KENYA BANKERS ECONOMIC BULLETIN

VOLUME 43 | SEPTEMBER 2025

A report prepared by:

The Centre for Research on Financial Markets and Policy®

KENYA BANKERS ASSOCIATION

CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY®

About this Report

This *Bulletin* presents a comprehensive review of Kenya's economic performance in the second quarter of 2025, leveraging recent performance and developments to offer insights into the country's economic outlook for the year. The *Bulletin* highlights key trends across the real economy, government fiscal operations, public debt, inflation and interest rates, the balance of payments and exchange rate dynamics. It also examines activity within the financial sector, including banking, and capital markets. .

About the Centre for Research on Financial Markets and Policy®

The Centre for Research on Financial Markets and Policy® was established by the Kenya Bankers Association in 2012 to offer an array of research, commentary, and dialogue regarding critical policy matters that impact on financial markets in Kenya. The Centre sponsors original research, provides thoughtful commentary, and hosts dialogues and conferences involving scholars and practitioners on key financial market issues. Through these activities, the Centre acts as a platform for intellectual engagement and dialogue between financial market experts, the banking sector and the policy makers in Kenya. It therefore contributes to an informed discussion that influences critical financial market debates and policies.

CENTRE FOR RESEARCH ON FINANCIAL MARKETS AND POLICY®

Publisher KBA Centre for Research on Financial Markets and Policy®

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FOREWORD

From the CEO's Desk

I am delighted to present the 43rd issue of the Kenya Bankers Economic Bulletin. The issue sheds insights on the developments in the global and domestic economy. From a global standpoint, the growth is projected to edge upward, buoyed by modest expansion in key economies, a softer US dollar and easing trade frictions. Moreover, inflationary pressures are easing across most regions, though global risks persist, including potential geopolitical tensions and trade policy uncertainties.

Domestically, the economy continues to demonstrate remarkable resilience. Economic activity remained vibrant through the second quarter of 2025, supported by strong performances in agriculture, construction and financial services. Favourable weather conditions, improved investor sentiment and steady domestic demand have underpinned this growth. While inflation edged up slightly during the period, it remained within the target range.

The monetary policy stance has been broadly accommodative, with the Central Bank easing rates to spur credit expansion and sustain growth momentum. Consequently, lending rates have gradually declined, paving way for increased private sector investment. This is complemented by the rollout of the new risk-based credit pricing framework anchored on the Kenya Shilling Overnight Interbank Average (KESONIA). This is a significant step in promoting market-based pricing and transparency in the credit market.

Overall, the banking sector remains stable and continues to anchor economic growth. Asset growth, profitability and capital adequacy have all remained healthy, while credit to the private sector has shown encouraging recovery. Nonetheless, banks remain vigilant against emerging risks, particularly around asset quality and loan performance.

I trust that you will find this edition insightful. We welcome your feedback and contributions on topical issues shaping Kenya's financial sector. Submissions and editorial correspondence may be directed to the Bulletin's Editor at ***research@kba.co.ke***.

Raimond Molenje,
Chief Executive Officer

EDITORIAL OPINION

Commentary

Resilience Under Strain? Kenya's Growth Outlook Amid Global Fragility and Domestic Headwinds

By Dr. Samuel Tiriongo

Kenya's economy continues to demonstrate resilience amidst the growing interplay of global fragility and domestic constraints. The real GDP expanded by 5.0 percent in Q2 2025 (Figure 1), underpinned by strong activity in agriculture, services, and construction. However, the third quarter unfolded under softer demand conditions as external and domestic headwinds began to weigh on growth momentum.

This moderation aligns with global trends, as the world economy slowed to 3.3 percent in 2024 and is projected to ease further to 3.0 percent in 2025[1]. Moreover, the rising protectionism, higher borrowing costs and ongoing geopolitical tensions have constrained global output. Against this backdrop, sustaining Kenya's growth trajectory through 2025 will require deliberate policy support to stimulate private-sector credit and enhance domestic investment.

Inflation dynamics remain relatively benign, offering a welcome reprieve amid the uncertain environment. Headline inflation edged up slightly to 4.6 percent in September 2025 from 4.5 percent in August 2025 (**Figure 2**), primarily due to seasonal food price movements. Core inflation eased to 2.9 percent, indicating subdued underlying demand pressures. Nonetheless, external factors, particularly OPEC+ supply adjustments and elevated global oil prices

1. IMF, World Economic Outlook Update, July 2025

Figure 1 Real GDP Growth Rates

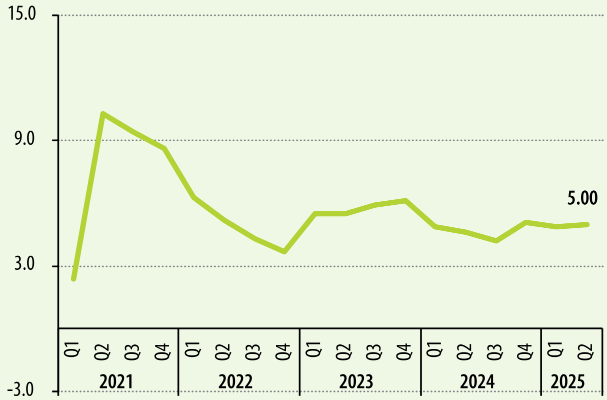
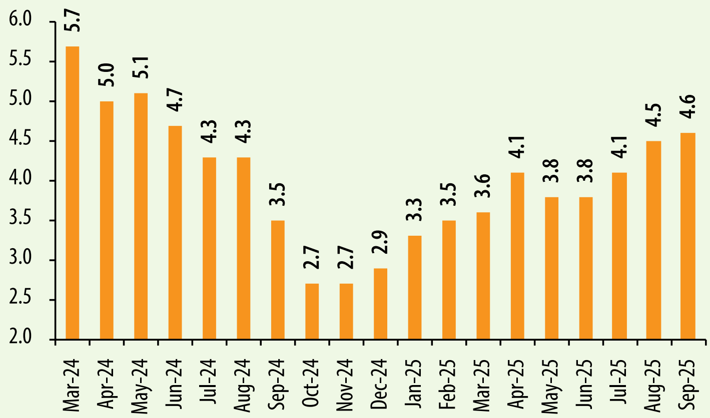


Figure 2 Trends in headline Inflation (%)



continue to exert upward pressure on import costs. Despite these pressures, inflation is projected to average around 4 percent over the next three years, remaining well within target of 5±2.5%. This provides the monetary authorities with room to maintain an accommodative stance supportive of credit expansion and investment.

Credit performance, however, remains the economy's weak link. Private sector credit growth improved only modestly, moving from a contraction of 2.9% in January 2025 to 5.0% in September 2025. However, asset quality concerns persist. The ratio of gross non-performing loans (NPLs) to gross loans stood at 17.1% in September 2025 (**Figure 3**), marking a slight decline from the 17.6% recorded in both June and August 2025 Nonetheless, capital markets show signs of renewed optimism, with all major NSE indices registering gains in September 2025, buoyed by improved investor sentiment following the U.S. Federal Reserve's 25-basis-point rate cut[2]. The resulting decline in global yields has enhanced the relative attractiveness of Kenyan assets, encouraging potential portfolio inflows into equities and government securities.

> " Sustaining Kenya's growth trajectory through 2025 will require deliberate policy support to stimulate private-sector credit and enhance domestic investment.

2. https://www.federalreserve.gov/monetarypolicy/files/monetary20250917a1.pdf

Figure 3: Growth in private Sector Credit and Asset Quality (%)

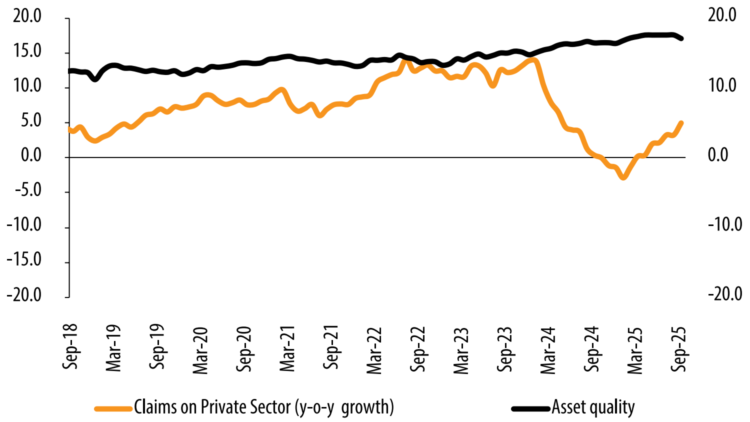
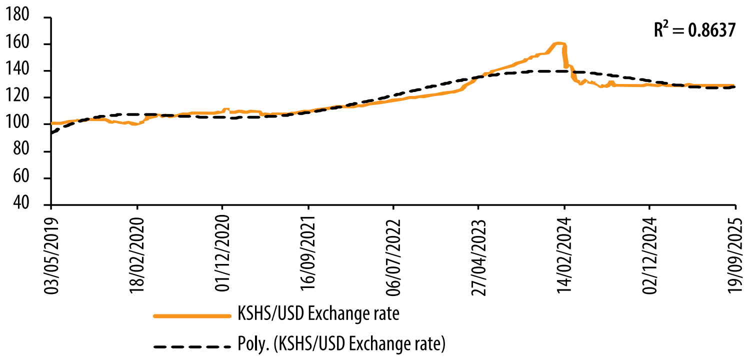
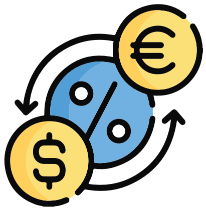


Figure 4: Trends in KES/USD Exchange Rate





129.25
US Dollar/ Kenya Shilling Exchange Rates

The foreign exchange market has been comparatively stable. The Kenya Shilling traded within the KSh 129.24–129.26 per USD range in Q3 2025 (**Figure 4**), supported by resilient remittance inflows, healthy reserves and a manageable current-account deficit. The interest-rate differential with advanced markets has also encouraged short-term inflows, cushioning the currency over the medium term.

Overall, Kenya's macroeconomic position reflects resilience under strain. Policy space is narrowing globally. However, Kenya's fundamentals, that is, anchored inflation, robust reserves and improving investor sentiment, provide scope for targeted interventions. Consequently, sustaining the growth momentum will depend on the extent unto which credit to productive sectors, mobilization of domestic capital and exchange rate stability would be managed going forward.

State of the Economy

Globally, economic growth remains subdued, and it is projected to ease to 3.0% in 2025 and 3.1 percent in 2026 (Table 1). This fragility reflects the rising tide of protectionism, tighter financial conditions and persistent geopolitical tensions, trade barriers and renewed U.S. tariffs. The trade policy uncertainty (TPU) surged in early 2025, peaking in April amid U.S. reciprocal tariffs, before moderating as the announcement of several framework trade agreements between the US and key trading partners and the de-escalation of US-mainland China tensions progressed.

Moreover, for most of the US trading partners impacted by early August's reciprocal tariff announcements, the tariffs applied to their exports to the US were lower than those proposed in April 2025. Nonetheless, the TPU index rose in July and August 2025 (**Figure 5**), and uncertainty is set to remain elevated for various reasons. First, the evolution of other tariffs outside of the reciprocal framework, including those imposed under

Table 1: World Economic Outlook Growth Projections (%)

	Projections		
	2024	2025	2026
World Output	**3.3**	**3.0**	**3.1**
Advanced Economies	**1.8**	**1.5**	**1.6**
United States	2.8	1.9	2.0
Euro Area	0.9	1.0	1.2
Germany	-0.2	0.1	0.9
France	1.1	0.6	1.0
Italy	0.7	0.5	0.8
Spain	3.2	2.5	1.8
Japan	0.2	0.7	0.5
United Kingdom	1.1	1.2	1.4
Canada	1.6	1.6	1.9
Emerging Economies	**4.3**	**4.1**	**4.0**
Asia	5.3	5.1	4.7
China	5.0	4.8	4.2

	Projections		
	2024	2025	2026
India	6.5	6.4	6.4
Europe	3.5	1.8	2.2
Russia	4.3	0.9	1.0
Latin America the Caribbean	**2.4**	**2.2**	**2.4**
Brazil	3.4	2.3	2.1
Mexico	1.4	0.2	1.4
Middle East and Central Asia	**2.4**	**3.4**	**3.5**
Saudia Arabia	2.0	3.6	3.9
African Economies	**4.0**	**4.0**	**4.3**
Egypt	2.4	4.0	4.1
Nigeria	3.4	3.4	3.2
South Africa	0.5	1.0	1.3
Kenya	4.7	4.8	4.9

Source: IMF, World Economic Outlook Update, July 2025

IMF GDP Growth Projections 2025

1.9% United States of America

4.8% The People's Republic of China

0.1% Federal Republic of Germany

2.3% Fed. Republic of Brazil

0.9% Russian Federation

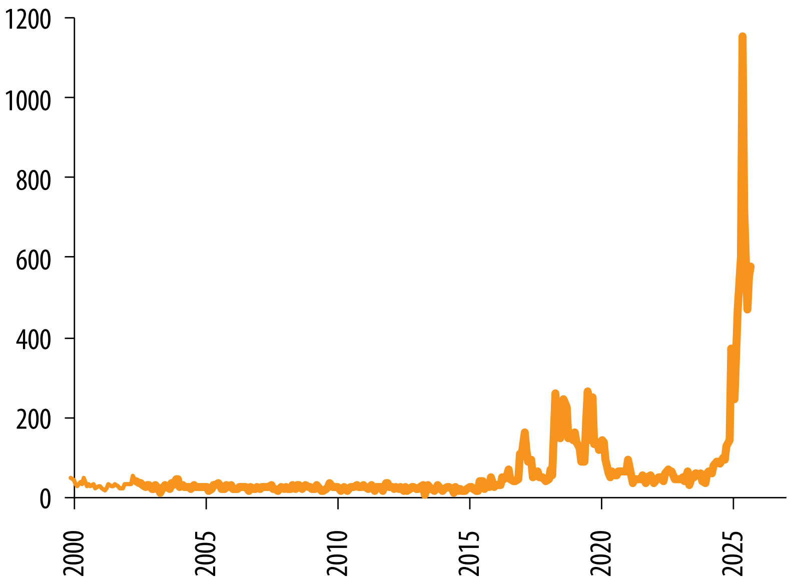
1.0% South Africa

3.4% Nigeria

4.8% Kenya

Source: International Monetary Fund, World Economic Outlook Database, September 2025

Figure 5: US trade policy uncertainty index

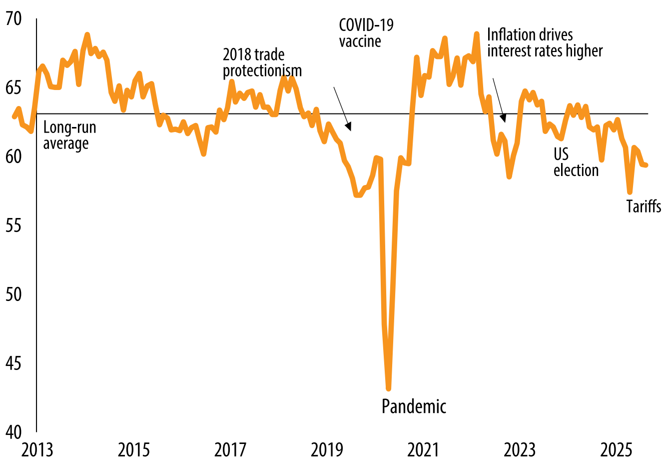


Source: PolicyUncertainty.com

Section 232. Second, the ongoing negotiations between the US and some major economies, including Canada, Mexico, Brazil and India and third, potential difficulties as negotiations move forward over the details of the framework trade agreements

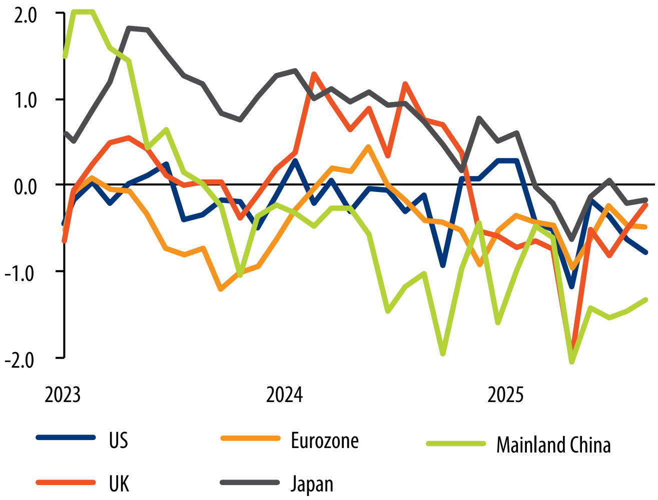
Meanwhile, global business expectations have softened, with outlooks for the next twelve months slipping to one of the lowest levels since the early months of the COVID-19 pandemic (**Figure 6a**). According to the Global PMI survey, firms indicated that geopolitical uncertainty and U.S. trade policy were the main source of diminished confidence. Business expectations remain weakest relative to long-run averages in the United States and Canada (**Figure 6b**), where sentiment deteriorated sharply in August 2025, while the Eurozone also experienced declining confidence. In contrast, sentiment improved modestly in Australia, Japan and the United Kingdom, although it remained below long-term averages. Among major emerging markets, optimism strengthened slightly in August 2025 but continued to lag in mainland China and Brazil, on account of persistent macroeconomic fragilities.

Figure 6a: Global PMI output expectations



Source: S&P Global Market Intelligence

Figure 6b: Major economies, output expectations (z-scores)



Source: IHS Markit

Domestically, the economy recorded a 5.0% growth rate in the second quarter of 2025 (**Figure 7**), and it is projected to strengthen, with real GDP expected to rise by 4.8% in 2025 and 4.9% (See **Table 1**) in 2026, mainly driven by the resilience of key service sectors, a robust agricultural performance supported by favorable weather and irrigation expansion, and industrial recovery anchored in construction, affordable housing projects, and improved credit access across productive sectors. However, downside risks persisted into the third quarter, largely driven by weak aggregate demand.

Nonetheless, the recent PMI readings suggest resilience and gradual recovery. The composite index rose to 51.9 in September 2025 (**Table 2**), signaling broad-based expansion across agriculture and services, renewed hiring, and improved supply chain efficiency. Yet, structural bottlenecks remain pronounced, including subdued aggregate demand, rising wage pressures, and ongoing industrial contraction, all of which threaten to erode medium-term growth momentum. Sustaining economic resilience will therefore hinge on expanding access to credit, strengthening business confidence, and effectively navigating external risks, particularly those stemming from global trade protectionism, to keep Kenya's growth trajectory on a stable upward path

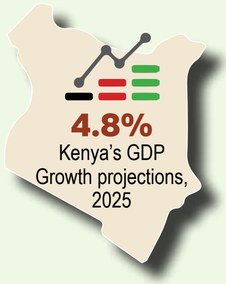
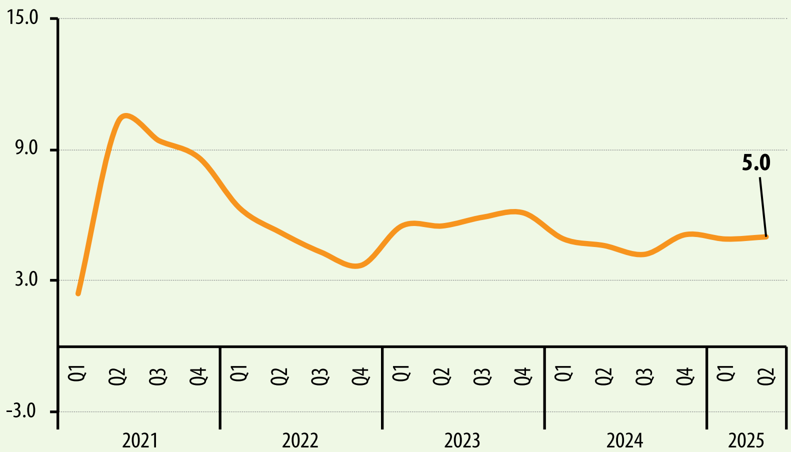


Figure 7: Real GDP Growth rates (%)



Source: KNBS

Table 2: Kenya PMI index and Sub-indices

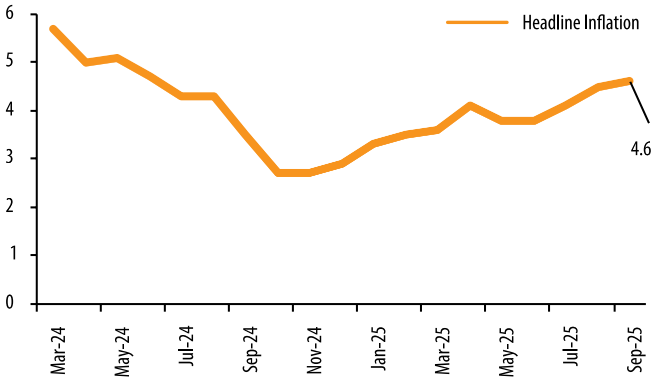
	2025			
	June	July	Aug	Sep
Composite PMI Index	48.8	46.8	49.4	51.9
Input prices	53.6	54.6	54.1	52.9
Output	51.3	52.6	50.4	51.7
New Orders	47.6	44.6	49.7	52.9
Employment	50.8	50.6	51.4	50.4
Suppliers Delivery Times	51.5	51.0	52.3	52.5
Stock of purchases	53.5	49.6	51.3	52.4

Source: IHS Markit

On the other hand, inflation dynamics remain generally favourable, with overall inflation contained within the target range and short to medium-term expectations well anchored. In September 2025, headline inflation rose to 4.6 percent, up from 4.5 percent in August 2025 (**Figure 8a**), largely due to seasonal increases in food prices that pushed non-core inflation from 9.2 to 9.6 percent. In contrast, core inflation, which better reflects domestic demand pressures, eased marginally to 2.9 percent from 3.0 percent over the same period (**Figure 8b**). Global oil prices edged slightly upward (**Figure 8c**), influenced by ongoing OPEC+ production decisions and persistent geopolitical frictions.

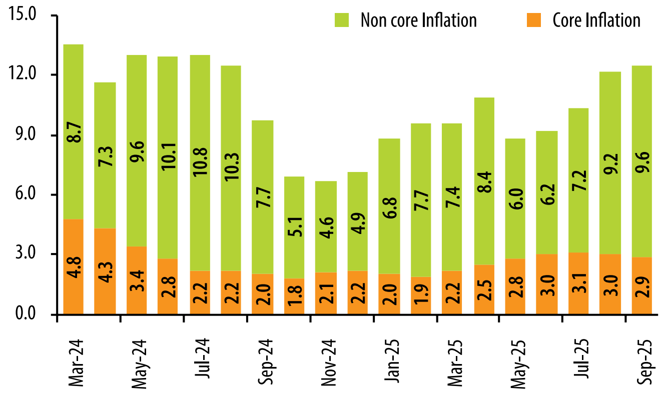
Figure 8: Inflation and its drivers

8(a): Trends in headline Inflation (%)



Source: KNBS

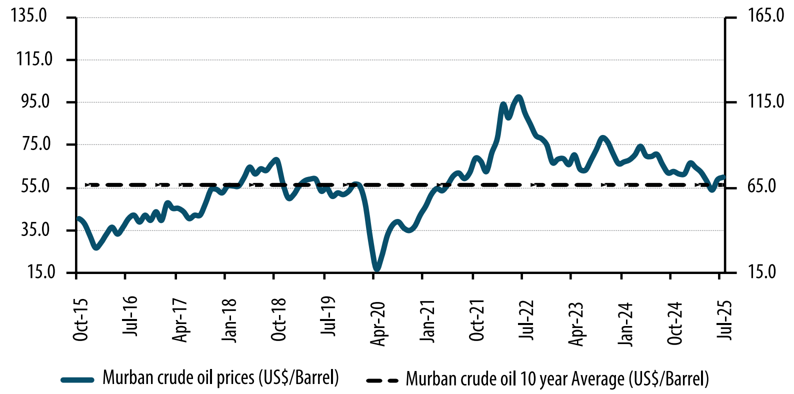
8(b): Drivers of headline Inflation (%)



Source: KNBS

8(c): Trends in Murban crude oil prices (US$/Barrel)

4.6%
Headline Inflation in September 2025

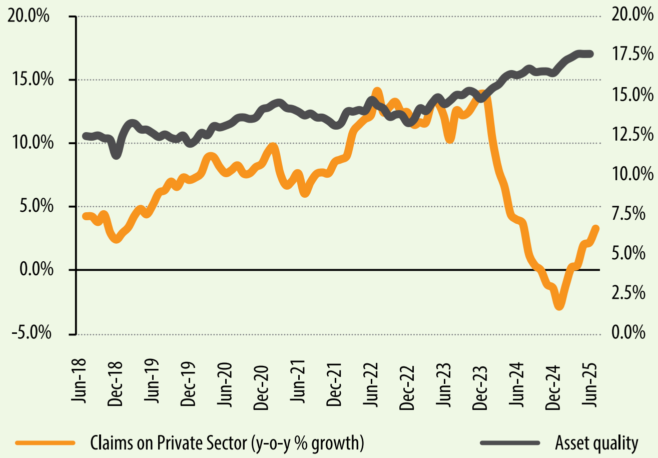


$69.7
Oil price per barrel in June 2025

Source: Oilprices.com

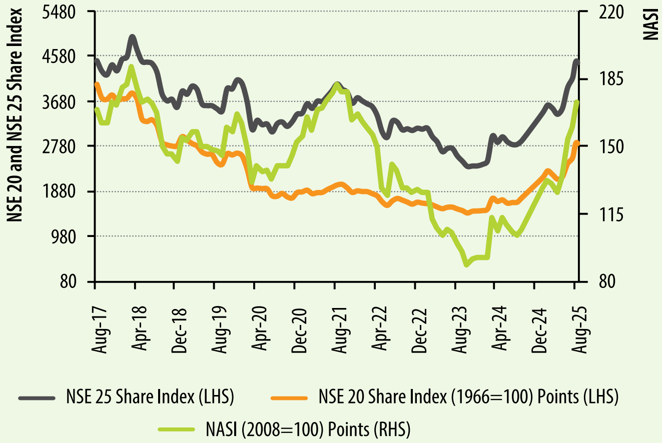
Figure 9: Developments in the Financial markets

9(a): Trends in credit growth and asset quality



Source: CBK

9(b): Trends in Kenya's equity market



Source: CBK

The Central Bank of Kenya (CBK)'s overall policy stance has continued to support credit expansion, although at a slower pace than desirable. Expansion of credit to the private sector accelerated, shifting from a contraction of -2.9% in January 2025 to 2.2% in June 2025. On the other hand, the gross non-performing loans to gross loans ratio rose from 16.8% in January 2025 to 17.6% in June 2025 (**Figure 9a**).

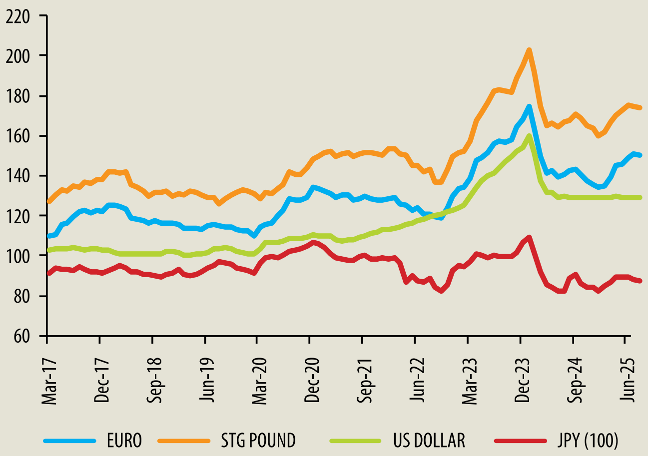
On the upside, there is improved demand for credit due to declining lending interest rates and resilient economic activity. The average lending rates in the domestic market have continued to decline. Consequently, the economy has also experienced falling money market rates and renewed investor confidence that has spurred recovery in equity markets, with Kenyan equities regaining as evidenced by an uptick by all the three NSE indices (**Figure 9b**), thereby reflecting a broad-based resurgence in investor optimism.

The Kenya Shilling (KSh) continued to post a mixed performance against most major international currencies. First, it levelled off against the US Dollar, to exchange at an average rate of 129.35 in the second quarter of 2025, which was stronger than 130.87 recorded in a similar quarter a year earlier. Even so, it was relatively stable compared to the first quarter of 2025 where it exchanged at 129.34 against the dollar. On the other hand, the British Pound, the Euro and the Japanese Yen remained much stronger relative to the Shilling. The British Pound averaged at 172.66 in the second quarter of 2025, up from 162.84 in the first

129.35
US Dollar/ Kenya Shilling Exchange Rates

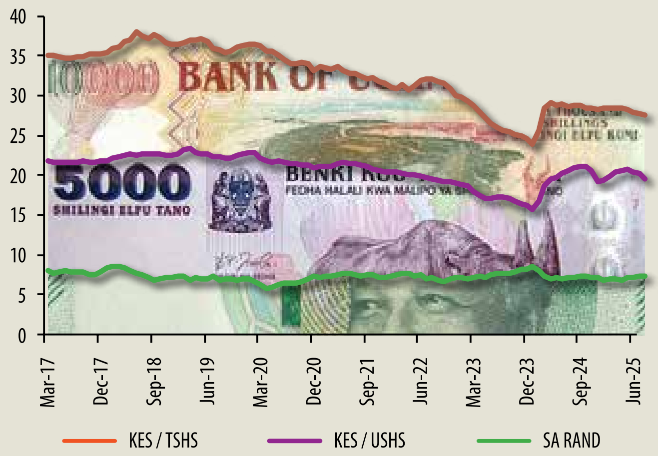
Figure 10: Exchange Rate Developments

10(a): Shilling against Major international currencies



Source: CBK

10(b): Shilling against regional currencies



Source: CBK

quarter of 2025 and 165.23 in the second quarter of 2024. The Shilling decreased in value against the Euro with an average exchange rate of 146.61 in the second quarter of 2025, compared to 136.06 in the first quarter of 2025 and 140.96 in the second quarter of 2024.

The KSh also weakened against the Japanese Yen, averaging at 89.47 in the second quarter of 2025, a decline from 84.84 in the first quarter of 2025 and 84.03 in the second quarter of 2024. However, the Kenya Shilling remained relatively stable against select East African currencies, averaging 28.18 Ugandan Shillings and 20.63 Tanzanian Shillings (**Figure 10b**).

Even so, the foreign exchange remains adequate. As of June 2025, foreign exchange reserves stood at USD 11.09 billion, which is equivalent to 4.9 months of import cover. Kenya's external position remains strong due to diaspora remittances, which rose to 2,518.32 USD million in June 2025, up from 2,379.45 USD million in June 2024, and continue to provide a vital source of foreign exchange inflows, even in a challenging global environment.

External Sector

Kenya's current-account deficit widened in Q2 2025 to USD 662 million, up from USD 361 million in Q2 2024 (**Figure 11**). The deterioration was driven primarily by a larger goods-trade imbalance, weaker services performance and only modest gains in remittances[3].

The goods-trade deficit expanded by USD 368 million to USD 2,750 million, as import demand strengthened. Goods exports increased by USD 88 million to USD 3,299 million, buoyed by higher coffee prices and increased horticultural exports (vegetables, fruits, and cut flowers). Meanwhile, goods imports rose by USD 456.4 million to USD 6,048.7 million, reflecting strong demand for intermediate, machinery, and capital goods associated with heightened production and investment activity (**Figure 12a**).

The services account deficit widened by USD 89 million, primarily due to lower receipts from transport and travel. By contrast, the primary income deficit narrowed marginally owing to higher investment-income inflows, while the secondary income account improved on account of robust remittance growth. Remittances rose by USD 44 million to USD 1,306 million, reaffirming their resilience as a major foreign-exchange source (**Figure 12b**).

Figure 11: Current Account (USD millions)

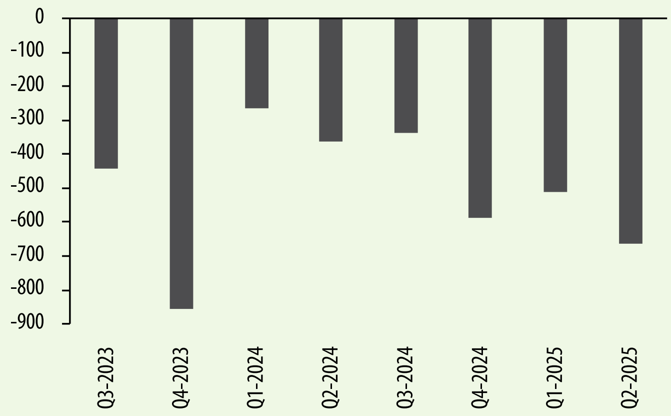
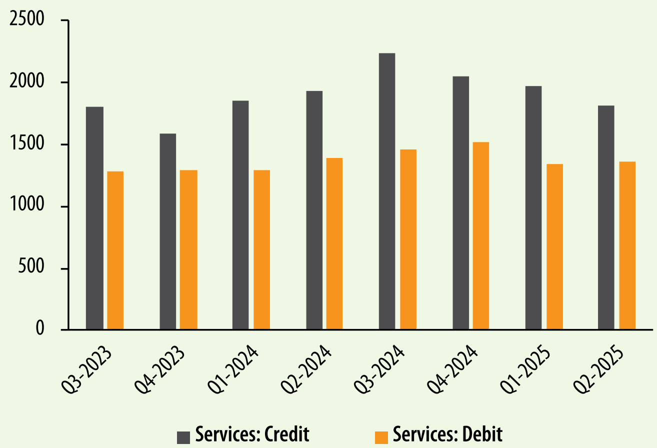


Figure 12: Imports and Exports of Goods and Services

12a: Imports and Exports of Goods (USD millions)

12b: Imports and Exports of Services (USD millions)

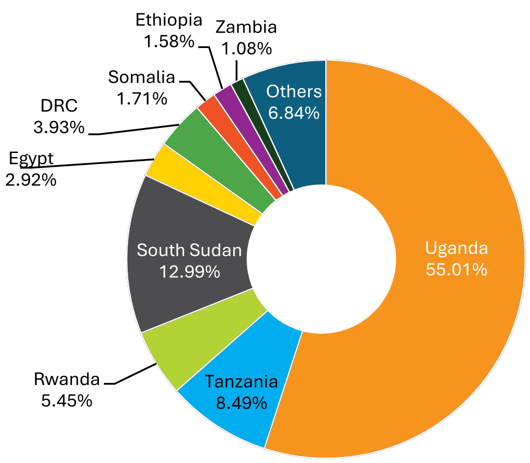


Kenya's direction of trade in the second quarter of 2025 depicted a mixed regional performance. First, exports to the EAC declined by 12.2 percent to USD 1,404 million, mainly due to lower sales to Uganda and Somalia, while exports to COMESA fell by 15.4 percent to USD 1,162 million. Conversely, exports to the Rest of the World surged by 18.4 percent to USD 1,721 million, supported by stronger demand from the Netherlands, Germany, France, Spain, India, the UAE, and the United States.

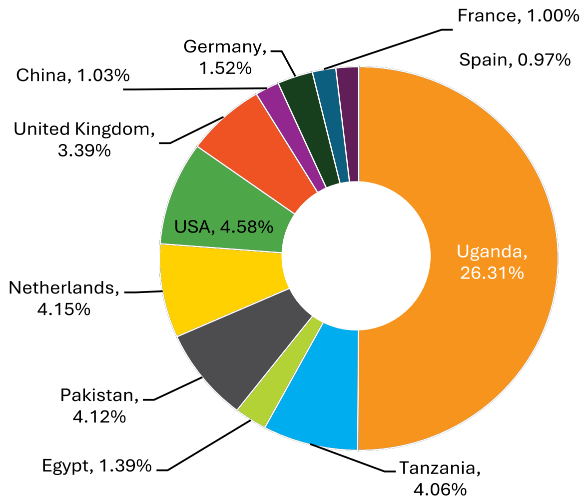
3. https://www.centralbank.go.ke/uploads/quarterly_economic_review/339831382_April-June%202025.pdf

Figure 13: Kenya's Intra-African and Global Trade Developments (%)

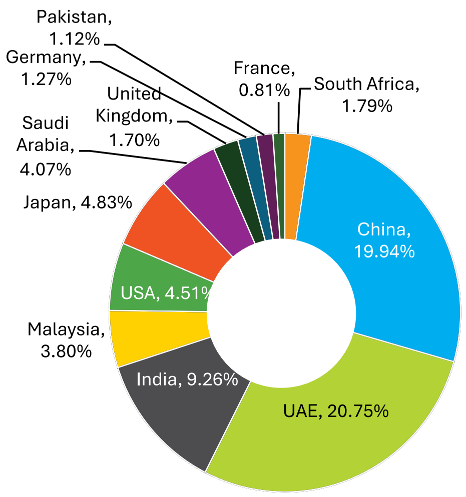
13(a): Intra-African Trade - Kenya's Major Trading Partners In per cent, Q2 2025



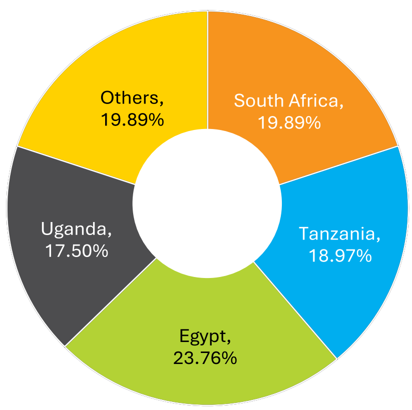
13(b): Share of exports of goods by trading partners In per cent, Q2 2025



13(c): Share of imports of goods by trading partners In per cent, Q2 2025

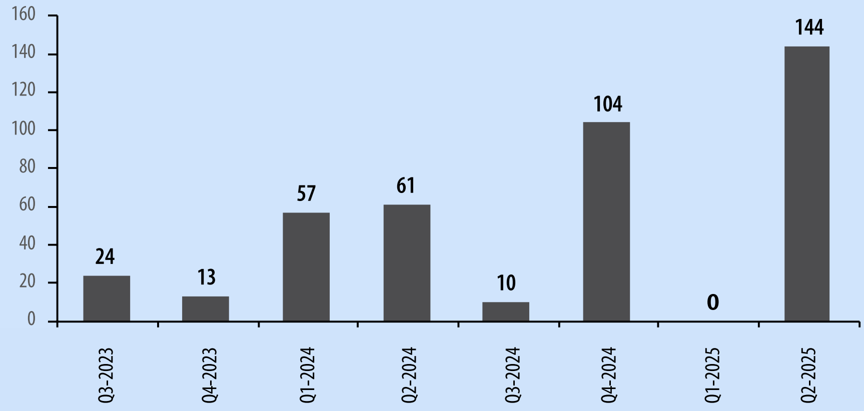


13(d): Intra-African Share of Imports of goods by trading partners in per cent, Q2 2025



Second, on the import side, China remained Kenya's largest supplier, accounting for about 20 percent of total imports, dominated by machinery and transport equipment. The UAE followed closely, supplying petroleum and oil products, while India remained a key source of pharmaceuticals. Imports from Africa rose by 24.2 percent (USD 105.8 million), largely from South Africa, Egypt and Uganda.

Figure 14(a): Capital Account (USD millions)



On the other hand, the capital account strengthened significantly, increasing by USD 82 million (133.8 percent) to USD 144 million (**Figure 14a**). Meanwhile, the financial account posted strong net inflows of USD 2,142 million, a sharp increase of USD 1,809 million from the previous year, driven by higher loan and deposit inflows under "other investment" and renewed portfolio participation (**Figure 14b**). As a result, Kenya's overall balance of payments recorded a surplus of USD 1,215 million in Q2 2025, up from USD 650 million in Q2 2024 (**Figure 14c**).

Figure 14(b): Financial Account (USD millions)

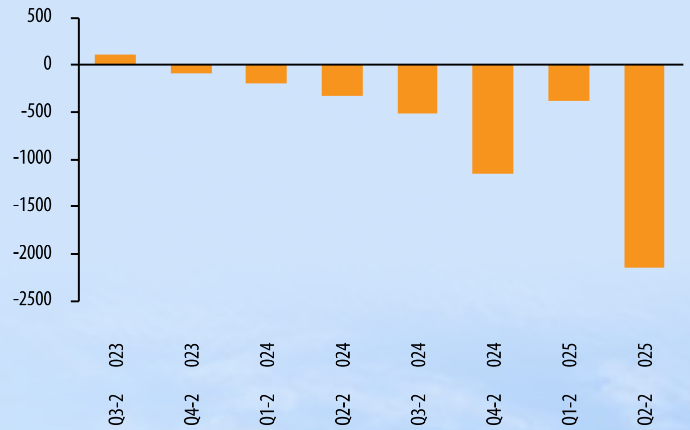
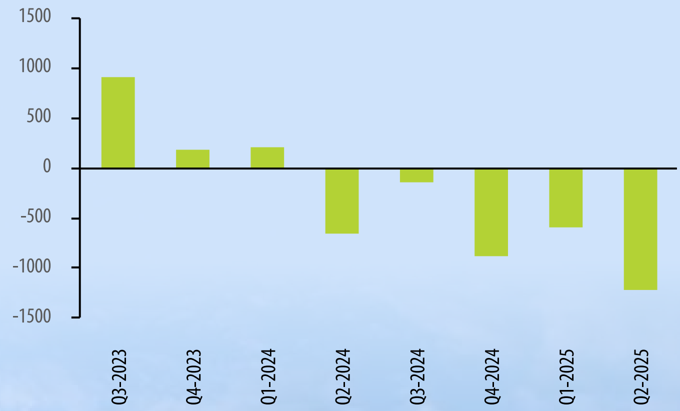


Figure 14(c): Overall Balance (USD millions)



Sectoral Performance

Economic Contribution of Key Sectors

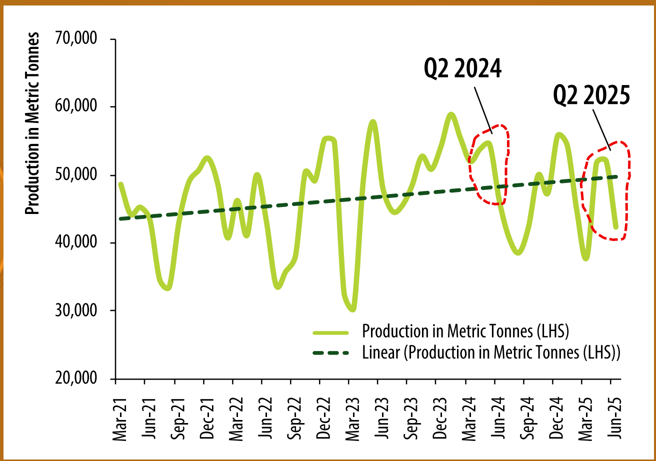
Agriculture

The agriculture sector grew by 4.4% to KSh 1,167 billion in the second quarter of 2025 compared to 4.5% growth in the corresponding quarter in 2024. This growth was on account of increased production of key crops amidst favourable weather conditions and increased government intervention through subsidized fertilizers. In terms of nominal GDP contribution, the sector maintained its prominence, amidst a marginal rise in its share from 25.16% in the second quarter of 2024 to 25.87 % in 2025.

Tea production declined in the second quarter of 2025 to 146,336 metric tonnes, down from 154,624 metric tonnes in the same quarter of 2024 (**Figure 15a**). The drop in tea production was largely due to decreased farm production caused by hot and dry weather and below-average rainfall experienced between February 2025 to June 2025. On the other hand, the average tea prices during the second quarter of 2025 fell by 10.18% relative to second quarter in 2024, where the average tea auction prices stood at KSh 288.40 per Kg (**Figure 15b**).

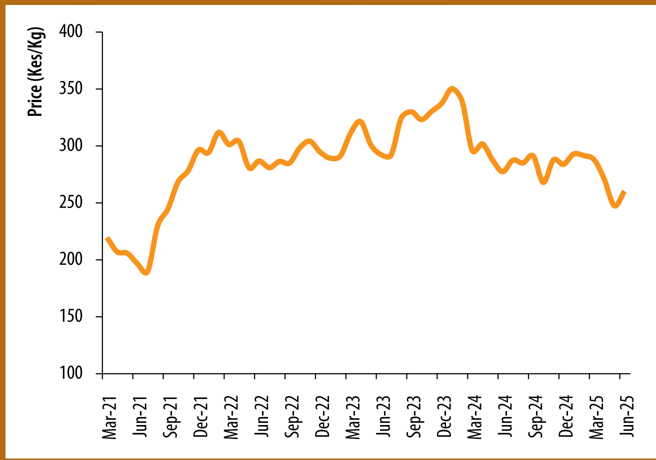
Figure 15: Tea production and prices

15(a): Tea production in metric tonnes



Source: CBK

15(b): Tea auction prices in KSh/kg



Source: CBK

The decline in average tea prices is mainly attributed to tripartite factors. First, tea prices have continued to be impacted negatively by the global economic shock experienced in most countries due to the ongoing Russia-Ukraine crisis. Second, the decline in tea prices has been exacerbated by higher quantities of carryover stocks along the value chain occasioned by increased production the last two years. Third, other emerging challenges affecting auction sales including delay in shipment to Europe and North Africa owing to attack on vessels along the Red Sea Route by rebels and market access challenges in Sudan occasioned by the ongoing internal conflicts.

Tea export volumes increased from 150,733 metric tonnes in the second quarter of 2024 to 157,522 metric tonnes in the second quarter of 2025.

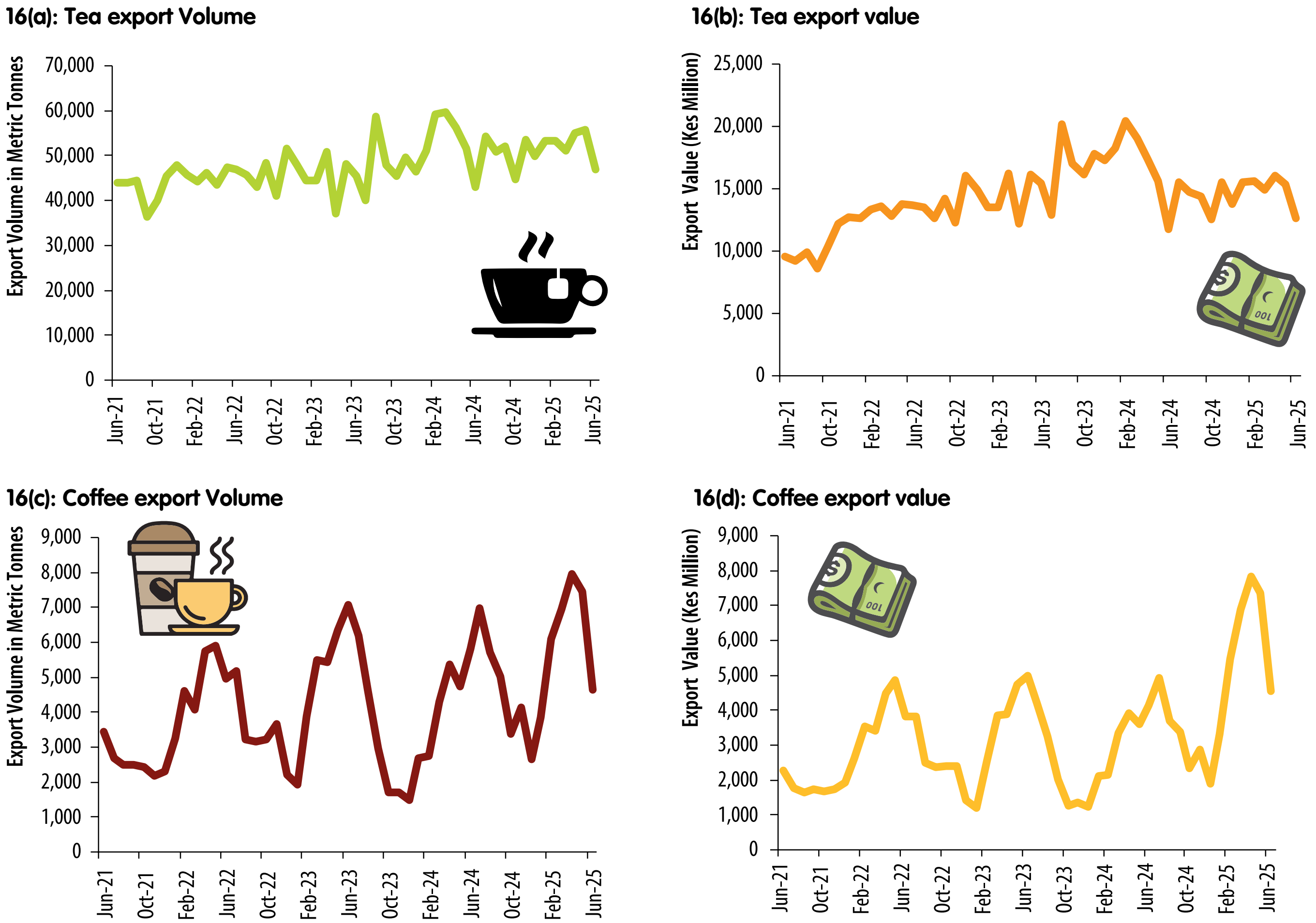
However, it registered a drop in export earnings to KSh 44.04 billion in the second quarter of 2025 from KSh 44.7 billion in a similar quarter in 2024. The tea sector faced lower international prices, which more than offset the gains from higher export volumes. In contrast, coffee performance was impressive, with the export volumes increasing to 20,042 metric tonnes in the second quarter of 2025, up from 15,904 metric tonnes in a similar period in 2024.

This uptick in export volumes was as a result of the increased farmer participation in both auction and direct sales. Moreover, the high international prices boosted the export earnings, as they rose sharply to KSh 19.72 billion in the current quarter, up from KSh 11.67 billion registered in a similar quarter in 2024 (**Figure 16**)

157,522
Metric Tonnes: Tea exports in Q3 2025

44.04
Tea export earnings in Q2 2025

Figure 16 Value of Tea and Coffee Exports

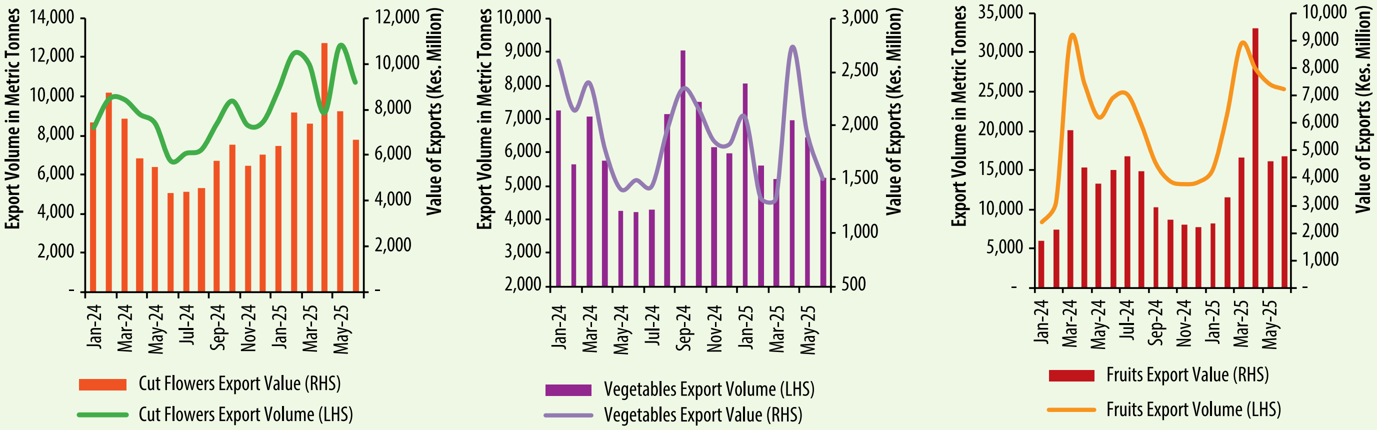


Source: KNBS

The horticulture sector remained resilient during the second quarter of 2025, posting strong export growth across key high-value commodity segments. Fruit exports rose from 72,125 Metric Tonnes to 79,432 metric tonnes, generating KSh 18.89 billion. Similarly, cut flower export volume increased modestly from 25,487 Metric Tonnes to 32,494 Metric Tonnes, thereby generating KSh 24.41 billion, while vegetable exports recorded modest volume increases from 18,674 Metric Tonnes to 14,196 Metric Tonnes, generating KSh 6.17 billion (**Figure 17**).

Figure 17: **Cut Flower, Vegetables and Fruits**

17(a): Cut Flower **17(b): Vegetables** **17(c): Fruits**



Energy

The performance of Kenya's energy sector continues to be shaped by global commodity price movements and geopolitical developments. Moreover, there is a gradual shift toward renewable energy sources. During the second quarter of 2025, total electricity generation rose to 3,269.97 million KWh, up from 3,041.45 million KWh recorded in the corresponding quarter of 2024 (**Figure 16**). This growth was primarily driven by increased output from geothermal sources, which expanded to 1,479.76 million KWh, and wind generation, which rose to 413.77 million KWh (**Figure 18**).

Despite a decline in Murban crude oil prices, which closed the quarter at USD 69.73 per barrel in June 2025, domestic fuel prices exhibited a mixed trend rather than a corresponding decrease.

The pump price of petrol increased to KSh 178.19 per litre, while diesel and kerosene prices declined to KSh 163.89 and KSh 147.92 per litre, respectively. Meanwhile, the retail price of Liquefied Petroleum Gas (LPG) stood at KSh 3,134.91 for a 13-kg cylinder as of June 2025 (**Table 3**).

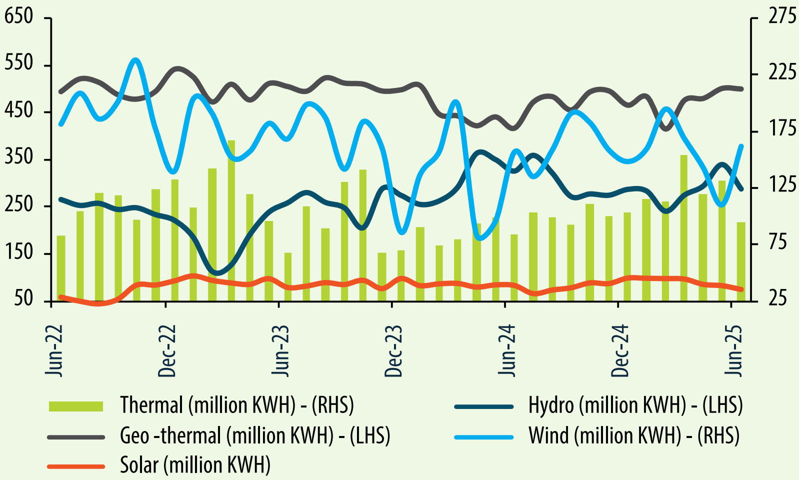
KSh178.19
Petrol pump prices in Q2, 2025

Table 3: **Average Monthly Crude Oil and Retail Fuel Prices**

	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Murban crude oil (US$/Barrel)	83.22	84.43	78.41	73.59	74.45	72.98	73.07	79.38	76.81	74.00	68.98	63.62	69.73
Super petrol (KSh/Litre)	190.46	189.46	189.46	189.46	181.33	181.33	176.96	177.25	177.25	177.25	175.30	175.30	178.19
Diesel (KSh/Litre)	173.83	172.33	172.33	172.33	168.82	168.82	165.82	167.84	167.84	167.84	165.64	165.64	163.89
Kerosene (KSh/Litre)	163.82	162.52	162.52	159.10	152.18	152.18	149.18	152.18	152.18	152.18	149.78	149.78	147.92
LPG (13Kgs)	3,213.97	3,219.58	3,217.85	3,196.04	3,183.29	3,147.66	3,143.85	3,122.16	3,139.65	3,146.03	3,156.19	3,141.30	3,134.91

Source: KNBS

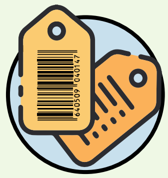
Figure 18 Monthly Electricity Generation by Source



Source: KNBS

Manufacturing

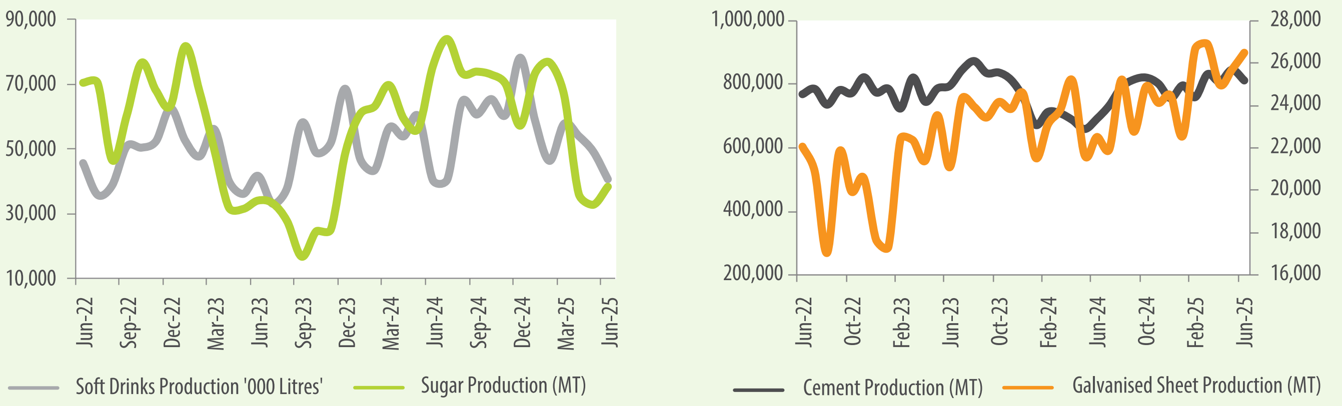
The manufacturing sector's real value added grew by 1.0% in the second quarter of 2025, which is a slowdown from 3.2% growth recorded in a similar period in 2024. The sector accounted for a notable share of 6.63% of the GDP in the second quarter of 2025, and this being a decline from 7.24% recorded in a similar quarter a year earlier. The contraction in the sector's performance was largely driven by food manufacturing, as sugar production fell sharply to 107,293 metric tonnes from 191,034 metric tonnes in a similar period in 2024, while soft drink output declined to 143.9 million litres from 154.3 million litres (**Figure 19a**). Conversely, non-food manufacturing activities showed improvement, with galvanized sheet production rising from 69,365 to 77,186 metric tonnes, as cement production rose by 20.8% to 2.46 million metric tonnes in the second quarter of 2025, up from 2.04 million metric tonnes recorded in a similar quarter, a year ago (**Figure 19b**). Moreover, the year-on-year credit advanced to manufacturers has remained on a contractionary path on account of tighter financial conditions.



The Producer Price Index (PPI), which measures the average change over time in the prices received by domestic producers for their goods[2], increased to 138.16 points in the second quarter of 2025 from 136.62 points in March 2025 and 137.88 in June 2024, indicating a mild upward pressure in producer prices. Year-on-year producer inflation rate as of

Figure 19: Production in the Manufacturing Sector

19(a): Food manufacturing **19(b): Non-food manufacturing**

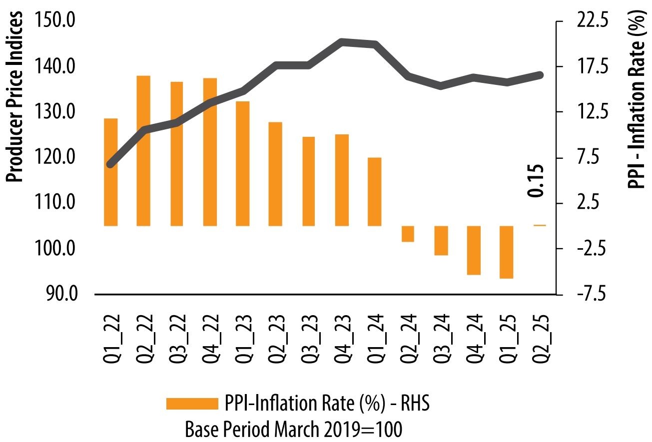


Source: KNBS

2. Producer Price Index (PPI) provides key insight into cost dynamics in the manufacturing sector.

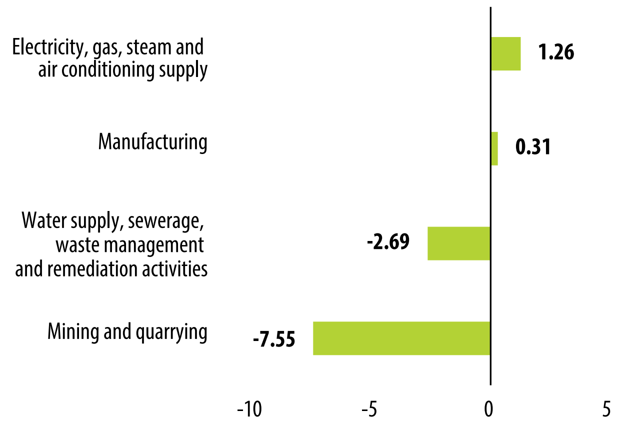
Figure 20: Producer Price Indices (PPI)

20(a): PPI and PPI Inflation



Source: KNBS

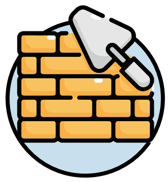
20(b): Year-on-Year Industrial Producer Inflation rates by Sectors, June 2025/June 2024



Source: KNBS

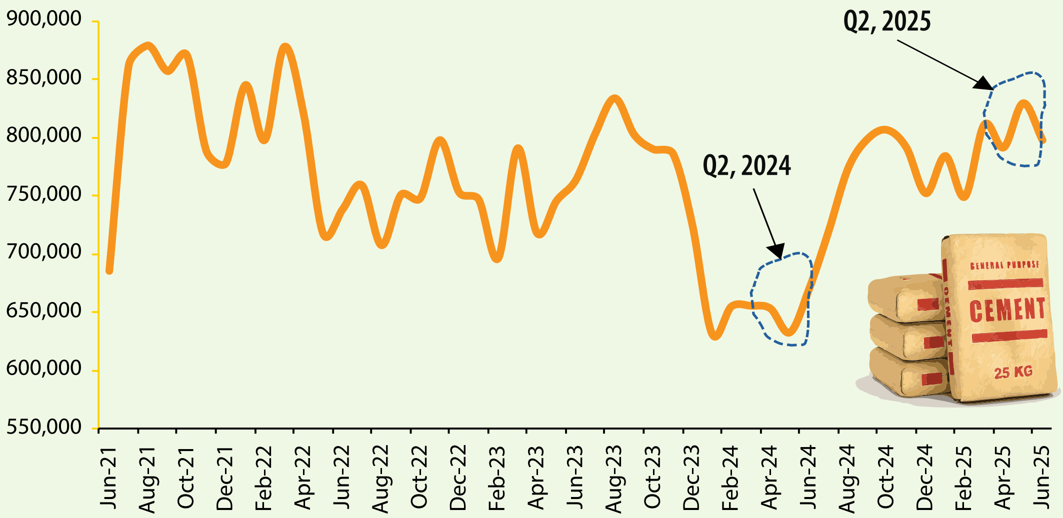
June 2025 was 0.15% (**Figure 20**). Price variations occurred across industrial sectors between June 2024 and June 2025: Mining and Quarrying sector declined by (-7.55 percent); Water Supply, Sewerage, Waste Management, and Remedial Activities (-2.69 percent). On the other hand, Manufacturing sector experienced a slight increase in inflation at 0.31 percent; Electricity, Gas, Steam, and Air Conditioning reported a 1.26 percent rise (**Figure 20b**).

Building and Construction



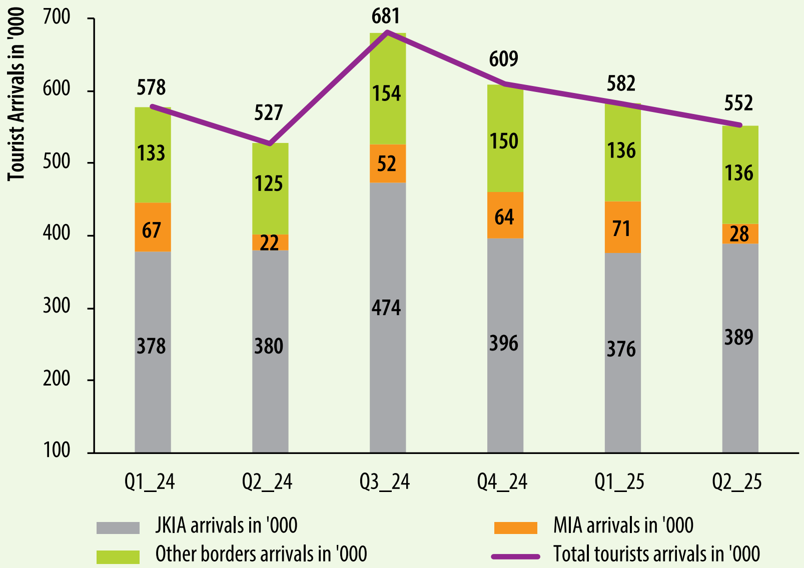
The construction sector, a critical component of the economy, registered a rebound during the second quarter of 2025 to grow at 5.7 per cent. This is a notable growth compared to a contraction of 3.7% recorded in 2024 in a similar quarter. The sector contributed 5.68% to nominal GDP during the quarter. The activities in the sector remained upbeat as evidenced by cement consumption that increased to 2.42 million metric tonnes, up from 1.96 million metric tonnes a year earlier during a similar quarter. This growth is largely driven by the government's affordable housing programme. The amount of imported bitumen rose from 22,659 to 15,566.2 metric tonnes suggesting increase in road construction activities. Iron and steel imports also rose to 526,606 metric tonnes in 2025 Q2, up from 222,112.3 metric tonnes in 2024 Q2 (**Figure 21**).

Figure 21: Cement Consumption in Metric Tonnes



Source: KNBS

Figure 22: Tourist Arrivals



Source: KNBS

Tourism

The tourism sector has continued to grow strongly on account of continued rebound on international travel and government initiatives to diversify source markets. The total tourist arrivals grew to 552.11 thousand in the second quarter of 2025, up from 527.02 thousand registered in a similar quarter a year earlier, representing a 4.76% growth. Tourist arrivals through JKIA increased from 379.89 thousand in the second quarter of 2024 to 388.60 thousand in the second quarter of 2025. Conversely, arrivals through MIA rose slightly from 22.38 thousand to 27.81 thousand. Other border entries also increased from 124.76 thousand to 135.70 thousand (**Figure 22**).

Fiscal Performance

Government Revenue Generation

Government revenue and grants rose by 13.0 percent to KSh 966.1 billion in the fourth quarter of the FY 2024/25, compared to KSh 855.1 billion in the same quarter of FY 2023/24 (Figure 23). The growth was largely attributed to stronger tax revenues, higher Appropriations-in-Aid (A-in-A), and increased external grants. However, non-tax revenue declined markedly by 52.1 percent, partly offsetting these gains. Despite this shortfall, the overall revenue performance underscores continued fiscal consolidation efforts and improved efficiency in tax administration.

Figure 23: Composition of Government Revenue

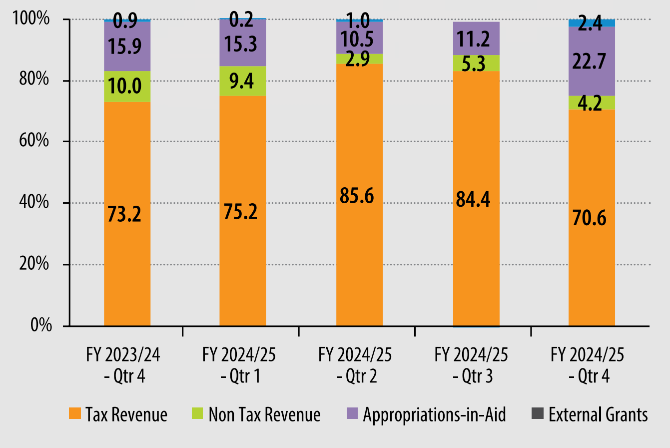


Figure 24: Expenditure Patterns

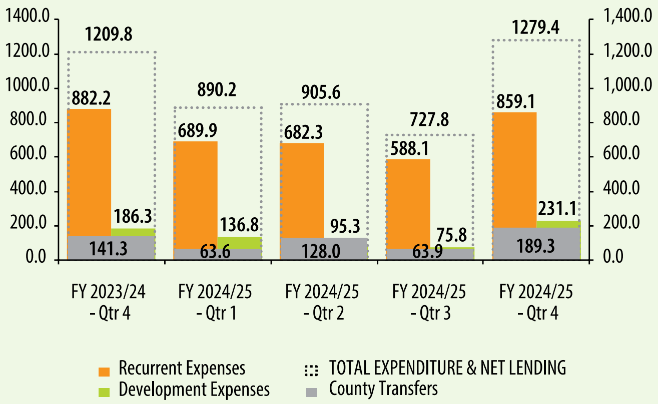
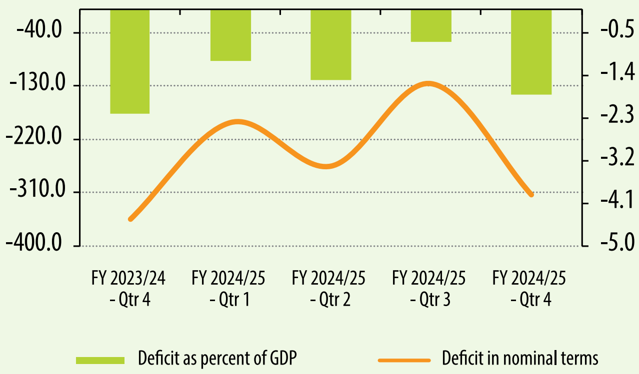


Figure 25: Budget deficit



On the other hand, the total government expenditure and net lending increased by 5.8 percent to KSh 1,279.4 billion in Q4 FY 2024/25. The expansion was driven mainly by a 24.0 percent rise in national government development expenditure and a 34.0 percent increase in county transfers, which together offset a modest decline in recurrent outlays. In expenditure composition, recurrent spending accounted for 67.1 percent, development 18.1 percent, and county allocations 14.8 percent (**Figure 24**).

In terms of the Revenue–Expenditure Gap, that is the Budget Deficit, the fiscal operations for the financial year 2024/25 closed with an overall budget deficit equivalent to 5.8 percent of GDP (**Figure 25**). In nominal terms, the deficit stood at KSh 1,011.2 billion, closely aligned with the target of KSh 1,012.3 billion. This outcome reflects effective fiscal management despite revenue and expenditure undershooting targets. The near alignment between planned and realized fiscal balances demonstrates prudence in budget execution amid tight financing conditions.

Figure 26: Domestic and external debt as a percentage of GDP

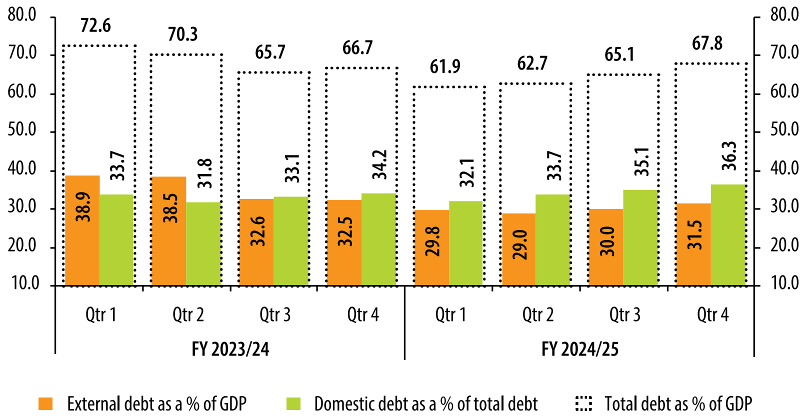


Figure 27: Domestic Debt Composition

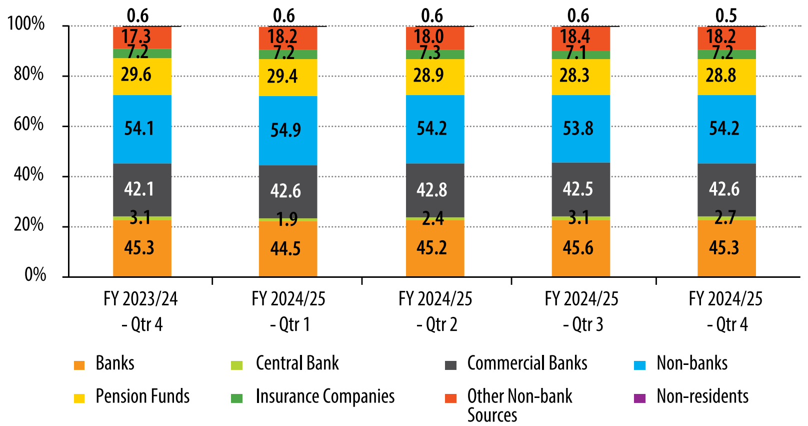
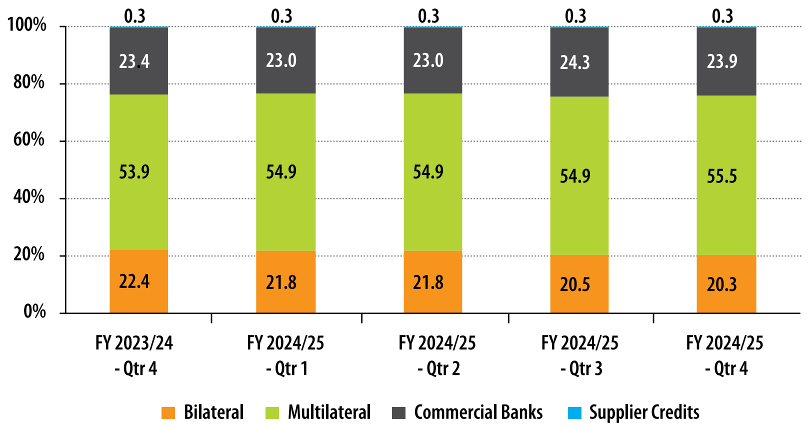


Figure 28: External Debt Composition



Public Debt

Kenya's public and publicly guaranteed debt rose by 3.9 percent in Q4 FY 2024/25, reaching KSh 11.81 trillion. Consequently, the debt-to-GDP ratio increased from 65.1 percent in Q3 to 67.8 percent in Q4, reflecting both increased borrowing requirements and exchange-rate effects (**Figure 26**).

Domestic debt expanded by 3.3 percent to KSh 6,326.0 billion, driven by heightened issuance of Treasury bills and bonds. Debt securities accounted for 97.2 percent of total domestic debt, underscoring continued reliance on market instruments. Holdings of Treasury bills (excluding repos) grew by 13.3 percent, while Treasury bonds rose by 1.7 percent due to successful issuance of 15-year and 25-year bonds, attracting strong participation from banks, pension funds, and insurers (**Figure 27**).

The external debt increased by 4.7 percent to KSh 5,484.8 billion, reflecting higher disbursements from bilateral, multilateral and commercial lenders. The share of multilateral debt rose by 0.6 percentage points, driven by new concessional disbursements from the International Development Association (IDA), while the share of commercial debt declined marginally by 0.4 points. IDA remained the largest multilateral creditor (USD 12.9 billion or 30.8 percent of total), followed by China, the leading bilateral lender (USD 5.1 billion or 12.1 percent).
(**Figure 28**)

Monetary Performance

The Central Bank of Kenya (CBK) maintained its monetary policy easing cycle during the second quarter of 2025 (Figure 29a). With inflation remaining low and the exchange rate stable, the easing stance is expected to persist through the end of the year to stimulate credit growth and bolster overall economic activity.

Consistent with the downward trend in the Central Bank Rate (CBR), money market rates also declined. Between March and June 2025, average deposit rates fell slightly from 9.33% to 8.37%, while lending rates eased from 15.77% to 15.28%, reflecting a reduction in borrowing costs for both households and businesses. The interbank rate stood at 9.72% as of June 2025. Similarly, the yield on short-term government securities mirrored this trend, with the 91-day Treasury bill rate declining from 8.88% to 8.21% (**Figure 29b**), suggesting that the government could access short-term domestic funding at lower rates.

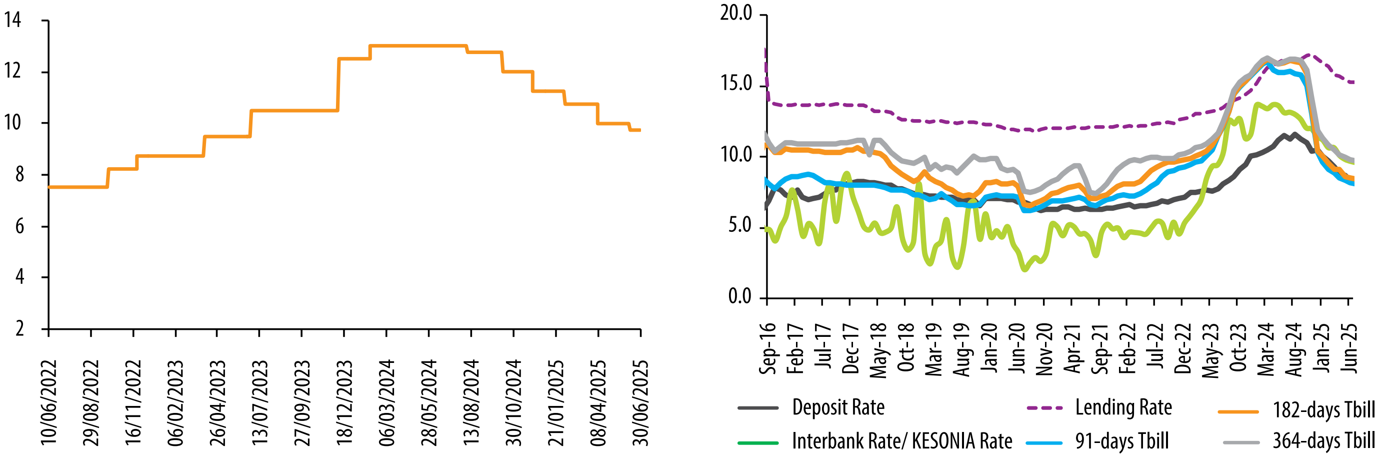
Amidst the declining rates, private sector credit growth recovery has not been able to pick up proportionately. In June 2025,

15.28%

Average lending rates in Quarter 3, 2025

Figure 29: Market Rates Dynamics

29(a): Trends in Central Bank Rate (CBR) **29(b): Money market rates**

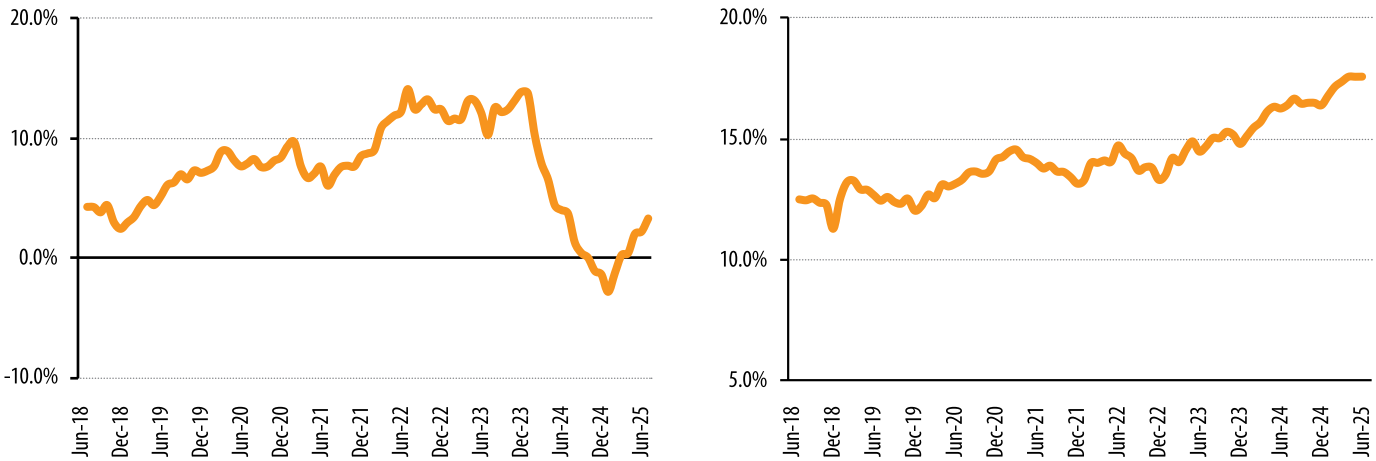


Source: CBK

credit to the private sector growth increased to 2.2%, up from 0.4% in April 2025 and -2.9% in January 2025 (**Figure 30**). Moreover, the sector's asset quality deteriorated further, with the NPL ratio edging up to 17.6% in June 2025, up from 16.81% in January 2025 (**Figure 30b**).

Figure 30: Interest Rates Dynamics

30(a): Claims on private sector credit (y-o-y % growth) **30(b): Asset quality (%)**



Source: CBK

Insurance Sector Performance

The performance of the insurance industry in Kenya during the second quarter of 2025 (Q2 2025) saw overall growth in premiums and assets, despite a notable decline in industry profitability after tax (Table 4). The industry gross written premium (GWP) for direct insurance stood at KSh 241.34 billion at the end of the second quarter in 2025, representing a robust increase of 13.4% compared to KSh 212.85 billion reported in a similar quarter in 2024. The Net Premium Income (NPI) for direct insurance grew by 21.9% to KSh 196.83 billion.

Table 4: Performance of Kenya's Insurance Industry, Q2 2025

Indicator		Q2 2025
Industry Gross Written Premium (Direct Insurance) (Kes billion)		241.34
Net Premium Income (Direct Insurance) (Kes billion)		196.83
Segmental Premium Contribution	General Insurance (%)	53.80
	Long-Term Insurance (%)	45.70
	Microinsurance (%)	0.40
Profit Before Tax (Direct Insurance) (Kes billion)		15.64
Profit After Tax (Industry incl. Reinsurance) (Kes billion)		14.79
Total Assets	Kes Trillion	1.37
	Growth (%)	18.4
Income-Generating Investments	Kes Trillion	1.21
	Percentage	87.80
Investment in Government Securities (% of total investments)		71.00

Source: AKI

On the other hand, General Insurance Business remained the largest segment, contributing 53.8% of the total premium, while Long Term Insurance Business contributed 45.7%, and Micro Insurance Business accounted for 0.4%. However, Profit Before Tax (PBT) for direct insurance fell by 30.1% to K 15.64 billion. The Profit After Tax (PAT) for the entire industry, including reinsurance business, declined by 11.5% to KSh 14.79 billion in Q2 2025, down from KSh 16.71 billion in Q2 2024.

The insurance industry's asset base increased by 18.4% to KSh 1.37 trillion as of the second quarter of 2025, compared to KSh 1.16 trillion held in a similar quarter in 2024. A significant portion of these assets, that is 87.8% or KSh 1.21 trillion, was held in income-generating investments, which grew by 19.3%. Government Securities attracted the most investments, comprising 71.0% of the overall industry investment portfolio.

Capital Markets

Activities at the Nairobi security Exchange was bullish during the second quarter of 2025. All the market indices gained (Table 5). For instance, the NASI edged upwards to 153.43 in June 2025, up from 130.81 in March 2025 and 109.49 in June 2024. Mirroring this trend, both the NSE 25 and NSE 20 share indices gained, with each rising to 3,938.28 and 2,400.26 points, respectively. The market capitalization[2] increased to KSh 2.42 trillion, up from KSh 1.71 trillion in a similar quarter in 2024.

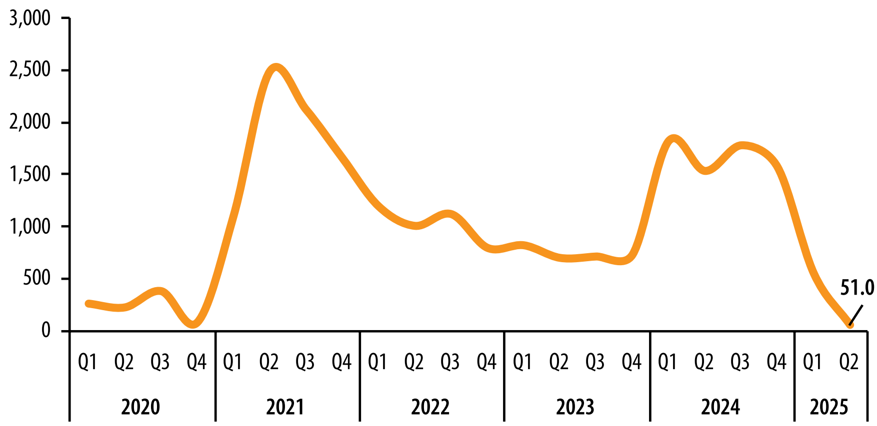
Table 5: Trends in Nairobi Securities Exchange Leading Indicators

	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
NASI (2008=100) Points	109.49	105.73	103.67	107.08	117.61	111.53	123.48	128.28	132.13	130.81	126.08	134.21	153.43
NSE 25 Share Index	2,861.04	2,806.48	2,812.75	2,899.20	3,190.72	3,063.32	3,402.80	3,436.04	3,595.08	3,532.38	3,412.63	3,535.41	3,938.28
NSE 20 Share Index (1966=100)	1,656.50	1,669.73	1,678.21	1,775.67	1,906.00	1,861.00	2,011.00	2,162.58	2,300.17	2,226.88	2,135.51	2,183.46	2,440.26
Number of Shares Traded (Million)	279.13	294.39	392.18	334	382.00	501.00	846.00	632.23	472.75	471.23	361.61	501.00	579.85
Equities Turnover (Kes Million)	5,016.48	5,861.81	6,511.27	5,019.00	4,942.00	6,787.00	29,391.00	9,570.43	8,569.40	8,127.21	8,159.67	9,632.00	11,967.97
Market Capitalization (Kes Billion)	1,710.64	1,651.83	1,619.78	1,676.24	1,840.97	1,745.88	1,939.74	1,983.70	2,076.83	2,056.07	1,981.79	2,111.21	2,417.06

Source: NSE

Trading activities at the Exchange increased in the second quarter of 2025 as the equity turnover rose to KSh 579.85 million in June 2025. Similarly, the number of shares traded increased to 1,442.46 million shares, from 1,090.22 million shares in a similar quarter in 2024. On the other hand, the derivatives market contracted to the lowest level post-2020, with 51 contracts traded during the second quarter of 2025, down from 1,528 in a similar quarter in 2024 (**Figure 31**).

Figure 31: Number of contracts



Source: NSE

2. The market capitalization captures the value of companies that traded at the Nairobi Securities Exchange (NSE). It is calculated by multiplying the total number of shares by the present share price.

Banking Sector Performance

The banking sector recorded a mixed trend in performance. The sector's total assets grew from KSh 7,673.60 billion in March 2025 to KSh 7,849.10 billion in June 2025 (Figure 32a). Similarly, the gross deposits increased by 2% from KSh 5,730.9 billion in March 2025, to KSh 5,847.8 billion in June 2025.

7,849

Total Baking Sector assets (KSh in billions)

Shareholders' funds rose significantly by KSh 12.7 billion in June, up from KSh 1,267.8 billion in February 2025 (**Figure 32d**). The capital adequacy ratio remained within the regulatory limits and it increased from 20.1% in March 2025 to 20.4% in June 2025.

On the lending front, gross loans increased modestly from KSh 4,123.4 billion in March 2025 to KSh 4,147.3 billion in June 2025. The increase in gross loans was largely witnessed in Manufacturing, Energy and Water, and Building and Construction sectors (**Figure 32b**).

In contrast, the asset quality, measured by gross non-performing loans to gross loans ratio, deteriorated to 17.6% in June 2025 from 17.4% in March 2025. The worsening asset quality is attributed to a faster growth in the gross non-performing loans compared to the gross loans. More specifically, the gross NPLS increased by 1.6% compared to the 0.6% increase in gross loans. Nonetheless, banks maintained strong liquidity positions with average liquidity ratio rising to 58.6% in June 2025, up from 58.4% in March 2025 (**Figure 32e**).

Figure 32: Banking sector performance

Figure 32(a): Assets

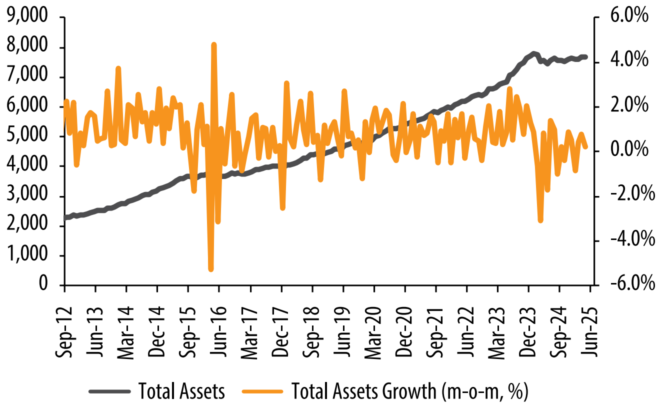


Figure 32(b): Gross Loans

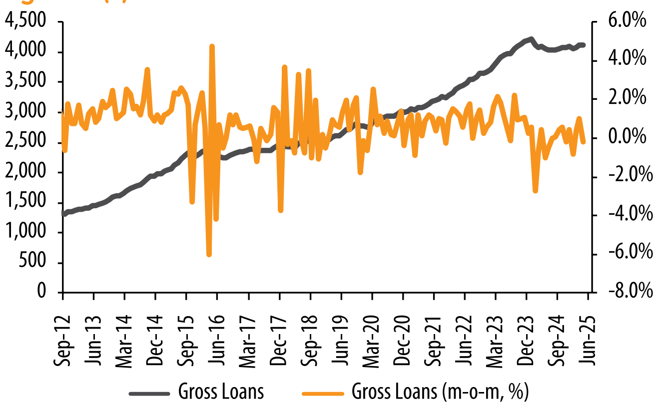


Figure 32(c): Gross Non-performing Loans

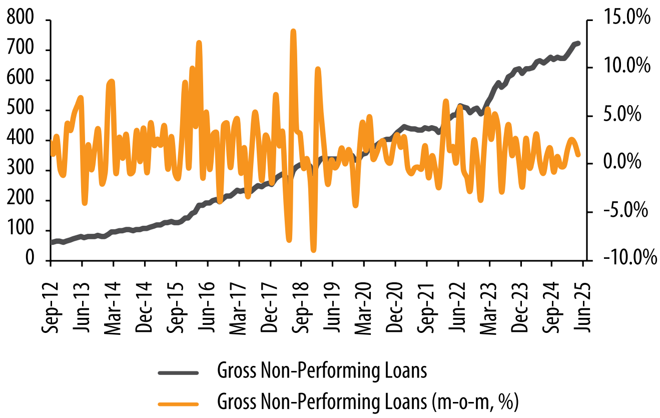


Figure 32(d): Shareholders Funds

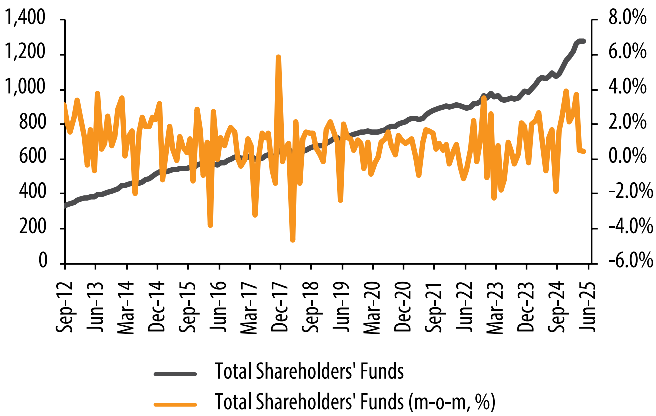
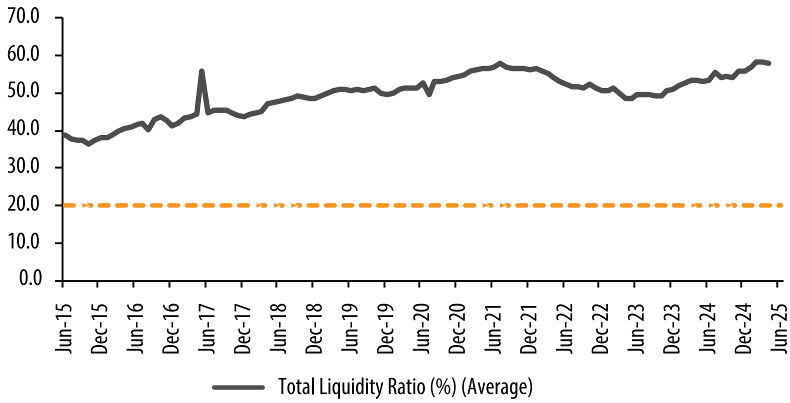


Figure 32(e): Total Liquidity Ratio



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