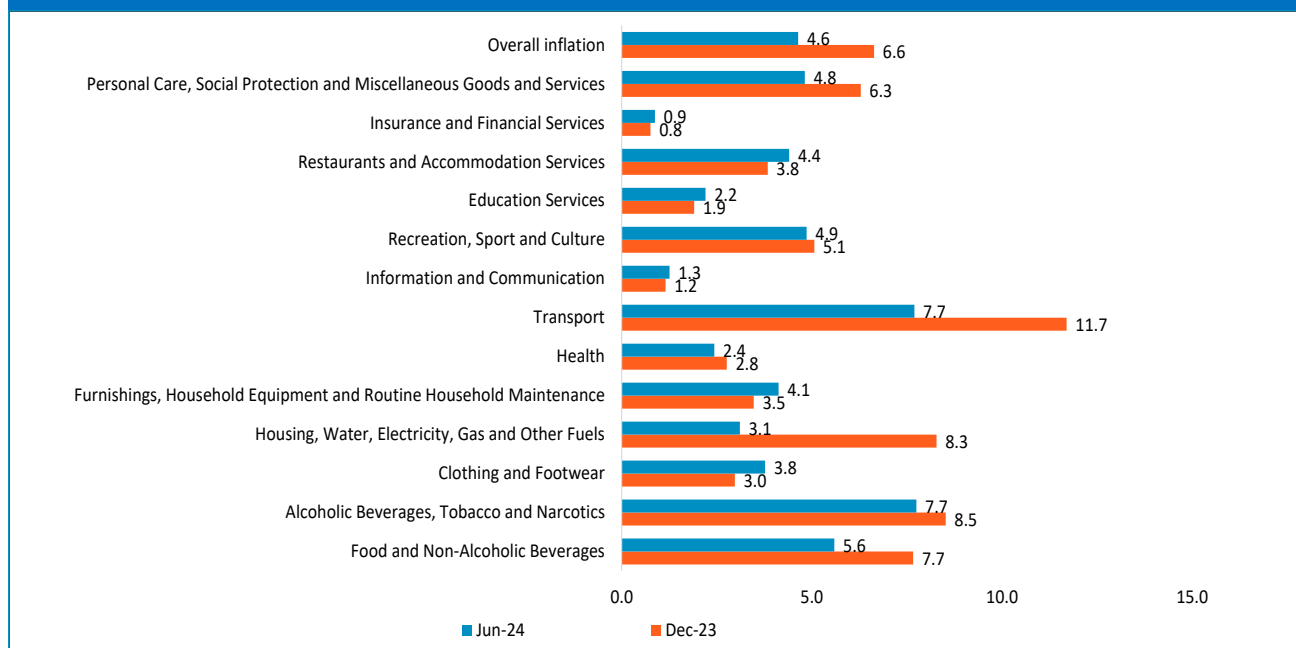
i. Inflation

Overall inflation remained within the target range from December 2023 to June 2024, mainly on account of low food and fuel prices. It declined to 4.6 percent in June 2024 from 6.6 percent in December 2023. Food inflation declined to 5.6 percent in June from 7.7 percent in December 2023 mainly on account of significant decreases in prices of select non-vegetable items reflecting seasonal patterns and developments in international food prices. Fuel inflation declined to 6.4 percent in June 2024 from 13.7 percent in December 2023, mainly driven by lower electricity prices and stable domestic pump prices. NFNF inflation remained stable in June, reflecting continued muted demand pressures and impact of monetary policy tightening. It stabilized at 3.4 percent in December 2023 and June 2024 (**Chart 1a**).



Source: Kenya National Bureau of Statistics and CBK

Chart 1b: 12-Month Inflation by Broad CPI Categories (Percent)



Source: Kenya National Bureau of Statistics

Inflation rates for all consumer goods and services were within the target range in June 2024 except, transport and alcoholic beverages, tobacco and narcotics.

ii Bank Credit to the Private Sector

Credit to private sector declined in the first half of 2024, growing by 4.0 percent in the 12-months to June 2024 compared to 13.9 percent in December 2023. The decline was partly due to the impact of exchange rate appreciation on foreign currency

loans. The foreign currency loans account for about 26 percent of total credit to the private sector, and are largely concentrated in manufacturing, trade, transport and communication; and these sectors recorded declines in credit during the review period (**Table 1**). The pace of private sector credit is expected to remain moderate in 2024 relative to 2023, partly reflecting the lag effects of the tightened monetary policy stance. Nevertheless, the expected resilience in economic activities and de-risking of lending to the MSMEs through the credit guarantee scheme is expected to somewhat support credit demand.

Table 1: 12-Month Growth in Private Sector Credit across Sectors (Percent)

Main sectors	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	May-24	Jun-24
Agriculture	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	9.9	10.1
Manufacturing	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	1.6	-0.6
Trade	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	2.7	3.1
Building and construction	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	-4.0	-8.3
Transport and communication	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	4.4	4.4
Finance and insurance	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	-0.1	3.2
Real estate	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	7.3	3.6
Mining and quarrying	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	47.2	111.7
Private households	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	7.6	7.5
Consumer durables	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	5.7	3.9
Business services	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	0.9	1.9
Other activities	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	7.3	8.8
Total private sector credit	11.6	13.2	13.2	12.2	10.3	12.6	12.2	12.5	13.2	13.9	13.7	10.5	7.8	6.1	4.1	3.9

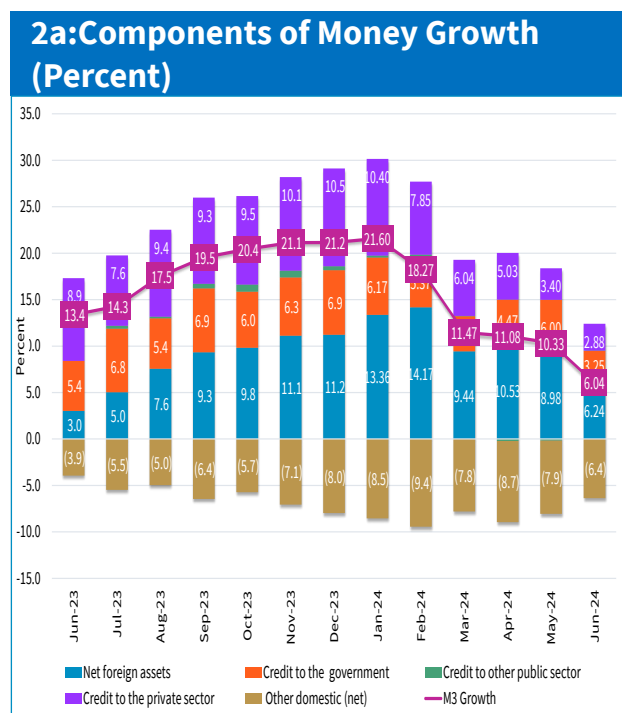
Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

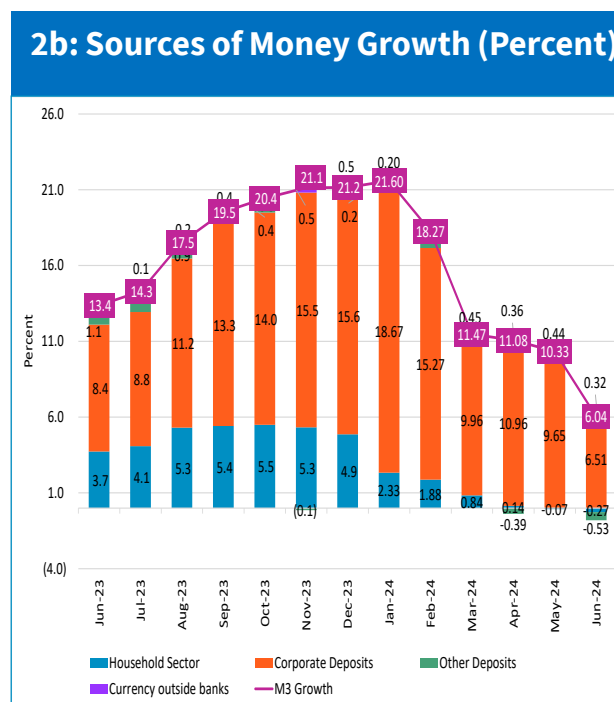
The year-on-year growth of broad money, M3, decreased to 6.0 percent in June 2024 from 21.2 percent in December 2023, largely reflected in reduced deposits. The reduction in deposits was partly due to the impact of exchange rate appreciation on foreign currency deposits. On the asset side,

the decline in money supply growth was mainly reflected in reduced credit to the private sector and net lending to Government. Net foreign assets of the banking system supported money supply growth, mainly on account of increased commercial banks' foreign assets (**Chart 2 and Table 2**). In the near term, growth in money supply is expected to remain moderate partly reflecting subdued growth in credit to the private sector.

Chart 2: The 12-Month Growth in Broad Money Supply (M3) (Percent)



Source: Central Bank of Kenya



Source: Central Bank of Kenya

Table 2: Key Monetary Aggregates

	Jun-23	Sep-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Broad Money, M3 (Ksh Billion)	5,037.4	5,295.9	5,498.6	5550.0	5432.2	5204.4	5247.5	5253.3	5341.5
Reserve Money (Ksh Billion)	488.3	587.2	595.5	564.4	600.1	578.1	555.0	565.2	579.7
Credit to private sector (Ksh Billion)	3,652.6	3,773.6	3,911.2	3920.4	3851.9	3829.0	3851.0	3795.0	3797.5
Memorandum Items									
12-month growth in actual Reserve Money (Percent)	(5.9)	5.9	15.8	4.6	15.8	13.7	8.9	4.3	18.7
12-month growth in actual Broad Money, M3 (Percent)	13.4	19.5	21.3	21.6	18.3	11.5	11.1	10.3	6.0

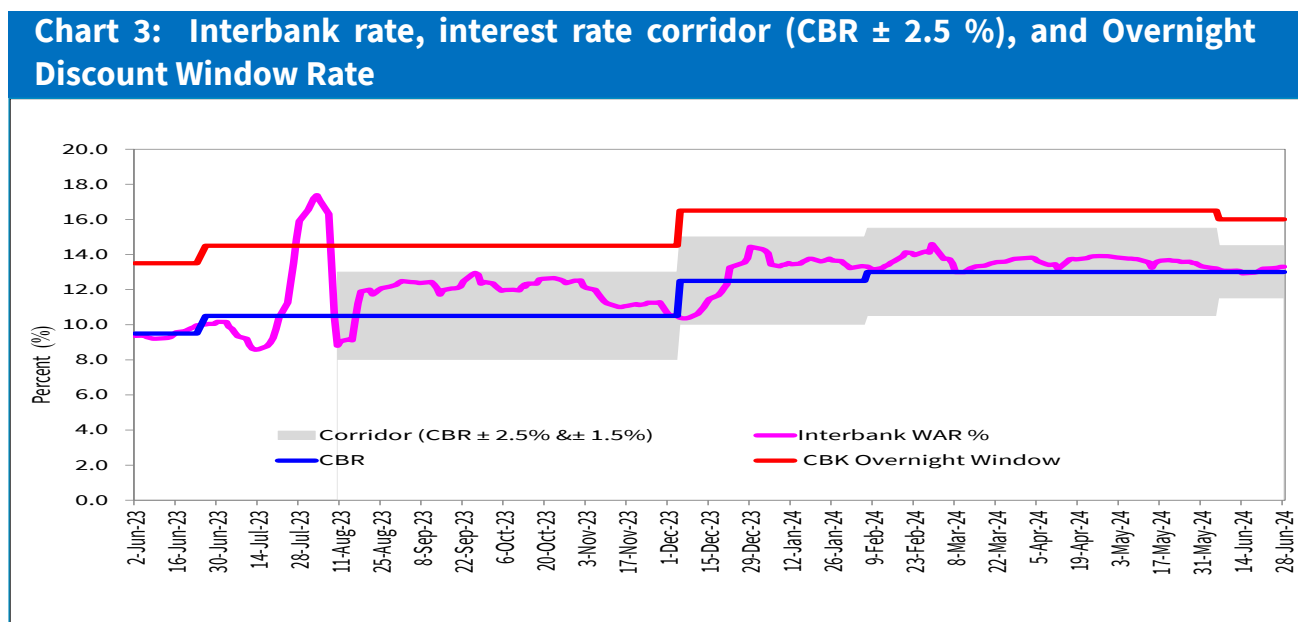
Source: Central Bank of Kenya

iv. Interest Rates Developments

a. Short Term Rates

Short-term interest rates increased during the first half of 2024, reflecting tightened monetary policy stance and liquidity conditions in the money markets (**Table 3**). The average interbank interest

rate increased to 13.14 percent in June 2024 from 11.65 percent in December 2023 and was within the prescribed interest rate corridor band around the CBR (**Chart 3**). Similarly, the average 91-day Treasury bill rate increased to 15.97 percent in June 2024 from 15.70 percent in December 2023, while the average 182-day Treasury bill rate increased to 16.67 percent from 15.80 percent.



Source: Central Bank of Kenya

Table 3: Interest Rates (Percent)

	2023							2024					
	June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Central Bank Rate	10.50	10.50	10.50	10.50	10.50	10.50	12.50	12.50	13.00	13.00	13.00	13.00	13.00
Interbank	9.48	10.34	12.57	12.36	12.70	11.32	11.65	13.65	13.59	13.42	13.70	13.62	13.14
91-Tbill	11.49	12.12	13.25	14.38	14.96	15.32	15.70	16.14	16.51	16.68	16.16	15.91	15.97
182-Tbill	11.54	12.23	13.19	14.42	15.03	15.39	15.80	16.18	16.65	16.86	16.71	16.52	16.67
Average Lending Rate (1)	13.31	13.50	13.83	13.98	14.16	14.43	14.64	15.20	15.88	16.28	16.45	16.60	16.85
Overdraft/loan	12.83	12.84	13.24	13.62	14.09	14.29	14.65	15.11	15.55	15.97	16.37	16.52	16.78
1-5years	13.79	14.01	14.29	14.48	14.63	14.97	15.16	15.87	16.36	16.82	17.03	17.28	17.51
Over 5years	13.06	13.31	13.64	13.67	13.76	14.00	14.14	14.62	15.58	15.90	15.94	15.99	16.25
Average Deposit Rate (2)	7.80	8.10	8.39	8.64	9.11	9.48	10.10	10.18	10.32	10.52	10.77	11.12	11.48
Demand	1.97	2.33	2.57	2.37	2.14	2.59	2.51	2.40	2.47	2.57	2.58	2.76	2.45
0-3months	8.32	8.75	9.28	9.76	10.49	11.08	11.42	11.65	11.89	12.08	12.00	12.46	12.56
Over 3months	8.54	8.75	8.88	8.96	9.27	9.50	10.19	10.57	10.81	11.27	11.44	11.72	11.92
Savings	3.92	3.97	4.05	4.00	3.98	4.01	4.23	3.69	3.33	3.90	4.14	4.45	5.11
Spread (1-2)	5.51	5.40	5.44	5.33	5.05	4.95	4.54	5.02	5.56	5.76	5.68	5.48	5.37

Source: Central Bank of Kenya

b. Commercial Bank Rates

Commercial banks average lending and deposit rates increased in the first half of 2024 in line with the tightened monetary policy stance. The weighted

average lending rate increased to 16.85 percent in June 2024 from 14.64 percent in December 2023, while the weighted average deposit rate increased to 11.48 percent from 10.10 percent in December 2023.

v. Banking Sector developments

The banking sector remained stable and resilient in the period ended June 2024, with strong liquidity and capital adequacy ratios. The average commercial banks liquidity and capital adequacy ratios stood at 53.5 percent and 19.1 percent in June 2024. These were above the minimum statutory limits of 20.0 percent and 14.5 percent respectively.

Credit risk remained elevated, with the ratio of gross non-performing loans (NPLs) to gross loans standing at 16.3 percent in June 2024, an increase from 14.8 percent in December 2023. Gross NPLs increased by 5.8 percent from Ksh.621.3 billion in December 2023, to Ksh.657.6 billion in June 2024, mainly due to a challenging business environment. The main sectors that recorded increased NPLs are Real Estate, Trade, Agriculture, Tourism, Restaurant and Hotels, Personal and Household, Building and Construction, Energy and Water, and Financial Services.

The total banking sector lending decreased by 3.8 percent to Ksh.4,041.3 billion in June 2024, from Ksh.4,199.5 billion in December 2023. This was mainly driven by loan repayments. The sectors that recorded decreased gross loans are Manufacturing, Transport and Communication, Trade Personal and Household, Tourism and Restaurant and Hotels, Building and Construction, Energy and Water, Agriculture, and Real Estate sectors.

Customer deposits remained the main source of funding to the banking sector accounting for 74.0 percent of the banking sector's total liabilities and shareholders' funds as of June 2024. This was a slight decrease from 75.2 percent in December 2023. Customer deposits decreased by 3.8 percent to Ksh.5,589.1 billion in June 2024, from Ksh.5,812.1 billion in December 2023.

The Credit Guarantee Scheme (CGS) established in October 2020, continued to support additional credit

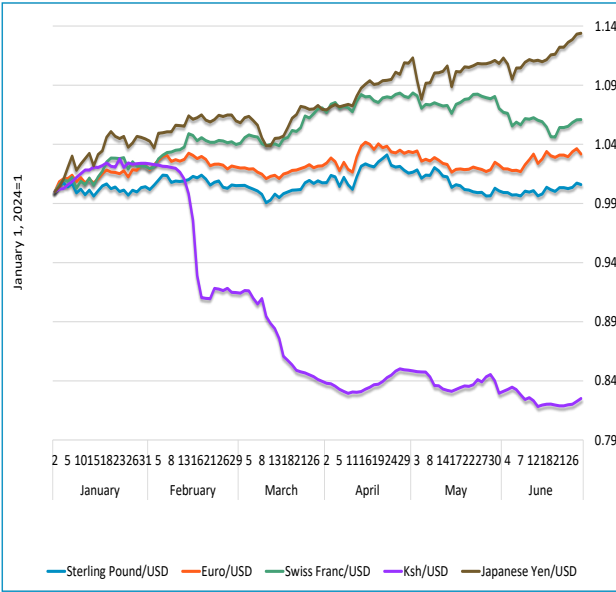
uptake by vulnerable Micro, Small, and Medium-sized Enterprises (MSMEs). As at the end of June 2024, the seven banks participating in the CGS had disbursed guaranteed loans to MSMEs amounting to Ksh.6.3 billion as compared to Ksh.6.2 billion in December 2023.

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.

vi. Exchange Rates and Foreign Exchange Reserves

The foreign exchange market remained stable in first half of 2024 despite increased global uncertainties, effects of a stronger U.S. Dollar and geopolitical tensions in the Middle East. The Kenya Shilling exchange rate strengthened against the U.S. Dollar from February 2024 (**Charts 3a and 3b**). The shilling stability was supported by increased foreign exchange inflows, impact of monetary policy measures, the buyback of the June 2024 Eurobond by the Government as well as the effect of 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 3c**).

Chart 3a: Exchange rates of currencies in the region against the U.S. Dollar



Source: Central Bank of Kenya

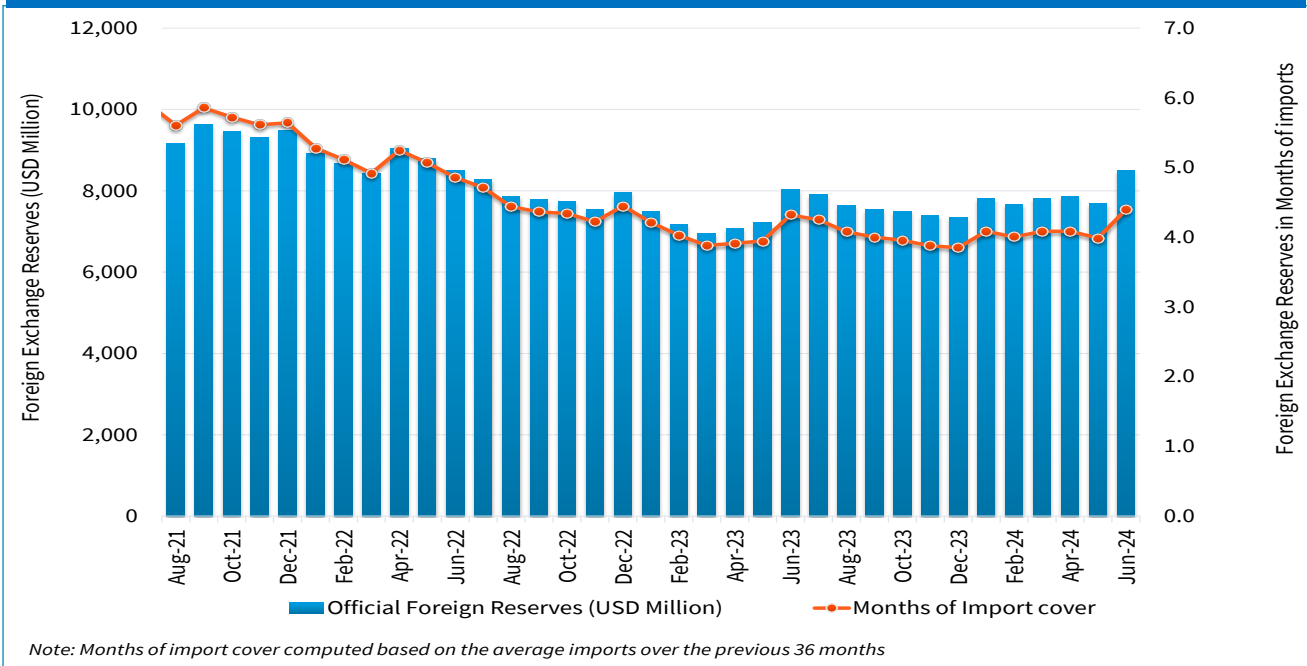
Chart 3b: Exchange rates of major international currencies against the U.S. Dollar



Source: Central Bank of Kenya

The CBK foreign exchange reserves remained adequate. Official foreign exchange reserves stood at USD 8,490 million (4.4 months of import cover as at end June 2024) and continue to provide an adequate buffer against short-term shocks in the foreign exchange market (**Chart 3c**).

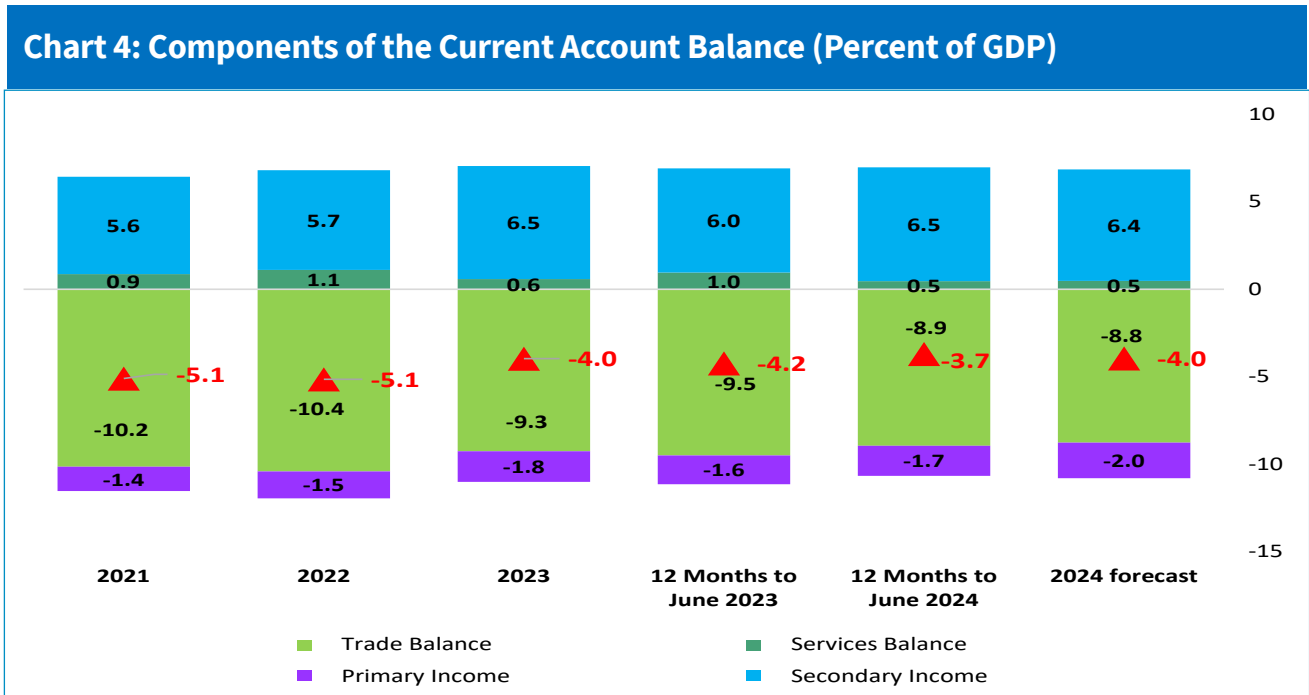
Chart 3c: CBK Foreign Exchange Reserves as at June 2024



Source: Central Bank of Kenya

vii. Balance of Payments Developments

The current account deficit was estimated at 3.7 percent of GDP in the twelve months to June 2024, compared to 4.2 percent of GDP in a similar period in 2023. This narrowing of the deficit was mainly due to lower imports of energy and non-energy goods, a recovery in the growth of exports in the first half of 2024 and stable performance of remittances. Imports declined by 3.3 percent in the twelve months to June 2024 compared with a decline of 6.0 percent in the twelve months to June 2023, attributed to a decline in most categories except for miscellaneous manufactures, other transport equipment and crude materials (**Chart 4 and Table 4**).



Source: Kenya National Bureau of Statistics

Table 4: Annual Balance of payments (Percent of GDP)

	2022	2023e	12 Months to June 2023	12 Months to June 2024
Current account	(5.1)	(4.0)	(4.2)	(3.7)
1.1 Trade balance	(10.4)	(9.3)	(9.5)	(8.9)
Goods exports, f.o.b	6.5	6.7	6.4	6.9
Tea	1.2	1.2	1.2	1.3
Horticulture	0.8	0.9	0.8	0.9
Manufactured Goods	0.5	0.6	0.6	0.6
Other	3.9	4.0	3.8	4.2
Goods imports, f.o.b	16.9	16.0	15.9	15.9
Oil Products	4.8	4.4	4.6	4.3
Other	11.9	11.5	8.5	8.2
Machinery and Transport	3.3	3.0	2.9	3.3
1.2 Services balance	1.1	0.6	1.0	0.5
Services Credit	5.7	5.0	5.7	4.6
Transport	2.1	1.9	2.1	1.7
Travel	1.0	0.9	1.1	0.8
Services Debit	4.6	4.5	4.7	4.1
Transport	1.9	1.6	1.7	1.5
1.3 Primary income, Balance	(1.5)	(1.8)	(1.6)	(1.7)
Credit	0.1	0.2	0.1	0.2
Debit	1.7	1.9	1.8	1.9
1.4 Secondary income	5.7	6.5	6.0	6.5
Credit	5.7	6.6	6.0	6.6
Remittances	3.5	3.9	3.5	4.2
Debit	0.0	0.1	0.1	0.1
Capital account	0.1	0.1	0.1	0.1
Financial Account	(3.6)	(2.4)	(2.6)	(2.6)
Foreign Direct investment	(0.2)	(0.2)	(0.2)	(0.3)
Portfolio investment	0.6	0.6	0.7	0.5
Other investment	(4.0)	(2.9)	(3.1)	(2.8)

Source: Central Bank of Kenya

Oil imports decreased by 8.4 percent in the 12 months to June 2024 on account of relatively lower international oil prices. The value of merchandise exports increased by 5.0 percent in the 12 months to June 2024 from an increase of 2.0 percent in a similar period in 2023. The increase was occasioned by improved earnings from exports of tea, horticulture and re-exports which grew by 4.6 percent, 9.8 percent, and 56.5 percent, respectively. However, manufactured good especially to the region declined by 7.1 percent in the 12 months to June 2024. Exports to Africa accounted for 39.9 percent, with COMESA and the EAC region accounting for 26.3 and 28.6 percent, respectively. China and the United Arab

Emirates were the major importers, accounting for 19 percent and 14.3 percent of total imports, respectively (**Table 5**).

The balance on the secondary income improved supported by record remittance inflows, which accounted for 4.2 percent of GDP in the twelve months to June 2024. Remittance inflows in the year to June 2024 totaled USD 4,536 million compared to USD 4,017 million in the same period in 2023, an increase of 12.9 percent. Service exports declined by 21.7 percent in the 12 months to June 2024 due to a decline in receipts from travel, transport and other services.

Table 5: Kenya's Direction of Trade

IMPORTS					EXPORTS				
					Share of Exports (%)				
					Year to Jun				
Region/Country	2021*	2022	2023	2024*	Region/Country	2021	2022	2023	2024
Africa	11.6	11.4	10.6	9.9	Africa	40.4	40.6	42.1	39.9
<i>Of which</i>		0.0	0.0	0.0	<i>Of which</i>				
South Africa	2.5	2.4	2.8	2.7	Uganda	12.4	11.2	12.4	11.7
Egypt	2.8	2.2	1.8	1.6	Tanzania	5.0	6.8	6.5	6.4
Others	6.3	6.9	6.0	5.5	Egypt	2.9	3.0	2.9	3.0
		0.0	0.0	0.0	Sudan	1.1	0.8	0.8	0.5
EAC	3.9	4.4	3.6	3.6	South Sudan	2.8	2.6	2.7	3.1
COMESA	6.5	5.4	4.9	4.5	Somalia	1.8	1.7	2.2	1.7
Rest of the World	88.4	88.6	89.4	90.1	DRC	3.5	2.0	2.3	2.7
<i>Of which</i>		0.0	0.0	0.0	Rwanda	3.9	4.5	4.6	3.8
India	11.7	13.2	9.7	9.5	Others	6.9	7.9	7.7	6.9
United Arab Emirates	7.3	11.7	16.8	14.3					
China	23.7	19.4	17.4	19.0	EAC	25.1	26.0	29.5	28.6
Japan	5.3	5.0	3.7	4.0	COMESA	28.4	27.2	28.2	26.3
USA	3.6	4.3	4.0	5.1	Rest of the World	59.6	59.4	57.9	60.1
United Kingdom	1.8	1.5	1.4	1.7	<i>Of which</i>				
Singapore	0.4	0.5	0.7	0.6	United Kingdom	7.4	5.8	5.2	5.5
Germany	2.4	1.7	1.6	1.4	Netherlands	8.5	8.1	8.0	7.3
Saudi Arabia	4.7	6.3	5.1	3.0	USA	7.7	9.0	7.9	6.9
Indonesia	3.0	1.3	1.6	1.2	Pakistan	7.5	7.3	7.2	7.6
Netherlands	3.2	1.4	1.5	2.2	United Arab Emirates	4.6	5.1	4.7	8.6
France	1.3	1.0	1.0	1.4	Germany	2.2	1.8	1.8	1.6
Bahrain	0.3	0.3	0.1	0.2	India	1.6	1.1	1.0	1.1
Italy	1.5	1.2	0.9	0.8	Afghanistan	0.1	0.3	0.4	0.2
Oman	1.4	0.8	2.1	2.1	Thailand	0.3	0.4	0.4	0.4
Others	16.9	19.0	21.9	23.7	Others	19.9	20.6	21.3	20.9
Total	100.0	100.0	100.0	100.0	Total	100.0	100.0	100.0	100.0
EU	14.7	10.7	8.4	9.3	EU	23.5	21.1	20.5	20.1
China	23.7	19.4	17.4	19.0	China	2.6	3.1	3.2	2.3

Source: Kenya Revenue Authority and Central Bank of Kenya

viii. Economic Growth

The economy recorded robust growth in 2023, supported by rebound of agriculture sector and strong performance of services sectors. It grew by 5.6 percent compared to a revised growth of 4.9 percent in 2022. The agriculture sector expanded by 6.5 percent compared to a contraction of 1.5 percent, driven by increased production of crops and livestock following favourable weather conditions and government interventions including the national fertilizer subsidy program. As a result, agriculture sector contributed 1.1 percentage points to real GDP growth in 2023. Services sector maintained the strong growth momentum and remained the key driver of growth. Broadly, growth of the sector remained unchanged at 7.0 percent in 2022 and 2023 though its contribution to real GDP growth increased to 4.0 percentage points in 2023, from 3.9 percentage points in 2022. The robust growth was driven by finance and insurance, transport and storage, real estate, information and communication, and accommodation and food services. However, industrial sector performance remained subdued. Broadly, growth of the sector decelerated to 1.9 percent from 3.9 percent in 2022

and it contributed 0.3 percentage points to real GDP growth. The deceleration was attributed to multiple challenges experienced during the year, including high production costs associated with inflationary and exchange rate pressures.

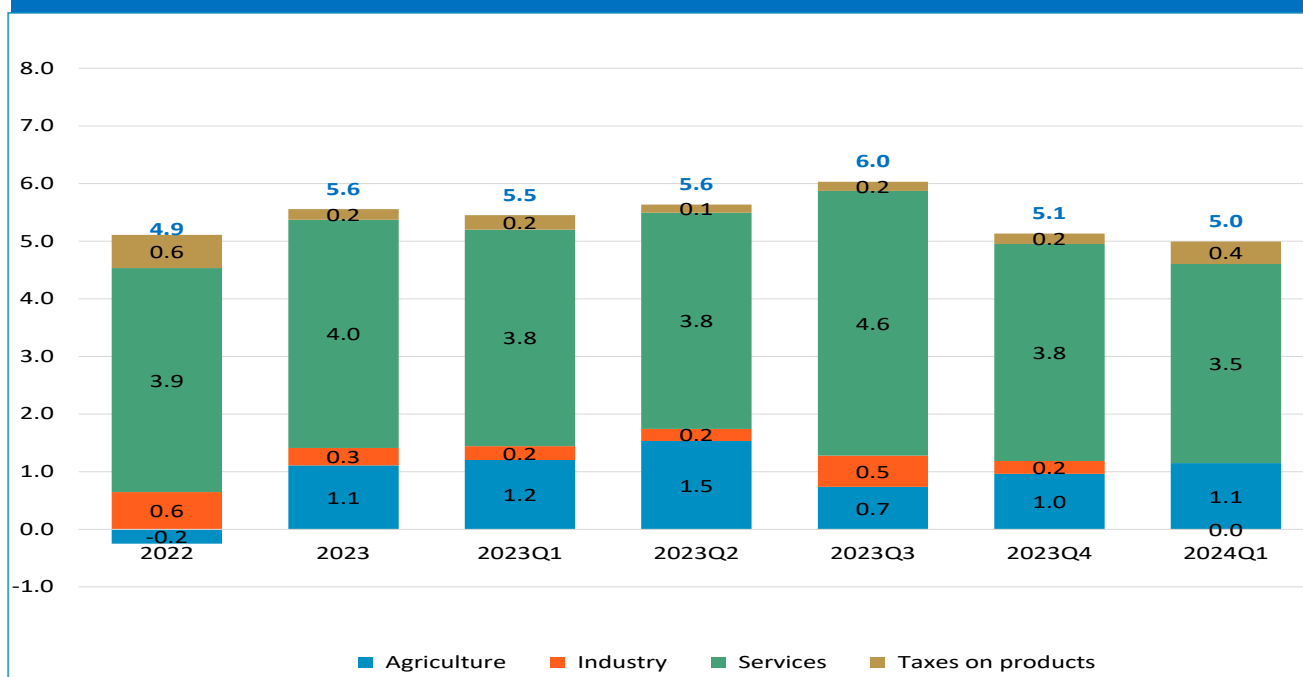
In the first quarter of 2024, the economy grew by 5.0 percent compared to 5.5 percent in a similar quarter of 2023. The slowdown was attributed to a sharp deceleration in industrial activity. Industry sector growth decelerated to 0.1 percent compared to 1.5 percent in the first quarter of 2023, with the reduced growth reflected in all sub-sectors. However, the agriculture and services sectors recorded robust growth. Agriculture grew by 6.1 percent compared to 6.4 percent in a similar quarter of 2023, supported by favourable weather conditions which led to increased crop production. Service sectors grew by 6.2 percent compared to 6.8 percent in a similar quarter of 2023, supported by the strong performance of finance and insurance, wholesale and retail trade, real estate, information and communication, and accommodation and food services (**Table 6 and Chart 5**).

Table 6: Kenya’s Real GDP Growth across the Main Sectors (Percent)

Main Sectors	2022	2023	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1
1. Agriculture	-1.5	6.5	6.4	7.8	5.1	6.2	6.1
2. Non-Agriculture (o/w)	6.3	5.4	5.2	5.1	6.2	4.9	4.7
2.1 Industry	3.9	1.9	1.5	1.4	3.1	1.4	0.1
2.2 Services	7.0	7.0	6.8	6.8	7.8	6.5	6.2
2.3 Taxes on products	6.7	2.2	3.0	1.8	1.9	2.0	4.7
Real GDP Growth	4.9	5.6	5.5	5.6	6.0	5.1	5.0

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

Chart 5: Contributions to Real GDP (Percentage points)



Source: Kenya National Bureau of Statistics

ix. Domestic Government Borrowing

The coordination between monetary and fiscal policies continued to support macroeconomic stability. The Government’s borrowing plan in the first half of 2024 ensured that the build-up in domestic debt was consistent with the thresholds set in the Medium-Term Debt Management Strategy. The Government continued to review its borrowing plan in line with market conditions and prudent budget management that focused on rationalisation of expenditures and strengthening of revenue collection measures.

x. Modernisation of the Monetary Policy Framework

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. In this regard, in the period to June 2024, the MPC assessed the new monetary policy implementation framework adopted in August 2023. The MPC noted that the new monetary policy implementation framework 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 CBR from ± 250 basis points to ± 150 basis points in June 2024. The Committee also adjusted the applicable interest rate on the Discount Window from 400 basis points above CBR, to 300 basis points.

xi. Stakeholder Forums, MPC Market Perception Surveys, and Communications

The MPC members held virtual stakeholder meetings with the Chief Executives of Commercial and Microfinance Banks to apprise them on the background to its decisions and to obtain feedback. The Governor also held virtual press conferences after each MPC meeting to brief the media on the background to MPC decisions, and measures taken by the CBK to support macroeconomic stability. In addition, MPC Members held virtual meetings with investors to brief them on economic developments and the outlook for the economy.

The MPC continued to improve on the scope and information gathering processes through the CEOs, Market Perceptions, and the Agriculture Sector Survey.

The Surveys conducted in the first half of 2024 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2024. Respondents attributed this optimism largely to enhanced agricultural production, easing inflation, and strengthening of the Kenya Shilling. Nevertheless, respondents were concerned about high taxes, high interest rates, weakened consumer demand, high cost of doing business and geopolitical risks.

The MPC continued to monitor the implementation of MPC decisions by the CBK and interacted with other government agencies such as the National Treasury and KNBS on various policy and data issues.

3. THE ECONOMIC ENVIRONMENT AND OUTLOOK FOR 2024/2025

i. International Economic Environment

According to the July 2024 update of the IMF World Economic Outlook (WEO) update, global growth is expected to grow by 3.2 percent in 2024 and 3.3 percent in 2025 in line with the April WEO. However, the divergence in output across countries at the beginning of the year narrowed due to waning cyclical factors and a better alignment of growth with potential. Growth in the advanced economies is projected to remain stable at 1.7 percent in 2024 before rising to 1.8 percent in 2025. Growth in the US was revised downwards by 0.1 percentage points than projected in the April 2024 WEO as consumption moderated and the labor market eased. Growth prospects for 2024 in the Euro area were revised upwards by 0.1 percentage points driven by a stronger momentum in services and higher than expected net exports in the first half to the year. The euro area and the UK are projected to grow by 0.9 percent and 0.7 percent, respectively in 2024.

In the emerging market and developing economies, growth is expected at 4.3 percent in 2024 and 2025, an upward revision of 0.1 percentage points for both years than in the April WEO, reflecting stronger activity in Asia particularly China and India. In sub-Saharan Africa (SSA), economic growth is projected

to rise from an estimated 3.4 percent in 2023 to 3.7 percent in 2024 and 4.1 percent in 2025. Growth has been revised downwards by 0.1 percentage points than in the April WEO attributed to a weaker growth outlook in Nigeria on account of weaker than expected activity in the first quarter of 2024. Nigeria and South Africa are expected to grow by 3.1 percent and 0.9 percent in 2024, respectively.

Global financial conditions remained accommodative boosted by positive corporate valuations. However, the momentum on global disinflation is slowing due to persistently higher than average inflation in services prices even with stronger disinflation in goods prices. Global headline inflation is expected to fall to 5.9 percent and 4.4 percent in 2024 and 2025, respectively. World trade growth is expected to increase by 3.1 percent and 3.4 percent in 2024 and 2025, respectively. Annual average oil prices and nonfuel commodity prices are projected to increase by 0.8 percent and 5.0 percent in 2024, respectively. The balance of risks to global growth remains balanced as in the April WEO but with emergent near-term upside risks to inflation and trade tensions which could lead to supply chain disruptions.

Table 7: Growth Performance and Outlook for the Global Economy (Percent)

Country/Region	Actual	Projections	
	2023	2024	2025
World Output	3.3	3.2	3.3
Advanced Economies	1.7	1.7	1.8
United States	2.5	2.6	1.9
Euro area	0.5	0.9	1.5
Japan	1.9	0.7	1.0
United Kingdom	0.1	0.7	1.5
Emerging Market and Developing economies	4.4	4.3	4.3
Emerging and Developing Asia	5.7	5.4	5.1
China	5.2	5.0	4.5
India	8.2	7.0	6.5
Emerging and Developing Europe	3.2	3.2	2.6
Russia	3.6	3.2	1.5
Latin America and the Caribbean	2.3	1.9	2.7
Brazil	2.9	2.1	2.4
Sub-Saharan Africa	3.4	3.7	4.1
South Africa	0.7	0.9	1.2
Nigeria	2.9	3.1	3.0
Middle East and Central Asia	2.0	2.4	4.0

Source: IMF, July 2024 WEO

ii. Domestic Economic Environment

Despite the global uncertainties, the Kenyan economy strengthened in 2023 and is expected to remain strong in 2024, supported by resilient services sector, the rebound in agriculture, and implementation of measures to boost economic activity in priority sectors by the Government. The diversified structure of the economy remains a key source of resilience for the Kenyan economy to domestic and external shocks. The main downside risks to growth outlook are potential escalation of geopolitical tensions including the Israel-Palestine conflict and war in Ukraine, any further increases in the cost of production arising from high energy and import costs, and volatility in international oil prices. On the upside, a continuation of favourable weather conditions, moderating international oil prices, and higher than expected growth prospects for Kenya's trading partners would be supportive of the economy.

The macroeconomic environment is expected to remain stable, with overall inflation remaining within the target range of 5 percent with a margin of 2.5 percent on either side in the second half of 2024, supported by lower food prices and the impact of tight monetary policy stance. Supply of food items is expected to be adequate, supported by favorable weather conditions. The foreign exchange market is expected to remain stable in 2024, supported by relatively stable current account deficit projected at 4.0 percent of GDP. The CBK foreign exchange reserves are projected to remain adequate in FY 2024/25, consistent with positive outlook of the Balance of Payments. The reserves will continue to provide a buffer against external shocks in the foreign exchange market. The coordination of monetary

and fiscal policies will also support macroeconomic stability.

The CEOs and Market Perceptions Surveys conducted in the first half of 2024 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2024. Respondents attributed this optimism largely to the stable macroeconomic environment reflected in the low inflation rate and stability in the exchange rate, and the continued strong performance of agriculture sector. Nevertheless, respondents' concerns included high cost of doing business, high interest rates, subdued demand and potential impact of increased geopolitical tensions on the economy. Surveys of the Agriculture Sector conducted in the period revealed expectations of increased output for most agricultural products to increase in the next harvest, on account of improved weather conditions and increased acreage. However, there were concerns about increased labor costs, transport costs, unpredictable weather conditions, and the high cost of inputs such as seeds and fertilizers.

The fiscal operations for the FY2023/24 resulted in an overall fiscal deficit including grants of 5.6 percent of GDP against a target of 5.7 percent of GDP. Total revenue including grants increased by 14.6 percent to KSh 2,730.7 billion in the FY2023/24 from KSh 2,383.6 billion in the FY2022/23. Over the same period, total expenditures and net lending increased by 12.8 percent to KSh 3,633.5 billion. Nonetheless, both total revenues and total expenditure were below their respective targets. The Government remains committed to fiscal consolidation over the medium term to reduce debt-related vulnerabilities. The fiscal deficit is projected to decline further to 4.3 percent in FY 2024/25 and 3.3 percent in FY 2025/26.

4. DIRECTION OF MONETARY POLICY IN FY 2024/2025

Price stability will be the overriding objective of monetary policy in the FY 2024/25. Monetary policy formulation and implementation will aim at

achieving and maintaining overall inflation around the mid-point of the target range of 5 ± 2.5 percent (**Table 8**).

Table 8: Outlook for Key Macro-Economic Indicators

	2019	2020	2021	2022	2023	2024 Proj
Real GDP growth (YoY, percent)	5.1	-0.3	7.6	4.9	5.6	5.4
Overall Inflation (YoY, percent)	7.2	5.6	5.7	9.1	6.6	5.0
Current Account deficit (Percent of GDP)	-5.2	-3.7	-5.1	-5.1	-4.0	-4.0
Exports of Goods and Services (Percent of GDP)	11.4	9.7	10.8	12.2	11.7	10.8
Imports of Goods and Services (Percent of GDP)	20.3	17.6	20.0	21.5	20.4	19.4
Private sector credit growth (YoY, percent)	7.1	8.4	8.6	12.5	13.9	5.2
	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
Fiscal Deficit (Percent of GDP)	7.5	8.3	6.2	5.6	5.6	4.3

Source: Central Bank of Kenya and National Treasury

The Bank will continue to implement measures outlined in the White Paper, towards modernisation of the monetary policy framework and operations. Implementation of the interest rate corridor framework will ensure maintenance of the interbank interest rate within a prescribed band/corridor around the CBR, and subsequently enhance the transmission of monetary policy to the short-term interest rates. Further, banks will continue to access the Discount Window, which serves as a backup source of liquidity for the banking system. These measures will enhance the CBK's forward-looking monetary policy framework.

The banking sector is projected to remain stable and resilient. Private sector credit growth is expected to pick up at the back of improved liquidity positions by

banks owing to aggressive loan recoveries and end of year festivities.

The price stability objective and growth in monetary projections are subject to risks emanating from both the domestic and global fronts. On the external front, the key downside risks include increased geopolitical conflicts in the middle East and their potential impact on international oil prices and global supply chains and commodity prices. Monetary developments will therefore be closely monitored in light of these risks, in order to provide necessary reviews to inform the decision-making process in the MPC. Additionally, the CBK will continue to monitor the economic impact and the outcomes of policy measures in place as well as other developments in the domestic and global economies to safeguard price stability.

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JULY - DECEMBER 2023)

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 13.00 from 12.50 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.
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 in the six months to June 2024. 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.

GLOSSARY OF KEY TERMS

OVERALL INFLATION

Overall inflation is a measure of price change in the economy calculated as the weighted year-on-year movement of the indices of the prices charged to consumers of the goods and services in a representative basket established in a base year. The indices are derived from data collected monthly by the Kenya National Bureau of Statistics.

RESERVE MONEY

Reserve Money is computed as the 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 (NBFIs) held by 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 senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are computed as follows:

Narrow Money

M0: Currency outside the banking system

M1: M0 + demand deposits of banks (or depository corporations).

Broad Money

M2: M1 + quasi (long term) money deposits i.e. time and savings deposits of banks and non-bank financial institutions.

Extended Broad Money

M3: M2 + residents' foreign currency deposits.

Overall Liquidity

L: M3 + non-bank holdings of Government Paper. This however, is not a monetary aggregate.



Central Bank of Kenya

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