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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 27, 2021, against a backdrop of the continuing global COVID-19 (coronavirus) pandemic, measures taken by authorities around the world to contain its spread and impact, and the positive prospects from the available vaccines. The MPC assessed the outcomes of its policy measures deployed since March 2020 to mitigate the adverse economic effects and financial disruptions from the pandemic.

- The global economy is now estimated to have contracted by 3.5 percent in 2020, but is expected to grow by 5.5 percent in 2021. This outlook is supported by the ongoing global rollout of COVID-19 vaccination programmes and additional policy measures particularly in the U.S. However, the outlook remains highly uncertain, partly due to the emergence of new variants of the virus and the reintroduction of containment measures in some economies.
- Leading indicators for the Kenyan economy point to a recovery particularly in the fourth quarter of 2020, from the disruptions earlier in the year. This recovery is supported largely by strong performance in the agriculture and construction sectors, resilient exports, and continued recovery in manufacturing and services. Against this performance and the favourable global outlook, the economy is expected to rebound strongly in 2021, supported by recovery in the services sectors particularly education, manufacturing, resilient agriculture and the ongoing policy support through the Government's economic recovery plan.
- Inflation remains well anchored. Month-on-month overall inflation stood at 5.6 percent in December 2020 compared to 5.3 percent in November. The inflation rate is expected to remain within the target range in the near term, supported by lower food prices and muted demand pressures. The recently-introduced tax measures are expected to have a modest impact on overall inflation.
- The January 2021 MPC Private Sector Market Perceptions Survey revealed expectations of strong economic activity over the next two months, and greater optimism on the economic prospects in 2021. Respondents attributed the improvement largely to the reopening of all learning institutions, expectations of acquiring a COVID-19 vaccine, the implementation of the Economic Stimulus Programme by the Government, resumption of most businesses that had stalled due to the pandemic, and strong agricultural production. However, uncertainties were noted with regard to the increase in COVID-19 infections globally and emergence of new variants.
- The Survey of hotels and flower farms by the Central Bank of Kenya (CBK) conducted between January 13 and 15, showed continued recovery from the disruptions in April and May. In particular, 97 percent of the respondent hotels are now open, compared to 96 percent in November 2020 and 35 percent in April, with continued re-engagement of employees particularly during the festive season in December. Average bed occupancy was reported at 26 percent in December 2020, compared to 11 percent in April. All respondent flower farms indicated that they are now operational, while employment and export orders for flowers have improved and are now close to pre-COVID-19 levels. Respondents also indicated that orders for flower exports over the next four months are expected to remain strong, but with a risk of potential disruptions from a tightening of COVID-19 containment measures in key markets.

- Exports of goods have rebounded, growing by 3.3 percent in 2020 compared to 2019. Receipts from tea exports rose by 10.1 percent in 2020, largely reflecting increased output. The volume of horticulture exports also rebounded, growing by 27.7 percent in 2020 compared to 2019, with the resumption of demand in the international markets and the availability of adequate cargo space. The recovery in the volume of flower exports from the sharp contraction in April has been sustained, growing by 37.9 percent in December 2020 compared to December 2019. Imports of goods declined by 12.5 percent in 2020 compared to 2019, mainly reflecting lower imports of oil products due to relatively low international oil prices. Receipts from services exports remained subdued, reflecting weaknesses in international travel and transport. Remittances remained strong at a record USD299.6 million in December 2020, and at USD3,094 million were 10.7 percent higher in 2020 compared to 2019. The current account deficit is now estimated at 4.8 percent of GDP in 2020, and projected at 5.1 percent in 2021, partly reflecting expected pickup in imports.
- The CBK foreign exchange reserves, which currently stand at USD7,686 million (4.72 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 14.1 percent in December compared to 13.6 percent in October. NPL increases were noted in the Transport and Communications, Trade, Real Estate and Agriculture sectors. The increases in NPLs were attributable to the subdued business environment, and banks continue to make provisions for the NPLs.
- Total loans amounting to KES 1.63 trillion have been restructured (54.2 percent of the total banking sector loan book of KES 3.0 trillion) by the end of December, in line with the emergency measures announced by CBK on March 18 to provide relief to borrowers. Of this, personal and household loans amounting to KES 333.0 billion (39.6 percent of the gross loans to this sector) have had their repayment period extended. For other sectors, a total of KES 1.29 trillion had been restructured mainly to trade (21.3 percent), manufacturing (20.4 percent), real estate (15.4 percent) and agriculture (12.4 percent). These measures have continued to provide the intended relief to borrowers.
- Of the KES 35.2 billion that was released by the lowering of the Cash Reserve Ratio (CRR) in March, KES 32.6 billion (92.7 percent) has been used to support lending, especially to the tourism, trade and transport and communication, real estate, manufacturing and agriculture sectors.
- Growth in private sector credit stood at 8.4 percent in the 12 months to December 2020, as demand recovered with the improved economic activity. Strong credit growth was observed in the following sectors: manufacturing (12.0 percent), transport and communications (13.6 percent), agriculture (15.3 percent), real estate (8.7 percent) and consumer durables (18.1 percent). The operationalisation of the Credit Guarantee Scheme for the vulnerable Micro Small and Medium sized Enterprises (MSMEs), will de-risk lending by commercial banks, and is critical to increasing credit to this sector.
- The Committee noted the outturn and implementation of the FY2020/21 Budget to end-December 2020, including the execution of the Economic Stimulus Programme to cushion vulnerable citizens and businesses from the adverse effects of the pandemic. Additional measures to strengthen the fiscal performance are under consideration.

The Committee noted that the package of policy measures implemented since March 2020 were having the intended effect on the economy, and are being augmented by implementation of the announced fiscal measures in the FY2020/21 Budget. The MPC concluded that the current accommodative monetary policy stance remains appropriate, and therefore decided to retain the Central Bank Rate (CBR) at 7.00 percent.

The MPC will continue to closely monitor the impact of the policy measures so far, as well as developments in the global and domestic economy, and stands ready to take additional measures as necessary. The Committee will meet again in March 2021, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

January 27, 2021