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Monetary Policy Statement

December 2024



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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 55th Monetary Policy Statement of the Central Bank of Kenya. It reviews and assesses the implementation of monetary policy during the second half of 2024 and outlines the direction of monetary policy for the next 12 months.

Dr. Kamau Thugge, CBS

Governor

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 22 APR 2025	
DAY: Tuesday	
TABLED BY:	Deputy Majority Party Hon. Owen Baya, MP
CLERK-AT THE-TABLE:	Benson Inzofu

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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 14, 21, 28 or 91 days and upon maturity of TAD, the CBK credits the respective commercial bank with the deposit and interest.
 - 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 clarity and certainty in monetary policy implementation, the CBR is the base for all monetary policy operations. 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 at 150 basis points. Consistent with the new framework monetary policy operations are aimed at ensuring the interbank rate as an operating target closely targets 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 currently set at 300 basis points above the CBR.
- **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 4.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks were 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 3 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 2025. It also reviews the outcome of the monetary policy adopted in the second half of 2024. During the second half of 2024, monetary policy was conducted in the context of an improved global outlook for growth supported by resilient growth in the U.S.A and in some large emerging market economies, particularly India. The growth outlook is subject to significant risks arising from escalation of geopolitical tensions particularly the Israel-Palestinian conflict. Global inflation moderated, but some stickiness in core inflation persisted in the advanced economies. Food inflation continued to decline for some key items such as sugar and cereals, but the price of edible oils rose in the last quarter of 2024. International oil prices moderated on account of subdued demand in China and increased production by non-OPEC countries, but its evolution is subject to geopolitical risks.

The MPC continued to monitor the performance of the new monetary policy implementation framework adopted in August 2023 and reviewed in the June 2024 MPC Meeting. The MPC noted that 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 December 2024.

The CBK conducted monetary policy in the second half of 2024 with the objective of maintaining overall inflation within the target range of 5 ± 2.5 percent. During the Monetary Policy Committee (MPC) meeting held in August 2024, the MPC reduced the Central Bank Rate (CBR) to 12.75 percent, noting that its previous measures had lowered overall inflation to below the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. In October 2024, the Committee met and lowered the CBR to 12.00 percent citing the sharp slowdown in private sector credit growth and a deceleration in economic growth in Q2 2024, despite the low inflation and stable exchange rate. The MPC concluded that there was room for further monetary policy easing to support economic activity while ensuring exchange rate stability. In December 2024, the committee lowered further the policy rate to 11.25 percent, and urged the banks to take necessary steps to lower their lending rates, in order to stimulate credit to the private sector, and in so doing stimulate economic activity.

Overall inflation remained within the target range from June to December 2024, primarily due to low food and fuel prices. It declined to 3.0 percent in December 2024 from 4.6 percent in June 2024. Over the same period, food inflation declined to 4.8 percent from 5.6 percent, mainly on account of significant decreases in prices of certain vegetable and non-vegetable items, reflecting seasonal patterns and developments in international food prices. Meanwhile fuel inflation contracted to -1.0 percent in December 2024 from 6.4 percent in June 2024.

The foreign exchange market remained stable in the second half of 2024 despite increased global uncertainties, effects of a stronger U.S. Dollar and geopolitical tensions in the Middle East. The market was mainly supported by inflows from agricultural exports, remittances and portfolio investments, while demand was driven by a pickup in economic activity specifically in the wholesale and retail sectors. The current account deficit was estimated at 3.7 percent of GDP in 2024, compared to 4.0 percent of GDP in 2023. The CBK gross foreign exchange reserves stood at USD 10,091 million (5.1 months of import cover) as at the end of December 2024 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 period ending December 2024, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 55.8 percent and 19.4 percent, respectively, in December 2024 and were above the minimum statutory limits of 20.0 percent and 14.5 percent, respectively. Credit risk was elevated with gross non-performing loans rising marginally to 16.4 percent in December 2024 compared to 16.3 percent in June 2024. Private sector credit growth contracted to 1.4 percent in December 2024 from a growth of 4.0 percent in June 2024, partly reflecting effects of exchange rate appreciation on foreign currency loans.

The pace of economic growth slowed down in the third quarter of 2024, primarily due to a contraction in industrial activity and slowdown across most sectors of the economy. The industrial sector growth contracted by 0.2 percent, from 3.1 percent growth in a similar quarter in 2023, primarily due to a notable reduction in the growth of construction, and mining and quarrying sub-sectors. The agricultural sector growth was moderate at 4.2 percent compared to 5.1 percent in a similar quarter of 2023, supported by favourable weather conditions and strategic government efforts to manage input costs, notably through fertilizer subsidies, which boosted crop yields. Services sectors growth broadly decelerated to 5.3 percent compared to a growth of 7.8 percent in a similar quarter of 2023. All services sectors recorded slower growth except wholesale and retail trade, public administration, and education.

The monetary policy stance in 2025 will aim at maintaining overall inflation within the target range of 5 ± 2.5 percent. The economy is estimated to grow at 4.6 percent in 2024 and projected at 5.4 percent in 2025, supported by continued strong performance of agriculture and services sectors, anticipated recovery in growth of credit to the private sector, and improved exports. 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 3.8 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.

1. INTRODUCTION

This Monetary Policy Statement (MPS) provides the direction of monetary policy in 2025. It also presents the outcome of the monetary policy actions adopted in the second half of 2024.

Price stability remains the primary objective of monetary policy formulation and implementation. The Central Bank Rate (CBR) signals the monetary policy stance and is the base for all monetary policy operations. 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 expected to improve to 3.3 percent in 2025 from an estimate of 3.2 percent in 2024, supported by robust services sector and better than expected economic outturns in United States, India, United Kingdom and some emerging economies. In emerging markets, growth is expected to remain stable at 4.2 percent in 2025 and 4.3 percent in 2026. Meanwhile growth, in Sub-Saharan Africa is projected to increase to 4.2 percent in 2025 and 2026 from 3.8 percent in 2024. However, geopolitical tensions and policy uncertainty are key risks to the global growth outlook.

The CBK continued to monitor the impact of outcomes of its previous decisions and measures implemented to mitigate the adverse economic impact and financial disruptions, as well as developments in the global and domestic economy. At its meetings held in the second half of 2024, the MPC progressively eased the monetary policy stance while noting 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. In the August 2024 meeting, the MPC reduced the CBR to 12.75 percent from 13.00 percent in June 2024.

In the subsequent meetings held in October and December, the MPC reduced the CBR to 12.00 percent and 11.25 percent, respectively. The MPC noted the sharp deceleration in credit to the private sector, and the slowdown in growth in the second quarter of 2024, and determined that there was room for further monetary policy easing to support economic activity, while maintaining exchange rate stability.

The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance implemented in the second half of 2024 while Section 3 describes the external economic environment and outlook for 2025. Section 4 concludes by outlining the specific monetary policy path for 2025.

2. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE SECOND HALF OF 2024

During the second half of 2024, 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 period under review, inflationary pressures dissipated, and the exchange rate was stable following the tightening of the monetary policy stance in the first half of the year. CBK continued to monitor the overall liquidity in the economy as well as any potential threats which could fuel demand driven inflationary pressures.

During the MPC meeting held in August 2024, the MPC decided to lower the CBR to 12.75 percent. The MPC noted that its previous measures had lowered overall inflation to below the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. The Committee further noted that non-food-non-fuel (NFNF) inflation had moderated, while central banks in advanced economies had lowered interest rates in response to easing inflationary pressures, with indications that other central banks would soon embark on a similar trajectory.¹ The MPC concluded that there was scope for a gradual easing of the monetary policy stance, while ensuring continued exchange rate stability.

During the MPC meeting held in October 2024, the Committee noted that overall inflation had declined further and was expected to remain below the midpoint of the target range in the near term, supported by stable food inflation attributed to improved supply from the harvests, a stable exchange rate, and lower fuel inflation. Additionally, the Committee noted that NFNF inflation had moderated and was expected to remain stable, while central banks in the major economies had continued to lower interest rates in response to easing inflationary pressures, with expectations of further reductions in the coming months. The MPC also

noted the sharp deceleration in credit to the private sector, and the slowdown in growth in the second quarter of 2024, and concluded that there was scope for a further easing of the monetary policy stance to support economic activity, while ensuring exchange rate stability. Consequently, the MPC lowered the Central Bank Rate to 12.00 percent.

In December 2024, the MPC further reduced the CBR to 11.25 percent to reinforce previous policy actions aimed at boosting economic growth and encouraging private sector credit uptake.

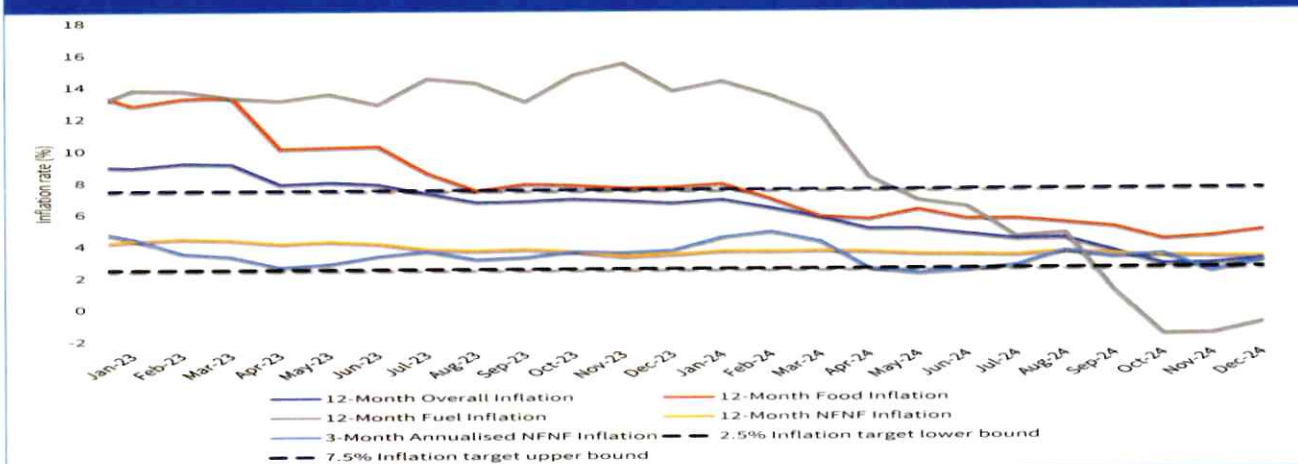
The following are the specific outcomes of the policy measures implemented in the second half of 2024.

i. Inflation

Overall inflation remained within the target range from June to December 2024, mainly on account of low food and fuel prices. It declined to 3.0 percent in December 2024 from 4.6 percent in June 2024. Over the same period, food inflation declined to 4.8 percent from 5.6 percent, primarily due to significant decreases in prices of selected vegetable and non-vegetable items reflecting seasonal patterns and developments in international food prices. Fuel inflation recorded a deflation of -1.0 percent in December from 6.4 percent in June, mainly driven by a sharp decline in pump, electricity, and cooking gas (LPG) prices attributable to developments in international oil prices and a stable exchange rate. NFNF inflation declined to 3.2 percent in December 2024, from 3.4 percent in June, reflecting continued muted demand pressures and impact of residual effects of monetary policy tightening (**Chart 1a and 1b**).

¹ During the period under review, the Kenya National Bureau of Statistics and the Central Bank of Kenya initiated discussions on core and non-core measures of inflation. The outcome of the deliberations will be reported in the next Monetary Policy Statement

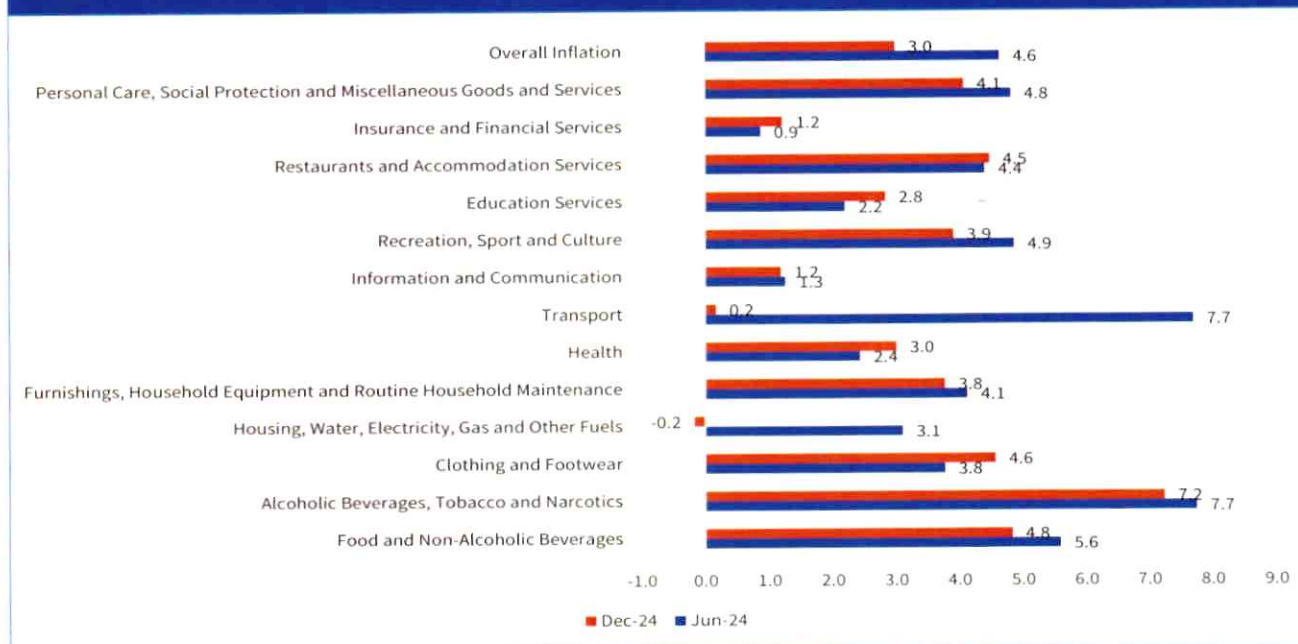
Chart 1a: Inflation in Broad Measures (year-on-year, percent)



Source: Kenya National Bureau of Statistics and CBK

Inflation rates for the ‘food’, ‘alcoholic beverages, tobacco and narcotics’, and ‘housing, water, electricity, gas and fuels’, categories in the consumer basket were lower in December 2024 compared to June 2024 (**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

Growth in credit to the private sector declined further in the second half of 2024, contracting by 1.4 percent in the 12-months to December 2024 compared to 4.0 percent in June 2024. The decline was partly due to the impact of exchange rate appreciation on foreign currency loans and higher lending rates due to the lagged effects of previous monetary policy tightening. Foreign currency loans, which account for about 26 percent of total private sector

credit are largely concentrated in manufacturing, trade, transport, and communication sectors. These sectors recorded significant declines in credit during the period (**Table 1**). The pace of private sector credit growth is expected to improve in 2025 relative to 2024, partly reflecting the easing of the monetary policy stance. The resilience in economic activity and de-risking of lending to the MSMEs through the credit guarantee scheme is also expected to support credit demand.

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

Main sectors	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Agriculture	23.4	32.5	28.2	17.5	15.7	9.9	10.1	11.3	7.1	7.2	8.9	4.2	5.1
Manufacturing	20.9	23.1	13.6	9.4	4.3	1.6	-0.6	0.4	-6.7	-14.3	-11.6	-10.5	-9.4
Trade	13.1	12.9	10.7	6.2	5.1	2.7	3.1	0.6	0.8	6.5	4.7	2.2	2.3
Building and construction	8.6	3.0	4.1	0.1	5.0	-4.0	-8.3	-7.9	-13.0	-13.4	-16.7	-2.2	-6.1
Transport and communication	20.8	16.6	7.5	6.9	9.6	4.4	4.4	7.3	-1.1	1.4	8.0	1.2	1.6
Finance and insurance	60.2	32.8	16.9	13.0	6.2	-0.1	3.2	0.9	4.4	0.3	-5.2	-9.1	-21.2
Real estate	7.1	8.0	6.1	5.2	5.4	7.3	3.6	3.6	3.8	2.3	2.8	2.2	1.3
Mining and quarrying	15.1	8.0	4.3	34.4	26.9	47.2	111.7	106.7	102.3	96.7	26.3	6.4	-22.9
Private households	2.5	7.3	8.9	8.6	10.4	7.6	7.5	7.6	5.9	7.0	5.9	4.7	9.2
Consumer durables	9.9	9.3	7.4	6.4	5.2	5.7	3.9	2.7	3.8	2.7	3.3	2.2	3.3
Business services	7.7	9.5	3.3	6.8	-0.4	0.9	1.9	2.1	1.4	-2.8	-3.8	-1.6	-4.5
Other activities	16.4	15.7	29.6	15.2	10.4	7.3	8.8	5.6	-2.8	-7.4	-16.1	-18.6	-18.2
Total private sector credit	13.9	13.8	10.3	7.9	6.6	4.5	4.0	3.7	1.3	0.4	0.0	-1.1	-1.4

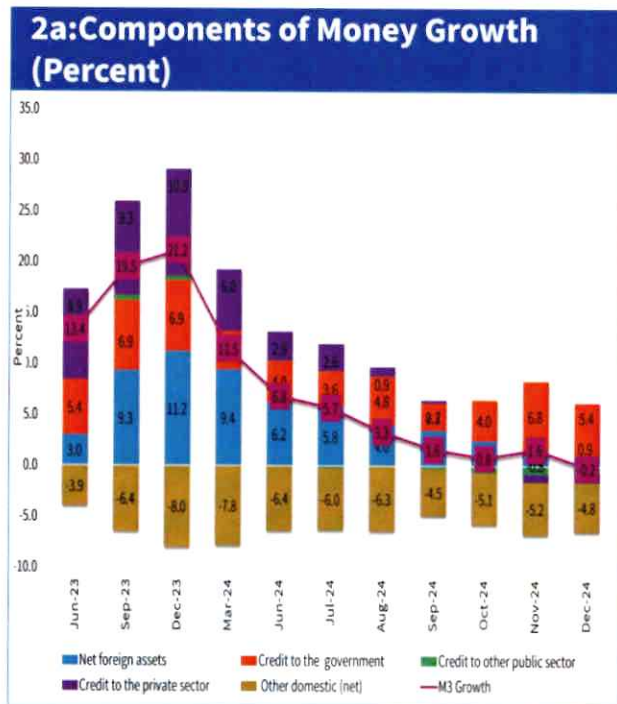
Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

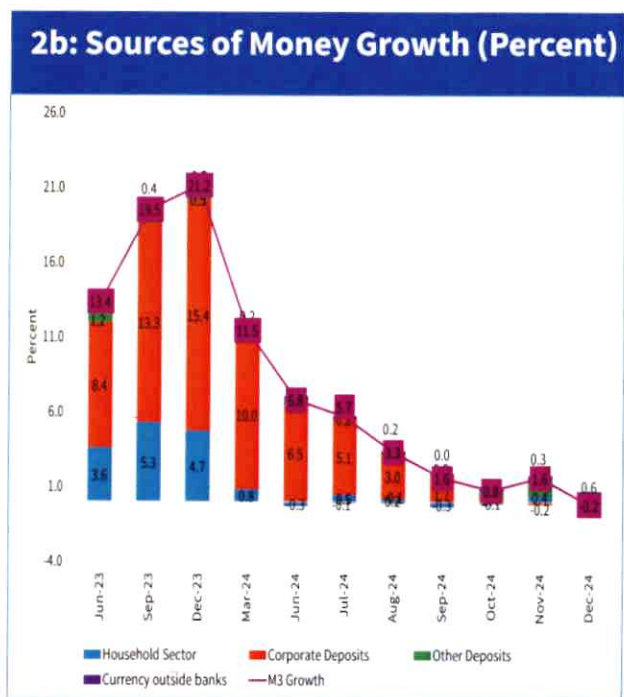
The 12-month growth of broad money, M3, contracted by 0.2 percent in December 2024 from 6.8 percent in June 2024, largely reflecting reduced deposits, partly due to the impact of exchange rate appreciation on foreign currency deposits. On the asset side, the decline in money supply growth was

mainly reflected in reduced credit to the private sector, and decreased contribution of the net foreign assets of the banking system. This was mainly on account of reduced commercial banks' foreign assets partly relating to effects of appreciation of the exchange rate (Chart 2 and Table 2). In the near term, growth in money supply is expected to improve, to reflect the anticipated recovery in private sector credit growth.

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-23	Mar-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Broad Money, M3 (Ksh Billion)	5,498.6	5,204.4	5,381.3	5,424.9	5,404.5	5,381.4	5,374.3	5,490.3	5,488.7
Reserve Money (Ksh Billion)	595.5	578.1	579.7	587.8	600.0	580.2	607.3	613.0	622.1
Credit to private sector (Ksh Billion)	3,911.2	3,829.0	3,797.5	3,780.0	3,776.1	3,789.1	3,814.3	3,813.3	3,857.7
Memorandum Items									
12-month growth in actual Reserve Money (Percent)	15.3	13.7	18.7	10.3	7.1	(1.2)	8.3	5.6	4.5
12-month growth in actual Broad Money, M3 (Percent)	21.2	11.5	6.8	5.7	3.3	1.6	0.8	1.6	(0.2)

Source: Central Bank of Kenya

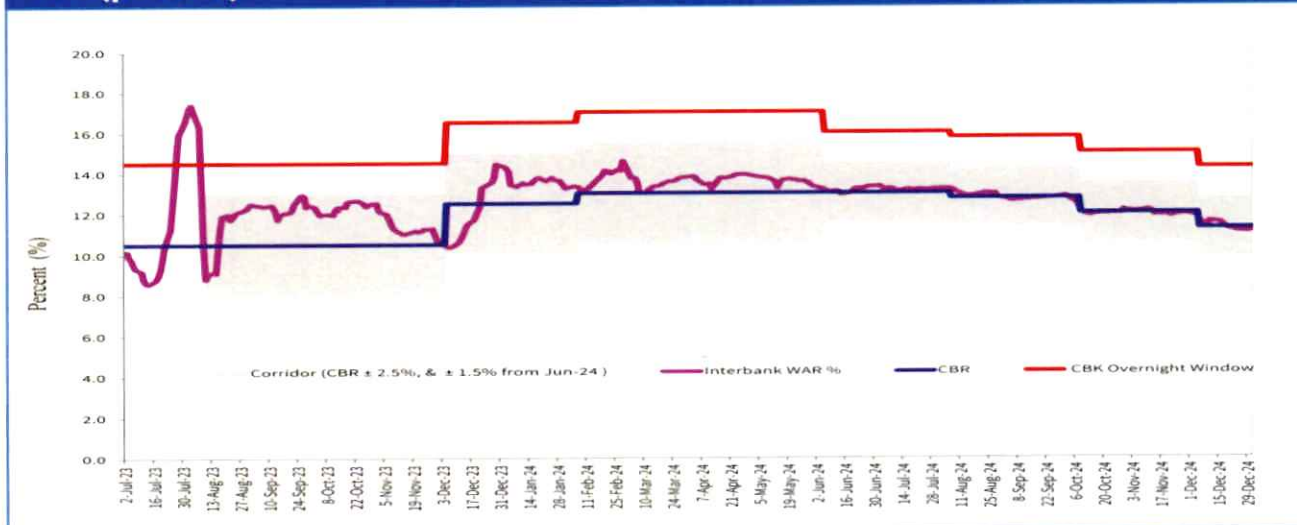
iv. Interest Rates Developments

a. Short Term Rates

Short-term interest rates decreased during the second half of 2024, reflecting easing of monetary policy stance and liquidity conditions in the money markets (Table 3). The average interbank interest

rate decreased to 11.45 percent in December 2024 from 13.14 percent in June 2024 and was within the prescribed interest rate corridor around the CBR (Chart 3). Similarly, the average 91-day Treasury bill rate decreased to 10.32 percent in December 2024 from 15.97 percent in June 2024, while the average 182-day Treasury bill rate decreased to 10.39 percent from 16.67 percent.

Chart 3: 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 remained elevated in the second half of 2024, partly reflecting the residual effects of the tightening of the monetary policy stance. However, the weighted average lending rate declined to 16.89 percent in

December from 17.22 percent in November but remained elevated compared to 16.85 percent in June 2024. The weighted average deposit rate decreased to 10.45 percent in December from 11.48 percent in June 2024.

Table 3: Interest Rates (Percent)

	2023				2024						
	June	Sep	Dec	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Central Bank Rate	10.50	10.50	12.50	13.00	13.00	13.00	12.75	12.75	12.00	12.00	11.25
Interbank	9.48	12.36	11.65	13.42	13.14	13.17	13.01	12.67	12.07	11.99	11.45
91-Tbill	11.49	14.38	15.70	16.68	15.97	16.00	15.85	15.75	14.97	13.06	10.32
182-Tbill	11.54	14.42	15.80	16.86	16.67	16.82	16.74	16.62	15.85	13.41	10.39
Average Lending Rate (1)	13.31	13.98	14.63	16.28	16.85	16.84	16.84	16.91	17.15	17.22	16.89
Overdraft/loan	12.83	13.62	14.65	15.97	16.78	16.43	16.39	16.83	16.60	16.53	15.75
1-5years	13.79	14.48	15.16	16.82	17.52	17.59	17.66	17.69	18.12	18.21	17.72
Over 5years	13.06	13.67	14.14	15.90	16.25	16.32	16.27	16.18	16.52	16.63	16.59
Average Deposit Rate (2)	7.80	8.64	10.10	10.52	11.48	11.28	11.14	11.24	11.01	10.41	10.45
Demand	1.97	2.37	2.51	2.57	2.45	2.58	2.76	2.62	2.88	2.98	2.90
0-3months	8.32	9.76	11.42	12.08	12.56	12.38	12.05	12.28	11.87	11.28	11.27
Over 3months	8.54	8.96	10.19	11.27	11.92	12.08	12.03	12.04	11.98	11.42	11.04
Savings	3.92	4.00	4.24	3.90	5.11	4.56	4.62	3.57	4.48	3.54	4.25
Spread (1-2)	5.51	5.33	4.95	5.76	5.37	5.56	5.71	5.67	6.14	6.81	6.44

Source: Central Bank of Kenya

v. Banking Sector developments

The banking sector remained stable and resilient in the period ending December 2024, with strong liquidity and capital adequacy ratios. The average commercial banks liquidity and capital adequacy ratios stood at 55.8 percent and 19.4 percent, respectively in December 2024. 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 16.4 percent in December 2024, a marginal increase from 16.3 percent in June 2024. Gross NPLs increased by Ksh 15.0 billion or 2.3 percent from Ksh 657.6 billion in June 2024, to Ksh 672.6 billion in December 2024, mainly due to a challenging business environment. The main sectors with increased NPLs were, transport and communication, building and construction, personal and household, real estate and trade.

Customer deposits remained the main source of funding to the banking sector, accounting for 75.0 percent of the banking sector's total liabilities and shareholders' funds as at December 2024. This was a slight increase from 74.0 percent in June 2024. Customer deposits increased by Ksh 150.5 billion or

2.7 percent to Ksh 5,739.6 billion in December 2024, from Ksh 5,589.1 billion in June 2024.

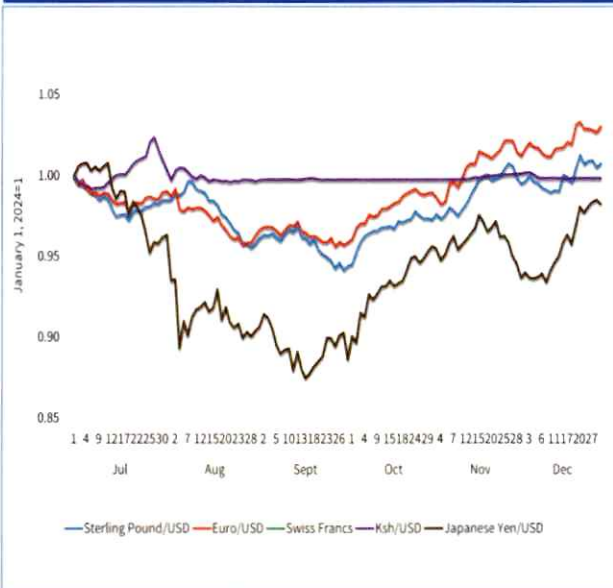
The Credit Guarantee Scheme (CGS) established in December 2020 continued to support additional credit uptake by vulnerable Micro, Small, and Medium sized Enterprises (MSMEs). As at the end of December 2024, the seven banks participating in the CGS had cumulatively disbursed guaranteed loans to MSMEs amounting to Ksh 6.3 billion in December 2024.

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

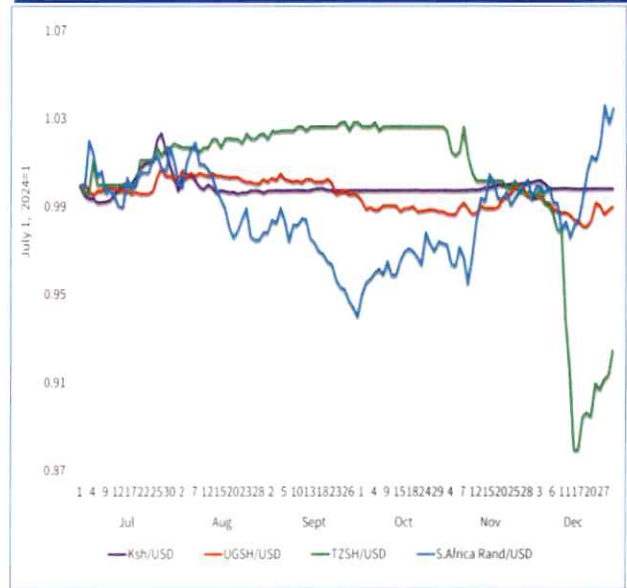
The foreign exchange market remained stable in the second half of 2024, despite increased global uncertainties, effects of a stronger U.S. Dollar and geopolitical tensions in the Middle East (**Chart 3a and 3b**). The market was mainly supported by

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

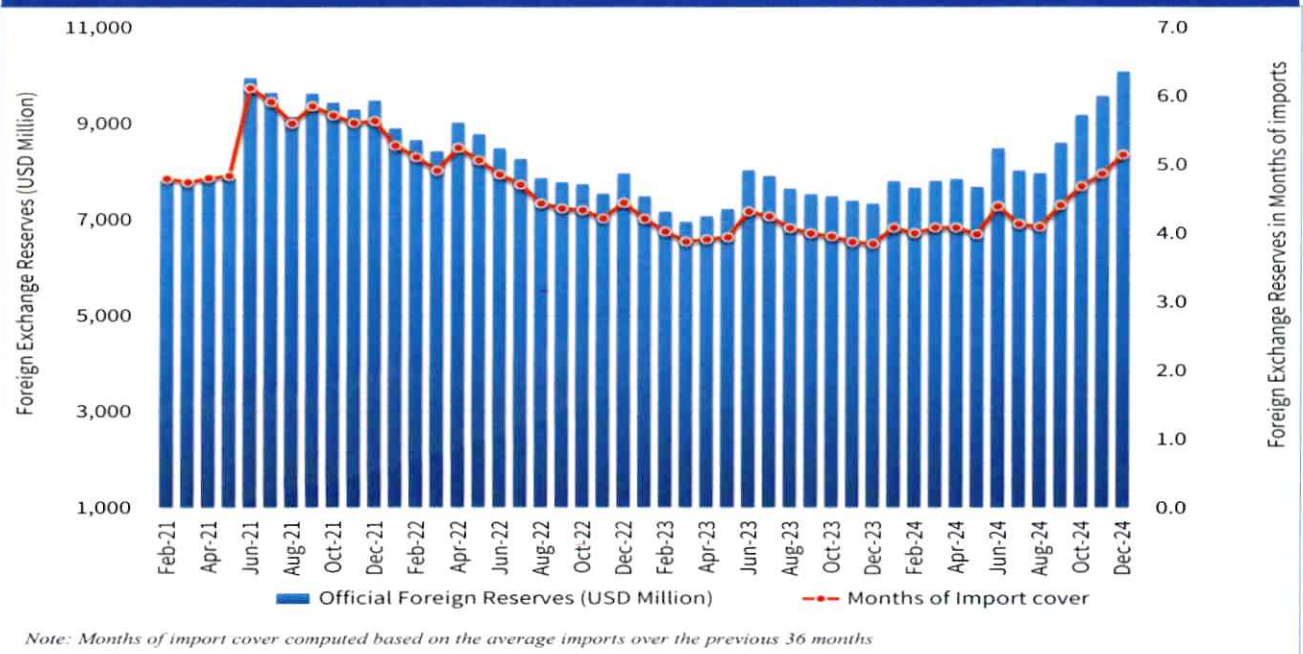


Source: Central Bank of Kenya

inflows from agricultural exports, remittances and portfolio investments, while demand was driven by a pickup in economic activity, specifically in the wholesale and retail trade sectors.

The CBK foreign exchange reserves remained adequate. Official gross foreign exchange reserves stood at USD 10,091 million (5.1 months of import cover as at end December 2024) and continued to provide an adequate buffer against short-term shocks in the foreign exchange market (**Chart 3c**).

Chart 3c: CBK Foreign Exchange Reserves as at December 2024 (USD Million)

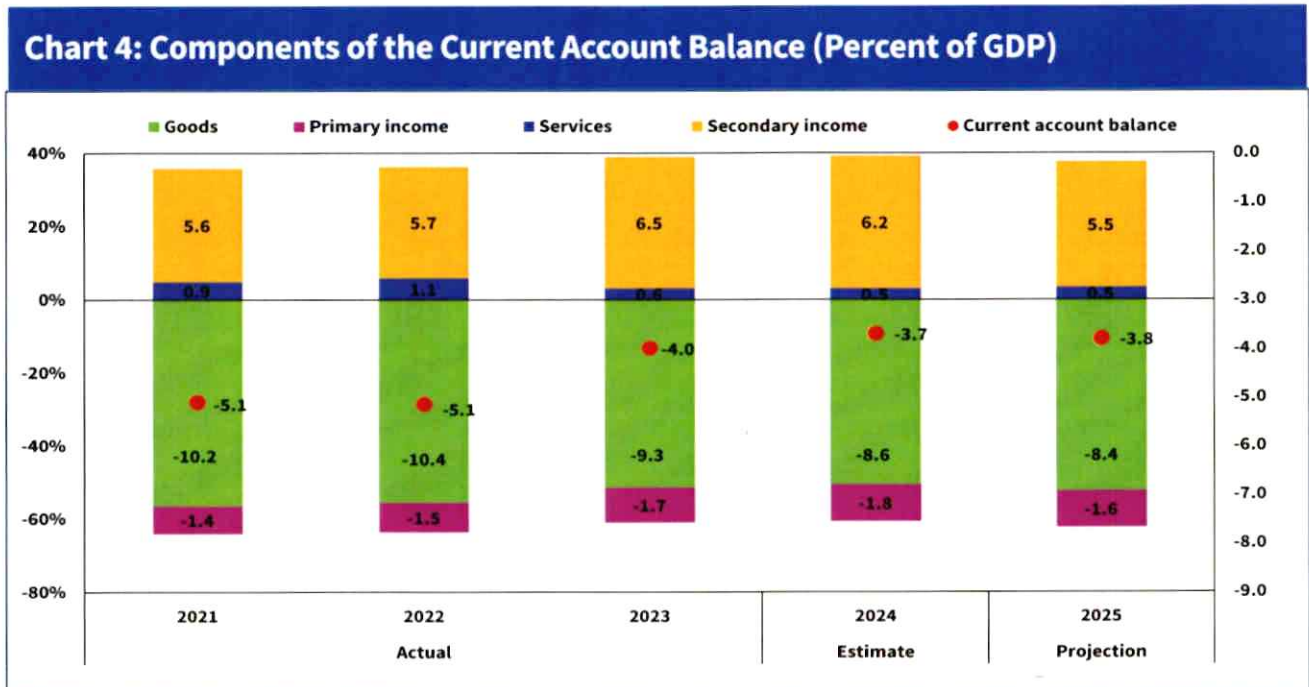


Note: Months of import cover computed based on the average imports over the previous 36 months

Source: Central Bank of Kenya

vii. Balance of Payments Developments

The current account deficit was estimated at 3.7 percent of GDP in 2024, compared to 4.0 percent of GDP in 2023. This narrowing of the deficit was mainly due to lower imports of energy and non-energy goods, a recovery in the growth of exports in the second half of 2024, and strong performance of remittances. Imports grew by 9.9 percent in 2024 compared with a decline of 10.9 percent in 2023, attributed to an increase in imports of intermediate and capital goods despite the decline in imports of food and fuels (**Chart 4 and Table 4**).



Source: Central Bank of Kenya

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

	2022	2023	2024 Est.
Current account	(5.1)	(4.0)	(3.7)
1.1 Trade balance	(10.4)	(9.3)	(8.6)
Goods exports, f.o.b	6.5	6.7	6.8
Tea	1.2	1.2	1.1
Horticulture	0.8	0.9	0.9
Manufactured Goods	0.5	0.6	0.5
Other	3.9	4.0	4.3
Goods imports, f.o.b	16.9	16.0	15.4
Oil Products	4.8	4.4	3.8
Other	11.9	11.5	11.7
Machinery and Transport	3.3	3.0	3.5
1.2 Services balance	1.1	0.6	0.5
Services Credit	5.7	5.0	4.5
Transport	2.1	1.9	1.9
Travel	1.0	0.9	0.8
Services Debit	4.6	4.5	4.0
Transport	1.9	1.6	1.4
1.3 Primary income, Balance	(1.5)	(1.8)	(1.8)
Credit	0.1	0.2	0.3
Debit	1.7	1.9	2.0
1.4 Secondary income	5.7	6.5	6.2
Credit	5.7	6.6	6.3
Remittances	3.5	3.9	4.0
Debit	0.0	0.1	0.1
Capital account	0.1	0.1	0.1
Financial Account	(3.6)	(2.4)	(5.0)
Foreign Direct investment	(0.2)	(0.2)	(0.3)
Portfolio investment	0.6	0.6	(0.5)
Other investment	(4.0)	(2.9)	(4.2)

Source: Central Bank of Kenya

Oil imports cost decreased by 2.3 percent in 2024 on account of relatively lower international oil prices. The value of merchandise exports increased by 15.4 percent in 2024 from a decline of 2.6 percent in 2023. The increase was occasioned by improved earnings from exports of tea, horticulture and re-exports which grew by 3.8 percent, 15.7 percent, and 85.8 percent, respectively. However, manufactured goods, especially to the region, declined by 6.0 percent in 2024. Exports to Africa accounted for 38.0 percent, with COMESA and the EAC region accounting for 25.4 and 28.6 percent, respectively. China, UAE and India were the major importers, accounting for

21.5 percent, 12.6 percent and 9.7 percent of total imports, respectively (**Table 5**).

The balance on secondary income improved supported by remittance inflows, which accounted for 4.0 percent of GDP in 2024. Remittance inflows in 2024 totaled USD 4,945 million compared to USD 4,190 million in a similar period in 2023, an increase of 18.0 percent. Services exports improved from a decline of 16.4 percent in 2023 to a decline of 2.3 percent in 2024, reflecting an increase in transport receipts, despite the lower travel receipts.

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 (%)			
		2021	2022	2023	2024	2021	2022	2023	2024			2021	2022	2023	2024	2021	2022	2023	2024
Africa	2,787	2,978	3,075	3,133	41.3	40.4	42.8	38.0	Africa	2,051	2,267	1,889	1,915	10.6	10.7	10.2	9.5		
<i>Of which</i>									<i>Of which</i>										
Uganda	830	817	899	932	12.3	11.1	12.5	11.3	South Africa	402	520	551	488	2.1	2.5	3.0	2.4		
Tanzania	409	480	491	488	6.1	6.5	6.8	5.9	Egypt	446	373	355	314	2.3	1.8	1.9	1.6		
Rwanda	278	340	302	315	4.1	4.6	4.2	3.8	Others	1,204	1,374	984	984	6.2	6.5	5.3	1.6		
South Sudan	155	198	229	218	2.3	2.7	3.2	2.6	EAC	801	803	627	739	4.2	3.8	3.4	3.7		
Egypt	193	228	228	203	2.9	3.1	3.2	2.5	COMESA	1,074	1,039	901	871	5.6	4.9	4.8	4.3		
DRC	224	151	182	235	3.3	2.0	2.5	2.8	Rest of the World	17,212	18,824	16,691	18,202	89.4	89.3	89.8	90.5		
Somalia	123	130	157	129	1.8	1.8	2.2	1.6	<i>Of which</i>										
Ethiopia	106	126	113	114	1.6	1.7	1.6	1.4	China	4,023	3,843	3,267	4,333	20.9	18.2	17.6	21.5		
Sudan	66	66	49	49	1.0	0.9	0.7	0.6	Bahrain	27	49	12	58	0.1	0.2	0.1	0.3		
Others	403	442	424	450	6.0	6.0	5.9	5.5	United Arabs Emirates	1,625	3,443	2,940	2,533	8.4	16.3	15.8	12.6		
EAC	1,741	1,985	2,173	2,353	25.8	26.9	30.3	28.6	India	2,106	2,131	1,935	1,955	10.9	10.1	10.4	9.7		
COMESA	1,950	1,992	2,026	2,097	28.9	27.0	28.2	25.4	Malaysia	851	1,024	848	993	4.4	4.9	4.6	4.9		
Rest of the World	3,961	4,394	4,102	5,109	58.7	59.6	57.2	62.0	USA	767	793	804	1,161	4.0	3.8	4.3	5.8		
<i>Of which</i>									Japan	892	829	695	816	4.6	3.9	3.7	4.1		
United Arabs Emirates	315	374	393	750	4.7	5.1	5.5	9.1	Saudi Arabia	1,044	1,042	1,049	396	5.4	4.9	5.6	2.0		
Pakistan	484	544	550	568	7.2	7.4	7.7	6.9	Russia	344	308	598	594	1.8	1.5	3.2	3.0		
Netherlands	562	592	547	530	8.3	8.0	7.6	6.4	Netherlands	428	272	304	342	2.2	1.3	1.6	1.7		
USA	543	678	462	658	8.1	9.2	6.4	8.0	Oman	202	315	239	521	1.0	1.5	1.3	2.6		
United Kingdom	451	379	395	450	6.7	5.1	5.5	5.5	United Kingdom	306	295	291	345	1.6	1.4	1.6	1.7		
Saudi Arabia	70	105	129	198	1.0	1.4	1.8	2.4	Germany	392	291	287	325	2.0	1.4	1.5	1.6		
China	199	234	188	197	3.0	3.2	2.6	2.4	Pakistan	173	224	189	337	0.9	1.1	1.0	1.7		
Germany	130	136	116	141	1.9	1.8	1.6	1.7	France	205	180	263	230	1.1	0.9	1.4	1.1		
France	89	86	112	105	1.3	1.2	1.6	1.3	Singapore	95	100	156	41	0.5	0.5	0.8	0.2		
Thailand	21	32	30	23	0.3	0.4	0.4	0.3	Italy	226	210	157	165	1.2	1.0	0.8	0.8		
India	95	68	78	143	1.4	0.9	1.1	1.7	Indonesia	405	229	299	190	2.1	1.1	1.6	0.9		
Spain	57	63	63	79	0.8	0.9	0.9	1.0	Belgium	220	194	123	303	1.1	0.9	0.7	1.5		
Others	944	1,103	1,040	1,267	14.0	15.0	14.5	15.4	Others	2,880	3,052	2,235	2,563	14.9	14.5	12.0	12.7		
Total Exports (CIF)	6,748	7,371	7,177	8,242	100.0	100.0	100.0	100.0	Total Imports (CIF)	19,263	21,091	18,580	20,117	100.0	100.0	100.0	100.0		
European Union	1,066	1,141	1,082	1,140	15.8	15.5	15.1	13.8	European Union	2,080	1,709	1,587	1,862	10.8	8.1	8.5	9.3		
China	199	234	188	197	3.0	3.2	2.6	2.4	China	4,023	3,843	3,267	4,333	20.9	18.2	17.6	21.5		

Source: Kenya Revenue Authority and Central Bank of Kenya

viii. Economic Growth

Economic growth decelerated in the third quarter of 2024, largely due to a contraction in industrial activity and slowdown across most sectors of the economy. Industrial sector growth contracted by -0.2 percent from a growth of 3.1 percent in a similar quarter in 2023, attributed to a notable contraction in growth of construction, and mining and quarrying sub-sectors. Agriculture sector growth remained resilient at 4.2 percent compared to a growth of 5.1 percent

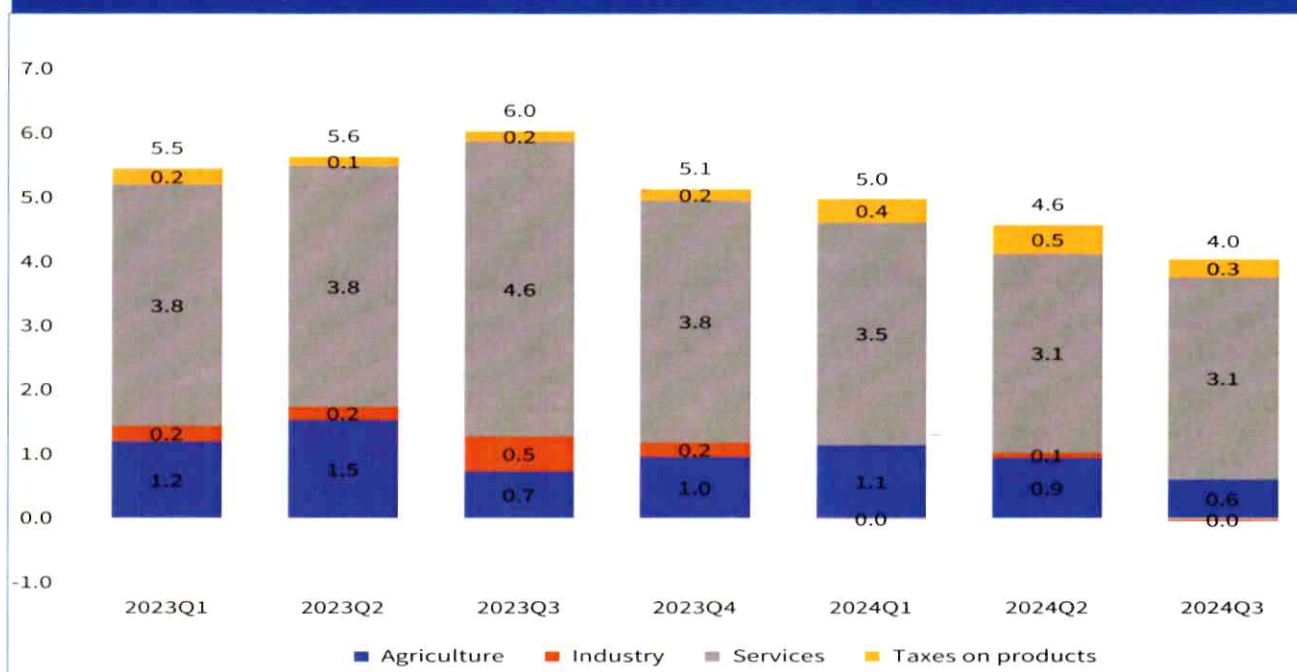
in a similar quarter of 2023. Growth of the sector was supported by favorable weather conditions and government interventions to moderate input costs, particularly fertilizer subsidy which resulted in increased crop production. Services sector's growth decelerated to 5.3 percent compared to 7.8 percent in a similar quarter of 2023. All services recorded slower growth, except wholesale and retail trade, public administration, and education (Table 6 and Chart 5).

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

Main Sectors	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2023 Q1-Q3	2024 Q1-Q3
1. Agriculture	5.1	6.2	6.1	4.8	4.2	6.6	5.1
2. Non-Agriculture (o/w)	6.2	4.9	4.7	4.5	4.0	5.5	4.4
2.1 Industry	3.1	1.4	0.1	0.6	-0.2	2.0	0.2
2.2 Services	7.8	6.5	6.2	5.5	5.3	7.1	5.7
2.3 Taxes on products	1.9	2.0	4.5	5.8	3.4	2.2	4.5
Real GDP Growth	6.0	5.1	5.0	4.6	4.0	5.7	4.5

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

Chart 5: Contributions 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 second half of 2024 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 December 2024, 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, MPC Members 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, expectations and decisions and supporting key policy decisions, including monetary policy. 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 second half of 2024 ahead of the MPC meetings revealed continued optimism about economic growth prospects for 2024. 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 high cost of doing business, taxation, subdued consumer demand, and high cost of credit.

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.

3. THE ECONOMIC ENVIRONMENT AND OUTLOOK IN 2025

i. International Economic Environment

The January 2025 update of the IMF World Economic Outlook (WEO) projects global growth to improve to 3.3 percent in 2025 from an estimated growth of 3.2 percent in 2024. This growth will be driven by strong performance in the United States and India, along with improved prospects in the United Kingdom, despite weaknesses in the Euro Area and subdued demand in China. Growth in advanced economies is expected to remain stable at 1.9 percent in 2025 before slightly moderating to 1.8 percent in 2026. The U.S. growth outlook was revised upward by 0.5 points from the October 2024 WEO report, reflecting increased consumer spending, industrial production, and robust labor markets. Conversely, growth projections for the Euro Area were revised downward by 0.2 percentage points due to weaker manufacturing activity and reduced economic activity. The Euro Area and the UK are expected to grow by 1.0 percent and 1.6 percent, respectively, in 2025.

In emerging markets and developing economies, growth is projected to remain stable at 4.2 percent in 2025 and 4.3 percent in 2026, according to the January 2025 WEO. This reflects resilient activity in Asia, particularly in India. However, China's economic prospects remain weighed down by weak demand, especially in the property market, unfavorable demographics, and slower productivity growth. In sub-Saharan Africa (SSA), growth is expected to rise

from an estimated 3.8 percent in 2024 to 4.2 percent in 2025 and 2026. However, the 2026 projection was revised downwards by 0.2 percentage points due to weaker growth prospects in Nigeria and South Africa, due to subdued domestic economic activity. Nigeria and South Africa are projected to grow by 3.2 percent and 1.5 percent in 2025, respectively.

Global financial conditions remained accommodative, supported by positive corporate valuations and increased risk appetite for equity assets in major economies. Global headline inflation is projected to decline from 5.7 percent in 2024 to 4.2 percent in 2025 and 3.5 percent in 2026. However, this decline has slowed in major economies due to persistent core inflation, driven by rising wages and strong demand for services, prompting central banks to reassess the pace of monetary policy easing. International oil prices have moderated, though risks of volatility remain high due to adverse trade policies and geopolitical tensions. Food inflation has increased, mainly due to higher edible oil prices. World trade is expected at 3.2 percent in 2025 and 3.3 percent in 2026. Oil price is projected to contract by 11.7 percent while non-fuel commodity price is expected to rise by 2.5 percent in 2025. The main risks to the global growth outlook include: uncertainty on trade policies and escalating geopolitical tensions, particularly in the Middle East and the Russia-Ukraine conflict. However, a faster-than-expected decline in inflation could help stimulate global demand.

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

Country/Region	Actual	Estimate	Projections	
	2023	2024	2025	2026
World Output	3.3	3.2	3.3	3.3
Advanced Economies	1.7	1.7	1.9	1.8
United States	2.9	2.8	2.7	2.1
Euro area	0.4	0.8	1.0	1.4
Japan	1.5	-0.2	1.1	0.8
United Kingdom	0.3	0.9	1.6	1.5
Emerging Market and Developing economies	4.4	4.2	4.2	4.3
Emerging and Developing Asia	5.7	5.2	5.1	5.1
China	5.2	4.8	4.6	4.5
India	8.2	6.5	6.5	6.5
Emerging and Developing Europe	3.3	3.2	2.2	2.4
Russia	3.6	3.8	1.4	1.2
Latin America and the Caribbean	2.4	2.4	2.5	2.7
Brazil	3.2	3.7	2.2	2.2
Sub-Saharan Africa	3.6	3.8	4.2	4.2
South Africa	0.7	0.8	1.5	1.6
Nigeria	2.9	3.1	3.2	3.0
Middle East and North Africa	1.8	2.0	3.5	3.9

Source: IMF, *World Economic Outlook, January 2025 update*

ii. Domestic Economic Environment

Economic growth is estimated to be lower in 2024 compared to 2023, reflecting a slowdown across most sectors. The economy is expected to perform better in 2025 compared to 2024, supported by recovery of the industrial sector through the planned increase in development spending in FY2025/26, envisaged recovery of growth in private sector credit with the easing of monetary policy stance, and resilient agriculture and services sectors. The downside risks to growth outlook include potential escalation of geopolitical tensions, mainly the Israel-Palestine conflict and war in Ukraine, heightened policy uncertainty due to adverse US policy shifts, and weakness in global demand.

The macroeconomic environment is expected to remain stable, with overall inflation remaining within the target range of 5.0 percent with a margin of 2.5 percent on either side, supported by lower food prices and stable energy prices. Supply of food items is expected to be adequate, supported by favorable weather conditions. The foreign exchange market is expected to remain stable, supported by the narrowing of the current account deficit, which was estimated at 3.7 percent of GDP in the twelve months to December 2024 and projected at 3.8 percent to GDP

in 2025, compared to 4.0 percent of GDP in a similar period in 2023. 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 second half of 2024 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 high cost of doing business, high interest rates, taxation, subdued demand and potential impact of increased geopolitical tensions on the economy. 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 increased labor costs, transport costs, unpredictable weather conditions, and the high cost of inputs such as seeds and fertilizers.

The overall fiscal deficit including grants amounted to Ksh 456.5 billion (2.5 percent of GDP) against a target of Ksh 339.7 billion (1.9 percent of GDP) by end of December 2024. Total revenue including grants increased by 1.6 percent to Ksh 1,334.7 billion in December 2024 compared with a growth of 14.5 percent by end December 2023. Over the same period, total expenditures and net lending increased by 5.3 percent to KSh 1,795.8 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 5.3 percent of GDP in the FY 2023/24 to 2.7 percent of GDP over the medium term.

4. DIRECTION OF MONETARY POLICY IN 2025

Price stability will be the overriding objective of monetary policy in 2025. Monetary policy formulation and implementation will aim at maintaining overall

inflation around the mid-point of the target range of 5 ± 2.5 percent.

Table 8: Outlook for Key Macro-Economic Indicators

	2020	2021	2022	2023	2024 Prov	2025 Proj
Real GDP growth (YoY, percent)	-0.3	7.6	4.9	5.6	4.6	5.4
Overall Inflation (YoY, percent)	5.6	5.7	9.1	6.6	4.5	5.0
Current Account deficit (Percent of GDP)	-3.7	-5.1	-5.1	-4.0	-3.7	-3.8
Exports of Goods and Services (Percent of GDP)	12.2	11.8	11.7	11.3	11.5	10.3
Imports of Goods and Services (Percent of GDP)	21.5	20.5	20.4	19.5	19.7	18.0
Private sector credit growth (YoY, percent)	8.4	8.6	12.5	13.9	-1.4	9.8
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Fiscal Deficit (Percent of GDP)	8.3	6.2	5.6	5.3	4.3	3.8

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. Further, banks will continue to access the Discount Window, which serves as a backup source of liquidity for the banking system. These measures will enhance the CBK's forward-looking monetary policy framework.

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 heightened policy uncertainty and escalating geopolitical risks, and their potential impact on international oil prices and global supply chains and commodity prices. Monetary 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.

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JULY - DECEMBER 2024)

August 2024	CBR reduced to 12.75 percent from 13.00 percent.
October 2024	CBR reduced to 12.00 percent from 12.75 percent. Release of October 2024 IMF World Economic Outlook (WEO) Report showing that global growth was expected to remain stable at 3.2 percent in 2024 and 2025, same as the 2023 growth. Global inflation was forecasted to continue declining steadily, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. Core inflation was generally projected to decline more gradually.
December 2024	CBR reduced to 11.25 percent from 12.00 percent.

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.