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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on April 29, 2020, against a backdrop of the global COVID-19 (coronavirus) pandemic and measures taken by authorities around the world to contain the spread and impact of the pandemic. The MPC assessed the economic impact so far, and the outcomes of its policy measures that were deployed in March to mitigate the adverse economic and financial disruptions.

- The global economic outlook remains highly uncertain in 2020, with latest global growth projections indicating a sharp contraction. Across the world, severe interruption across all activities, and restrictions on movement of people have resulted in a sharp increase in unemployment levels, constrained supply chains and reduced production. Global financial markets continue to experience increased volatility impacting asset and commodity prices. Authorities have implemented a wide range of accommodative policies to mitigate the health, social, economic and financial impact of the pandemic. Nevertheless, the pace of the recovery will depend on the intensity and duration of the pandemic.
- The effects of the policy actions deployed during its previous meeting in March—when it lowered the Central Bank Rate (CBR) and the Cash Reserve Ratio (CRR)—continue to be transmitted through the economy. As a result of the reduction in CRR in March, 43.5 percent of the funds released to the banking system have been utilized so far, with the tourism, real estate, trade and agriculture sectors being the main beneficiaries. In line with the additional emergency measures announced by CBK on March 18, loans amounting to KES 81.7 billion have been restructured, mainly to Tourism, Restaurants and Hotels (31 percent); Real Estate (17.2 percent); Building and Construction (17.0 percent) and Trade (12.4 percent).
- The Committee noted the fiscal measures that were announced to cushion Kenyans and the economy from the negative impact of COVID-19. These measures are incremental and largely targeted to the most vulnerable groups. The Government has also increased spending in the health sector to contain the pandemic. These measures will result in a fiscal impulse estimated at 2 percent of GDP in FY2019/20.
- The recently released Economic Survey 2020 indicated that the economy grew by 5.4 percent in 2019. This growth was supported mainly by the service-oriented sectors, particularly wholesale and retail trade, transport and storage, information and communication, and accommodation and restaurants. Leading indicators of economic activity show that growth was resilient in the first quarter of 2020 before the impact of COVID-19. Taking into account the recent growth projections for our trading partners, Kenya’s GDP growth in 2020 is forecast to decline sharply to about 2.3 percent.
- A special MPC Private Sector Market Perception Survey in April, targeting hotels and commercial banks, indicated that virtually all hotel bookings for the second quarter of 2020 were cancelled. This arose from anxieties occasioned by the pandemic, and travel restrictions. In addition, a substantial number of layoffs and furloughs in the hotel sector were noted, as well as a significant number of hotel closures. Nevertheless, all respondents expressed confidence in the measures rolled out by the Government to mitigate the economic impact of COVID-19.

- Following a revision of the balance of payments data over the last five years, the current account deficit was at 5.8 percent of GDP in 2018 and 2019. Taking into consideration the impact of COVID-19, the current account deficit is expected to remain at 5.8 percent in 2020, with the lower oil imports more than offsetting the projected reduction in remittances. However, horticulture exports and receipts from transport and tourism services are expected to decline due to the impact of COVID-19. Analyses of the impact of the pandemic shows a significant decline in horticulture exports particularly flowers from March to mid-April 2020, mainly due to reduced demand in Kenya's key export market destinations. The latest information shows that orders have started to return, reflecting the impact of mitigation measures put in place by the Government particularly those targeted at maintaining cargo flights. This also reflects the lifting of lockdown measures and easing of supply restrictions in some of the key destination markets, and availability of additional cargo space offered by several airlines.
- 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 12.5 percent in March compared to 12.7 percent in February, mainly reflecting stronger growth in gross loans relative to NPLs. Given the critical role of Micro Small and Medium sized Enterprises (MSMEs) in the economy, there is urgent need for more interventions to support the sector, such as by a Credit Guarantee Scheme to de-risk lending by banks and increase credit uptake in the sector.
- Private sector credit grew by 8.9 percent in the 12 months to March 2020. This growth was observed mainly in the following sectors: manufacturing (17.4 percent); building and construction (9.5 percent); trade (7.8 percent); transport and communication (7.1 percent); and consumer durables (24.1 percent). The overall growth in private sector credit, was supported by the lowering of the lending rate by commercial banks in response to the reduction in the CBR, improvement in liquidity and credit market conditions following the reduction in the Cash Reserve Ratio and other banking sector measures deployed in March to support access to credit and loan repayments by customers that are distressed as a result of COVID-19. Borrowers who are facing COVID-19-related challenges, whose loans were performing on March 2, are reminded to approach their banks and discuss restructuring options.
- Overall inflation is expected to remain within the target range in the near term, despite the disruptions occasioned by the pandemic, supported by the favourable weather conditions, lower international oil prices, and the reduction of Value Added Tax (VAT) from 16 percent to 14 percent. Demand pressures are expected to remain muted.

The Committee noted that the policy measures adopted in March were having the intended effect on the economy, and are still being transmitted. However, in light of the continuing adverse economic outlook, the MPC decided to augment its accommodative monetary policy stance. The MPC therefore decided to lower the Central Bank Rate (CBR) to 7.00 percent from 7.25 percent.

The MPC will 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. In this regard, the Committee decided to reconvene within a month.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

April 29, 2020