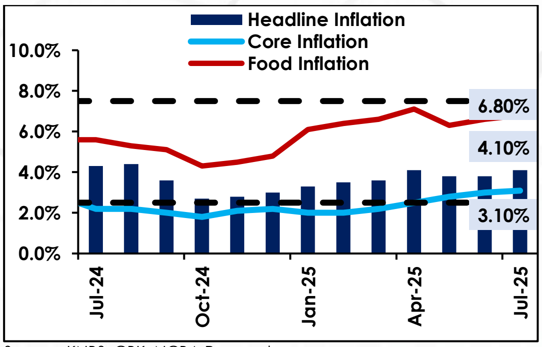
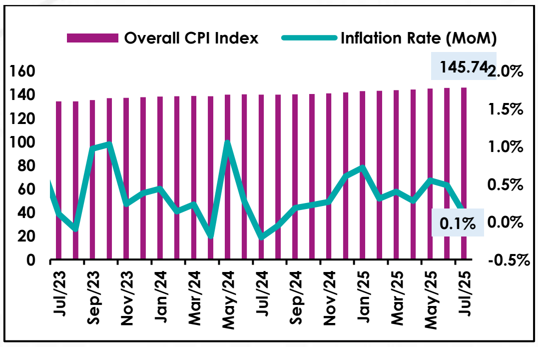
ECONOMICS AND RESEARCH INFLATION REACTION

July 2025

Headline Inflation Rises to 4.1% in July from 3.8% Following Energy Price Pressures

- The general price level in the economy ticked up to 4.1% in July from 3.8% recorded in May 2025. Month-on-month, the consumer price index rose by 0.1%.
- Higher fuel prices predominantly led the increase following upward revisions to pump prices in the period by the regulator, EPRA. Notably, the housing, water, electricity, and gas index registered at 1.3%, up from 0.2% in May. Relatedly, the transport index increased by 4.1% relative to 3.2% previously.
- Similarly, food prices recorded a modest 20 basis point increase to 6.8%, likely reflecting seasonality factors and supply shortfalls on items such as wheat. On a monthly basis, costs rose for maize flour (+1.6%), sugar (+1.4%), sukuma wiki (+1.3%) and tomatoes (+1.2%). The decline in the prices for cabbages (-1.3%), potatoes (-1.0%), oranges (-2.6%), carrots (-0.7%) and cooking oil (-0.6%) suppressed the upward move.
- In the forthcoming months, the inflation landscape is subject to risks on both the food and the energy front. Despite a projected 7% decline in global energy prices this year by the IMF, domestic tax adjustments will hamper the pass-through to the local market.
- At the pump, the increase in the road maintenance levy from Ksh18 to Ksh25 last year has kept prices elevated. Meanwhile, upward adjustments to the oil marketers' margins from Ksh4 to a high of Ksh17 could potentially face further increments into 2026.
- For imported soft commodities, risks include escalating geopolitical tensions that may disrupt shipping routes and supply chains. Furthermore, with a lower average effective US tariff rate than announced in April, the IMF now projects stronger growth in Europe and Asia—signalling potentially higher demand for commodities and consequently pressure on non-oil commodity prices.
- Contrastingly in the local scene, the government's recent directive to import duty-free milled white rice into the country of approximately 500,00 metric tonnes could lower rice prices in the economy at a time when farmers continue to hold large rice stocks.
- Meanwhile, new minimum prices for wheat in the 2025/26 season set by the Agriculture and Food Authority (AFA) could encourage local production and mitigate price pressures from persistent trade restrictions within the region, though remains dependent on weather outcomes.
- Against this backdrop, we opine that the risk of inflation rising beyond the 5% mid-point of the target range into the close of 2025 have risen. This resultantly narrows the room for the central bank to provide further stimulus to domestic demand that remains low-albeit gradually recovering as proxied by core inflation, now at 3.1% from 3.0%.





Source: KNBS, CBK, NCBA Research