ECONOMICS AND RESEARCH POST MPC REACTION

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Monetary Policy Committee Cut Policy Rate to 9.25% from 9.50%

On 7th October 2025, the Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by 25 basis points to 9.25%. Cumulatively, the CBR is down 375-basis points since August 2024.

According to the committee, overall inflation remains stable, and expectations are firmly anchored within the target. Notably, inflation is projected to trend below the 5% mid-point of the target all the way into the first quarter of 2026. In the near term, despite seasonal factor induced pressure on vegetable costs as seen by respondents in the agriculture survey, the onset of the maize harvest season, stable energy prices as well as exchange rate stability underpins the favourable outlook.

On the growth front, the MPC maintained a real GDP growth projection of 5.2% this year while 2026 growth is forecast marginally higher at 5.5% from 5.4%, previously. Amidst steady agriculture sector activity, growth is expected to be fueled by resilient services activity and recovery in industry buttressed by credit growth. Thus far, private sector credit grew by 5.0% in September, a considerable expansion from the contraction of 2.9% recorded in January 2025. The extension of credit to manufacturing, building and construction and consumer durables predominantly supported the increase.

Even so, the cost of credit remains restrictive as indicated by a persistently elevated nonperforming loan ratio (NPL) at 17.1% in September relative to 17.6% in June. Indicatively, commercial banks weighted average lending rates remain elevated at 15.1% in September, though marks a decrease from 17.2% as of November 2024.

On the upside, the regulator expects the full operationalization of the revised banking sector Risk-Based Credit Pricing (RBCP) model by March 2026 to drive a faster recovery in the credit market. Although, we posit that lending could remain concentrated around consumer and working capital loans.

The external sector remains positive. Domestic exports rose 8.5% in the 12-months to August driven by horticulture, coffee, manufactured goods, and apparel. Meanwhile, domestic imports grew 9.2% in the same period. Overall, the current account deficit is projected to widen marginally to 1.7% of GDP this year, up from 1.3% in 2024 owing to higher import activity.

On the global front, the committee rightly acknowledged the resilience in economic activity level across major economies. However, it flagged elevated trade policy uncertainties and geopolitical tensions as an ongoing risk to the outlook. Nonetheless, with global headline inflation expected to decline into 2026 global commodity prices should remain contained, thus implying limited upside risk to inflation and currency depreciation risk. Moreover, healthy buffers from CBK's official FX reserves at US $ 10,765Mn should cushion the exchange rate against any shocks.

Overall, the transmission of the policy stance is expected to drive interest rates marginally lower. Subsequent policy actions will be delicately balanced in the wake of global uncertainties.