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 November 26, 2020, against a backdrop of the continuing 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 highly uncertain, largely due to resurgence in COVID-19 infections in the advanced economies. As a result, the pace of recovery of the global economy in the second half of 2020 has been dampened by the re-introduction of containment measures in some countries. However, global business sentiment has improved with very recent announcements of COVID-19 vaccines, and the conclusion of the U.S. elections.
- Leading indicators for the Kenyan economy point to a recovery in the second half of 2020, from the disruptions witnessed in the second quarter. Real GDP is estimated to have contracted by 0.4 percent in the first half, reflecting the adverse impact of the COVID-19 pandemic in the second quarter on services sector, particularly education, transport and storage, and accommodation and restaurant services. The contraction was partly offset by strong growth recorded in agriculture, health, ICT, and the financial and insurance sectors. The resilience in the second half of 2020 continues to be supported by agriculture, a recovery in manufacturing, exports, and services following the easing of COVID-19 restrictions.
- A Survey of hotels and flower firms by the Central Bank of Kenya (CBK) conducted between November 10 and 12, showed steady recovery from the closures and scaling down of operations in April and May following the onset of the pandemic. In particular, 96 percent of the respondent hotels are now open, compared to 89 percent in September, with increased re-engagement of employees. An average bed occupancy of 23 percent was reported. All responding flower farms indicated that they are now operational, compared to 56 percent in April and May. Employment and export orders for flowers have improved and are now close to pre-COVID-19 levels. Respondents also indicated that orders for flower exports over the next four months are strong, with a risk of disruptions from a tightening of COVID-19 containment measures in key markets.
- The November 2020 MPC Private Sector Market Perception Survey revealed improved expectations of economic activity in the next two months, and improved optimism on economic prospects for the next twelve months. Respondents attributed the improvement to continued normalization of economic conditions with the lifting of COVID-19 restrictions, strong agricultural production, and Government focus on infrastructural projects. Respondents were positive about the prospects for a COVID-19 vaccine, but uncertainties remain particularly with regard to the increase in COVID-19 infections.
- Exports of goods have strengthened from the disruptions of COVID-19, growing by 2.8 percent in the period January to October 2020 compared to a similar period in 2019. Receipts from tea exports rose by 13.2 percent during this period, largely reflecting increased output. Horticulture exports have rebounded, reflecting the normalisation of demand in the international market, and the availability of adequate cargo space. Flower exports have also rebounded, with the volume in the period July to October 2020 having increased by 4.8 percent compared to a similar period in 2019. Remittances remained strong at USD263.1 million in October 2020 compared to USD224.3 million in October 2019. For the ten months to October 2020, remittances were higher by 9.0 percent

compared to a similar period in 2019. Nevertheless, receipts from services exports remained subdued, reflecting weaknesses in international travel and transport. The current account deficit is projected at about 5.1 percent of GDP in 2020 from 5.8 percent in 2019.

- The CBK foreign exchange reserves, which currently stand at USD7,952 million (4.89 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 stood at 4.8 percent in October compared to 4.2 percent in September, and is expected to remain within the target range in the near term, supported by lower food prices 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 remained stable at 13.6 percent in October and August. NPL increases were noted in the transport and communication, energy and water, tourism, restaurant and hotels and real estate sectors, mainly due to the disruption of businesses. The increases in NPLs were partially offset by repayments and recoveries in the trade, manufacturing and building and construction sectors.
- Total loans amounting to KES 1.38 trillion have been restructured (46.5 percent of the total banking sector loan book of KES 2.97 trillion) by the end of October, in line with the emergency measures announced by CBK on March 18 to provide relief to borrowers. Of this, personal and household loans amounting to KES 303.1 billion (36.1 percent of the gross loans to this sector) have had their repayment period extended. For other sectors, a total of KES 1,076.9 billion had been restructured mainly to trade (18.7 percent), manufacturing (22.7 percent), real estate (14.5 percent) and agriculture (12.8 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 32.6 billion (92.7 percent) has been used to support lending, especially to the tourism, trade and transport and communication, real estate, manufacturing and agriculture sectors.
- Growth in private sector credit stood at 7.7 percent in the 12 months to October. This is supported by recovery in demand with the improved economic activity following the easing of COVID-19 containment measures, and accommodative monetary policy. The maturity of new loans issued since August has continued to lengthen. Strong growth in lending was observed in the following sectors: manufacturing (7.8 percent), transport and communications (21.1 percent), real estate (7.6 percent) and consumer durables (15.7 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 continued implementation of 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. Additional measures to strengthen the fiscal performance are under consideration.

The Committee noted that the package of policy measures implemented since March were having the intended effect on the economy, and are being augmented by implementation of the announced 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 January 2021, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

November 26, 2020