April 7, 2026

RESEARCH NOTE NO.2 – 2026 (RN/2/26)

A call to sustain the current monetary policy stance by keeping the Central Bank Rate Unchanged

Highlights

The decision of the Monetary Policy Committee (MPC) of the Central Bank of Kenya at its meeting scheduled for **8th April 2026** is expected to be underpinned by the following five key developments:

- **First,** inflation remains within target range but faces escalation risks from pass-through effects of global oil price hikes and geopolitical disruptions on trade channels and supply routes.
- **Second,** economic recovery path remains exposed to the uncertainty in global economic performance associated with effects of geopolitical conflict in the Gulf and Ukraine on trade and macroeconomic policy.
- **Third,** monetary policy easing continues to support credit market activity, though interest rate transmission faces frictions associated with structural challenges affecting credit market.
- **Fourth,** private sector credit recovery remains fragile, as rising risks and lending costs constrain sustained expansion momentum.
- **Fifth,** exchange rate stability faces risks of a widening current account deficit and potential disruptions on diaspora remittances, arising from the protracted geopolitical conflicts.

In view of the above developments, and a balance of risks going forward, sustaining the current monetary policy stance unchanged by keeping the policy rate unchanged at 8.75% would be ideal.

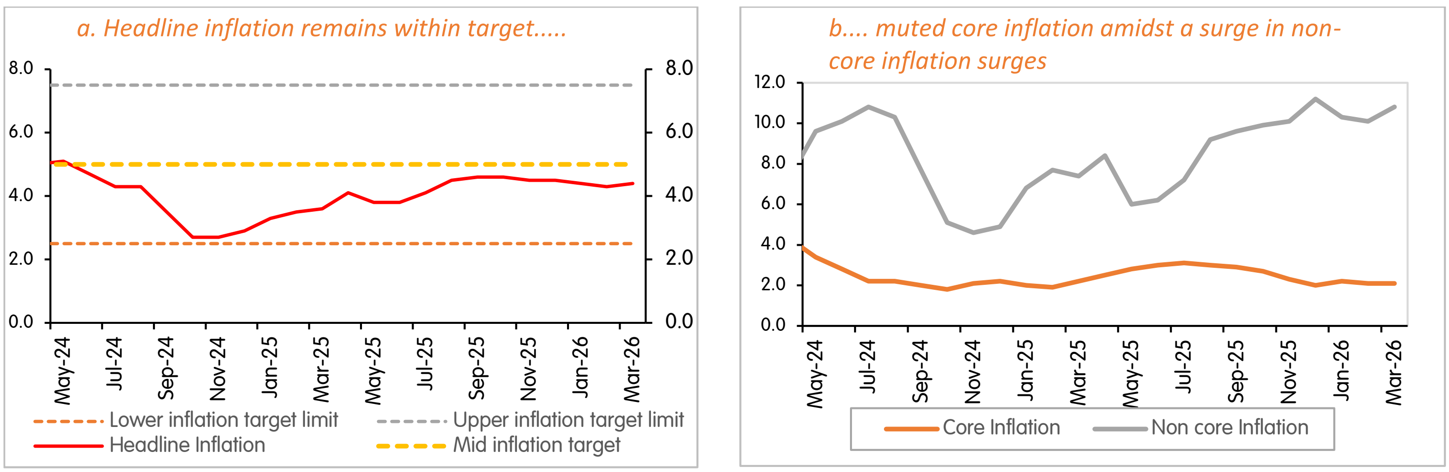
"
Imminent inflationary and potential exchange rate pressure arising from the geopolitical conflicts call for a hold on the policy rate.......

Background

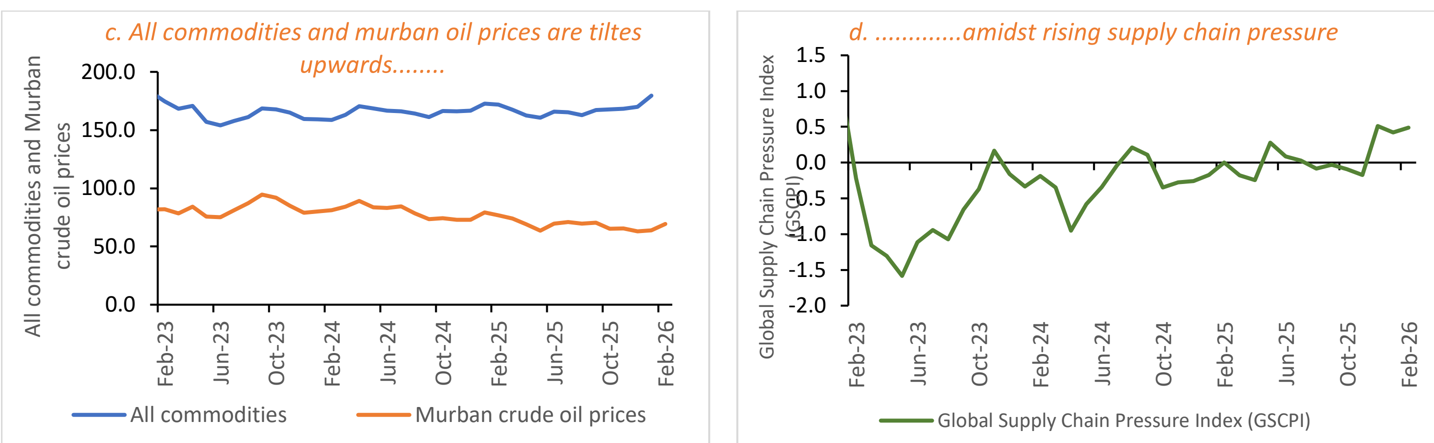
The Monetary Policy Committee (MPC) is expected to meet on **8th April 2026**. We expect five key developments to anchor the Committee's decision.

First, inflation remains within target range of 2.5%–7.5% but faces escalation risks from pass-through effects of global oil price hikes and geopolitical disruptions on trade channels and supply routes. In March 2026, headline inflation rose back to 4.4% from 4.3% in February 2026 **(Figure 1a)** on account of an increase in non-core inflation from 10.1% to 10.8% on higher prices of food and non-alcoholic beverages and transport. Core inflation remained unchanged at 2.1% in March 2026 over the same period**.** Despite the elevated food prices, positive supply-side developments in the food basket regions supported by favorable weather conditions will continue to moderate food price increases typical of the first half of the year.

Figure 1: Inflation trends and drivers



Source: *KNBS*

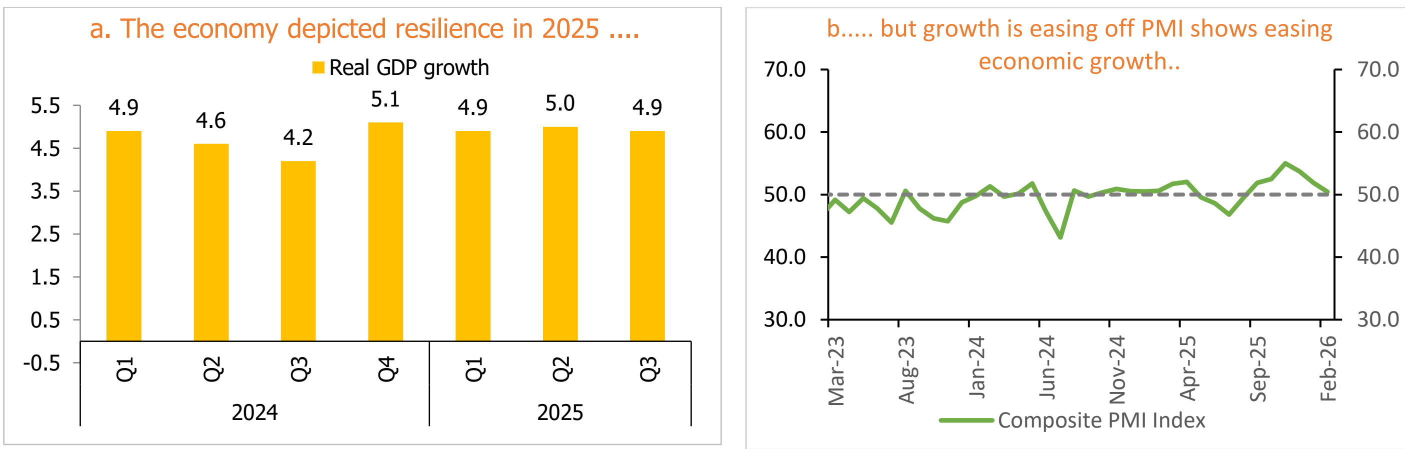


Source: IMF commodities database, oilprice.com & Federal Reserve Bank of New York

Although global commodity markets remain broadly stable, the external price dynamics going forward may present moderate inflation risks, from geopolitical conflicts, trade policy shifts and continuing tariff adjustments among major economies. The global commodity prices particularly the Murban oil prices have shown an uptick; rising from USD 63.0 a barrel in December 2025 to USD 69.5 in February 2026, and further to USD 97.99 per barrel by March 26, 2026, up from USD 95.91 on March 18, 2026, driven by disruptions following the closure of the Strait of Hormuz. Meanwhile, the Global Supply Chain Pressure Index that had remained low and relatively stable has risen, depicting rising supply chain pressures **(Figure 1d)** and potential price hikes of key commodities. Overall, Kenya's near- to-medium- term inflation outlook faces upside risks from energy price increases, shipping costs and threats to exchange rate stability from global trade disruptions and tariff adjustments.

Second, economic recovery path remains exposed to the uncertainty in global economic performance associated with effects of geopolitical conflict in the Gulf and Ukraine on trade and macroeconomic policy. The latest available data shows that Kenya's real GDP growth stood at 4.9% in the third quarter of 2025, up from 4.2% recorded in the same quarter of 2024 **(Figure 2a)**. However, higher-frequency indicators suggest that growth in economic activity is easing off. In particular, the Purchasing Managers' Index (PMI) fell to 50.4 in February 2026 from 51.9 in January 2026, indicating relatively lower improvements in private sector economic activity. Sales and employment grew slightly, but output nearly stalled amid uncertainty in economic conditions. Overall, the index points to a mixed performance. While construction and services expanded, agriculture and manufacturing sectors dipped. Going forward, domestic growth is expected to be shaped by developments in the global economy, particularly headwinds from trade tensions and the evolution of the conflict in the Middle East and their effects on business and consumer confidence.

Figure 2: Economic growth outlook

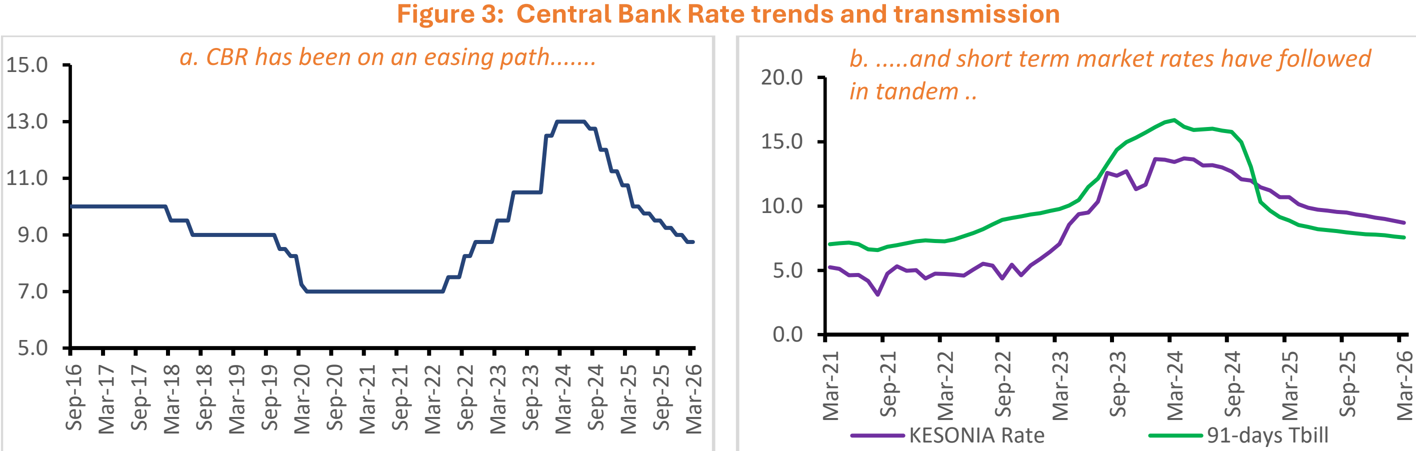


Source: KNBS

Source: IHS Markit

Third, monetary policy easing continues to support credit market activity, though interest rate transmission faces frictions associated with structural challenges affecting credit market. The Monetary Policy Committee (MPC) sustained the reductions in the CBR overtime, with the most recent reduction by 25 basis points to 8.75% effected in February 2026 to support private-sector lending and economic activity **(Figure 3a)**. Consequently, short term market interest rates – particularly the interbank (KESONIA) and treasury bill rates – have also declined in tandem **(Figure 3b)**. However, market rates would typically respond with a lag and adjust gradually, reflecting considerations of liquidity conditions, market expectations about changes in interest rates going forward, and emerging market risks as well as observance of all relevant laws affecting credit underwriting and management.

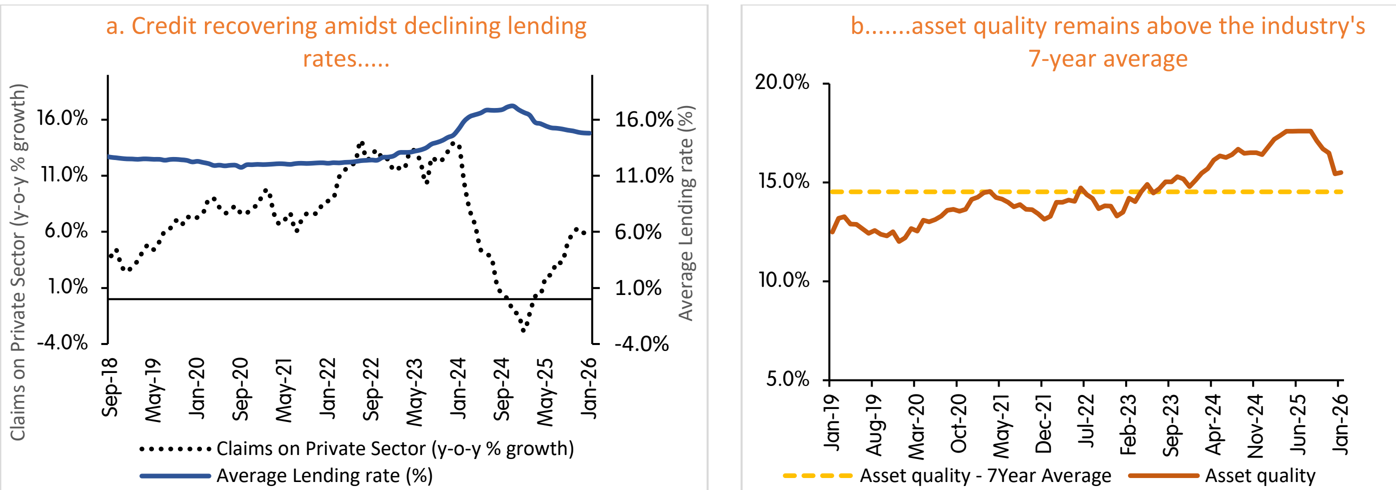
Figure 3: Central Bank Rate trends and transmission



Source: CBK

Fourth, private sector credit recovery remains fragile, as rising risks and lending costs constrain sustained expansion momentum. Credit to the private sector has rebounded from a contraction of 2.85% in January 2025 to 6.3% by November 2025, easing slightly to 5.9% in December 2025, before rising to 6.4% in January 2026. At the same time, average lending rates continue to ease, to 14.8% in January 2026, reflecting the transmission of CBR cuts sustained from September 2024. With improved credit growth, banking sector asset quality has improved, but NPL ratio remains above its 7-year average; thus constraining a faster growth in credit supply as banks exercise caution in lending. The ratio of gross non-performing loans (NPLs) to gross loans stood at 15.5% in January 2026, down from 16.7% in October 2025 and 17.6% in August 2025. Decreases in NPLs continue to be noted in the real estate, manufacturing, trade, building and construction and personal and household sectors.

Figure 4: Developments in credit markets

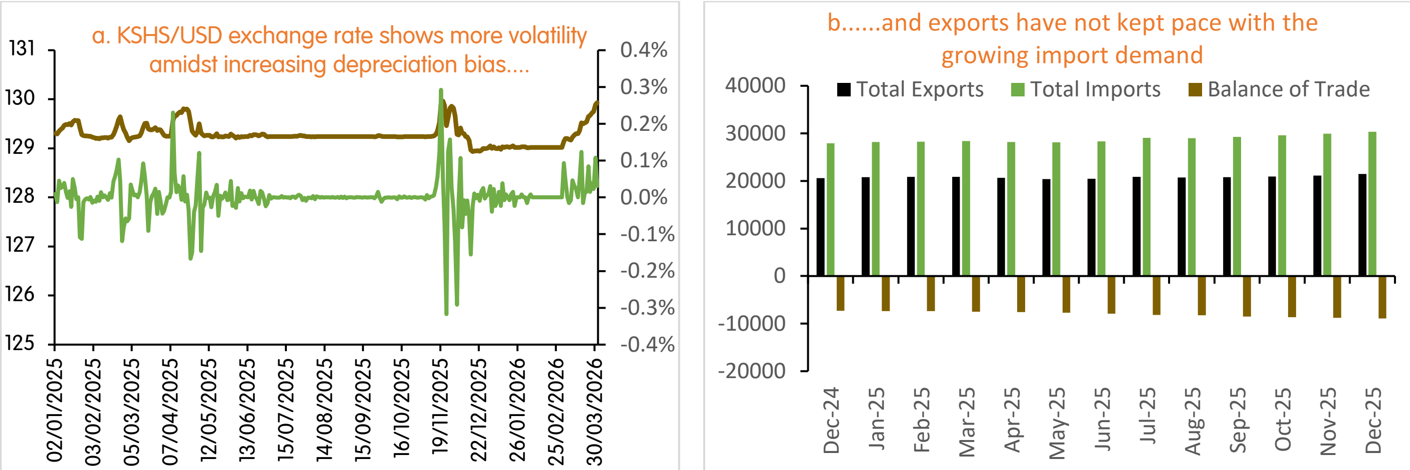


Source: CBK

Fifth, exchange rate stability faces risks of a widening current account deficit and potential disruptions on diaspora remittances, arising from the protracted geopolitical conflicts. The stability of the Kenya shilling versus other currencies remains anchored on the performance of the external trade, flows of diaspora remittance, as well as external debt liability management operations. The KES/US dollar exchange rate in March depicted some depreciation pressure **(Figure 5a)** on widening trade deficit and expectations of trade operations challenges with the onset of the conflict in the Middle East. While the value of total exports has shown a modest but steady increase, the value of imports has risen more rapidly over the period, thereby widening the country's merchandise trade deficit (**Figure 5b).**

Consequently, the expanding trade deficit continues to exert pressure on the exchange rate by increasing demand for foreign currency. Going forward, the resilient inflows of diaspora remittances face headwinds from the disruptions in the Middle East; with the UAE and Saudi Arabia remaining a key source of remittances (**Figure 5c**). Tea exports to the Gulf countries may also be disrupted significantly if the war is protracted with adverse implications on export earnings. Going forward, exchange rate stability remains under threat on geopolitical tensions and escalation of conflicts, energy price shocks, and trade disruptions, which heighten volatility and intensify depreciation pressures.

Figure 5: The external sector developments



Source: CBK

Source: KNBS

c: Trends in remittances inflows (USD millions)

(USD millions)	October 2025	December 2025	February 2026
Total Remittances	438.8	435.5	412.7
America	262.8	232.4	223.7
United States	248.0	213.5	207.9
Canada	12.4	17.0	14.3
Other	2.4	1.9	1.5
Europe	81.4	91.4	83.1
United Kingdom	36.3	33.5	34.2
Germany	15.6	19.0	17.7
Other	29.5	38.9	31.2
Asia	41.1	49.2	48.3
Saudia Arabia	17.6	18.3	14.5
UAE	7.1	12.7	15.8
Others	16.4	18.2	18.1

Source: CBK

Conclusion

In view of the above developments, and a balance of risks going forward, sustaining the current monetary policy stance unchanged by keeping the policy rate unchanged at 8.75% would be ideal.

Comments on this *Research Note* can be forwarded to research@kba.co.ke