FUNDAMENTALS

KENYA MPC UPDATE
MARADONA THEORY AT PLAY

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IN BRIEF

- The Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) delivered a 25bps cut in its October 2025 meeting to bring the Central Bank Rate to 9.25%, in line with market expectations. This was the eighth consecutive rate cut decision by the MPC since August 2024.

- As we take stock of Kenya's current easing cycle, former Bank of England Governor Mervyn King's May 2005 speech comes to mind. Therein, he coined *Maradona theory of interest rates*. Reflecting on the last eight MPC decisions, market expectations have been at odds with the CBK in five out of eight meetings. The market has been moored to CBK's eventual rate decisions in the last two meetings, attuned to the policymakers' thought process.

- Inflation remains anchored below the mid-point target of 5.0% and a 4.7% print is expected at the end of this year. As Maradona's first goal scored with the help of his hand, the '*Hand of God*', the stability in the Shilling at 129 levels has restrained risk of imported inflation.

- Our assessment of the soft data, the surveys conducted prior to the MPC meeting, suggests rising optimism amongst private sector players. Although the MPC reported a further widening in current account deficit from 1.6% in June 2025 to 2.1% in August 2025 on a 12-month rolling basis, this attests to the September 2025 PMI findings of nascent recovery given the higher importation of intermediate and capital goods as driver of the uptick in the current account balance.

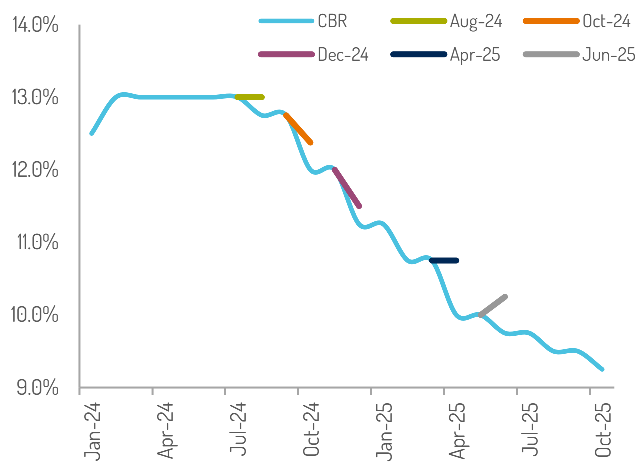
- From the February 2025 MPC meeting, the policymakers have strived to finetune the monetary policymaking transmission channel and we point out the 5.5% y/y uptick in credit to the private sector in September 2025, from -2.9% y/y in January 2025, as a fair reward to the effort. The gradual acceptance of Kenya Shilling Overnight Interbank Average (KESONIA) as the base lending rate across the industry by March 2026 will be an icing on the cake of finetuning the monetary transmission mechanism.

Maradona theory at play

The Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) delivered a 25bps cut in its October 2025 meeting to bring the Central Bank Rate to 9.25%, in line with market expectations. This was the eighth consecutive rate cut decision by the MPC since August 2024. Unlike the sharp cumulative 850bps cut delivered in the July 2012 - January 2013 dovish period, a more gradual approach has been adopted by the current policymakers.

As we take stock of Kenya's current easing cycle, former Bank of England Governor Mervyn King's May 2005 speech comes to mind. Therein, he coined *Maradona theory of interest rates*. Argentine Diego Maradona ran virtually in a straight line to score his second goal against England in the 1986 World Cup quarter finals game. Maradona's successful run went at odds with the defenders' expectations of his sideway dribbling skills. Reflecting on the last eight MPC decisions, market expectations[1] have been at odds with the CBK in five out of eight meetings. The market has been moored to CBK's eventual rate decisions in the last two meetings, attuned to the policymakers' thought process. Just as Maradona finished his spectacular run with a beautiful goal, we expect a final 25bps rate cut in the December 2025 MPC to shift lower our end-year call to 9.0%.

CBR -VS- MPC DECISION EXPECTATIONS SURVEY



SOURCE: CBK, Bloomberg Analyst Surveys

'Hand of God' has stabilized KES so far; soft data signals improving hard data down the line

Inflation remains anchored below the mid-point target of 5.0% and a 4.7% print is expected at the end of this year. Inflation inched up in September 2025 to 4.6% on account of uptick in the non-core segment but we do not foresee it posing an inflationary threat in the medium. As Maradona's first goal scored with the help of his hand, the '*Hand of God*', the stability in the Shilling at 129 levels has restrained risk of imported inflation. The FX Reserves at record USD 10.8bn and representing 4.7 months of import cover has been shored through the apex bank's purchase of hard currency in the FX interbank market. With KES stability firmly entrenched in the Market Perception Surveys, this further strengthens low inflationary expectations in the near-term.

Our assessment of the soft data, the surveys conducted prior to the MPC meeting, suggests rising optimism amongst private sector players. This solidifies expectation for stronger hard data to be released further down the road. The September Purchasing Managers' Index (PMI) pointed to a rising private sector sentiment, with the first print above the neutral 50-mark in five monthly readings, supported by output, new orders and employment sub-indices that collectively account for 75.0% of the survey weightings. Although the MPC reported a further widening in the current account deficit from 1.6% in June 2025 to 2.1% in August 2025 on a 12-month rolling basis, this attests to the September 2025 PMI findings of nascent recovery given the higher importation of intermediate and capital goods as driver of the uptick in the current account balance. We maintain our year-end real GDP estimate of 5.2%.

The ultimate goal? Increased credit mediation to fire the growth cylinder

As we highlighted here, ultimately the policymakers are pulling all stops to revive a fledgling private sector credit mediation. From the February 2025 MPC meeting, the policymakers have strived to finetune the monetary policymaking transmission channel and we point out the 5.5% y/y uptick in credit to the private sector in September 2025, from -2.9% y/y in January 2025, as a fair reward to the effort. Nevertheless, the policymakers are not resting on their laurels with the 6.5% y/y 2025 target as indicated in the latest Monetary Policy Statement. This will translate into a net increase of KES 250.7bn in private sector credit over the course of this year to end at KES 4.1tn. The gradual shift to Kenya Shilling Overnight Interbank Average (KESONIA) as the base lending rate across the industry by March 2026 will be an icing on the cake of finetuning the monetary transmission mechanism.

Although rates at the short end of the yield curve have declined an average of 760bps from August 2024, the back end of the yield curve has recorded a modest 320bps decline on average. In line with the FY26 borrowing plan tabled by the National Treasury, we expect the continued resort to re-opening of the Treasury bonds over newer issuances to anchor domestic rates lower. This will further crowd in private sector lending in our view.

[1] Mervyn King's lecture used forward interest rate curve for expectations of market participants of future policy rate. We have used Bloomberg survey

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