

### **Cytonn Note on the 12<sup>th</sup> August 2025 Monetary Policy Committee (MPC) Meeting**

The Monetary Policy Committee (MPC) is set to meet on Tuesday, 12<sup>th</sup> August 2025, to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). In their [previous](#) meeting held on 10<sup>th</sup> June 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 3.8% in June 2025, supported by the exchange rate stability, and lower fuel inflation. This was contrary to our [expectation](#) for the MPC to maintain the CBR rate at 10.00%, with our view having been informed by:

- i. **The need to allow more time for the effects of previous monetary policy measures to take hold:** In the recent past, the Central Bank had implemented a series of rate cuts totaling 300 basis points bringing the CBR down to 10.00% in April 2025 from 13.00% in August 2024. In our view, maintaining the rate would provide an opportunity to assess the full impact of these measures before taking further action. While private sector credit growth had slowed, registering a marginal increase of 0.2% in March 2025 compared to 7.9% in March 2024, the effects of recent interventions would take time to manifest. We believed that holding the rate steady would avoid premature easing and allow the MPC to make a more data-driven decision in the coming months, especially as the broader economy adjusts.
- ii. **Rate cuts by global giant economies:** The European Central Bank announced a rate cut by 25 bps to 2.00% on 5th June 2025, from 2.25% earlier on 6th March 2025. Meanwhile, the US Federal Reserve decided to maintain their benchmark interest rate at 4.25%-4.50% in their meeting on 7th May 2025, continuing the trend since January. Although global central banks were easing or holding rates steady, we expected the MPC to choose to take a more cautious approach, ensuring domestic factors are fully aligned before implementing similar adjustments, and,
- iii. **The continued stability of the Shilling against major currencies:** Despite the April rate cut, the Kenyan Shilling had remained stable, appreciating marginally by 32.9 bps against the US Dollar to Kshs 129.2 as of 5th June 2025, from Kshs 129.7 on 9th April 2025. We expected that this stability, supported by foreign exchange reserves which was at 4.7 months of import cover (above the 4.0 months statutory requirement) at the time, to provide the MPC with the flexibility to maintain the rate without risking currency volatility or capital outflows.

The Monetary Policy Committee noted that the current account deficit in the 12 months to April 2025 is estimated at 1.8% of GDP, compared to 2.2% in a similar period in 2024, and is projected at 1.5% of GDP in 2025, despite the expected recovery in exports, resilient remittances, and expected rebound in agricultural exports. Additionally, the Monetary Policy committee noted that Goods exports increased by 3.8% in the twelve months to April, compared to a similar period in 2024, reflecting a rise in exports of agricultural commodities, particularly horticulture and coffee. Imports increased by 7.6% compared to a similar period in 2024, mainly reflecting increases in intermediate and capital goods. Services receipts improved by 12.0% in the twelve months to April 2025 while remittances increased by 12.1%,

Additionally, the Committee noted the ongoing implementation of the FY'2024/25 Supplementary Budget II, and the proposed Budget for FY'2025/26 which is expected to continue to reinforce fiscal consolidation in the medium term, leading to a reduction in debt vulnerabilities. Notably, total revenue collected as at the end of June 2025 amounted to Kshs 2,430.1 bn, equivalent to 97.4% of the revised estimates III of Kshs 2,496.2 bn for FY'2024/2025 and is 97.4% of the prorated estimates of Kshs 2,496.2 bn. The total expenditure amounted to Kshs 3,986.7 bn, equivalent to 94.8% of the revised estimates III of Kshs 4,206.9 bn, and is 94.8% of the prorated target expenditure estimates of Kshs 4,206.9 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 1,442.7 bn, equivalent to 99.6% of the revised estimates III of Kshs 1,448.6 and are equivalent to 99.6% of the prorated estimates of Kshs 1,448.6 bn.

Below, we analyze the trends of the macro-economic indicators since the June 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 June 2025	Our Expectation Going forward	CBR Direction (June 2025)	Probable CBR Direction (August 2025)
Government Revenue Collection	<ul style="list-style-type: none"> <li>Total revenue collected as at the end of June 2025 amounted to Kshs 2,430.1 bn, equivalent to 97.4% of the revised estimates III of Kshs 2,496.2 bn for FY'2024/2025 and is 97.4% of the prorated estimates of Kshs 2,496.2bn. Cumulatively, tax revenues amounted to Kshs 2,257.8 bn, equivalent to 97.9% of the revised estimates III of Kshs 2,305.1 bn and 97.9% of the prorated estimates of Kshs 2,305.1 bn,</li> <li>The government was unable to meet its prorated revenue targets for the all the months of the FY'2024/2025, achieving 97.4% of the prorated revenue targets in June 2025. The shortfall is largely due to the challenging business environment experienced in previous months with the Purchasing Managers' Index (PMI), averaging at 48.6 in June 2025, down from 49.6 in May 2025, marking a second consecutive month the index fell below the 50.0 neutral mark, signalling worsening business conditions, mainly attributable to decreased output. In light of this, the government is yet to fully benefit from the strategies put in place to improve revenue collection such as expanding the revenue base and sealing tax leakages, and suspension of tax relief payments. 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 depreciated marginally by 0.2 bps against the dollar in the since the last meeting in June. Additionally, the stable inflationary pressures, and, an ease in the monetary policy in the country, with the Monetary Policy Committee (MPC) announcing a downward revision of the Central Bank Rate (CBR) by 25.0 bps to 9.75% from 10.00% following their last meeting on 10<sup>th</sup> June 2025 will continue to stabilize the business climate</li> </ul>	<ul style="list-style-type: none"> <li>In the short term, we expect the revenue collections to lag behind the prorated targets given the subdued business environment on the back of elevated inflationary pressures as a result of high fuel and electricity prices, which continue to put pressure on the economic environment.</li> <li>However, with the implementation of the <a href="#">Finance Bill 2025</a>, the government will have a broader tax base which will lead to increased tax revenue collections. Rather than introducing aggressive tax hikes, the Bill focused on plugging revenue leakages, a more reserved approach following the widespread anti-finance bill protests that occurred in June and July 2024, following the Finance Bill 2024. The raft of tax changes in the Finance Bill 2025 are geared towards expanding the tax base and increasing revenues through sealing revenue leakages to meet the government's budget for the fiscal year 2025/2026 of Kshs 4.3 tn, as well as reduce the budget deficit and borrowing. Additionally, the updated budget estimates for FY'2025/26 underscore this approach, with a reduced projected fiscal deficit target of 4.8% of GDP, down from the 5.1% in FY'2024/25</li> <li>Nevertheless, given the improving general business environment which is underpinned by the stabilization of the Kenyan shilling, easing liquidity in the money market, and stabilized inflationary pressures, we expect these to support the tax revenue, but remain wary of the unpredictable tax regime that may weigh down the collections.</li> </ul>	Neutral	Neutral

Government Borrowing	<ul style="list-style-type: none"> <li>The government, as at 1<sup>st</sup> August 2025, is 17.4% ahead its prorated net domestic borrowing target of Kshs 59.4 bn having borrowed Kshs 69.7 bn of the total borrowing target of Kshs 635.5 bn. The government currently has domestic maturities worth Kshs 1,093.5 bn and will have to borrow Kshs 151.1 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2025/2026</li> <li>Total Borrowings as at the end of June 2025 amounted to Kshs 1,558.6 bn, equivalent to 91.6% of the revised estimates III of Kshs 1,702.2 bn for FY'2024/2025. The cumulative domestic borrowing of Kshs 1,200.7 bn comprises of Net Domestic Borrowing Kshs 817.3 bn and Internal Debt Redemptions (Rollovers) Kshs 383.4 bn.</li> <li>Kenya has continued to receive financing from the World Bank and other bilateral lenders, including the International Monetary Fund (IMF). In November 2024, the IMF Executive Board completed the seventh and eighth reviews of Kenya's Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements, as well as the second review under the Resilience and Sustainability Facility (RSF). This enabled the immediate disbursement of USD 485.8 million under the EFF/ECF arrangements and USD 120.3 million under the RSF. These disbursements brought the total received under the EFF/ECF programme to USD 3.1 bn, USD 480 mn short of the originally expected USD 3.6 bn, while the total received under the RSF reached USD 180.4 million out of a total allocation of USD 541.3 million. However, in March 2025, Kenya and the IMF agreed to discontinue the ninth and final review of the current programme and begin discussions for a new lending arrangement to support the country's ongoing fiscal and economic reform efforts.</li> </ul>	<ul style="list-style-type: none"> <li>Kenya's rising debt sustainability remains a significant concern with the government's borrowing appetite remaining high given the subdued economic environment coupled with an ever-present fiscal deficit. While credit risk was significantly reduced with the Eurobond buyback in February 2025, and new issue of USD 1.5 bn 11-year Eurobond to facilitate the buyback. This led to S&amp;P Global Ratings to <a href="#">announce</a> its revision of Kenya's long-term sovereign credit rating, downgrading it to B-, and a stable outlook from a credit rating of B and a negative outlook.</li> <li>Additionally, on 25<sup>th</sup> July 2025, Fitch Ratings <a href="#">affirmed</a> Kenya's credit score at B-with outlook stable in on the back of economic resilience, continued access to concessional funding, and ongoing efforts to manage its fiscal position despite persistent debt vulnerabilities and external financing pressures. Fitch expects the fiscal deficit to remain high in FY2025/26, reaching 5.2% of GDP, 0.5% points above the government's revised target, reflecting persistent spending pressures, limited fiscal consolidation progress, and increasing social and security demands.</li> <li>Additionally, on 24<sup>th</sup> January 2025, the global ratings agency, Moody's <a href="#">announced</a> its revision of Kenya's credit outlook to positive from negative, while maintaining the credit rating at Caa1, on the back of a likelihood of an ease in liquidity risks and improved debt affordability. The improved debt affordability is largely attributable to the reduction in domestic borrowing costs, evidenced by the sharp decline of yields for short-dated papers. Given the low inflation rates in the country, the stability of the exchange rate, and the ease in the monetary policy stance, domestic borrowing costs are expected to continue decreasing over the short-medium term.</li> </ul>	Negative	Negative
Inflation	<ul style="list-style-type: none"> <li>The inflation rate for July 2025 increased marginally by 0.3% points to 4.1%, from the 3.8% recorded in June 2025.</li> <li>Fuel prices for 15<sup>th</sup> July to 14<sup>th</sup> August 2025 increased with Super Petrol, Diesel, and Kerosene increasing by 5.1%, 5.3% and 6.6% to retail at Kshs 186.3, Kshs 171.6 and Kshs 156.6 per litre respectively.</li> </ul>	<ul style="list-style-type: none"> <li>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 5.2 bps against the dollar on year-to-date as of 1<sup>st</sup> August 2025, coupled with stabilized fuel prices.</li> </ul>	Positive	Positive

	<ul style="list-style-type: none"> <li>Notably, July's overall headline inflation remained within the CBK's target range of 2.5% - 7.5% for the twenty-fifth consecutive month.</li> </ul>			
Currency (USD/Kshs)	<ul style="list-style-type: none"> <li>Since the last meeting, the Kenyan Shilling has depreciated marginally by 0.2 bps against the US Dollar to remain relatively unchanged from the Kshs 129.2 recorded on 10<sup>th</sup> June 2025 partly due to the improved foreign reserves which are currently above the statutory requirement</li> <li>In addition, the Forex Reserves remain sufficient at USD 10.7 bn (equivalent to 4.7 months of import cover) as of 25<sup>th</sup> July 2025. Notably, the forex reserves are above the statutory requirement of maintaining at least 4.0 months of import cover</li> </ul>	<ul style="list-style-type: none"> <li>We expect the Kenyan Shilling to be supported by Diaspora remittances standing at a cumulative USD 5,084.1 mn in twelve months to June 2025, 12.1% higher than the USD 4,535.5 mn recorded over the same period in 2024, which has continued to cushion the shilling against further depreciation. In the June 2025 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 57.9% in the period,</li> <li>Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 10.7 bn (equivalent to 4.7 months of import cover) as of 1<sup>st</sup> August 2025. 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 tourist arrivals that improved by 14.6% in 2024, from the arrivals recorded during a similar period in 2023</li> </ul>	Positive	Positive
GDP Growth	<ul style="list-style-type: none"> <li>Kenyan's economy recorded a 4.9% growth in Q1'2025, at par with the 4.9% growth recorded in Q1'2024. The performance was driven by; <ul style="list-style-type: none"> <li>i. The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 6.0% in Q1'2025, higher than the 5.6% expansion recorded in Q1'2024;</li> <li>ii. Other sectors recorded an expansion in growth rates, from what was recorded in Q1'2024, with Mining and Quarrying, Taxes on products and Construction recording the highest growths in rates of 26.0%, 2.8% and 2.6% points, to 10.0%, 5.7% and 0.4% from (16.1%), 2.9% and 3.0% respectively;</li> <li>iii. Most sectors recorded contraction in growth rates compared to Q1'2024 with Accommodation &amp; Food Services, Financial Services Indirectly Measured and Professional Administration recording growth rate declines of 34.0%, 13.4% and 4.8% points to</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>In 2025, Kenya's economy is projected to grow at a faster pace, estimated between 5.2%-5.4%. 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 June 2025 by lowering the Central Bank Rate (CBR) by 25 basis points to 9.75%, marking the sixth consecutive rate cut. This accommodative monetary policy stance aims to stimulate private sector lending and boost economic activity.</li> <li>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</li> <li>Notably, the country's PMI for the month of June 2025 decreased to 48.6, from 49.6 in May, remaining in the contraction zone, an indication of an declining business environment in the</li> </ul>	Neutral	Neutral

	4.1%, 9.0% and 4.6% from 38.1%, 15.4% and 9.4% respectively	country. Likewise, according to <a href="#">CEO's survey- 2025 May report</a> , optimism about growth prospects for the Kenyan business activity remained sustained attributed to the stable macroeconomic environment reflected in the stability in the exchange rate, continued decline in interest rates, continued strong performance of agriculture due to favorable weather conditions, resilience of the services sector, and improved global growth prospects.		
<b>Private Sector Credit Growth</b>	<ul style="list-style-type: none"> <li>The latest data from the National Treasury indicates that growth in private sector credit grew by 2.0% in May 2025, compared to 3.5% growth in a similar period in 2024, mainly attributed to exchange rate valuation effects on foreign currency-denominated loans due to the appreciation of the Shilling and reduced demand due to high lending rates.</li> </ul>	<ul style="list-style-type: none"> <li>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,</li> <li>Additionally, banks have started to adjust their lending rates in line with the CBR rate which was cut to 9.75%, in the June MPC meeting, with the weighted lending rate at 15.4% as at May 2025. This is expected to revitalize the private sector credit demand</li> </ul>	<b>Negative</b>	<b>Negative</b>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>Liquidity levels in the money markets eased, with the average interbank rate since the previous MPC meeting decreasing by 13.1 bps to 9.6% as of 31<sup>st</sup> July 2025, from 9.7% as of 10<sup>th</sup> June 2025, partly attributable to government payments that offset tax remittances</li> </ul>	<ul style="list-style-type: none"> <li>We expect liquidity in the money markets to be supported by the domestic debt maturities that currently stand at Kshs 928.8 bn worth of T-bill maturities for FY'2024/2025.</li> </ul>	<b>Positive</b>	<b>Positive</b>

### 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 maintain the Central Bank Rate (CBR) at 9.75%, with their decision mainly being supported by;**

- i. **The need to allow more time for the effects of previous monetary policy measures to take hold:**  
In the recent past, the Central Bank has implemented a series of rate cuts totalling 325 basis points bringing the CBR down to 9.75% in June 2025 from 13.00% in August 2024. Maintaining the current rate will provide an opportunity to assess the full impact of these measures before taking further action. While private sector credit growth has slowed on a year on year basis, registering a

marginal increase of 2.0% in May 2025 compared to 4.5% in May 2024, the effects of recent interventions may take time to manifest. Holding the rate steady will avoid premature easing and allow the MPC to make a more data-driven decision in the coming months, especially as the broader economy adjusts.

- ii. **Similar decisions by global giant economies:** The European Central Bank decided to maintain their rate at 2.00% on 24<sup>th</sup> July 2025. Meanwhile, the US Federal Reserve decided to maintain their benchmark interest rate at 4.25%-4.50% in their most recent meeting on 30<sup>th</sup> July 2025, continuing the trend since January. Hence, the MPC may choose to take a more cautious approach, ensuring domestic factors are fully aligned before implementing further cuts, and,
- iii. **The continued stability of the Shilling against major currencies:** Despite the June rate cut, the Kenyan Shilling has remained stable, depreciating marginally by 0.2 bps against the US Dollar to remain relatively unchanged from the Kshs 129.2 recorded on 10<sup>th</sup> June 2025. This stability, supported by foreign exchange reserves currently at 4.7 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.

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