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 July 28, 2021, against a backdrop of the continuing global COVID-19 (coronavirus) pandemic, continued rollout of vaccination programmes, and other measures taken by authorities around the world to contain its spread and impact. The MPC considered the implications and outcomes of the measures implemented to mitigate the adverse economic effects and financial disruptions from the pandemic.

- Overall inflation stood at 6.3 percent in June compared to 5.9 percent in May, largely due to increases in food and fuel prices. Food inflation increased to 8.5 percent from 7.0 percent, mainly on account of higher prices of some food items such as cooking oil, beef with bones, white bread, and wheat flour. This is attributed to price increases for imported inputs and supply constraints. Fuel inflation remained elevated at 13.5 percent in June and 14.3 percent in May, mainly reflecting the impact of the rise in international oil prices on energy prices. Inflation pressures are expected to be elevated in the near term mainly driven by increases in food and fuel prices, and the impact of the recently implemented tax measures. However, inflation is expected to remain within the target range with muted demand pressures.
- The global economy is expected to rebound strongly in 2021, largely supported by the ongoing deployment of vaccines, relaxation of COVID-19 containment measures, and strong policy measures. Nevertheless, the pace of recovery of the global economy remains uneven across countries, and is dependent on the evolution of the pandemic particularly following a resurgence of new variants. Additionally, inflation in some major economies and emerging markets is rising sharply, mainly due to increases in commodity prices particularly oil, the effect of fiscal stimulus, and supply chain bottlenecks.
- Leading indicators for the Kenyan economy point to a relatively strong GDP recovery in the first half of 2021, mainly supported by strong performance of construction, information and communication, education, and real estate sectors. The economy is expected to rebound in 2021, supported by the continued reopening of the services sectors including education, recovery in manufacturing, and stronger global demand.
- The MPC's Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of Hotels, revealed general optimism about economic growth prospects for 2021. Respondents attributed this optimism to the continuing vaccinations and easing of COVID-19 containment measures. Additionally, respondents were optimistic about the expected implementation of measures in the FY2021/22 Budget, including the economic stimulus programme and the continued investment in infrastructure. However, respondents were concerned about continued uncertainties over the pandemic, increased taxes and heightened political activity. The Survey of Hotels indicated continued recovery from the decline witnessed in April, particularly with regard to forward bookings.

- Exports of goods have remained strong, growing by 11.1 percent in the first half of 2021 compared to a similar period in 2020. Receipts from exports of horticulture and manufactured goods rose by 29.4 percent and 45.2 percent, respectively, in the first half of 2021 compared to a similar period in 2020. However, receipts from tea exports declined by 5.5 percent, partly due to the impact of accelerated purchases in 2020. Imports of goods increased by 21.9 percent in the first half of 2021 compared to a similar period in 2020, mainly reflecting increases in imports of oil and other intermediate goods. Travel and transport receipts continued to recover in 2021 with the resumption of international travel. Remittances were robust at USD305.9 million in June 2021, and were 20.4 percent higher in the first half of 2021 compared to a similar period in 2020. The current account deficit is estimated at 5.4 percent of GDP in the 12 months to June, and is projected at 5.2 percent of GDP in 2021.
- The CBK foreign exchange reserves, which currently stand at USD9,350 million (5.72 months of import cover), continue to provide adequate cover and a buffer against 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 14.0 percent in June compared to 14.2 percent in April. Repayments and recoveries were noted in the manufacturing, agriculture, trade and real estate sectors. Leveraging on accelerated digitalisation, banks have continued to roll out innovative products targeting underserved segments including women, youth and Micro, Small and Medium Size Enterprises (MSMEs).
- Growth in private sector credit increased to 7.7 percent in June 2021, from 6.8 percent in April. Strong credit growth was observed in the following sectors: manufacturing (8.1 percent), transport and communications (11.8 percent), and consumer durables (23.4 percent). The number of loan applications picked up in June, reflecting improved demand with increased economic activities. Progress was noted with regard to lending under the Credit Guarantee Scheme that was operationalised in October 2020.
- The Committee noted the improved revenue performance in FY2020/21 and a provisional fiscal deficit of 7.8 percent of GDP. Additionally, the rollout of the FY2021/22 Budget was noted, including the Economic Recovery Strategy which is expected to support domestic demand.
- The MPC reiterated that implementation of the reforms outlined in the White Paper published on July 27, 2021, would enhance the effectiveness of monetary policy, and support anchoring of inflation expectations. These reforms will focus on: refining macroeconomic modelling and forecasting frameworks in line with changing structure of the economy, improving the functioning of the interbank market in order to strengthen monetary policy transmission and operations, and continued improvement of communication on monetary policy decisions.

The Committee noted that inflation expectations remained well anchored within the target range, and the economy continued to operate below its potential level. 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 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 2021, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

July 28, 2021