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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 22, 2018, to review the outcome of its policy decisions and recent economic developments. The meeting was held against a backdrop of sustained macroeconomic stability, increased optimism on the economic growth prospects, an improving business environment, and continued strengthening of the global economy.

- Month-on-month overall inflation fell to 4.5 percent in December 2017 from 4.7 percent in November 2017, thereby remaining within the Government target range. This decline was due to lower food prices reflecting improved supply of key food items, particularly cabbages, Irish potatoes, tomatoes, sugar, and maize flour. The decrease in food prices outweighed the increase in fuel and electricity prices, and the rise in transport costs during the festive period. Non-food-non-fuel (NFNF) inflation remained below 5 percent demonstrating that demand driven inflationary pressures remained muted. Although the rise in international oil prices is expected to exert moderate upward pressure, overall inflation is expected to remain well anchored and within the Government target range in the near term.
- The foreign exchange market remained relatively balanced supported by strong diaspora remittances, resilient tea and horticultural exports, and recovery in tourism. The current account deficit is estimated at 6.2 percent of GDP in 2017 and expected to narrow to 5.4 percent of GDP in 2018 largely due to lower imports of food, lower imports in the second phase of the SGR project, steady growth in tea and horticulture exports, strong diaspora remittances, and continued growth in receipts from tourism.
- The CBK foreign exchange reserves currently stand at USD7,009 million (4.7 months of import cover). These reserves, together with the Precautionary Arrangements with the IMF, equivalent to USD1.5 billion, continue to provide an adequate buffer against short term shocks in the foreign exchange market.
- Private sector credit grew by 2.4 percent in the 12 months to December 2017, slightly higher than the 2.0 percent in October 2017. Analysis of this increase showed strong credit growth to manufacturing, domestic trade, and real estate sectors, which grew by 13.0 percent, 10.5 percent, and 8.6 percent, respectively.
- The banking sector remains stable and resilient. Average commercial banks' liquidity and capital adequacy ratios stood at 43.7 percent and 18.5 percent, respectively, in December 2017. The ratio of gross non-performing loans (NPLs) to

gross loans remained unchanged at 10.6 percent between October and December 2017. Preliminary data for 2017 showed good performance in the sector, notwithstanding an expected decline in profitability. The sector's return on assets and return on equity reduced to 2.7 percent and 20.8 percent, respectively, in 2017 from 3.2 percent and 24.4 percent in 2016.

- Economic growth averaged 4.7 percent in the first three quarters of 2017 compared to 5.7 percent in a similar period in 2016. The services sector remained the main source of growth, particularly the Micro, Small and Medium Enterprises (MSMEs). The economy is expected to pick up strongly in 2018 supported by a stable macroeconomic environment, a resurgent private sector, recovery in agriculture, and sustained public investments in infrastructure.
- The MPC Private Sector Market Perception Survey conducted in January 2018 showed an upsurge in optimism by the private sector for the economic prospects in 2018. More than 90 percent of the respondents were optimistic about prospects for 2018, compared to 65 percent in November 2017. These respondents attributed their optimism to a stable macroeconomic environment, improved business environment and investor confidence, continued public investment in infrastructure, and expected commencement of direct flights to the U.S.
- Global growth recovery is expected to continue in 2018, but uncertainties remain particularly with regard to the U.S. economic policies, the post-Brexit resolution, and the pace of monetary policy normalization in advanced economies.

The MPC noted increased optimism for growth prospects in the economy and that inflation expectations are well anchored within the Government target range. The Committee noted that there was some room for accommodative monetary policy in the near term, as well as the risk of perverse outcomes. It concluded that there was need to further monitor and assess the impact of its policy actions. The MPC therefore decided to retain the Central Bank Rate (CBR) at 10.0 percent.

The MPC continues to monitor the impact of the interest rate caps on the effective transmission of monetary policy. The CBK 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 22, 2018