

FUNDAMENTALS

KENYA MPC UPDATE FIRING THE GROWTH CYLINDER

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IN BRIEF

- The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) delivered a 25bps cut in its June 2025 meeting to bring the Central Bank Rate to 9.75%, against our pause expectation. The dovish stance came against the backdrop of a fragile external environment and the necessity to ramp up domestic growth prospects.
- Eighteen months ago, the economy faced head on the 4 Apocalyptic Horsemen: battered Kenyan Shilling, higher domestic rates, elevated inflation pressures and sluggish economic prospects. Three of the risks have now moderated. This leaves us with sluggish growth prospects to contend with, amplified by global trade concerns and domestic strains.
- The salient tone from the MPC was the marked upswing in the current account balance, which was first telegraphed in the April 2025 MPC meeting. The current account deficit is now projected to be 1.5% this year, down from 2.8% in the previous MPC meeting.
- The uptick in the 12-month growth in private sector credit from 0.4% in April 2025 to 2.0% in May 2025 is primarily the green shoots of the policymakers' accommodative stance. Further to the recent MPC measures, the CBK published a consultative paper late April 2025 to review the risk-based credit pricing model framework.
- We understand that Article IV Consultations will be held in September 2025 and with the possibility of kickstarting negotiations for the next IMF successor programme. Given the improved balance of payment position, this has given both the fiscal and monetary authorities an added ammunition of patience in their engagement with the IMF. We thus reiterate our long-held view of a no-successor programme in the near term.

Dovish stance from the MPC

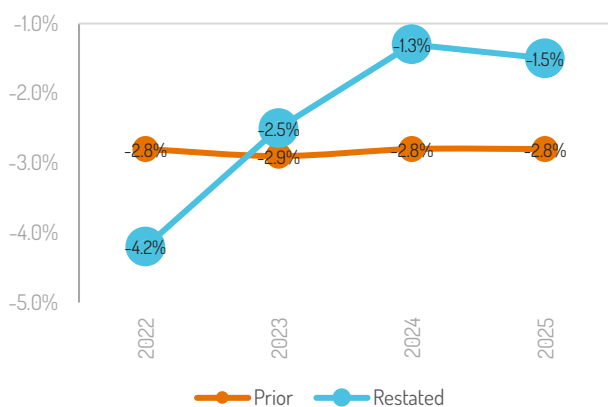
The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) delivered a 25bps cut in its June 2025 meeting to bring the Central Bank Rate to 9.75%, against our pause expectation. The dovish stance came against the backdrop of a fragile external environment and the necessity to ramp up domestic growth prospects. This was the sixth consecutive policy cut resulting in a cumulative 325bps of cuts in the ongoing easing cycle that started in August 2024. The current 9.75% stance at this juncture highlights the accommodative stance by the policymakers against our expectation, [but we maintain our 9.50% end-year rate](#); effectively a final 25bps cut in the September 2025 MPC meeting.

Last of the 4 Apocalyptic Horsemen still here with us

Eighteen months ago, the economy faced head on the 4 Apocalyptic Horsemen: battered Kenyan Shilling, higher domestic rates, elevated inflation pressures and sluggish economic prospects. Three of the risks have now moderated. The Sisyphean task has so far stabilized the local exchange rate at 129 levels against the US dollar. The easing cycle has collapsed domestic rates at the front end of the curve by an average of 730bps between September 2024 and now. Inflation has moderated with the May 2025 print coming in at 3.8% y/y, down from 4.1% y/y in the prior month.

This leaves us with sluggish growth prospects to contend with, amplified by global trade concerns and domestic strains. The policymakers trimmed the 2025 growth expectation from 5.4% to 5.2%, but better than the 4.7% y/y growth last year. Private consumption, albeit its pivotal role to stimulate aggregate economic demand, has faced headwinds from declining real wage income on the structural side, and anemic private sector credit growth from a cyclical perspective. In our assessment, the latest MPC rate decision is partly to address the cyclical strains to stimulate growth.

CURRENT ACCOUNT BALANCE-TO-GDP



SOURCE: CBK

Improved Current Account Balance

The salient tone from the MPC was the marked upswing in the current account balance, which was [first telegraphed in the April 2025 MPC meeting](#). The Kenya National Bureau of Statistics revised its balance of payment data to reflect the re-exports of oil products to the East African landlocked countries, and the adjustment of international travel receipts. The net effect has been restatement of prior current account balance data and improved 2025 projection in the balance of payment position. The current account deficit is now projected to be 1.5% this year, down from 2.8% in the previous MPC meeting. With the FX reserves at record high levels of USD 10.8bn, the external sector is adequately cushioned to absorb near-term vulnerabilities.

Rejigging the risk-based pricing framework

The uptick in the 12-month growth in private sector credit from 0.4% in April 2025 to 2.0% in May 2025 is primarily the green shoots of the policymakers' accommodative stance. [As previously highlighted](#), the MPC has done a terrific job finetuning its transmission policy over the last two MPC meetings and the results are starting to reflect. Further to these MPC measures, the CBK published a consultative paper late April 2025 to review the risk-based credit pricing model framework. At the heart of this proposed framework is the necessity of a unified base lending rate applicable to all banks. CBK had recommended, CBR + "K" premium, where "K" was applicable to each bank and reflective of i). operating costs related to lending, ii). return to shareholders, and iii). borrowers risk premium. Following the input from the public, the Governor hinted of some tweaks to its proposal that should be publicized in the coming week. The pushback to CBK's proposal largely came from the bankers' lobby group, Kenya Bankers Association that proposed the interbank rate as an alternative rate to CBR.

Reiterating our no imminent IMF successor programme call

Given the improved balance of payment position, this has given both the fiscal and monetary authorities an added ammunition of patience in their engagement with the IMF. We understand that Article IV Consultations will be held in September 2025 and with the possibility of kickstarting negotiations for the next IMF successor programme. From the CBK projections, there will be a net increase of USD 1.1bn in reserve assets this year, reducing the urgency of engaging the IMF for balance of payments requirements, in our view. From a financing standpoint, the fiscal authorities have penciled in alternative financing which mitigates the lost budget support from the IMF. For a meaningful ticket size from the IMF, we do not think this can materialize under normal access, and the improvement in the balance of payment rules out exceptional access. We thus reiterate our long-held view of a no-successor programme in the near term.



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