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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on July 17, 2017, to review the outcome of its policy decisions and recent economic developments. The meeting was held against a backdrop of declining food prices, sustained macroeconomic stability, and continued resilience of the economy.

- Month-on-month overall inflation fell to 9.2 percent in June from 11.7 percent in May 2017, largely due to decreases in food prices, particularly Irish potatoes, kales (*sukuma wiki*), tomatoes, cabbages, sifted maize flour, sugar, and milk. The fall in prices of these key food items reflected the impact of the recent rains, and Government measures. Non-food-non-fuel (NFNF) inflation has remained below 5 percent over the last seven months, suggesting that demand pressures remain subdued. Overall inflation is expected to continue to decline over the next few months, supported by lower food and fuel prices.
- The foreign exchange market continues to reflect seasonal trends and remains relatively stable. The 12-month current account deficit widened to 6.2 percent of GDP in May 2017 from 6 percent in March, due to short-term imports of cereals, sugar, and SGR-related transport equipment. The current account deficit is expected to narrow in the second half of 2017 in part due to resilient tea and horticulture exports, stronger diaspora remittances, and continued recovery in tourism.
- The CBK’s foreign exchange reserves currently stand at USD7,802.7 million (5.2 months of import cover), falling from recent record levels of USD8,276.5 million at end-May 2017, almost entirely as a result of anticipated payments for Government obligations of USD560.7 million. These reserves continue to provide a buffer against short-term shocks, together with the Precautionary Arrangements with the International Monetary Fund (IMF), equivalent to USD1.5 billion.
- The banking sector remains resilient with improved performance indicators. Average commercial banks’ liquidity and capital adequacy ratios stood at 44.7 percent and 19.6 percent, respectively, in June 2017. The distribution of liquidity in the sector has also improved, although credit risk remains elevated as large corporates restructure their borrowings. The ratio of gross non-performing loans to gross loans rose to 9.9 percent in June from 9.6 percent in April, partly reflecting a decline in gross loans. However, the ratio of net non-performing loans to gross loans has remained below 5 percent since December 2016.

- Growth of credit to the private sector fell further to 2.1 percent over the 12 months to May 2017, partly due to significant repayments in manufacturing, transport and communication, and developments in the trade sector. The Committee continues to monitor the implications of the capping of interest rates on lending and the transmission of monetary policy.
- The economy remained resilient in the first quarter of 2017, recording a growth rate of 4.7 percent relative to the first quarter of 2016. This performance was supported by stable macroeconomic conditions, despite poor performance of the agriculture sector due to adverse weather conditions. Strong performance was recorded in the transport, real estate, construction, mining and quarrying, tourism, and information and communication sectors. This is despite the impact of the slowdown in private sector credit growth.
- The MPC Private Sector Market Perception Survey conducted in July 2017 showed that inflation was expected to decline due to lower food prices and Government interventions already in place. However, there were mixed views with regard to growth in 2017. Non-bank private sector firms expect a stronger growth relative to the May survey, largely due to macroeconomic stability and ongoing public infrastructure investments. On the other hand, banks' expectations remain unchanged on account of weaker private sector credit growth and concerns over the forthcoming elections.
- The outlook for the global economy remains uncertain, particularly with regard to the direction of U.S. economic and trade policies, normalization of monetary policies in the advanced economies and the Brexit outcome.

The Committee concluded that the current policy stance remains appropriate. The MPC therefore decided to retain the Central Bank Rate (CBR) at 10.0 percent in order to continue to anchor inflation expectations. The CBK will continue to closely monitor developments in the global and domestic economy, and stands ready to take additional measures as necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

July 17, 2017