

**Central Bank of Kenya**

# **Monetary Policy Statement**

December 2022





## 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 51<sup>st</sup> Monetary Policy Statement of the Central Bank of Kenya (CBK). It reviews and assesses the implementation of monetary policy during the second half of 2022 and outlines the direction of monetary policy for the next twelve months.

**Dr. Patrick Njoroge**

**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 to achieve and maintain price stability and issuing currency.

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, financial stability, 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:

- **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 stabilise short-term interest rates. When the Central Bank buys securities in 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:
  - i. **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.
  - ii. **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.
  - iii. **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.

- **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. In order to enhance clarity and certainty in monetary policy implementation, the CBR is the base for all monetary policy operations. Whenever the Central Bank is injecting liquidity through a Reverse Repo, the CBR is the lowest acceptable rate by law. Likewise, whenever the Bank wishes to withdraw liquidity through a Vertical Repo, the CBR is the highest rate that the CBK will pay on any bid received. However, to ensure flexibility and effectiveness of monetary policy operations in periods of volatility in the market, the CBK can raise the maximum acceptable interest rates on TAD to above the CBR. Movements in the CBR are transmitted to changes in short-term interest rates. A reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase.

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.

- **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. Access to the Window is governed by rules and guidelines which are reviewed from time to time by the CBK. Banks making use of this facility more than twice in a week are scrutinised closely, and supervisory action taken.
- **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.
- **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.
- **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.
- **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, and the MPC releases.

## EXECUTIVE SUMMARY

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This Monetary Policy Statement provides the direction of monetary policy in 2023. It also reviews the outcome of the monetary policy stance adopted in the second half of 2022. Monetary policy in the second half of 2022 was conducted against a backdrop of continued global uncertainties, with volatile financial markets, weaker growth outlook, persistent inflationary pressures, geopolitical tensions, and lingering effects of COVID-19 (coronavirus) pandemic. Inflation pressures in major economies remained elevated in the third quarter of 2022 but eased slightly in the fourth quarter following declines in oil and non-oil commodity prices due to improved international supply chains. Volatility in the global financial markets remained elevated amid significant U.S. dollar strength against major currencies and rapid changes in the policy stance in advanced economies in response to inflationary pressures.

The CBK conducted monetary policy in the period with the objective of achieving and maintaining overall inflation within the target range of  $5 \pm 2.5$  percent. The MPC tightened monetary policy in the period to anchor inflation expectations attributed to the sharp rise in global commodity prices on account of supply chain disruptions following the war in Ukraine, and a surge in domestic food prices following depressed rains. In its meeting in July 2022, the MPC maintained the Central Bank Rate (CBR) at 7.50 percent, noting that its action of tightening monetary policy in May 2022 was complemented by Government measures introduced to moderate the prices of specific items. These measures include the subsidy on fertilizer prices, the reduction of the VAT rate on LPG from 16 percent to 8 percent, and subsidies on prices of kerosene and diesel. The MPC raised the CBR to 8.25 percent in September, and further to 8.75 percent in November, noting the sustained inflationary pressures, elevated global risks, and their potential impact on the domestic economy.

Overall inflation rose from 7.9 percent in June 2022 to a peak of 9.6 percent in October before easing to 9.1 percent in December. The inflation rate in the period was mainly driven by elevated food and fuel prices. Food inflation stood at 13.8 percent in June and December, largely reflecting increases in prices of maize and milk following reduced supply attributed to depressed rains, and edible oils and wheat products due to the impact of international supply chain disruptions. Fuel inflation increased to 12.7 percent in December from 10.0 percent in June, mainly due to the scaling down of the fuel subsidy, increases in electricity prices due to higher tariffs, and increases in transport costs. However, non-food non-fuel (NFFNF) inflation rose modestly to 4.1 percent in December from 2.9 percent in June, reflective of second order effects of rising energy and transport costs. The CBK continued to monitor the overall liquidity in the economy as well as any threats that could fuel demand driven inflationary pressures.

The foreign exchange market remained relatively stable in the second half of 2022, despite persistent uncertainties in the global financial markets and the impact of a stronger US Dollar. This stability was supported by strong performance in exports of goods and services, as well as record level of remittances. Additionally, the increase in oil imports due to higher oil prices was partly offset by a decline in imports of infrastructure related equipment on account of completed projects. As a result, the current account balance is estimated at 4.9 percent of GDP in 2022, compared to a deficit of 5.2 percent of GDP in 2021. The CBK foreign exchange reserves, which stood at USD 7,378 million (4.13 months of import cover) at the end of December 2022, 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 2022, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 50.8 percent and 19.0 percent, respectively in December 2022. These were above the minimum statutory ratios of 20.0 percent and 14.5 percent. The ratio of gross non-performing loans (NPLs) to gross loans declined to 13.3 percent in December from 14.7 percent in June. Private sector credit increased by 12.5 percent in the 12-months to December 2022 from 8.6 percent in December 2021, supported by improved demand in key sectors with increased economic activities.

The GDP data for the third quarter of 2022 together with leading indicators show that the Kenyan economy remained strong in the second half of 2022, with real GDP growth estimated at 5.6 percent in 2022. This

performance was mainly driven by robust activity in wholesale and retail trade, education, electricity and water, and real estate sectors. However, growth in agriculture remained subdued due to depressed rains in most parts of the country during the year.

The CBK continued to implement the reforms outlined in the White Paper on *Modernisation of the Monetary Policy Framework and Operations*, that was published by the MPC in July 2021. These reforms are aimed at enhancing the effectiveness of monetary policy formulation and implementation.

The monetary policy stance in 2023 will aim at achieving and maintaining overall inflation within the target range of  $5\pm 2.5$  percent. The economy is expected to remain resilient in 2023, supported by continued strong performance of services sector and recovery in agriculture, with real GDP growth projected at 6.1 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 5.4 percent of GDP in 2023. The continued coordination of monetary and fiscal policies is expected to sustain macroeconomic stability and support economic activity. Consistent with the inflation and economic growth objectives, the 12-month growth in broad money (M3) and private sector credit are expected at about 10.9 percent and 13.8 percent respectively, by December 2023.

The Bank will continue to implement measures outlined in the *White Paper*, towards modernisation of the monetary policy framework and operations. The CBK will also continue to provide regular updates on the economy to the media and other stakeholders, to enhance the public understanding of monetary policy formulation and implementation. Additionally, the Bank will continue to monitor the risks posed by developments in the domestic and global economic environments, particularly the war in Ukraine and the effects of climate change on the economy.



## 1. INTRODUCTION

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This Monetary Policy Statement (MPS) provides the direction of monetary policy in 2023. It also presents the outcome of the monetary policy stance adopted in the second half of 2022.

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 targets for key monetary aggregates such as broad money (M3) and credit to the private sector, while maintaining a flexible exchange rate regime. The Bank's participation in the foreign exchange market is guided by the need to maintain an 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, and lifting of COVID-19 restrictions in China. Global growth is expected at 2.9 percent in 2023 from an estimate of 3.4 percent in 2022, representing an upward revision of 0.2 percentage points relative to the October 2022 projections. Growth in the advanced economies is projected at 1.2 percent in 2023 from 2.7 percent in 2022. In the emerging market and developing

economies, growth is expected to rise modestly from 3.9 percent in 2022 to 4.0 percent in 2023, reflecting strong growth expectations in China after lifting of COVID-19 restrictions. In Sub-Saharan Africa (SSA), economic activity is projected at 3.8 percent in 2023, which is the same growth rate as in 2022.

The CBK continued to monitor developments in the domestic and global economies, and the impact of the policy measures deployed towards ensuring price stability. In its meeting in July 2022, the MPC maintained the Central Bank Rate (CBR) at 7.50 percent, noting that its action of tightening monetary policy in May 2022 was complemented by an additional package of fiscal measures by the Government to moderate the prices of specific items. The MPC raised the CBR to 8.25 percent in September, and further to 8.75 percent in November, noting the sustained inflationary pressures, elevated global risks, and their potential impact on the domestic economy.

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 2022 while Section 3 describes the external economic environment and outlook for the 2023. Section 4 concludes by outlining the specific monetary policy path for 2023.

## 2. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE SECOND HALF OF 2022

During the second half of 2022, 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 and the elevated global risks 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.

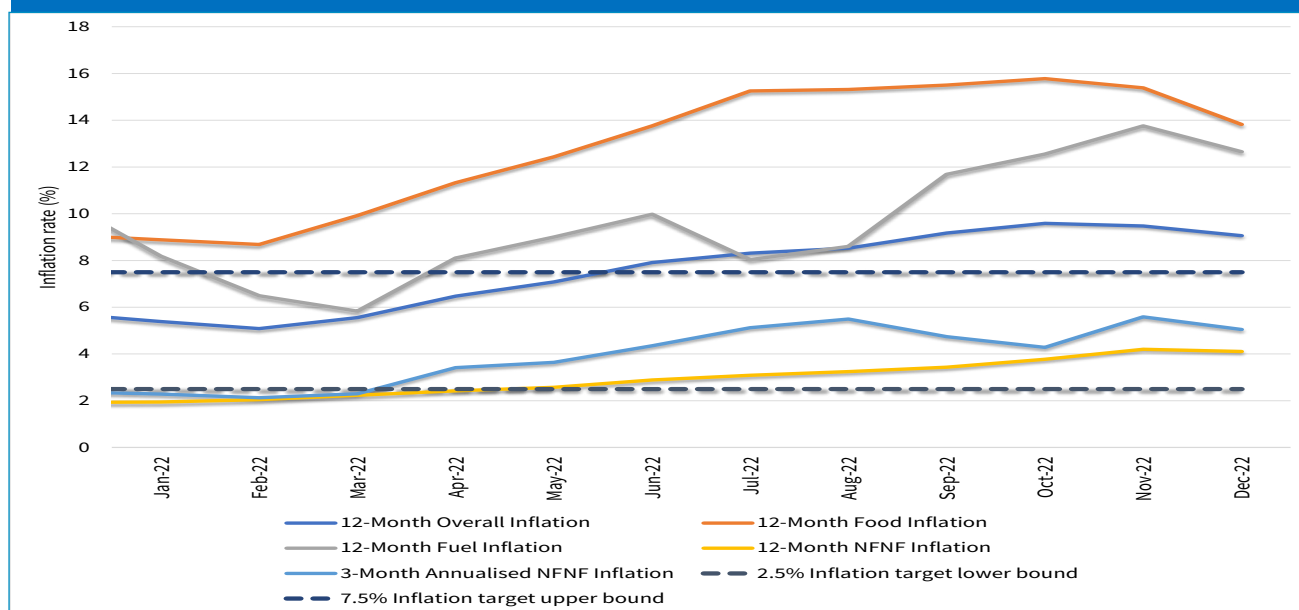
The MPC raised the Central Bank Rate (CBR) from 7.50 percent to 8.25 percent in September 2022, and further to 8.75 percent during its meeting in November, to anchor inflation expectations and to mitigate any second-round effects of the rise in fuel prices on inflation. This policy stance together with 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 to moderate the prices of specific items and enhance food production. These measures include the subsidy on fertilizer prices which was announced in August 2022, the reduction of the VAT rate on LPG from 16 percent to 8 percent in July through the Finance Act, 2022, and subsidies on prices of kerosene and diesel. The following are the specific outcomes of the policy measures implemented in the second half of 2022.

### i. Inflation

Overall inflation remained above the 7.5 percent upper bound of the target range during the second half of 2022, mainly driven by supply side factors. The inflation rate increased from 7.9 percent in June to a peak of 9.6 percent in October before easing to 9.1 percent in December. Food inflation remained elevated due to unfavourable weather conditions and high prices of imported food items following supply-side disruptions associated with the war in Ukraine. The food inflation rate rose from 13.8 percent in June to 15.8 percent in October, but eased thereafter to 13.8 percent in December, supported by favorable rains, and easing of international food prices. Fuel inflation increased to 12.7 percent in December 2022 from 10.0 percent in June, in line with the trends in international oil prices, which resulted in high domestic prices of energy items and transport costs. Nevertheless, government interventions through the energy subsidy programme continued to moderate the prices.

Non-Food-Non-Fuel (NFNF) inflation increased modestly to 4.1 percent in December 2022 from 2.9 percent in June, reflective of the second order effects of rising energy and transport costs (**Chart 1a**).

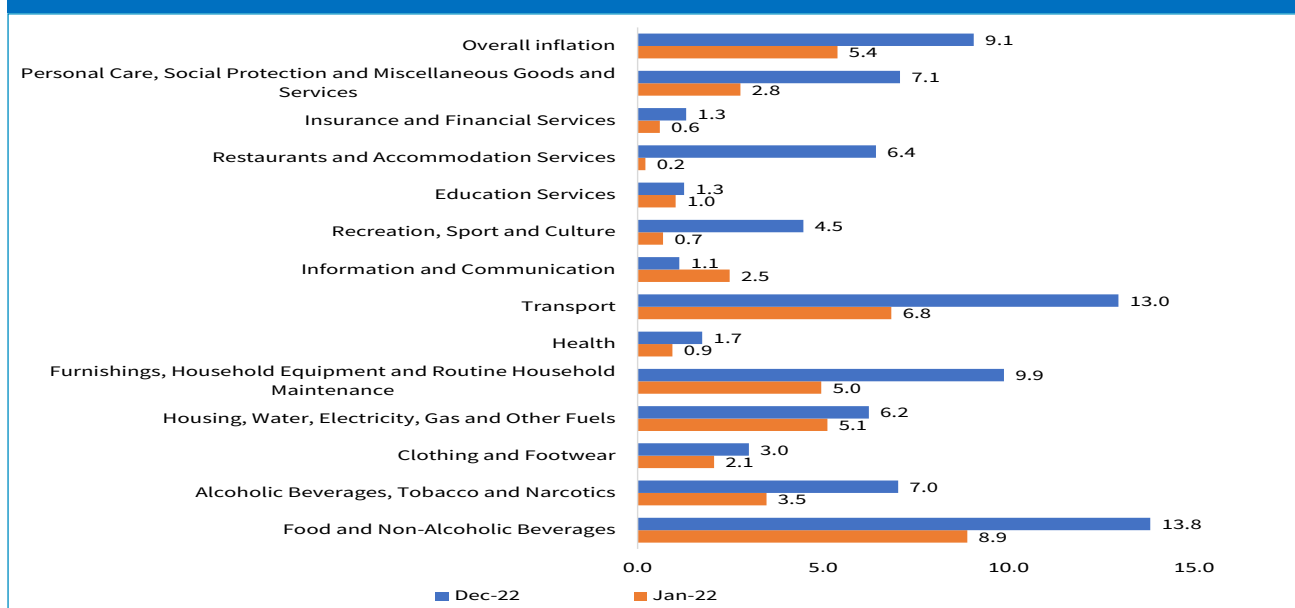
**Chart 1a: Inflation in Broad Measures (Percent)**



Source: Kenya National Bureau of Statistics and CBK

Inflation rates of all consumer goods categories except Food and Non-alcoholic Beverages, Furnishings, Household Equipment and Routine Household Maintenance, and Transport were within the 7.5 percent upper bound of the target range in December 2022 **(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 2022, growing by 12.5 percent in the 12-months to December 22 compared to 12.3 percent in June. This performance was supported by credit demand arising from resilient economic activity.

Strong credit growth was observed in transport and communication (23.5 percent), manufacturing (13.8 percent), business services (13.7 percent), trade (11.4 percent), and consumer durables (12.9 percent) **(Table 1)**.

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

Main sectors	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Agriculture	12.5	10.8	19.2	17.0	21.7	20.3	22.3
Manufacturing	15.2	16.1	15.2	14.2	17.5	14.9	13.8
Trade	11.6	15.2	13.3	16.4	15.3	14.3	11.4
Building and construction	13.9	14.1	11.5	12.5	8.0	6.0	8.2
Transport and communication	22.2	27.0	13.5	21.6	22.8	21.8	23.5
Finance and insurance	6.5	2.8	1.2	0.2	5.4	4.4	7.6
Real estate	0.5	1.7	1.0	0.1	1.6	2.8	3.2
Mining and quarrying	28.5	78.6	97.2	57.4	53.5	58.3	31.3
Private households	6.1	7.6	7.8	7.8	5.9	6.0	8.2
Consumer durables	14.7	14.8	14.3	14.4	14.0	12.6	12.9
Business services	15.2	16.9	16.1	12.5	13.2	14.5	13.7
Other activities	57.2	69.8	60.8	53.8	49.8	44.8	41.8
<b>Total private sector credit</b>	<b>12.3</b>	<b>14.2</b>	<b>12.5</b>	<b>12.9</b>	<b>13.3</b>	<b>12.5</b>	<b>12.5</b>

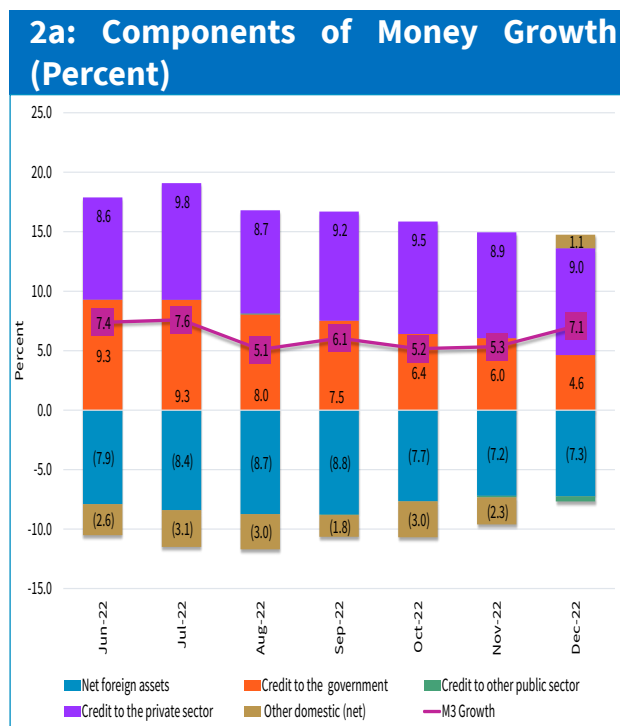
Source: Central Bank of Kenya

### iii. Developments in the other Monetary Aggregates

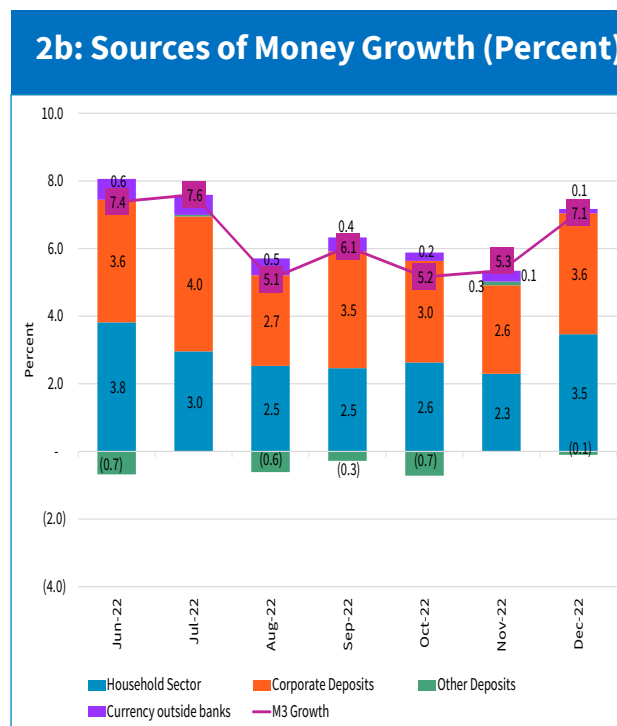
The 12-month growth of broad money, M3, decreased slightly to 7.1 percent in December 2022 from 7.4 percent in June 2022, largely reflecting reduced net lending to government. The resilient growth in credit to private sector supported growth in money supply (Chart 2).

Nevertheless, the decline in net foreign assets of the banking system moderated the growth in money supply. On the liability side, the growth in money supply was reflected in growth in deposits. Overall, monetary aggregates grew at a relatively slower pace compared to their respective targets (Table 2).

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



Source: Central Bank of Kenya



Source: Central Bank of Kenya

**Table 2: Actual and Targets for Key Monetary Aggregates**

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Actual Broad Money, M3 (Ksh Billion)	4,443.0	4,491.5	4,449.2	4,430.4	4,428.3	4,460.2	4,534.5
Target (Ksh Billion)	4,584.2	4,505.1	4,566.9	4,568.3	4,629.6	4,690.5	4,687.0
Actual Reserve Money (Ksh Billion)	518.9	533.2	564.4	554.8	526.5	514.4	514.2
Target (Ksh Billion)	494.9	490.2	488.1	508.9	521.2	517.4	538.7
Actual Net Foreign Assets of CBK (Ksh Billion)	641.5	592.7	563.1	568.8	565.2	531.7	536.9
Target (Ksh Billion)	773.8	632.0	596.3	576.3	556.0	522.2	511.0
Actual Net Domestic Assets of CBK (Ksh Billion)	-122.6	-59.6	1.2	-14.0	-38.7	-17.2	-22.7
Target (Ksh Billion)	-278.9	-141.8	-108.2	-67.4	-34.9	-4.8	27.7
Actual Credit to private sector (Ksh Billion)	3,256.9	3,303.8	3,310.1	3,362.5	3,392.4	3,405.5	3,433.5
Target (Ksh Billion)	3,194.1	3,271.5	3,315.0	3,350.4	3,378.4	3,417.6	3,438.7
Memorandum Items							
12-month growth in actual Reserve Money (Percent)	15.4	16.1	17.7	15.9	10.2	6.6	(1.4)
12-month growth in actual Broad Money, M3 (Percent)	7.4	7.6	5.1	6.1	5.2	5.3	7.1

Source: Central Bank of Kenya

#### iv. Interest Rates Developments

##### a. Central Bank Rate (CBR)

The MPC maintained the Central Bank Rate (CBR) at 7.50 percent in its meeting in July, noting that its action of tightening monetary policy in May 2022 was timely in anticipating emerging inflationary pressures, and its impact was still transmitting through the economy. This action was complemented by an additional package of fiscal measures by the Government to moderate the prices of specific items. The MPC raised the CBR from 7.50 percent to 8.25 percent in September, and further to 8.75 percent in November, noting the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy.

##### b. Short Term Rates

Short-term interest rates generally increased during the second half of 2022, partly reflecting monetary policy stance and liquidity conditions in the market (**Table 3**). The average interbank interest

rate increased to 5.39 percent in December 2022 compared to 5.06 percent in June. Similarly, the average 91-day Treasury bill rate increased to 9.33 percent in December 2022 from 7.90 percent in June, while the average 182-day Treasury bill rate increased to 9.80 percent from 9.07 percent.

##### c. Commercial Bank Rates

Commercial banks average lending rate increased to 12.70 percent in December 2022 from 12.27 percent in June, reflecting the monetary policy stance (Table 3). Similarly, the average commercial banks deposit rate increased to 7.16 percent in December 2022 from 6.62 percent in June. Consequently, the interest spread decreased slightly from 5.66 percent to 5.53 percent.

##### v. Banking Sector Developments

The banking sector remained stable and resilient in the second half of 2022, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 50.8 percent and 19.0 percent, respectively

**Table 3: Interest Rates (Percent)**

	2022						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec (Prov.)
Central Bank Rate	7.50	7.50	7.50	8.25	8.25	8.75	8.75
Interbank	5.06	5.50	5.35	4.36	5.44	4.61	5.39
91-Tbill	7.90	8.21	8.58	8.92	9.06	9.19	9.33
182-Tbill	9.07	9.29	9.45	9.60	9.65	9.71	9.80
<b>Average Lending Rate (1)</b>	<b>12.27</b>	<b>12.35</b>	<b>12.43</b>	<b>12.41</b>	<b>12.39</b>	<b>12.64</b>	<b>12.70</b>
Overdraft/loan	11.86	12.02	12.10	11.99	11.96	12.16	12.21
1-5years	12.48	12.56	12.67	12.66	12.61	12.94	13.03
Over 5years	12.23	12.27	12.35	12.33	12.36	12.54	12.58
<b>Average Deposit Rate (2)</b>	<b>6.62</b>	<b>6.74</b>	<b>6.93</b>	<b>6.82</b>	<b>7.01</b>	<b>7.11</b>	<b>7.16</b>
Demand	1.22	1.20	1.45	1.44	1.59	1.93	1.93
0-3months	6.96	7.13	7.30	7.18	7.42	7.57	7.38
Over 3months	7.39	7.45	7.52	7.40	7.60	7.68	7.93
Savings	2.50	2.94	3.46	3.44	3.46	3.51	3.55
<b>Spread (1-2)</b>	<b>5.66</b>	<b>5.61</b>	<b>5.50</b>	<b>5.59</b>	<b>5.39</b>	<b>5.53</b>	<b>5.53</b>

Source: Central Bank of Kenya

in December 2022. These ratios were above the minimum statutory ratios of 20.0 percent and 14.5 percent. The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.3 percent in December 2022. Five economic sectors registered decreased NPLs between June 2022 and December

2022 largely attributed to repayments. The major sectors with decreasing NPLs were Building and Construction, Tourism, Restaurant and Hotels, Manufacturing, Transport and Communication, and Agriculture.

The Credit Guarantee Scheme (CGS), which was operationalized in December 2020, has continued to support additional credit uptake by the vulnerable Micro Small and Medium-sized Enterprises (MSMEs). As at December 2022, seven banks were participating in the CGS. Cumulatively, the seven banks had advanced loans supported by the CGS amounting to Ksh.4.4 billion as at December 2022. The Central Bank of Kenya (Amendment) Act, 2021, empowered CBK to license and oversight the previously unregulated digital credit providers. Following the Amendment, CBK issued the Digital Credit Providers (DCP) Regulations, 2022, that were gazetted and operationalized on March 18, 2022. As at December 2022, ten (10) DCPs had been licensed to conduct DCP business. Many other applications were being processed.

The banking sector is expected to remain stable and resilient as it utilizes opportunities from emerging innovations and technologies and minimizes the attendant risks. Credit risk is expected to continue easing in the short to medium term. Operational risk is expected to remain elevated particularly with increased digitalization of the sector.

#### **vi. Impact of COVID-19 Mitigation Measures**

CBK continues to monitor the impact of the COVID-19 pandemic following expiry of the emergency measures introduced in 2020, to mitigate the adverse economic effects and financial disruptions from the pandemic. The emergency measure for banks to consider restructuring customer loans, which expired on March 2, 2021, provided relief to borrowers, supported continued operation of business including essential sectors, and mitigated

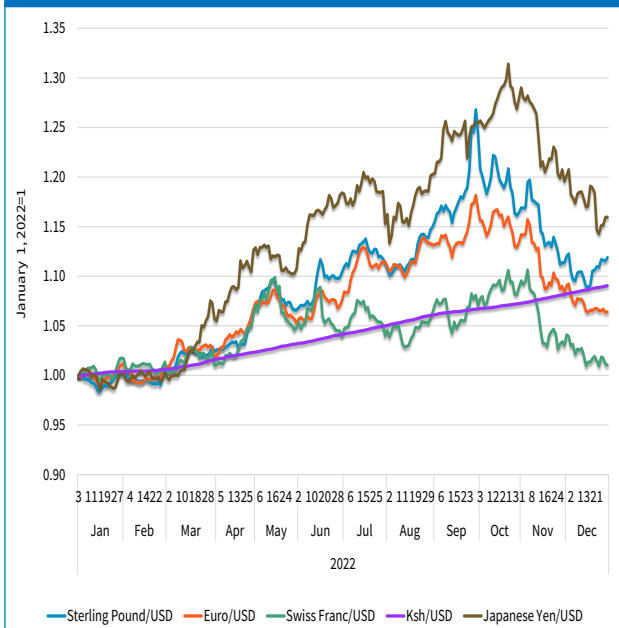
more severe loss of jobs and livelihoods. The measure also provided space for the banks to build capital and liquidity buffers, thereby strengthening resilience of the sector. As at December 2022, there were outstanding restructured loans amounting to Ksh.330.9 billion (9.0 percent of the gross loans).

#### **vii. Exchange Rates and Foreign Exchange Reserves**

The foreign exchange market remained resilient in the second half of 2022 despite increased global uncertainties, volatile international oil prices and effects of a stronger U.S. Dollar. The market was supported by supply from the agricultural, financial and insurance sectors while demand was driven by economic activity which picked-up mainly in the manufacturing, wholesale and retail sectors. The resilience of the foreign exchange market cushioned the currency against rising commodity prices and a slowdown in global growth following Russia's invasion of Ukraine. Nonetheless, like other regional and major currencies, the Kenya shilling weakened against the U.S. Dollar **(Chart 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., with the dollar index appreciating by 9.0 percent in the third quarter of 2022.

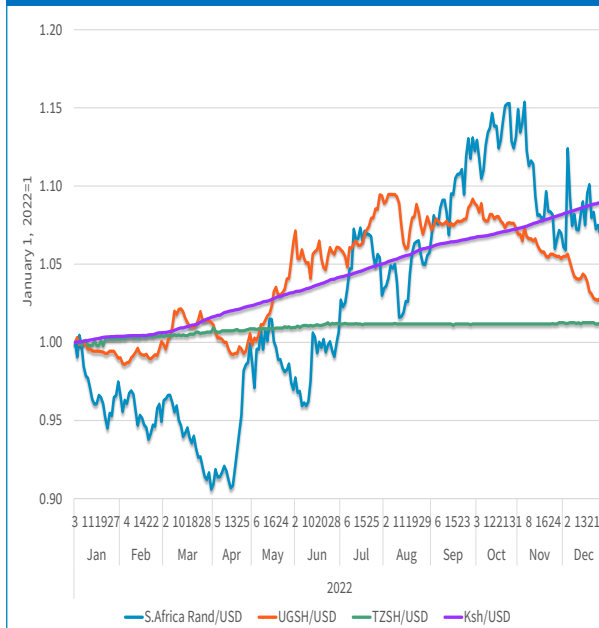
The CBK foreign exchange reserves, which stood at USD 7,378 million (4.13 months of import cover) as at end December 2022, continued to provide an adequate buffer against short-term shocks in the foreign exchange market **(Chart 3c)**.

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



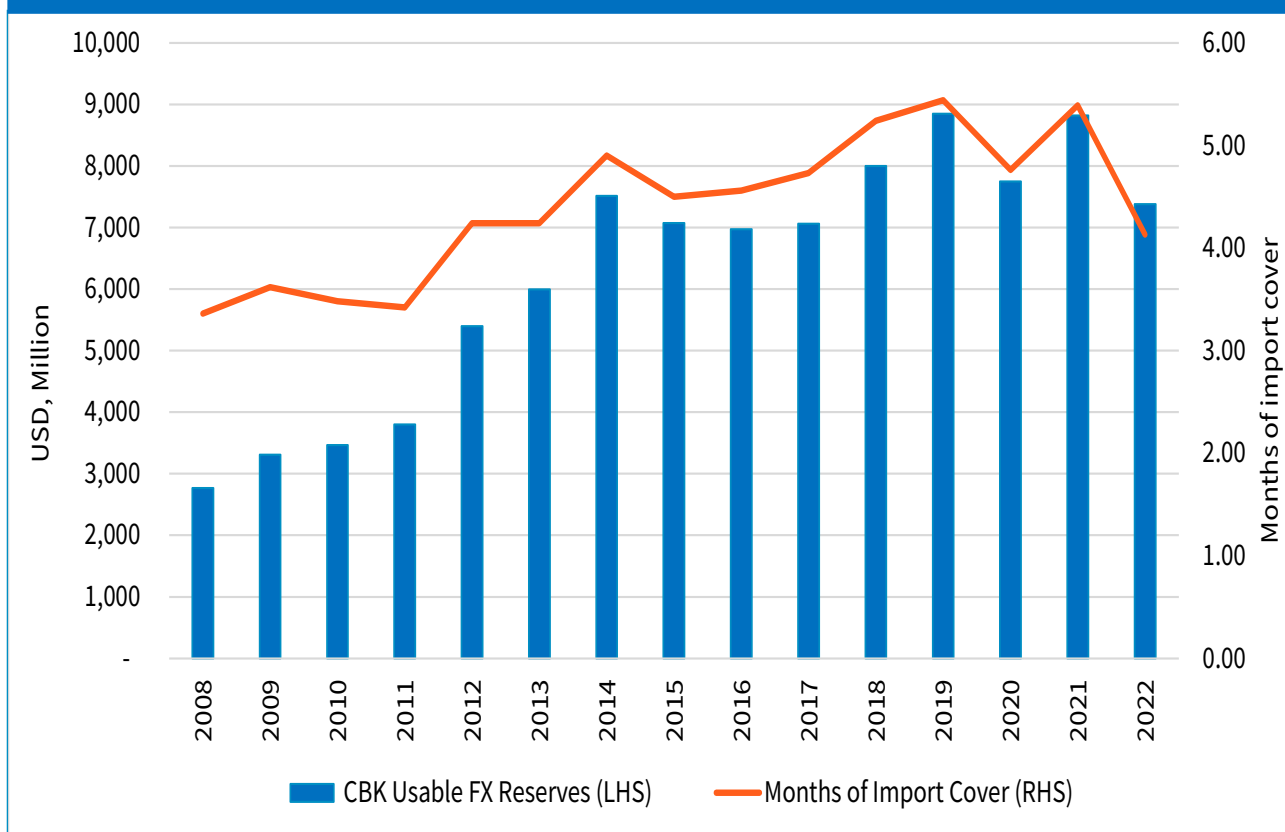
Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

**Chart 3c: CBK usable foreign exchange reserves (as at end December)**

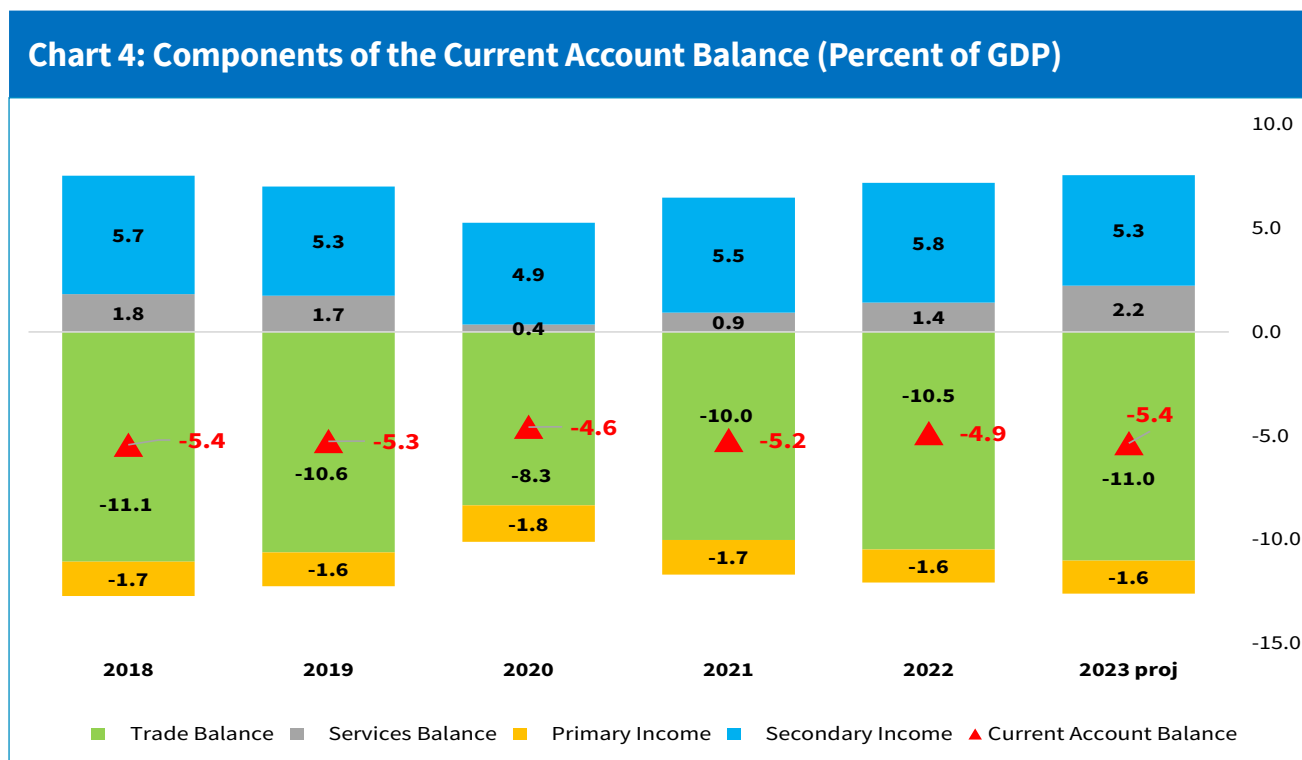


Source: Central Bank of Kenya

## viii. Balance of payments developments

The current account balance was estimated at 4.9 percent of GDP in 2022, compared to a deficit of 5.2 percent of GDP in 2021. This narrowing of the deficit was mainly due to strong performance in exports of goods and services as well as record level

of remittances. Additionally, imports grew by 5.8 percent in 2022 compared with 25.4 percent in 2021, attributed to a decline in imports of machinery and transport equipment (**Chart 4 and Table 4**).



Source: Kenya National Bureau of Statistics

The goods account deficit widened to 10.5 percent of GDP in 2022 from 10.0 percent of GDP in 2021. Imports grew by 5.8 percent in 2022 compared to 25.4 percent in 2021, with lower imports of infrastructure related equipment due to completed projects. Oil imports increased by 60.3 percent in 2022 on account of elevated international prices which moderated in

the fourth quarter of 2022. The value of merchandise exports improved by 10.9 percent to USD 7,464 million in 2022. Receipts from tea and manufactured goods exports increased by 16.1 percent and 22.1 percent, respectively, during the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets.



**Table 4: Annual Balance of Payments (Percent of GDP)**

	2019	2020	2021	2022
	Act	Act	Prov	Prov
<b>Current account</b>	<b>-5.3</b>	<b>-4.6</b>	<b>-5.2</b>	<b>-4.9</b>
<b>1.1 Goods balance</b>	<b>-10.6</b>	<b>-8.3</b>	<b>-10.0</b>	<b>-10.5</b>
Goods: exports, f.o.b.	5.8	6.0	6.1	6.6
o/w Tea	1.1	1.2	1.1	1.2
Horticulture	1.0	0.9	1.0	0.8
Manufactured Goods	0.4	0.4	0.5	0.6
Other	3.3	3.5	3.6	4.0
Goods: imports, f.o.b.	16.5	14.3	16.2	17.1
o/w Oil products	3.3	2.2	3.2	5.0
Other	13.2	12.2	13.0	12.2
Machinery & Transport equipment	4.8	3.9	4.2	3.4
<b>1.2 Services balance</b>	<b>1.7</b>	<b>0.4</b>	<b>0.9</b>	<b>1.4</b>
Services, Credit	5.6	3.7	4.5	6.0
Transportation	2.2	1.1	1.5	1.8
Travel	1.0	0.5	0.8	1.0
Services, Debit	3.8	3.3	3.6	4.6
<b>1.3 Primary income, balance</b>	<b>-1.6</b>	<b>-1.8</b>	<b>-1.7</b>	<b>-1.6</b>
Credit	0.2	0.1	0.1	0.1
Debit	1.8	1.8	1.7	1.7
<b>1.4 Secondary income, balance</b>	<b>5.3</b>	<b>4.9</b>	<b>5.5</b>	<b>5.8</b>
Credit	5.3	5.0	5.7	5.8
o/w Remittances	2.8	3.1	3.4	3.6
Debit	0.1	0.1	0.1	0.1
<b>Capital account</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>
<b>Financial Account</b>	<b>-5.9</b>	<b>-2.9</b>	<b>-5.3</b>	<b>-6.1</b>
Foreign Direct Investment balance	-0.9	-0.5	0.0	-0.5
Portfolio Investment balance	-1.3	1.3	0.2	0.6
Other Investment balance	-3.7	-3.7	-5.4	-6.2

Source: Central Bank of Kenya

Exports to Africa accounted for 40.4 percent, with COMESA and the EAC region accounting for 27.0 and 25.8 percent, respectively. China and the European Union were the major importers, accounting for 20.0 percent and 10.1 percent of total imports, respectively. **(Table 5).**

The balance on the secondary income improved supported by record remittance inflows, which

accounted for 3.6 percent of GDP in 2022. Remittances totalled USD4,028 million in 2022, and were 8.3 percent higher compared to 2021. Service exports improved by 33.4 percent in 2022 boosted by the continued recovery in international travel and transport.

**Table 5: Kenya's Direction of Trade**

IMPORTS	(USD Millions)						Share of Imports (%)					
	Year to Jun						Year to Jun					
	Region/Country	2017	2018	2019	2020	2021*	2022*	2017	2018	2019	2020	2021*
Africa	1,632	2,136	2,046	1,929	1,852	2,227	11.0	12.9	12.7	12.5	11.6	11.4
Of which												
South Africa	567	637	679	547	401	465	3.8	3.9	4.2	3.6	2.5	2.4
Egypt	332	359	369	419	448	420	2.2	2.2	2.3	2.7	2.8	2.2
Others	732	1,140	998	963	1,003	1,343	4.9	6.9	6.2	6.3	6.3	6.9
EAC	417	743	564	568	627	862	2.8	4.5	3.5	3.7	3.9	4.4
COMESA	854	1,258	1,080	1,092	1,048	1,053	5.8	7.6	6.7	7.1	6.5	5.4
Rest of the World	13,178	14,381	14,050	13,461	14,146	17,250	89.0	87.1	87.3	87.5	88.4	88.6
Of which												
India	1,826	1,627	1,782	1,766	1,872	2,571	12.3	9.9	11.1	11.5	11.7	13.2
United Arab Emir	1,029	1,029	1,528	1,169	1,170	2,282	6.9	6.2	9.5	7.6	7.3	11.7
China	3,904	3,904	3,373	3,430	3,793	3,769	26.4	23.6	21.0	22.3	23.7	19.4
Japan	809	809	1,017	893	846	975	5.5	4.9	6.3	5.8	5.3	5.0
USA	515	515	526	555	580	840	3.5	3.1	3.3	3.6	3.6	4.3
United Kingdom	312	299	330	293	296	302	2.1	1.8	2.1	1.9	1.8	1.5
Singapore	65	43	56	70	64	97	0.4	0.3	0.3	0.5	0.4	0.5
Germany	385	460	449	407	380	341	2.6	2.8	2.8	2.6	2.4	1.7
Saudi Arabia	964	1,315	1,587	915	750	1,218	6.5	8.0	9.9	5.9	4.7	6.3
Indonesia	506	481	508	580	475	243	3.4	2.9	3.2	3.8	3.0	1.3
Netherlands	163	219	309	211	507	282	1.1	1.3	1.9	1.4	3.2	1.4
France	246	224	246	229	214	188	1.7	1.4	1.5	1.5	1.3	1.0
Bahrain	117	46	51	6	46	59	0.8	0.3	0.3	0.0	0.3	0.3
Italy	241	238	218	203	232	236	1.6	1.4	1.4	1.3	1.5	1.2
Oman	65	37	98	65	220	156	0.4	0.2	0.6	0.4	1.4	0.8
Others	2,094	3,172	1,970	2,668	2,704	3,694	14.1	19.2	12.2	17.3	16.9	19.0
Total	14,810	16,517	16,096	15,390	15,999	19,478	100	100	100.0	100.0	100.0	100.0
EU	1,947	2,088	2,225	2,066	2,352	2,086	13.1	12.6	13.8	13.4	14.7	10.7
China	3,904	3,904	3,373	3,430	3,793	3,769	26.4	23.6	21.0	22.3	23.7	19.4

EXPORTS	(USD Millions)						Share of Exports (%)						
	Year to Jun						Year to Jun						
Region/Country	2017	2018	2019	2020	2021*	2022*	2017	2018	2019	2020	2021	2022	
Africa	2,199	2,169	2,116	2,213	2,584	2,893	38.5	35.8	35.7	37.3	40.4	40.6	
Of which													
Uganda	611	601	609	623	796	795	10.7	9.9	10.3	10.5	12.4	11.1	
Tanzania	281	294	304	310	320	483	4.9	4.9	5.1	5.2	5.0	6.8	
Egypt	170	213	192	182	186	216	3.0	3.5	3.2	3.1	2.9	3.0	
Sudan	54	67	62	72	73	60	0.9	1.1	1.0	1.2	1.1	0.8	
South Sudan	157	152	114	176	181	185	2.8	2.5	1.9	3.0	2.8	2.6	
Somalia	201	167	133	100	114	123	3.5	2.8	2.2	1.7	1.8	1.7	
DRC	197	167	141	129	222	143	3.4	2.8	2.4	2.2	3.5	2.0	
Rwanda	167	176	185	231	250	323	2.9	2.9	3.1	3.9	3.9	4.5	
Others	362	333	377	390	443	566	6.3	5.5	6.4	6.6	6.9	7.9	
EAC	1,135	1,129	1,286	1,395	1,607	1,854	19.9	18.7	21.7	23.5	25.1	26.0	
COMESA	1,470	1,460	1,455	1,481	1,818	1,934	25.8	24.1	24.5	25.0	28.4	27.2	
Rest of the World	3,505	3,885	3,816	3,714	3,816	4,228	61.5	64.2	64.3	62.7	59.6	59.4	
Of which													
United Kingdom	357	397	389	434	470	412	6.3	6.6	6.6	7.3	7.4	5.8	
Netherlands	418	447	467	419	545	576	7.3	7.4	7.9	7.1	8.5	8.1	
USA	463	446	511	473	492	642	8.1	7.4	8.6	8.0	7.7	9.0	
Pakistan	516	644	490	491	478	520	9.0	10.6	8.3	8.3	7.5	7.3	
United Arab Emirate	273	307	367	368	293	361	4.8	5.1	6.2	6.2	4.6	5.1	
Germany	123	109	112	116	141	128	2.2	1.8	1.9	2.0	2.2	1.8	
India	80.55	76	72	43	102	76	1.4	1.3	1.2	0.7	1.6	1.1	
Afghanistan	36.41	29	38	37	6	18	0.6	0.5	0.6	0.6	0.1	0.3	
Thailand	33.64	57	55	24	19	29	0.6	0.9	0.9	0.4	0.3	0.4	
Others	1,238	1,428	1,314	1,307	1,271	1,464	21.7	23.6	22.2	22.0	19.9	20.6	
Total	5,704	6,054	5,931	5,927	6,400	7,121	100	100	100.0	100.0	100.0	100.0	
EU	1,184	1,183	1,299	1,296	1,502	1,504	20.8	19.5	21.9	21.9	23.5	21.1	
China	122	75	141	151	165	218	2.1	1.2	2.4	2.6	2.6	3.1	

Source: Kenya Revenue Authority and Central Bank of Kenya

## ix. Economic Growth

The economy recorded a strong growth of 5.5 percent in the first three quarters of 2022 compared to 7.5 percent in a similar period of 2021. In the third quarter of 2022, the economy grew by 4.7 percent compared to 9.3 percent in a similar quarter of 2021. The strong performance was supported by resilient activity in industry and services sectors.

Services sector which remains the dominant driver of economic activity grew by 7.7 percent in the first three quarters of 2022 compared to 10.0 percent in a similar period of 2021, reflecting strong performance of accommodation and food services, wholesale and retail trade, professional, administrative and support services, financial and insurance, and education sectors. The sector grew by 6.2 percent in the third quarter of 2022 compared to 11.7 percent in a similar quarter of 2021 and contributed 3.6 percentage

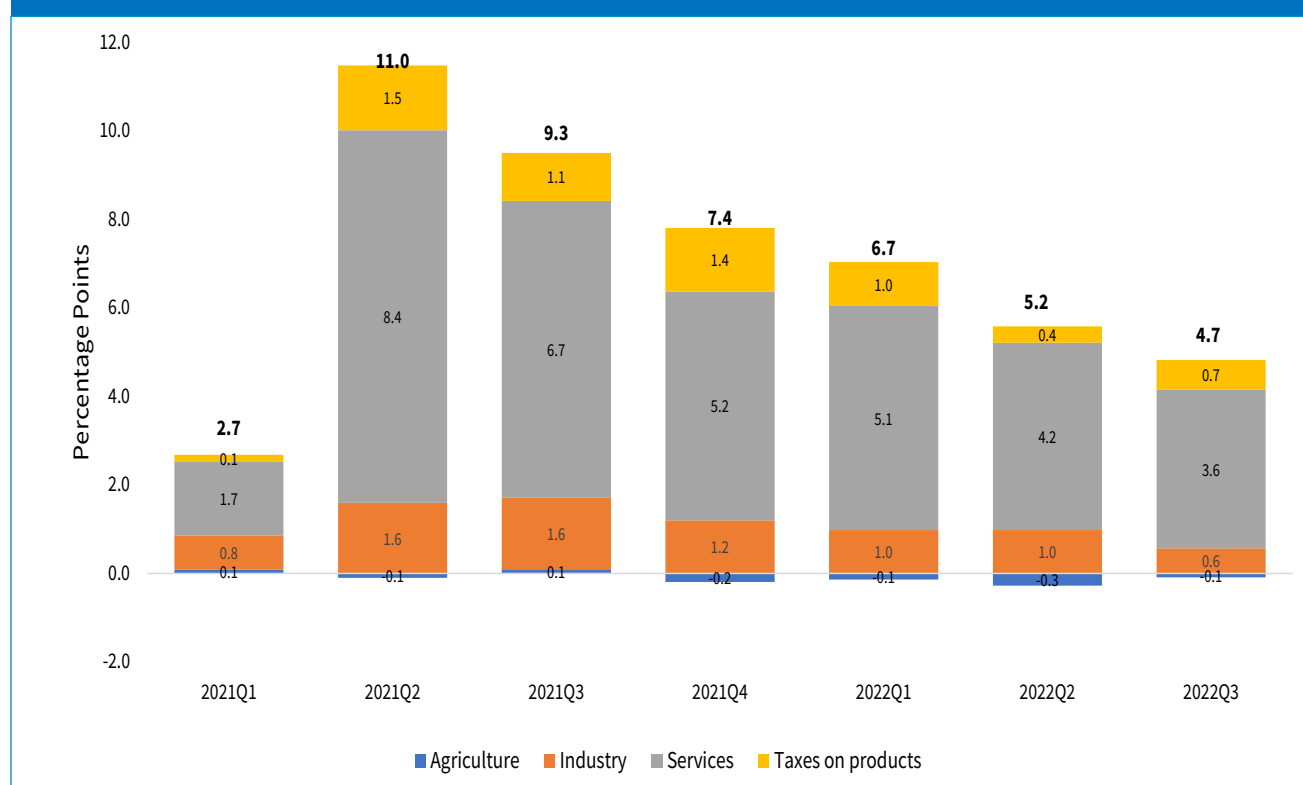
points to real GDP growth. The industrial sector expanded by 4.8 percent in the first three quarters of 2022 compared to 7.4 percent in a similar period of 2021. In the third quarter of 2022, the sector grew by 3.1 percent compared to 8.8 percent in a similar quarter of 2021 and contributed 0.6 percentage points to real GDP growth.

However, the performance of the agriculture sector remained subdued due to the unfavorable weather conditions experienced in most parts of the country. The sector contracted by 0.9 percent in the first three quarters of 2022 compared to a growth of 0.1 percent in a similar period of 2021. In the third quarter of 2022, the sector contracted by 0.6 percent compared to a growth of 0.6 percent in a similar quarter of 2021. Crop and livestock activities were negatively affected by below average rainfall received in most parts of the country during the period **(Table 6 and Chart 5).**

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

Main Sectors	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2021 Q1-Q3	2022 Q1-Q3
1. Agriculture	0.6	-1.2	-0.7	-1.4	-0.6	0.1	-0.9
2. Non-Agriculture (o/w)	11.1	9.2	8.6	6.9	5.6	9.4	7.0
2.1 Industry	8.8	6.6	5.5	5.6	3.1	7.4	4.8
2.2 Services	11.7	9.2	9.2	7.7	6.2	10.0	7.7
2.3 Taxes on Products	12.5	15.7	11.4	4.6	7.6	10.4	7.9
Real GDP Growth	9.3	7.4	6.7	5.2	4.7	7.5	5.5

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

## x. 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 2022 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.

## xi. Modernisation of the Monetary Policy Framework

The CBK continued to implement reforms outlined in the *White Paper on Modernization of the Monetary Policy Framework and Operations*, that was published in July 2021. The reforms are aimed at enhancing the effectiveness of monetary policy, and are focused on refining macroeconomic modelling and forecasting frameworks in line with changing structure of the economy, improving the functioning of the interbank market to strengthen monetary policy transmission and operations, and continued improvement of communication of monetary policy decisions.

## **xii. Stakeholder Forums, MPC 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 as well as mitigate the impact of COVID-19 on the economy.

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 newly introduced Agriculture Sector Survey. The CEOs Survey seeks to capture information on top firms' perceptions, expectations and decisions and supporting key policy decisions, including monetary policy. The Agriculture Sector Survey was introduced in

September 2022 to facilitate collection of indicative information on the most recent trends in prices and output of agricultural commodities in various markets and farms across the country. The Survey replaced the Hotels Survey which was discontinued in September following recovery of the sector.

The Surveys conducted in the second half of 2022 ahead of the MPC meetings revealed sustained optimism on growth prospects on account of positive sentiments and renewed investor confidence following the conclusion of the elections, increased business activity post-election, and the Government's focus on specific sectors such as agriculture, ICT and MSMEs. Nevertheless, respondents remained concerned about reduced consumer spending, domestic inflation, and subdued agricultural performance due to unfavorable weather patterns, as well as increased global risks including inflation, recession, and the continued war in Ukraine.

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 EXTERNAL ECONOMIC ENVIRONMENT AND OUTLOOK FOR 2023

#### i. International Economic Environment

According to the most recent IMF World Economic Outlook (WEO) update, global growth is expected at 2.9 percent in 2023 compared with 3.4 percent in 2022, representing an upward revision of 0.2 percentage points relative to the October 2022 WEO, but below the historical averages. The expected slowdown in global growth in 2023 is largely driven by depressed economic activities in the advanced economies.

Growth in the advanced economies is projected to slow from 2.7 percent in 2022 to 1.2 percent in 2023. Growth in most economies in this group is forecast to slowdown in 2023, including the U.S. (1.4 percent), Euro Area (0.7 percent), UK (-0.6 percent), and Japan (1.8 percent). In the emerging market and developing economies, growth is expected to rise modestly, from 3.9 percent in 2022 to 4.0 percent in

2023, an increase of 0.3 percentage points compared to the October 2022 WEO projections, reflecting strong growth expectations in China after the lifting of COVID-19 restrictions. In Sub-Saharan Africa (SSA), economic growth is projected at 3.8 percent in 2023 and 4.1 percent in 2024. Nigeria and South Africa are expected to grow by 3.2 percent and 1.2 percent in 2023, respectively.

Global financial conditions though improving are expected to remain volatile, mainly due to uncertainties with regard to the pace of monetary policy tightening in major economies as major central banks. However, commodity market pressures are expected to ease as prices of non-fuel and fuel commodity continue to fall. World trade growth is expected to decline in 2023 to 2.4 percent, despite an easing of supply bottlenecks, before rising to 3.4 percent in 2024.

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

	Act.	Est.	Proj.	
Country/Region	2021	2022	2023	2024
<b>World Output</b>	<b>6.2</b>	<b>3.4</b>	<b>2.9</b>	<b>3.1</b>
<b>Advanced Economies</b>	<b>5.4</b>	<b>2.7</b>	<b>1.2</b>	<b>1.4</b>
United States	5.9	2.0	1.4	1.0
Euro area	5.3	3.5	0.7	1.6
Japan	2.1	1.4	1.8	0.9
United Kingdom	7.6	4.1	-0.6	0.9
<b>Emerging Market and Developing economies</b>	<b>6.7</b>	<b>3.9</b>	<b>4.0</b>	<b>4.2</b>
Emerging and Developing Asia	7.4	4.3	5.3	5.2
China	8.4	3.0	5.2	4.5
India	8.7	6.8	6.1	6.8
Emerging and Developing Europe	6.9	0.7	1.5	2.6
Russia	4.7	-2.2	0.3	6.8
Latin America and the Caribbean	7.0	3.9	1.8	2.1
Brazil	5.0	3.1	1.2	1.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1
South Africa	4.9	2.6	1.2	1.3
Nigeria	3.6	3.0	3.2	2.9
Middle East and Central Asia	4.5	5.3	3.2	3.7

Source: IMF, World Economic Outlook

The balance of risks to global growth remains on the downside even after the moderate upgrade. There is a lot of uncertainty around the global growth forecast, reflecting risks with regard to the pandemic, extent of supply disruptions, behavioural changes and spending patterns, confidence effects, and volatile commodity prices.

## **ii. Domestic Economic Environment**

Economic growth prospects for 2023 remain robust, supported by continued strong performance of services and recovery in agriculture, despite the global uncertainties. Real GDP growth is projected to grow by 6.1 percent in 2023 compared to the estimate of 5.6 percent for 2022, also supported by the expected faster implementation of Government infrastructure projects, macroeconomic stability, and decline in international oil prices. The main risks to growth relate to unpredictable weather conditions due to the impact of climate change, spillovers of any further escalation of geopolitical tensions particularly the war in Ukraine, and any spillover effects in case of resurgence in COVID-19 infections in China.

The domestic overall inflation is expected to return to the target range of 5 percent with a margin of 2.5 percent on either side in the first half of 2023, supported by the prudent monetary policy and government interventions to moderate prices of key food items particularly maize, sugar and rice. Nevertheless, supply side shocks are expected to continue to pose a risk to domestic inflation during the year.

The foreign exchange market is expected to remain stable in 2023, supported by relatively stable current account deficit projected at 5.4 percent of GDP from the estimate of 4.9 percent of GDP in 2022.

The stable current account deficit is expected to be supported by lower international oil prices even as non-energy imports increase, strong export growth, continued recovery in services receipts and resilient remittances, and improvement in financial inflows which is expected to support foreign exchange reserves.

The CEOs and Market Perceptions Surveys conducted in the second half of 2022 revealed sustained optimism about business activity and economic growth prospects for 2022 and 2023. The optimism was attributed to increased economic activity following conclusion of the elections, opportunities for growth in sectors such as ICT, and the Government's renewed focus on MSMEs. Nevertheless, respondents were concerned about reduced consumer spending, domestic inflation, and subdued agricultural performance due to depressed rainfall, as well as increased global risks including inflation, recession, and the continued war in Ukraine. Surveys of the Agriculture Sector conducted in the period revealed expectations of increased output for most agricultural products to increase 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 2022/23 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.

## 4. DIRECTION OF MONETARY POLICY IN 2023

Price stability will be the overriding objective of monetary policy in 2023. Monetary policy will also continue supporting economic recovery in the post COVID-19 period. The outlook for monetary aggregates in 2023 is therefore consistent with Government policy objectives articulated in the Government Budget Policy Statement published by the National Treasury. The Bank will also continue to implement measures outlined in the White Paper, towards modernisation of the monetary policy framework and operations. These measures will enhance the CBK's forward-looking monetary policy framework.

Considering the inflation and economic growth objectives, the projected growth in the monetary aggregates in 2023 is presented in **Table 8**. The 12-month growth in broad money (M3) is expected at about 10.7 percent by June 2023 and 11.2 percent by December 2023, while private sector credit growth is expected at 13.1 by June 2023 and 13.8 percent by December 2023. Private sector credit growth is expected to remain robust, supported by, among other factors, resilient economic activity, and the implementation of the Credit Guarantee Scheme

for the vulnerable Micro Small and Medium-sized Enterprises (MSMEs). The CBK foreign exchange reserves are expected to remain adequate in 2023, consistent with 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 price stability objective and growth in monetary projections are 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, reflecting geopolitical tensions particularly the ongoing war in Ukraine, and the pace of the monetary policy response in the advanced economies. 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 outcomes of policy measures in place as well as other developments in the domestic and global economies to safeguard price stability.

**Table 8: Outlook for Key Monetary Aggregates in 2022**

	Mar-23	Jun-23	Sep-23	Dec-23
Broad Money, M3 (Ksh Billion)	4,664.9	4,912.3	4,920.2	5,046.2
Reserve Money, RM (Ksh Billion)	519.3	534.9	543.3	563.6
Credit to Private Sector (Ksh Billion)	3,580.3	3,681.9	3,814.1	3,906.8
NFA of CBK (Ksh Billion)	440.5	432.8	317.8	317.0
12-month growth in RM (Percent)	8.3	2.5	(2.1)	9.1
12-month growth in M3 (Percent)	10.5	10.7	11.1	11.2
12-month growth in Credit to Private Sector (Percent)	12.7	13.1	13.4	13.8
Medium-Term 12-month overall Inflation (Percent)	5.0	5.0	5.0	5.0

*Source: Central Bank of Kenya*

## EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JULY - DECEMBER 2022)

July	Release of the July 2022 IMF World Economic Outlook (WEO) Report showing increasingly gloomy developments in 2022 as risks began to materialize. The report showed that global output contracted in the second quarter of 2022, owing to downturns in China and Russia, while US consumer spending undershot expectations.
	The MPC retained the CBR at 7.50 percent.
	Admission of the Democratic Republic of Congo (DRC) into the East African Community (EAC).
August	Peaceful conclusion of the Kenya General Elections
September	The MPC raised the Central Bank Rate (CBR) to 8.25 percent. The Committee noted sustained inflationary pressures, elevated global risks and their potential impact on the domestic economy and concluded that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations.
October	Release of the October 2022 IMF WEO Report revealing a broad-based and sharper-than-expected slowdown in economic activity, with inflation (especially in the United States and major European economies) higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weighed heavily on the outlook.
November	CBK announces the rollout of a Credit Repair Framework (the Framework) by commercial banks, microfinance banks and mortgage finance companies (the institutions). The Framework seeks to improve the credit standing of mobile phone digital borrowers whose loans are non-performing and have been reported as such to Credit Reference Bureaus (CRBs).
	The MPC raises the CBR to 8.75 percent. The Committee noted sustained inflationary pressures, elevated global risks and their potential impact on the domestic economy and concluded that there was scope for a further tightening of the monetary policy in order to anchor inflation expectations.
December	China moves to end its "zero-COVID" policies that helped suppress the spread of the coronavirus in the country through mass lockdowns, robust contact tracing programs and international travel bans.



## GLOSSARY OF KEY TERMS

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### 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**

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