Cytonn Note on the 10th February 2026 Monetary Policy Committee (MPC) Meeting

The Monetary Policy Committee (MPC) is scheduled to meet on Tuesday, 10th February 2026, to review the outcome of its previous policy decisions and recent global and domestic economic developments, and to decide on the direction of the Central Bank Rate (CBR). In their previous meeting held on 9th December 2025, the committee noted that they would closely monitor the impact of the policy measures taken, as well as developments in the global and domestic economy, and stood ready to reconvene earlier if necessary. Additionally, the MPC decided to cut the CBR by 25.0 bps citing that its previous interventions successfully curbed inflation to below the midpoint of the CBK's target range, which came in at 4.5% in December 2025, supported by the exchange rate stability, and lower fuel inflation. This was in line with our expectation for the MPC to cut the CBR rate to between 9.00%-9.25%, with our view having been informed by:

i. **Rate cuts by global giant economies**: The US Federal Reserve met on 10th December 2026 decided to lower its benchmark interest rate by 25.0 bps 3.5%-3.75% from 3.75%-4.00% set in October 2025 . Meanwhile, the European Central Bank, in its most recent meeting on 30th December October 2025, opted to hold its benchmark rate steady at 2.00% for the second consecutive time. With global central banks either easing or maintaining policy rates, we anticipate that the MPC could follow suit by introducing a rate cut in the near term, albeit cautiously, to ensure that domestic economic conditions align with such an adjustment,
ii. **The need to support the economy**: A more accommodative monetary policy remains critical, particularly to enhance financing activities and bolster private sector lending. In September 2025, private sector credit grew by 5.5%, up from 3.3% in August, an encouraging sign of recovery. However, this growth remained well below the 5-year average of 7.9%, indicating that credit expansion is still relatively subdued. A reduction in the Central Bank Rate (CBR) would help unlock the full potential of the private sector, allowing it to play a more significant role in driving economic recovery and supporting sustained growth. Given the still-muted business environment, a rate cut would also stimulate economic activity, boost money supply, and improve overall business confidence and investment.
iii. **The continued stability of the Shilling against major currencies**: Despite the October rate cut, the Kenyan Shilling has remained stable, only depreciating marginally by 44.9 bps against the US Dollar to Kshs 129.8 on 28th November 2025 from the Kshs 129.2 recorded on 31st October 2025. This stability, supported by foreign exchange reserves currently at 5.2 months of import cover (above the 4.0 months statutory requirement), provides the MPC with the flexibility to maintain the current rate without risking currency volatility or capital outflows.

The Monetary Policy Committee noted that the current account deficit in the 12 months to October 2025 was estimated at 2.2% of GDP, compared to 1.5% in a similar period in 2024, and was projected at 1.6% of GDP in 2025, supported by the expected recovery in exports, resilient remittances, and expected rebound in agricultural exports. Additionally, the Monetary Policy committee noted that Goods exports increased by 6.7% in the twelve months to October 2025, compared to a similar period in 2024, reflecting a rise in exports of agricultural commodities, particularly horticulture coffee, vegetable oil and clothing accessories. Imports increased by 9.6% compared to a similar period in 2024, mainly reflecting increases in intermediate and capital goods. Services receipts improved by 11.0% in in the twelve months to October 2025 while remittances increased by 9.5%,

Additionally, the Committee noted the ongoing implementation of the FY'2025/26 budget, which reinforces the Government's fiscal consolidation strategy, and thereby reduces debt vulnerabilities. Notably, the total revenue collected as at the end of December 2025 amounted to Kshs 1,249.8 bn, equivalent to 45.4% of the original estimates of Kshs 2,754.7 bn for FY'2025/2026 and is 90.7% of the prorated estimates of Kshs 1,377.4 bn. The total expenditure amounted to Kshs 2,143.7 bn, equivalent to 48.4% of the original estimates of Kshs 4,433.6 bn, and is 96.7% of the prorated target expenditure estimates of Kshs 2,216.8 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 809.2 bn, equivalent to 55.0% of the original estimates of Kshs 1,470.4 and are equivalent to 110.1% of the prorated estimates of Kshs 735.2 bn.

Below, we analyze the trends of the macro-economic indicators since the December MPC meeting, and how they are likely to affect the MPC decision on the direction of the CBR:

Cytonn Report: Macroeconomic Indicator Trends and Our Expectation				
Indicators	**Experience since the last MPC meeting in December 2025**	**Our Expectation Going forward**	**CBR Direction (December 2025)**	**Probable CBR Direction February 2026)**
Government Revenue Collection	• Total revenue collected as at the end of December 2025 amounted to Kshs 1,249.8 bn, equivalent to 45.4% of the original estimates of Kshs 2,754.7 bn for FY'2025/2026 and is 90.7% of the prorated estimates of Kshs 1,377.4 bn. Cumulatively, tax revenues amounted to Kshs 1,161.3 bn, equivalent to 44.2% of the original estimates of Kshs 2,627.1 bn and 88.4% of the prorated estimates of Kshs 1,313.5 bn, • The government underachieved its prorated revenue targets for the sixth month of the FY'2025/2026, achieving 90.7% of the prorated revenue targets in December 2025, higher than the 83.5% recorded in November 2025. This was driven by shortfall in both tax revenues, which stood at 88.4% of prorated levels, respectively. Although the Purchasing Managers' Index (PMI) declined to 53.7 in December 2025 from 55.0 in November, it remained above the neutral 50.0 mark for the fourth consecutive month. This continued trend signals ongoing expansion and improving business conditions, primarily driven by increasing output. The coming months' revenue collection performance will largely depend on how quickly the country's business climate stabilizes. This stabilization is expected to be aided by the ongoing stability of the Shilling, having appreciated by 16.4 bps against the dollar to Kshs 129.0 at 30th January 2026 from Kshs 129.2 the last meeting in 9th December 2025. Additionally, the relatively stable inflationary pressures, and an ease in the monetary policy in the country, with the Monetary Policy Committee (MPC) cutting the Central Bank Rate (CBR) to 9.00% during its 9th December 2025 meeting will	• In the short term, we expect revenue collections to improve but remain below prorated targets, supported by a gradual recovery in business activity, as reflected by sustained expansion in the Purchasing Managers' Index and improved exchange rate stability. However, future revenue performance will depend on how quickly private sector activity strengthens, supported by a stable Shilling, easing credit conditions following the 25.0 bps reduction in the Central Bank Rate to 9.00% from 9.25% in December 2025, and continued efforts to broaden the tax base, curb evasion, and stimulate economic growth Additionally, with the continued implementation of revenue administration reforms by the Kenya Revenue Authority (KRA), the government is expected to gradually broaden the effective tax base and improve revenue collections, primarily through enhanced compliance and reduced leakages rather than new tax rate increases. Recent KRA initiatives have focused on the expansion of electronic tax invoicing (eTIMS), enhanced data matching across government agencies, automation of audits, and tighter enforcement on VAT, excise duty, and income tax compliance, particularly targeting the informal sector and previously under-reported segments of the economy. Additionally, the FY'2025/26 Budget underpins the authorities' fiscal consolidation intentions, with a lower projected fiscal deficit of 4.8% of GDP, down from 5.1% of GDP in FY'2024/25. However, recent commentary from rating agencies points to a more cautious assessment, citing execution risks, reduced but still elevated debt servicing costs, and potential shortfalls in revenue mobilisation, which could challenge the attainment of the revised deficit target without deeper expenditure rationalisation or improved financing conditions • Nevertheless, while the improving macroeconomic environment, marked by	**Neutral**	**Neutral**

	continue to stabilize the business climate	the stabilization of the Kenyan shilling, improved liquidity in the money markets, and contained inflation, is expected to support revenue performance, uncertainty around the evolving tax regime could still pose risks to consistent collections. Continued clarity and stability in tax policy will be key to sustaining both compliance and investor confidence		
Government Borrowing	• The government, as at 30th January 2026, is 105.1% ahead its prorated net domestic borrowing target of Kshs 376.7 bn having borrowed Kshs 772.5 bn of the total borrowing target of Kshs 634.8 bn. The government currently has domestic maturities worth Kshs 670.3 bn and will have to borrow Kshs 107.7 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2025/2026 • Total Borrowings at the end of December 2025 amounted to Kshs 664.9 bn, equivalent to 39.9% of the original estimates of Kshs 1,668.1 bn for FY'2025/2026. The cumulative domestic borrowing of Kshs 1,293.7 bn comprises of Net Domestic Borrowing Kshs 634.8 bn and Internal Debt Redemptions (Rollovers) Kshs 658.9 bn. • The Government has continued to rely on concessional financing from multilateral and bilateral lenders, although access has moderated following the conclusion of the IMF's Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements. In November 2024, the IMF Executive Board completed the seventh and eighth reviews of the EFF/ECF and the second review under the Resilience and Sustainability Facility (RSF), enabling disbursements of USD 485.8 mn under the EFF/ECF and USD 120.3 mn under the RSF. However, in March 2025, the Government and the IMF agreed to discontinue the final review of the EFF/ECF programme, effectively ending the arrangement and halting further disbursements. As a result, total receipts under the EFF/ECF amounted to USD 3.1 bn, below the originally expected USD 3.6 bn, while RSF disbursements stood at USD 180.4 mn out of the approved USD 541.3 mn. Going forward, this has increased reliance on domestic borrowing and alternative external financing sources from the	• Kenya's debt sustainability remains a key concern, as the government continues to rely heavily on borrowing to bridge its persistent fiscal deficit amid a still-recovering economic environment. However, in a positive development, Moody's upgraded Kenya's sovereign credit outlook, citing improving external liquidity conditions, supported by resilient diaspora remittances, improved export performance, and easing near-term external debt refinancing risks. This improvement in sentiment follows S&P Global Ratings, which revised Kenya's long-term sovereign credit rating upward to 'B' from 'B-', with a stable outlook, while affirming the short-term rating at 'B'. S&P noted reduced external liquidity risks, underpinned by stronger foreign currency inflows and manageable debt service obligations over the next two years. • Additionally, on 23rd January 2026, Fitch Ratings affirmed Kenya's credit score at B- with outlook stable in on the back of strengthened foreign exchange reserves, which have moderated external liquidity pressures, and the country's economic resilience as key factors supporting the rating. Real GDP growth is projected at 4.9% in 2025, up from 4.7% in 2024, supported by a rebound in private-sector activity. • On January 27th 2026, the global ratings agency, Moody's announced its upgrade of Kenya's sovereign credit rating from Caa1 to B3, while revising the outlook to Stable from Positive, on the back of a reduction in near-term default risk and strengthened external liquidity. The improved creditworthiness is largely attributable to enhanced foreign-exchange reserves, a narrower current-account deficit, and improved access to international capital markets, which have reduced refinancing pressures and supported government liquidity. Given the relatively low inflation, stability in the exchange rate, and sustained accommodative monetary policy, domestic borrowing costs are expected to remain manageable over the short to medium term. Despite the improved sovereign credit profile and reduced near-term default risk, Kenya's	**Negative**	**Negative**

	international capital markets, even as discussions continue on a successor IMF programme primarily aimed at anchoring fiscal and structural reforms rather than near-term funding. • As a result, near-term pressures were partly mitigated by proactive liability management operations, including Eurobond buybacks, as well as continued access to multilateral and bilateral financing. The authorities have since expressed intent to engage the IMF on a successor programme, primarily to anchor fiscal consolidation, revenue mobilization, and debt management reforms, rather than to secure immediate balance-of-payments financing. Discussions on a new arrangement remain ongoing.	fiscal position remains structurally constrained. Debt-servicing costs continue to absorb a significant share of government revenues, limiting fiscal flexibility and crowding out development spending, while the fiscal deficit remains persistent due to elevated recurrent expenditures and constrained revenue mobilisation. As a result, notwithstanding stronger external buffers and improved market access, public debt sustainability risks remain elevated, underscoring the need for sustained fiscal consolidation to translate the rating upgrade into durable macroeconomic stability.		
Inflation	• The inflation rate for December 2025 remained unchanged from the 4.5% recorded in November 2025. • Fuel prices for 15th December to 14th January 2026 remained unchanged with Super Petrol, Diesel, and Kerosene to retail at Kshs 184.5, Kshs 171.5 and Kshs 154.8 per litre respectively. • Notably, December's overall headline inflation remained within the CBK's target range of 2.5% - 7.5% for the thirtieth consecutive month.	• We expect inflation rates to remain within the CBK's target range of 2.5% - 7.5% supported by the stabilizing of the Kenyan shilling against the dollar with the shilling appreciating by 1.5 bps against the dollar on year-to-date as of 30th January 2026, coupled with relatively stabilized fuel prices.	**Positive**	**Positive**
Currency (USD/Kshs)	• Since the last meeting, the Kenyan Shilling has appreciated by 16.4 bps against the US Dollar to Kshs 129.0 from the Kshs 129.2 recorded on 9th December 2025 partly due to the improved foreign reserves which are currently above the statutory requirement • In addition, the Forex Reserves remain sufficient at USD 12.3 bn (equivalent to 5.3 months of import cover) as of 30th January 2026. Notably, the forex reserves are above the statutory requirement of maintaining at least 4.0 months of import cover	• We expect the Kenyan Shilling to be supported by Diaspora remittances standing at a cumulative USD 5,036.7 mn in twelve months to December 2025, 1.9% higher than the USD 4,945.2 mn recorded over the same period in 2024, which has continued to cushion the shilling against further depreciation. In the December 2025 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 53.3% in the period, • Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 12.2 bn (equivalent to 5.3 months of import cover) as of 30th January 2026. Moreover, tourism inflow receipts which came in at the tourism inflow receipts which came in at Kshs 452.2 bn in 2024, a 19.8% increase from Kshs 377.5 bn inflow receipts recorded in 2023, and owing to strong performance in the tourism sector, of 52.2% with international tourist arrivals increasing to 745,720 in Q3'2025 compared to 489,831 in Q3'2024.	**Positive**	**Positive**

GDP Growth	• Kenyan's economy recorded a 4.9% growth in Q3'2025, 0.7% points higher than the 4.2% growth recorded in Q3'2024. The performance was driven by; i. The main contributor to Kenyan GDP which remains to be the Agriculture and Forestry remains the major contributor to GDP, with the sectorial contribution to GDP however decreasing by 0.3% points to 14.2% in Q3'2025, from 14.5% recorded in Q3'2024. Additionally, its growth rate slowed down by 0.8% points to 3.2% in Q3 2025 from the 4.0% recorded in Q3 2024 to GDP ii. Other sectors recorded an expansion in growth rates, with Accommodation and Food Services, Mining and Quarrying, and Construction recording the highest growths in rates of 17.7%, 16.6% and 6.7% respectively from 22.9%, (12.2%) and (2.6%) respectively recorded in Q3 2024	• In 2025, Kenya's economy is projected to grow at a faster pace, estimated between 4.9%-5.2%. This optimistic outlook is attributed to improved business activity, supported by a stronger and more stable Kenyan Shilling, reduced borrowing costs, and the relatively lower inflation rates. The Central Bank of Kenya (CBK) made a significant policy move in December 2025 by lowering the Central Bank Rate (CBR) by 25 basis points to 9.00%, marking the nineth consecutive rate cut. This accommodative monetary policy stance aims to stimulate private sector lending and boost economic activity. • The continued stability of the Kenya shilling has continued to support the business environment, by reducing the cost of imported inputs and decreasing the finance cost of the foreign currency denominated debts • Notably, the country's PMI for the month of December 2025 decreased to 53.7, from 55.0 in November, an indication of improving business environment in the country. Likewise, according to CEO's survey- 2025 November report, optimism about growth prospects for the Kenyan business activity remained sustained supported by favorable weather conditions, a stable macroeconomic environment characterized by low inflation, a stable exchange rate and continued decline in banks' lending rates, as well as technological adoption and seasonality factors associated with the festive season.	**Neutral**	**Neutral**
Private Sector Credit Growth	• The latest data from the National Treasury indicates that growth in private sector credit grew by 6.3% in November 2025, compared to 1.1% decline in a similar period in 2024, mainly attributed to exchange rate valuation effects on foreign currency-denominated loans due to	• We anticipate continued adoption of the risk-based pricing model in the banking sector to continue to unlock access to credit to individuals and businesses who were not captured by the previous frame works due to being considered too risky, • Additionally, banks have started to adjust their lending rates in line with the CBR rate	**Negative**	**Negative**

	the appreciation of the Shilling and reduced demand due to high lending rates.	which was cut to 9.00%, in the December MPC meeting, with the weighted average lending rate coming in at 14.8% as at December 2025. This is expected to revitalize the private sector credit demand		
Liquidity	• Liquidity levels in the money markets eased, with the average interbank rate since the previous MPC meeting increasing by 0.2 bps as of 30th January 2026 to 9.0% from 9.2% in 9th December 2025, partly attributable to tax remittances that offset government payments that	• We expect liquidity in the money markets to be supported by the domestic debt maturities that currently stand at Kshs 573.5 bn worth of T-bill maturities for FY'2025/2026.	**Positive**	**Positive**

Conclusion

Out of the seven factors that we track, three are positive, two are negative and two are neutral. Notably, most of the Central Banks of developed economies around the world have cut their rates with the aim of supporting economic activities and growth going forward.

The main goal of monetary policy is to maintain price stability and support economic growth by controlling the money supply in the economy. We expect the MPC to cut the Central Bank Rate (CBR) to within a range of 9.00% - 8.75%, with their decision mainly being supported by

iv. **Rate cuts by global giant economies**: Global monetary policy has generally remained accommodative or steady in recent months. At its January 28, 2026 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve maintained the federal funds rate at 3.5%-3.75% amid moderating inflation and signals of slower economic momentum in the world's largest economy. Meanwhile, the European Central Bank (ECB), in its 18th December 2025 meeting, chose to hold its benchmark policy rate at 2.0% (deposit rate) for several consecutive meetings while continuing to monitor inflation dynamics in the Euro Area. In addition, other major central banks such as the Bank of England and the Bank of Japan have maintained steady rates or signaled conditional easing depending on inflation outcomes and growth prospects,

v. **The need to support the economy**: A supportive monetary policy remains crucial to enhance financing activities and support private sector lending, particularly in an environment where credit uptake has been moderate. In November 2025, private sector credit grew by 6.3%, up from 5.9% in October 2025, an encouraging sign of recovery. However, this growth remains well below the 5-year average of 7.7%, indicating that credit expansion is still relatively subdued. A reduction in the Central Bank Rate (CBR) would help unlock the full potential of the private sector, allowing it to play a more significant role in driving economic recovery and supporting sustained growth. Given the still-muted business environment, a rate cut would also stimulate economic activity, boost money supply, and improve overall business confidence and investment.

vi. **The continued stability of the Shilling against major currencies**: Despite the December 2025 rate cut, the Kenyan Shilling has remained relatively stable, appreciating by 16.4 bps against the US Dollar to 129.0 as at 30th January 2026 from the Kshs 129.2 recorded on 9th December 2025. This stability, supported by foreign exchange reserves currently at 5.3 months of import cover (above the 4.0 months statutory requirement), provides the MPC with flexibility to maintain the current rate without risking currency volatility or capital outflows.