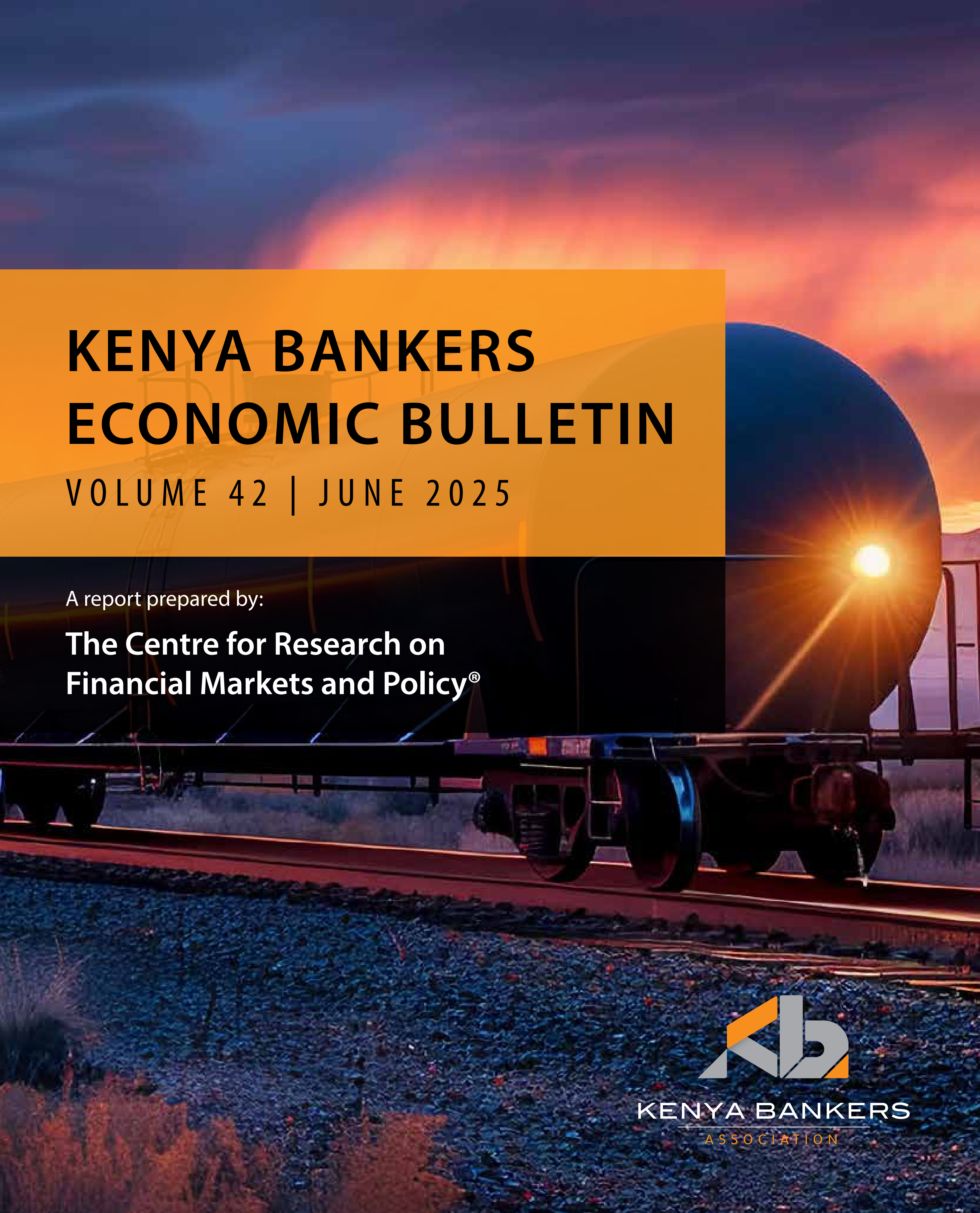

KENYA BANKERS ECONOMIC BULLETIN

VOLUME 42 | JUNE 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 first 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®

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Distributed by	Kenya Bankers Association

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FOREWORD

From the CEO's Desk

It is my pleasure to present to you the 42nd issue of the Kenya Bankers Economic Bulletin. This edition reflects on Kenya's economic performance in the first half of 2025 and provides insights on global and domestic macroeconomic trends and their implications for the financial services sector and the broader economy.

Globally, the economic outlook remains fragile. The IMF projects world output to decelerate to 2.8% in 2025, well below the long-run pre-pandemic average. This growth will largely be sustained by emerging markets such as India and China, which are projected to expand by 6.5% and 4.8%, respectively. However, downside risks to this growth lies in the trade policy shifts by the United States which have introduced considerable uncertainty into global markets.

Domestically, the economy has remained resilient, and it grew by 4.9% in the first quarter of 2025. However, the high-frequency indicator, that is, the Purchasing Managers Index (PMI), point to a weaker business condition that is primarily driven by a solid contraction in business activity. Inflation is well anchored within the government's target band, moderating to 3.8% in June 2025 from 4.1% in April 2025, supported by declining global energy prices and stable food supplies.

Moreover, the banking sector continues to be well-capitalized and highly liquid. Sound regulatory oversight, effective monetary transmission at the short end of the yield curve, and strong foreign exchange reserve buffers have supported stability even amid global uncertainties. However, challenges remain, particularly in the form of elevated credit risk.

I trust you will find this issue of the Kenya Bankers Economic Bulletin both informative and thought-provoking. We welcome your feedback and encourage contributions on topical issues relevant to the banking and financial services sector. For submissions and editorial guidelines, please contact the Bulletin's Editor at ***research@kba.co.ke*** .

Raimond Molenje,
Chief Executive Officer,
Kenya Bankers Association

EDITORIAL OPINION

Commentary

Kenya's Economy Shows Cautious Optimism Amid Persistent Risks

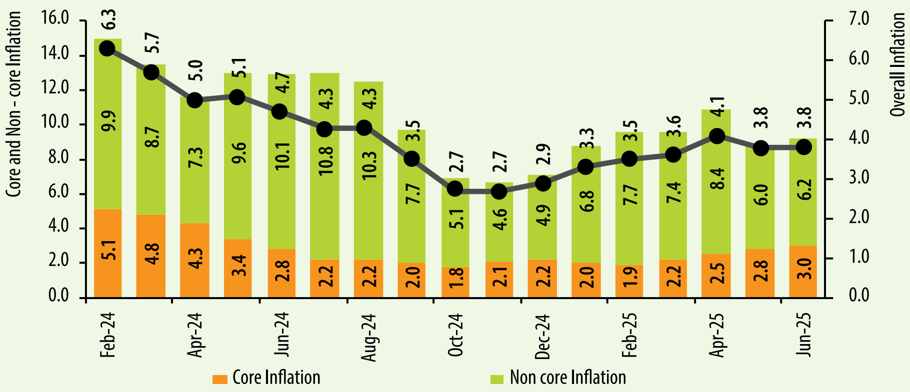
By Samuel Tiriongo, PhD

The economy's macroeconomic outlook in mid-2025 points to a cautiously optimistic trajectory, underpinned by stable inflation, resilient GDP growth, and a strong foreign exchange position. Moreover, the domestic financial conditions have improved due to accommodative monetary policy and fiscal consolidation efforts. However, elevated non-performing loans and sluggish private sector credit growth pose persistent challenges.

Inflation remains broadly stable and anchored within the official target range of 5.0 ± 2.5 percent (**Figure 1**). In June 2025, headline inflation eased to 3.8 percent, down from 4.1 percent in April 2025, marking a continued trend of moderation in price pressures. This decline was largely attributed to easing non-core inflation, which fell to 6.2 percent from 8.4 percent. At the same time, core inflation, which reflects underlying price trends excluding volatile components, rose for the fourth consecutive month to 3.0 percent. The upward movement in core inflation was attributed to modest increases in the prices of key household items, including sifted maize flour (18.8 percent), cigarettes (24.9 percent), and cooking oil (6.4 percent). Although these increases remain relatively contained, they reflect evolving demand pressures and cost adjustments across supply chains.

Going forward, the risks to domestic inflation outlook are considered broadly balanced. On the downside, declining global commodity and oil prices,

Figure 1: Trends in headline Inflation and its drivers



a weakening US dollar, and improving domestic food supply conditions are expected to maintain inflation within target in the near term. On the upside, however, heightened global trade tensions and climate-related shocks pose notable risks. Disruptions in global supply chains and rising protectionism, particularly stemming from recent US tariff escalations, could drive up import costs and exert renewed inflationary pressures on consumer goods. Moreover, localized weather events may impact food prices, especially in rural and marginal areas where production is rainfall dependent.

From a growth standpoint, the economy has demonstrated notable resilience, expanding by 4.9 percent in the first quarter of 2025 (**Figure 2a**). This performance was driven by strong growth in the agricultural sector at 6.0 percent and a modest recovery in the industrial sector at 3.0 percent.

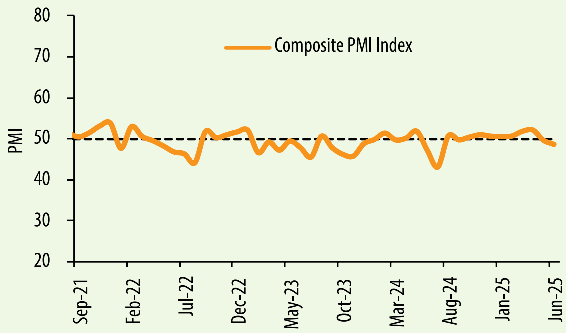
However, momentum has softened as reflected by the Kenya PMI® fell into negative territory for the second month running in June 2025. At 48.6 in June 2025, down from 49.6 in May, the index signalled a modest decline in business conditions that was the sharpest in 11 months (**Figure 2b**).

The contraction in business activity in June 2025 was mainly by reduced customer spending, economic challenges, and disruptions from protests. However, employment rose marginally for the fifth straight month, and vendor performance improved due to better logistics. Inventory levels increased sharply, reflecting demand optimism, but purchasing activity fell at the fastest rate since July 2024. Input costs surged, driven by rising wages, while purchase price inflation eased. Output prices rose modestly as firms cautiously passed on costs to retain customers amid tough conditions.

Figure 2a: Real GDP Growth rates (%)

Source: KNBS

Figure 2b: Trends in PMI



Source: IHS Markit

Figure 3a: Central Bank Rate (CBR) and the Interbank Rate

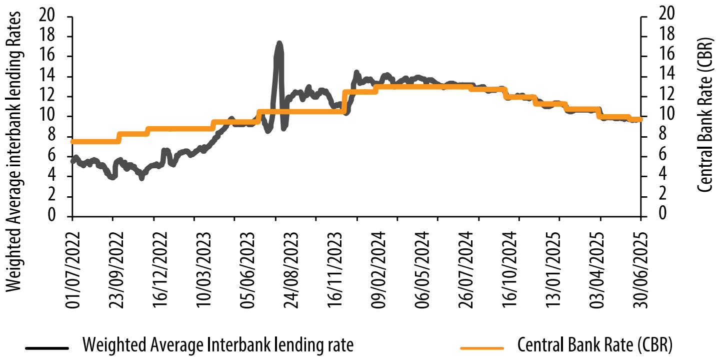
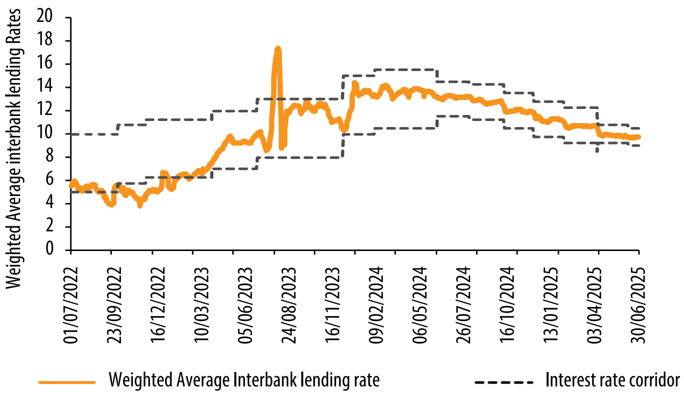


Figure 3b: Interbank Rate within the interest rate corridor



Source: Central Bank of Kenya

Nevertheless, downside risks to the growth outlook persist. The global growth trajectory remains subdued, with the IMF forecasting global output growth at 2.8 percent in 2025, significantly below pre-pandemic trends. Continued geopolitical tensions, new trade barriers, and policy uncertainty are expected to constrain trade flows, reduce investor appetite, and dampen external demand for Kenyan exports. If these risks materialize, they could weigh on domestic growth prospects and exert additional pressure on the current account and foreign exchange position.

On the other hand, domestic financial conditions have improved, mainly on account of a more accommodative monetary policy stance. The Central Bank of Kenya (CBK) cut the Central Bank Rate (CBR) successively from 13.0 percent in August 2024 to 9.75 percent as of June 2025, totalling a 325-basis point reduction (Figure 3a and 3b). These cuts were complemented by a reduction in the Cash Reserve Ratio (CRR), aimed at boosting liquidity and easing credit conditions in the economy. However, transmission to commercial lending rates has been more sluggish, since the average lending rates declined less proportionately to the CBR, thereby reflecting structural rigidities and lingering risk aversion by banks. Moreover, the credit officer survey by CBK indicates that banks remain cautious amid elevated credit risk, despite rising credit demand in trade, construction, and household segments.

Consequently, private sector credit growth remains subdued despite ongoing monetary policy easing. Growth in commercial bank lending to the private sector improved slightly to 2.0 percent in May 2025, up from 0.4 percent in April and a contraction of 2.9 percent in January 2025 (**Figure 4a**). Average lending rates by commercial banks declined to 15.4 percent in May 2024. The muted credit performance reflects both demand and supply-side constraints, including elevated risk premiums and lingering effects of previously high interest rates. Credit expansion was also uneven across sectors, with modest gains recorded in personal and household lending, trade, and building and construction, while other segments remained largely flat. The deterioration in asset quality remains persistent, with the gross non-performing loans (NPL) ratio rosing from 16.4 percent in December 2024 to 17.4 percent in March 2025 (**Figure 4b**).

Figure 4a: Credit to the private sector

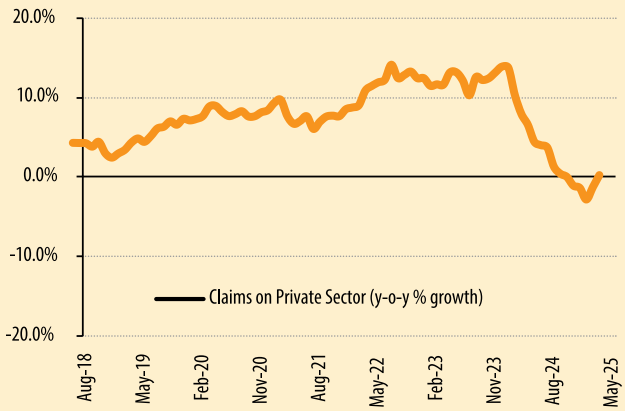
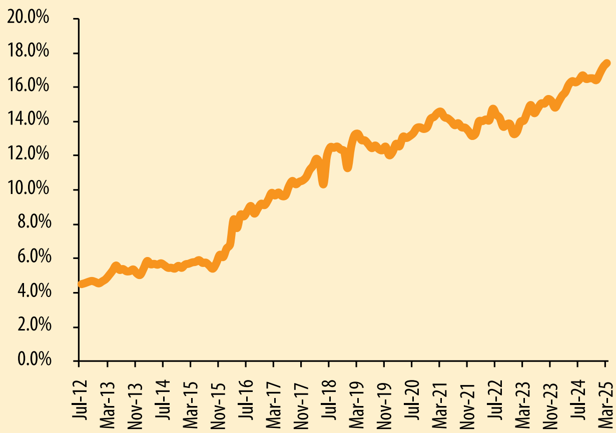


Figure 4b: Asset quality



Source: Central Bank of Kenya

The external sector and foreign exchange market remains stable on account of a manageable current account deficit, strong diaspora remittances, and improved export earnings. As of June 2025, the KES/USD exchange rate hovered around KSh 129 (**Figure 5a**). while the official foreign exchange reserves stood at USD 11.09 billion, which is equivalent to 4.9 months of import cover, thereby offering an adequate buffer against short-term exchange rate shocks. Although the current account deficit widened slightly in March 2025 (**Figure 5b**), it remains sustainable in the medium term.

Figure 5a: Trends in KES/USD exchange rate

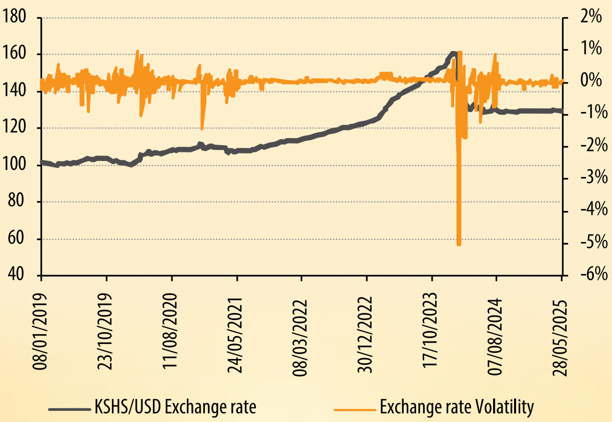
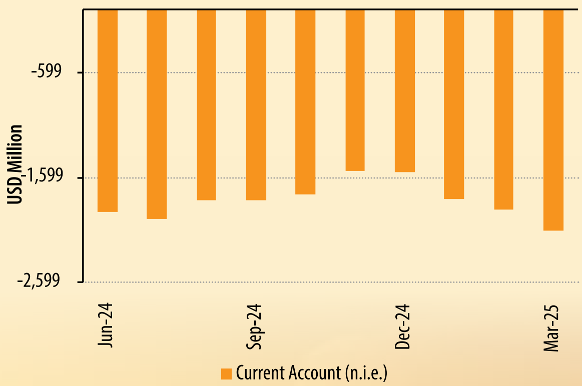


Figure 5b: Current account



Source: Central Bank of Kenya

Figure 6: **Intra-African export destinations**

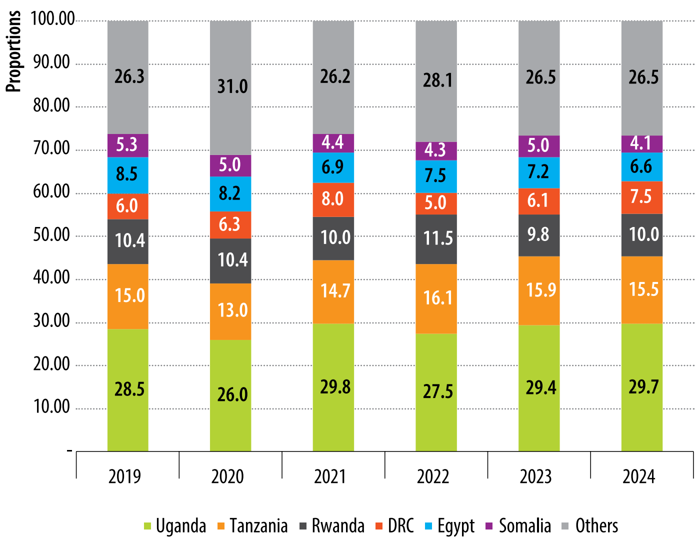
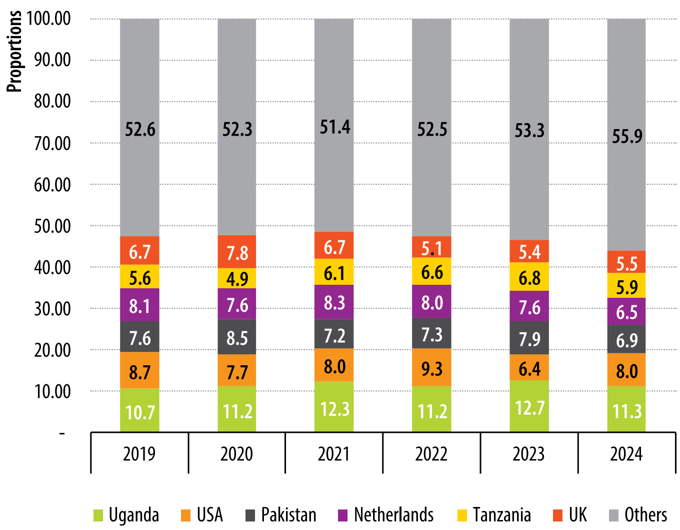


Figure 7: **Global export destinations**



Source: Central Bank of Kenya

Trade partners

As of December 2024, Kenya's total exports rose to KSh 1,108.6 billion, up from KSh 1,002.6 billion in 2023. Over the same period, total imports increased to KSh 2,700.2 billion from KSh 2,598.9 billion. Consequently, the trade deficit narrowed slightly to KSh 1,591.5 billion in December 2024, compared to KSh 1,596.3 billion a year earlier. Between January 2024 and December 2024, Kenya's leading export destinations within Africa (**Figure 6**) were Uganda (31.8%), Tanzania (16.6%), Rwanda (10.7%), the Democratic Republic of Congo (8%), and Somalia (4.4%).

Outside the continent, excluding Uganda and Tanzania, key global export markets included the United States (8%), Pakistan (6.9%), the Netherlands (6.5%), the United Kingdom (5.5%), and Egypt (2.5%) (**Figure 7**). Major sources of Kenya's imports in 2024 (**Figure 8**) were China (33.4%), the United Arab Emirates (19.5%), India (15.2%), the United States (9%), and Japan (6.3%).

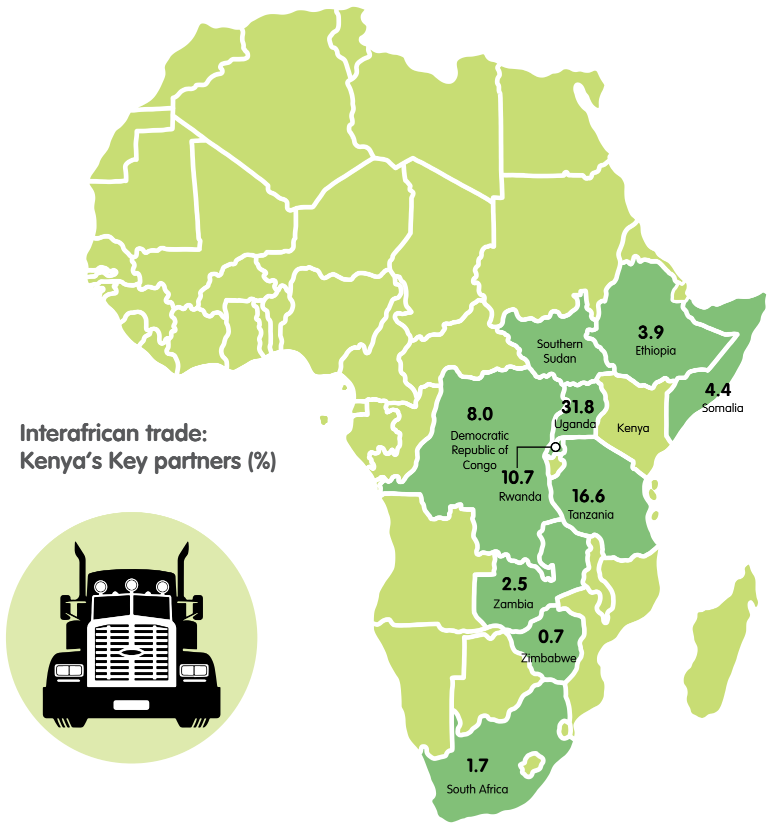
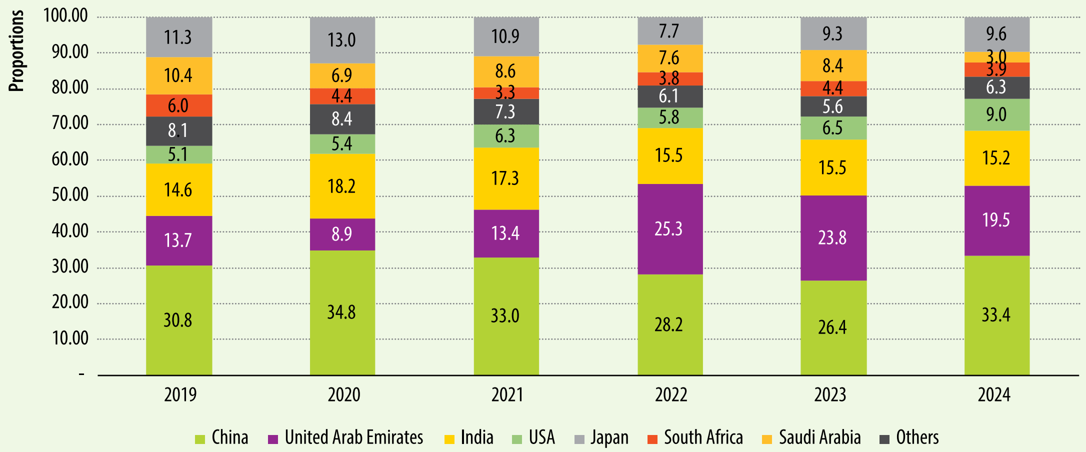


Figure 8: Major origins of imports

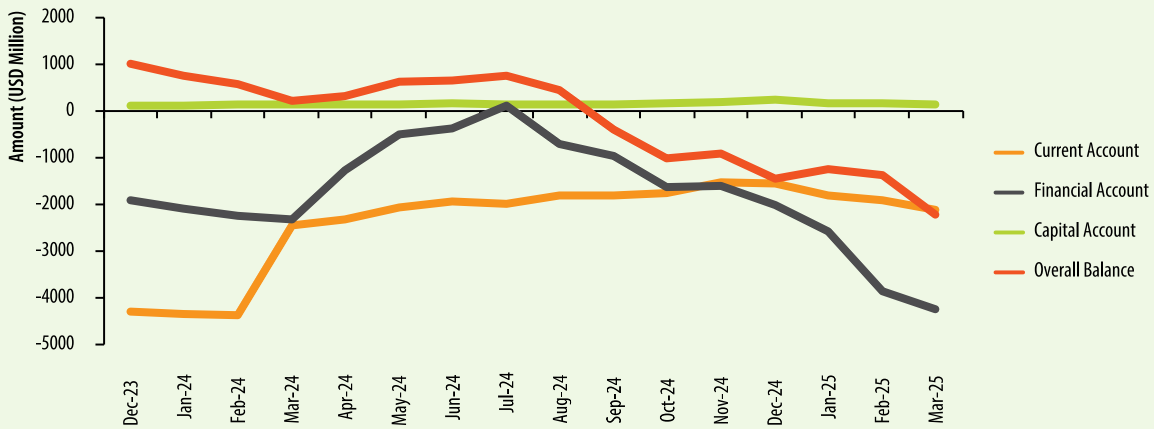


Source: KNBS

Kenya's balance of Payments position in the first quarter of 2025 points to a deteriorating external sector, which is largely driven by a widening financial account deficit and a weakening overall balance. The overall balance recorded a wider deficit of USD 2,215 million in March 2025, up from a deficit of USD 1,458.7 million in December 2024. This trend points to the growing external financing pressures. The financial account registered net financial inflows of USD 4,236.0 million in March 2025 compared to USD 2,009.7 million in December 2024.

The current account deficit widened from USD 1,550.6 million to USD 2,110.2 million over the same period. Meanwhile, the capital account declined to USD 137.2 million in March 2025 down from USD 232 in December 2024.

Figure 9: Balance of the Payments Performance



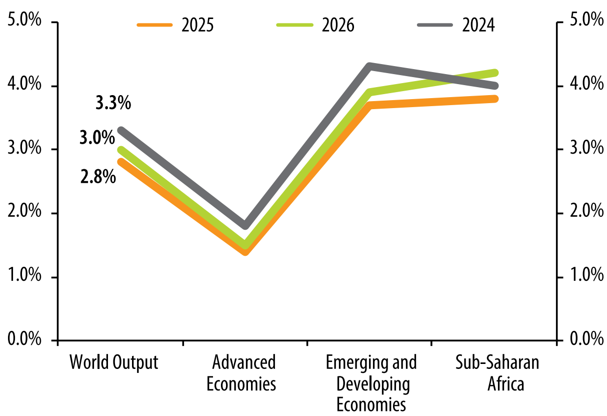
State of the Economy

The International Monetary Fund (IMF) projects global economic growth to decelerate to 2.8% in 2025 and 3.0% in 2026 (Figure 10a), falling below the 2000–2019 historical average of 3.7%. This subdued outlook is driven by persistent geopolitical tensions, rising trade barriers and their spillover effects through global trade linkage spillovers, all of which continue to dampen investor confidence and constrain trade flows.

While global output had hovered around its potential in recent years, a sharp rise in Economic Policy Uncertainty (EPU) (**Figure 10b**), especially around trade policy, has significantly clouded the horizon, thereby curbing business investment and spending, resulting in a global negative demand shock that is weighing heavily on economic activity. Additionally, structural factors such as population aging are expected to further slow medium-term growth. Nevertheless, fiscal support measures in some major economies, including China and the euro area, are helping to cushion these downside risks.

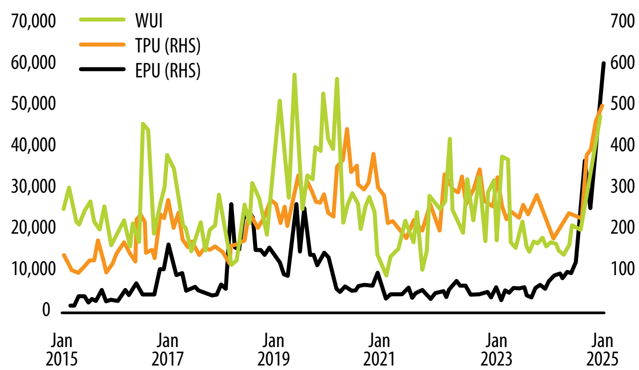
Structural factors such as population aging are expected to further slow medium-term growth.

Figure 10a: World Economic Outlook Projections



Source: IMF World Economic Outlook (April 2025)

Figure 10b: Overall uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU)

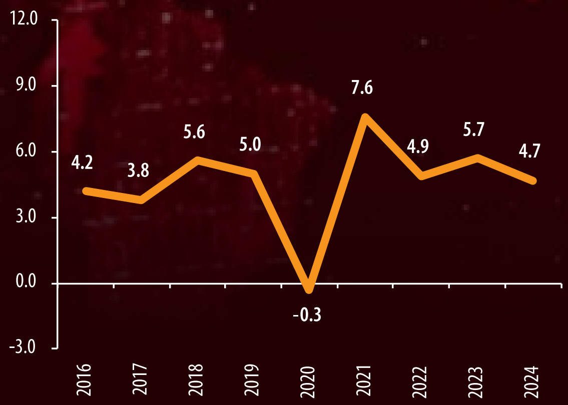


The IMF projects Kenya's real GDP to grow by 4.8 % in 2025 and by 4.9% in 2026, supported by rebound in the agricultural sector, easing inflationary pressure and increased export activity. However, downside risks to this growth remain. The rise of protectionist trade policies in the United States and the and the possibility of similar measures being adopted by other advanced economies, could weaken global demand. Geopolitical tensions also pose significant headwinds to Kenya's growth prospects.

According to the latest data released by the Kenya National Bureau of Statistics (KNBS), Kenya's economy expanded 4.7% in 2024, compared to 5.7% in 2023. This growth was primarily driven by strong performance in agriculture, forestry and fishing, financial and insurance activities and transportation and storage and real estate (**Figure 11a**). High frequency indicators of economic activity remained positive.

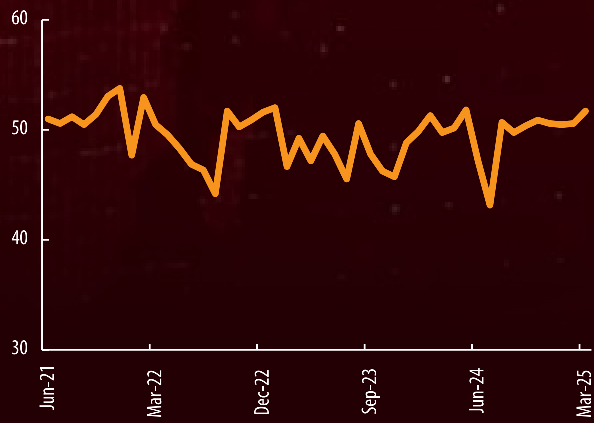
The Purchasing Managers Index (PMI) rose for the third consecutive month during the quarter, reaching 51.7 in March 2025, that being the highest level since January 2023 (**Figure 11 b**). The improvement reflects the strengthening customer demand, which led to the fastest increase in new orders in over three years. As a result, during the quarter, firms reported solid growth in output, a sharp rise in purchasing activity, and accelerated job creation aimed at easing workload pressures. Despite the surge in demand, cost inflation remained relatively moderate compared to historical trends.

Figure 11a: Gross Domestic Product (GDP) Growth rate (%)



Source: KNBS

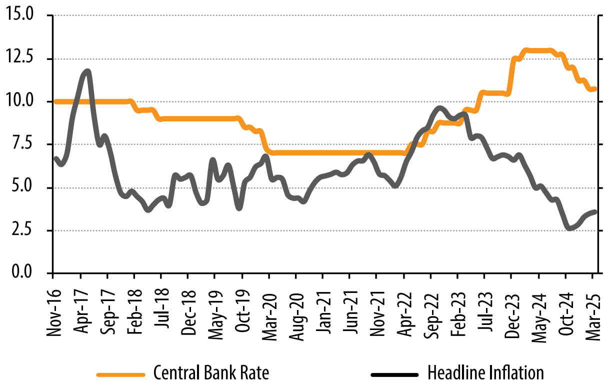
Figure 11b: Composite PMI Index



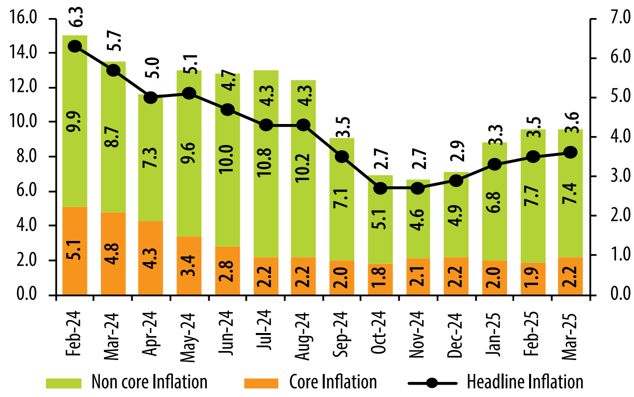
Source: IHS Markit®

Figure 12: Domestic inflation trends and drivers

12(a) Headline Inflation rate versus Central Bank Rate (%)



12(b) Drivers of headline Inflation (Percentage points)



Source: Kenya National Bureau of Statistics (KNBS) and Central bank of Kenya (CBK)

3.6%
Headline Inflation in March 2025

Inflation in Kenya remained low and stable, with expectations well anchored within the target range in the near term. Headline inflation edged up slightly to 3.6% in March 2025 from 2.9% in December 2024 (**Figure 12a**), primarily driven by a rise in core inflation to 2.2%. In contrast, non-core inflation eased to 7.4% in March 2025 from 7.7% in February 2025, though it remained elevated compared to 4.9% in December 2024 (**Figure 12b**).

Globally, headline inflation is projected to moderate to 3.8% in 2025 and further to 3.2% in 2026. Within G20 economies, inflation is expected to decline to 2.6% in 2025 and 2.4% by 2026, gradually aligning with central bank policy targets (**Table 1**). However, upward risks to the global inflation outlook persist, particularly from potential increases in trade tariffs, especially by the United States, which could prompt retaliatory measures from other major economies, thereby fueling renewed inflationary pressures worldwide.

Table 1: Core Inflation for selected countries

2025 Projections

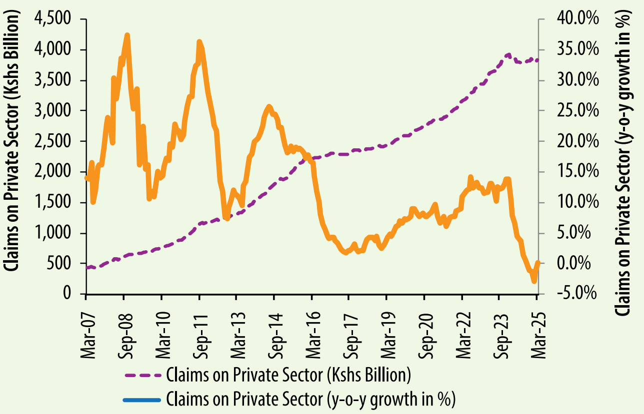
	2024	2025	2026
G20 Advanced Economies	2.7	2.6	2.4
Euro Area	2.8	2.2	2.0
Germany	3.2	2.7	2.2
France	2.3	1.7	1.8
Italy	2.2	1.8	1.9
Spain	2.8	2.2	1.9
Japan	2.0	1.8	2.0
Korea	2.2	2.0	2.1
Mexico	4.1	4.2	3.5
United Kingdom	3.7	2.9	2.3
United States	2.8	3.0	2.6
South Africa	4.2	4.1	4.5

Bank lending to the private sector increased

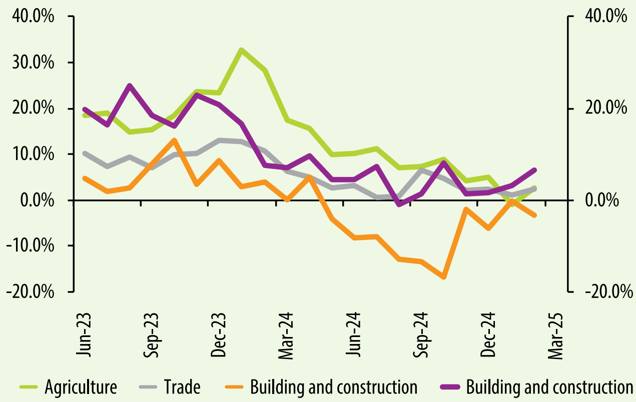
Source: OECD

Figure 13: Private Sector Credit and Growth Dynamics

13(a) Private Sector Credit and Growth Dynamics



13(b) Credit Growth Dynamics in selected sectors

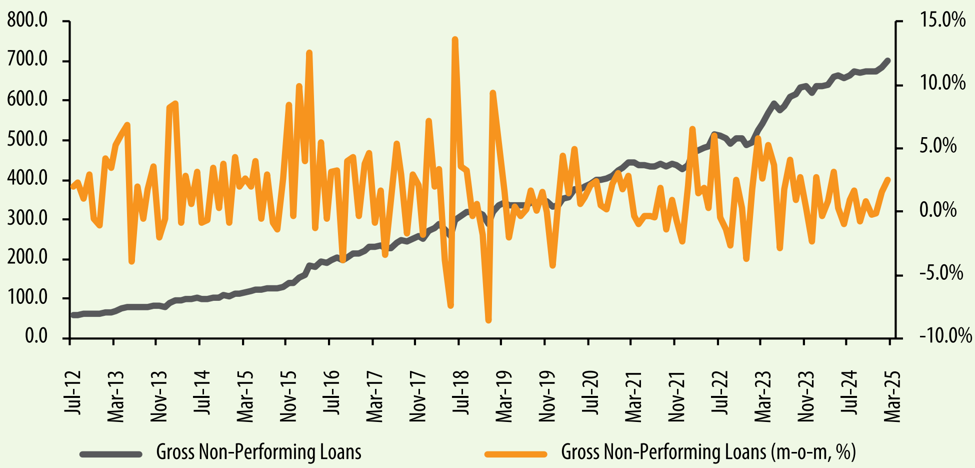


Source: Central Bank of Kenya

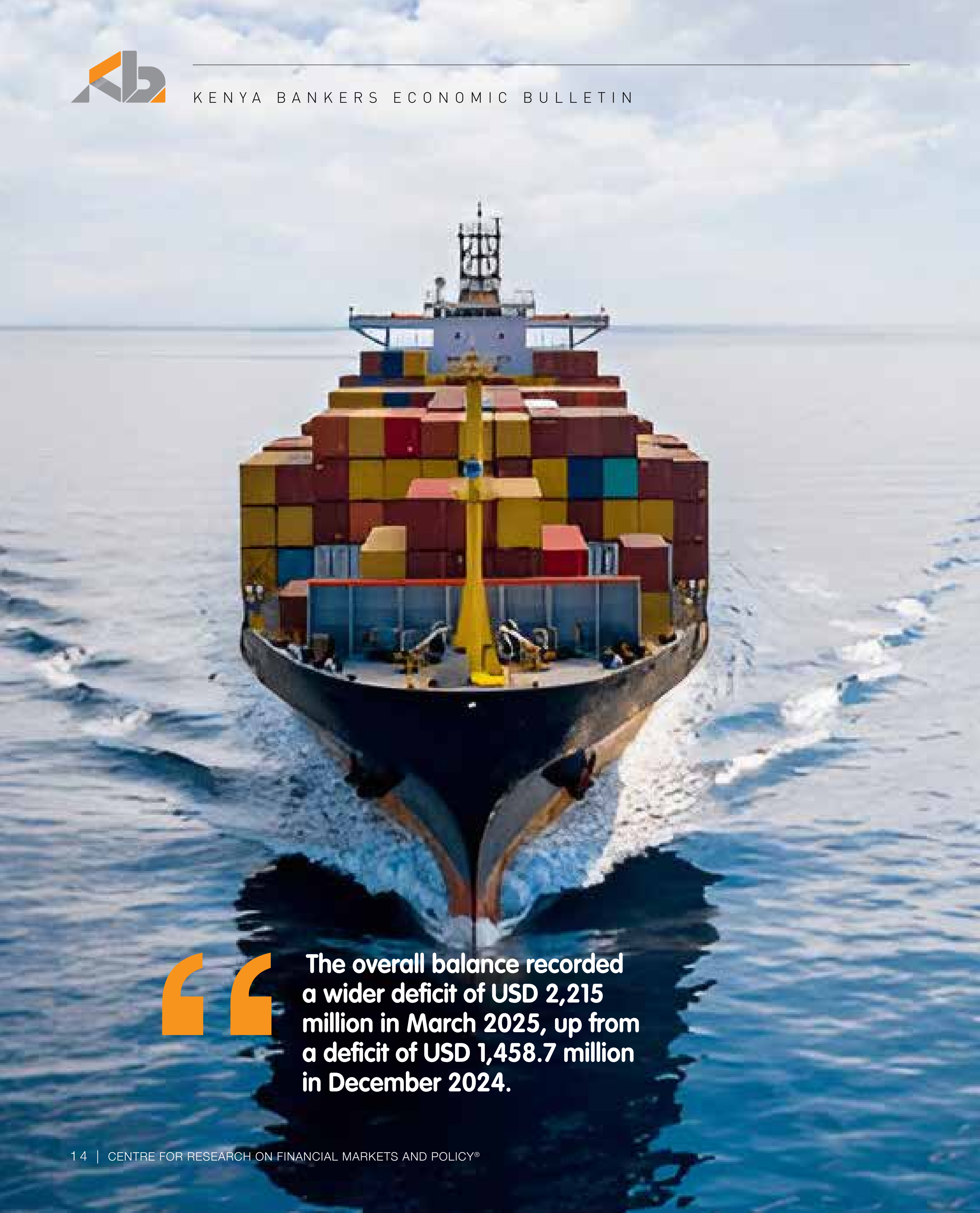
marginally but remained below historical trends, reflecting subdued demand and cautious credit conditions.

Commercial bank private sector credit expanded on a year-on-year basis by 0.22 percent in March 2025, with gross loans rising to Ksh 3,837.6 billion (**Figure 13a**). The improved credit uptake in March 2025 is attributed to increased credit extension to agriculture, transport and communication, building and construction, trade and real estate sectors registered improved credit uptake year-on-year basis in March 2025 (**Figure 13b**). However, the gross non-performing loan to gross loans ratio deteriorated to 17.4 percent in March 2025 (**Figure 13c**).

13(c) Gross Non-performing Loan to Gross Loans Ratio Dynamics

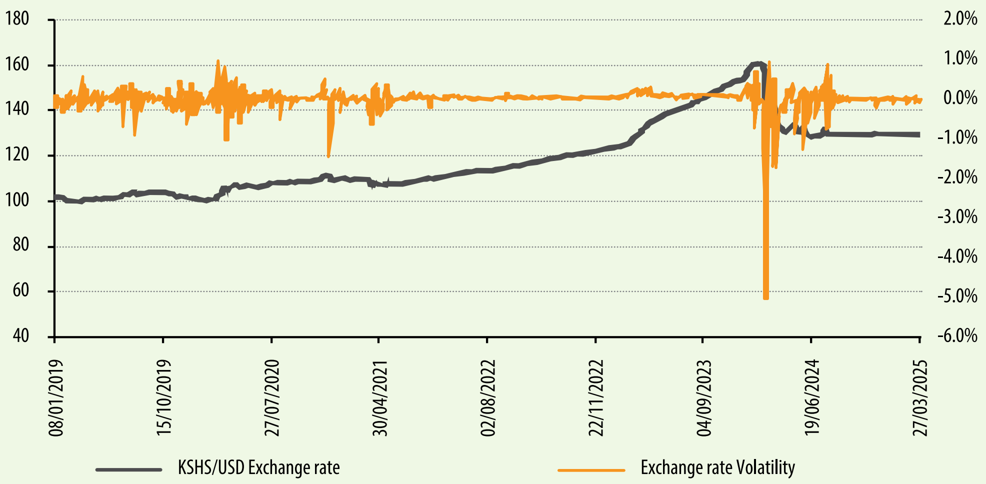


Source: Central Bank of Kenya



"The overall balance recorded a wider deficit of USD 2,215 million in March 2025, up from a deficit of USD 1,458.7 million in December 2024.

Figure 14: Kenya Shilling -US Dollar Exchange Rate dynamics



Source: Central Bank of Kenya

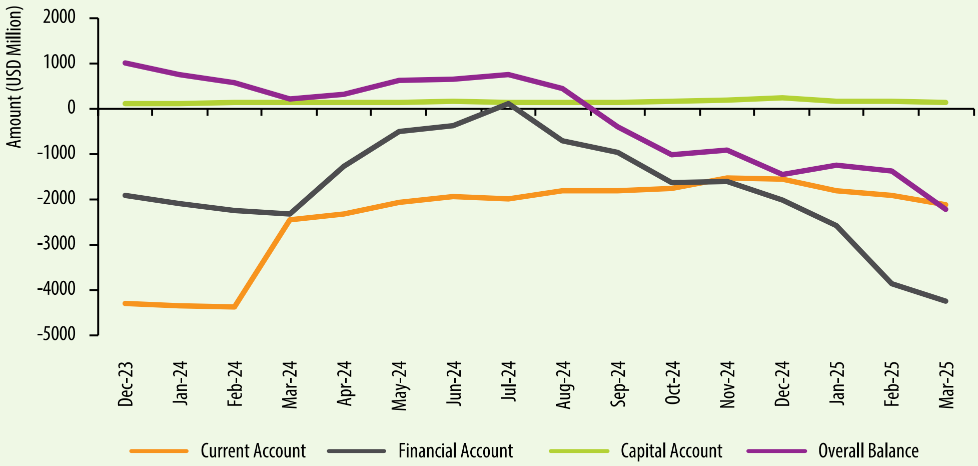
Exchange rate has remained relatively more stable since June 2024 (**Figure 14**), supported by strong remittance inflows, peaking at USD 1,232.51 million in in the first quarter of 2025. This stability was also supported by steady growth in tourist arrivals and resilient performance of tea and horticultural exports, all of which contributed to sustaining the Kenya shilling - US dollar exchange rate.

Kenya's balance of Payments position in the first quarter of 2025 points to a deteriorating external sector, which is largely driven by a widening financial account deficit and a weakening overall balance.

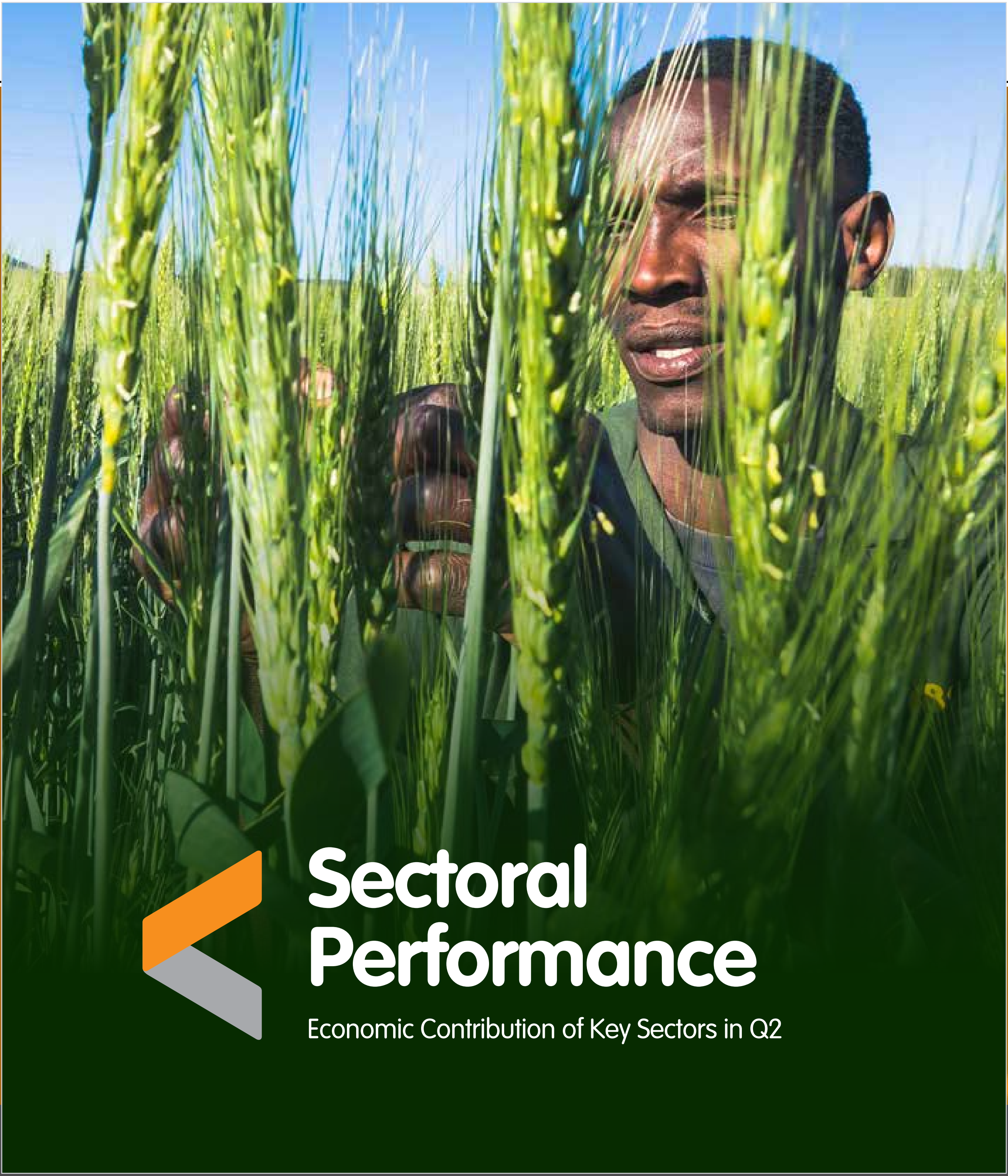
The overall balance recorded a wider deficit of USD 2,215 million in March 2025, up from a deficit of USD 1,458.7 million in December 2024. This trend points to the growing external financing pressures (**Figure 15**).

The financial account registered net financial inflows of USD 4,236.0 million in March 2025 compared to USD 2,009.7 million in December 2024. The current account deficit widened from USD 1,550.6 million to USD 2,110.2 million over the same period. Meanwhile, the capital account declined to USD 137.2 million in March 2025 down from USD 232 in December 2024.

Figure 15: Balance of the Payments Performance



Source: Central Bank of Kenya



Sectoral Performance

Economic Contribution of Key Sectors in Q2

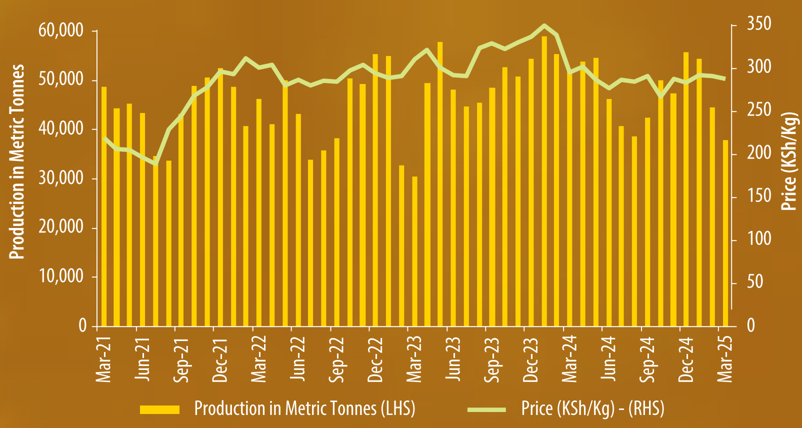
Agriculture

Agriculture remains the backbone of Kenya's economy, supporting livelihoods, driving exports, and contributing significantly to GDP. However, its performance is highly susceptible to weather patterns, global commodity prices, and domestic policy shifts. In 2024, the agriculture, forestry, and fishing sector grew by 4.6 percent, which was a moderation from 6.6 percent in 2023, largely attributed to varied rainfall patterns and the delayed onset of long rains across key producing regions.

Tea production declined in the first quarter of 2025 to 136,914.93 metric tonnes, down from 166,468.79 metric tonnes in the same period of 2024. This drop was influenced by erratic rainfall and lower farm-level output. Concurrently, average auction prices fell from KSh 327.87 to KSh 290.26 per kilogram (**Figure 16**).

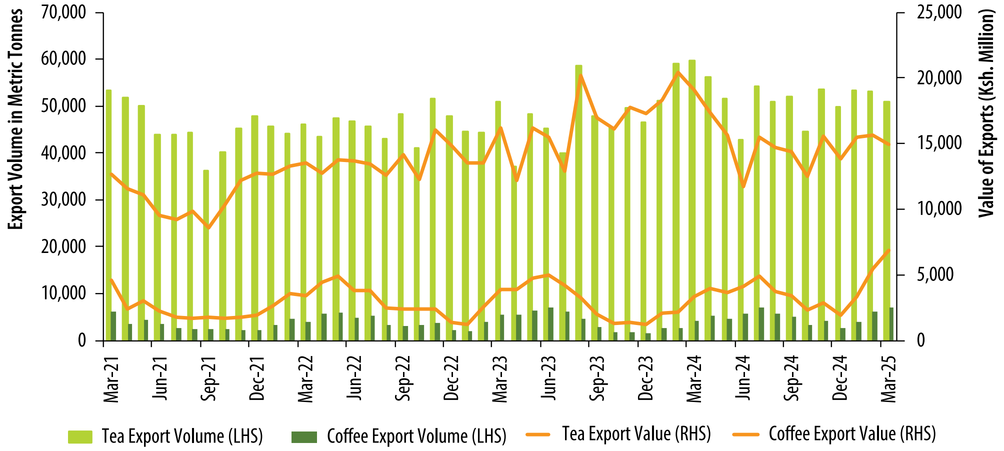
Tea export volumes also declined from 169,830 tonnes in the first quarter of 2024 to 157,515 metric tonnes in the first quarter of 2025, resulting in a drop in export earnings to KSh 46.08 billion from KSh 57.77 billion. In contrast, Coffee performance was impressive, with export volumes nearly doubling to 16,894 metric tonnes in the first quarter of 2025, up from 9,722 metric tonnes in a similar period the previous year. This surge was supported by increased farmer participation in both auction and direct sales, boosted further by high international prices. Export earnings rose sharply to KSh 15.66 billion from KSh 7.6 billion (**Figure 17**).

Figure 16: Tea production and Prices



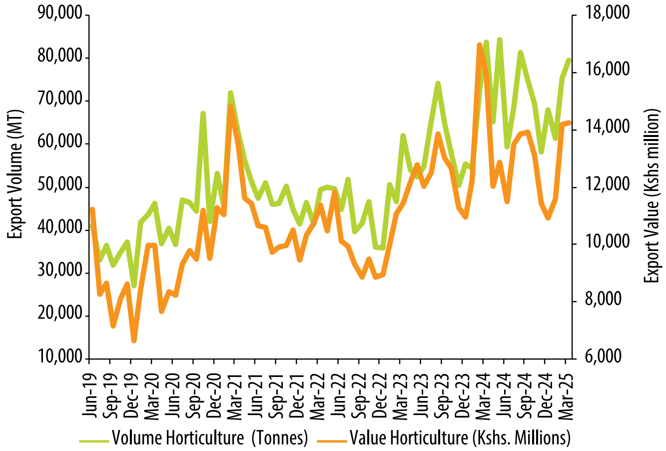
Source: KNBS

Figure 17: Value of Tea and Coffee Exports



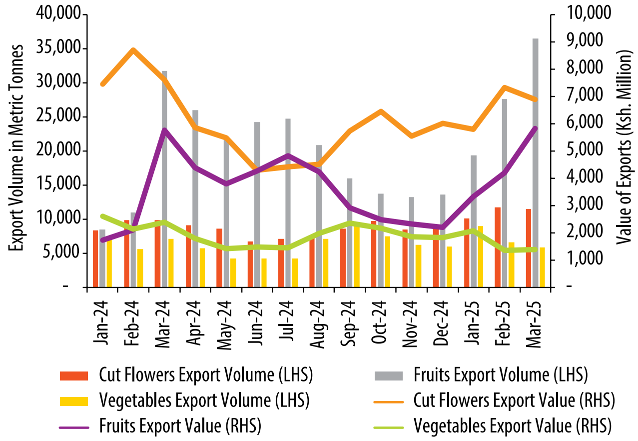
In the horticulture sub-sector , export volumes grew from 210,718.91 metric tonnes in the first quarter of 2024 to 216,429 metric tonnes in the first quarter of 2025 (**Figure 18a**). Notably, fruit exports rose from 51,244 to 83,466 metric tonnes, generating KSh 15.34 billion. However, despite higher volumes, overall horticultural export values fell slightly from KSh 45.13 billion to KSh 40.03 billion, driven by a stronger Kenya Shilling and lower average prices. Cut flower exports recorded modest volume increases but experienced subdued revenue growth due to price adjustments in key markets (**Figure 18b**).

Figure 18a: Horticultural Exports



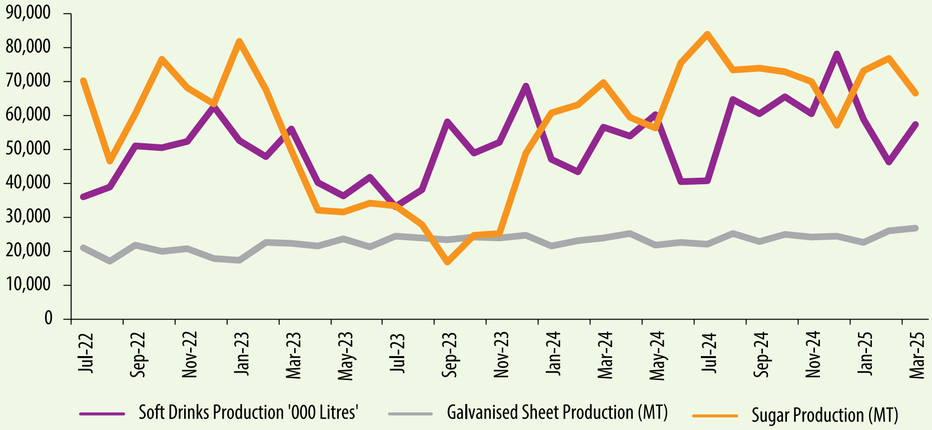
Source: Central Bank of Kenya

Figure 18b: Cut Flowers, Vegetables and Fruits



Source: KNBS

Figure 19: Value of Tea and Coffee Exports



Source: KNBS

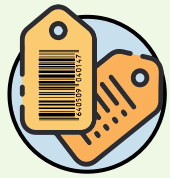
Manufacturing

The manufacturing sector remains a critical pillar of Kenya's industrial transformation and job creation agenda. In 2024, the sector expanded by 2.8%, up from 2.2% in 2023, reflecting moderate growth amidst a challenging macroeconomic environment. This growth was supported by improvements in food and beverage processing, construction inputs, and consumer goods.

In the first quarter of 2025, sugar production rose to 216,459 metric tonnes, compared to 193,412 metric tonnes in the same period of 2024, boosted by improved cane supply and operational efficiency in sugar mills. Similarly, soft drinks production increased to 162.5 million litres, up from 147.1 million litres, driven by rising consumer demand and seasonal restocking by retailers. Galvanized sheet production also increased, reaching 75,202 metric tonnes from 68,457 metric tonnes over a similar period, indicating recovery in the construction and manufacturing sub-sectors (**Figure 19**).

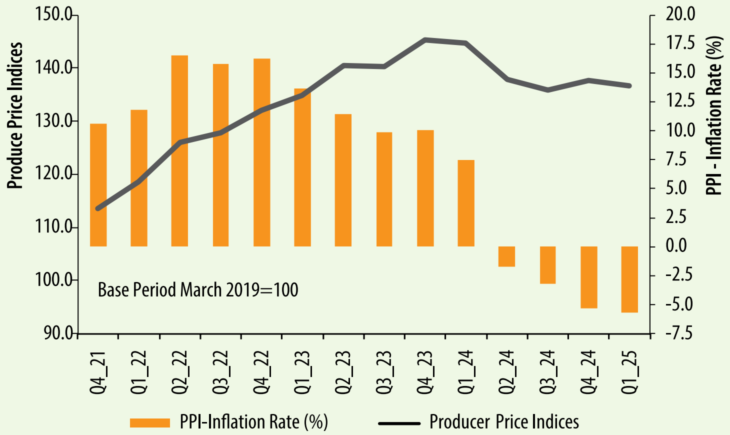
Despite these gains, manufacturers continue to face headwinds due to high taxes, regulatory uncertainty, and low consumer demand. Equally, input costs remain elevated given the recent rise in raw material prices.

Producer Price Index



Producer prices waned in the first quarter of 2025 (**Figure 20**), reflecting potential cost relief for producers and manufacturers. The Producer Price Index (PPI) declined to 136.6 points in the first of 2025 from 144.2 points in the corresponding quarter of 2024, signalling lower input costs across several industries. Relative to the fourth quarter of 2024, the year-on-year production prices dropped in mining and quarrying (-3.6%), manufacturing (-0.6%), and electricity, gas, steam, and air conditioning supply (-1.6%). Conversely, water supply and waste management costs increased by 6.4%, the only segment to post inflationary pressure. The continued decline in producer inflation aligns with lower global commodity prices and reduced energy costs.

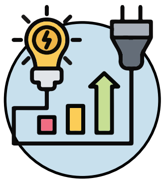
Figure 20: Producer Price Index



Source: KNBS

Figure 21: Monthly Electricity Generation by Source

Energy



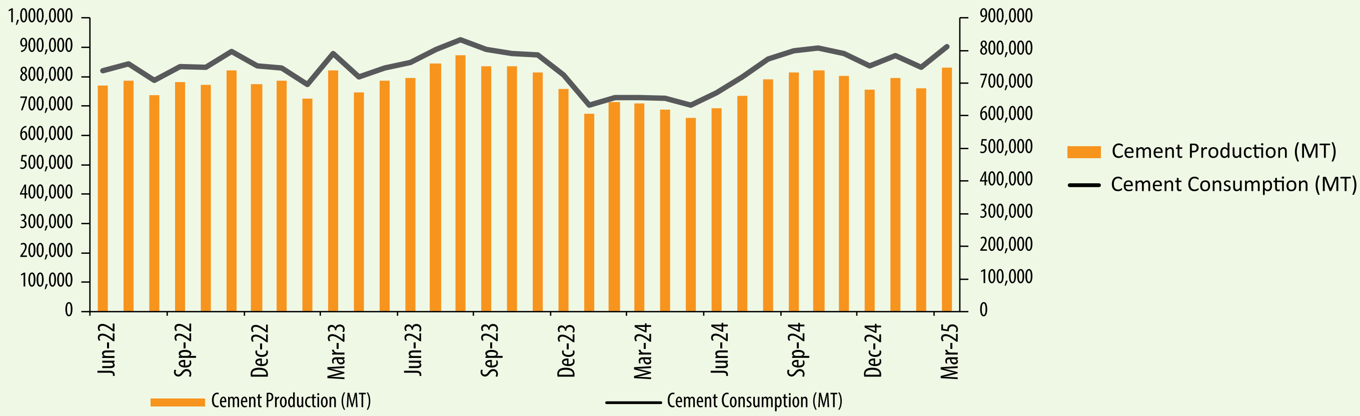
Kenya's electricity generation increased to 3,208.76 million KWh in the first quarter of 2025 from 3,057.43 million KWh in a similar quarter in 2024 (Figure 16), mainly driven by growth in hydro which was up to 797.01 million KWh and wind that increased to 521.9 million KWh during the first quarter of 2025. While geothermal generation slightly dipped, solar production rose. Murban crude oil prices declined to USD 74.00 per barrel as of March 2025. The domestic fuel prices for petrol, diesel and kerosene remained unchanged during the quarter at KSh 177.25, KSh 167.84 and KSh 152.18 respectively. LPG prices stood at KSh 3146.03 for a 13Kg as of March 2025 (**Table 2**).

Table 2: Average Monthly Crude Oil and Retail Fuel Prices

	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Murban crude oil (US$/Barrel)	89.12	83.59	83.22	84.43	78.41	73.59	74.45	72.98	73.07	79.38	76.81	74.00
Super petrol (KES/Litre)	194.46	193.46	190.46	189.46	189.46	189.46	181.33	181.33	176.96	177.25	177.25	177.25
Diesel (KES/Litre)	181.11	179.91	173.83	172.33	172.33	172.33	168.82	168.82	165.82	167.84	167.84	167.84
Kerosene (KES/Litre)	171.18	169.52	163.82	162.52	162.52	159.1	152.18	152.18	149.18	152.18	152.18	152.18
LPG (13Kgs)	3,242.11	3,221.29	3,213.97	3,219.58	3217.85	3196.04	3183.29	3147.66	3143.85	3122.16	3139.65	3146.03

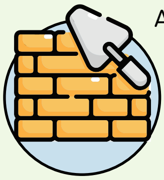
Source: ADNOC oil prices and KNBS

Figure 22: Cement Production and Consumption



Source: KNB

Building and Construction

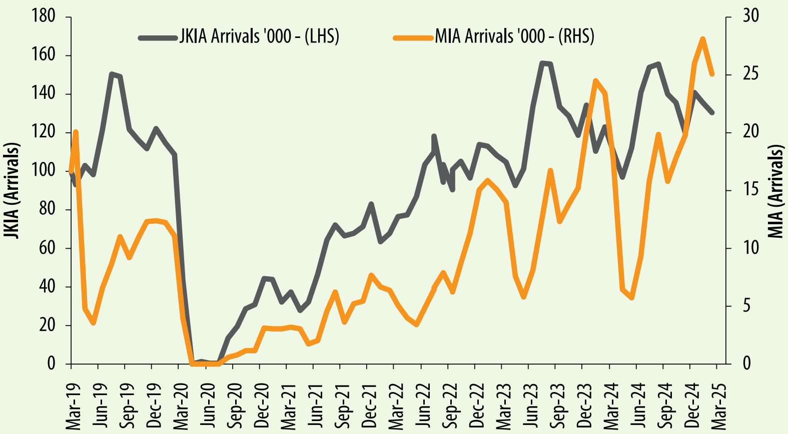


After contracting by 0.7% in 2024, Kenya's construction sector is showing signs of a rebound in the first quarter of 2025. Cement production rose to 2.39 million metric tonnes in the current quarter, up from 2.1 million a year earlier, while its consumption increased to 2.34 million from 1.94 million metric tonnes over similar period (**Figure 22**). This resurgence is largely driven by the government's affordable housing programme and renewed infrastructure development, reflecting confidence and demand revival within the sector.

Tourism

Tourism sector recorded steady growth in the first quarter of 2025, with inbound arrivals rising to 446,917, up from 409,164 a year earlier. JKIA received 375,516 visitors, while Mombasa International Airport welcomed 71,401 (**Figure 23**). These trends reflect Kenya's appeal as a prime destination for conferences and vacation in the East African region. If this growth persists, the sector's performance in 2025 could surpass pre-pandemic levels.

Figure 23: Monthly Inbound Tourist Arrivals



Source: KNB

Government Revenue and Expenditure

The implementation of the FY 2024/25 budget was slowed by protests in the first quarter, the Government revenue collections totaled KSh 656.4 billion, while government expenditure stood at KSh 770.1 billion. During the second quarter, government revenue increased to KSh 675.4 billion whereas government spending reached KSh 1,025.7 billion.

Government revenue collection in the third quarter of FY 2024/25 decreased to KSh 666.6 billion, whereas expenditure reached KSh 903.9 billion. Consequently, this resulted in a revenue expenditure gap of KSH 237.3 billion (**Figure 24**).

Income tax remained the primary revenue source, accounting for 32.3 per cent of total collections, which is a notable decline of 6.3 percentage points compared to a similar quarter in the previous fiscal year. Value Added Tax (VAT) stood at 25.0 percent, while collections from export duty, import duty and non-tax revenue stood at 11.0, 5.4 and 22.6 percentage points respectively (**Figure 25**).

Figure 24: Government revenue and expenditure

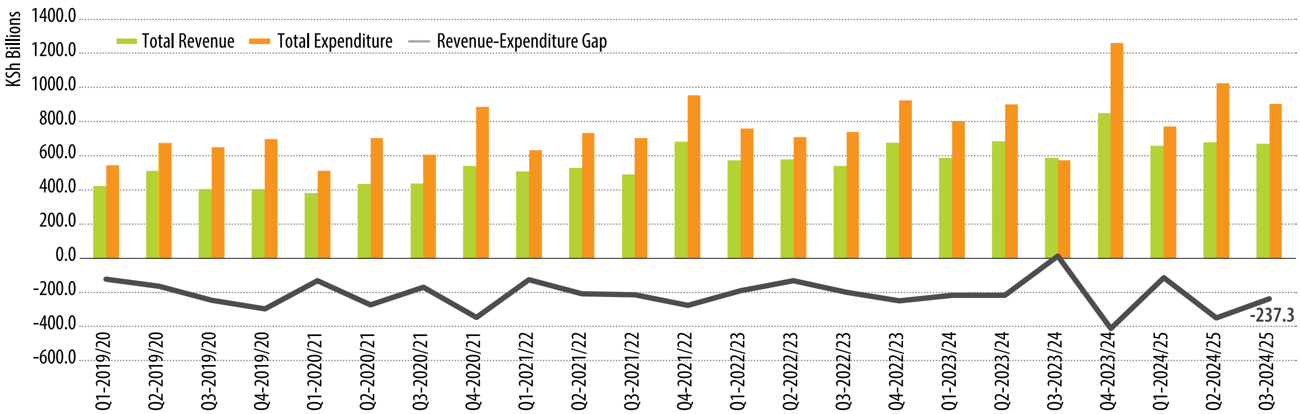
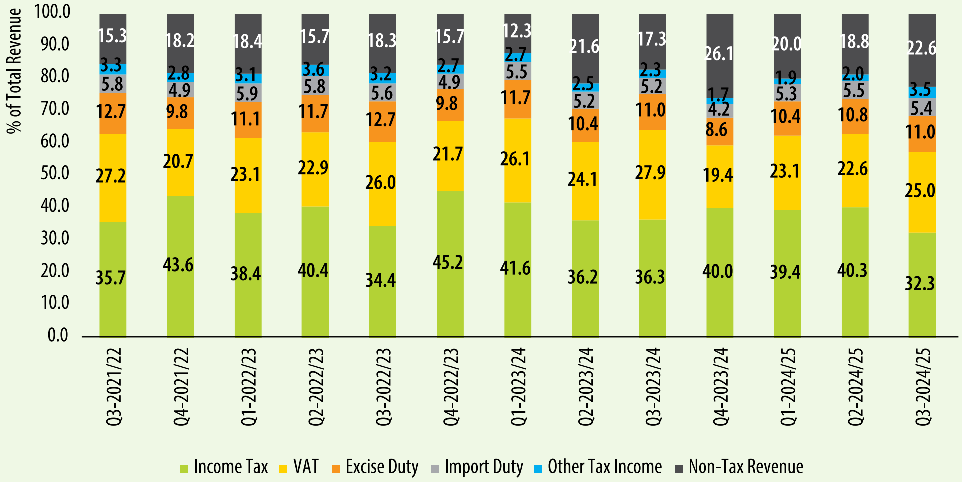


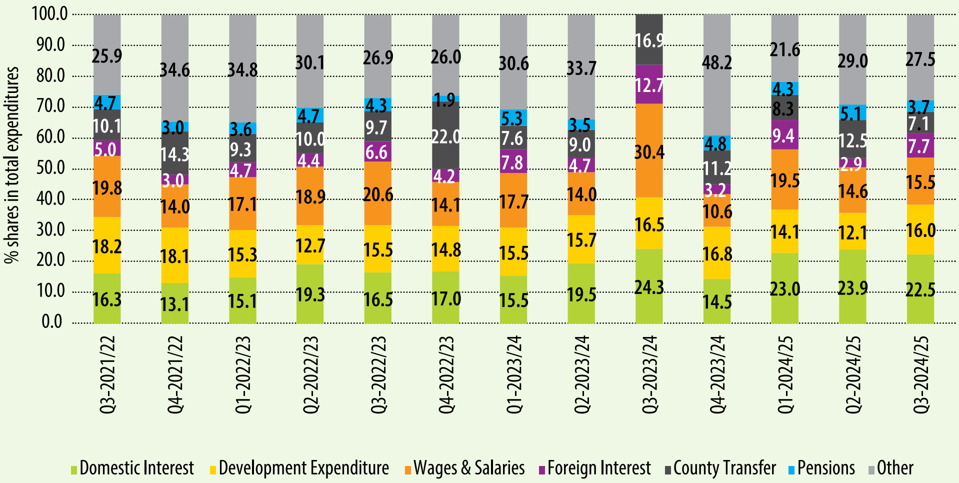
Figure 25: **Total Revenue (%)**

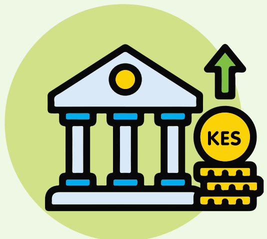


Expenditure patterns in Q3 FY 2024/25 continued to be dominated by recurrent spending, which accounted for 76.9 percent of total expenditure, up from 66.7 percent in the same quarter of FY 2023/24 (**Figure 26**). Development expenditure held steady at 16 percent in the current quarter, compared to 16.5 percent in the same quarter of FY 2023/24

Within recurrent expenditure, domestic interest payments comprised the largest share at 22.5 percent, followed by salaries and wages at 15.5 percent. Foreign interest payment and pension obligations accounted for 7.7 percent and 3.7 percent respectively.

Figure 26: **Total Expenditure Allocation (%)**

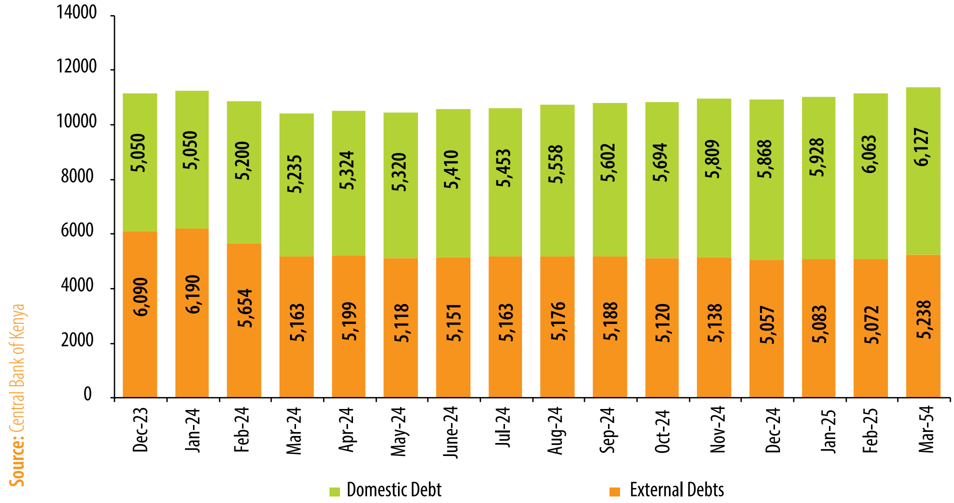




Public Debt and Deficit Financing

Kenya's public debt profile has shifted from external borrowing to domestic borrowing due to tighter conditions for accessing external credit and government fiscal consolidation efforts. Public and publicly guaranteed debt stock increased to KSh 11,365 billion as of the end of March 2025 from KSh 10,925 billion as of the end of March 2024 (**Figure 27**). This comprises domestic debt stock of KSh 6,126.7 billion (53.9 percent of total debt) and external debt stock of KSh 5,238.3 (46.1 percent of total debt).

Figure 27: Stock of Kenya's Public and Publicly Guaranteed Debt (KSh Billion)



The present value of external debt to GDP ratio is projected to remain below the 40 percent sustainability threshold in 2025 (**Table 3**). The debt service to revenue ratio crossed the threshold of 18 percent attributable to increase in external debt service during the period. The debt service to exports ratio remained above the 15 percent threshold in 2024, indicating debt vulnerability.

The present value of debt to GDP ratio was above the 55 percent threshold in 2024.

Table 3: External debt to GDP ratio

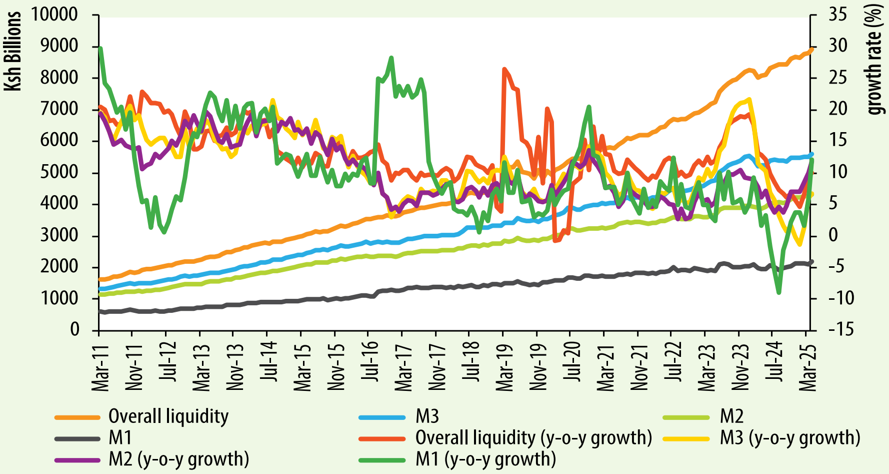
Indicators	Actual						Projection	
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Present value of external debt to GDP ratio (threshold = 40)	31.4	27.6	27.1	27.4	27.8	32.1	29.8	30.4
Public and public guaranteed debt service to exports ratio (threshold = 15)	19.9	31.4	17.4	23.5	21.2	26.9	40.5	31.9
Public and public guaranteed debt service to revenue ratio (threshold = 18)	16.2	21.3	12.2	15.3	14.8	18.8	25.2	20.6
Present value of public debt-to-GDP ratio (threshold = 55)	56.9	60.7	64.1	61.6	63.1	68.7	63.0	64.0

Source: The National Treasury and IMF Country Report (2025)

Money Supply

There is a continued recovery banking activity and improved liquidity conditions, albeit with cautious credit expansion. Monetary aggregates showed moderate improvement in the first quarter of 2025. The overall liquidity grew from KSh 8.66 trillion in December 2024 to KSh 8.81 trillion in March 2025. Year-on-year growth in M3 rose to 6.00%. M2 grew at 9.95%, while M1 rebounded from five months of contraction to post 5.87% growth in March 2025 **(Figure 28)**.

Figure 28: Trends in Monetary Aggregates

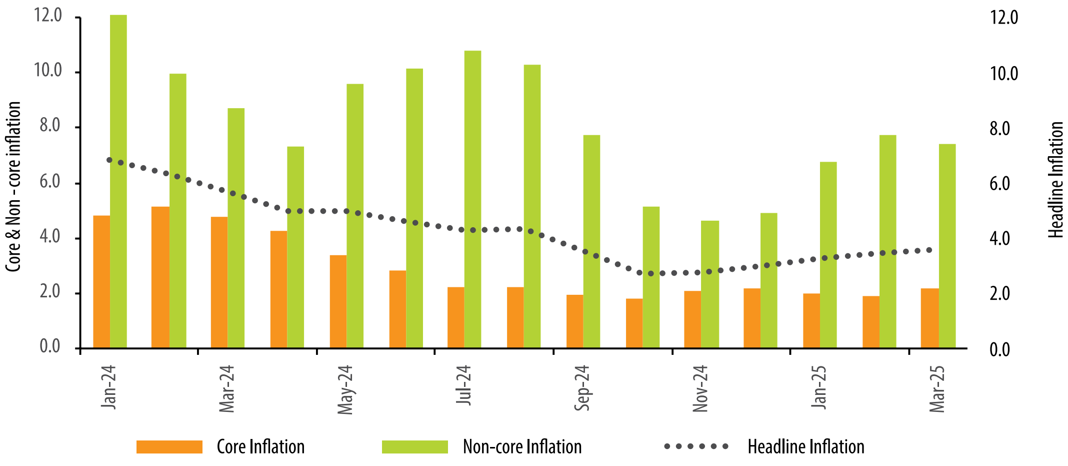


Source: Central Bank of Kenya

Inflation

Headline inflation dropped sharply to 3.62% in March 2025 from 5.7% a year earlier (Figure 29). This disinflation is mainly attributed to falling fuel and food prices. Core inflation declined to 2.2%, and non-core inflation eased to 7.42% down from 8.73% in a similar period in 2024. With inflation trending downward, monetary policy may shift toward easing, offering potential stimulus for broader economic growth in 2025.

Figure 29: **Inflation Dynamics**

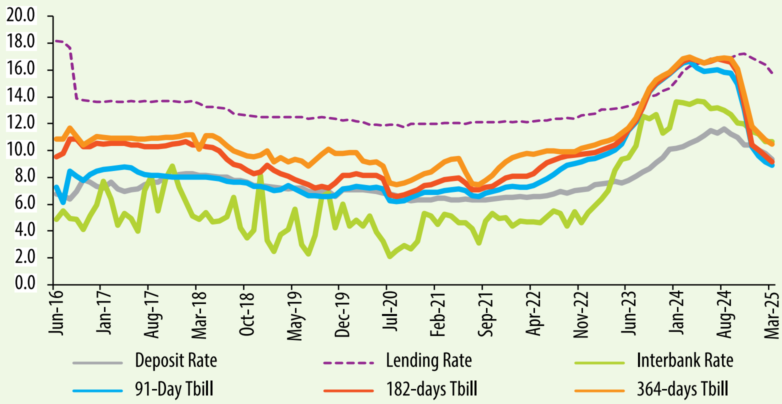


Source: Central Bank of Kenya

Interest Rates

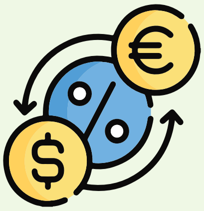
The interest rate environment in the first quarter of 2025 reflected easing monetary policy as the Central Bank of Kenya sought to expand credit to the private sector. Deposit rates decreased slightly, reaching approximately 9.33 percent in March 2025, down from 10.52 percent in March 2024. Lending rates dropped to 15.77 per cent from 16.45 percent over the same period. The interbank rate stood at 10.68 percent as of March 2025. Short-term government securities 91-day treasury bill mirrored the interest rate trend (**Figure 30**).

Figure 30: Interest Rates Dynamics



Source: Central Bank of Kenya

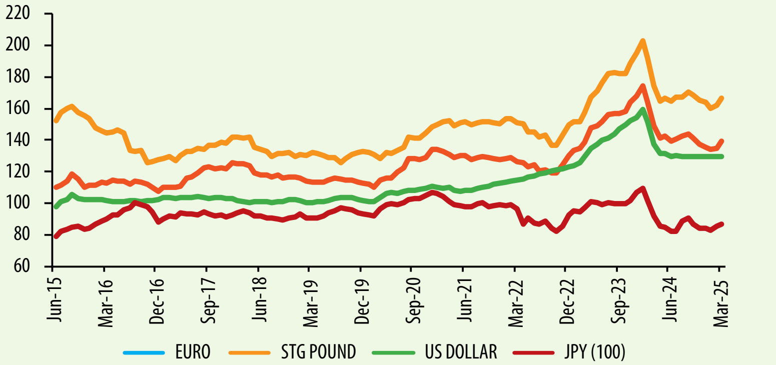
Exchange Rates



The Kenya Shilling (KSh) appreciated against most major international currencies in the first quarter of 2025 compared to the same period in 2024. This strengthening was supported by increased foreign exchange inflows, the implementation of the foreign exchange code, and other monetary policy measures. Against the US Dollar, the KSh appreciated to an average exchange rate of 129.34 in Q1 2025, compared to 149.63 in Q1 2024. The Shilling also gained against the British Pound, averaging 162.84 in Q1 2025, down from 189.71 in Q1 2024. Similarly, it appreciated against the Euro, with an average exchange rate of 145.20 in Q1 2025, compared to 162.47 in Q1 2024. The KSh also strengthened against the Japanese Yen, averaging 84.85 in Q1 2025, an improvement from 100.92 in Q1 2024 (**Figure 31a**). Similarly, the Kenya Shilling remained stable against select East African currencies, averaging 19.91 Ugandan Shillings and 28.44 Tanzanian Shillings (**Figure 31b**).

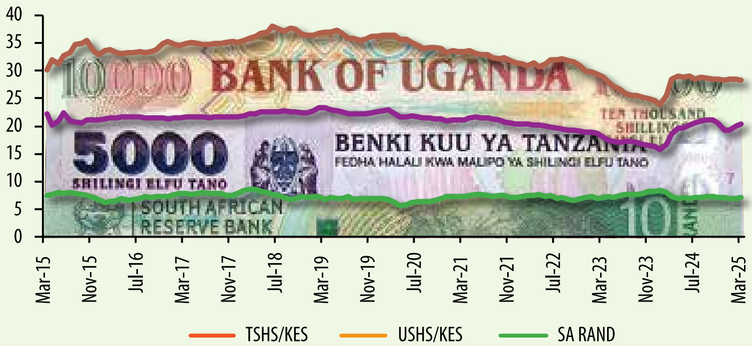
Figure 31: Exchange Rate Developments

31(a) Exchange Rate Developments (major international currencies)



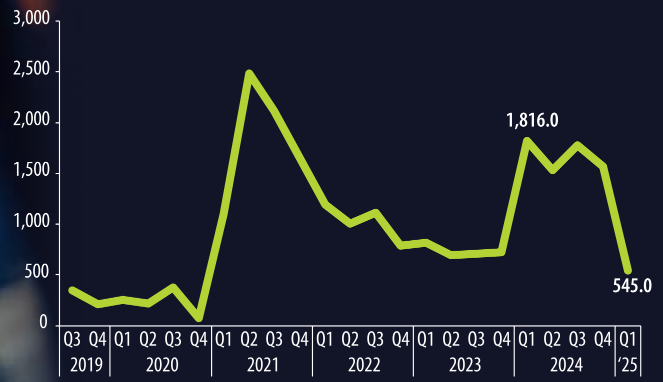
Source: Central Bank of Kenya

31(b) Exchange Rate Developments (African currencies)



Source: Central Bank of Kenya

Figure 32: Number of derivatives contracts



Source: Nairobi Securities Exchange

Capital Markets

Kenya's capital markets rebounded strongly in the first quarter of 2025. The NASI rose to 130.81 in March 2025 points, up from 113.09 in March 2024. The NSE 25 and NSE 20 indices also posted gains, reaching 3,532.38 and 2,226.88 points respectively during the first quarter of 2025 (**Table 4**).

Market capitalization increased to KSh 2.06 trillion in the first quarter of 2025, up from KSh 1.77 trillion in a similar quarter in 2024. However, equity turnover and volumes traded declined to KSh 8.13 billion and 669.58 million, respectively in March 2025. The derivative market also contracted, with only 545 contracts traded during the current quarter, down from 1,816 in a similar quarter in 2024 (**Figure 32**), thereby pointing to a lower speculative engagement despite bullish sentiment in the equities segment.

Table 4. Trends in Nairobi Securities Exchange Leading Indicators

	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
NASI (2008=100) Points (RHS)	113.09	106.54	112.98	109.49	105.73	103.67	107.08	117.61	111.53	123.48	128.28	132.13	130.81
NSE 25 Share Index (LHS)	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	3,436.04	3,595.08	3,532.38
NSE 20 Share Index (1966=100) Points (LHS)	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	2,162.58	2,300.17	2,226.88
Number of Shares Traded (Million)	669.58	301.4	509.69	279.13	294.39	392.18	334	382.00	501.00	846.00	632.23	472.75	471.23
Equities Turnover (KSh Million)	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	9,570.43	8,569.40	8,127.21
Market Capitalization (KSh Billion)	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	1,983.70	2,076.83	2,056.07

Source: Nairobi Securities Exchange

Banking Sector Performance

The performance of Kenya's banking sector in the first quarter of 2025 reflects a cautious balancing act between maintaining financial stability and navigating mounting macroeconomic pressures. While the sector remained fundamentally resilient, key indicators point to growing vulnerabilities, particularly in asset quality, credit risk, and deposit mobilization.

Total banking sector recorded marginal growth, rising from KSh 7,645.80 billion in December 2024 to 7,673.60 in March 2025, reversing the slight contraction seen in January. However, the pace of growth remained subdued compared to previous quarters, signaling restrained credit expansion and cautious investment activity (**Figure 33**). Gross deposits decreased slightly to 5,730.9 in March 2025 from 5,739.6 in December 2024, reflecting stagnation following a modest dip in January 2025.

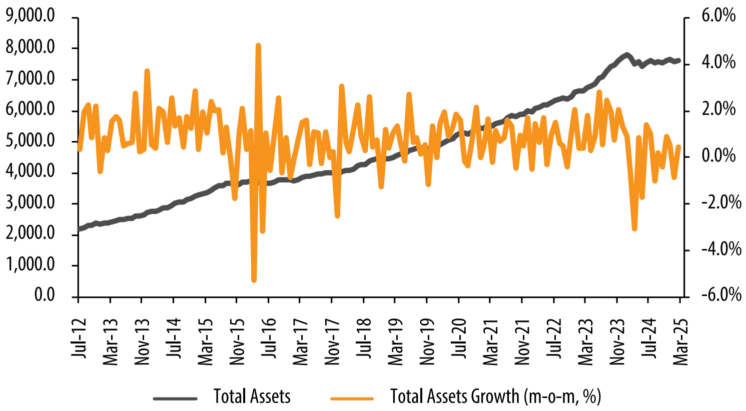
Total liabilities declined slightly from KSh 6,456.34 billion in December 2024 to KSh 6,398.98 billion in March 2025, continuing the softening trend observed since December 2024. This decline underscores muted growth in deposit liabilities and a conservative funding approach by banks. In contrast, shareholders' funds rose significantly by 7.2% to KSh 1,274.6 billion in March, up from 1,189.4 billion in December, incicating strengthened capital buffers (**Figure 34**).

On the lending front, gross loans increased modestly from KSh 4,099.3 billion in December 2024 to KSh 4,123.4 billion in March 2025, extending the cautious credit expansion seen in the late 2024 (**Figure 35a)**. The restrained growth reflects risk-averse lending strategies in the face of elevated credit risk. Meanwhile, gross non-performing loans (NPLs), rose from KSh 672.6 billion to KSh 717 billion over the same period (**Figure 35b**), an increase by 6.6 per cent, signaling ongoing deterioration in credit quality. The rise in NPLs was driven largely by stress in households and SME segments, with cost of living pressures, declining incomes, and delayed public sector payments.

7,674

Total Baking Sector assets (KSh in billions)

Figure 33: Banking Sector Assets



As a result, the NPL ration worsened to 17.4 per cent in March 2025 from 16.4 per cent in December 2024, indicating that the pace of loan growth continues to lag behind the rise in bad loans. Despite this, banks maintained strong liquidity positions. The average liquidity ratio rose to 58.4% in March 2025, up from 55.7% in December 2024, which is well above the 20% regulatory minimum (**Figure 36**).

Figure 34: Banking Sector Shareholders Funds

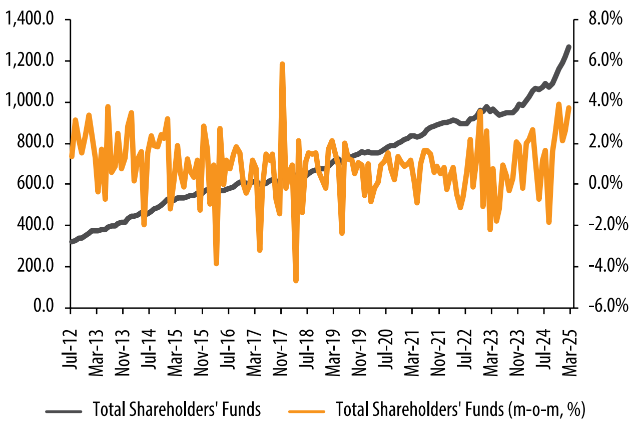


Figure 35a: Gross Loans

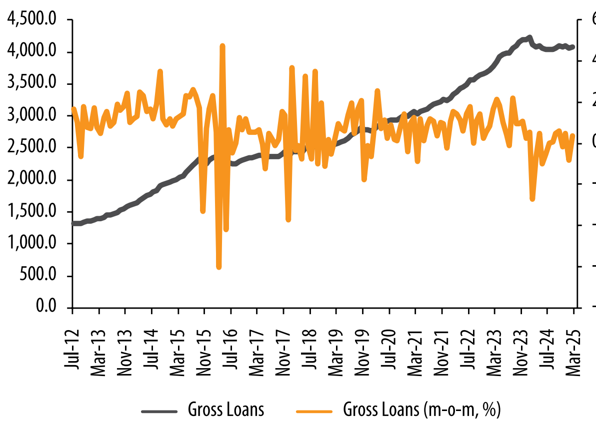


Figure 35b: Gross Non-Performing Loans

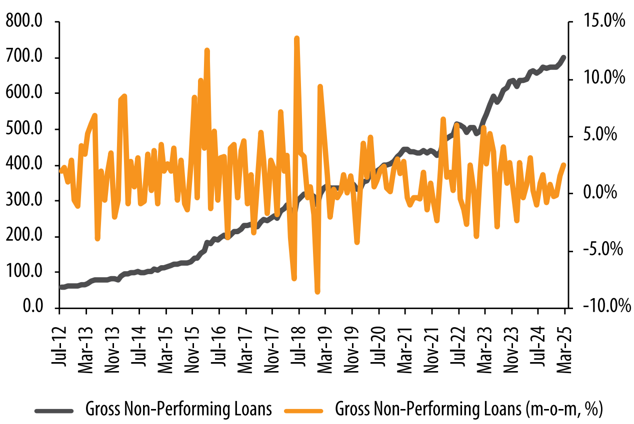
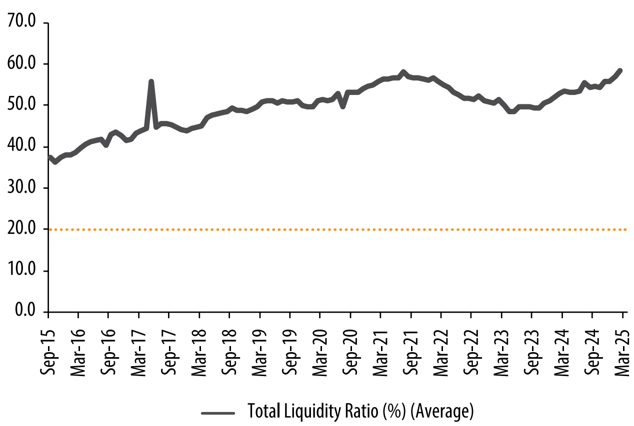


Figure 36: Liquidity ratio



Source: Central Bank of Kenya

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