PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on May 29, 2017, to review the outcome of its policy decisions and recent economic developments. The meeting was held against a backdrop of improved weather conditions, expectations of lower food prices, and general macroeconomic stability.

- Month-on-month overall inflation rose to 11.5 percent in April from 10.3 percent in March 2017, due to increases in food prices, notably sifted maize flour, sugar, kales (sukuma wiki) and tomatoes. Nevertheless, the recent rains and interventions by the Government are expected to provide some relief. Non-food-non-fuel (NFNF) inflation remained stable below 5 percent, suggesting that demand pressures and pass-through effects of high food prices are muted.

- The foreign exchange market has remained stable, supported by a narrower current account deficit. Receipts from tea and horticulture are resilient despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports, and diaspora remittances have remained strong.

- The CBK’s foreign exchange reserves are at all-time high levels. They currently stand at USD8,235.9 million (5.4 months of import cover) compared to USD7,716.4 million (5.1 months of import cover) at the end of March 2017. These reserves, together with the Precautionary Arrangements with the International Monetary Fund (IMF), equivalent to USD1.5 billion, continue to provide a buffer against short-term shocks.

- The predictability in government domestic borrowing has continued to support a stable yield curve, and the domestic target for FY 2016/2017 remains achievable.

- The banking sector remains resilient. The average commercial banks’ liquidity and capital adequacy ratios stood at 44.4 percent and 18.8 percent, respectively in April 2017. The average liquidity ratio rose in April partly due to increased deposits. The ratio of gross non-performing loans to gross loans decreased marginally to 9.6 percent in April from 9.7 percent in February 2017.

- On the slowdown in private sector credit growth, which was largely due to factors in trade, manufacturing, real estate, and private households, the Committee noted that credit to private households, manufacturing, and real estate had picked up in March and April 2017.
The Committee evaluated available data on the impact of capping interest rates. The number of loan applications increased by 23.4 percent between August 2016 and April 2017, but the value of loan applications decreased by 18.3 percent, suggesting smaller size of loan applications. The number of loan approvals increased by 35.7 percent while their value decreased by 16.3 percent. Moreover, commercial banks’ lending to Micro, Small and Medium Enterprises (MSMEs) fell by an estimated 5.7 percent between August 2016 and April 2017, but with small banks recording an increase on average.

The MPC Private Sector Market Perception Survey conducted in May 2017, showed marginally weaker growth expectations relative to the March survey on account of the impact of drought in the first quarter of 2017, and the slowdown in private sector credit growth. Nevertheless, the respondents expect the ongoing public infrastructure development to continue to support growth.

Although a modest pick-up in global growth is expected in 2017 there are considerable risks to the outlook. Uncertainties remain on the economic policies of the U.S. administration, the Brexit outcome, and normalization of monetary policy in the advanced economies. These risks also have potential implications on global financial market stability.

The Committee concluded that overall inflation is expected to remain above the Government target range in the near term due to elevated prices for some food items. Nevertheless, the prevailing policy stance had reduced the threat of demand driven inflation. The MPC therefore decided to retain the Central Bank Rate (CBR) at 10.0 percent. The Committee will continue to closely monitor developments in the domestic and global economies, and stands ready to take additional measures as necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

May 29, 2017