Equity Kenya Macro Note

Kenya Financial Markets Weekly

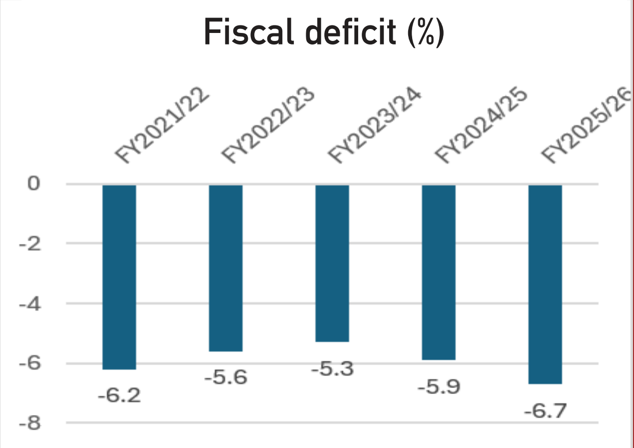
27th July to 31st July 2026

Kenya's Inflation Pressures Limit Scope for Further Rate Cuts

Kenya's producer price index was up 1.4% in Q2, the steepest in 4 years driven by rising fuel and industrial input costs amid renewed global oil-market volatility. With the economy exposed to higher energy and fertilizer prices, July inflation figures set to be released by end of this week are expected to range between 6-7% YoY, CBK's desire to cut CBR. CBK is expected to keep its policy rate at 8.75% at its 11 August MPC meeting as it balances between keeping inflation in check and significant economic growth.

Fiscal deficit widens to 6.7% on tax underperformance

Treasury estimates fiscal deficit for the FY2025/26 to have widened to 6.7% of GDP from 5.9% in the previous fiscal year. Tax underperformance and non-compliance are blamed for revenue underperformance. Government total revenue for FY2025/26 grew 16% to KES 4.6trn from KES 4trn in FY2024/25, growth driven by 9% rise in tax revenue to KES 2.5trn and 20% growth in domestic borrowing to KES 1.3trn. Net borrowing rose 22% to KES 995bn from KES 817bn. Implication: high borrowing continues to crowd out private sector, slows down growth.



Spending up 15% as debt service gobbles 75% of taxes

FY2025/26 Fiscal spending increased 15% to KES 4.6trn from KES 4trn, debt service and pension payments accounted for 44% of total spending (KES 2trn) being a 14% rise from KES 1.8trn in FY2024/25. Recurrent spending rose 16% to KES 1.7trn accounting for 37% of total spending. Development spending accounted for 10% (KES 457bn) up 36%. Disbursement to counties accounted for 9% at KES 415bn. Debt service as a percentage of tax revenue increased to 75% in the FY2025/26 fiscal year from 69% in the previous year: Implication- small room for development spending and more borrowing to plug in deficit.

Oil passes the $100 mark then retreats to $90, dims inflation and fiscal outlook

Crude prices touched a 2-month high of $100.7/barrel for brent and $107.2/barrel for murban last week before easing to $92/bbl and $97/bbl respectively following pausing of strikes by both sides over the weekend. Higher prices have rekindled inflation fears and possible monetary tightening. Situation has been worsened by the Houthi blockade on Saudi Arabia shipments through the Red Sea's Bab el-Mandeb

T-bill yields rise on elevated inflation fears

T-bill rates rose to 9% in the third auction of the FY2026/27, the rising yields have been driven by elevated inflation risks due to renewed fighting between US and Iran at the gulf that has left the Hormuz Strait closed and oil prices clawing back to $90/barrel. Inflation now at 6.4% is expected to remain above the midpoint of CBK's desired target but below the ceiling (7.5%). Rising inflation could trigger CBK to rise CBR, a move that could trigger higher yields on T-bills.

Kenya's Eurobonds hardest hit amidst war resumption

Yields clawed back to early June levels on renewed fighting in the gulf that has pushed crude prices to 5 weeks high rekindling inflation fears and possible rate hikes. Kenya 2032 traded at 8.1% now 110bps higher than the lowest touched since the war started and 140bps higher than Rwanda 2031 (6.7%). Soaring yields on the Kenyan paper indicate investor's concerns on the rising fiscal and current account deficit. Kenyan yields are among the worst hit by the renewed war even as the US30yr soared to levels last seen in 2027 while the US10yr trading at 4.7%, the highest since 2025.

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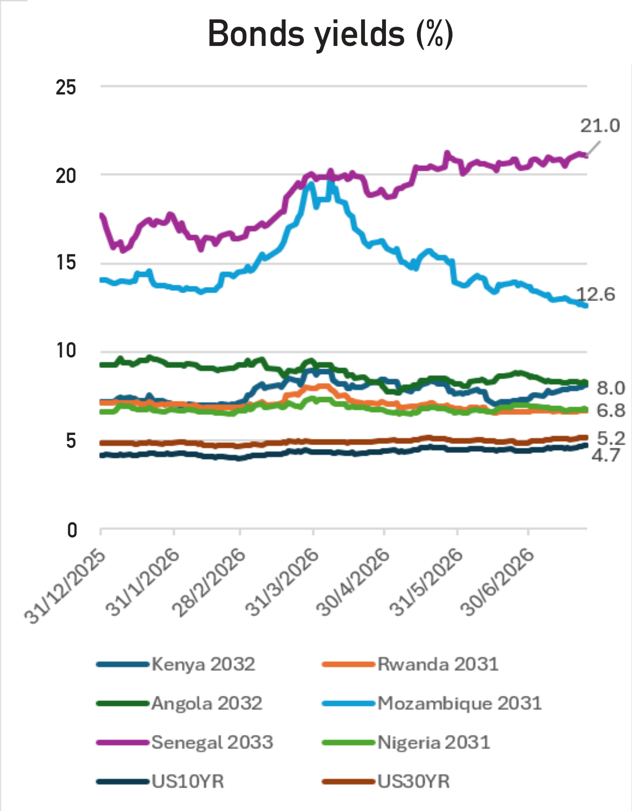
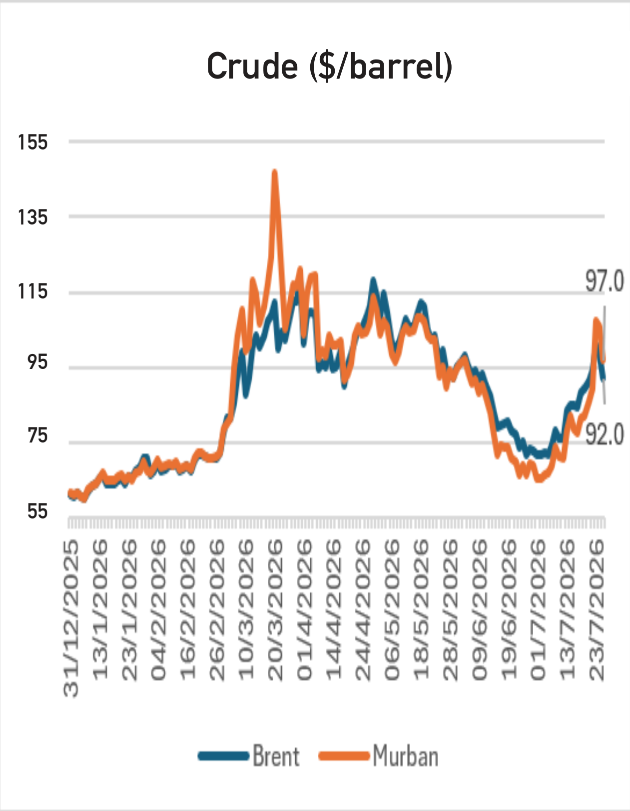
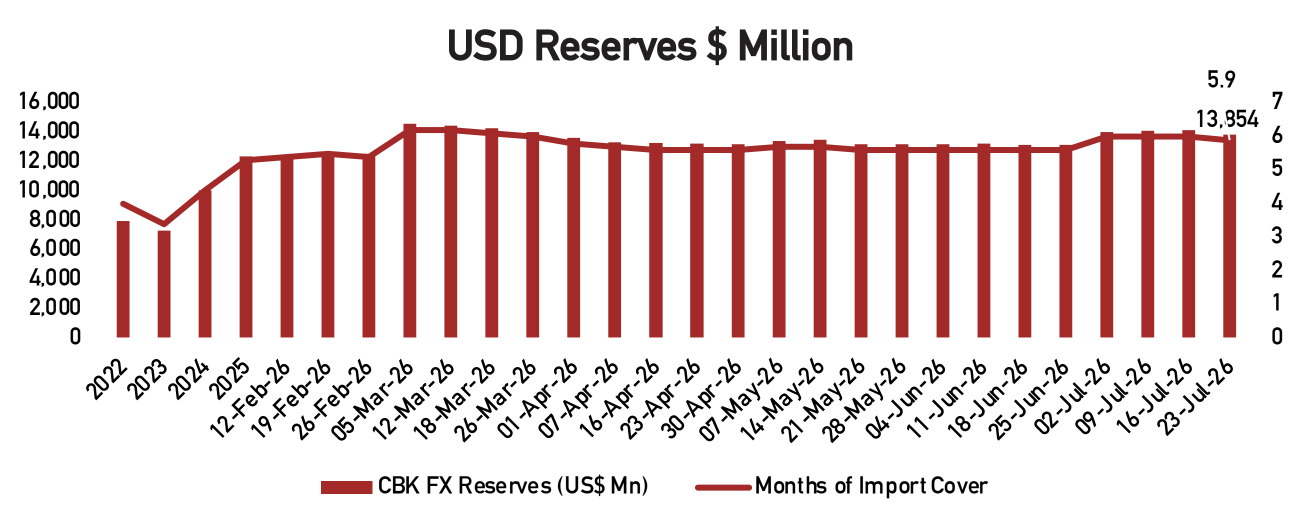
Kenyan Shilling Stable but Faces Growing Pressure

The shilling remains range-bound at around between KES 129.20 to 129.70 per dollar but risks are rising from higher oil prices and falling remittances. With inflation limiting further CBK rate cuts currency support is constrained with expectations of gradual depreciation towards KES 130 per dollar by year-end.







NEWS:

- CBK, Supreme court disagree on section 44 of the baking act
- African countries account for 40% of Kenya's exports
- T-bill rates rise above 9% on renewed Middle East war
- CBK raise weekly T-bill target to KES 28bn
- Policy unpredictability tops investors fears
- Treasury slashed FY2026/25 domestic borrowing target by KES 132bn

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Key Financial and Economic Calendar Month	Events & Dates
27th July	Potential KAWU Aviation Strike / JKIA
29th July	FOMC meeting
30st July	US Core PCE data
31st July	July YoY inflation
11th August	Monetary Policy Committee (MPC) Decision

Kenya Unveils Ambitious 30-Year Blueprint to Become a High-Income Industrial Economy by 2060

Kenya has unveiled a preliminary 2030–2060 National Development Plan that aims to transform the country into a politically stable, high-income and industrialised economy by 2060. The strategy centres on raising agricultural productivity, expanding export-oriented manufacturing, accelerating technology and innovation, strengthening institutions and investing in transport infrastructure and higher education. While the vision reflects a long-term commitment to structural transformation, its implementation will depend on restoring fiscal space, maintaining macroeconomic stability, attracting sustained private investment, and managing a heavy public debt burden that continues to constrain development spending.

Kenya High Court Strikes Down Ruto's Debt Audit Panel

Kenya's High Court has declared President William Ruto's public debt audit task force unconstitutional, ruling that its mandate unlawfully infringed on the powers of the Auditor-General. The decision comes amid mounting fiscal pressures with high public debt and debt-servicing costs limiting government spending while reinforcing constitutional oversight of public debt management.

CBK increases weekly T-bill allocation by KES 4bn

Treasury increased the weekly amount offering on T-bills to KES 28bn from KES 24bn with the extra allocation of KES 4bn going to the 91-day T-bill. The move now increases possible weekly collections for the year by KES 208b2n. Domestic borrowing target for the FY2026/27 stands at KES 1.1trn up from KES 634bn in the FY2025/26 budget. The extra collections are also expected to help manage money supply and manage inflation.

Kenya Unveils Blended Financing Plan for JKIA Expansion

Kenya has finalised a KES 116 billion financing plan for the expansion of Jomo Kenyatta International Airport (JKIA). The project will be funded primarily through an KES 81 billion (USD 625.5 million) loan covering 70% of the total cost while the remaining KES 35 billion will be raised through a securitised bond backed by the USD 50 air passenger service levy and contributions from the National Infrastructure Fund. The financing structure is intended to mobilise long-term capital for a strategic infrastructure project while limiting the government's reliance on direct budgetary financing.

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