

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

The Monetary Policy Committee (MPC) is scheduled to meet on 7th October 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 11th August 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. The 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 USD 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

The Monetary Policy Committee noted that the current account deficit in the twelve months to June 2026 was estimated at 3.0% of GDP, compared to 1.9% in 2025, due to a higher trade deficit and lower secondary income transfers as a share of GDP. Additionally, the Monetary Policy committee noted that Goods exports increased by 8.9% in June 2026, compared to a similar period in 2025, driven by horticulture, tea, and machinery and transport equipment. Goods Imports increased by 13.1% compared to a similar period in 2025, mainly reflecting increases in imports of food, mineral fuels, and intermediate and capital goods. Services receipts increased by 8.3% while remittances decreased by 2.4%,

Additionally, the Committee noted the outcome of the implementation of the FY'2025/26 Supplementary Budget II, the Budget for FY2026/27, and the planned fiscal consolidation strategy to reduce debt vulnerabilities over the medium term. Notably, the total revenue collected as at the end of August 2026 amounted to Kshs 413.2 bn, equivalent to 13.8 % of the original estimates of Kshs 2,985.7 bn for FY'2026/2027 and is 83.0% of the prorated estimates of Kshs 497.6 bn. The total expenditure amounted to Kshs 780.6 bn, equivalent to 15.1% of the original estimates of Kshs 5,177.5 bn, and is 90.5% of the prorated target expenditure estimates of Kshs 862.9 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 284.0 bn, equivalent to 16.6% of the original estimates of Kshs 1,713.6 bn and are equivalent to 99.4% of the prorated estimates of Kshs 285.6 bn.

Below, we analyze the trends of the macro-economic indicators since the August 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 August 2026	Our Expectation Going forward	CBR Direction (August 2026)	Probable CBR Direction (October 2026)
Government Revenue Collection	- The total revenue collected as at the end of August 2026 amounted to Kshs 413.2 bn, equivalent to 13.8 % of the original estimates of Kshs 2,985.7 bn for FY'2026/2027 and is 83.0% of the prorated estimates of Kshs 497.6 bn. Cumulatively, tax revenues amounted to Kshs 373.5 bn, equivalent to 13.1% of the original estimates of Kshs 2,858.7 bn and 78.4% of the prorated estimates of Kshs 476.4 bn. - The government underachieved its prorated revenue targets for the second month of the FY'2026/2027, achieving 83.0% of the prorated revenue targets in August 2026, lower than 92.1% achieved in July 2026. This was driven by shortfall in tax revenues and non-tax revenues, which stood at 78.4% and 49.4% of prorated levels respectively. - The Purchasing Managers' Index (PMI), declined by 1.6 points to 49.7 in August 2026, from 51.3 in July 2026, signaling a marginal deterioration in operating conditions. This suggests the	- We expect revenue collections to remain below prorated targets in the near term. August performance slipped to 83.0% from 92.1% in July. - The contraction in the PMI to 49.7, with firms cutting output and purchases, is likely to weigh on VAT, corporate income tax and PAYE, the tax heads most exposed to private sector activity. Non-tax revenue should also stay under pressure from the lower Safaricom dividend receipts following the partial share divestiture of government shares. Macroeconomic conditions should cushion the downside. A stable Shilling limits the cost of imported inputs, while foreign exchange reserves of USD 14.9 bn equivalent to 6.1 months of import cover as of 2nd October 2026 underpin exchange rate stability, and private sector credit growth of 10.2% in July supports working capital. Together, these factors should help business activity stabilize and, in turn, support tax collections. However, the PMI indicates that this support has yet to translate into stronger activity, suggesting that revenue growth is likely to remain subdued in the near term rather than record a quick pick up.	Neutral	Neutral

	recovery in business activity remains fragile, with persistent inflationary pressure from higher input costs a key downside risk. As a result, revenue collection performance in the coming months will depend on whether business activity stabilizes or continues to soften. Despite a marginal depreciation of 29.4 bps in relation to the US dollar, the Shilling has remained relatively stable, trading at Kshs 129.76 as at 2nd October 2026 from Kshs 129.38 at the last MPC meeting on 11th August 2026, which should help support the stabilization of the business activity. Additionally, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.75% during its last meeting. However, inflation rose to 6.8% in September 2026 from 6.6% in August, indicating a build-up 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 2026 Tax Amnesty runs until 31st December 2026 and waives penalties, interest and fines on tax debts accrued up to 31st December 2025 once the principal tax is paid. We expect the amnesty to bring in arrears of principal tax between October and December, with payments likely to bunch towards the deadline, helping to narrow part of the revenue gap in the second quarter of the financial year. However, the effect should be temporary, as liabilities arising from 1st January 2026 do not qualify, while the waiver of penalties and interest limits the revenue recovered per shilling of outstanding debt. Meanwhile, the Finance Act 2026 measures, including withholding tax on interchange and merchant fees, prepopulated returns and the inclusion of virtual asset service providers, should support tax compliance and collections more gradually.		
Government Borrowing	- The government, as at 2nd October 2026, is 245.3% ahead its prorated net domestic borrowing target of Kshs 242.5 bn having borrowed Kshs 594.8 bn of the total borrowing target of Kshs 919.4 bn. The government currently has domestic maturities worth Kshs 1,238.6 bn and will have to borrow Kshs 157.5 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2026/2027 - Total borrowings as at the end of August 2026 amounted to Kshs 467.8 bn, equivalent to 21.5% of the original estimates of Kshs 2,180.5 bn for FY'2026/2027 and are 128.7% of the prorated estimates of Kshs 363.4 bn. The cumulative Domestic Borrowing of Kshs. 1,568.1 comprises of Net Domestic Borrowing Kshs 919.4 and Internal Debt Redemptions (Roll-overs) Kshs. 648.8 bn.	- We expect government borrowing pressures to remain elevated in the near term. The government is already 245.3% ahead of its prorated net domestic borrowing target, and with domestic maturities of Kshs 1,238.6 bn and monthly borrowing requirements of Kshs 157.5 bn, reliance on the domestic market will remain significant. With revenue collections at only 83.0% of the prorated target in August 2026, this is likely to sustain upward pressure on government securities yields and crowd out private sector credit. - External financing should provide some relief. The government is negotiating about Kshs 127.0 bn in policy-based financing, comprising a USD 725.0 mn (Kshs 94.0 bn) Development Policy Operation (DPO) from the World Bank and a Kshs 34.0 bn policy-based loan from the African Development Bank, both expected to be disbursed before the end of FY'2026/2027. The Treasury is also exploring panda and samurai bonds to diversify its external funding sources., while Moody's upgrade of Kenya's rating to B3 with a Stable Outlook earlier this year supports access to external markets on better terms. However, Brent crude	Negative	Negative

		prices above USD 100.0 per barrel at the end of September 2026 have raised global risk aversion towards oil-importing frontier markets, which could raise the cost of new commercial borrowing. The absence of an active IMF programme, with the next mission now pushed to late November or early December 2026, continues to remove an important policy credibility anchor, particularly heading into the 2027 General Election when spending pressures typically rise. Sustained revenue mobilization, expenditure rationalization and prudent debt management will therefore be critical in containing domestic borrowing and limiting upward pressure on interest rates.		
Inflation	- The inflation rate for September 2026 increased to 6.8% from the 6.6% recorded in August 2026. - Fuel prices for 15th September to 14th October 2026 remained unchanged at Kshs 217.9, Kshs 214.0, and Kshs 191.4 per litre, for Diesel, Super Petrol and kerosene respectively. - September 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 to remain within the CBK's target range of 2.5%-7.5% in the near term, supported by the relative stability of the Kenyan Shilling, which has depreciated by only 29.4 bps against the US Dollar since the last MPC meeting, and the unchanged pump prices for the September-October 2026 pricing cycle. - However, upside risks have increased. Global oil prices have risen again, with Brent crude trading at around USD 102.6 per barrel on 30th September 2026, 13.2% higher than USD 90.6 a month earlier, as disruptions in the Strait of Hormuz persist amid the conflict in the Middle East. EPRA noted that the landed costs of diesel and kerosene rose in the latest review, which raises the risk of higher pump prices from the 15th October 2026 review and further pass-through to transport and food costs. With headline inflation already at 6.8% and core inflation rising, we expect inflation to edge closer to the upper bound of the target range in the coming months.	Neutral	Neutral
Currency (USD/Kshs)	- Since the last meeting, the Kenyan Shilling has depreciated marginally by 29.4 bps against the US Dollar to Kshs 129.76 from the Kshs 129.38 recorded on 11th August 2026 - In addition, the Forex Reserves remain sufficient at USD 14.9 bn (equivalent to 6.1 months of import cover) as of 2nd October 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 remain relatively stable, supported by diaspora remittances, which stood at a cumulative USD 5,012.6 mn in the twelve months to August 2026, 1.3% lower than the USD 5,078.8 mn recorded over the same period in 2025. Notably, monthly inflows rose by 6.0% to a record USD 451.8 mn in August 2026, from USD 426.1 mn in August 2025, with North America accounting for 50.3% of all August 2026 inflows. - The Shilling is also expected to be supported by forex reserves that remain well above the statutory requirement of 4.0 months of import cover.	Neutral	Neutral

		The key risk to the Shilling is a higher oil import bill, with Brent crude prices above USD 100.0 per barrel likely to increase dollar demand from oil importers. Notably, forex reserves stood at USD 14.9 bn (6.1 months of import cover) as of 2nd October 2026		
GDP Growth	- Kenya's economy recorded a 5.3% growth in Q1'2026, 0.4% points higher than the 4.9% growth recorded in Q1'2025. The performance was driven by; i. Agriculture, and Forestry remains the major contributor to GDP, with the sectorial contribution to GDP 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 ii. Other sectors recorded an expansion in growth rates, with Accommodation and Food Services, Mining and Quarrying, and Construction recording the highest growth rates of 14.7%, 9.1% and 6.6% respectively.	- We expect economic growth to moderate in 2026, with the CBK having revised its 2026 growth projection to 4.9%, from 5.3% earlier, while the World Bank cut its 2026 forecast to 4.3%. The downgrades reflect the impact of higher global energy prices, disrupted shipping routes and moderating remittance inflows linked to the conflict in the Middle East. - Business activity has also softened, with the PMI declining to 49.7 in August 2026, from 51.3 in July 2026, as firms cut output and purchases amid elevated input costs. Brent crude prices above USD 100.0 per barrel at the end of September 2026 pose a further downside risk to production costs and household purchasing power. - On the upside, the continued stability of the Shilling has reduced the cost of imported inputs and of servicing foreign currency denominated debt, while private sector credit growth of 10.2% in July 2026 should support investment and working capital. Additionally, according to the CBK's CEOs Survey of July 2026, business leaders remained optimistic about growth prospects over the next twelve months, supported by stable business activity, improved access to credit and technology adoption, although high operating costs and geopolitical tensions remain key concerns.	Neutral	Neutral
Private Sector Credit Growth	The latest data indicates that private sector credit grew by 10.2% in July 2026, compared to 3.3% growth 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	We expect private sector credit growth to remain strong, supported by the continued decline in lending rates, with the average commercial banks' lending rate easing to 14.3% in July 2026, from 14.4% in May 2026 and 17.2% in November 2024, and by the continued adoption of the risk-based credit pricing model, which should unlock credit to	Positive	Positive

	improved demand for credit in line with declining lending interest rates with the average commercial banks' lending rates at 14.3% in July 2026 as compared to 15.2% in a similar period in 2025.	- individuals and businesses previously considered too risky. - Improving asset quality should also support banks' appetite to lend, with the banking sector's gross NPL ratio declining to 14.8% in June 2026, from 15.6% in March 2026. However, lending rates remain elevated relative to the CBR of 8.75%, and the government's heavy domestic borrowing could crowd out private sector credit.		
Liquidity	Liquidity in the money markets remained stable, with the interbank rate (KESONIA) unchanged at 8.75% in the last week of September 2026, the same level recorded around the last MPC meeting in August 2026, and continuing to track the CBR closely.	We expect liquidity in the money markets to be supported by the domestic debt maturities that currently stand at Kshs 1,238.6 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	Positive

Conclusion

Out of the seven factors that we track, two are positive and four are neutral and one is negative. Notably, the central banks of developed economies have taken a more cautious stance, with some resuming rate hikes to contain energy-driven inflationary pressures linked to the conflict in the Middle East.

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 show a shift towards tighter monetary policy as central banks respond to energy-driven inflation linked to the conflict in the Middle East. The US Federal Reserve [raised](#) the federal funds rate by 25.0 bps to 3.75%-4.00% in September, its first hike since 2023. The European Central Bank raised its deposit rate by [25.0](#) bps to 2.50%, and the Bank of Japan raised its policy rate by 25.0 bps to [1.25%](#). Closer home, the South African Reserve Bank raised its [repo](#) rate by 25.0 bps to 7.25%, citing the persistence of fuel price shocks and rising global interest rates. On the other hand, the Bank of England [maintained](#) its Bank Rate at 3.75%, although three members voted for a hike. The Swiss National Bank [maintained](#) its policy rate at 0.0%, and the Bank of Canada [held](#) at 2.25%. This tightening bias limits the room for the MPC to lower the CBR without risking capital outflows and pressure on the Shilling. However, with domestic inflation still within the target range, there is no immediate need to follow with a hike. This makes holding the CBR at 8.75% the most appropriate stance.
- II. **The need to support the economy:** Private sector indicators point to the need for a supportive monetary stance. The Stanbic Bank PMI [declined](#) to 49.7 in August 2026, from 51.3 in July 2026, signaling a marginal deterioration in operating conditions as firms cut output and purchases amid elevated input costs. Growth expectations have also been revised downwards, the CBK now projects 2026 growth at [4.9%](#), from 5.3% earlier, and the World Bank cut its forecast to [4.3%](#). At the same time, private sector credit growth improved to [10.2%](#) in July 2026, supported by the decline in average lending rates to 14.3%. However, lending rates remain elevated, and 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, 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, depreciating marginally by 29.4 bps against the US Dollar to Kshs 129.76 as at 2nd October 2026, from Kshs 129.38 at the last MPC meeting. It is supported by forex reserves of USD 14.9 bn, equivalent to 6.1 months of import cover as of 2nd October 2026, comfortably above the statutory minimum of 4.0 months, and by record monthly diaspora remittances of USD 451.8 mn in August 2026. However, with Brent crude trading above USD 100.0 per barrel, higher oil import costs could increase demand for dollars and put pressure on the Shilling, which would feed into inflation given that Kenya's fuel and most essential imports are priced in dollars. Maintaining the CBR at 8.75% helps anchor investor confidence, preserve currency stability and mitigate the risk of sharp depreciation, while shielding the economy from the inflationary pass-through of a weaker Shilling.

However, we note that inflationary pressures continue to build. Inflation has risen for three consecutive months to 6.8% in September 2026, and core inflation has [increased](#) to 4.0% from 3.4% in August 2026. Global oil prices also remain elevated, with Brent crude trading above USD 100.0 per barrel at the end of September 2026. EPRA has noted higher landed costs for diesel and kerosene, which raises the risk of an increase in pump prices at the 15th October 2026 review and further pass-through to transport and food prices. The MPC will therefore need to monitor the evolution of inflation closely. Should inflation continue to rise towards or above the upper bound of the 2.5%-7.5% target range, we would expect the MPC to consider a rate hike in its subsequent meetings to anchor inflation expectations and maintain exchange rate stability.

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