Central Bank of Kenya

Thirty Fourth Bi-Annual Report of the Monetary Policy Committee

April 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 34th 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 2025.

Dr. Kamau Thugge, CBS

Governor

TABLE OF CONTENTS

MEMBERS OF THE MONETARY POLICY COMMITTEE


Dr. Kamau Thugge, CBS
Governor


Dr. Susan Koech
Deputy Governor


Mr. Gerald Nyaoma
Deputy Governor


Ms. Isis Nyong'o
External Member


Dr. Chris Kiptoo
PS, The National Treasury


Dr. Kemboi Kipruto
External Member


Dr. Freshia Mugo
External Member


Mr. Jared Osoro
External Member


Mr. David Luusa
Director, Financial Markets


Prof. Robert Mudida
Director, Research

EXECUTIVE SUMMARY

The thirty-fourth 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 April 2025.

The conduct of monetary policy during the period was aimed at ensuring that overall inflation remains stable around the mid-point of 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 augment the framework, the Monetary Policy Committee (MPC) narrowed the interest rate corridor around the CBR from ±150 basis points to ±75 basis points in April 2025, and also adjusted the applicable interest rate on the discount window from 300 basis points above CBR to 75 basis points (upper bound of the corridor). The narrowing of the interest rate corridor is expected to enhance the stability of the interbank rate, and align it closer to the CBR.

Monetary policy during the period was conducted against a backdrop of elevated uncertainties in the global outlook for growth, lower but sticky inflation in advanced economies, heightened trade tensions attributed to implementation of higher tariffs on U.S. imports, and persistent geopolitical tensions. Global inflation continued to moderate, but at a slower pace, with expectations of potential inflationary impact of higher tariffs. Central banks in major economies continued to lower their interest rates, but at different paces depending on their inflation and growth expectations. International oil prices continued to moderate due to increased production and subdued demand. Global food inflation increased modestly, on account of higher prices of cereals, dairy and meat prices. However, sugar and vegetable oils prices moderated in the period.

The MPC held three meetings between November 2024 and April 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 December 2024 meeting, the MPC lowered the CBR to 11.25 percent from 12.00 percent, noting that inflation was expected to remain below the mid-point of the target range in the near term, owing to low fuel inflation, stable food prices and exchange rate stability. In addition, growth in the first half of 2024 had decelerated.

In the February 2025 meeting, the Committee lowered the CBR to 10.75 percent from 11.25 percent, noting that inflation was expected to remain low and stable below the midpoint of the target range in the near term, supported by low and stable core inflation, low energy prices and exchange rate stability. The Committee also reduced the Cash Reserve Ratio (CRR) to 3.25 percent from 4.25 percent to complement the lowering of the CBR, and support lending to the private sector. The MPC also adopted the core and non- core measures of inflation, jointly developed by the Kenya National Bureau of Statistics (KNBS) and the CBK, and launched in January 2025. The introduction of the core and non-core measures of inflation is in line with the EAC guidelines on computation of harmonized CPI in the region.

At the April 2025 meeting, the MPC lowered the CBR to 10.00 percent from 10.75 percent, noting that inflation was expected to remain below the midpoint of the target range in the near term, and central banks in major economies had continued to lower their interest rates, but at different paces. The MPC also observed that while average lending rates had continued to decline, private sector credit growth remained subdued.

Overall inflation remained below the midpoint of the 5.0±2.5 percent target range during the six month to April 2025. The inflation rate stood at 4.1 percent in April 2025 compared to 2.7 percent in October 2024. Core inflation increased to 2.5 percent in April 2025 from 1.8 percent in October 2024, mainly due to higher prices of processed food items. Non-core inflation rose from 5.1 percent in October 2024 to 8.4 percent in April 2025.

Economic growth decelerated to 4.7 percent in 2024 from 5.7 percent in 2023, reflecting contractions of construction and mining and quarrying sectors, and a deceleration in growth across most sectors. The growth was mainly supported by activities in agriculture, financial and insurance services, transport and storage, real estate, information and communication, wholesale and retail trade, and social sectors.

The foreign exchange market remained stable in the six months to April 2025, supported by resilient earnings of exports of goods, and diaspora remittances. Diaspora remittances totaled USD 2.52 billion in the six months to April 2025 compared to USD 2.33 billion in the six months to April 2024. The CBK foreign exchange reserves, which stood at USD 10,544.96 million (4.63 months of import cover) as at end of April 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 April 2025. The sector's capital adequacy ratio was 20.3 percent, and the liquidity ratio stood at 57.9 percent as at the end of April 2025. These were above the minimum statutory limits of 14.5 percent and 20.0 percent, respectively. The ratio of gross non-performing loans (NPLs) to gross loans stood at 17.6 percent in April 2025 compared to 16.5 percent in October 2024. Growth in commercial bank lending to the private sector improved modestly to 0.4 percent in April 2025 compared to -2.9 percent in January 2025, and was broadly unchanged in October 2024 compared to the previous year. Growth in credit to key sectors of the economy particularly manufacturing, trade, consumer durables and Agriculture improved as at April 2025, partly reflecting credit demand with the resilience in economic activities.

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 April 2025 revised downwards projections for global economic growth to 2.8 percent in 2025 and 3.0 percent in 2026, from 3.3 percent in 2024, on account of heightened global policy uncertainties and escalation of trade tensions between the US and China. Growth in the United States is projected to decline to 1.8 percent in 2025 and 1.7 percent in 2026, from 2.8 percent in 2024, as domestic demand remains weak, and the policy uncertainty dampens private investment. Growth in Euro Area is expected at 0.8 percent in 2025 from 0.9 percent in 2024, reflecting depressed performance of the manufacturing sector mostly in Germany. Growth in the United Kingdom will stabilize at 1.1 percent in 2025.

Growth in emerging markets and developing economies is projected to decline to 3.7 percent in 2025 and 3.9 percent in 2026, from 4.3 percent in 2024. The decline reflects lower projected growth of 4.0 percent in China and 1.5 percent in Russia during 2025 from 5.0 percent and 4.1 percent, respectively in 2024. Similarly, growth in Brazil is projected at 2.0 percent from 3.4 percent, driven by tighter monetary and financial conditions, and a scaling back of fiscal support. Sub-Saharan Africa (SSA) is projected to grow by 3.8 percent in 2025 and 4.2 percent in 2026, as growth in Nigeria and Kenya is expected to remain robust.

Global inflation concerns have eased, with notable declines observed in key economies. The annual average global inflation is projected at 4.3 percent in 2025 and 3.6 percent in 2026, from 5.7 percent in 2024. The gradual easing is expected in both advanced economies to 2.5 percent in 2025 and 2.2 percent in 2026, from 2.6 percent in 2024, and in emerging markets to 5.5 percent and 4.6 percent from 7.7 percent in 2024. The lower overall inflation reflects the declining commodity prices, especially the lower global oil prices.

2. DEVELOPMENTS IN THE KENYAN ECONOMY

2.1 Overall Economy

Economic growth decelerated to 4.7 percent in 2024 from a growth of 5.7 percent in 2023. The growth, albeit slower, was mainly supported by activities in agriculture, financial and insurance services, transport and storage, real estate, information and communication, wholesale and retail trade, and social sectors. However, growth was largely constrained by the contraction of construction and mining and quarrying sectors, and a deceleration in growth across key sectors except manufacturing sector.

The agriculture sector recorded a resilient growth of 4.6 percent compared to 6.6 percent in 2023 and contributed 0.8 percentage points to overall GDP growth. The slowdown in agriculture was due to a decline in the production of food crops on account of the varied weather patterns experienced during the year. The services sector recorded a growth of 6.0 percent in 2024 compared to 7.0 percent in 2023. The strong performance was supported by growth of accommodation and food services (25.7 percent), financial and insurance services (7.6 percent), information and communication (7.0 percent), and wholesale and retail trade (3.8 percent). However, the industry sector decelerated to 0.8 percent in 2024 from a growth of 2.0 percent in 2023 **(Table 1).**

Economic growth is projected to improve in 2025, supported by strong performance of the agricultural sector due to favourable weather conditions experienced in most parts of the country, and a resilient services sector. The stable macroeconomic environment, recovery of credit uptake by the private sector, and targeted Government initiatives across priority sectors are also expected to support growth. Globally, the sustained increase in oil production by OPEC+ countries is likely to result in lower oil prices, supporting lower cost of production. However, risks remain from uncertainties associated with the US protectionist policies, including recent increases in tariffs on global trade and proposed imposition of tax on remittances. Additionally, further escalation of geopolitical tensions in the Middle East and Ukraine, as well as regional conflicts in the Democratic Republic of Congo (DRC) and Sudan, could have implications on regional and international trade.

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

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

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

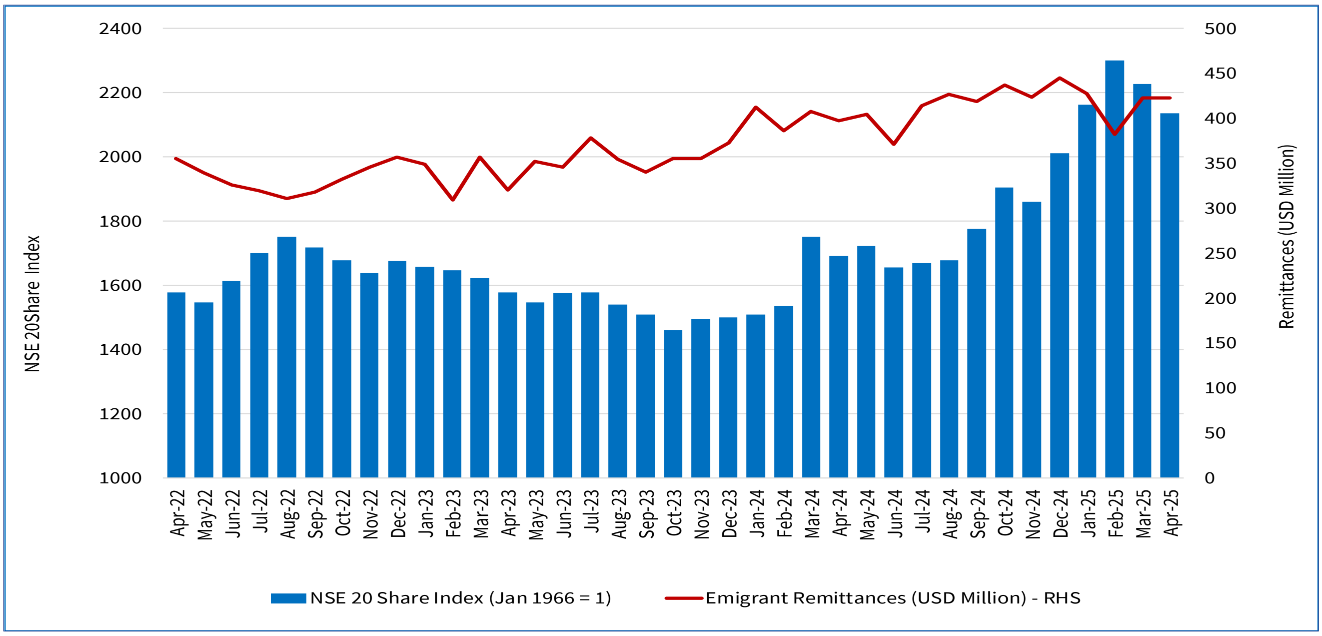
2.2 Financial Market Developments

During the six months to April 2025, the Global financial conditions volatility and vulnerabilities remained elevated, mainly reflecting underperformance of risk asset markets due in part to reduced risk sentiments, rising US fiscal and trade policies uncertainties and increased geopolitical risks. The announcement of targeted and higher-than-expected universal reciprocal tariffs from March to early April by the United States and subsequent retaliatory tariffs from her main trading partner, particularly China led to decline in risk appetite across global risky assets market. Emerging and developing (EMDEs) domestic currencies weakened and equity markets declined but varied across economies, reflecting a cautious pace and repricing of the monetary policy easing expectations across advanced economies and weakening of global output prospects. EMDEs sovereign spreads widened, due to reduced risk sentiments amid demand-driven concerns arising from rising trade tensions despite increased participation in the international capital markets in the period under consideration.

The US dollar weakened, largely attributed to worsening of US growth prospects as shifts in the US trade policy weighed on market economic activity due to decline in aggregate demand while elevated risks of a significant selloff in the US equity market disrupted the global financial markets. Rising inflation expectations and softening of economic activities raised concerns about the near-term outlook and dampened risk appetite and as result central bank adopted a cautious approach in lowering their interest rates. The European Central Bank (ECB) continued to ease its policy as inflation moderated in the Euro Area while the US Federal Reserve and Bank of England (BOE) retained their benchmark interest rates, with market repricing for fewer rate cuts in 2025.

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 2135.51 points in April 2025 from 1,905.51 in October 2024 supported by improved investor confidence in the economy.

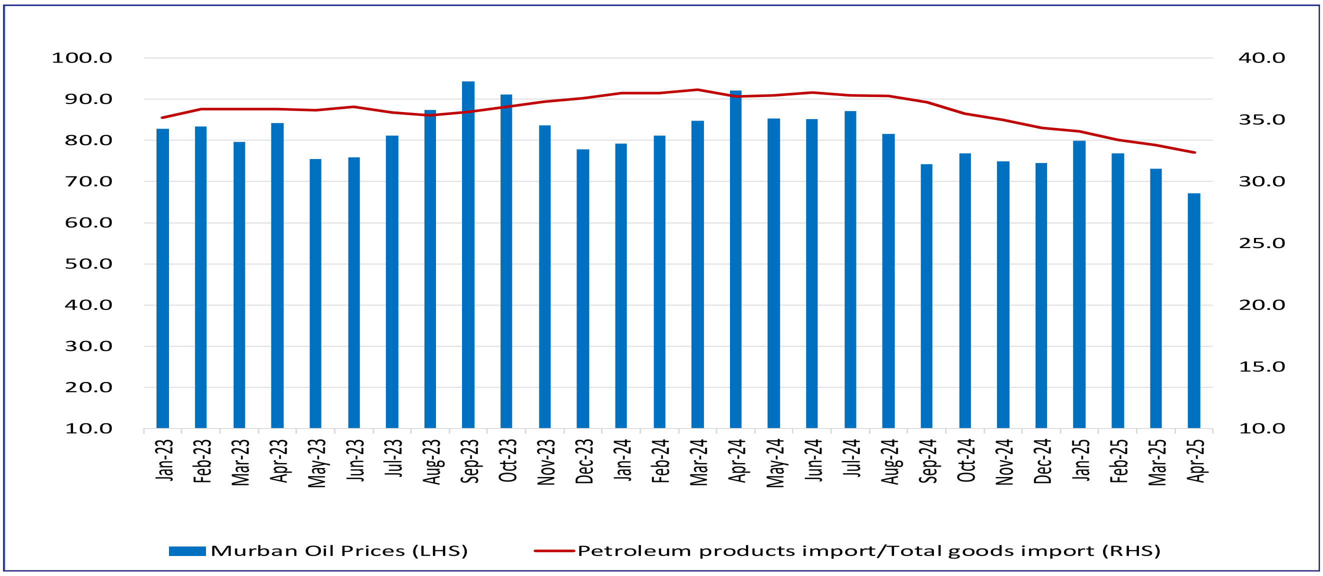
Chart 1a: Monthly diaspora remittances (USD million) and NSE Index (Jan 1966=100)



Source: Central Bank of Kenya and Nairobi Securities Exchange

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 USD 73.40 per barrel for the six months to April 2025 reflecting subdued global demand 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 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

2.3.1 Trends in Headline Inflation

Overall inflation increased to 4.1 percent in April 2025 from 2.7 percent in October 2024, due to increased non-core inflation, but remained below the mid-point of the 5.0±2.5 percent target range **(Chart 2a & 2b)**.

Core Inflation

The Kenya National Bureau of Statistics (KNBS) in collaboration with the Central of Kenya (CBK) launched official measures of core and non-core inflation in January 2025. Consequently, the former replaces the (NFNF) proxy measure that CBK has been using to inform monetary policy.[1]

Core Consumer Price Index (CPI) component accounts for 81.1 percent of the 330 items in the CPI basket, while non-core component accounts for 18.9 percent. Core inflation increased to 2.5 percent in April 2025 from 1.8 percent in October 2024, reflecting the impact of monetary policy easing since August 2024 and higher prices of processed food items in the core CPI.

Non-Core Inflation

Non-core CPI component is largely comprised of fresh vegetable farm produce, energy items and select transport components, which are predominantly driven by volatility in global energy prices and domestic weather conditions. Non-core inflation increased from 5.1 percent in October 2024 to 8.4 percent in April 2025 mainly on account of increased inflation of energy fuel and utilities sub category.

Inflation Outlook

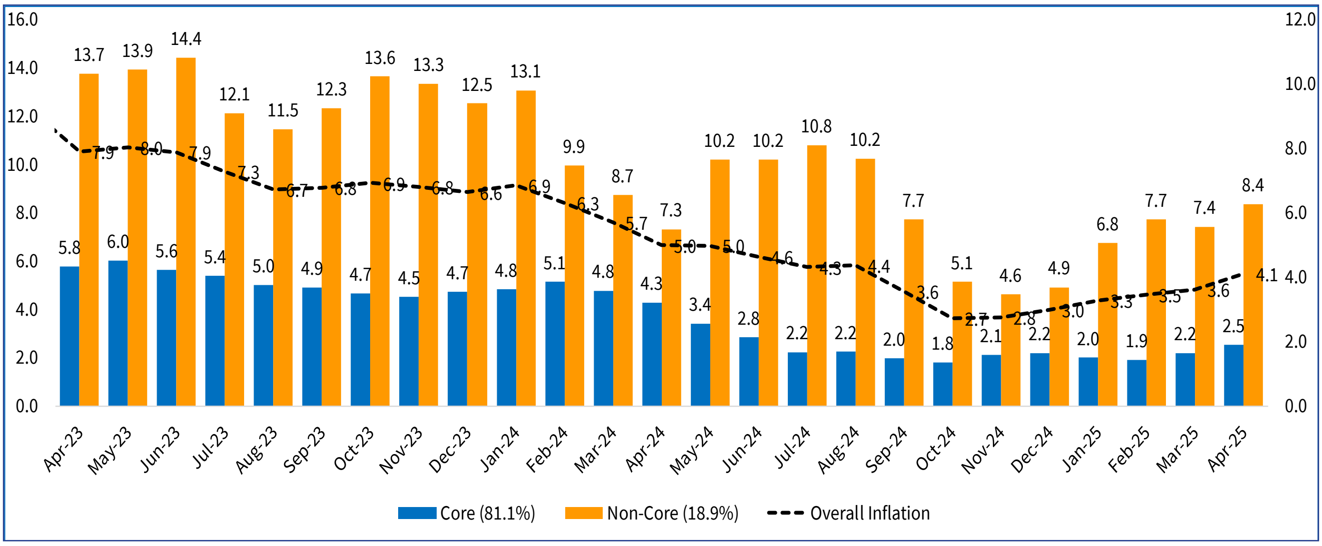
Inflation is expected to remain low and stable in the near-term supported by muted demand and prudent monetary policy decisions **(Chart 2b).** It is projected to increase modestly and reach the midpoint of the target band by September 2025 and remain around the target in the fourth quarter of 2025. Inflation is projected to increase modestly in the first quarter of 2026 largely due to an expected increase in prices of fresh farm produce driven by seasonal patterns. Government investment in agriculture aimed at enhancing food production

[1]The computation of core and non-core inflation measures has been extended backwards to provide a longer series. For details on definitions and computation refer to Core and Non-Core Inflation Measures for Kenya report https://www.knbs.or.ke/wp-content/uploads/2025/02/Core-and-Non-Core-Inflation-Measures-in-Kenya1.pdf

is expected to support in mitigating increases in prices of staple food items. However, this increase is not expected to breach the tolerance range of 5±2.5 percent around the target. Lower international oil prices compared to a similar period over the past 12 months coupled with a stable exchange rate are also expected to translate into stable energy prices.

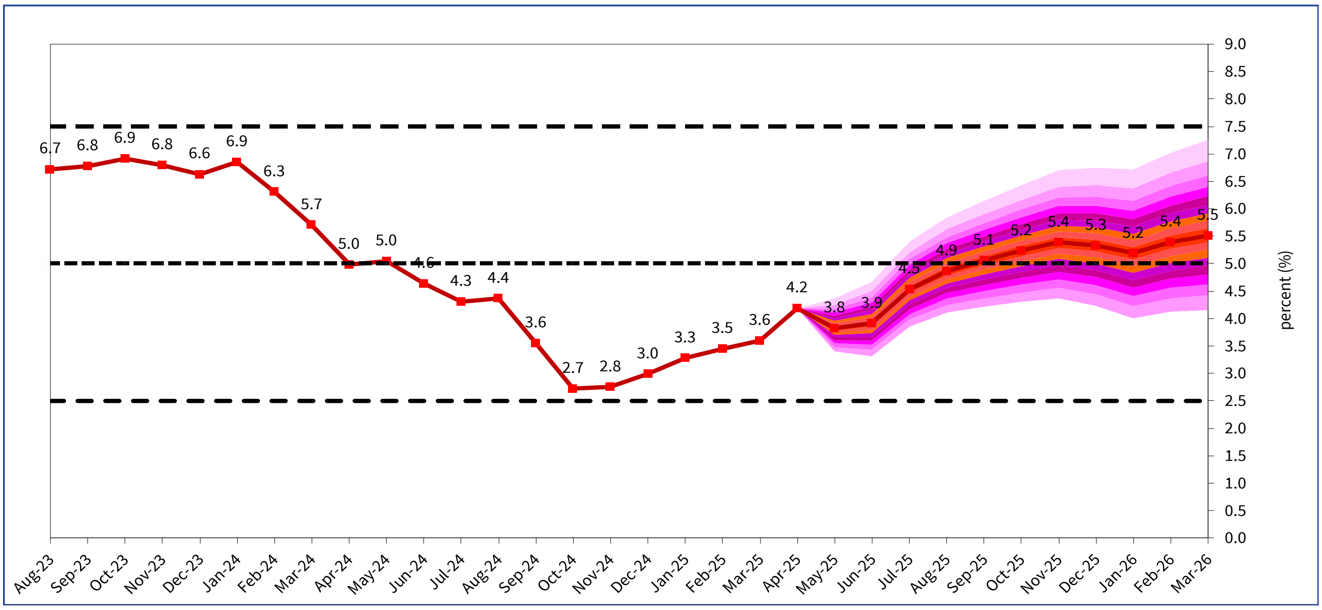
This outlook is subject to risks which are mainly tilted to the downside. These risks include heightened geopolitical tensions and trade wars which could potentially disrupt supply chains and impact commodity prices negatively.

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: May 2025 - March 2026

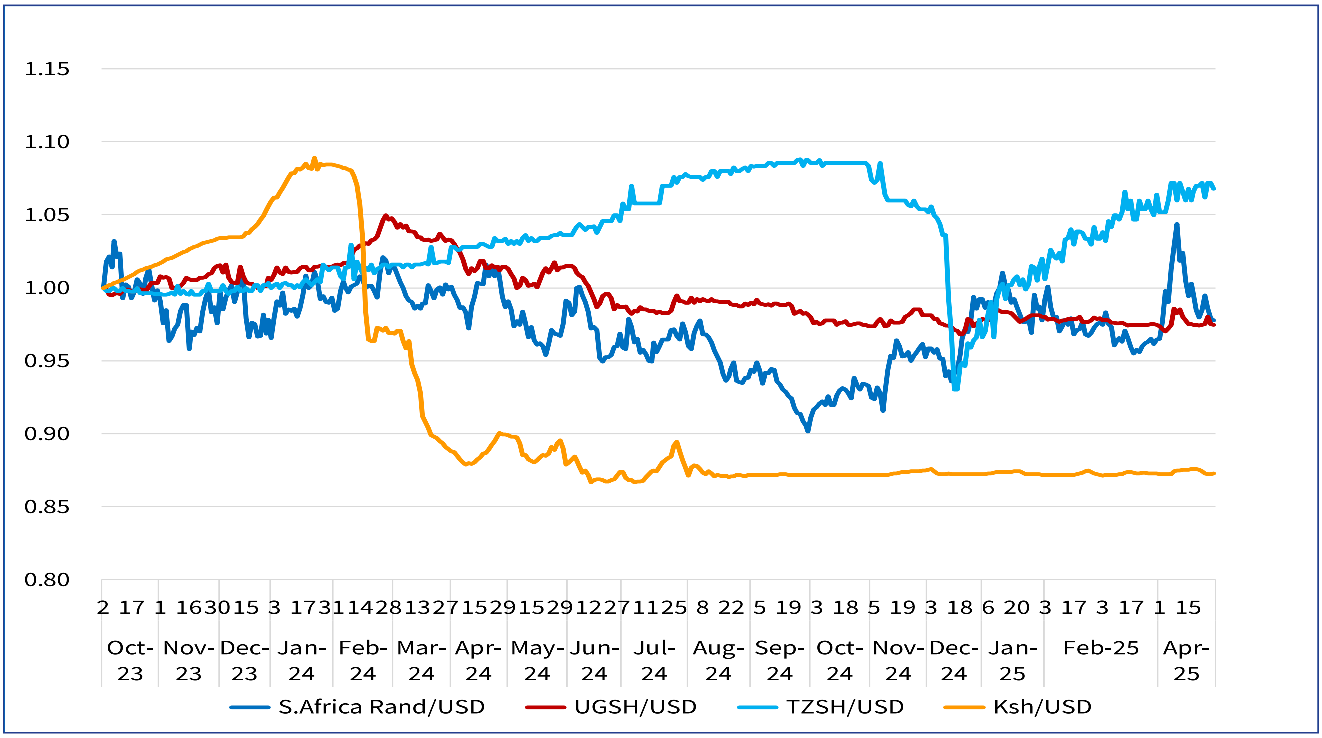


Source: Central Bank of Kenya

2.3.2 Foreign Exchange Market Developments

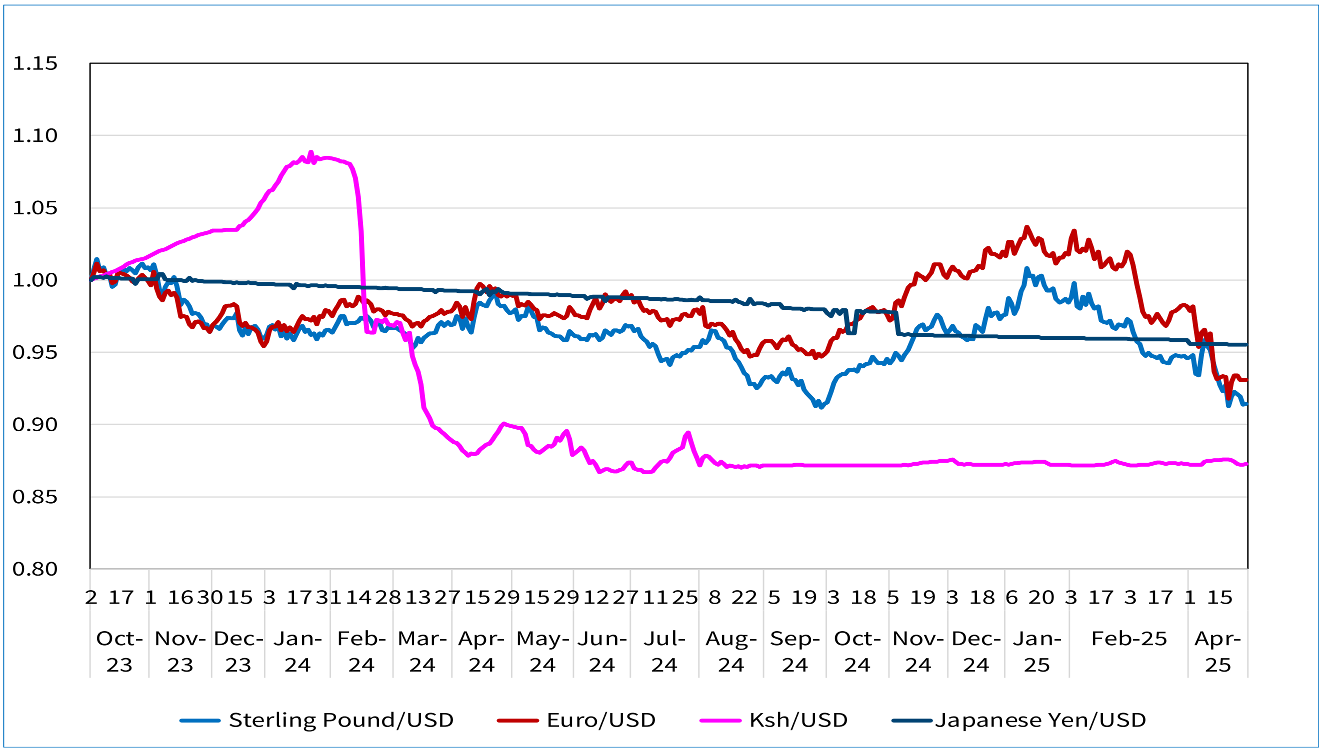
The foreign exchange market remained stable in the six months to April 2025, supported mainly by resilient earnings of exports of goods as well as resilient remittances **(Charts 3a & 3b).** Diaspora remittances totaled USD 2.52 billion in the six months to April 2025 compared to USD 2.33 billion in the six months to April 2024. The CBK foreign exchange reserves, which stood at USD 10,544.96 million (4.63 months of import cover) as at end of April 2025 continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market. Global financial conditions remained vulnerable and volatile due in part to elevated concerns over US tariff policy announcements and expected retaliatory measures from its key trading partners.

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)

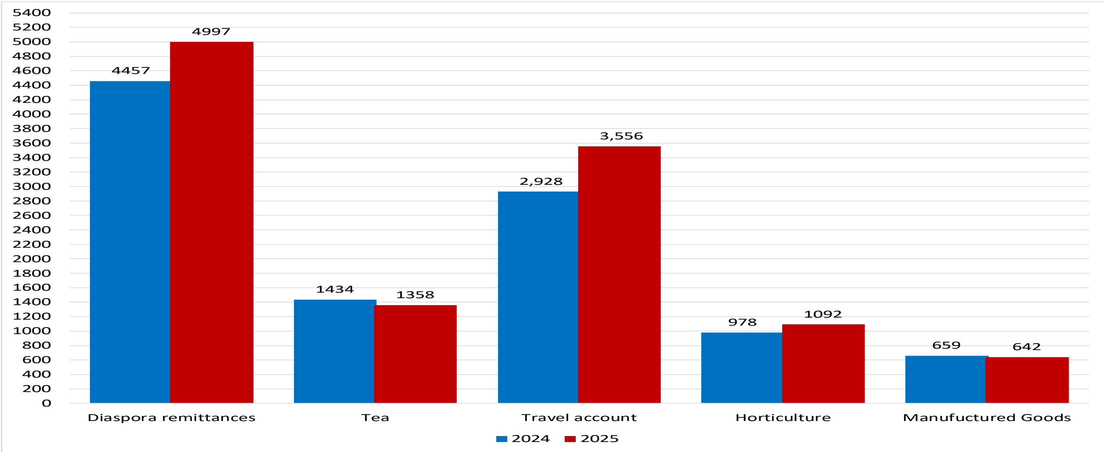


Source: Central Bank of Kenya

2.3.3 Balance of Payments Developments

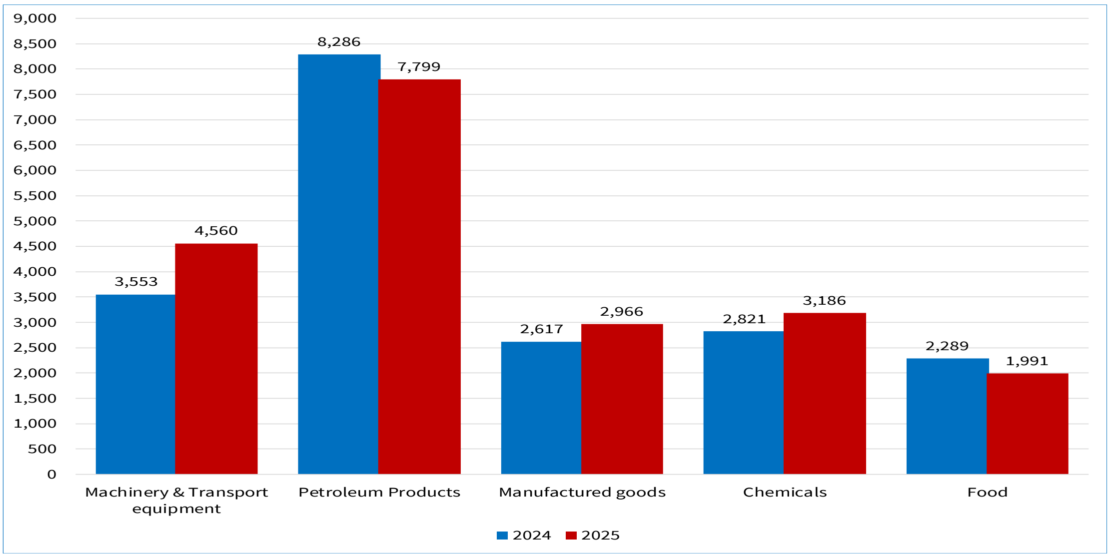
In the 12-months to April 2025, the current account balance was at a deficit of USD 2346 million (1.8 percent of GDP), compared to a deficit of USD 2324 million (2.2 percent of GDP) in a similar period in 2024, reflecting improvement in goods exports and remittance inflows. The current account deficit is expected to remain stable at 1.5 percent of GDP in 2025. The deficit in the goods account widened to USD 10,456 million in the 12 months to April 2025, largely reflecting pick up in goods imports. The performance of exports rose by 3.8 percent to USD 12,060 million in the 12 months to April 2025, on account of increased earnings from horticulture exports (11.7 percent), miscellaneous manufactured articles (28.7 percent), and crude materials (10.5 percent). However, receipts from manufactured goods decreased by 2.6 percent during a similar period in 2025. Imports of goods increased by 7.6 percent in the 12 months to April 2025, compared to a contraction of 3.9 percent during the corresponding period in 2024. The growth was primarily driven by 28.3 percent and 12.9 percent rise in imports of machinery and transport equipment, and chemical products, respectively. In contrast, food imports declined by 13.0 percent over the same period **(Chart 4a & 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

Financial account net inflows increased by USD 5,455 million in the 12 months to April 2025, compared to a similar period in 2024 reflecting a reduction in foreign assets of the commercial banks. The capital account on the other hand, recorded a surplus of USD 117 million in the 12-months to April 2025. Imports from China accounted for 22.8 percent of the total imports in the 12 months to April 2025, while United Arabs Emirates, India, the United States, and the United Kingdom accounted for 13.7 percent, 10.1 percent, 5.4 percent, and 1.7 percent, respectively. The U.K., U.S. and UAE accounted for 5.4 percent, 7.8 percent and 9.2 percent, respectively, of Kenya's total exports in the 12-months to April 2025. Exports to other trading blocs such as the EAC, COMESA and the EU accounted for 28.8 percent, 25.4 percent, and 13.9 percent, respectively, of total exports over the period, compared to 29.3 percent, 26.8 percent and 15.0 percent of total exports in the 12-months to April 2024, respectively.

2.3.4 Banking Sector Developments

The banking sector remained stable and resilient in the period to April 2025. The sector's capital adequacy ratio was 20.3 percent, and the liquidity ratio stood at 57.9

percent as at the end of April 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 17.6 percent in April 2025, an increase from 16.5 percent in October 2024. Gross NPLs increased by 7.3 percent to Ksh 724.2 billion in April 2025 from Ksh 674.9 billion in October 2024. The main sectors with increased NPLs were personal and household, real estate, trade, tourism, transport and communication, building and construction, and manufacturing 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 74.4 percent of the banking sector's total liabilities and shareholders' funds as at April 2025, a slight decrease from 75.4 percent as at October 2024. Customer deposits increased by 0.7 percent to Ksh 5,719.7 billion in April 2025 from Ksh 5,682.0 billion in October 2024.

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 April 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. Liquidity risk is expected to remain stable.

2.3.5 Developments in Private Sector Credit

Growth in commercial bank lending to the private sector improved to 0.4 percent in April 2025 compared to -2.9 percent in January 2025, and it was broadly unchanged in October 2024 compared to the previous year **(Table 2).** This reflects improved demand in line with the decline in lending interest rates, and dissipation of exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling. Growth in credit to key sectors of the economy particularly manufacturing, trade, consumer durables and Agriculture improved as at April 2025, partly reflecting credit demand with the resilience in economic activities. Private sector credit growth is expected to continue strengthening, supported by the impact of recent easing of monetary policy stance and resilience in economic activity to support credit demand for working capital requirements.

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

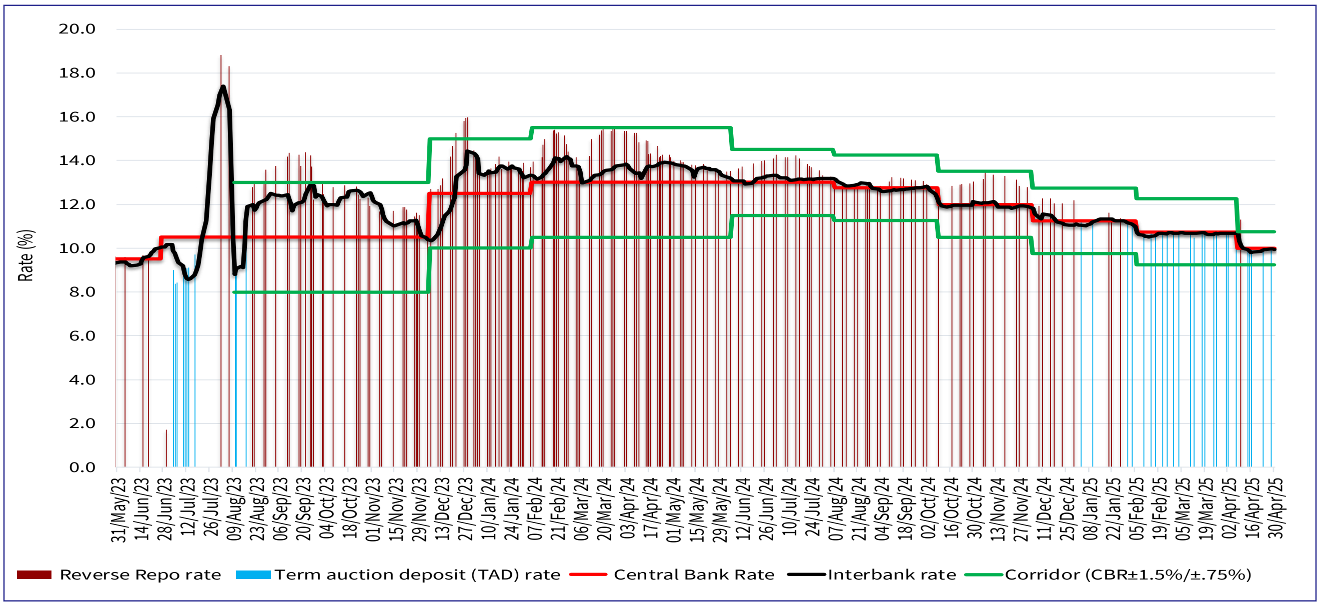
	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Total Credit to Private Sector	**6.6**	**4.5**	**4.0**	**3.7**	**1.3**	**0.4**	**0.0**	**-1.1**	**-1.4**	**-2.9**	**-1.3**	**0.2**	**0.4**
Agriculture	15.7	9.9	10.1	11.3	7.1	7.2	8.9	4.2	5.1	-1.1	2.6	8.4	12.1
Manufacturing	4.3	1.6	-0.6	0.4	-6.7	-14.3	-11.6	-10.5	-9.4	-10.7	-5.1	-6.3	-0.9
Trade	5.1	2.7	3.1	0.6	0.8	6.5	4.7	2.2	2.3	1.0	2.4	5.8	5.6
Building & construction	5.0	-4.0	-8.3	-7.9	-13.0	-13.4	-16.7	-2.2	-6.1	-0.2	-3.4	12.0	6.1
Transport & communication	9.6	4.4	4.4	7.3	-1.1	1.4	8.0	1.2	1.6	3.2	6.5	4.8	-0.7
Finance and insurance	6.2	-0.1	3.2	0.9	4.4	0.3	-5.2	-9.1	-21.2	-9.4	-14.9	-18.8	-8.3
Real estate	5.4	7.3	3.6	3.6	3.8	2.3	2.8	2.2	1.3	-0.1	1.4	2.4	1.8
Mining & quarrying	26.9	47.2	111.7	106.7	102.3	96.7	26.3	6.4	-22.9	-25.1	-26.5	-44.3	-39.5
Private households	10.4	7.6	7.5	7.6	5.9	7.0	5.9	4.7	9.2	0.2	-2.1	-0.9	-1.6
Consumer durables	5.2	5.7	3.9	2.7	3.8	2.7	3.3	2.2	3.3	3.8	5.2	8.1	7.9
Business services	-0.4	0.9	1.9	2.1	1.4	-2.8	-3.8	-1.6	-4.5	-5.8	-1.8	-13.1	-7.1
Other activities	10.4	7.3	8.8	5.6	-2.8	-7.4	-16.1	-18.6	-18.2	-30.0	-26.5	-0.8	-20.6

Source: Central Bank of Kenya

2.3.6 Interest rates

Short-term interest rates continued to decline in line with the reduction of the Central Bank Rate (CBR) and improved liquidity conditions. The interbank weighted average rate has remained closely aligned with the CBR and within the prescribed interest rate corridor. The MPC on April 8, 2025, narrowed the interest rate corridor around the CBR from ±150 basis points to ±75 basis points to enhance the effectiveness of the monetary policy implementation framework. Additionally, the applicable interest rate on the discount window was reviewed from 300 basis points above CBR to 75 basis points, which will be the upper bound of the interest rate corridor. Open market operations have remained active over the period **(Chart 5a).**

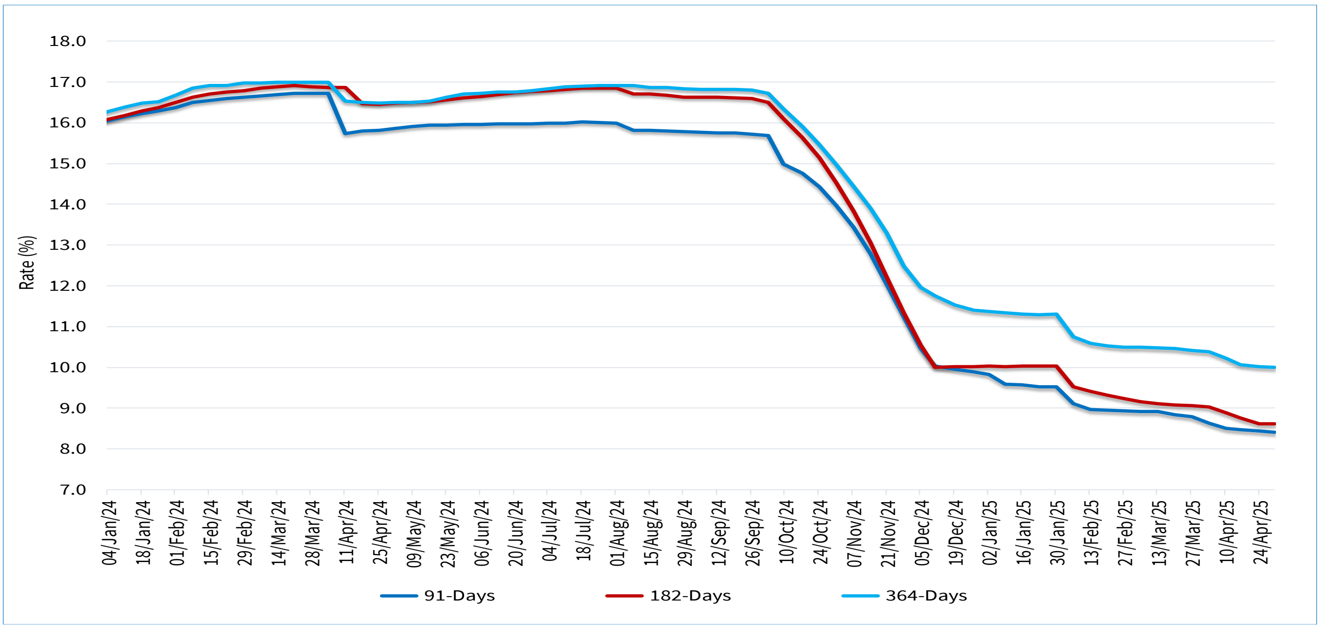
Chart 5a: Trends in short term interest rates (percent)



Source: Central Bank of Kenya

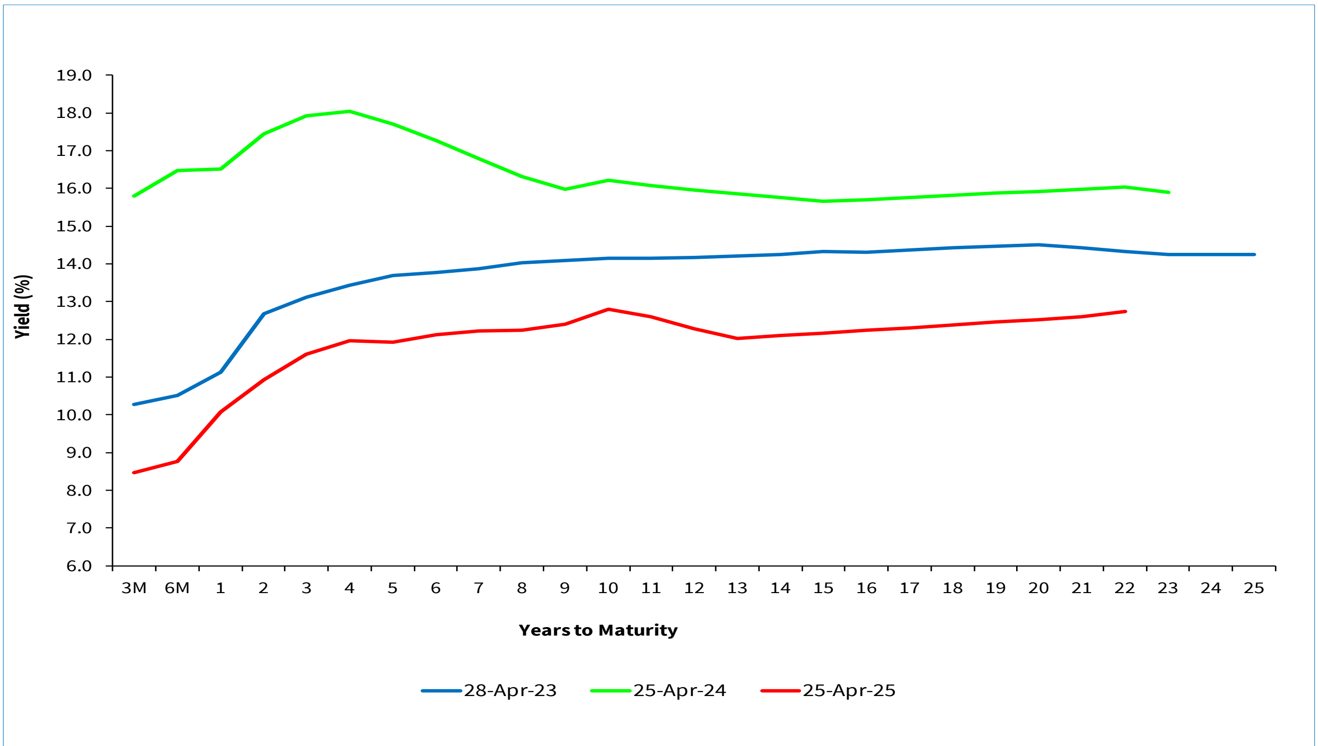
Interest rates on Government securities have continued to decline during the review period, partly reflecting the impact of easing monetary policy stance and improved liquidity conditions. The 91-day Treasury bill rate declined to 8.49 percent in April 2025 from 14.97 percent in October 2024, while the 182-day Treasury bill rate declined to 8.79 percent from 15.85 percent in October 2024. The effective coordination of monetary and fiscal policies, particularly in the implementation of the Government domestic borrowing programme continues to support the yield curve **(Chart 5b & 5c).**

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



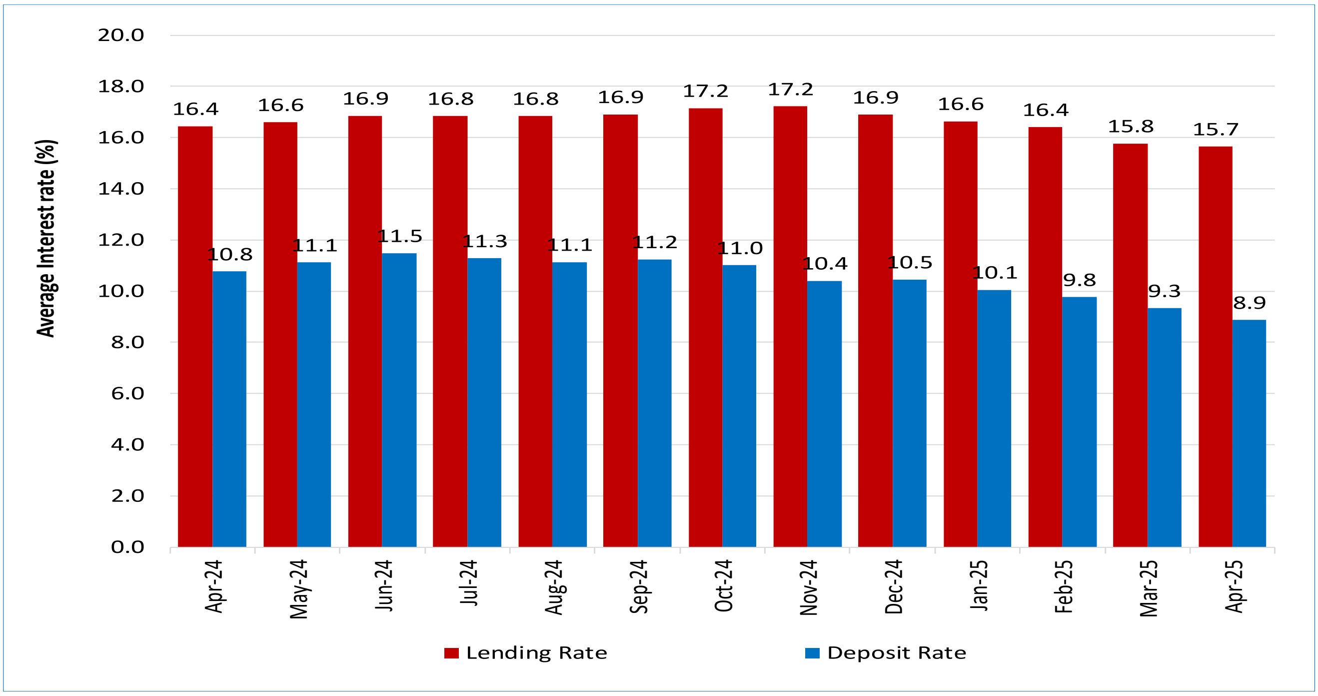
Source: Central Bank of Kenya

Chart 5c: Government securities yield curve (percent)



Source: Central Bank of Kenya

Chart 6: Commercial banks' average interest rates (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 to 15.7 percent in April 2025 from 17.2 percent in October 2024. Similarly, the weighted average deposit rate decreased to 8.9 percent from 11.0 percent in October 2024, reflecting easing cost of funds.

3. MONETARY POLICY FORMULATION

3.1 Attainment of Monetary Policy Objectives and Targets

During the six months to April 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 FY2023/24 and FY2024/25 was 5 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 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), initially set at ± 250 basis points, and reviewed to ± 150 basis points in June 2024 to further enhance transmission.

Additionally, 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, the MPC narrowed the interest rate corridor around the CBR in April 2025, from ±150 basis points to ±75 basis points, and adjusted the applicable interest rate on the discount window from 300 basis points above CBR to 75 basis points (upper bound of the corridor). The narrowing of the interest rate corridor in the monetary policy implementation framework is expected to enhance stability of the interbank rate and further align it closer to the CBR.

An assessment of the performance of the new framework in the period to April 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, as an operating target, has closely tracked the CBR. The interbank rate 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 April 2025, the MPC held meetings on December 5, 2024, February 5, 2025, and April 8, 2025, to review the outcomes of its previous decisions and measures implemented to anchor inflationary expectations and maintain exchange rate stability.

The December 2024 meeting was held against a backdrop of an improved global outlook for growth, lower inflation in advanced economies, and persistent geopolitical tensions. The MPC noted the continued recovery of the global growth supported by strong growth in the United States and in some large emerging market economies such as India, and improved growth prospects in the United Kingdom. However, risks to global growth related to further escalation of geopolitical tensions particularly the conflict in the Middle East and the Russia-Ukraine war remain. Global inflation continued to decline, as central banks in major economies continued to gradually lower their policy rates. International oil prices continued to moderate, but the risk of the potential volatility remained elevated due to heightened geopolitical tensions. Meanwhile, food inflation increased, driven by higher edible oil prices.

Kenya's overall inflation remained below the midpoint of the target range of 5±2.5 percent at 2.8 percent in November 2024 compared to 2.7 percent in October. Food inflation increased marginally to 4.5 percent in November from 4.3 percent in October, reflecting a modest rise in non-vegetables price inflation owing to higher prices of a few key items such as cooking oil. On the other hand, fuel inflation remained low at -1.6 percent in November compared to -1.7 percent in October, on account of lower electricity and pump prices. Meanwhile, non-food non-fuel (NFNF) inflation eased slightly to 3.2 percent in November from 3.3 percent in October, reflecting muted demand pressures in the economy. In the near term, overall inflation was expected to remain below the mid-point of the target range, supported by lower food inflation owing to improved supply from the harvests and favourable weather conditions, lower fuel prices, and a stable exchange rate. The performance of the Kenyan economy slowed down in the first half of 2024, with real GDP growth averaging 4.8 percent compared to 5.5 percent in the first half of 2023. This slowdown mainly reflected deceleration in growth in most sectors of the economy. The economy was projected to grow by 5.1 percent in 2024 and 5.5 percent in 2025, mainly supported by resilience of key service sectors and agriculture, as well as improved exports. This outlook was subject to domestic and external risks.

The MPC noted that overall inflation was expected to remain below the midpoint of the target range in the near term, supported by low fuel inflation, stable food inflation, and exchange rate stability. Additionally, the Committee noted that NFNF inflation had moderated and was expected to remain stable, while central banks in the major economies had lowered their interest rates further, with expectations of a gradual pace of reductions in subsequent months. Further, the MPC noted the slowdown in economic growth in the first half of 2024 and concluded that there was scope for a further easing of the monetary policy stance to support economic activity, while ensuring exchange rate stability. Therefore, the Committee decided to lower the Central Bank Rate (CBR) from 12.00 percent to 11.25 percent. Further, the Committee observed that short-term rates on government securities had declined sharply in line with the CBR, but that banks had not responded by lowering their rates proportionately. The MPC, therefore, urged the banks to take necessary steps to lower their lending rates, to stimulate credit to the private sector, and thereby stimulate economic activity.

The February 2025 meeting was held against a backdrop of an improved global outlook for growth amid elevated uncertainties, lower but sticky inflation in advanced economies, and persistent geopolitical tensions. Global growth continued to recover, supported by strong growth in the United States and India, and improved prospects for growth in the United Kingdom. However, risks to this outlook related to elevated uncertainty on trade policy amid rising tariffs on imports, and further escalation of geopolitical tensions particularly the conflict in the Middle East and the Russia-Ukraine war. Global inflation continued to moderate, though the pace of decline in major economies had slowed down due to sticky core inflation. Central banks in major economies had continued to lower their interest rates, but at different paces, depending on their inflation and growth outlooks. International oil prices had moderated, but the risk of potential volatility remained elevated due to rising tariffs on imports and persistent geopolitical tensions. However, food inflation increased, driven by higher edible oil prices.

The core and non-core measures of inflation for Kenya, jointly developed by the Kenya National Bureau of Statistics (KNBS) and the Central Bank of Kenya (CBK), were launched in January 2025. Core inflation excludes products whose prices are highly volatile or transient, from the overall CPI and therefore provides a more comprehensive measure of the underlying trend of inflation. In addition to overall inflation, CBK would subsequently keep track of the core and non-core measures of inflation, in line with global best practice in inflation-targeting central banks. The introduction of core and non-core inflation measures also aligns with the EAC guidelines on computation of harmonised CPI in the region. The total core CPI basket constitutes 275 items with total weight of 81.1 percent in the overall CPI and is therefore a more representative basket for computing core inflation which has close co-movement with overall inflation.

Overall inflation rose marginally to 3.3 percent in January 2025, compared to 3.0 percent in December 2024, but remained below the mid-point of the target range of 5±2.5 percent. Core inflation had declined to 2.0 percent in January from 2.2 percent in December, reflecting muted demand pressures in the economy. The decline in core inflation was mainly on account of lower prices of processed food items, particularly sugar, maize and wheat products. Non- core inflation rose to 7.1 percent in January from 5.2 percent in December, reflecting higher prices of food crops and related items, particularly vegetables owing to seasonal factors. Lower energy and utilities inflation continued to moderate non-core inflation, due to lower electricity and pump prices. Overall inflation was expected to remain below the mid-point of the target range in the near term, supported by a low and stable core inflation, expected easing of energy prices, and the stable exchange rate. The performance of the Kenyan economy slowed down in the third quarter of 2024, with real GDP growing by 4.0 percent compared to 6.0 percent in the third quarter of 2023. The growth of the economy in 2024 was estimated at 4.6 percent compared to 5.6 percent in 2023, mainly reflecting deceleration in growth in most sectors of the economy. The performance of the economy was expected to pick up in 2025, with real GDP growth projected at 5.4 percent, supported by resilience of key service sectors and agriculture, expected recovery in growth of credit to the private sector, and improved exports. This outlook was subject to domestic and external risks.

The Committee noted that overall inflation was expected to remain below the midpoint of the 5±2.5 percent target range in the near term, supported by a low and stable core inflation, low energy prices inflation, and exchange rate stability. Additionally, central banks in the major economies had continued to lower their interest rates, but at different paces. Further, the Committee noted that economic growth decelerated in 2024, and therefore there was scope for a further easing of the monetary policy stance to support economic activity, while ensuring exchange rate stability. Therefore, the Committee decided to lower the Central Bank Rate (CBR) by 50 basis points to 10.75 percent from 11.25 percent and to reduce the Cash Reserve Ratio (CRR) by 100 basis points to 3.25 percent from 4.25 percent, to complement the lowering of the CBR, and support lowering of lending rates. The MPC noted that the reduction in the CRR would release additional liquidity to banks. This was expected to lower the cost of funds and lending rates, and support growth of credit to the private sector. The Committee observed that the CBR had been lowered substantially since the MPC meeting of August 2024, yet lending rates had only declined marginally. Banks were urged to take the necessary steps to lower their lending rates further, to stimulate growth in credit to the private sector, and support economic activity.

The April 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. Global growth was on a steady recovery in 2024, supported by strong growth in the United States and in the large emerging market economies, particularly India. Nevertheless, the outlook for global growth in 2025 was highly uncertain, reflecting elevated risks of a potential slowdown due to escalation of trade tensions following implementation of new tariffs on imports to the United States, and retaliatory tariffs by trading partners. Additionally, escalation of geopolitical tensions, particularly the conflict in the Middle East and the Russia-Ukraine war, remained a key risk to growth. Global inflation moderated, but the outlook was uncertain with expectations of potential inflationary impact of higher tariffs on imports. Central banks in major economies had continued to lower their interest rates, but at different paces depending on inflation and growth expectations. International oil prices had moderated due to increased production and subdued demand, but the risk of potential volatility remained elevated due to increased tariffs on imports, and persistent geopolitical tensions. Food inflation had moderated, driven by lower cereals and sugar prices inflation, but edible oil prices inflation remained elevated.

Overall inflation stood at 3.6 percent in March 2025 compared to 3.5 percent in February and remained below the mid-point of the target range of 5±2.5 percent. Core inflation increased to 2.2 percent in March from 1.9 percent in February, mainly on account of higher prices of processed food items.

Non-core inflation declined to 7.4 percent in March from 7.7 percent in February, reflecting lower prices of food crops and related items, particularly vegetables. Additionally, lower energy and utilities inflation continued to moderate non-core inflation, on account of lower electricity and pump prices. Overall inflation was expected to remain below the mid-point of the target range in the near term, supported by a low core inflation, lower food inflation, stable energy prices inflation, and continued exchange rate stability. The performance of the Kenyan economy slowed down in 2024, with real GDP estimated at 4.6 percent compared to 5.6 percent in 2023, mainly reflecting deceleration in growth in most sectors of the economy. Nevertheless, leading indicators of economic activity pointed to improved performance in the first quarter of 2025. The performance of the economy was expected to pick up in 2025, with real GDP growth projected at 5.4 percent, supported by resilience of key services and agriculture sectors, expected recovery in growth of credit to the private sector, and improved exports. This outlook was subject to domestic and external risks.

To further enhance the effectiveness of the monetary policy implementation framework, the MPC narrowed the width of the interest rate corridor around the CBR from ±150 basis points to ±75 basis points. This would enhance stability of the interbank rate and align it closer to the CBR. In line with this review, the Committee also adjusted the applicable interest rate on the discount window from 300 basis points above CBR to 75 basis points, which would be the upper bound of the interest rate corridor. The Committee noted that overall inflation was expected to remain below the midpoint of the 5±2.5 percent target range in the near term, and central banks in the major economies had continued to lower their interest rates, but at different paces depending on inflation and growth expectations. In addition, average lending rates had been declining gradually since December 2024, but private sector credit growth remained subdued. The Committee concluded that there was scope for a further easing of the monetary policy stance to stimulate lending by banks to the private sector and support economic activity, while ensuring exchange rate stability. Therefore, the Committee decided to lower the CBR by 75 basis points to 10.00 percent from 10.75 percent.

Non-core inflation declined to 7.4 percent in March from 7.7 percent in February, reflecting lower prices of

food crops and related items, particularly vegetables. Additionally, lower energy and utilities inflation continued to moderate non-core inflation, on account of lower electricity and pump prices. Overall inflation was expected to remain below the mid-point of the target range in the near term, supported by a low core inflation, lower food inflation, stable energy prices inflation, and continued exchange rate stability. The performance of the Kenyan economy slowed down in 2024, with real GDP estimated at 4.6 percent compared to 5.6 percent in 2023, mainly reflecting deceleration in growth in most sectors of the economy. Nevertheless, leading indicators of economic activity pointed to improved performance in the first quarter of 2025. The performance of the economy was expected to pick up in 2025, with real GDP growth projected at 5.4 percent, supported by resilience of key services and agriculture sectors, expected recovery in growth of credit to the private sector, and improved exports. This outlook was subject to domestic and external risks.

To further enhance the effectiveness of the monetary policy implementation framework, the MPC approved the narrowing of the width of the interest rate corridor around the CBR from ±150 basis points to ±75 basis points. This would enhance stability of the interbank rate and align it closer to the Central Bank Rate (CBR). In line with this review, the Committee also approved the adjustment of the applicable interest rate on the Discount Window from 300 basis points above CBR to 75 basis points, which would be the upper bound of the interest rate corridor. The Committee noted that overall inflation was expected to remain below the midpoint of the 5±2.5 percent target range in the near term, and central banks in the major economies had continued to lower their interest rates, but at different paces depending on inflation and growth expectations. In addition, average lending rates had been declining gradually since December 2024, but private sector credit growth remained subdued. The Committee concluded that there was scope for a further easing of the monetary policy stance to stimulate lending by banks to the private sector and support economic activity, while ensuring exchange rate stability. Therefore, the Committee decided to lower the Central Bank Rate (CBR) by 75 basis points to 10.00 percent from 10.75 percent.

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 primarily attributed to the stable macroeconomic environment reflected in the low inflation rate and stability in the exchange rate, expectations of a decline in interest rates, continued strong performance of agriculture, and resilience of the services sector. Nevertheless, respondents expressed concerns about high cost of doing business, taxation, subdued consumer demand, and high cost of credit. The Agriculture Sector Survey showed high input costs, labour costs, pests and diseases and transport costs as the main factors constraining agricultural production.

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 interaction 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 April 2025 continued to support price stability. The measures maintained 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 (NOVEMBER 2024 – APRIL 2025)

Date	Event of Relevance to Monetary Policy
December 2024	CBR lowered to 11.25 percent from 12.00 percent.
January 2025	January 2025 IMF World Economic Outlook update showed global growth was projected at 3.2 percent in 2024, increasing marginally to 3.3 percent in 2025 and 2026. Global headline inflation was expected to decline to 4.2 percent in 2025 from 5.7 percent in 2024, and further to 3.5 percent in 2026.
	The Committee adopted the core and non-core measures of inflation jointly developed and launched by the Kenya National Bureau of Statistics and the CBK.
February 2025	CBR lowered to 10.75 percent from 11.25 percent.
	Cash Reserve Ratio (CRR) lowered to 3.25 percent from 4.25 percent.
April 2025	CBR lowered to 10.00 percent from 10.75 percent.
	The width of the Interest Rate Corridor around the CBR reduced to ±75 basis points from ±150 basis points.
	The applicable interest rate on the Discount Window adjusted to 75 basis points above CBR (upper bound of the interest rate corridor) from 300 basis points.
	April 2025 IMF World Economic Outlook update showing that global output expand- ed by 3.3 percent in 2024. Growth is projected to moderate to 2.8 percent in 2025 and 3.0 percent in 2026 following effectuation of the trade tariffs and increased uncertainty. Global headline inflation was expected to decline to 4.3 percent in 2025 from 5.7 percent in 2024, and further to 3.6 percent in 2026.

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 recognises 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.

Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

www.centralbank.go.ke | www.facebook.com/CentralBankKenya | @CbkKenya