

GOVERNOR

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## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING**

The Monetary Policy Committee (MPC) met on January 30, 2023, against a backdrop of a weak global growth outlook, decline in global commodity prices, easing inflationary pressures, geopolitical tensions, persistent uncertainties, 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 decreased to 9.1 percent in December 2022 from 9.5 percent in November, mainly due to lower food prices. Food inflation declined to 13.8 percent in December from 15.4 percent in November, largely driven by a decrease in prices of maize and milk products following improved supply attributed to the ongoing harvests and impact of the recent short rains, respectively. Additionally, prices of edible oils and wheat products declined due to lower global commodity prices with the easing of international supply chain disruptions. Fuel inflation declined to 12.7 percent in December 2022 from 13.8 percent in November, due to lower international oil prices, but remains elevated on account of the scaling down of the fuel subsidy and increases in electricity prices due to higher tariffs. Overall inflation is expected to decline in the near term, also supported by the recently announced Government measures to allow duty-free imports of key food items particularly maize, rice and sugar.
- The outlook for global growth has improved with easing inflation pressures in major economies particularly in the U.S., as well as China's lifting of COVID-19 restrictions. Additionally, volatility in global financial markets has moderated amid expectations of a slower pace of monetary policy tightening. Nevertheless, risks remain mainly reflecting geopolitical tensions particularly the ongoing war in Ukraine, and the pace of the monetary policy response in the advanced economies.
- The recently released GDP data for the third quarter of 2022 together with leading indicators show that the Kenyan economy registered strong growth in 2022. Real GDP grew by 4.7 percent in the third quarter of 2022, mainly driven by robust activity in wholesale and retail trade, education, electricity and water, and real estate sectors. Based on available economic indicators, GDP is estimated to have grown by 5.6 percent in 2022. The economy is expected to remain resilient in 2023, supported by continued strong performance of the services sector and expected recovery in agriculture, despite the global uncertainties.
- Two of the surveys conducted ahead of the MPC meeting—the CEOs Survey and Market Perceptions Survey—revealed sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was attributed to the continued resilience of the private sector, and the impact of Government interventions including in the agriculture and MSMEs sectors, both of which are expected to support employment and growth. While respondents remain concerned about domestic inflation, they expect it to ease in the coming months. Additionally, their concerns about global recession and inflation have moderated.
- The Survey of the Agriculture Sector revealed that prices of most food items were expected to decline or remain unchanged in February 2023. Additionally, respondents expected supply of food items, mainly maize, rice and wheat to increase in the coming months on account of ongoing harvests and the expected duty-free imports. Nevertheless, respondents identified high input costs and unpredictable weather conditions as the major factors constraining agricultural production.

- Goods exports have remained strong, growing by 10.9 percent in 2022 compared with 2021. Receipts from tea and manufactured goods exports increased by 16.1 percent and 22.1 percent respectively during the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets. Additionally, imports grew by 5.8 percent in 2022 compared to 25.4 percent in 2021, with lower imports of infrastructure related equipment due to completed projects. Oil imports grew by 60.3 percent on account of the elevated international prices which moderated in the fourth quarter of 2022. Receipts from services exports rebounded significantly reflecting sustained improvement in international travel and transport. Remittances totalled USD4,028 million in 2022, and were 8.3 percent higher compared to 2021. Against these developments, the current account deficit is now estimated at 4.9 percent of GDP in 2022 and is projected at 5.4 percent of GDP in 2023.
- The CBK foreign exchange reserves, which currently stand at USD7,005 million (3.92 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 13.3 percent in December 2022, compared to 13.8 percent in October. Repayments and recoveries were noted in the trade, tourism, restaurant and hotels, transport and communication and manufacturing sectors. Banks have continued to make adequate provisions for the NPLs. The banking sector registered a strong performance in the year ended December 31, 2022, with the asset base increasing by 10 percent from Ksh.6 trillion at end of 2021 to Ksh.6.6 trillion. The performance was supported by banks reviewing their business models leveraging on technology and innovation, enhanced capital and liquidity buffers and a continued focus on customer-centricity.
- Growth in private sector credit increased to 12.5 percent in 2022 compared to 8.6 percent in 2021. Strong credit growth was observed in the following sectors: manufacturing (13.8 percent), transport and communication (23.5 percent), trade (11.4 percent), business services (13.7 percent), and consumer durables (12.9 percent). The number of loan applications and approvals increased, reflecting improved demand with increased economic activities.
- The Committee noted the ongoing implementation of the FY2022/23 Government Budget, particularly the recent strong tax revenue collection reflecting enhanced tax administration efforts and increased economic activity. The proposed FY2022/23 Supplementary Budget, and rationalization of expenditure which is expected to support the envisaged fiscal consolidation in the medium term, were also noted.

The Committee noted that the impact of the further tightening of monetary policy in November 2022 to anchor inflationary pressures was still transmitting in the economy. Additionally, the MPC noted that this action will be complemented by the recently announced Government measures to allow limited duty-free imports on specific food items, which are expected to moderate prices and further ease domestic inflationary pressures. The MPC concluded that the current monetary policy stance remains appropriate, and therefore decided to retain the Central Bank Rate (CBR) at 8.75 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 additional measures, as necessary. The Committee will meet again in March 2023, but remains ready to re-convene earlier if necessary.

**Dr. Patrick Njoroge**  
**CHAIRMAN, MONETARY POLICY COMMITTEE**

January 30, 2023