

ECONOMICS AND RESEARCH **PRE MPC NOTE**

February 2026

Room Still Available for Further Policy Easing

The Monetary Policy Committee (MPC) convenes on 10th February for the first policy setting meeting this year. Into this meeting, we see room for additional policy easing.

In its meeting in December, the committee raised concerns that even though private sector credit growth had improved, the pace was slower than desirable. Since then, credit growth has plateaued around the November level of 6.3%. There is thus a policy need to stimulate this further by lowering interest rates.

Since the last MPC meeting, global economic activity has been revised upwards. The International Monetary Fund (IMF) now anticipates growth to reach 3.3%, from the October forecast of 3.1%. Growth will be driven by a surge in AI-related investment in the U.S. and Asia, policy easing and lower trade barriers. Across the economic blocs, advanced economies are projected to grow by 1.8%, Emerging and Developing Economies (EMDE) at 4.2% and Sub-Saharan Africa at 4.6% following policy reforms and a stable macroeconomic landscape.

Moreover, looking at more recent data points, global growth remains firm with the aggregate composite PMI at 51.5 in January – with the US, Euro area and Japan PMI at 52.7, 51.6 and 53.7, respectively. As a result, Kenya's external sector performance will likely uphold relative strength due to an expectation of stable demand for our agricultural commodities.

Nevertheless, we anticipate increased attention to external risks associated with ongoing geopolitical tensions, which have remained pronounced. Reassuringly though,

despite observable volatility in commodity markets, such fluctuations have largely remained within manageable levels. For example, after a brief spike to US \$ 70 per barrel on Brent, prices have eased to US \$ 68 per barrel.

Locally, headline inflation rate, at 4.4% in January is firmly below the 5% mid-point target. In the remainder of the first quarter, we do see a decline in maize prices partly trading off the price pressure from vegetables and fruits, resulting in overall inflation staying below 5%. Therefore, with limited second-round inflation effect in this period, the MPC is likely to assess inflation risks as broadly balanced.

On economic activity level, aggregate demand in the economy still appears weak. Illustratively, our internal NCBA consumer activity index (NCBA-CAI) points to a nominal expansion of 0.95% and 8.7% month-on-month and year-on-year, respectively in January. Additionally, S&P Global reported a decline in the headline PMI to 51.9 in January from 53.7 in December. Moreover, the level of core inflation, at 2.2% already points to weak aggregate demand.

Overall, we recommend policy easing by the committee in its February meeting to stimulate further private sector credit growth and economic activity.