Central Bank of Kenya

Monetary Policy Statement

December 2021

LETTER OF TRANSMITTAL

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 49th Monetary Policy Statement of the Central Bank of Kenya. It reviews and assesses the implementation of monetary policy during the second half of 2021, and outlines the direction of monetary policy for the next twelve months.

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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 in 2022. It also reviews the outcome of the monetary policy stance adopted in the second half of 2021. During the second half of 2021, monetary policy was conducted in the context of the continued recovery in the global economy supported by the deployment of vaccines, relaxation of COVID-19 containment measures, and strong policy measures. However, the pace of recovery of the global economy remained uneven across countries due to resurgence of new COVID-19 variants. Additionally, inflation in major and emerging market economies rose sharply following increases in oil prices, effects of fiscal stimulus, and supply chain bottlenecks.

The Monetary Policy Committe (MPC) published a White Paper on *Modernization of the Monetary Policy Framework and Operations* in July 2021, outlining the reforms that would enhance the effectiveness of monetary policy and support continued anchoring of inflation expectations. These reforms entail: refining macroeconomic modelling and forecasting frameworks in line with changing structure of the economy, improving the functioning of the interbank market in order to strengthen monetary policy transmission and operations, and continued improvement of communication of monetary policy decisions. These measures will enhance the CBK's forward-looking monetary policy framework.

The CBK conducted monetary policy in the period with the objective of maintaining overall inflation within the target range of 5±2.5 percent. Monetary policy was also aimed at supporting economic activity through an accommodative monetary policy stance. The MPC retained the Central Bank Rate (CBR) at 7.00 percent. The monetary policy stance together with CBK liquidity management ensured both price and market stability. Overall inflation remained anchored within the target range during the second half of 2021, supported by government interventions to stabilise fuel prices, muted demand pressures and prudent monetary policy. The inflation rate declined to 5.7 percent in December 2021 from 6.3 percent in June. Non-food Non-fuel (NFNF) inflation remained low and stable below 5 percent, reflective of muted demand pressures.

The foreign exchange market remained relatively stable in the second half of 2021, 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 horticulture exports, as well as improved services receipts. The current account deficit was estimated at 5.4 percent of GDP in 2021, compared to a deficit of 4.6 percent of GDP in 2020. This reflects higher imports of oil and other intermediate inputs which offset the increased receipts from horticultural and manufactured exports, and strong remittances. The CBK foreign exchange reserves, which stood at USD 8,763 million (5.38 months of import cover) at the end of 2021, 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 56.2 percent and 19.6 percent, respectively in December 2021. The ratio of gross non-performing loans (NPLs) to gross loans declined to 13.1 percent in December 2021, from 14.0 percent in June. Private sector credit growth remained resilient in the second half of 2021, growing by 8.6 percent in the 12-months to December 2021 compared to 7.7 percent in June. This was supported by recovery in economic activities, accommodative monetary policy stance and continued implementation of the Credit Guarantee Scheme targeting Micro, Small and Medium sized Enterprises (MSMEs).

The economy recovered strongly in the first three quarters of 2021, supported by easing of COVID-19 restrictions and the impact of Government interventions. In particular, real GDP grew by 9.9 percent in the third quarter of 2021 compared to a contraction of 2.1 percent in the third quarter of 2020. This was supported by continued recovery in the services sector, particulary transport and storage, education, accommodation and food services, wholesale and retail trade, and improved performance of manufacturing and construction.

The monetary policy stance in 2022 will aim at maintaining overall inflation rate within the target range of 5±2.5 percent. The foreign exchange market is expected to remain stable supported by a stable current account deficit of 5.2 percent of GDP in 2022. The continued coordination of monetary and fiscal policies is expected to sustain macroeconomic stability and support economic activity in the post COVID-19 period. Consistent with the inflation and growth objectives, the 12-month growth in broad money (M3) is expected at about 10.8 percent in June 2022 and 11.7 percent by December 2022. Growth in private sector credit is expected at 10.1 percent by June 2022 and 11.0 percent by December 2022. The Bank will also continue to implement measures outlined in the White Paper, towards modernisation of the monetary policy framework and operations.

The Bank will continue to monitor the risks posed by developments in the domestic and global economies on the overall price stability objective. The Bank will also continue to closely monitor the economic impact of COVID-19 and the outcomes of policy measures in place as well as other developments in the domestic and global economies to safeguard price stability.

1. INTRODUCTION

This Monetary Policy Statement (MPS) presents the outcome of the monetary policy stance adopted in the second half of 2021, and provides the direction of monetary policy in 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 developments in inflation, and key monetary aggregates such as broad money (M3) and credit to the private sector. Monetary policy is implemented in the context of a flexible exchange rate regime. The Bank's participation in the foreign exchange market is guided by the need to maintain 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 economy continued to strengthen, supported by the deployment of vaccines, improved business environment and consumer spending, and accommodative policy measures. However, the pace of recovery remained uneven across countries, mainly due to uneven distribution of vaccines, supply chain disruptions, and disparate policy support measures. Additionally, inflation in advanced economies and emerging markets rose sharply, driven mainly by rising global oil prices, and supply chain bottlenecks.

The CBK continued to monitor the impact of the implications and outcomes of the measures implemented to mitigate the adverse economic effects and financial disruptions from the pandemic, as well as developments in the global and domestic economy. During its July, September and November 2021 meetings, the MPC noted that inflation expectations remained well anchored within the target range. The MPC also noted the progress in implementation of the FY2021/22 Government Budget, particularly the rebound in revenue performance with the pickup of economic activities and improvement of the business environment. The roll out of the *Economic Stimulus Programme and Economic Recovery Strategy* was also expected to support the economy. Private sector credit growth remained resilient, supported by an 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 second half of 2021 while Section 3 describes the external economic environment and outlook for 2022. Section 4 concludes by outlining the specific monetary policy path for 2022.

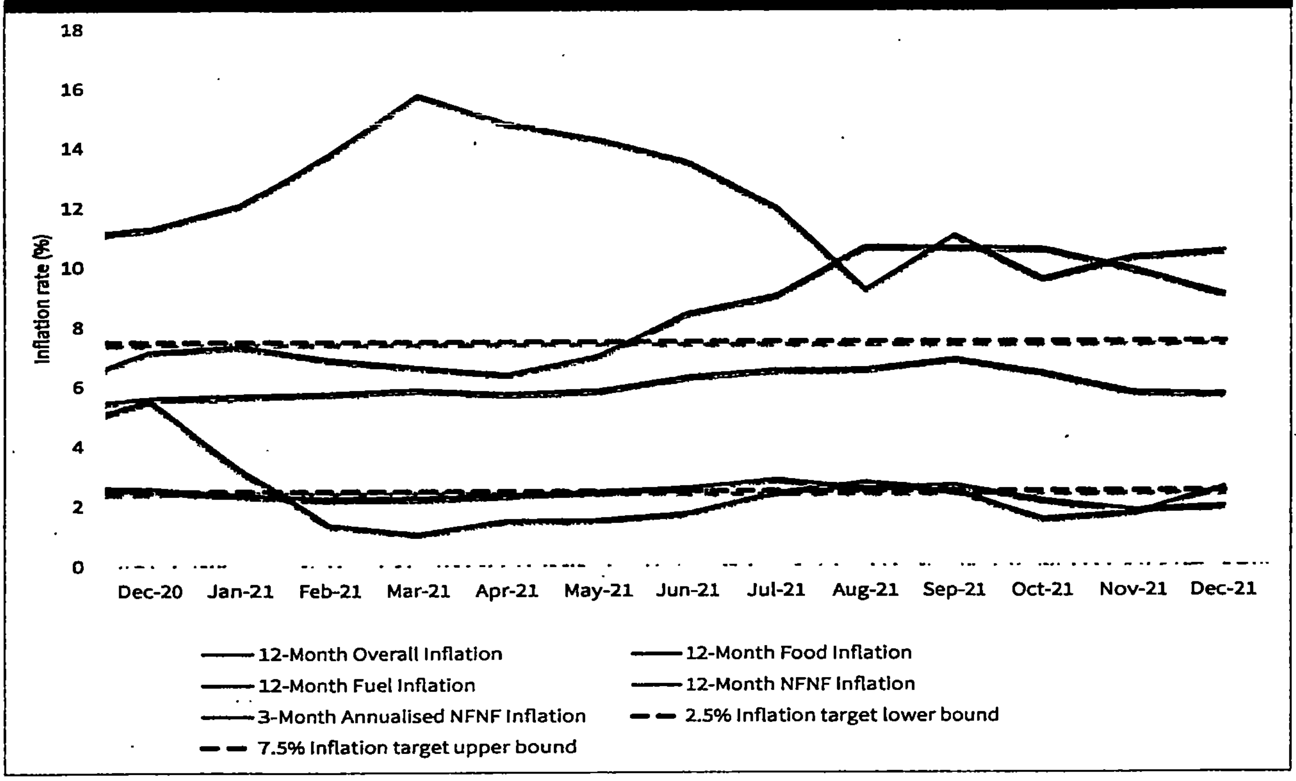
2. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE SECOND HALF OF 2021

During the second half of 2021, monetary policy formulation and implementation was aimed at maintaining overall inflation within the target range of 5±2.5 percent. The stance of monetary policy was also aimed at mitigating the adverse economic effects and financial disruptions from the COVID-19 (coronavirus) pandemic. During the MPC meetings in July, September and November 2021, the Committee retained the CBR at 7.00 percent. The MPC observed that the prevailing accommodative monetary policy stance remained appropriate, and was supported by the implementation of the FY2021/22 Government Budget. The following are the specific outcomes of the policy stance:

i. Inflation

Overall inflation remained within the target range during the period July-December 2021, indicating that the monetary policy stance remained appropriate. The inflation rate declined to 5.7 percent in December from 6.3 percent in June. Fuel inflation declined to 10.5 percent in December from 13.5 percent in June, reflecting the impact of Government interventions to stabilize pump prices. However, food inflation increased to 9.1 percent in December from 8.5 percent in June, due to the impact of dry weather conditions on some food items. Non-food non-fuel (NFNF) inflation remained low and stable during the period under review. It declined to 2.0 percent in December from 2.6 percent in June, reflective of muted demand pressures in the economy **(Chart 1a)**.

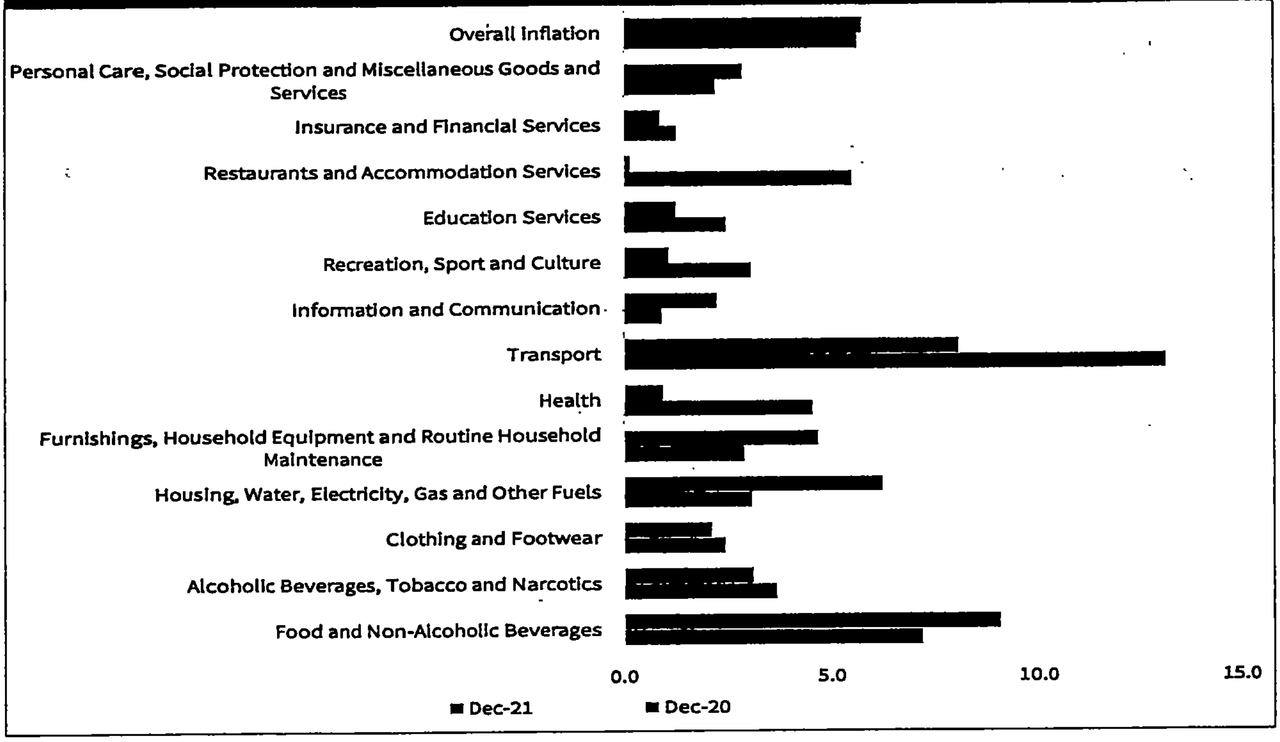
Chart 1a: Inflation in Broad Measures (year-on-year, percent)



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

Inflation rates of all consumer good categories except Food and Non-alcoholic Beverages, Restaurants and Accommodation Services and Transport were within the target range in December 2021 **(Chart 1b).**

Chart 1b: 12-Month Inflation by Broad CPI Categories (Percent)



Source: Kenya National Bureau of Statistics

ii. Bank Credit to the Private Sector

Private sector credit growth remained resilient in the second half of 2021, growing by 8.6 percent in the 12-months to December 2021 compared to 7.7 percent in June. This was supported by recovery in demand with improved economic activity following the easing of COVID-19 containment measures, and accommodative monetary policy. Strong credit growth was observed in manufacturing (13.1 percent), trade (8.5 percent), transport and communication (14.3 percent), business services (9.5 percent) and consumer durables (15.0 percent) **(Table 1)**.

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

Main sectors	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Agriculture	3.7	2.8	1.4	3.3	2.7	1.3	0.5
Manufacturing	8.1	9.4	9.3	9.8	10.9	11.5	13.1
Trade	1.9	1.3	2.7	4.7	5.5	6.1	8.5
Building and construction	2.0	0.4	1.7	0.5	-0.5	2.8	1.9
Transport and communication	11.8	0.2	11.8	10.9	9.6	8.3	14.3
Finance and insurance	11.5	8.9	7.7	11.7	8.9	7.1	5.8
Real estate	4.0	3.2	2.8	2.9	2.4	1.1	0.6
Mining and quarrying	-13.0	-22.1	-23.1	-8.4	6.2	8.3	42.9
Private households	3.2	2.4	2.0	2.6	2.7	3.3	3.7
Consumer durables	23.4	21.7	20.1	17.6	16.5	15.3	15.0
Business services	5.2	4.9	5.8	7.6	8.2	10.8	9.5
Other activities	65.2	58.0	56.0	59.5	64.1	55.2	38.9
Total private sector credit	**7.7**	**6.1**	**7.0**	**7.7**	**7.8**	**7.7**	**8.6**

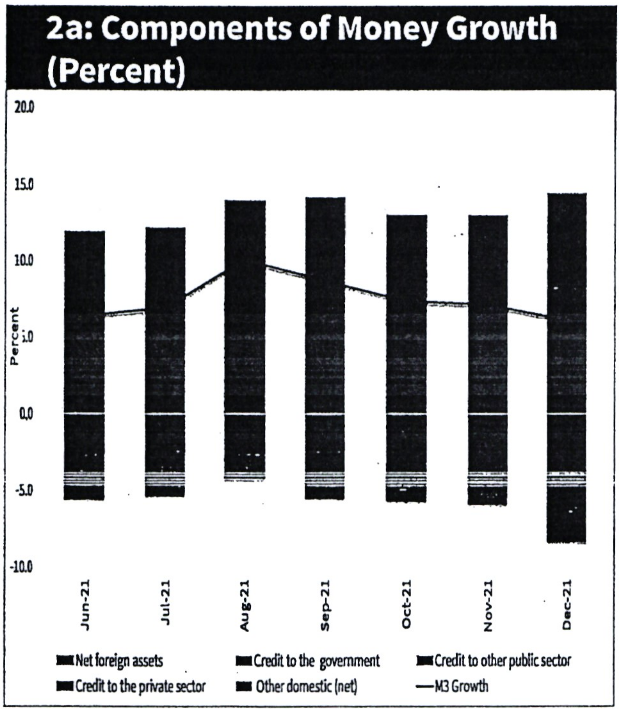
Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

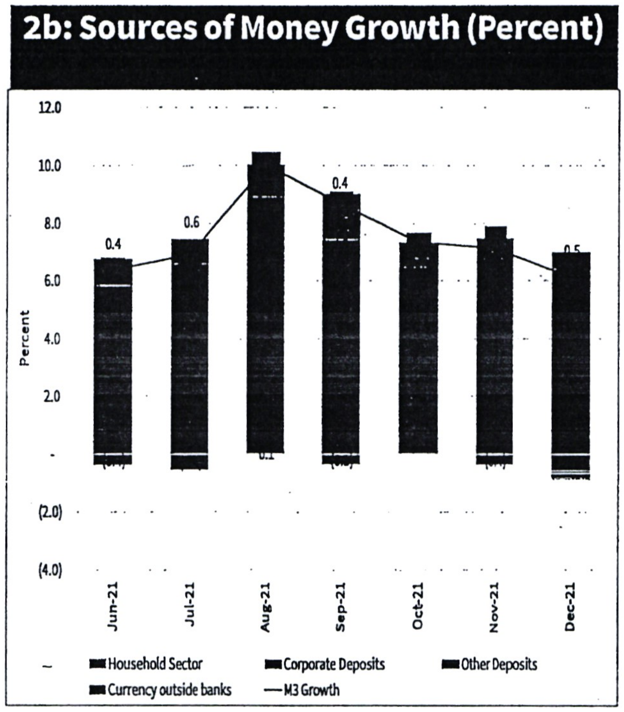
The 12-month growth of broad money, M3, stood at 6.1 percent in December 2021 compared to 6.4 percent in June, partly supported by net domestic assets (NDA) of the banking system. Growth in NDA of the banking system was driven by net lending to government and private sector credit. Meanwhile, the decline in net foreign assets (NFA) of the banking system moderated the growth in broad money supply. Reduction in NFA of the banking system was partly attributed to government debt servicing and central bank operations as well as increased bank loans and deposits from non-resident banks **(Chart 2)**.

On the liabilities side, the growth of money supply was reflected in deposits, mainly the corporate sector deposits, partly due to improved business activities in the second half of 2021. Overall, monetary aggregates grew at a relatively slower pace compared to their respective targets **(Table 2)**.

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



Source: Central Bank of Kenya



Source: Central Bank of Kenya

Table 2: Developments in Key Monetary Aggregates

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Actual Broad Money,M3 (Ksh Billion)	4,137.8	4,174.6	4,233.4	4,177.7	4,210.9	4,234.0	4,235.2
Target (Ksh Billion)	4,269.9	4,315.6	4,301.3	4,263.7	4,304.5	4,345.3	4,379.3
Actual Reserve Money (Ksh Billion)	449.8	459.1	479.6	478.8	477.6	482.6	521.6
Target (Ksh Billion)	472.7	481.3	487.4	490.3	485.7	486.9	502.2
Actual Net Foreign Assets of CBK (Ksh Billion)	835.8	824.0	776.3	760.8	735.2	710.4	700.6
Target (Ksh Billion)	859.7	801.2	773.7	752.3	740.6	712.0	770.6
Actual Net Domestic Assets of CBK (Ksh Billion)	-386.0	-364.9	-296.7	-282.0	-257.6	-227.8	-179.0
Target (Ksh Billion)	-386.9	-319.9	-286.3	-262.0	-254.8	-225.1	-268.4
Actual Credit to private sector (Ksh Billion)	2,901.1	2,894.1	2,943.0	2,979.3	2,994.4	3,028.3	3,053.2
Target (Ksh Billion)	2,922.8	2,959.7	2,989.2	3,009.7	2,997.0	3,025.7	3,050.2
Memorandum Items							
12-month growth in actual Reserve Money (Percent)	5.4	3.2	0.7	5.9	7.3	4.6	11.0
12-month growth in actual Broad Money, M3 (Percent)	6.4	6.9	10.0	8.7	7.3	7.1	6.1

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 second half of 2021, noting that inflation expectations remained anchored within the target range, with leading economic indicators pointing to continued robust performance. The MPC further noted that its policy measures would be supported by the successful implementation of the FY2021/22 Government Budget. Additionally, the CBK ensured that the interbank market remained liquid and continued to function smoothly, and closely monitored the evolution of COVID-19.

b. Short Term Rates

Short-term interest rates remained relatively stable in the second half of 2021, supported by accommodative monetary policy stance and improved market liquidity **(Table 3)**. The average interbank interest rate remained below the CBR, partly reflecting ample liquidity conditions in the market. The average interbank interest rate remained relatively low in the period, but rose to 5.02 percent in December partly due to increased demand for cash during the end year festivities. Interest rates on government securities increased marginally with the average 91-day Treasury bill rate at 7.26 percent in December 2021 compared to 7.03 percent in June, while the average 182-day Treasury bill rate was 7.98 percent compared to 7.60 percent. Liquidity management operations by the CBK continued to ensure stability in the market.

c. Commercial Bank Rates

Commercial banks' average interest rates remained stable in line with the monetary policy stance. The average commercial bank lending rate was 12.15 percent in November 2021 compared to 12.02 percent in June, while the average deposit rate was 6.43 percent and 6.37 percent, respectively. Consequently, the interest spread increased slightly from 5.64 percent to 5.72 percent.

Table 3: Interest Rates (Percent)

	2021						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Central Bank Rate	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Interbank	4.63	4.17	3.10	4.73	5.26	5.02	5.02
Repo	5.37	5.31	5.41	5.54	6.49	4.91	5.35
91-Tbill	7.03	6.64	6.57	6.83	6.95	7.08	7.26
182-Tbill	7.60	7.07	7.07	7.25	7.36	7.62	7.98
Average Lending Rate (1)	**12.02**	**12.09**	**12.12**	**12.10**	**12.12**	**12.15**	
Overdraft/loan	11.18	11.44	11.38	11.34	11.33	11.41	
1-5years	12.24	12.28	12.29	12.29	12.29	12.34	
Over 5years	12.12	12.17	12.24	12.21	12.25	12.23	
Average Deposit Rate (2)	**6.37**	**6.34**	**6.30**	**6.34**	**6.39**	**6.43**	
Demand	1.18	1.18	1.24	1.18	1.16	1.20	
0-3months	6.76	6.63	6.59	6.61	6.64	6.76	
Over 3months	7.08	7.10	7.03	7.04	7.15	7.16	
Savings	2.55	2.51	2.64	2.57	2.58	2.60	
Spread (1-2)	**5.64**	**5.76**	**5.82**	**5.76**	**5.72**	**5.72**	

Source: Central Bank of Kenya

v. Banking Sector Developments

The banking sector remained stable and resilient in the second half of 2021, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 56.2 percent and 19.6 percent, respectively in December 2021. These ratios were above the minimum statutory liquidity and capital adequacy ratios of 20.0 percent and 14.5 percent, respectively. The asset quality, measured by gross non-performing loans (NPLs) to gross loans ratio, stood at 13.1 percent in December 2021 compared to 14.0 percent in June 2021. Seven economic sectors registered decreased NPLs between June and December 2021 largely due to repayments. The major sectors with decreasing NPLs were manufacturing, personal and household, building and construction, financial services, and trade.

The Credit Guarantee Scheme (CGS), launched in December 2020, was meant to de-risk commercial banks' lending and support additional credit uptake by the vulnerable Micro Small and Medium-sized Enterprises (MSMEs). Seven banks have been approved under the CGS and as at December 2021, and had advanced loans amounting to Ksh.2.1 billion.

The Central Bank of Kenya (Amendment) Act, 2021, became effective on December 23, 2021. The Amendment grants CBK the powers to license and oversight the previously unregulated digital credit providers. Consequently, on December 23, 2021, CBK published draft Digital Credit Providers Regulations for public comments by January 21, 2022. The regulations will be gazetted and operationalized before March 2022.

vi. Response to the COVID-19 Pandemic

The CBK continued to monitor the impact of the COVID-19 pandemic following expiry of the emergency measures introduced in March 2020, to mitigate the adverse economic effects and financial disruptions from the pandemic. Given that the effects of the pandemic were still being felt, particularly on Micro, Small and Medium Enterprises, CBK announced on November 8, 2021, the suspension for a period of twelve months of the listing of negative credit information for borrowers with loans below KSh. 5 million. This measure applied to loans, which were performing but became non-performing from October 1, 2021. This announcement followed the publication of Legal Notice No. 225 of November 5, 2021, by the Cabinet Secretary for the National Treasury and Planning, on the recommendation of CBK, pursuant to Regulation 18(7) of the Banking (Credit Reference Bureau) Regulations, 2020.

The emergency measures for banks to consider restructuring customer loans, which expired on March 2, 2021, provided the intended relief to borrowers, supported continued operation of business including essential sectors, and mitigated more severe loss of jobs and livelihoods. Additionally, the measures provided space for the banking sector to build capital and liquidity buffers, thereby strengthening resilience of the sector. As at December 2021, there were outstanding restructured loans amounting to Ksh.423.6 billion (13.0 percent of the gross loans). Of these amount, 92.3 percent were performing as per the restructuring terms.

The lowering of the Cash Reserve Ratio (CRR) in March 2020 had injected KSh.32.8 billion to support lending to tourism (31.8 percent), trade (14.8 percent), transport and communication (13.9 percent), real estate (12.6 percent), manufacturing (12.1 percent), and agriculture (10.0 percent) as at December 2021. The utilized amount was 93.2 percent of the total liquidity released of Ksh.35.2 billion.

On the fiscal front, the execution of the Government Budget for FY2021/22 progressed well supported by improved business environment following reopening of the economy and easing of COVID-19 containment measures. Government revenues registered strong growth, with cumulative ordinary revenues outpacing the target in the first half of FY2021/22. The rollout of the *Economic Stimulus Programme and Economic Recovery Strategy* continued to support the economy.

vii. Exchange Rates and Foreign Exchange Reserves

The Kenya Shilling exchange rate remained relatively stable in the second half of 2021, despite increased uncertainties in the global financial markets due to the impact of COVID-19, and a stronger US Dollar **(Chart 3a and 3b)**. Resilient receipts from tea and horticulture exports, strong diaspora remittances as well as improved service receipts supported the stability of the Kenya Shilling. The Kenya Shilling was also stable against regional currencies as well as major international currencies.

Chart 3a: The Kenya Shilling and Regional Currencies against the U.S Dollar (July 1, 2021=1)

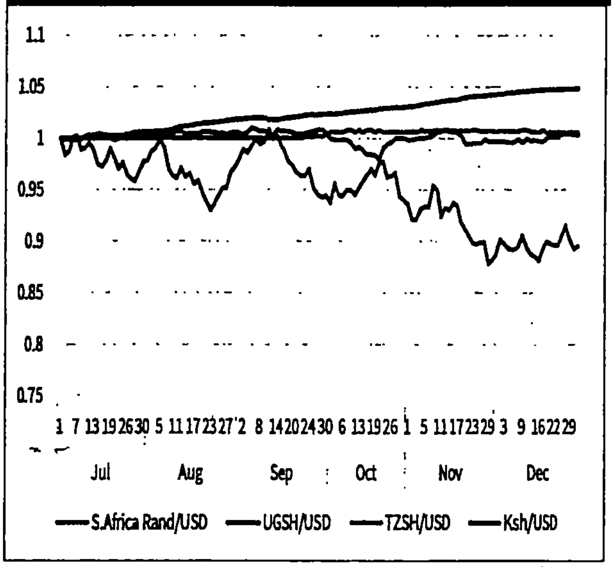
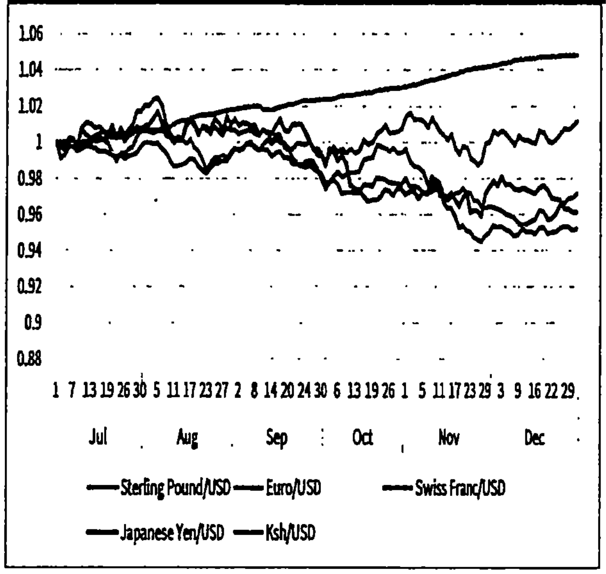
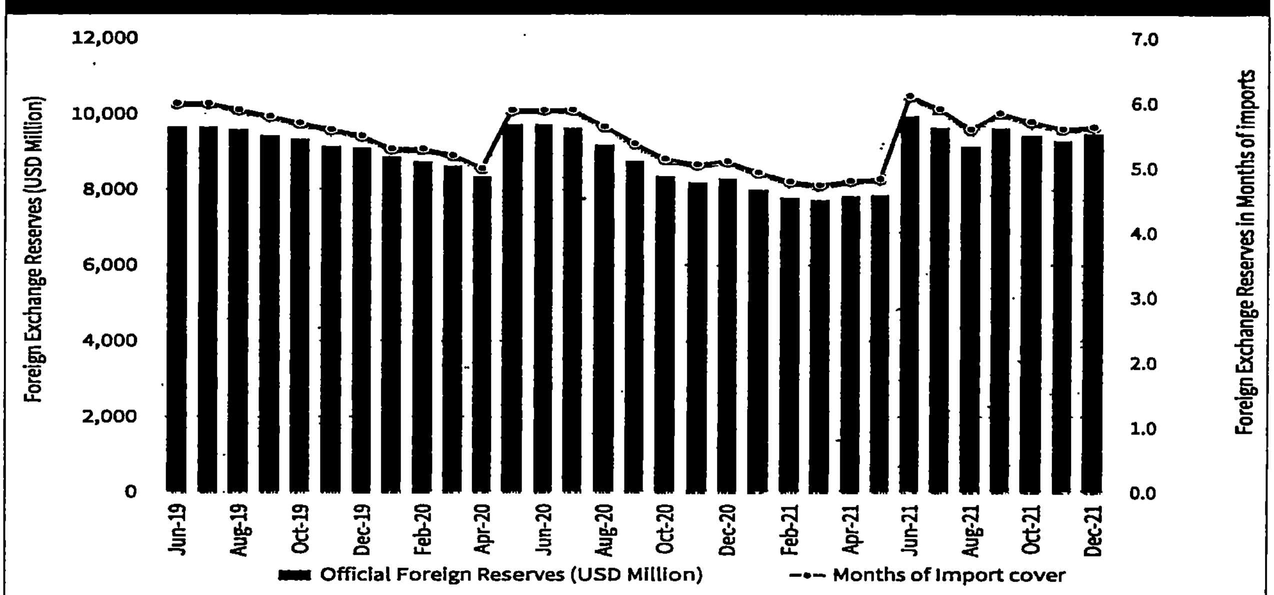


Chart 3b: The Kenya Shilling and major International Currencies against the US Dollar July 1, 2021=1



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. The CBK usable foreign exchange reserves stood at USD 8,763 million (5.38 months of import cover) at the end of December 2021, and continue to provide an adequate buffer against short-term shocks in the foreign exchange market **(Chart 3c)**.

Chart 3c: CBK Foreign Exchange Reserves

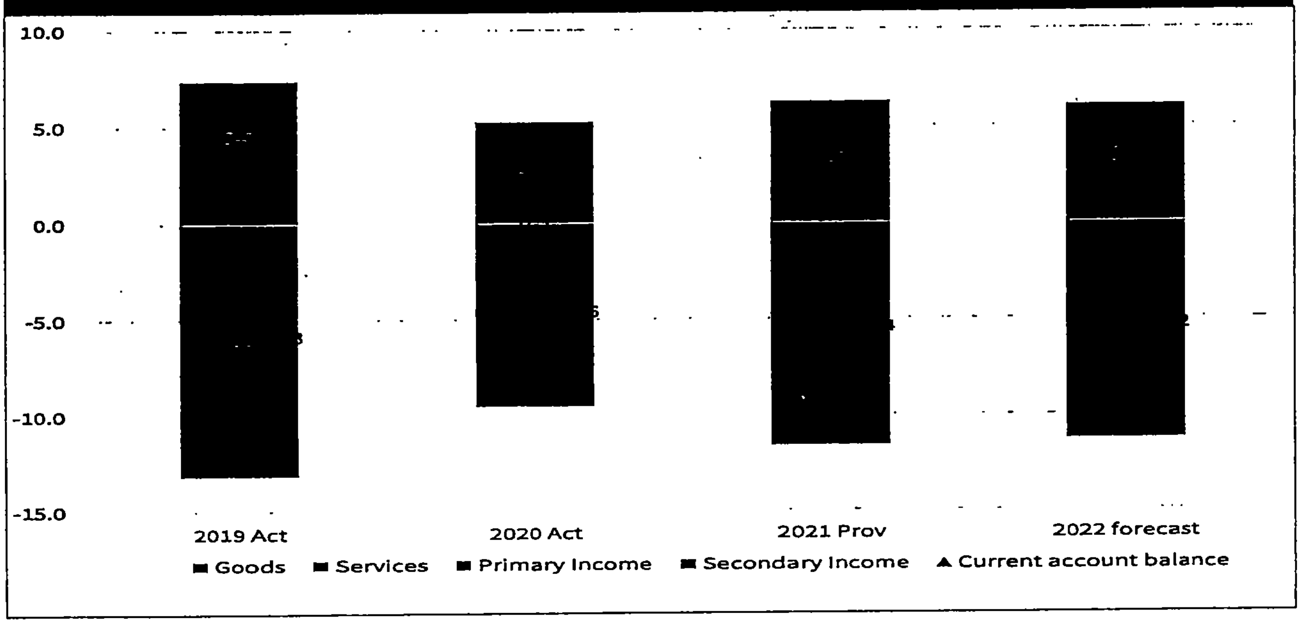


Note: Months of import cover computed based on the average imports over the previous 36 months

viii. Balance of Payments Developments

The current account balance was estimated at a deficit of USD 5,937 million (5.4 percent of GDP) in 2021, compared to a deficit of USD 4,619 million (4.6 percent of GDP) in 2020. This widening in the deficit was mainly due to higher imports of oil and other intermediate inputs, which offset increased receipts from horticultural and manufactured exports and strong remittances **(Chart 4 and Table 4)**.

Chart 4: Components of the Current Account Balance (Percent of GDP)



Source: Kenya National Bureau of Statistics

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

	2019	2020	2021
	Act.	Act	Prov.
1. Current account balance	**-5.3**	**-4.6**	**-5.4**
1.1 Goods balance	**-10.6**	**8.3**	**-10.4**
Goods: Exports (fob)	5.8	6.0	6.1
o/w: Tea	1.1	1.2	1.1
Horticulture	1.0	1.0	1.0
Manfactured Goods	0.4	0.4	0.5
Other exports and re-exports	3.3	3.4	3.5
Goods: Imports (fob)	16.5	14.3	16.5
o/w: Oil	3.3	2.2	3.2
Machinery & transport equipment	4.8	3.9	4.2
Other imports	13.2	12.2	13.3
1.2 Services balance	**1.7**	**0.4**	**0.7**
Credit	5.6	3.7	4.4
o/w: Transportation	2.2	1.1	1.3
Travel	1.0	0.5	0.8
Debit	3.8	3.3	3.7
1.3 Primary Income, balance	**-1.6**	**-1.2**	**-1.3**
Credit	0.2	0.1	0.2
Debit	1.8	1.3	1.5
1.4 Secondary Income, balance	**5.3**	**4.9**	**5.6**
Credit	5.3	5.0	5.7
o/w: Remittances	2.8	3.1	3.4
Debit	0.1	0.1	0.1
2. Capital Account balance	**0.2**	**0.1**	**0.4**
3. Financial Account balance	**-5.9**	**-2.9**	**-4.8**
3.1 Foreign direct investment, balance	-0.9	-0.5	0.0
3.2 Portfolio investment, balance	-1.3	1.3	-0.1
3.3 Other investment, balance	-3.7	-3.7	-4.7

Source: Central Bank of Kenya

The goods account deficit widened to 10.4 percent of GDP in 2021 from a deficit of 8.3 percent of GDP in 2020, reflecting increased imports of oil products and other intermediate inputs which offset gains in horticulture and manufactured exports, and strong diaspora remittances. The value of merchandise exports improved to USD 6,732 million in 2021 compared with USD 6,062 million in 2020. Earnings from horticulture and manufactures increased by 18.9 percent and 35.5 percent, respectively, boosted by external demand. Imports grew by 25.4 percent in 2020 on account of petroleum products due to higher global oil prices, and other intermediate inputs. Exports to Africa accounted for 41.3 percent of total exports, with COMESA and the EAC region accounting for 28.8 and 25.7 percent, respectively. China and the European Union (EU) were the major importers, accounting for 20.4 percent and 13.0 percent of total imports, respectively. **(Table 5)**.

Table 5: Kenya's Direction of Trade

IMPORTS (in millions of US dollars)				**Share of total**			
Country	**2019**	**2020**	**2021**	**2018**	**2019**	**2020**	**2021**
Africa	**2,196**	**1,688**	**2,060**	**12.5**	**13.3**	**11.6**	**11.3**
Of which							
South Africa	691	460	403	3.9	4.2	3.2	2.2
Egypt	416	399	446	2.2	2.5	2.8	2.5
Others	1,088	829	1,212	6.4	6.6	5.7	6.7
EAC	**619**	**490**	**807**	**4.2**	**3.7**	**3.4**	**4.4**
COMESA	**1,180**	**950**	**1,081**	**7.0**	**7.1**	**6.6**	**5.9**
Rest of the World	**14,356**	**12,804**	**16,118**	**87.5**	**86.7**	**88.4**	**88.7**
Of which							
India	1,709	1,775	2,280	11.2	10.3	12.2	12.5
United Arab Emirates	1,636	1,042	1,448	8.9	9.9	7.2	8.0
China	3,624	3,539	3,711	22.5	21.9	24.4	20.4
Japan	948	857	953	6.0	5.7	5.9	5.2
USA	583	525	768	3.2	3.5	3.6	4.2
United Kingdom	330	286	308	1.9	2.0	2.0	1.7
Singapore	67	74	93	0.2	0.4	0.5	0.5
Germany	438	392	393	2.8	2.6	2.7	2.2
Saudi Arabia	1,248	731	953	10.5	7.5	5.0	5.2
Indonesia	483	577	403	2.8	2.9	4.0	2.2
Netherlands	311	296	428	1.2	1.9	2.0	2.4
France	234	231	205	1.4	1.4	1.6	1.1
Iran	60	47	29	0.6	0.4	0.3	0.2
Italy	201	207	226	1.6	1.2	1.4	1.2
Others	2,484	2,225	3,921	12.6	15.0	15.4	21.6
Total	**16,551**	**14,492**	**18,178**	**100.0**	**100.0**	**100.0**	**100.0**
EU	**2,222**	**2,171**	**2,363**	**13.2**	**13.4**	**15.0**	**13.0**
China	**3,624**	**3,539**	**3,711**	**22.5**	**21.9**	**24.4**	**20.4**

EXPORTS (in millions of US dollars)				**Share of total**			
Country	**2019**	**2020**	**2021**	**2018**	**2019**	**2020**	**2021**
Africa	**2,190**	**2,259**	**2,777**	**35.1**	**37.3**	**37.3**	**41.3**
Of which							
Uganda	624	659	826	10.0	10.6	10.9	12.3
Tanzania	329	291	406	4.8	5.6	4.8	6.0
Egypt	186	174	193	3.3	3.2	2.9	2.9
Sudan	57	75	66	1.0	1.0	1.2	1.0
South Sudan	123	209	155	2.1	2.1	3.5	2.3
Somalia	116	109	123	2.4	2.0	1.8	1.8
DRC	132	134	224	2.5	2.2	2.2	3.3
Rwanda	227	234	273	2.9	3.9	3.9	4.1
Others	395	374	511	6.0	6.7	6.2	7.6
EAC	**1,369**	**1,450**	**1,729**	**20.9**	**23.3**	**23.9**	**25.7**
COMESA	**1,477**	**1,520**	**1,942**	**23.9**	**25.1**	**25.1**	**28.8**
Rest of the World	**3,682**	**3,803**	**3,954**	**64.9**	**62.7**	**62.7**	**58.7**
Of which							
United Kingdom	391	457	451	6.5	6.7	7.5	6.7
Netherlands	471	442	562	7.5	8.0	7.3	8.4
USA	509	466	543	7.7	8.7	7.7	8.1
Pakistan	444	512	484	9.6	7.6	8.4	7.2
United Arab Emirates	379	350	315	5.7	6.5	5.8	4.7
Germany	111	132	130	1.8	1.9	2.2	1.9
India	53	59	95	1.5	0.9	1.0	1.4
Afghanistan	35	28	6	0.6	0.6	0.5	0.1
Others	1,289	1,356	1,368	24.0	21.9	22.4	20.3
Total	**5,872**	**6,062**	**6,732**	**100.0**	**100.0**	**100.0**	**100.0**
EU	**1,305**	**1,362**	**1,506**	**21.2**	**22.2**	**22.5**	**22.4**
China	**148**	**136**	**199**	**1.8**	**2.5**	**2.3**	**3.0**

Source: Kenya Revenue Authority and Central Bank of Kenya

The balance on the secondary income improved supported by strong remittance inflows, which accounted for 3.4 percent of GDP in 2021. The cumulative inflows in 2021 were a record USD 3,718 million from USD 3,094 million in 2020, a 20.2 percent increase. The US remains the largest source of remittances into Kenya, accounting for 63.2 percent in 2021. Services exports improved by 30.2 percent in 2021 boosted by the resumption in international travel and transport.

ix. Economic Growth

The economy rebounded strongly in the first three quarters of 2021, supported by easing of COVID-19 restrictions and prompt Government interventions. Data from the Kenya National Bureau of Statistics (KNBS) shows that the economy has been on a strong recovery path since 2020Q3. The growth momentum continued in the third quarter of 2021 with real GDP growing by 9.9 percent compared to a contraction of 2.1 percent in the third quarter of 2020. The strong performance was supported by continued recovery in transport and storage, education, accommodation and food services, and wholesale and retail trade, as well as improved performance of manufacturing and construction sectors. The agricultural sector remained subdued on account of unfavorable weather conditions in most parts of the country, which affected crop production.

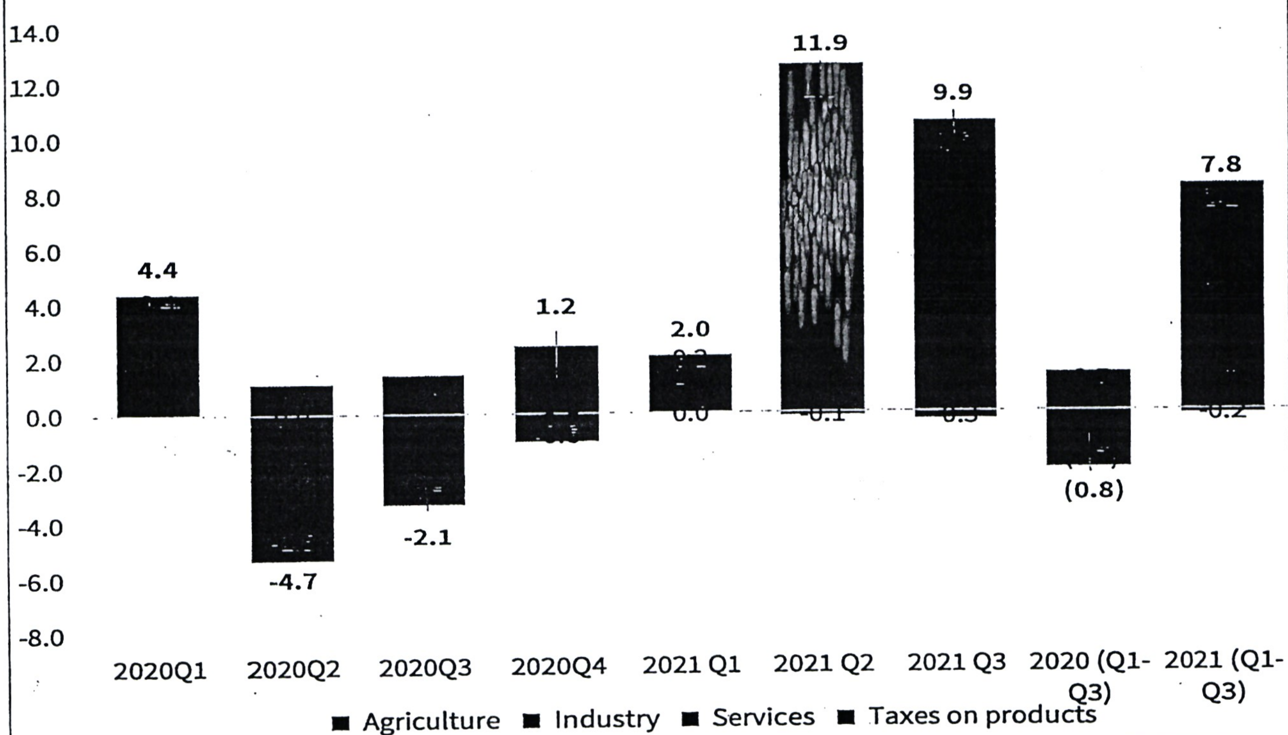
The KNBS revised real GDP growth rates for the first and second quarters of 2021 to 2.0 percent and 11.9 percent, respectively, from 0.7 percent and 10.1 percent, in similar quarters in their October release. Given the outcomes, the economy expanded by 7.8 percent in the first three quarters of 2021, compared to a contraction of 0.8 percent in a similar period of 2020 **(Table 6 and Chart 5)**.

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

Main Sectors	2020Q1	2020Q2	2020Q3	2020Q4	2021 Q1	2021 Q2	2021 Q3	2020 (Q1-Q3)	2021 (Q1-Q3)
1. Agriculture	4.3	4.9	4.2	5.8	-0.1	-0.7	-1.8	4.5	-0.8
2. Non-Agriculture (o/w)	4.4	-7.2	-3.4	0.3	2.6	15.7	12.5	-2.1	10.1
2.1 Industry	4.8	-0.3	3.5	7.8	4.5	8.4	8.5	2.7	7.1
2.2 Services	4.2	-7.1	-4.7	-0.9	2.0	17.3	13.0	-2.6	10.6
2.3 Taxes on products	5.1	-20.8	-8.5	-6.4	2.0	21.9	18.2	-8.5	13.4
Real GDP Growth	**4.4**	**-4.7**	**-2.1**	**1.2**	**2.0**	**11.9**	**9.9**	**-0.8**	**7.8**

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

Chart 5: Contributions to Real GDP Growth (percentage points)



Source: Kenya National Bureau of Statistics

x. Domestic Government Borrowing

The coordination between monetary and fiscal policies continued to support macroeconomic stability. The Government's borrowing plan in the second half of 2021/2022 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.

xi. Modernisation of the Monetary Policy Framework and Operations

The MPC published a White Paper on Modernization of the Monetary Policy Framework and Operations in July 2021, which outlines the reforms that would enhance the effectiveness of monetary policy and support anchoring of inflation expectations. These reforms entail: refining macroeconomic modelling and forecasting frameworks in line with changing structure of the economy, improving the functioning of the interbank market in order to strengthen monetarypolicy transmission and operations, and continued improvement of communication of monetary policy decisions.

xii. 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 press conferences after each MPC meeting to brief the media on the background to MPC decisions, and measures taken by the CBK to support macroeconomic stability as well as mitigate the impact of COVID-19 on the economy. In addition, MPC Members held virtual meetings with investors to brief them on economic developments and the outlook for the economy.

The MPC continued to improve on the scope and information gathering processes through the Private Sector Market Perceptions Survey, the CEOs Survey and the Survey of Hotels. The CEOs Survey seeks to capture information on top firms' perceptions, expectations and decisions and supporting key policy decisions, including monetary policy while the Survey of Hotels monitors the recovery of the sectors from the adverse impact of the COVID-19 pandemic.

The Surveys conducted in the second half of 2021 ahead of the MPC meetings revealed continuing optimism on growth prospects on account of sustained recovery across different sectors, the lifting of the curfew, reduced COVID-19 infection numbers and increased vaccinations, continued government infrastructure spending, and the global economic recovery which is expected to boost export demand.

The MPC continued to monitor the implementation of MPC decisions by the CBK, and interacted with other government agencies such as the National Treasury and KNBS on various policy and data issues.

3. THE ECONOMIC ENVIRONMENT AND OUTLOOK FOR 2022

i. International Economic Environment

The global economy continued to strengthen in 2021 despite uncertainty over the evolution of the COVID-19 pandemic particularly following a resurgence of new variants. Global growth was expected to grow by 5.9 percent and 4.9 percent in 2021 in 2022 (October 2021 World Economic Outlook). The projected recovery in 2021 is 0.1 percentage points lower than in the July 2021 World Economic Outlook (WEO) Update, due to a resurgence of COVID-19 infections and associated disparities in vaccine access particularly in low-income countries.

Growth in the advanced economies was expected to reach 5.2 percent in 2021 before slowing to 4.5 percent in 2022, reflecting increased supply chain disruptions. However, there was a significant divergence in the direction of this region's growth recovery, with the US and UK growth expected to return to pre-pandemic levels in the near-term **(Table 7)**. Growth in most advanced economies was projected to recover in 2021 as follows: US (6.0 percent), the UK (6.8 percent), Canada (5.7 percent), Euro Area (5.0 percent) and Japan (2.4 percent).

Growth in emerging market and developed economies is expected at 6.4 percent in 2021 and 5.1 percent in 2022. The recovery in 2021 is supported by a scaling-up of public spending and increased rollout of the COVID-19 vaccines. Economies in this group are expected to grow in 2021 as follows: China (8.0 percent), India (9.5 percent), Russia (4.7 percent), Brazil (5.2 percent), Mexico (6.2 percent) and the Saudi Arabia (2.8 percent). Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.7 percent in 2021. Economic growth in Nigeria and South Africa is expected increase to 2.6 percent and 5.0 percent, respectively, in 2021 and by 2.7 percent (Nigeria) and 2.2 percent (South Africa) in 2022.
Global trade volumes are expected to increase by 9.7 percent in 2021 before slowing to 6.7 percent in 2022 in line with increased economic activities amid subdued cross-border services **(Table 7)**.

The near-term economic outlook continues to be impacted by significant uncertainties due to the unpredictability of the effects of the COVID-19 pandemic and the progress of global vaccinations. Additionally, inflation in some major economies and emerging markets has risen sharply, mainly due to increases in global oil prices, supply chain bottlenecks, and weather-related factors.

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

Region/Country	2019 Act.	2020 Est	2021 Proj.	2022 Proj.
World Output	**2.8**	**-3.1**	**5.9**	**4.9**
Advanced Economies	**1.6**	**-4.5**	**5.2**	**4.5**
United States	2.2	-3.4	6.0	5.2
Euro Area	1.3	-6.3	5.0	4.3
Japan	0.0	-4.6	2.4	3.2
United Kingdom	**1.4**	**-9.8**	**6.8**	**5.0**
Emerging Market and Developing Economies	**3.7**	**-2.1**	**6.4**	**5.1**
China	6.0	2.3	8.0	5.6
India	4.0	-7.3	9.5	8.5
Brazil	2.0	-3.0	4.7	2.9
Russia	1.4	-4.1	5.2	1.5
Sub Sahara Africa	**3.2**	**-1.7**	**3.7**	**3.8**
Nigeria	2.2	-1.8	2.6	2.7
South Africa	0.2	-6.4	5.0	2.2

Source:IMF, October 2021 WEO

ii. Domestic Economic Environment

The economy is projected to record strong growth in 2022, supported by recovery of the agriculture sector and continued pickup of activity in the services sector. In addition, the ongoing vaccination drive is expected to hasten normalization of economic activity both domestically and globally, and continued Government investment in infrastructure projects is expected to support growth in the respective sectors such as construction, manufacturing, and real estate. However, the downside risks to growth remain significant. Emergence of new COVID-19 variants may lead to tightening of containment measures, which would further slowdown the pace of global economic recovery. Supply chain disruptions could pose a threat to normalization of value chains. Moreover, faster than expected policy tightening in advanced economies could tighten financial conditions.

The MPC Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of Hotels conducted ahead of MPC meetings in November showed optimism about business activity and economic growth prospects for 2021 and 2022. Respondents attributed this optimism to the continued recovery of key sectors supported by government stimulus programmes, lower inflation, increased COVID-19 vaccinations, and expected reduction in the cost of doing business on account of reduced electricity costs. Respondents remained concerned about the lingering effects of the pandemic.

The macroeconomic environment is expected to remain stable, with overall inflation remaining stable and within the target range in the near term, supported by lower food and energy prices. Supply of food items is expected to increase with anticipated good rainfall performance, leading to lower food prices. The ongoing Government interventions to lower fuel and electricity prices is expected to have a moderating effect on inflation, and demand pressures remain minimal. However, rising international oil prices and persistent high inflation in advanced economies pose a risk to the inflation outlook.

The strong revenue performance registered in the first half of FY2021/22 is expected to continue in the second half, buoyed by the easing of COVID-19 restrictions and pickup in economic activity, and will form the basis for achieving revenue targets for the FY 2022/23 and medium-term budget. The fiscal deficit as percent of GDP is projected to decline to 6.0 percent of GDP from 8.2 percent in FY2021/22. This decline will maintain the fiscal consolidation path over the medium term and stabilize growth in public debt. Further, implementation of the *Economic Stimulus Programme (ESP)* and the *Economic Recovery Strategy (ERS)* will continue to boost domestic demand.

4. DIRECTION OF MONETARY POLICY IN 2022

Price stability will be the overriding objective of monetary policy in 2022. Monetary policy will also support economic recovery in the post COVID-19 period. The outlook for monetary aggregates in 2022 is therefore consistent with Government policy objectives articulated in the Medium-Term Government Budget Policy Statement published by the National Treasury. The Bank will 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 inflation and economic growth objectives, the growth in the monetary aggregates in 2022 is presented in **Table 8**. The 12-month growth in broad money (M3) is expected at about 11.7 percent by December 2022, private sector credit growth is expected at 10.1 percent by June 2022 and 11.0 percent by December 2022. Private sector credit growth is expected to be supported by enhanced economic activities from the COVID-19 economic recovery plan, and the ongoing implementation of the Credit Guarantee Scheme for Micro Small and Medium-sized Enterprises (MSMEs), which will de-risk lending by commercial banks to this sector. The banking sector is projected to remain stable and resilient. This will be anchored on enhanced capital and liquidity buffers maintained by banks to ride through the on-going COVID-19 pandemic.

The CBK foreign exchange reserves are projected to remain adequate in FY 2022/23, consistent with positive 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.

Table 8: Outlook for Key Monetary Aggregates in 2022

	Mar-22	Jun-22	Sep-22	Dec-22
Broad Money, M3 (Ksh Billion)	4,373.0	4,584.2	4,647.9	4,729.1
Reserve Money, RM (Ksh Billion)	485.3	494.9	514.7	538.8
Credit to Private Sector (Ksh Billion)	3,126.3	3,194.0	3,295.8	3,389.6
NFA of CBK (Ksh Billion)	819.0	773.9	665.7	605.1
NDA of CBK (Ksh Billion)	-333.7	-279.0	-151.0	-66.3
12-month growth in RM (Percent)	7.6	10.0	7.5	3.3
12-month growth in M3 (Percent)	8.5	10.8	11.3	11.7
12-month growth in Credit to Private Sector (Percent)	9.1	10.1	10.6	11.0
Medium-Term 12-month overall Inflation (Percent)	5.0	5.0	5.0	5.0

Source: Central Bank of Kenya

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, largely due to new COVID-19 strains and possibility of reintroduction of containment measures, and volatility in international oil prices and global financial markets. However, the implementation of COVID-19 vaccination programs is expected to support global business sentiment. 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 economic impact of COVID-19 and the outcomes of policy measures in place as well as other developments in the domestic and global economies to safeguard price stability.

ANNEX

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JULY – DECEMBER, 2021)

July	Publication of a White Paper on the Modernisation of the Monetary Policy Framework and Operations. This followed the conclusion of a review by the Monetary Policy Committee (MPC) of the current monetary policy framework to determine the aspects that could be improved.
	Lifting of the travel ban on movement into and out of five main COVID-19 hotspots, namely Nairobi, Kajiado, Kiambu, Machakos and Nakuru counties
	The MPC retained the CBR at 7.00 percent.
August	The Cabinet Secretary, National Treasury & Planning, Hon. Amb. Ukur Yatani reappointed Prof. Jane K. Mariara, Dr. Margaret Chemengich, Dr. Benson Ateng and Mr. Humphrey Muga as external members of the MPC for a second term of three years.
September	Release of the *Economic Survey 2021* with rebased national accounts data. The Survey indicated that the Kenyan economy contracted by 0.3 percent in 2020. This performance reflected the adverse effects of the COVID-19 pandemic, which disrupted activities mainly in the services sectors particularly wholesale and retail trade, education, accommodation and restaurant, and transport and storage.
	The MPC retained the Central Bank Rate (CBR) at 7.00 percent.
October	Release of the October 2021 World Economic Outlook (WEO) by the IMF revealing global economic growth projections of 5.9 percent in 2021 and 4.9 percent in 2022 (0.1 percentage point lower for 2021 than in the July 2021). The revision for 2021 reflected a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics.
	Lifting of the country-wide dusk to dawn curfew.
November	Suspension for a period of twelve months, of the listing of negative credit information for borrowers with loans below KShs. 5 million. This applied to loans, which were performing but became non-performing from October 1, 2021. This followed the publication of Legal Notice No. 225 of November 5, 2021, by the Cabinet Secretary for the National Treasury and Planning, on the recommendation of CBK, pursuant to Regulation 18(7) of the Banking (Credit Reference Bureau) Regulations, 2020.
	The MPC retained the CBR at 7.00 percent.
December	The Central Bank of Kenya (Amendment) Act, 2021 became effective. The Amendment provides CBK with the powers to license and oversight the previously unregulated digital credit providers.

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.

[redacted]

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