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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on September 29, 2020, against a backdrop of the global COVID-19 (coronavirus) pandemic, and measures taken by authorities around the world to contain its spread and impact. The MPC assessed the outcomes of its policy measures deployed since March to mitigate the adverse economic effects and financial disruptions from the pandemic.

- The global economic outlook for 2020 remains uncertain, largely due to the unpredictability of the COVID-19 pandemic. After the sharp contraction in the first half of 2020, there are signs of a gradual recovery in global economic activity in the second half, reflecting the impact of the lifting of containment measures and effects of the fiscal and monetary policy interventions. However, risks to the recovery remain elevated, largely due to resurgence of infections in some countries which had commenced re-opening.
- Leading economic indicators for the Kenyan economy for the third quarter point to a strong recovery in economic activity from the disruptions witnessed in the second quarter of 2020. This improvement and resilience is supported by agricultural production, increased activity in key sectors particularly services with the easing of COVID-19 restrictions, normalisation of exports, and Government interventions to mitigate the impact of the pandemic.
- A survey of hotels by the Central Bank of Kenya (CBK) conducted between September 21 and 23 reported recovery from the COVID-19 disruptions that had led to closures in April and May. In particular, 89 percent of respondents are now open, compared to 35 percent in May. Respondents also indicated that bed occupancy and employment have been improving since May.
- The MPC Private Sector Market Perception Survey conducted in September 2020, revealed a further improvement in optimism since July, with greater expectation of increased economic activity in the next two months as more sectors and businesses re-open with the lifting of COVID-19 restrictions. Other factors that contributed to this optimism included reduced COVID-19 infection rates, expected implementation of the Government's Economic Stimulus Programme, the resilience of the agriculture sector, recovery of private sector credit growth and a rebound in consumer spending. Nevertheless, uncertainties regarding a possible second wave of COVID-19 infections were noted.
- Exports of goods have remained robust despite the pandemic, growing by 0.8 percent in the period January to August 2020 compared to a similar period in 2019. Receipts from tea exports over this period rose by 17.1 percent with increased output. Horticulture exports remain strong, mainly reflecting the normalisation of demand in the international market and availability of adequate cargo space. Flower exports for the period September 1 to 27 were 141.3 percent of the volume in September 2019. Remittances were strong at USD274.1 million in August 2020 compared to USD214.3 million in August 2019. For the eight months to August 2020, remittances were higher by 6.6 percent compared to a similar period in 2019. However, receipts from services exports remained subdued, declining by 22.4 percent in the period to August 2020, reflecting weaknesses in international travel and transport. This is offset by the prevailing low international oil prices. The current account deficit is projected at about 5.1 percent of GDP in 2020.

- The CBK foreign exchange reserves, which currently stand at USD8,605 million (5.22 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- Inflation remains well anchored. Month-on-month overall inflation remained stable at 4.4 percent in August and July 2020, and is expected to remain within the target range in the near term. This is supported by lower food prices, the impact of the reduction of VAT and muted demand pressures.
- 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 13.6 percent in August, compared to 13.1 percent in June. NPL increases were noted in the real estate, personal and, transport and communication sectors, due to a subdued business environment.
- Total loans amounting to KES 1.12 trillion have been restructured (38 percent of the total banking sector loan book of KES 2.9 trillion) by the end of August, in line with the emergency measures announced by CBK on March 18 to provide relief to borrowers. Of this, personal/household loans amounting to KES 271 billion (33 percent of the gross loans to this sector) have had their repayment period extended. For other sectors, a total of KES 849.9 billion had been restructured mainly to trade (20.7 percent), manufacturing (20.2 percent), real estate (18.3 percent) and agriculture (11.1 percent). These measures have continued to provide the intended relief to borrowers.
- Of the KES 35.2 billion that was released by the lowering of the Cash Reserve Ratio (CRR) in March, KES 32.4 billion (92 percent) has been used to support lending, especially to the tourism, trade and transport and communication, real estate and manufacturing sectors.
- Private sector credit growth has remained resilient. In the 12 months to August, growth in credit to the private sector stood at 8.3 percent, supported by continued recovery in demand from the COVID-19 related disruptions and the accommodative monetary policy. Strong growth in lending was observed in the following sectors: manufacturing (13.1 percent), transport and communications (19.0 percent), trade (8.1 percent) and consumer durables (13.7 percent). The imminent operationalisation of the Credit Guarantee Scheme for the vulnerable Micro Small and Medium sized Enterprises (MSMEs), will de-risk lending by commercial banks, and is critical to increasing credit to this sector.
- The Committee noted the continuing implementation of the fiscal policy measures announced in the FY2020/21 Budget, including the Economic Stimulus Programme, to stimulate the economy and cushion vulnerable citizens and businesses from the adverse effects of the pandemic.

The Committee noted that the package of policy measures implemented since March were having the intended effect on the economy, and will be augmented by implementation of the fiscal measures in the FY2020/21 Budget. 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 continue to closely monitor the impact of the policy measures so far, 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 2020, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

September 29, 2020