

GOVERNOR

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PRESS RELEASE

MONETARY POLICY COMMITTEE MEETING

The Monetary Policy Committee (MPC) decided to maintain the Central Bank Rate (CBR) at 8.75 percent, during its meeting held on June 9, 2026.

During its deliberations, the Committee noted that:

- The conflict in the Middle East has disrupted global supply chains and led to a sharp increase in energy prices and transportation costs, resulting in higher inflation and moderated global growth prospects. Global growth is projected at 3.1 percent in 2026, down from 3.4 percent in 2025, due to effects of higher inflation and reduced demand arising from higher energy prices and elevated uncertainties. Additionally, elevated trade policy uncertainty and the Russia-Ukraine conflict remain key risks to growth.
- Global inflation is expected to increase to 4.4 percent in 2026 from 4.1 percent in 2025 on account of higher energy prices and transport costs attributed to supply chain disruptions from the Middle East crisis. Inflation rates in most major economies have increased and remained above their respective targets in the recent months, due to elevated energy prices and stickiness in core inflation. Food inflation increased modestly in May 2026, driven by higher inflation rates for edible oils and cereals prices. Central banks in the major economies have remained cautious and kept their policy rates unchanged as they continue to assess the impact of the conflict in the Middle East on their inflation and growth outlooks.
- Kenya's overall inflation increased to 6.7 percent in May 2026 from 5.6 percent in April due to higher energy prices arising from the elevated global oil prices, but remained within the target range of 5 ± 2.5 percent. Core inflation rose to 3.2 percent in May from 2.8 percent in April, mainly driven by higher inflation for transport items, arising from higher fuel prices. Processed food inflation remained relatively stable, supported by lower prices of sugar and maize products. Non-core inflation increased sharply to 16.0 percent in May from 13.4 percent in April, on account of higher energy prices, particularly fuel and gas prices. Additionally, prices of some vegetables, particularly tomatoes and cabbages, remained elevated. Overall inflation is expected to remain within the target range in the near term, assuming a de-escalation of the conflict in the Middle East. This will be supported by: appropriate monetary policy actions; government interventions including subsidies and temporary reduction of VAT on fuel; expected stability in food prices due to favourable weather conditions; and a stable exchange rate.
- The growth of the Kenyan economy moderated to 4.6 percent in 2025 from 4.7 percent in 2024, due to a slowdown in growth of the agriculture and services sectors. However, growth in the industrial sector recovered strongly supported by construction. Leading indicators of economic activity point to resilient performance in the first quarter of 2026. The growth of the economy is projected at 4.9 percent in 2026 compared to the previous projection of 5.3 percent, mainly

reflecting continued uncertainty. This outlook is subject to risks, particularly a prolonged conflict in the Middle East, and elevated trade policy uncertainties.

- A majority of respondents to the May 2026 Agriculture Survey expect some upward pressure on inflation in the near term mainly due to higher energy prices arising from elevated international oil prices attributed to the conflict in the Middle East. However, respondents expect inflation to remain within the target range in the near term, supported by stable food prices attributed to favourable weather conditions, and stability in the exchange rate.
- The CEOs Survey and Market Perceptions Survey conducted in March 2026 revealed sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was attributed to expected favorable weather conditions which are expected to support agriculture, increased infrastructure spending, increased digital innovations, stable exchange rate, and improved private sector credit growth. Nevertheless, the optimism was moderated by concerns about increased global uncertainties attributed to the conflict in the Middle East, high cost of doing business, inflationary pressures, and low consumer demand.
- The current account deficit is estimated at 2.6 percent of GDP in the 12 months to April 2026 compared to 1.7 percent of GDP in a similar period in 2025, due to a higher trade deficit, and lower services and secondary income transfers as a share of GDP. Goods exports increased by 4.2 percent, driven by horticulture, tea, coffee, food, and machinery and transport equipment. Goods imports increased by 8.5 percent, reflecting higher imports of food, intermediate and capital goods and mineral fuels. Services receipts increased by 4.8 percent driven by transport and travel services receipts, while diaspora remittances increased by 1.1 percent. The current account deficit is projected at 3.0 percent of GDP in 2026 compared to 2.1 percent of GDP in 2025, reflecting the higher international oil prices, lower receipts from services, slower growth in remittance inflows, and reduced exports. The current account deficit is expected to be more than fully financed by financial and capital account inflows. The CBK foreign exchange reserves currently stand at USD 13,203 million (5.6 months of import cover) and 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 stood at 15.3 percent in May 2026, down from 15.6 percent in February 2026, and 17.6 percent in August 2025. Decreases in NPLs were noted in the personal and household, transport and communications, and mining and quarrying sectors. Banks have continued to make adequate provisions for the NPLs.
- Growth in commercial banks' lending to the private sector improved to 9.3 percent in May 2026, compared to 7.1 percent in April 2026 and -2.9 percent in January 2025. Growth in credit to key sectors of the economy, particularly trade, building and construction, agriculture, and consumer durables remained strong, reflecting improved demand for credit in line with the decline in lending interest rates. Average commercial banks' lending rates stood at 14.5 percent in May 2026, down from 14.7 percent in April 2026 and 17.2 percent in November 2024.
- The Committee noted the ongoing implementation of the FY2025/26 Supplementary Budget I by the Government, and the planned fiscal consolidation strategy to reduce debt vulnerabilities over the medium term.

Having considered these developments, including the potentially transitory nature of the conflict, the Committee concluded that the current monetary policy stance, with the Central Bank Rate unchanged at 8.75 percent, remains appropriate to ensure that inflation expectations remain anchored within the target range, and the exchange rate remains stable.

The MPC noted that there is need to continue monitoring the evolution of global oil prices and any second-round effects on inflation, as well as other developments in the global and domestic economies, and stands ready to take further action as necessary in line with its mandate. The Committee will meet again in August 2026.

Dr. Kamau Thugge, CBS
CHAIRMAN, MONETARY POLICY COMMITTEE

June 9, 2026