Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Wednesday, October 8, 2025

Dr. Kamau Thugge, CBS
Governor

1. Monetary Policy Decisions

1. **During its Meeting on October 7, 2025, the Monetary Policy Committee (MPC) decided to lower the Central Bank Rate (CBR) by 25 basis points to 9.25 percent from 9.50 percent.**

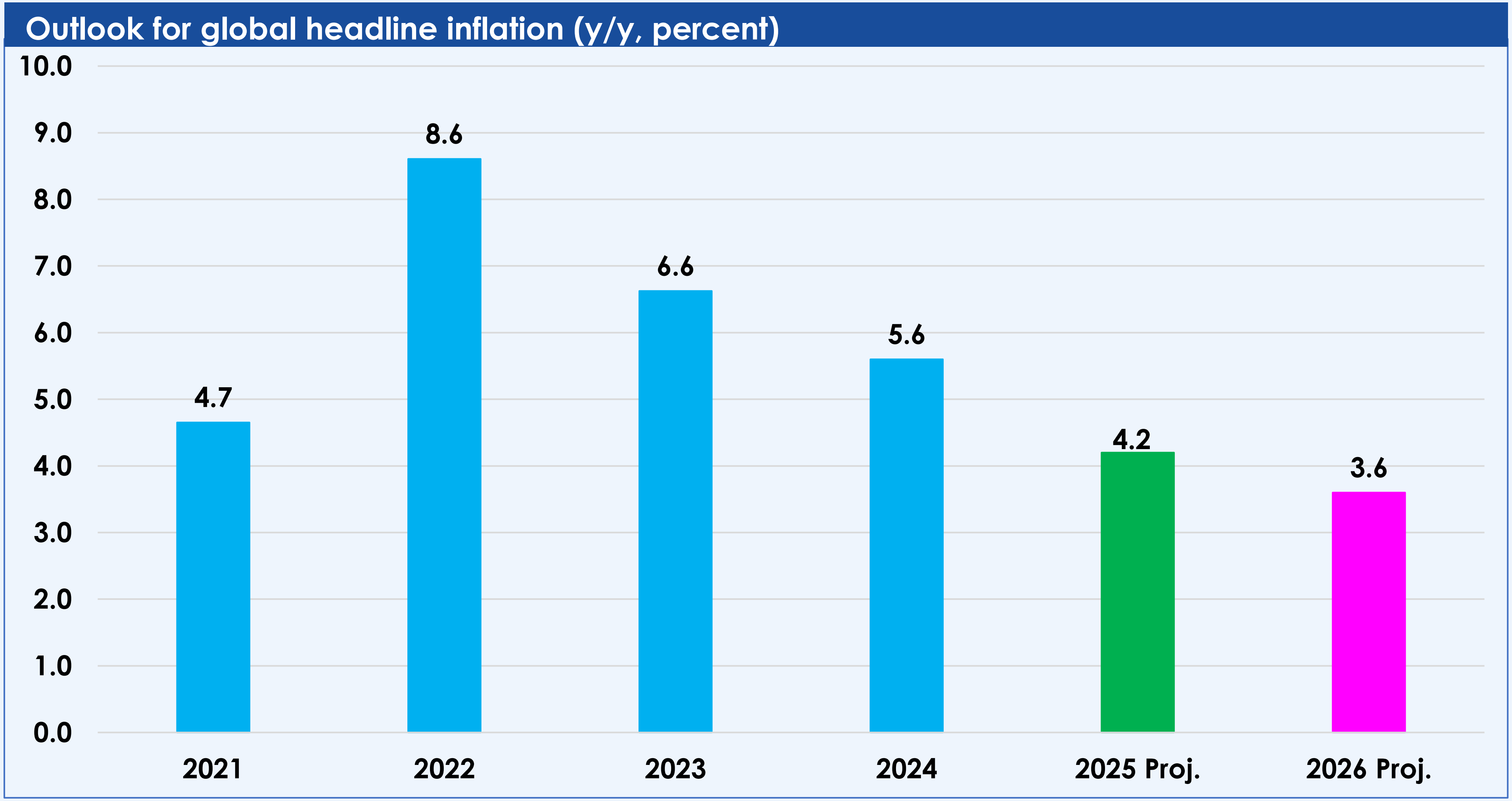
2. **The MPC observed that:**
   - Overall inflation is expected to remain below the midpoint of the target range in the near term, supported by stable energy prices, and continued exchange rate stability.
   - Although some Central banks in the major economies have remained cautious in lowering interest rates, others, depending on their inflation and growth outlooks, have continued to ease their monetary policy.
   - Average lending rates in the domestic market have continued to decline, while private sector credit growth has continued to improve, though at a lower pace than desirable.
   - The revised banking sector Risk-Based Credit Pricing (RBCP) model, which will be fully operational by March 2026, will improve the transmission of monetary policy decisions to commercial banks' lending interest rates,
   - The Committee therefore concluded that there was scope for a further easing of the monetary policy stance. 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 December 2025**.

2. Global economic developments and outlook:

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

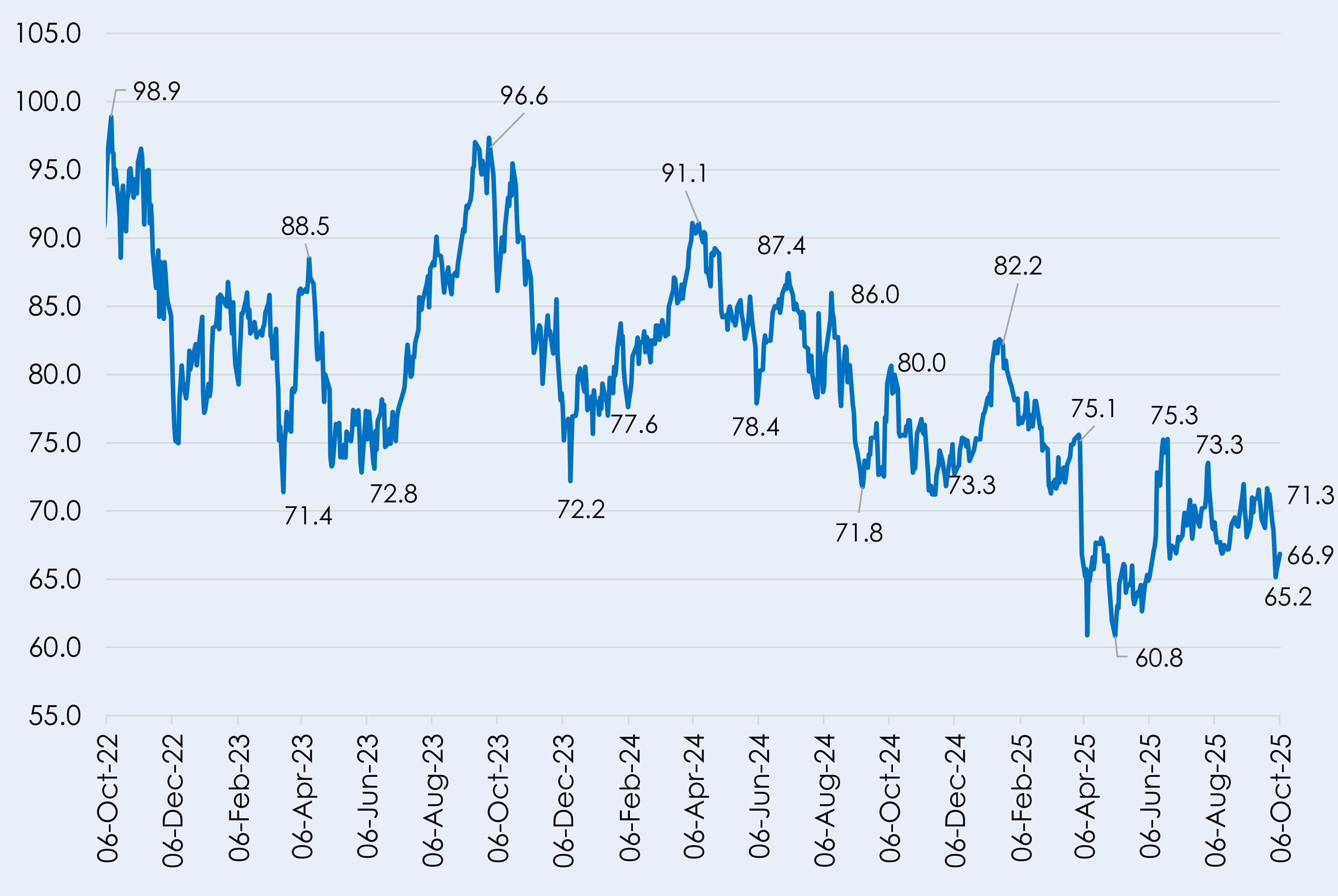


Source: IMF World Economic Outlook for projections

3. Global commodity prices:

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

Murban oil price (USD, per barrel)



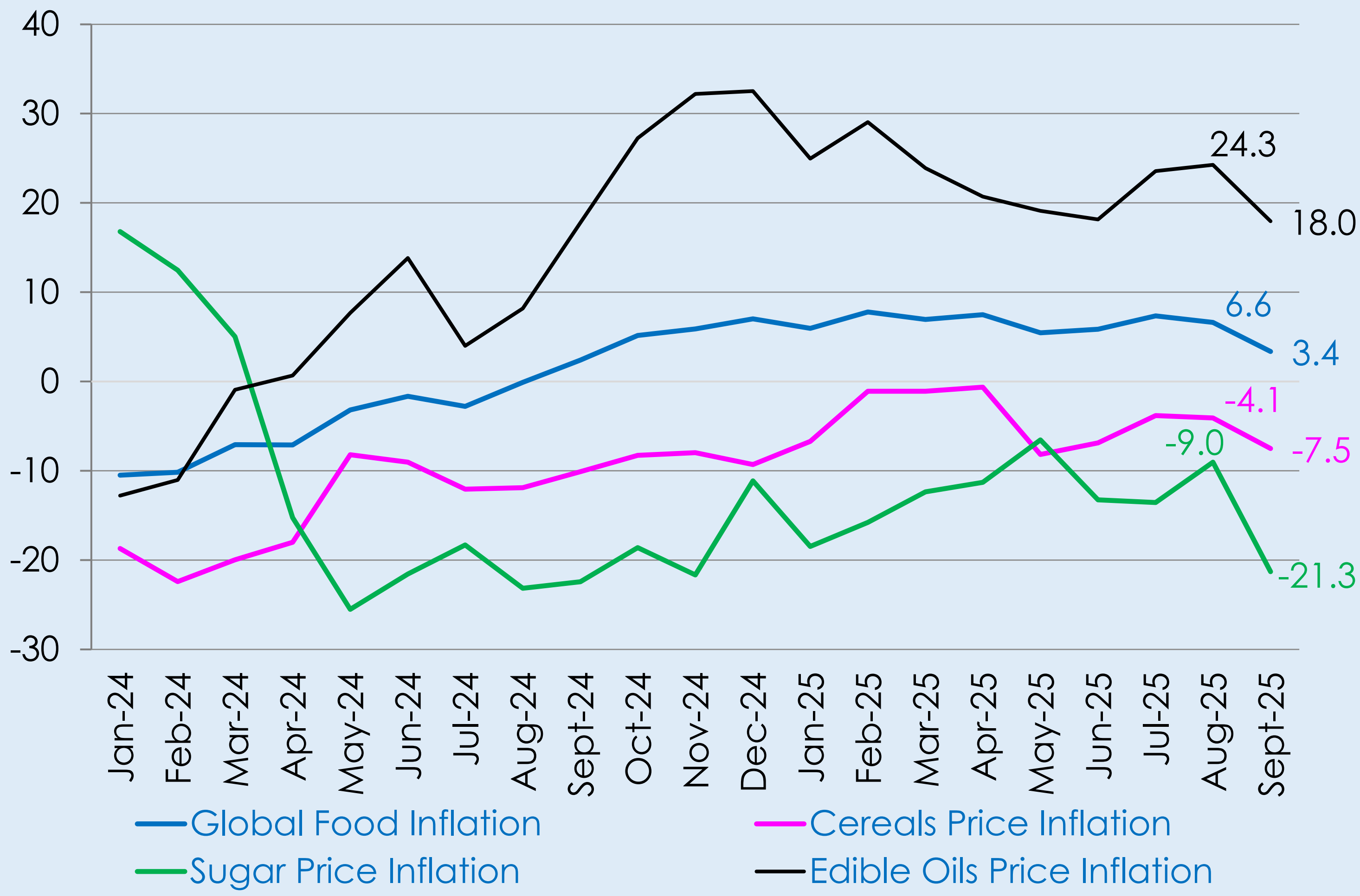
Source: Oilprice.com, and Reuters

- Oil prices have moderated, mainly reflecting increased production by the OPEC+ and non-OPEC producers, and reduced global demand. The OPEC+ announced on October 5, 2025, that it will raise output by 137,000 bpd in November 2025.
- The main risks to oil prices relate to higher tariffs, and 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 September 2025, mainly driven by lower cereals and sugar prices inflation, but edible oils price inflation remained elevated

Global food inflation (y/y, percent)

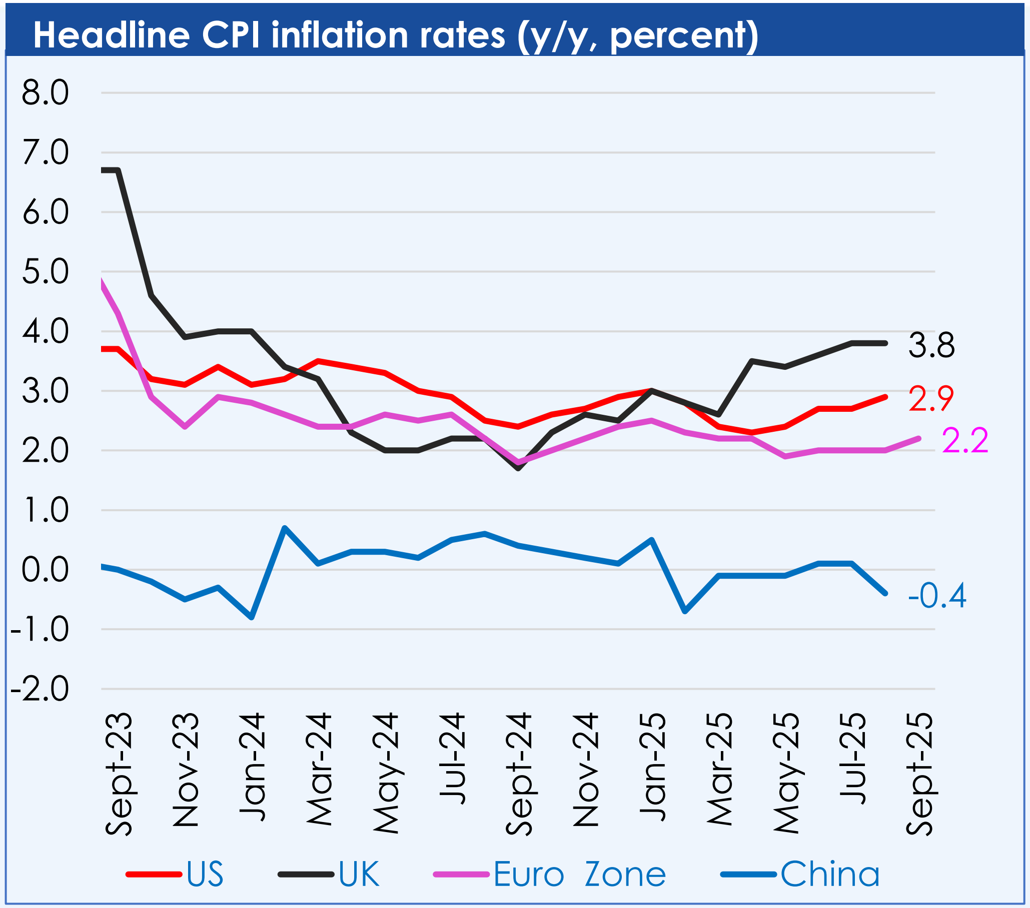


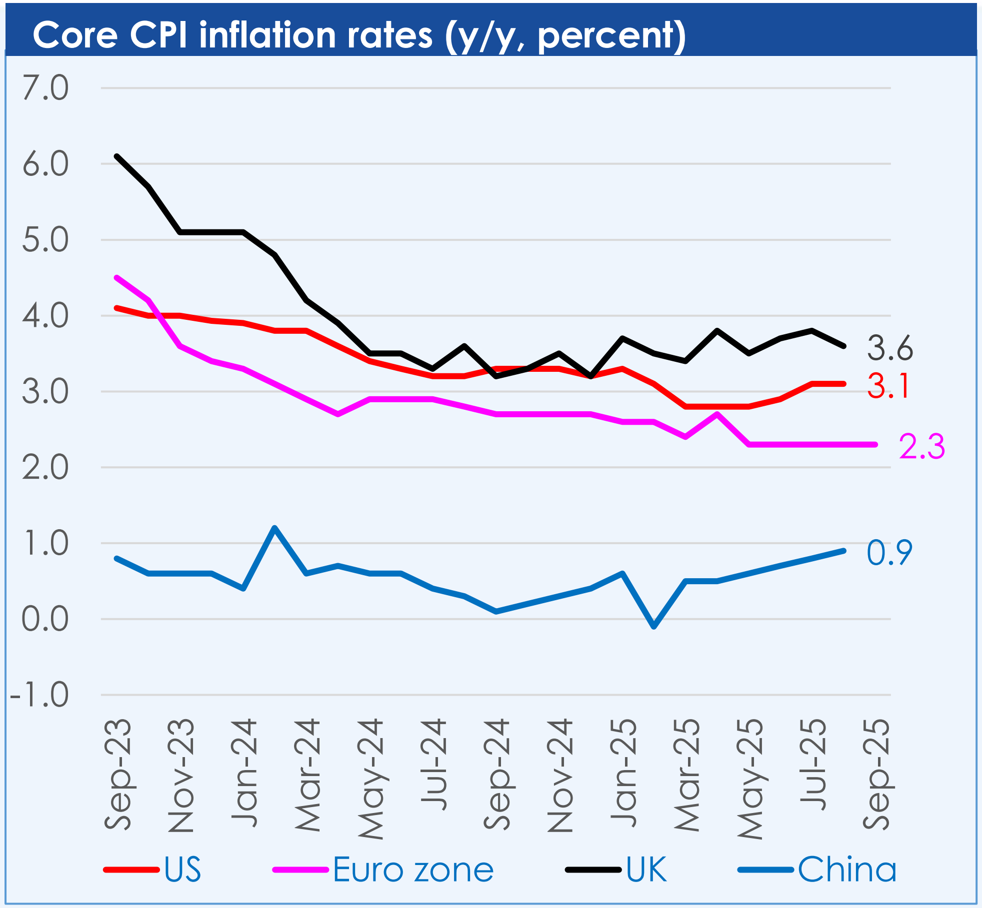
Source: UN FAO Food Index

- **Cereals price inflation declined, mainly due to lower wheat prices attributed to ample global supplies and subdued import demand. Maize prices also fell on account of abundant supplies from Brazil and the USA.**
- **Sugar price inflation fell sharply on account of high production in Brazil, and favorable harvests prospects in India and Thailand.**
- **Edible oils price inflation remained elevated but fell slightly on account of lower palm oil prices due to improved production in Malaysia. Prices of sunflower and rapeseed oils continued to increase, reflecting supply tightness.**

5. Inflation in major economies:

Inflation in the major economies has increased modestly in recent months, driven by higher food prices and effects of higher tariffs





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

- **US headline inflation rose in August 2025 partly due to effects of higher tariffs on imports. Core inflation held steady.**
- **UK inflation remained elevated in August despite the decline in core inflation.**
- **Eurozone inflation rose slightly in September 2025 due to higher food prices, but core inflation remained steady.**
- **China's inflation has remained low mainly due to weak domestic demand.**

6. Global economic growth outlook:

Global GDP growth has remained resilient in 2025, supported by an earlier front-loading of exports to the U.S. ahead of implementation of higher tariffs on trade, improved financial conditions, and strong consumer spending. Growth is projected to slow down in 2026 mainly due to higher effective tariff rates on trade

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

	2024	2025		2026	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	3.3	3.2	0.3	2.9	0.0
G20[1]	3.4	3.2	0.3	2.9	0.0
Australia	1.1	1.8	0.0	2.2	0.0
Canada	1.0	1.1	0.1	1.2	0.1
Euro area	0.8	1.2	0.2	1.0	-0.2
Germany	-0.5	0.3	-0.1	1.1	-0.1
France	1.1	0.6	0.0	0.9	0.0
Italy	0.7	0.6	0.0	0.6	-0.1
Spain[2]	3.2	2.6	0.2	2.0	0.1
Japan	0.1	1.1	0.4	0.5	0.1
Korea	2.0	1.0	0.0	2.2	0.0
Mexico	1.4	0.8	0.4	1.3	0.2
Türkiye	3.3	3.2	0.3	3.2	-0.1
United Kingdom	1.1	1.4	0.1	1.0	0.0
United States	2.8	1.8	0.2	1.5	0.0
Argentina	-1.3	4.5	-0.7	4.3	0.0
Brazil	3.4	2.3	0.2	1.7	0.1
China	5.0	4.9	0.2	4.4	0.1
India[3]	6.5	6.7	0.4	6.2	-0.2
Indonesia	5.0	4.9	0.2	4.9	0.1
Russia	4.3	1.0	0.0	0.7	0.0
Saudi Arabia	1.9	3.7	1.9	3.9	1.4
South Africa	0.5	1.1	-0.2	1.3	-0.1

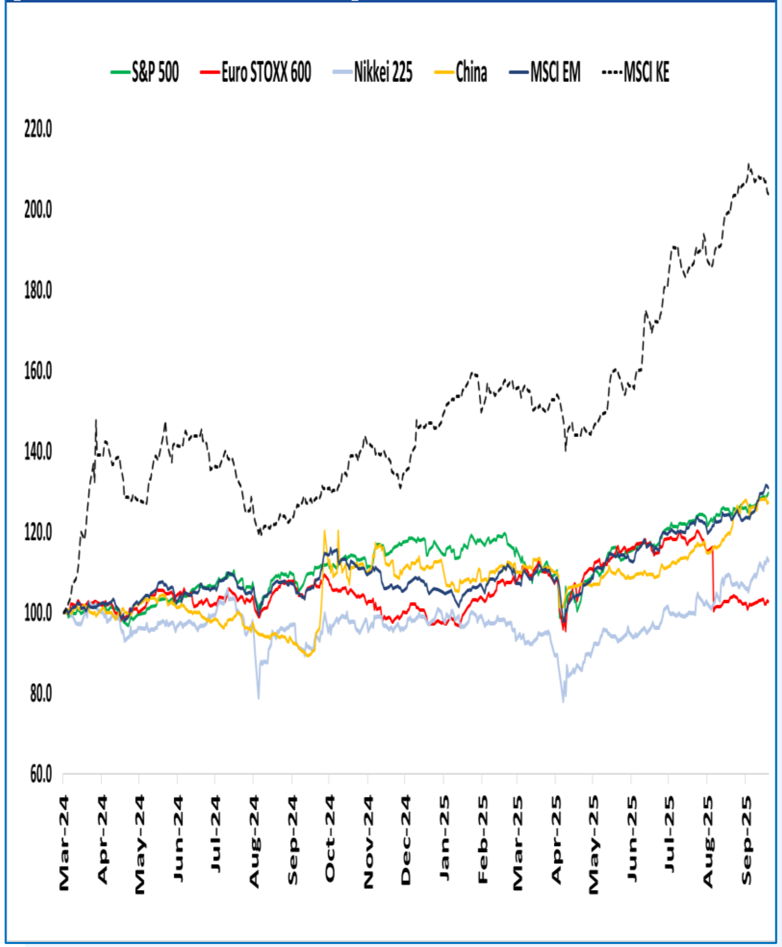
Source: OECD Economic Outlook (EO), Interim Report – September 2025

- **Higher tariff rates on trade and elevated trade policy uncertainty are expected to dampen trade and investment in 2026.**
- **Global growth is projected to slow down, particularly in the U.S and China, due to higher tariff rates and fading effects of front-loading of trade.**
- **Euro Area growth is expected to continue to recover supported by increased public investment and lower credit costs.**
- **Weak global demand and heightened geopolitical tensions in the Middle East and the Russia-Ukraine conflict, remain key risks to growth.**

7. Global financial conditions:

Global financial conditions have improved, as reflected in the recovery of major equity markets, and decline in Eurobond yields for Emerging Markets and Developing Economies

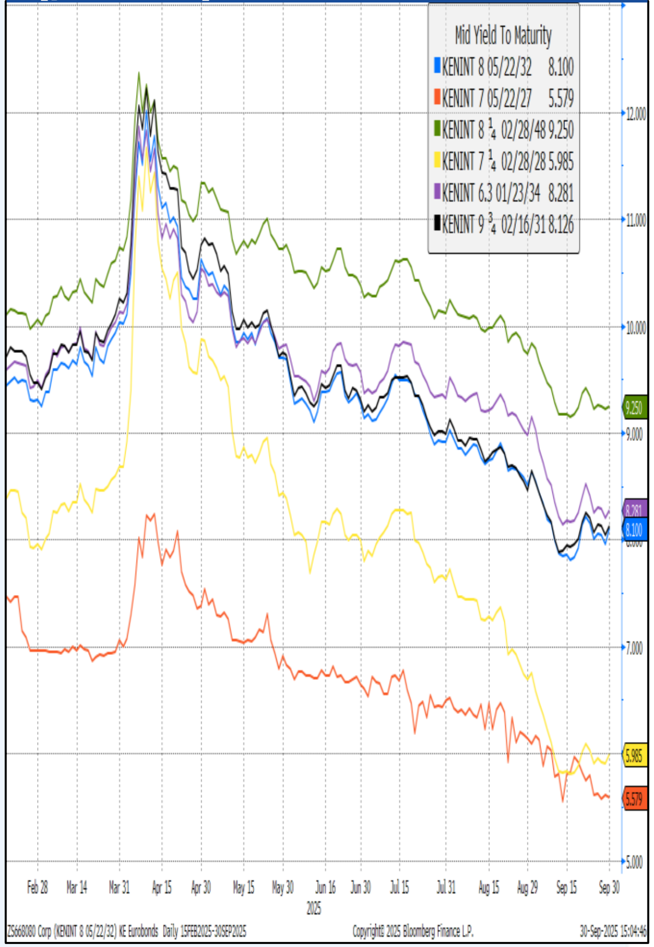
Performance of selected Stock Indices (March, 2024=100)



Sources: Bloomberg Finance L.P.; FactSet; MSCI; NABE; Refinitiv Eikon Datastream IBES; MSCI Daily Fixed-Income Insights as of September 22, 2025

Select African Countries' Eurobond yields (percent)

Kenya's Eurobond yields (percent)



Source: Bloomberg as of September 30, 2025

8. Summary of global developments and outlook

1. **Inflation in the major economies has increased modestly in recent months, but global inflation is projected to decline in 2025 and 2026,** mainly driven by lower energy prices, and reduced global demand.

2. Although some Central banks in the major economies have remained cautious in lowering interest rates, **others, depending on their inflation and growth outlooks, have continued to ease their monetary policy**.

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

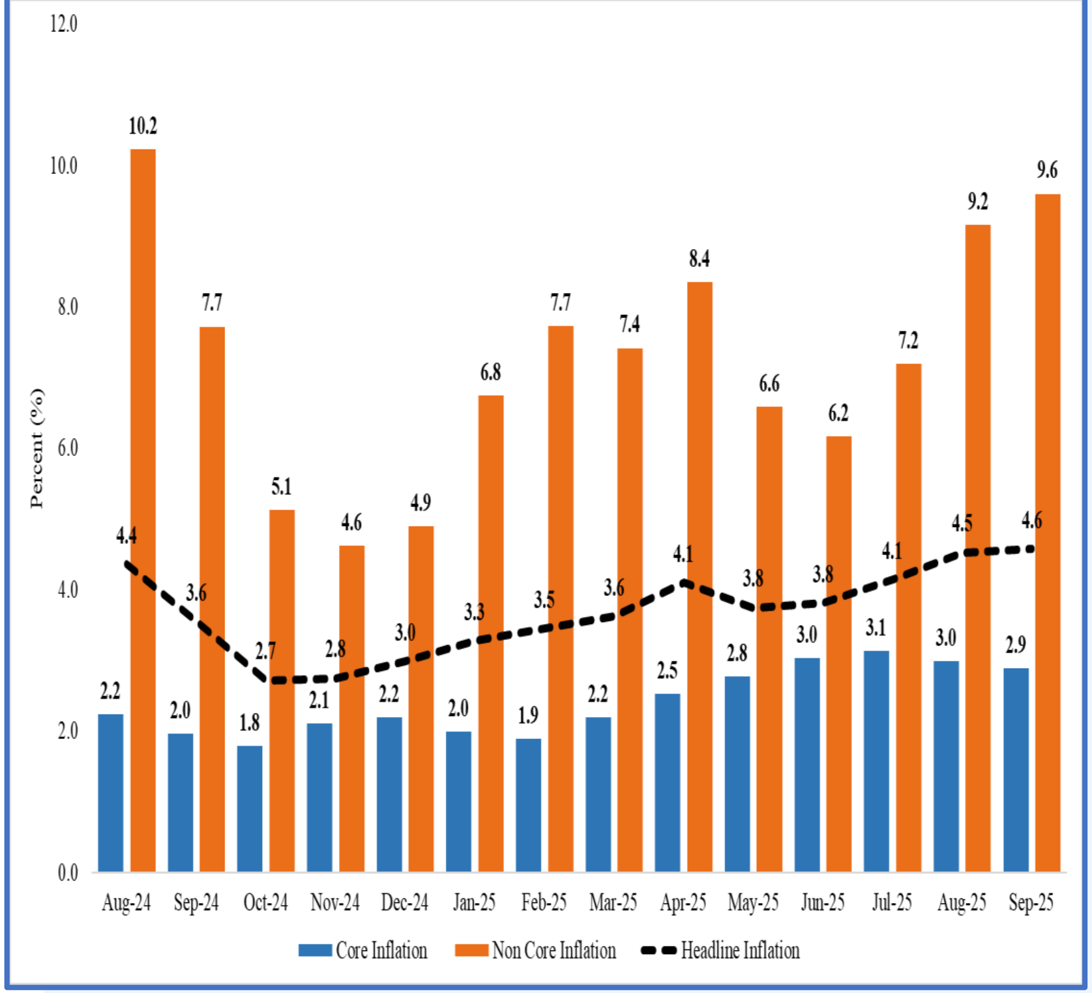
4. **Global financial conditions have improved**, as reflected in the recovery of major equity markets, and decline in Eurobond yields for EMDEs.

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

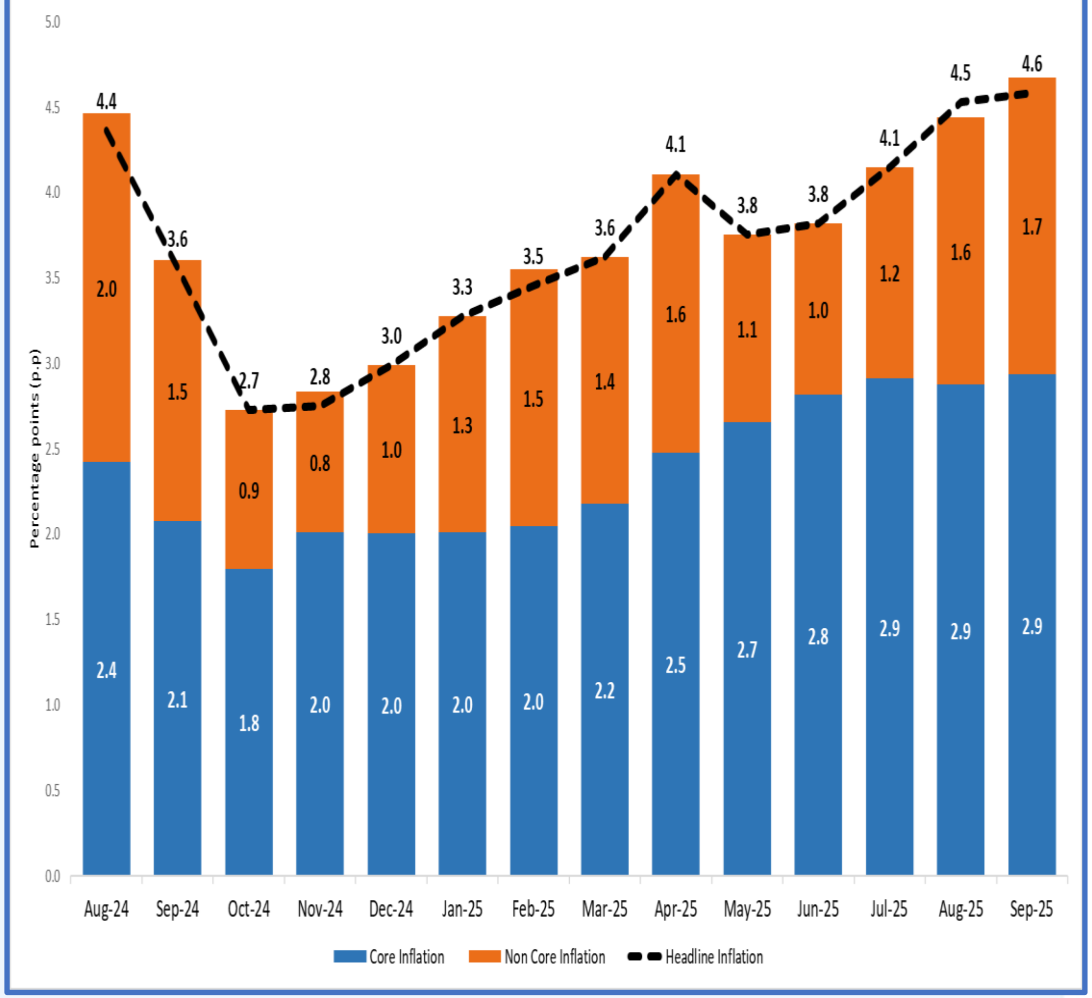
9. Domestic macroeconomic developments and outlook: Domestic inflation:

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

Inflation by broad category (y/y, percent)



Contributions to Overall Inflation (percentage points)

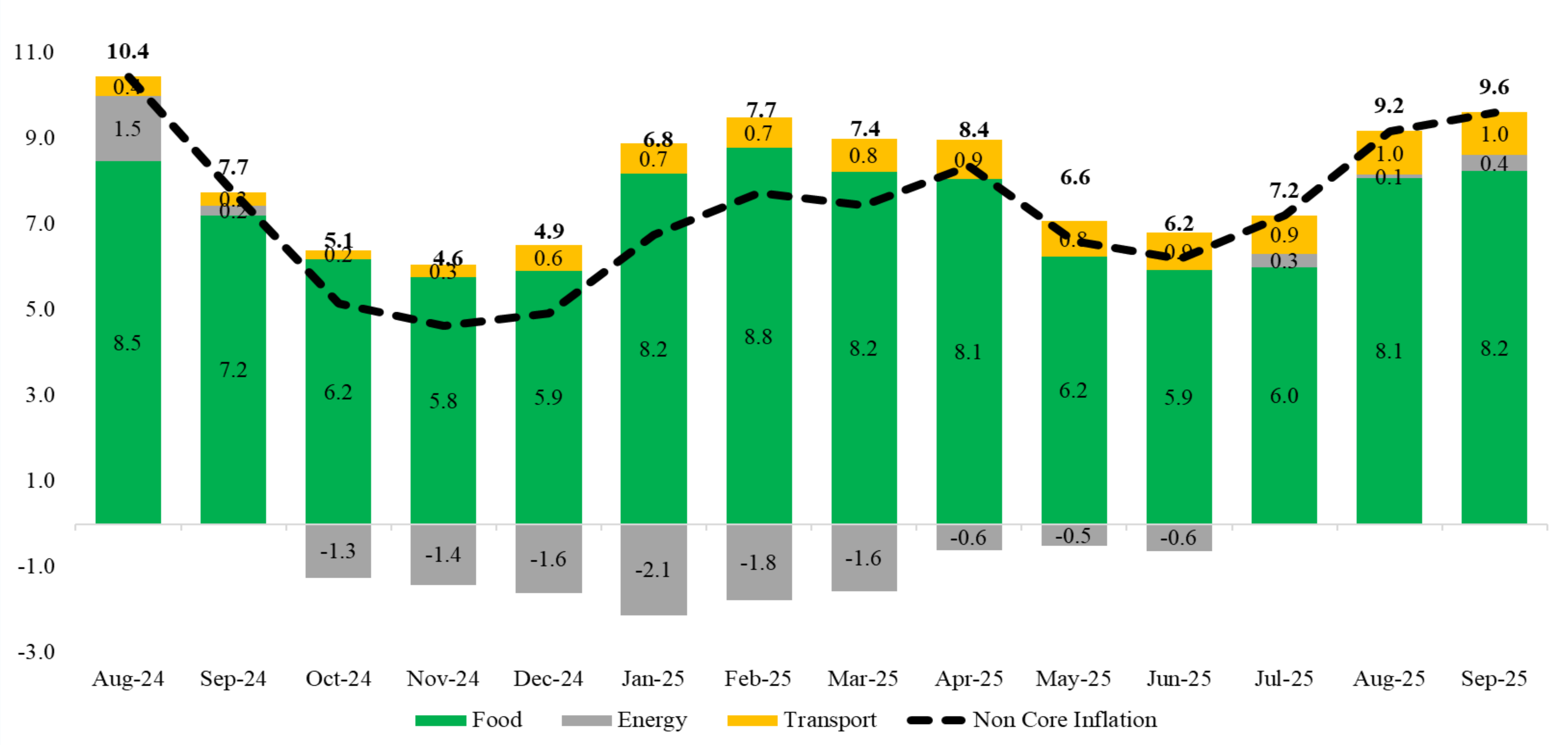


Source: *Kenya National Bureau of Statistics*

10. Main drivers of non-core inflation:

Non-core inflation increased in September 2025, mainly driven by higher food prices attributed to select vegetable items particularly tomatoes, carrots, onions, and cabbages

Contributions to non-core inflation (percentage points)

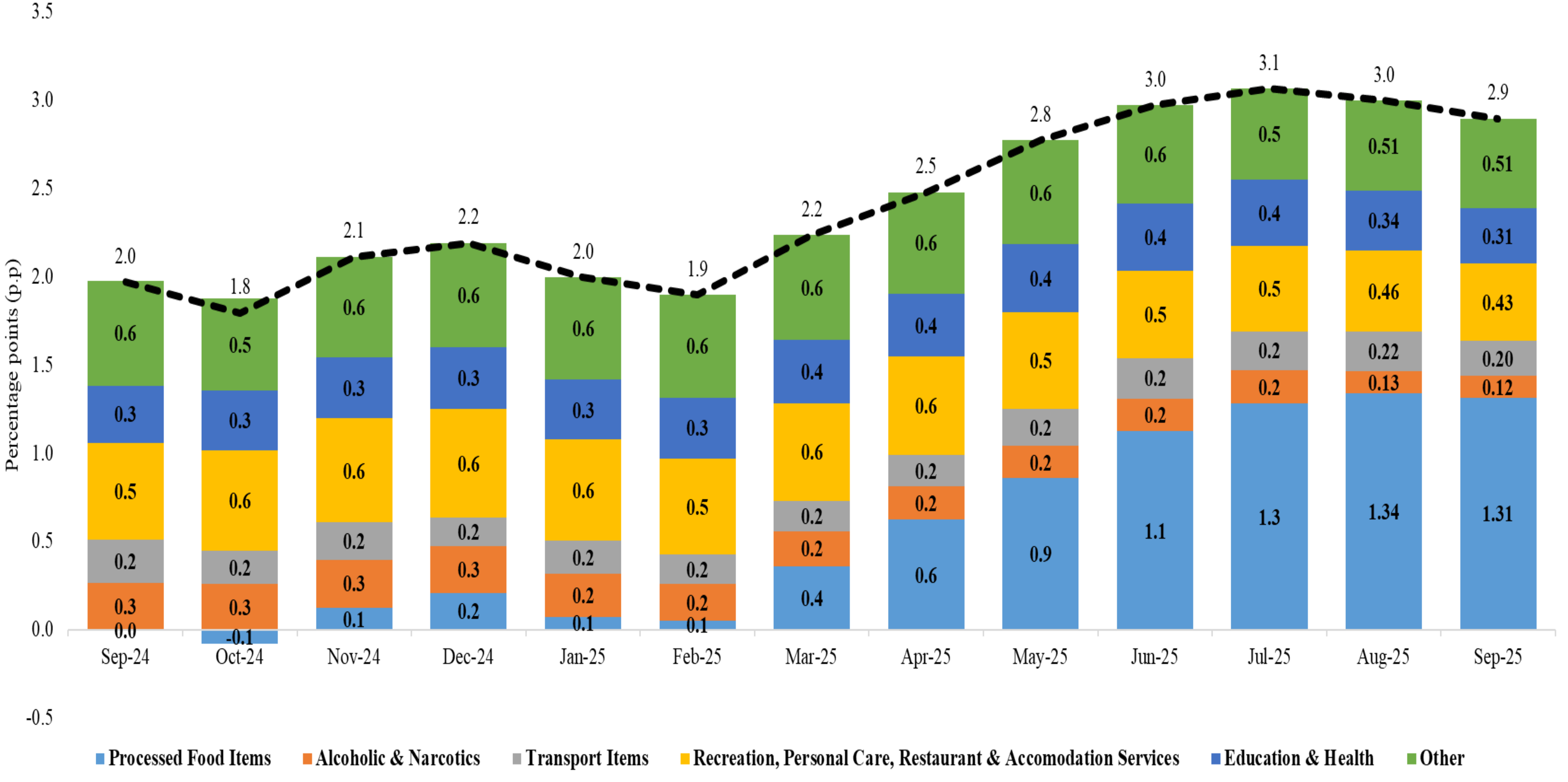


Source: KNBS and CBK

11. Main drivers of core inflation:

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

Contributions to core inflation (percentage points)

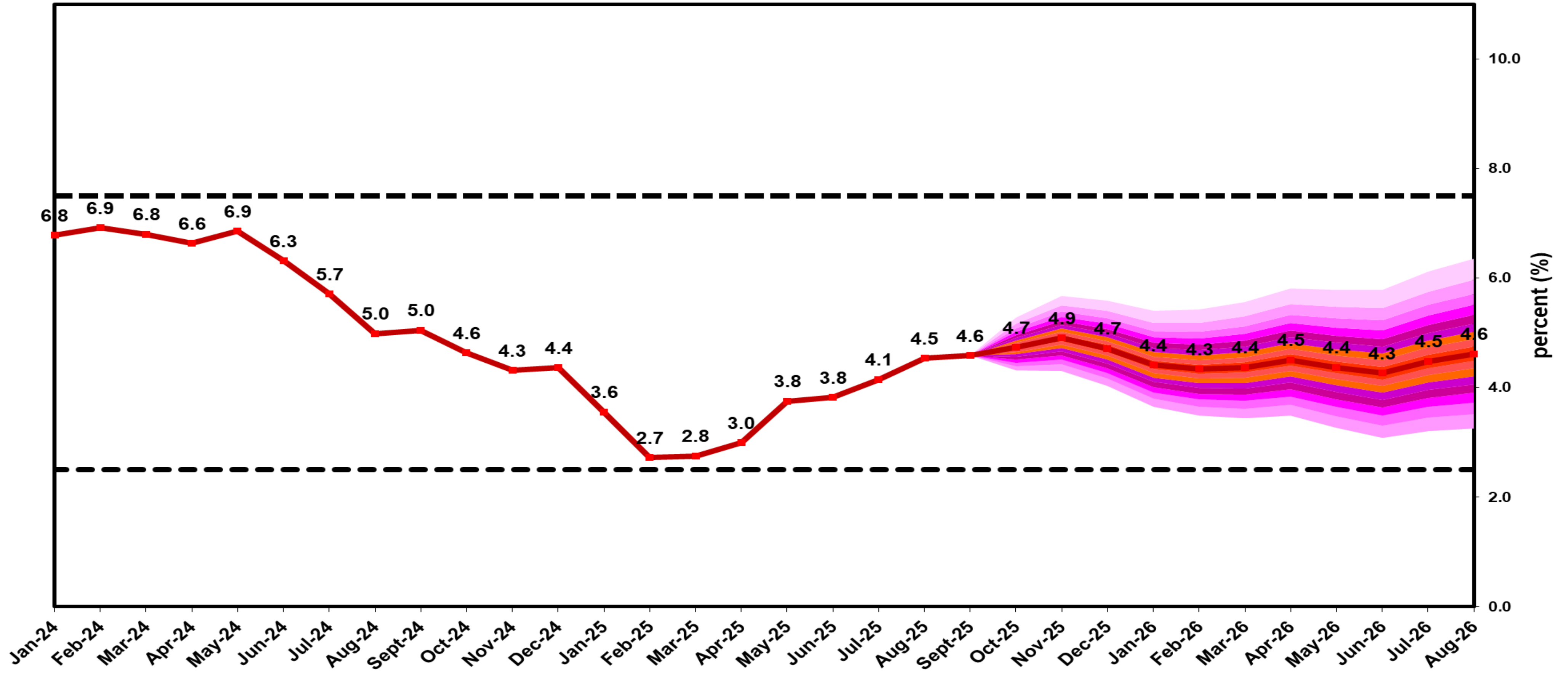


Source: KNBS and CBK

12. Inflation projections:

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

Actual and Forecasts of overall inflation
October 2025 to September 2026 (y/y, percent)



Source: KNBS, and CBK for projections

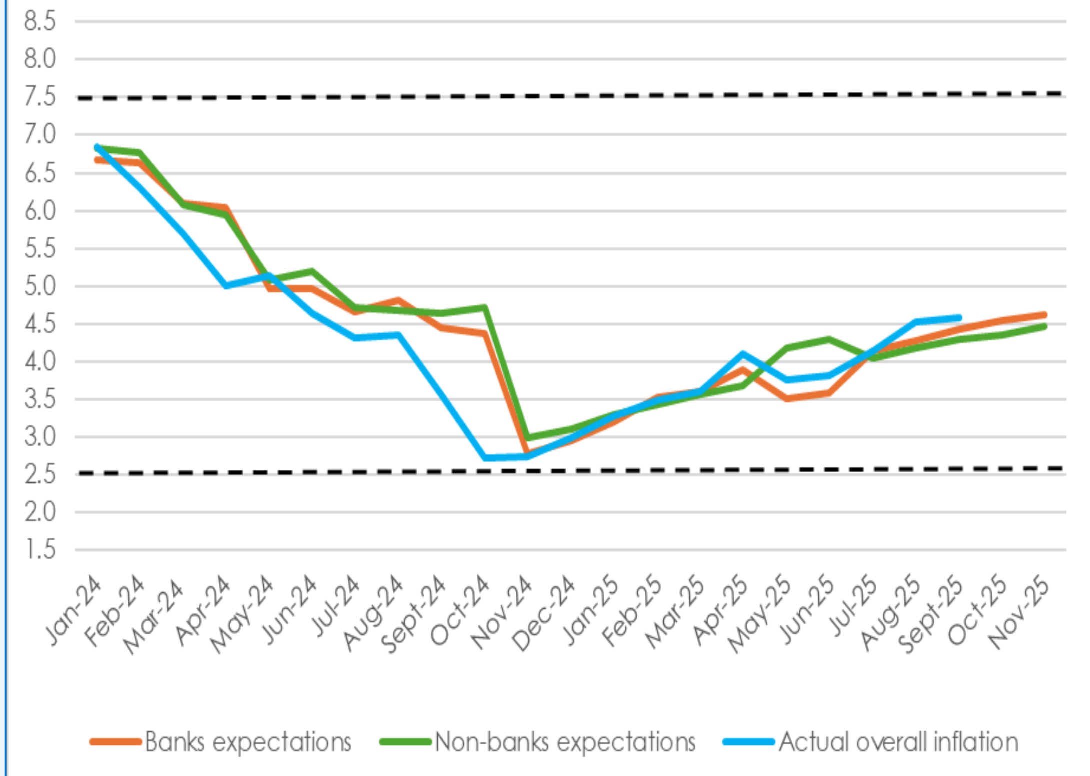
13.

Inflation expectations:

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

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

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



- Respondents to the September 2025 Agriculture Sector Survey expect the onset of the harvest season for key crops particularly maize, stable fuel prices, and exchange rate stability to support a stable inflation rate.
- Nevertheless, a majority of respondents expect higher prices of some food items, particularly vegetables, to exert moderate upward pressure on inflation in the near term due to seasonal factors.

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

14. Summary on developments and outlook for inflation

1. **Overall inflation at 4.6 percent in September 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:
   - Expected onset of the harvest season for key food crops, particularly maize.
   - Stable energy prices on account of lower international oil prices.
   - Continued stability in the exchange rate which is expected to continue moderating prices.

3. **The September 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 worsening 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 continued recovery of the industry sector

Real GDP growth (y/y, percent)

	Weight (2016Q1 -2024Q4	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	18.4	-0.4	-1.5	6.6	4.6	6.0	4.4	5.1	5.1	4.9
2. Non-Agriculture (o/w)	81.6	9.5	6.3	5.5	4.7	4.7	5.1	5.4	5.2	5.6
2.1 Industry	17.7	7.5	3.9	2.0	0.8	3.0	4.0	4.0	3.7	4.3
Mining & Quarrying	1.0	18.0	9.3	-6.5	-9.2	10.8	15.3	8.8	10.8	5.7
Manufacturing	8.6	7.3	2.6	2.2	2.8	2.1	1.0	2.7	2.3	3.3
Electricity & water supply	2.5	5.6	5.5	3.2	1.9	3.6	5.7	4.9	4.8	4.2
Construction	5.5	6.7	4.1	3.0	-0.7	3.0	5.7	4.6	4.3	5.5
2.2 Services	55.3	9.8	7.0	7.0	6.0	5.0	5.7	6.0	5.7	6.1
Wholesale & Retail Trade	8.3	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	3.1	6.1	9.0	10.3	7.0	5.8	6.0	7.6	6.8	7.8
Financial & Insurance	8.4	11.5	12.0	10.1	7.6	5.1	6.6	6.5	6.1	6.4
Public administration	5.8	6.0	5.1	5.0	8.2	6.5	6.0	5.2	5.8	4.8
Professional, Admin & Support Services	2.8	7.1	9.5	9.9	6.2	4.6	8.5	7.7	7.0	7.5
Real estate	9.9	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	2.2	8.9	3.4	4.5	6.3	4.8	6.8	5.6	5.8	5.1
Other services	2.2	12.5	6.5	4.3	4.7	2.8	1.4	3.7	3.0	4.0
FISIM	-3.1	5.3	0.2	2.7	9.0	1.9	1.4	1.8	1.8	4.5
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

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

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

Sectoral credit to private sector:

Growth in credit to key sectors of the economy, particularly manufacturing, building and construction, and consumer durables, improved in September

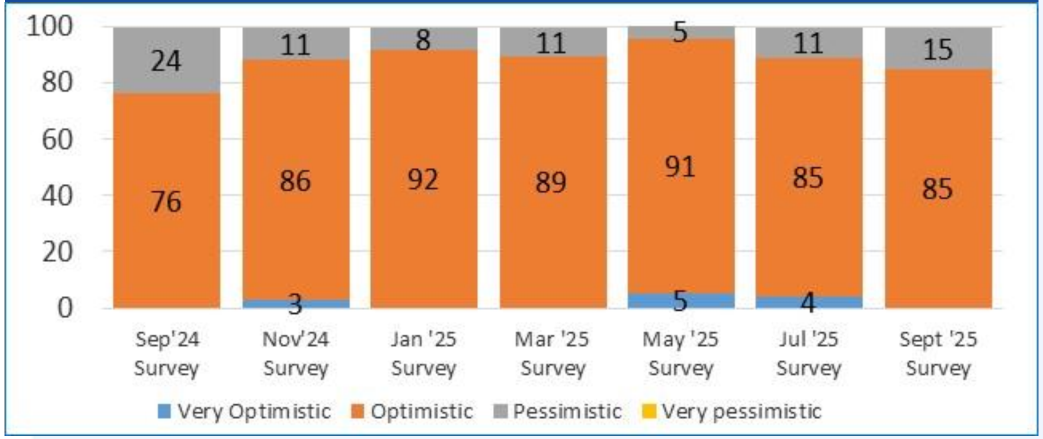
Sectoral growth in credit to private sector (y/y, percent)

Source: *Central Bank of Kenya*

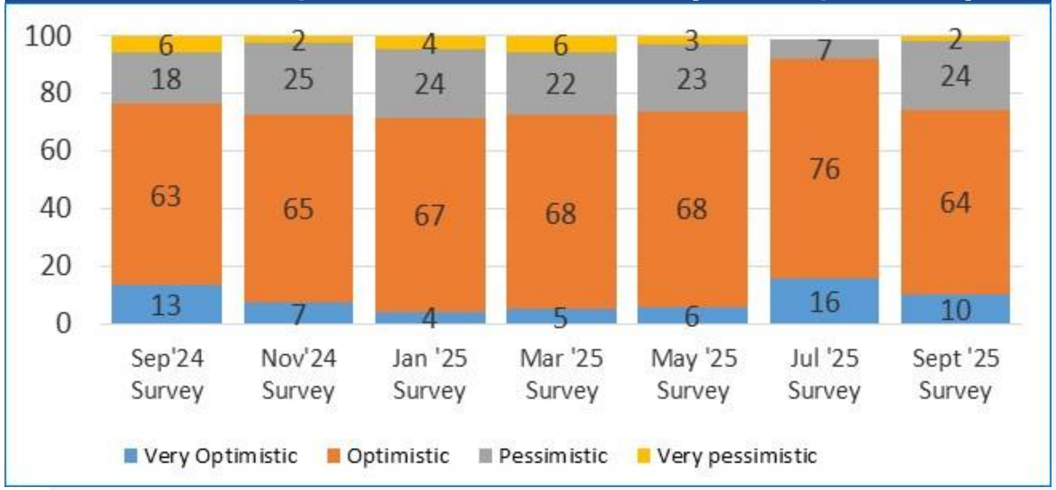
17. September 2025 MPC Surveys:

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

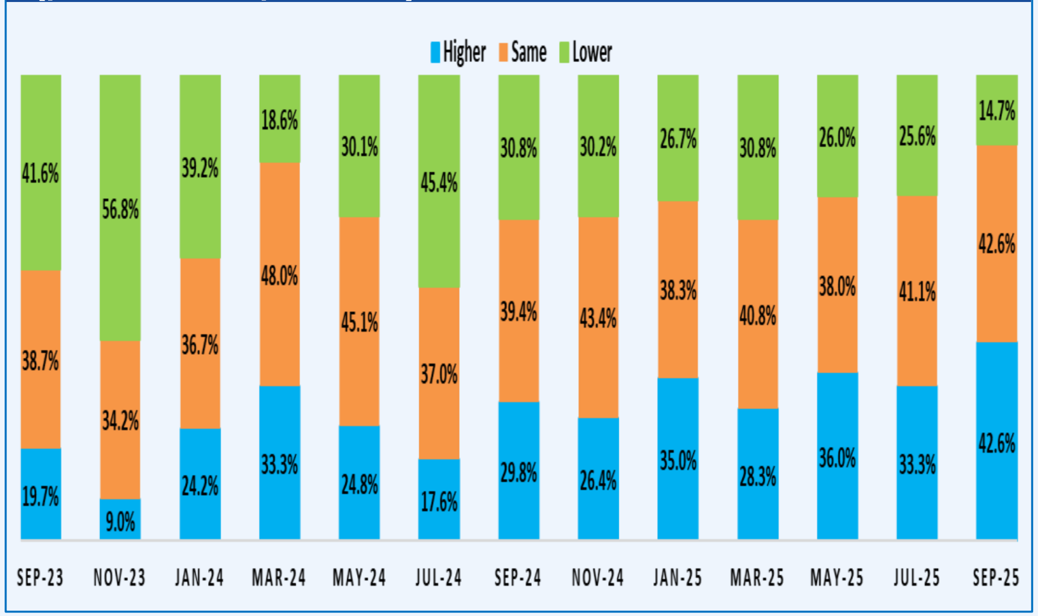
Market Perceptions Survey: Optimism in growth prospects for the next 12 months by Banks (% of respondents)



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



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



- The optimism was attributed to improved agricultural production supported by favorable weather conditions, the stable macroeconomic environment with low inflation and stable exchange rate, declining interest rates, and resilient performance of tourism and the digital economy.
- Some respondents expressed concerns about subdued consumer demand, high cost of doing business, and increased global uncertainties attributed to higher tariffs and geopolitical tensions.

18. Summary on domestic economic growth

1. **The economy remained resilient in the second quarter of 2025,** supported by recovery in the industry sector, resilience of the services sector, and stable growth of agriculture.

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

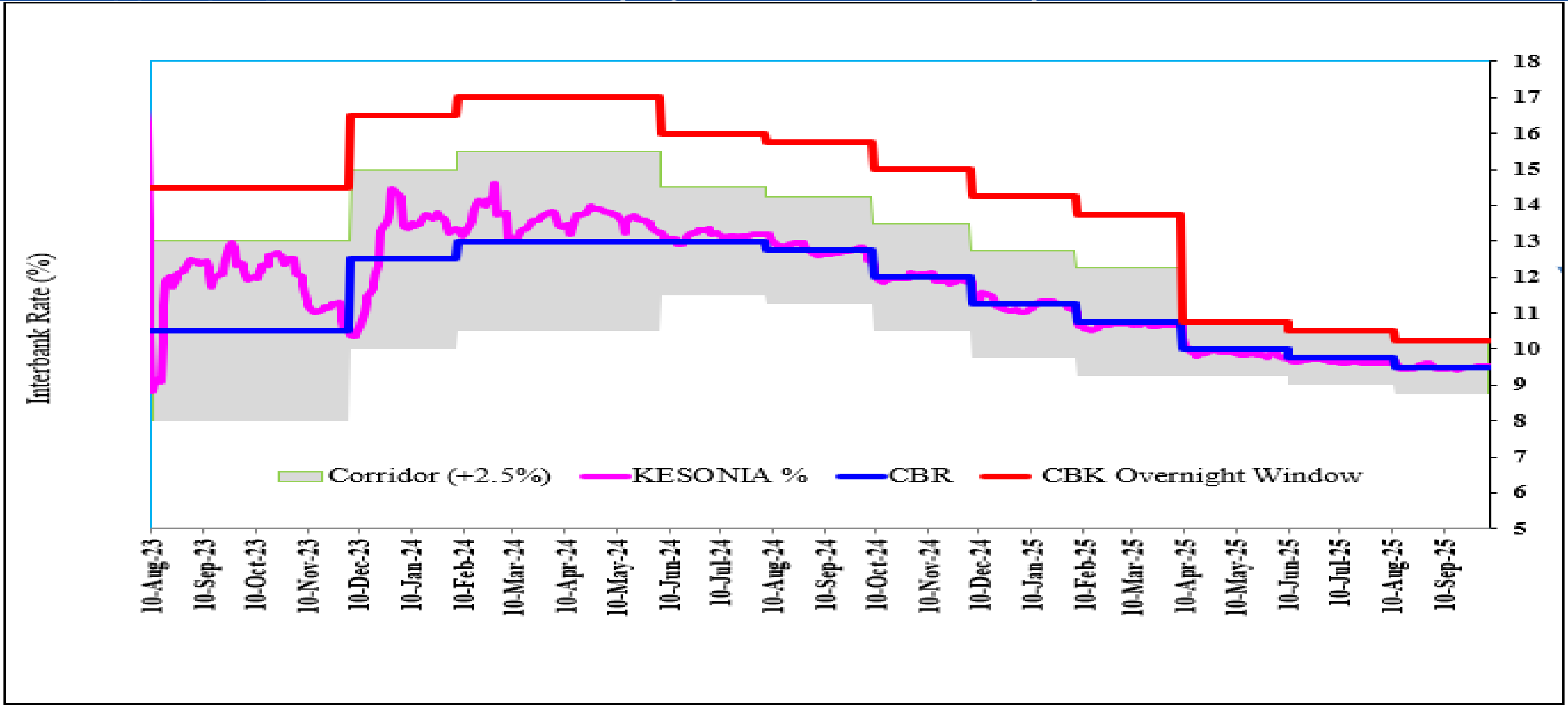
4. The MPC Surveys conducted in September 2025 revealed sustained optimism about business activity and economic growth prospects for the next 12 months.

5. **This outlook is subject to risks,** including higher tariffs on trade, elevated trade policy uncertainties, heightened geopolitical risks particularly in the Middle-East, and uncertain weather conditions.

Monetary policy implementation framework:

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

Monetary policy implementation framework (August 2023–October 6, 2025)



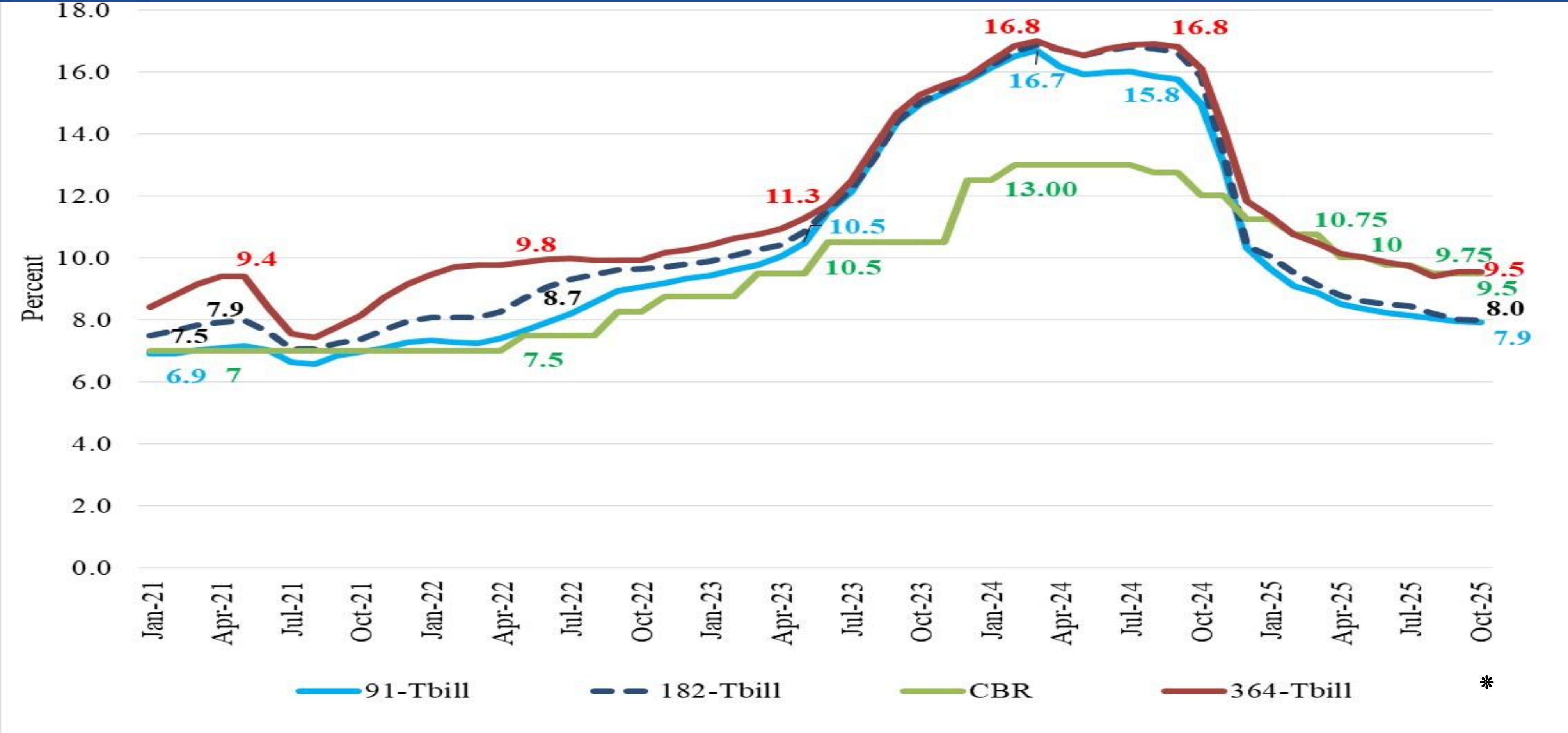
Note: The overnight interbank rate has been officially named Kenya Shilling Overnight Interbank Average (KESONIA) from September 1, 2025

Source: CBK

Monetary developments:

Short term interest rates declined further in September 2025, inline with recent reductions in the Central Bank Rate (CBR)

Average Treasury bill rates and Central Bank Rate (percent)



* As at 3rd October 2025

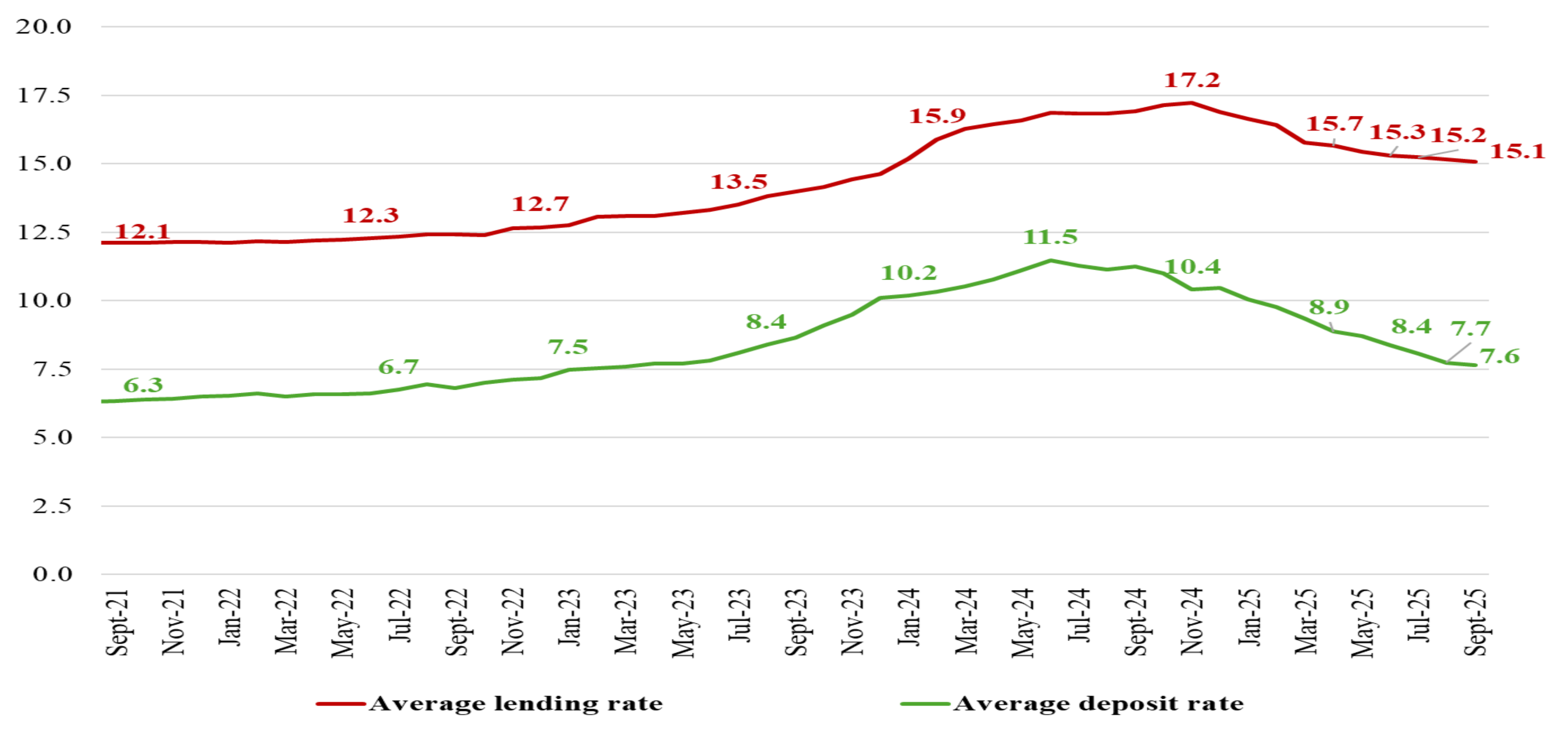
Source: CBK

21.

Monetary developments:

Commercial banks lending rates have continued to decline since December 2024, partly reflecting reductions in short-term rates and lower cost of funds

Average commercial banks interest rates (percent)

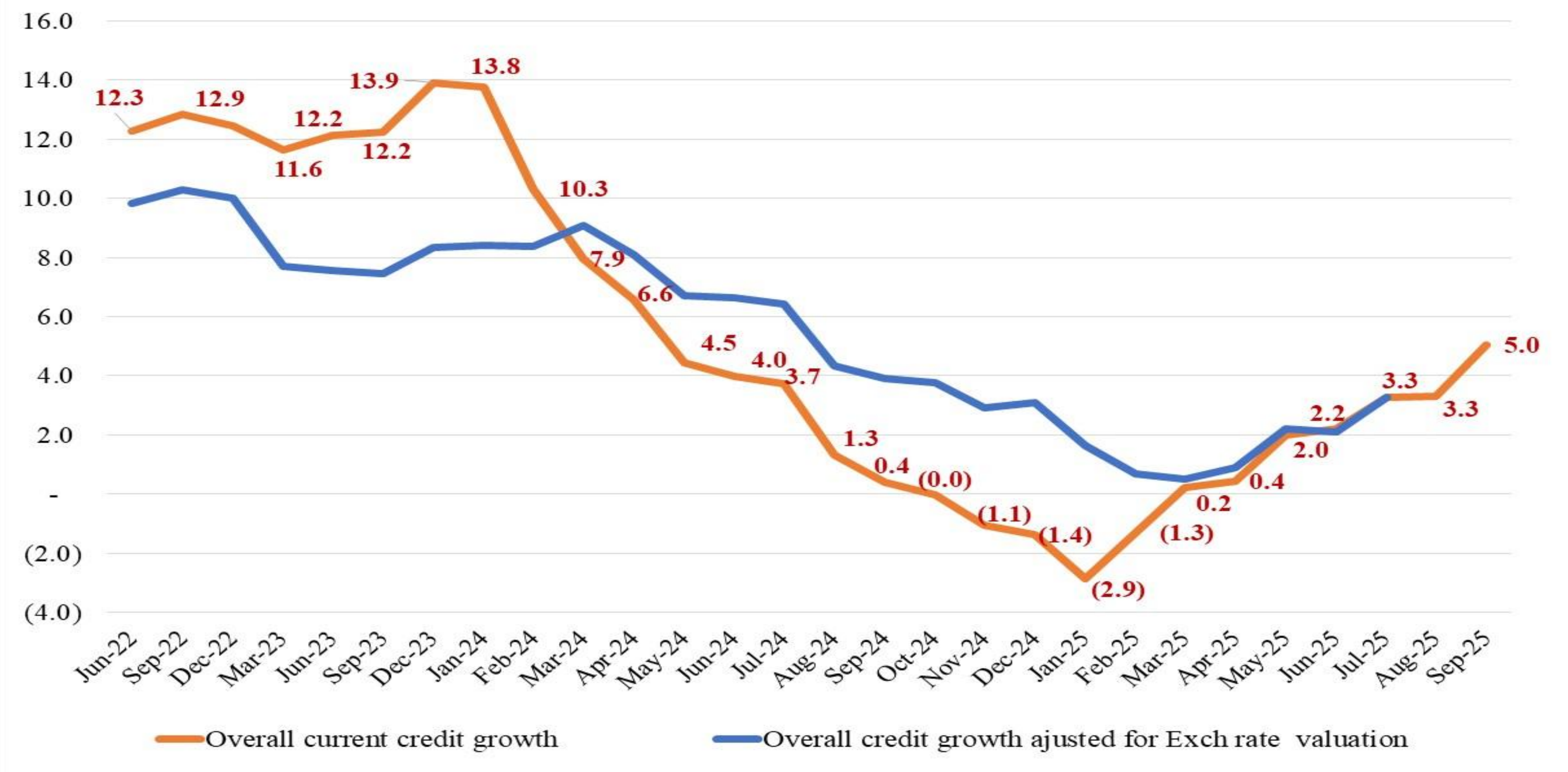


Source: CBK

22. Monetary developments:

Growth in commercial banks lending to private sector increased in September 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

23. 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, credit to the private sector has risen from -2.9 percent in January 2025 to 5.0 percent in in September 2025.

4. Commercial banks' average lending interest rates declined in September 2025, with the 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 and 2026, mainly reflecting expected surplus in the financial account

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

	2022	2023	12 Months to Aug-2024	2024 Est.	12 Months to Aug-2025	2025 Proj.	2026 Proj.
A. Current account	**-4,824**	**-2,728**	**-1,816**	**-1,551**	**-2,840**	**-2,398**	**-2,680**
Goods Balance	**-11,559**	**-9,556**	**-9,378**	**-9,734**	**-10,926**	**-11,026**	**-11,580**
Goods exports, f.o.b	10,650	11,031	12,200	12,508	12,644	13,148	14,504
Goods imports, f.o.b	22,209	20,588	21,578	22,242	23,570	24,174	26,084
Services balance	**1,981**	**1,703**	**2,056**	**2,416**	**2,399**	**2,772**	**2,861**
Services Credit	7,604	7,149	7,428	8,078	8,218	8,587	9,450
Services Debit	5,623	5,446	5,372	5,662	5,819	5,815	6,589
Goods and Services Balance	**-9,579**	**-7,853**	**-7,323**	**-7,318**	**-8,527**	**-8,254**	**-8,720**
Primary income, Balance	**-1,761**	**-1,861**	**-1,798**	**-1,845**	**-1,839**	**-2,061**	**-2,273**
Secondary income	**6,516**	**6,986**	**7,304**	**7,613**	**7,526**	**7,917**	**8,313**
B. Financial and capital account	**-2,683**	**-1,720**	**-1,373**	**-3,009**	**-5,766**	**-3,072**	**-2,909**
C. Overall balance ("-", indicates a surplus)	**2,141**	**1,008**	**443**	**-1,459**	**-2,927**	**-674**	**-229**
D. Reserves and Related Items	**-2,141**	**-1,008**	**-443**	**1,459**	**2,927**	**674**	**229**
Reserve assets (gross)+ve entry reflect an increase in reserve assets	-1,521	-628	320	2,749	3,532	674	229
Use of Fund credit and loans to the fund (net)	619	380	763	1,290	606	0	0

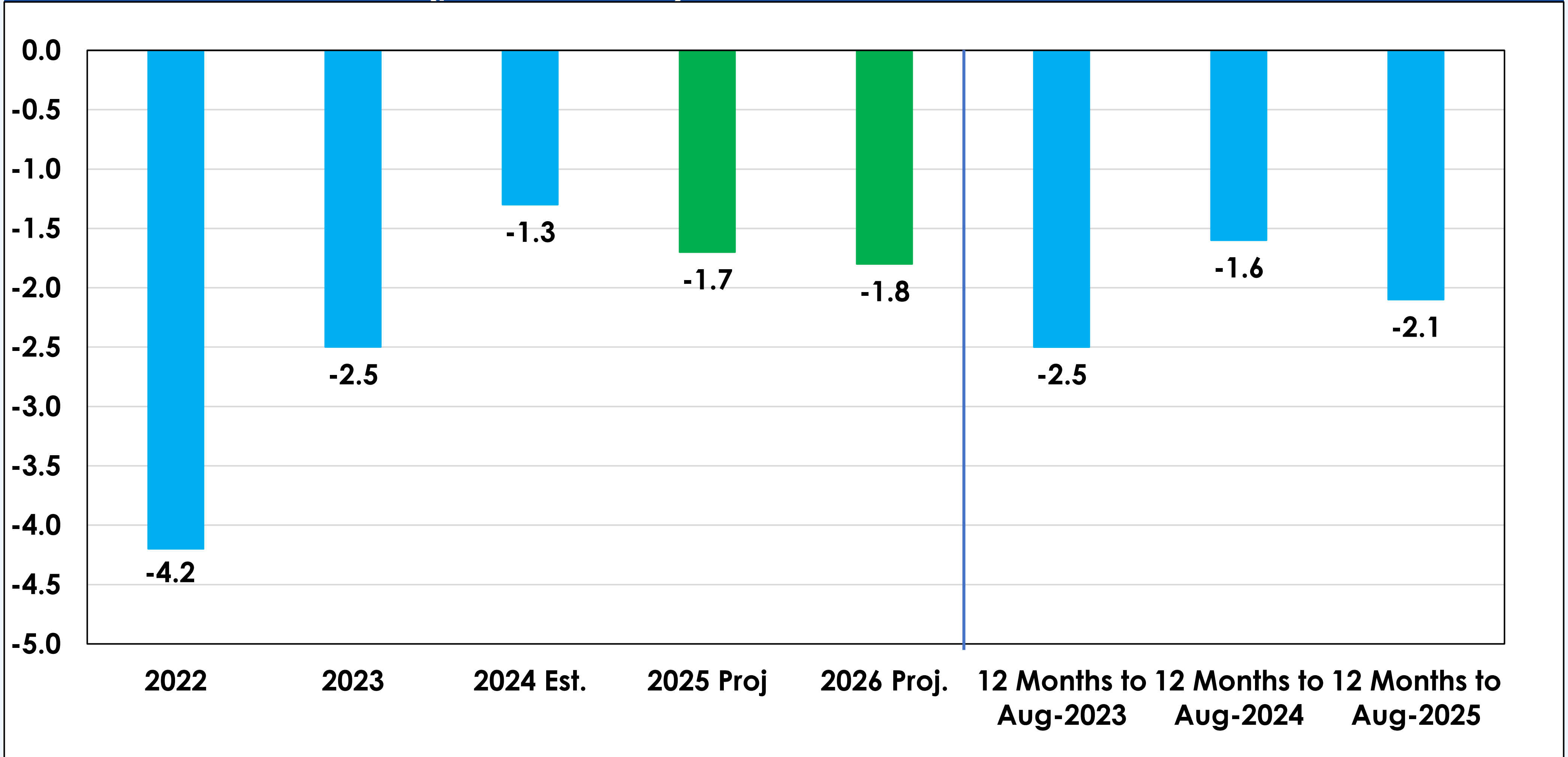
Source: KNBS and CBK

25.

Current account balance:

The current account deficit was 2.1 percent of GDP in the 12 months to August 2025 compared to 1.6 percent of GDP in a similar period in 2024, mainly reflecting higher imports of intermediate and capital goods, and is projected to be stable in 2025 and 2026

Current account balance (percent of GDP)



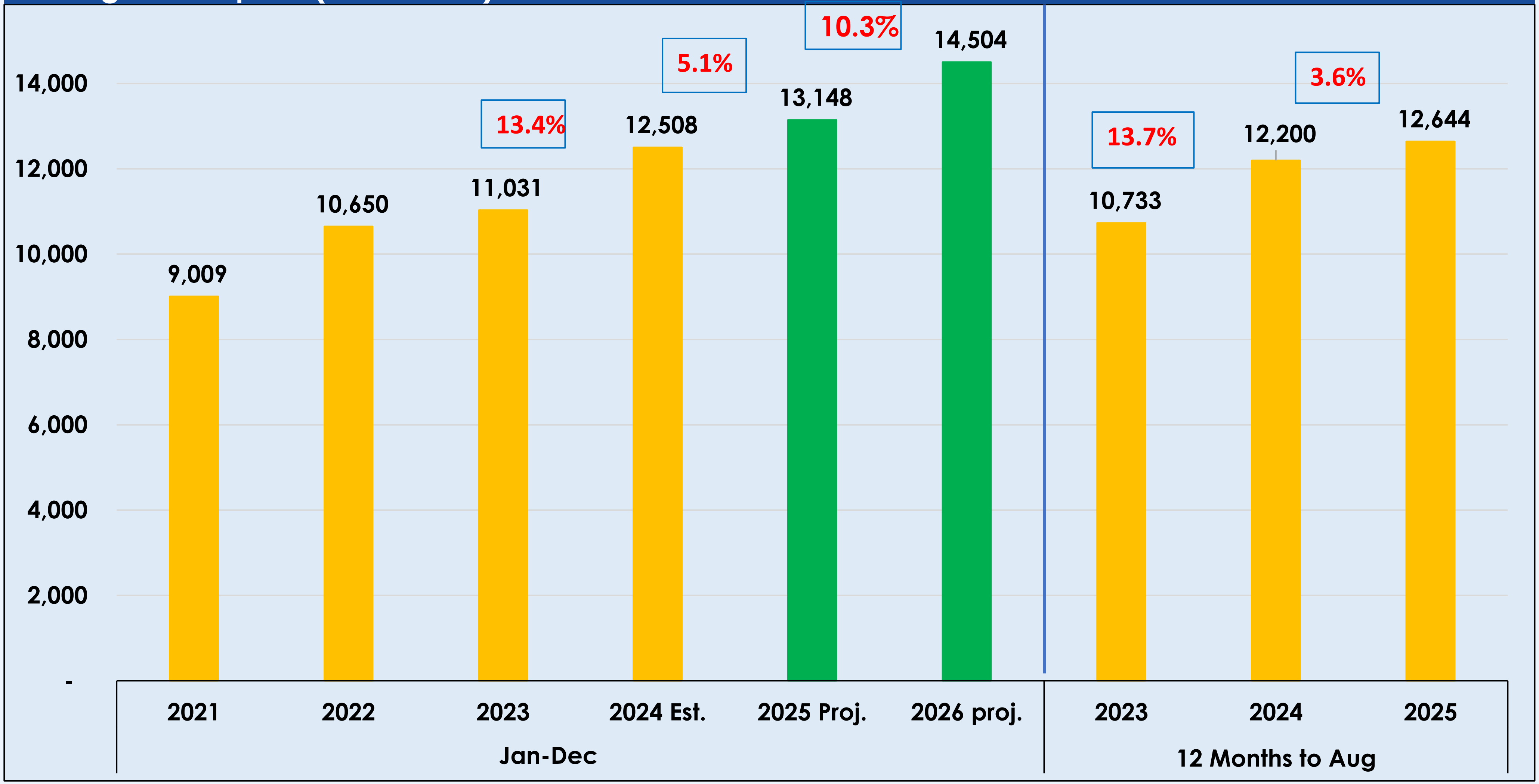
Source: KRA and CBK

26.

Balance of payments:

Goods exports increased by 3.6 percent compared to a similar period in 2024, due to higher domestic exports which rose by 8.5 percent, driven by horticulture, coffee, manufactured goods, and apparel

Total goods exports (USD Million)



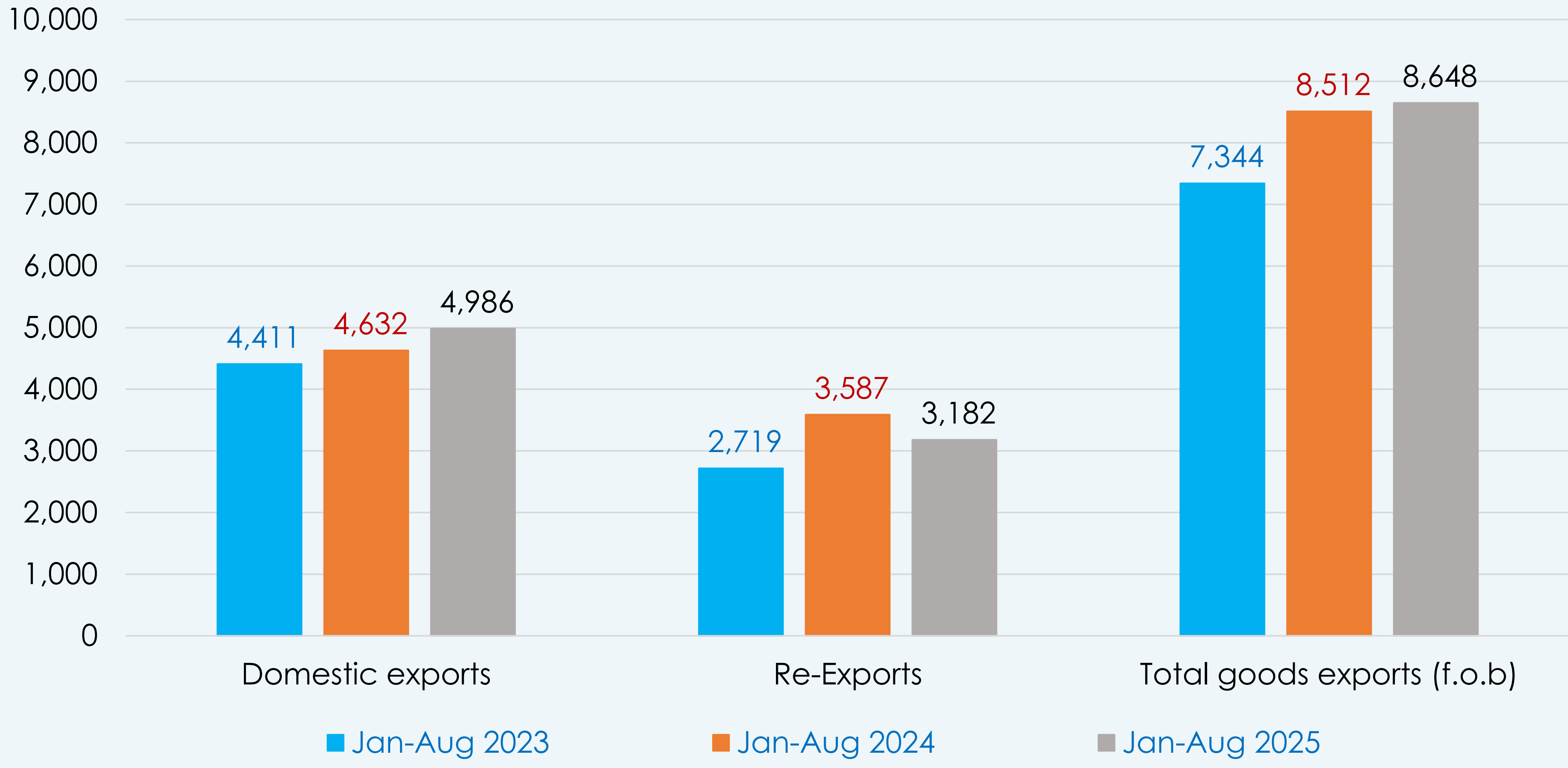
Source: KRA and CBK

27.

Balance of payments:

Domestic exports increased by 7.6 percent in the first eight months of 2025, while re-exports were lower by 11.3 percent in the period largely due to lower imports of jet fuel partly attributed to lower international oil prices

Disaggregation of goods exports (USD Million)



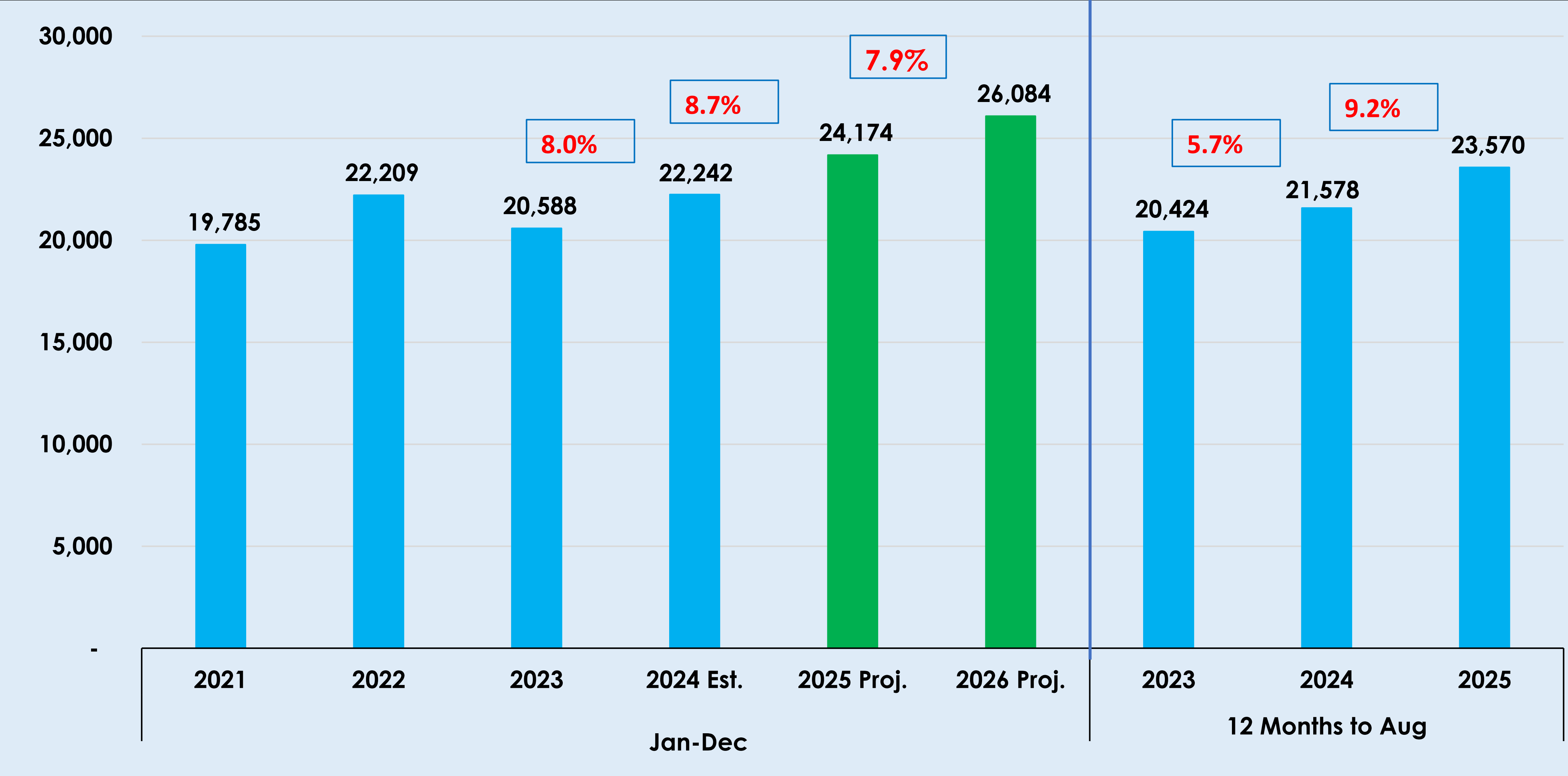
Source: KRA and CBK

28.

Balance of payments:

Goods imports increased by 9.2 percent in the 12 months to August 2025, mainly due to an increase in intermediate and capital imports, particularly machinery and transport equipment

Total goods imports (USD Million)



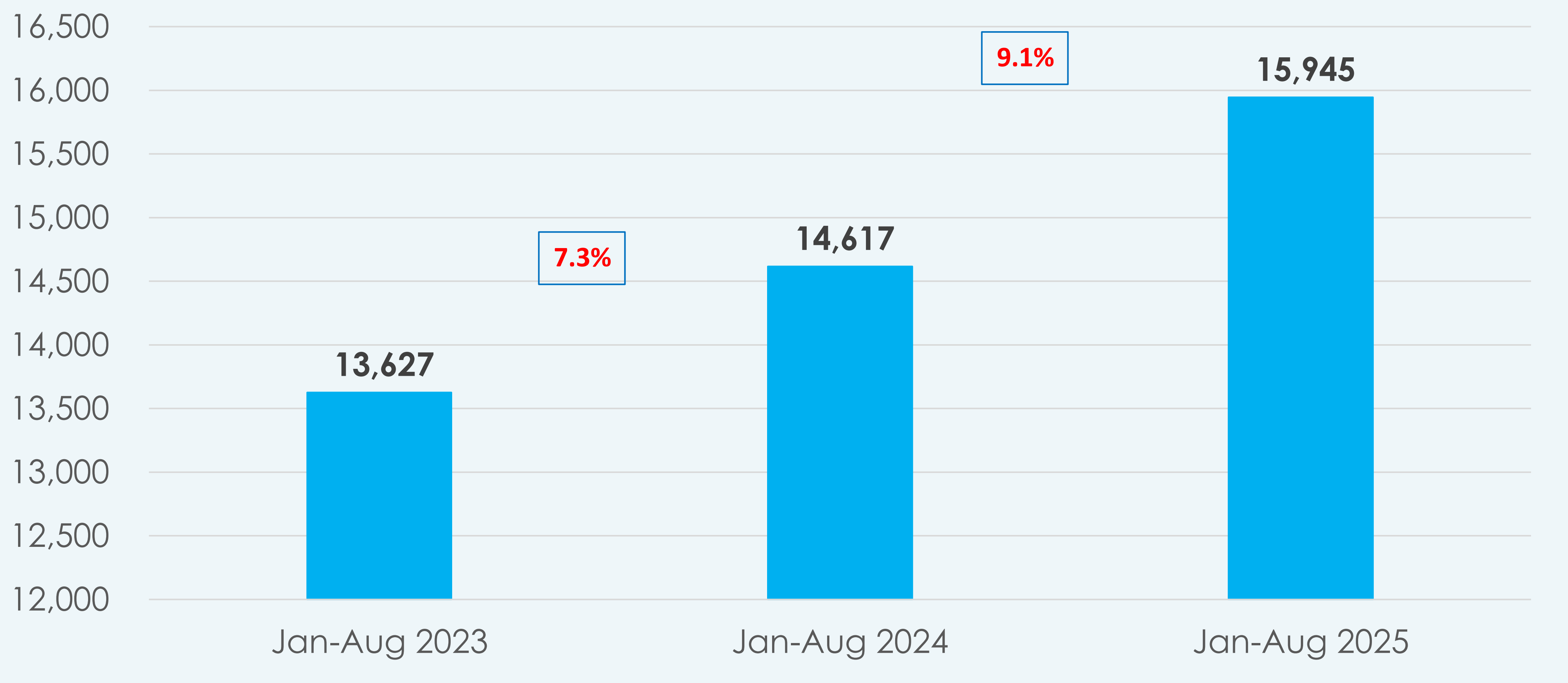
Source: CBK, KRA

29.

Balance of payments:

Goods imports were 9.1 percent higher in the first eight months of 2025, mainly due to an increase in intermediate and capital goods imports

Total goods imports (USD Million)



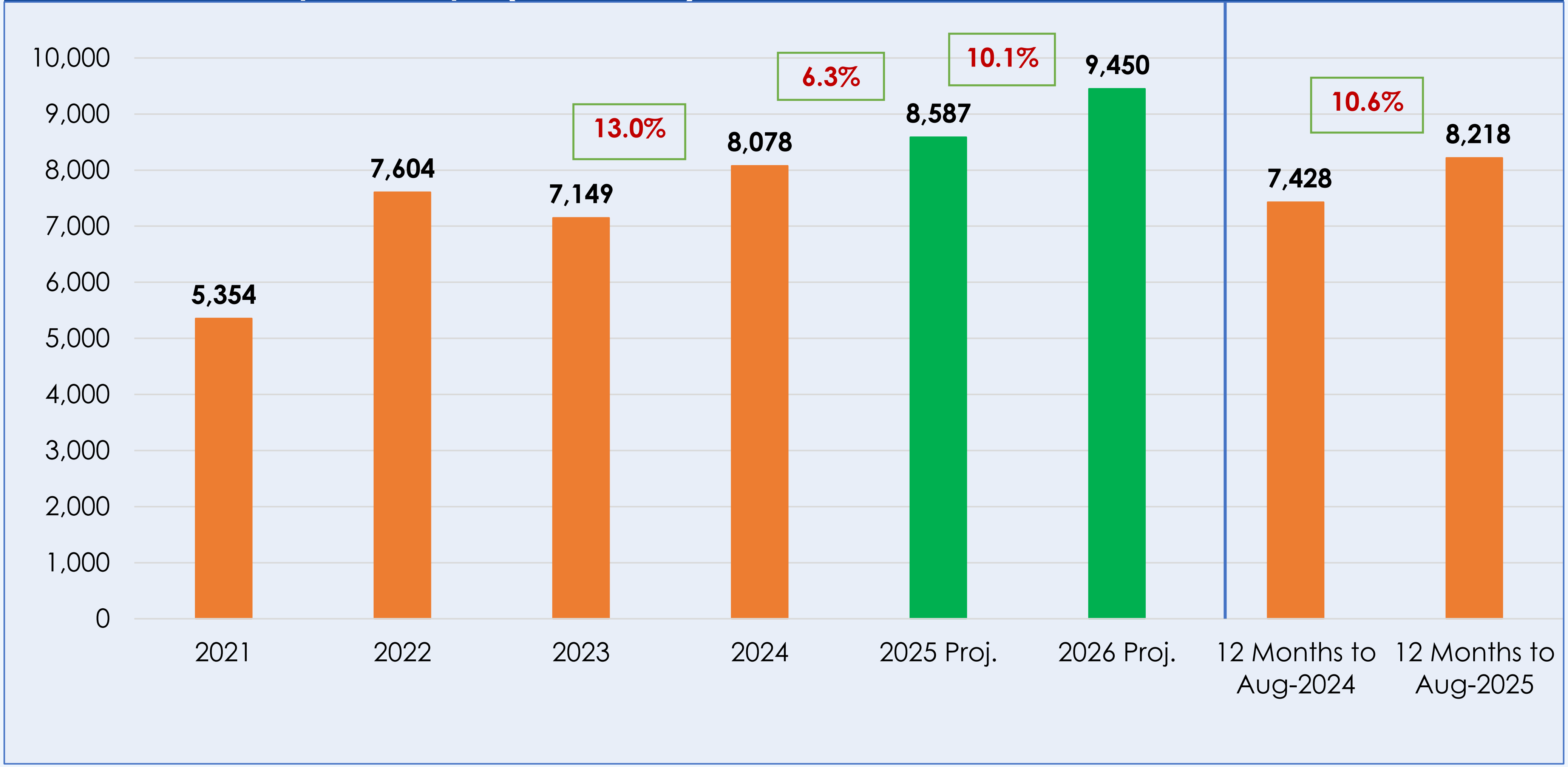
Source: CBK, KRA

30.

Balance of payments:

Services receipts increased by 10.6 percent in the 12 months to August 2025, mainly supported by increases in travel receipts of 17.8 percent

Total services export receipts (USD Million)



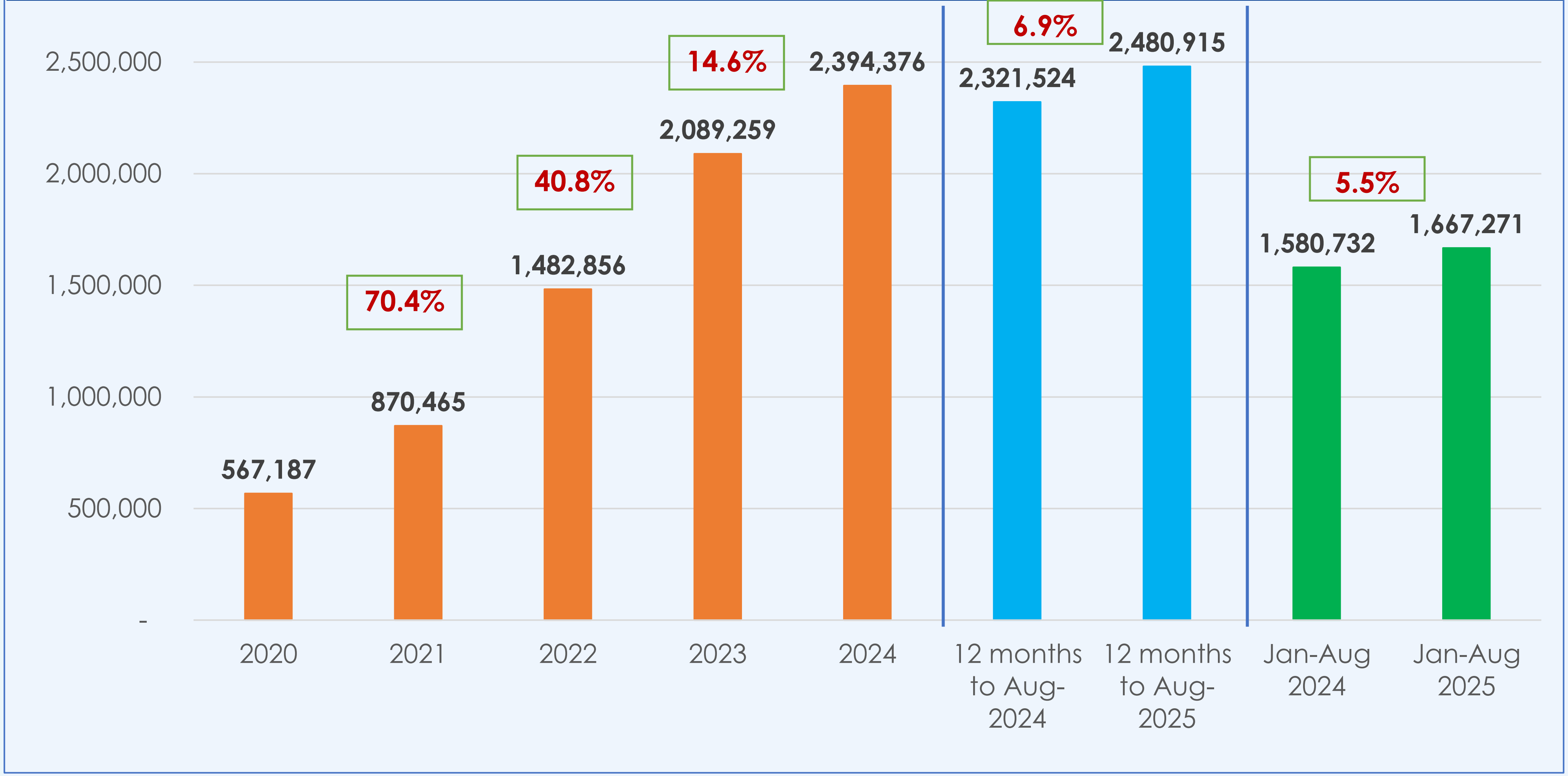
Source: CBK, KRA

31.

Services exports:

Tourist arrivals remained resilient in the 12 months to August 2025, growing by 6.9 percent on account of recovery of international travel and Government measures to identify new source markets

Number and growth of tourist arrivals)



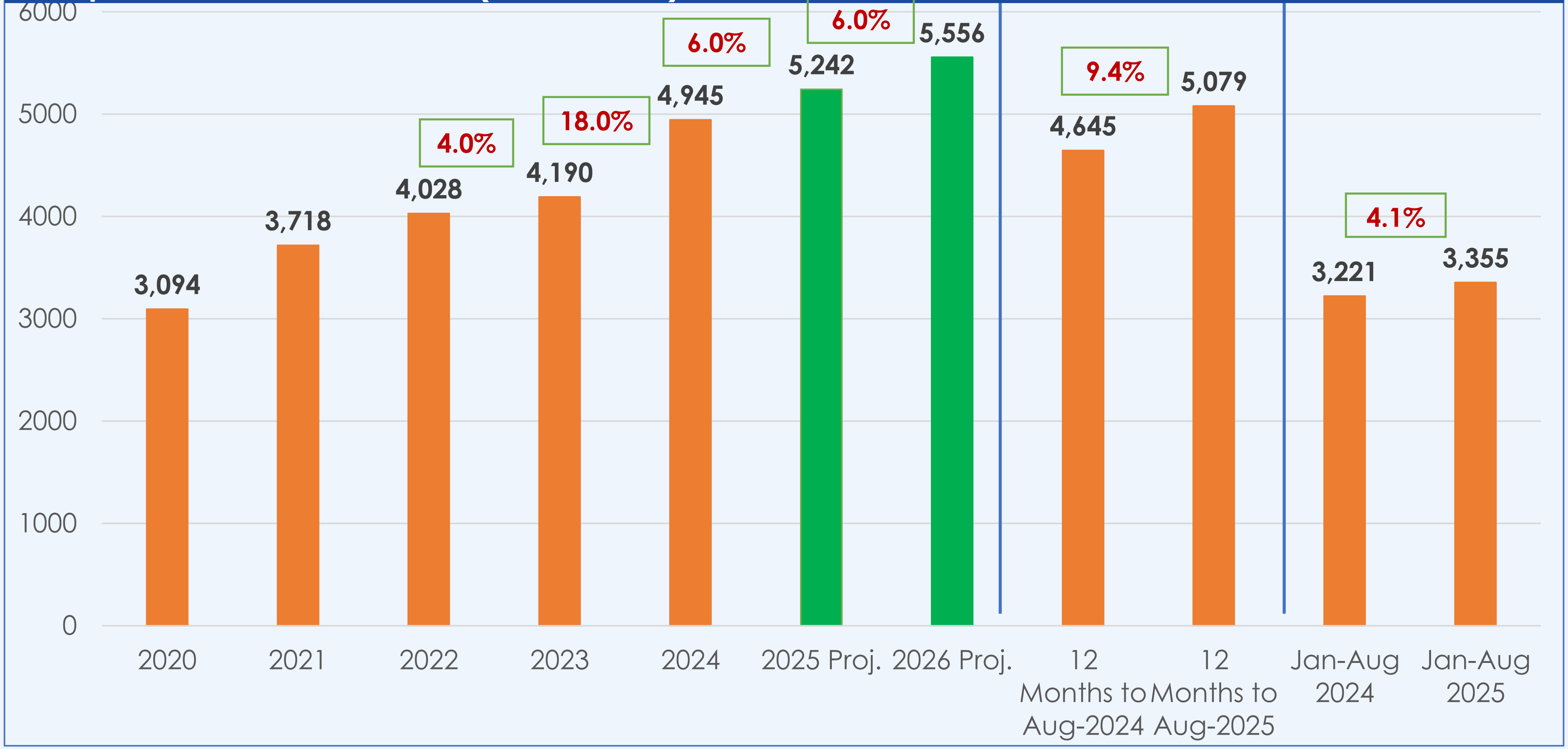
Source: KNBS/Tourism Research Institute/Kenya Tourism Board/KNBS

32.

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)

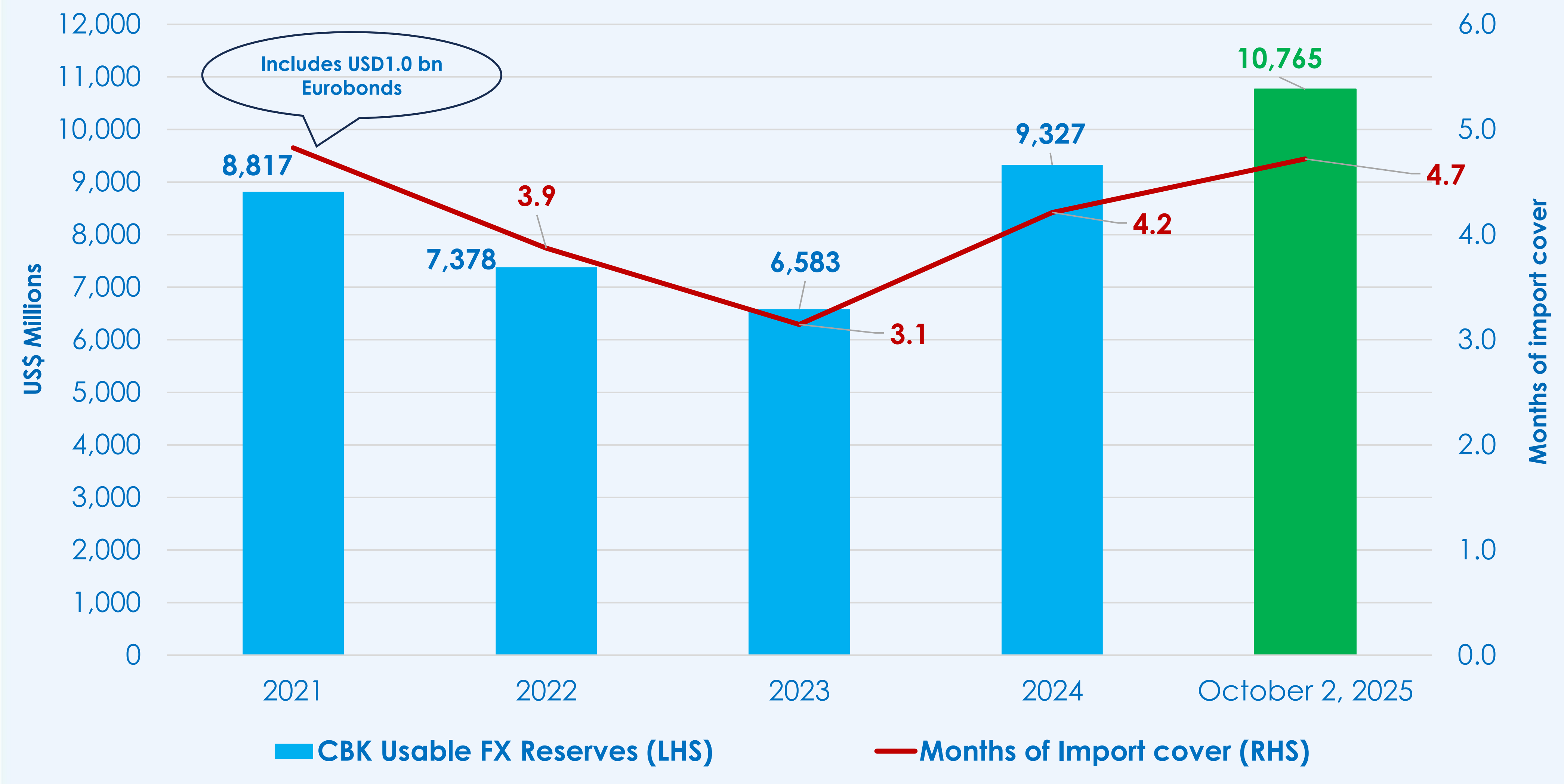


Source: CBK

33. CBK usable foreign exchange reserves:

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

CBK usable foreign exchange reserves (end period)

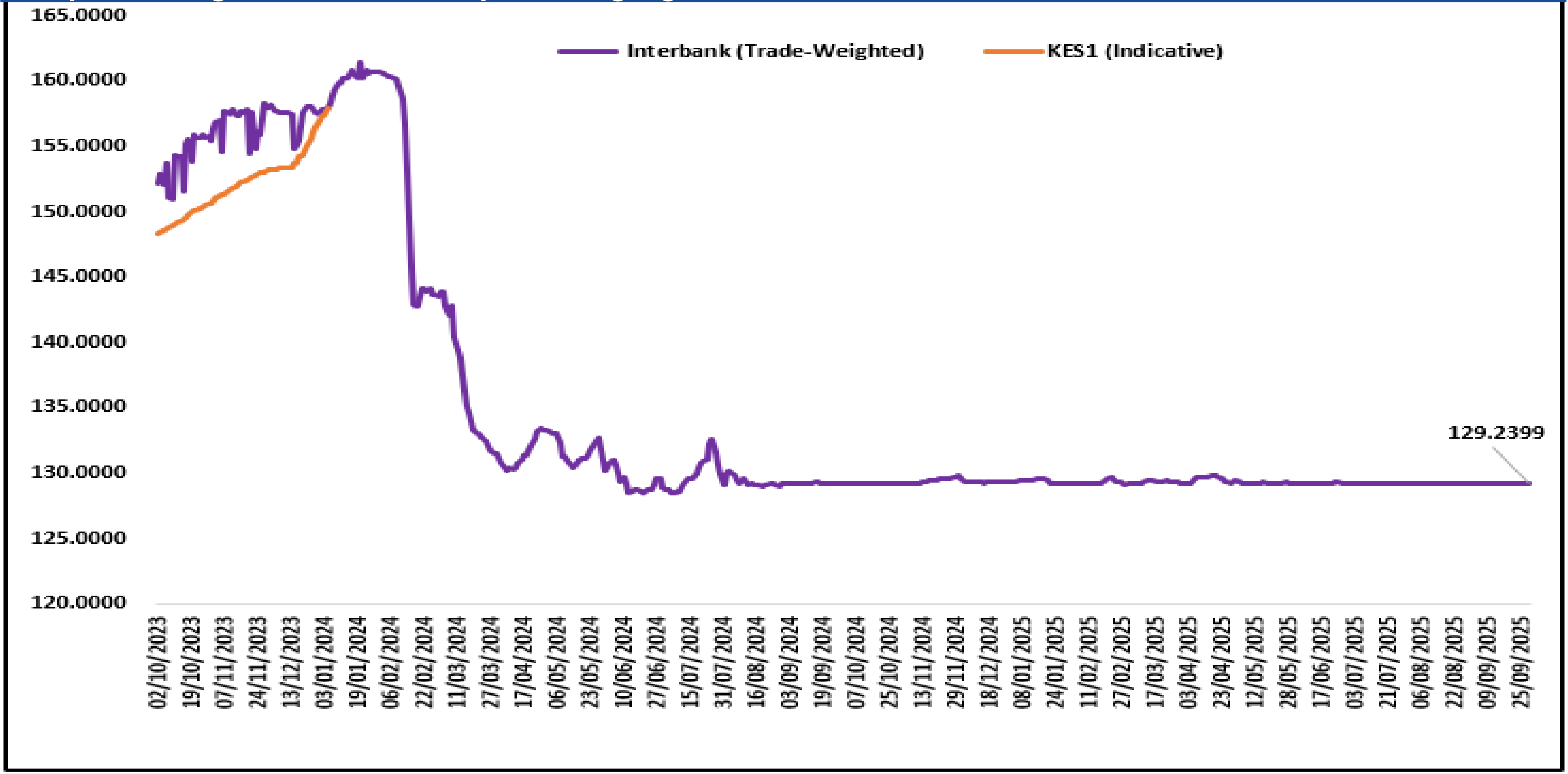


Source: CBK as of October 6, 2025

34. Exchange rate developments:

The Kenya Shilling has remained stable, supported by diversified foreign exchange inflows from diaspora remittances, horticulture and tea exports, and offshore banks, as well as confidence in the economy particularly with the recent upgrade of Kenya's credit rating by S&P Global Ratings

Daily exchange rate of the Kenya Shilling against the US Dollar

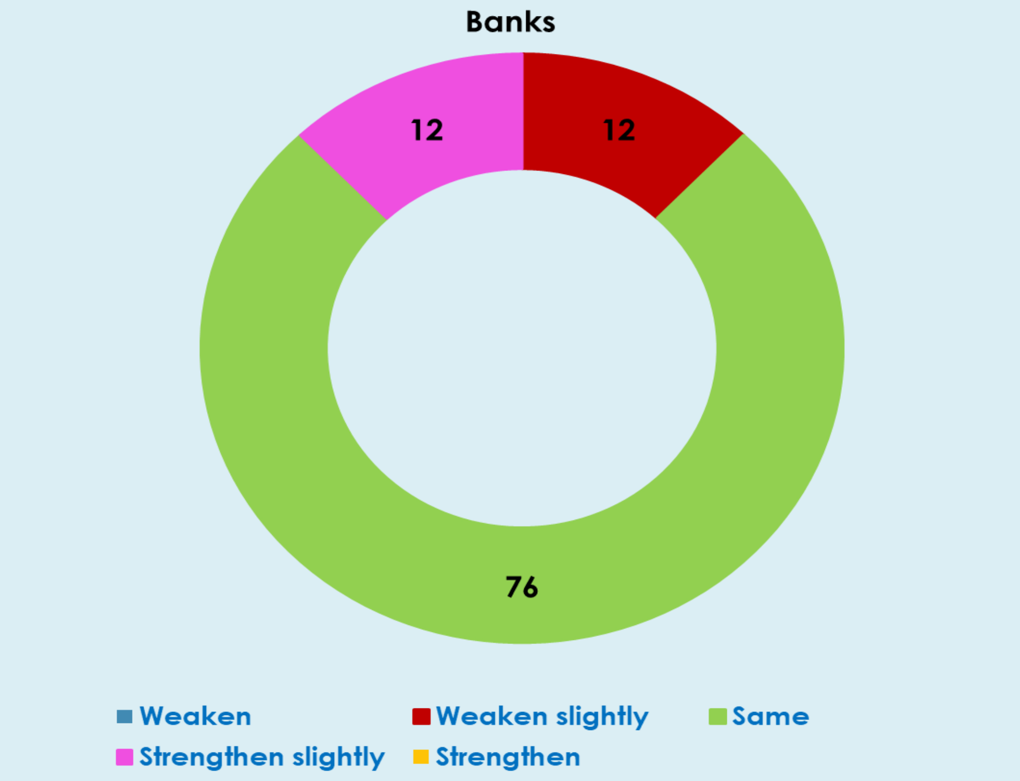


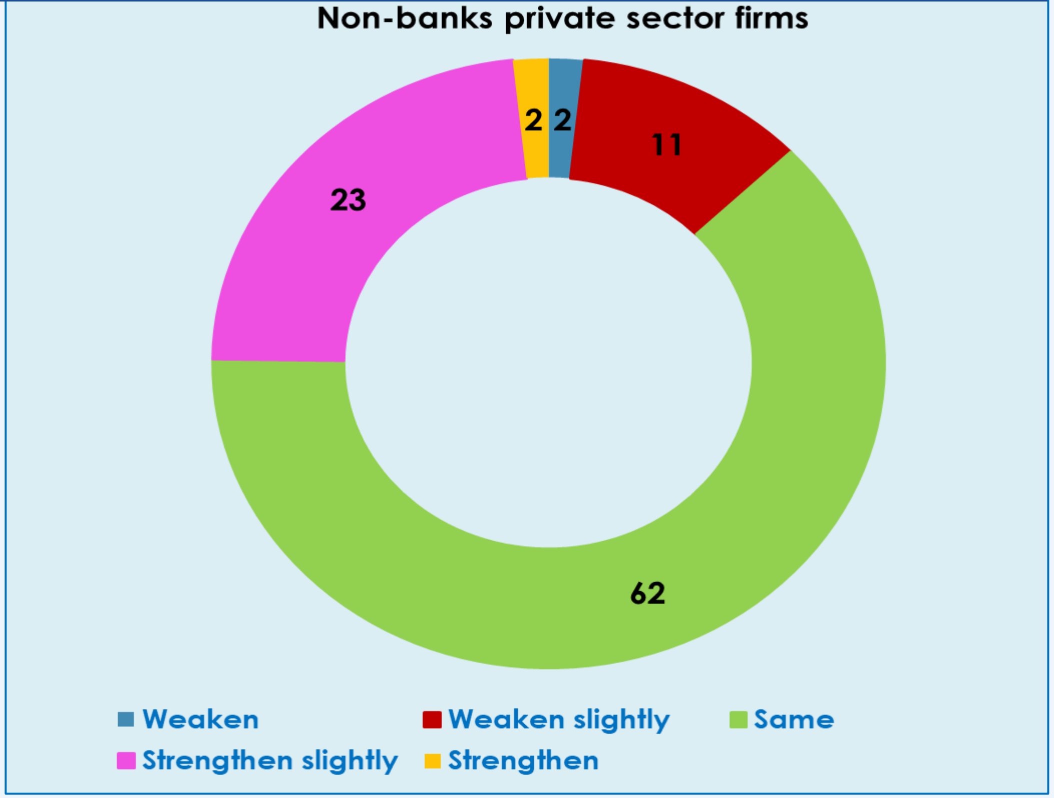
Source: CBK as of October 1, 2025

35. Market sentiment on the exchange rate:

The September 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 (88 percent of banks and 87 percent of non-bank respondents) expect the exchange rate to remain stable or strengthen,** supported by robust foreign exchange inflows from tourism, diaspora remittances and exports, matched demand and supply of FX in the market, and adequate foreign exchange reserves.
- **Some respondents expect moderate pressure** mainly from increased imports.

36. Summary of balance of payments developments and outlook

1. **The current account deficit was 2.1 percent of GDP in the 12 months to August 2025 compared to 1.6 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 at 1.7 percent of GDP in 2025 and 1.8 percent of GDP in 2026,** mainly reflecting continued growth in goods imports, amid resilient exports growth and diaspora remittances inflows.
    - The deficit is expected to be more than fully financed by financial account inflows, resulting in an overall balance of payments surplus of USD674 million in 2025 and USD229 million in 2026.
    - This is expected to result in a foreign exchange reserves build-up, with gross reserves projected at USD10,765 million in 2025 and USD10,994 million in 2026, from USD10,091 million in 2024.

3. **Downside risks to balance of payments outlook**: worsening 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.

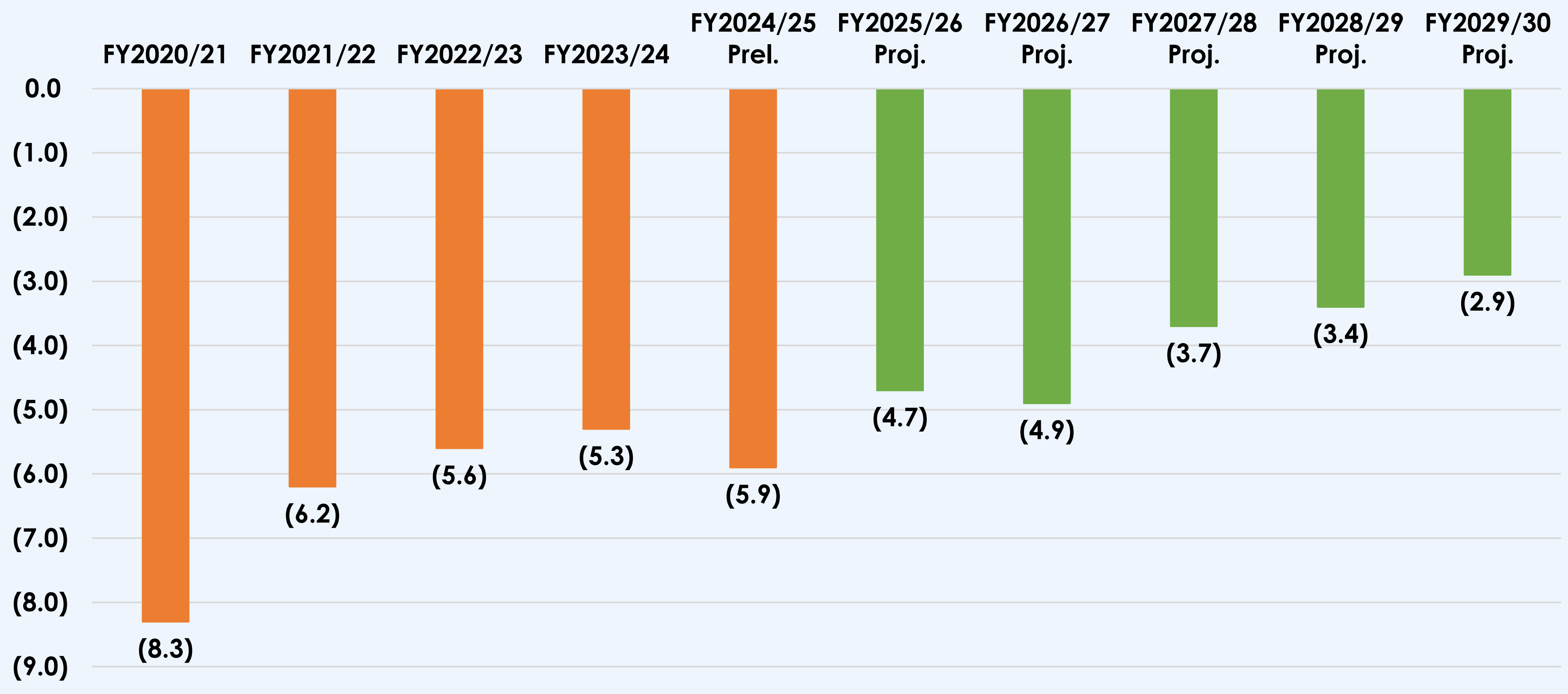
Banking sector developments:
The banking sector remains stable and resilient

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 20.1 percent in August 2025, compared to 20.4 percent in June 2025.
   - The banking sector liquidity ratio was 59.8 percent in August 2025, compared to 58.4 percent in June 2025.
2. The ratio of gross non-performing loans (NPLs) to gross loans was 17.1 percent in September 2025, down from 17.6 percent in June and 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 (RBCP) model, 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.

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

Summary and Key Takeaways

1. **On the global front:**
   - Inflation has increased modestly in recent months but is projected to decline in 2025 and 2026, mainly on account of lower energy prices.
   - Growth has remained resilient in 2025, but is projected to slow down in 2026, mainly due to higher tariffs on trade.

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

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!