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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on June 5, 2024, against a backdrop of an improved global outlook for growth, continued stickiness in inflation in advanced economies, and persistent geopolitical tensions. The MPC reviewed the outcomes of its previous decisions and measures implemented to anchor inflationary expectations and contain exchange rate pressures.

- Global growth continues to recover, supported by stronger than expected growth in the United States, and resilient growth in some large emerging market economies, particularly India. The main risks to the global growth outlook relate to further escalation of geopolitical tensions and interest rates remaining higher for longer. Global inflation has moderated, but some stickiness has persisted in the advanced economies. Food inflation has continued to decline with improved supply of key food items, particularly sugar and cereals. International oil prices have moderated, due to reduced risk premium from the Middle East conflict and improved supply by non-OPEC+ oil producers. However, freight costs have remained high on account of longer transits by shippers to avoid possible attacks on vessels in the Red Sea.
- Kenya's overall inflation remained broadly unchanged at 5.1 percent in May 2024, compared to 5.0 percent in April, which is the mid-point of the target range. 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 recent heavy rains and flooding in some parts of the country. Prices of key non-vegetable food items, particularly maize, sugar, and wheat flour declined following improved supply. Fuel inflation declined to 7.8 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 eased to 3.4 percent in May from 3.6 percent in April, reflecting the impact of monetary policy measures. Overall inflation is 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 continue to filter through the economy.
- The recently released *Economic Survey 2024* shows that 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 slowed down. Leading indicators point to continued strong economic performance in the first quarter of 2024. Despite the recent flooding in some parts of the country, the economy is expected to remain strong in 2024, supported by the resilient services sector, robust performance of agriculture sector, and continued implementation of Government measures to boost economic activity across priority sectors.

- The May 2024 Agriculture Sector Survey shows that majority of respondents expect inflation to either remain unchanged or decrease in the next three months, on account of expected increase in food supply following favorable weather conditions, stability of the exchange rate, and easing fuel prices.
- The CEOs Survey and Market Perceptions Survey which were conducted ahead of the MPC meeting revealed sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was attributed to expected continued good performance of agriculture, resilient services sectors, and a stable macroeconomic environment. Nonetheless, respondents expressed concerns about fiscal policy measures, high interest rates, and potential impact of geopolitical risks on the economy.
- The current account deficit is estimated at 4.1 percent of GDP in the 12 months to April 2024, down from 4.8 percent of GDP in a similar period of 2023, and is projected at 4.0 percent of GDP in 2024. Goods exports increased by 2.9 percent in the 12 months to April 2024 compared to a similar period in 2023, reflecting increased exports of agricultural commodities and re-exports. Exports of tea and vegetables and fruits increased by 5.6 percent and 10.5 percent, respectively, while re-exports were 38.1 percent higher in the period. Notably, exports were 15.2 percent higher in the first four months of 2024 compared to a similar period in 2023. Goods imports declined by 7.7 percent in the 12 months to April 2024 compared to a similar period of 2023, reflecting lower imports across all categories, except machinery and transport equipment. However, imports were 2.2 percent higher in the first four months of 2024 compared to a similar period in 2023. Tourist arrivals improved by 27.2 percent in the 12 months to March 2024 compared to a similar period in 2023, and were 22.0 percent higher in March 2024 compared to March 2023. Remittances increased by 11.9 percent to USD 4,457 million in the 12 months to April 2024 compared to USD 3,985 million in a similar period in 2023.
- The CBK foreign exchange reserves, which currently stand at USD 6,979 million (3.63 months of import cover), continue to provide adequate cover and a buffer against any 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 16.1 percent in April 2024 compared to 15.5 percent in February. Increases in NPLs were noted in the agriculture, real estate, tourism, restaurant and hotels, trade and building and construction sectors. Banks have continued to make adequate provisions for the NPLs.
- Growth in commercial bank lending to the private sector stood at 6.6 percent in April 2024 compared to 7.9 percent in March, partly reflecting exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling. Growth in local currency denominated loans stood at 14.3 percent in April, with foreign currency denominated loans which account for about 26 percent of total loans, contracting by 14.2 percent.
- The Committee noted the ongoing implementation of the FY2023/24 Government Budget, as well as the proposed FY2024/25 Budget, which are expected to continue to reinforce fiscal consolidation.
- The MPC noted that the new monetary policy implementation framework adopted on August 9, 2023 has 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 considered and approved a recommendation to review the width of the interest rate corridor around the Central Bank Rate (CBR) from the current ±250 basis points to ±150 basis points. In line with this review, the Committee also approved a recommendation to adjust the applicable interest rate on the Discount Window from the current 400 basis points above CBR, to 300 basis points.

The MPC noted that its previous measures have lowered overall inflation to the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. The Committee further noted that the NFNF inflation has remained sticky in the recent months, and that interest rates in the major economies are expected to remain higher-for-longer due to the stickiness of inflation. The MPC concluded that the current monetary policy stance will ensure that overall inflation remains stable around the mid-point of the target range in the near term, while ensuring continued stability in the exchange rate. Therefore, the Committee decided to retain the Central Bank Rate (CBR) at 13.00 percent.

The MPC will closely monitor the impact of the policy measures as well as developments in the global and domestic economy and stands ready to take further action as necessary in line with its mandate. The Committee will meet again in August 2024.

Dr. Kamau Thugge, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE

June 5, 2024