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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) met on September 29, 2022, against a backdrop of significant global uncertainties, volatile financial markets, a weaker growth outlook, persistent inflationary pressures, geopolitical tensions, lingering effects of 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 measures implemented to mitigate the adverse economic impact and financial disruptions.

- Overall inflation increased to 8.5 percent in August 2022 from 8.3 percent in July, due to increases in food and fuel prices. Food inflation remained elevated at 15.3 percent in July and August, largely due to prices of maize grain and flour, and edible oils and wheat products due to the impact of supply chain disruptions. Fuel inflation increased to 8.6 percent in August from 8.0 percent in July, mainly driven by fuel and gas (LPG) on account of higher international oil prices. Overall inflation is expected to remain elevated in the near term, due in part to the scaling down of the Government price support measures, resulting in increases in fuel and electricity prices, the impact of tax measures in the FY 2022/23 Budget, and global inflationary pressures.
- The volatility in global financial markets has surged amid significant US dollar strength against major currencies, and rapid changes in policy stance in advanced economies in response to inflationary pressures. Inflation in the advanced economies remains elevated mainly reflecting high oil and gas prices and lingering supply chain challenges, despite the recent moderation in commodity prices. The global economic outlook has weakened, reflecting the impact of a rapid tightening of monetary policy in advanced economies particularly the U.S, the ongoing war in Ukraine, and the lingering pandemic-related disruptions particularly in China.
- Leading indicators of economic activity for the Kenyan economy show continued good performance in the second quarter of 2022, supported by robust activity in transport and storage, wholesale and retail trade, construction, information and communication, and accommodation and food services. The economy is expected to remain resilient in the remainder of 2022, supported by the services sector despite subdued performance in agriculture and weaker global growth.
- Two of the surveys conducted ahead of the MPC meeting—the CEOs Survey and Private Sector Market Perceptions Survey—revealed stronger optimism about business activity and economic growth prospects for 2022. The optimism was attributed to positive sentiments and renewed investor confidence following the conclusion of the elections, increased business activity post-election, and anticipated new government policies. Nevertheless, respondents remained concerned about domestic and global inflation, energy costs, poor weather conditions, and the continued war in Ukraine.
- The Survey of the Agriculture Sector conducted ahead of the meeting, revealed that prices of some food items particularly vegetables have declined due to increased supply with the improved weather conditions and onset of the harvest season. Additionally, respondents

expect agricultural output to improve in the next harvest season. Nevertheless, respondents identified transport costs due to the rise in fuel prices, adverse weather conditions, and the cost of inputs such as seeds and fertilizers as major factors constraining agricultural production.

- Exports of goods have remained strong, growing by 11.0 percent in the 12 months to August 2022 compared to a similar period in 2021. In particular, receipts from tea and manufactured goods exports increased by 10.9 percent and 20.8 percent respectively during the period. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets. Receipts from horticulture exports declined by 12.0 percent in the 12 months to August 2022 compared to a similar period in 2021. Imports of goods increased by 21.4 percent in the 12 months to August 2022 compared to an increase of 10.2 percent in the 12 months to August 2021, mainly reflecting increased imports of oil and intermediate goods. Tourism and transportation receipts have increased as international travel continues to improve. Remittances totalled USD3,992 million in the 12 months to August 2022, and were 14.7 percent higher compared to a similar period in 2021. While the current account deficit is estimated at 5.2 percent of GDP in the 12 months to August 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 USD7,409 million (4.18 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 14.2 percent in August 2022, compared to 14.7 percent in June. Repayments and recoveries were noted in the building and construction, manufacturing, and transport and communication sectors. Banks have continued to make adequate provisions for the NPLs.
- Growth in private sector credit stood at 12.5 percent in August 2022, compared to 12.3 percent in June. Strong credit growth was observed in the following sectors: manufacturing (15.2 percent), trade (13.3 percent), business services (16.1 percent, and consumer durables (14.3 percent). The number of loan applications and approvals remained strong, reflecting improved demand with increased economic activities.
- The Committee noted the ongoing implementation of the FY2022/23 Government Budget, particularly the strong tax revenue collection, reflecting enhanced tax administration efforts and increased economic activity.

The Committee noted the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy 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 7.50 percent to 8.25 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 November 2022, but remains ready to re-convene earlier if necessary.

Dr. Patrick Njoroge
CHAIRMAN, MONETARY POLICY COMMITTEE

September 29, 2022