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 March 29, 2021, against a backdrop of the continuing global COVID-19 (coronavirus) pandemic, rollout of vaccination programmes, and other measures taken by authorities around the world to contain its spread and impact. The MPC considered the implications of the various measures implemented by the Government and assessed outcomes of its policy measures deployed since March 2020 to mitigate the adverse economic effects and financial disruptions from the pandemic.

- Global economic prospects have improved in recent months, largely supported by the deployment of vaccines and strong policy measures. Nevertheless, the outlook remains highly uncertain, due to concerns on the pace of rollout of vaccination programmes in some countries, the emergence of new variants of the virus, and reintroduction of containment measures in some economies.
- At the onset of the pandemic in March 2020, CBK and MPC rolled out a number of emergency measures to mitigate the anticipated adverse effects of the pandemic. These measures were intended to provide liquidity to the banking sector, mitigate the adverse impact on bank borrowers and facilitate the use of mobile money. In particular, the measures ensured continued provision of financial services and provided a buffer against a more adverse impact on the economy. One year on, the Committee assessed that these measures have been highly effective.
- The economy recovered in the fourth quarter of 2020 and first quarter of 2021. This recovery is supported largely by strong performance of agriculture, construction, real estate, finance and insurance, and the wholesale and retail trade. The economy is expected to rebound strongly in 2021, supported by recovery in the services sector particularly education and the wholesale and retail trade. This recovery will be anchored on the success of the containment measures and the vaccination programme, including the measures announced on March 26.
- Inflation remains well anchored. Month-on-month overall inflation stood at 5.8 percent in February compared to 5.7 percent in January. The inflation rate is expected to remain within the target range in the near term, supported by lower food prices and muted demand pressures. The recent increase in fuel prices is expected to have a moderate impact on overall inflation.
- Ahead of the MPC meeting, four surveys were conducted; the Private Sector Market Perception Survey, a newly-introduced CEOs Survey, and surveys of hotels and flower farms. The four surveys revealed optimism on economic growth prospects in 2021, largely attributed to the rollout of COVID-19 vaccines, the stable economic environment, increased Government spending on infrastructure, private sector credit growth, and the COVID-19 mitigation measures. Nevertheless, respondents were concerned about continued uncertainties over the pandemic, and the increased cost of inputs. The hotels survey indicated that despite 98 percent of the respondent hotels now being open, average bed occupancy was reported at 27 percent in March. All respondent flower farms continued to be operational, with export orders recovering to, and employment surpassing, pre-COVID-19 levels. Respondents also expected orders for flower exports to remain strong over the next four months.

- Exports of goods have remained strong, growing by 1.2 percent in the 12 months to February 2021compared to a similar period in 2020. Receipts from tea and horticulture exports rose by 8.1 percent and 3.4 percent respectively, in the 12 months to February 2021 compared to a similar period in 2020, mainly reflecting increased demand from the key international markets. Imports of goods declined by 11.8 percent in the 12 months to February 2021 compared to a similar period in 2021, mainly reflecting lower imports of oil products due to relatively low international oil prices. Receipts from services exports remained subdued, reflecting weaknesses in international travel and transport. Remittances remained strong at USD260.3 million in February 2021, and at USD3,155 million were 11.4 percent higher in the 12 months to February 2021 compared to a similar period in 2020. The current account deficit is projected at 5.2 percent of GDP in 2021, from an estimate of 4.8 percent of GDP in 2020, reflecting expected pickup in imports of intermediate goods. Exports are projected to improve due to the vaccination efforts globally which are expected to ease COVID-19 related restrictions and lead to a pickup in demand. Kenya's new trade arrangement with the UK is a welcome development to support trade.
- The CBK foreign exchange reserves, which currently stand at USD7,348 million (4.51months 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 14.5 percent in February compared to 14.1 percent in December. NPL increases were noted in the Real Estate, Agriculture, Personal and Household, and Manufacturing sectors. The increases in NPLs were attributable to the subdued business environment, and banks continue to make provisions for the NPLs.
- The emergency measures announced on March 18, 2020 to provide relief to borrowers through restructuring of loans expired on March 2, 2021. Cumulatively over the last one year, loans amounting to Ksh.1.7 trillion (57 percent of total gross loans) were restructured. The outstanding restructured loans as at end February amounted to Ksh.569.3 billion (19 percent of the total gross loans). Additionally, the lowering of the Cash Reserve Ratio (CRR) in March 2020 has so far injected KES 32.8 billion to support lending, and the Credit Guarantee Scheme for the vulnerable Micro Small and Medium sized Enterprises (MSMEs) has been operationalized. These measures were assessed to be highly effective in providing the intended relief to borrowers.
- Growth in private sector credit has increased to 9.7 percent in the 12 months to February 2021, reflecting recovery in demand with improved economic activity. Strong credit growth was observed in the following sectors: manufacturing (15.8 percent), transport and communications (19.0 percent), agriculture (13.4 percent), real estate (8.8 percent) and consumer durables (20.3 percent).
- The Committee noted the outturn and implementation of the FY2020/21 Budget to end-February 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 the package of policy measures implemented over the last year have protected the economy from substantial decline, and supported the most vulnerable citizens. 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 May 2021, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

March 29, 2021