

# **ECONOMICS AND RESEARCH** **POST MPC REACTION**

**October 2026**

## **CBR at 8.75% Seems Appropriate to Anchor Inflation and Keep the Currency Stable**

The MPC met yesterday as scheduled and made the decision to hold the policy rate at 8.75% following their assessment that the current level of interest rates is appropriate to anchor inflation within the target range and achieve exchange rate stability.

This meeting was held at a time when the external environment appears persistently volatile and thus a lack of clear assessment of the outlook by several research houses. Similar to our view, the MPC rightly acknowledged the anticipated moderation in global growth mainly driven by geopolitical risks stemming from trade, the Middle East crisis and the incessant Russia-Ukraine war.

To this this end, a better evaluation of the global economy's direction at this time of high uncertainty and rapid change will be out next week upon release of the World Economic Outlook and Global Financial Stability Report by the IMF.

However, Kenya's external sector proves to be both strong and resilient. Notably, new data released by the MPC indicates that exports rose by 11.8% in the 12-months to August 2026. This was remarkably robust compared to a growth of 8.9% in the period to June. Hoping this runs into the fourth quarter, the exchange rate will likely remain sturdy.

Positively, the import side kept a low pace, with total imports increasing by 15.8% year-on-year in August, justly slightly up from 13.1% in June, albeit the total global commodity

price index by the World Bank deteriorated by 26% over the same period. With the current account deficit now forecast at 3.2% to year end, there is thus manageable pass-through effects of external risks so far.

Resultantly, our earlier concern about narrowing interest rate differential wherein the real policy rate and the 2 year-bond differentials for Kenya and the US has declined to 1.4% and 1.7%, respectively from 2% and 3.5%, respectively in August is no longer an immediate concern.

The committee seems to have the right assessment of the domestic macroeconomic outlook, notably, one of resilience as noted in our earlier report. Consequently, the MPC revised the 2026 real GDP growth forecast upwards to 5.0% from their earlier projection of 4.9%. We see public sector spending playing a big role here.

Concerningly, though with no surprise, the MPC was not explicit on their statement on the country's fiscal affairs. We do note that absence of any chance for fiscal consolidation in the near-term remains a worry for investors, especially with likely fiscal slippage in 2027 and emergency spending related to the anticipated weather conditions.

Looking ahead, reduced urgency by the US Federal Open Market Committee to hike interest rates further this month and expected part reversal of domestic food inflation in Q4 leaves the external sector in the driving seat for the next MPC decision.