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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on May 27, 2019, to review the outcome of its previous policy decisions and recent economic developments. The meeting was held against a backdrop of domestic macroeconomic stability, sustained optimism on the economic growth prospects, improving weather conditions in most parts of the country and increased uncertainties in the global financial markets.

- Month-on-month overall inflation remained within the target range in March and April 2019. The inflation rate stood at 6.6 percent in April compared to 4.4 percent in March, mainly reflecting increases in food prices attributed to depressed supply of vegetables and other fast-growing food crops following the delayed onset of the long rains. Food inflation rose to 7.7 percent in April from 2.9 percent in March. However, non-food-non-fuel (NFNF) inflation remained below 5 percent, indicating that demand pressures and the spillovers of the rise in food and fuel prices were muted. Overall inflation is expected to remain within the target range in the near term largely due to expectations of lower food prices following improving weather conditions, and lower electricity prices with the reduced usage of expensive power sources. Additionally, a timely release of maize stocks from the Strategic Grain Reserve will support the stability of food prices.
- The foreign exchange market has remained stable supported by the narrowing of the current account deficit to 4.5 percent of GDP in the 12 months to April 2019 from 5.5 percent in April 2018. This reflects resilient performance of exports particularly horticulture and coffee, strong diaspora remittances, and higher receipts from tourism and transport services. Additionally, growth in imports slowed mainly due to lower imports of food. The current account deficit is expected to narrow to 4.8 percent of GDP in 2019 from 5.0 percent in 2018.
- The Government successfully issued a USD2.1 billion Eurobond in May, with a performance rate of 452 percent and favourable pricing. This reaffirmed investors' confidence in the Kenyan economy. Consequently, foreign exchange reserves rose to an all-time high of USD10,056 million (6.4 months of import cover), and continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- Private sector credit grew by 4.9 percent in the 12 months to April, compared to 4.3 percent in March. Strong growth in credit to the private sector was observed in the following sectors: manufacturing (7.9 percent); trade (8.4 percent); finance and insurance (13.3 percent); and consumer durables (16.4 percent). Private sector credit growth is expected to continue to strengthen in the remainder of 2019.
- The Committee noted the rollout of innovative credit products, particularly those targeting Micro Small and Medium Enterprises (MSMEs). These products are expected to drive lending to this sector which has previously been constrained of credit. The Committee looks forward to an assessment of the initial impact of these products.

- The banking sector remains stable and resilient. Average commercial banks’ liquidity and capital adequacy ratios stood at 51.0 percent and 18.3 percent, respectively, in April. The ratio of gross non-performing loans (NPLs) to gross loans stood at 12.9 percent in April compared to 12.8 percent in February, reflecting increases in NPLs mainly in the personal/household, real estate and manufacturing sectors. Banks have continued with mitigation measures, including enhanced recovery efforts. Additionally, prompt settlement of delayed payments by government and private sector entities will curtail a further increase in NPLs and support economic growth.
- The economy recovered strongly in 2018, with real GDP growth increasing to 6.3 percent from 4.9 percent in 2017. This reflected a strong recovery in agriculture, manufacturing, and a buoyant services sector, particularly trade, information and communication, accommodation and restaurants, transport and storage, and finance and insurance. Leading indicators of economic activity show that growth remained resilient in the first quarter of 2019, despite the delayed onset of the long rains. Growth in 2019 is expected to be supported by agricultural production, robust growth of MSMEs and the service sector, increased foreign direct investment and a stable macroeconomic environment. Additionally, the continued alignment of Government spending to the *Big 4* priority sectors is expected to boost economic activity in manufacturing, agriculture, construction and real estate, and health sectors.
- The MPC Private Sector Market Perception Survey conducted in May 2019 indicated that inflation expectations remained well anchored within the target range, with expectations of lower food prices following improved weather conditions, and the stability in the exchange rate. The Survey also showed sustained optimism that economic growth would remain strong in 2019 due to, among other factors, ongoing public infrastructure investments, implementation of the *Big 4* projects by the Government, expected growth in tourism, a stable macroeconomic environment and improved investor confidence in the economy. However, the optimism was tempered by the rise in international oil prices, risk of insufficient long rains and concerns on the likely implications of global developments on Kenya’s exports.
- Global growth is expected to slow down in 2019, largely due to the escalation of trade tensions between the U.S. and China, increased uncertainties over the nature of Brexit, and the pace of normalization of monetary policy in the advanced economies. These developments may result in increased volatility in the global financial markets.

The Committee noted that inflation expectations remained well anchored within the target range, but there is need to remain vigilant on possible spillovers of recent food and fuel price increases. The Committee further noted that the economy was operating close to its potential. The MPC concluded that the current policy stance remains appropriate, and will continue to monitor any perverse response to its previous decisions. The Committee therefore decided to retain the CBR at 9.00 percent.

The MPC will continue to closely monitor developments in the global and domestic economy, and stands ready to take additional measures as necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

May 27, 2019