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CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY®

About this Report

This Bulletin reviews Kenya's economic performance in the fourth quarter of 2024, drawing on the recent performance and developments to provide perspectives on the year's outlook. The *Bulletin* covers trends in selected activities in the real economy, government fiscal operations, public debt, inflation and interest rates, the balance of payments and exchange rate, activity at the Nairobi Securities Exchange and banking sector performance.

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®

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FOREWORD

From the CEO's Desk

It is my pleasure to present to you the 41st issue of the *Kenya Bankers Economic Bulletin*. In this edition, we examine the performance of the Kenyan economy during the fourth quarter of 2024. The *Bulletin* explores key developments in both the global and domestic economic landscape, along with their implications for the financial services sector.

Globally, economic growth is expected to remain subdued in 2025, with world output projected at 3.2 percent in 2024, mainly driven by emerging markets such as India (6.5 percent) and China (4.8 percent). Moreover, the recent significant policy shifts under the new U.S. administration has resulted in heightened global economic policy uncertainty. Advanced economies experienced a deceleration in growth, while emerging markets continued to grapple with rising debt vulnerabilities.

Domestically, Kenya's economy grew by 5.6 percent in Q4 2024, largely supported by a rebound in agriculture, improved performance in the services sector, and increased construction activity. The inflationary pressure continued to ease off as headline number remained well anchored within the target band.

The banking sector remained resilient and well-capitalized. Strong liquidity and capital positions continued to support credit growth and financial stability. However, deteriorating asset quality continued to impede credit growth to the private sector. As of December 2024, Commercial bank private sector credit contracted by 1.4 percent on a year-on-year basis

As you read through this report, I trust you will find this issue of the *Kenya Bankers Economic Bulletin* informative and insightful. We continue to offer analyses of economic trends that matter to the banking industry and beyond. We also welcome contributions on topical issues relevant to the financial sector. For submission guidelines, please contact the Bulletin's Editor at ***research@kba.co.ke*** .

Raimond Molenje,
Chief Executive Officer,
Kenya Bankers Association

COMMENTARY

Kenya's Inflation Remains Anchored Amid Modest Growth and Stable External Market Outlook

By Samuel Tiriongo, PhD

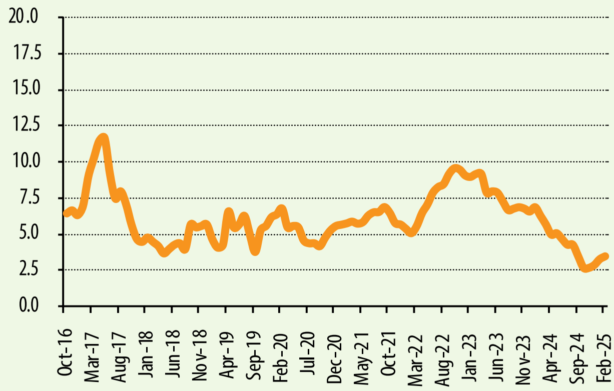
Inflation remains low and stable, and inflation expectations are well anchored within the target range in the near term. Headline inflation edged up slightly to 3.6 percent in March 2025 from 2.9 percent in December 2024, driven by an increase in core inflation to 2.2% from 1.9% over the period.

Non-core inflation, however, eased to 7.4% from 7.7% in February (**Figure 1a** and **1b**). In terms of their contributions to overall inflation, core inflation pushed up overall inflation by 2.3 percentage points as non-core inflation contributed 1.3 percentage points (**Figure 1c**). On the global front, headline inflation is projected to moderate to 3.8 percent in 2025 and 3.2 percent in 2026, with G20 economies' inflation projected to ease to 2.6 percent in 2025 and 2.4 percent by 2026 (**Figure 1d**), towards their respective policy targets. However, upward risks to inflation in global markets mainly include potential upward reviews on trade tariffs, especially by the USA, that may attract consequential retaliation by other key global markets and push up global inflation.

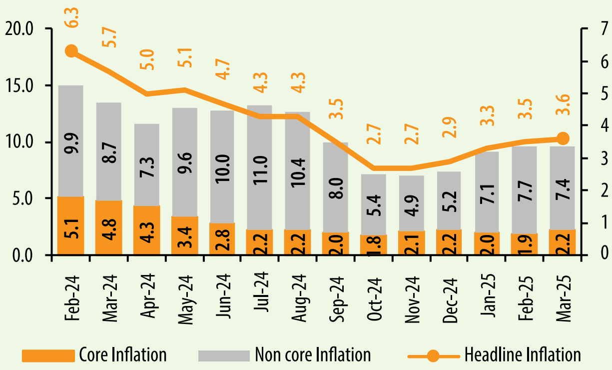
1. IMF (July 2022) publication of its Executive Board's decision after the Country's completion of the Third Review of the ECF and EFF Arrangements. Can be accessed via https://www.imf.org/en/News/Articles/2022/07/18/pr266-imf-executive-board-completes-third-reviews-ecf-eff-kenya

Figure 1: Inflation trends and drivers

1(a): Trends in headline inflation

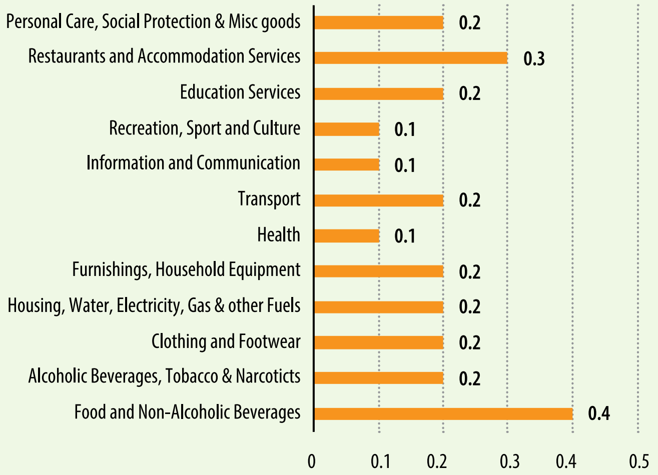


1(b): Drivers of headline inflation



Source: CBK and KNBS

1(c): Contributions to the Core Inflation of 2.3 percent in March 2025



Source: KNBS

1(d): Core Inflation for selected countries

March 2025 Projections

	2024	2025	2026
G20 Advanced Economies	2.7	2.6	2.4
Euro Area	2.8	2.2	2.0
Germany	3.2	2.7	2.2
France	2.3	1.7	1.8
Italy	2.2	1.8	1.9
Spain	2.8	2.2	1.9
Japan	2.0	1.8	2.0
Korea	2.2	2.0	2.1
Mexico	4.1	4.2	3.5
United Kingdom	3.7	2.9	2.3
United States	2.8	3.0	2.6
South Africa	4.2	4.1	4.5

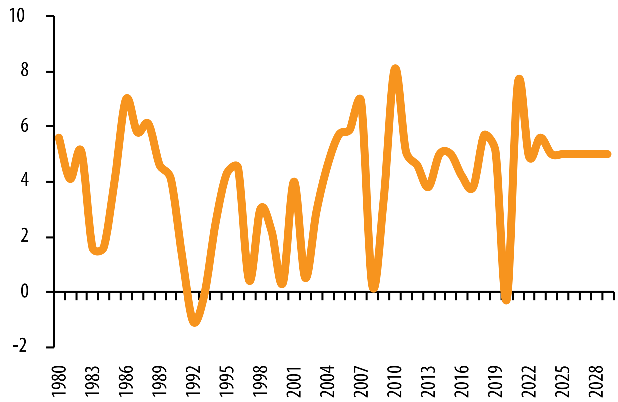
Source: OECD (March 2025)

Economic growth appears fragile on weak credit growth as well as emerging global trade and inflation risks. The IMF projects Kenya's real GDP growth at 5.0 percent in both 2025 and 2026, driven by a robust agricultural sector and rising exports (**Figure 2a**). However, emerging protectionist trade policies in the US that may filter through other advanced markets, could push global inflation higher and slowdown the pace of monetary policy easing. This would keep the US dollar stronger against other major currencies, and lead to higher import costs and potential inflationary pressures in frontier economies such as Kenya.

Despite these risks, high frequency data on economic activity in the country – as carried by the Purchasing Managers Index (PMI) data - shows that businesses recorded a mild improvement in operating conditions in March 2025, with the PMI rising marginally to 51.7 from 50.5 in January 2025 (**Figure 2b**). This growth was driven by resilient activity in agriculture, manufacturing, and construction, while retail and services eased. Despite the softer inflation outturn, there were marginal gains in employment and inventories (**Figures 2b** and **2c**) as sales remained muted and business sentiment weakened. From the fiscal side, the Government progressed the implementation of fiscal consolidation as a priority; ensuring the overall fiscal deficit (even with supplementary budget approval) target was pursued aiming to reduce the debt-to-GDP ratio to 55 percent by 2029 to enhance debt sustainability (**Figure 2d**).

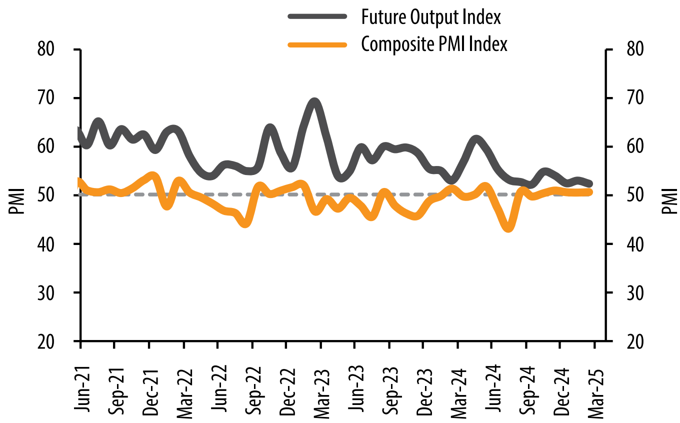
Figure 2: Economic growth outlook

2(a): Kenya's GDP Growth rates (%)



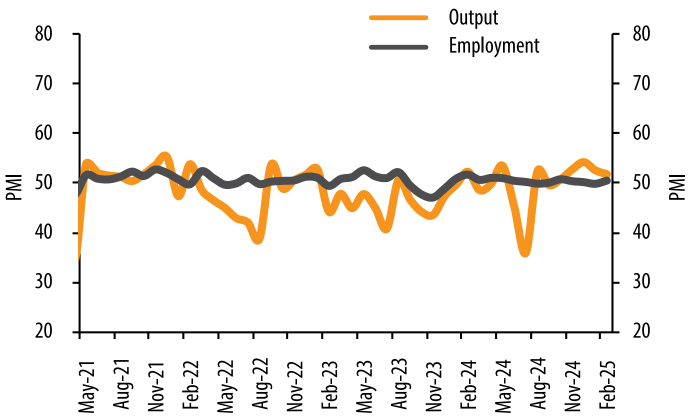
Source: IMF

2(b): PMI Trends



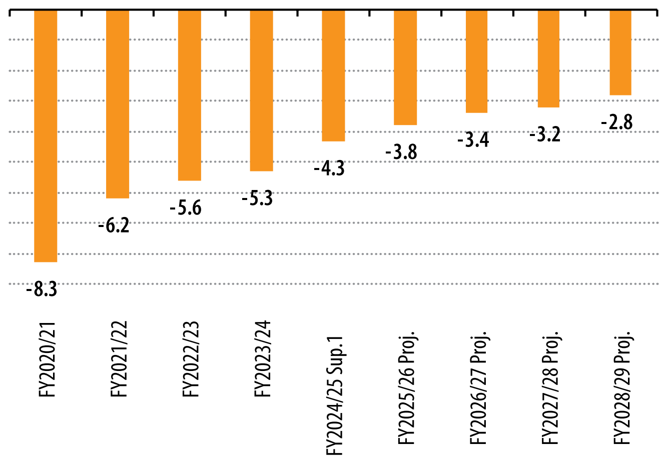
Source: IHS Markit

2(c): Trends in PMI Output and Employment sub-indices



Source: IHS Markit

2(c): Fiscal Deficit (% of GDP)



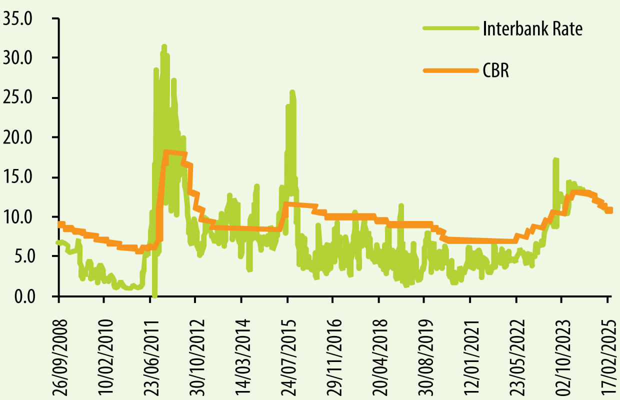
Source: The National Treasury

Bank lending to the private sector remains constrained on account of two factors. First, the weak transmission of monetary policy has seen the market rates responding less proportionately to the cuts in the Central Bank Rate (CBR). The MPC on 6th February 2025 lowered the Central Bank Rate (CBR) by 50 basis points to 10.75 percent and the Cash Reserve Ratio (CRR) by 100 basis points to 3.25 percent. Consequently, the interbank rate declined (as shown in **Figure 3a**) to 10.68 percent by 28 March 2025; aligning the latter to interbank market corridor of CBR +/- 150 basis points. Since August 2024 when the MPC started reducing the CBR (cumulatively by 225 basis points by end March 2025), the interbank rate has declined by about 252 basis points reflecting effective CBR transmission to the short end of the market yield curve. However, acknowledging the presence of transmission lags in the market particularly to the longer-dated credit facilities, the average lending rate in the market continued to increase (in response to the CBR hike that had been effected and sustained at 13.00% for 6 months to August 2024) to 17.22% by November 2024, before declining steadily to 16.44% in February 2025.

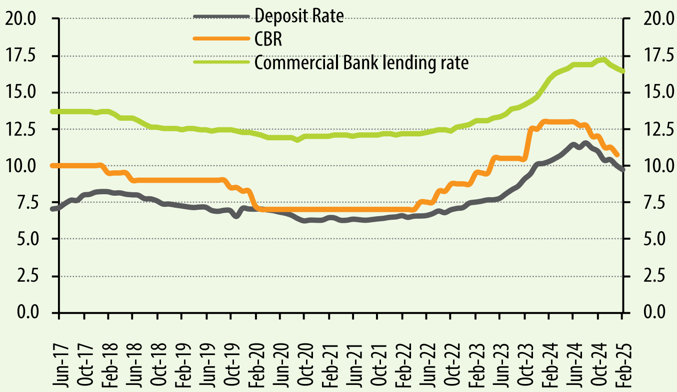
Since November 2024, the average lending rate has declined by 78 basis points compared to a decline in average deposit rates by 65 basis points to 9.76% in February 2025 (**Figure 3b**).

Figure 3: Credit market dynamics

3(a): Transmission of the CBR through interbank rates



3(b): Trends in Deposit rate, CBR and Lending rates

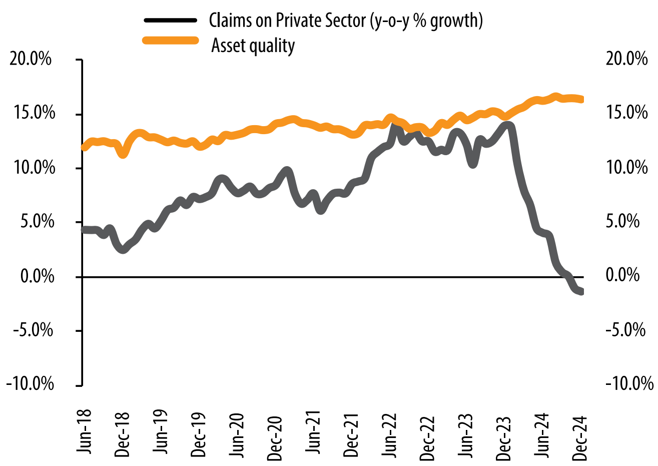


Source: CBK and KNBS

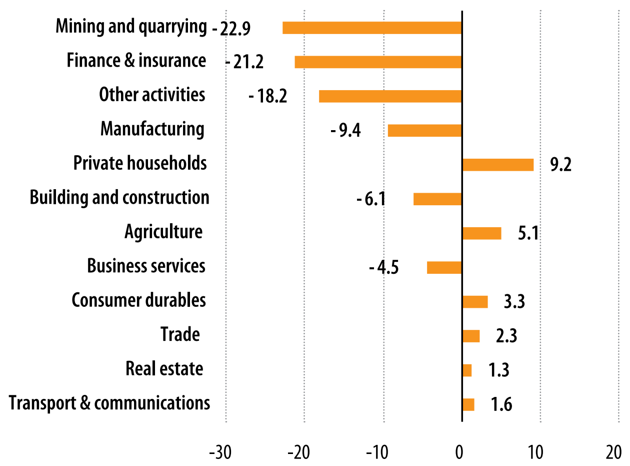
Secondly, the sector experiences elevated credit risk, with the ratio of gross non-performing loans (NPLs) to gross loans estimated at 16.4 percent in December 2024 largely unchanged from 16.5 percent in October, though marginally lower than 16.7 percent in September 2024(**Figure 4a**). Overall commercial bank private sector credit contracted by 1.4 percent in December 2024 on a year-on-year basis, mainly reflecting exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling, and reduced demand attributed to high lending interest rates. While foreign currency denominated loans, (which account for about 26 percent of total loans) contracted by 11.4 percent, local currency denominated loans grew by 2.1 percent in December 2024; though posting varied growth rates across sectors (**Figure 4b**).

Figure 4: Credit market dynamics

4a: Growth in credit to the private sector and asset quality



4b: Sectoral credit gowth (Percentage), December 2024

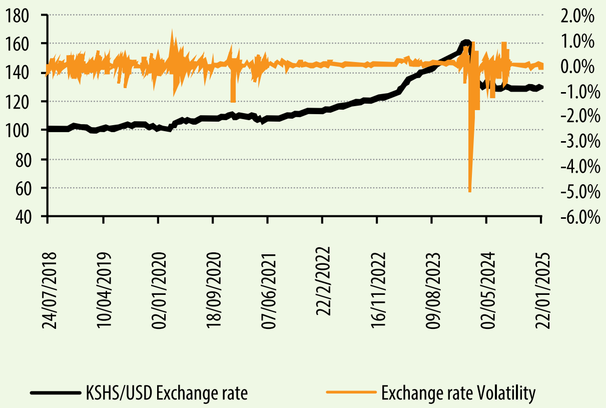


Source: Central bank of Kenya

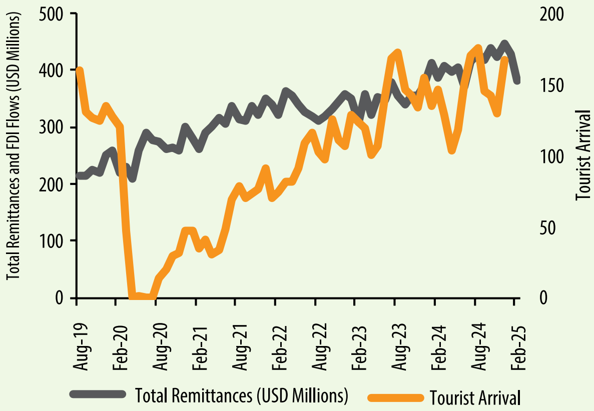
The foreign exchange market remains stable and facing limited adverse risks, anchored on a sustainable current account deficit, a positive sentiment and strong inflows of remittances and export earnings. As depicted in **Figure 5a**, the KES/USD exchange rate remained relatively stable at around Ksh.129 per US dollar, supported by strong positive sentiment, resilient inflows of diaspora remittances and a strong growth in key export earnings, particularly from increased flows of tourists (**Figure 5b**), tea, coffee and horticultural exports (**Figure 5c**). In addition, the country's official foreign exchange reserves have grown and stood at USD 9,956 million (5.1 months of import cover) as of 27th March 2025; providing an adequate buffer against any short-term shocks in the foreign exchange market and sustaining a positive sentiment. Going forward, there are minimal adverse risks on the exchange rate, with the country's upgrade in credit rating. In addition, the current account deficit despite widening marginally to USD 4,515.2 million in December 2024, appears sustainable in the short to medium term (**Figure 5d**).

Figure 5: Exchange Rate movement and its drivers

5(a): Trends in KES/USD exchange rate

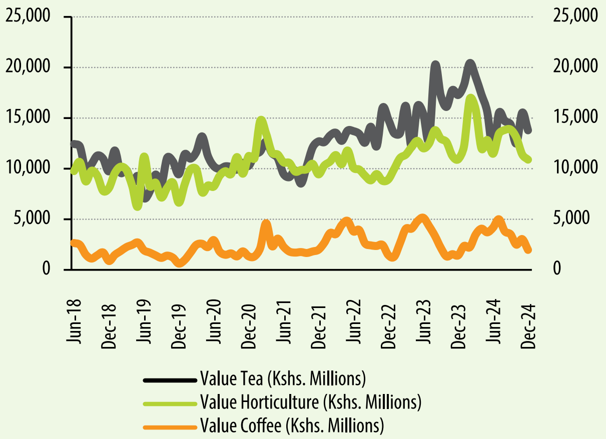


5(b): Trends in total remittances and total tourist arrivals

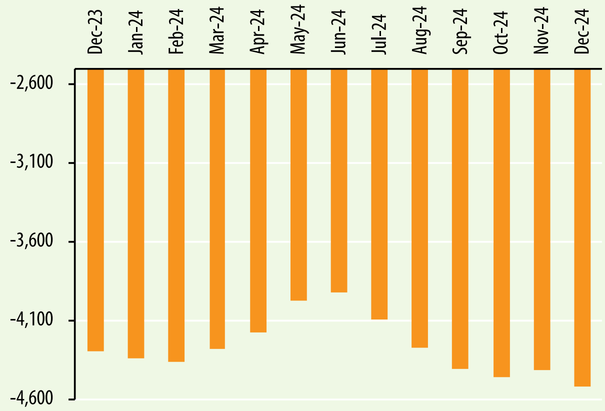


Source: Central bank of Kenya

5(c): Export Trends in Key crops



5(d): Trends in current account



Source: CBKenya and KNBS

State of the Economy

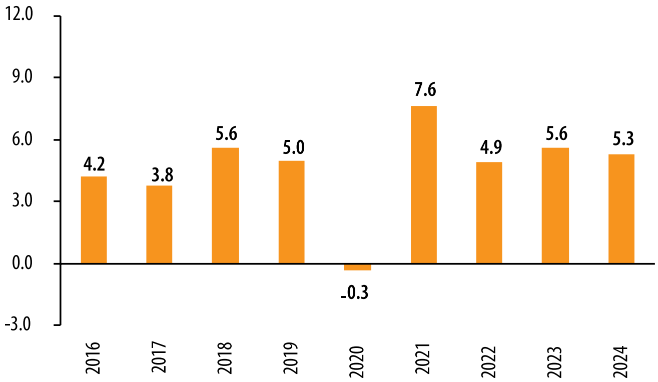
The International Monetary Fund (IMF) projects Kenya's real GDP to grow by 5.0 percent in both 2025 and 2026. This is on the back of strong support from the agricultural sector and increasing export activity. However, downside risks to this growth lies in the emerging protectionist trade policies in the United States, and the potential of it being mirrored by other advanced economies.

On the domestic front, Kenya's GDP growth slowed from 7.6 percent in 2021 to 5.6 percent in 2023, with a modest forecast of 5.3 percent in 2024 (**Figure 6 a**). Encouragingly, the Purchasing Managers' Index (PMI) remained above the neutral 50 mark for the third consecutive month in December 2024, signalling continued modest expansion in the private sector. Future output expectations also remained optimistic, with the PMI recording a reading of 52.4 in December (**Figure 6 b**).

Despite these positive indicators, the outlook for domestic growth remains uncertain on account of two key developments. First, global growth is expected to remain subdued, with world output projected at 3.2% in 2024, and is mainly driven by emerging markets such as India (6.5%) and China (4.8%) (**Figure 6 c**). Second, heightened global economic policy uncertainty, as evidenced by the economic policy uncertainty index recent spikes (**Figure 6 d**), reflects significant policy shifts under the new U.S. administration. These two factors may potentially dampen Kenya's growth prospects.

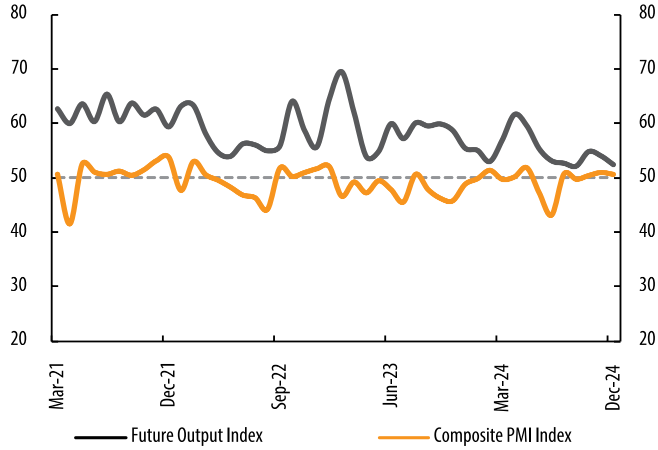
Figure 6: GDP Performance and Economic Outlook

6(A): Domestic Economic performance



Source: KNBS

6 (B): Trends in PMI



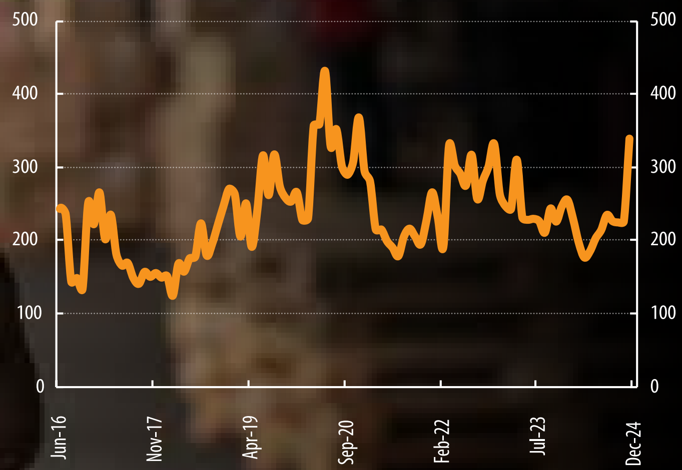
Source: IHS Markit®

6 (C): World Economic Outlook Projections

	2024	2025	2026
World Output	**3.2**	**3.3**	**3.3**
Advanced Economies	1.7	1.9	1.8
United States	2.8	2.7	2.1
Euro Area	0.8	1.0	1.4
Japan	-0.2	1.1	0.8
United Kingdom	0.9	1.6	1.5
Emerging & Developing Economies	**4.2**	**4.2**	**4.3**
China	4.8	4.6	4.5
India	6.5	6.5	6.5
Brazil	3.7	2.2	2.2
Sub-Saharan Africa			
Nigeria	3.1	3.2	3.0
South Africa	0.8	1.5	1.6

Source: IMF World Economic Outlook (January 2025)

6(D): Global Economic Policy Uncertainty Index January 2025 Projections



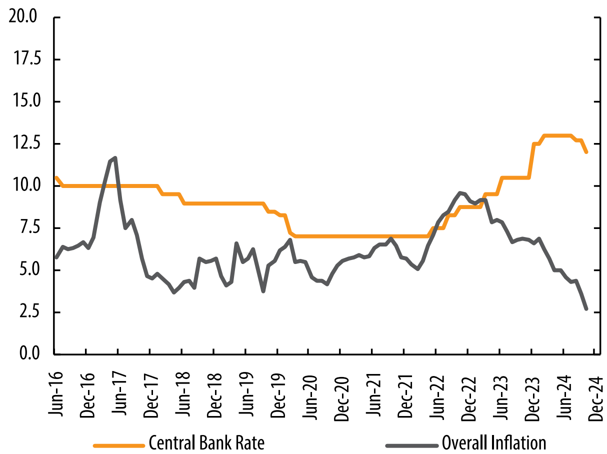
Source: Federal Reserve Bank

> **Inflation remained moderate during the quarter, with the overall rate recorded at 3.0 percent in December 2024.**

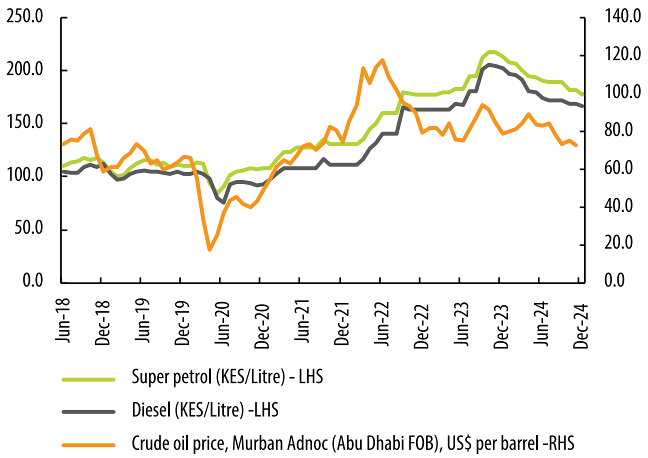
Inflation remained subdued during the quarter, with the overall inflation rate standing at 3.0 percent in December 2024 (**Figure 7a**). However, the passthrough effects of external factors such as the commodity prices are expected to weigh on inflation outcome. The global oil demand is forecasted[1] to grow by 1.4 mb/d[2] annually in both 2025 and 2026, driven primarily by non-OECD countries (1.3 mb/d) with minimal growth in OECD regions (0.1 mb/d). On the supply side, non-DoC[3] liquids are expected to increase by 1.1 mb/d each year, led by the US, Brazil, and Canada. Even so, Murban crude oil prices have been on a declining trend, averaging less than $80 per barrel as from August 2024 to December 2024; a trend that has been mimicked by the domestic fuel prices (**Figure 7b**).

Figure 7: Inflation trends and Global Commodity and oil price developments

7(a): Inflation Trends



7(b): Global Commodity and oil price developments

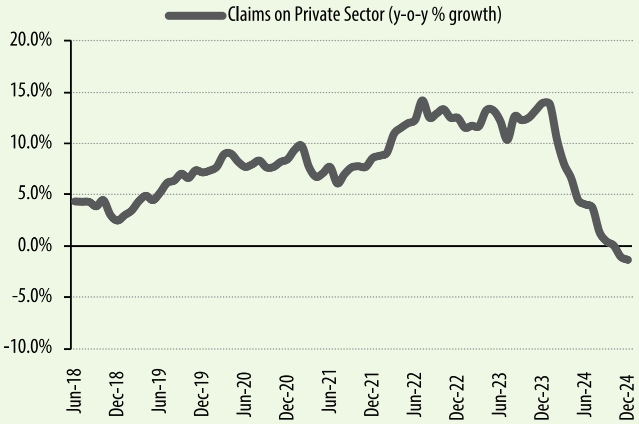


Source: Central bank of Kenya and Oilprice.com and EPRA

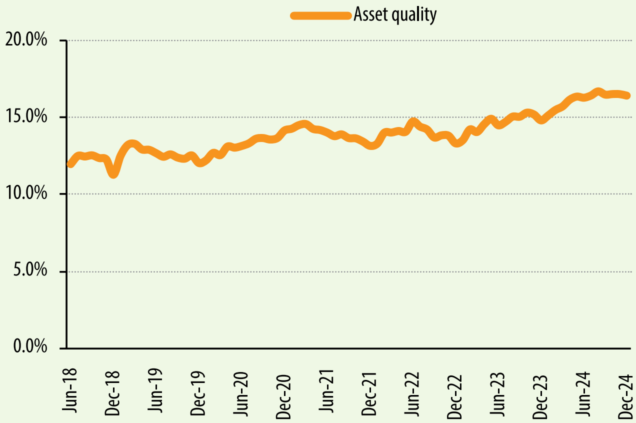
1. https://momr.opec.org/pdf-download/
2. million barrels per day
3. Liquids supply from countries not participating in the Declaration of Cooperation

Figure 8: Private Sector Credit and Growth Dynamics

8(a): Private Sector Credit and Growth Dynamics



8(b): Trends in the sector's Asset Quality



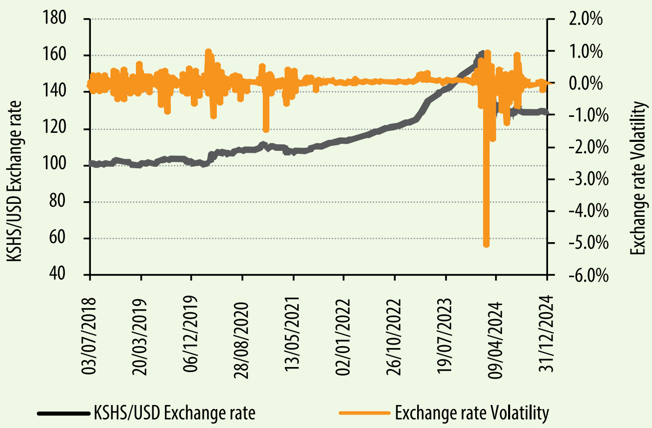
Source: Central bank of Kenya and Oilprice.com and EPRA

Commercial bank private sector credit contracted by 1.4 percent in December 2024 on a year-on-year basis (**Figure 8a**), mainly reflecting exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling, and reduced demand attributed to high lending interest rates. While foreign currency denominated loans, (which account for about 26 % of total loans) contracted by 11.4 %, local currency denominated loans grew by 2.1 % in December – though posting varied growth rates across sectors. An additional constraint to private sector credit supply was the elevated credit risk; with the ratio of gross non-performing loans (NPLs) to gross loans estimated at 16.4 percent in December 2024 largely unchanged from 16.5 percent in October 2024, though marginally lower than 16.7 percent in September 2024 (**Figure 8b**).

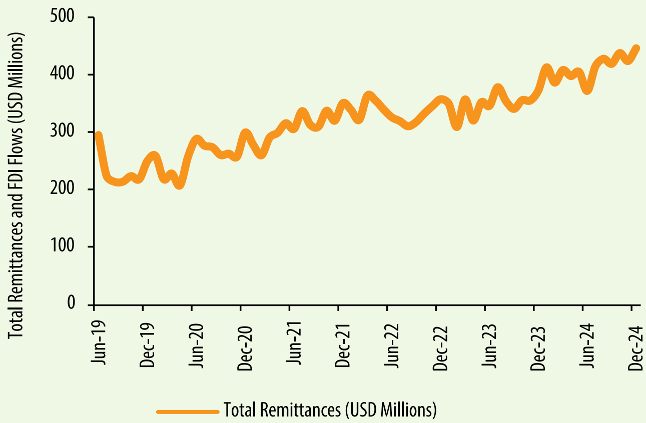
Exchange rate has remained relatively more stable since June 2024 (**Figure 9a**), supported by robust remittance inflows, peaking at USD 445 million in December 2024 (**Figure 9b**). Additionally, steady tourist arrivals and resilient performance of tea and horticultural produce exports contributed to the Kenya shilling - US dollar exchange rate stability.

Figure 9: Kenya Shilling -US Dollar Exchange Rate dynamics and Remittances inflow

9 (a): Kenya Shilling -US Dollar Exchange Rate Dynamics



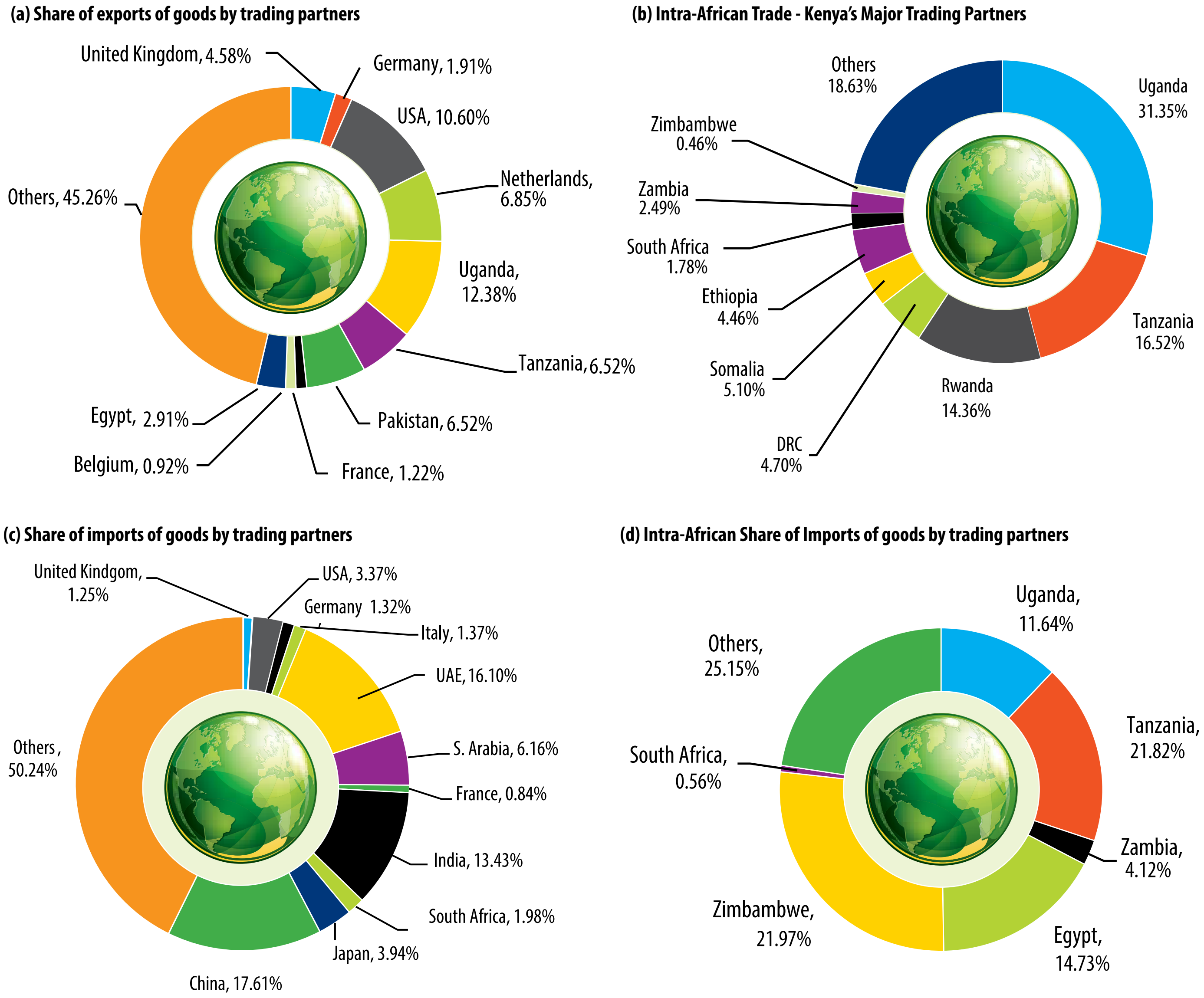
9(b): Trends in remittances flow



Source: Central bank of Kenya

The trade dynamics in the fourth quarter of 2024 reflect a strategic diversification of export markets and a deepening of intra-African trade (**Figure 10**). Analyses show that Uganda and the United States remained the top export destinations, contributing 9.69 percent and 9.58 percent of total exports, respectively. Intra-Africa trade played a stabilizing role, with Uganda, Tanzania, and Rwanda jointly accounting for 46.54 percent of Kenya's regional exports. On the import side, China led as Kenya's primary source, contributing 16.92 percent of total imports, followed by India (8.96 percent) and the UAE (7.02 percent). Within Africa, Tanzania stood out, supplying 2.89 percent of total imports and dominating intra-African imports with a 32.7 percent share.

Figure 10: Kenya's Intra-African and Global Trade Developments



Source: Central bank of Kenya

Table 3: Balance of the Payments Performance

(USD Millions)	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Current Account	-4294	-4341.1	-4361.6	-4276.1	-4175	-3970.4	-3921.4	-4089.8	-4268.2	-4403.1	-4458.9	-4412.2	-4515.2
Capital Account	127.6	122.1	129.2	129.5	128.4	133.5	155.6	147.5	141.1	142.3	139.5	152.5	176.5
Financial Account	-1923.4	-2082.7	-2249.3	-3363.4	-2612.1	-2048.2	-2359.3	-2007.1	-2892.1	-3683.6	-4687.1	-5234.9	-6147
Overall Balance	1008.1	751.3	571.3	213.4	318.6	621.2	658	748.8	442.9	-392.7	-1013.7	-900	-1458.7

Source: Central bank of Kenya

Balance of Payments position in the fourth quarter of 2024 points to a deteriorating external position, which is driven by a widening financial account deficit and weakening overall balance. The overall balance shifted sharply into deficit, moving from a surplus of $442.9 million in August 2024 to a deficit of $392.7 million in September 2024, before worsening to $1,013.7 million in October 2024, and ending the year at $1,458.7 million in December 2024. This trend is attributable to increasing external financing pressures and reduced foreign capital inflows. The financial account deficit deepened significantly, hitting $6,147 million in December 2024. Despite marginal improvements in the current account deficit, which fell slightly from $4,403.1 million in September 2024 to $4,515.2 million in December 2024, it remained persistently high. The capital account, though positive, offered limited relief, contributing just $176.5 million in December 2024 (**Table 3**).

Sectoral Performance

Agriculture

The agricultural sector remained a crucial anchor for Kenya's export earnings in the fourth quarter of 2024, albeit with mixed outcomes in production volumes, prices, and export values compared to the same period in 2023. First, tea production declined during the quarter to approximately 153,305 metric tonnes, lower than the 158,034 metric tonnes recorded in the fourth quarter of 2023.

Along with this contraction, average prices dropped significantly, reaching KSh 279.33 per kilogram during the quarter, down from KSh 329.81 per kilogram a year earlier (**Figure 11**).

On the other hand, the volume of tea exports slightly increased from about 141,392.10 metric tonnes in the fourth quarter of 2023 to 147,927.56 metric tonnes in the fourth quarter of 2024. Nonetheless, lower prices dropped the export value from KSh 51.16 billion to KSh 41.87 billion over the same period. On its part, coffee export volumes grew to 10,160.73 metric tonnes in the fourth quarter of 2024, while export values improved modestly, rising to KSh 7.14 billion in fourth quarter of 2024 (**Figure 12**).

Figure 11: Tea production and Prices

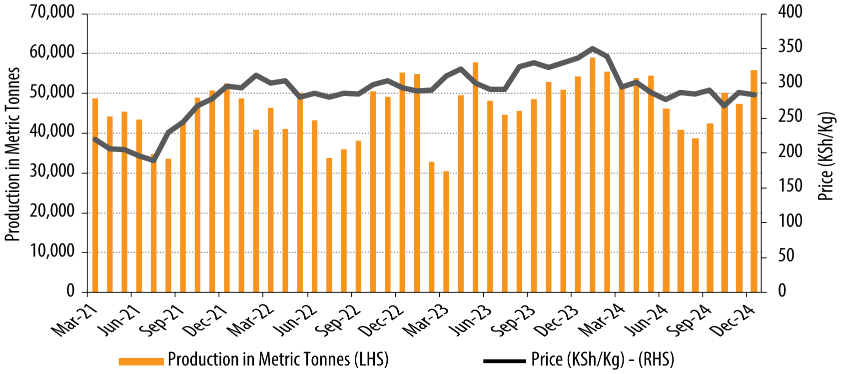
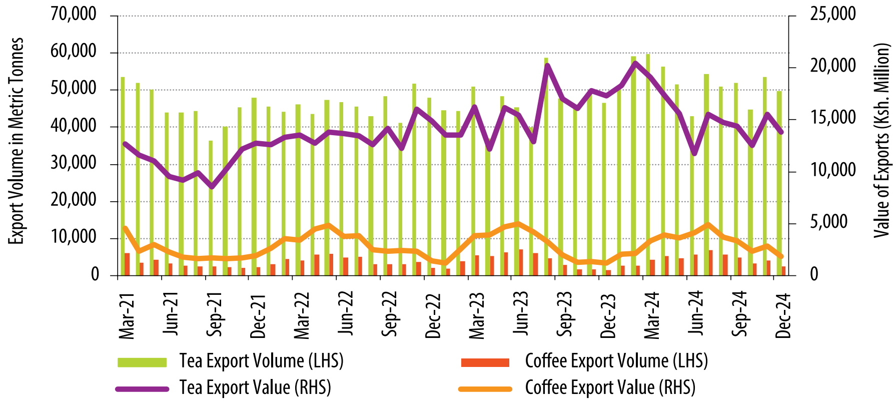
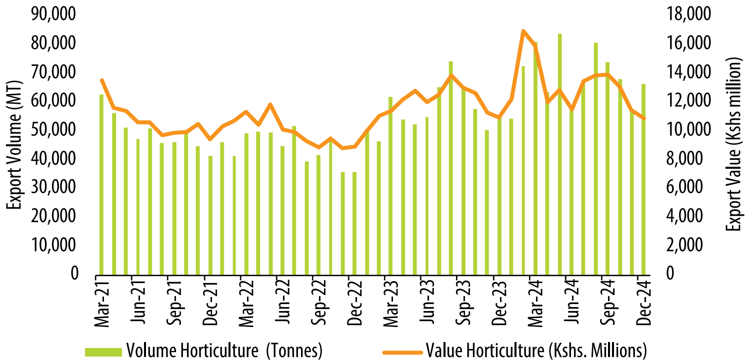


Figure 12: Value of Tea and Coffee Exports



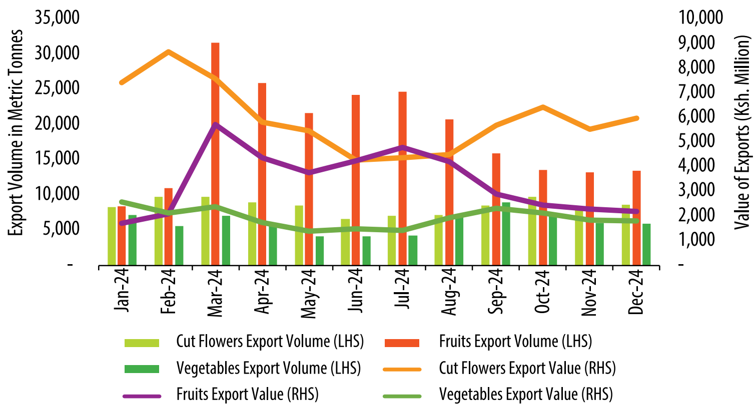

Kenya's agriculture sector remained vital in Q4 2024, with tea volumes up but earnings down, while coffee exports posted modest gains.

Figure 13a: Horticultural Exports



Source: KNBS

Figure 13b: Cut Flowers, Vegetables and Fruits



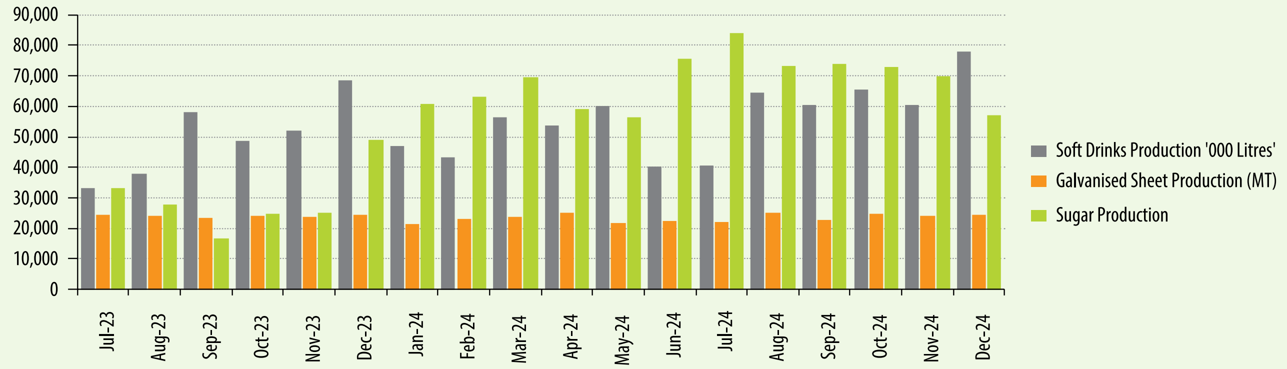
Source: KNBS

In the horticulture segment (**Figure 13a**), total export volumes grew from 163,452.26 metric tonnes to 191,976.39 metric tonnes between Q4 2023 and Q4 2024. Export values similarly rose, albeit marginally, from KSh 34.89 billion to KSh 35.48 billion. This growth points to a solid global demand for horticultural crops, with cut flowers leading the performance in this category (**Figure 13b**), by recording export volumes of 26,991 metric tonnes during the quarter, and corresponding value of KSh 18.03 billion. Exports of both fruits and vegetables experienced slight volume growth and uptick in value year-on-year.

Manufacturing

The manufacturing sector posted an uneven growth in the fourth quarter of 2024, marked by stronger output in beverages and sugar, while the metals sub-sector remained subdued (**Figure 14**). Soft drinks production rose significantly, growing by 20.5 percent to 203.9 million litres in the fourth quarter of 2024, compared to approximately 169.2 million litres in the same quarter of 2023. This uptick points to the increased consumer demand and restocking by retailers. In contrast, galvanized sheet production remained relatively stable at 73,518 metric tonnes during the fourth quarter of 2024. Sugar production, on its part, showed marked improvement, rising to around 199,955 metric tonnes in the final quarter of 2024.

Figure 14: Production in manufacturing sub-sectors

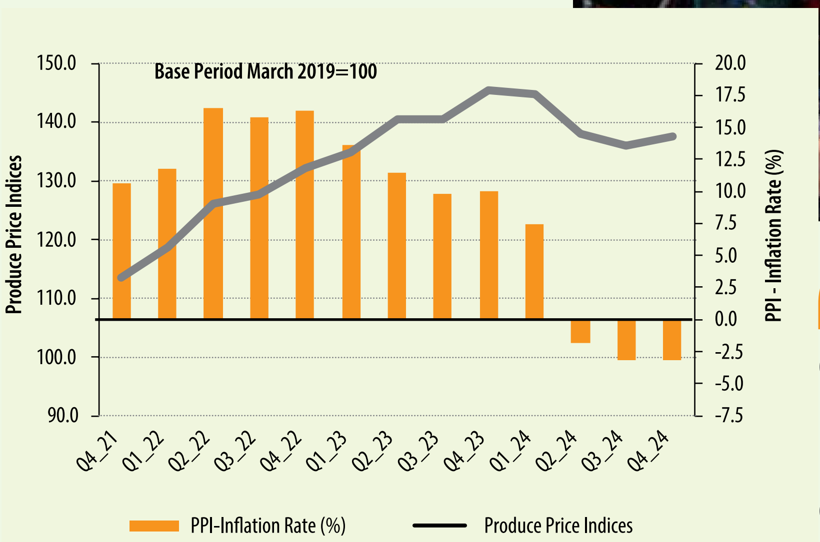


Source: KNBS

Producer Price Index

Producer prices continued to moderate, with the Producer Price Index reaching about 137.6 points in the final quarter of 2024, compared to 145.3 in a similar period in 2023. This decline is in tandem with the Producer Price Index inflation that has been on a downward trend (**Figure 15**). Even so, the elevated production costs and global uncertainties could temper this momentum in early 2025.

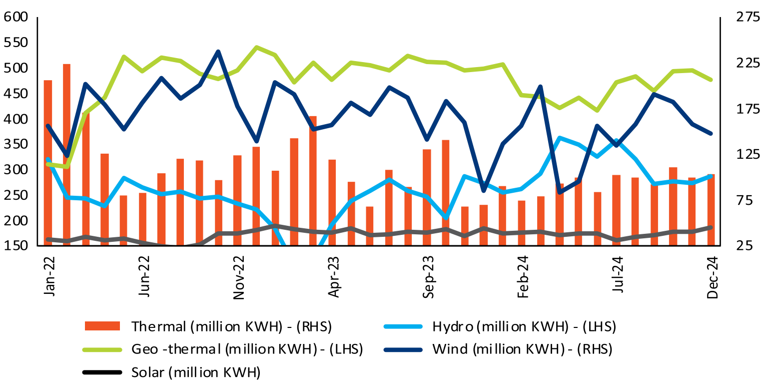
Figure 15: Producer Price Index



Source: KNBS

"Manufacturing posted mixed growth in Q4 2024, with strong gains in soft drinks and sugar, while metals lagged. Producer prices eased but high costs and global risks may weigh on momentum.

Figure 16: Monthly Electricity Generation by Source



Energy

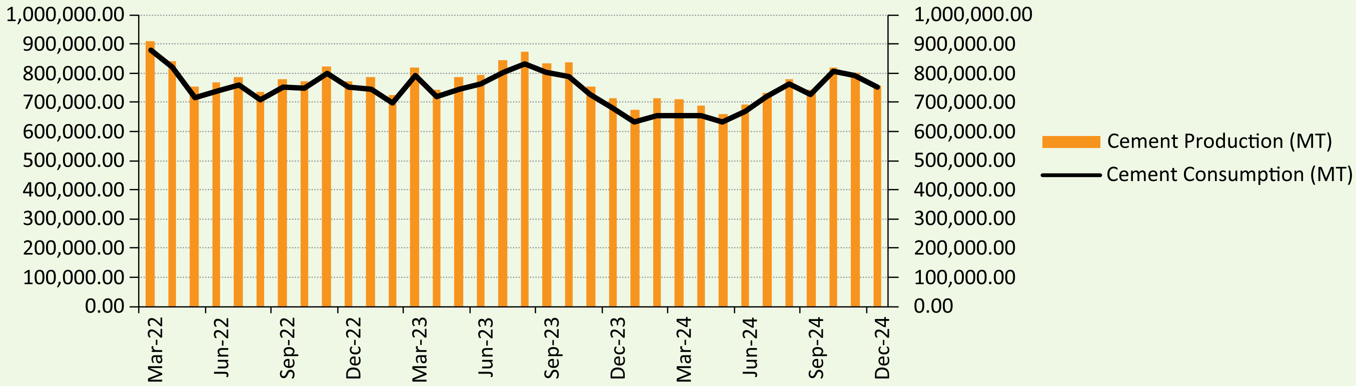
Kenya's energy sector continued its shift toward renewables in the fourth quarter of 2024, even as global oil price declines offered relief to consumers and eased inflationary pressure. Electricity generation from geothermal sources remained dominant, generating 1,465 million kilowatt-hours (KWh) in fourth quarter of 2024, while hydro generation registered a slight uptick from 767 million kilowatt-hours (KWh) in fourth quarter of 2023 to 837 million kilowatt-hours (KWh) in fourth quarter of 2024, while output from wind and solar energy sources remained steady (**Figure 16**).

Table 4: Average Monthly Crude Oil and Retail Fuel Prices

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Murban crude oil (US$/Barrel)	80.04	81.23	84.22	89.12	83.59	83.22	84.43	78.41	73.59	74.45	72.98	73.07
Super petrol (KES/Litre)	207.97	206.97	199.77	194.46	193.46	190.46	189.46	189.46	189.46	181.33	181.33	176.96
Diesel (KES/Litre)	197.21	196.21	191.11	181.11	179.91	173.83	172.33	172.33	172.33	168.82	168.82	165.82
Kerosene (KES/Litre)	194.96	193.96	189.48	171.18	169.52	163.82	162.52	162.52	159.1	152.18	152.18	149.18
LPG (13Kgs)	3,055.51	3,187.10	3,231.84	3,242.11	3,221.29	3,213.97	3,219.58	3217.85	3196.04	3183.29	3147.66	3143.85

Source: ADNOC oil prices and KNBS

Figure 17: Cement Production and Consumption



Source: KNB

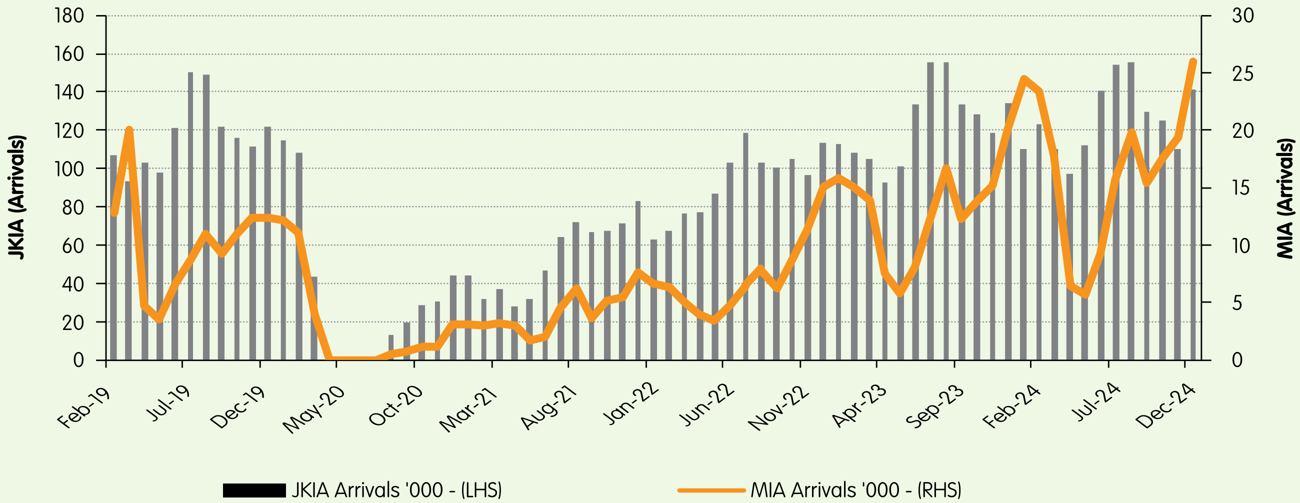
Building and Construction

Cement production rose slightly to 2.38 million metric tonnes fourth quarter of 2024, up from approximately 2.31 million metric tonnes a year earlier (**Figure 17**). Cement consumption followed a similar pattern, increasing to 2.35 million metric tonnes in the fourth quarter of 2024. This growth is a clear indication of the sustained activity in both public and private construction projects. Moreover, the sector appears poised to maintain this growth trajectory, particularly if government spending on infrastructure remains steady and borrowing conditions remain favourable.

Tourism

Tourism sector remained on a strong growth path during the fourth quarter of 2024. Total inbound tourist arrivals rose from approximately 430,131 tourists in the final quarter of 2023 to about 438,712 tourists in the current quarter (**Figure 18**). Even so, inbound tourist arrivals through Jomo Kenyatta International Airport (JKIA) dipped slightly from approximately 381,049 in the fourth quarter of 2023 to about 375,913 in the final quarter of 2024. At the same time, arrivals through Mombasa International Airport (MIA) increased from around 49,082 to nearly 62,799 over the same period. If this trend continues, 2025 could potentially exceed pre-pandemic tourists' numbers.

Figure 18: Monthly Inbound Tourist Arrivals

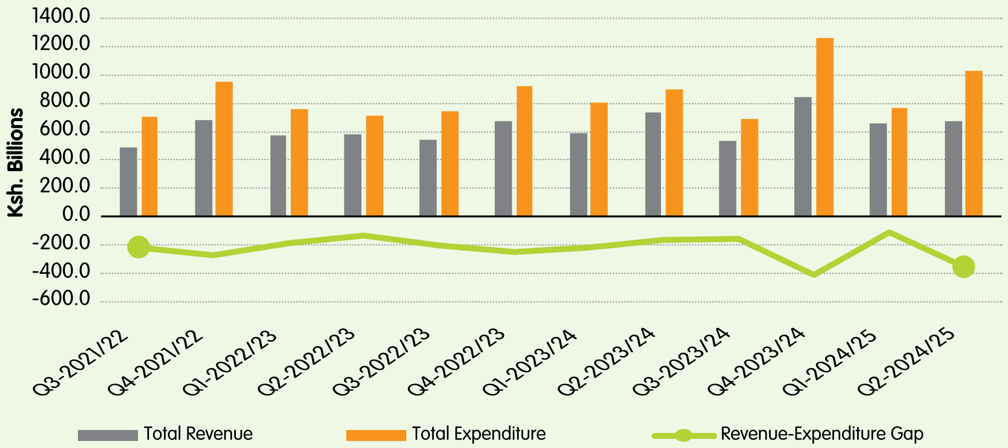


Source: KNBS

Government Revenue and Expenditure

Revenue collection in the second quarter of FY 2024/25 fell to KSh 675.4 billion, a decline from KSh 732.6 billion recorded during the same period in FY 2023/24. Meanwhile, the revenue-expenditure gap widened to KSh 350.3 billion (**Figure 19**).

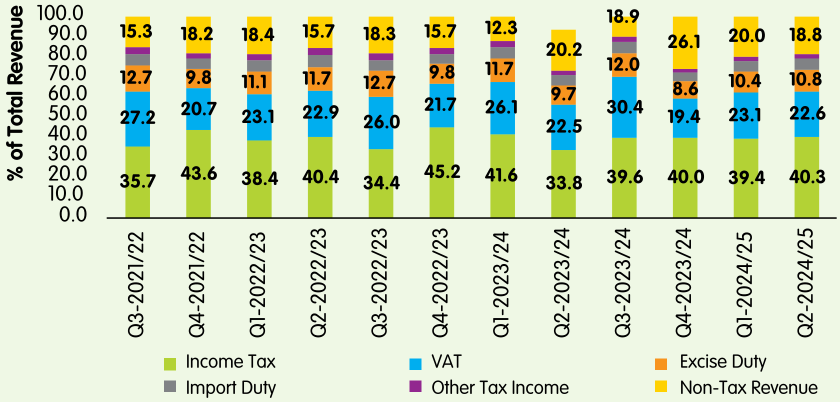
Figure 19: Quarterly Revenue-Expenditure Gap



Income tax remained the government's leading revenue source, contributing 40.3 percent of total collections, which is an increase of 6.5 percentage points from Q2 FY 2023/24. Value Added Tax maintained a steady share at 22.5 percent, while import and excise duties rose by 0.6 and 1.1 percentage points, respectively. In contrast, other tax revenues saw a marginal decline of 0.4 percentage points (**Figure 20**).

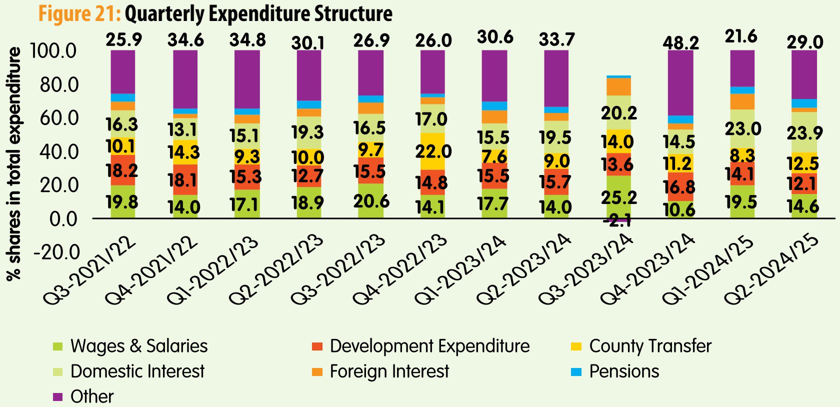
As shown in **Figure 21**, total government expenditure in Q2 FY 2024/25 was dominated by recurrent spending, which accounted for 75.4 percent; a slight uptick from 75.3 percent in the same quarter of the previous fiscal year. Development expenditure represented 12.1 percent of the total, consistent with FY 2023/24 levels. Within recurrent expenditure, salaries and wages constituted 14.6 percent, while domestic interest payments formed the largest component at 23.9 percent. Foreign interest and pension payments accounted for 2.9 percent and 5.1 percent, respectively.

Figure 20: Quarterly Revenue Structure



Source: Central Bank of Kenya

Figure 21: Quarterly Expenditure Structure



Source: Central Bank of Kenya

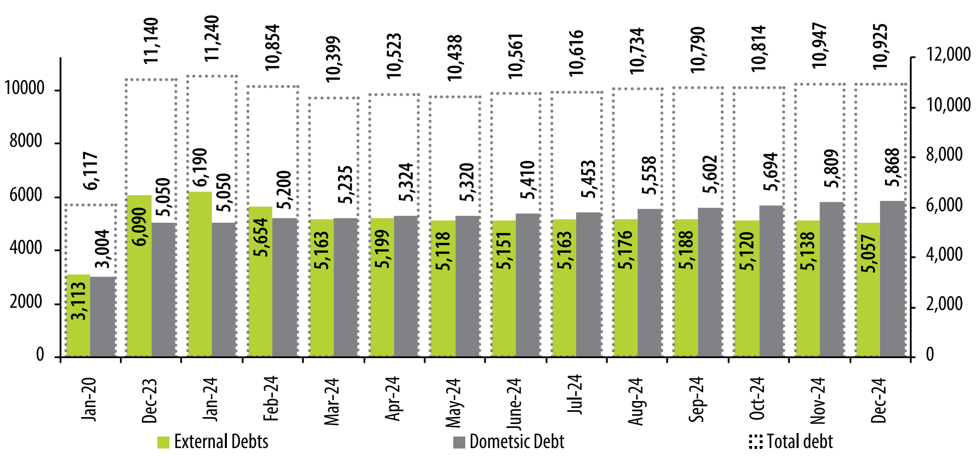
Government Deficit Financing and Public Debt

Public debt landscape has continued to show a marked shift toward increased reliance on domestic borrowing (Figure 22a), signalling changing financing preferences and tighter access to external credit. By December 2024, total public debt stood at KSh 10,925.3 billion, with domestic debt surpassing external debt for the first time in the year. Domestic debt rose steadily from KSh 5,693.5 billion in October to KSh 5,868.3 billion in December 2024, comprising 53.7 percent of total debt.

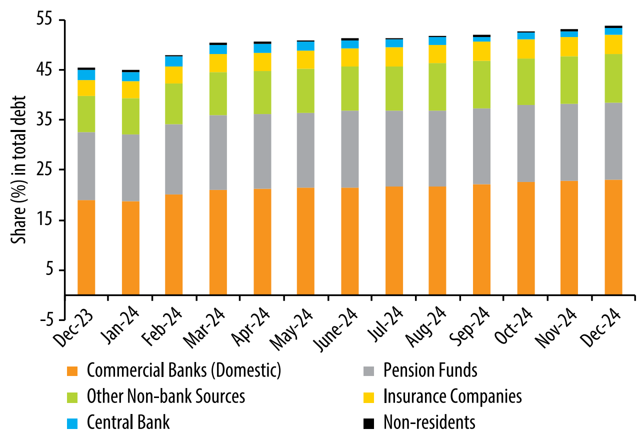
This upward trajectory reflects growing participation by non-bank institutions, more specifically pension funds, insurance companies, and other non-bank sources (**Figure 22b**).

Meanwhile, external debt declined from KSh 5,120.3 billion in October to KSh 5,057.0 billion in December 2024, now constituting just 46.3% of total debt. All external debt categories—bilateral, multilateral, commercial, and export credit—recorded slight reductions, with bilateral loans decreasing notably (**Figure 22c**).

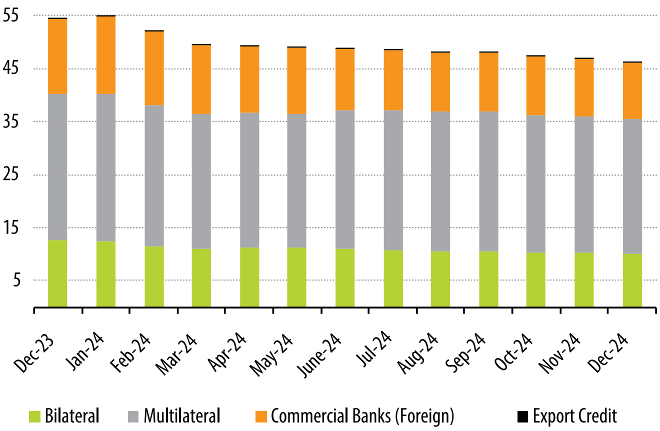
Figure 22: External and Domestic Debt and its Composition



22(b): Domestic Debt



22(c): External Debt

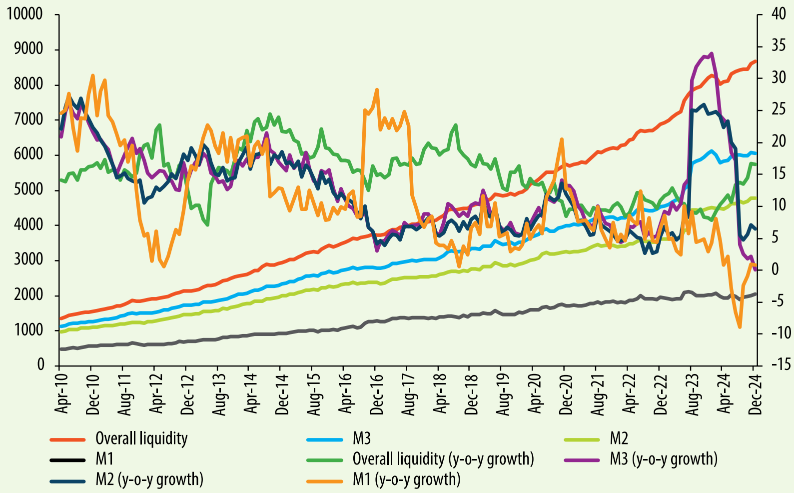


Money Supply

Money supply during the current quarter under review points to a modest recovery in liquidity growth, following a sharp deceleration earlier in the year. Overall liquidity (M3) increased slightly from KSh 8,450.40 billion in October 2024 to KSh 8,662.00 billion in December 2024. However, year-on-year (y-o-y) growth in liquidity during the quarter was somewhat subdued, dropping from 6.16 percent in October 2024 to just 5.66 percent in December 2024.

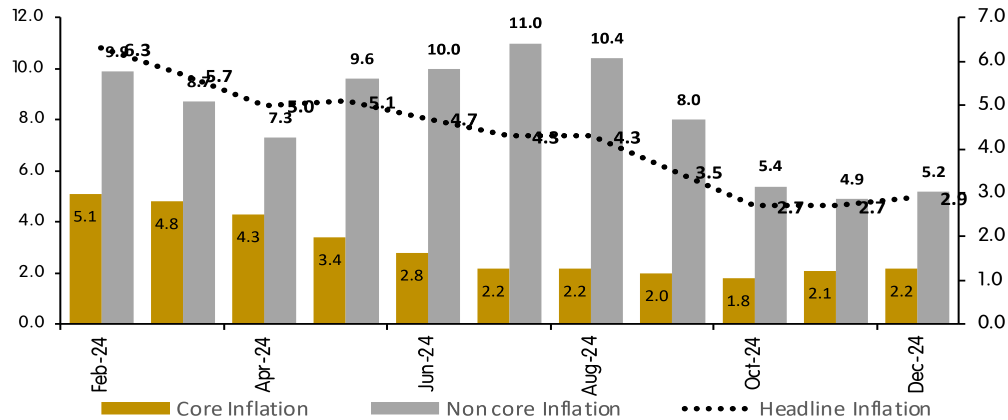
On the other hand, M3 registered a weak growth, in part due to the near stagnation in M2, which grew at 6.51 percent in December 2024, a figure that is much lower than the double-digit growth recorded in the first half of the year. Meanwhile, narrow money (M1), which includes more liquid assets like cash and demand deposits, showed a very marginal recovery, moving from a decline of 0.88 percent in October 2024 to a growth of 0.88 percent in December 2024, following five successive months of contraction (**Figure 23**).

Figure 23: Trends in Monetary Aggregates



Source: Central Bank of Kenya

Figure 24: **Inflation Dynamics**



Source: Central Bank of Kenya

> **Inflation dropped to 2.7% in Q4 2024, driven by lower fuel and food prices, creating room for possible policy easing in early 2025.**

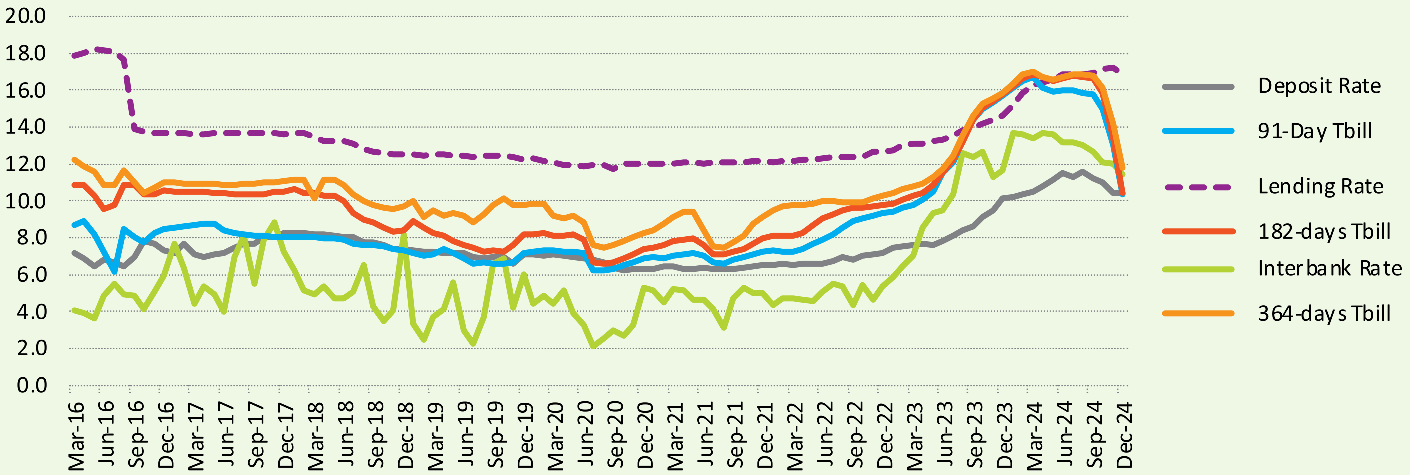
Inflation

Headline inflation in eased significantly in the final quarter of 2024, thereby providing relief to consumers and offering room for potential policy recalibration. From a high of 6.3 percent in October 2023, inflation dropped steadily to 2.7 percent by December 2024 **(Figure 24**). This sharp decline was largely attributed to falling fuel prices and a slowdown in food inflation. Core inflation remained relatively stable around 2.0 to 2.2 percent, while non-core inflation, which includes volatile food and energy prices, recorded the sharpest drop, reflecting the impact of lower global commodity prices. The inflation outlook is positive, and with disinflation continuing, monetary authorities may find space to ease policy rates in early 2025 to support broader economic recovery.

Interest Rates

The interest rate environment in the fourth quarter of 2024 reflected tight monetary policy as the Central Bank sought to manage inflation and stabilize the exchange rate. Deposit rates showed a gradual increase throughout the year, reaching approximately 10.45 percent by December 2024, up from 10.1 percent in December 2023. Lending rates also edged upward to 16.89 percent from 14.63 percent over the same period. The interbank rate stood at 11.45 percent as of December 2024. Short-term government securities mirrored the interest rate trend **(Figure 25**).

Figure 25: Interest Rates Dynamics

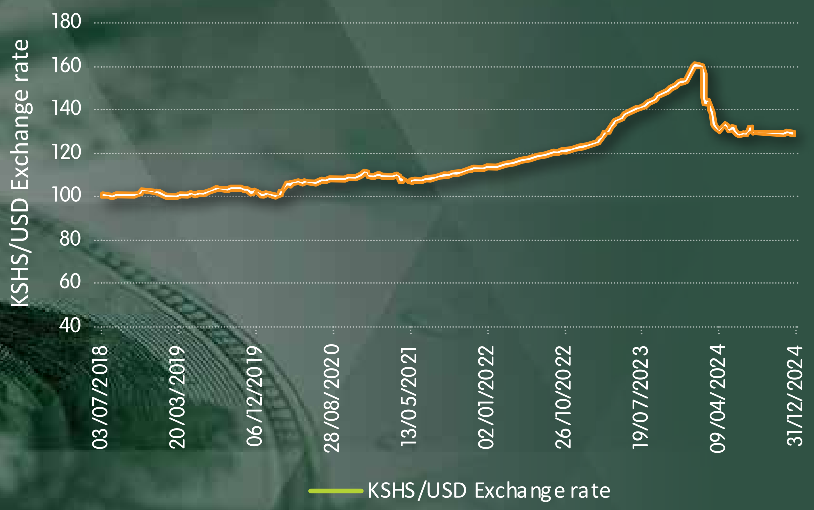


Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling remained relatively stable against the US dollar averaging at KSh 129.57/USD in during the fourth quarter of 2024. This stability was supported by robust remittance inflows, peaking at USD 445 million in December 2024, steady tourist arrivals and resilient performance of tea and horticultural produce exports. Moreover, the exchange rate volatility eased off during the fourth quarter of 2024 (**Figure 26**).

Figure 26: Exchange Rate Developments



Source: Central Bank of Kenya

Table 5: Trends in Nairobi Securities Exchange Leading Indicators

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
NASI (2008=100)	92.18	92.49	113.09	106.54	112.98	109.49	105.73	103.67	107.08	117.61	111.53	123.48
NSE 25 Share Index (LHS)	2409.30	2,475.03	2,975.42	2,850.92	2,961.48	2,861.04	2,806.48	2,812.75	2,899.20	3,190.72	3,063.32	3,402.80
NSE 20 Share Index (1966=100)	1508.86	1,535.89	1,752.43	1,690.98	1,722.49	1,656.50	1,669.73	1,678.21	1,775.67	1,906.00	1,861.00	2,011.00
Number of Shares Traded (Million)	151.52	276.24	669.58	301.4	509.69	279.13	294.39	392.18	334	382.00	501.00	846.00
Equities Turnover (KSh Million)	2685.12	4,605.46	11,775.40	7,334.09	16,040.36	5,016.48	5,861.81	6,511.27	5,019.00	4,942.00	6,787.00	29,391.00
Market Capitalization (KSh Billion)	1440.14	1,445.06	1,766.95	1,664.54	1,765.15	1,710.64	1,651.83	1,619.78	1,676.24	1,840.97	1,745.88	1,939.74

Source: Nairobi Securities Exchange

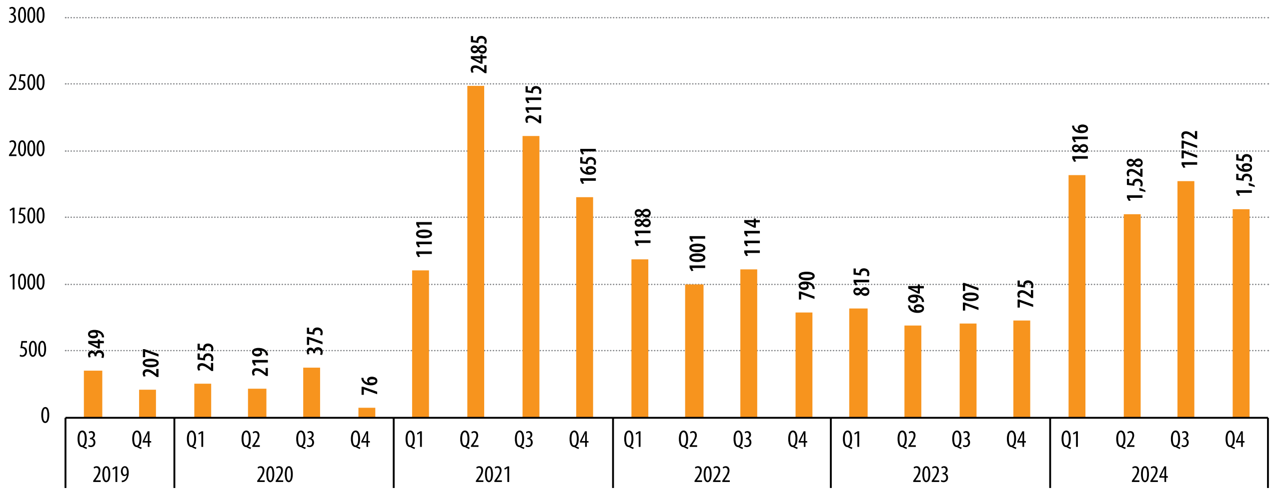
Capital Markets

Capital markets sector posted a remarkable rebound in the fourth quarter of 2024, spurred by investor optimism, falling inflation, and attractive valuations. The Nairobi All Share Index (NASI) rose from 92.1 points in December 2023 to 123.5 points in December 2024, marking a strong recovery. Similarly, the NSE 25 Share Index climbed from 2,380 to 3,403, while the NSE 20 Share Index jumped from 1,501 to 2,011 points during the same period (**Table 5**).

Equity turnover surged significantly from KSh 3.3 billion in December 2023 to KSh 29.4 billion in December 2024, reflecting renewed investor participation. The number of shares traded increased from 208 million in December 2023 to 846 million in December 2024. In a similar fashion, market capitalization improved substantially from KSh 1.44 trillion to KSh 1.94 trillion over a similar period, thereby reflecting rising share prices and increased confidence in listed firms.

In the derivatives market (**Figure 27**), activity remained modest but showed improvement. In comparison to the fourth quarter of 2023 and that of 2024, there is a remarkable increase from 725 to 1,565, more than doubling the previous year's figure.

Figure 27: Number of derivatives contracts



Source: Nairobi Securities Exchange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Banking Sector Performance

The banking sector remained resilient in final quarter of 2024, mainly supported by asset expansion, stable liquidity, and improved capital buffers, despite rising credit risks. Total assets stood at KSh 7,645.8 billion in December 2024 (**Figure 28**), which was driven by loan book growth and investment in government securities. The liquidity ratio remained strong at around 54 percent during the quarter (**Figure 29**), significantly above the regulatory minimum of 20 percent, which is critical at ensuring adequate capacity to meet short-term obligations.

Figure 28: Total Assets

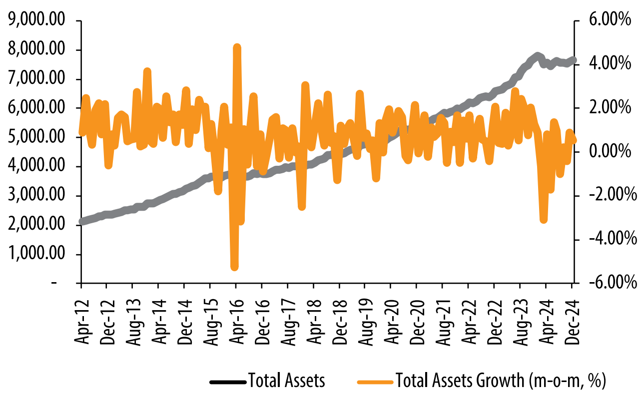
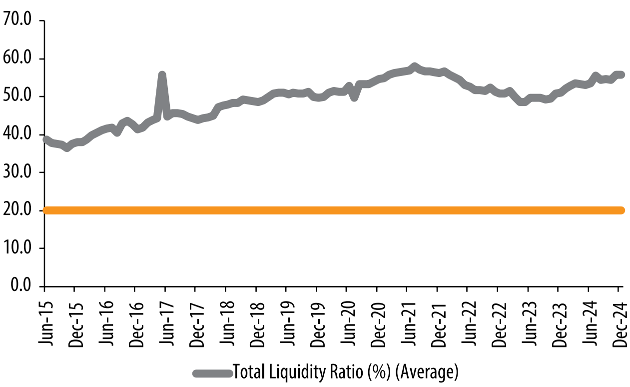


Figure 29: Liquidity Ratio



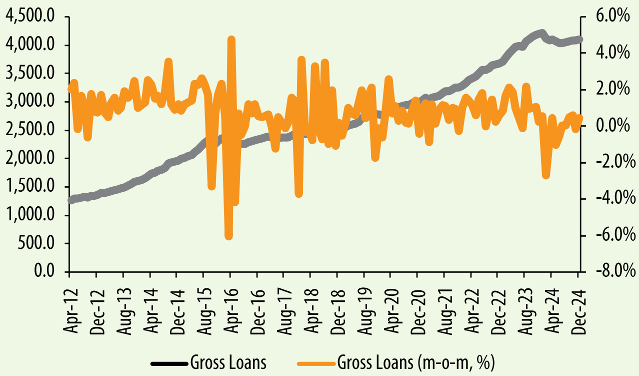
Source: CBK

Gross loans expanded steadily, supported by increased credit to households and businesses, although rising interest rates exerted pressure on borrowers (**Figure 30 a**). Gross non-performing loans (NPLs) remained elevated, indicating some stress in loan repayment. As of December 2024, NPLs stood at around KSh 672.6 billion, up from KSh 621.3 billion in December 2023 (**Figure 30 b**).

Total shareholders' funds improved from KSh 985.9 billion to approximately KSh 1.19 trillion in December 2024 (**Figure 31**).

Figure 30: Asset Quality

30(a): Gross loans



30(b): Gross non-performing loans

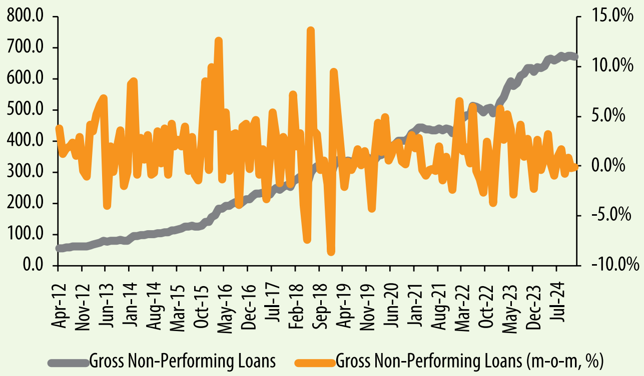
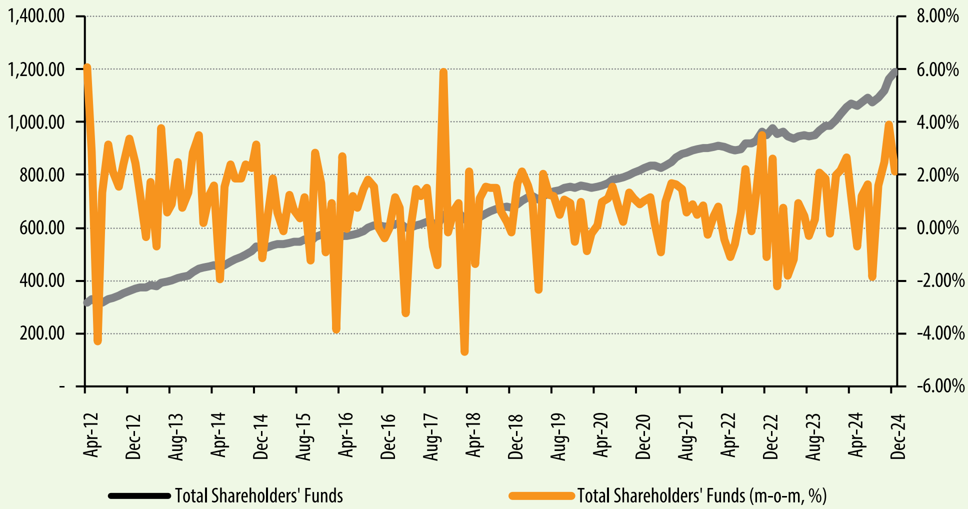


Figure 31: Total shareholders' fund



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