April Newsletter

HOW INFLATION WORKS AND HOW TO BEAT IT

# INSIDE THIS ISSUE



# BUSINESS INSIGHTS

## BY JANTA

DEAR JANTA COMMUNITY,

Welcome to the latest edition of Janta Kenya's newsletter, where we delve into the topic of "How Inflation Works and How to Beat It." We are dedicated to providing you with the insights and guidance you need to navigate your financial decisions effectively.


**How Inflation Works and How to Beat It**

Inflation is a term we hear often in conversations about the economy, but what does it actually mean? More importantly, how does it affect your daily life, and what can you do to protect yourself from its impact?

In Kenya, inflation recently eased to 4.6% in June 2024, down from 5% in May. While this appears to be good news, many consumers still feel the pinch of high prices at the supermarket, at the pump, and in everyday services. To truly understand what this means, let’s unpack how inflation works—and more critically, how you can beat it.

What Is Inflation?

Inflation refers to the general increase in the prices of goods and services in an economy over time. It also reflects the rate at which the purchasing power of money declines. In simpler terms, the same amount of money buys you less than it used to. For example, if a loaf of bread cost KSh 50 last year and now costs KSh 55, that 10% increase is a direct result of inflation.

At the core of inflation is money. The more money circulating in an economy without a corresponding increase in goods and services, the more likely prices will rise. This is why the Central Bank of Kenya (CBK) plays a crucial role in managing inflation by regulating interest rates and controlling the money supply.

**How Is Inflation Measured?**

Inflation in Kenya is measured using the Consumer Price Index (CPI). This index tracks the average change in prices over time for a standardized "basket" of goods and services that households typically buy. This basket includes food, housing, clothing, transportation, education, and healthcare.

The CPI is updated regularly to reflect changes in consumer spending habits. While the mix of goods and services in the basket remains relatively constant over short periods, their prices fluctuate. Therefore, when we say inflation is 4.6%, it means the average cost of this basket has risen by 4.6% compared to the same time last year.

It’s important to note that inflation doesn’t affect all goods equally. For instance, the price of onions may skyrocket while that of tomatoes stays constant. This variation is why inflation may feel more intense depending on your specific consumption patterns.

**What Does Easing Inflation Mean?**

When inflation slows down, it doesn’t mean prices are falling—it simply means they’re rising at a slower pace. For example, if inflation was 7.9% in June 2023 and now stands at 4.6%, prices are still going up, just not as quickly.

This can feel like a relief but may not always be visible to consumers, especially if incomes haven’t increased proportionately. A basket of goods that cost KSh 1,000 last year now costs KSh 1,046. That extra KSh 46 adds up over time, especially for households already under financial pressure.

Inflation only decreases when we experience deflation—a rare situation where overall prices fall. While deflation might sound beneficial, it can signal economic trouble, as it often results from reduced consumer spending and stagnation.

**The Role of the Central Bank**

The Central Bank of Kenya has a mandate to maintain inflation within a target range of 2.5% to 7.5%, with a midpoint of 5%. It uses monetary policy tools to influence inflation, primarily by adjusting interest rates.

When inflation is high, the CBK may raise interest rates. This discourages borrowing and reduces consumer spending, slowing down demand and thereby curbing inflation. On the flip side, when inflation is low or the economy is slowing, the CBK might lower rates to encourage borrowing and investment.

How to Beat Inflation

Inflation is inevitable in any growing economy, but you don't have to be a victim of it. Here are practical ways to protect yourself:

1. Invest Wisely

Money sitting idle in a savings account may lose value over time due to inflation. Consider investments that outpace inflation, such as government bonds, money market funds, real estate, or equities. These instruments offer returns that can preserve or grow your purchasing power.

2. Diversify Your Income

Relying on a single income stream makes you vulnerable to price changes. Consider freelance work, a side business, or digital income opportunities to build financial resilience.

3. Budget and Track Expenses

Understanding your spending habits allows you to identify areas where you can cut back. During inflationary periods, prioritize needs over wants and consider bulk buying essentials before prices go up again.

4. Negotiate Salary Increases

If your income isn't keeping pace with inflation, it might be time to talk to your employer. Justify your request by showing how your contributions have added value to the organization.

5. Stay Financially Educated

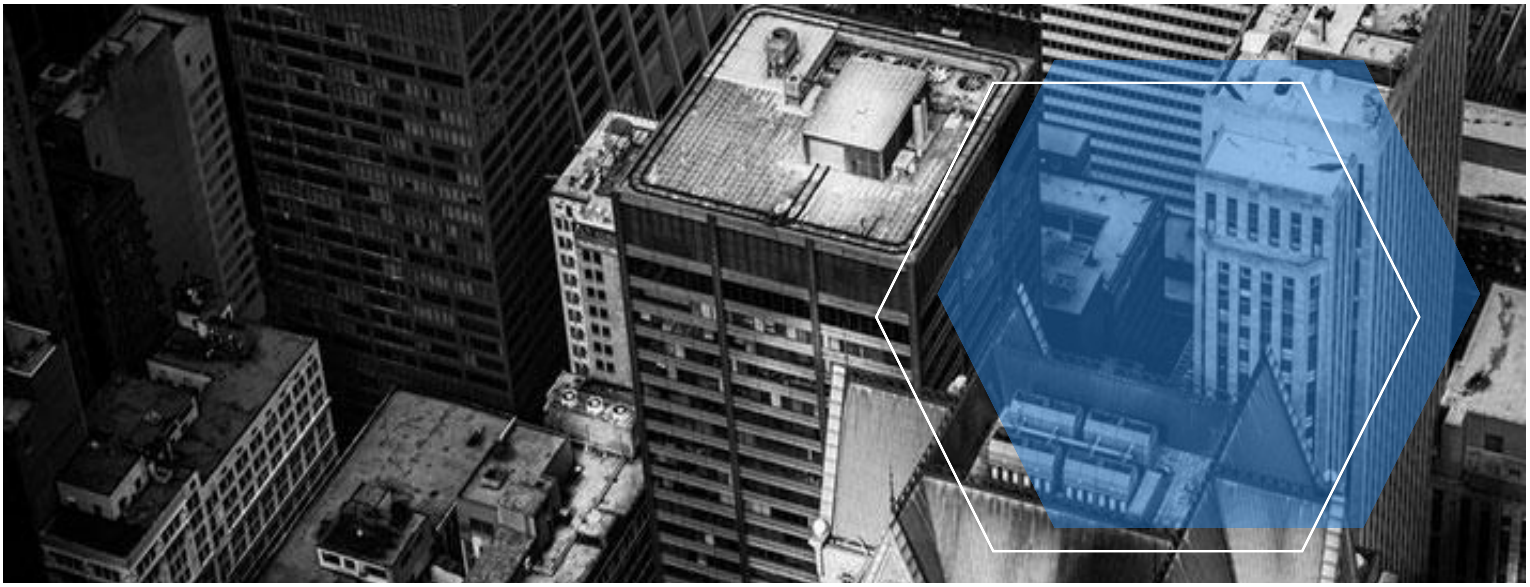
Keep learning about economic trends, interest rates, and investment opportunities. The more informed you are, the better decisions you can make to protect your finances.

# BUSINESS NEWS HEADLINES

On April 23, former U.S. President Donald Trump appeared to ease his stance on both China and Federal Reserve Chair Jerome Powell, signaling a more conciliatory tone amid ongoing economic tensions. While reaffirming that he had no plans to fire Powell—despite previously harsh criticism—Trump expressed a desire for more aggressive interest rate cuts to stimulate the U.S. economy. He also hinted at potential tariff reductions on Chinese imports, though they would not be eliminated entirely. These shifts come amid global market volatility driven by the U.S.-China trade war and uncertainty over monetary policy. Trump's aggressive tariff strategy—intended to bring jobs back to the U.S.—has led to retaliatory measures from China and global economic concerns, prompting fears of inflation and a global slowdown. Financial markets responded positively to Trump's softened rhetoric, and officials like Treasury Secretary Scott Bessent and NEC Director Kevin Hassett suggested possible de-escalation. Meanwhile, the IMF downgraded its U.S. growth forecast, citing tariff-related uncertainty, as China signaled that the U.S. may be recognizing the domestic costs of its trade policy.

On April 23, the Central Bank of Kenya (CBK) released a consultative paper inviting public feedback on a proposed overhaul of the Risk-Based Credit Pricing Model (RBCPM), which was introduced in 2019 to curb high lending rates and improve transparency in the credit market. The proposed revisions come as part of CBK's broader efforts to support ongoing banking sector reforms. A key change involves using the Central Bank Rate (CBR) as the benchmark for loan pricing, with banks adding a premium—referred to as "K"—to reflect their individual cost of funds. To boost transparency, CBK will require banks to publish their respective "K" components on the CBK website, the Total Cost of Credit platform, and in two national newspapers. This move is aimed at fostering a fairer and more competitive lending environment, allowing borrowers to easily compare loan offers and make more informed financial decisions. CBK sees the initiative as a crucial step toward enhancing financial inclusion and strengthening market discipline in Kenya's credit industry.

On April 24, Kenya unveiled its Route to Market Strategy 2025–2027, a national blueprint aimed at boosting the country's position as a competitive global exporter of high-quality, sustainable products. Speaking in Nairobi, Juma Mukhwana, Principal Secretary in the Ministry of Investments, Trade and Industry, emphasized that the strategy seeks to expand Kenya's export reach beyond traditional markets by tapping into opportunities like the African Continental Free Trade Area (AfCFTA). A central feature of the plan is the creation of a centralized digital platform to provide exporters with real-time data, market intelligence, and tools for trade readiness. Tobias Alando, CEO of the Kenya Association of Manufacturers, noted the strategy's focus on shifting from raw commodity exports to high-value processed goods such as essential oils, dried fruits, and packaged beverages. He added that the timing is critical, as exporters face global supply chain challenges, climate-related trade regulations, and uncertainties around key markets like the U.S. Additionally, Susan Mang'eni, Principal Secretary in the State Department for MSMEs, highlighted the strategy's role in creating jobs, especially in rural areas and special economic zones, thereby strengthening the export sector's contribution to Kenya's economic growth.



## KEEPING YOU INFORMED AND CONNECTED TO THE LATEST BUSINESS NEWS

In this edition of Janta Kenya's newsletter, How Inflation Works and How to Beat It. Inflation impacts everyone, whether you're a student, employee, or entrepreneur. While recent figures in Kenya suggest a cooling of inflation, the reality on the ground may still feel challenging. By understanding how inflation works and proactively taking steps to shield your finances, you can not only survive—but thrive—despite the rising cost of living.

Thank you for joining us in this edition. Stay tuned for more updates and expert insights to help you navigate your financial journey and stay informed on key developments shaping Kenya's economic landscape.