Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Wednesday, June 11, 2025

Dr. Kamau Thugge, CBS
Governor

1. Monetary Policy Decision

1. **During its Meeting on June 10, 2025, the Monetary Policy Committee (MPC) decided to lower the Central Bank Rate (CBR) by 25 basis points to 9.75 percent from 10.00 percent.**

2. **The MPC observed that:**

   - Overall inflation was expected to remain below the midpoint of the 5±2.5 percent target range in the near term, supported by stability in food and energy prices, and continued exchange rate stability.
   - Central banks in the major economies have continued to lower their interest rates, but at a more cautious pace depending on inflation and economic growth expectations.
   - Average lending rates in the domestic market have continued to decline, while private sector credit growth has recovered modestly.
   - 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 economy and stands ready to take further action as necessary in line with its mandate.

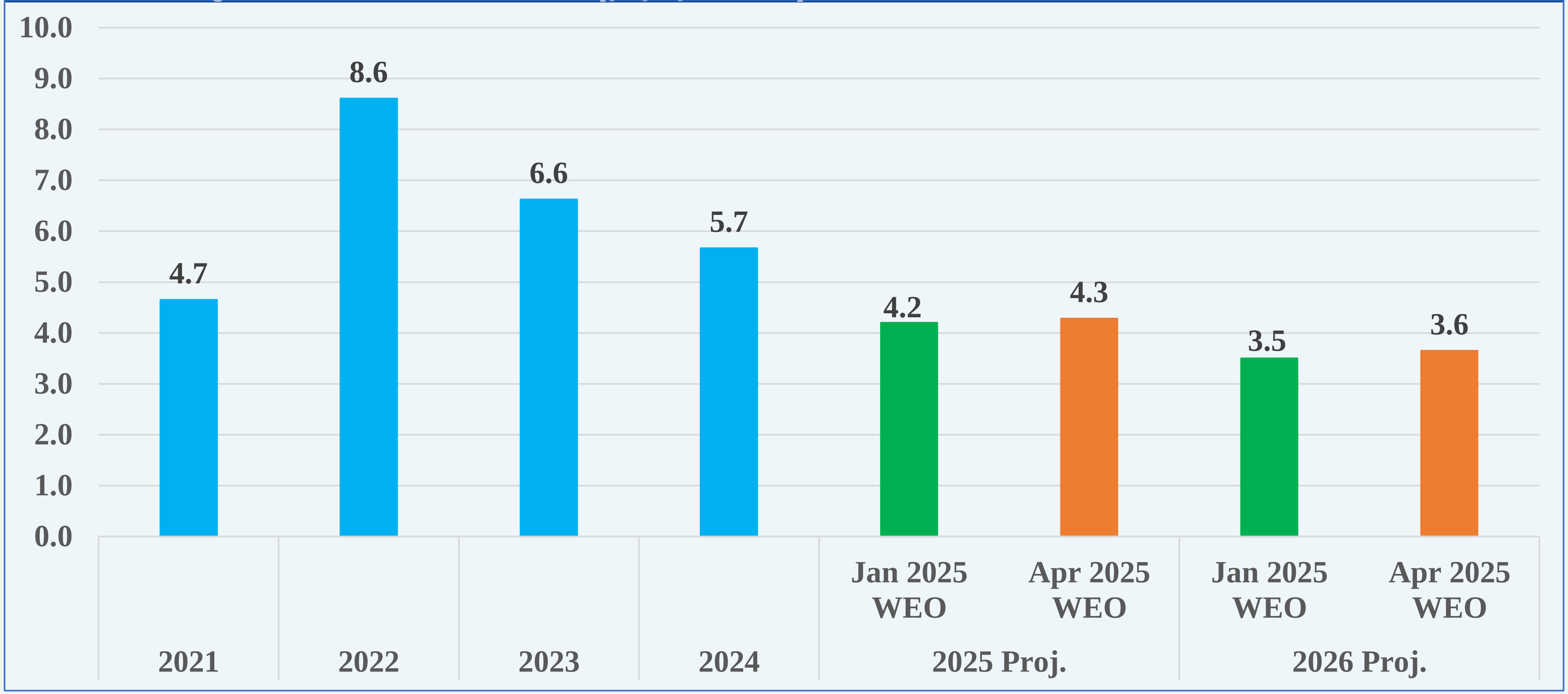
4. **The Committee will meet again in August 2025**.

2.

Global economic developments and outlook:

Global inflation is projected to decline at a slower pace due to the expected inflationary impact of higher tariffs on trade

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



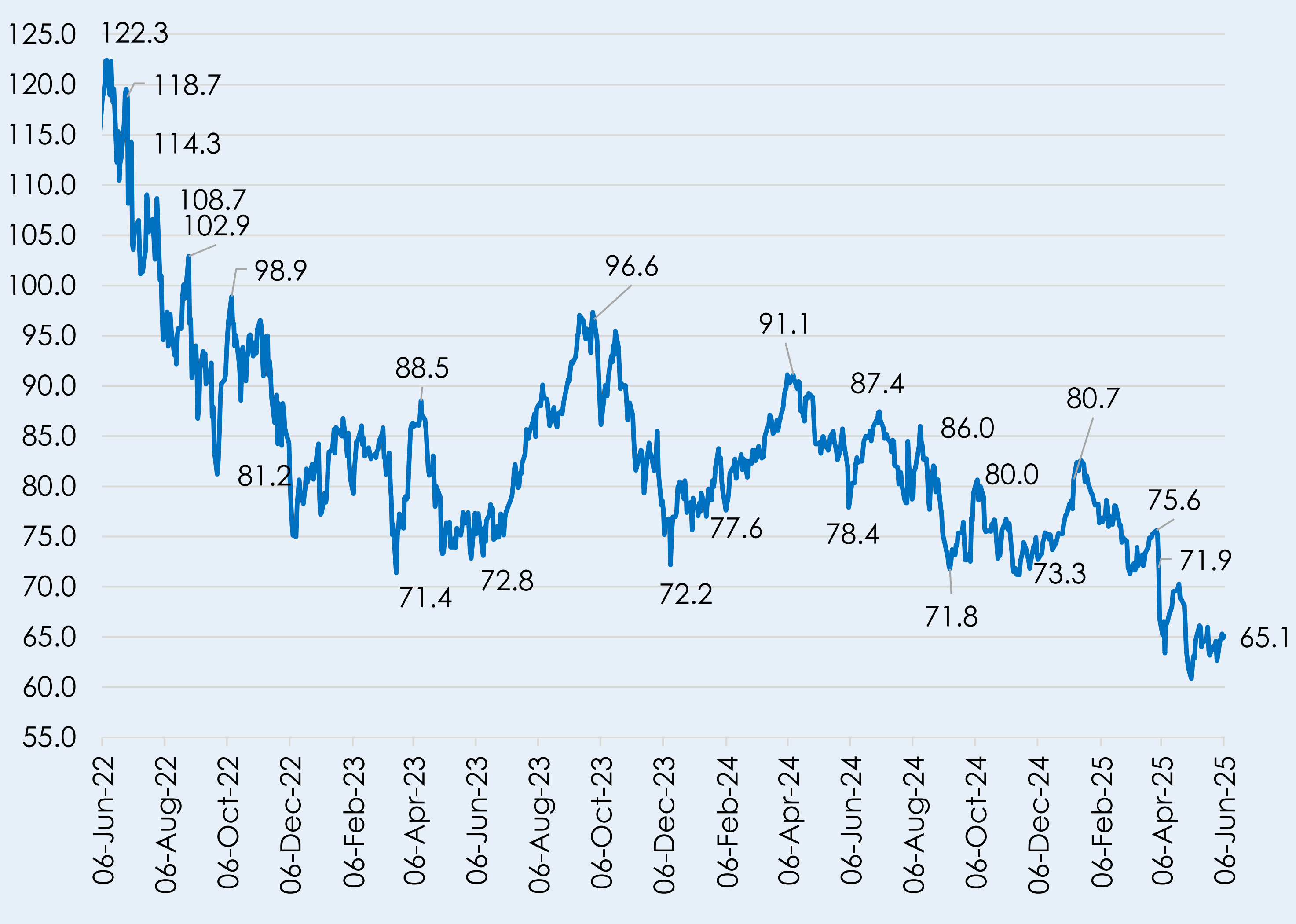
Source: IMF World Economic Outlook for projections

- The projected decline in inflation is expected to be supported by lower international oil prices, reflecting increased supply and subdued global demand mainly from China.
- As a result, Central banks in major economies have adopted a more cautious approach in lowering policy rates.

3. Global commodity prices:

International oil prices have moderated due to increased production and subdued global demand mainly from China, but the risk of potential volatility remains elevated due to higher tariffs on imports, and persistent geopolitical tensions

Murban oil price (USD, per barrel)



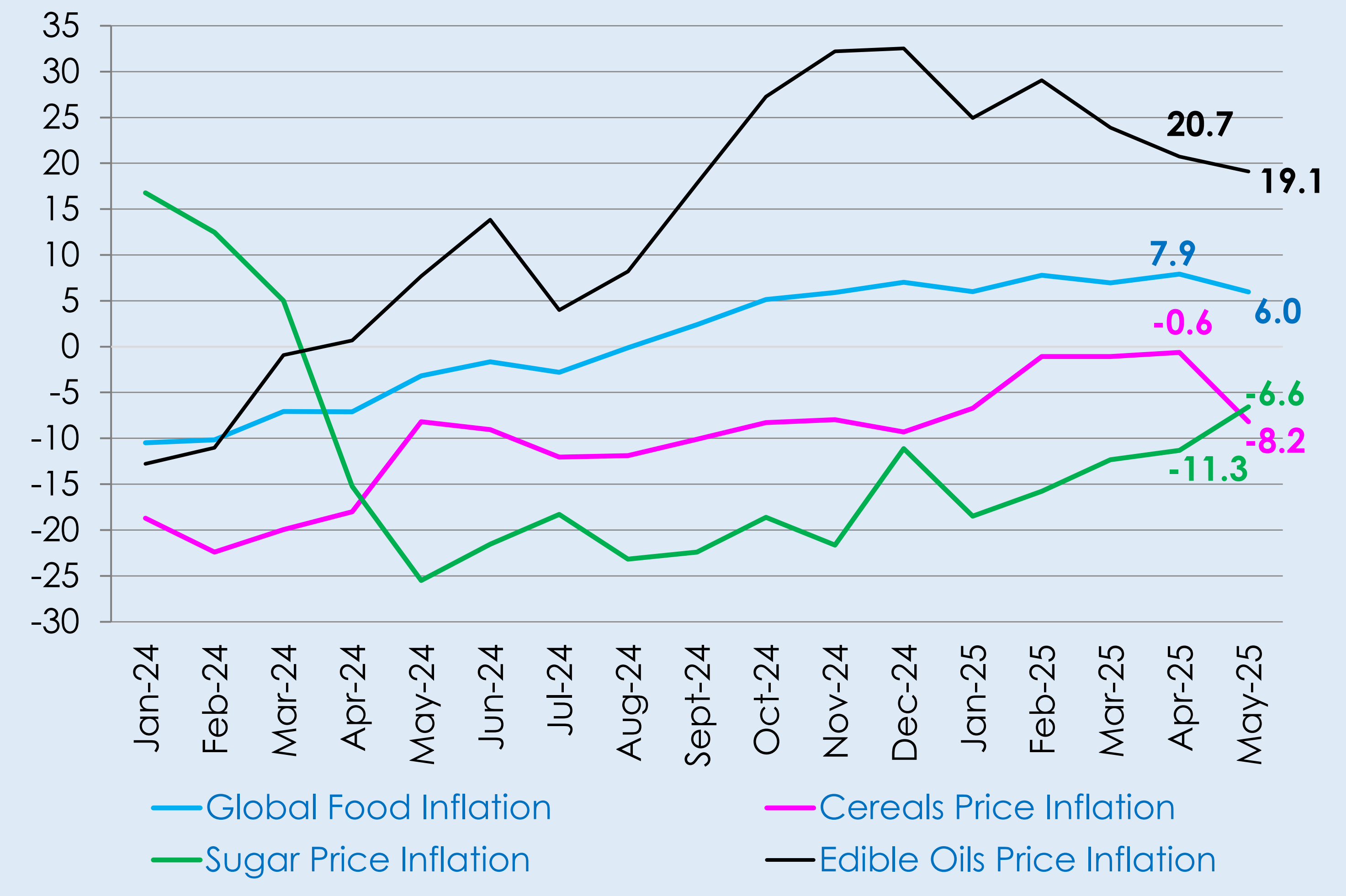
Source: Oilprice.com, and Reuters

- **Oil prices have declined, mainly reflecting increased production by both the OPEC+ and non-OPEC producers, and reduced demand mainly in China due to ongoing trade tensions.**
- **The main risks to oil prices relate to trade tensions which could affect global energy demand, and supply disruptions from the ongoing conflict in the Middle East.**

4. Global commodity prices:

Food inflation eased slightly in May 2025, mainly driven by lower cereals inflation, but edible oils price inflation remains elevated.

Global food inflation (y/y, percent)



Source: UN FAO Food Index

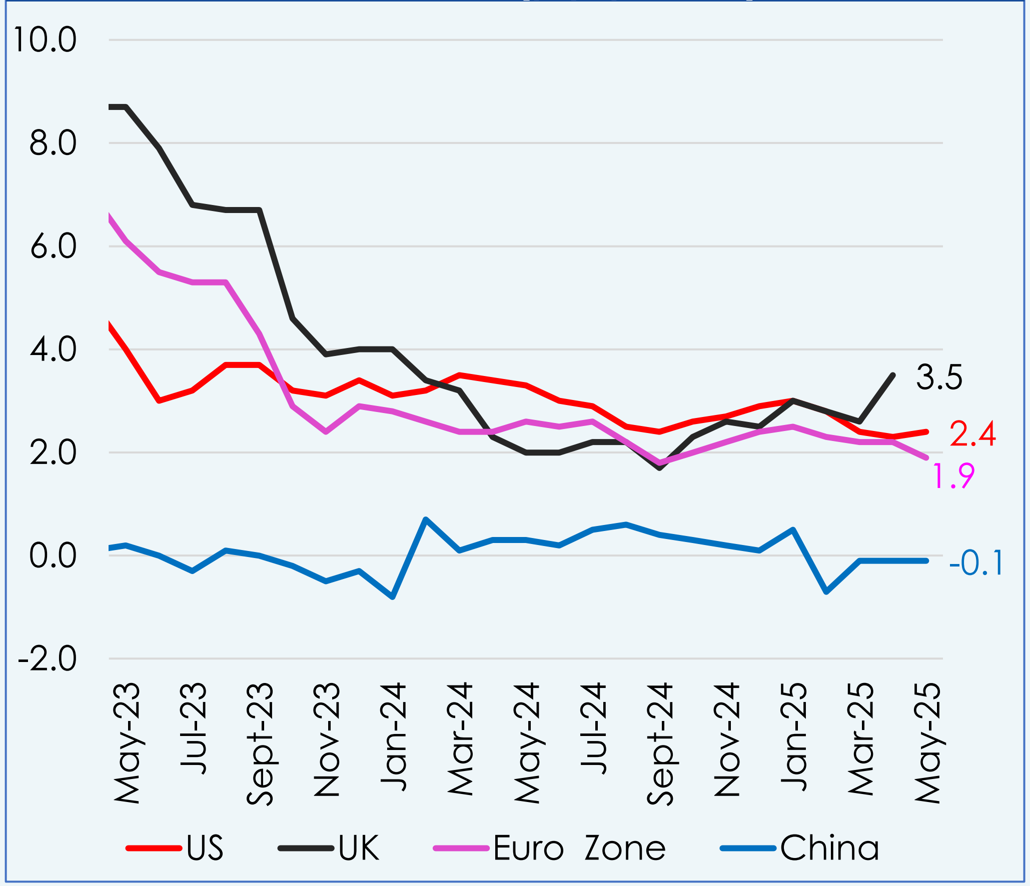
- Cereals price inflation declined sharply in May 2025, with maize prices falling due to increased supply from Argentina and Brazil, and expectations of a record 2025 maize harvest in USA. Wheat prices also fell due to subdued global demand and expected improved supply from the northern hemisphere.
- Sugar price inflation fell due to weak global demand for sugar reflecting the uncertain global economic outlook, and expectations of larger outputs in India and Thailand.
- Edible oils price inflation eased slightly, driven by lower prices of palm, rapeseed, soy and sunflower oils. Palm oil prices fell due to increased output in Southeast Asia. Global soyoil prices decreased, partly due to increased supplies in South America.

5.

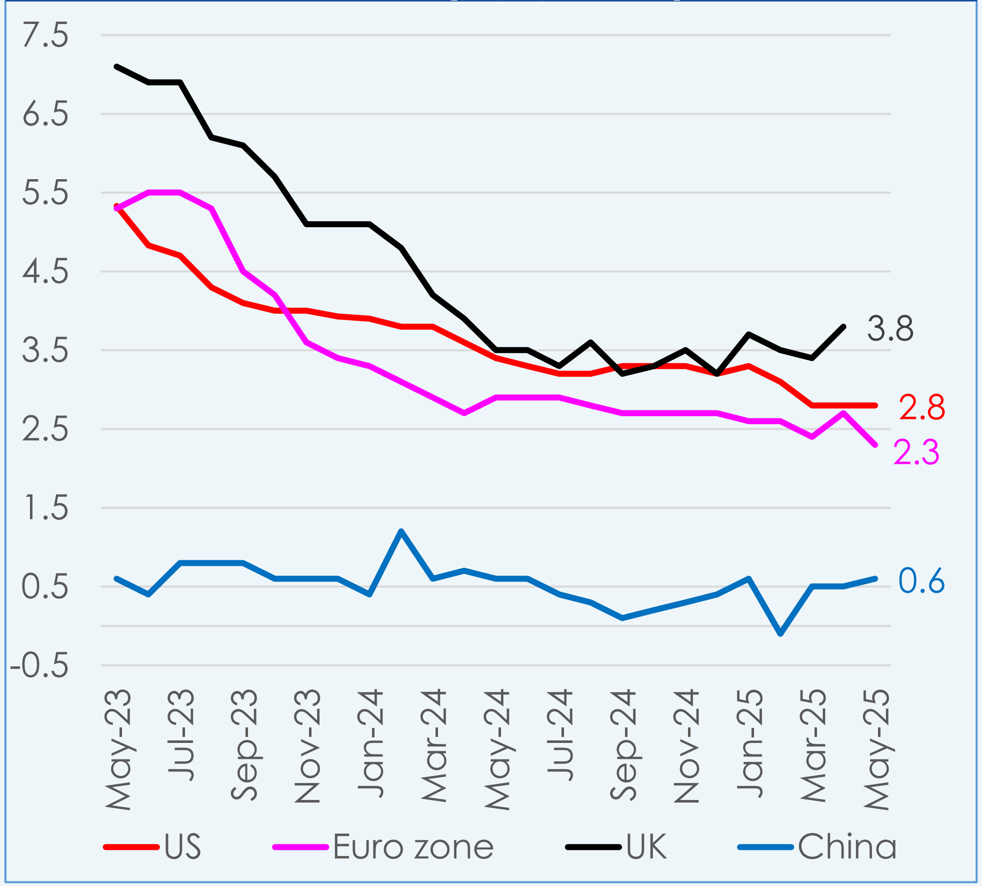
Inflation in Selected Economies:

Inflation in the major economies has moderated, but core inflation has remained sticky

Headline CPI inflation rates (y/y, percent)



Core CPI inflation rates (y/y, percent)



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

- **The decline in inflation rates in the major economies partly reflects lower energy prices. Core inflation rates have remained sticky mainly on account of persistent services price inflation.**
- **UK inflation rose in April 2025 partly due to hikes in some regulated prices such as water bills. China's inflation has remained low due to weak demand.**

6. Global economic outlook:

Global growth is projected to slow down in 2025, mainly reflecting significant downward revisions to growth in the USA and China, due to effects of higher tariffs on U.S. imports, and retaliatory tariffs by trading partners.

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.	
							Apr. 2025 WEO	Difference from Jan. 2025 WEO	Apr. 2025 WEO	Difference from Jan. 2025 WEO
World	**2.8**	**-2.7**	**6.5**	**3.5**	**3.3**	**3.3**	**2.8**	**-0.5**	**3.0**	**-0.3**
Advanced Economies	**1.8**	**-3.9**	**5.7**	**2.6**	**1.7**	**1.8**	**1.4**	**-0.5**	**1.5**	**-0.3**
United States	2.5	-2.2	5.8	1.9	2.9	2.8	1.8	-0.9	1.7	-0.4
United Kingdom	1.6	-10.4	8.7	4.3	0.3	1.1	1.1	-0.5	1.4	-0.1
Japan	-0.4	-4.1	2.6	1.0	1.5	0.1	0.6	-0.5	0.6	-0.2
Euro area	1.6	-6.1	5.9	3.4	0.4	0.9	0.8	-0.2	1.2	-0.2
Germany	1.1	-3.8	3.2	1.8	-0.3	-0.2	0.0	-0.3	0.9	-0.2
France	1.8	-7.5	6.3	2.6	1.1	1.1	0.6	-0.2	1.0	-0.1
Italy	0.5	-9.0	8.3	4.0	0.7	0.7	0.4	-0.3	0.8	-0.1
Emerging Market and Developing Economies	**3.6**	**-1.8**	**7.0**	**4.1**	**4.4**	**4.3**	**3.7**	**-0.5**	**3.9**	**-0.4**
China	6.0	2.2	8.5	3.0	5.2	5.0	4.0	-0.6	4.0	-0.5
India	3.9	-1.8	9.7	7.0	8.2	6.5	6.2	-0.3	6.3	-0.2
Russia	2.2	-2.7	6.0	-1.2	3.6	4.1	1.5	0.1	0.9	-0.3
Saudi Arabia	1.1	-3.6	5.1	7.5	-0.8	1.3	3.0	-0.3	3.7	-0.4
Sub-Saharan Africa (SSA)	**3.2**	**-1.6**	**4.7**	**4.0**	**3.6**	**4.0**	**3.8**	**-0.4**	**4.2**	**0.0**
South Africa	0.3	-6.0	4.7	1.9	0.7	0.6	1.0	-0.5	1.3	-0.3
Nigeria	2.2	-1.8	3.6	3.3	2.9	3.4	3.0	-0.2	2.7	-0.3
Kenya	5.7	-0.3	7.6	4.9	5.6	4.5	4.8	-0.2	4.9	-0.1

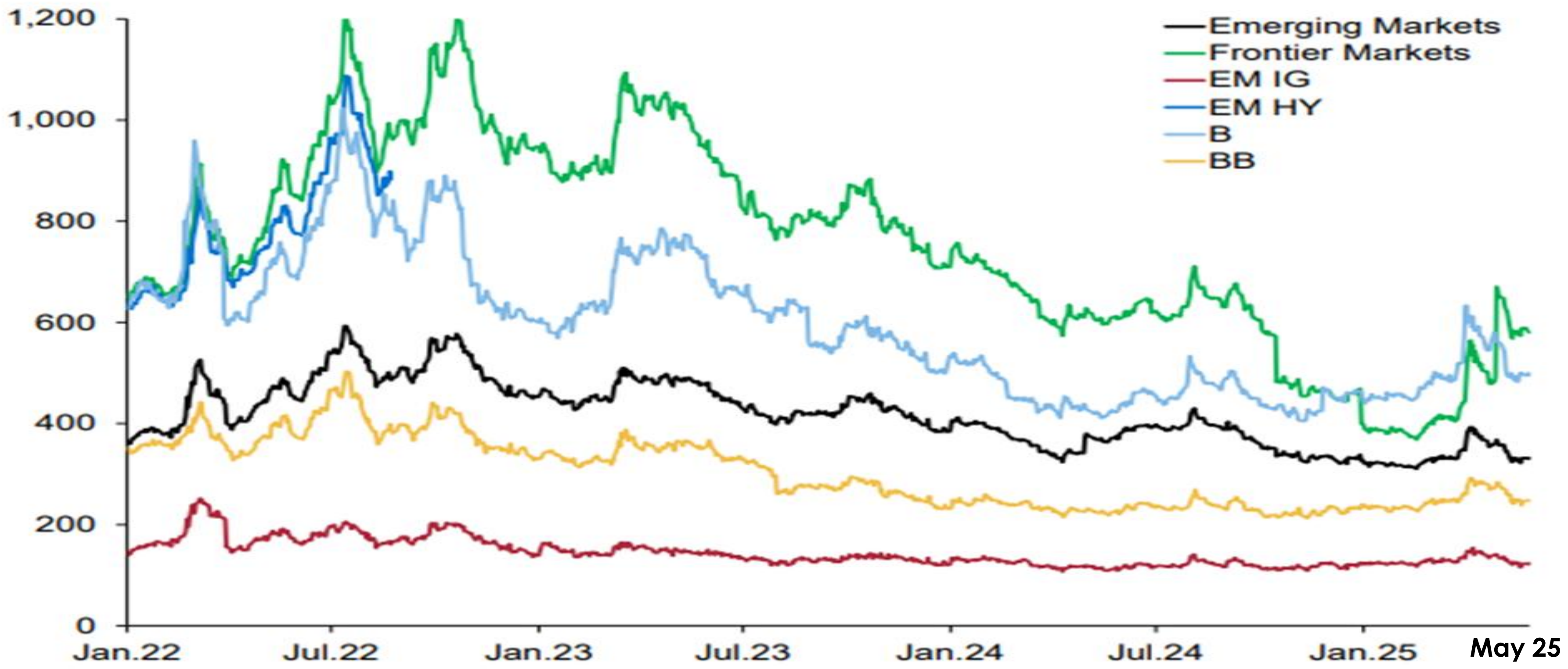
- **Although the USA and China have retreated on their previously announced tariff levels, the outcomes of bilateral trade negotiations between the USA and key trading partners remain highly uncertain.**
- **Kenya's growth is expected to remain above the global, Emerging Market and Developing Economies, and SSA averages, mainly reflecting the resilience and diversified nature of the economy.**

Source: IMF World Economic Outlook for projections

7. Global financial conditions:

Recent developments in the US financial markets resulted in a notable increase in spreads for emerging and frontier market economies

Emerging and Frontier Market Spreads (Basis points)



Data source: Bloomberg and IMF, Monetary and Capital Markets, Global Markets Analysis
Note* Data as of May 31

- **These developments have implications for access to international capital markets by emerging and developing market economies**

8. Summary of global developments and outlook

1. **Global headline inflation is projected to decline at a slower pace** due to the expected inflationary impact of higher tariffs on trade. Central banks in major economies have adopted a more cautious approach in lowering policy rates.

2. **Global growth outlook for 2025 has been revised downwards**, mainly on account of higher tariffs, heightened uncertainty, weak global demand, and elevated geopolitical risks.

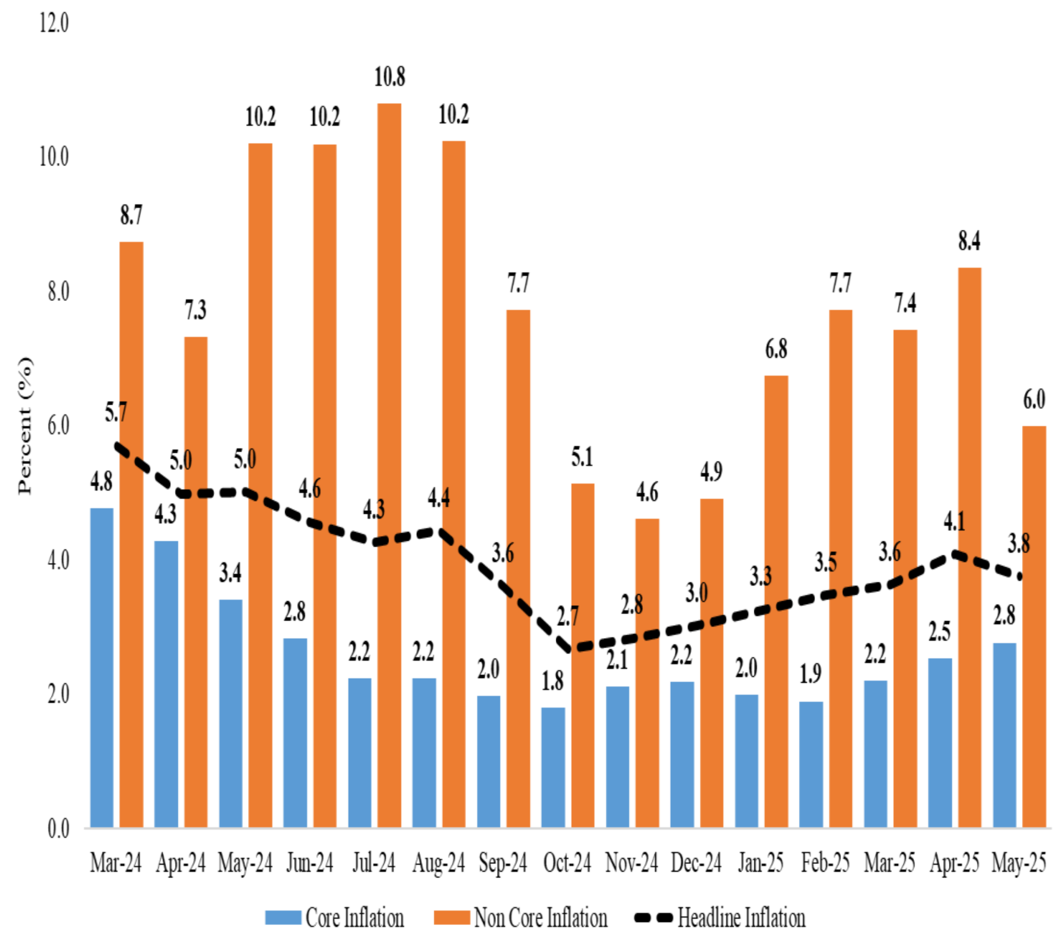
3. **Global financial conditions have been volatile**, mainly reflecting elevated trade policies uncertainties, and weak global growth due to trade policy uncertainties.

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

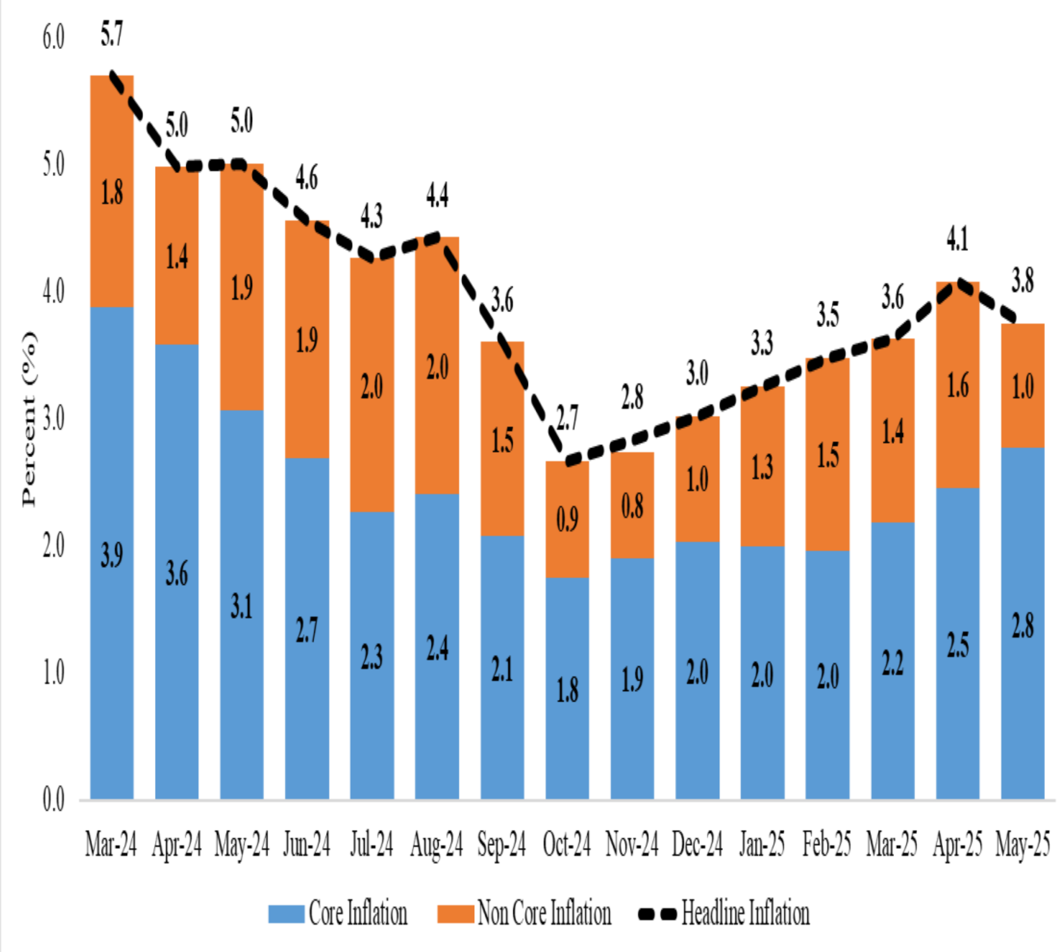
9. Domestic macroeconomic developments and outlook: Domestic inflation:

Overall inflation declined in May 2025, supported by lower non-core inflation. The inflation rate remained below the mid-point of the target range of 5±2.5 percent.

Inflation by broad category (y/y, percent)



Contributions to Overall Inflation (percentage points)

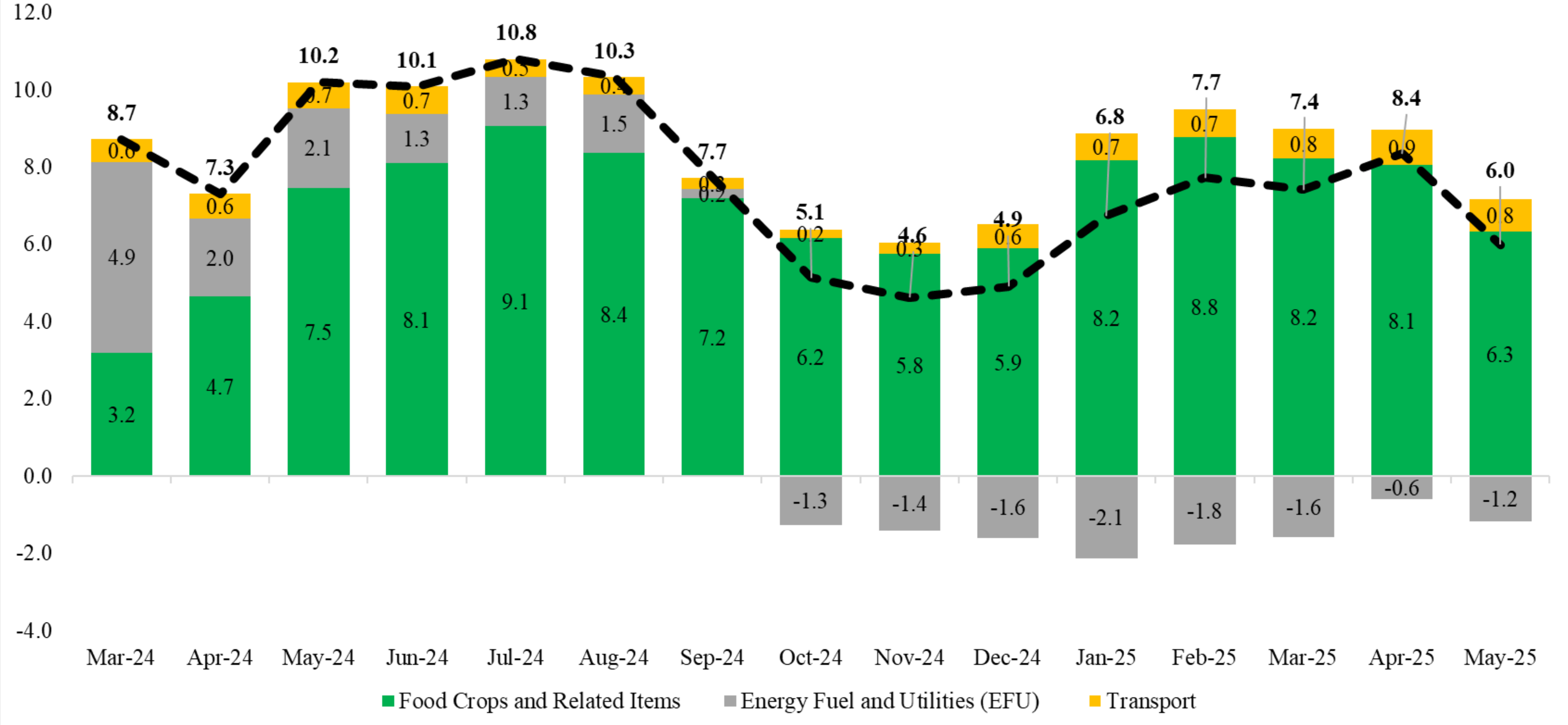


Source: *Kenya National Bureau of Statistics*

10. Main drivers of non-core inflation:

Non-core inflation declined in May 2025, due to lower inflation for food crops and related items particularly vegetables, and decline in energy prices inflation driven by electricity prices

Contributions to non-core inflation (percentage points)



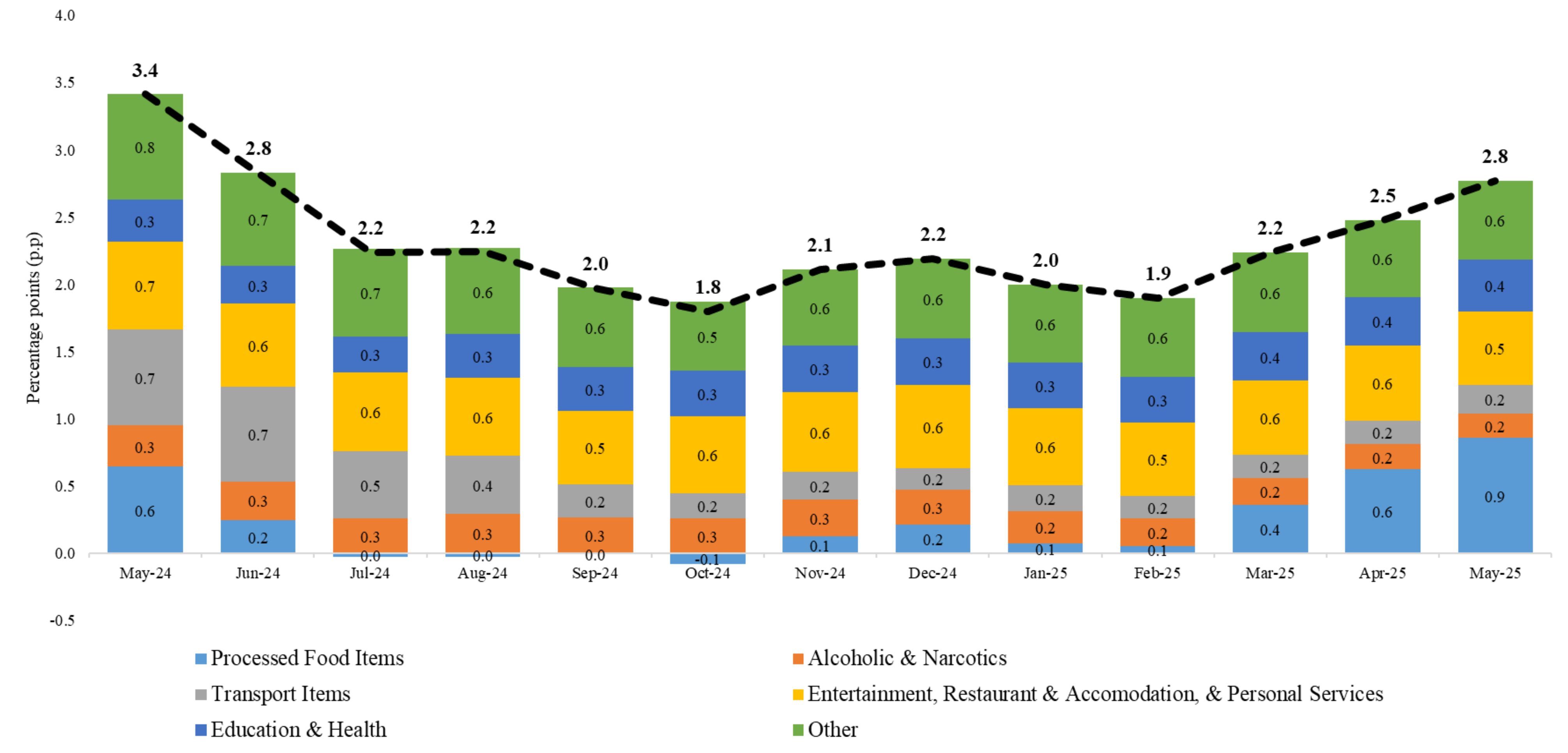
Source: KNBS and CBK

11.

Main drivers of core inflation:

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

Contributions to core inflation (percentage points)

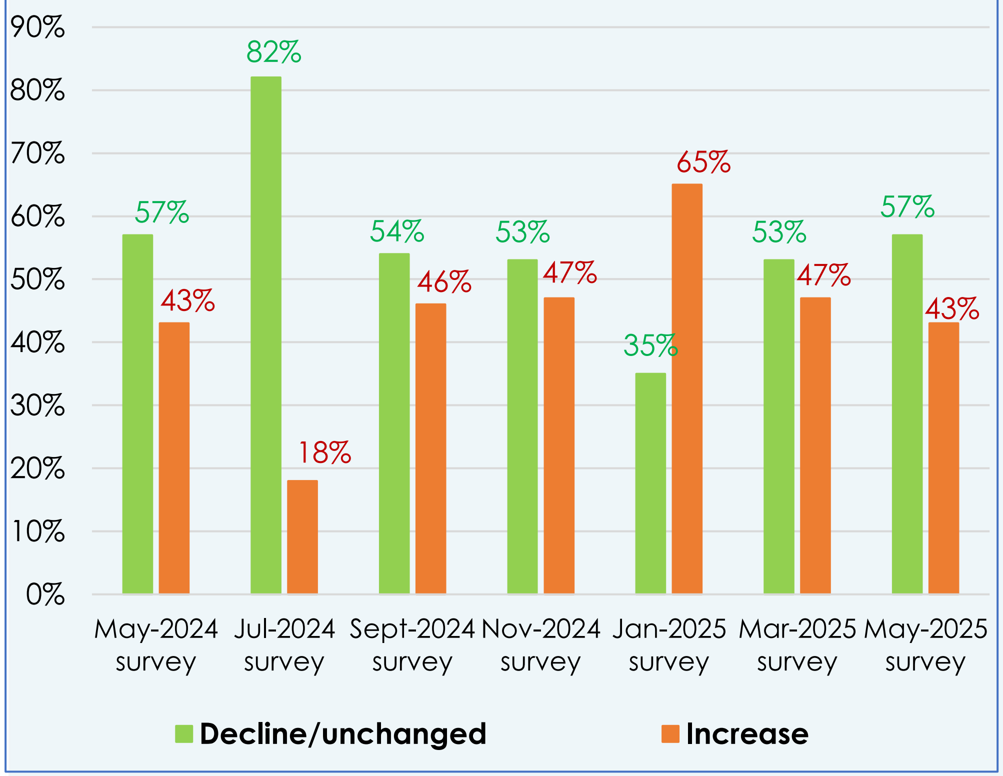


Source: KNBS and CBK

12. Inflation expectations and projections:

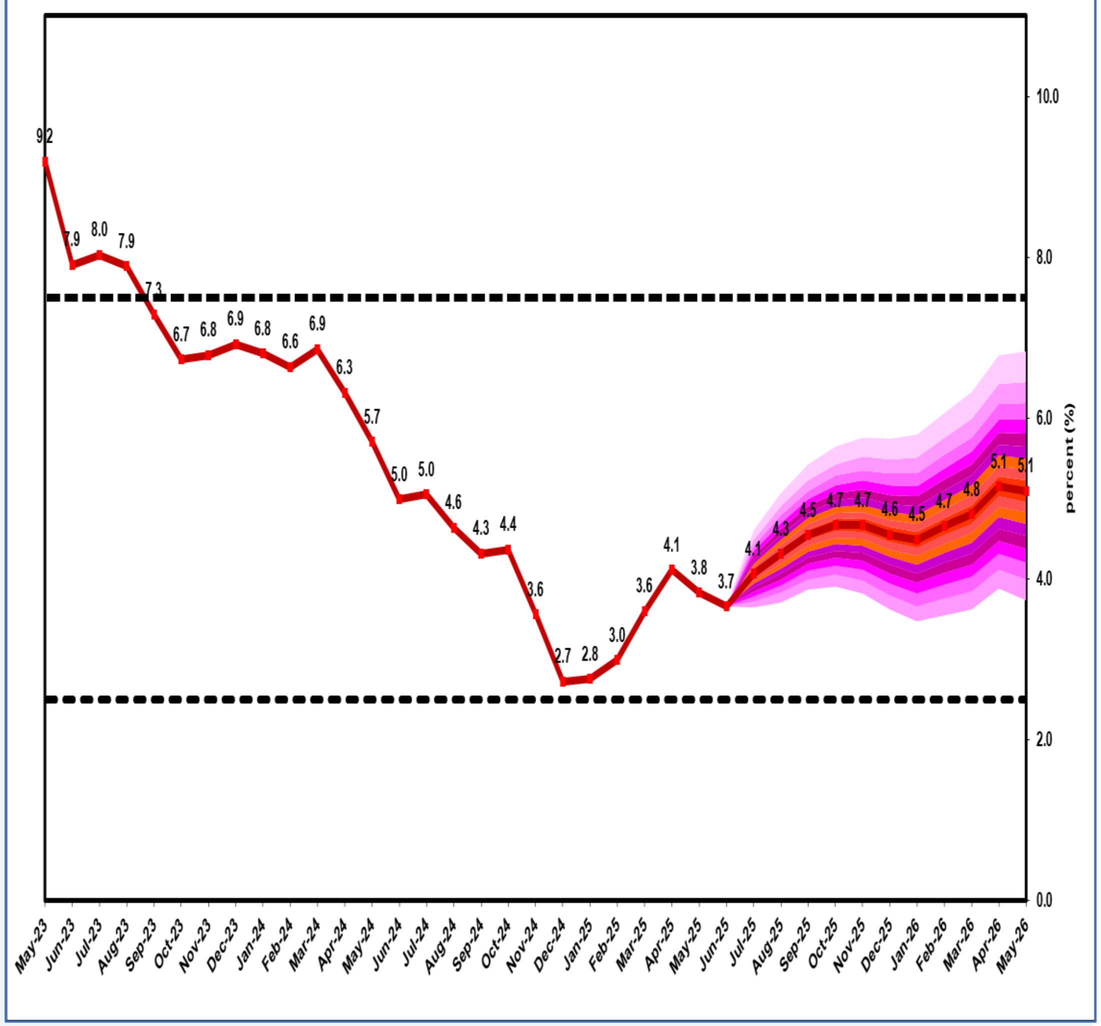
The May 2025 Agriculture Sector Survey, and CBK projections show that inflation expectations remain anchored within the target range in the near term

Inflation expectations in the next three months (percent of sampled respondents)



- **A majority of respondents to the May 2025 Agriculture Survey expect overall inflation to decline or remain unchanged in the next three months on account of expected stability in food prices attributed to favorable weather conditions, stability in pump prices, and the stable exchange rate.**

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



Source: KNBS, and CBK for projections

13. Summary on developments and outlook for inflation

1. **Overall inflation at 3.8 percent in May 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 non-core inflation driven by stability in food and energy prices, and
    - Continued stability in the exchange rate which is expected to continue moderating prices.

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

14.

Domestic economic growth:

The Kenyan economy is projected to pick up in 2025, supported by resilience of key service sectors and agriculture, expected recovery in growth of credit to the private sector, and improved exports

Real GDP growth (y/y, percent)

	Weight (2016Q1 -2024Q4	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025			2026
						Q1 Proj.	Q2 Proj.	Annual Proj.	Annual Proj.
1. Agriculture	18.5	-0.4	-1.5	6.6	4.6	4.6	4.8	4.8	4.9
2. Non-Agriculture (o/w)	81.5	9.5	6.3	5.5	4.7	5.1	5.2	5.3	5.5
2.1 Industry	17.7	7.5	3.9	2.0	0.8	2.8	2.8	3.0	3.7
Mining & Quarrying	1.0	18.0	9.3	-6.5	-9.2	-0.4	-2.5	-1.0	-1.2
Manufacturing	8.7	7.3	2.6	2.2	2.8	2.9	2.7	2.9	3.3
Electricity & water supply	2.5	5.6	5.5	3.2	1.9	2.2	2.6	2.5	4.2
Construction	5.5	6.7	4.1	3.0	-0.7	3.5	4.1	4.0	4.9
2.2 Services	55.2	9.8	7.0	7.0	6.0	6.4	6.0	6.0	6.2
Wholesale & Retail Trade	8.3	8.0	3.5	3.3	3.8	4.2	4.4	4.6	5.4
Accommodation & food services	1.0	52.6	26.8	33.6	25.7	16.0	15.8	16.1	14.1
Transport & Storage	9.9	7.4	5.8	5.5	4.4	5.1	5.6	5.4	5.7
Information & Communication	3.0	6.1	9.0	10.3	7.0	7.1	7.5	7.5	7.8
Financial & Insurance	8.4	11.5	12.0	10.1	7.6	5.5	5.8	5.9	6.2
Public administration	5.8	6.0	5.1	5.0	8.2	4.9	5.2	5.0	4.8
Professional, Admin & Support Services	2.8	7.1	9.5	9.9	6.2	7.1	7.8	7.3	7.5
Real estate	9.9	6.7	4.5	7.3	5.3	6.6	6.1	6.3	6.4
Education	4.7	22.8	5.2	2.9	3.9	4.8	5.2	5.3	5.4
Health	2.2	8.9	3.4	4.5	6.3	5.3	4.8	4.8	4.8
Other services	2.2	12.5	6.5	4.3	4.7	3.5	3.7	3.7	4.0
FISIM	-3.1	5.3	0.2	2.7	9.0	3.3	2.5	2.4	4.5
2.3 Taxes on products	8.6	11.9	6.7	3.2	4.4	4.3	4.4	4.5	4.6
Real GDP Growth	100.0	7.6	4.9	5.7	4.7	5.0	5.2	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.
- Private sector credit growth is expected to pickup with the easing of monetary policy.
- Exports are expected to be supported by trade initiatives and bilateral agreements including Kenya–EU Economic Partnership Agreement, and export promotion measures.

15. Sectoral credit to private sector:

Growth in credit to key sectors of the economy particularly manufacturing, trade and consumer durables, improved in May 2025

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

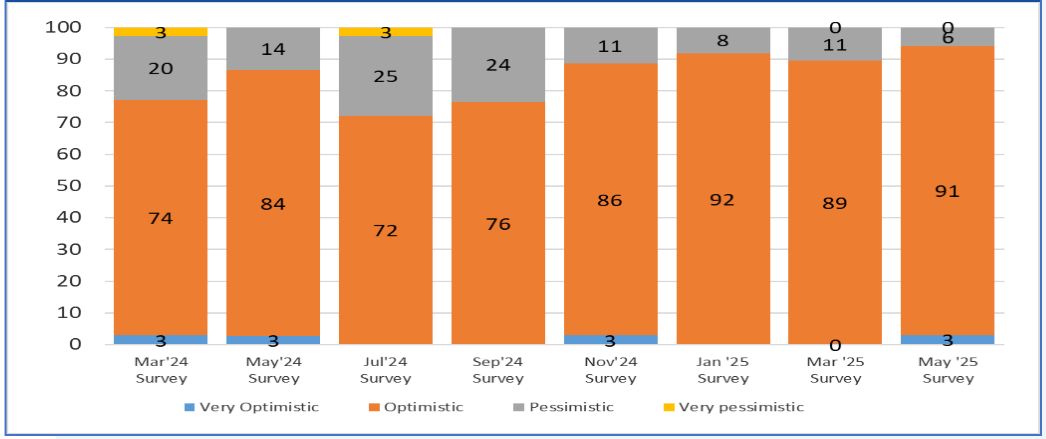
Source: *Central Bank of Kenya*

16.

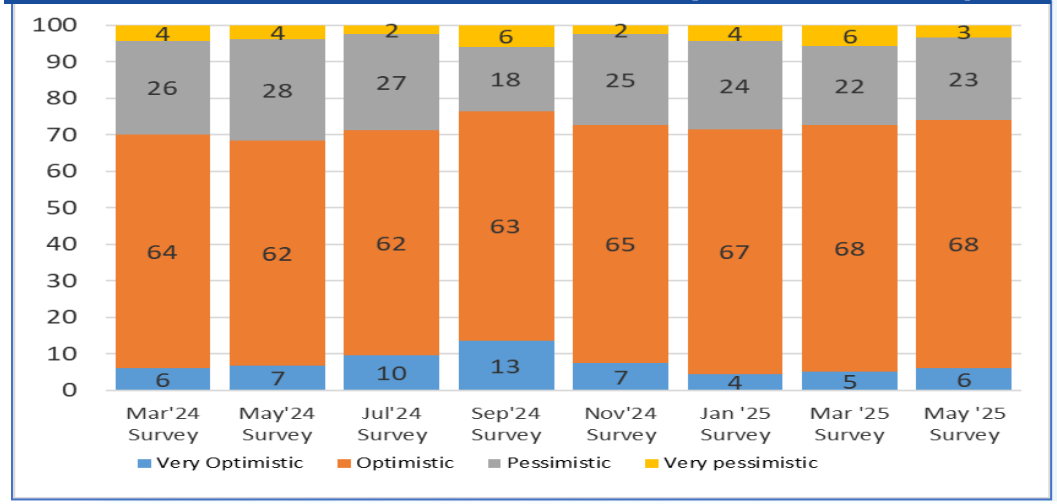
May 2025 MPC Surveys:

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

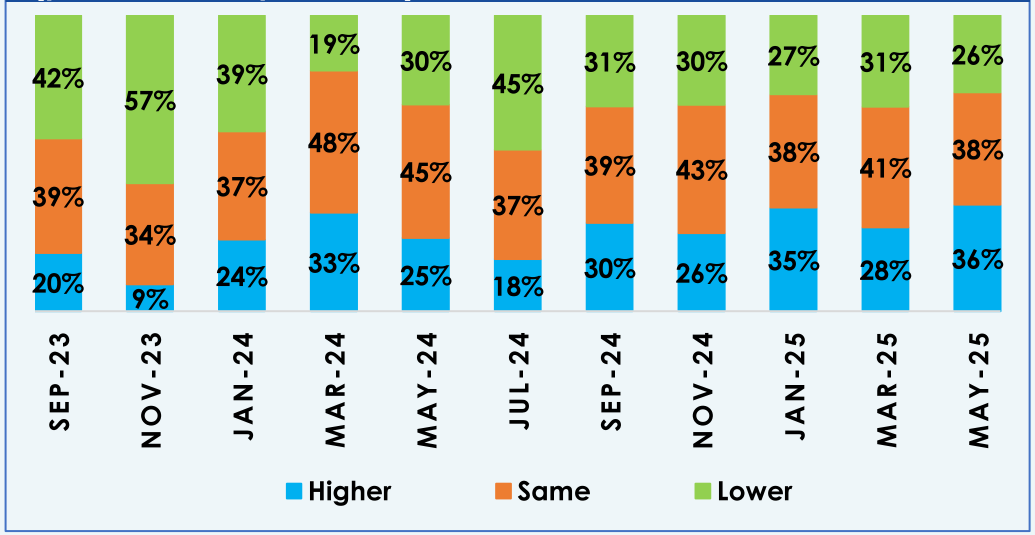
Market Perceptions Survey: Optimism in growth prospects for the next 12 months by Banks (% of respondents)



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 the stable macroeconomic environment supported by low inflation and stable exchange rate, improved agricultural production supported by favorable weather conditions, and continued decline in interest rates.
- Some respondents expressed concerns about subdued consumer demand, high cost of doing business, and increased global uncertainties attributed to geopolitical and trade tensions.

17. Summary on domestic economic growth

1. **The performance of the Kenyan economy slowed down in 2024**, with real GDP growing by 4.7 percent compared to 5.7 percent in 2023, mainly reflecting deceleration in growth in most sectors of the economy.

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

3. **The projected growth of the economy in 2025 has been revised to 5.2 percent from 5.4 percent, on account of higher tariffs on trade**. But the resilience of key service sectors and agriculture, expected recovery in growth of credit to the private sector, and improved exports, are expected to support the pickup of growth in 2025.

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

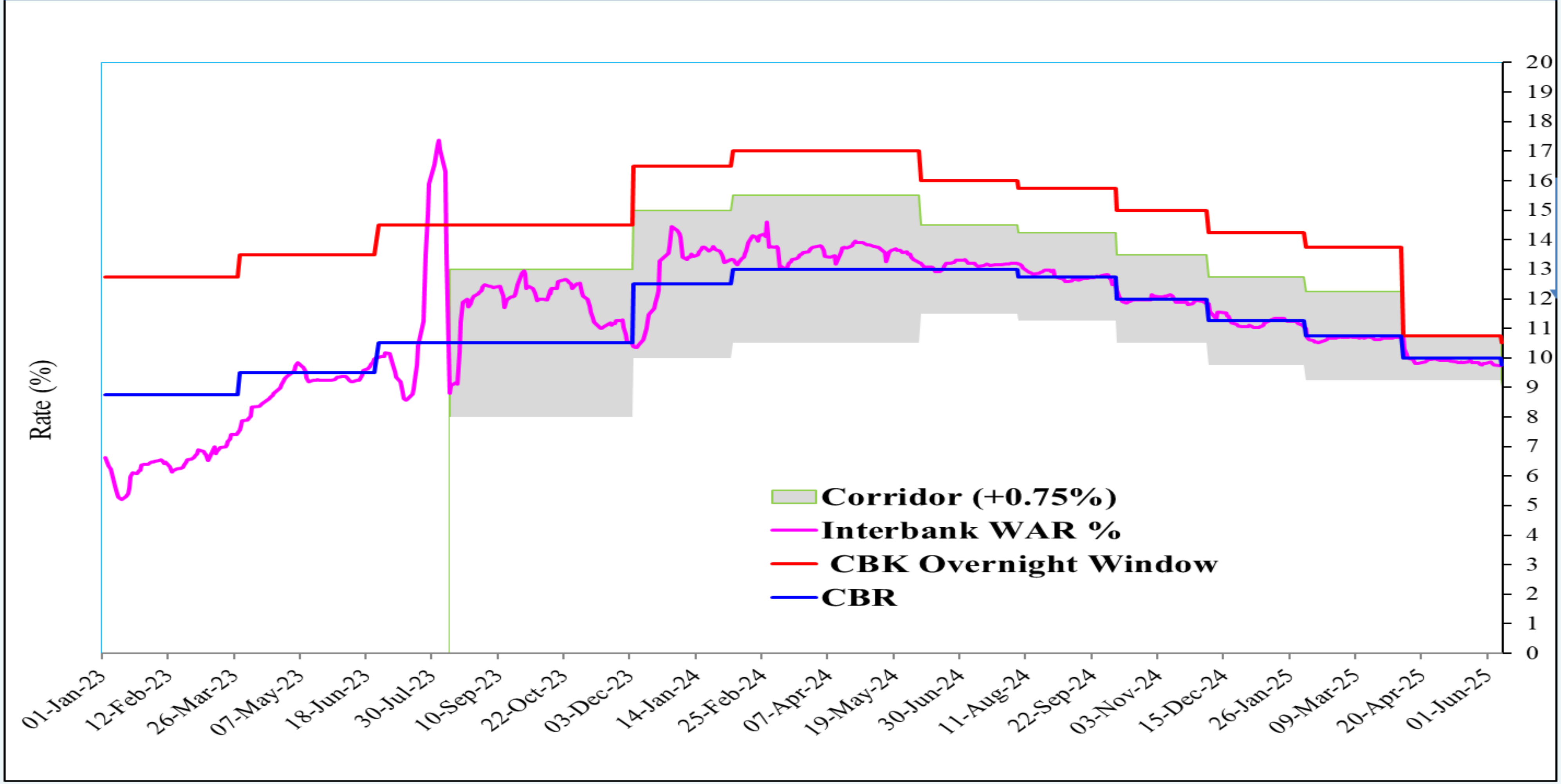
5. **The growth outlook is subject to external and domestic risks**, including higher tariffs, and persistent geopolitical conflicts with potential impact on supply chains.

18.

Monetary policy implementation framework:

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

Monetary policy implementation framework as at June 9, 2025



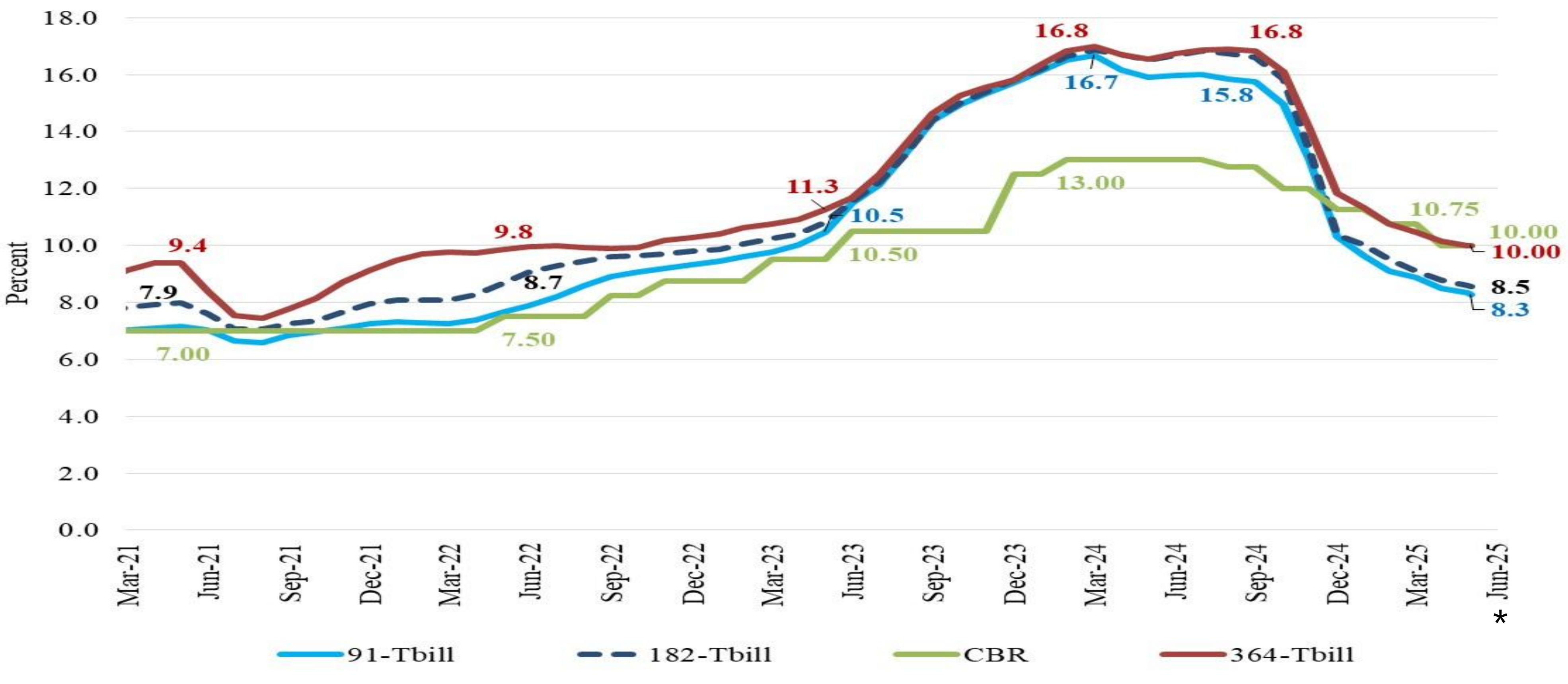
Source: CBK

19.

Monetary developments:

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

Average Treasury bill rates and Central Bank Rate (percent)



* As at June 9, 2025

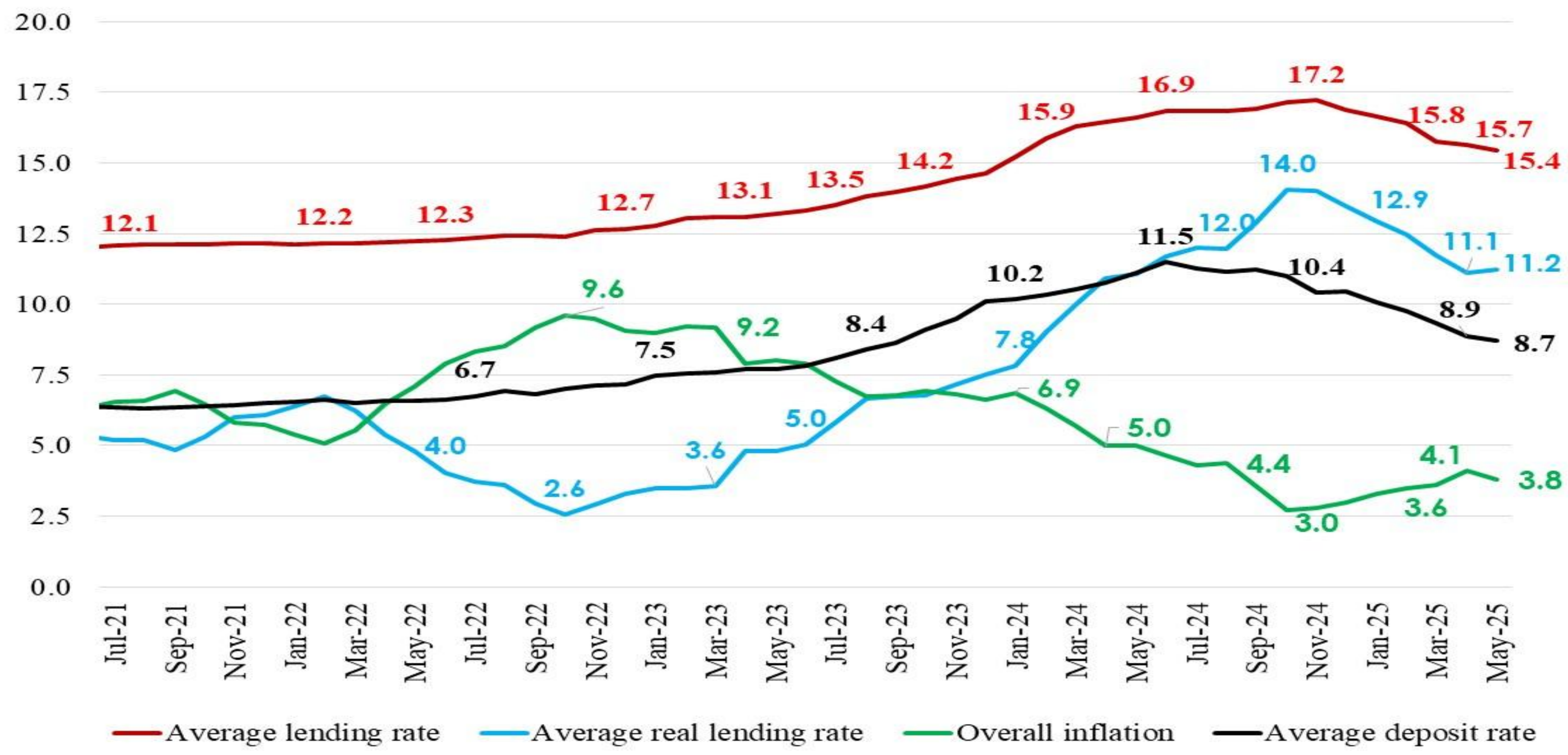
Source: CBK

20.

Monetary developments:

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

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

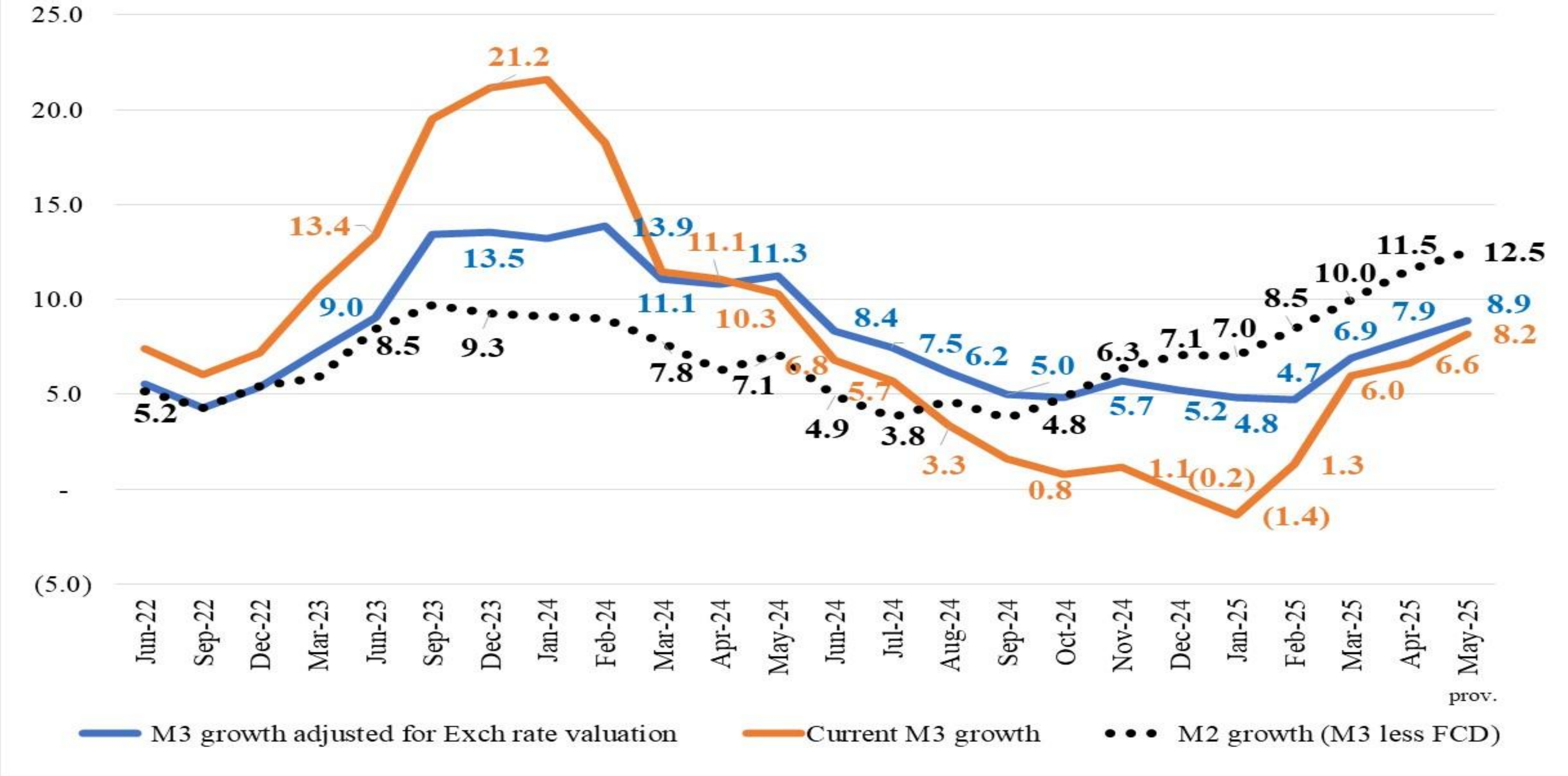


Source: CBK

Monetary developments:

Growth in broad money supply, M3, improved in May 2025, reflecting improved domestic credit, and reduced exchange rate valuation effects attributed to appreciation of the Shilling. Growth in M2 has continued to pick up

Growth in money supply (y/y, percent)

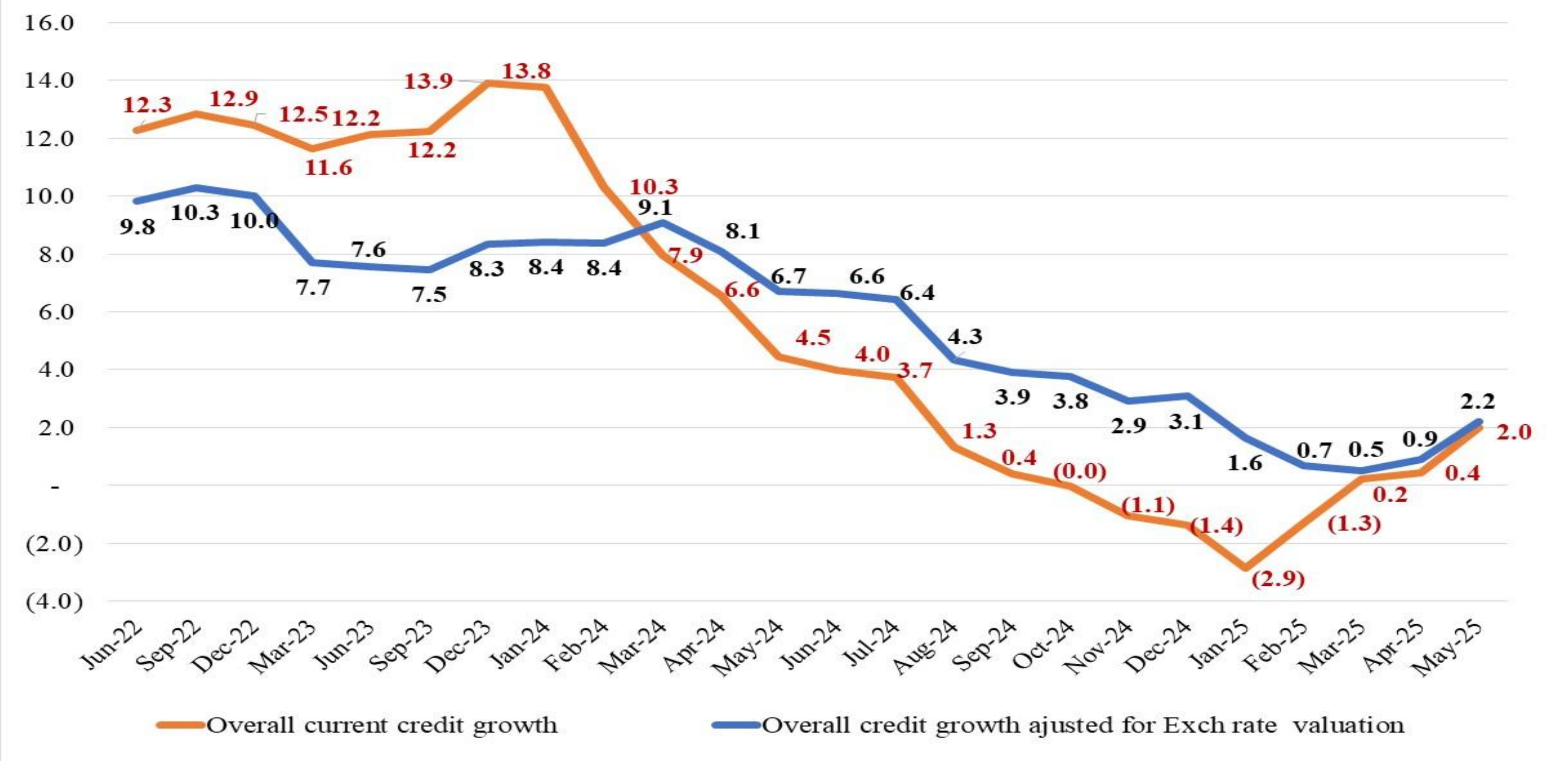


Source: CBK

22. Monetary developments:

Growth in commercial banks lending to private sector improved in May 2025, due to improved demand in line with the declining lending interest rates, and dissipation of exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling

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



Source: CBK

23. Summary of monetary developments

1. **Growth in money supply improved further in April and May 2025**, partly reflecting increased net lending to government, improved net lending to private sector, and diminishing impact of exchange rate valuation effects on private sector credit.

2. **Growth in lending to private sector increased in May 2025**, partly reflecting increasing credit demand, and the dissipation of exchange rate valuation effects on FX loans.

3. **Short-term interest rates have declined** in line with the reductions in the Central Bank Rate (CBR).

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

24.

Balance of payments:

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

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

	2022	2023	12 months to Apr 2024	2024 Est.	12 months to Apr 2025	2025 Proj.
Current account	**-4,824**	**-2,728**	**-2,324**	**-1,551**	**-2,346**	**-2,001**
Trade balance	**-11,559**	**-9,556**	**-9,296**	**-9,734**	**-10,456**	**-10,229**
Goods exports, f.o.b	10,650	11,031	11,621	12,508	12,060	13,141
Goods imports, f.o.b	22,209	20,588	20,917	22,242	22,515	23,370
Services balance	**1,981**	**1,488**	**1,759**	**2,416**	**2,257**	**2,595**
Services Credit	7,604	7,149	7,085	8,078	7,955	8,410
Services Debit	5,623	5,662	5,326	5,662	5,697	5,815
Primary income, Balance	**-1,761**	**-1,861**	**-1,941**	**-1,845**	**-1,779**	**-2,207**
Secondary income	**6,516**	**6,986**	**7,155**	**7,613**	**7,631**	**7,841**
Financial and Capital Account	**-2,683**	**-1,720**	**-2,006**	**-3,009**	**-4,450**	**-3,107**
Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**319**	**-1,459**	**-2,104**	**-1,107**
Reserves and related items	**-2,141**	**-1,008**	**-319**	**1,459**	**2,104**	**1,107**
Reserve assets (gross)+ve entry reflect an increase in reserve assets	-1,521	-628	753	2,749	2,710	1,107
Use of Fund credit and loans to the fund (net)	619	380	1,071	1,290	606	0

Source: CBK

25.

Balance of payments:

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

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

	2022	2023	12 months to Apr 2024	2024 Est.	12 months to Apr 2025	2025 Proj.
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Goods exports, f.o.b	**10,650**	**11,031**	**11,621**	**12,508**	**12,060**	**13,141**
Of which						
Tea	1,384	1,347	1,434	1,397	1,358	1,357
Horticulture	944	929	978	1,075	1,092	1,230
Manufactured Goods	622	680	659	639	642	687
Reexports	3,776	4,247	4,720	5,172	4,770	5,378
Goods imports, f.o.b	**22,209**	**20,588**	**20,917**	**22,242**	**22,515**	**23,370**
Of which						
Oil Products	8,374	8,131	8,286	8,215	7,799	8,129
Machinery and Transport	3,760	3,252	3,553	4,302	4,560	4,345
Services balance	**1,981**	**1,488**	**1,759**	**2,416**	**2,257**	**2,595**
Services Credit	**7,604**	**7,149**	**7,085**	**8,078**	**7,955**	**8,410**
Of which						
Travel	2,279	2,808	2,928	3,518	3,556	3,870
Services Debit	**5,623**	**5,662**	**5,326**	**5,662**	**5,697**	**5,815**
Goods and Services Balance	**-9,579**	**-8,069**	**-7,538**	**-7,318**	**-8,199**	**-7,634**
Primary income, Balance	**-1,761**	**-1,861**	**-1,941**	**-1,845**	**-1,779**	**-2,207**
Secondary income	**6,516**	**6,986**	**7,155**	**7,613**	**7,631**	**7,841**
Credit	**6,563**	**7,079**	**7,200**	**7,662**	**7,670**	**7,892**
Remittances	4,028	4,190	4,457	4,945	4,997	5,169
Capital account	**141**	**128**	**138**	**232**	**117**	**244**
Financial Account	**-4,159**	**-1,746**	**-1,258**	**-2,010**	**-5,455**	**-2,794**
Net Errors and Omissions	**-1,617**	**-154**	**610**	**767**	**-1,122**	**70**
Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**319**	**-1,459**	**-2,104**	**-1,107**
Reserves and related items	**-2,141**	**-1,008**	**-319**	**1,459**	**2,104**	**1,107**
Reserve assets (gross)+ve entry reflect an increase in reserve assets	-1,521	-628	753	2,749	2,710	1,107
Use of Fund credit and loans to the fund (net)	619	380	1,071	1,290	606	0

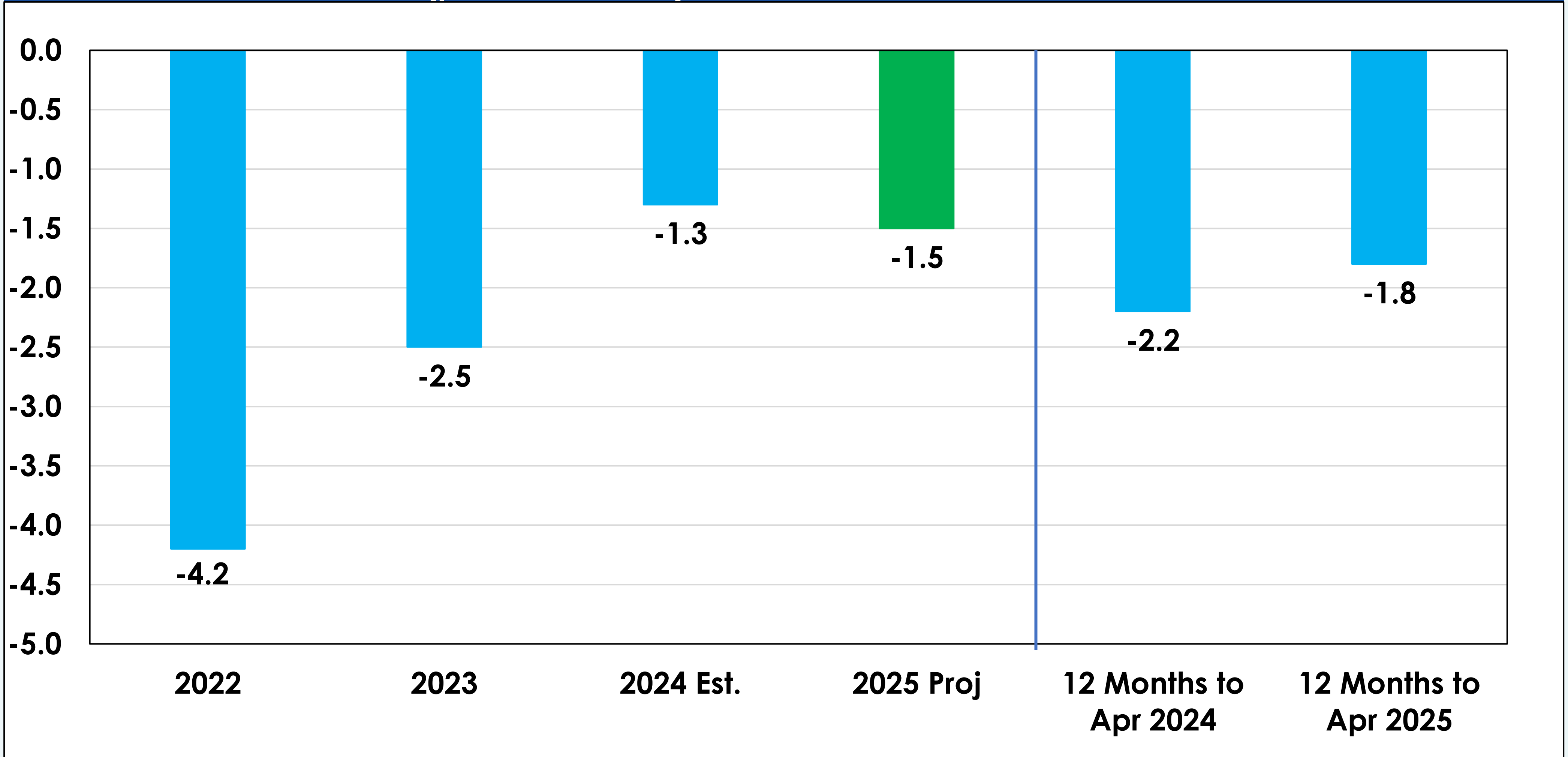
Source: CBK

26.

Current account balance:

The current account deficit 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)



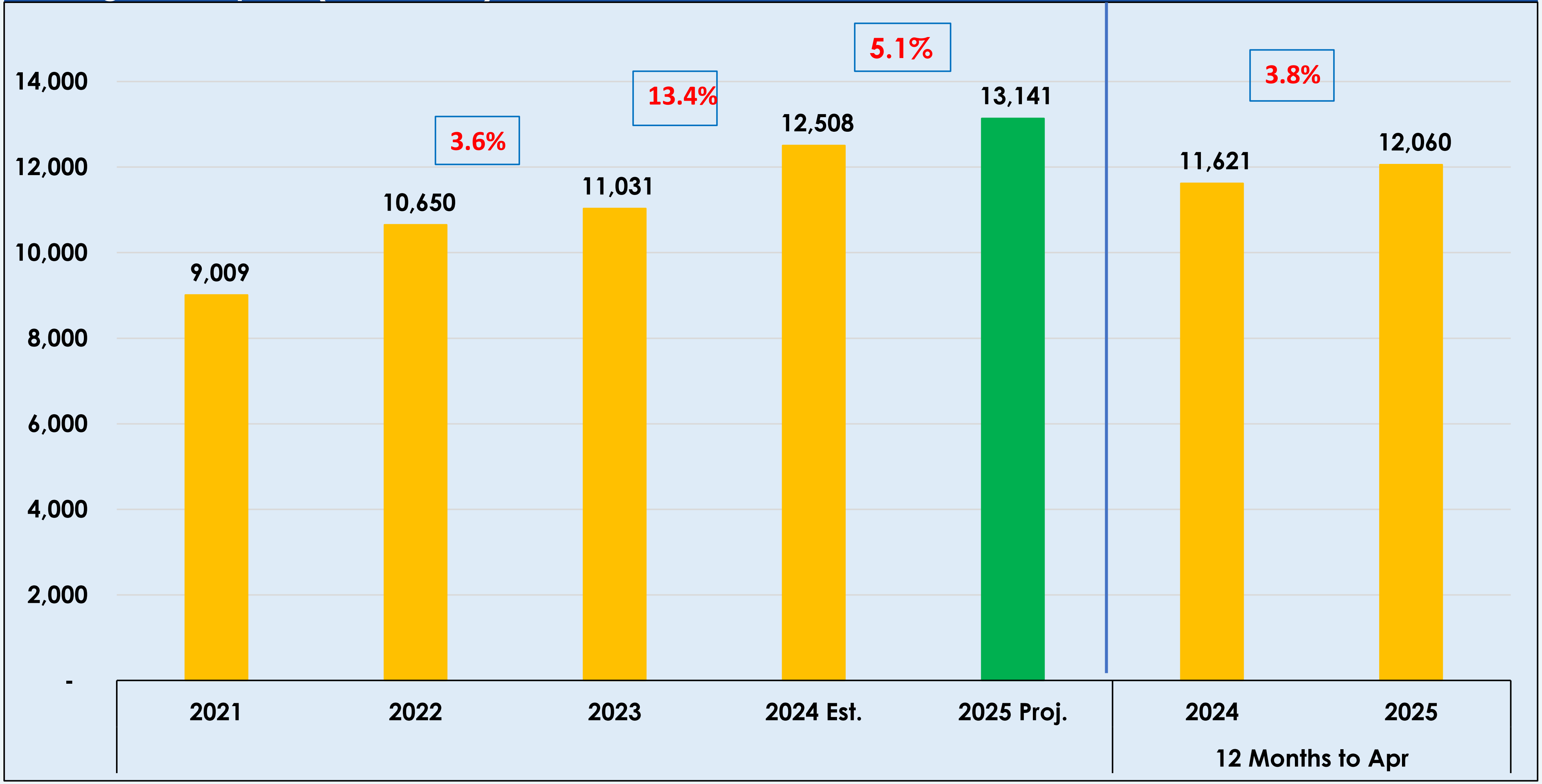
Source: CBK

27.

Balance of payments:

Goods exports increased by 3.8 percent in the 12 months to April 2025, due to higher domestic exports, particularly horticulture and coffee.

Total goods exports (USD Million)

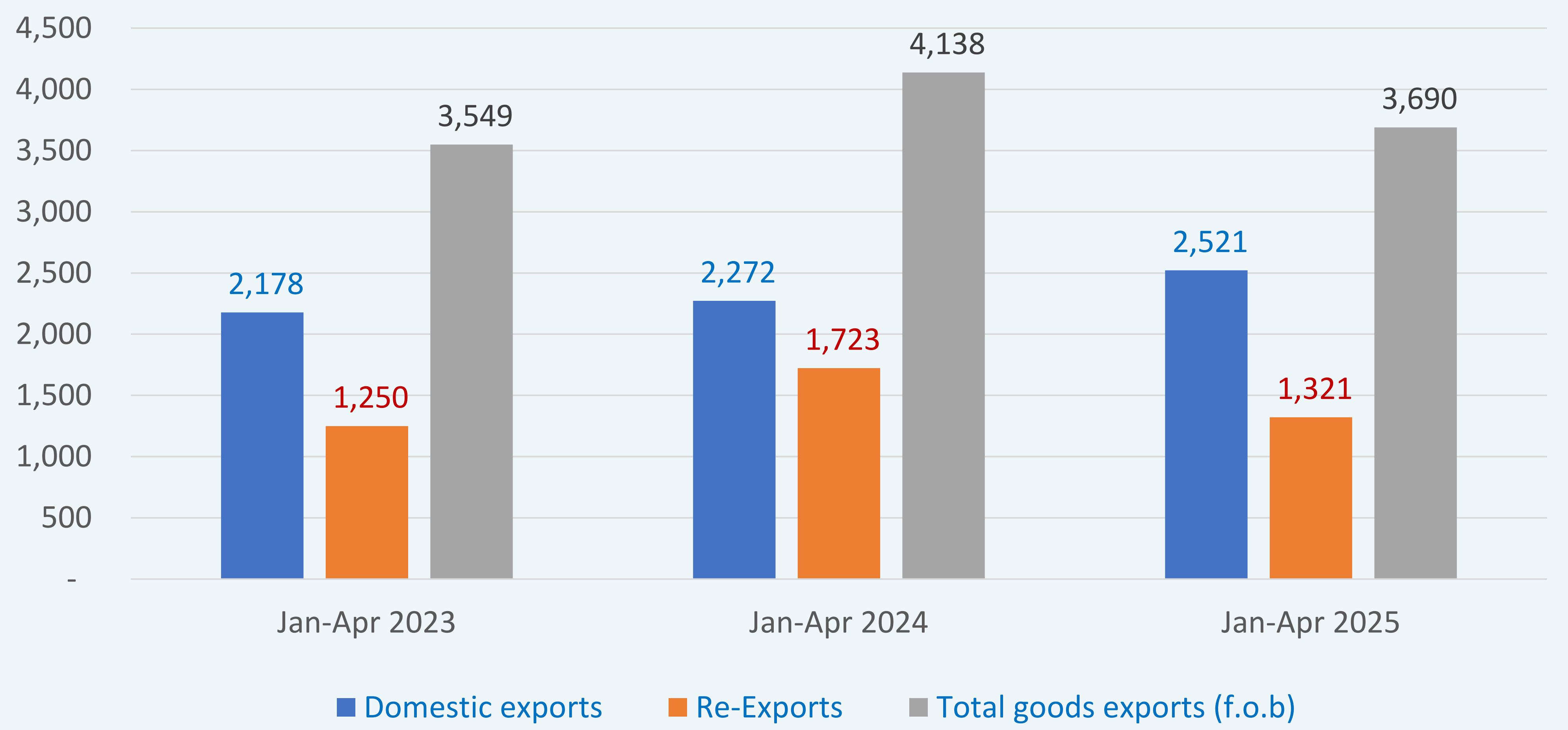


28.

Balance of payments:

Domestic exports increased by 11.0 percent in the first four months of 2025, while re-exports were lower by 23.3 percent in the period due to lower imports of jet fuel

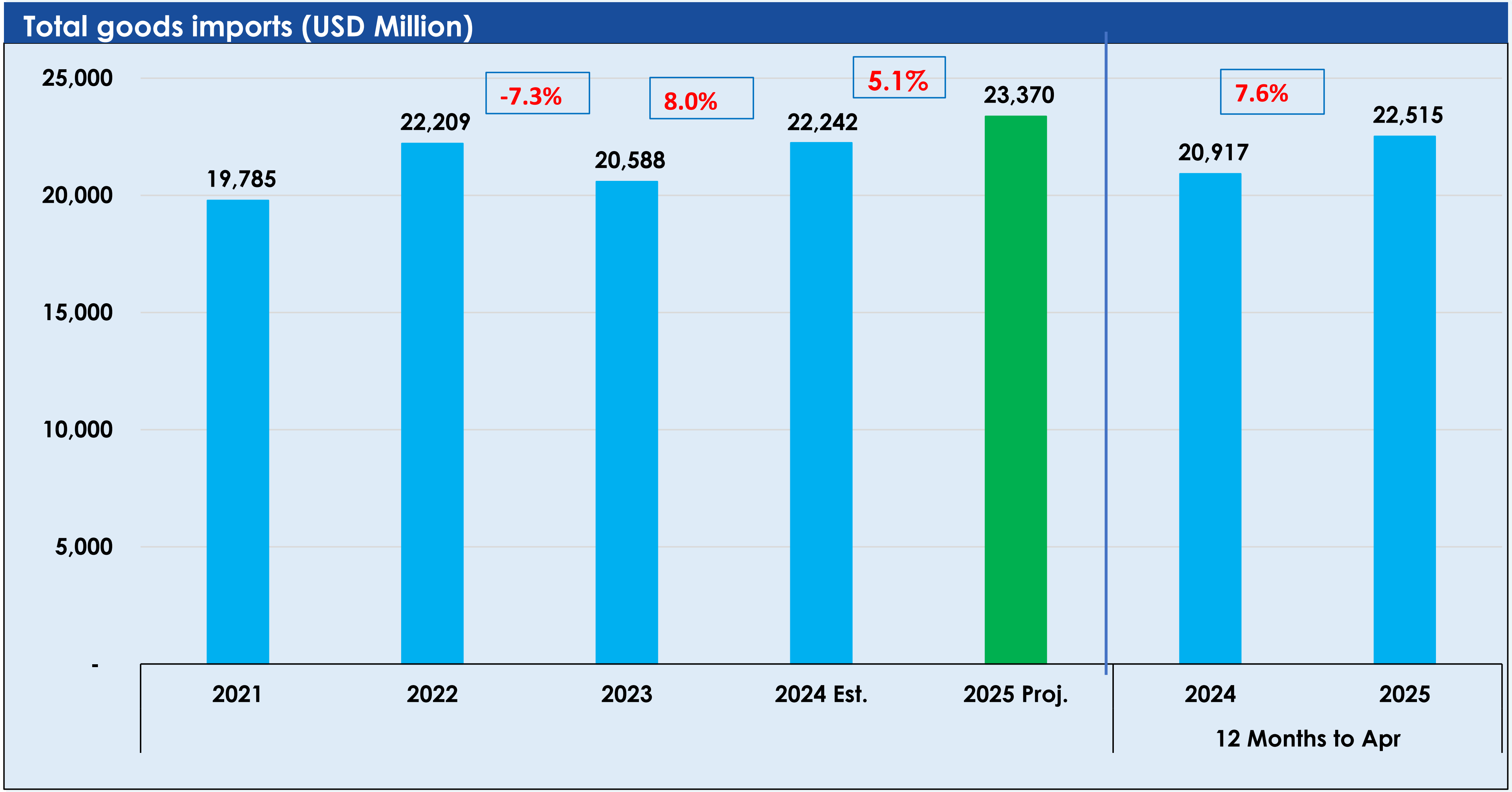
Disaggregation of goods exports (USD Million)



29.

Balance of payments:

Goods imports increased by 7.6 percent in the 12 months to April 2025, mainly due to an increase in intermediate and capital goods imports



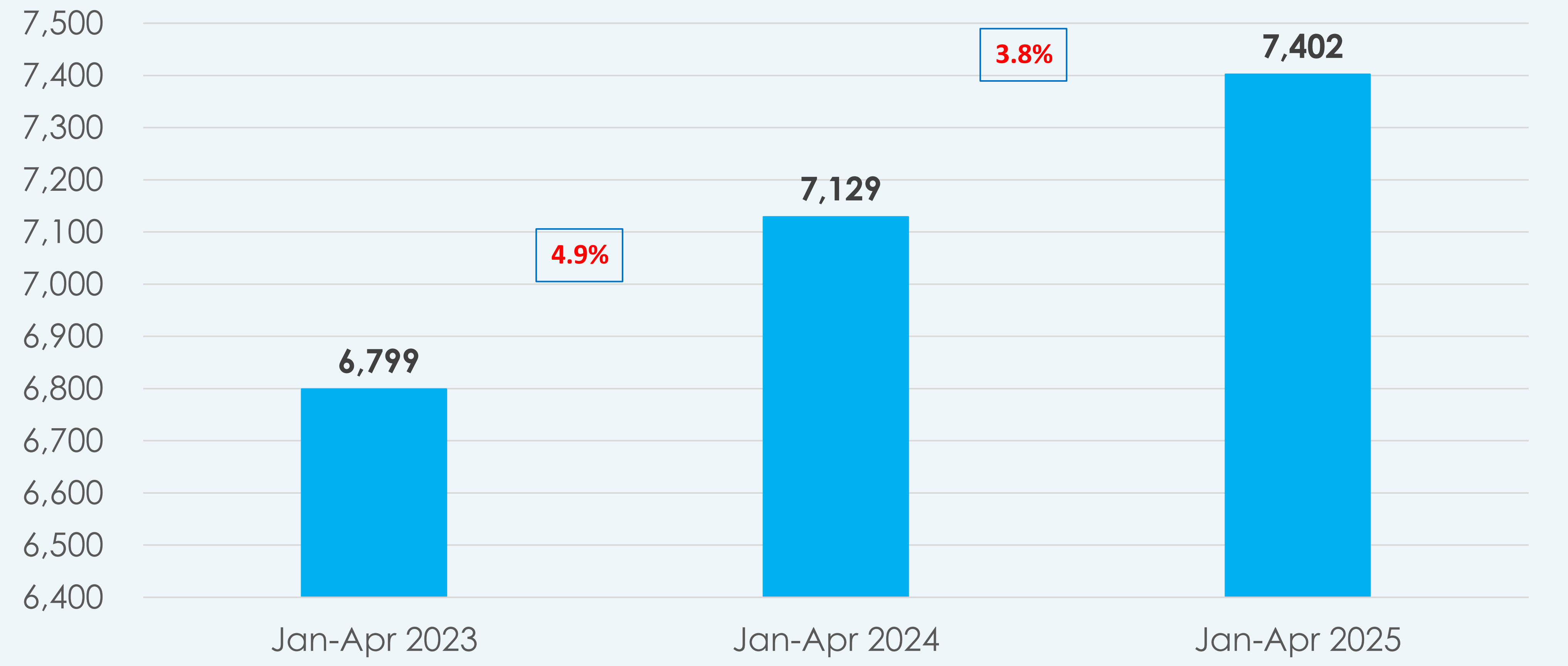
Source: CBK, KRA

30.

Balance of payments:

Goods imports were 3.8 percent higher in the first four months of 2025, mainly due to an increase in intermediate and capital goods imports

Total goods imports (USD Million)

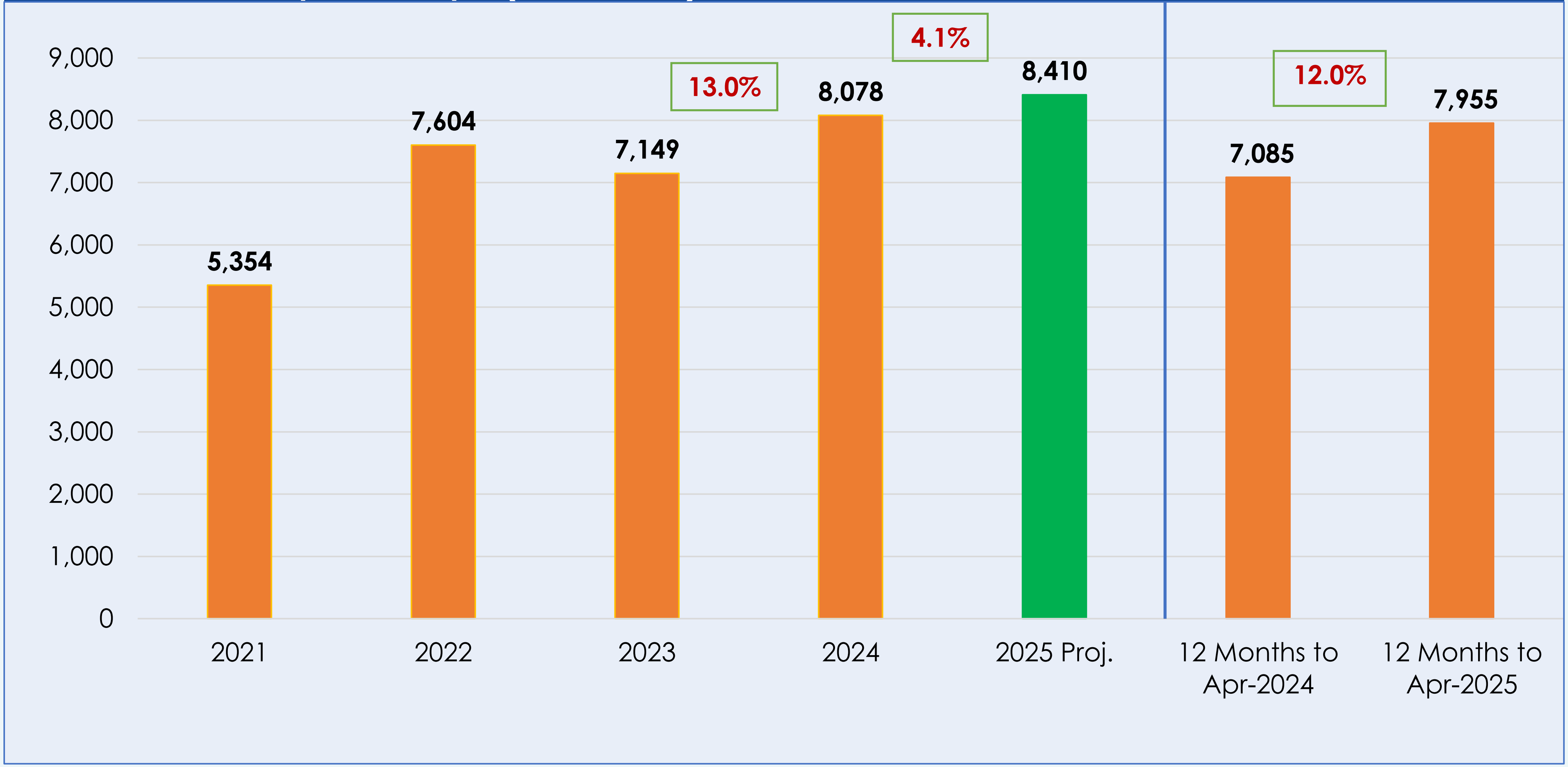


31.

Balance of payments:

Services receipts increased by 12 percent in the 12 months to April 2025 boosted by an increase in transport receipts of 21 percent and travel receipts of 20 percent

Total services export receipts (USD Million)



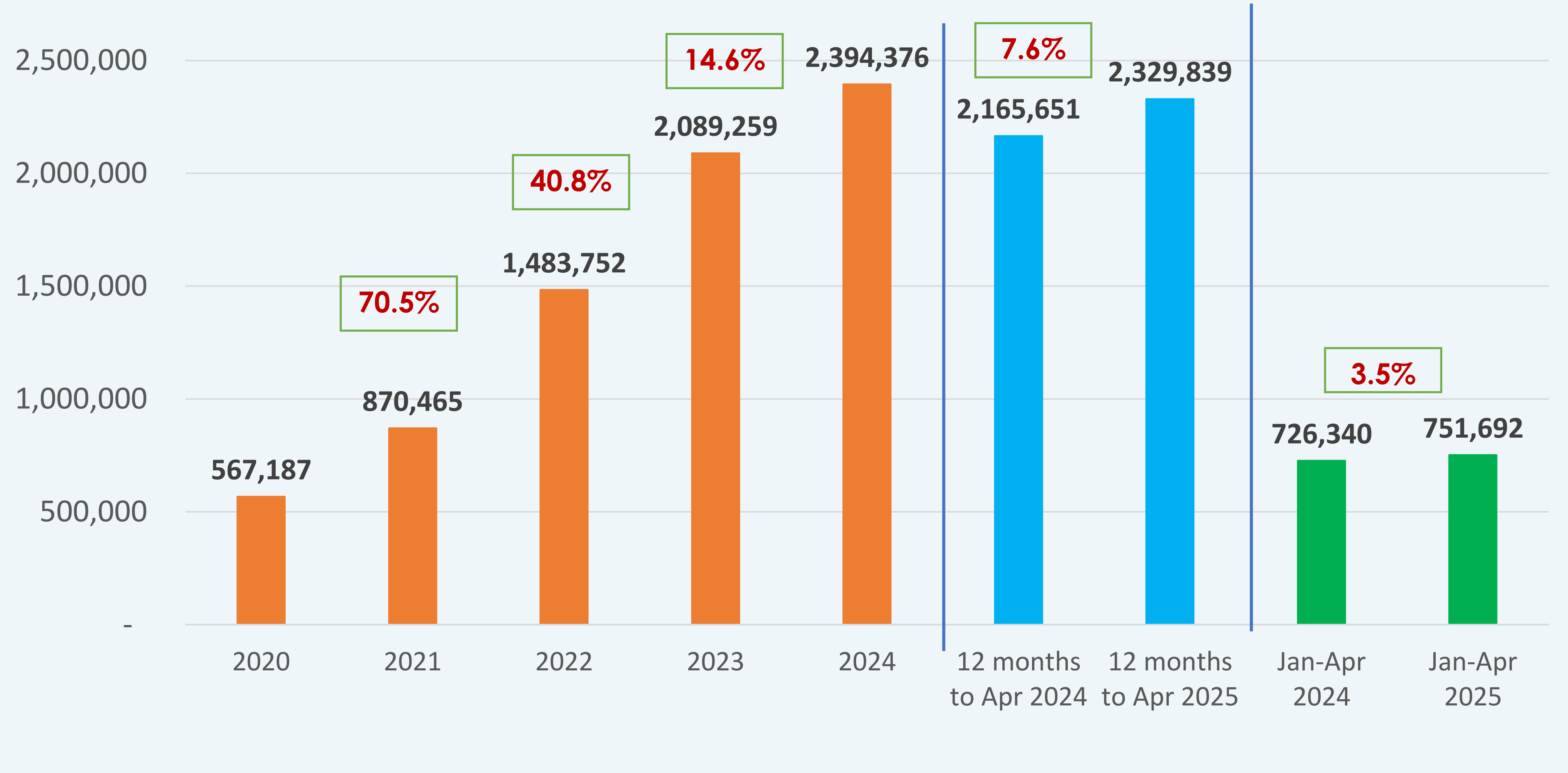
Source: CBK, KRA

32.

Services exports:

Tourist arrivals remained strong, growing by 7.6 percent in the 12 months to April 2025, on account of recovery of international travel

Number and growth of tourist arrivals)

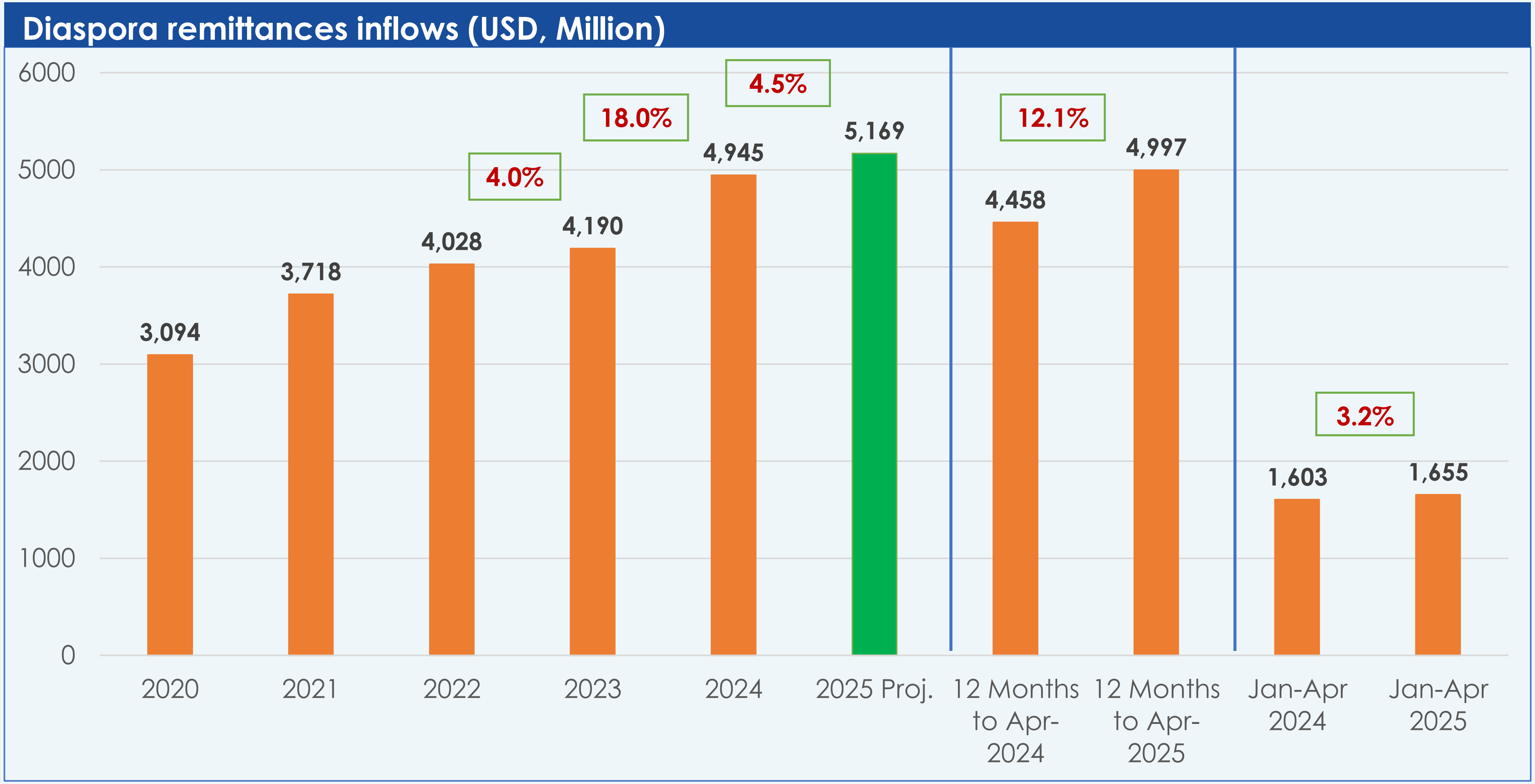


Source: Tourism Research Institute and Kenya Tourism Board

33.

Diaspora remittances:

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



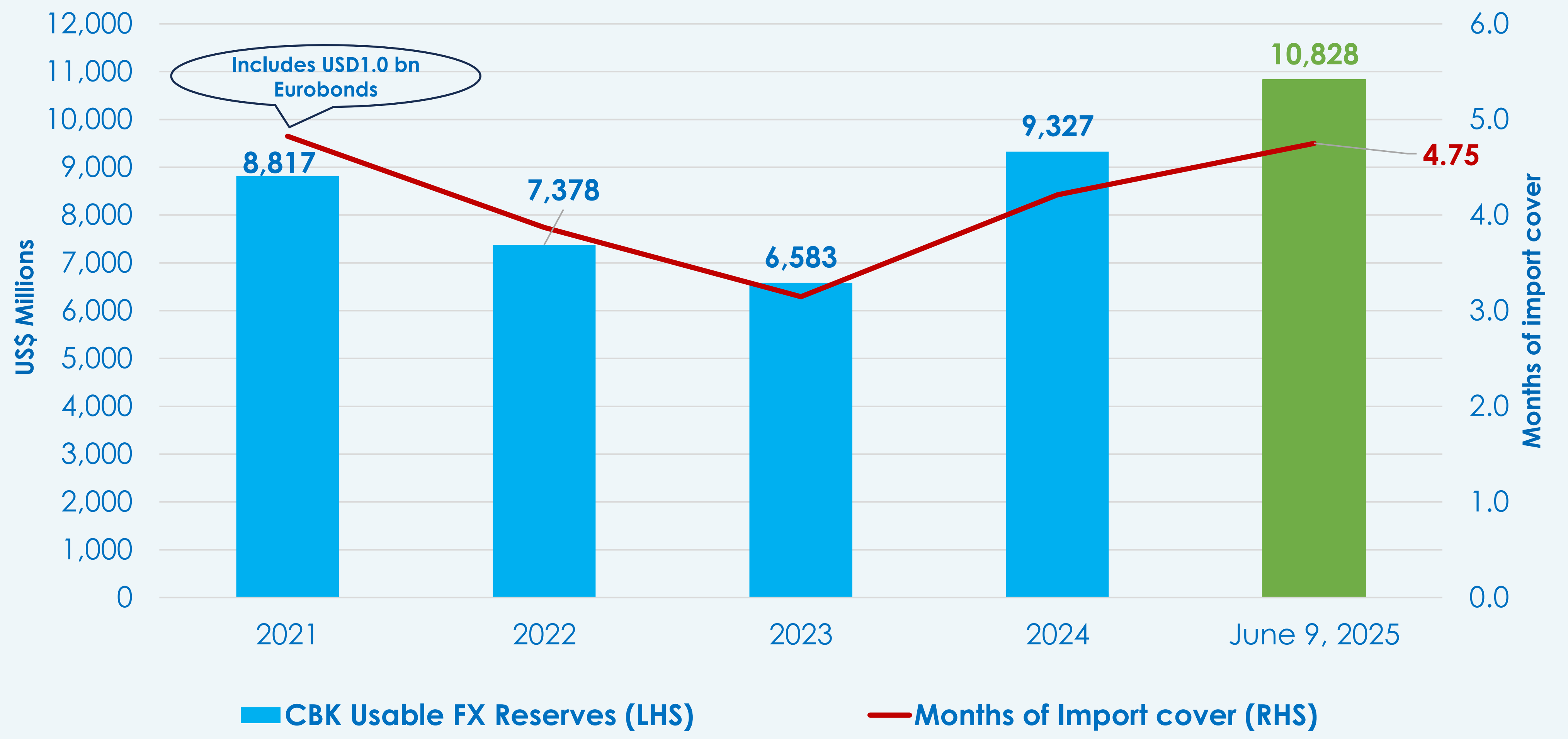
Source: CBK

34.

CBK usable foreign exchange reserves:

Foreign exchange reserves are at their highest levels and continue to provide adequate cover and a buffer against short-term shocks

CBK usable foreign exchange reserves (end period)



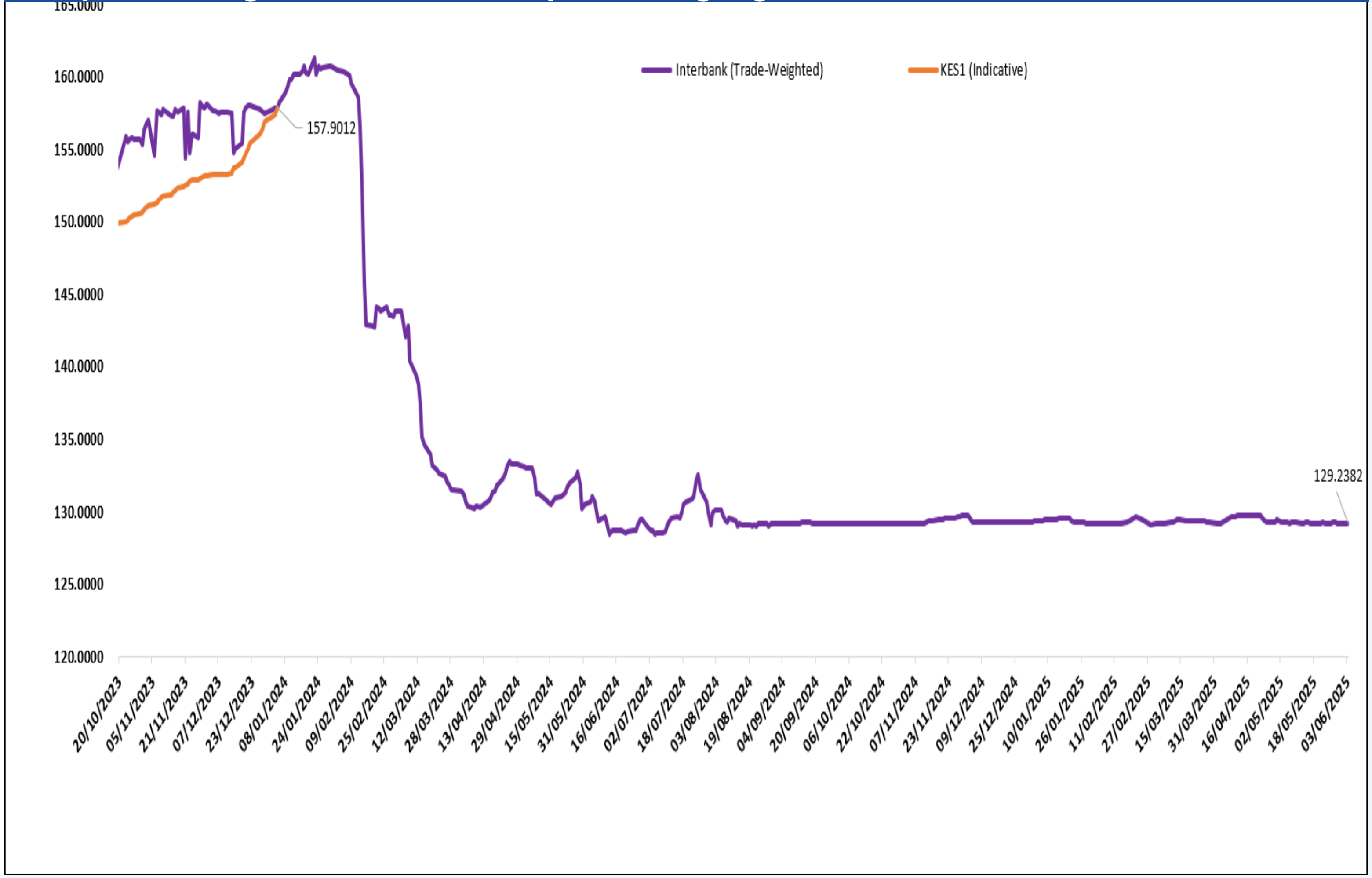
Source: CBK as of June 9, 2025

35.

Exchange rate developments:

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

Daily exchange rate of the Kenya Shilling against the US Dollar



- Key reforms in the FX market have supported a stable, flexible, transparent market determined exchange rate.

  These reforms include:

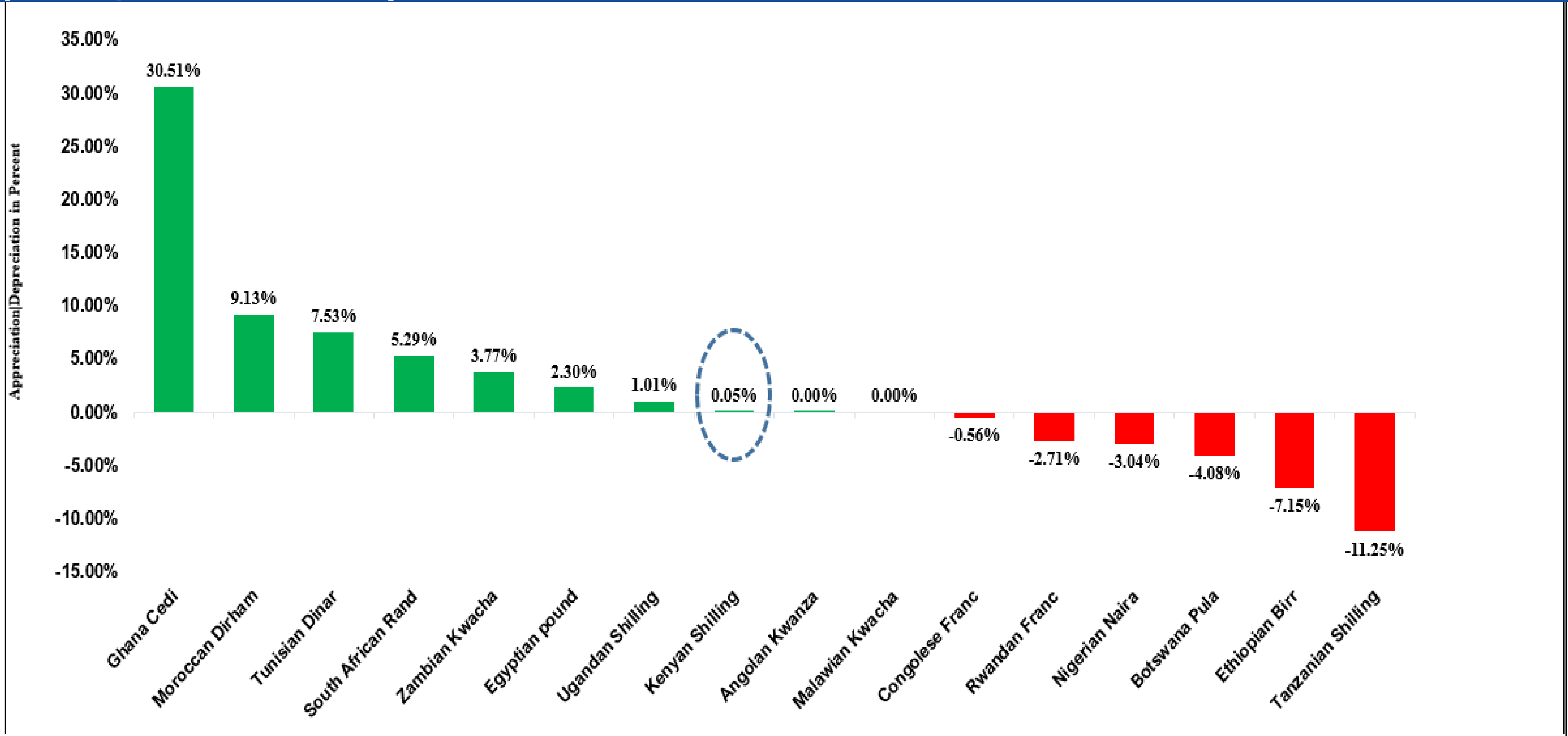
  - Issuance of the Kenya Foreign Exchange Code (the FX Code) to commercial banks,
  - Introduction of Electronic Matching System (EMS) in the FX interbank market.
  - Unification of the parallel exchange rate whereby the CBK was quoting a different exchange rate from that quoted by commercial banks.

Source: CBK as of June 3, 2025

36.

Exchange rate developments:
The Kenya Shilling has remained stable against the US Dollar

Change in the exchange rates of selected major African currencies against the USD (January 2 to June 3, 2025)



Source: Refinitiv, as at June 3, 2025

37. Summary of balance of payments developments and outlook

1. **The current account deficit narrowed to 1.8 percent of GDP in the 12 months to April 2025 compared to 2.2 percent of GDP in a similar period in 2024,** mainly reflecting resilient goods exports and diaspora remittances.

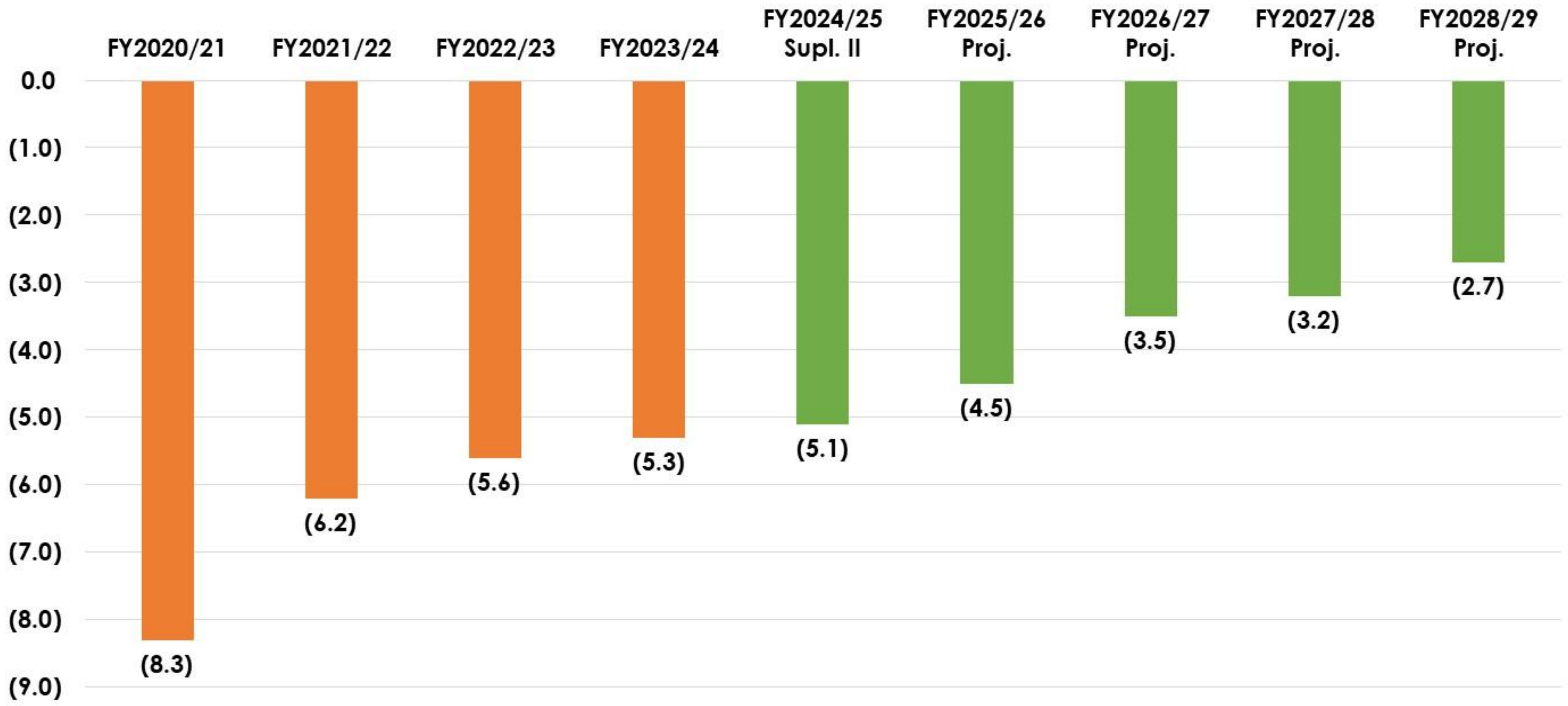
2. **The current account deficit is expected to remain relatively stable at 1.5 percent of GDP in 2025 compared to 1.3 percent of GDP in 2024,** reflecting continued growth in exports, resilient remittance inflows, increased goods imports and stable global oil prices.
   - The deficit is expected to be more than fully financed by financial inflows, resulting in an overall balance of payments surplus of US$ 1,107 million.
   - This is expected to result in a reserve build-up, with gross reserves projected at US$11,197 million in 2025 compared to US$10,091 million in 2024.

3. **The main external sector risks relate to** trade tensions arising from policies attributed to the new US administration as well as regional geopolitical tensions, intensification of geopolitical conflicts, and uncertainty and volatility in the international oil markets.

38. 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

39. Banking sector developments:
The banking sector remains stable and resilient

1. **Total Capital adequacy** ratio stood at 20.3 percent in April 2025 compared to 21.1 percent in February and 19.4 percent in December 2024, while the average liquidity ratio stood at 57.9 percent in April 2025 compared to 58.3 percent in February and 55.8 percent in December 2024.
   - The capital adequacy and liquidity ratios were above the minimum statutory limits of 14.5 percent and 20.0 percent, respectively.

2. The gross NPLs to gross loans ratio stood at 17.6 percent in April 2025 compared to 17.2 percent in February.
   - Banks have continued to make adequate provisions for the NPLs, and the sector remains profitable providing sufficient buffers.

3. **Increased minimum core capital requirements for commercial banks** from Ksh.1 billion (USD7.8 million) to Ksh.10 billion (USD78 million) by 2029, will lead to stronger, resilient banks with lower costs.

4. **The lifting of the moratorium on licensing of commercial banks** on April 16, 2025, will spur the entry of new large players to further increase the competitiveness of the Kenyan banking sector.

5. **CBK continues to engage the banking sector on the review of the Risk-Based Credit Pricing (RBCP) Model**, with the objective of making lending rates more responsive to monetary policy decisions.

40.

Summary and Key Takeaways

1. **Global inflation is expected to decline at a slower pace in 2025 than previously anticipated, while the outlook for global growth has been revised downwards,** reflecting elevated risks attributed to higher tariffs on trade, and persistent geopolitical tensions.

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 gradually, which should support continued recovery in credit to the private sector and improved economic growth prospects.

3. **With 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!