Central Bank of Kenya

Monetary Policy Statement

June 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 52nd Monetary Policy Statement of the Central Bank of Kenya. It reviews and assesses the implementation of monetary policy during the first half of 2023 and outlines the direction of monetary policy for the next twelve 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 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

This Monetary Policy Statement provides the direction of monetary policy in the financial year (FY) 2023/24. It also reviews the outcome of the monetary policy stance adopted in the first half of 2023. Monetary policy in the first half of 2023 was conducted against a backdrop of continued global uncertainties, reflecting high inflation, heightened geopolitical tensions particularly the war in Ukraine, concerns about financial sector stability in advanced economies, weaker global growth, and increased food insecurity due to climate-related shocks. Global financial markets experienced significant volatility driven by a stronger U.S. dollar against most currencies amid continued tightening of monetary policy in advanced economies to contain inflationary pressures. Inflation in the major economies continued to ease with declines in commodity prices, improved supply chains, and effects of monetary policy tightening.

The CBK conducted monetary policy in the period with the objective of achieving and maintaining overall inflation within the target range of 5±2.5 percent. The MPC tightened monetary policy in the period to anchor inflation expectations. In its meeting in March 2023, the MPC raised the Central Bank Rate (CBR) from 8.75 percent to 9.50 percent, noting sustained inflationary pressures, elevated global risks, and their potential impact on the domestic economy. The MPC retained the CBR at 9.50 percent in its meeting in May 2023, noting that the impact of the further tightening of monetary policy in March 2023 was still transmitting in the economy. This policy action was complemented by Government measures to allow duty-free imports on specific food items, particularly sugar. During its meeting in June 2023, the MPC raised the CBR to 10.50 percent, noting the sustained inflationary pressures, increased risks to the inflation outlook, elevated global risks, and their potential impact on the domestic economy.

Overall inflation eased to 7.9 percent in June 2023 from 9.1 percent in December 2022, reflecting lower food prices attributed to favourable weather conditions and easing global prices of key commodities particularly crude oil, wheat, and edible oils. Food inflation moderated to 10.3 percent in June 2023 from 13.8 percent in December 2022. Fuel inflation increased to 12.9 percent in June 2023 from 12.7 percent in December 2022, mainly driven by increases in prices of electricity, petrol, kerosene, and diesel. Non-food, non-fuel (NFNF) inflation remained above 4.0 percent in the period, indicating persistent underlying inflationary pressures in the economy. 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 first half of 2023, despite persistent uncertainties in the global financial markets and the impact of a stronger U.S. dollar. This stability was supported by resilient growth of exports of goods and services, strong remittances inflows, and lower imports attributed to a decline in imports of infrastructure related equipment on account of completed projects. As a result, the current account deficit was estimated at 4.2 percent of GDP in the 12 months to June 2023, compared to a deficit of 5.1 percent of GDP in a similar period in 2022. The CBK foreign exchange reserves, which stood at USD 7,477 million (4.12 months of import cover) at the end of June 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 first half of 2023, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 49.7 percent and 18.6 percent, respectively in June 2023, which are 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 14.5 percent in June 2023. Growth in private sector credit remained resilient at 12.2 percent in June 2023 compared to 12.5 percent in December 2022, supported by demand in key sectors with resilient economic activities.

Despite the challenging external environment, GDP data for the first quarter of 2023 together with leading indicators show that the performance of the Kenyan economy remained strong in the first half of 2023. Real GDP growth was resilient at 5.3 percent in the first quarter of 2023 compared to 6.2 percent in a similar quarter in 2022, mainly supported by a rebound of the agriculture sector and continued resilience of the service sectors. Agriculture sector growth recovered strongly to a growth of 5.8 percent compared to a contraction of 1.7 percent in a similar quarter in 2022.

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. Notable progress was made towards implementation of a modern Central Securities Depository (CSD) system which will strengthen the monetary policy implementation framework.

The monetary policy stance in the financial year 2023/24 will aim at achieving and maintaining overall inflation within the target range of 5±2.5 percent. The economy is expected to strengthen, supported by continued strong performance of services sector and recovery in agriculture, with real GDP growth projected at 5.5 percent in 2023. The foreign exchange market is expected to remain stable supported by resilient exports growth, relatively lower oil prices, stable services receipts, and resilient remittances. Financial account inflows are expected to support foreign exchange reserves in 2023. A narrower current account deficit of 4.8 percent of GDP is expected in 2023 compared to 5.1 percent of GDP in 2022. The continued coordination of monetary and fiscal policies is expected to support macroeconomic stability and economic activity. Consistent with the inflation and economic growth objectives, growth in broad money (M3) and private sector credit are expected at about 9.5 percent and 13.4 percent respectively, by June 2024.

The Bank will continue to implement measures outlined in the White Paper, towards *Modernisation of the Monetary Policy Framework and Operations*. The CBK will 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. The Bank will also continue to monitor the risks posed by developments in the domestic and global economic environments, particularly the war in Ukraine and effects of climate change on the economy.

1. INTRODUCTION

This Monetary Policy Statement (MPS) provides the direction of monetary policy for the financial year 2023/24. It also presents the outcome of the monetary policy stance adopted in the first 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 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 global economic outlook remained uncertain, reflecting high inflation, the war in Ukraine, concerns about financial sector stability in advanced economies, weaker global growth, and increased food insecurity due to climate-related shocks. Global growth is expected to be weaker in 2023, declining from 3.4 percent in 2022 to 2.8 percent in 2023. The decline in global output growth in 2023 is largely driven by reduced economic activity in the advanced economies, due to increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector in advanced economies. In emerging markets, growth is expected to slightly decline to 3.9 percent in 2023 from 4.0 percent in 2022 while in Sub-Saharan Africa, growth is projected to decline from 3.9 percent in 2022 to 3.6 percent in 2023.

The CBK continued to monitor developments in the domestic and global economies, and the impact of the policy measures deployed towards ensuring price stability. During its January and May meeting, the MPC noted that the impact of the further tightening of monetary policy in earlier meetings to anchor inflationary pressures was still transmitting in the economy. The Committee also noted the Government measures to allow duty-free imports on specific food items particularly sugar, which were expected to moderate prices and ease domestic inflationary pressures. The MPC in its March and June meetings noted sustained inflationary pressures, increased risks to the inflation outlook, 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.

The Committee also noted the ongoing implementation of the FY2022/23 Government Budget, particularly the performance in revenue collection and the policy measures in the FY2023/24 Budget which continued to reinforce fiscal consolidation. Private sector credit growth remained resilient, reflecting increased demand amidst resilient economic activities.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance implemented in the first half of 2023 while Section 3 describes the external economic environment and outlook for the financial year (FY) 2023/24. Section 4 concludes by outlining the specific monetary policy path for FY 2023/24.

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

During the first half of 2023, monetary policy formulation and implementation was aimed at maintaining overall inflation at the target of 5.0 percent with a flexible margin of 2.5 percent on either side. The stance of monetary policy was aimed at supporting stable interest rates and encouraging growth.

During the MPC meeting of January 2023, the Committee retained the Central Bank Rate (CBR) at 8.75 percent, observing that the impact of the tightening of monetary policy in November 2022 to anchor inflationary pressures was still transmitting in the economy. Additionally, the MPC noted that this action would be complemented by Government measures to allow limited duty-free imports on specific food items, which were expected to moderate prices and further ease domestic inflationary pressures. Further, the global economic outlook had improved with inflation pressures in major economies particularly in the U.S. having eased even as China lifted its stringent COVID-19 restrictions. Moreover, volatility in global financial markets had moderated amid expectations of a slower pace of monetary policy tightening.

During the March 2023 MPC Meeting, the Committee raised the Central Bank Rate (CBR) from 8.75 percent to 9.50 percent, observing that domestic inflation pressures were expected to remain elevated in the near term, partly reflecting further increases in electricity prices. Uncertainties in the global economic outlook had increased, reflecting concerns about financial sector stability in the advanced economies, continuing geopolitical tensions particularly the ongoing war in Ukraine, and the pace of monetary policy tightening in the advanced economies. While the Kenyan economy was expected to remain resilient in 2023, the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy indicated that there was scope for a further tightening of the monetary policy in order to anchor inflation expectations.

In the May meeting, the MPC noted that the impact of the further tightening of monetary policy in March 2023 to anchor inflationary expectations was still transmitting in the economy. Additionally, the MPC noted that this action would be complemented by the Government measures to allow duty-free imports on specific food items particularly sugar, which were expected to moderate prices and ease domestic inflationary pressures. The MPC therefore decided to retain the Central Bank Rate (CBR) at 9.50 percent.

During the June 2023 MPC Meeting, the Committee raised the Central Bank Rate (CBR) from 9.50 percent to 10.50 percent. The Committee observed the sustained inflationary pressures, increased risks to the inflation outlook, elevated global risks and their potential impact on the domestic economy and concluded that there was scope for further tightening of the monetary policy in order to anchor inflation expectations.

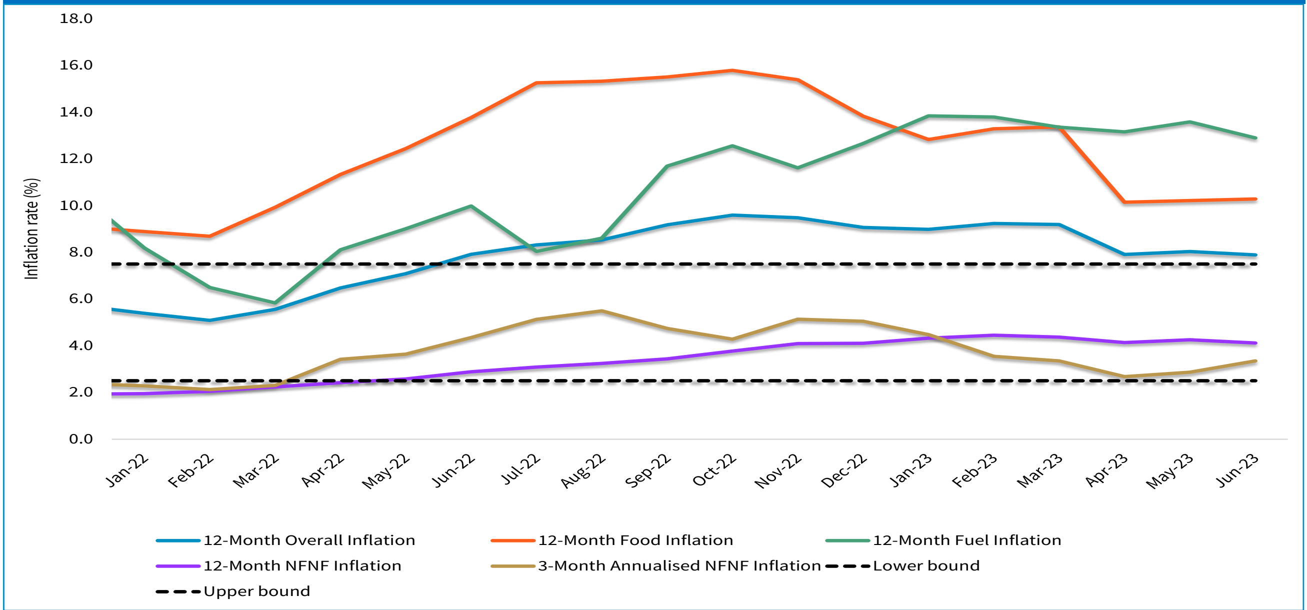
The following are the specific outcomes of the policy stance.

i. Inflation

Overall inflation remained outside the upper bound of the medium-term target band of 5±2.5 percent in the first half of 2023 largely due to supply side factors. It, however, remained at single digit-levels and eased to 7.9 percent in June 2023, from 9.1 percent in December 2022. The key drivers were high energy and food prices. Fuel inflation remained elevated, increasing to 12.9 percent from 12.7 percent, over the same period. It was largely driven by increased electricity and pump prices, reflective of upward revision of electricity tariffs and removal of government subsidy on energy items. Though elevated, food inflation eased to 10.3 percent in June 2023 from 13.8 percent in December 2022. The easing was supported by declining international food prices, government interventions through zero rating of selected food commodities, and favorable weather conditions, reflected in normal to above average long rains for the period March-May 2023.

This supported the production of fast-growing food items, thereby moderating prices. Meanwhile, Non-food non-fuel (NFNF) inflation remained above 4.0 percent in the period under review, reflecting international developments and second order effects of supply-side shocks **(Chart 1a)**.

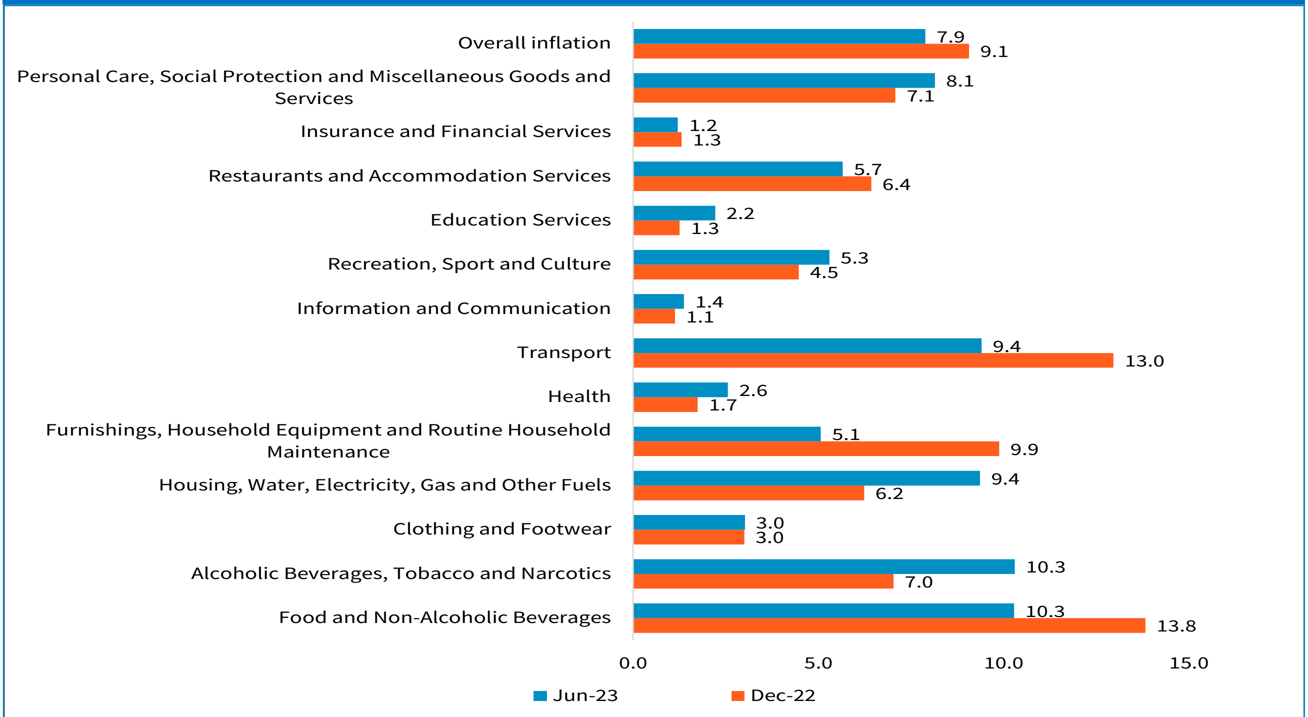
Chart 1a: Inflation by Broad Measures (year-on-year, percent)



Source: Kenya National Bureau of Statistics and CBK

Inflation rates for all consumer goods and services were within the target range in June 2023 except personal care, social protection and miscellaneous goods and services, 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 first half of 2023, growing by 12.2 percent in the 12-months to June 2023 compared to 12.5 percent in December 2022. This was supported by strong credit demand arising from resilient economic activity. Strong credit growth was observed in transport and communication (19.9 percent), manufacturing (18 percent), finance and insurance (29.8 percent), trade (12.5 percent), Agriculture (18.6 percent), and consumer durables (11.8 percent) **(Table 1)**.

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

Main sectors	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Agriculture	12.5	17.0	22.3	20.7	18.0	14.9	16.9	18.3	18.6
Manufacturing	15.2	14.2	13.8	13.8	15.2	15.8	21.7	19.3	18.0
Trade	11.6	16.4	11.4	11.1	11.8	11.9	13.7	15.4	12.5
Building and construction	13.9	12.5	8.2	5.8	3.0	5.8	4.2	5.1	4.8
Transport and communication	22.2	21.6	23.5	16.6	16.5	17.4	18.0	22.0	19.9
Finance and insurance	6.5	0.2	7.6	6.7	21.1	28.4	32.3	32.7	29.8
Real estate	0.5	0.1	3.2	3.3	2.9	2.3	2.4	1.9	3.7
Mining and quarrying	28.5	57.4	31.3	54.2	97.7	83.2	55.6	41.3	24.0
Private households	6.1	7.8	8.2	7.8	7.8	7.2	5.0	7.0	8.4
Consumer durables	14.7	14.4	12.9	12.5	12.4	12.7	13.3	11.9	11.8
Business services	15.2	12.5	13.7	13.7	13.5	9.3	12.5	13.5	5.5
Other activities	57.2	53.8	41.8	33.3	15.3	11.9	20.6	6.8	8.9
Total private sector credit	**12.3**	**12.9**	**12.5**	**11.5**	**11.7**	**11.6**	**13.2**	**13.2**	**12.2**

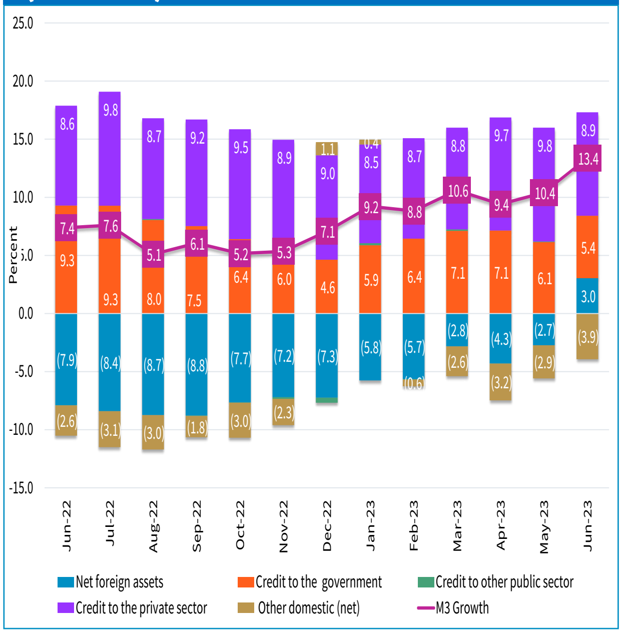
Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

The 12-month growth of broad money, M3, increased to 13.4 percent in June 2023 from 7.1 percent in December 2022, largely reflecting resilient lending to the private sector and increased net foreign assets of the banking system. The increased net foreign assets of the banking system reflected official government inflows and increased foreign deposit assets by commercial banks. On the liability side, the growth in money supply was reflected in growth in deposits **(Chart 2)**.

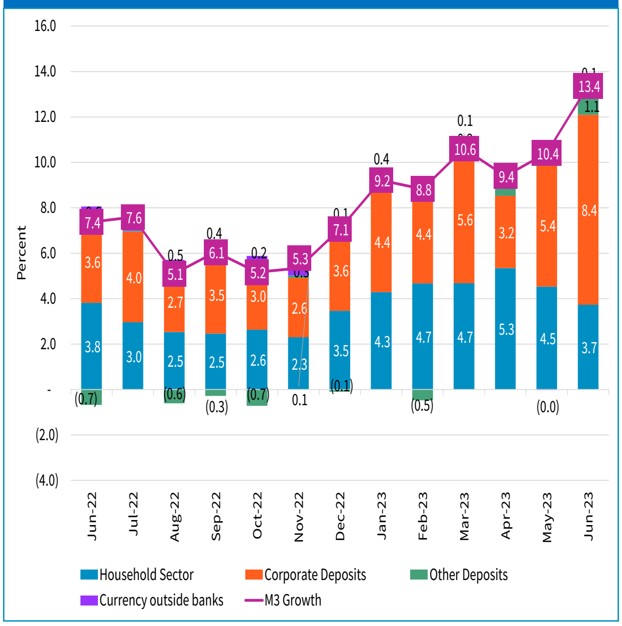
Chart 2: The 12-Month Growth in Broad Money Supply (M3) (Percent)

2a:Components of Money Growth (Percent)



Source: Central Bank of Kenya

2b: Sources of Money Growth (Percent)



Source: Central Bank of Kenya

Growth in M3 in the period under review remained relatively higher compared to a similar period in 2022 **(Table 2)**.

Table 2: Key Monetary Aggregates

	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Broad Money,M3 (Ksh Billion)	4,443.0	4,430.4	4,534.5	4,564.2	4,593.2	4,668.7	4,724.3	4,761.2	5,037.4
Reserve Money (Ksh Billion)	518.9	554.8	514.2	539.5	518.2	508.6	509.8	542.1	488.3
Credit to private sector (Ksh Billion)	3,256.9	3,362.5	3,433.5	3,442.0	3,487.4	3,543.2	3,609.6	3,629.4	3,648.8
Memorandum Items									
12-month growth in actual Reserve Money (Percent)	15.4	15.9	(1.4)	9.4	4.9	6.1	(1.7)	6.1	(6.4)
12-month growth in actual Broad Money, M3 (Percent)	7.4	6.1	7.1	9.2	8.8	10.6	9.4	10.4	13.4

Source: Central Bank of Kenya

iv. Interest Rates Developments

a. Central Bank Rate (CBR)

The MPC retained the CBR at 8.75 percent and 9.50 percent during the January and May 2023 meetings, respectively, noting that the impact of the tightening of monetary policy at its earlier meetings was still transmitting in the economy. Nevertheless, at the March and June 2023 meetings, the MPC noted sustained inflation pressures, increased risk to the inflation outlook, 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. The MPC therefore decided to raise the CBR from 8.75 percent to 9.50 percent in March, and from 9.50 percent to 10.50 percent in June. Additionally, the CBK ensured that the interbank market and liquidity management across the sectors continued to function smoothly, as the MPC closely monitored the impact of the policy measures, as well as developments in the global and domestic economy.

b. Short Term Rates

Short-term interest rates increased during the first 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 9.59 percent in June 2023 from 5.39 percent in December 2022. Similarly, the average 91-day Treasury bill rate increased to 11.49 percent in June 2023 from 9.33 percent in December 2022, while the average 182-day Treasury bill rate increased to 11.54 percent from 9.80 percent.

Table 3: Interest Rates (Percent)

	2022			2023					
	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	June
Central Bank Rate	7.50	8.25	8.75	8.75	8.75	9.50	9.50	9.50	10.50
Interbank	5.06	4.36	5.39	5.89	6.42	7.05	8.55	9.36	9.59
91-Tbill	7.90	8.92	9.33	9.44	9.62	9.76	10.04	10.47	11.49
182-Tbill	9.07	9.60	9.80	9.88	10.06	10.25	10.42	10.83	11.54
Average Lending Rate (1)	**12.27**	**12.41**	**12.70**	**12.77**	**13.06**	**13.09**	**13.10**	**13.21**	**13.22**
Overdraft/loan	11.86	11.99	12.21	12.34	12.62	12.69	12.71	12.64	12.74
1-5years	12.48	12.66	13.03	13.09	13.43	13.47	13.44	13.62	13.64
Over 5years	12.23	12.33	12.58	12.64	12.88	12.91	12.95	13.05	13.03
Average Deposit Rate (2)	**6.62**	**6.82**	**7.16**	**7.47**	**7.54**	**7.60**	**7.69**	**7.70**	**7.82**
Demand	1.22	1.44	1.93	1.93	1.83	1.77	1.83	1.75	1.97
0-3months	6.96	7.18	7.38	8.09	8.28	8.13	8.34	8.06	8.33
Over 3months	7.39	7.40	7.93	7.96	7.96	8.19	8.21	8.41	8.54
Savings	2.50	3.44	3.55	3.60	3.58	3.55	3.59	3.55	3.48
Spread (1-2)	**5.66**	**5.59**	**5.53**	**5.30**	**5.52**	**5.50**	**5.41**	**5.51**	**5.40**

Source: Central Bank of Kenya

c. Commercial Bank Rates

Commercial banks average lending rate also increased to about 13.22 percent in the June 2023 from 12.70 percent in December 2022. Similarly, the average commercial banks deposit rate increased to 7.82 percent from 7.16 percent in December 2022.

v. Banking Sector Developments

The banking sector remained stable and resilient in the first half of 2023, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 49.7 percent and 18.6 percent, respectively in June 2023. 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 stood at 14.5 percent in June 2023. Five economic sectors registered increased NPLs between December 2022 and June 2023 largely attributed to a challenging business and operating environment. The major sectors with increased NPLs were manufacturing, trade, real estate, building and construction, and personal and household.

The Credit Guarantee Scheme (CGS), which was operationalized in December 2020, has continued to support additional credit uptake by the Micro, Small and Medium-sized Enterprises (MSMEs). As at June 2023, seven banks were participating in the CGS. Cumulatively, the seven banks had advanced loans supported by the CGS amounting to Ksh.5.8 billion as at June 2023.

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 June 2023, thirty two (32) DCPs had been licensed to conduct DCP business.

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 be elevated in the short to medium term. Operational risk is also expected to remain elevated particularly with increased digitalization of the sector. Interest rate risk is expected to be elevated on the back of rising interest rates.

vi. Impact of COVID-19 Mitigation Measures

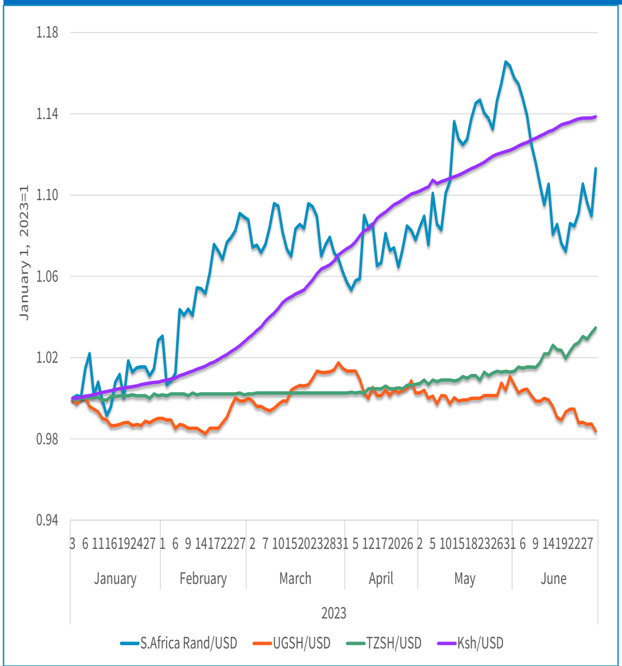
The CBK continues to monitor the impact of the COVID-19 pandemic following expiry of the emergency measures introduced in 2020, to mitigate the adverse economic effects and financial disruptions from the pandemic. The emergency measure for banks to consider restructuring customer loans expired on March 2, 2021. As at June 2023, there were outstanding restructured loans amounting to Ksh.312.7 billion (7.9 percent of the gross loans).

vii. Exchange Rates and Foreign Exchange Reserves

In the first half of 2023, the foreign exchange market remained relatively stable, aided by increasing goods receipts, strong remittance inflows, and resilient services receipts. However, the shilling was under pressure as the US dollar rose against major currencies in the international market, as well as quick increases in interest rates in advanced nations in response to inflationary pressures **(Chart 3a and 3b)**.

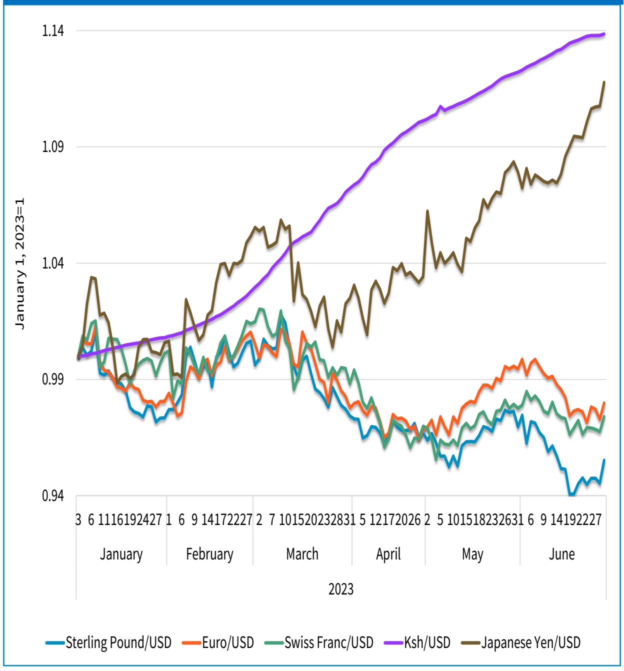
The official foreign exchange reserves remained above the statutory requirement to endeavor to maintain at least 4.0 months of import cover. Official foreign exchange reserves stood at USD 7,477 million (4.12 months of import cover as at end June 2023) and continue to provide an adequate buffer against short-term shocks in the foreign exchange market **(Chart 3c)**.

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



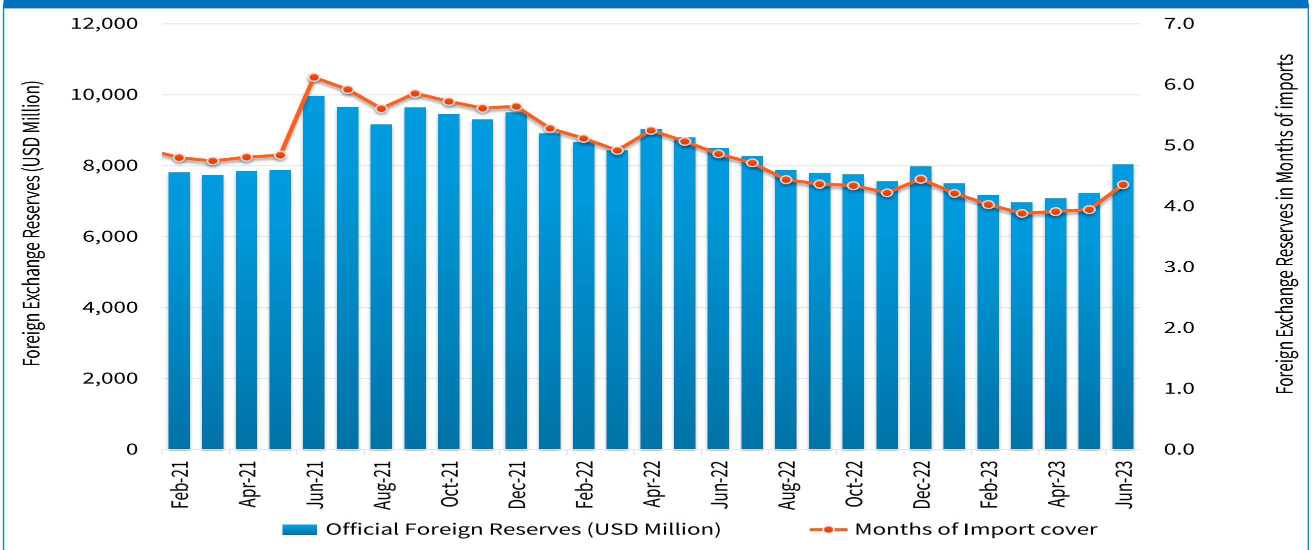
Source: Central Bank of Kenya

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)



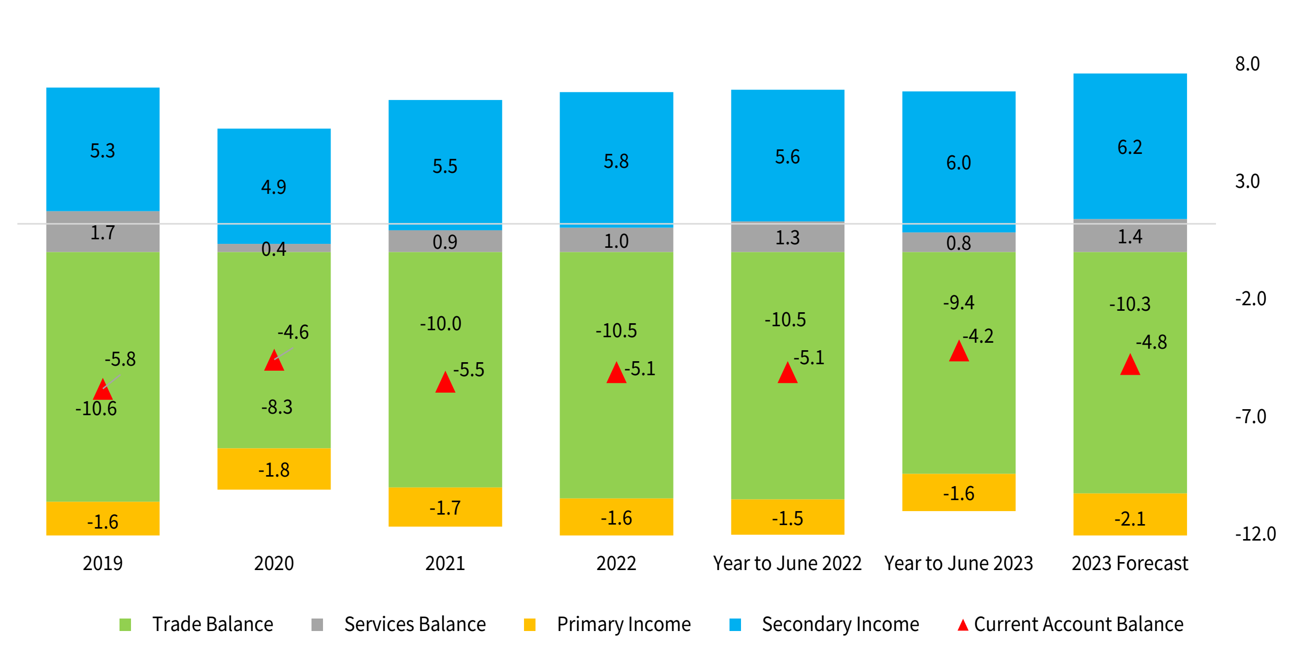
Note: Months of import cover computed based on the average imports over the previous 36 months

Source: Central Bank of Kenya

viii. Balance of payments developments

The current account balance is estimated at 4.2 percent of GDP in the year to June 2023, compared to a deficit of 5.1 percent of GDP in the year to June 2022. This was mainly due to a decline in imports which decelerated by 6.1 percent in the year to June 2023 compared with an increase of 20.2 in the year to June 2022. Additionally, exports receipts remained resilient growing by 2.1 percent in the year to June 2023 while remittances receipts also remained resilient. **(Chart 4 and Table 4)**.

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



Source: Kenya National Bureau of Statistics

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

	2021	2022	Year to June 2022	Year to June 2023
	Act	Act	Prov	Prov
Current account	**-5.2**	**-5.1**	**-5.1**	**-4.2**
1.1 Goods balance	**-10.0**	**-10.4**	**-10.5**	**-9.4**
Goods: exports, f.o.b.	6.1	6.6	6.3	6.5
o/w Tea	1.1	1.2	1.1	1.2
Horticulture	1.0	0.8	0.9	0.8
Manufactured Goods	0.5	0.6	0.5	0.6
Other	3.6	4.0	3.8	3.9
Goods: imports, f.o.b.	16.2	17.0	16.8	15.9
o/w Oil products	3.2	5.0	4.1	4.6
Other	13.0	12.1	12.7	11.3
Machinery & Transport equipment	4.2	3.4	4.0	2.9
1.2 Services balance	**0.9**	**1.0**	**1.3**	**0.8**
Services, Credit	4.5	5.7	5.4	5.4
Transportation	1.5	2.1	1.9	1.8
Travel	0.8	1.0	0.9	1.1
Services, Debit	3.6	4.7	4.1	4.5
1.3 Transportation	-1.7	1.9	1.8	1.7
Goods and services balance	0.1	-9.4	-9.2	-8.6
Primary income, balance	**1.7**	**-1.6**	**-1.5**	**-1.6**
1.4 Credit	5.5	0.0	0.1	0.1
Debit	5.7	1.6	1.6	1.6
Secondary income, balance	**3.4**	**5.8**	**5.6**	**6.0**
Credit	0.1	5.8	5.7	6.1
Remittances	0.2	3.6	3.5	3.6
Debit	-5.3	0.0	0.1	0.1
Capital account	**0.0**	**0.2**	**0.2**	**0.2**
Financial Account	**0.2**	**-3.7**	**-4.2**	**-3.6**
Foreign Direct Investment balance	-5.4	-0.3	-0.3	-0.4
Portfolio Investment balance	0.2	0.6	0.7	0.8
Other Investment balance	-5.4	-4.1	-4.8	-4.2

Source: Central Bank of Kenya

The goods account deficit narrowed to 9.4 percent of GDP in the year to June 2023 from 10.5 percent of GDP in the year to June 2022. Imports declined by 6.1 percent in 2023 compared to a growth of 20.2 percent in the year to June 2022, attributed to lower imports of infrastructure related equipment due to completed projects. Oil imports declined by 12 percent in the year to June 2023 on account of lower international prices in the first quarter of 2023. Murban oil prices averaged at USD 80.11 per barrel in the first half of 2023. The value of merchandise exports improved by 2.1 percent to USD 7,306 million in the year to June 2023. Receipts from manufactured goods and chemical exports increased by 23 percent and 8 percent, respectively, during the period. However, receipts from tea and horticulture declined due to low demand from traditional markets.

Exports to Africa accounted for 41.8 percent, with COMESA and the EAC region accounting for 28.1 and 27.1 percent, respectively. China and the United Arab Emirates were the major source of imports, accounting for 19.0 percent and 18.3 percent of total imports, respectively **(Table 5)**.

The balance on the secondary income improved supported by strong remittance inflows, which accounted for 3.6 percent of GDP in the year to June 2023. Remittances totalled USD 4,017 million in the year to June 2023, and were 0.1 percent higher compared to similar period in 2022. Service exports declined by 0.9 percent in the year to June 2023 due to a decline in receipts from transport services.

Table 5: Kenya's Direction of Trade

IMPORTS (in millions of US dollars)								
	Year to June				%share			
Country	2020	2021	2022	2023	2020	2021	2022	2023
Africa	**1,920**	**1,852**	**2,227**	**2,096**	**12.5**	**11.6**	**11.6**	**11.7**
Of which								
South Africa	547	401	465	546	3.6	2.5	2.4	3.0
Egypt	419	448	420	357	2.7	2.8	2.2	2.0
Others	954	1,003	1,342	1,192	6.2	6.3	7.0	6.6
EAC	560	627	862	689	3.6	3.9	4.5	3.8
COMESA	1,084	1,048	1,053	979	7.0	6.6	5.5	5.4
Rest of the World	13,453	14,078	16,921	15,888	87.5	88.4	88.4	88.3
Of which								
India	1,765	1,872	2,397	1,899	11.5	11.7	12.5	10.6
United Arab Emirates	1,166	1,170	2,462	3,296	7.6	7.3	12.9	18.3
China	3,430	3,793	4,080	3,418	22.3	23.8	21.3	19.0
Japan	892	846	913	725	5.8	5.3	4.8	4.0
USA	555	580	839	787	3.6	3.6	4.4	4.4
United Kingdom	293	296	302	280	1.9	1.9	1.6	1.6
Singapore	69	64	100	134	0.4	0.4	0.5	0.7
Germany	407	380	340	316	2.6	2.4	1.8	1.8
Saudi Arabia	892	750	1,308	996	5.8	4.7	6.8	5.5
Indonesia	579	475	246	315	3.8	3.0	1.3	1.8
Netherlands	211	507	281	290	1.4	3.2	1.5	1.6
France	229	214	188	204	1.5	1.3	1.0	1.1
Iran	48	34	39	25	0.3	0.2	0.2	0.1
Italy	203	232	236	172	1.3	1.5	1.2	1.0
Others	2,713	2,867	3,191	3,029	17.6	18.0	16.7	16.8
Total	**15,373**	**15,931**	**19,148**	**17,984**	**100.0**	**100.0**	**100.0**	**100.0**
EU	2,064	2,352	2,080	1,923	13.4	14.8	10.9	10.7
China	3,430	3,793	4,080	3,418	22.3	23.8	21.3	19.0

EXPORTS (in millions of US dollars)								
	Year to June				% Share			
Country	2020	2021	2022	2023	2020	2021	2022	2023
Africa	**2,212**	**2,584**	**2,866**	**3,053**	**37.4**	**40.3**	**40.1**	**41.8**
Of which								
Uganda	622	796	793	905	10.5	12.4	11.1	12.4
Tanzania	310	320	479	470	5.2	5.0	6.7	6.4
Egypt	182	186	216	209	3.1	2.9	3.0	2.9
Sudan	72	73	58	59	1.2	1.1	0.8	0.8
South Sudan	176	181	183	198	3.0	2.8	2.6	2.7
Somalia	100	114	123	160	1.7	1.8	1.7	2.2
DRC	129	222	143	165	2.2	3.5	2.0	2.3
Rwanda	231	250	322	332	3.9	3.9	4.5	4.6
Others	390	443	548	556	6.6	6.9	7.7	7.6
EAC	**1,393**	**1,607**	**1,846**	**1,980**	23.5	25.1	25.8	27.1
COMESA	**1,479**	**1,818**	**1,924**	**2,050**	25.0	28.4	26.9	28.1
Rest of the World	**3,710**	**3,828**	**4,288**	**4,253**	62.6	59.7	59.9	58.2
Of which								
United Kingdom	434	470	412	376	7.3	7.3	5.8	5.1
Netherlands	419	545	576	576	7.1	8.5	8.1	7.9
USA	473	492	642	573	8.0	7.7	9.0	7.8
Pakistan	491	478	520	522	8.3	7.5	7.3	7.1
United Arab Emirates	368	293	361	342	6.2	4.6	5.0	4.7
Germany	116	141	128	133	2.0	2.2	1.8	1.8
India	43	102	76	69	0.7	1.6	1.1	0.9
Afghanistan	37	6	18	32	0.6	0.1	0.3	0.4
Others	1,327	1,301	1,553	1,631	22.4	20.3	21.7	22.3
Total	**5,922**	**6,412**	**7,154**	**7,306**	**100.0**	**100.0**	**100.0**	**100.0**
EU	1,296	1,502	1,504	1,485	21.9	23.4	21.0	20.3
China	151	165	218	232	2.6	2.6	3.1	3.2

Source: Kenya Revenue Authority and Central Bank of Kenya

ix. Economic Growth

The economy remained resilient in 2022 supported by non-agriculture sectors, despite multiple shocks. It expanded by 4.8 percent, compared to a revised growth of 7.6 percent in 2021. Growth was largely supported by the robust growth of service sectors, particularly transport and storage, financial and insurance, information and communication, and accommodation and food services sectors. However, the agriculture sector contracted by 1.6 percent due to the adverse weather conditions.

The economy remained strong in the first quarter of 2023 and grew by 5.3 percent compared to 6.2 percent in a similar quarter in 2022, mainly supported by the strong recovery of the agriculture sector and continued resilience of services. The agriculture sector expanded by 5.8 percent compared to a contraction of 1.7 percent in a similar quarter of 2022, supported by favourable weather conditions which enhanced production. Broadly, the services sector grew by 6.3 percent compared to 8.9 percent in a similar quarter in 2022. The robust performance was reflected in the growth of information and communication, wholesale and retail trade, accommodation and food services, transport and storage, and financial and insurance. However, the industry sector recorded a lower growth of 2.5 percent compared to 5.6 percent in a similar quarter of 2022.

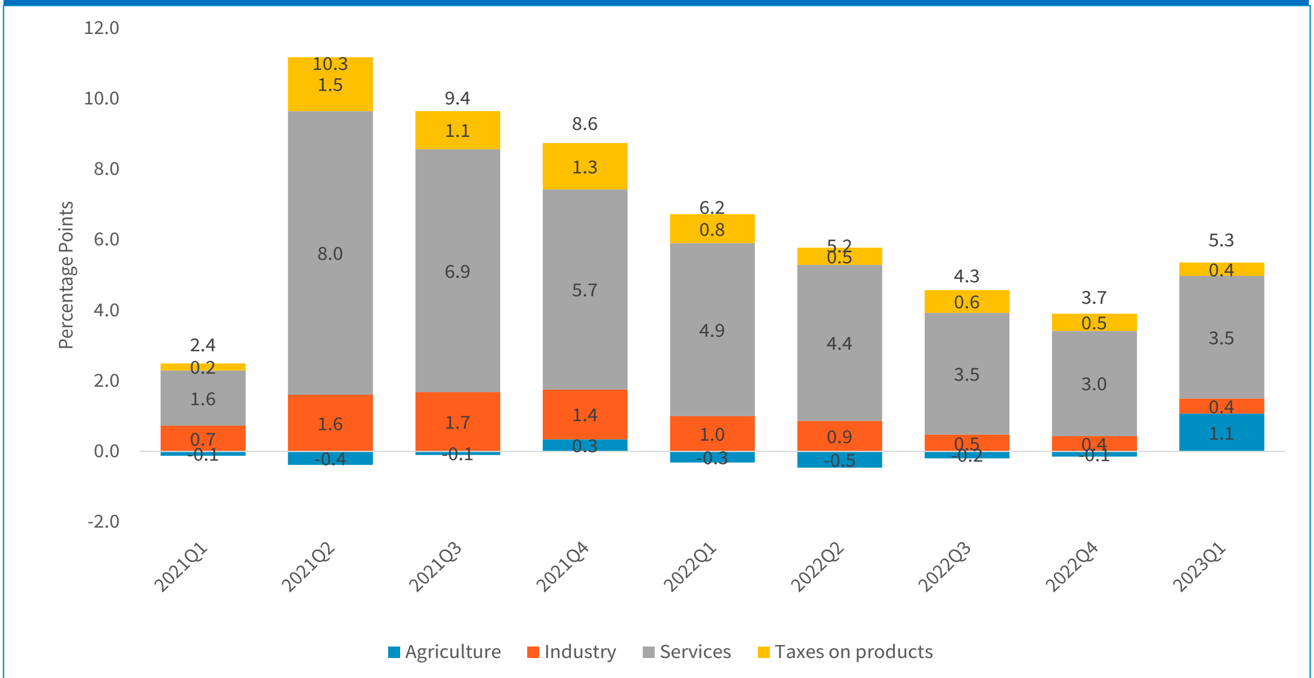
The slowdown was mainly reflected in the performance of manufacturing, and electricity and water supply sectors, which grew by 2.0 percent and 2.3 percent, respectively. Construction sector expanded by 3.1 percent **(Table 6 and Chart 5)**.

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

Main Sectors	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1
1. Agriculture	-0.4	-1.6	-1.7	-2.4	-1.3	-0.9	5.8
2. Non-Agriculture (o/w)	9.5	6.3	8.2	7.1	5.3	4.6	5.2
2.1 Industry	7.5	3.9	5.6	5.0	2.6	2.4	2.5
2.2 Services	9.8	7.0	8.9	8.0	5.9	5.2	6.3
2.3 Taxes on Products	11.9	7.0	9.5	6.1	7.3	5.3	4.4
Real GDP Growth	7.6	4.8	6.2	5.2	4.3	3.7	5.3

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 first 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.

xi. Stakeholder Forums, MPC Surveys, and Communications

The MPC members held virtual stakeholder meetings with the Chief Executives of commercial and microfinance banks in order to apprise them on the background to its decisions and to obtain feedback. The Governor also held virtual media briefings after MPC meetings to apprise the media on the background to the MPC decisions. This was in addition to other meetings with various potential investors to brief them on economic developments and the outlook for the economy.

The Committee monitored the implementation of the Committee's policy decisions by the Monetary Policy Management Committee of the Bank, and continued to interact with other government agencies such as the National Treasury, Kenya National Bureau of Statistics (KNBS), and Kenya Tourism Board (KTB) on various policy and data issues.

The MPC also continued to improve on the scope and information gathering processes through the CEOs Survey, the Market Perceptions Surveys and the Agriculture Sector Survey. The January, March and May Surveys revealed tempered optimism about business activity and economic growth prospects for the next 12 months. Respondents expressed concerns over elevated domestic inflation, the weakening of the Kenya shilling, and high food prices. Nonetheless, some respondents remained optimistic due to abundance of rainfall which was expected to boost agricultural activity and lower food prices in the near term, government measures to strengthen agricultural production, support for businesses through the Hustler Fund, and the resilience of the private sector. The Agriculture Sector Survey revealed that high input costs, unpredictable weather conditions, as well as transport costs were the major factors constraining agricultural production.

xii. Modernization 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 will enhance the effectiveness of monetary policy and support anchoring of inflation expectations. These reforms focus 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.

3. THE ECONOMIC ENVIRONMENT AND OUTLOOK FOR FY 2023/24

Global economic growth remained subdued in 2022, characterized by significant variation across the regions, due to the ongoing shocks alongside elevated inflation pressures. However, stronger global service sector demand, decline in commodity prices, strong diaspora remittance flows, and ease of inflation and supply chain pressures continued to support recovery of economic activities in most of the economies. According to the IMF World Economic Outlook (WEO) April 2023, global output growth is expected to decline from 3.4 percent in 2022 to 2.8 percent in 2023, and moderate to 3.0 percent in 2024. The decline in global output growth in 2023 is largely driven by reduced economic activity in the advanced economies, attributable to increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector in advanced economies.

Growth in the advanced economy group, is expected at 1.3 percent in 2023 and to improve to 1.4 percent in 2024, reflecting reduced economic activity due to increased interest rates and financial market volatilities. Growth in most economies in this group is forecast to slowdown in 2023, including the US (1.6 percent), Euro Area (0.8 percent), UK (-0.3 percent), and Japan (1.3 percent). In the emerging market and developing economies (EMDEs), growth is projected to slowdown, from an estimate of 4.0 percent in 2022 to 3.9 percent in 2023 and 4.2 percent in 2024, a downgrade of 0.1 percentage points compared to the January 2023 update projections. In Sub-Saharan Africa (SSA), economic activity is projected at 3.6 percent in 2023, and improve to 4.2 percent in 2024. Nigeria, South Africa, and Kenya are expected to grow by 3.2 percent, 0.1 percent, and 5.3 percent in 2023, respectively. In 2024, they are expected to grow by 3.0 percent (Nigeria), 1.8 percent (South Africa), and 5.4 percent (Kenya) **(Table 7)**.

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

Region/Country	2021 Act.	2022 Est.	2023 Proj.	2024 Proj.
World Output	**6.2**	**3.4**	**2.8**	**3.0**
Advanced Economies	**5.4**	**2.7**	**1.3**	**1.4**
United States	5.9	2.1	1.6	1.1
Euro Area	5.3	3.5	0.8	1.4
Japan	2.1	1.1	1.3	1.0
United Kingdom	**7.6**	**4.0**	**–0.3**	**1.0**
Emerging Market and Developing Economies	**6.7**	**4.0**	**3.9**	**4.2**
China	8.4	3.0	5.2	4.5
India	8.7	6.8	5.9	6.3
Brazil	5.0	2.9	0.9	1.5
Russia	4.7	–2.1	0.7	1.3
Sub Sahara Africa	**4.7**	**3.9**	**3.6**	**4.2**
South Africa	3.6	3.3	3.2	3.0
Nigeria	4.9	2.0	0.1	1.8
Kenya	7.5	5.4	5.3	5.4
World Trade Volume (goods and services)	10.4	5.1	2.4	3.5
World Consumer Prices	4.7	8.7	7.0	4.9
Advanced Economies	3.1	7.3	4.7	2.6
Emerging Market and Developing Economies	5.9	9.8	8.6	6.5

Source: IMF, World Economic Outlook

Global financial conditions worsened in the first quarter of 2023, reflecting rising interest rates in major economies as central banks continued with monetary policy tightening, and rise in credit risks associated with instabilities in the banking sector. In response to ongoing monetary tightening, global inflation is expected to fall from 8.7 percent in 2022 to 7.0 percent and 4.9 percent in 2023 and 2024, respectively. However, this will still be above respective economy targets.

Global commodity market pressures are expected to continue to ease as nonfuel and fuel commodity prices decline. Oil prices are expected to fall by about 24.1 percent to average $73.13 per barrel in 2023 and $68.90 per barrel in 2024, respectively, while nonfuel commodity prices are expected to fall by 2.8 percent in 2023. Global demand is expected to pick up, reflecting increased consumer spending, particularly in the service sector as demand for travel, tourism, and recreational activities rise. The world trade growth is expected to decline in 2023 to 2.4 percent, despite an easing of supply bottlenecks, before rising to 3.5 percent in 2024 **(Table 7)**.

Overall, downside risks to the global outlook remain substantial. There are risks arising from high interest rates related concerns and escalating financial market uncertainty due to a rise in credit risks in major economies. However, continued pick up in global service demand, and inflation pressures abating in major economies will likely boost global economic recovery.

ii. Domestic Economic Environment

Economic growth prospects for 2023 remain robust, supported by continued strong performance of services and industrial sectors. Moreover, sustained government investment in infrastructure and interventions to cushion against the adverse effects of external shocks, and prudent monetary policy will continue to support economic recovery. Nonetheless, the war in Ukraine and monetary policy tightening in advanced economies, pose risks to global and domestic economic outlook.

The exchange rate is expected to be relatively stable, supported by adequate foreign reserves. The 12-month current account deficit is projected at 4.8 percent of GDP in 2023 and 5.2 percent in 2024 on account of higher international oil prices. Services receipts are expected to increase as international travel continues to improve.

The execution of the budget for FY 2022/23 progressed well with strong tax revenue collection. The fiscal deficit inclusive of grants is expected to decline to 5.3 percent of GDP in FY2022/23 and 4.3 percent of GDP in FY2023/24, from 6.2 percent of GDP in FY2021/22. This decline will maintain the fiscal consolidation path over the medium term and stabilize growth in public debt. Fiscal consolidation will be supported by robust economic recovery and the important tax policy measures already undertaken, notably efforts to broaden tax revenue mobilization and maintain careful expenditure control while protecting social priority spending.

4. DIRECTION OF MONETARY POLICY IN THE FY 2023/24

Price stability will be the overriding objective of monetary policy in the FY2023/24. Monetary policy will also continue supporting economic recovery in the post COVID-19 period. The outlook for monetary aggregates in the FY2023/24 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 government inflation and economic growth objectives, the projected growth in the monetary aggregates for FY 2023/2024 is presented in **Table 8**. The 12-month growth in broad money (M3) is expected at an average of 10.9 percent in the FY2023/24, private sector credit growth is expected at 12.9 percent by December 2023 and 13.4 percent by June 2024. Private sector credit growth is expected to be 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 FY 2023/24, 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.

Table 8: Outlook for Key Monetary Aggregates in FY2023/24

	Sep-23	Dec-23	Mar-24	Jun-24
Broad Money, M3 (Ksh Billion)	4,907.0	5,052.7	5,213.8	5,517.3
Reserve Money, RM (Ksh Billion)	534.8	541.2	536.1	547.6
Credit to Private Sector (Ksh Billion)	3,777.9	3,874.9	4,010.2	4,141.1
12-month growth in RM (Percent)	-3.6	5.2	5.4	12.1
12-month growth in M3 (Percent)	10.8	11.3	11.7	9.5
12-month growth in Credit to Private Sector (Percent)	12.4	12.9	13.1	13.4

Source: Central Bank of Kenya

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.

ANNEX

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JANUARY - JUNE 2023)

January	Release of January 2023 IMF World Economic Outlook (WEO) Report showing that global growth was expected to fall to 2.9 percent in 2023 but rise to 3.1 percent in 2024. The 2023 forecast was 0.2 percentage point higher than predicted in the October 2022 WEO but below the historical average of 3.8 percent. Rising interest rates and the war in Ukraine continued to weigh on economic activity.
	CBR retained at 8.75 percent.
March	Appointment of Dr. Susan J. Koech, as Deputy Governor by His Excellency President William S. Ruto, PhD., C.G.H.
	CBR raised from 8.75 percent to 9.50 percent.
April	Release of April 2023 IMF World Economic Outlook (WEO) Report showing that growth was expected to fall from 3.4 percent in 2022 to 2.8 percent in 2023, before rising slowly and settling at 3.0 percent –– the lowest medium-term forecast in decades. The outlook reflected the tight policy stances needed to bring down inflation, the fallout from the deterioration in financial conditions, the continuing war in Ukraine, and growing geo-economic fragmentation.
May	CBR maintained at 9.50 percent.
June	Appointment of Dr. Kamau Thugge, as Governor by His Excellency President William S. Ruto, PhD., C.G.H.
	CBR increased to 10.50 percent.

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

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