Focus on Kenya

FINNFUND INSIGHTS

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Kenya is among the most diverse economies in Africa and has developed markedly over the past decade, serving as a regional hub for transportation, trade and financial services.
Photo: Shutterstock

Foreword

Kenya is the largest economy in East Africa and the fourth largest across Sub-Saharan Africa. It is among the most diverse economies in Africa and has developed markedly over the past decade, serving as a regional hub for transportation, trade and financial services.

For Finnfund, we consider Kenya to be an important market with many promising sectors, such as agriculture, healthcare and digital solutions. Based on this, we recently conducted an on-the-ground visit to Nairobi to assess the country's macroeconomic and political prospects, and implications for its business environment. This report is based on several meetings and interviews conducted during our trip.

Tangeni Shatiwa
Economist, Finnfund

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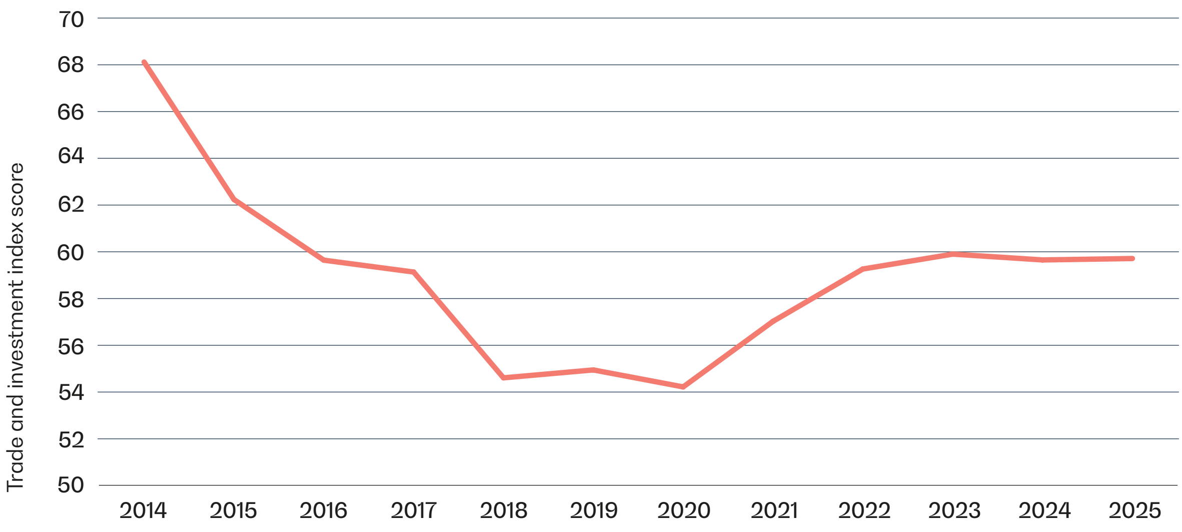
Macroeconomic developments and outlook[1]

A challenging few years for businesses

While Kenya's economy has been hit by several shocks in recent years, it has remained a relatively attractive base for businesses and investors in the region. However, external pressures, monetary tightening and a fragile fiscal landscape have weighed on its business environment (Figure 1). Moreover, business sentiment was negatively impacted by social unrest which transpired during 2024.

These challenges have been particularly evident in three of the country's main sectors – construction, manufacturing and financial services. Despite the slowdown in Kenyan economic growth to 4.7 per cent last year, it outperformed Sub-Saharan Africa on average (3.8 per cent), which highlights the strengths of its dynamic services-led private sector relative to peer countries.

Figure 1: Trade and investment risks increased in Kenya in recent years



Source: BMI/Fitch Ratings (2025)

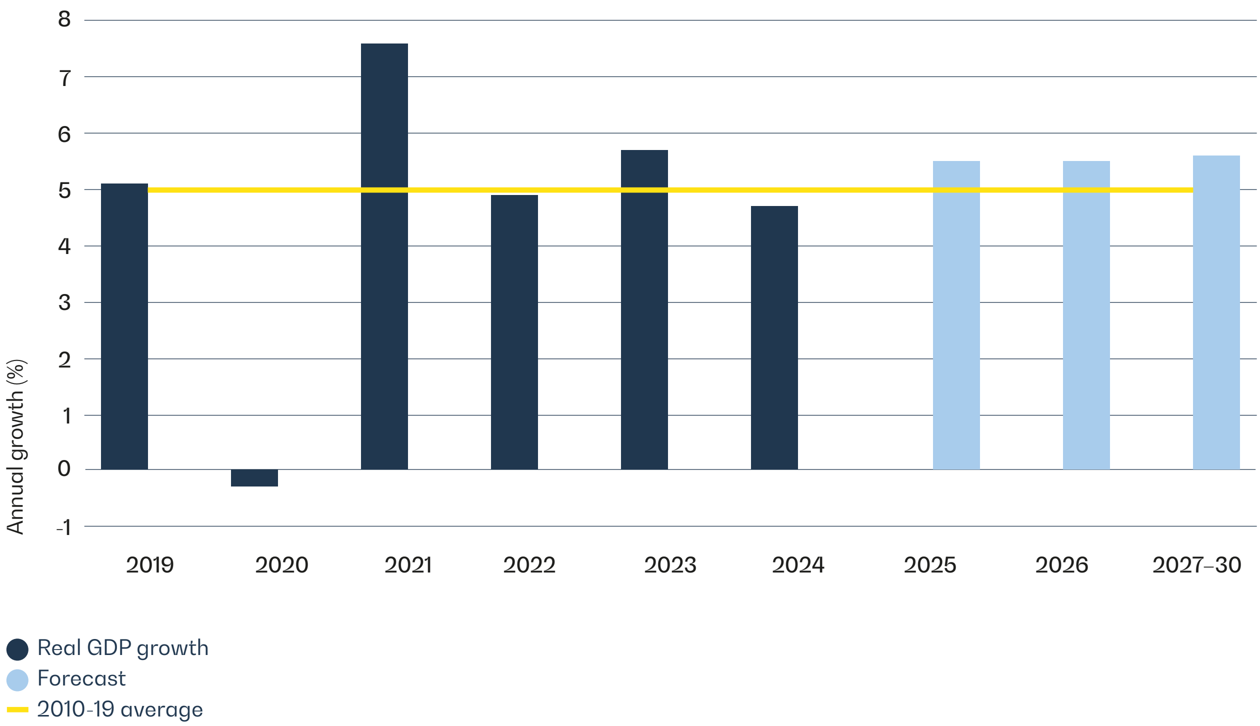
1 Sources: Fitch Solutions Kenya Outlook, EIU Kenya Outlook, Moody's Kenya Update, S&P Kenya Update, Central Bank of Kenya, Work Bank Kenya Update, IMF Datamapper

Growth is expected to strengthen in the medium term

Moving ahead, Kenya's economic growth is expected to strengthen to 5.5 per cent, supported by resilient performance in tourism (10 per cent of GDP) and recovery in agricultural production (22 per cent of GDP). We also expect less inflationary pressure and robust remittance inflows to bolster consumer spending, representing a key driver for growth. On the downside, some of these positives will be offset by consolidation in public spending, but not to a detrimental degree as growth remains above its historical average between 2026-30 (Figure 2).

Kenya's economic growth is expected to strengthen to 5.5 per cent.

Figure 2: Real annual GDP growth is set to pick up in the near term



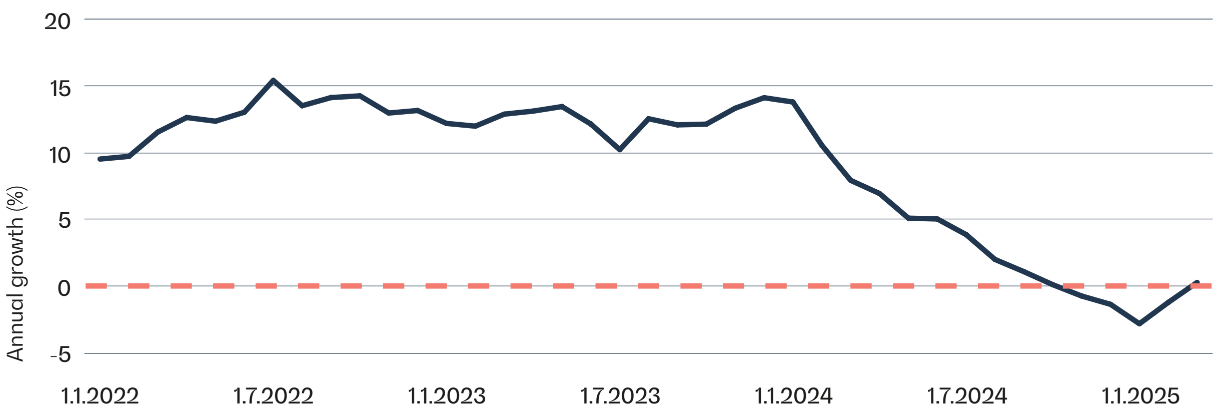
Source: BMI/Fitch Ratings (2025)

Monetary conditions look more favourable

Much of 2024's slowdown in growth also resulted from restrictive monetary conditions and crowding out from the public sector, which have collectively weighed on credit appetite to key sectors in Kenya's economy (Figure 3).

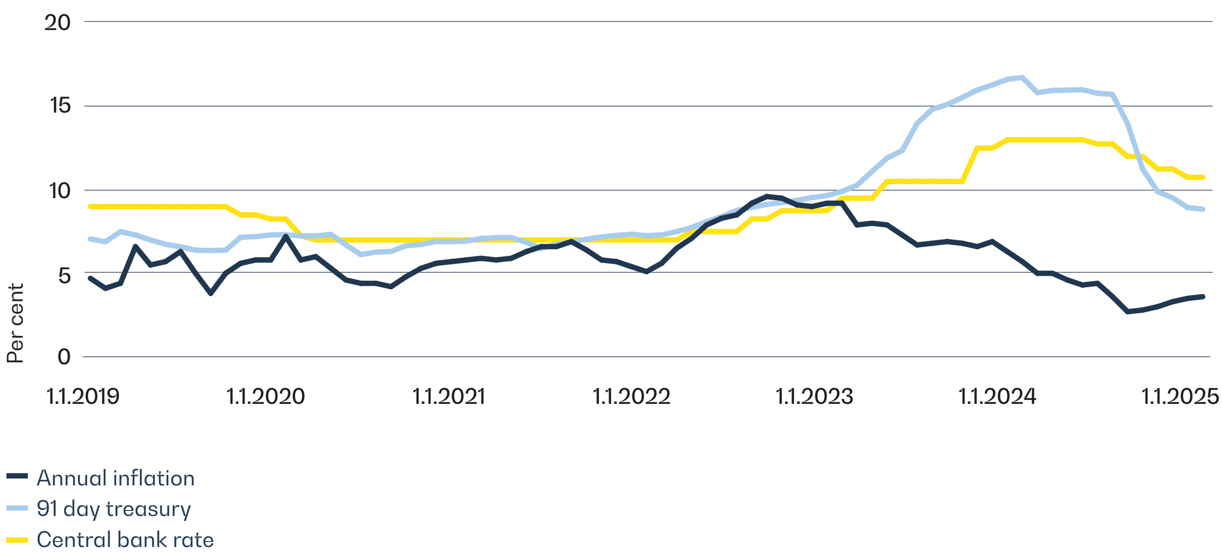
While private sector credit has contracted in recent months, we expect this situation to improve in the near future. This is because inflation has fallen below the Central Bank of Kenya's (CBK) 5 per cent target, which provides room for it to lower its policy rate. This will act as a positive catalyst for private sector credit growth and further decline in borrowing costs for the government (Figure 4).

Figure 3: Private sector credit growth has been on a downward trend



Source: CBK (2025)

Figure 4: Lower inflation has facilitated monetary easing and lower borrowing costs



Source: CBK (2025)

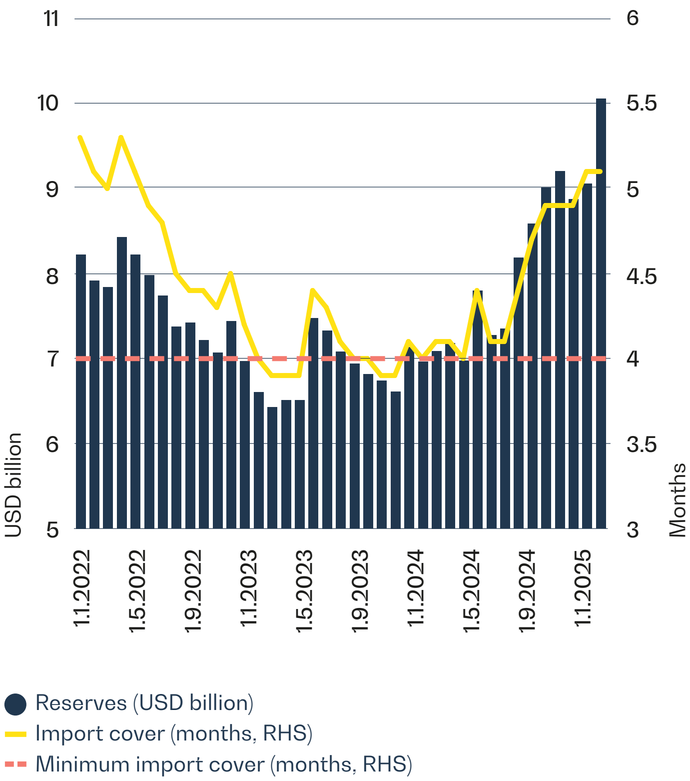
Improvements in the external sector

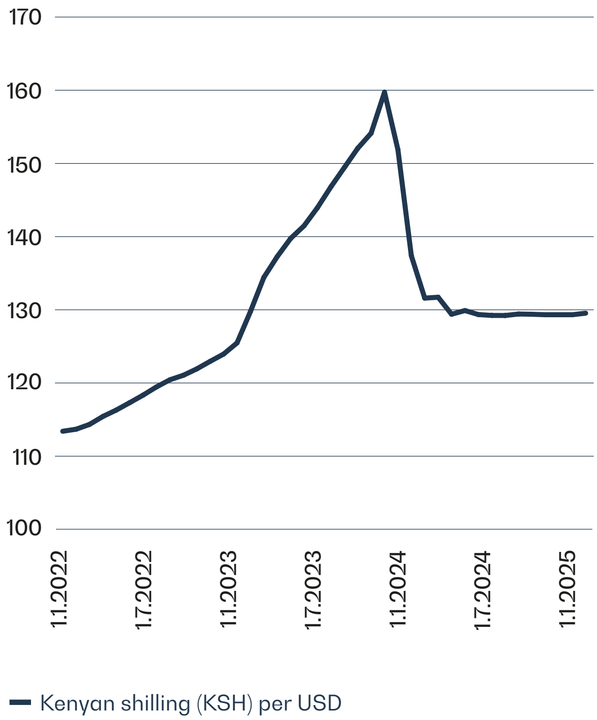
Prior to 2024, Kenya's external position was considerably weak and limited its ability to access external financing. On this front, the country has made strong progress over the past year. Improved agricultural exports and robust earnings from tourism and remittances have enabled Kenya's external deficit to narrow to 3.6 per cent of GDP in 2024 (compared with 4.4 per cent in 2023). In addition, strong inflows from its bilateral and multilateral lenders have boosted foreign exchange reserves above USD 10.4 billion at the end of May 2025, which provides healthy coverage at over 5 months of the country's imports (Figure 5).

Overall, we believe that Kenya's improved external position will support investor confidence and strengthen its ability to access international financing. This is already evidenced by the strong investor demand observed for its recent USD 1.5 billion Eurobond issuance from February of this year – its second since the beginning of 2024. The issuance will be used to buy back its outstanding 2027 Eurobond and provide some budgetary support, which eases some of Kenya's short-term financing needs. However, it could add some pressure in the longer term given that it was priced more expensively (9.95 per cent) relative to the 2027 Eurobond (7 per cent) which was redeemed.

> *"Overall, we believe that Kenya's improved external position will support investor confidence and strengthen its ability to access international financing."*

Figure 5: Robust reserves levels have helped to stabilise the exchange rate





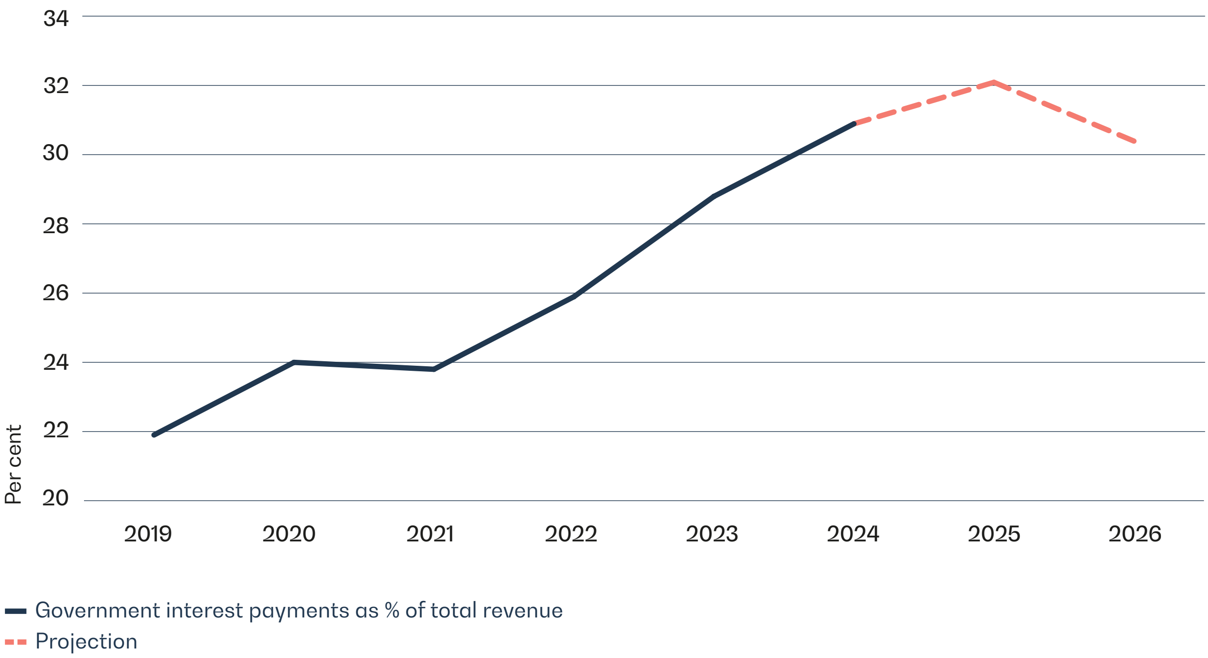
Source: CBK (2025)

Fiscal risks will remain in focus for Kenya

Fiscal sustainability has been a central issue for Kenya in recent years. A combination of Kenya's government running persistently large deficits and its inability to broaden the domestic revenue base resulted in public debt peaking at 71 per cent of GDP in 2023 (up from 50 per cent in 2016). While the debt burden has since declined from this peak to 61 per cent in 2024, there are concerns around debt affordability given that interest payments consume over 30 per cent of its revenue (Figure 6).

Another concern for Kenya's fiscal situation is the reduction in US foreign assistance which was enacted at the beginning of this year. According to S&P Global, Kenya received USD 888 million (equivalent to 0.7 per cent of GDP) in US foreign assistance in 2024. Cuts to this financing will pose challenges to the healthcare sector in particular and could add pressure on the government to offset these shortfalls through increased borrowing or spending reallocations from other areas.

Figure 6: Debt affordability has worsened in recent years



Source: Moody's (2025)

Political outlook

Balancing domestic and external political risks

Domestically, the need to progress with fiscal tightening without triggering an episode of social unrest (similar to last year) poses the biggest political risk for Kenya. Since last year's protests, President Ruto has been successful in forming a broader government coalition with opposition parties, which will look to maintain a broadly pro-business agenda while balancing these risks. With that said, we foresee progress on fiscal consolidation, which is crucial for the country's growth prospects, to be more gradual amid fears of public backlash.

There are some concerns that the ongoing global trade war and the future of African Growth and Opportunity Act (AGOA) represent a key external risk for many African countries. With that said, we believe that Kenya is well-positioned to reach a trade deal with the US as it is considered to be one of its key allies in the region. Moreover, Kenya is not heavily dependent on exporting to the US (which only accounts for 6 per cent of its total exports) and it faces a relatively low reciprocal tariff, which could make its textile exports to the US more competitive than Chinese products. We also see some opportunities for Kenya to redirect some of its textile exports to the EU, with which it signed a free trade agreement in July 2024.

Kenya is not heavily dependent on exporting to the US and it faces a relatively low reciprocal tariff, which could make its textile exports to the US more competitive than Chinese products. *Photo: Shutterstock*

Sector focus

Agribusiness

Agriculture is the backbone of Kenya's economy and is expected to benefit from an improved weather outlook and government interventions – such as subsidies for inputs or irrigation infrastructure – aimed at enhancing the sector's productivity.

Finnfund currently has one Kenyan agribusiness investment in **Kentegra Biotechnology Holdings**, which sources pyrethrum flowers from smallholder farmers. These flowers provide farmers with a more drought-resistant source of income than cash crops.

Many of our investee companies in the agriculture and forestry sectors work with smallholders. One of them is Kentegra in Kenya. These farmers are picking pyrethrum flowers on their farm in Nakuru County. Read more on our website or watch a video
Photo: *Kentegra Biotechnology*

Services

Finnfund have also supported Kenya's vast services sector through investments in healthcare and financial services. Finnfund's investment to **Co-Operative Bank** has supported the growth of its MSME (Micro, Small and Medium Enterprises) portfolio, facilitating financial inclusion among underserved clientele. A core part of the bank's offering is integrating digital and physical channels to provide a seamless and personalised banking experience for its customers.

In 2018, Finnfund invested in **Hospital Holdings Investment**, which is a special-purpose vehicle established to finance the acquisition and integration of targeted healthcare service businesses in East and Southern Africa. Among other investments in the region, Hospital Holdings has invested in AAR Hospital Kenya to provide high-quality healthcare services in Kenya, where resources of the public healthcare system are stretched in meeting the needs of the growing population. **Penda Health** is another healthcare investment made by Finnfund, which operates a network of affordable medical centres in Nairobi. It provides primary healthcare services, which can be up to 83 per cent cheaper than peer providers in the market.

Penda Health is a chain of affordable medical centres in Nairobi, Kenya. The company provides comprehensive outpatient health services, including obstetrics, gynaecology, dental services, lab testing, maternal health services and preventative care, among other primary healthcare services. *Photo: Finnfund*

Information and communication technology

Kenya's ICT sector has been a key source of the country's dynamism and innovation in recent years. Ongoing reforms aimed at improving digital infrastructure will enhance service delivery across other sectors, as well as support digital transformation in both urban and rural areas.

Finnfund has invested in Kenya's ICT sector through **Twiga Foods**, a mobile-based platform that connects small farmers with retailers, and **Kasha Technologies**, an e-commerce platform that leverages technology to digitise the provision of healthcare and other products.

Twiga is a food distribution platform operating in 12 cities in Kenya and in Kampala, Uganda. Finnfund has been financing Twiga through OP Finnfund Global Impact Fund I since 2021. Read more on our website. *Photo: Finnfund*

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www.finnfund.fi/en