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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on July 29, 2020, against a backdrop of the continuing 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 from the pandemic.

- The global economic outlook for 2020 remains highly uncertain, reflecting the unpredictability of the severity and persistence of the COVID-19 pandemic. After a sharp contraction in the first half of 2020, global economic activity is expected to recover gradually in the second half, mainly reflecting the impact of the lifting of COVID-19 containment measures and the effects of the fiscal and monetary policy measures put in place. Nevertheless, risks to the recovery of the global economy remain elevated, particularly with the recent resurgence of COVID-19 infections in countries that had commenced re-opening. Although volatility in the global financial markets has moderated, risks of further instability remain.
- The Kenyan economy remained resilient in the first quarter of 2020. Real GDP grew by 4.9 percent compared to the first quarter of 2019, mainly supported by agricultural production. Leading economic indicators for the second quarter point to continued strong performance in agriculture, mainly due to favourable weather conditions and the lifting of restrictions in the key export markets. However, against a backdrop of severe disruptions from the COVID-19 containment measures, the services sector remained subdued, particularly hotels and restaurants, and the education sector. The measures by the Government to cushion businesses and households continue to moderate the impact of the pandemic.
- Respondents to the MPC Private Sector Market Perception Survey conducted in July 2020, indicated improvement in their optimism, and expectation of increased economic activity in the next two months particularly with the recent easing of movement restrictions. Other factors that contributed to this optimism include the impact of the fiscal and monetary policy measures to cushion the economy from the effects of the pandemic, favourable weather conditions, continued payment of pending bills by the Government, and strong diaspora remittances. Nevertheless, uncertainties with regard to the increasing rate of COVID-19 infections were noted.
- Inflation remains well anchored. Month-on-month overall inflation declined to 4.6 percent in June from 5.3 percent in May 2020, and is expected to remain within the target range in the near term. This is supported by lower food prices, the impact of the reduction of VAT and muted demand pressures.
- 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 13.1 percent in June, compared to 13.0 percent in May. NPL increases were noted in the manufacturing, trade and personal sectors, due to a subdued business environment.

- Total loans amounting to KES 844.4 billion have been restructured (29 percent of the total banking sector loan book of KES 2.9 trillion) by the end of June, in line with the emergency measures announced by CBK on March 18. Of this, personal/household loans amounting to KES 240 billion (30 percent of the gross loans to this sector) have had their repayment period extended. For other sectors, a total of KES 604.4 billion had been restructured mainly to trade (22.9 percent), real estate (19.5 percent), transport and communication (16.3 percent) and manufacturing (14.0 percent). These measures have provided the intended relief to borrowers.
- Of the KES 35.2 billion that was released by the lowering of the Cash Reserve Ratio (CRR) in March, KES 31.4 billion (89.1 percent) has been used to support lending, especially to the tourism, transport and communication, real estate, trade and manufacturing sectors.
- The imminent operationalisation of the Credit Guarantee Scheme for the vulnerable Micro Small and Medium sized Enterprises (MSMEs), will de-risk lending by commercial banks, and is critical to increasing credit to this sector. In the 12 months to June 2020, private sector credit grew by 7.6 percent, with the strongest growth observed in the following sectors: manufacturing (12.3 percent), trade (8.4 percent), transport and communications (14.9 percent), and consumer durables (15.2 percent).
- Despite the impact of the pandemic, exports of goods have rebounded, growing by 1.7 percent in the first half of 2020 compared to a similar period in 2019. Receipts from tea exports over this period increased by 18.4 percent with increased production. Horticulture exports declined by 14.2 percent, largely reflecting the sharp contraction in flower exports in April. Since then, flower exports have recovered, reflecting increasing demand from key export markets with easing of restrictions and containment measures, and increased cargo space—volumes between July 1 and 19 2020 were 80 percent of volumes in July 2019. Remittances remained strong in June, rising to USD288.5 million from USD258.2 million in May. However, services exports declined by 20.0 percent in the first half of 2020 reflecting the weakness in tourism and air transportation. Consequently, the current account deficit is projected at about 5.1 percent of GDP in 2020.
- The CBK foreign exchange reserves, which currently stand at USD9,349.9 million (5.67 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- Progress was noted on the implementation of the fiscal policy measures announced in the FY2020/21 Budget, including the KES56.6 billion Economic Stimulus Programme, to stimulate the economy and cushion vulnerable citizens and businesses from the adverse effects of the pandemic.

The Committee noted that the package of policy measures implemented since March were having the intended effect on the economy, and will be augmented by the implementation of the measures in the FY2020/21 Budget. 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. The Committee will meet again in September 2020, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

July 29, 2020