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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on May 30, 2022, against a backdrop of a changed global outlook, with elevated global inflationary pressures, heightened geopolitical tensions, rising commodity prices, the COVID-19 (coronavirus) pandemic and measures taken by authorities around the world in response to these developments. The MPC reviewed the outcomes of its previous decisions and the measures implemented to mitigate the adverse economic impact and the financial disruptions.

- Overall inflation increased to 6.5 percent in April 2022 from 5.6 percent in March, mainly due to higher food and fuel prices. Food inflation rose to 12.1 percent in April from 9.9 percent in March, largely on account of vegetable prices due to seasonal factors, and the impact of global supply chain disruptions on cooking oil prices. Fuel inflation increased to 8.5 percent from 5.8 percent driven by the rise in international oil prices. However, this increase was moderated by Government measures to stabilise fuel prices and lower electricity tariffs. Additionally, the recent waiver of import duty on maize, and subsidies on fertilizer prices are expected to continue to moderate domestic prices.
- The global economic outlook has become more uncertain, reflecting the impact of the ongoing Russia-Ukraine conflict, uncertainty about the required policy responses in the advanced economies, effects of COVID-19 containment measures in China, and persistent supply chain disruptions. The pace of global economic growth has decelerated mainly reflecting the slowdown in the U.S. and China. Global inflationary pressures remain elevated reflecting the impact of the sharp increase in prices of commodities particularly fuel, fertiliser, edible oils, and wheat. Financial market volatility has also increased significantly amid the recent adjustments in monetary policy in advanced economies.
- The Committee noted the adverse impact of the ongoing Russia-Ukraine conflict and other global disruptions on the Kenyan economy through increases in commodity prices particularly fuel, wheat, edible oils and fertiliser.
- The recently released *Economic Survey 2022* confirmed that the Kenyan economy rebounded strongly in 2021 following the easing of COVID-19 restrictions, with real GDP growing by 7.5 percent from a contraction of 0.3 percent in 2020. This performance reflects recovery in key sectors—manufacturing, wholesale and retail trade, education, accommodation and food services, real estate, transport and storage, and financial and insurance sectors. Leading economic indicators show continued strong performance in the first quarter of 2022, supported by robust activity in construction, information and communication, wholesale and retail trade, transport and storage, and manufacturing sectors. The economy is expected to remain resilient in 2022, with continued strong performance of the services and manufacturing sectors despite the downside risks to global growth.
- The three surveys conducted ahead of the MPC meeting—Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of Hotels—revealed continued optimism about business activity and economic growth prospects for 2022. The optimism was attributed to continued post COVID-19 recovery, improving employment conditions, easing of international travel restrictions, and increased Government infrastructure spending. Nevertheless, respondents remained concerned

about rising inflation, the impact of the Russia-Ukraine conflict on commodity prices, supply chain disruptions, and increased political activity. The Survey of Hotels revealed sustained strong activity in the sector, and most hotels are expecting to attain pre-pandemic levels of operations by the end of 2022. However, employment levels in hotels are yet to reach pre-pandemic levels.

- Exports of goods have remained strong, growing by 11.1 percent in the 12 months to April 2022 compared to a similar period in 2021. In particular, receipts from tea and manufactured goods exports increased by 1.3 percent and 25.2 percent respectively over the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets. Receipts from horticulture exports declined by 2.2 percent in the 12 months to April 2022 compared to a similar period in 2021. Imports of goods increased by 29.0 percent in the 12 months to April 2022 compared to a decline of 5.7 percent in the 12 months to April 2021, mainly reflecting increased imports of oil and intermediate goods. Tourism and transportation receipts have increased as international travel continues to improve. Remittances totalled USD3,968 million in the 12 months to April 2022, and were 20.0 percent higher compared to a similar period in 2021. While the current account deficit is estimated at 5.1 percent of GDP in the 12 months to April 2022, it is projected at 5.9 percent of GDP in 2022 on account of higher international oil prices.
- The CBK foreign exchange reserves, which currently stand at USD8,179 million (4.86 months of import cover), continue to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.
- 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 14.1 percent in April 2022, compared to 14.0 percent in February. NPLs increases were noted in the building and construction, manufacturing, trade and transport and communication sectors. These increases were attributable to specific challenges in the respective businesses, and banks have continued to make provisions for the NPLs.
- Growth in private sector credit increased to 11.5 percent in April 2022, from 9.1 percent in February. Strong credit growth was observed in the following sectors: transport and communication (28.9 percent), manufacturing (12.0 percent), trade (10.7 percent), consumer durables (16.1 percent), and business services (12.2 percent). The number of loan applications and approvals remained strong, reflecting improved demand with increased economic activities.
- The Committee noted the steady implementation of the FY2021/22 Government Budget, particularly the strong revenue performance to April 2022 reflecting enhanced tax collection efforts and increased economic activity. The Economic Stimulus Programme in the FY2022/23 Government Budget was also noted, and is expected to continue to support the economy and cushion the most vulnerable.

The Committee noted the elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions, and concluded that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations. In view of these developments, the MPC decided to raise the Central Bank Rate (CBR) from 7.00 percent to 7.50 percent.

The Committee will closely monitor the impact of the policy measures, 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 July 2022, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

May 30, 2022