



Central Bank of Kenya

# KESONIA

## Interest Rate Benchmark

### Frequently Asked Questions (FAQ)

#### *What is KESONIA?*

KESONIA stands for the Kenya Shilling Overnight Interbank Average. It is a transaction-based benchmark rate reflecting the average interest rate at which banks in Kenya lend and borrow unsecured overnight funds in Kenya Shillings.

#### *Is KESONIA a new rate?*

No. KESONIA is a formal renaming of the existing overnight interbank average rate. The methodology remains unchanged and continues to reflect actual overnight interbank lending transactions.

#### *Why was the name changed?*

The name change aligns with international benchmark reform practices and provides a clearer identity for Kenya's risk-free reference rate, consistent with global standards such as Sterling Overnight Index Average (SONIA) of UK and the Secured Overnight Financing Rate (SOFR) of US.

#### *Does KESONIA affect how overnight weighted average rate is calculated?*

No. There are no methodological changes. The rate continues to be calculated as a volume-weighted average of overnight interbank transactions.

#### *What is KESONIA compounded in arrears?*

KESONIA compounded in arrears, refers to calculating interest by compounding the daily overnight rate in each day over an interest period.

### ***Will KESONIA be the only rate in use?***

KESONIA will be applicable to all variable rate loans except for foreign currency denominated loans and fixed rate loans. Where KESONIA is not practical, the customers may be availed of the use of Central Bank Rate (CBR) as the alternative reference rate.

### ***What if KESONIA data is unavailable?***

Fallback to CBR is allowed for that period. Contracts should provide for this contingency.

### ***Is KESONIA a risk-free rate?***

Yes. It reflects overnight unsecured lending among banks, with minimal term or credit risk.

### ***Will contracts or systems need to be updated?***

Yes. Commercial Banks will update internal documentation, system references, pricing models, and legal agreements to reflect the KESONIA naming convention going forward.

### ***What are the broader implications of adopting KESONIA?***

Adopting KESONIA supports a broader shift to international best practices on benchmark reference rate frameworks. It lays the foundation for further developments such as term rates, KESONIA-linked financial products, and a domestic derivatives market.

### ***Where will KESONIA be published?***

KESONIA will be published daily by the Central Bank of Kenya on its official website and included in relevant market data feeds and reports.

### ***Does the KESONIA framework apply to existing loans and previously negotiated agreements?***

The revised Risk-Based Credit Pricing Model (RBCPM) will take effect from September 1, 2025, for all new variable rate loans. As for existing variable rate loans, the revised RBCPM will take effect from February 28, 2026, at the end of a 6-month transition period for finalisation of the necessary arrangements.