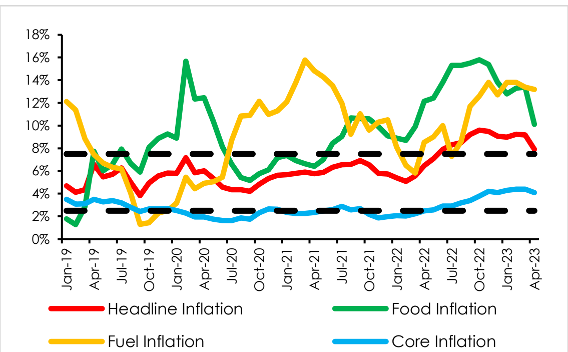
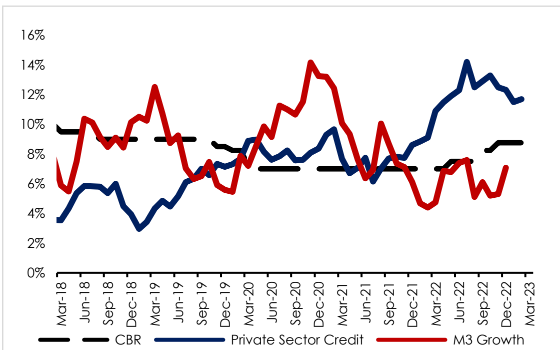
3rd May 2023

Tighter monetary policy and favorable rains temper price pressures

- Annual headline inflation registered at 7.9% (7.91%) in April 2023 – a 130.00bps decline from 9.2% observed in March. The decline largely reflected lower prices of fast-growing produce due to the onset of the long-rains.
- The favorable weather conditions deflated food prices – bringing down annual food inflation from 13.4% to 10.1%, a 330.00bps decline. Notably, the price of Onions (leeks & bulbs), Spinach, Tomatoes and Kale-Sukuma Wiki declined by 11.2%, 5.2%, 4.3% and 0.3% year-on-year, respectively. Similarly, month-on-month, favorable yields helped to moderate the prices of Spinach, Kale – Sukuma Wiki, Tomatoes and Cabbages whose prices fell by 12.6%, 11.8%, 4.7% and 4.6% respectively.
- Despite the continued unwinding of supply-chain disruptions, food prices remain elevated. Efforts to bridge domestic consumption needs via duty-free imports have been hampered by limited supply in the international market.
- Additionally, risks remain weighted to the upside on account of the uncertainty around the extension of the Black Sea Grain Initiative due to end on May 18. Russia and Ukraine are responsible for nearly a third of the world's wheat exports and more than half of the export of sunflower, an essential ingredient in cooking oil.
- Furthermore, while the onset of the long rains (expected to end in May) has significantly boosted agricultural productivity - heavy rainfall has resulted in flooding in some areas, negatively affecting livestock and crop yields, sustaining inflationary pressures.
- Consequently, the price of key commodities such as Beans, Maize Grain – Loose (1kg), Sugar and Potatoes increased by 35.6%, 29.4%, 22.0% and 20.1%. Additionally, the price of 1kg of beef increased 6.6%, year-on-year, likely indicative of the loss of livestock due to floods.
- On the energy front, annual fuel inflation declined for the second consecutive month to 13.2% - a 20.00bps decline from March. The decrease reflected the continued moderation of international crude oil prices despite announcements by OPEC+ nations and Russia to cut production.
- The government's effort to extend the trade cycle of oil imports to mitigate exchange rate risk is anticipated to counter any shocks in international crude oil prices. Additionally, the proposed Finance Bill (2023) seeks to scrap certain taxes on cooking gas – providing some reprieve on household expenditures.
- Meanwhile inflationary pressures remained aggravated by the upward adjustment of electricity tariffs effective from 1st April. Month-on-month the price of 50-kilowatts and 200-kilowatts electricity rose by 18.7% and 13.7% respectively (an average price increase of KES 485.14). Year-on-year electricity prices have risen by an average of 54.50%.
- Second-round effects continued to fade as the annual core inflation reading declined by 30.00bps to 4.10%. Moreover, the cumulative effect of the central bank's monetary policy tightening have begun to bear. At 7.9%, annual headline inflation is at the lowest level since the policy tightening cycle begun in May 2022.
- Absent new shocks inflation will likely moderate to its medium term target by end of year well within our projections of an average 7.00 – 7.50% in 2023.



Source: KNBS, CBK, NCBA Research



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