



Central Bank of Kenya

MONETARY POLICY COMMITTEE MEETING BACKGROUND INFORMATION

Dr. Kamau Thugge, CBS
Governor

Wednesday, June 10, 2026

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1.

Monetary Policy Decisions

- 1. During its Meeting on June 9, 2026, the Monetary Policy Committee (MPC) decided to maintain the Central Bank Rate (CBR) at 8.75 percent.**
- 2. The MPC observed that:**
 - The conflict in the Middle East has disrupted global supply chains and led to a sharp increase in energy prices and transportation costs, resulting in higher inflation and moderated global growth prospects.
 - Kenya's 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. This will be supported by: appropriate monetary policy actions; government interventions including subsidies and temporary reduction of VAT on fuel; expected stability in food prices due to favorable weather conditions; and a stable exchange
 - Central banks in the 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 lending rates in the domestic market have declined further, while private sector credit growth has continued to improve.
 - Having considered these developments, including the potentially transitory nature of the conflict, the MPC concluded that the current monetary policy stance, with the Central Bank Rate 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 August 2026.**

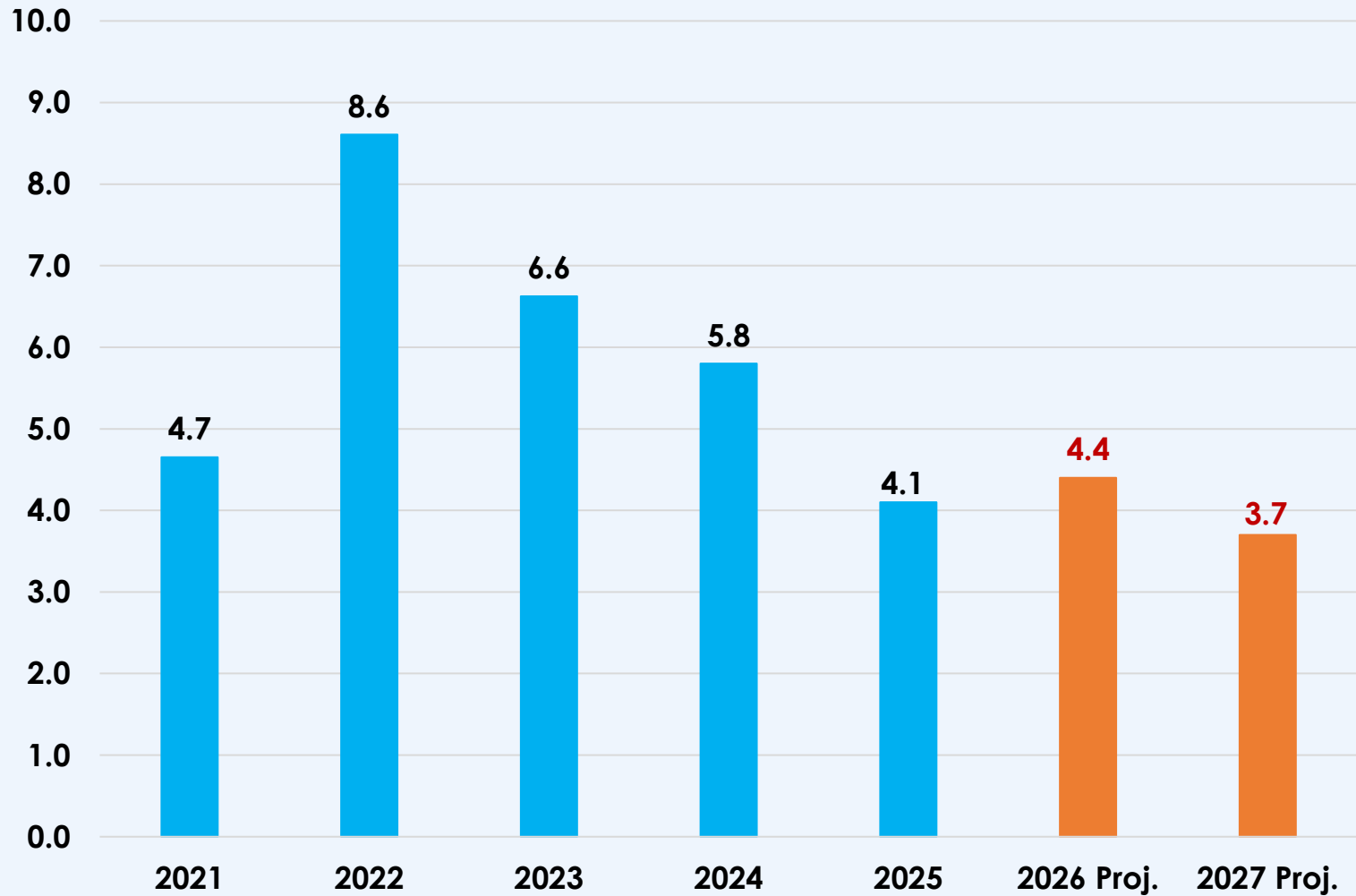
Global Economic Developments and Outlook

2.

Global inflation outlook:

Global inflation is expected to increase in 2026 on account of higher energy prices and transport costs attributed to supply chain disruptions from the Middle East crisis

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



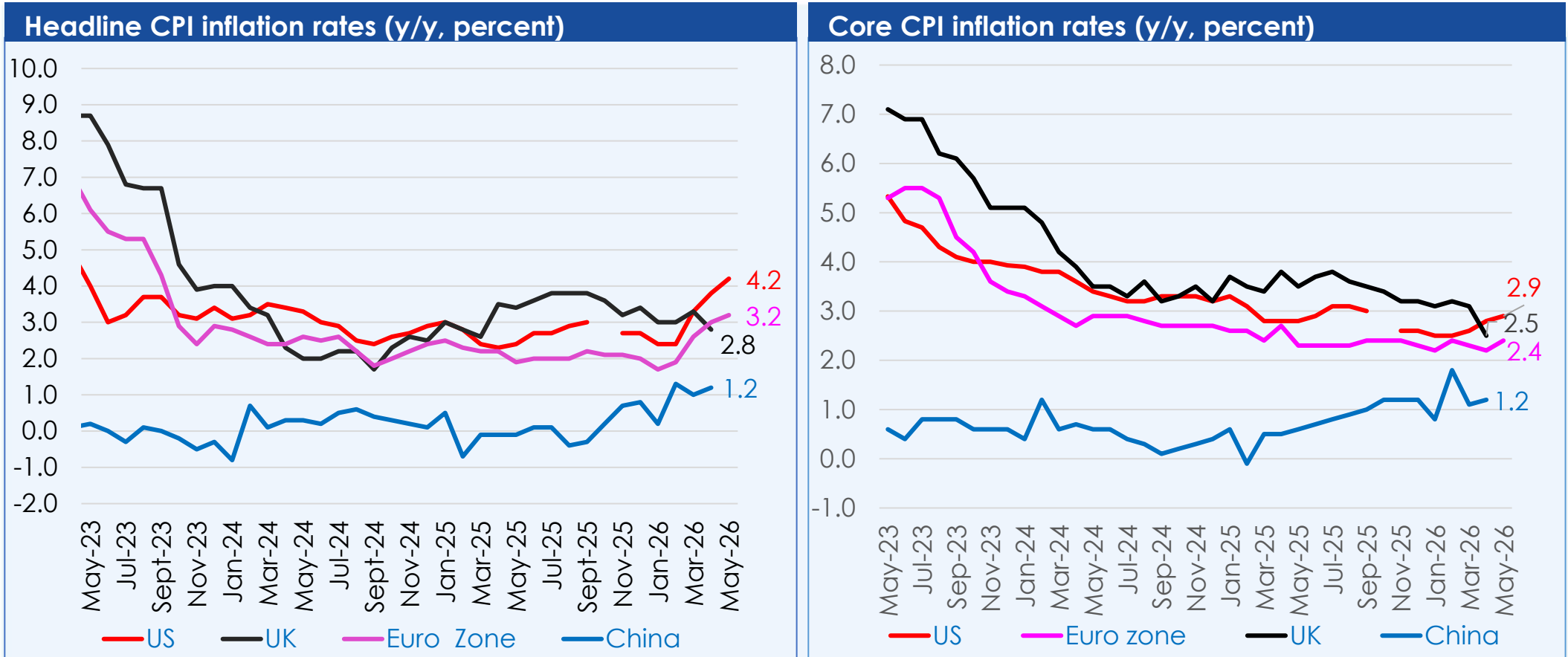
- Global inflation is projected to increase to 4.4 percent in 2026, up from the previous projection of 3.8 percent, reflecting effects of higher energy prices attributed to the conflict.
- Central banks in the major economies have remained cautious and kept their policy rates unchanged as they continue to assess the impact of the conflict in the Middle East on their inflation and growth outlooks.

Source: IMF World Economic Outlook, April 2026

3.

Inflation in major economies:

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



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

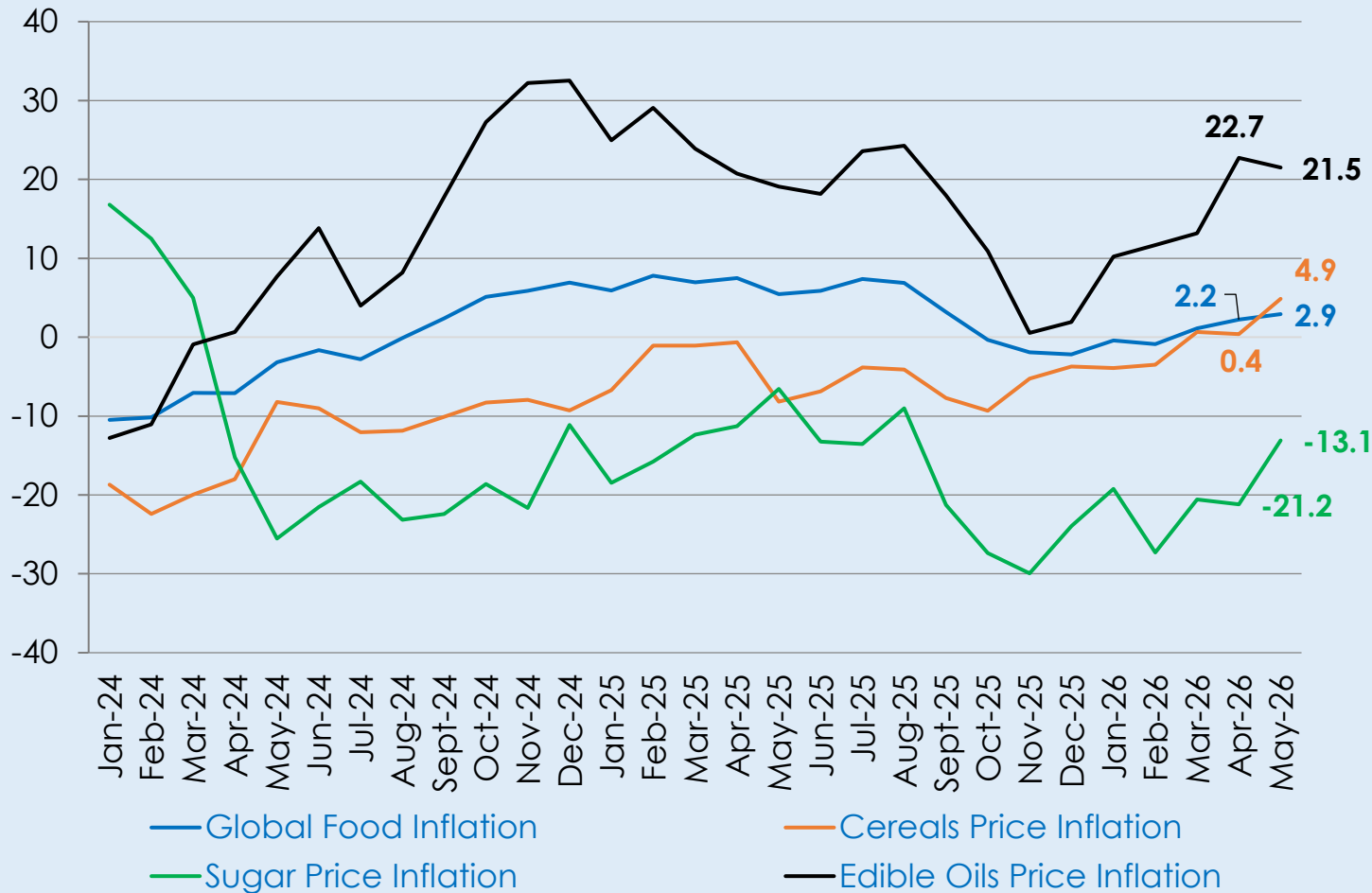
- Core inflation rates have remained sticky partly on account of persistent services price inflation.
- US headline inflation increased in May 2026, mainly due to the impact of higher fuel prices. Core inflation rose modestly.
- UK headline inflation declined in April 2026, mainly reflecting lower electricity and gas prices attributed to a 7% downward adjustment in the household energy price caps effected by the energy regulator on April 1, 2026.
- Eurozone inflation increased in April 2026, mainly due to higher energy prices and rise in services inflation.
- China's inflation rose in April 2026 reflecting the effects of higher energy prices, but domestic demand remains weak.

4.

Global commodity prices:

Food inflation increased modestly in May 2026, mainly driven by high inflation rates for edible oils and cereals prices.

Global food inflation (y/y, percent)



- Edible oils prices inflation remained elevated on account of higher prices of rapeseed oils reflecting supply tightness in the European Union. Sunflower oil prices increased due to supply tightness, particularly in Ukraine. Palm oil prices moderated in May 2026 on expectations of weaker global import demand.
- Cereals prices inflation increased, due to higher prices across all major cereals. Wheat prices rose on account of lower harvests in the USA, and higher fertilizer costs. Maize prices increased on stronger import demand in key markets.
- Sugar prices inflation remained low on account of improved production in April 2026. But there were concerns that the predicted El Nino conditions could reduce sugar production in India and Thailand.

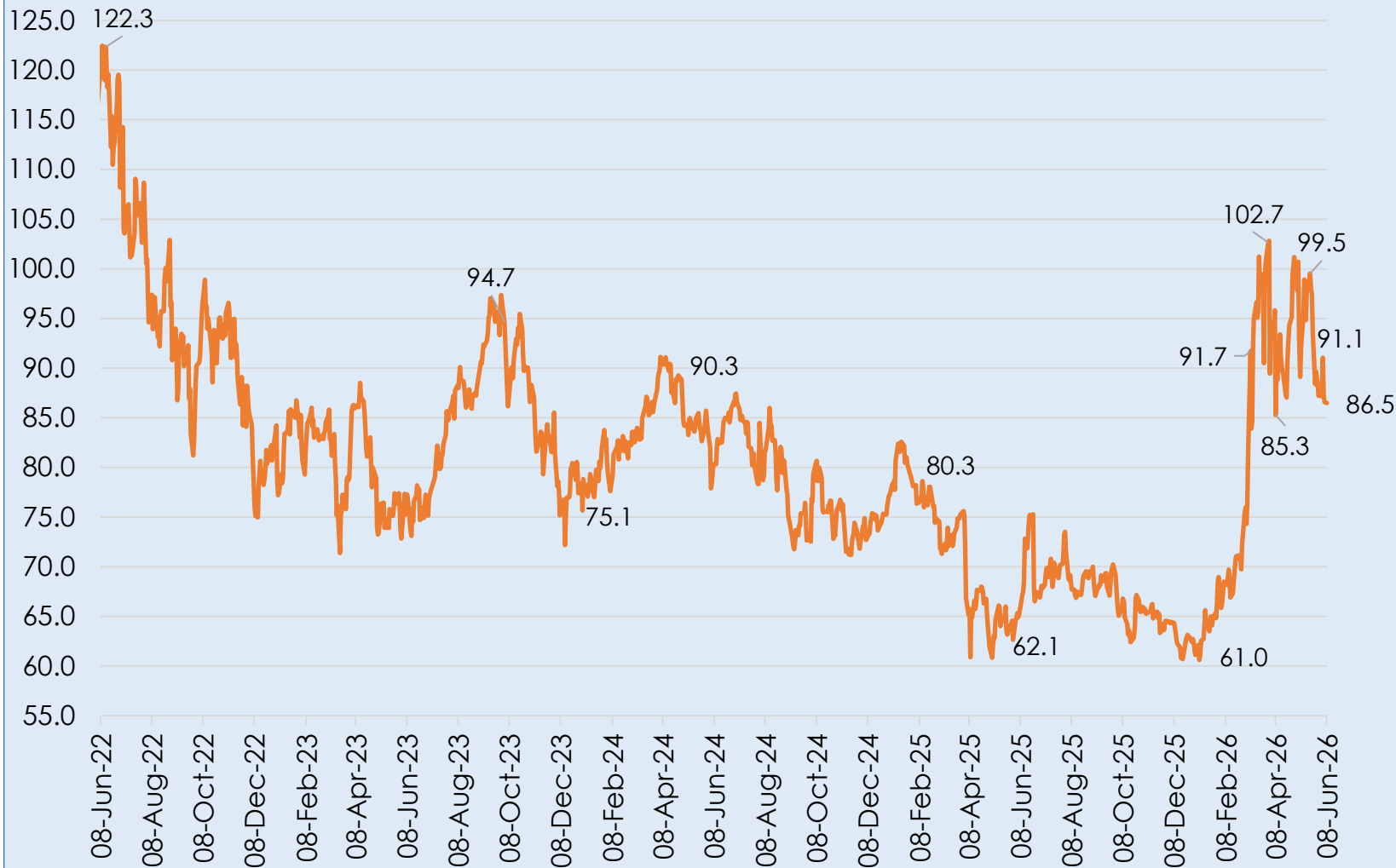
Source: UN FAO Food Index

5.

Global commodity prices:

International oil prices have remained elevated and volatile since March 2026, due to supply disruptions and elevated uncertainties attributed to the conflict in the Middle East.

Murban oil price (USD, per barrel)



Source: Refinitiv.com

- Crude oil prices rose sharply in March 2026 and have remained volatile due to supply disruptions attributed to the closure of the Strait of Hormuz.
- 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 3.1 percent in 2026 from 3.4 percent in 2025, due to effects of higher inflation and reduced demand arising from the higher energy prices and elevated uncertainties.

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.	
								Apr. 2026 WEO	Difference from Jan. 2026 WEO	Apr. 2026 WEO	Difference from Jan. 2026 WEO
World	3.0	-2.7	6.6	3.8	3.5	3.3	3.4	3.1	-0.2	3.2	0.0
Advanced Economies	1.9	-3.9	6.0	3.0	1.7	1.8	1.9	1.8	0.0	1.7	0.0
United States	2.6	-2.1	6.2	2.5	2.9	2.8	2.1	2.3	-0.1	2.1	0.1
United Kingdom	1.6	-10.3	8.6	4.8	0.4	1.1	1.3	0.8	-0.5	1.3	-0.2
Japan	-0.4	-4.2	2.7	1.0	1.2	-0.2	1.2	0.7	0.0	0.6	0.0
Euro area	1.6	-6.0	6.4	3.6	0.4	0.9	1.4	1.1	-0.2	1.2	-0.2
Germany	1.0	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.8	-0.3	1.2	-0.3
France	2.1	-7.6	6.8	2.8	1.6	1.1	0.9	0.9	-0.1	0.9	-0.3
Italy	0.4	-8.9	8.9	4.8	0.7	0.7	0.5	0.5	-0.2	0.5	-0.2
Emerging Market and Developing Economies	3.8	-1.8	7.0	4.3	4.7	4.3	4.4	3.9	-0.3	4.2	0.1
China	6.1	2.3	8.6	3.1	5.4	5.0	5.0	4.4	-0.1	4.0	0.0
India	3.9	-5.8	9.7	7.6	9.2	6.5	7.6	6.5	0.1	6.5	0.1
Russia	2.2	-2.7	5.9	-1.4	4.1	4.3	1.0	1.1	0.3	1.1	0.1
Saudi Arabia	1.7	-3.8	6.5	12.0	0.5	2.6	4.5	3.1	-1.4	4.5	0.9
Sub-Saharan Africa (SSA)	3.1	-3.1	3.8	4.4	3.7	4.1	4.5	4.3	-0.3	4.4	-0.2
South Africa	0.3	-6.2	4.9	2.1	0.8	0.5	1.1	1.0	-0.4	1.3	-0.2
Nigeria	2.2	-6.4	1.1	4.3	3.3	4.1	4.0	4.1	-0.3	4.3	0.2
Kenya	5.1	-0.3	7.6	4.9	5.7	4.7	4.6	4.5	-0.4	4.7	-0.3

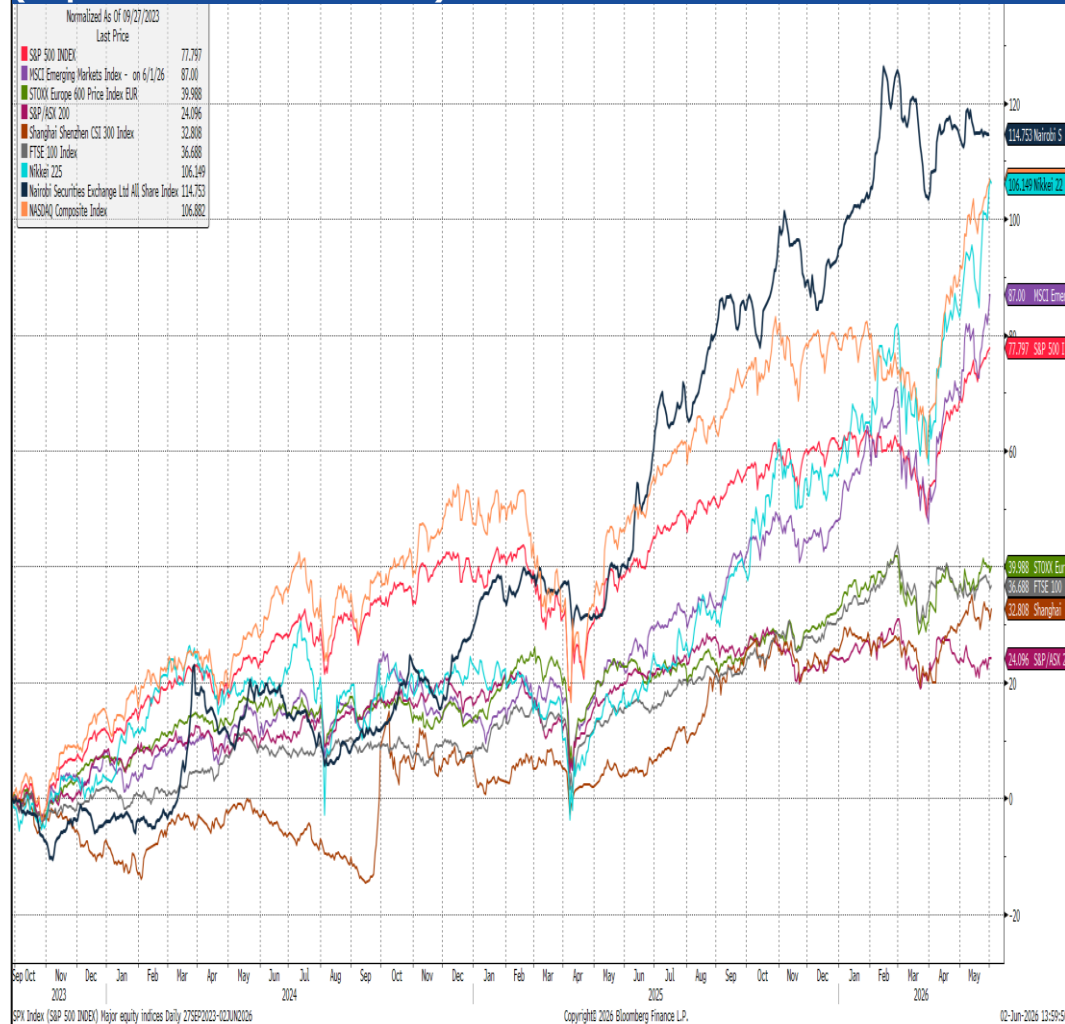
Source: IMF World Economic Outlook, April 2026, Reference Forecast

- The downward revisions to growth in the USA, UK, Euro area and Saudi Arabia have implications on demand for Kenya's exports, diaspora remittances inflows, and tourist arrivals.
- The main risks to growth relate to a prolonged Middle East conflict, 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.

Global financial conditions:

Financial markets conditions remain tight due to elevated global uncertainties, but global equity markets rallied in April–May 2026 while Eurobond yields for some EMDEs including Kenya have eased slightly on account of improved investor sentiment.

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



Select African Countries' Eurobond yields (percent)



Sources: Bloomberg as of June 2, 2026

8.

Summary of global developments and outlook

1. **Global inflation is projected to increase in 2026**, largely due to higher energy prices.
2. **Central banks in the 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.
3. **Global growth is projected to moderate in 2026** on account of higher inflation and reduced demand attributed to higher energy prices and elevated uncertainty.
4. **Global financial conditions have remained tight**, but equity prices have recently rallied while Eurobond yields for some EMDEs have eased slightly on improved investor sentiment. EMDEs Eurobond issuances have moderated.
5. **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.
6. **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

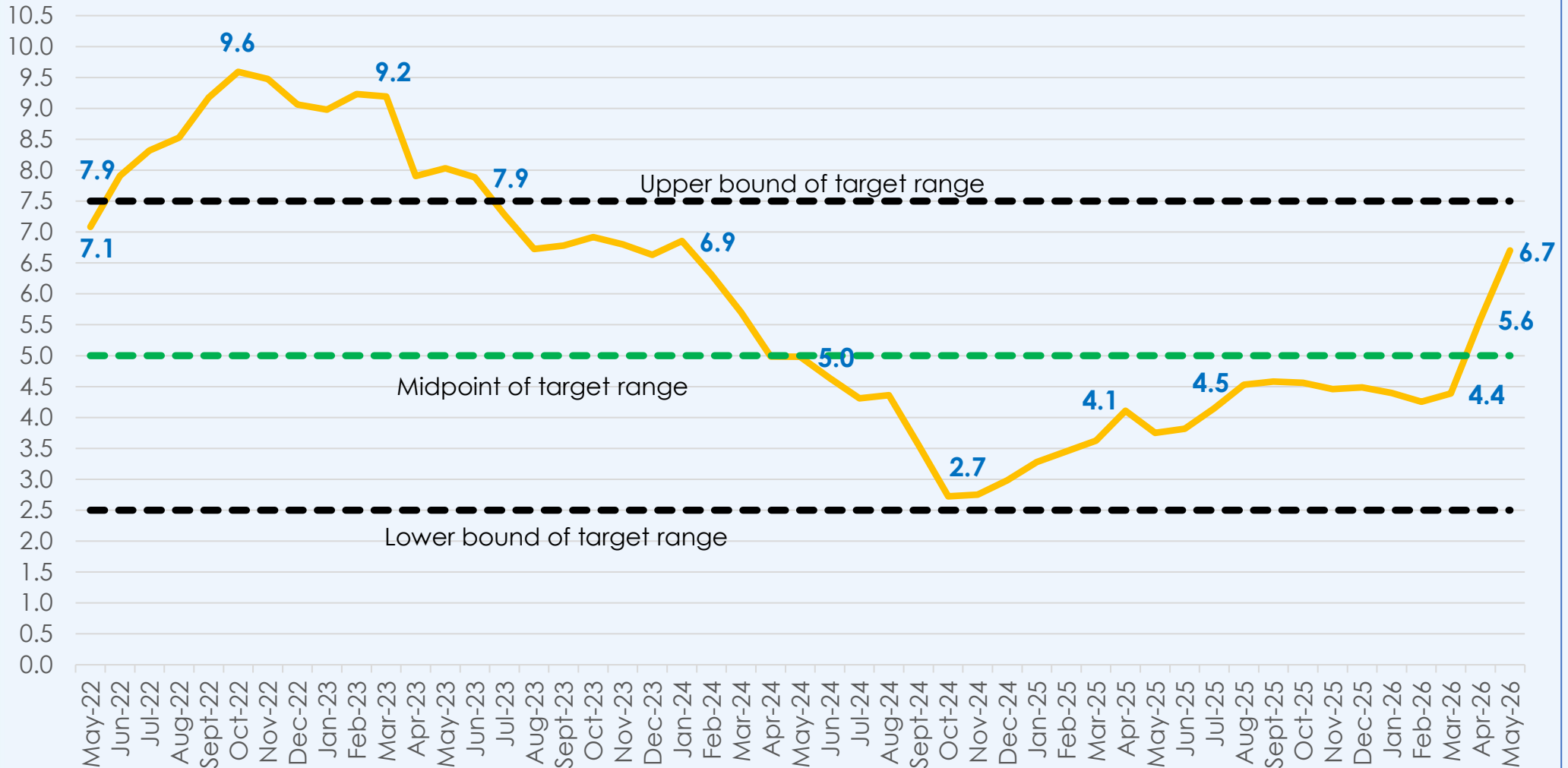
Inflation developments and outlook

9a.

Domestic Inflation developments:

Overall inflation has remained within the target range since July 2023, but increased in April and May 2026 on account of higher energy prices attributed to the elevated global oil prices.

Headline Inflation (y/y, percent)



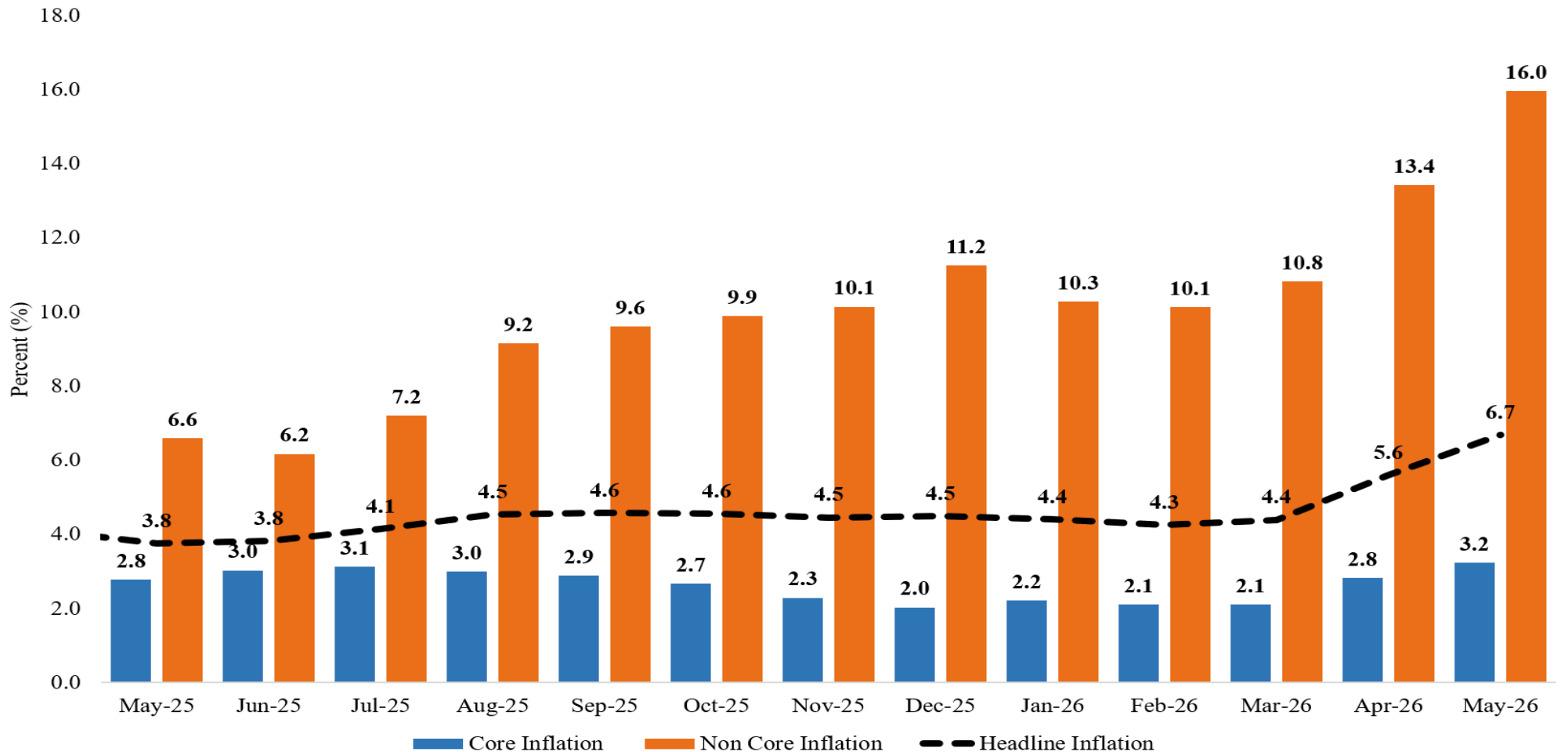
Source: Kenya National Bureau of Statistics

9b.

Domestic inflation developments:

Overall inflation increased to 6.7 percent in May 2026 from 5.6 percent in April due to higher energy prices arising from the elevated global oil prices, but remained within the target range of 5 ± 2.5 percent.

Inflation by broad category (y/y, percent)

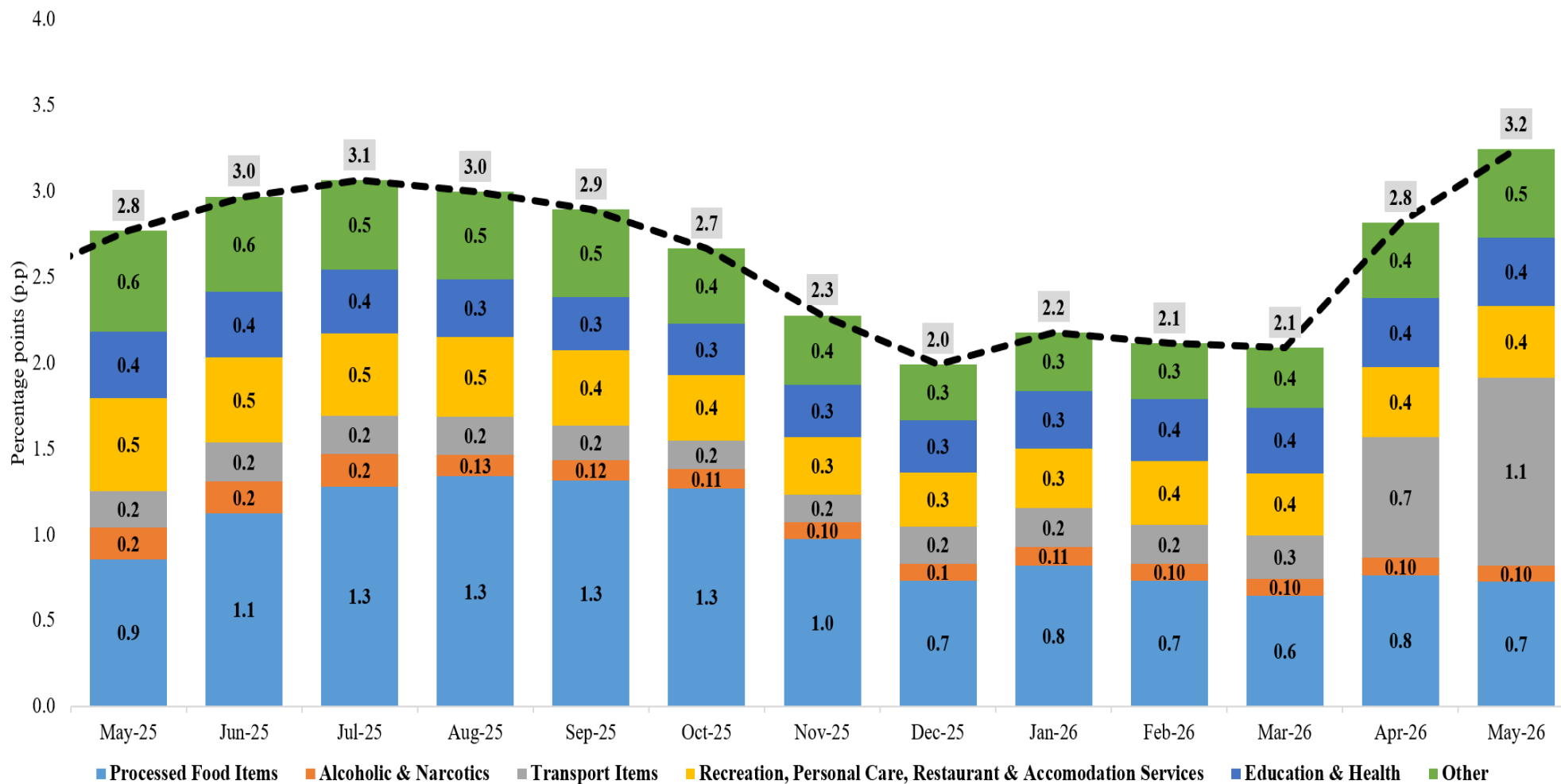


Source: Kenya National Bureau of Statistics

Main drivers of core inflation:

Core inflation increased in May 2026, mainly driven by higher inflation for transport items, particularly city bus/matatu fares, arising from higher fuel prices. Processed food inflation remained relatively stable, supported by lower prices of sugar and maize products.

Contributions to core inflation (percentage points)

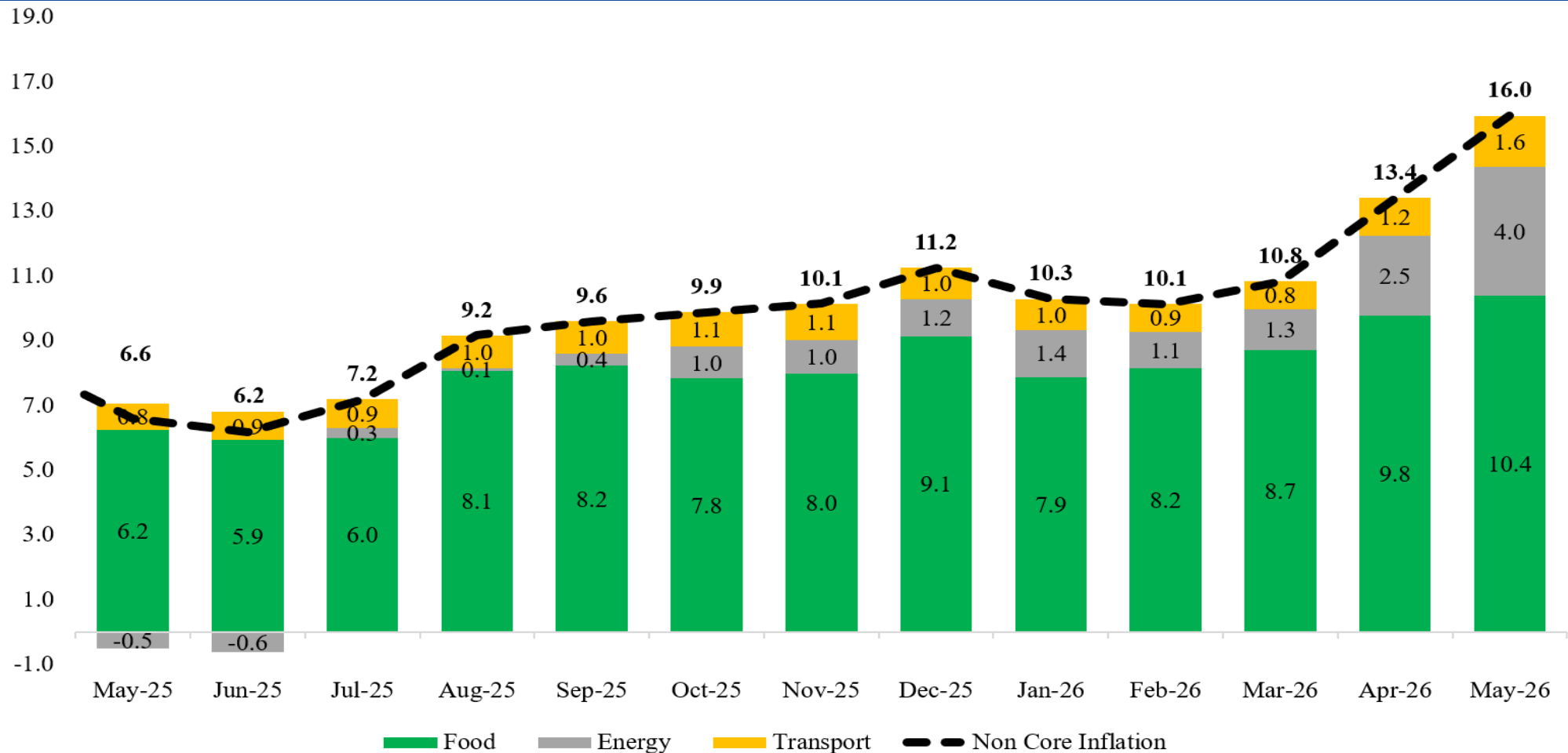


Source: KNBS and CBK computations

Main drivers of non-core inflation:

Non-core inflation increased sharply in May 2026, on account of higher energy prices particularly fuel and gas prices. Additionally, prices of some vegetables, particularly tomatoes and cabbages, remained elevated.

Contributions to non-core inflation (percentage points)

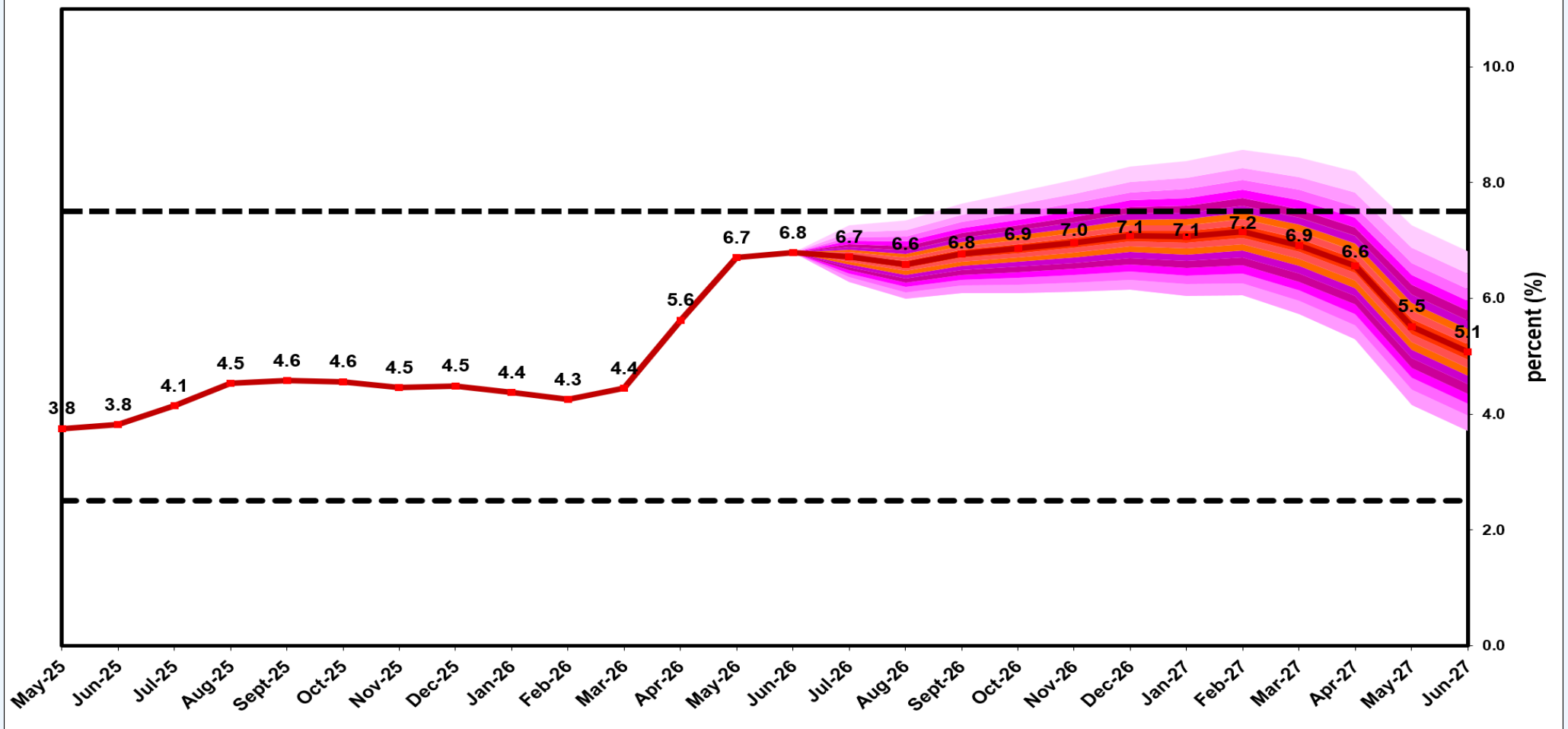


Source: KNBS and CBK

Inflation Projections:

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, and supported by: appropriate monetary policy actions; government interventions including subsidies and temporary reduction of VAT on fuel; expected stability in food prices due to favorable weather conditions; and a stable exchange rate.

Forecasts of overall inflation: June 2026 to June 2027 (y/y, percent)

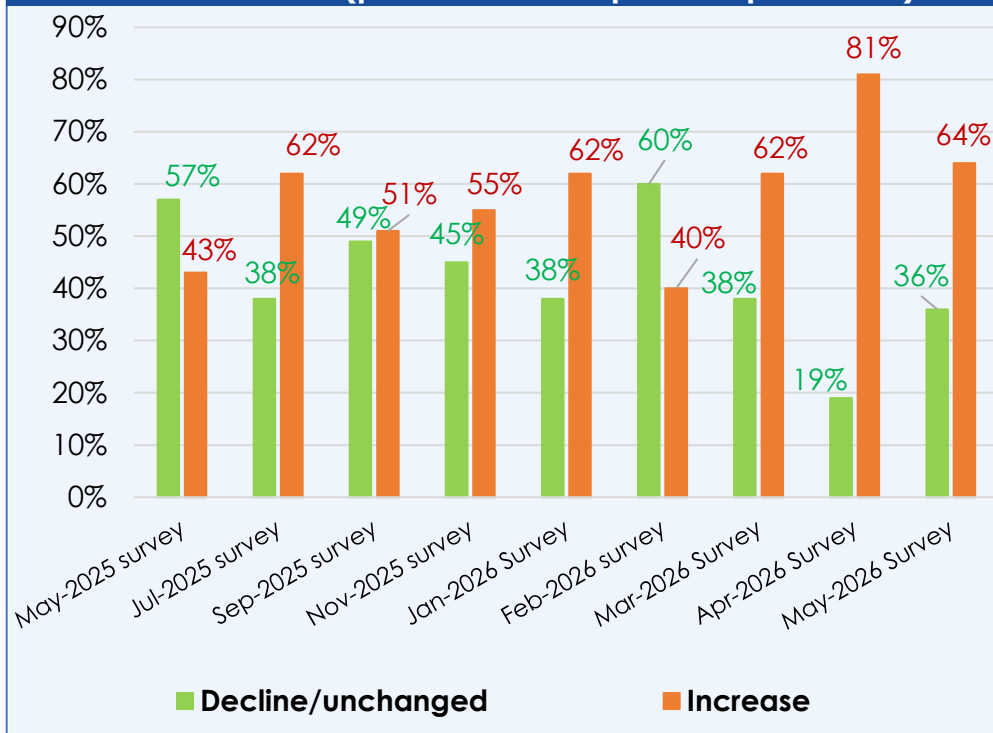


Source: KNBS, and CBK for projections

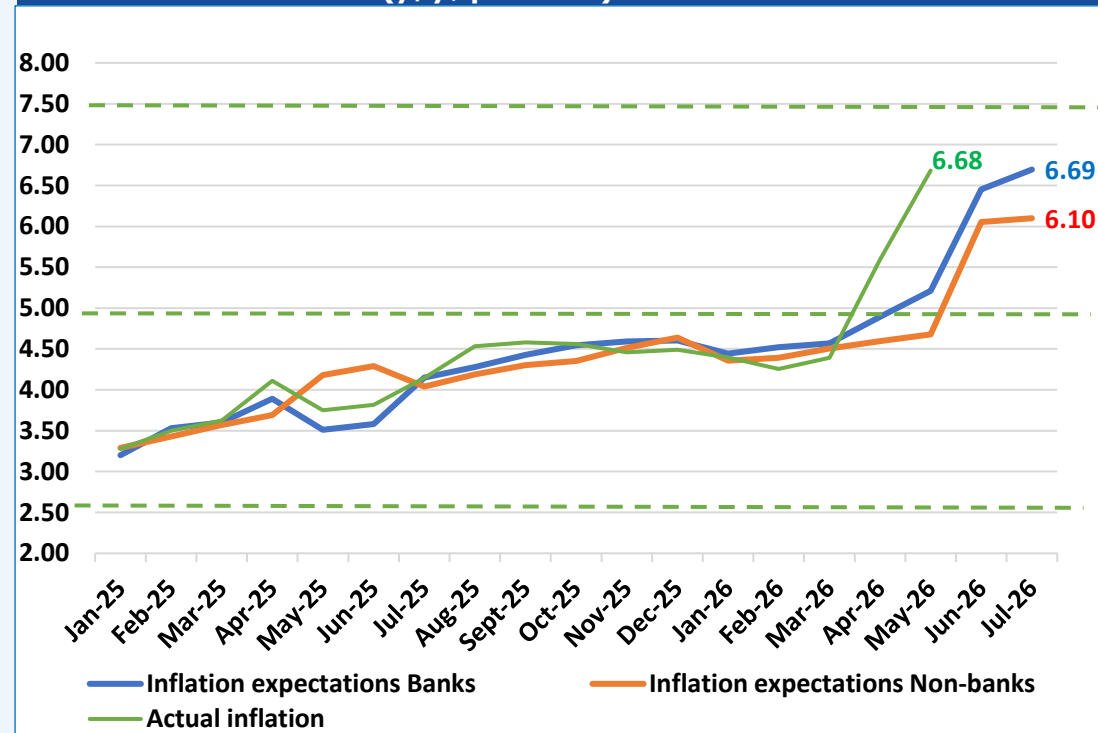
Inflation expectations:

The May 2026 MPC Market Perceptions Survey and Agriculture Sector Survey show that some upward pressure is expected on inflation in the near term due to higher energy prices, but 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)



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



- A majority of respondents to the May 2026 Agriculture survey expect some upward pressure on inflation in the near term mainly due to higher energy prices arising from elevated international oil prices due to the conflict in the Middle East.
- Nevertheless, respondents expect inflation to remain within the target range in the near term supported by stable food prices attributed to favourable weather conditions, and stability in the exchange rate.

- The May 2026 MPC Market Perceptions Survey shows respondents expect some upward pressure on inflation in the near term due to effects of higher international oil prices arising from disruptions from the war in the Middle East.
- However, inflation expectations remain within the target range, mainly due to expected lower food prices attributed to favorable weather conditions, and exchange rate stability.

1. **Overall inflation increased to 6.7 percent in May 2026 from 5.6 percent in April**, mainly driven by higher energy prices and transport costs, but remained within the 5 ± 2.5 percent target range.
2. **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, and supported by:
 - Appropriate monetary policy actions.
 - Government interventions including subsidies and reduction of VAT on fuel.
 - Expected stability in food prices attributed to favourable weather conditions.
 - Exchange rate stability is expected to continue moderating the impact of imported inflation.
3. **The May 2026 MPC Surveys show that inflation is expected to increase in the near term**, but inflation expectations remain anchored within the 5 ± 2.5 percent 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; and elevated trade policy uncertainty.

GDP growth developments and outlook

Domestic economic growth:

The growth of the economy is projected at 4.9 percent in 2026 compared to the previous projection of 5.3 percent, mainly reflecting continued uncertainty and implications of the conflict in the Middle East on the performance of some key sectors of the economy.

Real GDP growth (y/y, percent)

	Weight (2009– 2025)	2021 Act.	2022 Act.	2023 Act.	2024 Act.	2025 Act.	2026			2027
							Q1 Proj.	Q2 Proj.	Annual Proj.	Annual Proj.
1. Agriculture	19.8	-0.4	-1.5	6.6	4.4	3.1	4.4	4.1	4.4	4.3
2. Non-Agriculture (o/w)	80.2	9.5	6.3	5.5	4.7	4.9	5.1	4.8	5.0	5.6
2.1 Industry	17.8	7.5	3.9	2.0	1.1	4.7	4.3	4.1	4.1	4.8
Mining & Quarrying	1.1	18.0	9.3	-6.5	-7.8	14.9	9.0	9.5	9.0	9.6
Manufacturing	9.1	7.3	2.6	2.2	3.0	2.0	2.4	1.9	1.9	3.1
Electricity & water supply	2.6	5.6	5.5	3.2	2.7	5.2	4.0	5.6	5.1	5.1
Construction	5.1	6.7	4.1	3.0	-0.7	6.8	6.4	5.9	6.0	6.1
2.2 Services	53.8	9.8	7.0	7.0	6.0	5.3	5.4	5.2	5.3	5.9
Wholesale & Retail Trade	8.2	8.0	3.5	3.3	4.0	3.6	4.5	3.8	4.0	4.7
Accommodation & food services	1.1	52.6	26.8	33.6	25.9	15.6	12.0	11.5	12.2	12.8
Transport & Storage	9.8	7.4	5.8	5.5	4.3	3.7	4.0	3.1	3.6	4.4
Information & Communication	2.7	6.1	9.0	10.3	7.1	4.8	5.9	5.4	5.4	6.8
Financial & Insurance	7.8	11.5	12.0	10.1	7.5	6.5	6.5	6.3	6.4	6.5
Public administration	5.7	6.0	5.1	5.0	8.7	8.3	5.0	5.3	5.3	5.5
Professional, Admin & Support Services	3.0	7.1	9.5	9.9	6.4	5.0	6.9	6.5	6.7	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	4.8	4.2	4.5	5.1
Health	2.1	8.9	3.4	4.5	6.0	5.5	5.3	5.5	5.6	5.3
Other services	2.4	12.5	6.5	4.3	4.5	2.6	3.9	4.1	4.1	4.2
FISIM	-3.0	5.3	0.2	2.7	9.7	0.2	2.9	2.7	2.5	3.4
2.3 Taxes on products	8.6	11.9	6.7	3.2	3.3	3.1	4.5	3.7	4.1	4.5
Real GDP Growth	100.0	7.6	4.9	5.7	4.7	4.6	5.0	4.7	4.9	5.3

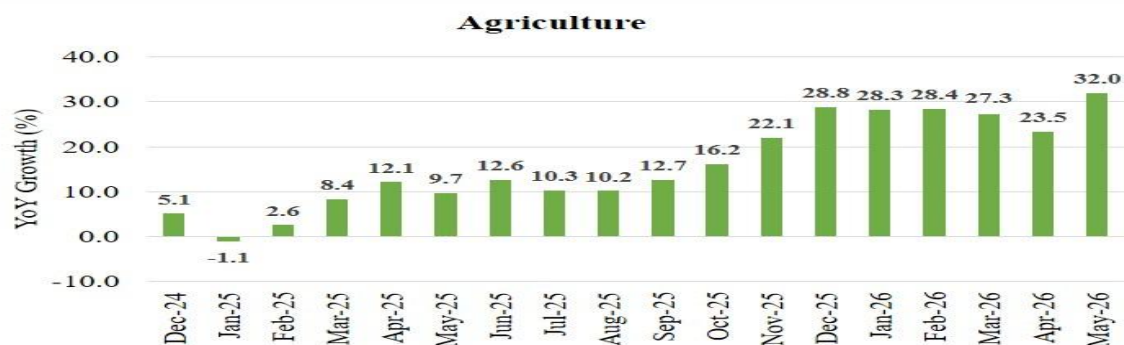
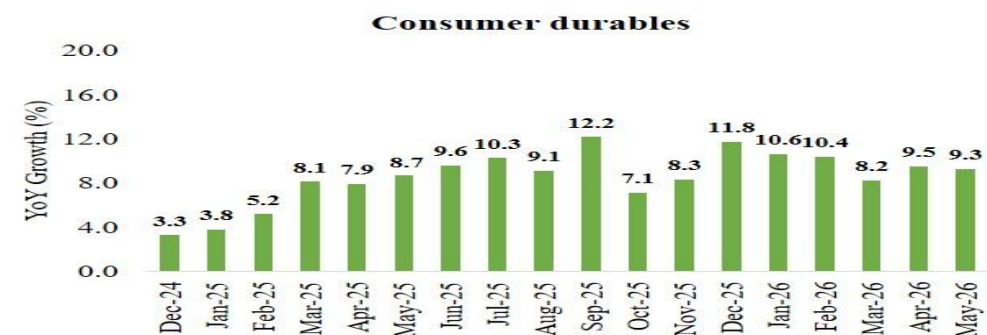
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

- **Higher energy prices are expected to affect the performance of key sectors** such as manufacturing, transport and storage, accommodation and food services, and wholesale and retail trade.
- **Disruptions in supply chains** are expected to affect exports and imports of goods and services.
- **Agriculture sector growth is expected to improve**, supported by favorable weather conditions.
- **Industrial sector is expected to remain resilient**, driven by construction, and affordable housing programme, with the settlement of pending bills and PPPs.
- **Key service sectors are expected to remain resilient**, supported by continued digitization of the economy, and expansion of e-commerce.
- **Improved uptake of credit across key sectors** is expected to support growth, particularly in trade, building and construction, agriculture, and consumer durables.

Sectoral credit to private sector:

Growth in credit to key sectors of the economy, particularly building and construction, trade, agriculture, and consumer durables, remained strong in May 2026. The manufacturing sector recorded net loan repayments in April and May 2026.

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

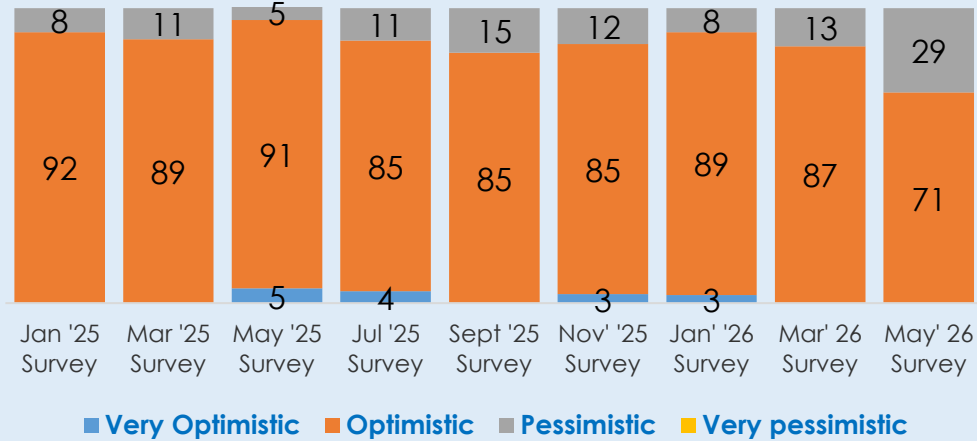


Source: Central Bank of Kenya

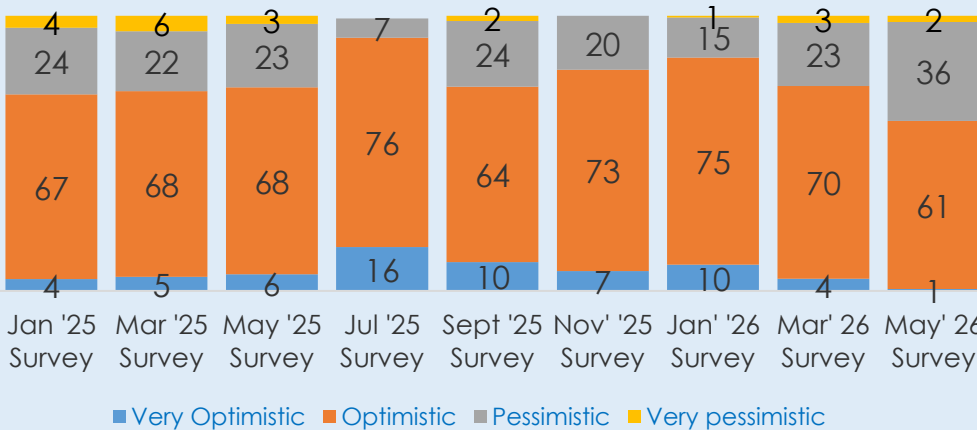
MPC Surveys:

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

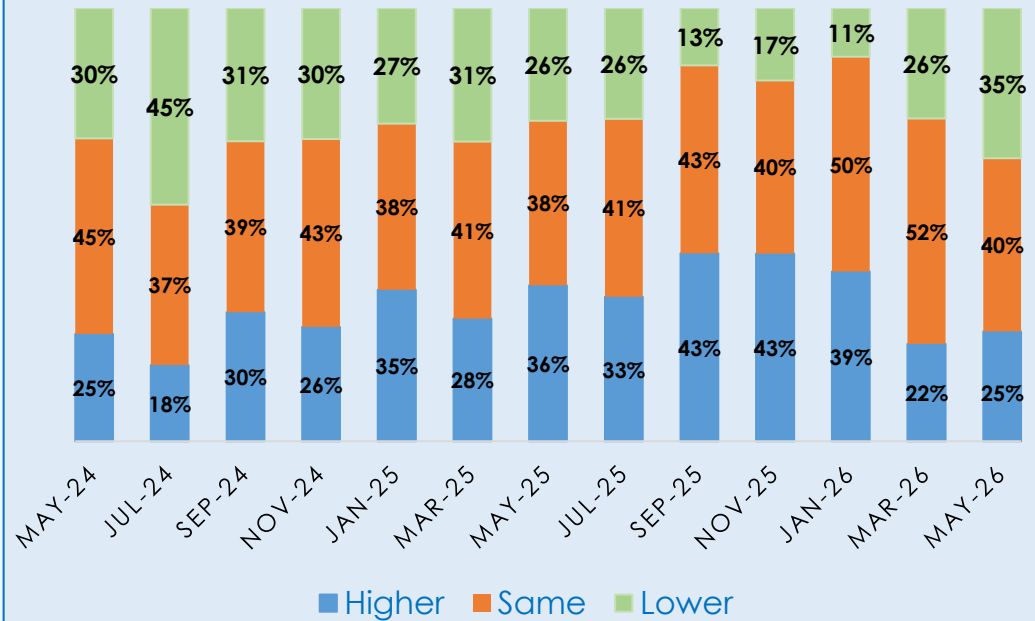
Market Perceptions Survey: Optimism in growth prospects for the next 12 months by Banks (% of respondents)



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



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



- The optimism was attributed to expected favorable weather conditions which are expected to support agriculture, increased infrastructure spending, increased digital innovations, stable exchange rate, and improved private sector credit growth.
- Nevertheless, the optimism was moderated by concerns about increased global uncertainties attributed to the conflict in the Middle East, high cost of doing business, inflationary pressures, and low consumer demand.

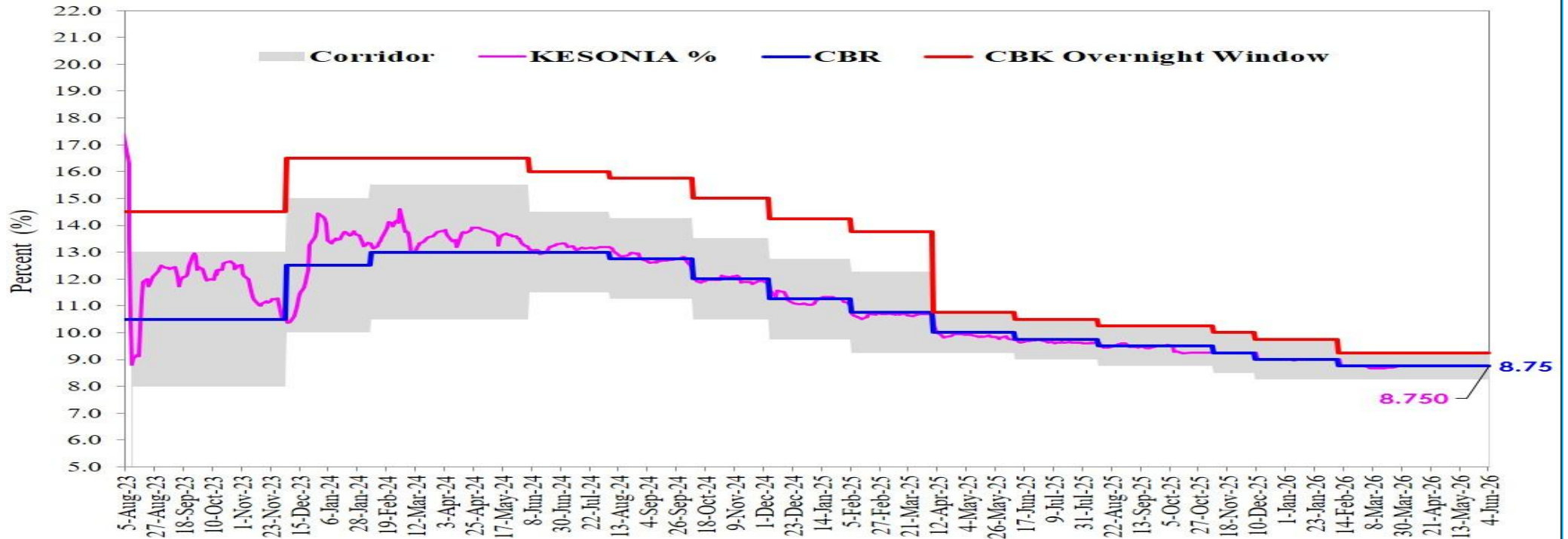
1. **The growth of the economy moderated to 4.6 percent in 2025 compared to 4.7 percent in 2024**, mainly reflecting a slowdown of the agriculture and services sectors, but growth in the industrial sector recovered strongly supported by construction.
2. **Leading indicators of economic activity point to resilient performance** in the first quarter of 2026.
3. **The growth of the economy is projected at 4.9 percent in 2026 compared to the previous projection of 5.3 percent**, mainly reflecting continued uncertainty and implications of the conflict in the Middle East on the performance of some key sectors of the economy.
4. **The MPC Surveys conducted in May 2026 revealed sustained optimism** about business activity and economic growth prospects for the next 12 months, but the optimism was moderated by concerns about the elevated global risks.
5. **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

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– June 4, 2026)



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

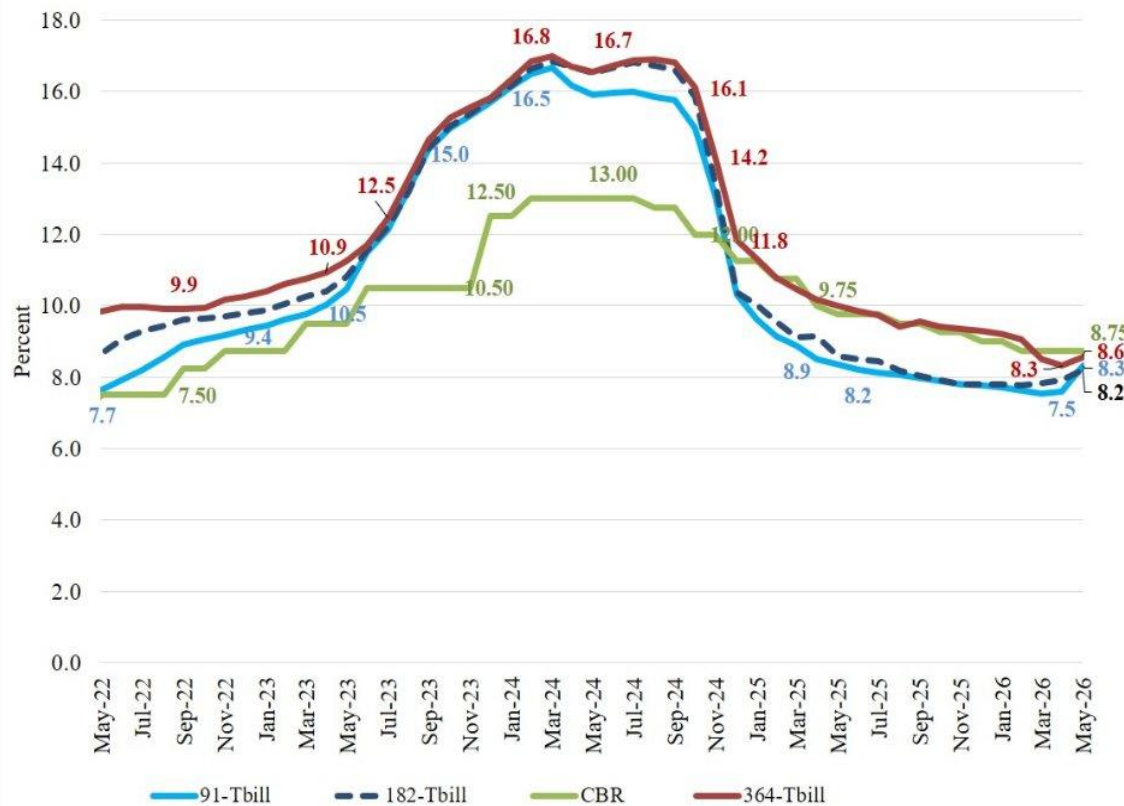
Source: CBK

- 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.

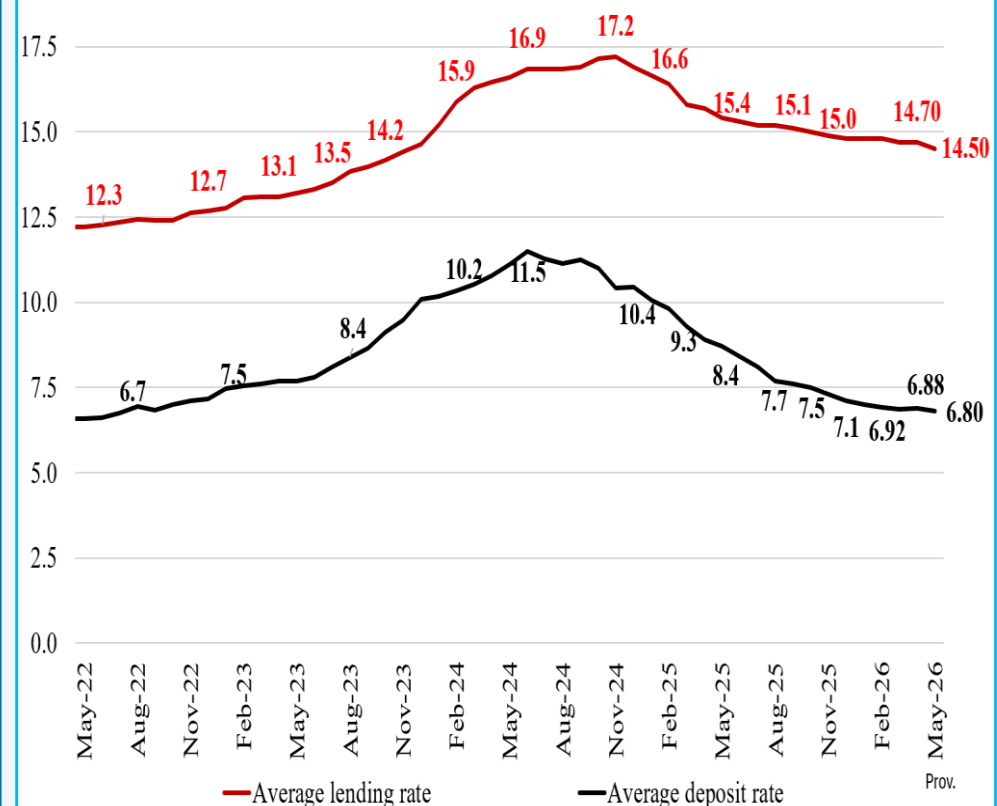
Monetary developments:

Short term interest rates and commercial banks lending rates have declined inline with the recent reductions in the Central Bank Rate. Treasury bill rates have increased partly reflecting market correction and alignment with the monetary policy stance.

Average Treasury bill rates and Central Bank Rate (percent)



Average commercial banks interest rates (percent)



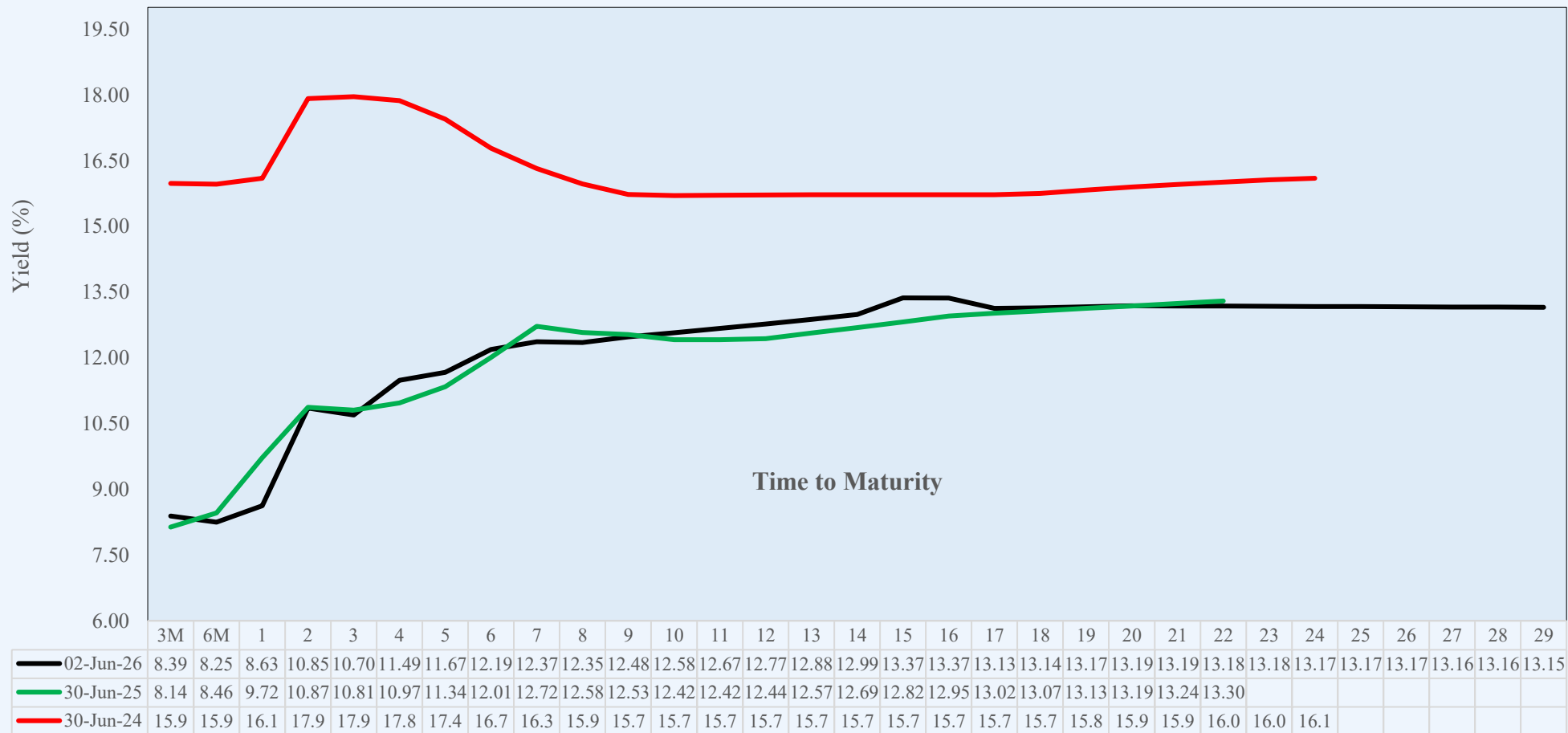
Source: CBK

- 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.

Monetary developments:

The yield curve continues to exhibit a normal upward slope, but yields at the short end have adjusted upwards reflecting market correction and alignment with the monetary policy stance.

Kenya Government Securities Yield Curve (percent)

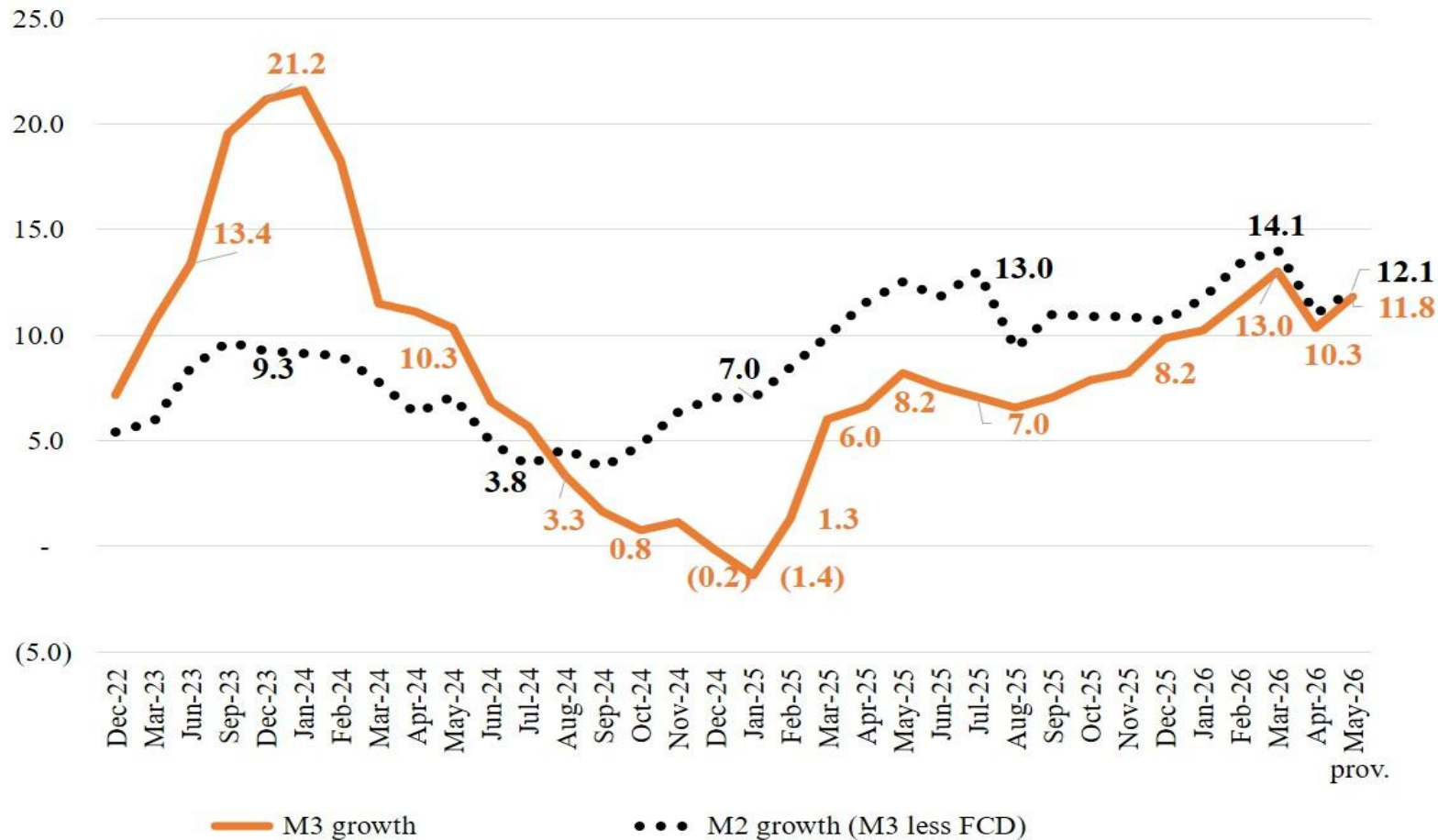


Source: CBK

Monetary developments:

Broad money supply (M3) growth remained strong in May 2026, mainly driven by growth in domestic credit.

Contributions to growth in broad money supply (percent)



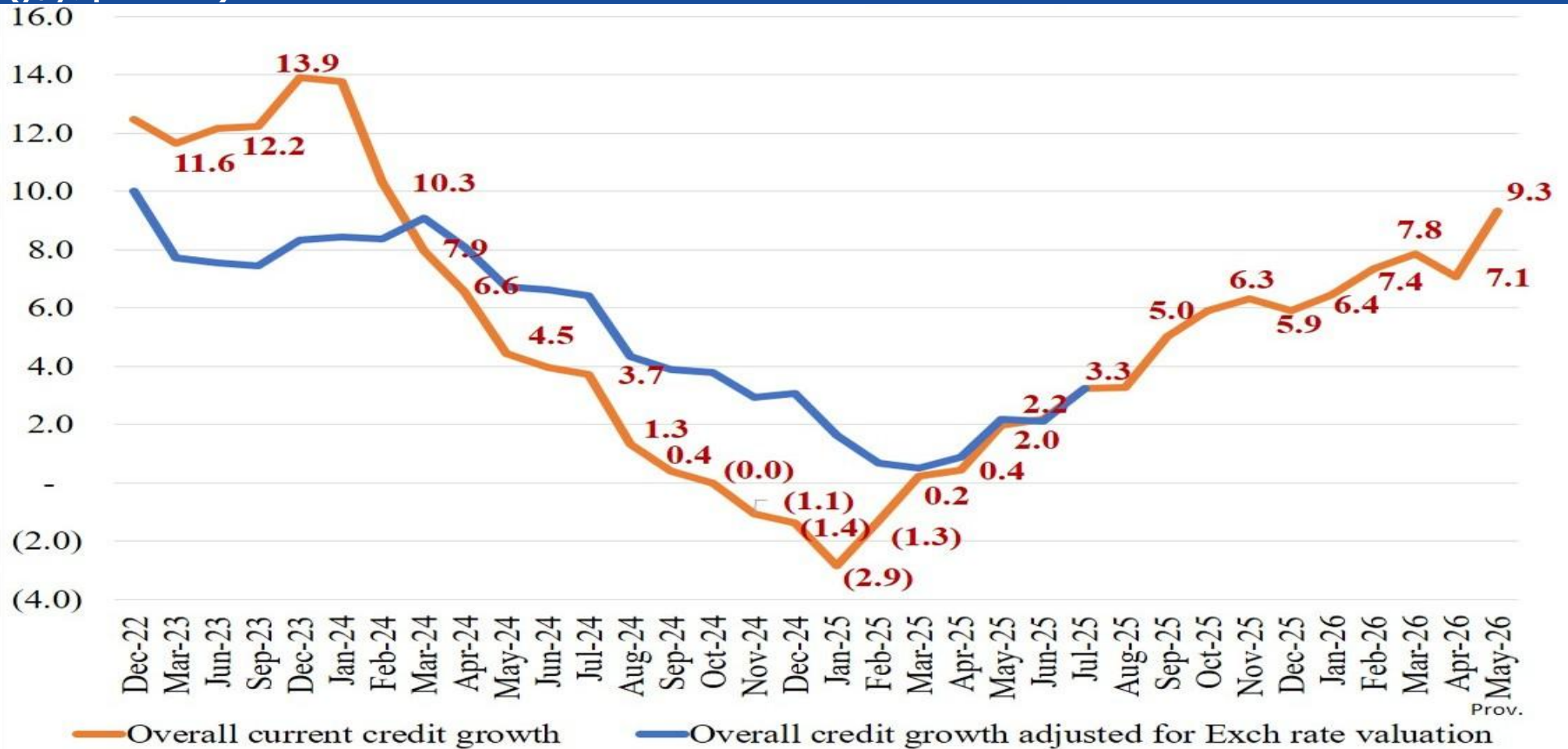
- The growth in broad money supply in May 2026 reflected improved growth of credit to private sector and net lending to the government.
- The contribution of net foreign assets of the banking system to broad money supply growth has also remained strong.

Source: CBK

Monetary developments:

Growth in commercial banks lending to the private sector improved to 9.3 percent in May 2026, supported by increased credit flows to key sectors of the economy.

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

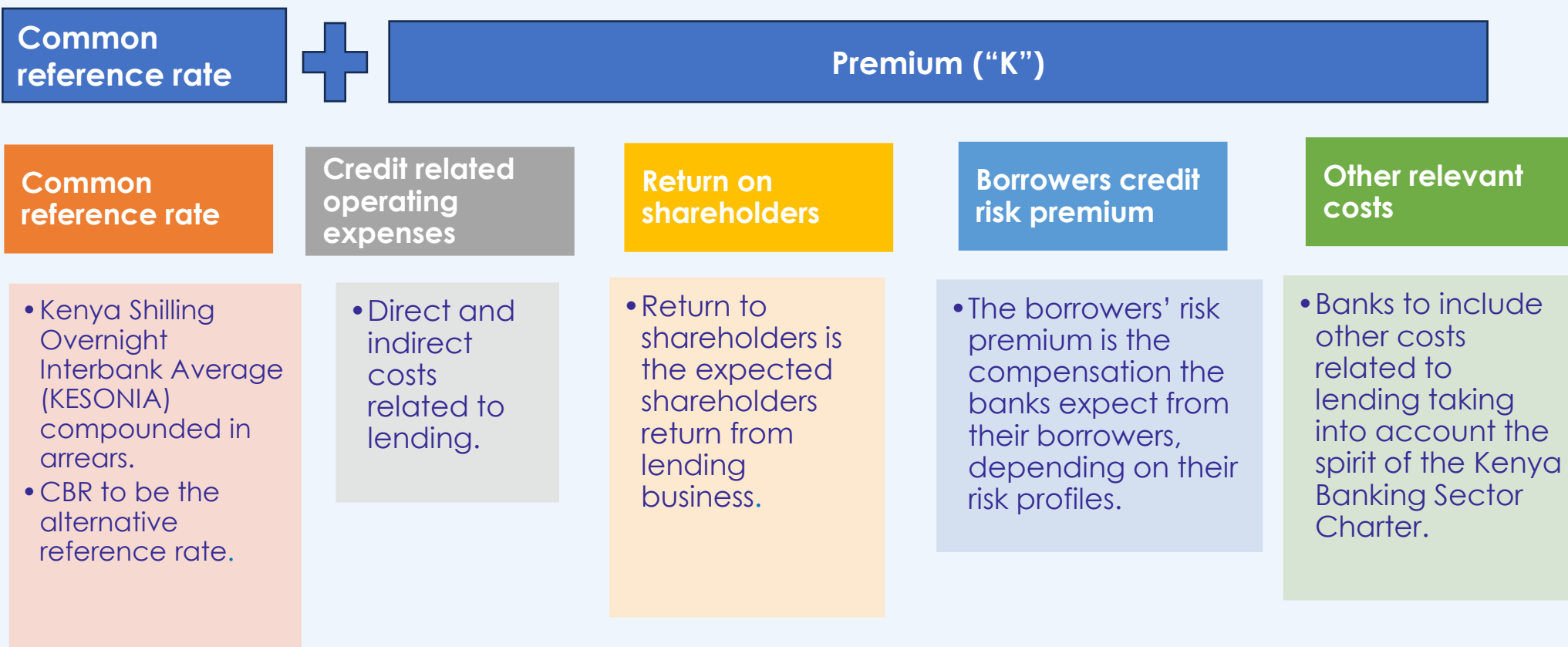


Source: CBK

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



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

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

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, but Treasury bill rates have adjusted upwards.
3. Commercial banks' average lending interest rates declined in April and May 2026.
4. Growth in money supply, M3, improved in May 2026, mainly reflecting increased domestic credit and net foreign assets of the CBK.
5. **Growth in credit to the private sector continued to improve and stood at 9.3 percent in May 2026** compared to 7.1 percent in April 2026 and -2.9 percent in January 2025. Growth in credit to key sectors of the economy remained strong.

Balance of payments developments and outlook

26.

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.

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

	2022	2023	2024	12 months to Apr-2025	2025 Est.	12-months to Apr-2026	2026 Proj.	2027 Proj.
A. Current account	-4,824	-2,728	-2,124	-2,184	-2,887	-3,631	-4,368	-4,471
Trade balance	-11,559	-9,556	-9,987	-10,066	-10,652	-11,456	-12,280	-12,674
Goods exports, f.o.b	10,650	11,031	12,264	12,382	13,036	12,903	13,337	14,799
Goods imports, f.o.b	22,209	20,588	22,252	22,448	23,688	24,359	25,617	27,473
Services balance	1,981	1,703	2,373	2,415	2,505	2,556	2,794	3,153
Services Credit	7,604	7,149	8,076	8,175	8,394	8,620	9,140	9,974
Services Debit	5,623	5,446	5,703	5,760	5,889	6,064	6,346	6,821
Goods and Services Balance	-9,579	-7,853	-7,614	-7,651	-8,147	-8,900	-9,486	-9,521
Primary income, Balance	-1,761	-1,861	-2,122	-2,137	-2,135	-2,177	-2,369	-2,737
Secondary income	6,516	6,986	7,613	7,604	7,394	7,446	7,488	7,787
B. Financial and capital account	-2,683	-1,720	-3,576	-4,313	-5,164	-6,177	-5,233	-4,885
C. Overall balance ("-", indicates a surplus)	2,141	1,008	-1,453	-2,130	-2,277	-2,546	-865	-414
D. Reserves and related items	-2,141	-1,008	1,453	2,130	2,277	2,546	865	414

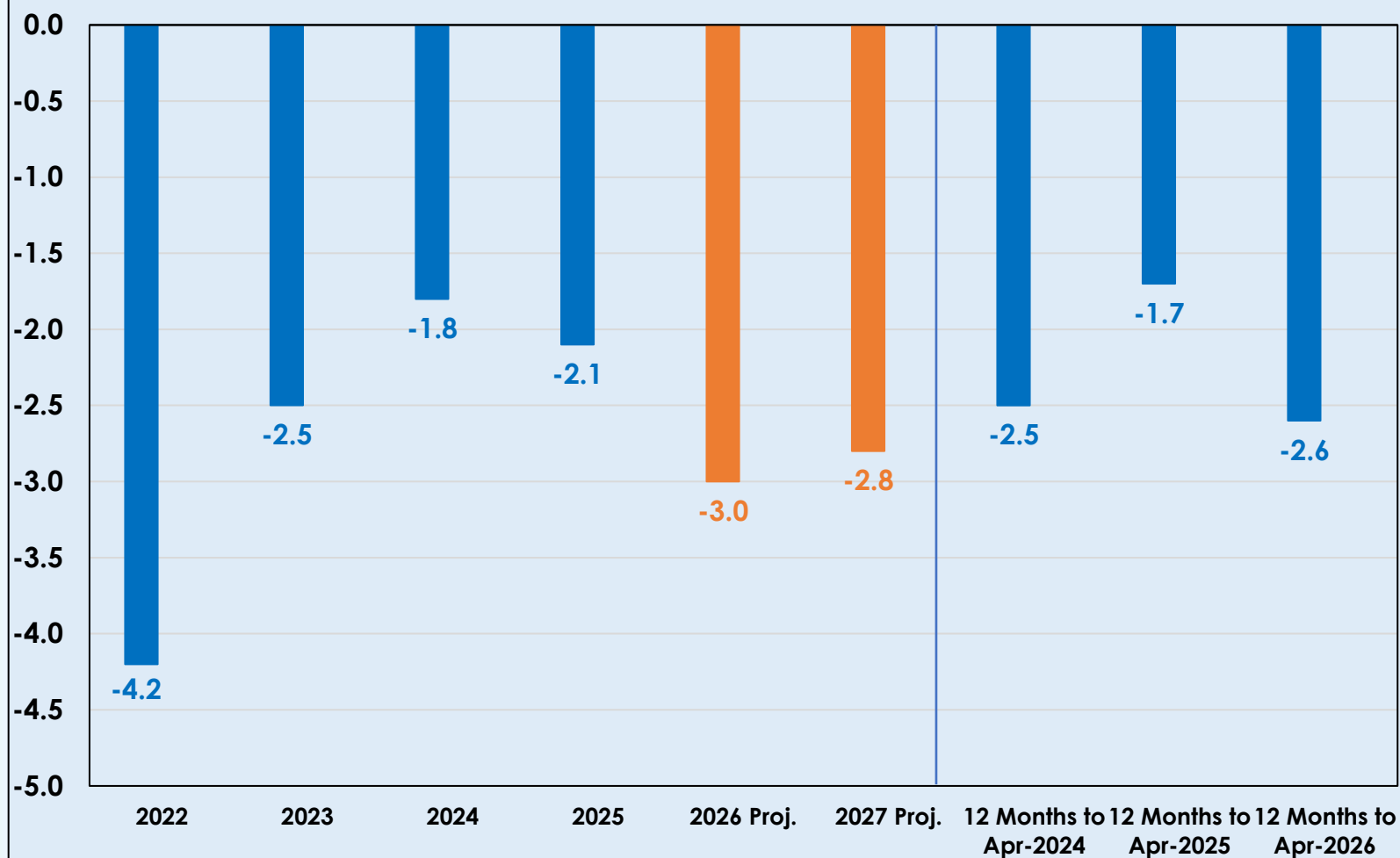
Source: KNBS and CBK

27.

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, due to the impact of the conflict in the Middle East.

Current account balance (percent of GDP)



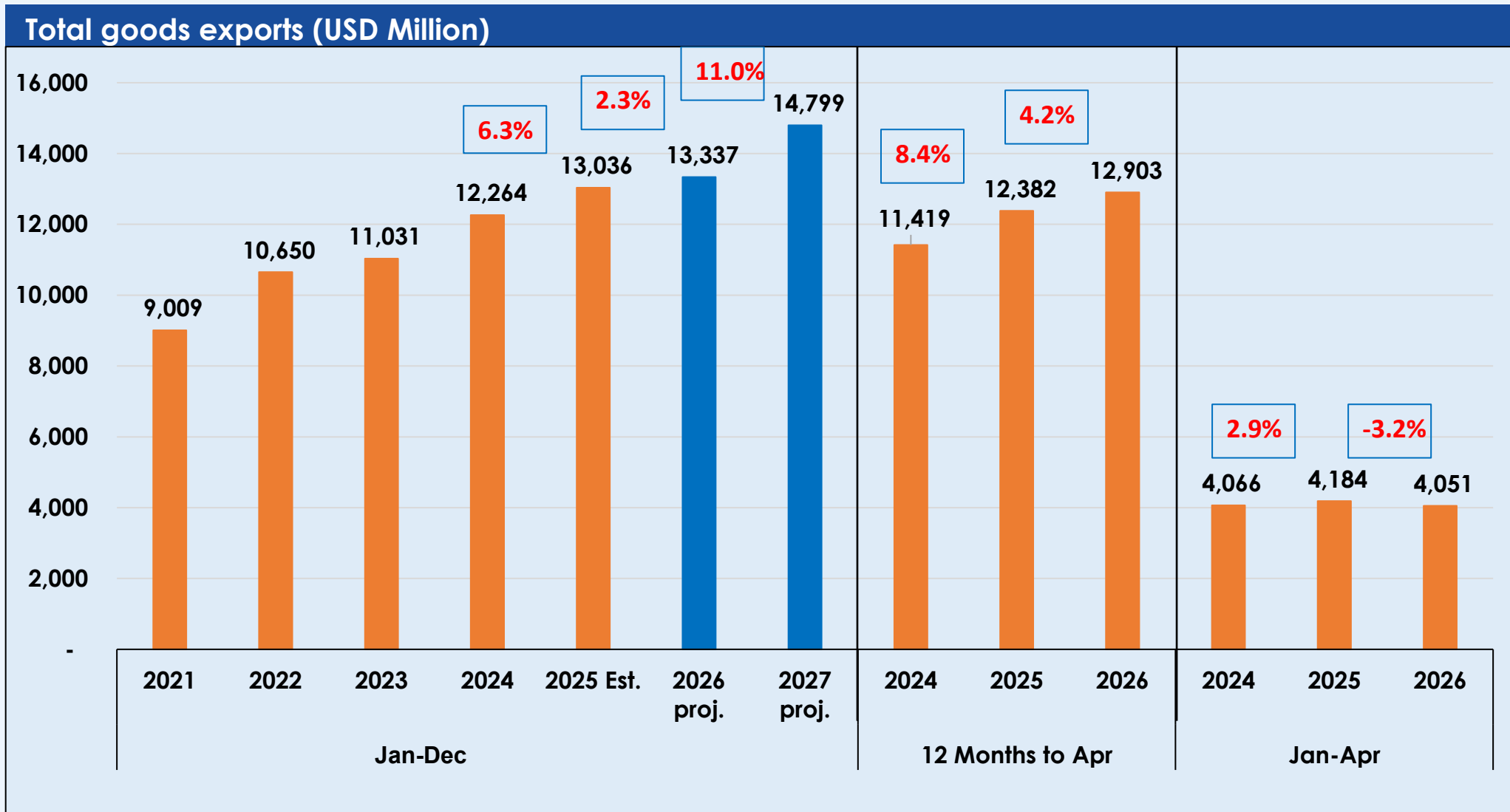
The projected wider current account deficit in 2026 reflects:

- Lower exports growth, and higher payments on the primary income account.
- A higher oil import bill due to higher oil prices.
- Lower receipts from the services sector due to increased freight payments.
- Slower growth in remittance inflows as disposable income in the Gulf States declines.
- Indirect impact via Kenya's trading partners and reduced domestic demand.

Source: KRA and CBK

Balance of Payments:

Goods exports increased by 4.2 percent in the 12 months to April 2026 compared to a similar period in 2025, driven by horticulture, tea, coffee, food, and machinery and transport equipment.

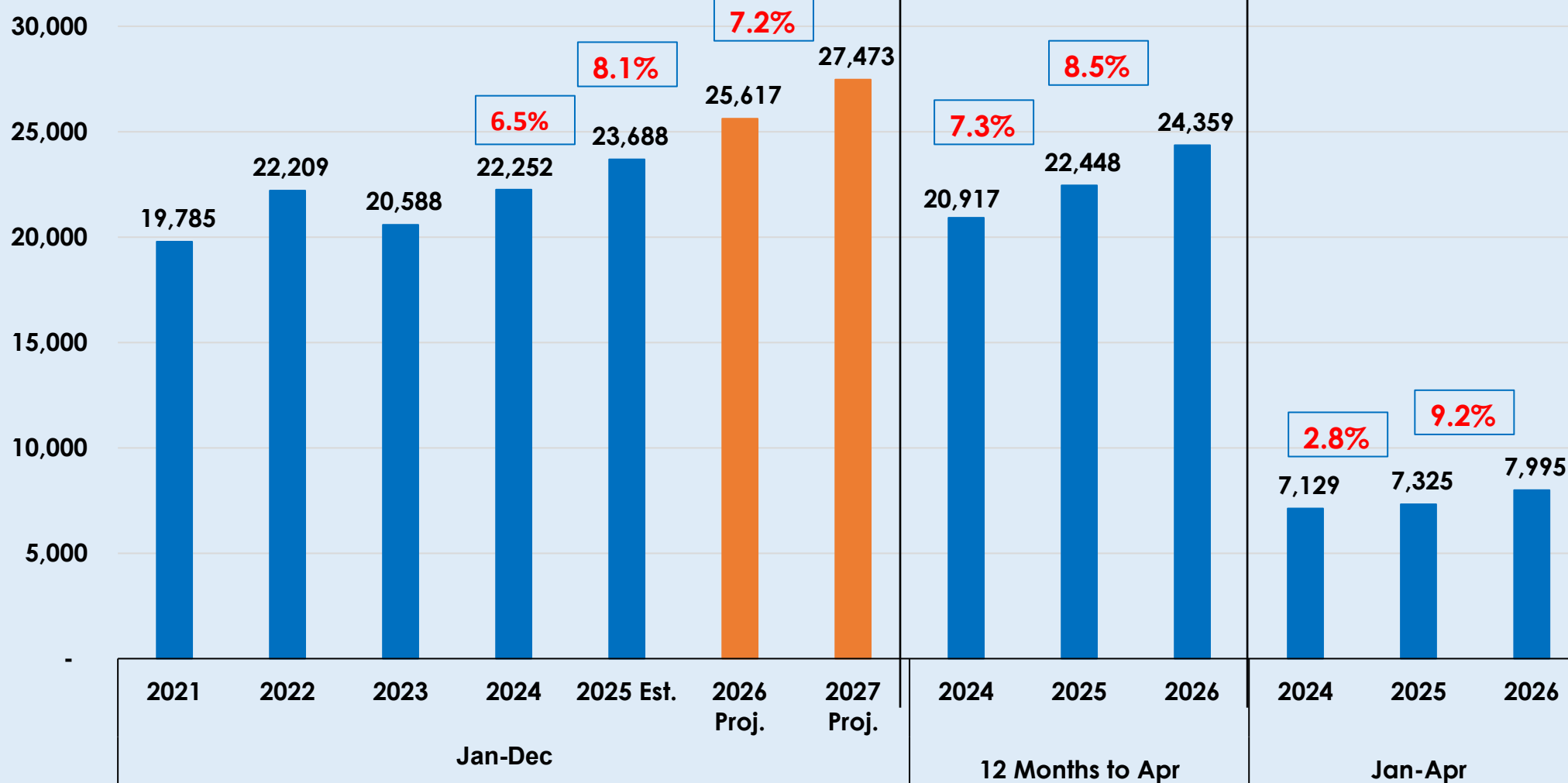


Source: KRA and CBK

Balance of Payments:

Goods imports increased by 8.5 percent in the 12 months to April 2026 compared to a similar period in 2025, mainly reflecting higher imports of food, intermediate and capital goods and mineral fuels.

Total goods imports (USD Million)

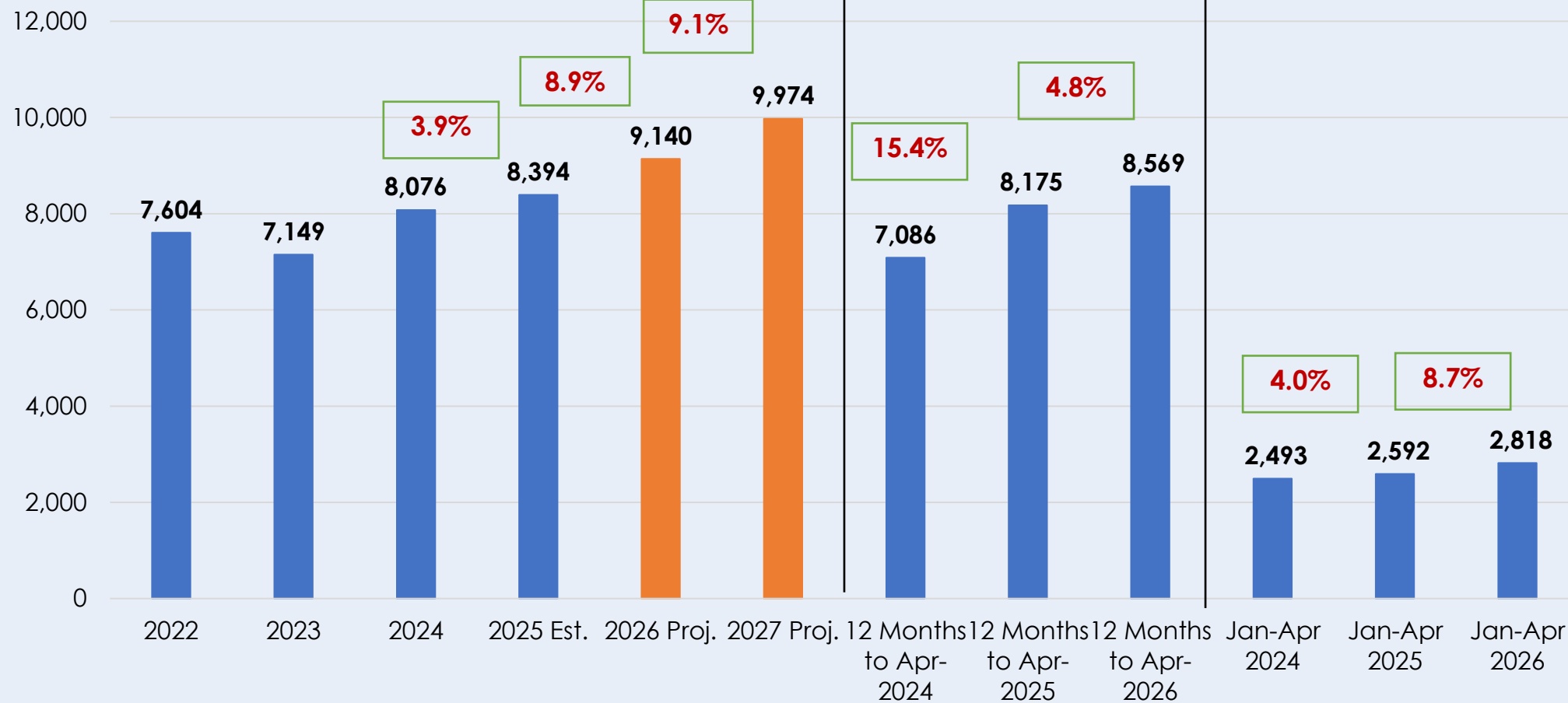


Source: CBK, KRA

Balance of payments:

Services receipts increased by 4.8 percent in the 12 months to April 2026 relative to a similar period in 2025, mainly driven by transport and travel services receipts.

Total services export receipts (USD Million)

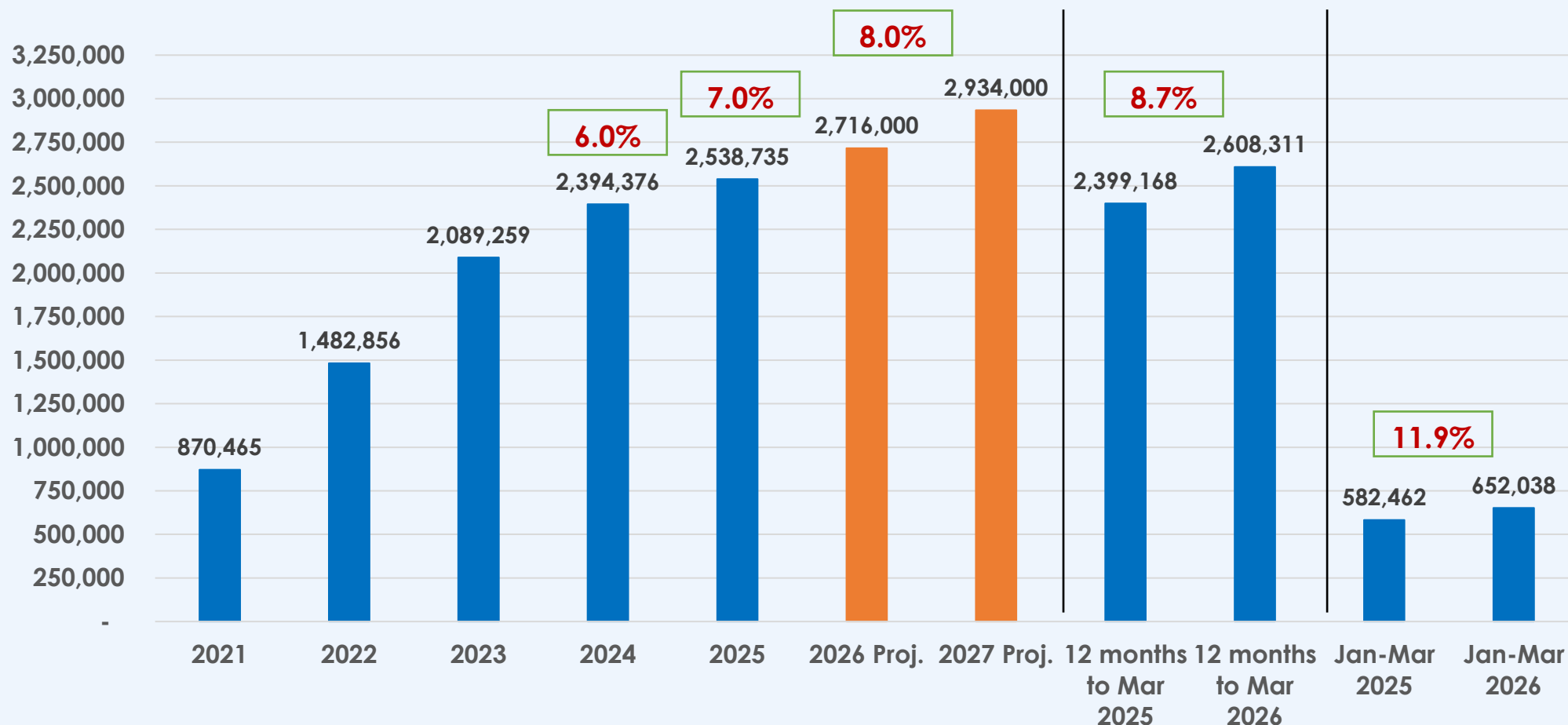


Source: CBK, KRA

Services exports:

Tourist arrivals have remained resilient, growing by 8.7 percent in the 12 months to March 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)

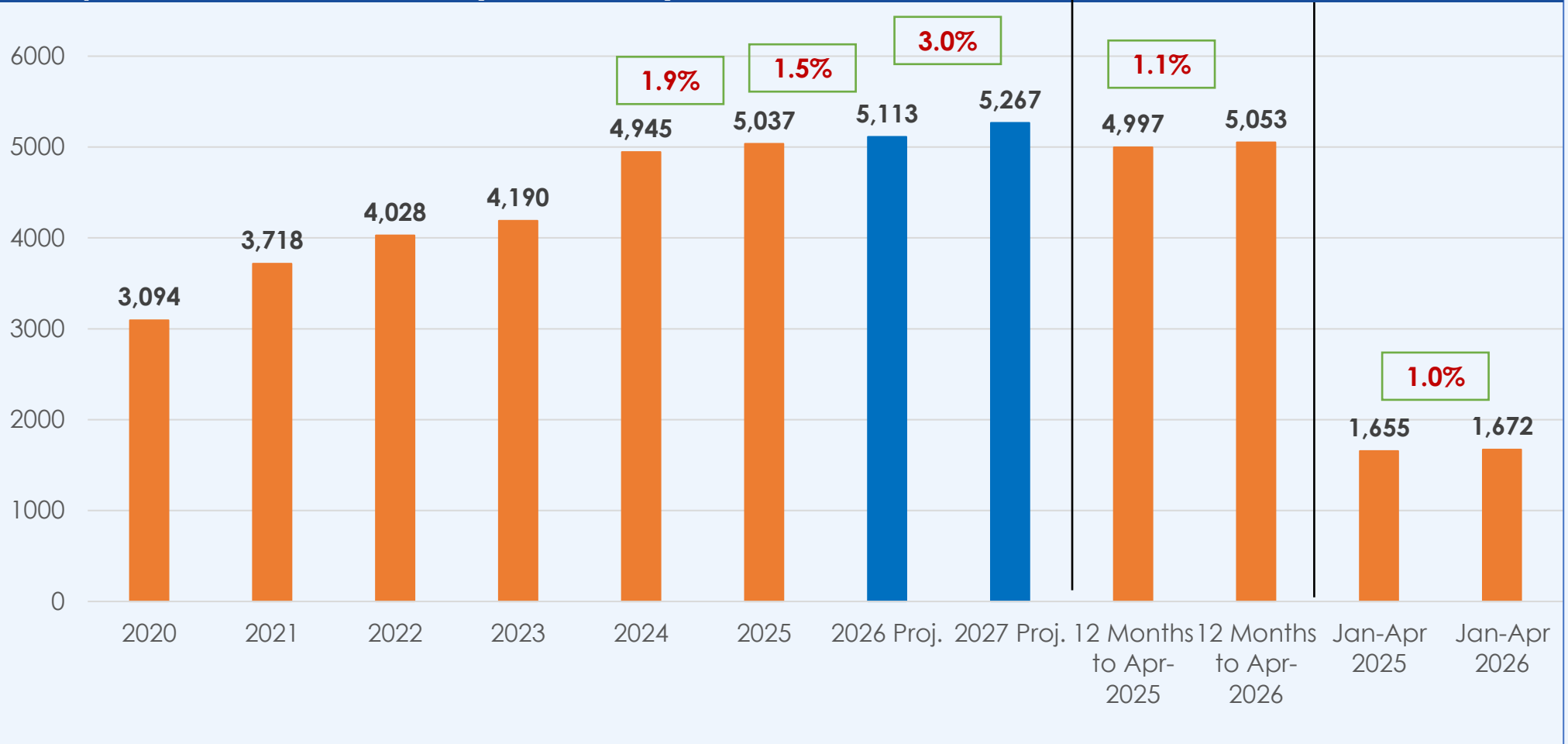


Source: KNBS/Tourism Research Institute/Kenya Tourism Board/CBK for projections

Diaspora remittances:

Remittances inflows remained resilient in the 12 months to April 2026 despite the elevated global uncertainties, supported by diversified source countries and impact of government policies to export skilled labor.

Diaspora remittances inflows (USD, Million)



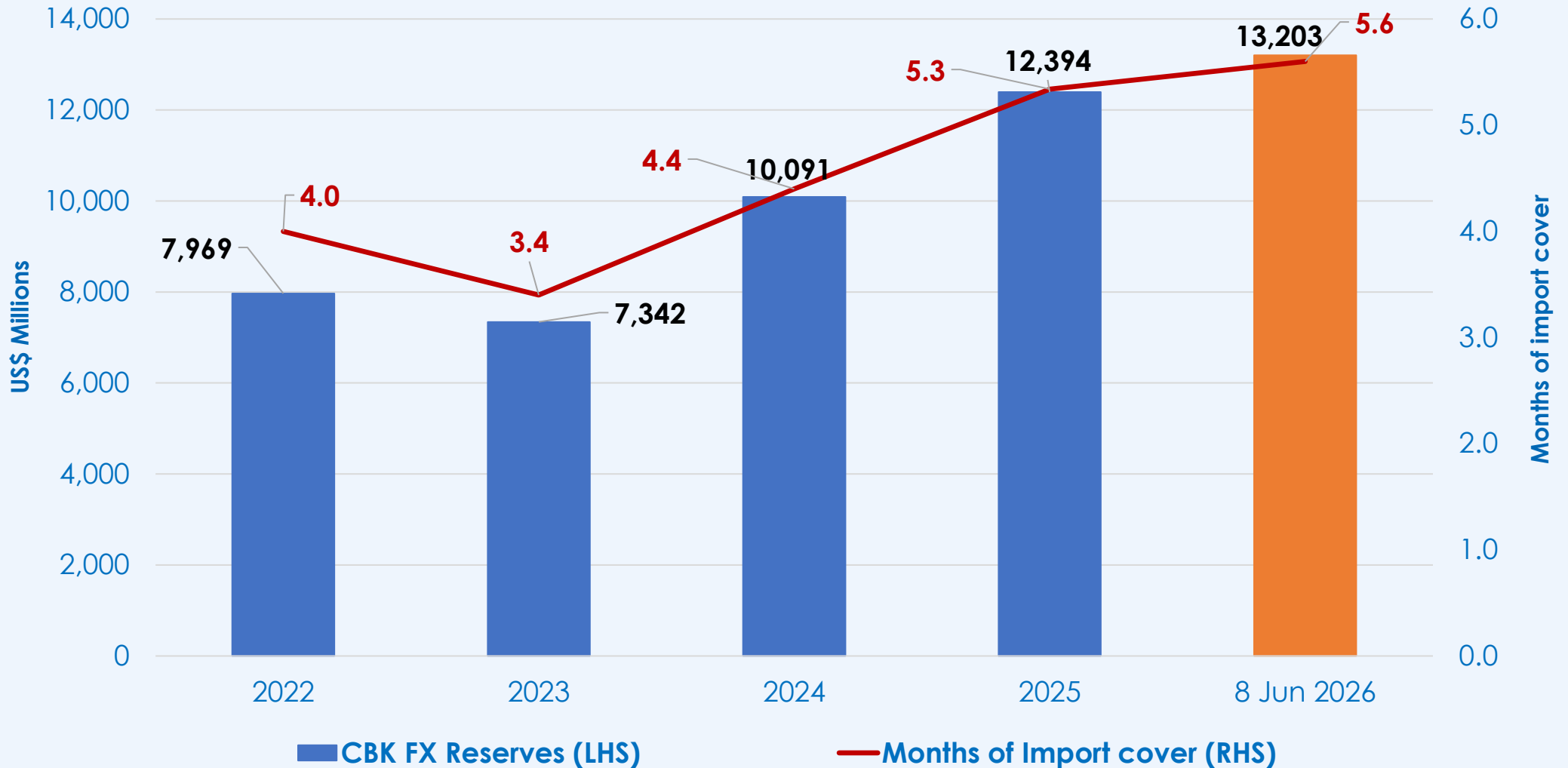
Source: CBK

33.

CBK foreign exchange reserves:

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

CBK foreign exchange reserves (end period)

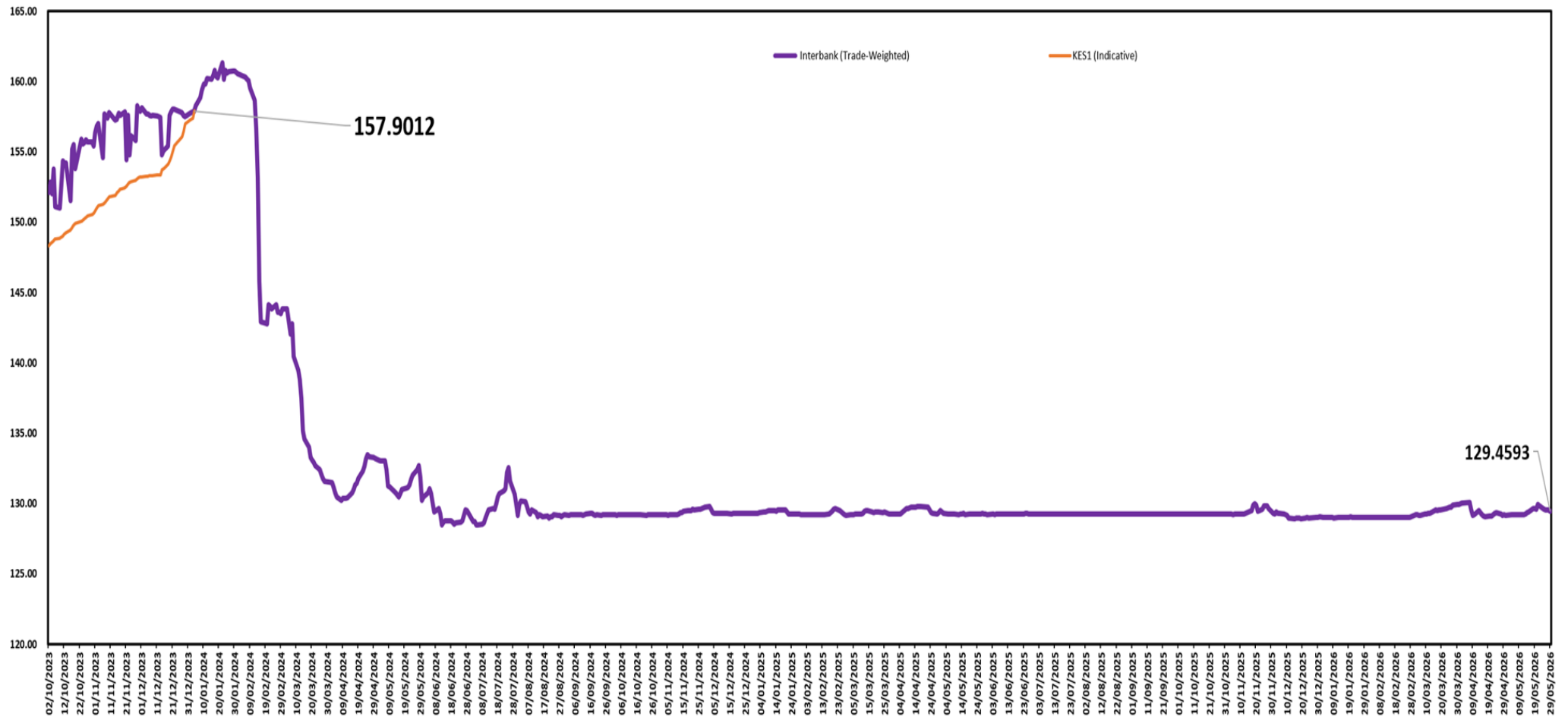


Source: CBK as of June 8, 2026

Exchange rate developments:

Despite heightened geopolitical risks, 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

- 1. The current account deficit is estimated at 2.6 percent of GDP in the 12 months to April 2026 compared to 1.7 percent of GDP in similar period in 2025**, mainly reflecting a higher trade deficit and lower services and secondary income transfers as a share of GDP.
- 2. The current account deficit is projected at 3.0 percent of GDP in 2026 compared to 2.1 percent of GDP in 2024**, mainly reflecting effects of the conflict in the Middle East, including higher international oil prices, lower receipts from services, slower growth in remittance inflows, and reduced exports.
 - 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 USD865 million in 2026.
 - Gross foreign exchange reserves are projected at USD13,259 million at the end of 2026 from USD12,394 million in 2025.
- 3. Downside risks to the balance of payments outlook:** a prolonged conflict in the Middle East may exacerbate commodity price disruptions; elevated trade policy uncertainty; and volatility in the international oil markets.

Banking sector developments

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

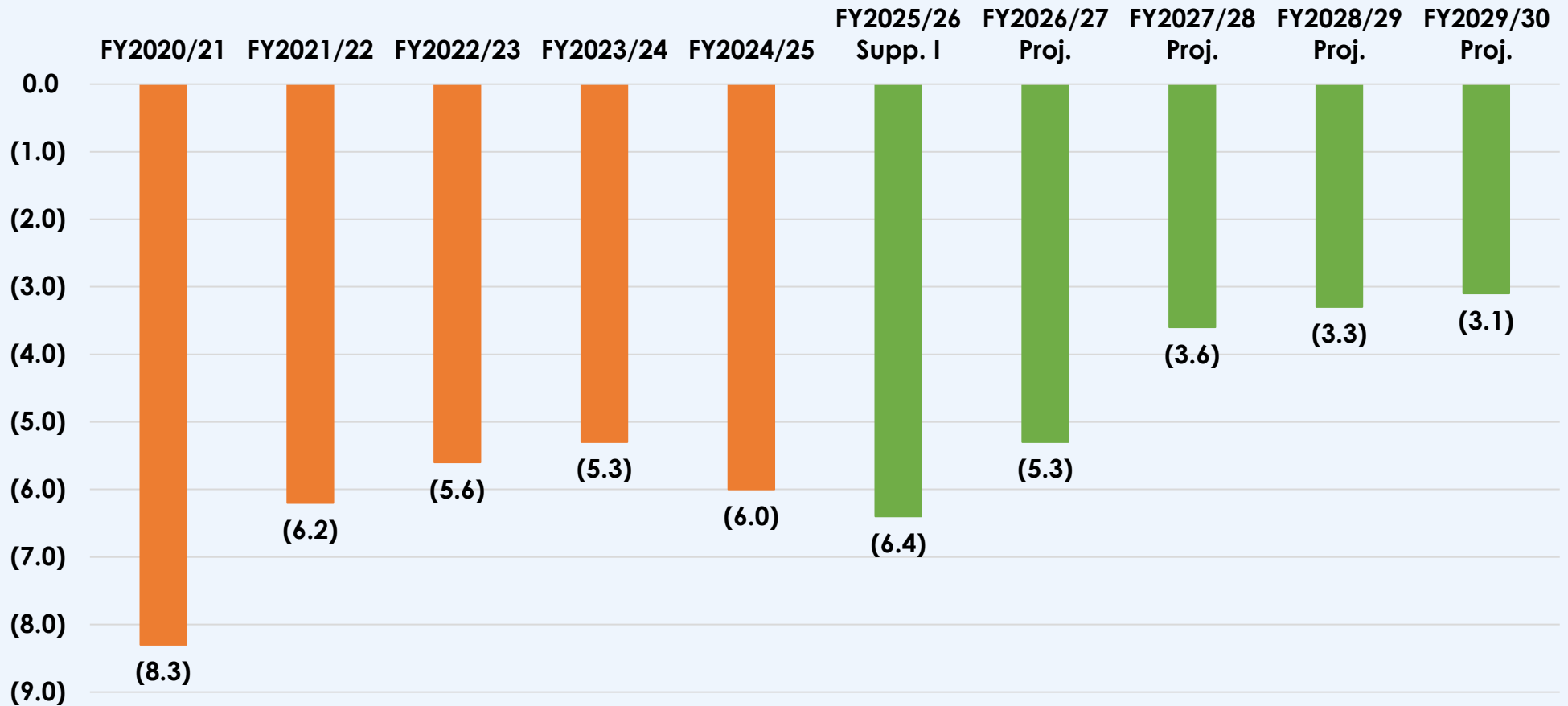
- Capital adequacy and liquidity ratios for the banking sector have remained above the minimum statutory limits of 14.5 percent and 20.0 percent, respectively:**
 - Total capital adequacy ratio stood at 20.4 percent in April 2026, up from 20.3 percent in February 2026, and 20.0 percent in December 2025.
 - The average banking sector liquidity ratio was 61.8 percent in April 2026, up from 61.7 percent in February 2026 and 59.3 percent in December 2025.
- The ratio of gross non-performing loans to gross loans stood at 15.3 percent in May 2026,** down from 15.6 percent in February 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.
- 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

Fiscal performance and outlook:

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

Actual and expected fiscal deficit (percent of GDP)



Source: The National Treasury

Summary and key takeaways

1. On the global front:

- Inflation is projected to increase in 2026, mainly driven by higher energy prices.
- Growth is projected to moderate in 2026 on account of higher inflation and reduced demand.
- Global financial conditions have tightened due to elevated 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.
- Economic growth has been revised downwards on account of the elevated global risks.
- Average commercial banks' lending rates have declined, which has continued to support growth in credit to the private sector.
- The monetary policy implementation framework has enhanced policy transmission, and aligned the KESONIA closer to the CBR.
- 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, including the potentially transitory nature of the conflict in the Middle East, the MPC has kept the Central Bank Rate unchanged at 8.75 percent, to ensure that inflation expectations remain anchored within the target range, and the exchange rate remains stable.

4. 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.

THANK YOU

