



# **BACKGROUND FOR THE MPC MEETING ON 5<sup>TH</sup> AUGUST, 2015**

**Presentation to Chief Executive Officers of Commercial and Microfinance  
Banks**

**Dr. Patrick Njoroge**  
**Governor, Central Bank of Kenya**

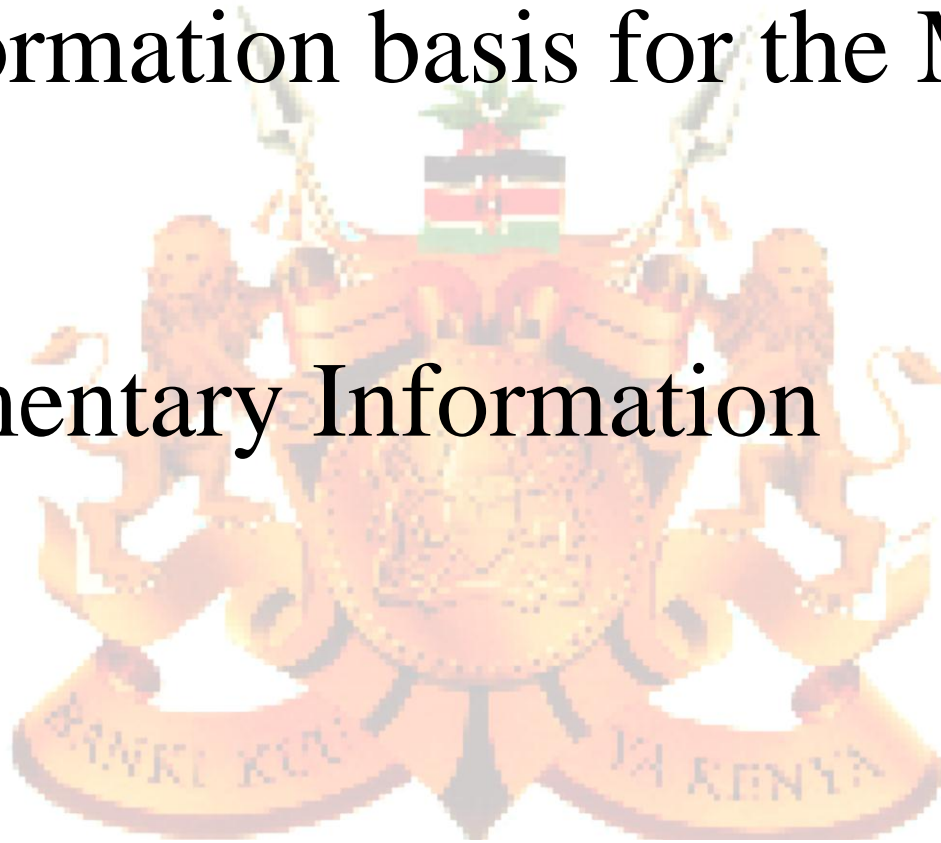
*August 6, 2015*



# Outline

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1. The Information basis for the MPC meeting
2. Supplementary Information





# 1. The Information basis for the MPC meeting...

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## **Monetary Policy Committee Decision:**

- Central Bank Rate (CBR) retained at 11.50 percent in order to anchor inflation expectations:
  - ✓ The measures taken in the previous meetings were yet to be fully transmitted to the economy – the impact of the increase in KBRR takes effect from August 2015.
  - ✓ The CBK stands ready to use the instruments at its disposal to maintain overall price stability.



## 1a. The Information basis for the MPC meeting...

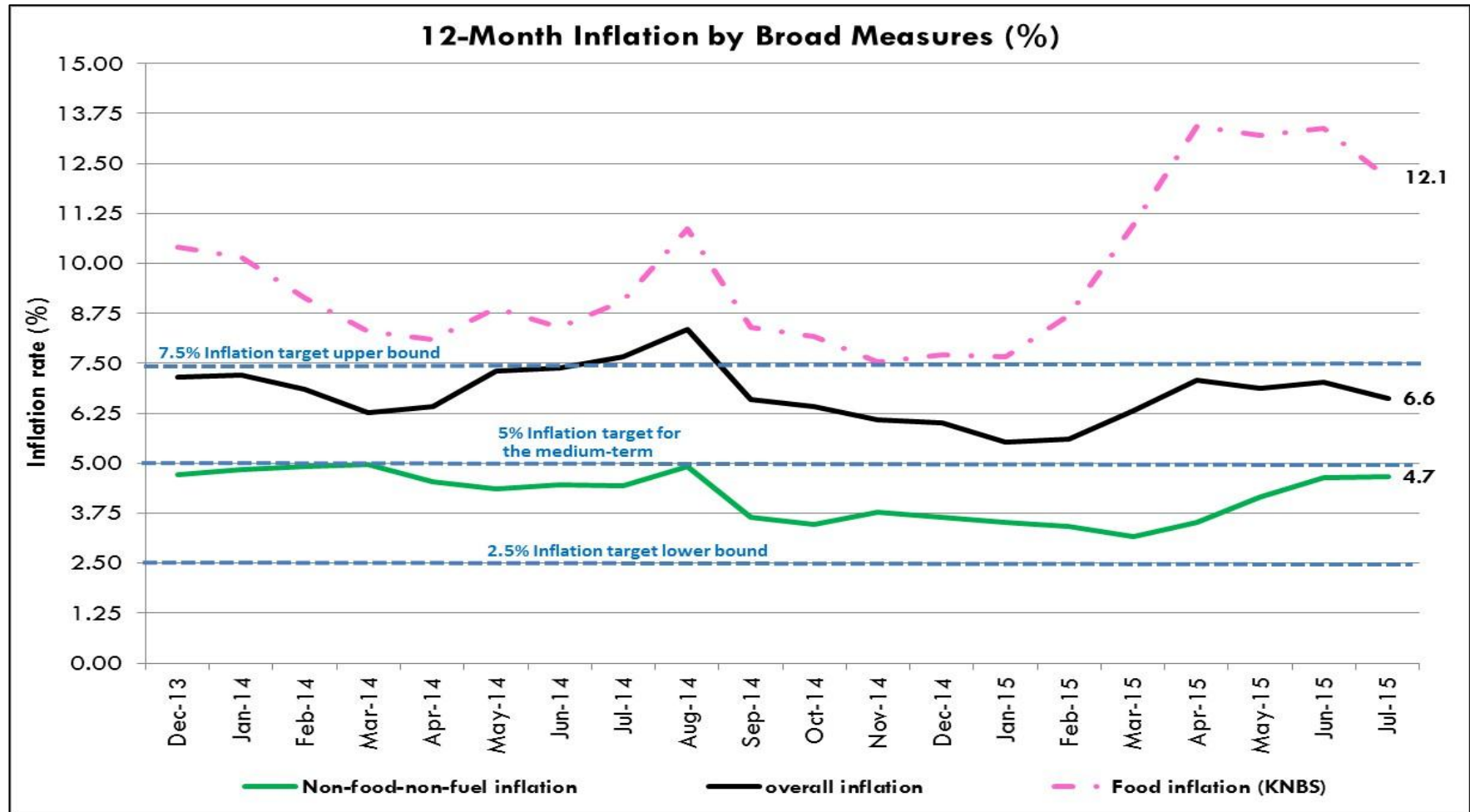
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### **Overall inflation has eased, but there are risks**

- Overall month-on-month inflation decreased and remained within the target range – it was 6.6 percent in July from 7.0 percent in June 2015.
- Lower food prices offset the increase in fuel prices and pass-through effects of the depreciation of the Kenya Shilling.
- The month-on-month non-food-non-fuel (NFNF) inflation increased marginally to 4.7 percent from 4.6 percent during the period – rate of increase in NFNF inflation has slowed down.
- There are risks to the inflation outlook – past depreciation of the Kenya Shilling, and introduction of the road levy.

# 1a. The Information basis for the MPC meeting...

*Overall inflation has eased, and remained in the Government target range, while the rate of increase in NFNF inflation has slowed down*



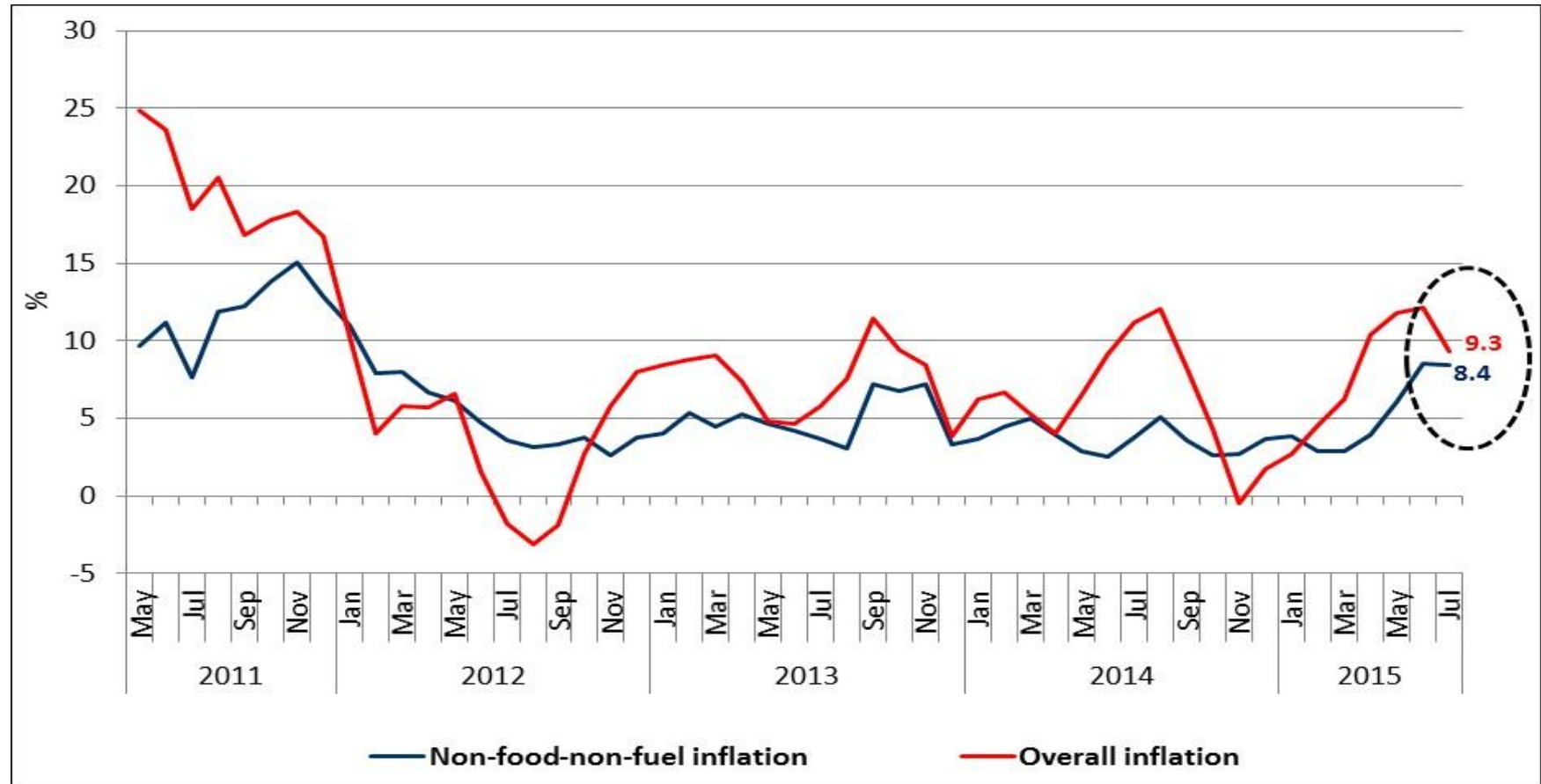
Source: Kenya National Bureau of Statistics



# 1a. The Information basis for the MPC meeting...

*The seasonally adjusted 3-month annualized inflation is signalling easing pressures*

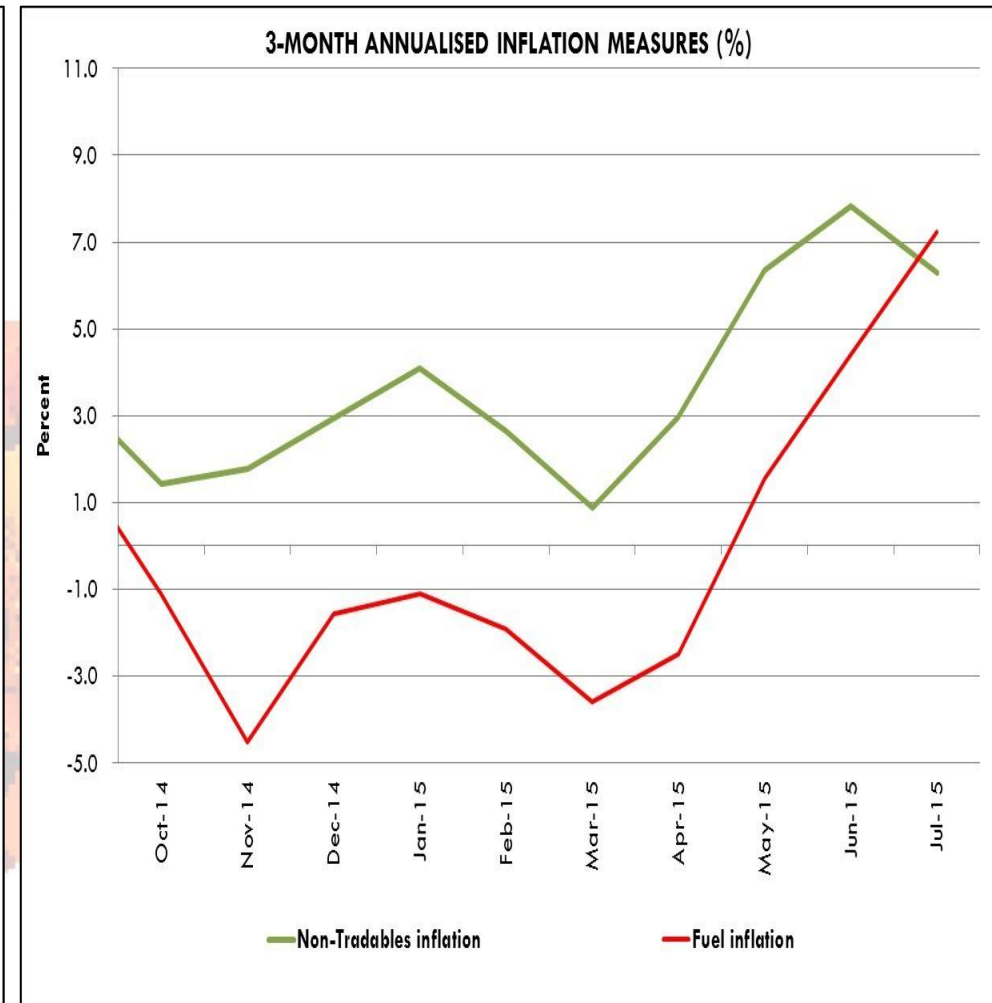
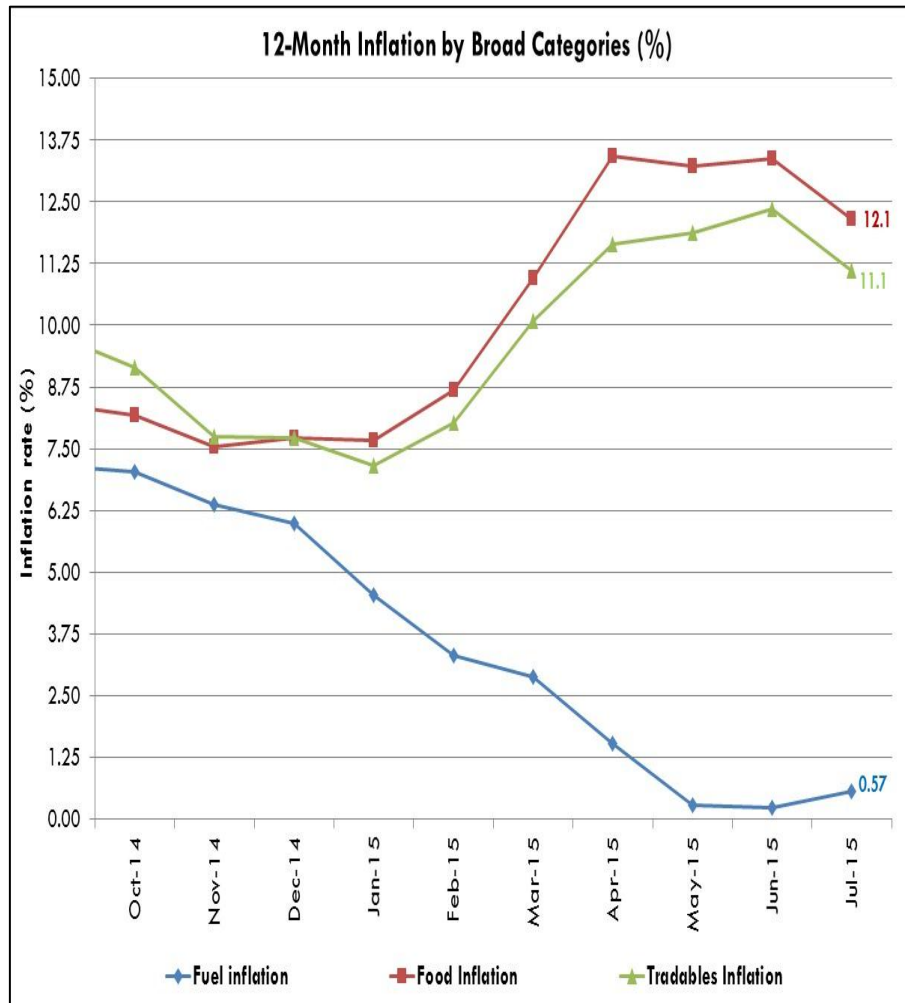
**Seasonally adjusted 3-month annualized inflation (%)**



Source: Kenya National Bureau of Statistics

# 1a. The Information basis for the MPC meeting...

*The 3-Month annualized fuel and non-tradable inflation show that there are still inflationary pressures in the system.*



Source: Kenya National Bureau of Statistics



## 1b. The Information basis for the MPC meeting...

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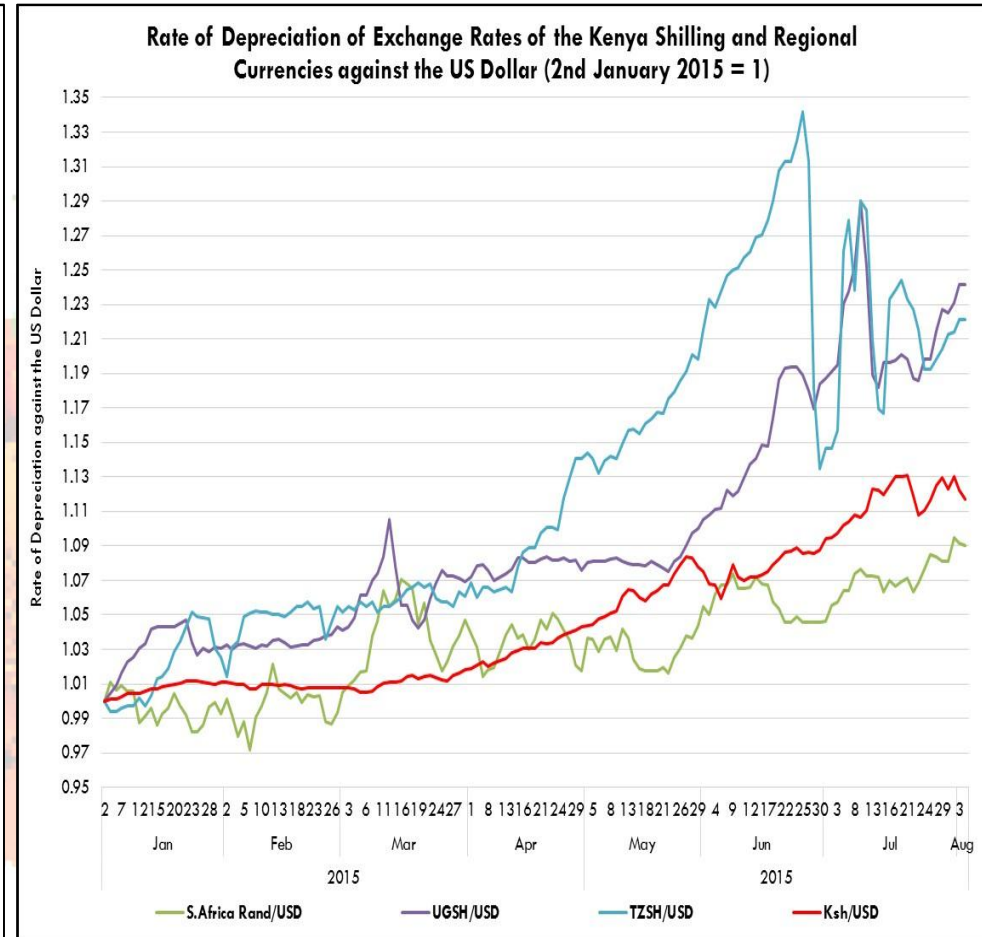
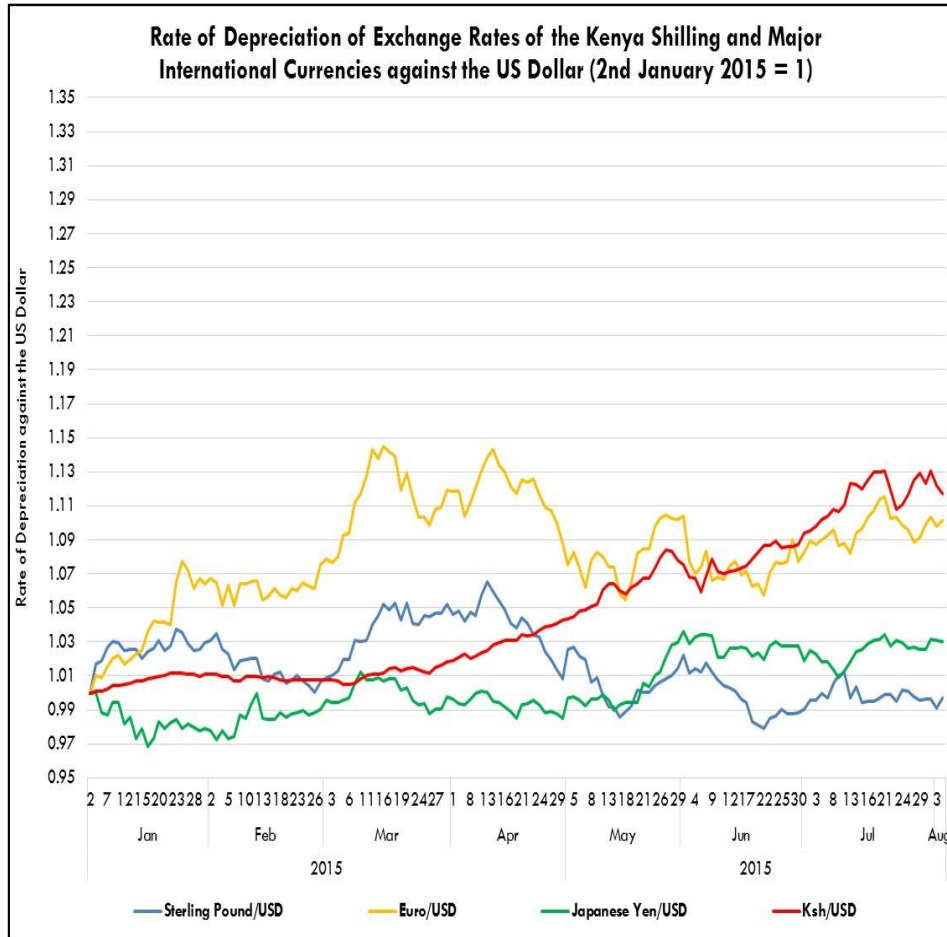
### **The foreign exchange market has stabilised**

- Monetary policy measures have stemmed the volatility.
- The current account deficit was estimated at 10 percent of GDP in the year to June 2015 – largely reflects increased imports of capital goods and lower earnings from exports.
- Risks of instability in the global markets remain – timing of the increase in U.S. interest rates, fall in equity prices in China, and the debt crisis in Greece.
- The CBK's reserves and the precautionary facility with the IMF provides an adequate buffer against short-term shocks.



# 1b. The Information basis for the MPC meeting...

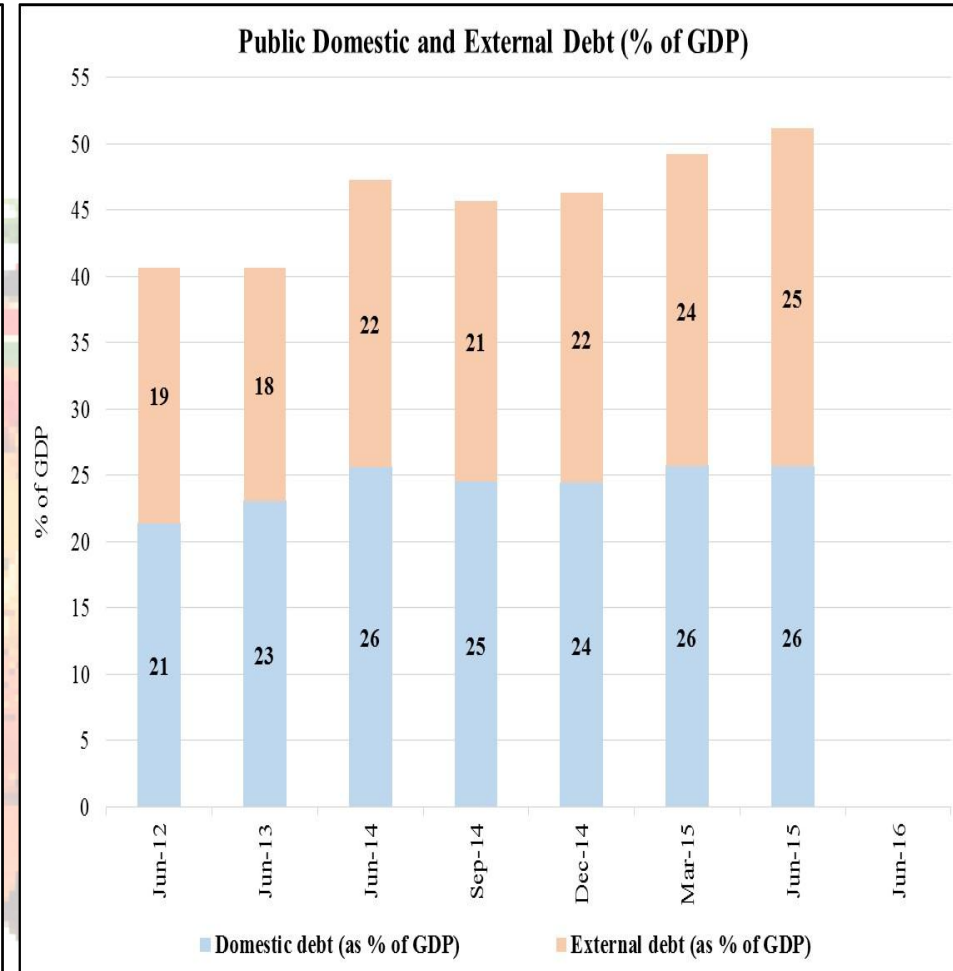
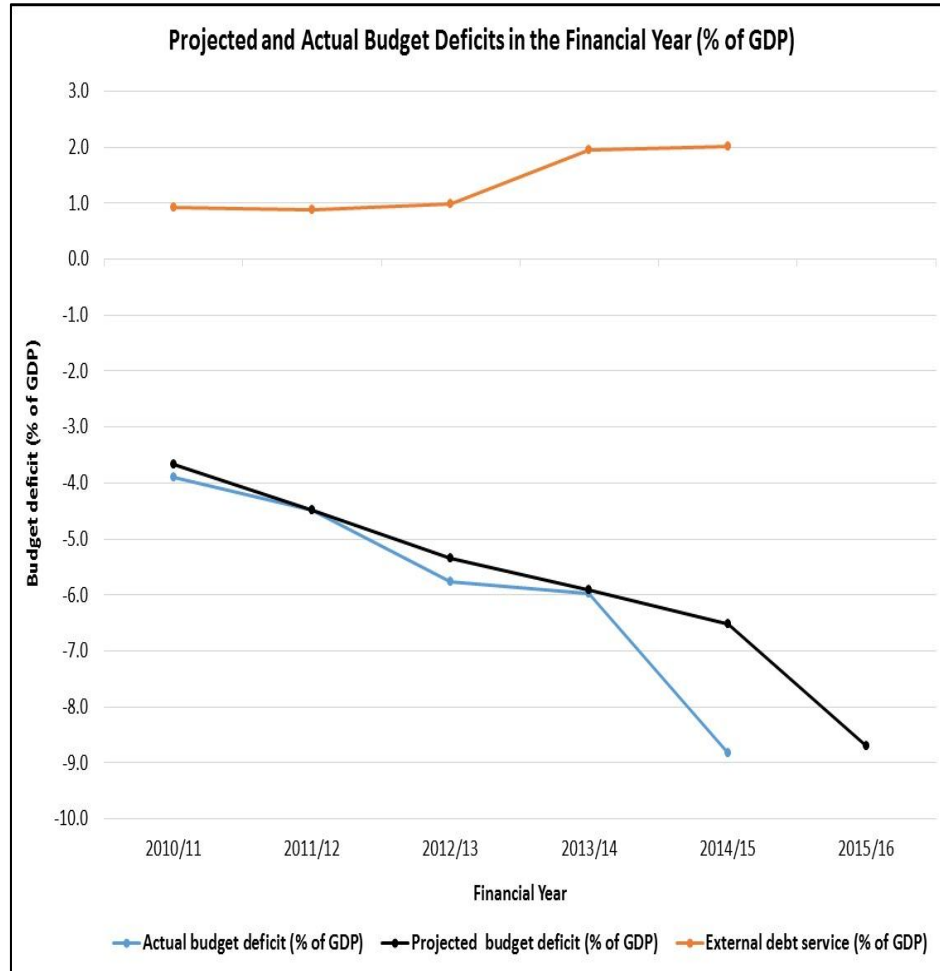
*Most exchange rates have been volatile against the U.S. dollar*



Source: Central Bank of Kenya

# 1b. The Information basis for the MPC meeting...

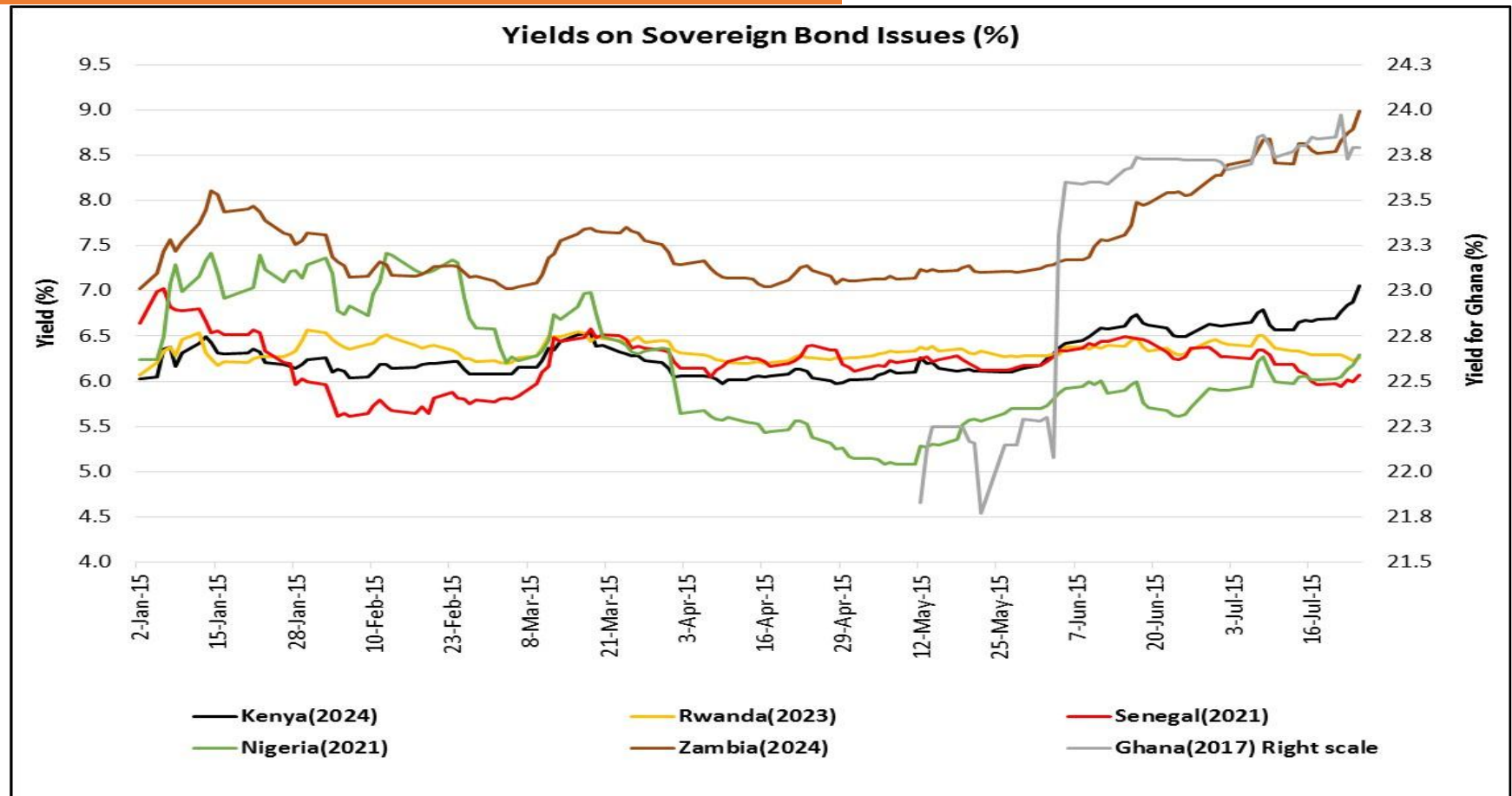
## *Concerns about fiscal pressures have been rising*



Source: National Treasury and Central Bank of Kenya

# 1b. The Information basis for the MPC meeting...

## *Yields on Sovereign Bonds*

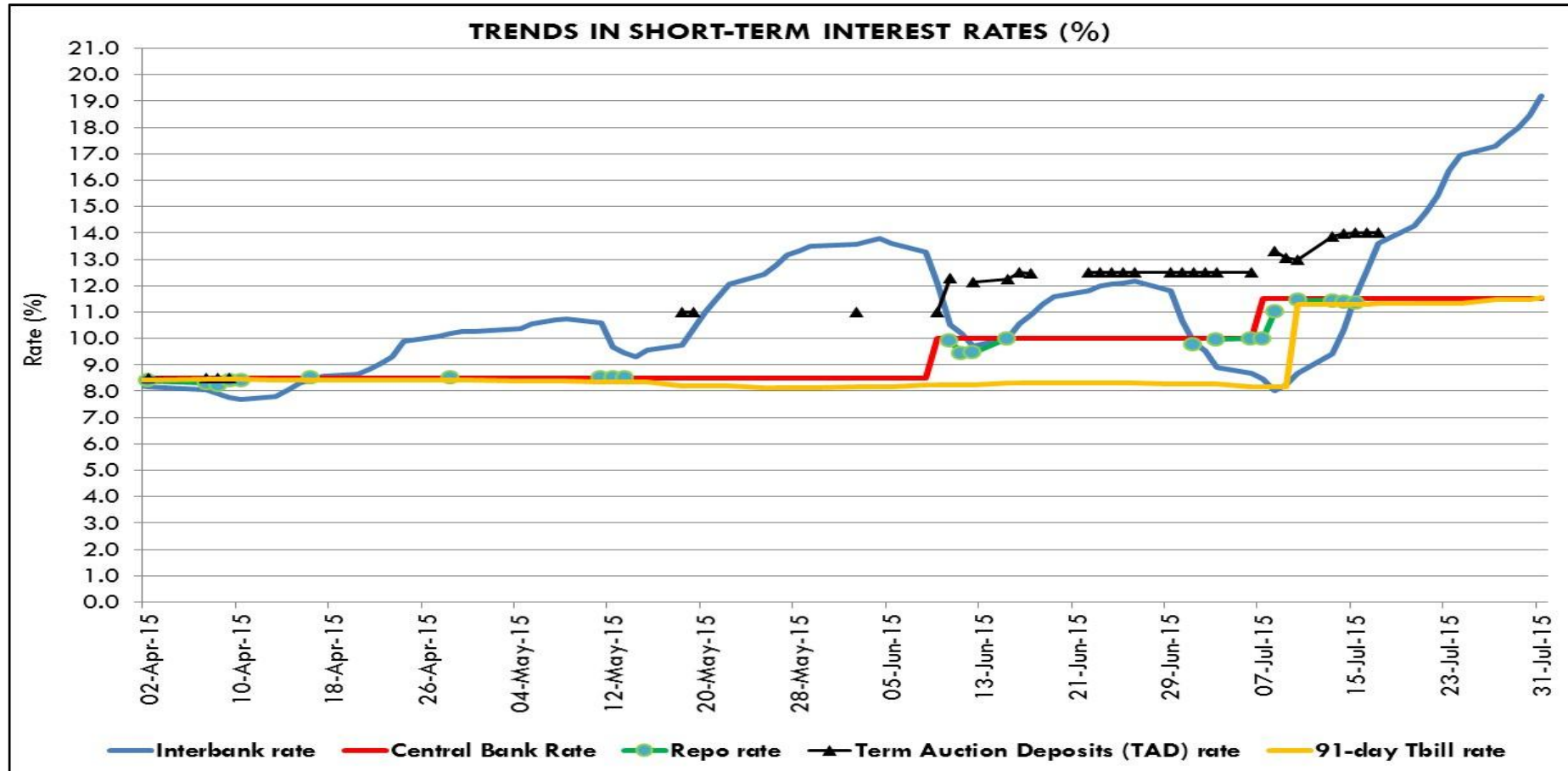


*Note: Maturity dates for the bonds are in brackets*

*Source: Bloomberg*

# 1c. The Information basis for the MPC meeting...

*Consistent with the policy stance adopted by the MPC in its July 2015 meeting, overall liquidity conditions remained tight.*



Source: Central Bank of Kenya



## 1d. The Information basis for the MPC meeting...

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**Growth is expected to be robust, but there remain downside risks**

- The CBK's Market Perceptions Survey of July 2015 showed optimism for increased foreign direct investment and recovery of key sectors of the economy.
- There are indications of improved performance in tourism and agriculture.
- Downside risks – slow pick up in the global economy



# 1d. The Information basis for the MPC meeting...

*The July 2015 MPC Survey shows that banks expect a stronger growth in 2015 relative to 2014*

## ***Expected average economic growth in the year (%)***

Survey Month	Large banks	Medium banks	Small banks	All banks	Microfinance banks
Aug-2014	5.26	5.00	5.28	5.18	5.50
Oct-2014	5.48	5.19	5.49	5.38	5.37
Dec-2014	5.86	5.77	5.84	5.85	6.13
Feb-2015	5.93	5.92	6.00	5.99	6.50
Apr-2015	5.78	5.84	5.85	5.84	6.33
Jun-2015	6.01	5.43	5.90	5.79	6.00
<b>Jul-2015</b>	<b>5.58</b>	<b>5.35</b>	<b>5.69</b>	<b>5.55</b>	<b>6.00</b>

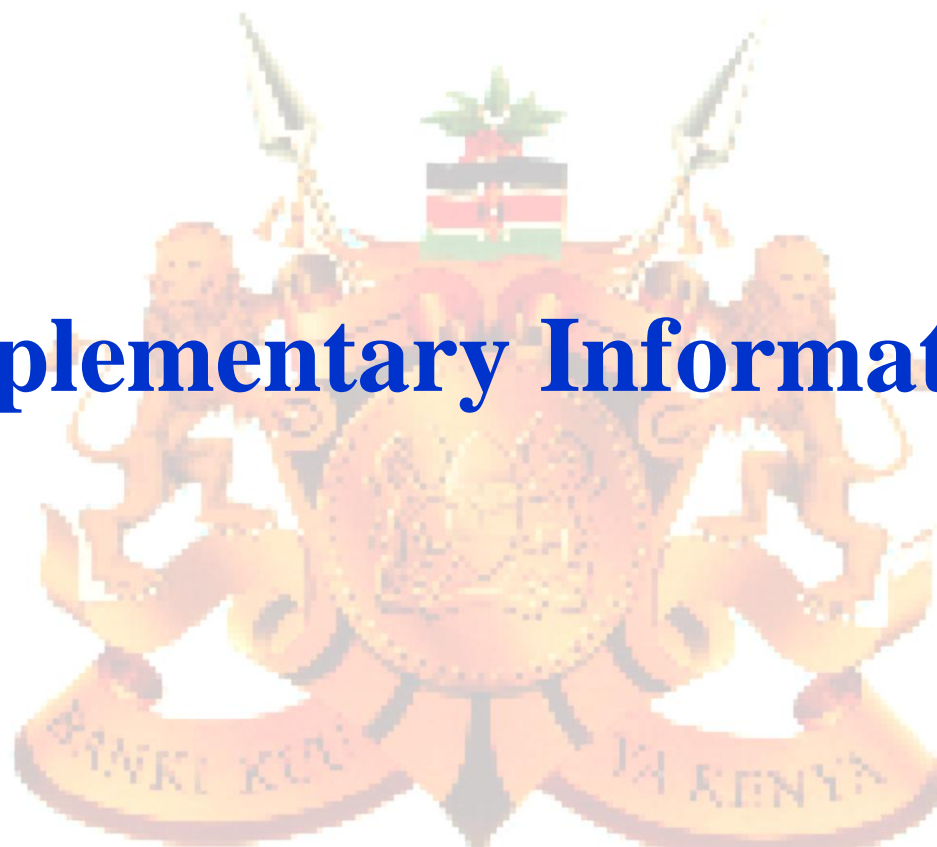
- ⊙ The July 2015 Survey shows that banks had revised downward their expected growth for 2015 due to: expected increase in the cost of credit with the increase in interest rates; expected rise in fuel prices due to taxation measures which may exert pressure on manufacturing cost; and, sluggish recovery of the Eurozone economy which may affect horticultural exports and tourism.
- ⊙ Despite the downward revision in expected growth, banks expected a higher growth in 2015 relative to 2014 on account of: increased foreign direct investment following the recent visit by the US President; sustained public investment in infrastructure and reduction of the cost of power; increased investor confidence due to improved security which is expected to support recovery of the tourism sector; improved performance of the construction, communications and financial sectors; positive effects of the long-rains on agriculture production; recovery of the global economy which will benefit exports; and, the impact of increased funding of devolution which will spur growth in Counties.



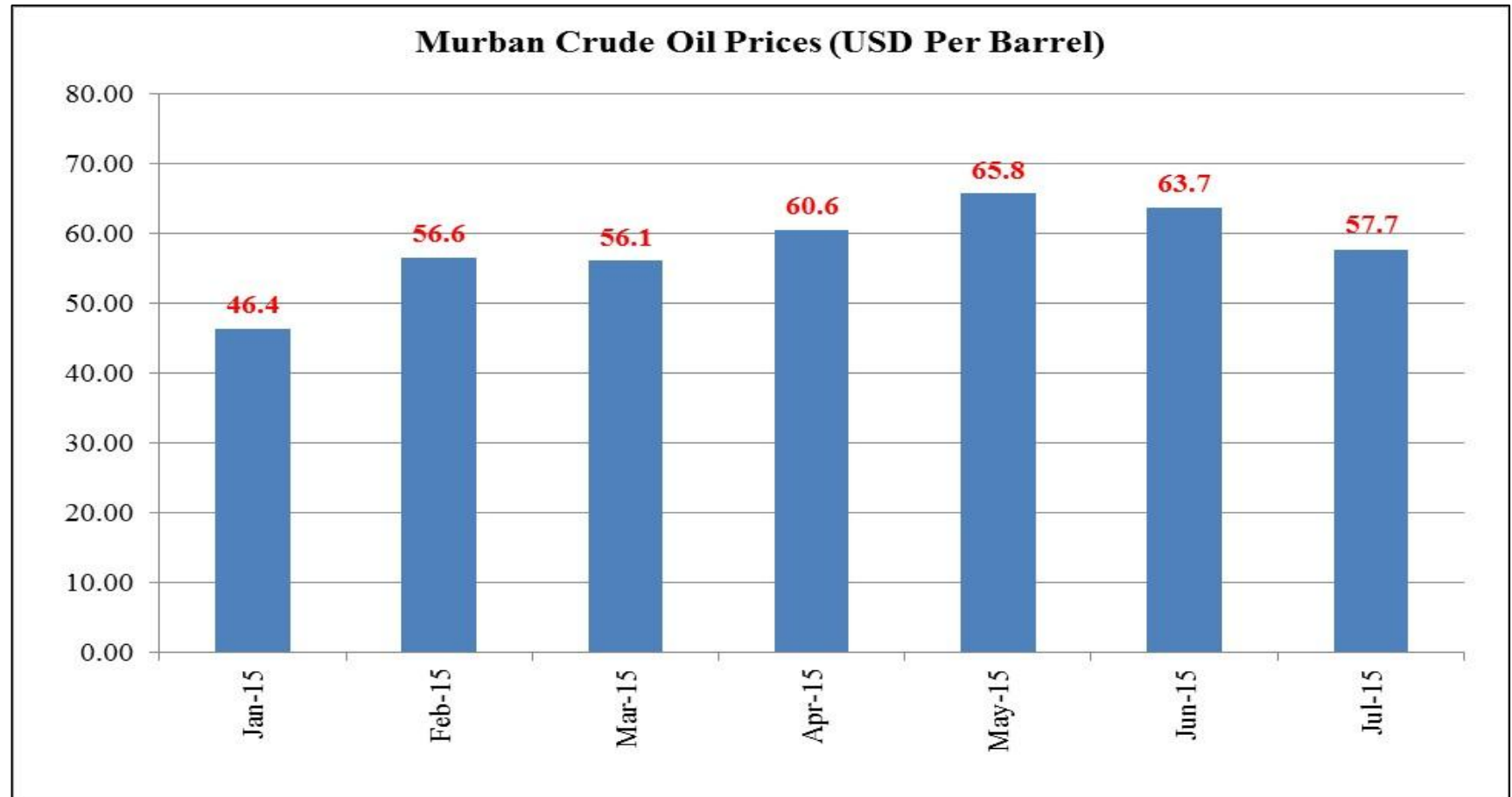
**Thank You**



# Supplementary Information

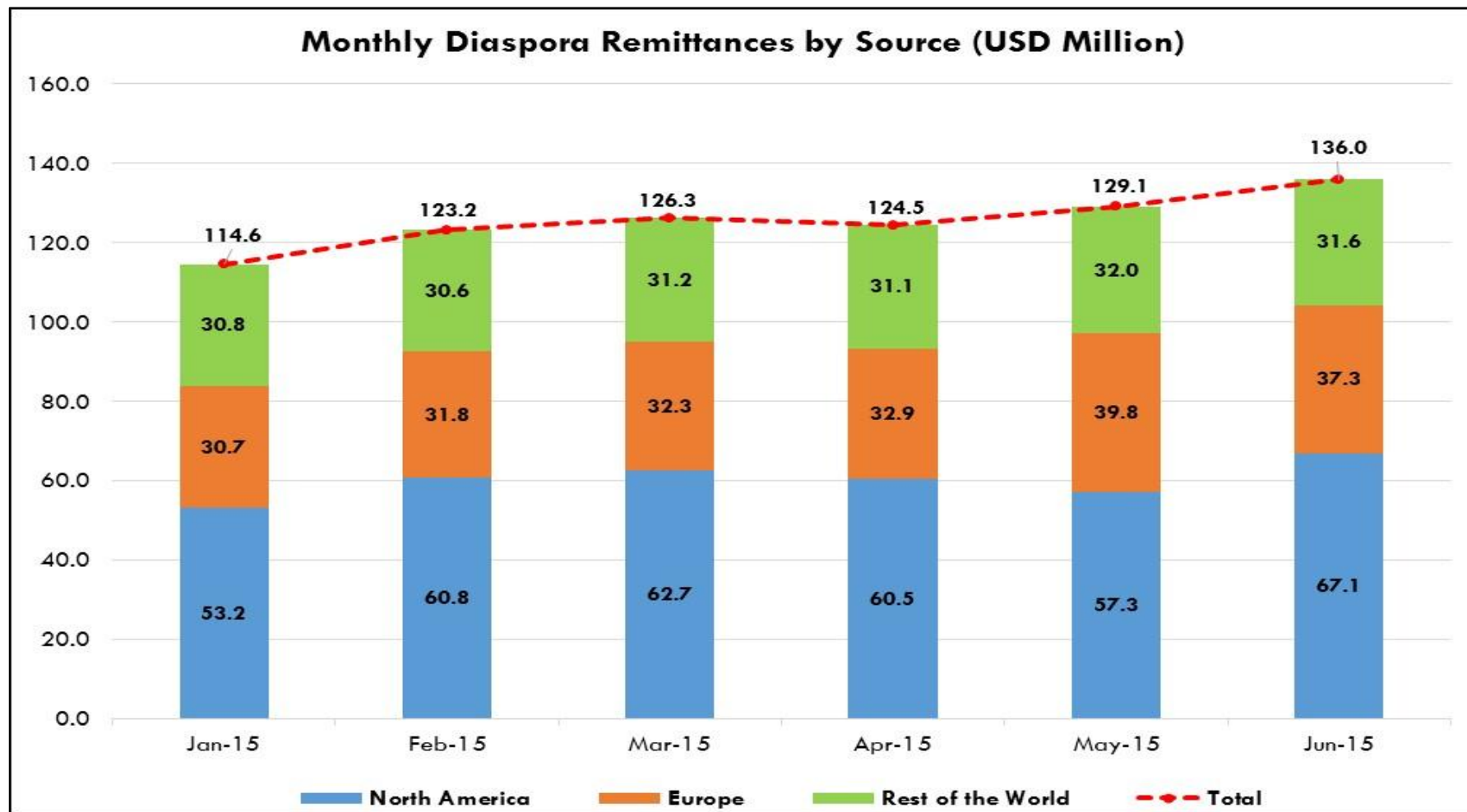


## 2a. The average crude oil prices declined in July 2015...



*Source: Adnoc website*

## 2b. Diaspora remittances remain strong



Source: Central Bank of Kenya



## 2c. Commercial Banks' Interest Rates:

*Lending and deposit interest rates increased between May and June 2015. Deposit rates rose for large bank categories, while lending rates rose in medium banks.*

	Average Lending rates (%)				Average Deposit rates (%)			
	Small	Medium	Large	Overall	Small	Medium	Large	Overall
Jul-14	17.10	15.87	16.90	16.91	6.13	6.44	4.85	6.59
Aug-14	16.97	15.69	16.95	16.26	5.95	6.36	4.87	6.51
Sep-14	16.91	15.51	16.87	16.04	6.06	6.25	4.92	6.64
Oct-14	16.77	15.52	16.84	16.00	6.41	6.28	4.94	6.64
Nov-14	16.70	15.27	16.83	15.94	6.36	6.16	4.88	6.72
Dec-14	16.92	15.37	16.82	15.99	6.20	6.29	4.95	6.81
Jan-15	16.85	15.35	16.80	15.93	6.33	6.30	4.96	6.65
Feb-15	16.72	15.16	16.38	15.47	6.27	6.35	4.80	6.68
Mar-15	16.60	15.31	16.29	15.46	6.20	6.45	4.76	6.63
Apr-15	16.54	15.12	16.49	15.40	6.46	6.23	4.97	6.60
May-15	16.54	15.15	16.44	15.26	6.49	6.42	4.65	6.55
Jun-15	16.44 ↓	15.49 ↑	16.36 ↓	15.48 ↑	6.31 ↓	6.40 ↓	4.89 ↑	6.64 ↑

## 2d. Commercial Banks' Interest Rate Spreads:

	Average Spread (%)			
	Small	Medium	Large	Overall
Jul-14	10.98	9.43	12.05	10.33
Aug-14	11.01	9.33	12.08	9.75
Sep-14	10.85	9.82	11.95	9.40
Oct-14	10.33	9.23	11.91	9.36
Nov-14	10.31	9.10	11.95	9.22
Dec-14	10.72	9.08	11.87	9.18
Jan-15	10.52	9.05	11.84	9.28
Feb-15	10.45	8.82	11.58	8.78
Mar-15	10.40	8.85	11.53	8.82
Apr-15	10.08	8.89	11.52	8.80
May-15	10.05	8.74	11.80	8.70
Jun-15	10.13	9.08	11.47	8.85

## 2e. Commercial Banks Interest Rates:

*The increase in the average lending rates was reflected across the various loan maturity profile in June 2015.*

Average Lending Rates by Maturity												
	Corporate			Business			Personal			Overall		
	overdraft	1-5yrs	over 5yrs	overdraft	1-5yrs	over 5yrs	overdraft	1-5yrs	over 5yrs	Overdraft	1-5yrs	Over 5yrs
Jul-14	16.69	16.06	15.65	17.39	17.04	16.69	19.48	17.89	17.06	17.12	16.98	16.64
Aug-14	15.44	15.76	15.51	17.16	17.02	16.64	18.58	17.68	15.74	16.20	16.77	15.81
Sep-14	15.19	15.82	14.75	16.99	16.96	16.63	17.47	17.50	15.71	15.79	16.71	15.63
Oct-14	15.11	15.77	14.58	17.15	17.01	16.63	17.02	17.44	15.62	15.77	16.68	15.55
Nov-14	14.92	15.72	14.61	17.13	17.02	16.52	16.73	17.26	15.66	15.66	16.61	15.54
Dec-14	15.21	15.78	14.64	17.24	17.04	16.54	16.62	17.26	15.51	15.86	16.62	15.48
Jan-15	15.29	15.78	14.69	17.23	16.86	16.48	17.18	17.06	15.25	15.95	16.50	15.32
Feb-15	14.80	15.66	12.84	17.12	16.75	16.34	17.99	17.04	14.34	15.67	16.42	14.32
Mar-15	15.12	15.63	12.81	17.08	16.65	16.30	15.55	16.92	14.42	15.68	16.34	14.35
Apr-15	14.72	15.53	13.00	16.81	17.15	16.32	17.07	16.72	14.34	15.52	16.37	14.32
May-15	14.32↑	15.31	13.54↑	16.76↑	16.62↑	15.63↑	15.41↑	17.33↑	14.18	15.10↑	16.39↑	14.28
Jun-15	14.82↑	15.29	13.56↑	17.03↑	17.04↑	15.64↑	17.84↑	17.42↑	14.18	15.65↑	16.52↑	14.28
<b>Average 2014*</b>	<b>15.43</b>	<b>15.82</b>	<b>14.96</b>	<b>17.18</b>	<b>17.02</b>	<b>16.61</b>	<b>17.65</b>	<b>17.50</b>	<b>15.88</b>	<b>16.07</b>	<b>16.73</b>	<b>15.78</b>
<b>Average 2015**</b>	<b>14.85</b>	<b>15.54</b>	<b>13.41</b>	<b>17.01</b>	<b>16.85</b>	<b>16.12</b>	<b>16.84</b>	<b>17.08</b>	<b>14.45</b>	<b>15.59</b>	<b>16.42</b>	<b>14.48</b>
<b>Change 2014/15</b>	<b>-0.58</b>	<b>-0.28</b>	<b>-1.55</b>	<b>-0.17</b>	<b>-0.17</b>	<b>-0.49</b>	<b>-0.81</b>	<b>-0.42</b>	<b>-1.43</b>	<b>-0.47</b>	<b>-0.30</b>	<b>-1.30</b>

\* July to December \*\* January to June