Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Dr. Kamau Thugge, CBS

Governor

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Outline

1. Monetary Policy Decisions
2. Global Economic Developments and Outlook
3. Domestic Economic Developments and outlook
4. Summary and key takeaways

1.

Monetary Policy Decisions

1. **During its Meeting on August 11, 2026, the Monetary Policy Committee (MPC) decided to maintain the Central Bank Rate (CBR) at 8.75 percent.**

2. **The MPC observed that:**
    - Global energy prices have remained elevated due to disruptions to oil supply and continued uncertainties arising from the conflict in the Middle East.
    - Kenya's overall inflation is expected to remain within the target range in the near term, assuming a gradual de-escalation of the conflict. This will be supported by: appropriate monetary policy actions; government interventions including subsidies and the temporary reduction of VAT on fuel; and a stable exchange rate.
    - Central banks in most 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.
    - Average bank lending rates in the domestic market have declined further, and as a result private sector credit growth has continued to improve.
    - Having considered these developments, the MPC concluded that the current monetary policy stance, with the CBR unchanged at 8.75 percent, remains appropriate to ensure that inflation expectations remain anchored within the target range, and the exchange rate remains stable.

3. **The MPC will 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.

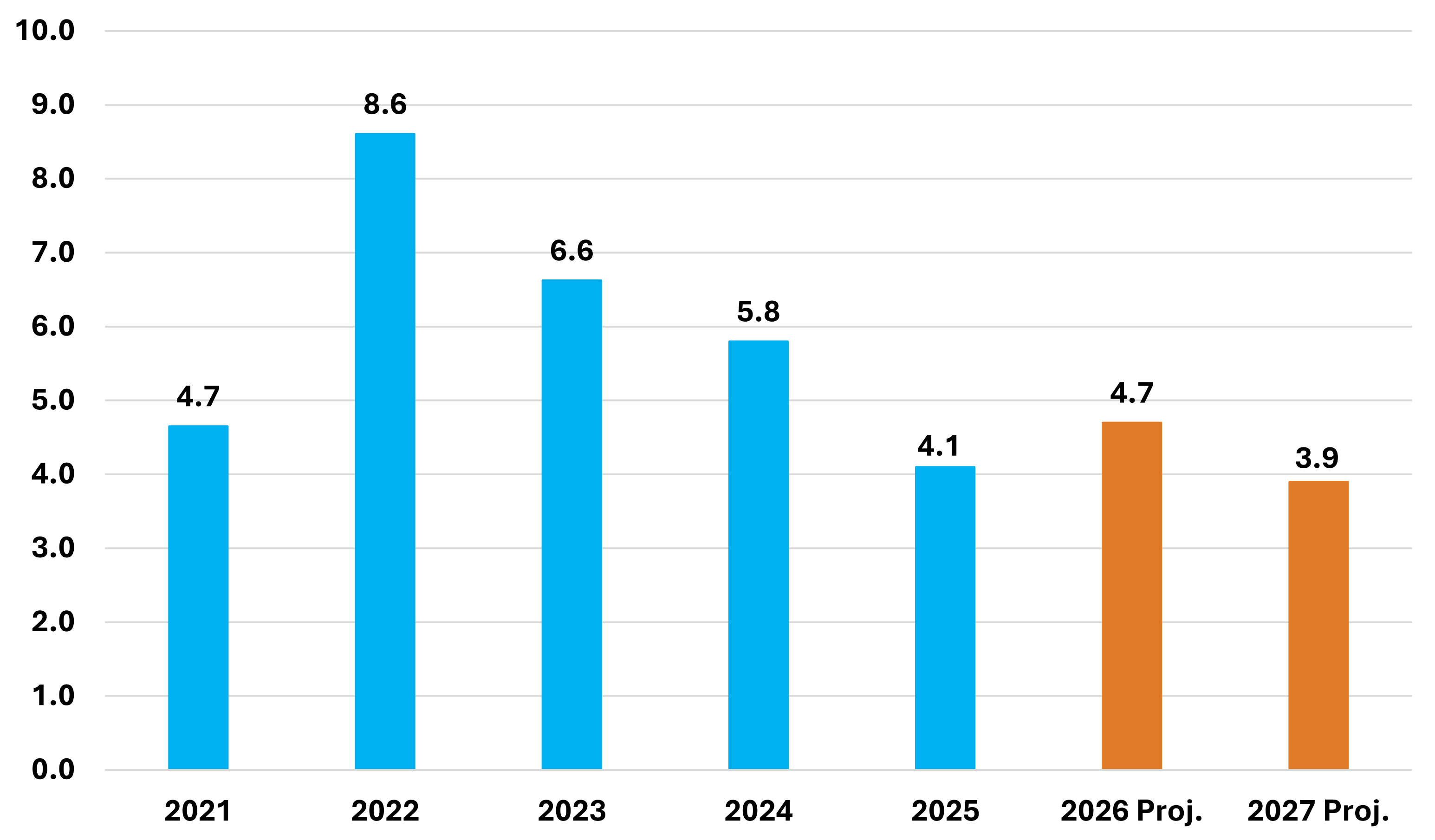
4. **The Committee will meet again in October 2026.**

Global Economic Developments and Outlook

2. Global inflation outlook:

Global inflation is expected to increase in 2026 on account of higher energy prices and transport costs arising from the conflict in the Middle East.

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



The projections assume that the Strait of Hormuz reopens from mid-July 2026, with full normalcy resuming by March 2027.

Source: IMF World Economic Outlook, July 2026

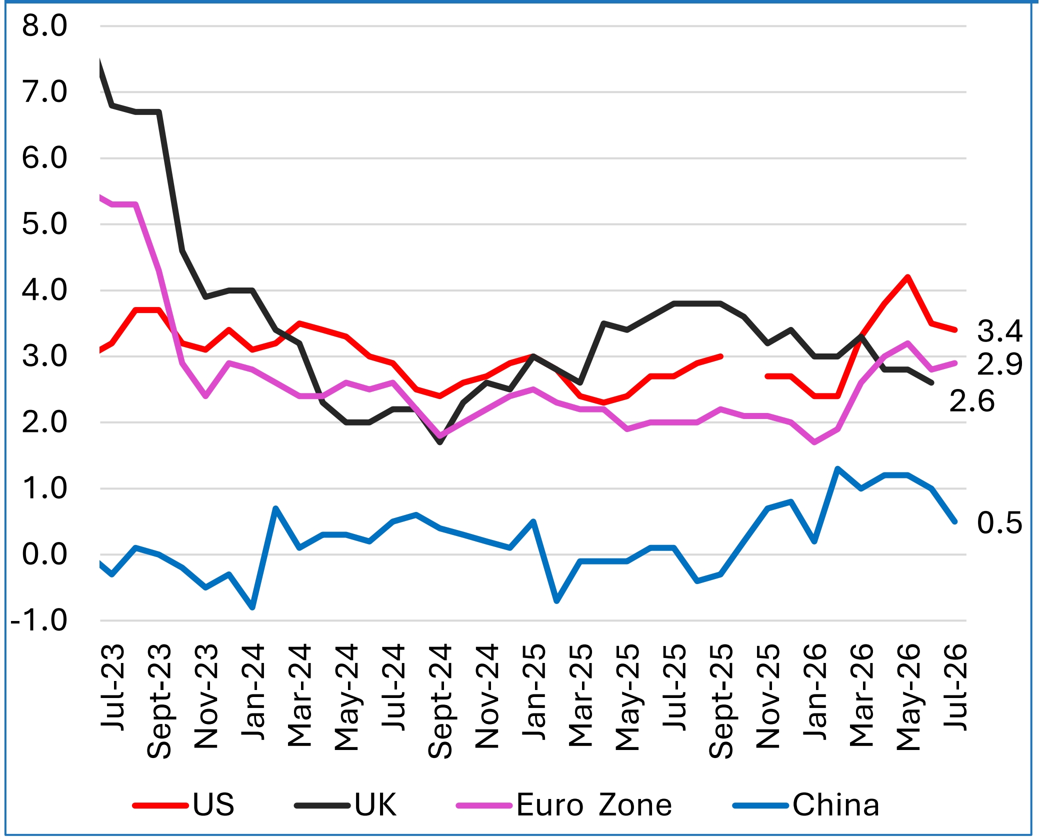
- Global inflation is projected at 4.7 percent in 2026, up from the previous projection of 4.4 percent, with energy prices expected to remain higher than they were before the conflict in the Middle East.
- Central banks in the major economies are expected to remain cautious, with the policy rates in the United States of America, Eurozone, and United Kingdom expected to remain largely unchanged in 2026.

3.

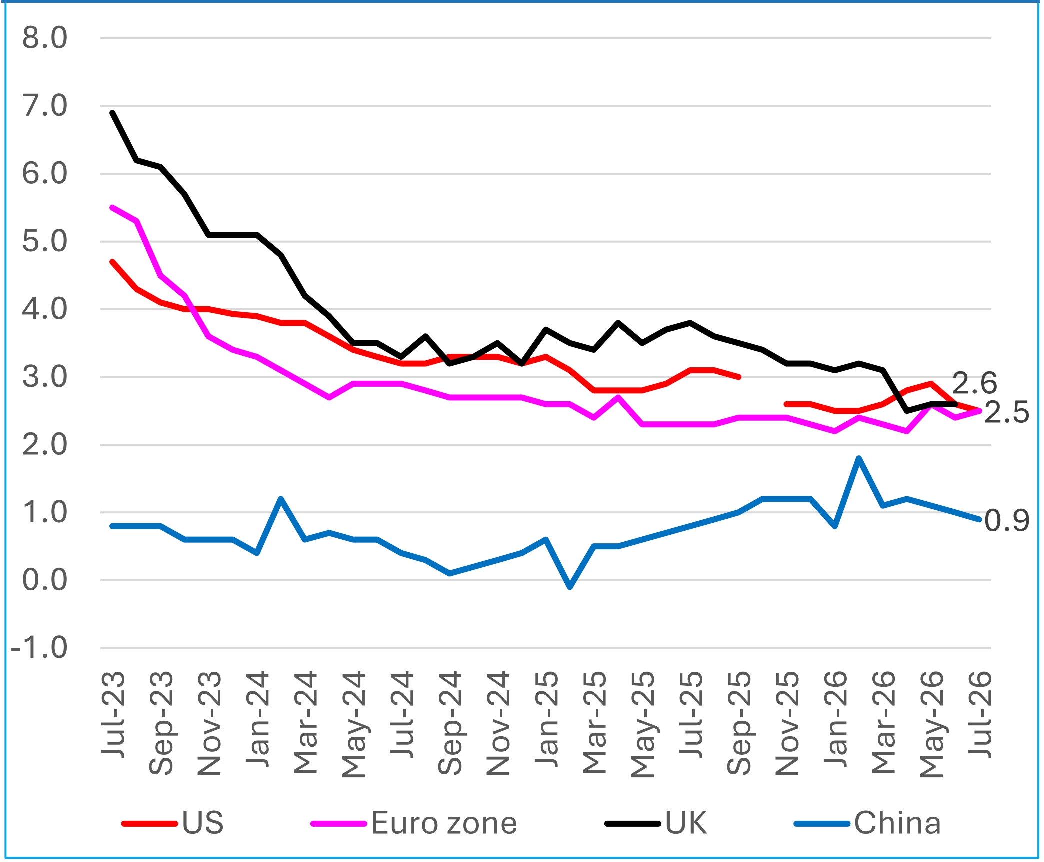
Inflation in major economies:

Inflation rates in most major economies have increased in recent months, and remained above their respective targets, due to higher energy prices and stickiness of core inflation rates.

Headline CPI inflation rates (y/y, percent)



Core CPI inflation rates (y/y, percent)



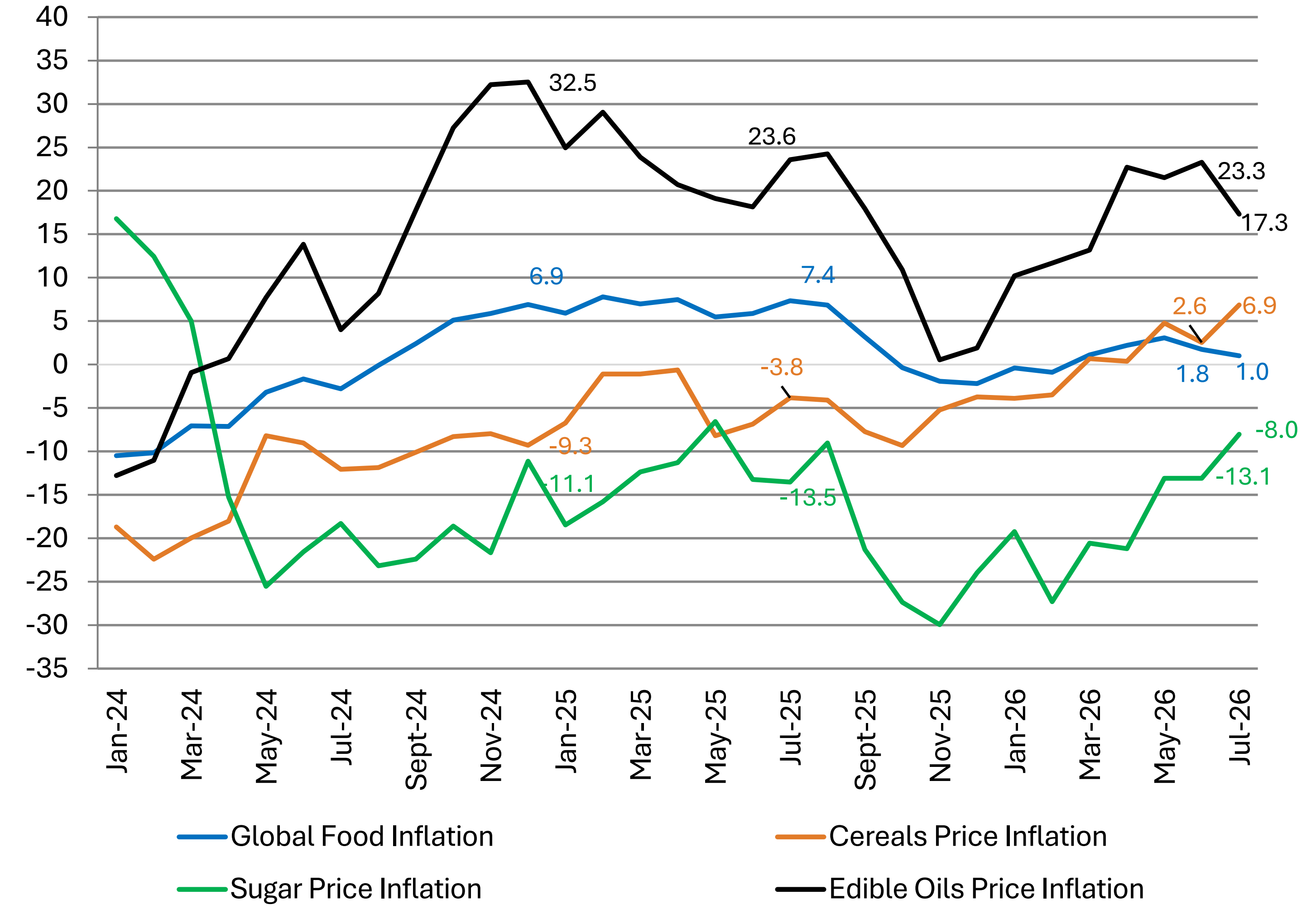
Source: Websites of Statistics Offices/Central Banks of respective countries

- **US headline inflation eased in July 2026, due to moderation in food and fuel prices.**
- **UK headline inflation eased in June 2026, supported by lower fuel prices.**
- **Eurozone inflation rose slightly in July 2026, driven by higher energy prices and services inflation.**
- **China's inflation eased in July 2026,mainly due to weak domestic demand and domestic fuel price reductions.**

4. Global commodity prices:

Food inflation decreased modestly in July 2026, partly driven by a lower inflation rate for edible oils prices.

Global food inflation (y/y, percent)

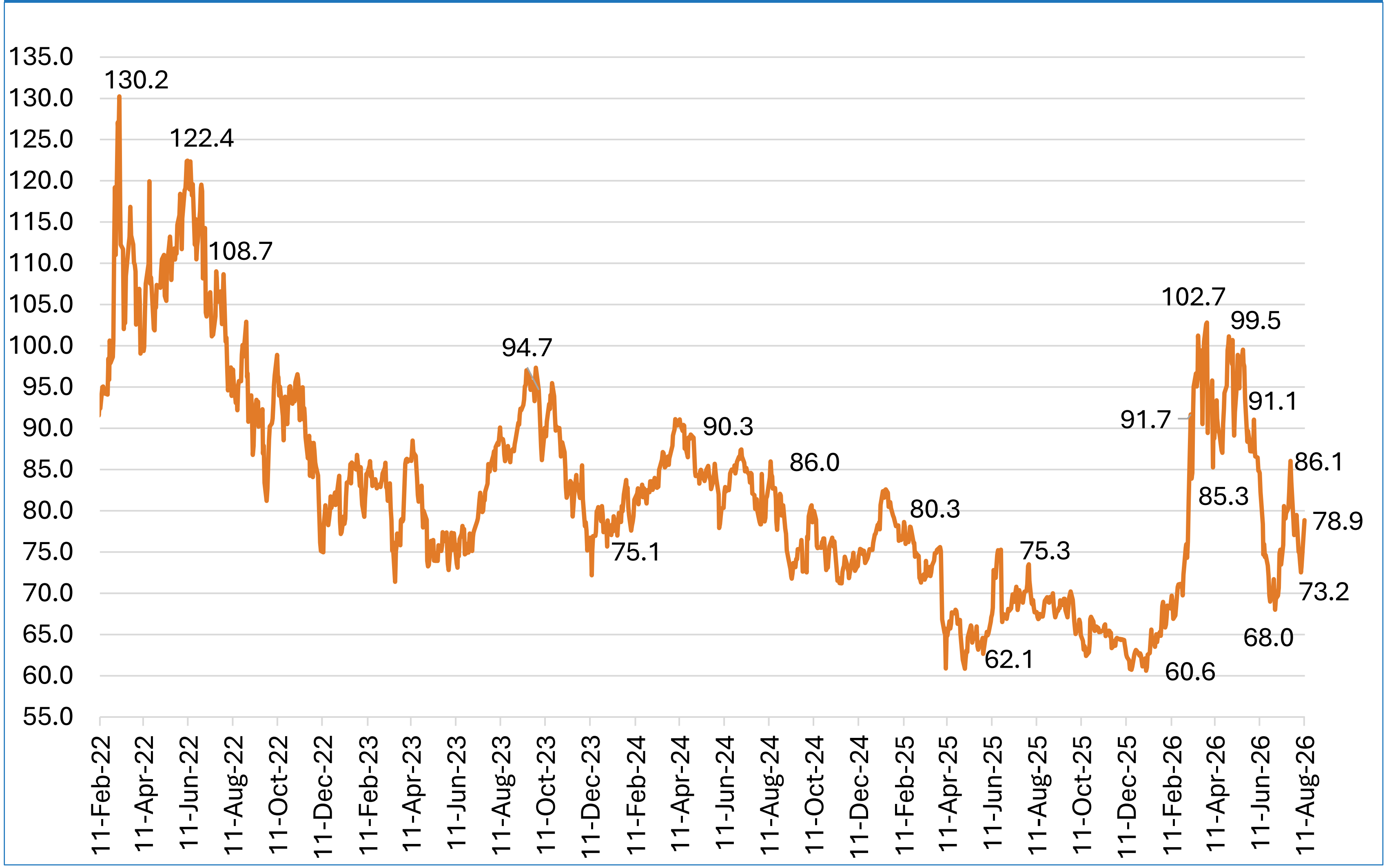


Source: UN FAO Food Index

- **Edible oils prices inflation remained elevated, but eased slightly on account of lower sunflower and rapeseed oil prices, due to expectations of higher supplies in the 2026/27 season. Palm oil prices rose due to increased demand from Indonesia's biodiesel sector and higher crude oil prices.**
- **Cereals prices inflation rose on account of higher wheat prices due to disruptions to Black Sea export flows and damage to export infrastructure, and effects of heatwaves on crop yields in several key producing countries. Maize prices rose due to hot and dry weather in the Corn Belt, USA.**
- **Sugar prices inflation remained low, but rose slightly due to concerns over impacts of hot and dry weather on crop yields in the European Union, and of El Niño-related weather conditions on production in Asia. Sugar prices inflation remained low on account of improved harvests in Brazil.**

5. Global commodity prices:

International oil prices have remained volatile due to supply disruptions arising from the conflict in the Middle East and heightened global uncertainties.



Source: Refinitiv.com

- **The outlook for international oil prices remains uncertain and is predicated on the length and severity of the conflict in the Middle East.**

6.

Global economic growth outlook:

Global growth is projected to moderate to 3.0 percent in 2026 from 3.5 percent in 2025, due to higher energy prices as a result of the conflict in the Middle East.

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

	2019 Act.	2020 Act.	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025 Act.	2026 Proj.		2027 Proj.	
								Jul. 2026 WEO	Difference from Jan. 2026 WEO	Jul. 2026 WEO	Difference from Jan. 2026 WEO
World	**3.0**	**-2.7**	**6.6**	**3.8**	**3.5**	**3.5**	**3.5**	**3.0**	**-0.1**	**3.4**	**0.2**
Advanced Economies	**1.9**	**-3.9**	**6.0**	**3.0**	**1.7**	**1.9**	**1.9**	**1.7**	**-0.1**	**1.8**	**0.1**
United States	2.6	-2.1	6.2	2.5	2.9	2.8	2.1	2.3	0.0	2.2	0.1
United Kingdom	1.6	-10.3	8.6	4.8	0.4	1.0	1.4	1.0	0.2	1.3	0.0
Japan	-0.4	-4.2	2.7	1.0	1.2	-0.2	1.1	0.6	-0.1	0.7	0.1
Euro area	1.6	-6.0	6.4	3.6	0.4	1.0	1.4	0.9	-0.2	1.2	0.0
Germany	1.0	-4.1	3.9	1.8	-0.9	-0.6	0.2	0.7	-0.1	1.0	-0.2
France	2.1	-7.6	6.8	2.8	1.6	1.4	0.9	0.6	-0.3	0.9	0.0
Italy	0.4	-8.9	8.9	4.8	0.7	0.8	0.5	0.5	0.0	0.5	0.0
Emerging Market and Developing Economies	**3.8**	**-1.8**	**7.0**	**4.3**	**4.7**	**4.5**	**4.5**	**3.8**	**-0.1**	**4.5**	**0.3**
China	6.1	2.3	8.6	3.1	5.4	5.0	5.0	4.6	0.2	4.1	0.1
India	3.9	-5.8	9.7	7.6	9.2	7.1	7.7	6.4	-0.1	6.7	0.2
Russia	2.2	-2.7	5.9	-1.4	4.1	4.9	1.0	1.1	0.0	1.1	0.0
Saudi Arabia	1.7	-3.8	6.5	12.0	0.5	2.6	4.6	1.7	-1.4	5.5	1.0
Sub-Saharan Africa (SSA)	**3.1**	**-3.1**	**3.8**	**4.4**	**3.7**	**4.2**	**4.5**	**4.3**	**0.0**	**4.5**	**0.1**
South Africa	0.3	-6.2	4.9	2.1	0.8	0.5	1.1	1.1	0.1	1.3	0.0
Nigeria	2.2	-6.4	1.1	4.3	3.3	4.1	4.0	4.1	0.0	4.3	0.0
Kenya	5.1	-0.3	7.6	4.9	5.7	4.7	4.6	4.5	0.0	4.7	0.0

Source: IMF World Economic Outlook, July 2026

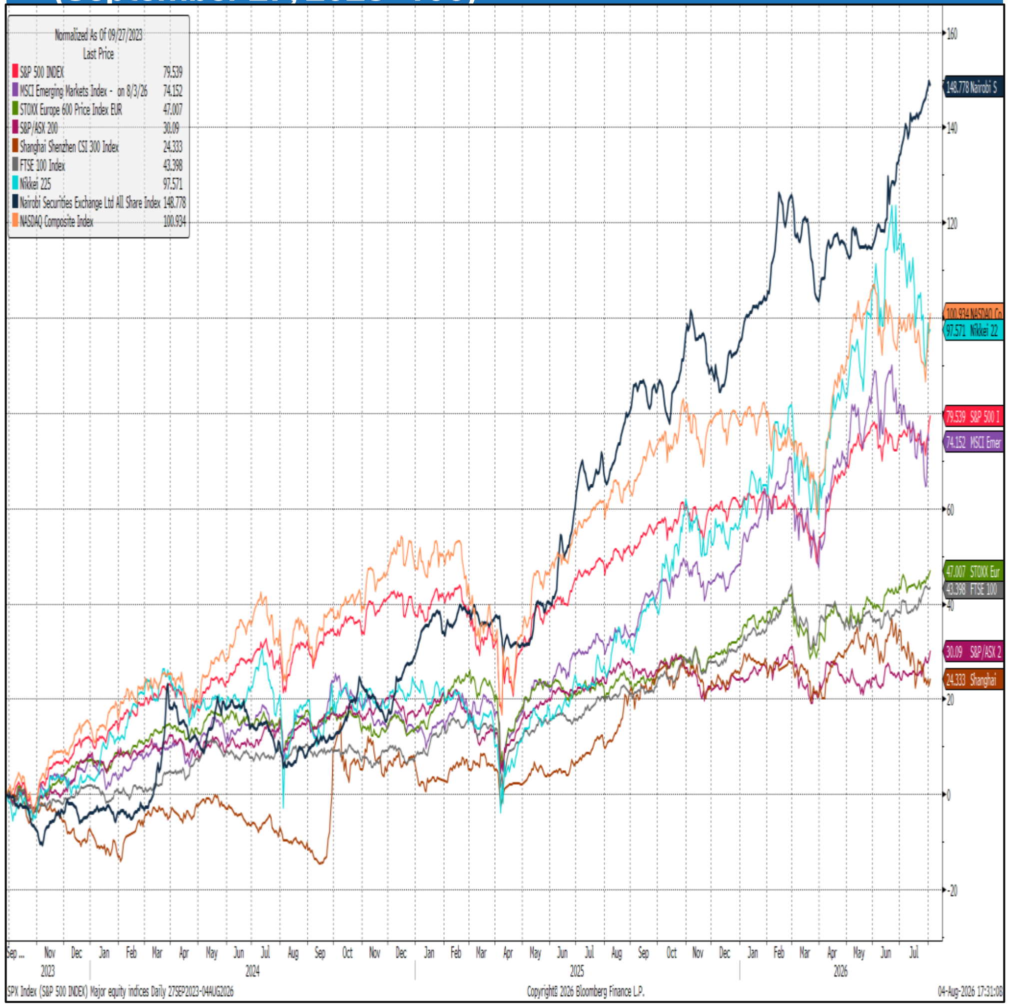
- **The downward revisions to 2026 growth in the Euro area and Saudi Arabia have implications on demand for Kenya's exports, diaspora remittances inflows, and tourist arrivals. The expected steady USA growth and upward revision to UK growth are expected to support exports demand.**
- **Other key risks to global growth relate to elevated trade policy uncertainty and the Russia-Ukraine conflict.**
- **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.**

7.

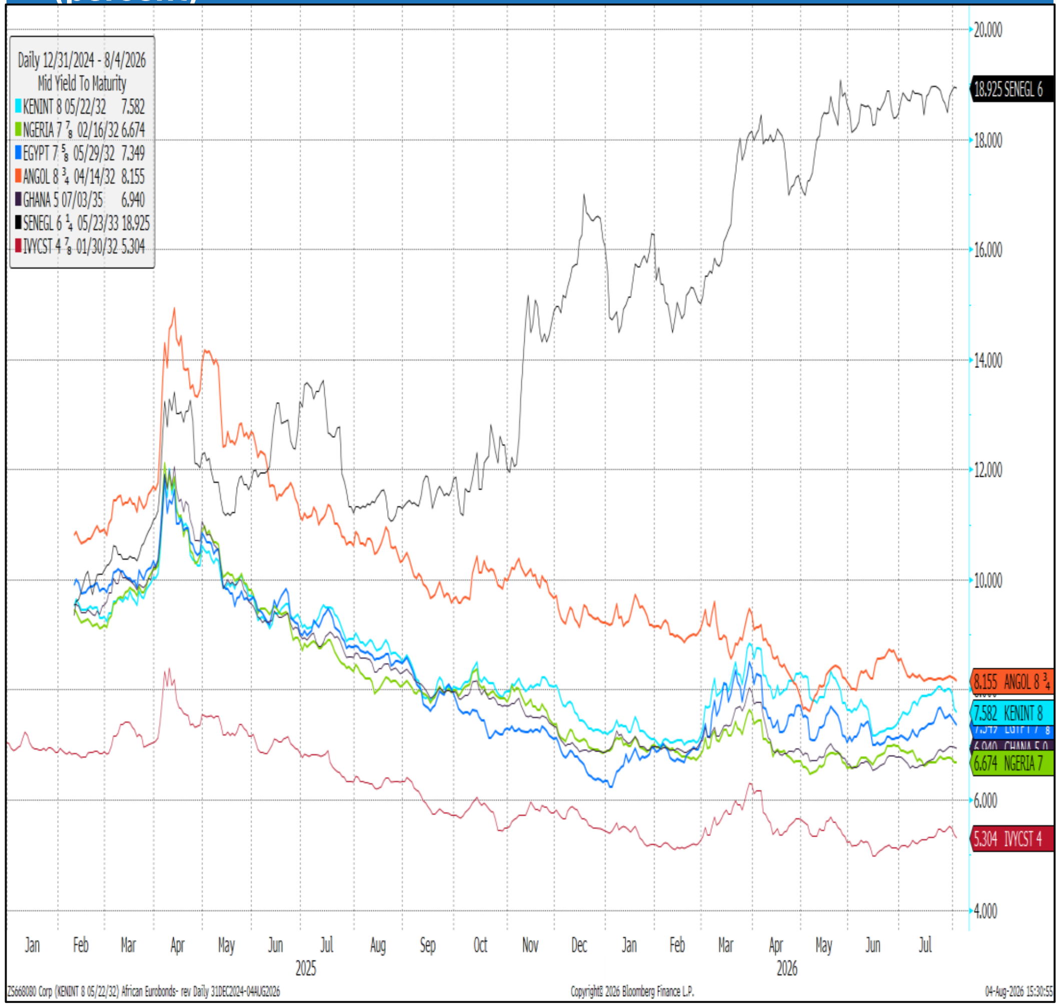
Global financial conditions:

Financial markets conditions have improved, reflected in a rebound in equity markets in July/August 2026 and decline in Eurobond yields for some EMDEs, due to improved investor sentiment amid ongoing efforts to resolve the conflict in Middle East.

Performance of selected Stock Indices (September 27, 2023=100)



Select African Countries' Eurobond yields (percent)



Sources: Bloomberg as of August 4, 2026

8. Summary on global developments and outlook

- **Global inflation is projected to increase in 2026,** largely due to higher energy prices.
- **Central banks in most 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 inflation and growth outlooks.
- **Global growth is projected to moderate in 2026** on account of higher inflation and reduced demand attributed to higher energy prices and elevated uncertainty.
- **Global financial conditions have improved,** reflected in the recent rebound in equity prices, and decline in Eurobond yields for some EMDEs on improved investor sentiment.
- **Risks to the global growth outlook remain elevated** due to the evolving conflict in the Middle East, elevated trade policy uncertainty, the Russia-Ukraine conflict, and weak global demand.
- **Kenya's growth is expected to remain above the global,** EMDEs and SSA growth averages, mainly reflecting the resilience and diversified nature of the economy.

Domestic Economic Developments and Outlook

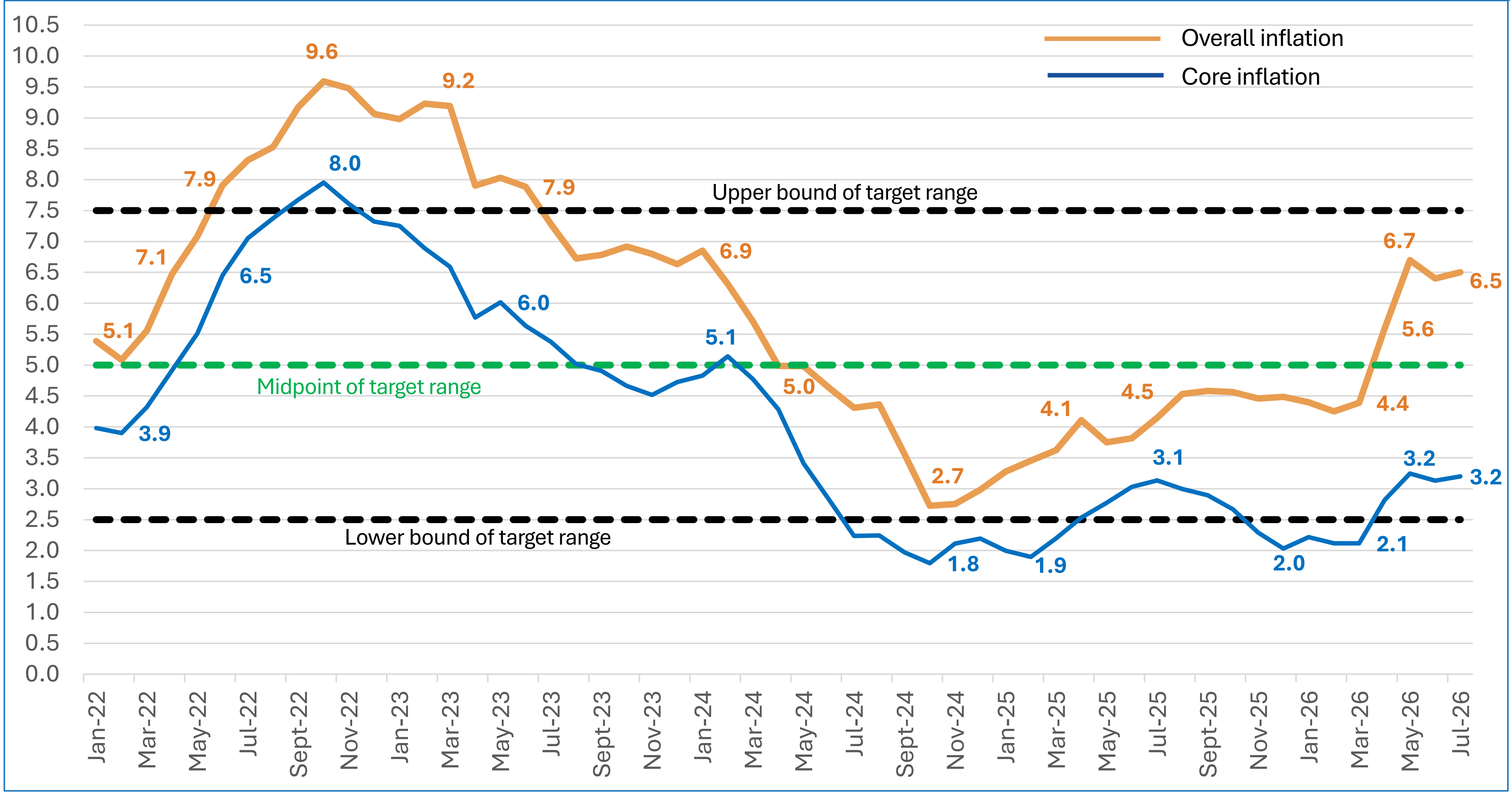
Inflation developments and outlook

9a.

Domestic Inflation developments:

Despite the elevated global energy prices, overall inflation has remained within the target range, supported by appropriate monetary policy actions and a stable exchange rate. Core inflation has remained relatively stable.

Overall and Core Inflation Rates (y/y, percent)



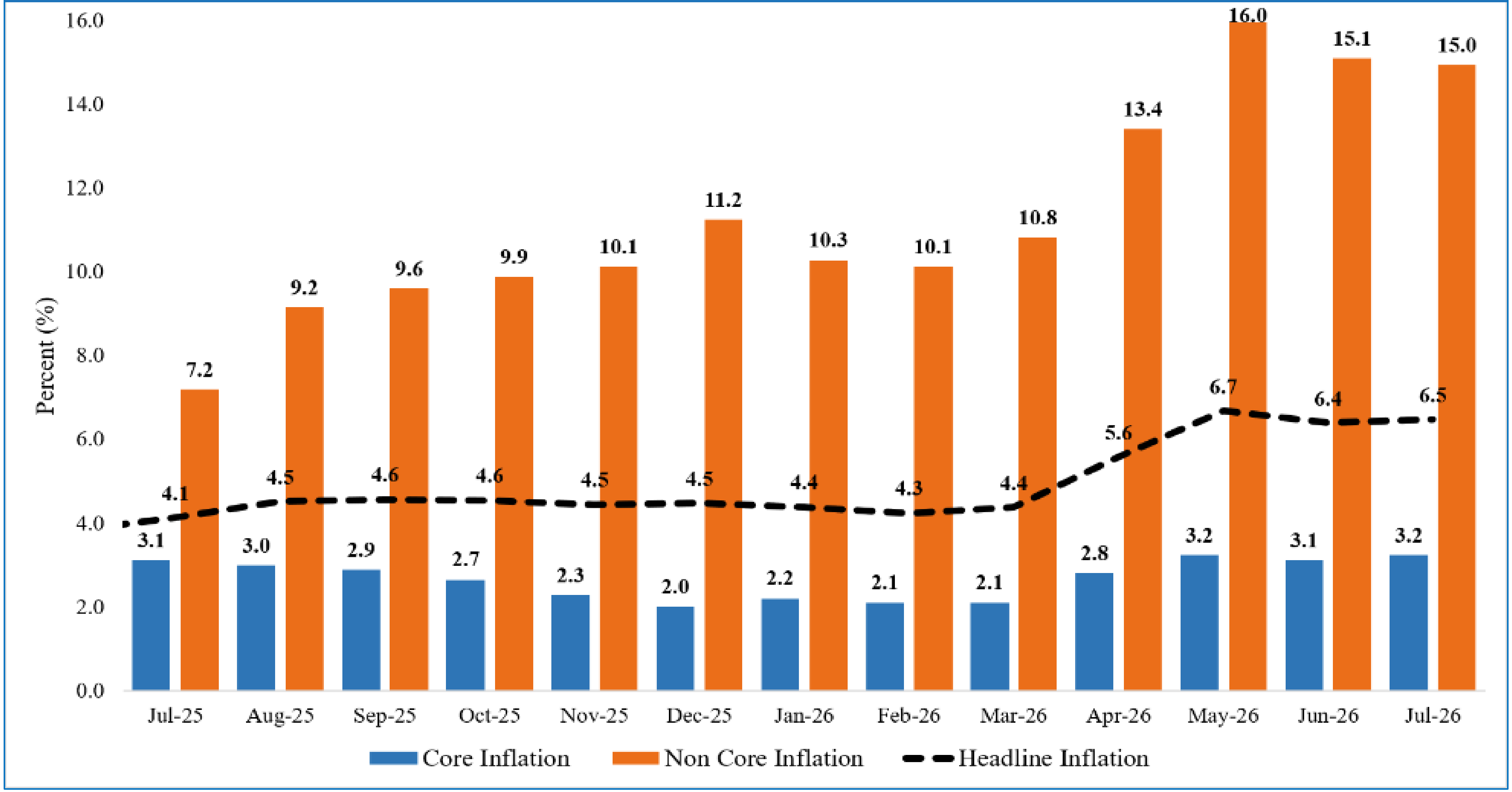
Note: Core inflation basket accounts for 81.1 percent of the overall CPI basket.
Source: Kenya National Bureau of Statistics and CBK

9b.

Domestic inflation developments:

Overall inflation remained within the target range in July 2026, and was broadly stable at 6.5 percent compared to 6.4 percent in June.

Inflation by broad category (y/y, percent)

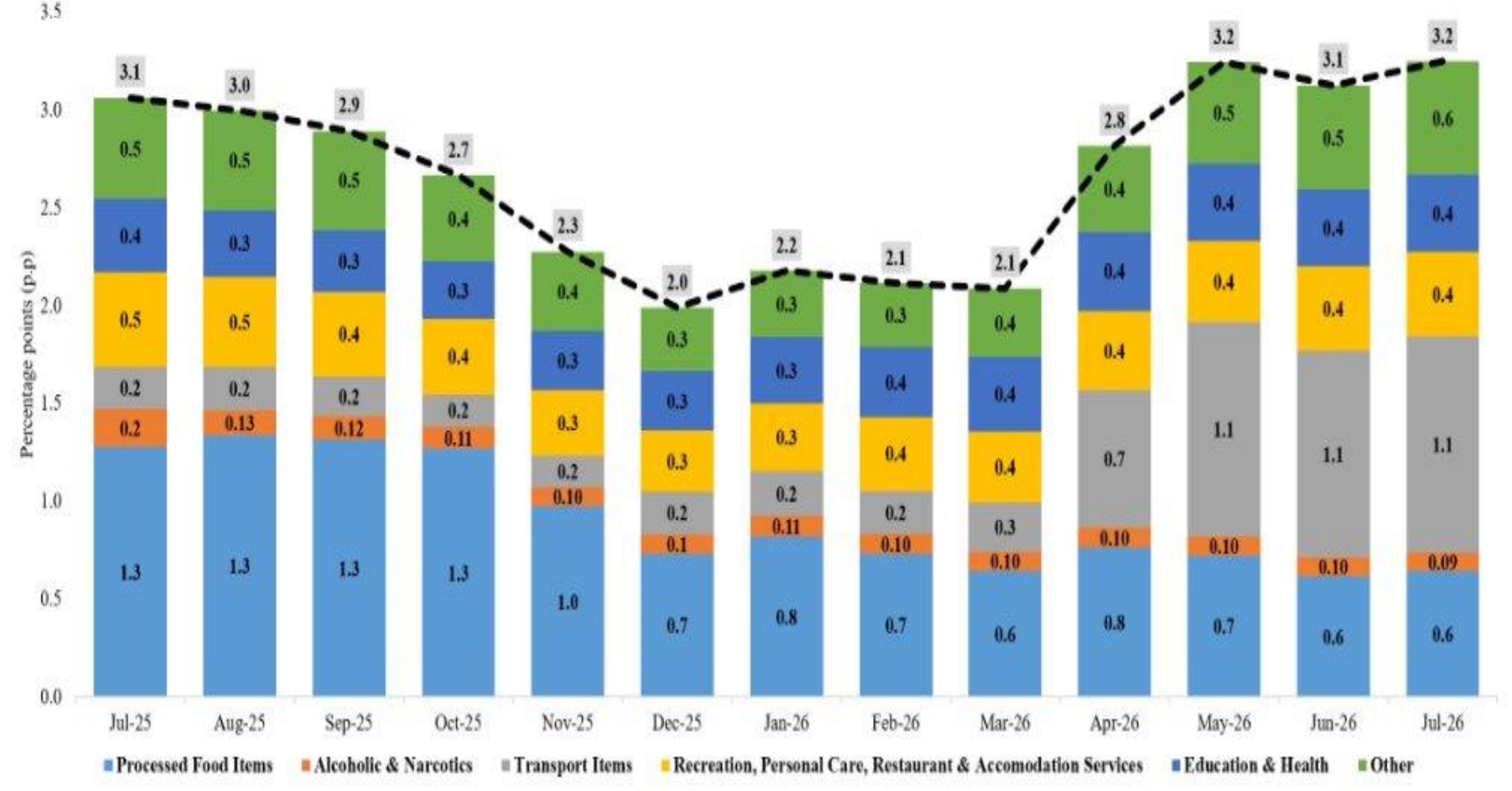


Source: Kenya National Bureau of Statistics

10. Main drivers of core inflation:

Core inflation remained relatively stable at 3.2 percent in July 2026 compared to 3.1 percent in June.

Contributions to core inflation

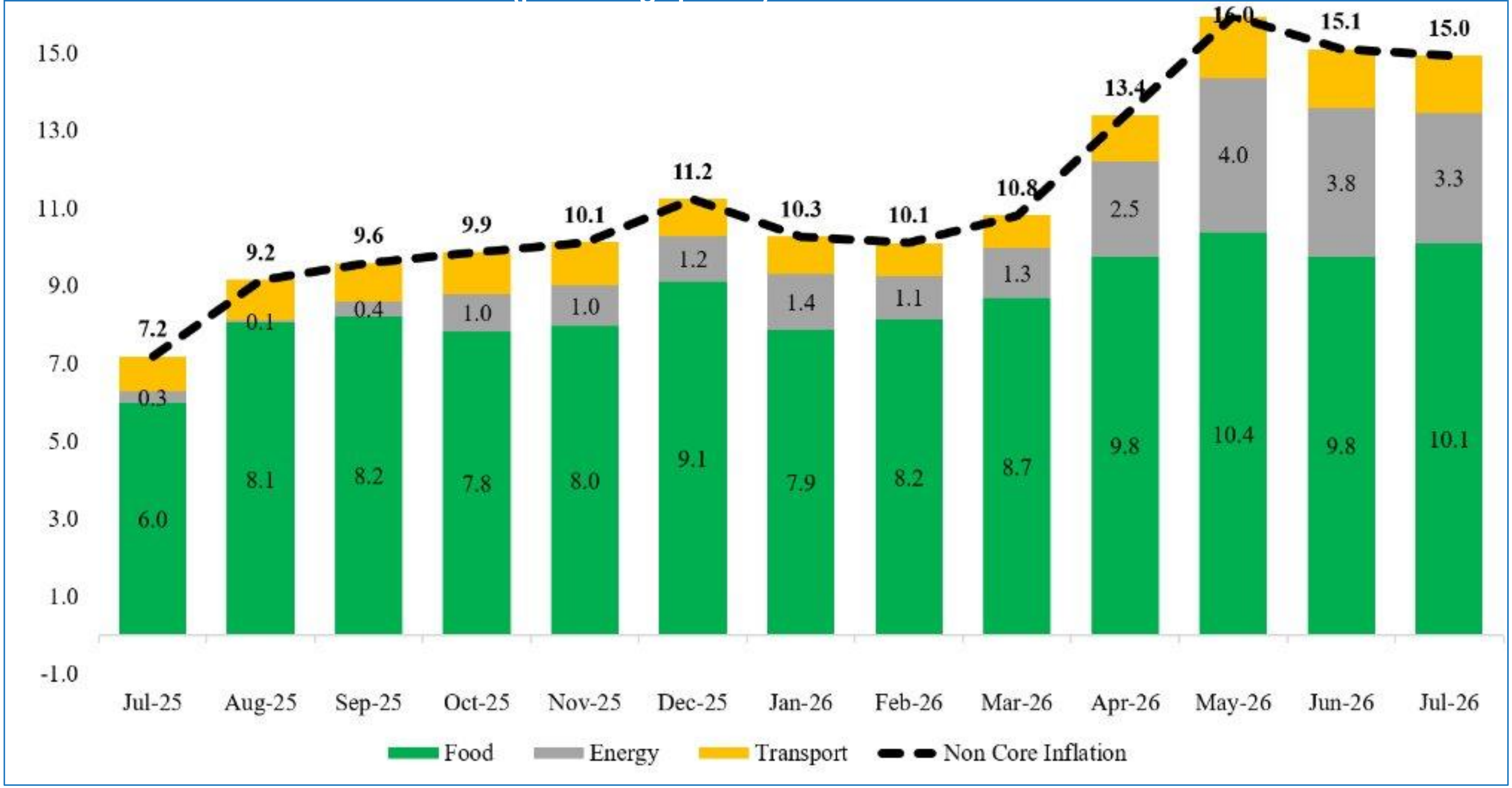


Source: KNBS and CBK computations

11. Main drivers of non-core inflation:

Non-core inflation decreased modestly in July 2026, driven by lower energy prices inflation, which were supported by Government interventions including subsidies and the temporary reduction of VAT on fuel. However, the food inflation component remained elevated due to higher vegetable prices, particularly Irish potatoes, tomatoes, kales, cabbages and onions.

Contributions to non-core inflation (percentage points)



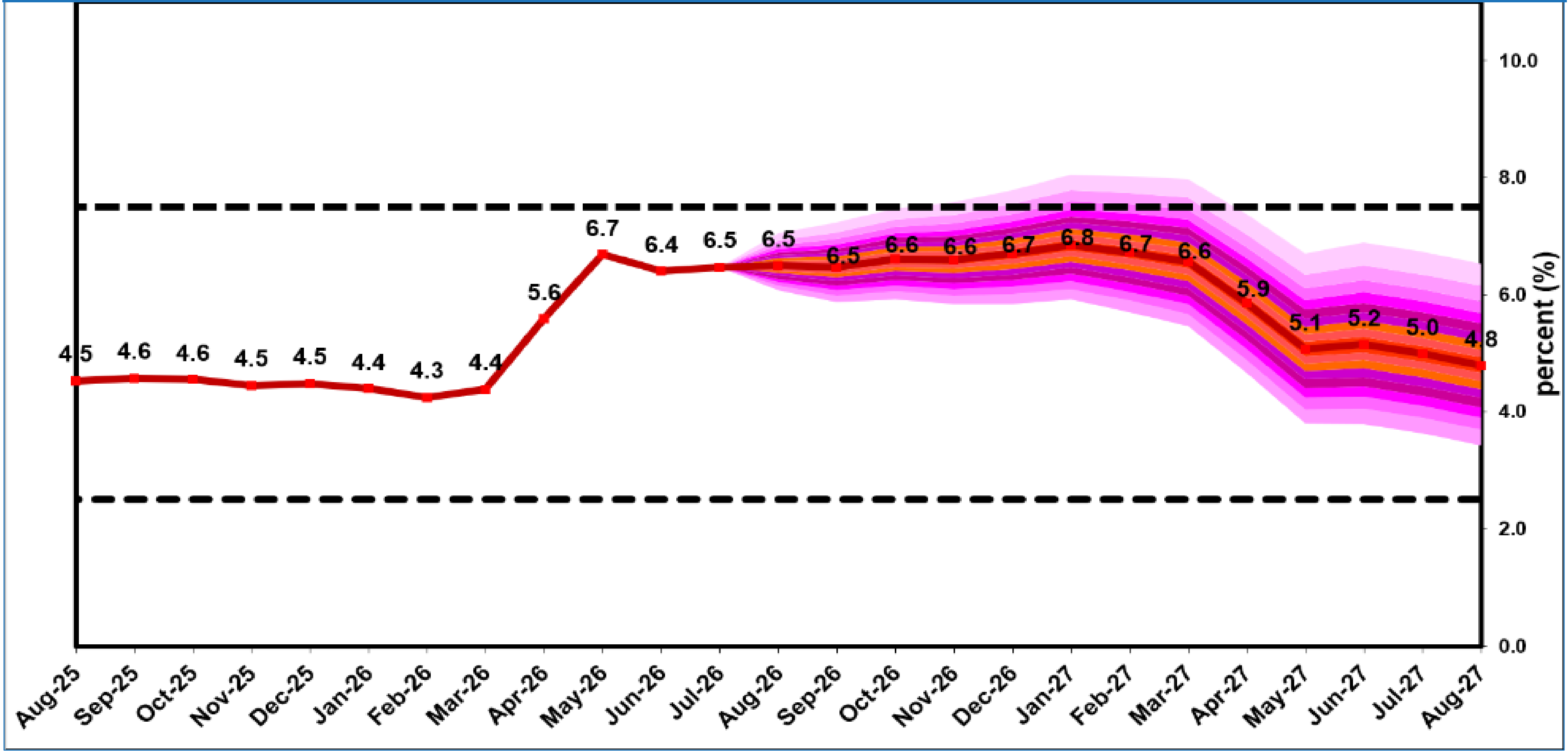
Source: KNBS and CBK

12.

Inflation Projections:

Overall inflation is expected to remain within the target range in the near term, assuming a gradual de-escalation of the conflict in the Middle East, supported by appropriate monetary policy actions, government interventions including subsidies and temporary reduction of VAT on fuel, and a stable exchange rate.

Overall inflation projections: August 2026 to August 2027 (y/y, percent)



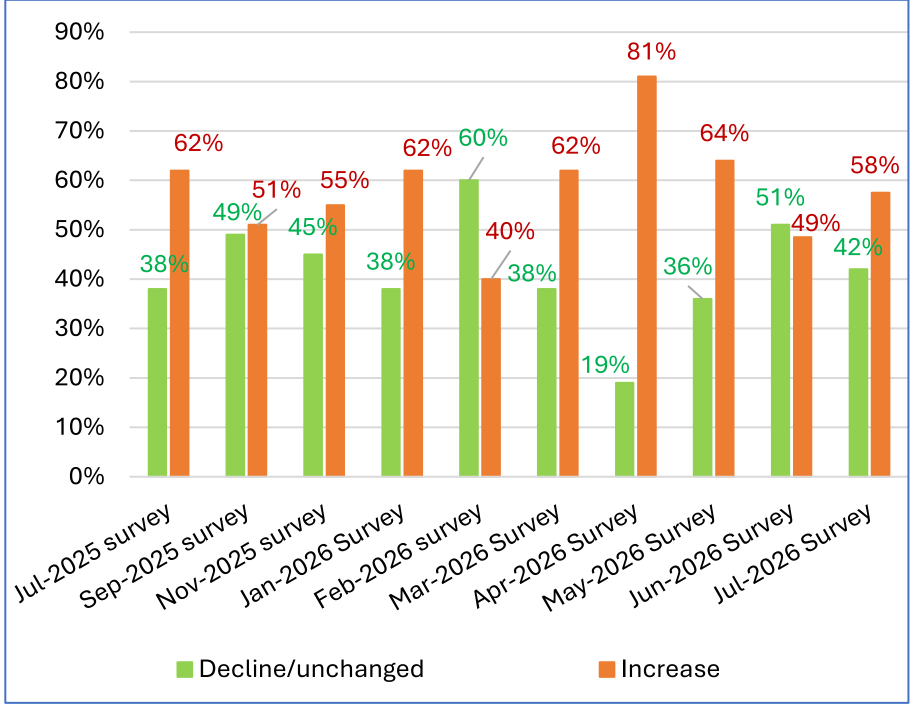
Source: KNBS, and CBK for projections

13.

Inflation expectations:

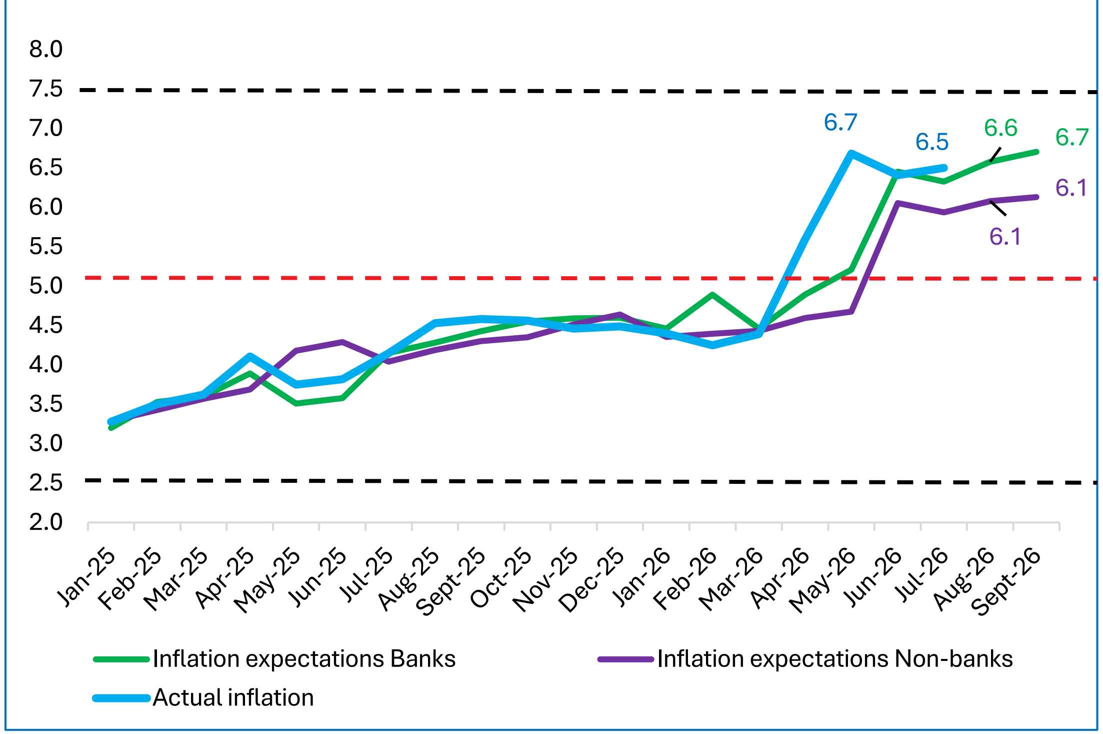
The July 2026 MPC Market Perceptions Survey and Agriculture Sector Survey show that inflation expectations remain anchored within the 5±2.5 percent target range.

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



- The July 2026 Agriculture Sector Survey shows that respondents expect inflation to remain within the target range in the near term, supported by stable fuel prices, and stability in the exchange rate.
- However, some respondents expect moderate upward pressure on inflation due to concerns on high energy prices arising from elevated international oil prices due to the conflict in the Middle East.

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



- The July 2026 MPC Market Perceptions Survey shows that respondents expect inflation to remain within the target range in the near term, mainly due to stable fuel prices, and exchange rate stability.
- Nevertheless, respondents expect moderate upward pressure on inflation in the near term due to higher international oil prices arising from supply disruptions from the Middle East conflict.

14. Summary on developments and outlook for inflation

1. **Overall inflation remained within the 5±2.5 percent target range in July 2026**, and was broadly stable at 6.5 percent compared to 6.4 percent in June.

2. **Overall inflation is expected to remain within the target range in the near term,** assuming a gradual de-escalation of the conflict in the Middle East, and supported by:
   - Appropriate monetary policy actions.
   - Government interventions including subsidies and reduction of VAT on fuel.
   - Exchange rate stability is expected to continue moderating the impact of imported inflation.

3. **The July 2026 MPC Surveys** show that inflation expectations remained anchored within the target range.

4. **The main risks to the inflation outlook relate to:** heightened geopolitical risks particularly the conflict in the Middle East which has resulted in volatility in global oil prices; continued Ukraine-Russia conflict; potential supply chain disruptions with risks on food prices due to the envisaged El-Nino effect; and elevated trade policy uncertainty.

GDP growth developments and outlook

15.

Domestic economic growth:

The growth of the economy is projected to pick up to 4.9 percent in 2026 and 5.3 percent in 2027, from 4.6 percent in 2025, supported by a robust industrial sector, resilient services, and the stable growth of agriculture.

Real GDP growth (y/y, percent)

	Weight (2009–2025)	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025 Act.	2026 Q1 Act.	2026 Q2 Proj.	2026 Annual Proj.	2027 Annual Proj.
1. Agriculture	**19.8**	**-0.4**	**-1.5**	**6.6**	**4.4**	**3.1**	**4.9**	**1.9**	**2.9**	**4.3**
2. Non-Agriculture (o/w)	**80.2**	**9.5**	**6.3**	**5.5**	**4.7**	**4.9**	**5.3**	**5.1**	**5.3**	**5.6**
2.1 Industry	**17.8**	**7.5**	**3.9**	**2.0**	**1.1**	**4.7**	**5.4**	**4.8**	**5.1**	**4.8**
Mining & Quarrying	1.1	18.0	9.3	-6.5	-7.8	14.9	9.1	9.6	9.6	9.6
Manufacturing	9.1	7.3	2.6	2.2	3.0	2.0	4.4	2.2	2.9	3.1
Electricity & water supply	2.6	5.6	5.5	3.2	2.7	5.2	4.3	5.6	5.5	5.1
Construction	5.1	6.7	4.1	3.0	-0.7	6.8	6.6	7.5	7.3	6.1
2.2 Services	**53.8**	**9.8**	**7.0**	**7.0**	**6.0**	**5.3**	**5.5**	**5.3**	**5.5**	**5.9**
Wholesale & Retail Trade	8.2	8.0	3.5	3.3	4.0	3.6	4.0	3.8	3.9	4.7
Accommodation & food services	1.1	52.6	26.8	33.6	25.9	15.6	14.7	12.5	14.4	12.8
Transport & Storage	9.8	7.4	5.8	5.5	4.3	3.7	3.6	3.1	3.5	4.4
Information & Communication	2.7	6.1	9.0	10.3	7.1	4.8	5.0	5.4	5.2	6.8
Financial & Insurance	7.8	11.5	12.0	10.1	7.5	6.5	6.3	6.3	6.5	6.5
Public administration	5.7	6.0	5.1	5.0	8.7	8.3	5.7	5.8	5.8	5.5
Professional, Admin & Support Services	3.0	7.1	9.5	9.9	6.4	5.0	2.4	6.5	5.6	6.7
Real estate	9.5	6.7	4.5	7.3	5.3	3.9	5.0	5.3	5.2	6.4
Education	4.7	22.8	5.2	2.9	4.8	2.8	6.2	4.5	5.0	5.1
Health	2.1	8.9	3.4	4.5	6.0	5.5	4.3	5.5	5.4	5.3
Other services	2.4	12.5	6.5	4.3	4.5	2.6	2.1	2.9	3.2	4.2
FISIM	-3.0	5.3	0.2	2.7	9.7	0.2	-4.1	2.2	0.5	3.4
2.3 Taxes on products	**8.6**	**11.9**	**6.7**	**3.2**	**3.3**	**3.1**	**4.3**	**3.7**	**4.0**	**4.5**
Real GDP Growth	**100.0**	**7.6**	**4.9**	**5.7**	**4.7**	**4.6**	**5.3**	**4.4**	**4.9**	**5.3**

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

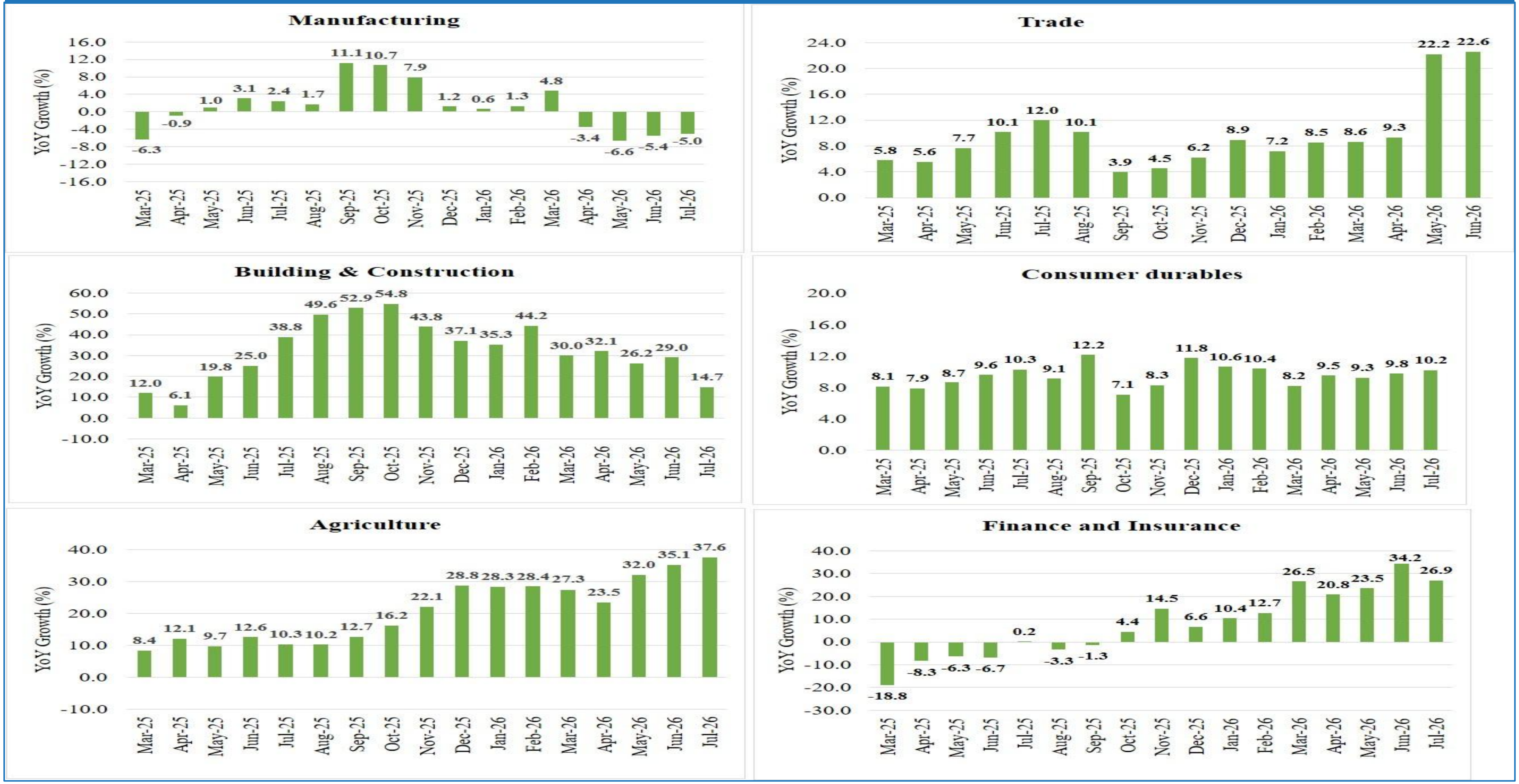
- **Economic growth projections reflect continued uncertainty and implications of the conflict in the Middle East on the performance of some key sectors of the economy, as well as the potential adverse impact of the El Niño weather phenomenon.**
- **Agricultural sector growth** is subject to developments in weather conditions.
- **Industrial sector growth is** expected to remain strong, driven by affordable housing programme, ongoing infrastructure projects, continued settlement of pending bills, and implementation of Public Private Partnerships.
- **Services sector** growth is expected to remain resilient, boosted by increased digitization, technological innovations and lagged effects of monetary policy easing.
- **Improved uptake of credit across key sectors is expected** to support growth, particularly in trade, building and construction, agriculture, and consumer durables.

16.

Sectoral credit to private sector:

Growth in credit to key sectors of the economy, particularly trade, building and construction, agriculture, and consumer durables has remained strong, reflecting improved demand for credit in line with the decline in lending interest rates.

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



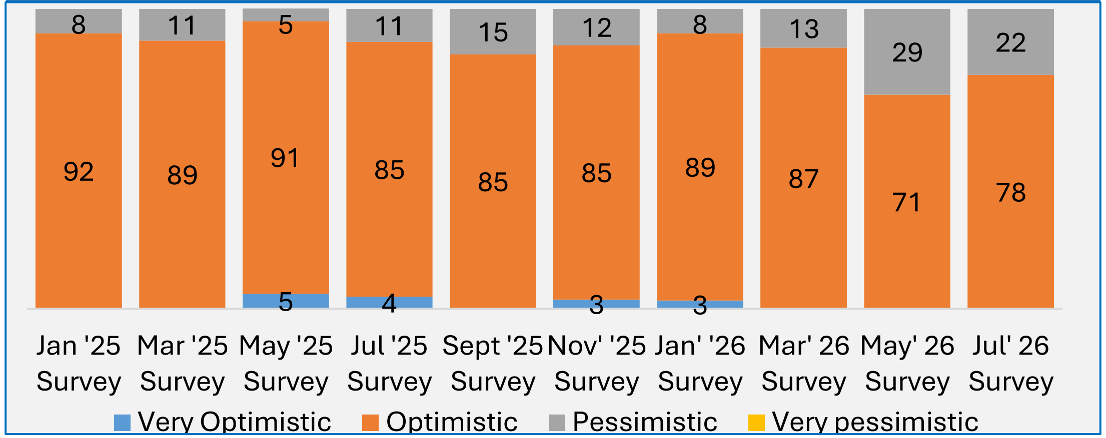
Source: Central Bank of Kenya

17.

MPC Surveys:

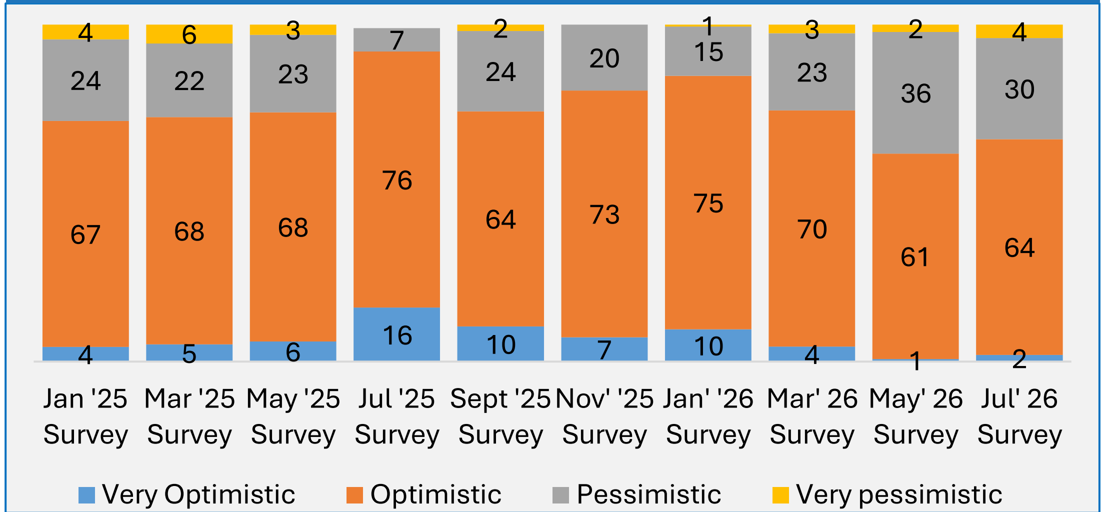
The July 2026 CEOs and Market Perceptions Surveys revealed sustained optimism about domestic business activity and economic growth prospects for the next 12 months relative to the growth in 2025.

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



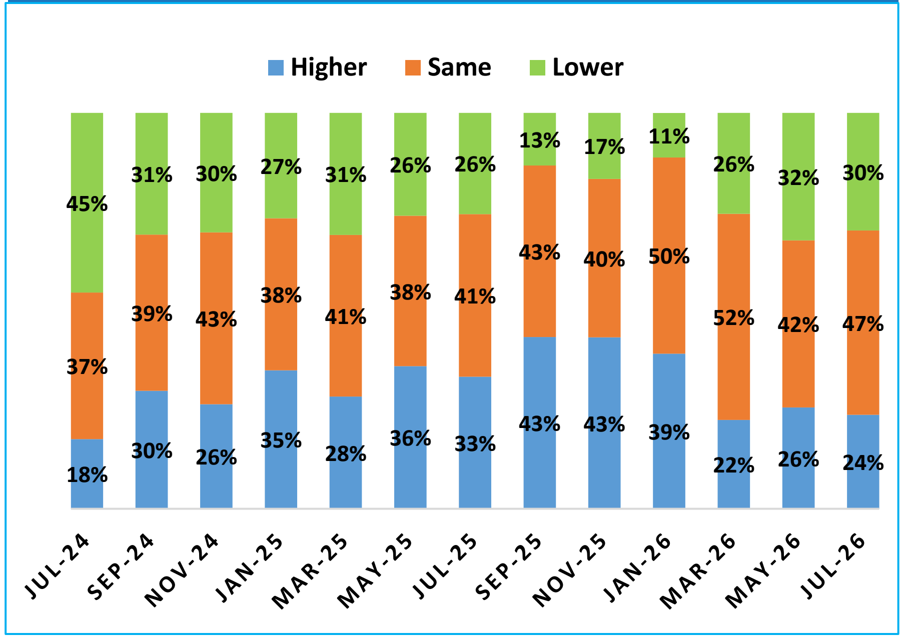
Survey	Very Optimistic	Optimistic	Pessimistic
Jan '25 Survey		92	8
Mar '25 Survey		89	11
May '25 Survey	5	91	5
Jul '25 Survey	4	85	11
Sept '25 Survey		85	15
Nov' '25 Survey	3	85	12
Jan' '26 Survey	3	89	8
Mar' 26 Survey		87	13
May' 26 Survey		71	29
Jul' 26 Survey		78	22

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



Survey	Very Optimistic	Optimistic	Pessimistic	Very pessimistic
Jan '25 Survey	4	67	24	4
Mar '25 Survey	5	68	22	6
May '25 Survey	6	68	23	3
Jul '25 Survey	16	76	7	
Sept '25 Survey	10	64	24	2
Nov' '25 Survey	7	73	20	
Jan' '26 Survey	10	75	15	1
Mar' 26 Survey	4	70	23	3
May' 26 Survey	1	61	36	2
Jul' 26 Survey	2	64	30	4

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



	Higher	Same	Lower
JUL-24	18%	37%	45%
SEP-24	30%	39%	31%
NOV-24	26%	43%	30%
JAN-25	35%	38%	27%
MAR-25	28%	41%	31%
MAY-25	36%	38%	26%
JUL-25	33%	41%	26%
SEP-25	43%	43%	13%
NOV-25	43%	40%	17%
JAN-26	39%	50%	11%
MAR-26	22%	52%	26%
MAY-26	26%	42%	32%
JUL-26	24%	47%	30%

- The optimism was attributed to continued macroeconomic stability, Government support for agriculture sector and prospects for favourable weather conditions, increased infrastructure spending, increased digital innovations, stable exchange rate, and improved private sector credit growth.
- Nevertheless, respondents were concerned about the elevated global uncertainties attributed to the conflict in the Middle East, and high energy costs.

18. Summary on domestic economic growth and outlook

1. **The growth of the Kenyan economy is projected to pick up to 4.9 percent in 2026 and 5.3 percent in 2027, from 4.6 percent in 2025,** supported by a robust industrial sector, resilient services, and stable growth of agriculture.
    - The growth projections reflect continued uncertainty and implications of the conflict in the Middle East on the performance of some key sectors of the economy, as well as the potential adverse impact of the El Niño weather phenomenon.

2. **The MPC Surveys conducted in July 2026 revealed sustained optimism** about business activity and economic growth prospects for the next 12 months, but respondents are concerned about elevated global risks.

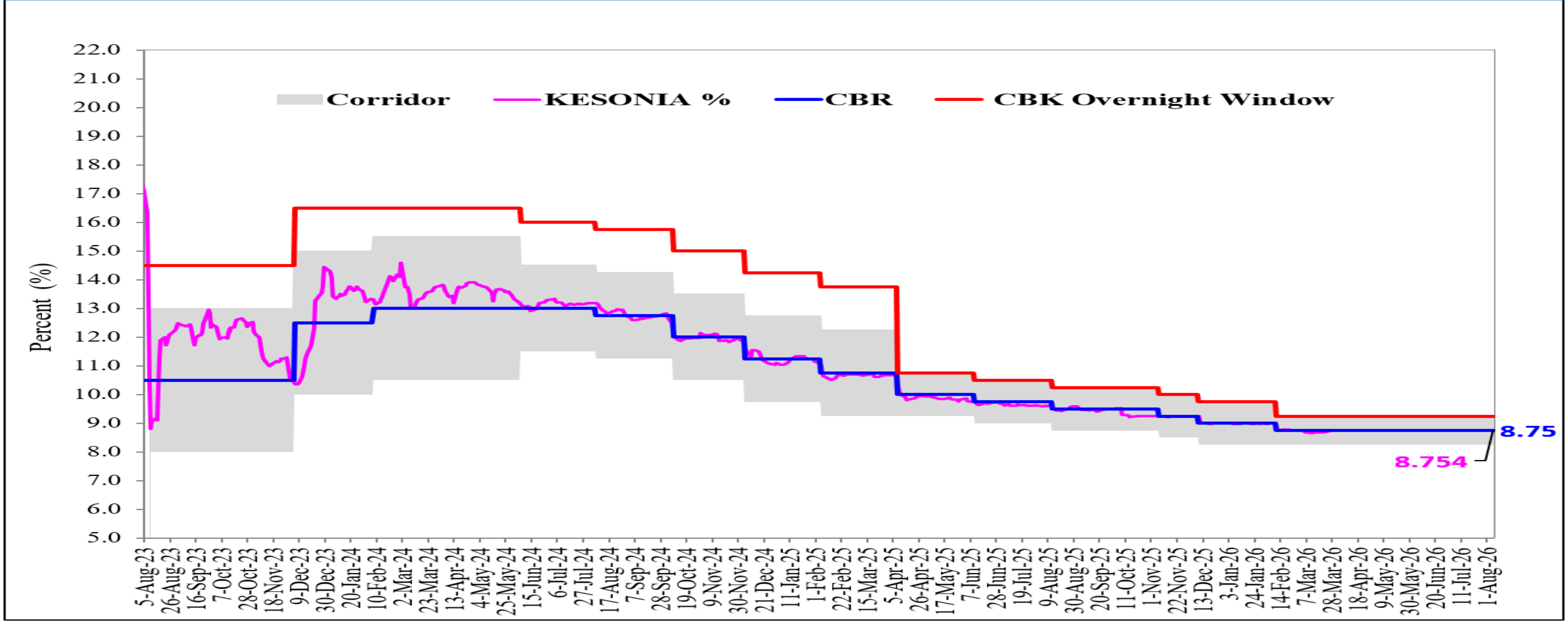
3. **This outlook is subject to risks,** particularly a prolonged conflict in the Middle East, the Russia-Ukraine conflict, and elevated trade policy uncertainties.

Monetary developments

19. Monetary policy implementation framework:

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

Monetary policy implementation framework (August 2023– August 6, 2026)



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

Source: CBK

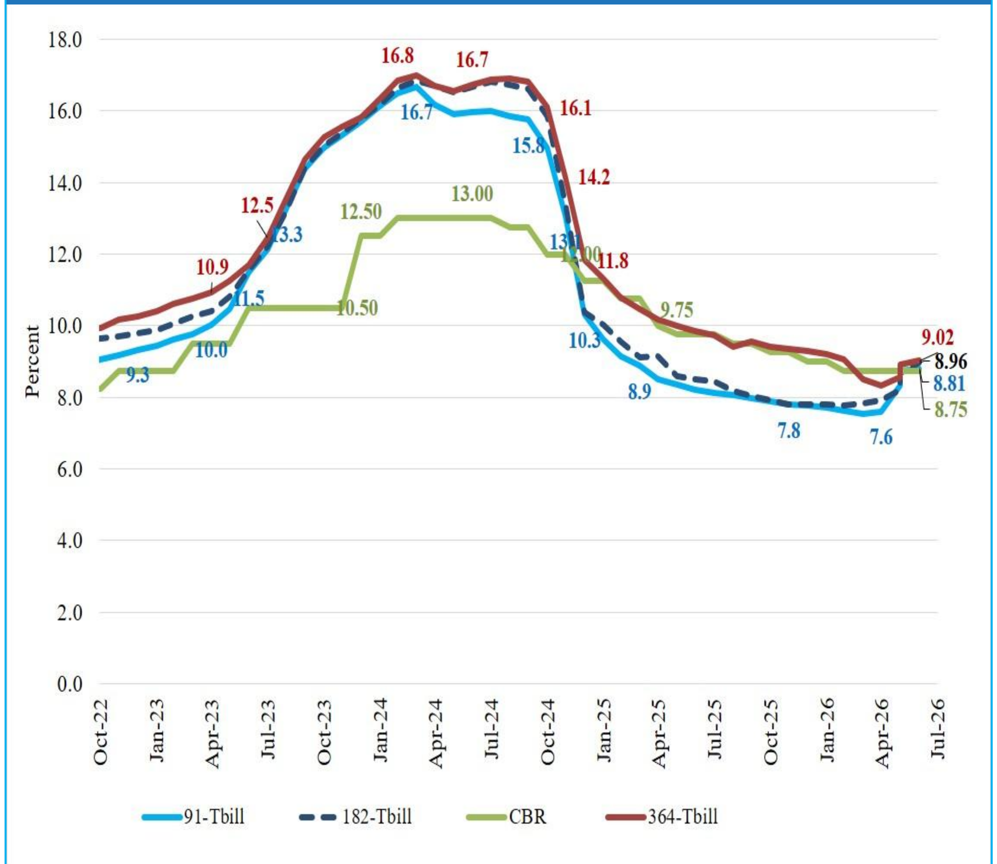
- Following the adoption of the inflation targeting monetary policy framework in August 2023, CBK introduced an interest rate corridor around the CBR to enhance implementation of the framework and monetary policy transmission by ensuring the interbank rate (KESONIA) as an operating target closely tracks the CBR.
- The interest rate corridor was initially set at ± 250 basis points around the CBR but has since been reduced progressively to the current ± 50 basis points.

20.

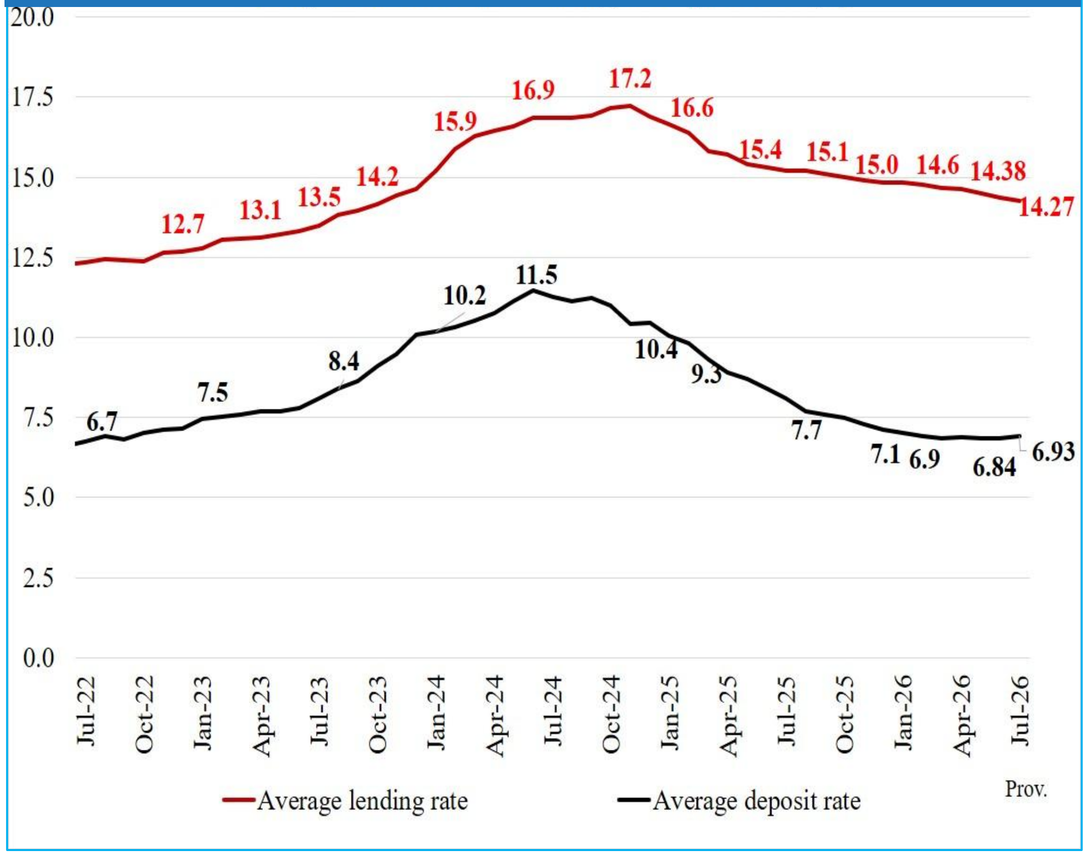
Monetary developments:

Short term interest rates and commercial banks lending rates have declined inline with the recent reductions in the Central Bank Rate.

Average Treasury bill rates and Central Bank Rate (percent)



Average commercial banks interest rates (percent)



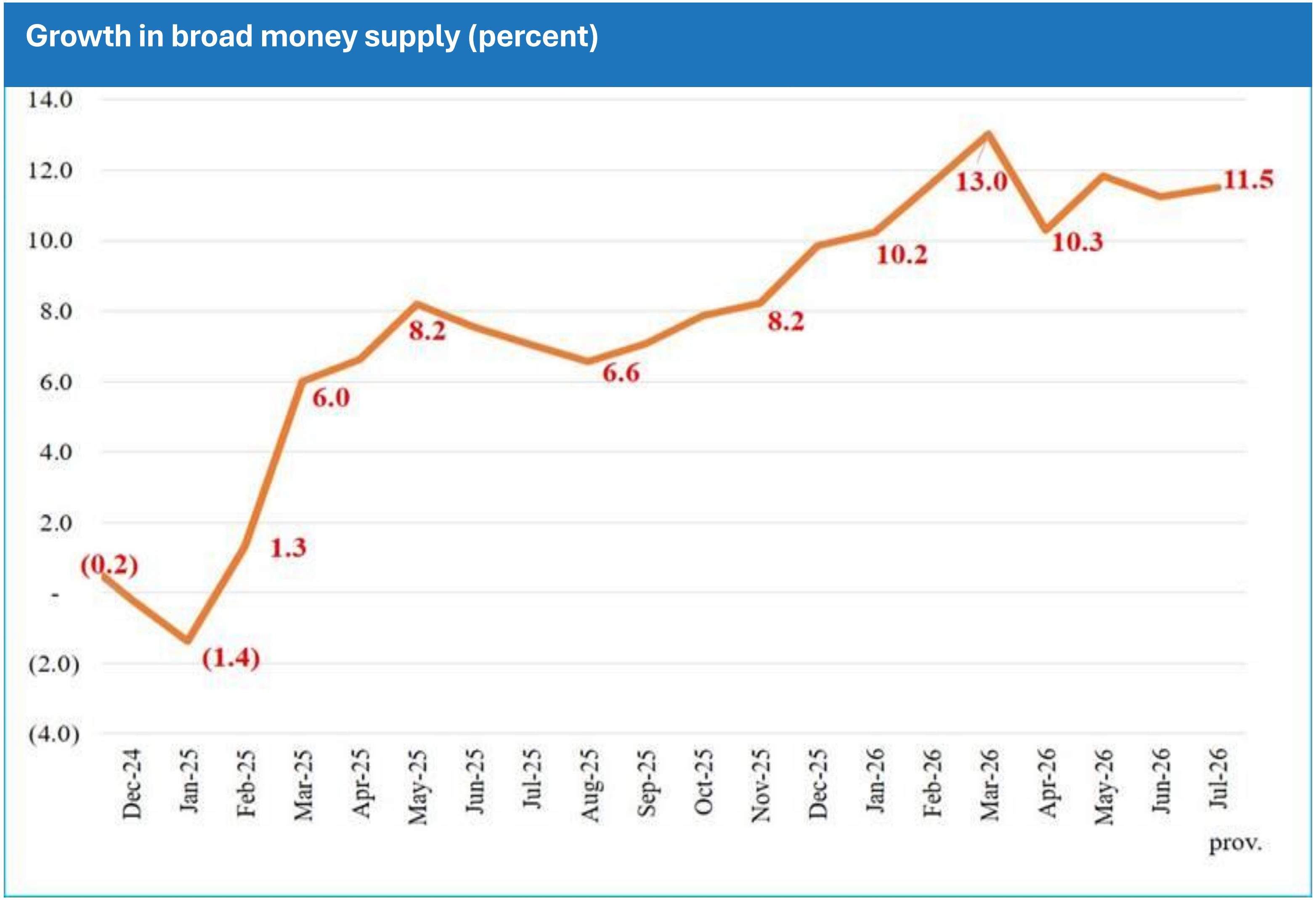
Source: CBK

- The introduction of the Risk Based Credit Pricing framework is expected to reduce the spread between the average commercial banks lending rates and deposit rates by enhancing transparency in loan pricing.

21.

Monetary developments:

Growth in broad money supply (M3) remained strong in June and July 2026, mainly driven by growth in private sector credit and net foreign assets of the banking system.



- **The strong growth in broad money supply in June and July 2026 reflected the improved growth of credit to private sector.**
- The contribution of net foreign assets of the banking system to broad money supply growth has remained strong.
- The contribution of net lending to government declined in June 2026, reflecting increased government deposits.

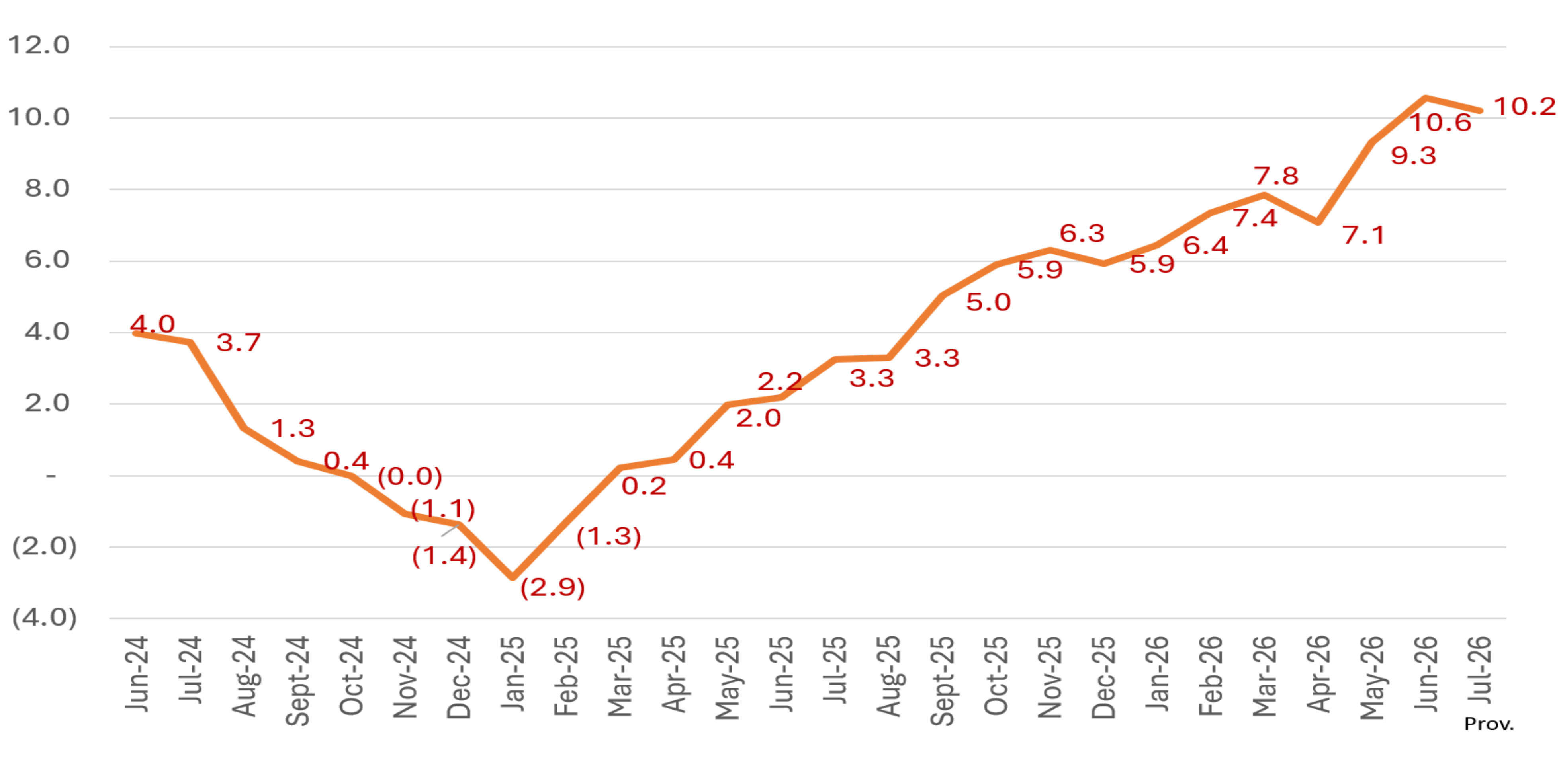
Source: CBK

22.

Monetary developments:

Growth in commercial banks lending to the private sector remained strong at 10.2 percent in July 2026 and 10.6 percent in June, supported by increased credit flows to key sectors of the economy.

Growth in credit to the private sector (y/y, percent)



Source: CBK

23.

Risk-Based Credit Pricing Model:

The revised Risk-Based Credit Pricing Model was fully implemented in March 2026 and is expected to improve the transmission of monetary policy decisions and enhance transparency in loan pricing.

Components of the revised RBCP Model is fully operational from March 2026

Common reference rate

- Kenya Shilling Overnight Interbank Average (KESONIA) compounded in arrears.
- CBR to be the alternative reference rate.

Credit related operating expenses

- Direct and indirect costs related to lending.

Return on shareholders

- Return to shareholders is the expected shareholders return from lending business.

Borrowers credit risk premium

- The borrowers' risk premium is the compensation the banks expect from their borrowers, depending on their risk profiles.

Other relevant costs

- Banks to include other costs related to lending taking into account the spirit of the Kenya Banking Sector Charter.

The Total Cost of Credit = KESONIA + Premium "K" + Fees/Charges

Note*: The new model applies to all variable rate loans except for foreign currency denominated loans and fixed rate loans.*

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 inline with recent reductions in the CBR.

3. Commercial banks' average lending interest rates declined in June and July 2026.

4. Growth in money supply, M3, remained strong in June and July 2026, mainly reflecting increased domestic credit and net foreign assets of the CBK.

5. **Growth in credit to the private sector remained strong at 10.2 percent in July 2026 and 10.6 percent in June,** compared -2.9 percent in January 2025. Growth in credit to key sectors of the economy remained strong.

Balance of payments developments and outlook

25.

Balance of payments:

A wider current account deficit is projected in 2026 due to the impact of the conflict in the Middle East. The deficit is expected to be more than fully financed by financial and capital account inflows, resulting in a balance of payments surplus.

Balance of payments (millions of U.S. dollars)

	2022	2023	2024	12 Months Jun-2025	2025 est	12 Months Jun-2026	2026 Proj.	2027 Proj.
A. Current account	**-4,824**	**-2,728**	**-2,124**	**-2,554**	**-3,140**	**-4,309**	**-4,435**	**-4,573**
Trade balance	**-11,559**	**-9,556**	**-9,987**	**-10,501**	**-10,945**	**-12,389**	**-12,315**	**-13,143**
Goods exports, f.o.b	10,650	11,031	12,264	12,546	13,036	13,666	14,087	15,089
Goods imports, f.o.b	22,209	20,588	22,252	23,047	23,982	26,056	26,402	28,233
Services balance	**1,981**	**1,703**	**2,373**	**2,417**	**2,505**	**2,558**	**2,730**	**3,486**
Services Credit	7,604	7,149	8,076	8,190	8,394	8,873	9,371	10,594
Services Debit	5,623	5,446	5,703	5,773	5,889	6,315	6,641	7,108
Goods and Services Balance	**-9,579**	**-7,853**	**-7,614**	**-8,084**	**-8,440**	**-9,831**	**-9,585**	**-9,657**
Primary income, Balance	**-1,761**	**-1,861**	**-2,122**	**-2,080**	**-2,094**	**-1,828**	**-2,308**	**-2,671**
Secondary income	**6,516**	**6,986**	**7,613**	**7,609**	**7,394**	**7,350**	**7,458**	**7,755**
B. Financial and capital account	**-2,683**	**-1,720**	**-3,576**	**-5,385**	**-5,416**	**-5,819**	**-6,920**	**-5,873**
C. Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**-1,453**	**-2,831**	**-2,277**	**-1,509**	**-2,485**	**-1,300**
D. Reserves and related items	**-2,141**	**-1,008**	**1,453**	**2,831**	**2,277**	**1,509**	**2,485**	**1,300**

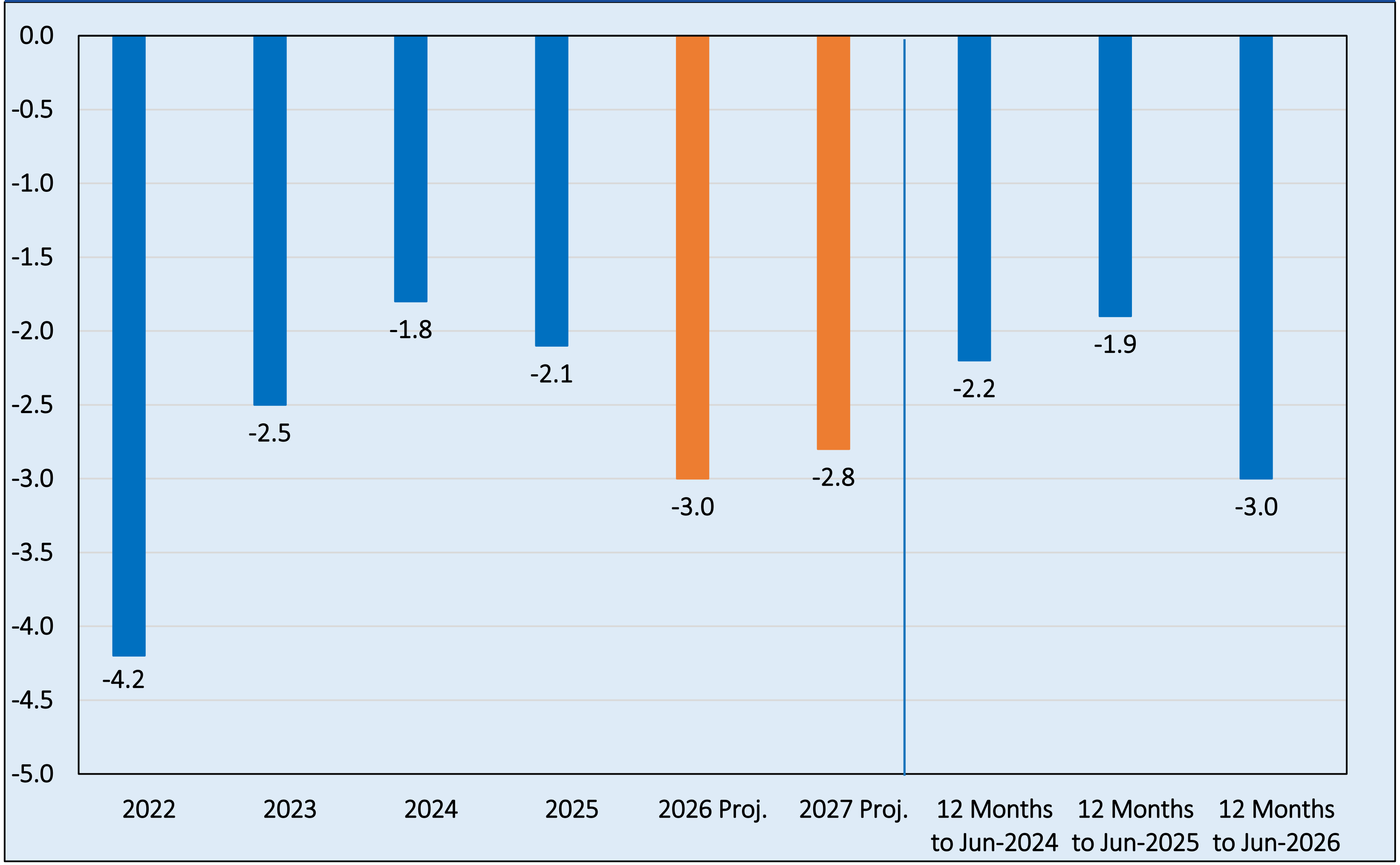
Source: KNBS and CBK

26.

Current account balance:

The current account deficit is projected to widen to 3.0 percent of GDP in 2026 compared to 2.1 percent of GDP in 2025, mainly due to the impact of the conflict in the Middle East.

Current account balance (percent of GDP)



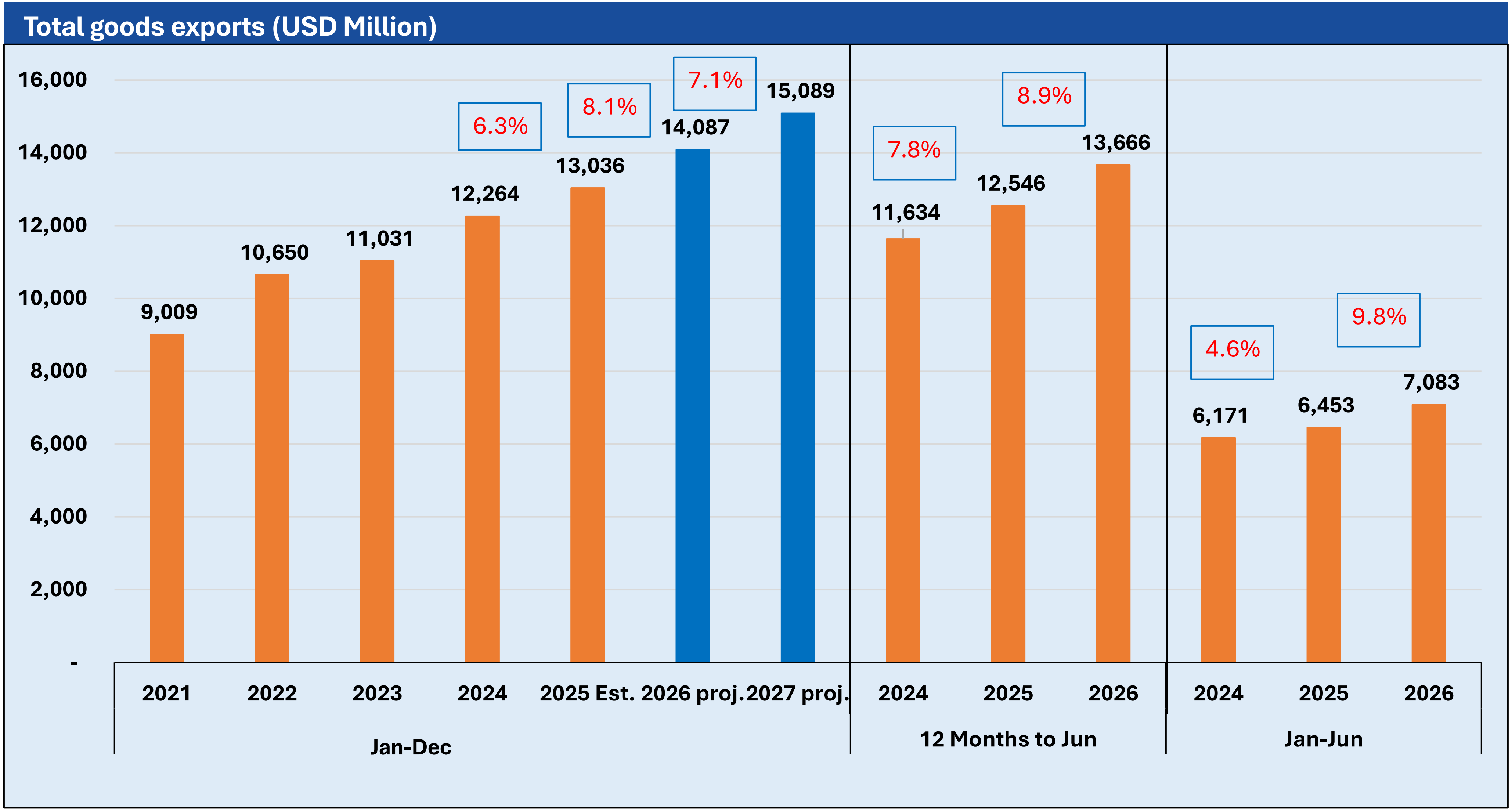
The projected wider current account deficit in 2026 reflects a higher trade deficit and slower growth in remittances.

Source: KRA and CBK

27.

Balance of Payments:

Goods exports increased by 8.9 percent in the 12 months to June 2026 compared to a similar period in 2025, mainly driven by horticulture, tea, and machinery and transport equipment.

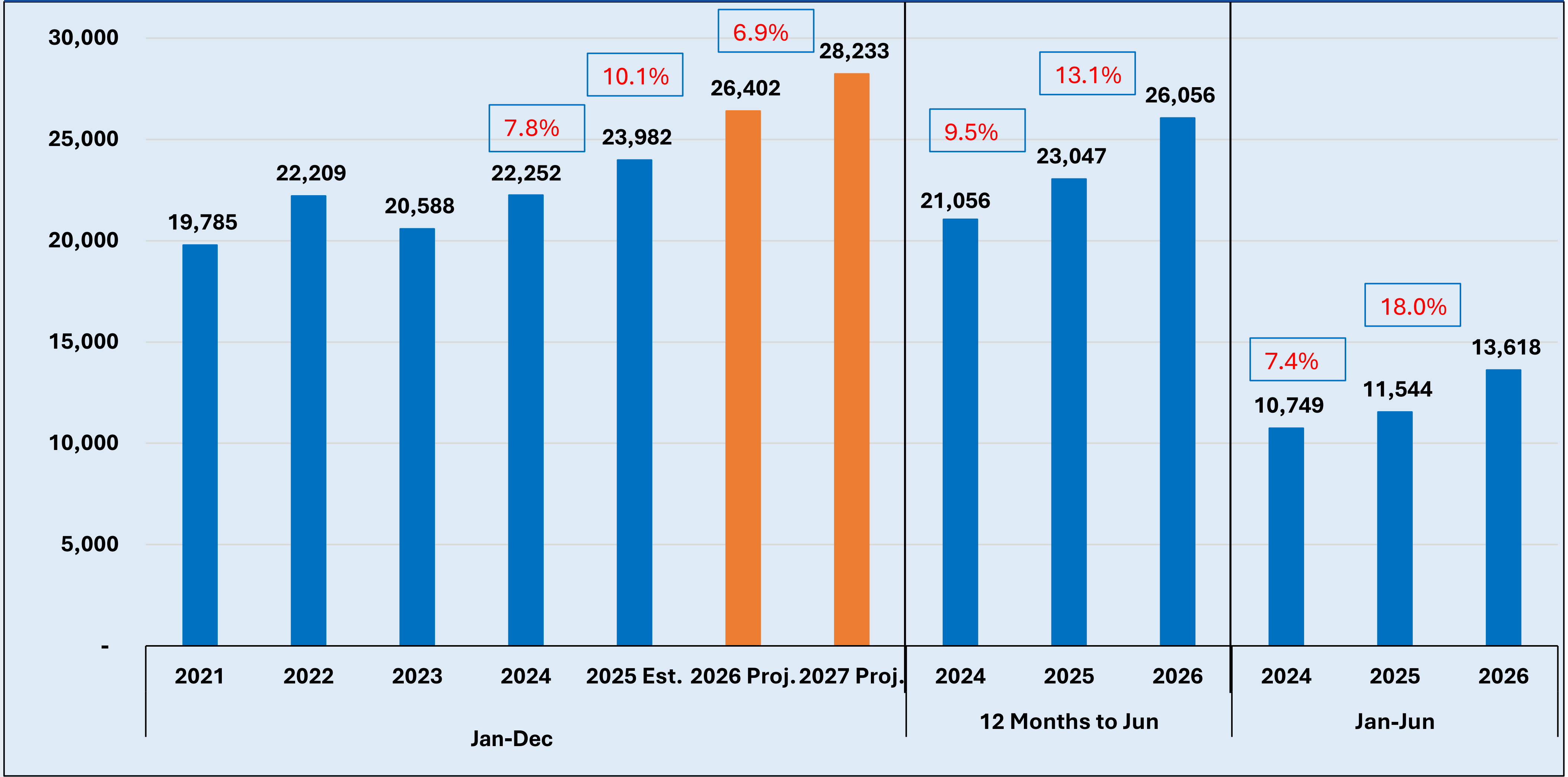


Source: KRA and CBK

28. Balance of Payments:

Goods imports increased by 13.1 percent in the 12 months to June 2026 compared to a similar period in 2025, mainly reflecting higher imports of food, mineral fuels, and intermediate and capital goods.

Total goods imports (USD Million)

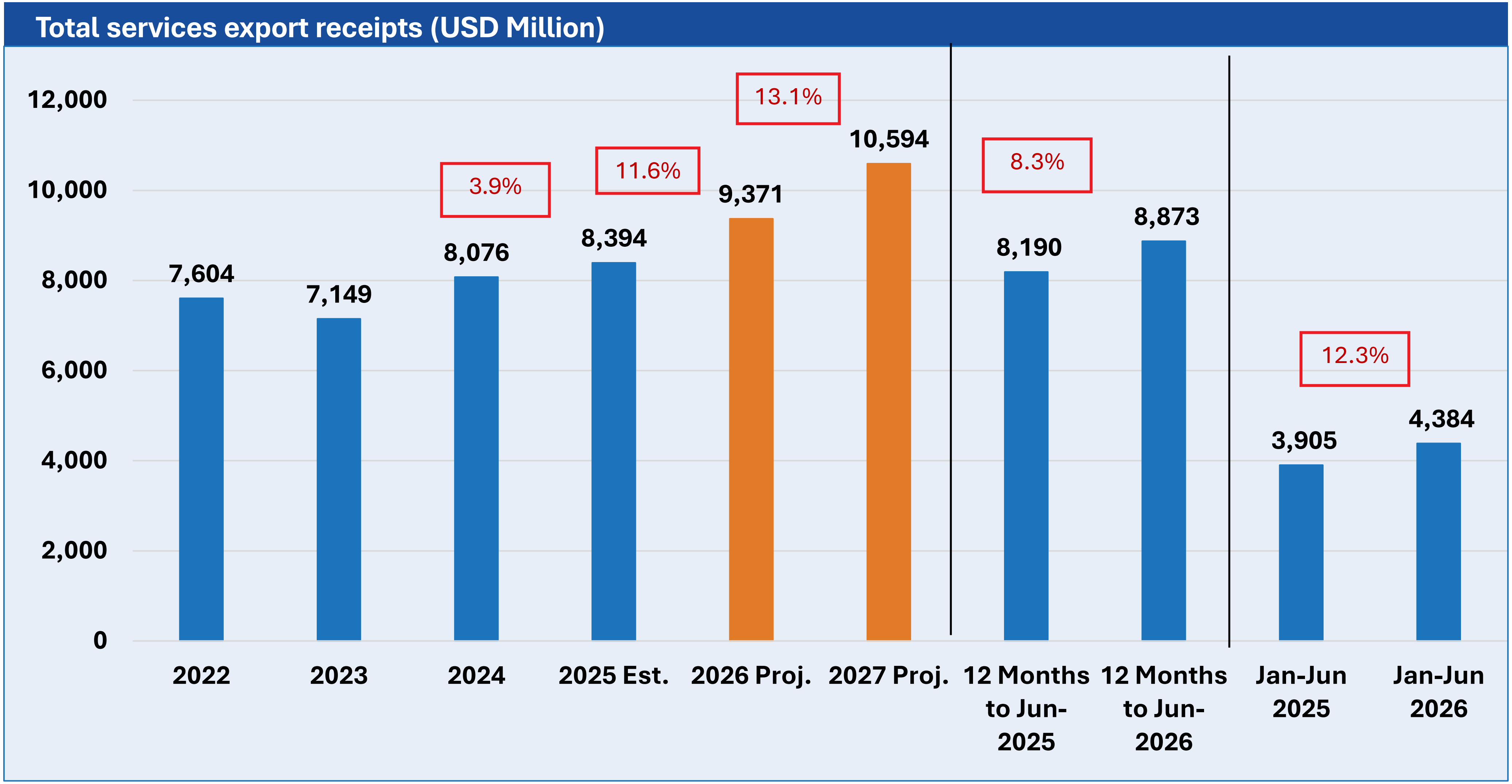


Source: CBK, KRA

29.

Balance of payments:

Services receipts increased by 8.3 percent in the 12 months to June 2026 relative to a similar period in 2025, mainly driven by travel services receipts.



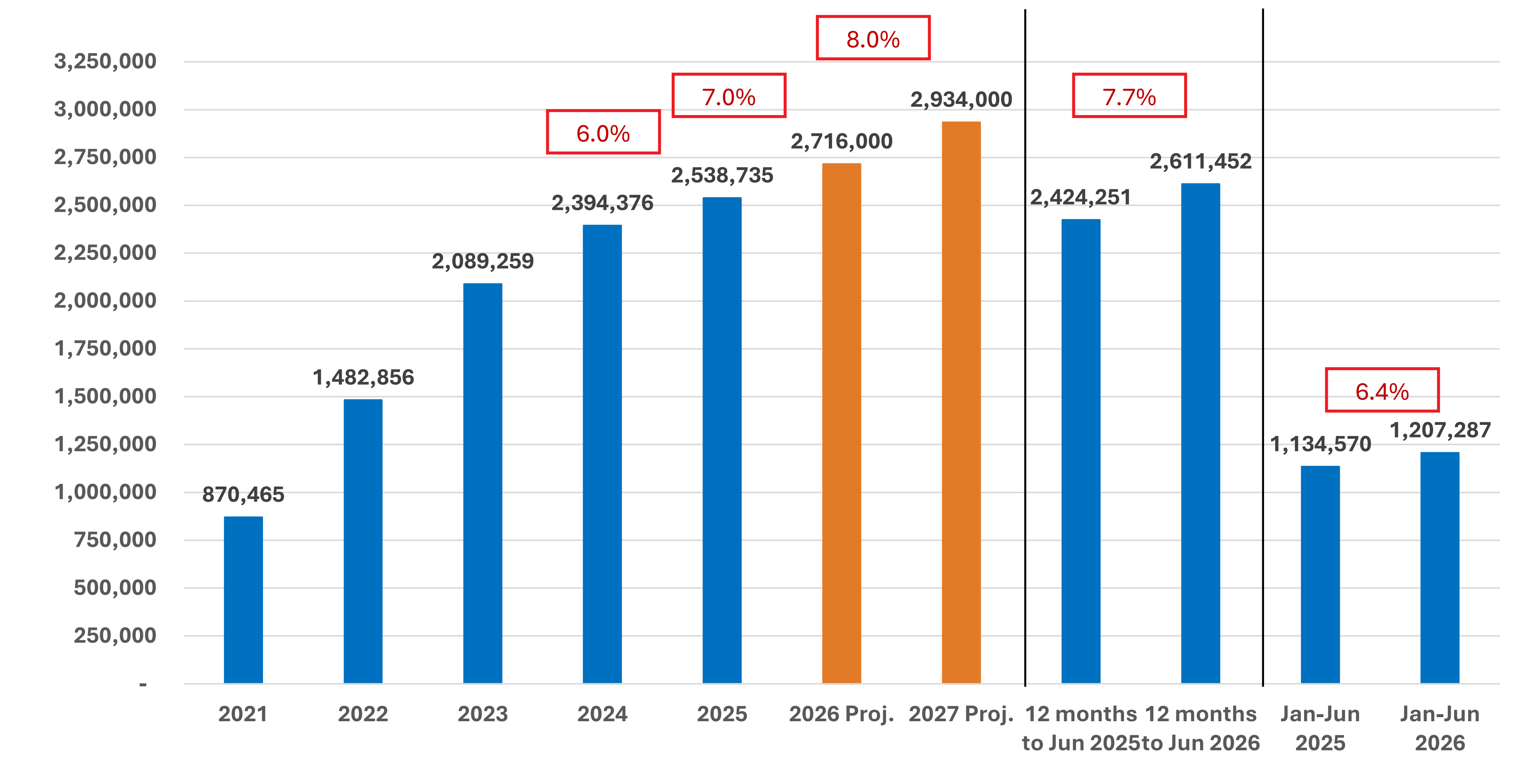
Source: CBK, KRA

30.

Services exports:

Tourist arrivals have remained resilient, growing by 7.7 percent in the 12 months to June 2026, on account of Government initiatives to diversify source markets, and measures to increase conferencing, business and holiday tourism in the country.

Number and growth of tourist arrivals)



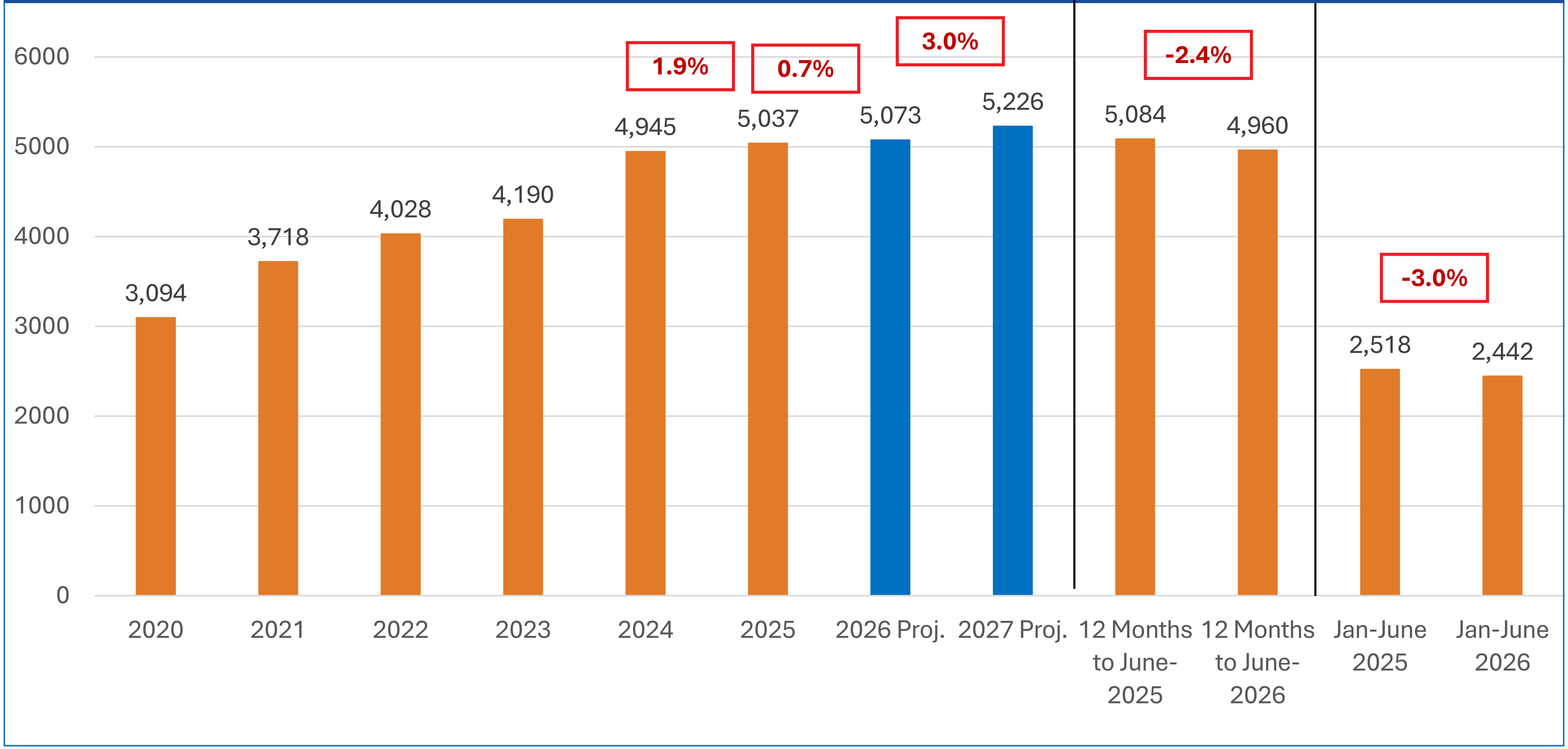
Source: KNBS/Tourism Research Institute/Kenya Tourism Board/CBK for projections

31.

Diaspora remittances:

Remittances inflows remained resilient in the 12 months to June 2026, supported by diversified source countries and impact of government policies to export skilled labor. However, the remittances inflows slowed down mainly reflecting reduced inflows from the USA and Saudi Arabia.

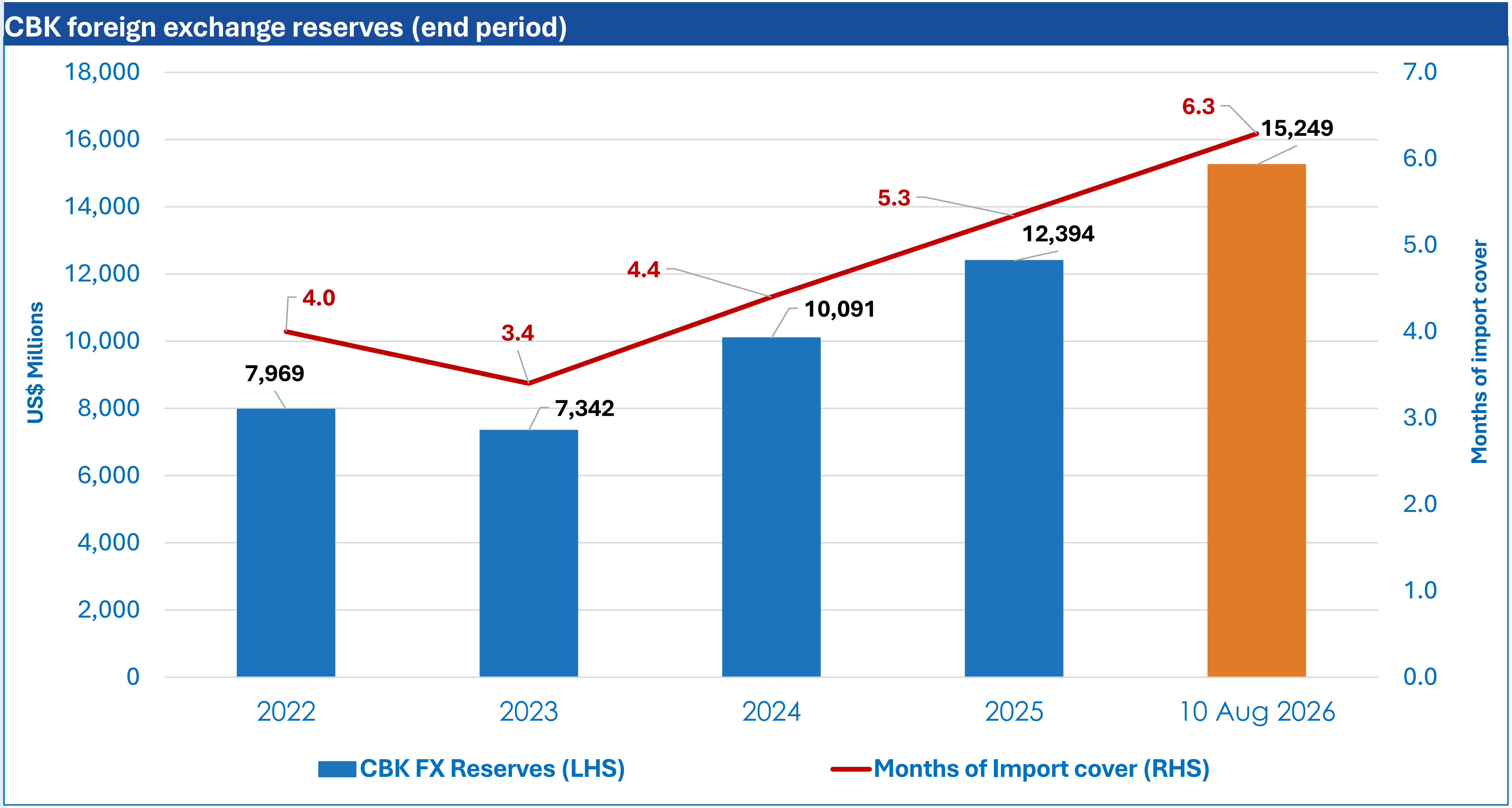
Diaspora remittances inflows (USD, Million)



Source: CBK

32. CBK foreign exchange reserves:

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



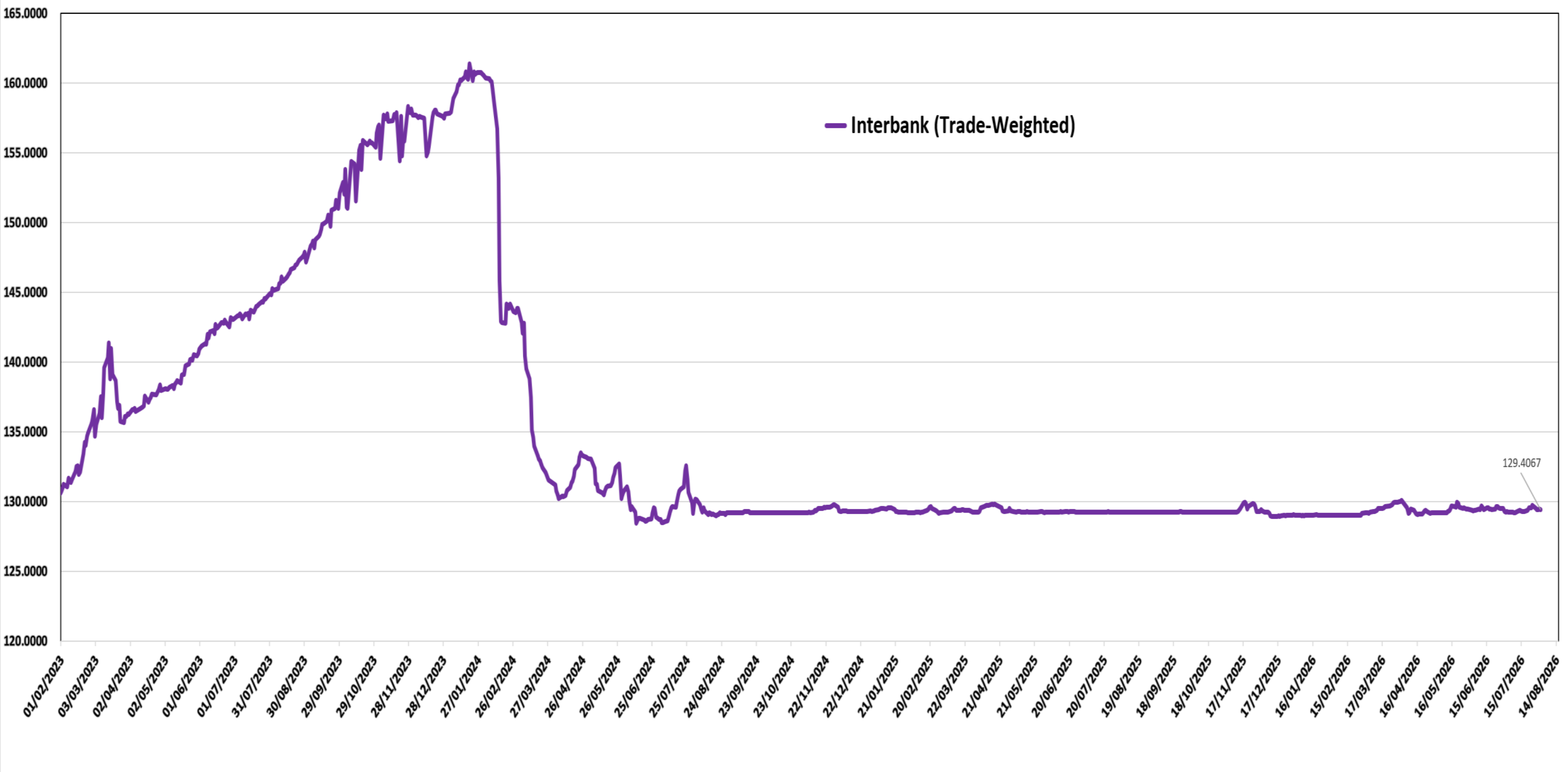
Source: CBK as of August 10, 2026

33.

Exchange rate developments:

Despite elevated global uncertainties, the Kenya Shilling has remained stable, supported by diversified foreign exchange inflows, confidence in the economy and adequate foreign exchange reserves.

Daily exchange rate of the Kenya Shilling against the US Dollar



Source: Central Bank of Kenya

Summary of balance of payments developments and outlook

1. **The current account deficit is projected at 3.0 percent of GDP in 2026 compared to 2.1 percent of GDP in 2025,** reflecting effects of the conflict in the Middle East, including a higher trade deficit and slower growth in remittances.

    - The current account deficit is expected to be more than fully financed by financial and capital account inflows in 2026, resulting in an overall balance of payments surplus of USD 2,485 million.

    - Gross foreign exchange reserves are projected to remain strong at USD14,879 million at the end of 2026 from USD12,394 million in 2025.

2. **Downside risks to the balance of payments outlook**: heightened geopolitical tensions; volatility in international oil prices; weakening global economic activity; persistent trade policy uncertainty; and potential adverse weather developments (El-Nino) and climate-related shocks.

Banking sector developments

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 20.0 percent in June 2026, compared to 20.4 percent in April 2026 and same level of 20.0 percent in December 2025.
    - The average banking sector liquidity ratio was 61.2 percent in June 2026,compared to 61.8 percent in April 2026 and 59.3 percent in December 2025.

2. **The ratio of gross non-performing loans to gross loans stood at 14.6 percent in July 2026,** down from 15.4 percent in April 2026 and 17.6 percent in August 2025. 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)** was fully implemented in March 2026 and is expected to enhance transparency in the pricing of loans by commercial banks, and to improve transmission of monetary policy decisions to lending rates.

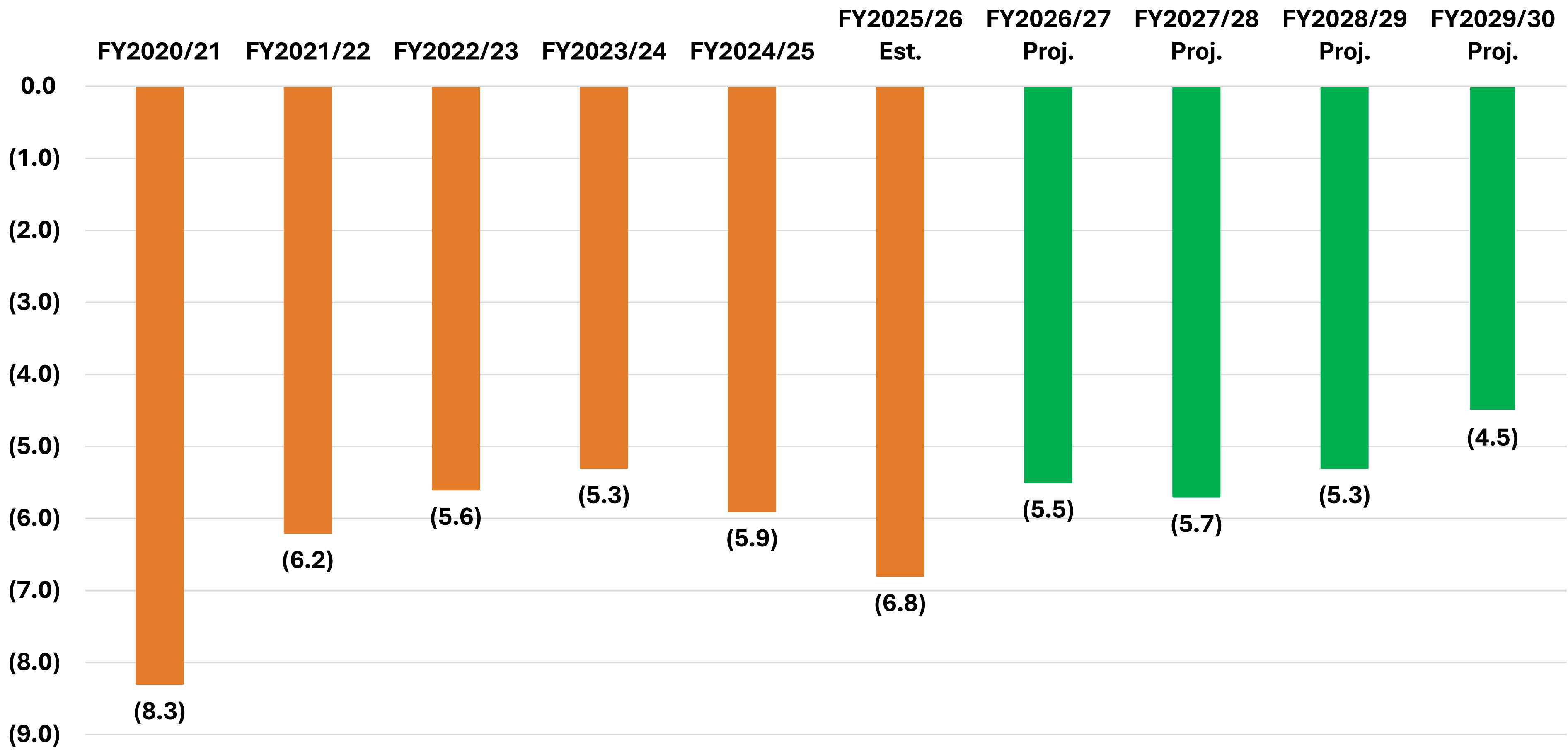
Fiscal developments and outlook

36.

Fiscal performance and outlook:

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

Actual and projected fiscal deficit (percent of GDP)



Source: The National Treasury

Summary and key takeaways

Summary and Key Takeaways

1. **On the global front:**
   - Inflation is projected to increase in 2026, driven by higher energy prices and transport costs.
   - Growth is projected to moderate in 2026, due to higher energy prices and elevated global uncertainties.

2. **On the domestic front**:
   - 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.
   - The exchange rate is expected to remain stable.
   - Despite the elevated global risks, economic growth is expected to remain resilient.
   - Average commercial banks' lending rates have declined, and as a result growth in credit to private sector has continued to improve.
   - The banking sector remains stable and resilient.
   - Confidence in the economy remains strong as reflected in sustained optimism in the economic prospects by respondents to the MPC surveys.

3. **In view of these developments, the MPC kept the CBR unchanged at 8.75 percent**, to ensure that inflation expectations remain anchored within the target range, and the exchange rate remains stable.

THANK YOU