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Impact of Kenya's Monetary Policy on Poverty Rate

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Abstract- African policy makers are beginning to consider monetary policy as a tool that can help reduce poverty by protecting purchasing power of households, broadening access to credit and enhancing financial deepening. A case that is keen to analyze is that of Kenya in its inflation-targeting model which centers on the Central Bank Rate (CBR). This paper takes stock of the policy venue upon which the control of inflation can be pegged, the policy-rate dispensation process of policy transmission of welfare experience and the bearings of the empirical foundations on poverty reduction.

I. INTRODUCTION

The Kenyan monetary policy is nowadays based on the modern system of inflation-targeting, centred on a 250-point corridor around the CBR (Central Bank of Kenya, 2024), after the previously used monetary-aggregate goals. One of the key development challenges has been poverty an estimated one in every three Kenyans live below the national poverty line and hence the pro poorest nature of monetary policy has been vital. This journal combines macro framework analysis and micro-results in setting standards to determine the influence of policy instruments on the changing dynamics of poverty.

II. LITERATURE REVIEW

The analysis of Structural Vector Autoregression (SVAR) done by Onderi (2014) using the period of 1992-2013 establishes that the impact of monetary policy shocks on output and inflation in Kenya is close to significant which grants the interest-rate channel immense potential. Devised through a cointegration strategy, Obonyo (2014) reveals that financial deepening and savings mobilization have a positive but statistically small influence on the reduction of poverty, which signifies an equilibrium relationship in the long run between the banking sector development on the one hand and on the other hand household welfare.

Monetary Policy Framework in Kenya
The Central Bank of Kenya (CBK) has aimed the inflation of 5-2.5 percent since 2019 with a CBR as its primary tool of policy whilst adjusted at tri-periodic Monetary Policy Committee (MPC) gatherings (Central Bank of Kenya, 2024). To achieve this, CBK improved transmission through the introduction of interest rate corridor around the CBR, convergence of the indicative and market-oriented foreign exchange rate as well as implementing an Electronic Matching System at the FX market to enhance transparency in the market and to manage reserves (Central Bank of Kenya, 2024).

Mechansims of Transmission to Poverty

Price-Stability Channel
Through anchoring of inflation expectations, policy-rate increases and reductions have direct effect on consumer-price inflation. Consistent prices cushion the real incomes, which are very pivotal to poor households who spend over 60 percent of their spending to food, thus minimizing occurrence of forced savings when the prices skyrocket (Obonyo, 2014).

Credit Channel
Increases and decreases in interest rates transform the lending rates of the commercial banks. Declines in the CBR (e.g., as of late 2019, CBR fell to 7.00 percent in March 2020) encouraged a 8 percent year-to-year development in credit expansion among banks and facilitated the access to financing of micro, small, and middle-sized enterprises (Central Bank of Kenya, 2024). Increasing access to credit may raise incomes and new business development among households in low-income settings.

Financial Deepening
Obonyo (2014) reveals that there is unidirectional causation between financial deepening (measured in terms of the component of private-sector credit to GDP and M2) and savings mobilisation and poverty

reduction. The intensity in poverty is relatively low, but continued growth in the banking sector supports the attainment of more financial access to support the households smooth consumption patterns as well as investment in livelihood coping strategies.

Empirical Data as Regards Poverty
Although the inflation targeting policy has worked fine in getting the headline inflation towards the mid-point of the target band by April 2024, the rate at which Kenya continues to reduce its poverty rate is slow, and it indicates the existence of binding supply-side limitations and biased applications of credit (Central Bank of Kenya, 2024; Obonyo, 2014). The SVAR findings of Onderi (2014) suggesting a maintenance of low inflation despite its ability to spur real gains in disposable income imply that such a trade-off might adversely affect output despite its ability to reduce poverty in the short-run.

The following is a case example in Kenya

A Credit Programme of Kisumu Micro-Entrepreneurs using Mobile-Money
Mary Atieno, a weaver of small garments in the Kisumu County is one of the examples showing the flow of monetary easing through digital finance that would minimize poverty. Once the Central Bank of Kenya lowered the CBR to 7.00 percent in March 2020, about 1.5 percentage points off its 8.25 percent level late in 2019, borrowing rates on the mobile-money advances offered by commercial banks using M-Pesa (e.g. M-Shwari) dropped by approximately the same amount. Mary was taking KES 5,000 KCB-M-Shwari loan that enabled her to purchase high quality cotton at a cheaper price, increasing her profits by 25 percent in a week. After six months her personal spending increased to surpass the national poverty line and she even started to save through the savings lock-box facility of M-Pesa.

A survey conducted by the Central Bank of Kenya in 2024 reported 69 percent of participants as experiencing depression caused by the pandemic; (Ndungu 2021, 69 percent)

In this micro-level narrative three channels of transmission are highlighted:

(1) Policy-rate reduces digital-loans price.
(2) Increased access through agent networks in the rural towns.
(3) Real-income benefits that are directly convertible into reduction of poverty.

III. DISCUSSION

Kenya has seen a great deal of price stability and efficiency of the interbank market through its monetary policy. Nonetheless, its direct contribution to poverty is limited to structural factors: high lending spreads in the rural areas, the low value of collateral and concentration of informal jobs. In enhancing pro-poor influence, the fiscal transfers at monetary policy should be accompanied by well-directed fiscal transfers, credit guaranteeing by the smallholders, and eventual financial-sector innovations that include the credit platforms via mobile banking.

CONCLUSION

Kenya Monetary policy provides an important instrument of protecting the low-income households against inflation shocks, as well as advancing financial deepening. However, it has the limited ability to alleviate poverty in itself. Monetary interventions must also be combined with structural changes to achieve greater and more equitable poverty reduction: such policies include improvements to access to rural credit, advances to market infrastructure and strengthening of social-protection schemes.

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