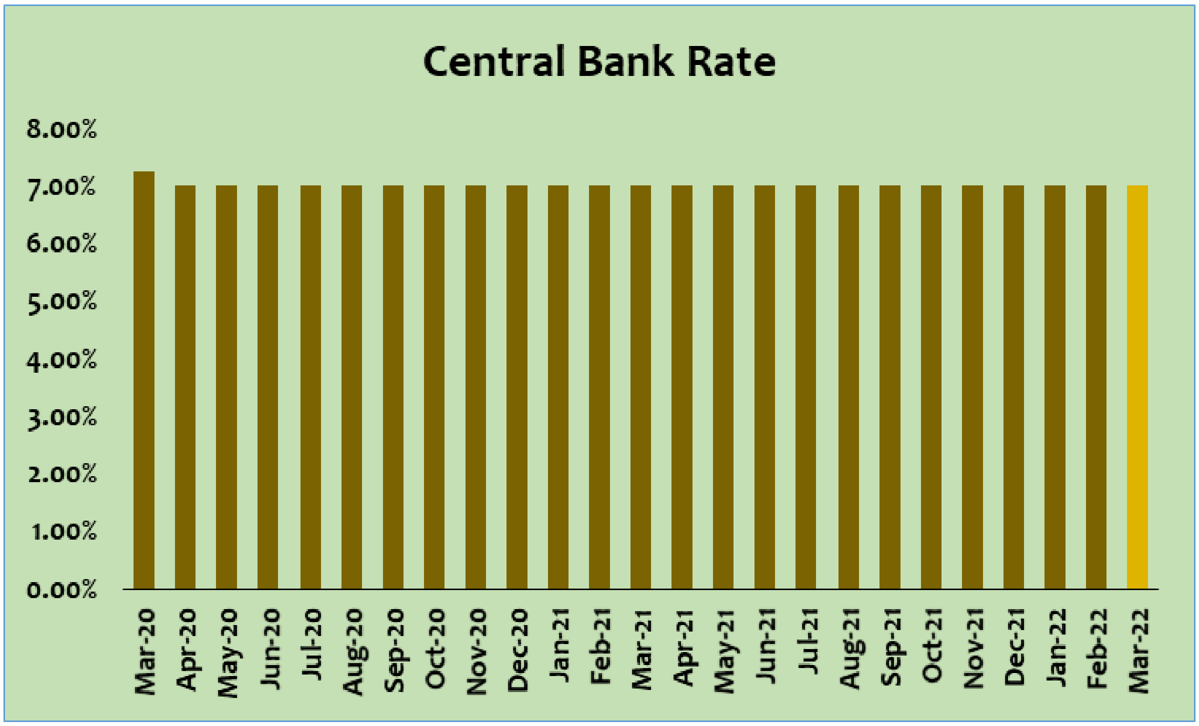
Kingdom Securities Limited

Monetary Policy Committee Meeting March 2022



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March 25, 2022

CBR Rate Review – Tuesday March 29th, 2022

Central Bank of Kenya (CBK) monetary policy committee (MPC) is set to meet on Tuesday March 29, 2022 to review the central bank rate (CBR). The policy custodians have retained the CBR at 7.0% for the past 23 months with the aim of economic stimulation.

Our we review key parameters

- February inflation stood at 5.08%, a drop from 5.38% in January. The rate has remained on the upper side of the government target of 5.0%±2.5%. We forecast inflation to remain on the upper range as delayed rains will put pressure on farm food produce, supply challenges will elevate manufactured products while the KES 5.00 increase on pump prices for petrol and diesel will elevate transport cost which will all be passed to consumers. We adjust our March inflation prediction from 5.50% - 5.70% range to 5.60% - 5.90% due to the increase in petroleum and diesel pump prices.
- Banking industry has remained stable with December liquidity standing at 56.2%. We expect the industry to remain resilient as bank reserves have averaged at KES 16.73Bn above the 4.25% regulatory requirement.
- Private sector credit increased by 7.8% y-y as at December 2021. The growth rate improved compared to a 6-month average of 7.4%. Gross non-performing loans stood at 13.1% in December 2021. The rate was lower compare to a 6-month average of 13.6%.
- The Kenya shilling has weakened by 0.7% m-t-d and m-m while shedding 1.3% y-t-d against the USD. The demand for US dollar on ongoing geopolitical conflict in Eastern Europe war has strengthened the currency gaining 2.5% m-m and 2.7% y-t-d as indicated by the dollar index that tracks the dollar against a basket of six currencies. The shilling will remain under pressure from import demand for external debt payment, raw materials and energy sector.
- Forex reserves remained adequate at 4.88 months of import cover compared to CBK's target of 4.0 months of import cover and EAC target of 4.5 months of import cover. February diaspora remittance increased by 23.5% y-y to USD 321.53Mn from USD 260.29Mn in February 2021 but 5.1% m-m lower compared to January's figure of USD 338.72Bn. The reserves will be further boosted by the receipt of USD 750Mn support economic transformation post pandemic from the World Bank.
- Private sector continues to rally from the Covid-19 as export of manufacturing goods continue to be strong. February's Stanbic PMI was 52.9 recovering from 47.6 in January 2022 while remaining higher compared to 50.9 in February 2021. A survey on CEOs by CBK continue to indicate remain optimistic about business activities and economic growth in 2022. Supply chain complication on raw material will see employment drop as companies' slowdown on production.
- Current account deficit stood at 5.6% in January and has averaged at 5.5% for the last six months. Pressure from demand for raw material and energy import will elevate the deficit further.
- Global economy continues to see recovery on fading impact of the omicron corona variant with majority of the economies benefiting from policy support. Supply bottleneck had seen some relief only for the sanctions placed on Russia for the ongoing geopolitical conflict in Eastern Europe add new challenge especially for key raw materials. This has led to inflation being a key concern in these economies.

  To tame inflation, Fed Reserve committee and Bank of England opted to hike key rates by 0.25% to 0.5% and 0.75% respectively while European Central Bank and Bank of Japan retained the rates.

Developed economies have indicated need to continue with quantitative easing but at a lower rate with the intention of cutting the purchase by end of 2022.

On overall, the economies have reviewed 2022 GDP growth with the European region cutting forecast to 3.7% in March from 4.2% projection in December while adjusting inflation up 5.1%.

Majority of the key macroeconomic indicators have remained stable and expected to support positive economic growth, we forecast the MPC will retain the CBR at 7.0% in their upcoming meeting.

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