Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Wednesday, August 13, 2025

Dr. Kamau Thugge, CBS
Governor

1. Monetary Policy Decisions

1. **During its Meeting on August 12, 2025, the Monetary Policy Committee (MPC)** decided to lower the Central Bank Rate (CBR) by 25 basis points to 9.50 percent from 9.75 percent.

2. **The MPC observed that:**
   - Overall inflation is expected to remain below the midpoint of the target range in the near term, supported by lower food inflation, stability in energy prices, and continued exchange rate stability.
   - Central banks in the major economies have continued to lower interest rates, but at a more cautious and uneven pace depending on inflation and growth outlooks.
   - Average lending rates in the domestic market have continued to decline, while private sector credit growth has continued to improve though at a lower pace than desirable.
   - The Committee therefore concluded that there was scope for a further easing of the monetary policy stance to augment the previous policy actions aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring inflationary expectations remain firmly anchored, and the exchange rate remains stable.

3. **The MPC will closely monitor the impact of this policy decision** as well as developments in the global and domestic economies and stands ready to take further action as necessary in line with its mandate.

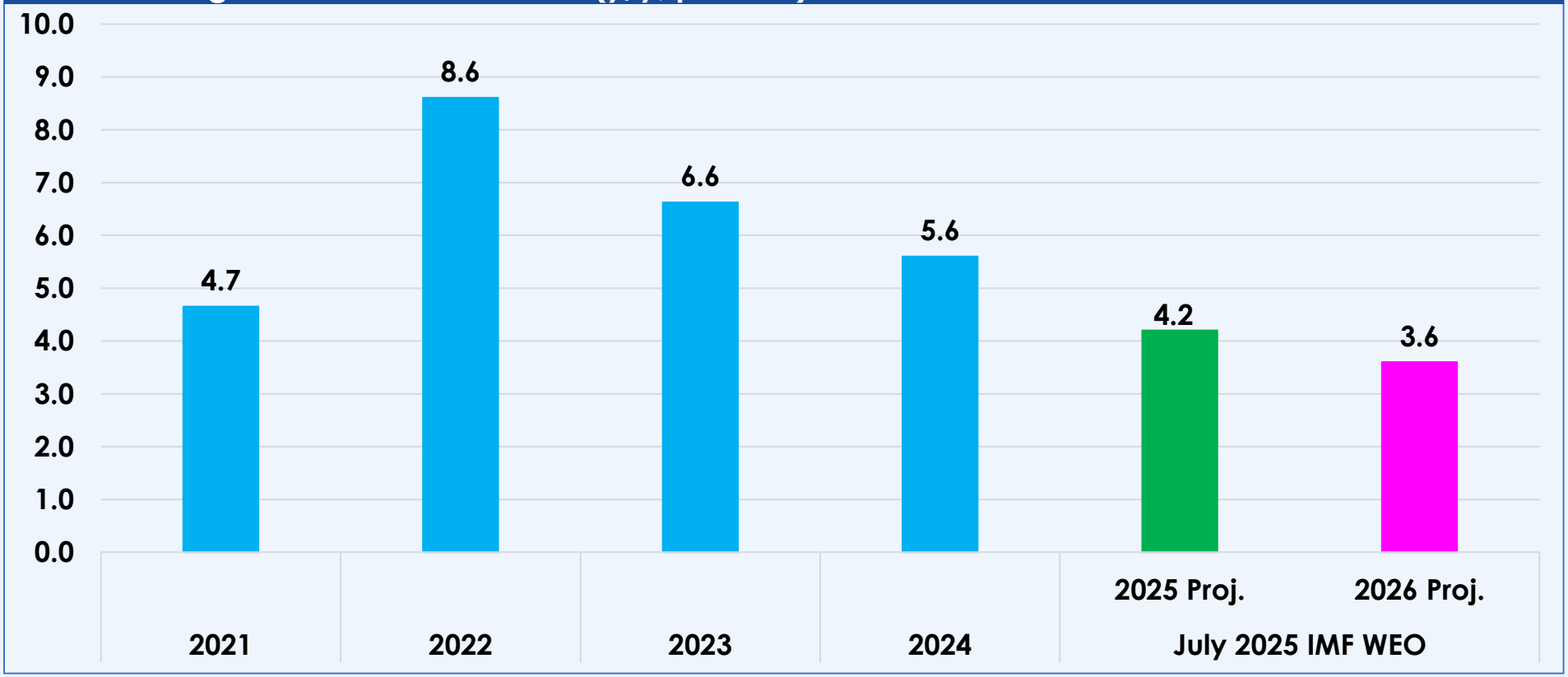
4. **The Committee will meet again in October 2025**.

C2: CBK - Official

2. Global economic developments and outlook:

Global inflation is projected to decline in 2025, driven by lower energy prices, and reduced global demand.

Outlook for global headline inflation (y/y, percent)



Source: IMF World Economic Outlook for projections

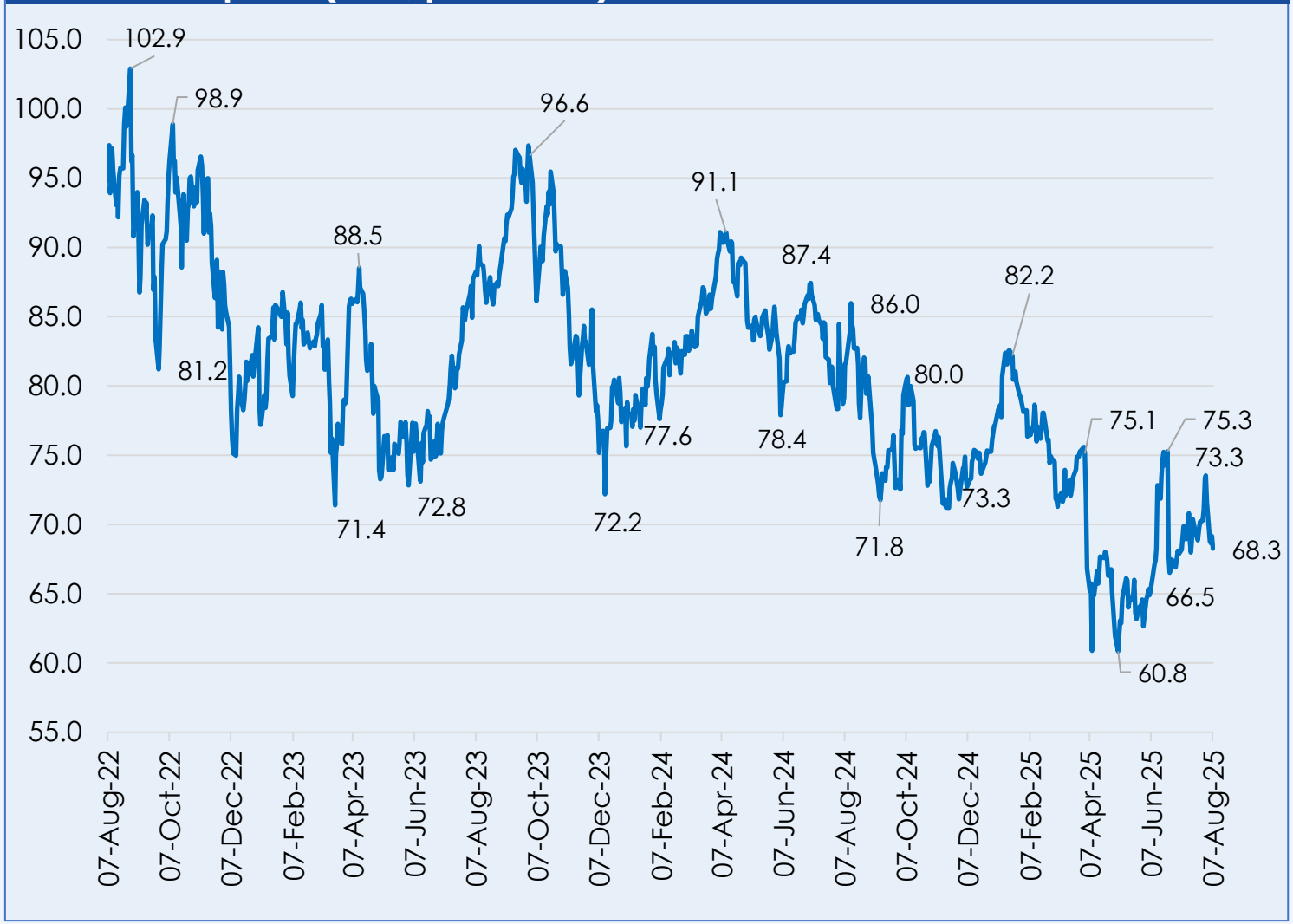
- **Despite the higher tariffs, global inflation is expected to decline, supported by lower prices of energy commodities mainly reflecting increased oil production by OPEC+ and non-OPEC producers, and subdued demand.**
- **The pace of monetary policy easing by central banks in major economies is expected to be more cautious and uneven, depending on inflation and growth outlooks.**

C2: CBK - Official

3. Global commodity prices:

International oil prices have moderated due to increased production and subdued global demand, but have remained volatile due to elevated global uncertainties

Murban oil price (USD, per barrel)



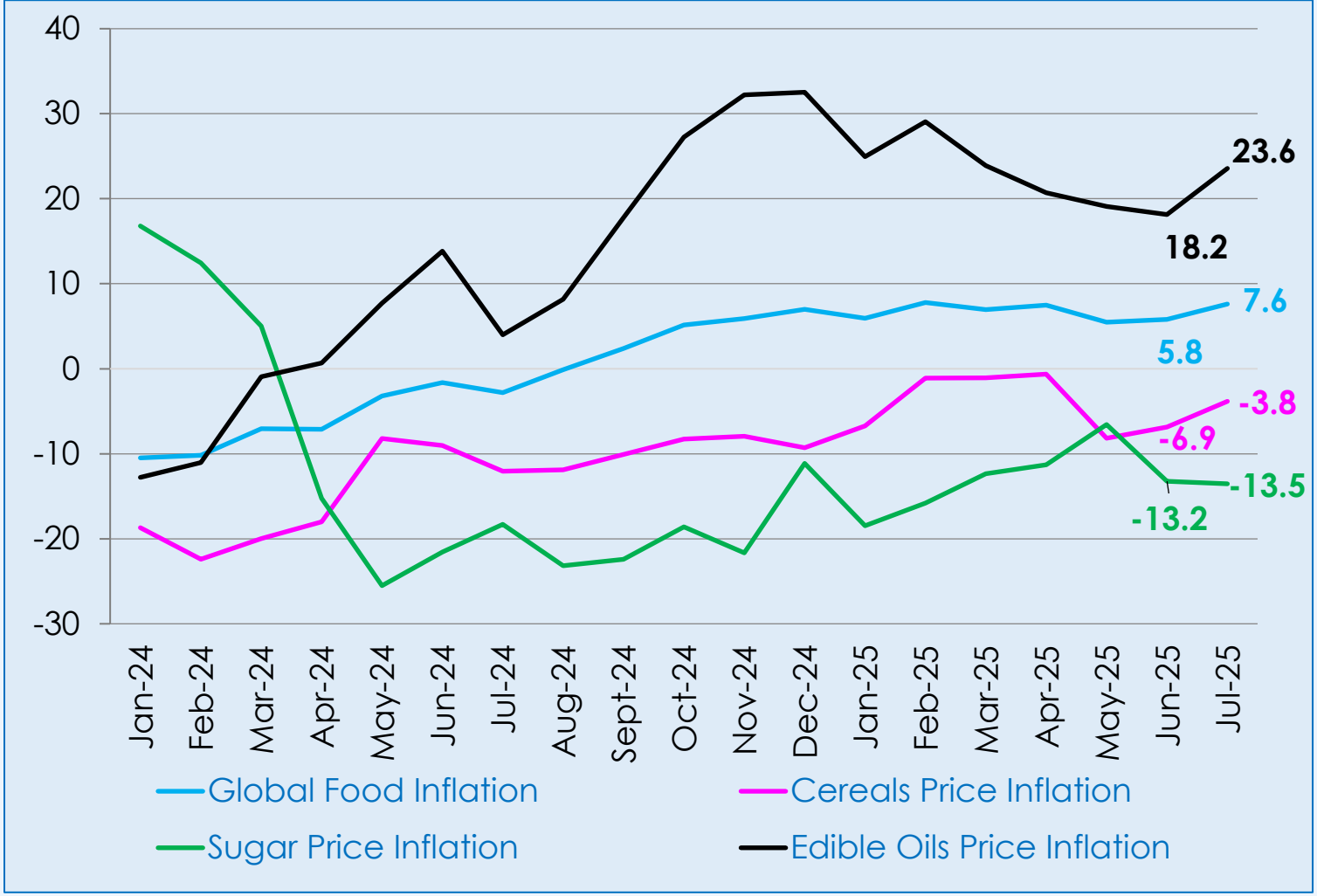
- **Oil prices increased in June 2025 due to escalation of the conflict in the Middle East, but have since receded, reflecting increased production by the OPEC+ and non-OPEC producers, and reduced global demand.**
- **Major oil-producing nations of the OPEC+ have agreed to increase their total crude production by 548,000 barrels per day from September 2025, as they continue to unwind the previous voluntary supply cuts.**
- **The main risks to oil prices relate to higher tariffs which could affect global energy demand, and supply disruptions from escalation of geopolitical tensions particularly the conflict in the Middle East.**

Source: Oilprice.com, and Reuters

4. Global commodity prices:

Food inflation has increased, largely driven by elevated edible oils price inflation, but cereals and sugar prices inflation have remained low.

Global food inflation (y/y, percent)



- Edible oils price inflation rose sharply in July 2025 on account of higher prices of palm oil attributed to continued robust global import demand.
- Cereals price inflation remained low. Prices of barley and maize rose, while those of sorghum and wheat declined. Seasonal supplies from ongoing winter wheat harvests in the northern hemisphere exerted downward pressure on prices.
- Sugar price inflation declined due to expectations of larger outputs in India and Thailand, coupled with favorable weather conditions in key southern growing regions in Brazil.

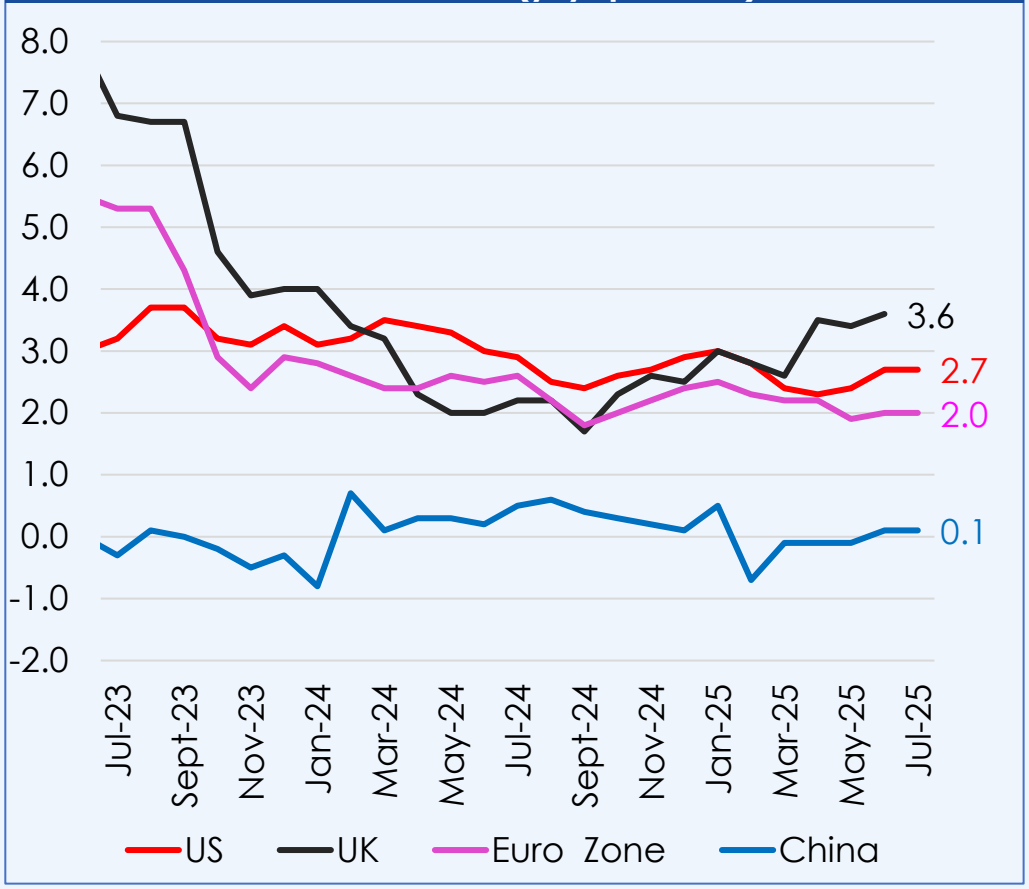
Source: UN FAO Food Index

C2: CBK - Official

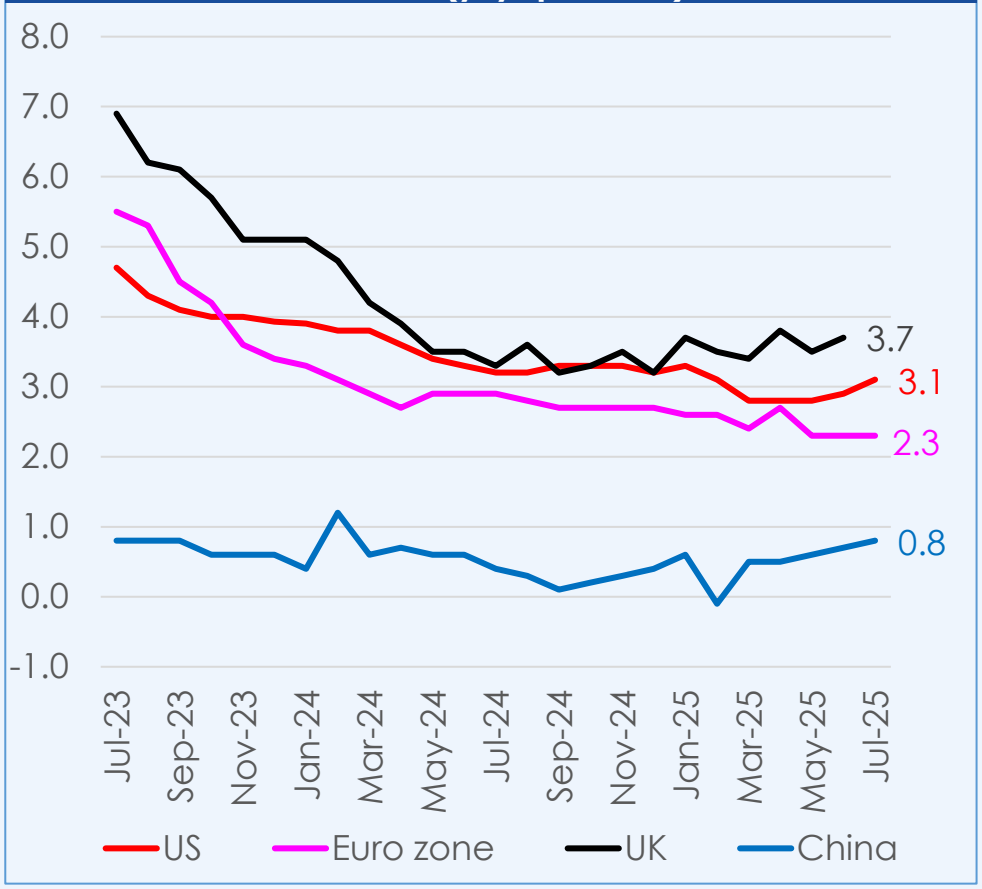
5. Inflation in Selected Economies:

Inflation in the major economies increased modestly, mainly driven by higher food and energy prices, and the stickiness in core inflation

Headline CPI inflation rates (y/y, percent)



Core CPI inflation rates (y/y, percent)



Source: Websites of Statistics Offices/Central Banks of respective countries

- **Headline inflation in advanced economies has increased, partly due to stickiness in core inflation rates on account of persistent services price inflation.**
- **US headline inflation held steady in July 2025 due to lower fuel prices, but core inflation rose faster than expected.**
- **UK inflation rose in June 2025 on account of higher food and energy prices, while Eurozone inflation is on target.**
- **China's inflation remained low mainly due to weak domestic demand.**

6. Global economic growth outlook:

The global growth outlook for 2025 and 2026 has been revised upwards, mainly reflecting upward revisions to growth in United States and China, due to lower effective tariff rates on trade, and improved global financial conditions.

Global and selected countries' real GDP growth (y/y, percent)

	2019 Act.	2020 Act.	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025 Proj.		2026 Proj.	
							Jul. 2025 WEO	Difference from Apr. 2025 WEO	Jul. 2025 WEO	Difference from Apr. 2025 WEO
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.5**	**3.3**	**3.0**	**0.2**	**3.1**	**0.1**
Advanced Economies	**1.8**	**-3.9**	**5.7**	**2.6**	**1.8**	**1.8**	**1.5**	**0.1**	**1.6**	**0.2**
United States	2.5	-2.2	5.8	1.9	2.9	2.8	1.9	0.1	2.0	0.3
United Kingdom	1.6	-10.4	8.7	4.3	0.4	1.1	1.2	0.1	1.4	0.0
Japan	-0.4	-4.1	2.6	1.0	1.4	0.2	0.7	0.1	0.5	-0.1
Euro area	1.6	-6.1	5.9	3.4	0.5	0.9	1.0	0.2	1.2	0.0
Germany	1.1	-3.8	3.2	1.8	-0.3	-0.2	0.1	0.1	0.9	0.0
France	1.8	-7.5	6.3	2.6	1.6	1.1	0.6	0.0	1.0	0.0
Italy	0.5	-9.0	8.3	4.0	0.7	0.7	0.5	0.1	0.8	0.0
Emerging Market and Developing Economies	**3.6**	**-1.8**	**7.0**	**4.1**	**4.7**	**4.3**	**4.1**	**0.4**	**4.0**	**0.1**
China	6.0	2.2	8.5	3.0	5.4	5.0	4.8	0.8	4.2	0.2
India	3.9	-1.8	9.7	7.0	9.2	6.5	6.4	0.2	6.4	0.1
Russia	2.2	-2.7	6.0	-1.2	4.1	4.3	0.9	-0.6	1.0	0.1
Saudi Arabia	1.1	-3.6	5.1	7.5	0.5	2,0	3.6	0.6	3.9	0.2
Sub-Saharan Africa (SSA)	**3.2**	**-1.6**	**4.7**	**4.0**	**3.6**	**4.0**	**4.0**	**0.2**	**4.3**	**0.1**
South Africa	0.3	-6.0	4.7	1.9	0.8	0.5	1.0	0.0	1.3	0.0
Nigeria	2.2	-1.8	3.6	3.3	2.9	3.4	3.4	0.4	3.2	0.5
Kenya	5.7	-0.3	7.6	4.9	5.7	4.7	4.8	0.0	4.9	0.0

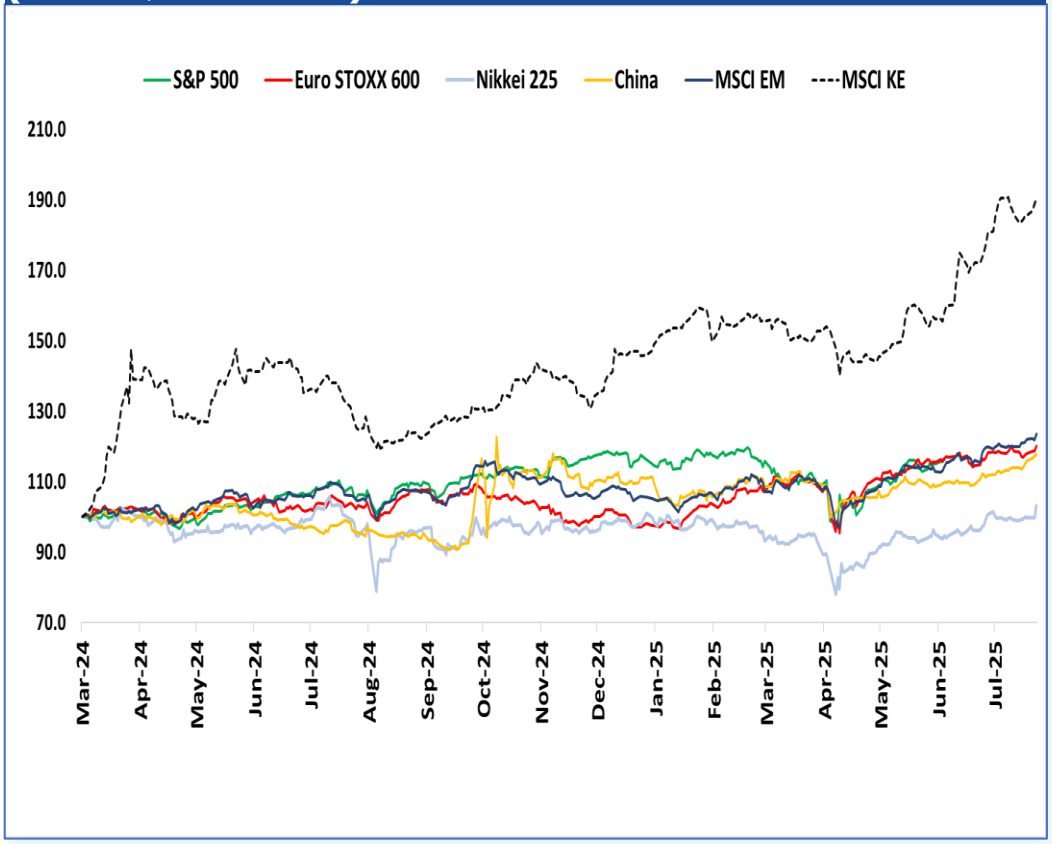
- **The effective tariff rate for the USA eased to 17.3 percent from 24.4 percent in April, while that for the rest of the world eased to 3.5 percent from 4.1 percent. The US had reached trade agreements with some countries.**
- **Global growth is also expected to be supported by fiscal stimulus in major economies, particularly in China, Germany and USA.**
- **The improved growth prospects for the USA, Euro area, UK, and Saudi Arabia could boost demand for Kenya's exports, diaspora remittances inflows, and tourist arrivals.**
- **Kenya's growth is expected to remain above the global, Emerging Market and Developing Economies, and SSA averages, mainly reflecting the resilience and diversified nature of the economy.**

Source: IMF World Economic Outlook for projections

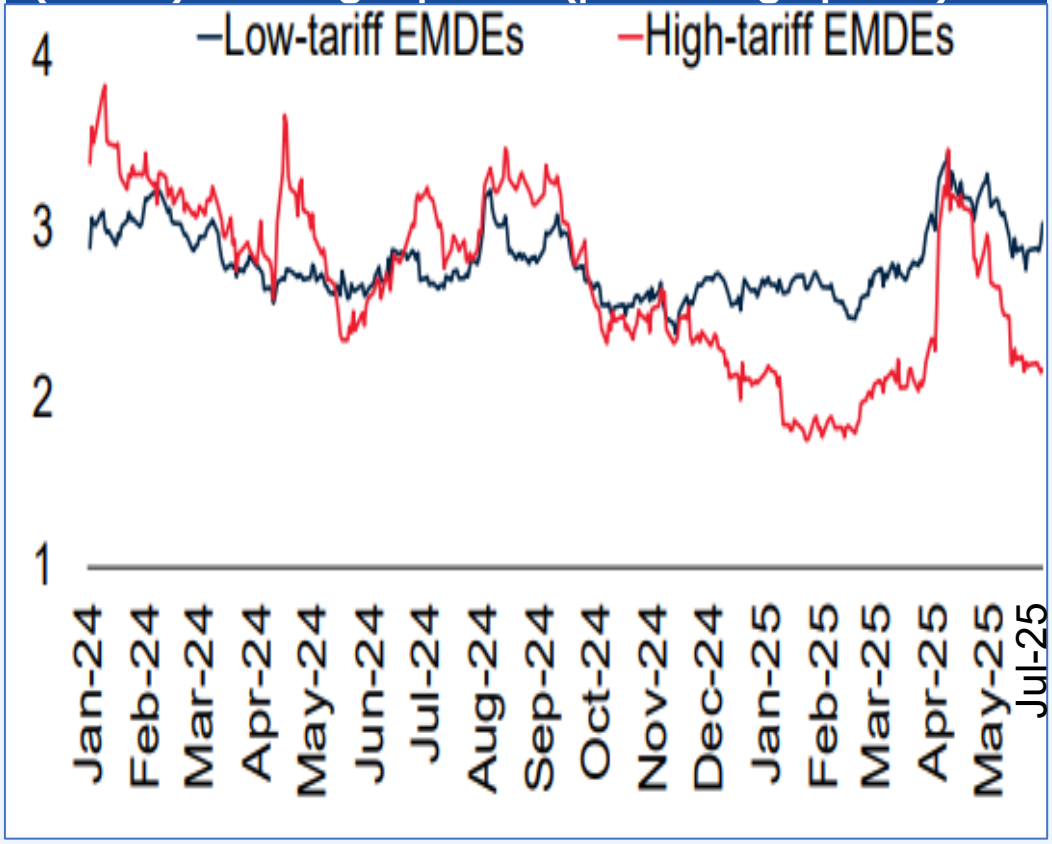
7. Global financial conditions:

Global financial conditions have improved, as reflected in the recovery of equity markets, and decline in sovereign spreads for Emerging Markets and Developing Economies (EMDEs)

Performance of selected Stock Indices (March, 2024=100)



Emerging Markets and Developing Economies (EMDEs) sovereign spreads (percentage points)



Data source: Bloomberg and IMF, Monetary and Capital Markets, Global Markets Analysis
Note: Data as of July 29, 2025

C2: CBK - Official

8. Summary of global developments and outlook

1. **Global inflation is projected to decline in 2025,** mainly driven by lower energy prices and reduced global demand.

2. Central banks in the major economies have continued to lower interest rates, but at a more cautious and uneven pace depending on inflation and growth outlooks.

3. **The global growth outlook for 2025 has been revised upwards,** mainly reflecting lower effective tariff rates on trade, and improved global financial conditions

4. **Risks to the global growth outlook remain elevated,** largely due to uncertainties surrounding trade policies and tariffs, weak global demand, and heightened geopolitical tensions in the Middle East and the Russia-Ukraine conflict.

5. **Kenya's real GDP growth is expected to remain above the global, SSA,** and emerging market and developing economies averages in 2025 and 2026.

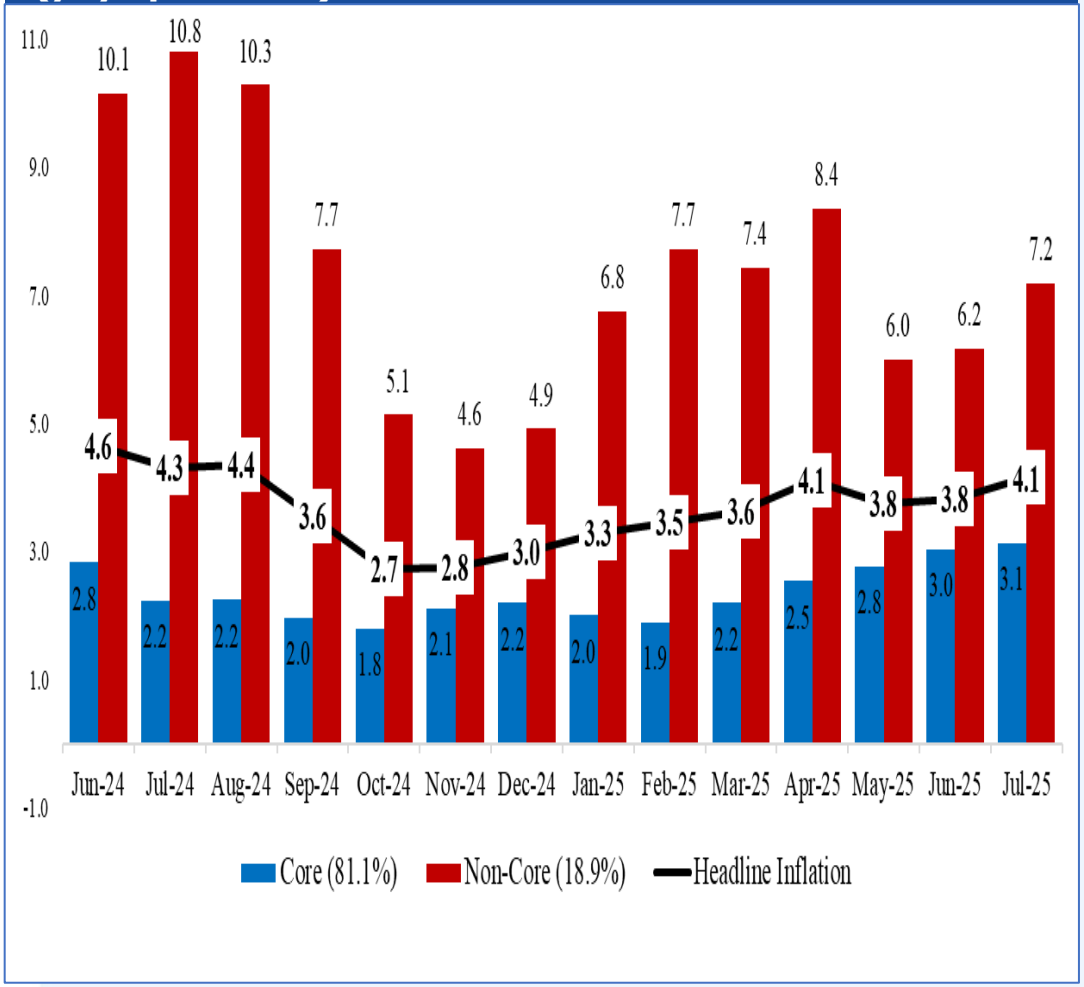
C2: CBK - Official

9. Domestic macroeconomic developments and outlook:

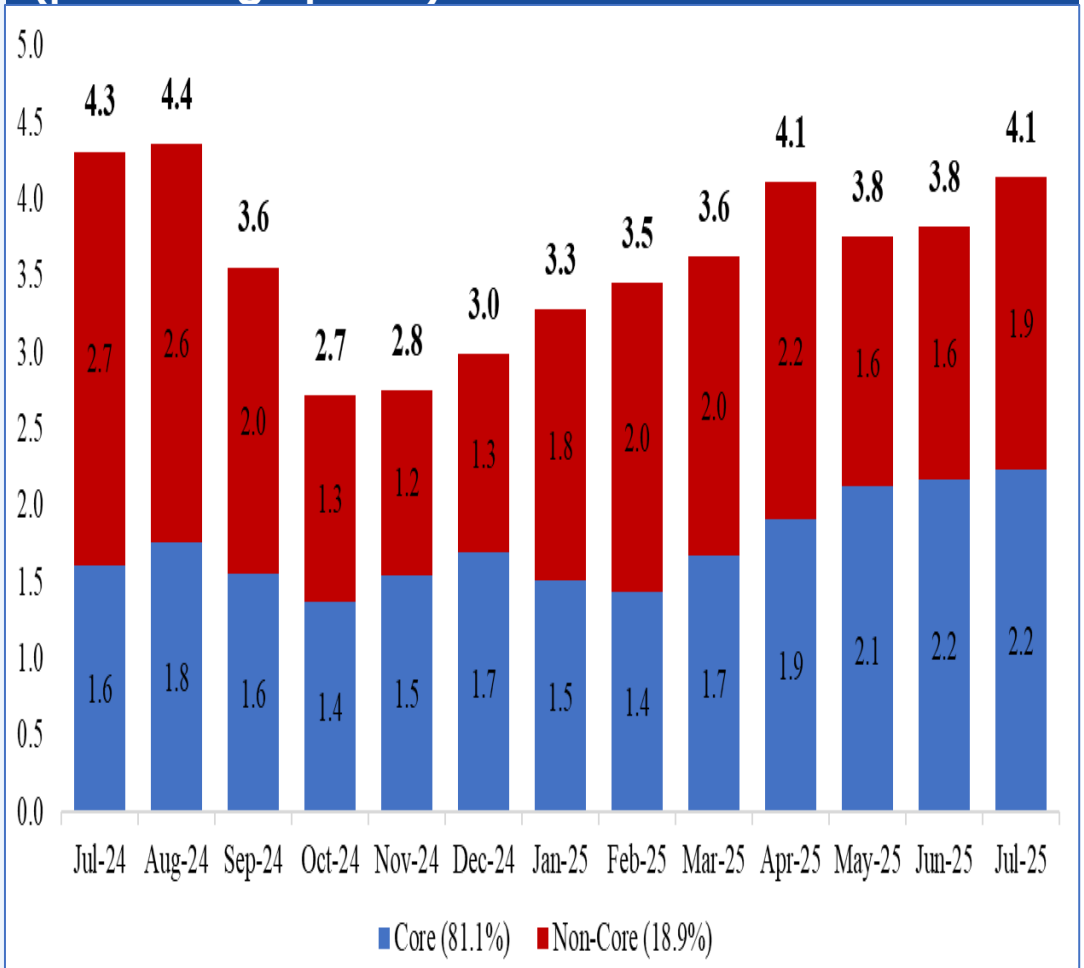
Domestic inflation:

Overall inflation remained below the mid-point of the target range of 5±2.5 percent in July 2025, but increased mainly on account of higher non-core inflation

Inflation by broad category (y/y, percent)



Contributions to Overall Inflation (percentage points)



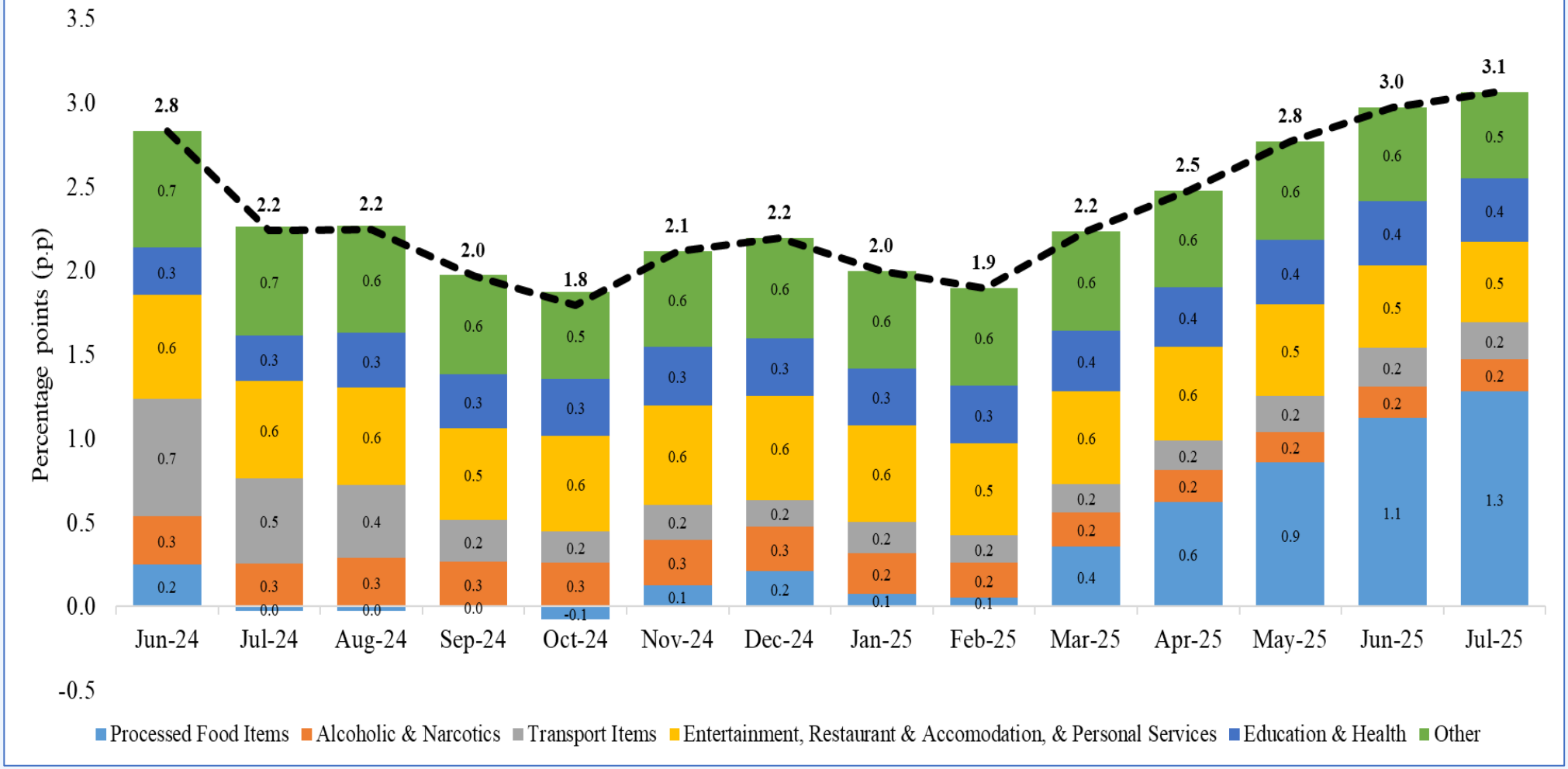
Source: *Kenya National Bureau of Statistics*

10.

Main drivers of core inflation:

Core inflation increased in July 2025, mainly on account of higher prices of processed food items, particularly of sugar and maize flour

Contributions to core inflation (percentage points)



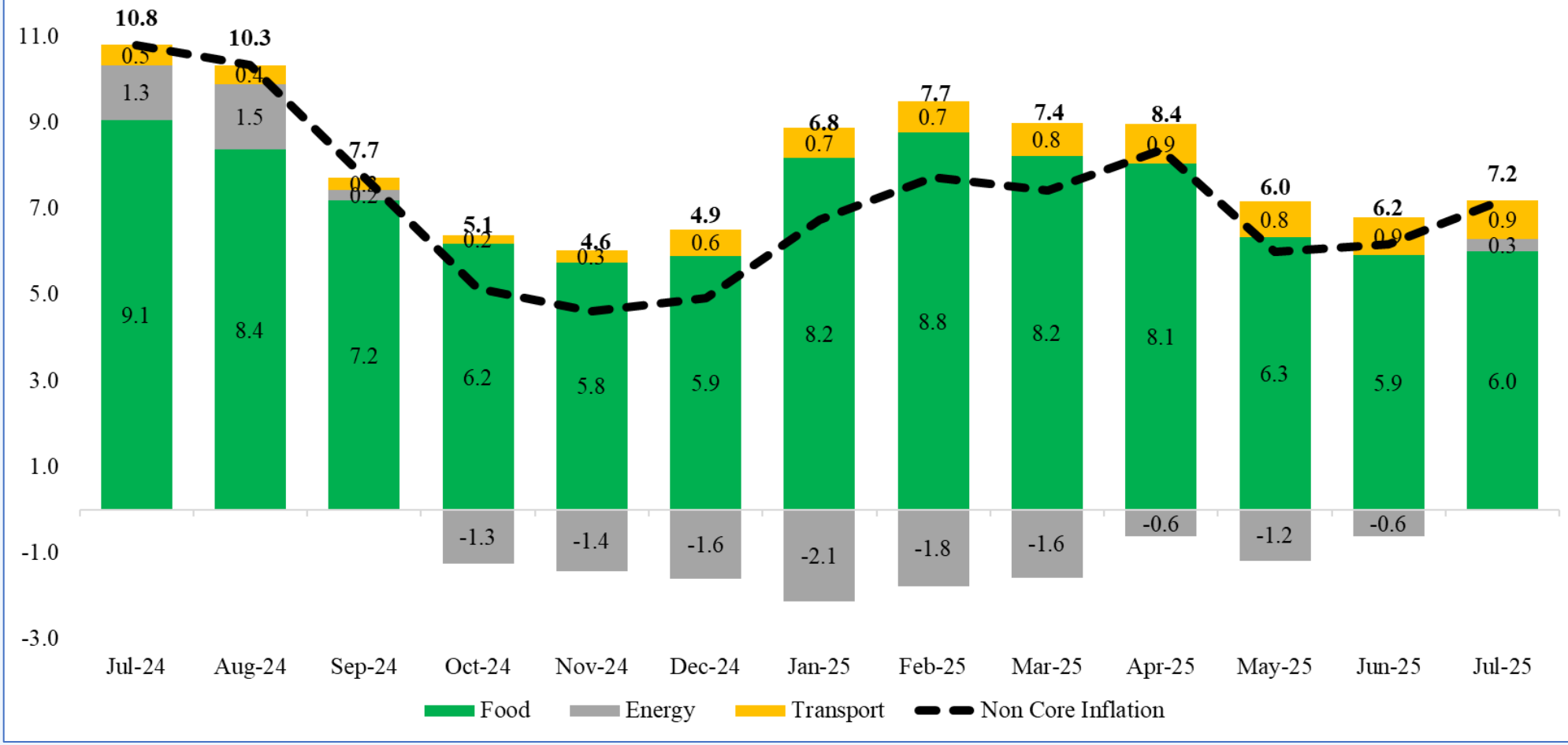
Source: KNBS and CBK

C2: CBK - Official

11. Main drivers of non-core inflation:

Non-core inflation rose in July 2025, mainly reflecting an increase in energy prices

Contributions to non-core inflation (percentage points)



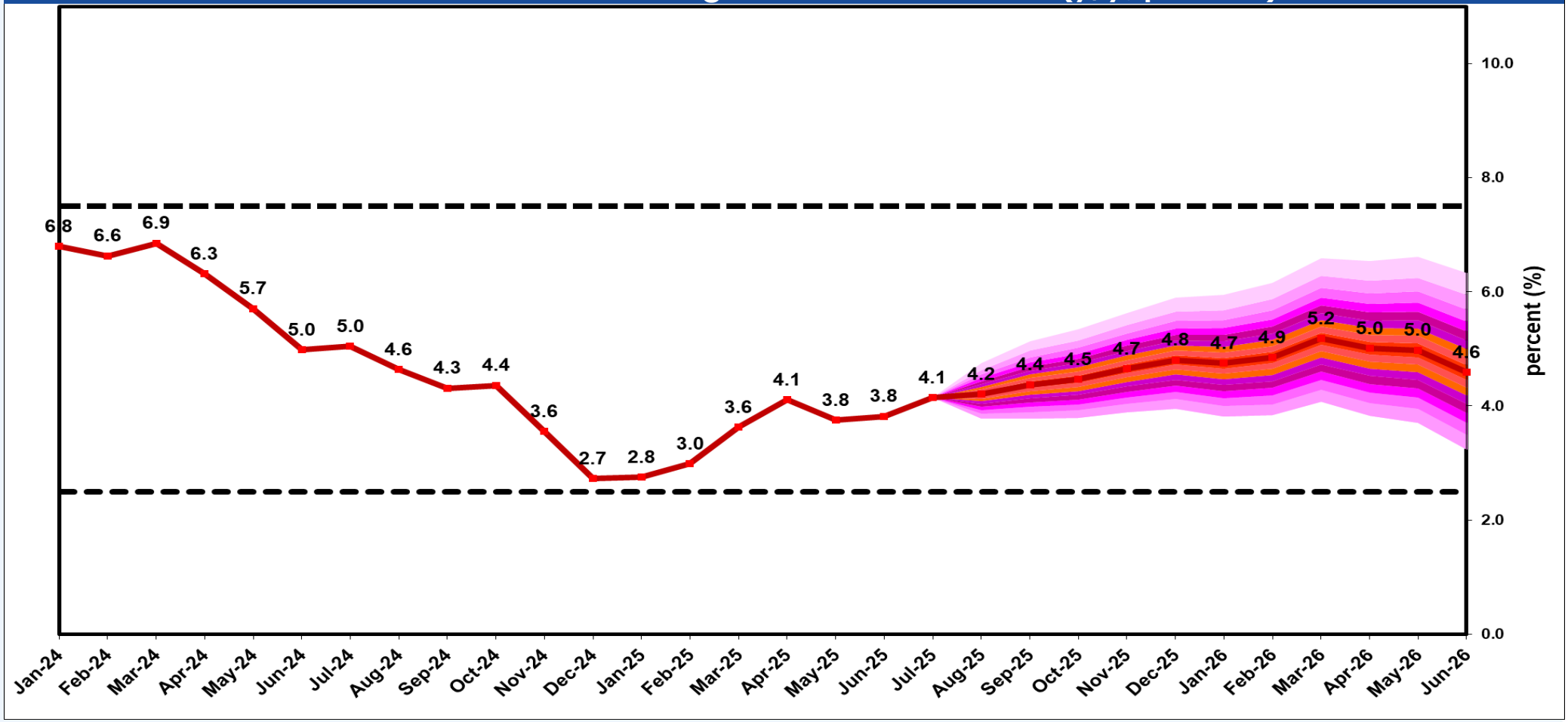
Source: KNBS and CBK

C2: CBK - Official

12. Inflation projections:

Overall inflation is expected to remain below the midpoint of the target range in the near term, supported by lower food inflation, stability in energy prices, and continued exchange rate stability

Actual and Forecasts of overall inflation: August 2025 to June 2026 (y/y, percent)

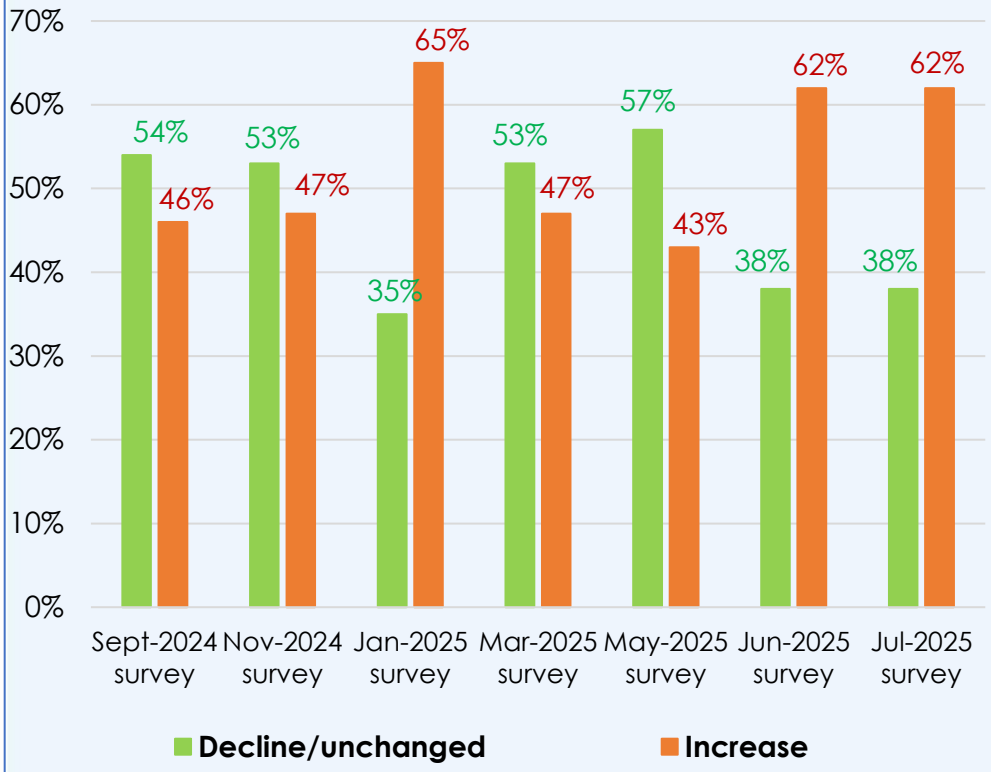


Source: KNBS, and CBK for projections

13. Inflation expectations:

The July 2025 MPC Market Perceptions Survey and Agriculture Sector Survey show that inflation expectations remain firmly anchored within the 5±2.5 percent target range in the near term

Agriculture Sector Survey: Inflation expectations in the next three months (percent of sampled respondents)



Market Perceptions Survey: Inflation expectations by banks and non-bank firms (y/y, percent)



- **A majority of respondents to the July 2025 Agriculture Survey expect the prices of most food items to decline in the near term** due to favourable weather and the onset of the harvest season for key crops particularly maize.
- Nevertheless, respondents expect higher international prices of some processed foods, and higher domestic prices of sugar, to exert moderate upward pressure on inflation.

- **The July 2025 MPC Market Perceptions Survey shows that inflation expectations in the near term remain anchored within the target range**, on account of expected stability in food prices, global oil prices, and a stable exchange rate.

14. Summary on developments and outlook for inflation

1. **Overall inflation at 4.1 percent in July 2025**, remained below the midpoint (5.0 percent) of the 5±2.5 percent target range.

2. **Overall inflation is expected to remain below the mid-point of the target range** in the near term, supported by:
   - Lower food prices due to favorable weather conditions, and the onset of the harvest season for key crops.
   - Stable energy prices on account of lower international oil prices.
   - Continued stability in the exchange rate which is expected to continue moderating prices.

3. **The July 2025 MPC Market Perceptions Survey and Agriculture Sector Survey** shows that inflation expectations in the near term remain anchored within the target range.

4. **The main risks to the inflation outlook relate to** inflationary impact of higher tariffs on trade, elevated geopolitical risks, uncertainty in the evolution of international oil prices, and higher international prices of key processed foods.

C2: CBK - Official

15.

Domestic economic growth:

The growth of the economy is expected to pick up in 2025 and 2026, supported by continued resilience of key service sectors, agriculture, and recovery of the industrial sector.

Real GDP growth (y/y, percent)

	Weight (2016Q1 -2024Q4	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025			2026
						Q1 Act.	Q2 Proj.	Annual Proj.	Annual Proj.
1. Agriculture	18.5	-0.4	-1.5	6.6	4.6	6.0	4.8	5.2	4.9
2. Non-Agriculture (o/w)	81.5	9.5	6.3	5.5	4.7	4.6	5.1	5.1	5.5
2.1 Industry	17.7	7.5	3.9	2.0	0.8	3.0	3.3	3.3	3.7
Mining & Quarrying	1.0	18.0	9.3	-6.5	-9.2	10.0	2.3	3.7	-1.2
Manufacturing	8.7	7.3	2.6	2.2	2.8	2.1	2.9	2.9	3.3
Electricity & water supply	2.5	5.6	5.5	3.2	1.9	3.6	2.9	3.1	4.2
Construction	5.5	6.7	4.1	3.0	-0.7	3.0	4.4	4.0	4.9
2.2 Services	55.2	9.8	7.0	7.0	6.0	5.0	5.7	5.7	6.2
Wholesale & Retail Trade	8.3	8.0	3.5	3.3	3.8	5.4	4.3	4.9	5.4
Accommodation & food services	1.0	52.6	26.8	33.6	25.7	4.1	9.5	10.0	14.1
Transport & Storage	9.9	7.4	5.8	5.5	4.4	3.8	4.8	4.9	5.7
Information & Communication	3.0	6.1	9.0	10.3	7.0	5.8	7.5	7.2	7.8
Financial & Insurance	8.4	11.5	12.0	10.1	7.6	5.1	5.8	5.8	6.2
Public administration	5.8	6.0	5.1	5.0	8.2	6.5	5.2	5.4	4.8
Professional, Admin & Support Services	2.8	7.1	9.5	9.9	6.2	4.6	7.8	6.7	7.5
Real estate	9.9	6.7	4.5	7.3	5.3	5.3	6.1	6.0	6.4
Education	4.7	22.8	5.2	2.9	3.9	2.9	4.9	4.7	5.4
Health	2.2	8.9	3.4	4.5	6.3	4.8	4.8	4.7	4.8
Other services	2.2	12.5	6.5	4.3	4.7	3.0	3.7	3.6	4.0
FISIM	-3.1	5.3	0.2	2.7	9.0	2.0	2.5	2.1	4.5
2.3 Taxes on products	8.6	11.9	6.7	3.2	4.4	5.7	4.4	4.8	4.6
Real GDP Growth	100.0	7.6	4.9	5.7	4.7	4.9	5.0	5.2	5.4

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

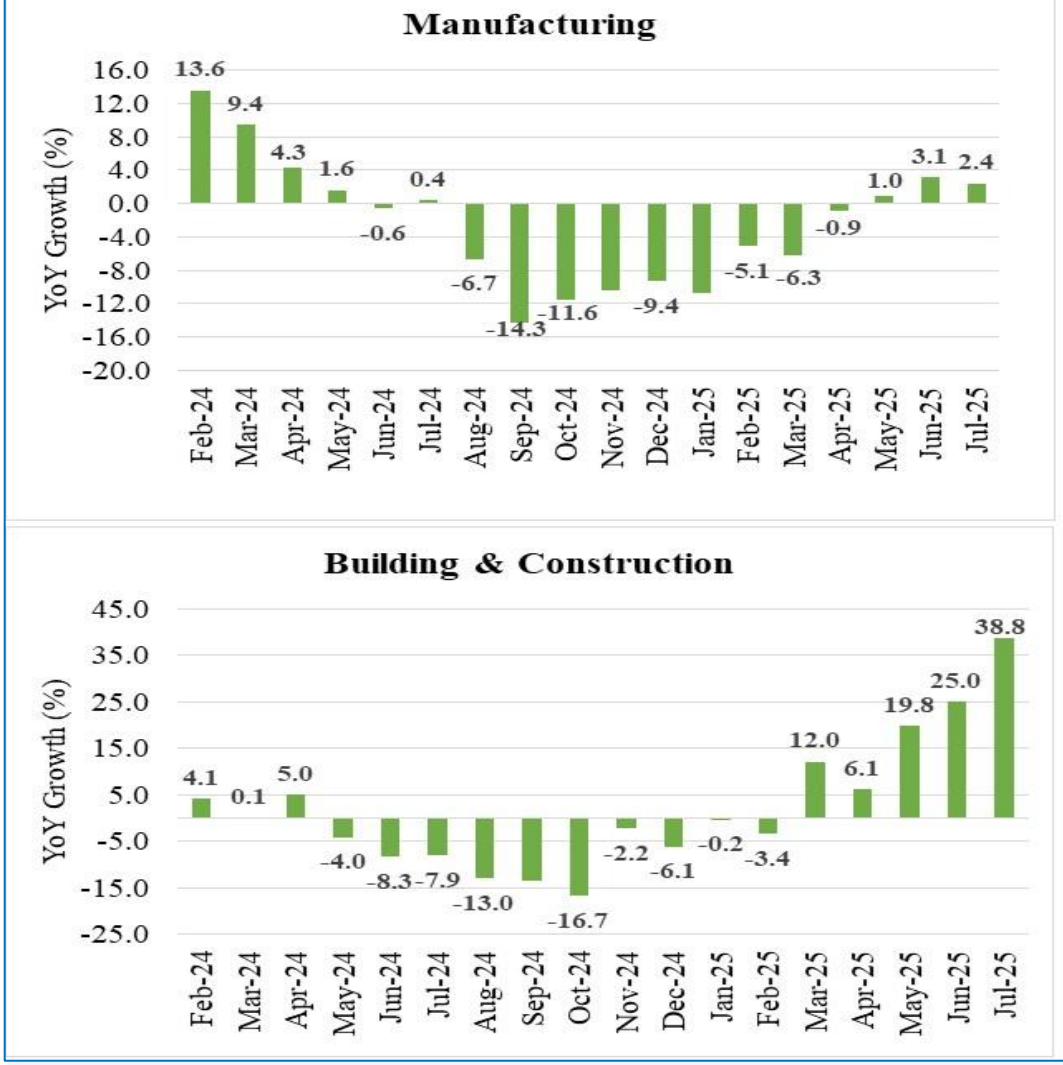
- Agriculture sector is expected to be supported by favorable weather conditions, and GOK interventions such as subsidized fertilizer.
- The services sector is expected to remain robust, leveraging on digital economic transformation.
- Recovery in private sector credit growth is expected to boost activity in key sectors.
- Exports are expected to be supported by trade initiatives and bilateral agreements including Kenya-China, Kenya–EU Economic Partnership Agreement, and export promotion measures.

C2: CBK - Official

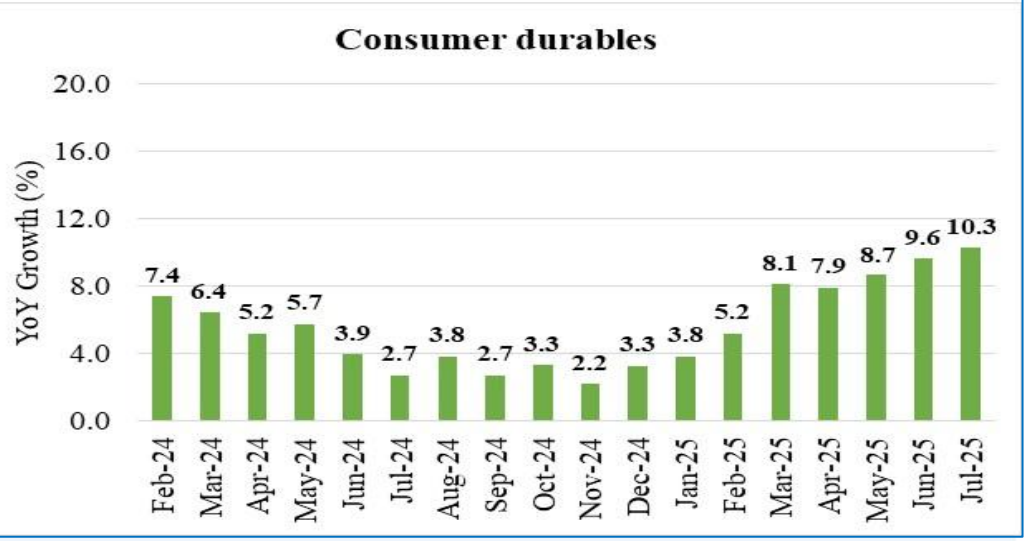
16. Sectoral credit to private sector:

Growth in credit to key sectors of the economy, particularly manufacturing, trade, building and construction, and consumer durables, improved in June and July 2025

Sectoral growth in credit to private sector (y/y, percent)







Source: *Central Bank of Kenya*

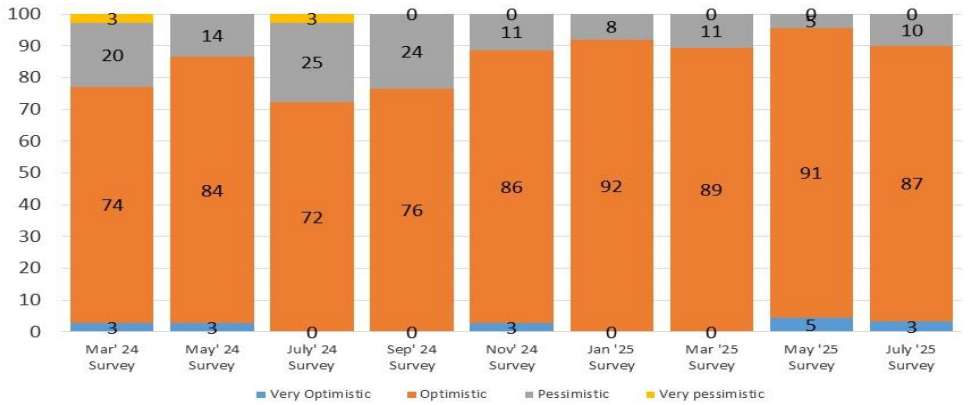
C2: CBK - Official

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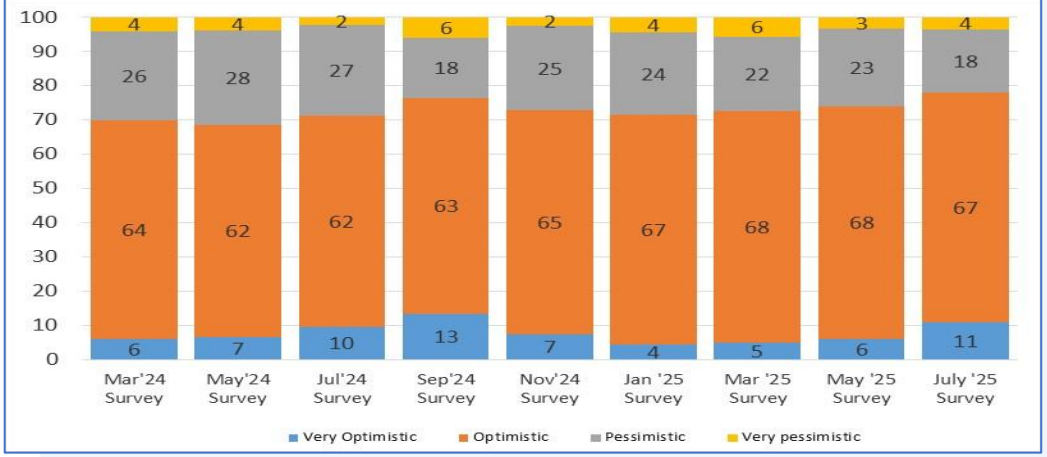
July 2025 MPC Surveys:

The CEOs and Market Perceptions Surveys revealed sustained optimism about domestic business activity and economic growth prospects for the next 12 months

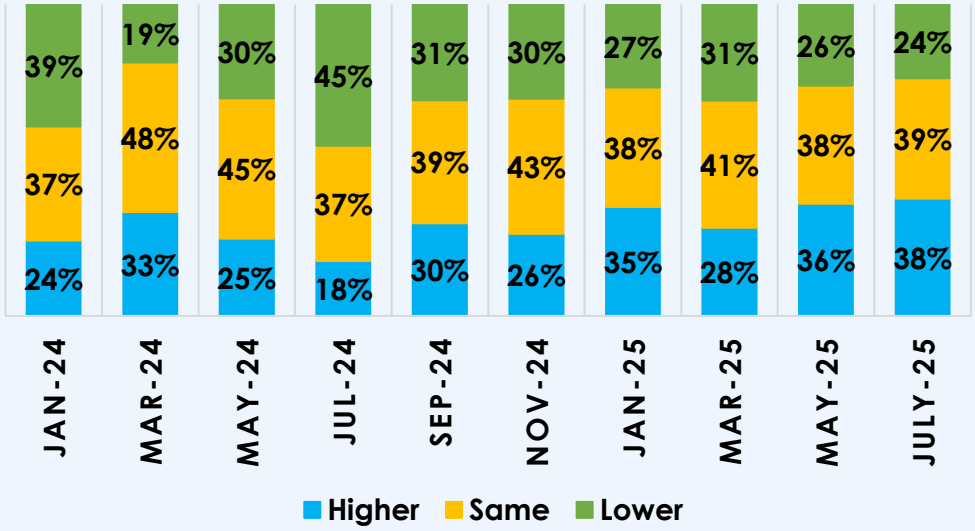
Market Perceptions Survey: Optimism in growth prospects for the next 12 months by Banks (% of respondents)



Market Perceptions Survey: Optimism in growth prospects for the next 12 months by Non-Bank Private Firms (% of respondents)



CEOs Survey: Growth Prospects for the Kenyan Economy (percent of respondents)



- The optimism was attributed to improved agricultural production supported by favorable weather conditions, the stable macroeconomic environment supported by low inflation and stable exchange rate, continued decline in interest rates, and expansion of 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.

18. Summary on domestic economic growth

1. **The economy remained resilient in the first quarter of 2025,** with real GDP growing by 4.9 percent. This reflected robust performance of agriculture, and recovery in industrial activity, particularly construction.

2. Leading indicators of economic activity point to improved performance in the second quarter of 2025.

3. **The growth of the economy is expected to pick up in 2025 and 2026,** with real GDP growth projected at 5.2 percent and 5.4 percent, respectively. This outlook is supported by continued resilience of key service sectors, agriculture, and recovery of the industrial sector.

4. The MPC Surveys conducted in July 2025 revealed sustained optimism about business activity and economic growth prospects for the next 12 months.

5. **This outlook is subject to risks,** including trade policy uncertainties, heightened geopolitical risks mostly in the Middle-East and regional conflicts.

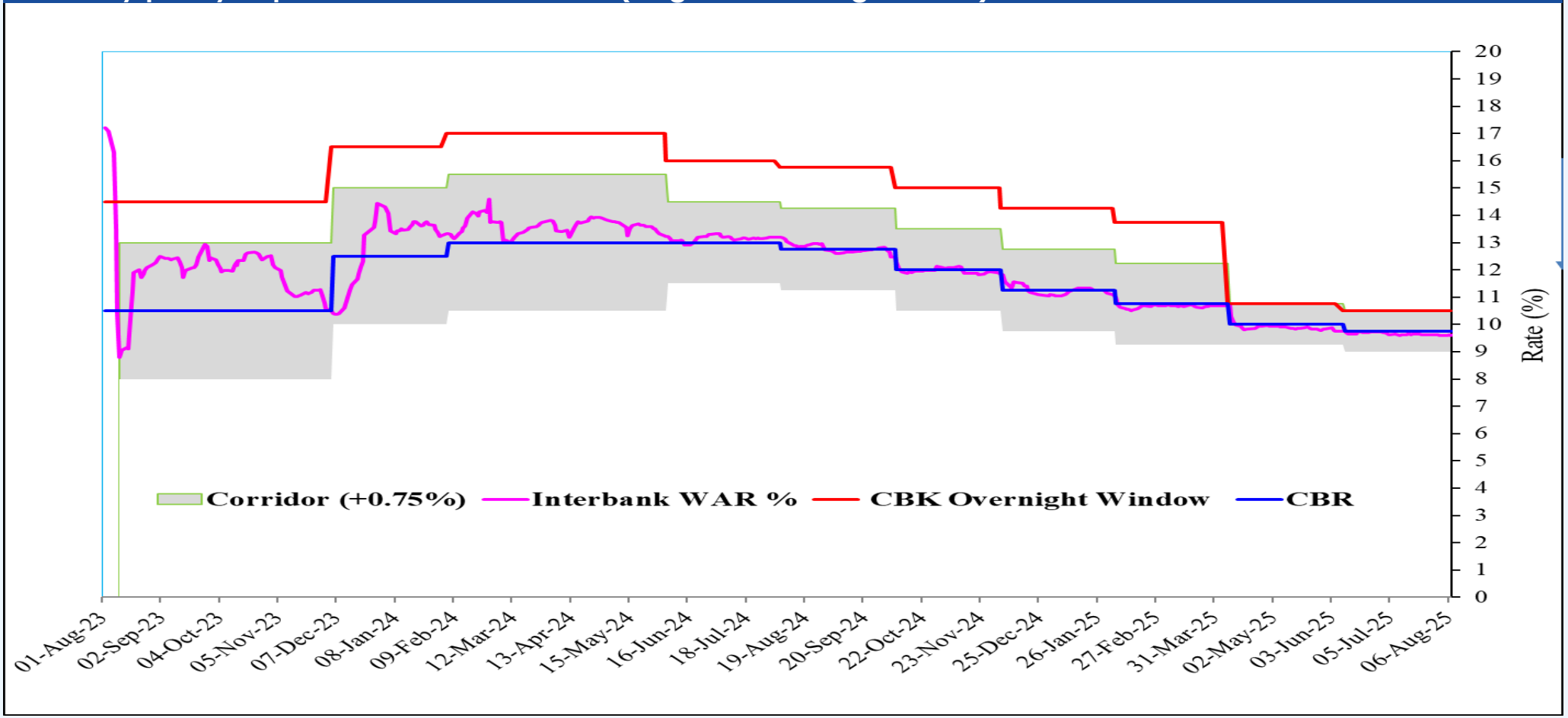
C2: CBK - Official

19.

Monetary policy implementation framework:

The new monetary policy implementation framework has enhanced stability of the interbank rate, and aligned the interbank rate closer to the CBR

Monetary policy implementation framework (August 2023–August 2025)



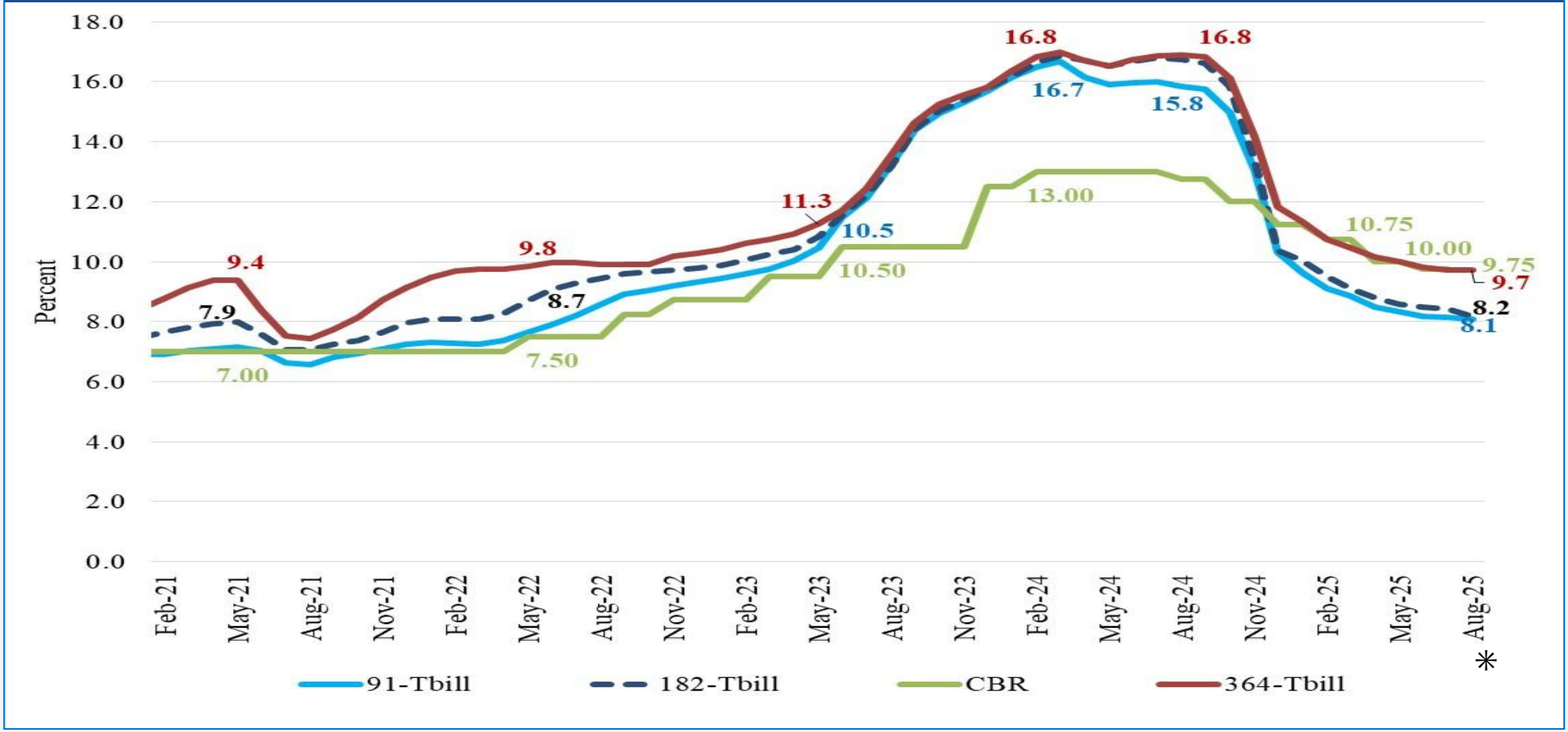
Source: CBK

C2: CBK - Official

Monetary developments:

Short term interest rates declined further in June and July 2025, inline with reductions in the Central Bank Rate (CBR)

Average Treasury bill rates and Central Bank Rate (percent)



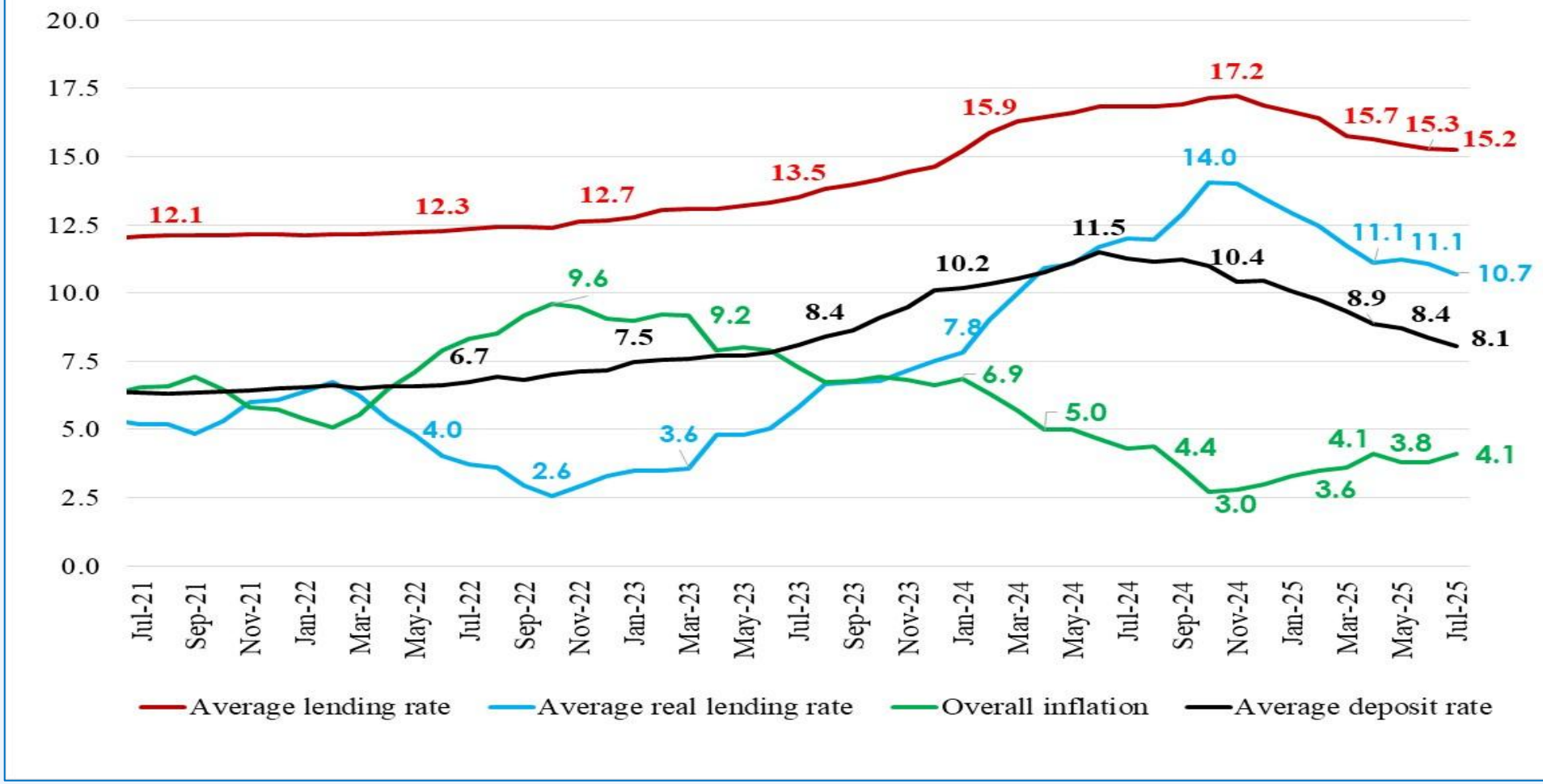
* As at 8th August 2025

Source: CBK

21. Monetary developments:

Commercial banks lending rates have continued to decline, partly reflecting reductions in short-term rates and lower cost of funds

Average commercial banks interest rates, and overall inflation (percent)



Source: CBK

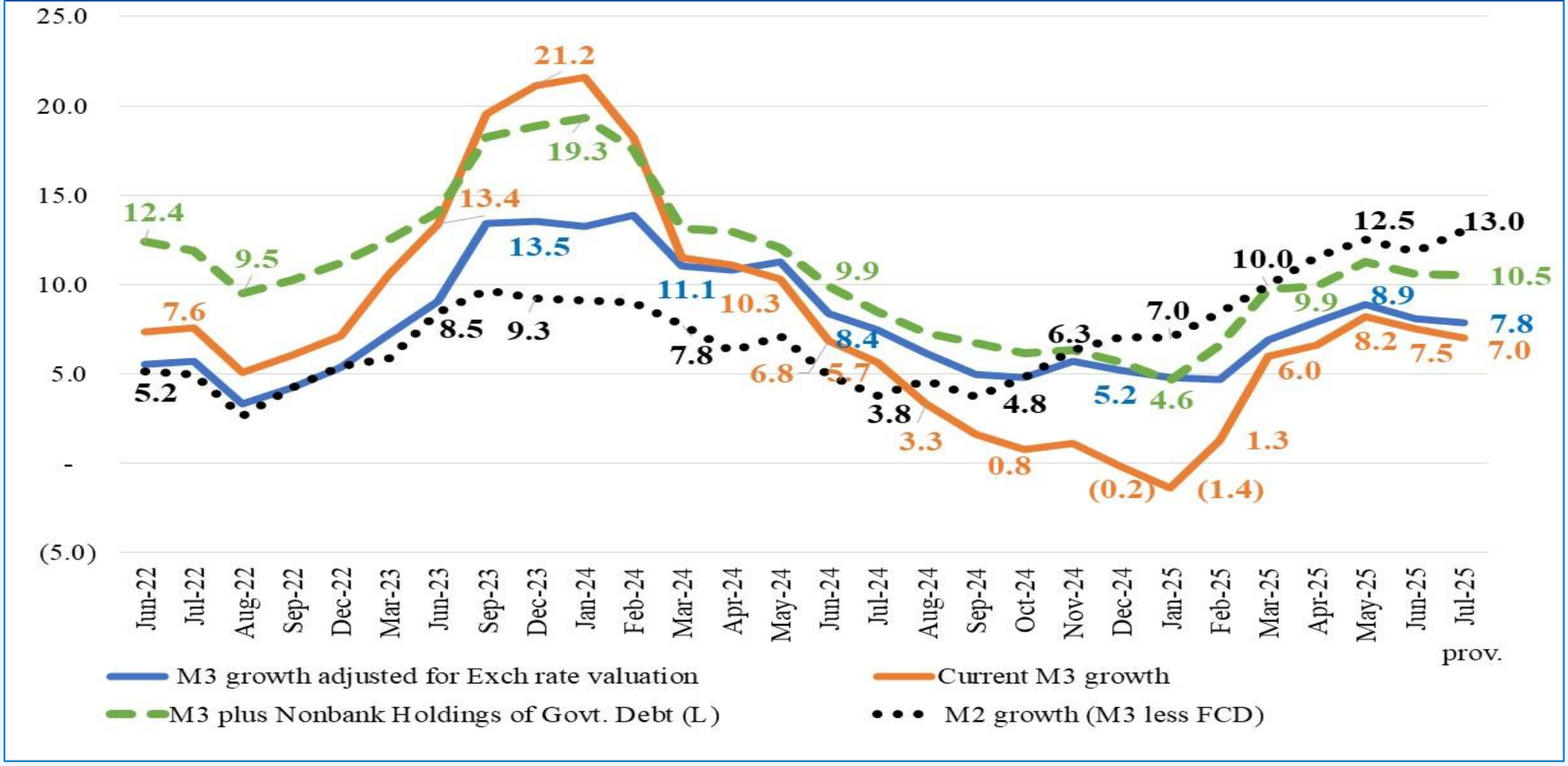
C2: CBK - Official

22.

Monetary developments:

Growth in broad money supply, M3, has improved driven by domestic credit, and reduced exchange rate valuation effects attributed to appreciation of the Shilling. Growth in M2 has remained strong

Growth in money supply (y/y, percent)



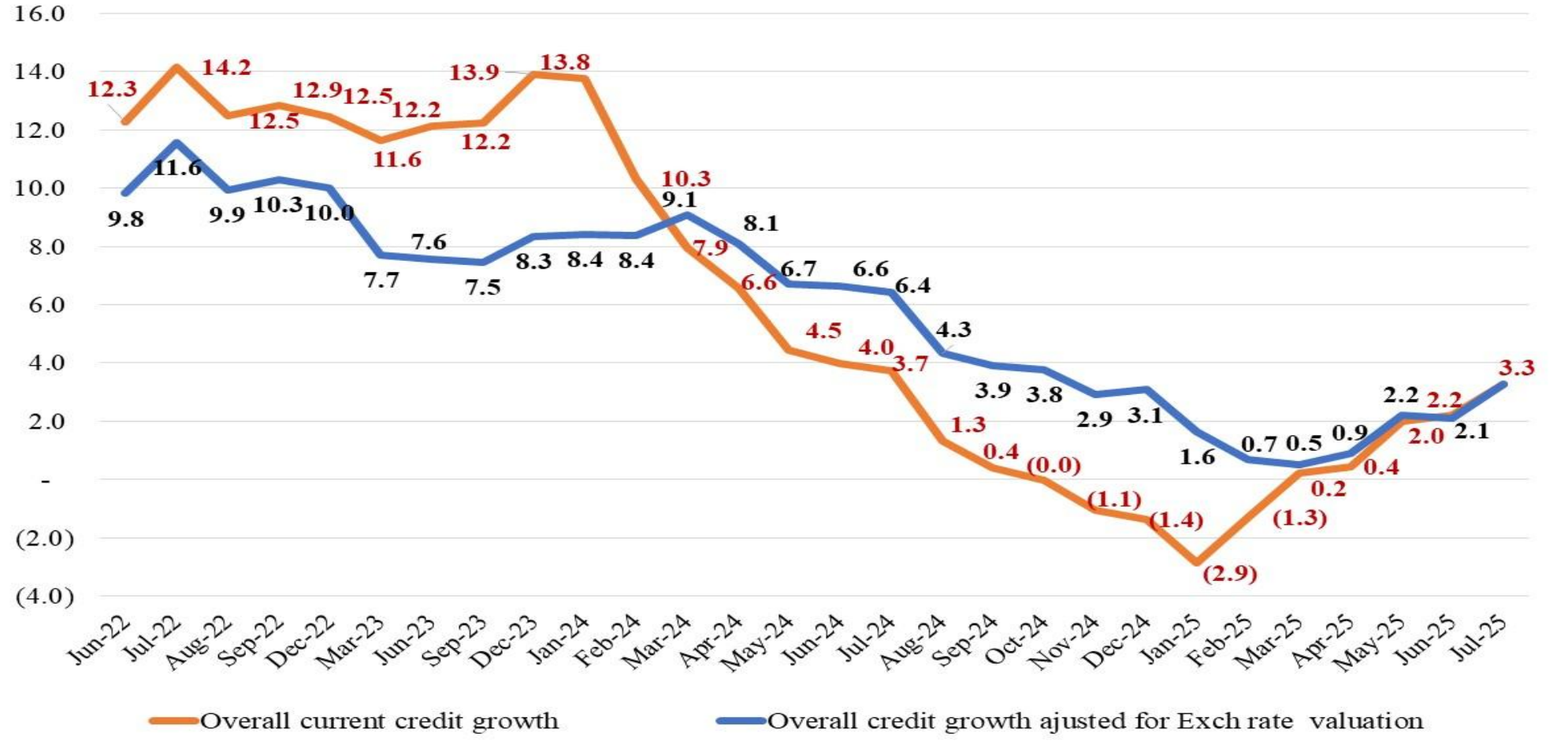
Source: CBK

C2: CBK - Official

Monetary developments:

Growth in commercial banks lending to private sector improved in June and July 2025, reflecting improved demand in line with the declining lending interest rates, and resilient economic activity

12 Month growth in credit to the private sector (y/y, percent)



Source: CBK

C2: CBK - Official

24. Summary of monetary developments

1. **Money supply growth in June and July 2025 was higher relative to growth in a similar period in 2024**, partly reflecting increased net lending to government and improved lending to the private sector.

2. **Lending to private sector increased further in June and July 2025**, partly reflecting increased credit demand with continued decline in lending rates, and resilient economic activities.

3. **Short-term interest rates have declined further** in line with the reductions in the CBR.

4. **Commercial banks' average lending interest rates declined further in June and July 2025**, with the decline in short-term rates expected to transmit further into lower lending rates and improved lending to private sector.

C2: CBK - Official

25. Balance of payments:

The overall balance of payments is projected to be a surplus in 2025, mainly reflecting expected surplus in the financial account

Balance of payments, in millions of U.S. dollars

	2022	2023	12 months to June 2024	2024 Est.	12 months to June 2025	2025 Proj
A. Current account	**-4,824**	**-2,728**	**-1,926**	**-1,551**	**-2,098**	**-2,072**
Trade balance	**-11,559**	**-9,556**	**-9,215**	**-9,734**	**-10,382**	**-10,720**
Goods exports, f.o.b	10,650	11,031	11,841	12,508	12,752	13,254
Goods imports, f.o.b	22,209	20,588	21,056	22,242	23,134	23,974
Services balance	**1,981**	**1,488**	**1,929**	**2,416**	**2,400**	**2,791**
Services Credit	7,604	7,149	7,183	8,078	8,082	8,606
Services Debit	5,623	5,662	5,254	5,662	5,682	5,815
Goods and Services Balance	**-9,579**	**-8,069**	**-7,286**	**-7,318**	**-7,982**	**-7,929**
Primary income, Balance	**-1,761**	**-1,861**	**-1,819**	**-1,845**	**-1,728**	**-2,061**
Secondary income	**6,516**	**6,986**	**7,180**	**7,613**	**7,612**	**7,917**
B. Financial and capital account	**-2,683**	**-1,720**	**-1,268**	**-3,009**	**-4,930**	**-2,746**
C. Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**658**	**-1,459**	**-2,832**	**-673**
D. Reserves and related items	**-2,141**	**-1,008**	**-658**	**1,459**	**2,832**	**673**
Reserve assets (gross)+ve entry reflect an increase in reserve assets	-1,521	-628	426	2,749	3,438	673
Use of Fund credit and loans to the fund (net)	619	380	1,084	1,290	606	0

Source: KNBS and CBK

C2: CBK - Official

26. Balance of payments:

The overall balance of payments is projected to be a surplus in 2025, mainly reflecting expected surplus in the financial account

Detailed Balance of payments, in millions of U.S. dollars

	2022	2023	12 months to June 2024	2024 Est.	12 months to June 2025	2025 Proj
A. Current account	**-4,824**	**-2,728**	**-1,926**	**-1,551**	**-2,098**	**-2,072**
Trade balance	**-11,559**	**-9,556**	**-9,215**	**-9,734**	**-10,382**	**-10,720**
Goods exports, f.o.b	**10,650**	**11,031**	**11,841**	**12,508**	**12,752**	**13,254**
Of which						
Tea	1,384	1,347	1,415	1,397	1,365	1,357
Horticulture	944	929	990	1,075	1,135	1,230
Manufactured Goods	622	680	640	639	652	687
Reexports	3,776	4,247	4,917	5,172	4,355	5,223
Goods imports, f.o.b	**22,209**	**20,588**	**21,056**	**22,242**	**23,134**	**23,974**
Of which						
Oil Products	8,374	8,131	8,409	8,215	7,620	7,909
Machinery and Transport	3,760	3,252	3,671	4,302	4,745	4,646
Services balance	**1,981**	**1,488**	**1,929**	**2,416**	**2,400**	**2,791**
Services Credit	**7,604**	**7,149**	**7,183**	**8,078**	**8,082**	**8,606**
Of which						
Travel	2,279	2,808	3,050	3,518	3,689	3,870
Services Debit	**5,623**	**5,662**	**5,254**	**5,662**	**5,682**	**5,815**
Goods and Services Balance	**-9,579**	**-8,069**	**-7,286**	**-7,318**	**-7,982**	**-7,929**
Primary income, Balance	**-1,761**	**-1,861**	**-1,819**	**-1,845**	**-1,728**	**-2,061**
Secondary income	**6,516**	**6,986**	**7,180**	**7,613**	**7,612**	**7,917**
Credit	**6,563**	**7,079**	**7,242**	**7,662**	**7,664**	**7,969**
Of which						
Remittances	4,028	4,190	4,536	4,945	5,084	5,242
B. Capital account	**141**	**128**	**155**	**232**	**258**	**244**
C. Financial Account	**-4,159**	**-1,847**	**-502**	**-2,190**	**-4,191**	**-1,607**
D. Net Errors and Omissions	**-1,617**	**-254**	**611**	**587**	**481**	**895**
E. Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**658**	**-1,459**	**-2,832**	**-673**
F. Reserves and related items	**-2,141**	**-1,008**	**-658**	**1,459**	**2,832**	**673**
Reserve assets (gross)+ve entry reflect an increase in reserve assets	-1,521	-628	426	2,749	3,438	673
Use of Fund credit and loans to the fund (net)	619	380	1,084	1,290	606	0

Source: KRA and CBK

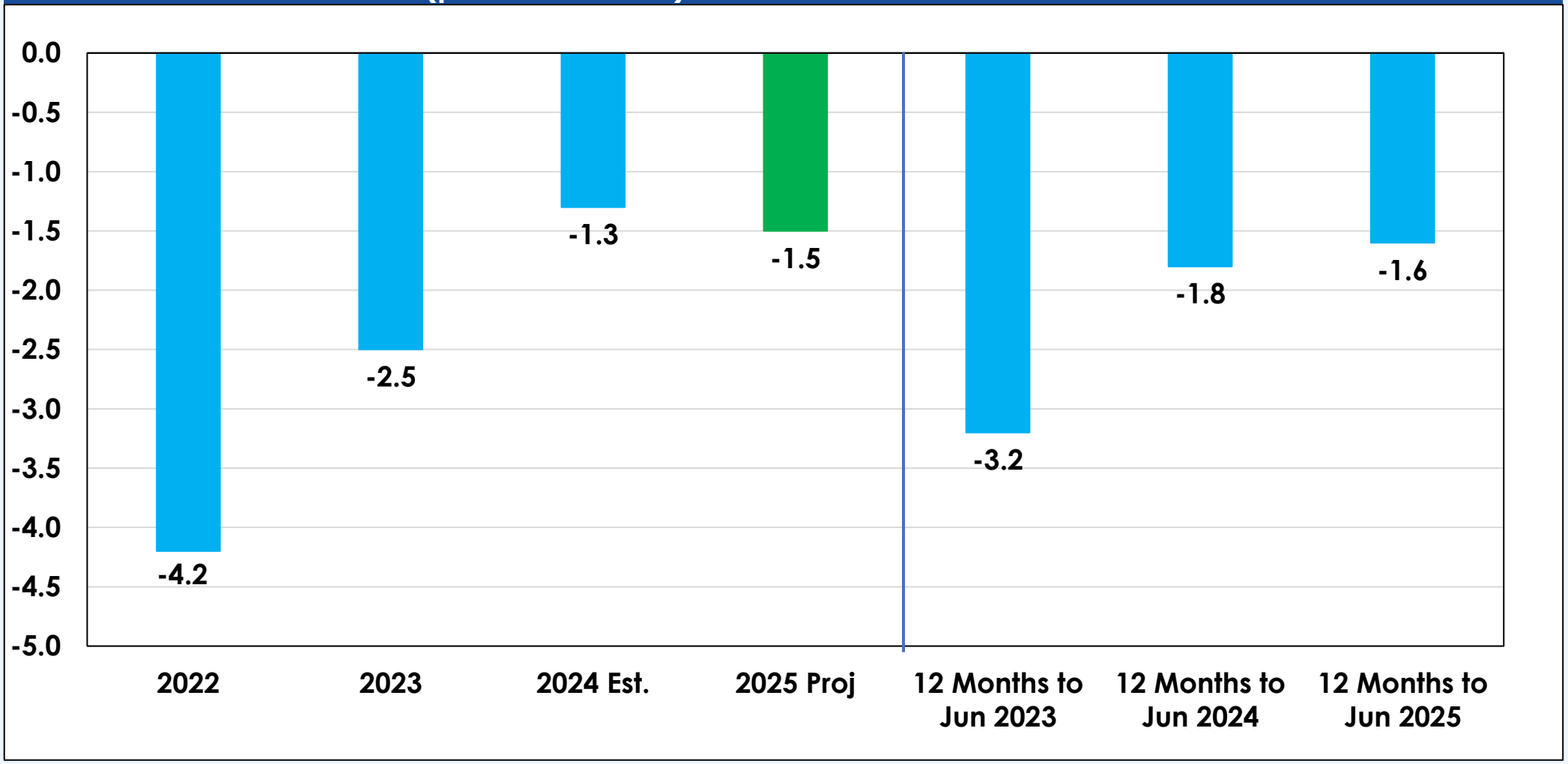
C2: CBK - Official

27.

Current account balance:

The current account deficit narrowed in the 12 months to June 2025 compared to a similar period in 2024, and is projected to remain relatively stable at 1.5 percent of GDP in 2025 compared to 1.3 percent of GDP in 2024

Current account balance (percent of GDP)



Source: KRA and CBK

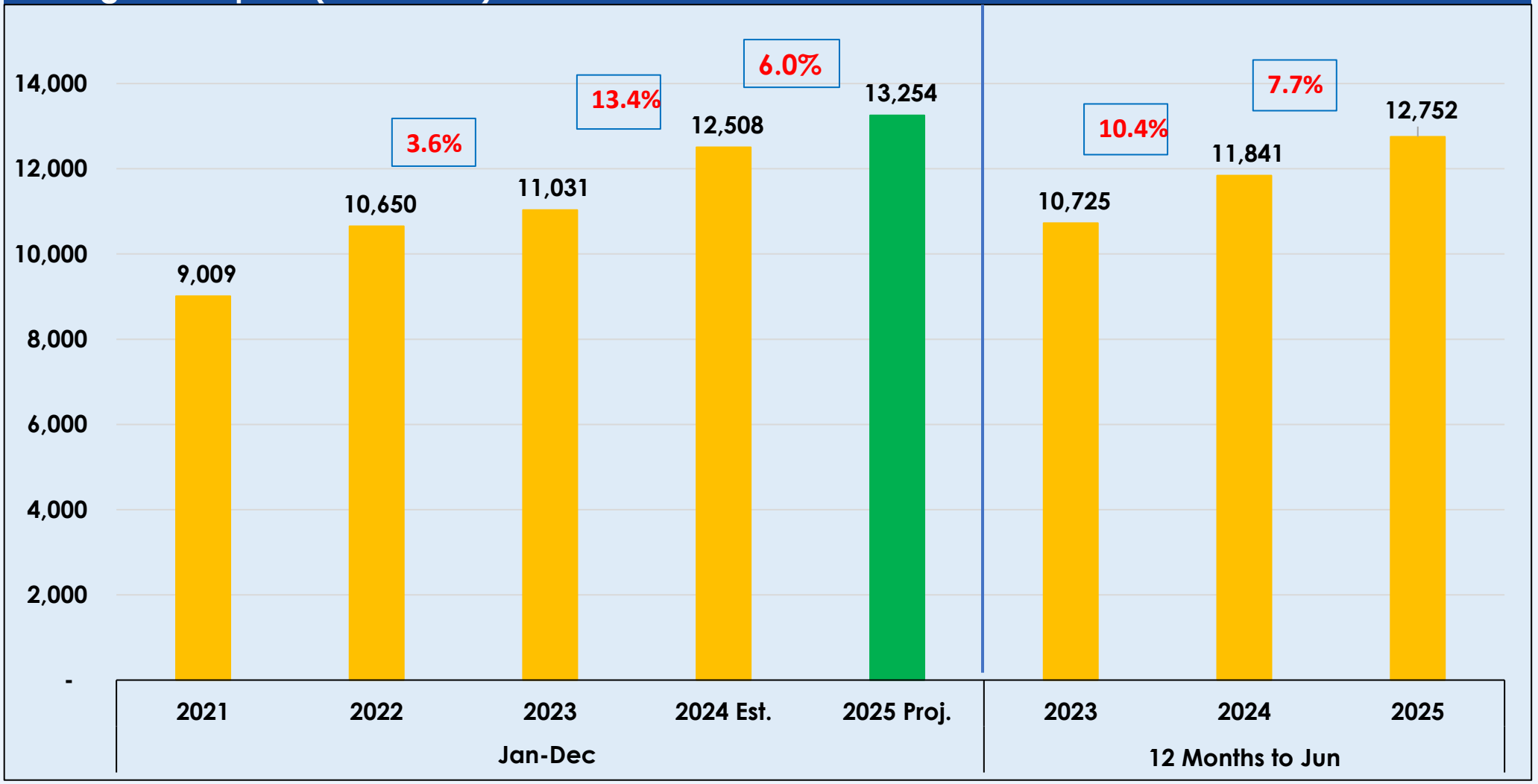
C2: CBK - Official

28.

Balance of payments:

Goods exports increased by 7.7 percent compared to a similar period in 2024, due to higher domestic exports, particularly horticulture, coffee, vegetable oil, and clothing accessories

Total goods exports (USD Million)



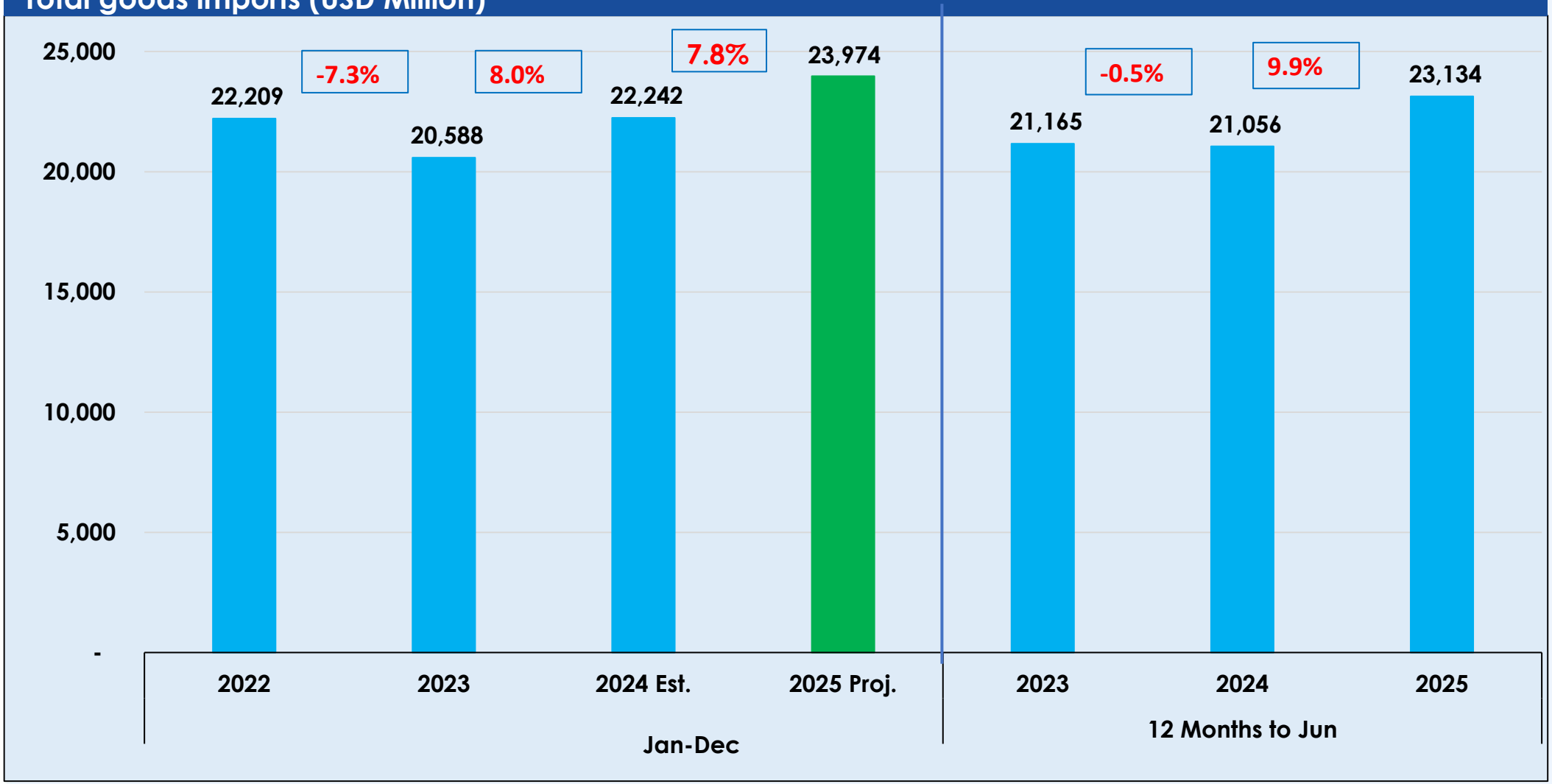
C2: CBK - Official

29.

Balance of payments:

Goods imports increased by 9.9 percent in the 12 months to June 2025, mainly due to an increase in intermediate imports, particularly industrial supplies, machinery, and transport equipment

Total goods imports (USD Million)



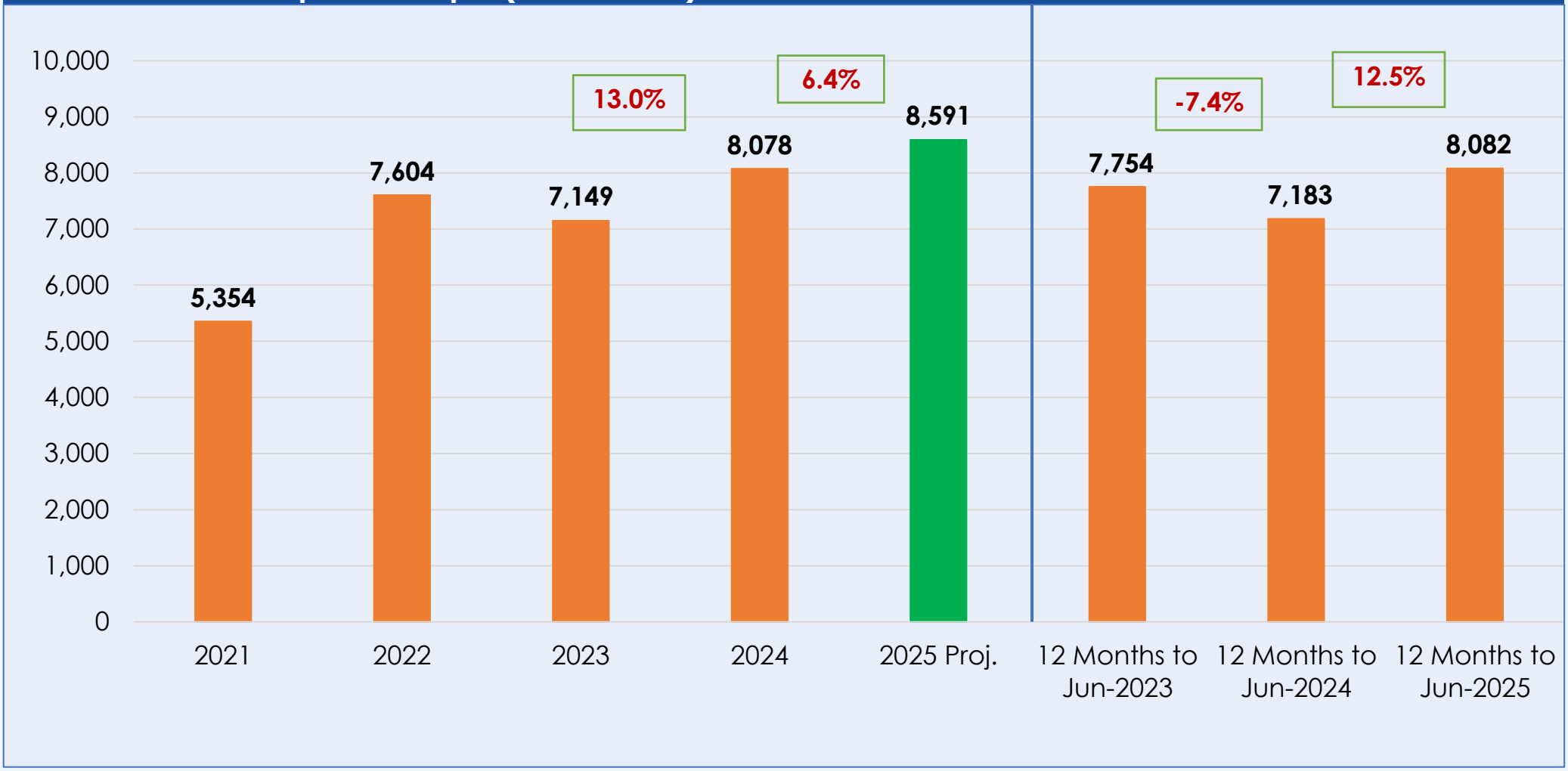
Source: CBK, KRA

C2: CBK - Official

30. Balance of payments:

Services receipts increased by 12.5 percent in the 12 months to June 2025 boosted by increases in transport receipts of 19.9 percent and travel receipts of 20.9 percent

Total services export receipts (USD Million)



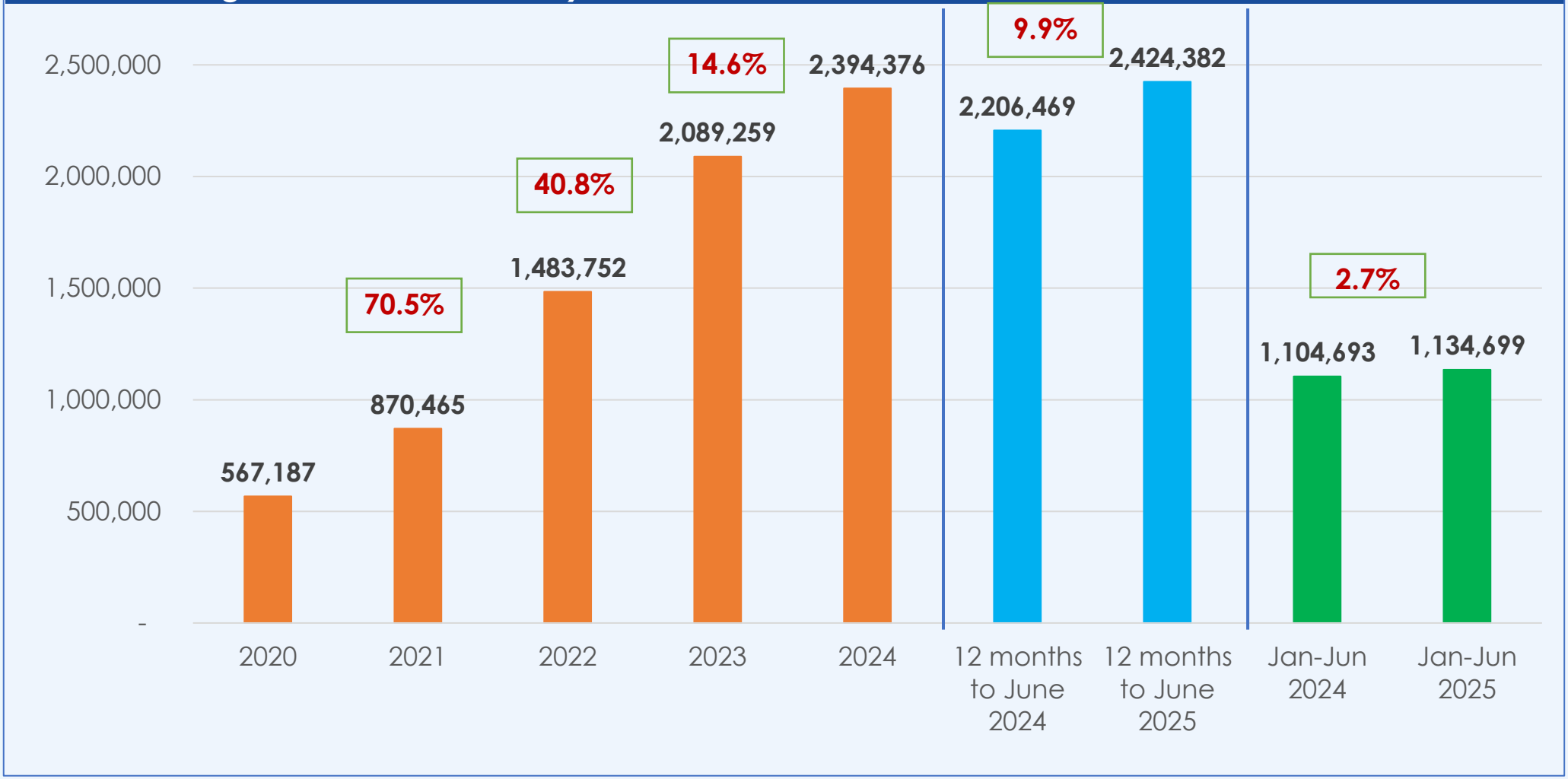
Source: CBK, KRA

C2: CBK - Official

31. Services exports:

Tourist arrivals have remained strong, growing by 9.9 percent in the 12 months to June 2025, on account of recovery of international travel, and Government measures to identify new source markets

Number and growth of tourist arrivals)



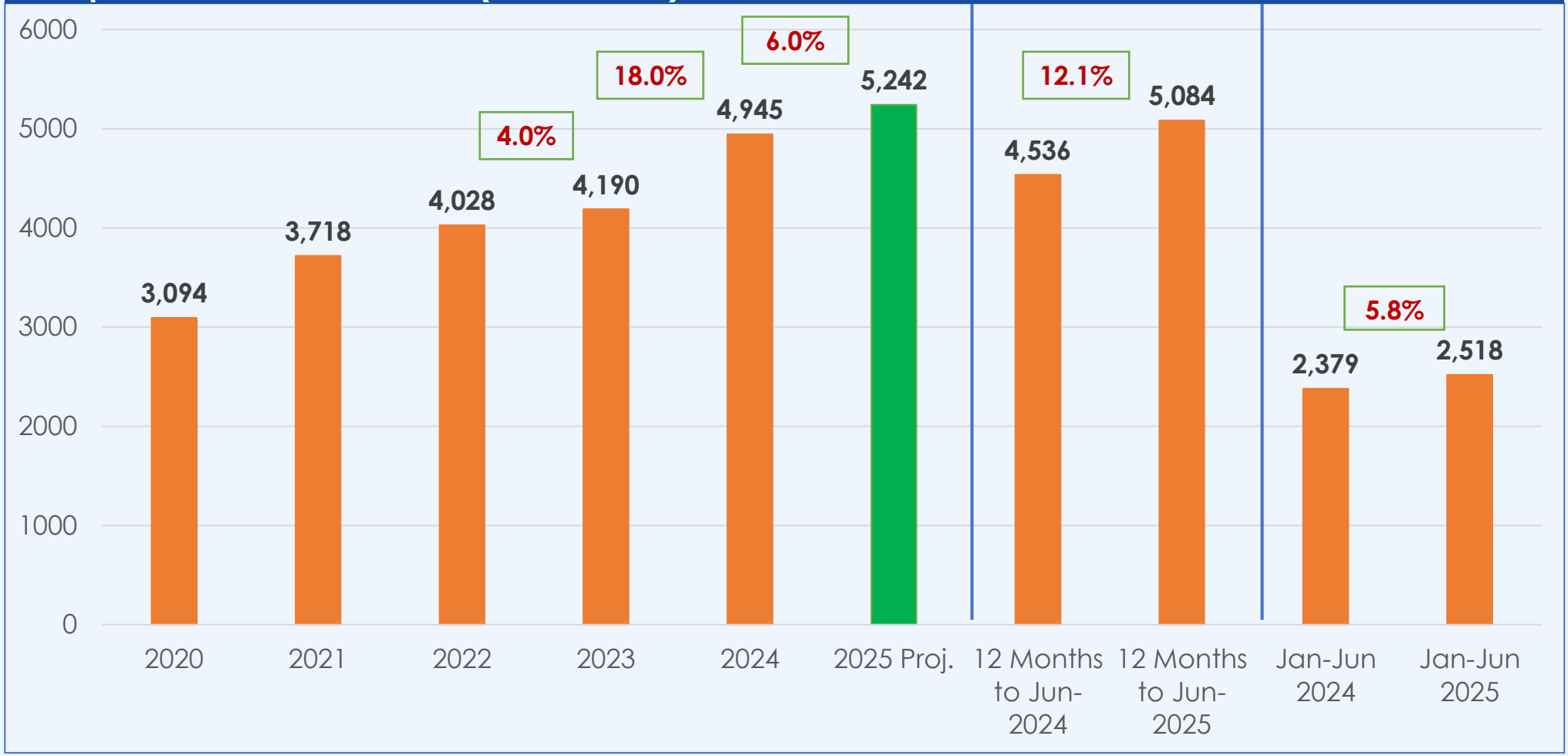
Source: Tourism Research Institute/Kenya Tourism Board/KNBS

C2: CBK - Official

Diaspora remittances:

Remittances inflows have remained resilient despite increased global uncertainties, supported by diversified source countries, and effects of government policies to export skilled labor

Diaspora remittances inflows (USD, Million)



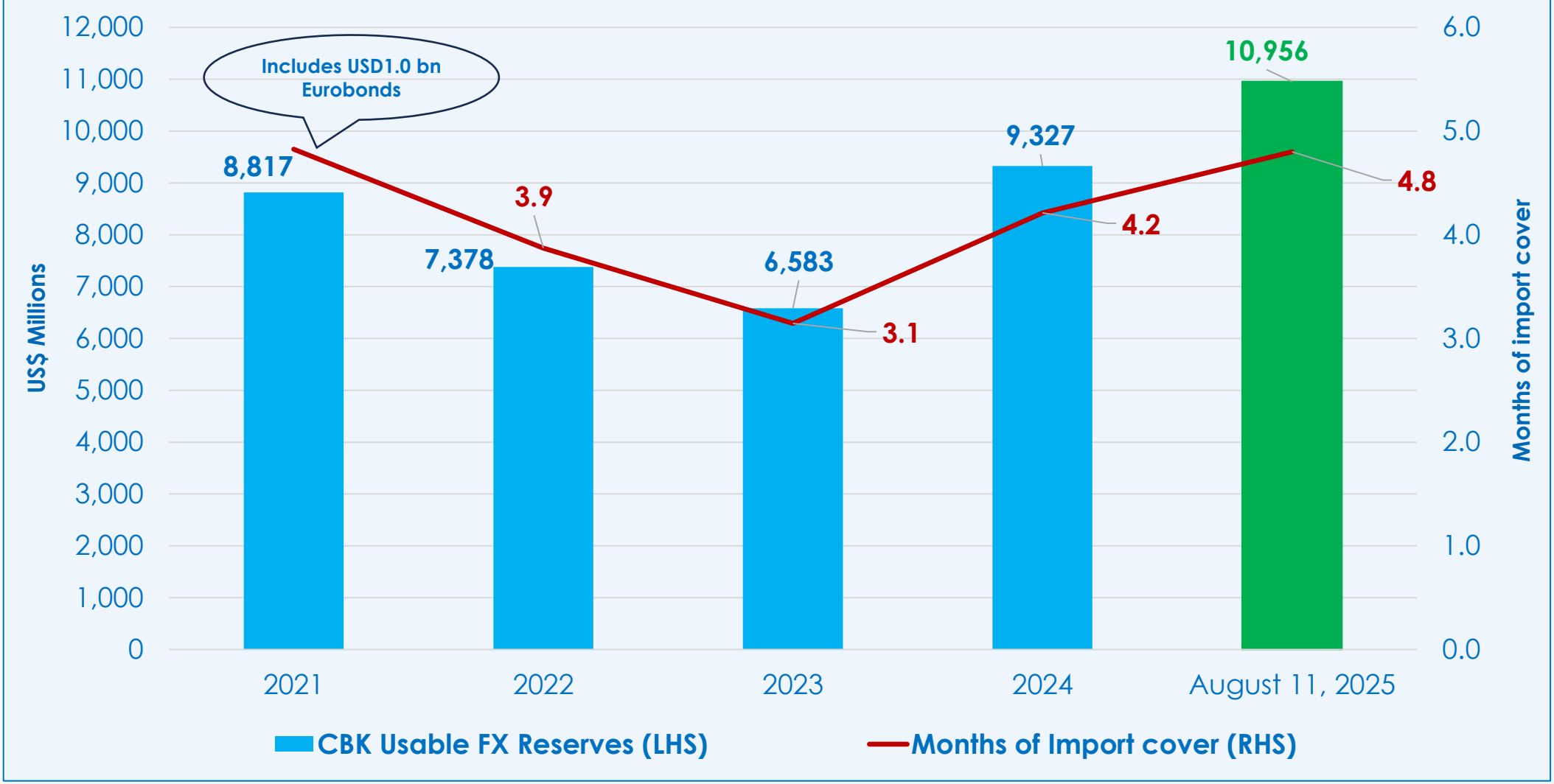
Source: CBK

C2: CBK - Official

33. CBK usable foreign exchange reserves:

Foreign exchange reserves have increased significantly and continue to provide adequate cover and a buffer against short-term shocks

CBK usable foreign exchange reserves (end period)



Source: CBK as of August 11, 2025

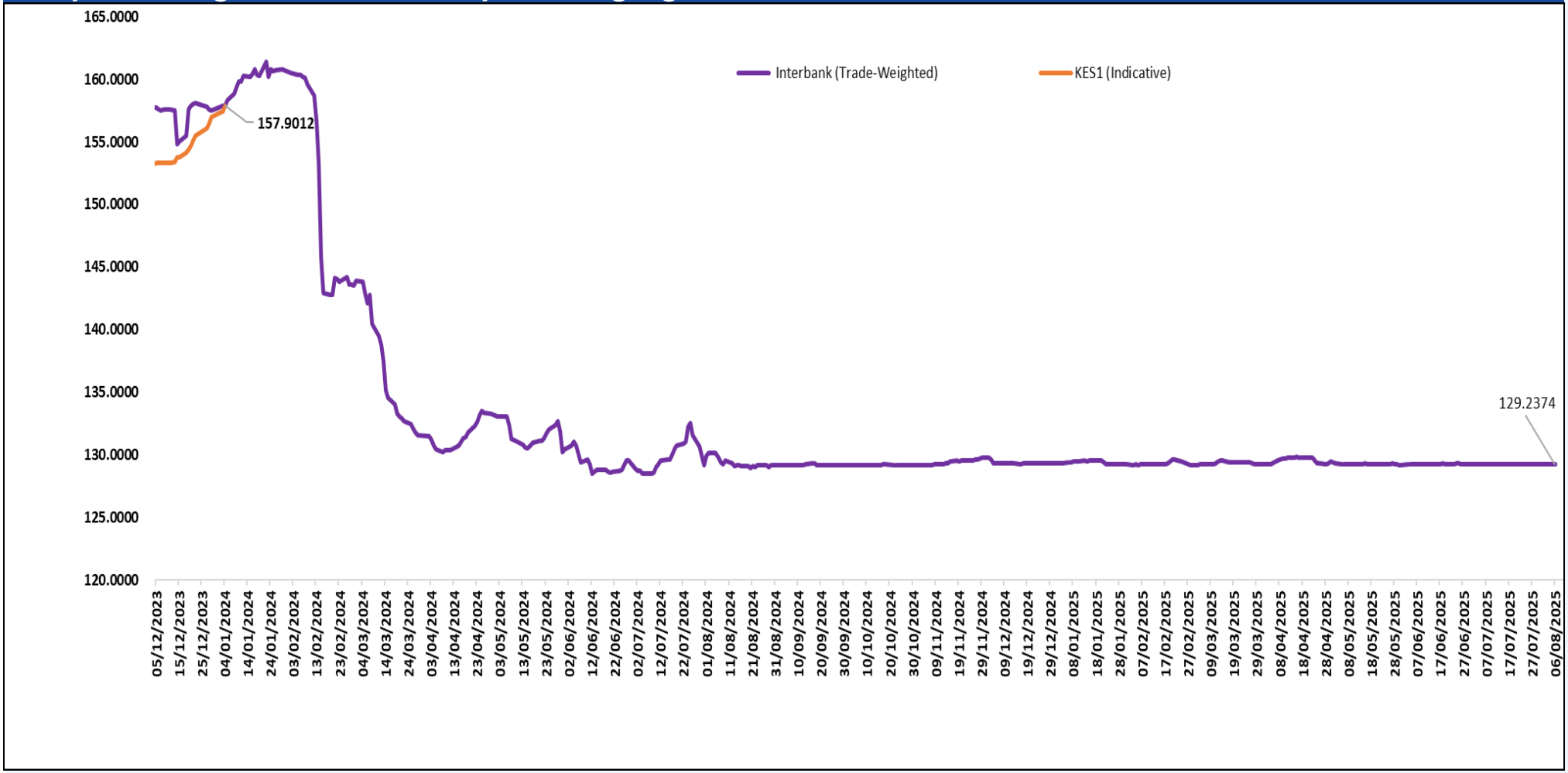
C2: CBK - Official

34.

Exchange rate developments:

The Kenya Shilling has remained stable, supported by diversified foreign exchange inflows from diaspora remittances, offshore banks, and tea, as well as confidence in the economy

Daily exchange rate of the Kenya Shilling against the US Dollar



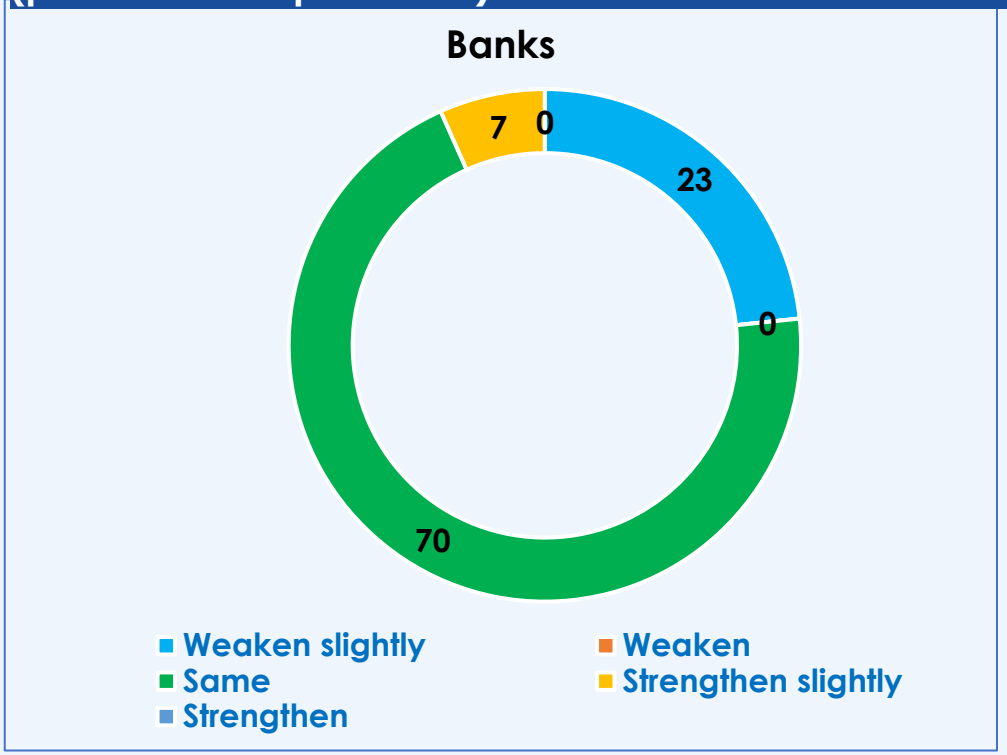
Source: CBK as of August 6, 2025

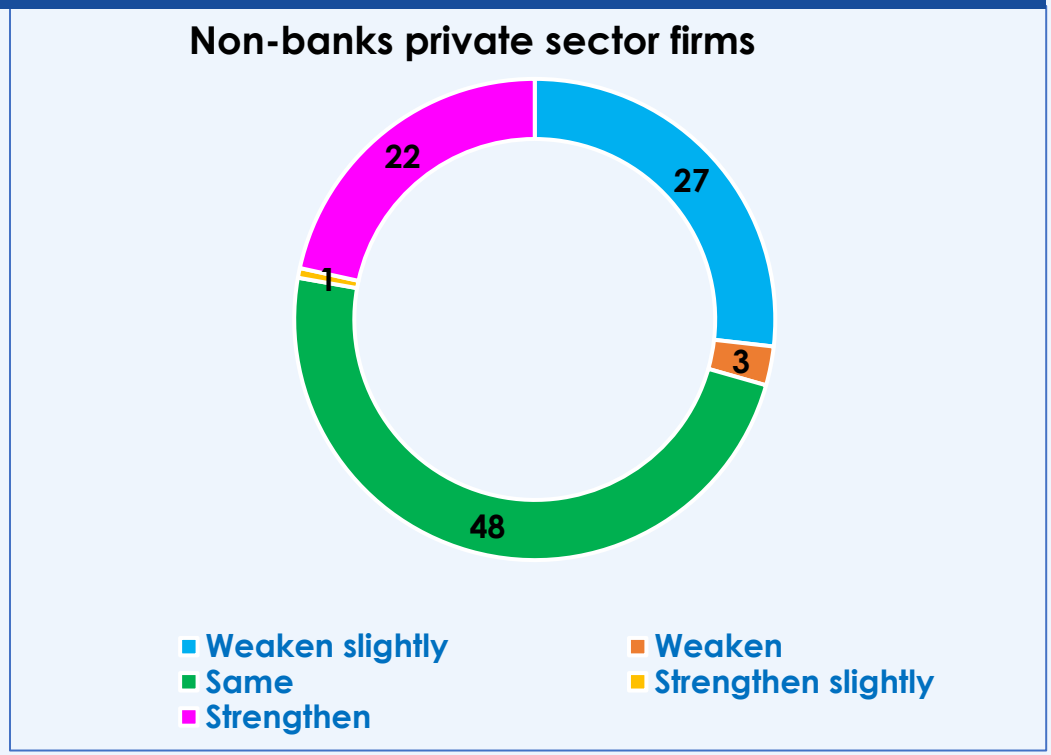
35.

Market sentiment on the exchange rate:

The July 2025 MPC Market Perceptions Survey shows that the exchange rate of the Kenya Shilling against the U.S. Dollar is expected to remain stable

Expected change in the exchange rate of the Kenya Shilling against the U.S. Dollar in next 2 months (percent of respondents)





- **Most respondents to the July 2025 survey (77 percent of banks and 71 percent of non-bank respondents) expect the exchange rate to remain stable or strengthen, supported by** improved foreign exchange inflows from diaspora remittances inflows, external support, and enhanced investor sentiment due to macroeconomic stability.
- **Some respondents expect some pressure** from increased imports, external debt repayments, and volatile oil and commodity prices.

C2: CBK - Official

36. Summary of balance of payments developments and outlook

1. **The current account deficit narrowed to 1.6 percent of GDP in the 12 months to June 2025 compared to 1.8 percent of GDP in a similar period in 2024,** mainly reflecting higher domestic goods exports, and resilient services receipts and diaspora remittances.

2. **The current account deficit is expected to remain relatively stable at 1.5 percent of GDP in 2025 compared to 1.3 percent of GDP in 2024,** mainly reflecting continued growth in goods exports, increase in services receipts, and resilient remittance inflows.
    - The deficit is expected to be more than fully financed by financial account inflows, resulting in an overall balance of payments surplus of US$673 million.
    - This is expected to result in a foreign exchange reserves build-up, with gross reserves projected at US$10,763 million in 2025 compared to US$10,091 million in 2024.

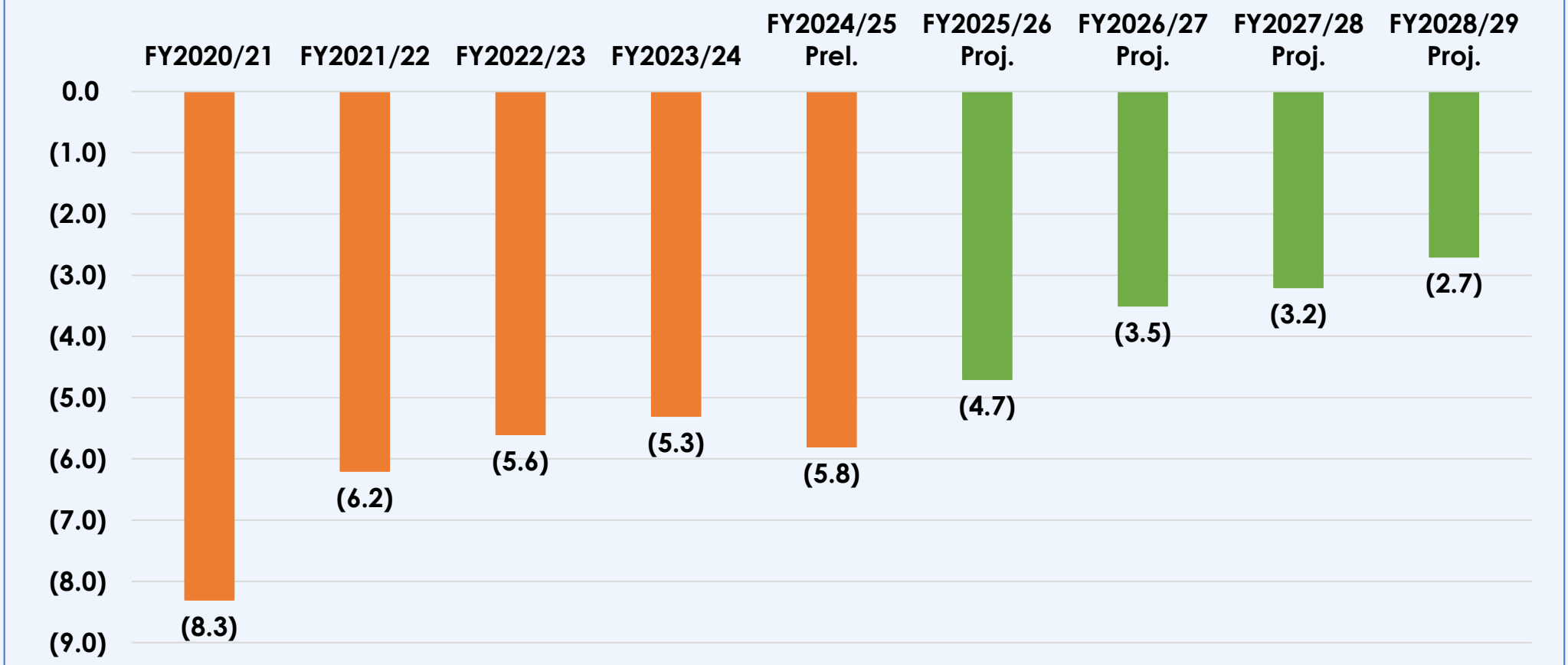
3. **Downside risks to balance of payments outlook**: increasing trade policy uncertainty, ongoing regional and global geopolitical conflicts, and uncertainty and volatility in the international oil markets.

C2: CBK - Official

Fiscal performance and outlook:

The expected fiscal consolidation over the medium-term should reduce debt vulnerabilities while moving the debt/GDP ratio towards a stronger sustainable position

Actual and expected fiscal deficit (percent of GDP)



Source: The National Treasury

C2: CBK - Official

Banking sector developments:
The banking sector remains stable and resilient

1. **Capital adequacy and liquidity ratios for the banking sector have remained** above the minimum statutory limits of 14.5 percent and 20.0 percent, respectively**:**
   - Total capital adequacy ratio stood at 20.4 percent in June 2025, an increase from 20.3 percent in April 2025.
   - The banking sector is liquid with a liquidity ratio of 58.6 percent in June 2025, an increase from 57.9 percent in April 2025.

2. The gross NPLs to gross loans ratio remained unchanged at 17.6 percent in April and June 2025.
   - Banks have continued to make adequate provisions for the NPLs, and the sector remains profitable providing sufficient buffers.

3. **The proposed revised banking sector Risk-Based Credit Pricing (RBCP) model,** is expected to improve the transmission of monetary policy decisions to commercial banks' lending interest rates.

4. **The performance of the banking sector remained resilient as of June 2025:**
   - The asset base grew by 3.9 percent from Ksh7,552 billion in June 2024 to Ksh7,849 billion in June 2025, mainly driven by growth in the loan book.
   - The deposit base grew by 4.6 percent from Ksh5,589 billion in June 2024 to Ksh5,848 billion in June 2025, as use of digital platforms scaled up.

C2: CBK - Official

39. Summary and Key Takeaways

1. **Global inflation is projected to decline in 2025 and 2026, while the global growth outlook has been revised upwards,** mainly reflecting lower effective tariff rates on trade, and improved global financial conditions.

2. **On the domestic front**:
   - Overall inflation remains anchored within the target range.
   - The Kenya Shilling has remained stable.
   - Interest rates have continued to decline, which should continue to support recovery in credit to the private sector and improved economic growth prospects.
   - The proposed revised Risk-Based Credit Pricing (RBCP) model is expected to make lending rates more responsive to monetary policy decisions.

3. **With the stability in prices and the exchange rate, the CBK has continued to support the Government's economic growth objective, as reflected in the further lowering of the Central Bank Rate (CBR).**

C2: CBK - Official

Thank You!

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