FUNDAMENTALS

KENYA MPC UPDATE
FINETUNING POLICY TRANSMISSION

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IN BRIEF

- The Central Bank of Kenya (CBK) Monetary Policy Committee delivered a surprise 75bps rate cut in the Central Bank Rate (CBR) to 10.0% in its April 2025 meeting. The rate cut was the fifth successive rate slash in the apex bank's current easing cycle.
- In addition to the cut to the policy rate, the MPC also narrowed the interbank corridor from ±150bps to ±75bps around the CBR. The current width of the corridor has been in place since June 2024 having been narrowed from ±250bps that was in effect from August 2023 with the implementation of the monetary policy framework. Furthermore, the discount window margin above the CBR was lowered from 300bps to 75bps.
- We applaud the monetary authorities' efforts to finetune the transmission mechanism. Liquidity mop-ups by the central bank have been salient this year, even with the lowering in the Cash Reserve Ratio (CRR) by 100bps to 3.25% in the February 2025 MPC meeting.
- The external balance is in slightly better shape following revisions in data treatment of cross-border transactions and international trade in services by the Kenya National Bureau of Statistics (KNBS). Following the revision in the data, the current account deficit-to-GDP was revised from 3.7% to 2.8% in 2024 and is expected to steady at 2.8% in the current year.
- The CBK expects that the successor IMF programme, with discussions expected to start during the upcoming IMF/World Bank Spring meetings, will be a financed instrument and accessed under normal access. From our calculation, this implies an IMF funded programme capped at SDR 370.5mn or USD 496.2mn and at par with the average disbursement of SDR 369.4mn in the last four reviews under the previous programme.
- Given the low financing to be realized under normal access and the high hurdle in meeting all the 4 criteria under exceptional access, we see no immediate successor programme, at least in the 18-month horizon, as the authorities build the necessary IMF financing headroom.

Fifth successive rate cut by the CBK

The Central Bank of Kenya (CBK) Monetary Policy Committee delivered a surprise 75bps rate cut in the Central Bank Rate (CBR) to 10.0% in its April 2025 meeting. The rate cut was the fifth successive rate slash in the apex bank's current easing cycle. Against the backdrop of a volatile global environment, the policymakers erred towards caution in addressing any potential future growth hiccups.

Credit to the private sector, although ticked up to 0.2% in February 2025 on a 12-month rolling basis, is still weak and the worsening in the non-performing loan profile with an uptick to 17.2% also pointed to some downside growth risks. In adherence to the Risk Based Credit Pricing Model, the Central Bank confirmed that on-site bank supervision is ongoing and will be completed in June 2025.

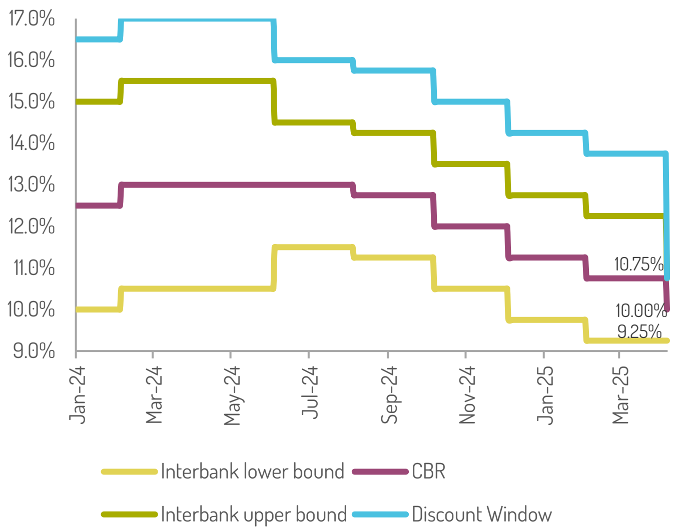
Finetuning of policy transmission channel

In addition to the cut to the policy rate, the MPC also narrowed the interbank corridor from ±150bps to ±75bps around the CBR. The current width of the corridor has been in place since June 2024 having been narrowed from ±250bps that was in effect from August 2023 with the implementation of the monetary policy framework. Furthermore, the discount window margin above the CBR was lowered from 300bps to 75bps.

With the introduction of the corridor in August 2023, we have seen interbank rates better anchored to the policy rate, although there remains heterogeneity within the banking sector. With short-term T-Bill rates trending below the policy rate, the changes to the interbank corridor are to finetune policy transmission channel, in our view. This is augmented by the discount window rate currently at 10.75% and aligned to the interbank upper bound.

We applaud the monetary authorities' efforts to finetune the transmission mechanism. Liquidity mop-ups by the central bank have been salient this year, even with the lowering in the Cash Reserve Ratio (CRR) by 100bps to 3.25% in the February 2025 MPC meeting. The apex bank clarified that its intervention bias is guided by the weighted average interbank rate and policy rate dynamics; mopping liquidity via repo and/or Term Auction Deposits in instances where the weighted average interbank rate is above the CBR, and vice versa. This contrasts with the perception that the OMO intervention is on banks' liquidity needs on a daily frequency. With weighted interbank rate lower than CBR hitherto this year, this has influenced the liquidity mop-ups by the Central Bank. Assuming the weighted interbank rate remains sticky at current levels and with the lowering in the CBR, this is likely to tilt OMO activities to liquidity injections via reverse repo in the short term.

CENTRAL BANK RATE, INTERBANK CORRIDOR AND DISCOUNT WINDOW RATE

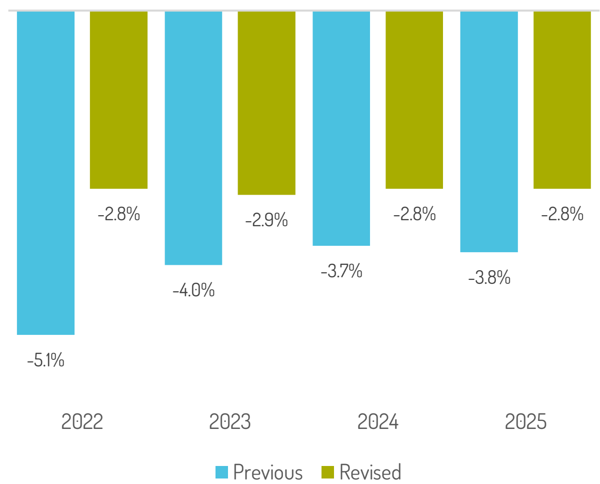


SOURCE: CENTRAL BANK OF KENYA, IC INSIGHTS

Improved balance of payment status on data revision

The external balance is in slightly better shape following revisions in data treatment of cross-border transactions and international trade in services by the Kenya National Bureau of Statistics (KNBS). Specifically, the re-exports of petroleum products under the government-to-government contracts were previously excluded, coupled with exclusion of some travel receipts. Following the revision in the data, the current account deficit-to-GDP was revised from 3.7% to 2.8% in 2024 and is expected to steady at 2.8% in the current year.

CURRENT ACCOUNT DEFICIT-TO-GDP



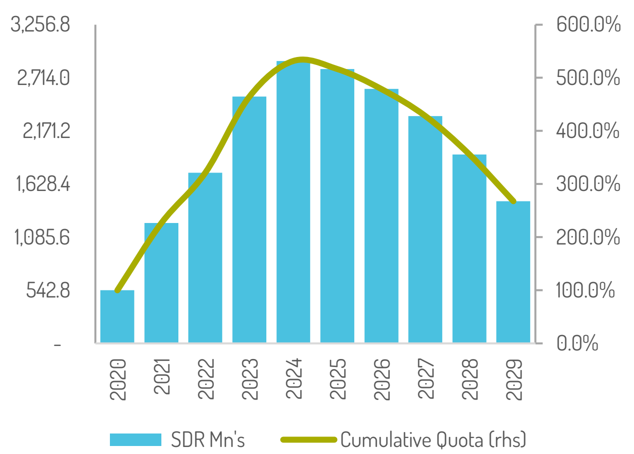
SOURCE: CENTRAL BANK OF KENYA

Beyond the balance of payment data revision, we see stability in the Kenya Shilling throughout this year and we maintain our mid-point 131.0 USDKES end-2025 call. Despite recent turmoil on global trade war escalating (and de-escalating), the Shilling has remained steady. Nevertheless, there has been reserve accumulation by the central bank to USD 9.9bn and representing 4.4 months of import cover. The CBK expects FX reserves will stabilize at current levels with a projected USD 10.0bn at year-end.

Normal access IMF expectation tips the odd of a no-successor programme in the near term

CBK expects that the successor IMF programme, with discussions expected to start during the upcoming IMF/World Bank Spring meetings, will be a financed instrument and accessed under normal access. Under normal access, cumulative access is 600.0% of a country's quota for any IMF financing excluding disbursements under the Resilience and Sustainability Facility (RSF). Under this criterion, cumulative disbursements from the Rapid Credit Facility; and the Extended Credit Facility/Extended Fund Facility are at Special Drawing Rights (SDR) 2,886.3mn or USD 3.9bn in current exchange rates and represent 531.7% quota. This implies an IMF funded programme capped at SDR 370.5mn or USD 496.2mn and at par with the average disbursement of SDR 369.4mn in the last four reviews under the previous programme.

CUMULATIVE IMF FINANCING TO KENYA



SOURCE: INTERNATIONAL MONETARY FUND, IC INSIGHTS

The low financing under normal access would be limiting and would imply either a) single disbursement or b). low disbursements spread across multiple reviews, should the authorities secure a facility in the near term. The other option would be accessing a higher financing under exceptional access subject to meeting 4 criteria: i). extended balance of payment needs, ii). higher probability that debt is sustainable over the medium term, iii). good prospects of regaining market access in the future, and iv). policy programme provides a reasonably strong prospect of success.

With the augmentation of the IMF programme ahead of KENINT 2024 maturity in June 2024, Kenya temporarily entered exceptional access category but reverted to normal access following the liability management operation conducted in February 2024. With the lack of adherence to fiscal targets and structural benchmarks in the previous IMF programme, the bar tilts higher for reforms in any potential successor programme, in our view. We thus see limited scope in meeting criterion 4 under the exceptional access. Furthermore, Criterion 1 is not a concern given the expected balance of payment surplus of USD 665.0mn in 2025.

As such, we see no immediate successor programme, at least in the 18-month horizon, as the authorities build the necessary IMF financing headroom. Notably, Kenya starts repaying the IMF this year and that will increase financing wiggle room under normal access. The ideal scenario would be to access an IMF programme with a 600.0% quota ceiling, but that will be achievable beyond the 2029 calendar year. We thus see a sweet spot in late 2026 and ahead of the 2027 electioneering year for meaningful re-engagement with the IMF for a funded programme and which will coincide with a build-up in gross financing needs.

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