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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on July 27, 2022, against a backdrop of a weaker global outlook, with elevated global inflationary pressures, heightened geopolitical tensions, high commodity prices, the COVID-19 (coronavirus) pandemic, and measures taken by authorities around the world in response to these developments. The MPC reviewed the outcomes of its previous decisions and the measures implemented to mitigate the adverse economic impact and the financial disruptions.

- Overall inflation rose to 7.9 percent in June 2022 from 7.1 percent in May, due to increases in food and fuel prices. Food inflation increased to 13.8 percent in June from 12.4 percent in May, mainly on account of prices of maize following reduced supply attributed to depressed rains, and edible oils and wheat products due to the impact of supply chain disruptions. Fuel inflation rose to 10.0 percent in June from 9.0 percent in May, driven by increases in fuel and cooking gas (LPG) prices on account of higher international oil prices. Nevertheless, this increase was moderated by measures implemented by Government to stabilise fuel prices, lower electricity tariffs, and subsidies on fertilizer prices. Additionally, the recent waiver of import duties and levies on white maize, the subsidy on retail prices of sifted maize flour, and the recent reduction in VAT on LPG will further moderate domestic prices.
- The global economic outlook has become more uncertain, reflecting the adverse effects of the ongoing war in Ukraine, continuing pandemic-related disruptions, and supply chain challenges. Global growth is expected to be weaker in 2022, reflecting significant slowdown in economic activity in advanced economies and some emerging markets, especially the U.S., Euro Area, and China. Global inflationary pressures remain elevated, despite the recent moderation in commodity prices. Financial markets volatility has increased, amid the tightening of monetary policy in the advanced economies.
- The recently released GDP data for the first quarter of 2022 confirmed the continuing strong performance of the Kenyan economy, with real GDP growing by 6.8 percent compared to 2.7 percent in the first quarter of 2021. This performance reflects continued recovery in a wide range of sectors. Additionally, leading indicators of economic activity show continued strong performance in the second quarter of 2022, supported by strong activity in transport and storage, wholesale and retail trade, construction, information and communication, and accommodation and food services. The economy is expected to remain robust in 2022, with continued strong performance of the services sector despite the downside risks to global growth.
- The three surveys conducted ahead of the MPC meeting—Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of Hotels—revealed sustained optimism about business activity and economic growth prospects for 2022. The optimism was attributed to Government spending on key infrastructure projects, continued post COVID-19 recovery, and expected pickup in economic activities after the elections. Nevertheless, respondents remained concerned about high inflation, the impact of the war in Ukraine on commodity prices, supply chain disruptions, and the impact of the depressed rainfall on agricultural production. The Survey of Hotels revealed sustained strong activity in the sector, and showed conferencing services and bed occupancy at levels surpassing pre-pandemic levels.

- The Committee noted the newly introduced Survey of the Agriculture Sector, which revealed that prices of some food items particularly cabbages, tomatoes, onions, potatoes, and green maize have declined since June, with improved supply. Respondents expect the supply of green maize and wheat to increase from August with the harvest season, while the supply of dry maize was expected to increase due to imports. However, respondents were concerned about transport costs, poor weather conditions and input costs as major factors constraining agricultural production.
- Goods exports have remained strong, growing by 11.2 percent in the 12 months to June 2022 compared to a similar period in 2021. In particular, receipts from tea and manufactured goods exports increased by 6.0 percent and 22.8 percent respectively during the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets. Receipts from horticulture exports declined by 8.5 percent in the 12 months to June 2022 compared to a similar period in 2021. Imports of goods increased by 21.7 percent in the 12 months to June 2022 compared to an increase of 3.6 percent in the 12 months to June 2021, mainly reflecting increased imports of oil and intermediate goods. Tourism and transportation receipts have increased as international travel continues to improve. Remittances totalled USD4,012 million in the 12 months to June 2022, and were 18.6 percent higher compared to a similar period in 2021. While the current account deficit is estimated at 5.3 percent of GDP in the 12 months to June 2022, it is projected at 5.9 percent of GDP in 2022 on account of higher international oil prices.
- The CBK foreign exchange reserves, which currently stand at USD7,744 million (4.47 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 14.7 percent in June 2022, compared to 14.1 percent in April. NPLs increases were noted in the agriculture, energy and water, manufacturing, and transport and communication sectors. These increases were not systemic and were attributable to a few large borrowers with specific challenges in the respective businesses. Banks have continued to make adequate provisions for the NPLs.
- Growth in private sector credit increased to 12.3 percent in June 2022, from 11.5 percent in April. Strong credit growth was observed in the following sectors: transport and communication (22.2 percent), manufacturing (15.2 percent), trade (11.6 percent), and consumer durables (14.7 percent). The number of loan applications and approvals remained strong, reflecting improved demand with increased economic activities.
- The Committee noted the successful implementation of the FY2021/22 Government Budget, particularly the strong tax revenue collection which surpassed targets by wide margins, reflecting enhanced tax administration efforts, and increased economic activity. The Economic Stimulus Programme in the FY2022/23 Government Budget was also noted, and is expected to continue supporting economic activity across the country.

The Committee noted that its action of tightening monetary policy in May 2022 was timely in anticipating emerging inflationary pressures, and its impact was still transmitting through the economy. This action was subsequently complemented by an additional package of fiscal measures by the Government to moderate the prices of specific items. Additionally, the Committee noted that international commodity prices, particularly oil, wheat and edible oils had begun to moderate. These developments are expected to ease domestic inflationary pressures in the near term. The MPC therefore decided to maintain the Central Bank Rate (CBR) at 7.50 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 September 2022, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

July 27, 2022