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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on July 25, 2016, to review recent economic developments, the outcome of its previous policy decisions, and the outlook for the domestic and global economies. The Committee noted the following:

- Month-on-month overall inflation increased to 5.8 percent in June 2016, from 5.0 percent in May, but remained within the Government target range. The CPI category *food and non-alcoholic beverages* accounted for 3.8 percentage points of the month-on-month inflation in June from 2.8 percentage points in May. This increase was largely due to prices of some food items such as tomatoes, Irish potatoes, and cabbages. On the other hand, month-on-month non-food-non-fuel (NFNF) inflation declined to 5.0 percent in June from 5.4 percent in May. The 3-month annualised NFNF inflation fell to 3.3 percent in June from 5.2 percent in May, indicating that there were no significant demand pressures in the economy.
- The foreign exchange market has remained stable, reflecting a narrower current account deficit due to a lower import bill, improved tea and horticulture exports, and stronger diaspora remittances. The stability was also supported by the CBK’s closer monitoring of the market before and after the U.K. vote to leave the European Union (Brexit).
- The CBK’s foreign exchange reserves currently stand at USD7,794.1 million (5.1 months of import cover) up from USD7,682.0 million at the end of May 2016. These reserves, together with the Precautionary Arrangements with the International Monetary Fund (IMF) continue to provide adequate buffers against short-term shocks.
- The banking sector continues to stabilise with improving liquidity conditions, and stable non-performing loans in May and June. The ratio of gross non-performing loans to gross loans fell marginally from 8.5 percent in May to 8.4 percent in June 2016. The CBK will continue to closely monitor credit and liquidity risks.
- The FY 2016/17 Budget Statement contained increased budget allocations towards infrastructure investment, security, and irrigation projects, which should continue to improve the business environment and lower food prices in the medium term. The Budget Statement provided additional measures to address the high cost of credit, including use of movable assets as collateral, setting up of an electronic collateral registry, and the ongoing digitisation of land registries. However, measures to cap interest rates would lead to inefficiencies in the credit market, promote informal lending channels, and undermine the effectiveness of monetary policy transmission.

- The performance of the economy remains strong, posting a growth of 5.9 percent in the first quarter of 2016, compared with 5.0 percent in a similar period of 2015. Positive growth rates were registered across all sectors of the economy. Improved security and confidence in the economy continued to support the recovery in tourism. The MPC Market Perception Survey conducted in July 2016, shows the private sector remains optimistic for a higher growth in 2016 supported by macroeconomic stability, infrastructure investment, strong agriculture performance, and tourism recovery.
- Uncertainties in the global economy have increased with Brexit, which sparked global financial market volatility and a sharp depreciation of the Sterling Pound. Major central banks announced contingency measures to support confidence in the market including their readiness to provide liquidity and intervene to stabilise the financial markets. Forecasts for global growth in 2016 and 2017 have been revised downwards. Financial vulnerabilities remain of concern due to increased economic and political uncertainty in the EU.

The Committee concluded that although demand pressures on inflation remain moderate, the effects of the recent increase in fuel tax were expected to exert temporary upward pressure on consumer prices. Nevertheless, overall inflation was expected to remain within the Government target range in the short term. The MPC therefore decided to retain the CBR at 10.5 percent in order to anchor inflation expectations, and to maintain market stability. The CBK will continue to monitor developments in the domestic and international economies, and will use the instruments at its disposal to maintain overall price and financial sector stability.

The Committee also reviewed the Kenya Banks' Reference Rate (KBRR). In line with the framework, the CBK has revised the KBRR to 8.90 percent from 9.87 percent, effective from July 25, 2016.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

July 25, 2016