

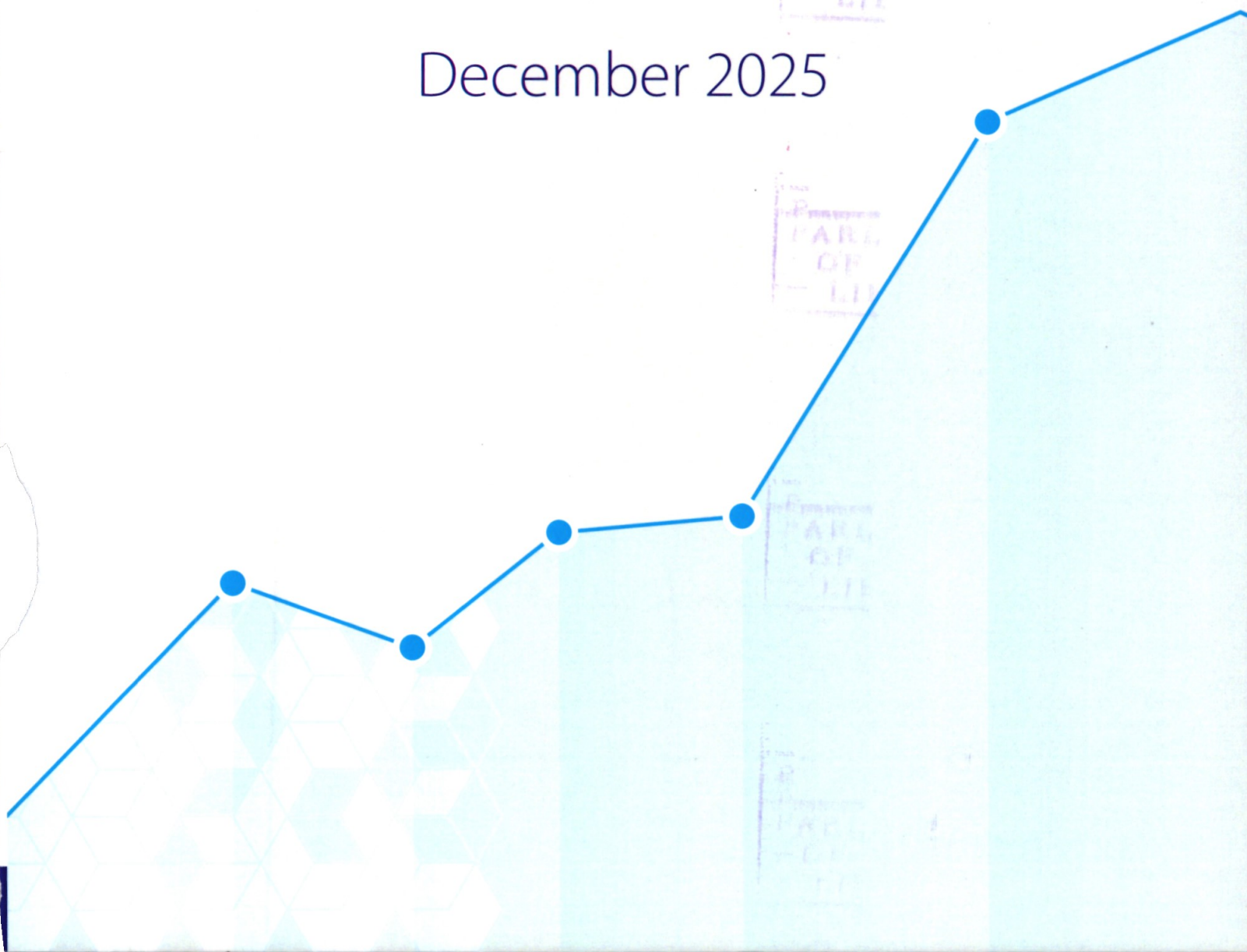


Central Bank of Kenya

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# Monetary Policy Statement

December 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 57<sup>th</sup> Monetary Policy Statement of the Central Bank of Kenya. The statement reviews and assesses the implementation of monetary policy during the second 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>	
DATE: <b>31 MAR 2026</b>	
DAY: TUE	
TABLED BY:	HON. NADMI WAZO, MP DEPUTY MAJORITY PARTY WHIP
CLERK-AT THE-TABLE:	Y. WAMBUI



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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 5 percent with 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 50 basis points. Consistent with the new framework, monetary policy operations are aimed at ensuring the Kenya Shilling Overnight Interbank Average (KESONIA) 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 50 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 2026 and reviews the outcomes of the policy measures implemented in the second half of 2025.

During the second half of 2025, the CBK conducted monetary policy with the objective of maintaining overall inflation within the target range of  $5\pm 2.5$  percent and supporting the government economic growth objective. Monetary policy was conducted against a backdrop of resilient global growth, amid elevated global trade policy uncertainty and geopolitical tensions, notably in the Middle East and the Russia Ukraine conflict. Inflation in major economies eased modestly during the period but remained above target, reflecting sticky core inflation. International oil prices moderated amid increased production and weaker demand, but remained volatile due to heightened global uncertainties. Food inflation declined, supported by lower prices for cereals and sugar. Central banks in advanced economies cautiously and unevenly eased monetary policy in line with country specific inflation and growth outlooks.

The Monetary Policy Committee (MPC) held three meetings during the period and cumulatively reduced the Central Bank Rate (CBR) by 75 basis points. In August 2025, the MPC lowered the CBR by 25 basis points to 9.50 percent from 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. The CBR was reduced by 25 basis points in October 2025 to 9.25 percent. In December 2025, the CBR was further lowered by 25 basis points to 9.00 percent.

Kenya's overall inflation remained below the midpoint of the  $5\pm 2.5$  percent target range between June and December 2025. It stood at 4.5 percent in December 2025 compared to 3.8 percent in June 2025. Non-core inflation increased to 11.2 percent from 6.2 percent over the period, mainly reflecting higher prices vegetables. Core inflation declined to 2.0 percent in December 2025 from 3.0 percent in June 2025, mainly supported by lower prices of key processed food items.

The foreign exchange market remained stable in the second half of 2025, despite elevated global uncertainties. This stability was supported by inflows from diaspora remittances, earnings from horticulture exports, and investments from offshore banks. The current account deficit was estimated at 2.4 percent of GDP in 2025, compared to 1.3 percent of GDP in 2024. The CBK foreign exchange reserves stood at USD 12,394 million (5.3 months of import cover) in December 2025. These reserves continued to provide an adequate buffer against short-term shocks in the foreign exchange market.

The banking sector remained stable and resilient in the second half of 2025, supported by strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 59.3 percent and 20.0 percent, respectively, in December 2025, well above the statutory limits. Credit risk eased with the ratio of gross non-performing loans to gross loans declining to 15.4 percent in December 2025 from 17.6 percent in June 2025. Banks continued to make adequate provisions for the NPLs. Private sector credit growth recovered, growing by 5.9 percent in December from 2.2 percent recorded in June 2025. The revised banking sector Risk Based Credit Pricing model (RBCPM), scheduled to become fully operational by March 2026 is expected to strengthen the transmission of monetary policy decisions to banks' lending rates and enhance transparency in the pricing of loans by banks.

The Kenyan economy remained resilient, with real GDP growing by 4.9 percent in the third quarter of 2025 compared to 4.2 percent in the corresponding quarter of 2024. This growth was supported by a rebound in the industrial sector and continued resilience in the services sector.

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The industrial sector grew by 4.8 percent in the third quarter of 2025 from a contraction of 0.4 percent in the third quarter of 2024, supported by improved performance of all sectors particularly construction, and mining and quarrying sectors. The services sector remained robust, growing by 5.5 percent in the third quarter of 2025 compared to 5.4 percent in similar period in 2024, supported by strong performance in accommodation and food services, real estate, finance and insurance, and transport and storage sectors. Agriculture sector growth decelerated to 3.2 percent from 4.0 percent in similar period in 2024. The growth of the economy is estimated at 5.0 percent in 2025.

The monetary policy stance in 2026 will aim at maintaining overall inflation within the target range of 5±2.5 percent and supporting the government economic growth objective. The economy is projected to grow by 5.5 percent in 2026, supported by strong performance of agriculture and services sectors, as well as a recovery of the industrial sector. Growth in credit to the private sector is projected at 10.6 percent by December 2026, underpinned by lower interest rates and sustained improvement 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 projected to remain relatively stable at 2.2 percent of GDP in 2026.

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. Continued coordination between monetary and fiscal policy is expected to reinforce macroeconomic stability. The Bank will continue to monitor the impact of its policy measures, as well as developments in the global and domestic economy, in order to safeguard price stability.

## INTRODUCTION

This Monetary Policy Statement (MPS) outlines the direction of monetary policy in 2026 and presents the outcome of the monetary policy actions implemented in the second half of 2025. Price stability remains the primary objective of monetary policy formulation and implementation. The Central Bank of Kenya uses the Central Bank Rate (CBR) to signal the stance of monetary policy. The Bank monitors developments in inflation, and key monetary aggregates such as broad money (M3) and credit to the private sector, while operating under 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's foreign exchange reserves provide a buffer against short-term shocks.

The January 2026 WEO by IMF projected global growth at 3.3 percent and 3.2 percent in 2026 and 2027, an upward revision of 0.2 percentage points for 2026 and no change for 2027, compared to the October 2025 WEO. The upward revision reflects stronger-than-expected momentum in advanced economies, particularly the United States, supported by robust technology and AI-related investment, which has offset weakness in other sectors and boosted high tech exports, especially in North America and Asia. Growth prospects have also been supported by more accommodative fiscal and monetary policies, easing financial conditions, and reduced trade tensions. Additionally, stimulus measures and lower effective tariffs in key emerging markets, notably China, further strengthened the global

outlook. Nevertheless, downside risks to global growth remain elevated due to reliance on a narrow set of growth drivers and heightened uncertainty. A sharp correction in technology and AI related investment, renewed trade tensions, geopolitical shocks, and high public debt could tighten financial conditions, disrupt supply chains, and amplify global macro financial vulnerabilities.

The CBK continued to assess the effectiveness of earlier policy actions in cushioning the economy from disruptions, while closely monitoring global and domestic economic developments. In the second half of 2025, the MPC gradually eased the monetary policy stance, lowered the CBR cumulatively by 75 basis points during its meetings in August, October, and December 2025. The MPC observed that the previous policy measures had reduced overall inflation to below the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. In view of these developments, the Committee determined that there was scope for a further easing of the monetary policy stance to stimulate bank lending to the private sector and support economic activity.

The remainder of this Policy Statement is structured as follows. Section 2 reviews the outcomes of the monetary policy stance implemented in the second half of 2025 while Section 3 describes the developments in the external economic environment and presents the outlook for 2026. Section 4 concludes by outlining the direction of monetary policy in 2026.

## 1. ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE SECOND HALF OF 2025

During the second half of 2025, monetary policy formulation and implementation were 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 risks that could trigger demand-driven inflationary pressures.

During the MPC meeting held in August 2025, the MPC decided to lower the Central Bank Rate (CBR) by 25 basis points to 9.50 percent from 9.75. On the domestic front, the MPC noted that overall inflation was expected to remain below the midpoint of the  $5\pm 2.5$  percent target range in the near term, supported by lower food prices, stable energy prices, and continued exchange rate stability. The Committee also acknowledged several positive developments, including stronger economic growth in the second quarter, a recovery in private sector credit, sustained business confidence, a narrowing of the current account deficit, adequate foreign exchange buffers, and continued resilience in the banking sector.

The MPC was also briefed on the proposed revised banking sector Risk-Based Credit Pricing Model (RBCPM), which is expected to enhance the transmission of monetary policy decisions to commercial banks' lending interest rates. On the global front, the Committee noted improvements in global growth and a continued decline in inflation, while highlighting persistent downside risks stemming from trade policy uncertainty and geopolitical tensions. The Committee therefore concluded that there was scope for further easing of the monetary policy stance to stimulate bank lending to the private sector and support economic growth, while ensuring exchange rate stability.

During the MPC meeting held in October 2025, the Committee lowered the CBR by 25 basis points to 9.25 percent. The Committee

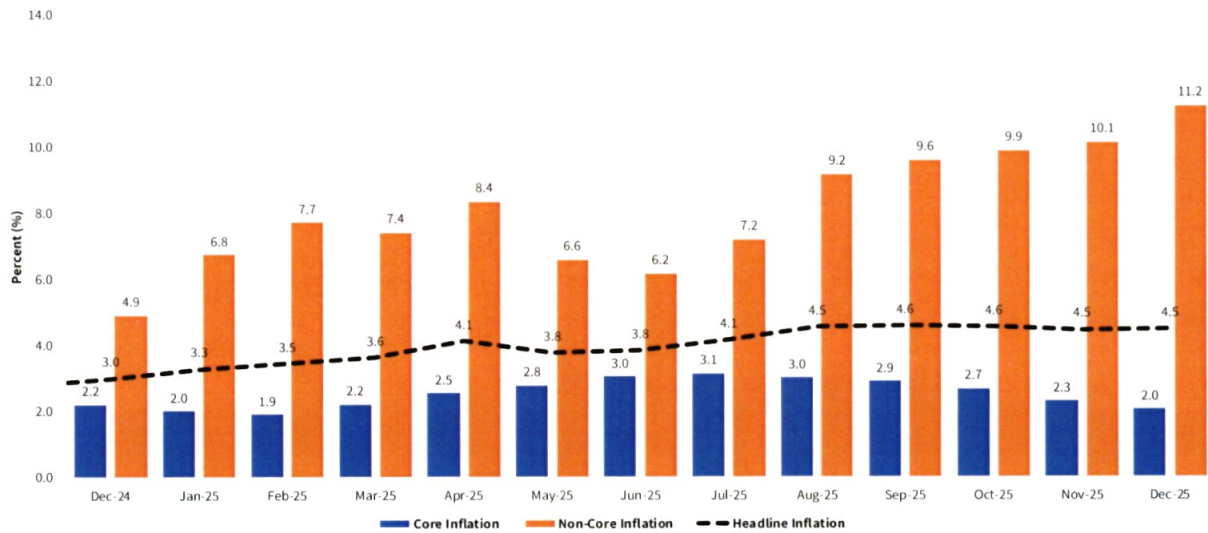
noted that overall inflation remained low and stable and was projected to remain below the midpoint of the target range in the near term, supported by stable energy prices, and continued exchange rate stability. With lending rates already declining and private sector credit recovering, the MPC concluded that a further easing of the monetary policy stance would support credit expansion and economic growth, while anchoring inflationary expectations. In the December 2025 Meeting, the MPC further reduced the CBR by 25 basis points to 9.00 percent to augment the previous policy actions aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring that inflationary expectations remained firmly anchored, and the exchange rate remained stable. The MPC also noted that the revised banking sector Risk-Based Credit Pricing Model (RBCPM), would be fully operational by March 2026.

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

### i. Inflation

Headline inflation remained relatively stable below the medium-term target of 5 percent in the second half of 2025. It increased to 4.5 percent in December 2025 from 3.8 percent in June 2025, mainly on account of elevated non-core inflation, which offset the decline in core inflation. Non-core inflation increased to 11.2 percent in December 2025 from 6.2 percent in June 2025, largely driven by higher prices of vegetable and energy items, reflecting below average weather conditions experienced during the period and the waning impact of base effect, respectively. Core inflation declined to 2.0 percent in December 2025 from 3.0 percent in June 2025, largely driven by notable price reductions of select processed food items **(Chart 1a and Chart 1b)**.

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

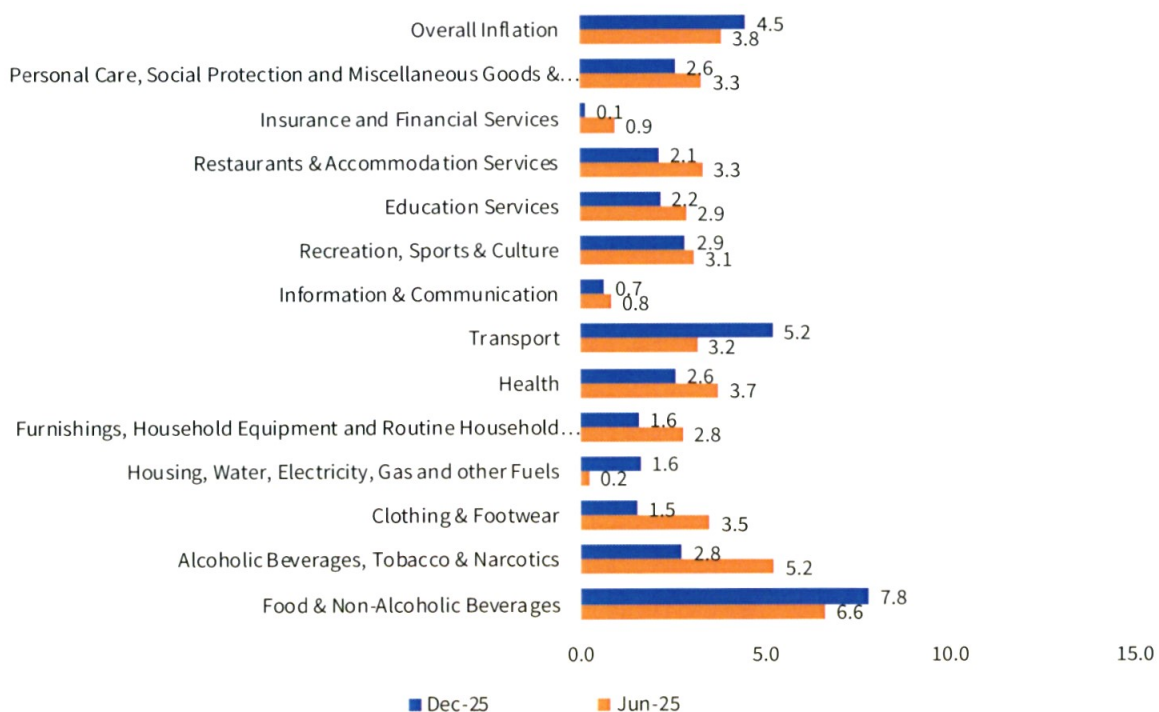


Source: Kenya National Bureau of Statistics and CBK

Inflation rates for the 'Food and non-alcoholic beverages', 'Transport', and 'Housing, water, electricity, gas and fuels' categories in the

consumer basket increased in December 2025 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

Private sector credit growth strengthened in the second half of 2025, rising to 5.9 percent in the year to December from 2.2 percent in the year to June. The improvement reflected stronger credit demand supported by resilient

economic activity, with notable expansion in agriculture, manufacturing, building and construction, and consumer durables. Credit growth is expected to improve further in 2026, supported by the accommodative monetary policy stance and resilience in economic activity (**Table 1**).

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

Main sectors	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Agriculture	10.1	7.2	5.1	8.4	12.6	10.3	10.2	12.7	16.2	22.1	28.8
Manufacturing	-0.6	-14.3	-9.4	-6.3	3.1	2.4	1.7	11.1	10.7	7.9	2.9
Trade	3.1	6.5	2.3	5.8	10.1	12.0	10.1	3.9	4.5	6.2	6.9
Building and construction	-8.3	-13.4	-6.1	12.0	25.0	38.8	49.6	52.9	54.8	43.8	37.1
Transport and communication	4.4	1.4	1.6	4.8	-2.0	-0.6	0.4	-1.3	-6.6	-9.5	-10.1
Finance and insurance	3.2	0.3	-21.2	-18.8	-6.7	0.2	-3.3	-1.3	4.4	14.5	11.3
Real estate	3.6	2.3	1.3	2.4	1.6	2.1	2.8	1.0	3.3	2.5	0.8
Mining and quarrying	111.7	96.7	-22.9	-44.3	-47.1	-55.2	-59.0	-56.3	-17.8	12.1	41.8
Private households	7.5	7.0	9.2	-0.9	-0.2	0.8	-0.3	-0.7	1.6	1.6	2.1
Consumer durables	3.9	2.7	3.3	8.1	9.6	10.3	9.1	12.2	7.1	8.3	7.9
Business services	1.9	-2.8	-4.5	-13.1	-10.0	-8.9	-5.1	-4.2	-1.8	-3.2	-3.9
Other activities	8.8	-7.4	-18.2	-0.8	-24.8	-27.8	-20.3	11.4	13.5	23.3	35.6
<b>Total private sector credit</b>	<b>4.0</b>	<b>0.4</b>	<b>-1.4</b>	<b>0.2</b>	<b>2.2</b>	<b>3.3</b>	<b>3.3</b>	<b>5.0</b>	<b>5.9</b>	<b>6.3</b>	<b>5.9</b>

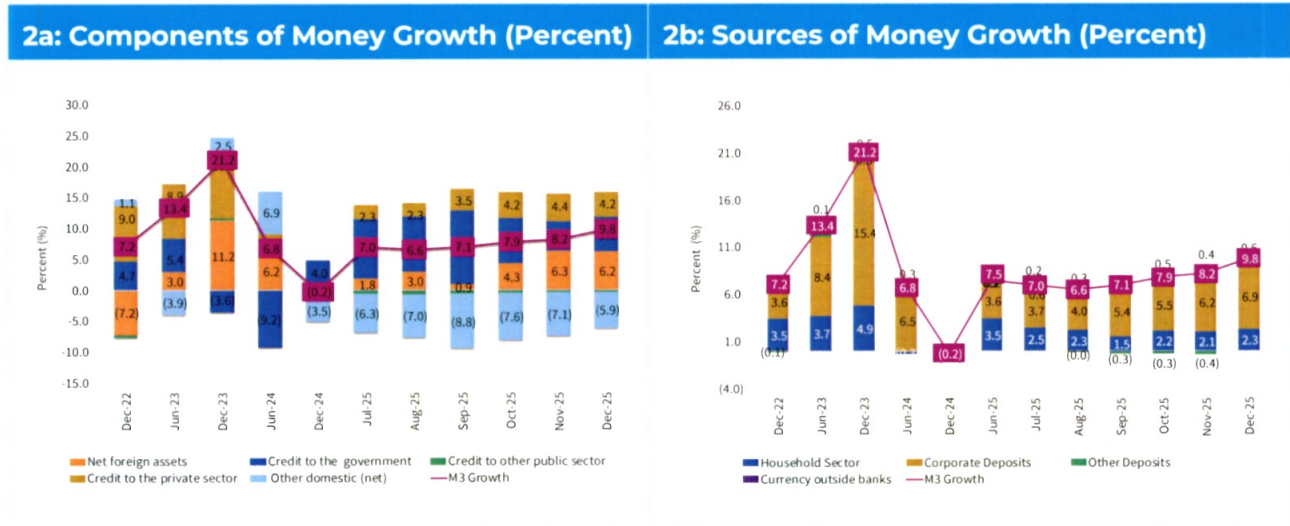
Source: Central Bank of Kenya

## iii. Developments in the other Monetary Aggregates

Broad money (M3) grew by 9.8 percent in the year to December 2025, up from 7.5 percent in June, driven by strong net lending to Government, higher net foreign assets within the banking system, and a recovery in private sector credit. The rise in net foreign

assets was mainly driven by the Central Bank, reflecting official Government inflows and foreign exchange purchases. The increase in net lending to Government was partly driven by higher demand for Government securities by commercial banks. On the liability side, the growth in M3 was reflected in the increase in deposits (**Chart 2 and Table 2**).

**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**

	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Broad Money, M3 (Ksh Billion)	5,786.5	5,806.1	5,759.6	5,761.1	5,796.4	5,913.6	6,029.3
Reserve Money (Ksh Billion)	572.3	545.6	605.6	576.7	572.8	584.9	636.1
Credit to private sector (Ksh Billion)	3,880.9	3,903.1	3,900.5	3,979.8	4,039.0	4,053.9	4,085.8
Memorandum Items							
12-month growth in actual Reserve Money (Percent)	(1.3)	(7.2)	0.9	(0.6)	(5.7)	(4.6)	2.3
12-month growth in actual Broad Money, M3 (Percent)	7.5	7.0	6.6	7.1	7.9	8.2	9.8

Source: Central Bank of Kenya

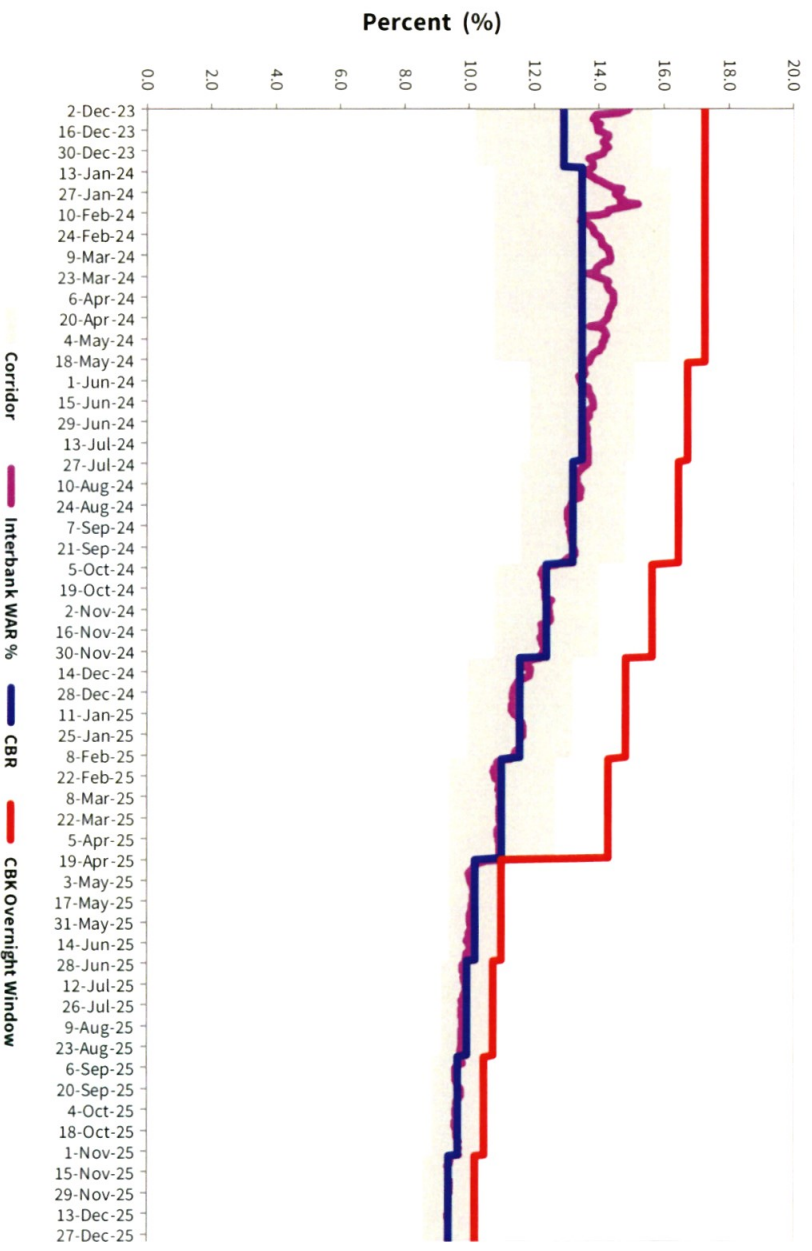
**iv. Interest Rates Developments**

**a. Short Term Rates**

Short-term interest rates declined in the second half of 2025, reflecting the easing of the monetary policy stance and ample liquidity conditions in the money market (Table 3). The average interbank rate fell to 9.08 percent in December 2025 from 9.72 percent

in June 2025, consistent with the reduction in the Central Bank Rate (CBR) and improved liquidity in money market (Chart 2c). Similarly, the average 91-day Treasury bill rate declined to 7.78 percent in December 2025 from 8.21 percent in June 2025, while the average 182-day Treasury bill rate decreased to 7.80 percent from 8.51 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 second half of 2025, in line with easing of the monetary policy stance. The weighted average lending rate

declined to 14.82 percent in December 2025 from 15.29 percent in June 2025, while the weighted average deposit rate decreased to 7.1 percent from 8.37 percent over the same period (Table 3).



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

	2023			2024				2025							
	June	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Central Bank Rate	10.50	10.50	12.50	13.00	13.00	12.75	11.25	10.75	9.75	9.75	9.50	9.50	9.25	9.25	9.00
Interbank	9.48	12.36	11.65	13.42	13.14	12.67	11.45	10.68	9.72	9.63	9.55	9.48	9.33	9.24	9.08
91-Tbill	11.49	14.38	15.70	16.68	15.97	15.75	10.32	8.88	8.21	8.13	8.05	7.96	7.88	7.79	7.78
182-Tbill	11.54	14.42	15.80	16.86	16.67	16.62	10.39	9.13	8.51	8.44	8.19	8.02	7.92	7.82	7.80
<b>Average Lending Rate (1)</b>	<b>13.31</b>	<b>13.98</b>	<b>14.63</b>	<b>16.28</b>	<b>16.85</b>	<b>16.91</b>	<b>16.89</b>	<b>15.76</b>	<b>15.29</b>	<b>15.24</b>	<b>15.17</b>	<b>15.07</b>	<b>15.00</b>	<b>14.88</b>	<b>14.82</b>
Overdraft/loan	12.83	13.62	14.65	15.97	16.78	16.83	15.75	14.29	13.52	13.61	13.89	13.72	13.23	13.36	13.38
1-5years	13.79	14.48	15.16	16.82	17.52	17.69	17.72	16.48	15.89	15.68	15.50	15.41	15.34	15.24	15.18
Over 5years	13.06	13.67	14.14	15.90	16.25	16.18	16.59	15.67	15.37	15.31	15.26	15.19	15.26	15.01	14.95
<b>Average Deposit Rate (2)</b>	<b>7.80</b>	<b>8.64</b>	<b>10.10</b>	<b>10.52</b>	<b>11.48</b>	<b>11.24</b>	<b>10.45</b>	<b>9.34</b>	<b>8.37</b>	<b>8.07</b>	<b>7.74</b>	<b>7.63</b>	<b>7.50</b>	<b>7.28</b>	<b>7.13</b>
Demand	1.97	2.37	2.51	2.57	2.45	2.62	2.90	2.37	1.92	1.89	2.19	2.14	2.12	1.91	2.13
0-3months	8.32	9.76	11.42	12.08	12.56	12.28	11.27	9.88	8.45	8.29	8.18	8.11	7.91	7.72	7.66
Over 3months	8.54	8.96	10.19	11.27	11.92	12.04	11.04	10.48	9.30	8.84	8.28	8.11	7.99	7.71	7.78
Savings	3.92	4.00	4.24	3.90	5.11	3.57	4.25	3.09	3.76	3.76	3.61	3.77	3.76	3.67	3.22
<b>Spread (1-2)</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>6.42</b>	<b>6.92</b>	<b>7.18</b>	<b>7.43</b>	<b>7.44</b>	<b>7.51</b>	<b>7.60</b>	<b>7.69</b>

Source: Central Bank of Kenya

## v. Banking Sector developments

The banking sector remained stable and resilient in the period ending December 2025, with strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 59.3 percent and 20.0 percent in December 2025, respectively. These were above the minimum statutory limits of 20.0 percent and 14.5 percent respectively.

Credit risk improved, with the ratio of gross non-performing loans (NPLs) to gross loans declining to 15.4 percent in December 2025 from 17.6 percent in June 2025. Gross NPLs decreased by 7.4 percent from Ksh 728.5 billion in June 2025, to Ksh 674.4 billion in December 2025, mainly due to repayments and write-offs. The reduction in NPLs was prominent in the real estate, manufacturing, trade, transport and communication, tourism, restaurant and hotels sectors.

Customer deposits increased by 7.3 percent to Ksh 6,274.1 billion in December 2025, from Ksh

5,847.8 billion in June 2025. They remained the primary funding source for the banking sector, accounting for 74.6 percent of total liabilities and shareholders' funds, a slight increase from 74.5 percent in June 2025.

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 2025, the seven banks participating in the CGS had disbursed guaranteed loans to MSMEs amounting to Ksh 6.7 billion. Of this amount, loan facilities of Ksh 5.7 billion had been repaid, while approximately Ksh 953.1 million remained outstanding as at December 31, 2025. The total scheme exposure as at December 31, 2025, was Ksh 238.3 million, which is 8.3 percent of the total CGS fund of Ksh 2.86 billion.

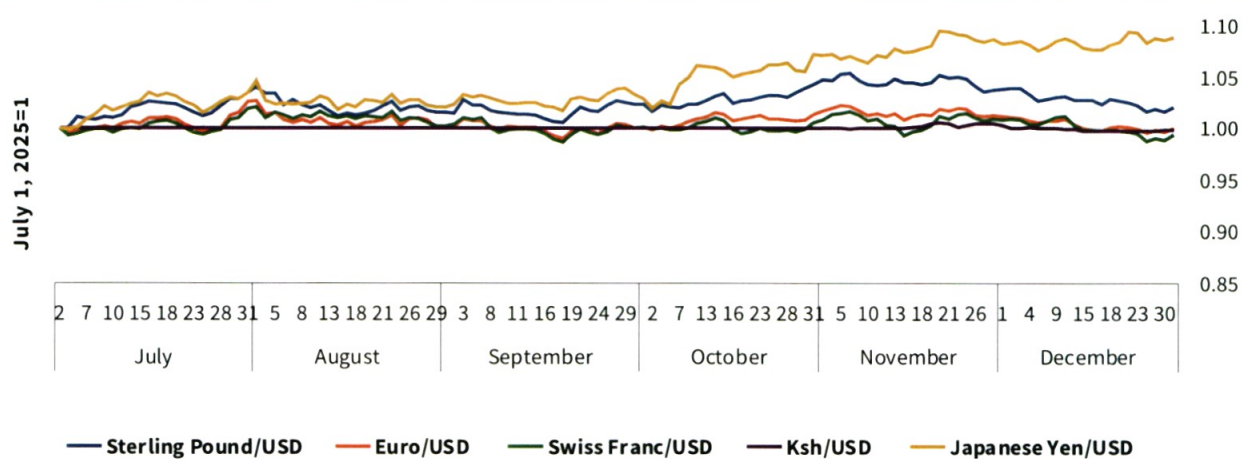
The banking sector is projected to remain stable supported by easing credit risk, stable liquidity and interest rate risks. However, operational risk is expected to remain elevated.

## vi. Exchange Rates and Foreign Exchange Reserves

The foreign exchange market remained stable in the second half of 2025 despite elevated global uncertainties. Geopolitical tensions in the Middle East increased risk aversion in global financial markets, strengthening safe haven currencies and exerting depreciation pressure on emerging market currencies (Charts 3a and 3b). Notwithstanding these

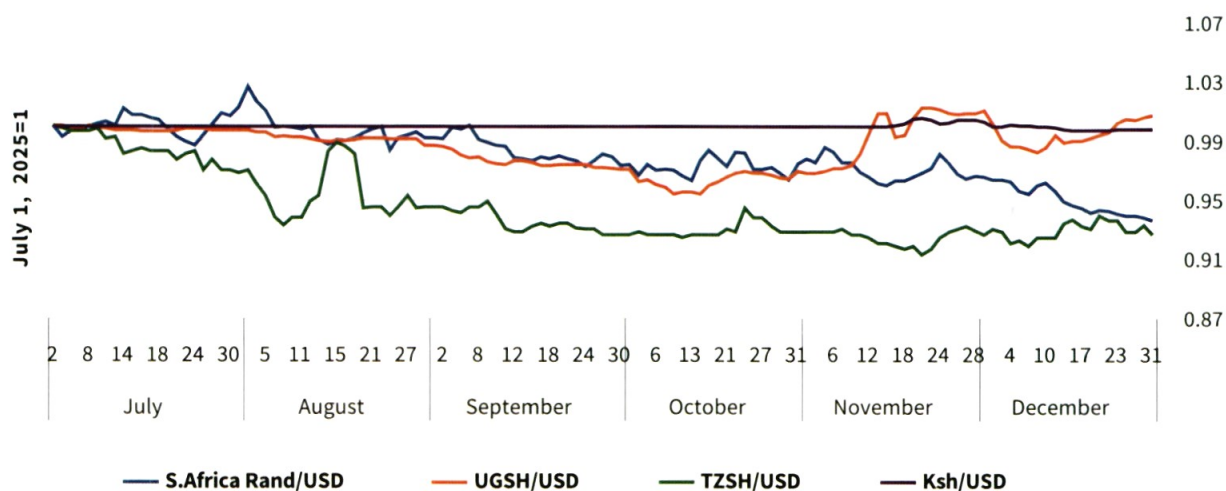
external headwinds, the Kenyan shilling demonstrated notable resilience, supported by steady and diversified foreign exchange inflows. Remittances continued to provide a stable source of foreign exchange, cushioning the currency against external pressures during periods of heightened volatility. Export receipts from key sectors, particularly horticulture and tea, also remained strong, underpinned by sustained demand in major markets and improved agricultural performance.

**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**

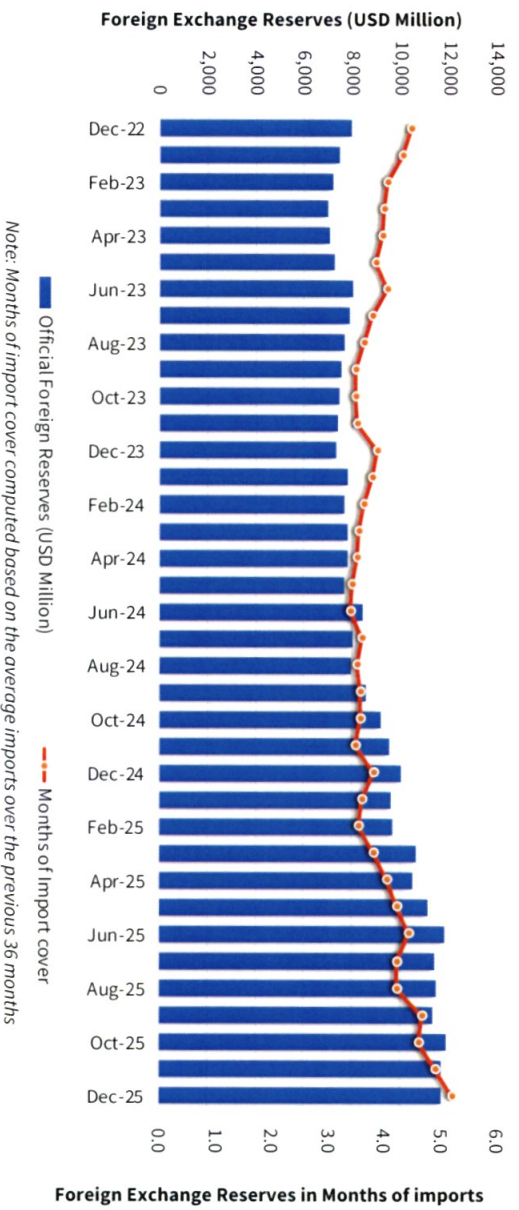


Source: Central Bank of Kenya

The stability in the foreign exchange market was further reinforced by the Central Bank's consistent policy stance and clear communication, which helped anchor market expectations. Official foreign exchange reserves remained adequate at USD 12,394 million equivalent to 5.3 months of import cover during the period under review, providing a

buffer against short-term shocks and ensuring that the Bank retained sufficient capacity to respond to temporary demand pressures. Overall, the combination of diversified inflows, adequate reserves and sustained policy stability underpinned the resilience of the foreign exchange market in the second half of 2025 (Chart 3c).

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

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## vii. Balance of Payments Developments

The current account deficit was estimated at 2.4 percent of GDP in 2025, compared to 1.3 percent of GDP in 2024. The current account widening was attributed to higher imports which more than offset the good performance of exports. Goods imports grew by 9.1 percent in 2025, 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 declined by 7.0 percent in 2025 due to lower international oil prices. Merchandise exports grew by 6.1 percent, supported by strong demand from traditional markets and favourable commodity prices. Higher earnings from horticulture, tea, coffee, manufactured goods, and apparel sustained export growth, despite declines in chemicals and re-exports. The rise in horticulture earnings reflected robust demand in traditional markets, while

manufactured exports increased in regional markets despite weaker performance in some EAC countries. Tea earnings were bolstered by higher prices at the Mombasa Tea Auction. Exports to Africa accounted for 56.9 percent, with COMESA and the EAC region accounting for 44.7 percent and 49.6 percent, respectively. The UAE, China, and India were the main import sources, accounting for 19.7 percent, 21.0 percent, and 9.2 percent of total imports, respectively. Imports from Africa accounted for 8.3 percent of the total imports in 2025 **(Table 5)**.

The balance on secondary income improved supported by record remittance inflows, which accounted for 3.7 percent of GDP in 2025. Remittance inflows to Kenya increased by 1.9 percent in 2025 to USD 5,037 million compared to USD 4,945 million in 2024. Remittance inflows remain a key source of foreign exchange earnings and continue to support the balance of payments. Service exports grew by 1.1 percent in 2025 supported by resilient travel receipts but moderated by other services payments.

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

	2022	2023	2024	2025 est	2026 proj	2027p
<b>Current account</b>	<b>(4.2)</b>	<b>(2.5)</b>	<b>(1.3)</b>	<b>(2.4)</b>	<b>(2.2)</b>	<b>(2.2)</b>
<b>1.1 Trade balance</b>	<b>(10.1)</b>	<b>(8.8)</b>	<b>(8.1)</b>	<b>(8.0)</b>	<b>(7.7)</b>	<b>(7.8)</b>
<b>Goods exports, f.o.b</b>	<b>9.3</b>	<b>10.2</b>	<b>10.4</b>	<b>9.6</b>	<b>9.7</b>	<b>9.8</b>
Tea	1.2	1.2	1.2	1.0	1.0	1.0
Horticulture	0.8	0.9	0.9	0.9	0.9	0.9
Manufactured Goods	0.5	0.6	0.5	0.5	0.5	0.5
Reexports	3.3	3.9	4.3	3.3	3.1	3.0
Other	3.4	3.5	3.5	3.9	4.2	4.5
<b>Goods imports, f.o.b</b>	<b>19.4</b>	<b>19.1</b>	<b>18.5</b>	<b>17.6</b>	<b>17.3</b>	<b>17.6</b>
Oil Products	7.3	7.5	6.8	5.5	5.0	4.9
Other	12.1	11.5	11.7	12.1	12.3	12.7
<b>1.2 Services balance</b>	<b>1.7</b>	<b>1.6</b>	<b>2.0</b>	<b>1.5</b>	<b>1.7</b>	<b>2.1</b>
<b>Services Credit</b>	<b>6.6</b>	<b>6.6</b>	<b>6.7</b>	<b>5.9</b>	<b>5.8</b>	<b>6.3</b>
Transport	2.0	1.8	1.8	1.6	1.6	1.8
Travel	2.0	2.6	2.9	2.8	2.8	3.1
<b>Services Debit</b>	<b>4.9</b>	<b>5.0</b>	<b>4.7</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>
Transport	1.9	1.6	1.6	1.4	1.4	1.4
<b>Goods and Services Balance</b>	<b>(8.4)</b>	<b>(7.3)</b>	<b>(6.1)</b>	<b>(6.5)</b>	<b>(6.0)</b>	<b>(5.6)</b>
<b>1.3 Primary income, Balance</b>	<b>(1.5)</b>	<b>(1.7)</b>	<b>(1.5)</b>	<b>(1.3)</b>	<b>(1.4)</b>	<b>(1.6)</b>
Credit	0.1	0.2	0.2	0.3	0.5	0.3
Debit	1.7	1.9	1.8	1.6	1.9	1.9
<b>1.4 Secondary income, Balance</b>	<b>5.7</b>	<b>6.5</b>	<b>6.3</b>	<b>5.4</b>	<b>5.2</b>	<b>5.1</b>
<b>Credit</b>	<b>5.7</b>	<b>6.6</b>	<b>6.4</b>	<b>5.4</b>	<b>5.2</b>	<b>5.1</b>
Remittances	3.5	3.9	4.1	3.7	3.5	3.5
<b>Capital account</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Financial Account</b>	<b>(3.6)</b>	<b>(1.7)</b>	<b>(2.8)</b>	<b>(4.0)</b>	<b>(2.9)</b>	<b>(1.7)</b>
<b>Foreign Direct investment</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.5)</b>	<b>(1.6)</b>	<b>(0.6)</b>
<b>Portfolio investment</b>	<b>0.6</b>	<b>0.5</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>0.0</b>
<b>Other investment</b>	<b>(4.0)</b>	<b>(1.9)</b>	<b>(1.9)</b>	<b>(2.4)</b>	<b>(0.4)</b>	<b>(1.1)</b>

Source: Central Bank of Kenya

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

Imports (In Millions of US Dollars)							Exports (In Millions of US Dollars)						
Country	Jan-Dec			% Share			Country	Jan-Dec			% Share		
	2023	2024	2025	2023	2024	2025		2023	2024	2025	2023	2024	2025
<b>Africa</b>	<b>1,878</b>	<b>1,875</b>	<b>2,041</b>	<b>8.5</b>	<b>7.8</b>	<b>8.3</b>	Africa	6,600	6,956	6,807	61.7	57.7	56.9
Of which							Of which						
South Africa	551	470	495	2.5	2.0	2.0	Uganda	3,963	4,235	4,036	37.0	35.1	33.7
Egypt	355	310	377	1.6	1.3	1.5	Tanzania	513	534	511	4.8	4.4	4.3
Ethiopia	13	14	26	0.1	0.1	0.1	Ethiopia	113	112	105	1.1	0.9	0.9
Others	973	1,095	1,169	4.4	4.6	4.7	Egypt	228	203	205	2.1	1.7	1.7
				0.0	0.0	0.0	Sudan	50	49	23	0.5	0.4	0.2
<b>EAC</b>	<b>616</b>	<b>735</b>	<b>731</b>	<b>2.8</b>	<b>3.1</b>	<b>3.0</b>	South Sudan	583	646	623	5.4	5.4	5.2
<b>COMESA</b>	<b>890</b>	<b>849</b>	<b>1,033</b>	<b>4.0</b>	<b>3.5</b>	<b>4.2</b>	Somalia	157	130	106	1.5	1.1	0.9
<b>Rest of the World</b>	<b>20,238</b>	<b>22,054</b>	<b>22,686</b>	<b>91.5</b>	<b>92.2</b>	<b>91.7</b>	DRC	182	236	287	1.7	2.0	2.4
Of which							Rwanda	386	364	398	3.6	3.0	3.3
India	1,935	1,951	2,266	8.7	8.2	9.2	Others	425	448	514	4.0	3.7	4.3
United Arab Emirates	5,600	5,471	4,870	25.3	22.9	19.7							
China	3,267	4,307	5,192	14.8	18.0	21.0	<b>EAC</b>	<b>5,697</b>	<b>6,072</b>	<b>5,931</b>	<b>53.2</b>	<b>50.3</b>	<b>49.6</b>
Japan	695	813	1,092	3.1	3.4	4.4	<b>COMESA</b>	<b>5,176</b>	<b>5,446</b>	<b>5,343</b>	<b>48.4</b>	<b>45.2</b>	<b>44.7</b>
USA	804	1,154	1,054	3.6	4.8	4.3	<b>Rest of the World</b>	<b>4,102</b>	<b>5,105</b>	<b>5,152</b>	<b>38.3</b>	<b>42.3</b>	<b>43.1</b>
United Kingdom	291	336	303	1.3	1.4	1.2	Of which						
Singapore	156	41	52	0.7	0.2	0.2	United Kingdom	395	450	464	3.7	3.7	3.9
Germany	287	325	405	1.3	1.4	1.6	Netherlands	547	530	533	5.1	4.4	4.5
Saudi Arabia	1,936	1,376	1,540	8.8	5.7	6.2	USA	462	662	616	4.3	5.5	5.2
Indonesia	299	190	222	1.4	0.8	0.9	Pakistan	550	568	584	5.1	4.7	4.9
Netherlands	304	337	161	1.4	1.4	0.6	United Arab Emirates	393	756	601	3.7	6.3	5.0
France	263	228	229	1.2	1.0	0.9	Germany	116	141	165	1.1	1.2	1.4
Iran	29	18	32	0.1	0.1	0.1	India	78	144	106	0.7	1.2	0.9
Others	4,372	5,506	5,268	19.8	23.0	21.3	<b>Custom exports Total</b>	<b>10,702</b>	<b>12,061</b>	<b>11,960</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Custom Imports</b>	<b>22,116</b>	<b>23,929</b>	<b>24,726</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>EU</b>	<b>1,068</b>	<b>1,157</b>	<b>1,286</b>	<b>10.0</b>	<b>9.6</b>	<b>10.8</b>
							<b>China</b>	<b>188</b>	<b>196</b>	<b>131</b>	<b>1.8</b>	<b>1.6</b>	<b>1.1</b>
<b>EU</b>	<b>1,565</b>	<b>1,841</b>	<b>1,733</b>	<b>7.1</b>	<b>7.7</b>	<b>7.0</b>							
<b>China</b>	<b>3,267</b>	<b>4,307</b>	<b>5,192</b>	<b>14.8</b>	<b>18.0</b>	<b>21.0</b>							

Source: Kenya Revenue Authority and Central Bank of Kenya

### viii. Economic Growth

The economy strengthened in 2025, recording an average real GDP growth of 4.9 percent in the first three quarters of 2025, compared to 4.6 percent over the same period in 2024, mainly driven by a notable rebound in industrial activity. Growth in the industry sector averaged 3.9 percent, an increase from near stagnation in 2024, supported primarily by stronger performance in the construction, and mining and quarrying sectors. The agriculture

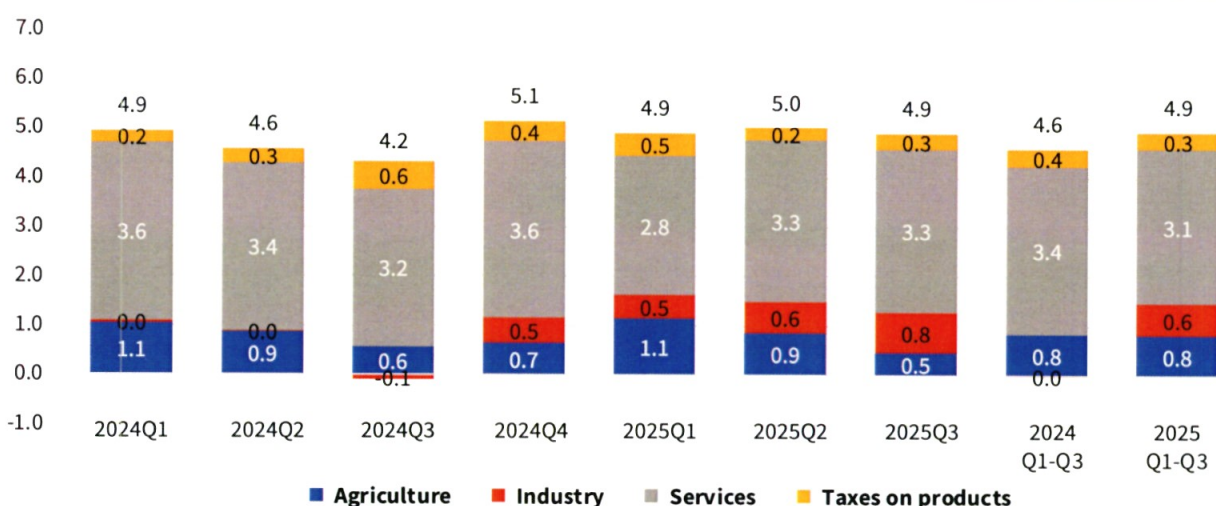
sector maintained steady growth, averaging 4.7 percent in the first three quarters of both 2024 and 2025. The services sector remained the primary driver of overall economic growth, although its growth moderated slightly to 5.4 percent in the first three quarters of 2025 from 5.9 percent in a similar period of 2024. Overall, the economy recorded more robust and balanced growth in 2025, supported by the sustained recovery in industry and continued expansion of services sectors. (Table 6 and Chart 5).

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

Main Sectors	Annual		Quarterly						
	2023	2024	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
1. Agriculture	6.6	4.6	5.6	4.5	4.0	4.3	6.0	4.4	3.2
2. Non-Agriculture (o/w)	5.5	4.7	4.8	4.6	4.3	5.3	4.6	5.1	5.2
2.1 Industry	2.0	0.8	0.4	0.2	-0.4	3.1	3.0	4.0	4.8
2.2 Services	7.0	6.0	6.4	6.1	5.4	6.1	5.0	5.7	5.5
2.3 Taxes on products	3.2	4.4	2.9	3.8	6.3	4.5	5.7	3.3	3.7
Real GDP Growth	5.7	4.7	4.9	4.6	4.2	5.1	4.9	5.0	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 second half of 2025 ensured that the buildup 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 rationalization 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 the Modernization of the Monetary Policy Framework and Operations aimed at enhancing the effectiveness of monetary policy and strengthening the anchoring of inflation expectations. In this regard, in the six months to December 2025, the MPC assessed the monetary policy implementation framework and noted that it continued to support improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission.

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

The MPC members held virtual stakeholder meetings with Chief Executives of Commercial Banks, Microfinance Banks and other non-bank players to apprise them on the background to its decisions and obtain feedback. The Governor also held virtual press conferences after each MPC meeting to brief the media on the rationale for 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 captures top firms' perceptions and expectations regarding economic prospects. The Agriculture Sector Survey collects indicative information on the recent trends in prices and output of agricultural commodities

across various markets and farms. The Market Perceptions Survey gathers views from banks and non-bank players, including hotels, on economic performance, access to credit, and optimism about the country's prospects.

The Surveys conducted in the second half of 2025 ahead of the MPC meetings indicated sustained optimism about economic growth prospects for 2025. The optimism was attributed to the stable macroeconomic environment reflected in low inflation and stable 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 subdued consumer demand, the high cost of doing business, and rising global uncertainties linked to higher tariffs and geopolitical tensions. The MPC continued to monitor the implementation of its decisions and interacted with other government agencies, including the National Treasury and KNBS on various policy and data issues.

## 2. THE ECONOMIC ENVIRONMENT AND OUTLOOK IN 2026

### i. International Economic Environment

The January 2026 update of the IMF World Economic Outlook (WEO) projects global growth to remain steady at 3.3 percent in 2025 and 2026, before easing slightly to 3.2 in 2027. This represents an upward revision of 0.2 percentage points for 2026 and no change for 2027, compared to the October 2025 WEO. The upward revision reflects stronger-than-expected momentum in advanced economies. Growth prospects is also expected to be supported by a gradual easing of inflationary pressures, policy stimulus measures and supportive financial conditions. Growth in advanced economies is expected to moderate slightly to 1.7 percent in 2025 before improving to 1.8 percent in 2026. The U.S. growth outlook was revised upward by 0.3 percentage points from the October 2025 WEO, reflecting stronger-than-expected momentum, supported by robust technology and AI-related investment. Growth projections for the Euro Area remained broadly unchanged relative to the October 2025 WEO. The Euro Area and the UK are each projected to grow by 1.3 percent in 2026.

According to the January 2026 WEO, in emerging market and developing economies (EMDEs), growth is projected to remain stable and above the global average, at 4.4 percent in 2025 and 4.2 percent in 2026, driven by continued resilience in Asia, particularly in China and India. However, the January 2026 WEO cautions that growth in several EMDEs may moderate as higher trade barriers and weaker global demand take effect. In Sub-Saharan Africa, economic growth is projected to rise from an estimated 4.4 percent in 2025 to 4.6 percent in 2026, supported by easing inflation, improved macroeconomic stability, and stronger domestic demand. Nigeria and

South Africa are projected to grow by 4.4 percent and 1.4 percent in 2026, respectively.

Global financial market conditions remain fragile, with intermittent episodes of heightened volatility reflecting shifting expectations regarding the pace of monetary policy easing and the implications of trade policy developments for global growth. According to the January WEO Update, global headline inflation is projected to declining from an estimated 4.1 percent in 2025 to 3.8 percent in 2026, and further to 3.4 percent by 2027. However, the pace of disinflation has slowed in some economies due to persistent services inflation and higher import costs associated with trade restrictions. In commodity markets, global food prices declined in 2025, supported by improved supply conditions, particularly for cereals, coffee, and sugar. World trade is expected at 4.1 percent in 2025 and 2.6 percent in 2026. International oil prices have maintained a downward trajectory, reflecting ample global supply and moderate growth in demand. Oil price is projected to contract by 8.5 percent while non-fuel commodity price is expected to rise by 7.5 percent in 2025.

Risks to the global outlook remain tilted to the downside. The IMF highlights prolonged trade policy uncertainty, further escalation of protectionist measures, and persistent geopolitical tensions, particularly in the Middle East and Eastern Europe, as key downside risks. Elevated public debt levels, tighter global financing conditions, and increased rollover risks for sovereigns could amplify vulnerabilities, while persistent inflation pressures may complicate macroeconomic policy calibration amid subdued medium-term growth prospects and increasing global economic fragmentation.

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

Country/Region	Actual	Estimate	Projections	
	2024	2025	2026	2027
<b>World Output</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>
<b>Advanced Economies</b>	<b>1.8</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>
United States	2.8	2.1	2.4	2.0
Euro area	0.9	1.4	1.3	1.4
Japan	-0.2	1.1	0.7	0.6
United Kingdom	1.1	1.4	1.3	1.5
<b>Emerging Market and Developing economies</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>
Emerging and Developing Asia	5.3	5.4	5.0	4.8
China	5.0	5.0	4.5	4.0
India	6.5	7.3	6.4	6.4
Emerging and Developing Europe	3.5	2.0	2.3	2.4
Russia	4.3	0.6	0.8	1.0
<b>Latin America and the Caribbean</b>	<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.7</b>
Brazil	3.4	2.5	1.6	2.3
<b>Sub-Saharan Africa</b>	<b>4.1</b>	<b>4.4</b>	<b>4.6</b>	<b>4.6</b>
South Africa	0.5	1.3	1.4	1.5
Nigeria	4.1	4.2	4.4	4.1
<b>Middle East and North Africa</b>	<b>2.2</b>	<b>3.4</b>	<b>3.9</b>	<b>4.0</b>

Source: IMF World Economic Outlook

## ii. Domestic Economic Environment

The economy is projected to strengthen in 2026 relative to 2025, supported by a broad-based rebound in industrial activity, sustained resilience in the services sector, and continued recovery in private sector credit growth. These improvements are expected to be underpinned by a prudent monetary policy stance and a stable macroeconomic environment.

In the near to medium term, overall inflation is expected to remain anchored around the midpoint of the target range, supported by stable energy prices, continued exchange rate stability, and the effects of monetary policy easing (**Chart 6**). A modest and temporary uptick is anticipated in the near term, reflecting

seasonal increases in non-core inflation and a gradual rise in core inflation as policy easing transmits through the economy. Nonetheless, inflation is projected to remain within the  $5\pm 2.5$  percent target band over the medium term.

The outlook remains subject to some risks and uncertainties. Key among these are adverse weather conditions, evolving global trade dynamics, particularly the impact of US protectionist policies, including tariffs, and heightened geopolitical risks. Recent developments in Middle East, Latin America and Northern Europe could disrupt global trade and supply chains, notwithstanding the ongoing peace negotiations between Russia and Ukraine, as well as the fragile ceasefire between Israel and Palestine.

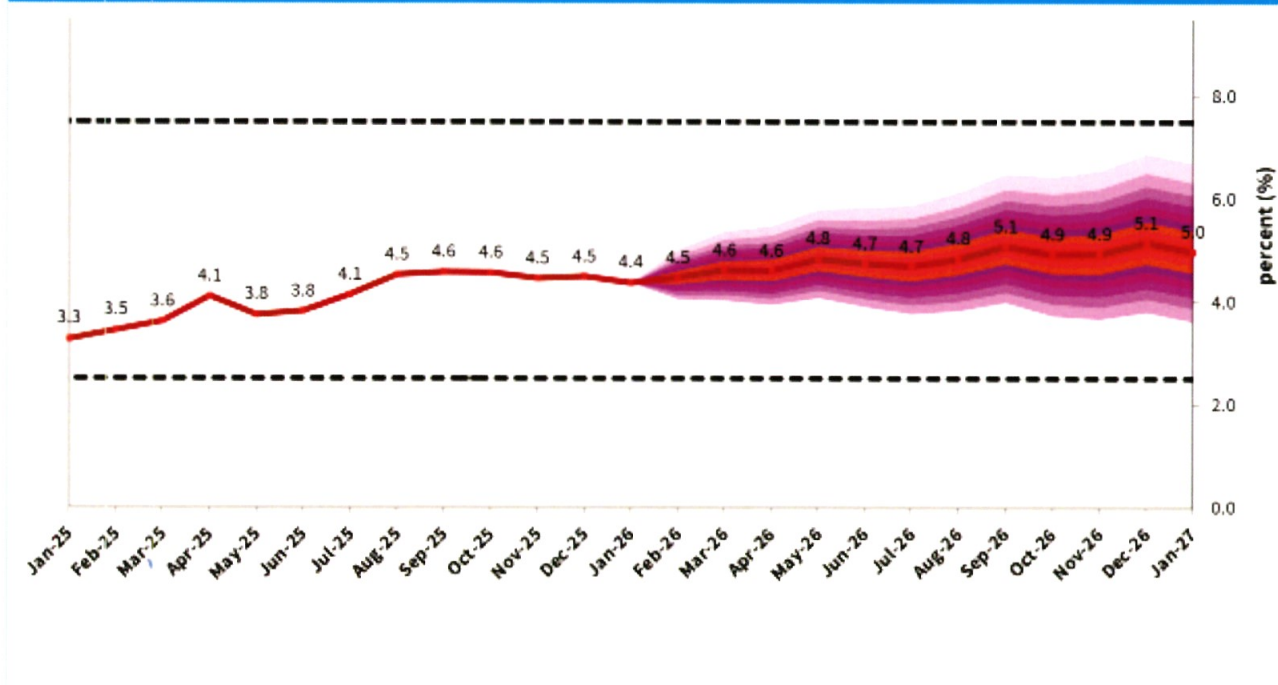
The foreign exchange market is expected to remain stable, supported by diversified foreign exchange inflows, including resilient remittance inflows, and adequate foreign exchange reserves. The CBK foreign exchange reserves are projected to remain adequate in 2026, consistent with the positive balance of payments outlook. These reserves will continue to provide a buffer against external shocks in the foreign exchange market. In addition, continued coordination of monetary and fiscal policies is expected to further reinforce macroeconomic stability.

The CEOs and Market Perceptions Surveys conducted in the second half of 2025 ahead of the MPC meetings revealed sustained optimism regarding economic growth prospects for 2026. Respondents attributed this positive outlook to resilient agricultural production supported by favorable weather conditions, the stable macroeconomic environment with low inflation and stable exchange rate, declining interest rates, and improved private sector credit growth. Nevertheless, respondents highlighted some downside risks, including subdued consumer demand, the high cost of doing business, and increased

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

The overall fiscal deficit including grants amounted to KSh 518.1 billion (2.7 percent of GDP) against a target of KSh 442.4 billion (2.3 percent of GDP) by end of December 2025. Total revenue including grants increased by 12.4 percent to KSh 1,500.6 billion in December 2025 compared with a growth of 1.6 percent by end December 2024. Over the same period, total expenditures and net lending increased by 12.7 percent to KSh 2,024.4 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 5.9 percent of GDP in the FY 2024/25 to 3.3 percent of GDP by FY 2028/29.

**Chart 6: Headline Inflation Outlook: February 2026 – January 2027 (Percent)**



### 3. DIRECTION OF MONETARY POLICY IN 2026

Price stability will be the overriding objective of monetary policy in 2026. Monetary policy formulation and implementation will aim at maintaining overall inflation within the target range of  $5 \pm 2.5$  percent.

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

	2024	2025 Est	2026 Proj	2027
Real GDP growth (YoY, percent)	4.7	5.0	5.5	5.6
Overall Inflation (YoY, percent) end period	3.0	4.5	5.0	5.0
Current Account deficit (Percent of GDP)	-1.3	-2.4	-2.2	-2.2
Exports of Goods and Services (Percent of GDP)	17.1	15.5	15.5	16.1
Imports of Goods and Services (Percent of GDP)	23.2	22.0	21.5	21.7
Private sector credit growth (YoY, percent)	-1.4	5.9	10.6	12.4
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fiscal Deficit (Percent of GDP)	5.9	4.7	4.9	3.7

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 facilitate the maintenance of KESONIA within a prescribed band around the CBR, thereby strengthening 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.

The price stability objective and growth in monetary aggregates are subject to risks

emanating from both domestic and global fronts. On the external front, the key downside risks include persistent trade policy uncertainty, and geopolitical tensions, and their potential impact on trade flows and international oil prices. Domestic macroeconomic developments will therefore be closely monitored considering these risks, to provide necessary reviews to inform the decision-making process by 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.

## 4. ANNEX: EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JULY - DECEMBER 2025)

### EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JULY – DECEMBER 2025)

August 2025	<p>CBR reduced to 9.50 percent from 9.75 percent.</p> <p>The MPC was apprised on the proposed revised banking sector Risk-Based Credit Pricing (RBCP) model, intended to strengthen the transmission of monetary policy decisions to commercial banks' lending interest rates.</p>
September 2025	<p>The Overnight Interbank Rate was renamed from September 1, the Kenya Shilling Overnight Interbank Average (KESONIA) to align it to the international best practices.</p>
October 2025	<p>CBR reduced to 9.25 percent from 9.50 percent.</p> <p>Release of the October 2025 IMF World Economic Outlook showing global economy adjusting to the tariffs and policy measures. Growth was projected to moderate to 3.2 percent in 2025 and 3.1 percent in 2026. Global headline inflation was expected to decline to 4.2 percent in 2025 from 5.8 percent in 2024, and further to 3.7 percent in 2026.</p>
December 2025	<p>CBR reduced to 9.00 percent from 9.25 percent.</p>

## 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 nonbank 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 nonbank 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.



## Central Bank of Kenya

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