



Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

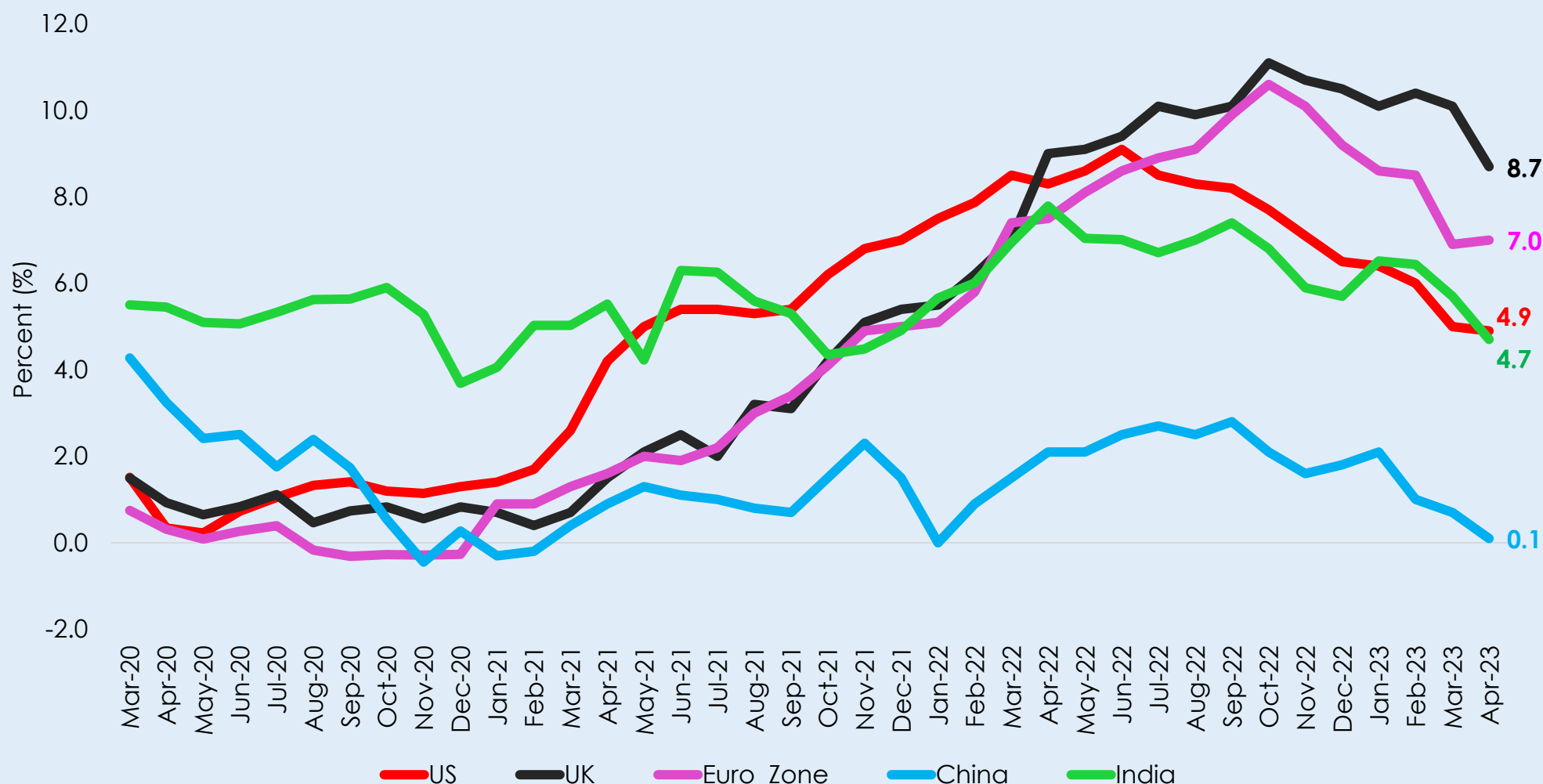
Wednesday, May 31, 2023
Dr. Patrick Njoroge

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Global inflation:

Inflation in major economies has continued to ease with declines in commodity prices, and impact of monetary policy responses

Overall inflation (y/y, percent)

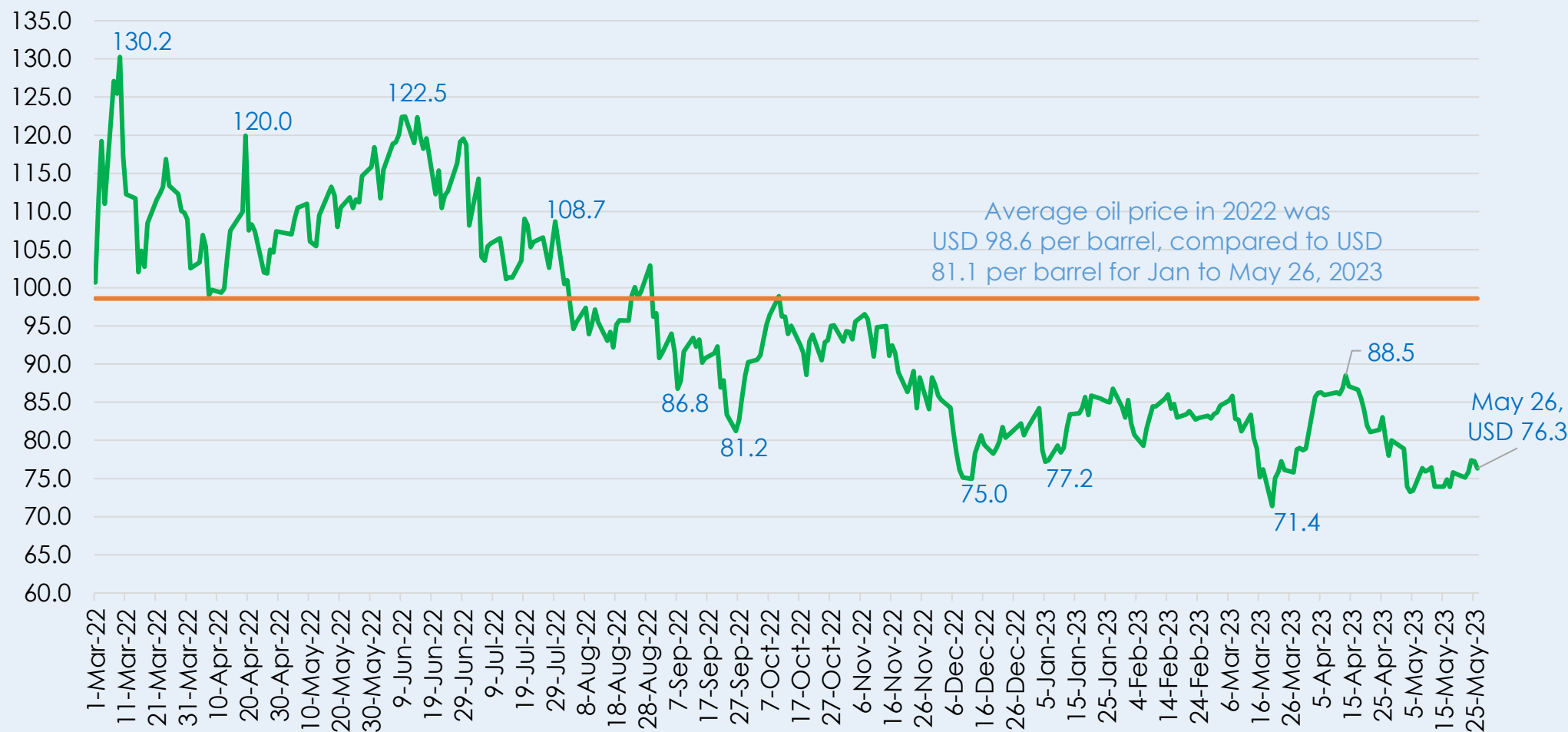


Source: Websites of Statistics Offices of respective countries

International crude oil prices:

The price of oil has declined due to weak demand amid increased uncertainties to global growth

Murban oil price (USD, per barrel)

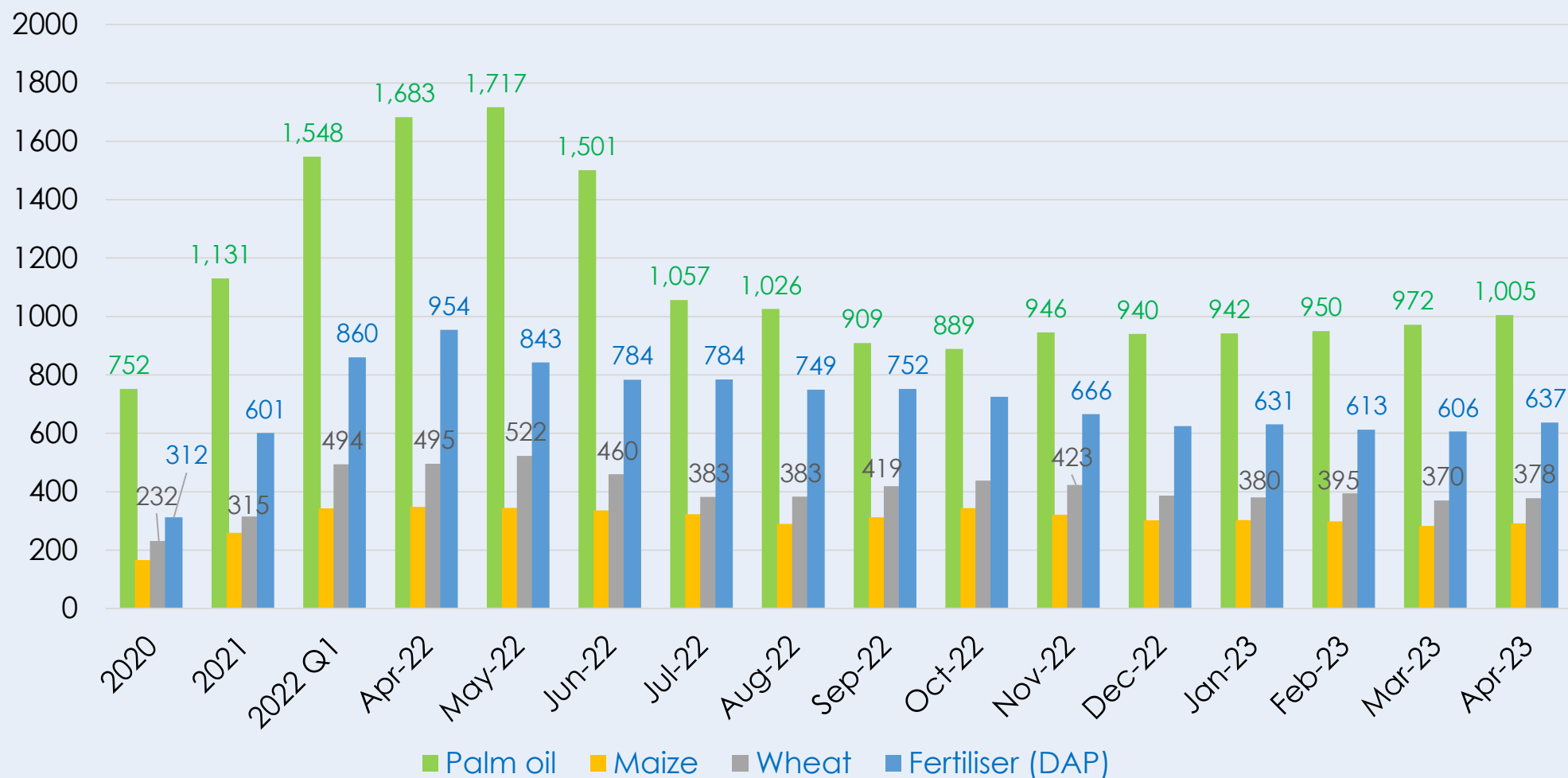


Source: Oilprice.com

Global commodity prices:

Prices of palm oil, fertilizer-DAP, and wheat have declined with the easing of international supply chain constraints

Global prices of selected commodities (USD, per metric tonne)

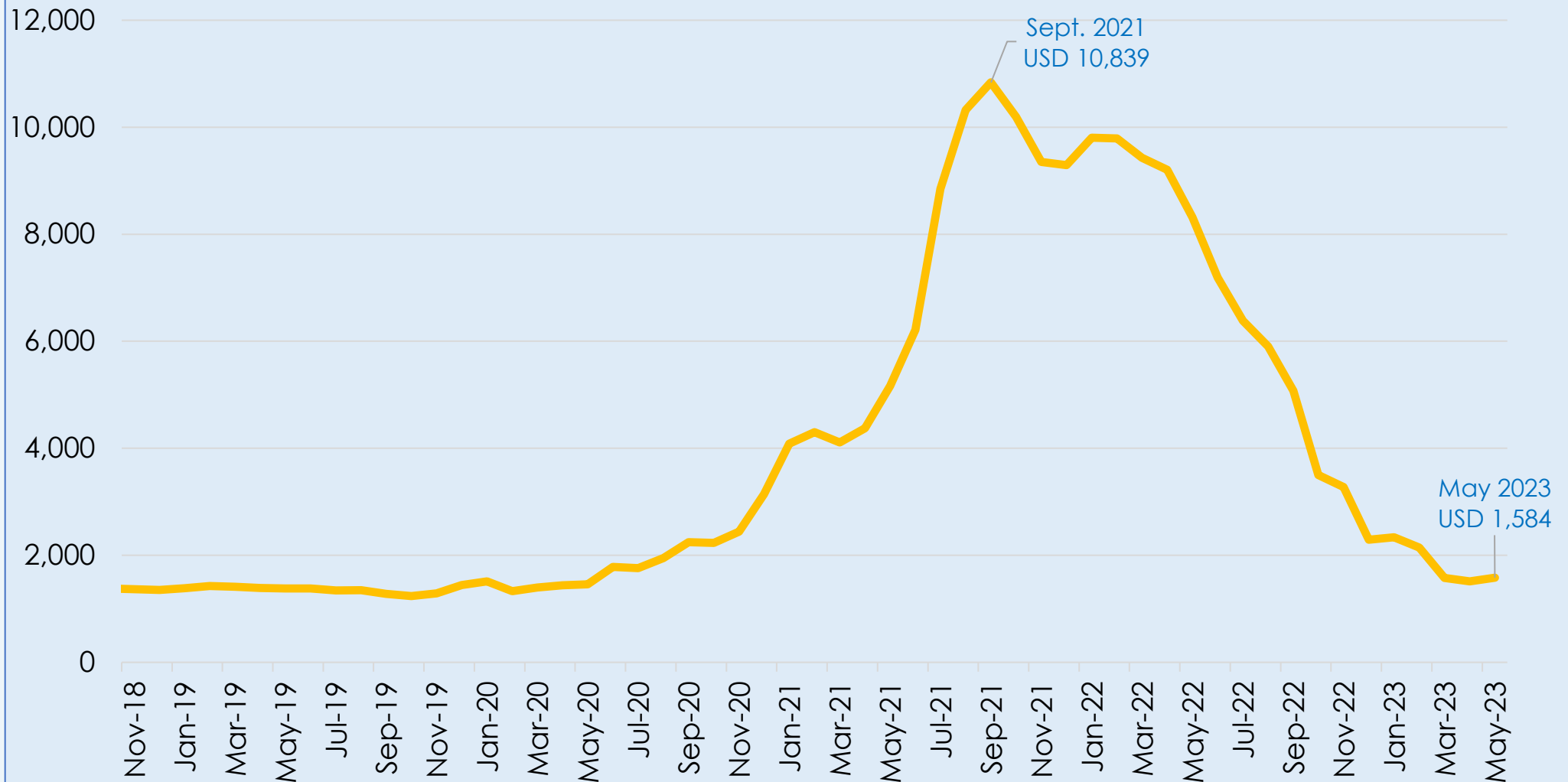


Source: World Bank Commodity Prices

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, reflecting the increased uncertainties

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

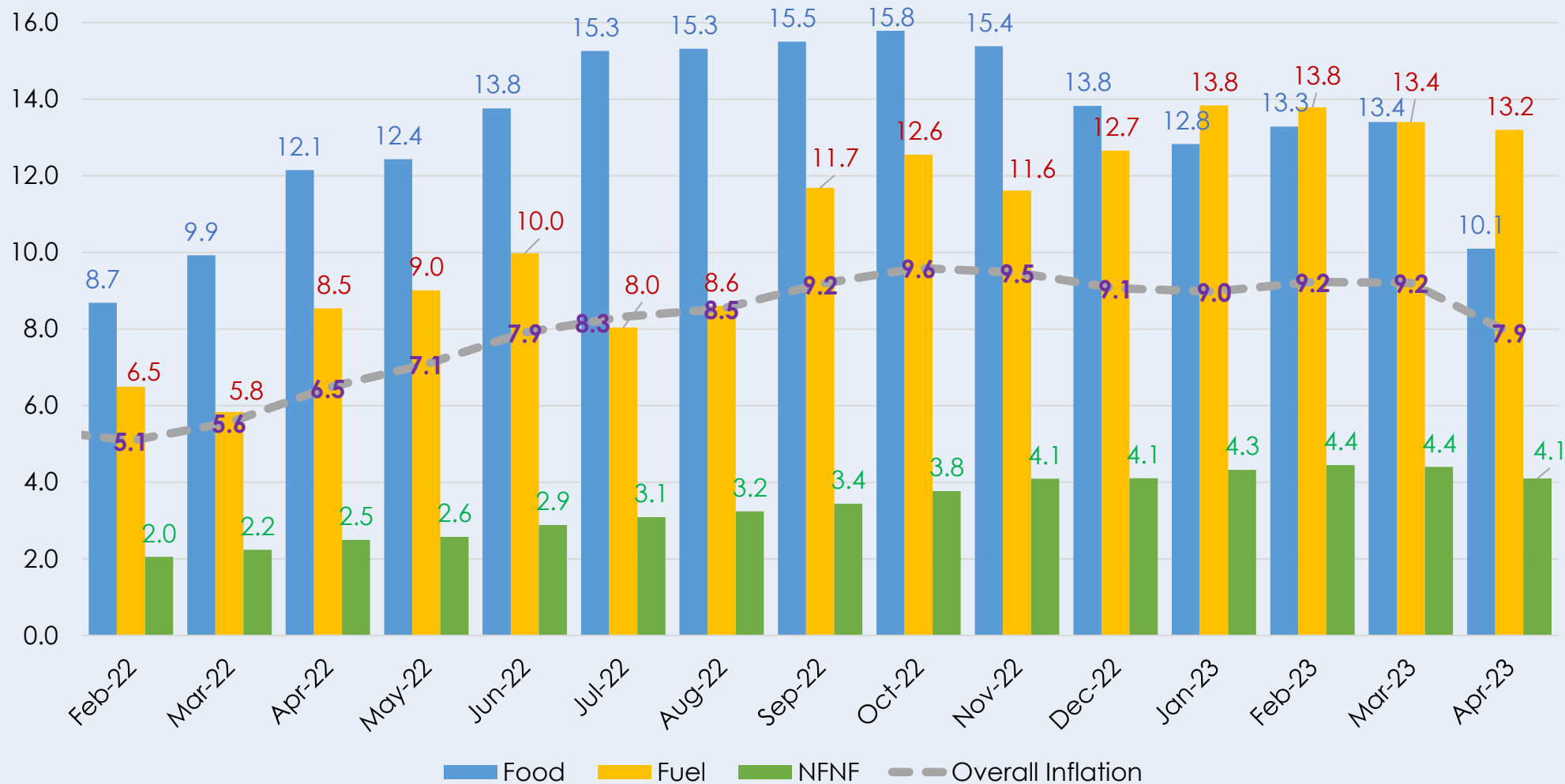
	2021 Act.	2022 Act.	2023 Proj.		2024 Proj.	
			Apr. 2023 WEO	Difference from Jan. 2023 WEO	Apr. 2023 WEO	Difference from Jan. 2023 WEO
World	6.3	3.4	2.8	-0.1	3.0	-0.1
Advanced Economies	5.4	2.7	1.3	0.1	1.4	0.0
United States	5.9	2.1	1.6	0.2	1.1	0.1
United Kingdom	7.6	4.0	-0.3	0.3	1.0	0.1
Japan	2.1	1.1	1.3	-0.5	1.0	0.1
Euro area	5.4	3.5	0.8	0.1	1.4	-0.2
Emerging Market and Developing Economies	6.9	4.0	3.9	-0.1	4.2	0.0
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
Sub-Saharan Africa	4.8	3.9	3.6	-0.2	4.2	0.1
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

Source: IMF World Economic Outlook (WEO)

Domestic inflation:

Overall inflation declined in April 2023, mainly driven by lower food prices

Inflation by broad category (y/y, percent)

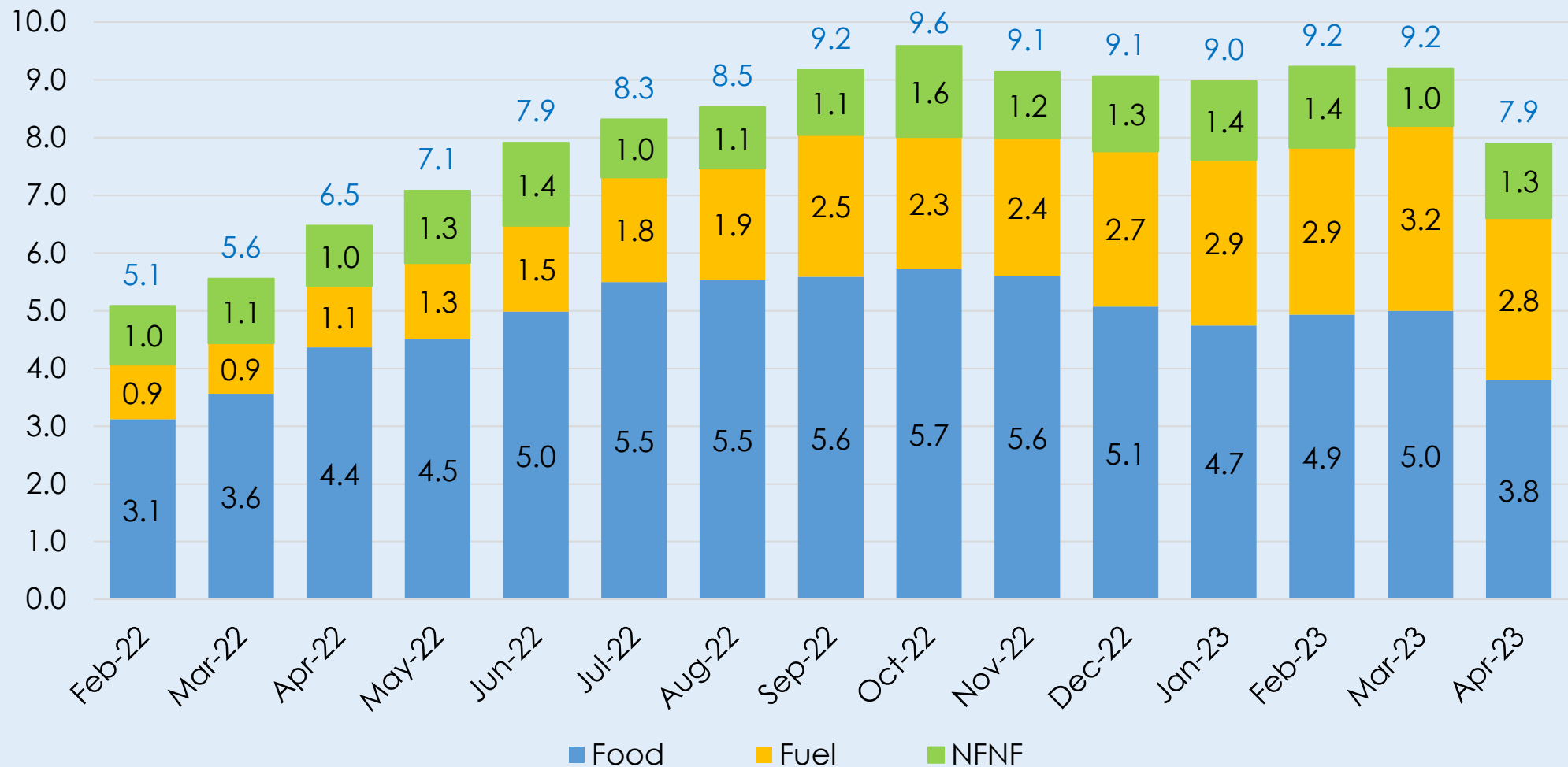


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Domestic inflation:

Food prices remained the main driver of overall inflation in April 2023

Contributions to Overall Inflation (percentage points)

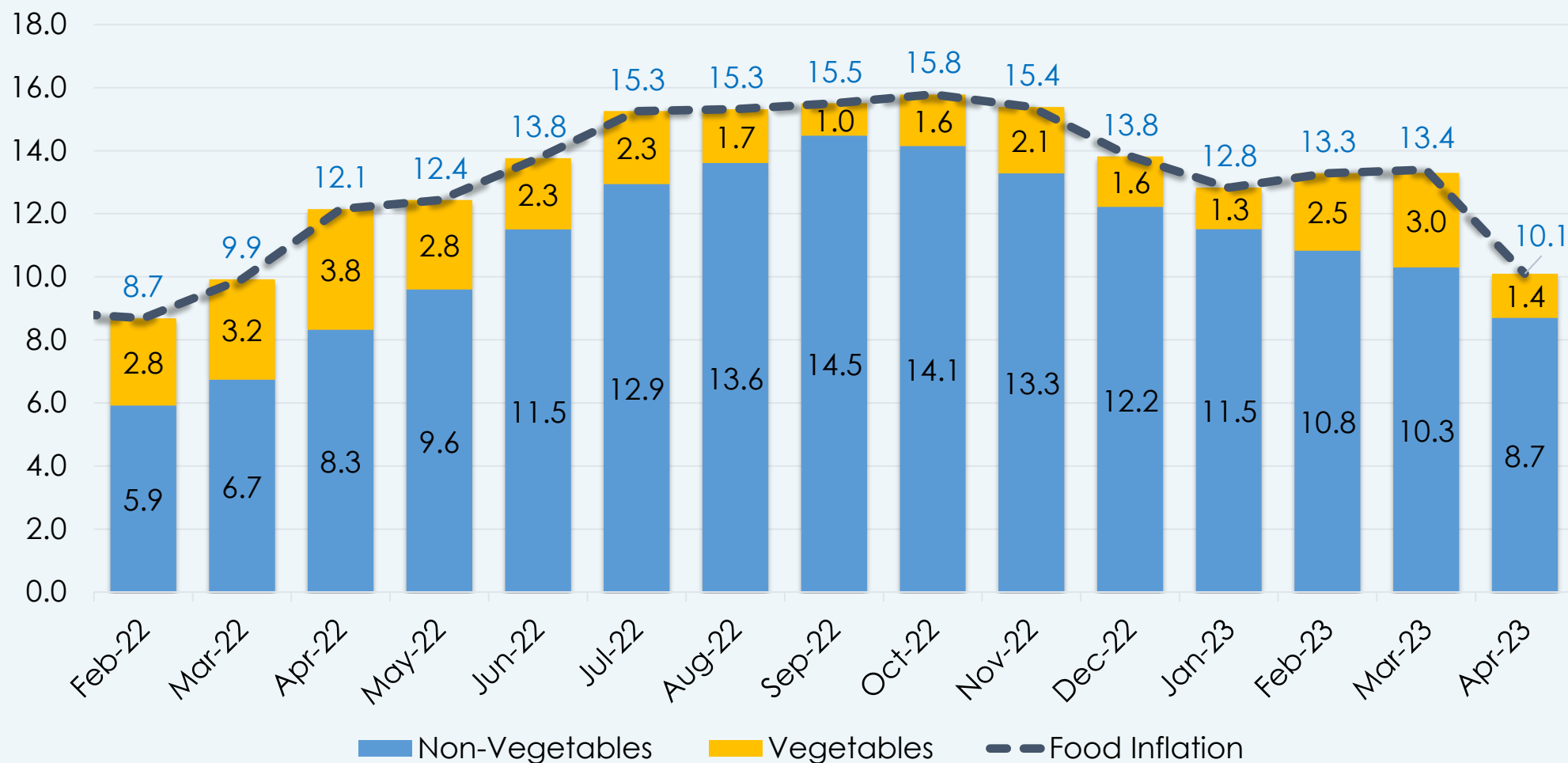


Source: KNBS and CBK

Main drivers of food inflation:

Food inflation declined in April 2023, mainly due to lower prices of vegetables and improved supply of key non-vegetable food items.

Contributions to food inflation (percentage points)

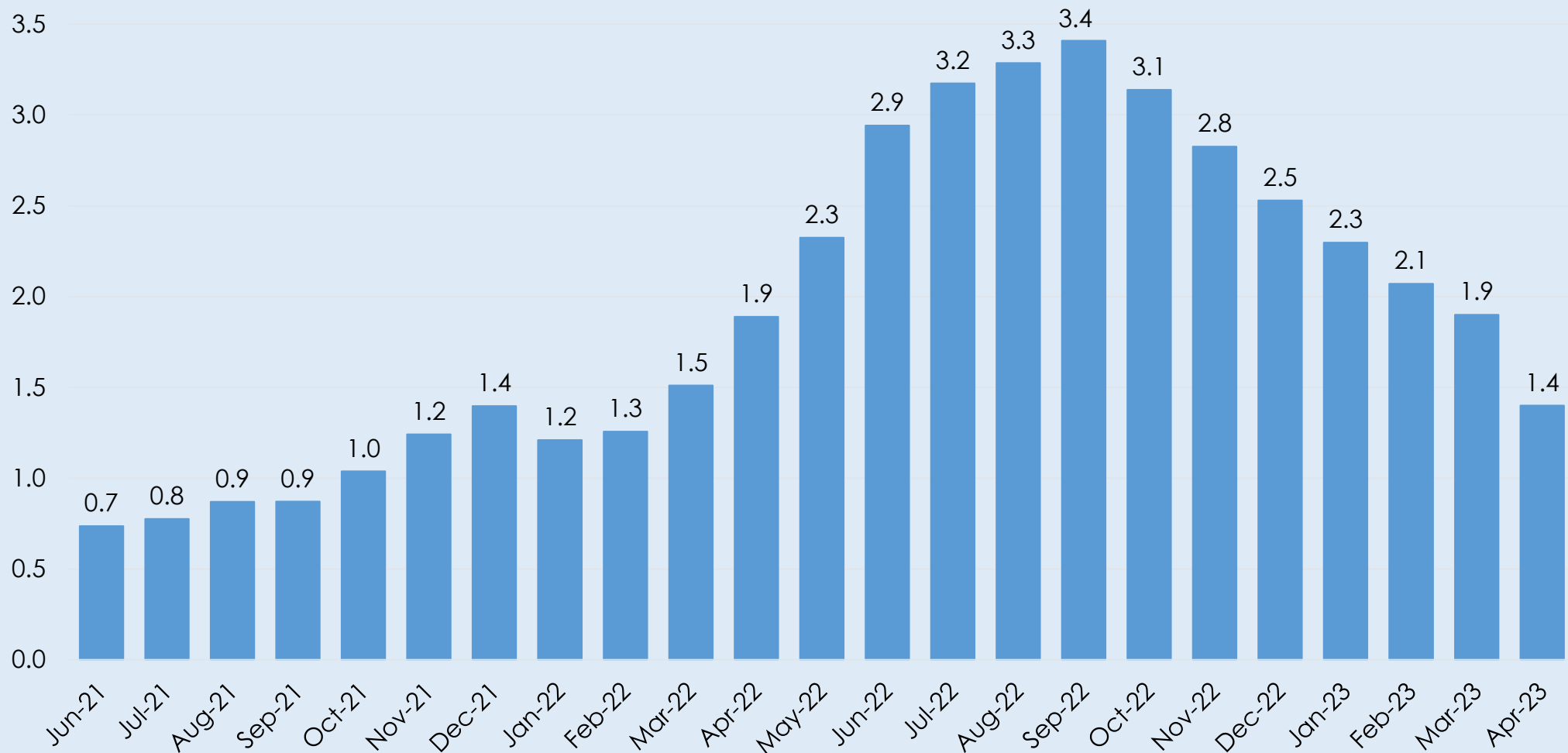


Source: KNBS and CBK

Main drivers of food inflation:

The contribution of prices of wheat, maize, milk and edible oils, to overall inflation has moderated in recent months with improved supply

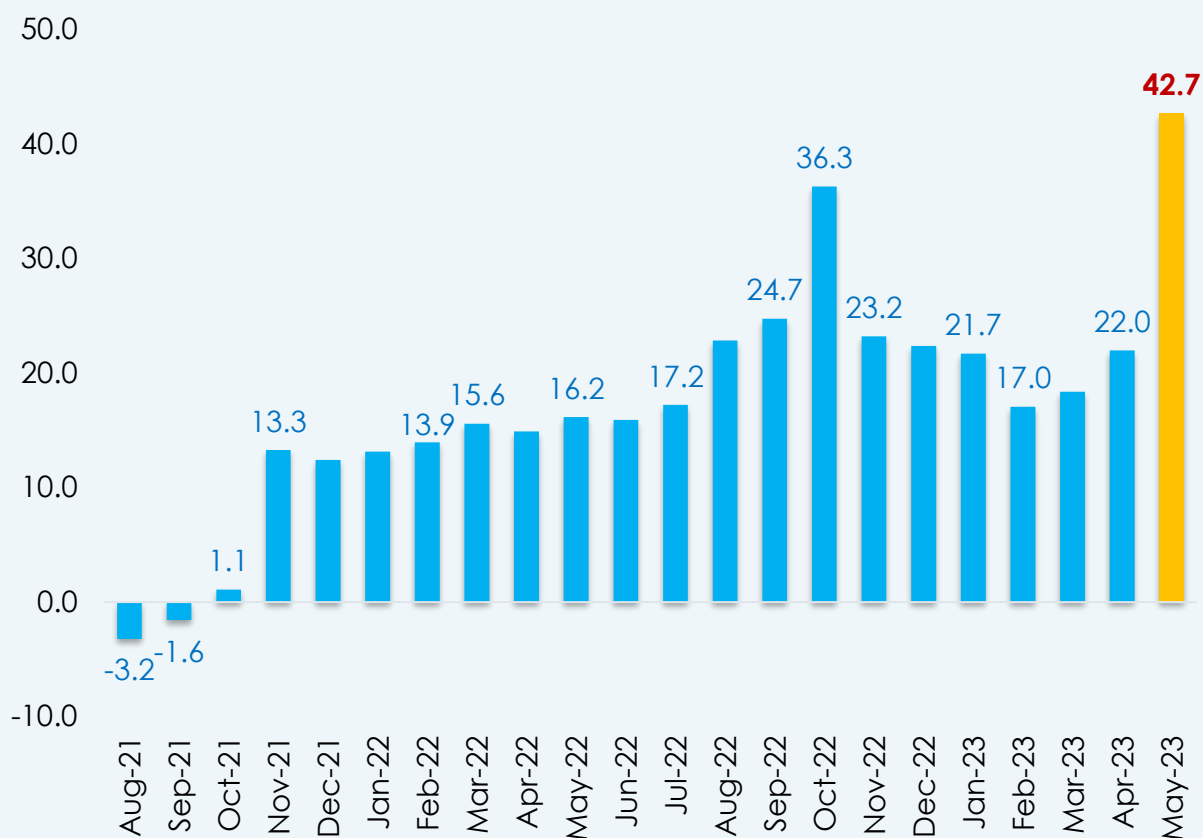
Contribution of wheat, maize, milk, and edible oils to overall Inflation (percentage points)



Source: KNBS and CBK

Inflation outlook: Sugar prices have risen sharply

Actual and projected sugar inflation (y/y, percent)



Source: KNBS for data to April 2023

CBK May 2023 Agriculture Sector Survey for the May 2023 data

- Domestic sugar production has reduced due to low cane deliveries:
 - Shortage of mature cane arising from premature harvest of sugarcane to meet high demand of millers.
 - Some farmers switched to maize following high prices of the commodity
- Sugar prices have also risen globally reflecting: lower production in India, China, Thailand and EU; and slow start of the harvests in Brazil due to above-average rains.
- The recently announced Government measures to allow duty-free imports on specific food items including sugar, are expected to moderate prices.

Domestic economy:

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

Real GDP growth (y/y, percent)

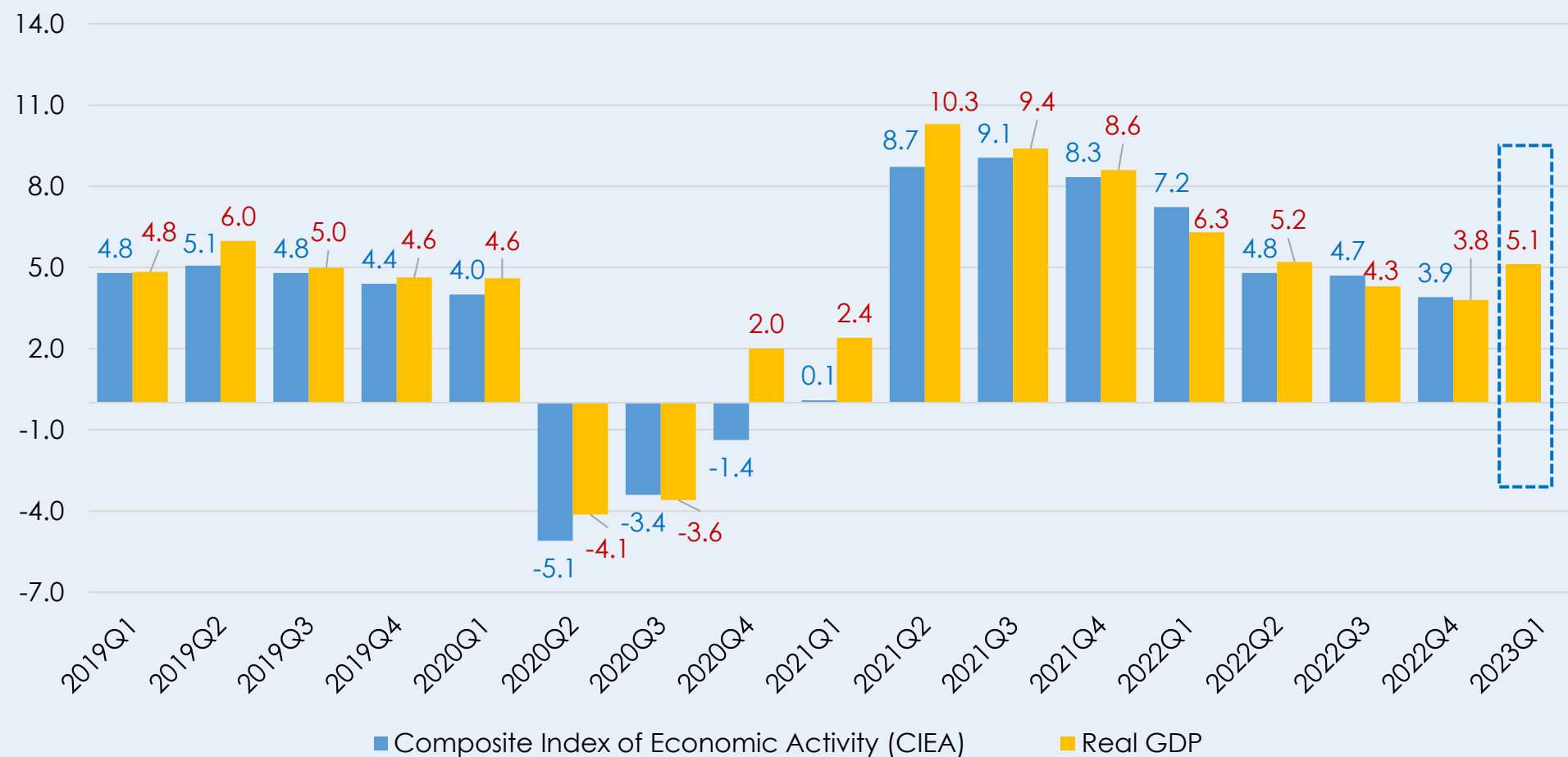
	2018	2019	2020	2021	2022	2023	
						Q1 Est.	Annual Proj.
1. Agriculture	5.7	2.7	4.6	-0.4	-1.6	4.1	5.1
2. Non-Agriculture (o/w)	5.6	5.7	-1.4	9.5	6.3	5.4	5.7
2.1 Industry	3.8	4.0	3.3	7.5	3.9	4.3	4.4
Mining & Quarrying	-4.7	4.3	5.5	18.0	9.3	6.8	2.8
Manufacturing	3.6	2.6	-0.3	7.3	2.7	2.9	3.5
Electricity & 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
2.2 Services	6.1	6.5	-1.8	9.8	7.0	5.7	6.0
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
2.3 Taxes on products	5.9	3.9	-8.0	11.9	7.0	5.9	6.1
3. Real GDP Growth	5.6	5.1	-0.3	7.6	4.8	5.1	5.5

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

Domestic economy:

Leading indicators point to strong economic performance in the first quarter of 2023, mainly driven by activity in the services sector and recovery in agriculture

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

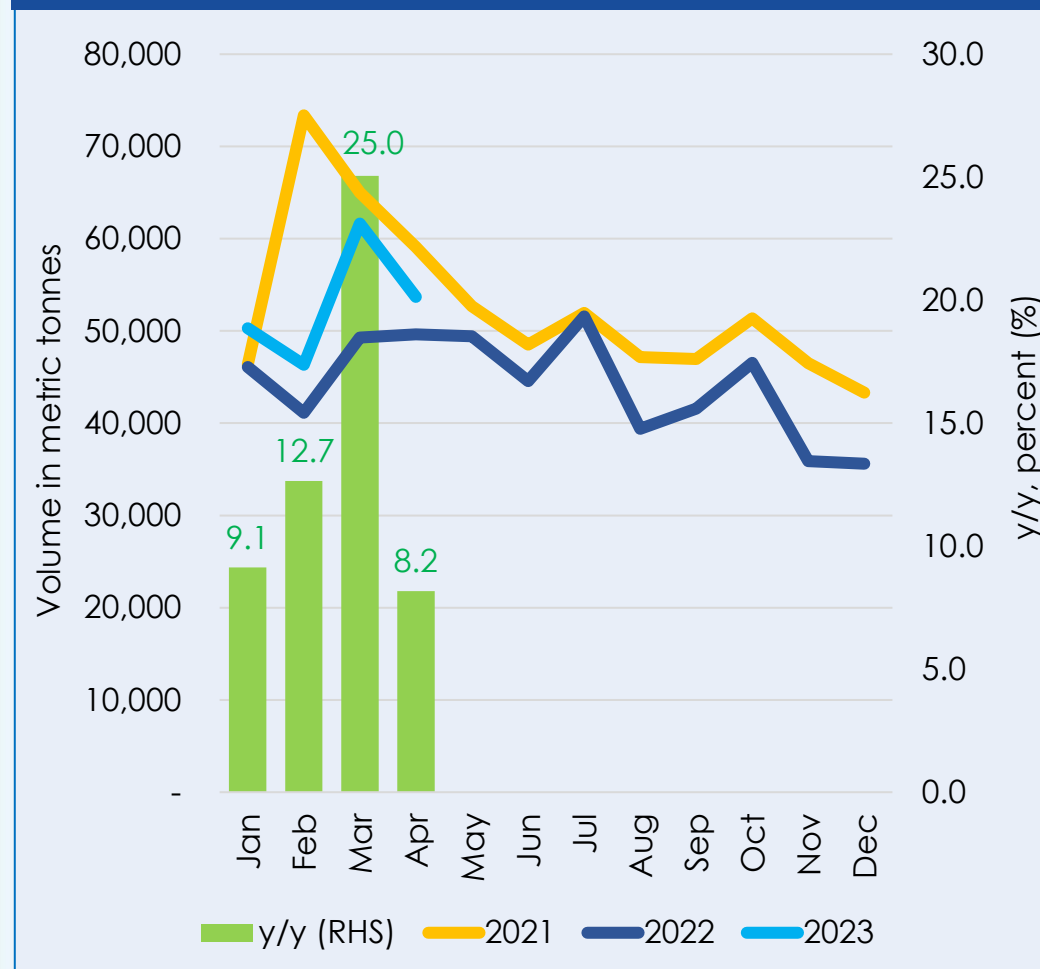


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Agricultural production:

Performance of agriculture expected to improve in 2023, with the improved weather conditions across the country

Actual volume and growth in horticulture exports



Source: Kenya Revenue Authority

Actual and Projected Food Crops Production (Million bags)

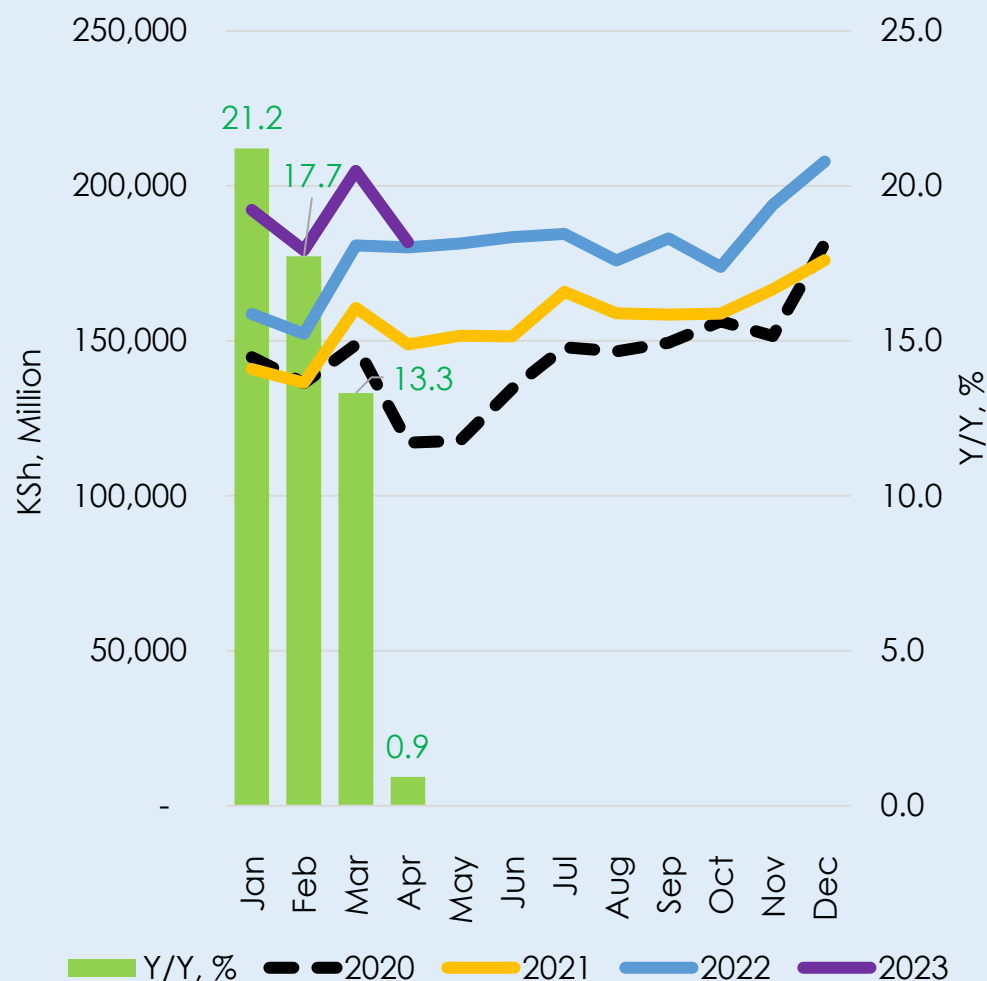
	2020	2021	2022	2023 Proj.
Maize	42.2	36.7	34.3	44.6
Wheat	4.5	2.7	3.0	4.6
Rice	2.0	2.1	2.1	1.2
Beans	8.6	7.4	5.7	8.5
Irish Potatoes	21.1	23.3	20.0	20.8
Sorghum	3.5	1.5	1.3	2.3
Millet	1.7	0.7	0.7	0.9

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

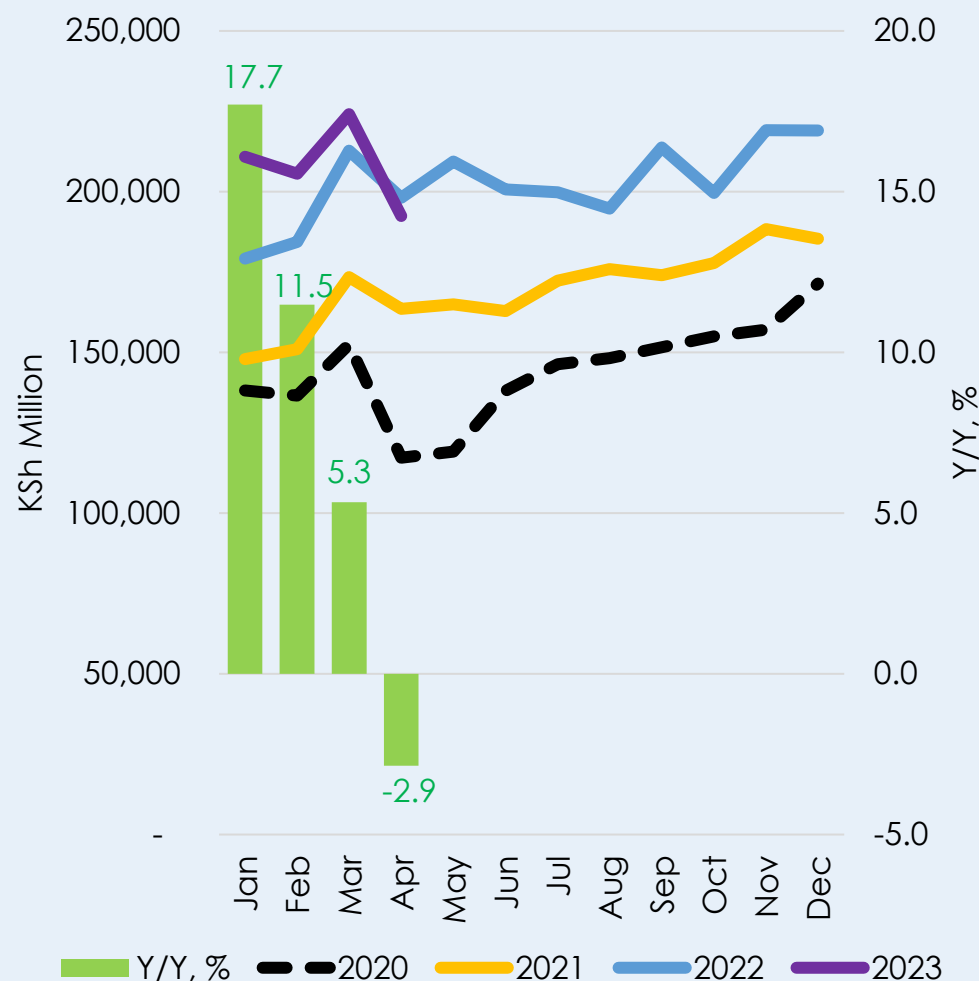
Sales turnover:

Activity in wholesale and retail trade, and manufacturing sectors has remained resilient

Sales Turnover, Wholesale and retail trade



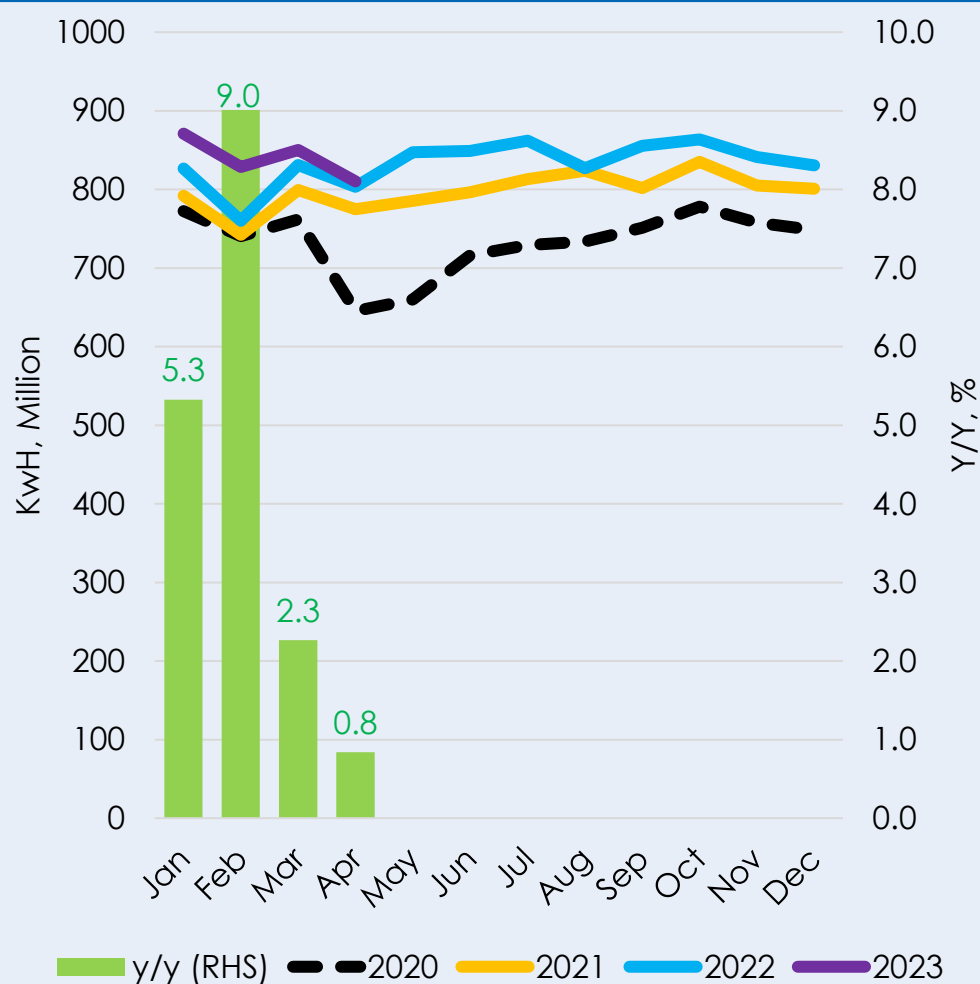
Sales Turnover, Manufacturing Sector



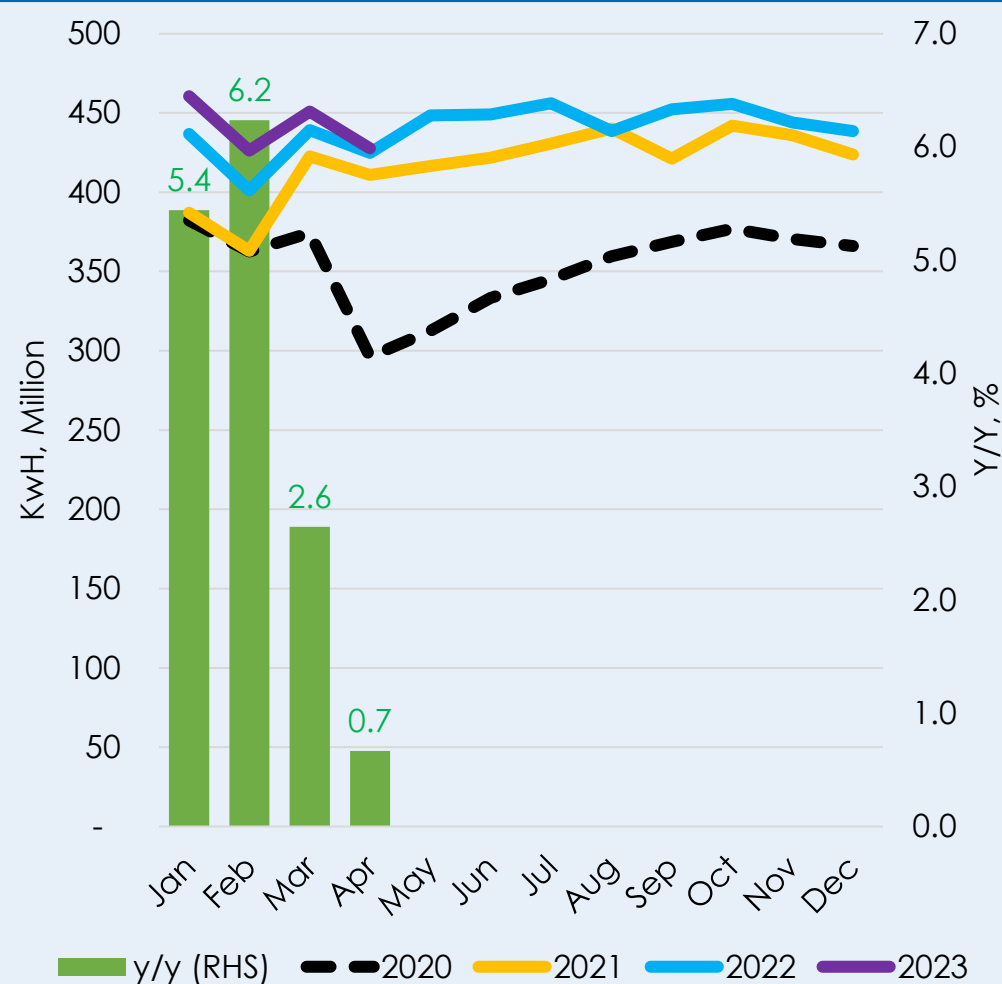
Source: CBK

Manufacturing activity: Power consumption has remained strong

Total Power Consumption



Trends of Large Power Consumption

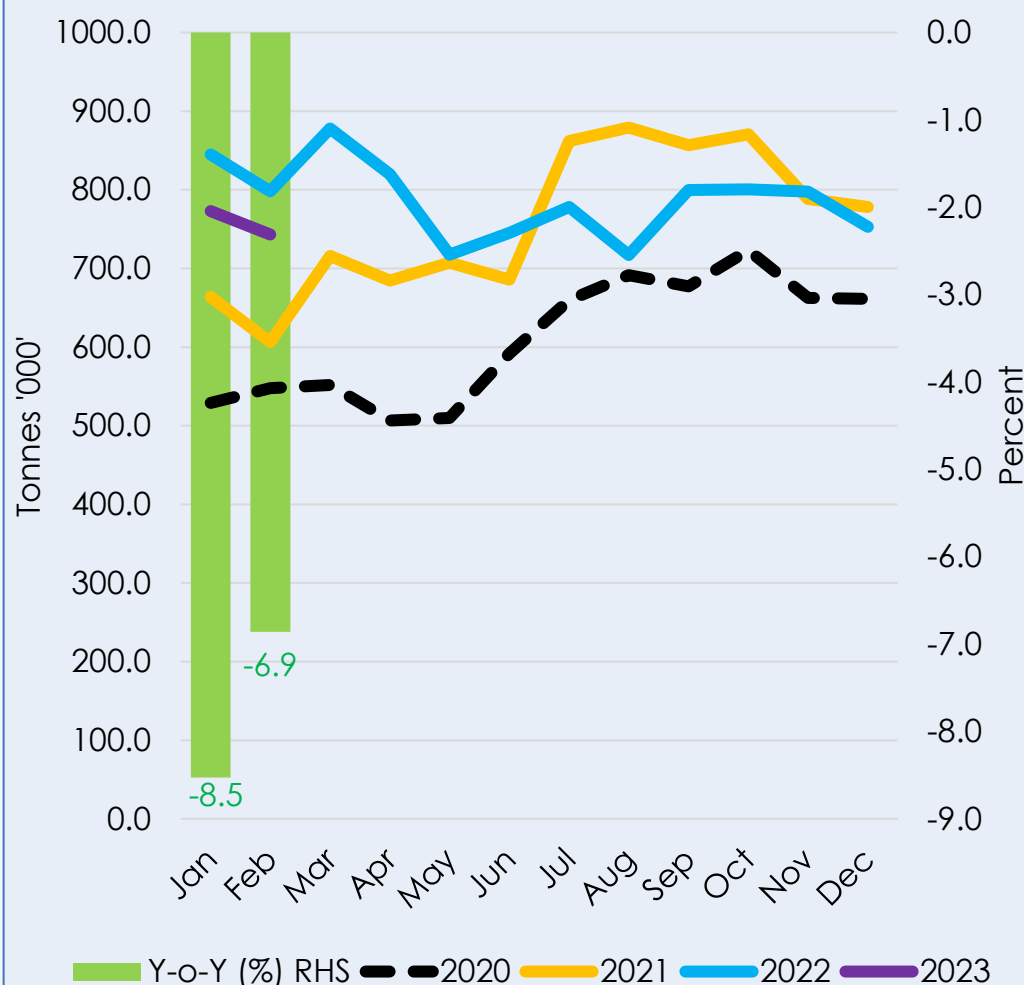


Source: Kenya National Bureau of Statistics

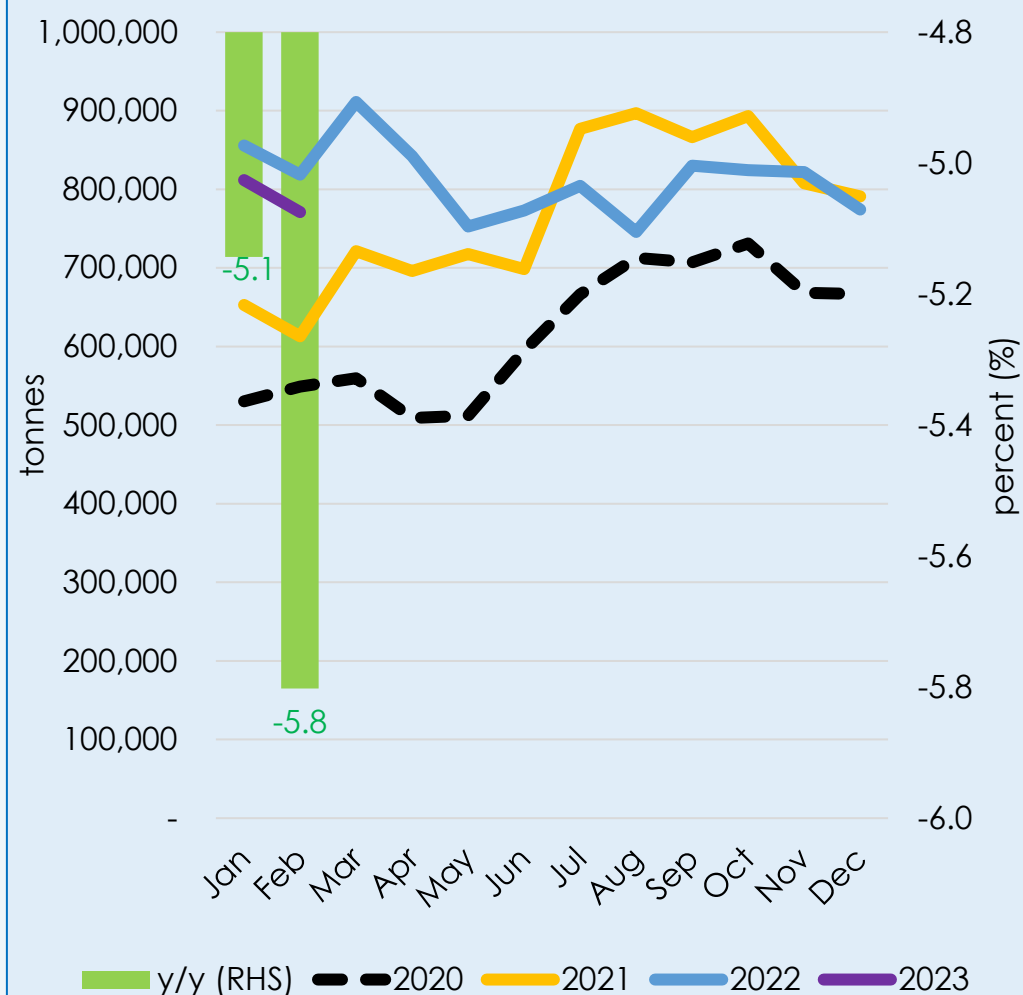
Construction activity:

Recent trends in cement consumption and production largely reflect completion of major infrastructure projects

Cement Consumption



Cement Production

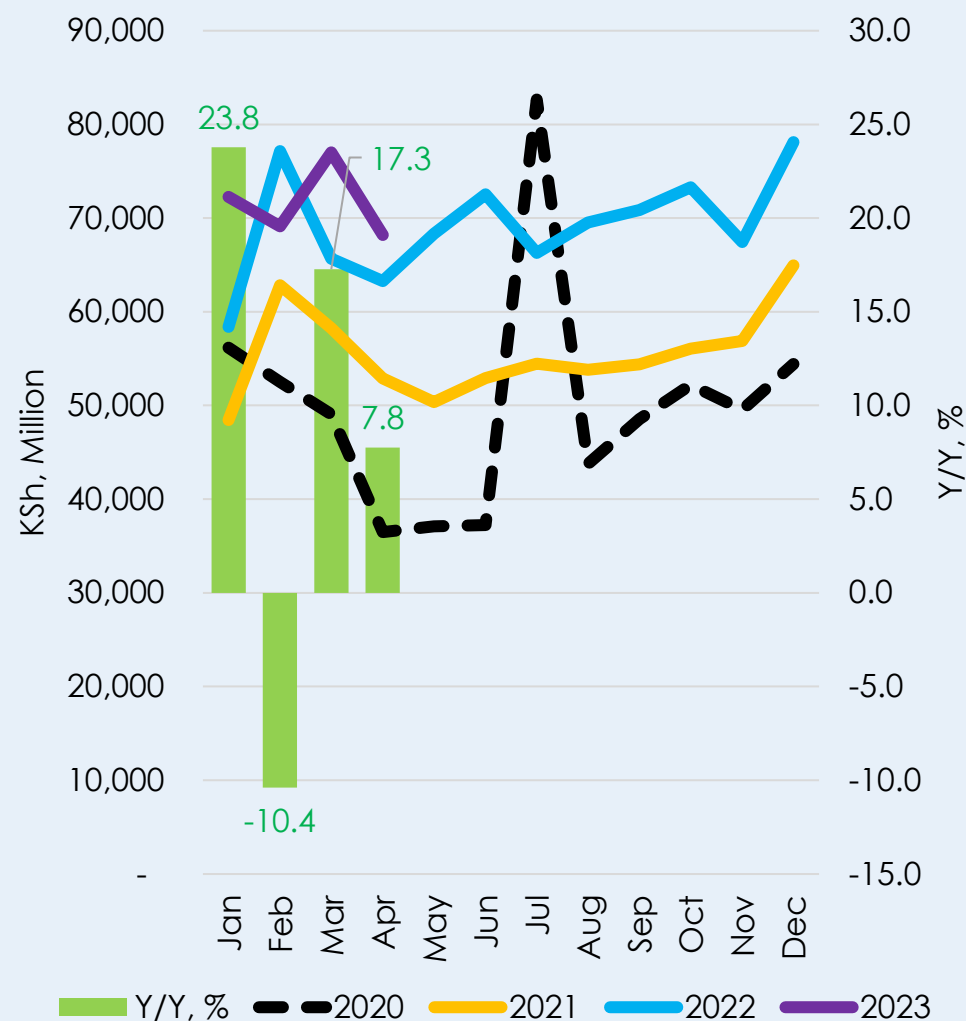


Source: Kenya National Bureau of Statistics

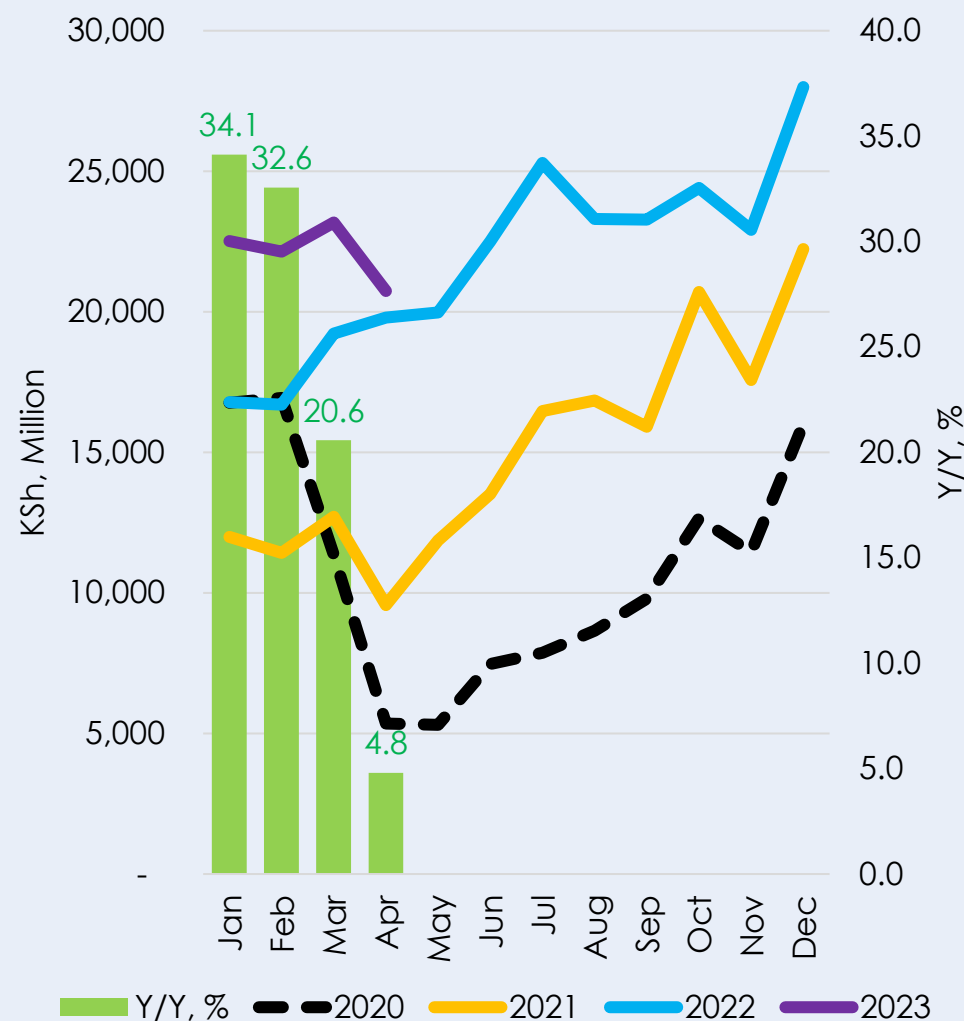
Sales Turnover:

Activity in accommodation and food services and transport and storage sectors remains resilient

Sales Turnover: Transport and storage



Sales Turnover: Accommodation and food services

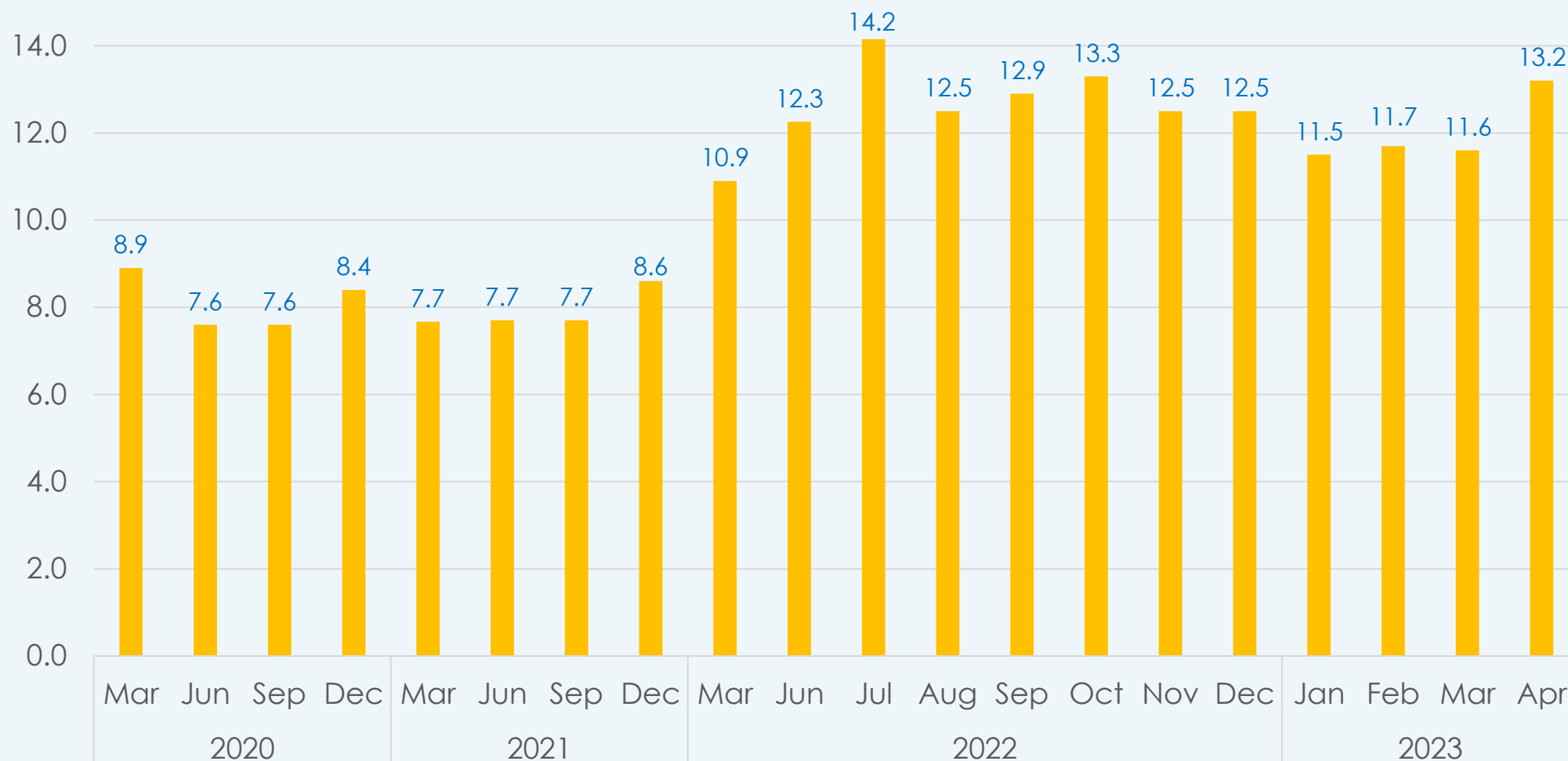


Source: CBK

Private sector credit:

Growth in credit to the private sector has remained resilient

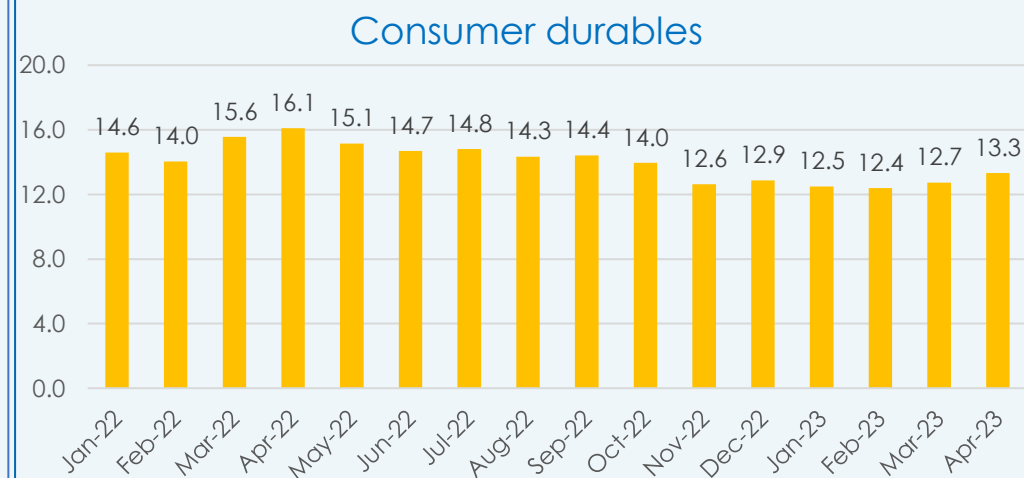
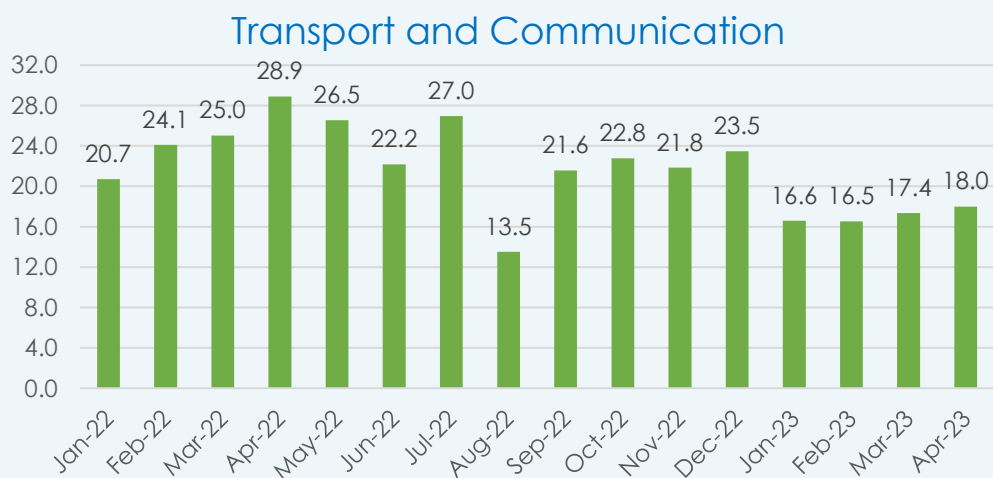
12 Months growth in credit to private sector (percent)



Source: CBK

Private sector credit: Strong growth in credit to key sectors of the economy

12 Months growth in credit to private sector (percent)

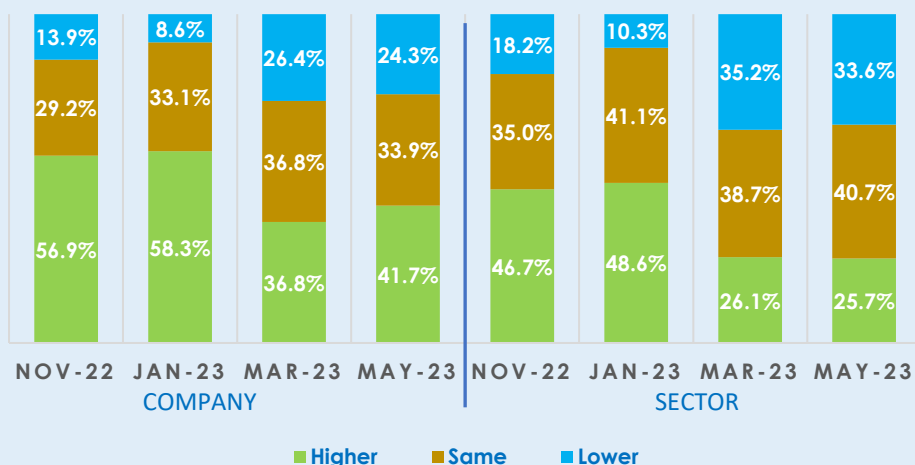


Source: CBK

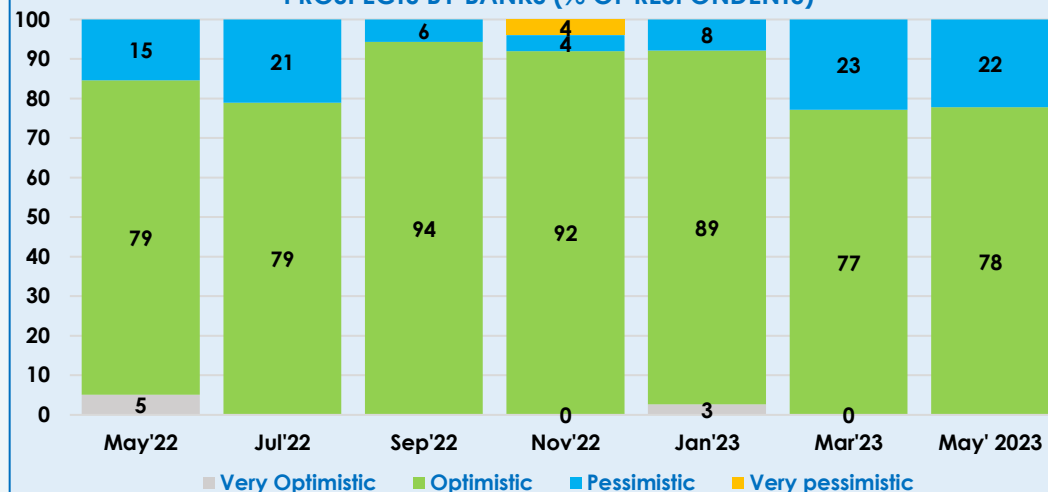
May 2023 Surveys:

Surveys show improved optimism by private sector firms about business activity and economic growth prospects for the next 12 months

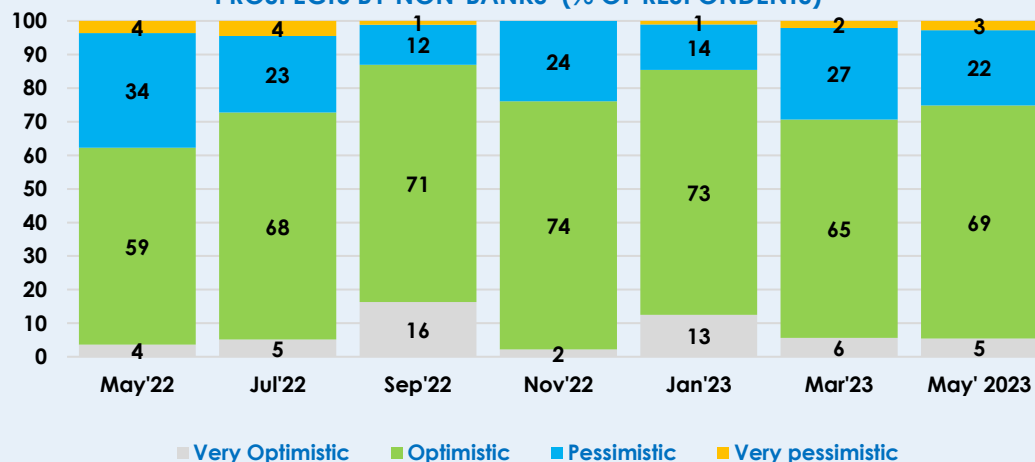
CEOS SURVEY: COMPANY AND SECTORAL GROWTH PROSPECTS (% OF RESPONDENTS)



MARKET PERCEPTIONS SURVEY: OPTIMISM IN THE ECONOMIC PROSPECTS BY BANKS (% OF RESPONDENTS)



MARKET PERCEPTIONS SURVEY: OPTIMISM IN THE ECONOMIC PROSPECTS BY NON-BANKS (% OF RESPONDENTS)



- Respondents in the May 2023 Surveys attributed their improved optimism to:
 - improved weather conditions, which are expected to support agricultural production,
 - easing of inflation, and
 - resilience of the private sector.
- However, respondents were concerned about the proposed increase in taxation, rise in electricity and fuel prices, and the weakening of the Kenya shilling.

May 2023 Agriculture Sector Survey:

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

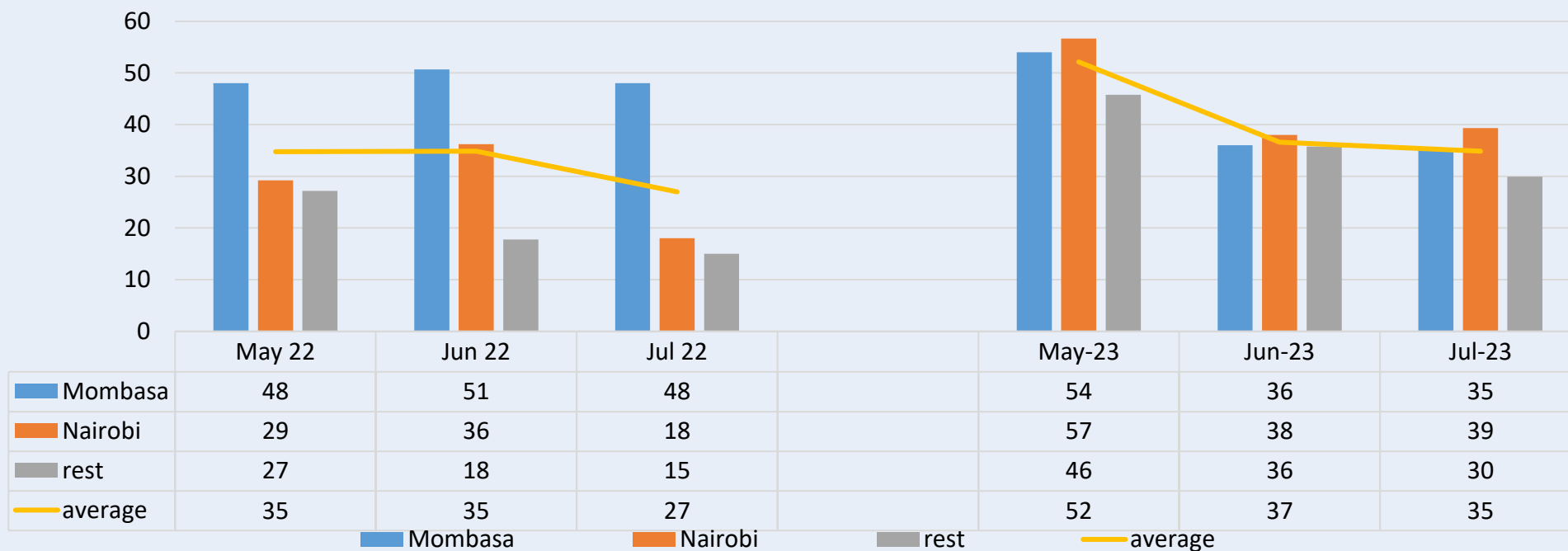
Expected changes in retail prices in June 2023 (percent of respondents)



- Prices of vegetable items expected to reduce further in June 2023 following harvests from the long rains season.
- Prices of animal products are expected to decline following the long rains reported in March and April 2023 which has boosted the pasture availability.
- However, the price of cooking oil, cooking fat and sugar is expected to rise following a reported shortage of sugar and high import costs of oil products.

May 2023 Market Perceptions Survey: Forward hotel bookings remain strong

Forward hotel bookings (percent of total bed capacity)

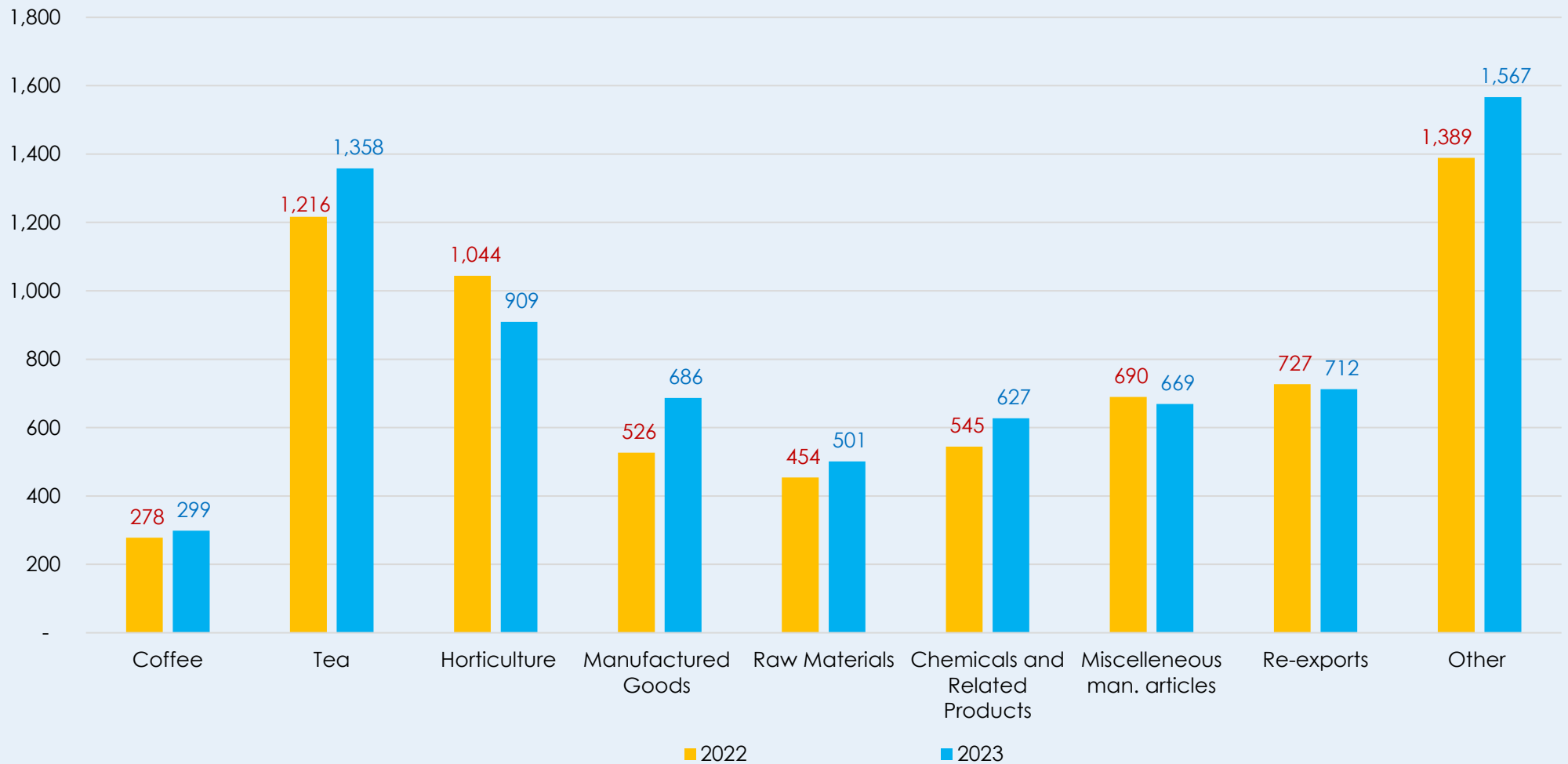


- Forward bookings are supported by both foreign and domestic markets.
- Booking levels attributed to normal business cycle in conferencing facilities as corporate and government institutions resume conferences.
- Challenges relate to high cost of living, and seasonal factors relating to low season.

Balance of payments:

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

12 months cumulative exports to April (USD Million)

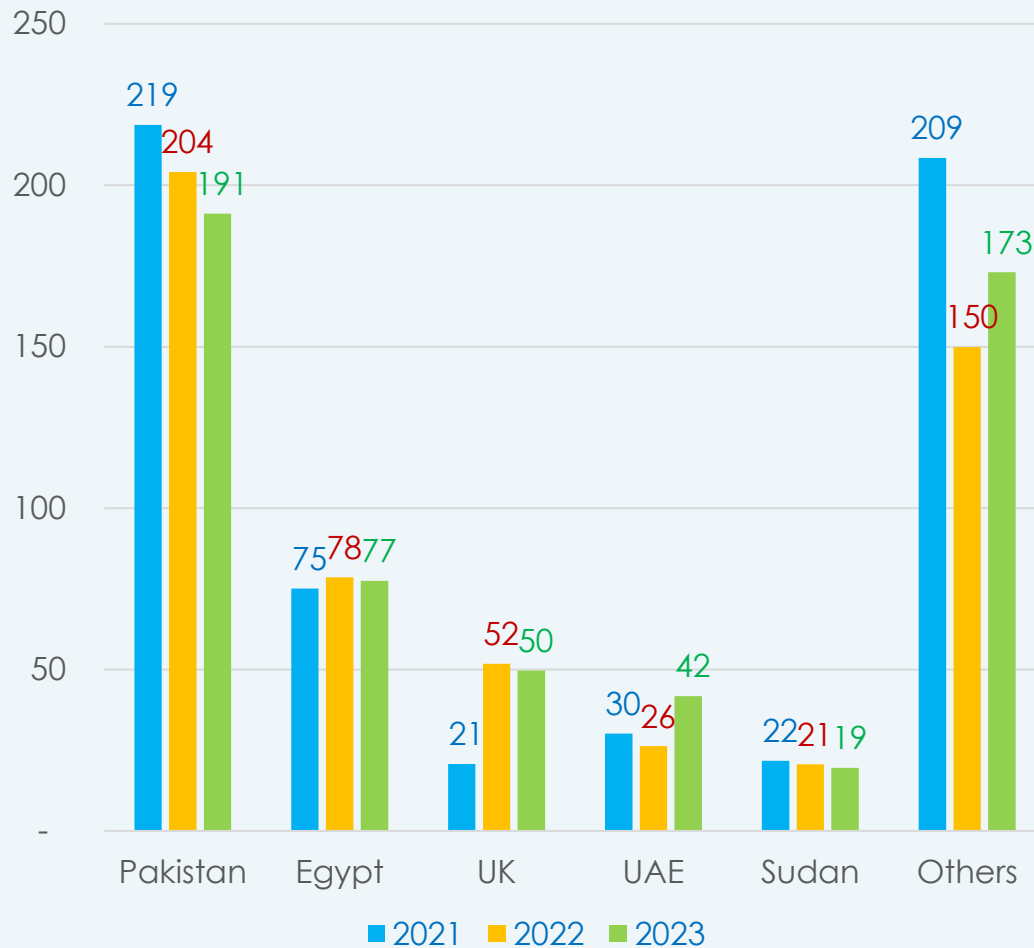


Source: CBK, KRA

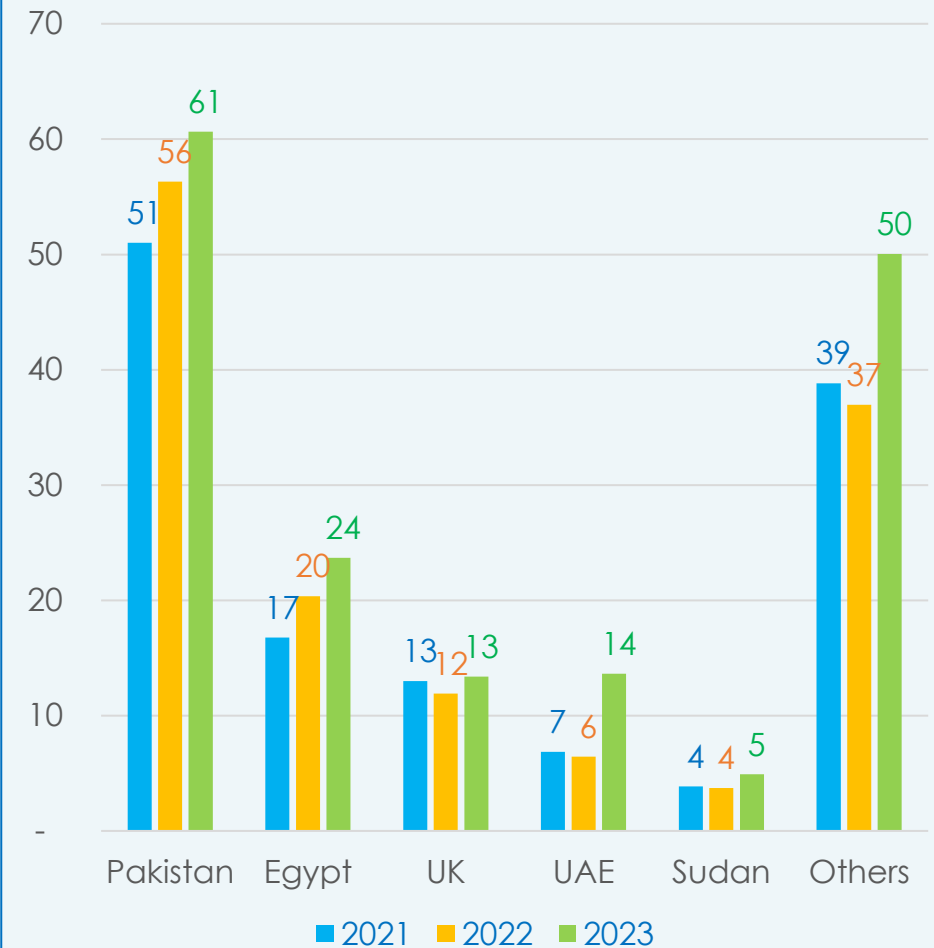
Balance of payments:

Improved receipts from tea exports to Kenya's key markets reflects higher international prices

12 months cumulative volume of Kenya's tea exports to April (Kgs million)



12 months cumulative value of Kenya's tea exports to April (Ksh Billion)

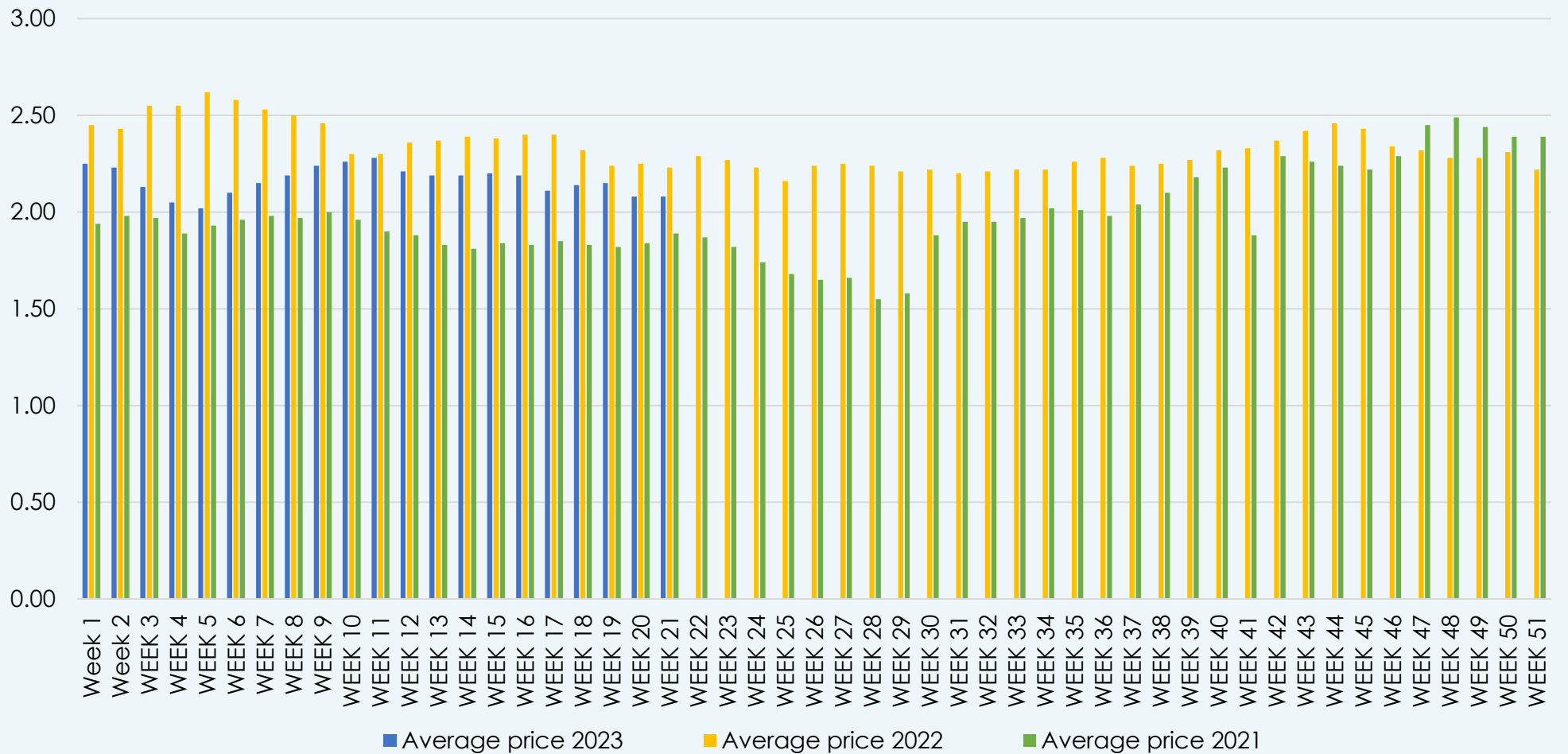


Source: KRA

Balance of payments:

Improved receipts from tea exports reflects higher international prices due to demand

Average price comparison of tea from 2021 to 2023 (USD per Kg)

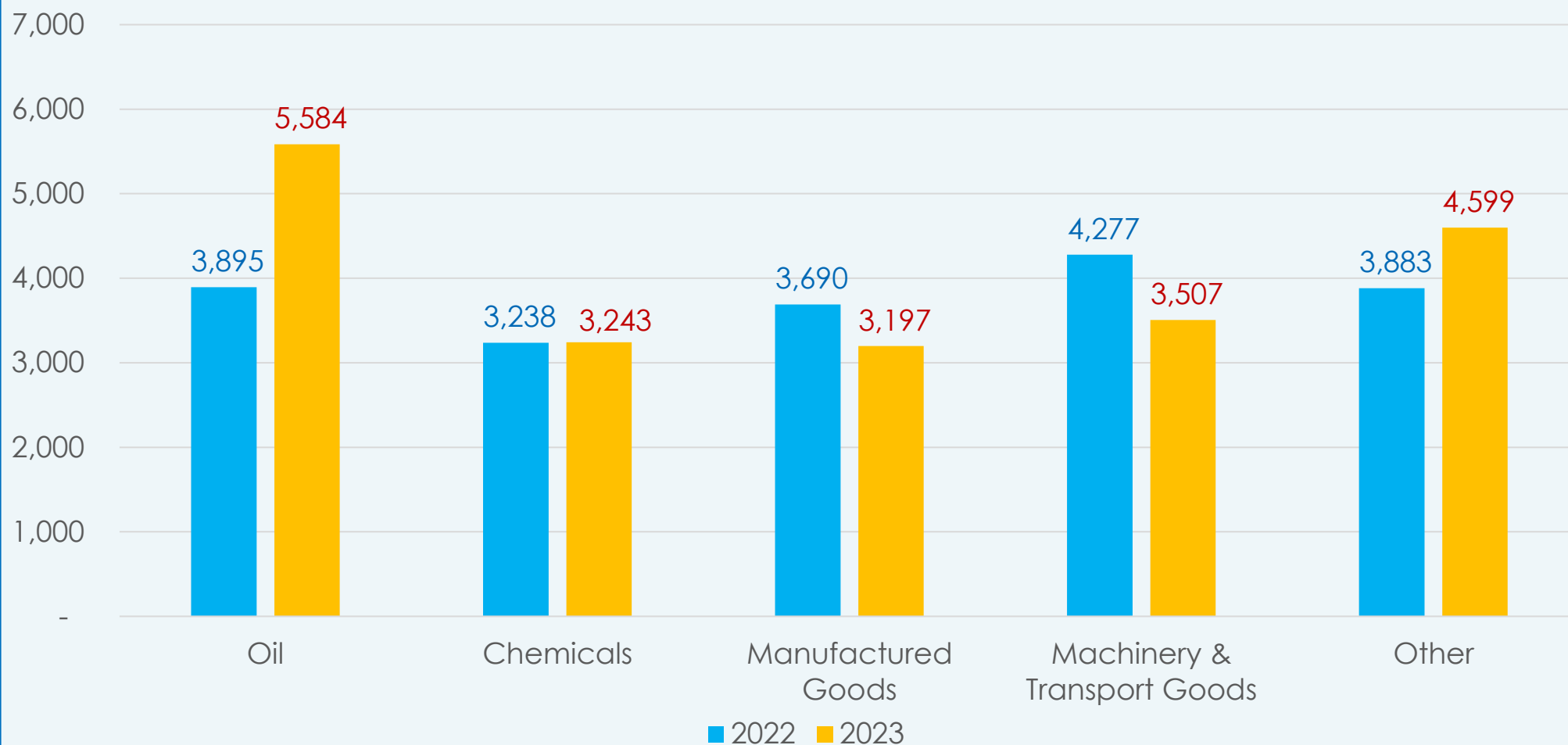


Source: Mombasa Tea Auction

Balance of payments:

Imports of goods increased largely due to oil imports, but imports of infrastructure related equipment have declined due to completed projects

12 months cumulative imports to April (USD Million)

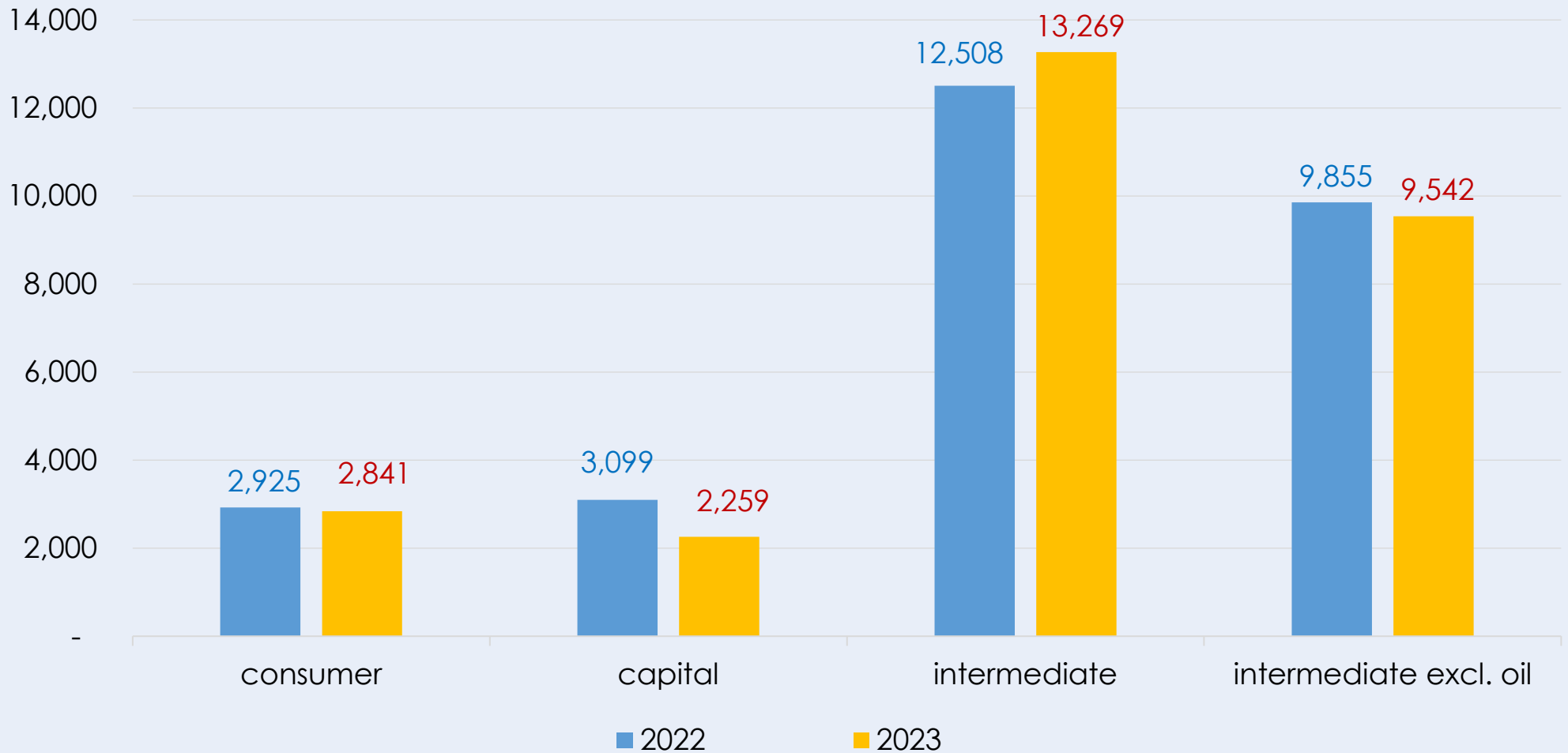


Source: CBK, KRA

Balance of payments:

Imports of goods increased mainly due to oil imports

12 months cumulative imports to April (USD Million)

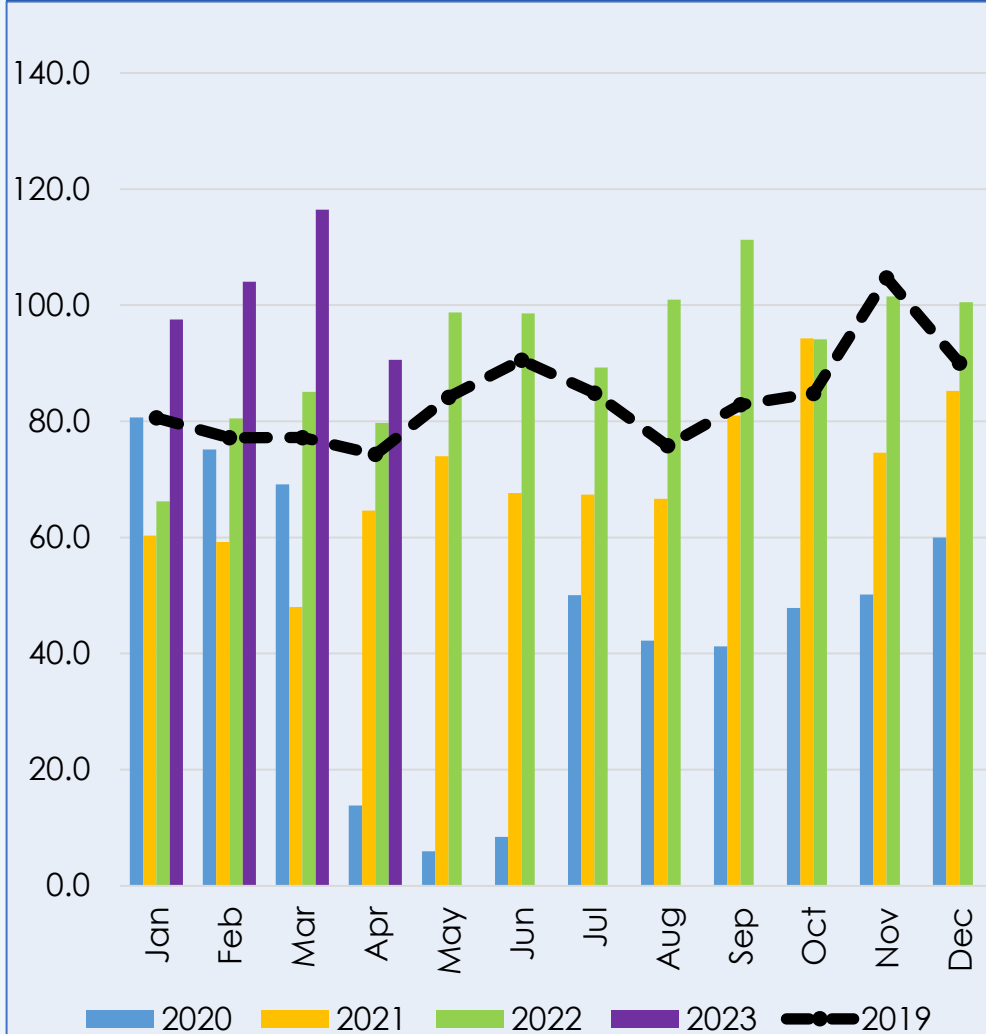


Source: CBK, KRA

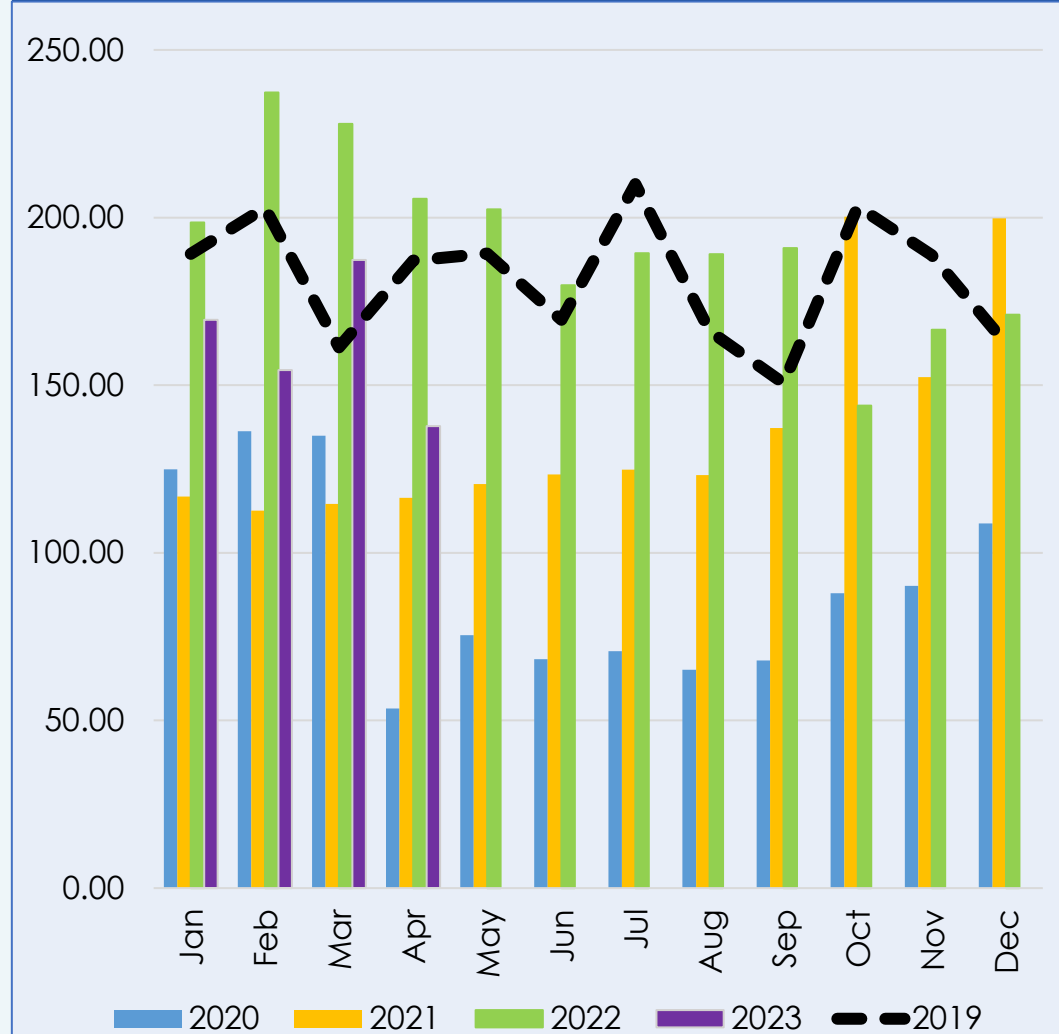
Services exports:

Receipts from services exports increased reflecting sustained improvement in international travel and transport

Travel receipts (USD Million)



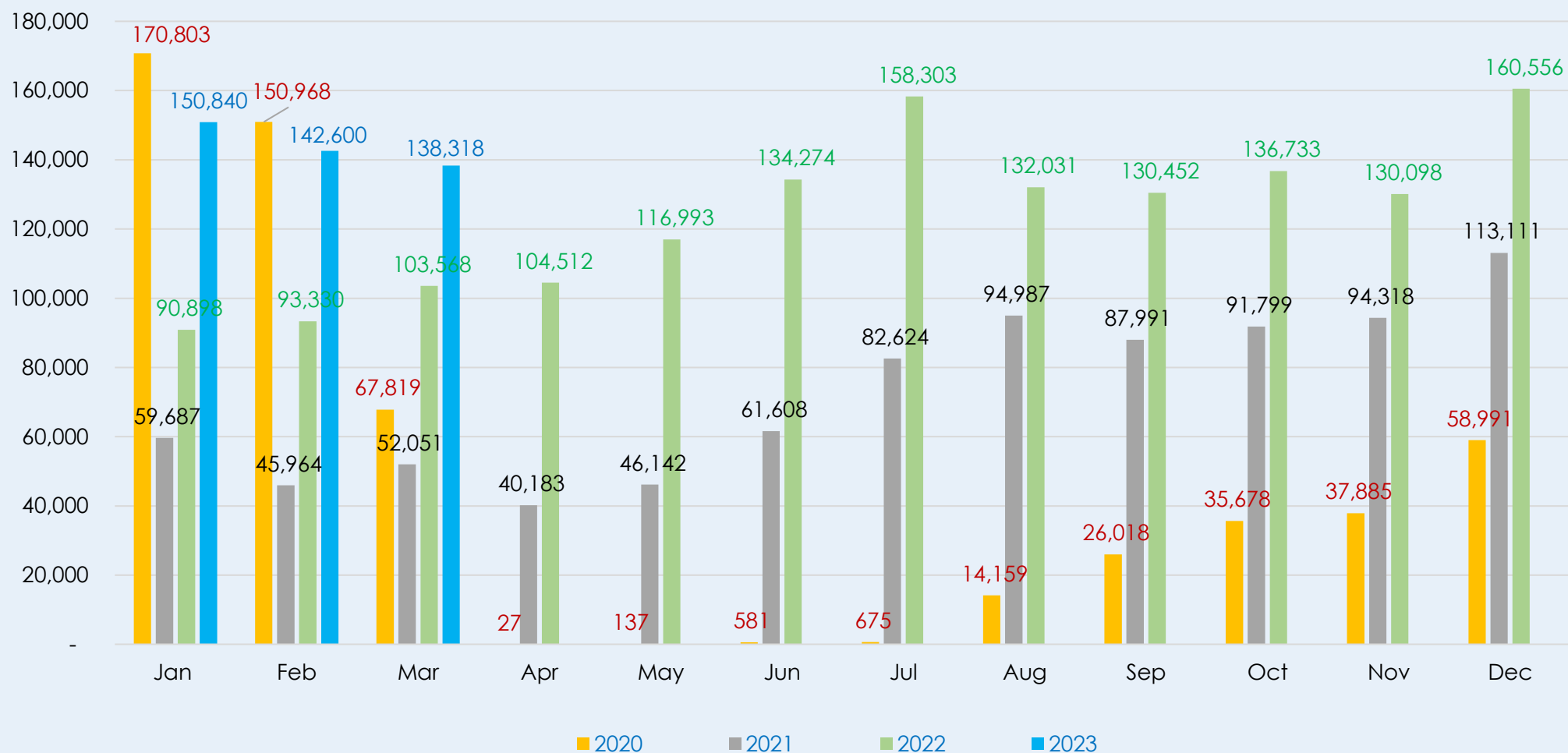
Transport receipts (USD Million)



Source: CBK, KRA

Tourism sector: Tourist arrivals have remained strong

Monthly tourist arrivals



Source: Kenya Tourism Board

Diaspora remittances: Remittances inflows have remained strong

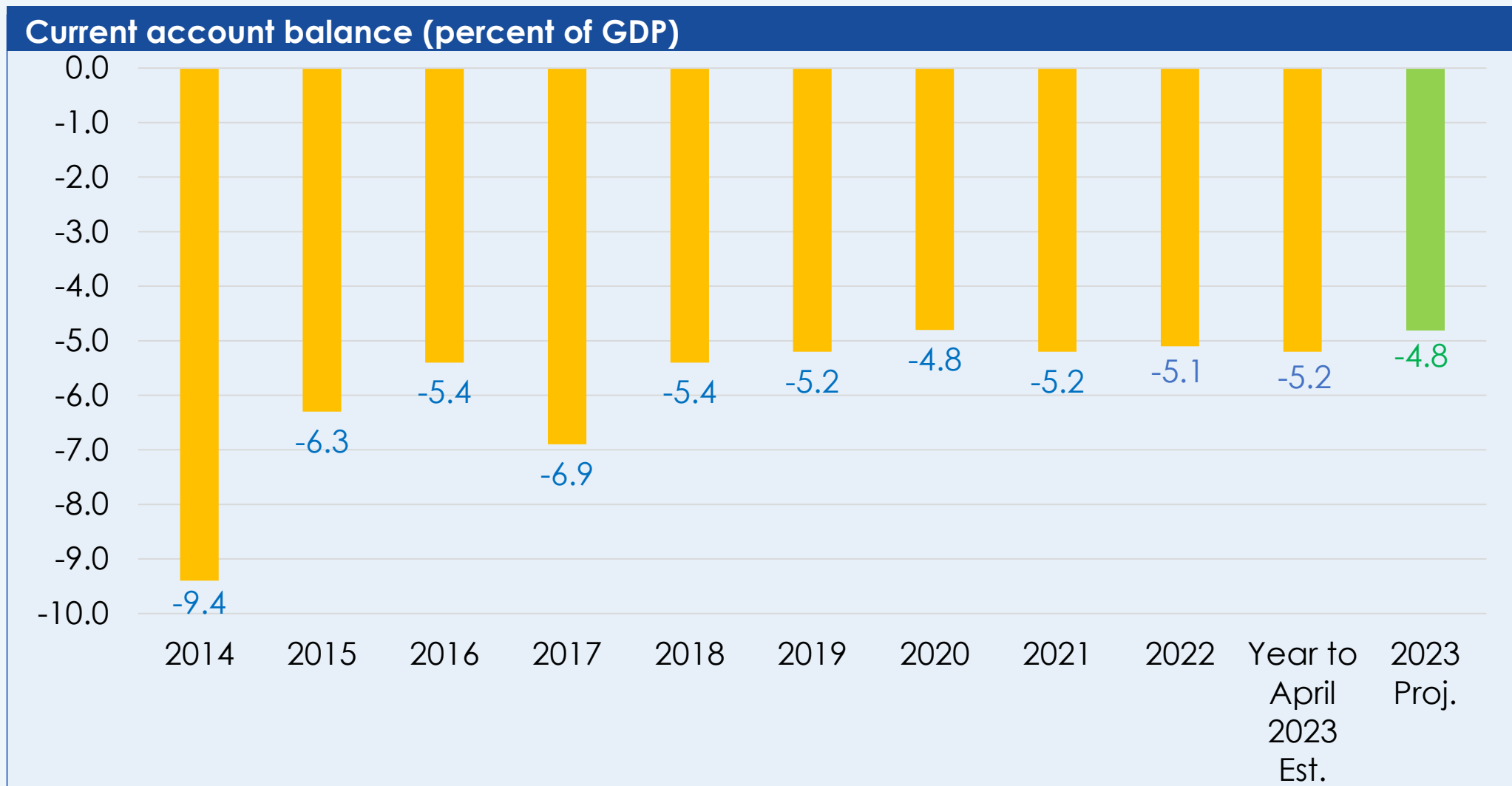
12 months cumulative remittances inflows to April (USD, Million)



Source: CBK

Current account balance:

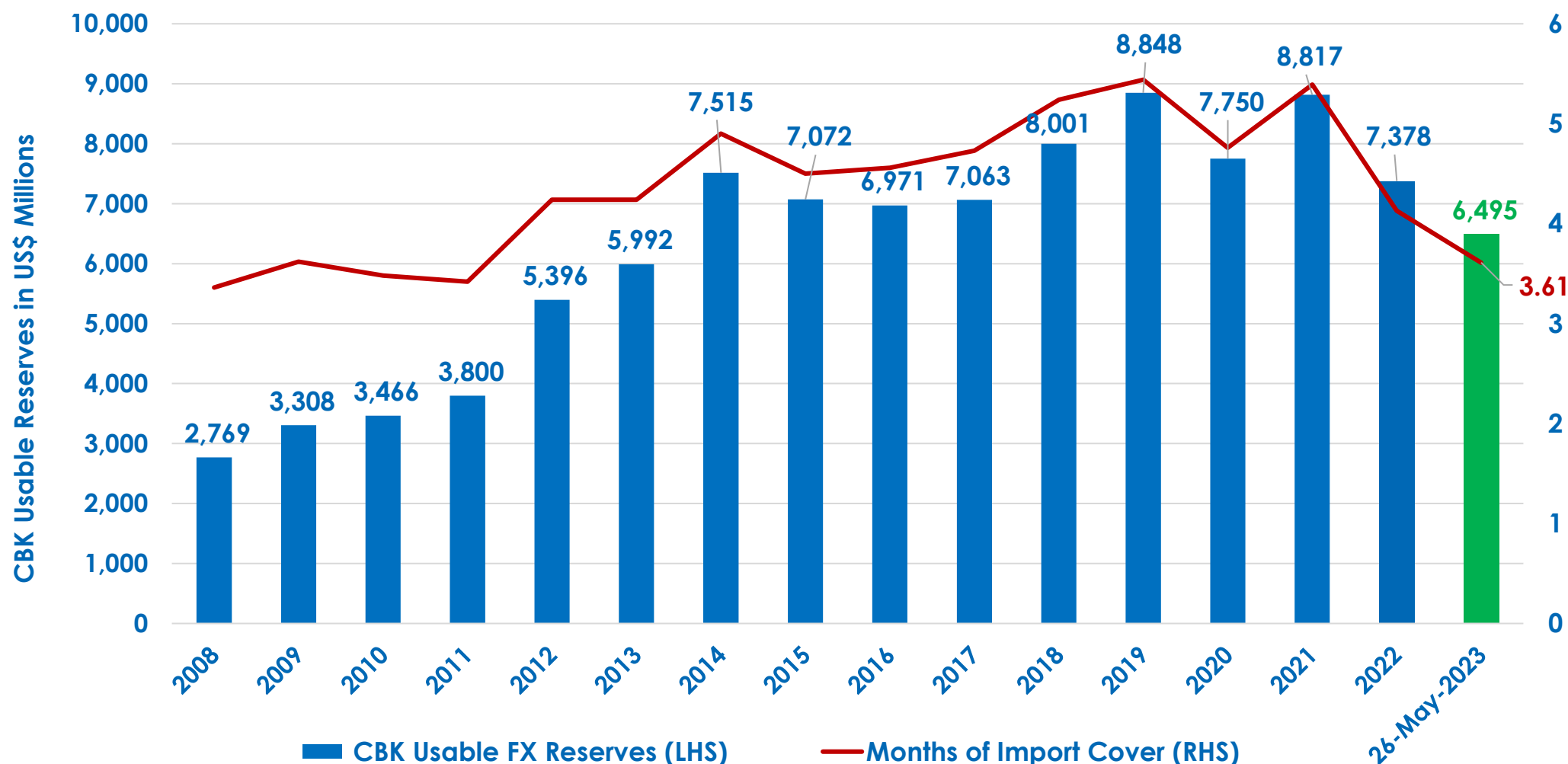
A narrower current account deficit is expected in 2023 supported by lower international oil prices, resilient remittances and strong exports growth



Source: CBK

CBK usable foreign exchange reserves: Foreign exchange reserves remain adequate

CBK usable foreign exchange reserves (end period)

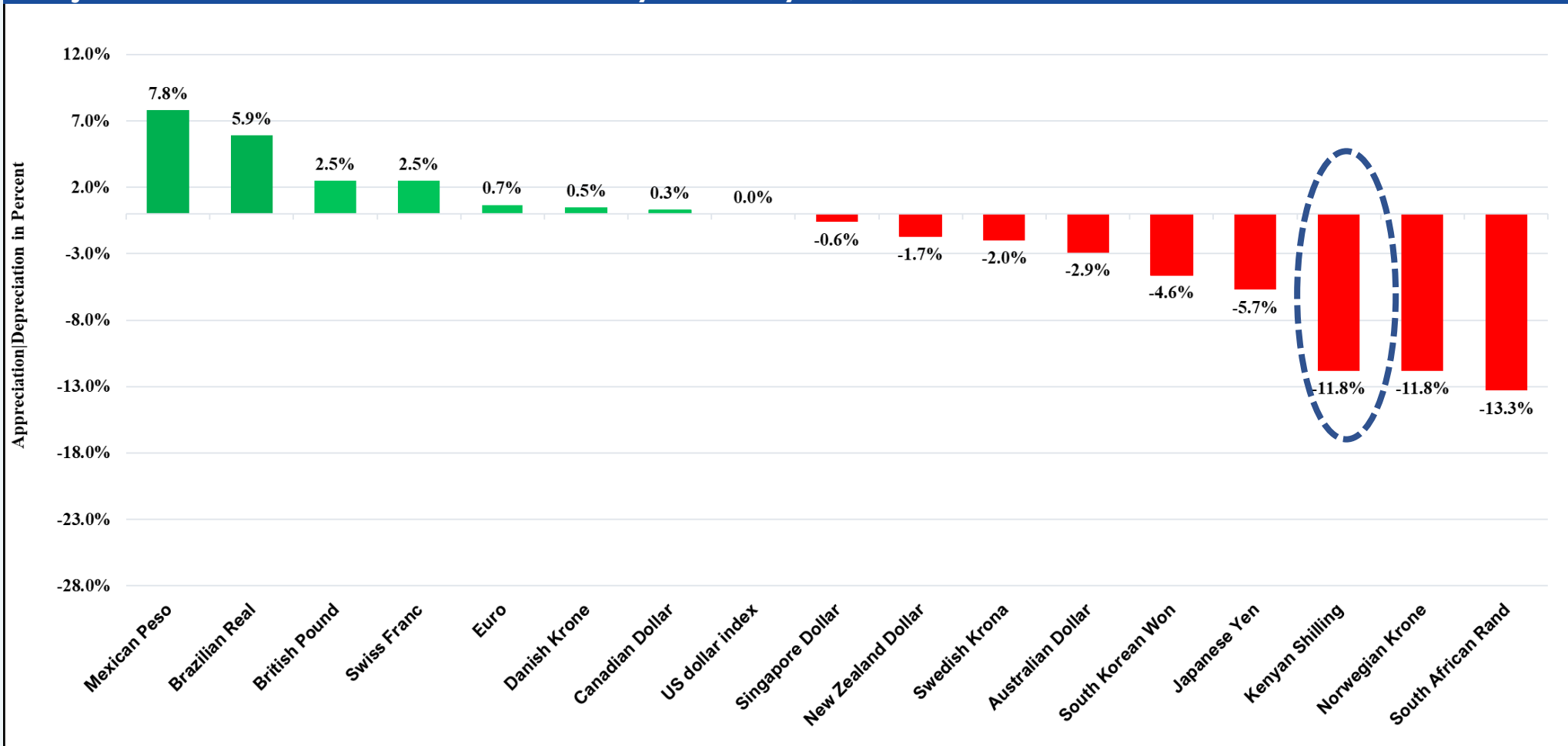


Source: CBK as of May 26, 2023

Exchange rates:

Some of the developed and emerging market currencies have strengthened against the U.S. dollar so far in 2023

Major currencies vs. U.S. Dollar: January 1 to May 23, 2023

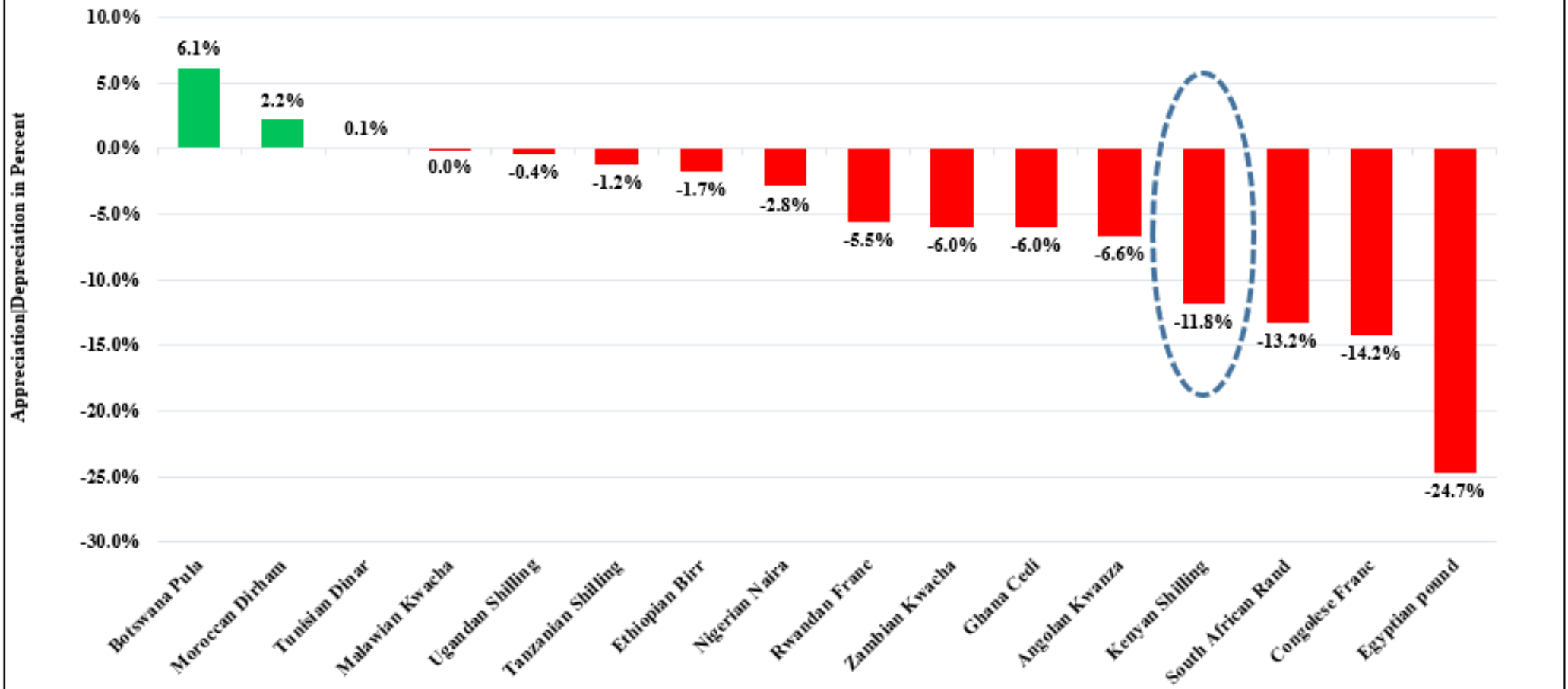


Source: Refinitiv, as at 23rd May, 2023

Exchange rates:

Most African currencies have weakened against the U.S. Dollar so far in 2023

African currencies vs. U.S. Dollar: January 1 to May 23, 2023

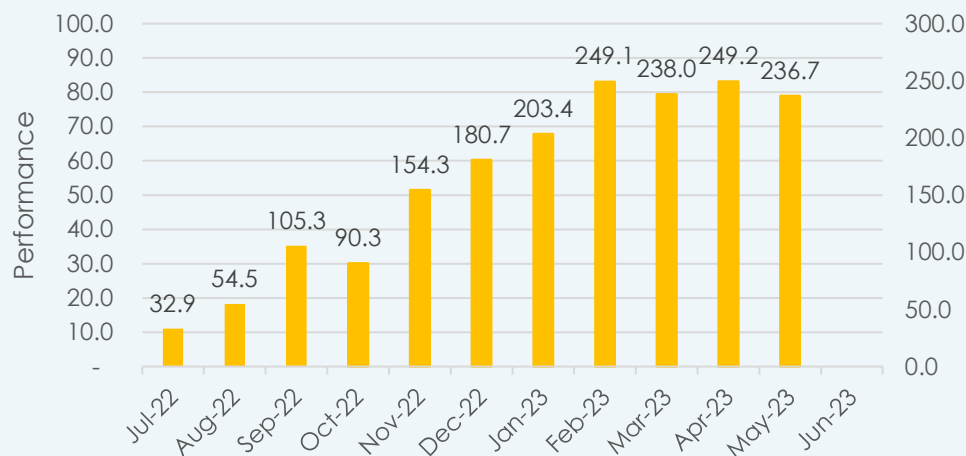


Source: Refinitiv, as at 23rd May, 2023

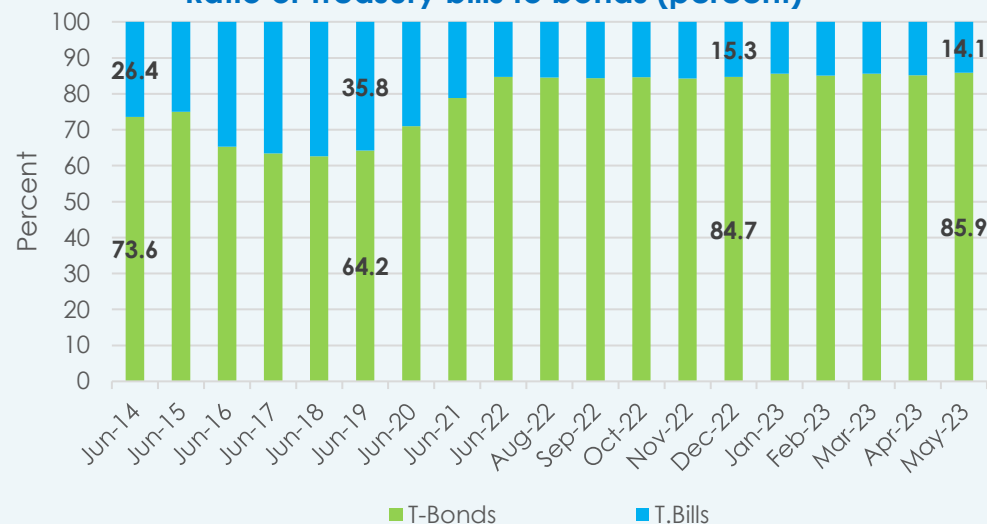
Government net domestic borrowing:

The performance of the Government domestic borrowing programme is at 54.4 percent of the revised target of Kes 434.9bn for FY 2022/23

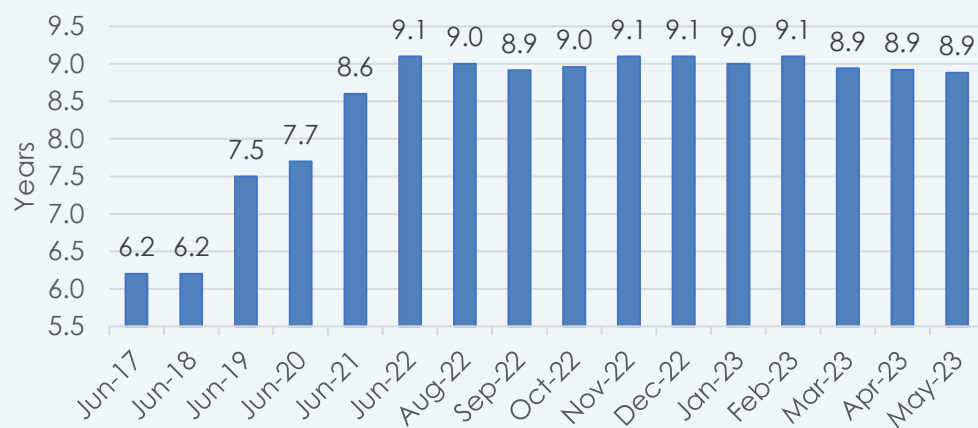
Domestic borrowing performance in FY2022/23 against the Kes 434.9bn Target



Ratio of Treasury bills to bonds (percent)



Average Time to Maturity for Treasury bonds (Years)

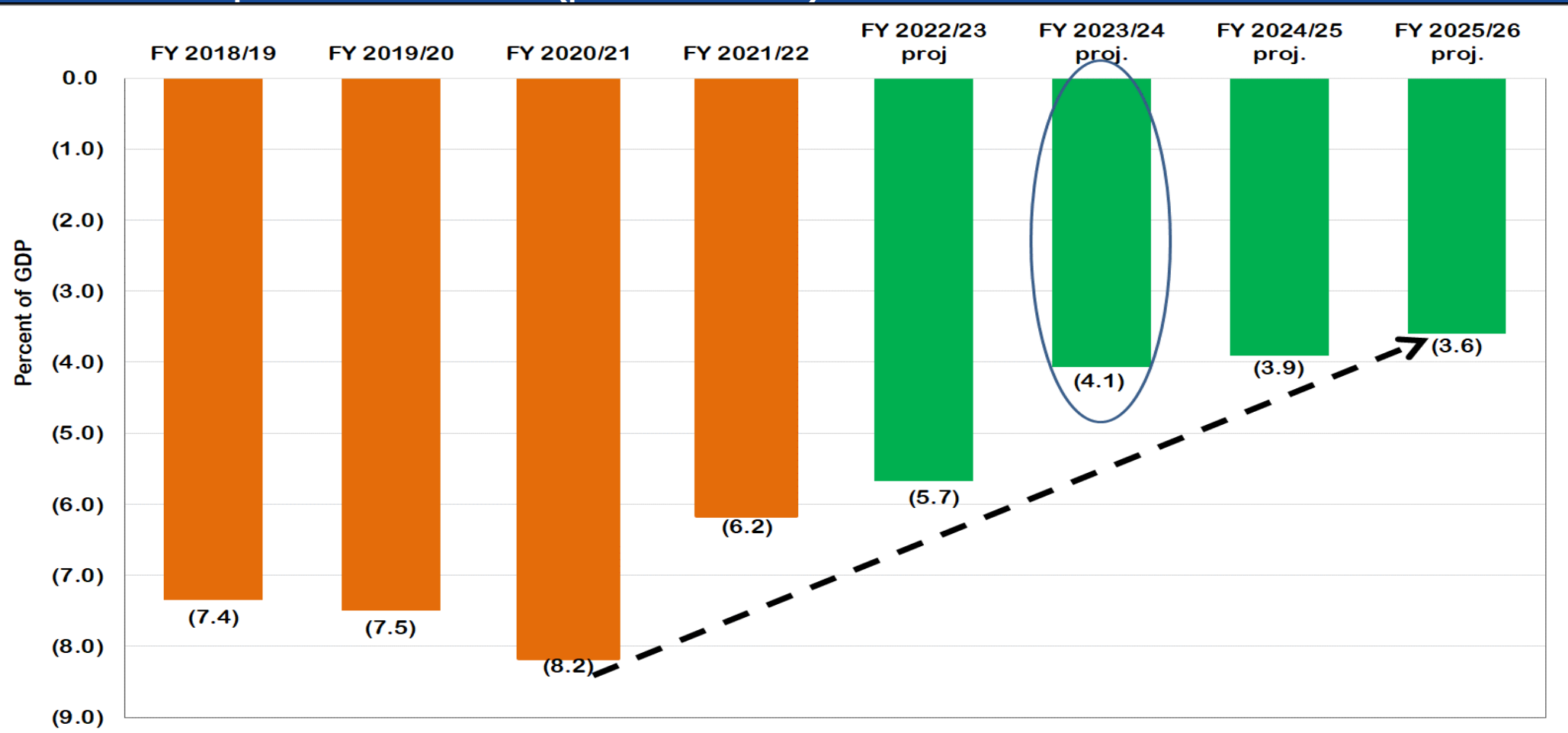


- The disbursement of the recently approved World Bank Development Policy Operation (DPO) and other external inflows will help improve liquidity conditions in the economy.

Fiscal performance:

The fiscal consolidation path over the medium-term is expected to stabilize the rate of growth in public debt

Actual and expected fiscal deficit (percent of GDP)



Source: The National Treasury

Thank You!



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