Central Bank of Kenya

Thirty-Fifth Bi-Annual Report of the Monetary Policy Committee

October 2025

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 35th 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 October 2025.

Dr. Kamau Thugge, CBS

Governor

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Governor

Dr. Susan Koech
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Ms. Isis Nyong'o
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Director, Financial Markets

Prof. Robert Mudida
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EXECUTIVE SUMMARY

The thirty-fifth bi-annual Report of the Monetary Policy Committee (MPC) reviews Kenya's monetary policy formulation and other developments that affected the economy in the six months to October 2025.

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 ensuring continued stability in the exchange rate, consistent with the price stability objective of the Central Bank of Kenya (CBK).

The MPC continued to monitor the implementation of the monetary policy framework adopted in August 2023. To further strengthen the effectiveness of the monetary policy implementation framework, CBK announced the revised banking sector Risk-Based Credit Pricing Model (RBCPM) in August 2025. The new framework is expected to be fully operational by March 2026, and is expected to improve the transmission of monetary policy decisions to commercial banks' lending interest rates and while enhancing transparency in the banks' loan pricing.

Monetary policy during the period was conducted against a backdrop of heightened global uncertainties, particularly implementation of higher tariffs on U.S. imports, and persistent geopolitical tensions. Global inflation continued to moderate but was projected to decline at a slower pace due to the expected inflationary impact of higher tariffs on trade. Central banks in major economies continued to cautiously lower their policy rates, but at different paces depending on their inflation and growth outlooks. International oil prices continued to moderate owing to increased production and subdued global demand, particularly from China. Global food inflation eased slightly in the period, mainly driven by lower cereals and sugar prices inflation.

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

In the June 2025 meeting, the MPC lowered the CBR to 9.75 percent from 10.00 percent, noting that there was scope to augment the previous policy actions aimed at stimulating lending by banks to the private sector to support economic activity, while ensuring that inflationary expectations remained firmly anchored, and the exchange rate remained stable. Overall inflation was expected to remain below the mid-point of the target range in the near term, supported by stability in food and energy prices, and continued exchange rate stability.

In the August 2025 meeting, the Committee lowered the CBR to 9.50 percent from 9.75 percent, noting that the average commercial banks' lending rates had continued to decline, while private sector credit growth continued to improve, albeit at a slower pace than desired. This action would further stimulate lending to the private sector and support economic activity, while ensuring that inflationary expectations remained firmly anchored, and the exchange rate was stable. The MPC was also apprised on the RBCPM, which is expected to improve the transmission of monetary policy actions to lending interest rates and enhance transparency in banks' loans pricing.

During the October 2025 meeting, the MPC lowered the CBR to 9.25 percent from 9.50 percent. The Committee noted that there was scope for further easing of monetary policy to augment previous policy actions aimed at stimulating lending by banks to the private sector.

Overall inflation remained below the midpoint of the 5.0±2.5 percent target range during the six month to October 2025. It stood at 4.6 percent in October 2025 compared to 4.1 percent in April , on account of higher non-core inflation attributed to seasonal factors. Non-core inflation increased to 9.9 percent from 8.4 percent in the period. Core inflation remained relatively stable, but rose slightly to 2.7 percent in October 2025 from 2.5 percent in April 2025.

Economic growth accelerated to 5.0 percent in the second quarter of 2025, from 4.6 percent in a corresponding quarter of 2024. This improvement was mainly supported by stronger performance of the industrial sector. Growth in the services sector remained robust, supported by transport and storage, wholesale and retail trade, and professional, administrative and support services. Growth in agriculture and manufacturing sectors slowed down.

The foreign exchange market remained relatively stable in the six months to October 2025, supported by resilient growth in exports of goods and services as well as remittances. Diaspora remittances totalled USD 438.8 million in October 2025 compared to USD 437.2 million in October 2024. The CBK foreign exchange reserves, which stood at USD 11,919 million (5.14 months of import cover) as at end of October 2025 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 October 2025. The sector's capital adequacy ratio was 19.9 percent, and the liquidity ratio stood at 59.0 percent as at the end of October 2025. These were above the statutory limits. The ratio of gross non-performing loans (NPLs) to gross loans declined to 16.7 percent in October 2025, from 17.6 percent in April 2025.

Growth in commercial banks' lending to the private sector improved to 5.9 percent in October 2025 from 0.4 percent in April 2025, reflecting improved demand in line with declining lending rates with easing monetary policy stance, and resilient economic activity. Growth in credit to key sectors of the economy improved, particularly agriculture, manufacturing, building and construction, and consumer durables sectors.

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. The meetings provided a forum to obtain feedback, and to apprise the market with background information for the MPC decisions and updates on the economy. The meetings continued to enhance the public understanding of monetary policy formulation and implementation. The Bank continued to closely monitor the risks posed by developments in the domestic and global environment, including geopolitical tensions, on the economy and the overall price stability objective.

1. DEVELOPMENTS IN THE GLOBAL ECONOMY

The IMF's World Economic Outlook Report for October 2025 projects the global economic growth to remain subdued at 3.2 percent in 2025 and moderate to 3.1 per cent in 2026, from 3.3 percent in 2024, following heightened global policy uncertainties and escalation of trade tension between US and her main trading partners. Growth in the advanced economies is projected to stabilize at 1.6 percent in 2025 and 2026, respectively, representing an upward revision of 0.1 percentage points for 2025 from the July WEO 2025 update. The growth outlook for the United States was revised upward to 2.0 percent in 2025 and 2.1 percent in 2026, reflecting in part improving consumer spending and investments amid greater policy uncertainty which continue to dampen private investment. Euro Area growth is expected to improve by 1.2 percent in 2025 from 0.9 percent in 2024, mainly driven by improved economic activity across the region. Economic activity in Germany is expected to recover from a contraction of 0.5 percent in 2024 to an increase of 0.2 percent and 0.9 percent in 2025 and 2026, respectively. The UK and Japan economic activity is projected to grow by 1.3 percent and 1.1 percent, respectively in 2025.

Growth in emerging market and developing economies (EMDEs) is expected to remain stable at 4.2 percent and 4.0 percent in 2025 and 2026, representing an upward revision of 0.1 percentage points from the July WEO update, reflecting resilient economic activity in Asia particularly China and India. However, economic prospects in the region are expected to be subdued as the full impact of tariffs materializes. In sub-Saharan Africa (SSA), economic growth is projected to reach 4.1 percent in 2025 and to improve to 4.4 percent in 2026. The forecast for 2025 is 0.1 percentage points higher relative to the projection in July 2025 WEO. Nigeria and South Africa are expected to grow by 3.9 percent and 1.1 percent in 2025, respectively. Kenya's growth is expected to remain above the global and Sub-Saharan Africa (SSA) averages in 2025.

Global headline inflation moderated but is projected to decline at a slower pace in 2025 and 2026 than previously anticipated, mainly due to the effects of higher tariffs on imports. International oil prices moderated due to strong global supply and tepid global demand growth. Global food inflation increased slightly through October 2025, mainly driven by elevated edible oil price inflation. The main risks to the global growth outlook relate to elevated uncertainty on trade policy, and escalation of geopolitical tensions particularly the conflict in the Middle East and the Russia-Ukraine war. A higher- than-expected inflation could also result in more restrictive monetary policy, and potential volatility in the financial markets due to repricing in financial markets.

2. DEVELOPMENTS IN THE KENYAN ECONOMY

2.1 Overall Economy

Economic growth accelerated to 5.0 percent in the second quarter of 2025, from 4.6 percent in a corresponding quarter of 2024. This improvement was mainly supported by stronger performance of the industrial sector, particularly mining and quarrying, electricity and water supply, and construction activities. Growth in the services sector remained robust, with notable contributions from transport and storage, wholesale and retail trade, and professional, administrative and support services. However, expansion in overall output was partly moderated by a slowdown in growth of agriculture and manufacturing, and a deceleration in some activities in the services sector.

The agriculture sector recorded a growth of 4.4 percent in the second quarter of 2025, from a growth of 4.5 percent in a similar quarter of 2024. The modest decline was largely attributed to mixed weather conditions that affected the production of key food crops in some regions.

The services sector remained the main driver of growth, expanding by 5.7 percent in the second quarter of 2025, a modest performance compared to 6.1 percent growth recorded in the second quarter of 2024. This performance was supported by robust growth in wholesale and retail trade (4.0 percent), information and communication (6.0 percent), transport and storage (5.4 percent), and professional, administrative and support services (8.5 percent). However, growth of the sector was moderated by a marked deceleration in accommodation and food services.

The industry sector registered a strong rebound, expanding by 4.0 percent in the second quarter of 2025 compared to a marginal growth of 0.2 percent in a similar quarter of 2024. The recovery was underpinned by a significant turnaround in mining and quarrying (15.3 percent), electricity and water supply (5.7 percent), and construction (5.7 percent), which offset a slowdown in manufacturing, whose growth eased to 1.0 percent from 3.2 percent in the same quarter of 2024 **(Table 1).**

Economic growth is projected to remain strong in both the third and fourth quarters of 2025 supported by a rebound in growth of the agriculture sector which is expected to benefit from favorable weather conditions and continued government interventions aimed at increasing productivity and subsidizing farm inputs.

The services sector is expected to remain resilient, sustained by robust activity in trade, transport, information and communication, and professional services. Industrial output is also projected to improve gradually, supported by stable electricity supply, ongoing recovery in construction and mining, and moderate growth in manufacturing.

The stable macroeconomic environment and various growth enhancing measures by the government to support key sectors are expected to spur economic growth in the medium term. Further, recovery of credit uptake by the private sector following the recent easing of monetary policy, increased digital economic transformation, and digitalization of government services are expected to continue boosting growth of the services sector and overall economic activity.

Globally, potential sustenance of the cease fire in the Middle East and sustained increase in oil production by OPEC+ and non-OPEC+ alliance could result in further reduction in oil prices, hence lowering the cost of production. However, risks remain from uncertainty associated with the US protectionist policies, deterioration of geopolitical conflicts particularly potential escalation of Russia-Ukraine war which could adversely impact global supply chains.

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

	2023	2024	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2
Agriculture	6.6	4.6	6.5	7.9	5.1	6.3	5.6	4.5	4.0	4.3	6.0	4.4
Non-Agriculture (o/w)	5.5	4.7	5.2	5.0	6.0	6.0	4.8	4.6	4.3	5.3	4.7	5.1
Industry	2.0	0.8	1.2	1.3	3.2	2.3	0.4	0.2	-0.4	3.1	3.0	4.0
Services	7.0	6.0	6.9	6.4	7.3	7.5	6.4	6.1	5.4	6.1	5.0	5.7
Taxes on products	3.2	4.4	2.7	3.0	3.1	3.7	2.9	3.8	6.3	4.5	5.7	3.3
Real GDP Growth	5.7	4.7	5.4	5.5	5.9	6.1	4.9	4.6	4.2	5.1	4.9	5.0

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

2.2 Financial Market Developments

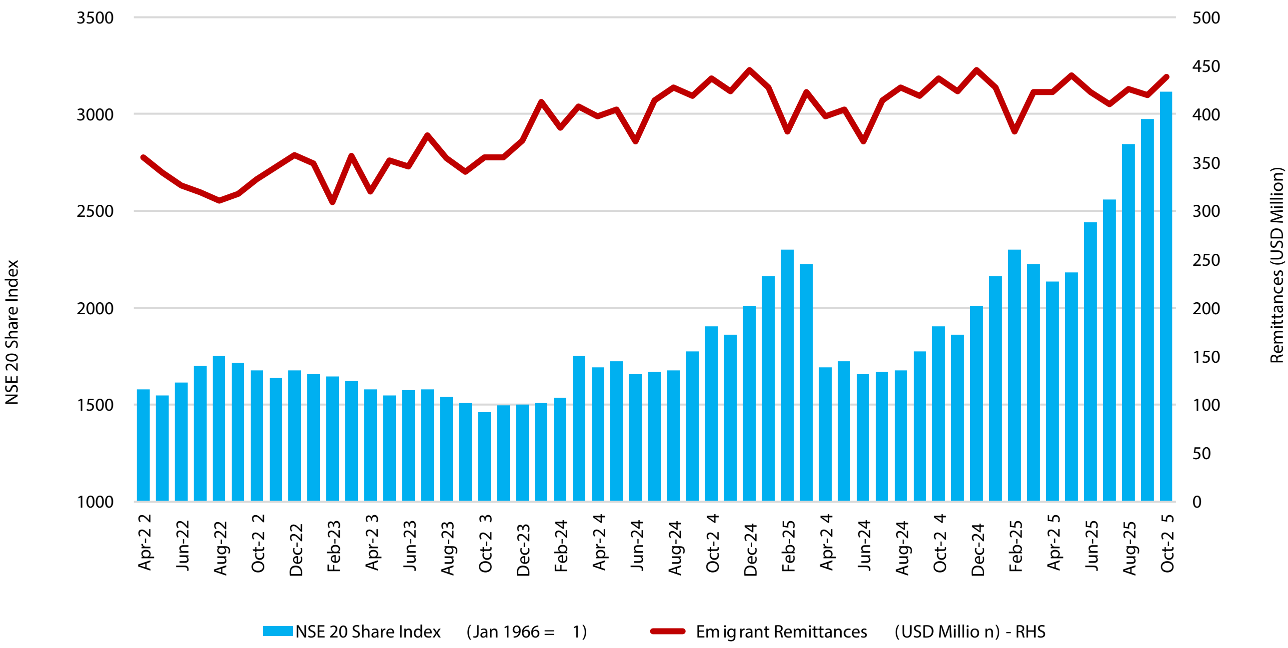
During the six months to October 2025, global financial market conditions remained volatile. The equity market exhibited volatility while government bond yield spreads in major economies declined on expectations that rising tariffs and retaliatory actions would hurt corporate earnings and slow the global economy. Central banks in the major economies continued to lower their interest rates, but at a different pace depending on their inflation and growth outlooks. EMDEs domestic currencies weakened, and equity markets declined though the magnitude of these declines varied across countries. These developments reflect a more cautious global sentiment and a repricing of expectations regarding monetary policy easing in advanced economies, alongside weakening prospects for global output. Despite increased participation in the international capital markets in the period under consideration EMDEs sovereign spreads widened, due to demand-driven concerns arising from rising trade tensions.

The US dollar weakened, largely attributed to worsening of US growth prospects as shifts in the US trade policy weighed on market economic activity while elevated risks of a significant selloff in the US equity market destabilized the global financial markets. In the October 2025 meeting, the US Federal Reserve lowered the federal funds rate by 25 basis points to a target range of 3.75-4.00 percent, reflecting elevated US inflation outcomes, subdued economic activity and labour market weakness. The Bank of Canada also cut its policy rate by 25 basis points to 2.25 percent while the European Central Bank and the Bank of Japan left their interest rate unchanged at 2.0 percent and 0.5 percent, respectively.

In the domestic economy, diaspora remittances remained strong over the period **(Chart 1a).** Activity at the Nairobi Securities Exchange (NSE) picked up with the NSE 20-Share index increasing to 3,116.69 in October 2025 from 1,905.51 points in October 2024 supported by improved investor confidence in the economy.

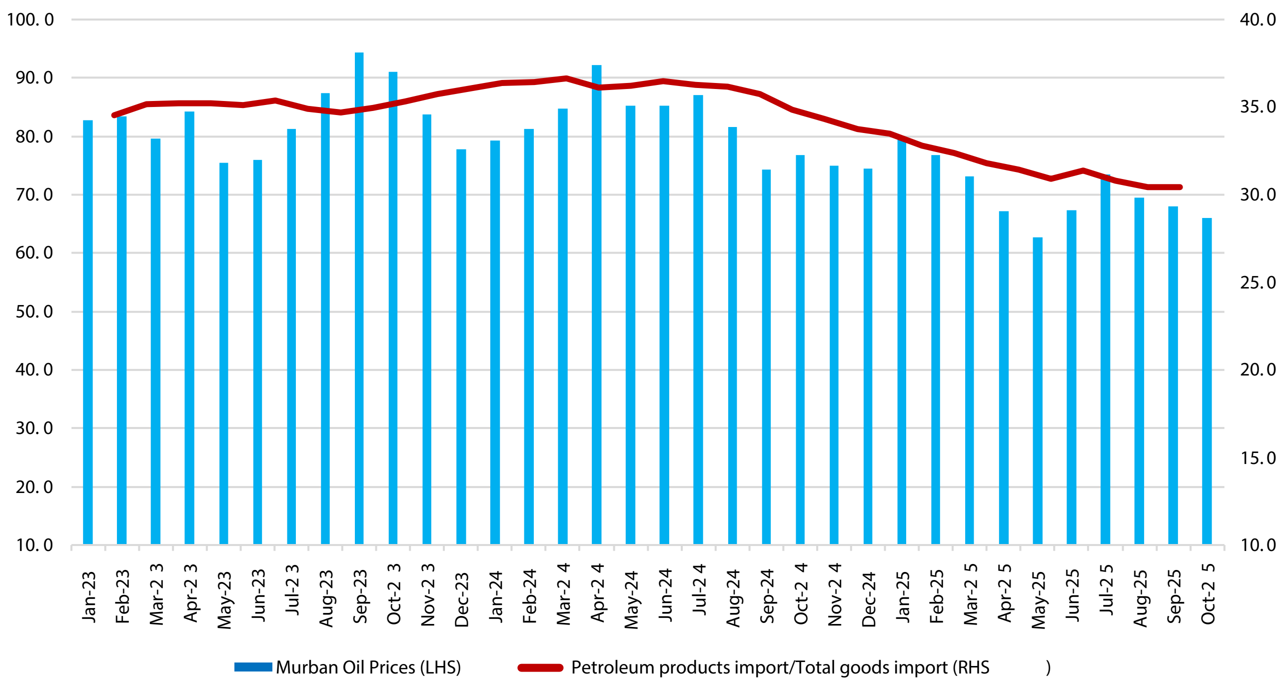
Developments in international oil prices have implications on the balance of payments position particularly when the proportion of imports of petroleum products in total imports is high. International oil prices declined with murban oil averaging at USD 67.82 per barrel for the six months to October 2025, reflecting subdued global demand mostly in China amid ongoing trade tensions, rising OPEC+ production, and increased crude inventories. However, geopolitical conflicts continue to cause uncertainty and potential volatility in the international oil markets **(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 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

Trends in Headline Inflation

Overall inflation remained below the midpoint of the 5.0±2.5 percent target range during the six month to October 2025. It increased to 4.6 percent in October 2025 from 4.1 percent in April 2025, on account of increased non-core inflation largely driven by supply side factors **(Chart 2a).**

Core Inflation

Core inflation increased to 2.7 percent in October 2025 from 2.5 percent in April 2025, reflecting modest increase in prices of select processed food items in the core CPI.

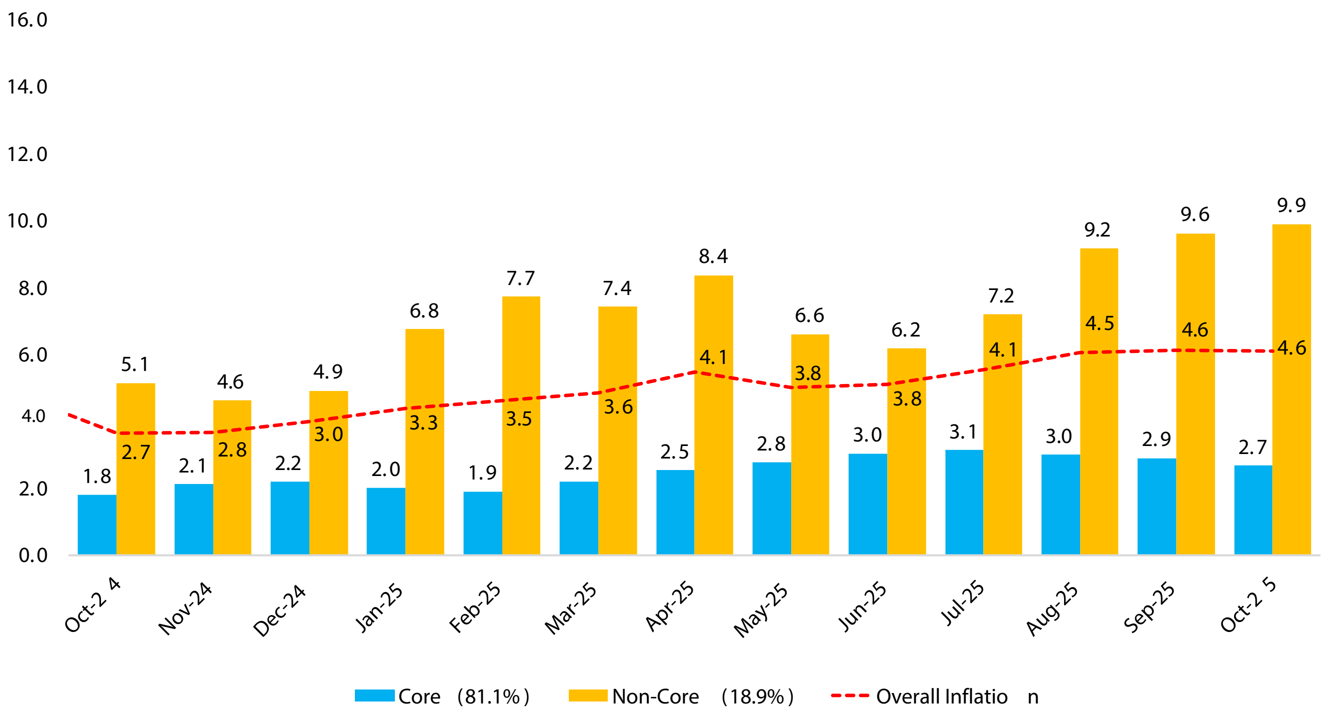
Non-Core Inflation

Non-core inflation increased to 9.9 percent in October 2025 from 8.4 percent in April 2025 mainly on account of higher electricity, pump prices and transport costs.

Inflation Outlook

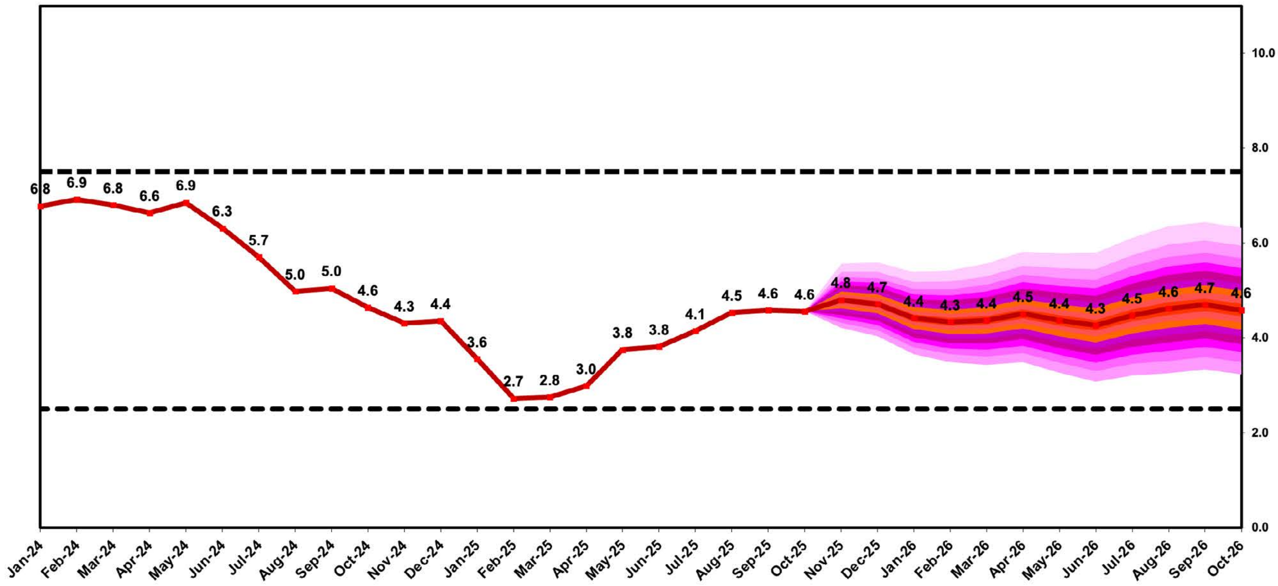
In the near term, inflation is expected to edge up slightly but remain anchored around the medium-term target **(Chart 2b).** The main risks to the inflation outlook relate to uncertainty surrounding increased protectionist policies on global trade, potential retaliation to the US reciprocal tariff measures, and uncertainty in geopolitical environment with potential impacts on trade and supply chains. On the upside, increase in oil crude production could result in lower-than-expected crude oil prices outlook.

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 (percent): November 2025 - October 2026



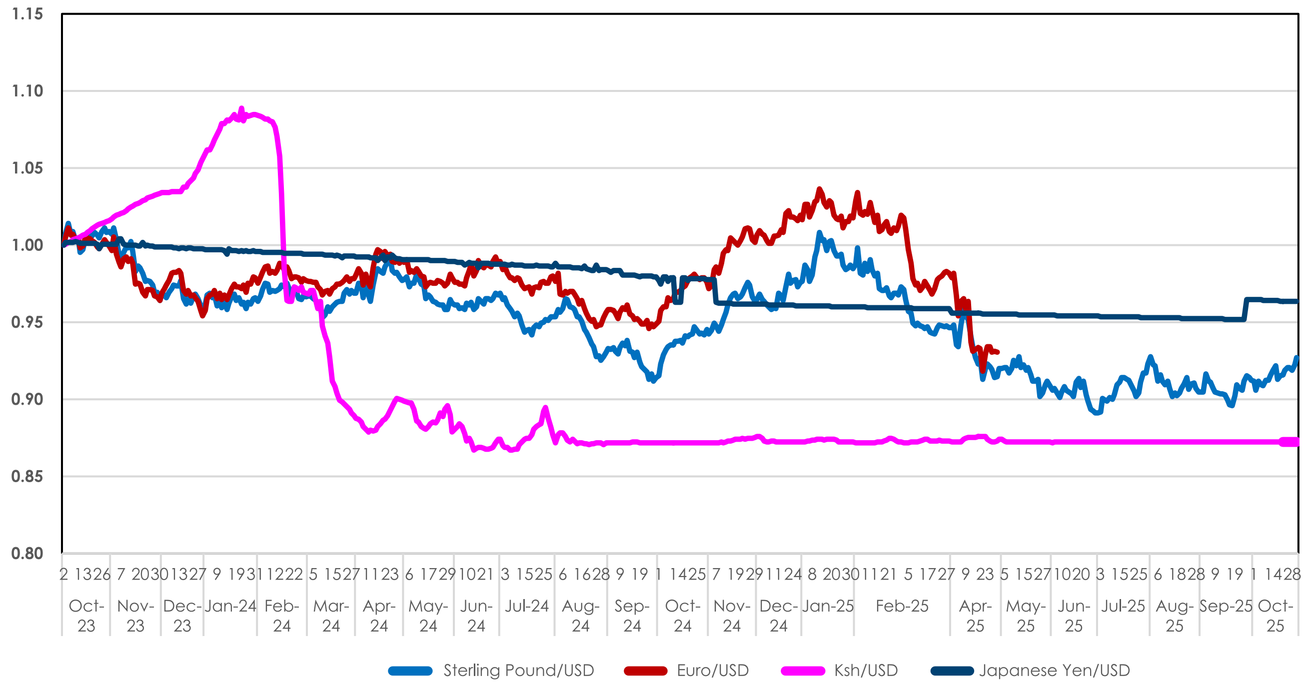
Source: *Central Bank of Kenya*

Foreign Exchange Market Developments

The foreign exchange market remained relatively stable in the six months to October 2025, supported mainly by resilient growth in exports of goods and services as well as remittances **(Charts 3a and 3b).** Diaspora remittances totalled USD 438.8 million in October 2025 compared to USD 437.2 million in October 2024. The CBK foreign exchange reserves, which stood at USD 11,919 million (5.14 months of import cover) as at end of October 2025 continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

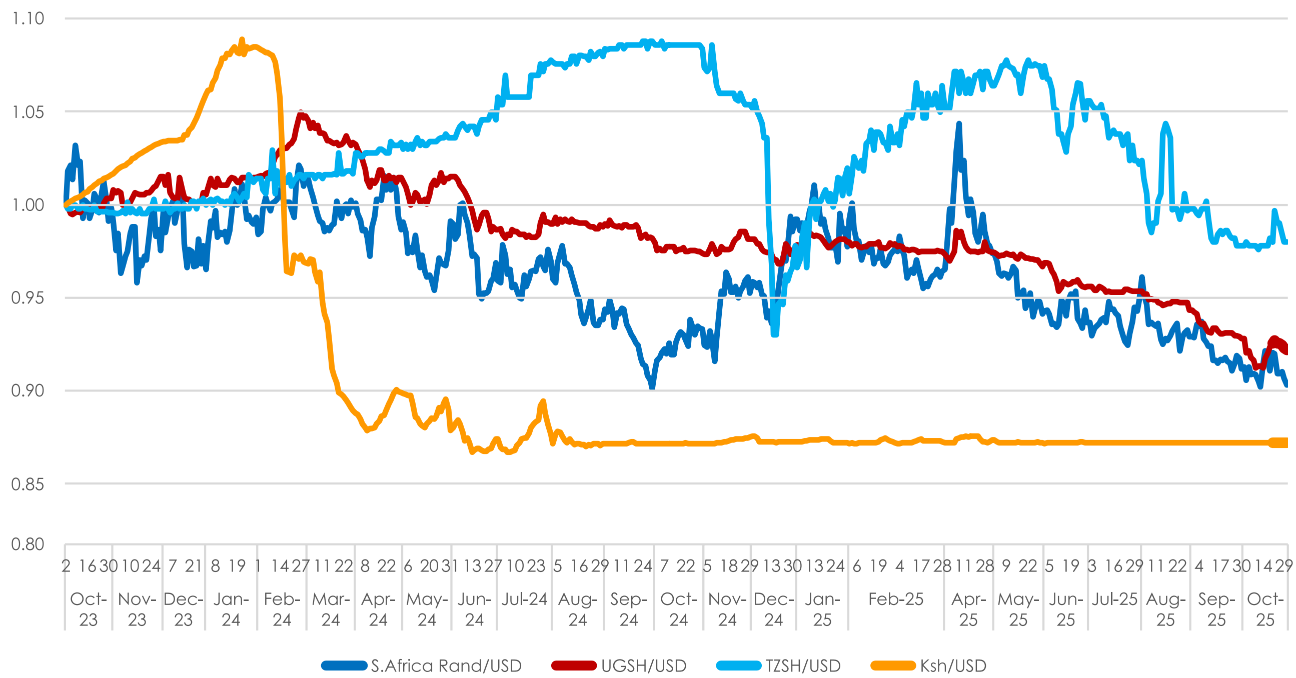
Global financial conditions remained relatively stable but vulnerable, partly reflecting easing trade-related policy uncertainty and inflation pressures in most of the advanced economies amid heightened geopolitical risks and worsening domestic economic fundamentals in several major economies.

Chart 3a: Normalized exchange rates of the Kenya Shilling and Regional currencies against the US Dollar (October 2, 2023, =1))



Source: Central Bank of Kenya

Chart 3b: Normalized Exchange Rates of the Kenya Shilling and Major Currencies against the US Dollar (October 2, 2023 =1)



Source: Central Bank of Kenya

Balance of Payments Developments

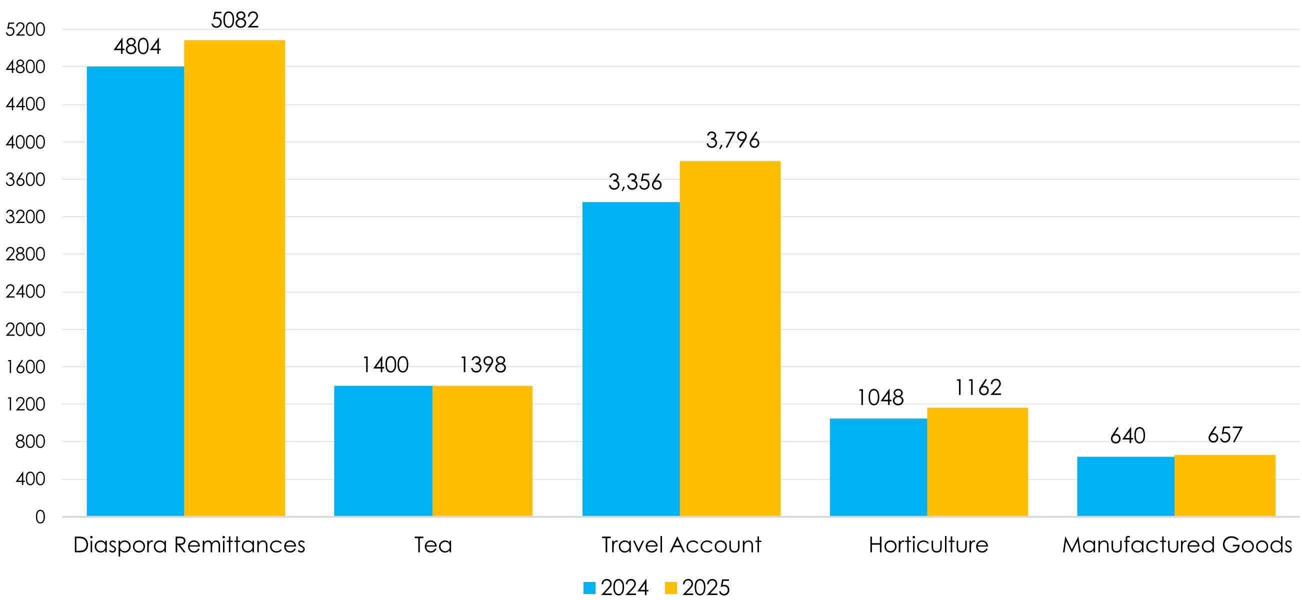
The current account deficit widened in the 12-months to October 2025 to USD 3,014.6 million (2.2 percent of GDP) from USD 1,760.2 million (1.5 percent of GDP) in the 12-months to October 2024, on account of a higher deficit in the balance on goods and the primary income account. The current account deficit is projected to remain relatively stable at 2.3 percent of GDP in 2025 and 2026.

Goods exports grew by 6.7 percent to USD 13,171.5 million in the 12 months to October 2025, reflecting increases in earnings from horticulture, coffee, manufactured goods, and apparel, despite the reduction in earnings from tea, chemicals, and re-exports. Goods imports increased by 9.6 percent to USD 24,100.3 million in the 12 months to October 2025, mainly due to higher imports of intermediate and capital goods amid lower imports of mineral fuels attributable to lower international oil prices.

Receipts from service exports declined in the period under review, largely attributed to reduced earnings from the other services category, which more than offset higher travel and transport receipts. Travel receipts remained resilient in the 12 months of October 2025 reflecting higher international arrivals. The secondary income account slowed down by 0.3 percent reflecting a decline in NGO and other transfers which more than offset increases in diaspora remittance inflows. Diaspora remittances increased by 5.8 per cent in the 12 months to October 2025. Similarly, the primary income account recorded a higher deficit of USD 1,871 in the period under review, due to higher income payments, which offset reserve assets income.

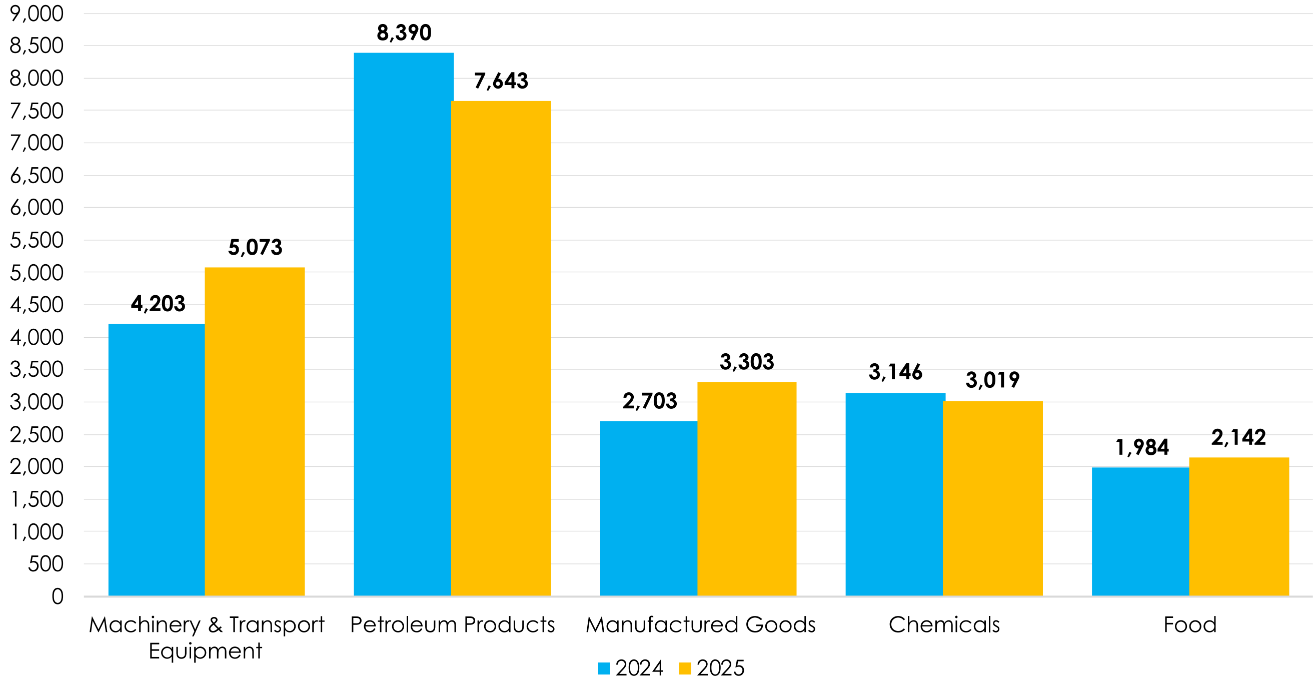
Net inflows in the financial account increased to USD 3,999.2 million in the 12 months to October 2025 compared to a net inflow of USD 2,811.3 million in the 12 months October 2024, due to an increase in other investment liabilities of the government and other sectors. The reserve assets build-up was USD 2,716.6 million and this realized an overall balance of payments surplus of USD 2,110.6 in the 12 months to October 2025 **(Charts 4a and 4b).**

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

Imports from China accounted for 20.4 percent of the total imports in the 12 months to October 2025, while United Arabs Emirates, India, Saudi Arabia, the United States, and the United Kingdom accounted for 20.8 percent, 8.9 percent, 5.7 percent, 4.4 percent, and 1.3 percent, respectively. The U.S., U.K., the Netherlands, UAE, and Pakistan accounted for, 5.1 percent, 3.8 percent, 4.5 percent, 4.9 percent, and 4.7 percent, respectively of Kenya's total exports in the 12-months to October 2025. Africa remained the main Kenya's export destination region accounting for 56.1 percent of which Uganda registering 33.6 percent of Kenya's total exports in the 12-months to October 2025. Exports to other trading blocs such as the EAC, COMESA and the EU accounted for 49.4 percent, 44.5 percent, and 10.7 percent, respectively, of total exports over the period.

Banking Sector Developments

The banking sector remained stable and resilient in the period to October 2025. The sector's capital adequacy ratio was 19.9 percent, and the liquidity ratio stood at 59.0 percent as at the end of October 2025. These were above the minimum statutory limits of 14.5 percent and 20.0 percent, respectively.

Credit risk was elevated, with the ratio of gross non-performing loans (NPLs) to gross loans standing at 16.7 percent in October 2025, a decrease from 17.6 percent in April 2025. Gross NPLs increased by 0.1 percent to KSh 725.1 billion in October 2025 from KSh 724.2 billion in April 2025. The main sectors with increased NPLs were personal and household, building and construction, agriculture, energy and water, and mining and quarrying sectors. The increase in NPLs in the period was mainly due to a challenging business and operating environment.

Customer deposits remained the main source of funding to the banks, accounting for 73.6 percent of the banking sector's total liabilities and shareholders' funds as at October 2025, a slight decrease from 74.4 percent as at April 2025. Customer deposits increased by 5.5 percent to KSh 6,036.5 billion in October 2025 from KSh 5,719.7 billion in April 2025.

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

The banking sector is projected to remain stable. Credit risk is expected to remain elevated in the short to medium term. Interest rate risk is expected to remain stable in the backdrop of stabilizing interest rates. Operational risk is expected to remain elevated while liquidity risk remains stable.

Developments in Private Sector Credit

Growth in commercial banks' lending to the private sector increased between April and October 2025, reflecting improved demand in line with declining lending rates with easing monetary policy stance, and resilient economic activity **(Table 2).** Growth in credit to key sectors of the economy improved, particularly agriculture, manufacturing, building and construction, and consumer durables sectors, with demand supported by improving economic activity. Private sector credit growth is expected to strengthen further, supported by the impact of easing monetary policy stance and expected resilient economic activity.

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

	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Total Credit to Private Sector	-0.0	-1.1	-1.4	-2.9	-1.3	0.2	0.4	2.0	2.2	3.3	3.3	5.0	5.9
Agriculture	8.9	4.2	5.1	-1.1	2.6	8.4	12.1	9.7	12.6	10.3	10.2	12.7	16.2
Manufacturing	-11.6	-10.5	-9.4	-10.7	-5.1	-6.3	-0.9	1.0	3.1	2.4	1.7	11.1	10.7
Trade	4.7	2.2	2.3	1.0	2.4	5.8	5.6	7.7	10.1	12.0	10.1	3.9	4.5
Building & construction	-16.7	-2.2	-6.1	-0.2	-3.4	12.0	6.1	19.8	25.0	38.8	49.6	52.9	54.8
Transport & communication	8.0	1.2	1.6	3.2	6.5	4.8	-0.7	1.3	-2.0	-0.6	0.4	-1.3	-6.6
Finance and insurance	-5.2	-9.1	-21.2	-9.4	-14.9	-18.8	-8.3	-6.3	-6.7	0.2	-3.3	-1.3	4.4
Real estate	2.8	2.2	1.3	-0.1	1.4	2.4	1.8	0.1	1.6	2.1	2.8	1.0	3.3
Mining & quarrying	26.3	6.4	-22.9	-25.1	-26.5	-44.3	-39.5	-38.4	-47.1	-55.2	-59.0	-56.3	-17.8
Private households	5.9	4.7	9.2	0.2	-2.1	-0.9	-1.6	-0.4	-0.2	0.8	-0.3	-0.7	1.6
Consumer durables	3.3	2.2	3.3	3.8	5.2	8.1	7.9	8.7	9.6	10.3	9.1	12.2	7.1
Business services	-3.8	-1.6	-4.5	-5.8	-1.8	-13.1	-7.1	-9.0	-10.0	-8.9	-5.1	-4.2	-1.8
Other activities	-16.1	-18.6	-18.2	-30.0	-26.5	-0.8	-20.6	-12.6	-24.8	-27.8	-20.3	11.4	13.5

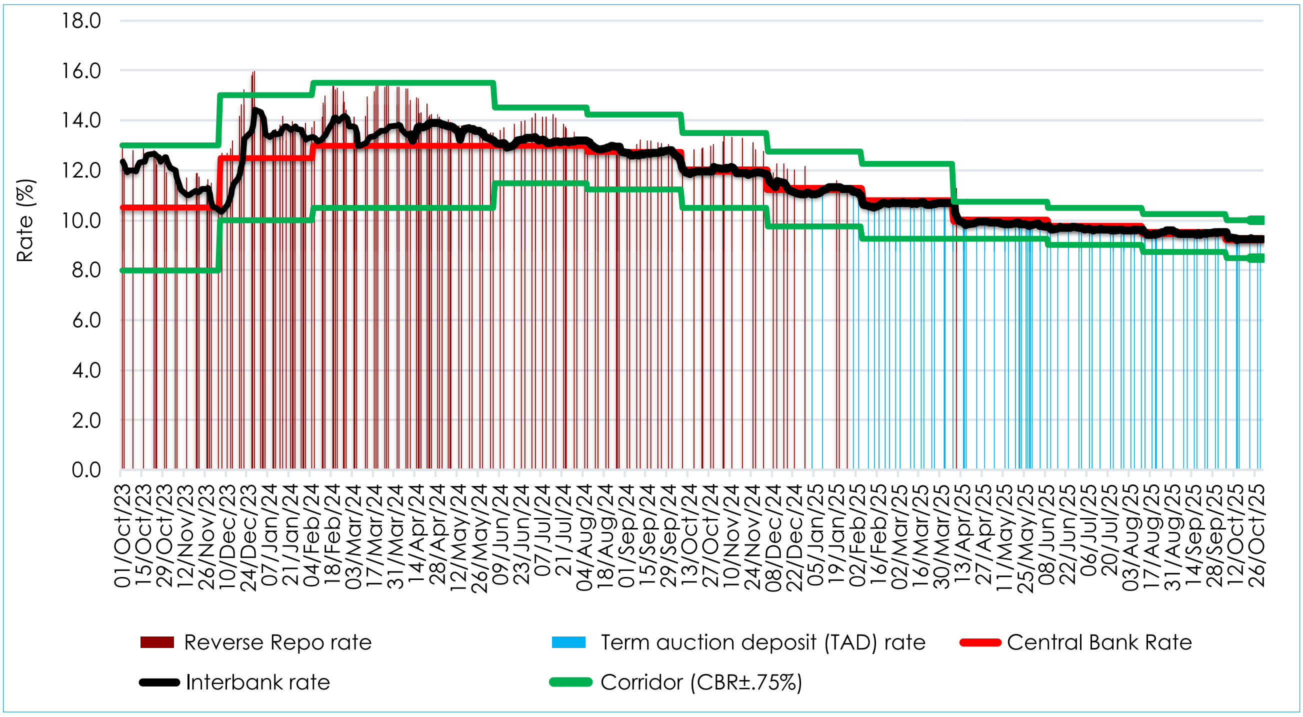
Source: Central Bank of Kenya

Interest rates

Short-term money market interest rates continued to decline in line with the reduction in the Central Bank Rate (CBR) and improved liquidity conditions.

The interbank weighted average rate has remained closely aligned with the CBR and within the interest rate corridor of ±0.75 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)

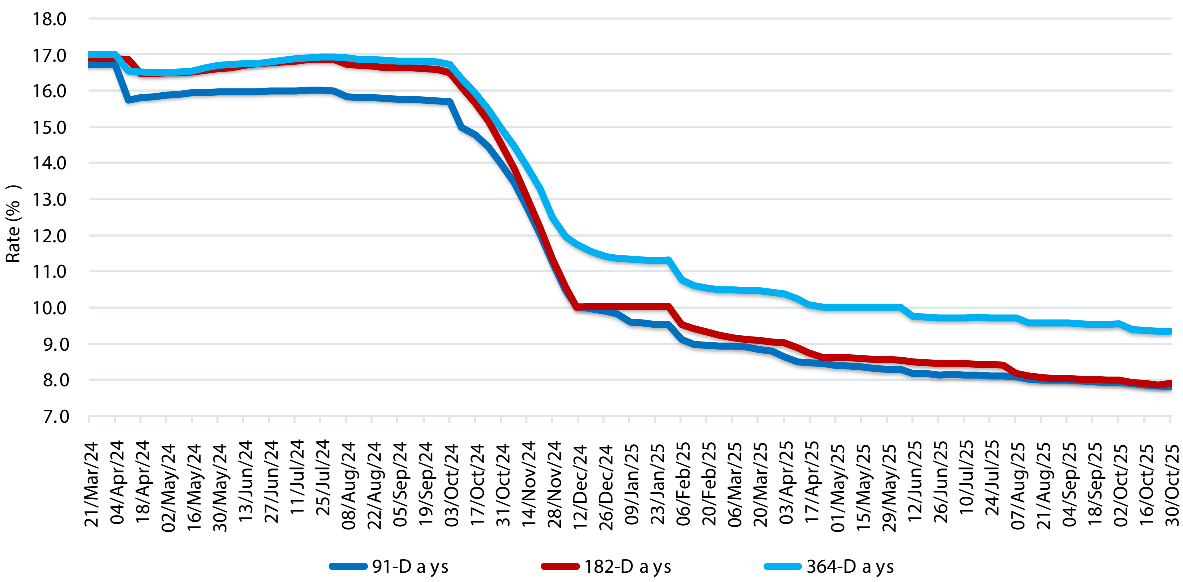


Source: Central Bank of Kenya

Similarly, interest rates on Government securities have been declining in line with the easing of the monetary policy stance. Between April and October 2025, the 91-day Treasury bill rate fell by 64 basis points to 7.88 percent, while the 182-day rate declined by 123 basis points to 7.92 percent in October.

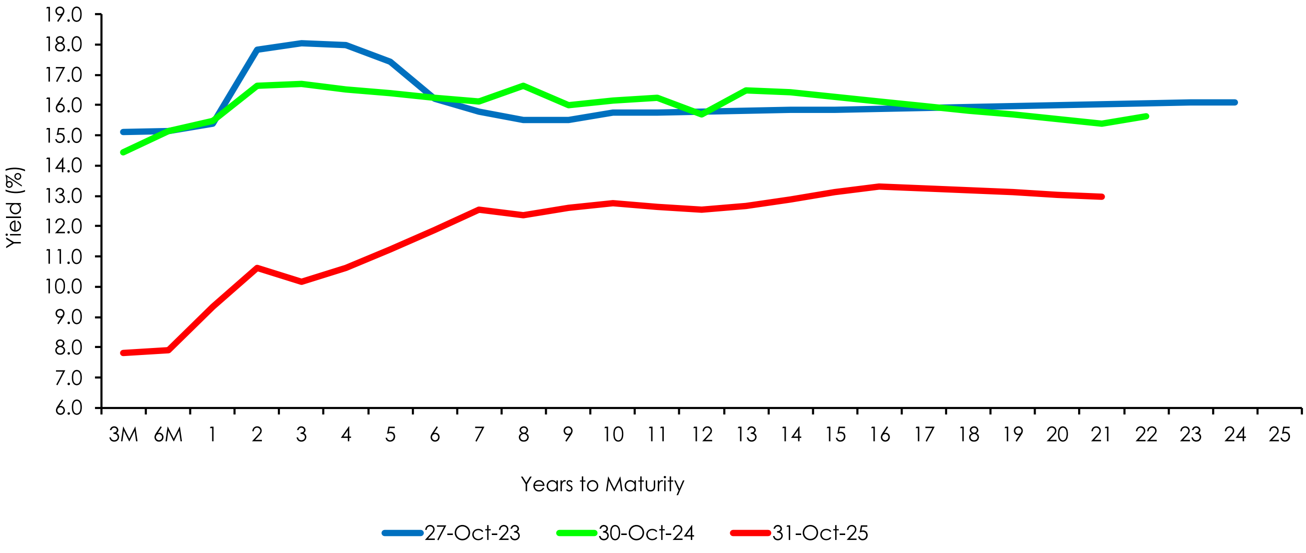
Effective coordination between monetary and fiscal policy — particularly in the implementation of the Government's domestic borrowing programme — continues to support orderly movements along the yield curve **(Charts 5b and 5c).**

Chart 5b: Interest rates on treasury bills (percent)



Source: Central Bank of Kenya

Chart 5c: Government securities yield curve (percent)

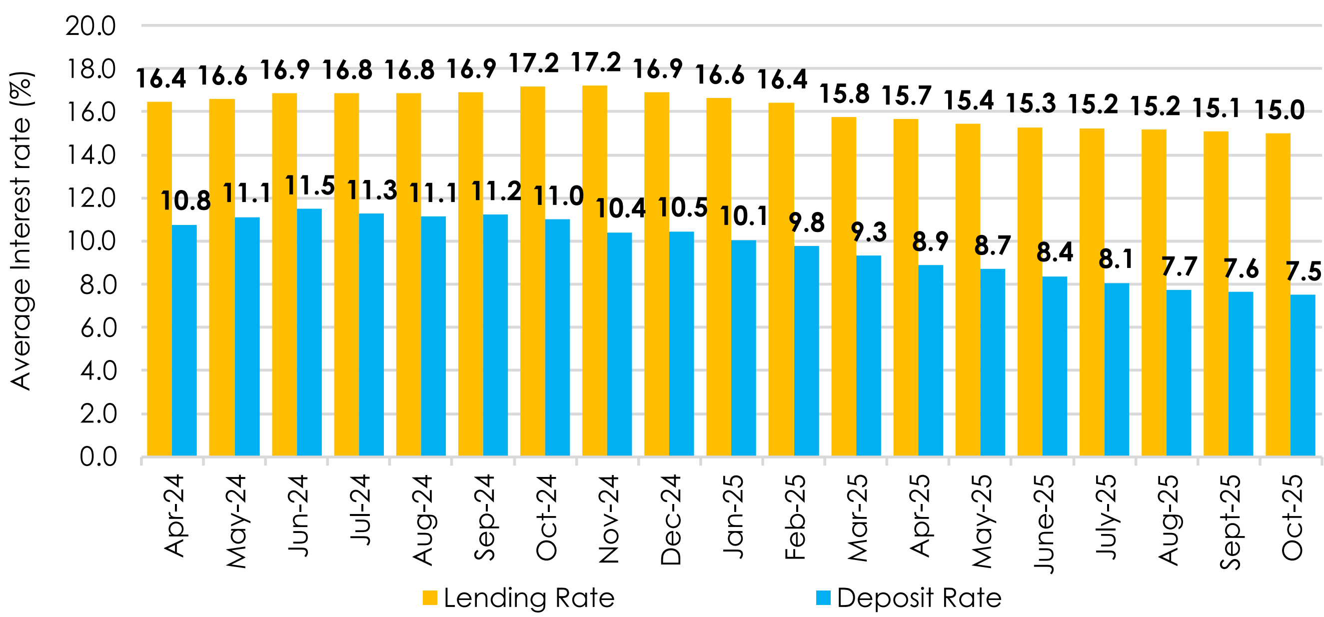


Source: Central Bank of Kenya

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 15.0 percent in October 2025 from 15.7 percent in April 2025.

Similarly, the weighted average deposit rate decreased further to 7.4 percent from 8.9 percent in April 2025, reflecting easing cost of funds **(Chart 6).**

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



Source: Central Bank of Kenya

3. MONETARY POLICY FORMULATION

3.1 Attainment of Monetary Policy Objectives and Targets

During the six months to October 2025, the MPC formulated monetary policy to achieve and maintain overall inflation within the target range as provided 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 and its adjustments both in direction and magnitude signaled the stance of monetary policy. The monetary policy stance was operationalized through various instruments including Open Market Operations (OMO), cash reserve requirements at CBK, and the CBK Standing Facility (Overnight discount window which is a lender of last resort facility). To ensure that the interbank rate (KESONIA) remains 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 continued to monitor the new monetary policy implementation framework designed to enhance monetary policy transmission, implemented in August 2023. The new framework is based on inflation targeting and an interest rate corridor around the Central Bank Rate (CBR), currently set at ± 75 basis points, and the applicable interest rate on the discount window is set at 75 basis points above the CBR (upper bound of the corridor).

The new framework has resulted in improved functioning of the interbank market, increased interbank activity, and narrower interbank interest rates spread. To further strengthen the effectiveness of the monetary policy implementation framework, CBK announced the revised banking sector Risk-Based Credit Pricing Model (RBCPM) in August 2025 and is expected to be fully functional by March 2026. RBCPM is anchored on the overnight interbank average rate and 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.

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

An assessment of the performance of the new framework in the period to October 2025 showed that monetary policy operations have been strengthened since the introduction of the new Monetary Implementation Framework in August 2023, and the interbank rate (renamed KESONIA from September 1, 2025), as an operating target, has closely tracked the CBR. The interbank rate (KESONIA) has remained within the corridor around the CBR, consistent with the monetary policy stance, and continues to enhance monetary policy transmission to short-term rates.

3.3 Monetary Policy Committee Meetings and Decisions

Over the six months to October 2025, the MPC held meetings on June 10, 2025, August 12, 2025, and October 7, 2025, to review the outcomes of its previous decisions and measures implemented to anchor inflationary expectations and maintain exchange rate stability.

The June 2025 meeting was held against a backdrop of elevated uncertainties to the global outlook for growth, lower but sticky inflation in advanced economies, heightened trade tensions and persistent geopolitical tensions. The MPC noted the moderated prospects for the global economy in 2025 compared to 2024, reflective of significant downward revisions to growth in the United States and China owing to higher tariffs on U.S. imports and retaliatory tariffs by trading partners. In addition, there were elevated uncertainties around the outcomes of the bilateral trade negotiations between the U.S. and its key trading partners. However, reduced global demand, particularly in China, and escalation of geopolitical tensions in the Middle East, and the Russia-Ukraine conflict remained key risks to growth.

Global inflation had moderated and was projected to decline at a slower pace due to the expected inflationary impact of higher tariffs on trade. Central banks in major economies had adopted a more cautious approach in lowering their policy rates. International oil prices had moderated owing to increased production and subdued global demand, particularly from China. However, the risk of potential volatility remained elevated due to higher tariffs on imports and persistent geopolitical tensions. Meanwhile, food inflation had eased slightly, driven by lower cereals and sugar prices inflation, though edible oils price inflation remained elevated.

Kenya's overall inflation remained below the midpoint of the target range of 5±2.5 percent. It declined to 3.8 percent in May 2025 from 4.1 percent in April 2025 driven by lower non-core inflation. Non-core inflation declined to 6.6 percent in May, from 8.4 percent in April, reflecting lower prices of food crops and related items, particularly vegetables. In addition, lower energy and utilities inflation continued to moderate non-core inflation. On the other hand, core inflation rose to 2.8 percent in May 2025 from 2.5 percent in April, mainly on account of higher prices of processed food items. In the near term, inflation was expected to remain below the mid-point of the target range, supported by stability in food and energy prices, and continued exchange rate stability.

The performance of the Kenyan economy slowed down in 2024, with real GDP growing by 4.7 percent compared to 5.7 percent in 2023, mainly reflecting decelerated growth in most sectors of the economy. However, the leading economic indicators pointed to improved performance in the first quarter of 2025. The economy was projected to grow by 5.2 percent in 2025, from an earlier projection of 5.4 percent. The downward revision was attributed to the higher tariffs on trade. Growth in 2025 was expected to be driven by the continued resilience of the services and the agriculture sectors, expected recovery in growth of credit to the private sector, and improved exports.

The MPC noted that overall inflation was expected to remain below the midpoint of the 5±2.5 percent target range in the near term. Central Banks in major economies had continued to lower their interest rates, but at a more cautious pace depending on inflation and economic growth expectations. Average lending rates in the domestic market had continued to decline, while the private sector credit growth had recovered modestly.

In view of this, the MPC concluded that there was scope for a further easing of the monetary policy stance 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 Committee therefore decided to lower the Central Bank Rate (CBR) from 10.00 percent to 9.75 percent.

During the August 2025 meeting, the MPC observed that global growth outlook for 2025 had been revised upwards, reflecting upward revisions to growth in the United States and China, due to lower effective tariff rates on trade and improved global financial conditions. Despite the U.S reaching trade agreements with some countries, uncertainties remained elevated regarding trade policies and tariffs. In addition, weak global demand and heightened geopolitical tensions in the Middle East and the Russia-Ukraine conflict remained key risks to growth.

Global inflation was projected to decline in 2025, driven by lower energy prices and reduced global demand. Central banks in major economies had continued to lower their interest rates, but at a more cautious and uneven pace depending on inflation and growth outlooks. International oil prices had moderated due to increased production and subdued global demand but remained volatile due to elevated global uncertainties. Meanwhile, food inflation had increased, largely driven by elevated edible oils price inflation, but cereals and sugar prices inflation had remained low.

Kenya's overall inflation stood at 4.1 percent in July 2025 compared to 3.8 percent in June 2025 driven by higher non-core inflation. It however remained below the midpoint of the target range of 5±2.5 percent. Non-core inflation rose to 7.2 percent in July 2025, from 6.2 percent in June 2025, largely reflecting an increase in energy prices. Similarly, core inflation increased to 3.1 percent in July from 3.0 percent in June, driven by higher prices of processed food items, particularly sugar and maize flour. Overall inflation was expected to remain below the midpoint of the target range in the near term, supported by lower food prices, stability in energy prices and continues exchange rate stability.

Real GDP grew by 4.9 percent in the first quarter of 2025, reflecting continued resilience of the Kenyan economy. This performance reflected robust performance of the agriculture sector, and recovery in industrial activity, particularly construction. The leading economic indicators of economic activity showed improved performance in the second quarter of 2025.

The economy was expected to pick up in 2025 and 2026, with real GDP projected at 5.2 percent and 5.4 percent in 2025 and 2026, respectively, supported by continued resilience of key services sectors, agriculture, and recovery of the industrial sector. However, this outlook was subject to risks, mainly, trade policy uncertainties and heightened geopolitical tensions.

The MPC was apprised on the proposed revised banking sector Risk-Based Credit Pricing Model, which was expected to improve the transmission of monetary policy decisions to commercial bank's lending interest rates. The Committee noted the outcome of the implementation of the FY2024/25 Budget and the Budget for FY2025/26, which reinforced the Government's fiscal consolidation strategy, thereby reducing debt vulnerabilities. The average lending rates in the domestic market had continued to decline, while private sector credit growth had continued to improve, though at a slower pace than desirable.

Considering these developments, the Committee concluded that there was scope for further easing of the monetary policy stance to augment the previous policy actions aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring inflationary expectations remained firmly anchored, and the exchange rate remained stable. The Committee therefore decided to lower the Central Bank Rate (CBR) from 9.75 percent to 9.50 percent.

In the October 2025 meeting, the MPC noted that global growth had remained resilient in 2025, supported by front-loading of exports to the United States, ahead of the implementation of higher tariffs on trade, improved financial conditions and strong consumer spending. However, growth was expected to slow down in 2026, on account of higher effective tariff rates and elevated policy uncertainty. In addition, weak global demand and heightened geopolitical tensions in the Middle East and the Russian-Ukraine conflict remained key risks to growth.

Inflation in major economies had increased modestly, driven by higher food prices and the effects of higher trade tariffs. Global inflation was projected to decline in 2025 and 2026, driven by lower energy prices and reduced global demand. Central banks in major economies had remained cautious in lowering the interest rates, depending on inflation and growth outlook. International oil prices had moderated due to increased production and subdued global demand but remained volatile due to elevated global uncertainties. Food inflation had declined, mainly driven by lower cereals and sugar prices inflation, but edible oils price inflation remained elevated.

Kenya's overall inflation increased to 4.6 percent in September 2025 from 4.5 percent in August 2025 but remained below the midpoint of the target range of 5±2.5 percent. Non-core inflation increased to 9.6 percent in September from 9.2 percent in August, driven by higher prices of vegetables, particularly tomatoes, carrots, onions, and cabbages. Core inflation declined to 2.9 percent in September from 3.0 percent in August, on account of lower prices of 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 energy prices and continued exchange rate stability.

The economy grew by 5.0 percent in the second quarter of 2025 compared to 4.6 percent in the second quarter of 2024. This reflected a rebound in activity in the industrial sector, stable growth of the agriculture sector and resilience of key services sectors, particularly transport and storage, finance and insurance, information and communication, and wholesale and retail trade. Leading indicators of economic activity pointed to improved performance in the third quarter of 2025. The economy was expected to grow by 5.2 percent in 2025, and 5.5 percent in 2026, supported by continued resilience of key services sectors and agriculture, and continued recovery of the industry sector. This outlook was however, subject to risks such as elevated trade policy uncertainties and geopolitical tensions.

The MPC noted that the average lending rates in the domestic markets had continued to decline, while private sector credit growth had continued to improve, though at a slower pace. The Committee noted that the Risk-Based Credit Pricing Model (RBCPM) would be fully operational by March 2026 and would improve the transmission of monetary policy decisions to commercial banks' lending interest rates. The Committee concluded that there was scope for a further easing of the monetary policy stance and lowered the Central Bank Rate (CBR) to 9.25 percent from 9.50 percent. This would augment the previous policy actions aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring inflationary expectations remain firmly anchored, and the exchange rate remained stable.

4. OTHER ACTIVITIES OF THE MONETARY POLICY COMMITTEE

The MPC Surveys conducted during the period as well as regular communication with the key stakeholders facilitated 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 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 revealed sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was attributed to improved agricultural production supported by favorable weather conditions, the stable macroeconomic environment with low inflation and stable exchange rate, declining interest rates, and resilient performance of tourism and the digital economy Nevertheless, respondents expressed concerns about subdued consumer demand, high cost of doing business, and increased global uncertainties attributed to higher tariffs and geopolitical tensions.

Over the period, the MPC Chairman held virtual stakeholder meetings with the Chief Executives of commercial and microfinance banks after every MPC Meeting to apprise them on the background to its decisions and to obtain feedback. In addition, the Chairman of the MPC held virtual press conferences after each MPC meeting to brief the media on the background to MPC decisions and measures undertaken by the CBK to support macroeconomic stability.

The Governor also held virtual meetings with various potential investors and representatives from the private sector to brief them on economic developments and the outlook for the economy. The MPC continued to monitor the implementation of monetary policy decisions by the CBK. The Committee also continued interactions with other government agencies such as the National Treasury and Kenya National Bureau of Statistics (KNBS) on various data issues.

5. CONCLUSION

The monetary policy measures adopted by the MPC in the six months to October 2025 continued to support price stability. The measures contained inflation below the midpoint of the target range, stabilized the exchange rate, and anchored inflationary expectations. The stability of the exchange rate moderated any possible distortions that imported inflation would have had on the stability of domestic prices. The continued coordination of fiscal and monetary policies during the period also supported the achievement of price and market stability.

The CBK will continue to monitor developments in the domestic and global economy, the transmission of monetary policy and other measures previously taken, and their effects 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, to enhance the effectiveness of monetary policy and support anchoring of inflation expectations.

ANNEX

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (MAY – OCTOBER 2025)

Date	Event of Relevance to Monetary Policy
June 2025	CBR lowered to 9.75 percent from 10.00 percent.
July 2025	July 2025 IMF World Economic Outlook update showed that global growth was projected to decline from 3.3 percent in 2024 to 3.0 percent in 2025 and to 3.1 percent in 2026. Global headline inflation was expected to decline to 4.2 percent in 2025 and 3.6 percent in 2026.
August 2025	CBR lowered to 9.50 percent from 9.75 percent.
	The CBK announced the revised banking sector Risk-Based Credit Pricing Model (RBCPM), which will be fully operational by March 2026. The RBCPM is anchored on the overnight interbank average rate (KESONIA), which closely aligns with the policy rate (Central Bank Rate) under the current monetary policy implementation framework. This 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.
September 2025	The overnight interbank average rate was renamed from September 1, the Kenya Shilling Overnight Interbank Average (KESONIA) to align it to the international best practices.
October 2025	CBR lowered to 9.25 percent from 9.50 percent.
	October 2025 IMF World Economic Outlook update showed that global growth was projected to moderate slightly from 3.3 percent in 2024 to 3.2 percent in 2025 and to 3.1 percent in 2026. Global headline inflation was projected to decline gradually to 4.2 percent in 2025 and 3.7 percent in 2026.

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 of 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 is expected to be fully functional by March 2026. RBCPM is anchored on the overnight interbank average rate, and 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 as 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.

BANKI KUU YA KENYA

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