

# ECONOMICS AND RESEARCH **PRE MPC NOTE**

**December 2025**

## **Economy has Scope for a Cautious Looser Monetary Policy Stance**

The final Monetary Policy Committee (MPC) meeting of 2025 is set for 9<sup>th</sup> December 2025. A review of the committee's previous policy actions highlights that in as much as the extended easing cycle initiated in August 2024 (350-basis points in rate cuts) has yielded certain achievements, there is scope for further cautious easing.

Firstly, the operating target— KESONIA has remained well-within the Central Bank Rate (CBR) +/-75 basis points corridor. On average, KESONIA has oscillated at less than 5.0 basis points relative to the CBR. Therefore, interbank funding activity has maintained stability, while central bank intervention has aligned more predictably to the liquidity position.

Inflation is well contained at 4.45% in November, staying below the CBK's 5% target midpoint for 17 consecutive months. In the coming months, generally depressed short rains across the country present potential adverse impact on animal fodder, milk production, vegetables, electricity generation and overall prices. On the upside, stable global commodity prices and a steady exchange rate are expected to limit external market pass-through, so a rise in inflation toward 5% is likely to be transient.

Externally, Kenya's performance remains positive. The current account deficit stands at 2.5% of GDP, a slight increase from 2.1% in August reflecting a widely expected increase in import demand. A boost from tourism sector activity, resilient agriculture

exports and diaspora flows should contain the deficit below 3.0% of GDP to end-year.

Globally, growth remains steady- with tertiary sectors responsible for the lion's share of global output resilience. Indicatively, S&P Global Manufacturing PMI stood at 50.5 in November from 50.9 in October, while the Services PMI stood at 53.3 from 53.5.

On monetary policy, the US Fed lowered the policy rate by 50-basis points this year and is expected to ease by an additional 25-basis points in December to 3.50% - 3.75%. With that, Kenya's interest rate differential remains attractive for investors – with local currency bonds offering high real yields of between 4.5% to 8.5% above current headline inflation.

Against this backdrop, we see the MPC's broader focus on growth where the recovery has been a slower grind, but evident, nonetheless. Notably, in November economic activity improved slightly relative to October as reflected by our internal consumer activity high frequency indicators as well as a higher PMI reading of 55 from 52.5. Worryingly, private sector activity continues to lag in the industrial sectors, leaving the public sector as primary force of growth.

In summary, we recommend a 25-basis point rate reduction at the December meeting, taking the CBR to 9.0%. The MPC is likely to pause adjustments at the February 2026 meeting to monitor transmission and the full implementation of the new risk-based credit pricing model.