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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 27, 2020, to review the outcome of its previous policy decisions and recent economic developments. The meeting was held against a backdrop of domestic macroeconomic stability, potential risks to food supply and increased global uncertainties.

- Month-on-month overall inflation remained within the target range in November and December 2019. The inflation rate stood at 5.8 percent in December compared to 5.6 percent in November, mainly reflecting the temporary effects of increases in food prices and transport costs during the festive period. Non-food-non-fuel (NFNF) inflation remained below 5 percent, indicative of muted demand pressures and limited spillover effects of recent tax adjustments. Overall inflation is expected to remain within the target range in the near term due to lower prices of fast-growing food items following the continuing rains, and lower electricity prices.
- The foreign exchange market has remained stable, supported by the narrowing of the current account deficit and balanced flows. The current account deficit narrowed to an estimated 4.6 percent of GDP in 2019 from 5.0 percent in 2018. This was mainly due to lower imports of SGR-related equipment, resilient diaspora remittances and strong receipts from transport and tourism services. The current account deficit is expected to remain stable at 4.7 percent of GDP in 2020.
- The CBK foreign exchange reserves, which currently stand at USD8,475 million (5.2 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. Average commercial banks' liquidity and capital adequacy ratios stood at 49.7 percent and 18.8 percent, respectively, in December 2019. The ratio of gross non-performing loans (NPLs) to gross loans declined further to 12.0 percent in December from 12.3 percent in October 2019. There were decreases in NPLs in the trade, real estate, financial services, manufacturing and personal/household sectors, reflecting repayments due to enhanced recovery efforts by banks, as well as write-offs.
- Private sector credit grew by 7.1 percent in the 12 months to December 2019. This was observed mainly in the following sectors: manufacturing (9.2 percent); trade (8.9 percent); transport and communication (8.1 percent); and consumer durables (26.0 percent). Growth in private sector credit particularly to Micro, Small and Medium-sized Enterprises (MSMEs) is expected to increase gradually due to the deployment of innovative MSME credit products, the repeal of interest rate caps and the continued easing of credit risk.

- The economy remained resilient in 2019, with data for the third quarter showing that real GDP grew by 5.4 percent in the first three quarters. This growth was supported by macroeconomic stability, growth of MSMEs, and a robust services sector particularly accommodation and restaurant, information and communications technology, and transport and storage. Stronger growth is expected in 2020 supported by, among others, the recovery of the agricultural sector due to the recent interventions by the Government, stronger growth of MSMEs, robust private sector credit growth, continued implementation of the *Big 4* agenda and a stable macroeconomic environment.
- The MPC Private Sector Market Perception Survey conducted in January 2020 indicates that inflation expectations remain well anchored, mainly due to expected lower food and electricity prices. However, some respondents expect that the recent disruptive rainfall and locust invasion in some parts of the country could lead to post-harvest losses and exert moderate upward pressure on food prices. Respondents remained optimistic on economic prospects due to, among other factors, payments of pending bills by the government, improving weather conditions, implementation of the *Big 4* agenda projects, improved lending to the private sector following the repeal of interest rate caps, renewed focus by the Government on agriculture and MSMEs, and a stable macroeconomic environment.
- Globally, uncertainties remain elevated mainly due to continuing geopolitical and trade tensions. However, market sentiments were improved by the recent trade agreement between China and the U.S., progress in the Brexit process, and the positive impact of accommodative monetary policy on growth in the major advanced economies. However, the risks of increased volatility in the global financial markets remain high.

The MPC noted that inflation expectations remained well anchored within the target range, that the economy continued to operate below its potential level, and the tightening of fiscal policy. The Committee assessed that the effects of the lowering of the CBR in November 2019 continued to be transmitted in the economy, but also noted that there was room for further accommodative monetary policy to support economic activity. The MPC therefore decided to lower the CBR to 8.25 percent from 8.50 percent. The Committee will closely monitor the impact of this change to its policy stance.

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 27, 2020