



**Central Bank of Kenya**

# **MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION**

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Tuesday, June 27, 2023

Dr. Kamau Thugge, CBS  
Governor

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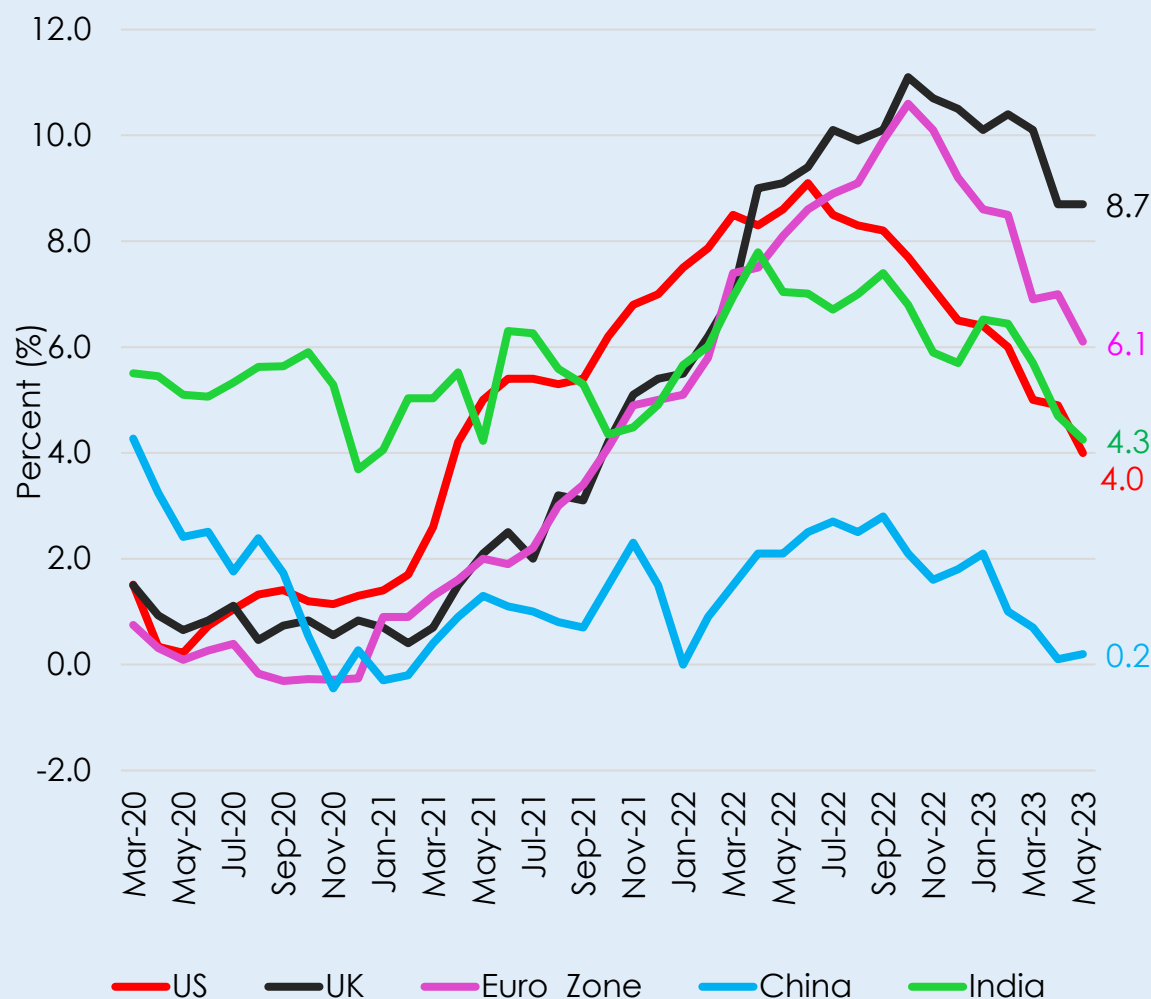
**During its Meeting on June 26, 2023, the Monetary Policy Committee (MPC) raised the Central Bank Rate (CBR) from 9.50 percent to 10.50 percent.**

- The MPC noted sustained inflationary pressures, increased risks to the inflation outlook, elevated global risks, and their potential impact on the domestic economy.
- The MPC thus concluded that there was scope for a further tightening of the monetary policy to anchor inflation expectations.
- The MPC will closely monitor the impact of the policy measures, as well as developments in the global and domestic economy, and stands ready to take further action as necessary.
- The Committee will meet again in July 2023.

## Global inflation:

Inflation in advanced economies has been easing but has remained above respective targets with persistent core inflationary pressures.

### Headline inflation rates (y/y, percent)



Source: Websites of Statistics Offices of respective countries

### Core inflation rates (y/y, percent)

	2022	2023				
	Dec	Jan	Feb	Mar	Apr	May
US	5.7	5.6	5.5	5.6	5.5	5.3
UK	5.8	5.3	5.7	5.7	6.2	6.5
Euro Area	5.2	5.3	5.6	5.7	5.6	5.3

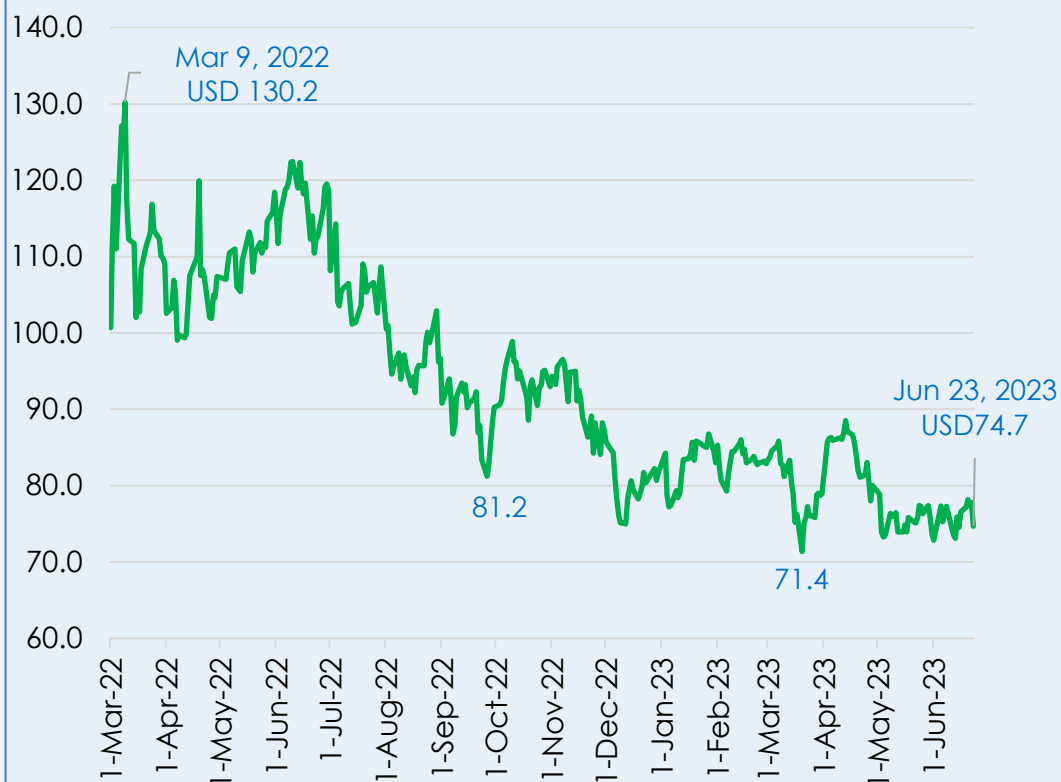
Source: OECD

- Headline inflation has been declining with monetary policy tightening, and lower commodity prices.
- Core inflation has remained elevated due to strong service price increases, and cost pressures from tight labour markets.

## Global commodity prices:

Commodity prices in the global markets, particularly of oil and food, have continued to ease mainly due to improved supply and weaker demand

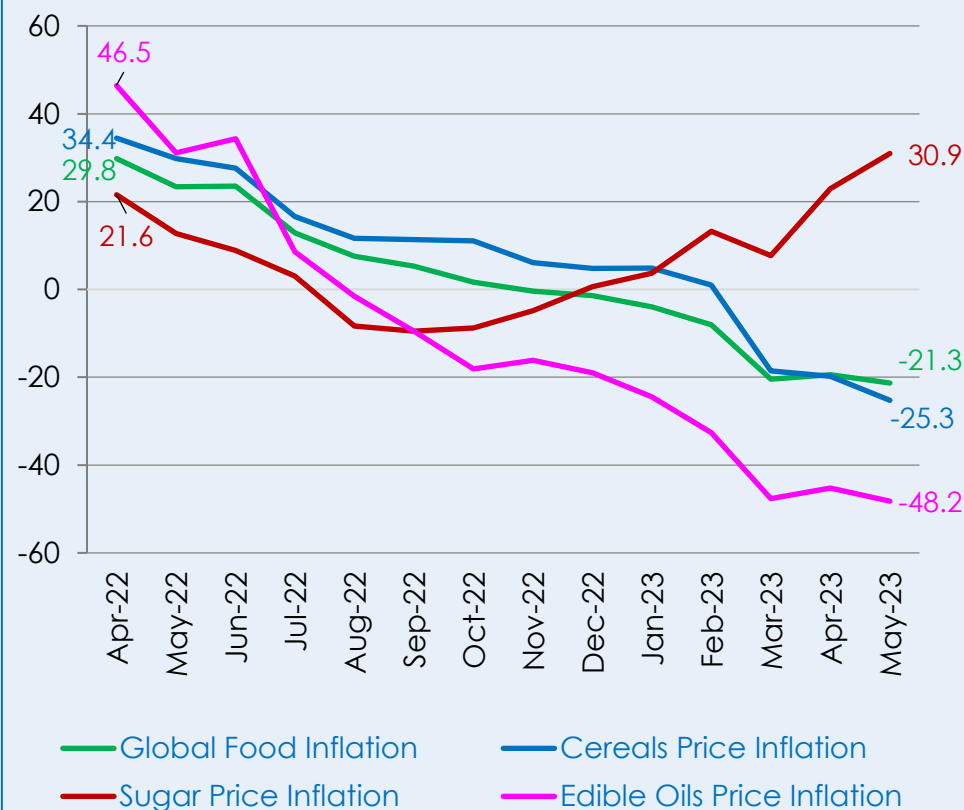
### Murban oil price (USD, per barrel)



- The price of oil has declined with weaker demand, but remains volatile due to increased uncertainties to global growth

Source: Oilprice.com

### Global food inflation (y/y, percent)



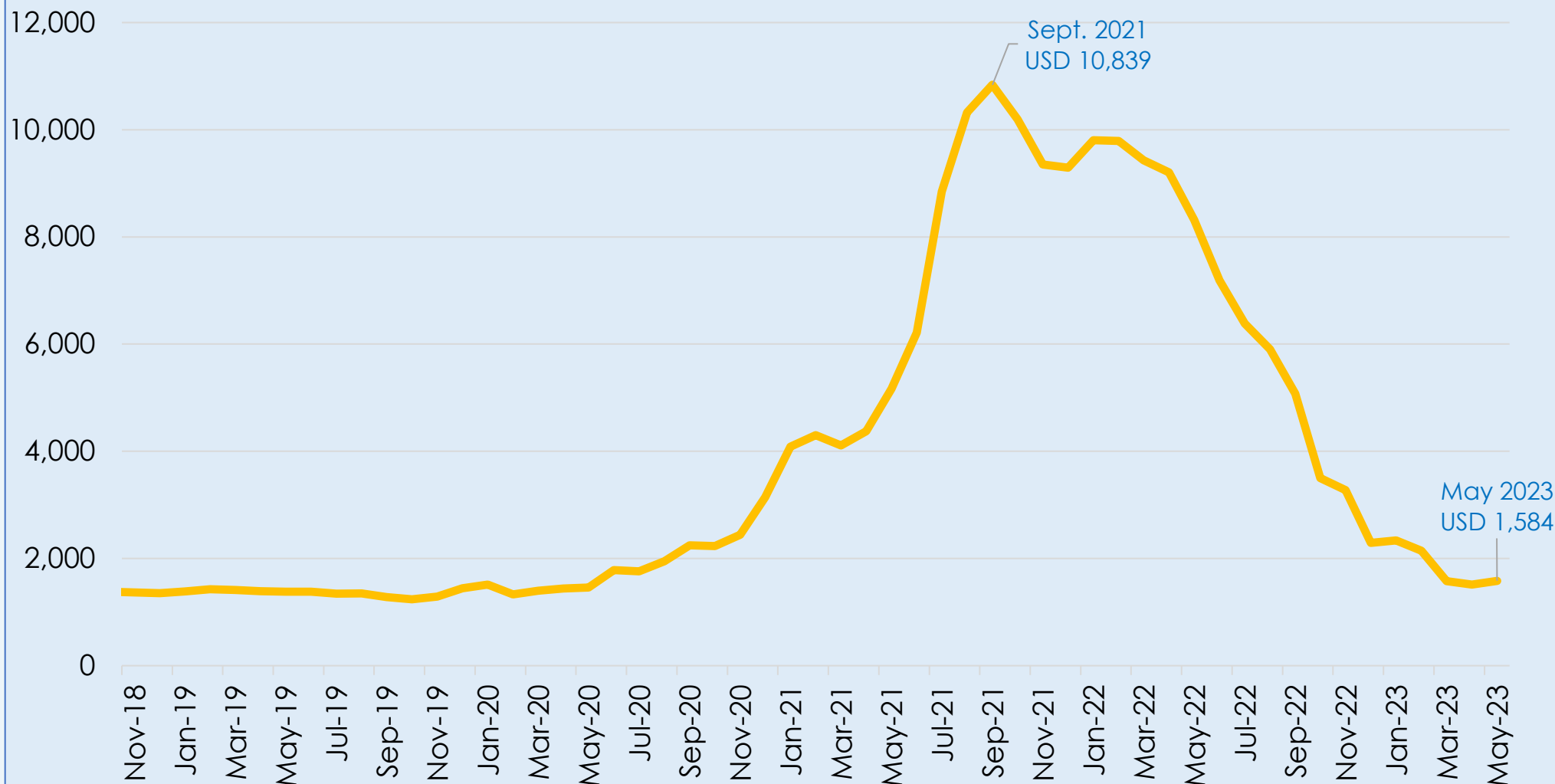
- Global food prices have declined with a rebound in global supplies and the extension of the Black Sea Grain Initiative.
- However, sugar prices have risen sharply due to reduced supply

Source: UN FAO Food Index

## Global supply chain constraints:

Global freight transportation costs have declined

Global container freight rate index of a 40 feet container (in US Dollars)



Source: Statista.com

## Global economic outlook:

A weaker global growth is expected in 2023 amidst increased uncertainties and risks.

### Global and selected countries' real GDP growth (y/y, percent)

	2021 Act.	2022 Est.	2023 Proj.		2024 Proj.	
			Apr. 2023 WEO	Difference from Jan. 2023 WEO	Apr. 2023 WEO	Difference from Jan. 2023 WEO
<b>World</b>	<b>6.3</b>	<b>3.4</b>	<b>2.8</b>	<b>-0.1</b>	<b>3.0</b>	<b>-0.1</b>
<b>Advanced Economies</b>	<b>5.4</b>	<b>2.7</b>	<b>1.3</b>	<b>0.1</b>	<b>1.4</b>	<b>0.0</b>
United States	5.9	2.1	1.6	0.2	1.1	0.1
United Kingdom	7.6	4.0	-0.3	0.3	1.0	0.1
Japan	2.1	1.1	1.3	-0.5	1.0	0.1
Euro area	5.4	3.5	0.8	0.1	1.4	-0.2
<b>Emerging Market and Developing Economies</b>	<b>6.9</b>	<b>4.0</b>	<b>3.9</b>	<b>-0.1</b>	<b>4.2</b>	<b>0.0</b>
China	8.4	3.0	5.2	0.0	4.5	0.0
India	9.1	6.8	5.9	-0.2	6.3	-0.5
Russia	5.6	-2.1	0.7	0.4	1.3	-0.8
<b>Sub-Saharan Africa</b>	<b>4.8</b>	<b>3.9</b>	<b>3.6</b>	<b>-0.2</b>	<b>4.2</b>	<b>0.1</b>
South Africa	4.9	2.0	0.1	-1.1	1.8	0.5
Nigeria	3.6	3.3	3.2	0.0	3.0	0.1
Kenya	7.5	5.4	5.3	0.2	5.4	0.0

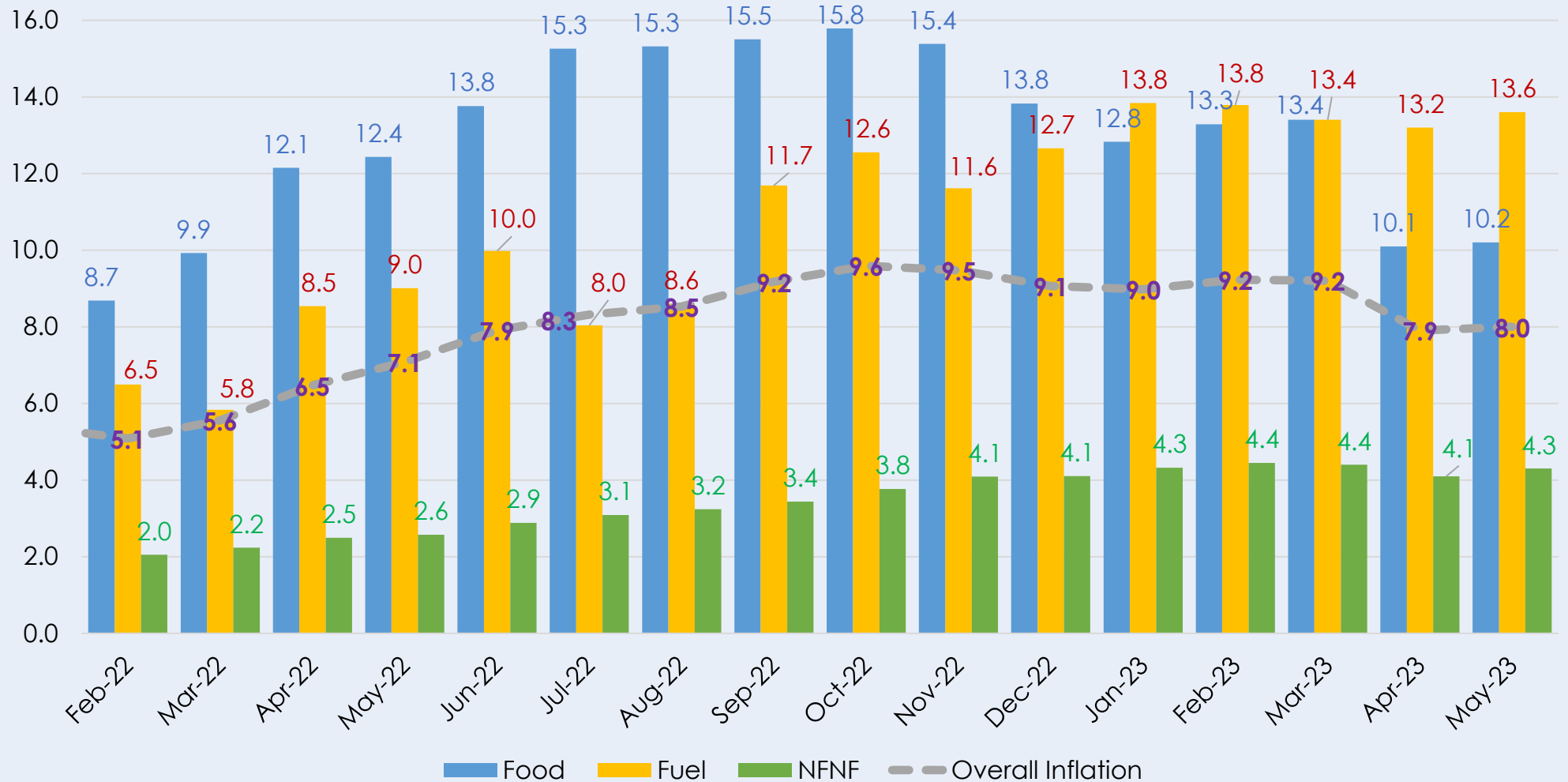
- Uncertainties to the global economic outlook, reflect continued concerns about financial sector stability in the advanced economies, continuing geopolitical tensions particularly the ongoing war in Ukraine, and the pace of monetary policy tightening in the advanced economies.
- Kenya's real GDP growth is expected to remain strong in 2023.

Source: IMF World Economic Outlook (WEO)

## Domestic inflation:

Overall inflation increased in May 2023, driven by higher fuel, food, and non-food non-fuel (NFnF) prices

### Inflation by broad category (y/y, percent)

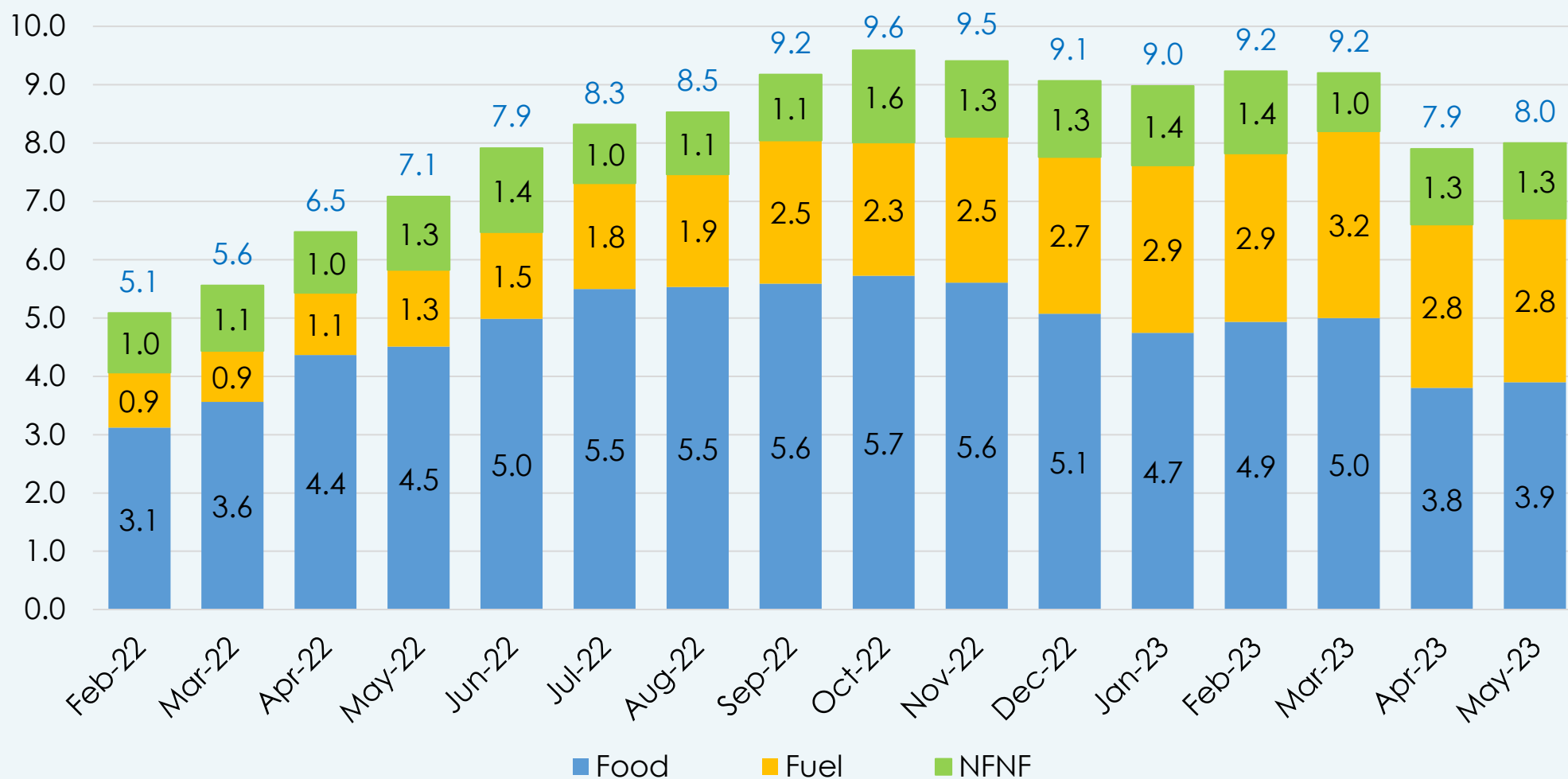


**Source:** Kenya National Bureau of Statistics and Central Bank of Kenya

## Domestic inflation:

The contribution of NFNF inflation to overall inflation increased in April/May 2023, indicating persistent underlying inflationary pressures in the economy

### Contributions to Overall Inflation (percentage points)



Source: KNBS and CBK

## Domestic inflation:

NFNF inflation has increased indicating persistent underlying inflationary pressures in the economy

### Non-food non-fuel inflation (y/y, percent)

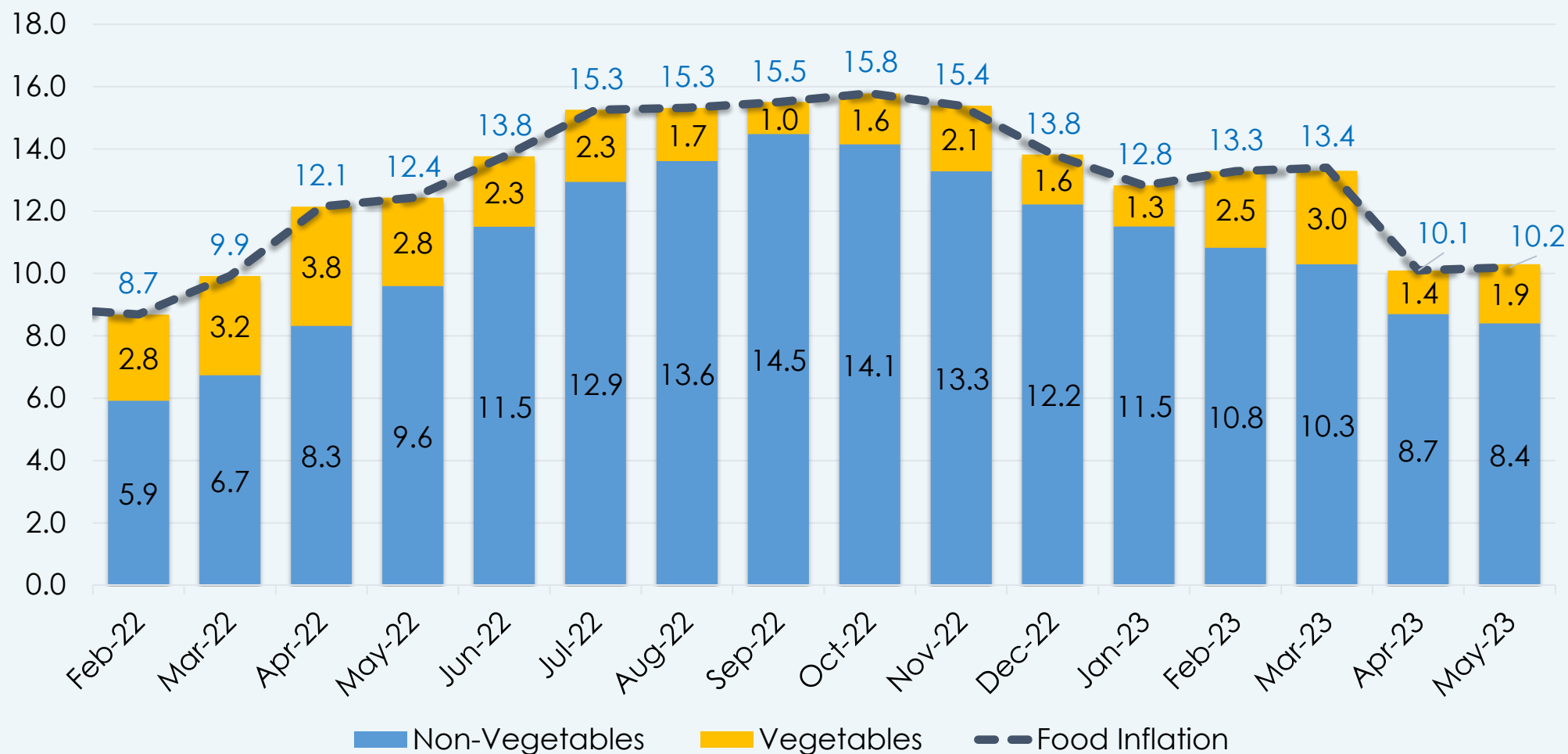


Source: KNBS and CBK

## Main drivers of food inflation:

Non-vegetable food items remained the main drivers of food inflation in May 2023

### Contributions to food inflation (percentage points)

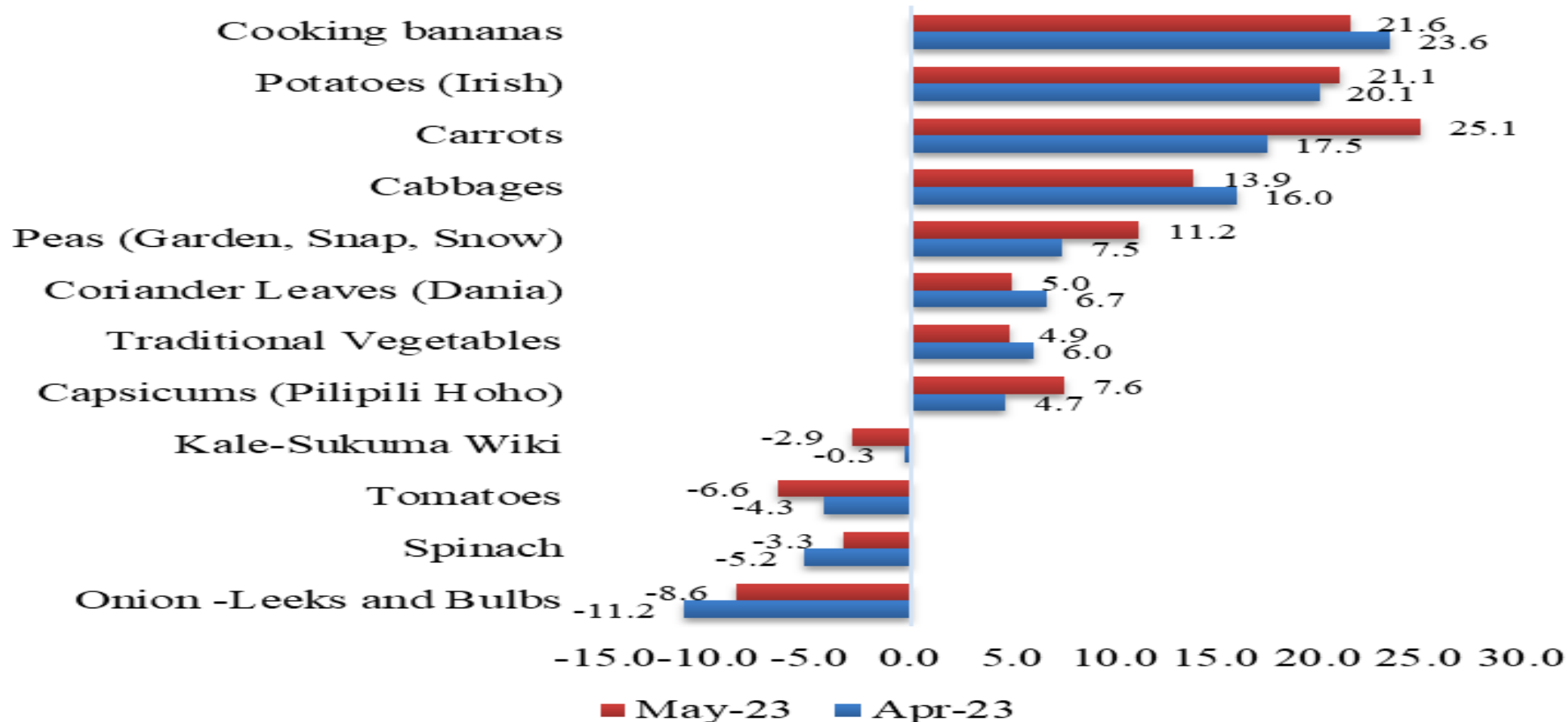


Source: KNBS and CBK

## Main drivers of vegetables inflation:

Prices of carrots and potatoes increased in May

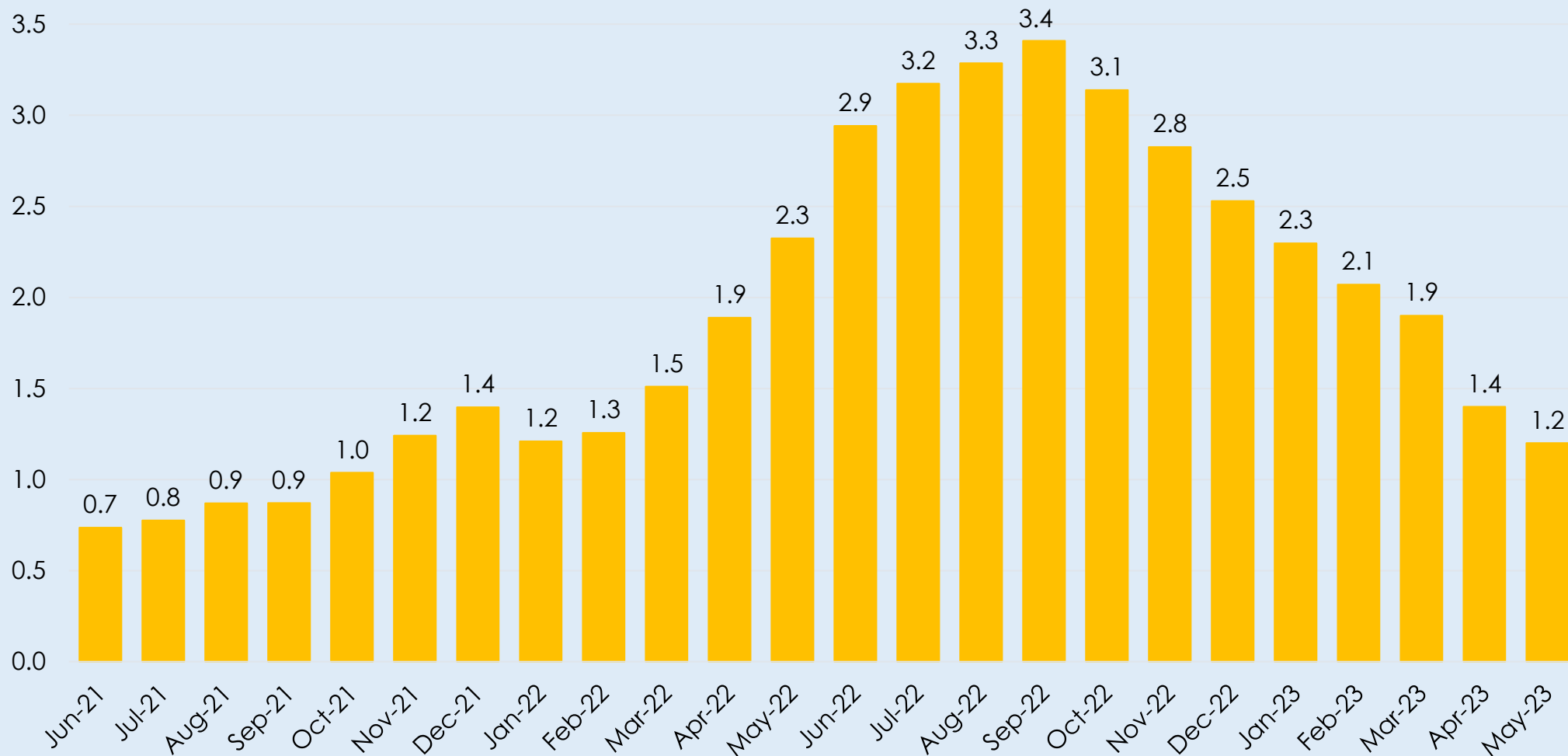
### Changes in prices of selected vegetables (y/y, percent)



Source: KNBS and CBK

The contribution of prices of the four key food items (wheat, maize, milk and edible oils) which were the main drivers of inflation has eased with improved supply.

### Contribution of wheat, maize, milk, and edible oils to overall Inflation (percentage points)

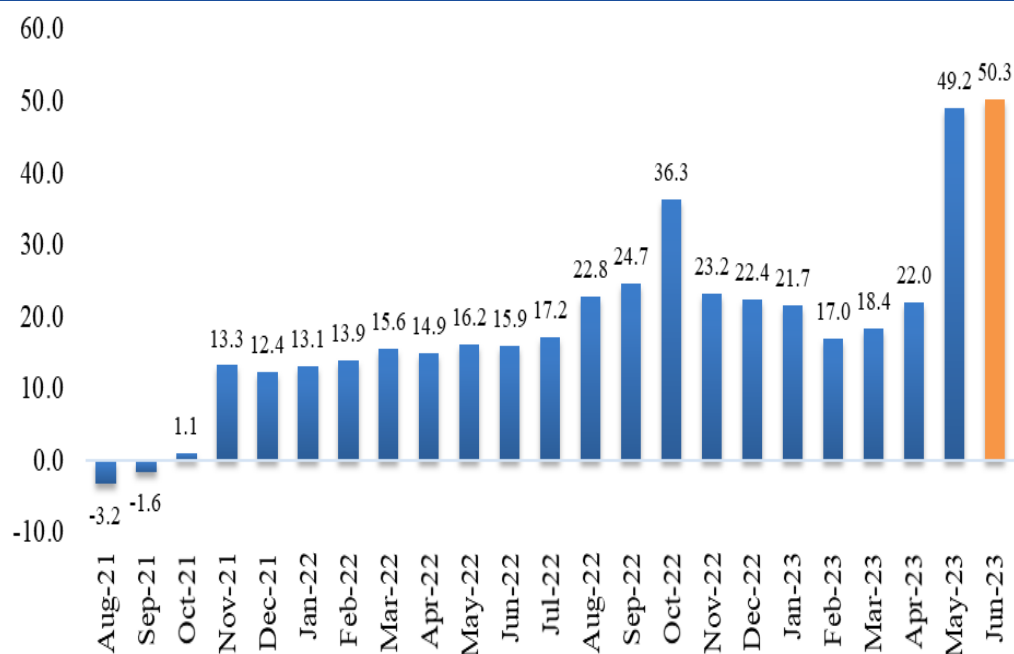


Source: KNBS and CBK

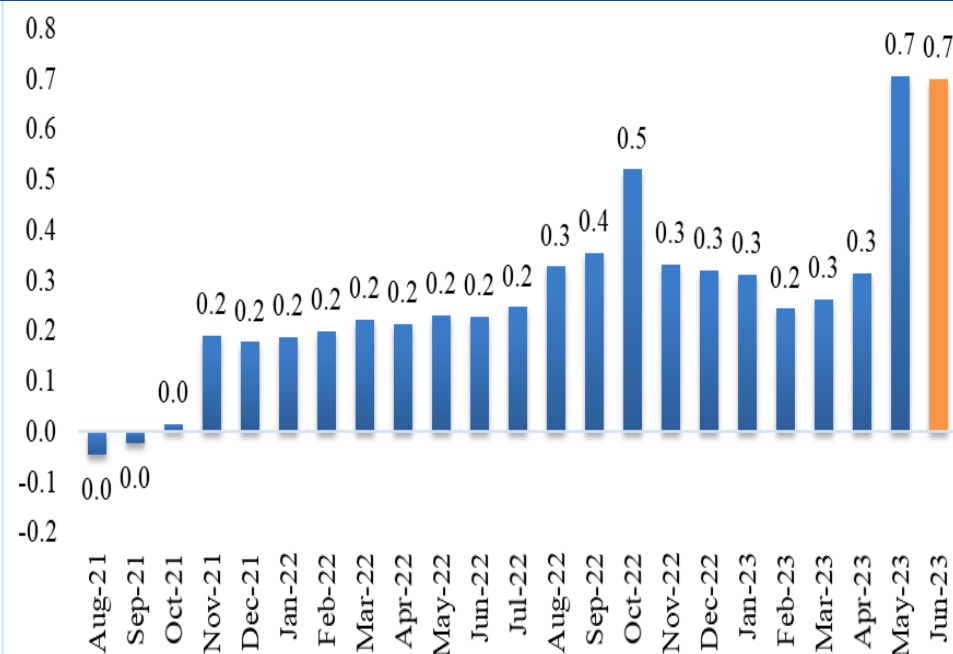
# Inflation outlook:

Sugar prices have risen sharply and remain elevated

**Sugar inflation (y/y, percent)**



**Contribution of sugar to overall inflation (percentage points)**



- Domestic sugar production declined due to shortage of mature cane arising from premature harvest of cane to meet high demand of millers. Some farmers switched to maize to benefit from the high prices.
- Prices have also risen sharply globally due to lower expected outputs in the 2022/23 season in India, Thailand, China, South America and the European Union. India has restricted sugar exports to cater for domestic demand owing to low rainfall in the sugar-producing regions.

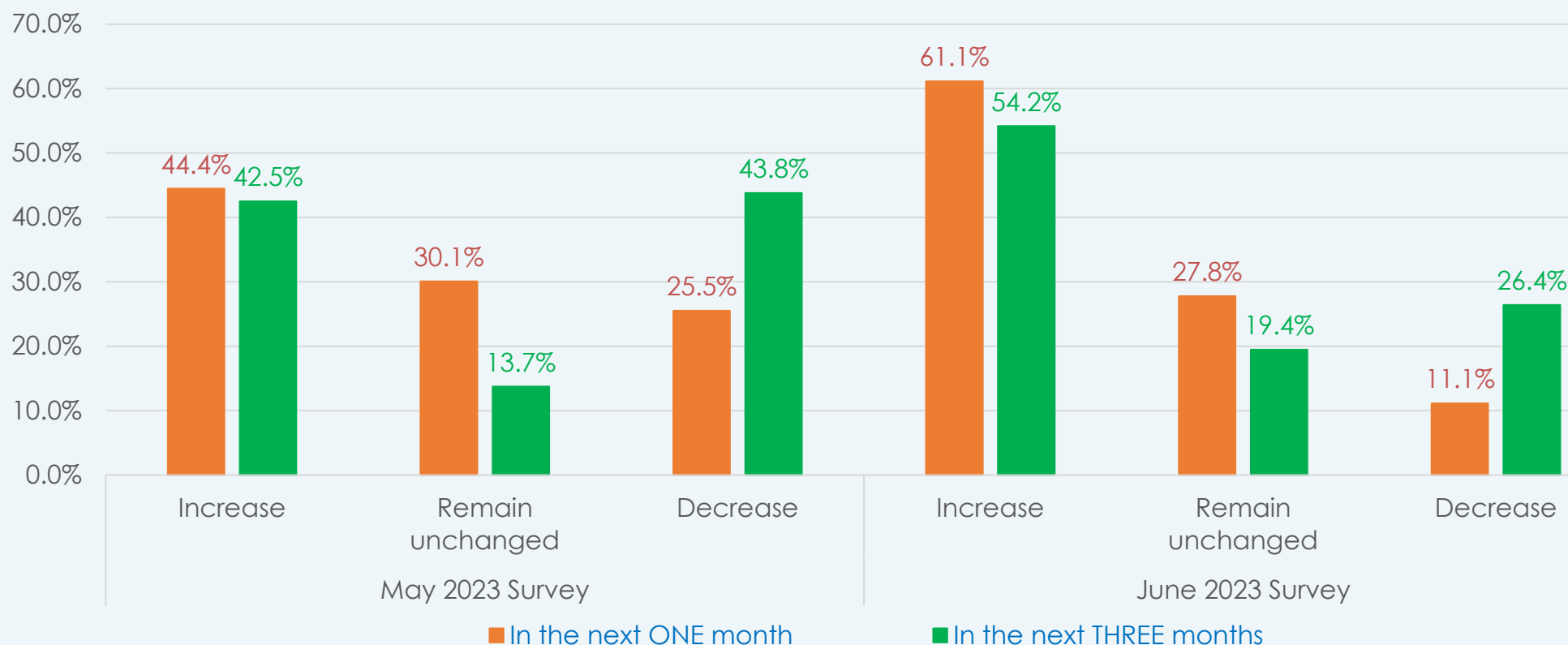
Source: KNBS for data to May 2023

CBK June 2023 mini-Agriculture Sector Survey for the June 2023 data

## Inflation expectations:

The June 2023 mini-Agriculture Sector Survey shows that more respondents expect prices of consumer goods to increase in the near term

### Expected changes in prices of consumer goods (percent of respondents)



- Majority of respondents expect prices of consumer goods to rise in the near term, due to high input costs such as transport.
- Prices of some key food items particularly sugar and maize remain elevated

## Domestic economy:

The economy is expected to continue to strengthen in 2023, supported by the resilient services sector and recovery in agriculture

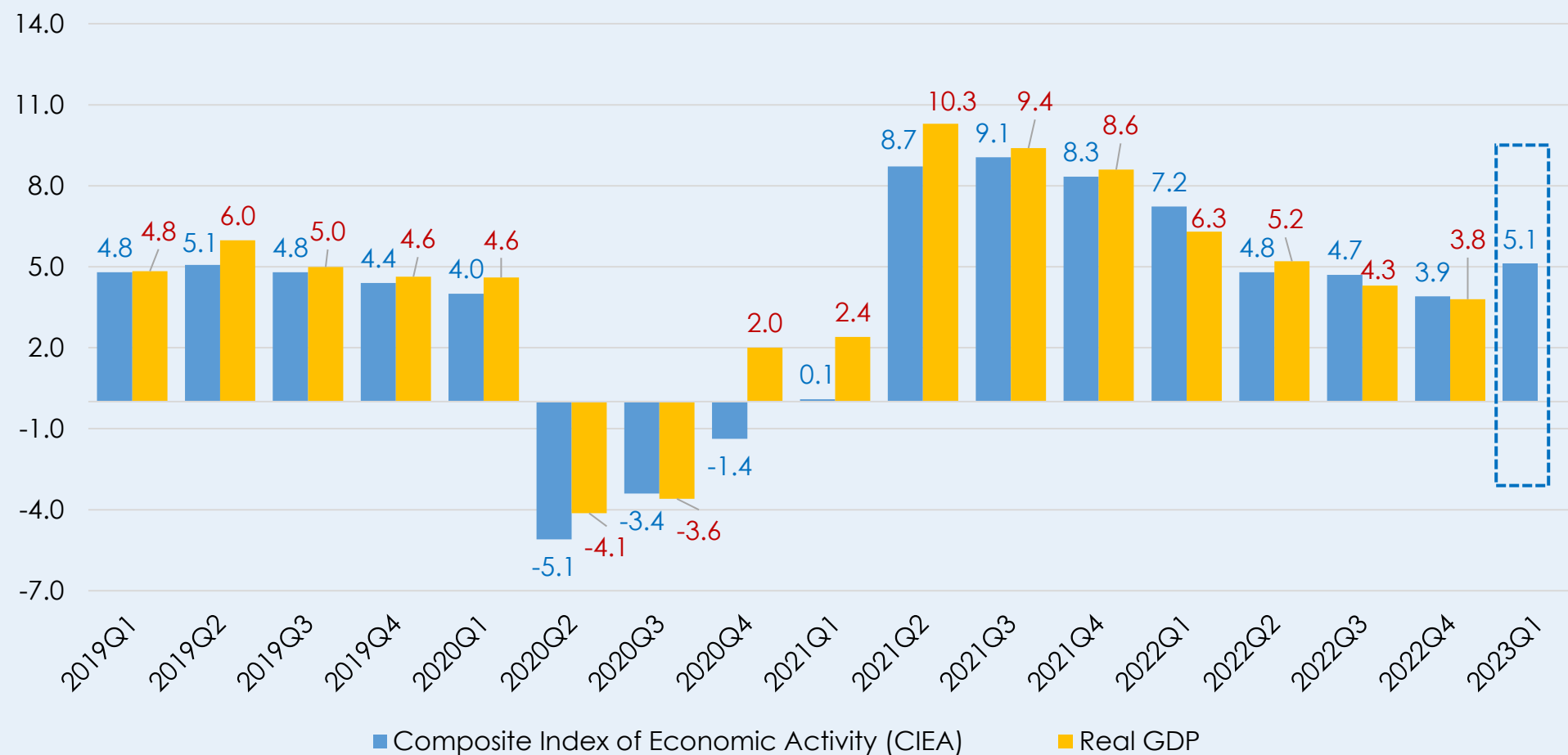
Real GDP growth (y/y, percent)							
	2018	2019	2020	2021	2022	2023	
						Q1 Est.	Annual Proj.
<b>1. Agriculture</b>	<b>5.7</b>	<b>2.7</b>	<b>4.6</b>	<b>-0.4</b>	<b>-1.6</b>	<b>4.1</b>	<b>5.1</b>
<b>2. Non-Agriculture (o/w)</b>	<b>5.6</b>	<b>5.7</b>	<b>-1.4</b>	<b>9.5</b>	<b>6.3</b>	<b>5.4</b>	<b>5.7</b>
<b>2.1 Industry</b>	<b>3.8</b>	<b>4.0</b>	<b>3.3</b>	<b>7.5</b>	<b>3.9</b>	<b>4.3</b>	<b>4.4</b>
Mining & Quarrying	-4.7	4.3	5.5	18.0	9.3	6.8	2.8
Manufacturing	3.6	2.6	-0.3	7.3	2.7	2.9	3.5
Electricity & water supply	3.6	1.7	0.6	5.6	4.9	5.5	5.5
Construction	6.1	7.2	10.1	6.7	4.1	5.3	5.6
<b>2.2 Services</b>	<b>6.1</b>	<b>6.5</b>	<b>-1.8</b>	<b>9.8</b>	<b>7.0</b>	<b>5.7</b>	<b>6.0</b>
Wholesale & retail Trade	5.9	5.3	-0.4	8.0	3.8	5.0	6.0
Accommodation & food services	15.6	14.3	-47.7	52.6	26.2	9.3	11.3
Transport & Storage	6.0	6.3	-8.0	7.4	5.6	5.7	6.5
Information & Communication	7.9	7.0	6.0	6.1	9.9	7.8	8.2
Financial & Insurance	2.7	8.1	5.9	11.5	12.8	5.2	5.6
Public administration	7.9	8.4	7.0	6.0	4.5	4.8	4.7
Professional, Admin & Support Services	6.9	6.8	-13.7	7.1	9.4	7.4	6.7
Real Estate	6.5	6.7	4.1	6.7	4.5	4.2	4.5
Education	6.4	5.7	-9.2	22.8	4.8	5.5	5.0
Health	5.4	5.5	5.6	8.9	4.5	5.0	5.2
Other Services	3.3	4.3	-14.6	12.5	5.7	7.6	6.9
FISIM	3.7	9.5	-1.8	5.3	1.5	1.2	2.1
<b>2.3 Taxes on products</b>	<b>5.9</b>	<b>3.9</b>	<b>-8.0</b>	<b>11.9</b>	<b>7.0</b>	<b>5.9</b>	<b>6.1</b>
<b>3. Real GDP Growth</b>	<b>5.6</b>	<b>5.1</b>	<b>-0.3</b>	<b>7.6</b>	<b>4.8</b>	<b>5.1</b>	<b>5.5</b>

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

## Domestic economy:

Leading indicators point to strong economic performance, mainly driven by activity in the services sector and recovery in agriculture

Composite Index of Economic Activity and real GDP (y/y, percent)

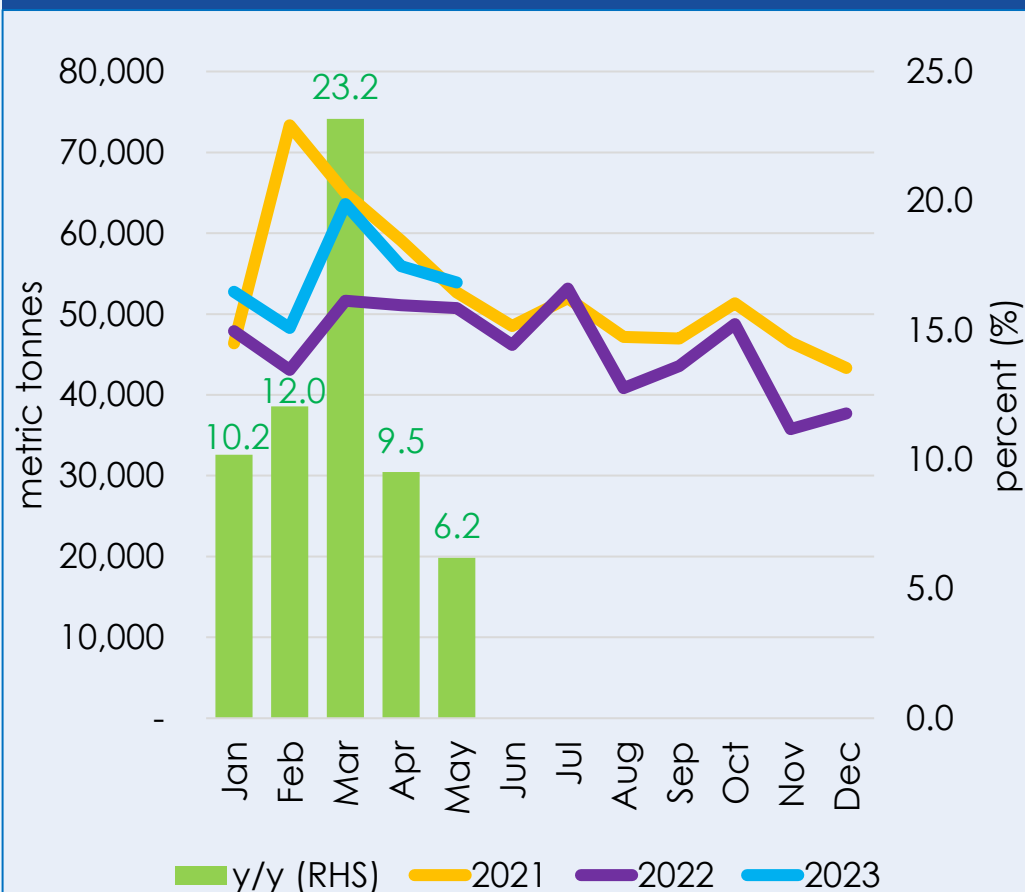


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

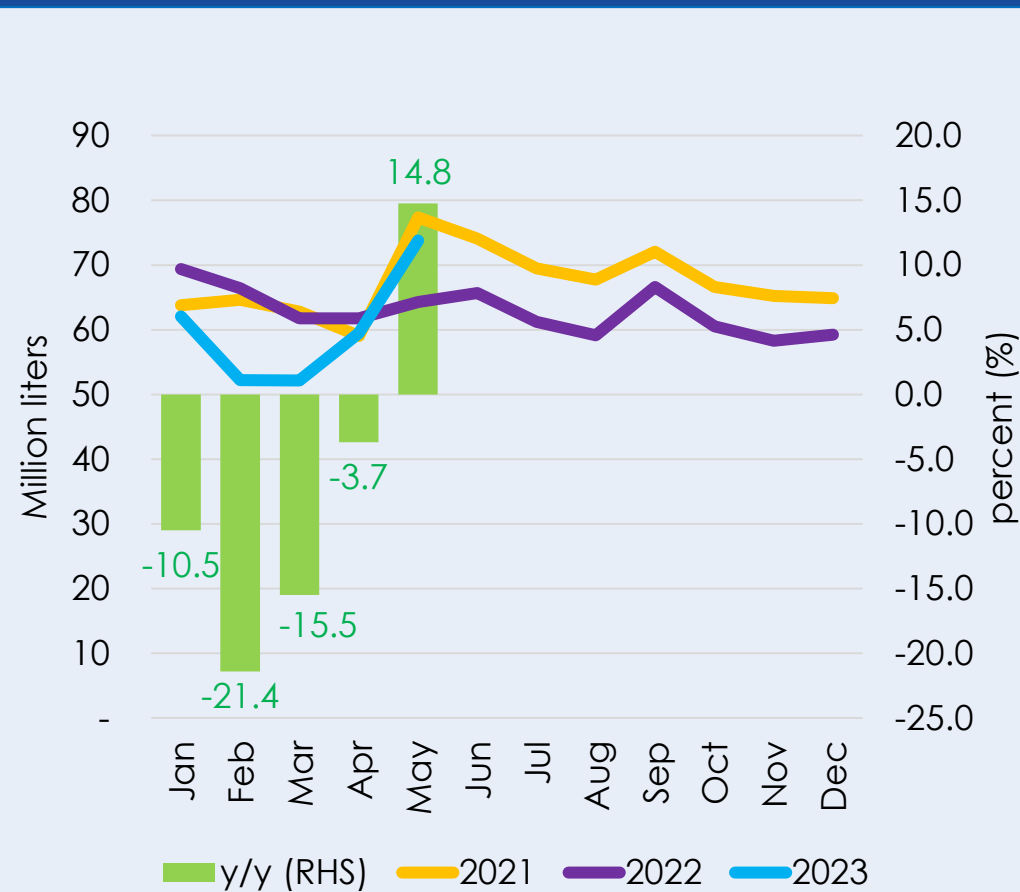
## Agricultural production:

The volume of horticulture exports, and milk production have improved in 2023, reflecting the improved weather conditions

### Volume and growth in horticulture exports



### Total milk production/intakes



Source: Kenya Revenue Authority

Source: Kenya Dairy Board

## Agricultural production:

Production of key food crops expected to improve in 2023 due to improved weather conditions across the country

### Actual and Projected Food Crops Production (Million bags)

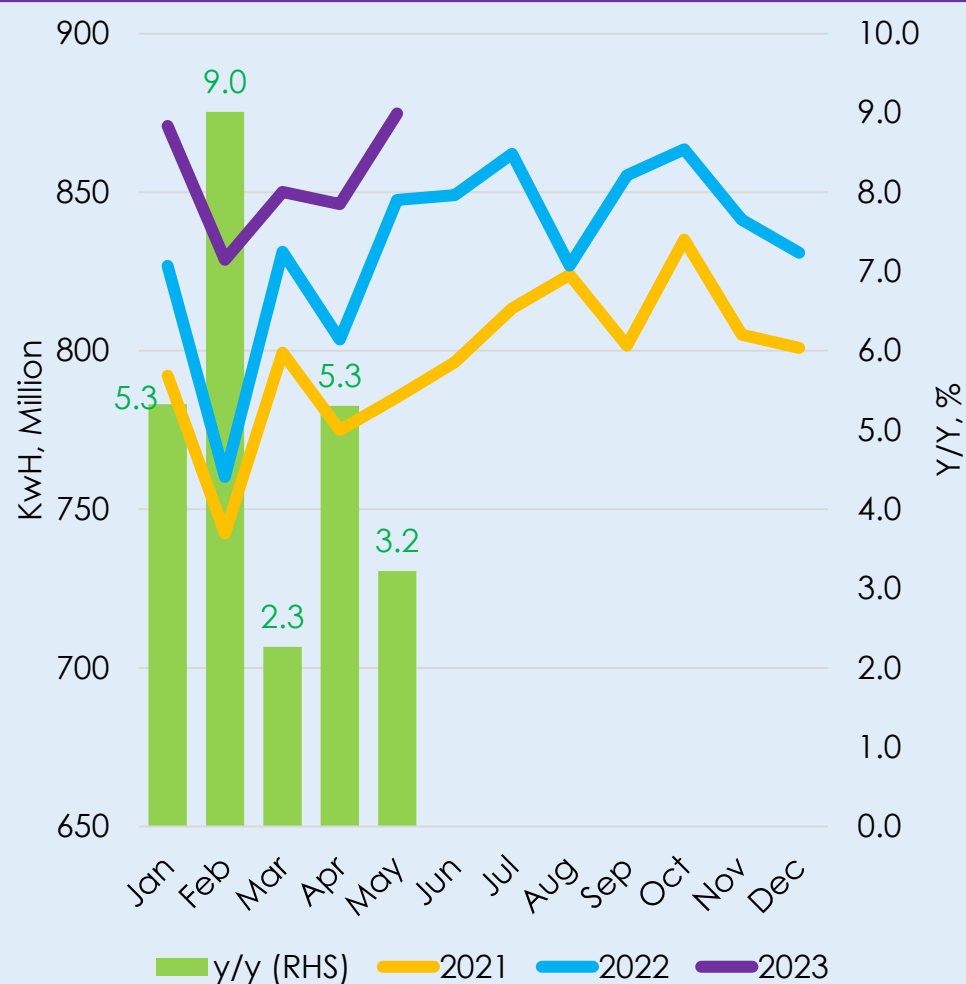
	2020	2021	2022	2023 Proj.
Maize	42.2	36.7	34.3	44.6
Wheat	4.5	2.7	3.0	4.6
Rice	2.0	2.1	2.1	1.2
Beans	8.6	7.4	5.7	8.5
Irish Potatoes	21.1	23.3	20.0	20.8
Sorghum	3.5	1.5	1.3	2.3
Millet	1.7	0.7	0.7	0.9

- Rice production is expected to decline in 2023 relative to 2022 due to floods in the Ahero irrigation scheme, competing cheaper imports, and pests and diseases

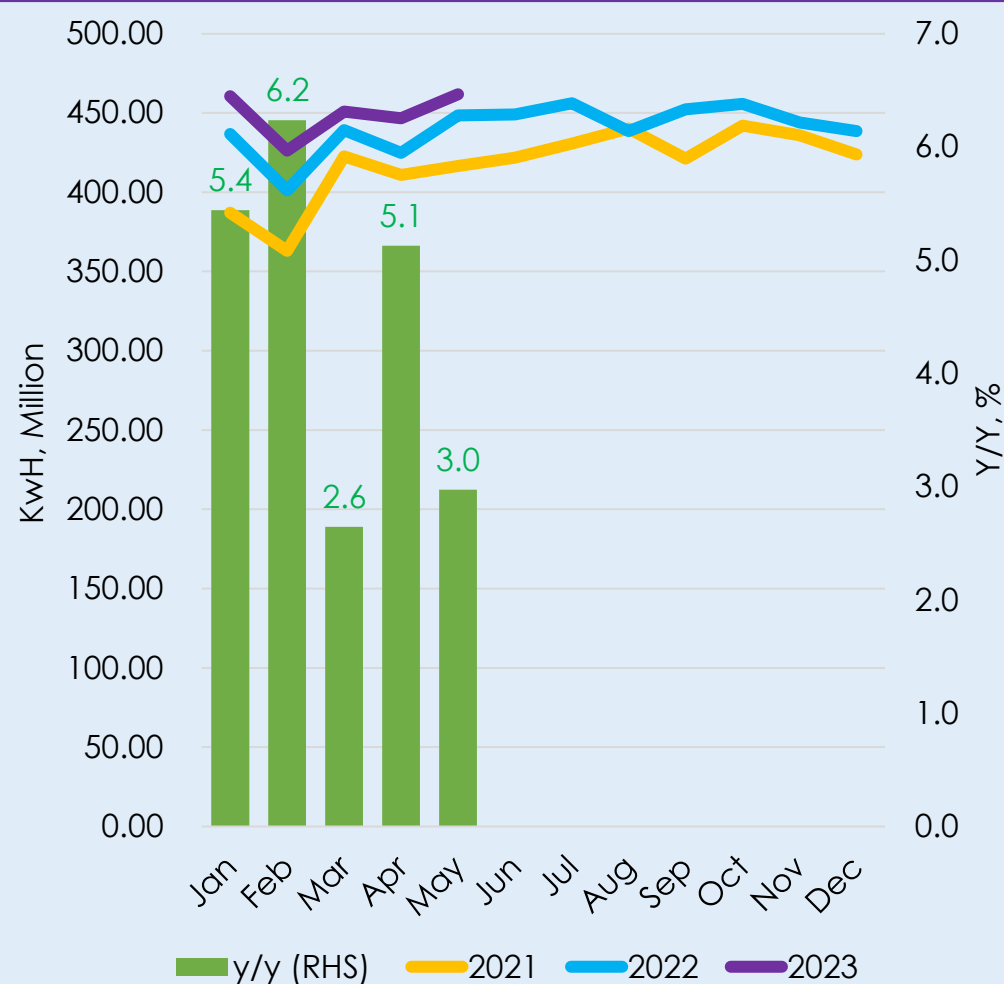
**Source:** Kenya National Bureau of Statistics, and Ministry of Agriculture projections as of May 2023

## Manufacturing activity: Power consumption has remained strong

### Total Power Consumption



### Trends of Large Power Consumption

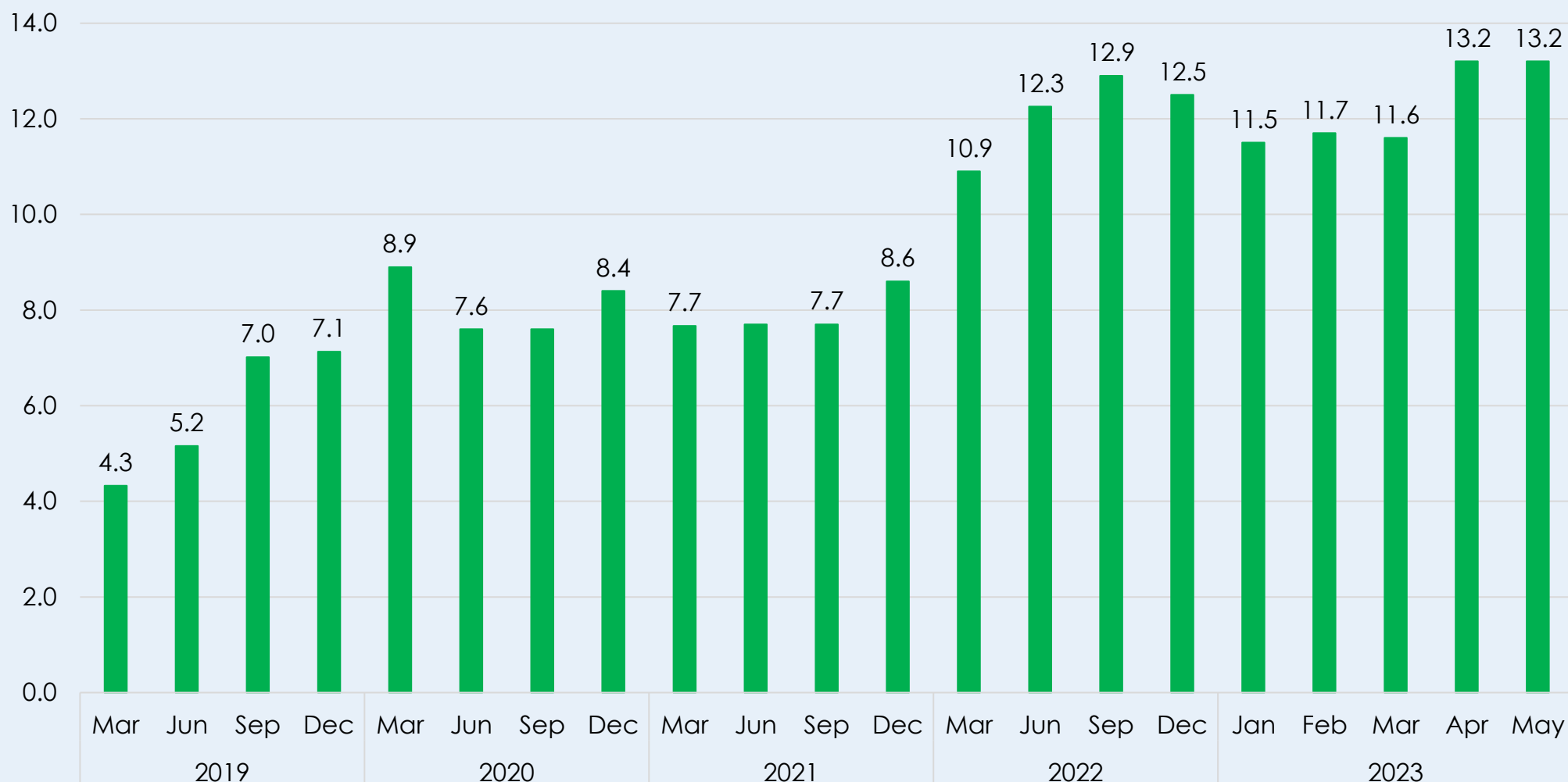


Source: Kenya National Bureau of Statistics, and EPRA

## Private sector credit:

Growth in credit to the private sector has remained strong

### 12 Months growth in credit to private sector (percent)

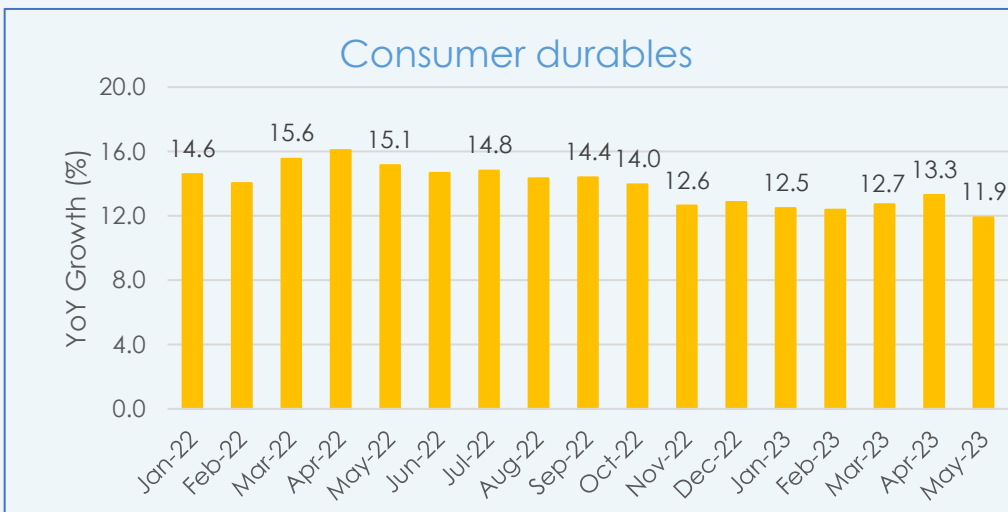
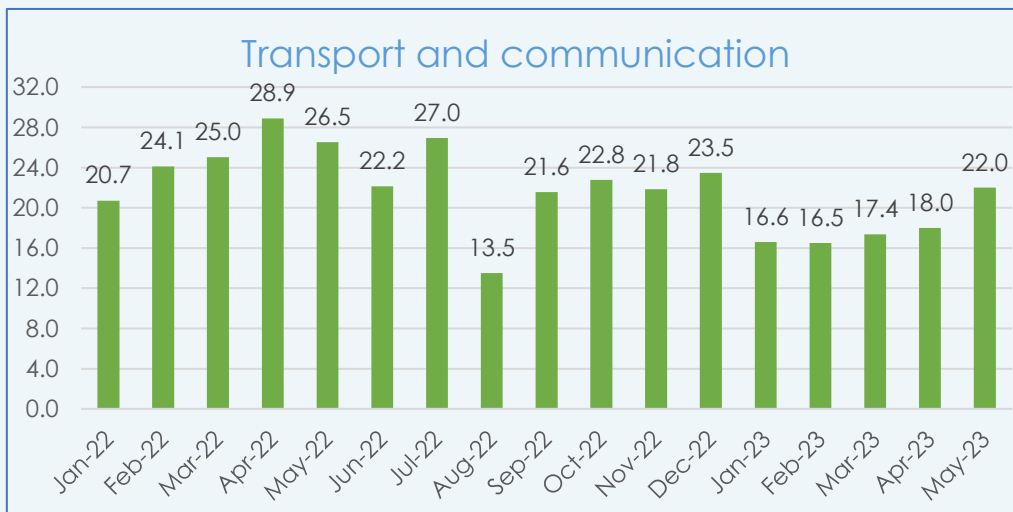
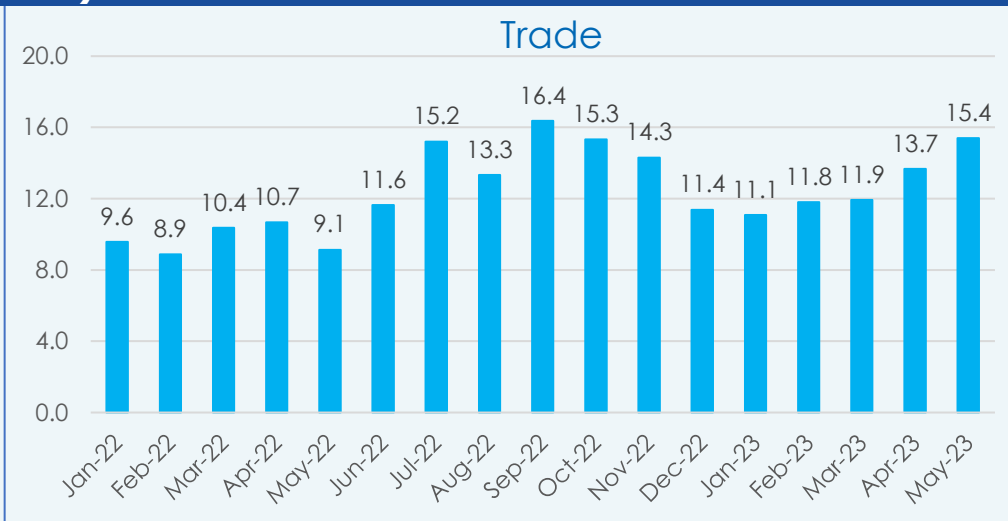


Source: CBK

## Private sector credit:

Strong growth in credit to key sectors of the economy

### 12 Months growth in credit to private sector (percent)



Source: CBK

# Balance of payments:

Balance of payments expected to record a surplus in 2023

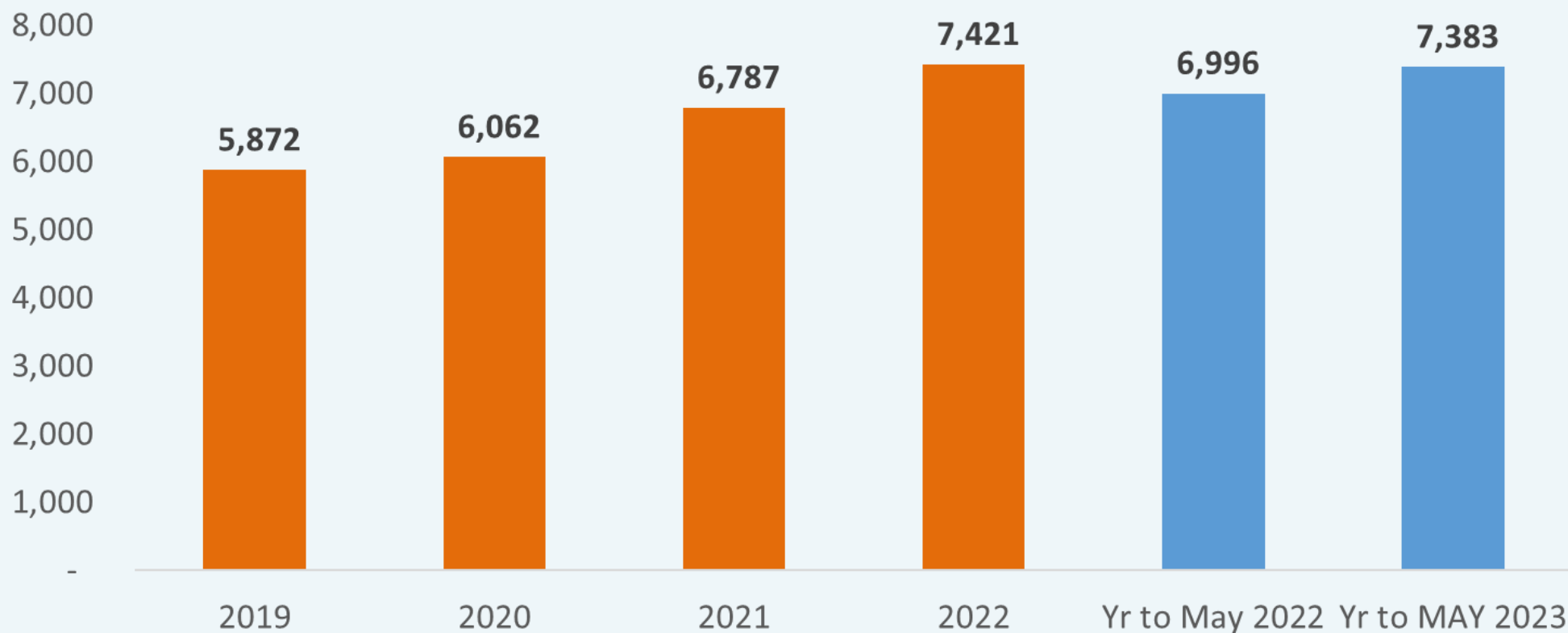
Balance of payments, in millions of U.S. dollars, unless otherwise indicated

	2018	2019	2020	2021	Year to May 2022	2022 Prov.	Year to May 2023	2023 Proj.	2024 Proj.
<b>Current account</b>	<b>-5,004</b>	<b>-5,280</b>	<b>-4,619</b>	<b>-5,748</b>	<b>-5,770</b>	<b>-5,774</b>	<b>-5,326</b>	<b>-5,336</b>	<b>-6,831</b>
<b>Trade balance</b>	<b>-10,201</b>	<b>-10,679</b>	<b>-8,430</b>	<b>-11,052</b>	<b>-11,795</b>	<b>-11,715</b>	<b>-10,965</b>	<b>-11,525</b>	<b>-14,274</b>
<b>Goods: exports, f.o.b.</b>	<b>6,088</b>	<b>5,872</b>	<b>6,062</b>	<b>6,787</b>	<b>6,996</b>	<b>7,421</b>	<b>7,383</b>	<b>7,918</b>	<b>9,838</b>
Tea	1,370	1,113	1,226	1,192	1,232	1,384	1,357	1,607	1,688
Horticulture	1,055	1,011	950	1,129	1,038	944	900	1,176	1,271
Manufactured Goods	377	402	380	512	548	622	687	703	825
Other	3,286	3,345	3,507	3,954	4,178	4,472	4,439	4,431	6,053
<b>Goods: imports, f.o.b.</b>	<b>16,289</b>	<b>16,551</b>	<b>14,492</b>	<b>17,839</b>	<b>18,791</b>	<b>19,136</b>	<b>18,349</b>	<b>19,443</b>	<b>24,112</b>
Oil products	3,386	3,314	2,219	3,474	4,479	5,548	5,344	4,468	5,079
Other	12,902	13,237	12,274	14,365	14,312	13,588	13,005	14,975	19,033
Machinery & Transport equipment	4,540	4,872	3,974	4,653	4,531	3,760	3,412	4,007	4,496
<b>Services balance</b>	<b>1,597</b>	<b>1,748</b>	<b>355</b>	<b>1,027</b>	<b>1,480</b>	<b>1,165</b>	<b>829</b>	<b>1,577</b>	<b>2,539</b>
<b>Services, Credit</b>	<b>5,478</b>	<b>5,602</b>	<b>3,732</b>	<b>5,018</b>	<b>5,990</b>	<b>6,436</b>	<b>5,993</b>	<b>6,698</b>	<b>8,011</b>
Transportation	1,959	2,181	1,156	1,642	2,133	2,303	2,024	2,353	3,108
Travel	1,073	1,007	545	843	947	1,107	1,218	1,217	1,461
<b>Services, Debit</b>	<b>3,881</b>	<b>3,854</b>	<b>3,377</b>	<b>3,991</b>	<b>4,509</b>	<b>5,271</b>	<b>5,163</b>	<b>5,122</b>	<b>5,472</b>
Transportation	1,396	1,449	1,173	1,565	2,133	2,137	2,024	1,764	1,934
<b>Goods and services balance</b>	<b>-8,604</b>	<b>-8,932</b>	<b>-8,075</b>	<b>-10,025</b>	<b>-10,314</b>	<b>-10,550</b>	<b>-10,136</b>	<b>-9,948</b>	<b>-11,735</b>
<b>Primary income, balance</b>	<b>-1,406</b>	<b>-1,634</b>	<b>-1,494</b>	<b>-1,839</b>	<b>-1,827</b>	<b>-1,740</b>	<b>-1,900</b>	<b>-2,340</b>	<b>-2,381</b>
Credit	199	218	144	62	61	40	41	44	50
Debit	1,604	1,852	1,638	1,900	1,887	1,780	1,942	2,384	2,431
<b>Secondary income, balance</b>	<b>5,006</b>	<b>5,285</b>	<b>4,950</b>	<b>6,116</b>	<b>6,371</b>	<b>6,516</b>	<b>6,711</b>	<b>6,952</b>	<b>7,285</b>
Credit	5,054	5,340	5,026	6,256	6,498	6,563	6,804	7,002	7,337
Remittances	2,697	2,796	3,094	3,718	3,992	4,028	3,997	4,350	4,698
Debit	48	55	76	140	127	47	93	50	52
<b>Capital account</b>	<b>263</b>	<b>208</b>	<b>131</b>	<b>196</b>	<b>171</b>	<b>142</b>	<b>231</b>	<b>149</b>	<b>156</b>
<b>Financial Account</b>	<b>-6,609</b>	<b>-5,922</b>	<b>-2,950</b>	<b>-5,851</b>	<b>-5,012</b>	<b>-4,186</b>	<b>-3,393</b>	<b>-5,379</b>	<b>-7,485</b>
<b>Foreign Direct Investment</b>	<b>-1,512</b>	<b>-892</b>	<b>-499</b>	<b>-44</b>	<b>-353</b>	<b>-339</b>	<b>-584</b>	<b>-444</b>	<b>-492</b>
Direct Investment, assets	24	86	25	420	56	53	-64	144	125
Direct Investment, liabilities	1,536	978	524	464	408	392	520	588	617
<b>Portfolio Investment</b>	<b>-685</b>	<b>-1,300</b>	<b>1,279</b>	<b>208</b>	<b>723</b>	<b>712</b>	<b>613</b>	<b>306</b>	<b>-1,330</b>
Portfolio Investment, assets	1,082	955	1,106	1,069	878	481	327	529	582
Portfolio Investment, liabilities	1,767	2,255	-173	861	155	-230	-286	224	1,912
Equity and investment fund shares	-293	14	-271	-96	-156	-208	-268	224	-88
Debt securities	2,060	2,241	98	957	310	-23	-18	0	2,000
<b>Other Investment</b>	<b>-4,412</b>	<b>-3,730</b>	<b>-3,730</b>	<b>-6,015</b>	<b>-5,383</b>	<b>-4,558</b>	<b>-3,422</b>	<b>-5,241</b>	<b>-5,664</b>
Other investment, assets	916	570	1,018	139	-835	-557	613	142	138
Other investment, liabilities	5,328	4,300	4,748	6,154	4,548	4,001	4,035	5,383	5,801
Net errors and omissions	-883	256	873	548	751	-700	-215	0	0
<b>Overall balance ("-", indicates a surplus)</b>	<b>-984</b>	<b>-1,106</b>	<b>664</b>	<b>-848</b>	<b>-144</b>	<b>2,147</b>	<b>1,886</b>	<b>-193</b>	<b>-810</b>

## Balance of payments:

Exports growth remained resilient, growing by 5.5 percent in the 12 months to May 2023 compared to a similar period in 2022.

### Total exports (USD Million)

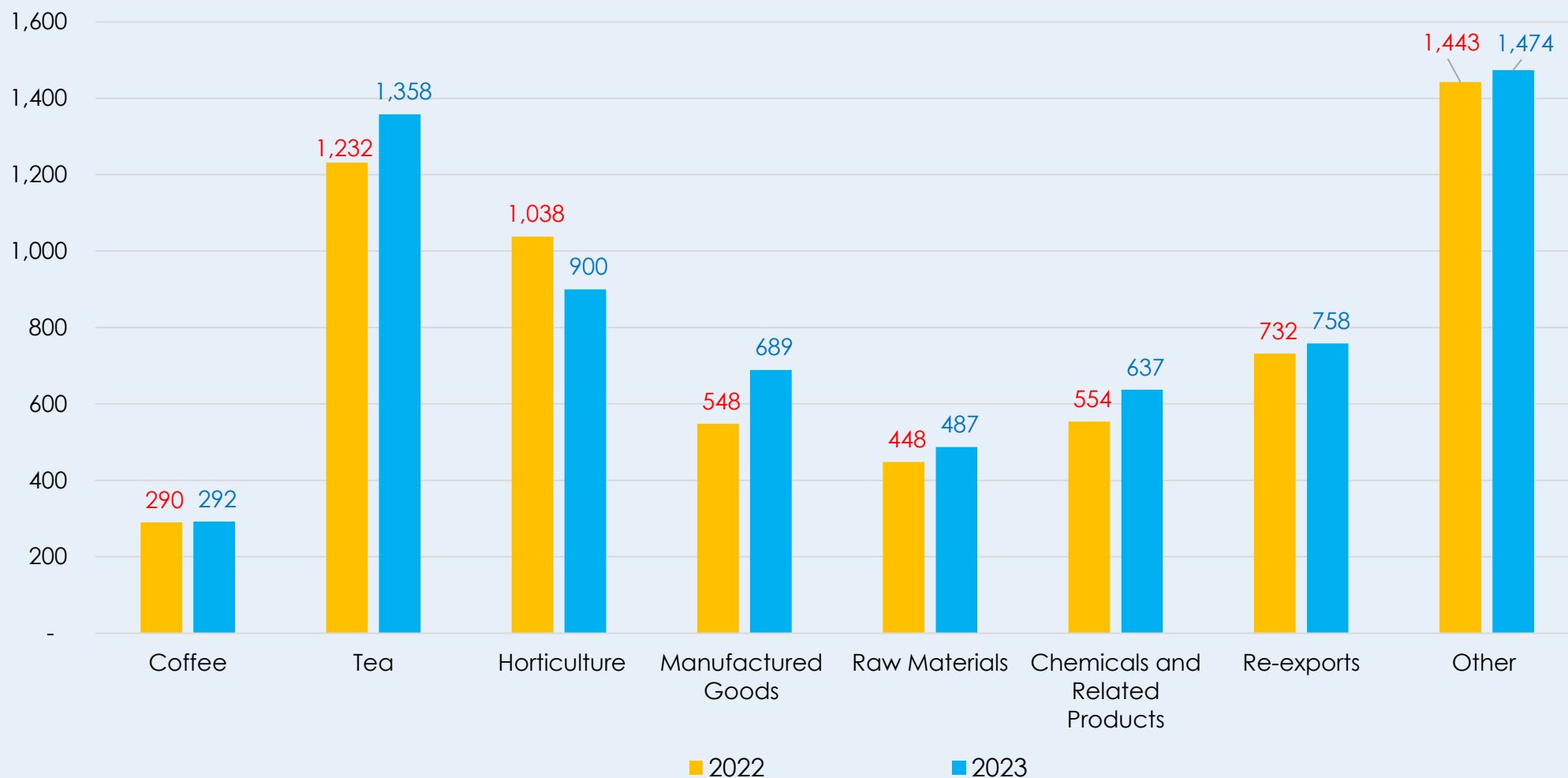


Source: CBK, KRA

## Balance of payments:

Exports of goods have remained strong, mainly driven by receipts from tea and manufactured goods

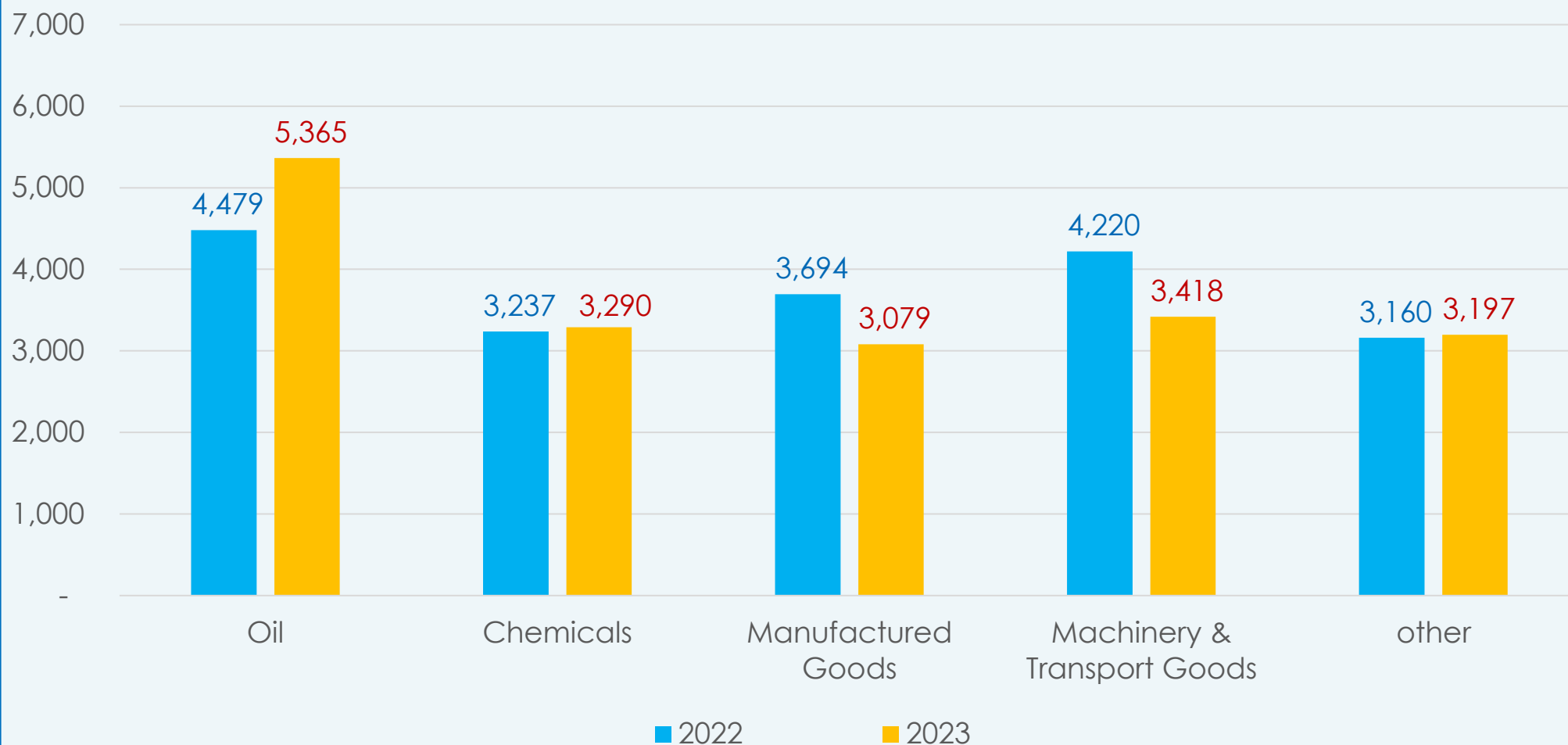
### 12 months cumulative exports to May (USD Million)



Source: CBK, KRA

**Balance of payments:**

Imports of goods have declined, largely reflecting lower imports of infrastructure related equipment due to completed projects

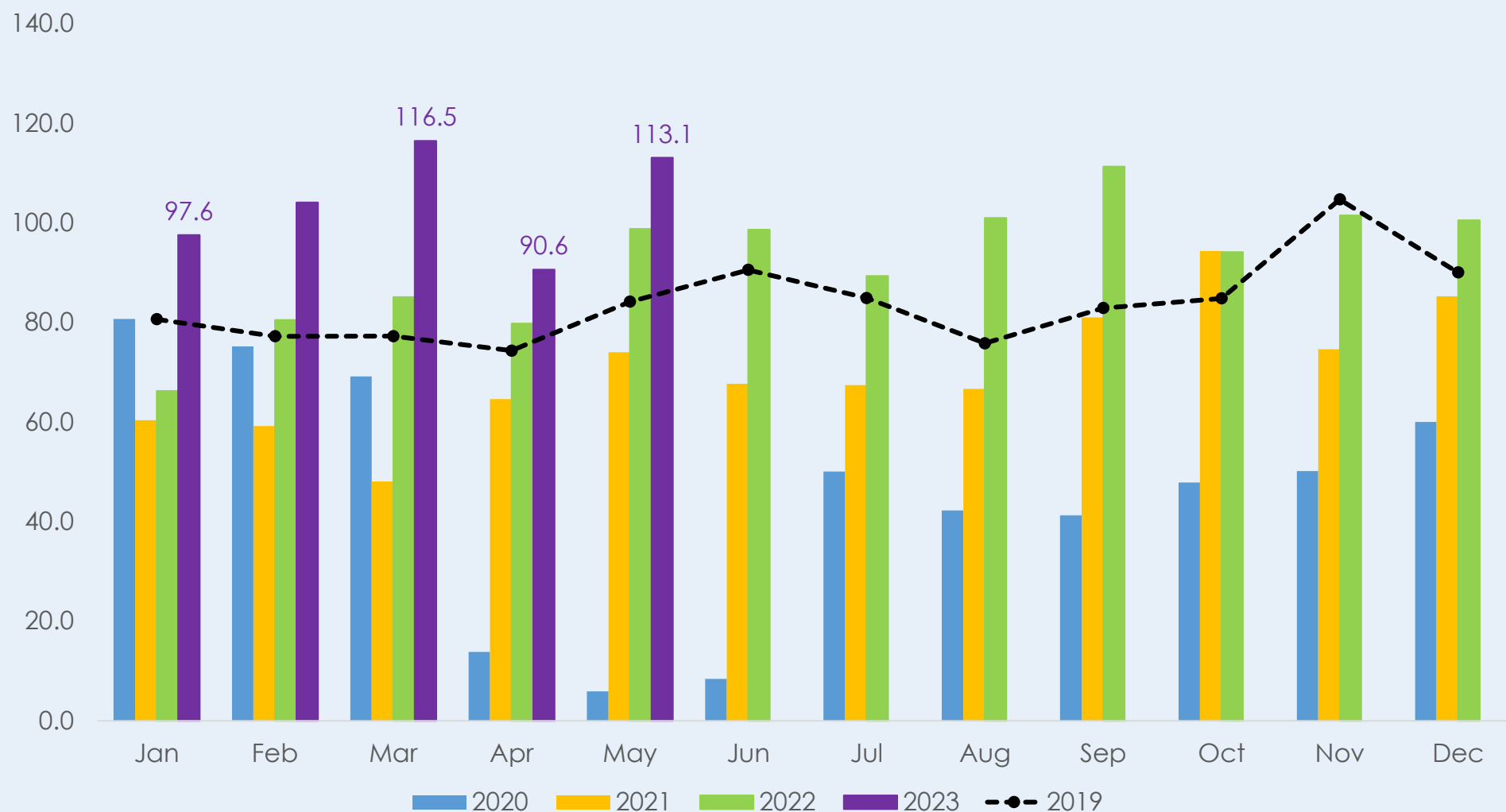
**12 months cumulative imports to May (USD Million)**

Source: CBK, KRA

## Services exports:

Receipts from services exports increased reflecting sustained improvement in international travel

### Travel receipts (USD Million)

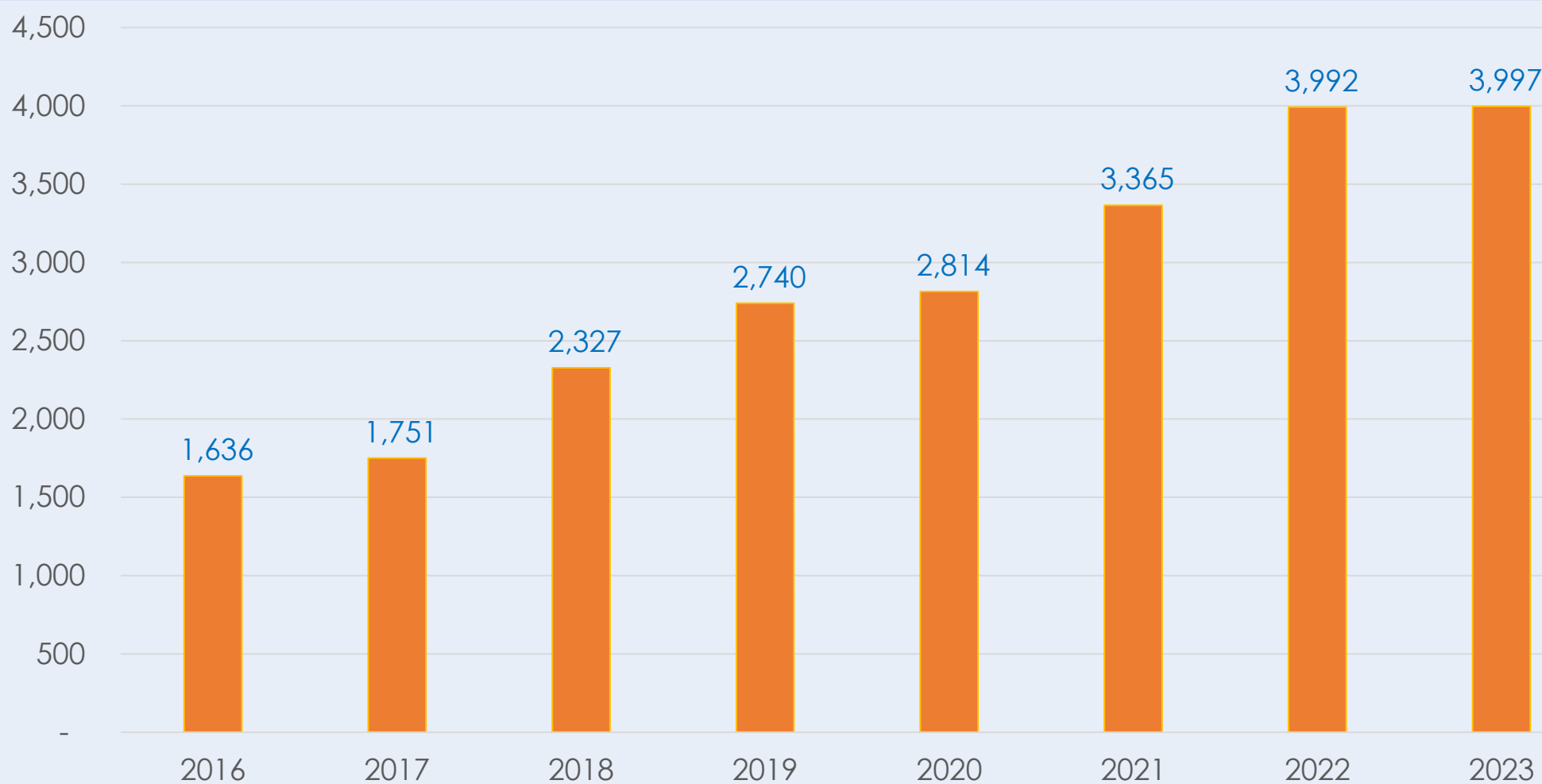


Source: CBK, KRA

## Diaspora remittances:

Remittances inflows have remained strong

### 12 months cumulative remittances inflows to May (USD, Million)

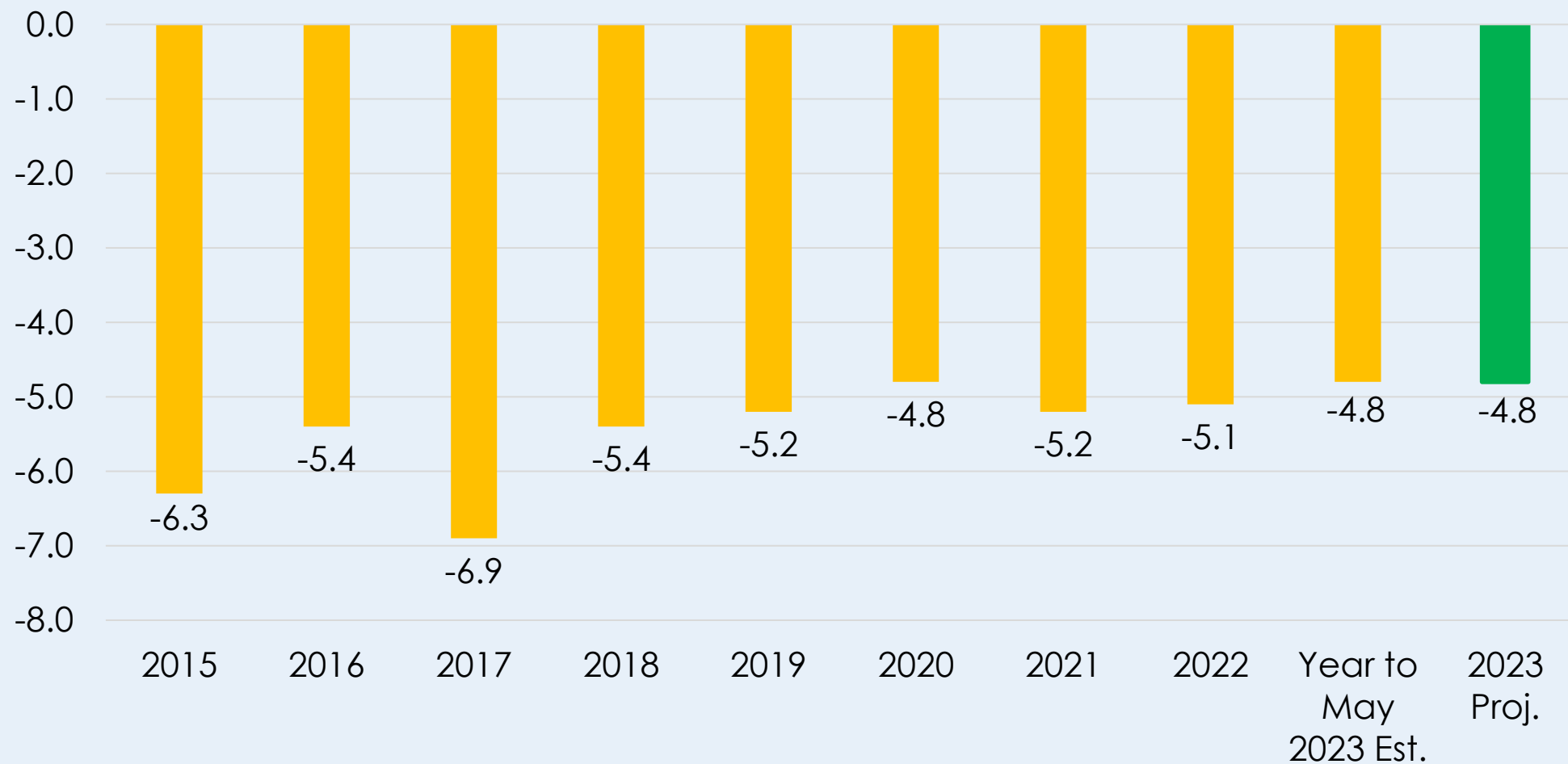


Source: CBK

## Current account balance:

A narrower current account deficit is expected in 2023 supported by lower international oil prices, resilient remittances and strong exports growth

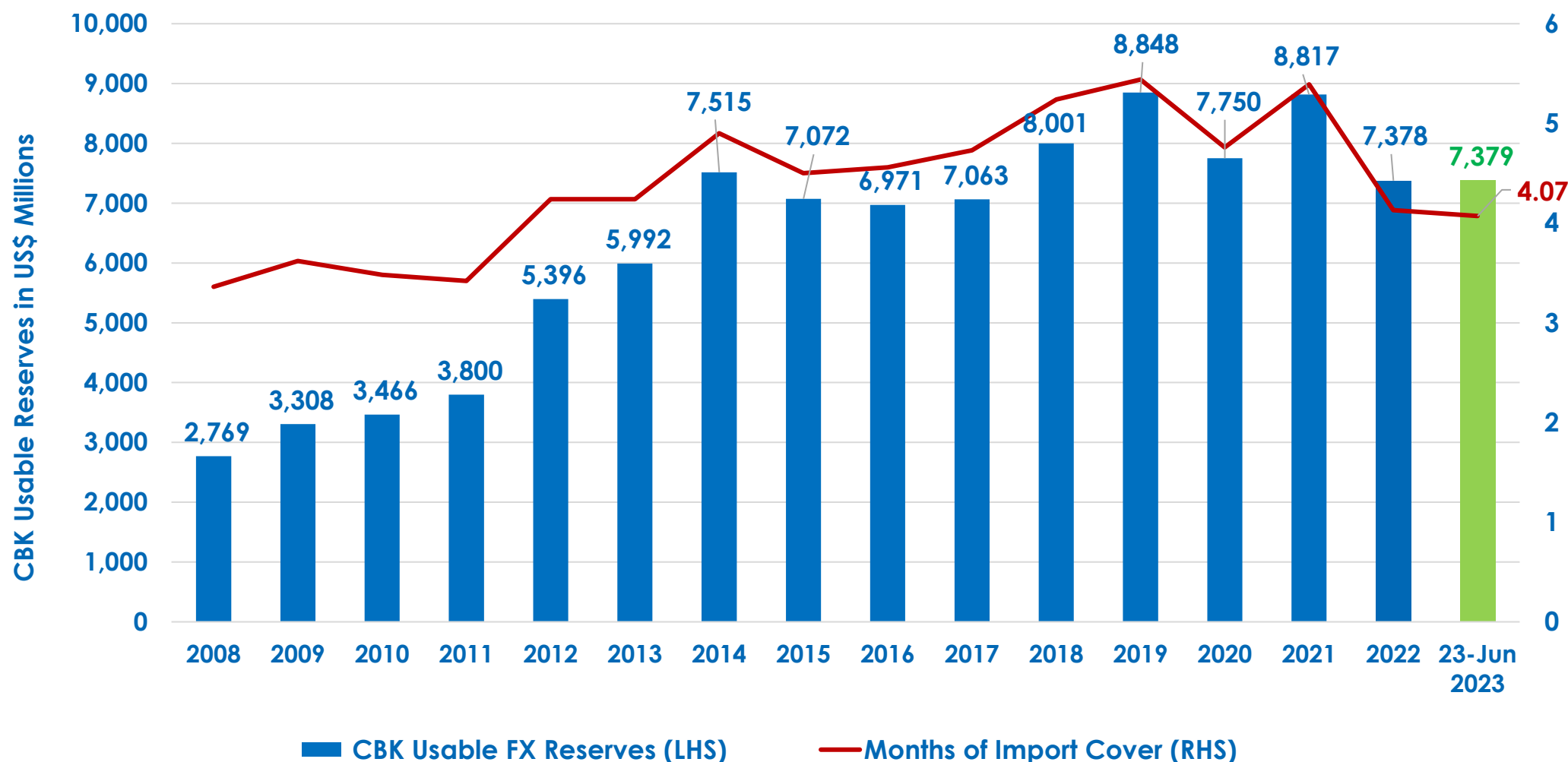
### Current account balance (percent of GDP)



Source: CBK

## CBK usable foreign exchange reserves: Foreign exchange reserves remain adequate

### CBK usable foreign exchange reserves (end period)

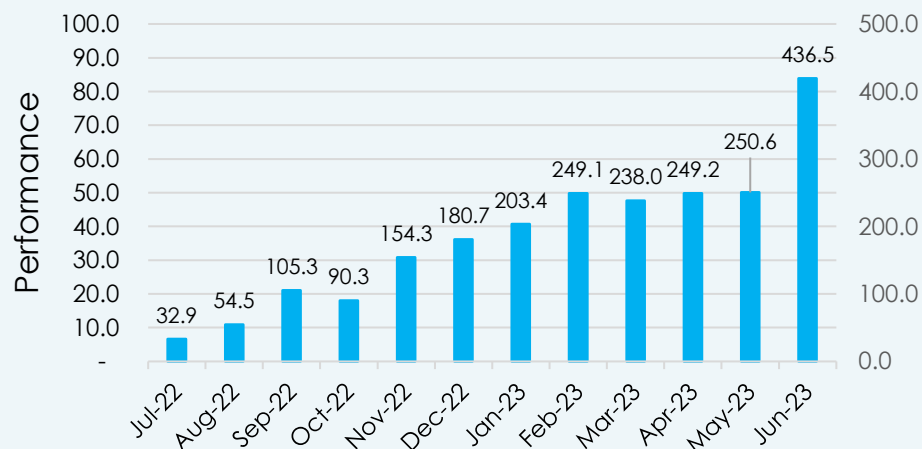


Source: CBK as of June 23, 2023

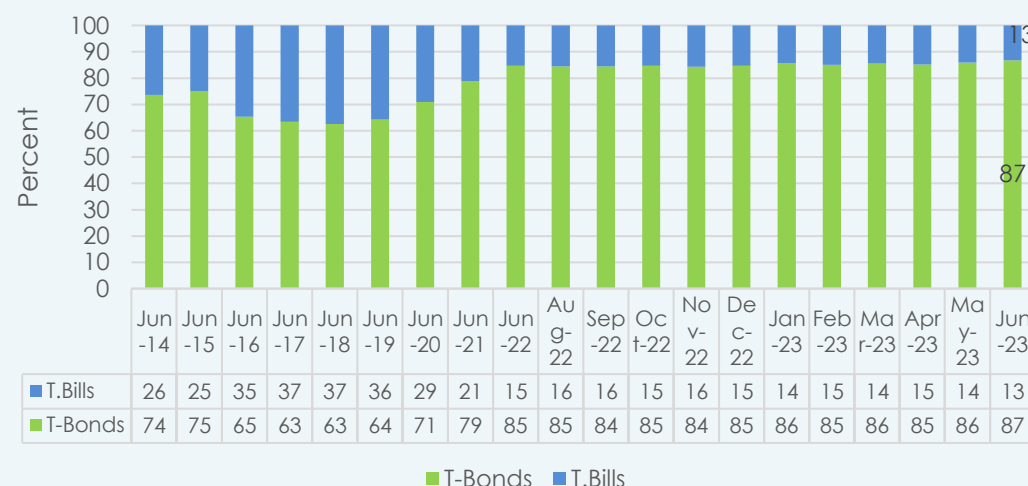
# Government net domestic borrowing:

Performance of the domestic borrowing programme is at 92 percent of the revised target of Kes 475bn for FY 2022/23

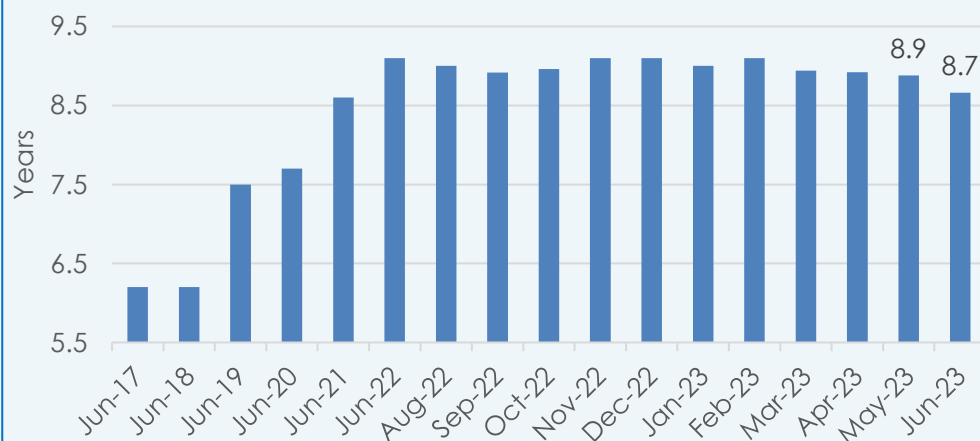
**Domestic Debt Performance in FY2022/23 against Kes 475bn Target**



**Ratio of T-Bills to T-Bonds June 2014 to June 19, 2023**



**Average Time to Maturity for Treasury Bonds**

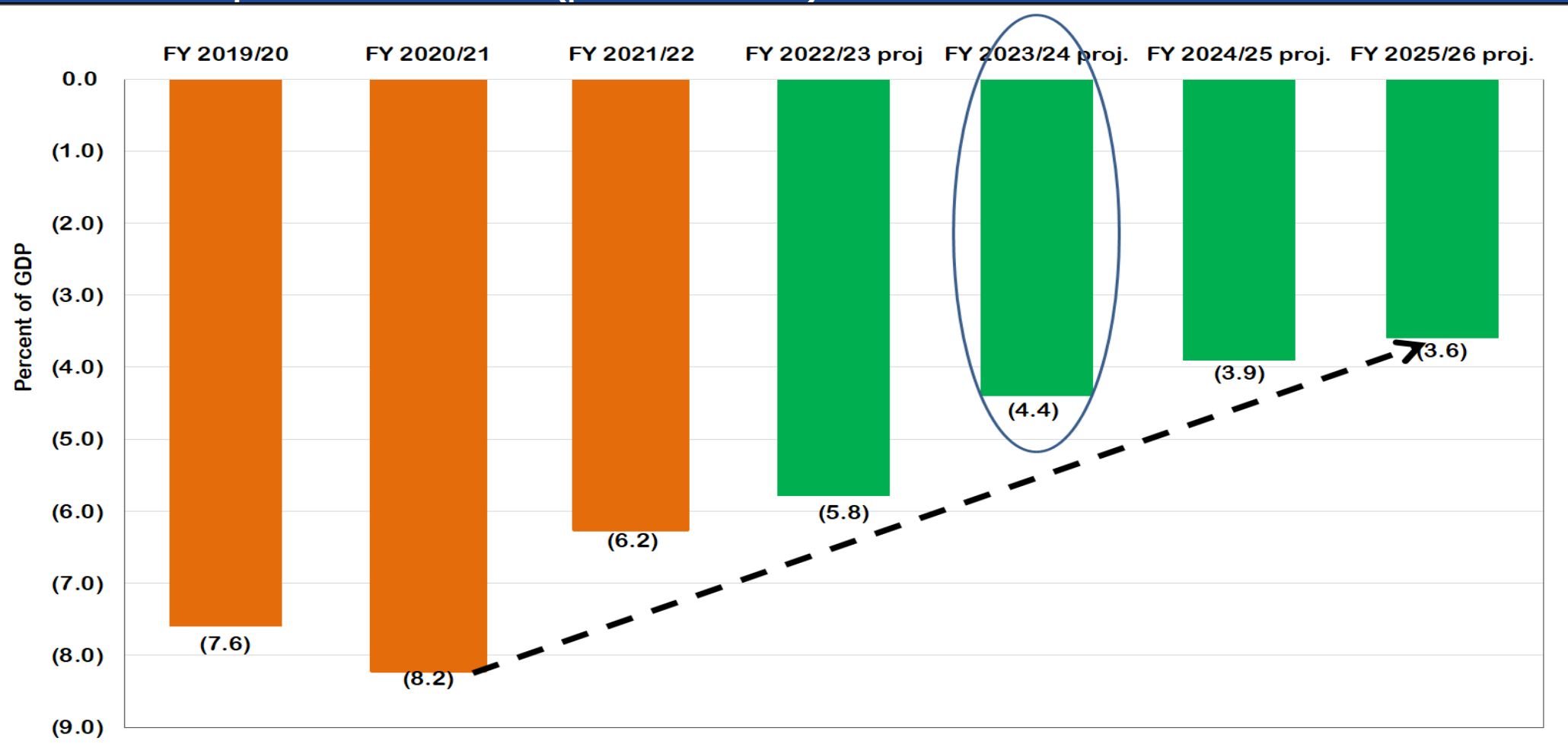


Source: CBK

## Fiscal performance and outlook:

The fiscal consolidation path over the medium-term is expected to reduce growth of public debt and boost debt sustainability position

### Actual and expected fiscal deficit (percent of GDP)



Source: The National Treasury

## Fiscal performance and outlook:

The fiscal consolidation path over the medium-term is expected to reduce growth of public debt and boost debt sustainability position

### Fiscal framework (percent of GDP)

	FY 2020/2	FY 2021/22	FY 2022/23		FY 2023/24
	Prel Actual	PREL. ACTUAL	Supp I APPROVED	Supp II	BUDGET APPROVED
<b>TOTAL REVENUE</b>	<b>15.9</b>	<b>17.3</b>	<b>17.4</b>	<b>17.1</b>	<b>17.9</b>
<b>Ordinary revenue</b>	<b>13.7</b>	<b>15.0</b>	<b>15.1</b>	<b>14.8</b>	<b>15.8</b>
Ministerial Appropriation in Aid	2.1	2.2	2.3	2.3	2.1
Grants	0.3	0.2	0.2	0.3	0.3
<b>TOTAL EXPENDITURE</b>	<b>24.4</b>	<b>23.7</b>	<b>23.3</b>	<b>23.1</b>	<b>22.6</b>
Recurrent Expenditure	15.9	16.7	16.2	16.3	15.6
Interest Payments	4.4	4.5	4.7	4.7	4.8
Pensions & Other CFS	1.0	1.0	1.0	1.0	1.0
Contribution to Civil Ser Pension	0.0	0.2	0.2	0.2	0.2
Wages & Salaries	4.3	4.1	3.7	3.7	3.6
Defense and NSIS	1.4	1.4	1.2	1.2	1.1
SOE Extra-Ordinary Support	-	-	0.2	-	-
Others	3.5	4.0	3.7	3.8	3.3
Ministerial Recurrent AIA	1.3	1.5	1.6	1.6	1.6
Development	4.9	4.2	4.1	3.8	4.4
Domestically Financed (Gross)	3.4	3.0	2.7	2.4	2.6
Foreign Financed	1.5	1.3	1.3	1.3	1.7
Net Lending	-	-	0.1	0.1	0.1
County Transfer	3.5	2.8	3.0	3.0	2.6
<b>BALANCE INCLUSIVE OF GRANTS</b>	<b>(8.2)</b>	<b>(6.2)</b>	<b>(5.7)</b>	<b>(5.8)</b>	<b>(4.4)</b>
Adjustments to cash basis	0.0	0.1	-	-	-
<b>BALANCE INCLUSIVE OF GRANTS</b>	<b>(8.2)</b>	<b>(6.2)</b>	<b>(5.7)</b>	<b>(5.8)</b>	<b>(4.4)</b>
<b>Discrepancy</b>	<b>0.2</b>	<b>(0.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL FINANCING</b>	<b>8.4</b>	<b>5.9</b>	<b>5.7</b>	<b>5.8</b>	<b>4.4</b>
<b>NET FOREIGN FINANCING</b>	<b>2.8</b>	<b>1.1</b>	<b>2.7</b>	<b>2.5</b>	<b>0.8</b>
Disbuserments	4.0	2.6	4.3	4.1	3.7
Commercial Financing	1.0	-	0.8	0.7	1.7
Semi consessional & Other Loans	-	-	-	-	-
Project Loans	1.5	1.2	1.3	1.3	1.7
Programme & IMF SDR Allocation	1.5	1.4	2.2	2.1	0.4
IMF SDR Allocation	-	0.3	0.3	0.3	-
IMF EFF/ECF Credit & RCF	0.7	0.2	0.8	0.6	0.4
DPO (WB & ADB) and Other	0.8	0.8	1.0	1.1	0.0
WB C-19 Vaccine Loans	-	0.0	0.0	0.0	-
Debt repayment - Principal	(1.1)	(1.4)	(1.5)	(1.6)	(2.9)
<b>NET DOMESTIC FINANCING</b>	<b>5.5</b>	<b>4.7</b>	<b>2.9</b>	<b>3.3</b>	<b>3.6</b>
<b>PRIMARY BALANCE</b>	<b>(3.8)</b>	<b>(1.6)</b>	<b>(1.0)</b>	<b>(1.1)</b>	<b>0.4</b>
Nominal GDP	100	100	100	100	100
Gross Debt (Disbursed)	67.7	67.3	64.8	64.9	62.2

*Thank You!*

