<u>Cytonn Note on the 9th December 2025 Monetary Policy Committee (MPC) Meeting</u>

The Monetary Policy Committee (MPC) is set to meet on Tuesday, 9th December 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 7th October 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 4.6% in October 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 lowered its benchmark interest rate to 4.00% - 4.25% on 17th September 2025, down from 4.25% - 4.50%, marking its first rate cut of the year. Meanwhile, the European Central Bank, in its most recent meeting on 11th September 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 July 2025, private sector credit grew by 3.3%, up from 2.2% in June, an encouraging sign of recovery. However, this growth remains 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 August rate cut, the Kenyan Shilling has remained stable, depreciating marginally by 0.1 bps against the US Dollar to remain relatively unchanged from the Kshs 129.2 recorded on 12th August 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.

The Monetary Policy Committee noted that the current account deficit in the 12 months to August 2025 is estimated at 2.1% of GDP, compared to 1.6% in a similar period in 2024, and is projected at 1.7% 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 3.6% in the twelve months to August 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 9.2% compared to a similar period in 2024, mainly reflecting increases in intermediate and capital goods. Services receipts improved by 10.6% in in the twelve months to August 2025 while remittances increased by 9.4%,

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, total revenue collected as at the end of October 2025 amounted to Kshs 776.8 bn, equivalent to 28.2% of the original estimates of Kshs 2,754.7 bn for FY'2025/2026 and is 84.6% of the prorated estimates of Kshs 918.2 bn. The total expenditure amounted to Kshs 1,437.8 bn, equivalent to 32.4% of the original estimates of Kshs 4,433.6 bn, and is 97.3% of the prorated target expenditure estimates of Kshs 1,477.9 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 485.5 bn, equivalent to 33.0% of the original estimates of Kshs 1,470.4 bn and are equivalent to 99.1% of the prorated estimates of Kshs 490.1 bn.

Below, we analyze the trends of the macro-economic indicators since the October 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 October 2025**	**Our Expectation Going forward**	**CBR Direction (October 2025)**	**Probable CBR Direction December 2025)**
Government Revenue Collection	• Total revenue collected as at the end of October 2025 amounted to Kshs 776.8 bn, equivalent to 28.2% of the original estimates of Kshs 2,754.7 bn for FY'2025/2026 and is 84.6% of the prorated estimates of Kshs 918.2 bn. Cumulatively, tax revenues amounted to Kshs 736.3 bn, equivalent to 28.0% of the original estimates of Kshs 2,627.1 bn and 84.1% of the prorated estimates of Kshs 875.7 bn, • The government underachieved its prorated revenue targets for the fourth month of the FY'2025/2026, achieving 84.6% of the prorated revenue targets in October 2025, higher than the 84.5% recorded in September 2025. This was driven by shortfall in both tax and non-tax revenues, which stood at 84.1% and 80.0% of prorated levels, respectively. Although the Purchasing Managers' Index (PMI) rose to 55.0 in November 2025 from 52.5 in October, it remained above the neutral 50.0 mark for the third 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 depreciated by 5.4 bps against the dollar in the since the last meeting in October. Additionally, the relatively 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 9.25% from 9.50% following their last meeting on 7th October 2025 will continue to stabilize the business climate	• In the short term, we expect the revenue collections to improve lag behind the prorated targets given the improved business environment on the back of stable inflationary pressures as a result of stable fuel and electricity prices, which continue to ease pressure on the economic environment. • However, with the implementation of the Finance Bill 2025, 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 • Nevertheless, while the improving macroeconomic environment, marked by 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	**Neutral**	**Neutral**

Government Borrowing	• The government, as at 30th November 2025, is 125.3% ahead its prorated net domestic borrowing target of Kshs 266.8 bn having borrowed Kshs 417.1 bn of the total borrowing target of Kshs 634.8 bn. The government currently has domestic maturities worth Kshs 791.5 bn and will have to borrow Kshs 118.1 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2025/2026 • Total Borrowings as at the end of October 2025 amounted to Kshs 730.2 bn, equivalent to 43.8% of the original estimates of Kshs 1,668.1 bn for FY'2025/2026. The cumulative domestic borrowing of Kshs 1,098.3 bn comprises of Net Domestic Borrowing Kshs 634.8 bn and Internal Debt Redemptions (Rollovers) Kshs 536.5 bn. • 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. • In March 2025, Kenya and the International Monetary Fund (IMF) agreed to discontinue the ninth and final review of the Extended Fund Facility (EFF)/Extended Credit Facility (ECF) programme, ending the arrangement that began in 2021. This halted a disbursement of about Kshs 110.0 bn, though the impact was cushioned by successful Eurobond buybacks and improved market access. The government is now engaging the IMF on a successor programme, not primarily for new funding, but to anchor ongoing fiscal and structural reforms, including	• 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, S&P Global Ratings 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'. The agency cited reduced external liquidity risks, supported by stronger inflows from exports and diaspora remittances, as well as manageable debt service obligations over the next two years. Additionally, lower domestic interest rates are expected to help ease the government's cost of funding. These improved credit ratings are important signals to investors and play a role in how sovereign debt is priced in international markets. • Additionally, on 25th July 2025, Fitch Ratings affirmed 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. • 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**

	revenue mobilization and debt management. An IMF staff mission arrived in October 2025 to begin discussions on the new arrangement.			
Inflation	• The inflation rate for November 2025 decreased marginally by 0.1% points to 4.5%, from the 4.6% recorded in October 2025. • Fuel prices for 15th November to 14th December 2025 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, September's overall headline inflation remained within the CBK's target range of 2.5% - 7.5% for the twenty-seventh 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 depreciating by 0.3 bps against the dollar on year-to-date as of 5th December 2025, coupled with stabilized fuel prices.	**Positive**	**Positive**
Currency (USD/Kshs)	• Since the last meeting, the Kenyan Shilling has depreciated by 5.4 bps against the US Dollar to Kshs 129.3 from the Kshs 129.2 recorded on 7th October 2025 partly due to the improved foreign reserves which are currently above the statutory requirement • In addition, the Forex Reserves remain sufficient at USD 12.0 bn (equivalent to 5.2 months of import cover) as of 27th November 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 5,081.6 mn in twelve months to October 2025, 4.8% higher than the USD 4,804.1 mn recorded over the same period in 2024, which has continued to cushion the shilling against further depreciation. In the October 2025 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 59.9% in the period, • Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 12.0 bn (equivalent to 5.2 months of import cover) as of 27th November 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 8.0% to 2,303,028 in the 12 months to February 2025 from 2,133,612 in the 12 months to February 2024	**Positive**	**Positive**
GDP Growth	• Kenyan's economy recorded a 5.0% growth in Q2'2025, 0.4% points higher than the 4.6% growth recorded in Q2'2024. The performance was driven by; i. The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 4.4% in Q2'2025, lower than the 4.5% expansion recorded in Q2'2024; ii. Other sectors recorded an expansion in growth rates, from what was recorded in Q1'2024, with Mining and Quarrying, Construction and Electricity and	• 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 August 2025 by lowering the Central Bank Rate (CBR) by 25 basis points to 9.50%, marking the seventh consecutive rate cut. This accommodative monetary policy stance aims to stimulate private sector lending and boost economic activity.	**Neutral**	**Neutral**

	water supply recording the highest growths in rates of 20.8%, 9.4% and 4.5% points, to 15.3%, 5.7% and 5.7% from (5.5%), (3.7%) and 1.2% respectively; iii. Most sectors recorded contraction in growth rates compared to Q2'2024 with Accommodation & Food Services, Financial Services Indirectly Measured and Other services recording growth rate declines of 27.2%, 8.9% and 3.4% points to 7.8%, 1.4% and 1.4% from 35.0%, 10.3% and 4.8% respectively	• 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 November 2025 increased to 55.0, from 52.5 in October, an indication of improving business environment in the country. Likewise, according to [CEO's survey- 2025 July report], 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.		
Private Sector Credit Growth	• The latest data from the National Treasury indicates that growth in private sector credit grew by 5.0% in September 2025, compared to 0.4% 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.	• 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 9.25%, in the October MPC meeting, with the weighted lending rate at 15.2% as at July 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 28.4 bps as of 27th November 2025 to 9.2% from 9.5% in 7th October 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 669.8 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

i. **Rate cuts by global giant economies**: The US Federal Reserve lowered its benchmark interest rate to 3.75% - 4.00% on 29th October 2025, down from 4.00%-4.25%, marking its second rate cut of the year. Meanwhile, the European Central Bank, in its most recent meeting on 30th 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 remains 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 5.4 bps against the US Dollar to Kshs 129.3 from the Kshs 129.2 recorded on 7th 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.