GOVERNOR

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 November 23, 2017, to review the outcome of its policy decisions and recent economic developments. The meeting was held against a backdrop of favourable weather conditions, sustained macroeconomic stability, the conclusion of a prolonged election period, and improved outlook for the global economy.

- Month-on-month overall inflation fell to 5.7 percent in October 2017 from 7.1 percent in September 2017, thereby remaining within the Government target range. This decline was largely due to lower food prices, particularly for cabbages and Irish potatoes. The decrease in food prices offset the increases in fuel and electricity prices in October. Non-food-non-fuel (NFNF) inflation remained below 5 percent, demonstrating that demand pressures are muted. Despite an increase in international oil prices which has exerted upward pressure on fuel prices, improved weather conditions and the extension of the maize subsidy are expected to continue supporting a further lowering in food prices and a decline in overall inflation in the near term.
- The foreign exchange market has remained stable, supported by strong diaspora remittances, resilient tea and horticultural exports, and the continued recovery in tourism. However, the 12-month current account deficit widened slightly to 6.5 percent of GDP in September 2017 from 6.4 percent of GDP in July 2017. This was largely due to higher international oil prices, and continued import of food to mitigate the adverse effects of the drought. The current account deficit is expected to narrow to 6.2 percent of GDP by December 2017 as a result of a slowdown in SGR-related imports, and improved weather conditions which will support food production and agricultural exports.
- The CBK foreign exchange reserves currently stand at USD7,094 million (4.7 months of import cover). These reserves, together with the Precautionary Arrangements with the IMF, equivalent to USD1.5 billion, continue to provide an adequate buffer against short term shocks in the foreign exchange market.
- Private sector credit grew by 2.0 percent in the 12 months to October compared to 1.7 percent in the 12 months to September. This maintained the upward trend since August 2017. Notably, credit to the domestic trade, manufacturing, and real estate sectors grew by 12.6 percent, 10.2 percent, and 10.0 percent respectively, to October 2017.

- The banking sector remains resilient. Average commercial banks' liquidity and capital adequacy ratios stood at 44.7 percent and 18.8 percent, respectively, in October 2017. The ratio of gross non-performing loans (NPLs) to gross loans decreased marginally to 10.6 percent in October from 10.7 percent in August.
- The Committee noted that despite the effects of the drought experienced in the first half of 2017, and the prolonged elections in the second half of the year, economic growth has remained resilient. Growth has principally been supported by the services sector particularly the Micro, Small and Medium Enterprises (MSMEs). The economy is expected to grow by 5.1 percent in 2017, and to pick up strongly in the medium term supported by a stable macroeconomic environment.
- The MPC Private Sector Market Perception Survey conducted in November 2017 showed that inflation was well anchored and is expected to decline in the short term. Respondents expected the exchange rate to remain stable supported by strong diaspora remittances and sufficient CBK foreign exchange reserves. The Survey also showed optimism in the economic prospects, with the conclusion of the elections, improved weather conditions, and continued public investment in infrastructure.
- Despite the improved outlook for global growth, uncertainties remain particularly with regard to U.S. economic policies, the post-Brexit resolution, and the pace of normalization of monetary policies in advanced economies.

The Committee concluded that inflationary pressures in the economy were muted, and inflation was expected to continue to decline in the short term. The MPC therefore decided to retain the Central Bank Rate (CBR) at 10.0 percent. The MPC continues to monitor the impact of the interest rate caps on the effective transmission of monetary policy. 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**

November 23, 2017