

**GOVERNOR**

**BANKI  
KUU YA  
KENYA**



**CENTRAL  
BANK OF  
KENYA**

Haile Selassie Avenue  
P. O. Box 60000-00200 Nairobi, Kenya  
Telephone: 2861003/24 Fax: 2716556

## **PRESS RELEASE**

### **MONETARY POLICY COMMITTEE MEETING**

The Monetary Policy Committee (MPC) met on May 27, 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 economic impact so far, and the outcomes of its policy measures that were deployed in March and April to mitigate the adverse economic effects and financial disruptions.

- The global economic outlook in 2020 has deteriorated further and remains highly uncertain. GDP across the advanced economies contracted sharply in the first quarter, mainly reflecting widespread business closures, severe disruptions to trade and supply chains, and the collapse in global travel. The growth is expected to worsen further in the second quarter, with the imposition of more stringent containment measures. Several countries have commenced limited and cautious reopening of their economies, but risks remain elevated on a possible resurgence of the pandemic. Additionally, the re-emergence of US-China trade tensions portends a significant risk to the recovery of the global economy.
- In contrast, leading indicators of the Kenyan economy point to relatively strong GDP growth in the first quarter of 2020. Nevertheless, growth is expected to weaken in the second quarter, due to the adverse impact of the containment measures, particularly in transport and storage, trade and accommodation and restaurants. As a result, real GDP growth in 2020 could slow to about 2.3 percent from 5.4 percent in 2019.
- Overall inflation is expected to remain within the target range in the near term. This is supported by the improving food supply due to favourable weather conditions, lower international oil prices, the impact of the reduction of VAT and muted demand pressures.
- 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, 82.6 percent of the funds (or KES 29.1 billion) has been channeled to support lending, especially to the tourism, transport and communication, real estate, trade and agriculture sectors.
- In line with the additional emergency measures announced by CBK on March 18 to provide relief to borrowers, the repayment period of personal/household loans amounting to KES 102.5 billion, or 13.1 percent of the banking sector personal/household gross loans, had been extended by the end of April. For other sectors, a total of KES 170.6 billion had been restructured mainly to Trade (43.5 percent), Manufacturing (13.6 percent), Tourism (9.0 percent) and Real Estate (9.8 percent). Total loans restructured worth KES 273.1 billion accounted for 9.5 percent of the total banking sector loan book of KES 2.8 trillion. These measures have begun to provide the intended relief to borrowers.
- 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 April, compared to 12.5 percent in March. This was due to increased NPLs in the real estate, trade and manufacturing sectors following a further slowdown in economic activity in these

sectors. The measures announced by CBK in March waiving charges on mobile money bank account to electronic wallet transfers have seen the average number and value of bank to e-wallet transactions increase by 488,000 transactions per week, valued at KES166 million. Banks have continued to operate smoothly across the country throughout the pandemic period, serving customers both from branches and digital channels.

- Private sector credit grew by 9.0 percent in the 12 months to April 2020. This growth was observed mainly in the following sectors: manufacturing (20.1 percent), trade (10.3 percent), transport and communication (9.1 percent), building and construction (7.7 percent), and consumer durables (19.6 percent). Credit uptake by MSMEs is expected to increase particularly with the prospective Credit Guarantee Scheme, which will de-risk lending to the sector.
- Horticultural exports are normalising as the volume increased by 6.9 percent in April 2020 compared to April 2019. Further, these exports in the first half of May 2020 were 63 percent of exports in the entire month of May 2019. The volume of flower exports was lower by 36.5 percent in April 2020 compared to April 2019, but higher prices moderated the impact of the lower volumes. The sector will continue to benefit from the recent cessation of restrictions in key destination markets and increased cargo capacity. The current account deficit is projected to remain stable at 5.8 percent of GDP in 2020, with lower oil imports more than offsetting the expected decline in remittances and exports.
- The CBK foreign exchange reserves, which currently stand at USD8,341.5 million (5.02 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- The MPC Private Sector Market Perception Survey conducted in May 2020, indicated that inflation expectations remained well anchored. Respondents moderated their optimism on economic growth prospects in 2020, on account of the uncertainties and impact of the pandemic on key sectors. Nevertheless, they were optimistic that the fiscal and monetary policy interventions deployed to mitigate the effects of the pandemic would stimulate economic activity and support stability of the banking system.
- The Committee noted the additional fiscal measures under the Economic Stimulus Programme announced by the Government to cushion vulnerable citizens and businesses from the adverse effects of the pandemic, and enhance economic activity. These measures are expected to be implemented expeditiously in FY2020/21, and will focus on key sectors of the economy including agriculture and food security, tourism, manufacturing, education, health, information and communications and the Micro Small and Medium sized Enterprises (MSMEs).

The Committee noted that the policy measures adopted in March and April were having the intended effect on the economy, and are still being transmitted. 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 a month.

**Dr. Patrick Njoroge**  
**CHAIRMAN, MONETARY POLICY COMMITTEE**

May 27, 2020