GOVERNOR

BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

Haile Selassie Avenue
P. O. Box 60000-00200 Nairobi, Kenya
Telephone: +254 20 2861003

PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) decided to lower the Central Bank Rate (CBR) by 25 basis points to 9.25 percent from 9.50 percent, during its meeting held on October 7, 2025.

During its deliberations, the Committee noted that:

- Global growth has remained resilient in 2025, supported by front-loading of exports to the United States ahead of implementation of higher tariff rates on trade, improved financial conditions, and strong consumer spending. Growth is however projected to slow down in 2026 on account of higher effective tariff rates and elevated trade policy uncertainty. Additionally, weak global demand and heightened geopolitical tensions in the Middle East and the Russia-Ukraine conflict, remain key risks to growth.
- Inflation in the major economies has increased modestly in recent months, driven by higher food prices and effects of higher tariffs. Global inflation is projected to decline in 2025 and 2026, mainly driven by lower energy prices, and reduced global demand. Central banks in the major economies have remained cautious in lowering interest rates, depending on their inflation and growth outlooks. International oil prices have moderated due to increased production and subdued global demand, but have remained volatile due to elevated global uncertainties. Food inflation has declined, mainly driven by lower cereals and sugar prices inflation, but edible oils price inflation remained elevated.
- Kenya's overall inflation stood at 4.6 percent in September 2025 compared to 4.5 percent in August, and remained below the mid-point of the target range of 5±2.5 percent. Core inflation declined to 2.9 percent in September from 3.0 percent in August, mainly on account of lower prices of processed food items, particularly maize flour. Non-core inflation increased to 9.6 percent in September from 9.2 percent in August, mainly driven by higher prices of vegetables, particularly tomatoes, carrots, onions, and cabbages. Overall inflation is expected to remain below the midpoint of the target range in the near term, supported by stable energy prices, and continued exchange rate stability.
- The recently released GDP data for the second quarter of 2025 showed continued resilience of the Kenyan economy, with real GDP growing by 5.0 percent compared to 4.6 percent in the second quarter of 2024. This reflected a rebound in activity in the industrial sector, stable growth of the agriculture sector, and resilience of key service sectors particularly transport and storage, finance and insurance, information and communication, and wholesale and retail trade. Leading indicators of economic activity point to improved performance in the third quarter of 2025. The growth of the economy is expected to pick up to 5.2 percent in 2025 and 5.5 percent in 2026, supported by continued resilience of key service sectors and agriculture, and continued recovery of the industry sector. This outlook is subject to risks, including the elevated trade policy uncertainties, and geopolitical tensions.
- Respondents to the September 2025 Agriculture Sector Survey expect the onset of the harvest season for key crops particularly maize, stable fuel prices, and exchange rate stability to support

a stable inflation rate. Nevertheless, a majority of respondents expect higher prices of some food items, particularly vegetables, to exert moderate upward pressure on inflation in the near term due to seasonal factors.

- The CEOs Survey and Market Perceptions Survey conducted in September 2025 revealed sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was attributed to improved agricultural production supported by favorable weather conditions, the stable macroeconomic environment with low inflation and stable exchange rate, declining interest rates, and resilient performance of tourism and the digital economy. Some respondents expressed concerns about subdued consumer demand, high cost of doing business, and increased global uncertainties attributed to higher tariffs and geopolitical tensions.
- The current account deficit stood at 2.1 percent of GDP in the 12 months to August 2025 compared to 1.6 percent of GDP in a similar period in 2024, mainly reflecting higher imports of intermediate and capital goods. Goods exports increased by 3.6 percent due to higher domestic exports which rose by 8.5 percent, driven by horticulture, coffee, manufactured goods, and apparel. Goods imports rose by 9.2 percent, reflecting increases in intermediate and capital goods imports. Services receipts increased by 10.6 percent, mainly supported by increased receipts from travel services, while diaspora remittances increased by 9.4 percent. The current account deficit is projected at 1.7 percent of GDP in 2025 and 1.8 percent of GDP in 2026, and is expected to be more than fully financed by financial account inflows. This will result in an overall balance of payments surplus and build up in gross reserves of USD 674 million in 2025, and USD 229 million in 2026.
- The CBK foreign exchange reserves, which currently stand at USD 10,765 million (4.72 months of import cover), continue to provide adequate cover and a buffer against short-term domestic and external shocks.
- The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans was 17.1 percent in September 2025 down from 17.6 percent in June. Decreases in NPLs were noted in the building and construction, real estate, tourism, restaurant and hotels, and trade sectors. Banks have continued to make adequate provisions for the NPLs.
- The MPC noted that the revised banking sector Risk-Based Credit Pricing (RBCP) model, which will be fully operational by March 2026, will improve the transmission of monetary policy decisions to commercial banks' lending interest rates, and enhance transparency in the pricing of loans by banks.
- Growth in commercial banks' lending to the private sector continued to improve and stood at 5.0 percent in September 2025 compared to 3.3 percent in August, and -2.9 percent in January 2025. Growth in credit to key sectors of the economy, particularly manufacturing, building and construction, and consumer durables, improved in September. This mainly reflects improved demand for credit in line with the declining lending interest rates. Average commercial banks' lending rates declined to 15.1 percent in September 2025 from 15.2 percent in August, and 17.2 percent in November 2024.
- The Committee noted the ongoing implementation of the FY2025/26 Budget, which reinforces the Government's fiscal consolidation strategy, and thereby reduces debt vulnerabilities.

Having considered these developments, the Committee therefore concluded that there was scope for a further easing of the monetary policy stance by reducing the CBR by 25 basis points. This will augment the previous policy actions aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring inflationary expectations remain firmly anchored, and the exchange rate remains stable.

The MPC will closely monitor the impact of this policy decision as well as developments in the global and domestic economy and stands ready to take further action as necessary in line with its mandate. The Committee will meet again in December 2025.

Dr. Kamau Thugge, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE

October 7, 2025