ECONOMICS AND RESEARCH POST MPC REACTION

December 2025

The MPC Expectedly Cut Policy Rate to 9.0%

The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by 25 basis points to 9.0% during its meeting held on 9th December 2025 in line with our projection. The decision underscores the committee's continued focus on supporting economic activity amid well anchored inflation and currency risks.

During the meeting the committee rightly noted that overall inflation expectations remain firmly anchored within the target with November inflation falling to 4.5% from 4.6% in October. However, the outlook remains subject to the risk of the poor short rains that will exert moderate upward pressure on overall inflation through higher prices of some food items, particularly vegetables. Moreover, increased demand during the December festive season, though transient poses a headwind to the general prices outlook.

The committee maintained its October meeting growth forecast of 5.2% and 5.5% in 2025 and 2026, respectively largely driven by resilience in key service sectors and agriculture augmented by continued industrial sector recovery. That said, adverse weather both locally and regionally, elevated trade policy uncertainties, reduced global demand and geopolitical tensions though having seemingly eased off could dampen the 2026 forecast. To this end, private sector credit expansion, that so far stands at 6.3% from 5.0% in September, builds momentum for 2026 growth.

Even so, whilst the credit to private sector seems to post remarkable improvement from negative growth levels a year ago, credit risk remains elevated with non-performing loan ratio at 16.5% in November relative to 16.7% in October 2025, which may hold back aggressive credit growth in 2026.

The external sector outlook remains broadly positive with the current account deficit at 2.2% of GDP in October 2025, with both exports and imports likely to remain within long-term average levels. Thus, muted currency risk is expected in the near-term.

Arriving at its decision, the committee was cognisant of the global economy's outlook. Notably, though 2025 global growth remains steady amid resilient consumer demand in the United States, a slowdown is projected into 2026 in the context of elevated trade uncertainties and geopolitical tensions. Positively, global inflation is projected to decline driven by steady global commodity prices. Hence, limited pass-through into domestic inflation.

Overall, absent any significant economic shocks, we expect the committee to pause in its February 2026 meeting.