



Central Bank of Kenya

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FOR THE CHIEF:	Maunah Wanjiku	

Monetary Policy Statement

June 2022





In accordance with Section 4B of the Central Bank of Kenya Act, it is my pleasure to present to you, Honourable Cabinet Secretary of the National Treasury and Planning, the 50th Monetary Policy Statement of the Central Bank of Kenya. It reviews and assesses the implementation of monetary policy during the first half of 2022 and outlines the direction of monetary policy for the next twelve months.

Patrick Njoroge

Dr. Patrick Njoroge

Governor

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THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK OF KENYA

The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability and issuing currency.

The Bank also promotes financial stability through regulation, supervision and licensing of financial institutions under its mandate. It also provides oversight of the payments, clearing and settlement systems, financial stability, and fosters liquidity, solvency and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

The CBK's monetary policy is designed to support the Government's objectives with respect to growth. The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the target prescribed by the National Treasury at the beginning of the financial year. Currently, this target is a range between 2.5 percent and 7.5 percent.

The achievement and maintenance of a low and stable inflation rate coupled with adequate liquidity in the market, facilitates higher levels of domestic savings and private investment. This leads to improved economic growth, higher real incomes and increased employment opportunities.

INSTRUMENTS AND TRANSMISSION OF MONETARY POLICY

The CBK pursues its monetary policy objectives using the following instruments:

- **Open Market Operations (OMO):** This refers to actions by the CBK involving purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. OMO can also be used to stabilise short-term interest rates. When the Central Bank buys securities in the open market, it increases the reserves of commercial banks, making it possible for them to expand their loans and hence increase the money supply. To achieve the desired level of money supply, OMO is conducted using:
 - i. **Repurchase Agreements (Repos):** A repo is a collateralized loan involving a contractual arrangement between two parties, in which one party sells a security at a specified price with a commitment to buy the security back at a later date. Both parties therefore, meet their investment goals of secured funding and liquidity. CBK Repos are conducted through auctions with tenors of 3 and 7 days and are for mopping up liquidity from the market. The Late Repo, sold in the afternoon, has a 4-day tenor and is issued at 100 basis points below the repo rate of the day. Reverse Repos, on the other hand, are for liquidity injections and involve purchase of securities from commercial banks. The current tenors for Reverse Repos are 7, 14, 21, 28 and 91 days.
 - ii. **Term Auction Deposit (TAD):** The TAD is used when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer dated tenors. TAD is essentially not backed by collateral and it is conducted through an auction, similar to Repos. Currently, the tenors for such deposits at CBK are 14, 21, 28 or 91 days and upon maturity of TAD, the CBK credits the respective commercial bank with the deposit and interest.
 - iii. **Horizontal Repos:** Horizontal Repos are modes of improving liquidity distribution between commercial banks and are conducted under CBK supervision. They are transacted between commercial banks on the basis of signed agreements using government securities as collateral and have negotiated tenors

and yields. Commercial banks, short of deposits at the CBK, borrow from banks with excess deposits on the security of an appropriate asset, normally a government security. Horizontal Repos also help banks overcome the problem of limits to lines of credit, thus promoting more efficient management of interbank liquidity.

- **Central Bank Rate (CBR):** The CBR is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months. Movements in the CBR, both in direction and magnitude, signal the monetary policy stance. In order to enhance clarity and certainty in monetary policy implementation, the CBR is the base for all monetary policy operations. Whenever the Central Bank is injecting liquidity through a Reverse Repo, the CBR is the lowest acceptable rate by law. Likewise, whenever the Bank wishes to withdraw liquidity through a Vertical Repo, the CBR is the highest rate that the CBK will pay on any bid received. However, to ensure flexibility and effectiveness of monetary policy operations in periods of volatility in the market, the CBK can raise the maximum acceptable interest rates on TAD to above the CBR. Movements in the CBR are transmitted to changes in short-term interest rates. A reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase.

The efficiency in the Repo and interbank markets is crucial for the transmission of monetary policy decisions. The CBK monitors the overnight interbank money market. It responds to the tightness or slackness in the interbank market liquidity through OMO. Short-term international flows of capital are affected by short-term interest rates in the country. These are, in turn, affected by movements in the CBR and hence indirectly, the exchange rate could also be affected.

- **Standing Facilities:** The CBK does not have automatic standing facilities with respect to overnight lending. The CBK, as lender of last resort, provides secured loans to commercial banks on an overnight basis at a penal rate that is over the CBR. This facility is referred to as the Discount Window. Access to the Window is governed by rules and guidelines which are reviewed from time to time by the CBK. Banks making use of this facility more than twice in a week are scrutinised closely, and supervisory action taken.
- **The Cash Reserves Ratio (CRR):** In accordance with the law, the CRR is the proportion of a commercial bank's total deposit liabilities which must be held as deposits at CBK. These deposits are held in the CRR Account at no interest. The ratio is currently 4.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks are currently required to maintain their CRR based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below a CRR of 3 percent on any day.
- **Licensing and Supervision of Financial Institutions:** The CBK uses the licensing and supervision tools to ensure stability and efficiency of the banking system; this includes vetting potential managers for suitability.
- **The National Payments System:** The modernisation of the National Payments System has continued to lower transaction costs and enhanced the efficiency of the payments systems. This has ensured the effectiveness of monetary policy instruments.
- **Communication:** The increasing use of communication media ensures a wider dissemination of monetary policy decisions and background data thereby increasing the efficiency of information transmission and managing expectations. The regular interaction between the MPC and the Chief Executive Officers of banks has ensured that monetary policy decisions are transmitted to the banking sector. The regular Governor's Press Conferences have also enhanced the media understanding of monetary policy decisions. The CBK website is an important source of up-to-date data on all aspects of the financial market including interest rates, exchange rates, results of auctions of government securities, and the MPC releases.

EXECUTIVE SUMMARY

This Monetary Policy Statement provides the direction of monetary policy for the financial year (FY) 2022/23. It also reviews the outcome of the monetary policy stance adopted in the first half of 2022.

During the first half of the 2022, monetary policy was conducted against a backdrop of increased global uncertainties. After the strong recovery in 2021 from the effects of the COVID-19 pandemic, the outlook for the global economy changed in the first half of 2022 with the onset of the war in Ukraine. Prices of key commodities particularly crude oil, wheat, edible oils, and fertilizers rose sharply due to supply chain disruptions exacerbated by the war, further adding to the elevated global inflationary pressures. Financial markets volatility increased significantly due to the tightening of monetary policy in the U.S. and other advanced economies.

The CBK conducted monetary policy in the period with the objective of maintaining overall inflation within the target range of 5 ± 2.5 percent. The Monetary Policy Committee (MPC) implemented accommodative monetary policy through most of the period, but raised the Central Bank Rate (CBR) from 7.00 percent to 7.50 percent in May 2022 in order to anchor inflation expectations. Overall inflation stood at 7.9 percent in June 2022 compared to 5.7 percent in December 2021, mainly driven by food and fuel prices. Food inflation increased mainly due to prices of maize following reduced supply attributed to depressed rains, and edible oils and wheat products due to the impact of supply chain disruptions. Fuel inflation was moderated by Government measures to stabilise fuel prices and lower electricity tariffs, but remained elevated due to higher international oil prices. Non-food-non-fuel (NFNF) inflation remained low, indicating muted demand pressures in the economy. The CBK continued to monitor the overall liquidity in the economy as well as any threats that could fuel demand driven inflationary pressures.

The foreign exchange market remained relatively stable in the first half of 2022, despite increased uncertainties in the global financial markets and a stronger US Dollar. This stability was supported by strong diaspora remittances, resilient receipts from tea and manufactured goods exports, and improved services receipts. The current account deficit was estimated at 5.3 percent of GDP in the 12 months to June 2022 compared to 5.1 percent of GDP over the same period in 2021, mainly reflecting higher imports of oil and other intermediate inputs. The CBK official foreign exchange reserves, which stood at USD 8,495 million (4.9 months of import cover) at the end of June 2022, continued to provide an adequate buffer against short-term shocks in the foreign exchange market.

The banking sector remained stable and resilient during the period, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 52.5 percent and 18.8 percent, respectively in June 2022. The ratio of gross non-performing loans (NPLs) to gross loans increased to 14.7 percent in June 2022 from 13.1 percent in December 2021, with the increases in NPLs attributed to a few large borrowers due to specific challenges in respective businesses. Private sector credit increased by 12.3 percent in the 12-months to June 2022 from 8.6 percent in December 2021, supported by improved demand with increased economic activities.

The Kenyan economy rebounded strongly in 2021, with real GDP growing by 7.5 percent from the contraction of 0.3 percent in 2020. This performance was supported by recovery in manufacturing, wholesale and retail trade, education, accommodation and food services, real estate, transport and storage, and financial and insurance sectors and the impact of Government measures. Despite increased global uncertainties, the economy remained resilient in the first half of 2022.

The CBK continued to implement reforms outlined in the White Paper on *Modernization of the Monetary Policy Framework and Operations*, that was published in July 2021. These reforms are aimed at enhancing the effectiveness of monetary policy formulation and implementation.

The monetary policy stance in the FY 2022/23 will aim at achieving and maintaining overall inflation rate within the target range of 5 ± 2.5 percent. The foreign exchange market is expected to remain stable supported by, resilient export receipts, buoyant remittances, and a gradual pick up in receipts from services exports. The continued coordination of monetary and fiscal policies is expected to sustain macroeconomic stability and support economic activity. Consistent with the inflation and growth objectives, the 12-month growth in broad money (M3) is expected at about 10.7 percent in December 2022 and 11.9 percent in June 2023. Growth in private sector credit is expected at 12.6 percent by December 2022 and 13.1 percent by June 2023.

The Bank will continue to implement measures outlined in the White Paper, towards modernisation of the monetary policy framework and operations. The CBK will also continue to provide regular updates on the economy to the media and other stakeholders, in order to enhance the understanding of monetary policy formulation and implementation. Additionally, the Bank will continue to monitor the risks posed by developments in the domestic and global economic environments, particularly the war in Ukraine, and the evolving COVID-19 pandemic.

1. INTRODUCTION

This Monetary Policy Statement (MPS) provides the direction of monetary policy for the financial year 2022/23. It also presents the outcome of the monetary policy stance adopted in the first half of 2022.

Price stability remains the primary objective of monetary policy formulation and implementation. The Central Bank Rate (CBR) signals the monetary policy stance and is the base for all monetary policy operations. The Bank monitors targets for key monetary aggregates such as broad money (M3) and credit to the private sector, while maintaining a flexible exchange rate regime. The Bank's participation in the foreign exchange market is guided by the need to maintain an adequate level of foreign exchange reserves, meeting the Government's external obligations, and ensuring stability in the foreign exchange market. The CBK foreign exchange reserves provide a buffer against short-term shocks.

The global economic outlook has become more uncertain, reflecting the adverse effects of the ongoing war in Ukraine, continuing pandemic-related disruptions, and supply chain challenges. Global growth is expected to be weaker in 2022, reflecting significant slowdown in economic activity in advanced economies and some emerging markets, especially the U.S., Euro Area, and China. Global inflationary pressures remain elevated, despite the recent moderation in commodity prices. Financial markets volatility has increased, amid the tightening of monetary policy in the advanced economies. Global output is expected to slowdown from an estimated 6.1 percent in 2021 to 3.2 percent

in 2022 and 2.9 percent in 2023. This outlook is 0.4 percentage points and 0.7 percentage points lower for 2022 and 2023, respectively, compared to the January 2022 projection.

The CBK continued to monitor the impact of the policy measures deployed to mitigate the adverse economic effects and financial disruptions from the COVID-19 pandemic. During its January and March meetings, the MPC noted that inflation expectations remained anchored within the target range supported by the Government's policy interventions, and leading economic indicators showed improved performance. In May 2022, the MPC noted elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions, concluding that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations. The Committee noted the steady implementation of the FY2021/22 Government Budget, particularly the strong revenue performance to June 2022 reflecting enhanced tax collection efforts and increased economic activity. Private sector credit growth remained resilient, supported by accommodative monetary policy.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance implemented in the first half of 2022 while Section 3 describes the external economic environment and outlook for the financial year (FY) 2022/23. Section 4 concludes by outlining the specific monetary policy path for FY 2022/23.

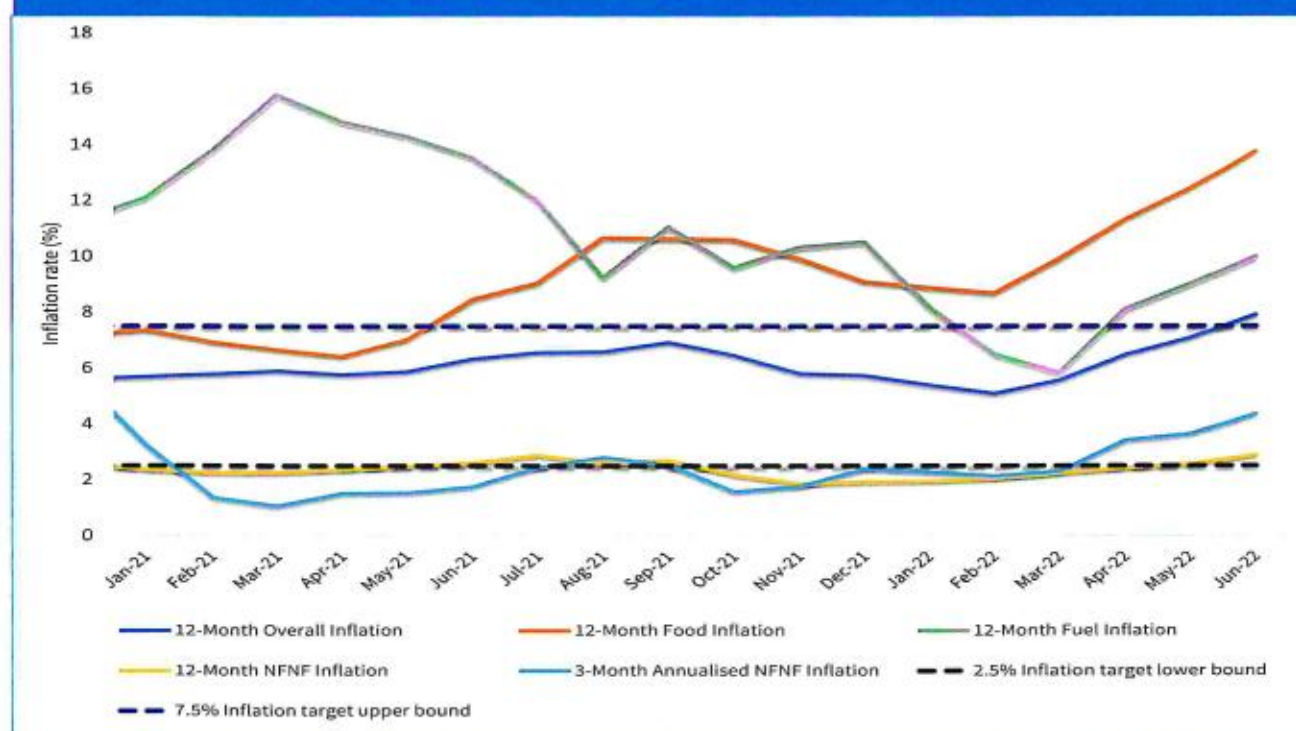
2. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE FIRST HALF OF 2022

During the first half of 2022, monetary policy formulation and implementation was aimed at maintaining overall inflation at the target of 5.0 percent with a flexible margin of 2.5 percent on either side. The monetary policy stance was also aimed at supporting stable interest rates and encouraging growth. During the MPC meetings of January and March 2022, the Committee retained the Central Bank Rate (CBR) at 7.00 percent, observing that while there were elevated global risks which had potential impact on the domestic economy, inflation expectations remained anchored within the target range supported by the Government's policy interventions, and leading economic indicators showed improved performance. In the May meeting, however, the MPC noted increased risks to the inflation outlook due to increased global commodity prices and supply chain disruptions. The MPC therefore concluded that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations and decided to raise the Central Bank Rate (CBR) from 7.00 percent to 7.50 percent. The following are the specific outcomes of the policy stance.

i. Inflation

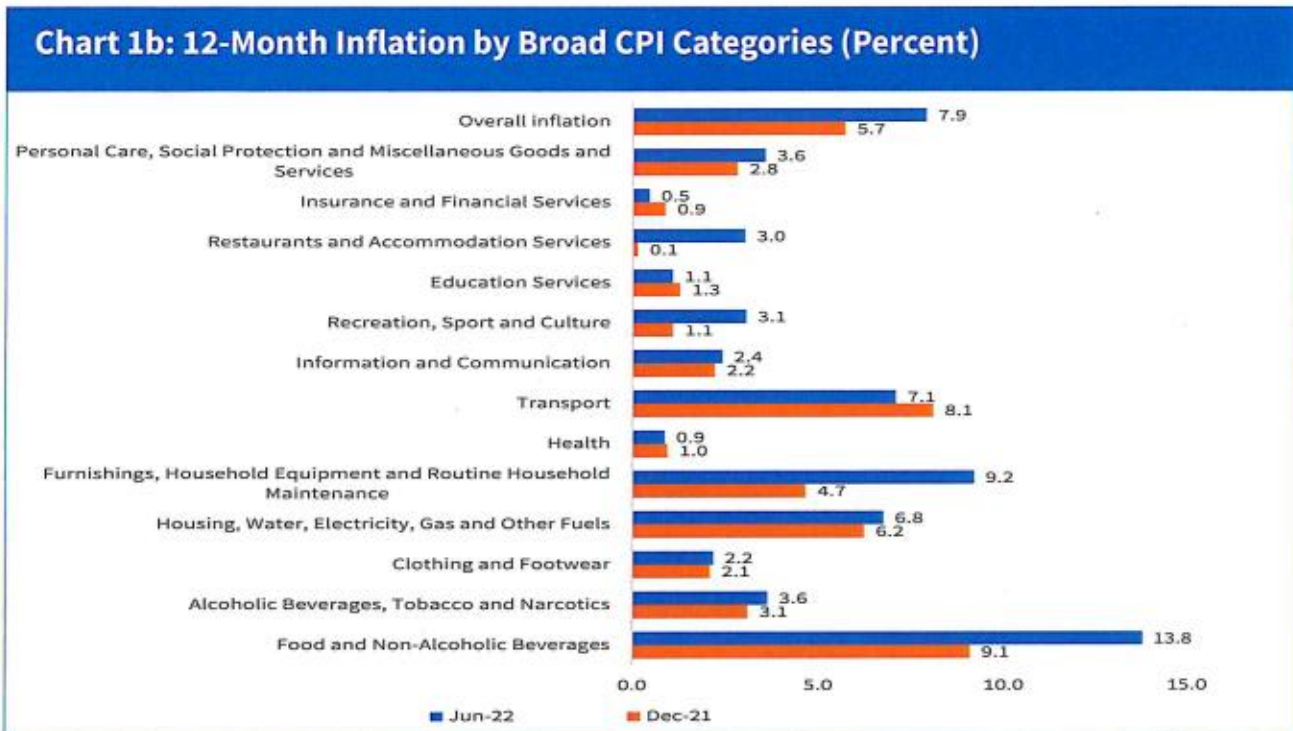
Overall inflation remained within the medium-term target band of 2.5 ± 5 percent from January to May 2022. However, it exceeded the 7.5 percent upper bound of the target band in June, mainly on account of supply side factors. It increased to 7.9 percent from 5.7 percent in December 2021, due to significant increases in food and energy prices. Food inflation increased to 13.8 percent in June from 9.1 percent in December, driven by unfavourable weather conditions and global supply chain disruptions further exacerbated by the Russia-Ukraine conflict. Government interventions continued to stabilize energy prices, with fuel inflation declining marginally to 10.0 percent in June from 10.5 percent in December. The elevated fuel inflation reflected high international oil prices arising from higher demand as economies re-opened following easing of COVID-19 and the supply chain disruptions following the war in Ukraine. Non-food non-fuel (NFNF) inflation remained low and stable during the period under review. It increased to 2.9 percent in June from 1.9 percent in December, reflective of muted demand pressures in the economy (**Chart 1a**).

Chart 1a: Inflation in Broad Measures (Percent)



Source: Kenya National Bureau of Statistics and CBK

Inflation rates of all consumer goods and service categories except food and non-alcoholic beverages and transport were within the target range in June 2022 (**Chart 1b**).



Source: Kenya National Bureau of Statistics

ii. Bank Credit to the Private Sector

Growth in credit to private sector improved in the first half of 2022, reaching 12.3 percent in the 12-months to June 22 compared to 8.6 percent in December 2021. This was supported by increased credit demand arising from improved economic activity.

Strong credit growth was observed in transport and communication (22.2 percent), manufacturing (15.2 percent), business services (15.2 percent), building and construction (13.9 percent), trade (11.6 percent) and consumer durables (14.7 percent) (**Table 1**).

Table 1: 12-Month Growth in Private Sector Credit across Sectors (Percent)

Main sectors	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Agriculture	0.5	1.3	3.0	7.7	6.4	11.6	12.5
Manufacturing	13.1	9.7	7.6	9.9	12.0	15.5	15.2
Trade	8.5	9.6	8.9	10.4	10.7	9.1	11.6
Building and construction	1.9	2.9	7.9	6.4	8.2	9.0	13.9
Transport and communication	14.3	20.7	24.1	25.0	28.9	26.5	22.2
Finance and insurance	5.8	3.5	3.6	3.6	5.8	5.3	6.5
Real estate	0.6	0.5	0.7	0.5	0.8	0.8	0.5
Mining and quarrying	42.9	24.9	-10.7	-4.9	28.3	47.9	28.5
Private households	3.7	4.3	5.0	7.5	6.7	7.5	6.1
Consumer durables	15.0	14.6	14.0	15.6	16.1	15.1	14.7
Business services	9.5	8.4	11.6	14.7	12.2	11.3	15.2
Other activities	38.9	46.8	49.7	60.5	53.6	57.5	57.2
Total private sector credit	8.6	8.8	9.1	10.9	11.5	11.9	12.3

Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

The 12-month growth of broad money, M3, increased to 7.3 percent in June 2022 from 6.1 percent in December 2021, supported by net domestic assets (NDA) of the banking system. Growth in NDA of the banking system was on account of increased domestic credit, reflecting increased lending to private sector and net lending to government.

However, the net foreign assets of the banking system declined moderating the growth in money supply. On the liability side, the increase in money supply was reflected in growth in deposits, partly due to improved economic activity. Overall, monetary aggregates grew at a relatively slower pace compared to projections (**Chart 2**).

Chart 2: The 12-Month Growth in Broad Money Supply (M3) (Percent)



Source: Central Bank of Kenya



Source: Central Bank of Kenya

Although growth in M3 in the period under review remained relatively higher compared to a similar period in 2020, overall, monetary aggregates grew at a relatively slower pace compared to their respective targets (**Table 2**).

Table 2: Actual and Targeted Growth in Key Monetary Aggregates

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Actual Broad Money, M3 (Ksh Billion)	4,235.2	4,179.3	4,220.7	4,221.2	4,318.3	4,312.3	4,439.4
Target (Ksh Billion)	4,379.3	4,276.2	4,317.1	4,373.0	4,414.3	4,455.7	4,584.2
Actual Reserve Money (Ksh Billion)	521.6	493.4	494.2	479.3	508.8	510.9	521.8
Target (Ksh Billion)	502.2	481.9	481.3	485.3	502.7	510.3	494.9
Actual Net Foreign Assets of CBK (Ksh Billion)	700.6	645.3	612.8	600.8	678.7	660.4	637.9
Target (Ksh Billion)	770.6	630.7	603.5	819.0	795.9	759.8	773.8
Actual Net Domestic Assets of CBK (Ksh Billion)	-179.0	-151.9	-118.6	-121.5	-169.8	-149.6	-116.1
Target (Ksh Billion)	-268.4	-148.8	-122.2	-333.7	-293.3	-249.5	-278.9
Actual Credit to private sector (Ksh Billion)	3,053.2	3,090.5	3,126.0	3,177.3	3,193.1	3,210.6	3,256.9
Target (Ksh Billion)	3,050.2	3,084.6	3,114.8	3,126.4	3,144.0	3,157.4	3,194.1
Memorandum Items							
12-month growth in actual Reserve Money (Percent)	11.0	11.6	11.1	6.3	11.7	8.9	16.0
12-month growth in actual Broad Money, M3 (Percent)	6.1	4.7	4.4	4.7	6.9	6.8	7.3

Source: Central Bank of Kenya

iv. Interest Rates Developments

a. Central Bank Rate (CBR)

The MPC retained the CBR at 7.00 percent during the January and March 2022 meetings, noting that inflation expectations remained anchored within the target range supported by the Government's policy interventions, and leading economic indicators showed improved performance. Nevertheless, at the May 2022 meeting, the MPC noted elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions and concluded that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations. The MPC therefore decided to raise the Central Bank Rate (CBR) from 7.00 percent to 7.50 percent. Additionally, the CBK ensured that the interbank market and liquidity management across the sector continued to function smoothly, as the MPC closely monitored the impact of the policy measures, as well as developments in the global and domestic economy.

b. Short Term Rates

Short-term interest rates remained relatively stable, with marginal increases, during the first half of 2022, reflecting accommodative monetary policy stance and liquidity conditions in the market (**Table 3**). The average interbank interest rate remained stable at 5.04 percent in June 2022 compared to 5.10 percent in December 2021. The average 91-day Treasury bill rate increased to 7.90 percent from 7.26 percent, while the average 182-day Treasury bill rate increased to 9.07 percent from 7.95 percent.

c. Commercial Bank Rates

Commercial banks average lending rate also remained relatively stable at about 12.2 percent in the first half of 2022, reflecting accommodative monetary policy stance. Similarly, the average commercial banks deposit rate was relatively stable at 6.62 percent in June 2022 compared to 6.50 percent in December 2021. Consequently, the interest spread remained stable at 5.62 percent.

Table 3: Interest Rates (Percent)

	2021			2022					
	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Central Bank Rate	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	7.50
Interbank	4.63	4.73	5.10	4.36	4.73	4.72	4.67	4.60	5.04
Repo	5.37	5.54	5.31	5.09			5.00	6.38	6.80
91-Tbill	7.03	6.83	7.26	7.32	7.28	7.25	7.39	7.65	7.90
182-Tbill	7.60	7.25	7.95	8.08	8.09	8.08	8.27	8.69	9.07
Average Lending Rate (1)	12.02	12.10	12.16	12.12	12.17	12.15	12.20	12.22	12.27
Overdraft/loan	11.18	11.34	11.45	11.57	11.63	11.50	11.69	11.76	11.86
1-5years	12.24	12.29	12.33	12.34	12.32	12.39	12.41	12.43	12.48
Over 5years	12.12	12.21	12.24	12.12	12.24	12.17	12.20	12.18	12.23
Average Deposit Rate (2)	6.37	6.34	6.50	6.53	6.61	6.50	6.58	6.59	6.62
Demand	1.18	1.18	1.16	1.16	1.16	1.16	1.13	1.16	1.22
0-3months	6.76	6.61	6.91	6.95	7.10	6.89	6.95	6.92	6.96
Over 3months	7.08	7.04	7.19	7.19	7.23	7.25	7.30	7.36	7.39
Savings	2.55	2.57	2.55	2.55	2.56	2.48	2.56	2.52	2.50
Spread (1-2)	5.64	5.76	5.66	5.59	5.55	5.65	5.62	5.62	5.66

Source: Central Bank of Kenya

v. Banking Sector Developments

The banking sector remained stable and resilient in the first half of 2022, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 52.5 percent and 18.8 percent, respectively in June 2022. These were above the minimum statutory ratios of 20.0 percent and 14.5 percent. The ratio of gross non-performing loans (NPLs) to gross loans stood at 14.7 percent in June 2022. Seven economic sectors registered increased NPLs between December 2021

and June 2022 largely due to a challenging operating environment. The major sectors with increased NPLs were manufacturing, energy and water, building and construction, agriculture, and tourism, restaurant and hotels.

The Credit Guarantee Scheme (CGS), which was operationalized in December 2020 continued to support additional credit uptake by the vulnerable Micro Small and Medium-sized Enterprises (MSMEs). As at June 2022, seven banks were participating

in the CGS. Cumulatively, the seven banks had advanced loans supported by the CGS amounting to Ksh.3.9 billion as at June 2022.

Following Presidential assent on December 7, 2021, the Central Bank of Kenya (Amendment) Act, 2021, became effective on December 23, 2021. The Amendment provides the Central Bank of Kenya (CBK) with the power to license and oversight the previously unregulated digital credit providers. Following the Amendment, CBK issued the Digital Credit Providers (DCP) Regulations, 2022, that were gazetted and operationalized on March 18, 2022. On May 18, 2022, the National Assembly's Committee on Delegated Legislation approved the DCP Regulations. Under the DCP Regulations, the previously unregulated DCPs have until September 17, 2022, to apply to CBK for licences or cease operations.

The banking sector is expected to remain stable and resilient as it utilizes opportunities from emerging innovations and technologies and minimizes the attendant risks. Credit risk is expected to remain elevated in the short to medium term. Operational risk is also expected to remain elevated particularly with increased digitalization of the sector.

vi. Impact of COVID-19 Mitigation Measures

The CBK continues to monitor the impact of the COVID-19 pandemic following expiry of the emergency measures introduced in 2020, to mitigate the adverse economic effects and financial disruptions from the pandemic. The emergency measures for banks to consider restructuring customer loans, which expired on March 2, 2021, provided relief to borrowers, supported continued operation of business including essential sectors, and mitigated more severe loss of jobs and livelihoods. The measures also provided space for the banks to build capital and liquidity buffers, thereby strengthening resilience of the sector. As at June 2022, outstanding restructured loans amounted to Ksh.368.5 billion (10.6 percent of the gross loans).

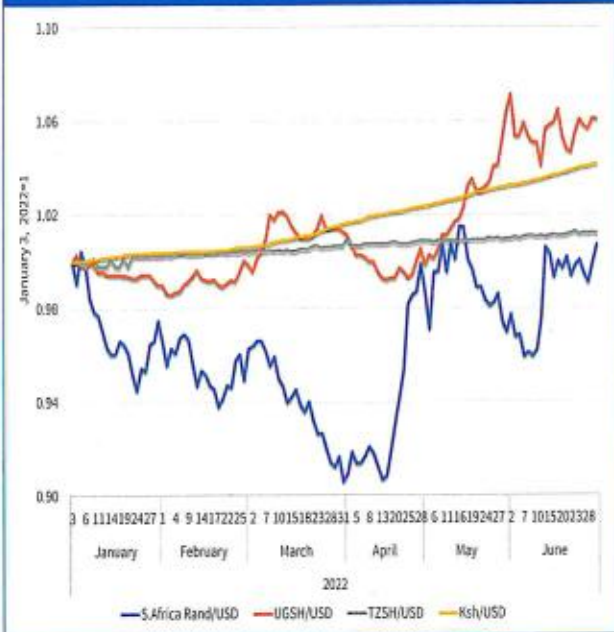
On the fiscal front, the Government continued to implement programmes to cushion citizens and businesses from the effects of the COVID-19 under the Economic Stimulus Programme. Revenues continued improve on the back of enhanced tax collection efforts and increased economic activity. The Government also provided an additional package of fiscal measures to moderate the prices of specific items notably: fuel prices subsidy, lower electricity tariffs, and subsidies on fertilizer prices; waiver of import duties and levies on white maize, subsidy on retail prices of sifted maize flour, and reduction in VAT on liquified petroleum gas (LPG).

vii. Exchange Rates and Foreign Exchange Reserves

The Kenya foreign exchange market remained resilient in the first half of 2022 as the economy fully reopened following the COVID-19 related closures. The foreign exchange market was supported by supply from the agricultural, financial and insurance sectors while demand was driven by economic activity which picked-up mainly in the manufacturing wholesale and retail sectors. The resilience of the foreign exchange market cushioned the currency against rising commodity prices and a slowdown in global growth following Russia's invasion of Ukraine. Nonetheless, the Kenya shilling weakened gradually in the period. This largely reflected the appreciation of the dollar owing to monetary policy tightening in the USA with the dollar index appreciating by 8.8 percent over the first half of 2022 (**Chart 3a and 3b**).

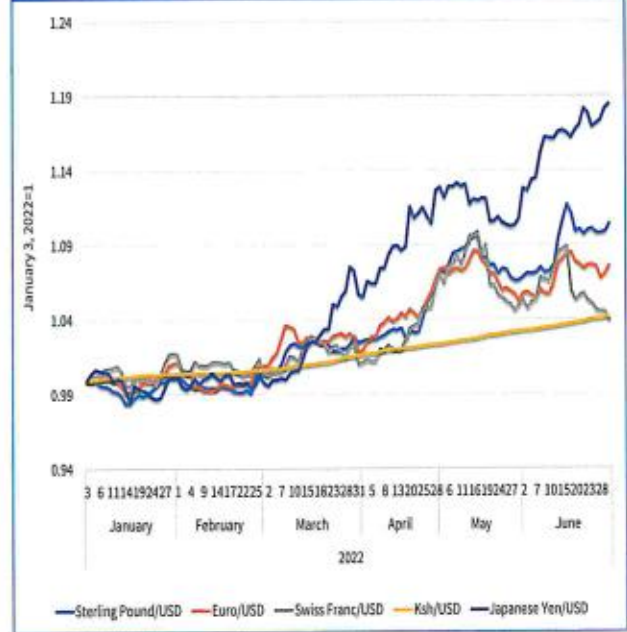
The official foreign exchange reserves remained above the statutory requirement to endeavor to maintain at least 4.0 months of import cover and the EAC convergence criteria of 4.5 months of import cover. Official foreign exchange reserves stood at USD 8,495 million (4.9 months of import cover as at June 2022), and continue to provide an adequate buffer against short-term shocks in the foreign exchange market (**Chart 3c**).

Chart 3a: Exchange rates of currencies in the region against the U.S. Dollar



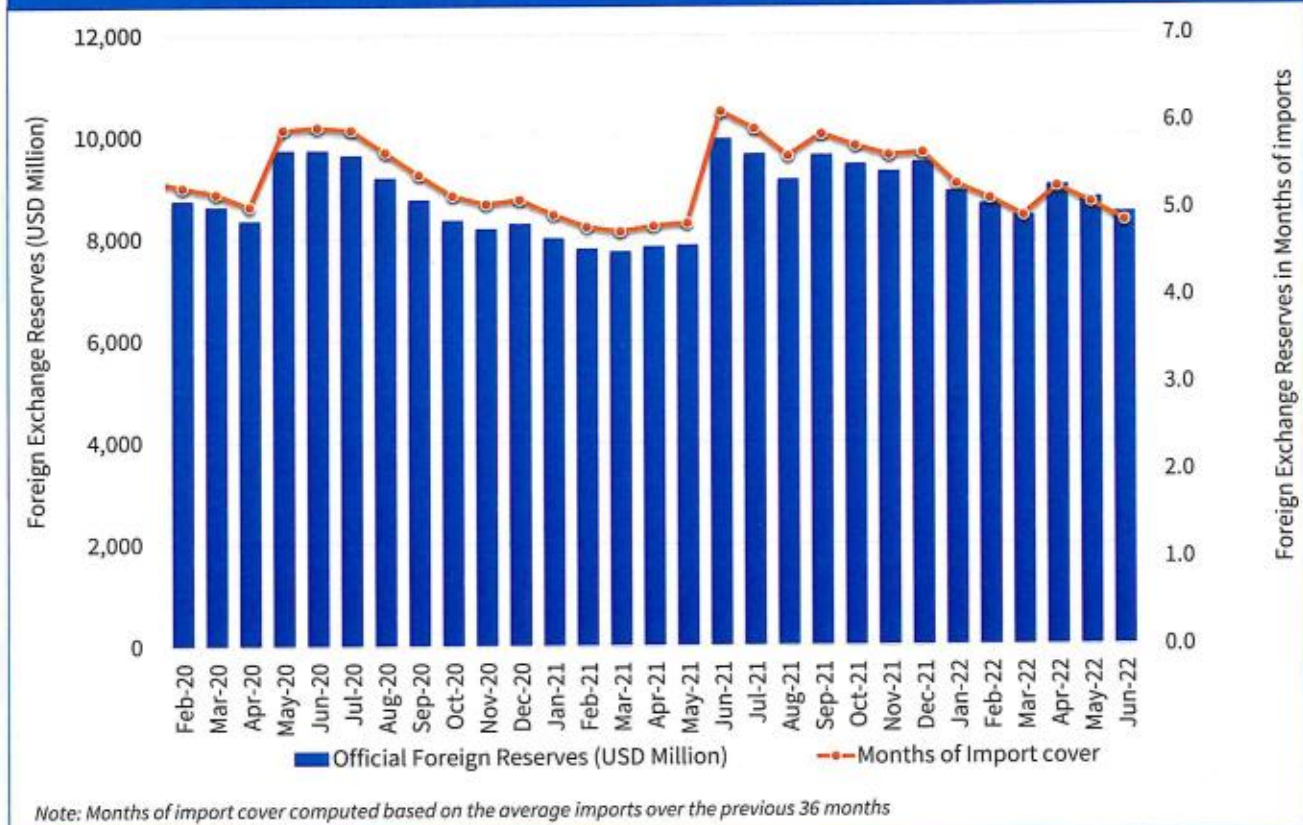
Source: Central Bank of Kenya

Chart 3b: Exchange rates of major international currencies against the U.S. Dollar



Source: Central Bank of Kenya

Chart 3c: CBK Foreign Exchange Reserves

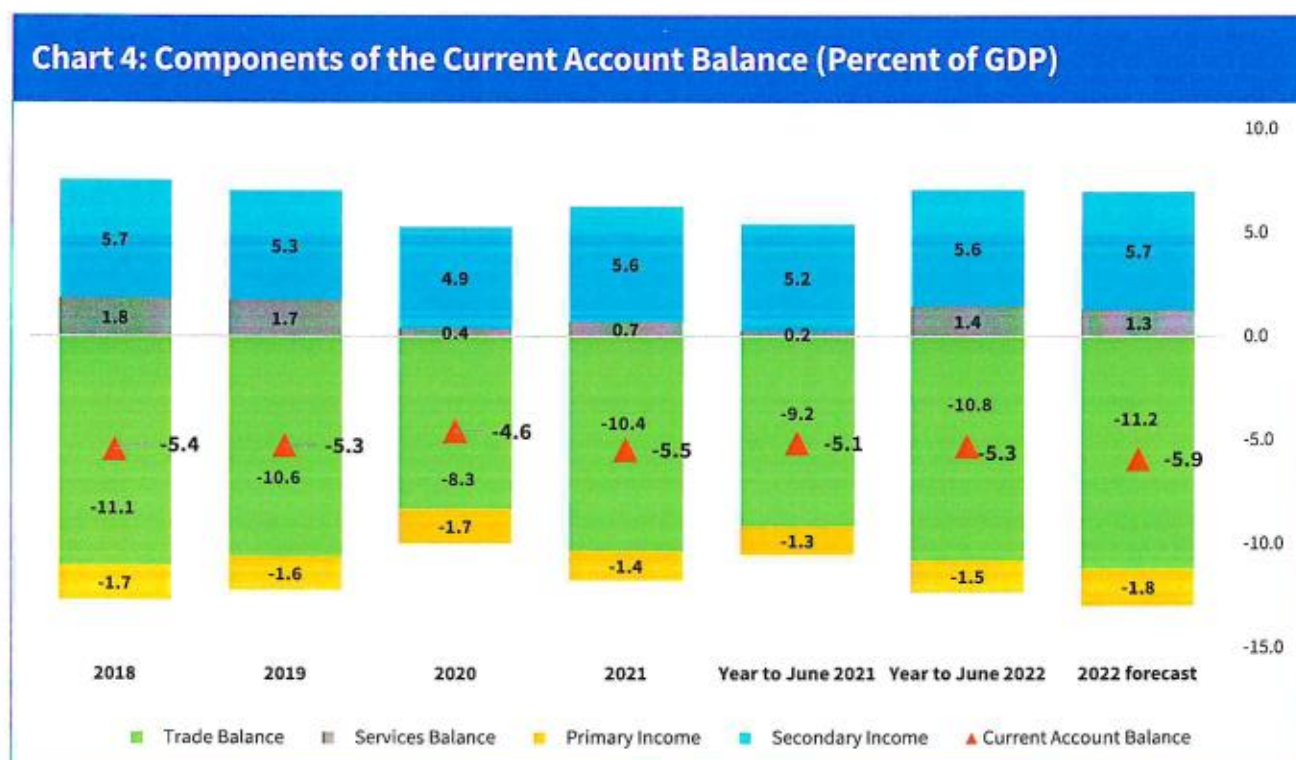


Source: Central Bank of Kenya

viii. Balance of payments developments

The current account balance is estimated at 5.3 percent of GDP in the year to June 2022, compared to a deficit of 5.1 percent of GDP in the year to June 2021. This was mainly due to higher imports of oil reflecting high international oil prices due to the war

in Ukraine. Imports of other intermediate inputs also increased, which offset improved receipts from tea and manufactured exports and strong remittances (Chart 4 and Table 4).



Source: Kenya National Bureau of Statistics

The goods account deficit widened to 10.8 percent of GDP in the year to June 2022 from 9.2 percent of GDP in a similar period of 2021, reflecting increased imports of oil products and other intermediate inputs which offset gains in tea and manufactured exports, and strong diaspora remittances. The value of merchandise exports improved by 11.2 percent

to USD 7,118 million in the year June 2022. Earnings from tea and manufactures increased by 6.0 percent and 24.1 percent, respectively, boosted by external demand. Imports grew by 21.7 percent in the year to June 2022 on account of petroleum products due to higher global oil prices, and other intermediate inputs.

Table 4: Annual Balance of Payments (Percent of GDP)

	2020	2021	Year to June 2021	Year to June 2022
	Act	Act	Prov	Prov
Current account	-4.6	-5.5	-5.1	-5.3
1.1 Goods balance	-8.3	-10.4	-9.2	-10.8
Goods: exports, f.o.b.	6.0	6.1	6.1	6.2
o/w Tea	1.2	1.1	1.1	1.1
Horticulture	0.9	1.0	1.1	0.9
Manufactured Goods	0.4	0.5	0.4	0.5
Other	3.5	3.5	3.5	3.7
Goods: imports, f.o.b.	14.3	16.5	15.3	17.1
o/w Oil products	2.2	3.1	2.5	4.1
Other	12.2	13.3	12.8	13.0
Machinery & Transport equipment	3.9	4.2	4.0	4.0
1.2 Services balance	0.4	0.7	0.2	1.4
Services, Credit	3.7	4.4	3.7	5.6
Transportation	1.1	1.3	1.1	1.8
Travel	0.5	0.8	0.6	0.9
Services, Debit	3.3	3.7	3.4	4.2
1.3 Primary income, balance	-1.7	-1.4	-1.3	-1.5
Credit	0.2	0.2	0.1	0.1
Debit	1.9	1.6	1.5	1.6
1.4 Secondary income, balance	4.9	5.6	5.2	5.6
Credit	5.0	5.7	5.3	5.7
o/w Remittances	3.1	3.4	3.2	3.5
Debit	0.1	0.1	0.1	0.1
Capital account	0.1	0.2	0.2	0.2
Financial Account	-2.9	-6.2	-4.6	-5.4
Foreign Direct Investment balance	-0.5	0.0	0.1	-0.5
Portfolio Investment balance	1.3	-0.1	-0.2	0.9
Other Investment balance	-3.7	-6.1	-4.5	-5.7

Source: Central Bank of Kenya

Exports to Africa accounted for 40.6 percent, with COMESA and the EAC region accounting for 27.2 and 26.0 percent, respectively. China and the European Union were the major importers, accounting for 19.4 percent and 10.7 percent of total imports, respectively. **(Table 5).**

The balance on the secondary income improved supported by strong remittance inflows, which

accounted for 3.5 percent of GDP in the year to June 2022. In the 12 months to June 2022, they totaled USD 4,012 million compared to USD 3,383 million in the same period in 2021, a 18.6 percent increase. Service exports improved by 67.4 percent in the year to June 2022 boosted by the resumption in international travel and transport.

Table 5: Kenya's Direction of Trade

IMPORTS	(USD Millions)				Share of Imports (%)			
	Year to Jun				Year to Jun			
	2019	2020	2021*	2022*	2019	2020	2021*	2022*
Region/Country	2019	2020	2021*	2022*	2019	2020	2021*	2022*
Africa	2,046	1,929	1,852	2,227	12.7	12.5	11.6	11.4
Of which								
South Africa	679	547	401	465	4.2	3.6	2.5	2.4
Egypt	369	419	448	420	2.3	2.7	2.8	2.2
Others	998	963	1,003	1,343	6.2	6.3	6.3	6.9
EAC	564	568	627	862	3.5	3.7	3.9	4.4
COMESA	1,080	1,092	1,048	1,053	6.7	7.1	6.5	5.4
Rest of the World	14,050	13,461	14,146	17,250	87.3	87.5	88.4	88.6
Of which								
India	1,782	1,766	1,872	2,571	11.1	11.5	11.7	13.2
United Arab Emirs	1,528	1,169	1,170	2,282	9.5	7.6	7.3	11.7
China	3,373	3,430	3,793	3,769	21.0	22.3	23.7	19.4
Japan	1,017	893	846	975	6.3	5.8	5.3	5.0
USA	526	555	580	840	3.3	3.6	3.6	4.3
United Kingdom	330	293	296	302	2.1	1.9	1.8	1.5
Singapore	56	70	64	97	0.3	0.5	0.4	0.5
Germany	449	407	380	341	2.8	2.6	2.4	1.7
Saudi Arabia	1,587	915	750	1,218	9.9	5.9	4.7	6.3
Indonesia	508	580	475	243	3.2	3.8	3.0	1.3
Netherlands	309	211	507	282	1.9	1.4	3.2	1.4
France	246	229	214	188	1.5	1.5	1.3	1.0
Bahrain	51	6	46	59	0.3	0.0	0.3	0.3
Italy	218	203	232	236	1.4	1.3	1.5	1.2
Oman	98	65	220	156	0.6	0.4	1.4	0.8
Others	1,970	2,668	2,704	3,694	12.2	17.3	16.9	19.0
Total	16,096	15,390	15,999	19,478	100.0	100.0	100.0	100.0
EU	2,225	2,066	2,352	2,086	13.8	13.4	14.7	10.7
China	3,373	3,430	3,793	3,769	21.0	22.3	23.7	19.4

EXPORTS	(USD Millions)				Share of Export (%)			
	Year to Jun				Year to Jun			
	2019	2020	2021*	2022*	2019	2020	2021*	2022*
Region/Country	2019	2020	2021*	2022*	2019	2020	2021*	2022*
Africa	2,116	2,213	2,584	2,893	35.7	37.3	40.4	40.6
Of which								
Uganda	609	623	796	795	10.3	10.5	12.4	11.2
Tanzania	304	310	320	483	5.1	5.2	5.0	6.8
Egypt	192	182	186	216	3.2	3.1	2.9	3.0
Sudan	62	72	73	69	1.0	1.2	1.1	0.8
South Sudan	114	176	181	185	1.9	3.0	2.8	2.6
Somalia	133	100	114	123	2.2	1.7	1.8	1.7
DRC	141	129	222	143	2.4	2.2	3.5	2.0
Rwanda	185	231	250	323	3.1	3.9	3.9	4.5
Others	377	350	443	596	6.4	6.6	6.9	7.9
EAC	1,286	1,395	1,607	1,854	21.7	23.5	25.1	26.0
COMESA	1,455	1,481	1,818	1,934	24.5	25.0	28.4	27.2
Rest of the World	3,816	3,714	3,816	4,228	64.3	62.7	59.6	59.4
Of which								
United Kingdom	389	434	470	412	6.6	7.3	7.4	5.8
Netherlands	467	419	545	576	7.9	7.1	8.5	8.1
USA	511	473	492	642	8.6	8.0	7.7	9.0
Pakistan	490	491	478	500	8.3	8.3	7.5	7.3
United Arab Emirate	367	368	293	361	6.2	6.2	4.6	5.1
Germany	112	116	141	128	1.9	2.0	2.2	1.8
India	72	43	102	76	1.2	0.7	1.6	1.1
Afghanistan	38	37	6	18	0.6	0.6	0.1	0.3
Thailand	55	24	19	29	0.9	0.4	0.3	0.4
Others	1,314	1,307	1,271	1,464	22.2	22.0	19.9	20.6
Total	5,931	5,927	6,400	7,121	100.0	100.0	100.0	100.0
EU	1,299	1,296	1,502	1,504	21.9	21.9	23.5	21.1
China	141	151	165	218	2.4	2.6	2.6	3.1

Source: Kenya Revenue Authority and Central Bank of Kenya

ix. Economic Growth

The economy rebounded strongly in 2021, growing by 7.5 percent compared to a contraction of 0.3 percent in 2020, supported by recovery in economic activity following easing of COVID-19 restrictions. The strong performance was supported by recovery in services and industry sectors, particularly manufacturing, wholesale and retail trade, real estate, transport and storage, accommodation and food services, and financial and insurance sectors. However, the agricultural sector performance was subdued following unfavorable weather conditions in most parts of the country, which affected crop production. The sector contracted by 0.2 percent in 2021 compared to a growth of 4.6 percent in 2020.

The economy maintained a strong growth momentum in the first quarter of 2022. It grew by 6.8 percent compared to 2.7 percent in a similar quarter of 2021, supported by strong non-agriculture activity. The good performance was supported by continued recovery in manufacturing, construction, education,

accommodation and food services, transport and storage, financial and insurance services, and wholesale and retail trade sectors. Meanwhile, the agriculture sector recorded a contraction of 0.7 percent compared to a growth of 0.4 percent in a similar quarter of 2021, mainly on account of unfavorable weather conditions (**Table 6 and Chart 5**).

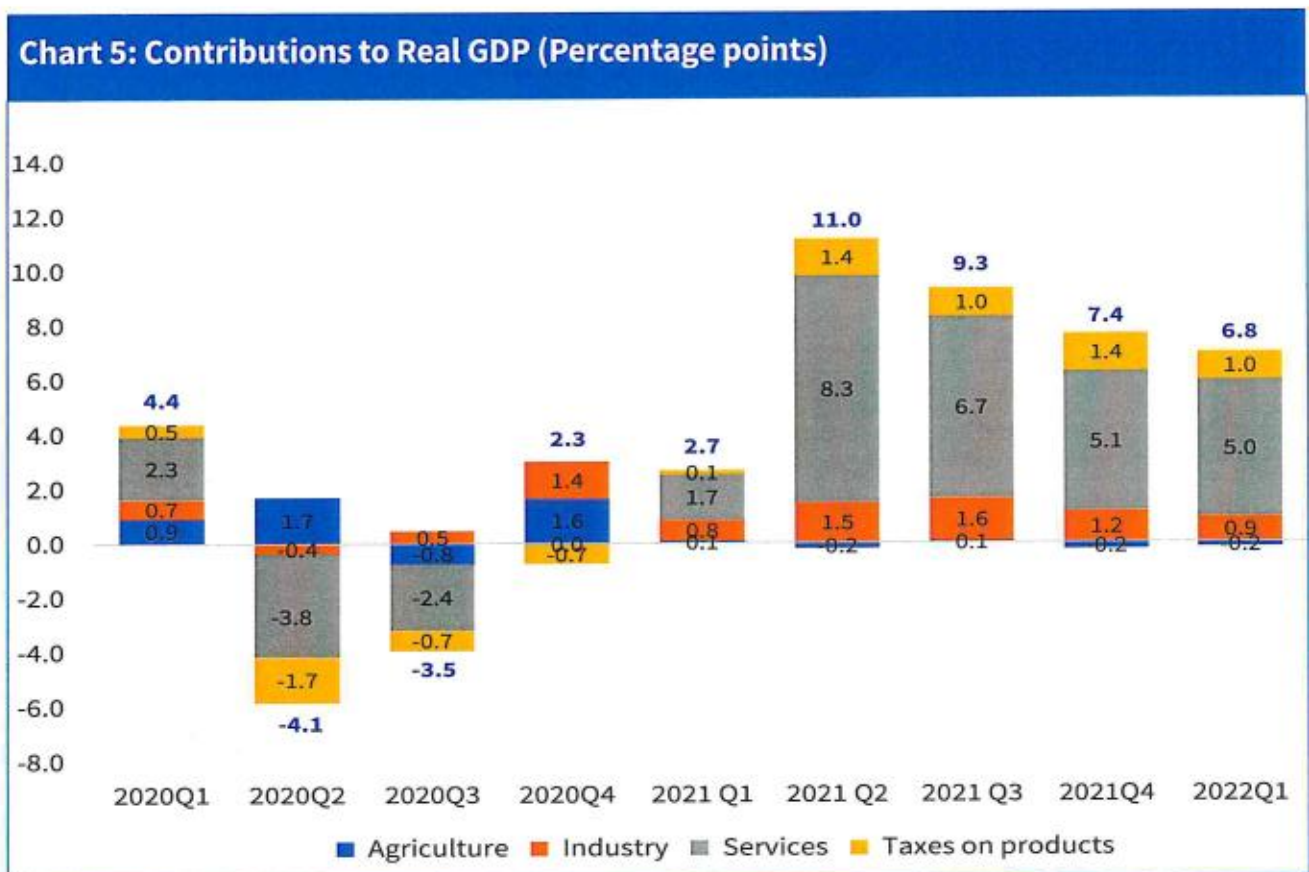
x. Domestic Government Borrowing

The coordination between monetary and fiscal policies continued to support macroeconomic stability. The Government's borrowing plan in the first half of 2022 ensured that the build-up in domestic debt was consistent with the thresholds set in the Medium-Term Debt Management Strategy. The Government continued to review its borrowing plan in line with market conditions and prudent budget management that focused on rationalisation of expenditures and strengthening of revenue collection measures..

Table 6: Kenya's Real GDP Growth across the Main Sectors (Percent)

Main Sectors	2020	2021	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1
1. Agriculture	4.6	-0.2	0.4	-0.5	0.6	-1.2	-0.7
2. Non-Agriculture (o/w)	-1.4	9.4	3.2	14.4	11.1	9.2	8.7
2.1 Industry	3.3	7.2	4.3	9.2	8.8	6.6	5.5
2.2 Services	-1.8	9.8	3.1	15.6	11.7	9.2	9.2
2.3 Taxes on products	-8.1	11.9	1.8	18.5	12.5	15.7	12.3
Real GDP Growth	-0.3	7.5	2.7	11.0	9.3	7.4	6.8

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



Source: Kenya National Bureau of Statistics

xi. Stakeholder Forums, MPC Market Perception Surveys, and Communications

The MPC members held virtual stakeholder meetings with the Chief Executives of commercial and microfinance banks in order to apprise them on the background to its decisions and to obtain feedback. The Governor also held virtual media briefings after MPC meetings to apprise the media on the background to the MPC decisions. This was in addition to virtual meetings with various potential investors to brief them on economic developments and the outlook for the economy.

The Committee monitored the implementation of the Committee's policy decisions by the Monetary Policy Management Committee of the Bank, and continued to interact with other government agencies such as the National Treasury, Kenya National Bureau of Statistics (KNBS), and Kenya Tourism Board (KTB) on various policy and data issues.

The MPC also continued to improve on the scope and information gathering processes through the

CEOs Survey, the Market Perceptions Surveys and the Survey of Hotels. The January, March and May Surveys revealed sustained optimism about business activity and economic growth prospects for 2022. The optimism was attributed to continued post COVID-19 recovery, improving employment conditions, easing of international travel restrictions, and increased Government infrastructure spending. Nevertheless,

respondents remained concerned about rising inflation, the impact of the Russia-Ukraine conflict on commodity prices, supply chain disruptions, and increased political activity. The Survey of Hotels in particular, revealed sustained strong activity in the sector, with several hotels expecting to attain pre-pandemic levels of operations by the end of 2022.

3. THE EXTERNAL ECONOMIC ENVIRONMENT AND OUTLOOK FOR FY 2022/23

i. International Economic Environment

According to the IMF World Economic Outlook July 2022 update, global output growth is expected to slow down by 3.2 percent in 2022 and moderate by 2.9 percent in 2023, down from 6.1 percent in 2021. This represents a 0.4 percentage-point revision for 2022 reflecting the adverse effects of the war in Ukraine, concerns over China's increased cases of COVID-19 infections, supply chain challenges, and reduced fiscal support among advanced and emerging economies.

Growth in advanced economies is estimated at 2.5 percent in 2022 and is expected to moderate to 1.4 percent in 2023, reflecting weaker economic activity in the first two quarters combined with slow growth in private consumption on account of monetary policy tightening. Growth in emerging market and developed economies (EMDEs) is expected at 3.6 percent in 2022, largely affected by limited fiscal

space and dependence on energy and food imports for basic consumption but is anticipated to improve in 2023 to 3.9 percent. Growth in China is expected at 3.3 percent, a downgrade of 1.1 percent from the April 2022 WEO, reflecting weaker demand due to increased COVID-19 outbreaks and lockdowns. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.8 percent in 2022 and 4.0 percent in 2023. Nigeria and South Africa are expected to grow at rates of 3.4 and 2.3 percent in 2022, and 3.2 and 1.4 percent in 2023, respectively.

Financial market volatility is expected to remain elevated as inflationary pressures continue to build up across major economies amid increased monetary policy tightening. Several advanced economies have experienced 40-year high inflation levels, with inflation in advanced economies and emerging markets and developing economies estimated at 6.6 percent, and 9.5 percent in 2022, respectively.

Table 7: Growth Performance and Outlook for the Global Economy (Percent)

Country/Region	2021	Projections	
		2022	2023
World Output	6.1	3.2	2.9
Advanced Economies	5.2	2.5	1.4
United States	5.7	2.3	1.0
Euro area	5.4	2.6	1.2
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Emerging Market and Developing economies	6.8	3.6	3.9
Emerging and Developing Asia	7.3	5.4	5.6
China	8.1	3.3	4.6
India	8.7	7.4	6.1
Emerging and Developing Europe	6.7	-1.4	0.9
Russia	4.7	-6.0	-3.5
Latin America and the Caribbean	6.9	3.0	2.0
Brazil	4.6	1.7	1.1
Sub-Saharan Africa	4.6	3.8	4.0
South Africa	4.9	2.3	1.4
Nigeria	3.6	3.4	3.2
Middle East and Central Asia	5.8	4.8	3.5

Source: IMF, World Economic Outlook, July 2022 Update

Global trade volumes are expected to fall by 4.1 percent in 2022 and further by 3.2 percent in 2023, owing to lower demand for goods attributed to the war in Ukraine and the withdrawal of policy support, while cross-border services trade (particularly tourism) is expected to remain subdued in the short term.

The risks of a prolonged war, geopolitical conflict, pandemic and vaccination issues, and China's slowdown pose long-term global spillovers. Higher inflation will necessitate more stringent monetary tightening by central banks, whereas tighter financial conditions will necessitate a re-evaluation of market dynamics, financial market volatility, and a rise in core sovereign yields, all of which could result in a rapid repricing of financial assets.

ii. Domestic Economic Environment

Despite external shocks, economic growth prospects for 2022 remain robust, supported by continued strong performance of services and industrial sectors. Moreover, sustained government investment in infrastructure and interventions to cushion against the adverse effects of external shocks, and prudent monetary policy will continue to support economic recovery. Nonetheless, the war in Ukraine, elevated global oil prices, monetary policy tightening in advanced economies and new COVID-19 variants, pose risks to global and domestic economic outlook.

Supply side shocks will continue to exert pressure on domestic inflation. However, with prudent monetary policy and government interventions, inflation is expected to return to the medium-term target band of 5 percent with a margin of 2.5 percent on either side in the near term.

The exchange rate is expected to be relatively stable, supported by adequate foreign reserves. The 12-month current account deficit is projected at 5.9 percent of GDP in 2022 and 5.4 percent in 2023 on account of higher international oil prices. Services receipts are expected to increase as international travel continues to improve.

The execution of the budget for FY 2021/22 progressed well with strong tax revenue collection which surpassed targets by wide margins, reflecting enhanced tax administration efforts, and increased economic activity. For FY2022/23, fiscal deficit as percent of GDP is projected to decline to 6.0 percent of GDP from 8.2 percent in FY2020/21. Fiscal consolidation will be supported by robust economic recovery and the important tax policy measures already undertaken, notably efforts to broaden tax revenue mobilization and maintain careful expenditure control while protecting social priority spending.

4. DIRECTION OF MONETARY POLICY IN THE FY 2022/23

Price stability will be the overriding objective of monetary policy in the FY2022/23. The monetary policy stance in the FY 2022/23 will aim at achieving and maintaining overall inflation rate within the target range of 5±2.5 percent. Monetary policy will also continue supporting economic recovery in the post COVID-19 period. The outlook for monetary aggregates in the FY 2022/23 is therefore consistent with Government policy objectives articulated in the Government Budget Policy Statement published by the National Treasury. The Bank will also continue to implement measures outlined in the White Paper, towards modernisation of the monetary policy framework and operations. These measures will enhance the CBK's forward-looking monetary policy framework.

Considering the government inflation and economic growth objectives, the projected growth in the monetary aggregates in FY2022/23 is presented in **Table 8**. The 12-month growth in broad money (M3) is expected at about 11.9 percent by June 2023, private sector credit growth is expected at 12.6 percent by December 2022 and 13.1 percent by June 2023. Private sector credit growth is expected to be supported by improved economic activity from the COVID-19 economic recovery plan, and the implementation of the Credit Guarantee Scheme

for the vulnerable Micro Small and Medium-sized Enterprises (MSMEs).

The CBK foreign exchange reserves are projected to remain adequate in FY2022/23, consistent with outlook of the balance of Payments. The reserves will continue to provide a buffer against external shocks in the foreign exchange market. The coordination of monetary and fiscal policies will also support macroeconomic stability.

The price stability objective and growth in monetary projections are subject to risks emanating from both the domestic and global fronts. On the external front, the key downside risks include: uncertainty about the global outlook, reflecting adverse effects of the war in Ukraine, continuing COVID-19 pandemic-related disruptions, and supply chain constraints as well as increased global financial markets volatility amid the tightening of monetary policy in advanced economies. Monetary developments will therefore be closely monitored in light of these risks, in order to provide necessary reviews to inform the decision-making process in the MPC. Additionally, the CBK will continue to monitor the outcomes of policy measures in place as well as other developments in the domestic and global economies to safeguard price stability.

Table 8: Outlook for Key Monetary Aggregates in FY2022/23

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Broad Money, M3 (Ksh Billion)	4,439.4	4,564.7	4,687.0	4,817.4	4,967.8
Reserve Money, RM (Ksh Billion)	507.2	508.5	538.7	516.2	527.2
Credit to Private Sector (Ksh Billion)	3,256.9	3,345.6	3,438.3	3,583.8	3,682.6
NFA of CBK (Ksh Billion)	637.9	576.3	511.0	412.8	514.5
NDA of CBK (Ksh Billion)	-130.6	-67.8	27.7	103.4	12.7
12-month growth in RM (Percent)	12.8	6.2	3.3	7.7	3.9
12-month growth in M3 (Percent)	7.3	9.3	10.7	14.1	11.9
12-month growth in Credit to Private Sector (Percent)	12.3	12.3	12.6	12.8	13.1
Medium-Term 12-month overall Inflation (Percent)	5.0	5.0	5.0	5.0	5.0

Source: Central Bank of Kenya

ANNEX

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JANUARY - JUNE 2022)

January	Release of January 2022 IMF World Economic Outlook (WEO) Report showing weaker global growth projections for 2022 and 2023 relative to the October 2021 WEO. This reflected increased mobility restrictions on account of new COVID-19 variants, financial market volatility at the end of 2021, continuing supply chain disruptions and higher global inflation, particularly in the United States.
	CBR retained at 7.00 percent. The MPC noted that inflation expectations remained anchored within the target range, and that leading economic indicators showed continued robust performance.
February	War breaks out in Ukraine leading to supply chain disruptions and increase in commodity prices
March	CBR retained at 7.00 percent. The MPC noted elevated global risks and their potential impact on the domestic economy but concluded that the current accommodative monetary remained appropriate.
	Operationalisation of the Digital Credit Providers (DCP) Regulations, 2022
April	Release of April 2022 IMF World Economic Outlook (WEO) Report showing worsening global economic prospects largely on account of Russia's invasion of Ukraine and the sanctions aimed at pressuring Russia to end the war. Global growth projected at 3.6 percent in 2022 and 2023, which is 0.8 and 0.2 percentage points lower for 2022 and 2023 compared to the January 2022 projections.
May	CBR increased to 7.50 percent from 7.00 percent. The Committee noted elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions, and concluded that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations.

GLOSSARY OF KEY TERMS

OVERALL INFLATION

Overall inflation is a measure of price change in the economy calculated as the weighted year-on-year movement of the indices of the prices charged to consumers of the goods and services in a representative basket established in a base year. The indices are derived from data collected monthly by the Kenya National Bureau of Statistics.

RESERVE MONEY

Reserve Money is computed as the CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and non-bank financial institutions (NBFIs) held by the CBK. It excludes Government deposits.

MONEY SUPPLY

Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are computed as follows:

Narrow Money

M0: Currency outside the banking system

M1: M0 + demand deposits of banks (or depository corporations).

Broad Money

M2: M1 + quasi (long term) money deposits i.e. time and savings deposits of banks and non-bank financial institutions.

Extended Broad Money

M3: M2 + residents' foreign currency deposits.

Overall Liquidity

L: M3 + non-bank holdings of Government Paper. This however, is not a monetary aggregate.

