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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on June 26, 2023, against a backdrop of continued global uncertainties, persistent inflationary pressures, a weak global growth outlook, geopolitical tensions, and measures taken by authorities around the world in response to these developments. The MPC reviewed the outcomes of its previous decisions and measures implemented to mitigate the adverse economic impact and financial disruptions.

- Overall inflation increased to 8.0 percent in May 2023 from 7.9 percent in April, driven by fuel, food and non-food non-fuel (NFNF) prices. Food inflation increased to 10.2 percent in May from 10.1 percent in April, largely due to a sharp rise in sugar prices. Prices of some key food items particularly vegetables declined following improved supply attributed to the long rains, and lower global food prices. Fuel inflation increased to 13.6 percent in May from 13.2 percent in April, mainly due to the removal of the fuel subsidy, and increases in electricity prices following upward adjustment of tariffs in April. Non-food non-fuel inflation (NFNF) increased to 4.3 percent in May from 4.1 percent in April, indicating persistent underlying inflationary pressures in the economy. Overall inflation is expected to remain elevated in the near term, mainly due to the recent increase in electricity prices, the removal of the fuel subsidy, and associated second-round effects. Additionally, a mini-Survey of the Agriculture Sector conducted in the first half of June 2023 revealed that prices of some key food items particularly sugar and maize remain elevated.
- The global economic outlook remains uncertain, reflecting continued concerns about financial sector stability in the advanced economies, continuing geopolitical tensions particularly the ongoing war in Ukraine, and the pace of monetary policy tightening in the advanced economies. Additionally, headline inflation rates in advanced economies have been easing, but have remained above the respective targets with persistent core inflationary pressures. Commodity prices in the global markets, particularly of oil and food, continue to ease.
- Leading indicators of the Kenyan economy point to strong economic performance in the first half of 2023, mainly driven by activity in the services sector and recovery in agriculture. Despite the global uncertainties, the economy is expected to continue to strengthen in 2023, supported by the resilient services sector and recovery in agriculture.

- Exports of goods have remained strong, growing by 5.5 percent in the 12 months to May 2023 compared to a similar period in 2022. Receipts from tea and manufactured goods exports increased by 10.2 percent and 25.4 percent, respectively during the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets. Additionally, imports declined by 2.3 percent in the 12 months to May 2023 from a growth of 20.4 percent in a similar period in 2022, reflecting lower imports of infrastructure related equipment due to completed projects. Oil prices have continued to moderate since the fourth quarter of 2022. Receipts from services exports increased reflecting improvement in international travel and transport. Remittances totalled USD3,997 million in the 12 months to May 2023, and were 0.1 percent higher compared to a similar period in 2022. The current account deficit is estimated at 4.8 percent of GDP in the 12 months to May 2023 and is projected to improve from the 5.1 percent of GDP in 2022 to 4.8 percent of GDP in 2023.
- The CBK foreign exchange reserves, which currently stand at USD7,379 million (4.07 months of import cover), continue to provide adequate cover and a buffer against any 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 14.9 percent in May 2023, compared to 14.6 percent in April. Increases in NPLs were noted in the manufacturing, trade, real estate and transport and communication sectors. Banks have continued to make adequate provisions for the NPLs.
- Growth in private sector credit stood at 13.2 percent in both April and May 2023. Strong credit growth was observed in the following sectors: manufacturing (19.3 percent), transport and communication (22.0 percent), trade (15.4 percent), and consumer durables (11.9 percent). The number of loan applications and approvals remained strong, reflecting increased demand and resilient economic activities.
- The Committee noted the ongoing implementation of the FY2022/23 Government Budget, particularly the performance in tax revenue collection and the policy measures in the FY2023/24 Budget, which continues to reinforce fiscal consolidation.

The Committee noted the sustained inflationary pressures, the increased risks to the inflation outlook, the elevated global risks, and their potential impact on the domestic economy. The MPC thus concluded that there was scope for a further tightening of the monetary policy to anchor inflation expectations. The Committee, therefore, decided to raise the Central Bank Rate (CBR) from 9.50 percent to 10.50 percent.

The Committee will closely monitor the impact of the policy measures, as well as developments in the global and domestic economy, and stands ready to take further action as necessary. The Committee will meet again in July 2023.

Dr. Kamau Thugge, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE

June 26, 2023