ECONOMICS AND RESEARCH POST MPC REACTION

August 2026

MPC Expectedly Holds Central Bank Rate at 8.75%

The Monetary Policy Committee (MPC) of the Central Bank of Kenya maintained the policy rate at 8.75%, extending the current pause for a third consecutive sitting. The decision reflects the committee's assessment that despite an increasingly uncertain global backdrop, domestic macroeconomic fundamentals remain broadly supportive of a wait-and-see approach.

Geopolitical tensions remain elevated, with the conflict in the Middle East, the Russia-Ukraine war, and trade tensions. This, alongside potential weather-related disruptions from El Niño continue to pose upside risks to the inflation outlook. Even though, with support from government interventions in the fuel market and a stable exchange rate, the MPC expects inflation to remain within the target range over the near term. Consequently, the committee sees no immediate need for policy tightening, although it remains vigilant to possible second-round effects that could broaden domestic price pressures.

The decision is also consistent with an increasingly synchronised pause in monetary policy among major central banks. In recent meetings, the US Federal Reserve, European Central Bank, Bank of England and Bank of Japan all maintained their respective policy rates as policymakers continue to assess the implications of rising energy prices and persistent geopolitical uncertainty on inflation and growth prospects. Global growth is projected to moderate to 3.0% in 2026 from 3.5% in 2025, while inflation is expected to rise to 4.7% from 4.1%, largely reflecting higher energy and transport costs.

The softer global environment presents risks to Kenya's external sector through weaker export earnings, services receipts and remittance inflows. Notably, the current account deficit widened to 3.0% of GDP from 1.9% in 2025. Export earnings grew by 8.9%, while goods imports expanded by 13.1%. Services receipts increased by 8.3%, although diaspora remittances declined by 2.4%. While these developments suggest some vulnerability for the shilling, foreign exchange reserves remained robust at US$15.2 billion in July, equivalent to 6.3 months of import cover, providing a significant buffer against external shocks.

On the domestic front, the CBK projects overall growth to moderate to 4.9% in 2026 before recovering to 5.3% in 2027. Encouragingly, high-frequency indicators point to improving activity. The NCBA Consumer Activity Index indicates household consumption expanded by 4.2% in real terms in July, while the headline PMI rose to 51.3 from 50.0 in June, signalling a return to modest private sector expansion.

Conditions in the credit market have also improved. Private sector credit growth accelerated to 10.2% in July 2026 from contractionary levels recorded in early 2025, while asset quality indicators marginally strengthened. The ratio of gross non-performing loans to gross loans declined to 14.6% in July from 15.4% in April.

In our view, the persistence of geopolitical risks and uncertainty around global energy prices warrant continued vigilance. A gradual easing of these external pressures would help anchor inflation expectations, preserve exchange rate stability and create a more conducive environment for sustained credit growth.