

ECONOMICS AND RESEARCH **POST MPC REACTION**

February 2026

The Monetary Policy Committee Rightly Lowers the Policy Rate to 8.75%

The Monetary Policy Committee (MPC) convened on 10th February and decided to cut the policy rate by 25 basis points to 8.75%. Additionally, the committee narrowed the interest rate corridor around the CBR from ± 75 bps to ± 50 bps. Further, the discount window was adjusted from the current 75 bps above CBR to 50 bps.

The committee rightly acknowledged the need to stimulate further credit expansion and economic activity. Illustratively, private sector credit growth remains at single digit level registering at 6.4% in January 2026 compared to 5.9% in December 2025.

Looking ahead, credit to private sector is likely to improve with declining lending interest rates. The reduction in the interest rate corridor, coupled with the ongoing implementation of the new risk-based credit pricing framework is anticipated accelerate this transmission as well as manage differential loan pricing across the industry. However, lenders will continue to keep an eye on the non-performing loan ratio, now at 15.5% relative to 16.7% in October 2025.

Against the backdrop of improved economic activity stemming from lower interest rates, the central bank projects real GDP growth to reach 5.5% this year, from an estimated 5.0% in 2025. However, leading indicators for economic activity have shown a moderate start to the year.

On prices, the MPC correctly assessed that inflation is likely to remain anchored below 5% in the near term owing to moderate oil

prices and exchange rate stability. This stability is underpinned by foreign exchange reserves at USD 12,458 million (5.37 months of import cover) providing adequate cover and buffer against short-term domestic and external shocks.

To this end, we see no major risk arising from the contrast between the committee's decision and recent policy action by the US Federal Reserve which held interest rates steady at the current 3.50-3.75% range. We expect that the lower yield appeal will provide limited downside for the shilling, if any. Further, sustained growth in goods exports will maintain a favourable current account position (2.0% to 3.0% of GDP) and provide further safeguard to the shilling.

Overall, we expect sustained regulatory oversight of commercial banks in the near-term to accompany the policy adjustment to ensure effective transmission and transparency in the market.

Figure 1: Central Bank Rate

