

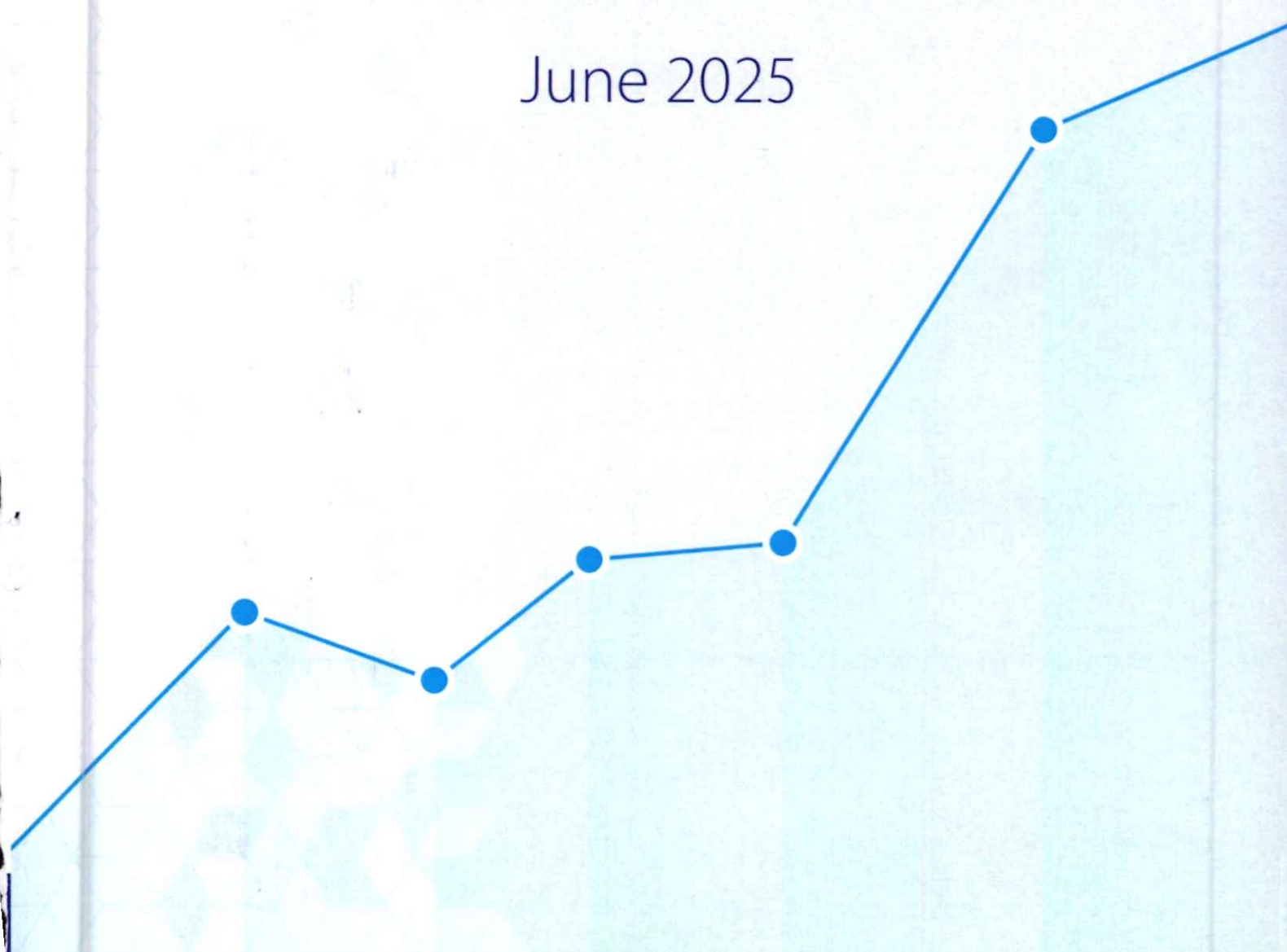


Central Bank of Kenya

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# Monetary Policy Statement

June 2025






**Central Bank of Kenya**

## LETTER OF TRANSMITTAL

In accordance with Section 4B of the Central Bank of Kenya Act, it is my pleasure to present to you, Honorable Cabinet Secretary of the National Treasury and Economic Planning, the 56<sup>th</sup> Monetary Policy Statement of the Central Bank of Kenya. The statement reviews and assesses the implementation of monetary policy during the first half of 2025 and outlines the direction of monetary policy for the next 12 months.

**Dr. Kamau Thugge, CBS**

**Governor**

 <b>THE NATIONAL ASSEMBLY PAPERS LAID</b>	
<b>DATE: 24 SEP 2025</b>	
<b>DAY:</b> WED	
<b>TABLED BY:</b>	THE DEPUTY LEADER OF THE MAJORITY PARTY
<b>CLERK-AT THE-TABLE:</b>	WILLIS OBIERO

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## The Principal Objectives of the Central Bank of Kenya

The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability and issuing currency.

The Bank also promotes financial stability through regulation, supervision, and licensing of financial institutions under its mandate. It also provides oversight of the payments, clearing and settlement systems, and fosters liquidity, solvency, and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

The CBK's monetary policy is designed to support the Government's objectives with respect to growth. The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the target prescribed by the National Treasury at the beginning of the financial year. Currently, this target is a range between 2.5 percent and 7.5 percent.

The achievement and maintenance of a low and stable inflation rate coupled with adequate liquidity in the market, facilitates higher levels of domestic savings and private investment. This leads to improved economic growth, higher real incomes, and increased employment opportunities.

## Instruments and Transmission of Monetary Policy

The CBK pursues its monetary policy objectives using the following instruments:

- **Open Market Operations (OMO):** This refers to actions by the CBK involving purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. OMO can also be used to stabilize short-term interest rates. When the Central Bank buys securities on the open market, it increases the reserves of commercial banks, making it possible for them to expand their loans and hence increase the money supply. To achieve the desired level of money supply, OMO is conducted using:
  - i. **Repurchase Agreements (Repos):** A repo is a collateralized loan involving a contractual arrangement between two parties, in which one party sells a security at a specified price with a commitment to buy the security back at a later date. Both parties therefore, meet their investment goals of secured funding and liquidity. CBK Repos are conducted through auctions with tenors of 3 and 7 days and are for mopping up liquidity from the market. The Late Repo, sold in the afternoon, has a 4-day tenor and is issued at 100 basis points below the repo rate of the day. Reverse Repos, on the other hand, are for liquidity injections and involve purchase of securities from commercial banks. The current tenors for Reverse Repos are 7, 14, 21, 28 and 91 days.
  - ii. **Term Auction Deposit (TAD):** The TAD is used when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer dated tenors. TAD is essentially not backed by collateral, and it is conducted through an auction, similar to Repos. Currently, the tenors for such deposits at CBK are 1, 7, 14, 21, 28 or 91 days and upon maturity of TAD, the CBK credits the respective commercial bank with the deposit and interest.

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**iii. Horizontal Repos:** Horizontal Repos are modes of improving liquidity distribution between commercial banks and are conducted under CBK supervision. They are transacted between commercial banks on the basis of signed agreements using government securities as collateral and have negotiated tenors and yields. Commercial banks, short of deposits at the CBK, borrow from banks with excess deposits on the security of an appropriate asset, normally a government security. Horizontal Repos also help banks overcome the problem of limits to lines of credit, thus promoting more efficient management of interbank liquidity.

- **Central Bank Rate (CBR):** The CBR is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months. Movements in the CBR, both in direction and magnitude, signal the monetary policy stance. To enhance monetary policy transmission the MPC adopted a new monetary policy implementation framework in August 2023. The framework is based on inflation targeting and on interest rate corridor around the CBR currently at 75 basis points. Consistent with the new framework, monetary policy operations are aimed at ensuring the interbank rate as an operating target closely align with the CBR.

The efficiency in the Repo and interbank markets is crucial for the transmission of monetary policy decisions. The CBK monitors the overnight interbank money market. It responds to the tightness or slackness in the interbank market liquidity through OMO. Short-term international flows of capital are affected by short-term interest rates in the country. These are, in turn, affected by movements in the CBR and hence indirectly, the exchange rate could also be affected.

- **Standing Facilities:** The CBK does not have automatic standing facilities with respect to overnight lending. The CBK, as lender of last resort, provides secured loans to commercial banks on an overnight basis at a penal rate that is over the CBR. This facility is referred to as the Discount Window. To improve access to the discount window the applicable interest rate is 75 basis points above CBR (upper bound of the interest rate corridor).
- **The Cash Reserves Ratio (CRR):** In accordance with the law, the CRR is the proportion of a commercial bank's total deposit liabilities which must be held as deposits at CBK. These deposits are held in the CRR Account at no interest. During the review period, the ratio was lowered in February 2025 from 4.25 percent to 3.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks are required to maintain their CRR based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below a CRR of 2 percent on any day.
- **Licensing and Supervision of Financial Institutions:** The CBK uses the licensing and supervision tools to ensure stability and efficiency of the banking system; this includes vetting potential managers for suitability.
- **The National Payments System:** The modernisation of the National Payments System has continued to lower transaction costs and enhanced the efficiency of the payments systems. This has ensured the effectiveness of monetary policy instruments.
- **Communication:** The increasing use of communication media ensures a wider dissemination of monetary policy decisions and background data thereby increasing the efficiency of information transmission and managing expectations. The regular interaction between the MPC and the Chief Executive Officers of banks has ensured that monetary policy decisions are transmitted to the banking sector. The regular Governor's Press Conferences have also enhanced the media understanding of monetary policy decisions. The CBK website is an important source of up-to-date data on all aspects of the financial market including interest rates, exchange rates, results of auctions of government securities, and the MPC releases.

## EXECUTIVE SUMMARY

This Monetary Policy Statement provides the direction of monetary policy in the Financial Year (FY) 2025/2026. It also reviews the outcome of the monetary policy adopted in the first half of 2025. During the first half of 2025, monetary policy was conducted against a backdrop of elevated uncertainties to the global outlook for growth, mainly due to heightened trade tensions attributed to implementation of higher tariffs on U.S. imports, and persistent geopolitical tensions. Global inflation moderated, but the pace of decline slowed down due to stickiness in core inflation in advanced economies. International oil prices declined on account of increased supply from OPEC+ countries and subdued global demand. Food inflation increased in the period mainly on account of elevated edible oils price inflation. Central banks in the major economies have continued to lower interest rates, but at a more cautious and uneven pace depending on inflation and growth expectations.

The Monetary Policy Committee (MPC) continued to monitor the performance of the new monetary policy implementation framework adopted in August 2023. To augment the framework, the MPC narrowed the interest rate corridor around the Central Bank Rate (CBR) from  $\pm 150$  basis points to  $\pm 75$  basis points in April 2025, and also adjusted the applicable interest rate on the discount window from 300 basis points above CBR to 75 basis points (upper bound of the corridor). The revised framework resulted in improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission in the six months to June 2025.

The CBK conducted monetary policy in the first half of 2025 with the objective of maintaining overall inflation within the target range of  $5 \pm 2.5$  percent and supporting economic activity. The MPC held three meetings during the period. In February, the MPC lowered the CBR by 50 basis points to 10.75 percent and reduced the Cash Reserve Ratio (CRR) by 100 basis points to 3.25 percent. This was expected to lower lending rates, boost liquidity, and support private sector credit growth and economic activity. The MPC also adopted the core and non-core measures of inflation, jointly developed by the Kenya National Bureau of Statistics (KNBS) and the CBK. In April 2025, the MPC reduced the CBR further by 75 basis points to 10.00 percent. In June 2025, the CBR was lowered by 25 basis points to 9.75 percent to augment previous policy measures aimed at stimulating lending by banks to the private sector and supporting economic growth while maintaining stable inflation and exchange rate.

Overall inflation remained within the target range between January and June 2025. It increased marginally to 3.8 percent in June 2025 from 3.0 percent in December 2024. Core inflation increased to 3.0 percent in June 2025 from 2.2 percent in December 2024 due to an increase in prices of selected processed food items. Non-core inflation rose to 6.2 percent from 4.9 percent in the period mainly on account of seasonal factors.

The foreign exchange market remained stable in the first half of 2025 despite increased global uncertainties. The stability was mainly supported by inflows from remittances, earnings from horticulture exports, and investments from offshore banks. The current account deficit was estimated at 1.6 percent of GDP in the twelve months to June 2025, compared to 1.8 percent of GDP in a similar period in 2024. The CBK gross foreign exchange reserves stood at USD 11,877 million (5.2 months of import cover) as at the end of June 2025 and continued to provide an adequate buffer against short-term shocks in the foreign exchange market.

The banking sector remained stable and resilient in the first half of 2025, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 58.6 percent and 20.4 percent, respectively, in June 2025 and were above the minimum statutory limits of 20.0 percent and 14.5 percent, respectively. The ratio of gross non-performing

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loans to gross loans rose to 17.6 percent in June 2025 compared to 16.4 percent in December 2024. Banks continued to make adequate provisions for the NPLs. Private sector credit growth recovered, growing by 2.2 percent in June from a contraction of 1.4 percent in December 2024.

Economic growth decelerated to 4.7 percent in 2024 from 5.7 percent in 2023, primarily due to a contraction in the construction mining and quarrying sectors and slowdown across other key sectors of the economy. The economy remained resilient in the first quarter of 2025, with real GDP growing by 4.9 percent, reflecting strong agriculture performance and recovery in industrial activity. However, growth in the services sector slowed, with most sub-sectors recording weaker performance, except for wholesale and retail trade, and education, which maintained growth.

The monetary policy stance in the FY2025/26 will aim at maintaining overall inflation within the target range of  $5\pm 2.5$  percent. The economy is projected to grow by 5.2 percent in 2025, supported by continued strong performance of agriculture and services sectors, and improved exports. Growth in credit to the private sector is projected at 6.2 percent by December 2025, supported by lower interest rates and pick up in economic activity. The foreign exchange market is expected to remain stable supported by resilient exports receipts, and buoyant remittances. The current account deficit is expected to remain relatively stable at 1.5 percent of GDP in 2025. The continued coordination of monetary and fiscal policies is expected to sustain macroeconomic stability and support economic activity.

The Bank will continue to implement reforms outlined in the White Paper on Modernization of the Monetary Policy Framework and Operations, to strengthen the monetary policy framework and operations. The Bank will also continue to hold regular engagements with stakeholders in the banking sector, as well as with CEOs of non-bank private sector firms. The Bank will continue to monitor the impact of its policy measures, as well as developments in the global and domestic economy to mitigate the adverse economic impact and financial disruptions to safeguard price stability.

## INTRODUCTION

This Monetary Policy Statement (MPS) provides the direction of monetary policy in FY2025/26. It also presents the outcome of the monetary policy actions adopted in the first half of 2025.

Price stability remains the primary objective of monetary policy formulation and implementation. The Central Bank Rate (CBR) signals the monetary policy stance. The Bank monitors developments in inflation, and key monetary aggregates such as broad money (M3) and credit to the private sector, while maintaining a flexible exchange rate regime. The Bank's participation in the foreign exchange market is guided by the need to maintain an adequate level of foreign exchange reserves, meeting the Government's external obligations, and ensuring stability in the foreign exchange market. The CBK foreign exchange reserves provide a buffer against short-term shocks.

Global growth is projected at 3.0 percent and 3.1 percent in 2025 and 2026 which is an upward revision of 0.2 percentage points and 0.1 percentage points, respectively, compared to the April 2025 WEO by the IMF. The revision reflects stronger-than-expected resilience in economic activity, supported by front-loading of imports in anticipation of tariffs, lower-than-expected average effective U.S. tariff rates, improved financial conditions from a weaker U.S. dollar, and fiscal stimulus in some major economies. However, growth outlook remain

tilted to the downside, with key vulnerabilities including heightened uncertainty on global trade policies, potential escalation of geopolitical conflicts—particularly in the Middle East and the Russia-Ukraine war.

The CBK continued to assess the effectiveness of earlier policy actions in cushioning the economy from disruptions, while closely tracking global and domestic economic developments. In the first half of 2025, the MPC gradually eased monetary policy and lowered the CBR cumulatively by 150 basis points during the MPC meetings of February, April and June 2025. The MPC noted that the previous measures had lowered overall inflation to below the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations and there was therefore scope to increase liquidity and support subdued private sector credit growth.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance implemented in the first half of 2025 while Section 3 describes the external economic environment and outlook for 2025. Section 4 concludes by outlining the direction of monetary policy in FY2025/26.

## ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE FIRST HALF OF 2025

During the first half of 2025, monetary policy formulation and implementation was aimed at achieving and maintaining overall inflation at the target of 5.0 percent with a flexible margin of 2.5 percent on either side. During the review period, inflation remained stable and within the target range, while the exchange rate held steady. The CBK continued to monitor overall liquidity in the economy and assess potential threats that could trigger demand-driven inflationary pressures.

During the MPC meeting held in February 2025, the MPC decided to lower the Central Bank Rate (CBR) by 50 basis points to 10.75 percent and the Cash Reserve Ratio (CRR) was reduced by 100 basis points to 3.25 percent. These measures were intended to ease lending rates, boost liquidity, and stimulate credit growth to the private sector. The MPC noted that overall inflation was expected to remain below the midpoint of the 5±2.5 percent target range in the near term, supported by a low and stable core inflation, low energy prices inflation, and exchange rate stability. Additionally, central banks in the major economies had continued to lower their interest rates, but at different paces. Further, the Committee noted that economic growth decelerated in 2024, and therefore there was scope for a further easing of the monetary policy stance to support economic activity, while ensuring exchange rate stability.

During the MPC meeting held in April 2025, the Committee noted that overall inflation was stable and was expected to remain below the midpoint of the target range in the near term, supported by stable food inflation, low core inflation, stable energy prices inflation, and continued exchange rate stability. The committee further noted that the average lending rates had been declining gradually since December 2024, but private sector credit growth remained subdued. It was also observed that central banks in the major economies had

continued to lower their interest rates, but at different paces depending on inflation and growth expectations. Consequently, the MPC lowered the Central Bank Rate by 75 basis points to 10.00 percent from 10.75 percent.

In June 2025, the MPC further reduced the CBR by 25 basis points to 9.75 percent from 10.00 percent to augment the previous policy actions aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring inflationary expectations remain firmly anchored, and the exchange rate remained stable.

The following are the specific outcomes of the policy measures implemented in the first half of 2025.

### i. Inflation

Headline inflation remained below the medium-term target of 5 percent in the first half of 2025, mainly supported by relatively low energy prices and prices of select fresh food items. It increased to 3.8 percent in June 2025 from 3.0 percent in December 2024, reflecting the impact of monetary policy easing and higher prices of select processed food items.

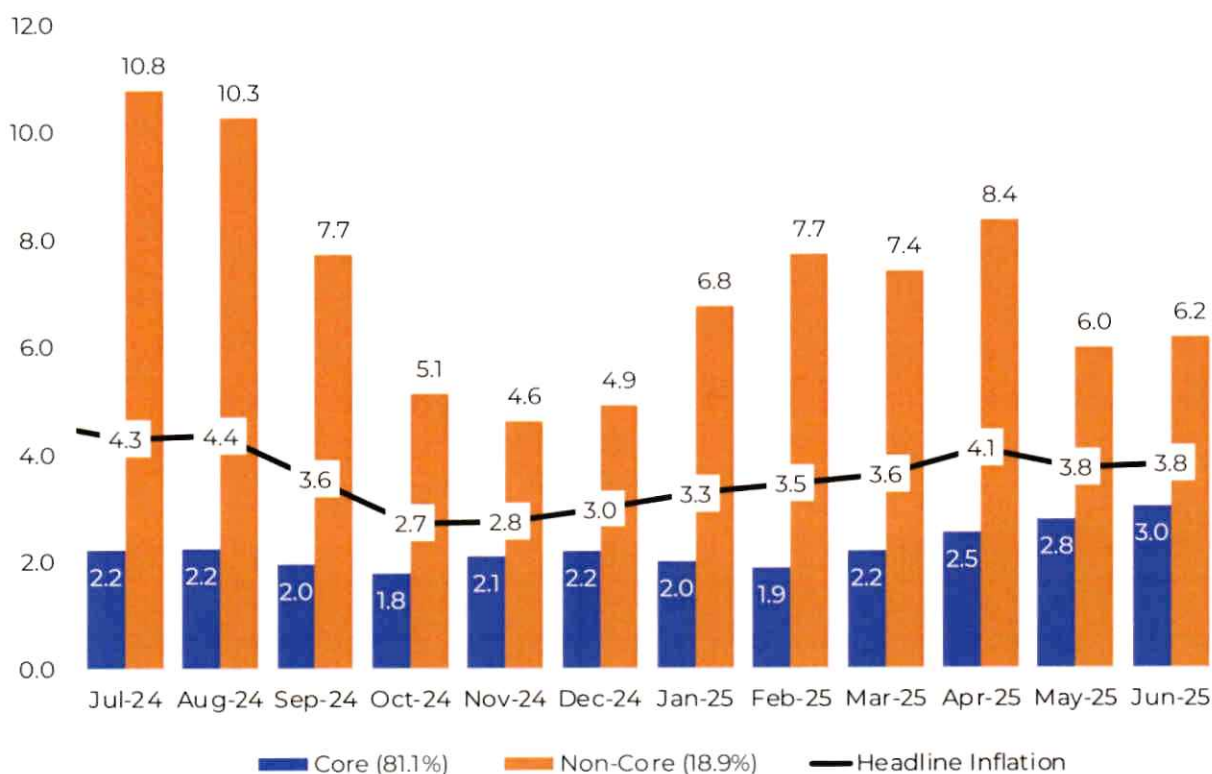
The Kenya National Bureau of Statistics (KNBS) in collaboration with the Central Bank of Kenya (CBK) developed measures of core and non-core inflation, which were launched in January 2025. Consequently, the former replaced the non-food non-fuel (NFNF) proxy measure that CBK had been using to inform monetary policy.<sup>1</sup> Core Consumer Price Index (CPI) component accounts for 81.1 percent of the 330 items in the CPI basket, while non-core component accounts for 18.9 percent. Core inflation picked up to 3.0 percent in June 2025 from 2.2 percent in December 2024, largely driven by increases in prices of processed food items in the core CPI basket.

1. The computation of core and non-core inflation measures has been extended backwards to provide a longer series. For details on definitions and computation refer to Core and Non-Core Inflation Measures for Kenya report <https://www.knbs.or.ke/wp-content/uploads/2025/02/Core-and-Non-Core-Inflation-Measures-in-Kenya.pdf>

The non-core CPI component mainly consists of fresh farm produce, energy items and select transport components, which are predominantly driven by domestic weather conditions and volatility in global energy prices, respectively. Non-core inflation increased to 8.4 percent in April 2025 from 4.9 percent in December 2024, but declined thereafter to

6.2 percent in June 2025. The decline was mainly on account of low energy prices, that is, pump and electricity prices, supported by stable exchange rate and low international oil prices in recent months. In addition, favourable weather conditions continued to support low prices of fast-growing fresh food items (**Chart 1a and Chart 1b**).

**Chart 1a: Core and Non Core Inflation (Percent)**

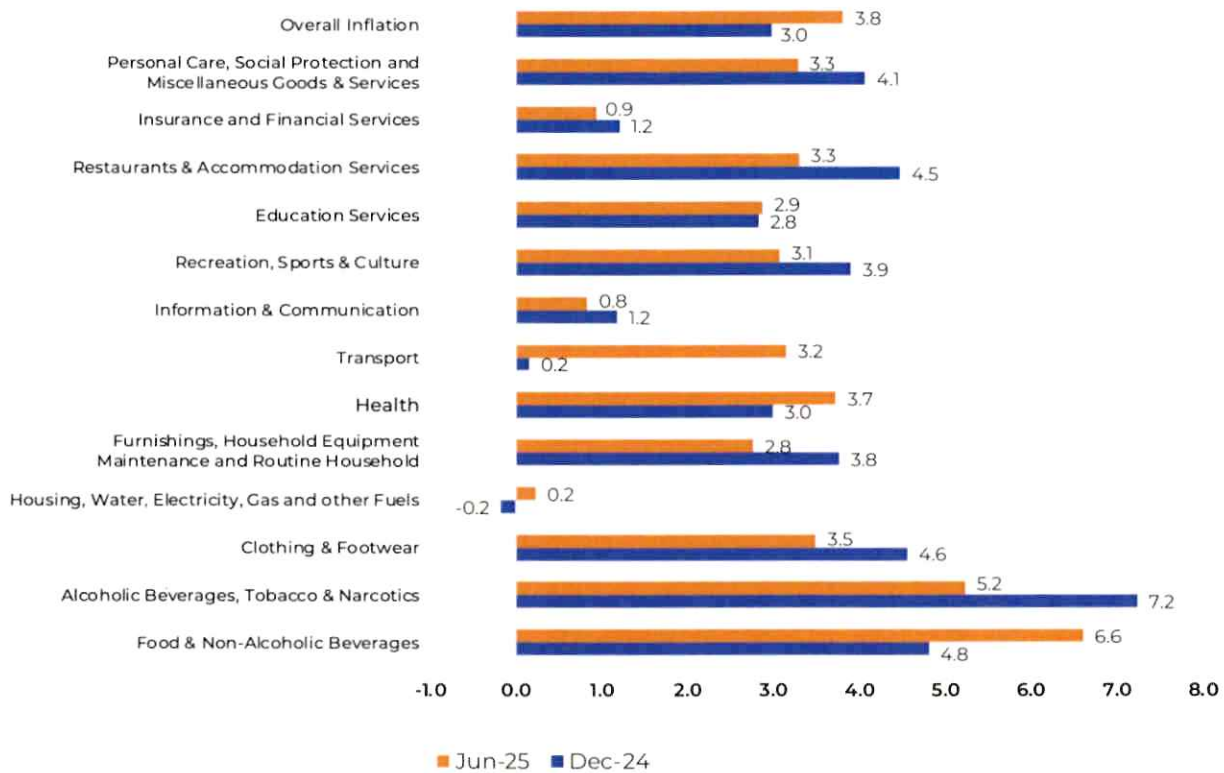


Source: Kenya National Bureau of Statistics and CBK

Inflation rates for the 'food', 'alcoholic beverages, tobacco and narcotics', 'housing, water, electricity, gas and fuels', 'health', and

'transport' categories in the consumer basket were lower in December 2024 compared to June 2025 (**Chart 1b**).

**Chart 1b: 12-Month Inflation by Broad CPI Categories (Percent)**



Source: Kenya National Bureau of Statistics

## ii. Bank Credit to the Private Sector

Credit to the private sector recovered in the first half of 2025, growing by 2.2 percent in the 12 months to June 2025, compared to a contraction of 1.4 percent in December 2024. The recovery in credit was supported by improved credit demand with the decline in lending rates and resilient economic

activities, as well as dissipation of the effects of exchange rate appreciation on foreign currency loans. The improved growth in credit was evident across key sectors of the economy, including manufacturing, trade, building and constructions, and consumer durables (**Table 1**). The pace of private sector credit is expected to pick up in 2025, supported by improved credit demand reflecting resilient economic activity and moderating cost of credit.

**Table 1: 12-Month Growth in Private Sector Credit across Sectors (Percent)**

Main sectors	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Agriculture	23.4	17.5	10.1	7.2	5.1	-1.1	2.6	8.4	12.1	9.7	12.6
Manufacturing	20.9	9.4	-0.6	-14.3	-9.4	-10.7	-5.1	-6.3	-0.9	1.0	3.1
Trade	13.1	6.2	3.1	6.5	2.3	1.0	2.4	5.8	5.6	7.7	10.1
Building and construction	8.6	0.1	-8.3	-13.4	-6.1	-0.2	-3.4	12.0	6.1	19.8	25.0
Transport and communication	20.8	6.9	4.4	1.4	1.6	3.2	6.5	4.8	-0.7	1.3	-2.0
Finance and insurance	60.2	13.0	3.2	0.3	-21.2	-9.4	-14.9	-18.8	-8.3	-6.3	-6.7
Real estate	7.1	5.2	3.6	2.3	1.3	-0.1	1.4	2.4	1.8	0.1	1.6
Mining and quarrying	15.1	34.4	111.7	96.7	-22.9	-25.1	-26.5	-44.3	-39.5	-38.4	-47.1
Private households	2.5	8.6	7.5	7.0	9.2	0.2	-2.1	-0.9	-1.6	-0.4	-0.2
Consumer durables	9.9	6.4	3.9	2.7	3.3	3.8	5.2	8.1	7.9	8.7	9.6
Business services	7.7	6.8	1.9	-2.8	-4.5	-5.8	-1.8	-13.1	-7.1	-9.0	-10.0
Other activities	16.4	15.2	8.8	-7.4	-18.2	-30.0	-26.5	-0.8	-20.6	-12.6	-24.8
<b>Total private sector credit</b>	<b>13.9</b>	<b>7.9</b>	<b>4.0</b>	<b>0.4</b>	<b>-1.4</b>	<b>-2.9</b>	<b>-1.3</b>	<b>0.2</b>	<b>0.4</b>	<b>2.0</b>	<b>2.2</b>

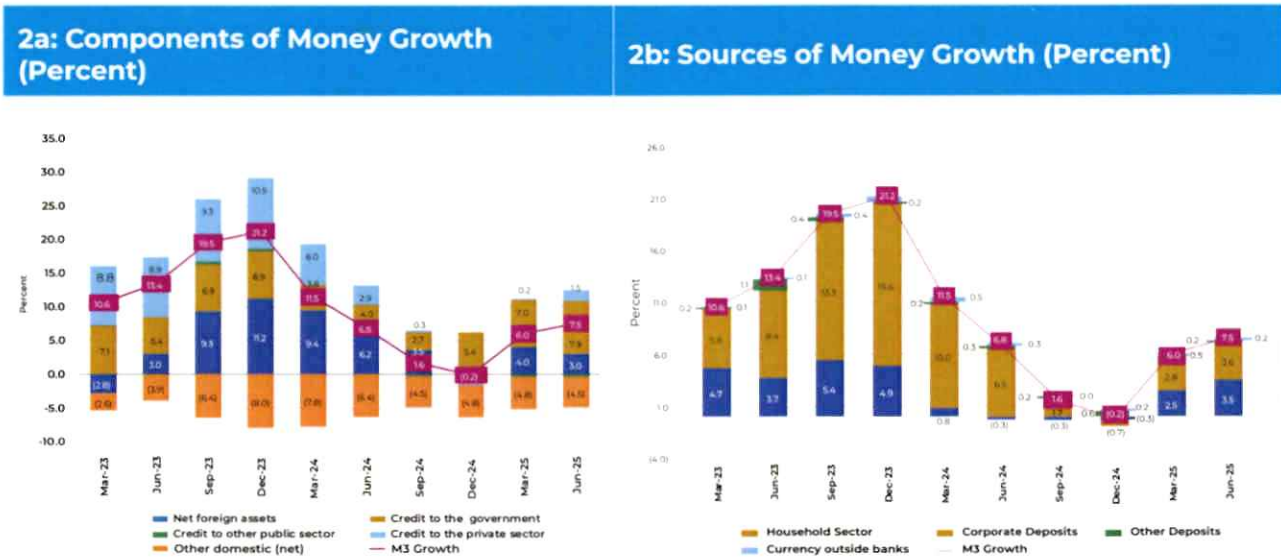
Source: Central Bank of Kenya

### iii. Developments in the other Monetary Aggregates

The 12-month growth of broad money (M3) improved to 7.5 percent in June 2025, compared to a contraction of 0.2 percent in December 2024, mainly due to the increase in net domestic assets of the banking system. The increase in the net domestic assets of the banking system largely reflected increased net lending to the Government. Net foreign assets of the banking

system also supported the growth in money supply; but its contributions moderated slightly mainly on account of reduced commercial banks' foreign assets (**Chart 2 and Table 2**). On the liability side, the increase in money supply was reflected on improved deposits, partly due to the dissipation of the impact of exchange rate appreciation on foreign currency deposits. In the near term, money supply is expected to improve further, partly reflecting a recovery in credit to the private sector.

Chart 2: The 12-Month Growth in Broad Money Supply (M3) (Percent)



Source: Central Bank of Kenya

Source: Central Bank of Kenya

Table 2: Key Monetary Aggregates

	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Broad Money, M3 (Ksh Billion)	5,488.7	5,473.7	5,503.8	5,516.6	5,595.4	5,683.5	5,786.5
Reserve Money (Ksh Billion)	622.1	600.4	528.9	583.4	566.8	563.9	572.3
Credit to private sector (Ksh Billion)	3,857.7	3,808.5	3,802.1	3,837.6	3,867.9	3,870.2	3,880.9
Memorandum Items							
12-month growth in actual Reserve Money (Percent)	4.5	6.4	(11.9)	0.9	2.1	(0.2)	(1.3)
12-month growth in actual Broad Money, M3 (Percent)	(0.2)	(1.4)	1.3	6.0	6.6	8.2	7.5

Source: Central Bank of Kenya

### Monetary Policy Implementation Framework Reforms

The MPC continued to monitor the implementation of the monetary policy framework adopted in August 2023. To further enhance the effectiveness of the monetary policy implementation framework, the MPC approved on April 2025 the narrowing of the

width of the interest rate corridor around the CBR from  $\pm 150$  basis points to  $\pm 75$  basis points. This enhances the stability of the interbank rate and align the rate closer to the Central Bank Rate (CBR). In addition, the Committee approved the adjustment of the applicable interest rate on the Discount Window from 300 basis points above CBR to 75 basis points, which is the upper bound of the interest rate corridor.

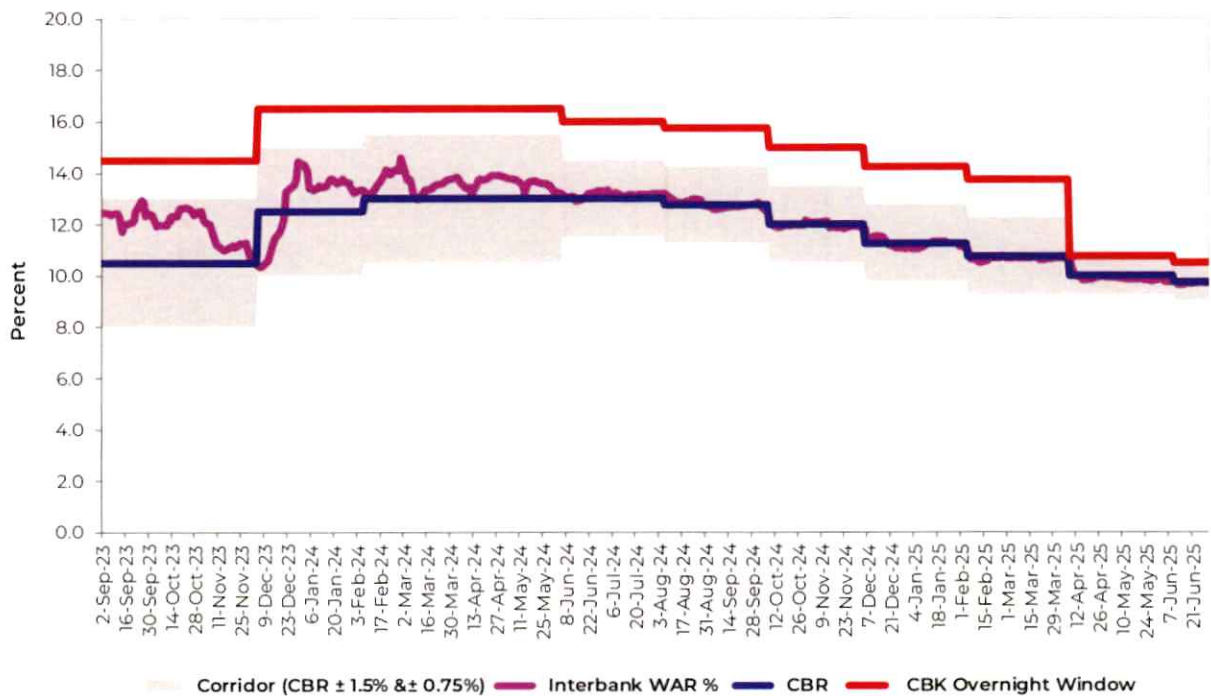
## iv. Interest Rates Developments

### a. Short Term Rates

Short-term interest rates declined during the first half of 2025, reflecting easing of the monetary policy stance and improved liquidity conditions in the money markets (**Table 3**). The average interbank interest rate declined

to 9.72 percent in June 2025 from 11.45 percent in December 2024 and remained within the prescribed interest rate corridor around the Central Bank Rate (CBR) (**Chart 2c**). Similarly, the average 91-day Treasury bill rate declined to 8.21 percent in June 2025 from 10.32 percent in December 2024, while the average 182-day Treasury bill rate decreased to 8.51 percent from 10.39 percent over the same period.

**Chart 2c: Interbank rate, interest rate corridor and Overnight Discount Window Rate (Percent)**



Source: Central Bank of Kenya

### b. Commercial Bank Rates

Commercial banks' average lending and deposit rates declined in the first half of 2025, in line with easing of the monetary policy stance.

The weighted average lending rate declined to 15.28 percent in June 2025 from 16.89 percent in December 2024, while the weighted average deposit rate decreased to 8.37 percent from 10.45 percent over the same period.

**Table 3: Interest Rates (Percent)**

	2023				2024				2025					
	Mar	June	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Central Bank Rate	9.50	10.50	10.50	12.50	13.00	13.00	12.75	11.25	11.25	10.75	10.75	10.00	10.00	9.75
Interbank	7.05	9.48	12.36	11.65	13.42	13.14	12.67	11.45	11.21	10.68	10.68	10.14	9.86	9.72
91-Tbill	9.76	11.49	14.38	15.70	16.68	15.97	15.75	10.32	9.63	9.14	8.88	8.51	8.37	8.21
182-Tbill	10.25	11.54	14.42	15.80	16.86	16.67	16.62	10.39	10.03	9.57	9.13	9.15	8.59	8.51
<b>Average Lending Rate (1)</b>	<b>13.09</b>	<b>13.31</b>	<b>13.98</b>	<b>14.64</b>	<b>16.28</b>	<b>16.85</b>	<b>16.91</b>	<b>16.89</b>	<b>16.64</b>	<b>16.41</b>	<b>15.76</b>	<b>15.65</b>	<b>15.44</b>	<b>15.28</b>
Overdraft/loan	12.69	12.83	13.62	14.65	15.97	16.78	16.83	15.75	15.38	15.10	14.29	14.08	13.73	13.49
1-5years	13.47	13.79	14.48	15.16	16.82	17.52	17.69	17.72	17.56	17.21	16.48	16.33	16.07	15.88
Over 5years	12.91	13.06	13.67	14.14	15.90	16.25	16.18	16.59	16.33	16.19	15.67	15.61	15.49	15.37
<b>Average Deposit Rate (2)</b>	<b>7.60</b>	<b>7.80</b>	<b>8.64</b>	<b>9.48</b>	<b>10.52</b>	<b>11.48</b>	<b>11.24</b>	<b>10.45</b>	<b>10.05</b>	<b>9.76</b>	<b>9.34</b>	<b>8.87</b>	<b>8.70</b>	<b>8.37</b>
Demand	1.77	1.97	2.37	2.59	2.57	2.45	2.62	2.90	2.65	2.58	2.37	2.07	1.92	1.92
0-3months	8.13	8.32	9.76	11.08	12.08	12.56	12.28	11.27	10.65	10.11	9.88	8.92	8.64	8.48
Over 3months	8.19	8.54	8.96	9.50	11.27	11.92	12.04	11.04	10.73	10.59	10.48	9.93	9.72	9.28
Savings	3.55	3.92	4.00	4.01	3.90	5.11	3.57	4.25	4.08	4.02	3.09	3.66	3.31	3.76
<b>Spread (1-2)</b>	<b>5.50</b>	<b>5.51</b>	<b>5.33</b>	<b>4.95</b>	<b>5.76</b>	<b>5.37</b>	<b>5.67</b>	<b>6.44</b>	<b>6.59</b>	<b>6.64</b>	<b>6.42</b>	<b>6.78</b>	<b>6.74</b>	<b>6.91</b>

Source: Central Bank of Kenya

## v. Banking Sector developments

The banking sector remained stable and resilient in the period ending June 2025, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 58.6 percent and 20.4 percent, respectively in June 2025. These were above the minimum statutory limits of 20.0 percent and 14.5 percent, respectively.

Credit risk remained elevated, with the ratio of gross non-performing loans (NPLs) to gross loans standing at 17.6 percent in June 2025, an increase from 16.4 percent in December 2024. Gross NPLs increased by Ksh 55.9 billion or 8.3 percent from Ksh 672.6 billion in December 2024, to Ksh 728.5 billion in June 2025, mainly due to a challenging business environment. The main sectors with increased NPLs were trade, real estate, personal and household and tourism sectors.

Customer deposits remained the main source of funding to the banking sector, accounting

for 74.5 percent of the banking sector's total liabilities and shareholders' funds as at June 2025. This was a slight decrease from 75.0 percent in December 2024. Customer deposits increased by Ksh 108.2 billion or 1.9 percent to Ksh 5,847.8 billion in June 2025, from Ksh 5,739.6 billion in December 2024.

The Credit Guarantee Scheme (CGS) established in December 2020 continued to support additional credit uptake by vulnerable Micro, Small, and Medium sized Enterprises (MSMEs). As at the end of June 2025, the seven banks participating in the CGS had cumulatively disbursed guaranteed loans to MSMEs amounting to Ksh 6.6 billion.

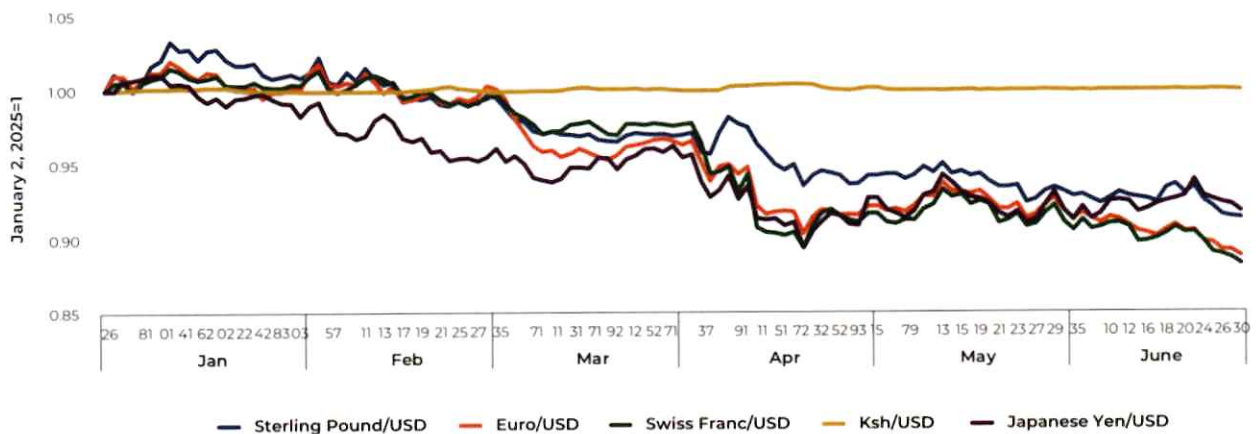
The banking sector is projected to remain stable. In the short and medium term, interest rate risk is expected to decline due to stabilizing interest rates, while liquidity risk is projected to remain stable. However, credit risk and operational risk are expected to remain elevated.

## vi. Exchange Rates and Foreign Exchange Reserves

The foreign exchange market remained stable in the first half of 2025 despite increased global uncertainties, effects of a stronger U.S. dollar and geopolitical tensions in the Middle

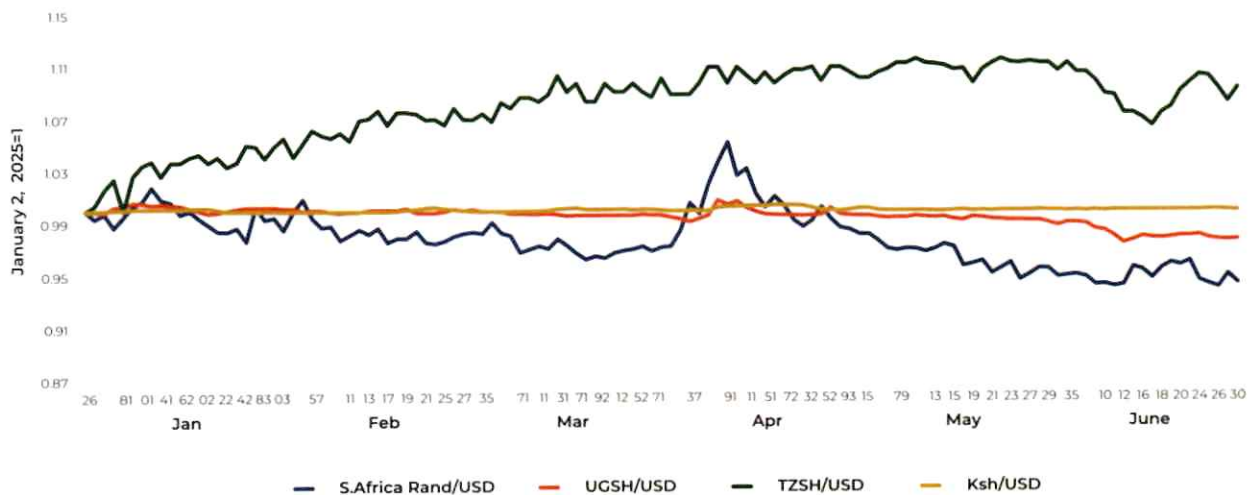
East (Charts 3a and 3b). The stability in the foreign exchange market was largely driven by diversified foreign exchange inflows including remittances, earnings from horticulture exports, and investments from offshore banks as well as growing confidence in the country's economic outlook.

**Chart 3a: Exchange rates of currencies in the region against the U.S. Dollar**



Source: Central Bank of Kenya

**Chart 3b: Exchange rates of major international currencies against the U.S. Dollar**

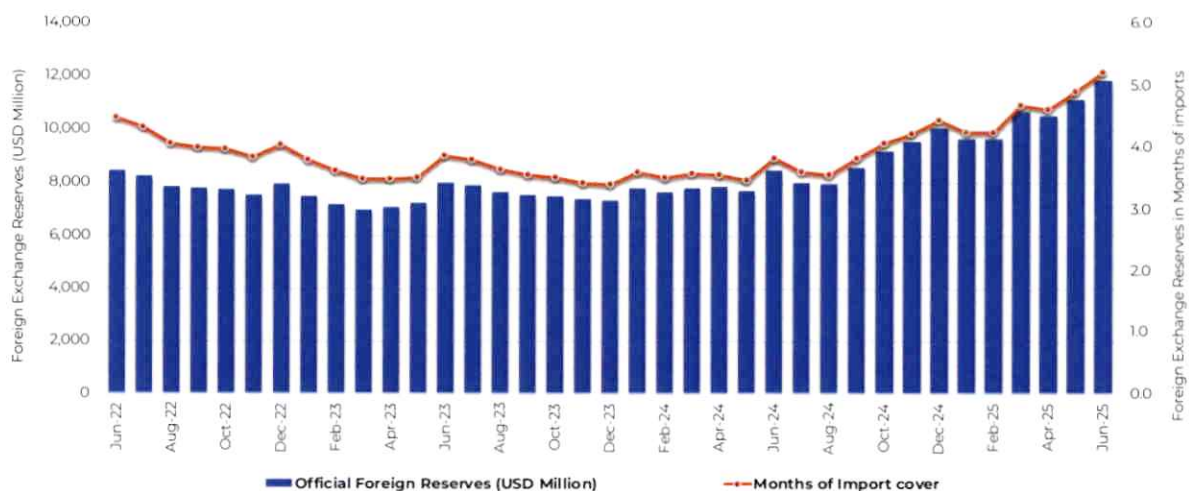


Source: Central Bank of Kenya

The CBK foreign exchange reserves remained adequate. Official foreign exchange reserves stood at USD 11,877 million (5.2 months of import cover as at end June 2025) and continue

to provide an adequate buffer against short-term shocks in the foreign exchange market (Chart 3c)

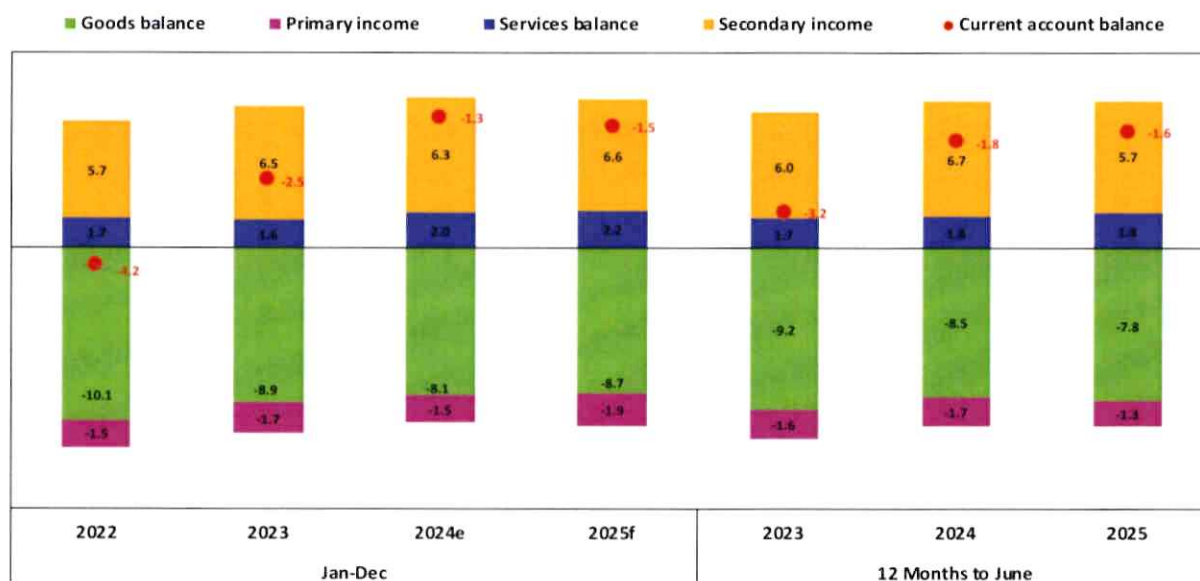
**Chart 3c: CBK Gross Foreign Exchange Reserves**



Note: Months of import cover computed based on the average imports over the previous 36 months

Source: Central Bank of Kenya

**Chart 4: Components of the Current Account Balance (Percent of GDP)**



e - Estimate  
f - forecast

Source: Central Bank of Kenya

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## vii. Balance of Payments Developments

The current account deficit was estimated at 1.6 percent of GDP in the twelve months to June 2025, compared to 1.8 percent of GDP in a similar period in 2024. The narrowing of the current account deficit was mainly attributed to resilient goods exports and diaspora remittances. Goods imports grew by 9.9 percent in the 12 months to June 2025, and by 8.3 percent in the first half of 2025 period, supporting domestic economic activity and mainly reflecting higher imports of crude materials, animal and vegetable oils, manufactured goods and increase in intermediate imports, especially industrial supplies, machinery, and transport equipment **(Chart 4 and Table 4)**.

Oil imports decreased by 9.4 percent in the 12 months to June 2025 on account of relatively lower international oil prices. The value of merchandise exports grew by 7.7 percent in the 12 months to June 2025, and by 3.9 percent in the first half of 2025, supported by demand from traditional markets and commodity prices. Earnings from horticulture, coffee,

manufactured goods, and apparel supported export growth, despite the reduction in tea, chemicals, and re-exports. The increase in horticulture earnings is supported by demand from the traditional markets while manufactured exports to the regional market have increased despite a decline in selected EAC markets. Exports to Africa accounted for 55.8 percent, with COMESA and the EAC region accounting for 31.5 percent and 33.8 percent, respectively. UAE, China, and India were the major sources of imports, accounting for 22.1 percent, 19.8 percent, and 8.7 percent of total imports, respectively **(Table 5)**.

The balance on secondary income improved supported by record remittance inflows, which accounted for 5.7 percent of GDP in the twelve months to June 2025. Remittance inflows in the year to June 2025 totaled USD 5,084 million compared to USD 4,535 million in the same period in 2024, an increase of 12.1 percent. Service exports improved from a growth of 1.8 percent in the 12 months to June 2024 to a growth of 24.4 percent in the 12 months to June 2025, supported by resilient travel receipts but moderated by services payments especially for transport.

**Table 4: Annual Balance of payments (Percent of GDP)**

	2023	2024 est	12 months to June 2024	12 months to June 2025
<b>Current account</b>	<b>(2.5)</b>	<b>(1.3)</b>	<b>(1.8)</b>	<b>(1.6)</b>
<b>1.1 Trade balance</b>	<b>(8.8)</b>	<b>(8.1)</b>	<b>(8.5)</b>	<b>(7.8)</b>
<b>Goods exports, f.o.b</b>	<b>10.2</b>	<b>10.4</b>	<b>11.0</b>	<b>9.6</b>
Tea	1.2	1.2	1.3	1.0
Horticulture	0.9	0.9	0.9	0.9
Manufactured Goods	0.6	0.5	0.6	0.5
Reexports	3.9	4.3	4.6	3.3
Other	3.5	3.5	3.6	3.9
<b>Goods imports, f.o.b</b>	<b>19.1</b>	<b>18.5</b>	<b>19.5</b>	<b>17.4</b>
Oil Products	7.5	6.8	7.8	5.7
Other	11.5	11.7	11.7	11.7
Machinery and Transport	3.0	3.6	3.4	3.6
<b>1.2 Services balance</b>	<b>1.4</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>
Services Credit	6.6	6.7	6.7	6.1
Transport	1.8	1.8	1.7	1.7
Travel	2.6	2.9	2.8	2.8
<b>Services Debit</b>	<b>5.2</b>	<b>4.7</b>	<b>4.9</b>	<b>4.3</b>
Transport	1.6	1.6	1.6	1.5
<b>Goods and Services Balance</b>	<b>(7.5)</b>	<b>(6.1)</b>	<b>(6.8)</b>	<b>(6.0)</b>
<b>1.3 Primary income, Balance</b>	<b>(1.7)</b>	<b>(1.5)</b>	<b>(1.7)</b>	<b>(1.3)</b>
<b>Credit</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>
<b>Debit</b>	<b>1.9</b>	<b>1.8</b>	<b>1.9</b>	<b>1.6</b>
<b>1.4 Secondary income</b>	<b>6.5</b>	<b>6.3</b>	<b>6.7</b>	<b>5.7</b>
<b>Credit</b>	<b>6.6</b>	<b>6.4</b>	<b>6.7</b>	<b>5.7</b>
Remittances	3.9	4.1	4.2	3.8
<b>Debit</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>
<b>Capital account</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>
<b>Financial Account</b>	<b>(1.7)</b>	<b>(1.8)</b>	<b>(0.5)</b>	<b>(3.2)</b>
Foreign Direct investment	(0.3)	(0.2)	(0.2)	(0.3)
Portfolio investment	0.5	0.2	(0.1)	1.4
Other investment	(1.9)	(1.9)	(0.2)	(4.2)

Source: Central Bank of Kenya

**Table 5: Kenya's Direction of Trade**

Exports	(In Millions of US Dollars)				Share of Exports (%)				Imports	(in millions of US dollars)				Share of Imports (%)			
	12 Months to June									12 Months to June							
Region/ Country	2022	2023	2024	2025	2022	2023	2024	2025	Region/ Country	2022	2023	2024	2025	2022	2023	2024	2025
<b>Africa</b>	<b>5,382</b>	<b>5,640</b>	<b>6,878</b>	<b>6,601</b>	<b>55.9</b>	<b>59.5</b>	<b>60.0</b>	<b>55.8</b>	<b>Africa</b>	<b>2,227</b>	<b>2,075</b>	<b>1,834</b>	<b>2,017</b>	<b>9.5</b>	<b>9.1</b>	<b>8.1</b>	<b>8.3</b>
Ofwhich	-	-	-	-	-	-	-	-	Ofwhich	-	-	-	-	-	-	-	-
Uganda	2,935	3,417	2,492	2,555	30.5	36.0	21.7	21.6	South Africa	465	546	498	483	2.0	2.4	2.2	2.0
Tanzania	491	453	509	493	5.1	4.8	4.4	4.2	Egypt	420	357	308	390	1.8	1.6	1.4	1.6
Rwanda	371	380	323	314	3.9	4.0	2.8	2.7	Others	1,342	1,171	1,028	1,144	5.7	5.1	4.5	4.7
South Sudan	497	347	450	196	5.2	3.7	3.9	1.7									
Egypt	216	187	228	192	2.2	2.0	2.0	1.6	<b>EAC</b>	<b>862</b>	<b>709</b>	<b>684</b>	<b>748</b>	<b>3.7</b>	<b>3.1</b>	<b>3.0</b>	<b>3.1</b>
DRC	143	154	205	242	1.5	1.6	1.8	2.0	<b>COMESA</b>	<b>1,053</b>	<b>958</b>	<b>853</b>	<b>985</b>	<b>4.5</b>	<b>4.2</b>	<b>3.8</b>	<b>4.1</b>
Somalia	123	145	132	124	1.3	1.5	1.1	1.0	<b>Rest of the World</b>	<b>21,274</b>	<b>20,748</b>	<b>20,766</b>	<b>22,289</b>	<b>90.5</b>	<b>90.9</b>	<b>91.9</b>	<b>91.7</b>
Ethiopia	125	118	107	105	1.3	1.2	0.9	0.9	Ofwhich								
Sudan	58	53	37	54	0.6	0.6	0.3	0.5	China	4,080	3,418	3,557	4,820	17.4	15.0	15.7	19.8
Others	423	387	2,396	2,326	4.4	4.1	20.9	19.7	Bahrain	60	12	35	37	0.3	0.1	0.2	0.2
									United Arabs Emirates	4,353	5,704	5,594	5,375	18.5	25.0	24.8	22.1
<b>EAC</b>	<b>4,362</b>	<b>4,820</b>	<b>4,083</b>	<b>3,995</b>	<b>45.3</b>	<b>50.8</b>	<b>35.6</b>	<b>33.8</b>	India	2,397	1,899	1,783	2,112	10.2	8.3	7.9	8.7
<b>COMESA</b>	<b>4,115</b>	<b>4,539</b>	<b>3,636</b>	<b>3,728</b>	<b>42.8</b>	<b>47.9</b>	<b>31.7</b>	<b>31.5</b>	Malaysia	1,129	812	986	1,038	4.8	3.6	4.4	4.3
<b>Rest of the World</b>	<b>4,242</b>	<b>3,841</b>	<b>4,580</b>	<b>5,222</b>	<b>44.1</b>	<b>40.5</b>	<b>40.0</b>	<b>44.2</b>	USA	839	787	960	1,144	3.6	3.4	4.2	4.7
Ofwhich									Japan	913	725	742	957	3.9	3.2	3.3	3.9
United Arabs Emirates	361	310	652	681	3.8	3.3	5.7	5.8	Saudi Arabia	1,938	1,798	1,538	1,316	8.2	7.9	6.8	5.4
Pakistan	520	486	580	572	5.4	5.1	5.1	4.8	Russia	189	558	552	453	0.8	2.4	2.4	1.9
Netherlands	576	533	556	512	6.0	5.6	4.9	4.3	Netherlands	281	290	417	189	1.2	1.3	1.8	0.8
USA	642	510	525	648	6.7	5.4	4.6	5.5	Oman	156	414	393	345	0.7	1.8	1.7	1.4
United Kingdom	412	345	421	460	4.3	3.6	3.7	3.9	United Kingdom	302	280	319	340	1.3	1.2	1.4	1.4
Saudi Arabia	89	95	221	126	0.9	1.0	1.9	1.1	Germany	340	316	266	331	1.4	1.4	1.2	1.4
China	218	219	173	160	2.3	2.3	1.5	1.4	Pakistan	199	216	255	255	0.8	0.9	1.1	1.0
Germany	128	121	120	164	1.3	1.3	1.0	1.4	France	188	204	254	228	0.8	0.9	1.1	0.9
France	82	87	108	117	0.9	0.9	0.9	1.0	Singapore	100	134	113	48	0.4	0.6	0.5	0.2
Thailand	29	26	29	19	0.3	0.3	0.3	0.2	Italy	236	172	144	163	1.0	0.8	0.6	0.7
India	76	63	86	143	0.8	0.7	0.8	1.2	Indonesia	246	315	219	231	1.0	1.4	1.0	1.0
Spain	55	58	73	80	0.6	0.6	0.6	0.7	Belgium	193	176	214	243	0.8	0.8	0.9	1.0
Others	1,052	988	1,036	1,539	10.9	10.4	9.0	13.0	Others	3,135	2,515	2,424	2,667	13.3	11.0	10.7	11.0
<b>Total Exports (CIF)</b>	<b>9,624</b>	<b>9,481</b>	<b>11,458</b>	<b>11,824</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>Total Imports (CIF)</b>	<b>23,501</b>	<b>22,823</b>	<b>22,599</b>	<b>24,306</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>European Union</b>	<b>1,104</b>	<b>1,030</b>	<b>1,105</b>	<b>1,214</b>	<b>11.5</b>	<b>10.9</b>	<b>9.6</b>	<b>10.3</b>	<b>European Union</b>	<b>1,812</b>	<b>1,718</b>	<b>1,745</b>	<b>1,742</b>	<b>7.7</b>	<b>7.5</b>	<b>7.7</b>	<b>7.2</b>

Source: Kenya Revenue Authority and Central Bank of Kenya

### viii. Economic Growth

Economic growth decelerated to 4.7 percent in 2024 from a revised growth of 5.7 percent in 2023. Growth was largely constrained by the contraction of construction and mining and quarrying sectors, and a deceleration in growth across key sectors of the economy. The agriculture sector remained resilient in 2024, though growth slowed to 4.6 percent compared to 6.6 percent in 2023. It contributed 0.8 percentage points to overall GDP growth. Broadly, the services sector growth moderated to 6.0 percent in 2024 from 7.0 percent in 2023 and contributed 3.4 percentage points to real GDP growth. All sectors recorded a slowdown in growth except wholesale and retail trade, public administration, education, health, social sectors, and taxes on products. Meanwhile, growth of industry was subdued at

0.8 percent in 2024 compared to 2.0 percent in 2023. The slowdown was mainly attributed to contraction of construction, and mining and quarrying sectors by -0.7 percent and -9.2 percent, respectively. Moreover, electricity and water supply sector growth slowed down to 1.9 percent from 3.2 percent in 2023. However, the manufacturing sector improved and grew by 2.8 percent compared to 2.2 percent in 2023, mainly supported by increased agro-processing.

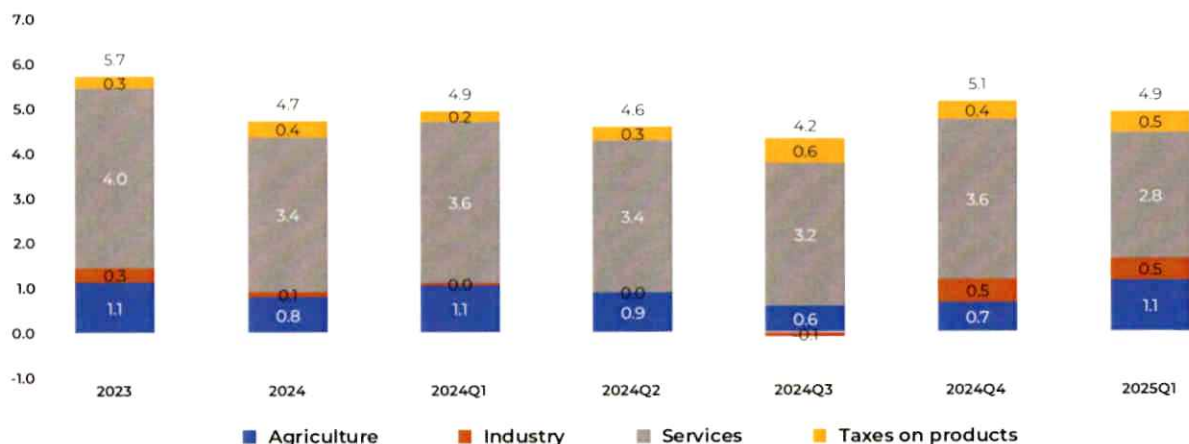
The economy remained resilient in the first quarter of 2025, with real GDP growth holding steady at 4.9 percent, unchanged from the corresponding period in 2024. This reflected strong performance of agriculture and recovery in industrial activity, particularly construction (Table 6 and Chart 5).

**Table 6: Kenya's Real GDP Growth across the Main Sectors (Percent)**

Main Sectors	2023 Annual	2024 Annual	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
1. Agriculture	6.6	4.6	5.6	4.5	4.0	4.3	6.0
2. Non-Agriculture (a/w)	5.5	4.7	4.8	4.6	4.3	5.3	4.6
2.1 Industry	2.0	0.8	0.4	0.2	-0.4	3.1	3.0
2.2 Services	7.0	6.0	6.4	6.1	5.4	6.1	5.0
2.3 Taxes on products	3.2	4.4	2.9	3.8	6.3	4.5	5.7
Real GDP Growth	5.7	4.7	4.9	4.6	4.2	5.1	4.9

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

**Chart 5: Contribution to Real GDP (Percentage Points)**



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

## ix. Domestic Government Borrowing

The coordination between monetary and fiscal policies continued to support macroeconomic stability. The Government's borrowing plan in the first half of 2025 ensured that the build-up in domestic debt was consistent with the thresholds set in the Medium-Term Debt Management Strategy. The Government continued to review its borrowing plan in line with market conditions and prudent budget management that focused on rationalisation of expenditures and strengthening of revenue collection measures.

## x. Modernisation of the Monetary Policy Framework

The MPC continued to implement the reforms outlined in the White Paper on Modernization of the Monetary Policy Framework and Operations aimed at enhancing the effectiveness of monetary policy and supporting the anchoring of inflation expectations. In this regard, in the six months to June 2025, the MPC assessed the monetary policy implementation framework and noted that it continued to facilitate improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission.

## xi. Stakeholder Forums, MPC Market Perception Surveys, and Communications

The MPC members held virtual stakeholder meetings with the Chief Executives of Commercial Banks and Microfinance Banks and other non-bank players to apprise them on the background to its decisions and to obtain feedback. The Governor also held virtual press conferences after each MPC meeting to brief the media on the background to MPC decisions.

and measures taken by the CBK to support macroeconomic stability. In addition, the Governor held virtual meetings with investors to brief them on economic developments and the outlook for the economy.

The MPC continued to improve on the scope and information gathering processes through the CEOs, Market Perceptions, and the Agriculture Sector Survey. The CEOs Survey seeks to capture information on top firms' perceptions and expectations of CEOs on economic prospects. The Agriculture Sector Survey collects indicative information on the most recent trends in prices and output of agricultural commodities in various markets and farms across the country. The Market Perceptions survey, on the other hand, seeks views on the performance of the economy, access to credit, and optimism on the country's prospects from banks and non-bank players including hotels.

The Surveys conducted in the first half of 2025 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2025. The optimism was attributed to the stable macroeconomic environment reflected in low inflation and stability in the exchange rate, expectations of a decline in interest rates, continued strong performance of agriculture sector, resilience of the services sectors, and improved global growth prospects. Nevertheless, respondents expressed concerns about the subdued consumer demand, high cost of doing business, and increased global uncertainties attributed to higher tariffs and geopolitical tensions.

The MPC continued to monitor the implementation of MPC decisions by the CBK and interacted with other government agencies such as the National Treasury and KNBS on various policy and data issues.

## THE ECONOMIC ENVIRONMENT AND OUTLOOK IN 2025/ 2026

### i. International Economic Environment

According to the July 2025 update of the IMF World Economic Outlook (WEO), global growth is projected at 3.0 percent in 2025 and 3.1 percent in 2026, reflecting upward revisions of 0.2 and 0.1 percentage points, respectively, from the April 2025 WEO. Nonetheless, growth remains below the historical average of 3.7 percent recorded between 2000 and 2019.

Growth in the advanced economies is projected to grow at 1.5 percent in 2025 and moderate to 1.6 percent in 2026. The growth outlook for the U.S. was revised upward to 1.9 percent in 2025 and 2.0 percent in 2026, reflecting in part improving consumer spending and investments amid greater policy uncertainty and trade tensions. The Euro Area growth in 2025 is projected at 1.0 percent and 1.2 percent, mainly driven by improved economic activity across the region. The UK and Japan are projected to grow by 1.2 percent and 0.7 percent, respectively in 2025.

In the emerging market and developing economies, growth is expected to remain stable at 4.1 percent and 4.0 percent in 2025 and 2026, an upward revision of 0.4 percentage points in the WEO for July 2025 compared to the April 2025 WEO. The revision reflects resilient activity in Asia particularly China and India. However, economic prospects in the region are expected to be subdued as the full impact of tariffs materializes. In sub-Saharan Africa (SSA), economic growth is projected at 4.0 percent in 2025 and to improve to 4.3 percent in 2026. The forecast for 2025 in the July 2025 WEO is 0.2 percentage points higher relative to the projection in April 2025 WEO. Nigeria and South Africa are expected to grow by 3.4 percent and 1.0 percent in 2025, respectively. Kenya's growth is expected to remain above the global and Sub-Saharan Africa (SSA) averages in 2025.

Global financial market conditions remained volatile. The equity market exhibited volatility while government bond yield spreads in major economies declined on expectations that rising tariffs and retaliatory actions would hurt corporate earnings and slow the global economy. Central banks in the major economies have continued to lower their interest rates, but at a different pace depending on their inflation and growth outlooks. The ECB has so far lowered interest rates by 150 basis points, the Bank of England by 75 basis points, and the US Fed by 75 basis points. The Bank of England lowered its policy rate by 25 basis points in the meetings of May 7, while the US Fed retained its policy rate during the May and June meetings due to uncertainty from trade tensions.

Global headline inflation has moderated but is projected to decline more slowly in 2025 and 2026 than previously anticipated, mainly due to the impact of higher import tariffs. International oil prices eased on account of increased supply from OPEC+ countries and subdued global demand, but the risk of potential volatility remains elevated due to higher tariffs on imports, and persistent geopolitical tensions. However, global food inflation rose slightly in June 2025, driven by elevated edible oil prices. Key risks to the global growth outlook include heightened trade policy uncertainty, escalating geopolitical tensions—particularly in the Middle East and the Russia-Ukraine conflict—and the possibility of higher-than-expected inflation, which could prompt more restrictive monetary policy and increase volatility in financial markets.

**Table 7: Growth Performance and Outlook for the Global Economy (Percent)**

	Actual	Estimate	Projections	
Country/Region	2023	2024	2025	2026
<b>World Output</b>	<b>3.5</b>	<b>3.3</b>	<b>3.0</b>	<b>3.1</b>
<b>Advanced Economies</b>	<b>1.8</b>	<b>1.8</b>	<b>1.5</b>	<b>1.6</b>
United States	2.9	2.8	1.9	2.0
Euro area	0.5	0.9	1.0	1.2
Japan	1.4	0.2	0.7	0.5
United Kingdom	0.4	1.1	1.2	1.4
<b>Emerging Market and Developing economies</b>	<b>4.7</b>	<b>4.3</b>	<b>4.1</b>	<b>4.0</b>
Emerging and Developing Asia	6.1	5.3	5.1	4.7
China	5.4	5.0	4.8	4.2
India	9.2	6.5	6.4	6.4
Emerging and Developing Europe	3.6	3.5	1.8	2.2
Russia	4.1	4.3	0.9	1.0
<b>Latin America and the Caribbean</b>	<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>
Brazil	3.2	3.4	2.3	2.1
<b>Sub-Saharan Africa</b>	<b>3.6</b>	<b>4.0</b>	<b>4.0</b>	<b>4.3</b>
Nigeria	2.9	3.4	3.4	3.2
South Africa	0.8	0.5	1.0	1.3
<b>Middle East and North Africa</b>	<b>2.4</b>	<b>2.4</b>	<b>3.4</b>	<b>3.5</b>

Source: IMF World Economic Outlook

## ii. Domestic Economic Environment

Economic growth is estimated to be higher in 2025 compared to 2024, supported by recovery of the agriculture and the industrial sector through the planned increase in development spending in FY2025/26, and envisaged recovery of growth in private sector credit with the easing of monetary policy stance. The downside risks to growth outlook include the continued geopolitical conflicts that could disrupt supply chains, uncertainty associated with the US protectionist policies, impact of tariffs and subdued global demand.

The macroeconomic environment is expected to remain stable, with overall inflation expected to remain below the medium-term target in the near-term, supported by muted demand and prudent monetary policy decisions (**Chart 6**). It is projected to increase modestly in the

near-term, driven by modest increase in core inflation and non-core inflation, reflecting impact of monetary policy easing and seasonal factors, respectively. However, this increase is not expected to breach the tolerance range of 5±2.5 percent around the target. Inflation is expected to remain anchored around the midpoint of the target band in the second quarter of 2026, supported by expected easing food prices, stable energy prices attributed to projected stability in international oil prices and a stable exchange rate.

This outlook is subject to risks which are mainly tilted to the downside. These include uncertainty around expected weather patterns, the evolution of international oil prices, heightened geopolitical tensions and trade wars which could potentially disrupt supply chains and impact commodity prices negatively.

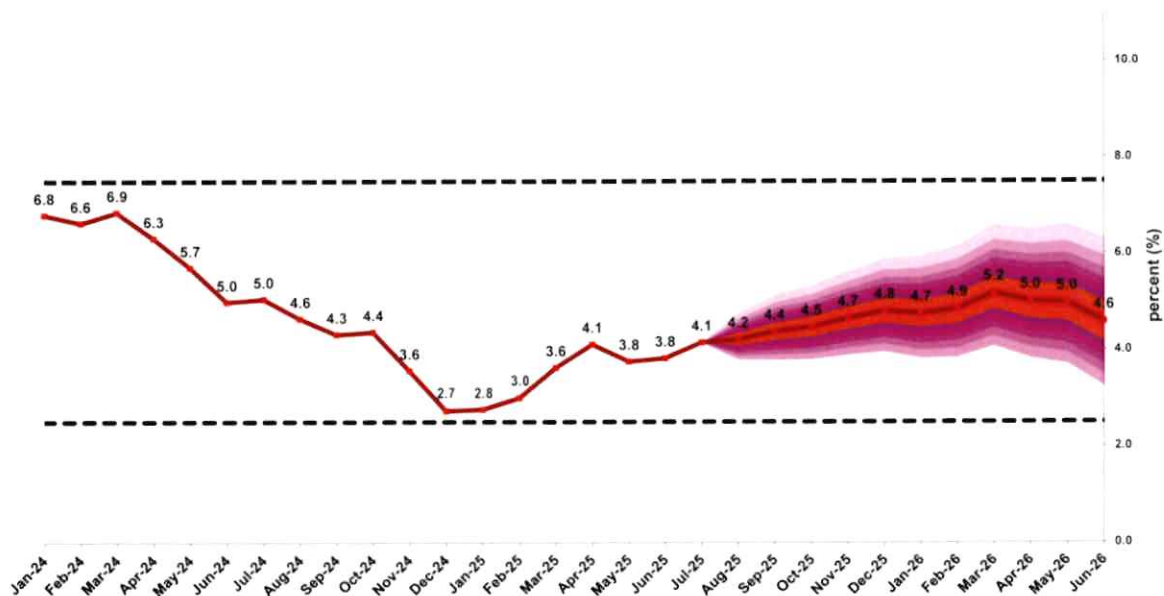
The foreign exchange market is expected to remain stable, supported by the narrowing of the current account deficit which is expected to remain relatively stable at 1.5 percent of GDP in 2025 compared to 1.3 percent of GDP in 2024, mainly reflecting continued growth in goods exports, increase in services receipts, and resilient remittance inflows. The CBK foreign exchange reserves are projected to remain adequate in 2025, consistent with the positive outlook of the balance of payments. The reserves will continue to provide a buffer against external shocks in the foreign exchange market. The coordination of monetary and fiscal policies will also support macroeconomic stability.

The CEOs and Market Perceptions Surveys conducted in the first half of 2025 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2025. Respondents attributed this optimism largely to the stable macroeconomic environment reflected in the low inflation, stability in the exchange rate, and the continued strong performance of the agriculture sector. Nevertheless, respondents' concerns included the subdued consumer demand, high cost of doing business, and increased global

uncertainties attributed to higher tariffs and geopolitical tensions. Surveys of the Agriculture sector conducted in the period revealed expectations of increased output for most agricultural products on account of improved weather conditions. However, there were concerns about unpredictable weather conditions, competition from imports, and increased costs of labor, and transport inputs such as seeds and fertilizers.

The overall fiscal deficit including grants amounted to Ksh 1,011.2 billion (5.8 percent of GDP) against a target of Ksh 1,012.3 billion (5.8 percent of GDP) by end of June 2025. Total revenue including grants increased by 8.3 percent to Ksh 2,951.9 billion in June 2025 compared with a growth of 14.3 percent by end June 2024. Over the same period, total expenditures and net lending increased by 9.9 percent to KSh 3,963.1 billion. Nonetheless, both total revenues and total expenditure were below their respective targets. The Government remains committed to fiscal consolidation over the medium term to reduce debt-related vulnerabilities. The fiscal deficit is projected to decline from 5.8 percent of GDP in the FY 2024/25 to 2.7 percent of GDP by FY 2028/29.

**Chart 6: Headline Inflation Outlook: August 2025 - June 2026 (Percent)**



Source: KNBS and Central Bank of Kenya

## DIRECTION OF MONETARY POLICY IN FY2025/26

Price stability will be the overriding objective of monetary policy in the FY2025/26. Monetary policy formulation and implementation will aim at maintaining overall inflation within the target range of 5±2.5 percent.

**Table 8: Outlook for Key Macro-Economic Indicators**

	2022	2023	2024	2025 Proj
Real GDP growth (YoY, percent)	4.9	5.7	4.7	5.2
Overall Inflation (YoY, percent) end period	9.1	6.6	3.0	5.0
Current Account deficit (Percent of GDP)	-4.2	-2.5	-1.3	-1.5
Exports of Goods and Services (Percent of GDP)	15.9	16.8	17.1	15.9
Imports of Goods and Services (Percent of GDP)	24.3	24.3	23.2	21.6
Private sector credit growth (YoY, percent)	12.5	13.9	-1.4	6.2
	FY 2022/23	FY 2023/24	FY 2024/25	FY2025/26
Fiscal Deficit (Percent of GDP)	5.6	5.3	5.8	4.7

Source: Central Bank of Kenya and National Treasury

The Bank will continue to implement measures outlined in the White Paper, towards modernization of the monetary policy framework and operations. Implementation of the interest rate corridor framework will ensure maintenance of the interbank interest rate within a prescribed band/corridor around the CBR and subsequently enhance the transmission of monetary policy to the short-term interest rates.

The banking sector is projected to remain stable and resilient. Private sector credit growth is expected to pick up on the back of improved economic conditions, with the easing of monetary policy stance and improved liquidity positions by banks.

The price stability objective and growth in monetary aggregates are subject to risks emanating from both the domestic and global fronts. On the external front, the key downside risks include persistent uncertainty due to trade tensions, geopolitical tensions and their potential impact on international oil prices and global supply chains. Domestic macroeconomic developments will therefore be closely monitored considering these risks, to provide necessary reviews to inform the decision-making process in the MPC. Additionally, the CBK will continue to monitor the economic impact and the outcomes of policy measures put in place as well as other developments in the domestic and global economies to safeguard price stability.

## ANNEX

### EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JANUARY - JUNE 2025)

February 2025	<p>CBR reduced to 10.75 percent from 11.25 percent.</p> <p>Cash Reserve Ratio (CRR) reduced from 4.25 percent to 3.25 percent.</p> <p>CBR reduced to 10.00 percent from 10.75 percent.</p> <p>The width of the Interest Rate Corridor around the CBR reduced to <math>\pm 75</math> basis points from <math>\pm 150</math> basis points</p> <p>The applicable interest rate on the Discount Window adjusted to 75 basis points above CBR (upper bound of the interest rate corridor) from 300 basis points.</p>
April 2025	<p>Release of the April 2025 IMF World Economic Outlook update showing that global output expanded by 3.3 percent in 2024. Growth was projected to moderate to 2.8 percent in 2025 and 3.0 percent in 2026. Global headline inflation was expected to decline to 4.3 percent in 2025 from 5.7 percent in 2024, and further to 3.6 percent in 2026.</p> <p>Implementation of Tariffs on US import</p>
June 2025	<p>CBR reduced to 9.75 percent from 10.00 percent.</p>

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## GLOSSARY OF KEY TERMS

### OVERALL INFLATION

Overall inflation is a measure of price change in the economy calculated as the weighted year-on year movement of the indices of the prices charged to consumers of the goods and services in a representative basket established in a base year. The indices are derived from data collected monthly by the Kenya National Bureau of Statistics.

### RESERVE MONEY

Reserve Money is computed as the CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and non-bank financial institutions (NBFIs) held by the CBK. It excludes Government deposits.

### MONEY SUPPLY

Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are computed as follows:

### Narrow Money

M0: Currency outside the banking system  
M1: M0 + demand deposits of banks (or depository corporations).

### Broad Money

M2: M1 + quasi (long term) money deposits i.e. time and savings deposits of banks and non-bank financial institutions.

### Extended Broad Money

M3: M2 + residents' foreign currency deposits.

### Overall Liquidity

L: M3 + non-bank holdings of Government Paper. This however, is not a monetary aggregate.