

### **Cytonn Note on the April 2026 Monetary Policy Committee (MPC) Meeting**

The Monetary Policy Committee (MPC) is scheduled to [meet](#) on 8<sup>th</sup> April 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 10<sup>th</sup> February 2026, 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 to 8.75% citing that its previous interventions successfully curbed inflation to below the midpoint of the CBK's target range, which came in at 4.4% in March 2026, 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 %-8.75%, with our view having been informed by:

- i. **Rate cuts by global giant economies:** Global monetary policy had 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 30th December 2025 meeting, chose to [hold](#) its benchmark policy rate at 2.00% (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 had maintained steady rates or signaled conditional easing depending on inflation outcomes and growth prospects,
- ii. **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 remained well below the 5-year average of 7.7%, indicating that credit expansion was 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 December 2025 rate cut, the Kenyan Shilling remained relatively stable, appreciating by 16.4 bps against the US Dollar to 129.0 as at 30<sup>th</sup> January 2026 from the Kshs 129.2 recorded on 9<sup>th</sup> December 2025. This stability, supported by foreign exchange reserves which stood at at 5.3 months of import cover (above the 4.0 months statutory requirement) as of 6<sup>th</sup> February 2026, provided the MPC with flexibility to maintain the current rate without risking currency volatility or capital outflows.

The Monetary Policy Committee noted that the current account deficit in 2025 was estimated at 2.4% of GDP, compared to 1.3% in 2024, supported by lower service receipts and secondary income transfers as a share of GDP. Additionally, the Monetary Policy committee noted that Goods exports increased by 6.1% in 2025, compared to a similar period in 2024, driven by horticulture, coffee, tea, manufactured goods, and apparel. Imports increased by 9.1% compared to a similar period in 2024, mainly reflecting increases in intermediate and capital goods imports. Services receipts improved by 1.1% in 2025 while remittances increased by 1.9%,

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 over the medium term. Notably, the total revenue collected as at the end of February 2026 amounted to Kshs 1,613.1 bn, equivalent to 58.6% of the original estimates of Kshs 2,754.7 bn for FY'2025/2026 and is 87.8% of the prorated estimates of Kshs 1,836.5 bn. The total expenditure amounted to Kshs 2,747.5 bn, equivalent to 62.0% of the original estimates of Kshs 4,433.6 bn, and is 93.0% of the prorated target expenditure estimates of Kshs 2,955.7 bn. Additionally, the net disbursements to

recurrent expenditures came in at Kshs 1,023.8 bn, equivalent to 69.6% of the original estimates of Kshs 1,470.4 and are equivalent to 104.4% of the prorated estimates of Kshs 980.3 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 2026	Our Expectation Going forward	CBR Direction (February 2026)	Probable CBR Direction (April 2026)
<b>Government Revenue Collection</b>	<ul style="list-style-type: none"> <li>The total revenue collected as at the end of February 2026 amounted to Kshs 1,613.1 bn, equivalent to 58.6% of the original estimates of Kshs 2,754.7 bn for FY'2025/2026 and is 87.8% of the prorated estimates of Kshs 1,836.5 bn. Cumulatively, tax revenues amounted to Kshs 1,516.7 bn, equivalent to 57.7% of the original estimates of Kshs 2,627.1 bn and 86.6% of the prorated estimates of Kshs 1,751.4 bn,</li> <li>The government underachieved its prorated revenue targets for the eighth month of the FY'2025/2026, achieving 87.8% of the prorated revenue targets in February 2026, marginally higher than the 87.7% recorded in January 2026. This was driven by shortfall in tax revenues, which stood at 86.6% of prorated levels, respectively. Although the Purchasing Managers' Index (PMI) declined to 50.4 in February 2026 from 51.9 in January, it remained above the neutral 50.0 mark for the sixth 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 stability of the Shilling, despite having depreciated marginally by 75.2 bps against the dollar to Kshs 130.0 at 2nd April 2026 from Kshs 129.0 the last meeting in 10<sup>th</sup> February 2026. The marginal depreciation may be attributed to the escalating Israel-Iran war that has pushed global oil prices higher and since Kenya is a net oil importer, this increases demand for dollars and worsens the current account deficit. Additionally, the relatively stable inflationary pressures, and an ease in the</li> </ul>	<ul style="list-style-type: none"> <li>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 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 8.75% from 9.0% in February 2026 and continued efforts to broaden the tax base, curb evasion, and stimulate economic growth.</li> <li>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. KRA is also seeking to amend section 34 (1a) of the VAT Act and to do away with the Kshs 5.0 mn annual turnover threshold for VAT registration. This change will effectively lower the current registration threshold from Kshs 5.0 mn to zero and address the estimated 38.0% VAT collection gap and will also lift collections from Kshs 653.0 bn to over Kshs 1.0 tn. However, the FY'2025/26 Budget Policy Statement contradicts the authorities' fiscal consolidation intentions, with a higher projected fiscal deficit of 5.3% of GDP, up from 4.6% of GDP in the supplementary budget for FY'2025/26. Recent commentary from rating agencies also point to a more cautious assessment, citing execution risks, reduced but still elevated debt servicing costs, and potential shortfalls in</li> </ul>	<b>Neutral</b>	<b>Neutral</b>

	<p>monetary policy in the country, with the Monetary Policy Committee (MPC) cutting the Central Bank Rate (CBR) to 8.75% during its 10<sup>th</sup> February 2026 meeting will continue to stabilize the business climate</p>	<p>revenue mobilisation, which could challenge the attainment of the revised deficit target without deeper expenditure rationalisation or improved financing conditions</p> <ul style="list-style-type: none"> <li>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. However, rising geopolitical uncertainty stemming from the escalating Iran–Israel conflict escalation could further strain the outlook through potential oil price shocks and exchange rate volatility, thereby adding downside risks to revenue performance.</li> </ul>		
<p><b>Government Borrowing</b></p>	<ul style="list-style-type: none"> <li>The government, as at 31<sup>st</sup> March 2026, is 116.4% ahead its prorated net domestic borrowing target of Kshs 474.3 bn having borrowed Kshs 1,026.4 bn of the total borrowing target of Kshs 634.8 bn. The government currently has domestic maturities worth Kshs 485.9 bn and will have to borrow Kshs 38.1 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2025/2026</li> <li>Total Borrowings at the end of February 2026 amounted to Kshs 1,123.7 bn, equivalent to 67.4% 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 463.5 bn.</li> <li>Kenya opted not to seek additional funding from the International Monetary Fund in the near term, after raising approximately Kshs 588.5 bn through a combination of state asset sales and Eurobond issuance.</li> <li>The funds were primarily sourced from: <ul style="list-style-type: none"> <li>i) The sale of a 35.0% stake in Kenya Pipeline Company (Kshs 106.3 bn),</li> <li>ii) The sale of a 15.0% stake in Safaricom to Vodacom (Kshs 244.5 bn), and</li> <li>iii) Eurobond proceeds amounting to about Kshs 290.3 bn, part of which was used for debt buyback, with</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>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&amp;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&amp;P noted reduced external liquidity risks, underpinned by stronger foreign currency inflows and manageable debt service obligations over the next two years.</li> <li>Additionally, on 23<sup>rd</sup> January 2026, Fitch Ratings <a href="#">affirmed</a> 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.</li> <li>On January 27<sup>th</sup> 2026, the global ratings agency, Moody's <a href="#">announced</a> 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-</li> </ul>	<p>Negative</p>	<p>Negative</p>

	<p>the remainder supporting the budget.</p> <ul style="list-style-type: none"> <li>• This financing strategy provides Kenya with significantly more resources, about five times what the IMF would typically offer annually, allowing the government to fund its budget up to mid-2026 without IMF support.</li> <li>• However, Kenya’s previous IMF programme, initiated in 2021, collapsed after the country failed to meet several conditions, leading to a loss of about Kshs 110.0 bn in expected IMF disbursements.</li> <li>• Despite stepping back from IMF financing, engagement with the Fund continues at a technical level, and a new programme may be considered for the 2026/27 financial year. Meanwhile, institutions like the World Bank and African Development Bank are expected to remain key sources of concessional financing.</li> </ul>	<p>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 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 mobilization. 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.</p>		
<p><b>Inflation</b></p>	<ul style="list-style-type: none"> <li>• The inflation rate for March 2026 increased to 4.4% from the 4.3% recorded in February 2026.</li> <li>• Fuel prices for 15<sup>th</sup> March to 14<sup>th</sup> April 2026 remained unchanged with Super Petrol, Diesel, and Kerosene retailing at Kshs 178.3, Kshs 166.5 and Kshs 152.8 per litre respectively.</li> <li>• Notably, March overall headline inflation remained within the CBK’s target range of 2.5% - 7.5% for the thirty first consecutive month.</li> </ul>	<ul style="list-style-type: none"> <li>• We expect that the Iran war is likely to cause inflationary pressures given that fuel imports prices will increase with the gulf countries being major oil producers, inflation rates will increase but remain within the CBK’s target range of 2.5% - 7.5%. Depreciation of the Kenyan shilling against the dollar by 72.8 bps against the dollar on year-to-date as of 2<sup>nd</sup> April 2026 will further increase the inflationary pressures.</li> </ul>	<p><b>Positive</b></p>	<p><b>Negative</b></p>
<p><b>Currency (USD/Kshs)</b></p>	<ul style="list-style-type: none"> <li>• Since the last meeting, the Kenyan Shilling has depreciated by 75.2 bps against the US Dollar to Kshs 130.0 from the Kshs 129.0 recorded on 10<sup>th</sup> February 2026</li> <li>• The escalating Iran war has triggered a global oil shock and intensified pressure on the Kenyan shilling leading to a decline 6.4% decline in the forex reserves to USD 13.7 mn on 1<sup>st</sup> April 2026 from the USD 14.6 mn recorded on 5<sup>th</sup> March 2026. However, the Forex Reserves remain sufficient at USD 13.7 bn (equivalent to 5.8 months of import cover) as of 1<sup>st</sup> April 2026 and 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 5,433.4 mn in twelve months to February 2026, 1.7% higher than the USD 5,342.4 mn recorded over the same period in 2025, which has continued to cushion the shilling against further depreciation. In the February 2026 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 54.2% in the period,</li> <li>• Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 13.7 bn (equivalent to 5.8 months of import cover) as of 27<sup>th</sup> March 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</li> </ul>	<p><b>Positive</b></p>	<p><b>Negative</b></p>

		<p>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.</p> <ul style="list-style-type: none"> <li>• However, the escalating Iran war is likely to exert significant downward pressure on the Kenyan shilling through multiple interconnected channels, primarily driven by rising global oil prices and shifting investor sentiment. As the conflict disrupts supply routes such as the Strait of Hormuz, global oil prices have surged sharply, increasing Kenya's import bill given its heavy reliance on imported fuel. This raises demand for US dollars by oil importers, putting direct pressure on the shilling. At the same time, global uncertainty has strengthened the US dollar as a safe-haven currency, which may lead investors to pull capital from emerging markets like Kenya, further weakening the local currency. The combined effect of higher dollar demand, imported inflation, and reduced investor confidence has already contributed to a depreciation of the shilling, which has declined by 75.2 bps to around Kshs 130.0 per dollar from the Kshs 129.0 recorded on 10<sup>th</sup> February 2026. Overall, unless the conflict de-escalates, these external pressures are likely to sustain volatility and depreciation pressures on the Kenyan shilling.</li> </ul>		
<p><b>GDP Growth</b></p>	<ul style="list-style-type: none"> <li>• 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; <ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• In 2026, 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 February 2026 by lowering the Central Bank Rate (CBR) by 25 basis points to 8.75%, marking the tenth consecutive rate cut. This accommodative monetary policy stance aims to stimulate private sector lending and boost economic activity.</li> <li>• The 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 February 2026 decreased to 50.4, from 51.9 in January, an indication of improving business environment in the country.</li> </ul>	Neutral	Neutral

		Likewise, according to <a href="#">CEO's survey- 2026 February report</a> , 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.		
<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 6.4% in January 2026, compared to 2.9% decline in a similar period in 2025, mainly attributed to exchange rate valuation effects on foreign currency-denominated loans due to the stabilization 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 8.75%, in the February MPC meeting, with the weighted average lending rate coming in at 14.8% as at January 2026. This is expected to revitalize the private sector credit demand</li> </ul>	<b>Negative</b>	<b>Neutral</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 increasing by 3.0 bps as of 1<sup>st</sup> April 2026 to 8.7% from 9.0% in 10<sup>th</sup> February 2026, partly attributable to tax remittances that offset government payments that</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 485.9 bn worth of T-bill and T-bonds maturities for FY'2025/2026.</li> </ul>	<b>Positive</b>	<b>Positive</b>

### **Conclusion**

Out of the seven factors that we track, one is positive, three are negative and three are neutral. Notably, most of the Central Banks of developed economies around the world have held their rates with the aim of supporting economic activities and growth going forward as they observe the impact of the Iran war on their macroeconomic environments.

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 8.75%, with their decision mainly being supported by:**

- i. **Rate holds by global giant economies:** Global monetary policy has generally remained accommodative or steady in recent months. At its March 19<sup>th</sup>, 2026 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve [maintained](#) the federal funds rate at 3.5%-3.75% amid elevated uncertainty about the economic outlook from implications of developments in the Middle East war. Meanwhile, the European Central Bank (ECB), in its 19<sup>th</sup> March 2026

meeting, chose to [hold](#) its benchmark policy rate at 2.00% (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. The escalating Iran war has further reinforced this cautious stance by heightening global uncertainty and inflation risks particularly through potential oil price shocks thereby limiting the scope for immediate rate cuts.

- ii. **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 January 2026, private sector credit grew by 6.4%, up from 5.9% in December 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. Given the still-muted business environment, a rate hold would allow the CBK time to observe the impact of the escalating Iran war on the macroeconomic environment particularly through potential pressures on inflation, exchange rate stability, and overall business confidence.
- iii. **The continued stability of the Shilling against major currencies:** Despite the February 2026 rate cut, the Kenyan Shilling has remained relatively stable despite depreciating marginally by 75.2 bps against the US Dollar to 130.0 as at 2<sup>nd</sup> April 2026 from the Kshs 129.0 recorded on 10<sup>th</sup> February 2026. This stability, supported by foreign exchange reserves currently at 5.8 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. However, the escalating Iran war poses an emerging external risk, as potential increases in global oil prices and a stronger US dollar could exert renewed depreciation pressure on the shilling going forward.

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