ECONOMICS AND RESEARCH PRE MPC NOTE

August 2026

MPC to hold CBR at 8.75% but remain cautious to inflation – growth twin shock

The Central Bank Monetary Policy Committee (MPC) meets on 11th August 2026 at a crucial juncture, marked by elevated inflation risks, subdued growth prospects, and the onset of a new fiscal year. Therefore, the committee faces the challenge of balancing price stability while supporting economic activity in the just started FY2026/2027.

Since its last stance in June 2026, domestic inflation has remained elevated. Precisely, July headline print came at 6.5% from 6.4% in June year-on-year, pointing to a broadly unchanged general prices in the near-term. Elevated prices are largely attributed to the second-round effect of oil price shock. However, on a positive note, the core inflation reading of 3.2% in July, up from 3.1%, points to well managed underlying price pressures. Against this backdrop, the committee's previous conventional approach appears to have been somewhat successful. As expected, the committee is likely to adopt a similar stance, skewed toward supporting economic activity.

Globally, geopolitical risks remain elevated. Intermittent de-escalation and escalation between US and Iran remain pivotal to the Middle East uncertainty. Consequently, key global monetary policy authorities remain hawkish evidenced by their respective July policy decisions. Nevertheless, as we have previously argued, the global economy appears to have absorbed oil price shock better than expected. Illustratively, Global composite PMI rose to 52.1 in July from 51.8 in May. Growth in advanced economies in the first half of 2026 appears resilient, coupled with broadly stable labour market conditions. Therefore, we expect the committee to take cognisance of the global inflation outlook in their policy decision, though spillover to the domestic market will be gradual.

Locally, the government managed to close FY2025/26 neatly, with good revenue performance. However, on the expenditure side, fiscal prudence appears to lag. The FY2026/27 budget, relative to FY2025/26, seems more realistic. On growth, first-quarter real GDP came in at a surprising 5.3%, relative to 4.9% in 2025. Therefore, to continue supporting growth into the second half of 2026, policy need not be restrictive. Additionally, to promote interest rate stability and predictability amid the early phase of the new Risk-Based Credit Pricing Model (RBCPM), a hold in the policy rate appears more feasible.

Externally, the local currency remains firmly anchored amid historically high official reserves, currently at USD 15,248 million. As expected, geopolitical uncertainties are likely to keep imports broadly low against the backdrop of elevated prices, thus fairly supporting the shilling. Additionally, political risks amid next year's general election could see importers turn cautious on their import appetite, leading to a lower import bill into the fourth quarter of 2026 and first quarter of 2027. However, depressed diaspora remittances and export receipts could weaken the current account and external position.

Overall, we expect the committee to hold the CBR at 8.75%, thus calibrating its stance to that of key monetary policy authorities, and thereafter keenly monitor possible second-round effects and the economic activity response to the stance.