



Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Thursday, August 10, 2023

Dr. Kamau Thugge, CBS
Governor

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1.

Monetary Policy Decision

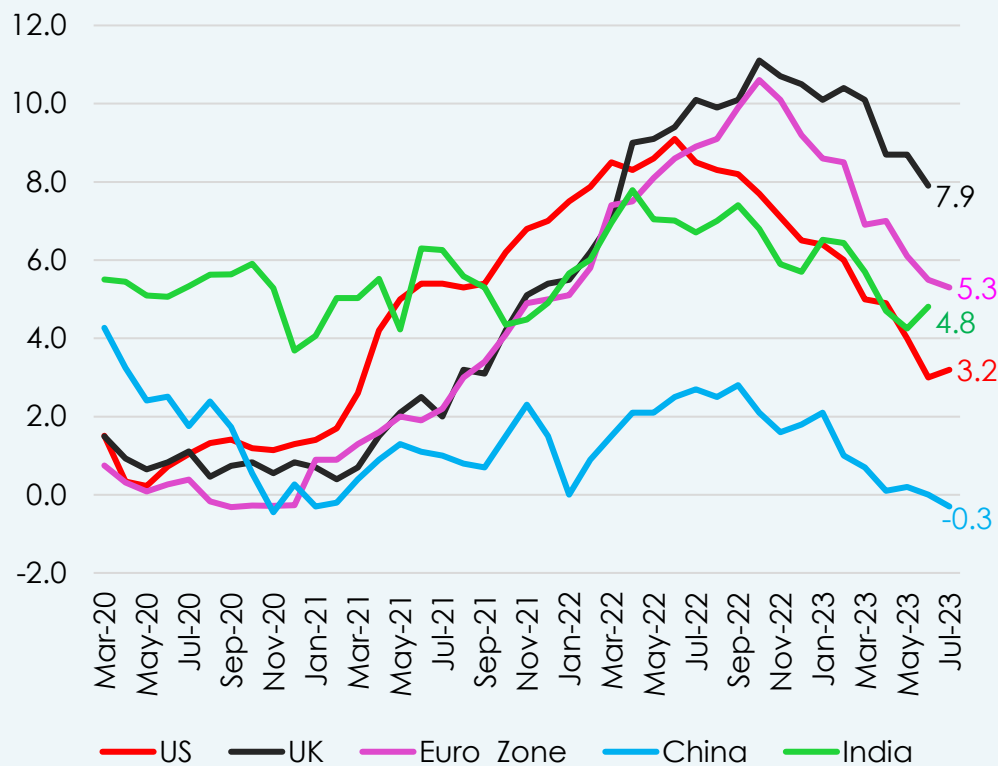
During its Meeting on August 9, 2023, the Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 10.50 percent.

- The MPC noted that:
 - Inflation is already within the target band and is expected to decline further as food inflation is expected to come down.
 - Inflationary pressures had eased as NFNF inflation declined.
 - The impact of the tightening of monetary policy in June 2023 to anchor inflationary expectations was still transmitting in the economy.
- 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 further action as necessary.
- The Committee will meet again in October 2023.

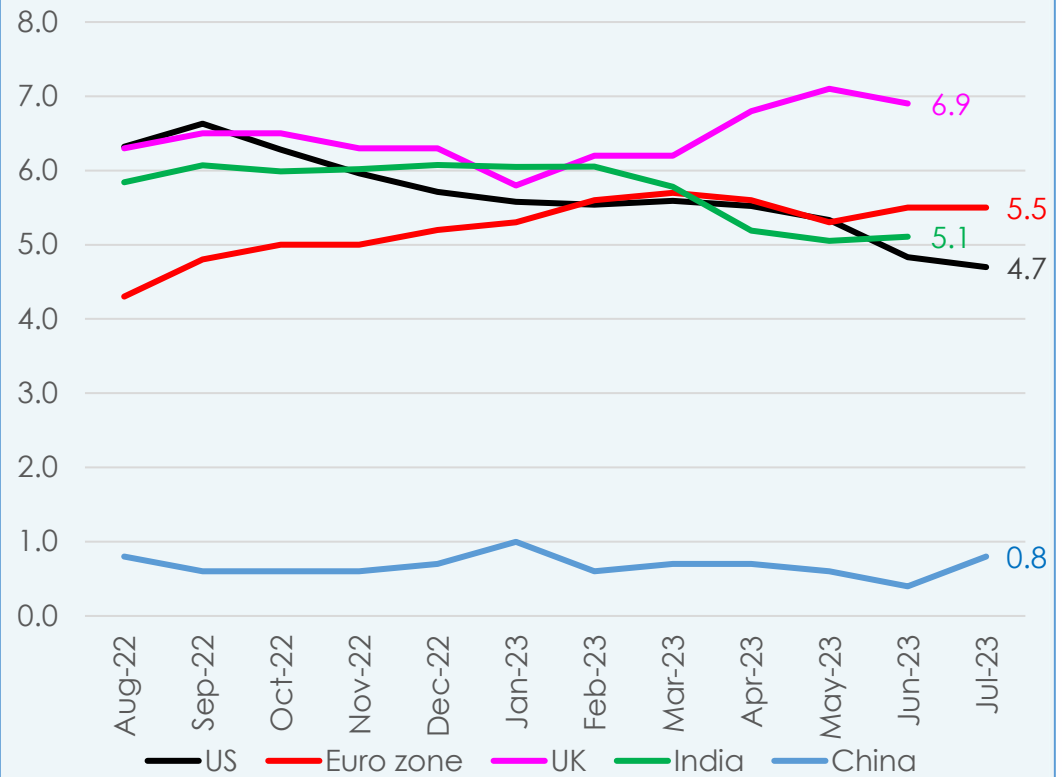
Global inflation:

Headline inflation rates have continued to ease in the major economies, but have remained above the respective targets, with persistent core inflationary pressures

Headline inflation rates (y/y, percent)



Core inflation rates (y/y, percent)



- Headline inflation rates in the major economies have been declining due to monetary policy tightening, and lower commodity prices.

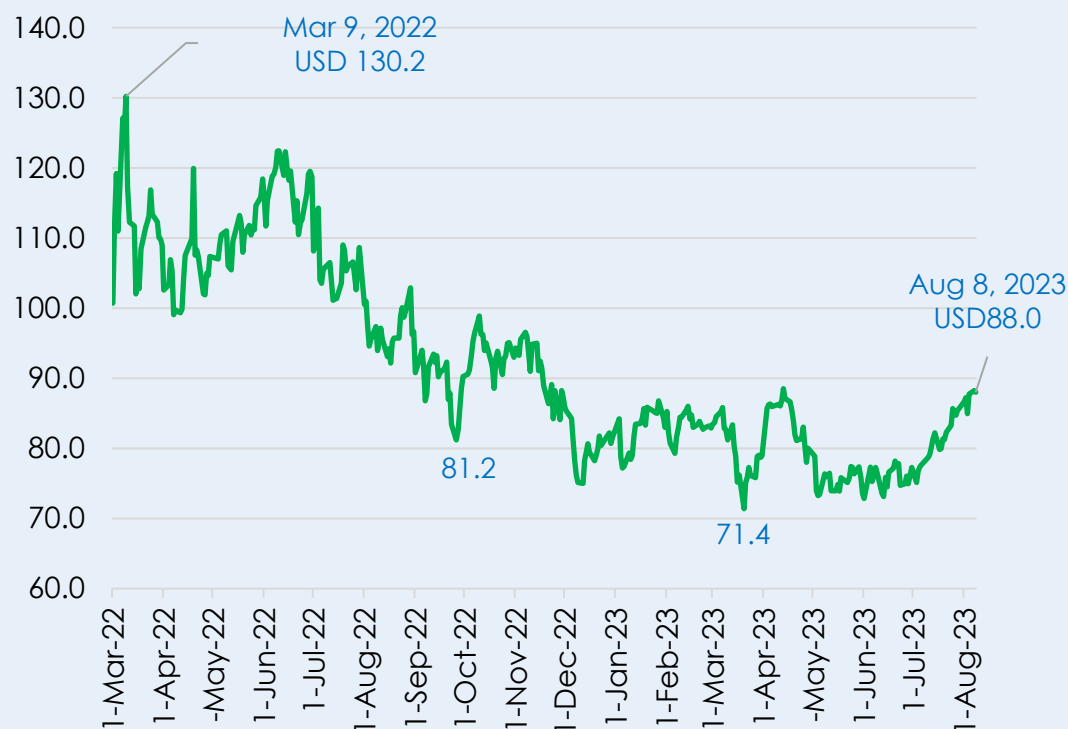
- Core inflationary pressures have been persistent in the major economies mainly due to strong service price increases, and tight labour markets.

Source: Websites of Statistics Offices/Central Banks of respective countries

Global commodity prices:

Commodity prices in the global markets, particularly of oil and food, remain below the peak levels witnessed in 2022

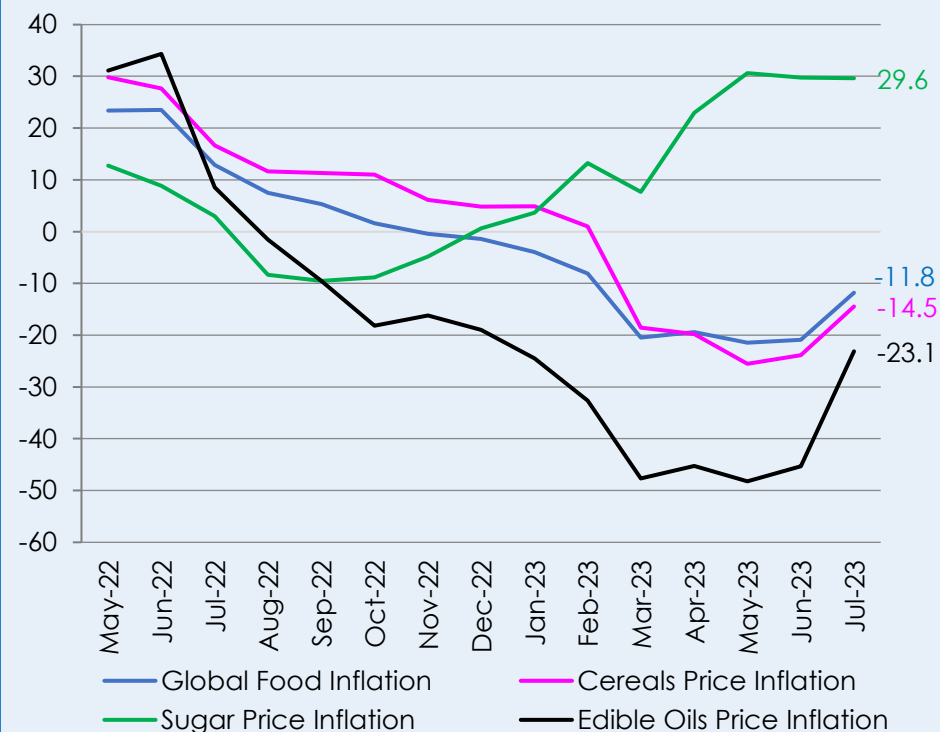
Murban oil price (USD, per barrel)



- The price of oil has declined with weaker demand but remains volatile due to increased uncertainties to global growth, and recent supply cuts by the OPEC to shore up prices.

Source: Oilprice.com

Global food inflation (y/y, percent)



- Global food prices have declined with a rebound in global supplies. But risks have emerged with the decision by Russia to end the Black Sea Grain Initiative and decision by India to ban rice exports.
- Sugar prices stabilized in June and July 2023 from the sharp rise in May, following improved supply from harvests in Brazil and a sluggish global import demand.

Source: UN FAO Food Index

Global economic outlook:

A weaker global growth is expected in 2023, but the outlook has been revised slightly upwards

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

	2021 Act.	2022 Act.	2023 Proj.		2024 Proj.	
			Jul. 2023 WEO	Difference from Apr. 2023 WEO	Jul. 2023 WEO	Difference from Apr. 2023 WEO
World	6.3	3.5	3.0	0.2	3.0	0.0
Advanced Economies	5.4	2.7	1.5	0.2	1.4	0.0
United States	5.9	2.1	1.8	0.2	1.0	-0.1
United Kingdom	7.6	4.1	0.4	0.7	1.0	0.0
Japan	2.2	1.1	1.4	0.1	1.0	0.0
Euro area	5.3	3.5	0.9	0.1	1.5	0.1
Emerging Market and Developing Economies	6.8	4.0	4.0	0.1	4.1	-0.1
China	8.4	3.0	5.2	0.0	4.5	0.0
India	9.1	7.2	6.1	0.2	6.3	0.0
Russia	5.6	-2.1	1.5	0.8	1.3	0.0
Sub-Saharan Africa	4.7	3.9	3.5	-0.1	4.1	-0.1
South Africa	4.7	1.9	0.3	0.2	1.7	-0.1
Nigeria	3.6	3.3	3.2	0.0	3.0	0.0
Kenya	7.6	4.8	5.0	-0.3	5.3	-0.1

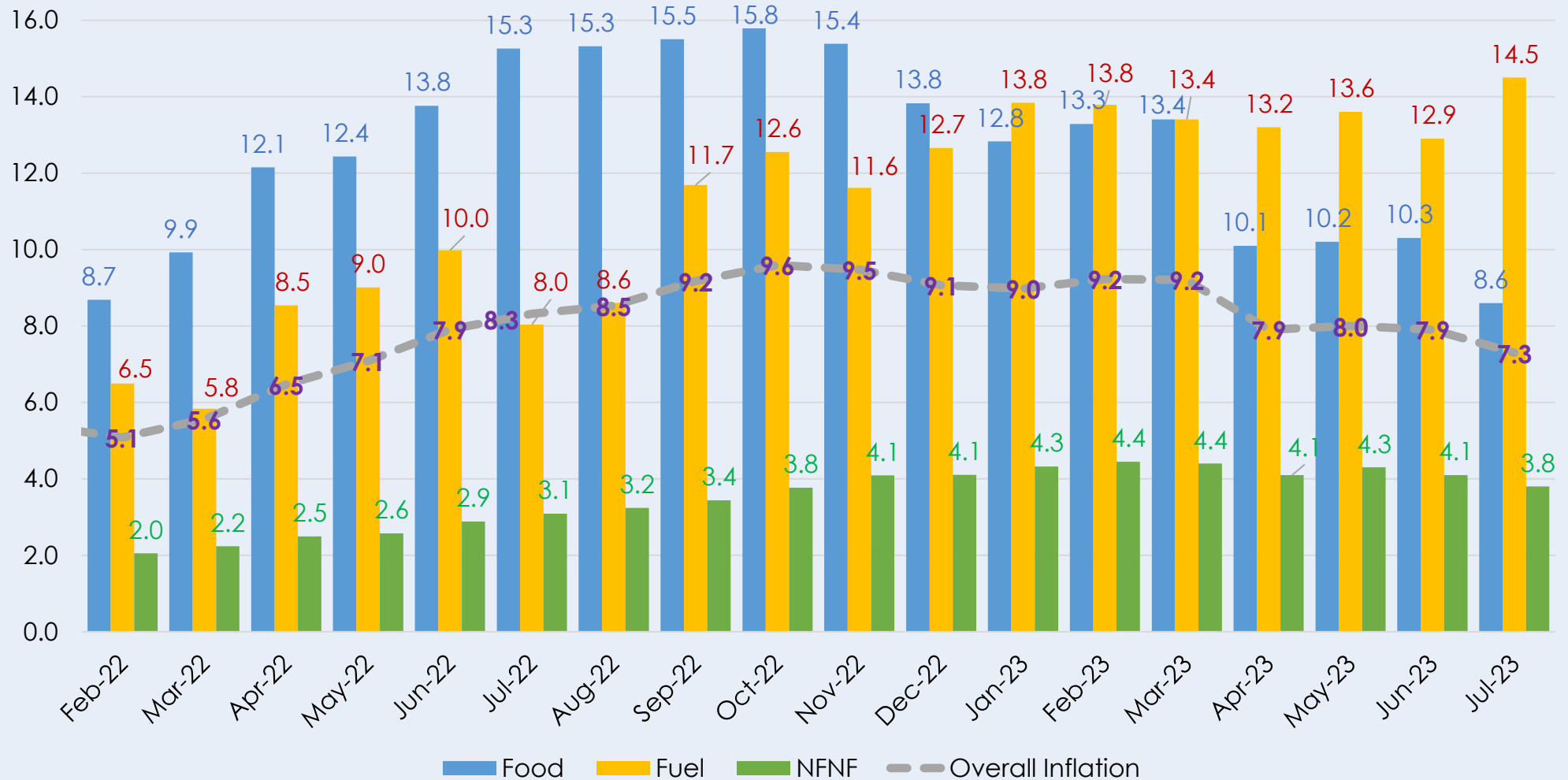
- Global growth is expected to decelerate in 2023, reflecting the impact of tightening of monetary policy,, and escalation of geopolitical tensions particularly the ongoing war in Ukraine
- The growth outlook for 2023 was revised slightly upwards, reflecting stronger consumption in the U.S. and U.K, resilient services sector including tourism, pent-up demand in Japan, and recovery in supply chains.
- IMF projections show that Kenya's real GDP growth is expected to remain strong in 2023.

Source: IMF World Economic Outlook (WEO)

Domestic inflation:

Overall inflation declined in July 2023, driven by lower food and non-food non-fuel (NFNF) inflation

Inflation by broad category (y/y, percent)

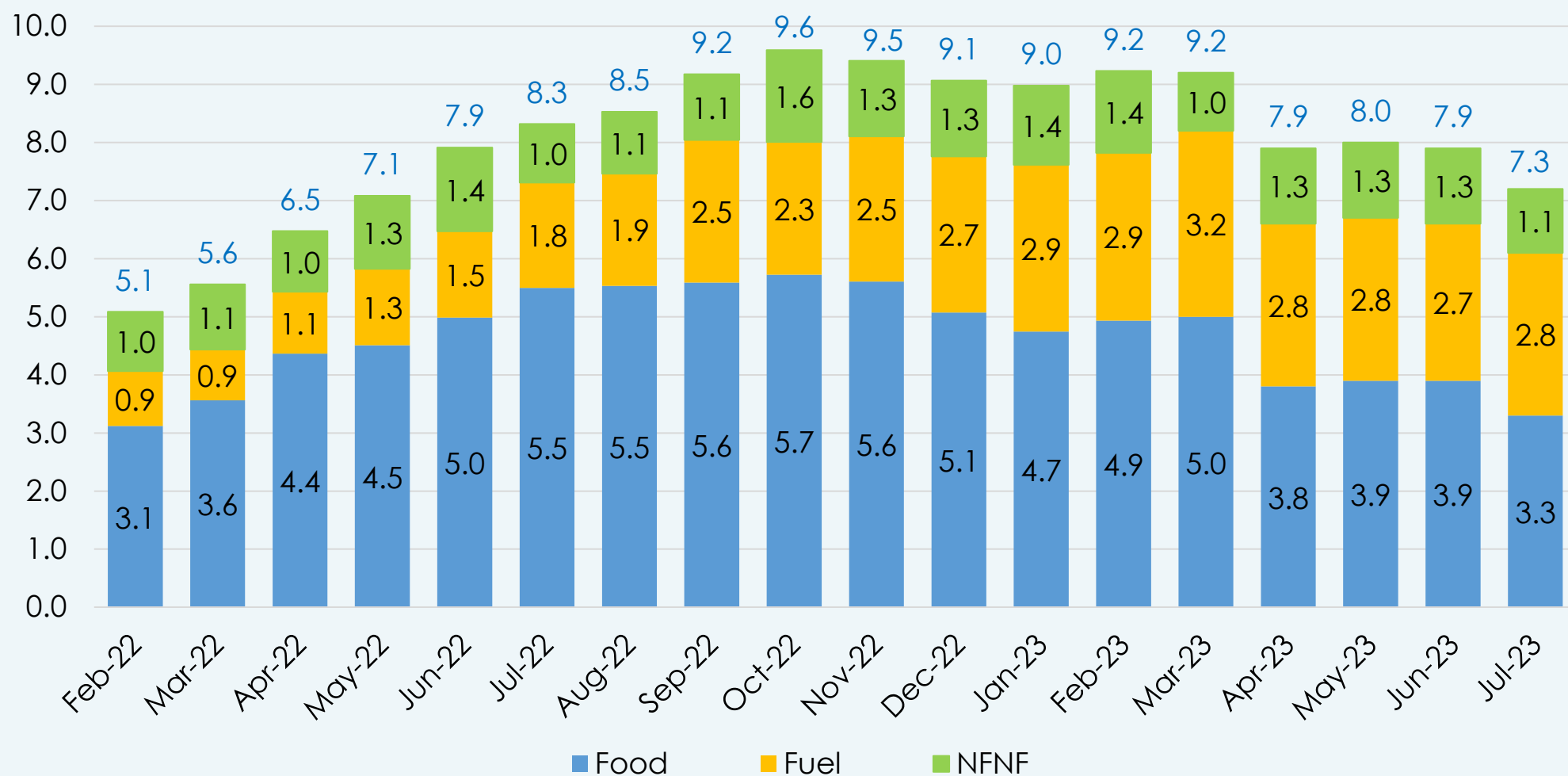


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

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Domestic inflation:

The contribution of food and NFNF inflation to overall inflation fell in July 2023

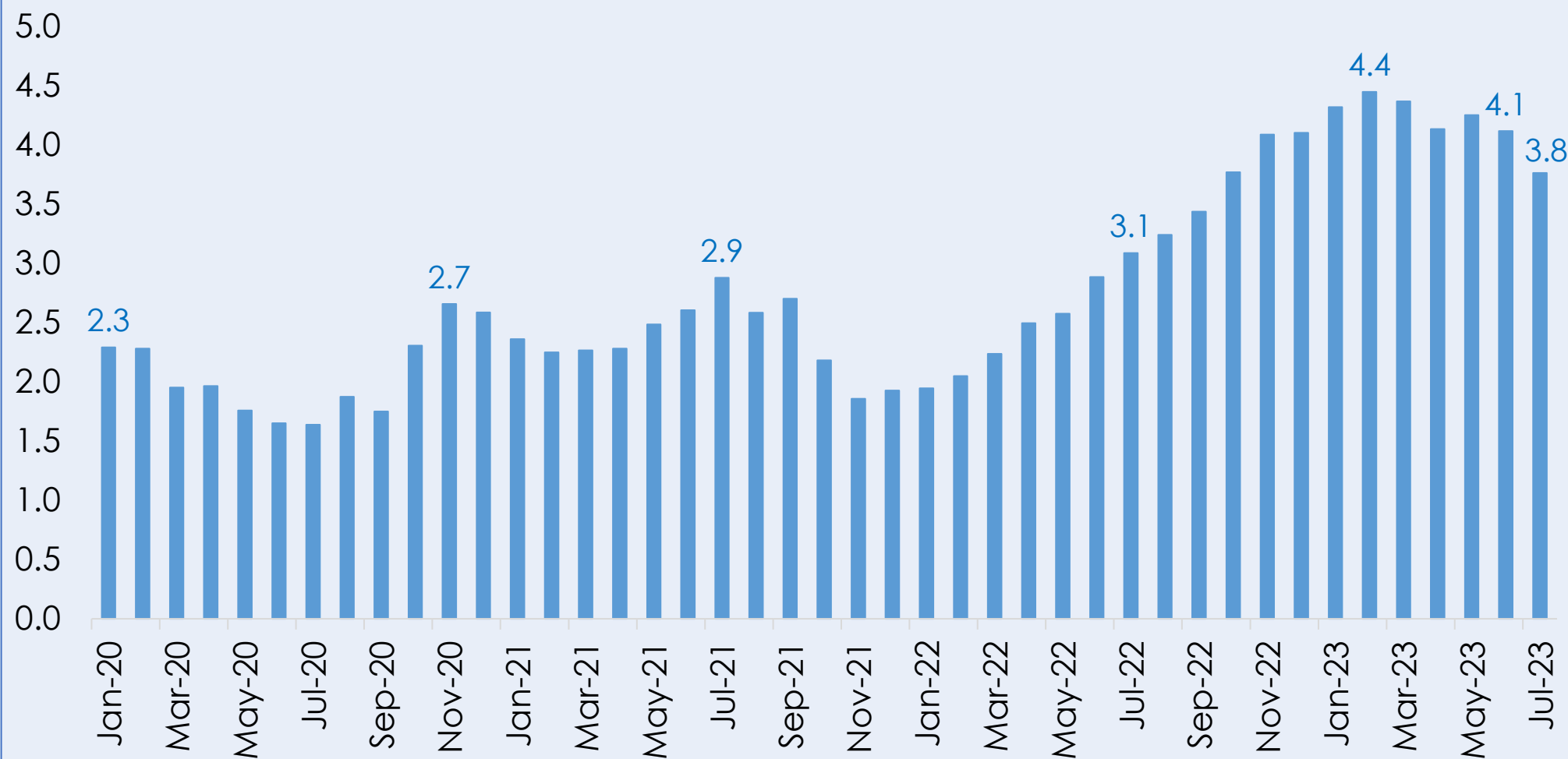
Contributions to Overall Inflation (percentage points)

Source: KNBS and CBK

Domestic inflation:

NFNF inflation declined in July 2023 indicating easing underlying inflationary pressures attributed to monetary policy measures

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

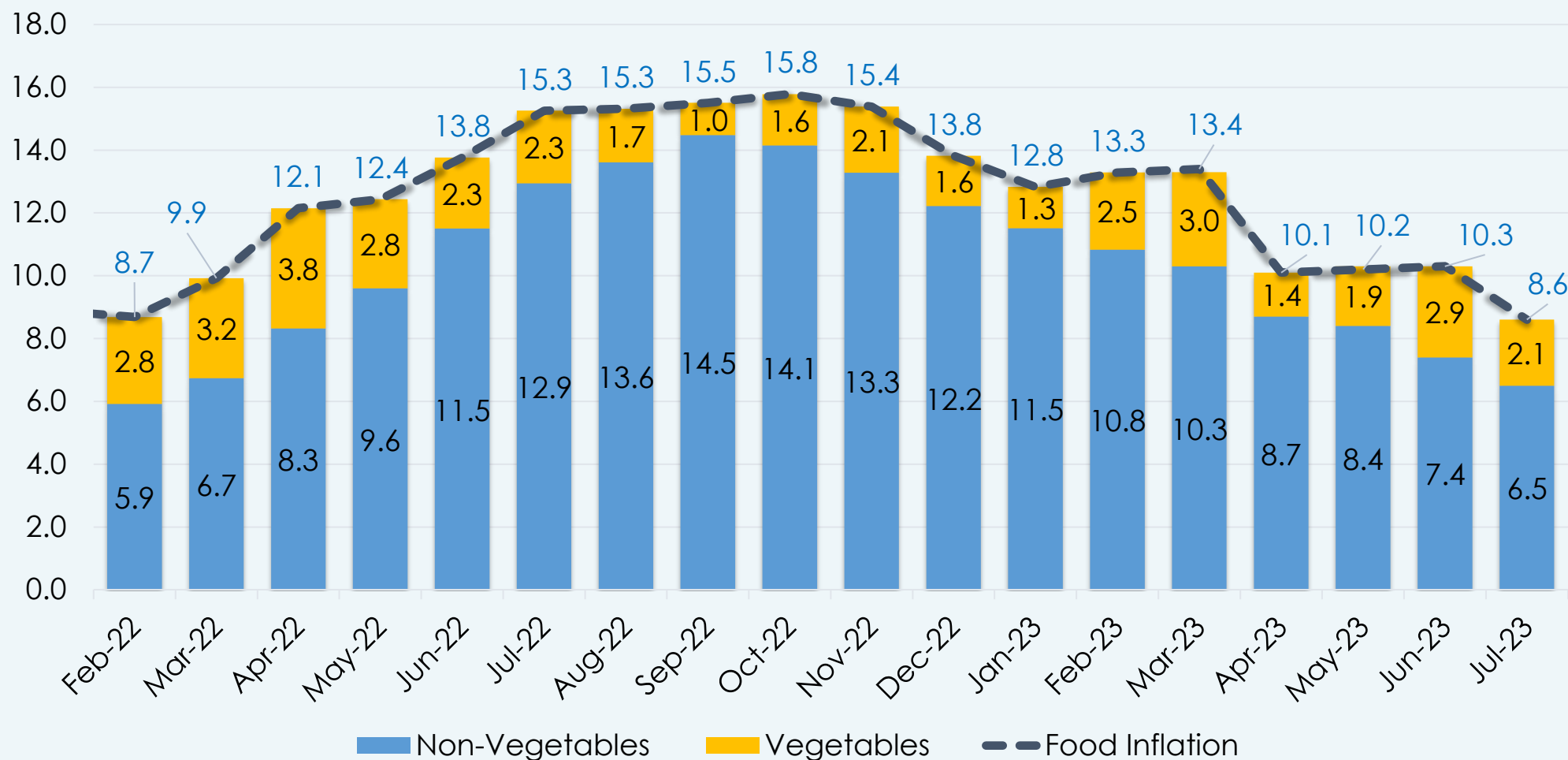


Source: KNBS and CBK

Main drivers of food inflation:

The contribution of prices of vegetable and non-vegetable food items to food inflation declined with improved supply and lower global food prices

Contributions to food inflation (percentage points)

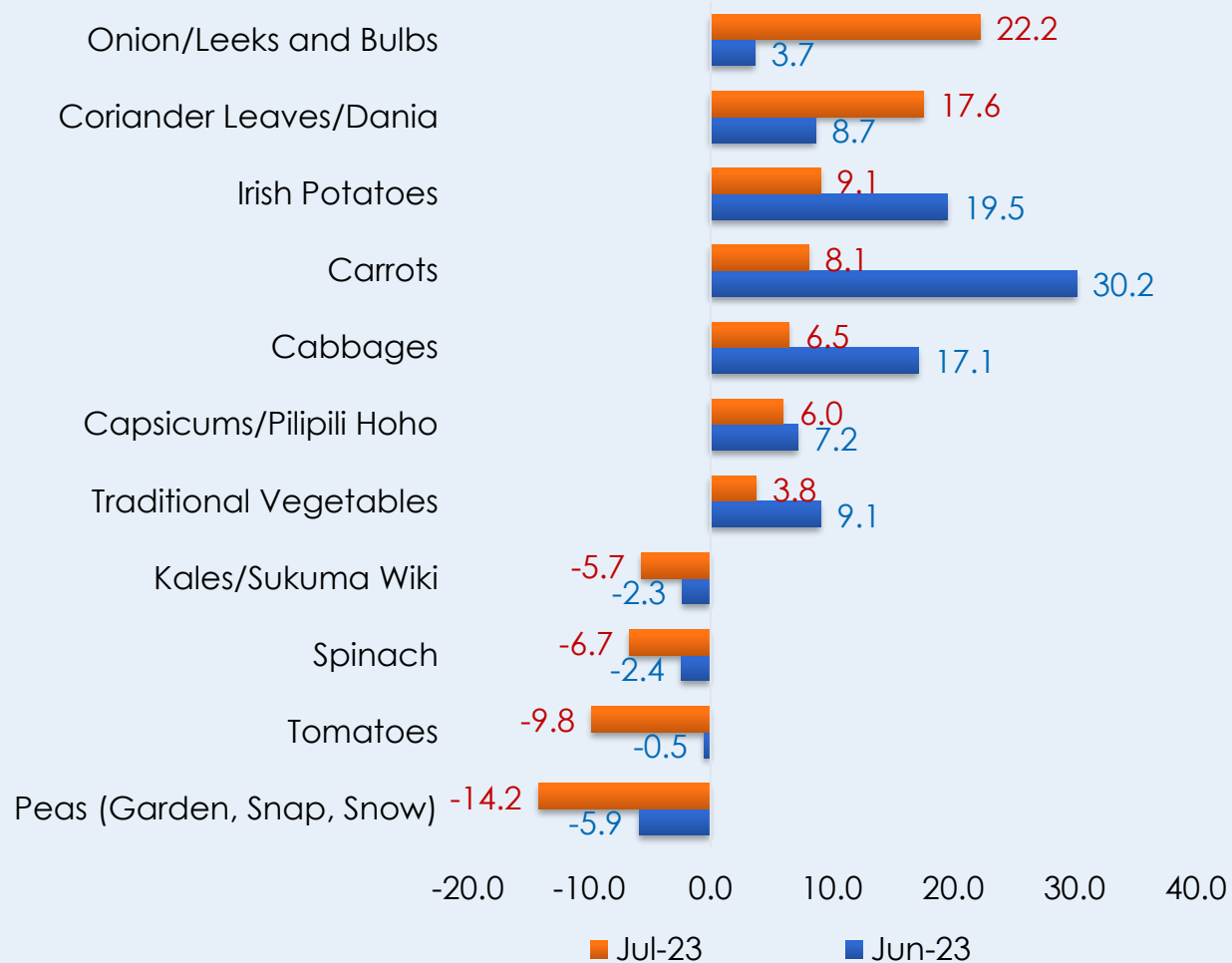


Source: KNBS and CBK

Main drivers of vegetables inflation:

Prices of most vegetable food items declined in July 2023 following improved supply attributed to the long rains

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



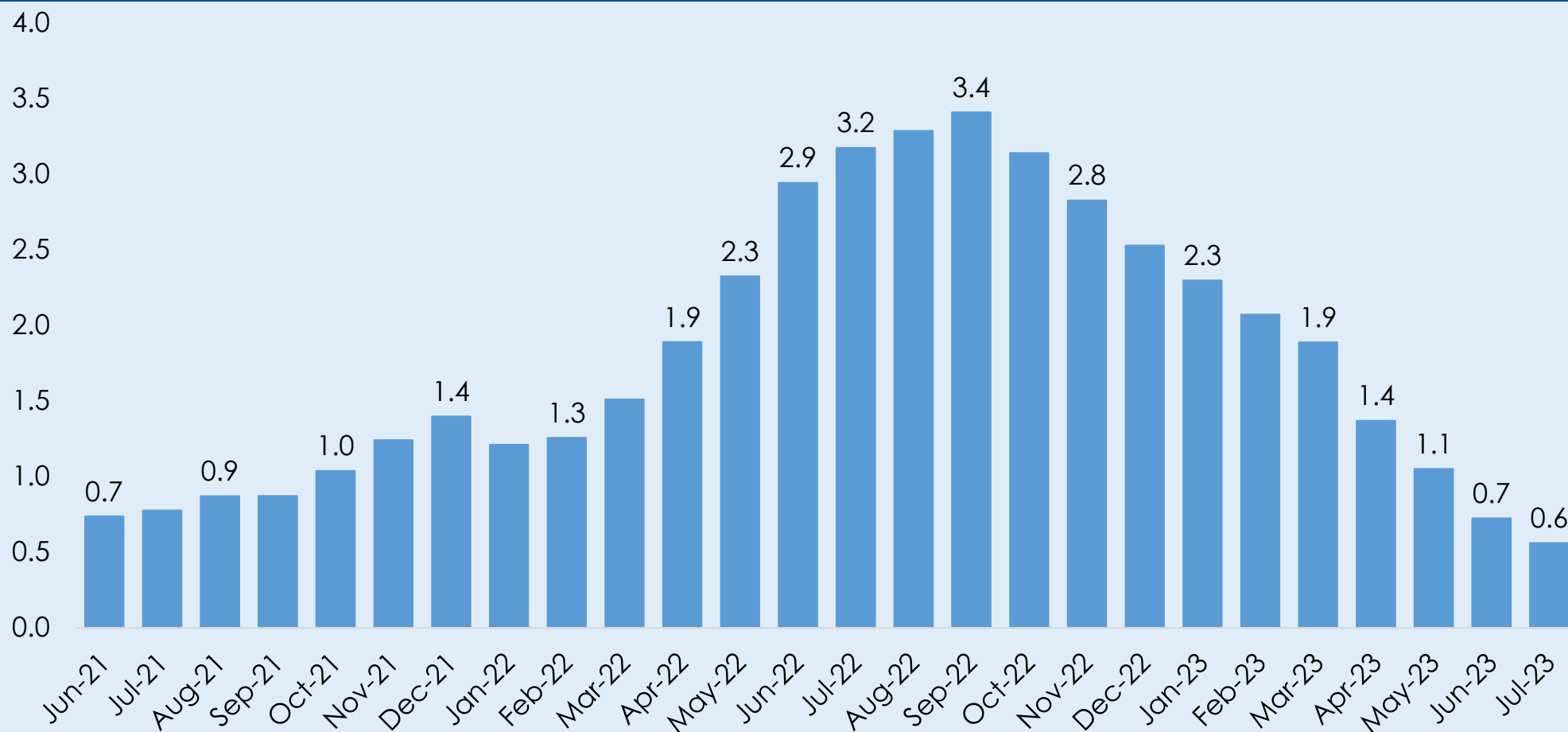
Source: KNBS

- However, prices of onions rose sharply in July 2023.
- The July 2023 Agriculture Sector Survey shows that the main challenges regarding supply of onions include:
 - Reduced imports from Tanzania.
 - Spike in the price of Tanzania onions which are drier and have longer shelf life.
 - Poor harvest in Kenya and crop substitution

Main drivers of non-vegetables inflation:

The contribution of prices of wheat, maize, milk and edible oils to overall inflation has continued to ease with improved supply and lower global prices.

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

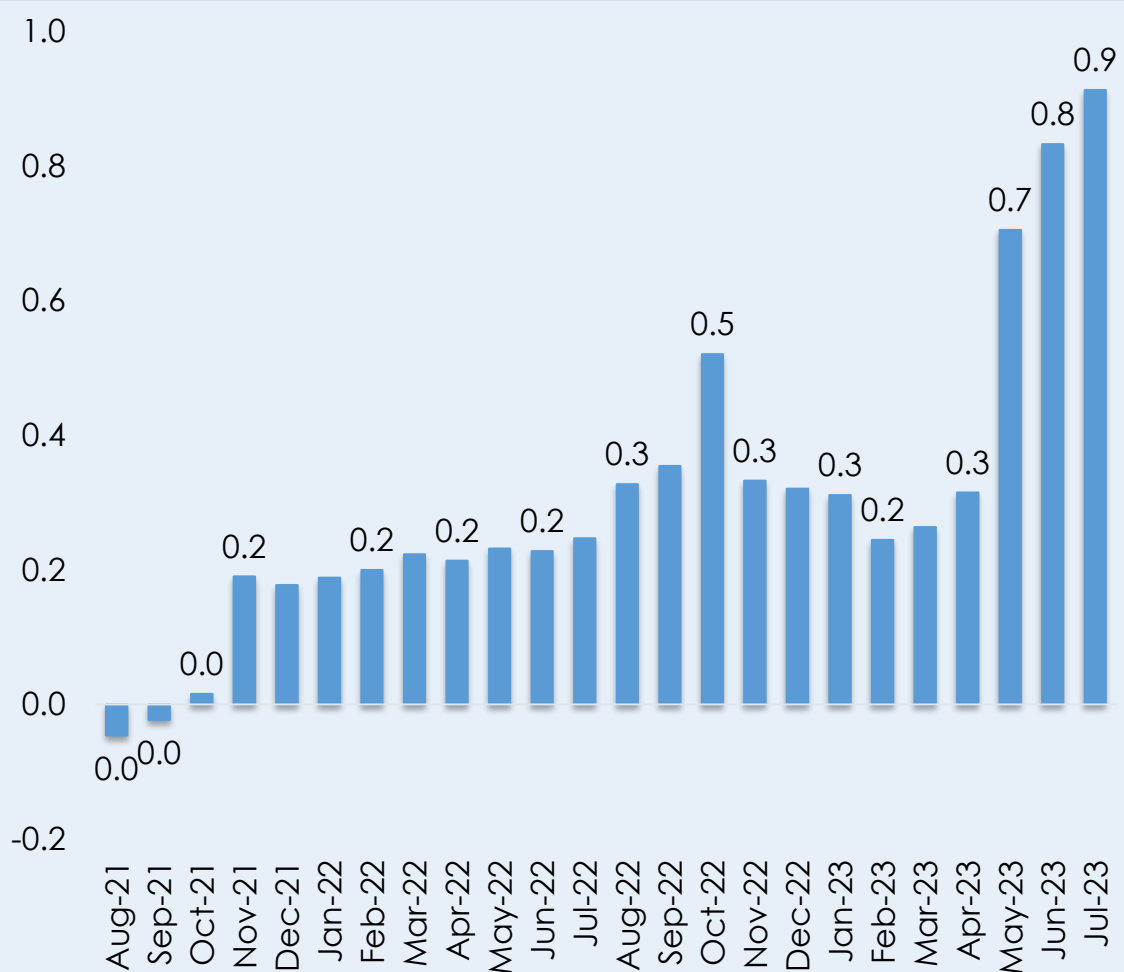


Source: KNBS and CBK

Main drivers of non-vegetables Inflation:

Sugar prices have remained elevated due to reduced supply

Contribution of sugar to overall inflation (percentage points)



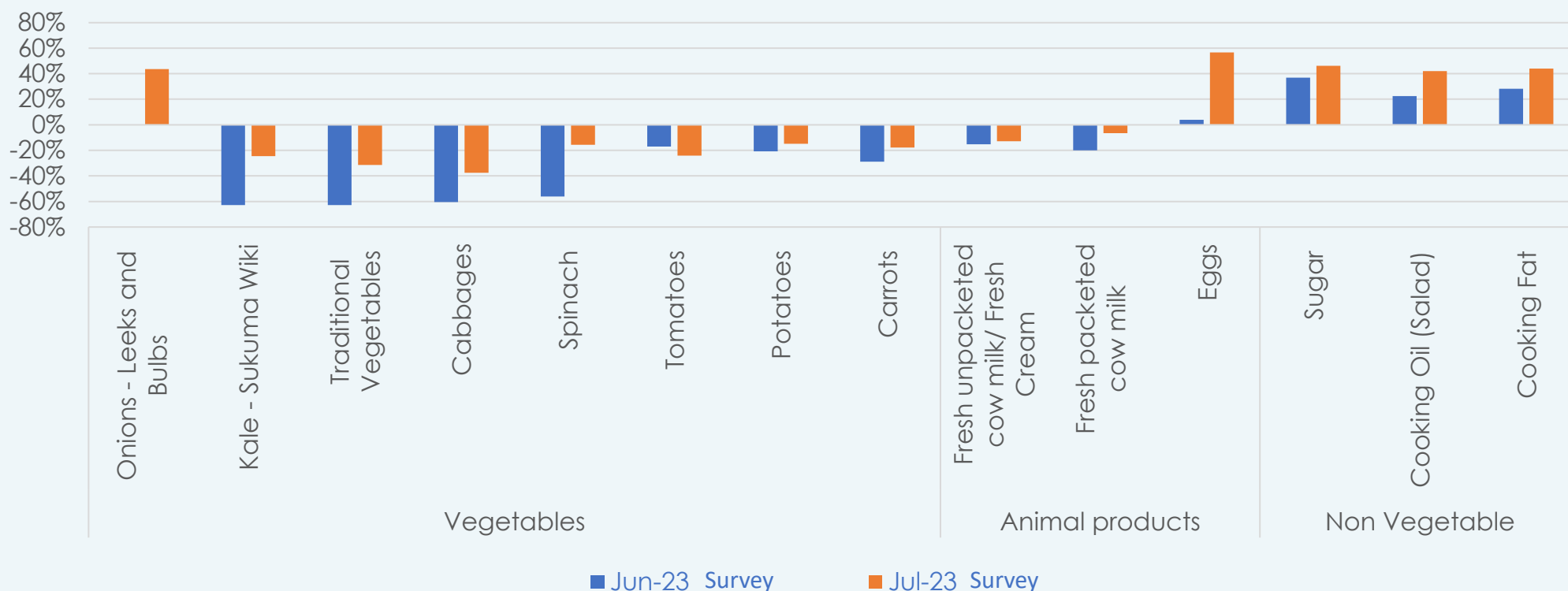
Source: KNBS for data

- Sugar prices rose by 63.6 percent (year on year) in July 2023, and contributed 0.9 percentage points to the overall inflation.
- The implementation of Government measures to improve the supply of sugar through imports will moderate sugar prices.
- The July 2023 Agriculture Sector Survey revealed that farmers are harvesting sugarcane prematurely after 10 months instead of waiting for 18 months due to rising demand from millers.
- Globally prices are stabilizing from the sharp rise attributed to lower outputs 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.

July 2023 Agriculture Sector Survey:

Retail prices of most key food items and animal products are expected to decline in August 2023

Expected changes in retail prices in August 2023 (percent of respondents)



- Vegetable prices expected to decline further in August following harvests from the recent long rains.
- Onion prices expected to rise with reduced supplies locally and imports from Tanzania.
- Egg prices expected to increase due to low supplies during cold season and costly feeds.
- The prices of cooking oil, cooking fat and sugar is expected to rise following a reported shortage of sugar and increased import costs of oil products.

Domestic economy:

The economy is expected to continue to strengthen in 2023, supported by the resilient services sector, rebound in agriculture, and Government measures in priority sectors

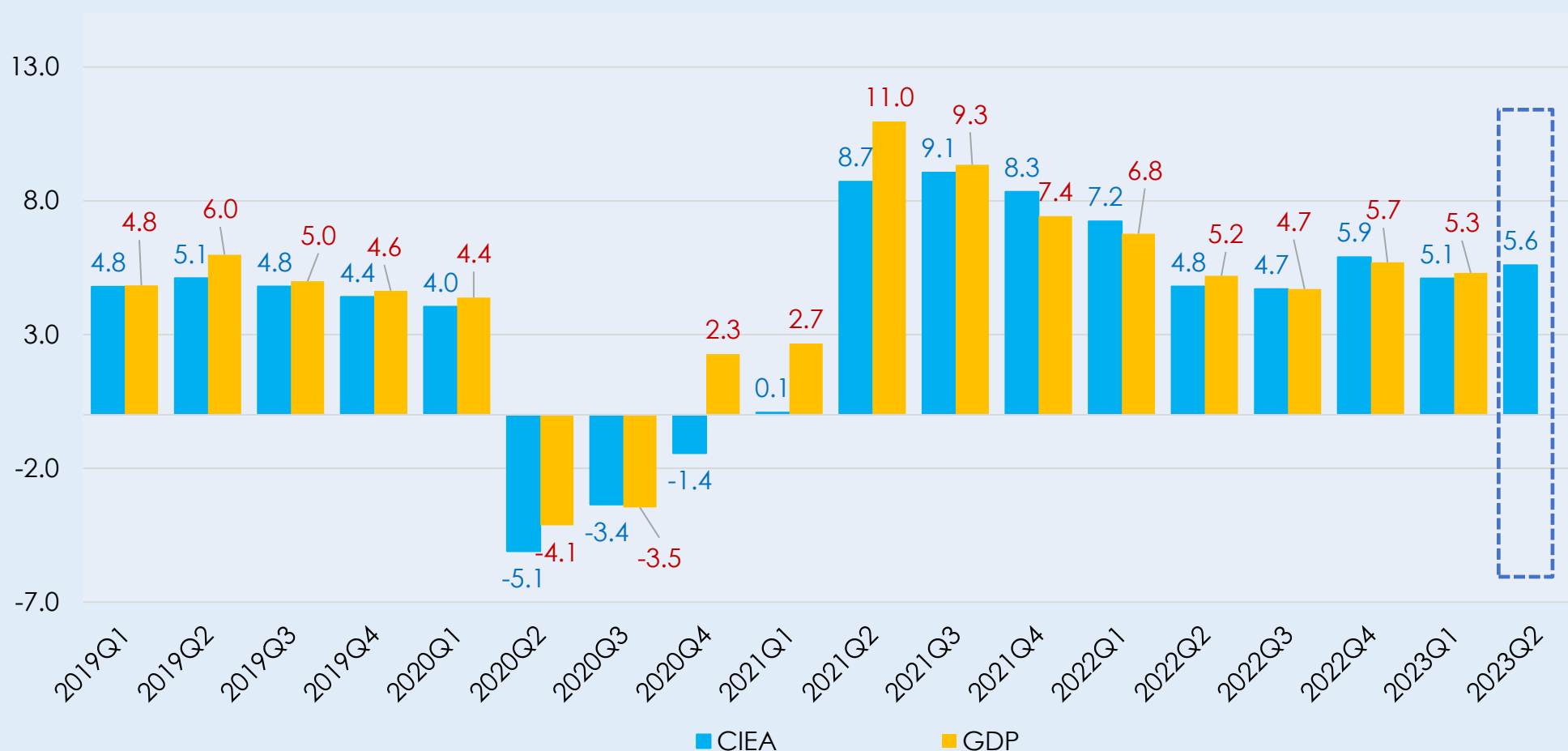
Real GDP growth (y/y, percent)								
						2023		
	2018	2019	2020	2021	2022	Q1	Q2 Est.	Annual Proj.
1. Agriculture	5.7	2.7	4.6	-0.4	-1.6	5.8	6.2	5.9
2. Non-Agriculture (o/w)	5.6	5.7	-1.4	9.5	6.3	5.2	5.4	5.4
2.1 Industry	3.8	4.0	3.3	7.5	3.9	2.5	3.5	3.5
Mining & Quarrying	-4.7	4.3	5.5	18.0	9.3	3.3	4.3	4.3
Manufacturing	3.6	2.6	-0.3	7.3	2.7	2.0	2.8	2.7
Electricity & water supply	3.6	1.7	0.6	5.6	4.9	2.3	4.3	4.3
Construction	6.1	7.2	10.1	6.7	4.1	3.1	4.1	4.0
2.2 Services	6.2	6.5	-1.8	9.8	7.0	6.3	6.1	6.0
Wholesale & Retail Trade	5.9	5.3	-0.4	8.0	3.8	5.7	5.8	5.4
Accommodation & food services	15.6	14.3	-47.7	52.6	26.2	21.5	14.5	15.4
Transport & Storage	6.0	6.3	-8.0	7.4	5.6	6.2	6.4	6.1
Information & Communication	7.9	7.0	6.0	6.1	9.9	8.7	8.9	8.5
Financial & Insurance	2.7	8.1	5.9	11.5	12.8	5.8	5.5	5.6
Public administration	7.9	8.4	7.0	6.0	4.5	6.6	4.9	5.2
Professional, Admin & Support Services	6.9	6.8	-13.7	7.1	9.4	7.3	6.5	6.4
Real estate	6.5	6.7	4.1	6.7	4.5	5.2	5.0	5.1
Education	6.8	5.7	-9.2	22.8	4.8	3.6	4.8	4.3
Health	5.4	5.5	5.6	8.9	4.5	5.4	5.1	5.3
Other services	3.3	4.3	-14.6	12.5	5.7	3.0	5.1	4.7
FISIM	3.7	9.5	-1.8	5.3	1.5	0.6	1.3	1.2
2.3 Taxes on products	5.9	3.9	-8.0	11.9	7.0	4.4	5.5	5.1
Real GDP Growth	5.6	5.1	-0.3	7.6	4.8	5.3	5.6	5.5

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

Domestic economy:

Leading indicators point to continued strong economic performance in the second quarter of 2023

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

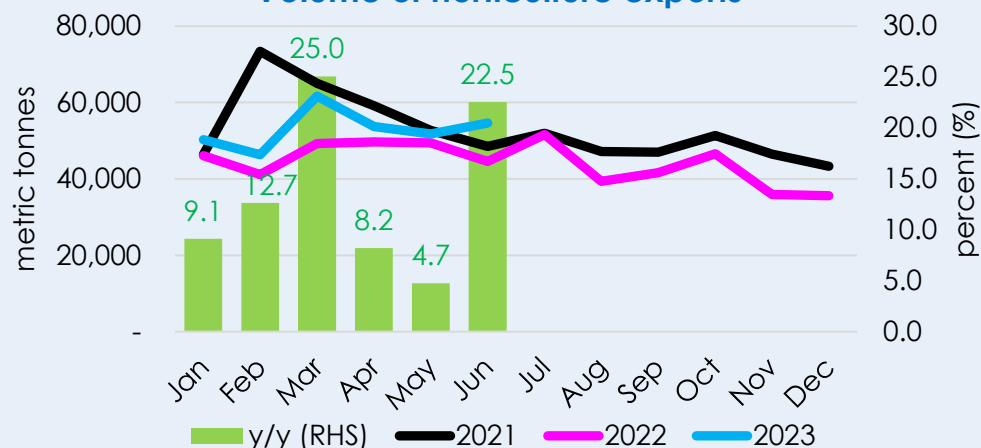


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Agricultural production:

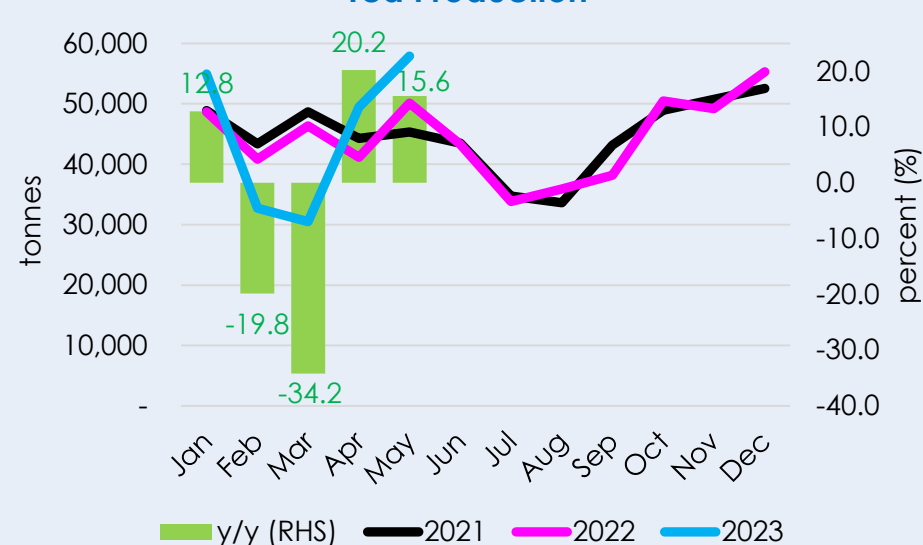
Volume of horticulture exports, tea production, and milk intakes have increased in 2023, reflecting the improved weather conditions

Volume of horticulture exports



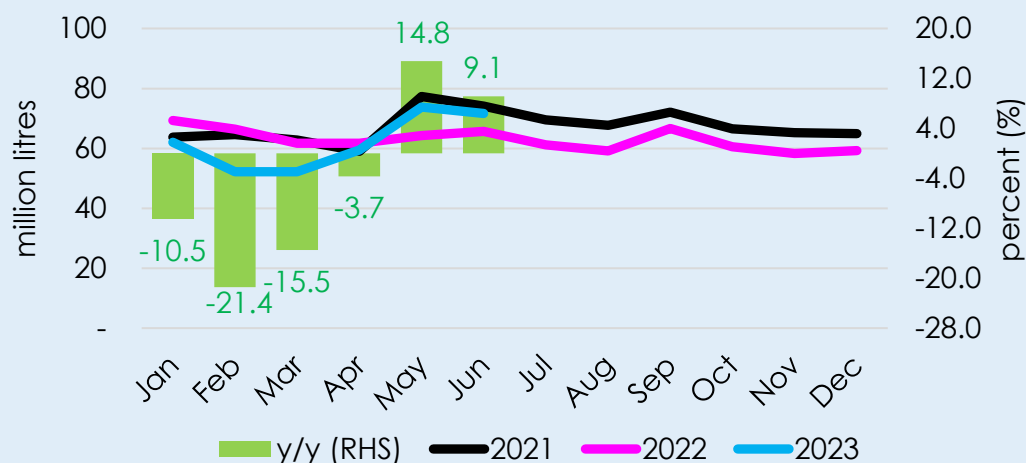
Source: Kenya Revenue Authority

Tea Production



Source: Tea Board of Kenya

Milk Intakes



Source: Kenya Dairy Board

Agricultural production:

Expected production of key food crops in 2023 revised upwards with the improved weather conditions across the country

Actual and projected food crops production (million bags)

	2020	2021	2022	2023 Production projections		Growth* (y/y, %)
				May	June	
Maize	42.2	36.7	34.3	44.6	47.8	39.3
Wheat	4.5	2.7	3.0	4.6	4.9	62.6
Rice	2.0	2.1	2.1	1.2	1.5	-27.6
Beans	8.6	7.4	5.7	8.5	11.7	105.1
Irish Potatoes	21.1	23.3	20.0	20.8	25.3	26.3
Sorghum	3.5	1.5	1.3	2.3	3.3	150.7
Millet	1.7	0.7	0.7	0.9	1.1	61.8

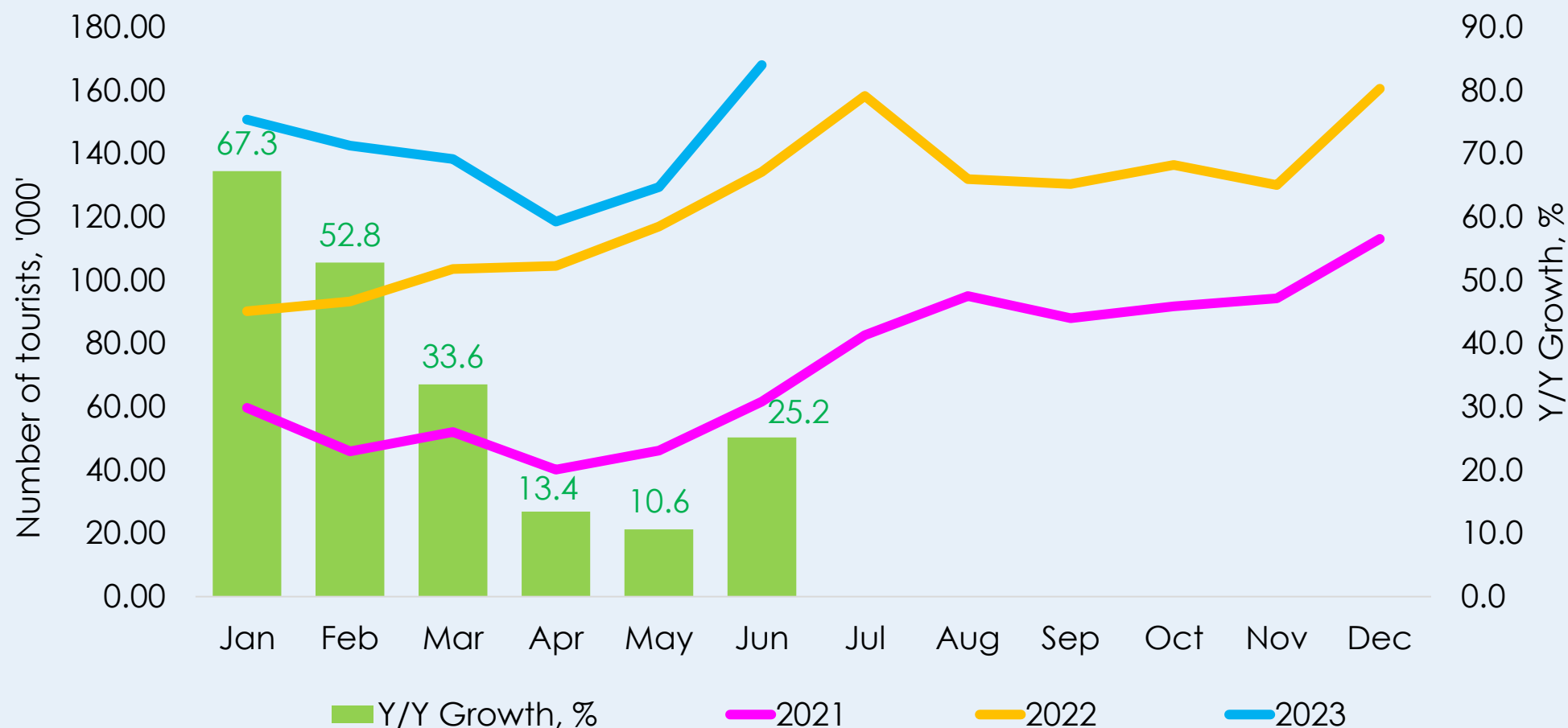
* Growth in production of key crops is based on the updated June 2023 projections from the Ministry of Agriculture

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

Tourist arrivals:

Tourist arrivals have remained strong in 2023 supported by recovery in international travel

Tourist arrivals

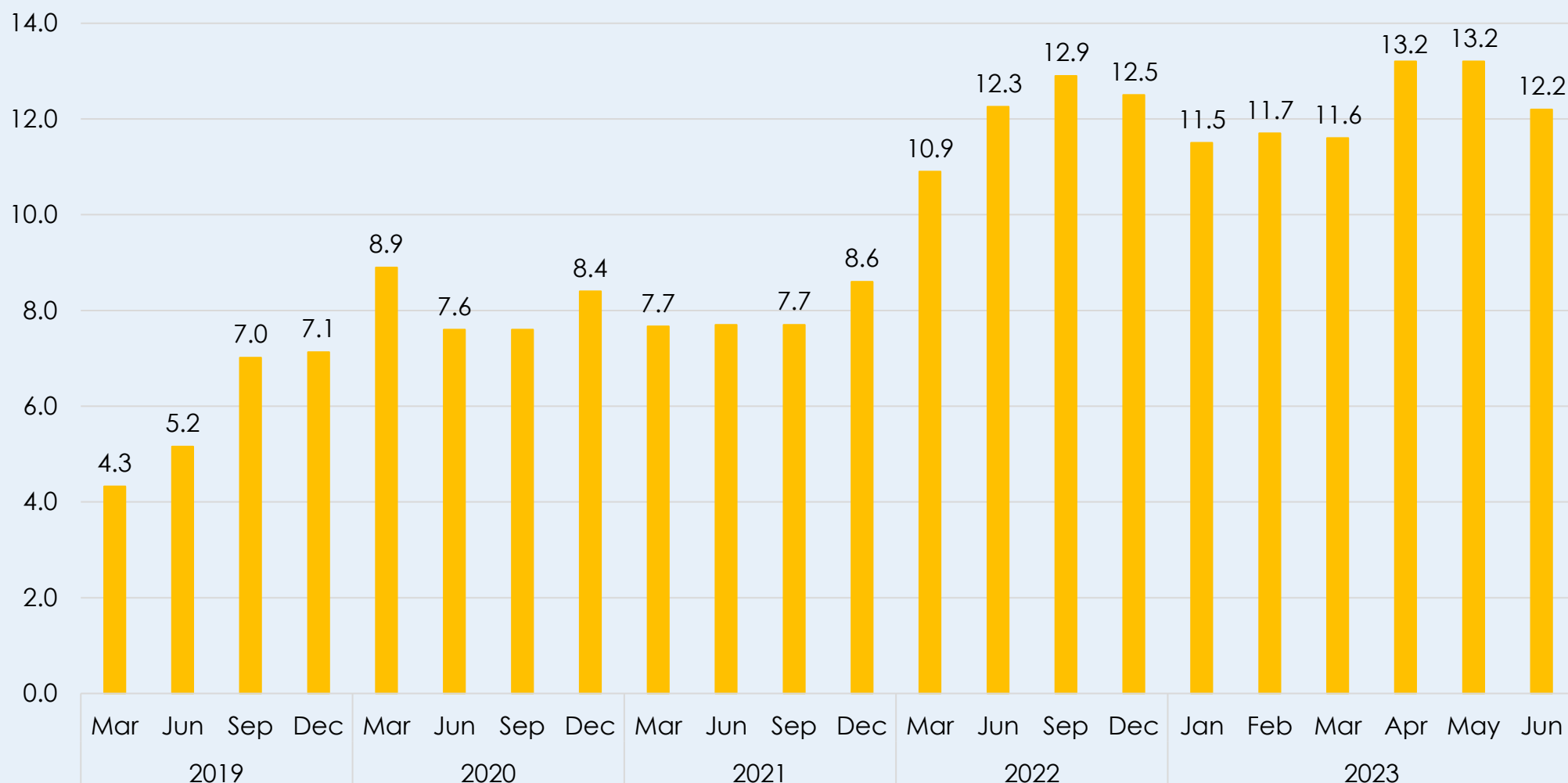


Source: Kenya Tourism Board

Private sector credit:

Growth in credit to the private sector has remained resilient

12 Months growth in credit to private sector (percent)



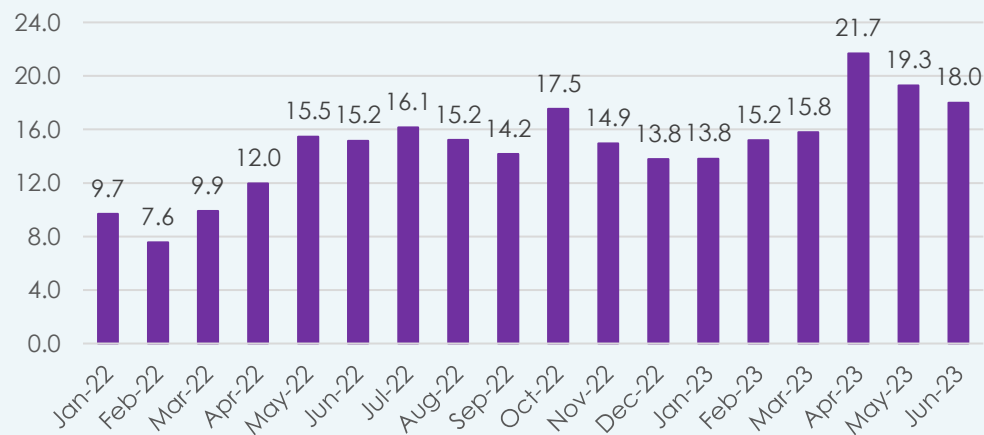
Source: CBK

Private sector credit:

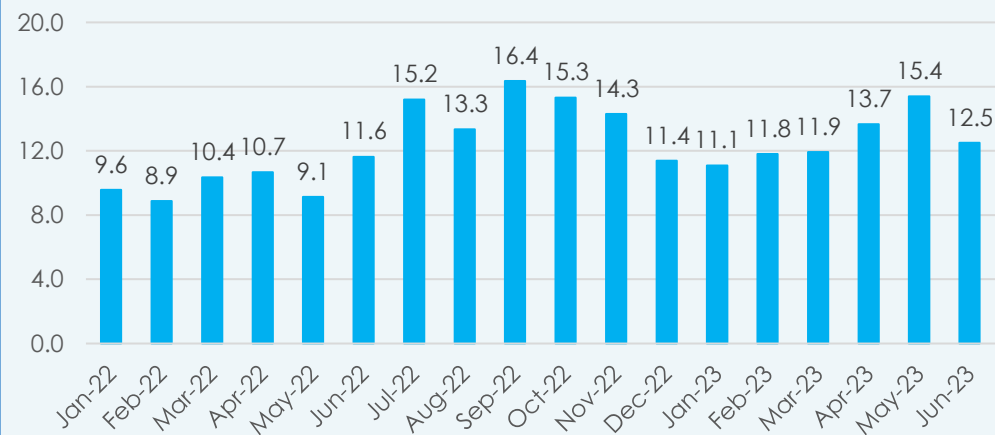
Strong growth in credit to key sectors of the economy

12 Months growth in credit to private sector (percent)

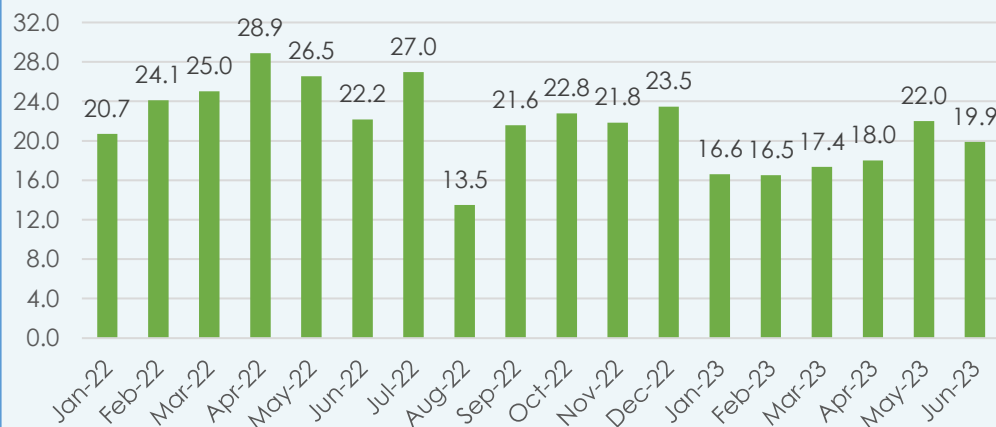
Manufacturing



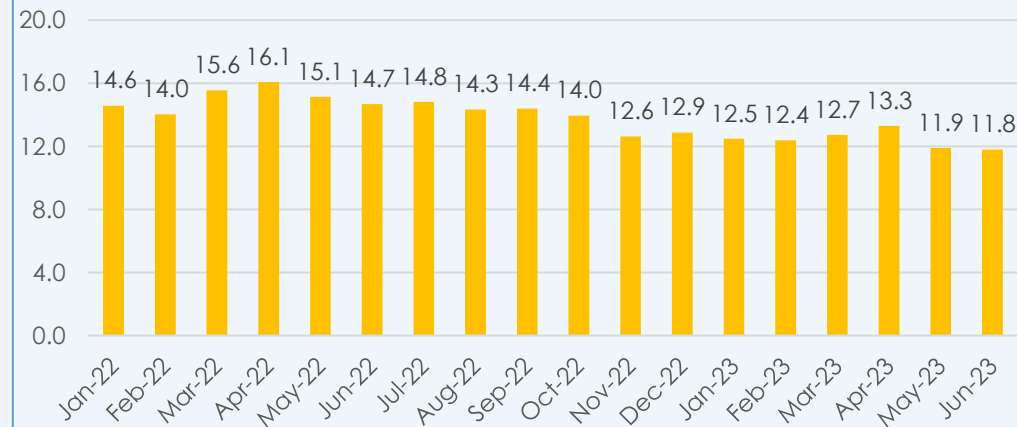
Trade



Transport & Communication



Consumer durables



Source: CBK

Balance of payments:

Balance of payments expected to record a surplus in 2023

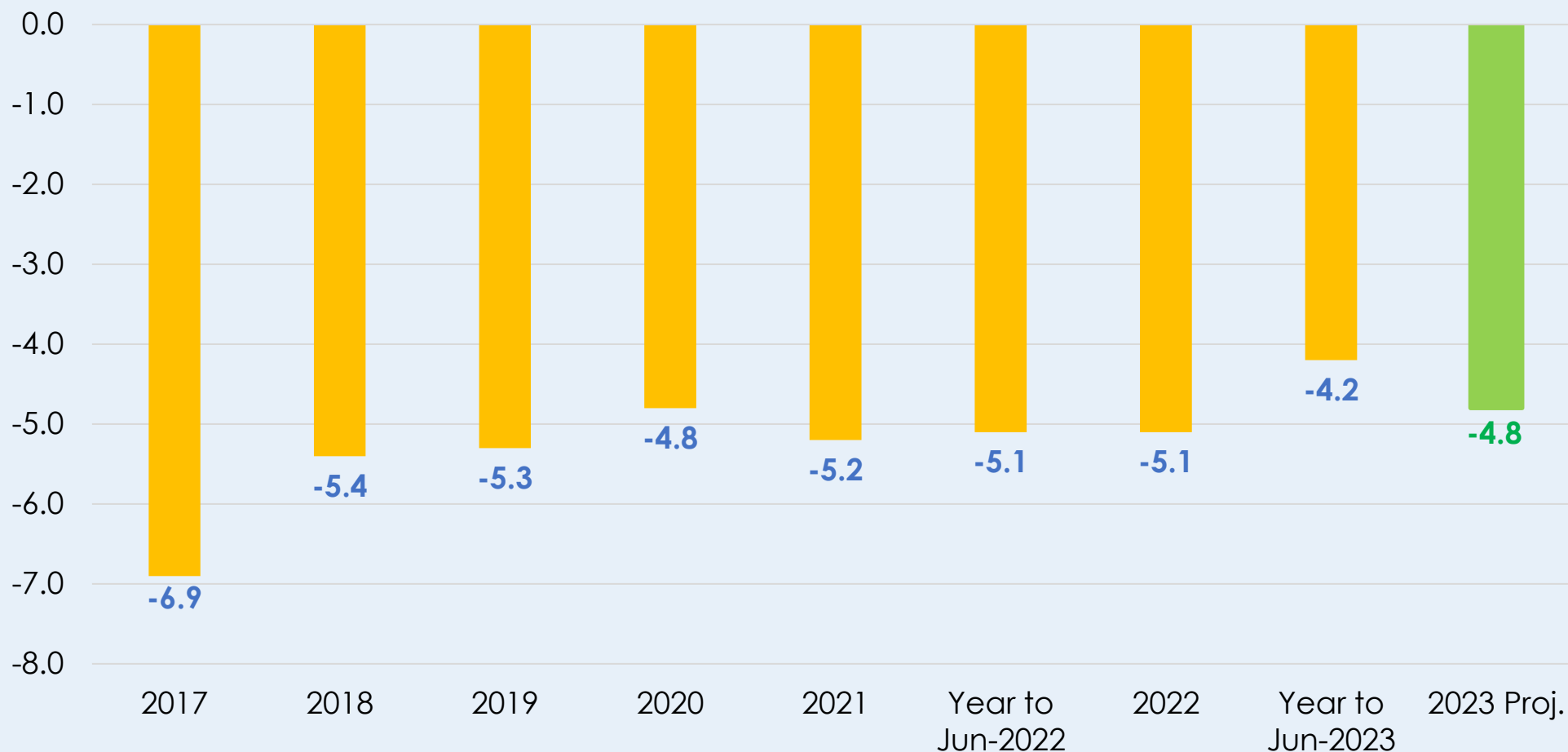
Balance of payments, in millions of U.S. dollars, unless otherwise indicated

	2019	2020	2021	Year to June 2022	2022	Year to June 2023	2023 Proj.	2024 Proj.
Current account	-5,280	-4,619	-5,748	-5,836	-5,774	-4,729	-5,336	-6,831
Trade balance	-10,679	-8,430	-11,052	-11,997	-11,715	-10,678	-11,525	-14,274
Goods: exports, f.o.b.	5,872	6,062	6,787	7,154	7,421	7,306	7,918	9,838
Tea	1,113	1,226	1,192	1,260	1,384	1,351	1,607	1,688
Horticulture	1,011	950	1,129	1,027	944	900	1,176	1,271
Manufactured Goods	402	380	512	561	622	687	703	825
Other	3,345	3,507	3,954	4,306	4,472	4,368	4,431	6,053
Goods: imports, f.o.b.	16,551	14,492	17,839	19,150	19,136	17,984	19,443	24,112
Oil products	3,314	2,219	3,474	4,685	5,548	5,221	4,468	5,079
Other	13,237	12,274	14,365	14,465	13,588	12,763	14,975	19,033
Machinery & Transport equipment	4,872	3,974	4,653	4,557	3,760	3,283	4,007	4,496
Services balance	1,748	355	1,027	1,484	1,165	950	1,577	2,539
Services, Credit	5,602	3,732	5,018	6,136	6,436	6,082	6,698	8,011
Transportation	2,181	1,156	1,642	2,189	2,303	2,081	2,353	3,108
Travel	1,007	545	843	978	1,107	1,215	1,217	1,461
Services, Debit	3,854	3,377	3,991	4,651	5,271	5,132	5,122	5,472
Transportation	1,449	1,173	1,565	2,189	2,137	2,081	1,764	1,934
Goods and services balance	-8,932	-8,075	-10,025	-10,512	-10,550	-9,728	-9,948	-11,735
Primary income, balance	-1,634	-1,494	-1,839	-1,714	-1,740	-1,789	-2,340	-2,381
Credit	218	144	62	58	40	65	44	50
Debit	1,852	1,638	1,900	1,772	1,780	1,855	2,384	2,431
Secondary income, balance	5,285	4,950	6,116	6,390	6,516	6,788	6,952	7,285
Credit	5,340	5,026	6,256	6,512	6,563	6,894	7,002	7,337
Remittances	2,796	3,094	3,718	4,012	4,028	4,017	4,350	4,698
Debit	55	76	140	123	47	106	50	52
Capital account	208	131	196	162	142	190	149	156
Financial Account	-5,922	-2,950	-5,851	-4,762	-4,186	-4,039	-5,379	-7,485
Foreign Direct Investment	-892	-499	-44	-346	-339	-416	-444	-492
Direct Investment, assets	86	25	420	62	53	-44	144	125
Direct Investment, liabilities	978	524	464	408	392	372	588	617
Portfolio Investment	-1,300	1,279	208	998	712	1,093	306	-1,330
Portfolio Investment, assets	955	1,106	1,069	803	481	860	529	582
Portfolio Investment, liabilities	2,255	-173	861	-194	-230	-233	224	1,912
Equity and investment fund shares	14	-271	-96	-175	-208	-224	224	-88
Debt securities	2,241	98	957	-19	-23	-9	0	2,000
Other Investment	-3,730	-3,730	-6,015	-5,414	-4,558	-4,716	-5,241	-5,664
Other investment, assets	570	1,018	139	-578	-557	812	142	138
Other investment, liabilities	4,300	4,748	6,154	4,836	4,001	5,528	5,383	5,801
Net errors and omissions	256	873	548	-627	-700	-636	0	0
Overall balance ("-" indicates a surplus)	-1,106	664	-848	1,556	2,147	1,114	-193	-810

Current account balance:

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

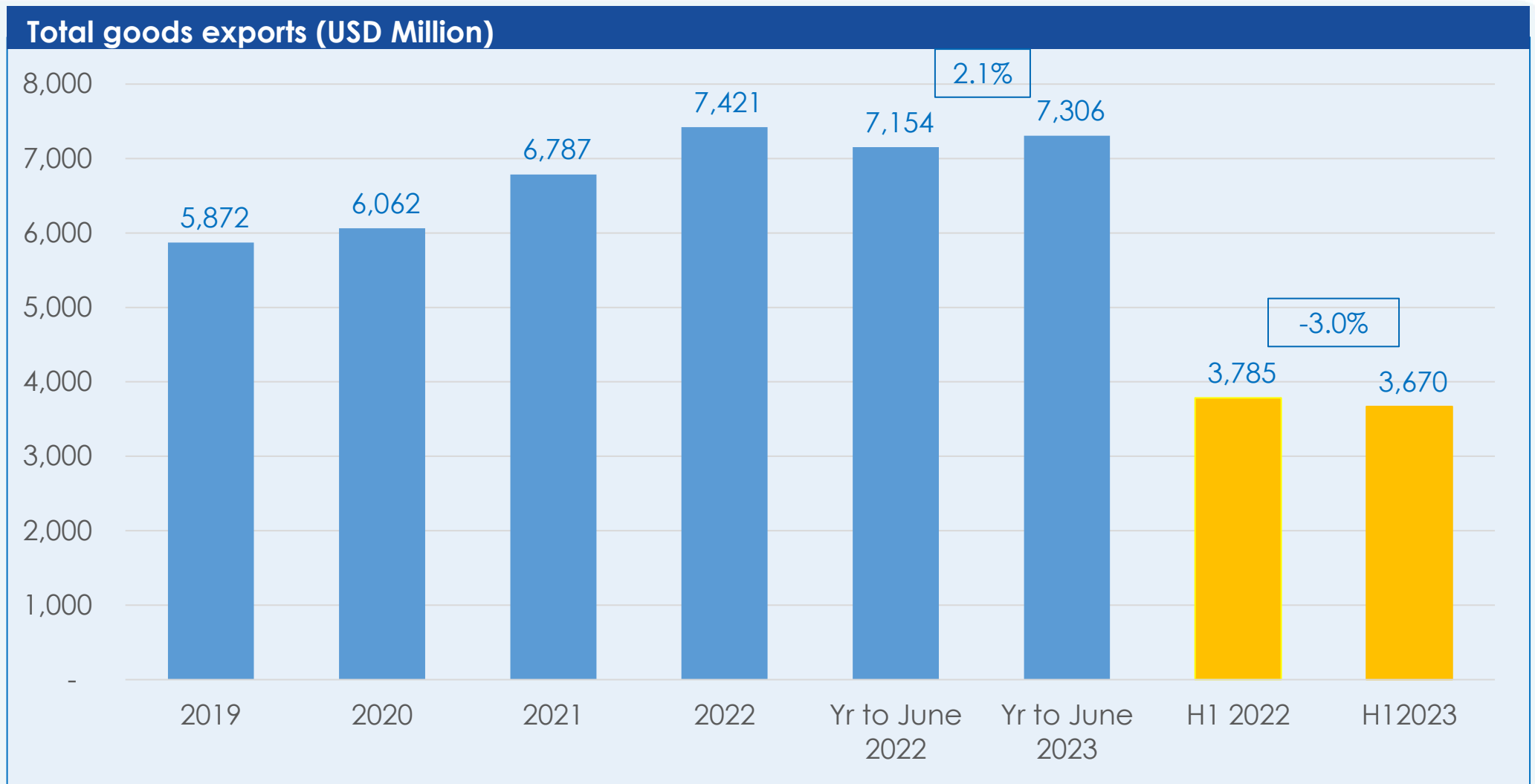
Current account balance (percent of GDP)



Source: CBK

Balance of payments:

Growth in goods exports remained resilient, growing by 2.1 percent in the 12 months to June 2023 compared to a similar period in 2022.

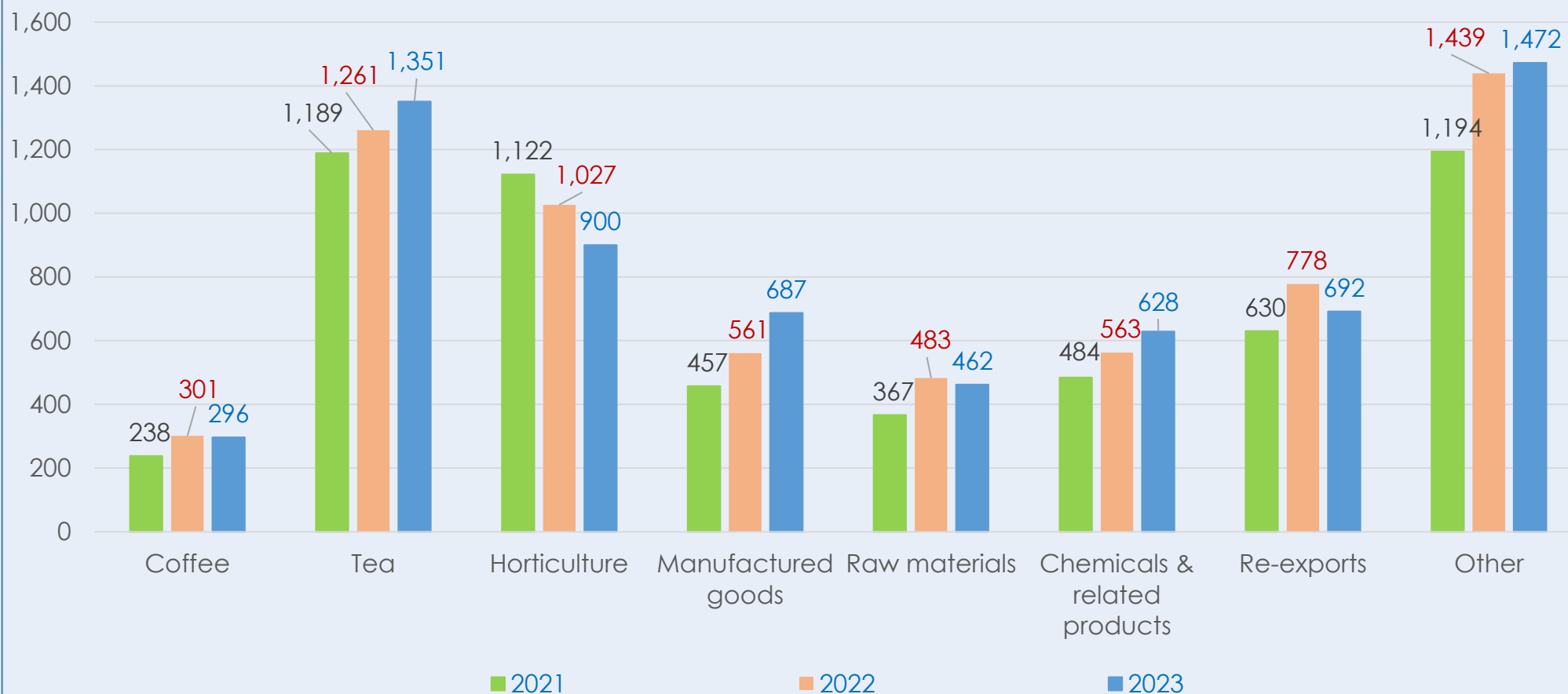


Source: CBK, KRA

Balance of payments:

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

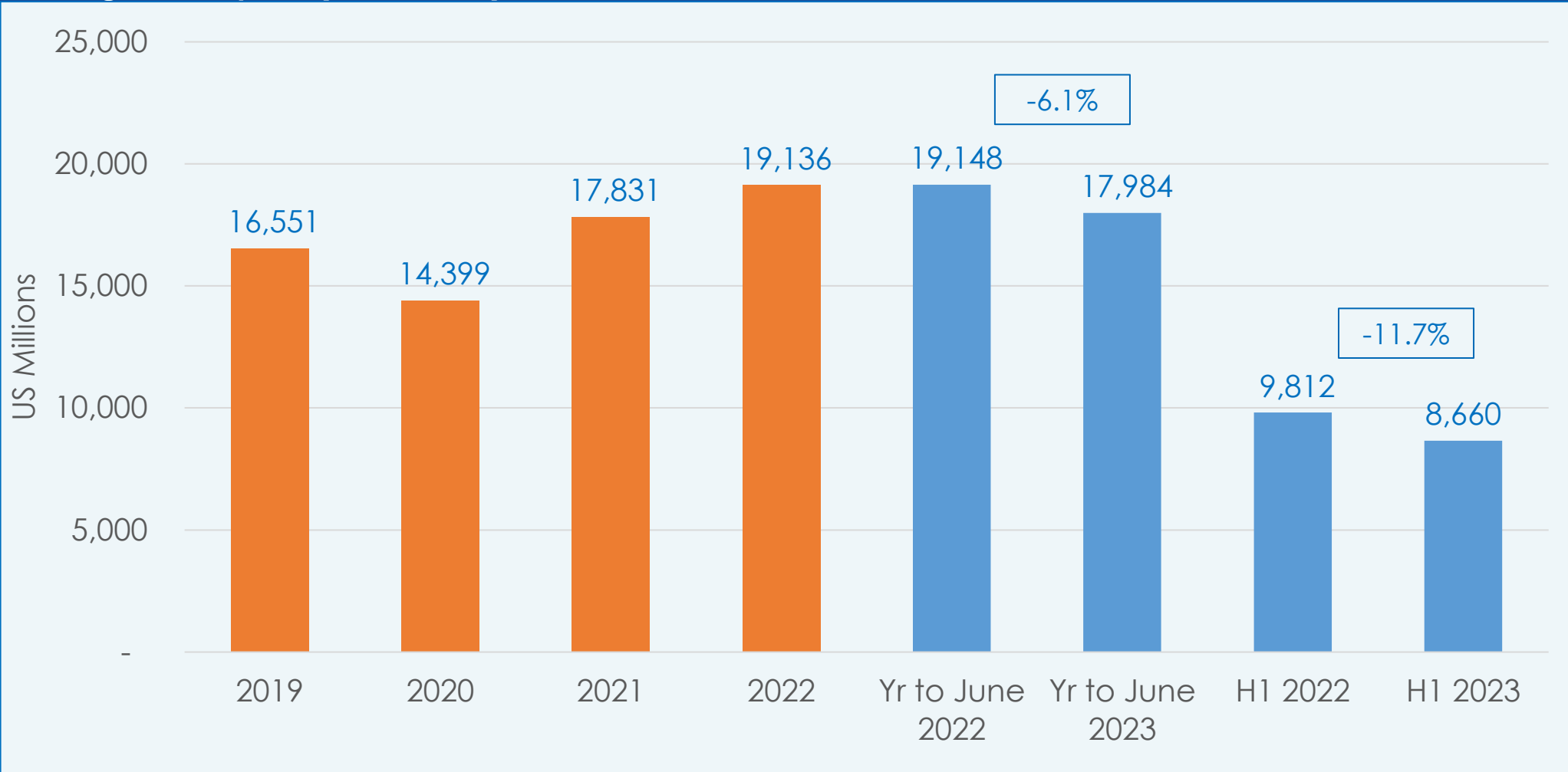
Goods exports in the 12 month to June (USD Million)



Source: CBK, KRA

Balance of payments:

Imports of goods declined by 6.1 percent in 12 months to June 2023 compared to an increase of 20.2 percent in the year to June 2022

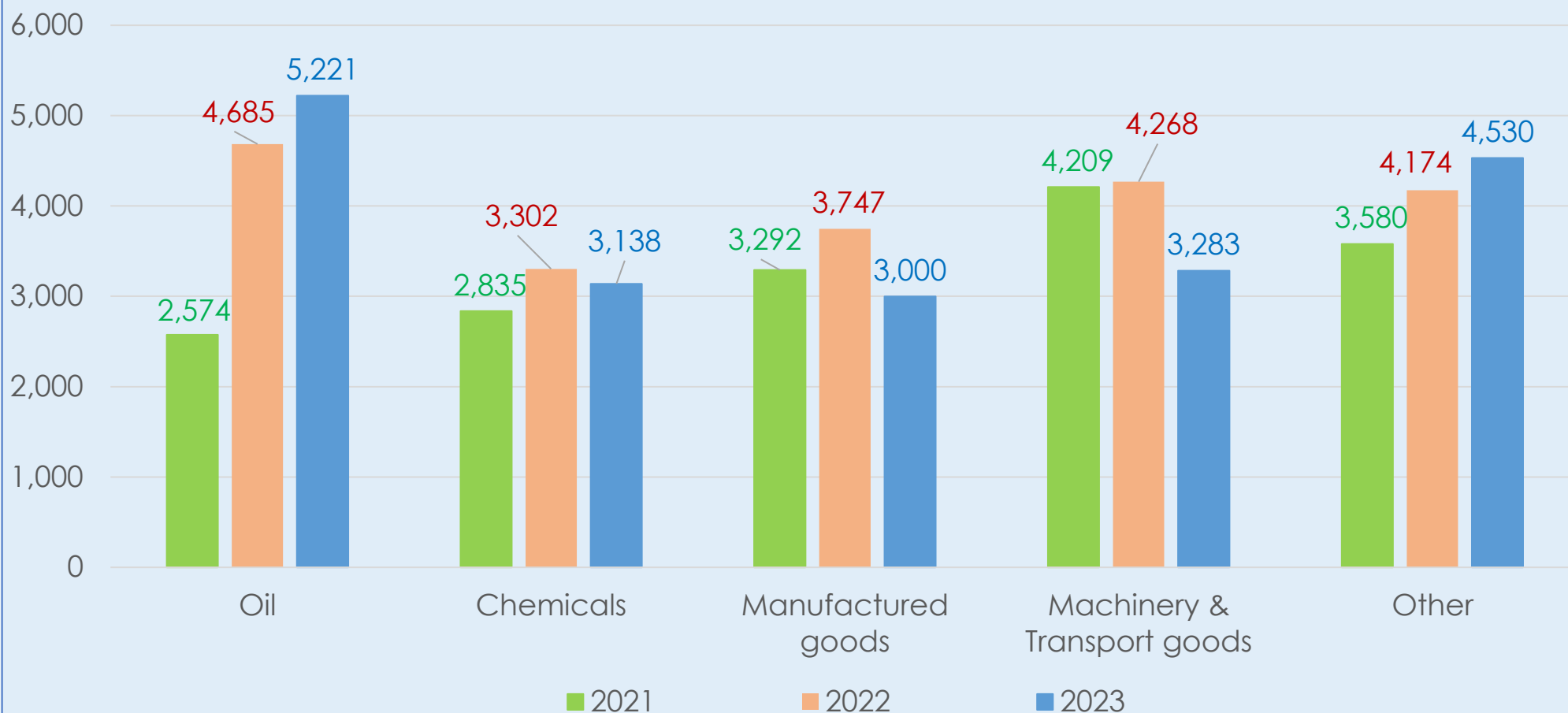
Total goods imports (USD Million)

Source: CBK, KRA

Balance of payments:

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

Goods imports in the 12 months to June (USD Million)

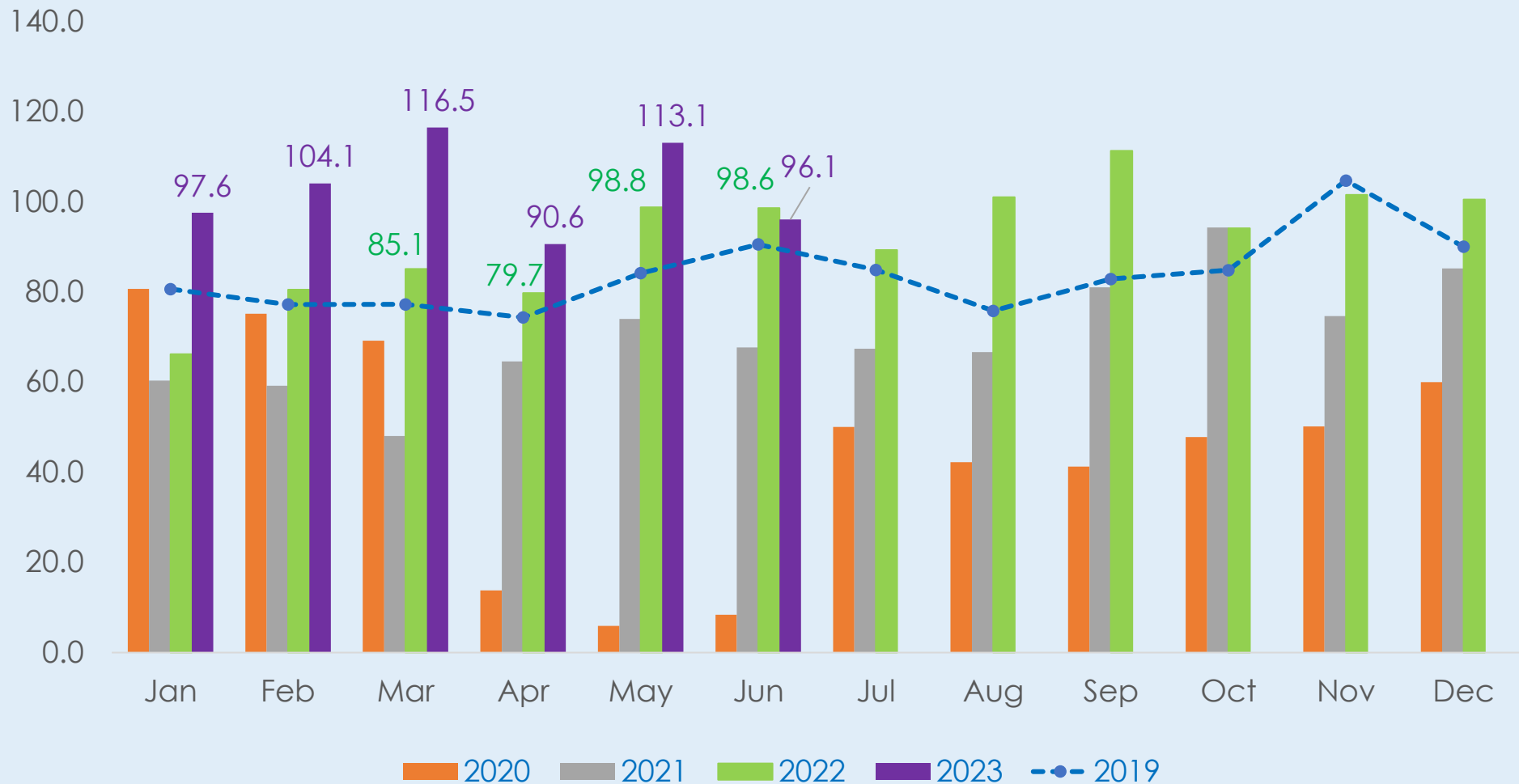


Source: CBK, KRA

Services exports:

Travel receipts have remained strong in 2023 reflecting improvement in international travel

Monthly travel receipts (USD Million)

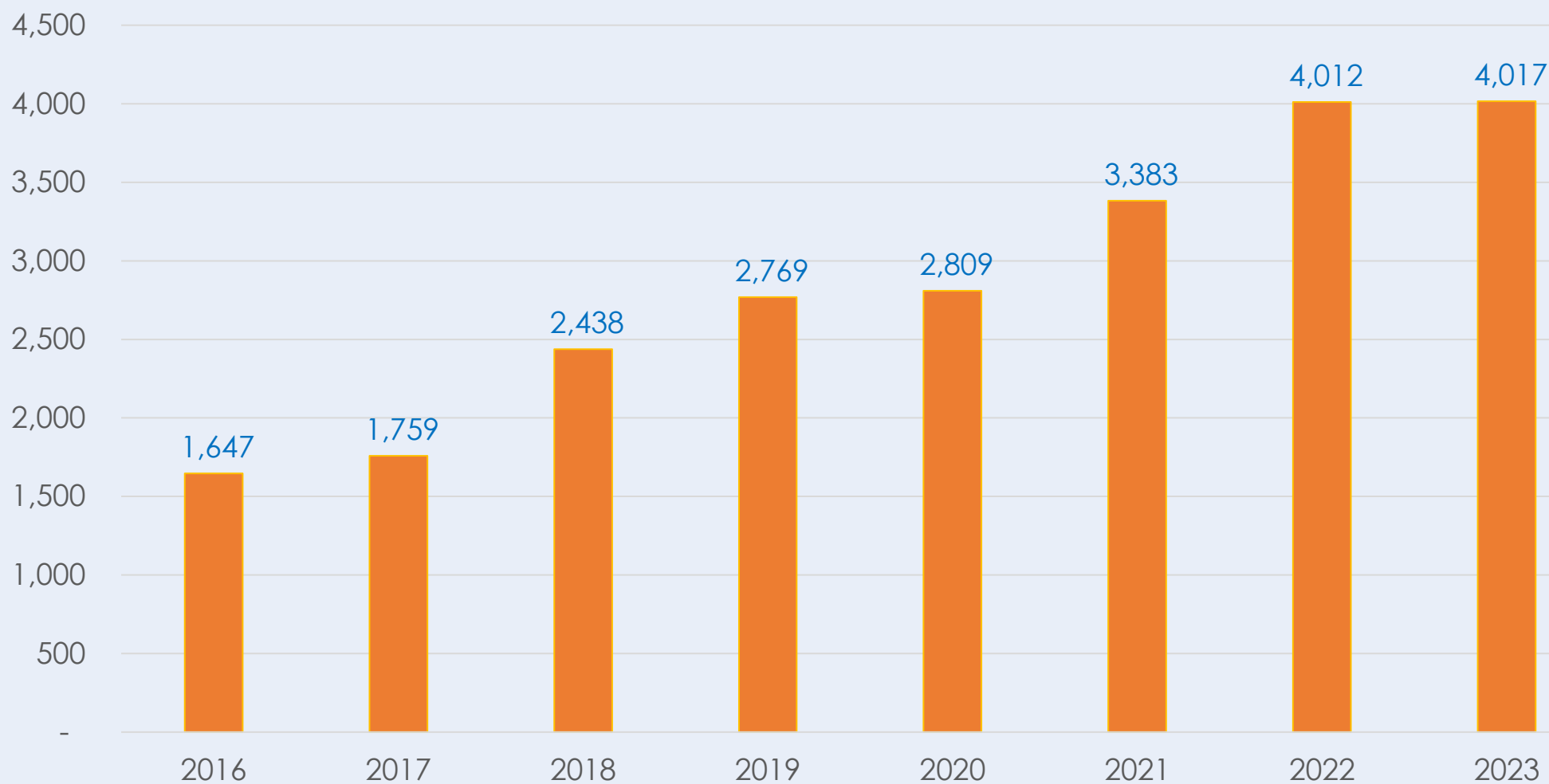


Source: CBK, KRA

Diaspora remittances:

Remittances inflows have remained strong

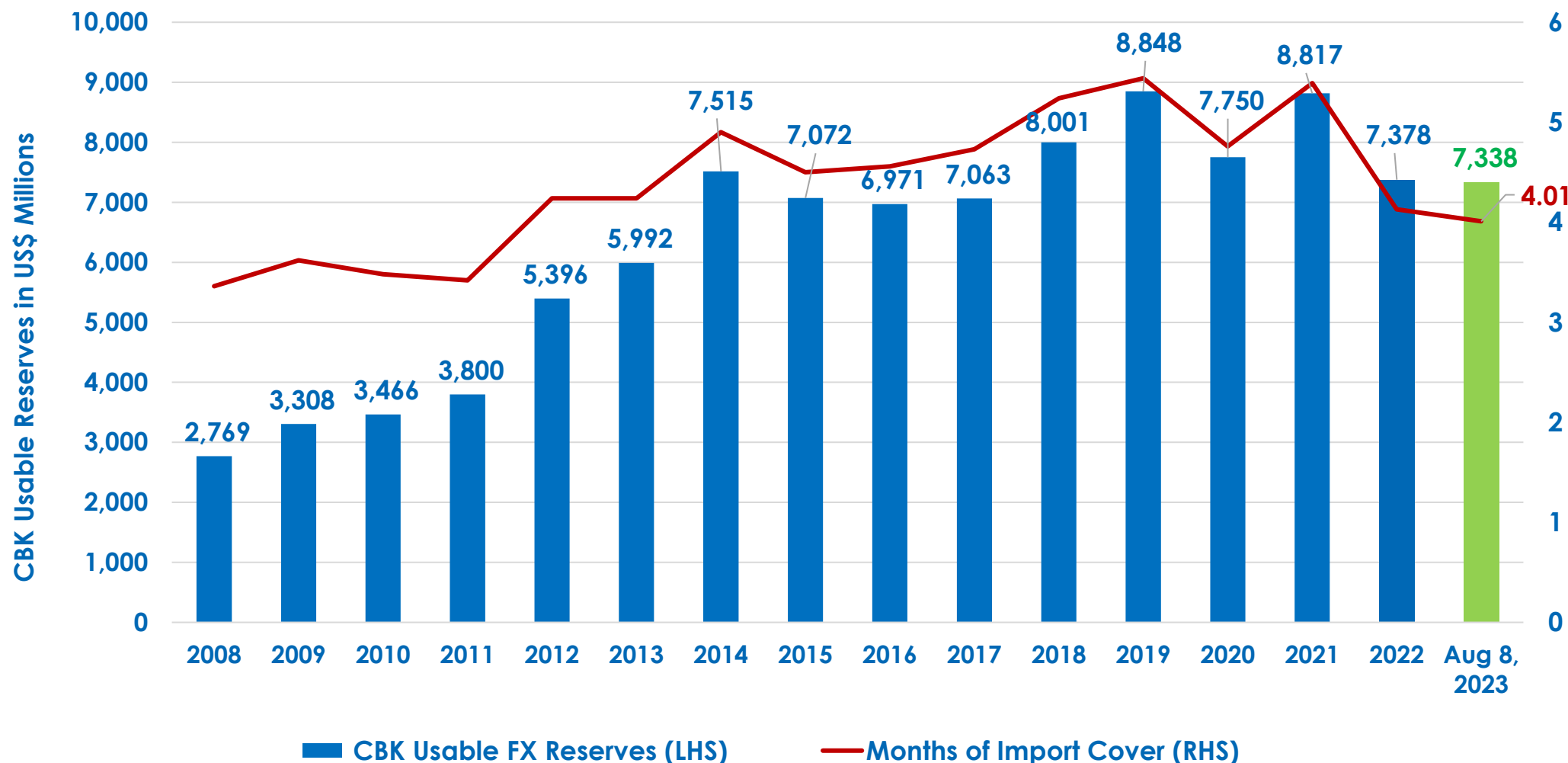
12 months cumulative remittances inflows to June (USD, Million)



Source: CBK

CBK usable foreign exchange reserves: Foreign exchange reserves remain adequate

CBK usable foreign exchange reserves (end period)



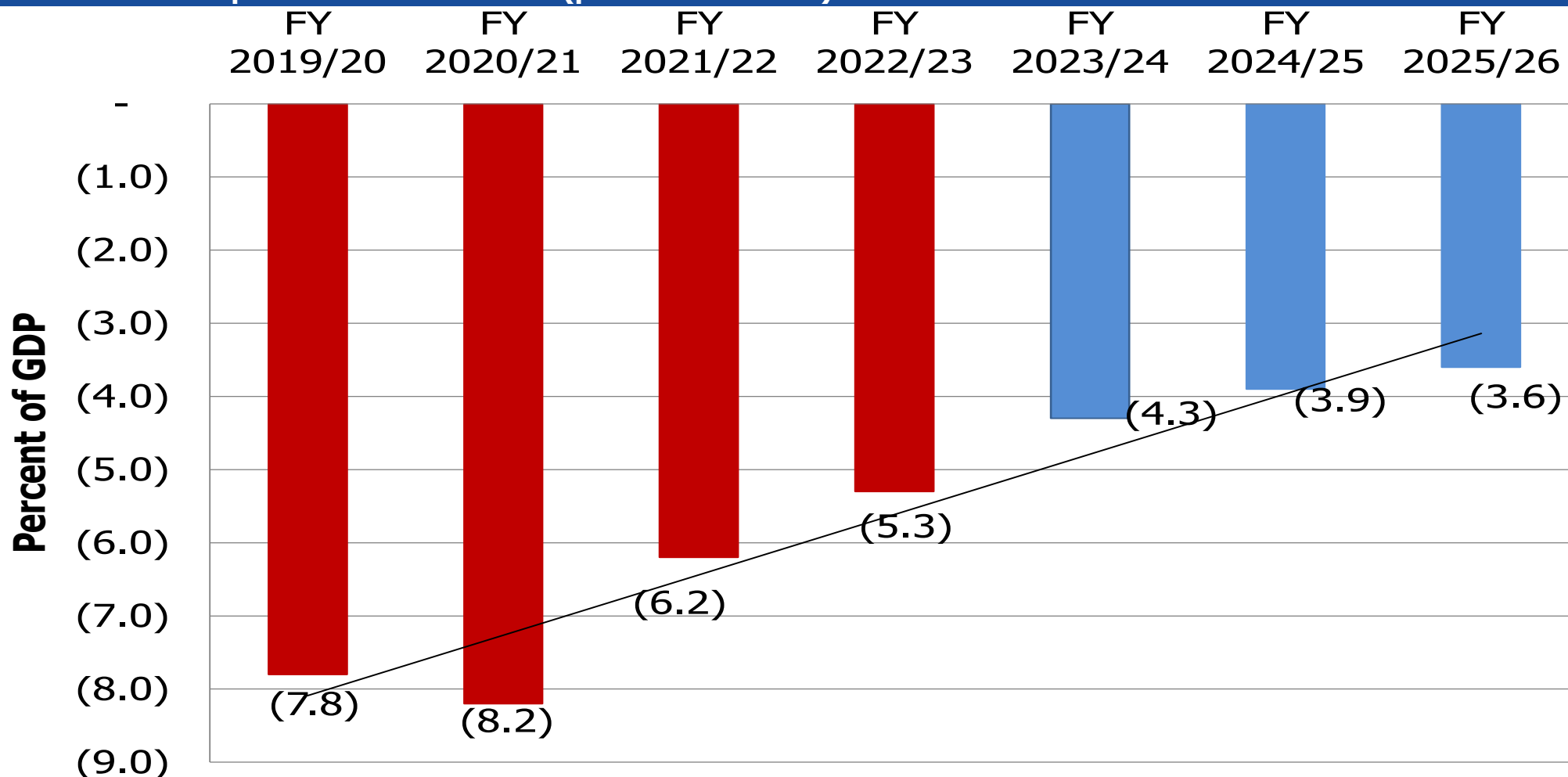
Source: CBK as of August 3, 2023

- The FY2022/23 Government Budget operations resulted in a lower budget deficit of 5.3 percent of GDP from 6.2 percent of GDP in FY2021/22.
- The ongoing implementation of the FY2023/24 Government Budget continues to reinforce fiscal consolidation. A narrower budget deficit of 4.3 percent of GDP is expected in FY2023/24.
- As a result of the identified new external financing, the projected net domestic borrowing by the Government has been reduced from Ksh.586.5 billion to Ksh.316 billion.
- The revised borrowing requirements should exert downward pressure on domestic interest rates, while the additional external financing will bolster the foreign reserves of the 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



Central Bank of Kenya

REFORMS TO THE MONETARY POLICY IMPLEMENTATION FRAMEWORK

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1.

CBK Monetary Policy Reforms

- During the MPC meeting held on August 9, 2023, and in line with the reforms outlined in the White Paper on *Modernisation of the Monetary Policy Framework and Operations*, the MPC considered and approved a new monetary policy implementation framework designed to enhance monetary policy transmission.
- This new framework is based on inflation targeting and introduces an interest rate corridor around the Central Bank Rate (CBR) set at ± 250 basis points.
- Henceforth, the monetary policy operations will be aimed at ensuring the interbank rate, as an operating target, closely tracks the CBR.
- In addition, to improve access to the Discount Window, the MPC agreed to reduce the discount rate from the current 600 basis points above CBR to 400 basis points above CBR.

2.

Features of an Interest Rate Corridor framework

- Implementation of an interest rate corridor framework will align the interbank rate to the Central Bank Rate (CBR), and subsequently enhance the transmission of monetary policy to the short-term interest rates.
- Under the corridor framework, the CBK will conduct monetary policy operations with the objective of keeping the interbank interest rate within a prescribed band/corridor around the CBR.
- The functioning of the interbank market has improved as reflected in reduced segmentation and narrowing of interbank interest rate spreads.
- The recently launched DhowCSD (Central Securities Depository) is expected to further enhance the functioning of the interbank market.

3.

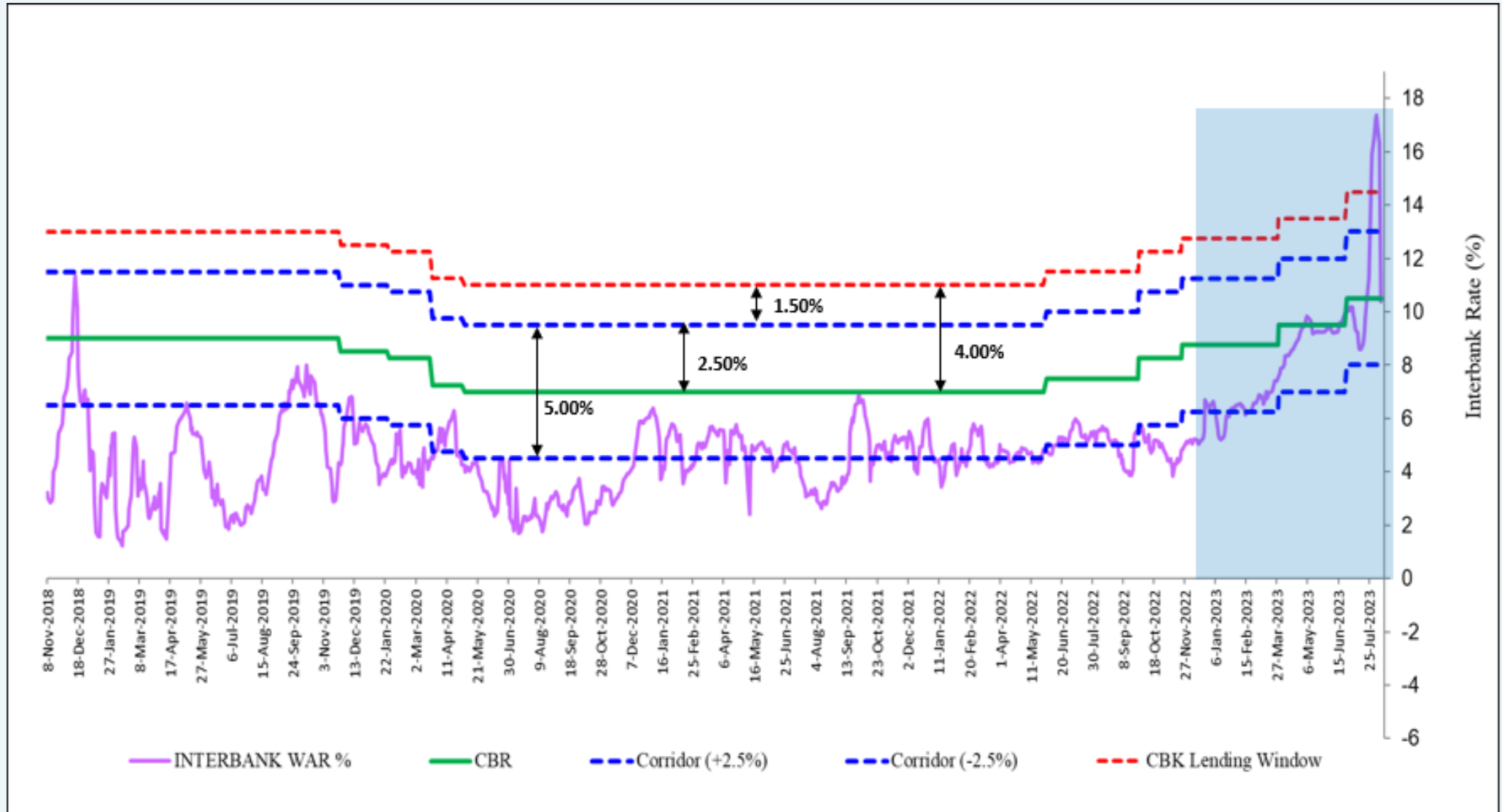
CBK Discount Window

- The effective operation of the interest rate corridor framework would require a well-functioning discount window facility which serves as a backup source of liquidity for the banking system.
- The discount window plays an important role in supporting short-term liquidity pressures, and thus promoting smooth operation of the banking system and implementation of monetary policy.
- Access to the discount window is collateralized and guided by measures aimed at ensuring appropriate use of the facility.

4.

The new monetary policy implementation framework

Interbank rate to be maintained within a band of $\pm 2.5\%$ of the CBR



Thank You!

