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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on March 23, 2020, in the context of the ongoing global COVID-19 (coronavirus) pandemic, which has devastated many countries, with significant human, economic and social costs. Consequently, the global economic outlook has been highly uncertain, with unprecedented turmoil in the financial markets even as policymakers in the advanced economies announced ambitious supportive packages. While the extent of the adverse effects of the pandemic on the Kenyan economy is still evolving, it is already evident that the impact may be severe. Against this backdrop, the MPC's deliberations focused on minimising the economic and financial impact, noting the following:

- Overall inflation is expected to remain within the target range in the near term, reflecting lower food prices with the favourable weather conditions, a decline in international oil prices and muted demand pressures.
- As a result of the pandemic, economic growth is expected to decline significantly in 2020, from a baseline estimate of 6.2 percent to possibly 3.4 percent, arising from reduced demand by Kenya's main trading partners, disruptions of supply chains and domestic production. The fundamental concerns and anxieties centre on the health impact, job losses, and duration of the crisis. The ongoing interventions by the Government are aimed at containing the pandemic and moderating the economic and social impact.
- The foreign exchange market has recently experienced some volatility largely due to uncertainties with regard to the impact of COVID-19 and a significant strengthening of the US dollar in the global markets. The current account deficit is projected at 4.0–4.6 percent of GDP in 2020, but the outcome will depend on the duration and intensity of the pandemic, and its impact on exports particularly horticulture, transport and tourism services, and imports. A lower petroleum products import bill is also expected to moderate the impact of COVID-19 on the current account.
- The CBK foreign exchange reserves, which currently stand at USD8,251 million (5.01 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 51.1 percent and 18.7 percent, respectively, in February. The ratio of gross non-performing loans (NPLs) to gross loans stood at 12.7 percent in February 2020 compared to 12.0 percent in December,

mainly reflecting increases in NPLs in the manufacturing, energy and personal/household sectors. To mitigate the potential adverse impact on borrowers from COVID-19, a set of emergency measures was announced recently by CBK to be undertaken by banks.

- Private sector credit grew by 7.7 percent in the 12 months to February 2020. This growth was observed mainly in the following sectors: manufacturing (10.4 percent); trade (9.5 percent); transport and communication (7.4 percent); and consumer durables (20.6 percent). However, growth in private sector credit will likely moderate due to the expected weakening in economic activity in the key sectors affected by COVID-19.
- The MPC Private Sector Market Perception Survey conducted in early March 2020 indicated that inflation expectations remained well anchored, mainly due to expected lower food and energy prices. However, respondents revised downwards their optimism on economic prospects, due to COVID-19 concerns. Nevertheless, they expressed a favourable outlook about the renewed focus on MSMEs and agriculture, payments of pending bills by the government, the decline in international oil prices, benefits from infrastructure investments, and improved lending to the private sector.
- Global growth is highly uncertain but expected to weaken significantly in 2020, mainly due to the adverse direct and indirect impact of COVID-19 across the world. Trade flows have been significantly disrupted, while the continued volatility in international financial markets will worsen the outlook. In a shift of stance, central banks in the major advanced economies are implementing accommodative monetary policy to stabilise the financial markets and support economic growth.

In light of this adverse economic outlook, the MPC therefore decided on the following policy actions to prevent the COVID-19 health crisis becoming a severe economic and financial crisis:

a) To lower the Central Bank Rate (CBR) to 7.25 percent from 8.25 percent.
b) To reduce the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent, releasing KES.35.2 billion as additional liquidity availed to banks to directly support borrowers that are distressed as a result of COVID-19.

Additionally, CBK will ensure that the interbank market and liquidity management across the sector continue to function smoothly. CBK looks forward to the implementation of a comprehensive package of supportive measures by the Government, private sector and labour unions.

The MPC will closely monitor the impact of this change to its policy stance, 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 for an early assessment of the impact of these measures and the evolution of the COVID-19 pandemic.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

March 23, 2020