Cytonn Note on the 8th April 2025 Monetary Policy Committee (MPC) Meeting

The Monetary Policy Committee (MPC) is set to meet on Tuesday, 8th April 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 5th February 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 50.0 bps citing that its previous interventions successfully curbed inflation to below the midpoint of the CBK's target range, which came in at 3.6% in March 2025, supported by the exchange rate stability, and lower fuel inflation. This was in line with our expectation for the MPC to lower the CBR rate, with our view having been informed by:

i. Rate cuts by global giant economies. In their sitting on 29th January 2025, US Federal Reserve decided to maintain their benchmark interest rate at 4.25%-4.50%, following the rate cut by 25.0 bps to a range of 4.25%-4.50% in their December 2024 meeting from a range of 4.50%-4.75% in their November 2024 meeting. This followed the European Central Bank announcing a rate cut by 25 bps to 2.75% from 3.00% later in the month of January 2025,

ii. The continued stability of the Shilling against major currencies, despite the December rate cut in the CBR, this still gave room for a moderate cut without reversing the Shilling's stability. Since the December meeting, the Kenyan Shilling had appreciated marginally by 5.9 bps against the US Dollar to Kshs 129.2 as at 31st January 2024, from Kshs 129.3 recorded on 5th December 2024. The stability of the Shilling was expected to be supported by the stable foreign reserves which stood at 4.5 months of import cover as at 31st January 2025, above the statutory requirement of 4.0 months cover, and,

iii. The need to support the economy by adopting a more accommodative policy that would ease financing activities and support private sector financing. Private sector credit growth contracted by 1.1% in November 2024, a further decline from 0.0% growth in October 2024. A rate cut would help unlock the private sector's potential, enabling it to act as a key driver of economic recovery and sustained growth. Additionally, the business environment remains subdued, hence a cut in the CBR will help spur economic growth, increase money supply and improve business activities in the country

The Monetary Policy Committee noted that the current account deficit is estimated at 3.7% of GDP in 2024, compared to 4.0% in 2023, and is projected at 3.8% 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 15.4% in 2024, compared to a similar period in 2023, reflecting a rise in exports of agricultural commodities and re-exports. The increase in exports in 2024 was across several categories, including tea and vegetable & fruits and agricultural re-exports, which saw respective increases of 2.1%, 16.8% and 73.5%. Imports increased by 9.9% in 2024 compared to a similar period in 2023, mainly reflecting increases in intermediate and capital goods. Tourist arrivals improved by 14.6% in 2024 while remittances increased by 18.0%,

Additionally, the Committee noted the ongoing implementation of the FY'2024/25 Supplementary Budget I, which is expected to lower the fiscal deficit to 4.3% of GDP, from 5.3% of GDP in FY'2023/24 hence continuing to reinforce fiscal consolidation. Notably, total revenue collected as at the end of December 2024 amounted to Kshs 1,161.3 bn, equivalent to 44.1% of the revised estimates of Kshs 2,631.4 bn for FY'2024/2025 and is 88.3% of the prorated estimates of Kshs 1,315.7 bn. The total expenditure amounted to Kshs 1,714.1 bn, equivalent to 40.7% of the revised estimates of Kshs 4,207.9 bn, and is 81.5% of the prorated target expenditure estimates of Kshs 2,104.0 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 654.5 bn, equivalent to 50.0% of the revised estimates of Kshs 1,307.9 and 100.1% of the prorated estimates of Kshs 654.0 bn, Below, we analyze the trends of the macro-economic indicators since the February 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 February 2025**	**Our Expectation Going forward**	**CBR Direction (February 2025)**	**Probable CBR Direction April 2025)**
Government Revenue Collection	• Total revenue collected as at the end of February 2025 amounted to Kshs 1,403.7 bn, equivalent to 56.7% of the revised estimates of Kshs 2,475.1 bn for FY'2024/2025 and is 85.1% of the prorated estimates of Kshs 1,650.0 bn. Cumulatively, tax revenues amounted to Kshs 1,518.3 bn, equivalent to 57.7% of the revised estimates of Kshs 2,631.4 bn and 86.6% of the prorated estimates of Kshs 1,754.3 bn, • The government was unable to meet its prorated revenue targets for the eight-consecutive month of the FY'2024/2025, attaining 85.1% of the revenue targets in February 2025, mainly on the back of the challenging business environment experienced in previous months, exacerbated by high taxes and an elevated cost of living. The cost of living remains elevated in the country, which continues to impede revenue collection despite an improvement in business environment with the PMI coming in at 51.7 in March 2025, within the expansion zone, from the 50.6 recorded in February 2025. 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, despite having depreciated marginally by 0.1% against the dollar in the since the last meeting in February. 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 50.0 bps to 10.75% from 11.25% following their last meeting on 5th February 2025 will continue to stabilize the business climate	• In the short term, we expect the revenue collections to be affected as a result of the withdrawal of the Finance Bill 2024. We expect a revenue shortfall for the FY2024/2025 budget, and will likely result in Kenya missing the 4.3% fiscal deficit target this year. • The proposed raft of tax changes in the Finance Bill 2024 were geared towards expanding the tax base and raising revenues to meet the government's budget for the fiscal year 2024/2025 of Kshs 3.9 tn. The government's continued efforts to broaden the tax base were hampered. • Despite this the government continues to employ a raft of measures to boost revenue collection through non-tax channels by streamlining its services to the public e.g. Citizen services, the Ministry of Lands and Immigration services and proposals to broaden the tax base through the Tax Laws Amendment Bill 2024. However, the upward revision of taxes comes at a time when the business environment remains subdued, underpinned by the increased taxation that has suppressed business production levels weighing down on the projected revenue performance. • Nevertheless, given the improving general business environment which is underpinned by the slight depreciation 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.	**Negative**	**Negative**

Government Borrowing	• The government, as at 4th April 2025, is 38.3% ahead its prorated net domestic borrowing target of Kshs 593.7 bn having borrowed Kshs 821.1 bn of the total borrowing target of Kshs 456.7 bn. The government currently has domestic maturities worth Kshs 538.1 bn and will have to borrow Kshs 134.8 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2024/2025 • Total Borrowings as at the end of February 2025 amounted to Kshs 795.6 bn, equivalent to 50.6% of the revised estimates of Kshs 1,571.8 bn for FY'2024/2025 and are 75.9% of the prorated estimates of Kshs 1,047.9 bn. The cumulative domestic borrowing of Kshs 978.3 bn comprises of Net Domestic Borrowing Kshs 408.4 bn and Internal Debt Redemptions (Rollovers) Kshs 569.9 bn • Kenya has continued to receive financing from the World Bank and other bilateral lenders such as the International Monetary Fund (IMF). In November 2024, the Executive Board of the IMF announced that it had completed the seventh and eighth reviews of Kenya's Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements and the second review under the Resilience and Sustainability Facility (RSF) arrangement. Notably, this enabled immediate disbursement of USD 485.8 mn under the EFF/ECF arrangements and USD 120.3 mn under the Resilience Sustainability Facility (RSF). This latest disbursement brings the total amount received under the EFF/ECF Programme to USD 3.2 bn, USD 0.7 bn short of the USD 3.9 bn expected from the whole programme and a total of USD 180.5 bn received under the RSF programme.	• 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&P Global Ratings to announce 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. However on 31 January 2025, Fitch Ratings affirmed Kenya's credit score at B-with outlook stable in January 2025 on the back of diversified economy and strengthening of the monetary policy frameworks. Additionally, on 24th January 2025, the global ratings agency, Moody's announced 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.	**Negative**	**Negative**
Inflation	• Year on year (y/y) inflation rate for March 2025 increased marginally by 0.1% points to 3.6%, from the 3.5% recorded in February 2025. This was in line with our expectation of an increase. Our projection was mainly driven by the easing monetary policy stance and increase in electricity prices. • Super Petrol, Diesel, and Kerosene remained unchanged at Kshs 176.6, Kshs167.1, and Kshs 151.4 per litre respectively. • Notably, March's overall headline inflation remained within the CBK's	• 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 4.7 bps against the dollar on year-to-date, coupled with stabilized fuel prices.	**Positive**	**Positive**

	target range of 2.5% - 7.5% for the twenty-first consecutive month.			
Currency (USD/Kshs)	• Since the last meeting, the Kenyan Shilling has depreciated marginally by 4.0 bps against the US Dollar to Kshs 129.2 as at 4th April 2025, relatively unchanged from Kshs 129.2 recorded on 31st January 2025 despite the improved foreign reserves which are currently above the statutory requirement • In addition, the Forex Reserves remain sufficient at USD 10.0 bn (equivalent to 5.1 months of import cover) as of 28th March 2025. 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 4,956.5 mn in twelve months to February 2025, 14.5% higher than the USD 4,329.7 mn recorded over the same period in 2024, which has continued to cushion the shilling against further depreciation. In the February 2025 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 53.0% in the period, • Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 9.9 bn (equivalent to 5.1 months of import cover) as of 4th April 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	**Positive**	**Positive**
GDP Growth	• Kenyan's economy recorded a 4.0% growth in Q3'2024, slower than the 6.0% growth recorded in Q3'2023, pointing towards a slower economic growth. The performance was driven by; i. The positive growth recorded in all sectors except Mining and quarrying, with most sectors recording a decline compared to Q3'2023 with Accommodation and Food Services, Mining & Quarrying and Financial & Insurance Sectors recording the highest declines of 20.8%, 11.9% and 10.8% points, respectively. Other sectors that recorded a contraction in growth rate, from what was recorded in Q3'2023 were Construction, Electricity and Water Supply and Real Estate of 6.0%, 2.4% and 2.2% points respectively; ii. The slowed growth in the Agricultural Sector with Agriculture and Forestry recording a growth of 4.2% in Q3'2024. The performance was a decrease of 0.9% points, from the expansion of 5.1% recorded in Q3'2023. The slower growth recorded during the quarter was	• We expect Kenya's GDP to show recovery in 2025 at a faster pace, supported by sustained recovery in sectors like accommodation and food services sector, as well as recent fiscal policies such as subsidizing costs of crucial farm inputs such as fertilizer that are expected to support growth in the agriculture sector, which remains to be Kenya's largest contributor to GDP, • 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 March 2025 increased to 51.7, from 50.6 in February, but still remaining in the expansion zone, an indication of an improved business environment in the country. Likewise, according to CEO's survey- 2025 January report, optimism about growth prospects for the Kenyan business activity remained sustained attributed to the stable macroeconomic	**Neutral**	**Neutral**

	however supported by a significant increase in Sugarcane production by 188.7% to stand at 2,523.5 thousand metric tonnes, from the 874.0 thousand metric tonnes registered in Q3'2023	environment reflected in the low inflation rate and stability in the exchange rate, expectations of a decline in interest rates, continued strong performance of agriculture due to favorable weather conditions, resilience of the services sector, and improved global growth prospects.		
Private Sector Credit Growth	• The latest data from the National Treasury indicates that growth in private sector credit declined by 1.4% in December 2024, compared to 13.2% growth in a similar period in 2023, 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.	• 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 which was cut to 10.75%, in the February MPC meeting, with the weighted lending rate at 16.4% as at February 2025. This is expected to revitalize the private sector credit demand	**Negative**	**Negative**
Liquidity	• Liquidity levels in the money markets eased, with the average interbank rate since the previous MPC meeting decreasing by 2.9 bps to 10.7% as of 4th April 2025, from 11.0% as of 5th February 2025, partly attributable to government payments that offset tax remittances	• We expect liquidity in the money markets to be supported by the domestic debt maturities that currently stand at Kshs 346.8 bn worth of T-bill maturities and Kshs 162.7 bn worth of T-bond maturities for FY'2024/2025.	**Positive**	**Positive**

Conclusion

Out of the seven factors that we track, three are positive, three are negative and one is 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) by 25.0 bps – 75.0 bps to within a range of 10.00% - 10.50% with their decision mainly being supported by:

i. **The need to support the economy** by adopting a more accommodative policy that will ease financing activities and support private sector financing. Private sector credit growth marginally increasing to 1.4% in December 2024, a further decline from 1.3% in October 2024. A rate cut would help unlock the private sector's potential, enabling it to act as a key driver of economic recovery and sustained growth. Additionally, the business environment remains subdued, hence a cut in the CBR will help spur economic growth, increase money supply and improve business activities in the country

ii. **Rate cuts by global giant economies**: The European Central Bank announced a rate cut by 25 bps to 2.50% on 6th March 2025, from 2.75% earlier in 30th January 2025. Meanwhile, the US Federal Reserve decided to maintain their benchmark interest rate in their recent sitting on 19th March 2025 at 4.25%-4.50% for the second time since January sitting, following the rate cut by 25.0 bps to a range of 4.25%-4.50% in their December 2024 meeting from a range of 4.50%-4.75% in their November 2024 meeting. As such, we expect the MPC to follow through with this set precedence of loosening the monetary policy and cut the rate further, and,

iii. **The continued stability of the Shilling against major currencies**: Despite the February rate cut in the CBR, this still gives room for a moderate cut without reversing the Shilling's stability. Since the last meeting, the Kenyan Shilling has depreciated marginally by 4.0 bps against the US Dollar to 129.2 as at 4th April 2025, from Kshs 129.2 recorded on 5th February 2025, but remains stable. The stability of the Shilling is expected to be supported by the stable foreign reserves which are currently at 5.1 months of import cover, above the statutory requirement of 4.0 months cover.