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CENTRE FOR RESEARCH ON

FINANCIAL MARKETS AND POLICY®

About this Report

This Bulletin presents a comprehensive review of Kenya's economic performance in the fourth quarter of 2025, leveraging recent performance and developments to offer insights into the country's economic outlook for the year 2026. 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.

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Oil shipments at the Strait of Hormuz: Geopolitical tensions are affecting various economies, with the Middle East conflict, posing risks to both inflation and economic growth. The IMF has revised its global growth forecast downwards, forecasting a slowdown from 3.4% in 2025 to 3.1% in 2026

FOREWORD

From the CEO's Desk

The 45th issue of the Kenya Bankers Economic Bulletin presents a comprehensive review of Kenya's economic and financial performance in the fourth quarter of 2025, along with recent developments in 2026. The Bulletin provides insight into evolving macroeconomic conditions, financial sector performance and policy interventions that are shaping Kenya's economic outlook.

From the global scene, geopolitical tensions are affecting various economies, with the Middle East conflict, posing risks to both inflation and economic growth. The IMF has revised its global growth forecast downwards, forecasting a slowdown from 3.4% in 2025 to 3.1% in 2026, mainly due to ongoing disruptions in energy supply and trade routes. Advanced economies show modest growth trajectories whereas emerging markets and developing economies are forecasted to grow slower by 3.9% in 2026.

As the global economic outlook projects a slowdown with risks tilted to the downside, these external shocks are likely to slow Kenya's growth prospects further in 2026 on account of the interconnectedness of global events and local economic dynamics. Domestically, Kenya's economic growth rate slowed slightly from 4.7% in 2024 to 4.6% in 2025. The growth registered mixed results across sectors, particularly a slowdown in agriculture, manufacturing, accommodation and food services, transport and ICT. Inflation has remained within target range.

Nonetheless, the inflation outlook is precarious, with risks leaning towards upside due to the Middle East conflict that threatens oil market stability and could impact key imports such as fertilizers, which are crucial for domestic food production. On a positive note, Kenya's revenue performance improved considerably, contributing to a narrowing of the fiscal deficit. However, public debt levels have continued to rise exerting pressure on fiscal management due to higher debt servicing costs and the ongoing need for external borrowing.

Monetary easing during the quarter has helped maintain liquidity conditions and strengthened policy transmission. Consequently, credit growth in the private sector has recovered steadily but concerns persist due to high non-performing loans.

The Kenyan banking sector remained resilient in 2025, with banking sector assets and gross loans increasing slightly. Liquidity remained high at 59.3%. Overall, the sector is well-positioned to support credit growth into 2026.

This edition of the Economic Bulletin is expected to offer valuable insights. Nonetheless, we welcome your feedback and contributions on topical issues covered in the report. Correspondence for submissions and editorial purposes should be sent to the Bulletin's Editor at research@kba.co.ke.

Raimond Molenje,
Chief Executive Officer,
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COMMENTARY

Geopolitical Tensions, Inflation Risks and Kenya's Economic Outlook

Dr. Samuel Tiriongo,
Director, Research & Policy Head, Kenya Bankers Association Centre for Research on Financial Markets and Policy®

4.4%
Headline Inflation stood at 4.4% in March 2026

By Dr Samuel Tiriongo,

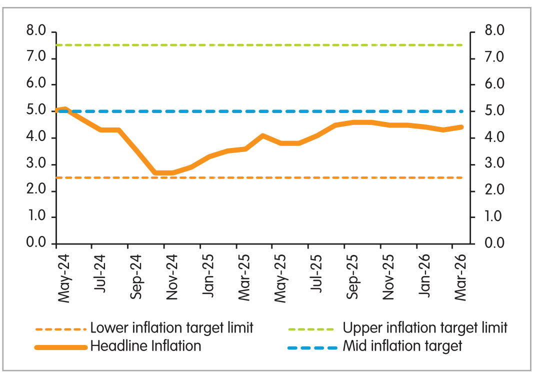
The global economy is increasingly being reshaped by structural adjustments driven by intensifying geopolitical tensions, particularly the ongoing conflict in the Middle East. This conflict has disrupted global supply chains, most notably in the energy markets, where a significant share of global oil supply passes through the Strait of Hormuz[1], thereby exposing underlying vulnerabilities and contributing to external imbalances.

The resulting surge in energy prices has translated into higher production and transportation costs, thereby transmitting inflationary pressures across various economies[2]. At the same time, global growth prospects have been revised downward, reflecting persistent geopolitical uncertainty, ongoing trade policy uncertainty, and the lingering effects of Russia-Ukraine conflict.

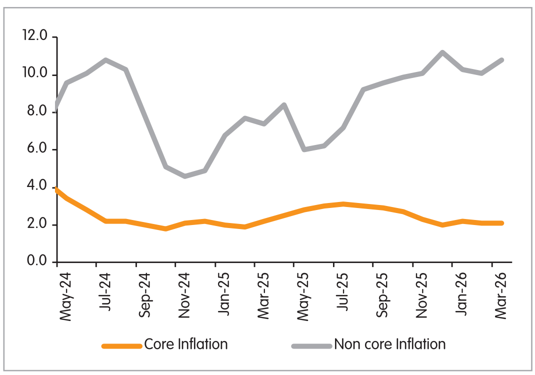
Domestically, Kenya's Inflation has remained within the lower band of the 5±2.5% target range for the past 22 months. Headline inflation rose marginally to 4.4% in March 2026, from 4.3% in February 2026 (**Figure 1a**). Core inflation remained stable at 2.1%, supported by lower processed food prices (**Figure 1b**). However, non-core inflation rose to 10.8% on account of higher vegetable prices, particularly tomatoes and Irish potatoes.

Figure 1: Inflation Trends and Drivers

1(a): Headline Inflation



1(b): Core and non-Core Inflation

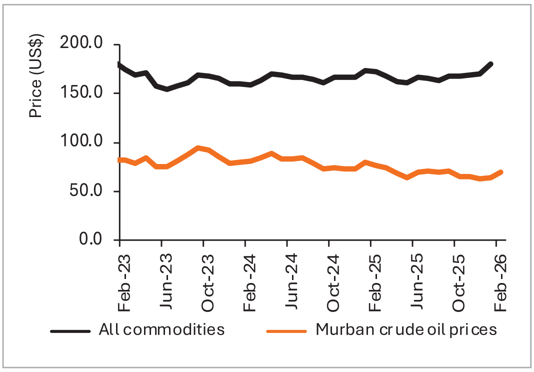


Source: KNBS

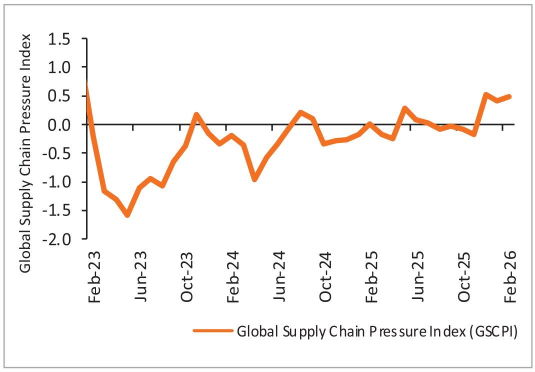
1. The Economist (2026) The Iran war is roiling commodities far beyond oil.
2. The Economist (2026) How high could global inflation go?

Figure 2: Indicators of Inflation risks

2(a): All commodities and Murban oil prices



2(b): Global Supply Chain Pressure Index (GSCPI)



Source: KNBS, IMF commodities database, oilprice.com

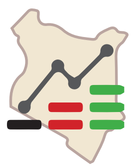
Nevertheless, risks to the inflation outlook are tilted to the upside (**Figure 2**). First, the Middle East conflict poses a threat to global oil market stability through rising prices and potential supply chain disruptions. This could, for instance, affect Kenya's fertilizer imports, with adverse implications for domestic food production. In the near term, these pressures may translate into higher production and consumer prices, thereby intensifying economic strain, particularly in sectors that are heavily reliant on imports.

Moreover, the Murban oil prices have shown an uptick; rising from USD 63.0 a barrel in December 2025 to USD 69.5 in February 2026, and further to USD 97.99 per barrel by March 26, 2026, up from USD 95.91 on March 18, 2026. Second, the Global Supply Chain Pressure Index that had remained low and relatively stable has risen, depicting rising supply chain pressures (**Figure 1d**) and potential price hikes of key commodities.

In terms of growth, Kenya's real GDP is estimated to have grown by 5.0% in 2025, up from 4.7% in 2024 (**Figure 3a**), supported by improvements in the industrial and services sectors alongside stable agricultural performance. However, high-frequency indicators suggest that momentum in economic activity is beginning to ease. In particular, the Purchasing Managers' Index (PMI) fell further to 47.7 in March 2026 down from 50.4 in February 2026 and 51.9 in January 2026 (**Figure 3b**), indicating a contraction largely driven by weaker demand and external shocks like the Middle East war. Both output and new orders

2.1%
Core inflation in March 2026

$97.9
Murban oil prices per barrel in March 2026

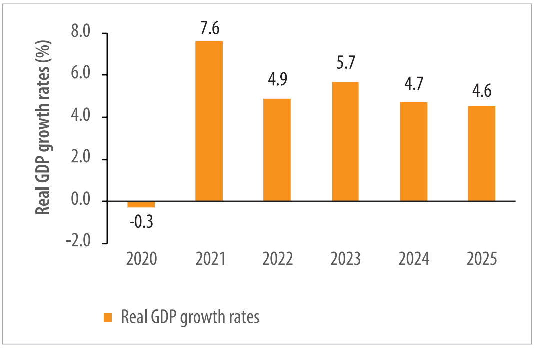


4.6%
Kenya GDP growth rate. A slight drop from 4.7% in 2024 (KES 17.6 trillion).

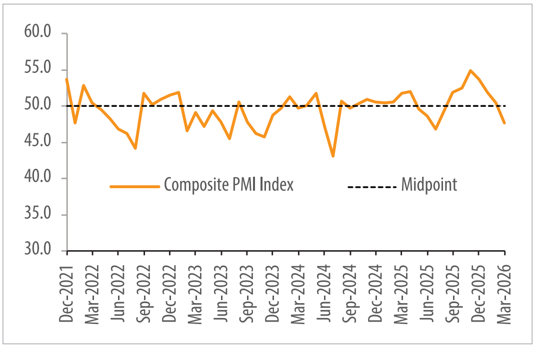
While Kenya's economy is estimated to have grown by 5.0% in 2025, rising oil prices, supply chain pressures, and weakening demand present growing risks to inflation and economic activity.

Figure 3: Economic growth Outlook

3(a): Trends in GDP Growth Rate



3(b): Composite Purchasing Managers Index



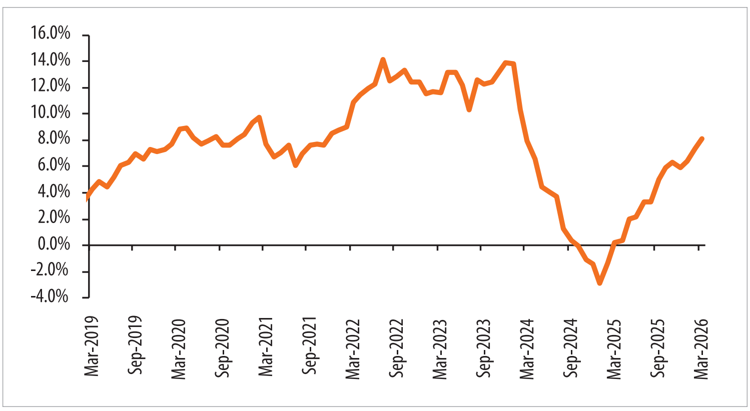
Source: KNBS, IHS Markit

fell significantly, especially in services sector, although wholesale and retail showed some resilience. Firms continued to face rising input costs, as driven by increased taxes and shipping costs. Even so, they were constrained in passing these on to consumers due to subdued demand. Employment growth remained minimal, largely confined to the agricultural sector, while other sectors scaled back on hiring.

On the other hand, the private sector credit growth has shown a gradual recovery, rising to 8.1% in March 2026 from 7.4% in February 2026 and rebounding from a contraction of –2.9% recorded in January 2025 (**Figure 4**). This improvement reflects the cumulative impact of monetary policy easing, as well as ongoing reforms in the credit market.

First, monetary policy has remained accommodative, with the Monetary Policy Committee (MPC) sustaining a series of Central Bank Rate (CBR) reductions, including a 25 basis points cut to 8.75% in February 2026. In addition, the narrowing of the interest rate corridor from ±75 to ±50 basis points around the CBR with a view of improving the alignment of the Kenya Shilling Overnight Interbank Average (KESONIA) with the policy rate, thereby enhancing the effectiveness of monetary policy transmission. Nonetheless, transmission continues to face frictions due to structural constraints within the credit market.

Figure 4: Claims on Private Sector Credit (y-o-y growth)



Second, the full implementation of the revised Risk-Based Credit Pricing Model (RBCPM) in March 2026 is expected to further strengthen the pass-through of monetary policy decisions to commercial banks' lending rates, while also improving transparency in loan pricing. At the same time, asset quality remains a concern, with gross non-performing loans increasing to 15.6% in March 2026 from 15.4% in December 2025, although still below the 17.6% recorded in August 2025 (**Figure 5**). Increases in gross non-performing loans were notable across key sectors, including personal and household, trade, agriculture, and manufacturing, even as banks maintain adequate provisioning.

Noteworthy is the implications of the monetary policy dynamics on exchange rate stability. The easing stance, while supportive of domestic credit and growth, may contribute to depreciation pressures by influencing capital flows and import demand. In March 2026, the Kenya shilling experienced mild depreciation against the US dollar (**Figure 6a**), reflecting a widening trade deficit and heightened uncertainty linked to the Middle East conflict. Although export earnings have grown modestly, imports have risen at a faster pace, further expanding the trade deficit (**Figure 6b**) and increasing demand for foreign currency.

Hence, going forward, exchange rate stability remains vulnerable to external shocks, including geopolitical tensions, energy price volatility, and potential disruptions to diaspora remittances, more particularly from key corridors such as the UAE and Saudi Arabia, as well as possible declines in tea export earnings to Gulf markets.

Figure 5: Asset Quality

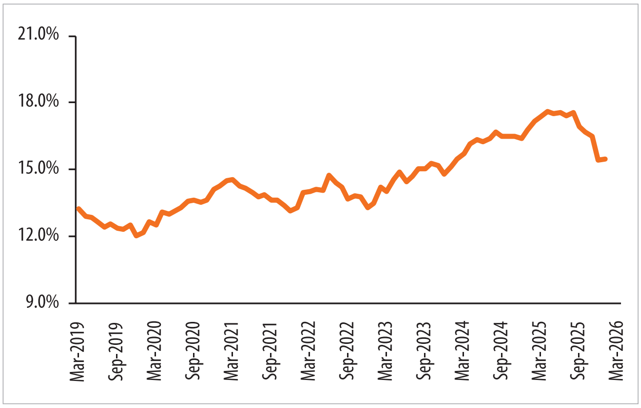
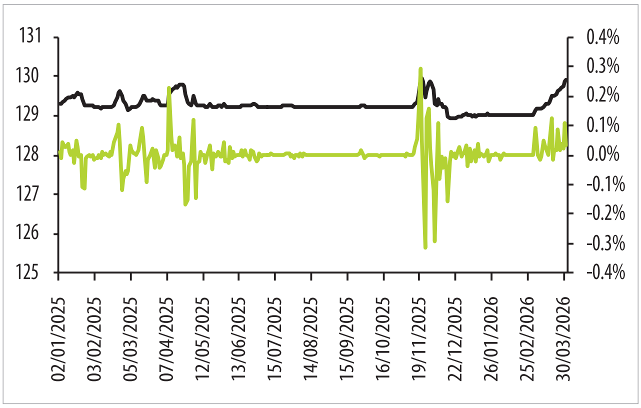
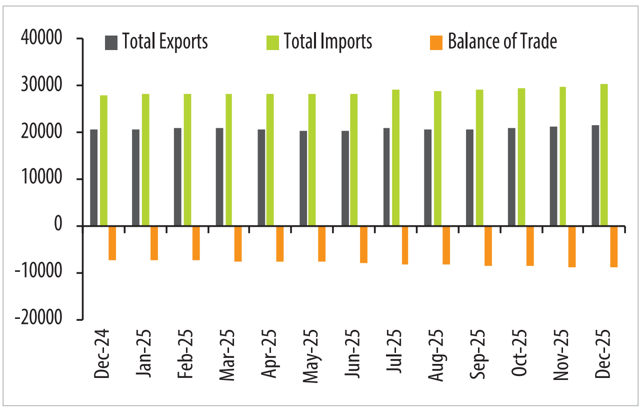


Figure 6: The external sector developments

6(a): KSHS/USD exchange rate



6(b): Trends in International Merchandise Trade Balance



State of the Economy

Global economic growth is expected to remain modest, with risks tilted to the downside. The April 2026 IMF World Economic Outlook projects a deceleration in global growth from 3.4% in 2025 to 3.1% in 2026, followed by a marginal recovery to 3.2% in 2027 (Figure 7a). Ongoing conflict in the Middle East continues to disrupt trade routes and energy supply chains, thereby shaping the global growth dynamics. At the same time, rising protectionism, elevated commodity prices and shifts in trade policy are compounding global uncertainty.

Among the advanced economies, growth is projected at 1.8% in 2026 and 1.7% in 2027 (**Figure 7b**). The United States is expected to expand by 2.3% in 2026 and 2.1% in 2027, while the Euro Area is forecast to grow by 1.1% and 1.2% over the same period. Japan's growth is projected at 0.7% in 2026 and 0.6% in 2027, whereas the United Kingdom is expected to record 0.8% in 2026 and 1.3% in 2027.

Emerging market and developing economies are forecast to grow by 3.9% in 2026 and 4.2% in 2027. China's growth is projected at 4.4% in 2026, before easing to 4.0% in 2027, while India is expected to maintain a robust growth rate of 6.5% in both years (**Figure 7c**). Middle East and Central Asia is expected to slow sharply from 3.6% in 2025 to 1.9% in 2026, before rebounding to 4.6% in 2027, contingent on an easing of geopolitical tensions and a normalization of supply conditions. The ongoing conflict has disrupted energy production, damaged infrastructure and constrained export routes across key economies, including Iran, Iraq, Kuwait, Bahrain, and Qatar, with spillover effects on Saudi Arabia and the United Arab Emirates. Sub-Saharan Africa is projected to expand by 4.3% in 2026 and 4.4% in 2027 (**Figure 7d**).

1.8%

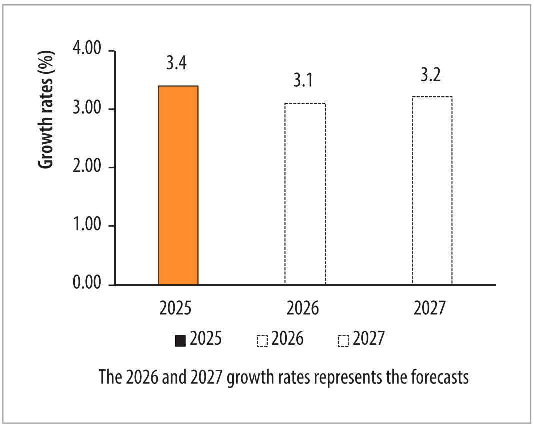
Projected growth rates of advanced econmies in 2026.

3.9%

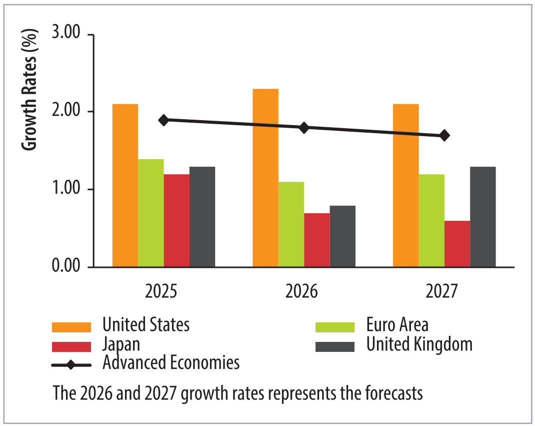
Projected growth rates of emerging econmies in 2026.

Figure 7: Global Economic Growth Rates (%)

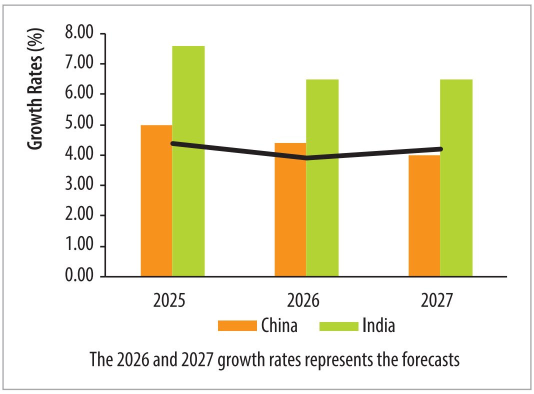
7(a): Global Economic Growth Rates (%)



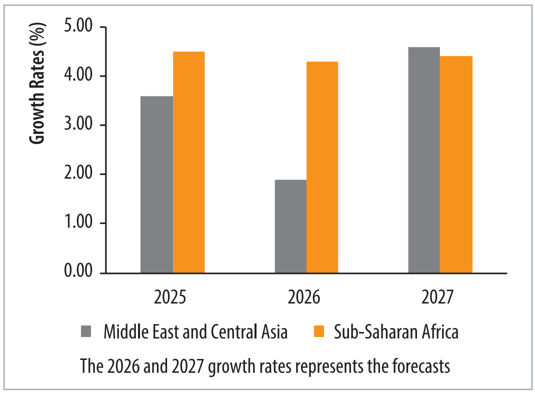
7(b): Economic Growth Rates among advanced economy (%)



7(c): Emerging Market and Developing Economies Growth (%)



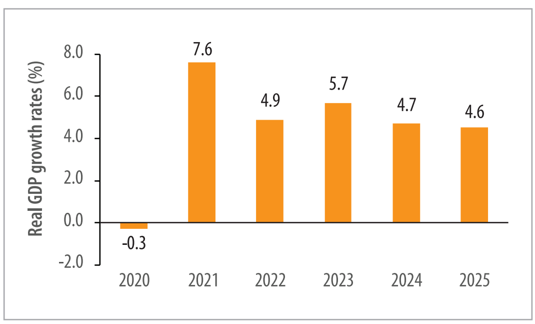
7(d): Middle East, Central Asia and Sub-Saharan Africa Growth (%)



Source: IMF World Economic Outlook Update (April 2026)

The spillover effects of recent global economic developments are expected to impact Kenya's economy through higher commodity and food prices. Kenya's real GDP growth is forecast to expand by 5% in 2025, as shown in **Figure 8**. The recently available data shows that economic growth in the third quarter of 2025 was 4.7%, an increase from 4.2% in the third quarter of 2024, primarily driven by rebounds in the industry sector, including construction (6.7%) and mining and quarrying (16.6%), while the services sector remained stable, supported by accommodation and food services (17%).

Figure 8: Kenya's GDP growth



Source: KNBS

Figure 9a Trends in headline inflation

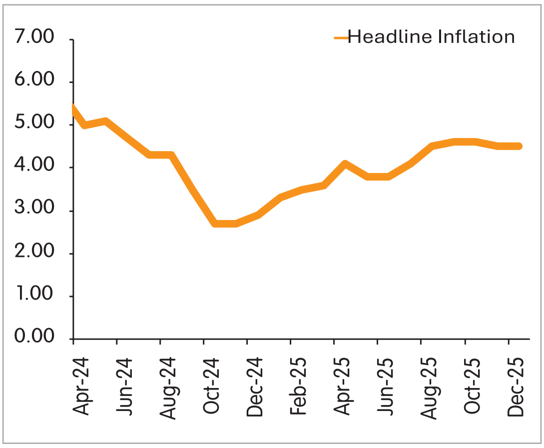
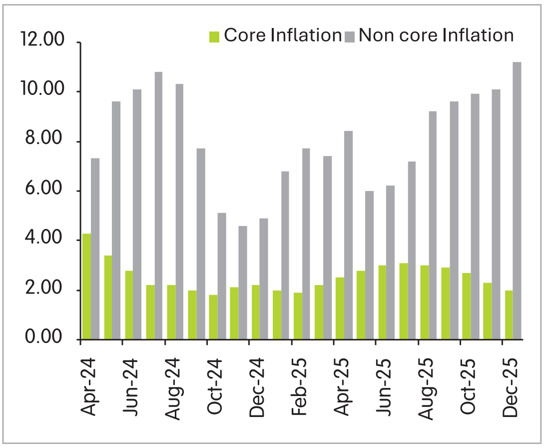


Figure 9b Drivers of domestic headline inflation



Source: KNBS

Amid evolving price dynamics, global inflation is projected to edge up from 4.1% in 2025 to 4.4% in 2026, before easing to 3.7% in 2027. Inflation is expected to remain above target across many economies in 2026, largely reflecting persistent pressures from elevated energy and food prices. On the domestic front, headline inflation moderated slightly, declining from 4.6% in October 2025 to 4.5% in December 2025 (**Figure 9a**).

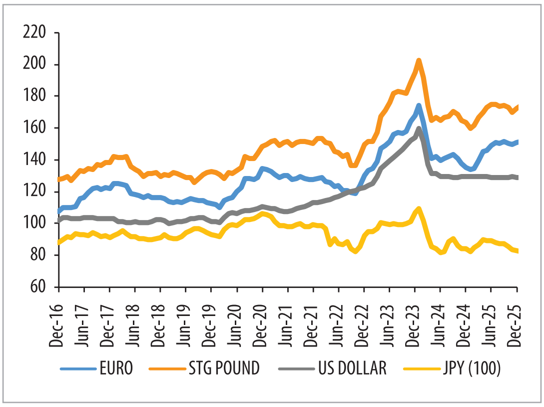
Core inflation, which excludes volatile components, also eased. The latter fell from 2.7% to 2.0% over the same period. In contrast, non-core inflation rose sharply from 9.9% to 11.2% (**Figure 9b**), driven primarily by increases in key consumption categories, including Food and Non-Alcoholic Beverages (7.8%), Transport (5.2%), and Housing, Water, Electricity, Gas, and other fuels (1.6%).

Kenya Shilling Performance

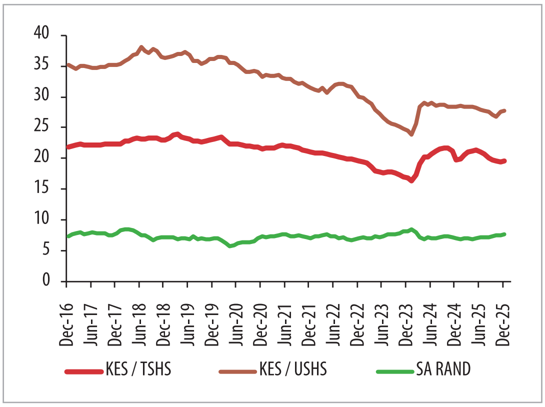
The Kenya Shilling exhibited modest appreciation against major international currencies in the fourth quarter of 2025. First, the Shilling appreciated modestly against the Euro from 151.63 in the third quarter of 2025 to 151.08 in the fourth quarter of 2025 and strengthened slightly against the Sterling Pound from 174.58 in third quarter of 2025 to 172.63 in the fourth quarter of 2025. The Shilling strengthened particularly against the Japanese Yen between third quarter of 2025 and fourth quarter of 2025, climbing from 87.41 to 82.87. The Shilling remained relatively stable against the US Dollar in December 2025, averaging 129.13 (**Figure 10a**). This appreciation signals improved external balances. The Shilling remained stable against select African currencies, averaging 27.69 Ugandan Shillings, 19.07 Tanzanian Shillings, 7.66 South African Rand (**Figure 10b**).

Figure 10: Exchange Rate Developments

10(a): Shilling against Major international currencies



10(b): Shilling against regional currencies



Source: CBK

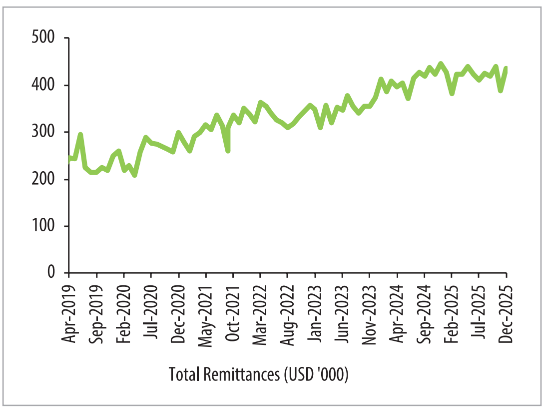
External Sector

Remittances

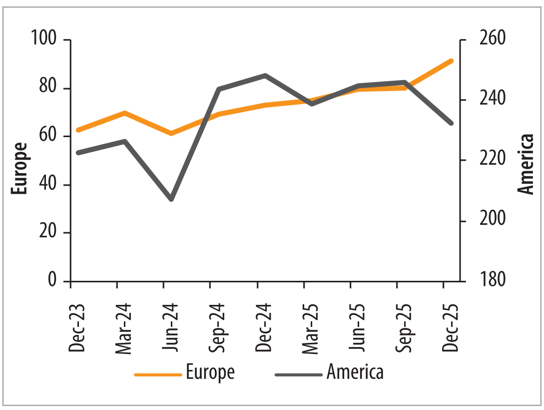
Remittance flows remained resilient through 2025. As of December 2025, the total remittances stood at USD 435.5 million (**Figure 11a**). Nonetheless, regional dynamics reveal continued dominance by inflows from the Americas at USD 232.39 million, despite a slight moderation, while Europe strengthened markedly to USD 91.39 million as of December 2025 (**Figure 11b**). In contrast, Asia and Africa exhibited volatility (**Figure 12c**), and Australia and Oceania (**Figure 11d**) posted steady gains.

Figure 11: Trends in remittances

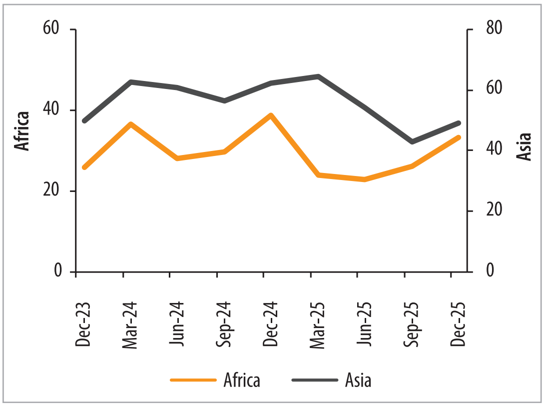
11(a): Trends in remittances inflow (USD millions)



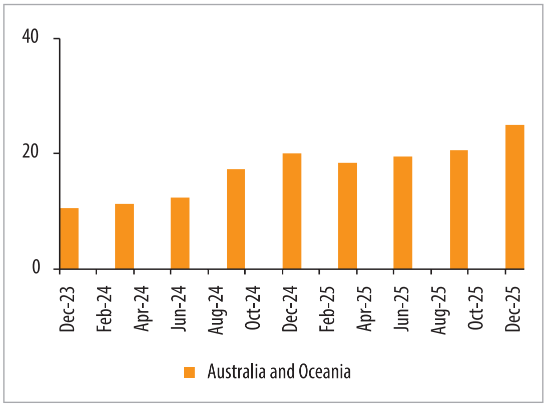
11(b): Remittances inflow (USD millions) from Europe and America



11(c): Remittances inflow (USD millions) from Africa and Asia



11(d): Remittances inflow (USD millions) from Australia and Ocean



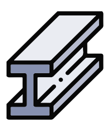
Source: KNBS

KES 511.5bn
Used on importation of Petroleum Products

KES 129.13bn
Used on importation of Industrial Machinery

KES 129.13bn
Used on importation of Motor vehicles

KES 129.13bn
Used on importation of Iron and steel



Source: KNBS

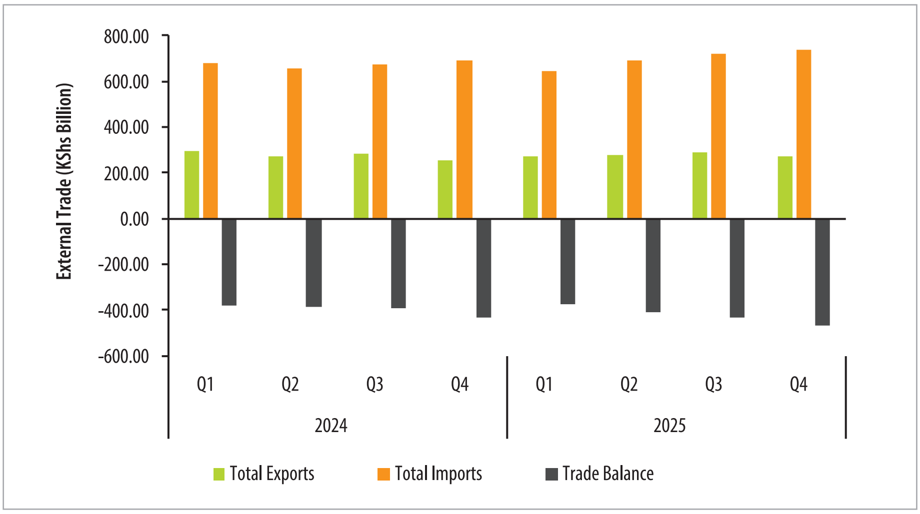
The trade deficit increased from Kes -435 billion in the fourth quarter of 2024 to Kes -466 billion in the fourth quarter of 2025, primarily due to rise in imports from Asian countries, particularly China, India, Japan and Saudi Arabia. Imports increased from Kes 690 billion in fourth quarter of 2024 to Kes 736 billion in fourth quarter of 2025. The rise in imports was largely due to higher purchases of machinery, fertilizers, steel, vehicles and fuel (**Figures 12a** and **Figure 12c**). Exports rose modestly from Kes 255 billion to Kes 270 billion over the same period. Kenya's dominant export destination continued to be Africa, particularly the East African Community (EAC). European markets expanded in 2025, with total exports increasing to 264 billion Kenyan shillings. Exports to Asia fell by 13.2% to Kes 275.7 billion in 2025. Exports to the Americas fell by 4.4% to Kes 90.1 billion, mainly due to a decline in the USA's exports, which were impacted by lower sales of titanium ores, apparel, and jet fuel (**Figure 12b**).

> **Kenya's dominant export destination continued to be Africa, particularly the East African Community (EAC). European markets expanded in 2025, with total exports increasing to KSh 264 billion.**

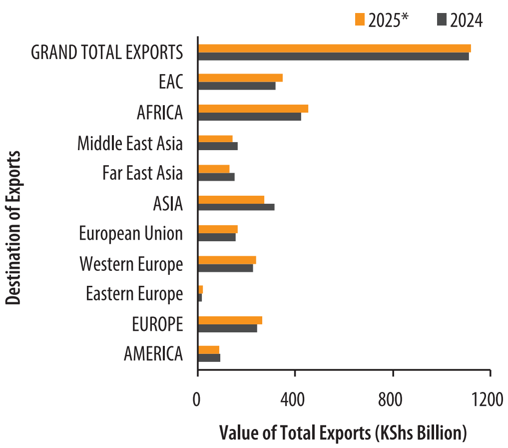
MADE IN KENYA

Figure 12: **Exports and Imports trend in various regions**

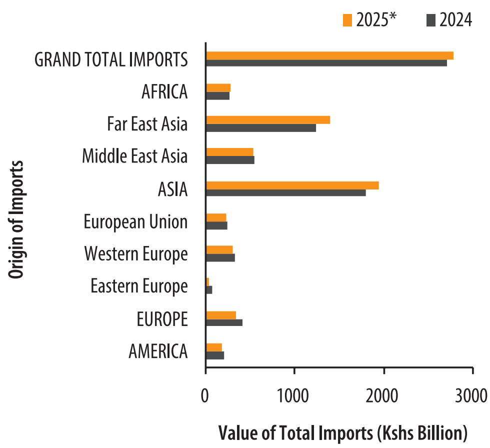
12(a): External Trade



12(b): Value of Total Exports by Destination



12(c): Value of Imports by Origin



Source: CBK

Kenya's Balance of Payment

The current account deficit widened from USD –1,550.6 million in December 2024 to USD –3,298.9 million in the 12-months to December 2025 relative to a similar period in 2024 due to higher trade deficit and lower secondary income transfers (**Figure 13a**). The capital account remained in surplus however it declined from USD 232.2 million in December 2024 to USD 180.7 million in December 2025 (**Figure 13b**). The financial account deficit widened over the period, weakening from USD –3,213.6 million in December 2024 to USD –5,905.8 million by December 2025. The outflows of financial resources are primarily due to higher external borrowing and increased portfolio liabilities, particularly through debt securities and the issuance of Eurobonds totaling USD 1.5 billion in 2025, which exceed the inflows from direct and portfolio investments (**Figure 12c**).

Figure 13(a): **Current Account**

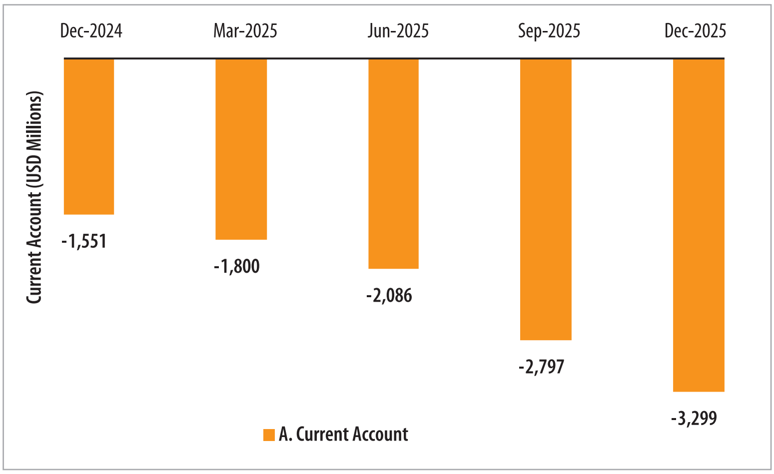


Figure 13(b): **Capital Account**

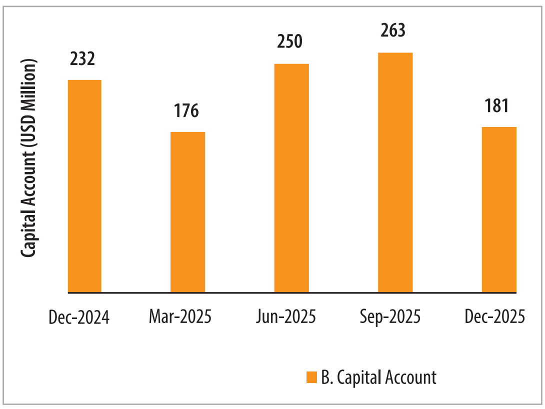
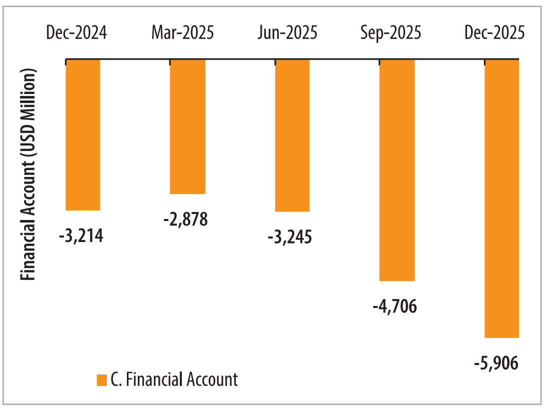


Figure 13(c): **Financial Account**



Source: KNBS

Sectoral Performance

Economic Contribution of Key Sectors

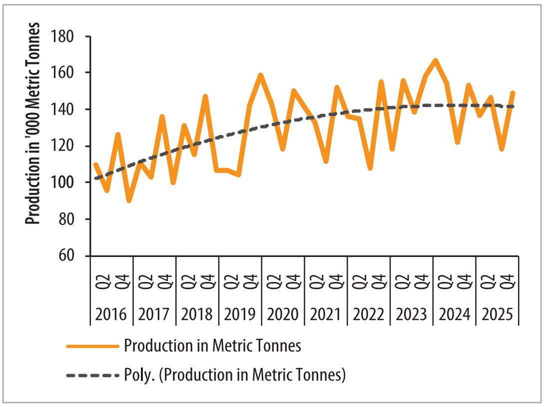
Kenya's economy remained resilient in Q4 2025, supported by strong tea exports, rising electricity generation, expanding construction and improving tourism arrivals. Manufacturing posted mixed results, while higher fuel prices, despite lower global oil prices, reflected persistent domestic cost pressures and exchange rate effects.

Agriculture

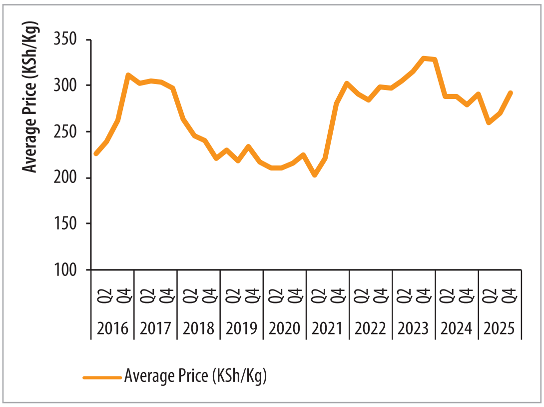
Agriculture, which encompasses the extraction and harvesting of natural products from the earth, remains a cornerstone of Kenya's economy. The sector contributes approximately 20.0% of Gross Domestic Product (GDP) and continues to employ over 40% of the population, underscoring its central role in livelihoods, food security and export earnings. The sector's performance in the fourth quarter of 2025 reflects a mixed but resilient outlook, shaped by weather variability, evolving global demand and shifting price dynamics across key subsectors.

Figure 14 Tea production and prices

14(a): Tea Production in Metric Tonnes



14(b): Tea Auction Prices (KSh/Kg



Source: KNBS

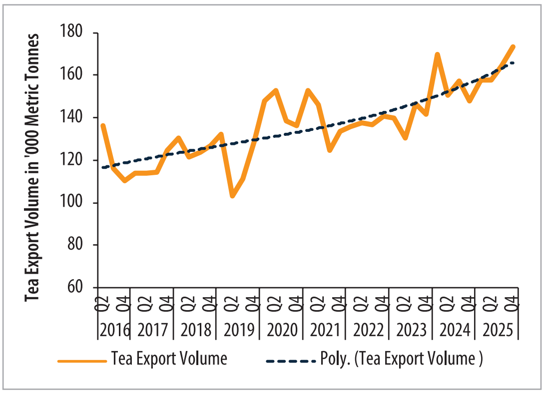
In the tea subsector, production declined marginally from 153.31 thousand metric tonnes in the fourth quarter of 2024 to 148.65 thousand metric tonnes in the fourth quarter of 2025 (**Figure 14a**), largely due to dry weather conditions and depressed rainfall. However, tighter supply conditions led to an increase in auction prices, which rose from Kes 279.33 per kilogram to Kes 291.49 per kilogram (**Figure 14b**). This trend signals a recovery in international tea prices despite production constraints.

Tea export performance remained robust, with volumes increasing significantly from 147.93 thousand metric tonnes in the fourth quarter of 2024 to 173.3 thousand metric tonnes in the fourth quarter of 2025 (**Figure 15a**). On the other hand, export earnings rose correspondingly from Kes 41.87 billion to Kes 51.97 billion (**Figure 15b**). This growth reflects strong global demand and favourable pricing, thereby reinforcing tea's position as a key foreign exchange earner.

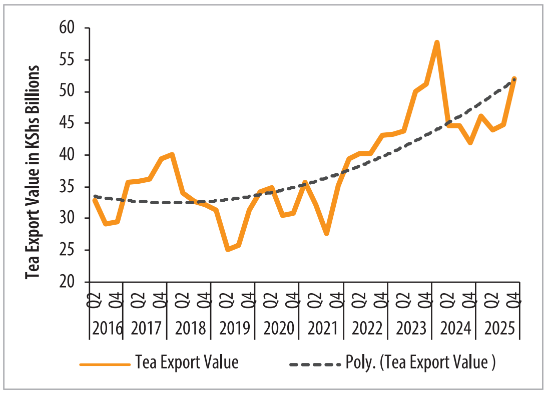
In contrast, the coffee subsector recorded a decline in export volumes from 10.16 thousand metric tonnes to 8.08 thousand metric tonnes over the same period (**Figure 15c**). Nevertheless, export earnings increased from Kes 7.14 billion to Kes 8.7 billion (**Figure 15d**). This divergence suggests that higher global coffee prices offset lower export volumes and cushioned the overall sector performance.

Figure 15: Value of Tea and Coffee Exports

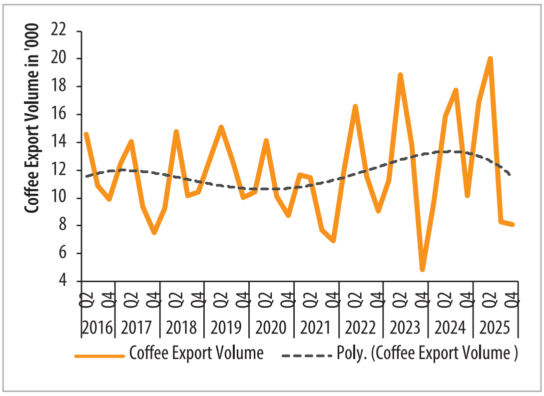
15(a): Tea Export Volume



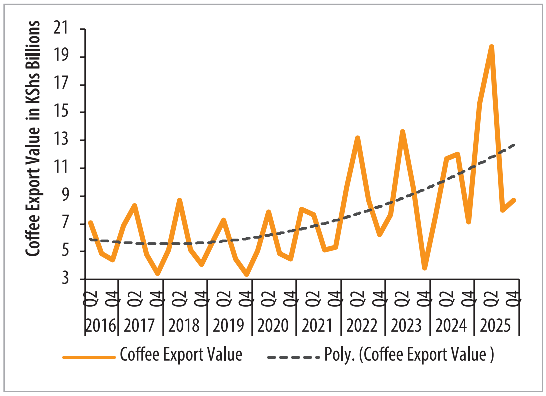
15(b): Tea Export Value



15(c): Coffee Export Volume



15(d): Coffee Export Value



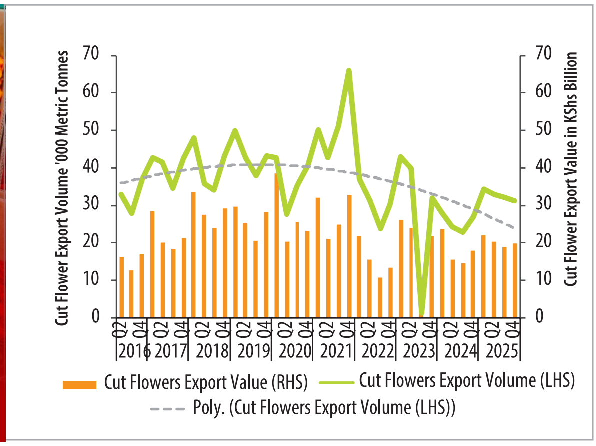
Source: KNBS

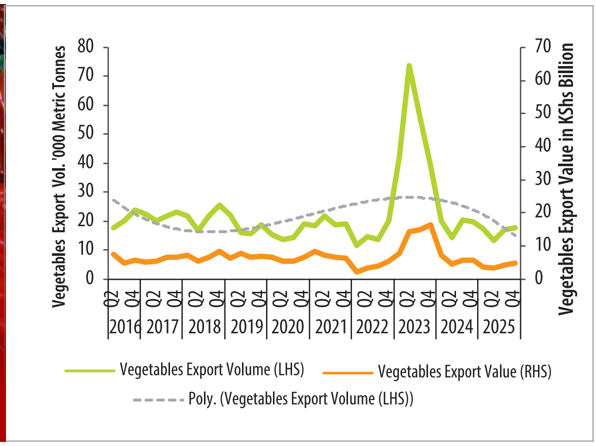
The horticulture sector presented a mixed performance, but a more improving picture. For instance, cut flower exports rebounded strongly, with volumes rising from 26.99 thousand metric tonnes to 31.21 thousand metric tonnes, while earnings rose from Kes 18.03 billion to Kes 19.76 billion (**Figure 16a**). This growth was supported by sustained demand in key markets such as the Netherlands, the United Kingdom and Germany.

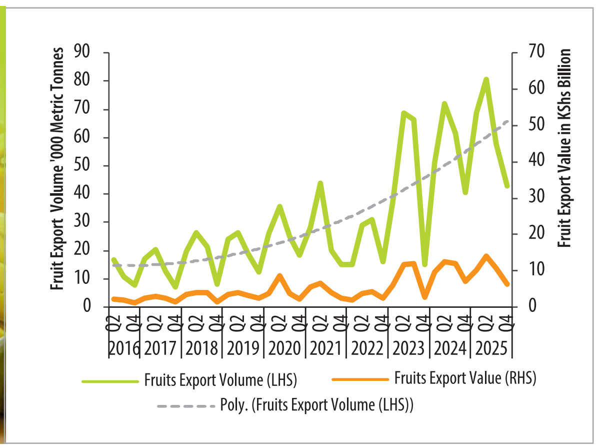
By contrast, vegetable exports declined in both volume and value (**Figure 16b**). Export volumes of vegetables declined slightly from 19.66 thousand metric tonnes in the fourth quarter of 2024 to 17.77 thousand metric tonnes in the fourth quarter of 2025. The export earnings of vegetables also decreased from Kes 5.85 billion in the final quarter of 2024 to Kes 4.75 billion in the fourth quarter of 2025, which was attributed to downward pressure on prices, which led to a decrease in overall export earnings.

On the other hand, fruit exports showed a different pattern, with volumes increasing from 40.54 thousand metric tonnes to 42.96 thousand metric tonnes, but earnings declining from Kes 6.99 billion to Kes 6.20 billion (**Figure 16c**). The divergence between rising volumes and falling earnings points to weaker export prices, likely due to softer global demand conditions.

Figure 16: Cut Flower, Vegetable and Fruits



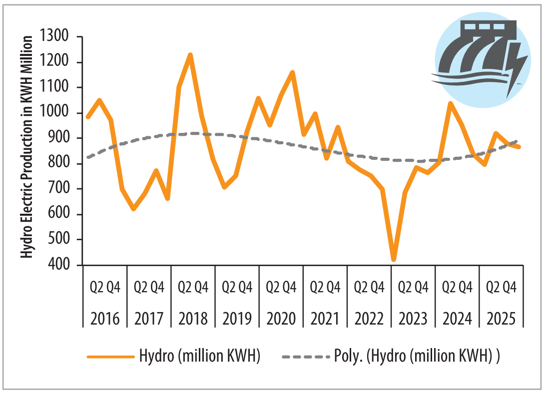




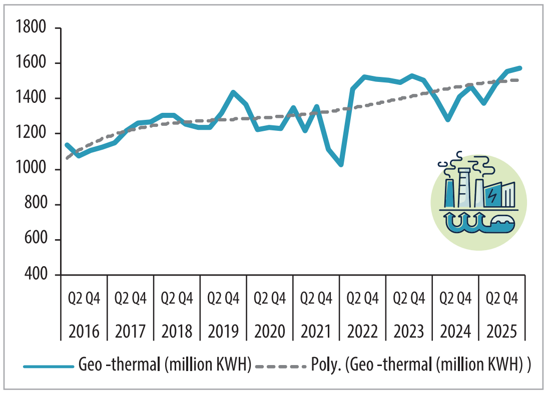
Source: KNBS

Figure 17 Quarterly Electricity Generation by Source

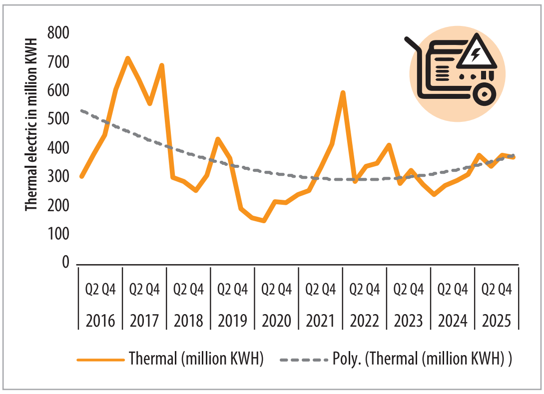
17(a): Hydroelectric Power Production



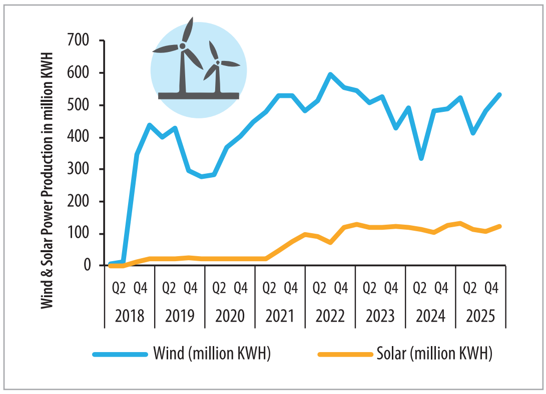
17(b): Geothermal Power



17(c): Thermal Power Production



17(d): Wind and solar power generation



Source: KNBS

Energy

Electricity generation expanded broadly in the fourth quarter of 2025 on account of sustained investment in baseload and renewable energy sources, rising demand and incremental efficiency gains. Hydroelectric power generation increased from 836.83 million KWh in the fourth quarter of 2024 to 865.16 million KWh in the fourth quarter of 2025 (**Figure 17a**), while geothermal power output rose from 1,464.94 million KWh to 1,574.22 million KWh over the same period (**Figure 17b**). A similar upward trend was observed in thermal power generation, rising from 313.89 million KWh in the fourth quarter of 2024 to 373.10 million KWh in the fourth quarter of 2025 (**Figure 17c**). Additionally, wind power generation rose from 488.53 million KWh to 530.96 million KWh over the same period. In contrast, solar power generation declined slightly from 125.62 million KWh to 121.97 million KWh (**Figure 17d**), likely due to seasonal variations.

In the petroleum subsector, global and domestic fuel price dynamics diverged over the review period (**Table 1**). International crude oil prices declined, with Murban crude falling from US$ 73.07 per barrel in December 2024 to US$ 61.70 per barrel in December 2025. However, domestic

185.59
KES/Litre - Super

172.64
KES/Litre - Diesel

Table 1: Average Monthly Crude Oil and Retail Fuel Prices

	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Murban crude oil (US$/Barrel)	79.38	76.81	74.00	68.98	63.62	69.73	70.97	69.85	70.61	65.33	64.56	61.70
Super petrol (KES/Litre)	177.25	177.25	177.25	175.3	175.3	178.19	187.37	186.37	185.59	185.59	185.59	185.59
Diesel (KES/Litre)	167.84	167.84	167.84	165.64	165.64	163.89	172.75	172.75	172.64	172.64	172.64	172.64
Kerosene (KES/Litre)	152.18	152.18	152.18	149.78	149.78	147.92	157.76	156.76	155.96	155.96	155.96	155.96
LPG (13Kgs)	3,122.16	3,139.65	3,146.03	3,156.19	3,141.30	3,134.91	3,146.58	3,158.35	3,151.65	3,133.49	3,132.93	3,145.90

Source: ADNOC oil prices and KNBS

fuel prices increased across most categories. The petrol prices rose from Kes 176.96 to Kes 185.59 per litre, diesel prices from Kes 165.82 to Kes 172.64 per litre and kerosene from Kes 149.18 to Kes 155.96 per litre. There was also a marginal increase in the price of LPG for a 13kg cylinder from Kes 3,143.85 to Kes 3,145.90. The divergence in the global and domestic fuel price is attributed to the presence of domestic cost factors such as taxes, exchange rate pressures and supply chain costs that offset the benefits of lower global oil prices.

Manufacturing

The manufacturing sector posted a mixed performance during the final quarter of 2025. Food manufacturing weakened, with Sugar production declining significantly from 199.96 thousand metric tonnes in the final quarter of 2024 to 172.52 thousand metric tonnes in the current quarter due to adverse weather conditions, ongoing sectoral reforms and temporary factory closures. In contrast, soft drinks production increased from 203.90 thousand litres to 219.30 thousand litres

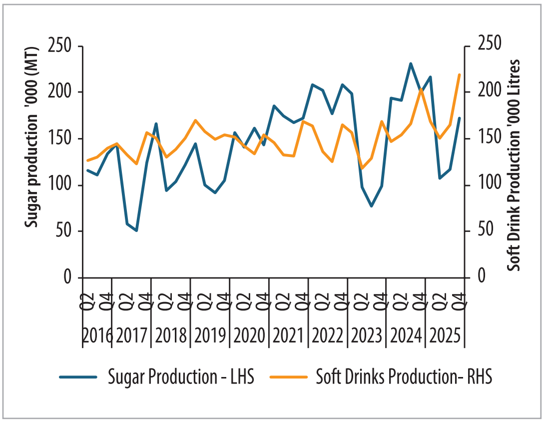
The manufacturing sector recorded mixed performance in the fourth quarter of 2025. Food manufacturing weakened as sugar production declined, while soft drinks production and milk consumption increased due to stable demand.

(**Figure 18a**), while milk consumption rose modestly from 244.03 million litres to 248.43 million litres (**Figure 18b**) over the same period, because of stable consumer demand.

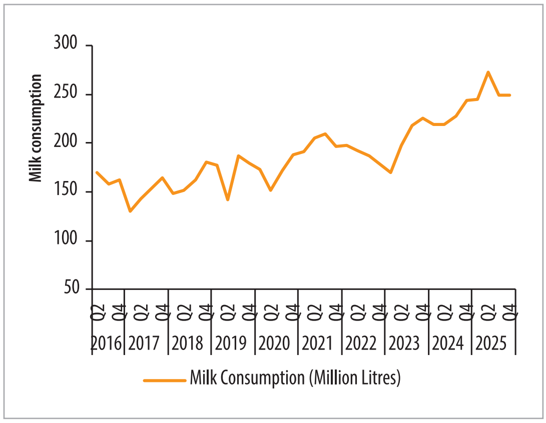
On the other hand, non-food manufacturing, particularly construction-related output, expanded strongly. Cement production increased from 2,378.51 thousand metric tonnes to 2,881.68 thousand metric tonnes, while galvanized sheet production rose from 73.52 to 91.23 thousand metric tonnes (**Figure 18c**). This growth is as a result of sustained activity in infrastructure development and real estate.

Figure 18: Production in the Manufacturing Sector

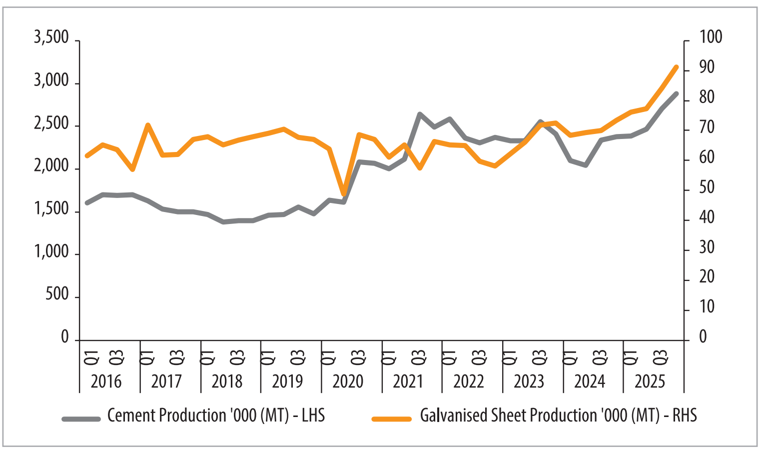
18(a): Food manufacturing – soft drinks and sugar production



18(b): Milk consumption

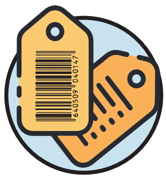


18(c): Non-food Manufacturing – Cement and Galvanised Sheet Production

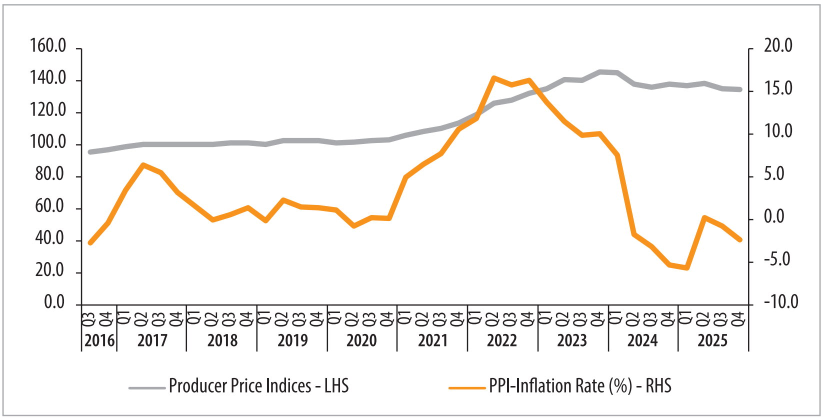


Source: KNBS

Figure 19: Producer Price Indices



PP Index
-2.43%
Y-OY decline



The Producer Price Index (PPI)

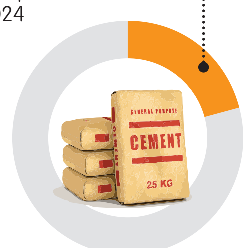
Producer price developments point to easing cost pressures during the fourth quarter of 2025 (**Figure 19**). The Producer Price Index (PPI) declined by 2.43% year-on-year in the quarter, with deflation recorded across Mining and Quarrying (-3.56%), Manufacturing (-2.89%), and Water Supply (-0.79%), while electricity and related services registered price increases. The implication of this broad-based moderation in input costs is improved profit margins and lower downstream inflationary pressures.

Building and Construction

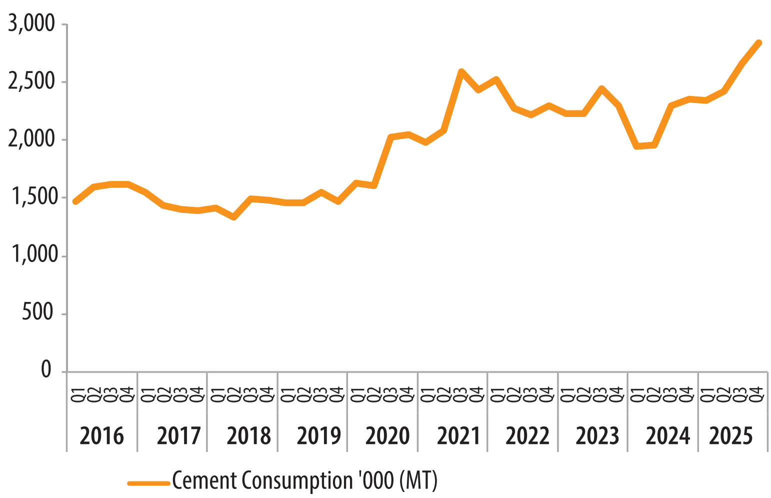
The construction sector remained robust, as reflected in a sharp increase in cement consumption from 2,350 thousand metric tonnes in Q4 2024 to 2,847 thousand metric tonnes in Q4 2025 (**Figure 20**). This growth was driven by continued public infrastructure investment and sustained private sector real estate development.

Figure 20: Cement Consumption in Metric Tonnes

21% Increase in cement consumption compared to Q4 2024



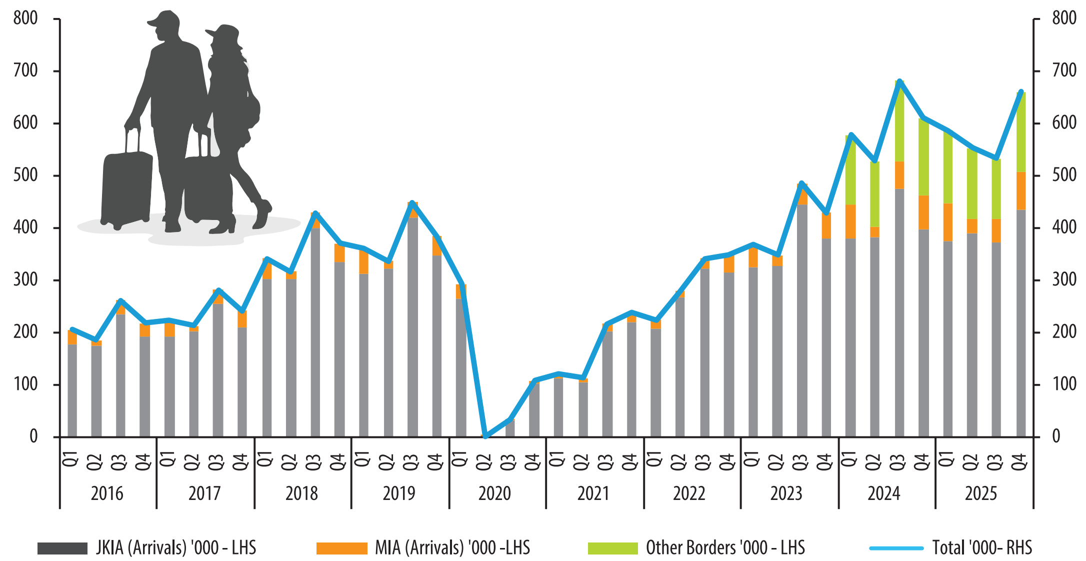
2,847MT
Cement consumption in the last quarter of 2025.



Tourism

The tourism sector maintained an upward trajectory in the fourth quarter of 2025. Tourist arrivals in 2025 demonstrated a strong quarter-on-quarter growth compared to the same period in 2024, rising from 611 thousand in the fourth quarter of 2024 to 661 thousand in the fourth quarter of 2025. The growth was driven by an increase in arrivals at JKIA, which rose from 399 thousand to 435 thousand and a slight increase at Moi International Airport, from 64 thousand to 74 thousand. Arrivals through other border points rose from 149 thousand to 152 thousand over the same period, indicating a resilient tourism sector (**Figure 21**).

Figure 21: Tourist Arrivals



Fiscal Performance

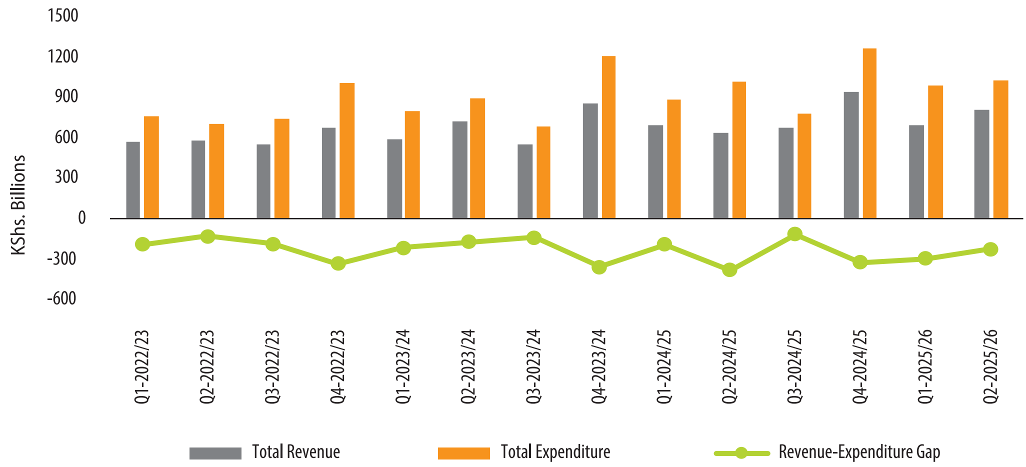
Monetary and Financial Developments

> **Fiscal performance improved in Q2 FY 2025/26, supported by strong revenue growth that significantly narrowed the fiscal deficit despite slightly higher expenditure. Meanwhile, public debt continued to rise, driven largely by increased domestic borrowing and higher debt servicing costs, even as reliance on multilateral external financing grew.**

Government Revenue and Expenditure

Fiscal performance improved markedly during the quarter (Figure 22). Total revenue, including grants, rose significantly from Kes 640.5 billion in the second quarter of the FY 2024/2025 to Kes 810.3 billion in the second quarter of FY 2025/2026, while expenditure increased only marginally, from Kes 1,023.5 billion to Kes 1,031.9 billion. Consequently, the fiscal deficit narrowed substantially from Kes 383.0 billion to Kes 221.6 billion. This consolidation was driven primarily by stronger revenue mobilization rather than expenditure cuts, thereby pointing to improved fiscal capacity and reduced short-term borrowing pressures.

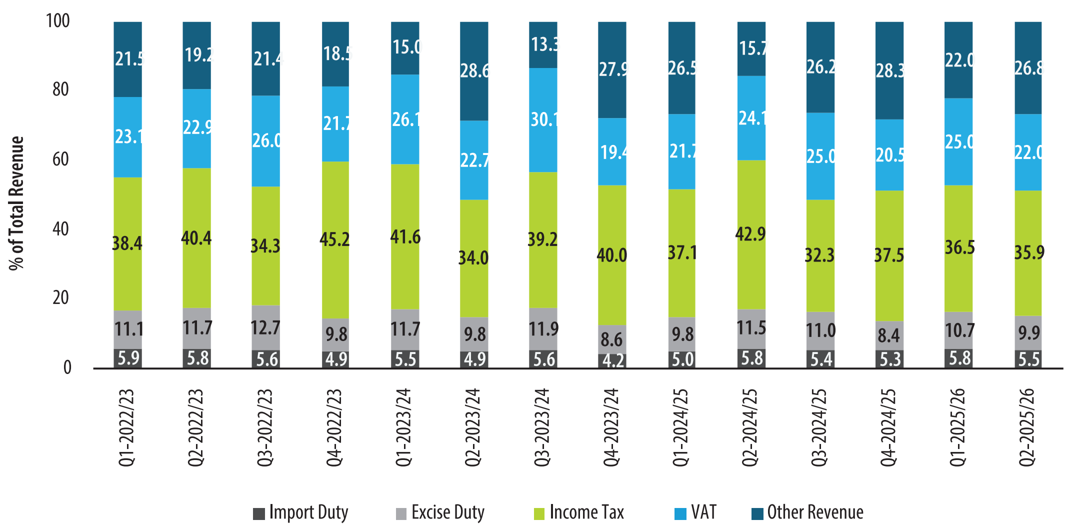
Figure 22: Quarterly Revenue-Expenditure



Source: CBK and National Treasury

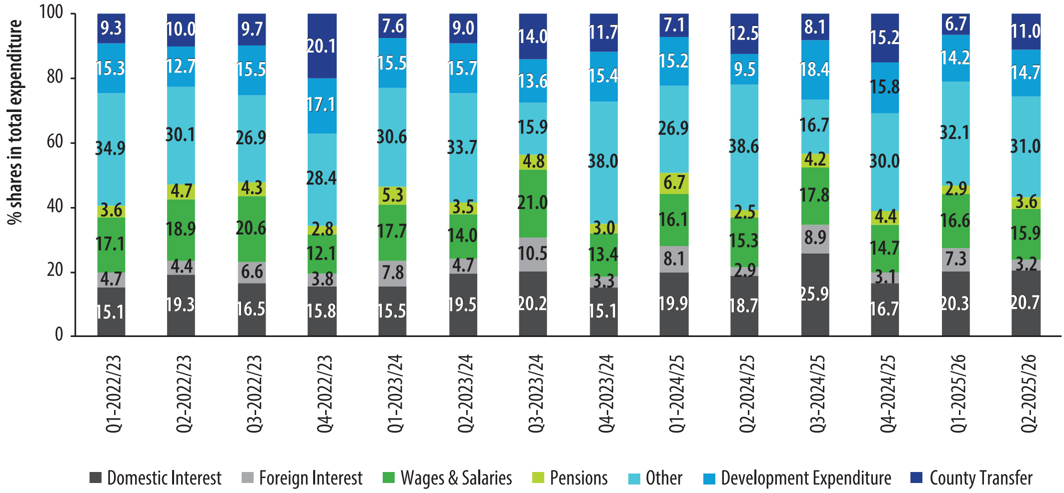
However, the composition of revenue and expenditure presented in **Figure 23** and **24** reveals underlying structural shifts. The share of key tax heads, that Is income tax, VAT, excise duty and import duty declined, while non-tax revenue increased significantly, rising increased from 15.7% to 26.8%. At the same time, recurrent expenditure fell as a share of total spending from 78.0% to 74.3%, even as domestic interest payments rose to 20.7%, reflecting higher debt servicing costs. Pension payments and wages also increased slightly. Development expenditure as share of total expenditure increased to 14.7%, whereas county transfers decreased to 11%.

Figure 23: Quarterly Revenue Structure



Source: CBK and National Treasury

Figure 24: Quarterly Expenditure Structure



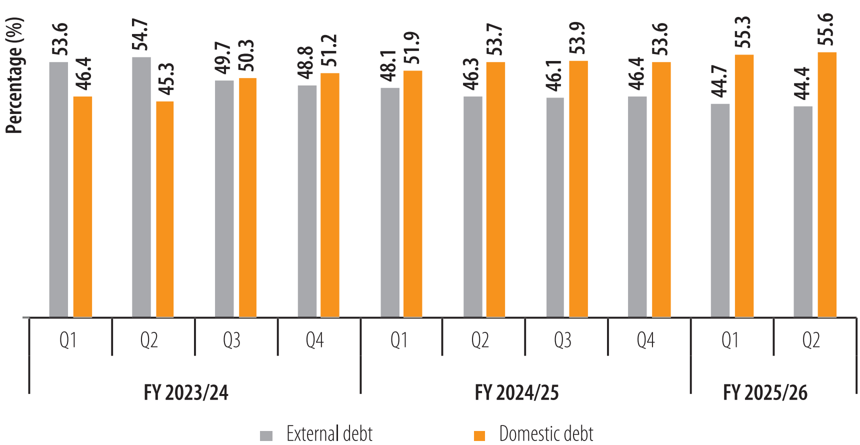
Source: CBK and National Treasury

Government Deficit Financing and Public Debt

Public debt levels continued to rise, increasing from Kes 10,925.40 billion in the second quarter of the FY 2024/25 to Kes 12,299.50 billion Q2 FY 2025/26 (**Figure 25**). Domestic debt expanded both in absolute terms and as a share of total debt. Domestic debt holdings rose from Kes 5,868.3 billion (53.7% of total debt) to Kes 6,837.50 billion (55.6% of total debt), with domestic financing from commercial

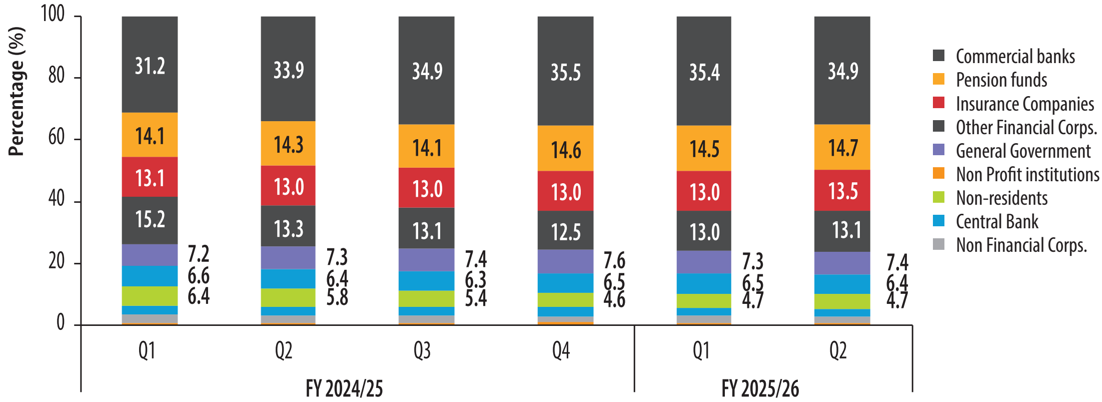
Figure 25: Composition of Domestic and External Debt

25(a): Debt Composition

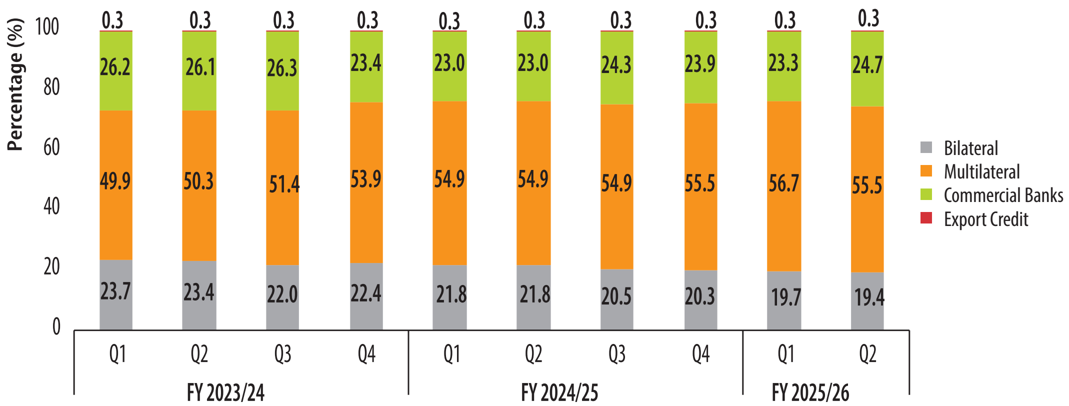


Source: CBK and National Treasury

25(b): Composition of Domestic Debt

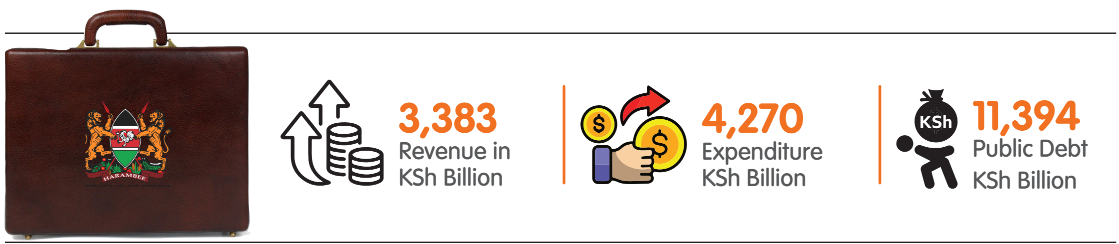


25(c): Composition of External Debt



Source: CBK and National Treasury

banks increasing from 33.9% to 34.9%, from pension funds from 14.3% to 14.7%, and from insurance companies from 13% to 13.5%. Non-resident participation in the domestic debt market decreased from 5.8% to 4.7%. External debt, however, contracted slightly from 5,667.80 to 5,462.00, with a shift toward multilateral financing which rose from 54.9% to 55.6%, while bilateral financing declined from 23.7% to 19.4%.

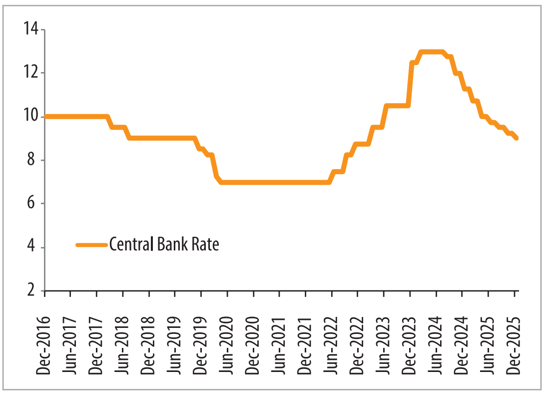


Monetary and Financial Developments

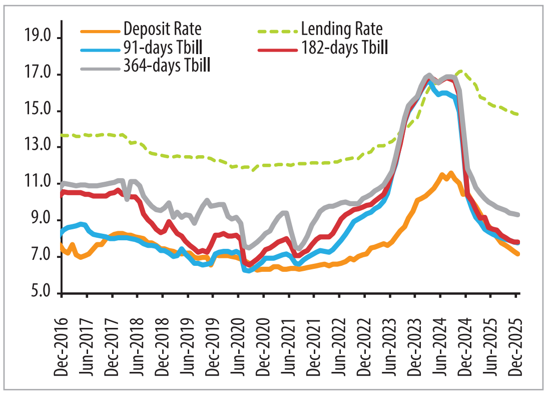
Monetary policy adopted a more accommodative stance in the fourth quarter of 2025, with the Central Bank Rate (CBR) reduced from 9.5 percent in September 2025 to 9.0 percent in December 2025 (Figure 26a). This easing in CBR led to a decline in short-term interest rates with the 91-day T-Bill rate falling from 7.96% to 7.78%, the 182-day T-Bill rate from 8.02% to 7.80% and the 364-day T-Bill rate from 9.5% to 9.28% (**Figure 26b**). The deposit rate also fell from 7.63% in September to 7.13% in December 2025. This trend signals that the sector experienced better liquidity conditions and lower funding costs. In tandem with the declining interest rates, private sector credit growth improved from 5.0% to 5.9% (**Figure 26c**), while the non-performing loans (NPL) ratio declined from 16.92% to 15.43% (**Figure 26d**).

Figure 26: Market Rates Dynamics

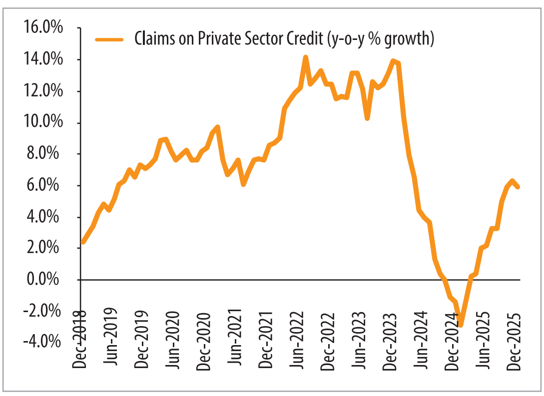
26(a): Trends in Central Bank Rate (CBR)



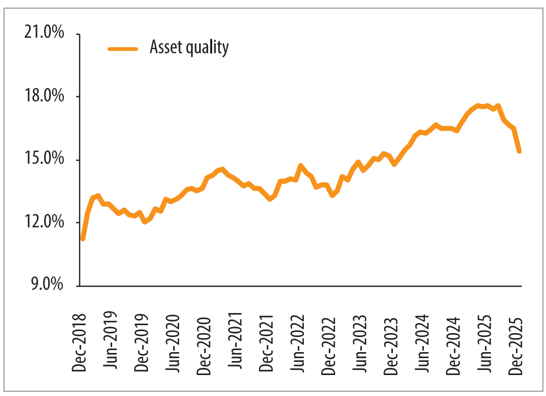
26(b): Money Market Rates



26(c): Claims on Private Sector Credit (y-o-y growth)



26(d): Asset quality (%)



Source: CBK

Capital Markets

Performance at the Nairobi Securities Exchange

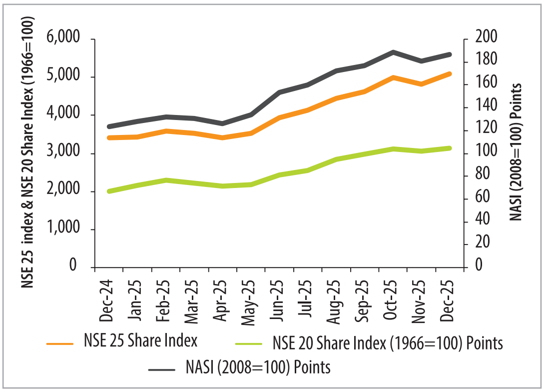
Capital markets posted strong growth in Q4 2025, driven by investor confidence and rising equity indices. Market capitalization increased, while equity turnover declined, reflecting cautious participation despite a sharp surge in derivatives trading.

Capital markets recorded strong performance in the final quarter of 2025 and this is attributed to sustained investor confidence and heightened market activity. Key equity indices registered notable gains, with the NASI, NSE 25, and NSE 20 indices all trending upward (**Figure 27a**). Market capitalization increased from Kes 2.78 trillion to KSh 2.94 trillion (**Figure 27b**). However, while the upward movement in market indices and capitalization indicates sustained positive valuations and investor sentiment, declining trading activity points to cautious market participation. Both the number of shares traded and equity turnover fell during the period, with equity turnover decreasing from Kes 22.7 billion to Kes 16.8 billion (**Figure 27c**).

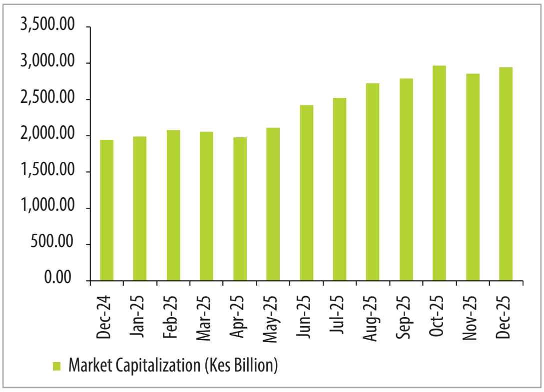
However, while the trends in market indices and capitalization show that valuations and investor sentiment remain positive, the number of shares traded and equity turnover shows that market participation is relatively cautious as they both declined. Equity turnover declined from Kes 22.7 billion to Kes 16.8 billion (**Figure 27c**). There was a substantial growth in market activity within the derivatives segment. The number of contracts traded grew from 3,623 contracts in 2025 Q3 to 48,594 contracts in 2025 Q4.

Figure 27: Trends in the Capital Markets

27(a): Trends in Equity indices at NSE



27(b): Trends in Market Capitalization (Kes Billion)



nairobi securities exchange
Discover Opportunity

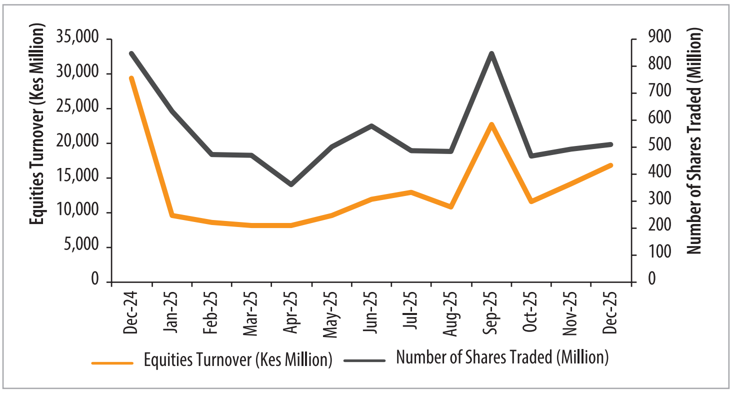
Markets as at 25 Dec 2025

NSE 20 Share Index
3103.09
+0.11%

NSE All Share Index (NASI)
184.54
+0.30%

NSE 25 Share Index
5343.87
+0.57%

27(c): Trends in Equities turnover and number of shares traded



Source: NSE

Banking Sector Performance

Boosting confidence in credit growth and stability.

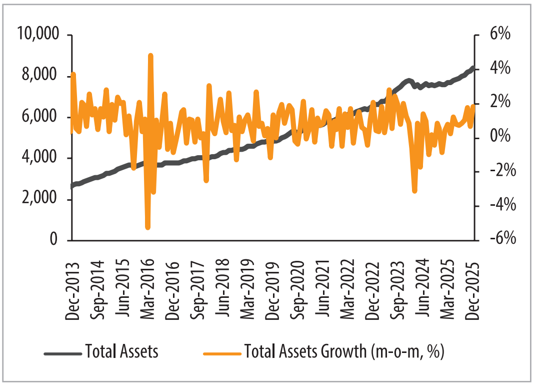
> **The banking sector recorded stable asset growth, improving loan quality and strong liquidity reinforced the banking sector's resilience in Q4 2025, supporting increased confidence in credit expansion and financial stability.**

Kenya's banking sector remained stable in the fourth quarter of 2025, positioning it well to continue supporting private sector credit growth into 2026. The sector's total assets rose by 4.4% from Kes 8,059.5 billion in September 2025 to Kes 8,413.3 billion in December 2025 (**Figure 28a**), due to sustained deposit mobilization, capital accumulation and growth in interest-earning assets. Gross loans increased from Kes 4,257.5 billion to Kes 4,369.6 billion over the same period (**Figure 28b**). Gross Non-Performing Loans (NPLs) dropped from Kes 720.4 billion to Kes 674.4 billion (**Figure 28c**), resulting in the NPL ratio decreasing from 16.9% to 15.4% over the same period.

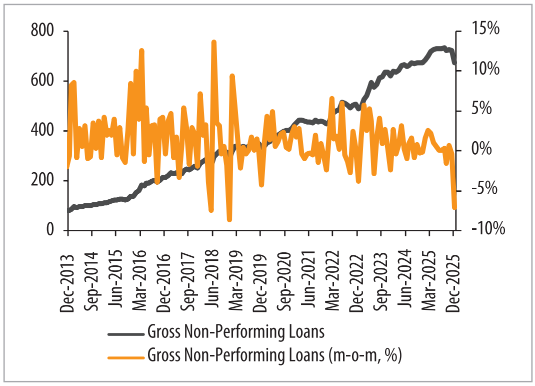
The lower NPL levels reduced pressure on provisioning requirements, improved profitability prospects and strengthened banks' willingness to extend new credit. The sector maintained consistently high levels of liquidity, with the liquidity ratio averaging 59.3 percent in the fourth quarter of 2025, remaining well above statutory minimum requirements (**Figure 28d**).

Figure 28: Banking Sector Performance

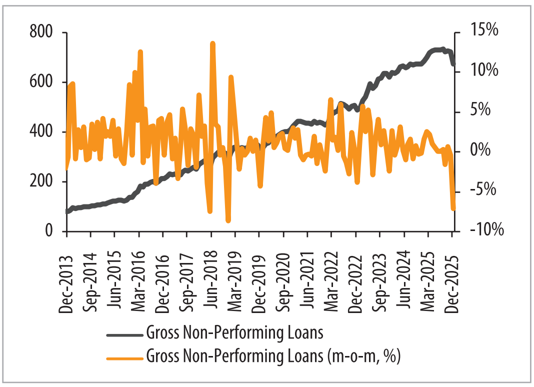
28(a): Total Assets



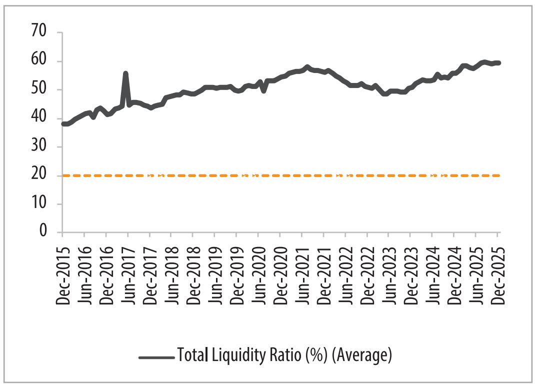
28(b): Gross Loans



28(c): Gross Non-performing Loans



28(d): Liquidity Ratio



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