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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on June 25, 2020, against a backdrop of the ongoing global COVID-19 (coronavirus) pandemic, and measures taken by authorities around the world to contain its spread and impact. The MPC assessed the outcomes of its policy measures that have been deployed since March to mitigate the adverse economic effects and financial disruptions.

- The global economic outlook for 2020 has deteriorated further and remains highly uncertain. GDP across advanced economies is expected to contract more sharply in the second quarter than had been projected in April, following severe disruptions to trade and supply chains and the collapse in global travel. A more gradual recovery in global growth is expected in the second half of 2020, with the lifting of containment measures in several countries. However, risks to the recovery remain elevated particularly with regard to the severity and persistence of the pandemic across countries. Financial market volatility has moderated, but risks of further instability remain.
- Most recent leading indicators for the Kenyan economy point to strong growth in the first quarter of 2020. The indicators for the second quarter suggest that the impact of COVID-19 on the economy was most pronounced in April, with evidence of recovery in May supported by improved agricultural output and exports, although the services sector remains subdued. The measures by the Government to cushion businesses and households continue to moderate the impact of the pandemic.
- Overall inflation is expected to remain within the target range in the near term. This is supported by improving food supply due to favourable weather conditions, lower international oil prices, the impact of the reduction of VAT and muted demand pressures.
- In line with the emergency measures announced by CBK on March 18 to provide relief to borrowers, the repayment period of personal/household loans amounting to KES 199.1 billion (25 percent of the gross loans to this sector), had been extended by the end of May. For other sectors, a total of KES 480.6 billion had been restructured mainly to trade (23.7 percent), real estate (20.6 percent), tourism (12.5 percent), transport and communication (11.2 percent) and manufacturing (10.6 percent). Total loans that have been restructured are worth KES 679.6 billion and accounted for 23.4 percent of the total banking sector loan book of KES 2.9 trillion. These measures have provided the intended relief to borrowers.
- Additionally, the lowering of the Cash Reserve Ratio (CRR) in March released KES 35.2 billion to the banking sector, and continues to be transmitted through the economy. To date, KES 30.8 billion of the funds (87.6 percent) has been used to support lending, especially to the tourism, transport and communication, real estate, trade and manufacturing sectors.
- 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 13.0 percent in May, compared to 13.1 percent in April. Repayments and recoveries in the trade, manufacturing and real estate sectors were noted.

- Private sector credit grew by 8.1 percent in the 12 months to May. This growth was observed mainly in the following sectors: manufacturing (18.6 percent), trade (8.2 percent), finance and insurance (7.2 percent), building and construction (5.7 percent), and consumer durables (16.7 percent). The operationalisation of the prospective Credit Guarantee Scheme for the vulnerable Micro, Small and Medium sized Enterprises (MSMEs), which will de-risk lending by commercial banks, is critical to increasing credit to this sector.
- Following the weak performance of exports in April, a significant rebound was observed in May and so far in June. Exports of goods improved by 4.1 percent in the period January to May 2020, mainly driven by tea, horticulture and re-exports. In particular, the volume of tea exports increased by 23.5 percent. Horticulture exports are almost at normal levels, mainly due to a pickup in demand and easing of supply restrictions in key destination markets, and increased cargo capacity. As a result, receipts from tea and horticulture exports increased by 15.2 percent and 22.7 percent, respectively, in May 2020 compared to May 2019. Remittances recovered in May to USD258.2 million from USD208.2 million in April. Nevertheless, services exports were subdued due to the adverse impact of the pandemic on tourism and air transport services. The current account deficit is projected to remain stable at about 5.8 percent of GDP in 2020.
- The CBK foreign exchange reserves, which currently stand at USD9,210.6 million (5.53 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- Respondents to the MPC Private Sector Market Perception Survey conducted in June 2020, expect increased economic activity in the next two months. The survey indicated improved optimism, attributed to the supportive measures rolled out by the Government including the Economic Stimulus Programme, the commitment by the Government to payment of pending bills, improved weather conditions and the commencement of reopening of some of the key trading partners' economies. Nevertheless, the adverse economic impact of some of the containment measures was noted.
- The Committee noted the fiscal measures announced by the Government in the Budget Statement for FY2020/21, to stimulate the economy and cushion vulnerable citizens and businesses from the adverse effects of COVID-19. In particular, the Economic Stimulus Programme targets to support growth of key sectors of the economy including agriculture and food security, infrastructure development, tourism, manufacturing, education, health, information and communications and the MSMEs.
- The Committee welcomed the positive impact of the emergency measures announced by CBK on March 16 to enhance the usage of mobile money transactions, and welcomed the extension of these measures on June 24. In particular, the measures facilitate official and personal transfers to vulnerable households.

The Committee noted that the package of policy measures adopted since March were having the intended effect on the economy, and will be augmented by the announced fiscal measures. 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 continue to 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 one month.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

June 25, 2020