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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on December 5, 2024, and reviewed the outcomes of its previous decisions and measures implemented to anchor inflationary expectations and maintain exchange rate stability. The Committee met against a backdrop of an improved global outlook for growth, lower inflation in advanced economies, and persistent geopolitical tensions, and noted that:

- Global growth continues to recover and is projected at 3.2 percent in both 2024 and 2025, supported by strong growth in the United States and in some large emerging market economies such as India, and improved growth prospects in the United Kingdom. The main risk to the global growth outlook relates to further escalation of geopolitical tensions particularly the conflict in the Middle East and the Russia-Ukraine war. Global inflation has declined, with central banks in the major economies expected to continue lowering interest rates, but at a gradual pace. International oil prices have moderated, but the risk of potential volatility remains elevated due to heightened geopolitical tensions. Food inflation has increased, driven by higher edible oil prices.
- Kenya's overall inflation remained broadly unchanged at 2.8 percent in November 2024 compared to 2.7 percent in October, thereby remaining well below the mid-point of the target range of 5±2.5 percent. Food inflation stood at 4.5 percent in November from 4.3 percent in October, reflecting a modest rise in non-vegetables price inflation attributed to higher prices of a few items particularly cooking oil. Fuel inflation remained low at -1.6 percent in November compared to -1.7 percent in October, mainly due to lower electricity and pump prices. Non-food non-fuel (NFNF) inflation eased to 3.2 percent in November from 3.3 percent in October, reflecting muted demand pressures in the economy. Overall inflation is expected to remain below the mid-point of the target range in the near term, supported by lower food inflation owing to improved supply from the ongoing harvests and favourable weather conditions, lower fuel prices, and a stable exchange rate.
- The performance of the Kenyan economy slowed down in the first half of 2024, with real GDP growth averaging 4.8 percent compared to 5.5 percent in the first half of 2023. This slowdown mainly reflected deceleration in growth in most sectors of the economy. The projected growth of the economy is 5.1 percent in 2024 and 5.5 percent in 2025, mainly supported by resilience of key service sectors and agriculture, as well as improved exports. This outlook is subject to domestic and external risks.
- The November 2024 Agriculture Sector Survey shows that majority of respondents expect inflation to either remain unchanged or decrease in the next three months, due to improved food supply supported by favourable weather conditions, expected stability of the exchange rate, and lower pump prices. Nevertheless, some respondents expect moderate upward pressure on prices of select food items in December 2024, due to seasonal factors.

- 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 the stable macroeconomic environment reflected in a low inflation and stability in the exchange rate, expected decline in interest rates which is expected to boost demand, continued strong performance of agriculture on account of favourable weather conditions, and improved global growth prospects. Nevertheless, respondents expressed concerns about high cost of doing business, subdued consumer demand, and increasing geopolitical tensions.
- The current account deficit is estimated at 3.8 percent of GDP in the 12 months to October 2024, compared to 3.7 percent of GDP in a similar period of 2023, and is projected at 4.0 percent of GDP in 2024 and 2025. Goods exports increased by 11.9 percent in the 12 months to October 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 2.1 percent and 16.8 percent, respectively, while re-exports were 73.5 percent higher in the period. Exports were 15.0 percent higher in the ten months of 2024 compared to a similar period in 2023. Goods imports increased by 7.9 percent in the 12 months to October 2024 compared to a similar period of 2023, reflecting increases in intermediate and capital goods. Imports were 9.6 percent higher in the first ten months of 2024 compared to a similar period in 2023. Tourist arrivals improved by 14.9 percent in the 12 months to October 2024 compared to a similar period in 2023. Remittances increased by 15.3 percent to USD 4,804 million in the 12 months to October 2024 compared to USD 4,165 million in a similar period in 2023, and were 17.7 percent higher in the first ten months of 2024 compared to a similar period of 2023.
- The projected current account deficit in 2024 is expected to be more than fully financed by capital and financial inflows, resulting in an overall balance of payments surplus of USD 937 million. This surplus, together with IMF disbursements, is expected to result in a buildup of reserves by USD 2,227 million.
- The CBK foreign exchange reserves, which currently stand at USD 8,966 million (4.57 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 16.5 percent in October 2024 compared to 16.7 percent in August. Decreases in NPLs were noted in the manufacturing, energy and water, financial services and agriculture sectors. Banks have continued to make adequate provisions for the NPLs.
- 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. Growth in local currency denominated loans stood at 4.0 percent in October, with the foreign currency denominated loans, which account for about 26 percent of total loans, contracting by 11.8 percent.
- The Committee noted the ongoing implementation of the FY2024/25 Supplementary Budget I, which is expected to lower the fiscal deficit to 4.3 percent of GDP from 5.2 percent of GDP in FY2023/24. The fiscal consolidation in the medium-term should reduce debt vulnerabilities while moving the present-value-of-debt to GDP ratio towards the target anchor of 55 percent.

The MPC noted that overall inflation was expected to remain below the midpoint of the target range in the near term, supported by low fuel inflation, stable food inflation, and exchange rate stability. Additionally, the Committee noted that NFNF inflation has moderated and is expected to remain stable, while central banks in the major economies have lowered their interest rates further, with expectations of a gradual pace of reductions in the coming months. Further, the MPC noted economic growth in the first half of 2024 had decelerated, and therefore 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 Central Bank Rate (CBR) from 12.00 percent to 11.25 percent.

The Committee observed that short-term rates on government securities had declined sharply in line with the CBR, but that banks had not responded by lowering their rates proportionately. The MPC, therefore, urges the banks to take necessary steps to lower their lending rates, in order to stimulate credit to the private sector, and thereby stimulate more economic activity.

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 February 2025.

Dr. Kamau Thugge, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE

December 5, 2024