



**Central Bank of Kenya**

**Thirty-Sixth  
Bi-Annual Report  
of the  
Monetary Policy Committee**

April 2026





## LETTER OF TRANSMITTAL

In accordance with Section 4D of the Central Bank of Kenya Act, it is my pleasure to present to you, Honourable Cabinet Secretary of the National Treasury and Planning, the 36<sup>th</sup> Monetary Policy Committee Report. The Report outlines the monetary policy formulation, developments in the key indicators of the economy, and other activities of the Committee in the six months to April 2026.

**Dr. Kamau Thugge, CBS**

**Governor**

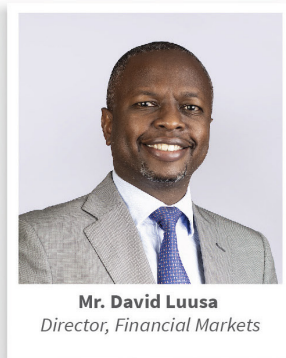
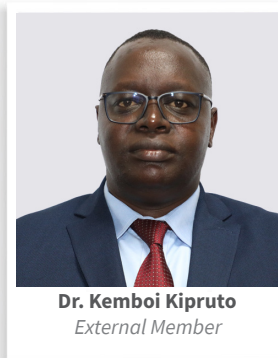
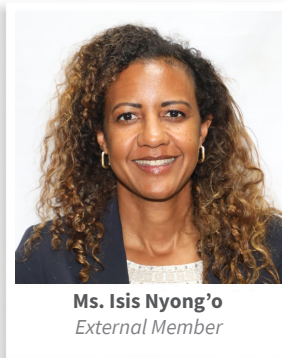
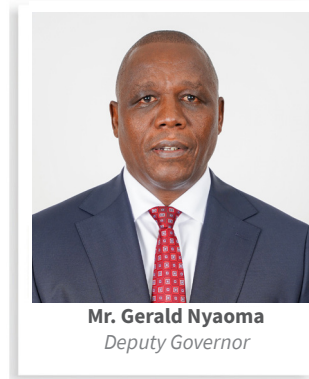
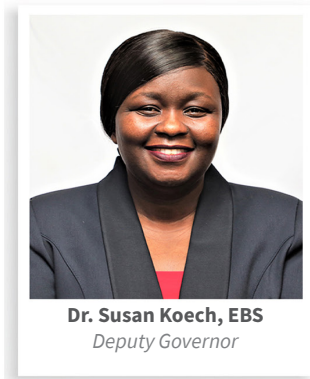
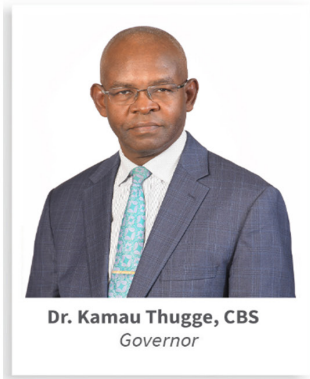
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## MEMBERS OF THE MONETARY POLICY COMMITTEE

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## EXECUTIVE SUMMARY

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The thirty-sixth bi-annual Report of the Monetary Policy Committee (MPC) reviews Kenya's monetary policy formulation and other economic developments during the six months to April 2026.

The conduct of monetary policy during the period was aimed at ensuring that overall inflation remains within the 5.0±2.5 percent target range in the near term, while maintaining exchange rate stability, consistent with the price stability objective of the Central Bank of Kenya (CBK).

The MPC continued to strengthen the effectiveness of the monetary policy implementation framework and enhance the transmission of monetary policy decisions to the broader economy. During its meeting on February 10, 2026, the MPC approved the narrowing of the interest rate corridor around the Central Bank Rate (CBR) from ±75 basis points to ±50 basis points to further support the alignment of Kenya Shilling Overnight Interbank Average (KESONIA) to the CBR. In addition, the applicable interest rate on the Discount Window was reduced from 75 basis points above the CBR to 50 basis points above the CBR. Further, the revised banking sector Risk-Based Credit Pricing Model (RBCPM), which was announced in August 2025 became fully operational in March 2026. The revised framework is expected to improve the transmission of monetary policy decisions to commercial banks' lending rates and enhance transparency in loan pricing.

Monetary policy during the period was conducted against a backdrop of heightened global uncertainty associated with escalating geopolitical tensions, particularly the conflict in the Middle East, and persistent trade policy uncertainty. Global growth remained resilient in 2025, supported by strong consumer spending, easing financial conditions, and investment in artificial intelligence-led technologies. However, the global growth outlook for 2026 was revised downwards due to heightened geopolitical risks arising from the conflict in the Middle East. Inflation in major economies remained above their respective targets, with upward pressure from higher energy prices following the escalation of the conflict in

the Middle East. Central banks in the major economies remained cautious and kept their policy rates unchanged as they assessed the impact of the conflict.

The MPC held three meetings between November 2025 and April 2026 to review the impact of its previous policy decisions, assess developments in the global and domestic economy and put in place measures aimed at maintaining price stability.

During the December 2025 meeting, the MPC lowered the CBR to 9.00 percent from 9.25 percent, noting that overall inflation remained below the midpoint of the target range. The Committee observed that there was scope for further easing of the monetary policy stance to stimulate private sector lending and support economic activity while ensuring that inflation expectations remained firmly anchored and the exchange rate stable.

In the February 2026 meeting, the MPC lowered the CBR to 8.75 percent from 9.00 percent. The MPC noted that overall inflation remained below the midpoint of the target range, average commercial banks' lending rates had continued to decline, and private sector credit growth had improved. The Committee also approved the narrowing of the interest rate corridor around the CBR from ±75 basis points to ±50 basis points to enhance the alignment of KESONIA with the CBR and improve monetary policy transmission. In addition, the applicable interest rate on the Discount Window was reduced from 75 basis points above the CBR to 50 basis points above the CBR.

At its April 2026 meeting, the MPC retained the CBR at 8.75 percent, noting that the prevailing monetary policy stance was appropriate for anchoring inflation expectations while allowing the committee to monitor potential second-round effects arising from elevated global energy prices and heightened geopolitical tensions attributed to the conflict in the Middle East.

Overall inflation increased to 5.6 percent in April 2026 from 4.6 percent in October 2025, driven by increases in both core and non-core inflation. Core inflation rose to 2.8 percent in April 2026 from 2.7 percent in October 2025, reflecting higher transport costs and processed

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food prices. Non-core inflation increased to 13.4 percent in April 2026 from 9.9 percent in October 2025, largely driven by significant increase in energy prices due to elevated international oil prices occasioned by the war in the Middle East.

Economic growth moderated slightly to 4.6 percent in 2025 from 4.7 percent in 2024. Growth was mainly supported by a rebound in industrial activity, but growth in agriculture and services sectors slowed down. Growth in the agriculture sector slowed down largely reflecting poor rainfall during the fourth quarter of 2025, which constrained agricultural production. Growth in the services sector moderated with slower growth recorded across all subsectors.

The foreign exchange market remained stable during the six months to April 2026, supported by resilient earnings from exports of goods and services as well as remittances inflows. The 12-month cumulative remittances inflows to April 2026 were USD 5,053 million, compared to USD 4,997 million recorded over the corresponding period in 2025. The CBK foreign exchange reserves remained adequate at USD 13,226 million (5.6 months of import cover) as of April 29, 2026, and continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

The banking sector remained stable and resilient in the period to April 2026, with strong liquidity and

capital adequacy ratios above the statutory minimum requirements. Credit risk continued to ease, with the ratio of Gross Non-Performing Loans (NPLs) to Gross Loans decreasing to 15.4 percent in April 2026 from 16.7 percent in October 2025.

Private sector credit growth increased to 7.1 percent in April 2026 compared to 5.9 percent in October 2025, reflecting improved credit demand, supported by declining lending rates, and resilient economic activity. Credit growth to key sectors of the economy, particularly agriculture, trade, finance and insurance, building and construction, and consumer durables strengthened during the period.

The Governor held virtual media briefings after every MPC meeting during the period. Additionally, the Governor held virtual post-MPC meetings with CEOs of banks, non-bank private sector firms, and international investors. These meetings provided the forum to obtain market feedback and to update stakeholders on the rationale for MPC decisions and developments in the economy. The engagements continued to enhance public understanding of monetary policy formulation and implementation. The Bank continued to closely monitor the risks arising from developments in the domestic and global environment, including geopolitical tensions and global trade uncertainty, and their implications on the economy and the achievement of the price stability objective.

## 1. DEVELOPMENTS IN THE GLOBAL ECONOMY

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The IMF's World Economic Outlook (WEO) Report of April 2026 projects a modest slowdown in global growth over the medium term, reflecting elevated geopolitical tensions in the Middle East and continued global policy uncertainty. Global output is projected to grow by 3.1 percent in 2026 and 3.2 percent in 2027, down from an estimated 3.4 percent in 2025.

Growth in advanced economies is projected to moderate to 1.8 percent in 2026 and 1.7 percent in 2027, reflecting subdued productivity growth, persistent policy uncertainty, and weaker investment in several major economies. In the United States, growth is projected at 2.3 percent in 2026 and 2.1 percent in 2027, supported by resilient consumption and investment activity, although elevated policy uncertainty continues to weigh on private sector sentiment. Growth in the Euro Area is projected at 1.1 percent in 2026 and 1.2 percent in 2027, reflecting a gradual recovery in economic activity across the region. Germany is expected to recover from 0.2 percent in 2025 to 0.8 percent in 2026 and 1.2 percent in 2027. Economic activity in the United Kingdom and Japan is projected to be moderated over the forecast horizon.

Growth in Emerging Market and Developing Economies (EMDEs) is projected at 3.9 percent in 2026 and 4.2 percent in 2027, supported by resilient activity in major Asian economies, particularly China and India. However, growth prospects remain uneven across regions and subject to considerable uncertainty,

including risks associated with geopolitical tensions and trade disruptions.

In Sub-Saharan Africa (SSA), growth is projected at 4.3 percent in 2026 and 4.4 percent in 2027, supported by strengthening domestic demand and easing inflationary pressures in several economies during the period. Nigeria and South Africa are projected to grow by 4.1 percent and 1.0 percent, respectively, in 2026. Kenya's growth is expected to remain above both the global and SSA averages over the forecast period.

Global inflation is projected to rise in 2026, reflecting higher energy and food prices associated with supply disruptions and geopolitical tensions. Headline inflation is expected to increase from 4.1 percent in 2025 to 4.4 percent in 2026 before moderating to 3.7 percent in 2027. Oil prices are projected to rise due to disruptions to production and transportation routes in the Middle East. Meanwhile, food prices are expected to remain elevated amid higher energy and fertilizer costs, logistics constraints, and increased transportation costs.

Risks to the global outlook remain tilted to the downside. While some easing in trade policy uncertainty has been observed, geopolitical tensions remain elevated and could intensify further, potentially disrupting global energy markets, trade flows, and supply chains. Such developments could weigh on global economic activity and financial stability.

## 2. DEVELOPMENTS IN THE KENYAN ECONOMY

### 2.1 Overall Economy

Economic growth moderated slightly to 4.6 percent in 2025 from 4.7 percent in 2024. Growth was mainly supported by a rebound in industrial activity, as agriculture and service sectors recorded slower growth during the year.

The industrial sector expanded by 4.7 percent in 2025, compared to 1.1 percent in 2024, driven by recovery in mining and quarrying (14.9 percent) and construction (6.8 percent), as well as improved growth in electricity and water supply (5.2 percent). However, growth in the manufacturing sector slowed to 2.0 percent from 3.0 percent in 2024, largely reflecting weaker performance in agro-processing activities.

The agriculture sector growth slowed to 3.1 percent compared to 4.4 percent in 2024, mainly due to poor rainfall during the fourth quarter of 2025, which constrained agricultural production. Similarly, growth in the services sector moderated to 5.3 percent compared to 6.0 percent in 2024, with slower growth recorded across all subsectors (**Table 1**). Economic growth is projected to improve modestly in 2026.

However, the outlook remains subject to significant downside risks, particularly from the war in the Middle East. Disruptions to global shipping routes following the closure of the Strait of Hormuz, and resulting increase in international oil prices could adversely affect both global and domestic economic activity. Moreover, uncertainties associated with the US protectionist policies continue to weigh on global trade prospects.

On the domestic front, fiscal pressure could increase as the government implements measures to cushion the economy against the effects of the conflict. Nonetheless, the outlook is supported by several positive factors. Near-to-above average rainfall outcomes during the March-May long rain season is expected to boost agricultural production and support activity in related sectors, including manufacturing, and wholesale and retail trade. Furthermore, the development of alternative oil supply routes could help ease pressure on international oil prices.

**Table 1: Kenya's Real GDP Growth across the main sectors (percent)**

	2024	2025	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4
Agriculture	4.4	3.1	5.5	4.2	4.3	3.3	5.3	4.0	3.8	-1.3
Non-Agriculture (o/w)	4.7	4.9	4.5	4.2	4.4	5.7	4.8	5.1	4.9	5.0
Industry	1.1	4.7	0.2	-0.4	0.1	4.2	4.0	4.6	5.5	4.7
Services	6.0	5.3	6.1	5.9	5.6	6.6	5.0	5.5	5.0	5.5
Taxes on products	3.3	3.1	2.1	2.4	5.2	3.4	4.1	3.8	3.1	1.7
Real GDP Growth	4.7	4.6	4.7	4.2	4.4	5.4	4.9	4.9	4.8	4.0

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

### 2.2 Financial Market Developments

During the six months to April 2026, global financial market conditions remained volatile amid heightened geopolitical tensions, trade policy uncertainty, and concerns about the global growth outlook. Equity markets experienced periods of sharp fluctuations, while government bond yields generally declined as investors reassessed growth prospects and the

likely path of monetary policy. Central banks in major advanced economies maintained a cautious stance as inflation remained above target in several jurisdictions despite moderating economic activity. Meanwhile, domestic currencies in many Emerging Market and Developing Economies (EMDEs) rebounded against major currencies, while equity market performance

remained mixed across countries. Although EMDEs continued to access international capital markets, sovereign spreads widened as investors demanded higher risk premia in response to rising global uncertainty and weaker growth prospects.

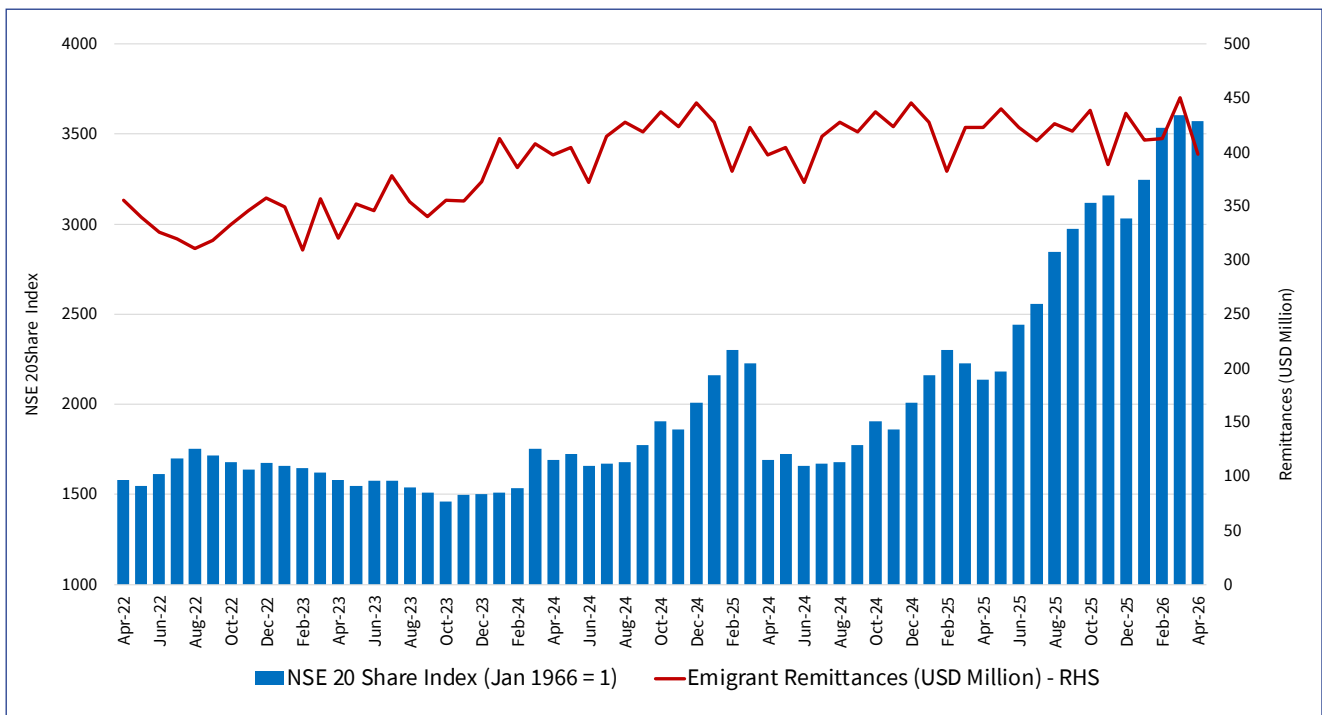
The US dollar weakened during the period, reflecting concerns over slowing US economic activity, uncertainty surrounding trade policies, and expectations of further monetary policy easing. In April 2026, the US Federal Reserve maintained the federal funds rate at 3.50–3.75 percent, citing persistent inflationary pressures alongside increased uncertainty regarding the economic outlook. Similarly, the Bank of Canada also maintained its policy rate at 2.25 percent, while the European Central Bank kept its key policy rates unchanged, with the deposit facility rate remaining at 2.0 percent. The Bank of Japan also left its policy rate unchanged at 0.75 percent. Overall, monetary authorities continued to balance concerns over inflation persistence against weakening growth prospects and elevated geopolitical risks.

In the domestic economy, diaspora remittances remained resilient during the period (**Chart 1a**). Activity at the Nairobi Securities Exchange (NSE) also

improved with the NSE 20-Share index increasing to 3,571.15 in April 2026 from 2,135.57 points in April 2025 supported by improved investor confidence in the economy.

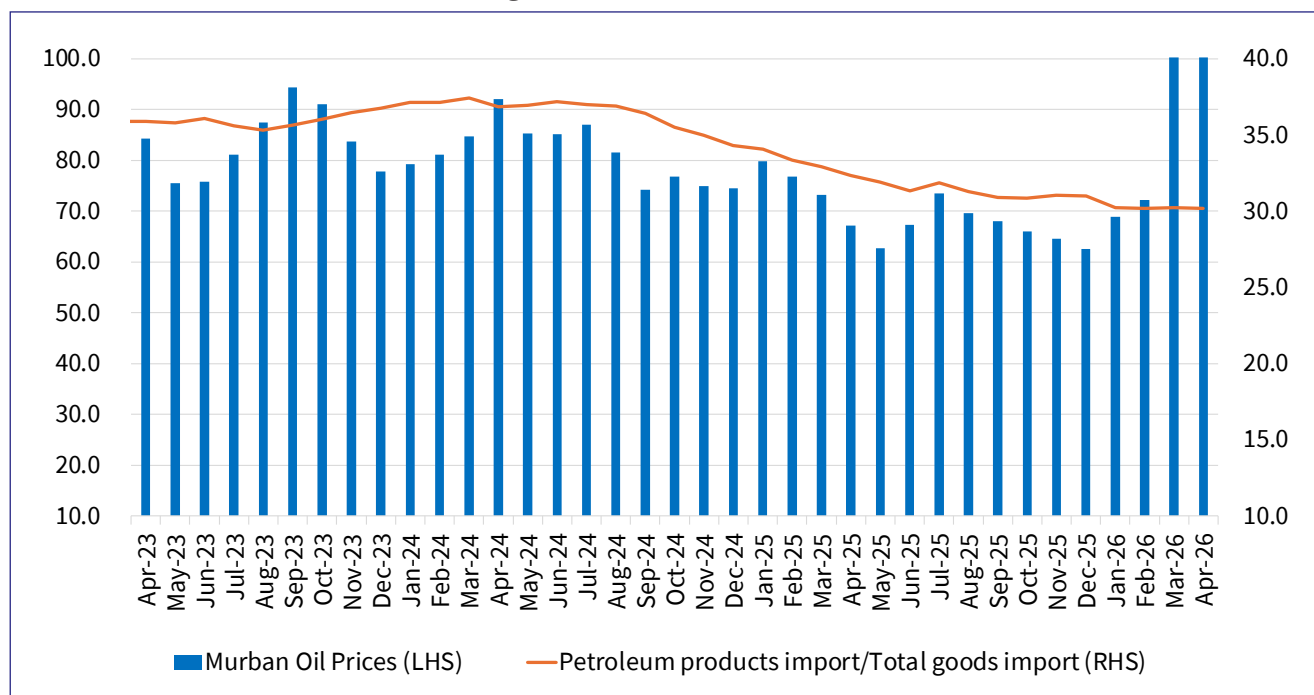
Developments in international oil prices have significant implications for Kenya’s balance of payments position, given the country’s reliance on imported petroleum products. As a net importer of oil, increases in international oil prices raise the import bill, exerting pressure on the current account and foreign exchange reserves. During the six months to April 2026, international oil prices increased, with Murban crude oil averaging at USD 74.4 per barrel in the six months to April 2026 compared to an average of USD 67.5 per barrel in the six months to October 2025. The increase was largely driven by geopolitical conflicts, particularly in the Middle East, which contributed to heightened uncertainty and volatility in international oil markets. Consequently, elevated oil prices posed risks to Kenya’s external position and domestic inflation through higher fuel, transportation, and production costs (**Chart 1b**).

**Chart 1a: Monthly diaspora remittances (USD million) and NSE Index (Jan 1966=100)**



Source: Central Bank of Kenya and Nairobi Securities Exchange

**Chart 1b: Murban oil prices (USD per barrel) and the ratio of 12-month cumulative petroleum product imports to total imports of goods (percent)**



Source: Oil price.com and Kenya Revenue Authority

## 2.3 Developments in Key Economic Indicators

### 2.3.1 Trends in Headline Inflation

Overall inflation increased to 5.6 percent in April 2026 from 4.6 percent in October 2025, driven by increases in both core and non-core inflation. The rise in inflation in April 2026 was mainly attributed to significant increases in energy prices and transport costs, reflecting the impact of elevated global oil prices arising from the conflict in Middle East. Nevertheless, overall inflation remained within the 5.0±2.5 percent target range (**Chart 2a**).

#### Core Inflation

Core inflation increased to 2.8 percent in April 2026 from 2.7 percent in October 2025, reflecting higher transport costs and increased prices of processed food items. The rise in transport costs was largely driven by higher international oil prices.

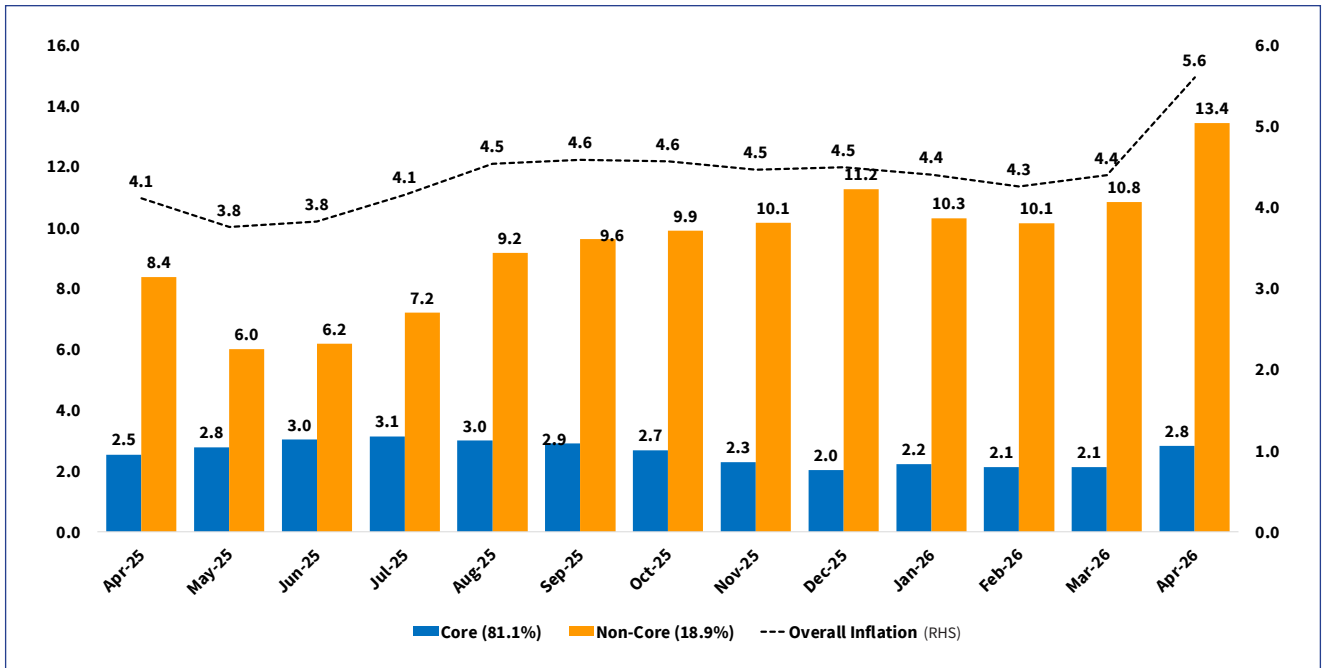
#### Non-Core Inflation

Non-core inflation increased to 13.4 percent in April 2026 from 9.9 percent in October 2025, mainly driven by a significant increase in energy prices, which reflected elevated international oil prices associated with war in the Middle East.

#### Inflation Outlook

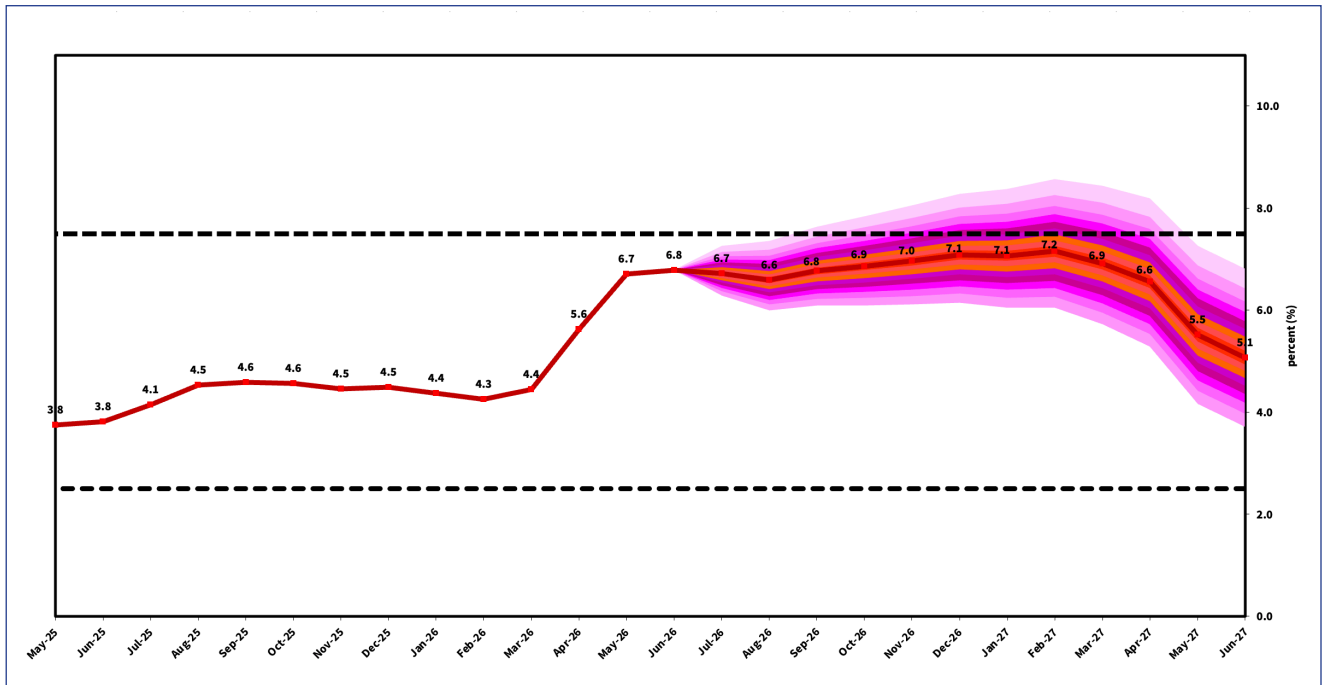
In the near term, overall inflation is expected to remain above the midpoint of the target range, mainly due to elevated energy and transport costs linked to geopolitical tensions in the Middle East (**Chart 2b**). The main risks to the inflation outlook stem from uncertainty in the global environment, particularly geopolitical conflicts with potential disruptions to trade and supply chains. In addition, the US protectionist policies could have adverse effects on global inflation and the prices of imported inputs. On the upside, favorable weather conditions could support food production and help ease food price pressures.

**Chart 2a: Developments in overall inflation (y/y, percent)**



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

**Chart 2b: Headline Inflation Outlook: June 2026 – June 2027**



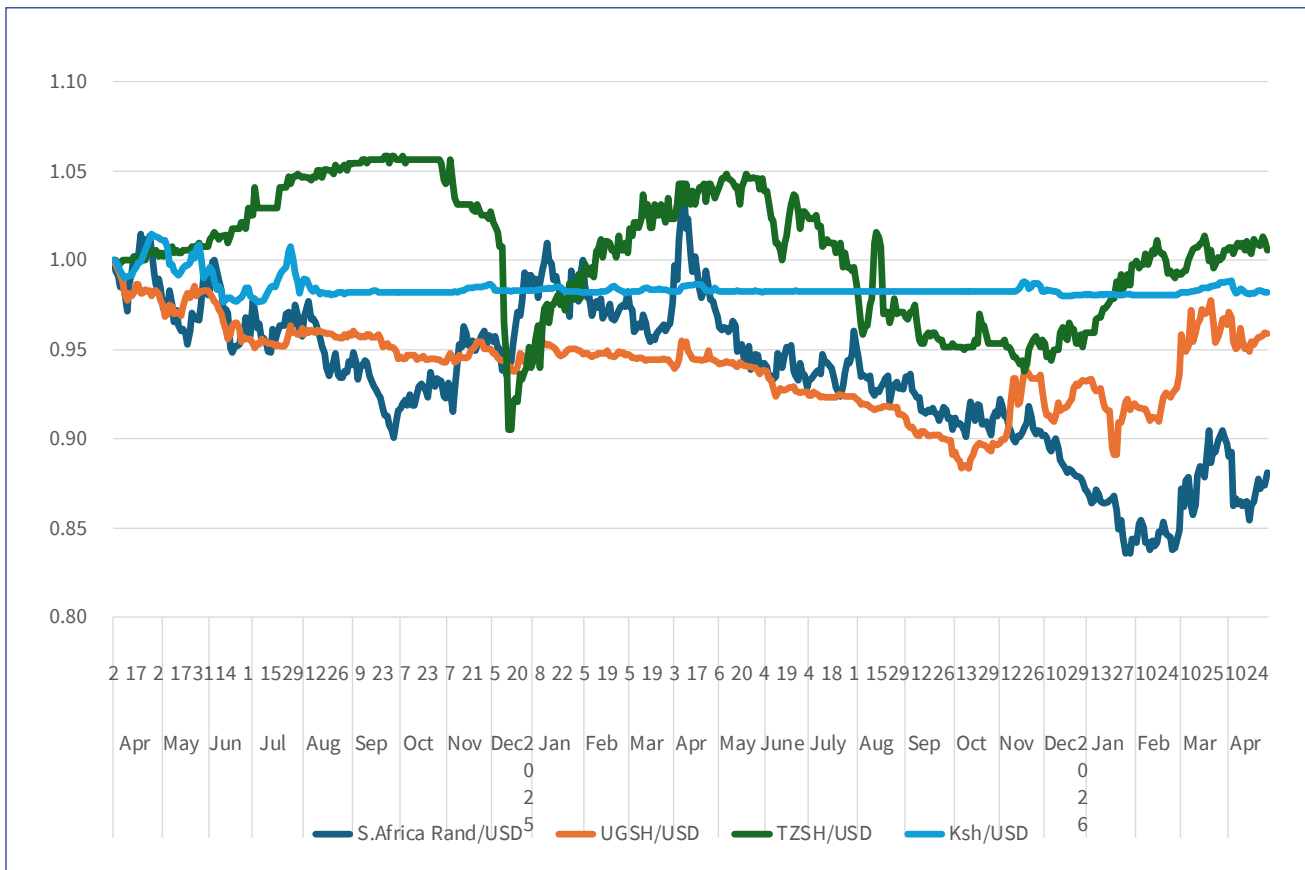
Source: Central Bank of Kenya

### 2.3.2 Foreign Exchange Market Developments

The foreign exchange market remained stable in the six months to April 2026, supported mainly by resilient growth in exports of goods and services as well as remittances (Charts 3a and 3b). Diaspora remittances totaled USD 397.8 million in April 2026 compared to USD 422.9 million in April 2025. The CBK foreign exchange reserves remained adequate at USD 13,226 million (5.6 months of import cover) as of April 29, 2026, and continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

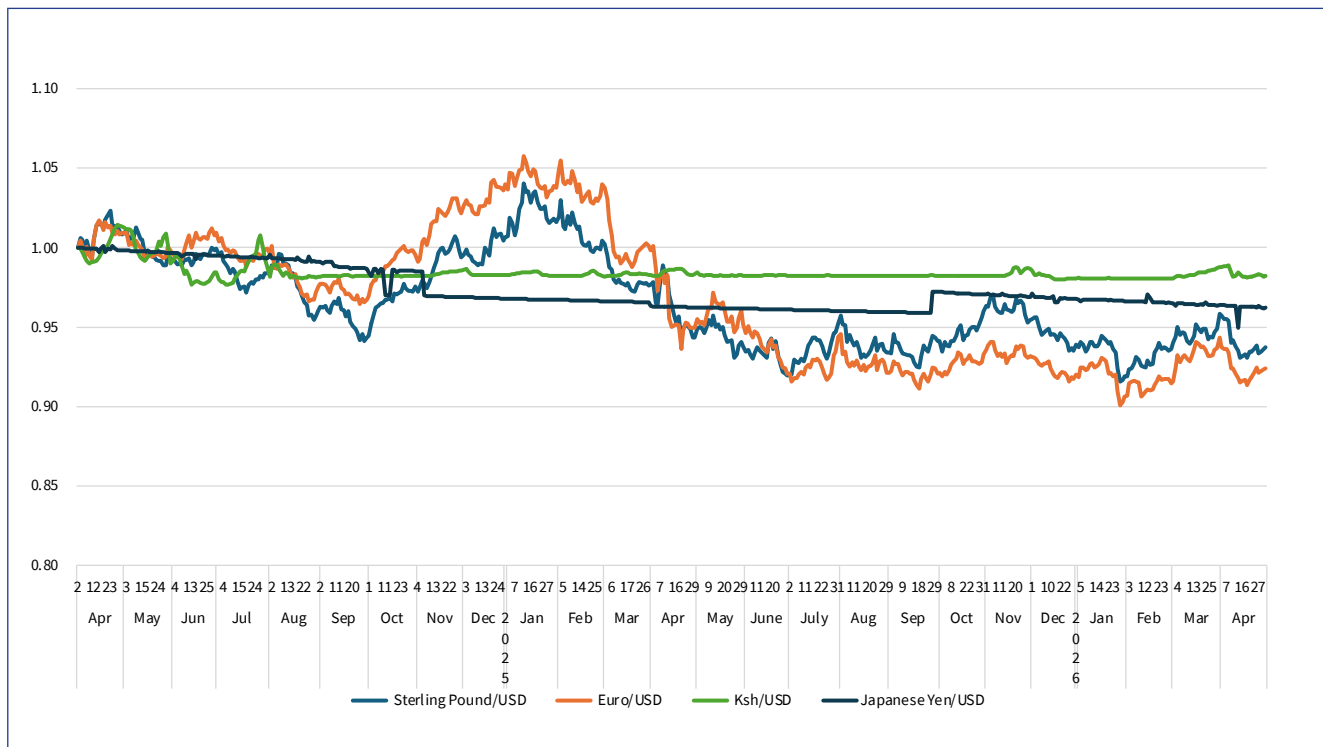
Global financial conditions remained accommodative during the most part of the review period, supported by moderating inflation pressures in most advanced economies and easing trade policy uncertainty. However, financial conditions tightened due to elevated global uncertainties following the conflict in the Middle East, and concerns over the global growth outlook, and weakening economic fundamentals in several major economies.

**Chart 3a: Normalized exchange rates of the Kenya Shilling and Regional currencies against the US Dollar (April 2, 2024, =1)**



Source: Central Bank of Kenya

**Chart 3b: Normalized Exchange Rates of the Kenya Shilling and Major Currencies against the US Dollar (April 2, 2024, =1)**



Source: Central Bank of Kenya

### 2.3.3 Balance of Payments Developments

The current account deficit widened in the 12 months to April 2026 to USD 3,631.0 million (2.6 percent of GDP) from USD 2,183.7 million (1.7 percent of GDP) in the 12 months to April 2025, on account of a higher deficit in the balance on goods and a slowdown in service and secondary income transfers. The current account deficit is projected to widen to 3.0 percent of GDP in 2026.

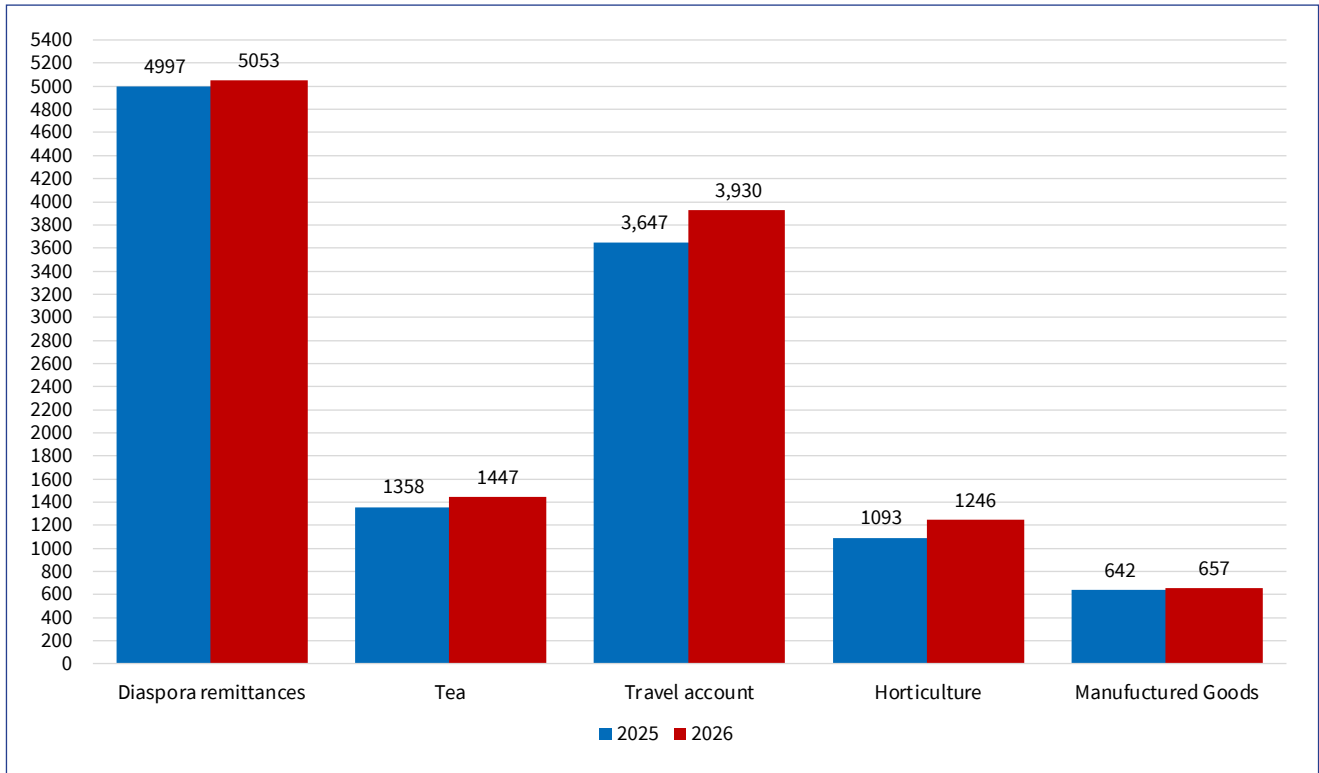
Goods exports grew by 4.2 percent to USD 12,902.8 million in the 12 months to April 2026, reflecting increases in earnings from tea, horticulture, coffee, manufactured goods, and apparel, despite the reduction in earnings from chemicals, and re-exports. Goods imports increased by 8.5 percent to USD 24,358.9 million in the 12 months to April 2026, mainly due to higher imports of food, manufactured goods, machinery and transport amid lower imports of mineral fuels attributable to lower international oil prices during the period under review.

Receipts from service exports increased in the period under review, largely attributed to increased earnings from travel and transport. Travel receipts improved by

7.8 percent in the 12 months to April 2026, reflecting higher international arrivals while transport improved by 9.8 percent. Other services receipts registered a decline of 2.2 percent. The secondary income receipts slowed down by 2.0 percent reflecting a decline in NGO and other transfers which more than offset increases in diaspora remittance inflows. Diaspora remittances increased by 1.1 per cent in the 12 months to April 2026. The primary income account recorded a wider deficit of USD 2,177.2 in the period under review, due to higher interest payments on portfolio investments.

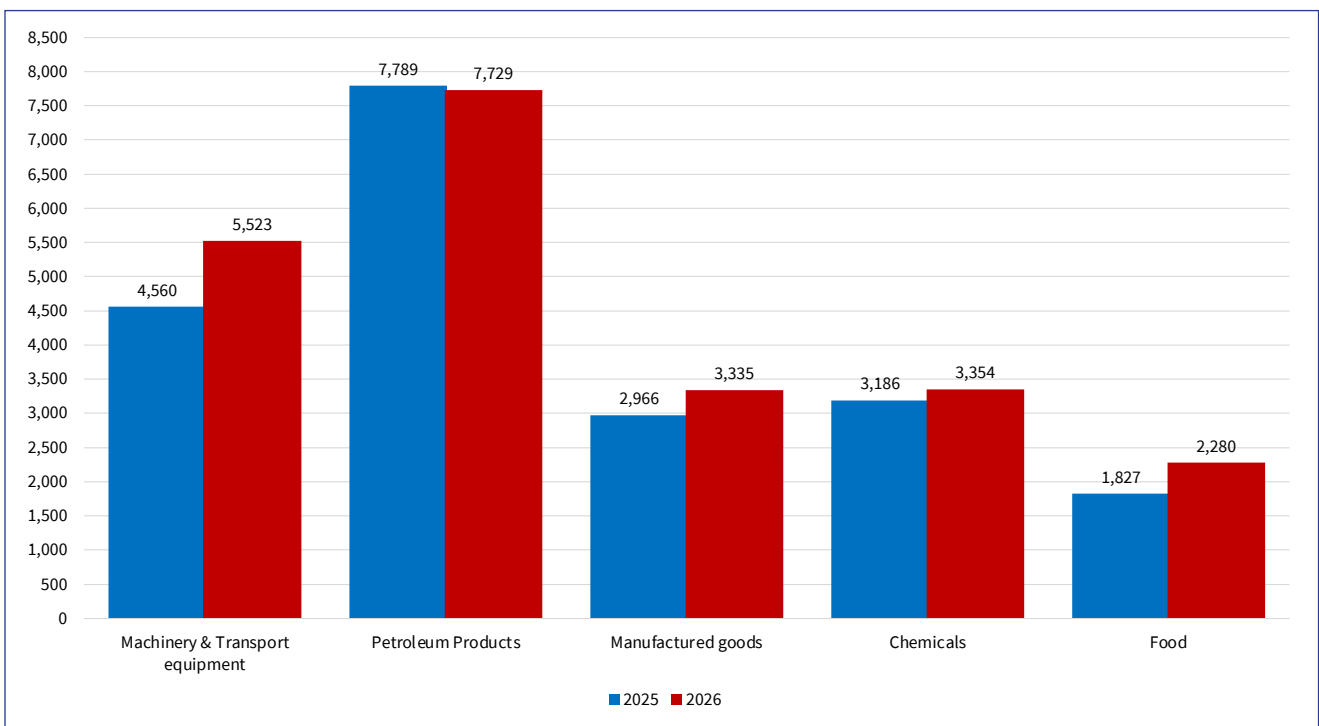
Net inflows in the financial account increased to USD 5,610.3 million in the 12 months to April 2026 compared to a net inflow of USD 4,174.36 million in the 12 months April 2025, due to an increase in FDI and other investment liabilities of the government. The reserve asset build-up was USD 2,546.2 million, reflecting an overall balance of payments surplus in the 12 months to April 2026 (**Charts 4a and 4b**).

**Chart 4a: Foreign exchange inflows from major export categories in the 12-months to April (USD million)**



Source: Central Bank of Kenya

**Chart 4b: Imports by major categories in the 12-months to April (USD million)**



Source: Central Bank of Kenya

Imports from United Arab Emirates accounted for 18.7 percent of the total imports in the 12 months to April 2026, while China, India, Saudi Arabia, the United States, and Malaysia accounted for 20.7 percent, 10.0 percent, 7.1 percent, 4.0 percent, and 4.3 percent, respectively. The U.S., U.K., the Netherlands, UAE, and Pakistan accounted for, 5.7 percent, 3.9 percent, 4.5 percent, 4.6 percent, and 4.9 percent, respectively, of Kenya's total exports in the 12-months to April 2026.

Africa remained the main Kenya's export destination region accounting for 57.4 percent of which Uganda registered 32.6 percent of Kenya's total exports in the 12-months to April 2026. Exports to other trading blocs such as the EAC, COMESA and the EU accounted for 50.5 percent, 44.2 percent, and 10.6 percent, respectively, of total exports over the period.

#### **2.3.4 Banking Sector Developments**

The banking sector remained stable and resilient in the period ended April 2026, supported by strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 61.8 percent and 20.4 percent in April 2026, respectively. These were above the minimum statutory limits of 20.0 percent and 14.5 percent, respectively.

Credit risk continued to ease, with the ratio of gross non-performing loans (NPLs) to gross loans standing at 15.4 percent in April 2026, a decrease from 16.7 percent in October 2025. Gross NPLs decreased by 4.3 percent from KSh 725.1 billion in October 2025, to KSh 693.9 billion in April 2026 mainly due to repayments and write-offs. The decline in NPLs was observed across several sectors, including energy and water, personal and household, financial services, transport and communication, tourism, restaurants and hotels, building and construction, mining and quarrying, manufacturing, and real estate.

Customer deposits remained the main source of funding to the banking sector, accounting for 74.8 percent of the banking sector's total liabilities and shareholders' funds as at April 2026, up from 73.6 percent in October 2025. Customer deposits increased by 8.1 percent to KSh 6,525.6 billion in April 2026, from KSh 6,036.5 billion in October 2025.

The Credit Guarantee Scheme (CGS) established in April 2020, continued to support credit uptake by vulnerable Micro, Small, and Medium sized Enterprises (MSMEs). As at the end of April 2026, the seven banks participating in the CGS had disbursed guaranteed loans to MSMEs amounting to KSh 6.8 billion.

The banking sector is projected to remain stable in the next six months. However, credit risk may rise due to second round effects of geopolitical tensions in the Middle East. Interest rate risk is expected to remain stable on the backdrop of stabilizing interest rates. Operational risk is expected to remain elevated due to increasing cyber security risks. Liquidity risk is expected to remain stable.

#### **2.3.5 Developments in Private Sector Credit**

Growth in commercial banks' lending to the private sector increased from 5.9 percent in October 2025 to 7.1 percent in April 2026, reflecting improved credit demand, supported by declining lending rates, the easing monetary policy stance, and resilient economic activity. Credit growth to key sectors of the economy also improved, particularly in agriculture, trade, finance and insurance, building and construction, and consumer durables, supported by stronger economic activity. Private sector credit growth is expected to improve in 2026, but at a much slower pace than earlier anticipated, as the impact of the Middle East conflict moderates economic activity and dampens credit demand (**Table 2**).

**Table 2: 12-month growth in private sector credit (percent)**

	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
<b>Total Credit to Private Sector</b>	<b>0.4</b>	<b>2.0</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>	<b>6.4</b>	<b>7.4</b>	<b>7.8</b>	<b>7.1</b>
Agriculture	12.1	9.7	12.6	10.3	10.2	12.7	16.2	22.1	28.8	28.3	28.4	27.3	23.5
Manufacturing	-0.9	1.0	3.1	2.4	1.7	11.1	10.7	7.9	1.2	0.6	1.3	4.8	-3.4
Trade	5.6	7.7	10.1	12.0	10.1	3.9	4.5	6.2	8.9	7.2	8.5	8.6	9.3
Building & construction	6.1	19.8	25.0	38.8	49.6	52.9	54.8	43.8	37.1	35.3	44.2	30.0	32.1
Transport & communication	-0.7	1.3	-2.0	-0.6	0.4	-1.3	-6.6	-9.5	-10.1	-9.2	-9.1	-9.8	-9.6
Finance and insurance	-8.3	-6.3	-6.7	0.2	-3.3	-1.3	4.4	14.5	6.6	10.4	12.7	26.5	20.8
Real estate	1.8	0.1	1.6	2.1	2.8	1.0	3.3	2.5	-2.1	-2.0	-0.3	0.7	0.1
Mining & quarrying	-39.5	-38.4	-47.1	-55.2	-59.0	-56.3	-17.8	12.1	41.5	58.3	74.9	93.6	29.1
Private households	-1.6	-0.4	-0.2	0.8	-0.3	-0.7	1.6	1.6	2.1	5.8	7.2	5.7	6.9
Consumer durables	7.9	8.7	9.6	10.3	9.1	12.2	7.1	8.3	11.8	10.6	10.4	8.2	9.5
Business services	-7.1	-9.0	-10.0	-8.9	-5.1	-4.2	-1.8	-3.2	-3.9	-2.1	-2.5	7.8	5.0
Other activities	-20.6	-12.6	-24.8	-27.8	-20.3	11.4	13.5	23.3	35.6	47.2	33.5	18.8	48.3

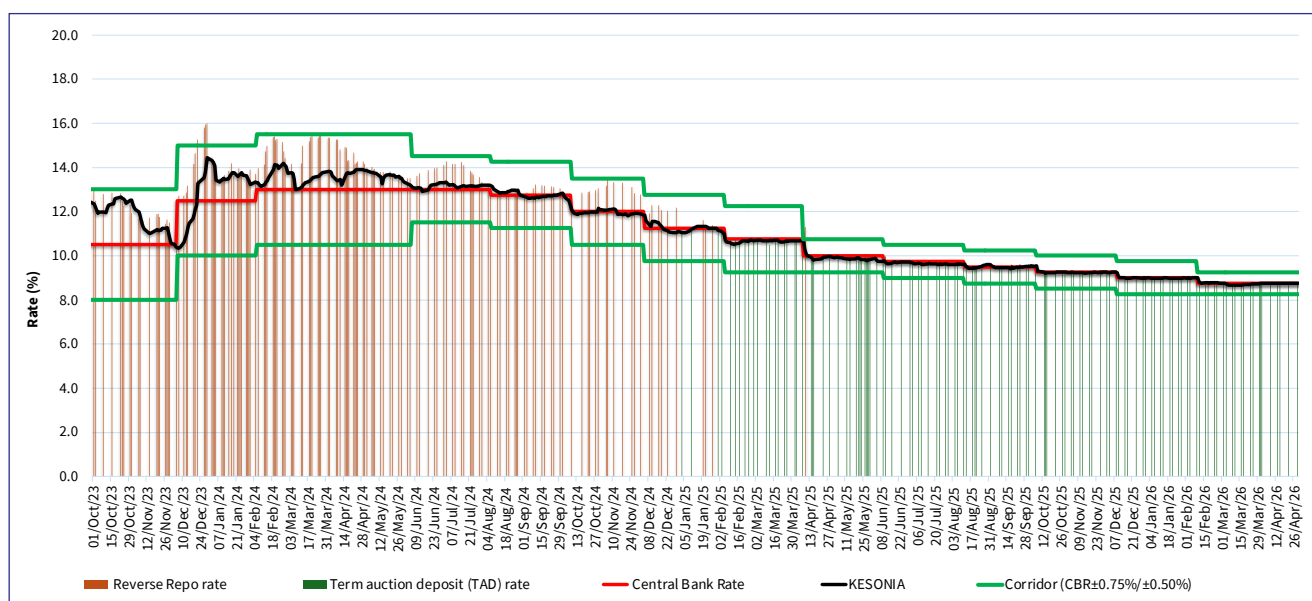
Source: Central Bank of Kenya

### 2.3.6 Interest rates

Short-term money market interest rates continued to decline in line with the reductions in the Central Bank Rate (CBR) and improved liquidity conditions. KESONIA remained closely aligned with the CBR and within

the interest rate corridor of  $\pm 0.50$  percentage points around the policy rate. Open market operations have remained active over the period **(Chart 5a)**.

**Chart 5a: Trends in short term interest rates (percent)**



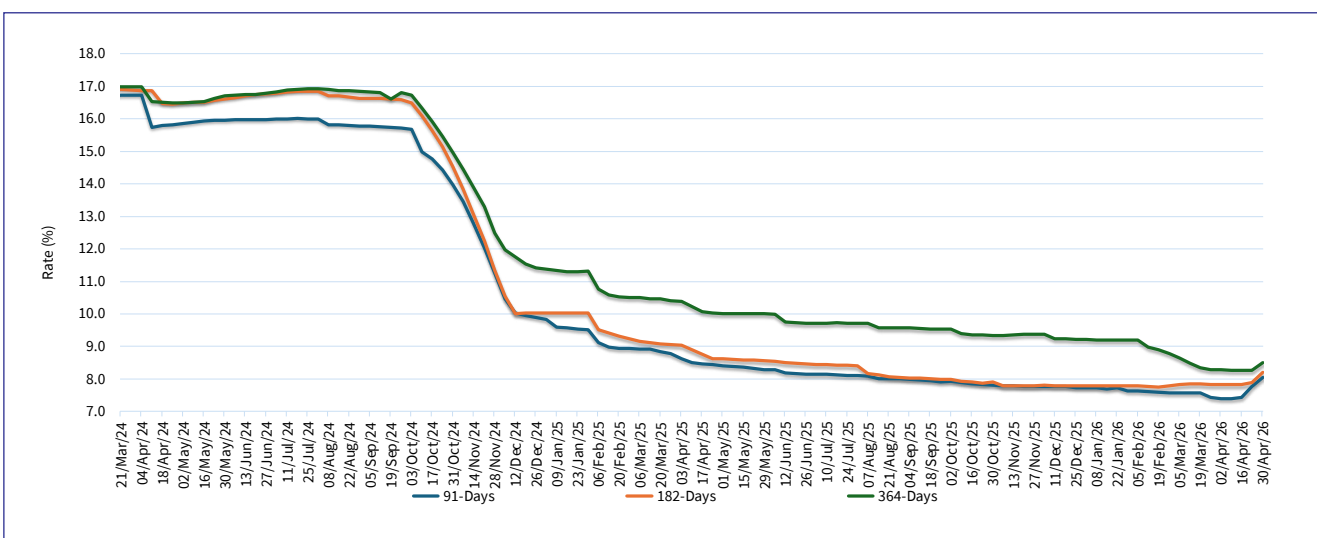
Source: Central Bank of Kenya

Similarly, interest rates on Government securities declined in line with the easing of the monetary policy stance. Between October 2025 and April 2026, the 91-day Treasury bill rate fell by 37 basis points to an average of 7.50 percent in April 2026, while the 182-day Treasury bill rate declined by 8 basis points to an average of 7.84 percent over the same period. The Treasury bill rates increased marginally in the month of April, partly reflecting market adjustments

and realignment with the prevailing monetary policy stance.

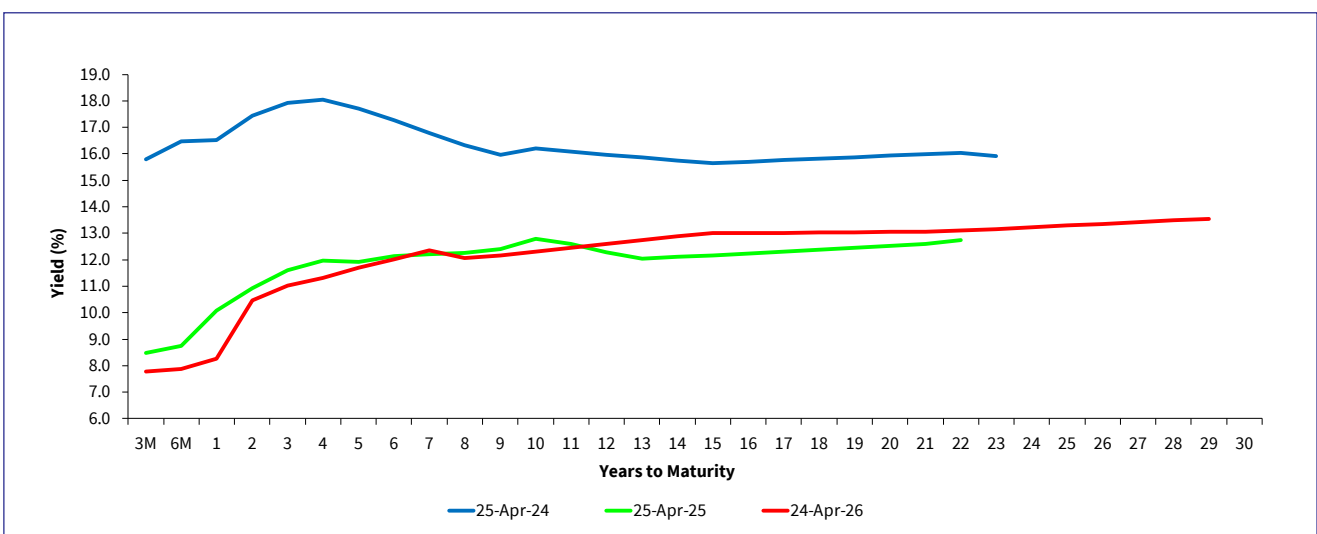
Effective coordination between monetary and fiscal policy, particularly in the implementation of the Government’s domestic borrowing programme, continued to support orderly movements along the yield curve **(Chart 5b & 5c)**.

**Chart 5b: Interest rates on Treasury bills (percent)**



Source: Central Bank of Kenya

**Chart 5c: Government securities yield curve (percent)**

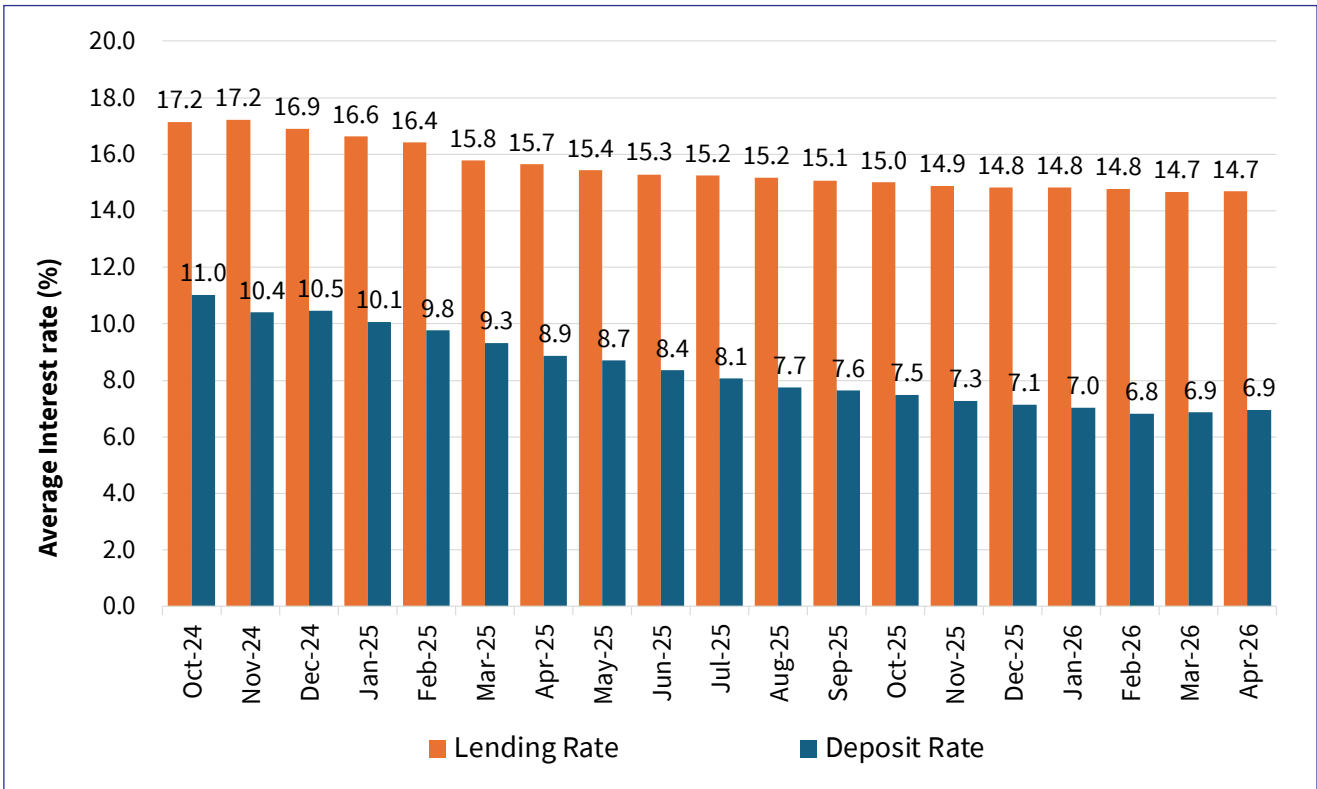


Source: Central Bank of Kenya

Commercial banks' average lending rates declined during the period, partly reflecting easing of the monetary policy stance. The weighted average lending rate decreased further to 14.7 percent in April 2026 from 15.0 percent in October 2025.

Similarly, the weighted average deposit rate decreased further to 6.9 percent from 7.5 percent in October 2025, reflecting easing cost of funds (**Chart 6**).

**Chart 6: Commercial banks' average interest rates (percent)**



### 3. MONETARY POLICY FORMULATION

#### 3.1 Attainment of Monetary Policy Objectives and Targets

During the six months to April 2026, the MPC formulated monetary policy with the objective of achieving and maintaining overall inflation within the target range as set by the Cabinet Secretary for the National Treasury at the beginning of every fiscal year. The inflation target provided by the Cabinet Secretary for the National Treasury at the beginning of FY2024/25 and FY2025/26 was 5.0 percent with an allowable margin of 2.5 percent on either side.

The CBR remained the base for monetary policy operations, with adjustments in its direction and magnitude signaling the stance of monetary policy. The policy stance was operationalized through various instruments, including Open Market Operations (OMO), cash reserve requirements at the CBK, and the CBK Standing Facility (the overnight discount window, which is a lender of last resort facility). To ensure that the interbank rate (KESONIA) remained within the corridor, OMO was conducted using Repurchase Agreements (Repos) and Term Auction Deposits (TAD). Monetary policy was conducted in the context of a flexible exchange rate regime.

#### 3.2 Implementation of Monetary Policy Reforms

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. The MPC also continued to monitor the new monetary policy implementation framework implemented in August 2023, which is based on an inflation targeting regime and an interest rate corridor around the CBR. To further strengthen the effectiveness of the monetary policy implementation framework, the MPC approved the narrowing of the interest rate corridor around the CBR from  $\pm 75$  basis points to  $\pm 50$  basis points at its meeting on February 10, 2026. This was expected to further support the alignment with the CBR. Consequently, the applicable interest rate on the Discount Window was reduced from 75 basis points above the CBR to 50 basis points (upper bound of the corridor). In addition, the revised banking sector Risk-Based Credit

Pricing Model (RBCPM) announced in August 2025 was fully implemented in March 2026. The revised RBCPM is expected to enhance transparency in the loan pricing by commercial banks and to strengthen the transmission of monetary policy decisions to commercial banks' lending interest rates.

An assessment of the monetary policy implementation framework in the six months to April 2026 indicated that continued improvement in monetary policy operations to strengthen following the introduction of the framework in August 2023. The interbank rate (KESONIA), which serves as an operating target, remained closely aligned with the CBR and within the corridor around the policy rate, thereby supporting the effective transmission of monetary policy to short-term interest rates.

#### 3.3 Monetary Policy Committee Meetings and Decisions

Over the six months to April 2026, the MPC held meetings on December 9, 2025, February 10, 2026, and April 8, 2026, to review the outcomes of its previous decisions and measures implemented to anchor inflationary expectations and maintain exchange rate stability.

At its December 2025 meeting, the MPC observed that global growth remained resilient supported by improved financial conditions and strong consumer and business spending, particularly in the United States. Nevertheless, growth was projected to moderate in 2026 owing to the effects of higher tariffs rates and persistent uncertainty surrounding global trade policies. Additional risks to the global outlook included heightened geopolitical tensions, particularly in the Middle East and the Russia-Ukraine conflict.

Although global inflation had continued to ease, it remained above target in several advanced economies due to persistent core inflationary pressures. Consequently, major central banks maintained a cautious approach to monetary policy easing, guided by inflation and growth outlooks. International oil prices moderated amid subdued global demand and increased production, although they remained volatile due to elevated global uncertainties. Meanwhile, food

inflation increased modestly, mainly driven by higher prices of cereals, sugar, and edible oils.

Domestically, overall inflation remained below the midpoint of the target range of  $5\pm 2.5$  percent, easing marginally to 4.5 percent in November 2025 from 4.6 percent in October 2025. Core inflation declined to 2.3 percent in November from 2.7 percent in October, mainly on account of lower prices of processed food items, particularly maize flour and sugar. However, non-core inflation increased to 10.1 percent in November from 9.9 percent in October, mainly driven by higher prices of vegetables, particularly tomatoes, onions and cabbages. Overall inflation was projected to remain below the midpoint of the target range in the near term, supported by lower prices of processed food items, stable energy prices, and continued exchange rate stability.

Economic activity also remained resilient in the first half of 2025, with real GDP growth averaging 4.9 percent, supported by a rebound in activity in the industrial sector, stable growth of the agriculture sector, and resilience of the service sectors. Leading economic indicators pointed to improved activity in the third quarter of 2025. The growth of the economy was projected to pick up to 5.2 percent in 2025 and 5.5 percent in 2026, supported by continued resilience of key service sectors and agriculture, and the continued recovery of the industry sector. This outlook was, however, subject to risks, including adverse weather conditions, elevated trade policy uncertainties, and geopolitical tensions.

The Committee considered these developments and therefore concluded that there was scope for further easing of the monetary policy stance to augment previous actions aimed at stimulating private sector credit and support economic activity, while ensuring inflation expectations remained firmly anchored and the exchange rate stable. The Committee therefore decided to lower the Central Bank Rate (CBR) to 9.00 percent from 9.25 percent.

During the February 2026 meeting, the MPC noted that global growth had remained resilient in 2025, supported by lower than anticipated tariff rates on imports into the United States, improved financial conditions, strong consumer spending, and increased investment in artificial intelligence-related technologies. However, the global outlook remained subject to elevated risks

arising from geopolitical tensions, persistent trade policy uncertainty, and weaker global demand.

Global inflation continued to moderate in 2025 and was projected to decline further in 2026 and 2027, reflecting lower energy prices and reduced global demand. Inflation in the major economies had eased but remained above targets, prompting central banks in major economies to maintain a cautious policy approach. International oil prices continued to moderate owing to increased production and weaker global demand, although volatility risks persisted due to elevated geopolitical tensions. Food inflation declined, partly driven by lower prices of cereals and sugar.

Kenya's overall inflation declined to 4.4 percent in January 2026 from 4.5 percent in December 2025 and remained below the mid-point of the target range of  $5\pm 2.5$  percent. Non-core inflation decreased to 10.3 percent in January from 11.2 percent in December, mainly driven by lower prices of some vegetables, particularly tomatoes and onions. Core inflation stood at 2.2 percent in January compared to 2.0 percent in December, driven by higher prices of some processed food items, particularly maize flour. Overall inflation was expected to remain below the midpoint of the target range in the near term, supported by stable prices of processed food items and energy, and stability in the exchange rate.

The economy remained resilient, with real GDP growth of 4.9 percent in the third quarter of 2025, supported by continued strength in the industrial sector, and resilience of services sector. The growth of the economy was estimated at 5.0 percent in 2025 compared to the previous projection of 5.2 percent, mainly reflecting a slowdown in agriculture sector performance in the third quarter. The economy was expected to remain resilient, with real GDP growth projected to pick up to 5.5 percent in 2026 and 5.6 percent in 2027, supported by the resilience of the services sector, continued recovery of industrial sector, and stable growth of agriculture. This outlook was subject to risks, including adverse weather conditions, elevated trade policy uncertainties, and geopolitical tensions.

The Committee also reviewed progress in the implementation of the revised Risk-Based Credit Pricing Model (RBCPM) and noted that the full operationalization in March 2026 would enhance

transparency in loan pricing by commercial banks and improve the transmission of monetary policy decisions to commercial banks' lending rates.

Considering these developments, the Committee concluded that there was scope for further monetary policy easing to support economic activity while maintaining price and exchange rate stability. The Committee therefore decided to lower the Central Bank Rate (CBR) to 8.75 percent from 9.00 percent.

To further strengthen the effectiveness of the monetary policy implementation framework and enhance monetary policy transmission, the Committee approved a narrowing of the interest rate corridor around the Central Bank Rate (CBR) from  $\pm 75$  basis points to  $\pm 50$  basis points. This was expected to further support the alignment of KESONIA with the CBR. In line with this review, the Committee also approved the adjustment of the applicable interest rate on the Discount Window from 75 basis points above the CBR to 50 basis points, which is the upper bound of the interest rate corridor.

At the April 2026 meeting, the MPC noted that global growth outlook had weakened due to heightened geopolitical tensions, particularly the conflict in the Middle East. These developments had resulted in significantly higher energy prices, disruptions to global supply chains, and increased uncertainty regarding the global economic outlook. Consequently, global growth prospects were expected to moderate, reflecting anticipated effects of higher inflation, weaker demand, and increased uncertainty. Key risks to outlook included the elevated trade policy uncertainties and the Russia-Ukraine conflict.

Global inflation was expected to increase in 2026 on account of higher energy prices and fertilizer costs attributed to the supply disruptions from the conflict. Inflation rates in major economies remained above target due to the stickiness in core inflation and increase in energy prices. Central banks in advanced economies had kept their policy rates unchanged as they assessed the impact of the conflict on their inflation and growth outlooks. International oil prices rose sharply and remained volatile due to supply chain disruptions and elevated uncertainties attributed to the conflicts. Meanwhile, food inflation increased

modestly, mainly driven by higher inflation rates for edible oils and cereals prices.

Kenya's overall inflation stood at 4.4 percent in March 2026 compared to 4.3 percent in February and remained below the mid-point of the target range of  $5 \pm 2.5$  percent. Core inflation remained stable at 2.1 percent in February and March, supported by lower prices of some processed food items, particularly sugar and maize flour. Nevertheless, non-core inflation increased to 10.8 percent in March from 10.1 percent in February, mainly driven by higher prices of some vegetables, particularly tomatoes and Irish potatoes. Despite expected upward pressure from higher energy prices, overall inflation was expected to remain within the target range in the near term, supported by appropriate monetary policy actions, expected stability in food prices attributed to favorable weather conditions, and a relatively stable exchange rate.

The Kenyan economy remained resilient, with real GDP growth estimated at 5.0 percent in 2025, compared to 4.7 percent in 2024, supported by a rebound of the industrial sector, resilience of the services sector, and stable agriculture sector growth. Leading indicators of economic activity pointed to continued resilient performance in the first quarter of 2026. The growth of the economy was projected at 5.3 percent in 2026 compared to the previous projection of 5.5 percent, reflecting the emerging risks of the conflict in the Middle East on the performance of some key sectors of the economy. This outlook was subject to risks, particularly a prolonged conflict in the Middle East, and elevated trade policy uncertainties.

The MPC noted continued decline in average commercial banks' lending rates and further strengthening of private sector credit growth. In addition, the full implementation of the RBCPM in March 2026 was expected to further improve the transmission of monetary policy decisions. The Committee observed that the prevailing monetary policy stance was appropriate to anchor inflation expectations and maintain exchange rate stability, while monitoring the potential second-round effects of higher global energy prices and geopolitical tensions. The Committee therefore decided to retain the Central Bank Rate (CBR) at 8.75 percent.

#### 4. OTHER ACTIVITIES OF THE MONETARY POLICY COMMITTEE

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The MPC Surveys conducted during the period, together with regular engagement with key stakeholders, supported the MPC in its market information gathering process for effective conduct of forward-looking monetary policy. The MPC also continued to simplify its Press Releases to enhance the clarity and accessibility of information communicated to the public, media, financial sector and other stakeholders.

The MPC's Private Sector Market Perceptions Survey, CEOs Survey, and the Survey of the Agriculture Sector indicated sustained optimism regarding business activity and economic growth prospects over the next 12 months. This optimism was driven by expectations of improved agricultural production supported by favorable weather conditions, a stable macroeconomic environment characterized by low inflation and exchange rate stability, declining interest rates, and resilient performance in tourism and the digital economy. However, respondents expressed concerns about subdued consumer demand, high cost of doing business, and heightened global uncertainty associated with higher tariffs and geopolitical tensions.

During the period, the MPC Chairman held virtual stakeholder meetings with the Chief Executives of commercial and microfinance banks after every MPC meeting to provide update on the rationale for policy decisions and to gather feedback from the financial sector. In addition, the Chairman of the MPC held virtual press conferences after each MPC meeting to brief the media on policy decisions and measures undertaken by the CBK to support macroeconomic stability.

The Governor also held virtual meetings with various potential investors and private sector representatives to provide updates on economic developments and the outlook for the economy. The MPC continued to monitor the implementation of monetary policy decisions by the CBK and maintained engagement with other government agencies, including the National Treasury and Kenya National Bureau of Statistics (KNBS), on data and statistical issues.

## 5. CONCLUSION

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The monetary policy measures implemented by the MPC in the six months to April 2026 continued to support price stability. These measures helped keep inflation within the target range, stabilized the exchange rate, and anchored inflation expectations. The stability of the exchange rate also mitigated potential imported inflation pressures on domestic prices. Continued coordination between fiscal and monetary policy further supported the achievement of price and market stability.

The CBK will continue to monitor developments in both the domestic and global economy, the transmission of monetary policy and the impact of previously implemented measures on price stability. The MPC will also continue to implement the reforms outlined in the White Paper on Modernization of the Monetary Policy Framework and Operations, aimed at strengthening the effectiveness of monetary policy and further anchoring of inflation expectations.

## ANNEX

### EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (NOVEMBER 2025 - APRIL 2026)

Date	Event of Relevance to Monetary Policy
December 2025	CBR lowered to 9.00 percent from 9.25 percent.
January 2026	January 2026 IMF World Economic Outlook update showed that global growth was projected to remain resilient at 3.3 percent in 2026 and 3.2 percent in 2027 compared to an estimated growth of 3.3 percent in 2025. Global headline inflation was expected to decline to 3.8 percent in 2026 and 3.4 percent in 2027 from 4.1 percent in 2025.
February 2026	<p data-bbox="352 730 1450 882">CBR lowered to 8.75 percent from 9.00 percent.</p> <p data-bbox="352 770 1450 882">Monetary Policy Committee of the Central Bank approved a narrowing of the interest rate corridor around the Central Bank Rate (CBR) from <math>\pm 75</math> basis points to <math>\pm 50</math> basis points to further support the alignment of KESONIA to the CBR.</p> <p data-bbox="352 898 1450 1010">In addition, applicable interest rate on the Discount Window adjusted from 75 basis points above CBR to 50 basis points, which is the upper bound of the interest rate corridor.</p> <p data-bbox="352 1021 1450 1133">Escalation of the U.S.-Iran-Israel conflict heightened global uncertainty and increased upside risks to inflation outlook through elevated energy prices and disruptions to global trade.</p>
March 2026	The revised banking sector Risk-Based Credit Pricing Model (RBCPM) was fully operationalized. This framework is expected to improve the transmission of monetary policy decisions to commercial banks' lending interest rates and enhance transparency in the pricing of loans by banks.
April 2026	<p data-bbox="352 1305 1450 1350">CBR retained at 8.75 percent.</p> <p data-bbox="352 1357 1450 1503">April 2026 IMF World Economic Outlook update showed downward revisions to global growth. Growth was projected to moderate to 3.1 percent in 2026 and 3.2 percent in 2027 from 3.4 percent in 2025. Global headline inflation was projected to rise to 4.4 percent in 2026 and decline to 3.7 percent in 2027.</p>

## GLOSSARY OF KEY TERMS

**Overall Inflation:** This is a measure of inflation in the economy measured by the month-on-month movement of indices of all consumer price items of goods and services sampled by the KNBS. It is affected by commodity components in the market that may experience sudden inflationary spikes such as food or energy.

**Reserve Money:** These are 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 held with 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 terms as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are defined as follows:

- M1 - Currency outside banking system + demand deposits
- M2 - M1 + time and savings deposits + certificates of deposits + deposit Liabilities of Non-Bank Financial Institutions (NBFIs)
- M3 - M2 + residents' foreign currency deposits

**Central Bank Rate (CBR):** This is the lowest rate of interest that the CBK charges on overnight loans to commercial banks. It is reviewed and announced by the Monetary Policy Committee at least every two months as part of its decisions. It is used by the commercial banks as a reference interest rate hence transmits to the financial sector and signals the CBK's monetary policy stance.

**Cash Reserves Ratio(CRR):** This is the ratio of deposits of commercial banks and non-bank financial institutions maintained with the CBK (as reserves) to commercial banks total deposit liabilities. The ratio is fixed by CBK as provided for by the law.

**CBK Discount Window:** The CBK Discount Window is a collateralized facility of last resort for banks. It has

restrictive guidelines controlling access. The Discount Window plays a significant role in ensuring banking sector stability by offering overnight liquidity as a last resort. It is anchored on the CBR with a prescribed penalty.

**Open Market Operations (OMO):** The act of buying or selling government securities from or to commercial banks by the Central Bank in order to achieve a desired level of bank reserves. OMO is carried out in the context of an auction where commercial banks bid through the Reuters dealing system or by phone/fax.

**Repurchase Agreement (Repo):** Repos/reverse repos are agreements between the CBK and commercial banks to purchase/sell Government securities from/to commercial banks at agreed interest rates (REPO rate) for a specified period with an understanding that the commercial bank will repurchase/resell the security from/to the CBK at the end of the period. The period can be varied by the CBK.

**Term Auction Deposits (TAD):** The TAD is used in exceptional market conditions when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer tenor options. The CBK seeks to acquire deposits through a transfer agreement from commercial banks at an auction price but with no exchange of security guarantee.

**Horizontal Repo:** This is an interbank Repo instrument which recognizes Government securities as collateral for borrowing. The instrument has a variable tenor and allows commercial banks without credit lines with other banks to access credit from the interbank market.

**Interbank Market:** The interbank market is a critical channel for distributing liquidity that reduces the need for banks to access the CBK Overnight Discount Window. However, since not all banks have credit lines with each other, it is not a perfectly operating market and therefore banks may come to the Window as a last resort. The interest rates charged by banks reflect an individual bank's perception of the risk of the particular bank borrower and also the tightening liquidity in the market.

**Revised Risk Based Credit Pricing Model (RBCPM):**

Announced in August 2025, and was fully implemented in March 2026. RBCPM is expected to improve the transmission of monetary policy decisions to commercial banks' lending interest rates and enhance transparency in the pricing of loans by banks.

Beginning September 1, 2025, the overnight interbank average rate was renamed Kenya Shilling Overnight Interbank Average (KESONIA) to align it to the international best practices. The overnight interbank average rate (KESONIA) closely aligns with the policy rate (Central Bank Rate) under the current monetary policy implementation framework.

**Under the revised RBCPM:**

- **The total lending rate = KESONIA + Premium ("K"),**

Where the premium includes the costs related to lending, return to shareholders, and the risk profile of the borrower.

- **The total cost of credit = KESONIA + K + Fees and Charges**

KESONIA will be applicable to all variable rate loans except for foreign currency denominated loans and fixed rate loans. Where KESONIA is not practical, customers may be availed the use of the Central Bank Rate (CBR) as the alternative reference rate.



**Central Bank of Kenya**

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