Orient Asset Managers Limited

REVIEW OF THE CENTRAL BANK OF KENYA MONETARY POLICY COMMITTEE MEETING - AUGUST 2024

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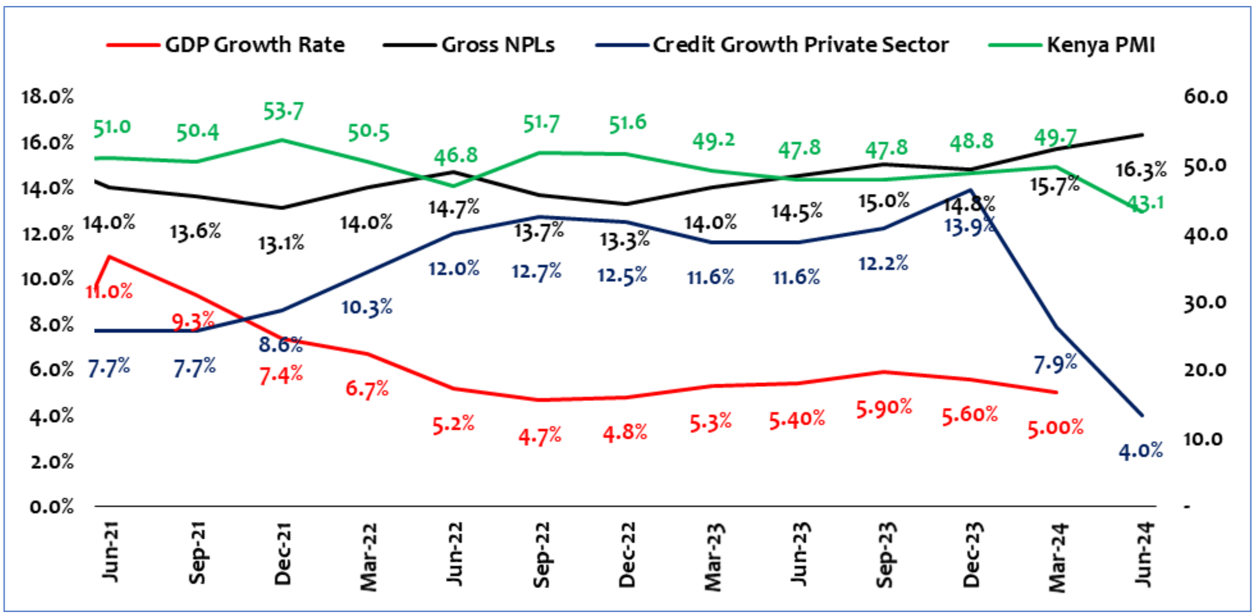
REVIEW OF THE CENTRAL BANK OF KENYA MONETARY POLICY COMMITTEE AUGUST 2024 – CENTRAL BANK RATE (CBR) CUT BY 25BPS

In the August 2024 meeting, the Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) cut the Central Bank Rate (CBR) to by 25bps to 12.75% from 13.0% set in February 2024. The institution based the cut on reduced inflation, stabilized the exchange rate, and anchored inflationary expectations. The July 2024 inflation eased to 4.3% down from 4.6% in June 2024 and 7.3% in July 2023 driven by lower food and petroleum prices. The regulator also took a cue from the global market with European Central Bank and Bank of England cutting the key rate by 25bps to 4.25% and 5.0% respectively.

Of concern is the decline in private sector credit growth which was at 4.0% in June 2024 compared to 4.5% in May 2024 and 11.6% in June 2023. The low growth is seen being forced due to change in bank's strategy as Gross Non-Performing Loans (NPLs) increased to 16.3% in June 2024 from 16.1% April 2024 and 14.5% in June 2023. Banks continue to cut on their lending as they utilize government securities to contain their loan books while cutting on expensive deposit. In Q1-2024, the banking industry saw loan book shrink by 3.9% compared to Q4-2023 while investment in government security was slashed by 4.5% as deposit liability thinned by 5.5% during the same period.



The slow growth in private sector credit is seen to have had an impact in the economy as the Stanbic Bank Kenya Purchasing Managers' Index (PMI) was at 43.1 in July from 47.2 in June and 47.8 in June 2023. With banks pegging their lending Reference Rate on the CBR, we hope the industry will follow suit and will reduce the cost of borrowing to reflect the rate cut giving reprieve to borrowers. At the moment, the industry reference rate stands at average of 16.57%, that is 381.5bps above the CBR.

According to the August MPC meeting, the government has projected a 5.4% real GDP Growth in 2024 lower than earlier prediction of 5.7%. After a 5.0% growth in Q1-2024, this is an indication of a sustainable +5.0% growth in the remainder of the year. The government pegged the growth in agriculture sector expansion. Not much hope was put on the industry sector (Real Estate, Manufacturing, Mining and quarry and electricity and water supply) which expanded by 0.1% in Q1-2024. This is direct reflection of the lower PMI (43.1) and low growth imports, +3.6% y-y, on slowdown on raw material and machineries.

On government expenditure, the rejection of Finance Bill 2024 saw the government Supplementary Budget 1 of 2024 cut spending by KES 145.7Bn, Executive KES 139.8Bn, Parliament KES 3.7Bn and Judiciary KES 2.1Bn). In spite of the cuts, we expect a crowding out effect of the private sector by the government with the bulk of the balance of KES 198.6Bn (from the original KES 344.3Bn) to be sourced from domestic borrowing. This will see financial institutions opt to increase holding in government securities compared to private sector lending. This will leave government rates elevated despite the cut on CBR.

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