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**BANKI
KUU YA
KENYA**



**CENTRAL
BANK OF
KENYA**

Haile Selassie Avenue
P. O. Box 60000-00200 Nairobi, Kenya
Telephone: 2861003/24 Fax: 2716556

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on May 26, 2021, against a backdrop of the continuing global COVID-19 (coronavirus) pandemic, continued rollout of vaccination programmes, and other measures taken by authorities around the world to contain its spread and impact. The MPC considered the implications and outcomes of the measures implemented to mitigate the adverse economic effects and financial disruptions from the pandemic.

- The global economic recovery continues to strengthen, largely supported by gradual re-opening of economies, relaxation of COVID-19 restrictions particularly in the major economies, ongoing deployment of vaccines, and strong policy measures. Nevertheless, the outlook for global growth remains highly uncertain, due to the resurgence of infections and the reintroduction of containment measures, and the uneven pace of vaccinations across the globe.
- Leading indicators for the Kenyan economy point to a relatively strong recovery in the first quarter of 2021, supported by strong performance of agriculture, construction, information and communication, real estate, and finance and insurance sectors. The enhanced COVID-19 containment measures implemented in five counties between March 26 and May 1, are expected to have had a moderate impact on output, as businesses in most sectors continued to operate. As a result, the economy is expected to rebound in 2021, also supported by improvement in the services sectors including education and the wholesale and retail trade, recovery in manufacturing, and stronger global demand.
- Inflation remains well anchored. Month-on-month overall inflation stood at 5.8 percent in April compared to 5.9 percent in March. The inflation rate is expected to remain within the target range in the near term, supported by lower food prices and muted demand pressures, despite the recent increase in fuel prices.
- Three surveys were conducted ahead of the MPC meeting: the Private Sector Market Perceptions Survey, the CEOs Survey, and Survey of Hotels. All the surveys revealed general optimism about economic growth prospects in 2021, largely attributed to the rollout of vaccines, gradual resumption to normalcy with easing of containment measures, favourable weather conditions, prospects for improved exports to the EAC region, and expected increase in demand for credit by the private sector. However, respondents were concerned about continued uncertainties over the pandemic, and the increased cost of inputs. The Survey of Hotels indicated some recovery from the decline witnessed in April, following the containment measures announced on March 26 and lifted on May 1.

- Exports of goods have remained strong, growing by 5.5 percent in the first 4 months of 2021 compared to a similar period in 2020. Significantly, receipts from exports of horticulture and manufactured goods rose by 27.7 percent and 33.9 percent respectively, in the first 4 months of 2021 compared to a similar period in 2020. Nevertheless, receipts from tea exports declined by 5.6 percent, reflecting the impact of accelerated purchases in 2020. Imports of goods increased by 15.2 percent in the first 4 months of 2021 compared to a similar period in 2020, largely as a result of improvements in imports of intermediate goods. Receipts from services exports remained subdued, mainly due to weaknesses in international travel and transport. Remittances were strong at USD299.3 million in April 2021, and were 23.3 percent higher in the first 4 months of 2021 compared to a similar period in 2020. The current account deficit is estimated at 5.2 percent of GDP in the 12 months to April, and is projected to remain at the same level in 2021.
- The CBK foreign exchange reserves, which currently stand at USD7,447 million (4.55 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 14.2 percent in April compared to 14.5 percent in February. Repayments and recoveries were noted in the transport and communication, real estate, tourism, restaurants and hotels and agriculture sectors.
- Growth in private sector credit remained resilient at 6.8 percent in the 12 months to April 2021, with significant loan repayments and recoveries in March and April. Strong credit growth was observed in the following sectors: transport and communications (13.3 percent), agriculture (10.0 percent), finance and insurance (7.6 percent), and consumer durables (19.3 percent). The number of loan applications picked up in May, following a dip in April. Additionally, progress was noted with regard to lending under the Credit Guarantee Scheme that was operationalised in October 2020.
- The Committee noted the outturn and implementation of the FY2020/21 Budget to end-April 2021, including the rollout of the Economic Stimulus Programme to cushion vulnerable citizens and businesses from the adverse effects of the pandemic, and the commitment to fiscal consolidation.

The Committee noted that inflation expectations remained well anchored within the target range, and the economy continued to operate below its potential level. 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 closely monitor the impact of the policy measures, 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 July 2021, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

May 26, 2021