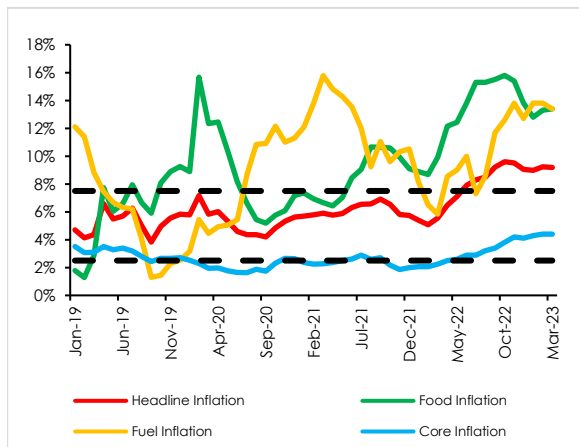
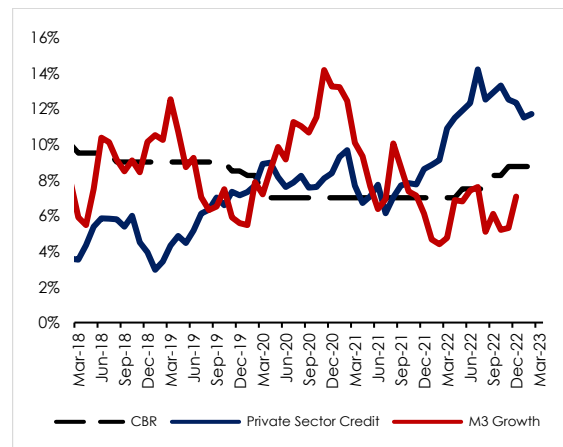


**Stubborn inflation outlook continues to test policy?**

- Annual headline inflation registered at 9.2% (9.19%) in March 2023. Price pressures were sustained by elevated food and energy costs, attributable to unfavourable weather conditions and lingering supply disruptions.
- On account of the drier than expected weather conditions, higher prices of fresh produce drove up annual food inflation to 13.4% from 13.3% observed a month before. Notably, the cost of maize grain (loose), beans, cabbages, fortified maize flour and carrots increased by 35.0%, 32.9%, 28.2%, 25.6% and 25.0% respectively.
- Year-on-year food prices remained elevated. Conversely, the price of onions and cooking oil (salad) decreased by 8.6% and 3.3% respectively. With the decrease likely informed by harvest gains and the arrival of duty-free consignments of key commodities.
- Additionally, the onset of the long rains has brought about a more favorable weather outlook muting concerns of a protracted drought season - with an expected increase in the supply of key food items, mainly maize, rice and wheat in addition to the expected duty free imports.
- Consequently, annual food inflation is expected to moderate in the coming months supported by the duty waiver, the fertilizer subsidy programme and easing international supply-chain constraints.
- Notwithstanding, the unpredictable weather conditions and supply disruptions, high transport and input costs still pose significant risks.
- Meanwhile, on the energy front, as global international crude oil prices continue to moderate, annual fuel inflation has slowed marginally to 13.4% - a 40.00bps drop from 13.8% observed a month earlier. However, price pressures remain propped by the shilling's weakness and the unwinding of the government's subsidy programme. Year-on-year the prices of kerosene and petrol have risen 35.3% and 32.8% respectively.
- Similarly, the prices of 50 kilowatts and 200 kilowatts electricity rose significantly by 38.0% and 27.7% respectively. Further, the imposition of additional electricity tariffs effective April 1<sup>st</sup> will exert additional cost burdens.
- Presently, second-round effects have seemingly tempered with core inflation steadying at 4.4% unchanged since February.
- Annual headline inflation averaged 9.1% in the first quarter of 2023 compared to 5.3% in the corresponding period of 2022.
- With risks remaining weighted to the upside, the Monetary Policy Committee (MPC) raised the central bank rate (CBR) to a five-year high of 9.50% - a 75.00bps increase. We expect inflation to average 7.00 – 7.50% in 2023.



Source: KNBS, CBK, NCBA Research



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