Cytonn Note on the 10th June 2025 Monetary Policy Committee (MPC) Meeting

The Monetary Policy Committee (MPC) is set to meet on Tuesday, 10th June 2025, to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). In their previous meeting held on 8th April 2025, the committee noted that they would closely monitor the impact of the policy measures taken, as well as developments in the global and domestic economy, and stood ready to reconvene earlier if necessary. Additionally, the MPC decided to cut the CBR by 75.0 bps citing that its previous interventions successfully curbed inflation to below the midpoint of the CBK's target range, which came in at 3.8% in May 2025, supported by the exchange rate stability, and lower fuel inflation. This was in line with our expectation for the MPC to lower the CBR rate, with our view having been informed by:

i. Rate cuts by global giant economies. The European Central Bank announced a rate cut by 25 bps to 2.50% on 6th March 2025, from 2.75% earlier in 30th January 2025. Meanwhile, the US Federal Reserve decided to maintain their benchmark interest rate in their recent sitting on 19th March 2025 at 4.25%-4.50% for the second time since January sitting, following the rate cut by 25.0 bps to a range of 4.25%-4.50% in their December 2024 meeting from a range of 4.50%-4.75% in their November 2024 meeting.,
ii. The continued stability of the Shilling against major currencies, Despite the February rate cut in the CBR, this still gave room for a moderate cut without reversing the Shilling's stability. Since the last meeting, the Kenyan Shilling had depreciated marginally by 4.0 bps against the US Dollar to 129.2 as at 4th April 2025, from Kshs 129.2 recorded on 5th February 2025, but remained stable. The stability of the Shilling was expected to be supported by the stable foreign reserves which stood at 5.1 months of import cover, above the statutory requirement of 4.0 months cover, and,
iii. The need to support the economy by adopting a more accommodative policy that would ease financing activities and support private sector financing. Private sector credit growth had marginally increased to 0.2% in March 2025, from a decline of 1.3% in February 2025. A rate cut would help unlock the private sector's potential, enabling it to act as a key driver of economic recovery and sustained growth. Additionally, the business environment remained subdued, hence a cut in the CBR would help spur economic growth, increase money supply and improve business activities in the country

The Monetary Policy Committee noted that the current account deficit in the 12 months to February 2025 is estimated at 3.1% of GDP, compared to 3.3% in a similar period in 2024, and is projected at 3.8% of GDP in 2025, despite the expected recovery in exports, resilient remittances, and expected rebound in agricultural exports. Additionally, the Monetary Policy committee noted that Goods exports increased by 13.1% in the twelve months to February, compared to a similar period in 2024, reflecting a rise in exports of agricultural commodities and re-exports. The increase in exports in the period was across several categories, including tea and vegetable & fruits and coffee, which saw respective increases of 0.7%, 16.8% and 29.7%. Imports increased by 10.6% compared to a similar period in 2024, mainly reflecting increases in intermediate and capital goods. Tourist arrivals improved by 8.0% in in the twelve months to February 2025 while remittances increased by 14.5%,

Additionally, the Committee noted the ongoing implementation of the FY'2024/25 Supplementary Budget I, and the proposed Supplementary Budget II which is expected to lower the fiscal deficit to 5.1% of GDP, from 5.3% of GDP in FY'2023/24 hence continuing to reinforce fiscal consolidation. Notably, total revenue collected as at the end of February 2025 amounted to Kshs 1,403.7 bn, equivalent to 56.7% of the revised estimates of Kshs 2,475.1 bn for FY'2024/2025 and is 85.1% of the prorated estimates of Kshs 1,650.0 bn. The total expenditure amounted to Kshs 2,316.1 bn, equivalent to 55.0% of the revised estimates of Kshs 4,207.9 bn, and is 82.6% of the prorated target expenditure estimates of Kshs 2,805.3 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 859.8 bn, equivalent to 65.7% of the revised estimates of Kshs 1,307.9 and 98.6% of the prorated estimates of Kshs 872.0 bn

Below, we analyze the trends of the macro-economic indicators since the April MPC meeting, and how they are likely to affect the MPC decision on the direction of the CBR:

Cytonn Report: Macroeconomic Indicator Trends and Our Expectation				
Indicators	**Experience since the last MPC meeting in April 2025**	**Our Expectation Going forward**	**CBR Direction (April 2025)**	**Probable CBR Direction June 2025)**
Government Revenue Collection	• Total revenue collected as at the end of April 2025 amounted to Kshs 1,940.4 bn, equivalent to 75.2% of the revised estimates II of Kshs 2,580.9 bn for FY'2024/2025 and is 90.2% of the prorated estimates of Kshs 2,150.8 bn. Cumulatively, tax revenues amounted to Kshs 1,800.8 bn, equivalent to 75.0% of the revised estimates II of Kshs 2,400.7 bn and 90.0% of the prorated estimates of Kshs 2,000.6 bn, • The government was unable to meet its prorated revenue targets for the tenth-consecutive month of the FY'2024/2025, attaining 90.2% of the revenue targets in April 2025, mainly on the back of the challenging business environment experienced in previous months, exacerbated by high taxes and an elevated cost of living. The cost of living remains elevated in the country, which continues to impede revenue collection despite an improvement in business environment with the PMI coming in at 52.0 in April 2025, within the expansion zone, from the 51.7 recorded in March 2025. In light of this, the government is yet to fully benefit from the strategies put in place to improve revenue collection such as expanding the revenue base and sealing tax leakages, and suspension of tax relief payments. The coming months' revenue collection performance will largely depend on how quickly the country's business climate stabilizes. This stabilization is expected to be aided by the ongoing stability of the Shilling, despite having depreciated marginally by 0.3% against the dollar in the since the last meeting in April. Additionally, the stable inflationary pressures, and, an ease in the monetary policy in the country, with the Monetary Policy Committee (MPC) announcing a downward revision of the Central Bank Rate (CBR) by 75.0 bps to 10.00% from 10.75% following their last meeting on 8th	• In the short term, we expect the revenue collections to be affected as a result of the withdrawal of the Finance Bill 2024. We expect a revenue shortfall for the FY2024/2025 budget, and will likely result in Kenya missing the 4.3% fiscal deficit target this year. • The proposed raft of tax changes in the Finance Bill 2024 were geared towards expanding the tax base and raising revenues to meet the government's budget for the fiscal year 2024/2025 of Kshs 3.9 tn. The government's continued efforts to broaden the tax base were hampered. • Despite this the government continues to employ a raft of measures to boost revenue collection through non-tax channels by streamlining its services to the public e.g. Citizen services, the Ministry of Lands and Immigration services and proposals to broaden the tax base through the Tax Laws Amendment Bill 2024. However, the upward revision of taxes comes at a time when the business environment remains subdued, underpinned by the increased taxation that has suppressed business production levels weighing down on the projected revenue performance. • Nevertheless, given the improving general business environment which is underpinned by the slight depreciation of the Kenyan shilling, easing liquidity in the money market, and stabilized inflationary pressures, we expect these to support the tax revenue, but remain wary of the unpredictable tax regime that may weigh down the collections.	**Negative**	**Negative**

	April 2025 will continue to stabilize the business climate			
Government Borrowing	• The government, as at 30th May 2025, is 74.1% ahead its prorated net domestic borrowing target of Kshs 551.2 bn having borrowed Kshs 959.5 bn of the total borrowing target of Kshs 597.2 bn. The government currently has domestic maturities worth Kshs 538.1 bn and will have to borrow Kshs 6.4 bn monthly to meet the upcoming domestic maturities and the budget deficit in the FY'2024/2025 • Total Borrowings as at the end of April 2025 amounted to Kshs 1,161.8 bn, equivalent to 61.6% of the revised estimates II of Kshs 1,885.4 bn for FY'2024/2025 and are 73.9% of the prorated estimates of Kshs 1,571.2 bn. The cumulative domestic borrowing of Kshs 1,167.0 bn comprises of Net Domestic Borrowing Kshs 597.2 bn and Internal Debt Redemptions (Rollovers) Kshs 569.9 bn • Kenya has continued to receive financing from the World Bank and other bilateral lenders, including the International Monetary Fund (IMF). In November 2024, the IMF Executive Board completed the seventh and eighth reviews of Kenya's Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements, as well as the second review under the Resilience and Sustainability Facility (RSF). This enabled the immediate disbursement of USD 485.8 million under the EFF/ECF arrangements and USD 120.3 million under the RSF. These disbursements brought the total received under the EFF/ECF programme to USD 3.1 bn, USD 480 mn short of the originally expected USD 3.6 bn, while the total received under the RSF reached USD 180.4 million out of a total allocation of USD 541.3 million. However, in March 2025, Kenya and the IMF agreed to discontinue the ninth and final review of the current programme and begin discussions for a new lending arrangement to support the country's ongoing fiscal and economic reform efforts.	• Kenya's rising debt sustainability remains a significant concern with the government's borrowing appetite remaining high given the subdued economic environment coupled with an ever-present fiscal deficit. While credit risk was significantly reduced with the Eurobond buyback in February 2025, and new issue of USD 1.5 bn 11-year Eurobond to facilitate the buyback. This led to S&P Global Ratings to announce its revision of Kenya's long-term sovereign credit rating, downgrading it to B-, and a stable outlook from a credit rating of B and a negative outlook. However on 31 January 2025, Fitch Ratings affirmed Kenya's credit score at B-with outlook stable in January 2025 on the back of diversified economy and strengthening of the monetary policy frameworks. Additionally, on 24th January 2025, the global ratings agency, Moody's announced its revision of Kenya's credit outlook to positive from negative, while maintaining the credit rating at Caa1, on the back of a likelihood of an ease in liquidity risks and improved debt affordability. The improved debt affordability is largely attributable to the reduction in domestic borrowing costs, evidenced by the sharp decline of yields for short-dated papers. Given the low inflation rates in the country, the stability of the exchange rate, and the ease in the monetary policy stance, domestic borrowing costs are expected to continue decreasing over the short-medium term.	**Negative**	**Negative**
Inflation	• Year on year (y/y) inflation rate for May 2025 decreased marginally by 0.3% points to 3.8%, from the 4.1% recorded in April 2025. • Super Petrol, Diesel, and Kerosene remained unchanged at Kshs 174.6,	• We expect inflation rates to remain within the CBK's target range of 2.5% - 7.5% supported by the stabilizing of the Kenyan shilling against the dollar with the shilling appreciating by 6.4 bps against the dollar on year-to-date as of	**Positive**	**Positive**

	Kshs164.9, and Kshs 150.0 per litre respectively. • Notably, May's overall headline inflation remained within the CBK's target range of 2.5% - 7.5% for the twenty-third consecutive month.	5th June 2025, coupled with stabilized fuel prices.		
Currency (USD/Kshs)	• Since the last meeting, the Kenyan Shilling has appreciated marginally by 32.9 bps against the US Dollar to Kshs 129.2 as at 5th June 2025, from Kshs 129.7 recorded on 9th April 2025 partly due to the improved foreign reserves which are currently above the statutory requirement • In addition, the Forex Reserves remain sufficient at USD 10.3 bn (equivalent to 4.7 months of import cover) as of 5th June 2025. Notably, the forex reserves are above the statutory requirement of maintaining at least 4.0 months of import cover	• We expect the Kenyan Shilling to be supported by Diaspora remittances standing at a cumulative USD 4,997.2 mn in twelve months to April 2025, 12.1% higher than the USD 4,457.5 mn recorded over the same period in 2024, which has continued to cushion the shilling against further depreciation. In the April 2025 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 59.6% in the period, • Additionally, the shilling performance and strength is expected to be supported by the sufficient forex reserves currently at USD 10.3 bn (equivalent to 4.6 months of import cover) as of 29th May 2025. Moreover, tourism inflow receipts which came in at The tourism inflow receipts which came in at Kshs 452.2 bn in 2024, a 19.8% increase from Kshs 377.5 bn inflow receipts recorded in 2023, and owing to tourist arrivals that improved by 14.6% in 2024, from the arrivals recorded during a similar period in 2023	**Positive**	**Positive**
GDP Growth	• Kenyan's economy recorded a 4.7% growth in FY'2024, slower than the 5.7% growth recorded in FY'2023, pointing towards a slower economic growth. The performance was driven by; i. The positive growth recorded in all sectors except Mining and quarrying, with most sectors recording a decline compared to FY'2023 with Accommodation and Food Services, Construction and Information & Communication Sectors recording the highest declines of 7.9%, 3.7% and 3.3% points, respectively. Other sectors that recorded a contraction in growth rate, from what was recorded in FY'2023 Professional administration, Mining and Quarrying and Financial and Insurance services of 3.3%, 2.7% and 2.5% points respectively; ii. The slowed growth in the Agricultural Sector with Agriculture and Forestry recording a growth of 4.6% in FY'2024. The performance	• We expect Kenya's GDP to show recovery in 2025 at a faster pace, supported by sustained recovery in sectors like accommodation and food services sector, as well as recent fiscal policies such as subsidizing costs of crucial farm inputs such as fertilizer that are expected to support growth in the agriculture sector, which remains to be Kenya's largest contributor to GDP, • The continued stability of the Kenya shilling has continued to support the business environment, by reducing the cost of imported inputs and decreasing the finance cost of the foreign currency denominated debts • Notably, the country's PMI for the month of April 2025 increased to 52.0, from 51.7 in March, but still remaining in the expansion zone, an indication of an improved business environment in the country. Likewise, according to CEO's survey- 2025 March report, optimism about growth prospects for	**Neutral**	**Neutral**

	was a decrease of 2.0% points, from the expansion of 6.6% recorded in FY'2023. The slower growth recorded during the year was however supported by a significant increase in Sugarcane production by 68.7% to stand at 9.4 mn tonnes in 2024, from the 5.6 mn tonnes registered in FY'2023	the Kenyan business activity remained sustained attributed to the stable macroeconomic environment reflected in the stability in oil prices, stability in the exchange rate, continued decline in interest rates, continued strong performance of agriculture due to favorable weather conditions, resilience of the services sector, and improved global growth prospects.		
Private Sector Credit Growth	• The latest data from the National Treasury indicates that growth in private sector credit grew by 0.2% in March 2025, compared to 7.9% growth in a similar period in 2024, mainly attributed to exchange rate valuation effects on foreign currency-denominated loans due to the appreciation of the Shilling and reduced demand due to high lending rates.	• We anticipate continued adoption of the risk-based pricing model in the banking sector to continue to unlock access to credit to individuals and businesses who were not captured by the previous frame works due to being considered too risky, • Additionally, banks have started to adjust their lending rates in line with the CBR rate which was cut to 10.00%, in the February MPC meeting, with the weighted lending rate at 15.8% as at March 2025. This is expected to revitalize the private sector credit demand	**Negative**	**Negative**
Liquidity	• Liquidity levels in the money markets eased, with the average interbank rate since the previous MPC meeting decreasing by 90.7 bps to 9.8% as of 30th May 2025, from 10.7% as of 8th April 2025, partly attributable to government payments that offset tax remittances	• We expect liquidity in the money markets to be supported by the domestic debt maturities that currently stand at Kshs 59.3 bn worth of T-bill maturities for FY'2024/2025.	**Positive**	**Positive**

Conclusion

Out of the seven factors that we track, three are positive, three are negative and one is neutral. Notably, most of the Central Banks of developed economies around the world have cut their rates with the aim of supporting economic activities and growth going forward.

The main goal of monetary policy is to maintain price stability and support economic growth by controlling the money supply in the economy. We expect the MPC to maintain the Central Bank Rate (CBR) at 10.00%, with their decision mainly being supported by

i. **The need to allow more time for the effects of previous monetary policy measures to take hold:** In the recent past, the Central Bank has implemented a series of rate cuts totaling 300 basis points bringing the CBR down to 10.00% in April 2025 from 13.00% in August 2024 . Maintaining the current rate will provide an opportunity to assess the full impact of these measures before taking further action. While private sector credit growth has slowed, registering a marginal increase of 0.2% in March 2025 compared to 7.9% in March 2024, the effects of recent interventions may take time to manifest. Holding the rate steady will avoid premature easing and allow the MPC to make a more data-driven decision in the coming months, especially as the broader economy adjusts**.**

ii. **Rate cuts by global giant economies**: The European Central Bank announced a rate cut by 25 bps to 2.00% on 5th June 2025, from 2.25% earlier on 6th March 2025. Meanwhile, the US Federal Reserve decided to maintain their benchmark interest rate at 4.25%-4.50% in their most recent meeting on 7th May 2025, continuing the trend since January. Although global central banks are easing or holding rates steady, the MPC may choose to take a more cautious approach, ensuring domestic factors are fully aligned before implementing similar adjustments., and,

iii. **The continued stability of the Shilling against major currencies**: Despite the April rate cut, the Kenyan Shilling has remained stable, appreciating marginally by 32.9 bps against the US Dollar to Kshs 129.2 as of 5th June 2025, from Kshs 129.7 on 9th April 2025. This stability, supported by foreign exchange reserves currently at 4.7 months of import cover (above the 4.0 months statutory requirement), provides the MPC with the flexibility to maintain the current rate without risking currency volatility or capital outflows.