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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 28, 2019, to review the outcome of its previous policy decisions and recent economic developments. The meeting was held against a backdrop of domestic macroeconomic stability, increased optimism on the economic growth prospects, lower international oil prices, and increased uncertainties and weaker global growth outlook.

- Month-on-month overall inflation remained stable within the target range in November and December 2018, largely due to lower food prices following favourable weather conditions, reduction in electricity tariffs, decline in fuel prices, and limited demand-driven inflationary pressures. Overall inflation was 5.7 percent in December compared to 5.6 percent in November. Non-food-non-fuel (NFNF) inflation remained below 5 percent, indicating that demand pressures in the economy were muted. Overall inflation is expected to decline in the near term, largely due to lower international oil prices, expectations of lower electricity prices following increased power generation from cheaper sources, and expected stability in food prices.
- The foreign exchange market has remained stable supported by balanced flows, and a narrowing in the current account deficit to 5.1 percent in the 12 months to November 2018 compared to 6.5 percent in November 2017. This narrowing reflects strong growth in diaspora remittances and tourism receipts, higher tea and horticultural exports, slower growth in imports due to lower food and SGR–related equipment imports and the decline in international oil prices. The current account deficit is estimated at 5.2 percent of GDP in 2018, and is expected to narrow to 5.1 percent in 2019.
- The CBK foreign exchange reserves, which currently stand at USD8,131 million (5.3 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- Private sector credit grew by 2.4 percent in the 12 months to December 2018, compared to 3.0 percent in November, largely due to successful recovery efforts and loan repayments. Strong growth in private sector credit was observed in the following sectors: finance and insurance (17.5 percent); consumer durables (11.0 percent); business services (8.0 percent); and private households (6.8 percent). Private sector credit growth is expected to strengthen in 2019 relative to 2018, with the anticipated higher economic activity and easing credit risk.
- The banking sector remains stable and resilient. Average commercial banks' liquidity and capital adequacy ratios stood at 48.6 percent and 18.7 percent, respectively, in December 2018. The ratio of gross non-performing loans (NPLs) to gross loans fell to 12.0 percent in December from 12.3 percent in October, largely due to declines in NPLs following sustained recovery efforts by banks particularly in the trade, manufacturing, building and construction, and transport and communications sectors.

- The economy picked up strongly in 2018, with data for the third quarter showing that real GDP growth accelerated to 6.0 percent in the first three quarters of 2018 from 4.7 percent in a similar period in 2017. An assessment of available indicators of economic activity showed that the strong growth continued into the fourth quarter of 2018. This improved performance reflected higher agricultural production, the continued recovery of the manufacturing sector, and the buoyant services sector, particularly trade, information and communication, accommodation and restaurants, transport and storage, and real estate. Micro, Small and Medium-Scale Enterprises (MSMEs) remained resilient in 2018 and are expected to support growth in 2019, to the extent that their constraints, including access to finance, are alleviated. Growth is expected to remain strong in 2019, supported by agricultural production, a stable macroeconomic environment, and continued improvement in the business environment. Additionally, the alignment of Government spending to the *Big 4* priority sectors is expected to boost economic activity in manufacturing, agriculture, construction and real estate, and health sectors.
- The MPC Private Sector Market Perception Survey conducted in January 2019 indicated that inflation expectations were well anchored within the target range, with respondents revising their inflation expectations for the near term downwards on account of expected lower prices of food, fuel and electricity. The Survey also revealed increased optimism that economic growth would be stronger in 2019 due to, among other factors, a better investment climate, continued infrastructure development, and implementation of the *Big 4* projects by the Government. Expectations of increased agricultural production, the continuing decline in international oil prices, a stable macroeconomic environment and strong tourism performance also contributed to the strong positive sentiment. Nevertheless, the optimism was tempered by the slow growth in private sector credit, and concerns of a likely slowdown in global growth in 2019.
- Global growth is expected to weaken in 2019, with increased uncertainties with regard to the trade tensions between the U.S. and China, Brexit negotiations, slowdown of the Chinese economy, the partial shutdown of the U.S. government, and the pace of normalization of monetary policy in the advanced economies. These developments could lead to higher volatility in the global financial markets.

The Committee noted that inflation expectations remained well anchored within the target range, and that the economy was operating close to its potential. The MPC concluded that the current policy stance remains appropriate, and will continue to monitor any perverse response to its previous decisions. The Committee therefore decided to retain the CBR at 9.00 percent.

The MPC 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

January 28, 2019