

# ECONOMICS AND RESEARCH **PRE MPC NOTE**

**October 2025**

## **Monetary Policy Stance: There is Merit to Ease Further**

As the Monetary Policy Committee (MPC) meets on 7<sup>th</sup> October against the backdrop of low inflation and weak economic growth, we see this as an easy meeting for the committee in terms of the direction of policy action. With the Central Bank Rate (CBR) at 9.50% and at 4.92% in nominal and real terms, respectively, there is scope for further monetary easing.

Even though the MPC's prior decisions have succeeded quite remarkably regarding the operating target, what does not seem easy into the meeting is the quantum of policy rate cut that would be adequate to stimulate economic activity through the credit channel.

So far, economic activity is just lukewarm. The recently released economic growth numbers do not offer confidence in getting toward the long-term GDP growth levels. With the economy expanding by 5.0% in the second quarter, growth appeared very much public sector led. Notably, the construction sector expanded significantly by 5.7% from a contraction of 3.7% with an associated 45% increase in import of bitumen in the period under review. Additionally, electricity, water, mining and quarrying recorded significant growth.

However, restrictive cost of credit seems to hold back economic activity in several sectors. Resultantly, manufacturing and the service sectors grew at 1.0% and 5.7%, respectively, compared to 3.2% and 6.1%, respectively, in a similar period last year. Illustratively, distribution of private sector credit growth in the first half of the year indicates that more than half of it was

toward personal or household and working capital loans.

On the external side, even as we wait for the IMF's October edition of the World Economic Outlook, global growth remains on a solid trajectory. Illustratively, in the second quarter of the year, key economies such as the US, China and the European Union expanded by 2.1%, 5.2% and 1.6%, respectively, year-on-year.

Supporting this resilience in economic activity, global headline inflation remains well contained, with headline inflation at 2.9%, 2.04% and -0.4% in the US, European Union and China, respectively. Given that we see oil price staying below \$70 a barrel, the upside risks to headline inflation are limited.

Thus, the local currency expectations appear anchored from an external standpoint. Locally, the third and fourth quarters of the year are typically associated with higher service receipts, particularly for travel. However, this year could be slightly different following low tourism momentum with tourist arrivals growing by just 2.7% year-on-year in 1H2025, as well as a potential negative shock on agriculture exports underscored by an adverse weather outlook. That said, we see very limited KES depreciation against the backdrop of low credit growth.

Overall, we expect the committee to cut the CBR by 25-50bps in the upcoming meeting and then pause in their December meeting.