Cytonn Note on the August 2026 Monetary Policy Committee (MPC) Meeting

The Monetary Policy Committee (MPC) is scheduled to meet on 11th August 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 June 2026, the Committee determined that the current monetary policy stance, with the CBR unchanged at 8.75%, remained appropriate to keep inflation expectations anchored within the target range of 2.5%-7.5% and maintain exchange rate stability. Additionally, the MPC noted the need to monitor the evolution of global oil prices and any potential second round effects on inflation, alongside developments in the global and domestic economies, standing ready to take further action as necessary to ensure price stability and support its mandate. This was in line with our expectation for the MPC to maintain the rate at 8.75%, with our view having been informed by:

i. **Global monetary policy stance**: The latest meetings confirm that most major economies have opted to hold rates steady in the face of war-driven energy shocks. The US Federal Reserve maintained the federal funds rate at 3.5%-3.75% in April, citing that monetary policy cannot directly offset oil price shocks but must ensure inflation expectations remain anchored. The European Central Bank held its deposit rate at 2.00%**,** emphasizing caution given energy-driven inflation risks. The Bank of England voted 8-1 to keep its Bank Rate at 3.75%**,** noting inflation had ticked up to 3.3% but further tightening would not address supply-side pressures. Other central banks such as the Bank of Japan and Swiss National Bank also adopted steady or conditional easing stances. This collective posture underscores that global policy remains cautious, prioritizing stability over aggressive moves, and provides the MPC with room to hold the CBR at 8.75% without risking policy divergence.

ii. **The need to support the economy**: Private sector indicators point to the need for a supportive monetary stance. The Stanbic Bank PMI fell to 46.6 in May 2026, marking a third consecutive month below the neutral 50.0 level and signaling continued deterioration amid weak demand, rising costs, and subdued business confidence. Further tightening would risk deepening the slowdown. At the same time, private sector credit growth improved to 8.1% in March 2026 from 7.4% recorded in February 2026, indicating a gradual recovery in financing activity. However, lending rates remain high at around 14.7%, leaving borrowers sensitive to additional increases. A rate hike could undermine this recovery. Maintaining the policy rate at 8.75% therefore offers the most balanced approach. It supports credit growth and business confidence while allowing the CBK to monitor external risks, particularly energy-driven inflation and exchange rate pressures, without adding strain to an already fragile economy.

iii. **The continued stability of the Shilling against major currencies**: The Kenyan Shilling has remained relatively stable in recent months, supported by foreign exchange reserves at 5.6 months of import cover, comfortably above the statutory minimum of 4.0 months. This stability has provided the MPC with flexibility to maintain the current rate without risking volatility or capital outflows. However, if the shilling were to depreciate further, the import bill would widen significantly given that Kenya's fuel and most essential imports are dollar-denominated. A weaker shilling would therefore amplify inflationary pressures, erode household purchasing power, and strain the current account further widening the import bill. The escalation of the Middle East conflict and elevated global energy prices heighten this risk, as any disruption in supply chains directly feeds into higher import costs. Maintaining the CBR at 8.75% helps anchor investor confidence, preserve currency stability, and mitigate the risk of sharp depreciation. This stance ensures that external buffers remain intact while shielding the economy from the inflationary pass-through of a weaker shilling

The Monetary Policy Committee noted that the current account deficit in April 2026 was estimated at 2.6% of GDP, compared to 1.7% in 2026, supported by lower service receipts, higher trading deficit and transfers as a share of GDP. Additionally, the Monetary Policy committee noted that Goods exports increased by 4.2% in April 2026, compared to a similar period in 2025, driven by horticulture, coffee, tea, manufactured goods, food and live animals, and machinery and transport equipment. Goods Imports increased by 8.5% compared to a similar period in 2025, mainly reflecting increases in intermediate and capital goods imports. Services receipts increased by 4.8% in April 2026 while remittances increased by 1.1%,

Additionally, the Committee noted the ongoing implementation of the FY'2025/26 Government Budget, and the planned fiscal consolidation strategy to reduce debt vulnerabilities over the medium term. Notably, the total revenue collected as at the end of June 2026 amounted to Kshs 2,607.3 bn, equivalent to 98.7% of the revised estimates of Kshs 2,640.6 bn for FY'2025/2026 and is 98.7% of the prorated estimates of Kshs 2,457.4 bn. The total expenditure amounted to Kshs 4,581.9 bn, equivalent to 87.8% of the revised estimates of Kshs 2,282.2 bn, and is 87.8% of the prorated target expenditure estimates of Kshs 2,282.2 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 1,673.5 bn, equivalent to 99.4% of the revised estimates of Kshs 1,684.3 bn and are equivalent to 99.4% of the prorated estimates of Kshs 1,684.3 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 2026**	**Our Expectation Going forward**	**CBR Direction (June 2026)**	**Probable CBR Direction (August 2026)**
Government Revenue Collection	• The total revenue collected as at the end of June 2026 amounted to Kshs 2,607.3 bn, equivalent to 98.7% of the revised estimates of Kshs 2,640.6 bn for FY'2025/2026 and is 98.7% of the prorated estimates of Kshs 2,640.6 bn. Cumulatively, tax revenues amounted to Kshs 2,450.5 bn, equivalent to 99.7% of the revised estimates of Kshs 2,457.4 bn and 99.7% of the prorated estimates of Kshs 1,440.5 bn, • The government underachieved its prorated revenue targets for the twelfth month of the FY'2025/2026, achieving 98.7% of the prorated revenue targets in June 2026, higher than the 91.1% recorded in May 2026. This was driven by shortfall in tax revenues and non-tax revenues, which stood at 99.7% and 82.0% of prorated levels respectively. The Purchasing Managers' Index (PMI), increased by 3.4 to 50.0 in June 2026 from 46.6 in May, being at par with the 50.0 neutral mark and signaling a cautious recovery of business activity. These reflects a cautious recovery in business activity. This improvement signals a gradual recovery in economic activity, although persistent inflationary pressure from higher input costs may remain a key risk to the	• 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 the current 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 • On the revenue administration front, the enactment of the Finance Act 2026 reinforces the government's domestic revenue mobilization strategy through targeted tax base expansion and enhanced compliance measures. Notably, the Act introduces withholding tax on interchange fees and merchant service fees arising from card-based transactions, bringing previously untaxed payment streams into the tax net. The Act also strengthens tax administration by empowering the Kenya Revenue Authority (KRA) to issue prepopulated tax returns using third party data, a measure aimed at improving reporting accuracy, enhancing compliance, and reducing tax leakages. Additionally, the Finance Act incorporates virtual asset service providers into Kenya's tax framework, extending the tax net to the growing digital economy and supporting broader revenue mobilization efforts. While the proposed removal of the	**Neutral**	**Neutral**

	recovery. As a result, revenue collection performance in the coming months is likely to strengthen, contingent on whether business activity stabilizes or continues to soften. This stabilization is expected to be aided by the ongoing stability of the Shilling, having depreciated marginally by 0.8bps against the dollar to Kshs 129.4 at 31st July 2026 from Kshs 129.39 the last meeting in 9th June 2026. Additionally, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.75% during its last meeting. Despite these developments, inflation eased down to 6.4% in June from 6.7% in May, indicating a moderation in price pressure. The business climate, however, remains in contraction territory, with persistent weakness in demand conditions and rising inflationary pressures continuing to outweigh the modest support from macroeconomic conditions. • The enactment of the Finance Act 2026 reinforces the government's domestic revenue mobilization strategy through measures aimed at broadening the tax base and strengthening tax compliance. Key among these are the expansion of withholding tax to interchange fees and merchant service fees from card-based transactions, alongside enhanced tax administration measures, including the use of prepopulated tax returns, which are expected to improve compliance, reduce revenue leakages, and support the achievement of the FY2026/27 revenue targets	VAT registration threshold was not retained in the enacted law, the implemented measures are expected to improve tax efficiency and support the government's FY2026/27 revenue targets through stronger compliance rather than broad based tax rate increases. • The enactment of the Finance Act 2026 reduces policy uncertainty by providing greater clarity on the government's revenue mobilization framework. While the enacted measures are expected to strengthen revenue collection through tax base expansion and enhanced compliance, achieving the projected FY2026/27 revenue target of Kshs 3.629 tn remains critical to containing the fiscal deficit and limiting additional borrowing requirements. Despite the recent improvement in external financing through the World Bank's Development Policy Operation and Japanese yen financing, domestic borrowing continues to account for the bulk of budget financing. As such, any revenue underperformance or expenditure overruns could heighten reliance on domestic borrowing, placing upward pressure on interest rates and potentially crowding out private sector credit. • Nevertheless, while the Finance Act 2026 enhances the government's revenue mobilization framework through broader tax base expansion and stronger compliance measures, the realization of the FY2026/27 revenue targets will ultimately depend on sustained improvements in private sector activity, as reflected in the stabilization of the PMI, alongside effective tax administration.		
Government Borrowing	• The government, as at 31st July 2026, is 169.9% ahead its prorated net domestic borrowing target of Kshs 93.4 bn having borrowed Kshs 158.7 bn of the total borrowing target of Kshs 1,030.1 bn. The government currently has domestic maturities worth Kshs 871.4 bn and will have to borrow Kshs 199.7 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2026/2027 • Total Borrowings at the end of June 2026 amounted to Kshs 1,995.1 bn, equivalent to 87.8% of the revised estimates of Kshs 2,271.4 bn for FY'2025/2026. The cumulative domestic borrowing of Kshs 1,440.5 bn	Government borrowing pressures are expected to remain elevated in the near term despite the recent improvement in external financing. Kenya continues to benefit from the improved sovereign credit profile following Moody's upgrade to B3 with a Stable Outlook earlier this year. The improved rating supports investor confidence and enhances the government's access to external financing at more favorable terms, although domestic borrowing pressures remain elevated, with the government having already borrowed 169.9% of its prorated net domestic borrowing target as at 31st July 2026. Coupled with domestic debt maturities of Kshs 871.4 bn over the remainder of the fiscal year and monthly financing requirements of Kshs 199.7 bn, reliance on	**Negative**	**Negative**

	comprises of Net Domestic Borrowing Kshs 994.8 bn and Internal Debt Redemptions (Rollovers) Kshs 445.7 bn. • 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. • The funds were primarily sourced from: i) The sale of a 35.0% stake in Kenya Pipeline Company (Kshs 106.3 bn), ii) The sale of a 15.0% stake in Safaricom to Vodacom (Kshs 244.5 bn), and iii) Eurobond proceeds amounting to about Kshs 290.3 bn, part of which was used for debt buyback, with the remainder supporting the budget. • On 22nd June 2026, Kenya secured a JPY 25.0 bn (Kshs 22.1 bn) yen denominated syndicated loan backed by NEXI, strengthening its external financing position while diversifying funding sources beyond traditional Eurobonds and supporting lower cost borrowing. • On 29th June 2026, the World Bank approved a USD 750.0 mn Development Policy Operation (DPO), comprising an IBRD loan and IDA financing, to support Kenya's fiscal sustainability and resilient growth programme. Beyond providing budget support, the facility strengthens the country's external financing position, reduces immediate pressure on domestic borrowing, and supports fiscal and external sector stability. • 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. • 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.	the domestic market is expected to remain significant. Consequently, sustained revenue mobilization and prudent fiscal management will be critical in containing additional domestic borrowing pressures and limiting upward pressure on interest rates and crowding out of private sector credit. • The Recent progress in operationalizing the National Infrastructure Fund and the enactment of the Sovereign Wealth Fund strengthen Kenya's long-term fiscal financing framework. However, their immediate impact on government borrowing is likely to remain limited, as reflected by the government's continued reliance on Kshs 1.03 tn of planned net domestic borrowing in FY2026/27. The effectiveness of these institutions will ultimately be measured by their ability to crowd in private and institutional capital and gradually substitute debt financed public investment rather than merely coexist alongside conventional borrowing. • The successful mobilisation of concessional external financing, including the World Bank's USD 750.0 mn Development Policy Operation and the Japanese yen financing, strengthens Kenya's external funding position and reduces near term reliance on more expensive commercial borrowing. However, the absence of an active IMF programme continues to limit an important policy credibility anchor, placing greater emphasis on the government's ability to demonstrate fiscal discipline through effective revenue mobilization, expenditure rationalization, and prudent debt management. Going forward, sustained access to concessional financing, alongside renewed engagement with the IMF, would further strengthen investor confidence, support debt sustainability, and reduce refinancing risks.		

Inflation	• The inflation rate for July 2026 increased to 6.5% from the 6.4% recorded in June 2026. • Fuel prices for 15th July to 14th August 2026 remained unchanged at Kshs 222.9, Kshs 214.0 and Kshs 191.4 for Diesel, Super Petrol and kerosene respectively. • March headline inflation stayed within the CBK's target band of 2.5%–7.5%, but following the recent spike in food and fuel costs it is now positioned closer to the upper bound of the range.	• 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 despite the shilling appreciating marginally by 27.1 bps against the dollar on year-to-date as of 31st July 2026, coupled with the easing global energy prices following the mid-June 2026 signing of the US-Iran memorandum of understanding, reducing geopolitical tensions in the Middle East.	**Neutral**	**Neutral**
Currency (USD/Kshs)	• Since the last meeting, the Kenyan Shilling has depreciated marginally by 0.8 bps against the US Dollar to Kshs 129.4 from the Kshs 129.39 recorded on 9th June 2026 • In addition, the Forex Reserves remain sufficient at USD 15.4 bn (equivalent to 6.4 months of import cover) as of 31st July 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 4,960.4 mn in twelve months to June 2026, 2.4% lower than the USD 5,084.1 mn recorded over the same period in 2025, which has continued to cushion the shilling against further depreciation. In the June 2026 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 50.8% in the period, • Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 15.4 bn (equivalent to 6.4 months of import cover) as of 31st July 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 5.3% growth in Q1'2026, 0.4% points higher than the 4.9% growth recorded in Q1'2026. 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 remaining unchanged from 19.0 % recorded in Q1'2025. Additionally, its growth rate slowed down by 0.4% points to 4.9% in Q1 2026 from the 5.3% recorded in Q1 2025 to GDP	• the projected 5.3% GDP growth reflects expectations of a resilient economic recovery, supported by improving macroeconomic fundamentals, easing inflationary pressures, stronger private sector credit growth, and stabilizing business activity. If realized, the stronger growth outlook is expected to support domestic demand, investment, and government revenue performance, although downside risks from external uncertainties and fiscal execution remain. • The continued stability of the Kenya shilling has continued to support the business environment, by reducing the cost of imported inputs and decreasing the	**Neutral**	**Neutral**

	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 14.7%, 9.1% and 6.6% respectively.	finance cost of the foreign currency denominated debts • Notably, the country's PMI for the month of June 2026 increased to 50.0, from 46.6 in May, an indication of improvement in business environment in the country. Likewise, according to CEO's survey- 2026 March report, optimism about growth prospects for Kenyan business activity remained sustained, supported by favorable weather conditions, a relatively stable macroeconomic environment, technological innovations, and seasonal factors. At the same time, CEOs noted concerns over rising global uncertainties linked to the Middle East conflict, high operating costs, and subdued consumer demand.		
Private Sector Credit Growth	• The latest data from the National Treasury indicates that growth in private sector credit grew by 9.3% in May 2026, compared to 2.0% decline in a similar period in 2025, mainly attributable to stronger credit growth in key sectors of the economy, particularly building and construction, trade, agriculture, and consumer durables, reflecting improved demand for credit in line with declining lending interest 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, • The weighted average lending rate is currently at 14.6% as at June 2026 from 14.7% in April 2026 following the MPCs decision to hold the CBR at 8.75%. Despite this, lending rates remain elevated, continuing to weigh on private sector credit demand and limiting the ability of businesses to access affordable financing to support growth and investment activity.	**Positive**	**Positive**
Liquidity	• Liquidity levels in the money markets eased, with the average interbank rate since the previous MPC meeting increasing by 0.1 bps as of 30th July 2026 to remain relatively unchanged at 8.8% in 9th June 2026, partly attributable to tax remittances that offset government payments	• We expect liquidity in the money markets to be supported by the domestic debt maturities that currently stand at Kshs 1321.4 bn worth of T-bill and T-bonds maturities for FY'2026/2027. However, this may be offset by the government's continued borrowing activity in the primary market to meet its financing needs.	**Positive**	**Neutral**

Conclusion

Out of the seven factors that we track, two are positive and four are neutral and one is negative. Notably, most of the Central Banks of developed economies around the world have maintained 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 8.75%, with their decision mainly being supported by**

i. **Global monetary policy stance**: The latest meetings confirm that most major economies have opted to hold rates steady .US Federal Reserve maintained the federal funds rate at 3.5%-3.75% in June, citing that monetary policy cannot directly offset oil price shocks but must ensure inflation expectations remain anchored. The European Central Bank raised its deposit rate by 25 bps**,** due to inflationary pressures linked to higher energy prices. The Bank of England maintained its Bank Rate at 3.75%**,** noting inflation had eased down to 2.8%. Other central banks such as the Bank of Japan and Swiss National Bank also adopted steady or conditional easing stances. This collective posture underscores that global policy remains cautious, prioritizing stability over aggressive moves, and provides the MPC with room to hold the CBR at 8.75% without risking policy divergence.

ii. **The need to support the economy**: Private sector indicators point to the need for a supportive monetary stance. The Stanbic Bank PMI increased to 50.0 in June 2026, from 46.6 in May 2026, marking the first expansion in four months since March 2026 . This is attributable to increase in sales which boosted sentiment and led to higher backlogs, fresh job creation and restocking efforts. Furthermore, it was supported by a pickup in new order inflows, as firms reported a revival in customer demand, aided by referrals, marketing efforts, and business development initiatives. However, business activity remained under pressure, with output still subdued as firms continued to face thin client numbers, supplier capacity constraints, and tighter cash flow conditions. Input costs also remained elevated, with rising fuel levies and other cost pressures pushing total input cost inflation higher. At the same time, private sector credit growth improved to 9.3% in May 2026 from 7.1% recorded in April 2026, indicating a significant recovery in financing activity. However, lending rates remain high at around 14.6% as at June 2026 leaving borrowers sensitive to additional increases. A rate hike could undermine this recovery. Maintaining the policy rate at 8.75% therefore offers the most balanced approach. It supports credit growth and business confidence while allowing the CBK to monitor external risks, particularly energy-driven inflation and exchange rate pressures, without adding strain to an already fragile economy.

iii. **The continued stability of the Shilling against major currencies**: The Kenyan Shilling has remained relatively stable in recent months, supported by foreign exchange reserves at 15.4 bn equivalent to 6.4 months of import cover, comfortably above the statutory minimum of 4.0 months. This stability has provided the MPC with flexibility to maintain the current rate without risking volatility or capital outflows. However, if the shilling were to depreciate further, the import bill would widen significantly given that Kenya's fuel and most essential imports are dollar-denominated. A weaker shilling would therefore amplify inflationary pressures, erode household purchasing power, and strain the current account further widening the import bill. The de-escalation of tensions in the Middle East has eased pressure on global oil prices, reducing the likelihood of supply chain disruptions and helping to contain imported inflation. Maintaining the CBR at 8.75% helps anchor investor confidence, preserve currency stability, and mitigate the risk of sharp depreciation. This stance ensures that external buffers remain intact while shielding the economy from the inflationary pass-through of a weaker shilling