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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on January 26, 2022, against a backdrop of the COVID-19 (coronavirus) pandemic, measures taken by authorities around the world to contain its spread and impact, and the evolving global outlook. The MPC reviewed the outcomes of its previous decisions, including measures implemented to mitigate the adverse economic effects and financial disruptions from the pandemic.

- Overall inflation declined to 5.7 percent in December 2021 from 5.8 percent in November, mainly due to lower food prices. Food inflation declined to 9.1 percent in December from 9.9 percent in November, reflecting the impact of improved rainfall on fast-growing food crops. Fuel inflation remained elevated at 10.5 percent in December, due to the impact of higher international oil prices. Inflation is expected to remain within the target range in the near term, with muted demand pressures and the impact of Government measures to lower electricity tariffs and stabilize fuel prices.
- A weaker global growth is projected for 2022 and 2023, driven by expected lower growth in the two largest economies (the United States and China). Uncertainties in the global economic outlook have also increased, reflecting elevated risks from COVID-19 variants, supply chain disruptions, oil price volatility, and inflation developments. The risk of increased volatility in the global financial markets remains high as a result of uncertainties regarding policy actions in the advanced economies.
- The recently released GDP data for the third quarter together with leading indicators confirm that the Kenyan economy rebounded strongly in 2021, following the easing of COVID-19 restrictions and the impact of government interventions. Real GDP grew by 9.9 percent in the third quarter of 2021 compared to a contraction of 2.1 percent in the third quarter of 2020. This was driven by the strong recovery of the services sector particularly transport and storage, education, information and communication, wholesale and retail trade, and the improved performance of the manufacturing and construction sectors. The economy is expected to remain strong in 2022, supported by continued strong performance of the services sector, recovery in agriculture, and an improvement in global demand.
- 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. Respondents attributed this optimism to the continued recovery of key sectors supported by government stimulus programmes, lower inflation, increased COVID-19 vaccinations, and expected reduction in the cost of doing business on account of reduced electricity costs. Nonetheless, respondents remain concerned about the lingering effects of the pandemic and the effects of increased political activity. The Survey of Hotels revealed that bed occupancy and restaurant services were at their highest levels in December 2021 since the onset of the pandemic.

- Exports of goods registered strong growth of 11.1 percent in 2021 compared to 3.2 percent in 2020. In particular, receipts from horticulture and manufactured goods exports increased by 18.9 percent and 33.4 percent, respectively, in 2021 compared to 2020. Despite growing by 11.7 percent in the fourth quarter with the improved demand from traditional markets, receipts from tea exports declined by 2.7 percent in 2021 due to the impact of accelerated purchases in 2020. Imports of goods increased by 25.4 percent in 2021 compared to the decline of 12.4 percent in 2020, reflecting increased imports of oil and other intermediate goods. Tourism and transportation receipts have increased as international travel continues to improve. Remittances were at an all-time record of USD3,718 million in 2021, and were 20.2 percent higher compared to 2020. The current account deficit is estimated at 5.4 percent of GDP in 2021, and is projected to remain stable at 5.2 percent of GDP in 2022.
- The CBK foreign exchange reserves, which currently stand at USD8,290 million (5.07 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, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.1 percent in December 2021, compared to 13.6 percent in October. Repayments and recoveries were noted in the manufacturing, personal and household, transport and communication and building and construction sectors. The banking sector registered a strong performance in the year ended December 31, 2021, with the asset base increasing by 11.1 percent from Ksh.5.4 trillion at end of 2020 to Ksh.6.0 trillion. The performance was underpinned by banks reviewing their business models leveraging on technology and innovation, enhanced capital and liquidity buffers and a continued focus on *customer centricity*.
- Growth in private sector credit increased to 8.6 percent in December 2021, from 7.8 percent in October. Strong credit growth was observed in the following sectors: transport and communication (14.3 percent), manufacturing (13.1 percent), trade (8.5 percent), consumer durables (15.0 percent), and business services (9.5 percent). The number of loan applications remained strong in December, reflecting improved demand with increased economic activities.
- The Committee noted the robust implementation of the FY2021/22 Government Budget, particularly the strong rebound in revenue performance to December 2021 reflecting the pickup of economic activity and improvement in the business environment. The continued rollout of the *Economic Stimulus Programme* and *Economic Recovery Strategy* were also noted, and are expected to continue to support the economy.

The Committee noted that inflation expectations remain anchored within the target range, and leading economic indicators showed continued robust performance. The MPC also noted the elevated global risks, and their potential impact on the domestic economy. The Committee 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 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 March 2022, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

January 26, 2022