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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on September 28, 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.

- Overall inflation stood at 6.6 percent in August 2021 compared to 6.5 percent in July, largely due to increases in fuel and food prices. Fuel inflation remained elevated at 9.2 percent largely due to the impact of the rise in international oil prices. Food inflation increased to 10.7 percent from 9.1 percent, mainly reflecting higher prices of tomatoes, cabbages, Irish potatoes, cooking oil (salad), beef with bones and bread. This was mainly attributed to dry weather conditions and supply constraints. Inflation pressures are expected to be elevated in the near term, mainly driven by increases in fuel and food prices, and the impact of the recently implemented tax measures. However, inflation is expected to remain within the target range with muted demand pressures.
- The global economy continues to strengthen in 2021, largely supported by the ongoing deployment of vaccines, relaxation of COVID-19 containment measures and travel restrictions, and strong policy measures. However, the pace of recovery of the global economy remains uneven across countries, and is dependent on the distribution of vaccines across regions and evolution of the pandemic particularly following a resurgence of new variants. Additionally, inflation in some major economies and emerging markets has risen sharply, mainly due to increases in global oil prices, supply chain bottlenecks, and weather-related factors.
- The recently released *Economic Survey 2021* with the rebased national accounts data indicates that the Kenyan economy contracted by 0.3 percent in 2020. This performance reflects the adverse effects of the COVID-19 pandemic, which disrupted activities mainly in the services sectors particularly wholesale and retail trade, education, accommodation and restaurant, and transport and storage. However, leading indicators for the economy point to a strong GDP recovery in 2021, mainly supported by robust performance of construction, manufacturing, education, real estate and transport and storage sectors. The economy is expected to rebound in 2021, supported by the continued reopening of the services sectors, recovery in manufacturing, and stronger global demand.
- The MPC's Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of Hotels, revealed general optimism about economic growth prospects for 2021. Respondents attributed this optimism to continued business recovery in view of the easing of COVID-19 containment measures and increased vaccinations. Additionally, respondents were optimistic that business prospects would strengthen in the fourth quarter of 2021 due to anticipated increase in consumer demand associated with the festive season. Nonetheless, respondents remained concerned about continued uncertainties over the pandemic, the impact of increased taxes on business performance and increased political activity. The Survey of Hotels indicated continuing recovery,

with virtually all surveyed hotels now being operational and reporting improved bed occupancy, and increased restaurant and conference services.

- Exports of goods have remained strong, growing by 11.5 percent in the period January to August 2021 compared to a similar period in 2020. Receipts from exports of horticulture and manufactured goods rose by 25.0 percent and 39.1 percent, respectively, in the period January to August 2021 compared to a similar period in 2020. However, receipts from tea exports declined by 5.8 percent, partly due to the impact of accelerated purchases in 2020. Imports of goods increased by 22.9 percent in the period January to August 2021 compared to a similar period in 2020, mainly reflecting increases in imports of oil and other intermediate goods. Receipts from tourism and transport services have improved with the easing of travel restrictions. Remittances remained robust at USD313 million in August 2021, and were 19.2 percent higher in the period January to August 2021 compared to a similar period in 2020. The current account deficit is estimated at 5.5 percent of GDP in the 12 months to August, and is projected at 5.2 percent of GDP in 2021.
- The CBK foreign exchange reserves, which currently stand at USD9,450 million (5.78 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 13.9 percent in August compared to 14.0 percent in June. Repayments and recoveries were noted in the tourism, restaurants and hotels and building and construction sectors. Responding to customer demands for anytime anywhere products and services, banks have scaled up their digital initiatives. Notably, bank transactions on mobile phones have increased from 55.7 percent before the pandemic to 84.8 percent of all transactions currently.
- Growth in private sector credit increased to 7.0 percent in August 2021, from 6.1 percent in July. Strong credit growth was observed in the following sectors: transport and communication (11.8 percent), manufacturing (9.3 percent), finance and insurance (7.7 percent), business services (5.8 percent), and consumer durables (20.1 percent). The number of loan applications increased in August, reflecting improved demand with increased economic activities. Progress was also noted with regard to lending under the Credit Guarantee Scheme that was operationalised in October 2020.
- The Committee noted the progress in the implementation of the FY2021/22 Budget, and in particular, the improved revenue performance with the continued pick up of economic activities. The roll out of the *Economic Stimulus Programme* and *Economic Recovery Strategy* were also noted, and are expected to boost domestic demand.

The Committee noted that inflationary pressures were rising domestically and internationally, even as expectations about inflation remained anchored within the target range in the medium term. The MPC therefore saw the need to closely monitor developments in inflation and stands ready to respond to any second-round effects. The Committee 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 November 2021, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

September 28, 2021