Central Bank of Kenya

Monetary Policy Statement

June 2026

Central Bank of Kenya

LETTER OF TRANSMITTAL

In accordance with Section 4B of the Central Bank of Kenya Act, it is my pleasure to present to you, Honorable Cabinet Secretary of the National Treasury and Economic Planning, the 58th Monetary Policy Statement of the Central Bank of Kenya. The statement reviews and assesses the implementation of monetary policy during the first half of 2026 and outlines the direction of monetary policy for the next 12 months.

Dr. Kamau Thugge, CBS

Governor

Contents

The Principal Objectives of the Central Bank of Kenya

The role of the Central Bank of Kenya (CBK) is anchored in Section 231 of Kenya's Constitution and in the CBK Act. The CBK is responsible for formulating monetary policy to achieve and maintain price stability and issuing currency.

The Bank also promotes financial stability through regulation, supervision, and licensing of financial institutions under its mandate. It also provides oversight of the payments, clearing and settlement systems, and fosters liquidity, solvency, and proper functioning of the financial system. The CBK formulates and implements the foreign exchange policy and manages foreign exchange reserves. It is also the banker for, adviser to, and fiscal agent of the Government.

The CBK's monetary policy is designed to support the Government's objectives with respect to growth. The CBK formulates and conducts monetary policy with the aim of keeping overall inflation within the target prescribed by the National Treasury at the beginning of the financial year. Currently, this target is 5 percent with a range between 2.5 percent and 7.5 percent.

The achievement and maintenance of a low and stable inflation rate coupled with adequate liquidity in the market, facilitates higher levels of domestic savings and private investment. This leads to improved economic growth, higher real incomes, and increased employment opportunities.

Instruments and Transmission of Monetary Policy

The CBK pursues its monetary policy objectives using the following instruments:

- **Open Market Operations (OMO):** This refers to actions by the CBK involving purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. OMO can also be used to stabilize short-term interest rates. When the Central Bank buys securities on the open market, it increases the reserves of commercial banks, making it possible for them to expand their loans and hence increase the money supply. To achieve the desired level of money supply, OMO is conducted using:

  i. **Repurchase Agreements (Repos):** A repo is a collateralized loan involving a contractual arrangement between two parties, in which one party sells a security at a specified price with a commitment to buy the security back at a later date. Both parties therefore, meet their investment goals of secured funding and liquidity. CBK Repos are conducted through auctions with tenors of 3 and 7 days and are for mopping up liquidity from the market. The Late Repo, sold in the afternoon, has a 4-day tenor and is issued at 100 basis points below the repo rate of the day. Reverse Repos, on the other hand, are for liquidity injections and involve purchase of securities from commercial banks. The current tenors for Reverse Repos are 7, 14, 21, 28 and 91 days.

  ii. **Term Auction Deposit (TAD):** The TAD is used when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer dated tenors. TAD is essentially not backed by collateral, and it is conducted through an auction, similar to Repos. Currently, the tenors for such deposits at CBK are 1, 7, 14, 21, 28 or 91 days and upon maturity of TAD, the CBK credits the respective commercial bank with the deposit and interest.

iii. **Horizontal Repos:** Horizontal Repos are modes of improving liquidity distribution between commercial banks and are conducted under CBK supervision. They are transacted between commercial banks on the basis of signed agreements using government securities as collateral and have negotiated tenors and yields. Commercial banks, short of deposits at the CBK, borrow from banks with excess deposits on the security of an appropriate asset, normally a government security. Horizontal Repos also help banks overcome the problem of limits to lines of credit, thus promoting more efficient management of interbank liquidity.

- **Central Bank Rate (CBR):** The CBR is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months. Movements in the CBR, both in direction and magnitude, signal the monetary policy stance. To enhance monetary policy transmission the MPC adopted a new monetary policy implementation framework in August 2023. The framework is based on inflation targeting and on interest rate corridor around the CBR, currently at 50 basis points. Consistent with the new framework, monetary policy operations are aimed at ensuring the Kenya Shilling Overnight Interbank Average (KESONIA) as an operating target closely align with the CBR.

  The efficiency in the Repo and interbank markets is crucial for the transmission of monetary policy decisions. The CBK monitors the overnight interbank money market. It responds to the tightness or slackness in the interbank market liquidity through OMO. Short-term international flows of capital are affected by short-term interest rates in the country. These are, in turn, affected by movements in the CBR and hence indirectly, the exchange rate could also be affected.

- **Standing Facilities:** The CBK does not have automatic standing facilities with respect to overnight lending. The CBK, as lender of last resort, provides secured loans to commercial banks on an overnight basis at a penal rate that is over the CBR. This facility is referred to as the Discount Window. To improve access to the discount window the applicable interest rate is 50 basis points above CBR (upper bound of the interest rate corridor).

- **The Cash Reserves Ratio (CRR):** In accordance with the law, the CRR is the proportion of a commercial bank's total deposit liabilities which must be held as deposits at CBK. These deposits are held in the CRR Account at no interest. During the review period, the ratio was lowered in February 2025 from 4.25 percent to 3.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks are required to maintain their CRR based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below a CRR of 2 percent on any day.

- **Licensing and Supervision of Financial Institutions:** The CBK uses the licensing and supervision tools to ensure stability and efficiency of the banking system; this includes vetting potential managers for suitability.

- **The National Payments System:** The modernisation of the National Payments System has continued to lower transaction costs and enhanced the efficiency of the payments systems. This has ensured the effectiveness of monetary policy instruments.

- **Communication:** The increasing use of communication media ensures a wider dissemination of monetary policy decisions and background data thereby increasing the efficiency of information transmission and managing expectations. The regular interaction between the MPC and the Chief Executive Officers of banks has ensured that monetary policy decisions are transmitted to the banking sector. The regular Governor's Press Conferences have also enhanced the media understanding of monetary policy decisions. The CBK website is an important source of up-to date data on all aspects of the financial market including interest rates, exchange rates, results of auctions of government securities, and the MPC releases.

EXECUTIVE SUMMARY

This Monetary Policy Statement provides the direction of monetary policy in the financial year 2026/27, and reviews the outcomes of the policy measures implemented in the first half of 2026.

During the first half of 2026, the Central Bank of Kenya (CBK) conducted monetary policy with the objective of maintaining overall inflation within the target range of 5±2.5 percent and supporting sustainable economic growth. Monetary policy was implemented against a backdrop of moderating global growth, heightened geopolitical tensions, particularly the conflict in the Middle East, and elevated trade policy uncertainty. The conflict disrupted global supply chains and contributed to higher energy prices and inflationary pressures globally. Inflation in major economies remained above target levels, reflecting persistent core inflation and rising energy costs, prompting central banks to adopt a cautious approach to monetary policy. While global growth continued to be supported by technology-driven investment and resilient demand in some economies, risks to the outlook remained elevated due to geopolitical tensions, trade fragmentation, and global economic uncertainty.

The Monetary Policy Committee (MPC) held three meetings during the first half of 2026. In February 2026, the MPC lowered the Central Bank Rate (CBR) by 25 basis points to 8.75 percent from 9.00 percent to support private sector lending and economic activity while maintaining price and exchange rate stability. The MPC maintained the CBR at 8.75 percent in both April and June 2026 meetings, in order to anchor inflation expectations arising from higher energy prices attributed to the conflict in the Middle East.

Kenya's overall inflation remained within the target range of 5±2.5 percent between December 2025 and June 2026. Inflation rose to 6.4 percent in June 2026 from 4.5 percent in December 2025. Non-core inflation increased to 15.1 percent from 11.2 percent over the same period, mainly due to higher domestic energy prices, following increases in international energy prices. Core inflation also increased to 3.1 percent in June 2026 from 2.0 percent in December 2025, largely reflecting higher transport costs associated with elevated energy prices.

The foreign exchange market remained stable in the first half of 2026 despite heightened global uncertainty. This stability was supported by diversified inflows, including diaspora remittances, horticulture export earnings, and travel receipts as well as ample reverses. The current account deficit was estimated at 3.0 percent of GDP in the 12 months to June 2026, compared with 1.9 percent in a similar period in 2025. CBK foreign exchange reserves stood at USD 14,023 million in June 2026, equivalent to 5.8 months of import cover, and continued to provide an adequate buffer against short-term foreign exchange market shocks.

The banking sector remained stable and resilient in the first half of 2026, supported by strong liquidity and capital adequacy ratios. The average commercial banks' liquidity and capital adequacy ratios stood at 61.2 percent and 20.0 percent, respectively, in June 2026, well above the statutory limits. Credit risk eased with the ratio of gross non-performing loans (NPLs) to gross loans declining to 14.8 percent in June 2026 from 15.4 percent in December 2025, and banks continued to make adequate provisions for NPLs. Growth in private sector credit strengthened further in the first half of 2026, rising to 10.6 percent in June 2026 from 5.9 percent in December 2025, reflecting improved demand for credit alongside decline in lending interest rates. The Risk Based Credit Pricing Model (RBCPM), which became fully operational in March 2026, continued to support the transmission of monetary policy to lending rates. The weighted average lending rate declined gradually to 14.4 percent in June 2026 from 14.8 percent in December 2025.

The growth of the economy moderated to 4.6 percent in 2025 from 4.7 percent in 2024, reflecting slower growth in the agriculture and services sectors, partly due to unfavourable weather conditions and a moderation in activity across several services sub-sectors. However, the economy continued to benefit from a strong recovery in industrial activity, particularly in construction, mining and quarrying, and electricity and water supply. Growth strengthened in the first quarter of 2026 to 5.3 percent, supported by improved performance in the industry and services sectors, notably construction, manufacturing, financial and insurance activities, and real estate. This performance underscores the continued resilience of the Kenyan economy despite a challenging global environment.

The monetary policy stance in the FY 2026/27 will aim at maintaining overall inflation within the target range of 5±2.5 percent and supporting the government economic growth objective. The economy is projected to grow by 4.9 percent in 2026, supported by strong performance of agriculture and services sectors, as well as a recovery of the industrial sector. Growth in credit to the private sector is projected to remain resilient at about 11.0 percent by December 2026, underpinned by lower interest rates and sustained improvement in economic activity. The foreign exchange market is expected to remain stable, supported by resilient exports receipts, and buoyant remittances. The current account deficit is projected to widen to 3.0 percent of GDP in 2026, but is expected to be more than fully financed by financial and capital account inflows.

The Bank will continue to implement reforms outlined in the White Paper on Modernization of the Monetary Policy Framework and Operations, to strengthen the monetary policy framework and operations. The Bank will also continue to hold regular engagements with stakeholders in the banking sector, as well as with CEOs of non-bank private sector firms. Continued coordination between monetary and fiscal policy is expected to reinforce macroeconomic stability. The Bank will continue to monitor the impact of its policy measures, as well as developments in the global and domestic economy, in order to safeguard price stability.

INTRODUCTION

This Monetary Policy Statement (MPS) outlines the direction of monetary policy in the financial year 2026/27 and presents the outcome of the monetary policy actions implemented in the first half of 2026. Price stability remains the primary objective of monetary policy formulation and implementation. The Central Bank of Kenya uses the Central Bank Rate (CBR) to signal the stance of monetary policy. The Bank monitors developments in inflation, and key monetary aggregates such as broad money (M3) and credit to the private sector, while operating under a flexible exchange rate regime. The Bank's participation in the foreign exchange market is guided by the need to maintain an adequate level of foreign exchange reserves, meeting the Government's external obligations, and ensuring stability in the foreign exchange market. The CBK's foreign exchange reserves provide a buffer against short-term shocks.

The July 2026 IMF World Economic Outlook (WEO) projects global growth at 3.0 percent in 2026, before recovering to 3.4 percent in 2027, with the overall outlook remaining broadly unchanged relative to the April 2026 WEO. The moderation in growth reflects the adverse effects of the conflict in the Middle East, including higher energy prices, supply chain disruptions, and heightened uncertainty. These effects are partly offset by stronger demand associated with the global technology cycle and continued advances in artificial intelligence (AI). Growth prospects remain stronger for economies that are closely integrated into the technology value chain and benefit from AI-related investments and semi-conductor production, while resilient corporate earnings and relatively accommodative financial conditions continue to support economic activity. In contrast, many energy-importing and low-income economies face weaker growth prospects due to higher commodity prices and limited participation in technology-related activity. Global trade growth is also expected to moderate in 2026, reflecting the effects of tariffs, trade fragmentation, and supply chain adjustments. The global outlook remains subject to significant downside risks, including a renewed escalation of conflict in the Middle East, persistent geopolitical tensions, further trade fragmentation, supply chain disruptions, elevated public debt, tighter financing conditions, and the potential correction in technology-related asset valuations. On the upside, stronger-than-expected AI investment, faster normalization of energy markets, renewed international cooperation to reduce trade barriers, and structural reforms could support stronger global growth.

The CBK continued to assess the effectiveness of earlier policy actions in supporting price and financial stability, while closely monitoring global and domestic economic developments. In the first half of 2026, the MPC further eased the monetary policy stance by lowering the Central Bank Rate (CBR) by 25 basis points to 8.75 percent in February 2026. The MPC noted that previous policy measures had contributed to keeping overall inflation below the mid-point of the target range, maintaining exchange rate stability, anchoring inflation expectations, and supporting the recovery in private sector credit growth. In view of these developments, the Committee determined that there was scope for a further easing of the monetary policy stance to stimulate bank lending to the private sector and support economic activity. However, following the emergence of heightened global uncertainties, particularly the conflict in the Middle East and its impact on international energy prices and the global economic outlook, the MPC maintained the CBR at 8.75 percent during its April and June 2026 meetings, concluding that the prevailing monetary policy stance remained appropriate to ensure that inflation expectations stayed anchored within the target range and the exchange rate remained stable.

The remainder of this Policy Statement is structured as follows. Section 2 reviews the outcomes of the monetary policy stance implemented in the first half of 2026 while Section 3 describes the developments in the external economic environment and presents the outlook for 2026. Section 4 concludes by outlining the direction of monetary policy in the financial year 2026/27.

ACTIONS AND OUTCOMES OF THE POLICY STANCE IN THE FIRST HALF OF 2026

During the first half of 2026, monetary policy formulation and implementation were aimed at achieving and maintaining overall inflation within the target range of 5±2.5 percent, while supporting sustainable economic activity. Monetary policy decisions were made against a backdrop of resilient global growth at the beginning of the year, which was subsequently affected by heightened trade policy uncertainty, geopolitical tensions, and disruptions to global supply chains associated with the conflict in the Middle East. Domestically, inflation remained within the target range, the exchange rate was broadly stable, and the banking sector remained resilient. The CBK continued to monitor liquidity conditions, inflation expectations, credit developments, and risks to the economic outlook.

At its meeting held on February 10, 2026, the Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by 25 basis points to 8.75 percent from 9.00 percent. The Committee noted that global growth had remained resilient and that global inflation was projected to decline further in 2026 and 2027, mainly driven by lower energy prices and reduced global demand. Kenya's overall inflation remained below the midpoint of the 5±2.5 percent target range. The MPC concluded that there was scope for further easing of the monetary policy stance to support bank lending to the private sector and economic activity, while maintaining exchange rate stability.

At the meeting held on April 8, 2026, the MPC maintained the CBR at 8.75 percent. The Committee observed that the conflict in the Middle East had disrupted global supply chains, raised energy prices, and heightened risks to the global growth and inflation outlook. Despite expected upward pressure from global energy prices, the MPC noted that inflation was expected to remain within the target range, supported by appropriate monetary policy actions, favourable weather conditions, and a broadly stable exchange rate.

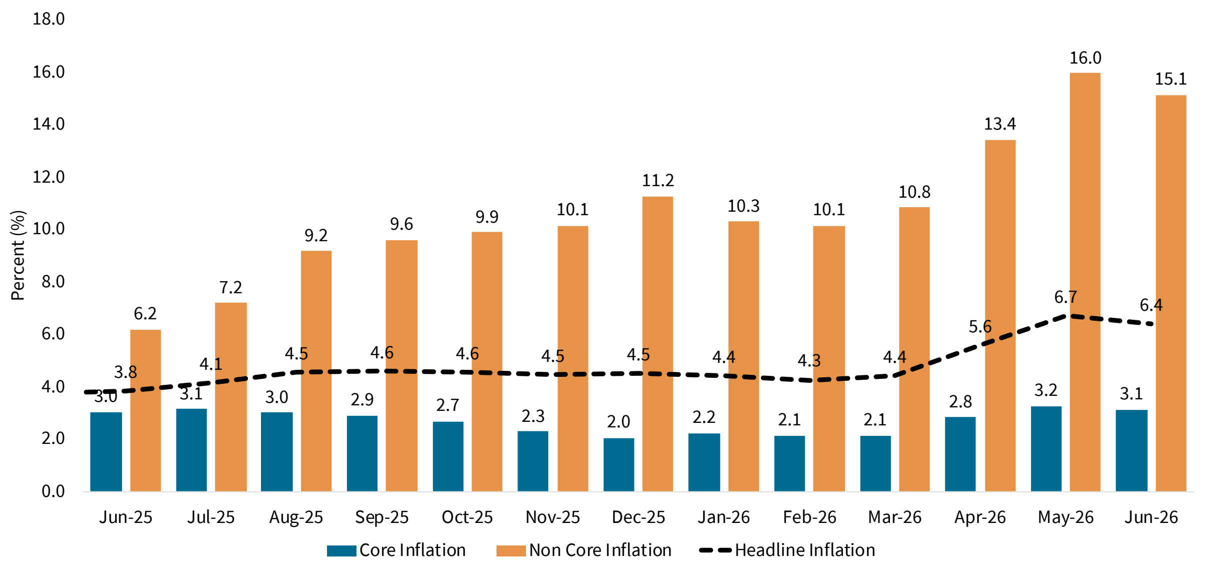
The policy stance in the first half of 2026 therefore reflected a calibrated easing cycle followed by a pause. The February reduction in the CBR built on earlier policy easing to support recovery in private sector credit and economic activity, while the April and June 2026 decision to maintain the CBR reflected increased global uncertainty and risks from higher energy prices. The Committee continued to emphasize the need to anchor inflation expectations, preserve exchange rate stability, and strengthen monetary policy transmission, including through the implementation of the Risk-Based Credit Pricing Model (RBCPM).

The following are the specific outcomes of the policy measures implemented in the first half of 2026.

i. Inflation

Overall inflation increased but remained within the medium-term target range in the first half of 2026. It increased to 6.4 percent in June 2026 from 4.5 percent in December 2025, mainly due to elevated core and non-core inflation rates. Non-core inflation increased significantly to 15.1 percent in June 2026 from 11.2 percent in December 2025, largely driven by increased energy costs in line with the sharp increase in international energy prices following the war in Iran and ensuing spillover in the Middle East. Additionally, core inflation increased to 3.1 percent from 2.0 percent in December 2025, as transport costs increased in tandem with the elevated energy prices **(Chart 1a and Chart 1b).**

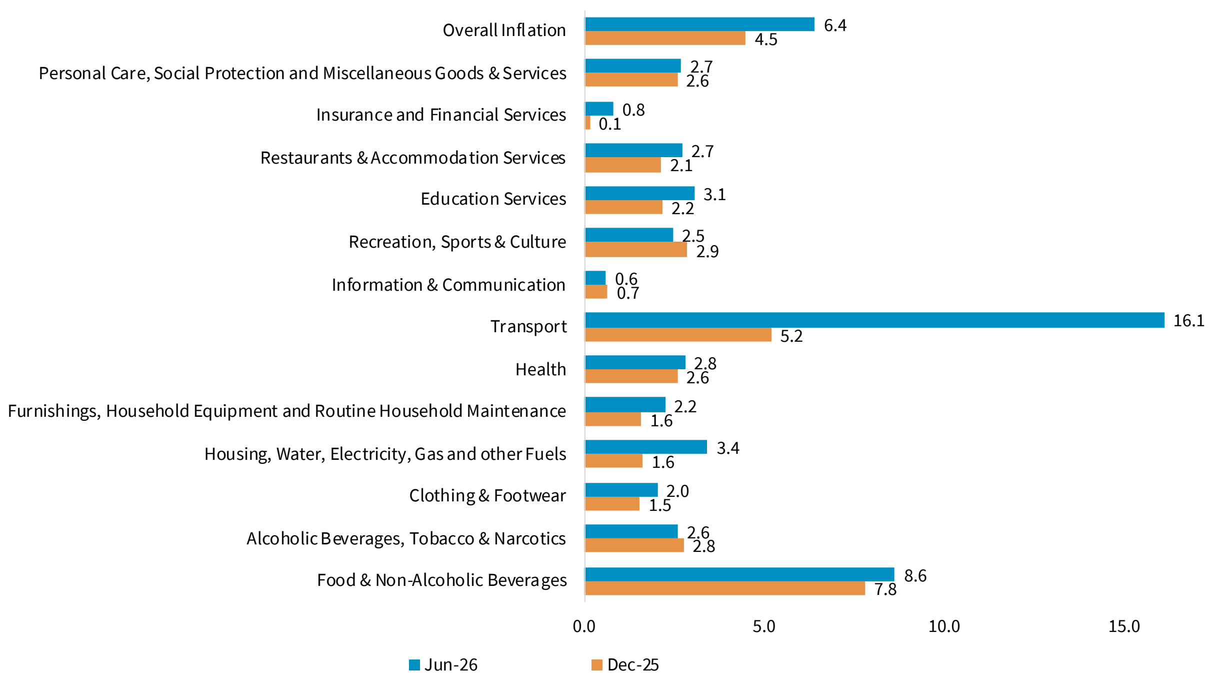
Chart 1a: Core and Non-Core Inflation (Percent)



Source: Kenya National Bureau of Statistics and CBK

Inflation rates for all categories in the consumer basket increased in June 2026 compared to December 2025, except the 'alcoholic beverages, tobacco and narcotics', 'information and communication', and 'recreation, sports and culture' categories **(Chart 1b)**.

Chart 1b: 12-Month Inflation by Broad CPI Categories (Percent)



Source: Kenya National Bureau of Statistics

ii. Bank Credit to the Private Sector

Growth in private sector credit improved further in the first half of 2026, rising to 10.6 percent in June 2026 from 5.9 percent in December 2025, reflecting improved demand for credit in line with the decline in lending interest rates. Growth in credit to key sectors of the economy was resilient, particularly trade, building and construction, agriculture, and consumer durables. Credit growth is expected to remain resilient in the near term, supported by lagged effects of the previous easing of the monetary policy stance and expected resilience in economic activity **(Table 1)**.

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

Main sectors	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Agriculture	5.1	8.4	12.6	12.7	28.8	28.3	28.4	27.3	23.5	32.0	35.1
Manufacturing	-9.4	-6.3	3.1	11.1	1.2	0.6	1.3	4.8	-3.4	-6.6	-5.4
Trade	2.3	5.8	10.1	3.9	8.9	7.2	8.5	8.6	9.3	22.2	22.6
Building and construction	-6.1	12.0	25.0	52.9	37.1	35.3	44.2	30.0	32.1	26.2	29.0
Transport and communication	1.6	4.8	-2.0	-1.3	-10.1	-9.2	-9.1	-9.8	-9.6	-8.2	-1.8
Finance and insurance	-21.2	-18.8	-6.7	-1.3	6.6	10.4	12.7	26.5	20.8	23.5	34.2
Real estate	1.3	2.4	1.6	1.0	-2.1	-2.0	-0.3	0.7	0.1	-0.6	-1.4
Mining and quarrying	-22.9	-44.3	-47.1	-56.3	41.5	58.3	74.9	93.6	29.1	31.1	41.2
Private households	9.2	-0.9	-0.2	-0.7	2.1	5.8	7.2	5.7	6.9	4.9	5.3
Consumer durables	3.3	8.1	9.6	12.2	11.8	10.6	10.4	8.2	9.5	9.3	9.8
Business services	-4.5	-13.1	-10.0	-4.2	-3.9	-2.1	-2.5	7.8	5.0	7.9	8.8
Other activities	-18.2	-0.8	-24.8	11.4	35.6	47.2	33.5	18.8	48.3	57.3	44.6
Total private sector credit	**-1.4**	**0.2**	**2.2**	**5.0**	**5.9**	**6.4**	**7.4**	**7.8**	**7.1**	**9.3**	**10.6**

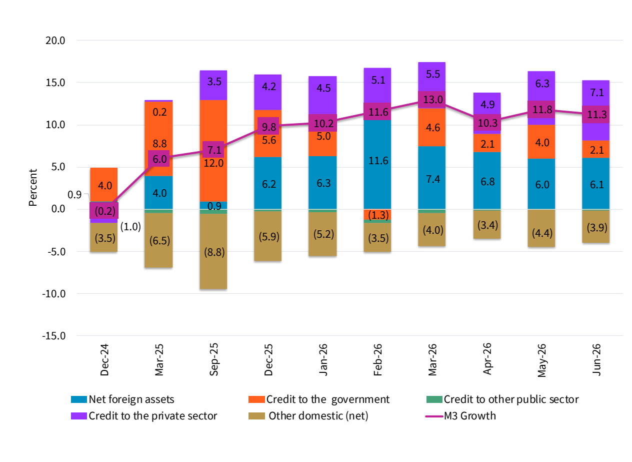
Source: Central Bank of Kenya

iii. Developments in the other Monetary Aggregates

Broad money (M3) increased to 11.3 percent in June 2026 from 9.8 percent in December 2025, supported by increased net domestic assets and net foreign assets of the banking system. Improved net domestic assets mainly reflected recovery in growth of credit to the private sector. The increase in net foreign assets of the banking system was mainly driven by increased foreign reserves of the Central Bank, reflecting interbank foreign exchange purchases from banks and official Government inflows. On the liability side, the growth in M3 was reflected in increased deposits, mainly the corporate sector deposits **(Chart 2 and Table 2)**.

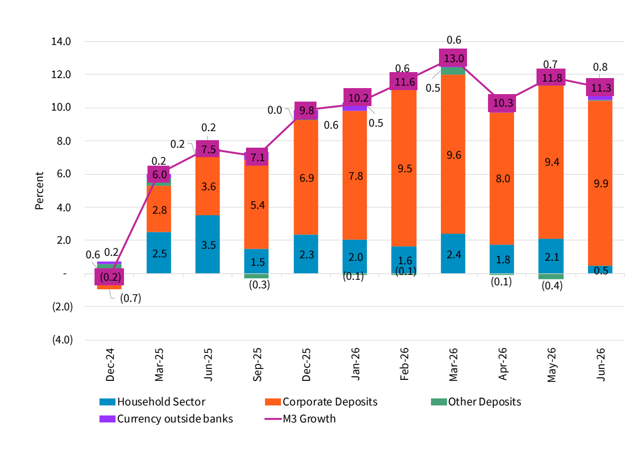
Chart 2: 12-Month Growth in Broad Money Supply (M3) (Percent)

2a: Components of Money Growth (Percent)



Source: Central Bank of Kenya

2b: Sources of Money Growth (Percent)



Source: Central Bank of Kenya

Table 2: Key Monetary Aggregates

	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Broad Money,M3 (Ksh Billion)	6,029.3	6,033.7	6,142.9	6,235.6	6,172.1	6,356.2	6,437.6
Reserve Money (Ksh Billion)	636.1	582.3	687.1	575.1	578.3	612.9	652.3
Credit to private sector (Ksh Billion)	4,085.8	4,054.0	4,081.7	4,138.6	4,142.0	4,230.8	4,290.6
Memorandum Items							
12-month growth in actual Reserve Money (Percent)	2.3	(3.0)	29.9	(1.4)	2.0	8.7	14.0
12-month growth in actual Broad Money, M3 (Percent)	9.8	10.2	11.6	13.0	10.3	11.8	11.3

Source: Central Bank of Kenya

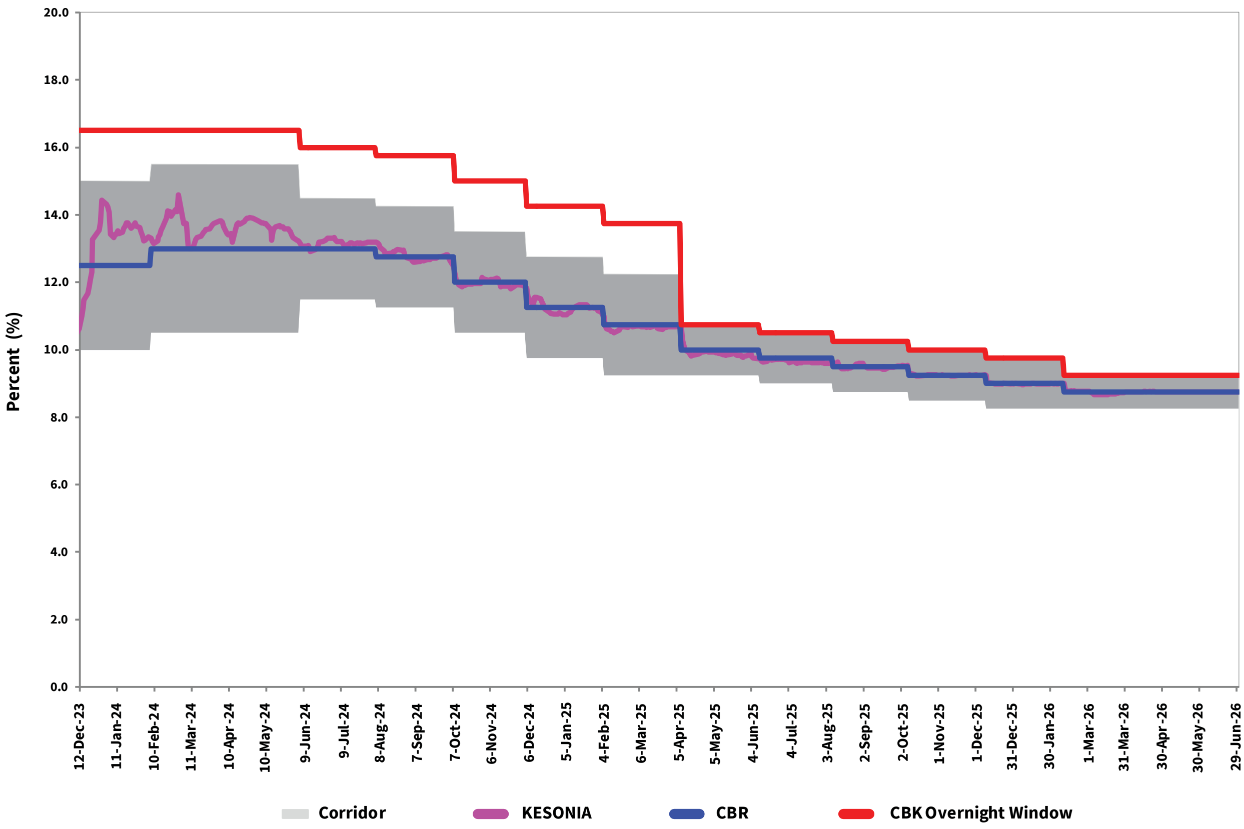
iv. Interest Rates Developments

a. Short Term Rates

Short-term interest rates declined in the first half of 2026, reflecting the easing of the monetary policy stance and ample liquidity in the money market **(Table 3)**. However, Treasury bill rates increased slightly in May and June 2026, partly reflecting market correction and alignment with the monetary policy stance. The Kenya Shilling Overnight Interbank Average (KESONIA)[1], which is the operating target for monetary policy operations, remained within the prescribed corridor around the CBR during the review period **(Chart 2c)**. The average 91-day Treasury bill rate increased to 8.66 percent in June 2026 from 7.77 percent in December 2025, while the average 182-day Treasury bill rate increased to 8.60 percent from 7.80 percent.

1. KESONIA is a transaction-based benchmark rate reflecting the average interest rate at which banks in Kenya lend and borrow unsecured overnight funds in Kenyan Shillings. Since September 1, 2025, the overnight interbank average rate was renamed KESONIA to align it to international best practices.

Chart 2c: Interbank rate, interest rate corridor and overnight discount window rate (Percent)



Source: Central Bank of Kenya

b. Commercial Bank Rates

Commercial banks' average lending and deposit rates declined in the first half of 2026, partly reflecting easing of the monetary policy stance. The weighted average lending rate declined to 14.4 percent in June 2026 from 14.8 percent in December 2025, while the weighted average deposit rate decreased to 6.8 percent from 7.1 percent over the same period, reflecting easing cost of funds **(Table 3)**.

Table 3: Interest Rates (Percent)

	2024				2025				2026					
	Mar	Jun	Sep	Dec	Mar	Jun	Sept	Dec	Jan	Feb	Mar	Apr	May	Jun
Central Bank Rate	13.00	13.00	12.75	11.25	10.75	9.75	9.50	9.00	9.00	8.75	8.75	8.75	8.75	8.75
KESONIA	13.42	13.14	12.67	11.45	10.68	9.72	9.48	9.08	8.99	8.84	8.70	8.75	8.75	8.75
91-Tbill	16.68	15.97	15.75	10.32	8.88	8.21	7.96	7.77	7.72	7.62	7.54	7.50	8.23	8.66
182-Tbill	16.86	16.67	16.62	10.39	9.13	8.51	8.02	7.80	7.80	7.78	7.83	7.84	8.21	8.60
Average Lending Rate (1)	**16.28**	**16.85**	**16.91**	**16.89**	**15.76**	**15.29**	**15.07**	**14.84**	**14.83**	**14.78**	**14.66**	**14.64**	**14.49**	**14.38**
Overdraft/loan	15.97	16.78	16.83	15.75	14.29	13.52	13.72	13.38	13.56	13.30	12.73	13.29	12.88	12.98
1-5years	16.82	17.52	17.69	17.72	16.48	15.89	15.41	15.18	15.12	15.15	15.15	15.06	14.91	14.67
Over 5years	15.90	16.25	16.18	16.59	15.67	15.37	15.19	14.95	14.92	14.87	14.79	14.66	14.59	14.59
Average Deposit Rate (2)	**10.52**	**11.48**	**11.24**	**10.45**	**9.34**	**8.37**	**7.63**	**7.13**	**7.01**	**6.82**	**6.86**	**6.88**	**6.86**	**6.84**
Demand	2.57	2.45	2.62	2.90	2.37	1.92	2.14	2.13	2.09	2.01	2.10	2.10	1.94	2.15
0-3months	12.08	12.56	12.28	11.27	9.88	8.45	8.11	7.66	7.53	7.41	7.35	7.44	7.44	7.49
Over 3months	11.27	11.92	12.04	11.04	10.48	9.30	8.11	7.78	7.67	7.53	7.50	7.39	7.34	7.41
Savings	3.90	5.11	3.57	4.25	3.09	3.76	3.77	3.22	3.18	2.45	3.22	3.31	3.31	3.32
Spread (1-2)	**5.76**	**5.37**	**5.67**	**6.44**	**6.42**	**6.92**	**7.44**	**7.70**	**7.81**	**7.96**	**7.79**	**7.77**	**7.63**	**7.54**

Source: Central Bank of Kenya

v. Banking Sector developments

The banking sector remained stable and resilient in the period ended June 2026, with strong liquidity and capital adequacy ratios. The average commercial banks liquidity and capital adequacy ratios stood at 61.2 percent and 20.0 percent in June 2026, respectively. These were above the minimum statutory limits of 20.0 percent and 14.5 percent respectively.

Credit risk eased, with the ratio of gross non-performing loans (NPLs) to gross loans standing at 14.8 percent in June 2026, a decrease from 15.4 percent in December 2025. Gross NPLs increased by 2.0 percent from KSh 674.4 billion in December 2025, to KSh 688.2 billion in June 2026, partly reflect emerging second round effects of the geopolitical conflict in the Middle East. The main sectors with increased NPLs were trade, agriculture, energy and water.

Customer deposits remained the main source of funding to the banking sector, accounting for 75.1 percent of the banking sector's total liabilities and shareholders' funds as at June 2026. This was a slight increase from 74.6 percent in December 2025. During the period, customer deposits increased by 6.3 percent, rising from KSh 6,274.1 billion in December 2025 to KSh 6,670.4 billion in June 2026.

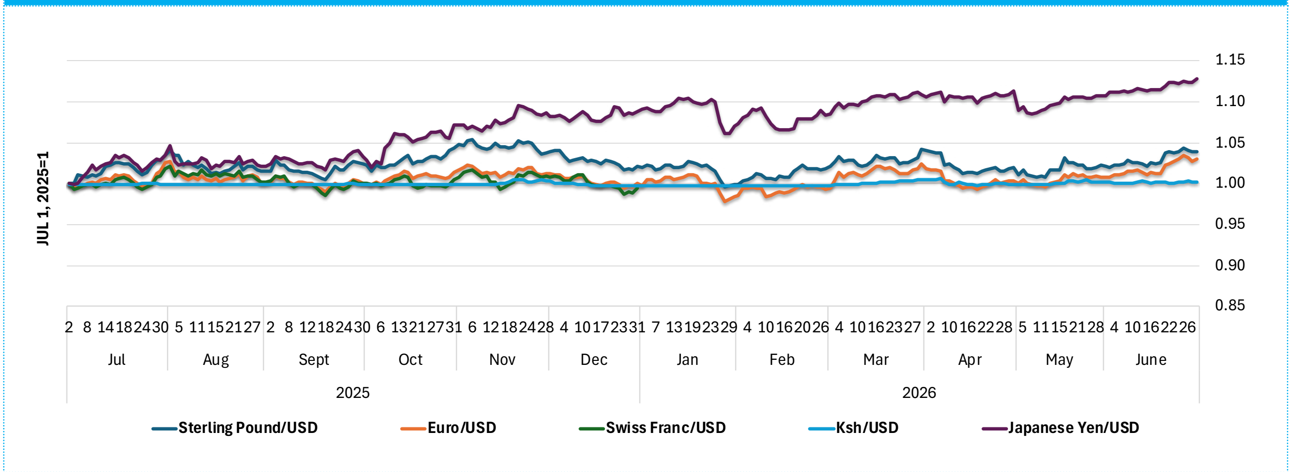
The Credit Guarantee Scheme (CGS) established in December 2020, continued to support additional credit uptake by vulnerable Micro, Small, and Medium sized Enterprises (MSMEs). As at the end of June 2026, the seven banks participating in the CGS had disbursed guaranteed loans to MSMEs amounting to KSh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

The banking sector is projected to remain stable, although credit risk may be elevated due to second round effects of the geopolitical conflict in the Middle East. Interest rate risk is expected to remain stable, supported by the stabilization of interest rates. Operational risk is expected to remain elevated while liquidity risk is expected to remain stable.

vi. Exchange Rates and Foreign Exchange Reserves

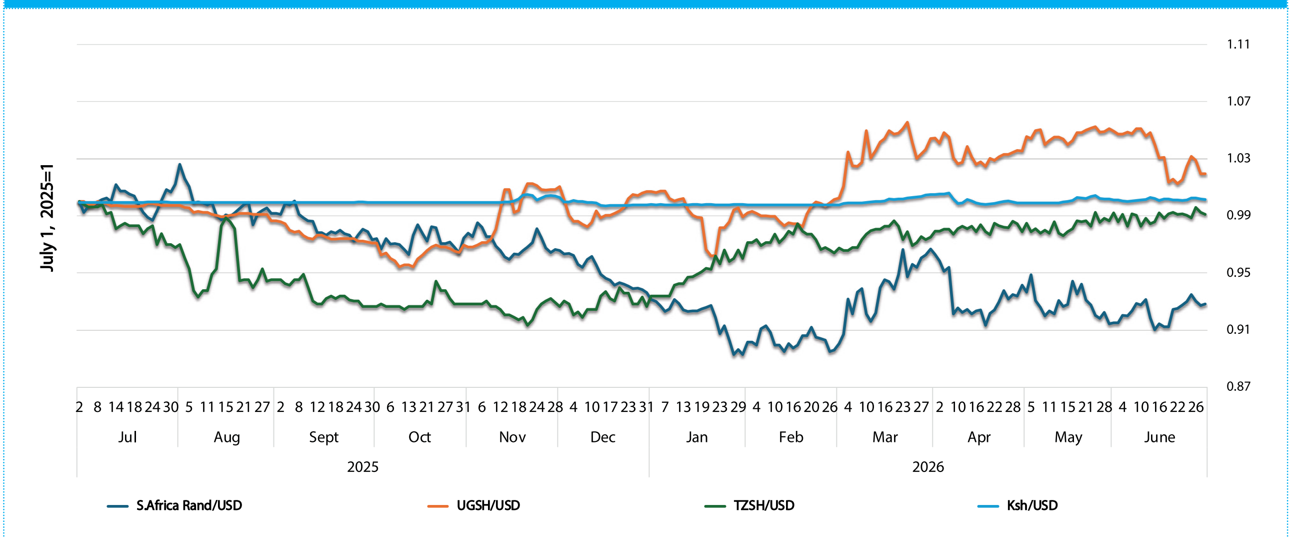
The foreign exchange market remained relatively stable during the first half of 2026 despite heightened global uncertainties and episodes of increased risk aversion in international financial markets. The US-Israel-Iran conflict heightened geopolitical and economic uncertainty, affecting global financial conditions through changes in investor risk sentiment, oil prices and expectations regarding global monetary policy. These developments exerted pressure on several emerging-market currencies and contributed to episodes of increased exchange rate volatility. However, the Kenyan shilling remained relatively resilient, supported by improved foreign exchange liquidity and steady inflows, thereby limiting the impact of external shocks on the domestic foreign exchange market **(Charts 3a and 3b)**. Export receipts, particularly from horticulture, coffee and tea, remained an important source of foreign exchange, supported by sustained demand in key international markets. Travel receipts also continued to provide a significant source of foreign exchange inflows, reflecting the continued recovery and resilience of the tourism sector. Together with steady remittance inflows, improved foreign exchange liquidity and relatively stable domestic macroeconomic conditions, these supported the overall stability of the exchange rate during the period.

Chart 3a: Exchange rates of currencies in the region against the U.S. Dollar



Source: Central Bank of Kenya

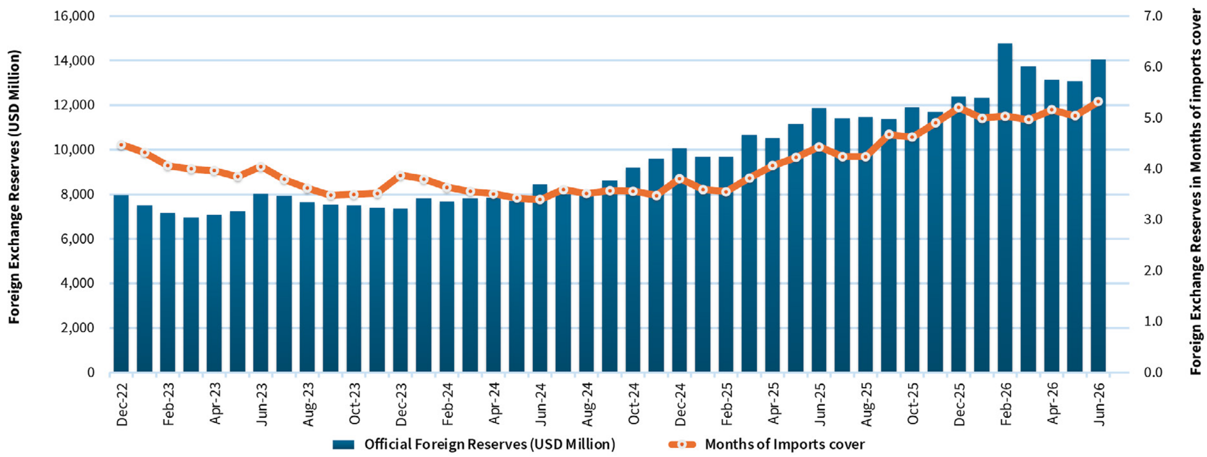
Chart 3b: Exchange rates of major international currencies against the U.S. Dollar



Source: Central Bank of Kenya

The stability in the foreign exchange market was further reinforced by the Central Bank's consistent policy stance and clear communication, which helped anchor market expectations. Official foreign exchange reserves remained adequate at USD 14,023 million, equivalent to 5.8 months of import cover as at end June 2026, providing a buffer against short-term shocks and ensuring that the Bank retained sufficient capacity to respond to temporary demand pressures. Overall, the combination of diversified inflows, adequate reserves and sustained policy stability underpinned the resilience of the foreign exchange market in the first half of 2026 **(Chart 3c)**.

Chart 3c: CBK Foreign Exchange Reserves



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

Source: Central Bank of Kenya

vii. Balance of Payments Developments

The current account deficit widened to 3.0 percent of GDP in the 12 months to June 2026, compared to a deficit of 1.9 percent of GDP in the 12 months to June 2025, largely reflecting the effects of the geopolitical conflict in the Middle East and associated global spillovers. Goods imports increased by 13.1 percent in the 12 months to June 2026, up from 9.5 percent in the corresponding period of 2025, largely reflecting higher international oil prices alongside increases in the value of other imported commodities. The stronger growth in imports more than offset the 8.9 percent increase in goods exports, resulting in a widening of the trade deficit over the period **(Chart 4 and Table 4)**.

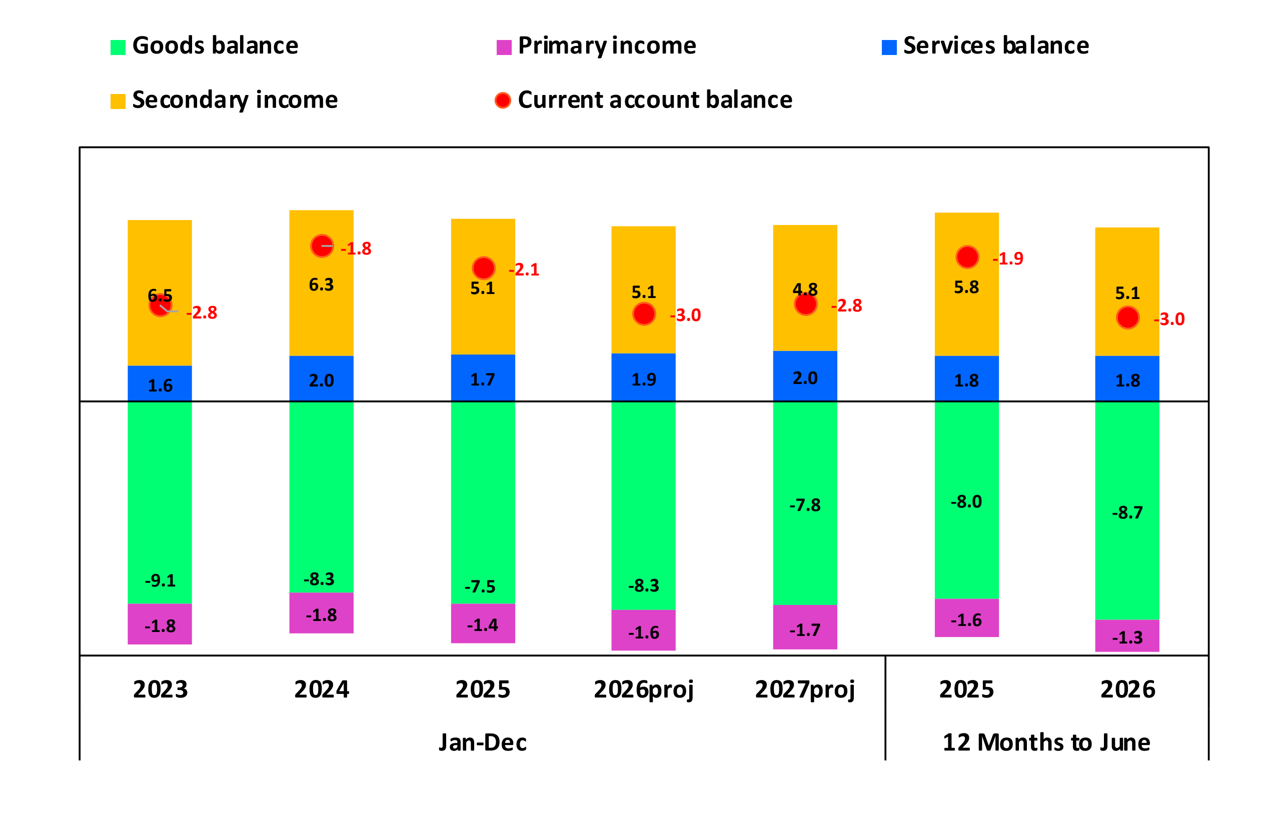
Import growth was broad-based, reflecting higher imports of food, mineral fuels, chemicals, machinery and transport equipment. The increase in food imports was mainly driven by higher import volumes of cereals, alongside elevated international food prices, particularly during the first half of 2026.

Goods exports grew by 8.9 percent, supported by strong demand from traditional markets and favourable commodity prices. Export earnings from horticulture, tea, coffee, mineral fuels, and machinery and transport equipment increased, partly offsetting the decline in exports of chemicals, beverages and tobacco, and crude materials. Horticulture exports remained resilient, despite lower fruits and cut flower volumes while higher earnings from tea and coffee reflected increased export volumes and favorable prices.

Exports to Africa accounted for 57.1 percent of total exports in the 12 months to June 2026, with COMESA and the EAC region accounting for 44.0 percent and 49.9 percent, respectively. China, the UAE, India, and Saudi Arabia were the main import sources, accounting for 22.4 percent, 16.3 percent, 10.5 percent, and 9.3 percent of total imports, respectively. Imports from Africa accounted for 7.5 percent of the total imports in the 12 months to June 2026 **(Table 5)**.

The services balance improved by 5.8 percent in the 12 months to June 2026. Travel receipts improved by 7.0 percent during the same period. Tourist arrivals remained resilient in the first half of 2026, attributed to sustained growth from regional and emerging source markets. The deficit in the primary income narrowed, reflecting higher interest earned from the reserve assets. Broad resilience in secondary income transfers was primarily supported by improved inflows from non-governmental organization (NGO) related flows and other transfer inflows. Remittances declined, reflecting a reduction in inflows from the USA and Saudi Arabia, even though those from the Europe and Africa corridors continued to provide support.

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



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

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

				12 Months Cumulative to June	
	2023	2024	2025 est	2025	2026
Current account	**-2.5**	**-1.8**	**-2.1**	**-1.9**	**-3.0**
1.1. Trade balance	**-8.8**	**-8.3**	**-7.3**	**-8.0**	**-8.7**
Goods exports, f.o.b	**10.2**	**10.2**	**8.9**	**9.6**	**9.6**
Tea	1.2	1.2	1.0	1.0	1.0
Horticulture	0.9	0.9	0.8	0.9	0.9
Manufactured Goods	0.6	0.5	0.5	0.5	0.5
Reexports	3.9	4.3	3.1	3.5	3.2
Other	3.5	3.3	3.6	3.7	4.0
Goods imports, f.o.b	**19.1**	**18.5**	**16.4**	**17.6**	**18.3**
Oil Products	7.5	6.8	5.2	5.8	6.0
Other	11.5	11.7	11.2	11.8	12.3
1.2. Services balance	**1.6**	**2.0**	**1.7**	**1.8**	**1.8**
Services Credit	**6.6**	**6.7**	**5.7**	**6.2**	**6.2**
Transport	1.8	1.8	1.5	1.7	1.6
Travel	2.6	2.9	2.6	2.8	2.8
Services Debit	**5.0**	**4.7**	**4.0**	**4.4**	**4.4**
Transport	1.6	1.5	1.4	1.5	1.5
Goods and Services Balance	**-7.3**	**-6.3**	**-5.8**	**-6.2**	**-6.9**
1.3. Primary income, Balance	**-1.7**	**-1.8**	**-1.4**	**-1.6**	**-1.3**
Credit	0.2	0.2	0.3	0.3	0.3
Debit	1.9	2.0	1.7	1.9	1.6
1.4. Secondary income	**6.5**	**6.3**	**5.1**	**5.8**	**5.1**
Credit	**6.6**	**6.4**	**5.1**	**5.8**	**5.1**
Remittances	3.9	4.1	5.1	5.8	5.2
Other current transfers	2.3	2.2	3.4	3.9	3.5
Debit	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**
Capital account	**0.1**	**0.2**	**0.1**	**0.2**	**0.1**
Financial Account	**-1.7**	**-3.5**	**-2.7**	**-3.5**	**-4.3**
Foreign Direct investment	**-0.3**	**-0.3**	**-0.5**	**-0.4**	**-0.5**
Portfolio investment	**0.5**	**-1.1**	**-0.8**	**-1.0**	**-0.9**
Other investment	**-1.9**	**-2.1**	**-1.4**	**-2.0**	**-2.9**

Source: Central Bank of Kenya

Table 5: Kenya's Direction of Trade

	Exports				
	USD Millions			% Share	
	12 Months Cumulative to June				
Country	2024	2025*	2026**	2025	2026
Africa	**6,878**	**6,604**	**7,093**	**55.9**	**57.1**
Of which					
Uganda	4,188	3,773	3,963	31.9	31.9
South Sudan	703	697	738	5.9	5.9
Tanzania	525	550	539	4.6	4.3
Rwanda	340	381	429	3.2	3.5
DRC	205	243	361	2.1	2.9
Egypt	228	192	249	1.6	2.0
Ethiopia	103	106	129	0.9	1.0
Somalia	132	124	103	1.1	0.8
EAC	**6,066**	**5,840**	**6,204**	**49.4**	**49.9**
COMESA	**5,345**	**5,016**	**5,464**	**42.4**	**44.0**
Rest of the World	**4,580**	**5,220**	**5,332**	**44.1**	**42.9**
Of which					
USA	525	653	825	5.5	6.6
Pakistan	580	572	601	4.8	4.8
Netherlands	556	512	548	4.3	4.4
UAE	652	687	539	5.8	4.3
United Kingdom	421	460	473	3.9	3.8
Germany	120	164	160	1.4	1.3
Oman	27	103	160	0.9	1.3
China	173	160	154	1.3	1.2
Saudi Arabia	221	126	132	1.1	1.1
France	108	117	130	1.0	1.0
India	86	144	129	1.2	1.0
Kazakhistan	63	73	108	0.6	0.9
Italy	56	96	102	0.8	0.8
Others	992	1,352	1,271	11.4	10.2
Total Exports	**11,458**	**11,824**	**12,425**	**100.0**	**100.0**
European Union	**1,110**	**1,250**	**1,274**	**10.6**	**10.3**
China	**173**	**160**	**154**	**1.3**	**1.2**

	Imports				
	USD Millions			% Share	
	12 Months Cumulative to June				
Country	2024	2025*	2026**	2025	2026
Africa	**1,834**	**2,007**	**2,040**	**8.3**	**7.5**
Of which					
South Africa	498	483	487	2.0	1.8
Tanzania	380	406	399	1.7	1.5
Uganda	248	294	327	1.2	1.2
Egypt	308	390	323	1.6	1.2
Eswatini	93	103	126	0.4	0.5
EAC	**684**	**744**	**764**	**3.1**	**2.8**
COMESA	**853**	**976**	**993**	**4.0**	**3.7**
Rest of the World	**20,766**	**22,300**	**24,990**	**91.7**	**92.5**
Of which					
China	3,557	4,820	6,067	19.8	22.4
UAE	5,594	5,375	4,407	22.1	16.3
India	1,783	2,112	2,850	8.7	10.5
Saudi Arabia	1,538	1,316	2,526	5.4	9.3
Malaysia	986	1,038	1,154	4.3	4.3
Japan	742	957	1,073	3.9	4.0
USA	960	1,141	1,026	4.7	3.8
Russia	552	380	574	1.6	2.1
Oman	393	345	485	1.4	1.8
Germany	266	331	421	1.4	1.6
Belgium	214	243	412	1.0	1.5
Netherlands	417	189	316	0.8	1.2
Pakistan	255	255	303	1.0	1.1
United Kingdom	319	340	265	1.4	1.0
France	254	228	240	0.9	0.9
Others	2,935	3,232	2,871	13.3	10.6
Total Imports (CIF)	**22,599**	**24,307**	**27,030**	**100.0**	**100.0**
European Union	**1,747**	**1,745**	**2,181**	**7.2**	**8.1**
China	**3,557**	**4,820**	**6,067**	**19.8**	**22.4**

** Revised*
***Provisional*
CIF - Cost Insurance and Freight
Source: KNBS, KRA and CBK
Source: Kenya Revenue Authority and Central Bank of Kenya

viii. Economic Growth

Economic growth moderated to 4.6 percent in 2025 from 4.7 percent in 2024, reflecting a slowdown in agriculture and services sectors which outweighed the recovery in industrial activity. Agriculture sector growth decelerated to 3.1 percent from 4.4 percent in 2024. The growth recorded in the first three quarters was partly offset by a contraction of 1.3 percent in the fourth quarter of 2025, which was occasioned by unfavourable weather conditions experienced during the short rains season. Broadly, the growth of services sector slowed to 5.3 percent from 6.0 percent in 2024, which was reflected across all sectors. However, industrial growth rebounded to 4.7 percent compared to 1.1 percent in 2024, supported by recovery of mining and quarrying, construction, and electricity and water supply sectors.

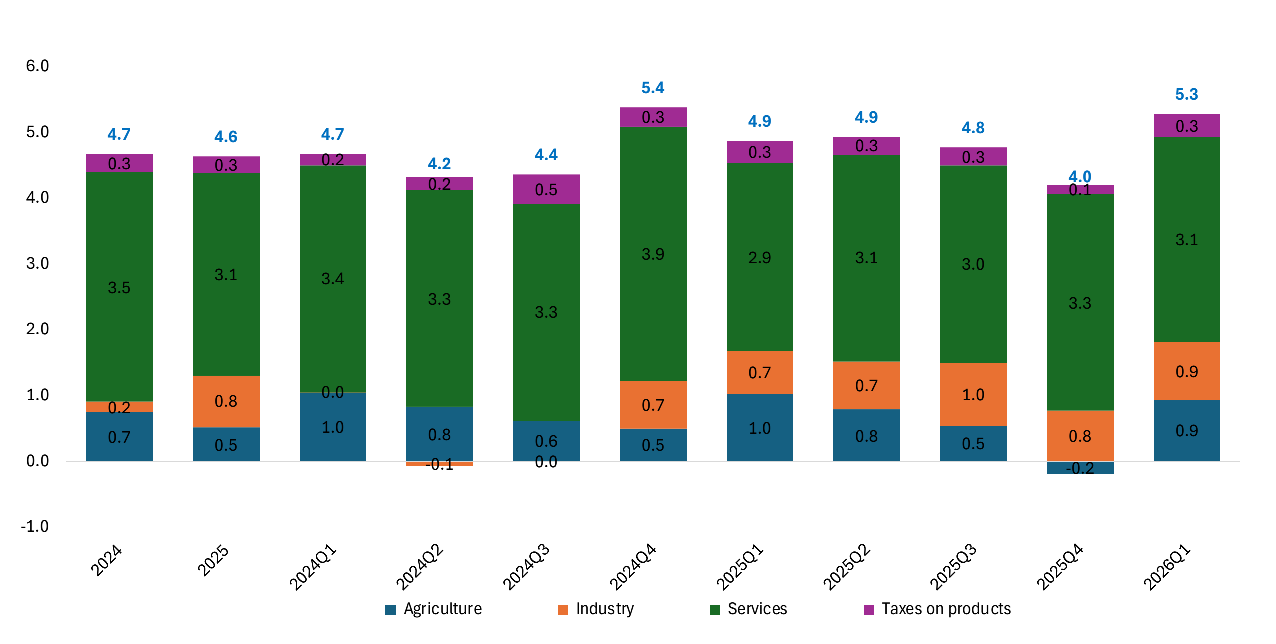
In the first quarter of 2026, economic growth improved to 5.3 percent from 4.9 percent in the same quarter of 2025, driven by improved performance in industry and services sectors. Growth of industry increased to 5.4 percent from 4.0 percent in the same quarter of 2025, supported by strong growth in all sectors, particularly construction and manufacturing. Additionally, growth of services increased to 5.5 percent from 5.0 percent in the same quarter of 2025, driven by improved growth of financial and insurance, real estate, education, and accommodation and food services sectors **(Table 6 and Chart 5)**.

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

Main Sectors	Annual		Quarterly				
	2024	2025	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1
1. Agriculture	4.4	3.1	5.3	4.0	3.8	-1.3	4.9
2. Non-Agriculture (o/w)	4.7	4.9	4.8	5.1	4.9	5.0	5.3
2.1 Industry	1.1	4.7	4.0	4.6	5.5	4.7	5.4
2.2 Services	6.0	5.3	5.0	5.5	5.0	5.5	5.5
2.3 Taxes on products	3.3	3.1	4.1	3.8	3.1	1.7	4.3
Real GDP Growth	4.7	4.6	4.9	4.9	4.8	4.0	5.3

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

Chart 5: Contribution to Real GDP growth (Percent points)



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

ix. Domestic Government Borrowing

The coordination between monetary and fiscal policies continued to support macroeconomic stability. The Government's borrowing plan in the first half of 2026 ensured that the buildup in domestic debt was consistent with the thresholds set in the Medium-Term Debt Management Strategy. The Government continued to review its borrowing plan in line with market conditions and prudent budget management that focused on rationalization of expenditures and strengthening of revenue collection measures.

x. Modernisation of the Monetary Policy Framework

The MPC continued to implement the reforms outlined in the White Paper on the Modernization of the Monetary Policy Framework and Operations aimed at enhancing the effectiveness of monetary policy and strengthening the anchoring of inflation expectations. In this regard, in the six months to June 2026, the MPC assessed the monetary policy implementation framework and noted that it continued to support improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission.

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

The MPC members held virtual stakeholder meetings with Chief Executives of Commercial Banks, Microfinance Banks and other non-bank players to apprise them on the background to its decisions and obtain feedback. The Governor also held virtual press conferences after each MPC meeting to brief the media on the rationale for MPC decisions and measures taken by the CBK to support macroeconomic stability. In addition, the Governor held virtual meetings with investors to brief them on economic developments and the outlook for the economy.

The MPC continued to improve on the scope and information gathering processes through the CEOs, Market Perceptions, and the Agriculture Sector Survey. The CEOs Survey captures top firms' perceptions and expectations regarding economic prospects. The Agriculture Sector Survey collects indicative information on the recent trends in prices and output of agricultural commodities across various markets and farms. The Market Perceptions Survey gathers views from banks and non-bank players, including hotels, on economic performance, access to credit, and optimism about the country's prospects.

The surveys conducted ahead of the MPC meetings in the first half of 2026 indicated sustained optimism about economic growth prospects for 2026. Respondents attributed this optimism to the stable macroeconomic environment, reflected in a broadly stable exchange rate; expectations of decline in interest rates; improved access to credit as lending rates eased; strong performance of the agriculture sector; and resilience of key services sectors. The survey findings also pointed to expectations of continued expansion in business activity, supported by stronger agricultural production, resilient services, and improving private sector credit conditions.

Nevertheless, respondents expressed concerns about subdued consumer demand, the high cost of doing business, and uncertainties arising from global trade tensions, higher tariffs, geopolitical risks, and volatility in international energy prices. The MPC continued to monitor the implementation of its decisions and interacted with other government agencies, including the National Treasury and KNBS on various policy and data issues.

THE ECONOMIC ENVIRONMENT AND OUTLOOK IN 2026

i. International Economic Environment

The July 2026 update of the IMF World Economic Outlook (WEO) projects global growth at 3.0 percent in 2026, down from an estimated 3.5 percent in 2025, before strengthening to 3.4 percent in 2027 **(Table 7)**. The revised growth projection represents a 0.1 percentage point downward revision from the 3.1 percent projected in the April 2026 WEO, reflecting the adverse effects of the energy shock and heightened uncertainty associated with the war in the Middle East. The impact of the shock is, however, being partly offset by strong technology-related investment and demand, particularly those associated with artificial intelligence (AI).

Growth prospects among advanced economies remain subdued, with aggregate growth projected at 1.7 percent in 2026 and 1.8 percent in 2027. Within the group, growth in the United States is projected at 2.3 percent in 2026 and 2.2 percent in 2027, supported by fiscal policy, relatively accommodative financial conditions, and continued technology-related investment. Growth in the Euro area is expected to remain weak at 0.9 percent in 2026, before improving to 1.2 percent in 2027, reflecting the drag from higher energy prices and weak consumer confidence. Japan's growth is projected to slow to 0.6 percent in 2026 and recover marginally to 0.7 percent in 2027, while growth in the United Kingdom is projected at 1.0 percent in 2026 and 1.3 percent in 2027.

Growth prospects in emerging market and developing economies (EMDEs) is expected to remain resilient at 3.8 percent in 2026 and strengthen to 4.5 percent in 2027, supported mainly by robust performance in Emerging and Developing Asia. China and India are projected to grow by 4.6 percent and 6.4 percent, respectively, in 2026. However, growth prospects vary considerably across EMDEs depending on their exposure to higher energy prices, trade fragmentation, and their ability to benefit from the ongoing technology boom.

In Sub-Saharan Africa, economic growth is expected to remain broadly stable at 4.3 percent in 2026 and improve to 4.5 percent in 2027. The IMF attributes this outlook to continued macroeconomic stabilization and reform efforts in several economies, although the region remains vulnerable to higher food and energy prices and declining official development assistance. Nigeria is projected to grow by 4.1 percent in 2026, supported by improved macroeconomic stability and favourable terms-of-trade developments, while South Africa is expected to grow by 1.1 percent in 2026, underpinned by strengthened policy frameworks and ongoing structural reforms.

Global financial market conditions remain relatively accommodative despite elevated geopolitical uncertainty. Strong corporate earnings and continued investor optimism regarding AI-related sectors have supported equity markets, while financial conditions have eased on expectations of conflict de-escalation in the Middle East. Nevertheless, inflationary pressures have re-emerged due to higher energy and food prices. Global headline inflation is projected to rise from 4.1 percent in 2025 to 4.7 percent in 2026, mainly reflecting higher energy and commodity prices, supply disruptions arising from the Middle East conflict, and firmer inflation expectations, before easing to 3.9 percent in 2027.

In commodity exporting markets, oil prices have increased relative to earlier projections owing to geopolitical tensions and disruptions to energy supply routes. Based on futures market assumptions, the average oil price is projected at US$89.27 per barrel in 2026 before declining to US$78.70 per barrel in 2027. Global oil prices are expected to rise by approximately 31.8 percent in 2026, while non-fuel commodity prices are projected to increase by 18.6 percent in 2026. Meanwhile, world trade volume growth is forecast to slow from 5.0 percent in 2025 to 3.5 percent in 2026, before recovering to 4.3 percent in 2027, reflecting the lingering effects of tariffs, trade-related tensions, and adjustments in global supply chains.

Risks to the global outlook remain tilted to the downside, although they are more balanced than in the April 2026 WEO. The IMF identifies renewed escalation of the conflict in the Middle East, persistent geopolitical tensions, trade fragmentation, and supply-chain disruptions as key risks that could weaken growth and intensify inflationary pressures. Additional vulnerabilities stem from elevated public debt, tighter financing conditions, and the possibility of corrections in technology-related asset valuations. Nonetheless, stronger-than-expected AI-related investment, lower energy prices, enhanced international cooperation, and structural reforms could provide upside support to global growth.

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

	Actual		Estimate	Projections	
	2023	2024	2025	2026	2027
World Output	**3.3**	**3.5**	**3.5**	**3.0**	**3.4**
Advanced Economies	**1.7**	**1.9**	**1.9**	**1.7**	**1.8**
United States	2.9	2.8	2.1	2.3	2.2
Euro Area	**0.4**	**1.0**	**1.4**	**0.9**	**1.2**
Germany	–0.9	–0.5	0.2	0.7	1.0
France	1.6	1.4	0.9	0.6	0.9
Italy	0.9	0.8	0.5	0.5	0.5
Spain	2.5	3.5	2.8	2.1	1.8
Japan	0.7	–0.2	1.1	0.6	0.7
United Kingdom	0.3	1.0	1.4	1.0	1.3
Canada	2.0	2.0	1.9	1.1	1.7
Emerging Market and Developing Economies	**4.4**	**4.5**	**4.5**	**3.8**	**4.5**
Emerging and Developing Asia	**5.6**	**5.5**	**5.6**	**5.0**	**4.8**
China	5.4	5.0	5.0	4.6	4.1
India	7.2	7.1	7.7	6.4	6.7
Emerging and Developing Europe	**3.6**	**3.8**	**2.0**	**1.9**	**2.1**
Russia	4.1	4.9	1.0	1.1	1.1
Latin America and the Caribbean	**2.3**	**2.4**	**2.4**	**2.4**	**2.7**
Brazil	3.2	3.4	2.3	2.4	2.2
Middle East and Central Asia	2.6	3.1	3.7	0.7	6.5
Saudi Arabia	0.5	2.6	4.6	1.7	5.5
Egypt	3.8	2.4	4.4	4.6	4.4
Sub-Saharan Africa	**3.8**	**4.2**	**4.5**	**4.3**	**4.5**
Nigeria	3.3	4.1	4.0	4.1	4.3
South Africa	0.8	0.5	1.1	1.1	1.3

Source: IMF World Economic Outlook

ii. Domestic Economic Environment

The economy is projected to grow moderately in 2026 relative to 2025, supported by infrastructure spending, sustained resilience in the services sector, and continued recovery in private sector credit growth. These improvements are expected to be underpinned by a prudent monetary policy stance and a stable macroeconomic environment. The outlook remains subject to several risks and uncertainties, including the escalation of the Middle East conflict, which could raise oil prices and disrupt supply chains, adverse El Niño effects, uncertainty surrounding US trade tariffs, weaker-than-expected domestic revenue growth, and slower global growth, all of which could weigh on economic activity and export demand.

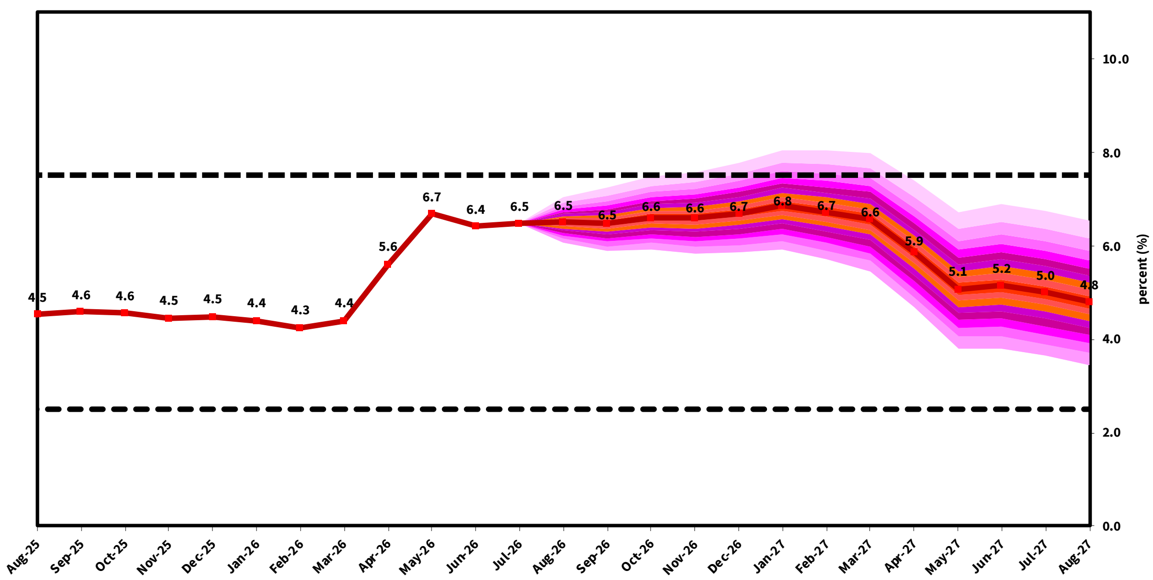
In the near term, inflation is expected to remain within the target range but above the midpoint of the 5±2.5 percent target mainly driven by the adverse impact of the war in the Middle East **(Chart 6)**. The outlook remains subject to risks arising from the uncertain pace of de-escalation of the US-Iran conflict, the broader Middle East conflict and its implications for oil prices and global supply chains, the continued conflict in Ukraine, and trade tensions associated with US protectionist policies.

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

The CEOs and Market Perceptions Surveys conducted in the first half of 2026 ahead of the MPC meetings revealed sustained optimism regarding economic growth prospects for 2026. Respondents attributed this positive outlook to resilient agricultural production supported by favorable weather conditions, the stable macroeconomic environment with stable exchange rate, declining interest rates, and improved private sector credit growth. Nevertheless, respondents highlighted some downside risks, including subdued consumer demand, the high cost of doing business, and increased global uncertainties arising from higher tariffs and geopolitical tensions. Surveys of the Agriculture sector conducted during the same period indicated expectations of higher output for most agricultural products, on account of improved weather conditions. However, there were concerns about unpredictable weather patterns, competition from imports, and increased costs of labor, transport and inputs such as seeds and fertilizers.

The overall fiscal deficit including grants amounted to KSh 1,264.7 billion (6.8 percent of GDP) against a target of KSh 1,357.7 billion (7.3 percent of GDP) by end June 2026. Total revenue including A-i-A grew by 8.4 percent to KSh 3,198.8 billion, although collections fell short of target by KSh 60.2 billion. Over the same period, total expenditure and net lending amounted to KSh 4,484.2 billion, remaining KSh 172.4 billion below target due to lower-than-expected absorption of recurrent and development expenditures. The deficit was financed through net domestic financing of KSh 983.7 billion and net foreign financing of KSh 267.3 billion. The Government remains committed to fiscal consolidation, with the fiscal deficit projected to narrow to KSh 1,145.2 billion (5.5 percent of GDP) in FY 2026/27 and decline further over the medium term.

Chart 6: Overall Inflation Outlook: August 2026 – August 2027 (Percent)



Source: Central Bank of Kenya

DIRECTION OF MONETARY POLICY IN FY 2026/27

Price stability will be the overriding objective of monetary policy in the FY 2026/27. Monetary policy formulation and implementation will aim at maintaining overall inflation within the target range of 5±2.5 percent.

Table 8: Outlook for Key Macro-Economic Indicators

	2024	2025	2026 Proj.	2027 Proj.
Real GDP growth (YoY, percent)	4.7	4.6	4.9	5.3
Overall Inflation (YoY, percent)	3.0	4.1	5.0	5.0
Current Account deficit (Percent of GDP)	-1.8	-2.1	-3.0	-2.8
Exports of Goods and Services (Percent of GDP)	16.9	14.7	15.5	16.0
Imports of Goods and Services (Percent of GDP)	23.2	20.5	22.4	22.0
Private sector credit growth (YoY, percent)	-1.4	5.9	10.9	12.6
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fiscal Deficit (Percent of GDP)	5.9	6.8	5.5	5.7

Source: Central Bank of Kenya and National Treasury

The Bank will continue to implement measures outlined in the White Paper, towards modernization of the monetary policy framework and operations. Implementation of the interest rate corridor framework will facilitate the maintenance of KESONIA within a prescribed band around the CBR, thereby strengthening the transmission of monetary policy to the short-term interest rates. The banking sector is projected to remain stable and resilient. Private sector credit growth is expected to pick up on the back of improved economic conditions, with the easing of monetary policy stance and improved liquidity positions.

The price stability objective and growth in monetary aggregates are subject to risks emanating from both domestic and global fronts. On the external front, the key downside risks include persistent trade policy uncertainty, and geopolitical tensions, and their potential impact on trade flows and international oil prices. Domestic macroeconomic developments will therefore be closely monitored considering these risks, to provide necessary reviews to inform the decision making process by the MPC. Additionally, the CBK will continue to monitor the economic impact and the outcomes of policy measures put in place as well as other developments in the domestic and global economies to safeguard price stability.

ANNEX

EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JANUARY– JUNE 2026)

January 2026	January 2026 IMF World Economic Outlook update showed that global growth was projected to remain resilient at 3.3 percent in 2026 and 3.2 percent in 2027 compared to an estimated growth of 3.3 percent in 2025. Global headline inflation was expected to decline to 3.8 percent in 2026 and 3.4 percent in 2027 from 4.1 percent in 2025.
February 2026	CBR reduced by 25 basis points to 8.75 percent from 9.00 percent.
	To strengthen monetary policy implementation, the MPC approved a narrowing of the interest rate corridor around the CBR from ±75 basis points to ±50 basis points and adjusted the Discount Window rate accordingly. This measure was aimed at improving alignment between the CBR and the Kenya Shilling Overnight Interbank Average (KESONIA).
	Escalation of the U.S.-Iran-Israel conflict heightened global uncertainty and increased upside risks to inflation outlook through elevated energy prices and disruptions to global trade.
March 2026	The revised banking sector Risk-Based Credit Pricing Model (RBCPM) was fully operationalized. This framework continues to improve the transmission of monetary policy decisions to commercial banks' lending interest rates and enhance transparency in the pricing of loans by banks.
April 2026	MPC maintained the CBR at 8.75 percent.
	April 2026 IMF World Economic Outlook update showed downward revisions to global growth. Growth was projected to moderate to 3.1 percent in 2026 and 3.2 percent in 2027 from 3.4 percent in 2025. Global headline inflation was projected to rise to 4.4 percent in 2026 and decline to 3.7 percent in 2027.
June 2026	CBR retained at 8.75 percent.

GLOSSARY OF KEY TERMS

OVERALL INFLATION

Overall inflation is a measure of price change in the economy calculated as the weighted year-on year movement of the indices of the prices charged to consumers of the goods and services in a representative basket established in a base year. The indices are derived from data collected monthly by the Kenya National Bureau of Statistics.

RESERVE MONEY

Reserve Money is computed as the CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and nonbank financial institutions (NBFIs) held by the CBK. It excludes Government deposits.

MONEY SUPPLY

Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are computed as follows:

Narrow Money

M0: Currency outside the banking system M1: M0 + demand deposits of banks (or depository corporations).

Broad Money

M2: M1 + quasi (long term) money deposits i.e. time and savings deposits of banks and nonbank financial institutions.

Extended Broad Money

M3: M2 + residents' foreign currency deposits.

Overall Liquidity

L: M3 + non-bank holdings of Government Paper. This, however, is not a monetary aggregate.

Revised Risk Based Credit Pricing Model

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

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

Under the revised RBCPM

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

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

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

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

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