

ECONOMICS AND RESEARCH PRE MPC NOTE

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MPC Expected to Hold Policy Rate as Inflation and Geopolitical Risks Grip Markets

The Central Bank of Kenya's Monetary Policy Committee holds its second policy setting meeting this year on 8th April 2026. Into this meeting, we expect the committee to hold the policy rate at 8.75% and increase the cash reserve ratio to sustainably manage liquidity.

Since the last MPC meeting held on 10th February 2026, inflation risks have become elevated amid ongoing Middle East war that began on 28th February 2026. So far, Brent oil price has surged over 80% year-to-date, touching \$109 per barrel today.

Consequently, resilience in global growth is once again being tested by the Middle East oil shock. Thus, we expect the International Monetary Fund to revise global GDP downwards next week from the current forecast of 3.3%. Resultantly, faced with lower economic growth outlook and an inflation shock, key central banks have adopted a cautious policy path. This means that with a restrictive monetary policy in advanced economies, economic activity in Kenya will be adversely affected via the various external channels.

The MPC is thus expected to revise downwards its earlier GDP forecasts toward 5% as households are anticipated to record lower aggregate demand over the near-term, while business enterprises deal with longer and costly commodity logistics.

For the key prices, we see domestic inflation risks elevated in coming months. First, with rise in crude oil prices, local pump prices will rise and secondly, secondary

effects through higher food production and transportation costs are expected to kick in. Already, several global agricultural commodity prices are exhibiting pressure, with urea fertilizer prices up 48%, palm oil up 13%, and sugar prices up 7% since the onset of the war.

Even though the government might intervene through a fuel subsidy to moderate local pump prices, the current fiscal pressures point to only a partial and short-lived reprieve that is likely to be skewed toward diesel. Overall, we forecast a gradual increase in inflation to a range of 5% to 6% in May and June.

On the currency, pressure is already stemming from delayed exports in both the Middle East and the rest of the world, lower diaspora remittances anticipated from the Middle East and an elevated import bill. Against this background, the intervention by the Central Bank of Kenya in the foreign exchange market is expected to just smoothen the currency depreciation. Currently, official foreign reserves stand at USD 13,655.70 million equivalent to 5.8 months of import cover.

Overall, against the backdrop of potentially weaker economic growth, higher inflation and uncertain policy outlook, we expect the committee to hold the policy rate at 8.75% and increase the cash reserve ratio to sustainably manage liquidity, which has remained elevated for several months.