



Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Thursday, March 30, 2023
Dr. Patrick Njoroge

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The chart displays the percentage of the population aged 65 and over for five major economies from January 2020 to February 2023. The y-axis represents the percentage, ranging from -2.0% to 12.0%. The x-axis shows the timeline in monthly intervals. The final values in February 2023 are: US (6.0%), UK (10.4%), Euro Zone (8.5%), China (1.0%), and India (6.4%).

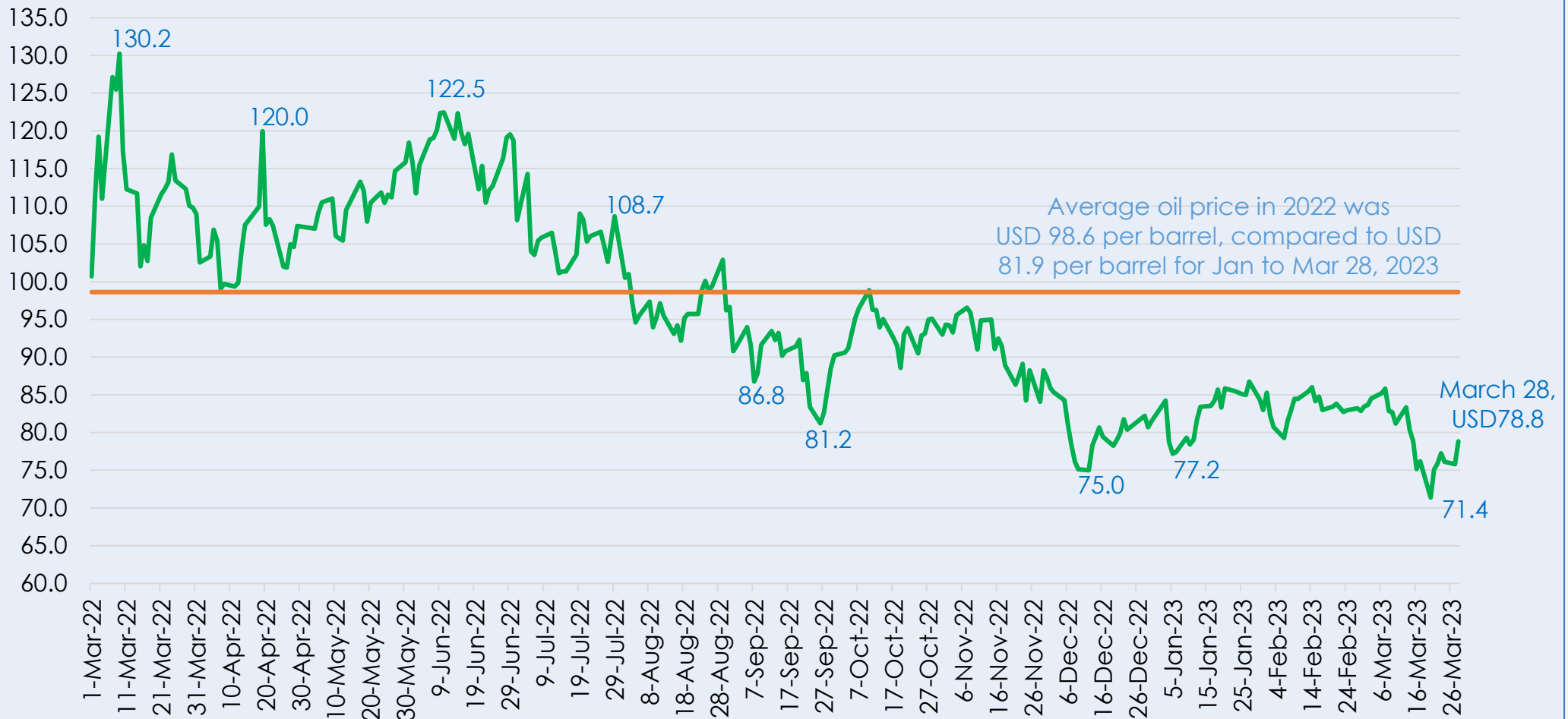
Month	US (%)	UK (%)	Euro Zone (%)	China (%)	India (%)
Jan-20	2.5	1.8	1.4	5.4	7.5
Feb-20	2.3	1.6	1.2	5.2	6.9
Mar-20	1.5	1.5	0.8	4.5	5.5
Apr-20	0.5	1.0	0.3	3.2	5.5
May-20	0.3	0.7	0.1	2.4	5.1
Jun-20	0.8	0.8	0.2	2.5	5.1
Jul-20	1.0	1.2	0.4	1.8	5.5
Aug-20	1.4	0.5	-0.2	2.4	5.6
Sep-20	1.4	0.8	-0.3	1.8	5.6
Oct-20	1.2	0.5	-0.3	0.5	5.9
Nov-20	1.1	0.5	-0.4	-0.5	5.3
Dec-20	1.3	0.9	-0.3	0.4	3.7
Jan-21	1.4	0.8	0.9	-0.3	4.1
Feb-21	1.6	0.5	0.9	-0.3	5.0
Mar-21	2.6	0.7	1.2	0.0	5.0
Apr-21	4.3	1.5	1.5	0.8	5.5
May-21	5.0	2.0	1.9	1.3	4.2
Jun-21	5.4	2.5	1.9	1.1	6.3
Jul-21	5.4	2.0	2.2	1.0	6.3
Aug-21	5.3	3.2	3.0	0.8	5.6
Sep-21	5.4	3.0	3.4	0.7	5.4
Oct-21	6.3	4.5	4.2	1.5	4.5
Nov-21	6.8	5.2	5.0	2.3	4.4
Dec-21	7.0	5.4	5.0	1.5	4.8
Jan-22	7.5	5.5	5.0	0.0	5.8
Feb-22	7.9	6.2	5.8	0.9	6.0
Mar-22	8.5	7.5	7.5	1.5	6.8
Apr-22	8.3	9.0	7.5	2.1	7.8
May-22	8.7	9.2	8.2	2.1	7.0
Jun-22	9.2	9.5	8.8	2.5	7.0
Jul-22	8.5	10.1	9.0	2.7	6.7
Aug-22	8.3	9.9	9.2	2.5	6.9
Sep-22	8.2	10.1	9.8	2.8	7.4
Oct-22	7.8	11.2	10.6	2.1	6.9
Nov-22	7.2	10.8	10.1	1.6	5.9
Dec-22	6.5	10.5	9.2	1.7	5.7
Jan-23	6.5	10.1	8.6	2.1	6.5
Feb-23	6.0	10.4	8.5	1.0	6.4

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International crude oil prices:

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

Murban oil price (USD, per barrel)

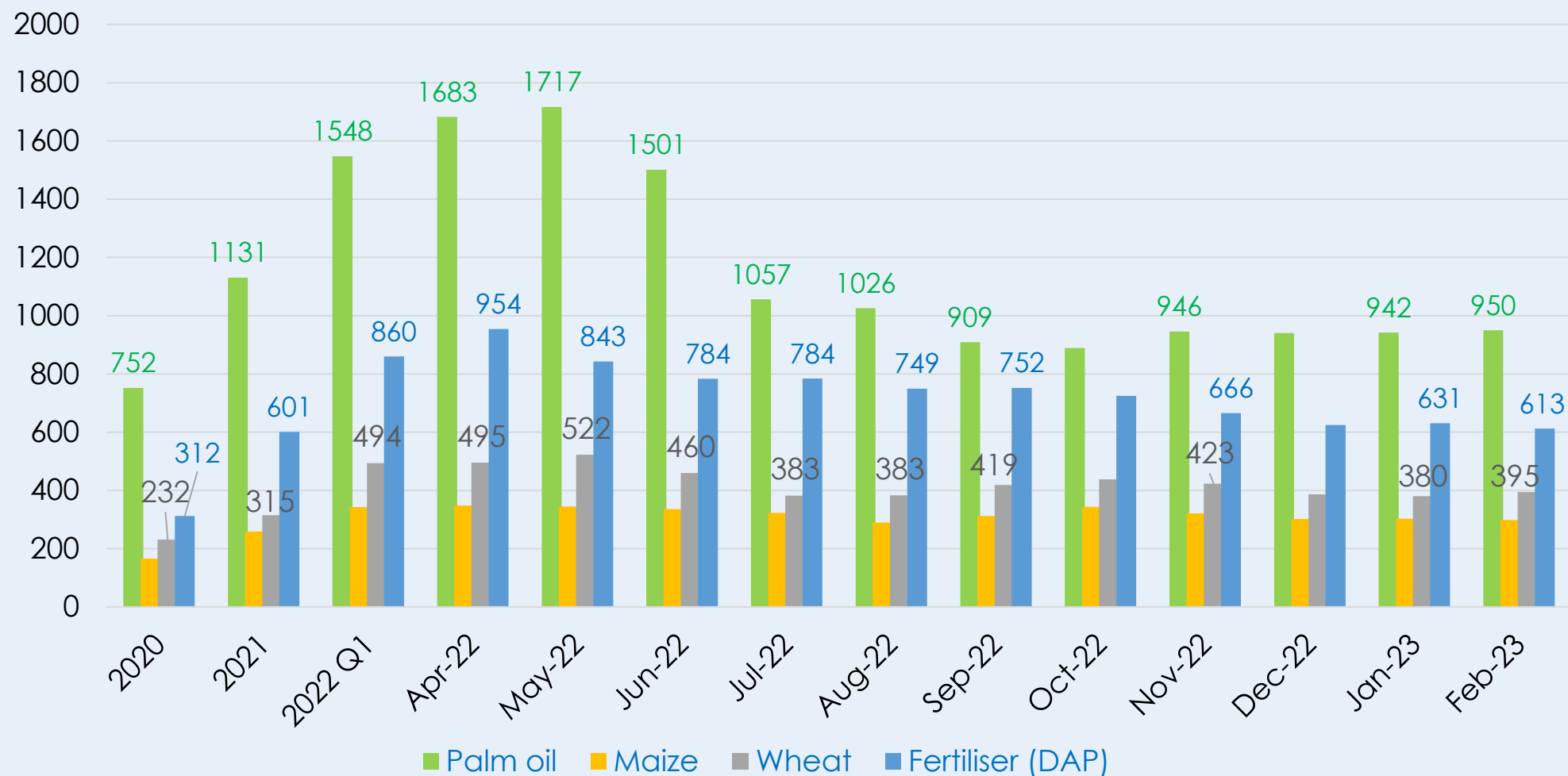


Source: Oilprice.com

Global commodity prices:

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

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

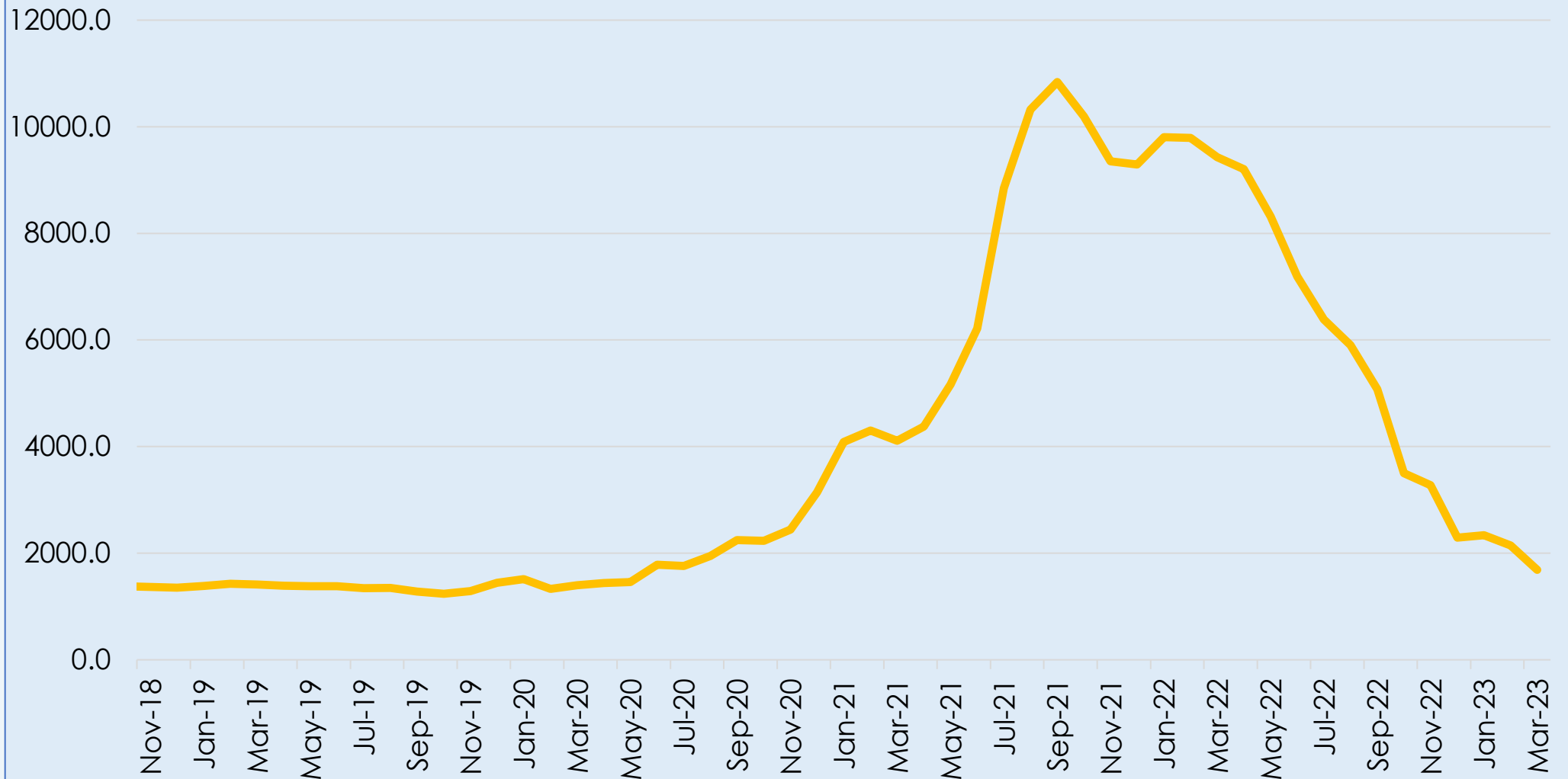


Source: World Bank Commodity Prices

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 with the increased uncertainties

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

	2021 Act.	2022 Est.	2023 Proj.		2024 Proj.	
			Jan. 2023 Proj.	Difference from Oct. 2022	Jan. 2023 Proj.	Difference from Oct. 2022
World	6.2	3.4	2.9	0.2	3.1	-0.1
Advanced Economies	5.4	2.7	1.2	0.1	1.4	-0.2
United States	5.9	2.0	1.4	0.4	1.0	-0.2
United Kingdom	7.6	4.1	-0.6	-0.9	0.9	0.3
Japan	2.1	1.4	1.8	0.2	0.9	-0.4
Euro area	5.3	3.5	0.7	0.2	1.6	-0.2
Emerging Market and Developing Economies	6.7	3.9	4.0	0.3	4.2	-0.1
China	8.4	3.0	5.2	0.8	4.5	0.0
India	8.7	6.8	6.1	0.0	6.8	0.0
Russia	4.7	-2.2	0.3	2.6	2.1	0.6
Sub-Saharan Africa	4.7	3.8	3.8	0.1	4.1	0.0
South Africa	4.9	2.6	1.2	0.1	1.3	0.0
Nigeria	3.6	3.0	3.2	0.2	2.9	0.0
Kenya	7.5	5.3	5.1	0.0	5.4	-0.1

Source: IMF World Economic Outlook

Domestic economy:

The economy is expected to remain resilient in 2023, supported by continued strong performance of the services sector and expected recovery in agriculture

Real GDP growth (y/y, percent)

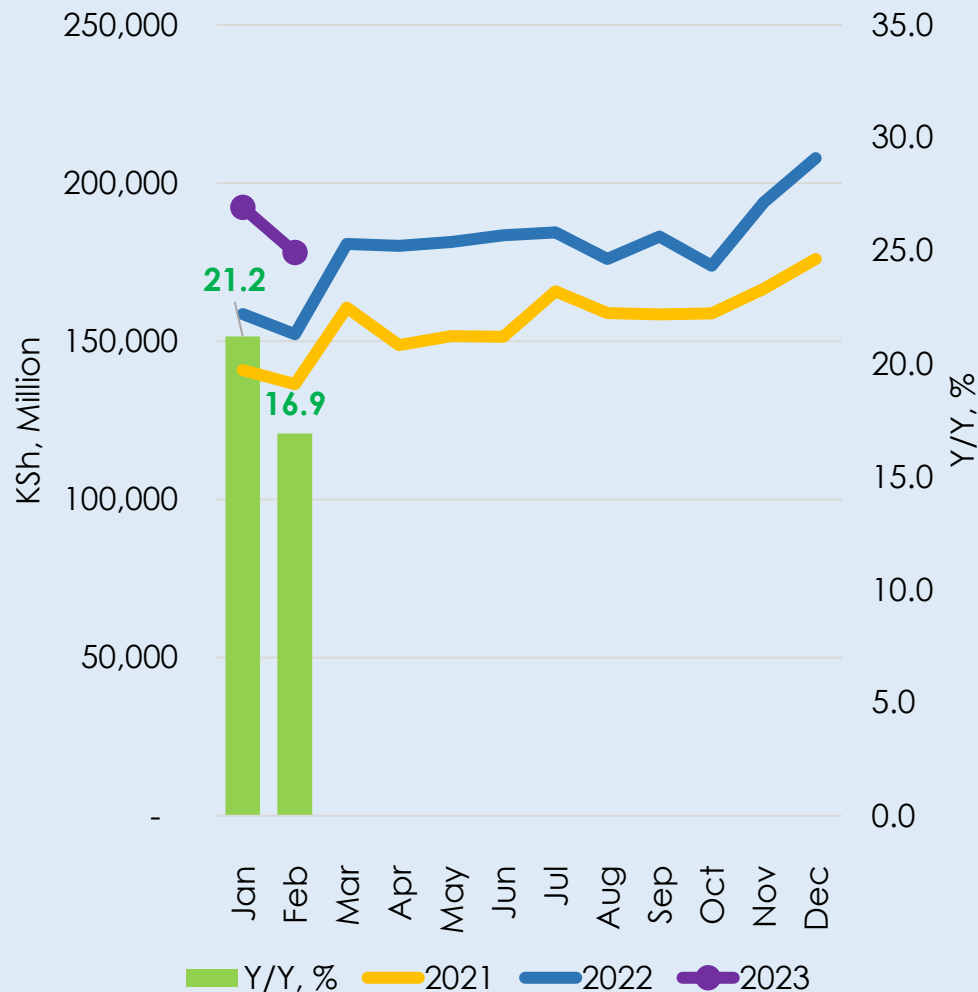
	2018	2019	2020	2021	2022 Est.	2023 Proj.	
						Q1	Annual
1. Agriculture	5.7	2.7	4.8	-0.2	-0.3	4.1	4.4
2. Non-Agriculture (o/w)	5.6	5.7	-0.7	9.4	7.0	5.9	6.1
2.1 Industry	3.8	4.0	4.0	7.2	4.7	4.4	4.3
Mining & Quarrying	-4.8	4.3	6.7	18.0	12.4	6.8	2.7
Manufacturing	3.6	2.6	-0.1	6.9	3.3	2.9	3.2
Electricity & water supply	3.6	1.7	0.1	5.0	4.4	6.1	5.8
Construction	6.1	7.2	11.8	6.6	5.5	5.3	5.6
2.2 Services	6.1	6.5	-2.2	9.8	7.6	6.4	6.6
Wholesale & retail Trade	5.9	5.3	-0.4	7.9	8.6	7.0	7.0
Accommodation & food services	15.6	14.3	-47.7	52.5	30.7	8.9	11.2
Transport & Storage	6.0	6.3	-7.8	7.2	6.4	5.7	6.7
Information & Communication	7.9	7.0	4.8	8.8	6.6	7.8	7.9
Financial & Insurance	2.7	8.1	5.6	12.5	9.4	5.1	5.5
Public administration	7.9	8.4	5.3	5.6	4.9	4.8	4.7
Professional, Admin & Support Services	6.9	6.8	-15.0	5.7	10.6	7.4	6.7
Real Estate	6.5	6.7	4.1	6.7	5.6	5.4	5.5
Education	6.4	5.7	-10.8	21.4	6.6	8.1	8.5
Health	5.4	5.5	6.7	6.0	4.8	5.0	5.2
Other Services	3.3	4.3	-14.2	12.6	7.5	7.6	6.9
FISIM	3.7	9.5	-2.0	5.5	4.4	1.2	2.1
2.3 Taxes on products	5.9	3.9	-7.9	11.9	7.5	5.9	6.1
3. Real GDP Growth	5.6	5.1	-0.3	7.5	5.6	5.6	5.8

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

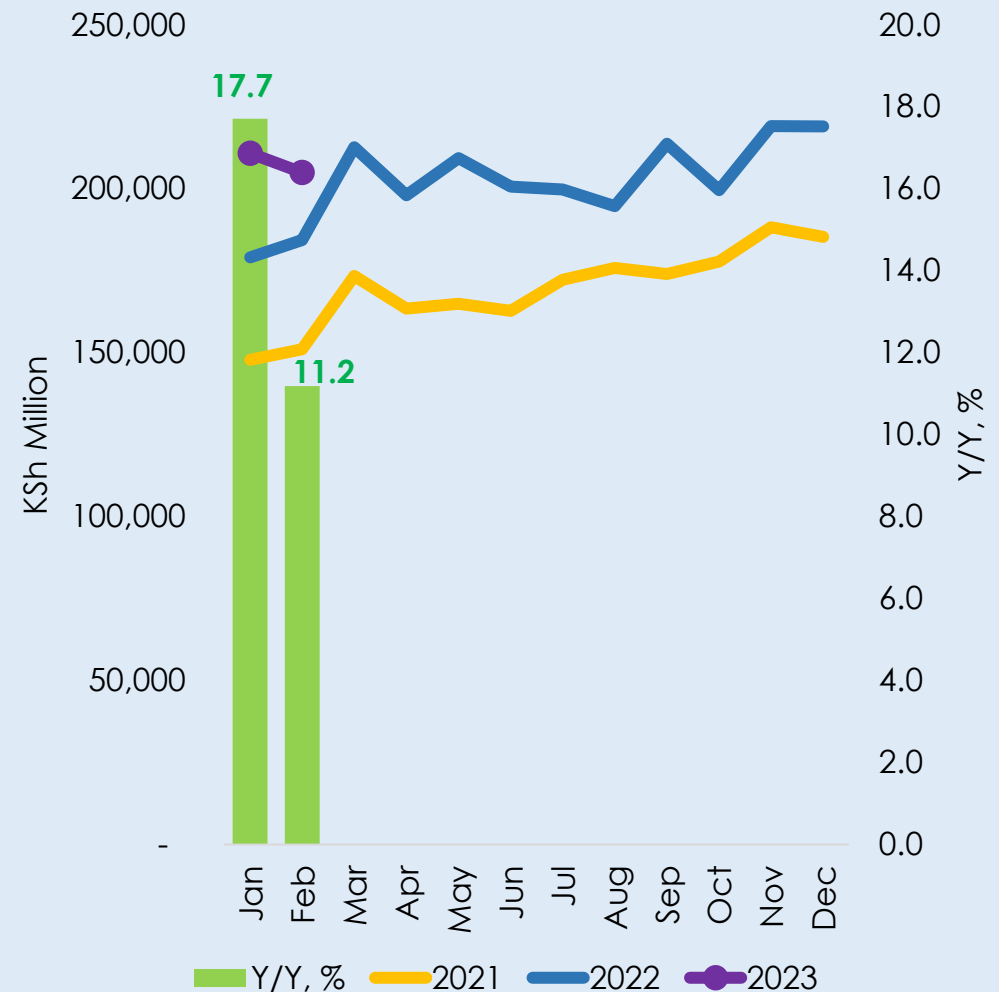
Sales turnover:

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

Sales Turnover, Wholesale and retail trade



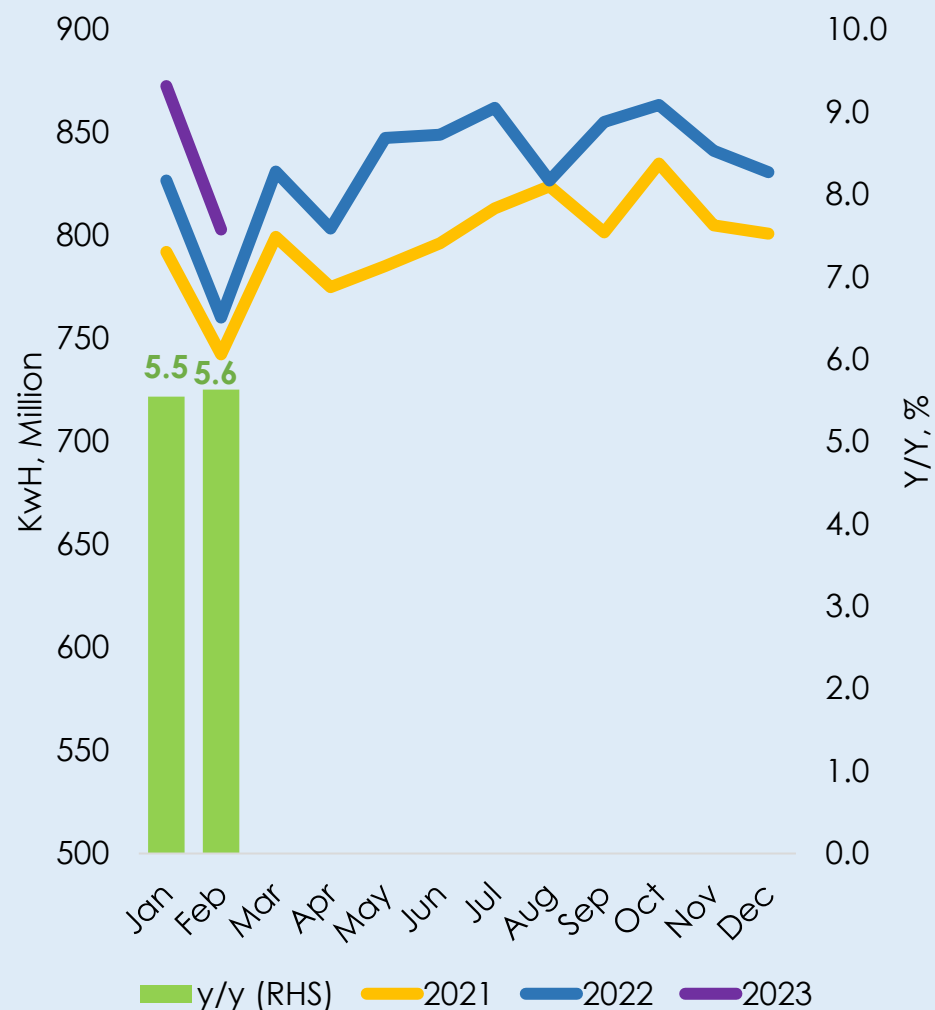
Sales Turnover, Manufacturing Sector



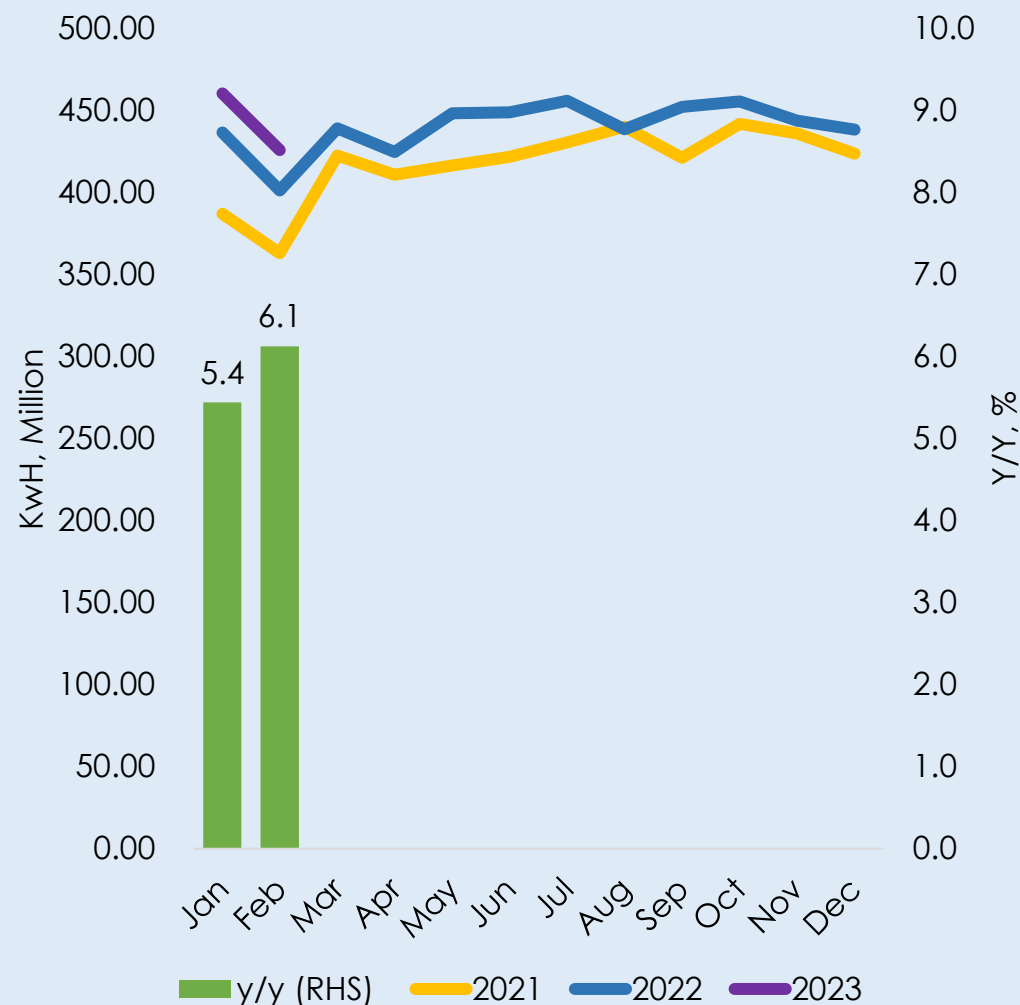
Source: CBK

Manufacturing activity: Power consumption has remained strong

Total Power Consumption



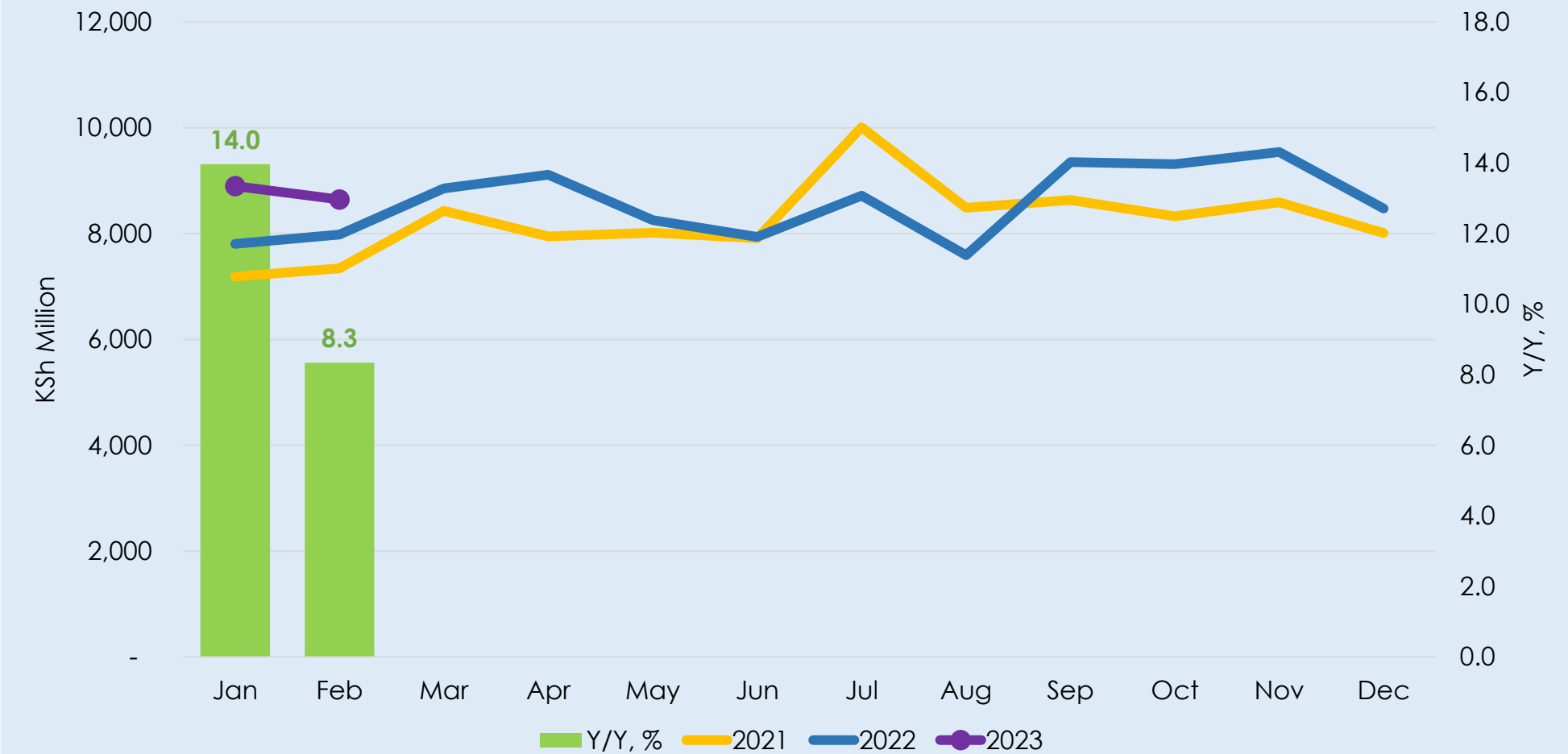
Trends of Large Power Consumption



Source: Kenya National Bureau of Statistics

Construction activity: Strong growth in sales turnover of cement manufacturers

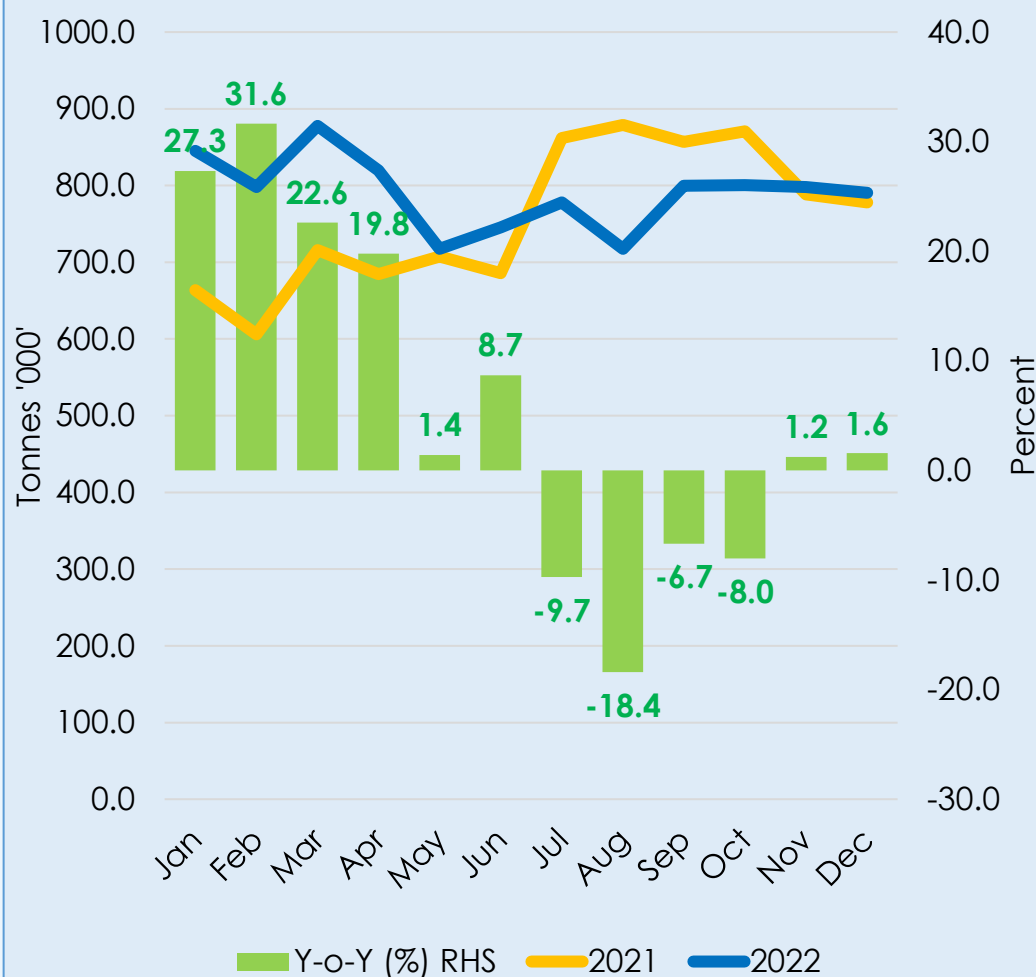
Sales Turnover, Cement Manufacturers



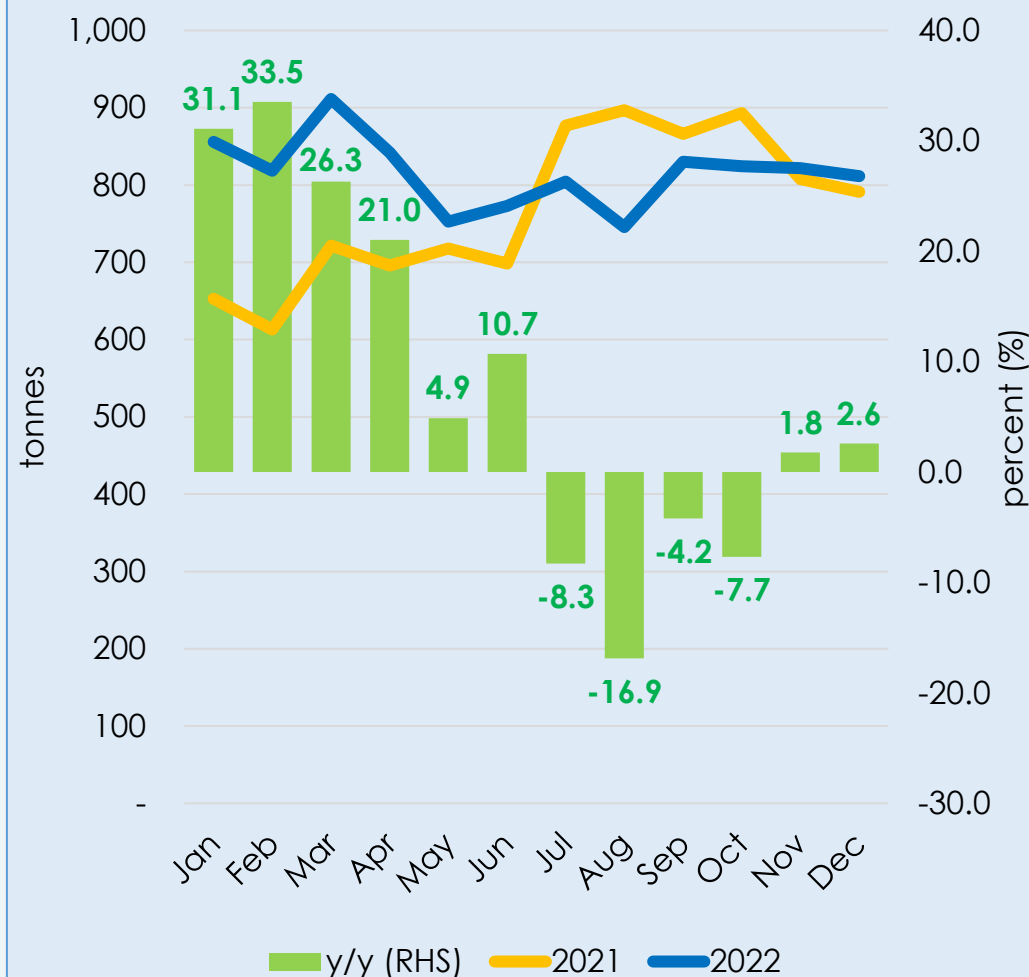
Source: CBK

Construction activity: Cement consumption and production has remained resilient

Cement Consumption



Cement Production

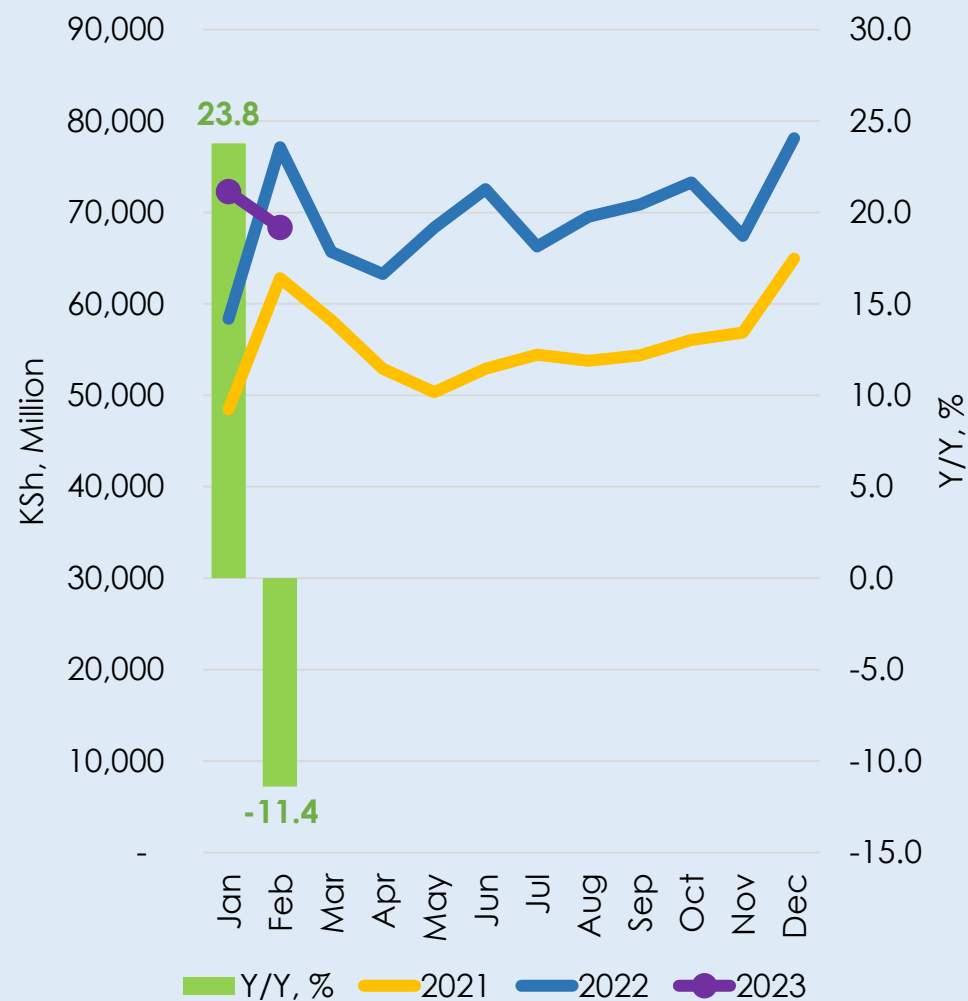


Source: Kenya National Bureau of Statistics

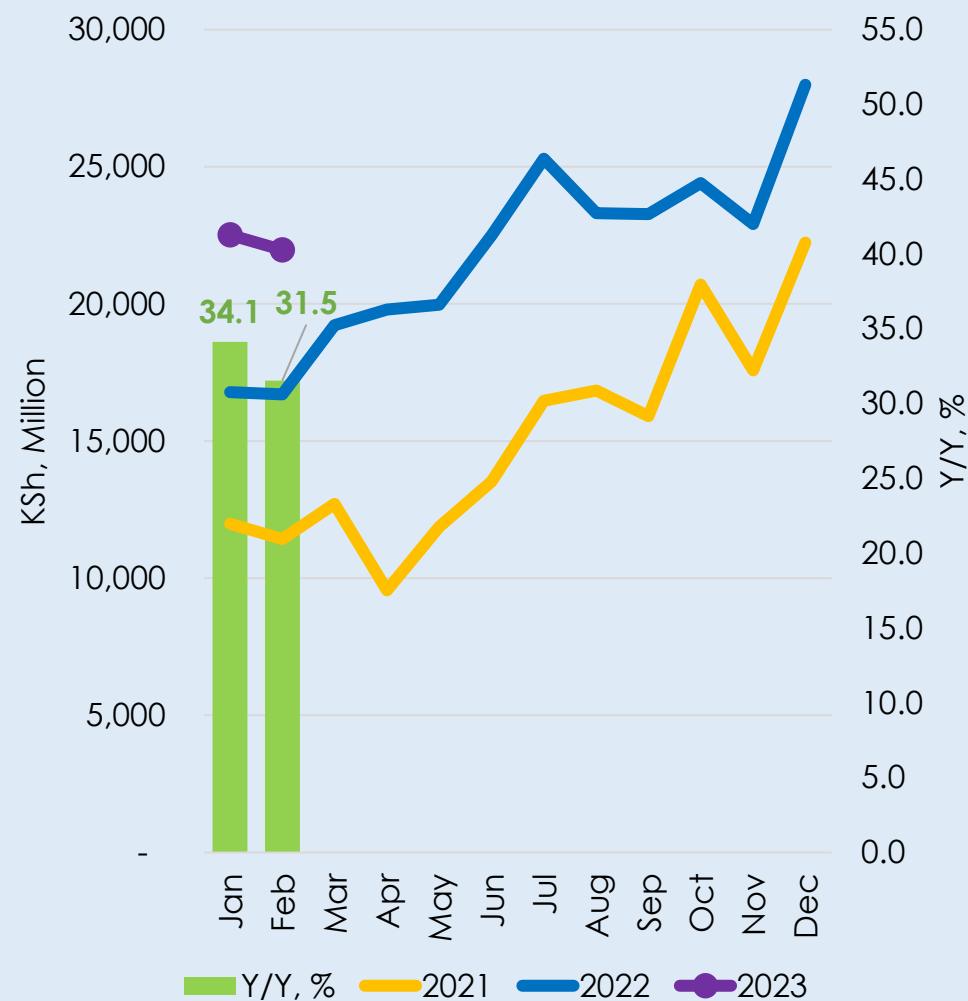
Sales Turnover:

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

Sales Turnover: Transport and storage



Sales Turnover: Accommodation and food services

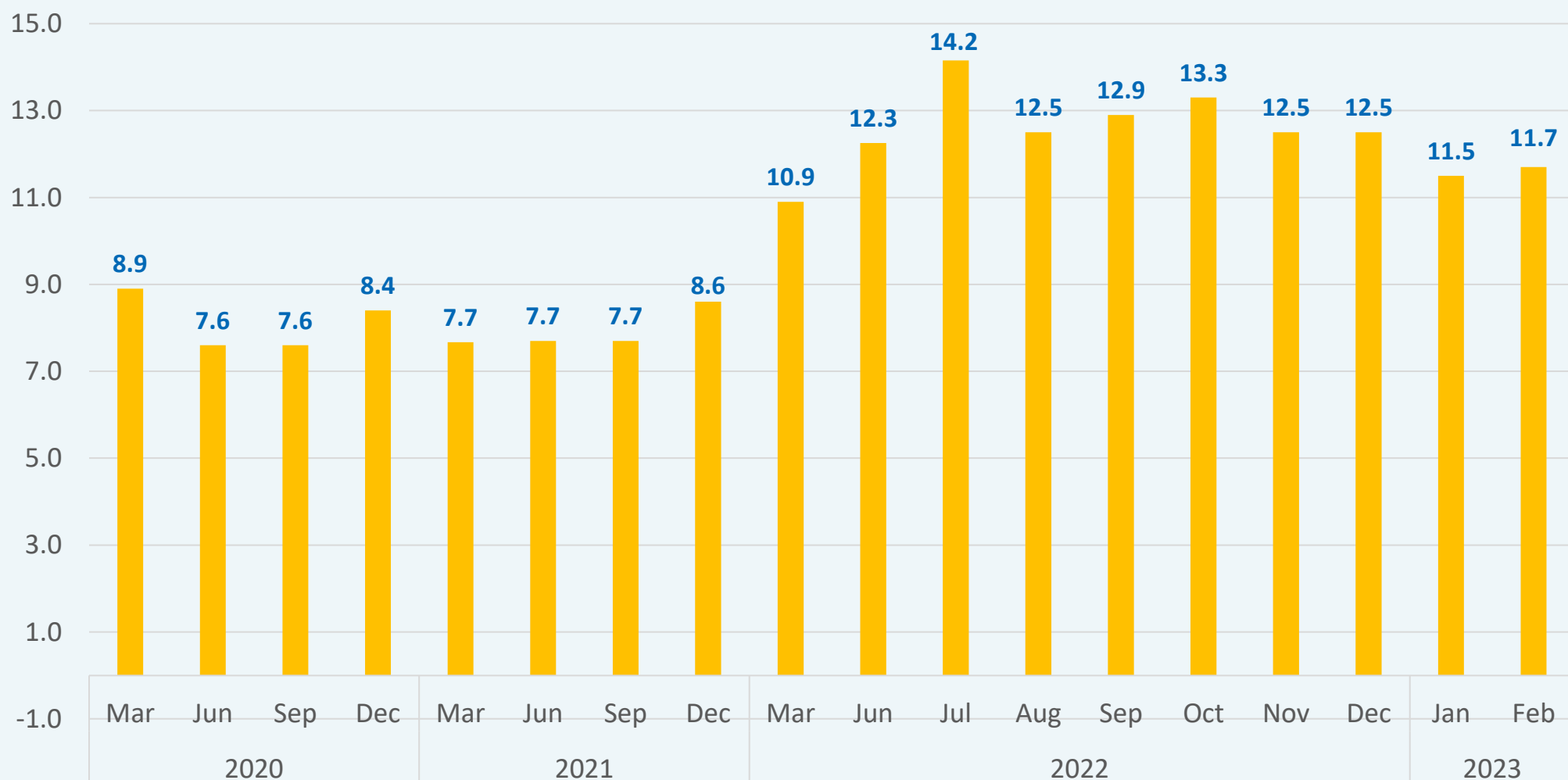


Source: CBK

Private sector credit:

Growth in credit to the private sector has remained resilient

12 Months growth in credit to private sector (percent)

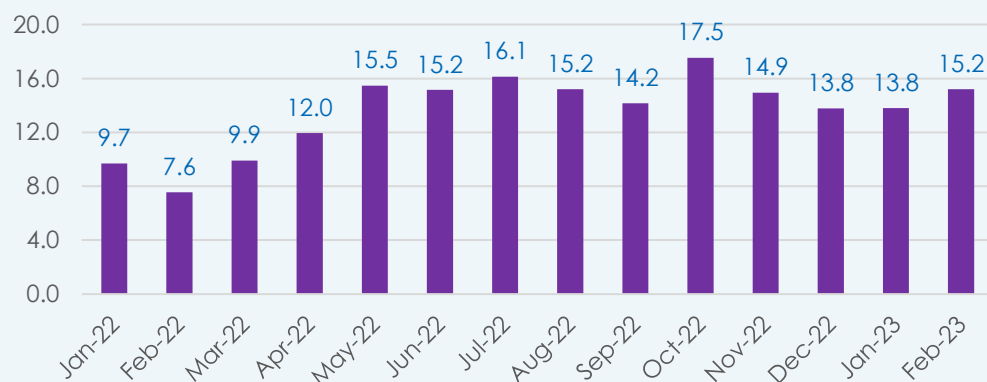


Source: CBK

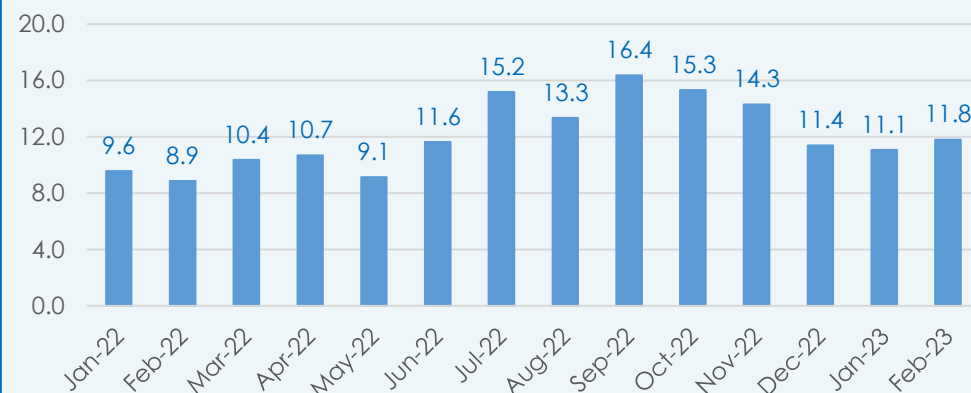
Private sector credit: Strong growth in credit to key sectors of the economy

12 Months growth in credit to private sector (percent)

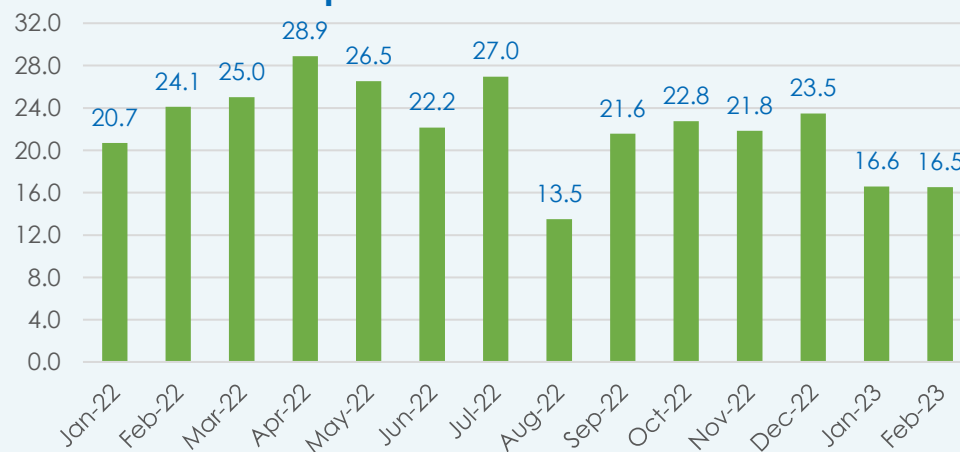
Manufacturing



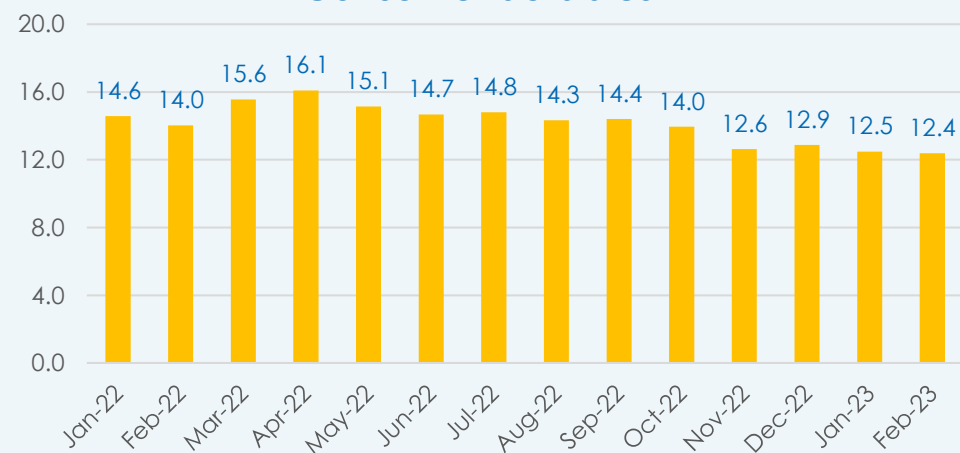
Trade



Transport & Communication



Consumer durables

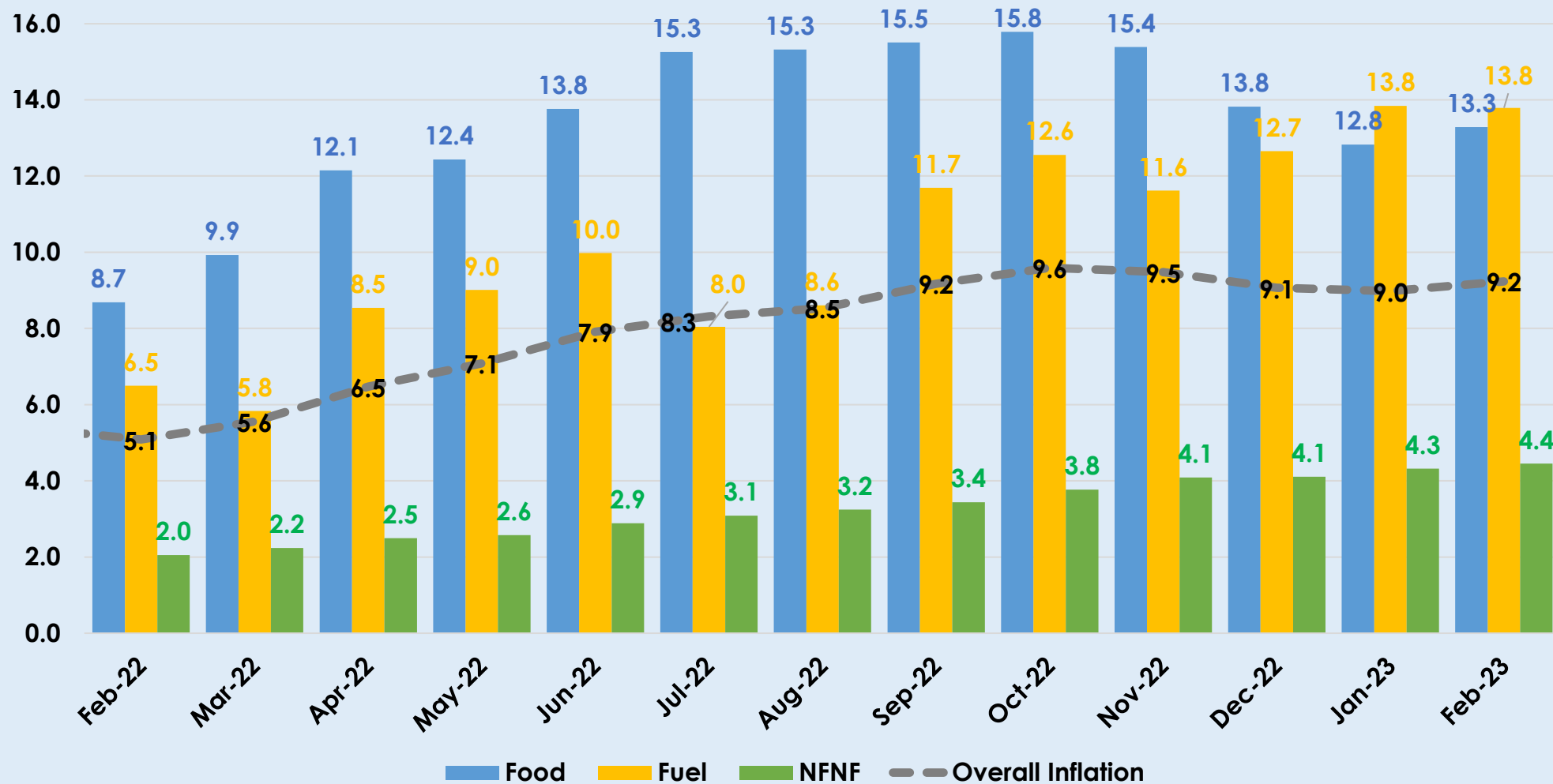


Source: CBK

Domestic inflation:

Overall inflation increased in February 2023, mainly driven by higher food prices

Inflation by broad category (y/y, percent)

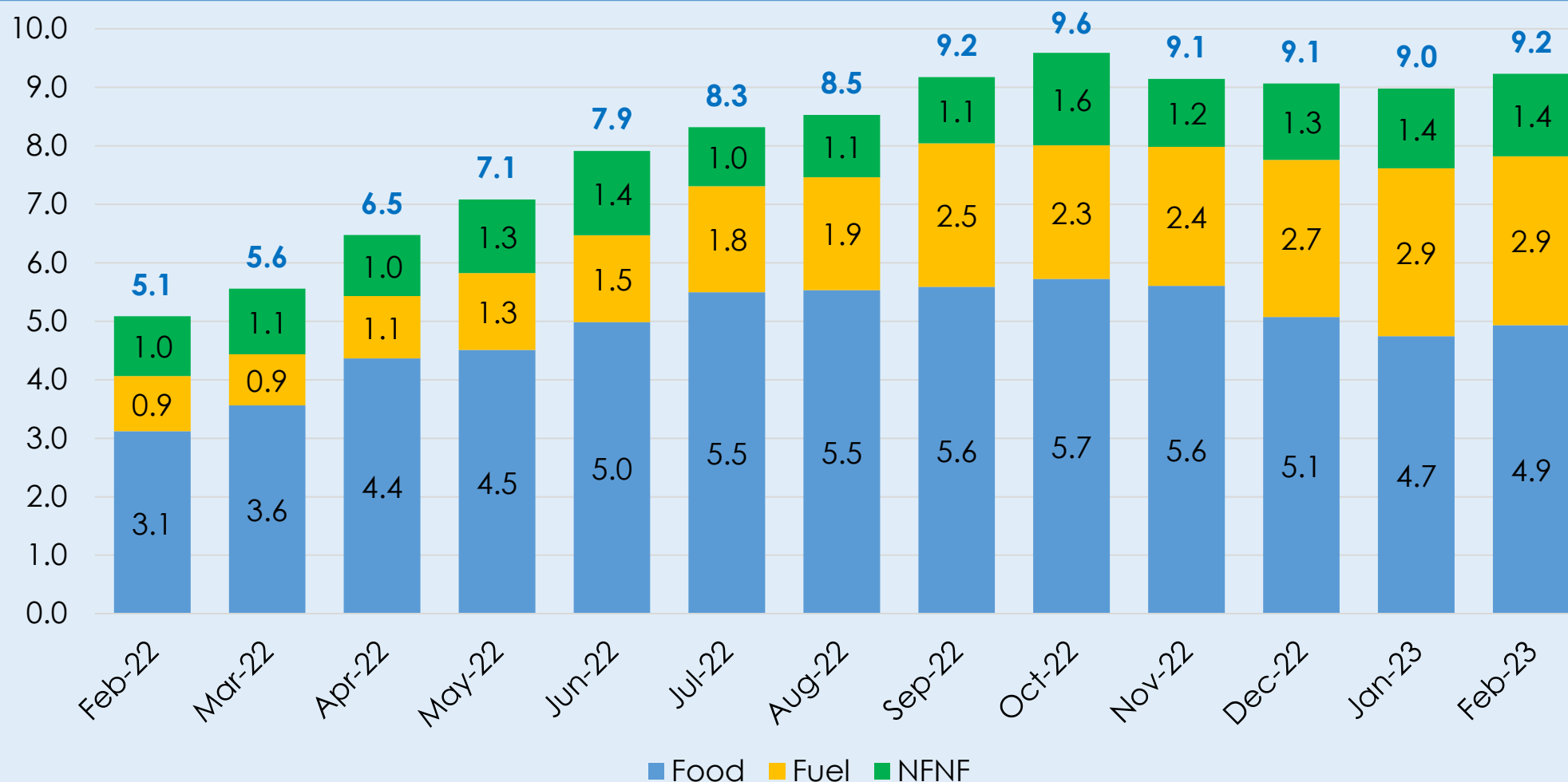


Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Domestic inflation:

Food prices remained the main drivers of overall inflation in February 2023

Contributions to Overall Inflation (percentage points)

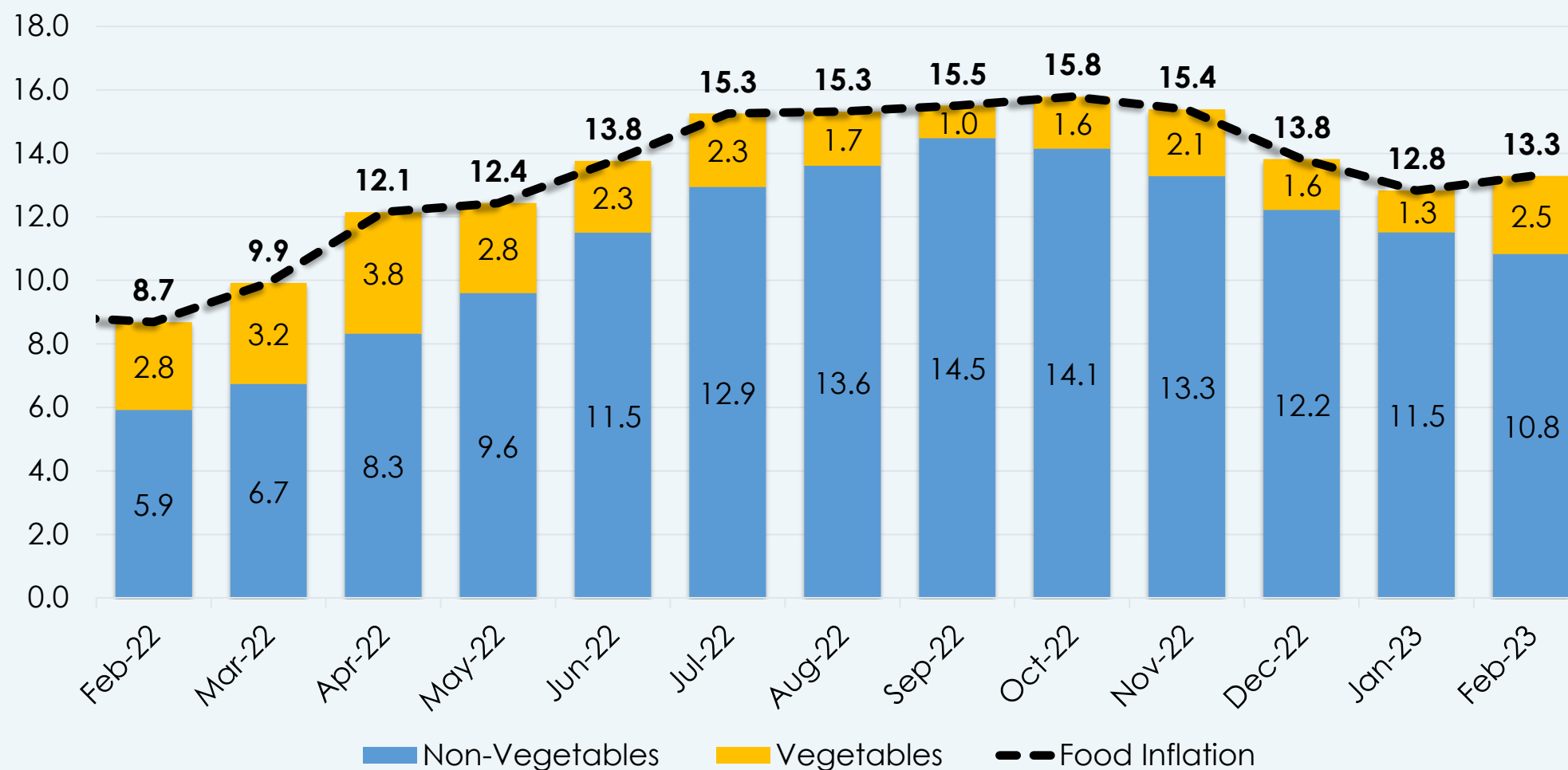


Source: KNBS and CBK

Main drivers of food inflation:

Food inflation increased in February 2023 mainly due to increases in prices of vegetables attributed to hot and dry weather conditions

Contributions to food inflation (percentage points)

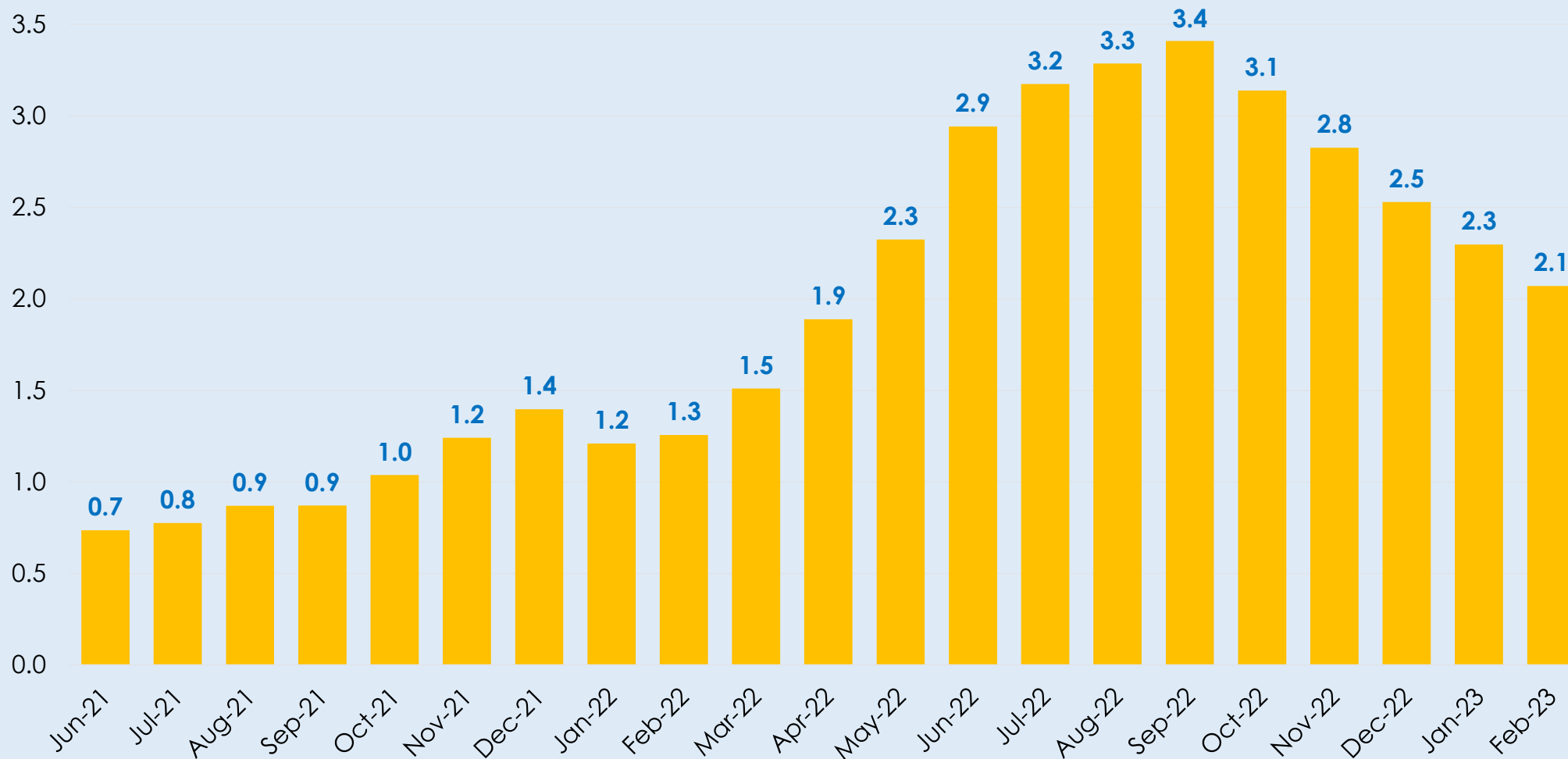


Source: KNBS and CBK

Main drivers of food inflation:

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

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



Source: KNBS and CBK

March 2023 CEOs Survey:

CEOs optimism about business activity and economic growth prospects tempered by various concerns

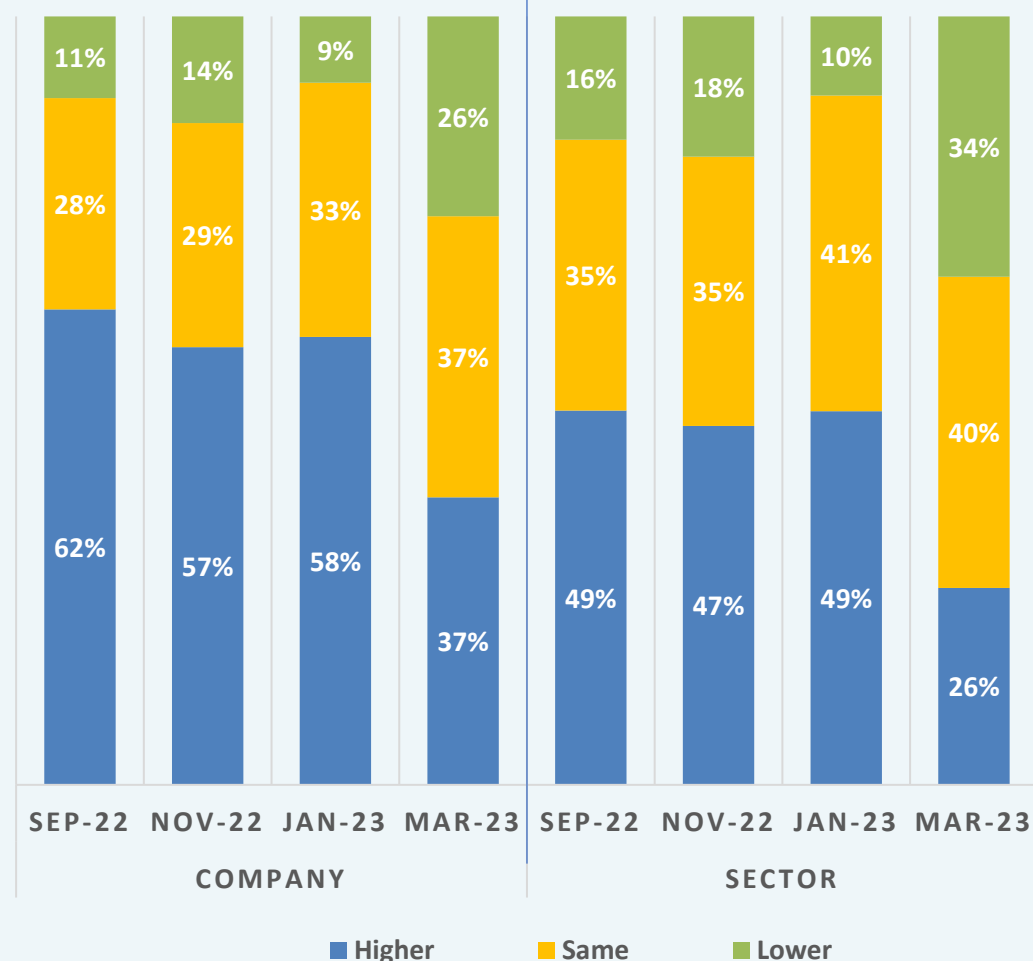
Respondents in the March 2023 CEOs Survey expressed concern over:

- Elevated inflation,
- weakening Shilling;
- prolonged drought;
- cost of credit;
- shortage of raw materials

However, some respondents remained optimistic due to:

- Firm-specific growth strategies
- Sector-specific opportunities: professional services, manufacturing, tourism, ICT.

COMPANY AND SECTORAL GROWTH PROSPECTS IN THE NEXT 12 MONTHS (PERCENT OF RESPONDENTS)

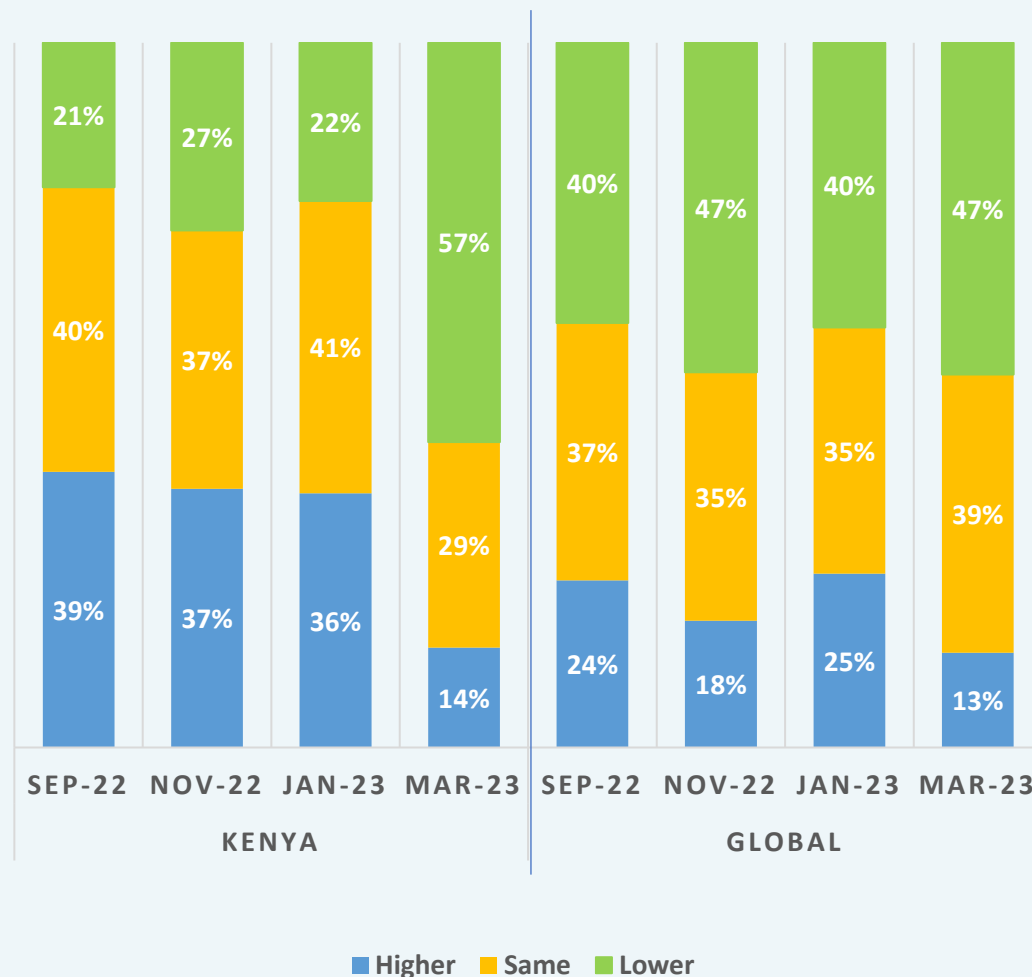


March 2023 CEOs Survey:

Optimism in Kenya's and global growth prospects over the next 12 months tempered by various concerns

- Respondents expressed concern regarding the Kenyan economy:
 - Inflation, weakening Shilling, drought
 - Low consumer spending
- On the global economy, respondents were concerned about:
 - Lingering war in Ukraine; interest rate hikes in advanced economies.
 - Effects of the collapse of two banks in the U.S.

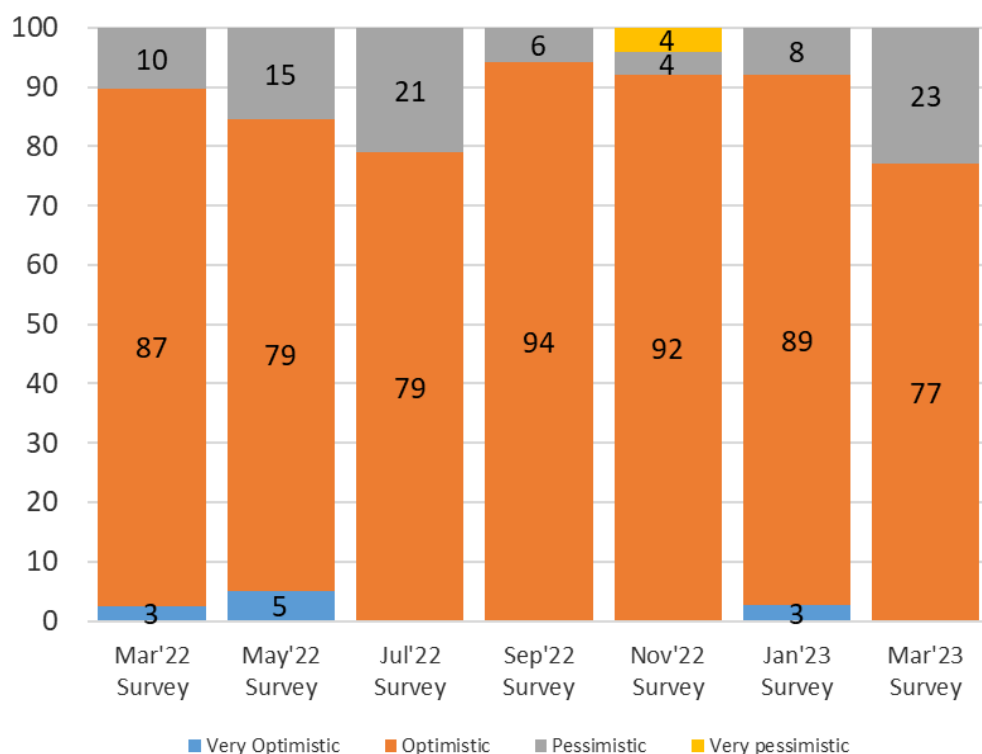
KENYA AND GLOBAL GROWTH PROSPECTS IN THE NEXT 12 MONTHS (PERCENT OF RESPONDENTS)



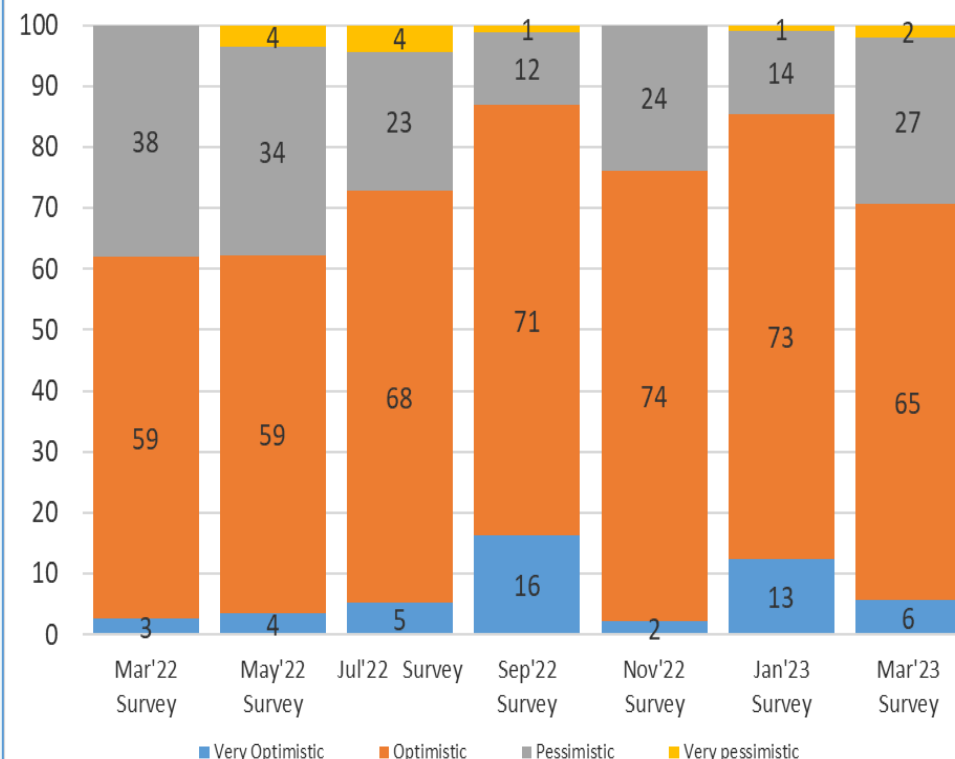
March 2023 Market Perceptions Survey:

Optimism in Kenya's economic prospects in the next 12 months tempered by various concerns

Banks (percent of respondents)



Non-Bank private firms (percent of respondents)

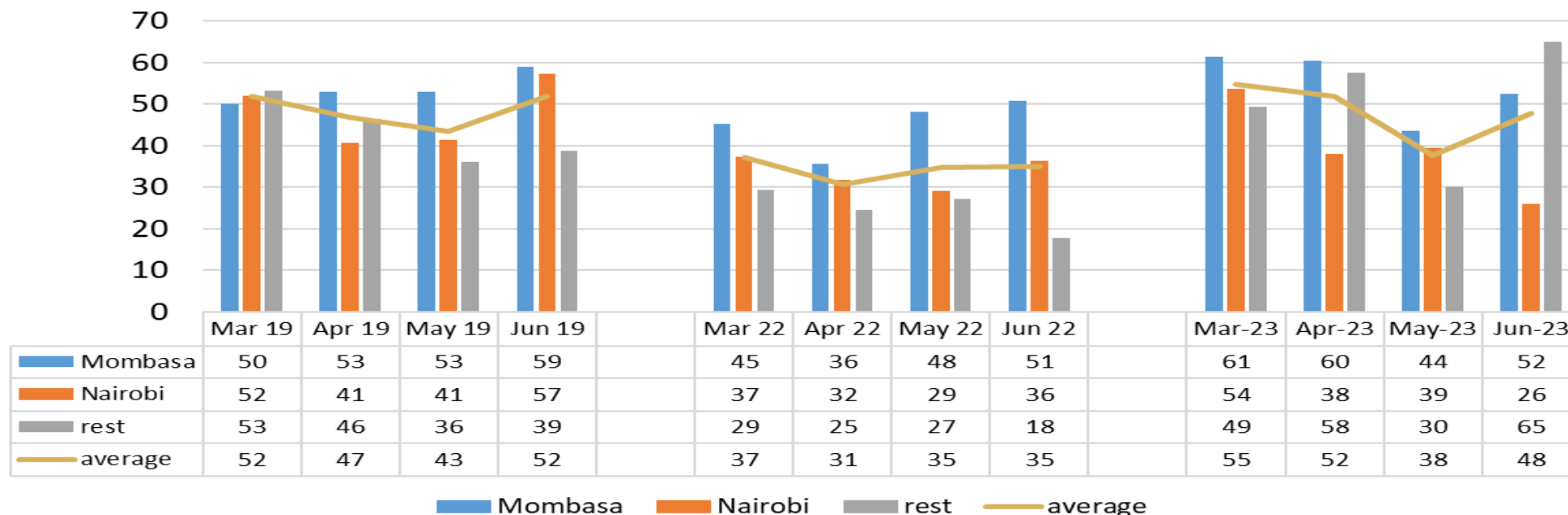


- Respondents were concerned about:** high cost of living, unpredictable weather conditions, and weakening of local currency against the U.S. Dollar.
- Some respondents remained optimistic due to:** measures put in place by government to improve agricultural production including subsidizing cost of fertilizers, support for businesses through Hustler Fund, resilience of the private sector, and support from service sectors including tourism.

March 2023 Market Perceptions Survey:

Forward hotel bookings have recovered to pre-COVID 19 levels

Forward hotel bookings (percent of total bed capacity)

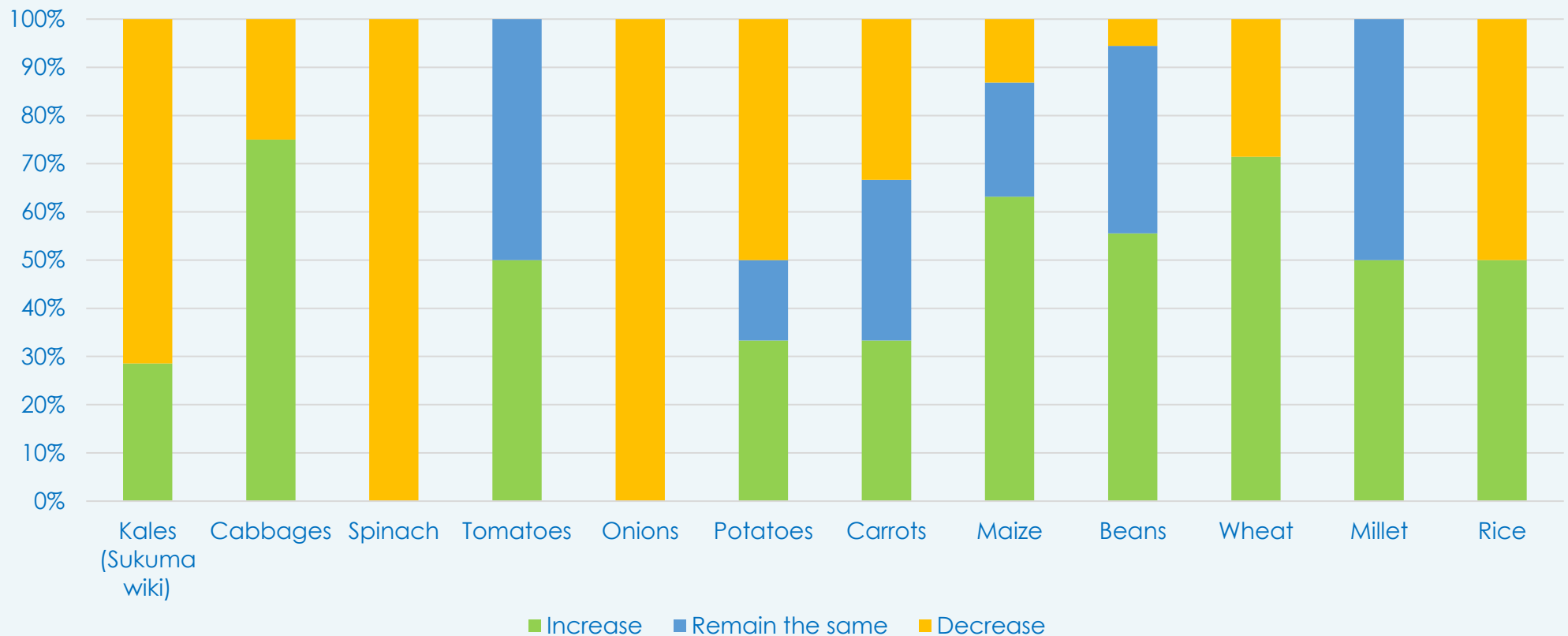


- Forward bookings are supported by both foreign and domestic markets.
- Most bookings by foreigners are from local tour operators and corporates as this is part of the high season which is expected to end after March.
- The international leisure travel market especially from Europe has not yet fully recovered, hence fewer long-term bookings.
- Bookings for conferences and workshops are expected to peak in June as the financial year ends.

March 2023 Agriculture Sector Survey:

Supply of most non-vegetable food crops expected to increase or remain unchanged

Expected output in next harvest relative to previous harvest (percent of respondents)

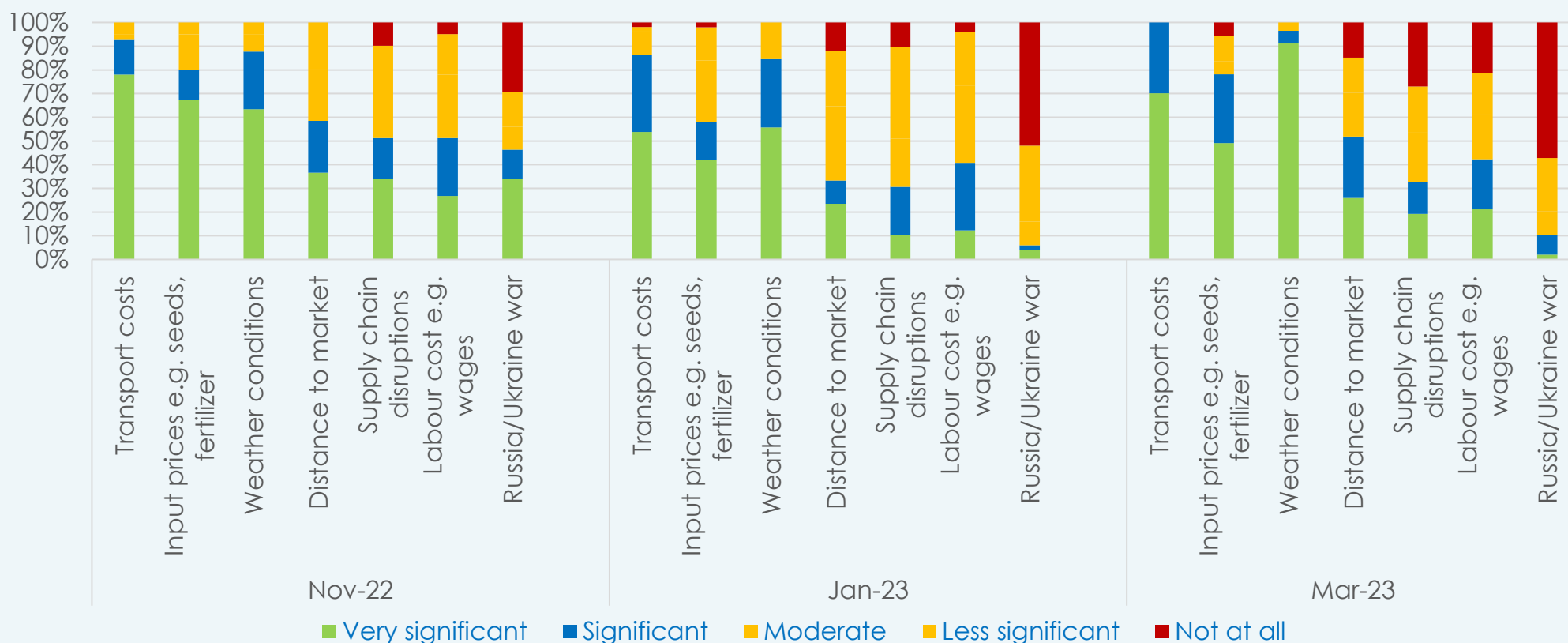


- Majority of sampled farmers expect the supply of most non vegetable food items to either increase or remain unchanged on account of the upcoming long rain season.
- On the other hand, the expectations of reduced supply of some vegetables could be a temporary phenomenon attributed to the Survey timing which was before the onset of the rains.

March 2023 Agriculture Sector Survey:

Input costs, unpredictable weather conditions, and transport costs are the main factors impacting retail prices

Factors affecting retail prices (percent of respondents)

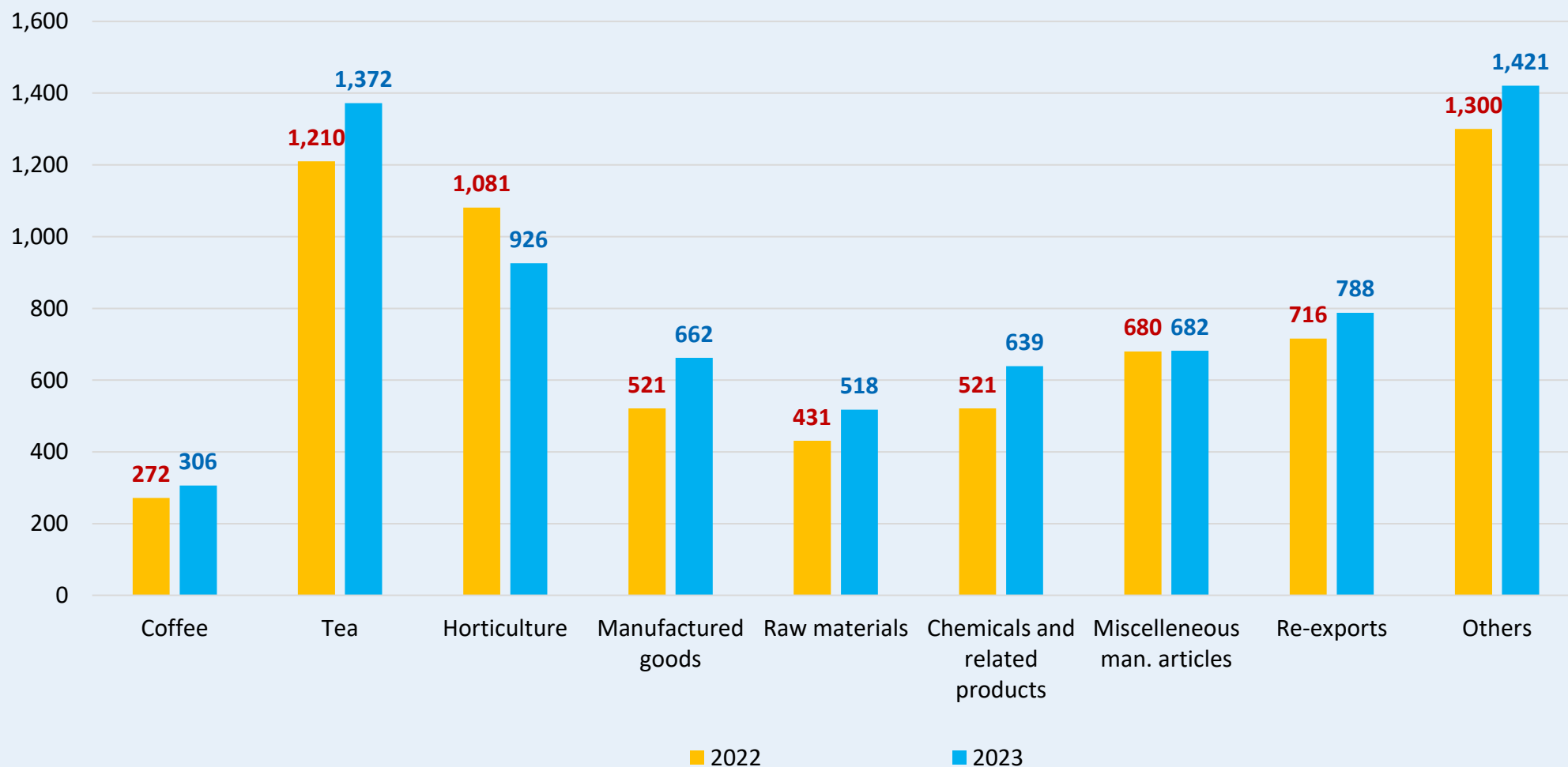


- Weather conditions had the highest impact on retail prices in March 2023, following the prolonged dry weather conditions.
- Transport costs and input prices also continue to impact retail prices since November 2022 although this eased as fuel prices dropped and supply chains improved
- The impact of the Russia/Ukraine war was subdued, possibly already captured through transport and inputs costs.

Balance of payments:

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

12 months cumulative exports to February (USD Million)

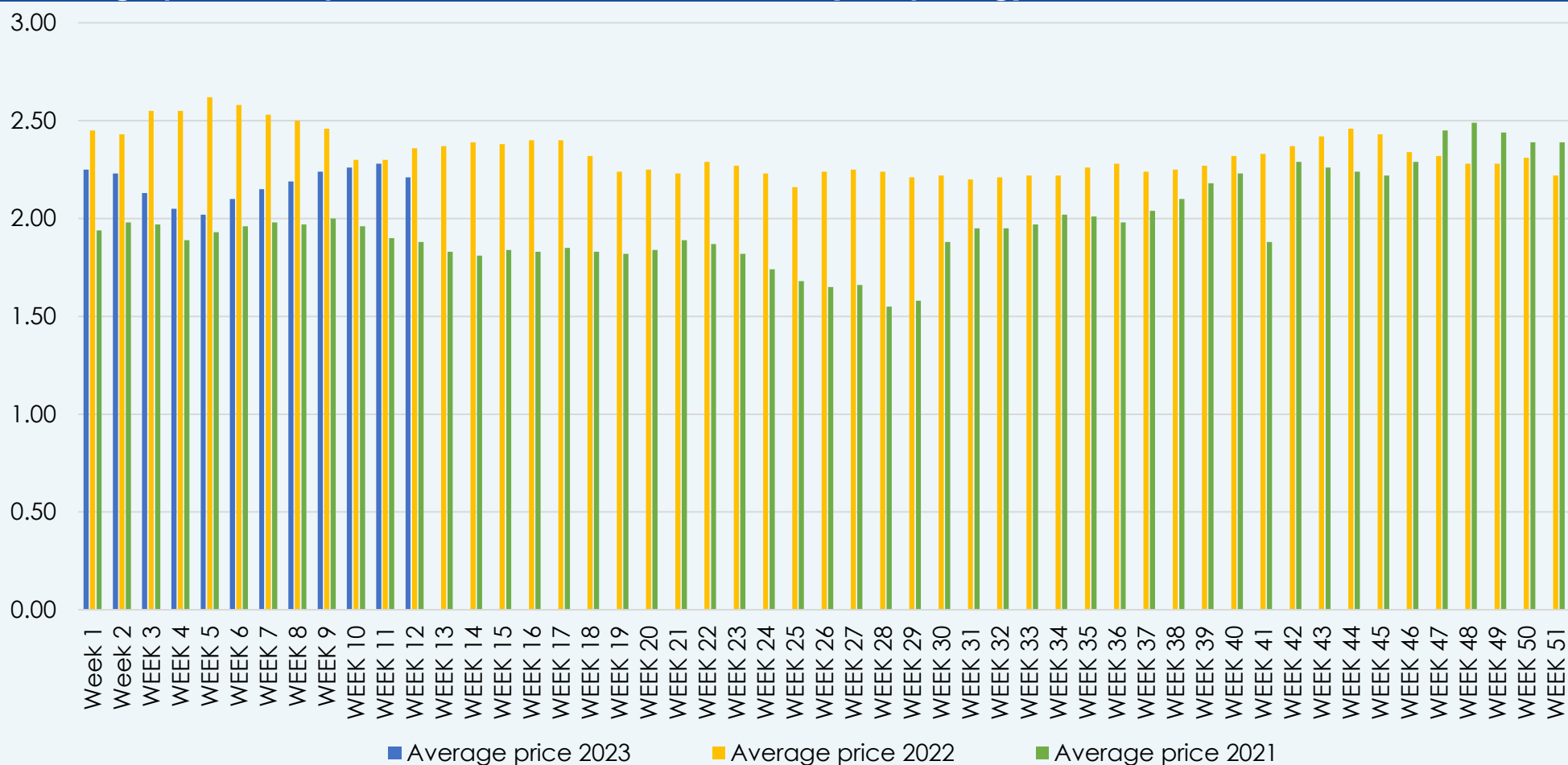


Source: CBK, KRA

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)

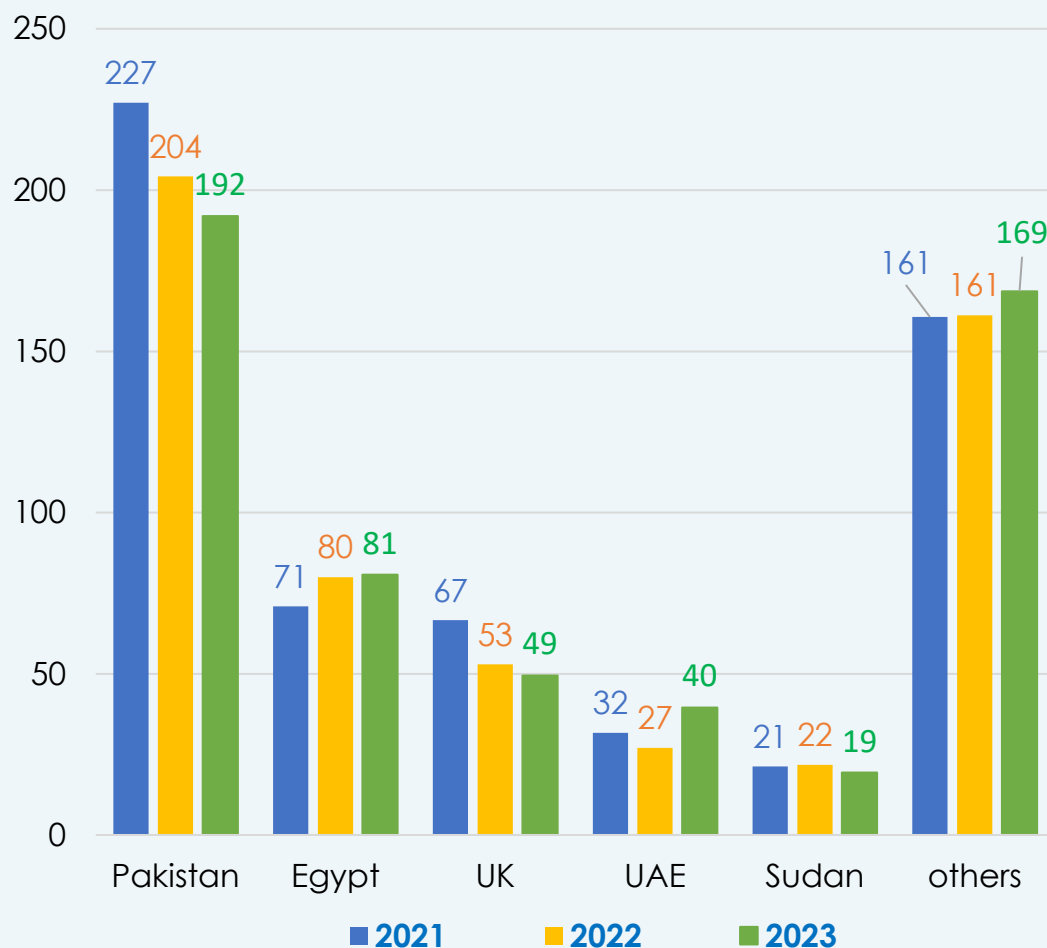


Source: Mombasa Tea Auction

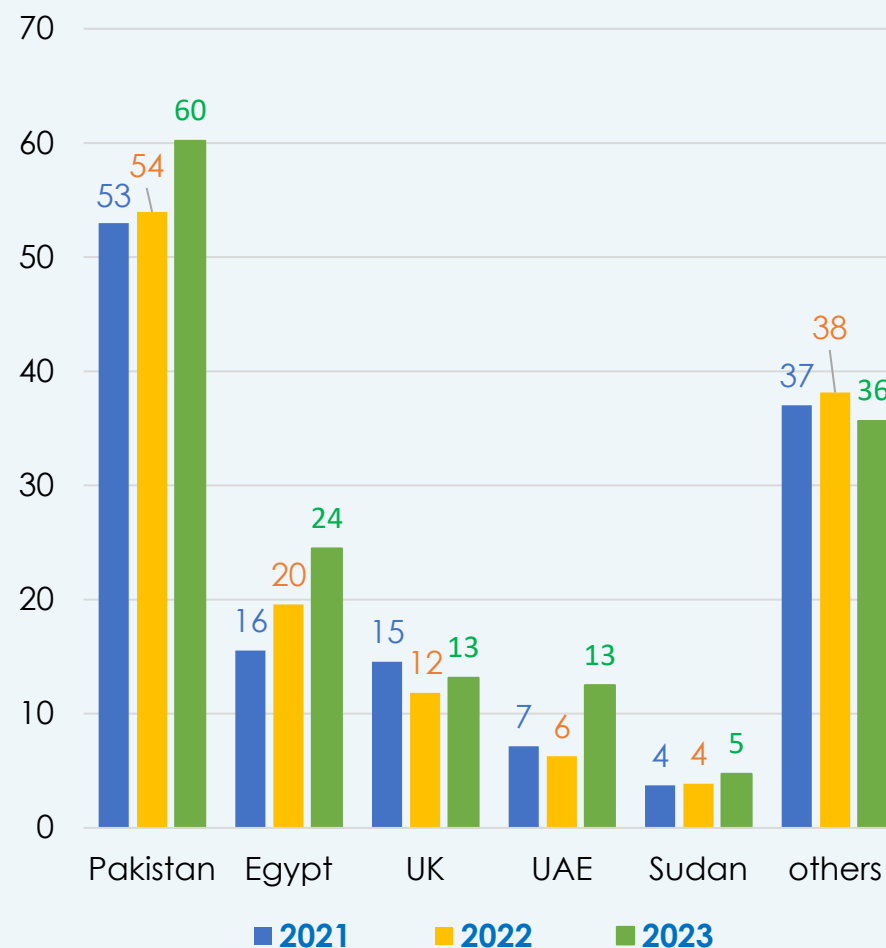
Balance of payments:

Pakistan, Egypt and UK remain the key destinations for Kenya's tea exports

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



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

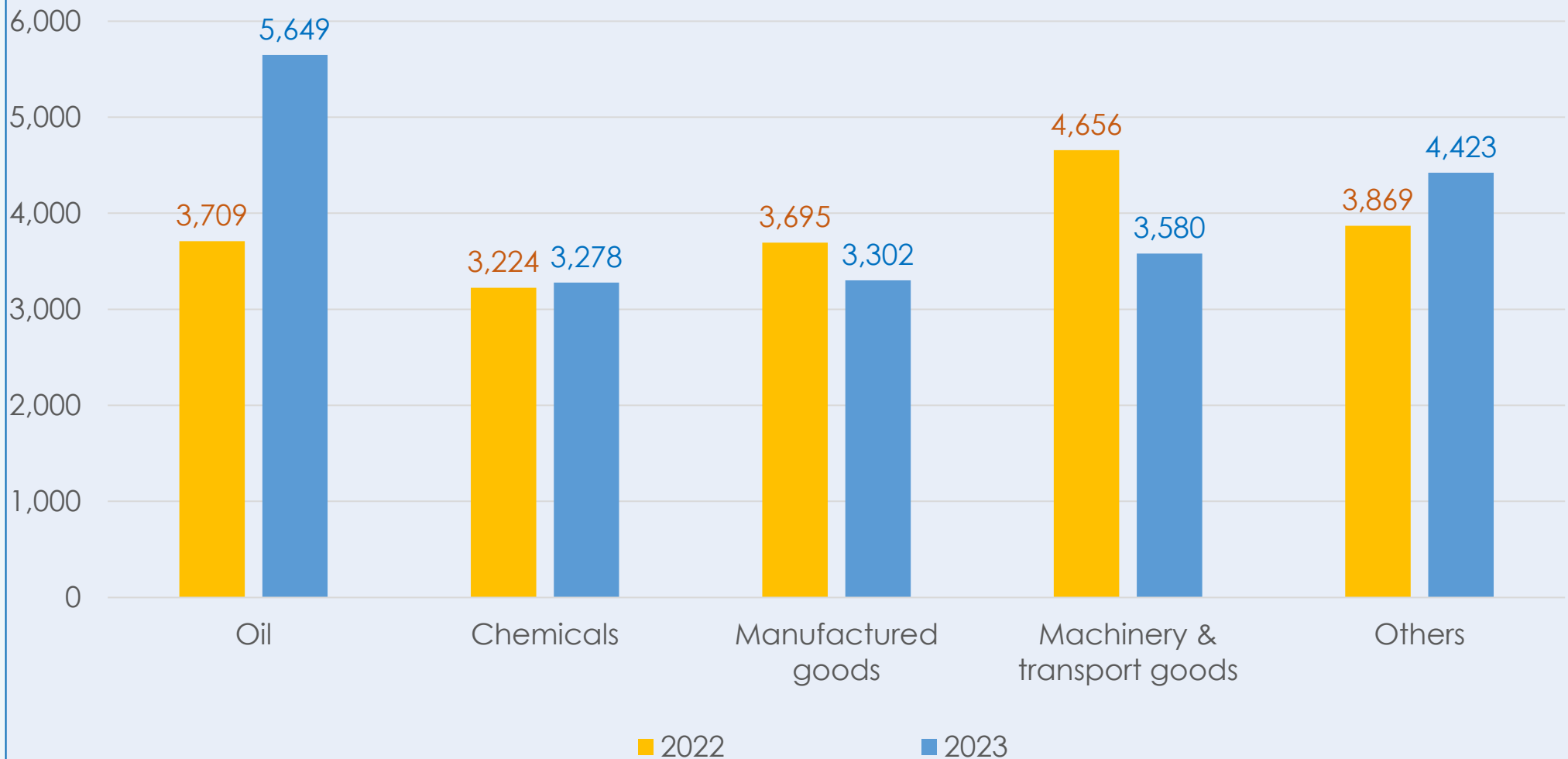


Source: Tea Board of Kenya and KRA

Balance of payments:

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

12 months cumulative imports to February (USD Million)

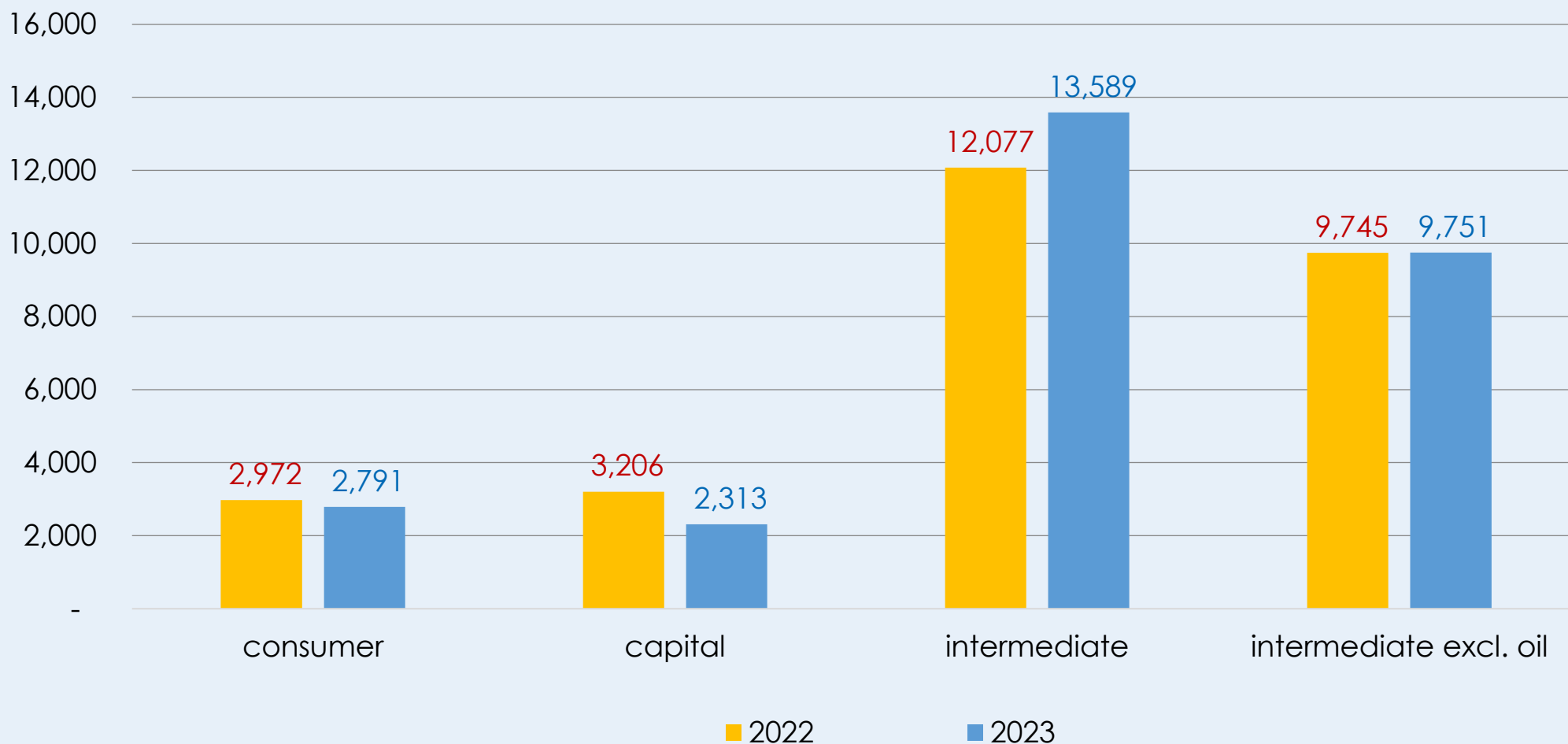


Source: CBK, KRA

Balance of payments:

Imports of goods increased mainly due to oil imports

12 months cumulative imports to February (USD Million)

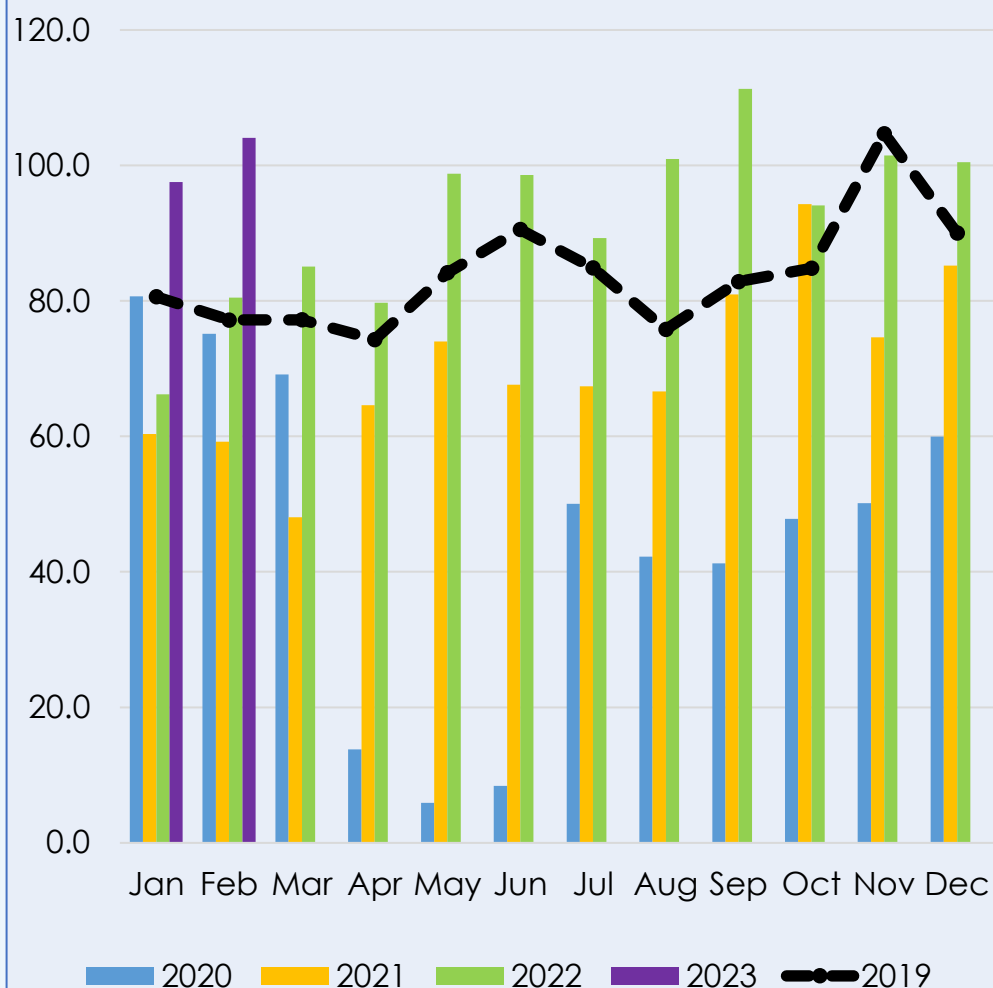


Source: CBK, KRA

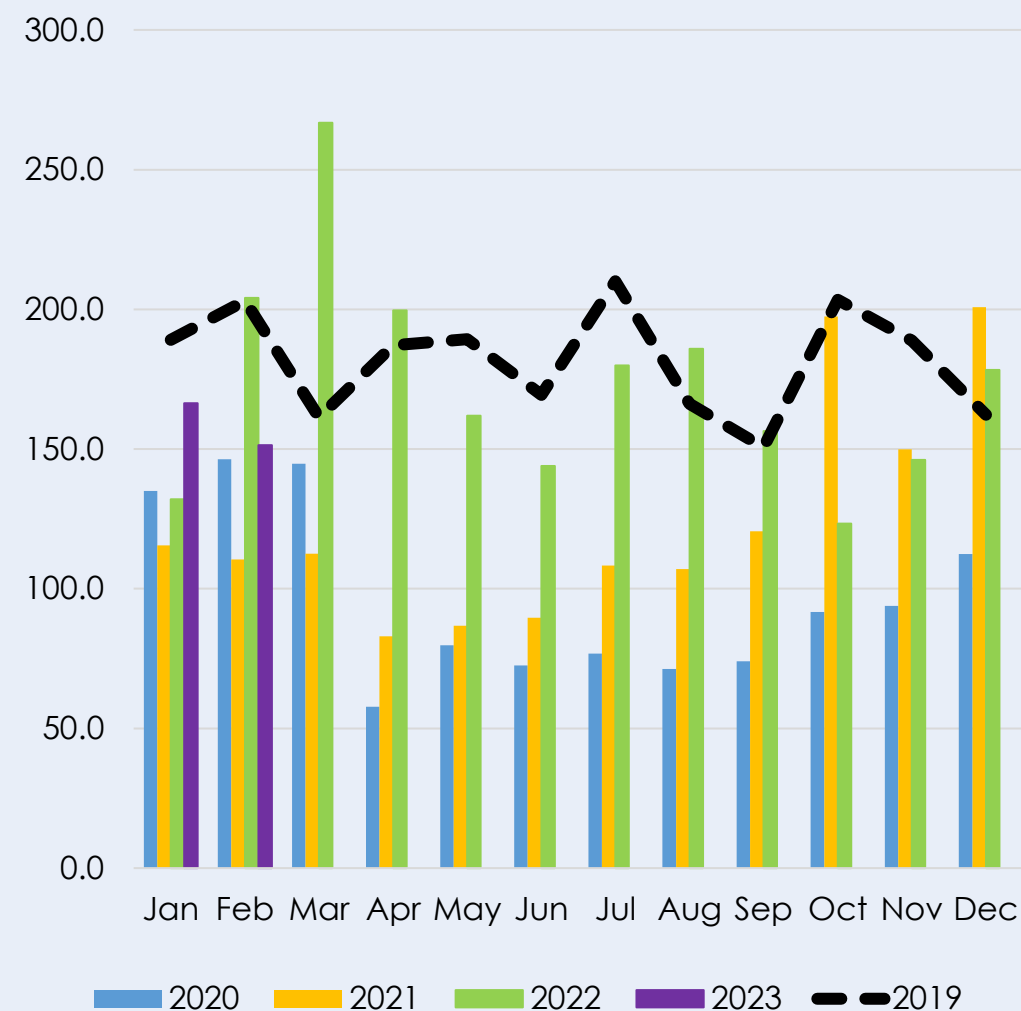
Services exports:

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

Travel receipts (USD Million)



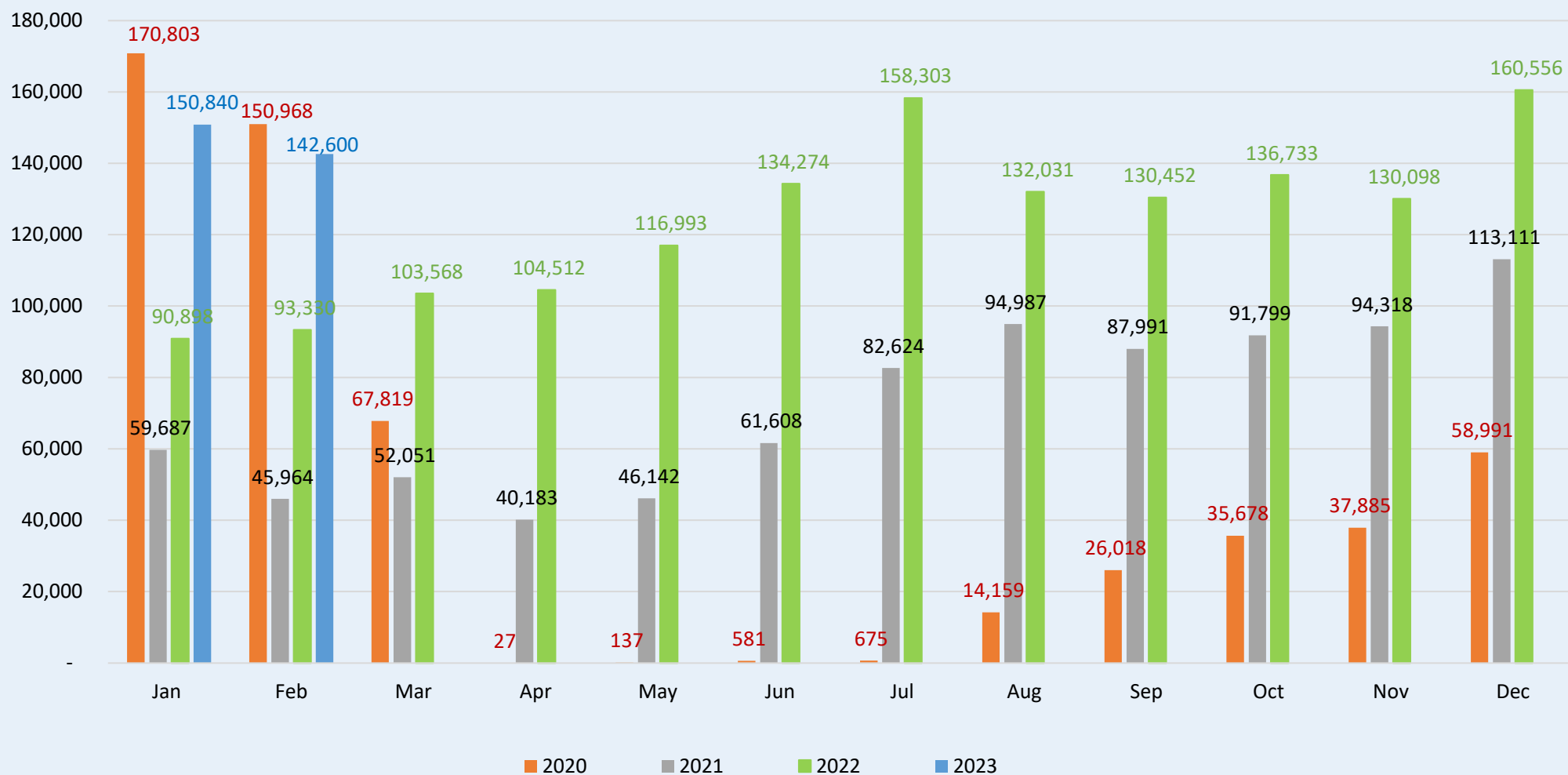
Transport receipts (USD Million)



Source: CBK

Tourism sector: Tourist arrivals have remained strong

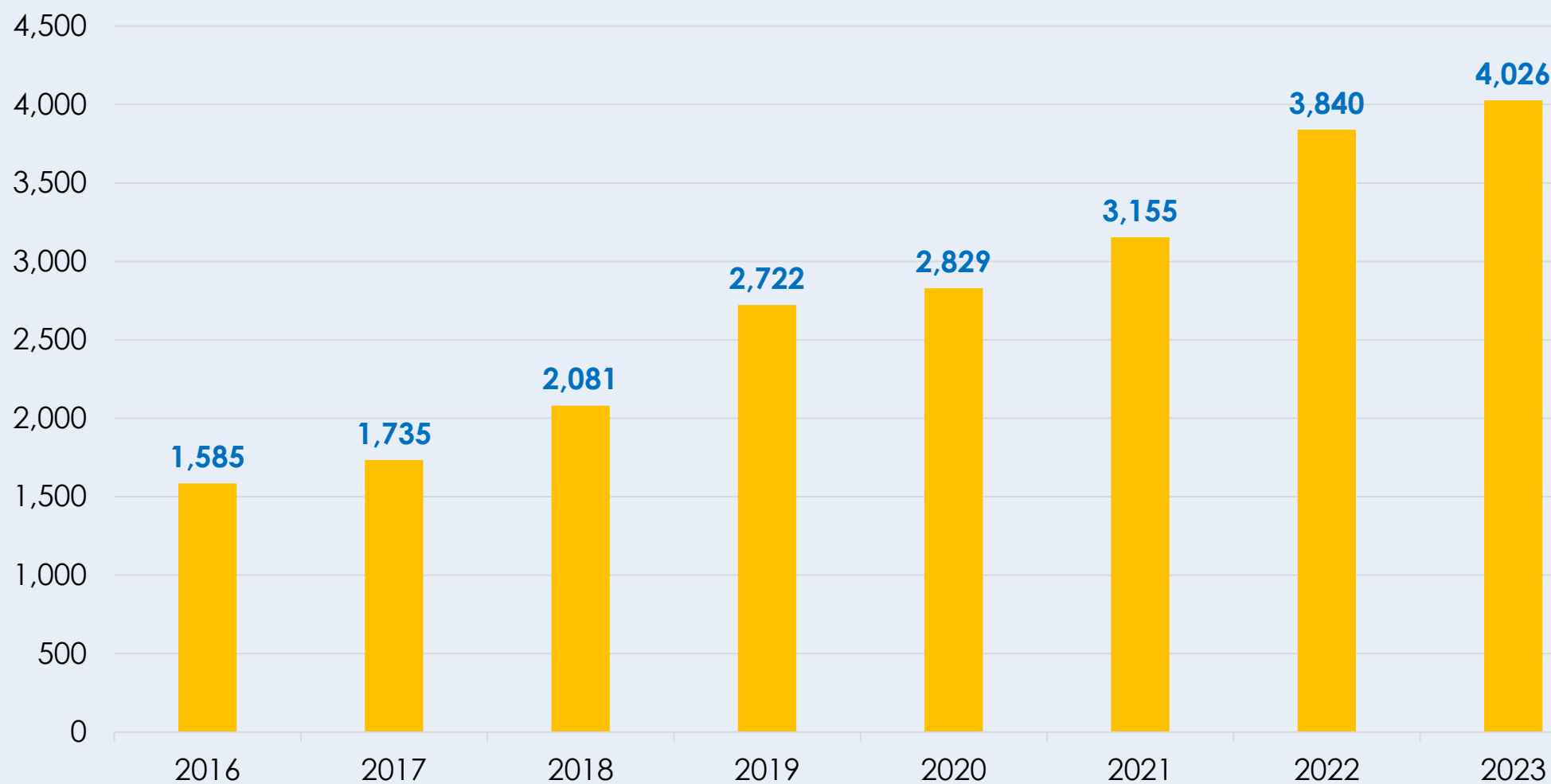
Monthly tourist arrivals



Source: Kenya Tourism Board

Diaspora remittances: Remittances inflows have remained strong

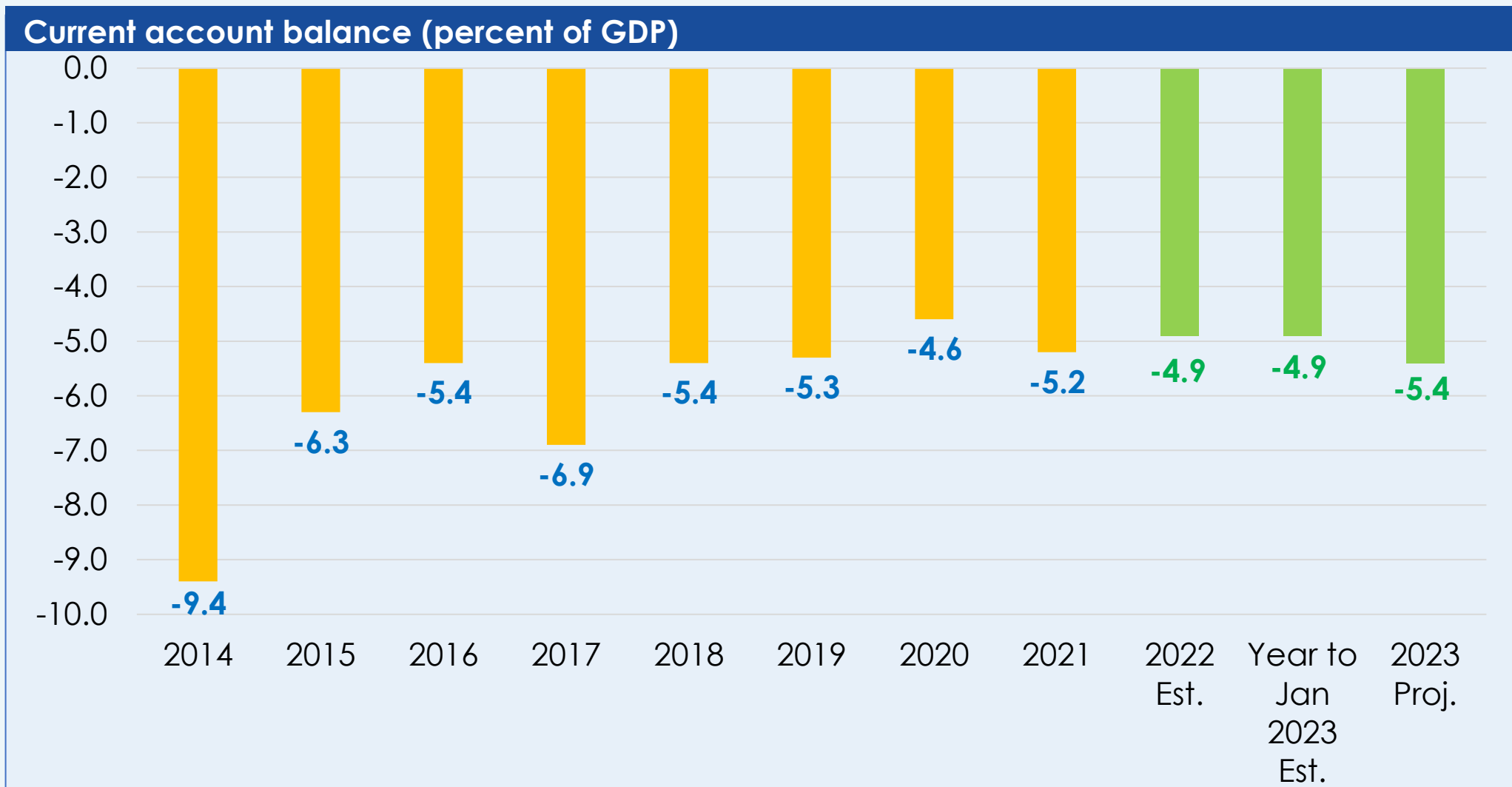
12 months cumulative remittances inflows to February (USD, Million)



Source: CBK

Current account balance:

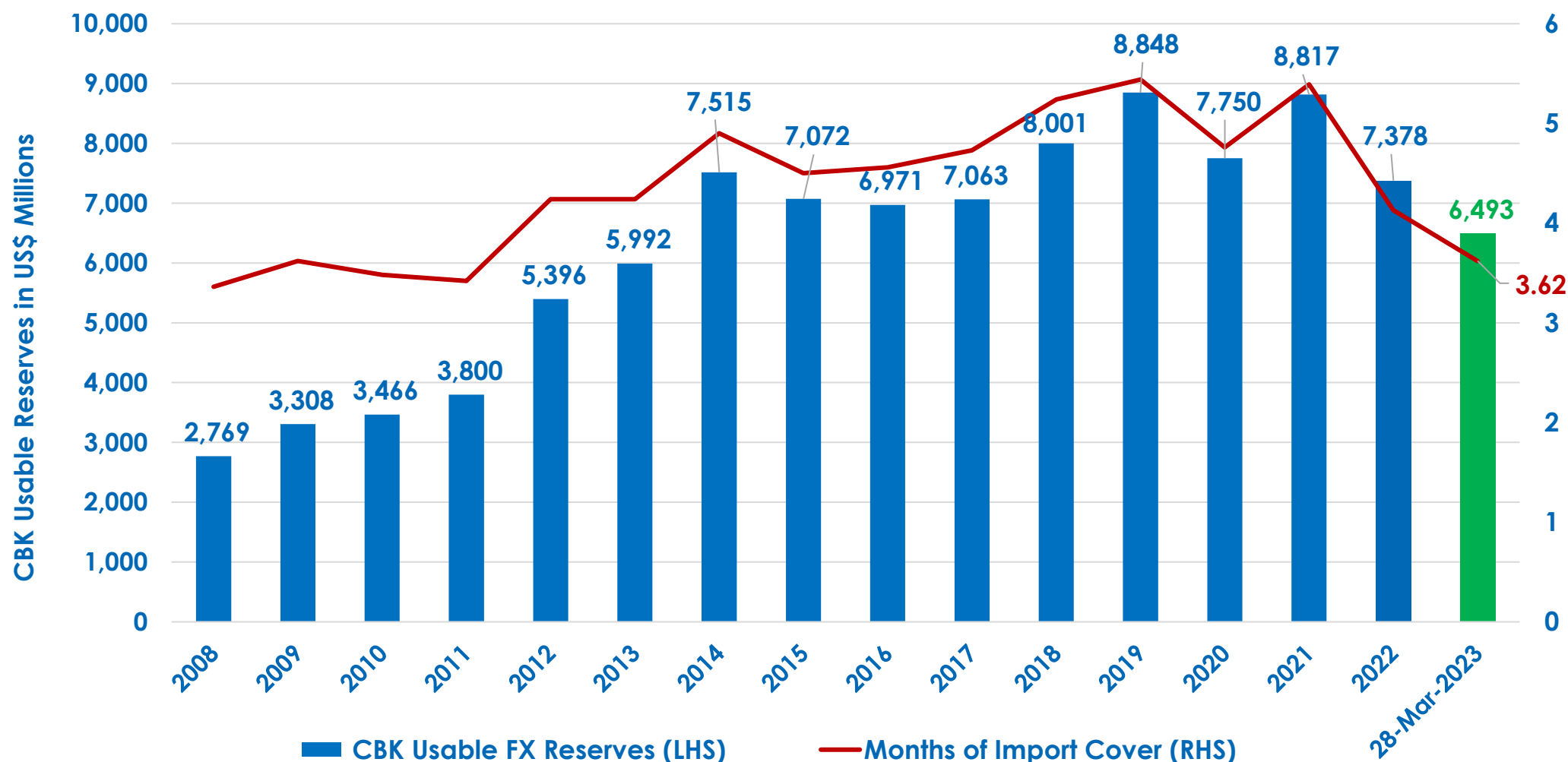
The current account balance in 2023 is expected to be supported by lower international oil prices, resilient remittances and strong exports growth



Source: CBK

CBK usable foreign exchange reserves: Foreign exchange reserves remain adequate

CBK usable foreign exchange reserves (end period)

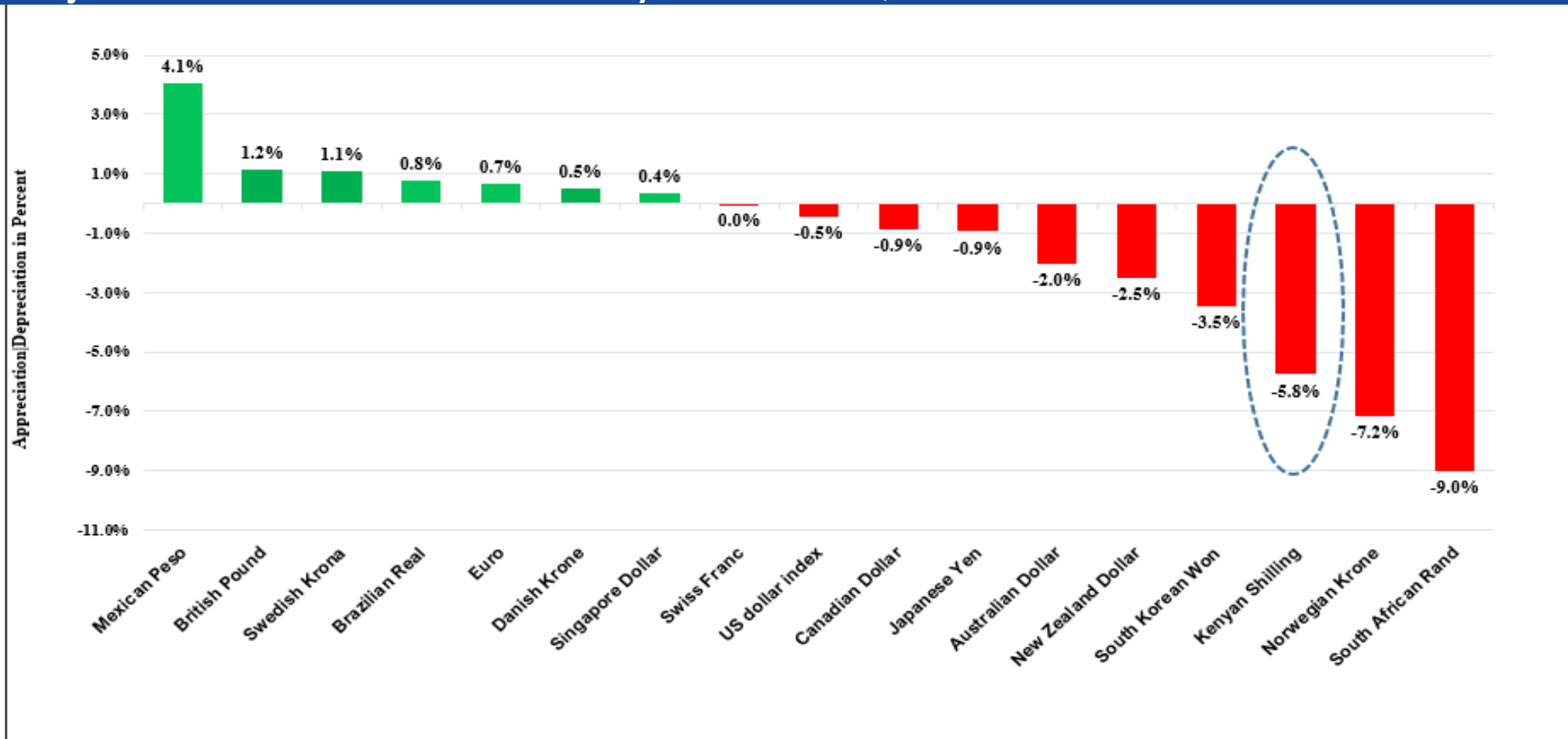


Source: CBK as of March 28, 2023

Exchange rates:

Most developed and emerging market currencies have strengthened against the U.S. dollar so far in 2023, on a weaker dollar index

Major currencies vs. U.S. Dollar: January 1 to March 24, 2023

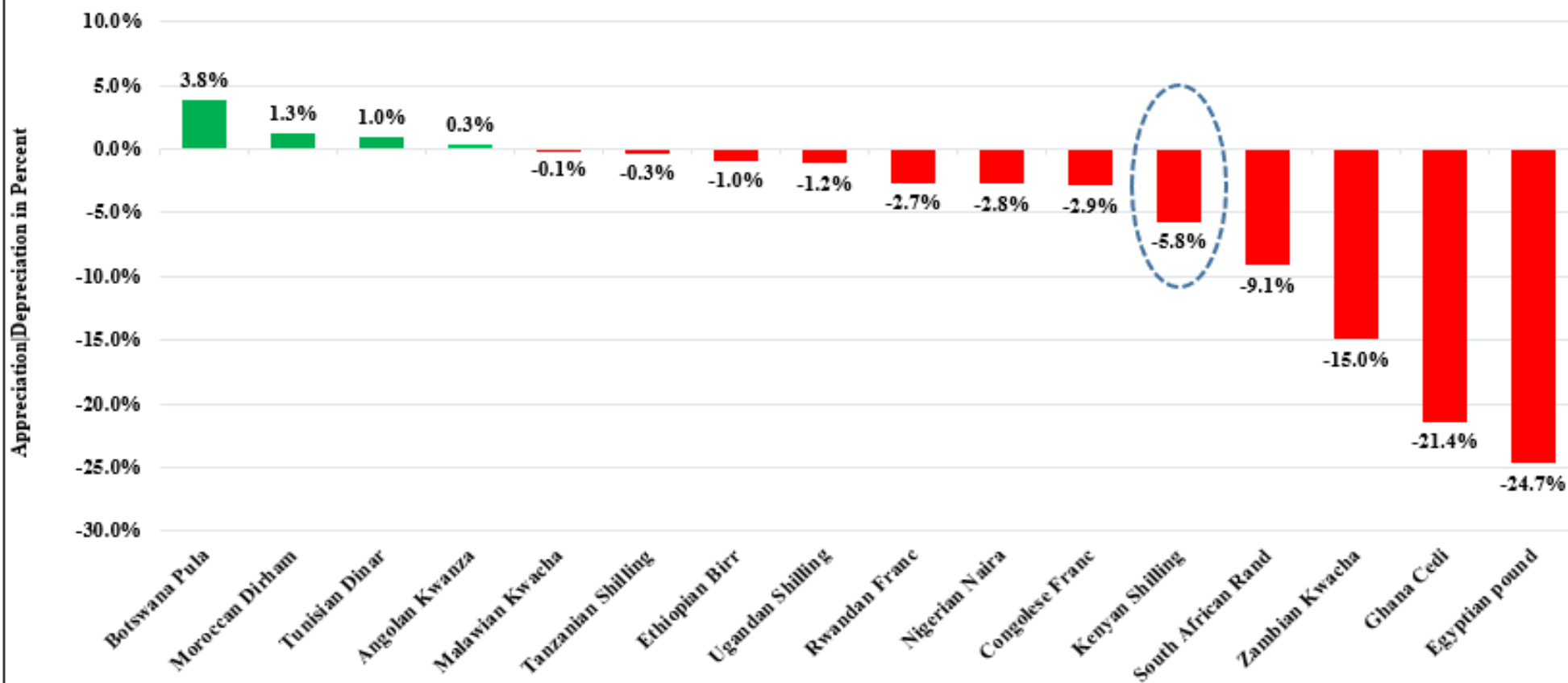


Source: Refinitiv, as at 24th March, 2023

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 March 24, 2023

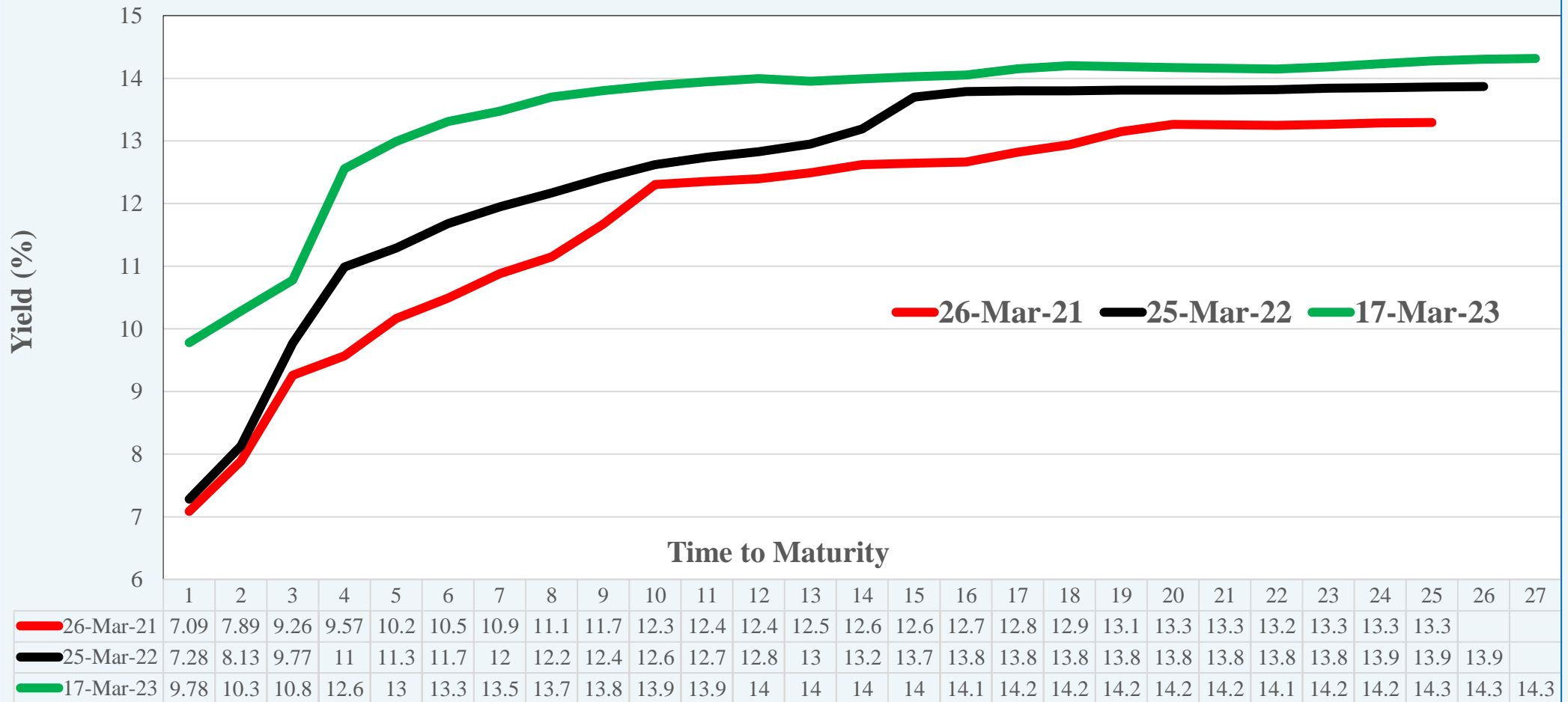


Source: Refinitiv, as at 24th March, 2023

Government securities yield curve:

A stable and well-priced yield curve continues to hold

Kenya Government securities yield curve (percent)

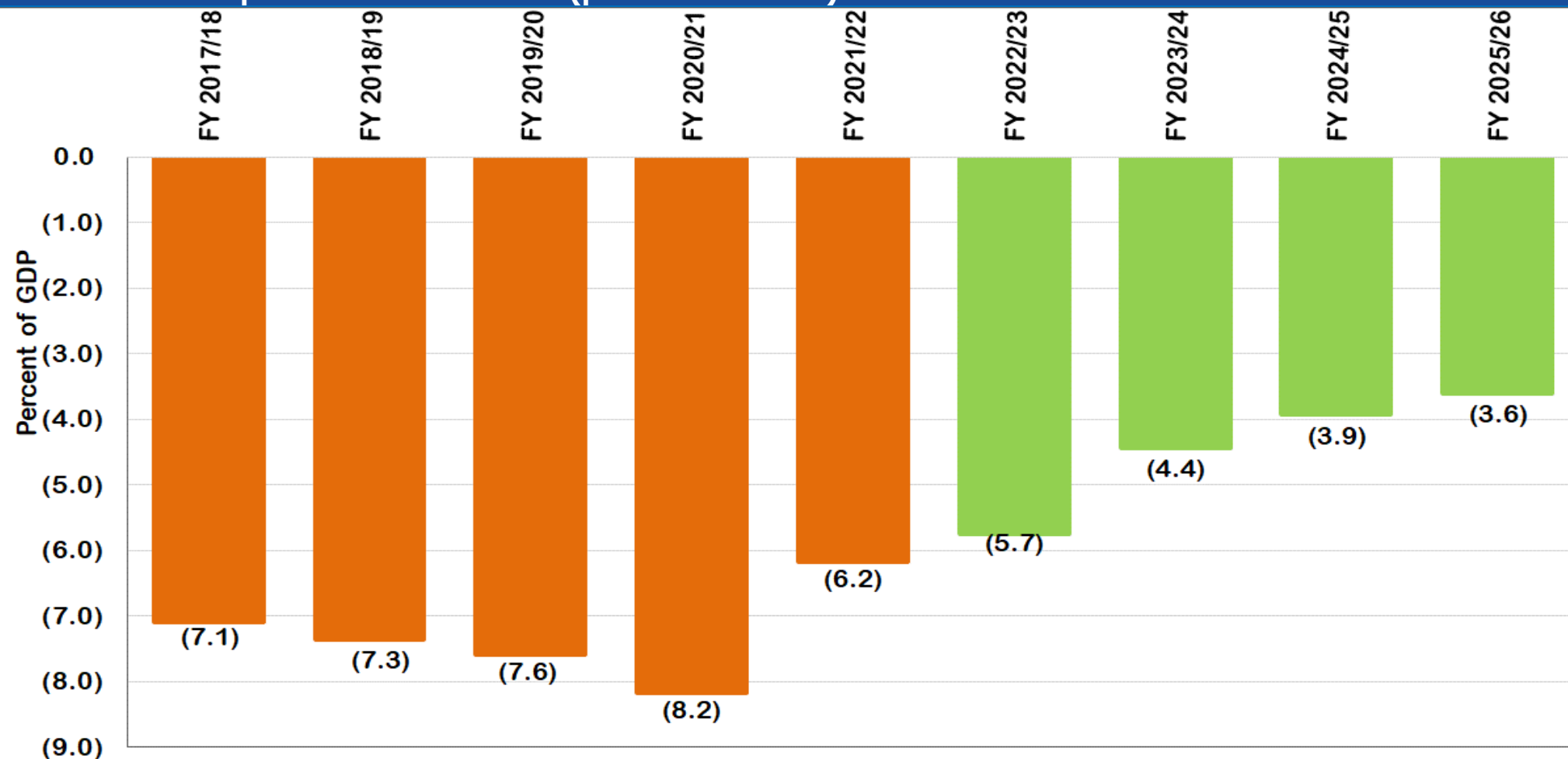


Source: CBK

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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