



# Kenya

## OUTLOOK 2026

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## 1.0 Executive summary

Kenya enters 2026 with growth picking up, inflation well-anchored in the lower half of the central bank's target band and confidence improving after the 2024–25 fiscal and debt scare, and associated anti-tax, anti-corruption protests, but with high debt, elevated non-performing loans (NPLs) and social pressures constraining policy space.

The statistics agency KNBS estimates real GDP growth at 5.7% in 2023 and 4.7% in 2024. The finance ministry projects 5.3% growth in both 2025 and 2026, while the World Bank has lifted its 2025 forecast to 4.9%. A November 2025 Stanbic PMI reading of 55.0 – a five-year high – signals strong private-sector momentum into 2026.

Inflation is low and stable. KNBS data show headline inflation at 4.5% y/y in November 2025, within the 2.5–7.5% target range. The Central Bank of Kenya (CBK) has cut the policy rate in nine consecutive meetings to 9% as of October 2025, while still projecting 5.2% growth in 2025 and 5.5% in 2026.

Fiscal accounts are on a slow consolidation path under the Bottom-Up Economic Transformation Agenda (BETA). The 2025/26 budget projects KES4.29 trillion expenditure, KES3.32 trillion revenue and a deficit of about 4.3–4.8% of GDP, down from 4.9% in 2024/25, although subsequent spending pressures and tax-reform pushback have kept the deficit near 4.9%.

Debt remains high but manageable. The Medium-Term Debt Management Strategy (MTDS) reports public and publicly guaranteed (PPG) debt of KES10.58trillion at end-June 2024 (65.7% of GDP, about \$81.7bn), with the latest Debt Sustainability Analysis putting the present-value (PV) ratio at 64% of GDP – above the 55% benchmark but still “sustainable” under a high-risk-of-distress assessment. The finance minister targets a reduction in the key debt/GDP ratio from 58.1% to 52.8% by 2027/28.

Kenya has regained market access and is actively managing liabilities. A \$1.5bn Eurobond issued in February 2024 at a 9.75% coupon helped buy back most of a 2024 maturity, and fresh 2033 and 2038 Eurobonds worth \$1.5bn in October 2025 are refinancing 2028 notes. A new \$1bn debt-for-food-security swap with the U.S. International Development Finance Corporation (DFC), plus prospective IMF support in 2026, should further ease refinancing pressures.

The banking sector is liquid and well-capitalised but faces elevated NPLs – around 16–17% of loans – and exposure to sovereign risk. Poverty remains high despite decent growth: World Bank model-based estimates suggest that around a quarter of Kenyans remain below the international poverty line, with national poverty still in the high 30% range in 2024–25, and likely to remain so in the medium term.

## 2.0 Political outlook

Kenya is a presidential republic under the 2010 constitution, with strong executive authority balanced by a bicameral parliament (the National Assembly and Senate) and a devolved system of 47 county governments. The country remains institutionally stable but politically strained, with a reform-minded Kenya Kwanza government operating under tight fiscal constraints and the Azimio la Umoja opposition coalition seeking to channel economic discontent into electoral momentum ahead of the 2027 general elections.

The administration of President William Ruto, in office since September 2022, continues to pursue the Bottom-Up Economic Transformation Agenda (BETA), which prioritises agriculture, micro-, small- and medium-sized enterprises (MSMEs), affordable housing, healthcare, and the digital and creative economy, alongside fiscal consolidation and debt stabilisation. While the agenda is broadly aligned with IMF and World Bank policy prescriptions, implementation has been constrained by limited fiscal space, elevated debt-service costs and rising resistance to tax increases.

Political tensions escalated sharply in 2024 following proposed tax measures under the Finance Bill aimed at boosting domestic revenue mobilisation. The proposals triggered widespread protests—particularly among urban youth—in which dozens were killed, forcing the government to roll back or delay several revenue-raising plans. The episode weakened fiscal momentum, eroded public trust in reform sequencing and contributed to a higher-than-planned fiscal deficit target of 4.9% of GDP. It also highlighted the political limits of front-loaded fiscal adjustment in a high cost-of-living environment.

The Azimio la Umoja opposition coalition has sought to capitalise on popular dissatisfaction by framing fiscal reforms as socially regressive and insufficiently consultative. While the opposition lacks the parliamentary numbers to block legislation outright, it retains significant capacity to mobilise protests and shape public discourse, increasing the risk of episodic political disruption through 2026.

As Kenya moves deeper into the 2026–27 pre-election cycle, the risk of episodic protest activity and political volatility is elevated. The 2024 unrest demonstrated the speed and scale of youth-led mobilisation around fiscal and cost-of-living grievances, particularly in major urban centres. With fiscal consolidation limiting scope for broad tax relief or populist spending, further flashpoints could emerge around future budget measures, fuel and food prices, public-sector wage pressures or perceived governance failures. While sustained, nationwide instability is not the base case, periodic protests are likely to remain a feature of the political landscape through 2026, encouraging more cautious policy implementation and increasing the risk of reform delays as political actors position themselves ahead of the 2027 elections.

In 2026, the central political challenge will be to maintain reform credibility with the IMF and markets while responding to voter concerns over the cost of living and youth unemployment, estimated at 11.9% in 2024 based on World Bank and ILO modelled data. Spending reprioritisation, more efficient tax administration and better-targeted social protection are expected to play a larger role than new tax increases in managing this trade-off.

Relations with external partners—including the IMF, World Bank, African Development Bank (AfDB), EU, US and Gulf states—will continue to shape Kenya’s policy space. Kenya is negotiating a successor IMF programme following the expiry of its Extended Fund Facility (EFF), Extended Credit Facility (ECF) and Resilience and Sustainability Facility (RSF) arrangements in April 2025, with discussions focused on debt sustainability, fiscal risks and climate-resilient growth. Continued engagement with development partners will remain a key anchor for macroeconomic and political stability amid rising domestic pressures.

### **3.0 Macro economy – overview**

Kenya enters 2026 with a macroeconomic outlook characterised by steady, broad-based growth, contained inflation and gradually easing financial conditions, underpinned by resilient domestic demand and a recovery in key service and agricultural sectors. Real GDP growth is

expected to remain close to its medium-term potential of around 5%, supported by infrastructure spending, a rebound in tourism, continued expansion in ICT and financial services, and improving weather conditions relative to recent drought-affected years.

IMF “at a glance” projections point to real GDP growth of about 5.2% in 2025, easing only marginally in 2026 as the economy normalises following post-pandemic and post-drought recovery dynamics. Data from the Kenyan National Bureau of Statistics (KNBS) and the World Bank’s Macro Poverty Outlook indicate that growth reached approximately 4.7% in 2024 and strengthened into early 2025, running at around 4.9%–5.0% year-on-year, reflecting resilience in private consumption, services exports and construction activity.

Inflation has stabilised at the lower end of the Central Bank of Kenya’s target range, aided by easing food prices, improved agricultural output and the pass-through of earlier exchange-rate stabilisation. Consumer price inflation is projected at around 4.5%–4.6% in 2025, remaining comfortably within the 5%  $\pm$ 2.5 percentage point target band. While some upward pressures may re-emerge in 2026 from energy prices, tax adjustments and wage dynamics, inflation expectations remain broadly anchored, allowing for a supportive monetary policy stance.

Monetary conditions are expected to remain accommodative in 2026, following the easing cycle initiated as inflation fell back into target and the shilling stabilised. Lower real interest rates should help support credit growth to the private sector, particularly for SMEs and households, although transmission remains uneven due to balance-sheet constraints within parts of the banking system and lingering risk aversion.

Externally, Kenya is projected to continue running a modest current account deficit, financed largely through services exports, remittances and multilateral inflows. The narrowing of the trade deficit in recent years, driven by stronger tourism receipts, ICT exports and agricultural earnings, has reduced near-term balance-of-payments pressures. However, external financing needs remain significant, particularly in the context of elevated public debt and ongoing debt-management operations.

Overall, the macroeconomic baseline for 2026 is one of stability rather than acceleration. Growth is sufficient to support gradual income gains but remains below levels required for rapid poverty reduction and job creation. High public debt, fiscal consolidation demands and financial-sector vulnerabilities continue to pose downside risks, underscoring the importance of sustained reform momentum, prudent macro management and continued engagement with multilateral partners.

### **3.1 GDP and growth drivers**

Kenya’s growth outlook for 2025–26 is anchored in a recovery across agriculture, services and parts of industry, with official projections pointing to real GDP growth in the 5.2%–5.5% range. The National Treasury and the Central Bank of Kenya (CBK) attribute the improved outlook to favourable weather conditions, resilient domestic demand, easing financial conditions and a gradual normalisation of supply chains. The World Bank similarly expects growth to accelerate from an estimated 4.7% in 2024 as macroeconomic stability improves and structural bottlenecks—particularly in energy, logistics and access to finance—are addressed incrementally.

Agriculture remains a central growth driver, benefiting from improved rainfall patterns following earlier drought conditions. Sector output expanded by about 6% year-on-year in the first quarter

of 2025, supported by stronger performance in cereals, tea, horticulture and livestock. The rebound has helped contain food inflation, supported rural incomes and improved overall growth momentum, although productivity remains constrained by smallholder fragmentation, input costs and climate variability.

The services sector continues to provide the backbone of economic expansion, growing at around 5% year-on-year in early 2025. Strong contributions are coming from transport and logistics, ICT, wholesale and retail trade, financial services and a recovery in tourism. High-frequency indicators point to sustained private-sector momentum: the Purchasing Managers' Index (PMI) reached 55.0 in November 2025, signalling broad-based expansion, with firms reporting stronger new orders, rising output and improved business expectations.

Industrial activity is recovering more gradually, constrained by high energy costs, imported input prices and tight credit conditions earlier in the cycle. Manufacturing growth has begun to improve as inflation eases and monetary policy becomes more supportive, but remains uneven across subsectors. Construction activity continues to benefit from public infrastructure projects and housing initiatives, although execution risks linked to fiscal consolidation persist.

Despite solid headline GDP growth, per-capita income gains remain modest. Per-capita GDP growth averaged around 2% in 2024–25, reflecting population growth of approximately 2.3% per year. This divergence underscores the challenge of translating macroeconomic expansion into broad-based welfare gains. Raising productivity in agriculture and urban services, accelerating formal job creation and deepening regional and global trade integration remain central to Kenya's medium-term growth strategy, priorities consistently emphasised in the World Bank's latest Economic Update and Macro Poverty Outlook.

### **3.2 Inflation**

Headline inflation has remained firmly within the Central Bank of Kenya's (CBK) 2.5%–7.5% target band since early 2024, marking a sharp easing from the double-digit pressures recorded in 2022–23. Disinflation has been driven primarily by stabilising food prices following improved agricultural output, moderation in fuel and transport costs, and the lagged effects of earlier monetary tightening and exchange-rate stabilisation. Together, these factors have helped anchor inflation expectations and restore price stability.

Data from the Kenya National Bureau of Statistics (KNBS) show annual consumer price inflation at 4.6% year-on-year in both September and October 2025, before easing slightly to around 4.5% in November. Month-on-month inflation has averaged roughly 0.2% over the second half of 2025, indicating limited short-term price momentum. Core inflation—which strips out volatile food and energy components—has also continued to soften, reinforcing confidence that the disinflation process is broad-based rather than driven solely by temporary factors.

Food inflation, which carries a high weight in the CPI basket, has moderated significantly on the back of improved rainfall, stronger domestic supply and easing import pressures. This has been particularly important for lower-income households, where food expenditures account for a large share of consumption. Energy-related price pressures have also eased relative to 2022–23, supported by lower global oil prices, stabilisation of the shilling and reduced pass-through from earlier exchange-rate depreciation.

Looking ahead, inflation is expected to remain anchored in the 4%–5% range in 2026, broadly around the midpoint of the CBK's target band, under baseline assumptions of continued

macroeconomic stability and normal weather patterns. This outlook provides room for a supportive monetary policy stance and should help underpin real income growth and domestic demand.

Risks to the inflation outlook remain tilted modestly to the upside. Potential sources of pressure include renewed food-price volatility linked to adverse weather conditions, adjustments to fuel and electricity tariffs, tax changes associated with fiscal consolidation, and exchange-rate movements in the event of tighter global financial conditions or external financing shocks. Nevertheless, with inflation expectations better anchored and policy credibility strengthened, the CBK is assessed to have sufficient tools to respond to shocks without jeopardising medium-term price stability.

### **3.3 Monetary policy**

The Central Bank of Kenya (CBK) has pursued a sustained easing cycle as inflation pressures have receded, reducing the Central Bank Rate (CBR) from a peak of 13.0% in 2023 to 9.0% by November 2025, following nine consecutive rate cuts. The policy shift reflects confidence that headline inflation has durably returned to within the 2.5%–7.5% target band and that inflation expectations are better anchored. The easing has been aimed at lowering borrowing costs, supporting credit growth to households and firms, and cushioning the economy as fiscal consolidation constrains public-sector demand.

Monetary transmission has improved gradually, with declining policy rates feeding through to interbank rates and government securities yields, though pass-through to private-sector lending rates has been uneven. Credit growth remains constrained by banks' risk aversion, elevated non-performing loans in some segments and the legacy effects of government borrowing earlier in the cycle. Nevertheless, improving liquidity conditions and lower real interest rates are expected to support a gradual recovery in private-sector credit in 2026, particularly for SMEs, trade-related activities and consumer lending.

With inflation now close to the midpoint of the target range and growth momentum strengthening, CBK guidance suggests limited scope for further aggressive rate cuts in 2026. Monetary policy is expected to remain data-dependent, balancing domestic conditions against external risks. Key variables influencing policy decisions include global financial conditions, food and fuel price developments, capital flow dynamics and exchange-rate stability, particularly given Kenya's ongoing external financing needs.

The CBK has complemented policy-rate easing with active liquidity management through open-market operations and enhanced signalling in the interbank market, helping stabilise short-term rates and improve policy transmission. In the foreign-exchange market, the central bank continues to prioritise orderly market functioning rather than targeting a specific exchange-rate level, intervening mainly to smooth excessive volatility and support price discovery. With the policy rate at 9.0% and headline inflation around 4.5%, Kenya's real policy rate is estimated at roughly +4.5%, indicating a still-restrictive but declining stance in real terms. This provides room to support growth while maintaining buffers against inflationary and external shocks amid fiscal consolidation and election-cycle uncertainty.

### **3.4 FX and external sector**

Kenya's current account deficit narrowed to an estimated 1.3–1.7% of GDP in 2024–25, from wider levels earlier in the decade, supported by a rebound in agricultural exports, softer global

food and fuel prices, and continued strength in remittance inflows, which remain the single largest source of foreign exchange. Import compression linked to fiscal tightening and slower capital goods demand has also contributed to the adjustment.

External financing has been increasingly shaped by liability-management operations and official flows. The \$1.5bn Eurobond issued in February 2024 (maturing 2031) was used primarily to refinance the June 2024 maturity, materially reducing near-term rollover risk. This was followed by \$1.5bn dual-tranche issuance in October 2025 (2033 and 2038) to pre-finance 2028 redemptions, extending the maturity profile but raising the government's average external borrowing costs due to higher global rates and Kenya's risk premium.

Alongside market issuance, official and innovative financing mechanisms have taken on greater importance. A \$1bn U.S. International Development Finance Corporation (DFC)-backed debt-for-food-security swap, combined with continued engagement with the IMF and World Bank and discussions around a successor programme to the current EFF/ECF, point to a strategy centred on concessional funding, guarantees and structured transactions to manage refinancing needs and contain external vulnerabilities through 2026.

### **3.5 Labour, poverty and inclusion**

World Bank Macro Poverty Outlook (MPO) analysis underscores that poverty remains elevated and unevenly distributed, with only a weak transmission from headline GDP growth to household welfare. Model-based estimates suggest that around a quarter of the population remains below the international poverty line, while national poverty is still in the high-30% range, reflecting limited real income gains for many households, particularly in rural areas and informal urban settlements.

Labour market outcomes remain a key constraint. Job creation has been concentrated in low-productivity services and informal employment, limiting earnings growth and job security. Official and ILO-modelled data put youth unemployment (ages 15–24) at around 12%, while broader underemployment and inactivity among young people and women remain significantly higher, keeping labour market pressures politically salient.

The MPO highlights that structural bottlenecks—skills mismatches, limited access to finance for MSMEs, and weak productivity growth in agriculture—continue to dampen inclusive growth. Addressing these constraints through reforms that crowd in private investment, strengthen human capital, improve labour-market matching and deepen regional trade integration under the East African Community (EAC) and African Continental Free Trade Area (AfCFTA) will be critical to translating macroeconomic stabilisation into more inclusive outcomes in 2026.

### **4.0 Budget & debt – overview**

Fiscal policy in 2026 is anchored in the 2025/26 budget framework and the government's Medium-Term Debt Management Strategy (MTDS), which together emphasise growth-friendly fiscal consolidation aimed at slowing the pace of debt accumulation while safeguarding macroeconomic stability. The overarching objective is to place public debt on a downward trajectory over the medium term through a combination of enhanced domestic revenue mobilisation, tighter expenditure control and more active debt-management operations, while avoiding an abrupt fiscal contraction that could undermine growth or social cohesion.

Revenue policy remains centred on broadening the tax base, strengthening compliance and improving tax administration rather than relying solely on headline rate increases. Following the

political backlash to proposed tax hikes in 2024, the government has shifted towards administrative measures, reduced exemptions and digitalisation of revenue collection. On the expenditure side, consolidation efforts focus on rationalising recurrent spending, containing the public wage bill and improving the efficiency of subsidies and transfers, while ring-fencing priority outlays in social protection, health, education and critical infrastructure.

Debt-service costs remain the dominant fiscal constraint, absorbing a large share of government revenues and limiting discretionary spending. As a result, fiscal policy in 2026 is expected to remain tight, with limited scope for counter-cyclical stimulus. The MTDS prioritises lengthening maturities, reducing reliance on short-term domestic borrowing, increasing the share of concessional and semi-concessional financing, and smoothing the external debt-service profile to reduce refinancing and rollover risks.

These fiscal objectives are framed within President William Ruto's Bottom-Up Economic Transformation Agenda (BETA) and the Fourth Medium-Term Plan, which emphasise agriculture, micro-, small- and medium-sized enterprises (MSMEs), affordable housing, healthcare and the digital economy as engines of inclusive growth. Balancing these development priorities with consolidation imperatives remains a central policy challenge, particularly given ongoing pressures from interest costs, social demands and the pre-election political cycle.

Overall, the fiscal stance for 2026 reflects a cautious consolidation path rather than rapid adjustment. Progress on debt stabilisation will depend not only on fiscal discipline but also on sustained growth, favourable financing conditions and continued engagement with multilateral partners. Slippages in revenue performance, renewed social unrest or adverse external shocks would pose risks to the consolidation trajectory, underscoring the importance of policy credibility and careful reform sequencing.

#### **4.1 Budget balance and revenues**

The 2025/26 budget framework envisages total expenditure of about KES4.29trn, against projected revenues of roughly KES3.32trn, implying an overall fiscal deficit in the range of 4.3%–4.8% of GDP once grants are included. While this represents a modest consolidation compared with earlier post-pandemic peaks, it still reflects limited fiscal space and the structural pressure exerted by debt-service costs and rigid recurrent spending.

According to parliamentary budget documents, the deficit is expected to be financed through a combination of external and domestic borrowing. Net external financing is projected at around KES284.2bn, equivalent to roughly 1.5% of GDP, with the balance met through increased domestic issuance. This composition reflects constrained access to concessional external funding and Kenya's continued reliance on the domestic market, despite efforts under the Medium-Term Debt Management Strategy to rebalance financing towards longer maturities and cheaper sources.

Revenue mobilisation remains the central vulnerability in the fiscal framework. While the government has prioritised broadening the tax base, strengthening compliance and accelerating the digitalisation of tax administration, near-term revenue performance has been weakened by the withdrawal or dilution of several proposed tax measures. These reversals followed widespread protests against tax increases and perceived governance failures, highlighting the political limits of revenue-led consolidation. As a result, revenue growth is expected to remain moderate in 2026, increasing the burden on expenditure restraint to deliver deficit reduction.

On the expenditure side, consolidation efforts focus on restraining recurrent spending—particularly the wage bill, transfers and non-priority operational outlays—while protecting capital investment and social programmes aligned with the Bottom-Up Economic Transformation Agenda. Analysts, including KPMG, characterise the approach as “growth-friendly consolidation”, noting attempts to preserve development spending and social protection even as fiscal adjustment proceeds. However, the scope for reallocation remains constrained by statutory obligations and rising interest payments.

Rising debt-service costs continue to absorb a large share of revenues, limiting fiscal flexibility and slowing progress towards a durable primary surplus. This dynamic increases pressure on domestic financing conditions, with implications for interest rates, bank balance sheets and private-sector credit availability. Maintaining fiscal discipline through 2026—particularly in the run-up to the 2027 elections—will therefore be critical to sustaining market confidence, containing borrowing costs and keeping the consolidation trajectory broadly on track.

#### **4.2 Debt & debt sustainability**

Kenya’s Medium-Term Debt Strategy (MTDS) and the October 2024 Debt Sustainability Analysis (DSA) classify the country as at high risk of debt distress, while assessing public and publicly guaranteed (PPG) debt as sustainable under baseline assumptions. The DSA estimates the present value (PV) of public debt at about 64% of GDP, well above the 55% benchmark for countries with Kenya’s debt-carrying capacity, reflecting elevated interest costs, exchange-rate pressures and past borrowing.

While baseline projections show the PV debt ratio on a gradual downward path, stress tests indicate vulnerability to shocks, particularly weaker growth, fiscal slippages and renewed exchange-rate depreciation. Authorities have committed to a combination of fiscal consolidation, revenue mobilisation, expenditure restraint and liability-management operations to reduce the PV of public debt below the 55% threshold by November 2028, consistent with commitments under the IMF-supported programme.

The finance minister’s March 2025 statement targets a reduction in the “key” debt-to-GDP ratio from 58.1% to 52.8% by 2027/28, alongside gradual deficit narrowing. However, elevated interest bills, exchange-rate risks and large domestic rollovers – KES495bn maturing in 2025 and KES822bn in 2026 – leave limited room for shocks.

Innovative financing and liability-management operations are expected to play a central role in managing Kenya’s refinancing needs and containing debt vulnerabilities through 2026. These include non-traditional bilateral financing such as the UAE loan, as well as debt-for-development style transactions, including the US International Development Finance Corporation (DFC) debt swap, alongside continued engagement with the IMF and World Bank. Together, these measures are intended to smooth near-term amortisation peaks, reduce reliance on commercial borrowing and anchor investor confidence as the government navigates a tight global financing environment.

#### **5.0 Real economy**

Kenya’s real economy enters 2026 on a moderate but stable growth path. Momentum from last year—driven by improved agricultural output, a rebound in construction and resilient services—should carry over, but fiscal tightening and high public debt servicing will continue to cap upside.

Growth in 2026 is expected to remain in the mid 4% range, broadly in line with recent performance. Services will remain the primary engine, anchored by trade, transport, finance, ICT and mobile-money ecosystems. Nairobi's role as a regional business hub should continue to support professional services, logistics and digital activity, particularly as regional integration deepens.

Agriculture will again be a swing factor. If rainfall patterns remain favourable, farm output and rural incomes should support consumption and keep food inflation contained. However, any return of drought would quickly hit household purchasing power and raise headline inflation, with spillovers into transport and retail sectors.

Construction is likely to stay supportive but uneven. Private real-estate activity should benefit from easing inflation and gradually improving credit conditions, while public infrastructure spending will depend heavily on the government's fiscal space. Ongoing efforts to clear arrears to contractors could unlock stalled projects, but tight budget controls will limit new large-scale public works.

Manufacturing is expected to post modest gains, supported by stable electricity supply and a gradually improving business climate, though high input costs and weak regional demand remain constraints. Export-oriented sectors such as tea, horticulture and light manufacturing should benefit from a more stable shilling, but global demand risks persist.

Monetary conditions should be more supportive in 2026. With inflation largely contained, the central bank has room to maintain an accommodative stance, which should help revive private-sector credit. The key risk is whether lower policy rates translate into actual lending to SMEs and households, which has been sluggish in recent years.

The main drag on the real economy will remain fiscal consolidation. High debt servicing costs will continue to crowd out development spending and reduce the government's ability to stimulate growth. Tax increases and subsidy cuts could weigh on consumption, particularly among lower-income households, potentially slowing domestic demand.

External conditions will also matter. A softer global growth outlook could dampen tourism receipts, exports and capital inflows, while any tightening in global financial markets would put renewed pressure on the shilling and reserves.

Overall, Kenya's 2026 outlook is one of steady but constrained expansion. The economy should avoid recession and maintain resilience, but stronger growth will depend on sustained macro stability, improved credit transmission, climate resilience in agriculture and credible fiscal reforms. Without progress on these fronts, growth is likely to remain respectable — but below the levels needed to absorb the rapidly growing labour force and significantly reduce unemployment.

## **5.1 Agriculture and food systems**

Agriculture has rebounded strongly following the 2022–23 drought, supported by improved rainfall and input availability, with output rising by about 6% y/y in Q1 2025, according to KNBS and World Bank assessments. Tea, horticulture and staple crops have led the recovery: tea exports were valued at around \$1.3bn–\$1.4bn in 2024, horticulture exports (flowers, fruits and vegetables) at about \$1.2bn, while coffee exports recovered to roughly \$300–\$350mn, benefiting from firmer global prices.

Despite the rebound, structural vulnerabilities persist, including high climate exposure, land fragmentation, low irrigation coverage (below 5% of arable land) and rising input costs, leaving food security a central macro and political concern. These risks have informed policy priorities, including expanded irrigation, fertiliser support and climate-resilient value chains under the Bottom-Up Economic Transformation Agenda (BETA).

Looking into 2026, agriculture is expected to remain a key growth and export anchor, but outcomes will hinge on rainfall patterns, climate-adaptation investment and progress in logistics and regional market access, including under AfCFTA, as authorities seek to stabilise food prices, lift rural incomes and reduce balance-of-payments pressures.

## **5.2 Construction & infrastructure**

Public investment is constrained by fiscal consolidation and tighter domestic financing conditions, but the government continues to prioritise strategic infrastructure in roads, ports, rail and affordable housing, increasingly relying on public-private partnerships (PPPs), multilateral lending and blended finance to crowd in private capital. Flagship projects in transport corridors, port efficiency and urban housing are being structured with support from the World Bank, AfDB and other DFIs to limit upfront budgetary costs while sustaining capital formation.

The World Bank's latest Economic Update underscores that trade facilitation, logistics reforms and better project selection could significantly raise the growth payoff of constrained public investment, particularly by reducing port dwell times, improving road maintenance efficiency and strengthening regional transport links under AfCFTA. Looking into 2026, the emphasis is expected to remain on leveraging concessional finance, guarantees and PPP frameworks rather than large-scale sovereign borrowing, as authorities seek to balance growth objectives with debt sustainability constraints.

## **5.3 Services, tourism and ICT**

Services remain Kenya's primary growth engine, accounting for well over half of GDP and the bulk of new jobs. Tourism has largely recovered to pre-pandemic levels, supported by improved security conditions, expanded air connectivity and targeted marketing, with earnings increasingly important for FX inflows and employment.

ICT and mobile-based services continue to underpin Kenya's position as a regional technology and fintech hub, driven by high mobile penetration, digital payments, data services and business-process outsourcing, even as regulatory scrutiny of digital lending and data protection tightens.

High-frequency indicators, including strong PMI readings through late 2025, point to resilient demand across services, wholesale and retail trade, and logistics. Looking ahead to 2026, growth in services is expected to be supported by urbanisation, digitalisation and regional trade, though momentum will depend on maintaining macro stability, sustaining consumer purchasing power, and continued investment in digital infrastructure, skills and connectivity.

## **5.4 Manufacturing and industry**

Manufacturing growth remains positive but below potential, constrained by relatively high energy and logistics costs, tight credit conditions and weak scale economies. Provisional GDP data for Q1 2025 show manufacturing output expanding, supported by food processing,

cement, chemicals and basic consumer goods, reflecting stronger domestic demand and a recovery in agriculture-linked inputs.

However, performance continues to lag peer economies, with firms citing electricity tariffs, transport bottlenecks and limited access to long-term finance as key constraints. Looking into 2026, the outlook hinges on progress in power-sector cost containment, improved port and corridor efficiency, and deeper integration into regional value chains under the AfCFTA and EAC frameworks, which could support light manufacturing, agro-processing and assembly industries. Targeted credit support, industrial parks and Special Economic Zone (SEZ) reforms will be critical to lifting productivity and crowding in private investment.

## **6.0 Banking outlook**

Kenya's banking system remains broadly resilient, supported by strong capitalisation, adequate liquidity and continued profitability. The Central Bank of Kenya's (CBK) 2024 Financial Sector Stability Report describes the financial system as stable, with total banking-sector assets expanding by around 10% between 2023 and 2024. Liquidity ratios and core capital adequacy ratios remain comfortably above regulatory minima, providing buffers against near-term shocks and supporting confidence in system stability.

Despite this resilience, asset quality remains the sector's principal vulnerability. CBK supervisory data indicate that the gross non-performing loan (NPL) ratio stood at about 16.4% in December 2024, rising further to 17.4% in the first quarter of 2025. Credit stress is concentrated in trade, manufacturing, real estate and personal lending, reflecting the cumulative effects of high interest rates earlier in the cycle, slower income growth, elevated input costs and weak demand conditions in some sectors.

High NPL levels continue to weigh on credit intermediation. Banks have adopted a more cautious lending stance, tightening underwriting standards and favouring short-term or lower-risk exposures, including government securities. Elevated sovereign exposure, while providing stable income, increases banks' sensitivity to fiscal and debt-management risks and reinforces the crowding-out of private-sector credit—particularly to micro-, small- and medium-sized enterprises (MSMEs), which remain central to employment and growth.

Profitability has been supported by strong net interest margins, fee income and returns on government securities, but this has come at the cost of slower balance-sheet expansion and limited credit penetration. As monetary conditions ease and growth momentum improves, private-sector credit is expected to recover gradually in 2026, though the pace is likely to remain constrained by legacy NPLs and risk aversion in weaker segments of the banking system.

Looking ahead to 2026, baseline expectations are for continued system-wide profitability and adequate capital buffers, with only a gradual improvement in asset quality. Regulatory and supervisory priorities include accelerating NPL resolution and loan restructuring, strengthening credit-risk management frameworks, and ensuring timely capital strengthening for weaker institutions. The CBK is also expected to continue promoting the development of digital financial services, while reinforcing consumer protection, data governance and anti-money laundering and counter-terrorism financing (AML/CFT) compliance to safeguard financial stability as digitalisation deepens.

Overall, Kenya's banking sector enters 2026 in a position of relative strength, but with vulnerabilities that could be amplified by adverse growth, fiscal or election-cycle shocks.

Sustained macroeconomic stability, improved borrower cash flows and progress on fiscal consolidation will be key to restoring asset quality and enabling a more robust recovery in private-sector credit.

## 7.0 Energy & power

Kenya remains a regional leader in renewable energy, with the International Energy Agency estimating that close to 90% of electricity generation comes from renewables. Geothermal is the backbone of the system, contributing about 47% of generation, followed by hydro (around 21%), wind (16%) and solar (about 4%), with thermal and imports providing balancing capacity.

As of late 2024, Kenya's installed capacity stood at roughly 3,300MW, according to official energy planning documents. The generation mix comprised about 950MW of geothermal ( $\approx 29\%$ ), 850MW of hydro ( $\approx 26\%$ ), 460MW of wind ( $\approx 14\%$ ), 230MW of solar ( $\approx 7\%$ ), around 600MW of thermal capacity ( $\approx 18\%$ ), and roughly 200MW of imports ( $\approx 6\%$ ) through regional interconnectors. Peak demand is estimated at 2,100–2,300MW, leaving a modest reserve margin but exposing grid bottlenecks.

Geothermal expansion remains the cornerstone of capacity growth. Olkaria I–V currently account for over 790MW, while Menengai (planned 465MW in phases) is progressing via independent power producers, including OrPower Twenty Two, Quantum Power and Sosian Energy, with total investment estimated at \$1.3–\$1.5bn once fully built out. Additional geothermal prospects at Baringo–Silali could add 300MW in the medium term, though financing and transmission links remain constraints.

In wind, the 310MW Lake Turkana Wind Power project continues to anchor output, while smaller schemes such as Kipeto (100MW) and planned expansions in Marsabit and Kajiado counties could add 150–250MW by 2027, with cumulative investment needs of \$300–\$500mn. Solar capacity is expanding more gradually, led by projects such as Garissa Solar (55MW) and private-sector utility-scale plants under the Energy and Petroleum Regulatory Authority (EPRA) feed-in and auction frameworks, with 200–300MW of additional solar under development, requiring \$200–\$350mn.

Transmission and regional integration are increasingly central to the outlook. Flagship projects include the Kenya–Tanzania 400kV interconnector ( $\approx$ \$300mn) and the Ethiopia–Kenya HVDC line, which supports imports of low-cost hydropower and improves system stability. Grid upgrades and substations under Kenya Power's investment programme are expected to absorb over \$1bn through the late 2020s, largely financed by multilaterals.

President William Ruto's administration has set a target of 100% renewable electricity by 2030, supported by the Energy Transition & Investment Plan, the Least Cost Power Development Plan (LCPDP) and EPRA's 2023–28 strategic framework. For 2026, the outlook is for incremental additions of 200–300MW, mainly geothermal, wind and solar, alongside expanded private-sector participation and blended finance from the World Bank, AfDB, EIB and the U.S. International Development Finance Corporation.

Oil exploration remains a longer-term option rather than a near-term growth driver. The South Lokichar Basin is estimated to hold around 560mn barrels of recoverable resources, but development remains stalled following Tullow Oil's exit and unresolved financing and pipeline economics. Any revival would require \$3–\$4bn in upstream and midstream investment and is unlikely to materially affect the energy balance before the late 2020s.

Key risks to the sector include grid congestion, financing constraints amid fiscal consolidation, and climate-related volatility in hydro output, reinforcing the case for accelerated geothermal development, storage solutions and regional power trade.

## **8.0 Markets outlook**

Kenya's return to international capital markets in 2024 and 2025, combined with the orderly repayment of the \$2bn Eurobond due in June 2024, has materially reduced near-term default risks and helped stabilise investor sentiment. The successful February 2024 \$1.5bn Eurobond (2031) and the October 2025 \$1.5bn dual-tranche issuance (2033/2038), used largely for refinancing and liability management, eased external rollover pressures and contributed to a gradual recovery of the shilling after sharp depreciation in 2023.

In the domestic fixed-income market, yields remain elevated in real terms, reflecting still-tight liquidity and fiscal borrowing needs, but have trended lower since mid-2024 as inflation fell decisively and the Central Bank of Kenya (CBK) embarked on an easing cycle. CBK data show a downward shift in the government yield curve between mid-2023 and October 2025, particularly at the short and belly segments, improving debt-service dynamics and reducing crowding-out risks for private credit.

Looking into 2026, the authorities' market strategy under the MTDS envisages continued reliance on the domestic market as the primary financing source, complemented by concessional and semi-concessional external funding from multilaterals and bilaterals, and selective re-engagement with international capital markets. Liability-management operations — including buybacks, exchanges and maturity extensions — are likely to remain a core tool to smooth the external redemption profile and limit refinancing shocks, rather than to fund new spending.

On the foreign-exchange side, improved reserves, resilient remittance inflows and reduced near-term external debt repayments have stabilised conditions, though the shilling remains vulnerable to global risk-off episodes, higher US rates, or renewed domestic fiscal stress. CBK intervention policy continues to emphasise smoothing volatility rather than defending a specific level.

The Nairobi Securities Exchange (NSE) benefits from Kenya's relatively deep corporate base and its role as a regional financial hub, but equity turnover remains modest and new listings have been limited. Banking, telecoms, energy and consumer-oriented stocks dominate market capitalisation. Progress on privatisation, state-owned enterprise reform and macro stability would be critical to unlocking deeper equity and corporate-bond market development in 2026–27.

Key market risks heading into 2026 include renewed global tightening or risk-aversion, slippage on fiscal consolidation or debt-management commitments, renewed domestic tax or governance protests, and adverse climate shocks affecting growth and external balances. Conversely, sustained macro stability, disciplined debt management and continued IFI engagement would support lower risk premia and gradually improving market depth.