Central Bank of Kenya

Monetary Policy Statement

December 2023

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 Planning, the 53rd Monetary Policy Statement of the Central Bank of Kenya. It reviews and assesses the implementation of monetary policy during the second half of 2023 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, promoting price stability, issuing currency and performing other functions conferred on it by an Act of Parliament.

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:

(i) 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:

(a) 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.

(b) 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.

(c) 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.

(ii) **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 an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points. Consistent with the new framework, monetary policy operations are aimed at ensuring the interbank rate, as an operating target, closely tracks 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.

(iii) **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 was reduced to 400 basis points above CBR in August 2023.

(iv) **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.

(v) **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.

(vi) **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.

(vii) **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, the MPC press releases and Statements Reports.

EXECUTIVE SUMMARY

This Monetary Policy Statement provides the direction of monetary policy in 2024. It also reviews the outcome of the monetary policy stance adopted in the second half of 2023. During the second half of 2023, monetary policy was conducted in the context of a weak global economy, high interest rates to contain inflation, heightened geopolitical tensions particularly the War in Ukraine, and the conflict in the Middle East, and volatile international oil prices. Inflation in advanced economies and emerging markets continued to decline, driven by the easing supply side constraints and commodity prices, and the continued impact of tight monetary policy stance.

To enhance monetary policy transmission and in line with the reforms outlined in the White Paper on *Modernization of the Monetary Policy Framework and Operations,* the MPC adopted a new monetary policy implementation framework in August 2023. The framework is based on inflation targeting and an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points. Consistent with the new framework, monetary policy operations are aimed at ensuring the interbank rate, as an operating target, closely tracks the CBR. Additionally, to improve access to the Discount Window, the MPC reduced the applicable interest rate from 600 to 400 basis points above CBR.

The CBK conducted monetary policy in the period with the objective of maintaining overall inflation within the target range of 5±2.5 percent. The stance of monetary policy was also aimed at addressing the pressures on the exchange rate and mitigating the second-round effects from global prices. During the Monetary Policy Committee (MPC) meetings in August and October 2023, the Committee retained the Central Bank Rate (CBR) at 10.50 percent to allow previous policy decisions to transmit through the economy. However, in the December 2023 meeting, the MPC noted that the exchange rate depreciation continued to exert upward pressure on domestic prices, thereby increasing the cost of living and reducing purchasing power. Further, the continued weakening of the exchange rate was contributing to a significant increase in the Kenya shilling value of foreign currency denominated debt. The MPC therefore concluded that there was need to adjust the monetary policy stance to address the pressures on the exchange rate, mitigate second round effects and ensure that inflation expectations remain anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the target range. The MPC therefore raised the Central Bank Rate (CBR) by 200 basis points from 10.50 percent to 12.50 percent to address the pressures on the exchange rate and mitigate second round effects including from global prices.

Overall inflation returned to the target range in July 2023, supported by monetary policy measures and lower food prices. The inflation rate declined to 6.6 percent in December 2023 from 7.9 percent in June. Food inflation declined from 10.3 percent in June to 7.7 percent in December 2023, largely on account of easing domestic and international food prices. Fuel inflation increased to 13.7 percent in December 2023 from 12.9 percent in June 2023, mainly driven by increased energy prices. The NFNF inflation declined from 4.1 percent in June 2023 to 3.4 percent in December 2023, reflecting the impact of monetary policy tightening.

The foreign exchange market remained relatively stable in the second half of 2023 despite heightened global uncertainties, and effects of a stronger U.S. Dollar. This stability was supported by lower imports of goods and strong remittance inflows. As a result, the current account deficit was estimated at 3.9 percent of GDP in 2023, compared to 5.0 percent of GDP in 2022. The CBK foreign exchange reserves which stood at USD 7,341 million (3.87 months of imports) as at end December 2023, continued to provide an adequate buffer against short-term shocks in the foreign exchange market.

The banking sector remained stable and resilient in the second half of 2023, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 51.0 percent and 18.3 percent, respectively in December 2023. These were above the minimum statutory ratios of 20.0 percent and 4.5 percent, respectively. The ratio of gross non-performing loans (NPLs) to gross loans stood at 14.8 percent in December 2023. Private sector credit remained resilient at 13.9 percent in the 12-months to December 2023, partly reflecting credit demand for short-term working capital requirements.

The GDP data for the third quarter of 2023 together with leading indicators show that the Kenyan economy remained strong in 2023, with real GDP growth estimated at 5.6 percent from 4.8 percent in 2022. This performance reflects the rebound in the performance of agriculture due to favorable weather conditions, and resilient services sector supported by robust activity in accommodation and food services, financial and insurance, information and communication, real estate and wholesale and trade. Leading indicators of economic activity point to continued strong performance in the fourth quarter of 2023.

The monetary policy stance in 2024 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 5.7 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 relatively 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 CBK 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 2024. It also presents the outcome of the monetary policy stance adopted in the second half of 2023.

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. Monetary policy is implemented in the context of 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.

The outlook for global growth has improved, reflecting the easing in global inflation. Global growth is expected at 3.1 percent in 2024 and 3.2 percent in 2025, representing an upward revision of 0.2 percentage points relative to the October 2023 projections. The upward revision was on account of greater than expected resilience in the United States and several emerging markets and developing economics, as well as fiscal support in China.

Growth in the advanced economies is projected to decline slighty from 1.6 percent in 2023 to 1.5 percent in 2024 before rising to 1.8 percent in 2025.

In the emerging market and developing economies, growth is expected to remain modest at 4.1 percent in 2024 and rise to 4.2 percent 2025, reflecting upgrades for several regions. In Sub-Saharan Africa (SSA), economic activity is projected to rise from an estimated 3.3 percent in 2023 to 3.8 percent in 2024 and 4.1 percent in 2025, mainly attributed to diminishing negative effects of weather shocks and improvement in supply issues.

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 August and October 2023 meetings, the MPC maintained the Central Bank Rate (CBR) at 10.50 percent, noting that inflation had returned to the target band, and was expected to decline further due to easing food prices. The MPC raised the CBR to 12.50 percent in December, to anchor inflationary expectations. The Committee noted that the exchange rate depreciation continued to exert upward pressure on prices and increased the Kenya shilling value of foreign denominated debt, raising the public sector external debt service.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance implemented in the second half of 2023 while Section 3 describes the external economic environment and outlook for 2024. Section 4 concludes by outlining the specific monetary policy path for 2024.

2. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE SECOND HALF OF 2023

During the second half of 2023, 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 and the continued global uncertainties during the period, the CBK continued to monitor the overall liquidity in the economy as well as any potential threats which could fuel demand driven inflationary pressures.

The MPC retained the Central Bank Rate (CBR) at 10.50 percent during its meetings in August and October, noting that inflation had returned to the target band, and was expected to decline further due to easing food prices. The MPC noted that the impact of the policy tightening in June 2023, was still transmitting in the economy and that NFNF inflation had started to decline, indicative of easing underlying inflationary pressures. This policy stance together with the CBK liquidity management minimized the threat of demand-driven inflationary pressures. The monetary policy measures were complemented by fiscal measures implemented by the Government notably, the implementation of the FY2023/24 Government Budget, which continued to reinforce fiscal consolidation.

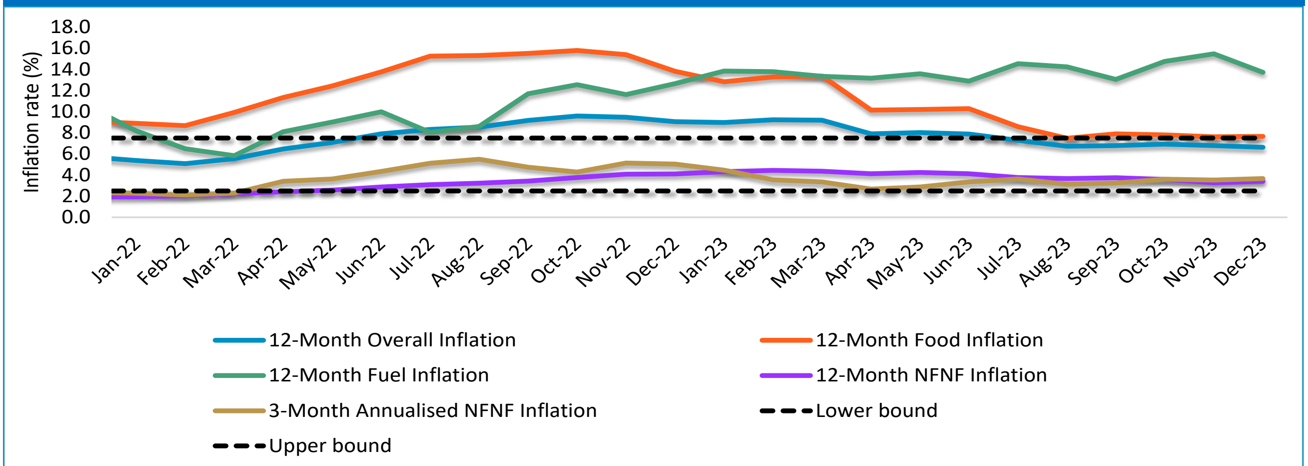
During the December 2023 meeting, the Committee raised the Central Bank Rate (CBR) from 10.50 percent to 12.50 percent to anchor inflationary expectations. The Committee noted that the exchange rate depreciation continued to exert upward pressure on prices and increased the value of the Kenya shilling value of foreign denominated debt, thereby raising the public sector external debt service. The MPC concluded that there was need to adjust the monetary policy stance to address the pressures on the exchange rate and mitigate second round effects, including those from global prices to ensure anchoring of inflationary expectations.

The following are the specific outcomes of the policy measures implemented in the second half of 2023.

i. Inflation

Overall inflation declined and returned to the target range in the second half of 2023. It declined to 6.6 percent in December 2023 from 7.9 percent in June 2023, reflecting significant declines in food prices. Food inflation declined to 7.7 percent in December 2023 from 10.3 percent in June, largely reflecting favorable weather conditions which increased supply of most food items domestically and easing international food prices. Meanwhile, fuel inflation remained elevated, increasing to 13.7 percent in December 2023 from 12.9 percent in June. The increase is attributable to the upward adjustment of VAT on pump prices from 8.0 to 16.0 percent from July 2023, high electricity prices following upward review of electricity tariffs from April 2023, and uptick of international oil prices. On the other hand, Non-Food-Non-Fuel (NFNF) inflation declined to 3.4 percent in December 2023 from 4.1 percent in June due to weak domestic demand and the impact of tightened monetary policy **(Charts 1a and 1b).**

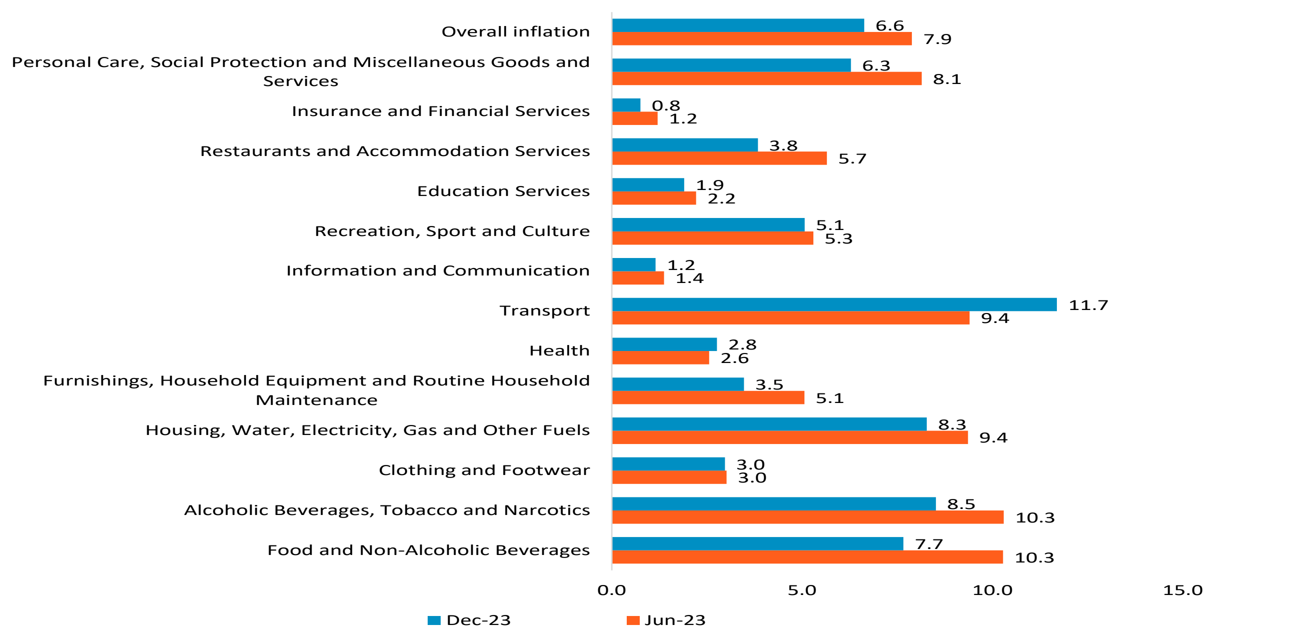
Chart 1a: Inflation by Broad Measures (year-on-year, percent)



Source: Kenya National Bureau of Statistics and CBK

Inflation rates for all consumer goods and services were within the target range in December 2023 except, transport, housing, water, electricity, gas and other fuels, alcoholic beverages, tobacco and narcotics and food and non-alcoholic beverages **(Chart 1b)**.

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



Source: Kenya National Bureau of Statistics

ii Bank Credit to the Private Sector

Credit to private sector remained resilient in the second half of 2023, growing by 13.9 percent in the 12-months to December 2023 compared to 12.2 percent in the year to June 2023. This partly reflected credit demand for short-term working capital requirements arising from increased input costs. Strong credit growth was observed in manufacturing (20.9 percent), transport and communication (20.8 percent), trade (13.1 percent), and consumer durables (9.9 percent) **(Table 1).** The pace of private sector credit growth is expected to moderate slightly in 2024 relative to 2023, partly reflecting the lag effects of the tightening of the 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 sustain the credit demand.

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

Main sectors	Dec-22	Mar-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Agriculture	22.3	14.9	18.6	19.0	14.9	15.3	18.5	23.7	23.4
Manufacturing	13.8	15.8	18.0	14.7	19.6	22.0	18.4	20.0	20.9
Trade	11.4	11.9	10.2	7.4	9.4	7.1	9.9	10.2	13.1
Building and construction	8.2	5.8	4.9	1.9	2.7	7.9	13.0	3.6	8.6
Transport and communication	23.5	17.4	19.8	16.4	24.9	18.5	16.2	22.9	20.8
Finance and insurance	7.6	28.4	29.7	35.4	38.7	40.8	41.6	38.9	60.2
Real estate	3.2	2.3	3.7	3.0	3.7	7.6	6.5	6.5	7.1
Mining and quarrying	31.3	83.2	24.0	16.7	23.7	20.7	5.9	11.8	15.1
Private households	8.2	7.2	8.4	7.0	7.8	7.0	8.3	7.8	2.5
Consumer durables	12.9	12.7	12.0	12.9	12.7	10.5	10.8	11.1	9.9
Business services	13.7	9.3	12.1	10.7	8.1	11.7	8.3	7.2	7.7
Other activities	41.8	11.9	8.7	0.5	10.8	-0.8	7.1	12.8	16.4
Total private sector credit	**12.5**	**11.6**	**12.2**	**10.3**	**12.6**	**12.2**	**12.5**	**13.2**	**13.9**

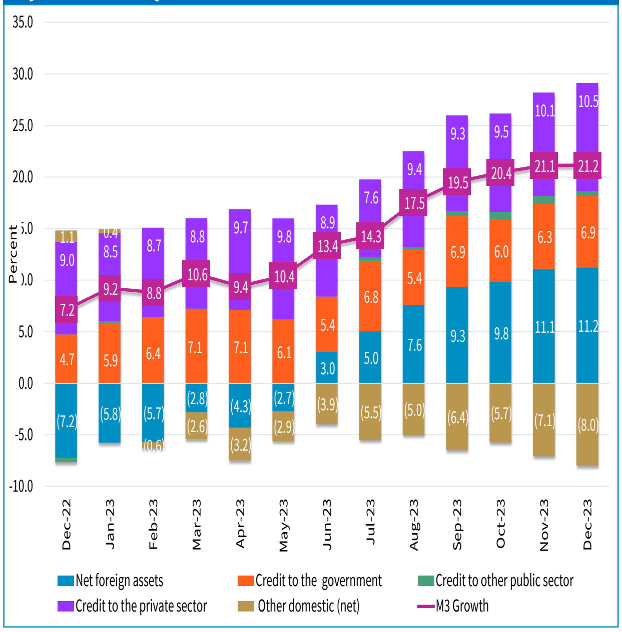
Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

The 12-month growth of broad money, M3, increased to 21.2 percent in December 2023 from 13.4 percent in June 2023, largely reflecting increased net foreign assets of the banking system. The increase in net foreign assets of the banking system was mainly supported by foreign deposits by banks, partly attributed to preparation for financing under the oil import scheme as well as the exchange rate valuation effects. Growth in net domestic assets of the banking system also supported money supply, reflecting credit to the private sector and net lending to Government. On the liability side, the growth in money supply was mainly reflected in growth in corporate sector deposits, largely within the energy sector arising from government-to-government oil import scheme as well as exchange rate valuation effects **(Chart 2 and Table 2).**

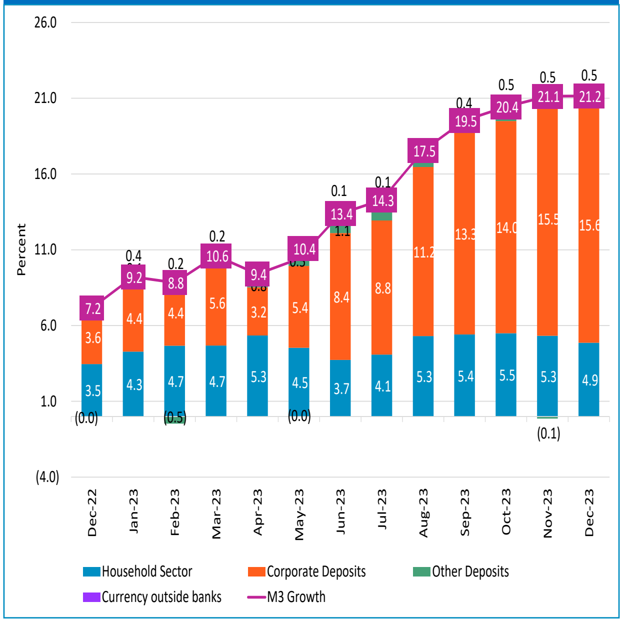
Chart 2: The 12-Month Growth in Broad Money Supply (M3) (Percent)

2a:Components of Money Growth (Percent)



Source: Central Bank of Kenya

2b: Sources of Money Growth (Percent)



Source: Central Bank of Kenya

Table 2: Key Monetary Aggregates

	Dec-22	Mar-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Broad Money,M3 (Ksh Billion)	4,534.5	4,668.7	5,037.4	5,133.1	5,229.8	5,295.9	5,333.3	5,402.6	5,498.6
Reserve Money (Ksh Billion)	514.2	508.6	488.3	533.1	560.3	587.2	560.7	580.4	595.5
Credit to private sector (Ksh Billion)	3,433.5	3,547.0	3,652.6	3,644.1	3,726.6	3,773.6	3,814.9	3,854.5	3,911.2
Memorandum Items									
12-month growth in actual Reserve Money (Percent)	(1.0)	6.1	(5.9)	(0.0)	(0.7)	5.9	6.5	12.8	15.3
12-month growth in actual Broad Money, M3 (Percent)	7.1	10.6	13.4	14.3	17.5	19.5	20.4	21.1	21.2

Source: Central Bank of Kenya

iv. Interest Rates Developments

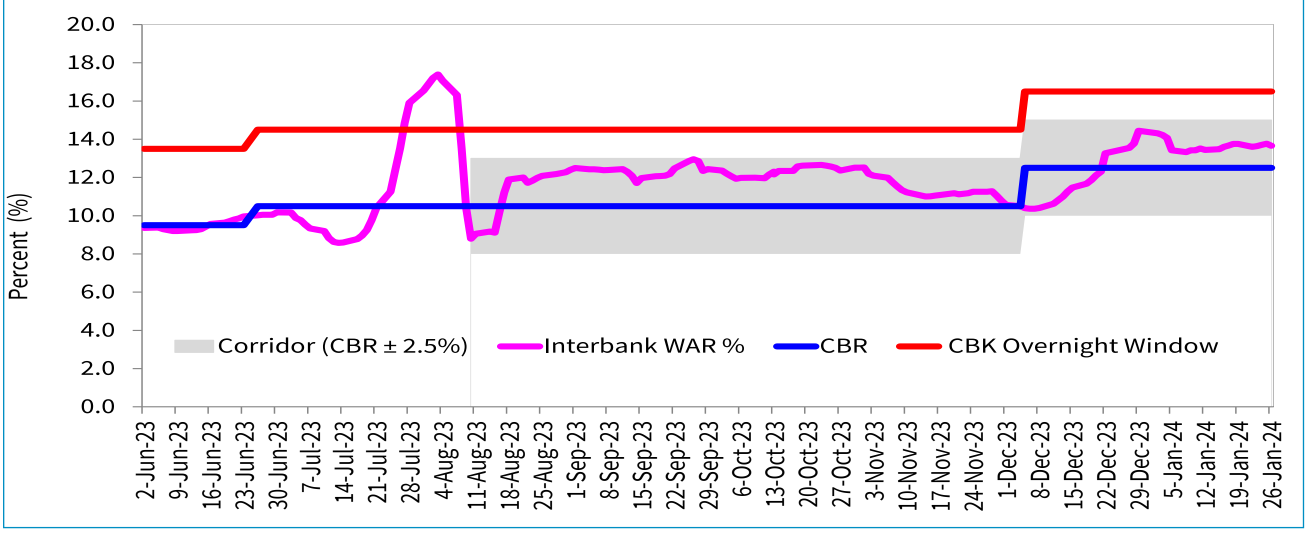
a. Central Bank Rate (CBR)

The MPC retained the CBR at 10.50 percent in August and October 2023, noting that the impact of the tightening of monetary policy in June 2023 to anchor inflationary expectations was still transmitting in the economy. In December 2023, however, the MPC noted that exchange rate depreciation continued to exert upward pressure on domestic prices, thereby increasing the cost of living and reducing purchasing power. The MPC therefore concluded that there was need to adjust the monetary policy stance to address the pressures on the exchange rate and mitigate second round effects including from global prices. Accordingly, the MPC raised the Central Bank Rate (CBR) from 10.50 percent to 12.50 percent.

b. Short Term Rates

Short-term interest rates increased during the second half of 2023, reflecting tightening of monetary policy stance and liquidity conditions in the money markets **(Table 3).** The average interbank interest rate increased to 11.65 percent in December 2023 from 9.48 percent in June 2023 and was within the interest rate corridor band of ±2.5 percent around the CBR **(Chart 3).** Similarly, the average 91-day Treasury bill rate increased to 15.70 percent in December 2023 from 11.49 percent in June 2023, while the average 182-day Treasury bill rate increased to 15.80 percent from 11.54 percent.

Chart 3: Interbank rate, interest rate corridor (CBR ± 2.5 %), and Overnight Discount Window Rate



Source: Central Bank of Kenya

Table 3: Interest Rates (Percent)

	2022			2023							
	Jun	Sep	Dec	Mar	June	Jul	Aug	Sep	Oct	Nov	Dec
Central Bank Rate	7.50	8.25	8.75	9.50	10.50	10.50	10.50	10.50	10.50	10.50	12.50
Interbank	5.06	4.36	5.39	7.05	9.48	10.34	12.57	12.36	12.70	11.32	11.65
91-Tbill	7.90	8.92	9.33	9.76	11.49	12.12	13.25	14.38	14.96	15.32	15.70
182-Tbill	9.07	9.60	9.80	10.25	11.54	12.23	13.19	14.42	15.03	15.39	15.80
Average Lending Rate (1)	**12.27**	**12.41**	**12.70**	**13.09**	**13.31**	**13.50**	**13.83**	**13.98**	**14.16**	**14.43**	**14.64**
Overdraft/loan	11.86	11.99	12.21	12.69	12.83	12.84	13.24	13.62	14.09	14.29	14.65
1-5years	12.48	12.66	13.03	13.47	13.79	14.01	14.29	14.48	14.63	14.97	15.16
Over 5years	12.23	12.33	12.58	12.91	13.06	13.31	13.64	13.67	13.76	14.00	14.14
Average Deposit Rate (2)	**6.62**	**6.82**	**7.16**	**7.60**	**7.80**	**8.10**	**8.39**	**8.64**	**9.11**	**9.48**	**10.10**
Demand	1.22	1.44	1.93	1.77	1.97	2.33	2.57	2.37	2.14	2.59	2.51
0-3months	6.96	7.18	7.38	8.13	8.32	8.75	9.28	9.76	10.49	11.08	11.42
Over 3months	7.39	7.40	7.93	8.19	8.54	8.75	8.88	8.96	9.27	9.50	10.19
Savings	2.50	3.44	3.55	3.55	3.92	3.97	4.05	4.00	3.98	4.01	4.23
Spread (1-2)	**5.66**	**5.59**	**5.53**	**5.50**	**5.51**	**5.40**	**5.44**	**5.33**	**5.05**	**4.95**	**4.54**

Source: Central Bank of Kenya

c. Commercial Bank Rates

Commercial banks average lending and deposit rates increased in the second half of 2023 in line with the tightening of the monetary policy stance. The weighted average lending rate increased to 14.64 percent in December 2023 from 13.31 percent in June 2023 while the weighted average deposit rate increased to 10.10 percent from 7.80 percent in June 2023.

v. Banking Sector developments

The banking sector remained stable and resilient in the second half of 2023, with strong liquidity and capital adequacy ratios. The average commercial banks liquidity and capital adequacy ratios stood at 51.0 percent and 18.3 percent, respectively in December 2023. 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 14.8 percent in December 2023, an increase from 14.5 percent in June 2023. Gross NPLs increased by 7.8 percent to KSh.621.3 billion in December 2023, compared to KSh.576.1 billion in June 2023. The main sectors with increased NPLs were Manufacturing (KSh.15.7 billion); Trade (KSh.12.3 billion); Personal and Household (KSh.10.1 billion); Mining and Quarrying (KSh.6.3 billion), Real Estate (KSh.5.7 billion), and Tourism, Restaurant and Hotels (Ksh.5.3 billion). These were mainly attributed to challenges in the business environment.

The total banking sector lending increased by 5.5 percent to stand at KSh.4,199.5 billion in December 2023, compared to KSh.3,980.5 billion in June 2023. This was mainly driven by increased demand for loans in the Manufacturing, Trade, Personal and Household, Financial Services, Transport and Communication, Agriculture and Real Estate sectors. Customer deposits remained the main source of funding to the banking sector accounting for 75.2 percent of the banking sector's total liabilities and shareholders' funds as at December 2023, compared to 73.2 percent in June 2023. Customer deposits rose by 12.6 percent to KSh.5,812.1 billion in December 2023, compared to KSh.5,160.5 billion in June 2023.

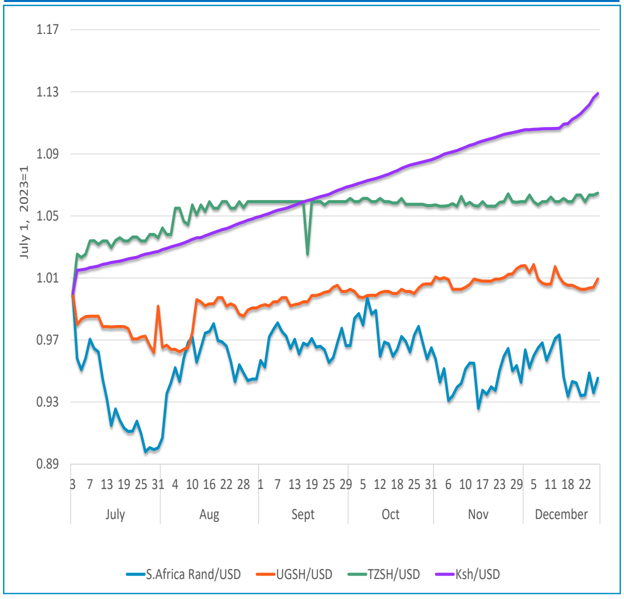
The Credit Guarantee Scheme (CGS) established in October 2020, continued to support additional credit uptake by vulnerable Micro, Small, and Medium-sized Enterprises (MSMEs). As at the end of December 2023, all seven banks had disbursed guaranteed loans to MSMEs amounting to KSh.6.2 billion.

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

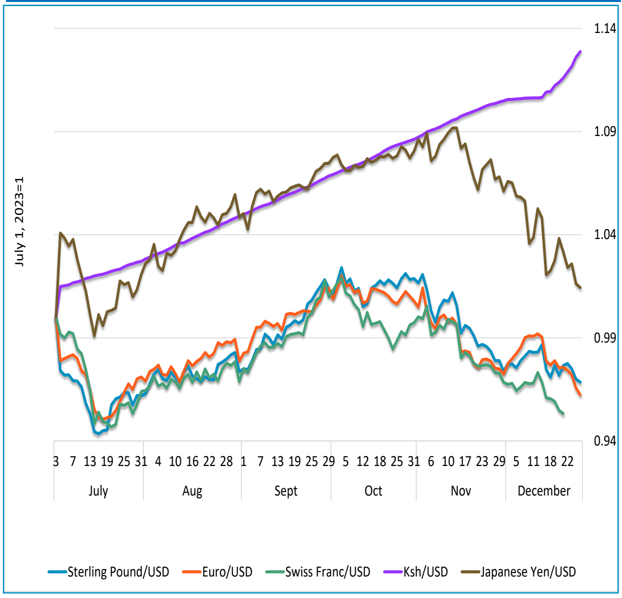
The foreign exchange market remained resilient in the second half of 2023 despite increased global uncertainties, effects of a stronger U.S. Dollar and geopolitical tensions in the Middle East. The market was mainly supported by inflows from remittances while demand was driven by pickup in economic activities specifically in the manufacturing, wholesale, and retail sectors. Nonetheless, the Kenya shilling weakened against the U.S. Dollar **(Charts 3a and 3b).** This weakening largely reflected the impact of the appreciation of the U.S. Dollar following monetary policy tightening in the U.S.

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



Source: Central Bank of Kenya

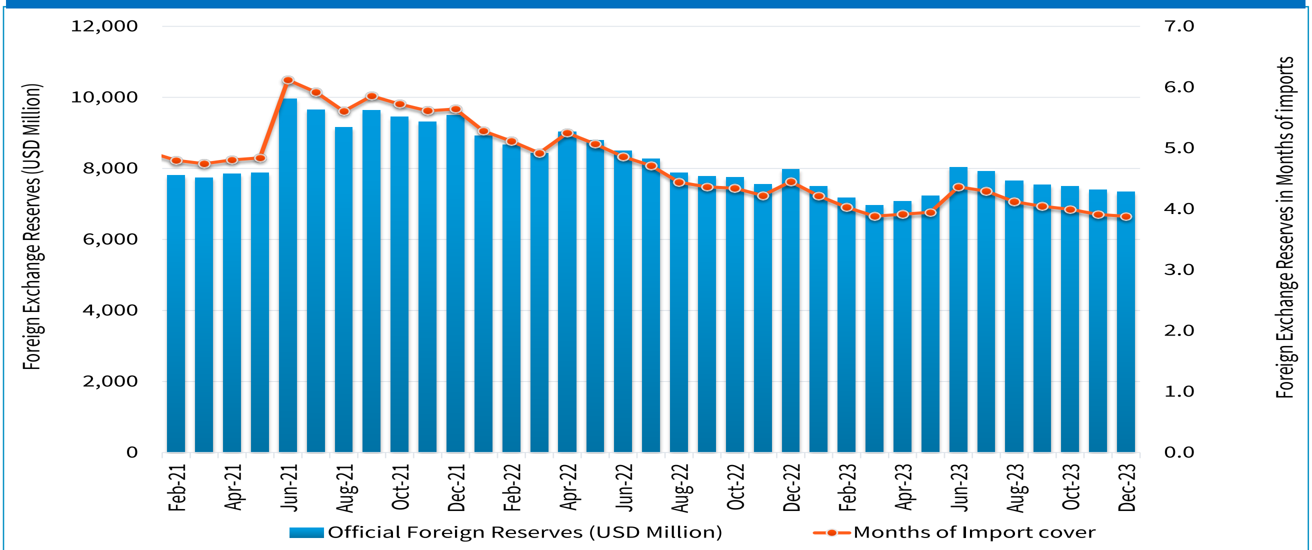
Chart 3b: Exchange rates of major international currencies against the U.S. Dollar



Source: Central Bank of Kenya

The CBK foreign exchange reserves remained adequate. Official foreign exchange reserves stood at USD 7,341 million (3.87 months of import cover as at end December 2023) 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 December 2023)



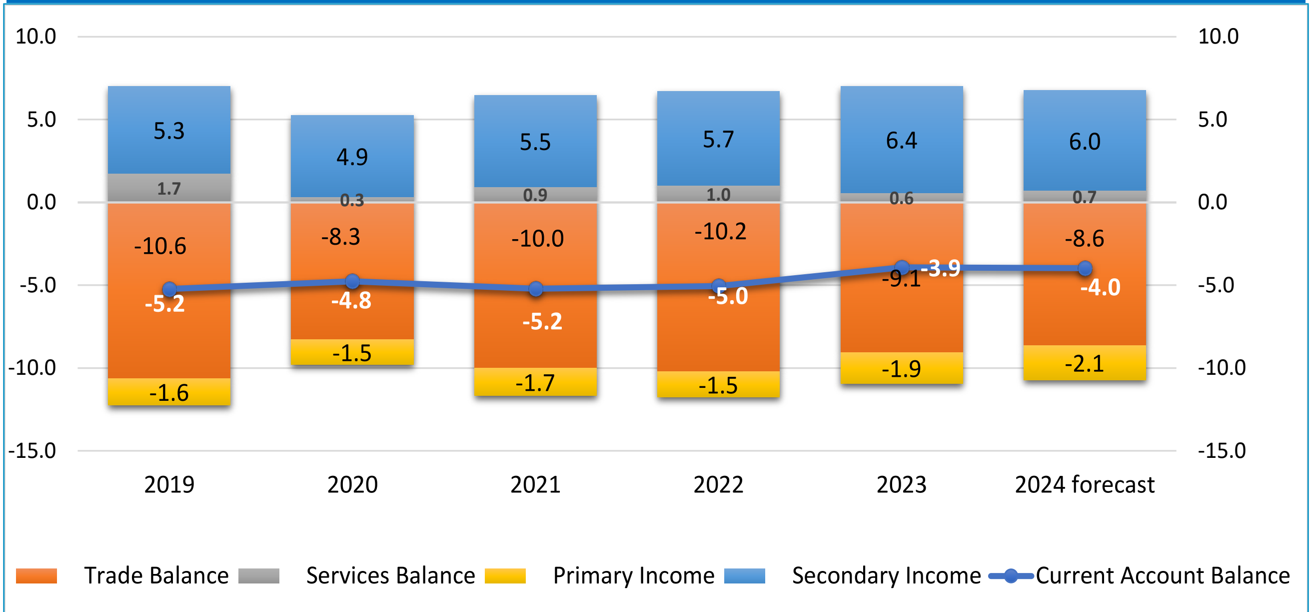
Note: Months of import cover computed based on the average imports over the previous 36 months

Source: Central Bank of Kenya

vii. Balance of Payments Developments

The current account deficit was estimated at 3.9 percent of GDP in 2023, compared to 5.0 percent of GDP in 2022. This narrowing of the deficit was mainly due to lower imports of energy and non-energy goods as well as stable performance of remittances. Imports declined by 11 percent in 2023 compared with an increase of 7.3 percent in 2022, attributed to a decline in all major imports with exception of food and crude materials **(Chart 4 and Table 4).**

Chart 4: Components of the Current Account Balance (Percent of GDP)



Source: Kenya National Bureau of Statistics

Oil imports decreased by 13 percent in 2023 on account of lower international oil prices in 2023 compared with 2022. The value of merchandise exports declined by 2.2 percent in 2023 from an increase of 9.3 percent in 2022. The decline was occasioned by reducing earnings from exports of tea, horticulture and raw materials which declined by 2.8 percent, 1.6 percent, and 23.8 percent, respectively. However, manufactured good especially to the region increased by 10.3 percent in 2023.

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

	2021	2022	2023
	Act	Act	Estimates
Current account	**-5.2**	**-5.0**	**-3.9**
1.1 Goods balance	**-10.1**	**-10.2**	**-9.1**
Goods: exports, f.o.b.	6.2	6.5	6.7
o/w Tea	1.1	1.2	1.2
Horticulture	1.0	0.8	0.9
Manufactured Goods	0.5	0.5	0.6
Other	3.6	3.9	4.0
Goods: imports, f.o.b.	16.3	16.7	15.8
o/w Oil products	3.2	4.8	4.4
Other	13.1	8.6	8.3
Machinery & Transport equipment	4.2	3.3	3.0
1.2 Services balance	**0.9**	**1.0**	**0.6**
Services, Credit	4.6	5.6	5.0
Transportation	1.5	2.0	1.8
Travel	0.8	1.0	0.9
Services, Debit	3.6	4.6	4.4
1.3 Transportation	1.4	1.9	1.6
Goods and services balance	-9.1	-9.2	-8.5
Primary income, balance	**-1.9**	**-1.5**	**-1.9**
1.4 Credit	0.1	0.0	0.1
Debit	2.0	1.6	2.0
Secondary income, balance	**5.6**	**5.7**	**6.4**
Credit	5.7	5.7	6.5
Remittances	3.4	3.5	3.9
Debit	0.1	0.0	0.1
Capital account	**0.2**	**0.1**	**0.1**
Financial Account	**-5.3**	**-3.8**	**-3.3**
Foreign Direct Investment balance	0.0	-0.3	-0.4
Portfolio Investment balance	0.2	0.6	0.6
Other Investment balance	-5.5	-4.1	-3.4

Source: Central Bank of Kenya

Exports to Africa accounted for 42.6 percent, with COMESA and the EAC region accounting for 28.2 and 27.6 percent, respectively. China and the India were the major importers, accounting for 17.4 percent and 10.6 percent of total imports, respectively. **(Table 5).** The balance on the secondary income improved supported by record remittance inflows, which accounted for 3.9 percent of GDP in 2023. Remittance inflows for 2023 totaled USD 4,190 million compared to USD 4,028 million in the same period in 2022, an increase of 4.0 percent. Service exports declined by 15.9 percent in 2023 due to a decline in receipts from travel and transport.

Table 5: Kenya's Direction of Trade

IMPORTS (in millions of US dollars)								
					%share			
Country	**2020**	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Africa	**1,709**	**2,051**	**2,267**	**1,791**	**11.9**	**12.0**	**11.8**	**10.5**
Of which								
South Africa	432	402	520	518	3.0	2.4	2.7	3.0
Egypt	421	446	373	326	2.9	2.6	2.0	1.9
Others	856	1,204	1,374	947	5.9	7.1	7.2	5.5
EAC	505	801	788	574	3.5	4.7	4.1	3.4
COMESA	966	1,074	1,039	861	6.7	6.3	5.4	5.0
Rest of the World	12,690	15,012	16,869	15,315	88.1	88.0	88.2	89.5
Of which								
India	1,777	2,106	2,131	1,810	12.3	12.3	11.1	10.6
United Arab Emirates	867	1,625	3,443	2,743	6.0	9.5	18.0	16.0
China	3,391	4,023	3,843	2,977	23.6	23.6	20.1	17.4
Japan	823	892	829	638	5.7	5.2	4.3	3.7
USA	529	767	793	749	3.7	4.5	4.1	4.4
United Kingdom	274	306	295	275	1.9	1.8	1.5	1.6
Singapore	83	95	100	114	0.6	0.6	0.5	0.7
Germany	378	392	291	265	2.6	2.3	1.5	1.6
Saudi Arabia	651	1,044	1,042	1,017	4.5	6.1	5.4	5.9
Indonesia	592	405	229	282	4.1	2.4	1.2	1.7
Netherlands	391	428	272	251	2.7	2.5	1.4	1.5
France	219	205	180	247	1.5	1.2	0.9	1.4
Iran	46	34	29	25	0.3	0.2	0.1	0.1
Italy	222	226	210	146	1.5	1.3	1.1	0.9
Others	2,447	2,463	3,184	3,777	17.0	14.4	16.6	22.1
Total	**14,399**	**17,063**	**19,136**	**17,106**	**100.0**	**100.0**	**100.0**	**100.0**
EU	2,166	2,353	1,932	1,697	15.0	13.8	10.1	9.9
China	3,391	4,023	3,843	2,977	23.6	23.6	20.1	17.4

EXPORTS (in millions of US dollars)								
					% Share			
Country	**2020**	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Africa	**2,288**	**2,787**	**2,978**	**3,090**	**37.8**	**41.1**	**40.1**	**42.6**
Of which								
Uganda	673	830	817	914	11.1	12.2	11.0	12.6
Tanzania	295	409	480	488	4.9	6.0	6.5	6.7
Egypt	179	193	228	223	2.9	2.8	3.1	3.1
Sudan	78	66	66	49	1.3	1.0	0.9	0.7
South Sudan	218	155	198	227	3.6	2.3	2.7	3.1
Somalia	107	123	130	155	1.8	1.8	1.7	2.1
DRC	134	224	151	188	2.2	3.3	2.0	2.6
Rwanda	236	278	340	303	3.9	4.1	4.6	4.2
Others	368	509	568	543	6.1	7.5	7.7	7.5
EAC	**1,478**	**1,741**	**1,906**	**2,001**	24.4	25.6	25.7	27.6
COMESA	**1,546**	**1,950**	**1,992**	**2,046**	25.5	28.7	26.8	28.2
Rest of the World	**3,774**	**4,000**	**4,444**	**4,168**	62.2	58.9	59.9	57.4
Of which								
United Kingdom	470	451	379	392	7.7	6.6	5.1	5.4
Netherlands	458	562	592	546	7.6	8.3	8.0	7.5
USA	464	543	678	461	7.7	8.0	9.1	6.4
Pakistan	514	484	544	560	8.5	7.1	7.3	7.7
United Arab Emirates	327	315	374	396	5.4	4.6	5.0	5.5
Germany	137	130	136	116	2.3	1.9	1.8	1.6
India	72	95	68	75	1.2	1.4	0.9	1.0
Afghanistan	22	6	26	34	0.4	0.1	0.4	0.5
Others	1,311	1,414	1,647	1,588	21.6	20.8	22.2	21.9
Total	**6,062**	**6,787**	**7,421**	**7,258**	**100.0**	**100.0**	**100.0**	**100.0**
EU	1,400	1,506	1,506	1,466	23.1	22.2	20.3	20.2
China	139	199	234	209	2.3	2.9	3.2	2.9

Source: Kenya Revenue Authority and Central Bank of Kenya

viii. Economic Growth

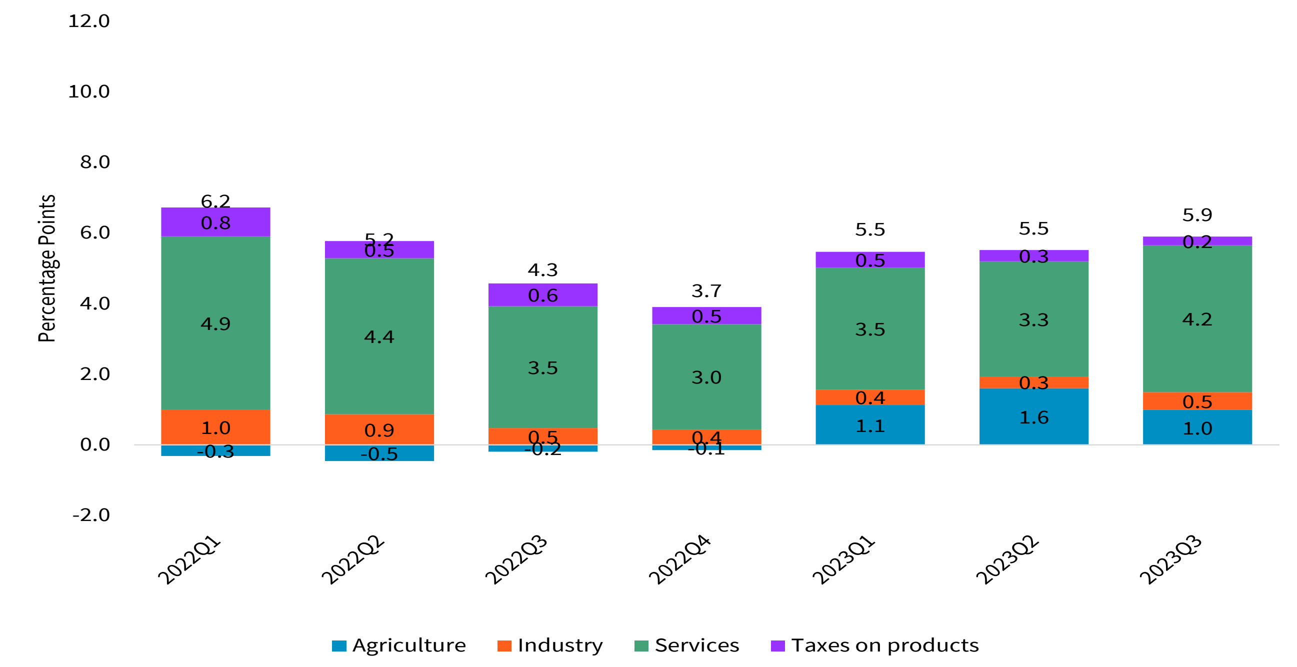
The economy recorded robust growth in the third quarter of 2023, largely driven by strong growth of the agriculture and services sectors. It grew by 5.9 percent, compared to 4.3 percent in a similar quarter of 2022. Agriculture sector performance continued to remain robust. It grew by 6.7 percent in the third quarter of 2023, compared to a contraction of 1.3 percent in a similar quarter of 2022 and contributed 1.0 percentage points to overall GDP growth. The strong performance was supported by favourable weather conditions which continued to boost agricultural activity, particularly production of tea and export of fruits and vegetables. Services sector maintained strong growth momentum in the third quarter of 2023. It grew by 7.1 percent compared to 5.9 percent in a similar quarter of 2022, buoyed by strong growth of accommodation and food services, financial and insurance, information and communication, real estate and wholesale and trade. Its contribution to overall GDP growth stood at 4.2 percentage points. Industry sector grew by 2.8 percent in the third quarter of 2023 compared to 2.6 percent in the same quarter in 2022, reflecting a modest improvement in growth of manufacturing and construction sectors. The industry sector contributed 0.5 percentage points to overall GDP growth **(Table 6 and Chart 5).**

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

Main Sectors	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3
1. Agriculture	-1.7	-2.4	-1.3	-0.9	6.1	8.2	6.7
2. Non-Agriculture (o/w)	8.2	7.1	5.3	4.6	5.3	4.8	5.7
2.1 Industry	5.6	5.0	2.6	2.4	2.5	2.0	2.8
2.2 Services	8.9	8.0	5.9	5.2	6.2	5.9	7.1
2.3 Taxes on Products	9.5	6.1	7.3	5.3	5.3	4.0	2.8
Real GDP Growth	6.2	5.2	4.3	3.7	5.5	5.5	5.9

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 second half of 2023 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 August 2023, the MPC approved a new monetary policy implementation framework designed to enhance monetary policy transmission. This new framework is based on inflation targeting and introduced an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points. Subsequently, the monetary policy operations are aimed at ensuring the interbank rate, as an operating target, closely tracks the CBR. In addition, to improve access to the Discount Window, the Committee reduced the applicable interest rate from 600 basis points above CBR to 400 basis points above CBR in August 2023.

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 second half of 2023 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2023. Respondents attributed this optimism largely to enhanced agricultural production, easing inflation, and improved growth prospects. Nevertheless, respondents' concerns included higher fuel and electricity prices, reduced purchasing power affecting demand for products, and the possible negative effects of the El Niño weather phenomenon. The Agriculture Sector Survey revealed that high input costs, unpredictable weather conditions, as well as transport costs were the major factors constraining agricultural production.

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

i. International Economic Environment

According to the January 2024 update of the IMF World Economic Outlook (WEO) update, global growth is expected at 3.1 percent in 2024 and 3.2 percent in 2025, representing an upward revision of 0.2 percentage points relative to the October 2023 WEO. The upward revision was on account of greater than expected resilience in the United States and several emerging markets and developing economies, as well as fiscal support in China.

Growth in the advanced economies is projected to decline slightly from 1.6 percent in 2023 to 1.5 percent in 2024 before rising to 1.8 percent in 2025. An upward revision of 0.1 percentage point for 2024 reflects stronger-than-expected US growth. The upward revision was due to growth in US (2.1) and Japan (0.9). However, growth prospects for the Euro area were revised downwards due to weaker-than-expected outcome for 2023. UK and France are projected to grow by 0.6 percent and 1.0 percent, respectively in 2024.

In the emerging market and developing economies, growth is expected to remain modest, at 4.1 percent in 2024 and rise to 4.2 percent in 2025. The upward revision of 0.1 percentage point for 2024 since October 2023, reflects upgrades for several regions.

In sub-Saharan Africa (SSA), economic growth is projected to rise from an estimated 3.3 percent in 2023 to 3.8 percent in 2024 and 4.1 percent in 2025, mainly attributed to subsiding of the earlier negative effects of weather shocks and improvement in supply issues. Nigeria and South Africa are expected to grow by 3.0 percent and 1.0 percent in 2023, respectively.

Global financial conditions continued to be supported by easing inflation pressure in the advanced economies, however, there is still a lot of uncertainties arising from new commodity price spikes from geopolitical shocks including continued attacks in the Red Sea. Global headline inflation is expected to fall to 5.8 percent in 2024 and to 4.4 percent in 2025. World trade growth is expected to increase in 2024 to 3.3 percent based on assumptions that fuel and nonfuel commodity prices will decline in 2024 and 2025 and that interest rates will decline in major economies. Annual average oil prices are projected to fall by about 2.3 percent in 2024, whereas nonfuel commodity prices are expected to fall by 0.9 percent.

The balance of risks to global growth are broadly balanced with easing inflation and steady growth. However, geopolitical shocks and new commodity spikes remains a risk to global growth.

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

	Estimate		Projections	
Country/Region	**2022**	**2023**	**2024**	**2025**
World Output	**3.5**	**3.1**	**3.1**	**3.2**
Advanced Economies	**2.6**	**1.6**	**1.5**	**1.8**
United States	1.9	2.5	2.1	1.7
Euro area	3.4	0.5	0.9	1.7
Japan	1.0	1.9	0.9	0.8
United Kingdom	4.3	0.5	0.6	1.6
Emerging Market and Developing economies	**4.1**	**4.1**	**4.1**	**4.2**
Emerging and Developing Asia	4.5	5.4	5.2	4.8
China	3.0	5.2	4.6	4.1
India	7.2	6.7	6.5	6.5
Emerging and Developing Europe	1.2	2.7	2.8	2.5
Russia	-1.2	3.0	2.6	1.1
Latin America and the Caribbean	4.2	2.5	1.9	2.5
Brazil	3.0	3.1	1.7	1.9
Sub-Saharan Africa	4.0	3.3	3.8	4.1
South Africa	1.9	0.6	1.0	1.3
Nigeria	3.3	2.8	3.0	3.1
Middle East and Central Asia	5.5	2.0	2.9	4.2

Source: IMF, January 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 the 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, decline in 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 first 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 from the estimate of 3.9 percent of GDP in 2023. The CBK foreign exchange reserves are projected to remain adequate in FY 2023/24, 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 second half of 2023 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2023. Respondents attributed this optimism largely to enhanced agricultural production, easing inflation, and improved growth prospects. Nevertheless, respondents' concerns included higher fuel and electricity prices, reduced purchasing power affecting demand for products, and the possible negative effects of the El Niño weather phenomenon. Surveys of the Agriculture Sector conducted in the period revealed expectations of increased output for most agricultural products in the next harvest, on account of improved weather conditions and increased acreage. However, there were concerns with regard to transport costs due to high fuel prices, unpredictable weather conditions, and the cost of inputs such as seeds and fertilizers as major factors constraining agricultural production.

The execution of the budget for FY 2023/24 has progressed well with strong tax revenue collection, reflecting enhanced tax administration efforts and increased economic activity. The ongoing fiscal consolidation through implementation of measures to lower fiscal deficit as percent of GDP will lead to stability in growth in public debt and support macroeconomic stability. The fiscal deficit as percent of GDP is projected to decline to 5.5 percent of GDP in FY2023/24 from 5.6 percent in FY2022/23.

4. DIRECTION OF MONETARY POLICY IN 2024

Price stability will be the overriding objective of monetary policy in 2024. 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*
Real GDP growth (YoY, percent)	5.1	-0.3	7.6	4.8	5.6	5.7
Overall Inflation (YoY, percent)	7.2	5.6	5.7	9.1	6.6	5.0
Current Account deficit (Percent of GDP)	-5.2	-4.8	-5.2	-5.0	-3.9	-4.0
Exports of goods and services /GDP (Percent)	11.4	9.6	10.6	12.1	11.7	11.3
Imports of goods and services/GDP (Percent)	20.3	17.6	19.8	21.3	20.2	19.2
Private sector credit growth (YoY, percent)	7.1	8.4	8.6	12.5	13.9	12.1
	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24 (supplementary 1)	FY 2024/25
Fiscal Deficit (Percent of GDP)	7.5	8.3	6.2	5.6	5.5	3.9

** Refers to projections*

Source: Central Bank of Kenya

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 price stability objective is subject to risks emanating from both the domestic and global fronts. On the external front, the key downside risks include: uncertainty about the global outlook, increased geopolitical tensions 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.

ANNEX

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

July 2023	Release of July 2023 IMF World Economic Outlook (WEO) Report showing that global growth was projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. The forecast was modestly higher than predicted in the April 2023 WEO but remained weak by historical standards. The rise in central bank policy rates to fight inflation continued to weigh on economic activity.
August 2023	CBR retained at 10.50 percent
	The MPC approved a new monetary policy implementation framework designed to enhance monetary policy transmission. This new framework is based on inflation targeting and introduced an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points. The new framework aims at ensuring that the interbank rate, as an operating target, closely tracks the CBR. In addition, to improve access to the Discount Window, the Committee agreed to reduce the applicable interest rate from the current 600 basis points above CBR to 400 basis points above CBR.
September 2023	Announcement of increase in the limits for mobile money transactions and the size of the mobile money wallet. The daily mobile money wallet size increased from Ksh. 300,000 to Ksh. 500,000, and the transaction limit from Ksh. 150,000 to Ksh. 250,000.
October 2023	CBR retained at 10.50 percent.
	Release of October 2023 IMF World Economic Outlook (WEO) Report showing that global growth was expected to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024, well below the historical (2000–19) average of 3.8 percent. The outlook reflected the tight policy stances needed to bring down inflation.
December 2023	CBR raised from 10.50 percent to 12.50 percent.
	Introduction of Electronic Matching Systems (EMS) in the foreign exchange interbank market.

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

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

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