Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Wednesday, December 10, 2025

Dr. Kamau Thugge, CBS
Governor

1. Monetary Policy Decision

1. **During its Meeting on December 9, 2025, the Monetary Policy Committee (MPC) decided to lower the Central Bank Rate (CBR) by 25 basis points to 9.00 percent from 9.25 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 prices of processed food items, stable energy prices, and continued exchange rate stability.
   - Central banks in the major economies have continued to ease monetary policy, but at a cautious and uneven pace depending on their 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 slower pace than desirable.
   - The Committee 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.

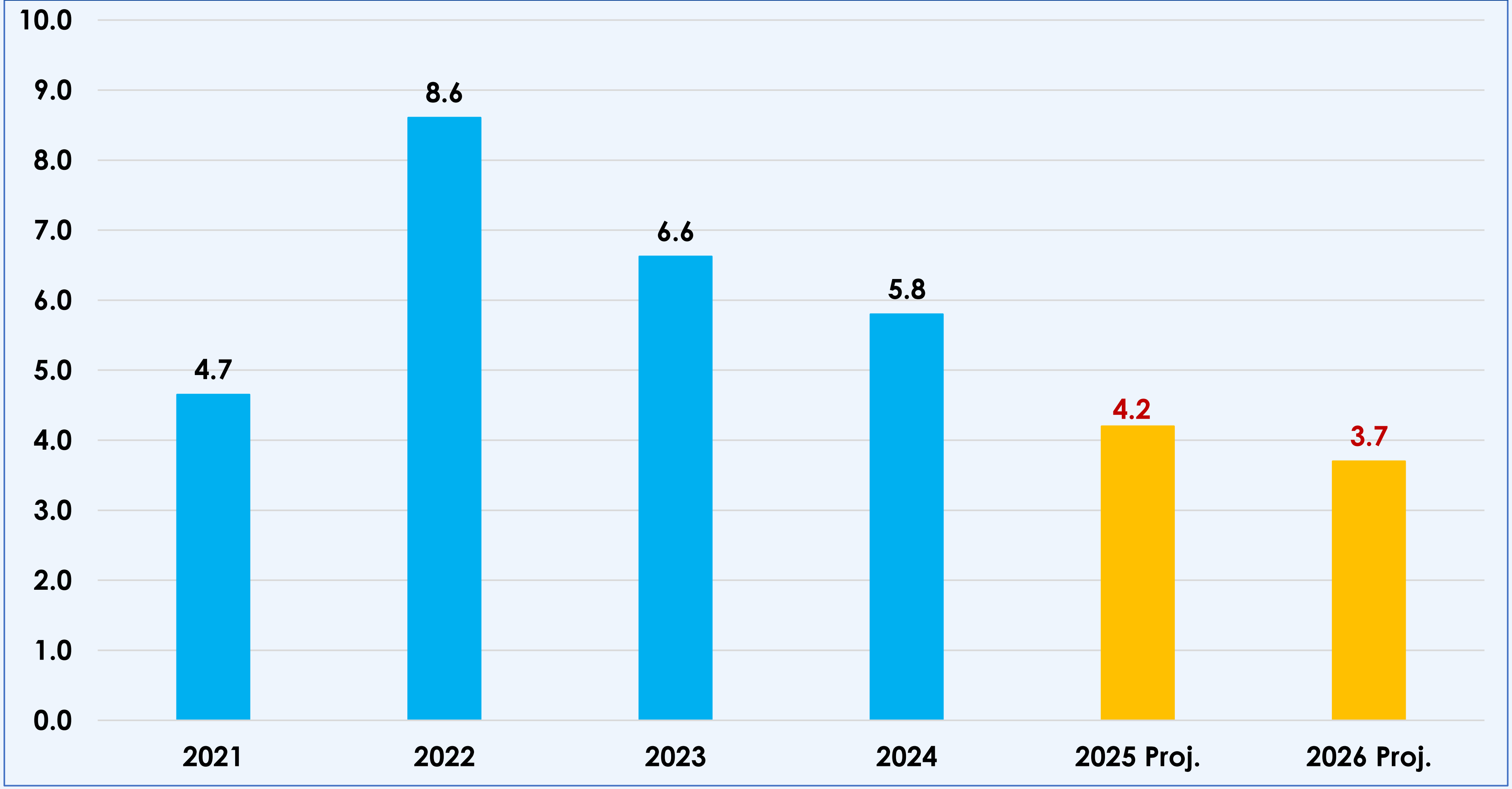
3. **The MPC will closely monitor the impact of this policy decision** as well as developments in the global and domestic economies and stands ready to take further action as necessary in line with its mandate.

4. **The Committee will meet again in February 2026**.

2. Global economic developments and outlook:

Despite higher tariffs on trade, global inflation is projected to decline in 2025 and 2026, mainly driven by lower energy prices, and reduced global demand

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



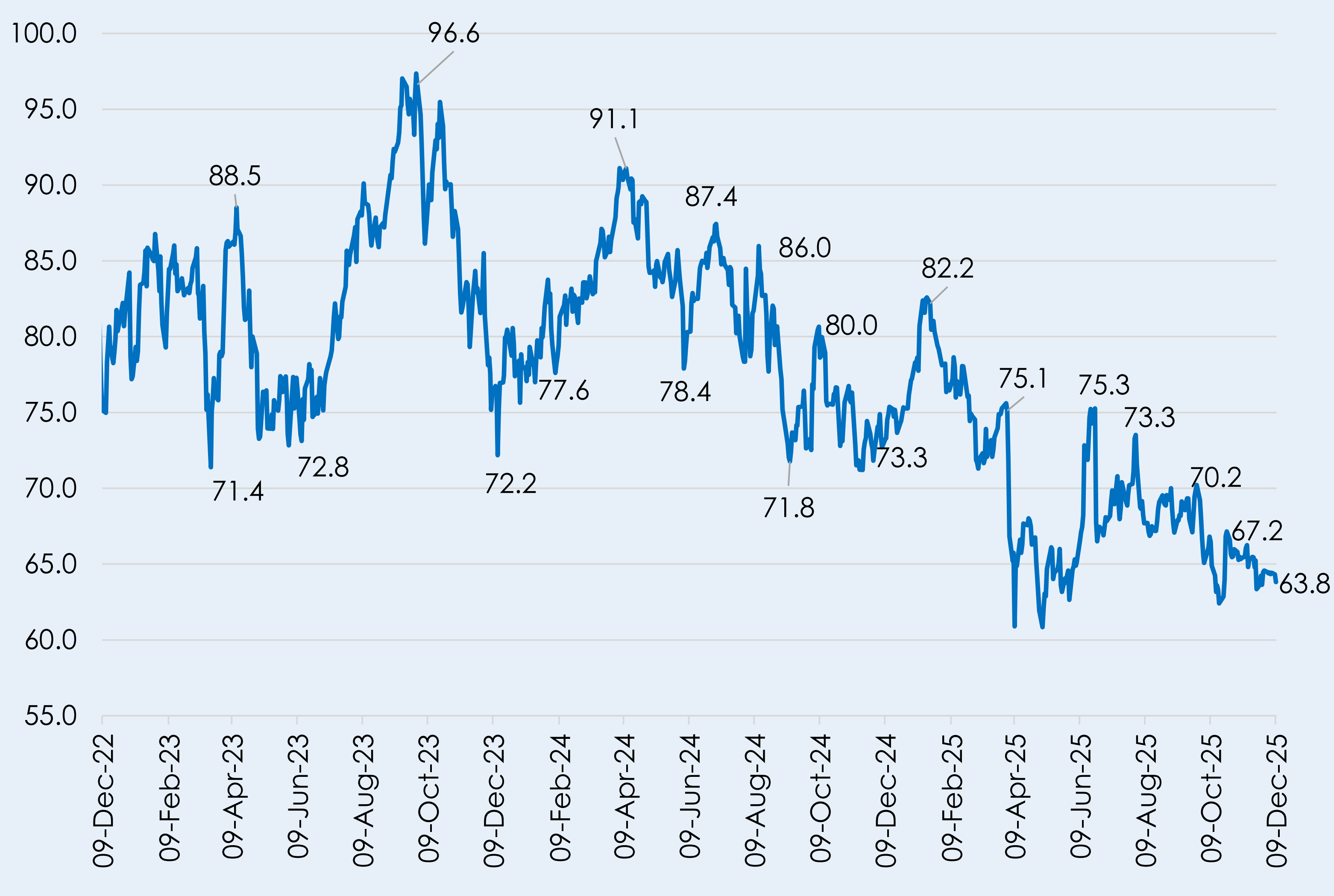
Source: IMF World Economic Outlook, October 2025

3.

Global commodity prices:

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

Murban oil price (USD, per barrel)



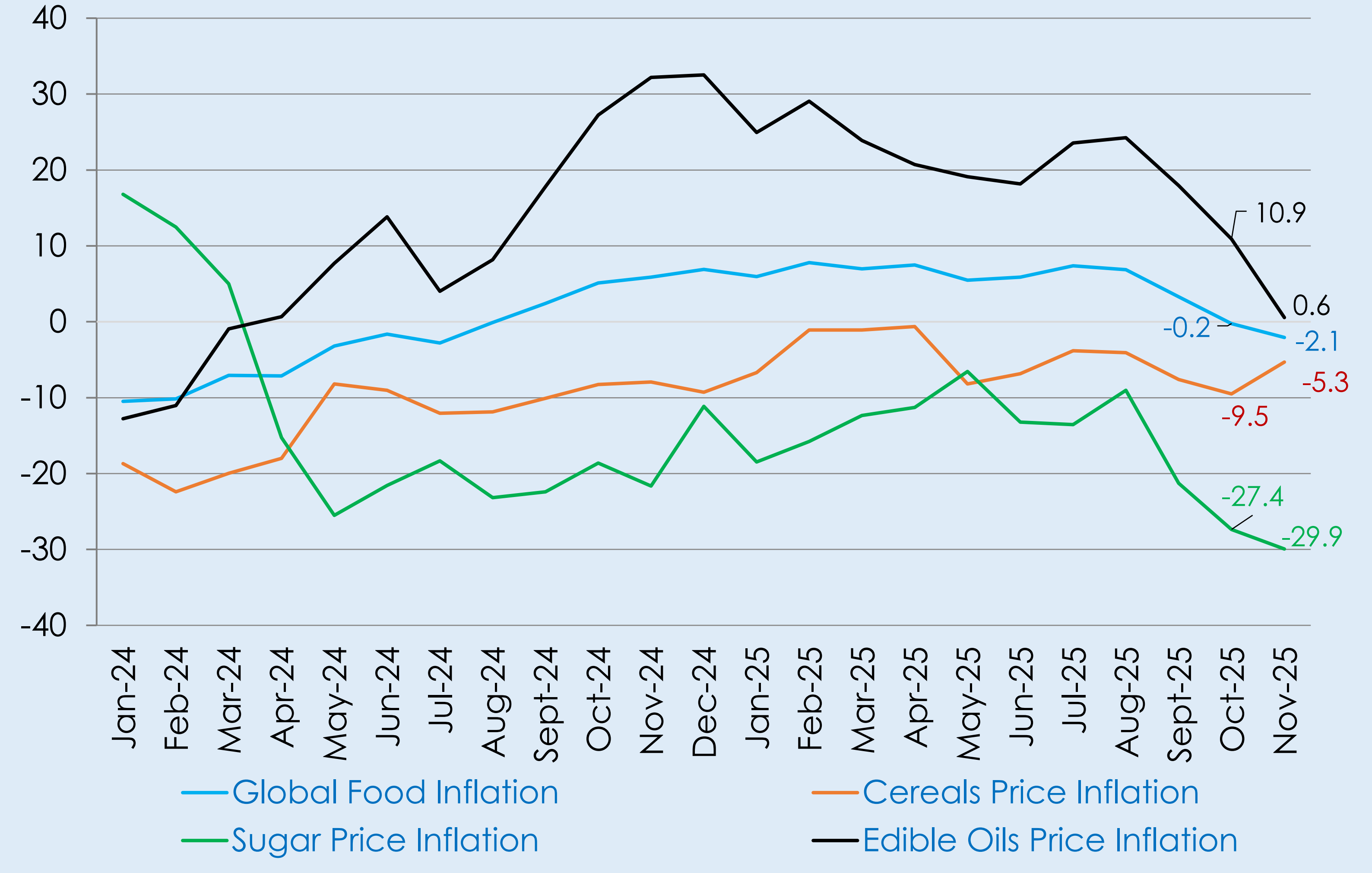
Source: Oilprice.com and Refinitiv

- **The OPEC+ producers raised oil output by 137,000 barrels per day in November and December 2025.**
- **Robust non-OPEC oil production has also contributed to increased oil supply.**
- **The main risks to oil prices relate to any supply disruptions from escalation of geopolitical tensions particularly the conflict in the Middle East and war in Ukraine.**

4. Global commodity prices:

Food inflation declined in November 2025, mainly driven by lower inflation rates for cereals, sugar and edible oils prices

Global food inflation (y/y, percent)



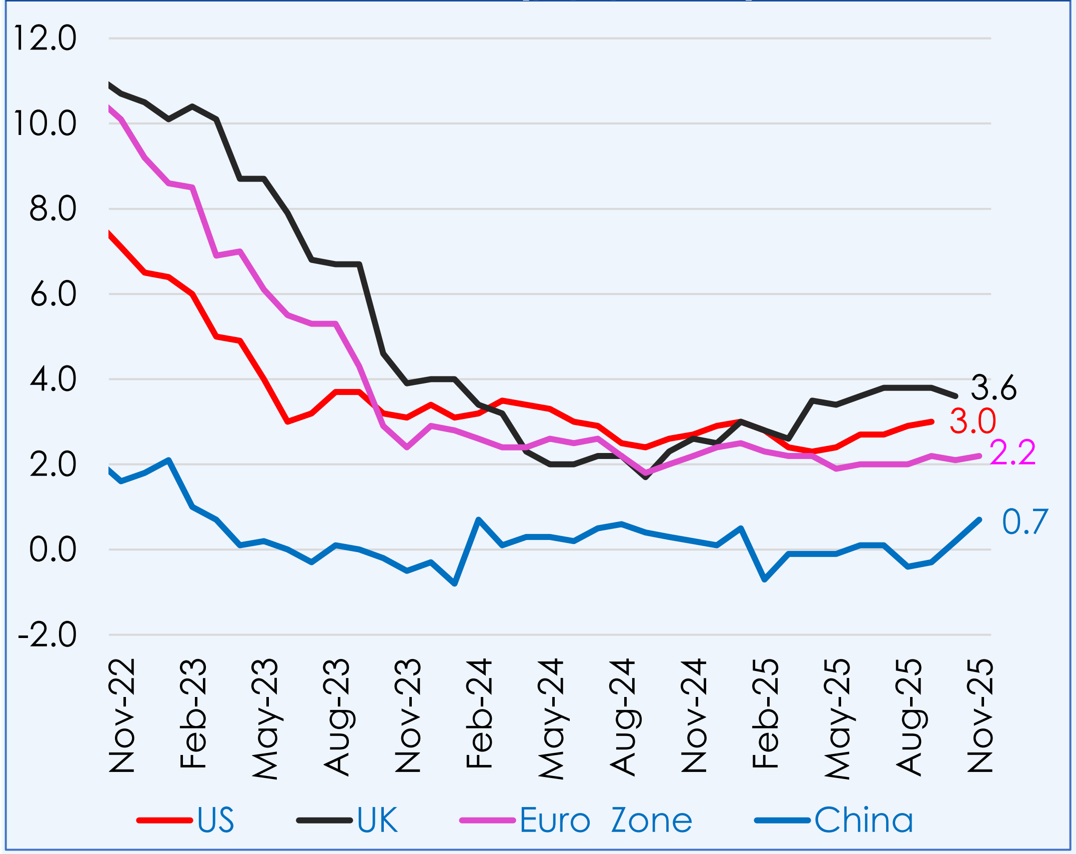
Source: UN FAO Food Index

- **Sugar price inflation fell sharply due to strong production in Brazil and India, and favorable harvests prospects in Thailand.**
- **Edible oils price inflation declined on account of lower prices of palm, rapeseed and sunflower oils. Palm oil prices fell due to higher-than-expected production in Malaysia.**
- **Cereals price inflation remained low, mainly driven by lower prices of rice following improved supply from harvests in northern hemisphere countries and subdued import demand.**

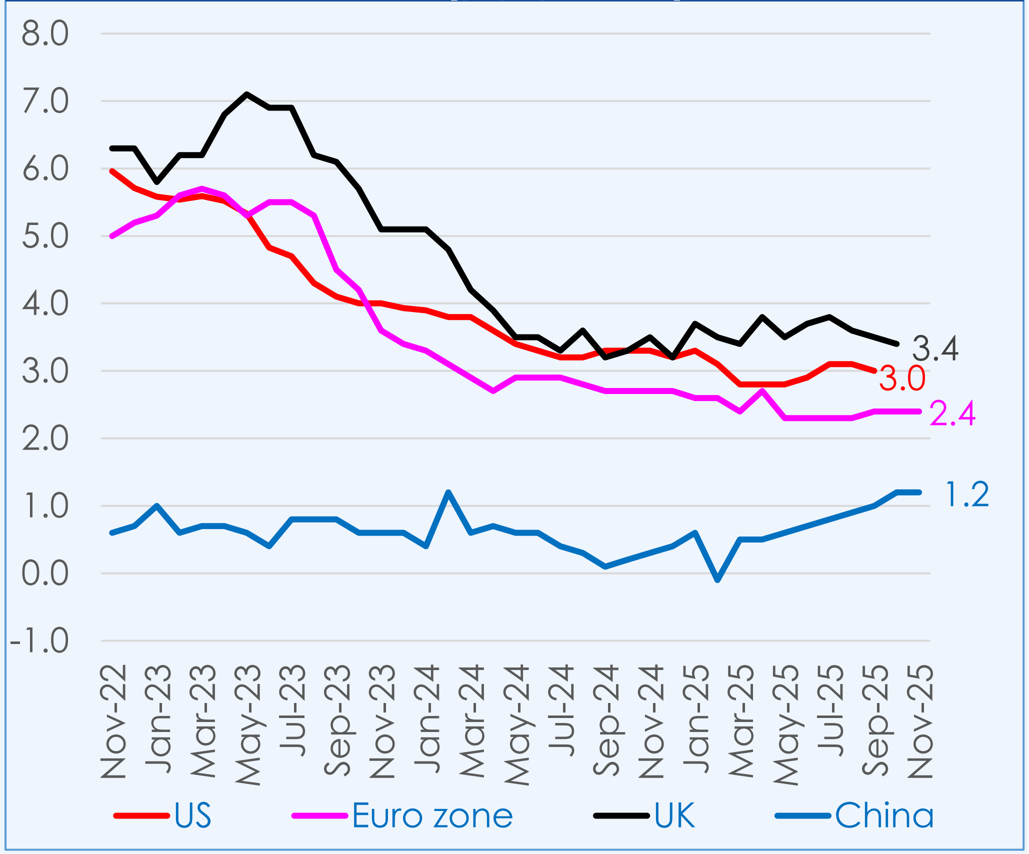
5. Inflation in major economies:

Inflation in some major economies has eased modestly in recent months, but is still above target mainly reflecting 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

- **US headline inflation rose in September 2025 due to higher gasoline prices and effects of higher tariffs on imports. Core inflation eased slightly.**
- **UK headline inflation eased in October mainly driven by lower gas and electricity prices. Core inflation rates also eased.**
- **Eurozone inflation rose slightly in November 2025 due to higher services inflation, but core inflation remained steady.**
- **China's inflation has remained low mainly due to weak domestic demand.**

6.

Global economic growth outlook:

Global growth has remained resilient and is projected at 3.2 percent in 2025, supported by improved financial conditions, and strong consumer and business spending, particularly in the United States. It is however, projected to slow down to 3.1 percent in 2026 due to higher tariffs

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.	
							Oct. 2025 WEO	Difference from Jul. 2025 WEO	Oct. 2025 WEO	Difference from Jul. 2025 WEO
World	**3.0**	**-2.7**	**6.6**	**3.8**	**3.5**	**3.3**	**3.2**	**0.2**	**3.1**	**0.0**
Advanced Economies	**1.9**	**-3.9**	**6.0**	**3.0**	**1.7**	**1.8**	**1.6**	**0.1**	**1.6**	**0.0**
United States	2.6	-2.1	6.2	2.5	2.9	2.8	2.0	0.1	2.1	0.1
United Kingdom	1.6	-10.3	8.6	4.8	0.4	1.1	1.3	0.1	1.3	-0.1
Japan	-0.4	-4.2	2.7	1.0	1.2	0.1	1.1	0.4	0.6	0.1
Euro area	1.6	-6.0	6.4	3.6	0.4	0.9	1.2	0.2	1.1	-0.1
Germany	1.0	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.1	0.9	0.0
France	2.1	-7.6	6.8	2.8	1.6	1.1	0.7	0.1	0.9	-0.1
Italy	0.4	-8.9	8.9	4.8	0.7	0.7	0.5	0.0	0.8	0.0
Emerging Market and Developing Economies	**3.8**	**-1.8**	**7.0**	**4.3**	**4.7**	**4.3**	**4.2**	**0.1**	**4.0**	**0.0**
China	6.1	2.3	8.6	3.1	5.4	5.0	4.8	0.0	4.2	0.0
India	3.9	-5.8	9.7	7.6	9.2	6.5	6.6	0.2	6.2	-0.2
Russia	2.2	-2.7	5.9	-1.4	4.1	4.3	0.6	-0.3	1.0	0.0
Saudi Arabia	1.7	-3.8	6.5	12.0	0.5	2.0	4.0	0.4	4.0	0.1
Sub-Saharan Africa (SSA)	**3.1**	**-3.1**	**3.8**	**4.4**	**3.7**	**4.1**	**4.1**	**0.1**	**4.4**	**0.1**
South Africa	0.3	-6.2	4.9	2.1	0.8	0.5	1.1	0.1	1.2	-0.1
Nigeria	2.2	-6.4	1.1	4.3	3.3	4.1	3.9	0.5	4.2	1.0
Kenya	5.1	-0.3	7.6	4.9	5.7	4.7	4.8	0.0	4.9	0.0

- **The upward revisions to growth in USA, Euro area, UK, and Saudi Arabia could support demand for Kenya's exports, diaspora remittances inflows, and tourist arrivals.**
- **Weak global demand, elevated trade policy uncertainty, and heightened geopolitical tensions in the Middle East and the Russia-Ukraine conflict, remain key risks to growth.**
- **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.**

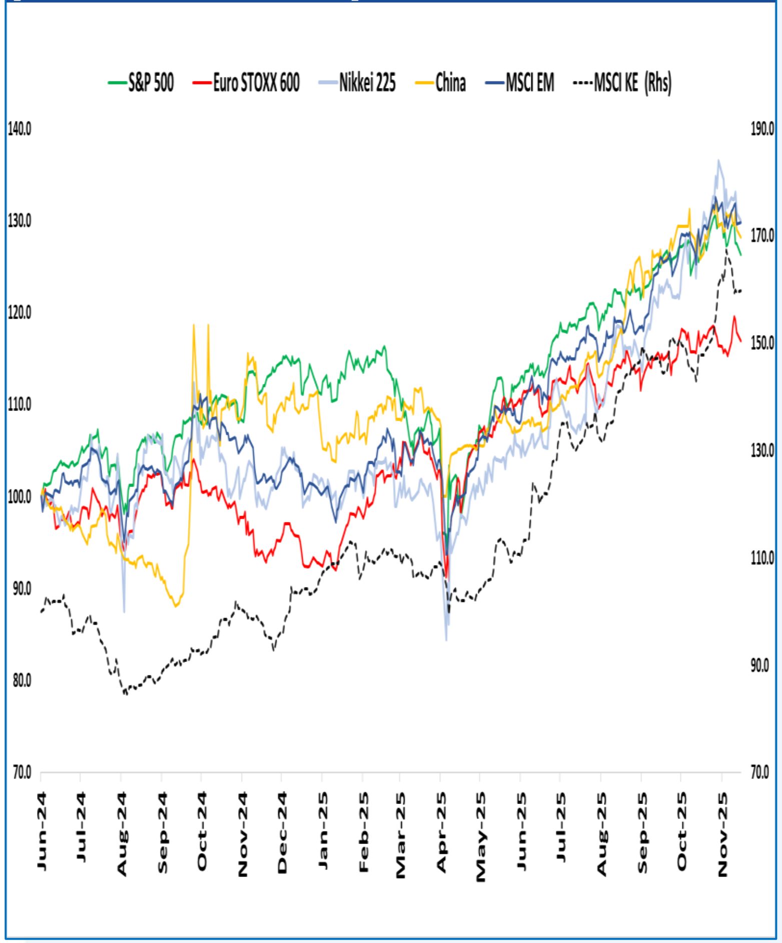
Source: IMF World Economic Outlook, October 2025

7.

Global financial conditions:

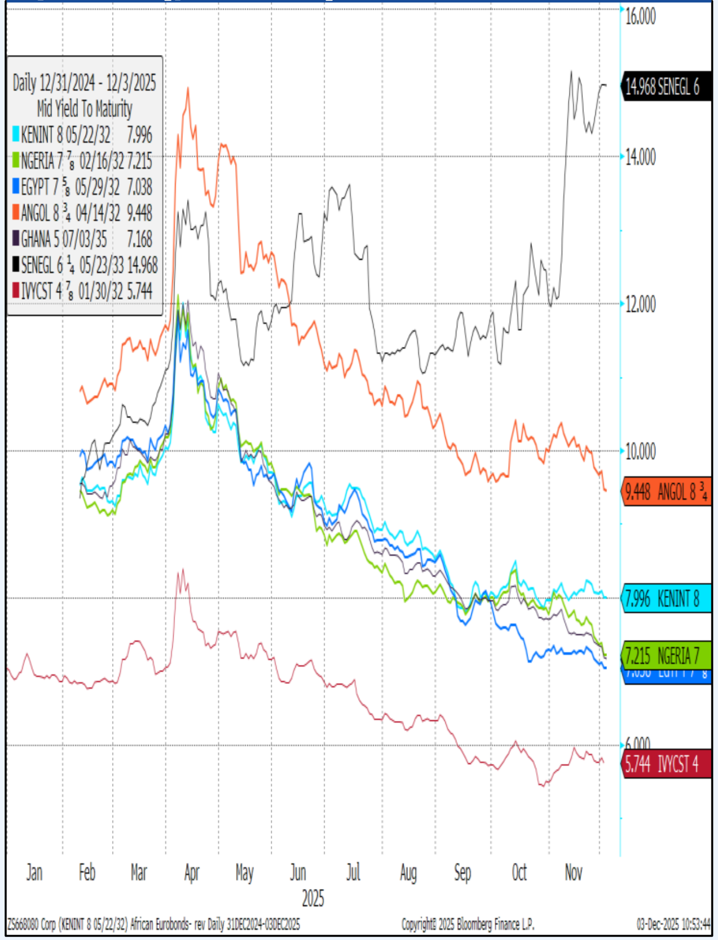
Global financial conditions have improved, as reflected in the recovery of major equity markets, and decline in Eurobond yields in most Emerging and Developing market economies

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

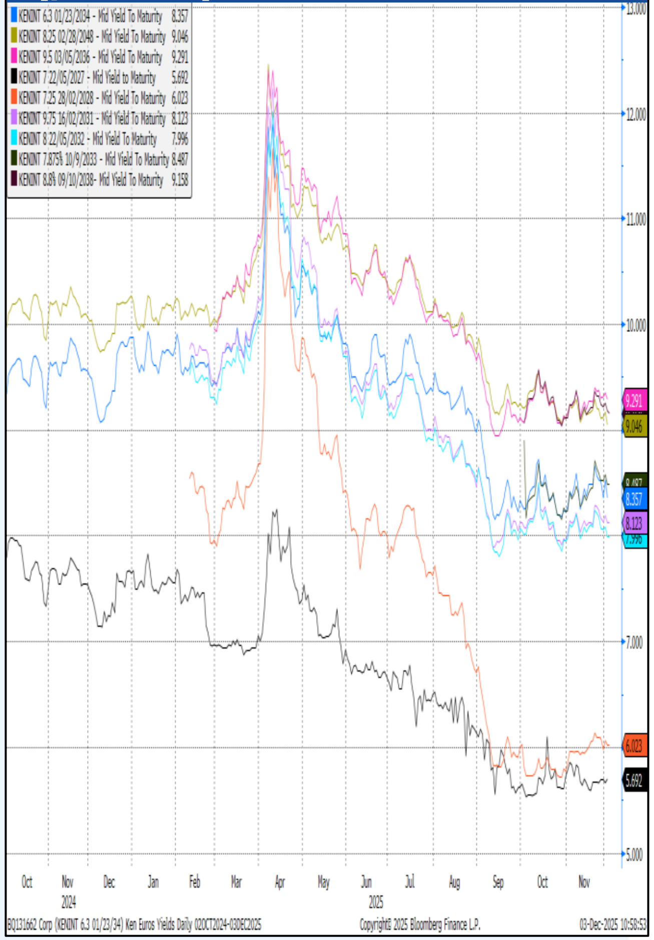


Sources: Bloomberg Finance L.P.; FactSet; MSCI; NABE; Refinitiv Eikon Datastream IBES; MSCI Daily Fixed-Income Insights as of November 28, 2025

Select African Countries' Eurobond yields (percent)



Kenya's Eurobond yields (percent)



Source: Bloomberg as of December 3, 2025

8. Summary of global developments and outlook

1. **Global inflation is projected to decline in 2025 and 2026,** mainly driven by lower energy prices and reduced global demand.

2. **Central banks in the major economies have continued to ease monetary policy**, but at a cautious and uneven pace depending on their inflation and growth outlooks.

3. **Global growth has remained resilient in 2025**, but is projected to slow down in 2026 due to higher tariff rates on trade.

4. **Global financial conditions have improved**, as reflected in the recovery of major equity markets, and decline in Eurobond yields for EMDEs.

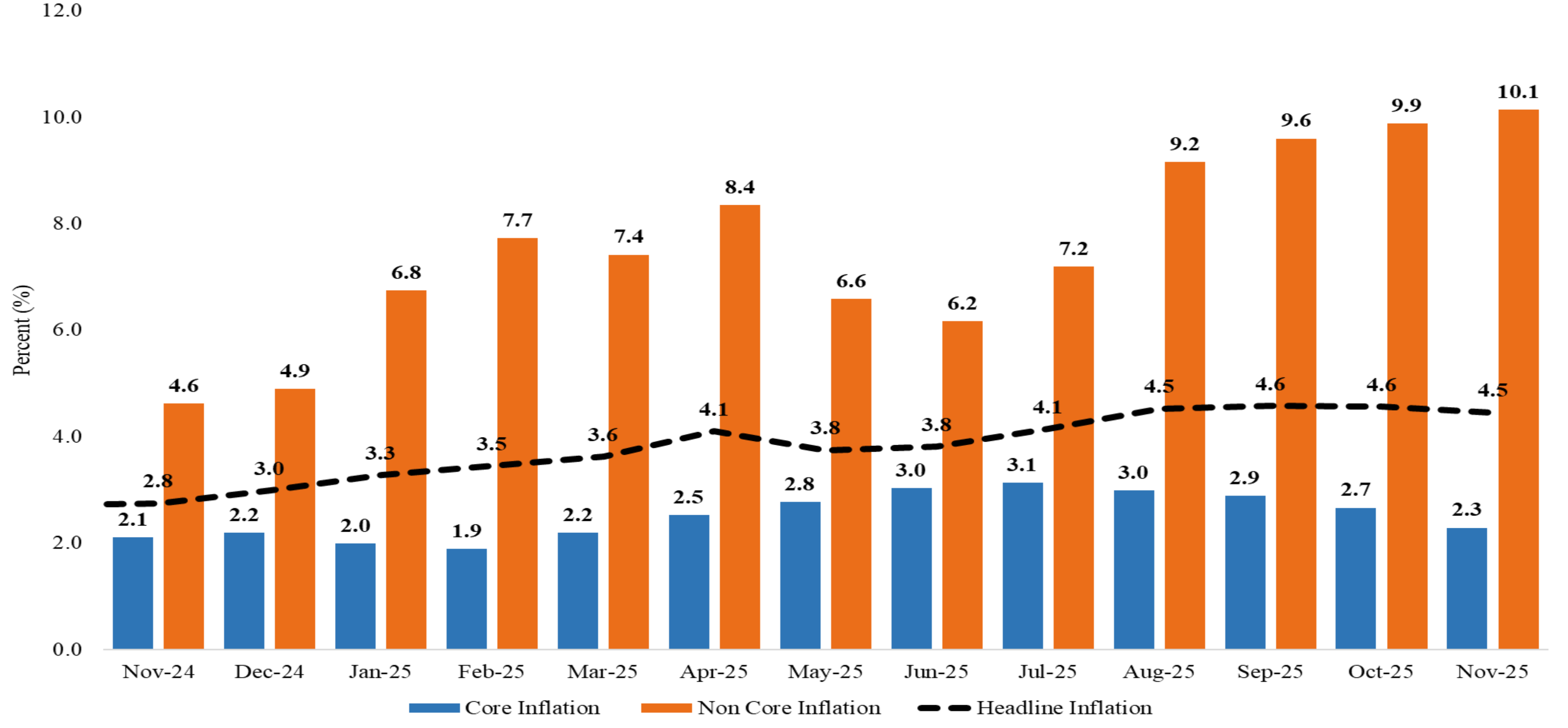
5. **Risks to the global growth outlook remain elevated**, due to elevated trade policy uncertainty, weak global demand, heightened geopolitical tensions in the Middle East, and the Russia-Ukraine conflict.

6. **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.

9. Domestic macroeconomic developments and outlook: Domestic inflation:

Overall inflation declined in November 2025 driven by lower core inflation, and remained below the mid-point of the target range of 5±2.5 percent

Inflation by broad category (y/y, percent)

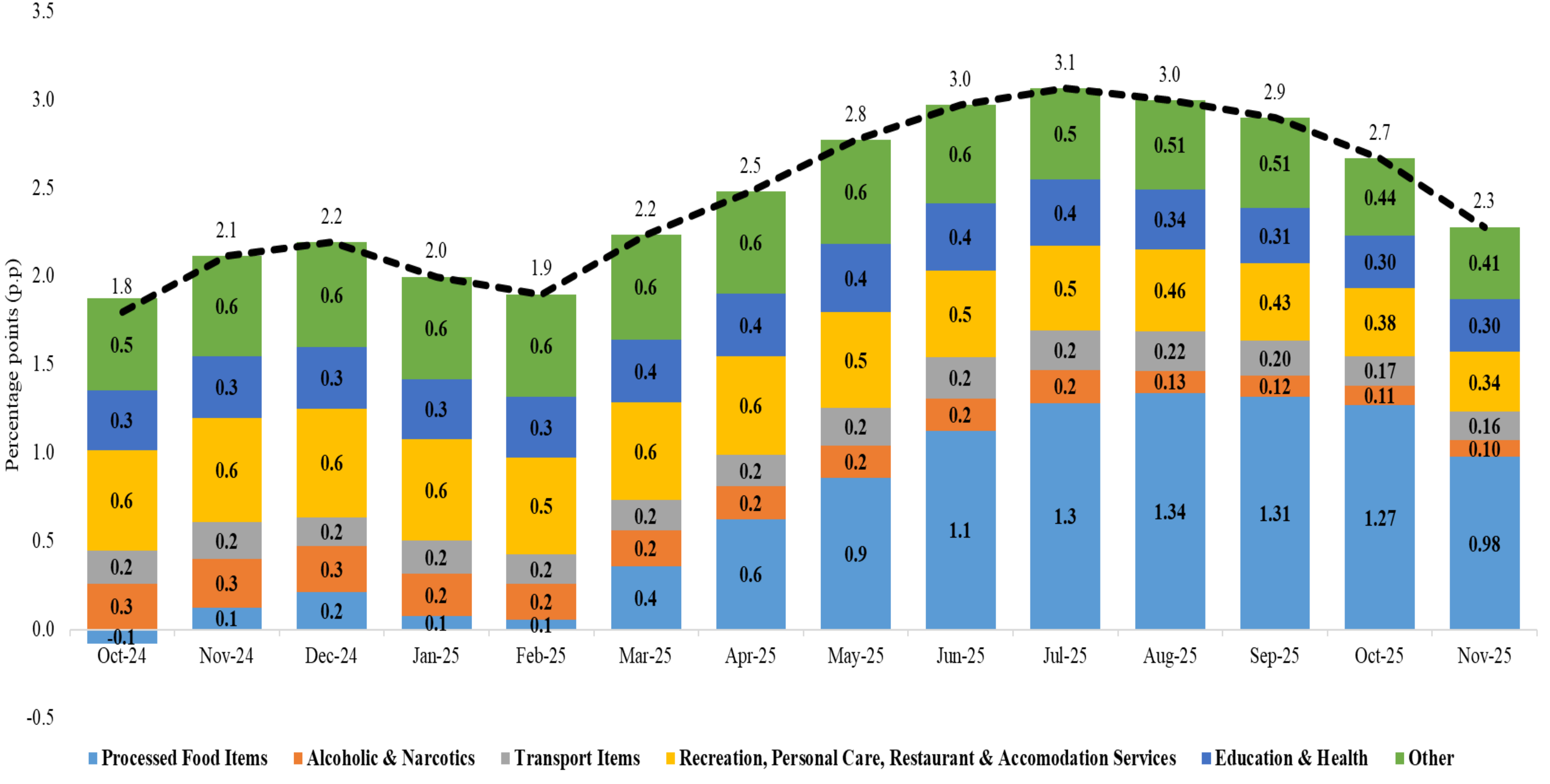


Source: *Kenya National Bureau of Statistics*

10. Main drivers of core inflation:

Core inflation declined in November 2025, mainly on account of lower prices of processed food items, particularly maize flour and sugar

Contributions to core inflation (percentage points)

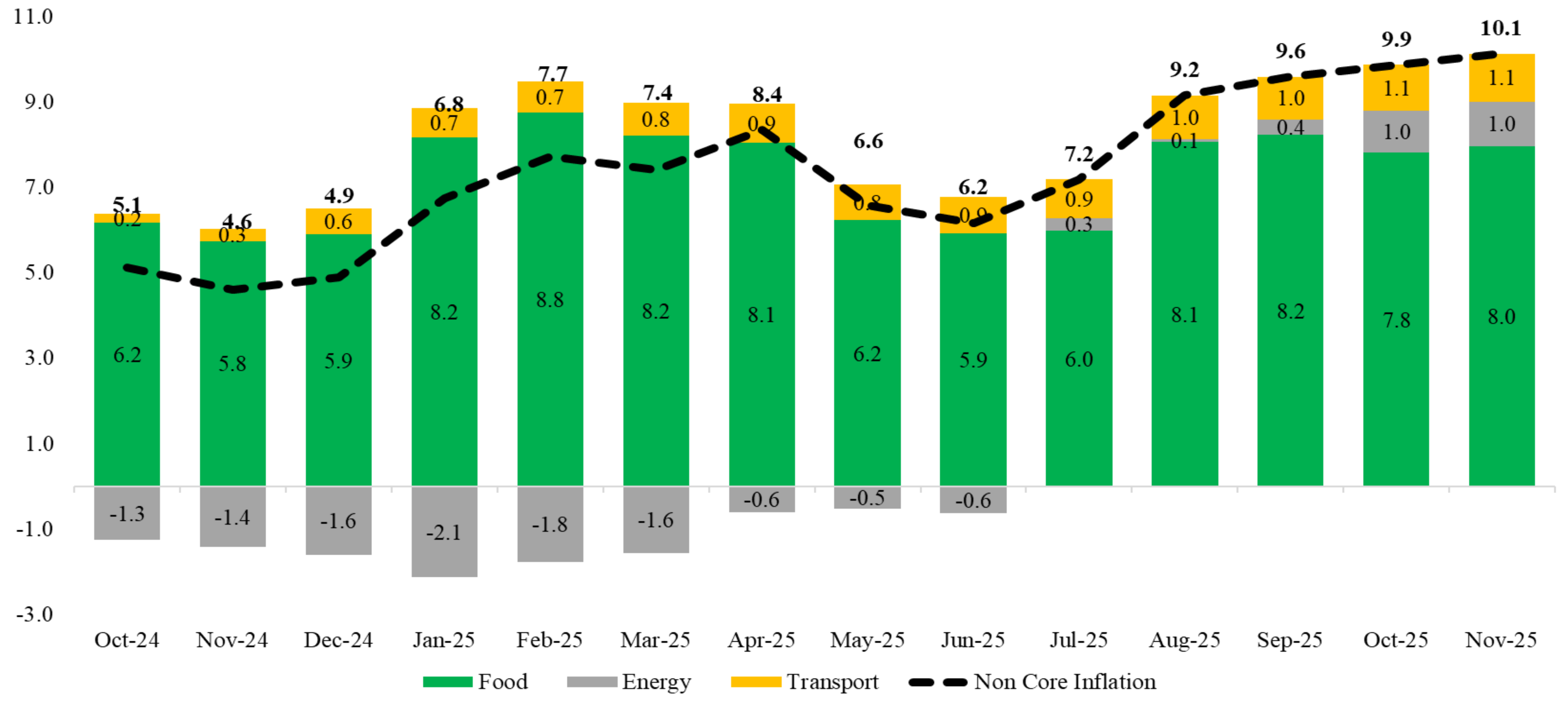


Source: KNBS and CBK

11. Main drivers of non-core inflation:

Non-core inflation increased in November 2025, mainly driven by higher prices of vegetables, particularly tomatoes, onions, and cabbages

Contributions to non-core inflation (percentage points)



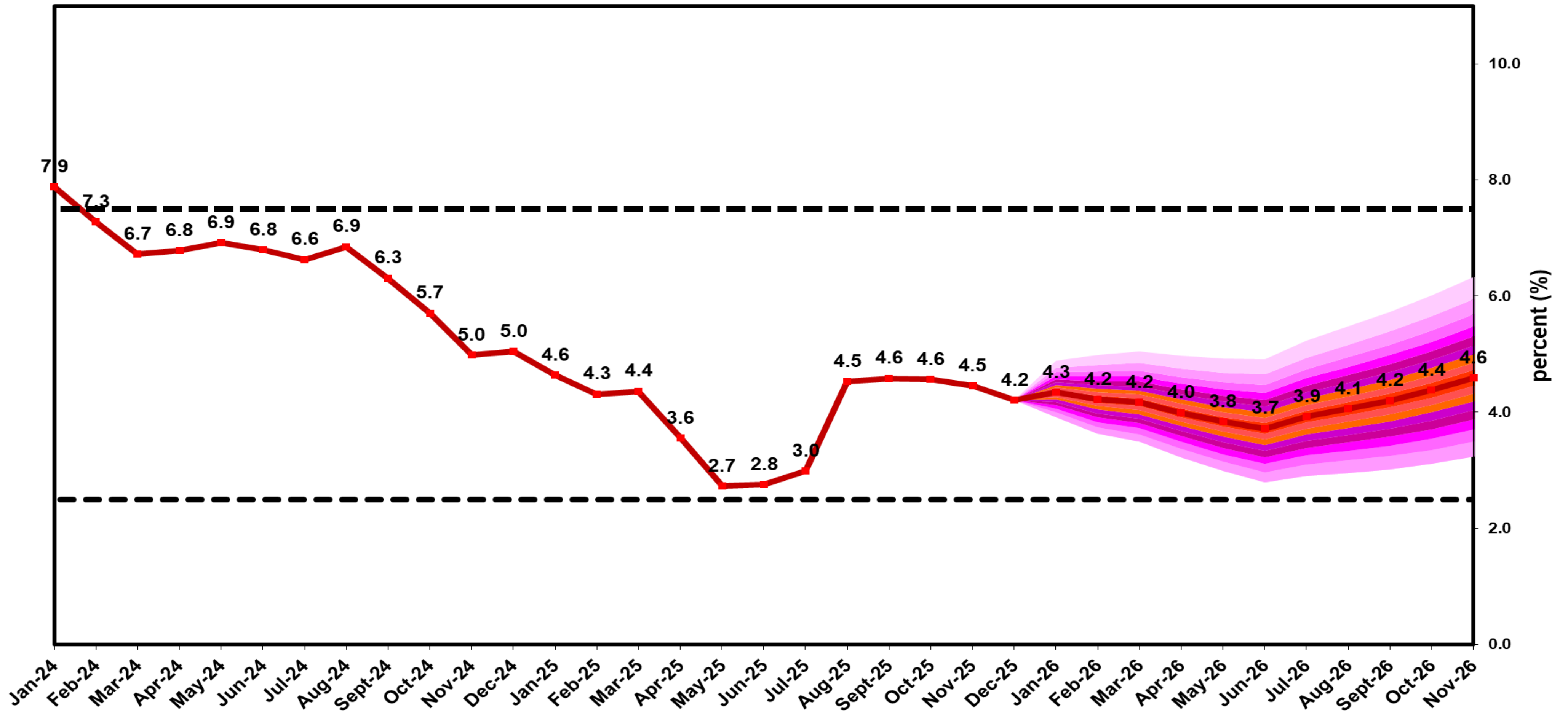
Source: KNBS and CBK

12.

Inflation projections:

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

Actual and Forecasts of overall inflation December 2025 to November 2026 (y/y, percent)

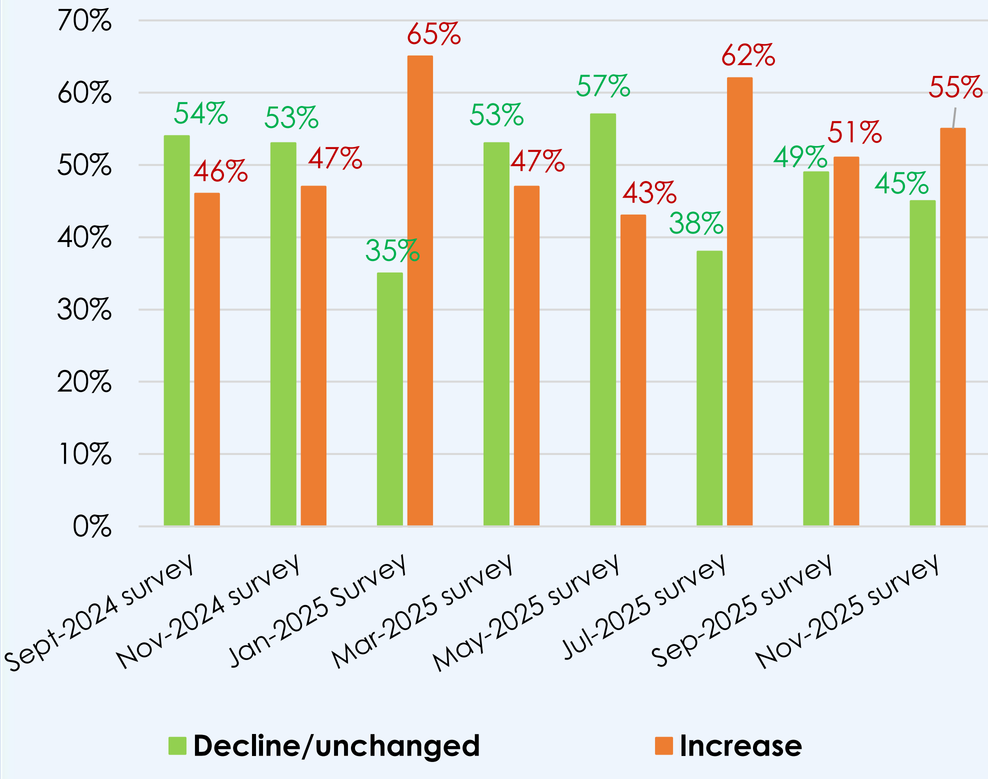


Source: KNBS, and CBK for projections

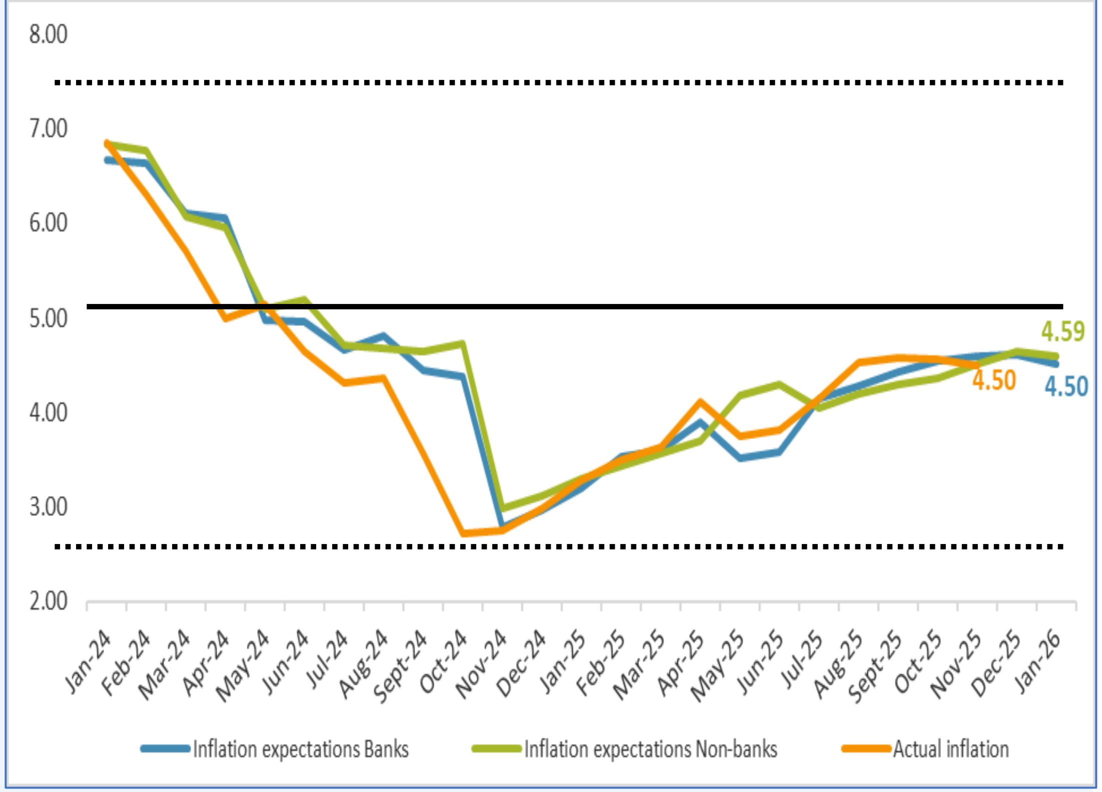
13. Inflation expectations:

The November 2025 MPC Market Perceptions Survey and Agriculture Sector Survey show that inflation expectations remain 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)



- Respondents to the November 2025 Agriculture Sector Survey expect improved food supply following recent harvests particularly of maize, stable pump prices and exchange rate stability to support a stable inflation rate in the near term.
- Nevertheless, a majority of respondents expect seasonal factors associated with the festivities in December, and higher prices of some food items, particularly vegetables, to exert moderate upward pressure on overall inflation.

- The November 2025 MPC Market Perceptions Survey shows that inflation expectations in the near term remain anchored within the target range, mainly due to exchange rate stability, improved food supply, and stable global oil prices which are expected to keep local pump prices and transport inflation stable.

14. Summary on developments and outlook for inflation

1. **Overall inflation stood at 4.5 percent in November 2025 and** 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 prices of processed food items.
   - Stable energy prices on account of lower international oil prices.
   - Exchange rate stability which is expected to continue moderating prices.

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

4. **The main risks to the inflation outlook relate to** uncertainty regarding weather conditions, higher tariffs on trade, and geopolitical tensions particularly the war in Ukraine and Middle East conflict with implications on volatility in oil prices.

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 and agriculture, and the continued recovery of the industry sector

Real GDP growth (y/y, percent)

	Weight (2009–2024)	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025 Q1 Act.	2025 Q2 Act.	2025 Q3 Proj.	2025 Annual Proj.	2026 Annual Proj.
1. Agriculture	19.8	-0.4	-1.5	6.6	4.6	6.0	4.4	5.1	5.1	4.9
2. Non-Agriculture (o/w)	80.2	9.5	6.3	5.5	4.7	4.7	5.1	5.5	5.2	5.7
2.1 Industry	17.8	7.5	3.9	2.0	0.8	3.0	4.0	4.1	3.8	4.4
Mining & Quarrying	1.1	18.0	9.3	-6.5	-9.2	10.8	15.3	8.8	10.8	5.7
Manufacturing	9.1	7.3	2.6	2.2	2.8	2.1	1.0	2.7	2.3	3.3
Electricity & water supply	2.6	5.6	5.5	3.2	1.9	3.6	5.7	4.9	4.8	4.2
Construction	5.1	6.7	4.1	3.0	-0.7	3.0	5.7	5.0	4.5	5.8
2.2 Services	53.8	9.8	7.0	7.0	6.0	5.0	5.7	6.0	5.7	6.2
Wholesale & Retail Trade	8.2	8.0	3.5	3.3	3.8	5.4	4.0	4.8	4.9	5.4
Accommodation & food services	1.1	52.6	26.8	33.6	25.7	4.1	7.8	9.0	7.6	10.5
Transport & Storage	9.8	7.4	5.8	5.5	4.4	3.8	5.4	5.5	5.0	5.7
Information & Communication	2.7	6.1	9.0	10.3	7.0	5.8	6.0	7.6	6.8	7.8
Financial & Insurance	7.8	11.5	12.0	10.1	7.6	5.1	6.6	6.5	6.1	6.4
Public administration	5.7	6.0	5.1	5.0	8.2	6.5	6.0	5.2	5.8	4.8
Professional, Admin & Support Services	3.0	7.1	9.5	9.9	6.2	4.6	8.5	7.7	7.0	7.5
Real estate	9.5	6.7	4.5	7.3	5.3	5.3	5.5	5.8	5.5	6.4
Education	4.7	22.8	5.2	2.9	3.9	2.9	3.2	4.8	3.8	5.4
Health	2.1	8.9	3.4	4.5	6.3	4.8	6.8	5.6	5.8	5.1
Other services	2.4	12.5	6.5	4.3	4.7	2.8	1.4	3.0	2.4	4.0
FISIM	-3.0	5.3	0.2	2.7	9.0	1.9	1.4	0.7	1.5	2.4
2.3 Taxes on products	8.6	11.9	6.7	3.2	4.4	5.7	3.3	4.3	4.5	4.6
Real GDP Growth	100.0	7.6	4.9	5.7	4.7	4.9	5.0	5.4	5.2	5.5

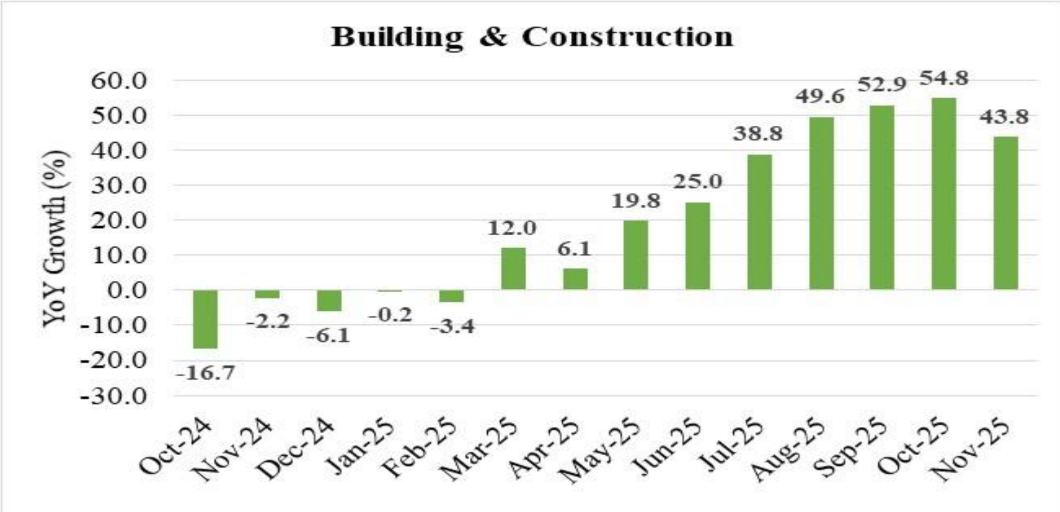
Source: *Kenya National Bureau of Statistics and Central Bank of Kenya*

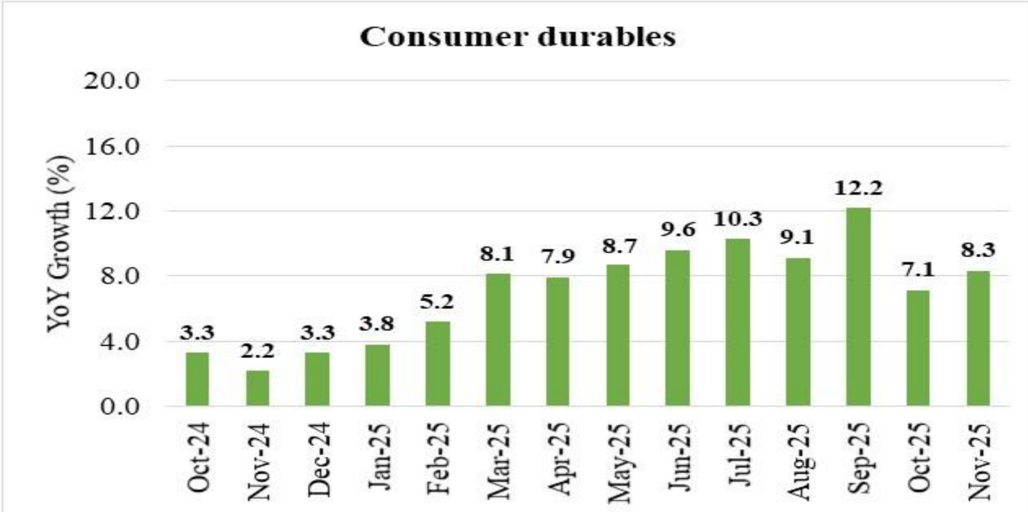
- Agriculture sector growth expected to remain robust, supported by favorable weather conditions, subsidized fertilizer, and irrigation expansion.
- Industrial sector continues to recover, driven by construction, and affordable housing programme, with the settlement of pending bills.
- Key service sectors expected to remain resilient, supported by continued digitization of the economy, expansion of e-commerce, and easing cost of credit.
- Improved uptake of credit across key sectors expected to support growth particularly in building and construction, manufacturing, consumer durables, and trade.

16. Sectoral credit to private sector:

Growth in credit to key sectors of the economy, particularly manufacturing, building and construction, trade, and consumer durables, remained resilient in November 2025

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



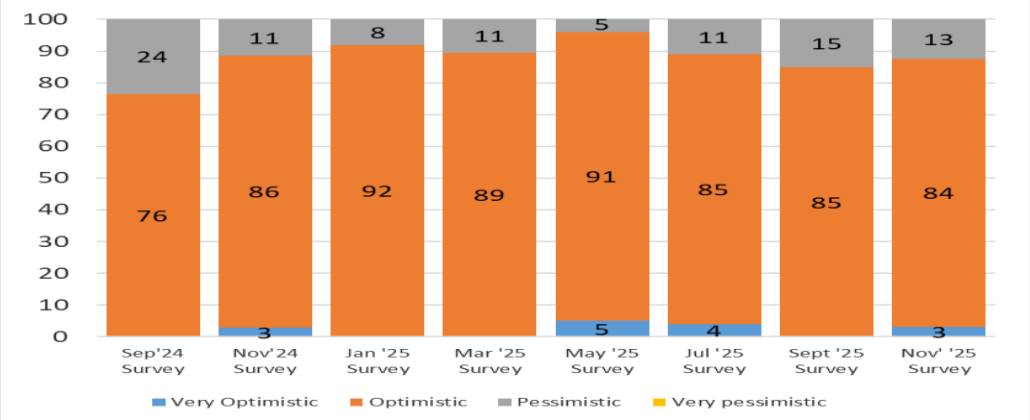


Source: *Central Bank of Kenya*

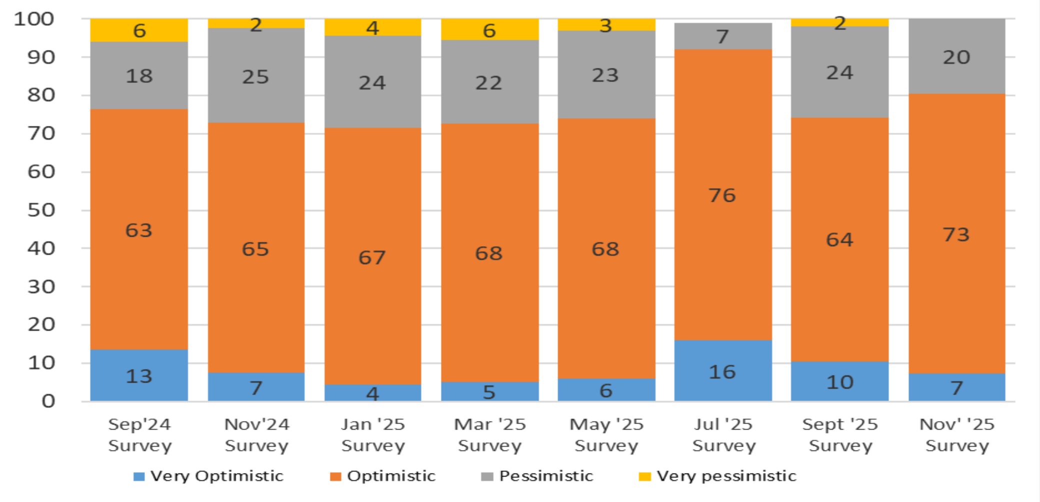
17. November 2025 MPC Surveys:

The CEOs and Market Perceptions Surveys revealed sustained optimism about domestic business activity and economic growth prospects for the next 12 months relative to the projected growth in 2025

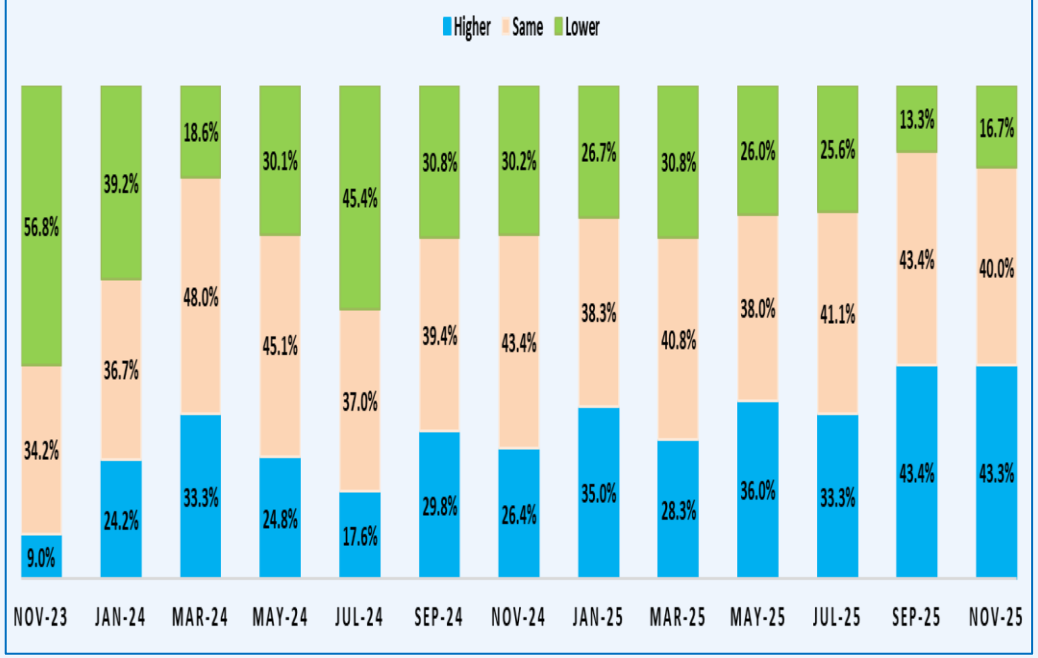
Market Perceptions Survey: Optimism in growth prospects for the next 12 months by Banks (% of respondents)



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 resilient agricultural production supported by favorable weather conditions, the stable macroeconomic environment with low inflation and stable exchange rate, declining interest rates, and improved private sector credit growth.
- 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 half of 2025**, on account of a rebound in activity in the industrial sector, stable growth of the agriculture sector, and resilience of the service sectors.

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

3. **Real GDP growth is projected at 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.

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

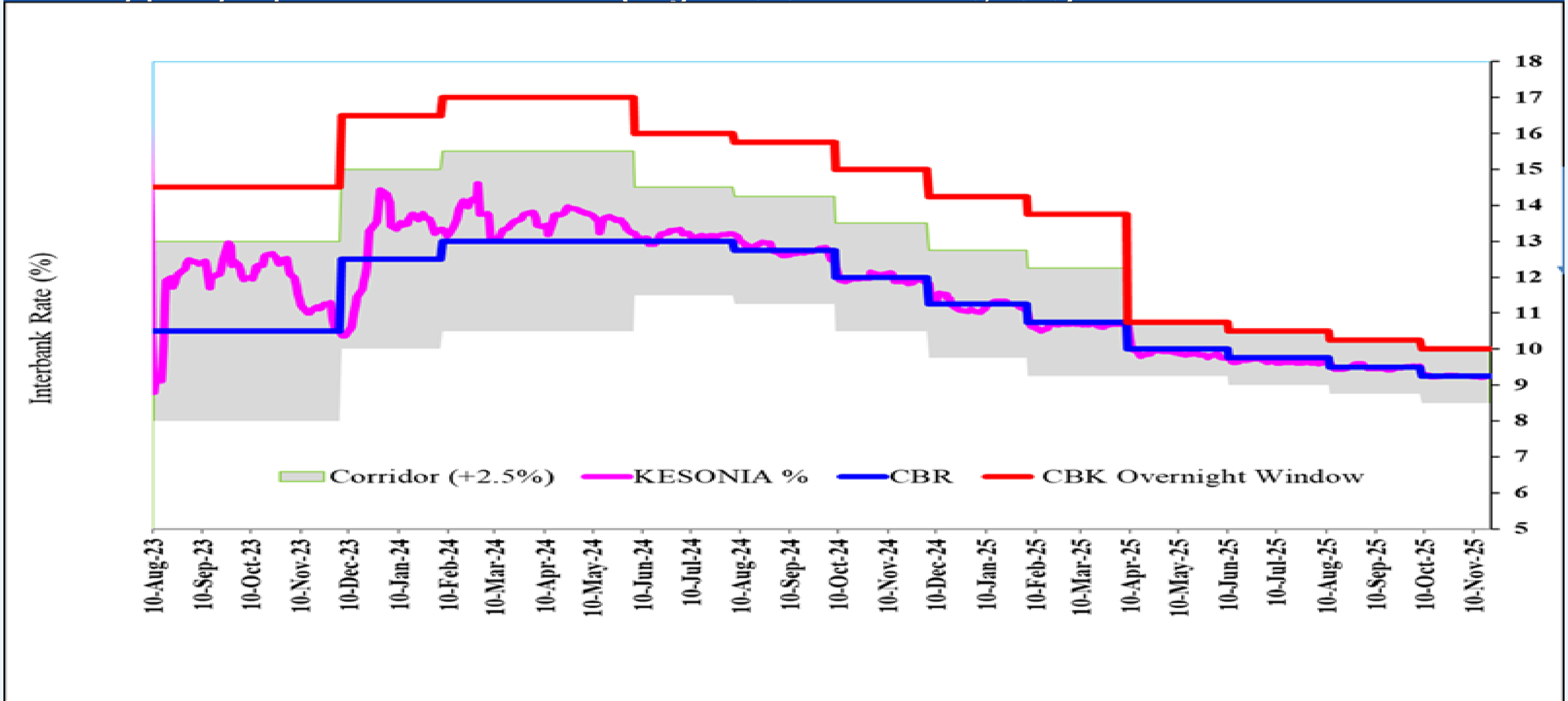
5. **This outlook is subject to risks**, including adverse weather conditions, elevated trade policy uncertainties, and geopolitical tensions.

19.

Monetary policy implementation framework:

The monetary policy implementation framework has enhanced policy transmission, ensured stability of KESONIA, and aligned KESONIA closer to the CBR

Monetary policy implementation framework (August 2023–December 3, 2025)



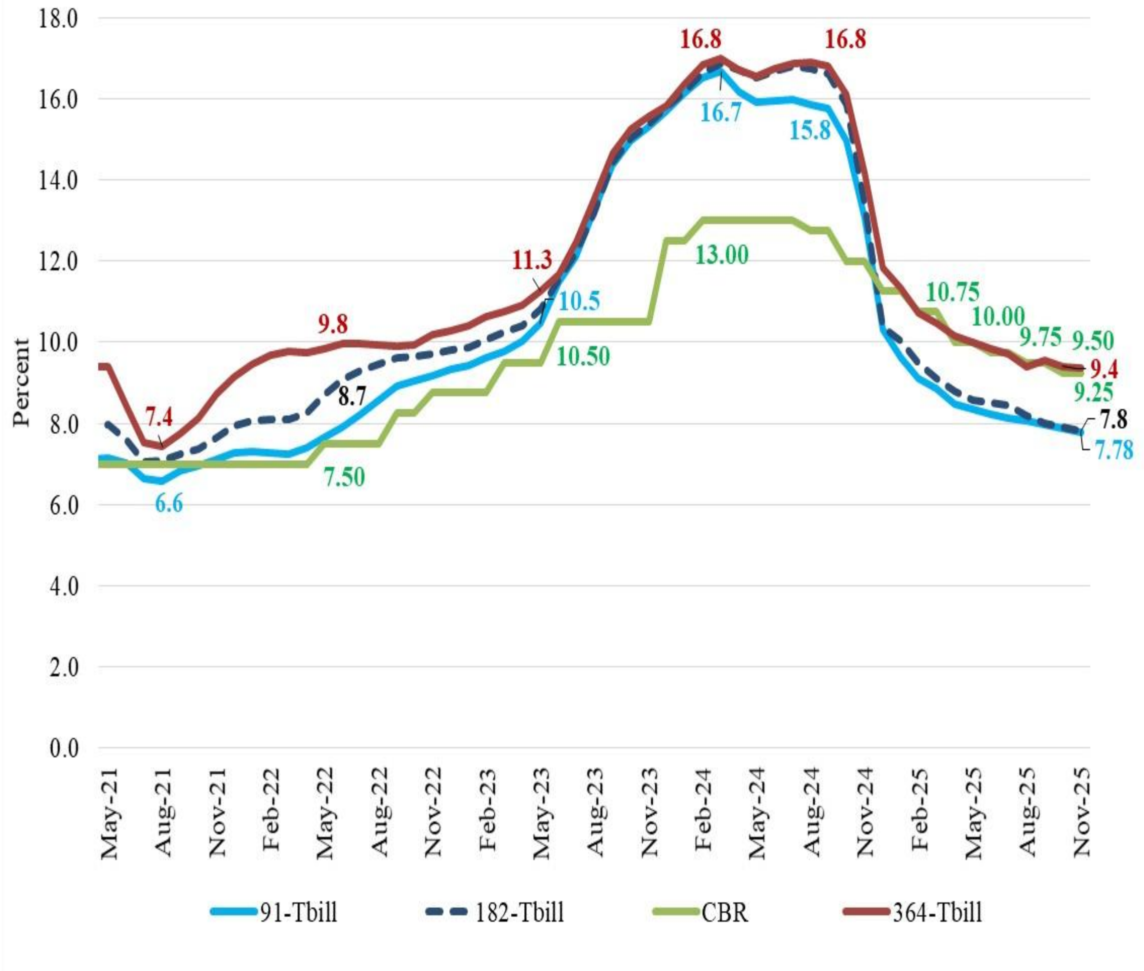
Note: The overnight interbank rate has been officially named Kenya Shilling Overnight Interbank Average (KESONIA) from September 1, 2025

Source: CBK

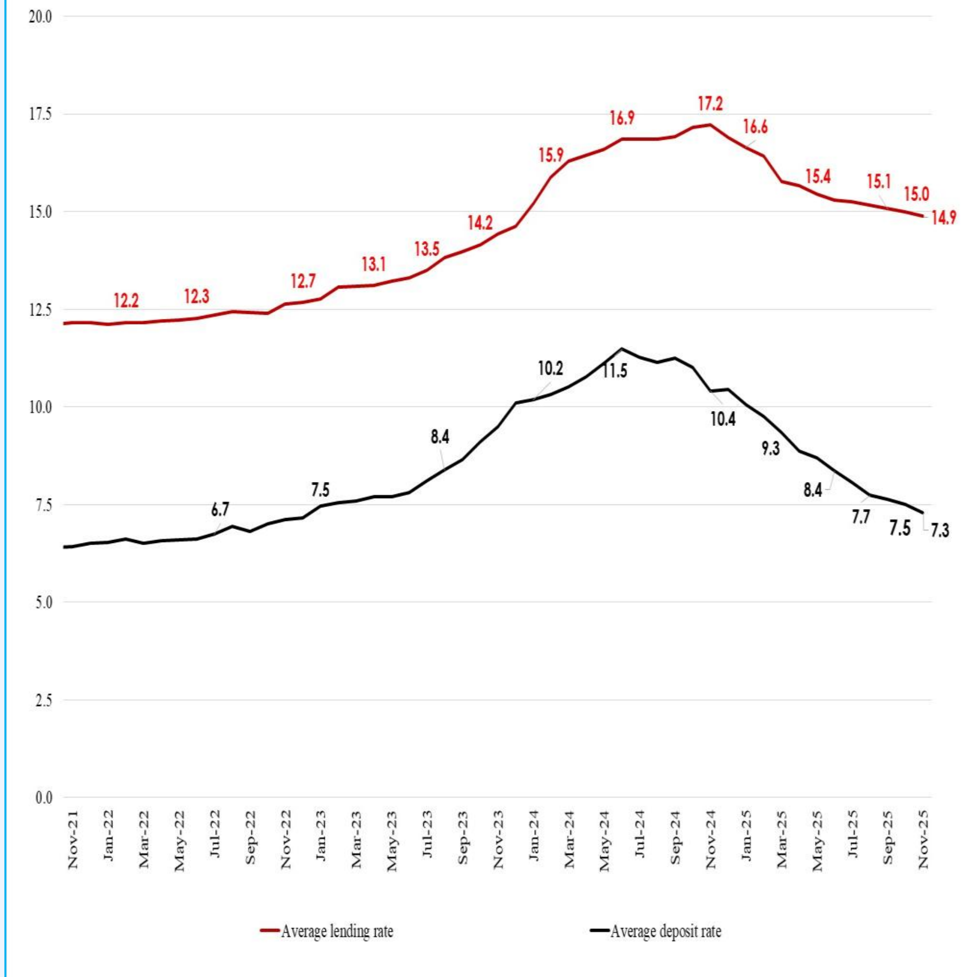
20. Monetary developments:

Short term interest rates and commercial banks lending rates have continued to decline inline with the reductions in the Central Bank Rate

Average Treasury bill rates and Central Bank Rate (percent)



Average commercial banks interest rates (percent)



Source: CBK

21.

Monetary developments:

Growth in commercial banks lending to private sector increased in November 2025, reflecting improved demand for credit 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

Summary of monetary developments

1. **KESONIA, the operational target for monetary policy,** has continued to closely track the Central Bank Rate (CBR).

2. Short-term interest rates have declined further in line with the recent reductions in the CBR.

3. Reflecting the lower lending rates, **growth in credit to the private sector has increased from -2.9 percent in January 2025 to 6.3 percent in November 2025.**

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

23. Balance of payments:

The overall balance of payments is projected to be a surplus in 2025 and 2026, mainly reflecting expected surplus in the financial account

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

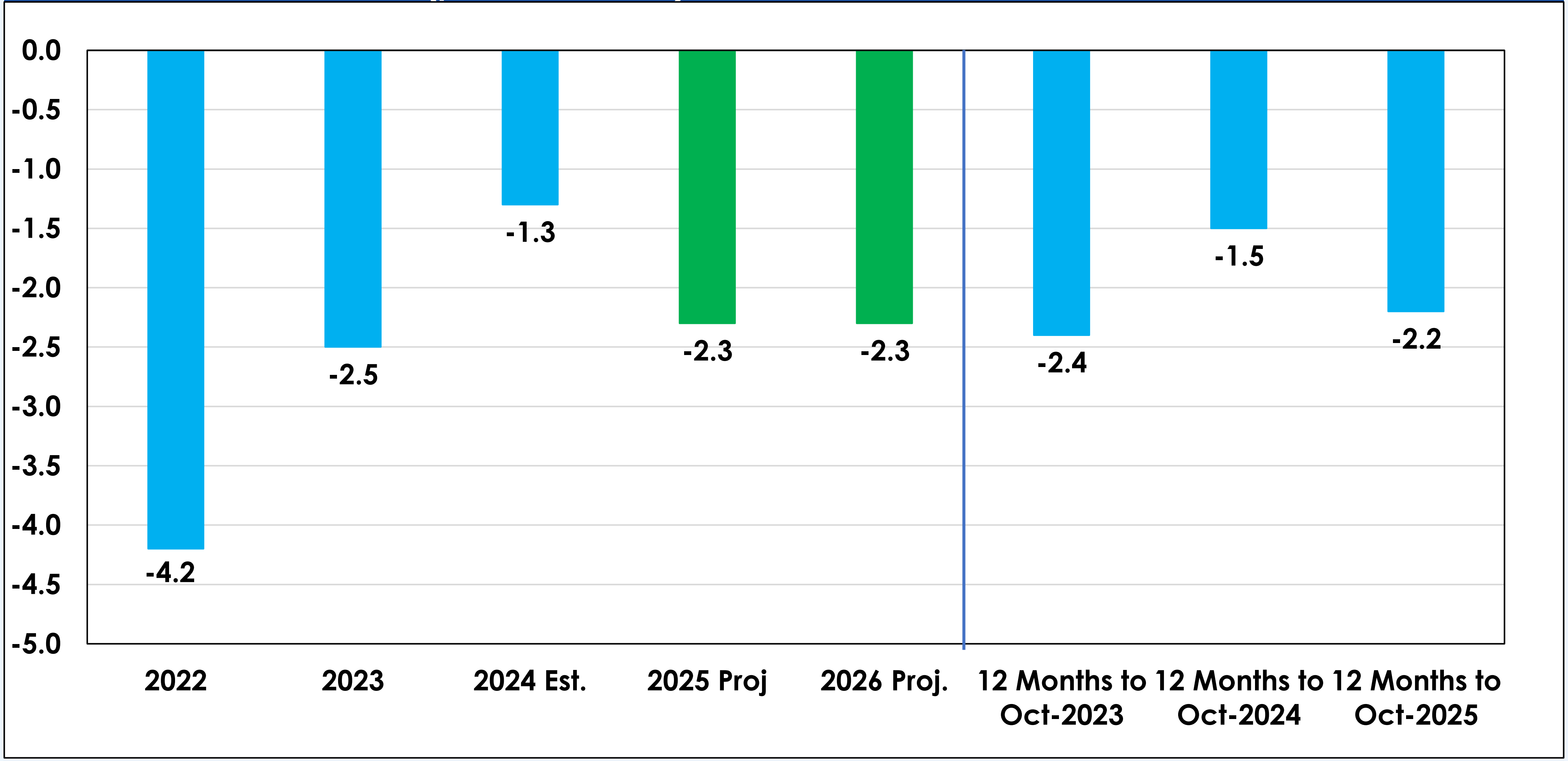
	2022	2023	12 months to Oct 2024	2024 Est.	12 months to Oct 2025	2025 Proj.	2026 Proj.
A. Current account	**-4,824**	**-2,728**	**-1,760**	**-1,551**	**-3,015**	**-3,236**	**-3,328**
Goods balance	**-11,559**	**-9,556**	**-9,642**	**-9,734**	**-10,929**	**-11,156**	**-11,771**
Goods exports, f.o.b	10,650	11,031	12,339	12,508	13,172	13,308	14,641
Goods imports, f.o.b	22,209	20,588	21,982	22,242	24,100	24,464	26,411
Services balance	**1,981**	**1,703**	**2,326**	**2,416**	**2,319**	**2,344**	**2,568**
Services Credit	7,604	7,149	7,775	8,078	8,149	8,189	8,587
Services Debit	5,623	5,446	5,449	5,662	5,830	5,846	6,019
Goods and Services Balance	**-9,579**	**-7,853**	**-7,317**	**-7,318**	**-8,610**	**-8,812**	**-9,203**
Primary income, Balance	**-1,761**	**-1,861**	**-1,933**	**-1,845**	**-1,871**	**-1,853**	**-1,925**
Secondary income	**6,516**	**6,986**	**7,490**	**7,613**	**7,466**	**7,428**	**7,800**
B. Financial and Capital account	**-2,683**	**-1,720**	**-2,774**	**-3,009**	**-5,125**	**-5,175**	**-4,009**
C. Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**-1,014**	**-1,459**	**-2,111**	**-1,938**	**-681**
D. Reserves and related items	**-2,141**	**-1,008**	**1,014**	**1,459**	**2,111**	**1,938**	**681**
Reserve assets (gross)+ve entry reflect an increase in reserve assets	-1,521	-628	1,688	2,749	2,717	1,938	444
Use of Fund credit and loans to the fund (net)	619	380	674	1,290	606	0	0
Exceptional financing	0	0	0	0	0	0	-237

Source: KNBS and CBK

24. Current account balance:

The current account deficit was 2.2 percent of GDP in the 12 months to October 2025 compared to 1.5 percent of GDP in a similar period in 2024, reflecting higher imports of intermediate and capital goods, and is projected to be stable in 2025 and 2026

Current account balance (percent of GDP)



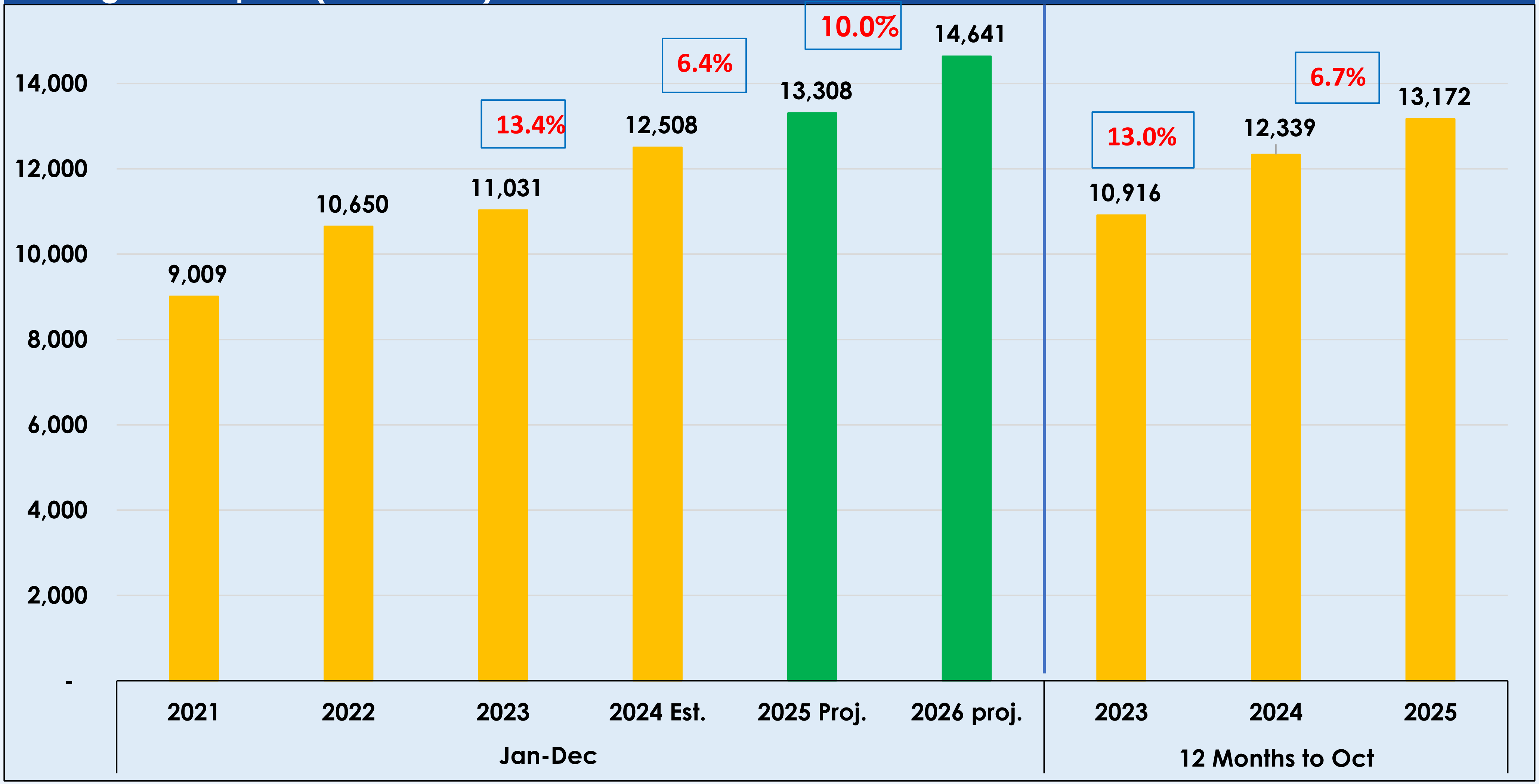
Source: KRA and CBK

25.

Balance of payments:

Goods exports increased by 6.7 percent in the 12 months to October 2025 compared to a similar period in 2024, driven by horticulture, coffee, manufactured goods, and apparel

Total goods exports (USD Million)



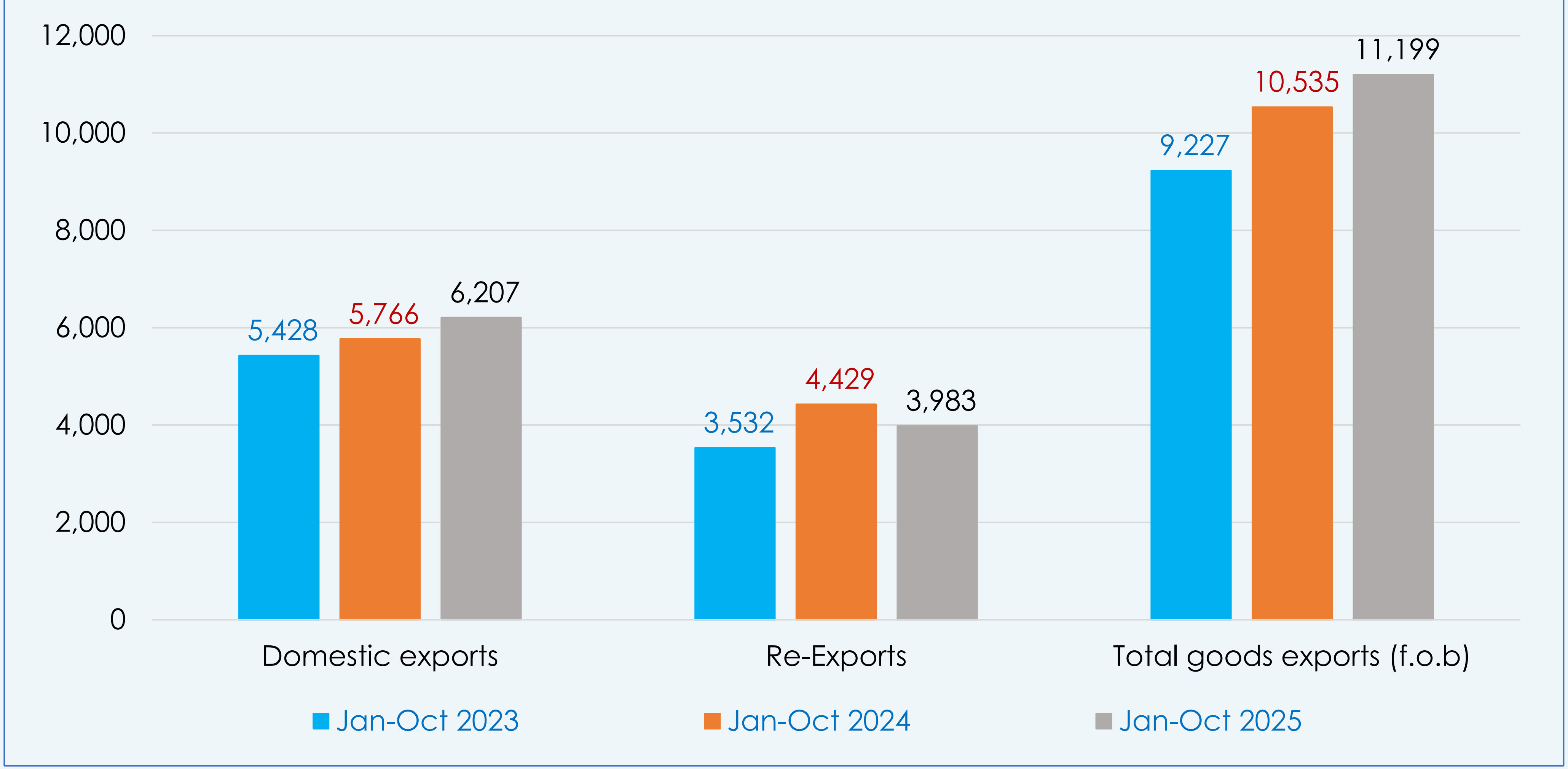
Source: KRA and CBK

26.

Balance of payments:

Domestic exports increased by 7.6 percent in the first ten months of 2025, while re-exports were lower by 10.1 percent in the period partly due to lower imports of jet fuel partly attributed to lower international oil prices

Disaggregation of goods exports (USD Million)



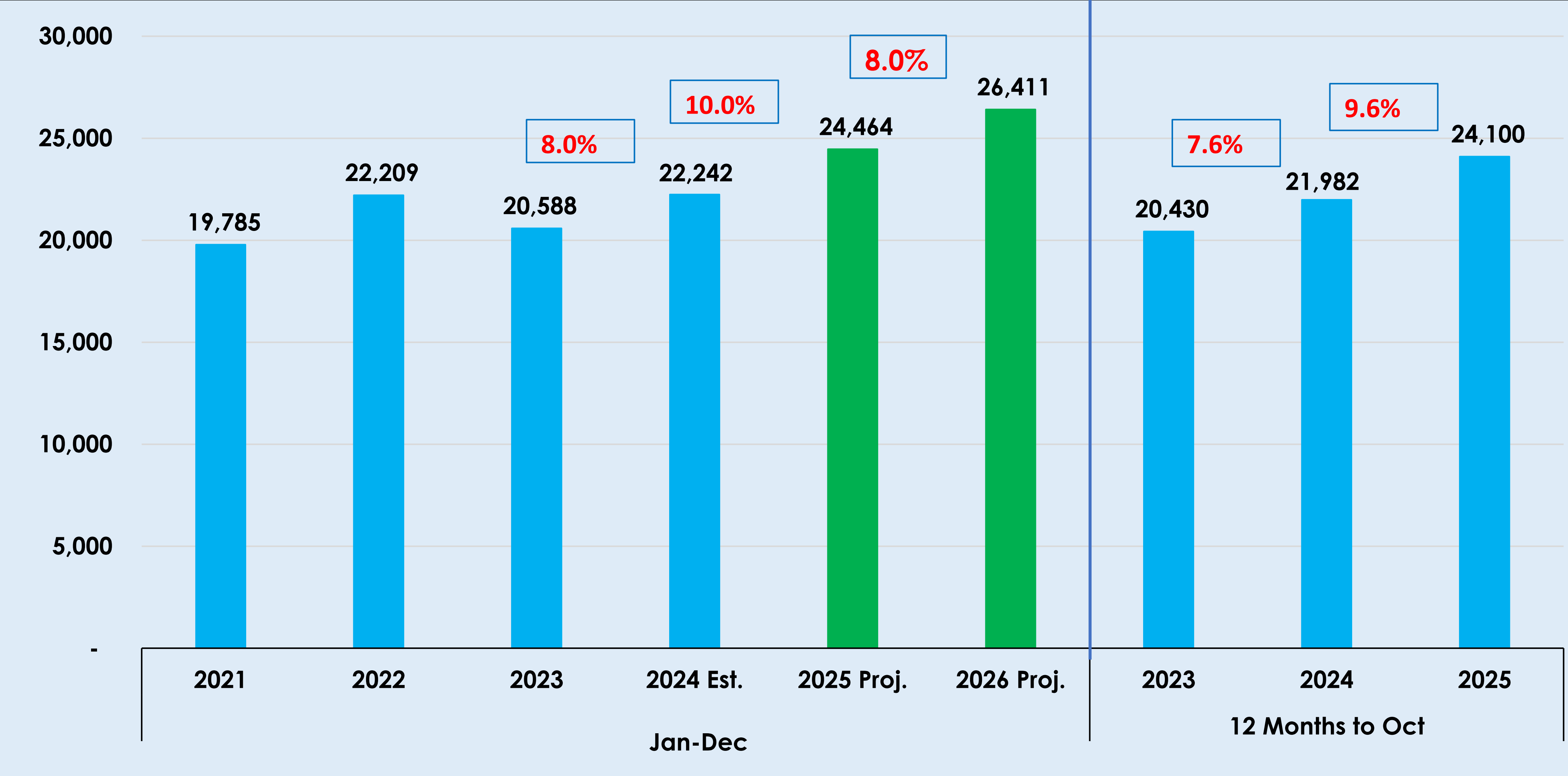
Source: KRA and CBK

27.

Balance of payments:

Goods imports increased by 9.6 percent in the 12 months to October 2025, mainly reflecting increases in intermediate and capital goods imports

Total goods imports (USD Million)



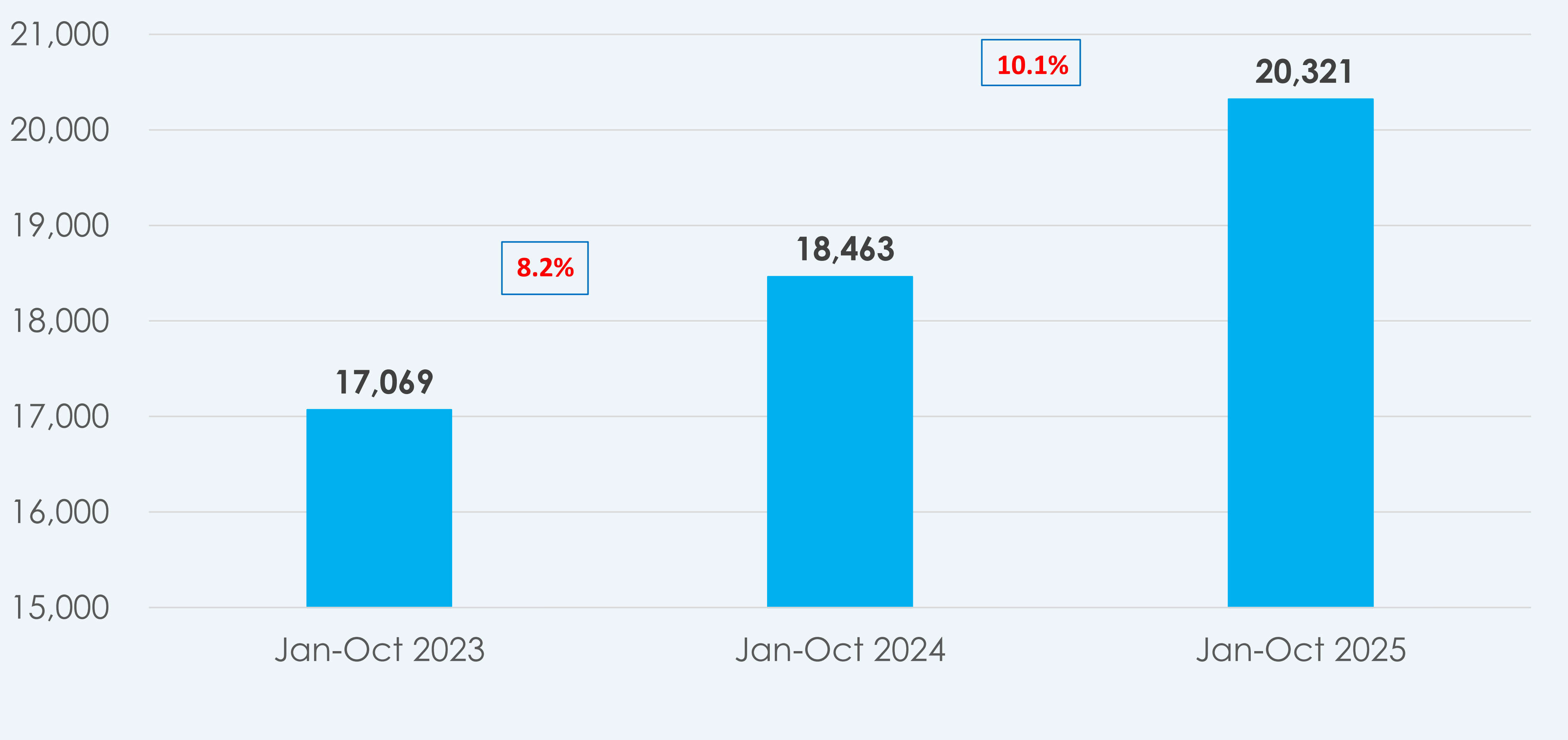
Source: CBK, KRA

28.

Balance of payments:

Goods imports were 10.1 percent higher in the first ten months of 2025, mainly reflecting increases in intermediate and capital goods imports

Total goods imports (USD Million)



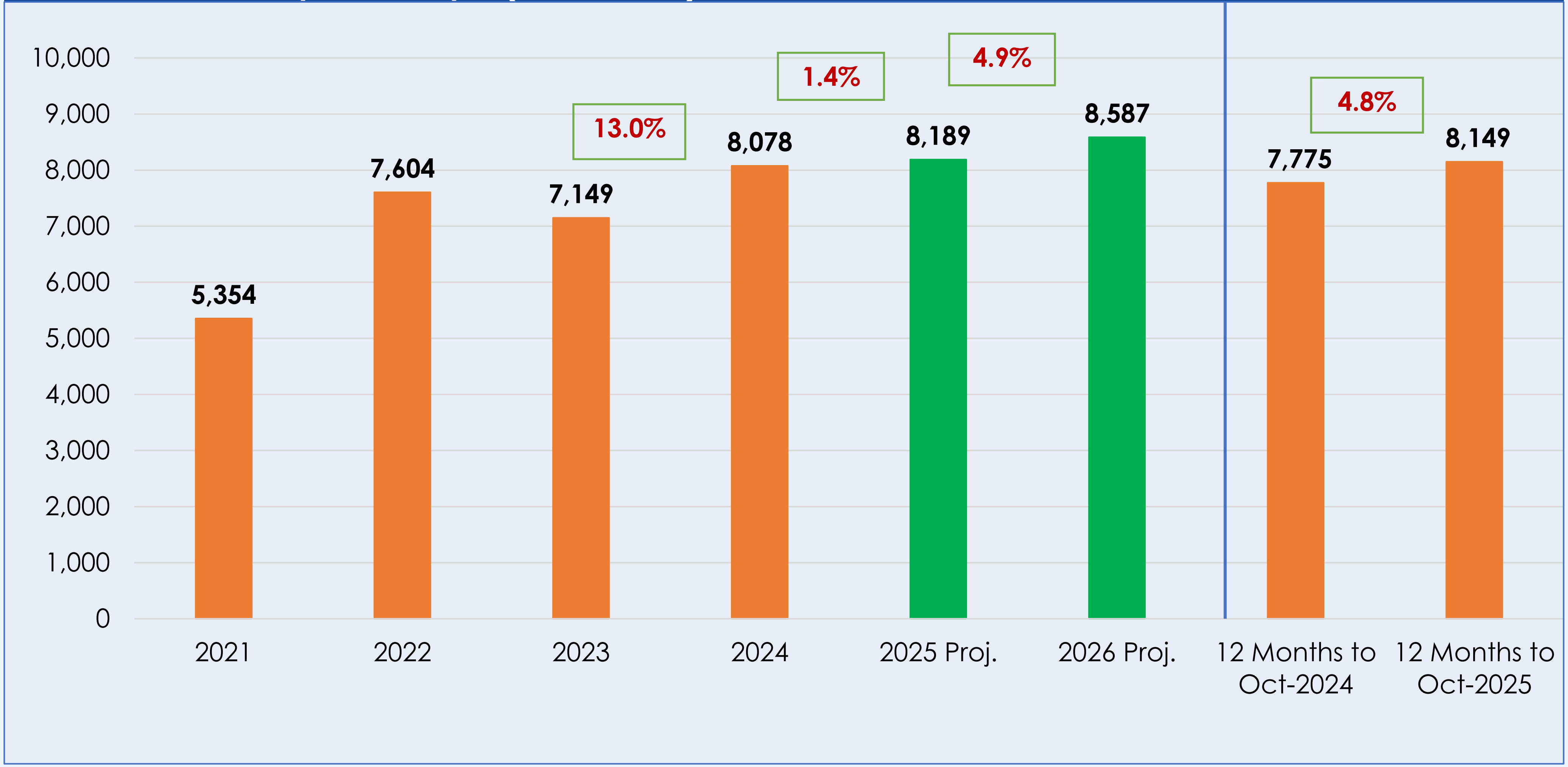
Source: CBK, KRA

29.

Balance of payments:

Services receipts increased by 4.8 percent in the 12 months to October 2025, mainly supported by increases in travel receipts of 13.1 percent

Total services export receipts (USD Million)



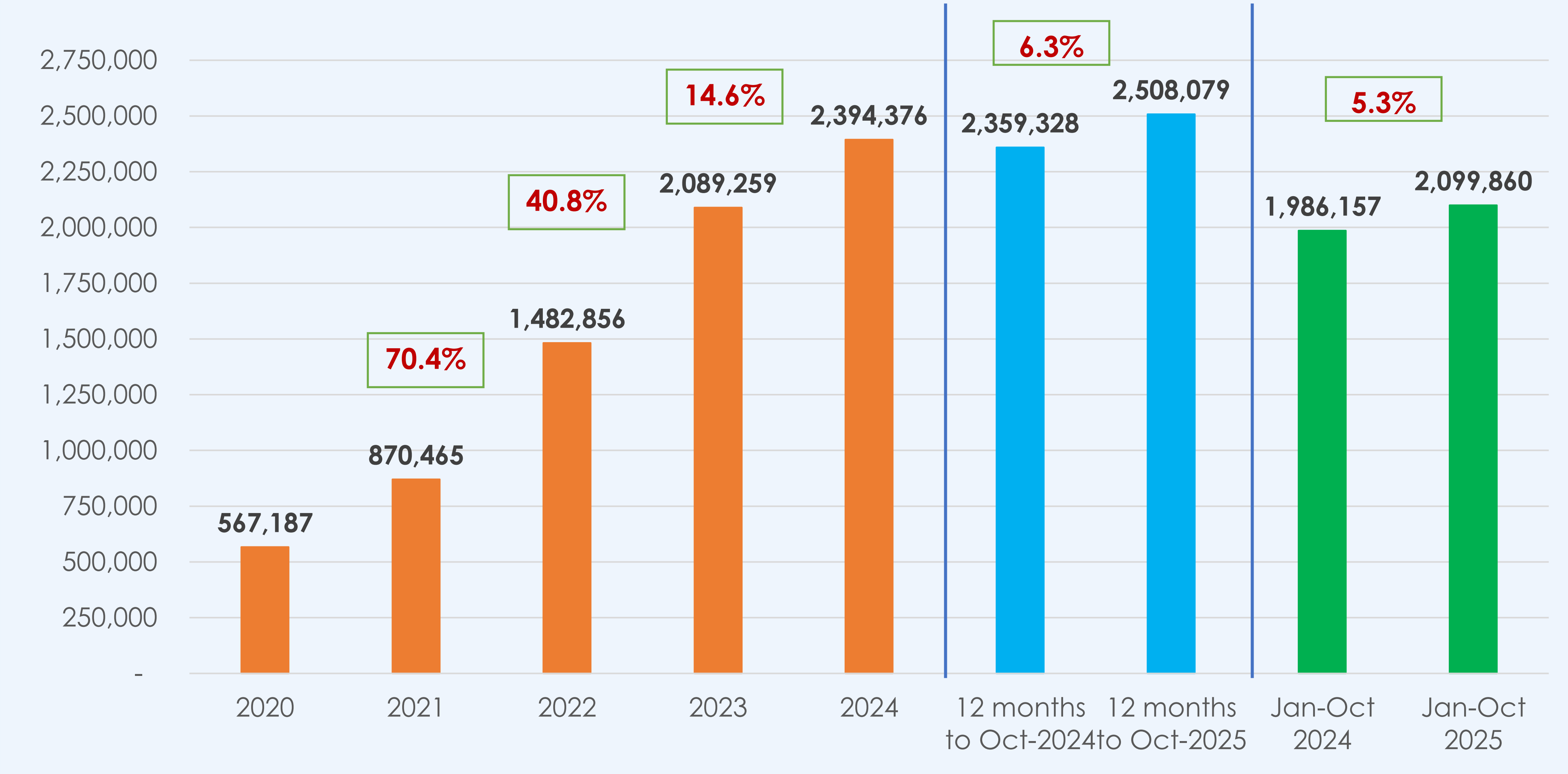
Source: CBK, KRA

30.

Services exports:

Tourist arrivals remained resilient in the 12 months to October 2025, growing by 6.3 percent mainly on account of recovery of international travel and Government measures to identify new source markets

Number and growth of tourist arrivals)



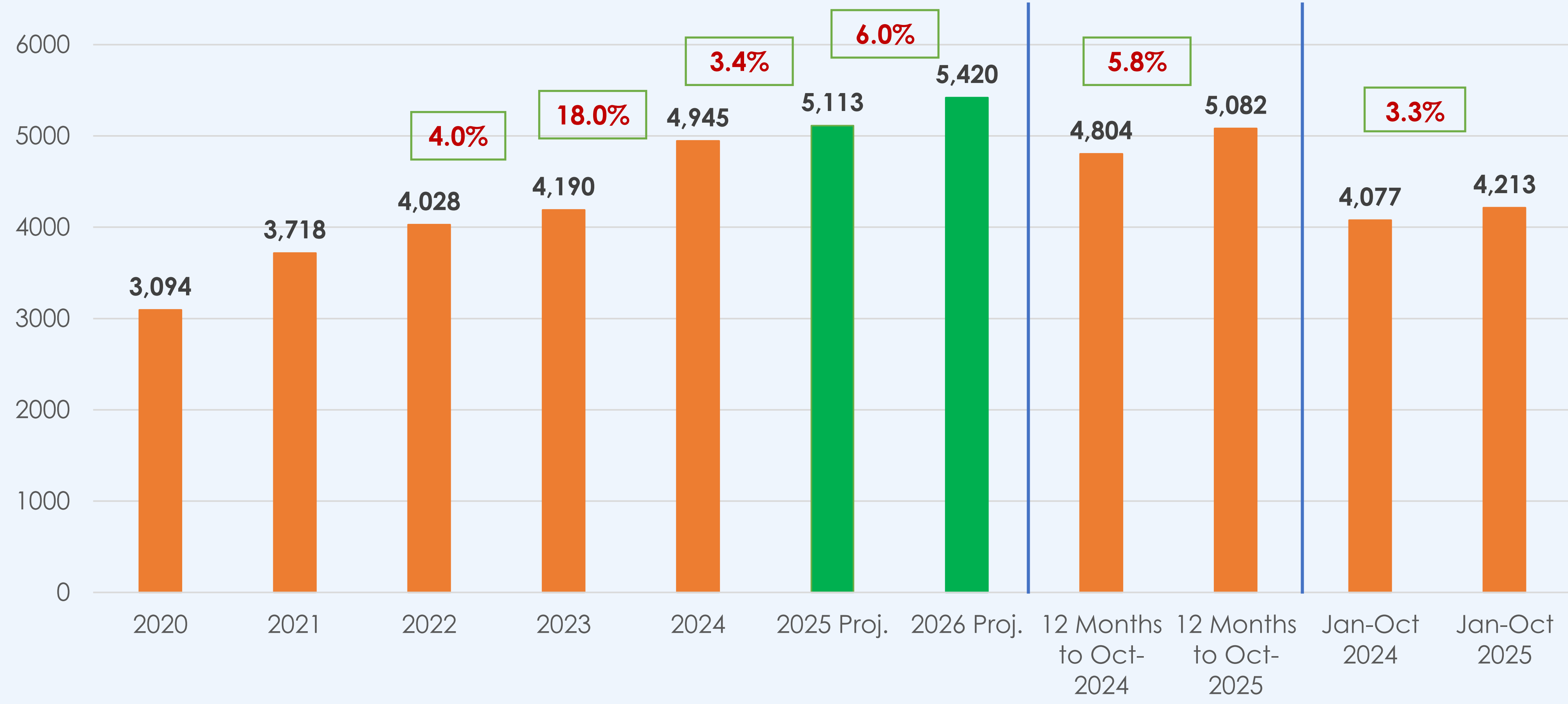
Source: KNBS/Tourism Research Institute/Kenya Tourism Board/KNBS

31.

Diaspora remittances:

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

Diaspora remittances inflows (USD, Million)



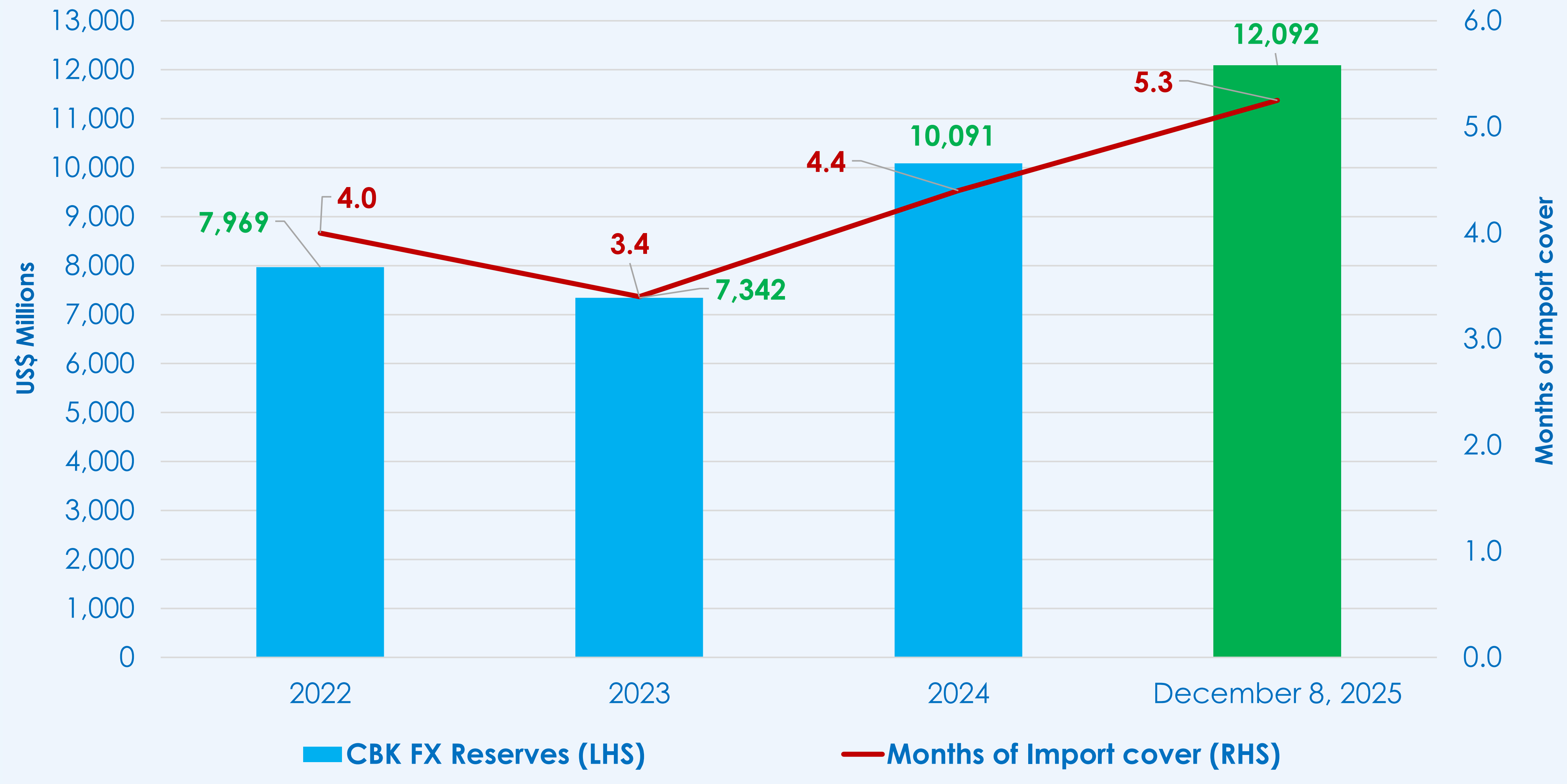
Source: CBK

32.

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 foreign exchange reserves (end period)

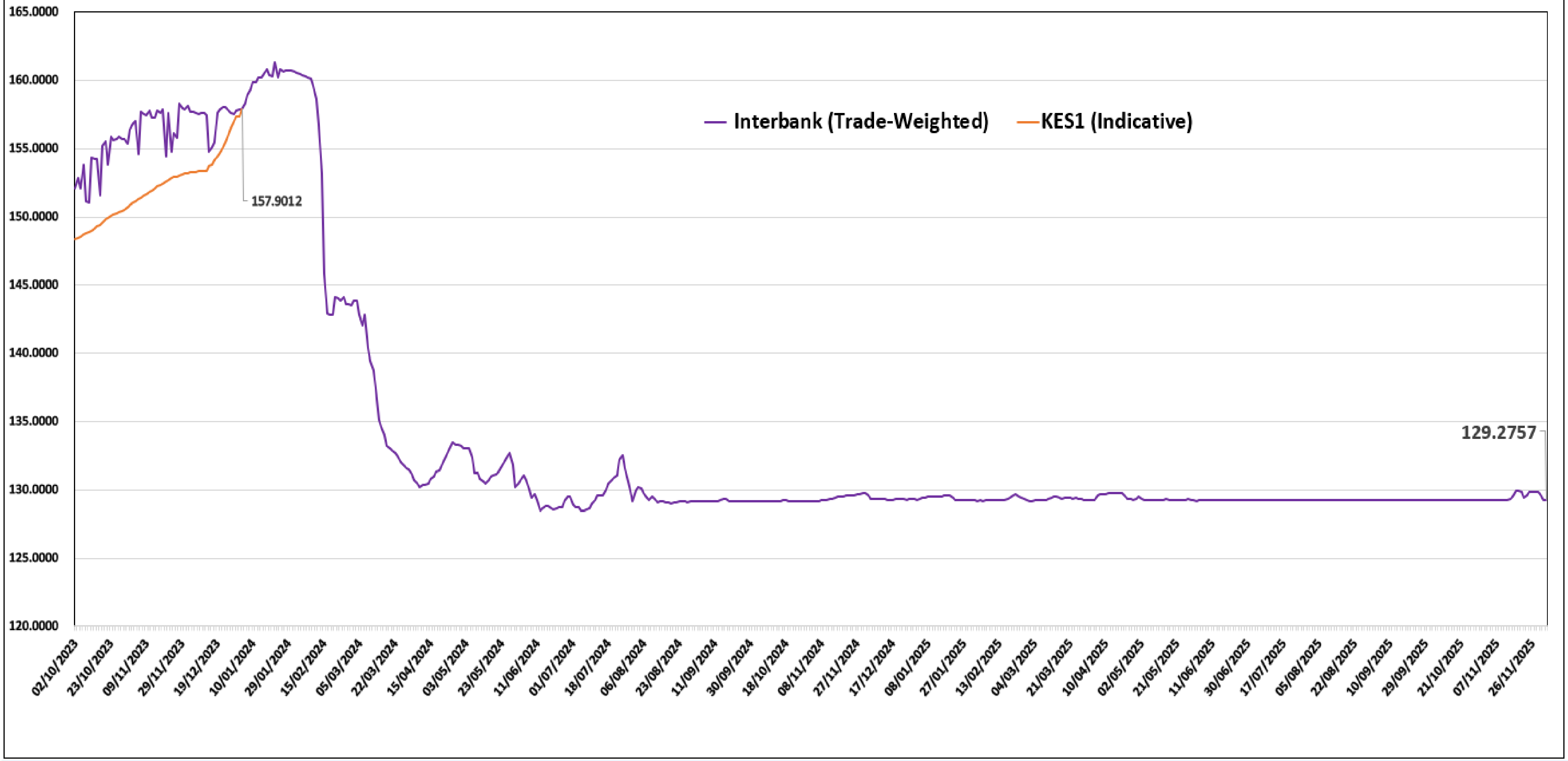


Source: CBK as of December 8, 2025

33. Exchange rate developments:

The Kenya Shilling has remained stable, supported by diversified foreign exchange inflows, confidence in the economy and the build up in foreign exchange reserves

Daily exchange rate of the Kenya Shilling against the US Dollar

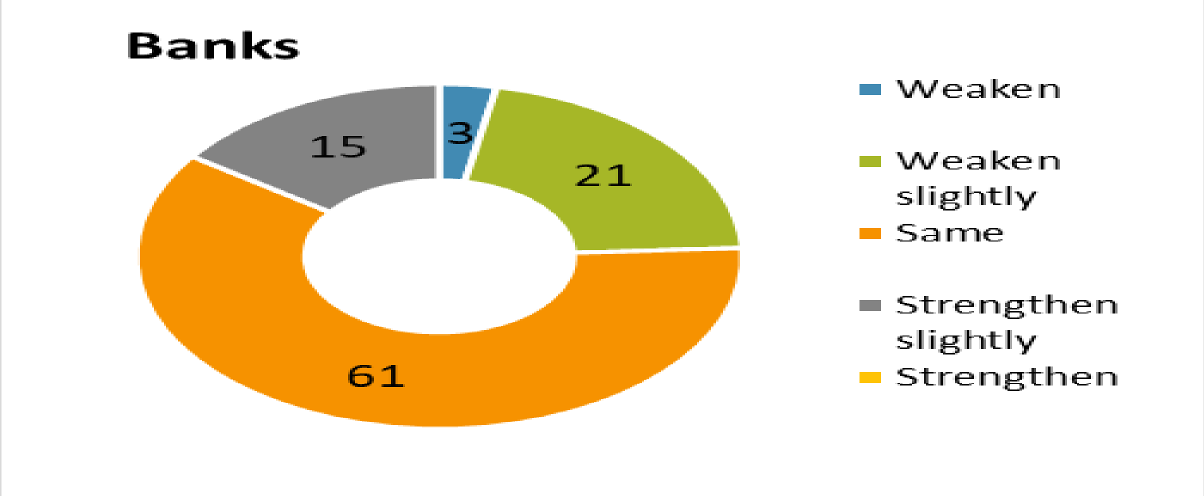


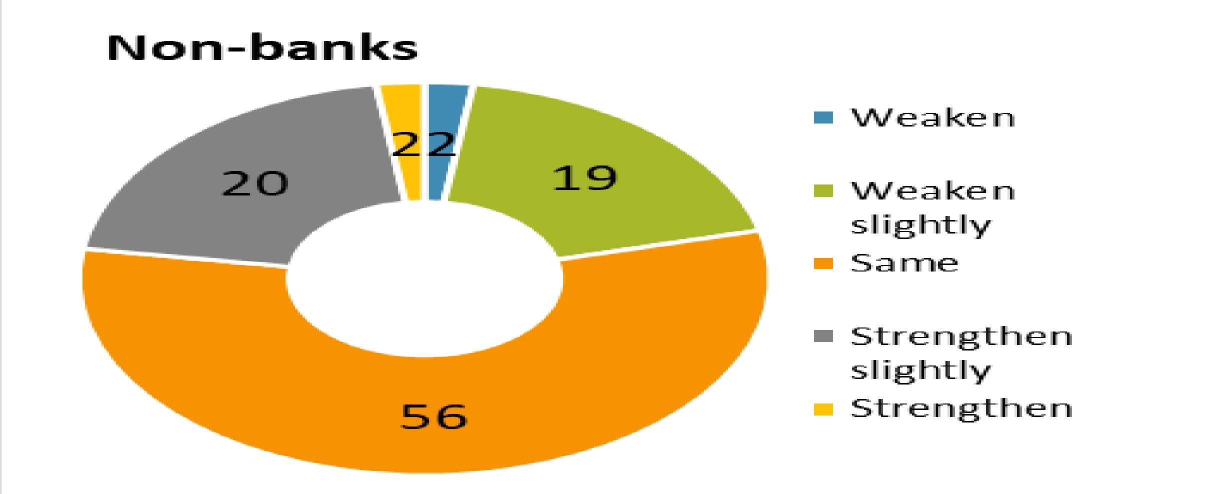
Source: CBK as of December 3, 2025

34. Market sentiment on the exchange rate:

The November 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 (76 percent of banks and non-bank respondents) expect the exchange rate to remain stable or strengthen in the next 2 months, supported by adequate foreign exchange reserves providing a buffer against any emerging shocks, resilient supply from increased tourism activity during the festive season, strong diaspora remittances, portfolio inflows, and improved inflows from tea and horticultural exports.

- Some respondents expect moderate pressure arising from increased import demand, and seasonal factors associated with increased demand for consumer durables during the festive period.

35. Summary of balance of payments developments and outlook

1. **The current account deficit stood at 2.2 percent of GDP in the 12 months to October 2025 compared to 1.5 percent of GDP in a similar period in 2024**, mainly reflecting higher imports of intermediate and capital goods.

2. **The current account deficit is projected to be stable at 2.3 percent of GDP in 2025 and 2026,** mainly reflecting continued growth in goods imports, resilient exports growth and diaspora remittances inflows.
   - The current account deficit is expected to be more than fully financed by financial account inflows in 2025 and 2026, resulting in overall balance of payments surpluses of USD 1,938 million in 2025 and USD 681 million in 2026.
   - Gross foreign exchange reserves are projected at USD12,029 million in 2025 and USD 12,472 million in 2026.

3. **Downside risks to balance of payments outlook**: deterioration of geopolitical conflicts may create commodity price disruptions; persistent and elevated trade policy uncertainty will impact export-intensive industries; and volatility in the international oil markets.

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 19.9 percent in October 2025, compared to 20.1 percent in August.
   - The banking sector liquidity ratio was 59.0 percent in October 2025, compared to 59.8 percent in August.

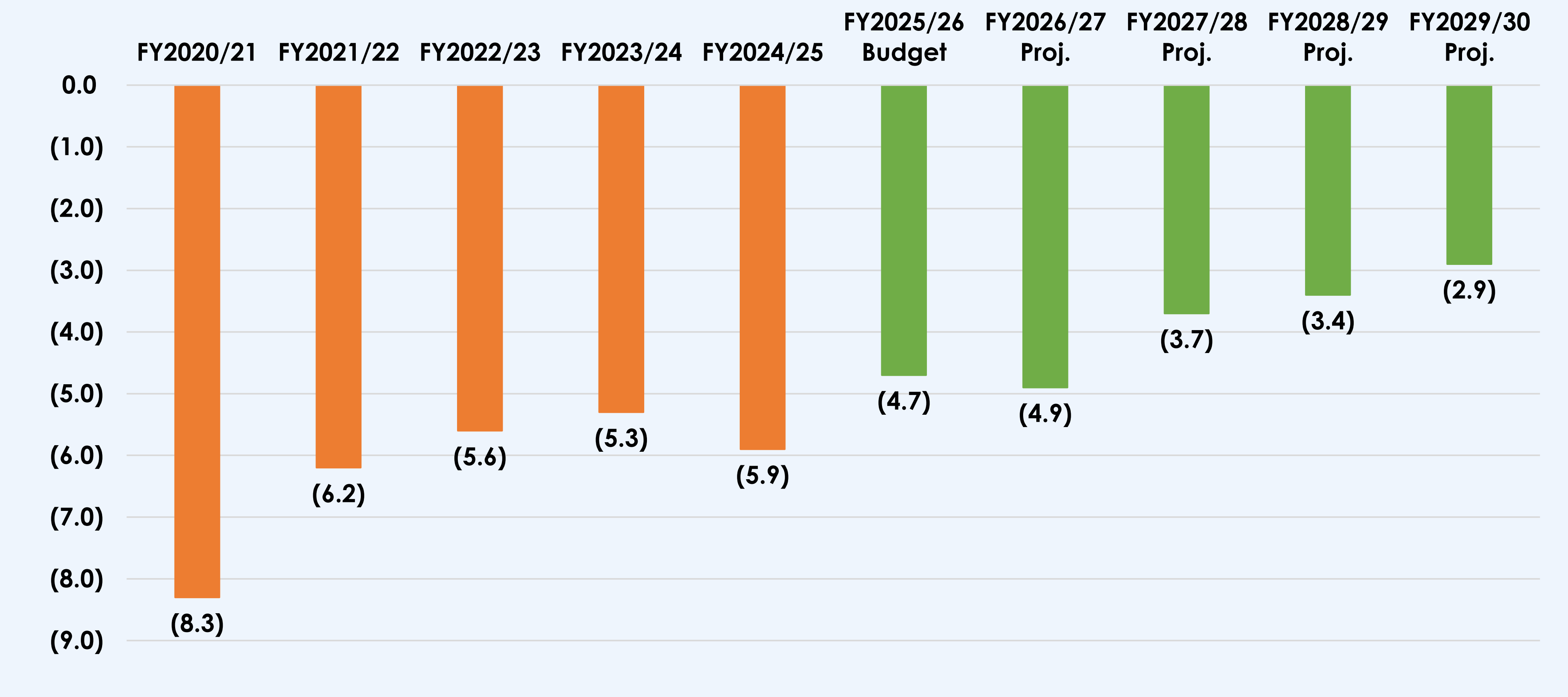
2. **The ratio of gross non-performing loans to gross loans stood at 16.5 percent in November 2025** compared to 16.7 percent in October and 17.6 percent in August.
   - Banks have continued to make adequate provisions for the NPLs, and the sector remains profitable providing sufficient buffers.

3. The revised banking sector **Risk-Based Credit Pricing Model (RBCPM), 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.

Fiscal performance and outlook:

The Government's planned fiscal consolidation strategy is expected to reduce debt vulnerabilities over the medium term

Actual and expected fiscal deficit (percent of GDP)



Source: The National Treasury

Summary and Key Takeaways

1. **On the global front:**
   - Inflation is projected to decline in 2025 and 2026, mainly driven by lower energy prices and reduced demand.
   - Global growth has remained resilient in 2025, but is projected to slow down in 2026 due to higher effective tariffs on trade.

2. **On the domestic front**:
   - Overall inflation remains firmly anchored within the target range.
   - The Kenya Shilling has remained stable.
   - Interest rates have continued to decline, which should continue to support growth in credit to the private sector and improved economic growth prospects.

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).**

Thank You!

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